

CareEdge Global reaffirms Federal Republic of Germany's rating at 'CareEdge AAA/Stable'

Issuer rating (Long-Term Foreign Currency)

CareEdge AAA/Stable (Unsolicited)

Rating Action

CareEdge Global has reaffirmed the Long-Term Foreign Currency issuer rating for Federal Republic of Germany at '**CareEdge AAA/Stable**' (Unsolicited).

Rationale

The reaffirmation underscores Germany's position as Europe's largest economy and its status as the region's benchmark sovereign. Its solid institutional framework, wealthy and diversified economy, strong external buffers, along with a track record of fiscal prudence continue to anchor its credit strength. Germany also benefits from exceptional access to capital markets and the Euro's reserve-currency status.

Germany has been significantly lagging its similarly rated peers in economic growth in recent years. It is also facing persistent structural pressures like ageing demographics, low public investment, and intensifying global competition for its core industries. To address these challenges, the government passed a fiscal stimulus package in March 2025, aimed at supporting investment and lifting growth momentum. CareEdge will continue to closely monitor how effectively this package translates into stronger economic performance.

Political stability and the government's ability to advance reforms will remain a key monitorable, as the current coalition government operates with a relatively narrow and fragile majority. In addition, Germany's ability to navigate US tariff measures, along with preserving competitiveness in its core export sectors will be an important factor to monitor.

Outlook: Stable

The Stable Outlook reflects Germany's substantial external buffers and exceptional access to capital markets, with very low interest expenses expected to persist over the medium term. These strengths will continue to provide sufficient headroom to absorb rising fiscal pressures stemming from ageing-related expenditure, higher defense commitments, and sustained public investment needs. The General Government debt is projected to increase to nearly 73% of GDP by 2027, up from around 62% in 2024. Even then, debt levels remain manageable and well below the regional average, supporting Germany's medium-term economic resilience.

Downside Scenario

The outlook can be revised to negative if Germany experiences a sustained period of weak growth, a materially sharper deterioration in public finances, or if contingent liabilities begin to exert meaningful pressure on the government balance sheet.

Key Rating Drivers

Economic Structure & Resilience

Germany is Europe's largest economy, with a nominal GDP of about USD 4.6 trillion and a high GDP per capita of USD 63,072 (PPP) in 2024, underpinned by a strong export-oriented manufacturing base, high national savings, and low structural unemployment. These structural strengths continue to provide a meaningful degree of economic resilience.

However, growth performance has been weak in recent years, making Germany the only advanced economy to contract for two consecutive years. Economic activity stagnated at near-zero growth during the first three quarters of 2025, a trend expected to persist into the final quarter. Growth has been constrained by a combination of supply-chain disruptions, skilled labour shortages, elevated input and energy costs, and weakening global demand. Although natural gas prices have declined over the past year, they remain above pre-Russia-Ukraine conflict levels, continuing to weigh on energy-intensive industries and erode competitiveness. In response, the government has announced plans to subsidize electricity prices for these industries from 2026 to 2028.

At the same time, structural headwinds persist, including chronically low public investment of around 2.9% of GDP compared with an OECD-EU average of 3.6% (in 2024) and an ageing population. To counter prolonged stagnation and strengthen medium-to-long-term growth and resilience, the Bundestag passed a €500 billion fiscal stimulus package in March this year, aimed at boosting infrastructure investment and accelerating the climate transition. This is also important given Germany's ambition to achieve carbon neutrality by 2045 and the large industrial share of its economy.

Fiscal Strength

Germany has a long-standing record of fiscal prudence, which remains a key pillar of its strong credit profile. The general government debt-to-GDP ratio stood at 62.2% in 2024, only marginally above the EU's 60% reference level. Fiscal discipline has historically been anchored by the constitutional debt-brake law, which limits the federal structural deficit to 0.35% of GDP. German government bonds are widely regarded as benchmark risk-free assets within the Eurozone, supporting consistently low borrowing costs.

The debt brake law was loosened in a historic decision in March this year, allowing the states to incur structural borrowing of up to 0.35% of GDP instead of adhering to balanced budgets. In addition, the government has invoked the National Escape Clause to permit defense spending above 1% of GDP.

Against this backdrop, fiscal deficits are expected to remain above 3% of GDP through 2028, although they are broadly contained around the 3% threshold when the National Escape Clause is considered. These policy choices, including the recent passage of the pension bill that keep the pension rate elevated at 48% of average wages, add to structural spending pressures arising from a rapidly ageing population, alongside higher defense and

infrastructure spending. Together, these factors are expected to push the general government debt ratio to around 73% of GDP by 2027. While this level is above the AAA-rated median of around 45%, it remains well below the regional average.

External Position & Linkages

Germany maintains a strong external position, supported by a large and persistent current account surplus, which averaged around 6% of GDP between 2020 and 2024, and a highly positive net international investment position (NIIP) of about 77% of GDP in 2024. The country also benefits from the Euro's reserve currency status, which underpins external stability.

In recent years, Germany's external environment has become increasingly challenging amid eroding competitiveness, heightened global uncertainty, a slowing global economy, and sector-specific trade barriers, including tariffs on aluminum and steel as well as reciprocal tariff measures from the US. Competitive pressures have intensified as China has rapidly gained global market share in merchandise exports, with Germany accounting for around 7% of global exports, compared with China's roughly double share. China has also overtaken Germany in certain industrial segments, including specialized machinery and metal manufacturing. At the same time, foreign direct investment inflows have weakened, declining to around 1% of GDP in 2024 from an average of 2.4% during 2020–2024.

