Scope Ratings

2021 Sovereign Outlook

Recovery at last, with monetary and fiscal frameworks in transition, and diverging sovereign rating implications

Sovereign and Public Sector, Scope Ratings GmbH, 9 December 2020

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Executive summary

After a global contraction of 4% in 2020 – the most severe of the post-war era, Scope forecasts a year of recovery in 2021, with global growth of around 5.4% next year led by China, with recoveries also in the US and euro area. This is summarised in **Figure 1**, with full macroeconomic forecasts presented in **Annex I**.

Key themes for 2021 include:

A year of recovery: 2021's recovery will be led by China (9.9%). In addition, 2021 recoveries are foreseen in the United States (2021 growth of 4%), the euro area (5.6%), Japan (3%) and the UK (6.6%). In line with expectations, a new wave of SARS-CoV-2 infection has sent recovery in many cases into temporary reversal in the 2H-2020. We continue to foresee the recovery to gain a firmer foothold by early spring 2021 as re-openings restart, although full economic normalisation in 2021 and beyond will remain vulnerable to setbacks. There are both upside and downside risks to the 2021 global outlook, compared with our assessment of a downside skew to risk entering 2020.

Build-up of global debt: Non-performing loans and defaults could increase as extraordinary government support is tapered. As global government debt reaches records of nearly 100% of GDP, we consider public debt trajectories as being unlikely to reverse significantly post-crisis in many economies. Central banks mitigate immediate sovereign liquidity risks in advanced economies but debt accrual risks crises in developing nations.

Transitions in fiscal frameworks and growth-led budget consolidation: Given lessons learned from the last crisis, post-crisis fiscal consolidation of governments will be gradual and concentrate on maintaining pro-growth policies rather than sharp austerity. However, this carries its own long-term downside risks.

Rethinking monetary policy: While we expect monetary policy to remain highly accommodative going forward, revisions to central banks' policies in the context of asset purchases and ambitions to contribute to low-carbon transitions could transform central banking in the years ahead with varying credit rating implications.

The euro as a growing reserve currency? The dollar remains the dominant global currency, with the euro still far behind. Still, recent developments could support the euro's role, to challenge the US dollar's dominance, which could, over the long term, hold positive rating implications for euro area sovereigns.

Rating actions: Currently, 10 sovereigns are on Negative Outlook ranging from the UK to Japan, while Ireland, Greece and Lithuania hold Positive Outlooks. Rating actions in 2021 will depend on: i) the impact of the crisis and expected speed of recovery; ii) efficacy of monetary and fiscal policy responses; and iii) sovereign credit profiles at a given rating level as the global economy enters a new recovery phase.

The addition of environmental risks in Scope's methodology: Scope's sovereign rating methodology now explicitly accounts for environmental credit risks via transition risks, natural disaster risk and ecological wealth.

Figure 1: Scope's baseline scenario, as of 9 December 2020

Country/region	Real GDP growth (%)					
	2019	Baseline scenario				Medium-run potential
		2020E (Dec.)	Diff. from Oct.*	2021F (Dec.)	Diff. from Oct.*	
Euro area	1.3	(8.9)	↓ 0.4	5.6	↓ 0.2	1.3
Germany	0.6	(5.7)	↓ 0.1	4.1	↑ 0.1	1.0
France	1.5	(11.0)	↓ 0.9	7.0	↑ 0.2	1.4
Italy	0.3	(9.6)	↓ 0.6	5.6	↓ 0.5	0.7
Spain	2.0	(12.0)	-	6.0	↓ 1.0	1.5
United Kingdom	1.3	(11.0)	↓ 0.2	6.6	↓ 1.4	1.5
Russia	1.3	(4.5)	↑ 1.0	2.5	↓ 1.0	1.5
Turkey	0.9	0.7	↑ 2.1	6.2	↓ 1.0	3.9
United States	2.2	(4.0)	↑ 2.0	4.0	↓ 1.0	1.9
China	6.0	2.2	↑ 0.9	9.9	↑ 0.9	5.0
Japan	0.7	(5.0)	↑ 1.0	3.0	↑ 0.5	0.5
World	2.8	~ (4.0)	-	~ 5.4	↓ 0.6	-

*Changes compared with October 2020's Q4 Sovereign Update forecasts.
Negative growth rates presented in parentheses. Source: Scope Ratings GmbH forecasts, Macrobond, IMF.

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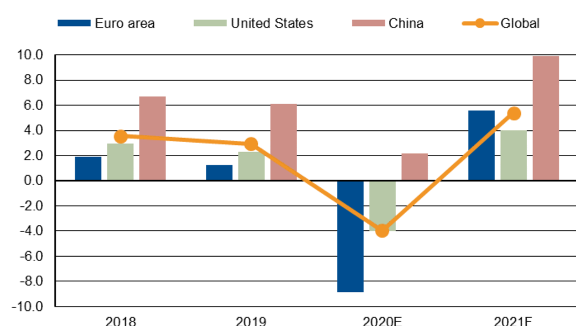
Key themes for 2021

2021 global recovery after the pandemic-induced recession of 2020

We expect 2021 to be a year of recovery after the most severe economic recession of the post-war era in 2020. Scope forecasts point to global growth of around 5.4% in 2021 (**Figure 2**), after a contraction of around 4.0% this year. Next year's growth will be driven by i) countries' growing abilities to "coexist" with the virus, including gradual advancement of vaccines to the general public and availability of further therapeutics; ii) continued fiscal and monetary stimulus; and iii) adaptation of new ways of doing business and the development of new industries.

In line with our expectations, a new wave of SARS-CoV-2 virus has temporarily reversed recovery in many cases since Q3 and Q4 2020. Scope's baseline scenario remains for lockdown restrictions of this fall and winter period to generally remain lighter than those of the spring. As this current acute phase of virus stabilises and recedes over coming months, we still expect recovery to gain a firmer foothold by the spring of 2021 as vaccinations become more available to at-risk groups, better weather reduces virus transmission and re-openings of the economy restart. However, recoveries will prove uneven and be subject to setbacks short term – including from the risk of third virus waves in countries that ease restrictions overly rapidly, such as in advance of coming holidays. In addition, vaccine access might underscore recovery disparities between advanced and many developing economies.

