



Global Macro

Global Economic Outlook

June 2024 Update





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- **2024 Global Economic Outlook**
- Commercial-Real-Estate Outlook
- 2024 European Banking Outlook
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Global economic outlook (June 2024): growth, inflation and official rates, euro area, 2021-2025F

Country/region	Real GDP growth (annual average, %)								Headline inflation ² (annual average, %)						Policy rates (EOP, %)					
	2021	2022	2023E	2024F	Diff. from Dec-23 ¹	2025F	Diff. from Dec-23 ¹	Medium- run potential	2021	2022	2023E	2024F	Diff. from Dec-23 ¹	2025F	Diff. from Dec-23 ¹	End-2021	End-2022	End-2023	End-2024	End-2025
Euro area³	5.9	3.4	0.4	1.0	↓0.1	1.7	-	1.5	2.6	8.4	5.4	2.5	↓0.3	2.1	↓0.1	(0.5)	2.0	4.0	3.5	3.0
Germany	3.1	1.9	(0.2)	0.2	↓0.1	1.4	↓0.2	0.8	3.2	8.7	6.0	2.4	↓0.3	2.0	↓0.3					
France	6.8	2.6	1.1	0.8	↓0.2	1.3	↓0.2	1.35	2.1	5.9	5.7	2.5	↓0.3	1.8	↓0.1					
Italy	8.3	4.1	1.0	0.7	↓0.1	0.9	↓0.5	1.0	1.9	8.7	5.9	1.5	↓0.9	2.3	↑0.4					
Spain	6.4	5.8	2.5	1.9	↑0.1	2.1	↑0.2	1.75	3.0	8.3	3.4	3.0	↓0.3	2.3	-					
Netherlands	6.2	4.4	0.2	0.8	↓0.5	1.6	↓0.2	1.4	2.8	11.6	4.1	1.6	-	2.3	-					
Belgium	6.9	3.0	1.4	1.0	↓0.3	1.3	↑0.1	1.2	3.2	10.3	2.3	4.2	-	2.1	-					
Austria	4.4	4.9	(0.7)	0.5	↓0.3	1.6	↑0.1	1.2	2.8	8.6	7.7	3.8	-	2.4	-					
Ireland	14.7	9.6	(3.3)	1.8	↓1.3	4.7	↑1.2	4.0	2.4	8.1	5.2	2.3	↓1.0	2.5	↑0.4					
Finland	2.8	1.3	(1.0)	-0.2	↓0.9	2.0	↑0.7	1.2	2.1	7.2	4.3	1.4	↓0.4	2.0	-					
Portugal	5.7	6.8	2.3	1.2	-	1.8	↑0.2	1.8	0.9	8.1	5.3	3.5	-	2.2	-					
Greece	8.4	5.6	2.0	1.6	↓0.6	1.8	↓0.5	1.0	0.6	9.3	4.2	3.1	↑0.7	2.8	↑0.5					
Slovakia	4.8	1.9	1.6	1.9	-	2.3	-	2.5	2.8	12.1	11.0	5.2	-	3.0	-					
Luxembourg	7.2	1.4	(1.1)	2.3	↑0.7	2.9	↑0.6	2.5	3.5	8.2	2.9	2.6	↓0.5	2.8	↑0.7					
Lithuania	6.2	2.4	(0.3)	1.7	↓0.7	3.1	↓0.1	2.5	4.6	18.9	8.7	2.0	↓1.2	2.2	↓0.2					
Slovenia	8.4	2.9	1.8	2.2	-	2.7	-	3.0	2.0	9.3	7.2	4.0	-	2.8	-					
Latvia	4.1	3.1	(0.0)	1.9	↓0.3	3.6	↑0.7	2.5	3.2	17.2	9.1	2.0	↓0.9	2.2	↓0.3					
Estonia	7.4	(0.5)	(3.1)	-0.3	↓2.3	3.2	↑0.5	2.2	4.5	19.4	9.1	3.8	↑0.6	2.3	-					
Cyprus	9.9	5.1	2.5	2.8	↑0.1	3.0	↓0.0	3.0	2.3	8.1	3.9	2.4	-	2.2	-					
Malta	12.4	8.1	5.7	4.5	↑0.6	4.0	↑0.6	3.5	0.7	6.1	5.6	3.0	-	2.3	-					
Croatia	10.2	7.0	3.1	3.3	↑1.3	3.1	↑0.5	2.8	2.6	10.8	7.9	3.7	↓1.1	2.6	↓0.1					

Negative values shown in parentheses. Source: Scope Ratings forecasts, Macrobond, IMF.

1. Changes compared with Scope's December-2023 [2024 Sovereign Outlook](#) forecasts ("n/a" reflects forecasts not available as of the December-2023 Sovereign Outlook).

2. HICP headline inflation for euro-area member states.

3. Shown for the euro-area policy rate is the ECB deposit facility rate.

Global economic outlook (June 2024): growth, inflation and official rates, beyond the euro area, 2021-2025F

Country/region	Real GDP growth (annual average, %)								Headline inflation ² (annual average, %)						Policy rates (EOP, %)					
	2021	2022	2023E	2024F	Diff. from Dec-23 ¹	2025F	Diff. from Dec-23 ¹	Medium- run potential	2021	2022	2023E	2024F	Diff. from Dec-23 ¹	2025F	Diff. from Dec-23 ¹	End-2021	End-2022	End-2023	End-2024	End-2025
Western Europe ex-euro area																				
United Kingdom	8.7	4.3	0.1	0.8	↑0.4	1.4	↓0.1	1.5	2.6	9.1	7.3	2.7	↓0.1	2.7	↑0.9	0.25	3.5	5.25	5.0	4.5
Switzerland	5.4	2.7	0.7	1.0	↓0.4	1.4	-	1.5	0.6	2.8	2.1	1.6	-	2.0	-	(0.75)	1.0	1.75	1.0	1.0
Sweden	5.7	1.6	0.1	0.1	↑0.4	1.8	↓0.3	1.8	2.2	8.4	8.5	3.1	↓0.6	2.0	↓0.1	0.0	2.5	4.0	3.25	2.5
Norway	4.0	3.0	0.7	1.2	↑0.3	2.0	↑0.6	1.8	3.5	5.8	5.5	3.8	↓0.2	2.3	↓0.4	0.5	2.75	4.5	4.25	3.5
Denmark	6.8	2.7	1.9	2.0	↑0.6	1.9	-	1.5	1.9	7.7	3.3	1.6	↓0.4	1.9	↓0.4	(0.60)	1.75	3.6	2.75	2.0
EU central and eastern Europe ex-euro																				
Poland	6.9	5.9	0.1	2.9	↑0.1	3.0	-	3.0	5.2	14.4	11.4	4.5	↑1.0	4.7	↑1.6	1.75	6.75	5.75	5.5	4.75
Romania	5.7	4.1	2.1	2.8	↓0.2	3.5	↑0.1	3.7	5.1	13.8	10.4	5.3	↓1.2	3.7	↓0.3	1.75	6.75	7.0	5.75	5.25
Czech Republic	3.5	2.4	(0.2)	0.6	↓1.0	2.2	↑0.6	2.5	3.8	15.1	10.7	2.2	↓0.5	1.9	↓0.3	3.75	7.0	6.8	4.0	3.0
Hungary	7.0	4.6	(0.7)	2.3	↓0.1	3.3	↑0.2	2.5	5.1	14.6	17.1	4.0	↓1.1	3.8	↓0.1	2.4	13.0	10.75	7.0	5.0
Bulgaria	7.1	4.2	2.0	2.6	↑0.2	2.9	↑0.2	2.75	3.3	15.3	9.5	3.7	↓0.1	3.0	↑0.1	0.0	1.3	3.8	3.55	3.0
Non-EU emerging Europe																				
Türkiye	11.4	5.5	4.5	3.2	↓0.1	3.3	↓0.2	3.9	19.6	72.3	53.9	60.0	-	25.0	-	14.0	9.0	42.5	55.0	45.0
Ukraine	3.4	(28.8)	5.3	3.8	↑0.3	4.0	↓1.0	2.5	9.4	20.2	12.8	4.5	↑0.4	5.8	↑0.8	9.0	25.0	15.0	12.0	11.0
Serbia	7.7	2.5	2.5	2.8	↓0.2	3.3	↓0.2	4.0	4.1	12.0	12.4	4.4	-	3.4	-	1.0	5.0	6.5	5.25	4.0
Georgia	10.6	11.0	7.5	5.3	↑0.6	5.0	-	5.0	9.6	11.9	2.5	2.0	↓0.2	3.0	-	10.5	11.0	9.50	7.25	6.5
Rest of World (Advanced)																				
United States	5.8	1.9	2.5	2.7	↑0.5	2.6	↑0.6	2.0	4.7	8.0	4.1	3.3	↑0.5	3.0	↑0.6	0-0.25	4.25-4.5	5.25-5.5	5-5.25	4.5-4.75
China ⁴	8.4	3.0	5.2	5.2	↑0.8	4.5	↑0.4	4.0	0.8	1.9	0.3	0.1	↓0.6	1.8	↓0.6	3.8	3.65	3.45	3.35	3.25
Japan ⁵	2.6	1.0	1.8	-0.3	↓1.1	1.1	↑0.7	0.4	(0.2)	2.5	3.2	2.3	↓0.6	2.3	↑0.4	(0.1)	(0.1)	(0.1)	0.15-0.25	0.25-0.5
Israel	9.7	6.4	1.9	2.0	↓0.5	2.5	n/a	4.0	1.5	4.4	4.2	n/a	n/a	n/a	n/a	0.1	3.25	4.75	n/a	n/a
Africa																				
South Africa	5.0	1.9	0.7	0.9	↓0.3	1.1	↓0.4	1.5	4.6	7.0	6.1	4.9	↓0.1	4.8	↑0.3	3.75	7.0	8.25	7.75	6.75
Egypt	3.3	6.6	4.2	3.3	↓0.5	3.8	↓0.7	5.5	5.9	21.3	33.6	39.0	↓1.0	26.0	↑1.0	8.25	16.25	19.25	34.5	30.5
Morocco	8.2	1.4	3.2	3.2	↓0.2	3.4	↓0.0	3.0	1.3	6.7	6.1	3.5	-	2.9	-	1.5	1.5	3.0	2.75	2.5
World	6.5	3.5	3.2	3.2	↑0.1	3.4	↑0.2	2.6	4.7	8.7	6.8	5.9	↑0.4	4.4	↑0.3					

Negative values shown in parentheses. Source: Scope Ratings forecasts, Macrobond, IMF. Displayed are economies of Scope publicly-rated sovereigns and one privately-rated (Israel).

1. Changes compared with Scope's December-2023 [2024 Sovereign Outlook](#) forecasts ("n/a" reflects forecasts not available as of the December-2023 Sovereign Outlook).

2. CPI headline inflation (Egypt reflecting urban inflation).

4. Shown for China's policy rate is the one-year bank prime loan rate.

5. Shown for Japan's policy rate is the deposit rate on current account balances.

Global economic outlook (June 2024): unemployment and fiscal metrics, euro area, 2021-28F

Country/region	Unemployment rate ⁶ (annual average, %)					General government balance (% of GDP)						Public debt level (% of GDP)					
	2021	2022	2023E	2024F	2025F	2021	2022	2023E	2024F	2025F	2028F	2021	2022	2023E	2024F	2025F	2028F
Euro area	7.8	6.8	6.6	6.5	6.4	(5.2)	(3.7)	(3.6)	(3.1)	(2.7)	(2.3)	95	91	89	88	88	87
Germany	3.6	3.1	3.0	3.1	2.9	(3.6)	(2.5)	(2.5)	(1.6)	(1.2)	(1.1)	69	66	64	63	62	59
France	7.9	7.3	7.3	7.5	7.5	(6.6)	(4.8)	(5.5)	(5.1)	(4.6)	(3.5)	113	112	111	112	113	113
Italy	9.5	8.1	7.7	7.5	7.3	(8.7)	(8.6)	(7.4)	(4.8)	(4.2)	(3.0)	147	141	137	140	142	144
Spain	15.0	13.0	12.2	11.8	11.6	(6.7)	(4.7)	(3.6)	(2.9)	(2.6)	(2.5)	117	112	108	105	103	98
Netherlands	4.2	3.5	3.6	3.7	3.7	(2.2)	(0.1)	(0.3)	(2.1)	(2.3)	(3.0)	52	50	47	47	48	51
Belgium	6.3	5.6	5.5	5.6	5.6	(5.4)	(3.6)	(4.4)	(4.7)	(4.7)	(5.5)	108	104	105	106	108	114
Austria	6.2	4.7	5.1	5.5	5.6	(5.8)	(3.3)	(2.7)	(2.8)	(2.6)	(2.3)	83	78	78	77	77	77
Ireland	6.3	4.4	4.3	4.3	4.3	(1.5)	1.7	1.7	1.6	1.5	0.9	54	44	44	42	39	31
Finland	7.6	6.8	7.2	7.8	7.4	(2.8)	(0.4)	(2.7)	(3.5)	(3.7)	(1.8)	73	74	76	78	81	87
Portugal	6.7	6.2	6.6	6.8	6.8	(2.9)	(0.3)	1.2	0.2	(0.5)	(0.8)	125	112	99	94	91	83
Greece	14.8	12.4	11.1	10.5	9.9	(7.0)	(2.5)	(1.6)	(1.5)	(1.6)	(1.7)	195	173	162	155	149	140
Slovakia	6.8	6.2	5.8	5.9	5.8	(5.2)	(1.7)	(4.9)	(6.5)	(6.5)	(4.0)	61	58	56	59	62	68
Luxembourg	5.4	4.6	5.2	5.6	5.9	0.5	(0.3)	(1.3)	(1.6)	(1.9)	(1.5)	25	25	26	27	29	31
Lithuania	7.1	6.0	6.9	6.9	7.0	(1.1)	(0.6)	(0.8)	(2.3)	(1.8)	(1.0)	43	38	38	37	37	34
Slovenia	4.7	4.0	3.7	3.6	3.5	(4.6)	(3.0)	(2.5)	(3.3)	(2.3)	(1.7)	74	73	69	68	66	62
Latvia	7.5	6.8	6.5	6.5	6.5	(7.2)	(4.6)	(2.2)	(3.8)	(3.1)	(1.7)	44	42	44	44	44	43
Estonia	6.2	5.6	6.5	8.1	7.6	(2.5)	(1.0)	(3.4)	(3.3)	(4.3)	(2.9)	18	19	20	23	26	33
Cyprus	7.5	6.8	6.1	6.4	6.1	(1.8)	2.7	3.1	2.6	2.5	1.3	99	86	77	71	65	52
Malta	3.7	3.5	3.1	2.6	2.5	(7.6)	(5.5)	(4.9)	(4.5)	(4.3)	(2.8)	54	52	50	54	55	56
Croatia	7.6	6.7	6.1	6.0	5.7	(2.5)	0.1	(0.7)	(1.7)	(1.5)	(1.0)	78	68	64	59	58	54

Negative values shown in parentheses. Source: Scope Ratings forecasts, Macrobond, IMF.

