Rating Rationale
June 26, 2026

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

Issuer rating (Long-Term Foreign Currency Rating)	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.

However, Germany has been lagging its similarly rated peers in economic growth in recent years. It also continues to grapple with structural pressures such as ageing demographics, low public investment, and intensifying global competition within its core industries. In response, the government passed a fiscal stimulus package in March 2025 to support investment and lift the growth momentum. CareEdge Global 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 bear watching, as the current coalition government operates with a relatively narrow and fragile majority. Additionally, Germany's ability to navigate trade protectionism, along with preserving competitiveness in its core export sectors is a key monitorable.

Outlook: Stable

The stable outlook reflects Germany's substantial external buffers and exceptional access to capital markets, with very low interest expense expected over the medium term. These strengths will continue to provide sufficient headroom to absorb rising fiscal pressures stemming from ageing-related expenditure, higher defence commitments, and sustained public investment needs. As per the 2026 budget, the general government debt is projected to increase to nearly 76.5% of GDP by 2028 from around 62% in 2024. Even then, debt levels are manageable and well below the regional average, supporting Germany's medium-term 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 around USD 5 trillion and GDP per capita (PPP) of USD 63,218 in 2025. The economy benefits from a highly diversified and competitive manufacturing base, strong export capacity, high domestic savings, and low structural unemployment. These strengths, together with strong institutions and a highly skilled workforce, enhance economic resilience and underpin the sovereign's credit profile.

However, economic performance has weakened in recent years. Following two consecutive years of contraction, real GDP growth remained modest at 0.2% in 2025, with growth of 0.3% Y-o-Y in Q1 2026, indicating a still-fragile recovery. Growth has been constrained by weak external demand, elevated energy and production costs, supply-chain disruptions, labour shortages, and subdued private investment. The West Asia conflict has further clouded the outlook, prompting a downward revision of the 2026 growth forecast to 0.8% from 1.1%, amid expectations of higher energy prices and increased uncertainty. While Germany has significantly diversified its energy imports since the Russia-Ukraine conflict, reducing its vulnerability to supply disruptions, the economy remains dependent on imported energy and exposed to external energy price shocks.

To address prolonged economic stagnation and strengthen medium-term growth prospects, the Bundestag approved a €500 billion fiscal package in March 2025, focused on infrastructure modernisation, defence, and the green transition. The package is expected to support domestic demand and enhance long-term productive capacity. Reflecting the weakness of private demand and exports, the recovery is likely to be driven primarily by higher public investment in the near term. The Bundesbank has noted that the economy would likely have remained in contraction in the absence of the planned fiscal stimulus.

Fiscal strength

Germany's strong fiscal position remains a key pillar of its credit profile. The general government debt-to-GDP ratio was 65% in 2025, only moderately above the EU's 60% reference value. Fiscal policy has historically been anchored by the constitutional debt-brake rule, which limits the federal structural deficit to 0.35% of GDP and has contributed to a long track record of fiscal prudence. Supported by deep capital markets and Germany's status as the Eurozone's benchmark sovereign issuer, government borrowing costs remain comparatively low.

Fiscal policy has, however, become more expansionary in response to growing investment and security needs. In March 2025, Germany relaxed its constitutional debt-brake rule in a landmark reform of its fiscal framework, marking a significant departure from its traditionally conservative fiscal stance. Nevertheless, Chancellor Friedrich Merz has ruled out any further relaxation of the debt-brake during the current legislative term, reaffirming the authorities' commitment to fiscal discipline. Implementation of the €500 billion investment package has been gradual, with only around 5% disbursed by end-2025 and a further 12% expected in 2026.

Against this backdrop, fiscal deficits are projected to remain above 3% of GDP through 2028. General government debt ratio is expected to rise to around 76.5% of GDP by 2028. Although this would exceed the median level of similarly rated AAA sovereigns, it would remain below the regional average.

External position & linkages

Germany has a strong external position, supported by a large and persistent current account surplus, which averaged 5.3% of GDP between 2021 and 2025, and a highly positive net international investment position (NIIP) of about 86% of GDP in 2025. The country also benefits from the Euro's reserve currency status, which underpins external stability. FDI net inflows (as a % of GDP) were also healthy at nearly 2% in 2025.

