17 November 2017

Rating-Agentur Expert RA GmbH confirmed 'AAA' ratings of the United States of America

Rating-Agentur Expert RA GmbH confirmed the sovereign government credit rating (SGC) of the United States of America 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 GmbH confirmed the country credit environment rating (CCE) of the United States of America 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:

- Highly diversified, technologically advanced and dynamic national economy combined with a favourable geographical and geopolitical stance. The country scored 5,7 out of 5,8 in the 2016 competitiveness index from the World Economic Forum and ranked 6^{th} out of 190 countries in the Doing Business 2018 report published by the World Bank;
- The U.S. is one of the world's wealthiest and most developed countries with a GDP per capita of USD 57 608 in PPP terms in 2016 and a Human development index of 0,79 in 2015, well above large advanced countries. However, the country remains behind the average figures of its peers;
- Strongly developed and liquid stock market as shown by the market capitalization of listed companies at 147% of GDP in 2016;
- Real GDP grew over the past six years at an average rate of 2,1% despite slowing down to 1,5% in 2016; the lowest growth rate since 2011. The real GDP grew by 2,2% in 3Q 2017 and we expect this metric to remain around this level until 2018 driven by the expansionary policies of the government;
- Unemployment rate declined in 2016 to 4,9% from 5,3% a year before. This is the lowest rate that the U.S. has recorded since 2008, when it stood at 5,8%, and shows signs that the United States is effectively at full employment. Going forward, we expect unemployment rate to be flat as the output gap is almost negligible and likely to remain so;
- Short-term debt remains at bearable levels, despite having increased slightly in 2016 to 10% of GDP and 32% of budget revenues;
- Even though the inflation rate picked up in 2016 to 2,2% from 0,7%, it remains low relatively to our internal benchmarks. While inflation is likely to decline to around 1,8% in 2017, we expect it to rebound above 2% if the expansionary tax policy proposed by the current administration is finally passed;
- High volume of FDI inflows at 2,1% in 2015, which shows the investment potential in the country. Additionally, this indicator has increased steadily over the past three years.

Restricting factors:

- The economy remains substantially leveraged as indicated by the volume of private credit to GDP which stood at 243% in 2016, representing an increase of 17p.p. from a year before;

- The US fiscal deficit widened by almost 1p.p. to 4,4% of GDP in 2016 driven by a decline in fiscal revenues. We could potentially observe a significant mid- and long-run increase in the fiscal pressure if the tax cut plan proposed by president Trump's administration is not able to push economic growth and job creation in the mid run. However, the likelihood of the passage of this proposed legislation still remains highly uncertain and will probably be subject to changes as it proceeds through the House and the rest of Congress.

Negative factors:

- High and steadily growing government debt load at around 107% of GDP and 343% of budget revenues by end-2016 from 105% and 332 % respectively in 2015. The government debt increased by 2,5% to USD 20,4 tn through October 2017 following the suspension of the debt ceiling until December 2017. Following this trend we expect the gross government debt to be around USD 21 tn by end of 2017, which will most likely derive in an increase of debt ratios;
- The US trade deficit remained high at around 2,7% of GDP in 2016. However, the current government administration is markedly committed to renegotiate a number of trade deals (including NAFTA) which could change the US trade structure in the long term and ultimately narrow the country's trade deficit;
- Persistent politicking between the legislative and executive branches of the government on fiscal policies and debt ceilings that sometimes increases the possibility of a technical debt default. However, this could be mitigated as the newly elected president belongs to the Republican Party, which holds majority in both the House of Representatives and the senate.

Support factors:

- The U.S. has a strong financial system which affects other countries and the US Treasury bonds serve as international benchmark for fixed income securities (Very strong support factor);
- The country has very strong and important global reserve currency: USD (Moderately strong support factor);
- Participation in strong trade and political unions (NAFTA, OECD) (Moderately strong support factor).

ADDITIONAL FACTORS THAT INFLUENCED CCE RATINGS:

Positive factors:

- High quality and large variety of instruments on the financial market;
- Real interest rate declined to 1,3% in 2016 motivated by a combined effect of higher inflation and still low deposit rates in the financial market. Going forward, we can expect real interest rates to increase in the long term as a combined result of a potential increase in the fed funds rate and a stable inflation rate;
- The country's largest Stock exchange index (S&P 500) has significantly increased over the last six years. The US stock market has improved steadily through 2017 mainly on the back of the government's expansionary policies, as well as the potential tax reduction which are likely to benefit national corporations.

Restricting factors:

- Despite having a high quality of investor's protection, the country's position in the ranking of protecting investors from Doing Business deteriorated from 32nd place in 2015 to 41st place out of 180 countries in 2016).

Negative factors:

- Significant level of private sector debt to GDP (255% in 4Q 2016).

SENSITIVITY ASSESSMENT:

The following developments could lead to a downgrade:

- Further increase of the fiscal deficit as a result of lower than expected fiscal revenues or higher expenses. The cut in the corporate tax rate combined with higher interest payments following the hike in the Fed Funds rate could lead to higher deficit figures in the long run;
- Renegotiation or withdrawal from key trade agreements (NAFTA in particular), which could lead to a reduction of the US volume of trade and increase of domestic prices.

"The ratings of the United States at 'AAA' remain underpinned by the country's supportive economic conditions and significant resilience to external and domestic shocks.

Following the still declining unemployment rate, reduced output gap and inflation rates around the Fed's target, the Federal Open Market Committee (FOCM) is moving towards monetary policy normalization.

Uncertainty over the tax cut plan of the government and the increase of the debt ceiling after December 2017, represent the major risks to the fiscal stance of the country.

The country's trade deficit could narrow in the long run if some of the U.S. trade deals are renegotiated. However, we keep our view that such a move could potentially have a negative impact on prices and domestic supply." – Clarified Gustavo Angel, Rating Associate at 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 USA is available at:

http://raexpert.eu/reports/Research_report_USA_17.11.2017.pdf

Next scheduled rating publication: TBD in December 2017.

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RATING HISTORY:

Date	Review reason	SGC		CCE	
		National currency	Foreign currency	National currency	Foreign currency
19.05.2017	Scheduled revision of both types of ratings for the country	AAA	AAA	AAA	AAA
25.11.2016	Scheduled revision of both types of ratings for the country	AAA	AAA	AAA	AAA
03.06.2016	Scheduled revision of both types of ratings for the country	AAA	AAA	AAA	AAA
11.12.2015	First assignment of both types of ratings for the country	AAA	AAA	AAA	AAA

Minute's summary

The rating committee for United States of America was held on 16 November 2017. 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, US Federal Reserve.

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.