FitchRatings

Germany

This report does not constitute a new rating action for this issuer. It provides more detailed credit analysis than the previously published Rating Action Commentary, which can be found on www.fitchratings.com.

Key Rating Drivers

Very Strong Fundamentals: Germany's 'AAA' Issuer Default Rating (IDR) reflects its diversified, high value-added economy and strong institutions. It is also supported by a record of fiscal prudence and very low government financing cost. The record of persistent, high current account surpluses shows the competitiveness of Germany's export sector and supports its net external creditor and positive net international investment position.

Economic Weakness: Germany's post-pandemic economic performance is weak. We forecast only 0.1% growth in 2024, following a 0.3% decline in 2023, but a brighter cyclical outlook should drive the acceleration to 1.4% in 2025. We estimate that the energy shock reduced the level of potential output by 1% of GDP, but the gap is large, indicating that there is room to catch up. The risks to economic growth are on the downside.

Tight Labour Market: The tight labour market in Germany continues to put pressure on wages, which have recently started rising at a higher rate than eurozone averages. Unemployment remains at about its historical lows and labour shortages are a large obstacle to production. Inflation has dropped substantially, although core inflation is far above the headline, at 3.5% in February 2024, and could put additional pressure on wages.

Fiscal Trade-offs: A Federal Constitutional Court (FCC) ruling clarified the operation of the debt brake rule. As a result, the government will not be able to use up to EUR90 billion (2.1% of GDP) of planned spending. The outcome has improved the transparency and predictability of the federal budget process. However, compliance with domestic fiscal rules creates important policy trade-offs, as the planned use of off-budget funds would have supported investment spending.

Small Fiscal Deficits: The application of the debt brake rule and the FCC ruling imply a rapid narrowing of fiscal deficits. We expect the fiscal balance to decline to -1.5% of GDP in 2024, from -2.1% of GDP in 2023. However, there is great uncertainty over the fiscal path beyond 2024, as it is unclear how much consolidation the government will have to enact to comply with the rule and how much additional defence budget (EUR100 billion, or 2.5% of GDP) will be used. We expect the debt-to-GDP ratio to fall to 63.3% in 2025, from the 64.2% estimated in 2023.

Ageing Population: Germany faces big demographic challenges, which are expected to materialise sooner than in other eurozone countries. According to updated projections from the European Commission, the size of the labour force is expected to decline by 6.5% over the next 10 years, compared with 2.1% for the eurozone.

Resilient Banking Sector: The German banking sector's 'a' banking system indicator (BSI) reflects resilient asset quality and sound funding and liquidity. The sector has sound capitalisation, with banks reporting substantial buffers over regulatory requirements.

We expect increasing credit losses from commercial real estate (CRE) exposures to negatively affect German banks in 2024 and 2025, as the system's exposure to CRE, both domestic and foreign, is high compared with most other European sectors. However, the Outlooks on the ratings of all German banks are Stable, reflecting sufficient headroom to withstand weaker credit quality.

Ratings

Foreign Currency	
Long-Term IDR	AAA
Short-Term IDR	F1+

Local Currency	
Long-Term IDR	AAA
Short-Term IDR	F1+

Country Ceiling AAA

Outlooks	
Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Rating Derivation

Component	
Sovereign Rating Model (SRM)	AA+
Qualitative Overlay (QO)	+1
Structural features	0
Macroeconomic	+1
Public finances	0
External finances	0
Long-Term Foreign-Currency IDR	AAA

Source: Fitch Ratings

Data

	2023E
GDP (USDbn)	4,458
Population (m)	84.5

E – Estimate. Source: Fitch Ratings

Applicable Criteria

Sovereign Rating Criteria (April 2023)
Country Ceiling Criteria (July 2023)

Related Research

Fitch Affirms Germany at 'AAA'; Outlook Stable (March 2024)
Global Economic Outlook (March 2024)
Interactive Sovereign Rating Model
Fitch Fiscal Index - Analytical Tool
Click here for more Fitch Ratings content on Germany

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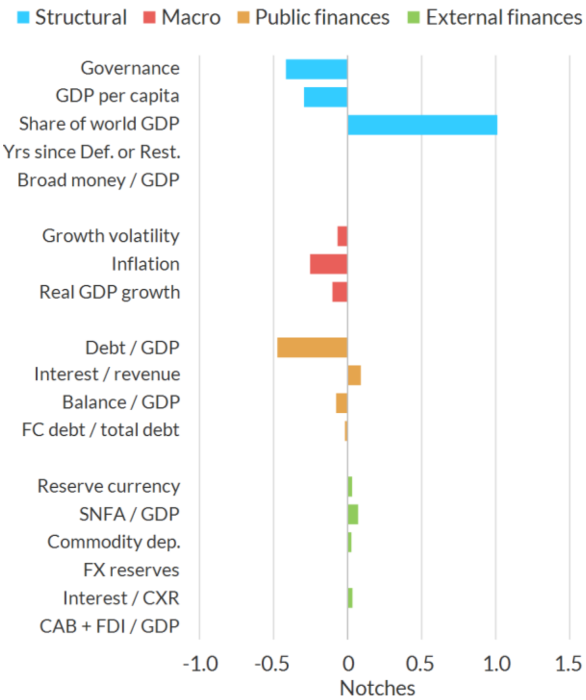
Rating Summary

Long-Term Foreign-Currency Issuer Default Rating (LT FC IDR): AAA

Sovereign Rating Model: AA+

Contribution of variables, relative to AAA Median



Qualitative Overlay: +1

Adjustments relative to SRM data and output

Structural features: No adjustment.

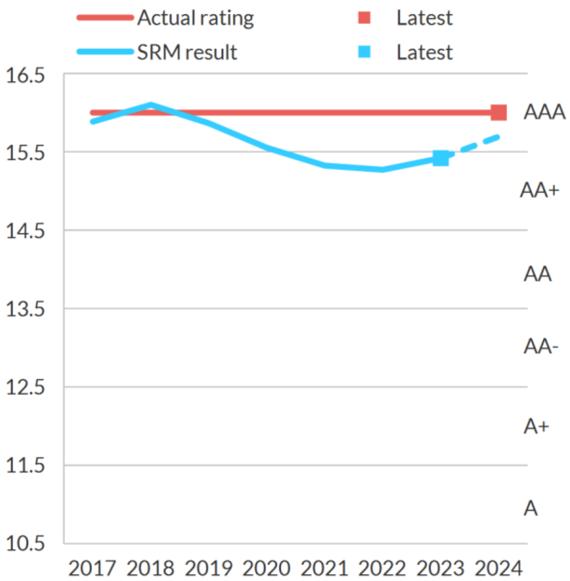
Macroeconomic outlook, policies and prospects: +1 notch, to offset the deterioration in the SRM output driven by volatility from the pandemic and energy shocks, including on GDP growth. Fitch believes that Germany has the capacity to absorb it without lasting effects on its long-term macroeconomic stability.

Public finances: No adjustment.

External finances: No adjustment.

