Federal Republic of Germany

Ratings

Federal Republic of Germany	
Action: **Affirmed**	05 Sept 25
Foreign Currency LT	AAA
Local Currency LT	AAA
Action: **Affirmed**	05 Sept 25
Foreign Currency ST	K1+
Local Currency ST	K1+

Ratings are based on KBRA's Sovereigns Rating Methodology, published 20 December 2021 and utilise the ESG Global Rating Methodology published 16 June 2021. KBRA's rating scales and definitions are found here

Outlook/Watch

Federal Republic of Germany	
Long-Term Ratings	Stable

Economic Snapshot

	2024
Per Capita Income (US$, PPP)	70,787
Real GDP Growth (% Change)	-0.2
Inflation Rate (Average %)	2.5
Budget Balance (% GDP)	-2.8
Current Account Balance (% GDP)	5.7
External Debt (% GDP)	149
Level of Economic Development	High
Default History	None Recent

Analytical Contacts

Ken Egan, Senior Director
+353 1 588 1275
ken.egan@kbra.com

Joanna Drobnik, CFA, Managing Director
+353 1 588 1250
asia.drobnik@kbra.com

Joan Feldbaum-Vidra, Senior Managing Director
+1 (646) 731-2362
joan.feldbaumvidra@kbra.com

Executive Summary

KBRA affirms the long-term and short-term issuer ratings of the Federal Republic of Germany.

Ratings Outlook: Germany's long-term ratings carry a Stable Outlook. The Outlook reflects Germany's large, diversified, and globally important economy, tremendous access to liquidity, economic resilience, strong governance, institutional framework, prudent policy environment, and healthy public finance position. The sovereign's fiscal capacity and financial flexibility allow it to respond comfortably to external shocks. The Outlook also takes into account that fresh political leadership will need to navigate weak growth, rising geopolitical and trade tensions, including the adverse impact of tariffs, while Germany's new fiscal strategy, centred on expanded capital spending, could provide support to medium-term growth.

Key Credit Considerations

The ratings were affirmed because of the following key credit considerations:

- Germany's large, advanced, high income, and globally important economy. Germany's economic resiliency is underpinned by its highly diversified economy, its status as a leading global exporter, and its position as the largest European economy.
- Germany's robust institutional profile is backed by its pragmatic and consensus-based policymaking environment, strong governance metrics, long-standing political stability, and its central role in the European Union (EU) and geopolitical importance.
- Germany's strong public finance position, both in gross and net terms, is among the most comfortable of all advanced economies and is supported by a robust fiscal framework, underpinned by stringent rules, some of which are constitutionally embedded.
- Rising trade tensions, including US tariffs, along with elevated energy and labour costs, weigh on Germany's near-term outlook, while maintaining competitiveness will be critical to sustaining its export-led growth model over the medium term.
- Germany has successfully moved away from Russian energy and diversified its supply, demonstrating resilience. However, challenges remain as it navigates the complexities of energy security and costs.
- The Bund's status as Europe's benchmark fixed income instrument ensures Germany has a high degree of financing flexibility while its affordable debt burden benefits from robust investor demand. In KBRA's view, the country has extremely strong access to liquidity.
- Germany's large structural current account surplus and positive net international investment position highlight robust external account metrics in trade and income accounts.
- Notwithstanding the labour shortages, Germany benefits from a highly skilled workforce and plans to increase labour supply through immigration and other initiatives.

Rating Sensitivities	
There is no upward pressure on Germany's ratings at the highest rating level.	+
Negative rating pressure could arise if Germany reports persistent budget deficits and is unable to stabilise or reduce its government debt-to-GDP burden. A significant and prolonged recession could also exert downward pressure on the ratings. A deterioration in Germany's access to liquidity would be a serious rating consideration. A structural shift in the current account balances over time and/or a significant deterioration in foreign direct investment could also exert downward pressure on the ratings.	–

K-Sov and Rating Methodology Steps

Germany Sovereign Credit Rating K-Sov	
Rating Determinant	**Equivalent Rating Range**
Macroeconomic Performance	A
Government Financial Strength	AAA/AA
External Vulnerability	AAA
Structural Robustness	AAA/AA
K-Sov Germany	**AAA/AA range**

Determining the K-Sov is the first step of KBRA's Sovereign Ratings Methodology. Germany's K-Sov stands at the top end of the rating scale. This strong performance reflects the large size and global importance of the German economy, healthy public finance position, high degree of financing flexibility, and robust external account position. The macroeconomic performance rating determinant reflects a stable environment overall, although in recent years modest real GDP growth and higher inflation have weighed down this determinant. Germany's access to liquidity is overweighted in the K-Sov. Its structural robustness indicators are characterised by a centrist and consensus-based policy framework, central role in the EU, and global geostrategic importance.