6. Unemployment rate data source is Eurostat for EU member states.

Global economic outlook (June 2024): unemployment and fiscal metrics, beyond the euro area, 2021-28F

Country/region	Unemployment rate ⁶ (annual average, %)					General government balance (% of GDP)						Public debt level (% of GDP)					
	2021	2022	2023E	2024F	2025F	2021	2022	2023E	2024F	2025F	2028F	2021	2022	2023E	2024F	2025F	2028F
Western Europe ex-euro area																	
United Kingdom	4.7	3.9	4.1	4.5	4.5	(7.9)	(4.7)	(6.0)	(4.6)	(3.7)	(3.7)	105	100	101	103	105	109
Switzerland	3.0	2.2	2.0	2.3	2.5	(0.3)	1.2	0.5	0.7	0.4	0.1	41	38	38	35	33	30
Sweden	8.9	7.5	7.7	8.2	8.3	0.0	1.2	(0.6)	(1.5)	(0.9)	0.4	37	33	31	34	34	32
Norway	4.4	3.2	3.6	4.0	3.9	10.3	25.6	16.3	14.4	13.0	9.7	41	37	44	36	36	34
Denmark	5.1	4.5	5.1	4.7	4.4	4.1	3.3	3.1	2.2	1.3	0.0	36	30	29	27	26	25
EU central and eastern Europe ex-euro																	
Poland	3.4	2.9	2.8	2.8	2.8	(1.8)	(3.4)	(5.1)	(5.3)	(4.4)	(4.0)	54	49	50	52	54	59
Romania	5.6	5.6	5.6	5.4	5.3	(7.2)	(6.3)	(6.6)	(5.4)	(5.4)	(4.5)	49	48	49	51	52	56
Czech Republic	2.8	2.4	2.6	2.6	2.6	(5.1)	(3.2)	(3.7)	(2.2)	(3.1)	(0.9)	42	44	44	45	46	45
Hungary	4.0	3.6	4.0	4.0	3.8	(7.2)	(6.2)	(6.7)	(5.4)	(4.5)	(2.8)	77	74	74	74	73	70
Bulgaria	5.3	4.2	4.3	4.4	4.4	(2.8)	(0.8)	(3.1)	(3.0)	(3.0)	(2.9)	24	23	23	23	25	30
Non-EU emerging Europe																	
Türkiye ⁷	12.0	10.5	9.4	10.5	11.5	(2.8)	(0.9)	(5.2)	(5.5)	(3.4)	(2.9)	40	31	29	31	31	32
Ukraine ⁷	10.4	n/a	n/a	n/a	n/a	(3.4)	(16.1)	(20.4)	(19.0)	(11.0)	(6.4)	49	78	84	99	102	105
Serbia	11.1	9.6	9.4	9.1	8.7	(3.3)	(0.1)	(1.3)	(2.0)	(1.3)	(1.4)	56	53	49	50	49	45
Georgia	20.6	17.3	16.4	16.0	16.0	(6.0)	(2.6)	(2.3)	(2.4)	(2.2)	(1.9)	49	39	39	39	38	34
Rest of World (Advanced)																	
United States	5.4	3.6	3.6	3.9	3.8	(11.1)	(4.1)	(8.8)	(7.6)	(8.0)	(7.7)	125	120	122	124	127	135
China ⁸	5.1	5.6	5.2	5.0	4.9	(6.0)	(7.5)	(7.1)	(7.0)	(7.2)	(7.8)	72	77	84	87	92	103
Japan	2.8	2.6	2.6	2.4	2.3	(6.1)	(4.4)	(5.8)	(7.1)	(3.5)	(3.9)	254	257	252	258	256	257
Israel	5.0	3.8	3.5	n/a	n/a	(3.7)	0.6	(5.0)	(6.6)	(5.0)	(4.0)	68	60	62	68	70	70
Africa																	
South Africa	34.3	33.5	32.4	32.9	33.4	(5.5)	(4.3)	(6.0)	(5.8)	(5.8)	(6.7)	69	71	74	75	77	86
Egypt	7.4	7.3	7.0	7.3	7.3	(7.0)	(5.8)	(5.8)	(10.9)	(12.2)	(9.0)	90	89	96	98	95	87
Morocco	12.4	11.9	13.0	12.7	12.9	(6.0)	(5.4)	(4.4)	(4.1)	(3.8)	(3.1)	69	72	71	70	70	68
World																	

Negative values shown in parentheses. Source: Scope Ratings forecasts, Macrobond, IMF. Displayed are economies of Scope publicly-rated sovereigns and one privately-rated (Israel).

6. Unemployment rate data source is Eurostat for EU member states; national unemployment series otherwise.

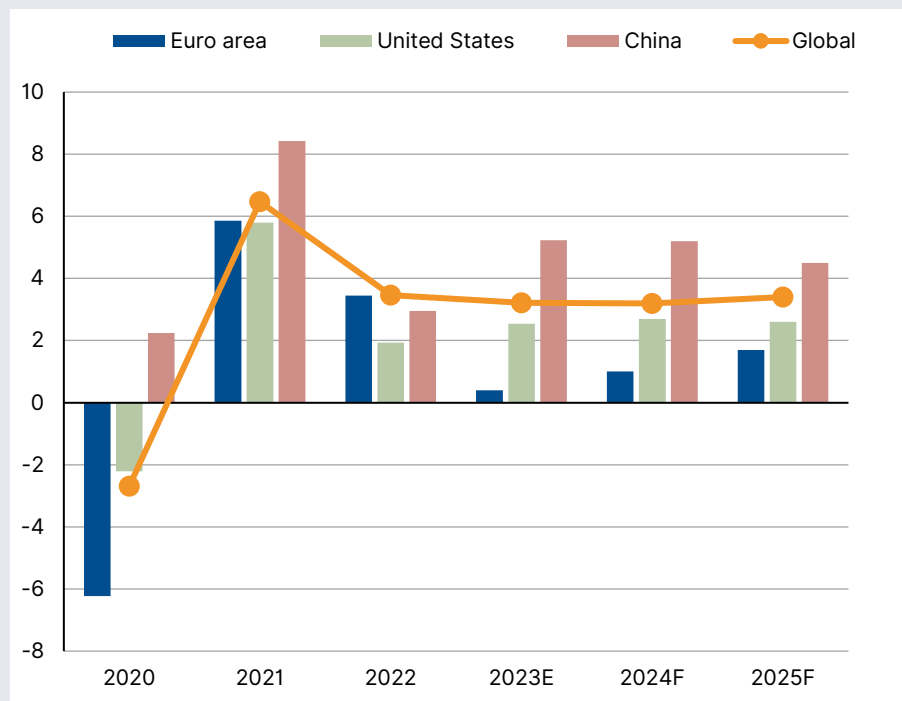
7. Türkiye and Ukraine fiscal-balance figures are on the central-government budget balance.

8. Unemployment is survey-based urban unemployment rate.

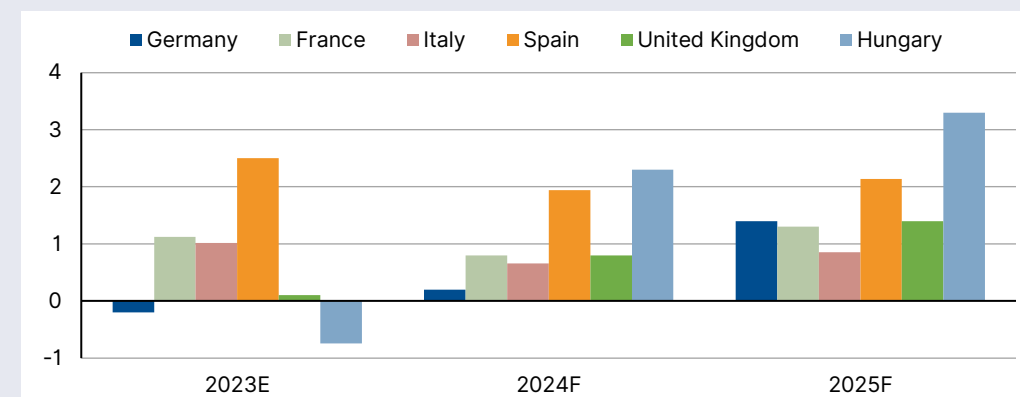
Soft landing for the global economy this year; recovery in Europe

Our baseline remains for soft landing of the global economy even following the fastest rise in rates in modern history. We have held a different view from former market expectations of recession. The labour market is seen staying tight – exerting continued pressure on price rises.

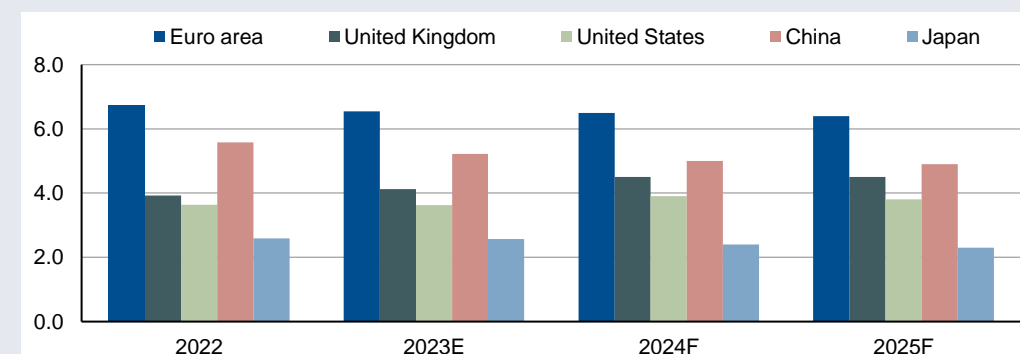
Global growth outlook, 2020-25F, %



European growth outlook, 2023E-25F, %




Unemployment rate, 2022-25F, %



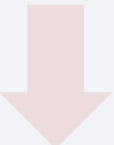
Upside/downside risks for our global macro outlook

We have held a “balanced” skew of risk for our global economic projections for this year

Upside potential to baseline growth expectations reflects:

- 
- a faster than expected **decline in inflation** and/or **policy rates** easing sooner or faster than anticipated;
 - **resilient private demand** as pandemic savings are expended, wages rise and labour markets stay strong; and/or
 - **fiscal support**, such as EU financing, anchoring spending.

