CareEdge Global assigns 'Stable' outlook to the rating of the Republic of Germany

Reaffirms Long-Term Foreign Currency Rating of 'CareEdge AAA' (Unsolicited)

Issuer rating	CareEdge AAA/ Stable (Unsolicited)

CareEdge Global has assigned a 'Stable' outlook to the rating of the Republic of Germany (Germany), while reaffirming the Long-Term Foreign Currency rating of 'CareEdge AAA (unsolicited)'. Germany's robust outlook is characterised by its large size, wealthy economy, solid institutions, strong external position, and a track record of fiscal prudence. Additionally, Germany benefits from being a member of the European Monetary Union. Despite these strengths, Germany has been facing cyclical challenges like a slowing economy and structural weaknesses like an ageing population, low public investment, rising competition for its core industries, and energy transition necessity to meet the carbon emissions targets.

Germany has been significantly lagging behind its peers in terms of economic growth in the recent past. Fiscal austerity could further weigh on growth conditions. In this context, CareEdge would closely monitor the economic growth outlook for Germany. Further, the country has witnessed political instability recently, with the coalition government collapsing and the subsequent no-confidence vote. Therefore, the policy choices to balance growth and government spending by the incoming government will also remain another key monitorable.

Rating Outlook: Stable

The stable outlook reflects the country's sufficient external and fiscal buffers. Despite having upward spending pressures due to an ageing population and higher military spending, Germany's projected general government debt at 62.7% of GDP in 2024 continues to be much smaller than its peers. Going forward, we expect this strength to be maintained, with debt expected to decline to 59% of GDP by 2028. CareEdge believes the recent political situation to have little impact on the debt trajectory given the country's solid institutional framework further supported by the Debt Brake Law.

Downside scenario

We could change the outlook to negative in case of prolonged weak growth, larger than expected deterioration of government finances, or any potential impact of contingent liabilities on public finances.

Key Rating Drivers

Economic Structure & Resilience

Germany is Europe's largest economy with Nominal GDP of USD4.5 trillion and has high GDP per capita of USD62,600 (constant PPP) in 2023. The German economy gathers strength from being a large, sizeable global export and manufacturing powerhouse with high national savings and low structural unemployment. Despite these strengths, such as supply chain disruptions, skilled labour shortages, higher input costs, and weakening global demand have impacted Germany, the only advanced economy to contract in 2023. Real GDP contracted by 0.2% in the first three quarters of 2024, and the trend is expected to continue in the last quarter of 2024.

Germany's goal to achieve carbon neutrality by 2045 necessitates technological transformation and infrastructure investment. This could be an uphill task considering a sizeable industry share in the economy (29% of GDP). On 15 November 2023, ruling was passed by Germany's highest court against the transfer of unused EUR60 billion in the Covid-19 pandemic related fund to climate fund. This has created a gap in the budget which could lead to more than required cuts in spending, dragging the growth further. Though the natural gas prices have been steadily falling for Germany for the past year, the current prices continue to be higher than the pre-Russian-Ukraine war, thus putting cost pressures on energy-intensive industries. Furthermore, low levels of public investment (Germany 2.6% of GDP vis-à-vis OECD average of 4% of GDP) and an ageing population are headwinds for economic growth.

Fiscal Strength

The General Government (GG) Debt to GDP ratio is relatively lower at 62.7% as compared to the advanced economies average of 112% in 2023. The GG debt to GDP is expected to further decline to 59% by 2028. Germany has displayed a strong track record of fiscal prudence post the introduction of the debt-brake law in 2009, which limits federal deficits at 0.35% of GDP. German bonds are considered benchmark risk-free assets in the Eurozone, thus keeping the borrowing costs low.

The debt brake law was suspended from 2020-2023 in the wake of Covid-19 pandemic and energy crisis. This fiscal deficit came in at 2.4% of GDP in 2023. The debt brake was reinstated in 2024, limiting the government's spending abilities. Despite this, the fiscal deficit is expected to be above 2.2% of GDP in 2024 and below 1% between 2025 and 2027. The high aged population has kept the social security and health bill high for the government, leaving little room for public investment. Germany has also committed to increase its military expenditure to 2% of GDP from 1.6% in 2023, which could add to its spending bill.

External Position & Linkages

Germany has a strong external position with a current account surplus averaging at 7% of GDP for the past 5 years (2019-23) and a large positive net international investment position (NIIP) at 70% of GDP in 2023. It also benefits from having a reserve currency. Slowing the global economy and Germany's reliance on China as the most important trading partner has led to sluggish export growth in 2023.

