Research Update:

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

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Overview

- Germany remains one of the most creditworthy sovereigns globally, an assessment that is not hampered by last year's temporary, pandemic-induced debt and deficit increase.
- We expect Germany's economy to expand by 3.2% in 2021 following last year's 5% contraction.
- From 2021-2024, we expect net general government debt and its deficit to narrow from 62% and 4%, respectively, in 2020, but the pace will depend on fiscal policy priorities after the September 2021 elections.
- We affirmed our 'AAA' unsolicited long- and 'A-1+' short-term sovereign credit ratings on Germany; the outlook is stable.

Rating Action

On March 26, 2021, 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 Germany's formidable external and fiscal buffers and its institutional effectiveness, which help mitigate the pandemic's impact and enable the government's policy response. This should help prevent deeper economic scarring and deteriorating sovereign creditworthiness over the next two-to-three years.

Downside scenario

We could lower our ratings on Germany if the country's fiscal position worsened materially and persistently beyond our projections, coupled with a significant increase of contingent liabilities. A scenario under which Germany's fiscal position permanently weakens would almost certainly imply a far weaker economic recovery than we forecast. In a downside scenario, this would be

coupled with other adverse developments such as the deterioration of the European Central Bank's (ECB's) monetary flexibility, or knock-on effects from a prolonged recession in the rest of the eurozone.

Rationale

Germany is the fourth-largest economy and third-largest exporter in the world. Growth prospects are, therefore, closely linked to demand for German capital goods, particularly in rapidly industrializing Southeast Asia. Despite persistent uncertainty about the prospects for domestic demand and services activity in early 2021, the manufacturing sector looks well-positioned for solid export-driven growth this year.

To counter the pandemic's economic consequences, Germany has deployed substantial fiscal stimulus and wide-ranging support measures. Restrictions on economic activity were recently extended until mid-April, given the spread of new COVID-19 variants. These restrictions have been flanked by new support measures and the extension of existing ones. Due to the pandemic's third wave, many restrictions and containment measures have been continued and tightened. We project Germany's economy will expand by 3.2% in 2021 following last year's 5.2% contraction.

This fiscal response, in conjunction with weaker tax revenue, will continue to leave the general government balance in deficit in 2021-2023, but this comes after headline fiscal surpluses in 2012-2019. The surge in net general government debt by 6 percentage points in 2020 and the temporary fiscal weakening will have no impact on the sovereign's creditworthiness; instead, the quick deployment of accumulated fiscal space will help cushion the damage to Germany's economy. The pace and extent of deficit narrowing depends on the recovery, as well as political considerations around the September 2021 parliamentary elections.

Our ratings on Germany continue to be supported by the country's competitive economy, its effective and stable institutions, a strong external (net asset) position, Germany's eurozone membership, and the ECB's credible and flexible monetary policy.

Although we think the country will weather the pandemic's immediate impact, in its aftermath, structural challenges will come to the forefront again. These include external demand trends for the export-oriented manufacturing sector, value added and employment in the auto sector, and energy cost competitiveness and security, all in a context of incisive measures to combat climate change.

Institutional and economic profile: The pandemic dominates the policy agenda as the 2021 parliamentary elections near

- We expect Germany's economy to expand by 3.2% in 2021 following last year's 5% contraction.
- An eventual relaxation of containment measures and vaccination progress will support the recovery, if pandemic trends permit.
- The pandemic still dominates the political discourse ahead of the 2021 parliamentary elections, while structural challenges to the highly competitive economy loom.

Our view that the German economy's recovery will accelerate in the second quarter relies on the assumption that restrictions are gradually lifted. However, recently rising pandemic indicators will likely further postpone easing of restrictions in some sectors. Supported by short-term indicators, we anticipate that the tightened containment measures from late 2020 on had a limited impact on

the manufacturing sector, which continues to recover. At the same time, the heavily affected services sectors could benefit from pent-up demand and consumers getting used to new circumstances and hygiene precautions in the reopening phase. We also think that Germany's export-oriented manufacturing sector will continue to benefit from demand from its extra-European trading partners, namely in Asia, a key factor in the recovery in the past few months.

Disruptions due to the pandemic last year and this year's scarcity of semiconductor supplies from Asia in the German auto industry have highlighted the importance of uninterrupted supply chains for Germany's industrial production. It remains to be seen if a meaningful reorganization of supply chains--closer to home--will happen. Conversely, other countries, including China, will likely also aim to increase domestic value added in certain industries, which could dampen prospects for German exports. All in all, a more subdued global trade environment, which had already begun to unfold before the pandemic, and potential further disintegration of the global economy would be detrimental for the country's export-driven economic model.