Note: See Peer Analysis table for summary data, including rating category medians; see the Full Rating Derivation table for detailed SRM data.
Source: Fitch Ratings

Sovereign Rating Model Trend



Recent Rating Derivation History

Review Date	LT FC IDR	SRM Result[ab]	QO S	M	PF	EF
Latest	AAA	AA+	0	+1	0	0
15 September 2023	AAA	AA+	0	+1	0	0
31 March 2023	AAA	AA+	0	+1	0	0
21 October 2022	AAA	AA+	0	+1	0	0
29 April 2022	AAA	AA+	0	+1	0	0
29 October 2021	AAA	AA+	0	+1	0	0
30 April 2021	AAA	AA+	0	+1	0	0
6 November 2020	AAA	AA+	0	+1	0	0
12 June 2020	AAA	AAA	0	0	0	0
17 January 2020	AAA	AAA	0	0	0	0

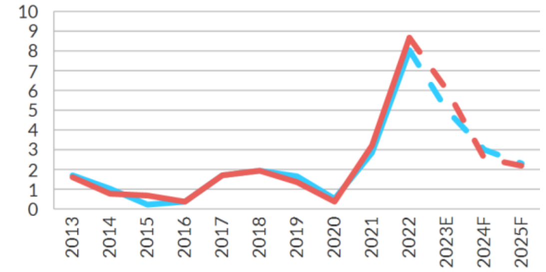
[a] The latest rating uses the SRM result for 2023 from the chart. This will roll forward to 2024 in July 2024.
[b] Historical SRM results in this table may differ from the chart, which is based on our latest data, due to data revisions.
Abbreviations: LT FC IDR = Long-Term Foreign-Currency Issuer Default Rating; SRM = Sovereign Rating Model; QO = Qualitative Overlay
Source: Fitch Ratings

Peer Analysis

Germany AAA Median

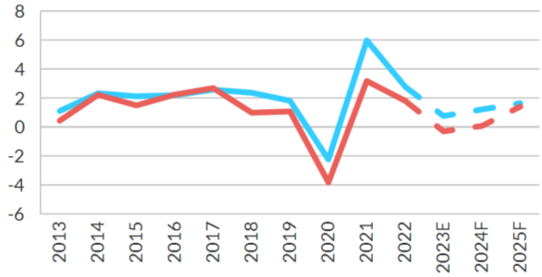
Consumer Price Inflation

(annual avg, %)



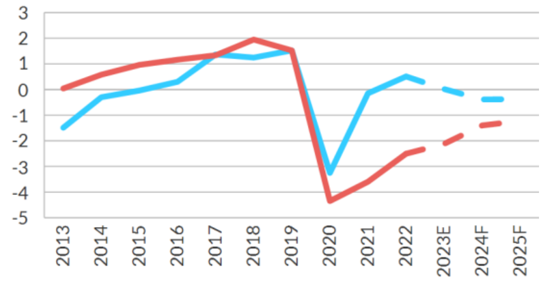
Real GDP Growth

(%)



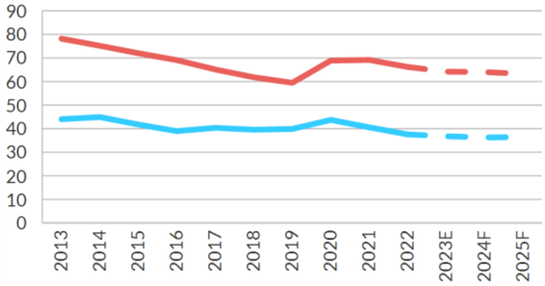
General Government Balance

(% GDP)



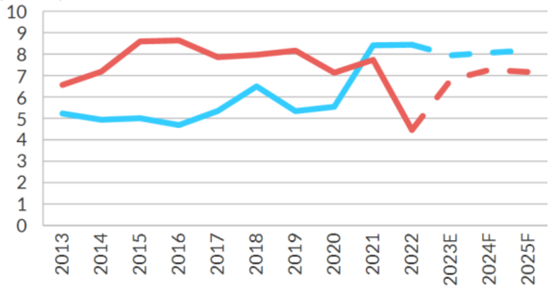
Gross General Government Debt

(% GDP)



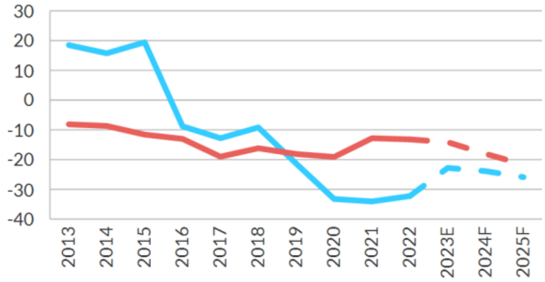
Current Account Balance

(% GDP)



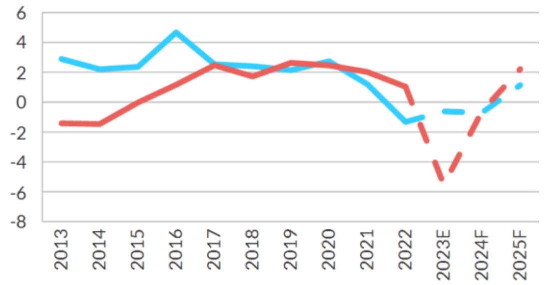
Net External Debt

(% GDP)



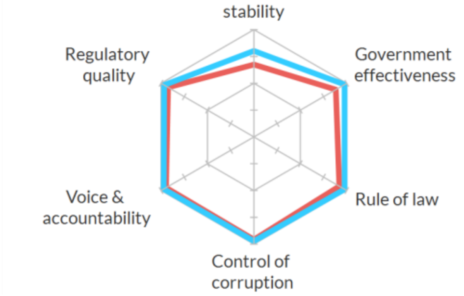
Real Private-Sector Credit Growth

(%)



Governance Indicators

Percentile rank



Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank

Peer Analysis

2023E[a]	Germany	AAA median	AA median	A median
Structural features				
GDP per capita (USD) [SRM]	52,772	65,874	52,208	31,522
Share in world GDP (%) [SRM]	4.4	0.0	0.0	0.0
Composite governance indicator (percentile, latest) [SRM][b]	88.4	93.8	84.2	74.7
Human development index (percentile, latest)	95.7	94.7	89.4	82.4
Broad money (% GDP) [SRM]	93.3	93.3	98.4	88.9
Private credit (% GDP, 3-year average)	79.4	122.6	104.4	73.5
Dollarisation ratio (% bank deposits, latest)	1.9	14.4	10.3	10.5
Bank system capital ratio (% assets, latest)	19.3	14.9	16.5	15.9
Macroeconomic performance and policies				
Real GDP growth (%, 3-year average) [SRM]	0.5	2.1	2.2	3.7
Real GDP growth volatility (complex standard deviation) [SRM]	2.2	2.0	2.4	3.0
Consumer price inflation (%, 3-year average) [SRM]	5.8	1.8	2.1	2.3
Unemployment rate (%)	3.0	5.4	5.1	6.4
Public finances (general government)[c]				
Balance (% GDP, 3-year average) [SRM]	-2.0	-0.2	-0.9	-2.4
Primary balance (% GDP, 3-year average)	-1.3	1.1	0.5	-0.6
Interest payments (% revenue, 3-year average) [SRM]	1.6	3.6	3.5	4.4
Gross debt (% revenue, 3-year average)	139.7	113.4	139.5	133.9
Gross debt (% GDP, 3-year average) [SRM]	64.8	43.9	40.5	42.1
Net debt (% GDP, 3-year average)	54.6	37.2	34.3	36.6
FC debt (% gross debt, 3-year average) [SRM]	2.5	0.0	0.8	9.8
External finances[c]				
Current account balance (% GDP, 3-year average)	6.2	5.1	1.2	0.9
Current account balance + net FDI (% GDP, 3-year average) [SRM]	4.3	2.1	0.6	2.4
Commodity dependence (% CXR) [SRM]	8.8	14.9	15.4	11.7
Gross external debt (% GDP, 3-year average)	184.1	178.1	119.9	65.9
Net external debt (% GDP, 3-year average)	-15.1	13.5	-2.3	-8.1
Gross sovereign external debt (% GXD, 3-year average)	23.8	11.5	17.7	19.0
Sovereign net foreign assets (% GDP, 3-year average) [SRM]	0.4	-4.6	8.7	11.8
External interest service (% CXR, 3-year average) [SRM]	2.4	7.3	4.1	2.3
FX reserves (months of CXP) [SRM]	1.7	1.4	2.9	4.4
Liquidity ratio	37.4	51.5	59.7	98.4

