Q4 2020 Sovereign Update

A gradual and uneven global recovery faces challenges in Q4 2020 and 2021, with diverging sovereign ratings implications

Sovereign and Public Sector, Scope Ratings GmbH, 12 October 2020

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Executive Summary

Scope forecasts a modestly less intense 2020 global contraction of **about 4%**, compared with 4.5% in our July forecasts, and a recovery of **6%** in 2021. 2020 represents nonetheless the sharpest global contraction of the post-war era. Under a stressed scenario, global growth in 2020 is estimated at -6.5%, with a 2021 recovery of a more moderate 4.8%. Results across baseline and stressed scenarios are summarised in **Figure 1** below. Full macro-economic forecasts are presented in **Annex I**.

Assumptions (baseline scenario):

While the trajectory of the Covid-19 remains highly uncertain, our baseline scenario assumes that this anticipated renewed increase in virus infections in economies generally does not result in the same *scale* of national lockdowns as in the 1H-2020 in advanced economies. Still, the pandemic impedes the speed of the economic recovery, which is expected to continue more gradually and, in many cases, only after temporary contraction in activity in 4Q GDP. A more selective second round of economic restrictions are undertaken, although with more severe adverse growth outcomes and/or restrictions seen in more hard-hit countries by the virus such as the United States, the UK, Spain and France. Looking ahead to 2021, we expect a rebound in most economies by the early spring although full economic normalisation remains vulnerable to setbacks. Our baseline scenario assumptions are little changed from those presented in July's **Q3 Sovereign Update**.

Stressed scenario assumptions:

In this alternate case, the second round of coronavirus cases in advanced and emerging economies forces countries to reimpose highly disruptive lockdowns in Q4, with harsh restrictions of a *similar* scale to those of the spring. The result would be a *deep* double-dip contraction in the economy – implying a W-shaped recovery – impacting especially services, extending into prolonged economic weaknesses over 2021. This scenario could reflect one under which coronavirus remains a prime restriction to "normal economic conditions" through 2021.

Impact of this crisis on sovereign risk:

Implications of this crisis for sovereign risk hinge on i) the depth and duration of the crisis, ii) monetary and fiscal policy responses, and iii) sovereign vulnerabilities before the Covid-19 shock at a given rating level. In the near-term, forceful monetary and fiscal policy responses have been credit *positive*, placing a floor beneath the economy, maintaining accommodative borrowing conditions and transferring the build-up in significant public debt to central bank balance sheets. The credit positive aspects of such institutional support have eased the speed of deterioration in sovereign creditworthiness, limited liquidity crises and moderated downside rating actions Scope has taken so far (**Annex III**). However, over the medium to long term, the same policies will i) raise debt ratios and weaken government balance sheets, ii) potentially incentivise moral hazard and postpone needed fiscal consolidation, and iii) risk lowering advanced economies' growth potentials by impeding structural change. Scope's scheduled sovereign review dates for the remainder of 2020 are included in **Annex IV**.

Figure 1: Scope's baseline and stressed scenarios, as of 12 October 2020

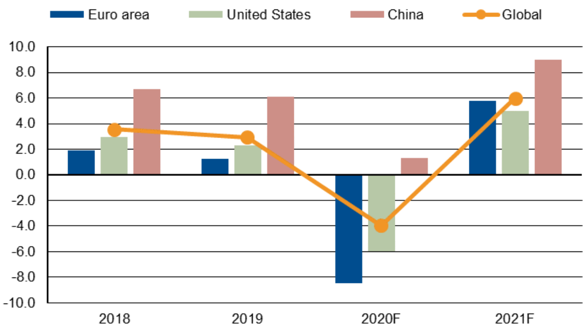
Country/region	Real GDP growth (%)							
	2019	Baseline scenario				Stressed scenario		Medium-run potential
		2020F (Oct)	Diff. from July	2021F (Oct.)	Diff. from July	2020F (Oct.)	2021F (Oct.)	
Euro area	1.3	(8.5)	↑ 0.6	5.8	↓ 0.1	(10.7)	4.3	1.3
Germany	0.6	(5.6)	↓ 0.1	4.0	↑ 0.8	(6.6)	3.5	1.2
France	1.5	(10.1)	↑ 0.9	6.8	↓ 0.4	(11.7)	5.4	1.2
Italy	0.3	(9.0)	↑ 1.0	6.1	↓ 1.4	(13.7)	4.3	0.7
Spain	2.0	(12.0)	↑ 0.5	7.0	-	(15.0)	3.5	1.5
United Kingdom	1.5	(10.8)	↓ 0.4	8.0	↓ 0.8	(14.5)	2.8	1.5
Russia	1.3	(5.5)	↑ 1.3	3.5	↓ 0.5	(8.0)	2.5	1.3-1.5
Turkey	0.9	(1.4)	↑ 2.8	7.2	↑ 1.4	(4.4)	5.7	3.9
United States	2.2	(6.0)	↑ 1.5	5.0	↓ 1.0	(9.0)	2.5	1.7
China	6.0	1.3	-	9.0	↑ 2.6	(1.3)	8.2	5.0
Japan	0.7	(6.0)	-	2.5	↓ 0.5	(8.0)	1.0	0.5
World	2.9	~ (4.0)	↑ 0.5	~ 6.0	↑ 0.2	~ (6.5)	~ 4.8	-

Negative growth rates presented in parentheses. Source: Scope Ratings GmbH forecasts, Macrobond, IMF.