The second step considers trend analysis, peer comparisons, additional metrics and factors influencing credit risk that may not be included in the K-Sov analytics, as well as willingness to pay. These items are highlighted within each section. Finally, the alignment of foreign currency and local currency sovereign ratings is determined.

Macroeconomic Credit Metrics

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025e	2026f
Gross Domestic Product USD bn	3536.8	3761.8	4053.8	3957.6	3937.0	4351.2	4166.9	4527.0	4658.5	4744.8	4911.7
Real GDP Growth	2.3	2.7	1.1	1.0	-4.1	3.7	1.4	-0.3	-0.2	0.1	0.9
Population mns	82.3	82.7	82.9	83.1	83.2	83.2	83.8	84.5	84.7	84.9	85.0
Total Credit/GDP	192.3	187.7	186.8	187.2	208.9	205.9	190.0	180.2	198.6	-	-
to Government	69.1	64.6	61.2	58.8	68.1	68.8	66.3	62.9	62.4	-	-
to Households	53.4	52.9	52.6	53.3	57.1	56.8	55.2	51.0	49.9	-	-
to Private Corp.	64.2	65.4	67.9	69.2	74.1	73.4	72.9	69.1	89.4	-	-
Savings/GDP	28.6	28.6	29.9	29.2	28.0	29.4	26.9	27.2	26.8	26.2	26.0
Investment/GDP	19.7	20.5	21.5	21.3	21.7	22.5	23.0	21.7	21.0	21.0	21.0
Current Account Balance/GDP	8.9	8.1	8.4	7.9	6.3	6.9	3.8	5.6	5.7	5.2	5.0
Net International Investment Position/GDP	39.2	44.2	52.3	58.5	63.7	68.0	70.2	70.8	77.0	-	-
Inflation (HICP) YoY	0.4	1.7	1.9	1.4	0.4	3.2	8.7	6.0	2.5	2.1	1.9
Unemployment Rate	3.9	3.6	3.2	3.0	3.6	3.6	3.1	3.0	3.4	3.5	3.2
ECB Refinancing Rate - Year-end	0.05	0.0	0.0	0.0	0.0	0.0	2.5	4.5	3.2	-	-
10-Year Bonds % - Year-end	0.2	0.4	0.2	-0.2	-0.6	-0.2	2.6	2.0	2.4	-	-
General Government Revenues/GDP	45.9	45.9	46.6	46.9	46.7	47.5	46.9	45.9	46.8	46.9	47.1
General Government Expenditures/GDP	44.7	44.6	44.7	45.6	51.1	50.7	49.0	48.4	49.5	49.9	50.5
Fiscal Interest/Revenues	2.0	1.8	1.6	1.3	1.0	1.0	1.2	1.4	1.8	1.8	2.1
General Government Balance/GDP	1.1	1.3	1.9	1.3	-4.4	-3.2	-2.1	-2.5	-2.8	-3.0	-3.5
General Government Cyclically Adjusted Balance/Potential GDP	1.1	0.8	1.5	1.1	-2.9	-2.6	-2.4	-2.4	-1.4	-1.1	-0.8
Primary Balance/GDP	2.1	2.2	2.6	1.9	-3.9	-2.7	-1.6	-1.8	-1.9	-2.1	-2.5
Gross Government Debt/GDP	68.3	64.0	60.8	58.7	68.0	68.1	65.0	62.9	63.9	65.4	67.0
Gross Government Debt/Revenues	148.9	139.5	130.6	125.2	145.5	143.2	138.7	137.0	136.7	139.3	142.3
Net Government Debt/GDP	48.9	44.7	42.1	39.8	45.3	46.3	46.3	46.2	47.7	49.6	51.6
Net Government Debt/Revenues	106.5	97.4	90.4	84.9	96.9	97.3	98.8	100.7	102.0	105.7	109.7

Sources: National Sources, IMF World Economic Outlook, IMF Fiscal Monitor, UN, World Bank, World Economic Forum, Kiel, EC, Eurostat, BIS, Bloomberg

