

Federal Republic of Germany

Rating report

Rating rationale

Wealthy, large, diversified economy: Germany's economy proved resilient during the Covid-19 pandemic and the energy crisis. However, the country's high value-added, export-oriented, energy imports-dependent economy has been slow to recover compared with peer countries due to global supply chain disruptions and sharply higher inflation following the escalation of the Russia-Ukraine war. After a decline in economic output of 0.3% last year, we expect stagnant growth in 2024 of 0.2%, with the recovery delayed until 2025 when GDP is expected to grow 1.4%.

Robust fiscal framework: Germany's solid fiscal policy framework and strong record of fiscal discipline are anchored by its constitutional debt brake. The constitutional court's ruling on the federal supplementary budget of 2021 and its strict interpretation of debt-brake borrowing limitations have reinforced the country's rigid fiscal rules. We expect the debt-to-GDP ratio to fall to 63% this year and gradually decline to 59% by 2028.

Highly competitive external sector: The economy's external strength is reflected in its large and persistent current account surplus. This declined in 2022 due to the sharp rise in energy import prices and weaker external demand from key trading partners but recovered in 2023. The surplus is expected to remain slightly below pre-pandemic levels in the medium term.

Rating challenges include: 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-term growth potential; and iii) vulnerabilities related to global geopolitical risks.

Figure 1: Germany's sovereign rating drivers

Risk pillars		Quantitative		Reserve currency*	Political risk**	Qualitative ***	Final rating
		Weight	Indicative rating	Notches	Notches	Notches	
Domestic economic risk		35%	aaa	EUR	Germany	- 1/3	AAA
Public finance risk		20%	aa-			1/3	
External economic risk		10%	aaa			2/3	
Financial stability risk		10%	aaa			1/3	
ESG risk	Environmental factors	5%	bbb+	[+1]	[-0]	- 1/3	
	Social factors	7.5%	b-			0	
	Governance factors	12.5%	aaa			0	
Sovereign Quantitative Model		aaa				+1	
Additional considerations						0	

*The reserve-currency quantitative adjustment applies to currencies in the IMF's Special Drawing Rights (SDR) basket.

**The political-risk quantitative adjustment is based on the World Bank's Political Stability & Absence of Violence/Terrorism index.

***The qualitative scorecard analyst adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Foreign currency

Long-term issuer rating/Outlook

AAA/Stable

Senior unsecured debt

AAA/Stable

Short-term issuer rating/Outlook

S-1+/Stable

Local currency

Long-term issuer rating/Outlook

AAA/Stable

Senior unsecured debt

AAA/Stable

Short-term issuer rating/Outlook

S-1+/Stable

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Credit strengths and challenges

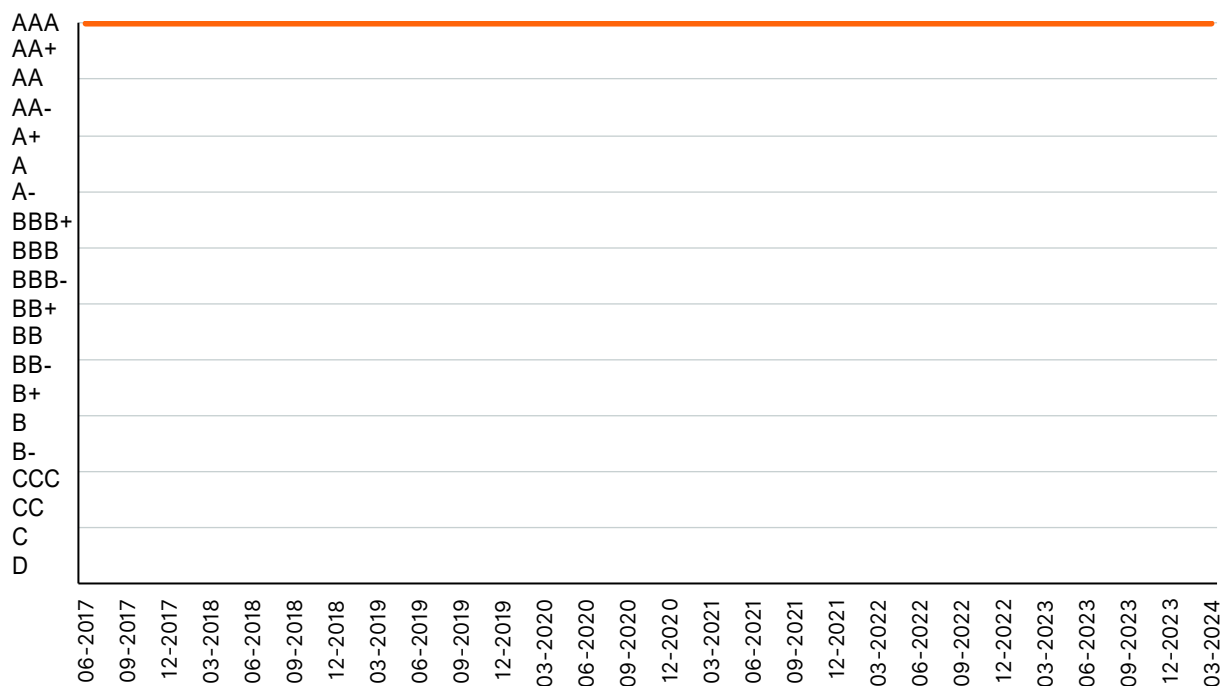
Credit strengths	Credit challenges
<ul style="list-style-type: none"> Wealthy, large, diversified economy Robust fiscal framework and strong track record of fiscal discipline Highly competitive external sector 	<ul style="list-style-type: none"> Transition risks for energy-intensive industries, and low levels of public and private sector investment Ageing population, resulting in rising pension liabilities and lower growth potential Vulnerabilities related to global geopolitical risk