Global Outlook: October 2020

The global economy faces a slightly more moderate contraction in 2020. In this sovereign update, we expect a slightly less intense 2020 global contraction of -4% (**Figure 2**), revised from -4.5%, with recovery of 6% in 2021. In line with expectations, there is a significant second wave of the SARS-CoV-2 virus after economic re-openings, hindering recoveries and sending recovery into temporary reversal in many cases over Q3 and Q4. China since Q1 has to date, however, bucked this trend and kept the virus largely contained with recovery resuming. In Europe and the US, after the rapid rebound in activity from the late spring to the mid-summer, a gradual, more uneven path of economic normalisation by this stage has been expected. Under any scenario, the path to economic normalisation will require significant time and be subject to setbacks.

Figure 2. Global growth, 2018-2021F, %, baseline

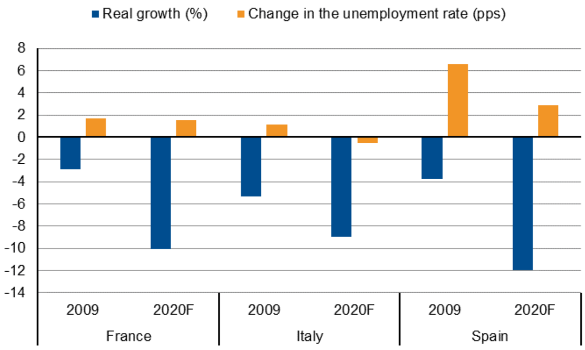


Source: National statistics institutes, Scope Ratings GmbH forecasts

In Scope's baseline scenario, renewed increase in infections generally will not result in the same scale of economic restrictions in the 2H as in the 1H 2020 in advanced economies as governments and public health sectors are better prepared this time around. A more selective second round of economic restrictions are undertaken, though with more adverse growth outcomes and/or more intensive restrictions seen in hard-hit countries such as the US, the UK, Spain and France. After moderate interruptions to recoveries in Q4, including outright GDP contractions in multiple cases this quarter as Covid-19 interacts with the flu season, recovery, nevertheless, should regain momentum by the spring of 2021. This baseline scenario aligns with a "degree-3 polynomial-shaped or wing-shaped" global recovery. The recovery in 2021 is supported by i) assumed capacity of populations in time to coexist with the virus, including advancement of further therapeutics and/or vaccine(s); ii) fiscal and monetary stimulus; and iii) adaptation of new ways of doing business and development of new industries.

The slight upward revision to Scope's 2020 baseline global forecast to -4% owes mostly to forecast revisions to the United States (+1.5pps to -6%) and the euro area (+0.6pps to -8.5%) (**Figure 1, previous page**). Under our baseline, the euro area contraction of 2020 remains led by sharp recessions in Spain (-12%), France (-10.1%) and Italy (-9%), with a more moderate growth drop in Germany (-5.6%). However, due to the exceptional policy action taken during this crisis, unemployment has not increased in line with the depth of output losses (**Figure 3**). Outside the EU, the UK sees among the deepest recessions of 2020 of -10.8%, but the UK is also foreseen displaying among the highest 2021 growth (+8%) comparatively. The United States and Japan both observe significant contractions in activity in 2020 (6% each). In emerging markets, we revise up 2020 growth for Turkey to -1.4% and Russia to -5.5%. The forecast for China is unchanged at the weakest growth since 1976 of 1.3% this year; however, we revise up China's 2021 expectations 2.6pps to 9% – driving the higher 2021 global growth forecast.

Figure 3. Growth vs Δ unemployment, 2009 vs 2020

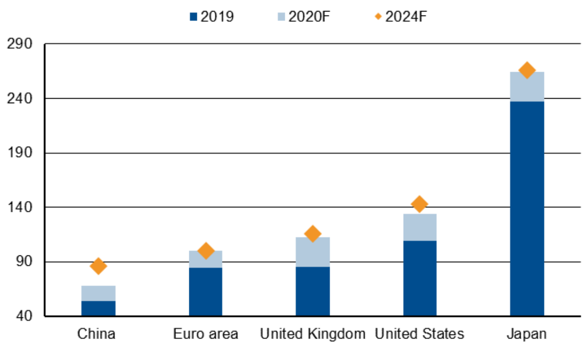


Source: European Commission, Scope Ratings GmbH forecasts

In the alternate stressed case, we assess a scenario under which the second round of Covid-19 cases brings economies back to full or partial lockdown in Q4 2020 – with a return to H1 2020 restriction depths on non-essential activities this quarter – under a W-shaped recovery scenario. Here, we assume that governments face significant restrictions to "normal economic conditions" deep into 2021. The stressed scenario sees global growth contract this year 6.5%. In 2021, the world economy grows 4.8% in this stressed scenario.

