

Scope affirms Germany's AAA rating with Stable Outlook

The ratings are supported by a wealthy, large, diversified economy, sound public finances and a strong external position. Global geopolitical and trade risks, transition risks related to carbon neutrality targets and an ageing population are challenges.

Rating action

Scope Ratings GmbH (Scope) has today affirmed the Federal Republic of Germany's long-term issuer and senior unsecured debt ratings at **AAA** in both local and foreign currency and maintained the Stable Outlook. The short-term issuer rating has been affirmed at **S-1+** in both local and foreign currency with Stable Outlook.

Germany's **AAA**/Stable ratings are underpinned by its wealthy, large, and diversified economy, its robust fiscal policy framework and strong track record of fiscal discipline, and a highly competitive external sector. These factors support the economy's resilience and provide the government with fiscal space to effectively respond with countercyclical measures to recent shocks.

At the same time, the German economy contracted in 2023 and 2024 and is set to grow only at around 0.3% in 2025, thus remaining near its pre-Covid level of real GDP. This reflects the economy's structural challenges, including vulnerabilities related to global geopolitical and trade-related risks due to high trade interconnectedness and openness and transition risks for energy-intensive industries. Additionally, an ageing population results in downward pressure on the medium-run growth potential and rising pension and healthcare liabilities.

Germany's federal government, in office since May 2025, aims to make significant use of the country's fiscal space and increase borrowing, following amendments to the federal debt brake, to fund infrastructure investment and defence spending in coming years. While this is expected to underpin higher growth rates from next year, Scope estimates that higher associated fiscal deficits, averaging 3.6% of GDP for 2026-2030, will lead to an increase in the debt-to-GDP ratio to around 70% by 2030, from 62.1% at YE 2024. This is still well-below the 81% reached in 2010 after the global financial crisis, highlighting the fiscal space built-up in previous years.

For the updated rating report, [click here](#).

Key rating drivers

Wealthy, large and diversified economy supports resilience. 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. However, the post-pandemic recovery has been weak compared with peer countries due to global supply chain disruptions, high input and energy prices, weaker external demand, and slowing private consumption due to high inflation and an uncertain economic outlook.

A recent revision in GDP figures highlights the growth challenge since 2023, with real GDP contractions of -0.7% (-0.1% before revision) in 2023 and -0.5% (-0.2%) in 2024, leaving Germany's real GDP level in Q2 2025 just 0.1% above its level at end-2019, lagging behind the euro area (+6.0%) and other **AAA**-rated sovereigns such as Sweden (+4.5%), the Netherlands (+8.8%), Switzerland (+9.0%) or Denmark (+10.5%).

Scope expects GDP growth of 0.3% in 2025, driven by an expected recovery in the last quarter of the year, and output to increase by 1.2% in 2026. In the near-to-medium term, the growth outlook is supported by the government's fiscal loosening for higher infrastructure and defence spending. Additionally, Scope expects a positive impulse from the 'growth-booster' package, passed in July 2025, which should support private investment via more favourable depreciation treatment and gradual reductions in the corporate income tax from 2028 onwards. Overall, Scope expects that the recently announced fiscal measures could lift annual real GDP growth by around 0.3-0.4pps on average for 2026-2030. At the same time, higher public spending will not be sufficient longer-term to anchor Germany's growth potential at substantially higher rates than currently projected (around 0.7%), as other factors, such as a declining working-age population, will persist and continue to curb the country's growth potential absent structural measures.

Robust fiscal framework and strong track record of fiscal discipline provide fiscal space for infrastructure and defence spending. Germany's track record of strong fiscal discipline, underpinned by its debt brake law, is a core credit strength and has ensured the safeguarding of significant fiscal space entering 2025 despite the Covid-19 and cost-of-living shocks.