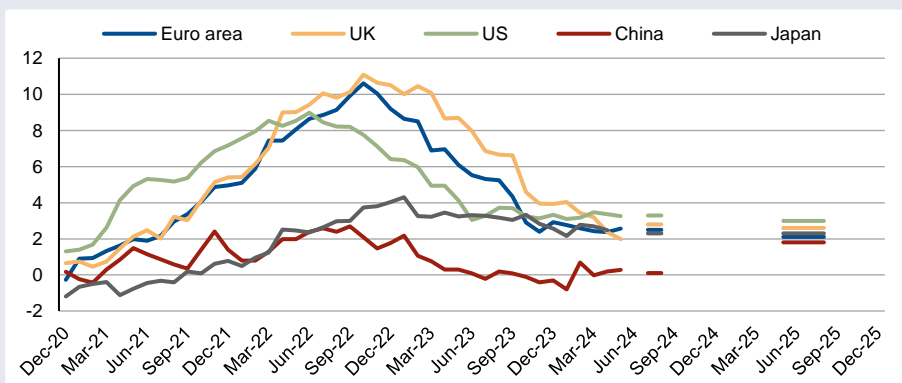
Downside risks reflect the potential for:

- 
- **inflation upside surprises**, causing **rates** to stay at current levels for longer than anticipated (or even, under an adverse scenario, further rate rises);
 - **geopolitical risks (Middle East and/or Russia)** to intensify, also recognising forthcoming US elections that could amplify risks by 2025;
 - **financial-market angst and/or financial instability** to re-emerge amid higher rates for longer – amplifying existing financial risks such as concerning commercial real estate; and/or
 - **government fiscal challenges** triggering market re-appraisal of sovereign risk. As an example, risks after forthcoming elections in France could trigger further re-appraisal and spill-over if budgetary risks are not addressed.
-

Inflation expected to continue moderating but further supply-side shocks are risk

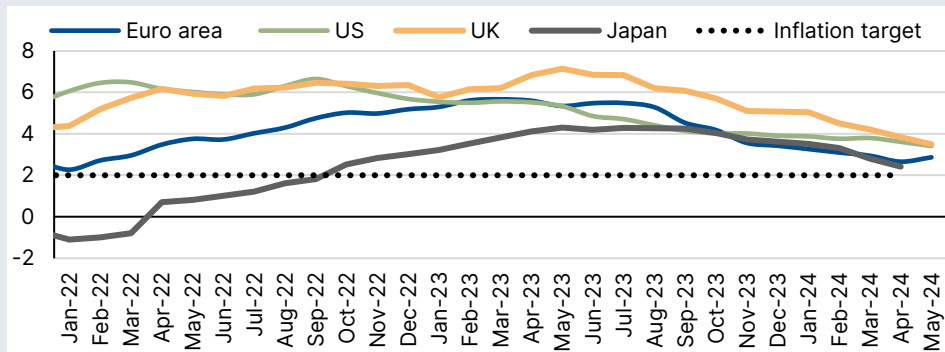
Our expectation is for inflation to generally average above 2% across most economies this and next year. Consistent with our long-standing assumption of higher rates for longer, we have assumed for this and next year fewer rate cuts than markets and economic consensus have.

Headline inflation, % year-over-year



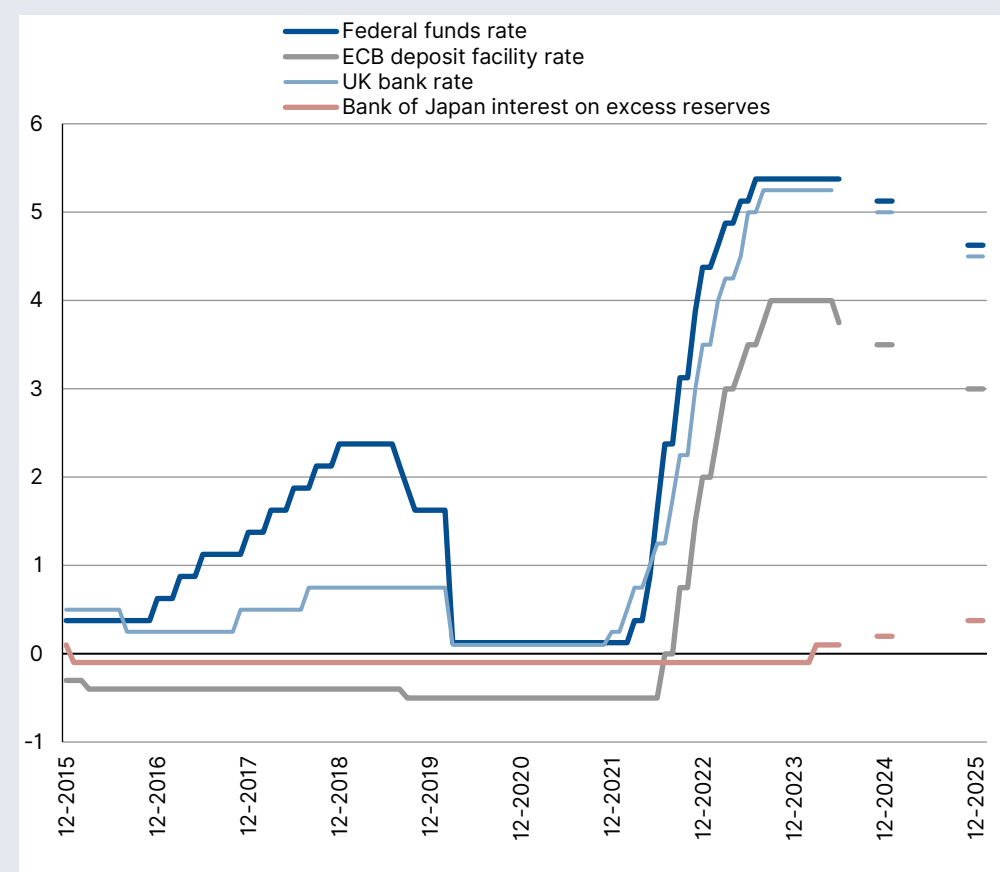
Source: National/regional statistics bodies, Scope Ratings forecasts

Core inflation, % year-over-year



Source: Eurostat, national statistics, Scope Ratings

Official rates, %



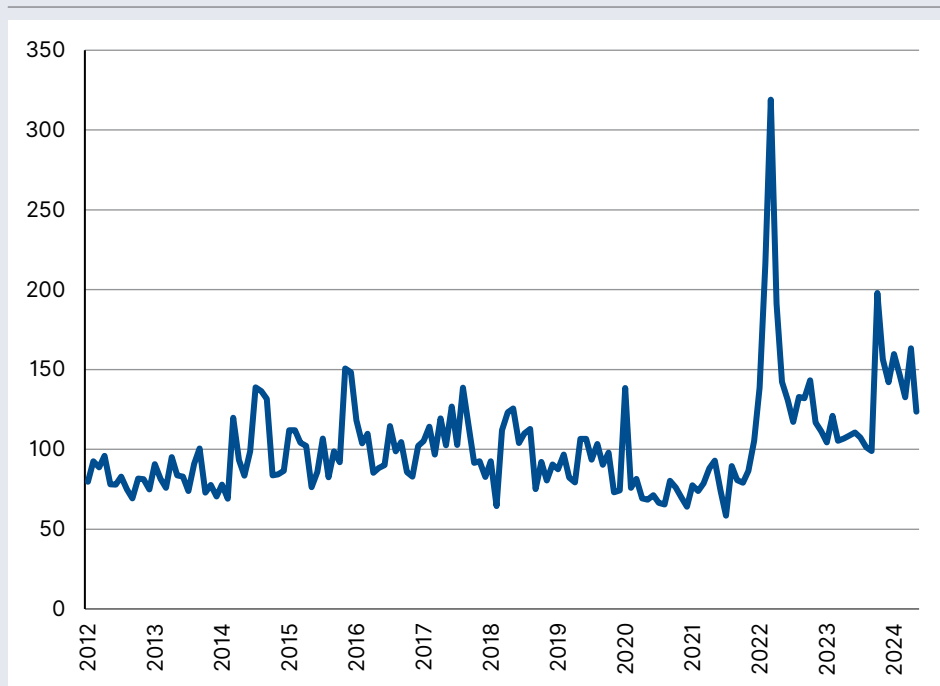
Source: Central banks, Scope Ratings forecasts

Global growth and inflation outlooks stay exposed to geopolitics

Global growth will remain sensitive to geopolitics this and next year. Both downside and positive geopolitical scenarios exist.

Geopolitical risk index

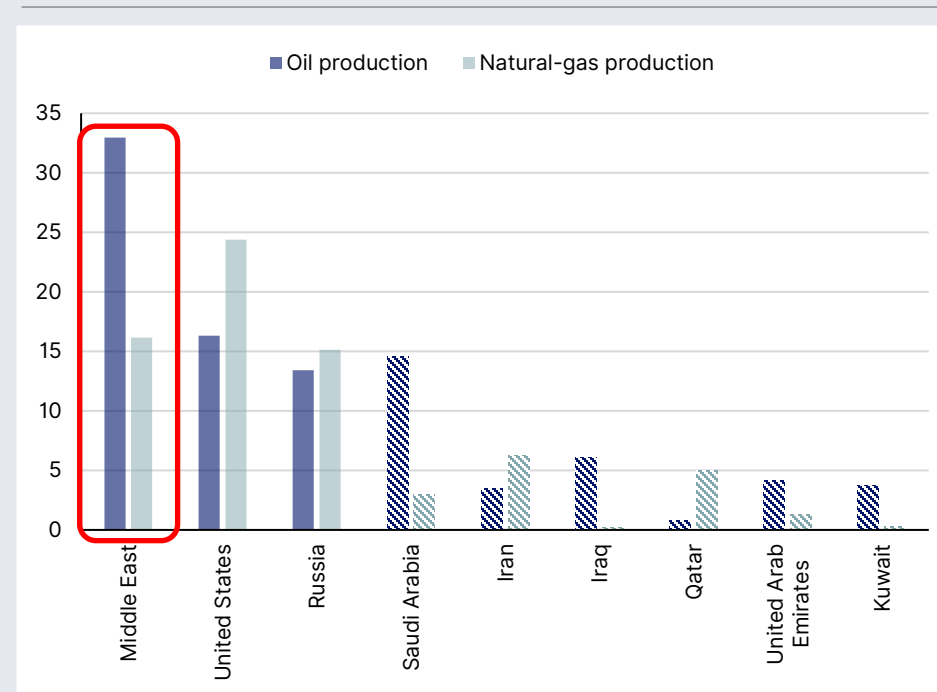
basis points (last update: May 2024)



Source: [Caldara and Iacoviello](#), Scope Ratings

Oil and natural-gas production

% of global output, 2022

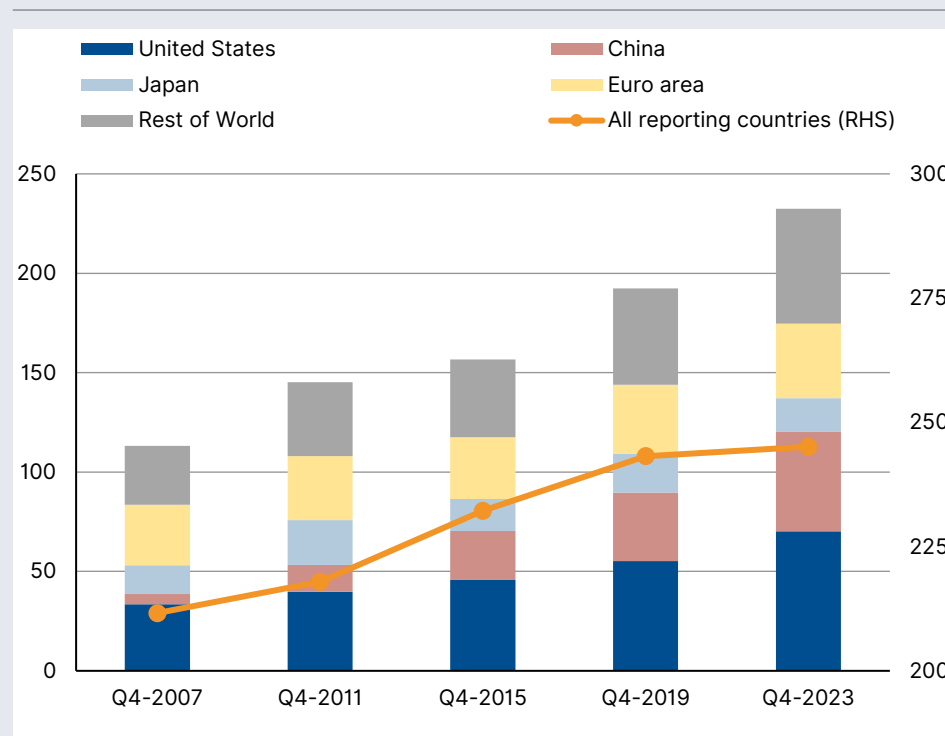


Note: Middle East refers to an aggregation of Saudi Arabia, Iraq, UAE, Kuwait, Iran, and Qatar.
Source: OPEC, Scope Ratings.

Higher rates for longer challenge financial stability

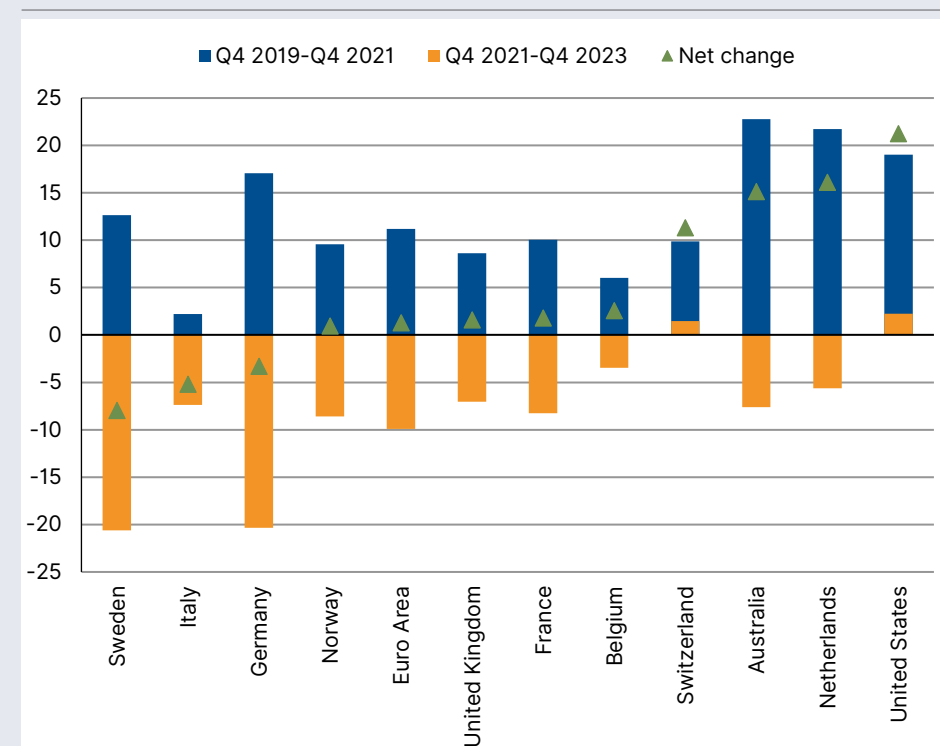
Bankruptcies are generally low compared with their historical averages but have slightly risen. Vulnerabilities in real estate, including commercial real estate, reflect a concern. Pressures prevail on institutions for which business models, funding and solvency are vulnerable to higher-for-longer rates.

