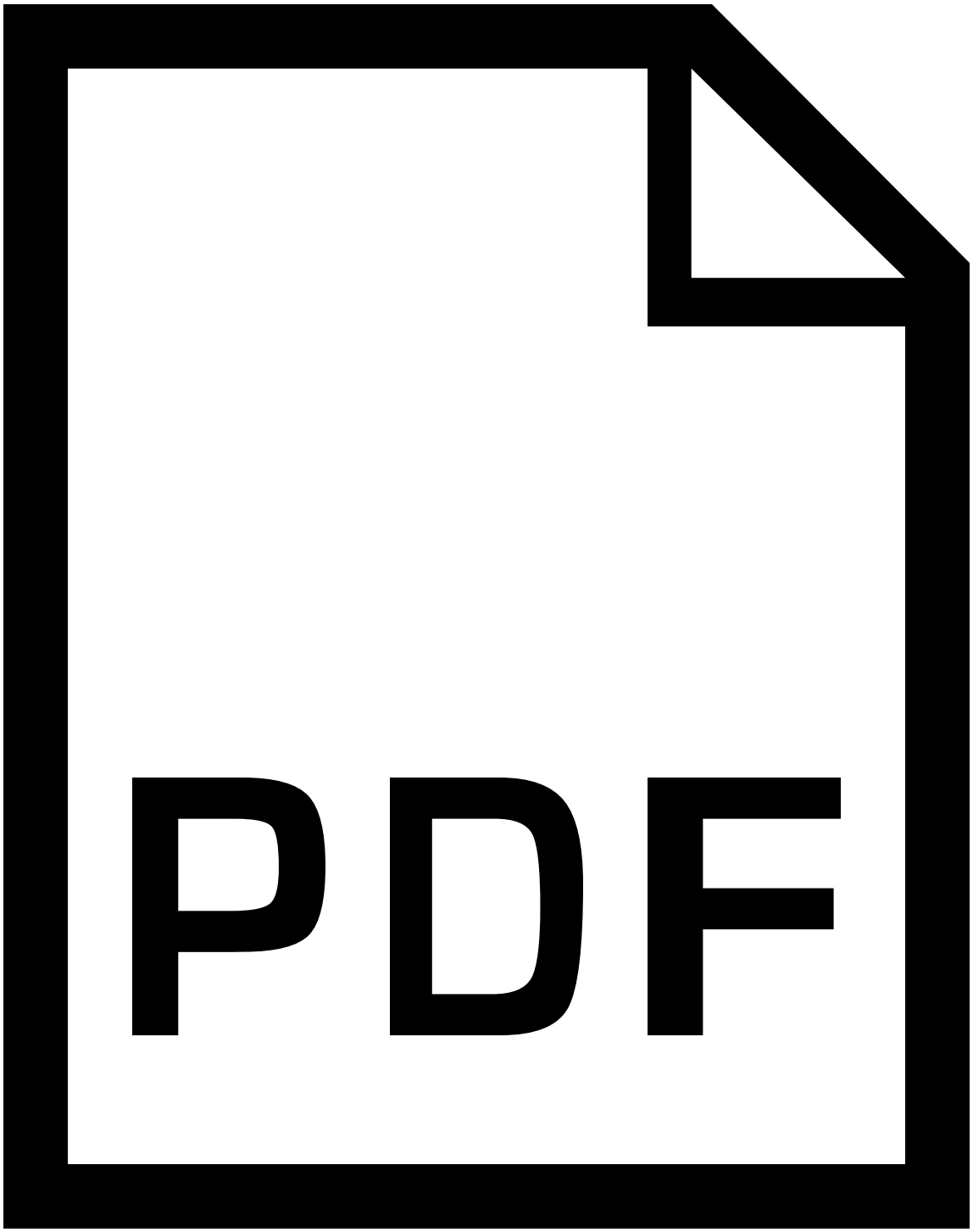
News Item, 20/11/2012, Gütersloh/ Washington: INCRA: Germany's top sovereign-debt rating secure only with reform

DISCLAIMER: These ratings are a policy driven exercise and do not constitute a credit rating according to the Regulation (EC) No. 1060/2009.