Implications of this crisis for sovereign risk include the significant increases in public debt stocks – as governments have footed the bill (**Figure 4**). Central bank actions continue, however, to momentarily ease the scale of sovereign liquidity or solvency risks. Annex II lists monetary/fiscal policy support measures thus far.

Figure 4. General government debt, % of GDP



Source: Macrobond, IMF, Scope Ratings GmbH forecasts

Regional Views

Core Europe

The credit outlook for **Germany** (AAA/Stable) remains stable after the economic recovery over the summer. For 2020, we expect a real GDP contraction of around 5.6%, helped by ample fiscal support but also capturing risks of a resurgence of infection and stricter containment measures. The labour market is recovering gradually from the crisis with "Kurzarbeit" labour market support being a major stabilising factor. The outlook for 2021 reflects expectations of continued recovery with further fiscal stimulus of around 3% of GDP (EUR 96bn) while structural change across major industries remains a significant growth challenge.

In **France** (AA/Stable), the expected growth contraction of around 10% this year will be followed by a strong recovery in 2021, with a current 2021 forecast of around 7% growth. The second stimulus package and past reforms will drive the recovery, while public finances deteriorate further. The 20pp increase in France's general government debt-to-GDP ratio, rising towards 118% of GDP in 2020 from 98% of GDP at end-2019, is unlikely to be reversed absent a significant increase in economic growth potential.

The **Netherlands** (AAA/Stable) faces a contraction of around 5% this year, following a better-than-anticipated recovery over the summer. In **Belgium** (AA/Negative), the formation of a new government could support growth next year with more decisive policies. Yet, only 4.3% growth is expected in 2021 despite recession of around 7% this year.

Italy, Spain and Portugal

We revise up 1pp our expectation for 2020 growth in Italy to -9% and revise down 1.4pps our forecast for the 2021 recovery to 6.1%. The fiscal deficit will widen this year to 10.9% of GDP, from 1.6% in 2019, before moderating to a still elevated 6.9% of GDP in 2021. Public debt will increase to around 160% of GDP in 2020, from 135% in 2019. Scope revised its Outlook on **Italy**'s BBB+ credit ratings to Negative on 15 May, with the next scheduled sovereign review date on 30 October. This crisis has, nonetheless, demonstrated a core rationale underpinning Scope's investment-grade ratings for Italy compared with more pessimistic opinions in markets: Italy's systemic importance in the euro area and extraordinary support available from European institutions under severe scenarios – reducing the likelihood of market access loss.

Spain's A-/Negative rating reflects our view that i) even under a relatively favourable economic and fiscal trajectory from 2021, it will likely take the Spanish economy many years to reverse the fiscal deterioration that has resulted to date from the Covid-19 shock, and ii) Spain's growth potential may be adversely impacted by the Covid-19 shock, exacerbating pre-existing structural labour market vulnerabilities. Specifically, we expect a deep recession in 2020 (of about -12%), a significant rise in the public debt ratio to around 120% of GDP, and, given widespread use of temporary contracts and about 40% of the employed working in sectors significantly hit by the crisis (incl. tourism, recreation), also a steep increase in the unemployment rate to average around 17% in 2020.

For **Portugal** (BBB+/Stable), the shock will reverse the gradual unwinding of economic and fiscal imbalances observed since 2014 and raise the debt-to-GDP ratio to around 140% in 2020. Still, on the basis of a gradual recovery, we expect public finances to consolidate thereafter, placing the debt-to-GDP ratio on a downward trajectory from 2021 on.

Greece and Cyprus

Greece (BB/Positive) is especially exposed to the economic impact of the pandemic through its dependence on the tourism sector, and the high proportion of Greece's workforce made up of the self-employed. In addition, the poor core profitability of Greek banks, burdened by still elevated levels of non-performing loans, limits banks' capacities to support the economy. We maintain our growth forecast of -7.8% in 2020. Policy responses should support the economy in 2020 and contribute to a 2021 recovery (+5.2% growth).

The Covid-19 crisis will bring deep recession in **Cyprus** (BBB-/Stable) in 2020. Still, we expect public debt to return to a downward trajectory from 2021 onward.

UK and Ireland

Scope expects a severe 10.8% economic contraction in the **United Kingdom** (AA/Negative) in 2020, little changed from our July forecasts, including continued expectation of a Q4 2020 quarterly drop in GDP amid renewed economic restrictions. We have trimmed the UK's 2021 growth forecast to a still robust 8% (from 8.8%). The UK's budget balance will worsen to well below -10% of GDP in 2020 and public debt will rise to around 110% of GDP in 2020 (from 85% in 2019) – presenting risks to the UK's credit ratings. In addition, as furlough schemes are phased out, unemployment increases, averaging 8.5% over 2021. Economic uncertainties linked to Brexit damage investment and impede recovery, though we expect the UK and the EU to reach some kind of agreement late in 2020 that i) avoids a no-deal Brexit; ii) announces progress made since March in free trade talks; and iii) gives the UK and the EU additional time by extending standstill conditions for most if not all goods trade temporarily into 2021.

In **Ireland** (A+/Positive), growth, deficit and debt fundamentals have worsened significantly as the second wave has reintroduced economic restrictions; however, Ireland's credit ratings remain anchored by a mature, diversified and high-growth-potential economy.

