Monitoring Note

21 March 2025

Scope has completed a monitoring review on the Federal Republic of Germany

The periodic review has resulted in no rating action.

Scope Ratings GmbH (Scope) monitors and reviews its credit ratings on an ongoing basis and at least annually, or every six months in the cases of sovereigns, sub-sovereigns and supranational organisations that may act as a lender of last resort.

Scope performs monitoring reviews to determine whether material changes and/or changes in macroeconomic or financial-market conditions could have an impact on the credit ratings. Scope considers all available and relevant information when undertaking the monitoring review.

Monitoring reviews are conducted by performing a peer comparison, benchmarking against the rating-change drivers, and/or reviewing the credit rating's performance over time, as deemed appropriate by the Lead Analyst or Analytical Team Head, in addition to an assessment of all aspects of the relevant methodology/ies, including key rating assumptions and model(s). Scope announces the result of each monitoring review on its website and/or on its subscription platform ScopeOne.

Scope completed the monitoring review for the Federal Republic of Germany (long-term local- and foreign-currency issuer and senior unsecured debt ratings: AAA/Stable; short-term local- and foreign-currency issuer ratings: S-1+/Stable) on 18 March 2025.

This monitoring note does not constitute a credit-rating action, nor does it indicate the likelihood that Scope will conduct a credit-rating action in the short term. Information about the latest credit-rating action connected with this monitoring note along with the associated ratings history can be found on scoperatings.com.

Key rating factors

For the updated rating report accompanying this review, please see here.

The Federal Republic of Germany's long-term AAA/Stable ratings are underpinned by the following credit strengths: i) its wealthy, large, diversified economy; ii) its robust fiscal policy framework and strong track record of fiscal discipline; and iii) a highly competitive external sector.

Challenges relate to: i) structural reforms and transition risks for energy-intensive industries given carbon neutrality targets; ii) an ageing population, resulting in rising pension liabilities and downward pressure on the country's medium-run growth potential; and iii) vulnerabilities related to global geopolitical risk.

Germany's strong industrial base in the automotive, machine construction and chemicals industries, in addition to the diverse and competitive small and medium-sized companies, or "Mittelstand", form the backbone of the export-oriented economy. The post-pandemic recovery has been weak due to the impact of global supply chain disruptions, high inflation and persistent high energy prices, as well as rising global trade tensions since the election of US President Trump. At the end of 2024, economic output stood at a similar level as before the pandemic in 2019, lagging the euro area average (+5.4%) and other highly rated sovereigns such as Sweden (+6.1%), the Netherlands (+8.9%), Switzerland (+8.2%) or Denmark (+15.4%). Scope expects continued low GDP growth of 0.2% in 2025, with growth strengthening during the second half of the year. This is expected to gradually increase with annual growth averaging around 1.1% over the next five years as large debt-funded defence and infrastructure spending plans are implemented.

Germany's solid fiscal policy framework and strong record of fiscal discipline are anchored by its constitutional debt brake. Following a two-third majority vote in parliament to make amendments to Germany's debt brake limits, the incoming administration is expected to use the country's fiscal space by significantly increasing borrowing to fund infrastructure investment and defence spending in coming years. The agreement allows future governments to borrow an additional EUR 500bn over 12 years to fund infrastructure investments, of which EUR 100bn is to be allocated to the German Länder and EUR 100bn to fund green investments via the Climate and Transformation Fund. To direct funding towards new investments, this additional borrowing will only be available when at least 10% of the regular government budget is already allocated to investments. The adopted changes also allow increased borrowing for military spending with no specified upper limit as long as at least 1% of GDP is paid out of the regular government budget. Scope expects that Germany will spend around 3% of GDP on defence by 2027, and that defence spending will remain elevated over the coming years. Finally, in line with the debt brake rule for the federal government, German Länder will be allowed annual net borrowing of 0.35% of GDP, up from 0% previously. The expected increase in debt issuance should raise the debt-to-GDP ratio to around 70% by 2029 from 63% in 2024.

While Germany's debt-to-GDP ratio is low compared with other large European sovereigns, it is relatively high compared with other AAA-rated sovereigns. Additional debt-financed public spending will therefore have to focus on raising economic growth over the medium term and should be accompanied by policy reforms to support private investment. Priorities include addressing high energy prices, reducing bureaucracy, labour-market reforms to raise participation rates, immigration controls that do not compromise Germany's attractiveness for skilled migrants, and reforming tax rules to encourage business investment. Similarly, reforms to address the growth and fiscal impact from Germany's ageing population are also critical.

The **Stable Outlook** reflects Scope's view that the risks Germany faces over the next 12 to 18 months are well balanced.

Downside scenarios for the long-term ratings and Outlooks are (individually or collectively):

i. Significant fiscal deterioration, resulting in a material and sustained increase in public debt as a share of GDP over the longer term;

ii. Significantly weaker growth outlook, for example due to severe macroeconomic or financial system shock.

The methodology applicable for the reviewed ratings and/or rating Outlooks (Sovereign Rating Methodology, 27 January 2025) is available on scoperatings.com/governance-and-policies/rating-governance/methodologies.
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About Scope Group

With more than 300 employees operating from offices in Berlin, Frankfurt, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG analysis and fund research. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors worldwide. Scope Ratings is registered in accordance with the EU rating regulation and operating in the European Union with ECAI status. Scope Ratings is the only European rating agency accepted by the ECB for the Eurosystem Credit Assessment Framework (ECAF). The shareholders of Scope Group include CEO and founder Florian Schoeller and anchor shareholder Stefan Quandt, numerous senior personalities in European finance and industry as well as institutional investors from several European countries. More on www.scopegroup.com

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