Following a significant change in its fiscal stance, the new federal government has implemented changes to the debt brake, allowing for an additional EUR 500bn in borrowing 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. Germany has committed to a NATO spending target of 3.5% of GDP by 2029, up from 2% in 2024, the first time Germany met the previous 2% target. Finally, German Länder will be allowed annual net borrowing of 0.35% of GDP, up from 0% previously.

Scope expects that these measures will lead to general government fiscal deficits increasing to an average 3.6% of GDP in 2026-2030, up from 2.7% of GDP in 2024 and an expected 2.5% of GDP in 2025. Scope expects the 2025 deficit to be lower than last year's as reflected in H1 2025 general government fiscal data, with the six-months deficit improving to 1.3% of GDP, compared to 1.8% in the first half of 2024. Moreover, since the 2025 budget will only be passed in mid-September, additional spending is expected to be limited until year-end.

From 2026, Scope expects a more meaningful increase in spending on defence and via the infrastructure special fund, but the ramp-up is still assumed to be more gradual than envisaged in government fiscal plans due to capacity and planning constraints. Additionally, Scope estimates an increase in net interest expenditure to 1.5% of GDP by 2030, from 1% of GDP in 2025, which, while favourable compared to euro area peers, will reduce fiscal space.

The expected increase in deficits should raise the debt-to-GDP ratio to around 70% by 2030 from around 62% 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 and the country's own track record. Additional debt-financed public spending will therefore need to raise 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 country's long-term debt trajectory.

Highly competitive external sector. Germany's external strength is reflected in the country's very large, persistent current account surpluses, averaging 7.7% of GDP in the decade up to 2021. The escalation of the Russia-Ukraine war and the associated sharp rise in energy import prices, as well as weaker external demand from key trading partners including China, exerted significant downward pressure on the trade balance in 2022, reaching 4.4% of GDP. The current account balance recovered to 5.7% of GDP in 2024 and the country's net international investment position remains elevated at 79% of GDP as of Q1 2025.

While the current account balance is expected to remain at a similar level in coming years, some volatility as well as some structural weakening is likely to persist. This reflects structural challenges impacting global demand, such as competition from Chinese producers, challenging outlooks for certain export sectors due to price competitiveness, and trade tensions, including US tariffs on EU exports of 15% on most goods. Following the EU-US trade agreement, tariffs will also apply to cars and car parts which, however, marks a reduction on this sector from a previous rate of 27.5%.

Rating challenges: vulnerabilities related to global geopolitical and trade-related risks, transition risks for energy-intensive industries, and an ageing population.

First, rising global trade and geopolitical tensions pose challenges to Germany's strong export-oriented economy, which is dependent on highly integrated international supply chains. While the country has successfully diversified from Russian gas supplies, it comes at the cost of higher gas prices, eroding the competitive advantage of some of Germany's more energy intensive sectors. More recently, trade tensions, most notably the staggered announcements and introduction of US tariffs on EU exports, have impacted German industry. Exports to the US amounted to around 10% of total exports in Germany in 2024, leaving the economy highly exposed to lower external demand and/or price pressures, especially in sectors such as automotive, pharmaceuticals and machinery. The EU-US trade deal will alleviate some pressures however, as it reduces uncertainty, supporting Scope's expectation that the negative growth impact from tariffs will be manageable overall, and ultimately, largely offset by the announced fiscal loosening.

Further, Germany faces high transition risks among energy-intensive industries given carbon neutrality targets and low levels of investment relative to other countries with AAA ratings. Emission reduction targets are ambitious, with carbon emissions set to be cut by around 211m tonnes from 2024 levels by 2030. To meet the 2030 targets, annual reductions in carbon emissions will have to remain well above historical averages at around 6%. The rapid shift towards a low-carbon economy exposes several industries to transition risks, including Germany's large motor vehicle, chemical and energy sectors, which remain heavily reliant on fossil fuels. Elevated energy prices following the transition away from Russian gas have already started to erode some of the country's competitive advantages in certain sectors such as the chemical industry.