- PDF

A downgrading of Germany's top sovereign-debt credit rating can be avoided only if the country continues to implement fiscal reform at home and push for similar reform in its eurozone partners, according to the criteria set out in the Bertelsmann Foundation's proposal for the first international, non-profit credit rating agency (INCRA).

This conclusion is part of a new INCRA report, presented today in Berlin, that provides test sovereign-debt ratings for five countries: Brazil, France, Germany, Italy and Japan.The INCRA report uses a scale of 1 to 10 for its ratings. Germany achieves a score of 8.1 (equivalent to AAA, negative outlook), while France follows close behind with 7.9 (AA+). Italy earns a 7.2 (AA-), Brazil a 6.8 (A+) and Japan a 6.0 (A-).

All the countries examined, however, face challenges to maintaining their ratings.

INCRA praises Germany for its management of the eurozone crisis. But Berlin's liability for approximately €310 billion of debt of other eurozone countries, its own current debt of 82.8 percent of GDP, little prospect of that debt's decreasing to under 80 percent of GDP in the near term, and a poor demographic outlook threaten a downgrade.

France's solid rating is also endangered by its high debt and deficits. Italy's INCRA rating, significantly higher than those of the leading credit rating agencies, is due to Rome's recent, competent handling of its fiscal affairs and the country's strong economic fundamentals.

Brazil's rating is at risk given urgently needed investment in education and infrastructure to help reverse a recent steep drop in growth. Japan's high debt, around 230 percent of GDP, the highest of any country, had a significantly negative impact on its INCRA rating.

INCRA uses, in addition to traditional macroeconomic data, forward-looking indicators in its analyses. These indicators include the ability of governments to master crisis management and to implement needed reform. They also consider investment in future resources such as education and infrastructure.

The Bertelsmann Foundation assembled a team of international sovereign-ratings experts to use these wide-ranging factors in the calculation of the INCRA ratings.

The INCRA ratings are the second step in the Bertelsmann Foundation's feasibility study of an alternative credit-rating-agency model. The Foundation developed its proposal following the 2008 financial crisis and the subsequent criticism of the practices of the leading credit rating agencies. The Foundation believes INCRA's ratings offer higher quality by their inclusion of socioeconomic in addition to macroeconomic factors and by greater transparency in the rating process. To this end, the new INCRA report introduces for each country examined a "rating radar", which shows at one glance poor socioeconomic and macroeconomic performance.

