

Rating-Agentur Expert RA confirmed at 'AAA' the ratings of Germany

Rating-Agentur Expert RA confirmed the sovereign government credit rating (SGC) of Germany at 'AAA' (Highest level of creditworthiness of the government) in national currency and at 'AAA' (Highest level of creditworthiness of the government) in foreign currency.

Rating-Agentur Expert RA confirmed the country credit environment rating (CCE) of Germany at 'AAA' (Highest quality of credit environment of the country) in national currency and at 'AAA' (Highest quality of credit environment of the country) in foreign currency.

MAJOR FACTORS THAT INFLUENCED BOTH TYPES OF RATINGS:

Positive factors:

- Short-term debt is still very low standing at 18,7% of GDP and 41,5% of budget revenues as of 3Q 2017;
- Germany remains one of the most competitive, advanced and diversified economies in the world with a real GDP per capita in PPP terms estimated at USD 50,2 th in 2017. The country is ranked 5th out of 138 in the competitiveness index from the World Economic Forum and 20th out of 190 countries in the Doing Business ranking published by the World Bank in 2017;
- The inflation rate remained stable throughout 2017 posting a figure of 1,6% by year-end. However, it remains below the European Central Bank's (ECB) target of 2%;
- As of March 2018, the yield on the German 10Y government bond remained substantially low at 0,6%, well below its European peers. This keeps showing the investors' perception of the economy as low risk;
- Germany recorded twin surpluses for a fourth consecutive year in 2017. While the fiscal balance increased to 1,1% of GDP (from 0,8% in 2016), the current account shank to 7,9% of GDP from a revised 8,8% in 2016. As previously anticipated, this was mainly driven by the EUR appreciation reported during 2017;
- Germany's unemployment rate continued to decline through 2017; as of year-end it was as low as 3,5%, 0,5p.p. lower than in January 2017. This resulted from stronger internal demand which was supported by a higher and sustained inflation rate. Going forward, we expect this rate to remain stable as the German output gap is reported to be above zero;
- The banking sector remains in an excellent position with assets and private credit at 236% and 129% of GDP respectively in 2017. We estimate NPLs at around 1,7% of total loans in 2017 and below the EU average (4,4% in 2016). However, persistent low interest rates, high operating costs, and regulatory changes are still long-term risks for the sector's profitability;
- Highly developed national stock market (Deutsche Börse) with an increasing market capitalization/GDP ratio at 58% in 2017.

Restricting factors:

- Gross government debt declined further in 2017 to around 64,5% of GDP and 143% of budget revenues; both metrics remain satisfactory and below Germany's peers¹. A solid economic performance and continued fiscal surpluses have caused debt metrics to

¹ Peers include Austria, Japan, UK and USA.

steadily decline since 2010. Going forward, we anticipate these figures to remain declining as a result of encouraging growth perspectives and the country's large fiscal space;

- Aging population and low birth rates in Germany remain a long-term concern for the budget as well as the pension and healthcare systems. However, technological advance, combined with a long-term migration policy could partly mitigate these risks.

Negative factors:

- Banks' assets to GDP ratio continued its steady decrease in 2017 where it stood at 236%. This was mainly driven by a slight decline of loans to other banks in the Euro Area, combined with a constant increase of GDP;
- Average banks' capital to assets ratio remained low at 6% in 2016 despite increasing by 1,6 p.p. since 2011. We expect this metric to have stood fairly unchanged as of end-2017;
- The low level of FX reserves at USD 166 bn in December 2017 (1,5 months of imports and 6,6% of gross government debt) remains mitigated by the reserve currency status of the EUR.

Support factors:

- Germany participates and is a key member of the European Union (strong support factor);
- The country has an extremely strong financial system which affects other countries (strong support factor);
- The country has a strong, stable and important reserve currency (Euro) (weak support factor).

ADDITIONAL FACTORS THAT INFLUENCED CCE RATINGS:

Positive factors:

- The country's real interest rate dropped to around 0,8% following the inflation rate hike along 2017 and the ongoing low interest rates environment;
- Strong protection of investors as evidenced by the ranking of Doing Business (position 62 out of 190 countries in 2017).

Restricting factors:

- Interventions of the government in financial markets remain negligible.

SENSITIVITY ASSESSMENT:

The following developments could lead to a downgrade:

- An unexpected and prolonged deterioration of public finances leading to material increase of the gross government debt as well as short-term obligations.

“The ratings of Germany at ‘AAA’ mainly reflect the outstanding macroeconomic position, strong and persistent twin surpluses, resilience to external shocks and the healthy stance of the country's banking system.

The negative tendency of the government debt metrics remained in place in 2017 as government debt load declined during the year. Despite the constantly high increase of fiscal expenses, the fiscal position of Germany is set to remain comfortable as revenues continue to grow at a strong pace.

