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

Industry Group: Public Finance – Sovereigns

Region: Europe

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

KEY RATING CONSIDERATIONS

The Stable trend reflects DBRS Morningstar's view that Germany's credit fundamentals remain solid, despite the economic shocks from the COVID-19 pandemic and, more recently, Russia's invasion of Ukraine. While COVID-19 related fiscal measures are set to be gradually removed in 2022 and 2023, the invasion has raised spending pressures particularly with regard to energy and defence. Moreover, a potential prolonged cut-off in Russian gas supplies constitutes an important downside risk for public finances as it would most likely aggravate energy-related spending pressures. These risks, however, are balanced by Germany's substantial fiscal space for absorbing a temporary increase in budgetary pressures. This applies particularly to government spending that aims at strengthening the resilience of the economy. Fiscal space has been bolstered by recurring budgetary surpluses in the years prior to the Covid-19 shock. Furthermore, the government's interest burden is very low and government financing conditions continue to be very favourable due to Germany's status as a safe haven.

Germany's AAA ratings are supported by its competitive and highly developed economy, its sound public finances, high institutional quality and strong external finances. However, the country faces important challenges stemming from unfavourable demographic trends and contingent liabilities. The projected decline in the working-age population poses challenges to Germany's growth potential and the long-term sustainability of its public finances. Furthermore, contingent liabilities, emanating from state guarantees for domestic companies and fiscal burden sharing within the currency union could eventually weigh on public finances. DBRS Morningstar will continue to monitor potential financial risks from elevated housing prices in tandem with accelerated mortgage loan growth. Currently, we view these risks to be adequately mitigated by the sound financial condition of the domestic banking sector and still low levels of household debt.

RATING DRIVERS

Germany is strongly placed within the AAA category. DBRS Morningstar could downgrade the ratings if the country's growth and fiscal prospects deteriorate severely enough to place the public debt-to-GDP ratio on a persistent upward trajectory. Moreover, a materialisation of substantial contingent liabilities could put negative pressure on the ratings.

RATING RATIONALE

Economic Recovery From COVID-19 Shock Dampened By the Impact of Russia's Invasion of Ukraine

The German economy has so far recovered from the COVID-19 shock at a slower pace than most other EU economies and its near term economic outlook has deteriorated. Following a contraction of 4.6% in 2020, real GDP rebounded by only 2.9% in 2021 compared to an aggregate growth rate of 5.3% in the EU (2020: -5.9%). This comparatively slow rebound in Germany resulted from subdued private consumption on the back of stringent COVID-19 containment measures as well as supply-side bottlenecks which weighed down production in important industries, particularly automotive. While, by the end of last year, most observers had been predicting a marked acceleration of growth dynamics in 2022 due to the fading impact of the pandemic, Germany's economic outlook has deteriorated markedly over the past few months following Russia's invasion of Ukraine. During Q1 2022, real GDP grew by a mere 0.2% on a quarter-on-quarter basis. The weak growth dynamics in recent months can be ascribed to renewed supply chain disruptions particularly in construction and automotive industries. Furthermore, the invasion and the accompanying increase in energy prices have aggravated inflationary pressures which, in turn, contributed to a marked deterioration of business and consumer confidence. The annual inflation rate (HICP) rose to 7.8% in April 2022 driven by a spike in energy prices (+ 34.5%). In late March 2022, the German Council of Economic Experts cut its annual real GDP growth forecast for 2022 to just 1.8% from a 4.6% previously published in November 2021.

Germany's short-term economic growth outlook is clouded by significant downside risks. In particular, Russia's invasion of Ukraine has raised Germany's energy security risks given the still high dependence of the economy on Russian gas imports. A prolonged cut-off in Russian gas supplies would most likely curtail production in several energy-intensive manufacturing industries. However, DBRS Morningstar notes that the government has taken steps in recent months, including securing of alternative gas supplies and renting of floating LNG terminals, which should gradually reduce the economy's energy security risks over the next two years. Furthermore, a further weakening of global demand (particularly from the US and China) would weigh on economic activity in export-dependent manufacturing industries. Despite the risks, DBRS Morningstar expects growth to be supported by a gradual recovery of private consumption. The easing of COVID-containment measures is projected to foster private consumption, particularly of services, over the next two years, provided that no vaccine-resistant virus variants emerge. Furthermore, DBRS Morningstar expects domestic demand to be supported by higher (off-budget) public spending particularly on climate measures and a hike in the minimum wage in October 2022 in tandem with still tight labour markets. While DBRS Morningstar considers Germany's unfavourable demographic trends and potential scarring effects from high-for-longer energy prices on energy-intensive industries as important risk factors, Germany's credit profile continues to be supported by the competitive and highly developed nature of the economy and its high level of labour productivity.

