Highlights of the Sovereign Rating on the Federal Republic of Germany

Updated Ratings
Long-term Local Currency: AAA_i
Long-term Foreign Currency: AAA_i
Outlook：Stable
Previous Ratings
Long-term Local Currency: AAA_i
Long-term Foreign Currency: AAA_i
Outlook：Stable

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Rating Opinions

United Ratings has decided to maintain the long-term local and foreign currency ratings of the Federal Republic of Germany (hereafter referred to as "Germany") at AAA_i, with Stable outlook. The large-scale inflow of refugees has undermined people's support to the government, but led by Premier Merkel, the Social Democratic Party, together with the Union are still likely to win the 2017 election. Driven by domestic demand, the country's economy will continue its strong growth tendency, but further attentions shall be paid to the risk of Deutsche Bank. The fiscal surplus will keep achieved, and the government debt burden will fall into a downward spiral. The excellent competitiveness of Germany's manufacturing sector will ensure the country to maintain a favorable external status. In summary, the German federal government's payment ability in local and foreign currencies remains unchanged in general.

Reasons for maintaining the Outlook

- The government's refugee policy has led to the decline of people's support, but the ruling alliance is still hopeful to win the general election in 2017.
- The country faces the following three challenges: (1) to control the impacts of the UK's departure from the European Union; (2) to ensure the integrity of the European Union; and (3) to deal with the relations with Russia.
- Due to the domestic demand and investment, German economy is expected to maintain its stable growth.
- Fiscal surplus will keep achieved, and the government's debt burden will decrease.
- The banking sector's overall stability is sound, but specific attentions shall be paid to its low profit, high leverage and weakened asset/debt structure.
- Due to the large-scale surplus in cross-border commodity trade, the country could maintain its sound external status.

To sum up, in the short run, the stability and continuity of the country's politics won't be affected significantly by the 2017 election. However, the Brexit vote and the integrity of the European Union are the main external challenges that Germany needs to face. The economy will keep growing at a steady pace, the fiscal consolidation will continue, and the large surplus from commodity trade won't turn to reduce. For the points mentioned above, United Ratings maintains the outlook of the Germany's sovereign ratings in both local and foreign currencies in the coming 1-2 years at Stable.

Key Indicators of the Sovereign Rating on the Federal Republic of Germany

	2011	2012	2013	2014	2015	2016[f]
Nominal GDP（billion USD）	3,756.2	3,543.4	3,752.3	3,880.0	3,354.4	3,396.0
GDP per capita（USD）	46,760.3	44,003.8	46,457.8	47,800.1	41,120	41,550
Real GDP growth（%）	3.7	0.6	0.4	1.4	1.7	1.5
Inflation rate (%)	2.3	2.1	1.3	0.0	0.3	1.1
Total lending/GDP (%)	163.6	156.7	130.2	126.5	125.0	125.2
Domestic credit growth (%)	3.0	-1.1	-10.6	5.9	-0.2	2.2
M2 growth (%)	6.0	6.6	3.5	4.9	4.1	7.3
Budget balance of governments/GDP (%)	-1.0	-0.1	-0.1	0.3	0.6	0.4
Primary balance of governments/GDP (%)	1.5	2.2	1.9	2.1	1.9	1.8
Public debt/GDP (%)	78.5	79.6	77.1	74.6	71.2	69.7
Current-account balance/GDP (%)	6.1	6.8	6.4	7.2	8.4	7.2

Source: Sovereign Rating Database of United Ratings.
Note: "f" stands for forecasts.