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Morningstar DBRS Confirms Federal Republic of Germany at AAA, Stable Trend

Industry: Governments
Subindustry: Sovereigns
Region: Europe

DBRS Ratings GmbH (Morningstar DBRS) confirmed the Federal Republic of Germany's (Germany) Long-Term Foreign and Local Currency – Issuer Ratings at AAA. At the same time, Morningstar DBRS confirmed Germany's Short-Term Foreign and Local Currency – Issuer Ratings at R-1 (high). The trend on all ratings is Stable.

KEY CREDIT RATING CONSIDERATIONS

The Stable trend reflects Morningstar DBRS' view that Germany's credit fundamentals remain strong, notwithstanding the widening fiscal deficit and challenges to economic growth. The global energy supply shock from the conflict in the Middle East and the rise in energy prices have presented yet another setback to Germany's economic outlook. The government recently cut its growth forecast for the year in half to 0.5% in 2026, even with a more expansionary fiscal policy. Reform to the constitutional debt brake last year represented Germany's turn towards higher public spending, particularly on defence and infrastructure. The IMF forecasts the general government budget deficit to reach 3.8% of GDP this year, up from 2.7% in 2025, and for it to remain near 4% through the rest of the decade. The public debt-to-GDP ratio is set to rise above 70% by 2029, from 62.9% in 2025. Reversing the upward trend of the medium-term debt trajectory is likely to require a significant policy effort to consolidate the fiscal deficit and to strengthen the economy's low growth potential. Nevertheless, debt affordability remains underpinned by a still moderate stock of public debt, low interest expenditure, and the country's safe-haven status.

Germany's credit ratings are supported by its highly developed economy and high institutional quality. External finances are strong and resilient to potential shocks. The country nonetheless faces meaningful challenges, such as population ageing and structural changes within important manufacturing industries. Furthermore, contingent liabilities emanating from state guarantees for domestic companies and fiscal burden sharing within the currency union could eventually weigh on public finances.

CREDIT RATING DRIVERS

Morningstar DBRS could downgrade the credit ratings if public debt to GDP markedly increased on the back of weak economic growth and persistently large fiscal deficits. Moreover, a materialisation of substantial contingent liabilities could put negative pressure on the credit ratings.

CREDIT RATING RATIONALE

Fiscal Deficits to Widen from Higher Spending on Defence, Infrastructure, and Social Spending

Germany's general government budget deficit amounted to 2.7% of GDP in 2024 and 2025, compared with an unweighted simple average deficit of 4.7% for the other G7 countries last year. Germany's planned increase in defence and infrastructure spending will add to budgetary pressures in the coming years. The deficit is set to breach the 3% threshold from 2026 onward. The recent Joint Economic Forecast (JEF) from April 2026 projects the fiscal deficit to rise to 3.7% of GDP in 2026 and 4.2% in 2027, and the IMF expects the fiscal deficit to remain above 4.0% from 2027 through the rest of its forecast period. These projections are subject to downside risk, depending on the severity and duration of the current energy supply shock. For the time being, the government has implemented targeted measures – including temporary fuel tax cuts and a cap on the amount petrol prices can rise at the pump – with limited effect on the fiscal balance.

The widening of the deficit over the course of the decade stems from various spending categories. Additional defence spending is being delivered via a two-pillar structure: regular defence from the core budget and from the EUR 100 billion Bundeswehr special fund. The government expects defence spending to reach 2.8% of GDP in 2026 and 3.6% by 2029 (NATO-definition), from 2.0% of GDP in 2024. The loosening of the constitutional debt brake in March 2025 exempted defence spending above 1% of GDP from the stipulations of the debt brake. Furthermore, the Special Fund for Infrastructure and Climate Neutrality is also not subject to the debt brake and it earmarks EUR 500 billion in spending through 2036. Investment priorities include transport infrastructure, education, research, digital technology, housing construction, and hospital infrastructure. To the extent the infrastructure spending improves the growth potential of the German economy, it would also strengthen the fiscal position by strengthening tax revenue. The widening deficit also stems from higher current spending, including the reduction in the VAT rate for restaurants, additional pension benefits for mothers, and an increase in the tax allowance for commuters.