Nevertheless, Germany continues to maintain a strong presence in its core export-oriented industries, underscoring the underlying resilience of its industrial base. While external pressures are expected to weigh on performance, the economy is still projected to record a sizeable current account surplus, averaging around 4.8% of GDP over the next five years.

Monetary & Financial Stability

Inflationary pressures in Germany have eased materially, with average HICP inflation hovering broadly around the ECB's 2% target throughout 2025 and expected to remain close to target over the medium term. Furthermore, the ECB is expected to hold policy rates and maintain a broadly neutral monetary policy stance, which should support consumer demand and investment activity.

The banking sector remains resilient and well capitalized, underpinned by strong capital buffers and improved profitability in recent years. Non-performing loan ratios remain among the lowest in the Eurozone, reflecting prudent risk management. However, downside risks persist, such as, low returns on assets among German banks, prolonged economic slowdown that could weigh on asset quality, may pose challenges for the sector going forward.

Institutions & Quality of Governance

Germany's institutional framework and quality of governance remain strong, characterised by high standards and the independent functioning of key institutions. However, structural

inefficiencies persist, notably high bureaucracy, regulatory complexity, and low levels of digitalisation.

Politically, Germany's coalition government, led by Chancellor Friedrich Merz and formed between the Christian Democratic Union (CDU) and the Social Democratic Party (SPD), faced challenges in securing a comfortable majority in the snap Bundestag elections held in February this year. Political fragmentation has increased, with the far-right Alternative for Germany (AfD) gaining traction across several regions, adding to policy uncertainty. The coalition has also passed key legislation, including a pension reform bill, by a narrow parliamentary margin, highlighting constraints on policymaking. As a leading political and economic force in Europe, Germany remains more exposed to regional geopolitical risks, which could further complicate the policy environment.

Germany – Select Indicators									
	Unit	2019	2020	2021	2022	2023	2024	2025 F	2026 F
Economic Indicators									
Nominal GDP	USD Billion	3,960	3,938	4,358	4,204	4,564	4,684	5,014	5,328
GDP Per Capita (Constant-PPP)	USD	64,054	61,467	63,975	64,709	63,561	63,072	63,081	63,590
Real GDP Growth	%	1.0	-4.1	3.9	1.8	-0.9	-0.5	0.2	0.9
GFCF/GDP	%	21.2	21.3	21.2	21.7	21.5	20.9	-	-
Gross Domestic Savings/GDP	%	29.3	28.0	29.6	27.1	27.5	27.1	26.7	25.8
Exports (G&S)/GDP	%	42.4	39.2	42.6	45.6	42.9	41.4	-	-
Working-Age (15-64) Population (% Share in Total)	%	64.7	64.4	64.0	63.6	63.3	62.9	62.4	61.9
Old-Age (65+) Population (% Share in Total)	%	21.6	21.8	22.1	22.5	22.8	23.2	23.7	24.2
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	1.3	-4.4	-3.2	-1.9	-2.5	-2.7	-3.3	-4.8
Revenue/GDP	%	46.9	46.7	47.5	46.7	45.7	46.8	47.9	48.0
Expenditure/GDP	%	45.5	51.1	50.7	48.6	48.1	49.4	50.4	51.4
GG Gross Debt/GDP	%	58.7	68.0	68.0	64.4	62.4	62.2	65.0	69.5
GG External Debt (by Creditor)/GG Gross Debt	%	53.6	52.0	45.8	38.1	43.5	46.0	-	-
Interest/Revenue	%	1.4	1.1	1.0	1.5	2.1	-	-	-
External Indicators									
Current Account Balance/GDP	%	7.9	6.3	6.9	3.8	5.5	5.6	5.4	5.1
FDI, Net Inflows/GDP	%	1.9	4.5	2.9	2.1	1.7	1.0	-	-
Outstanding FII Liabilities/GDP	%	88.2	101.3	87.5	72.4	78.0	78.3	-	-
NIIP/GDP	%	58.7	69.0	67.1	71.1	70.2	76.6	-	-
Foreign Exchange Reserves	USD Billions	36.0	36.8	37.0	36.8	36.9	35.2	-	-
Import Cover	Months	1.8	2.4	2.2	2.0	2.2	2.6	-	-
External Debt/GDP	%	145	175	161	156	151	142	-	-
Monetary and Financial Indicators									
CPI Inflation	%	1.6	0.4	3.2	8.7	6.0	2.5	2.1	1.8
Exchange Rate (Average)	LC per USD	0.9	0.9	0.9	1.0	0.9	0.9	-	-
Non-Performing Loans/Total Gross Loans	%	1.1	1.7	1.5	1.2	1.5	1.5	-	-
Private debt, loans and debt securities/GDP	%	137.9	148.4	147.3	147.1	140.7	139.4	-	-

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 2024

Solicitation Status

The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge AAA/Stable	December 29, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge AAA/Stable	December 30, 2024
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge AAA	October 03, 2024

Criteria Applied

[CareEdge Sovereign Rating Methodology](#)

Analytical Contacts

Kiran Kavala

kiran.kavala@careedgeglobal.com

Shobana Krishnan

C-shobana.krishnan@careedge.in

Shivani Sahu

shivani.sahu@careedgeglobal.com

Media Contact

Mradul Mishra

mradul.mishra@careedge.in

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501, FlexOne, GIFT SEZ, Block 15, Gandhinagar, Gujarat – 382050, India. Phone: +91-79-6519 0701 | www.careedgeglobal.com
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