[a] Three-year averages are centred on this year. Fitch does not forecast indicators labelled 'latest', meaning data may be lagging.
[b] Composite of all six World Bank Worldwide Governance Indicators (see chart on the previous page).
[c] See *Appendix 2: Data Notes and Conventions* for details of data treatment for public finances and external finances.
Source: Fitch Ratings, Statistical Office, Ministry of Finance, IMF, World Bank, United Nations

Supplementary Information

BSI/MPI = a/3. About the BSI and MPI: Fitch's bank systemic indicator (BSI) equates to a weighted average Viability Rating. The macro-prudential risk indicator (MPI) focuses on one potential source of financial stress, ranging from '3' – high potential vulnerability to financial stress over the medium term based on trends in credit expansion, equity and property prices and real exchange rates – to '1' – low likelihood. For more information, refer to Fitch Ratings' most recent Macro-Prudential Risk Monitor report.

Year cured from the most recent default or restructuring event, since 1980 = No event.

The de facto exchange rate regime, based on the latest IMF Annual Report on Exchange Arrangements and Exchange Restrictions report, is 'Free floating (EMU)'.

Rating Factors

Strengths

- High value-added, diversified, open and wealthy economy.
- High governance standards, as measured by the World Bank Governance Indicators (WBGIs), although slightly lagging behind the 'AAA' median.
- Strong commitment to fiscal prudence, reflected in strict domestic fiscal rules.
- Status of primary benchmark issuer for the eurozone, which affords Germany ample financing flexibility.
- Long average maturity of debt, at about 7.4 years, which limits the effects of rising funding cost on the government's balance sheet.
- Strong external position, as reflected in a record high current account surplus that resulted in a large positive net international investment position.

Weaknesses

- High dependence on Russian gas at the time of the outbreak of the war in Ukraine, which exposed Germany to the risk of higher energy costs as the country accelerates its transition to renewable energy.
- Rapidly ageing population. Burden of ageing is high in Germany in comparison to other eurozone countries, and its effects will materialise sooner than elsewhere.
- High bureaucracy and regulatory cost, which impede investment in major sectors, including renewable energy.
- Acute labour shortages (the highest in eurozone), which are likely to put additional upward pressure on wages.

Rating	Sovereign
AAA	**Germany**
	Australia
	Denmark
	Luxembourg
	Netherlands
	Norway
	Singapore
	Sweden
	Switzerland
AA+	**Austria**
	Canada
	Finland
	New Zealand
	United States of America

Source: Fitch Ratings

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade

- **Structural:** A big loss of competitiveness, which would lead to a strong further revision in potential output.
- **Public Finances:** A sizeable increase in general government debt over the medium term, for example, due to a prolonged period of wider budget deficits or weaker growth.

Factors that could, individually or collectively, lead to positive rating action/upgrade

- The ratings are at the highest level on Fitch's scale and cannot be upgraded.

Forecast Summary

	2020	2021	2022	2023E	2024F	2025F
Macroeconomic indicators and policy						
Real GDP growth (%)	-3.8	3.2	1.8	-0.3	0.1	1.4
Unemployment (%)	3.7	3.6	3.1	3.0	3.1	3.0
Consumer price inflation (annual average % change)	0.4	3.2	8.7	6.0	2.6	2.2
Policy interest rate (annual average, %)	0.0	0.0	0.7	3.9	4.2	3.3
General government balance (% GDP)	-4.3	-3.6	-2.5	-2.1	-1.4	-1.2
Gross general government debt (% GDP)	68.9	69.2	66.2	64.2	64.0	63.3
EUR per USD (annual average)	0.9	0.8	1.0	0.9	0.9	0.9
Real private credit growth (%)	2.5	2.0	1.0	-5.5	-0.6	2.2
External finance						
Merchandise trade balance (USDbn)	219.3	230.6	127.7	254.6	237.2	249.4
Current account balance (% GDP)	7.1	7.7	4.5	6.8	7.3	7.2
Gross external debt (% GDP)	204.3	182.5	197.5	180.9	174.0	167.3
Net external debt (% GDP)	-19.1	-12.8	-13.2	-14.2	-18.1	-21.6
External debt service (principal + interest, USDbn)	757.6	870.5	833.8	763.2	768.2	754.5
Official international reserves including gold (USDbn)	268.4	295.7	293.9	322.7	320.5	320.1
Gross external financing requirement (% international reserves)	195.9	185.2	201.3	134.6	114.7	109.1
Real GDP growth (%)						
US	-2.2	5.8	1.9	2.5	2.1	1.5
China	2.2	8.4	3.0	5.2	4.5	4.5
Eurozone	-6.4	5.4	3.5	0.4	0.6	1.6
World	-2.8	6.3	2.7	2.9	2.4	2.5
Oil (USD/barrel)	43.3	70.6	98.6	82.1	80.0	70.0

E – Estimate. F – Forecast. Source: Fitch Ratings

Sources and Uses

Public Finances (General government)

(EURbn)	2023	2024
Uses	**465.5**	**448.1**
Budget deficit	87.4	59.5
MLT amortisation	378.1	388.6
Domestic	364.0	374.0
External	14.1	14.5
Sources	**465.5**	**448.1**
Gross borrowing	481.7	449.8
Domestic	449.0	447.3
External	32.6	2.5
Privatisation	0.0	0.0
Other	-16.2	-1.7
Change in deposits (- = increase)	0.0	0.0

Source: Fitch Ratings

External Finances

(USDbn)	2023	2024
Uses	**395.7**	**370.0**
Current account deficit	-303.1	-333.8
MLT amortisation	698.9	703.7
Sovereign	15.6	16.1
Non-sovereign	683.2	687.7
Sources	**395.7**	**370.0**
Gross MLT borrowing	724.8	622.6
Sovereign	-99.5	-161.0
Non-sovereign	824.2	783.7
FDI	-72.0	-39.1
Other	-261.6	-215.8
Change in FX reserves (- = increase)	4.6	2.2

Source: Fitch Ratings

Credit Developments

Germany's Economic Weakness Reflects a Combination of External Shocks and Structural Factors

Germany's post-pandemic economic performance continues to be weak. The economy contracted by 0.3% in real terms in 4Q23, bringing the output only slightly higher than 4Q19. Growth underperformance in 2022 and 2023 reflects a combination of external shocks. The country was particularly exposed to the energy crisis because of the importance of energy-intensive industries and its direct reliance on Russian pipeline gas. The export-oriented economy has also suffered from a rare downturn in global trade volumes and weakness in China.

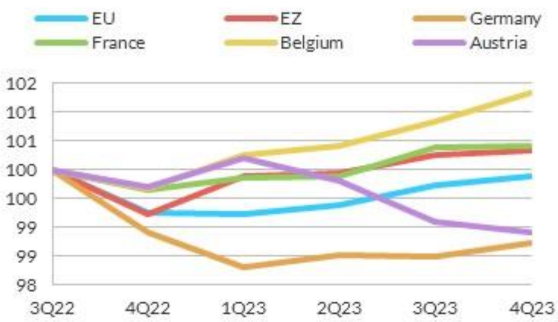
These factors come on top of high inflation and increased financing cost, which depressed private consumption and investments to a higher degree than on average in the eurozone.

