Monitoring Note

12 April 2024

Scope has completed a monitoring review for the Federal Republic of Germany

The periodic review has resulted in no rating action.

Scope Ratings GmbH (Scope) monitors and reviews its credit ratings on an ongoing basis and at least annually, or every six months in the case of sovereigns, sub-sovereigns and supranational organisations.

Scope performs monitoring reviews to determine whether material changes and/or changes in macroeconomic or financial market conditions could have an impact on the credit ratings. Scope considers all available and relevant information when undertaking the monitoring review.

Monitoring reviews are conducted by performing a peer comparison, benchmarking against the rating-change drivers, and/or reviewing the credit ratings' performance over time, as deemed appropriate by the Lead Analyst or Analytical Team Head, in addition to an assessment of all aspects of the relevant methodology/ies, including key rating assumptions and model(s). Scope publicly announces the completion of each monitoring review on its website.

Scope completed the monitoring review for the Federal Republic of Germany (long-term local- and foreign-currency issuer and senior unsecured debt ratings: AAA/Stable; short-term local- and foreign-currency issuer ratings: S-1+/Stable) on 8 April 2024.

This monitoring note does not constitute a credit rating action, nor does it indicate the likelihood that Scope will conduct a credit rating action in the short term. Information about the latest credit rating action connected with this monitoring note along with the associated rating history can be found on www.scoperatings.com.

Key rating factors

For the updated report accompanying this review, click here.

The Federal Republic of Germany's long-term AAA/Stable ratings are underpinned by the following credit strengths: i) its wealthy, large, diversified economy; ii) its robust fiscal policy framework and strong track record of fiscal discipline; and iii) a highly competitive external sector.

Challenges relate to: i) transition risks for energy-intensive industries given carbon neutrality targets and low levels of public and private sector investment relative to peers; ii) an ageing population, resulting in rising pension liabilities and downward pressure on the country's medium-run growth potential; and iii) vulnerabilities related to global geopolitical risk.

Germany's post-pandemic recovery has been weak when compared with peer countries as global supply chain disruptions and weaker demand held back industrial output, while sharply higher inflation following the escalation of the Russia-Ukraine war slowed consumption growth. At end-2023, economic output is at a similar level as before the pandemic in 2019, lagging behind the euro area average (+3.5%) and other highly rated sovereigns such as Sweden (+5.4%), Switzerland (+6.0%), the Netherlands (+6.1%) or Denmark (+10.9%). GDP contracted in 2023 by 0.3% as the economy faces a combination of cyclical challenges including weak global demand and high energy costs, as well as structural pressures related to an ageing population and the country's transition towards carbon neutrality. Scope expects GDP growth to remain stagnant at 0.2% this year but increase to 1.4% in 2025 as the cyclical outlook improves.

Germany's constitutional court ruling on the federal supplementary budget of 2021 and its strict interpretation of debt-brake borrowing limitations have reinforced the country's fiscal rules but also intensified debate on their possible reform. Reform proposals with a greater focus on encouraging governments to raise long-term investment could support Germany's competitiveness and its medium-term growth potential. However, as any amendment to the debt brake requires a change to the German Basic Law, cross-party political support will be needed from the three ruling coalition partners and the largest opposition party CDU/CSU. Meanwhile, Germany continues to have fiscal space to fund higher public spending to support the energy transition. Scope expects the debt-to-GDP ratio to decline from 64.4% in 2023 to 59.1% by 2028.

The Stable Outlook reflects Scope's view that the risks Germany faces over the next 12 to 18 months are well balanced.

The ratings/Outlooks could be downgraded if, individually or collectively: i) protracted fiscal deterioration resulted in a persistent increase in public debt over the medium term, for example due to rising structural spending pressures or a significant weakening in the country's growth outlook; and/or ii) a severe macroeconomic or financial system shock resulted in a weaker growth outlook.

The methodology applicable for the reviewed ratings and/or rating Outlooks (Sovereign Rating Methodology, 29 January 2024) is available on https://scoperatings.com/governance-and-policies/rating-governance/methodologies.
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About Scope Group

With more than 300 employees operating from offices in Berlin, Frankfurt, London, Madrid, Milan, Oslo and Paris, Scope Group is the leading European provider of independent credit ratings, ESG analysis and fund research. Based on forward-looking and innovative methodologies, Scope offers a European perspective that contributes to greater diversity of opinion for institutional investors worldwide. Scope Ratings is registered in accordance with the EU rating regulation and operating in the European Union with ECAI status. Scope Ratings is the only European rating agency accepted by the ECB for the Eurosystem Credit Assessment

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