Step I: K-Sov Scorecard Analysis

Macroeconomic Performance

Germany's large, advanced, and highly diversified economy, being Europe's largest, status as a leading exporter and its globally important industrial sector underpin its macroeconomic strength. It has been the 3rd largest economy in the world in 2024, providing for substantial economic strength as well as diversification. Distinguishing it from other large advanced economies, Germany has a very vibrant merchandise export sector that contributes to growth and employment. This high reliance on exports to drive growth, however, leaves it exposed to global trade developments as evidenced during the pandemic and more recently in the reduction in export demand from the US and China. Real GDP growth averaged 1.7% over the period 2015-19, which was slower than Canada (1.9%) and the US (2.4%), two of its main peer comparatives, largely due to structural issues common across the euro area, such as labour market slack and rigidities, as well as comparatively lower productivity and wage growth. In recent years, the German economy has struggled with an aging workforce, weak investment, rising energy costs, and declining industrial competitiveness, all of which have weighed on growth. Global trade disruptions and regulatory inefficiencies have further hampered productivity and economic dynamism. Germany's growth performance, while contracting over the past two years, continues to be supported by moderate economy-wide leverage, which underscores operating efficiencies and mitigates credit risk. However, elevated geopolitical and trade tensions, the ongoing conflict in Ukraine, lingering inflationary pressures, and residual effects of the pandemic continue to weigh on Germany's underlying macroeconomic credit fundamentals.

Rating Determinant 1: Macroeconomic Performance (20%)	Equivalent Rating Range
Nominal GDP ($B)	AAA/AA
Nominal GDP Growth (%)	BBB
Real GDP Growth (%)	BBB
Inflation (%)	A/BBB
Unemployment (%)	AAA/AA
K-Sov Macroeconomic Performance	**A**

Economic Conditions Hampering German Growth Model

The German economy has slowed considerably in recent quarters, slipping in and out of recession since the start of 2024 and underperforming the rest of the euro area. The German economy contracted by 0.3% in 2023 and by 0.2% in 2024. This largely stems from the steep rise in the cost of credit, which when coupled with impediments for investment associated with the sovereign, such as high taxation, curbs economic activity. Private consumption has provided limited support to economic growth, as weak consumer sentiment and a rising household saving rate dampened spending. Adding to this, Germany's reliance on Russian fossil fuels and its diversification away from these inputs has been a sore point, although not as severe as initially anticipated. Weakness can be observed in factory orders data, while manufacturing PMI readings further highlight the sluggish performance of the sovereign's key industrial sector. According to the latest Bundesbank's projections, the German economy is expected to stagnate this year before returning to modest growth next year, supported primarily by private consumption, which is being bolstered by robust wage increases. After years of investment levels falling short of underlying needs, resolving structural bottlenecks remains critical to unlocking Germany's public and private sector investment potential and to reinforcing domestic demand. KBRA observes that Germany's economic performance is also closely linked to external demand, particularly from China, where a sluggish recovery is expected to weigh on German industry. Exports are projected to contract by 1.9% in 2025, with only a partial rebound anticipated in 2026. In KBRA's view, underlying growth drivers have also weakened. For example, OECD data show that GDP per hour worked expanded at an average annual rate of 1.0% between 2015 and 2019, but slowed markedly to 0.2% on average from 2022 to 2024. Nonetheless, productivity levels remain above the G7 and EU averages.

Inflation eased back below target during the summer months, retreating from the elevated levels of recent years. The decline reflects a combination of tighter monetary policy, government interventions including price caps, favourable base effects, and diversification of energy supply. While inflation currently hovers near the ECB's target and appears manageable, KBRA notes that geopolitical risks, renewed fiscal stimulus, and ongoing trade tensions cloud the medium-term outlook.

Wages in Germany have risen sharply in the post-pandemic period. According to Bundesbank data, negotiated wages increased by an average of 6.1% in 2024, following 4.0% in 2023. This robust wage growth has occurred even as the labour market shows signs of softening due to ongoing supply constraints, with participation and demographic factors continuing to weigh on labour availability. Employment has been broadly flat for two years, and unemployment edged up only modestly, from 3.4% in June 2024 to 3.6% in June 2025. At the same time, short-time work schemes remain elevated, and overall employment momentum has slowed. Sectoral dynamics have diverged: manufacturing employment has declined, reflecting weak industrial output, while gains in public services, education, and healthcare have partly offset these losses. Looking ahead, unemployment is projected to ease again to around 3.3% by 2027.,