The government's plan for medium-term fiscal consolidation remains unresolved. Compliance with the revised debt brake would require at a minimum a fiscal consolidation above 1% of GDP from 2028 onwards to cover the expected increase in pension and interest expenditure. Compliance with fiscal rules, particularly over the longer term, is complicated by the scale of the spending demands and the political gridlock. Moreover, fiscal space created for additional deficit-raising measures was partly created by a shift of already planned infrastructure projects from the core budget to the special fund. This may limit the positive impact of additional investment spending on Germany's economic growth potential.

Debt Affordability Remains Strong

Risks stemming from Germany's rising debt to GDP ratio remain low due to a moderate level of public debt, a still low interest burden, and the country's safe-haven status. General government debt amounted to 62.9% in 2025. The IMF forecasts primary fiscal deficits will increase the debt-to-GDP ratio to above 70% by 2029. The government's ability to stabilise the upward debt trajectory over the longer-term remains a meaningful policy challenge. Germany is an important guarantor to companies and funds at the domestic and European levels; thus, any crystallization of contingent liabilities is an additional risk to public finances. The government's interest burden has increased in recent years, though it remains low compared to European peers. The IMF forecasts the general government's net interest expense to rise to 1.5% of GDP by 2030, from 0.9% in 2025. Government financing benefits from Germany's role as a benchmark issuer for the euro area. Germany's safe-haven status and its strong debt repayment capacity support the "Debt and Liquidity" building block assessment.

Near-term Economic Recovery Interrupted by the Energy Price Shock; Structural Challenges Remain

German economic growth, which was beginning to show signs of recovery at the end of last year, lost momentum in the first quarter of 2026 against the backdrop of the conflict in the Middle East. Leading indicators for industrial production point to weak activity, and surveys point to businesses affected by the supply bottlenecks following the closing of tanker traffic in the Strait of Hormuz. Economic output is also weighed down by activity in more domestically oriented sectors. Consumer sentiment and investment (construction in particular) have been hampered by the rise in energy prices, still elevated interest rates, and general geopolitical uncertainty. As a result, forecasters have cut their expected growth rate for 2026. The government now expects real GDP to expand by 0.5% in 2026 (previously 1.0%), following 0.2% growth in 2025 and economic contractions in 2023-24. In the coming years, the fiscal expansion directed towards defence, infrastructure, and climate protection will support economic growth. The IMF projects annual economic expansion of 1.2% in 2027 and 2028.

The support to economic activity from looser fiscal policy in the short-to-medium-term does not address Germany's embedded economic challenges, including unfavourable demographic trends and threats to German manufacturing. Labour supply over the next ten years is set to markedly decline as the working age population ages. Likewise, important manufacturing industries such as automotives, machinery and equipment, chemicals, and base metals face headwinds from structural changes. These include the automotive industry's transformation towards electric vehicle production, higher energy prices, and the emergence of new global competition – from China in particular. These trends weaken the JEF's estimate for real GDP growth potential of the German economy, at 0.2% currently though converging to 0% by the end of the decade. This compares to growth potential around 1.5% in the mid-2010s. Strengthening of the international competitiveness of the economy is likely to require sustained policy efforts to lower energy prices, bolster the supply of labour, streamline business regulations, and incentivise private investment.

External Finances Remain Strong

Despite the various external headwinds for Germany's export industries, external finances remain strong. The current account surplus narrowed from 5.8% of GDP in 2024 to 4.4% in 2025, and the IMF projects the surplus to remain at 3.8-3.9% each year through 2028. The narrowing of the current account balance reflects a weakening of the trade surplus from lower exports in key industries and stronger import demand from higher domestic investment. External liquidity risk to Germany in case of a potential global financial shocks is low, given the country's status as a safe haven and its large net external asset position. According to the IMF, Germany's net international investment position amounted to 82.3% of GDP in 2025. This strong net external creditor position supports the "Balance of Payments" building block assessment.