However, Germany's external sector faces growing headwinds. Competitiveness has come under pressure from elevated energy costs, slowing global demand, increasing trade protectionism, and heightened geopolitical uncertainty. In addition, Chinese firms have gained market share in several manufacturing segments traditionally dominated by German exporters, contributing to weaker export performance.

Nevertheless, Germany's presence in its core export-oriented industries is entrenched, underscoring the 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 of 3.8% of GDP, on average, over the next five years.

Monetary & financial stability

Inflation remained broadly aligned with the European Central Bank's (ECB) 2% target throughout 2025 but accelerated to 2.6% in May 2026 because of West Asia conflict-induced higher energy prices. Inflation is projected to average 2.7% in 2026. The ECB's rate hike in June is expected to further dampen private consumption and investment, weighing on the pace of economic recovery.

The banking sector remains resilient and well capitalised, underpinned by strong capital buffers and improved profitability in recent years. Non-performing loan ratios are among the lowest in the Eurozone, reflecting prudent risk management. However, profitability of German banks is relatively lower than its European peers. Prolonged economic slowdown could also weigh on asset quality and 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 and regulatory complexity.

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 2025. Political fragmentation has increased, with the far-right Alternative for Germany (AfD) gaining traction across several regions, adding to policy uncertainty. As a leading political and economic force in Europe, Germany is more exposed to regional geopolitical risks, which could further complicate the policy environment.

Select indicators									
	Unit	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026 F**	**2027 F**
Economic indicators									
Nominal GDP	USD billion	3,938	4,358	4,204	4,564	4,684	5,048	5,453	5,642
GDP per capita (constant-PPP)	USD	61,467	63,975	64,709	63,561	63,072	63,218	63,735	64,530
Real GDP growth	%	-4.1	3.9	1.8	-0.9	-0.5	0.2	0.8	1.2
GFCF/GDP	%	21	21	22	21	20	-	-	-
Gross domestic savings/GDP	%	28	30	27	28	27	26	25	25
Exports (G&S)/GDP	%	39	43	46	43	42	41	-	-
Working age (15-64) population (% share in total)	%	64.4	64.0	63.6	63.3	62.9	62.4	61.9	61.9
Old age (65+) population (% share in total)	%	21.8	22.1	22.5	22.8	23.2	23.7	24.2	24.8
Fiscal indicators – general government									
Fiscal balance/GDP	%	-4.4	-3.2	-1.9	-2.5	-2.7	-3.3	-4.8	-4.3
Revenue/GDP	%	47	48	47	46	47	48	48	48
Expenditure/GDP	%	51	51	49	48	49	51	52	52
GG gross debt/GDP	%	68.0	68.0	64.4	62.4	62.2	65.0	69.5	73.0
GG external debt (by creditor)/GG gross debt	%	56.2	44.1	39.0	44.8	44.4	50.1	-	-
Interest/revenue	%	1.1	1.0	1.5	2.1	2.3	2.3	-	-
External indicators									
Current account balance/GDP	%	6.3	6.9	3.8	5.5	5.8	4.4	3.9	3.8
FDI, net inflows/GDP	%	4.5	2.9	1.8	2.0	1.3	1.9	-	-
Outstanding FII liabilities/GDP	%	101	87	72	78	78	91	-	-
NIIP/GDP	%	69	67	71	70	77	86	-	-
Foreign exchange reserves	USD billion	268	296	296	323	376	565	-	-
Import cover	Months	2.4	2.2	2.0	2.2	2.5	3.5	-	-
External debt/GDP	%	163	168	153	146	147	151	-	-
Monetary and financial indicators									
CPI inflation	%	0.4	3.2	8.7	6.0	2.5	2.3	2.7	2.3
Exchange rate (average)	LC per USD	0.9	0.9	1.0	0.9	0.9	0.9	-	-
Non-performing loans/total gross loans	%	1.2	1.1	1.0	1.1	1.4	1.5	-	-
Private debt, loans and debt securities/GDP	%	148	147	147	141	139	-	-	-

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	June 26, 2026
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

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