

Federal Republic of Germany

Rating Report



Credit strengths

- Wealthy, large, diversified economy
- Robust fiscal framework and strong track record of fiscal discipline
- Highly competitive external sector

Credit challenges

- Transition risks for energy-intensive industries, and low levels of public and private sector investment
- Ageing population, resulting in rising pension liabilities and lower growth potential
- Vulnerabilities related to global geopolitical risks

Rating rationale:

Wealthy, large, diversified economy: Germany's economy proved resilient during the Covid-19 pandemic. However, the country's high value-added, export-oriented, energy imports-dependent economy has been slow to recover compared with peer countries due to global supply chain disruptions and sharply higher inflation following the escalation of the Russia-Ukraine war. We expect economic output to decline by 0.4% in 2023 and increase by 0.9% in 2024.

Robust fiscal framework: Germany's solid fiscal policy framework and strong record of fiscal discipline are anchored by its constitutional debt brake. The debt brake has been reinstated for 2023, although greater use of special extra-budgetary funds will raise general government deficits above debt brake limitations over coming years. We expect the debt-to-GDP ratio to fall to 65.5% this year and gradually decline to 58.9% by 2028.

Highly competitive external sector: The economy's external strength is reflected in its large and persistent current account surplus. This declined in 2022 due to the sharp rise in energy import prices and weaker external demand from key trading partners. The surplus is expected to remain slightly below pre-pandemic levels in the medium term.

Rating challenges include: i) transition risks for energy-intensive industries given carbon neutrality targets and low levels of public and private sector investment relative to peers; ii) an ageing population, resulting in rising pension liabilities and downward pressure on the country's medium-term growth potential; and iii) vulnerabilities related to global geopolitical risks.

Germany's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency	Qualitative*	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	aaa	EUR [+1]	-1/3	AAA	
Public Finance Risk	20%	aa		+1/3		
External Economic Risk	10%	aaa		+2/3		
Financial Stability Risk	10%	aaa		+1/3		
ESG Risk	Environmental Factors	5%		bbb+		-1/3
	Social Factors	7.5%		b		0
	Governance Factors	12.5%		aaa		0
Indicative outcome				aa+	+1	
Additional considerations					0	

Note: *The reserve-currency adjustment applies to currencies in the IMF's SDR basket. **The qualitative-scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced over the next 12-18 months.

Positive rating-change drivers

- N/A

Negative rating-change drivers

- Fiscal deterioration, resulting in a material increase in public debt
- Severe macroeconomic or financial system shock, resulting in a weaker growth outlook

Ratings and Outlook

Foreign currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

Local currency

Long-term issuer rating	AAA/Stable
Senior unsecured debt	AAA/Stable
Short-term issuer rating	S-1+/Stable

Lead Analyst

Eiko Sievert
+49 69 6677389-79
e.sievert@scoperatings.com

Team Leader

Dr Giacomo Barisone
+49 69 6677389-22
g.barisone@scoperatings.com

Scope Ratings GmbH

Neue Mainzer Straße 66-68
60311 Frankfurt am Main

Phone +49 69 6677389-0

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891-0

Fax +49 30 27891-100

info@scoperatings.com

www.scoperatings.com



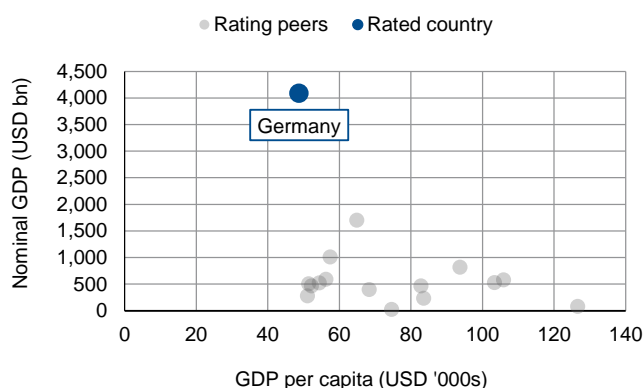
Bloomberg: RESP SCOP

Domestic Economic Risk

Overview of Scope's qualitative assessments for Germany's *Domestic Economic Risk*

