S&P Global Ratings

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Research Update:

Germany 'AAA/A-1+' Ratings Affirmed; Outlook Stable

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Overview

- Germany's economy is heading for a recession over the next few months, with real GDP expected to contract by 0.3% through 2023 and risks including weakening growth in Germany's largest export markets (the EU, the U.S., and China) and energy rationing.
- This forecast reflects our expectation that the country will avoid gas rationing during the upcoming winter months, as rising energy prices will curb demand sufficiently to meet the official target to lower gas consumption by 15%.
- In our view, Germany's wealthy and diversified economy, its substantial net external creditor position, and the moderate public deficits and debt burden continue to provide sufficient rating buffers.
- We therefore affirmed our 'AAA/A-1+' unsolicited ratings on Germany. The outlook is stable.

Rating Action

On Sept. 23, 2022, S&P Global Ratings affirmed its unsolicited 'AAA/A-1+' long- and short-term foreign and local currency sovereign credit ratings on Germany. The outlook is stable.

Outlook

The stable outlook reflects that Germany's external and fiscal buffers, resilient economy, and institutional effectiveness will allow the country to absorb the indirect impact of the Russia-Ukraine conflict, including the shock to energy prices, thereby preventing Germany's creditworthiness from deteriorating over the next two years. We also believe that the country's membership in the EU provides additional buffers to its export-driven economy. These include recent EU mechanisms to better immunize Europe's energy union against external price shocks.

Downside scenario

We could lower our ratings in case of much deeper and protracted economic scarring in Germany, most likely due to a permanent effect of the current energy crisis. This would likely coincide with Germany's fiscal position worsening materially beyond our projections, with low prospects for improvement, and debt or contingent liabilities increasing significantly, or other adverse and unexpected developments, such as the deterioration of the European Central Bank's (ECB's) monetary flexibility.

Rationale

In our view, Germany's economy is heading for a recession over the next months via flagging consumption on high levels of inflation, driven by steeply rising energy prices. We have lowered our forecast for 2022 real growth to 1.5% (from 4.3% at the beginning of the year) and expect a contraction of 0.3% in 2023. These forecasts incorporate our view that Germany will avoid gas rationing during the winter because existing reserve storage and reduced demand will be sufficient to navigate through the consumption-heavy winter months. We estimate that as of July 2022, gas consumption among larger customers was already down by about 15% compared with the averages before the Russia-Ukraine conflict. Any form of government-mandated rationing would result in a significant downward revision to our forecast for GDP growth and upward revision to our inflation forecast.

We expect Germany's fiscal balances will remain in deficit by 1.0%-1.5% annually until 2025, mostly due to the announced military spending increase of about €100 billion and rising energy investments to combat climate change and buoy the country's energy independence. Still, we expect public debt will decrease as a share of GDP until 2025, due to high nominal growth. Similarly, Germany's external balances have deteriorated on a terms-of-trade shock. However, we expect the current account will remain in surplus and partially recover over the next few years, further bolstering its net external creditor position, one of the strongest globally.

We view Germany's economy as competitive and resilient, and its institutions and policy-making as effective and stable, which continue to support the ratings. Further rating strengths include the country's substantial net external creditor position, its eurozone membership, the ECB's credible and flexible monetary policy, and moderate public debt levels in an international comparison.

Institutional and economic profile: Germany is heading into recession over the next few quarters and further risks include, specifically, energy rationing

- We have revised down our forecasts for real GDP growth in 2022 and 2023, to positive 1.5% and negative 0.3%, respectively.
- For now, we believe gas rationing will be avoided this winter, given lower demand, particularly from industry, and ample reserves of nearly 90% of total storage capacity.
- The government has introduced targeted support measures for companies and consumers, but although they stabilize energy markets and protect the most vulnerable social groups, they are insufficient to avert recession.