Outlook and rating triggers

The Stable Outlook reflects Scope’s view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> N/A 	<ul style="list-style-type: none"> Fiscal deterioration, resulting in a material increase in public debt Severe macroeconomic or financial system shock, resulting in a weaker growth outlook

Figure 2: Rating history¹



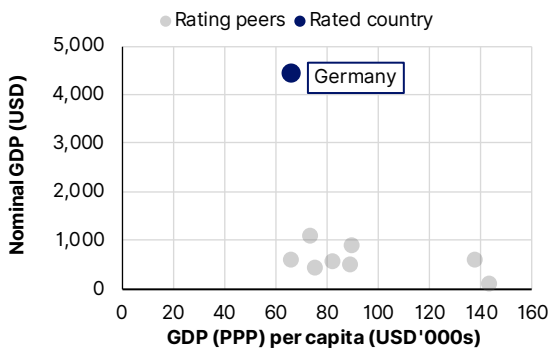
¹Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

Overview of Scope's assessments of Germany's Domestic Economic Risk

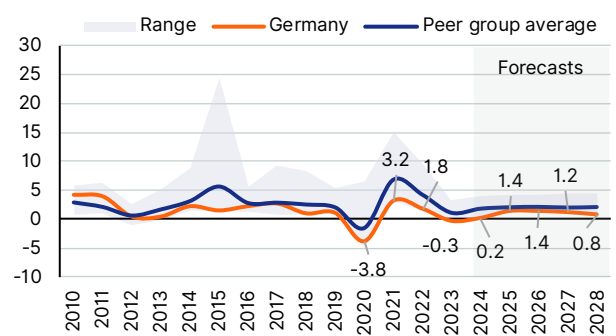
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Growth potential and outlook	Weak	-1/3	Weak growth potential reflecting demographic challenges, a large investment gap and structural challenges in key industries
	Monetary policy framework	Neutral	0	ECB is a highly credible and effective central bank; effective policy framework and transmission over the cycle
	Macroeconomic stability and sustainability	Neutral	0	Competitive and diversified economy but weaknesses in digitalisation, labour market challenges related to ageing; high resource dependence and trade linkages with other countries

Figure 3: Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

Figure 4: Real GDP growth, %



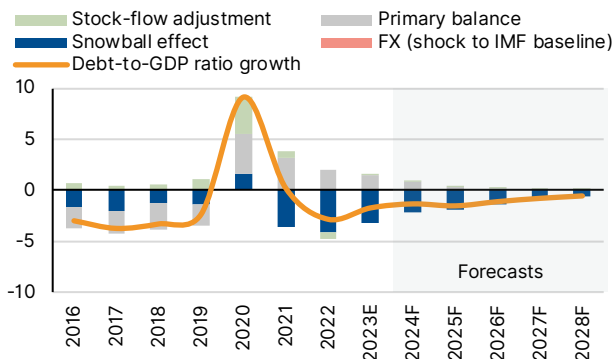
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