Central & Eastern Europe (CEE)

Among the 11 EU CEE economies, we have become less negative about 2020 growth estimates in the Baltic states – **Lithuania** (A-/Positive): -1.5% (up from -7.6% in July's Q3 2020 CEE Sovereign Update), **Estonia** (AA-/Stable): -5.5%, (up from -7.7%), **Latvia** (A-/Stable): -5.5% (from -8%), as well as for **Bulgaria** (BBB+/Stable): -5% (from -7%), given less-severe-than-anticipated Q2 GDP drops, especially for Lithuania. We have also marginally upgraded 2020 GDP forecasts for **Poland** (A+/Stable): -3.9% (up from -4.2%), the **Czech Republic** (AA/Stable): -7% (from -7.5%), **Romania** (BBB-/Negative): -5.5% (from -6.3%), and **Slovenia** (A/Stable): -7% (from -7.6%). On the other hand, we maintain unchanged 2020 growth forecasts for **Hungary** (BBB+/Stable): -6%, **Slovakia** (A+/Negative): -8.1%, and **Croatia** (BBB-/Stable): -8.9%. The recently agreed EU budget, including the EU recovery fund of EUR 750bn, should support the CEE recovery from this crisis and facilitate investment.

Turkey, Russia and Georgia

Turkey (B+/Stable), as the lowest rated issuer in Scope's rated sovereign universe, is especially vulnerable under 2020 crisis conditions – and became the only sovereign issuer downgraded by Scope thus far in this crisis. Due to a stronger-than-anticipated economic rebound over the summer, we revise up growth expectations to -1.4% in 2020 under a baseline (and -4.4% under the stressed case), with recovery of 7.2% in 2021 (and 5.7% in the stressed scenario). Turkey's traditional credit strength – its public finances – has weakened substantively with the budget balance deteriorating to around -9% of GDP in 2020, with general government debt rising to 43% of GDP in 2020 (from 33% in 2019), with this rising debt trajectory seen reaching 60% of GDP by 2024. Turkey's external sector vulnerabilities, including continued lira depreciation and negative net FX reserves of USD -42.9bn as of August, increases sensitivities to "risk-off" market conditions.

Russia: We have revised up our forecast for Russia's economy in 2020 from a previous 6.8% contraction now to -5.5%, reflecting the modest Q2 GDP drop. Temporary relaxation of fiscal rules into 2021 and Russia's sizeable fiscal and FX reserves support recovery. However, the recovery lost momentum in Q3 and could face challenges from intensified sanctions and weak private demand. Following the 2020 constitutional amendments, we expect broad policy continuity with regards to prudent fiscal, monetary and FX policies, leading to modest economic recovery of 3.5% in 2021. However, profound structural reforms to raise the economy's weak medium-term growth potential (estimated at a maximum 1.5%) is unlikely to come soon – a constraint on Russia's sovereign ratings.

We maintain our 2020 growth forecast of -5% for **Georgia** (BB/Negative) after growth of +5% in 2019, reflecting the economy's high dependence on tourism alongside exchange rate sell-off vulnerabilities.

United States

The Covid-19 shock is exposing and exacerbating US social, fiscal, economic and institutional weaknesses whilst highlighting the benefit the US government continues to draw from issuing the world's reserve currency. These contrasting credit relevant forces remain balanced at a below-consensus AA rating level. Despite the forceful interventions of the Federal Reserve and Congress, we expect a deep recession of around -6% in 2020 and unemployment to rise to around 8% this year. The historic fiscal stimulus totalling around 15% of GDP comes on top of an already high fiscal deficit entering 2020, raising the deficit further to around 18% of GDP in 2020, elevating the debt-to-GDP ratio to almost 140% by 2021. While we expect recovery in 2021, economic risks are skewed to the downside. We highlight the uncertainty around the depth and length of the Covid-19 shock, a highly leveraged US corporate sector, a shifting trade policy agenda, particularly vis-à-vis China, and the uncertainty around the country's medium-term policy orientation given presidential and congressional elections of 3 November in a context of high political polarisation.

China and Japan

We maintain a forecast of 1.3% growth in **China** this year followed by an upward revised recovery of 9% in 2021. However, the general government deficit will widen to 11.7% of GDP in 2020, while public debt is foreseen continuing to rise rapidly to 68% of GDP by end-2020 (and to 86% by 2024), from 54% in 2019. On 28 February 2020, Scope affirmed China's A+ ratings but maintained the Outlook at Negative. The effects of the sharp economic downturn earlier this year alongside associated monetary and fiscal expansionary policies will further structurally aggravate pre-existing balance sheet vulnerabilities reflected in the Negative Outlook and bring higher levels of public and private sector debt, stressing financial stability longer term.

Japan's A+/Negative rating reflects downside risks the country faces, stemming from i) providing fiscal support near-term to mitigate the impact of the crisis on weak growth potential; and ii) developing a long-term plan to reflate the economy and place public debt on a firm downward path. The Covid-19 shock has already forced authorities to postpone fiscal consolidation targets for several years, with our baseline projections for a rise in the debt-to-GDP ratio to around 266% in 2024.