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



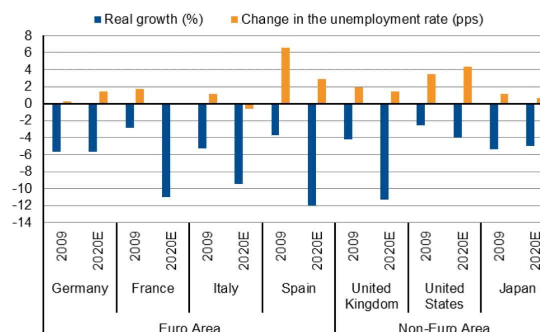
Source: National statistics institutes, Scope Ratings GmbH forecasts

Among major global economies, China has bucked global trends and kept the virus largely at bay since Q1 2020, as expected. China's robust recovery is consistent with elevated 2021 growth estimated at 9.9% (an above-consensus estimate), resulting in over a third of 2021 global growth expected to be driven by China. In addition, 2021 recoveries are seen in economies including those of the US (2021 growth of 4%), the euro area (5.6%), Japan (3%) and the UK (6.6%) – with significant rebounds especially in countries that saw the deepest economic losses in 2020, with the UK recovery supported by expected avoidance of a no-deal Brexit shortly before year-end. Emerging markets such as Russia (2.5%) and Turkey (6.2%) are also anticipated to see rebounds next year.

There are both upside and downside risks to the 2021 global outlook. Upside risks include if i) economic normalisation occurs faster than expected; ii) stimulus elevates growth more than assumed; and/or iii) renewed multilateralism and economic certainty under the next US administration addresses trade conflicts and raises international investment. Downside risks include if i) the virus remains a prime restriction to economies over 2021; ii) tapering of policy support increases macroeconomic and financial stability risks via higher unemployment rates and firm insolvencies; iii) stimulus fails to be deployed in a timely manner; or iv) bubbly financial asset markets enter correction.

The outlook for recovery in 2021 comes after a severe economic recession this year. In Scope's 2020 Sovereign Outlook – published last December, we held an under-consensus expectation of slower global growth this year with expectation that the global expansion was in a mid-to-late phase entering this year. The scale of 2020's output losses has, nevertheless, been greater than any expectations. Our estimate of 2020's global output contraction is 4.0%, including deep recessions in the euro area (-8.9%), led by Spain (-12%), France (-11%) and Italy (-9.6%), with a more moderate growth drop in Germany (-5.7%) – the same ordering of recession severity between these four largest euro area economies as assumed since our July forecasts. However, due to exceptional policy action with application of short-time work schemes alongside lower labour-force participation, unemployment has not increased in line with output losses (**Figure 3**).

Figure 3. Growth vs Δ unemployment, 2009 vs 2020, select advanced economies



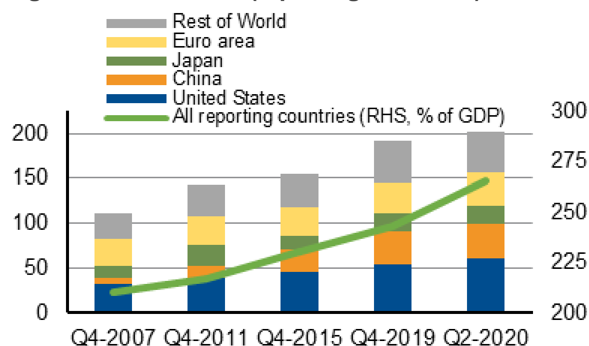
Source: European Commission, IMF, Scope Ratings GmbH forecasts

Outside of the EU, the UK is estimated to see a 2020 contraction of -11%. However, we revise up 2020 growth in the United States and Japan by 2pp and 1pp since our October forecasts to -4% and -5% currently. In emerging markets, we now estimate 2020 growth in Turkey of 0.7% and in Russia of -4.5%. The 2020 forecast for China has been revised up 0.9pp to 2.2%.

Build-up of global debt poses clear long-term sovereign risk

Amid 2020's great lockdown, public and private sectors have relied upon borrowing to meet liquidity needs given severe revenue impairment. The latest debt statistics from the Bank for International Settlements displayed new highs of non-financial-sector debt in reporting countries, at USD 202trn in Q2 2020, or 266% of GDP (**Figure 4**). Moreover, according to the Institute of International Finance, global debt had surged USD 15trn in total over the first nine months of 2020. However, debt serviceability is bolstered by rock-bottom rates.

Figure 4. Global debt (reporting countries), USD trn



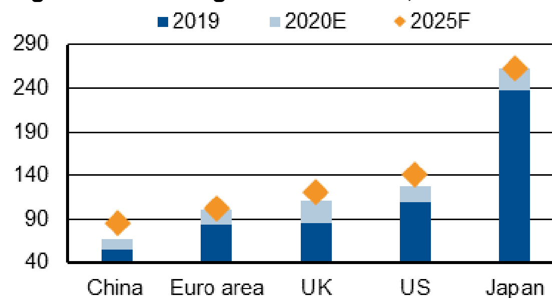
Source: Bank for International Settlements, Scope Ratings GmbH

Rising household and corporate debt levels hold implications for future financial stability. Extraordinary borrowing might keep governments, companies and households afloat short term but non-performing loans and private-sector defaults will inevitably increase as support is tapered, possibly testing the resilience of banking systems – although financial systems are better prepared this time around than in previous crises.

Implications for sovereign risk include most importantly the build-up of government debt as governments have mostly footed the bill of this crisis (**Figure 5**). According to the IMF, the crisis had prompted fiscal support of USD 12trn, 14% of world GDP, as of mid-September. Half of these fiscal actions consisted of additional spending or tax cuts, with the other half coming from liquidity support, mostly via loan guarantees that do not impact debt ratios directly. This historic response has mitigated the economic and public-health consequences of the crisis but also resulted in global public debt rising to a record of nearly 100% of GDP.

Over forthcoming years, as many governments seek to support recoveries amid easy borrowing conditions, debt trajectories are unlikely to reverse substantively – even with support from low financing rates. Instead, we expect government debt ratios to edge higher in the period to 2025 in many cases. This represents a constraint on the sovereign rating outlook.

Figure 5. General government debt, % of GDP

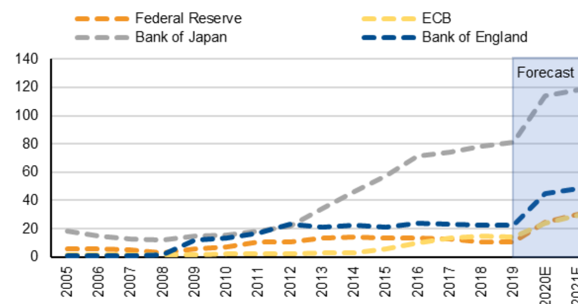


Source: Macrobond, IMF, Scope Ratings GmbH

Aside from direct debt, ample allocation of public-sector guarantees on bank lending creates risks via contingent liabilities. For instance, national governments of the euro area's four largest economies have pledged guarantees on loans of 13-23% of 2019 GDP.