Overview of Scope's assessments of Germany's Public Finance Risk

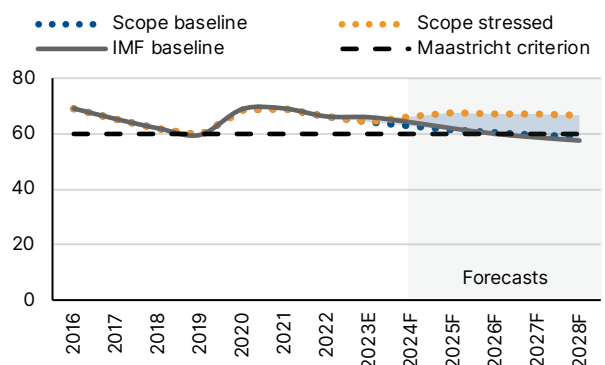
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Fiscal policy framework	Neutral	0	Strong policy response to energy crisis; constitutionally anchored debt brake at federal and regional level that was reinforced by the constitutional court's ruling
	Long-term debt trajectory	Neutral	0	Moderate public debt with high resilience to adverse scenarios; rising pension liabilities
	Debt profile and market access	Strong	+1/3	Primary benchmark issuer in euro area, reflected in low interest payments despite heightened debt levels

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

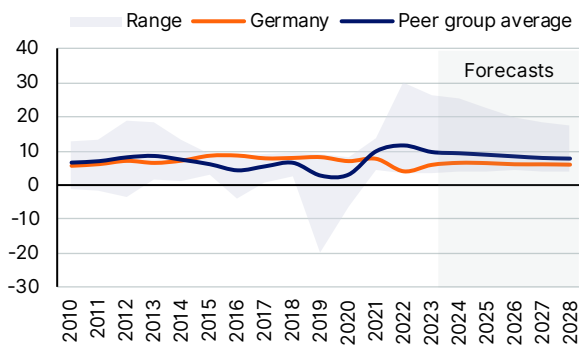
*Sovereign Quantitative Model.

External economic risk

Overview of Scope's assessments of Germany's External Economic Risk

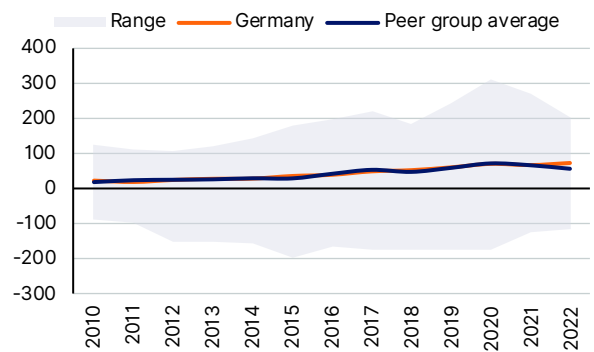
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Current account resilience	Strong	+1/3	Diversified and competitive export base; strong track record of current account surpluses
	External debt structure	Neutral	0	Moderate external debt
	Resilience to short-term external shocks	Strong	+1/3	Benefits from euro area membership; large external-creditor position

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



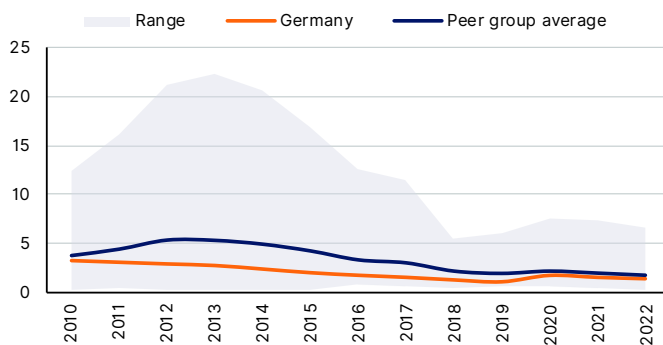
Source: IMF, Scope Ratings

Financial stability risk

Overview of Scope's assessments of Germany's Financial Stability Risk

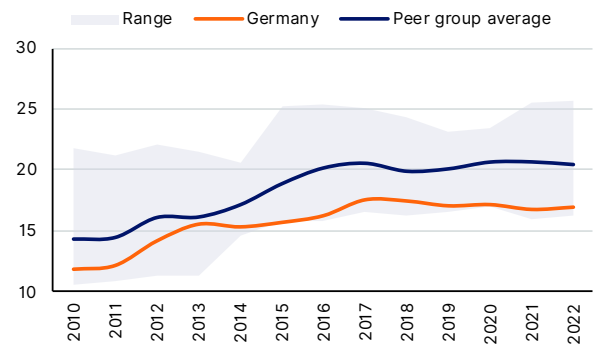
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Low return on equity and unfavourable cost structure of banking sector balanced by adequate capitalisation and moderate exposure risk to nonfinancial corporate debt
	Financial sector oversight and governance	Neutral	0	Oversight under National Supervisory Authority and ECB as part of banking union
	Financial imbalances	Strong	+1/3	Moderate household and private sector indebtedness; closely monitored systemic risks in financial system