Nordics and Switzerland

Denmark, **Norway**, **Sweden** (all rated AAA/Stable) and **Finland** (AA+/Stable) are expected to see more moderate GDP contractions of -3.25% to -5% in 2020. Public debt is expected to increase, to about 70% of GDP (from 59%) in the case of Finland, and to more moderate levels in other Nordic countries. Increases in deficits and debt have not led, as yet, to significant deterioration in the sovereigns' creditworthiness.

We have revised our 2020 GDP expectations for **Switzerland** from the previous forecasting round of around -7% now to -5.5%, mostly due to the early and gradual re-opening of its economy.

Additional research

Western Europe

UK: coronavirus, job market and Brexit stress the outlook for the economic recovery, 29 Sep

France's recovery plan to return economy to pre-crisis growth at cost of worsening public finances, 17 Sep

Finland: more moderate C-19 impact on growth, yet pandemic legacy to delay public debt stabilisation, 11 Sep

Greece: public sector, bank reform vital to allow for the effective absorption of EU recovery funds, 9 Sep

Sovereign ESG financing: Germany lays foundation for green yield curve with debut issue, 8 Sep

Cyprus: Covid-19 reverses growth, fiscal consolidation for now; banking vulnerabilities a key risk, 31 Aug

Ireland: Covid-19 crisis weighs upon growth and public finances, but robust recovery expected, 29 Jul

Euro area safe assets to rise by almost EUR 2.5trn over coming years, boosting euro's standing, 24 Jul

EU budget and recovery fund deal: a significant step to boost Europe's integration and recovery, 22 Jul

Portugal: Covid-19 shock weighs on economic and public finance outlook, 14 Jul

Central and eastern Europe

Hungary faces tougher public finance challenge: assessing the Covid-19 impact in five charts, 24 Sep

Polish economy proves resilient amid the Covid-19 crisis; institutional challenges set to continue, 24 Aug

Bulgaria's joining of ERM II and Banking Union is credit positive, though still a long road to euro, 20 Jul

Q3 2020 Central and Eastern Europe (CEE) Sovereign Update, 15 Jul

Global & rest of the world

US, Italy, Japan population trends show divergent long-term growth in advanced economies: interview, 30 Sep

Demographics squeeze advanced economies' long-term growth potential; big test for Italy, Japan, 23 Sep

Multilateral fiscal support for African sovereigns addresses liquidity more than solvency risk, 3 Sep

Turkish lira's decline highlights institutional, economic and monetary policy challenges, 13 Aug

Annex I: Macro-economic outlook, 2019-2021F

Country/region	Real GDP growth (annual average, %)						Policy rates[1] (%)		
	2019	2020F (Baseline)	2020F (Stressed)	2021F (Baseline)	2021F (Stressed)	Medium-run potential	End-2019	End-2020	End-2021
Euro area[2]	1.3	(8.5)	(10.7)	5.8	4.3	1.3	(0.5)	(0.5)	(0.5)
Germany	0.6	(5.6)	(6.6)	4.0	3.5	1.2			
France	1.5	(10.1)	(11.7)	6.8	5.4	1.2			
Italy	0.3	(9.0)	(13.7)	6.1	4.3	0.7			
Spain	2.0	(12.0)	(15.0)	7.0	3.5	1.5			
Netherlands	1.6	(5.0)	(6.0)	4.0	3.2	1.4			
Belgium	1.4	(6.9)	(7.9)	4.3	3.9	1.3			
Austria	1.4	(6.5)	(8.5)	4.5	2.8	1.6			
United Kingdom	1.5	(10.8)	(14.5)	8.0	2.8	1.5	0.75	0.10	0.00
Poland	4.2	(3.9)	(5.6)	4.2	1.7	2.5			
Russia	1.3	(5.5)	(8.0)	3.5	2.5	1.3-1.5			
Turkey	0.9	(1.4)	(4.4)	7.2	5.7	3.9			
United States	2.2	(6.0)	(9.0)	5.0	2.5	1.7	1.50-1.75	0-0.25	0-0.25
China	6.0	1.3	(1.3)	9.0	8.2	5.0			
Japan[3]	0.7	(6.0)	(8.0)	2.5	1.0	0.5	(0.1)	(0.1)	(0.1)
World	2.9	~ (4.0)	~ (6.5)	~ 6.0	~ 4.8	-	-	-	-