Shocks from energy, trade and ECB tightening will keep German economic growth depressed in 2024. We forecast only 0.1% expansion following a 0.3% decline in 2023, but a brighter cyclical outlook brought by falling inflation, lower financing cost and recovery of global trade, should drive acceleration in growth to 1.4% in 2025. We estimate that energy shock reduced the level of its potential output by 1% of GDP, but the output gap is large, at 2% in 2024, indicating room to catch up.

Recovery of German Economy Lags Eurozone
Real GDP, index (4Q19 = 100)

Source: Fitch Ratings, Eurostat

German Private Consumption Very Weak
Private consumption, index (3Q22 = 100)



Source: Fitch Ratings, Eurostat

Germany's potential output could have suffered more as a consequence of the energy shock (for example, the Bundesbank estimated a 2% reduction back in December 2022) or the recovery could be delayed. Export competitiveness could come under increased pressure if wages continue increasing at a pace higher than productivity, or energy prices stabilise at higher levels than we assume.

In addition, policy uncertainty stemming from the November 2023 Constitutional Court ruling could contribute negatively to the business climate. Also, further fiscal consolidation might be required to comply with the debt brake rule after 2024, which could directly affect growth. Finally, the government's ambitious investment plans for the Federal Armed Forces, which should reach EUR100 billion (2.5% of GDP) by 2027, could also negatively affect growth if most of the weaponry is procured outside of Germany, although it could also the boost domestic economy and have indirect positive effects through trade.

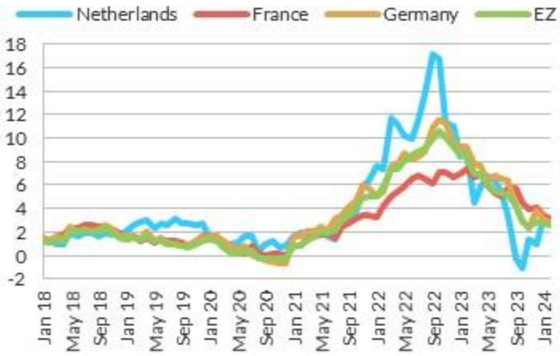
Headline Inflation Continues to Decline, but Wage Growth Constitutes Risk Factor

We forecast that inflation (measured by the Harmonised Index of Consumer Prices; HICP) will continue to decline, averaging 2.7% in 2024 and 2.2% in 2025. The reduction is driven by base effects, mostly falling energy prices and the effect of monetary tightening. However, core inflation is far above the headline, at 3.5% in February 2024, and creates risks for our headline forecast, especially in the context of strong wage growth.

The tight labour market in Germany continues to push wage rises, which exceed eurozone averages (6.1% versus 5.4% in 1H23). At 3.1%, unemployment remains at about its historical lows. Labour shortages are a big obstacle to production, with 29.5% of companies in the industrial sector (highest in the eurozone) reporting a lack of skilled labour as a factor limiting their production capacity.

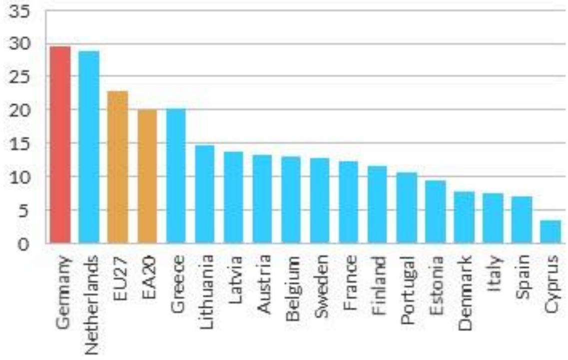
In our view, the tight labour market is driven by a number of factors. Firstly, demographic trends are putting the labour market under pressure. Most baby boomers will reach retirement age in the next few years, which leads to labour hoarding. Secondly, despite economic weakness, the German corporate sector on average reports solid profit margins and maintains robust capital buffers, leaving the companies more room to maintain employees. Thirdly, there has been an acceleration of the downward trend in the average hours worked per employee since the pandemic, which also contributes to supply shortages.

Inflation Comparable to Neighbours
% change, yoy



Source: Fitch Ratings, Eurostat

Labour Shortages Are Very High
Factors limiting production in industrial sector, % of answers



Source: Fitch Ratings, Eurostat

Ruling of the FCC Boosts Fiscal Transparency but Complicates Trade-Offs

The FCC ruling from 15 November 2023 clarified the operation of the debt brake rule, prohibiting the government from using certain credit authorisations in off-budget funds in years in which the rule is not suspended. The ruling has helped to underpin the commitment to fiscal prudence and improved the transparency and predictability of the federal budget process. However, compliance with domestic fiscal rules creates important policy trade-offs as the planned use of off-budget funds would have supported investment.

The rule limits the federal government's structural budget deficit to 0.35% of GDP and its reinstatement was one of the reasons the general government budget deficit narrowed to 0.4% of GDP in the original 2024 budget, under domestic accounting rules, from 1.1% in 2023. However, the government's medium-term plans relied on moving spending to large off-budget funds to meet the restrictions on the budget, undermining the rule's effectiveness.

The reactivation of the rule this year, together with the FCC ruling, implies that fiscal cuts will be needed. We estimate that up to EUR90 billion (2.1% of GDP) of planned spending is directly affected by the ruling, although the exact effect is difficult to measure, given the high underspending of these funds in recent years.

The 2024 Budget Implements Fiscal Cuts Necessary Following the Constitutional Court Ruling

The Constitutional Court ruling has led the government to revise the 2024 budget, originally approved in October 2023, in February 2024. The revision included a fiscal consolidation of 0.4pp, much smaller than expected, because the substantial revision of underlying growth forecasts by the Ministry of Finance (revision to 0.2% from 1.3%) has provided additional room to spend under the debt brake rule.

According to the domestic accounting rules, which are based on cash flow accounting and exclude spending under off-budget funds, the fiscal deficit will amount to 0.9% of GDP in 2024, far smaller than 1.6% of GDP in 2023. On the accrual basis, which we and Eurostat use, our projection points to 1.5% of GDP in fiscal deficit in 2024, down from 2.1% of GDP in 2023 and 1.2% of GDP in 2025.

There is a lot of fiscal uncertainty beyond 2024 as it is unclear how much consolidation the government will have to enact to comply with the rule and what will be the spending mix on items falling under the rule and not. The investment in financial assets, as well as spending under the Federal Armed Forces fund, continue to be excluded from the calculation for the rule. Uncertainty is high, especially due to the planned ramp-up of defence spending. There is a strong political commitment to use the whole EUR100 billion by 2027 earmarked for the fund; however, we note that the initial take-up was very slow – so far, only about EUR6 billion was spent since the fund's establishment in 2022.

The revised 2024 budget forecasts a 4.7% increase in primary expenditure and a 9.0% rise in revenue. The latter is driven by robust tax revenues, benefitting from strong wage dynamics and a new tax on truck tolls. These fiscal consolidation measures were agreed in the original 2024 budget and include the abolishment of the citizen's benefit bonus (Bürgergeldbonus), a further reduction of federal subsidy to the statutory pension insurance and more savings assigned to each ministry.