For the moment, central bank actions mitigate immediate sovereign liquidity risks – especially in advanced economies through large-scale asset purchases (**Figure 6**). Due to central bank interventions, advanced economy sovereign borrowers have seen financing rates decreasing vis-à-vis pre-crisis levels despite more elevated debt. However, any normalisation steps of central bank policies – even in easing the scale of balance sheet *expansion* – could see a repricing of risk. This growing dependence on central banks for debt sustainability could increase risks in alternative equilibria. In emerging economies, financing constraints are more significant as higher debt has escalated currency and debt crises, forcing bailout requests of global multilateral lenders and participation of borrowers in G20 debt relief and debt moratoria[1].

Figure 6. G4 central bank government debt holdings, % of GDP



Source: Macrobond, national central banks, Scope Ratings GmbH

Paradigm shift towards growth-led fiscal consolidation

As the acute phase of the economic crisis passes for many countries in 2021, fiscal rules have been transitioning globally as governments seek to rely more on growth rather than austerity in their post-crisis fiscal consolidation strategies. This contrasts with the spending cuts and tax hikes adopted after the global financial crisis. This transition was accelerated

[1] See "Africa's solvency crisis: China's participation in G20 debt relief a sign of multilateralism, but a "DSSI+" framework is required".

significantly by this year's reorientation in the direction of pro-growth policies amid counter-cyclical spending requirements during the crisis and the momentary side-lining of national and regional fiscal rules.

The fiscal strategies of European economies reflect lessons learned from the global financial and sovereign debt crises – especially in such cases as Greece and Italy. Austerity adopted during and after those crises helped reduce budget deficits and achieve large primary fiscal surpluses in compliance with EU laws but at the price of curtailing investment and long-run growth prospects. This ultimately prevented the achievement of significantly lower public debt ratios ahead of 2020.

The EU's forthcoming debt issuance to finance the Next Generation EU (NGEU) fund as well as expansionary ECB policies mark a fundamental shift in EU fiscal and monetary frameworks towards closer implicit fiscal and monetary union with a potentially more durable aggregation of debt on EU and ECB balance sheets. Here, the NGEU facility presents an opportunity to coordinate on growth-friendly national agendas, including in support of the green transition, as well as on investment in research, education and the modernisation of digital and physical infrastructure.

While this crisis has presented the opportunity for a reorientation towards less painful, more growth-friendly budget policies, we highlight two key risks with respect to how sovereign debt dynamics could evolve under this new paradigm. First, if sustainably higher trend growth (and higher inflation) do not materialise from investment spending over coming years, large deficits could transition into unsustainable debt dynamics, forcing ever larger central bank interventions to absorb excess debt, risking "Japanification" of economic and debt dynamics. Second, a reshaping of the EU's fiscal institutions might increase moral hazard as governments repeat mistakes of the past and use central-bank-supported low or negative rates to spend on productive as well as non-productive expenditure, expanding debt stocks without necessarily a commensurate long-run growth boon, similar to events of the "Great Moderation" in advance of the global financial crisis.

Our analysis of budgetary plans for 2021 focusing on the euro area's four largest economies demonstrates how governments expect fast transitions to more elevated growth post-crisis, despite the likely adverse impact of 2020's crisis on longer-term growth potential. Governments' favourable growth assumptions contrast with uncertainty on: i) medium-run fiscal multipliers of spending programmes; ii) implementation and EU-fund absorption risks relating to public investment projects; and iii) structural challenges to growth, such as the costs from long-term declines in productivity growth, ageing societies and climate change.

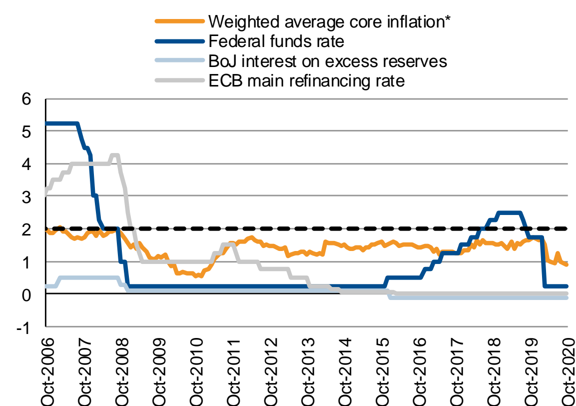
Thus, while central bank purchases curtail the quantity of sovereign debt held by the private sector and reduce risk of sovereign liquidity crises in the near term, the tempering of fiscal safeguards as well as the medium-term impact of easier monetary and fiscal policies on longer-term debt sustainability and financial stability hold more uncertain consequences.

This may require additional institutional progress towards a more robust EU fiscal architecture. The review of the EU's Stability and Growth Pact is thus an opportunity to adopt changes in line with today's macro-economic conditions, as well as integrate the lessons learned over past years.

Rethinking monetary policy: Central banks' strategic reviews

Central banks around the world, including the Federal Reserve and the ECB, have conducted or are currently undergoing a formal strategic review of objectives and instruments with ramifications for the way central banks conduct monetary policies going forward. Years of record-low policy rates and large-scale asset purchase programmes have not yielded sustained inflation near 2% price growth targets among major advanced economies (**Figure 7**). Central banks thus need to adjust price-stability frameworks and policy instruments to better suit a "new normal" of lower natural rates of interest and persistent deflationary risk.

Figure 7. Inflation and policy rates, %



*Average of core inflation in the US, Japan and the euro area, weighted based on nominal GDP; source: Eurostat, national statistical agencies and central banks, Scope Ratings GmbH.

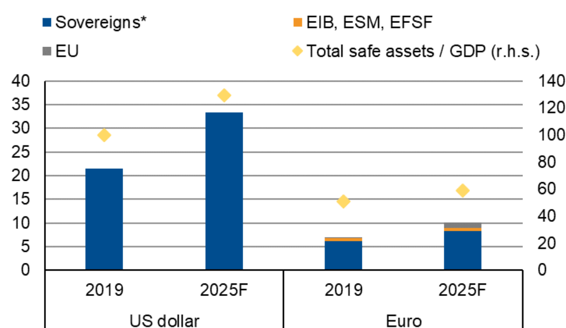
Here, central banks are not only increasingly constrained by more restricted efficacy of tools such as negative rates and asset purchases in spurring higher economic growth and inflation but have now become major holders of sovereign debt. This has raised concerns towards the future flexibility with which central banks may change monetary policy stances when inflation increases.