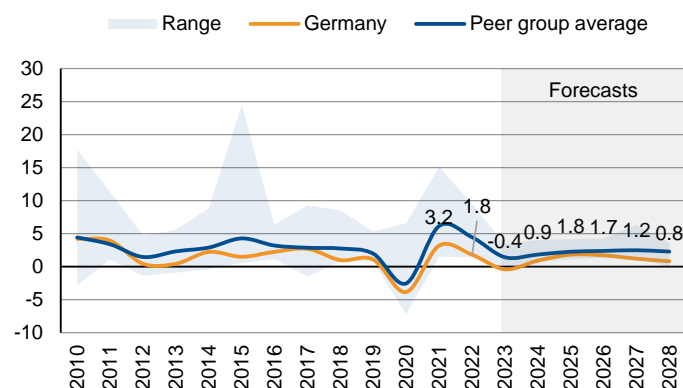
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential of the economy	Weak	-1/3	Weak growth potential, reflecting large investment gap and structural challenges in key industries
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective central bank; effective policy framework and transmission over the cycle
	Macro-economic stability and sustainability	Neutral	0	Competitive and diversified economy but weaknesses in digitalisation, labour market challenges related to ageing; high resource dependence and trade linkages with other countries

Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Real GDP growth, %



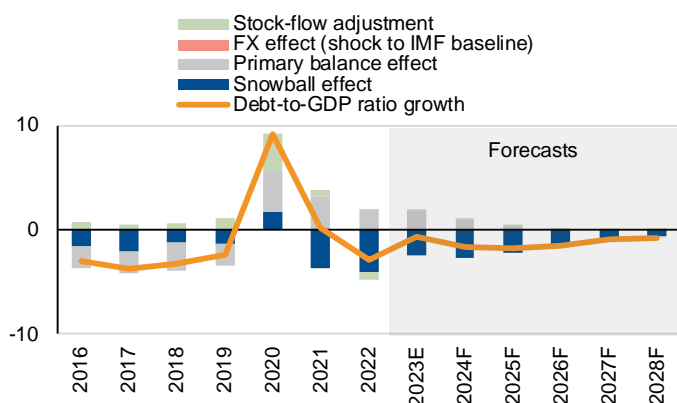
Source: IMF WEO, Scope Ratings forecasts

Public Finance Risk

Overview of Scope's qualitative assessments for Germany's *Public Finance Risk*

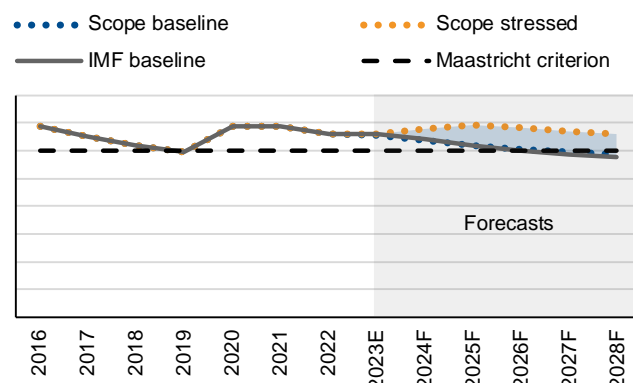
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Fiscal policy framework	Neutral	0	Strong policy response to energy crisis; constitutionally anchored debt brake at federal and regional level, contributing to retention of fiscal space but increased use of extra-budgetary special funds
	Debt sustainability	Neutral	0	Moderate public debt with high resilience to adverse scenarios; rising pension liabilities
	Debt profile and market access	Strong	+1/3	Primary benchmark issuer in euro area, reflected in low interest payments despite heightened debt levels

Contributions to changes in debt levels, pp of GDP



Source: IMF WEO, Scope Ratings forecasts

Debt-to-GDP forecasts, % of GDP



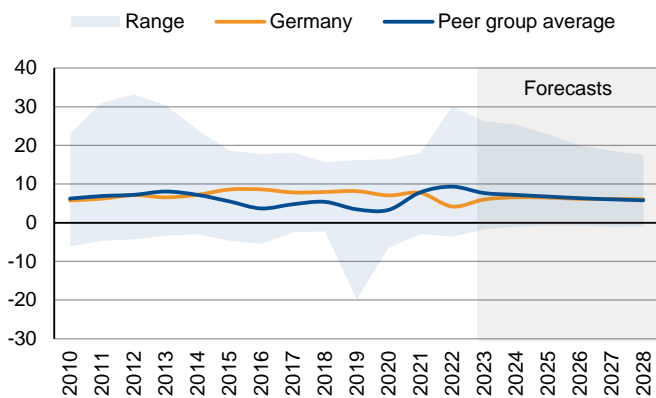
Source: IMF WEO, Scope Ratings forecasts