Fiscal Space Sufficient to Absorb Temporary Increase in Budgetary Pressures

Public finances have been adversely impacted by COVID-19 and, more recently, Russia's invasion of Ukraine. In DBRS Morningstar's view, however, Germany has ample fiscal space to absorb a temporary increase in budgetary pressures. Germany's fiscal space has been bolstered by recurring budgetary surpluses in the years prior to the COVID-19 shock. Furthermore, government financing conditions continue to be very favourable due to Germany's status as a safe haven.

The general government budget deficit amounted to a high 3.7% of GDP in 2021, reflecting still large COVID-19 support measures (3.2% of GDP). While the latter measures are set to decline in 2022, Russia's invasion of Ukraine has raised budgetary pressures particularly on the spending side (energy and defence). As a result, the government currently expects the general government budget deficit to remain somewhat elevated at 3.7% of GDP in 2022. In spring 2022, the government adopted two relief packages totalling 0.7% of GDP which seek to shield households and businesses from the impact of higher energy prices. In addition, reducing the dependence on Russian gas supplies necessitates large investments in the build-up of a LNG infrastructure which have so far been partially borne by the government (e.g. renting of floating LNG terminals). In terms of defence spending, the government has proposed to set up a special fund ("Sondervermögen Bundeswehr") in March 2022. This special fund is planned to be exempt from the stipulations of the debt brake and projected to complement central government on-budget defence spending by an annual 0.5% of GDP during 2022-2026.

The government's current mid-term budgetary framework envisages a narrowing of the general government budget deficit to 2.0% of GDP in 2023 and 1.7% in 2024 (including operations of special funds). Narrowing the deficit is aided by an upswing in nominal tax revenues on the back of rising prices. Furthermore, mid-term budgetary figures are based on the assumption that energy-related spending pressures will subside markedly after 2022. In view of the latter, however, DBRS Morningstar notes that a potential prolonged cut-off in Russian gas supplies constitutes an import downside scenario for public finances as it would likely raise energy-related budgetary pressures beyond 2022. In terms of the national fiscal rule, the central government plans to return to the stipulations of the debt brake from 2023 onwards which limits the central government budget deficit at 0.35% of GDP. However, this presentation of very modest central government budget deficits from next year onwards masks a moderate increase in spending by the Climate and Transition Fund and the proposed special fund for defence spending as both funds are not included in central government accounts (according to debt brake stipulations). DBRS Morningstar understands that the combined off-budget annual expenditures of both funds will average around 1.5% of GDP during 2023-2026.

Government debt increased due to the COVID-19 shock. General government gross debt amounted to 69.3% of GDP at end 2021, up from 58.9% at end 2019. Looking ahead, the government's recently released stability programme projects a gradual decline in general government debt to 66.7% of GDP at end 2022 and to 65.0% at end 2025. The projected decline in 2022 partly results from the fact that the government has prefunded some funding needs for the ongoing fiscal year during 2021. Potential risks for public finances emanate from contingent liabilities (e.g. state guarantees for companies affected by COVID). The total stock of public guarantees stood at 17.5% of GDP at end 2020. Despite the increase in budgetary pressures over the past few years, Germany still benefits from very favourable financing conditions. The government's stability programme expects annual interest expenditures to amount to a very low 0.5% of GDP over the forecast horizon. In addition, government financing benefits from the government's role as a benchmark issuer for the euro area. The increase in nominal yields on German government bonds in recent months has been less pronounced than for other euro area governments. Germany's safe-haven status has a positive impact on the "Debt and Liquidity" building block assessment.