The Federal Reserve updated its Statement on Longer-Run Goals and Monetary Policy Strategy in August 2020, switching to an average 2% inflation objective in the long run, allowing overshoots of the 2% price stability target where needed. The ECB strategy review has been pushed back to mid-2021 and will consider, among other areas, the way the Bank formulates and measures price stability, the relationship between

inflation and the real economy, interactions between fiscal and monetary policy, the effectiveness of the ECB's existing tools as well as climate change consequences on price stability. Meanwhile, the Bank of Japan (BoJ) might consider a review of its strategies[2].

While we expect monetary policy to remain highly accommodative going forward – including an expansion of the ECB's Pandemic Emergency Purchase Programme and Targeted Long-Term Refinancing Operations at the December meeting, revisions to central banks' policies and instruments, under a context of central banks' growing sovereign debt exposures and ambitions to contribute on green transitions, could result in meaningful transformations of global central banking in the years ahead. Tolerance of higher inflation and likely significant monetary accommodation could support sovereign ratings medium term; however, challenges are likely to build longer term.

Figure 8. Safe assets outstanding per currency
USD trn (l.h.s.), % of GDP (r.h.s.)



*General government debt securities only for euro area and US sovereign issuers rated AA and above. Estimates assume new issuance is in local currency. For supranationals, we assume a significant increase in EU issuance on the basis of financing SURE and NGEU programmes and broadly constant debt outstanding for the European Investment Bank (EIB), European Stability Mechanism (ESM) and European Financial Stability Facility (EFSF).
Source: IMF, Scope Ratings GmbH; EUR/USD FX as of 8 Dec. 2020.

Reserve currencies: towards an increasing global role for the euro?

In our view, the dollar will remain the dominant global currency for the foreseeable future, with the euro still trailing far behind. To advance the euro, significant steps by EU governments would be needed – including the completion of the Capital Markets and Banking unions. Still, recent developments could advance the euro's global role as a reserve currency, to challenge the US dollar's pre-eminence in the international financial system longer term, which could, over time, present positive rating implications for euro area sovereigns. Under our sovereign rating methodology, the benefits of sovereigns issuing global reserve currencies are captured via an ability to sustain fiscal and external sector deficits with limited short-run debt sustainability concerns.

Europe's forceful fiscal response to this year's crisis – including national and EU responses – is expected to increase the availability of highly-rated euro-denominated securities from around EUR 6.6trn in 2019 to about EUR 10trn by 2025, an increase of about 50%. This will reduce a scarcity of euro-denominated safe assets and create deeper and more liquid capital markets that are attractive to global investors. At the same time, this could support financial stability, improve monetary policy transmission and facilitate integration between still-fragmented domestic financial systems. Still, the supply of euro-denominated safe assets will remain markedly below that of securities denominated in the US dollar after large increases in debt issuance of US treasuries (**Figure 8**). Greater EU debt issuance, based on instruments with a more permanent nature akin to a centralised fiscal capacity long term, is likely to be needed to further entrench an expanded role for the euro.

In addition, we note that inward-looking policies of the outgoing US administration, as evidenced by protectionist actions and greater use of sanctions, have incentivised diversifications from the US dollar. For example, both the Russian and Chinese central banks sold part of their US-dollar-denominated reserves over 2018-19. In our view, while the incoming Joe Biden administration will strengthen transatlantic cooperation, sanctions on Russia are likely to be reinforced.

Thus, while the dominance of the US dollar remains unchallenged and is expected to endure over the foreseeable future, the strengthening of Europe's Economic and Monetary Union longer term, incentives for emerging markets to diversify from the dollar, and sustained US current account and fiscal deficits amid political gridlock, impeding substantive reform, could undermine confidence in the US dollar and lead to continued gradual shifts in the international monetary and financial system. 2020's crisis may have accelerated this. Under this context, a tangible signpost of transition could be given during the IMF's upcoming review of its SDR basket in 2021.

Sovereign ratings: rating actions in 2020 crisis, and 2021 rating outlook

An uneven recovery in global growth, rising government debt and significant transitions in international fiscal policy as well as international monetary paradigms set the stage for sovereign risk entering 2021.

As of end-February 2020, when the corona crisis was first transitioning from a China-centric crisis to a global one, Scope held three Positive rating Outlooks across 36 rated sovereign issuers, namely: Ireland, Greece and Lithuania, compared with five Negative Outlooks: namely, China, Romania, the UK, Belgium and Turkey.

In line with its framework for potential sovereign rating actions during the Covid-19 crisis, Scope has not taken

[2] BoJ Board members called for a review of the central bank's policy strategies as the Covid-19 shock pushed inflation further away from target.

any actions outside of its sovereign calendar in 2020. Georgia, Japan, Slovakia, Italy and Spain were assigned a Negative Outlook, while Turkey has been the only sovereign issuer downgraded thus far since the crisis. Entering 2021, Scope currently rates ten sovereign issuers with a Negative Outlook. **Annex II** provides a summary of rating actions to date in 2020.

As the global cycle enters recovery, rating actions in 2021 will depend on: i) the impact of the crisis and expected speed of recovery; ii) efficacy of monetary and fiscal policy responses; and iii) sovereign credit profiles at a given rating level.

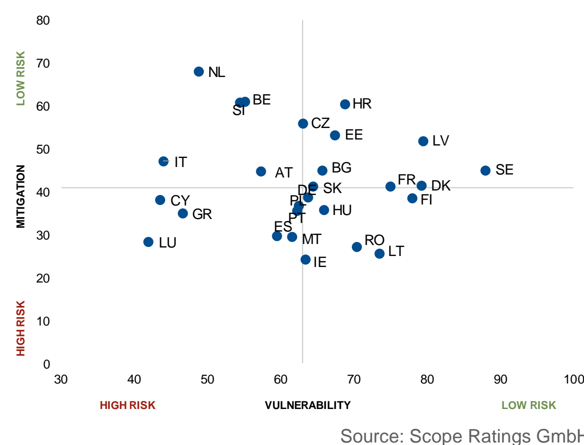
2020 integration of environmental credit risks in Scope's methodology

After an update in October, Scope's sovereign rating methodology currently explicitly accounts for environmental credit risks, both quantitatively and qualitatively[3]. Our quantitative score under the sovereign methodology embeds three environmental risk pillars: i) transition risks to less carbon-intensive economic structures, ii) natural disaster risk, and iii) resource availability. Quantitative scores are complemented by qualitative assessments, specifically examining policies that could mitigate environmental risk.