External Economic Risk

Overview of Scope's qualitative assessments for Germany's External Economic Risk

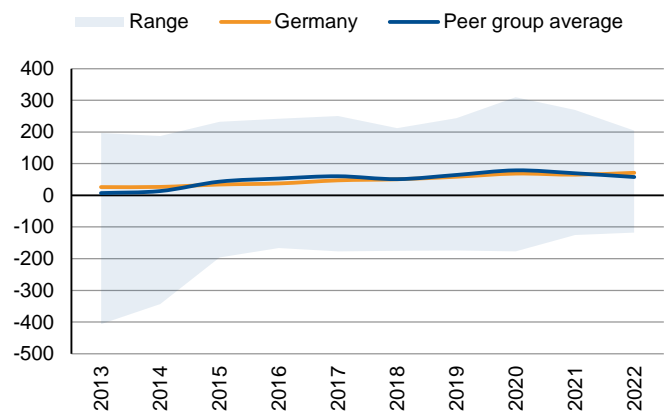
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Current account resilience	Strong	+1/3	Diversified and competitive export base; strong track record of current account surpluses
	External debt structure	Neutral	0	Moderate external debt
	Resilience to short-term external shocks	Strong	+1/3	Benefits from euro area membership; large external-creditor position

Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

Net international investment position (NIIP), % of GDP



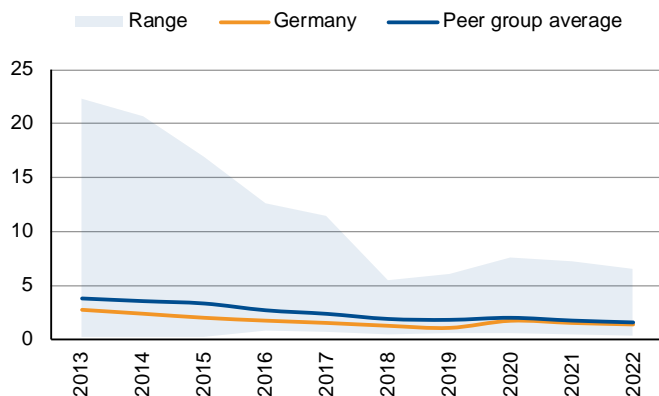
Source: IMF, Scope Ratings

Financial Stability Risk

Overview of Scope's qualitative assessments for Germany's Financial Stability Risk

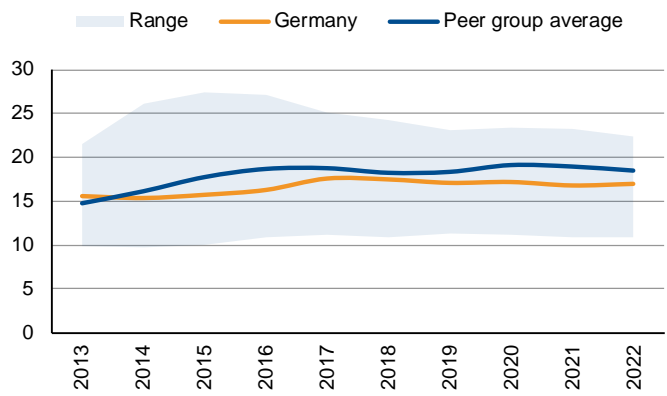
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Low profitability and unfavourable cost structure of banking sector balanced by adequate capitalisation and moderate exposure risk to non-financial corporate debt
	Banking sector oversight	Neutral	0	Oversight under National Supervisory Authority and ECB as part of banking union
	Financial imbalances	Strong	+1/3	Moderate household and private sector indebtedness; closely monitored systemic risks in financial system

Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

Tier 1 capital, % of risk-weighted assets



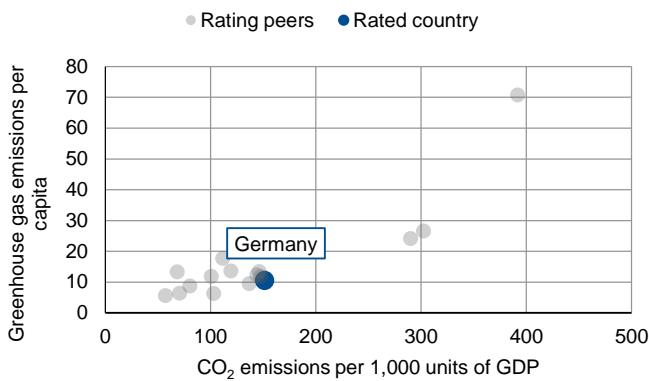
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) Risk