Risks from Elevated Housing Prices Mitigated by Sound Condition of Banks And Still Low Household Debt

DBRS Morningstar regards the overall financial condition of the German banking sector as sound. While the banking sector continues to be hampered by structural problems such as a low profitability, capitalization buffers have increased in recent years with the average capital adequacy ratio standing at a good 18.8% at end 2021. Furthermore, banks have so far weathered the COVID-19 shock

well. Despite a large real GDP contraction in 2020, the NPL ratio of German banks (supervised by the EBA) declined to a low 1.1% at end 2021 from 1.3% at end 2019. This favourable dynamic in asset quality metrics can partly be ascribed to extensive government support measures for COVID-hit industries which have kept the number of insolvencies low even after the lifting of the insolvency moratorium in May 2021.

Going forward, DBRS Morningstar views a potential correction of housing prices in tandem with rising interest rates as a risk factor for banks' asset quality. Housing loans accounted for 53% of total domestic bank loans in March 2022, around 82% of which are secured by residential real estate. Housing prices (particularly residential real estate) have risen markedly over the past years, clearly exceeding the increases in rents and incomes. According to the OECD, the price-to-rent and the price-to-income ratios for residential mortgages in Germany rose by a comparatively large 45% and 35%, respectively between December 2015 and December 2021. In its latest financial stability review, the Bundesbank estimated the overvaluation in the residential real estate market at 10-30% in 2020. In DBRS Morningstar's view, risks from elevated housing prices are currently mitigated by the comparatively low, albeit rising, level of household debt (58% of GDP in Q3 2021) and long interest rate fixation periods of most mortgages. Furthermore, we expect future mortgage loan growth to be dampened by the gradual introduction of selected macroprudential measures until February 2023. These measures include an increase in banks' countercyclical capital buffer and the introduction of a sectoral systemic risk buffer for loans secured by residential real estate.

External Finances Robust to Potential Global Trade and Financial Shocks

Germany's external finances are strong and robust to potential shocks. The economy commands over a structural current account surplus which is likely to mitigate the potential impact of a global trade shock on external finances. In 2022, the German Council of Economic Experts forecasts the current account surplus to shrink to a still large 4.7% of GDP from 7.4% in 2021 as weakening global demand and supply side bottlenecks are expected to weigh on exports. In addition, the economy's import demand is projected to be raised by a partial rebound of private consumption in Germany. Furthermore, DBRS Morningstar assesses the economy's vulnerability to a potential global financial shock as low due to its status as a safe haven and its large net external asset position. At end 2021, Germany's net international investment position amounted to a large 68.4% of GDP due to high foreign assets held particularly by non-depository financial institutions and, to a lesser extent, the central bank. This strong net external creditor position supports the "Balance of Payments" building block assessment.

Germany's Rating Is Underpinned by High Institutional Quality

Germany's high institutional quality is a key strength of its credit profile. Germany is a strong performer on the World Bank's Governance Indicators as it is characterized by a high rule of law, low levels of corruption and stable political and economic institutions. Moreover, political polarization is less pronounced than in some other advanced economies. The federal election in September 2021 has led to the formation of a 'traffic-light' government coalition which comprises centre-left and centre-right parties (Social Democrats, Green Party, Free Democrats). The new coalition government aims to accelerate the green and the digital transitions of the economy by raising public investment moderately and streamlining regulatory frameworks. Despite this change of direction in certain policy areas, DBRS Morningstar assesses overall policy continuity as high particularly with regard to fiscal and foreign affairs.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

There were no Environmental/ Social/ Governance factor(s) that had a significant or relevant effect on the credit analysis

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>.

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 EUR 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 (9 July 2021)

<https://www.dbrsmorningstar.com/research/381451/global-methodology-for-rating-sovereign-governments>.

Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (17 May 2022) <https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>.