Fiscal Prudence Provides Room to Address Ageing; Highlights the Magnitude of Challenges

The adherence to strict fiscal rules limits Germany's potential to address structural issues, but there are still ways to increase government spending without risking non-compliance with the debt brake rule. In a recent announcement, the government presented plans to improve the sustainability of its pension system by setting up a Generational Fund, which will serve as an additional component for financing statutory pension insurance.

The fund, which aims to accumulate EUR200 billion (4.7% of GDP) by 2035, will be financed by loans from the federal budget (EUR12 billion, or 0.3% of GDP) and transfer of funds from the general government. Given that investment in financial assets is excluded from the debt brake calculation, the loans to the Generational Fund are not limited as the other spending items and could potentially rise in the future. As this is a transfer between various governmental entities, we will also exclude it from our deficit projections but account for it in the debt as stockflow adjustment.

The government plans to manage the Generational Fund as a wealth fund, with asset management independent of political influence. The funds will be invested globally in a diversified portfolio. Only the income of the fund from 2036 will be used for pension financing.

The creation of the fund is the step in a right direction but falls short of addressing the funding gap in the pension system. According to updated projections from the European Commission, the labour force in Germany is expected to decline by 6.5% over the next 10 years, compared with 2.1% for the eurozone.

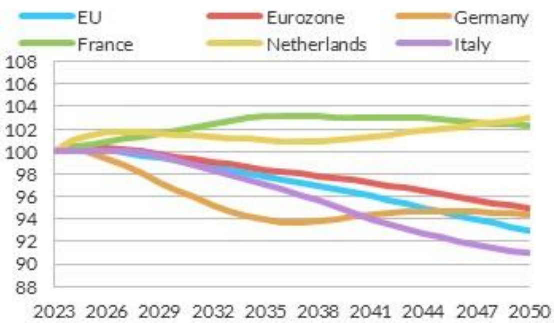
German statutory pension system is primarily financed by a pay-as-you-go system, which will be increasingly under pressure as an increasing number of baby boomers reach retirement age by the mid-2030s. According to the Bundesbank's projections, the government will have to inject a further 0.8pp of GDP into the statutory pension system and the contribution rate will have to rise by 4.3 pp (to 22.9%, from 18.6%) by 2035 to keep the replacement rate stable. The Bundesbank estimates the Generational Capital could reduce the contribution rate by 0.1pp and 0.5pp.

Debt Will Continue Falling, but at Slower Pace

Small fiscal deficits and moderate nominal economic growth mean that Germany's general government debt will continue declining as a share of GDP. We expect the debt-to-GDP ratio to fall to 63.3% in 2025, from the 64.2% estimated in 2023. The debt decline will be slower than it was post-pandemic (and post European Debt Crisis) and we do not expect the ratio to fall below the Maastricht 60% of GDP threshold over our forecasting horizon (by 2027).

Germany's debt ratio compares favourably to the eurozone average of 91.2% of GDP, but is a long way above the 'AAA' rated median at 36.5%. In fact, its debt burden is far higher than any other 'AAA' sovereign, followed by Australia and the Netherlands, whose debt ratios are close, but below 50% of GDP. However, the downward trajectory of the debt is resilient to shocks and we expect the lowering to continue, even if growth is structurally lower over the medium term, at 0.5%.

Particularly Acute Ageing Pressures
Labour force, index (2023 = 100)



Source: Fitch Ratings, European Commission

Debt Will Continue Falling
General government debt, % of GDP

F - Forecast
Source: Fitch Ratings, IMF, Eurostat

Banking Sector Is Resilient; CRE Is a Risk Factor

The German banking sector's 'a' BSI reflects resilient asset quality and sound funding and liquidity. The sector also has sound capitalisation, with banks reporting substantial buffers over regulatory requirements. Higher interest rates have boosted the sector's profitability, mainly driven by much slower-than-expected deposit repricing. This should limit the impact on German banks' credit profiles from the economic slowdown and falling credit demand. The banks should generate adequate new lending volumes in a slowly recovering economic environment, supported by moderate growth of residential mortgage lending and recovering demand for corporate lending.

We expect the increasing credit losses from CRE exposures to negatively affect German banks in 2024 and 2025. The German banking sector's large exposure, both domestic and foreign, is high compared with most other European sectors. German banks greatly increased their CRE lending between 2015 and 2022, in a period of low interest rates and surging real estate transaction volumes, which came to an abrupt halt due to the sharp rise in interest rates.

Outside the CRE sector, asset quality will deteriorate only moderately. We expect an increase in corporate insolvencies and asset-quality pressure to materialise primarily in energy-intensive industrial sectors and retailers, as consumer spending is under pressure due to high inflation. A robust labour market will limit the credit losses on retail loans.

Following the downgrade of Aareal Bank AG to 'BBB' in February 2024, the ratings of all German banks are now on Stable Outlooks and there is headroom to withstand weaker credit quality. The structurally improved profitability provides a bigger buffer for credit losses, although we expect this to come under further pressure.

Public Debt Dynamics

Germany's gross general government debt-to-GDP ratio peaked at 69.2% of GDP in 2021, and we expect it to fall to 63.3% by 2025 supported by moderate nominal GDP increases and narrowing primary deficits. The downward trajectory is fairly resilient to shocks: the ratio would continue falling even if the real GDP growth slowed to 0.5%.

Debt Dynamics - Fitch's Baseline Assumptions

	2021	2022	2023	2024	2025	2026	2027
Gross general government debt (% of GDP)	69.2	66.2	64.2	64.0	63.3	62.4	61.6
Primary balance (% of GDP)	-3.0	-1.8	-1.4	-0.6	-0.3	0.1	0.3
Real GDP growth (%)	3.2	1.8	-0.3	0.1	1.4	1.3	1.1
Average nominal effective interest rate (%)	0.9	1.1	1.1	1.3	1.5	1.7	1.8
EUR/USD (annual average)	0.8	1.0	0.9	0.9	0.9	0.9	0.9
GDP deflator (%)	3.0	5.4	6.8	3.0	2.2	2.0	2.0
Stock-flow adjustments (% of GDP)	0.0	0.0	0.0	0.3	0.3	0.3	0.3

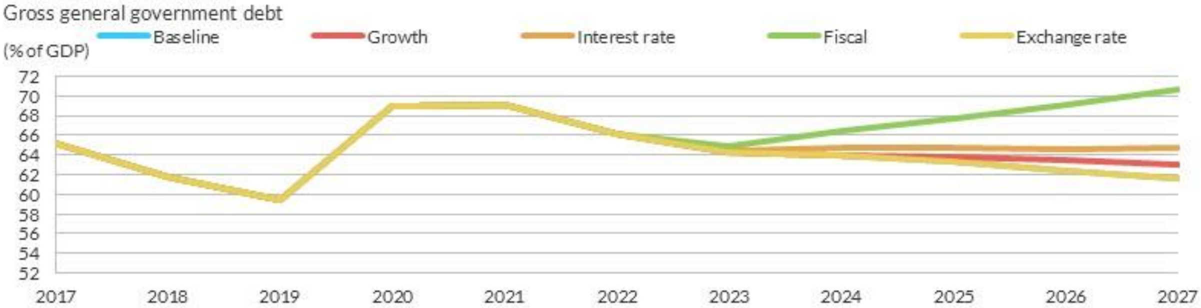
Source: Fitch Ratings

Debt Sensitivity Analysis: Fitch's Scenario Assumptions

Growth	GDP growth at 0.5% from 2025 onwards
Interest rate	Marginal interest rate 250bp higher
Fiscal	Stable primary balance deficit from 2024