Credit to the non-financial sector
USD '000 bn (LHS), % of GDP (RHS)



Source: Bank for International Settlements, Scope Ratings

Changes in real residential prices
%



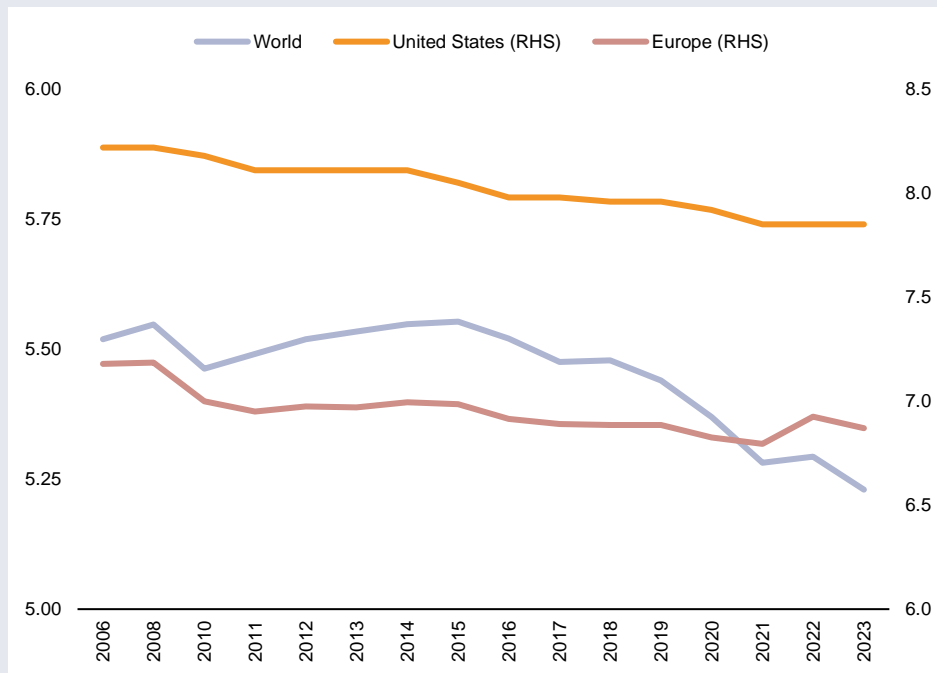
Source: Bank for International Settlements, Scope Ratings

Pivotal 2024 elections mark crossroads for global governance

Elections scheduled this year will play an historic role in determining the institutional, policy-direction and credit outlooks for 2025 and beyond.

Democracy Index – 2023

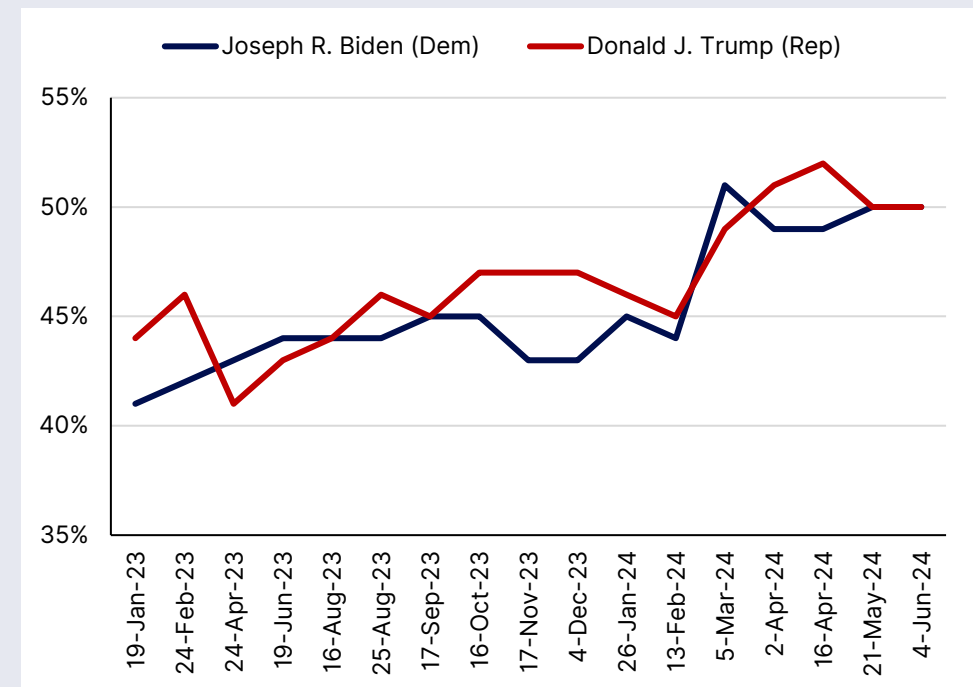
Scores



Scores range from 0-10 (10 = most democratic). Source: Economist Intelligence Unit (2023).

2024 US presidential-election opinion polling

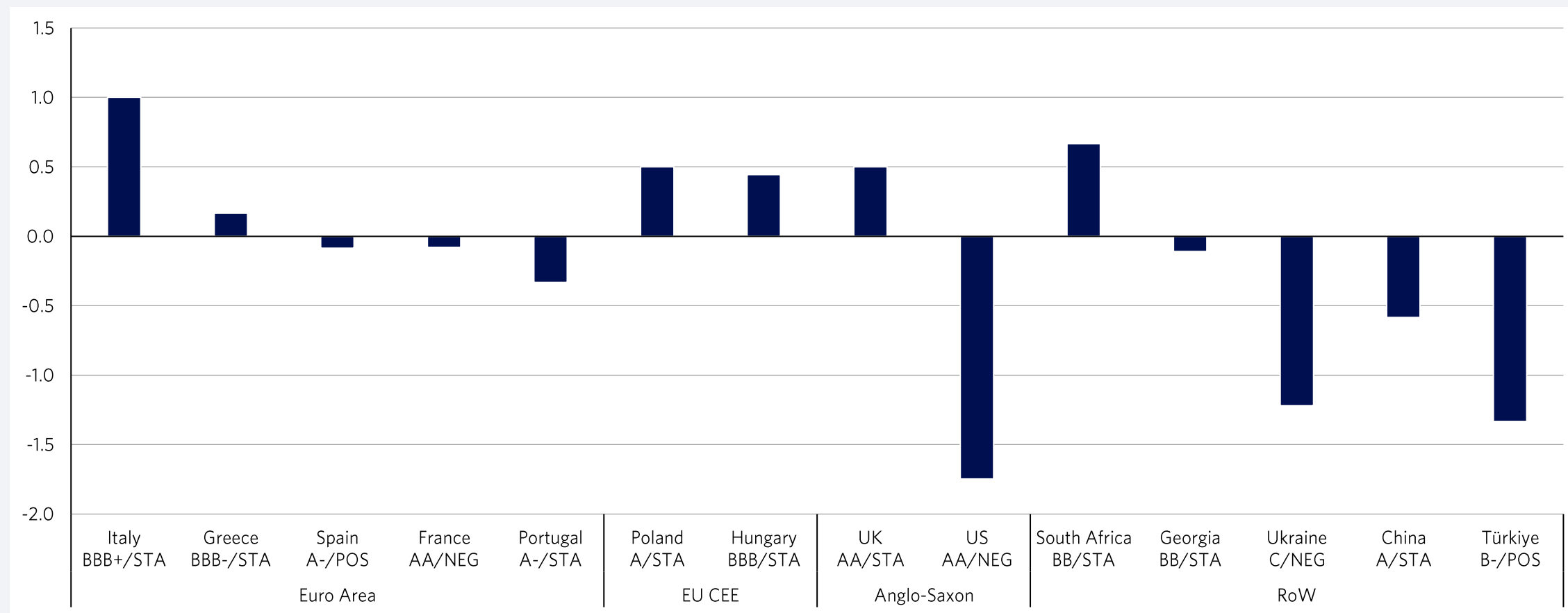
Share of national voting intentions



Source: Emerson College polls, FiveThirtyEight

Scope sovereign-rating levels* compared with peer ECAF-agency average (notches)

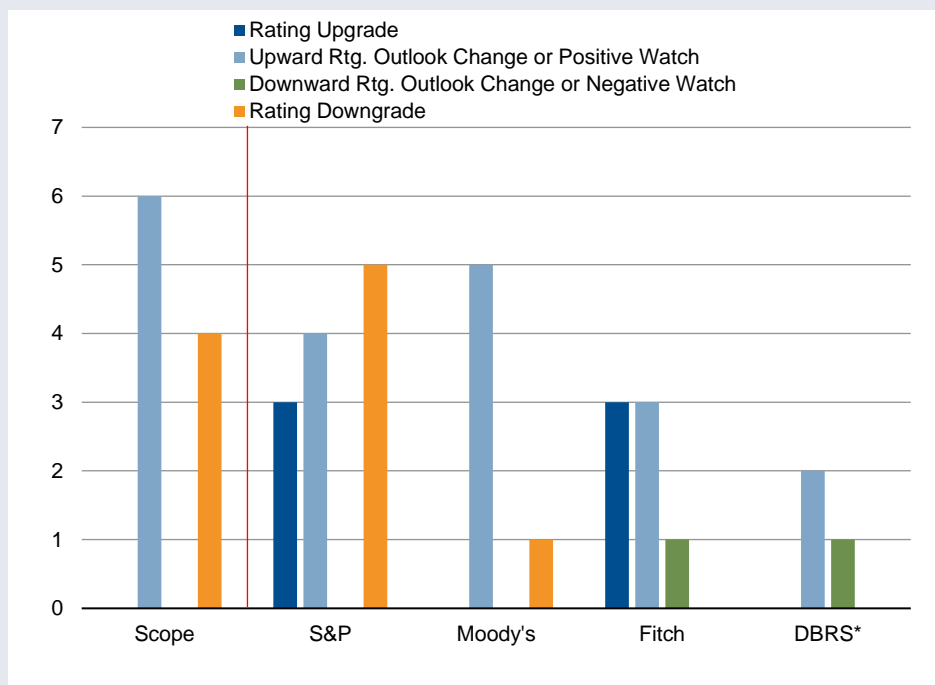
Scope presents core differentiations in its sovereign credit ratings: US (AA/Negative Outlook), China (A/Stable). Ahead of other credit-rating agencies on aligning ratings early for forthcoming external-debt restructuring of Ukraine (C/Negative).



ECAF (Eurosistem Credit Assessment Framework) agency reflects the mean of Moody's, S&P, Fitch Ratings and DBRS Morningstar (if DBRS does not rate a given sovereign, then reflects the mean of Moody's, S&P and Fitch Ratings). Reflects selected countries from our portfolio of 40 publicly-rated sovereigns. Calculated based on an alpha-numeric conversion on a 20-point scale from AAA (20) to D (1) with ECAF-agency ratings adjusted to the Scope rating scale. Positive/Negative Outlooks are treated with a +/-0.33 adjustment. Credit Watch positive/negative with a +/-0.67 adjustment. CEE = central and eastern Europe. RoW = rest of the world. *Foreign-currency long-term issuer ratings. As of 14 June 2024.

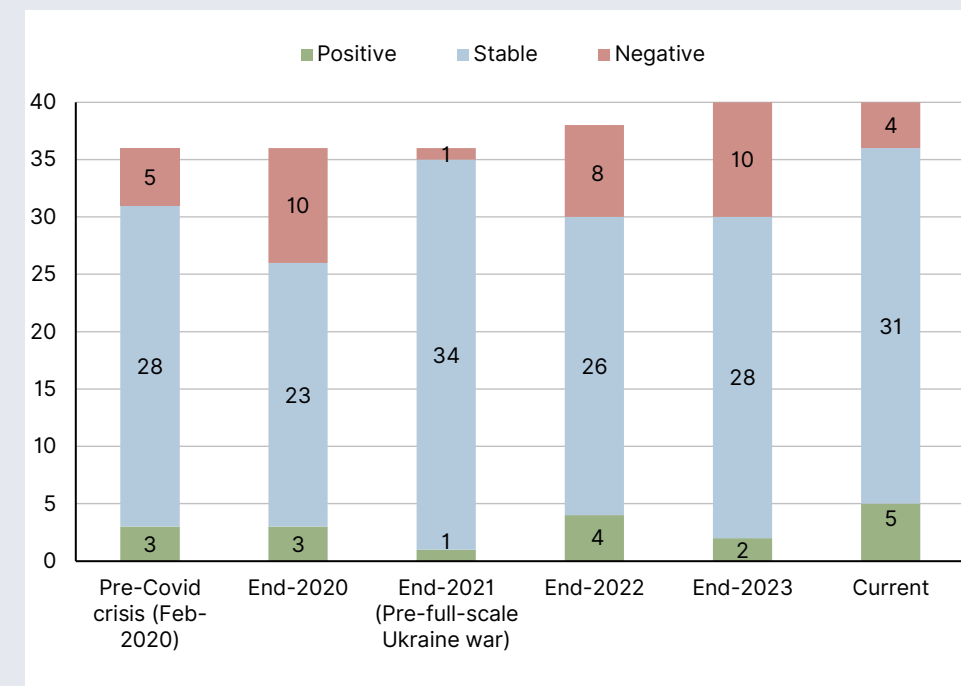
Scope has taken slightly-more positive sovereign actions this year than negative, consistent with a balanced sovereign sector outlook for this year

Scope sovereign-rating changes against that of peer ECAF agencies
number of sovereign rating or Outlook changes since Jan. 1, 2024



NB. Rating revisions on either foreign- or local-currency issuer ratings since 1 January 2024 for the 40 sovereigns rated publicly by Scope. *Among sovereigns that Scope rates, DBRS does not rate Bulgaria, Croatia, Egypt, Hungary, Morocco, Romania, Serbia, South Africa, Türkiye and Ukraine (so, the above is on a sample of 30 rated sovereigns for DBRS). As of 14 June 2024.