Inflation Risks Re-Emerge; Financial Conditions of the Banking Sector Remain Sound but Banks are Exposed to Downside Risks

The banking sector's good capital buffers, healthy asset quality metrics, and strong household balance sheets support financial stability in Germany, despite renewed price pressure. The JEF in its April 2026 forecast projects the energy price shock triggered by the war in Iran and the reduction of oil and gas traffic through the Strait of Hormuz will increase average inflation to 2.8% in 2026 and 2.9% in 2027, from 2.3% in 2025. Key banking metrics remain strong, with the average Tier 1 capital adequacy ratio at 17.7% at end-2025 and the Banking sector's NPL ratio under 2%. In terms of household mortgages, the pass-through of higher interest rates has been contained by long interest rate fixation periods of most mortgages, and households' repayment capacity is supported by the comparatively low level of household debt.

However, the increased inflationary pressure and downside risks to the German economy linked to the Middle East conflict could pose a challenge to the outlook for earnings and asset quality of German banks in 2026. In a scenario of a prolonged crisis or further escalation, several economic sectors could be adversely affected, particularly energy intensive industries, export-oriented sectors, and highly leveraged borrowers. Asset quality is affected by the challenging economic environment, higher interest rates, and stress in commercial real estate (CRE). Vulnerability to credit risk stems primarily from banks' exposure to CRE and to the manufacturing and the construction sectors. CRE borrowers face repricing risks in the coming years and segments such as retail and office are exposed to structural challenges such as the rising importance of remote work and e-commerce. Due to downside risks to CRE loans and market risks, from a potential increase in risk aversion to global capital markets, Morningstar DBRS applies a negative qualitative adjustment to the 'Monetary Policy and Financial Stability' building block assessment.

Institutional Quality is High but Challenges Are Growing

Germany's strong performance in the World Bank's Worldwide Governance Indicators reflects its high institutional quality and is a key strength of its credit profile. Despite its comparatively stable political and economic institutions, political polarisation and fragmentation in Germany's political environment complicates policy implementation. Following early elections in 2025, the centrist coalition government formed between the Christian Democrats (CDU/CSU) and Social Democrats (SPD) faces major economic and fiscal policy challenges. This includes strengthening the economy's low growth potential, raising defence and infrastructure investments, and addressing rising fiscal pressure.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

There were no Environmental, Social or Governance factors that had a significant or relevant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (16 May 2025) <https://dbrs.morningstar.com/research/454196>.

For more information on the Rating Committee decision, please see the Scorecard Indicators and Building Block Assessments.

EURO AREA RISK CATEGORY: LOW

Notes:

All figures are in euros unless otherwise noted. Public finance statistics reported on a general government basis unless specified.

The principal methodology is the Global Methodology for Rating Sovereign Governments (09 July 2025) <https://dbrs.morningstar.com/research/457952>. In addition Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings <https://dbrs.morningstar.com/research/454196> in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://dbrs.morningstar.com/about/methodologies>.

The sources of information used for these credit ratings include Germany's Federal Ministry of Finance (German Medium-Term Fiscal-Structural Plan, August 2025; Draft Budgetary Plan 2026, Monthly Reports), Federal Government (Medium-Term Budgetary Plan 2025-2029; Budget 2026), German Finance Agency (Deutsche Finanzagentur), Deutsche Bundesbank (Monthly Reports; Financial Stability Review 2025), Federal Ministry for Economic Affairs and Energy, Federal Statistical Office, Federal Financial Supervisory Authority (BaFin), European Banking Authority, German Council of Economic Experts (Annual Report 2025), Ifo Institute (Joint Economic Forecast, April 2026), European Commission (European Economic Forecast Autumn 2025, November 2025; Commission Assessment of Germany's Medium-Term Fiscal-Structural Plan, September 2025), Eurostat, European Central Bank (ECB), IMF (World Economic Outlook April 2026; International Financial Statistics), OECD, BulwienGesa AG (Housing Price Index), European Environment Agency, German Environment Agency, World Bank, Bank for International Settlements, and Macrobond. Morningstar DBRS considers the information available to it for the purpose of providing these credit ratings to be of satisfactory quality.