Figure 9: Non-performing loans (NPLs), % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



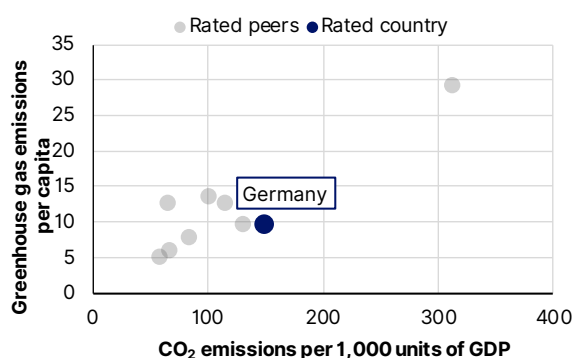
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

Overview of Scope's assessments of Germany's ESG Risk

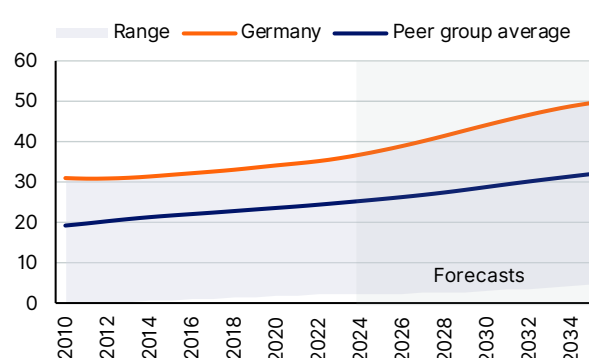
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa-	Environmental factors	Weak	-1/3	Structural challenges related to transition risk in view of carbon neutrality targets and economic importance of energy-intensive key industries
	Social factors	Neutral	0	Weak demographics given an ageing workforce, balanced by high social inclusion and improving labour force participation; rising inequality risks, reinforced by the Covid-19 pandemic and energy crises
	Governance factors	Neutral	0	High-quality institutions and stable political environment

Figure 11: CO₂ emissions per GDP, mtCO₂e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

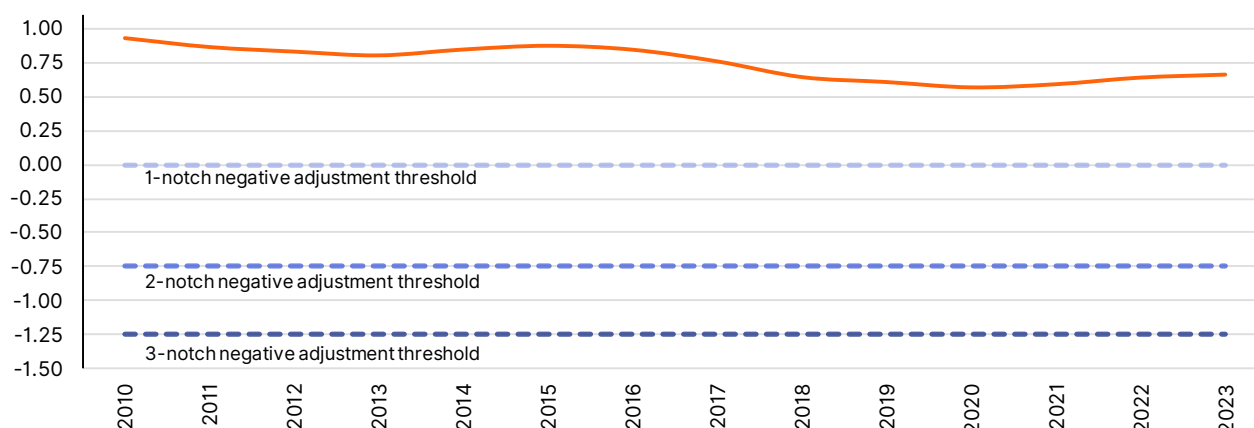
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Germany, 3-year moving average