Germany fared slightly better in terms of lost 2020 output than our most recent projections. Apart from the favorable external demand trends, we also think that the government's support measures and fiscal stimulus have prevented a deeper economic downturn and will continue doing so. The unprecedented fiscal policy response to the COVID-19-induced shock comprises several measures. These include the short-term work scheme, which has been extended until the end of 2021; grants for small and midsize enterprises to bridge liquidity needs; guaranteed loan programs through the state-owned KfW bank; and tax measures such as deferrals of tax payables. A dedicated stabilization fund for larger enterprises of up to €600 billion can provide direct capital contributions and guarantees. The take up on many of the measures, especially the Wirtschaftsstabilisierungsfonds (stabilization fund), has been lower than the large envelopes authorized in 2020. But with the extension of economic relief measures into 2021, and the introduction of new measures to support companies affected by economic restrictions, we expect further fiscal costs this year.

We think that the extension of short-term work schemes will continue to cushion the pandemic's impact on the labor market. Unemployment will increase only moderately, to 4.4% in 2021 from 4.2% in 2020, but last year it increased by 1.1 percentage points.

The restrictions on economic activity had an uneven impact across various sectors. And with restrictions lasting longer than expected, the discussions on the urgency and adequacy of extended government support and on the lifting of restrictions have intensified. This comes in conjunction with a vaccination campaign that is proceeding more slowly than in other advanced economies. We expect stress for the affected companies to surface even more visibly once liquidity support is withdrawn and exceptions for insolvency regulations run out (they have recently been extended until end-April). Therefore, despite our projection of robust growth of 3.2% this year and 3.7% next year, the pandemic will add to structural challenges that have lingered in the end-phase of the long post-financial crisis economic expansion.

We have been continuously highlighting, for example, an aging workforce, high corporate taxes, and high energy prices. The phase-out of both nuclear and coal-based power generation could hinder competitiveness if not carefully managed.

General government net investment had turned negative in recent years. As public investment often leads private investment decisions, the potential benefits from an increase in public investment appear substantial. This has been a recurrent topic in recent public discourse. As a result, we think some measures in 2020's stimulus package will address these challenges, for example in carbon-reducing infrastructure and digitization. Other initiatives will aim to bolster investments in these key themes, at the EU (under the Recovery & Resilience Facility), federal, and

state levels.

With its massively export-oriented economic model, Germany has experienced the different sides of its high integration into the global economy: After the pandemic's initially strong negative effect on supply chains, external demand led to a robust and ongoing recovery in the manufacturing sector. This is in stark contrast to the retail, hospitality, and other services sectors that are suffering from longer-than-expected restrictions--but in terms of gross value added, they account for less than Germany's industrial sector. The industrial sector's prominence, with about a quarter of value added, is a distinguishing feature among its peers. And it underlines Germany's exposure to changing globalization dynamics. China's efforts to gain higher technological and economic independence could reduce demand for Germany's exports. China is the second-most important destination for German exports after the U.S.

Germany's most prominent export--vehicles and vehicle parts--also faces challenges that could transform the economy. The sector is facing structural and regulatory hurdles, particularly due to tightening emission standards and technological change, 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. German car production constitutes almost 4% of 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 in Germany.

Overall, we do not expect further key policy changes, including to improve the business environment, ahead of the upcoming parliamentary elections in September 2021. While we expect no abrupt policy changes, coalition compositions so far untested on the federal level could result. The response to the pandemic and managing its consequences will remain the focus of policymakers, at least in the coming months. Measures to address the aging workforce and demographic pressures on the social security system have been pushed back, but will return to the agenda in the medium term.

Flexibility and performance profile: Due to COVID-19, debt to GDP increased for the first time since 2010

- The fiscal deficit will narrow in 2021-2024 to almost balance, but the path remains highly uncertain due to risks to tax revenue and the political cycle.
- We continue to project solid current account surpluses in 2021-2024.
- Borrowing costs are set to remain low, reflecting the ECB's accommodative monetary policy stance.

We expect Germany's general government deficit to narrow to 3% in 2021 from 4.2% in 2020. Both figures reflect the effect of automatic stabilizers, as well as the government's support programs and fiscal stimulus. Parts of the planned expenditure in 2020 that did not materialize will carry over into 2021 with a lag, and support measures continue or are extended as economic restrictions persist. But we think the much higher budgeted central government net new borrowing will not materialize because the budget includes significant buffers--that is, very high support envelopes--even accounting for decisions in February and March to extend support measures.

