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Research Report on United States of America

11 December 2015

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Ratings

Sovereign Government Credit (LC)	AAA
Sovereign Government Credit (FC)	AAA
Country Credit Environment (LC)	AAA
Country Credit Environment (FC)	AAA

* These ratings are unsolicited

Main Economic Indicators of United States

Macro indicators	2012	2013	2014
Gross gov. debt, USD bn	16557	17460	18179
Nominal GDP, USD bn	16155	16663	17348
Real GDP growth, %	2,2	1,5	2,4
Gross gov. debt/GDP, %	102,5	104,8	104,8
Deficit (surplus)/GDP, %	-7,9	-4,7	-4,1
Inflation rate, %	1,8	1,3	0,6
Current Account Balance/GDP, %	-2,8	-2,3	-2,2
External debt, USD bn	-	-	130,1

Development indicators	2014
Inequality adj. HDI	0,76
GDP per capita, USD th	54,4

Default indicator	10.12.2015
5-Year CDS spread, Bp	18
10Y Gov Bond Yield, %	2,23

Source: RAEX (Europe) calculations based on data from the IMF, CIA, Deutsche Bank, Trading Economics

Summary

The ‘AAA’ ratings of the United States of America are supported by its technologically advanced, diversified and rich economy, as well as global reserve status of the US dollar and the global importance of US financial markets. High government debt load and absence of long-term agreements between branches of the government on fiscal policies and public finances are the major risks. The US Fed’s policy normalization is well overdue, while implementation of the monetary tightening presents a major risk for the US and the global economy.

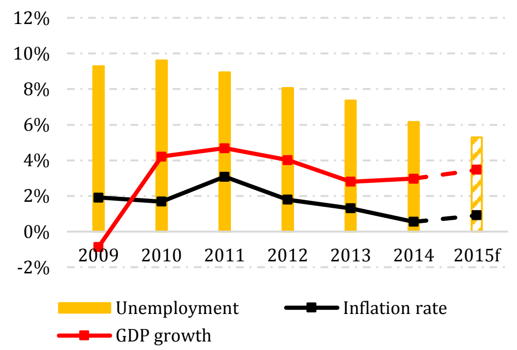
Low global commodity prices are fueling domestic expenditure through low inflation. This will be the main driver of real GDP growth which has recorded an annual average of 2% since 2009. The US government brought down deficit figures over the past six years. Nonetheless, the budget deal agreed between the White House and the Congress is likely to increase expenditure at a faster pace than revenues in the following years. Recent suspension of the debt limit is likely to further weaken debt metrics in the mid run. However, longer-term fiscal and debt dynamics will be clearer after the 2016 presidential elections.

Sound macroeconomic fundamentals. Macroeconomic conditions continued to improve in 2015 for the sixth consecutive year with robust GDP growth, low unemployment and stable inflation. The agency expects real GDP growth to close the year 2015 at 2,6%. This is motivated by lower oil prices, which contributed to 1% of GDP to households’ purchasing power since mid-2014 as estimated by the IMF. However, the positive consumption effect was partly offset by lower investments in the oil-sector as crude prices fell below long-term breakeven thresholds.

Labor market has recorded an average growth of about 250 000 jobs per month over the past year. As a consequence, the unemployment rate ended the year 2014 at 6,1%. The Agency expects it to decline 1% further in the next two years. However high level of part-time employment and long-term unemployment may suggest that many jobs are fragile or short-term.

The output gap shrank from 1,9% in 2013 (as percentage of potential output) to 1,4% by end 2014. The agency expects this trend to continue, which could potentially bring the output closer to that of full capacity by end- 2017.

Graph 1: Key US macroeconomic indicators



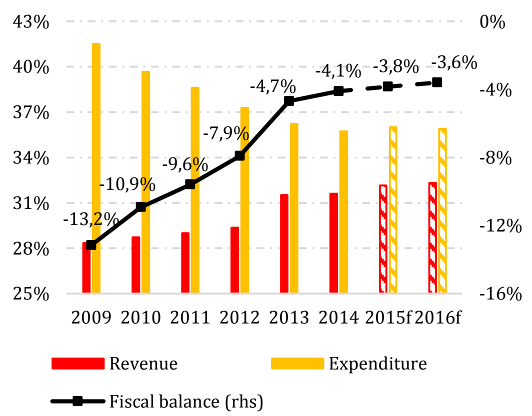
Source: RAEX (Europe) calculations based on data from the IMF

Monetary normalization is worrisome. The Fed succeeded in smoothly cutting quantitative easing (QE) by end-2014. However, the decision on key rate increases has been delayed leading to global anxiety, but normalization of the monetary policy is a matter of months. The Agency believes the FED will gradually raise interest rates based on robust and stable macroeconomic indicators. Nonetheless this represents one of the major challenges for the Fed and a potential risk for the US and the global economy.

Fiscal deficit continued to narrow. The US government showed high commitment over the past six years to narrow the fiscal deficit as deficit/GDP ratio declined from 13% in 2009 to 4% in 2014. The Agency expects this trend to continue in the mid run, though at a slower pace as the recently signed budget deal is likely to stabilize government spending at about 36% of GDP (see graph 2).

The agreement includes a USD 80bn spending rise in the next two years. However, this increase could be partly offset by cuts in spending on Medicare and social security disability benefits as well as savings from other programs.

Graph 2: US Fiscal balance performance (% GDP)



Source: RAEX (Europe) calculations based on data from the IMF

High debt with upside risks. Total US government debt reached USD 18tn by end-October 2015, of which more than 99% was subject to the debt limit. There was a risk of an imminent government shutdown as further debt issuance was needed to cover budget expenditures in the short-run. However, the White House and the Congress agreed on a debt limit suspension and a budget deal in early November 2015. Under the agreement, the debt limit will be suspended until 2017, while certain caps on spending were lifted and the congress has yet to allocate the funds. This triggered the immediate increase of the government debt by USD 339bn in one day. However, further increases are difficult to predict and a clearer path of the debt will only be evidenced after the 2016 presidential elections.

Important note for sovereign ratings

This Research Report shall be treated as a supplementary part of the published Press Release included in the following link:

http://www.raexpert.eu/reports/Press_release_USA_11.12.2015.pdf

Both documents shall be treated as essential parts of each other.

For further information on the factors, their weights, methodologies, risks and limitations of these ratings, and other regulatory disclosures, please refer to the Press Release and the website of the agency.