Scope sovereign-rating Outlooks
number of publicly-rated sovereigns



As of 14 June 2024. Source: Scope Ratings.

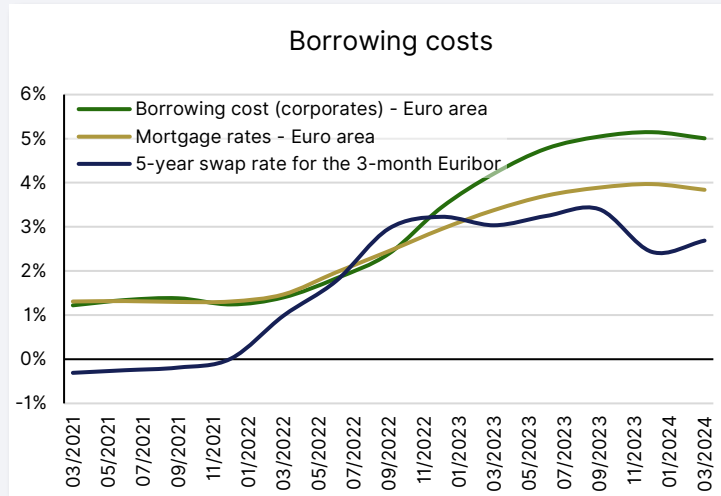


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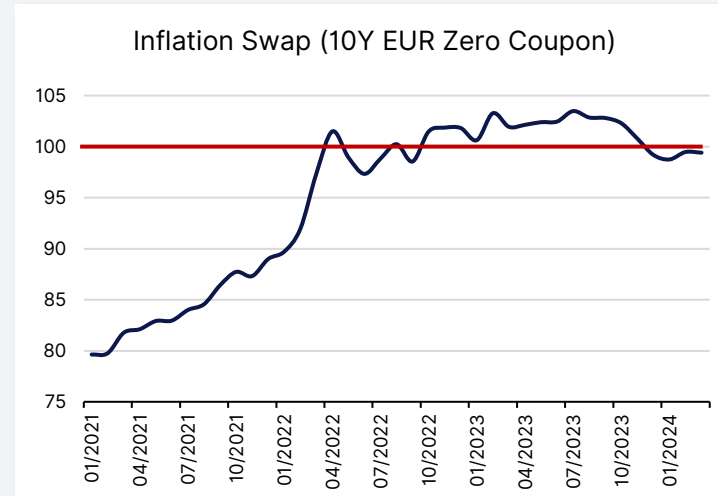
- 2024 Global Economic Outlook
- **Commercial-Real-Estate Outlook**
- 2024 European Banking Outlook
- Annex



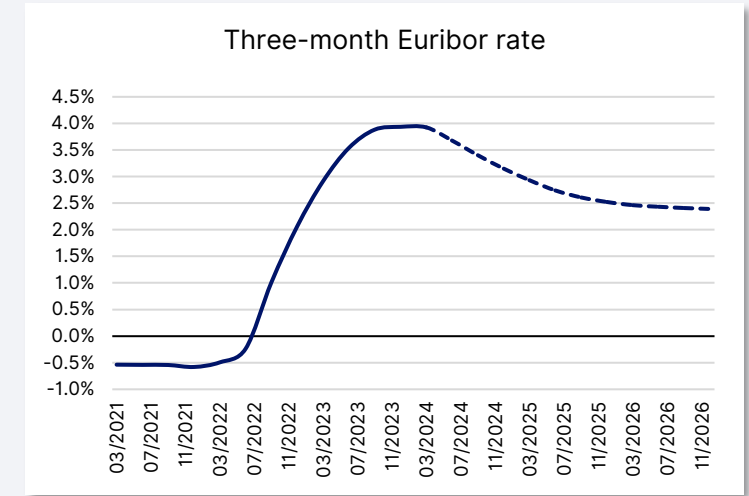
Stabilisation of borrowing costs and risk-free yields reduces upward pressure on cap rates



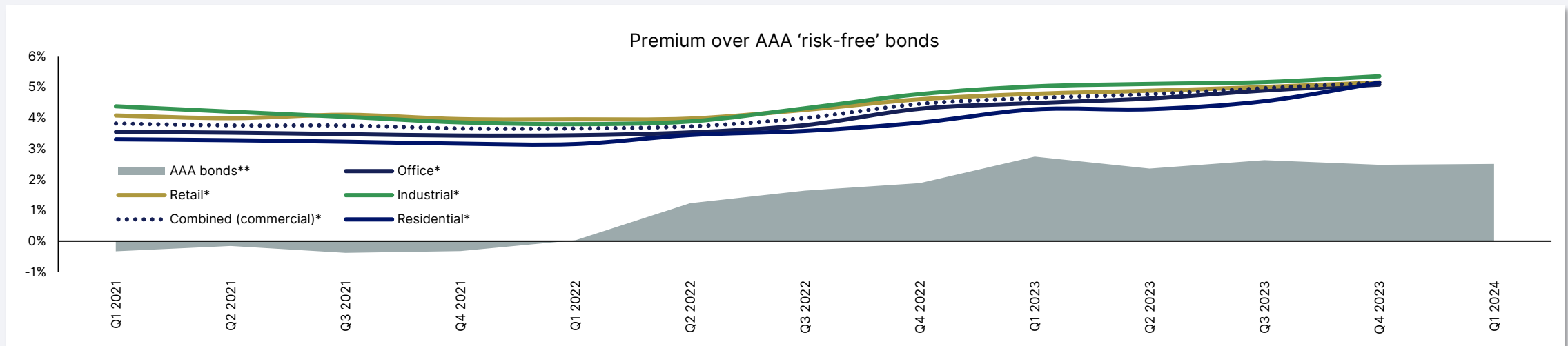
Source: Scope Ratings, ECB, Investing.com



Source: Scope Ratings, Bloomberg



Source: Scope Ratings, ECB, Chatham Financial
Cut-off date: 9 April 2024



Source: Scope Ratings, CBRE, Cushman & Wakefield, ECB
*Prime yields; **10-year euro AAA-rated bond (Svensson method)

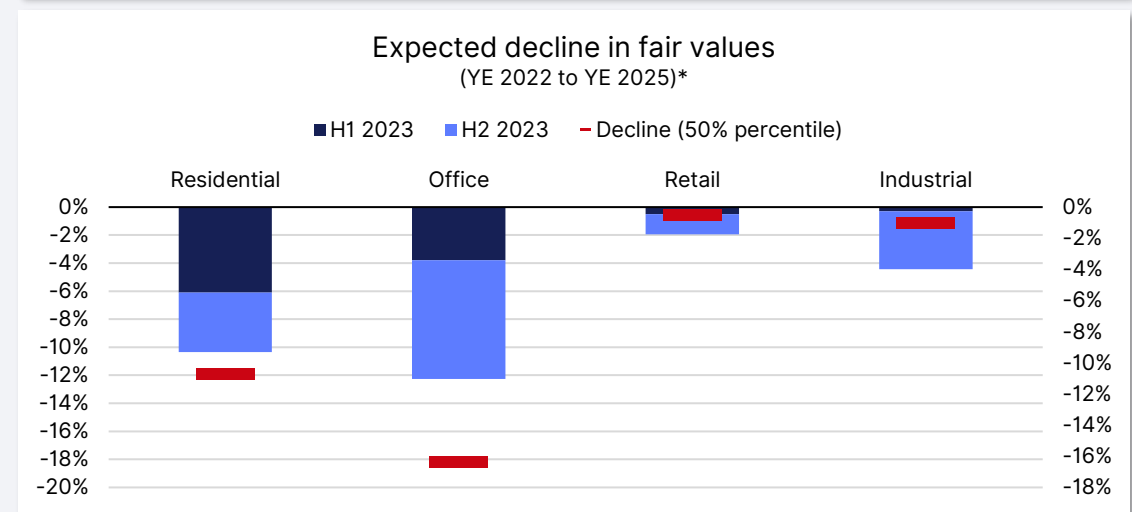
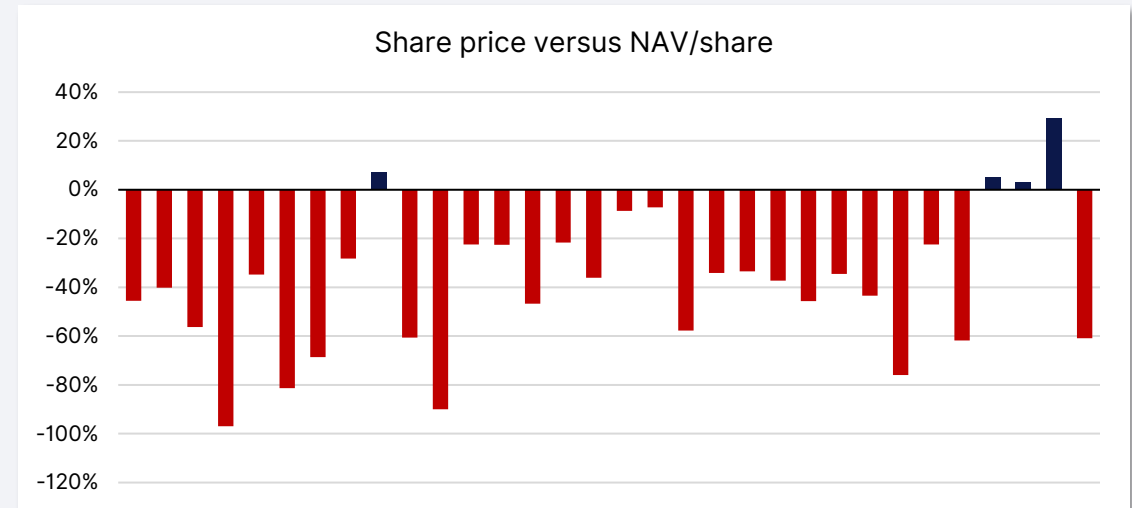
Have property companies digested most of the pain?

Real-Estate Outlook

- ❖ Higher-for-longer rates
- ❖ Further declines in property values
- ❖ No systemic meltdown
- ❖ Higher differentiation of credit quality

- Differentiation along costs of capital
- Differentiation along property types and quality

* H1 2023 and H2 2023: Median decline in fair value of investment properties in the peer group; Decline (50% percentile): Based on Scope Ratings' assumed rental growth rates per sector and an expansion of capitalisation rates to an extent that the spread to the constant 'risk-free' return is at a level observed 50% of the time since 2007 (Median); Reflects structural shift in investor demand for industrial properties between 2016 and 2019 with spreads to risk-free returns seized more in line with that of other commercial property types; Structural shift in demand for office properties is not reflected.