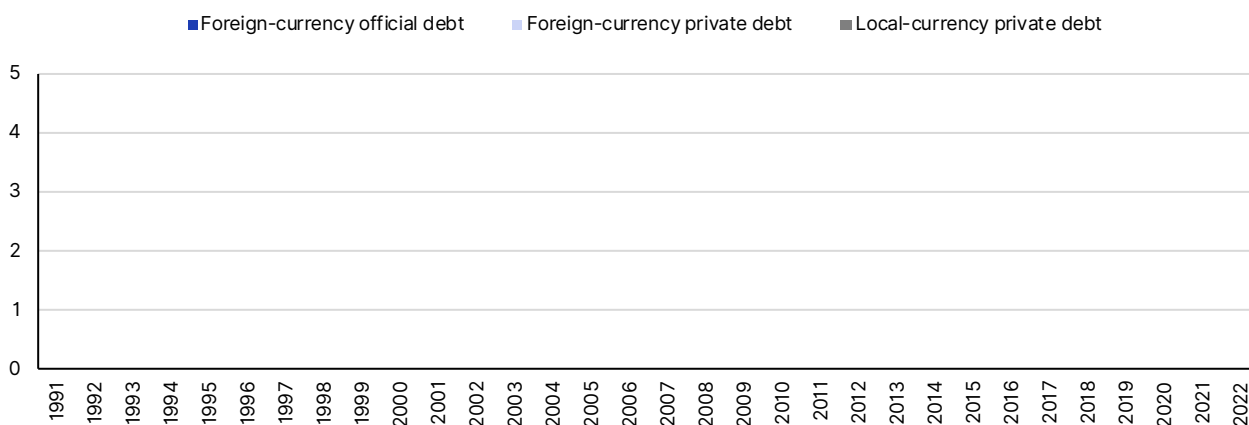
Source: WB, Scope Ratings

Additional considerations

No adjustment was applied to the rating from additional considerations.

Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#).
 Source: [Bank of Canada-Bank of England Sovereign Default Database](#), Scope Ratings.

Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
Denmark
Luxembourg
Netherlands
Norway
Sweden
Switzerland

*Select publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

Appendix III. Economic development and default indicators

IMF Development Classification	Advanced economy
5y USD CDS spread (bp) as of 7 April 2024	10.1

Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope's quantitative model, in line with Scope's Sovereign Rating Methodology. The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022	2023
Domestic Economic	GDP per capita (PPP), USD '000s	IMF	55.0	56.5	55.0	59.3	64.1	66.0
	Nominal GDP, USD bn	IMF	3,976	3,890	3,885	4,281	4,086	4,430
	Real growth, %	IMF	1.0	1.1	-3.8	3.2	1.8	-0.5
	CPI inflation, %	IMF	1.9	1.4	0.4	3.2	8.7	6.3
	Unemployment rate, %	WB	3.4	3.1	3.9	3.6	3.0	-
Public Finance	Public debt, % of GDP	IMF	61.9	59.5	68.7	69.0	66.1	65.9
	Net interest payment, % of government revenue	IMF	1.6	1.3	1.0	0.9	1.2	1.7
	Primary balance, % of GDP	IMF	2.7	2.1	-3.9	-3.1	-1.9	-2.1
External Economic	Current-account balance, % of GDP	IMF	8.0	8.2	7.1	7.7	4.2	6.0
	Total reserves, months of imports	WB	1.3	1.5	2.0	1.8	1.7	-
	NIIP, % of GDP	IMF	50.7	58.7	68.5	65.1	71.0	-
Financial Stability	NPL ratio, % of total loans	IMF	1.2	1.1	1.7	1.5	1.4	-
	Tier 1 ratio, % of risk-weighted assets	IMF	17.5	17.1	17.2	16.8	17.0	17.2
	Credit to the private sector, % of GDP	WB	78.2	79.4	85.0	84.2	83.4	-
ESG	CO ₂ per EUR 1,000 of GDP, mtCO ₂ e	EC	168.1	154.9	147.9	153.5	149.6	-
	Income share of bottom 50%, %	WID	18.3	16.8	17.2	19.2	19.3	-
	Labour-force participation rate, %	WB	79.1	80.1	78.8	78.9	-	-
	Old-age dependency ratio, %	UN	33.1	33.6	34.2	34.7	35.2	36.0
	Composite governance indicators*	WB	1.6	1.6	1.5	1.5	1.5	-
	Political stability, index	WB	0.6	0.5	0.6	0.7	0.6	-

*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality*.

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