The Russia-Ukraine conflict and weakening Chinese demand are weighing on Germany's open and export-oriented economy. We believe the country's economy is headed toward recession over the next few months, mainly triggered by a shock to consumption, due to lower disposable private income, which in turn owes to surging inflation driven by energy prices. In our forecast, we do not factor in a much more comprehensive policy response targeted at consumers, which we believe would occur only if the situation deteriorated further. Importantly, we believe there will be no rationing of gas over the winter months. Existing storage volumes are at close to 90% of maximum capacity and equivalent to over two months of October 2021-March 2022 average monthly consumption. And gas demand by corporates has already declined markedly. However, while German industries have reduced demand for gas by about 20% year on year in recent months, it is still uncertain how much private households will be able to reduce their consumption. We expect a much sharper fall in GDP and stronger rise in headline inflation should the government be forced to invoke any form of gas rationing over the rest of this year and into 2023. Importantly, we believe the impact on Germany's labor market will be moderate and the unemployment rate will rise only marginally over the next few months, also due to the inflow of foreign workers into Germany's labor market.

As elsewhere in Europe, the main risk to our forecast relates to energy prices and the availability of sufficient energy supply. Germany's energy dependence on Russia before the conflict in Ukraine used to be substantial, with Russia supplying two-thirds of Germany's natural gas, about half of its coal, and over one-third of the oil consumed domestically. Russia's multiple decisions to reduce or stop gas flows through the Nord Stream I pipeline have made predictions on future flows very uncertain and has increased volatility in Europe's energy market. Currently, gas deliveries from Russia to Germany have almost completely stopped and we do not expect they will be reinstated in a substantial amount in the near future. However, despite the previously high significance of Russian gas in Germany's energy mix, we believe that Germany can avoid gas rationing this winter for several reasons. First, the country's ample gas storage facilities are almost 90% filled, implying a significant gas reserve. Second, the demand reduction has been significant in recent months, with Germany's industrial sector saving about 20% of gas compared with the previous year. For example, natural gas produced 15%-20% of the country's electricity in previous years but the figure has decreased to about 5% in recent months. However, it is still uncertain as to how much households will be able to curb demand during the consumption-heavy winter months. In our view, the imminent price increases will be enough to incentivize households to save gas particularly during the winter months. Third, Germany has ramped up gas deliveries from alternative sources since Russia cut supplies, replacing some of the missing deliveries. This includes gas supply from other nations, such as Norway and Algeria, but will also include liquefied natural gas (LNG) supply over the next several years, most importantly from the U.S. and Qatar. In addition, Germany has ramped up investments into LNG terminals and alternative energy production. If most of these investments proceed as planned and savings measures are partially sustained, we believe that a further decoupling of Germany's economy from Russian energy imports is possible as early as next year, which would largely avoid a similar situation in the second half of 2023.

On the upside, we believe things are improving within Germany's export-oriented and diversified industrial sector, which will underpin solid export growth next year. The industrial sector represents about 25% of Germany's economy, a distinguishing factor compared with most G-20 peers. Supply-chain bottlenecks have previously vexed key business sectors, particularly the highly competitive automotive sector, which partially explains the lackluster economic recovery in 2021, but the supply chain issues are easing. At the same time, we expect the Chinese economy to grow more strongly next year after a slowdown in 2022 on the back of lockdown measures to contain the domestic spread of COVID-19. China is the second-most important single destination for German exports after the U.S., with exports particularly focused on high- to medium-technology sectors (see "Economic Research: The Underbelly Of Germany's Export Prowess," published Sept. 7, 2022, on RatingsDirect). Finally, the weakening of the euro, which we expect will lose 7%-8% in value against the U.S. dollar during 2022, will boost German exports.

Despite the slightly improved near-term prospects, we expect Germany's most prominent exports--vehicles and vehicle parts--will continue to face challenges that could ultimately transform the economy. There are structural and regulatory hurdles, particularly due to tightening emissions standards and technological changes, as well as trade policy uncertainties. The convergence of several issues underpins the need for careful management of risks to the country's competitiveness as a manufacturing hub in Europe. Car production constitutes almost 4% of Germany's gross value added, and cars and vehicle parts account for almost 20% of exports. Technological changes will likely lead to reduced employment along the highly specialized value and supply chain. Further structural hurdles include, for example, an aging workforce, high corporate taxes, and generally high energy prices.

The political response of the new government--a coalition between the Social Democrats, the Greens, and the Liberal Party--to the conflict in Ukraine and the energy crisis has been swift, but very targeted so far. In addition to imposing sanctions, the government has announced a significant military spending increase of €100 billion, equivalent to almost 3% of 2021 GDP. We expect this will take several years to fully implement. At the same time, we expect Germany will hasten plans to increase its energy independence and foster renewable energy production, partially by repurposing unused COVID-19 support funds. Furthermore, the German government established several support packages targeted at consumers and corporates, which were significantly affected by energy market developments. These support measures have been rather targeted and less broad than in other countries. It will be difficult to balance the fiscal costs of the energy crisis against the requirements of constitutionally enshrined debt-brake rules, which require tight budgetary balances. For now, our forecast considers only limited additional public investment spending, which could lift growth rates in the event of increased spending by the German government or additional investment programs at the EU level. We note that, before the pandemic, general government net investment was negative for several years.