The sources of information used for this rating include Germany's Federal Ministry of Finance (German Stability Programme 2022), German Finance Agency (Deutsche Finanzagentur), Deutsche Bundesbank (Monthly Report May 2022, Financial Stability Review 2021), Federal Ministry for Economic Affairs and Climate Action, Federal Statistical Office, Federal Financial Supervisory Authority (BaFin), European Banking Authority, German Council of Economic Experts (Updated Economic Outlook 2022 and 2023), IFO Institute, European Commission (2022 Spring Forecasts), Statistical Office of the European Communities, European Central Bank (ECB), IMF (World Economic Outlook April 2022), IMF (International Financial Statistics), OECD (Housing Prices), BulwienGesa AG (Housing Price Index), Germany Climate Action Plan, Climate Action Tracker, Social Progress Index, World Economic Forum Global Competitiveness Index, World Bank, BIS, Our World In Data, Haver Analytics. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

With respect to FCA and ESMA regulations in the United Kingdom and European Union, respectively, this is an unsolicited credit rating. This credit rating was 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: NO

DBRS Morningstar does not audit the information it receives in connection with the 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. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/397942>.

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

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For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Issuer	Debt Rated	Rating Action	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

Fiscal Management and Policy	2016	2017	2018	2019	2020	2021	2022	2023	2024			
Overall Fiscal Balance (% of GDP)	1.2%	1.3%	1.9%	1.5%	-4.3%	-3.7%	-3.3%	-0.7%	-0.1%	IMF WEO	13 year average	-0.4%
Government Effectiveness (Percentile Rank)	93.8	93.8	92.3	92.8	88.9	-	-	-	-	World Bank	5 year average	92.3
Debt and Liquidity	2016	2017	2018	2019	2020	2021	2022	2023	2024			
General Government Gross Debt (% of GDP)	69.0%	64.7%	61.3%	58.9%	68.7%	70.2%	70.9%	67.7%	65.5%	IMF WEO	5 year projection	60.9%
Interest Costs (% of GDP)	0.9%	0.8%	0.7%	0.6%	0.4%	0.4%	0.4%	0.4%	0.4%	IMF WEO	5 year average	0.4%
Economic Structure and Performance	2016	2017	2018	2019	2020	2021	2022	2023	2024			
GDP per Capita (USD thousands)	42.1	44.6	48.0	46.8	46.2	50.8	51.1	54.8	57.4	IMF WEO	10 year average	45.8
Output Volatility (%)	2.0%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.3%	2.3%	IMF WEO	Latest	2.4%
Economic Size (USD billions)	3,469	3,690	3,979	3,889	3,843	4,226	4,257	4,565	4,787	IMF WEO	5 year average	3,925
Monetary Policy and Financial Stability	2016	2017	2018	2019	2020	2021	2022	2023	2024			
Rate of Inflation (% EOP)	1.7%	1.6%	1.7%	1.5%	-0.7%	5.7%	4.7%	2.5%	1.8%	IMF WEO	13 year average	1.9%
Total Domestic Savings (% of GDP)	202%	205%	203%	211%	235%	239%	-	-	-	ECB/IMF	Latest ¹	239%
Change in Domestic Credit (% of GDP)	-0.3%	0.4%	2.3%	1.9%	9.5%	0.2%	-	-	-	BIS/IMF	7 year average ¹	1.9%
Net Non-Performing Loans (% of Capital)	14.7%	11.9%	9.1%	6.8%	6.2%	-	-	-	-	IMF IFS	Latest ¹	6.2%
Change in Property Price/GDP Index (%)	3.1%	3.9%	3.8%	2.5%	8.5%	-0.3%	-	-	-	Bulwien/IMF	7 year average ¹	3.3%
Balance of Payments	2016	2017	2018	2019	2020	2021	2022	2023	2024			
Current Account Balance (% of GDP)	8.5%	7.8%	7.9%	7.6%	7.1%	7.4%	5.9%	6.9%	7.2%	IMF WEO	8 year average	7.2%
International Investment Position (% of GDP)	39.2%	44.2%	54.8%	60.3%	63.4%	68.4%	-	-	-	IMF	5 year average ¹	58.2%
Share of Global Foreign Exchange Turnover (Ratio)	195.0%	200.8%	199.2%	206.5%	208.2%	212.1%	-	-	-	BIS/IMF	Latest	212.1%
Exchange Rate Classification (see footnote)	5	5	5	5	5	5	-	-	-	IMF	Latest	5
Political Environment	2016	2017	2018	2019	2020	2021	2022	2023	2024			
Voice and Accountability (Percentile Rank)	95.1	95.6	94.7	95.7	94.2	-	-	-	-	World Bank	5 year average	95.0
Rule of Law (Percentile Rank)	91.8	91.3	91.3	92.3	91.3	-	-	-	-	World Bank	5 year average	91.6

See DBRS Morningstar's Global Methodology for Rating Sovereign Governments for additional details on the methodology behind the scorecard indicators and associated scoring thresholds. 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 2021 have been computed using the most recent data when year-end data is not available.