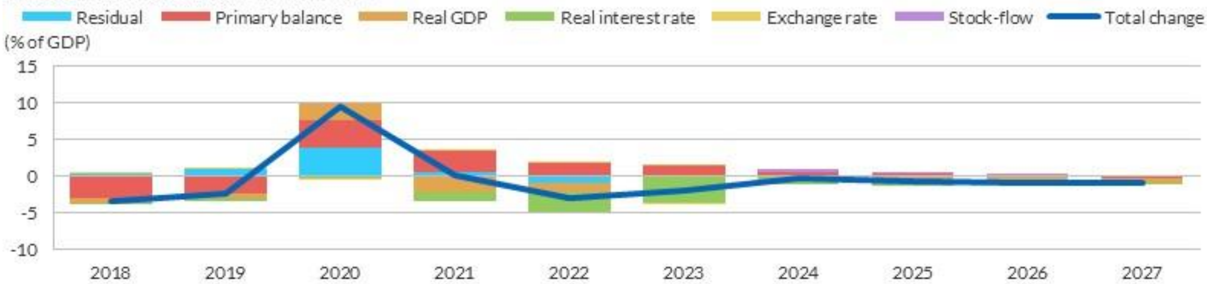
Source: Fitch Ratings

Sensitivity Analysis
Gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

Baseline Scenario: Debt Creating Flows
Change in gross general government debt



Source: Fitch Ratings, Fitch Debt Dynamics Model

About the Public Debt Dynamics

Fitch uses stylised projections for a sovereign's gross general government debt/GDP ratio to illustrate the sustainability of its debt burden and its sensitivity to economic growth, the cost of borrowing, fiscal policy and the exchange rate.

Data Tables

General Government Summary

% GDP	2017	2018	2019	2020	2021	2022	2023E	2024F	2025F
Revenue	45.5	46.2	46.4	46.2	47.5	47.1	46.1	46.0	46.3
Expenditure	44.1	44.3	44.9	50.6	51.1	49.6	48.3	47.4	47.5
o/w interest payments	1.0	0.9	0.8	0.6	0.6	0.7	0.7	0.8	0.9
Interest payments (% revenue)	2.3	2.0	1.7	1.4	1.2	1.5	1.5	1.8	2.0
Primary balance	2.1	2.9	2.3	-3.7	-3.0	-1.8	-1.4	-0.6	-0.3
Overall balance	1.3	1.9	1.5	-4.3	-3.6	-2.5	-2.1	-1.4	-1.2
Gross government debt	65.1	61.8	59.5	68.9	69.2	66.2	64.2	64.0	63.3
% of government revenue	143.3	133.8	128.1	149.1	145.7	140.7	139.2	139.2	136.7
Issued in domestic market	33.5	33.0	45.7	53.7	55.0	52.7	51.6	51.8	51.4
Issued in foreign markets	31.6	28.8	13.8	15.2	14.1	13.5	12.6	12.3	11.8
Local currency	62.0	59.1	57.0	66.4	67.4	64.5	62.6	62.5	61.8
Foreign currency	3.1	2.7	2.5	2.5	1.8	1.7	1.6	1.5	1.5
Central government deposits	10.8	10.9	10.8	13.5	13.0	10.8	10.1	9.8	9.5
Net government debt	54.3	51.0	48.7	55.5	56.1	55.4	54.1	54.2	53.8
Financing		-1.9	-1.5	4.3	3.6	2.5	2.1	1.4	1.2
Domestic borrowing		0.4	13.7	6.9	4.5	1.4	2.1	1.7	1.5
External borrowing		-3.2	-14.7	2.5	-1.4	-0.5	0.4	-0.3	0.0
Other financing		0.8	-0.5	-5.0	0.4	1.6	-0.4	0.0	-0.3
Change in deposits (- = increase)		-0.3	-0.3	-2.4	-0.4	1.4	0.0	0.0	0.0
Privatisation		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		1.1	-0.3	-2.6	0.8	0.2	-0.4	0.0	-0.3

E – Estimate. F – Forecast.
Source: Fitch Ratings, Ministry of Finance

Balance of Payments

(USDbn)	2017	2018	2019	2020	2021	2022	2023E	2024F	2025F
Current account	289.6	316.9	318.0	276.0	330.0	181.5	303.1	333.8	340.8
% GDP	7.9	8.0	8.2	7.1	7.7	4.5	6.8	7.3	7.2
Goods	288.0	263.3	245.9	219.3	230.6	127.7	254.6	237.2	249.4
Services	-27.4	-18.6	-15.1	8.6	6.0	-31.3	-62.9	-66.7	-64.0
Primary income	87.9	132.2	144.0	110.3	163.1	157.6	179.3	243.2	234.4
Secondary income	-58.9	-60.0	-56.8	-62.2	-69.7	-72.5	-67.8	-80.0	-79.0
Capital account	-3.1	1.3	-4.1	-10.6	-1.5	-19.5	-1.2	1.5	2.5
Financial account	304.4	287.7	224.8	223.2	257.2	238.9	306.5	337.5	343.7
Direct investment	36.1	29.0	98.8	-5.9	118.8	131.5	72.0	39.1	69.3
Portfolio investment	223.1	176.5	82.0	27.1	238.1	25.4	94.0	194.4	139.4
Derivatives	12.7	26.8	23.2	106.5	71.2	45.6	40.0	40.0	40.0
Other investments	32.5	55.4	20.8	95.5	-170.9	36.4	100.5	64.0	95.0
Net errors and omissions	16.4	-30.0	-89.7	-42.3	-33.8	81.6	0.0	0.0	0.0
Change in reserves (+ = increase)	-1.5	0.5	-0.6	-0.1	37.5	4.7	-4.6	-2.2	-0.4
International reserves, including gold	200.0	198.0	224.0	268.4	295.7	293.9	322.7	320.5	320.1
Liquidity ratio (%)	45.4	39.6	42.2	42.5	34.8	37.7	37.4	35.8	36.4
Memo									
Current external receipts (CXR)	2,054	2,249	2,205	2,020	2,440	2,496	2,594	2,616	2,689
Current external payments (CXP)	1,764	1,932	1,887	1,744	2,110	2,315	2,291	2,282	2,349
CXR growth (%)	7.7	9.5	-2.0	-8.4	20.8	2.3	3.9	0.9	2.8
CXP growth (%)	9.7	9.5	-2.4	-7.6	21.0	9.7	-1.0	-0.4	2.9
Gross external financing requirement	330.2	376.2	367.3	439.0	497.2	595.2	395.7	370.0	349.7
% International reserves	178.0	188.1	185.5	195.9	185.2	201.3	134.6	114.7	109.1
Net external borrowing	81.2	157.7	47.3	455.8	557.4	58.4	24.3	-66.2	-35.2

