Credit Rating Announcement

04 September 2026

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 (Germany) 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. As per Scope's Rating Definitions updated in December 2025, outlooks are not assigned to short-term ratings; hence the Stable Outlooks for Germany's S-1+ short-term ratings have been withdrawn (irrelevant rating category).

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 competitive external sector. These factors support the economy's resilience and provide the government with significant fiscal space to address structural challenges and to respond countercyclically to shocks.

Following wide-ranging constitutional amendments to its debt brake, Germany's federal government has been expanding its borrowing since 2025 to fund infrastructure investment and defence spending. Scope expects the resulting fiscal deficits to average 3.9% of GDP over 2026-2031, raising the debt-to-GDP ratio from 63.5% at YE 2025 to 73.9% by 2031. This would still be below the 81% reached in 2010 in the aftermath of the global financial crisis. However, if the expected growth benefits of higher fiscal spending do not materialise, the debt trajectory would be less favourable than projected. Over the long term, reducing fiscal deficits and stabilising the debt trend would help preserve Germany's fiscal space.

Economic growth was muted since the Covid-19 pandemic, with real GDP remaining near its pre-Covid level by the end of 2025. This also reflects mounting structural challenges, including Germany's exposure to geopolitical and trade risks, given its highly open and interconnected economy, as well as transition risks facing energy-intensive industries. Additionally, an ageing population results in downward pressure on the medium-run growth potential and rising pension and healthcare liabilities.

At the same time, Scope expects robust growth in coming years, supported by the federal government's debt-funded spending increases, as well as by some recovery in private demand.

Moreover, the government has presented a wide-ranging package of reform proposals covering pensions, healthcare and the tax system, supplementing measures implemented since it took office in May 2025. Timely and comprehensive implementation would support the credit profile, highlighting the government's capacity to address some of the country's structural challenges.

For the updated rating report, click here.

Key rating drivers

Wealthy, large and diversified economy supports resilience. Germany's large and diversified industrial base, together with diverse and competitive small and medium-sized companies, or 'Mittelstand', supports its economic resilience.

However, the German economy has faced significant headwinds since 2023. Economic activity grew by a modest 0.3% in 2025, after two years of contraction. Scope expects real GDP growth of 0.8% in 2026, mostly driven by domestic demand, including both public spending and a recovery in private consumption and investment. Net exports are expected to contribute only modestly, although this would represent a marked improvement compared with 2024/25, when net exports weighed on economic activity. The weak performance of net exports reflected broader economic and external headwinds, including rising competitive pressures faced by German exporters in global markets. Looking ahead, domestic demand and investment in construction are thus projected to remain important growth drivers. Over the medium term, however, Germany's ageing population is likely to weigh on medium-term growth potential.

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 safeguarded fiscal space entering 2026.

Germany's federal government is making significant use of the country's fiscal space, following amendments to the federal debt brake, to fund infrastructure investment and defence spending. While this is expected to support stronger GDP growth from this year, Scope estimates that the resulting fiscal deficits, averaging 3.9% of GDP over 2026-2031 after 2.7% of GDP in 2024/25, will raise the debt-to-GDP ratio to around 74% by 2031, from 63.5% at YE 2025. This is still well below the 81% reached in 2010 in the aftermath of the global financial crisis, highlighting the fiscal space built up in previous years.

While Germany's debt-to-GDP ratio remains comparatively lower than that of some large European sovereign peers, it is relatively high compared with other AAA-rated sovereigns. Additional debt-financed public spending will therefore need to raise economic growth over the medium term to safeguard debt sustainability. The government's reform agenda would moderately support the growth outlook, although implementation risks remain. Priorities include reducing high energy costs, lowering administrative burdens, labour-market reforms to raise participation rates, ensuring immigration policies do not undermine Germany's attractiveness for skilled migrants, and reforming tax rules to encourage business investment. Similarly, reforms to address the growth and fiscal impact of Germany's ageing population are also critical to the country's long-term debt trajectory.

Additionally, Scope estimates an increase in net interest expenditure to 1.6% of GDP by 2031, from 0.7% of GDP in 2025, which, while favourable compared to euro area peers, is expected to reduce fiscal space. Germany's yields have recently increased to historically high levels, in line with those of other sovereign borrowers, due to interest-rate and inflation expectations and corresponding global repricing. Due to Germany's benchmark issuer status, financing flexibility remains exceptionally strong.

Highly competitive external sector. Germany's external strength is reflected in the country's large and persistent current account surpluses, averaging 5.3% of GDP in the last five years. Recently, surpluses have moderated owing to rising energy import prices and weaker external demand from key trading partners, including China. The current account balance was 4.4% of GDP in 2025, and the country's net international investment position stood elevated at 84% of GDP as of Q1 2026.