Country/region	Unemployment rate (annual average, %)[1]			General government balance[1] (% of GDP)			Public debt level[1] (% of GDP)		
	2019	2020F	2021F	2019	2020F	2021F	2019	2020F	2024F
Euro area	7.6	9.1	10.2	(0.6)	(9.5)	(5.8)	84	100	100
Germany	3.1	4.5	5.0	1.4	(7.5)	(4.0)	60	69	70
France	8.5	10.0	11.0	(3.0)	(10.0)	(6.0)	98	118	117
Italy	9.9	9.4	11.0	(1.6)	(10.9)	(7.8)	135	158	161
Spain	14.1	17.0	19.0	(2.8)	(13.0)	(8.5)	96	122	125
Netherlands	3.4	5.0	5.9	1.7	(6.0)	(5.5)	49	60	62
Belgium	5.4	7.0	7.5	(1.9)	(8.0)	(4.0)	99	117	117
Austria	4.5	5.5	5.0	0.7	(11.0)	(5.0)	70	86	79
United Kingdom	3.7	5.1	8.5	(2.1)	(16.4)	(8.0)	85	112	116
Poland	5.4	6.0	5.0	(0.7)	(8.5)	(4.3)	46	56	57
Russia	4.6	6.0	5.5	1.9	(6.0)	(3.3)	14	26	31
Turkey	13.7	14.3	13.5	(5.3)	(9.2)	(7.5)	33	43	60
United States	3.7	8.0	6.0	(5.8)	(18.0)	(12.0)	109	134	143
China[4]	5.1	5.7	5.3	(6.4)	(11.7)	(7.1)	54	68	86
Japan	2.4	4.0	3.0	(2.8)	(12.0)	(6.0)	237	264	266
World	-	-	-	-	-	-	-	-	-

Negative values shown in parentheses

Source: Scope Ratings forecasts, Macrobond, IMF.

[1] Projections under Scope's baseline economic scenario

[2] Shown for the euro area policy rate is the ECB deposit facility rate

[3] Shown for Japan's policy rate is the deposit rate on current account balances

[4] Unemployment is the survey-based urban unemployment rate

Annex II: Fiscal and monetary response

Fiscal stimulus announcements in response to the Covid-19 pandemic

Euro area					
Country	**Fiscal stimulus, EUR**	**Fiscal stimulus, % of 2019 GDP**	**Public guarantees, EUR**	**Public guarantees, % of 2019 GDP**	**Key measures**
Germany	EUR 286bn	8.3	EUR 756bn	21.9	Social spending and company emergency aid in a coordinated effort to prevent deeper economic disruption. Rescue fund to provide virus-hit companies with loans and guarantees as well as to buy stakes in stricken businesses. Temporary VAT reduction and income support for families.
France	EUR 114bn	4.7	EUR 327bn	13.5	Reduced social security contributions, wage-support schemes, unemployment benefits, solidarity fund for the self-employed, equity investments in companies in difficulty, support for hard-hit sectors, public investment
Italy	EUR 100bn	5.6	EUR 400bn	22.5	Funds for the health system, liquidity to small and medium-sized enterprises (SMEs), increase in social safety nets, tax deadline extension, social security contributions relief, childcare subsidies, income support to families and hard-hit businesses, revenue integration to regional and local governments
Spain	EUR 46bn	3.7	EUR 164bn	13.2	Delay in mortgage payments, easing in social security contributions, increase in safety nets and unemployment benefits, EUR 16bn fund for autonomous communities
Netherlands	EUR 37bn	4.6	EUR 33bn	4.2	Job retention scheme, liquidity to SMEs and self-employed, support for impacted industries, childcare subsidies, public investment
Belgium	EUR 16bn	3.4	EUR 52bn	12.0	Healthcare spending, social benefits for unemployed and self-employed, support to hard-hit sectors and vulnerable groups, liquidity support through easing taxes and social security contributions
Austria	EUR 41bn	10.3	EUR 9bn	2.3	Tax relief, support for furloughed workers, support for SMEs and the self-employed
Ireland	EUR 20.5bn	5.8	EUR 4bn	1.1	Illness benefit payments, wage subsidies, unemployment benefits, support for businesses, health expenditures, Pandemic Stabilisation and Recovery Fund, credit guarantee scheme
Finland	EUR 9bn	3.8	EUR 11bn	4.6	Healthcare spending, lower pension contributions, grants to SMEs and the self-employed, social and unemployment assistance, infrastructure investment
Portugal	EUR 5bn	2.4	EUR 8bn	3.7	Flexible payment schedules for tax payments, reduction of social security contributions, credit line to affected businesses
Greece	EUR 11bn	6.0	EUR 3bn	1.5	Loan payment relief, support to SMEs, the self-employed and health sector workers

Other European countries					
Country	**Fiscal stimulus, local currency**	**Fiscal stimulus, % of GDP**	**Public guarantees, local currency**	**Public guarantees, % of GDP**	**Key measures**
UK	GBP 167bn	7.6	GBP 330bn	15.1	Public health system spending, tax breaks and cash grants to companies in hard-hit sectors, liquidity for SMEs, wage compensation, sick pay refund, infrastructure investment
Switzerland	CHF 31bn	4.4	CHF 42bn	6.1	Wage subsidies to SMEs, support for self-employed and laid-off workers
Poland	PLN 104bn	4.6	PLN 175bn	7.7	Salary integration, delayed social security contributions, help for the self-employed, infrastructure investment, healthcare spending
Sweden	SEK 240bn	4.8	SEK 230bn	4.6	Wage subsidies for short-term leave, sick leave, loans to SMEs, rent subsidies to vulnerable sectors
Norway	NOK 160bn	4.5	NOK 100bn	2.8	VAT cuts, tax and social contributions deferrals, support for the self-employed, support for the aviation sector, household income protection scheme, support measures for business
Denmark	DKK 131bn	5.7	DKK 95bn	4.1	Government grants to cover companies' fixed costs, salary integration for employees and the self-employed, support for SMEs and hard-hit businesses, spending on healthcare needs, temporary liquidity measures