Moreover, the automotive sector, which accounts for 17% of total exports, has been particularly hit because of disruptive technology and semiconductor shortages. The FDI flows have also significantly slowed down (0.4% of GDP in 2023 vis-vis 2.2% between 2021 and 2022) amid economic uncertainty. Despite these challenges, the current account surplus is expected to average around 6.6% for the next 5 years, implying strong export competitiveness.

Monetary & Financial Stability

Average HICP inflation has subsided to 6% in 2023 from a multi-year high of 11% y-o-y in October 2022, albeit higher than the central bank's target of 2%. Average HICP inflation is expected to further moderate to 2.4% in 2024. Core inflation has been stickier on account of higher wage growth and services inflation. There are expectations of more rate cuts in 2025 after 3 rate cuts in 2024.

The banking sector continues to be resilient and well-capitalised; however, going forward, it could face risks emancipating from deterioration in asset quality amidst a slowing economy.

Institutions & Quality of Governance

Germany's institutional framework and quality of governance remain strong, displaying high standards and independent functioning. However, high bureaucracy and low digitization continue to be problem areas for the German economy.

Germany's coalition government, the centre-left between the Social Democratic Party, the Greens and the liberal Free Democratic Party collapsed due to lack of consensus over budget. Snap elections are due in February 2025. Germany being leader in Europe, remains more exposed to the geo-political risks in the region.

Germany – Select Indicators									
	Unit	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 F**	**2025 F**
Economic Indicators									
Nominal GDP	USD Billion	4,054	3,958	3,937	4,351	4,167	4,527	4,710	4,922
GDP Per Capita (Constant-PPP)	USD	62915	63396	60747	62950	63353	62650	62419	62800
Real GDP Growth	%	1.0	1.1	-4.1	3.7	1.4	-0.2	0.0	0.8
GFCF/GDP	%	21.1	21.3	21.5	21.3	22.1	21.9	-	-
Gross Domestic Savings/GDP	%	28.0	27.8	27.8	28.6	27.0	27.7	-	-
Exports (G&S)/GDP	%	47.3	47.1	43.5	47.3	50.9	47.1	-	
Working-Age (15-64) Population (% Share in Total)	%	65.0	64.6	64.3	64.0	63.6	63.3	62.8	62.3
Old-Age (65+) Population (% Share in Total)	%	21.5	21.7	22.0	22.2	22.4	22.7	23.2	23.6
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	1.9	1.5	-4.3	-3.6	-2.5	-2.2	-1.7	-1.3
Revenue/GDP	%	46.3	46.5	46.1	47.4	47.0	46.2	46.3	46.8
Expenditure/GDP	%	44.3	45.0	50.5	50.9	49.5	48.6	48	48.1
GG Gross Debt/GDP	%	60.7	58.6	67.9	67.9	64.8	62.7	62.7	62.1
GG External Debt (by Creditor)/GG Gross Debt	%	51.7	53.8	52.2	46.0	38.3	43.7	-	-
Interest/Revenue	%	2.0	1.7	1.4	1.2	1.5	1.9	-	-
External Indicators									
Current Account Balance/GDP	%	7.8	8.0	6.5	7.2	4.2	6.2	6.6	6.4
FDI, Net Inflows/GDP	%	4.2	1.9	4.6	2.4	1.5	0.4	-	-
Outstanding FII Liabilities/GDP	%	80.5	89.8	102.7	89.0	74.1	79.8	-	-
NIIP/GDP	%	52.3	58.5	64	68.3	69.5	70.1	-	-
Foreign Exchange Reserves	USD Billion	198.2	223.8	268.8	296.0	294.7	322.9	-	-
Import Cover	Months	1.5	1.7	2.2	2.0	1.8	2.0	-	-
External Debt/GDP	%	143.1	147.9	176.9	163.4	158.4	148	-	-
Monetary and Financial Indicators									
CPI Inflation	%	1.9	1.4	0.4	3.2	8.7	6.0	2.4	2.0
Exchange Rate (Average)	LC per USD	0.85	0.89	0.88	0.85	0.95	0.93	-	-
Non-Performing Loans/Total Gross Loans	%	1.2	1.1	1.7	1.5	1.2	1.5	-	-
Private debt, loans and debt securities/GDP	%	120.2	122.2	130.7	130.4	127.9	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Solicitation Status
The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating (Long Term Foreign Currency)	Unsolicited	AAA/ Stable	December 30, 2024
Issuer Rating (Long Term Foreign Currency)	Unsolicited	AAA	October 3, 2024

Criteria Applied
CareEdge Sovereign Rating Methodology

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CIN-U66190GJ2024PLC151103