The country remains posting encouraging macro and foreign trade figures with surplus in the current account, positive GDP growth and low unemployment rate. While the demographic risks remain in place, the political risks arising from the latest election results in 2017 dissipated as the government managed to create a grand coalition.” – Clarified Gustavo Angel, Rating Associate of Rating-Agentur Expert RA GmbH.

Responsible expert: Gustavo Angel, Rating Associate of Rating-Agentur Expert RA GmbH

Reviewer: Hector Alvarez, Rating Associate of Rating-Agentur Expert RA GmbH

Research report on Germany is available at:

http://raexpert.eu/reports/Research_report_Germany_09.03.2018.pdf

Next scheduled rating publication: 7 September 2018. The full sovereign rating calendar can be found at <http://raexpert.eu/sovereign/#conf-tab-5>

For further information contact:

Rating-Agentur Expert RA GmbH
Walter-Kolb-Strasse 9-11,
60594 Frankfurt am Main, Germany
+49 (69) 3085-45-00
E-mail: info@raexpert.eu
www.raexpert.eu

RATING HISTORY:

Date	Review reason	SGC		CCE	
		National currency	Foreign currency	National currency	Foreign currency
15.09.2017	Scheduled revision of both types of ratings	AAA	AAA	AAA	AAA
17.03.2017	Scheduled revision of both types of ratings	AAA	AAA	AAA	AAA
23.09.2016	Scheduled revision of both types of ratings	AAA	AAA	AAA	AAA
15.04.2016	First assignment of both types of ratings for the country	AAA	AAA	AAA	AAA

Minute's summary

The rating committee for Germany was held on 6 March 2018. The quorum for the rating committee was present. After the responsible expert presented the factors, which influenced the rating assessment, the members of the committee expressed their opinions and suggestions within the framework of the Sovereign methodology. The chairman of the rating committee ensured that every member of the committee expressed his/her opinion before proceeding to the voting.

The following methodology was used for the rating assessment: Methodology for Assigning Sovereign Government Credit Ratings and Country Credit Environment Ratings – Short Public Version (from April 2017) can be found under the following link: http://raexpert.eu/files/methodology/Methodology_Short_Sovereign_v2.pdf. Descriptions and definitions of all rating categories can be found under the following link: <http://raexpert.eu/sovereign.php> under the "Rating scale" section. The user of the rating shall read the methodology in order to have a full understanding of the rating procedure.

These ratings are unsolicited. The rated entity did not participate in the rating process.

Main sources of information: International Monetary Fund, World Bank, World Federation of Exchanges, World Economic Forum, Doing Business, United Nations, German Bundesbank, European Central Bank, Ministry of Finance of Germany, Deutsche Börse, Destatis.

Limits of the Credit Rating

During the rating assignment process, Rating-Agentur Expert RA GmbH (the Agency) used publicly available information that was considered to be reliable, complete and non-biased. The responsible expert performed the rating assessment of the country with information considered as the most reliable and up to date in accordance to the overall position of the country and the Agency's internal criteria for selecting data providers. The information and data used for this specific assessment can be considered as of sufficient quality.

Regulatory use

Only SGC ratings can be used for regulatory purposes according to the ESMA definition. CCE ratings are not considered as credit ratings within the framework of Regulation (EC) No 1060/2009.

Conflict of interest

The responsible expert was neither influenced nor biased by third parties during the rating assessment. All employees involved in the rating assessment and revision of the rated entity have reported absence of conflicts of interests before initiation of the rating process.

Rating-Agentur Expert RA GmbH is completely independent from the activities of other agencies of the RAEX group.

Risk warning

The Agency disclaims all liability in connection with any consequences, interpretations, conclusions, recommendations and other actions directly or indirectly related to the conclusions and opinions contained in the Agency's press-release and research report.

This press-release represents the opinion of Rating-Agentur Expert RA GmbH and is not a recommendation to buy, hold or sell any securities or assets, or to make investment decisions.

Office responsible for preparing the rating

The office responsible for the preparation and issuance of this credit rating is the office of Rating-Agentur Expert RA GmbH in Frankfurt am Main, Germany.

Rating-Agentur Expert RA GmbH is a credit rating agency established in Germany and therefore shall comply with all applicable regulations currently in force in the European Union.

The European Securities and Markets Authority (ESMA), the EU's direct supervisor of credit rating agencies (CRAs), has registered Rating-Agentur Expert RA GmbH as a CRA under Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, with effect from 1 December 2015.

Rating-Agentur Expert RA GmbH applies the Code of Conduct Fundamentals for credit rating agencies issued by the International Organization of Securities Commissions (IOSCO Code) and includes the basic principles of IOSCO Code in its Code of Conduct.