Government Financial Strength

Germany’s long-standing prudent budgetary stance is underpinned by a robust fiscal framework which has included a constitutionally mandated debt brake rule and a commitment to a balanced budget position. In 2025, a constitutional reform exempted EUR500 billion in infrastructure investments in the next twelve years and defence spending above 1% of GDP from the debt brake rule, while permitting states to run deficits of up to 0.35% of GDP. Germany adhered to EU fiscal rules with regard to debt and deficits (60% of GDP for government debt and 3% of GDP for government deficit) in the pre-pandemic era. Its solid budget surpluses and falling government debt burden in this period left the public finances in a strong position to respond to successive external shocks, including the Covid-19 pandemic and the energy crisis. Debt and deficits are expected to increase due to the exemptions to the debt break rule. Nevertheless, KBRA believes the benchmark status of German bonds, and the ease at which it can fund itself through capital markets, are crucial to its sovereign rating. In this regard, KBRA views the Germany’s access to liquidity as extremely strong, and as such provides overweighting of this Rating Sub-determinant in our K-SOV scorecard.

Rating Determinant 2: Government Financial Performance (50%)	Equivalent Rating Range
General Government Revenues % GDP	AAA/AA
General Government Balance % GDP	A
General Government Cyclically Adjusted Balance % Potential GDP	AA
General Government Debt % GDP	AA/A
General Government Debt % Revenue	AAA/AA
General Government Interest % Revenue	AAA/AA
Access to Liquidity/Vulnerability to Sell-off	AAA
Contingent Liabilities	AAA/AA
Fiscal Arrears	AAA/AA
K-Sov Government Financial Performance	**AAA/AA**

Germany Plans for Expansionary Fiscal Policy as Debt Remains Low and Highly Affordable

Germany’s strong fiscal record has historically afforded it significant flexibility to respond to external shocks, as demonstrated by substantial support packages during the pandemic and energy crisis. However, the 2025 constitutional reform to the debt brake marks a decisive policy shift. It exempts large portions of investment and defence spending from the fiscal rule, paving the way for a decisively expansionary stance. According to the Bundesbank, the 2026 draft budget and medium-term plan envisage cumulative net borrowing of around EUR850 billion between 2025 and 2029, with the debt ratio projected to rise significantly. Spending pressures will intensify, driven by defence outlays which are expected to increase from 2.4% of GDP in 2025 to 3.5% by 2029, as well as higher social and non-military investment. On the revenue side, collections remain solid in the near term, supported by wage growth and the unwinding of temporary tax reliefs, but the Bundesbank cautions that revenue growth will weaken later in the decade as one-off boosts fade and tax cuts take effect. To support investment and competitiveness, the government adopted a tax investment programme in June 2025 that includes accelerated depreciation for equipment, a phased reduction in the federal corporate tax rate, and an expanded research allowance. In KBRA’s view, these developments underscore Germany’s fiscal capacity but also highlight a clear shift from consolidation toward sustained expansion, with rising borrowing needs and slower revenue growth increasing medium-term fiscal risks. As such, the IMF forecasts the general government deficit will average 4% between 2026 and 2030, significantly wider than the recent ten year average (0.7%).

Nevertheless, German public debt will continue to stand at a much lower level than that of European and major advanced economic peers. German net government debt to GDP averaged 45% over the last five years and is forecast to increase to 56% over the next five years, which remains far lower than France, the UK, Italy and Spain. Furthermore, Germany can comfortably meet its higher borrowing requirement due to its very strong access to liquidity, while substantial cash buffers further underpin the government’s funding position in the implementation of its financing programme. Germany’s flight to quality dynamics reflects the Bund’s European benchmark fixed income status as well as the very sound management and performance of the economy.

Being a euro area member, Germany avails of European Central Bank (ECB) policies that safeguard liquidity and maintain credit provision, and ECB support during periods of stress provides euro area sovereigns with a substantial safety net. Germany’s cost of issuance is easily affordable. Germany’s average cost of debt has risen marginally but is contained at 1.4% and this allows greater flexibility to increase spending in the face of an external shock. As a result of greater borrowing, 30-year borrowing costs have reached their highest level since 2011, at well over 3%. Fiscal interest has gradually increased from 0.46% to 0.86% of GDP since 2021 and is projected by the IMF to further grow to a still modest 1.64% of GDP in 2030. This also helps illustrate the ease and flexibility of funding the sovereign enjoys on the capital markets. The average maturity on German government debt is 7.7 years, which helps to minimise refinancing risks. Fiscal prudence also supports lower inflation.