Flexibility and performance profile: We expect the impact on fiscal and external balances will be moderate, despite the challenging economic outlook

- The new government's policy priorities will increase public deficits to 1.0%-1.5% on average over the next two-to0three years, although public debt as a share of GDP will continue to decrease.
- Germany's external accounts will continue to show surpluses, despite a significant terms-of-trade shock.
- In our view, the ECB will continue to tighten monetary policy over the next several months in an effort to rein in inflation.

We have revised our expectations about Germany's general government deficit to about 3.2% of GDP, following the suspension of the debt brake rule for 2022 and announcement of targeted support measures against current energy prices. Still, this will be slightly narrower than in 2020 and 2021, when deficits stood at 4.2% and 3.7% of GDP. This reflected the impact of automatic stabilizers, as well as the government's support programs and fiscal stimulus during the pandemic. Some of the planned expenditure in 2020 and 2021 that did not materialize will be carried over to the coming few years, supporting the government's energy-related investment plans. Combined with the announced €100 billion of additional military spending, this will result in slight deficits of 1.0%-1.5% of GDP on average over the next few years.

In general, we believe the medium-term path of Germany's finances has become more uncertain. The country posted general government surpluses in 2012-2019, but a return to these seems unlikely for now, not least because of the new government's policy priorities. This further underpins our assumption that deficits, albeit modest, will prevail, also due to pressure from spending on health care, older people, and retirement benefits. In addition to investments on infrastructure to reduce carbon dioxide emissions, we think fostering digitalization will require large outlays. Further fiscal stress could stem from demographics, and we expect further reforms of the pension system over the next few years. We understand this is a policy priority for the government, also to ensure the long-term sustainability of public finances. This holds true for the health insurance system, as well, and for increasing expenditure in care insurance.

At the same time, the debt-brake rule will remain the subject of political discussion. The emergency clause to suspend the debt brake rule (Art. 115 of the constitution) was invoked for 2020-2022, given the pandemic-related circumstances. The rule limits structural--namely nonbusiness cycle-dependent--net new borrowing to 0.35% of GDP. In our projections, we explicitly assume the reinstatement of the debt-brake rule from 2023. However, certain funds can be excluded from this calculation. European fiscal rules also allow for a temporary departure from EU member states' medium-term fiscal objectives in the event of unusual events outside their control.

We estimate that the surge in borrowing in 2020 and 2021 to finance economic support packages propelled gross debt to about 68% of GDP and net debt to about 61% in 2021. Although we have increased our projections for public deficits over the next few years, we still believe net debt will continuously decrease, thanks to rising nominal GDP, to about 55% of GDP in 2025. The government retains significant cash buffers accumulated during the pandemic, and we expect these will cover a large share of future deficits, reducing gross debt to below 59% of GDP by 2025. In our calculations of government debt, we exclude liabilities from the various multilateral financial support mechanisms, namely the European Financial Stability Facility (EFSF) and European Stability Mechanism in the eurozone (see "S&P Clarifies Its Approach To Accounting For EFSF Liabilities When Rating The Sovereign Guarantors," published Nov. 2, 2011). These liabilities amounted to about €55.7 billion (1.6% of GDP) in 2021. Germany is a major beneficiary of the ECB's quantitative easing, also due to the country's safe-haven status. Despite rising global interest rates, the country's interest bill will remain exceptionally low in a global comparison. We believe interest costs will average below 2% of general government revenue throughout our forecast through 2025, versus 5.6% in 2011.