Apart from the pandemic-related measures, a few measures such as the abolition of the solidarity tax surcharge on the income tax and pre-pandemic expenditure increases will continue to keep the general government account in deficit over 2021-2024, albeit with a narrowing trend.

Nevertheless, we expect a significant decrease of the general government deficit in 2022, and therefore a lower deficit than envisaged in the government's first budget proposals.

We continue to think that the path of public finances is more uncertain than usual for Germany–-while the country posted general government surpluses in 2012-2019, a return to these seems unlikely for now, not least because of the political cycle. The fiscal trajectory also depends on tax revenue developments. The government's projections continue to predict overall significantly lower revenue for 2021-2024 than anticipated before the pandemic. This underpins our assumptions that moderate deficits will prevail, even after 2021, reflecting persisting structural deficits, in part driven by health, elderly care, and retirement expenditure. We think that investment needs in physical and digital, as well carbon dioxide-reducing infrastructure will again come to the forefront of policy discussions. The debt brake rule and another potential exception for next year will also likely be discussed. The government invoked the emergency clause in the debt brake rule (Art. 115 of the constitution) in 2020 and 2021, and in our view another exception for 2022 is likely. The rule limits structural--namely nonbusiness cycle-dependent--net new borrowing to 0.35% of GDP. The European fiscal rules also allow for a temporary departure from EU member states' medium-term fiscal objectives in case of unusual events outside of their control.

The surge in borrowing in 2020 to finance the support packages propelled net debt to over 62% of GDP in 2020. We expect net debt to decrease from 2021 onward, reaching slightly below 60% by 2024. Government deposits sharply increased last year as the high borrowing was not matched fully with the actual spending needs under the various support envelopes. In our calculations, we exclude liabilities arising from the various multilateral financial support mechanisms, namely the European Financial Stability Facility (EFSF) and European Stability Mechanism in the eurozone (for more information, see "S&P Clarifies Its Approach To Accounting For EFSF Liabilities When Rating The Sovereign Guarantors ," published Nov. 2, 2011, on RatingsDirect). These liabilities amounted to about €57 billion (1.7% of 2020 GDP) in 2020. Germany is a major beneficiary of the ECB's quantitative easing due to the country's safe-haven status. Its interest bill declined to about 1.4% of general government revenue in 2020 from about 6% in 2011.

As a further support measure, state-owned development bank KfW has massively extended its loan programs, which are on the bank's balance sheet and benefit from sovereign guarantees. The government has also established the special fund, "Wirtschaftsstabilisierungsfonds." To stabilize the economy, this fund can buy up to €100 billion of shares in larger companies affected by the pandemic (about 3% of GDP). So far €6.6 billion in capital contribtutions have been deployed. The fund can also provide guarantees (up to €400 billion) for corporate debt issuances, which has not been used thus far, and it can provide funds (up to €100 billion) for refinancing KfW's loan programs. For the latter, €38 billion has been deployed. The ultimate uptake of all these guarantee programs and to what extent liabilities will crystallize on the government's balance sheet remains uncertain. Although we consider these guarantees contingent liabilities and certain provisioning is included in the budgets, calls on state guarantees could fall on the government's balance sheet and--all else being equal--lead to a slower reduction in the budget deficit and higher government debt.

Further fiscal stress could stem from demographics in the medium term. In 2018, the governing coalition agreed on measures to introduce a floor to old-age pension levels at 48% of the average salary until 2025, and to cap the contribution rate. A further basic pension for low-income earners passed last summer, topping up their pensions. After 2025, the system might need to be further reformed to ensure it is sustainable. This is also true for the health insurance system, where contribution increases to cover deficits are forthcoming, and for increasing expenditure in care insurance.

Germany's large current account surplus reflects the country's export competitiveness, combined with demand from trading partners, particularly in emerging markets. It also reflects an investment rate below the eurozone average, and a tighter fiscal stance compared with that of trading partners. Germany's household savings rate, at almost 20% of disposable income (pre-pandemic data), is the second-highest in the euro area, reflecting aging demographics and other structural and cultural factors. We project that the current account surplus will remain substantial and hover at 6%-7% of GDP in 2021-2024, contributing to a net asset position of over 150% of current account receipts (CARs) on average over 2021-2024.

We forecast that gross external financing needs will decline to about 190% of CARs and usable reserves in 2024, from 205% in 2019. In that period, we project that narrow net external debt will decline to 48% of CARs from 58%, following a surge in 2020. The external assets also reflect movements in Germany's high Target 2 claims on the Eurosystem.