External Vulnerability

KBRA views Germany's external vulnerabilities as low, supported by structurally high current account surpluses that averaged about 7% of GDP between 2014 and 2024, and by a sizeable positive net international investment position (NIIP). These reflect Germany's diversified industrial base, status as a leading global exporter, and elevated savings rate relative to peers. Germany's current account surplus was the highest among G20 economies during 2015–19, underscoring its external strength. While trade momentum has slowed recently, structural fundamentals such as a high savings rate and the presence of high value-added industries typically support recovery after temporary downturns, though global trade headwinds present greater challenges this time. In addition, Germany consistently posts strong primary income surpluses, underpinned by its NIIP, which rose to 79% of GDP in Q1 2025, up from 70% in Q4 2023, reflecting robust direct, portfolio, and other investment positions.

The global economic environment, characterised by weak demand, an evolving energy landscape, and elevated geopolitical uncertainty, continues to weigh on Germany's growth and trade outlook. The impact of the US' 15% tariff on EU goods will be particularly acute given that exports to the US, Germany's largest single market, accounted for 4.4% of GDP in 2024. With roughly half of trade occurring within the EU, secondary spillovers could further dampen export performance. Trade with China has also softened, as German exports of machinery and electrical equipment have stagnated or declined, underscoring Germany's vulnerability to shifts in global supply chains and heightened competition in advanced technology sectors. Germany's share of global exports has steadily eroded since 2021, reflecting a broader loss of competitiveness. Weakness in industrial output persists, with monthly industrial production contracting by an average of 0.4% over the past two years, alongside sluggish factory orders. The auto sector remains under strain as Chinese competitors gain ground and the transition to electric vehicles progresses slowly. Despite these pressures, the IMF projects Germany will sustain a current account surplus averaging 4.7% of GDP through 2026–30, among the highest in the G20, albeit narrower than in the past.

Rating Determinant 3: External Vulnerability (10%)	Equivalent Rating Range
Current Account Balance % GDP	AAA
K-Sov External Vulnerability	**AAA**

Structural Robustness

Germany's structural characteristics are important factors underpinning its sovereign rating. The country's robust institutional framework, high degree of government effectiveness, consensus-based policymaking environment, central role in the EU and euro area and significant geopolitical influence substantiate its structural robustness, in KBRA's view. Germany's advanced and globally competitive economy, coupled with its status as Europe's largest economy and one of the leading global exporters, underscores its economic resiliency. Following Germany's February election, a coalition government was formed with the CDU/CSU at the helm. This new government has so far focussed on spurring economic growth through increased investment while placing greater emphasis on defence and security. After two years of recession and significant challenges, including an energy crisis, the emergence of fresh political leadership could bring credit-positive developments, in KRBA's view.

Rating Determinant 4: Structural Robustness (20%)	Equivalent Rating Range
Socio-Political Risk	AAA/AA
Security Risk	AAA/AA
Geostrategic Importance	AAA/AA
Systemic and Economic Risk	AAA/AA
Per Capita GDP (PPP Basis)	AAA/AA
Institutional Indicators	AAA/AA
K-Sov Structural Robustness	**AAA/AA**

Coalition Government Navigates Amid Heightened Fragmentation
Following the collapse of Chancellor Olaf Scholz's coalition in late 2024, new elections were held in February 2025. With no outright majority, a coalition was formed between the CDU/CSU and SPD. The far-right AfD gained ground, doubling its national vote share, though cooperation with mainstream parties remains ruled out under Germany's long-standing political conventions. The election outcome reflects growing voter fragmentation and a more complex political landscape. While polarisation has increased, institutional checks and coalition traditions continue to support stability in governance. KBRA expects the new government to prioritise digitization, security, defence, economic policy, and fiscal discipline over the medium term. KBRA has recently commented on this broader theme of political fragmentation across Europe, noting its implications for reform momentum and fiscal strategy.

Sound Banking Sector with Manageable Asset Quality Risks
The German banking sector remains resilient overall, in KBRA's view, despite persistent macroeconomic and geopolitical risks. The sector's liquidity and capitalisation are sound, with a Liquidity Coverage Ratio (LCR) of 149% (lower than the EU average of 160%) and a Common Equity Tier 1 (CET1) ratio of 17.3% (above the EU average of 16.2%) at end-March 2025, according to the European Banking Authority (EBA). German banks profitability has historically lagged European peers due to higher costs, strong competition and outdated IT systems that pose an operational risk.