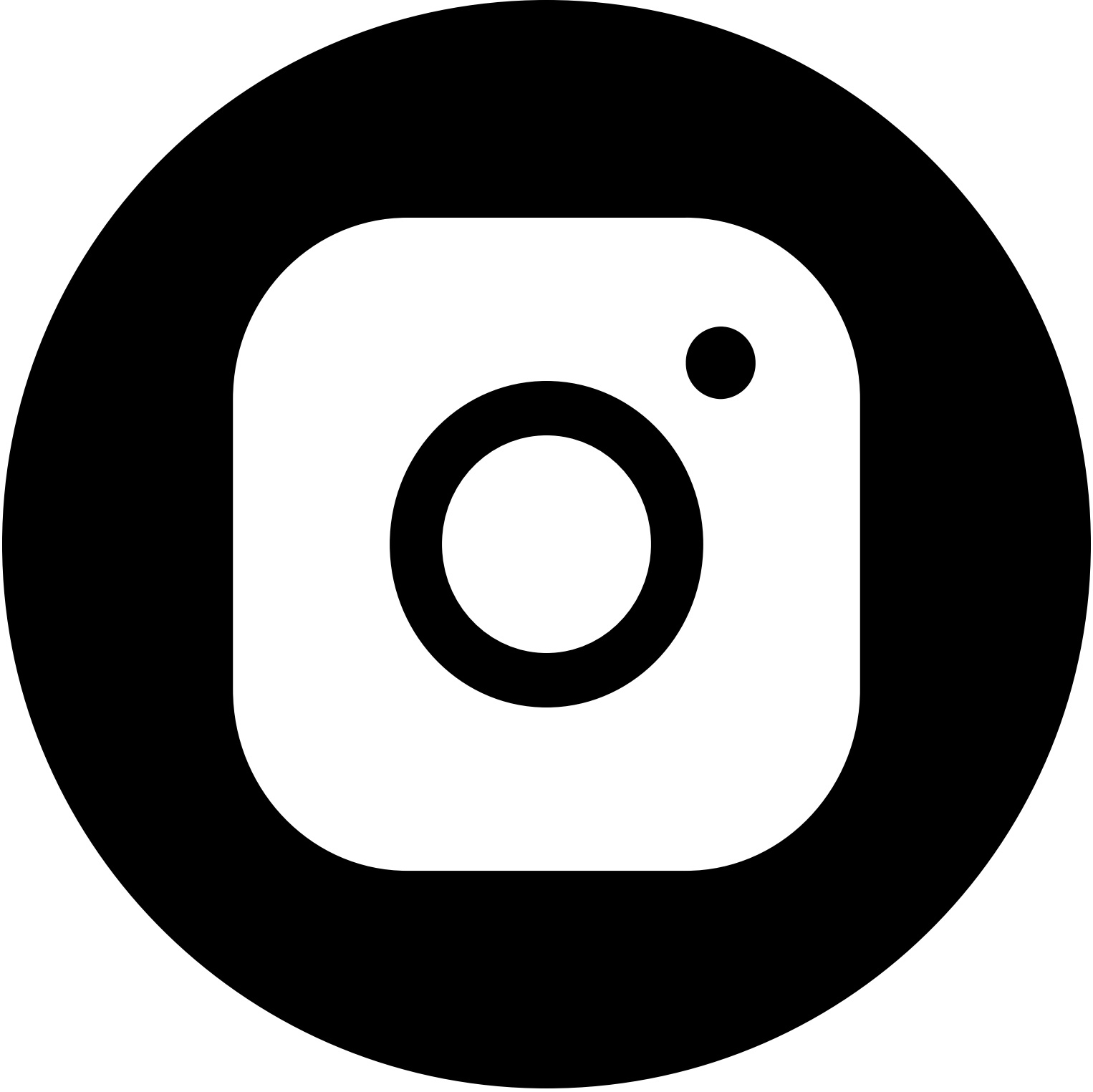
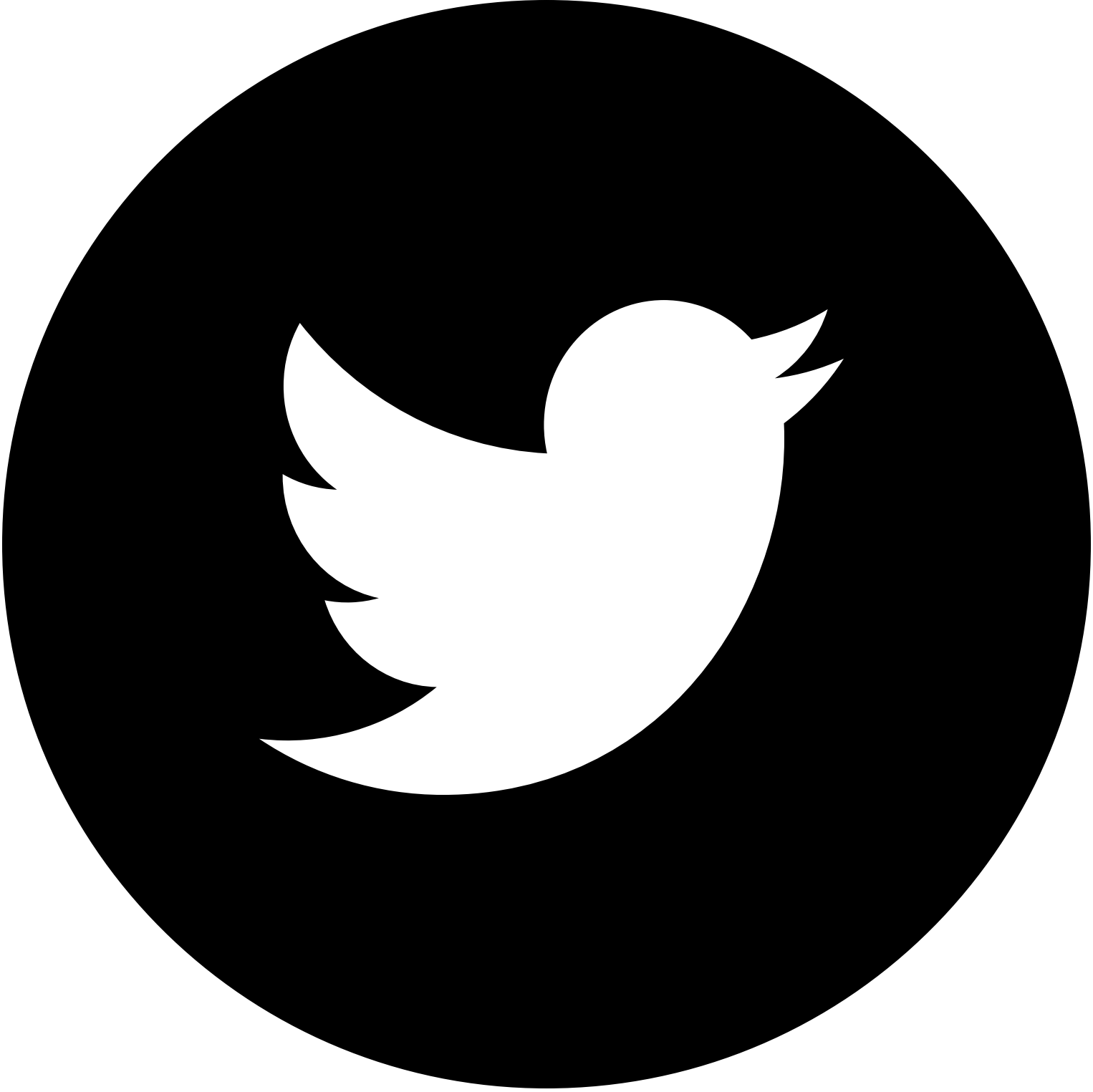
"The advantage of the INCRA ratings is in their transparency and comprehensive evaluations. INCRA offers more than a ratings system. It provides an opportunity to spur a broad, social debate on the need for a country to undertake reform," said Bertelsmann Foundation Chairman Aart De Geus. "Our analysis shows that Germany continues to lead Europe in creditworthiness, but it cannot rest on its laurels. Germany needs to confront demographic changes and make itself more attractive for talented people worldwide," De Geus added.

INCRA was first unveiled at the Bertelsmann Foundation's fourth annual financial conference in Washington, DC in April 2012. The Foundation is a think tank and, as such, does not seek to found INCRA. The Foundation believes that a global forum, such as the G20, is best placed to bring INCRA to fruition.

Downloads

- INCRA Rating Scale (45 KB)
- INCRA Country Ratings Report (1.7 MB)
- Germany Expert Report (1.2 MB)
- France Expert Report (1.1 MB)
- Italy Expert Report (1022 KB)
- Brazil Expert Report (1 MB)
- Japan Expert Report (1.8 MB)
- INCRA Report (2.8 MB)
- FAQs INCRA (114 KB)

Links

- Bertelsmann Foundation

BertelsmannStiftung