Ratings and risk outlook – Commercial Real Estate (CRE)

Increasing share of NPLs →

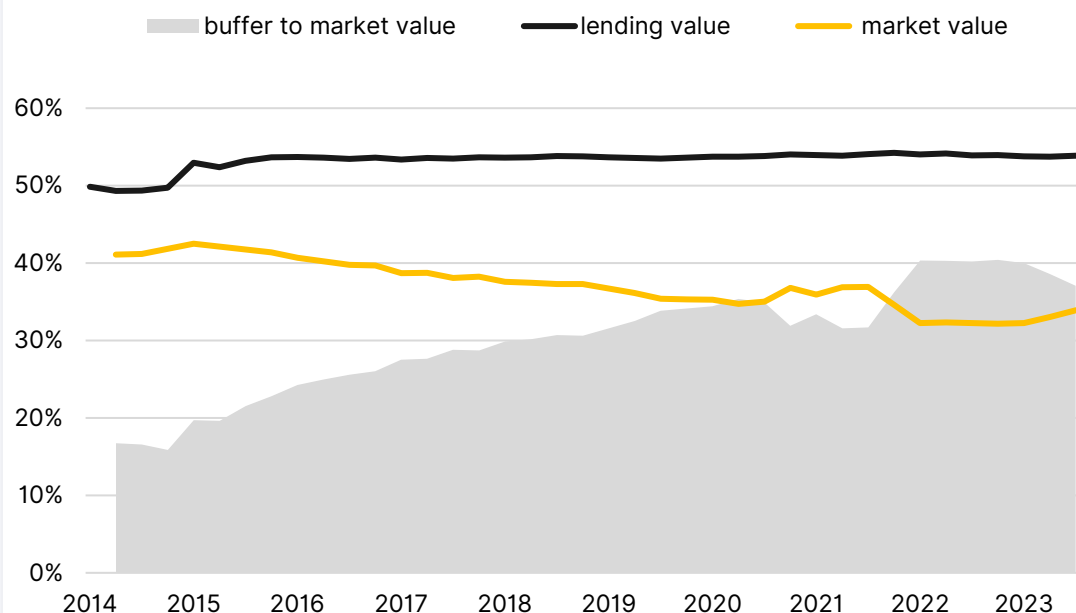
Certain level of protection

- Lending value principle (covered bonds)
- NPL share is still minimal
- Risk very much contained
- Increased loss absorption capacity (banks)



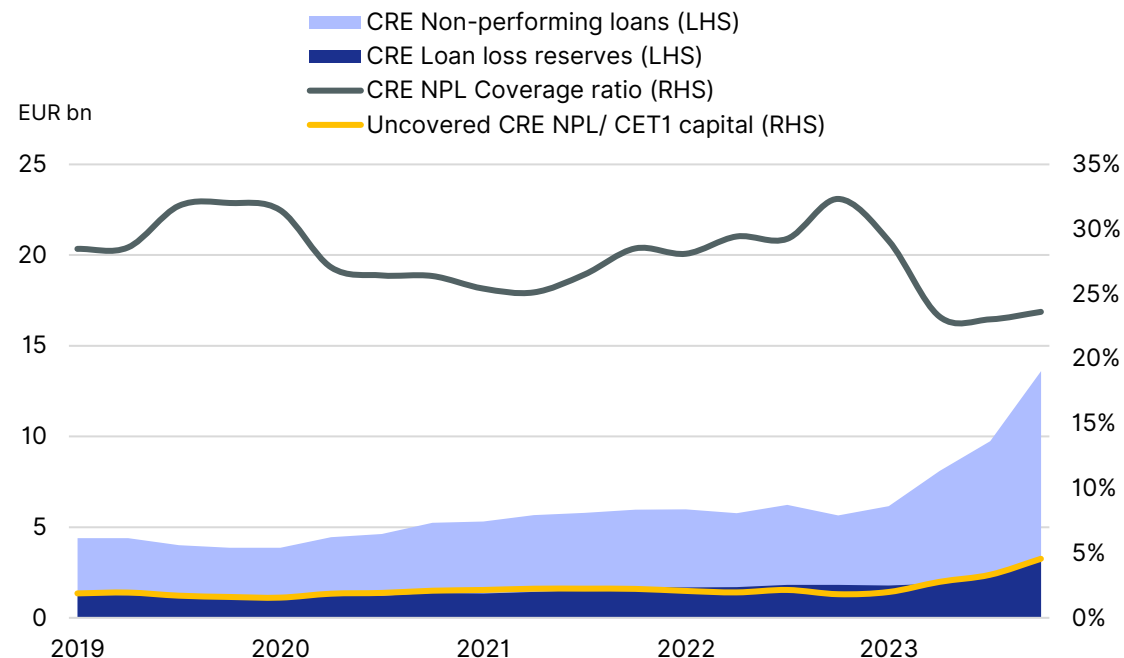
No systemic risk for the time being

Covered bonds (German issuers)



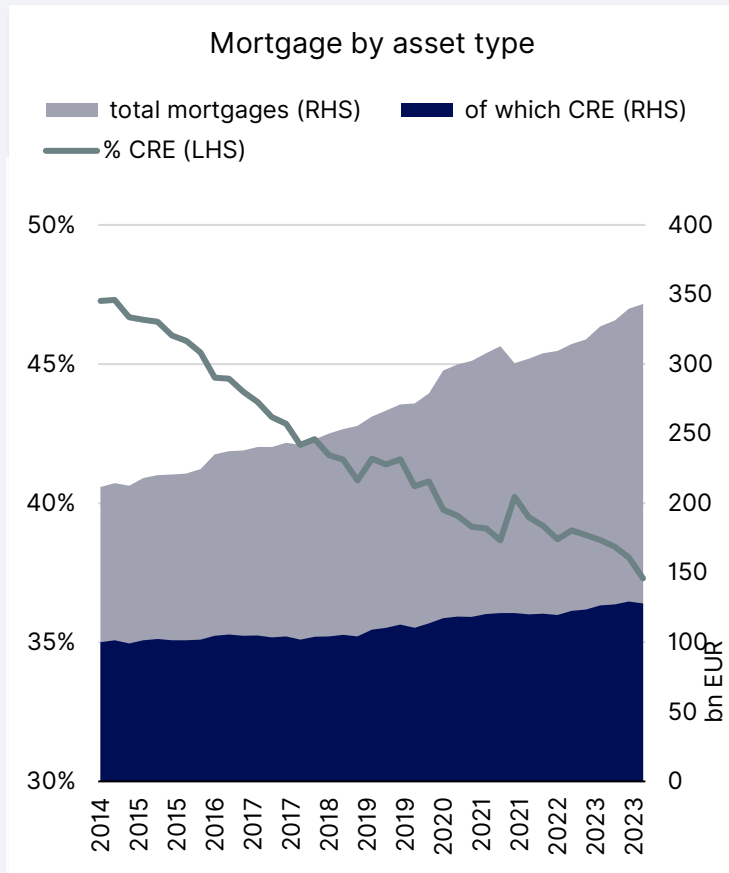
Source: VDP, Scope Ratings

Financial institutions

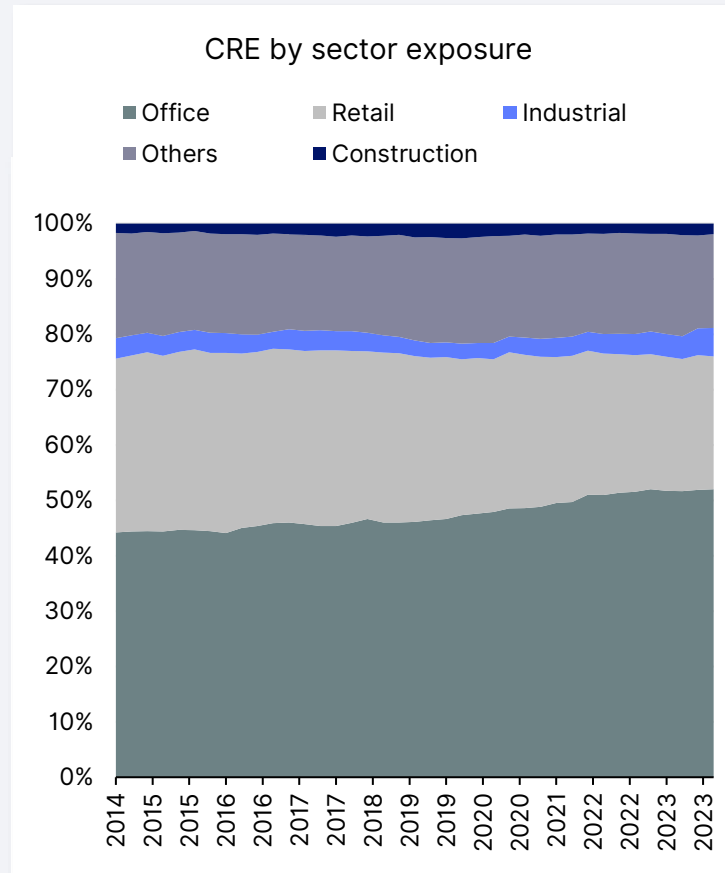


Source: European Banking Authority (EBA) – Quarterly Risk Dashboard (RDB), Scope Ratings

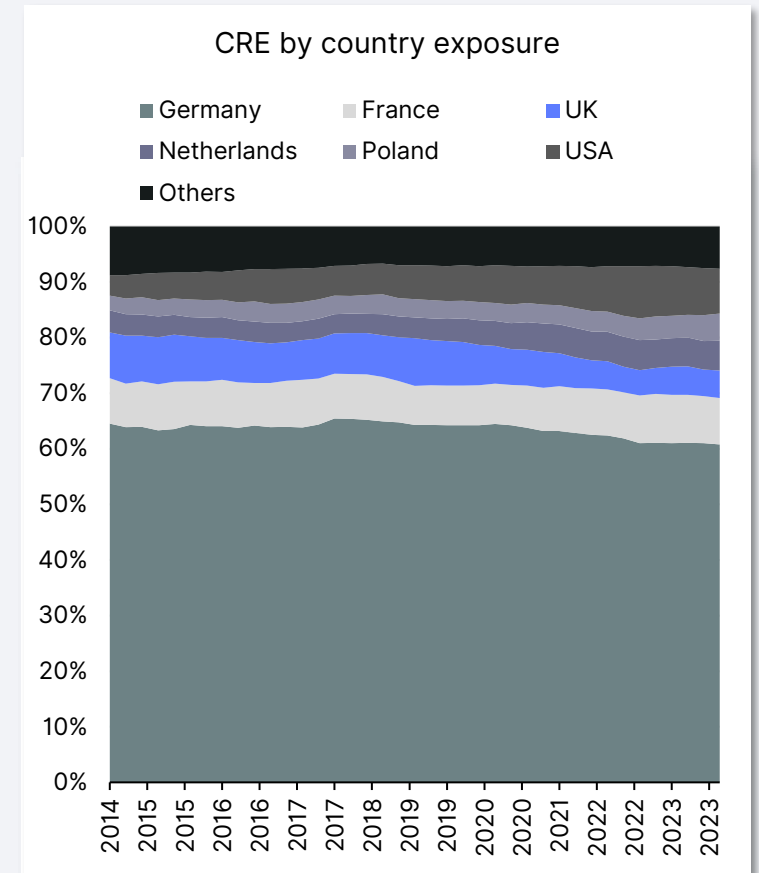
Did German banks put Pfandbriefe at risk? A stock-taking...



Source: Scope Ratings, VDP



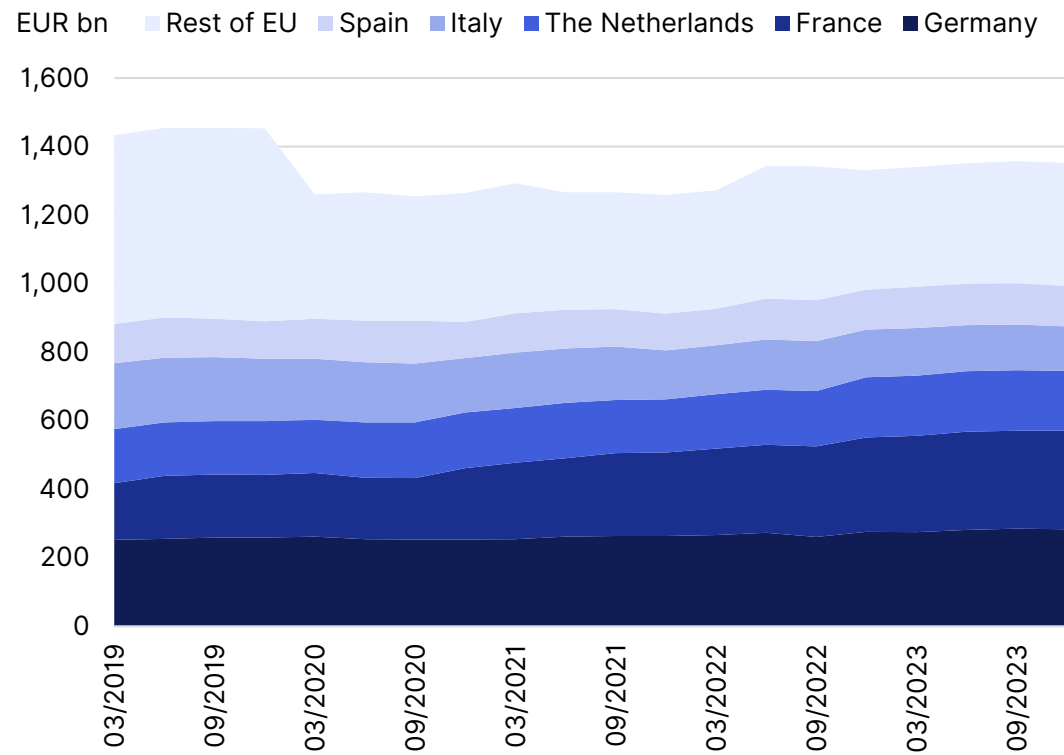
Source: Scope Ratings, VDP



Source: Scope Ratings, VDP

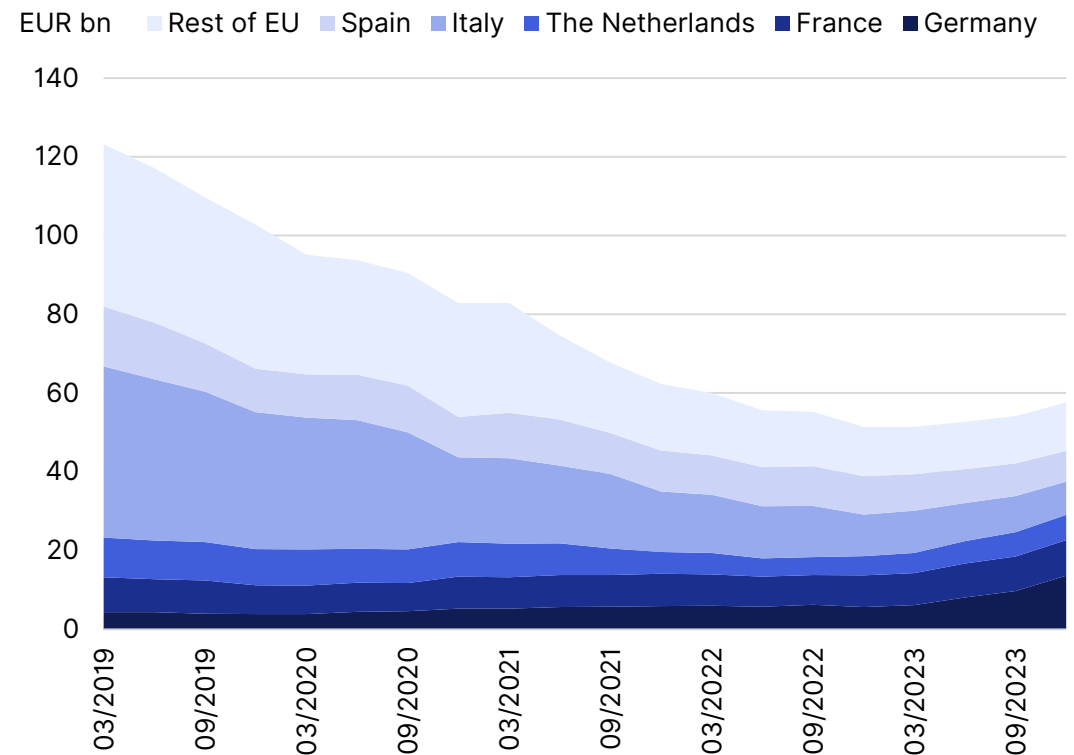
Surging non-performing CREs problem? Yes, but not across Europe.