E – Estimate. F – Forecast.
Source: Fitch Ratings, IMF

External Debt and Assets

(USDbn)	2017	2018	2019	2020	2021	2022	2023E	2024F	2025F
Gross external debt	6,309.2	6,204.6	6,500.0	7,910.4	7,791.0	8,038.1	8,062.4	7,996.2	7,961.0
% GDP	171.1	156.0	166.8	204.3	182.5	197.5	180.9	174.0	167.3
% CXR	307.2	275.9	294.9	391.7	319.3	322.0	310.8	305.7	296.0
Short-term debt (% GXD)	45.1	44.8	45.0	47.7	50.2	56.5	56.4	56.8	57.1
By debtor									
Sovereign	2,214.1	2,176.5	2,073.9	2,531.2	2,495.2	2,047.0	1,931.9	1,754.8	1,607.7
Monetary authorities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General government	2,214.1	2,176.5	2,073.9	2,531.2	2,495.2	2,047.0	1,931.9	1,754.8	1,607.7
Banks	2,281.1	2,125.7	2,392.2	2,875.0	2,654.0	3,355.9	3,415.9	3,450.9	3,485.9
Other sectors	1,814.0	1,902.3	2,033.9	2,504.2	2,641.8	2,635.2	2,714.7	2,790.5	2,867.4
Gross external assets (non-equity)	7,010.2	6,848.3	7,206.1	8,650.1	8,338.1	8,575.8	8,693.3	8,826.5	8,990.9
Sovereign	1,705.9	1,689.4	1,610.7	2,080.2	2,081.3	1,938.9	1,963.8	1,959.7	1,959.0
International reserves, including gold	200.0	198.0	224.0	268.4	295.7	293.9	322.7	320.5	320.1
Other sovereign assets	1,505.9	1,491.3	1,386.7	1,811.8	1,785.6	1,645.0	1,641.1	1,639.2	1,638.9
Banks	2,517.5	2,435.7	2,697.3	3,091.6	2,735.6	3,400.3	3,460.3	3,505.3	3,575.3
Other sectors	2,786.7	2,723.1	2,898.3	3,477.9	3,520.8	3,235.8	3,297.8	3,388.3	3,483.0
Net external debt	-701.0	-643.8	-706.1	-739.7	-547.0	-537.7	-630.8	-830.3	-1,029.9
% GDP	-19.0	-16.2	-18.1	-19.1	-12.8	-13.2	-14.2	-18.1	-21.6
Sovereign	508.0	487.0	463.4	450.6	413.6	107.2	-3.3	-178.1	-324.9
Banks	-236.3	-310.0	-305.1	-216.6	-81.6	-44.4	-44.4	-54.4	-89.4
Other sectors	-972.7	-820.8	-864.4	-973.7	-879.0	-600.5	-583.1	-597.8	-615.6
International investment position									
Assets	10,241	10,052	10,828	12,888	12,917	12,844	13,020	13,219	13,465
Liabilities	8,493	8,036	8,546	10,226	10,130	9,942	9,972	9,890	9,847
Net	1,747.5	2,016.1	2,282.0	2,661.9	2,787.2	2,901.7	3,047.5	3,329.0	3,618.7
Net sovereign	-508.0	-487.0	-463.3	-450.6	-413.6	-107.2	3.3	178.1	324.9
% GDP	-13.8	-12.2	-11.9	-11.6	-9.7	-2.6	0.1	3.9	6.8
External debt service (principal + interest)	675.5	747.0	733.2	757.6	870.5	833.8	763.2	768.2	754.5
Interest (% CXR)	2.7	2.4	2.2	2.1	1.8	2.3	2.5	2.5	2.4

E – Estimate. F – Forecast
Source: Fitch Ratings, central bank, IMF, World Bank

Full Rating Derivation

Long-Term Foreign-Currency Issuer Default Rating (SRM + QO)	AAA

Sovereign Rating Model

								Applied Rating[d]	AA+
					Model Result and Predicted Rating			15.42 = AA+
Input Indicator	Weight (%)	2022	2023	2024	Adjustment to Final Data	Final Data	Coefficient	Output (notches)
Structural features								**11.67**
Governance indicators (percentile)	21.4	n.a.	88.4	n.a.	-	88.4	0.077	6.85
GDP per capita (USD)	12.4	n.a.	52,772	n.a.	Percentile	82.9	0.038	3.17
Nominal GDP (% world GDP)	13.9	n.a.	4.42	n.a.	Natural log	1.5	0.627	0.93
Most recent default or restructuring	4.6	n.a.	None	n.a.	***Inverse 0-1[a]***	0.0	-1.822	0
Broad money (% GDP)	1.2	n.a.	93.3	n.a.	Natural log	4.5	0.158	0.72
Macroeconomic performance, policies and prospects								**-0.91**
Real GDP growth volatility	4.6	n.a.	2.2	n.a.	Natural log	0.8	-0.728	-0.56
Consumer price inflation	3.4	8.7	6.0	2.6	***3-year average[b]***	5.8	-0.067	-0.39
Real GDP growth	2.0	1.8	-0.3	0.1	3-year average	0.5	0.065	0.03
Public finances								**-1.65**
Gross general govt debt (% GDP)	8.9	66.2	64.2	64.0	3-year average	64.8	-0.023	-1.47
General govt interest (% revenue)	4.5	1.5	1.5	1.8	3-year average	1.6	-0.044	-0.07
General govt fiscal balance (% GDP)	2.4	-2.5	-2.1	-1.4	3-year average	-2.0	0.044	-0.09
FC debt (% of total general govt debt)	2.7	2.6	2.5	2.4	3-year average	2.5	-0.007	-0.02
External finances								**1.55**
Reserve currency (RC) flexibility	7.3	n.a.	3.1	n.a.	***RC score 0 - 4.5[c]***	3.1	0.509	1.58
SNFA (% of GDP)	7.4	-2.6	1.1	7.5	3-year average	2.0	0.011	0.02
Commodity dependence	1.2	n.a.	8.8	n.a.	Latest	8.8	-0.004	-0.04
FX reserves (months of CXP)	1.5	n.a.	1.7	n.a.	n.a. if RC score> 0	0.0	0.029	0
External interest service (% CXR)	0.4	2.3	2.5	2.4	3-year average	2.4	-0.007	-0.02
CAB + net FDI (% GDP)	0.1	1.2	4.3	6.3	3-year average	3.9	0.001	0.00
Intercept Term (constant across all sovereigns)								**4.76**

[a] Inverse 0-1 scale, declining weight; [b] of truncated value (2%-50%); [c] Declining weight; [d] Sovereign rating committee can override SRM Predicted Rating if a marginal change in the Model Result leads to a notch change, which is judged to be temporary or caused by a re-estimation of the SRM, a process that Fitch undertakes on at least an annual basis. Please refer to the Rating Action Commentary for further information when the Applied Rating differs from the Predicted Rating.
Note: This table contains data as at the date of the most recent rating action. There may be minor differences to data presented elsewhere in this report, which may have been updated where appropriate, for example in the event of subsequent data releases.
Source: Fitch Ratings

Qualitative Overlay (notch adjustment, range +/-3)	+1
Structural features	0
Macroeconomic outlook, policies and prospects	+1
Public finances	0
External finances	0

About the SRM and QO

Fitch's SRM is the agency's proprietary multiple regression rating model that employs 18 variables based on three-year centred averages, including one year of forecasts, to produce a score equivalent to a LT FC IDR. Fitch's QO is a forward-looking qualitative framework designed to allow for adjustment to the SRM output to assign the final rating, reflecting factors within our criteria that are not fully quantifiable and/or not fully reflected in the SRM.

Supplementary Ratings

Local-Currency Rating

As Germany's LT FC IDR is 'AAA', there is no capacity for upward notching of the LT LC IDR, which is, therefore, also 'AAA'.

Country Ceiling

The Country Ceiling for Germany is 'AAA', in line with the LT FC IDR at the upper limit of the rating scale. We view the risk of exchange and capital controls as too minimal to be considered. Fitch's Country Ceiling Model produced a starting point uplift of +3 notches and Fitch's rating committee did not apply a qualitative adjustment to the model's result.