Overview of Scope's qualitative assessments for Germany's ESG Risk

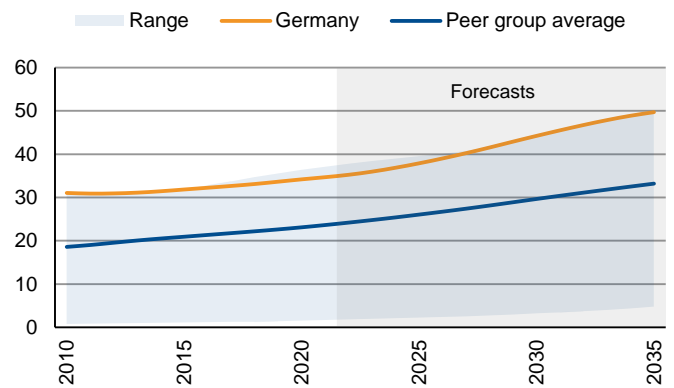
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a	Environmental factors	Weak	-1/3	Structural challenges related to transition risk in view of carbon neutrality targets and economic importance of energy-intensive key industries
	Social factors	Neutral	0	Weak demographics in form of an ageing workforce, balanced by high social inclusion and improving labour force participation; rising inequality risks, reinforced by the Covid-19 pandemic and energy crises
	Governance factors	Neutral	0	High-quality institutions and stable political environment

CO₂ emissions per GDP, mtCO₂e



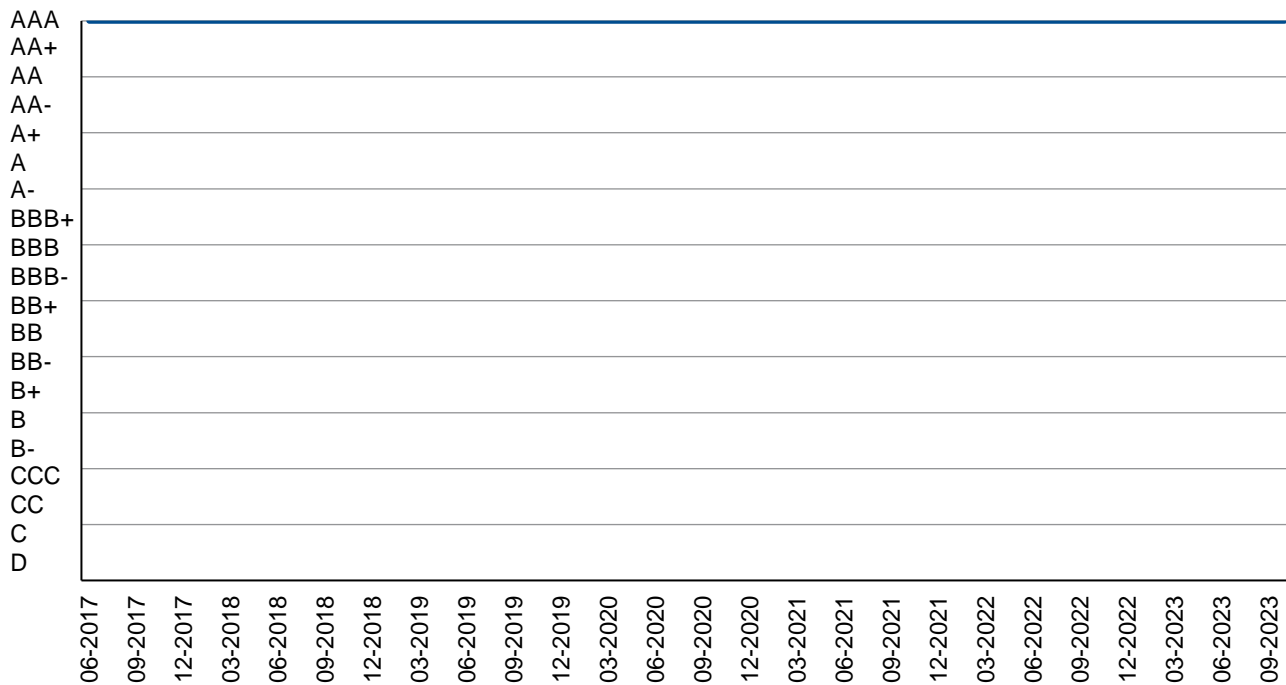
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

Appendix I. Rating history (foreign-currency long-term issuer rating)



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's core variable scorecard after accounting for a methodological reserve-currency adjustment.