KBRA expects asset quality to remain under pressure while interest rates remain elevated, weighing on the economy and borrowers' affordability, specifically in construction and commercial real estate (CRE) sectors, as well as among small enterprises. Although the non-performing loan (NPL) ratio has risen slightly, primarily due to stresses in CRE, it remains relatively low at 1.4% at end-March 2025, as opposed to the EU average of 1.8% per the EBA. NPL ratios for loans secured by CRE has roughly doubled since end-2022, reaching 4.2% in mid-2024, with significant banking institutions (SIs) reporting higher ratios of 5.1% overall, according to the Bundesbank. This partly reflects the SIs' above-average exposure to the US, where conditions have been especially stressed. The CRE NPL ratio for SIs was 12.6% for US exposures as of mid-2024, but considerably smaller at 3.3% for German exposures. Overall, the banking system appears to be sufficiently capitalised to cope even if CRE credit defaults rise more strongly than anticipated.

Step II: Peer Comparatives, Trends, Willingness to Pay

In Step II of the sovereign rating approach, KBRA evaluates peer comparisons, recent trends and outlook, and its evaluation of willingness to pay.

US Tariffs and Global Uncertainty Shape Near-Term Performance

The US remained Germany's largest trading partner in 2024, leaving the economy particularly exposed to any US tariff measures. The April announcement of tariffs of up to 20% on EU imports triggered heightened financial market volatility and increased uncertainty among businesses. German exporters front-loaded shipments in the first quarter, only to face a sharp reversal in the second. Output fell most noticeably in sectors with high US exposure, such as pharmaceuticals and mechanical engineering, while a stronger euro further eroded competitiveness. Despite resilient demand from within the euro area, overall exports stagnated, while imports rose on precautionary stockpiling and trade diversion effects. Looking ahead, Bundesbank simulations suggest the combined effect of tariffs and global uncertainty could reduce German GDP by about 0.5 percentage points (ppts) in 2025, 0.9 ppts in 2026, and 0.2 ppts in 2027, amounting to a cumulative loss exceeding 1.5% of GDP relative to baseline projections. Although the subsequent US-EU agreement in July may soften the impact, these shocks are expected to delay recovery. Complementary analysis from the Kiel Institute points to a near-term contraction of 0.1% of GDP, reinforcing the expectation that sustained growth will not return until 2027. In KBRA's view, increased infrastructure and defence spending under the new government will partially offset the adverse external environment. KBRA acknowledges the heightened uncertainty stemming from the current global trade environment, noting that assumptions remain fluid and subject to revision as new policy developments and market conditions unfold.

Deglobalisation Trends and Foreign Direct Investment Collapse

In terms of intra-EU competitiveness, Germany's industrial sector is deeply embedded in global and European supply chains. A shift towards deglobalisation or structural changes in China could exert pressure on export performance outside of the EU as slower growth and deflation in Asia could hamper German economic prospects. The global evolution towards both a greener, more sustainable future and digitalisation presents a challenge, albeit German industry has been adaptive to such challenges in the past. More specifically, KBRA continues to monitor trade developments with regard to China. Within this, the automotive industry appears to be most at risk. The automotive sector, employing more than 800,000 workers, is especially vulnerable due to declining demand from China and increasing competition in electric vehicles (EVs). The industry has been slow to transition to EVs, allowing competitors in China and the US to capture greater market share. These issues highlight the broader structural challenges facing Germany's industrial base.

Reflecting these competitiveness pressures, investment dynamics have also weakened. Germany's weak growth weighed on private investment in 2024, with 18% of firms reporting underinvestment compared with 14% in the EU. Despite its structural advantages as a business location - such as market size, infrastructure, legal stability, and a skilled workforce, and its ranking in 2023 as the leading ultimate investing economy, the UN Trade and Development 2025 report highlights a marked decline in FDI inflows, which dropped by EUR45 billion from 2023 to 2024.

Energy Supply Gap and Changing Demographics Present Challenges.