The fiscal burden of environment-related risk already weighs upon government balance sheets. The cost of natural disasters as well as protective and adaptive investments against those events as well as the transition costs for governments in transforming energy sources are steep via both direct budgetary outlays as well as via indirect erosions of tax revenues from lost private-sector earnings in dealing within an increasingly unpredictable environment.

We find that environmental risks faced by countries vary considerably even within a region as comparatively homogenous in terms of climate, geology and natural resource wealth as the EU-27.

Figure 9. Relative vulnerability and mitigation to environmental risks, score, 0-100



Source: Scope Ratings GmbH

The Netherlands and Italy are interesting examples. The two nations are among the richest but also the most environmentally vulnerable EU member states when viewed across the three methodological environmental risk dimensions. Indeed, our research demonstrates that vulnerabilities to environmental risk are largely independent of wealth, per capita income or geography.

However, the Netherlands and Italy also rank among the top five countries that are addressing mitigation requirements for the environmental risks they encounter: sea level rise in the case of the Netherlands, earthquakes with respect to Italy, and modest domestic natural resources in both countries, as displayed in the countries residing in the top-left quadrant of **Figure 9**.

Our research indicates where there remains space for policy improvement. As an example, governments of countries with energy-intensive industries could reduce carbon footprints by replacing old coal-fired plants with cleaner-burning generating capacity while countries dependent upon energy imports could mitigate associated risk better via taxation and the higher productivity of resource usage.

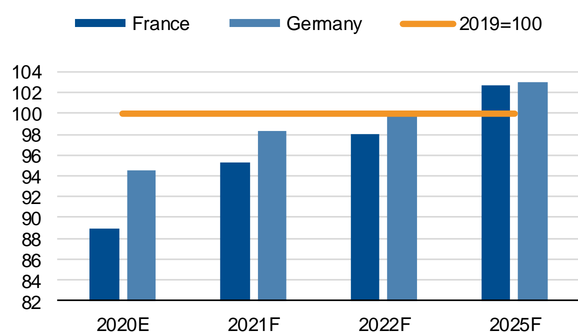
[3] Our sovereign criteria now account explicitly for environmental, social and governance risks in a stand-alone ESG rating pillar (press release).

Regional views for 2021

Core Europe: Cohesion around a shared EU agenda but economic and fiscal divergences to remain

The 2021 economic outlooks for Europe's two largest economies: **Germany** (AAA/Stable) and **France** (AA/Stable) are considerably determined by the extent of this year's downturns, leading to higher 2021 growth from a more-depressed economic base in France: we expect a growth rebound of around 7% in France versus about 4% for Germany. This follows 2020 recessions of 5.7% in Germany, versus one of the steepest 2020 declines globally in France, with an expected output loss this year of around 11%. Our projections assume a faster recovery towards pre-crisis output levels in the case of Germany, driven by significant discretionary fiscal support (**Figure 10**).

Figure 10. Output levels in Germany and France, 2021-25, 2019=100



Source: Scope Ratings GmbH

A prime 2020 achievement of the two governments has been agreement around the Recovery and Resilience Fund being launched next year, which could help stabilise medium-run growth in EU member states as national government stimulus begins to fade. In our view, this shared European recovery framework signals a comparatively higher willingness to jointly manage macroeconomic imbalances than in the past. We anticipate that upcoming German federal elections in the autumn of 2021 are unlikely to change a pro-European German stance, especially with the Green party as a potential coalition partner in the next government.

Longer term, we expect Germany to be the only government among the four large EU economies with a fully sustainable debt stock, thanks to a prudent fiscal framework and moderate debt levels. At the same time, Germany's low growth potential and a lack of structural supply-side-oriented reform since the crisis remain challenges. A major test for the next federal government is the treatment of a constitutional debt brake that allows a maximum of a 0.35% of GDP structural deficit. Important expenditure items will require support for higher spending in the future, including additional public investment of around EUR 50bn per year to 2030 alongside higher pension expenditures to finance increasing public pension fund deficits. As such, we consider Germany's post-crisis higher debt stock (of around 70% of GDP in 2020) to be unlikely to be brought back to pre-crisis levels at least in the near term.

Under President Emmanuel Macron, the French government raised the economy's growth potential by around ~0.2pp pre-pandemic. However, reforms have come at the cost of higher structural fiscal deficits. The government is expected to continue a structural reform agenda, with fresh elements to be added after the crisis that support growth. However, fiscal consolidation remains a lesser priority. The main question for debt sustainability revolves around the government's capacity to implement pro-growth reform, with a requirement of growth of about 1.4-1.5% per annum to stabilise public debt dynamics. Overall, France's debt sustainability is closely intertwined with the economy's growth potential given France's poor record of fiscal consolidation. We assume a further modest increase in France's public debt ratio in following 2021, reaching 121% of GDP by 2025, unless the government reduces the budget deficit speedily and/or accelerates recovery.

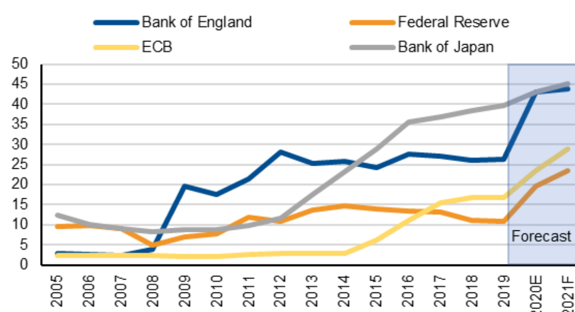
UK and Ireland: Diverging post-crisis fiscal trajectories, as the UK reaches free-trade agreement with the EU

We expect a recovery of 6.6% in 2021 in the **UK** (AA/Negative) economy, after a severe 11% contraction in 2020 – among the deepest economic losses globally this year. Our forecasts embed a temporary Q4 contraction in GDP – with such a Q4 double-dip in output assumed since our July forecasts.