Large public and private sector investments will be needed to meet these ambitious targets. Historically, Germany's public and private sectors have invested less than those in other AAA-rated peer countries. Capital intensity, measured as net capital stock per person employed, declined in Germany by 1% over the

past two decades while increasing in the EU on average by +14%, and it remains well below other highly rated peer countries. The government's investment drive intends to close this gap, with investments focussed on transport (rail and motorways) and energy infrastructure.

Finally, Germany's ageing population will result in rising pension liabilities and downward pressure on the country's medium-run growth potential over the coming years. According to Deutsche Rentenversicherung, federal grants to support the pay-as-you-go pension system are projected to increase from EUR 93.1bn in 2025 to EUR 113.1bn by 2029 (around 20% of projected central government revenue), with a contribution rate of 20% (from currently 18.6%) and a pension replacement rate of 47.2% (from 48%).

The government has recently announced a pension package, aiming to secure the replacement rate of 48% until 2031 and the introduction of 'Mütterrente III', aimed at ensuring equal treatment of pension payments related to time spent on raising children. The German Bundesbank estimates that this will lead to additional federal grants of around EUR 14bn in 2030, or 0.25% of expected GDP. Positively, the government also aims to raise labour participation of the elderly via eliminating restrictions on taking up part-time work after the age of 67 ('Vorbeschäftigungsverbot').

An ageing population is the main driver for a declining medium-term growth potential. Scope currently estimates Germany's growth potential at around 0.7%, the weakest among peer countries with AAA ratings. The Federal Statistical Office estimates that around 31% of persons in employment will reach the age of 67, the country's statutory pension age, in the next 15 years, putting significant pressure on labour supply. To compensate for this decline, a significant increase in the average annual net immigration is needed. Policies to increase labour force participation and productivity, combined with substantial investments in the country's capital stock, can also help slow the declining growth trend.

Rating-change drivers

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 ratings and Outlooks are (individually or collectively):

1. A significant fiscal deterioration, resulting in a material and sustained increase in public debt as a share of GDP over the longer term; and/or
2. A significantly weaker growth outlook, for example due to severe macroeconomic or financial system shock.

Sovereign Quantitative Model (SQM) and Qualitative Scorecard (QS)

Scope's SQM, which assesses core sovereign credit fundamentals, signals a first indicative credit rating of 'aa+' for Germany. Under Scope's methodology, this initial indicative rating receives a one-notch uplift from the SQM's reserve-currency adjustment and no negative adjustment from the political-risk adjustment. This results in a final SQM indicative credit rating of 'aaa' for Germany. On this basis, the final SQM quantitative rating of 'aaa' is reviewed by the Qualitative Scorecard (QS) and can be adjusted by up to three notches depending on Germany's qualitative credit strengths or weaknesses compared against a peer group of sovereign states identified by the SQM.

Scope identified the following relative credit strengths of Germany via the QS: i) debt profile and market

access; ii) current account resilience; iii) resilience to short-term external shocks; and iv) financial imbalances. The following relative credit weaknesses were identified: i) growth potential and outlook; ii) long-term debt trajectory; and iii) environmental factors. Together these adjustments result in the final **AAA** long-term foreign- and local-currency ratings for Germany.

A rating committee has discussed and confirmed these results.

Environment, social and governance (ESG) factors

Scope explicitly factors in ESG issues in its ratings process via the sovereign-rating methodology's stand-alone ESG sovereign-risk pillar, which holds a significant 25% weighting under the quantitative model (SQM) and 20% weight under the methodology's qualitative overlay (QS).

With respect to environmental factors, Germany receives high SQM scores for having low natural disaster risk. However, compared with peers, the country receives lower scores for carbon emissions per unit of GDP, greenhouse gas emissions per capita, and the ecological footprint of consumption compared with available biocapacity. Scope assesses Germany's QS adjustment for 'environmental factors' as 'weak'. Despite having achieved material progress in developing renewable energy production capacities over recent decades, Germany remains largely reliant on fossil fuels, which accounted for 77% of primary energy consumption in 2024 compared to around 68% in the EU. The government aims to reach climate neutrality by 2045 through an accelerated phase-out of coal and a rapid scale-up of renewable sources of energy, which are to cover 80% of the country's electricity needs by 2030. Meeting these ambitious targets will require continued, rapid structural changes to keep up with other highly rated economies.