Higher energy costs, and ongoing geopolitical uncertainty continue to weigh on Germany's medium-term outlook. The war in Ukraine exposed the country's reliance on Russian fossil fuels, but since 2022 Germany has diversified supply, expanded storage, and curbed demand. Increased deliveries from Norway and the Netherlands, new LNG facilities, and consistently high storage levels have eased risks, while lower consumption and favourable weather have helped bring prices down. KBRA views Germany as still exposed to global energy dynamics, though initial concerns around supply disruptions and severe economic fallout have eased.

At the same time, pronounced demographic pressures weigh on growth potential. Germany's old-age dependency ratio has nearly doubled since 2000 and is set to rise further, with one quarter of the population projected to be over 67 by 2040. Low birth rates and an ageing workforce are already constraining labour supply and investment. Immigration has helped offset these pressures, with recent inflows boosting population growth, while reforms such as the Skilled Immigration Act and the gradual increase in the retirement age should provide additional support. KBRA notes that Germany's relatively low public debt and well-funded pension system offer buffers as it manages these long-term challenges.

Macroeconomic Forecasts

Macroeconomic Forecasts (2026-2030 average)					
Trends and Projections	**Germany**	**France**	**UK**	**Canada**	**US**
GDP Growth	1.0	1.2	1.5	1.7	2.1
Inflation	2.1	1.9	2.0	2.0	2.2
Current Account Balance % GDP	4.7	-0.2	-3.3	-0.8	-2.8
Government Revenues % GDP	47.4	51.4	40.6	42.1	32.4
Government Balance % GDP	-4.0	-6.1	-2.9	-1.2	-5.5
Government Primary Balance % GDP	-2.7	-3.2	-0.1	-0.5	-1.6
Government Interest Payments % Revenues	2.7	5.5	7.0	1.7	12.1
Government Gross Debt % Revenues	149.2	240.8	261.4	255.6	388.4
Government Gross Debt % GDP	70.6	123.8	106.1	107.7	125.9
Government Net Debt % Revenues	118.8	225.1	239.2	32.7	313.2
Government Net Debt % GDP	56.3	115.7	97.1	13.8	101.6

Sources: IMF World Economic Outlook, IMF Fiscal Monitor

Comparative Statistics

Comparative Statistics					
2025e Data	**Germany**	**France**	**UK**	**Canada**	**US**
Gross Domestic Product (USD bn)	4,744.8	3,211.3	3,839.2	2,225.3	30,507.2
Nominal GDP Growth (%)	2.3	2.0	4.4	3.6	4.5
Real GDP Growth (%)	0.1	0.6	1.2	1.6	1.9
Consumer Price Inflation (%)	2.1	1.3	3.1	2.0	3.0
Unemployment Rate - Latest Read	3.9	7.5	4.7	6.9	4.2
General Government Revenues % GDP	46.9	51.9	39.5	42.4	31.4
General Government Balance % GDP	-3.0	-5.5	-4.4	-1.9	-6.5
General Government Cyclically Adjusted Balance % Potential GDP	-1.1	-5.6	-3.4	-1.0	-7.5
General Government Gross Debt % GDP	65.4	116.3	103.9	112.5	122.5
General Government Gross Debt % Revenues	139.3	224.2	263.3	265.6	390.1
General Government Interest % Revenues	1.8	4.0	6.4	1.3	12.2
General Government Net Debt % GDP	49.6	108.2	95.1	12.5	98.0
General Government Net Debt % Revenues	105.7	208.6	240.9	29.6	312.4
Current Account Balance % GDP	5.2	0.2	-3.7	-0.1	-3.7
Per Capita GDP (PPP) - USD (World Bank)	72,599	65,626	63,661	65,707	89,105
Average Institutional Indicators (KBRA Ranking)	AA	AA/A	AA	AAA	AA
Human Development Index (Ranking)	9	28	18	15	21

Sources: IMF World Economic Outlook, IMF Fiscal Monitor

Finally, KBRA believes that Germany has a very high willingness to honour its debt obligations

Step III: Local Currency vs. Foreign Currency Government Bond Ratings

KBRA has aligned the Federal Republic of Germany's foreign and local currency sovereign ratings based on its membership of the euro area and financing in euro, a reserve currency.

ESG Management

KBRA typically analyses Environmental, Social, and Governance (ESG) factors through the lens of how the sovereign plans for and manages relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in sovereign ratings can be found here. Over the medium-term, governments will need to prioritize ESG risk management and disclosure with the likelihood of expansions in global ESG-related regulations, including adherence to the commitments of the Paris Agreement, and rising investor focus on ESG issues.