- CRE loans by country



Until end-2020 including Great Britain. Source: EBA (RDB), Scope Ratings.

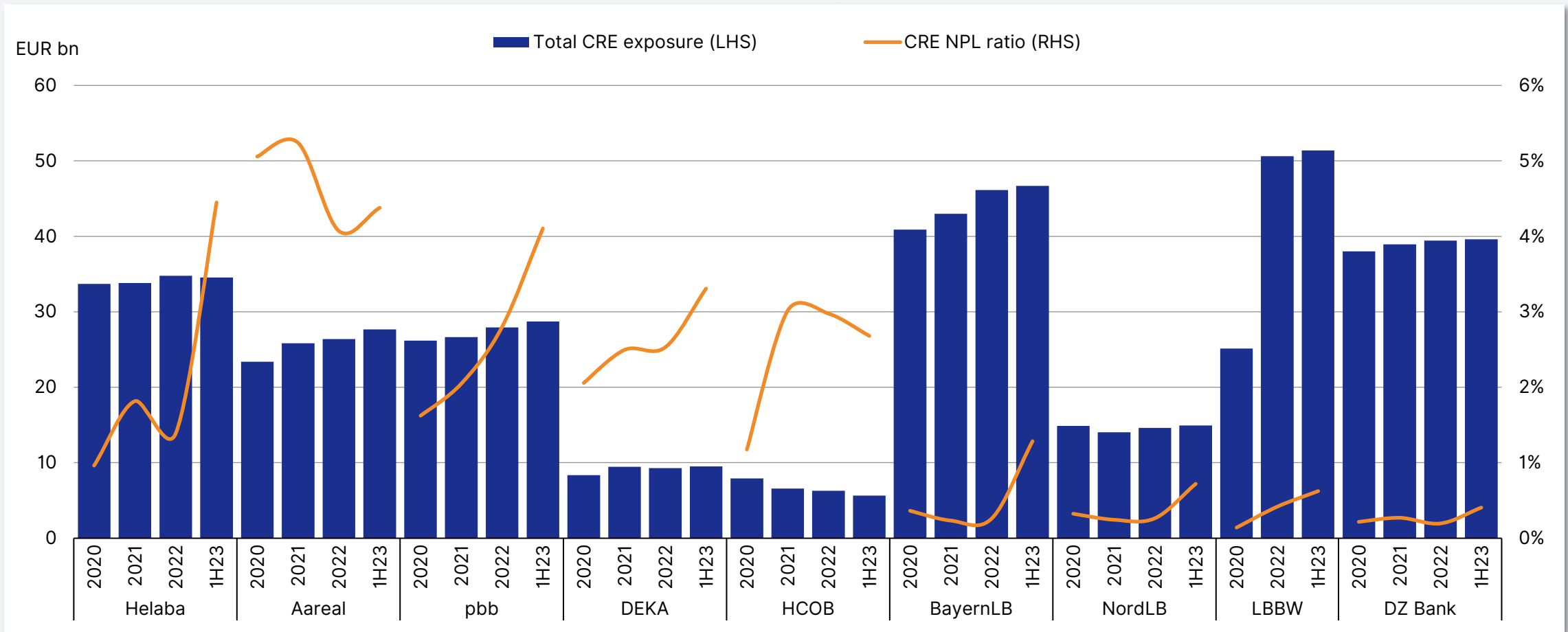
Non-performing CRE loans by country



Until end-2020 including Great Britain. Source: EBA (RDB), Scope Ratings.

Specialised lenders affected differently

Risks are generally contained at this level.



Aareal: since 1H-23 reported as Atlantic Lux HoldCo S.à r.l., LBBW: 2021 not available.
 Source: EBA (EU-wide transparency exercise), Scope Ratings.



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Net interest margins turning from tailwind to headwind for European banks

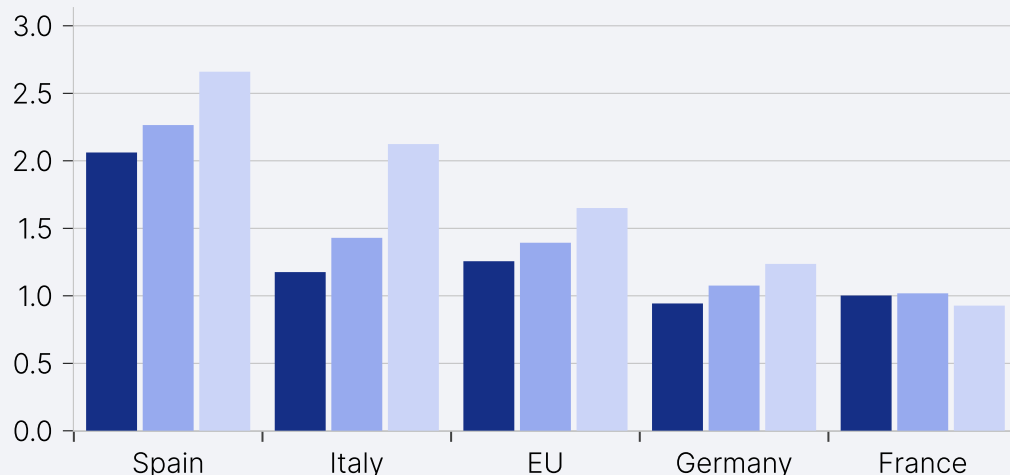
- Balance-sheet repricing was the most important driver of bank revenue and profit growth last year.
- Margins expanded rapidly thanks to significant stickiness of deposits on the liability end.
- 2024 should mark the end of this positive trend, as the cost of liabilities catches up.

Net interest margins

Past three years

■ 2021 ■ 2022 ■ 2023

Percent



Source: Scope Ratings, EBA, ECB, Macrobond

Spread between loan and overnight deposit rates

Historical, euro area

— Margin between business-loan rate and overnight-deposit rate

— Margin between mortgage rate and overnight-deposit rate



Strong profitability in 2024, although 2023 record levels hard to repeat

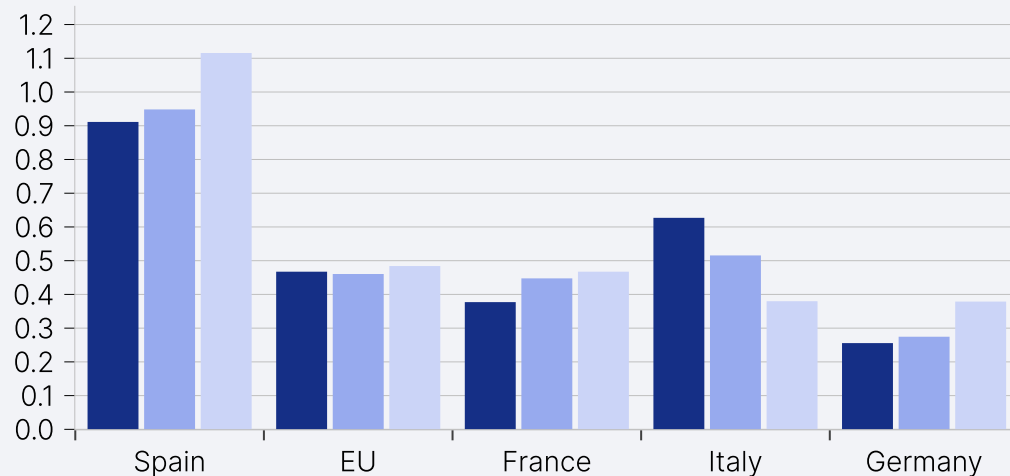
- Besides lower margins, banks face lending headwinds due to lower demand at the higher borrowing costs and given lacklustre economic growth.
- Increasing cost of risk, reflecting moderate deterioration in loan quality.

Cost of risk

Historical

■ 2021 ■ 2022 ■ 2023

Percent

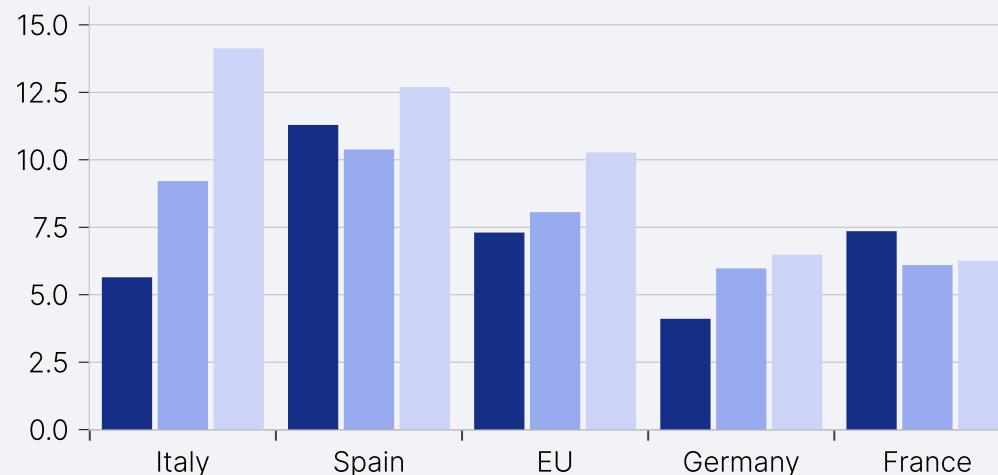


Return on equity

Historical

■ 2021 ■ 2022 ■ 2023

Percent

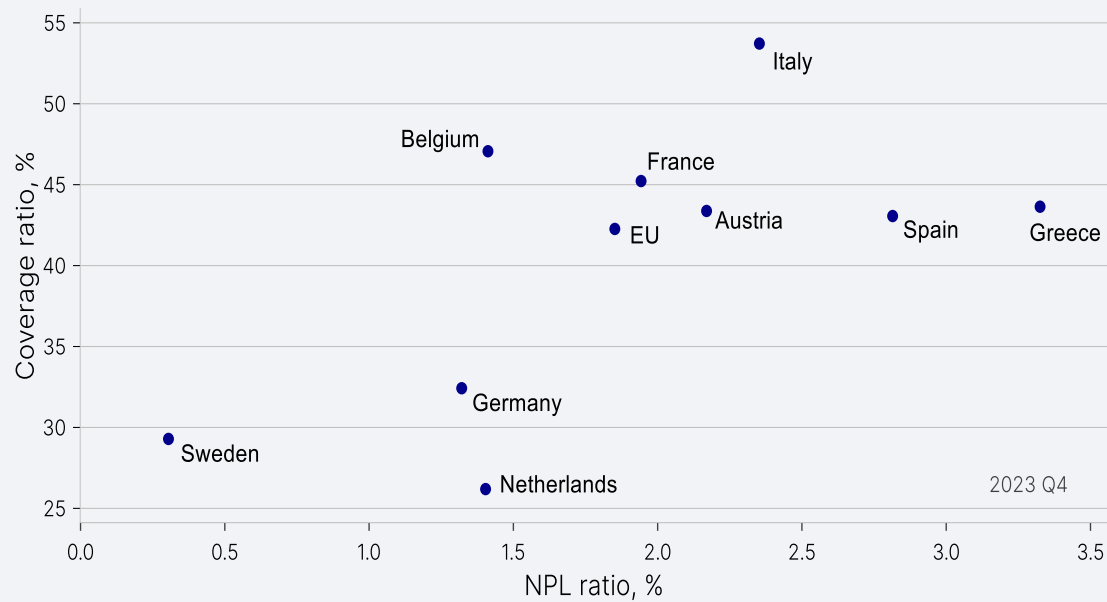


Source: Scope Ratings, EBA, Macrobond

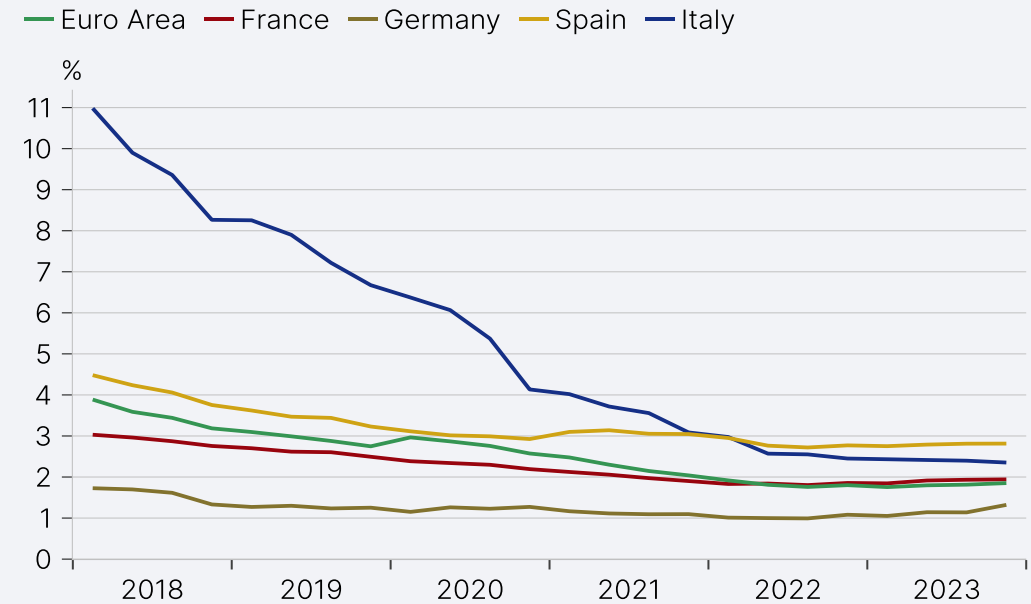
Asset quality set to deteriorate at a controlled pace