As elsewhere, inflation in Germany has increased sharply this year and was estimated at 8.8% in August (Harmonized Index of Consumer Prices), the highest since reunification and well above the ECB's target range of about 2%. Price increases initially occurred in the wake of the recovery from the pandemic, through released pent-up demand, supply chain bottlenecks, and rising food prices. However, energy prices have become the primary driver of headline inflation in recent months. They are now over 35% higher than a year ago. Food prices have risen about 14% year on year. Energy prices will continue to increase further for consumers over the next several months, which is why we have raised our full-year inflation expectation to over 8.4% for this year and 7.0% for 2023. Furthermore, we believe these higher energy prices will have spillover effects on production costs through the next several years. This, coupled with a strong labor market, will likely keep inflation at slightly above 2% until early 2025. Under more negative scenarios, energy prices could surge beyond our expectations and add to a semipermanent increase in inflation expectations. This would exacerbate wage pressures and potentially erode Germany's competitiveness.

In such circumstances, which would likely parallel similar developments in other eurozone countries, the ECB would have to accelerate its monetary tightening. Its has raised its main policy rate by a cumulative 1.25% this year, to 0.75%, and we expect further rate hikes over the coming months. In our view, Germany's eurozone membership reduces its monetary flexibility. However, the country has benefited from the euro and the ECB's asset-purchase programs in recent years, namely the public-sector purchase program and the pandemic emergency purchasing program.

The terms-of-trade shock has significantly reduced Germany's current account surpluses due to a contracting trade balance. However, we believe current account surpluses will remain sizable, also benefitting from strong annual investment incomes from assets held abroad. We project that the current account surplus will contract to a low of 4.3% of GDP in 2022, before increasing to about 5.3% by 2025, contributing to a net asset position of 125% of current account receipts (CARs). This will nevertheless still be lower than the 8.1% average current account surplus from 2015-2019. Germany's large current account position reflects the country's export competitiveness combined with demand from trading partners, particularly in emerging markets. It also reflects Germany's lower investment rate than the eurozone average, tighter fiscal stance than trading partners, and one of the highest household savings rates in the euro area, reflecting the country's aging population and other structural and cultural factors. Consequently, we forecast that gross external financing needs will decline to about 202% of CARs and usable reserves by 2025, from 2018% in 2021. In that period, we project narrow net external debt will decline to 69% of CARs from 85% in 2020. The size of external assets also reflects movements in Germany's high Target 2 claims on the Eurosystem, which have exceeded €1 trillion since July 2020 and currently stand at above €1.2 trillion.

Economic risks for the German banking sector are increasing from a prolonged Russian energy stop, as well as from secondary effects of the Russia-Ukraine conflict and continued disruptions in the global supply chain due to Germany's large industrial sector. However, under our economic base-case scenario, we expect that the risks for banks will remain manageable due to likely substantial fiscal stimulus and wide-ranging support to affected corporates and households. As was seen during the pandemic, we believe the German economy's demonstrated ability and capacity to absorb large economic and financial shocks should help to curb the impact on domestic banks' cost of risk and asset quality.

The ECB's recent interest rate hikes to curb persistently high inflation will support German banks' net interest margins and profits. However, a significant portion of the additional interest income could be absorbed by higher costs due to high inflation and anticipated pressure on fee income and cost of risk. We think low cost efficiency and lagging digitalization remain key problems for the banking sector. We expect competition will remain high as Germany remains an attractive funding market for domestic and international banks alike.

We expect Germany's retail banking market will remain dominated by well-funded and strongly capitalized savings and cooperative groups that occupy about 50% of the market. Large private banks typically carry riskier concentrations and business risk, but have made some headway in shoring up their balance sheets due to substantial deleveraging, de-risking, and recapitalization.

Key Statistics

Table 1

Germany--Selected Indicators

Mil. €	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Economic indicators (%)										
Nominal GDP (bil. €)	3,135	3,267	3,365	3,473	3,405	3,602	3,895	4,134	4,308	4,452
Nominal GDP (bil. $)	3,470	3,691	3,975	3,888	3,890	4,260	4,075	4,126	4,618	4,921

Table 1

Germany--Selected Indicators (cont.)