KBRA analyses many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

Environmental Factors

Germany is a leader in addressing climate change, although its progress has been negatively impacted by the energy crisis arising from the war in Ukraine. The 2021 Climate Change Act amendment tightened climate regulations beyond EU targets, aiming to achieve greenhouse gas (GHG) neutrality by 2045. As of 2024, Germany's GHG emissions have declined by 48% since 1990. Germany is conducting a wide range of initiatives to address climate change, such as tax incentives for energy-efficient housing stock, a green hydrogen strategy, and significant climate investment. In addition to a EUR58 billion green investment plan announced in 2024, EUR100 billion has been earmarked for climate-related investments over the next 12 years from the EUR500 billion extrabudgetary fund for infrastructure spending.

Social Factors

KBRA focuses on social factor risk in terms of stakeholder preferences. In recent years, there has been a surge in demand across Europe for green bonds and in a short space of time, Germany has become the largest issuer of green euro bonds, actively constructing a green curve that now has eight tenors. The German government has roughly EUR83 billion in outstanding green issuance currently. This type of funding will be crucial for green investment strategies, in order for the sovereign to reach its climate action targets. The proceeds of the green issuance are allocated to initiatives like transport, support for developing countries, and expanding renewable energy adaption. Germany was named the "Most Impressive Government Green/SRI Bond Issuer" in the 2023 Global Capital Bond Awards, after coming in second place in 2022.

Governance Factors

Germany is actively improving governance structures including its national cyber security strategy which has been updated to implement new EU directives. Recently it has become more focussed on its defence strategy given the threats arising from Russia and the war in Ukraine. In January 2023 the new Network and Infrastructure EU directive (NIS 2) came into force to protect the European economy from cyber-attacks. In July 2025, Germany passed a law to implement the directive. Germany adopted its first ever national security strategy entitled 'Integrated Security for Germany' in June 2023. The strategy emphasises the need to boost its defence preparedness, resilience and sustainable use of natural resources. Germany has identified Russia as the largest threat to European security and plans to increase its defence spending to 3.5% of GDP by 2029, six years ahead of the NATO commitment.

Conclusion

The German economy continues to face headwinds from geopolitical and trade tensions, as well as ongoing energy security concerns. A recent shift in fiscal policy marks the start of a new era of higher capital spending, adding both opportunities and risks to the outlook. While uncertainty around growth prospects persists, KBRA notes that Germany's exceptional funding flexibility and strong access to liquidity remain key pillars supporting the sovereign rating.

Federal Republic of Germany Rating History		
Date	**Action**	**Rating/Outlook/Watch Status**
13-Nov-20	Assigned	LT Ratings: AAA (Stable) ST Ratings K1+
7-May-21	Affirmed	LT Ratings: AAA (Stable) ST Ratings K1+
5-Nov-21	Affirmed	LT Ratings: AAA (Stable) ST Ratings K1+
8-Apr-22	Affirmed	LT Ratings: AAA (Stable) ST Ratings K1+
23-Sep-22	Affirmed	LT Ratings: AAA (Stable) ST Ratings K1+
24-Mar-23	Affirmed	LT Ratings: AAA (Stable) ST Ratings K1+
15-Sep-23	Affirmed	LT Ratings: AAA (Stable) ST Ratings K1+
15-Mar-24	Affirmed	LT Ratings: AAA (Stable) ST Ratings K1+
6-Sep-24	Affirmed	LT Ratings: AAA (Stable) ST Ratings K1+
7-Mar-25	Affirmed	LT Ratings: AAA (Stable) ST Ratings K1+
5-Sep-25	Affirmed	LT Ratings: AAA (Stable) ST Ratings K1+

Disclosures
Further disclosures relating to this rating action are available in the EU/UK Information Disclosure Form. Additional information regarding KBRA policies, methodologies, rating scales and disclosures are available at www.kbra.com.

The ratings of Federal Republic of Germany are unsolicited ratings. The rated entity or related third party did participate in the rating process and KBRA did not have access to the accounts and other relevant internal documents.

Related Publications: (available at www.kbra.com)

- A Fractured Europe Faces Rising Fiscal Strain
- Defence vs. Deficits: Navigating NATO Targets Under EU Fiscal Rules
- Steady but Strained: Europe's Path Through Mounting Global Challenges
- Europe's Labour Market Outlook Amid Trade Protectionism
- AI Adoption and European Sovereign Credit Analysis