We believe that Germany's eurozone membership reduces its monetary flexibility. However, it has benefited from the euro and the ECB's asset-purchase program (the public sector purchase program). In addition, the ECB last year launched another asset purchase program, the Pandemic Emergency Purchase Program. We project inflation in Germany will pick up to 2% in 2021, reflecting the impact of rising energy prices and the expiry of the value-added tax rate reduction.

The Bundesbank (the German central bank) did not pay a dividend to the government for 2020, the first time since 1979 (in 2019, the profit distribution had amounted to €5.9 billion or 0.2% of GDP). This reflects higher risk provisioning in relation to the monetary policy crisis response.

The pandemic came when the German banking sector was already suffering from relatively low profitability, notably due to low interest rates and higher cost bases. We already reflect this in the negative trends we see on economic and industry risk for the German banking sector (see "Banking Industry Country Risk Assessment: Germany," published Nov. 11, 2020).

Low returns remain a stubborn problem for the German banking sector, which trails many Northern and Eastern European banking industries. Low interest rates and strong competition continue to hamper profitability, although they're offset somewhat by relatively lower credit losses in Germany and stable earnings in some segments. We believe loan growth could help revenue somewhat, but compressed net interest margins are likely to remain a problem for the industry. We believe banks will further progress in reducing costs to generate savings as a buffer and manage long-term risks of tech disruption. We expect the pandemic heightens the risk of increased credit costs, nonperforming loans, and asset-quality deterioration across the German banking industry. The generally restrained risk appetite of German banks could keep material risk cost increases manageable, but low sector returns on equity remain a considerable challenge.

We expect Germany's retail banking market will remain dominated by well-funded and strongly capitalized savings and cooperative groups that have about 50% of the market. Large banks typically carry more significant concentration and business risk, but have bolstered their balance sheets somewhat in recent years due to substantial deleveraging, de-risking, and recapitalization.

Key Statistics

Table 1

Germany--Selected Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Economic indicators (%)										
Nominal GDP (bil. €)	3,026	3,135	3,260	3,356	3,449	3,332	3,514	3,683	3,800	3,913
Nominal GDP (bil. $)	3,358	3,470	3,683	3,964	3,861	3,806	4,173	4,420	4,561	4,696
GDP per capita (000s $)	41.4	42.2	44.6	47.9	46.5	45.8	50.1	52.9	54.5	56.0
Real GDP growth	1.5	2.2	2.6	1.3	0.6	(4.9)	3.2	3.7	1.8	1.6
Real GDP per capita growth	1.0	1.0	2.2	0.9	0.3	(5.1)	2.9	3.5	1.5	1.3
Real investment growth	1.7	3.8	2.5	3.5	2.5	(3.1)	2.7	3.7	2.8	2.3
Investment/GDP	19.7	20.0	20.8	21.6	21.4	20.4	21.7	21.8	22.1	22.3
Savings/GDP	28.3	28.5	28.6	29.0	28.5	27.4	29.1	28.5	28.9	28.7
Exports/GDP	46.9	46.1	47.2	47.4	46.9	43.8	45.6	46.2	46.9	47.5
Real exports growth	5.4	2.5	4.7	2.3	1.0	(9.4)	8.7	4.6	2.9	2.3
Unemployment rate	4.6	4.1	3.8	3.4	3.1	4.2	4.4	4.0	3.6	3.3
External indicators (%)										
Current account balance/GDP	8.6	8.5	7.8	7.4	7.1	7.1	7.4	6.7	6.8	6.4
Current account balance/CARs	15.4	15.5	13.9	13.1	12.7	13.6	13.6	12.1	12.1	11.3
CARs/GDP	56.0	55.0	56.0	56.2	55.7	52.3	54.6	55.3	56.1	56.6
Trade balance/GDP	8.2	8.1	7.8	6.7	6.4	5.8	5.8	5.4	5.4	5.3
Net FDI/GDP	(2.0)	(1.4)	(1.2)	(0.1)	(1.6)	(0.8)	(0.9)	(1.1)	(1.4)	(1.7)
Net portfolio equity inflow/GDP	(1.2)	(2.0)	(2.3)	(2.2)	(2.3)	(4.2)	(2.9)	(2.5)	(2.0)	(1.2)
Gross external financing needs/CARs plus usable reserves	212.2	199.9	197.2	203.0	204.5	211.5	199.8	198.7	194.2	191.6
Narrow net external debt/CARs	74.9	69.5	67.3	53.3	57.7	61.1	59.0	55.9	54.3	47.5
Narrow net external debt/CAPs	88.4	82.3	78.1	61.4	66.1	70.7	68.3	63.6	61.8	53.6
Net external liabilities/CARs	(82.0)	(89.4)	(107.6)	(109.9)	(129.8)	(157.4)	(148.7)	(150.6)	(155.8)	(161.0)
Net external liabilities/CAPs	(96.8)	(105.7)	(124.9)	(126.5)	(148.8)	(182.0)	(172.1)	(171.3)	(177.2)	(181.6)