Mil. €	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
GDP per capita (000s $)	42.2	44.7	48.0	46.8	46.8	51.2	48.5	49.0	54.8	58.2
Real GDP growth	2.2	2.7	1.0	1.1	(3.7)	2.6	1.5	(0.3)	1.2	1.3
Real GDP per capita growth	1.0	2.2	0.7	0.8	(3.9)	2.6	0.5	(0.5)	1.0	1.1
Real investment growth	3.8	2.6	3.4	1.9	(2.3)	1.2	(2.0)	(0.9)	4.2	2.1
Investment/GDP	20.0	21.0	21.9	22.1	22.1	23.3	22.3	21.9	21.9	22.0
Savings/GDP	28.5	28.8	29.9	29.7	29.1	30.6	26.6	26.3	27.1	27.3
Exports/GDP	46.1	47.2	47.3	46.7	43.0	47.0	46.8	47.8	48.4	49.2
Real exports growth	2.5	4.9	2.2	1.3	(9.3)	9.7	1.6	3.3	4.0	2.9
Unemployment rate	3.9	3.6	3.2	3.0	3.7	3.6	3.1	3.5	3.6	3.5
External indicators (%)										
Current account balance/GDP	8.5	7.8	8.0	7.6	7.0	7.4	4.3	4.4	5.2	5.3
Current account balance/CARs	15.5	14.1	14.1	13.5	13.6	13.1	7.4	7.4	8.8	8.8
CARs/GDP	55.0	55.6	56.6	55.9	51.5	56.1	57.5	59.0	59.5	60.3
Trade balance/GDP	8.1	7.8	6.6	6.2	5.6	5.3	2.6	3.3	4.0	4.1
Net FDI/GDP	(1.4)	(1.0)	(0.6)	(2.2)	0.1	(2.8)	(2)	(1.8)	(1.8)	(1.8)
Net portfolio equity inflow/GDP	(2.0)	(2.4)	(2.3)	(2.3)	(4.2)	(4.6)	(3.5)	(2.5)	(2.0)	(2.0)
Gross external financing needs/CARs plus usable reserves	199.9	197.5	201.2	202.6	210.8	217.8	230.3	224.0	209.9	202.9
Narrow net external debt/CARs	69.5	67.7	52.6	57.8	84.9	77.8	83.1	82.4	73.4	69.7
Narrow net external debt/CAPs	82.3	78.8	61.2	66.8	98.3	89.5	89.8	89.0	80.4	76.3
Net external liabilities/CARs	(68.3)	(82.5)	(92.1)	(109.1)	(132.0)	(117.6)	(128.6)	(131.1)	(125.8)	(125.2)
Net external liabilities/CAPs	(80.8)	(96.1)	(107.2)	(126.2)	(152.8)	(135.4)	(138.9)	(141.7)	(137.8)	(137.2)
Short-term external debt by remaining maturity/CARs	133.6	129.3	133.3	134.6	147.9	155.5	166.9	157.1	139.9	130.5
Usable reserves/CAPs (months)	1.3	1.3	1.2	1.3	1.5	1.6	1.6	1.5	1.3	1.2
Usable reserves (mil. $)	184,205	200,666	198,118	223,408	269,193	296,719	278,629	277,598	276,443	275,213

Table 1

Germany--Selected Indicators (cont.)

Mil. €	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Fiscal indicators (general government; %)										
Balance/GDP	1.2	1.3	1.9	1.5	(4.3)	(3.7)	(3.2)	(1.6)	(1.2)	(1.1)
Change in net debt/GDP	(1.1)	(2.5)	(1.2)	(0.1)	5.0	3.9	3.0	1.5	1.2	1.1
Primary balance/GDP	2.3	2.4	2.8	2.3	(3.6)	(3.1)	(2.4)	(0.7)	(0.2)	(0.1)
Revenue/GDP	45.5	45.5	46.3	46.5	46.0	47.4	47.5	47.0	46.5	46.5
Expenditures/GDP	44.4	44.2	44.4	45.0	50.3	51.0	50.7	48.6	47.7	47.6
Interest/revenues	2.6	2.3	2.0	1.7	1.3	1.2	1.5	1.8	2.0	2.2
Debt/GDP	67.2	62.8	59.5	57.2	67.6	68.2	65.8	62.1	60.0	58.7
Debt/revenues	147.7	138.1	128.7	123.1	146.9	144.1	138.4	132.0	129.0	126.2
Net debt/GDP	63.8	58.7	55.8	53.9	60.0	60.7	59.1	57.1	56.0	55.3
Liquid assets/GDP	3.4	4.1	3.7	3.3	7.6	7.6	6.7	4.9	4.0	3.4
Monetary indicators (%)										
CPI growth	0.4	1.7	1.9	1.4	0.3	3.2	8.4	7.0	2.3	1.6
GDP deflator growth	1.3	1.5	2.0	2.1	1.8	3.1	6.5	6.5	3.0	2.0
Exchange rate, year-end (€/$)	0.95	0.83	0.87	0.89	0.81	0.88	1.00	0.97	0.92	0.90
Banks' claims on resident non-gov't sector growth	2.9	4.2	3.9	4.9	4.1	5.3	8.1	6.1	4.2	3.4
Banks' claims on resident non-gov't sector/GDP	87.3	87.3	88.0	89.4	95.0	94.6	94.6	94.6	94.6	94.6
Foreign currency share of claims by banks on residents	3.4	2.7	2.6	2.4	2.3	2.3	2.2	2.2	2.2	2.2
Foreign currency share of residents' bank deposits	0	0	0	0	0	0	0	0	0	0
Real effective exchange rate growth	(0.9)	0.1	2.3	0.8	2.6	(1.4)	N/A	N/A	N/A	N/A