Looking forward, while the current account balance is expected to remain overall robust, some volatility and structural moderation is likely to persist. This reflects structural challenges impacting global demand, such as geopolitical shocks, competition from Chinese producers, and challenging outlooks for certain export sectors due to price competitiveness and trade tensions.

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

First, persistent trade and geopolitical tensions pose challenges to Germany's highly export-oriented economy, given its reliance on integrated global supply chains. Successive shocks, including the spike in energy prices in 2022, higher US tariffs and the war in Iran, have all significantly impacted Germany's economy, especially in sectors such as automotive, pharmaceuticals and machinery. In addition, structural pressures are rising as competition in global export markets intensifies, with Chinese producers gaining market share rapidly.

Thus, Germany's economic recovery remains fragile, with the adverse growth effects of these pressures expected to be partly offset by the announced fiscal loosening. Over the longer term, enhanced competitiveness across traditional and newer sectors, including data-centres and AI, will be important to support Germany's growth performance.

Second, Germany's energy-intensive industries face high transition risks arising from the country's carbon-neutrality targets and comparatively low levels of investment relative to other AAA rated sovereigns. Achieving the 2030 emission-reduction targets would require a marked acceleration in the annual pace of emissions reductions over the coming years. The shift towards a low-carbon economy exposes several industries to transition risk, including Germany's sizeable motor vehicle, chemical and energy sectors. Elevated energy prices 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 are likely to be needed to meet targets. In this context, Scope views the government's investment drive to close this gap positively, with spending focused on transport (rail and motorways) and energy infrastructure. At the same time, some investments are directed only towards maintenance rather than expansion, limiting the positive impact on the country's infrastructure stock.

Finally, Germany's ageing population is expected to contribute to rising pension liabilities and exert downward pressure on the country's medium-run growth potential over the coming years. In 2025, the government adopted several pension measures, such as the guarantee of the replacement rate of 48% until 2031 and the introduction of 'Mütterrente III', which come with moderate additional costs to the federal budget. Additionally, the government eliminated restrictions on taking up part-time work after the age of 67 ('Vorbeschäftigungsverbot'), and introduced the 'Aktivrente', both to increase participation of the elderly.

Finally, the government's announced pension reform would be positive, as measures aim to address demographic pressures on the statutory pension system. Proposals include linking the statutory retirement age to life expectancy, a capital-backed pension entitlement and the extension of the statutory system to additional groups. At the same time, the full benefits from these proposals are likely to materialise only over the longer term, leaving fiscal dynamics broadly unchanged over the projection horizon.

The timely and comprehensive implementation of the proposals would demonstrate the government's capacity to address key structural challenges. Conversely, significant delays or material dilution of the proposals would pose risks to the successful implementation of the reform agenda.

An ageing population is also the main driver for Germany's declining medium-term growth potential. Scope currently estimates Germany's growth potential at around 0.8%, the lowest among AAA-rated sovereign peers. A large cohort of currently employed workers is expected to retire in the next 15 years, placing significant downward pressure on labour supply. Offsetting this decline would require a sustained increase in the average annual net immigration and/or a material rise in productivity. Policies to increase labour force participation and productivity, combined with substantial investments in the country's capital stock, can help mitigate the decline in growth potential.

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 rating and Outlooks are (individually or collectively):

1. A significant fiscal deterioration, resulting in a material and sustained worsening of debt sustainability 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 provides a first indicative credit rating of 'aa+' for Germany. 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 20% weighting under both the quantitative model (SQM) and the qualitative methodological overlay (QS).

With respect to environmental factors, Germany receives high SQM scores for low natural disaster risk. However, compared with peers, the country receives lower scores for carbon emissions per unit of GDP and greenhouse gas emissions per capita. Scope assesses Germany's QS adjustment for 'environmental factors' as 'weak'. Despite having achieved material progress in developing renewable energy production capacities, Germany remains somewhat reliant on fossil fuels. 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 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 at around 80%.

Germany benefits from high-quality institutions but faces rising political fragmentation, which raises the risk of lengthy and incomplete reform delivery. 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) have committed to a structural reform agenda to tackle Germany's long-standing issues, not least growing costs to fund its pay-as-you-go pension system. A key risk is that government reform proposals get watered down or face overly lengthy implementation.

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, 16 March 2026), is available on scoperatings.com/governance-and-policies/rating-governance/methodologies.
The model used for these Credit Ratings and Outlooks is (Sovereign Quantitative Model (ex CVS Model) version 5.0), 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

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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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