Other Countries					
Country	**Fiscal stimulus, local currency**	**Fiscal stimulus, % of GDP**	**Public guarantees, local currency**	**Public guarantees, % of GDP**	**Key measures**
US	USD 2trn	9.0	USD 860bn	4.0	Direct payments to individuals and families, unemployment insurance benefits, funds for hospitals and state and local governments, loans and guarantees to small businesses and distressed companies
China	RMB 5trn	4.8			Epidemic control and medical equipment, unemployment benefits, social insurance relief, VAT waivers, electricity bill discounts, infrastructure spending projects
Japan	JPY 34trn	4.9	JPY 84bn	12.1	Cash handouts to individuals and affected businesses, tax and social security contributions deferrals, liquidity support to businesses
Russia	RUB 5trn	4.5	RUB 700bn	0.6	Tax breaks (tourism sectors, airlines), loans on preferential terms, tax breaks for SMEs
Turkey	TRY 123bn	2.9	451bn	10.5	Suspension of social security contributions, support for low-income pensioners, payments to households in need, VAT deductions, three-month ban on layoffs, state payments of workers' salaries, debt relief for local gov'ts

Source: governments' announcements, IMF, OECD, Bruegel, Scope Ratings GmbH

Monetary policy decisions by major central banks in response to the Covid-19 pandemic

Central bank	Monetary response
Federal Reserve	• **Interest rate cuts: -**150bps (in two steps) to now 0-0.25% target range • **Asset purchases:** initially at least USD 700bn in Treasuries and agency mortgage-backed securities purchases over coming months, then converted to unlimited purchases, later with pledge of unlimited purchases of around USD 120bn per month • **Support for credit markets:** liquidity injections and facilities to support the flow of credit • **International coordination:** extended use and conditions of swap lines with major central banks • **Banking rule easing:** encourage banks to utilise liquidity and capital buffers they have to extend credit
ECB	• **Asset purchases:** additional EUR 120bn of Asset Purchase Programme + EUR 1,350bn Pandemic Emergency Purchase Programme (PEPP) until at least June 2021, including flexibility on time, jurisdiction and instrument of purchases, and extension to Greek sovereign bonds and commercial paper • **Support for credit markets:** additional long-term refinancing operations (LTROs), more favourable conditions on targeted long-term refinancing operations (TLTROs), relaxation of collateral standards, Pandemic Emergency Longer-Term Refinancing Operations (PELTROs) • **International coordination:** extended use of euro swap and repo lines • **Banking rule easing:** capital and liquidity rules softened to prevent credit crunch, reductions in counter-cyclical capital buffer rates by national central banks
Bank of Japan	• **Asset purchases:** enhance ETF and REIT annual purchase targets up to JPY 12trn and JPY 180bn respectively, lifting annual JBG purchase benchmark of JPY 80trn, targeting 10-year JGB yields of around 0%, quadrupling the corporate bond and commercial paper holdings to JPY 20trn • **Support for credit markets:** loans at 0% interest rate for corporate financing (Special Funds-Supplying Operations), including easing collateral requirements • **Banking rule easing:** decrease by 25bps loan rate on USD liquidity swaps, relaxation of regulatory capital and liquidity buffers
Bank of England	• **Interest rate cuts:** -65bps (in two steps) to 0.1% • **Asset purchases:** expand holdings of government and sterling non-financial investment-grade corporate bonds by GBP 300bn, to a total of GBP 745bn • **Direct financing of government debt:** lifting of the cap on the government's Ways and Means facility • **Support for credit markets:** new Term Funding Scheme targeted at SMEs (TFSME), Covid Corporate Financing Facility, launched together with Her Majesty's Treasury, Coronavirus Business Interruption schemes, Contingent Term Repo Facility • **Banking rule easing:** 200bp cut in the counter-cyclical capital buffer rate to 0% and relaxation of regulatory capital requirements
People's Bank of China	• **Interest rate cuts:** reduction of the 7-day and 14-day reverse repo rates by 30 bps, as well as the 1-year medium-term lending facility (MLF) rate and targeted MLF rate by 30 and 20 bps • **Support for credit markets:** injections and targeted support to provinces most hard hit, cut reserve requirement rate, RMB 1.8trn in funding for banks to lend to SMEs and firms in agriculture, liquidity injections into the banking system via open market operations, policy banks to offer RMB 350bn in special loans to small firms, zero-interest "funding-for-lending" scheme (RMB 400 billion) to support lending to medium-sized enterprises