Sources: Eurostat (economic indicators), Deutsche Bundesbank (external indicators), Eurostat (fiscal indicators), and Deutsche Bundesbank and IMF (monetary indicators).
Adjustments: Government debt adjusted by excluding guarantees on debt issued by the European Financial Stability Facility.
Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private- sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. CARs--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Germany--Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	2	Germany has strong institutions and a proven track record of crisis management and long-term economic growth, but coordination requirements at the EU or Euro area level might hinder timely policy response. Germany benefits from generally effective checks and balances and free flow of information.
Economic assessment	1	Based on GDP per capita ($) as per the Selected Indicators table above
External assessment	1	Based on narrow net external debt as per Selected Indicators in Table 1. In the context of our external assessment, we consider Germany, a member of the Economic and Monetary Union, as if the currency was actively traded. The sovereign is displaying current account surpluses over the forecast horizon.
		The sovereign has external short-term debt by remaining maturity that generally exceeds 100% of current account receipts (CARs), as per Selected Indicators in Table 1.
		The sovereign’s net international investment position is more favorable than the narrow net external debt position by over 100% of CARs, as per Selected Indicators in Table 1
Fiscal assessment: flexibility and performance	2	Based on the change in net general government debt (% of GDP) as per Selected Indicators in Table 1.
Fiscal assessment: debt burden	2	Based on net general government debt (% of GDP) and general government interest expenditure (% of general government revenue) as per Selected Indicators in Table 1.
Monetary assessment	2	In the context of our monetary assessment, we consider the euro a reserve currency.
		The European Central Bank has an established track record in monetary policy independence with clear objectives and a wide array of policy instruments, including targeted and broad asset purchase programs.
		Germany is a member of the Economic and Monetary Union.
Indicative rating	aaa	As per Table 1 of "Sovereign Rating Methodology
Notches of supplemental adjustments and flexibility	0	
Sovereign credit rating		
Foreign currency	AAA	
Notches of uplift	0	Default risks do not apply differently to foreign- and local-currency debt.
Local currency	AAA	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the average of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 6 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Related Research

- Sovereign Ratings History, Sept. 13, 2022
- Sovereign Ratings List, Sept. 13, 2022
- Economic Research: The Underbelly Of Germany's Export Prowess, Sept. 7, 2022
- Sovereign Ratings Score Snapshot, Sept. 2, 2022
- Europe Braces For A Bleak Winter: A Downside Scenario Assuming A Russian Gas Cutoff, Aug 29, 2022
- Sovereign Risk Indicators, July 11, 2022. An interactive version is also available at www.spratings.com/sri
- Default, Transition, and Recovery: 2021 Annual Global Sovereign Default And Rating Transition Study, May 4, 2022
- Banking Industry Country Risk Assessment: Germany, Oct. 5, 2021

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed

Germany	
Sovereign Credit Rating |U~	AAA/Stable/A-1+
Transfer & Convertibility Assessment |U~	AAA
|U~ Unsolicited ratings with no issuer participation, and/or no access to internal documents, and/or no access to management.	

This unsolicited rating(s) was initiated by a party other than the Issuer (as defined in S&P Global Ratings' policies). It may be based solely on publicly available information and may or may not involve the participation of the Issuer and/or access to the Issuer's internal documents and/or access to management. S&P Global Ratings has used information from sources believed to be reliable based on standards established in our policies and procedures, but does not guarantee the accuracy, adequacy, or completeness of any information used.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914