In 2020, the UK's budget balance will deteriorate to well under -10% of GDP and public debt will rise to around 110% of GDP this year (from 85% in 2019). Longer term, we project UK debt to continue on a rising path, reaching 120% of GDP by 2025. While the UK government has ruled out a return to the austere policies of the post-global financial crisis era, counter-cyclical budget tightening including tax increases is needed medium term, as the economy recovers, in ensuring long-run debt sustainability.

Significant Bank of England (BoE) easing has lowered 10-year gilt yields to near record lows of 0.3% and has relocated nearly 45% of all UK government debt to the central bank balance sheet at this stage (**Figure 11, next page**) – representing a short-run credit strength, as the UK government increasingly owes its debts to itself. After the BoE increased government bond purchases by GBP 150bn in November to GBP 875bn, the central bank is seen maintaining an easing bias. An additional QE expansion is possible as inflation is forecast to remain below target at 1.5% by end-2021.

Figure 11. G4 central bank government debt holdings, % of outstanding government debt



Source: Macrobond, IMF, Scope Ratings GmbH

Economic uncertainties related to Brexit hamper investment and recovery, although we expect the UK and the EU to reach some kind of agreement before year-end 2020 that i) avoids a no-deal Brexit; ii) announces progress made in free-trade negotiations since March; and/or iii) gives the UK and the EU potentially additional time by extending standstill conditions for most if not all goods trade temporarily into 2021, to support necessary preparations around customs infrastructure, give additional time for negotiations to continue and/or give any additional time required for agreement ratification. Still, finalisation of the UK's exit from the European customs union alongside continued negotiation around the UK and the EU's future relationship will remain a significant thematic over 2021. Scottish elections of May 2021 could, moreover, exert renewed pressures on the government in London should demands for a second independence referendum increase.

The UK's challenges of rising public debt, wide fiscal and current account deficits, and continued Brexit costs are offset by still more moderate gross debt ratios relative to some peers, a long average maturity of gilts of 15.5 years, significant ownership of government debt by the central bank, and sterling's reserve currency status with an independent monetary policy.

In **Ireland** (A+/Positive), deficit and debt fundamentals have worsened as the second wave has reintroduced economic restrictions; however, Ireland's credit ratings remain anchored by a mature, diversified and high-growth-potential economy, with an expected sustained decline in the government debt ratio after the crisis.

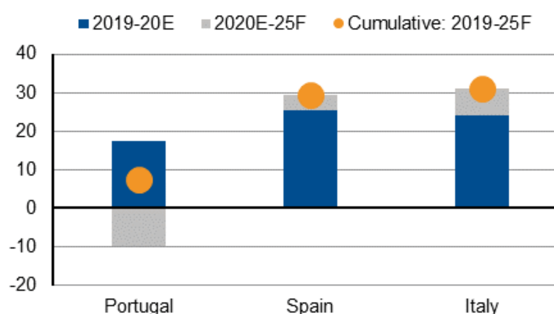
Italy, Spain and Portugal: divergences in debt trajectories underscore Outlook disparities

The Negative Outlook for **Italy**'s BBB+ credit ratings reflects sharp deterioration in fiscal metrics in 2020, which, coupled with fragile growth potential, challenges debt sustainability (**Figure 12**).

We expect an economic rebound next year of 5.6%, after the severe contraction of 9.6% in 2020. The government's 2020 discretionary fiscal response (of around 6% of GDP) has contributed to deterioration in the fiscal balance, to around -11.5% of GDP in 2020, before improvement to -9% of GDP by 2021. As a result, we foresee Italy's public debt ratio increasing to around 159% of GDP by end-2020, before moving onto a fairly flat trajectory in the years thereafter, ending a forecast horizon to 2025 at 166% of GDP. This is more pessimistic than consensus expectations for a sustained declining debt trajectory for Italy post-crisis. Italy has activated significant liquidity support with public-sector guarantees on loans of up to 30% of GDP, of which around one third has been taken up to date.

This crisis has, nevertheless, demonstrated a core rationale that underpins Scope's BBB+ ratings for Italy compared with more negative assessments of peer credit rating agencies and markets: Italy's systemic importance in the euro area and the associated extraordinary support from European institutions. The ECB's asset purchase programmes will maintain very accommodative borrowing rates next year. Currently, 10-year BTPs trade around a 0.6% yield – at a record low, and, following the ECB purchases, we expect less Italian debt being held on private-sector balance sheets by end-2021 than in 2019, despite heavy issuance over 2020-21 (about 30% of Italian debt is expected to be held by the ECB by end-2021). The continued ECB accommodation supports Italy's sovereign ratings.

Figure 12. Debt increase projections, % of GDP



Source: European Commission, Scope Ratings GmbH forecasts

The Negative Outlook on **Spain**'s A- credit ratings captures our opinion that, even under a relatively favourable economic and fiscal trajectory in the next years, it will take the Spanish economy many years to reverse deterioration in its public finances due to the Covid-19 crisis. We expect Spain's economy to grow around 6% next year, following this year's contraction of around 12%, and then to gradually converge towards potential of about 1.5%. For the fiscal deficit, our baseline sees a gradual improvement from around 12.5% of GDP this year to about 4% of GDP by 2025. On this basis, we expect the debt trajectory to remain upward sloping over coming years and to stabilise at around 125% of GDP by 2025 (**Figure 12**). In addition, this year's shock is set to adversely impact Spain's growth potential, exacerbating pre-existing structural vulnerabilities, including those related to the labour market, with the unemployment rate seen increasing to average 18% next year from 14% in 2019.

ECB actions have significantly helped to absorb financing of the Covid-19 shock this year and even next year when gross financing needs are likely to be around EUR 300bn, or 27% of GDP. Critically, the medium-term credit outlook depends on the Spanish government's ability to channel resources, including those from the EU, into productive public investments that raise growth potential – given a weak track record of absorbing EU funds in the past. Spain is among the main beneficiaries from the Next Generation EU funds allotted over 2021-26 – set currently to receive more than EUR 70bn in grants, or close to the cumulative amount allocated to public investment by the Spanish government over the past *three* years combined.

Political stability that supports efficient implementation of pro-growth reform and investments is thus critical for the sovereign's credit outlook. While the ruling minority-coalition government between the Socialists and Podemos did reach agreement on Spain's first budget since 2018, persistent political fragmentation is likely to remain a significant bottleneck to the implementation of reforms that address underlying vulnerabilities.