With respect to FCA and ESMA regulations in the United Kingdom and European Union, respectively, these are unsolicited credit ratings. These credit ratings were not initiated at the request of the issuer.

With Rated Entity or Related Third Party Participation: YES
With Access to Internal Documents: NO
With Access to Management: YES

Morningstar DBRS does not audit the information it receives in connection with the credit rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS' outlooks and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <https://registers.esma.europa.eu/cerep-publication>. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see <https://data.fca.org.uk/#/ceres/craStats>.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: <https://dbrs.morningstar.com/research/480557>.

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom.

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Issuer	Debt Rated	Credit Rating Action	Credit Rating	Trend
Germany, Federal Republic of	Long-Term Foreign Currency - Issuer Rating	Confirmed	AAA	Stable
Germany, Federal Republic of	Long-Term Local Currency - Issuer Rating	Confirmed	AAA	Stable
Germany, Federal Republic of	Short-Term Foreign Currency - Issuer Rating	Confirmed	R-1 (high)	Stable
Germany, Federal Republic of	Short-Term Local Currency - Issuer Rating	Confirmed	R-1 (high)	Stable

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Germany

Scorecard Indicators

Source

Current Scorecard Input

	2020	2021	2022	2023	2024	2025	2026	2027	2028			
Fiscal Management and Policy												
Overall Fiscal Balance (% of GDP)	-4.4%	-3.2%	-1.9%	-2.5%	-2.7%	-2.7%	-3.8%	-4.2%	-4.1%	IMF WEO	13 year average	-1.8%
Government Effectiveness (Percentile Rank)	94.2	96.1	95.7	91.9	91.9	-	-	-	-	World Bank	5 year average	94.0
Debt and Liquidity												
General Government Gross Debt (% of GDP)	68.0%	67.9%	64.4%	62.3%	62.2%	62.9%	64.6%	66.5%	68.4%	IMF WEO	5 year projection	72.0%
Interest Costs (% of GDP)	0.5%	0.5%	0.6%	0.6%	0.8%	0.9%	0.9%	1.1%	1.2%	IMF WEO	5 year average	0.9%
Economic Structure and Performance												
GDP per Capita (USD thousands)	48.0	53.2	50.9	54.8	56.1	60.4	65.3	67.6	69.8	IMF WEO	10 year average	51.0
Output Volatility (%)	2.4%	2.4%	2.4%	2.3%	2.3%	2.3%	2.3%	2.2%	-	IMF WEO	Latest	2.3%
Economic Size (USD billions)	3,938	4,358	4,204	4,564	4,684	5,048	5,453	5,642	5,819	IMF WEO	5 year average	4,572
Monetary Policy and Financial Stability												
Rate of Inflation (% EOP)	-0.6%	5.4%	10.7%	2.9%	2.5%	2.3%	2.6%	2.2%	2.0%	IMF WEO	13 year average	2.8%
Total Domestic Savings (% of GDP)	251%	252%	228%	229%	239%	242%	-	-	-	ECB/IMF	Latest ¹	242%
Change in Domestic Credit (% of GDP)	10.6%	-1.3%	-1.3%	-6.2%	-1.0%	-0.6%	-	-	-	BIS/IMF	7 year average ¹	0.4%
Net Non-Performing Loans (% of Capital)	7.9%	6.9%	13.3%	16.1%	18.6%	19.9%	-	-	-	IMF IFS	Latest ¹	19.9%
Change in Property Price/GDP Index (%)	7.9%	-0.8%	-2.9%	-4.8%	-1.4%	-0.9%	-	-	-	BulwienGesa/IMF	7 year average ¹	0.0%
Balance of Payments												
Current Account Balance (% of GDP)	6.3%	6.9%	3.8%	5.5%	5.8%	4.4%	3.9%	3.8%	3.8%	IMF WEO	8 year average	4.8%
International Investment Position (% of GDP)	64.4%	69.9%	70.0%	68.5%	80.2%	82.3%	-	-	-	IMF	5 year average ¹	74.2%
Share of Global Foreign Exchange Turnover (Ratio)	206.7%	210.0%	204.4%	207.0%	208.8%	190.3%	-	-	-	BIS/IMF	Latest	190.3%
Exchange Rate Classification (see footnote)	5	5	5	5	5	5	-	-	-	IMF	Latest	5
Political Environment												
Voice and Accountability (Percentile Rank)	96.1	95.6	95.6	95.6	95.6	-	-	-	-	World Bank	5 year average	95.7
Rule of Law (Percentile Rank)	93.9	95.3	94.3	93.9	94.8	-	-	-	-	World Bank	5 year average	94.4