Regarding social factors, Germany scores high in the SQM for labour force participation but low for income inequality and old age dependency compared with peer countries. Germany managed to raise the labour force participation before the pandemic but mostly in favour of the lower-paid sector. The participation rate has recovered to pre-pandemic levels of around 80% by 2024. Guaranteeing equal opportunities for students remains a challenge, partly due to insufficient digitalisation and investment in schooling. Demographic pressures are rising and are more adverse compared to peers.

Germany benefits from high-quality institutions but faces rising political fragmentation. At the same time, the next general election will only take place in the spring of 2029, and the current coalition parties (centre-right CDU/CSU and centre-left SPD) are implementing an ambitious agenda to tackle Germany's long-standing issues, including closing the investment gap via forceful public investment drive. The fragmented political landscape complicates finding two-thirds majorities in the national parliament necessary for changes to the constitution, including debt-brake amendments, such as those decided in March 2025 that allow for significantly higher borrowing via an infrastructure special fund and for defence spending.

Rating committee

The main points discussed by the rating committee were: i) domestic economic risk; ii) public finances risk, including fiscal framework and debt dynamics; iii) external risks; iv) financial stability risks; v) ESG considerations; and vi) peer developments.

Methodology

The methodology used for these Credit Ratings and Outlooks, (Sovereign Rating Methodology, 27 January 2025), is available on scoperatings.com/governance-and-policies/rating-governance/methodologies.

The model used for these Credit Ratings and Outlooks is (Sovereign Quantitative Model Version 4.1), available in Scope Ratings' list of models, published under scoperatings.com/governance-and-policies/rating-governance/methodologies.

Information on the meaning of each Credit Rating category, including definitions of default, recoveries, Outlooks and Under Review, can be viewed in 'Rating Definitions – Credit Ratings, Ancillary and Other Services', published on scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Historical default rates of the entities rated by Scope Ratings can be viewed in the Credit Rating performance report at scoperatings.com/governance-and-policies/regulatory/eu-regulation. Also refer to the central platform

(CEREP) of the European Securities and Markets Authority (ESMA): registers.esma.europa.eu/cerep-publication/. A comprehensive clarification of Scope Ratings' definitions of default and Credit Rating notations can be found at scoperatings.com/governance-and-policies/rating-governance/definitions-and-scales. Guidance and information on how environmental, social or governance factors (ESG factors) are incorporated into the Credit Rating can be found in the respective sections of the methodologies or guidance documents provided on scoperatings.com/governance-and-policies/rating-governance/methodologies.

The Outlook indicates the most likely direction of the Credit Ratings if the Credit Ratings were to change within the next 12 to 18 months.

Solicitation, key sources and quality of information

The Credit Ratings were not requested by the Rated Entity or its Related Third Parties. The Credit Rating process was conducted:

With Rated Entity or Related Third Party participation	YES
With access to internal documents	NO
With access to management	YES

The following substantially material sources of information were used to prepare the Credit Ratings: public domain.

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Prior to the issuance of the Credit Rating action, the Rated Entity was given the opportunity to review the Credit Ratings and Outlooks and the principal grounds on which the Credit Ratings and Outlooks are based. Following that review, the Credit Ratings and Outlooks were not amended before being issued.

Regulatory disclosures

These Credit Ratings and Outlooks are issued by Scope Ratings GmbH, Lennéstraße 5, D-10785 Berlin, Tel +49 30 27891-0. The Credit Ratings and Outlooks are UK-endorsed.

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The Credit Ratings/Outlooks were first released by Scope Ratings on 30 June 2017. The Credit Ratings/Outlook were last updated on 27 September 2024.

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