Peer group*
Austria
Denmark
Finland
Ireland
Luxembourg
Netherlands
Norway
Sweden
Switzerland

Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, in line with Scope's [Sovereign Rating Methodology](#). The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022
Domestic Economic	GDP per capita, USD '000s	IMF	48.0	46.8	46.7	51.5	48.8
	Nominal GDP, USD bn	IMF	3,976.2	3,889.6	3,884.6	4,281.3	4,085.7
	Real growth, %	IMF	1.0	1.1	-3.8	3.2	1.8
	CPI inflation, %	IMF	1.9	1.4	0.4	3.2	8.7
	Unemployment rate, %	WB	3.4	3.1	3.9	3.6	3.0
Public Finance	Public debt, % of GDP	IMF	61.9	59.5	68.7	69.0	66.1
	Net interest payment, % of revenue	IMF	1.6	1.3	1.0	0.9	1.2
	Primary balance, % of GDP	IMF	2.7	2.1	-3.9	-3.1	-1.9
External Economic	Current-account balance, % of GDP	IMF	8.0	8.2	7.1	7.7	4.2
	Total reserves, months of imports	WB	1.3	1.5	2.0	1.8	1.7
	NIIP, % of GDP	IMF	50.7	58.7	68.5	65.1	71.0
Financial Stability	NPL ratio, % of total loans	IMF	1.2	1.1	1.7	1.5	1.4
	Tier 1 ratio, % of risk-weighted assets	IMF	17.5	17.1	17.2	16.8	17.0
	Credit to the private sector, % of GDP	WB	78.2	79.4	84.9	84.6	83.6
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	169.9	156.6	147.1	151.3	-
	Income share of bottom 50%, %	WID	18.9	18.8	18.9	18.6	-
	Labour-force participation rate, %	WB	79.1	80.1	78.8	78.9	-
	Old-age dependency ratio, %	UN	33.1	33.6	34.2	34.7	35.2
	Composite governance indicators*	WB	1.5	1.4	1.4	1.4	1.4

* Average of the six World Bank Worldwide Governance Indicators.

Appendix IV. Economic development and default indicators

IMF Development Classification

Advanced economy

5y USD CDS spread (bps) as of 20 October 2023

23.65



Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Oslo

Karenslyst allé 53
N-0279 Oslo

Phone +47 21 62 31 42

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Madrid

Paseo de la Castellana 141
E-28046 Madrid

Phone +34 91 94 91 66 2

Paris

10 avenue de Messine
FR-75008 Paris

Phone +33 6 6289 3512

Milan

Via Nino Bixio, 31
20129 Milano MI

Phone +39 02 8295 8254

Scope Ratings UK Limited

London

52 Grosvenor Gardens
London SW1W 0AU

Phone +44 20 7824 5180

info@scoperatings.com
www.scoperatings.com

Disclaimer

© 2023 Scope SE & Co. KGaA and all its subsidiaries including Scope Ratings GmbH, Scope Ratings UK Limited, Scope Fund Analysis GmbH, and ESG Analysis GmbH (collectively, Scope). All rights reserved. The information and data supporting Scope's ratings, rating reports, rating opinions and related research and credit opinions originate from sources Scope considers to be reliable and accurate. Scope does not, however, independently verify the reliability and accuracy of the information and data. Scope's ratings, rating reports, rating opinions, or related research and credit opinions are provided 'as is' without any representation or warranty of any kind. In no circumstance shall Scope or its directors, officers, employees and other representatives be liable to any party for any direct, indirect, incidental or other damages, expenses of any kind, or losses arising from any use of Scope's ratings, rating reports, rating opinions, related research or credit opinions. Ratings and other related credit opinions issued by Scope are, and have to be viewed by any party as, opinions on relative credit risk and not a statement of fact or recommendation to purchase, hold or sell securities. Past performance does not necessarily predict future results. Any report issued by Scope is not a prospectus or similar document related to a debt security or issuing entity. Scope issues credit ratings and related research and opinions with the understanding and expectation that parties using them will assess independently the suitability of each security for investment or transaction purposes. Scope's credit ratings address relative credit risk, they do not address other risks such as market, liquidity, legal, or volatility. The information and data included herein is protected by copyright and other laws. To reproduce, transmit, transfer, disseminate, translate, resell, or store for subsequent use for any such purpose the information and data contained herein, contact Scope Ratings GmbH at Lennéstraße 5, D-10785 Berlin.