See Morningstar DBRS' Global Methodology for Rating Sovereign Governments for additional details on the methodology behind the scorecard indicators and associated scoring thresholds. Following the World Bank's December 2025 methodology update, percentile rankings on World Bank Governance Scores are calculated by Morningstar DBRS. Exchange Rate Classifications: Freely floating exchange rate = 1; Float = 2; Crawls, banded pegs, and other managed = 3; Stabilized = 4; Pegs, currency unions and dollarized arrangements = 5.

¹ Scores for 2025 have been computed using the most recent data when year-end data is not available.

Germany

Building Block Assessments and Rating Committee Summary



6-May-2026

Building Blocks	Scorecard Result	Quantitative Assessment	Net Impact of Qualitative Factors	Building Block Assessment
Fiscal Management and Policy	17.72	Strong	N/A	Strong
Debt and Liquidity	14.30	Good	+ 2 Categories	Strong
Economic Structure and Performance	17.53	Strong	N/A	Strong
Monetary Policy and Financial Stability	19.78	Very Strong	- 1 Category	Strong
Balance of Payments	16.01	Strong/Good	+ 1 Category	Strong
Political Environment	20.00	Very Strong	N/A	Very Strong
Overall Assessment	Composite Scorecard Result	Scorecard Rating Range	Composite Building Block Assessment	Indicative Rating Range
	87.8	AAA - AA (high)	91.1	AAA - AA (high)

Germany's Long-Term Foreign Currency - Issuer Rating

AAA

Main topics discussed in the Rating Committee include: discussion on fiscal stimulus, economic growth prospects, and financial stability. For additional details on Morningstar DBRS analysis and opinions, please see the accompanying rating report.

Morningstar DBRS Scorecard: Scoring Ranges and Associated Assessment Categories

Lower bound	0.00	1.00	3.00	5.00	7.00	9.00	11.00	13.00	15.00	17.00	19.00
Upper bound	0.99	2.99	4.99	6.99	8.99	10.99	12.99	14.99	16.99	18.99	20.00
Assessment Category	Very Weak	Weak	Weak/Poor	Poor	Poor/Moderate	Moderate	Good/Moderate	Good	Strong/Good	Strong	Very Strong