Overall Country Ceiling Uplift (CCM + QA, notches)			**+3**
Country Ceiling Model (CCM, notches)			**+3**
Pillar I = Balance of payments restrictions			**+2**
Current account restrictions (% of 40)	Latest	7.5	+3
Capital account restrictions (% of 69)	Latest	34.8	+2
Combined pillar II and III incentives score			**+3**
Pillar II = Long-term institutional characteristics			**+3**
Governance (WB WGI)	Latest	88.4	+3
International trade			+2
Trade openness	2019-2023 average	53.7	+2
Volatility of change in CXR (across 10 years)	2023	9.0	+2
Export share to FTA partners	2019-2023 average	74.4	+2
International financial integration[a]	2019-2023 average	143.8	+3
Pillar III = Near-term risks			**+3**
Macro-financial stability risks			+3
Composite inflation risk score			+2
Volatility of CPI (across 10 years)	2023	2.8	+2
Recent CPI peak	2019-2023 maximum	8.7	+3
Cumulative broad money growth	2018-2023 change %	26.0	+3
Volatility of change in REER (across 10 years)	2023	2.3	+3
Dollarisation	Most recent	1.9	+3
Exchange rate risks			+3
Net external debt (% of CXR)	2021-2023 average	-23.3	+3
Exchange rate regime	Latest	Free floating	+3
Qualitative Adjustment (QA, notches)			**0**
Pillar I = Balance of payments restrictions			0
Pillar II = Long-term institutional characteristics			0
Pillar III = Near-term macro-financial stability risks			0

[a] Data for international financial integration is the average of private external assets (% of GDP) and private external debt (% GDP).
Source: Fitch Ratings

Full Rating History

	Foreign-Currency Rating			Local-Currency Rating			
Date	Long-Term	Short-Term	Outlook/Watch	Long-Term	Short-Term	Outlook/Watch	Country Ceiling
22 July 2016	AAA	F1+	Stable	AAA	F1+	Stable	AAA
17 June 2004	AAA	F1+	Stable	AAA	-	Stable	AAA
21 September 2000	AAA	F1+	Stable	AAA	-	Stable	-
26 October 1995	AAA	F1+	-	AAA	-	-	-
10 August 1994	AAA	-	-	-	-	-	-

Source: Fitch Ratings

Appendix 1: Environmental, Social and Governance (ESG)

Credit Relevance Scores

General Issues	Key Sovereign Issues	SRM	QO	Score[a]
Environmental (E)				
GHG Emissions and Air Quality	Emissions and air pollution as a constraint on GDP growth	2	2	2
Energy Management	Energy resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	3	3
Water Resources and Management	Water resource availability and management as a constraint on GDP growth	2	2	2
Biodiversity and Natural Resource Management	Natural resource management, including potential for 'stranded assets', affecting exports, government revenues and GDP	3	2	3
Natural Disasters and Climate Change	Impact of adverse climate trends, and likelihood of and resilience to shocks	3	2	3
Social (S)				
Human Rights and Political Freedoms	Social stability, voice and accountability and regime legitimacy	4	2	4 +
Human Development, Health and Education	Impact of human development, health and education on GDP per capita and GDP growth	3	2	3
Employment and Income Equality	Impact of unemployment and income equality on GDP per capita, GDP growth and political and social stability	3	2	3
Public Safety and Security	Impact of public safety and security on business environment and economic performance	3	2	3
Demographic Trends	Population decline or ageing, rapidly rising youth population; pensions sustainability	3	2	3
Governance (G)				
Political Stability and Rights	Political divisions and vested interests; geo-political risks including conflict, security threats and violence; and policy capacity: unpredictable policy shifts or stasis	5	2	5 +
Rule of Law, Institutional and Regulatory Quality, Control of Corruption	Government effectiveness, control of corruption, rule of law and regulatory quality	5	2	5 +
International Relations and Trade	Trade agreements, membership of international organisations, bilateral relations; and sanctions or other costly international actions	3	2	3
Creditor Rights	Willingness to service and repay debt	4	2	4 +
Data Quality and Transparency	Availability, limitations and reliability of economic and financial data, including transparency of public debt and contingent liabilities	3	2	3

Source: Fitch Ratings

About ESG Credit Relevance Scores

The scores signify the credit relevance of the respective E, S and G issues to the sovereign entity's credit rating, according to the following scale:

- 5 – Highly relevant to the rating, a key rating driver with a high weight.
- 4 – Relevant to the rating, a rating driver.
- 3 – Relevant, but only has an impact on the entity rating in combination with other factors.
- 2 – Irrelevant to the entity rating but relevant to the sector (sovereigns).
- 1 – Irrelevant to the entity rating and irrelevant to the sector (sovereigns).

The score for each 'General Issue' comprises a component SRM and QO score, and is simply the higher of the two. SRM scores are fixed across all sovereigns as the weights in the SRM are the same for all sovereigns; QO component scores vary across all sovereigns.

All scores of '4' or '5' result in a negative impact on the rating, unless indicated otherwise. Where a positive impact is occurring, the score of '4' or '5' is appended with a '+' symbol. Scores of '3', '2' and '1' do not have a direction of impact assigned.

Please refer to ESG Relevance Scores for Sovereigns for further information on the framework, including 'Sovereign Rating Criteria References' (which identify specific potentially related SRM variables and QO factors for each 'General Issue').

Credit-Relevant ESG Derivation

Germany has an ESG Relevance Score of '5[+]' for Political Stability and Rights as WBGI have the highest weight in Fitch's SRM and are, therefore, highly relevant to the rating and a key rating driver with a high weight. As Germany has a percentile rank above 50 for the respective governance indicator, this has a positive impact on the credit profile.

Germany has an ESG Relevance Score of '5[+]' for Rule of Law, Institutional & Regulatory Quality and Control of Corruption as WBGI have the highest weight in Fitch's SRM and are, therefore, highly relevant to the rating and are a key rating driver with a high weight. As Germany has a percentile rank above 50 for the respective governance indicators, this has a positive impact on the credit profile.

Germany has an ESG Relevance Score of '4[+]' for Human Rights and Political Freedoms as the Voice and Accountability pillar of the WBGI is relevant to the rating and a rating driver. As Germany has a percentile rank above 50 for the respective governance indicator, this has a positive impact on the credit profile.

Germany has an ESG Relevance Score of '4[+]' for Creditor Rights as willingness to service and repay debt is relevant to the rating and is a rating driver for Germany, as for all sovereigns. As Germany has a record of 20+ years without a restructuring of public debt, which is captured in our SRM variable, this has a positive impact on the credit profile.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Appendix 2: Data Notes and Conventions

Acronyms

Acronyms used in the above table and elsewhere in report are: Gross Domestic Product (GDP), Current External Receipts (CXR), Current External Payments (CXP), Current Account Balance (CAB), Foreign Direct Investment (FDI), World Bank Worldwide Governance Indicators (WBGI), Sovereign Rating Model (SRM) and Qualitative Overlay (QO). For a full list of indicator definitions, please refer to the most recent Sovereign Data Comparator.

Medians

Medians underlying the SRM relative to rating category chart on the Rating Summary page and as reported in the Peer Analysis table on page 4 are long-term historical medians. These are based on actual data since 2000 for all sovereign-year observations when the sovereign was in the respective rating category at year-end. Current year ratings and data are excluded.

Chart medians on page 3 are based on data for sovereigns in the respective rating category at the end of each year. Latest ratings are used for the current year and forecast period.

Notes for Germany

All data are on a calendar-year basis, which aligns with the domestic fiscal year for this sovereign.

Public finances data referenced in this report relate to the consolidated general government, as per our principal approach, unless specifically noted otherwise where cited.

The external balance sheet data referenced in this report are derived from the international investment position dataset, as per our principal approach.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.