Table 1

Germany--Selected Indicators (cont.)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Short-term external debt by remaining maturity/CARs	149.4	133.6	128.7	134.4	136.0	148.8	136.9	128.9	123.3	119.0
Usable reserves/CAPs (months)	1.5	1.3	1.2	1.2	1.3	1.6	1.6	1.2	1.2	1.1
Usable reserves (mil. $)	173,851	184,205	200,666	198,118	223,408	269,193	223,412	223,412	223,412	224,351
Fiscal indicators (general government; %)										
Balance/GDP	1.0	1.2	1.4	1.8	1.5	(4.2)	(3.0)	(1.2)	(0.4)	(0.1)
Change in net debt/GDP	(1.0)	(1.1)	(2.5)	(1.2)	0	5.6	2.9	1.1	0.4	0.1
Primary balance/GDP	2.4	2.3	2.4	2.8	2.3	(3.5)	(2.3)	(0.6)	0.2	0.5
Revenue/GDP	45.1	45.5	45.6	46.3	46.7	46.9	46.5	45.8	45.9	46.0
Expenditures/GDP	44.1	44.4	44.2	44.5	45.2	51.1	49.5	47.0	46.3	46.1
Interest/revenues	3.1	2.6	2.3	2.0	1.7	1.4	1.4	1.4	1.4	1.3
Debt/GDP	70.5	67.6	63.3	60.0	57.9	69.7	67.6	64.3	61.2	59.4
Debt/revenues	156.4	148.4	139.0	129.7	124.1	148.6	145.3	140.4	133.2	129.1
Net debt/GDP	67.6	64.1	59.2	56.3	54.8	62.3	62.0	60.2	58.8	57.2
Liquid assets/GDP	3.0	3.4	4.1	3.7	3.2	7.4	5.6	4.1	2.4	2.2
Monetary indicators (%)										
CPI growth	0.7	0.4	1.7	1.9	1.4	0.3	2.0	1.3	1.5	1.6
GDP deflator growth	1.9	1.3	1.4	1.7	2.2	1.6	2.2	1.1	1.4	1.4
Exchange rate, year-end (€/$)	0.92	0.95	0.83	0.87	0.89	0.81	0.84	0.83	0.83	0.83
Banks' claims on resident non-gov't sector growth	2.7	2.9	4.2	3.9	4.9	4.1	5.5	4.8	3.2	3.0
Banks' claims on resident non-gov't sector/GDP	87.9	87.3	87.5	88.2	90.0	97.1	97.1	97.1	97.1	97.1
Foreign currency share of claims by banks on residents	3.8	3.4	2.7	2.6	2.4	2.3	2.7	2.7	2.7	2.7
Foreign currency share of residents' bank deposits	0	0	0	0	0	0	0	0	0	0

Table 1

Germany--Selected Indicators (cont.)

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Real effective exchange rate growth	(4.1)	(0.9)	0.4	2.9	2.8	4.9	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 eurozone 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, on average, from 2021-2024 (as per Selected Indicators in Table 1).
		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	1	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.

Table 2

Germany--Ratings Score Snapshot (cont.)

Key rating factors	Score	Explanation
		The European Central Bank has an established track record in monetary authority independence with clear objectives and a wide array of policy instruments, including nonconventional tools. The consumer price index is low and in line with that of its trading partners.
		Germany is a member of Economic and Monetary Union.
Indicative rating	aaa	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	0	None.
Final 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

- 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

- Economic Outlook Europe Q2 2021: The Path To A Strong Restart, March 25, 2021
- Sovereign Ratings List, March 10, 2021
- Sovereign Ratings History, March 10, 2021
- Sovereign Ratings Score Snapshot, March 2, 2021
- Sovereign Debt 2021: Developed EMEA's Commercial Borrowing Could Reach $1.4 Trillion, March 1, 2021
- Banking Industry Country Risk Assessment Update: February 2021, Feb. 25, 2021
- Sizing Sovereign Debt And The Great Fiscal Unwind, Feb. 2, 2021
- European Developed Sovereign Rating Trends 2021, Jan. 28, 2021

- Sovereign Risk Indicators, Dec. 14, 2020. A free interactive version is available at http://www.spratings.com/sri
- Banking Industry Country Risk Assessment: Germany, Nov. 11, 2020
- Default, Transition, and Recovery: 2019 Annual Sovereign Default And Rating Transition Study, May 18, 2020

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.

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