By contrast with Italy and Spain, we expect **Portugal** (BBB+/Stable) to begin a sustained process of reducing its debt ratio starting next year, even if the speed of fiscal consolidation will ultimately be slower than in pre-crisis years. We expect Portugal's fiscal balance for 2020 to compare well against those of peers at around -7.5% of GDP, helped by solid pre-crisis public finances with a first-time (small) budget surplus of 0.1% of GDP in 2019. This, together with an economic recovery over coming years, with growth estimated at 5% in 2021 and to thereafter gradually converge towards 1.5% medium term, should ensure that the debt ratio declines towards 125% of GDP by 2025, still higher than the 118% in 2019, but in line then with that of Spain (125%) and well under that of Italy (166%).

Pre-crisis improvements to macro fundamentals, with sustained growth over the previous five years, moderate unemployment (which is set to remain at around 8.5% in 2021), together with the government's pre-crisis record of fiscal discipline and significant European policy support are credit positive. However, given high public-sector indebtedness and the reliance of the Portuguese economy on sectors likely to display only partial and slow recoveries out of this crisis, notably travel and hospitality, the overall outlook remains subject to downward risks.

European response anchors Greek outlook; Cyprus set for post-crisis debt reduction

We forecast growth in **Greece** (BB/Positive) to be 4.5% in 2021, after a decline of around 10% in 2020, which captures the second wave of the virus and subsequent lockdown in November as well as weaker tourism receipts. Tourism receipts over the full-year 2020 are likely to be 70% lower than in 2019.

Measures taken by Greek authorities to contain the virus, fiscal measures that support the economy as well as policy actions of European institutions covering fiscal, banking sector and structural policies place a floor beneath the Greek economy, however, and will contribute to 2021's recovery.

Despite significant challenges from the pandemic, Greece has made progress on major reform areas, underpinning the Positive Outlook on the BB ratings. The finalisation of insolvency legislation will support reduction of high non-performing loans outstanding on domestic bank balance sheets through the Hercules Asset Protection Scheme. Refinancing risks are shielded by ECB and European crisis response measures, such as the ECB's Pandemic Emergency Purchase Programme and the European Commission's SURE scheme, largely covering Greece's debt issuance needs for 2021 on top of the government's sizeable cash balance of EUR 35bn in September, which by itself could cover government financing needs until the end of 2022.

Cyprus (BBB-/Stable) is set to display growth of 3% in 2021 after a contraction of 7.5% in 2020. We expect the Cypriot debt ratio to decline to about 86% of GDP by 2025, from 111% in 2020, given the government's commitment to high primary surpluses pre-crisis and track record of outperforming fiscal objectives.

Loose monetary policy to support Nordic recoveries, while sound fiscal management anchors Swiss outlook

Norway, **Sweden**, **Denmark** (all AAA/Stable) and **Finland** (AA+/Stable) share wealthy and competitive economies, strong economic and fiscal governance frameworks, low-to-modest public debt ratios, and sound external and financial sectors. Similar to other European countries, the second wave of corona has set back recoveries in the Nordic region. The IMF estimated recovery of about 3.5% in 2021 across the four economies.

Loose regional monetary policy will support debt sustainability and recoveries; however, policies can stress prevailing financial stability risks. These include those stemming from rising house prices and household indebtedness as well as from commercial real estate sectors, consumer loans and corporate debt. However, highly capitalised banking systems, robust public-sector balance sheets (most notably, Norway's with a sovereign wealth fund of USD 1.25trn, or 358% of mainland GDP), external sector buffers and strengthened regulatory requirements ensure economies' comparative resilience to macro-financial risks, including in scenarios of severe economic downturns such as in 2020.

We forecast recovery of around 3.5% in 2021 in **Switzerland** (AAA/Stable), after a contraction of around 4.5%. The 2021 rebound will be anchored by growth in private consumption and investment. We believe

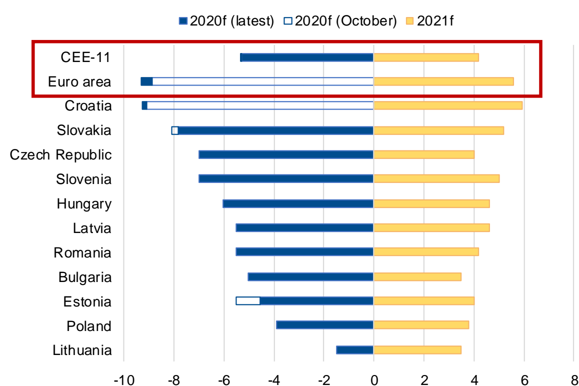
2020's fiscal deficit of around 4% of GDP and sizeable increase in debt are temporary. Switzerland's debt and deficits are forecast to gradually recede from next year onward, supported by sound fiscal management. Appreciation pressures on the Swiss franc due to the currency's safe-haven status alongside exposures to real estate risk represent downside risks to growth.

EU CEE: improved economic resilience despite rule of law disputes; Romania is one exception

We forecast a full recovery to 2019 pre-crisis output levels only by the first half of 2022 in most economies of the EU's central and eastern Europe member states (CEE-11). EU CEE economies' exposures to uneven and gradual recoveries in western European trading partners and continued uncertainties relating to the duration of the pandemic and associated lockdown restrictions continue to constitute key downside risks to the region's economic outlook.

Under our baseline, real output in the EU CEE-11 as a bloc is seen rebounding 4.1% in 2021 after shrinking 5.3% in 2020 (**Figure 13**). Specifically (from weakest 2021 growth to strongest): **Poland** (A+/Stable) will grow 3.5% in 2021 after -3.9% in 2020; **Bulgaria** (BBB+/Stable): 3.5% next year after -5% in 2020; the **Czech Republic** (AA/Stable): 4% after -7%; **Romania** (BBB-/Negative): 4.2% after -5.5%; **Hungary** (BBB+/Stable): 4.6% in 2021 after -6%; **Slovenia**: 5% in 2021 after -7%; **Slovakia** (A+/Negative): 5.2% after -7.8%; and **Croatia** (BBB-/Stable): 5.9% after -9.1%. The three Baltic states **Estonia** (AA-/Stable), **Latvia** (A-/Stable) and **Lithuania** (A-/Positive) will grow 3.5%-4.6% next year, after contractions ranging between 1.5% (Lithuania) and 5.5% (Latvia) in 2020.