- We expect a gradual and moderate deterioration in credit quality.
- Banks entered this credit cycle with much-cleaner balance sheets, and we do not observe a broad-based deterioration of asset quality.
- Asset-quality concerns may be exacerbated by a more-prolonged phase of tight monetary policy.

Non-performing loan ratio and coverage
Latest



Gross NPL ratio
Historical, EBA definition*

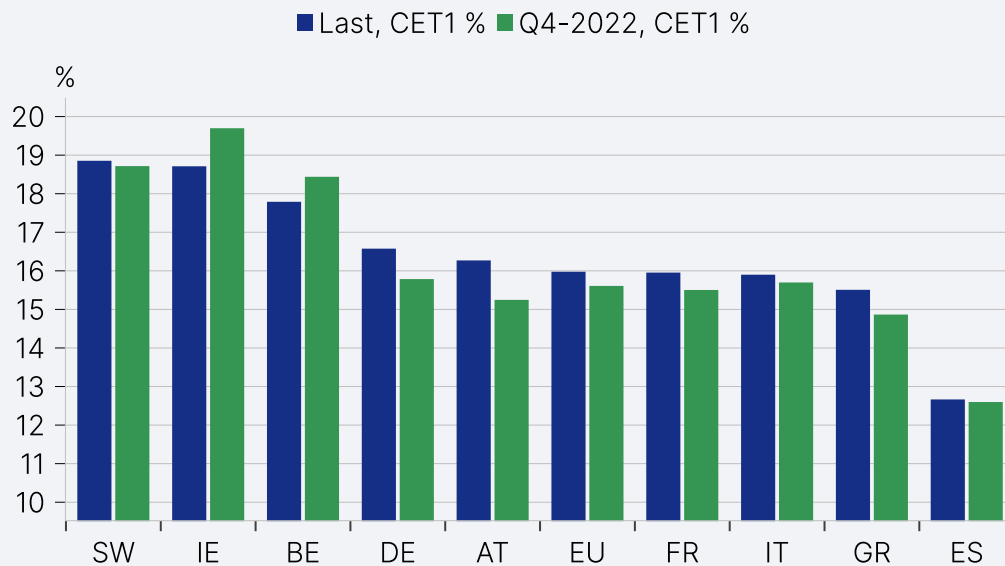


Source: Scope Ratings, EBA, Macrobond.
*NPL ratio based on a loan figure that includes advances to banks.

Excess capital continues to support bank credit profiles

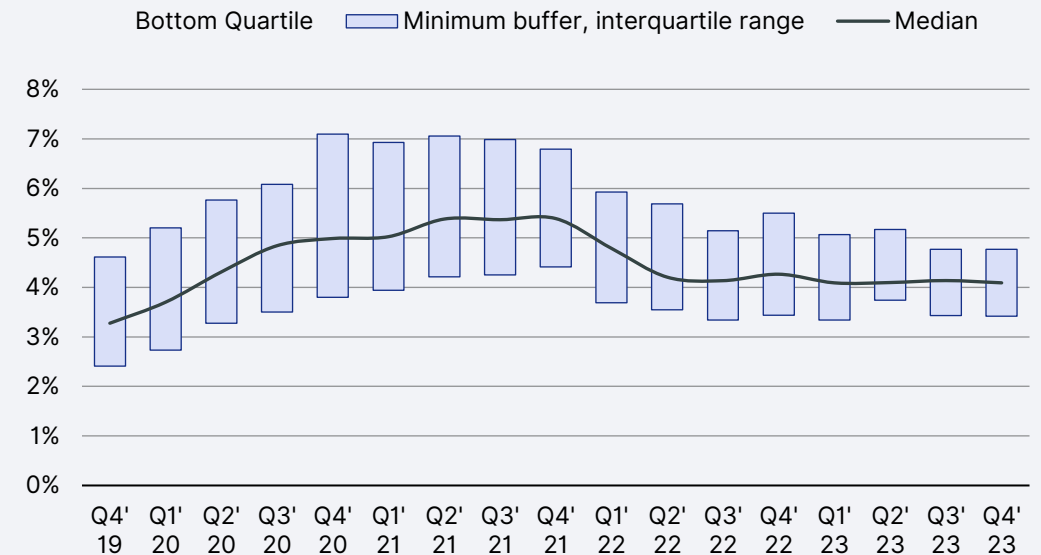
- Higher levels of shareholder remuneration backed by strong profitability, limited downside for capital.
- No easing of prudential requirements, moderately increased on the back of higher counter-cyclical capital buffers and systemic risk buffers.
- Capital ratios to remain well above regulatory requirements and management’s own targets near term.

Common equity tier 1 (CET1) capital ratios
Q4 2023 vs Q4 2022



Maximum distributable amount

Sample includes 40 largest Scope-rated banks by total assets

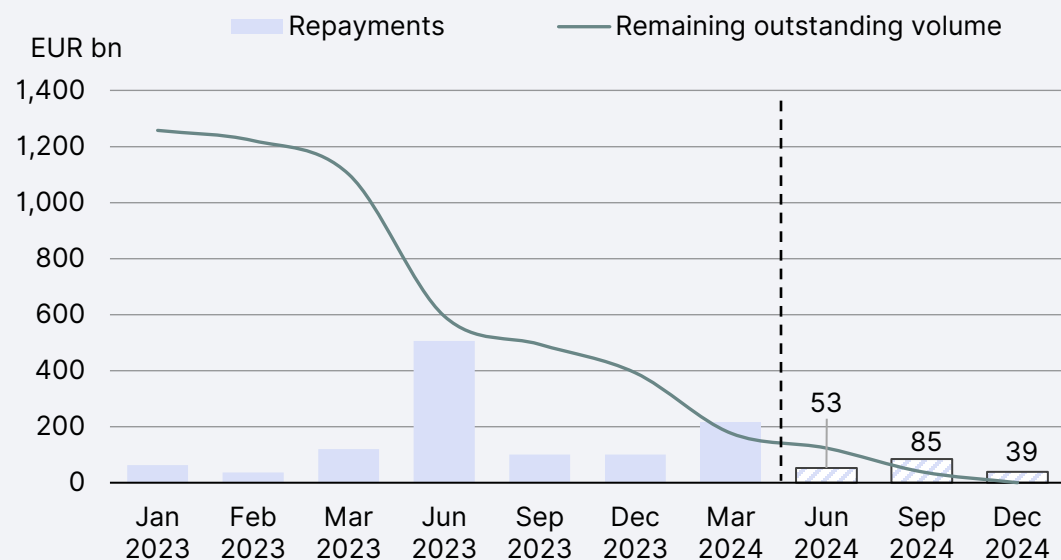


Source: Scope Ratings, EBA, Macrobond, SNL

Funding profiles of European banks continue to normalise this year

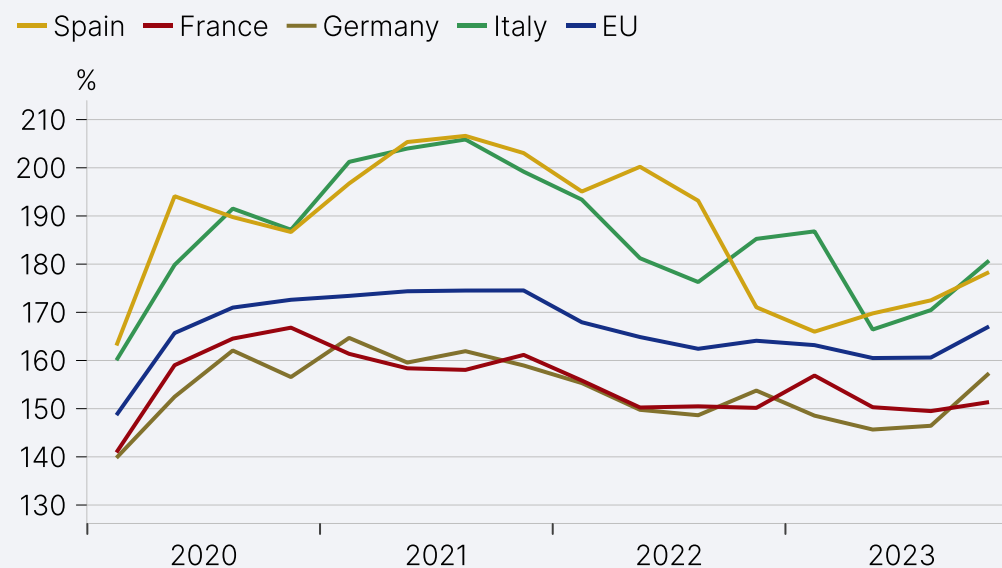
- Liquidity coverage ratios (LCRs) declined in 2023 as banks repaid targeted longer-term refinancing operations (TLTROs) but remained at a comfortable distance from regulatory requirements.
- Central-bank funding to virtually disappear, replaced with wholesale issuance.
- Solid deposit growth during the pandemic crisis continues to support funding profiles, but risk skewed to the downside.

TLTRO repayments and upcoming maturities



Source: Scope Ratings, EU Single Supervisory Mechanism (SSM), ECB

LCRs Historical



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Annex – Scope Q2 2024: Macroeconomic Outlook

Macroeconomic overview

GDP Growth	Inflation	Unemployment	Official Rates	Default Rates																
Soft landing this year, improving outlook for Europe by 2025	Global inflation to continue falling this year, but remaining sticky around/above 2%	Labour markets to stay strong this year and in 2025 – exerting price pressures	Rate cuts start later than markets expect, and are ultimately less significant than markets price in	Default rates in the wider corporate sector to rise this year from very-low levels																
<u>2023 / 2024 (annual avgs)</u> 1.0% / 1.7% Euro area 0.8% / 1.4% UK 3.2% / 3.4% Global growth	<u>2023 / 2024 (annual avgs)</u> 2.5% / 2.1% Euro area 2.7% / 2.7% UK 3.3% / 3.0% US	<u>2023 / 2024 (annual avgs)</u> 6.5% / 6.4% Euro area 4.5% / 4.5% UK 3.9% / 3.8% US	<table border="1"> <thead> <tr> <th></th> <th>Fed</th> <th>BoE</th> <th>ECB</th> </tr> </thead> <tbody> <tr> <td>2023 (EOP)</td> <td>5.25-5.5%</td> <td>5.25%</td> <td>4.0%</td> </tr> <tr> <td>2024 (EOP)</td> <td>5-5.25%</td> <td>5.0%</td> <td>3.5%</td> </tr> <tr> <td>2025 (EOP)</td> <td>4.5-4.75%</td> <td>4.5%</td> <td>3.0%</td> </tr> </tbody> </table>		Fed	BoE	ECB	2023 (EOP)	5.25-5.5%	5.25%	4.0%	2024 (EOP)	5-5.25%	5.0%	3.5%	2025 (EOP)	4.5-4.75%	4.5%	3.0%	
	Fed	BoE	ECB																	
2023 (EOP)	5.25-5.5%	5.25%	4.0%																	
2024 (EOP)	5-5.25%	5.0%	3.5%																	
2025 (EOP)	4.5-4.75%	4.5%	3.0%																	

Upside risks	Downside risks
Falling inflation and rate cuts ✓	✗ Higher-for-longer interest rates
Resilience of private demand ✓	✗ Escalation of geopolitical risks (Middle East and/or Russia) alongside forthcoming US elections
Further fiscal-spending support for economies ✓	✗ Financial-market stress and financial-stability risk
	✗ Market re-appraisal of sovereign risk

Annex: Platforms for access to Scope macro projections

Available on:



MACROBOND

Bloomberg

LSEG
Workspace



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