Rating Committee Date:

31-May-2022

Germany

Building Block Assessments and Rating Committee Summary



31-May-2022

Building Blocks	Scorecard Result	Quantitative Assessment	Net Impact of Qualitative Factors	Building Block Assessment
Fiscal Management and Policy	19.55	Very Strong	N/A	Very Strong
Debt and Liquidity	15.26	Strong/Good	+ 1 Category	Strong
Economic Structure and Performance	18.17	Strong	N/A	Strong
Monetary Policy and Financial Stability	17.37	Strong	N/A	Strong
Balance of Payments	16.27	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
	88.8	AAA - AA (high)	92.2	AAA - AA (high)

Germany's Long-Term Foreign Currency - Issuer Rating

AAA

Main topics discussed in the Rating Committee include: the economic growth outlook, the budgetary outlook and government financing, energy security risks and the government's countermeasures, and macro-prudential risks. For additional details on DBRS Morningstar analysis and opinions, please see the accompanying rating report.

DBRS Morningstar 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
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
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
	Will recent regulatory changes have an impact on economic resilience or public finances?	N	N
	Carbon and GHG Costs:	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
	Is the economy reliant on industries that are vulnerable to import or export price shocks?	N	N
	Resource and Energy Management:	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
Climate and Weather Risks	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
Social		Overall:	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
	Are labour or social conflicts a key source of economic volatility?	N	N
	Are individual and human rights insufficiently respected or failing to meet the population's expectations?	N	N
	Is the government exposed to heavy, coordinated international pressure as a result of its respect for fundamental human rights?	N	N
	Human Capital and Human Rights:	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
Governance		Overall:	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
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
	Are regulatory and oversight bodies insufficiently protected from inappropriate political influence?	N	N
	Are government officials insufficiently exposed to public scrutiny or held to insufficiently high ethical standards of conduct?	N	N
	Institutional Strength, Governance, and Transparency:	N	N
Peace and Security	Is the government likely to initiate or respond to hostilities with neighboring governments?	N	N
	Is the government's authority over certain regions contested by domestic or foreign militias?	N	N
	Is the risk of terrorism or violence sufficient to deter investment or to create contingent liabilities for the government?	N	N
	Peace and Security:	N	N
Consolidated ESG Criteria Output:		N	N

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

A **Significant Effect** means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

Germany, Federal Republic of: ESG Considerations

June 3, 2022

Environmental

This factor does not affect the ratings assigned to Germany. From a credit perspective, policies relating to each subfactor are generally sound, and the fiscal cost of new investments is managed effectively within the context of Germany's budgetary framework. In June 2021, the German parliament passed a new climate law which has made climate goals more ambitious. Compared to 1990 levels of greenhouse gas emissions, Germany now targets a 65% reduction by 2030, 85-90% by 2040, and net zero emissions by 2045. Previously, the goals were a 55% reduction of emissions by 2030 and to reach climate neutrality by 2050. Those previous targets were deemed "Highly Insufficient" by the Climate Action Tracker. DBRS Morningstar will continue to assess the credit impact of new regulatory and policy measures.

Social

This factor does not affect the ratings. Germany's respect for human rights is high, and access to quality healthcare and other basic services is widespread. Germany ranks 10 among the 168 countries assessed in the 2021 Social Progress Index. Germany's economy is highly productive and competitive, ranking seventh out of 141 countries in the World Economic Forum's 2019 Global Competitiveness Index. Low income inequality compared to most advanced economies, according to the OECD, reduces economically disruptive labour or social conflicts.

Governance

This factor does not affect the ratings assigned. 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 2020 percentile rank scores of 94.2 for Voice and Accountability and 91.3 for Rule of Law are very strong.