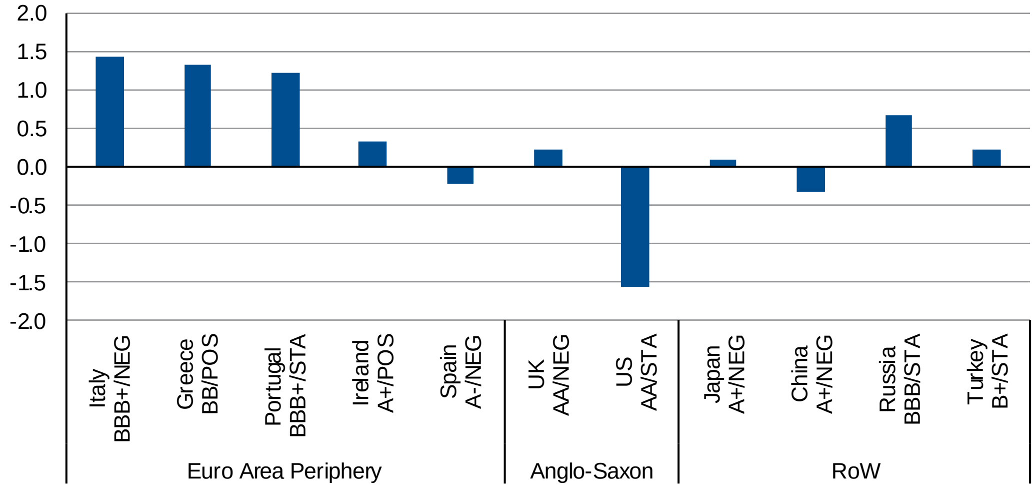
Source: Central banks' announcements, IMF, OECD, Scope Ratings GmbH

Annex III: Scope's sovereign ratings and recent rating actions

Scope's global long-term sovereign issuer ratings, as of 12 October 2020

Europe						Other Countries	
EU				EFTA			
Euro area		Non-euro area					
Austria	AAA/Stable	Bulgaria	BBB+/Stable	Norway	AAA/Stable	China	A+/Neg
Belgium	AA/Negative	Croatia	BBB-/Stable	Switzerland	AAA/Stable	Georgia	BB/Negative
Cyprus	BBB-/Stable	Czech	AA/Stable			Japan	A+/Negative
Estonia	AA-/Stable	Denmark	AAA/Stable			Russia	BBB/Stable
Finland	AA+/Stable	Hungary	BBB+/Stable			Turkey	B+/Stable
France	AA/Stable	Poland	A+/Stable			USA	AA/Stable
Germany	AAA/Stable	Romania	BBB-/Neg				
Greece	BB/Positive	Sweden	AAA/Stable				
Ireland	A+/Positive	UK	AA/Negative				
Italy	BBB+/Negative						
Latvia	A-/Stable						
Lithuania	A-/Positive						
Luxembourg	AAA/Stable						
Malta	A+/Stable						
Netherlands	AAA/Stable						
Portugal	BBB+/Stable						
Slovakia	A+/Negative						
Slovenia	A/Stable						
Spain	A-/Negative						

Scope ratings vs US agencies', as of 12 October 2020 (rating notches)



NB: Calculated based on alpha-numeric conversion on a 20-point scale from AAA (20) to D (1). Positive/negative outlooks are treated with a +/-0.33 adjustment. Credit Watch positive/negative with a +/-0.67 adjustment. RoW = Rest of World.

Scope's sovereign rating actions, 2020 YTD

Date		Sovereign	Rating action	Rating & Outlook
Jan	17 January	Russia	Upgrade/Outlook change	BBB/Stable
	17 January	Ireland	Outlook change	A+/Positive
	31 January	Portugal	Upgrade/Outlook change	BBB+/Stable
Feb	7 February	United Kingdom	Affirmation	AA/Negative
	7 February	Belgium	Outlook change	AA/Negative
	21 February	Estonia	Upgrade	AA-/Stable
	28 February	China	Affirmation	A+/Negative
Apr	17 April	Georgia	Outlook change	BB/Negative
	24 April	Japan	Outlook change	A+/Negative
May	1 May	Slovakia	Outlook change	A+/Negative
	15 May	Italy	Outlook change	BBB+/Negative
Jun	12 June	Romania	Affirmation	BBB-/Negative
Jul	10 July	Turkey	Downgrade/Outlook change	B+/Stable
Aug	21 August	Spain	Outlook change	A-/Negative
Oct	2 October	Czech Republic	Affirmation	AA/Stable

Annex IV: Scope Publication Calendar (Rest of 2020)

Month	Date	Entity
October	16-10-20	Japan
	16-10-20	Slovak Republic
	16-10-20	European Investment Bank
	16-10-20	Land of Berlin
	23-10-20	Republic of Slovenia
	23-10-20	Swiss Confederation
	30-10-20	European Union
	30-10-20	Italian Republic
	30-10-20	Republic of Austria
November	06-11-20	Republic of Croatia
	06-11-20	United States of America
	06-11-20	Free State of Bavaria
	06-11-20	Republic of Turkey
	20-11-20	Land of Baden-Wurttemberg
	27-11-20	German Länder
	27-11-20	Romania
December	04-12-20	Hellenic Republic
	04-12-20	Ville de Quimper
	11-12-20	Kingdom of Denmark
	11-12-20	Kingdom of Sweden
	11-12-20	Republic of Finland
	11-12-20	Russian Federation
	18-12-20	Ireland
	18-12-20	Kingdom of Norway

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