Germany, Federal Republic of
ESG Checklist

ESG Factor	ESG Credit Consideration Applicable to the Credit Analysis: Y/N	Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*		
Environmental		Overall:	N	N
Emissions, Effluents, and Waste	Do the costs or risks result in changes to a government's financial standing or relationship with other governments, and does this affect the assessment of credit risk?	N	N	N
Carbon and GHG Costs	Does a government face coordinated pressure from a higher-tier government or from numerous foreign governments as a result of its GHG emissions policies, and does this affect the assessment of credit risk?	N	N	N
	Will recent regulatory changes have an impact on economic resilience or public finances?	N	N	N
	Carbon and GHG Costs	N	N	N
Resource and Energy Management	Does the scarcity of key resources impose high costs on the public sector or make the private sector less competitive?	N	N	N
	Is the economy reliant on industries that are vulnerable to import or export price shocks?	N	N	N
	Resource and Energy Management	N	N	N
Land Impact and Biodiversity	Is there a risk to a government's economic or tax base for failing to effectively regulate land impact and biodiversity activities?	N	N	N
Climate and Weather Risks	Under key IPCC climate scenarios will climate change and adverse weather events potentially destroy a material portion of national wealth, weaken the financial system, or disrupt the economy?	N	N	N
Passed-through Environmental credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by environmental factors (see respective ESG checklist for such issuer)?	N	N	N
Social		Overall:	N	N
Human Capital and Human Rights	Compared with regional or global peers, is the domestic labour force more or less competitive, flexible and productive?	N	N	N
	Are labour or social conflicts a key source of economic volatility?	N	N	N
	Are individual and human rights insufficiently respected or failing to meet the population's expectations?	N	N	N
	Is the government exposed to heavy, coordinated international pressure as a result of its respect for fundamental human rights?	N	N	N
	Human Capital and Human Rights	N	N	N
Access to Basic Services	Does a failure to provide adequate basic services deter investment, migration, and income growth within the economy?	N	N	N
Passed-through Social credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by social factors (see respective ESG checklist for such issuer)?	N	N	N
Governance		Overall:	N	N
Bribery, Corruption, and Political Risks	Does widespread evidence of official corruption and other weaknesses in the rule of law deter investment and contribute to fiscal or financial challenges?	N	N	N
Institutional Strength, Governance, and Transparency	Compared with other governments, do institutional arrangements provide a higher or lesser degree of accountability, transparency, and effectiveness?	N	N	N
	Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	N	N	N
	Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	N	N	N
	Institutional Strength, Governance, and Transparency	N	N	N
Peace and Security	Is the government likely to initiate or respond to hostilities with neighbouring governments?	N	N	N
	Is the government's authority over certain regions contested by domestic or foreign militias?	N	N	N
	Is the risk of terrorism or violence sufficient to deter investment or to create contingent liabilities for the government?	N	N	N
	Peace and Security	N	N	N
Passed-through Governance credit considerations	Does this rating depend to a large extent on the creditworthiness of another rated issuer which is impacted by governance factors (see respective ESG checklist for such issuer)?	N	N	N
Consolidated ESG Criteria Output:		N	N	N

* A Relevant Effect means that the impact of the applicable ESG Factors has not changed the rating or rating trend on the issuer.
A Significant Effect means that the impact of the applicable ESG Factors has changed the rating or trend on the issuer.

Germany, Federal Republic of: ESG Considerations

8 May 2026

Environmental

There were no Environmental factors that had a significant or relevant effect on the credit analysis. Germany faces physical risks from climate change, particularly droughts and floodings, but Morningstar DBRS does not expect this to weigh on the credit ratings in the medium-term. From a credit perspective, environmental policies are generally sound. Similar to other EU countries, Germany has stepped up its GHG emission reduction target for the non-ETS sectors (e.g. transport, buildings, agriculture). It seeks to reduce its GHG emissions from non-ETS-sectors by 50% until 2030 compared with 2005, up from the previous reduction target of 38%. The European Environment Agency estimates that Germany's total GHG emissions from non-ETS sectors declined by just 20.0% between 2005 and 2024. Hence, meeting the legally binding 2030 target will likely require an acceleration in the pace of GHG emission reductions over the next few years.

Social

There were no Social factors that had a significant or relevant effect on the credit analysis. Germany's respect for human rights is high, and access to quality healthcare and other basic services is widespread. Germany's economy is highly productive and competitive. GDP per capita amounted to a high USD 60,439 in 2025. Income inequality is lower than in other advanced economies.

Governance

There were no Governance factors that had a significant or relevant effect on the credit analysis. Germany has independent and transparent institutions. Demonstrating a high degree of transparency and accountability, German institutions perform well in the World Bank's Worldwide Governance Indicators (WGI). Germany's 2024 percentile rank scores of 95.6 for Voice and Accountability and 94.8 for Rule of Law are very strong.



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