Figure 13. EU CEE-11 growth forecasts, %



Source: Scope Ratings GmbH

The improved resilience of EU CEE economies, reflecting more balanced growth models in recent years and reduced reliance on net exports, supports the region's economic and credit rating outlook. Bulgaria's and Croatia's outlooks are anchored by continued reforms as the two countries entered the EU's Exchange Rate Mechanism II in July 2020, with entrance to the euro area at the earliest stage possible by January 2023.

The EU's long-term budget for 2021-27 and the NGEU fund will support investment into the region starting in 2021 and could ease some near-term financial pressures on national governments. Amid current disputes around stricter "rule of law" conditionality for access to funds under the next EU Budget, we note that exclusion from such funds would be credit negative for recipient countries, including Poland and Hungary, which are threatening to veto the Budget over this conditionality.

Expectations for a longer period of highly accommodative monetary policies via the ECB and Federal Reserve alongside accommodation from non-euro area CEE central banks ought to keep government borrowing costs in the region in check and ease potential capital markets disruption.

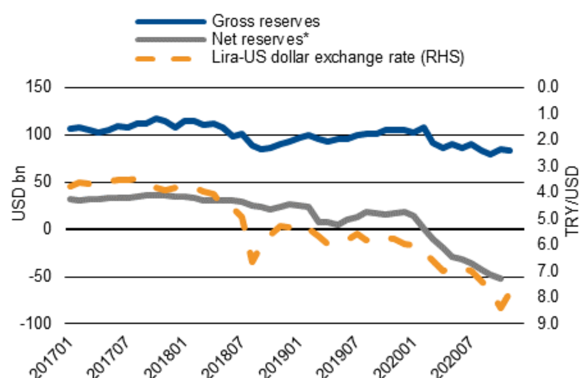
At the same time, fiscal risks have materially increased for some CEE sovereigns, for example, due to foreign-currency-denominated public debt issuance, such as in the case of Romania, which also benefits less from central bank support. Scope expects a stabilisation and gradual decline in government debt ratios for most issuers of the region as recoveries take hold, although Romania's debt is expected to continue increasing from below 40% of GDP in 2019 to above 60% medium term, accelerated by a 40% retroactive hike in pensions in September. Preliminary legislative election results held in Romania on 6 December showed a narrow win for the Social Democrats against the Liberal Conservatives although the latter is likely to form the next government.

2021 to be a bellwether year for Turkey's ratings trajectory; Russia to benefit from prudent fiscal policies

Turkey (B/Negative) has been the only sovereign issuer downgraded by Scope thus far in the 2020 crisis (with foreign-currency ratings downgraded two notches and local-currency ratings one notch). Changes in economic governance have been announced last month and the central bank under new governance raised the key repo rate 475bps to 15% from 10.25% – by and large aligning the policy rate with the weighted average cost of central bank funding. However, in our view, Turkey's underlying preference for looser monetary policy has not dissipated overnight nor has frequent interference in central bank independence under an executive presidency since 2018, changed. In this respect, a key test will be whether this near-term, market-friendly reorientation in policies can be maintained and *strengthened* over 2021. Tighter, more sustainable monetary, fiscal and structural economic policies over a longer period that prioritise lower but more sustainable economic growth could support a stabilisation of Turkey's credit Outlook in 2021. Conversely, a regression to the unsustainable policies that have wrought multiple crises over recent years could support additional ratings downgrades.

Turkey's official reserves stood at USD 84.2 as of 29 November, compared with USD 105.7 at year-end 2019 and USD 134.6bn at a 2013 peak. Net reserves excluding short-run swaps with domestic banks stood at all-time lows of negative USD 52.3bn in October (**Figure 14**), cut sharply from USD 18.5bn at end-2019.

Figure 14. Turkey net reserves, lira exchange rate



*Central bank net foreign assets minus short-term swap liabilities. Lira-USD exchange rate as of 9 Dec. 2020; source: Macrobond, Central Bank of the Republic of Turkey, Scope Ratings GmbH

We expect a growth recovery of 6.2% in 2021 in Turkey, after depressed growth of 0.7% in 2020 (the latter revised up 2.1pp from October forecasts after a strong third quarter). Turkey's traditional credit strength – its public finances – has weakened substantively with the budget balance expected at about -8.5% in 2021 (after -10% of GDP in 2020), with general government debt seen reaching 69% of GDP by 2025, compared with 45% of GDP at end-2020 and 33% in 2019.

By contrast, we expect a sluggish recovery in **Russia** (BBB/Stable) of 2.5% growth in 2021 after a comparatively soft contraction of about 4.5% in 2020. Despite synchronised shocks, we expect Russia's 2020 GDP performance to be less adverse than that of advanced economy peers. This is largely due to the Russian economy's structure, including a smaller role for services sectors and small and medium-sized enterprises, as well as a more substantive role for the state sector, the latter requiring less policy support.

Russia's credit ratings are supported by conservative fiscal and economic management policies, an enhanced degree of economic self-reliance and lower exposures to disruptions in global supply chains. 2021 growth will be anchored by the expected recovery in oil prices. Nonetheless, the uncertainty in regard to the oil sector outlook could weigh upon economic recovery, especially amid the pandemic's second wave and a global oil supply glut, the latter made worse by OPEC+ agreement on a rise in supplies from January onward. Russia's economic outlook is supported by a flexible exchange rate regime, which anchors budget revenues as well as mitigates the negative impact on foreign-exchange reserves during bouts of currency depreciation.

However, the absence of more significant structural reforms to address low growth potential, alongside weak private consumption and investment, and geopolitical risks, will constrain recovery. In our view, international sanctions on Russia are likely to remain in place under the forthcoming US administration if not be strengthened. At the same time, geopolitical risks related to the Ukraine conflict, exposure to political instability in Belarus, and the possibility of intensified sanctions weigh upon the country's external financing flexibility, investment flows and growth prospects. We expect policy continuity with regards to prudent fiscal, monetary and FX policies, however, which support the BBB credit ratings.

In **Georgia** (BB/Negative), we estimate growth of -5% in 2020 and 4.5% in 2021. Vulnerabilities to FX volatility, due to dependence on foreign-currency borrowing, and reliance on tourism have been key risks over 2020. Following elections of October 2020, we expect the new government to remain committed to the IMF-coordinated reform agenda, as well as to closer economic and political integration with the EU.

The Biden presidency: constrained at home but constructive abroad?

The economic outlook for the **United States** (AA/Stable) depends on the incoming administration's key economic, fiscal, social and environmental policy priorities, and ability to implement them given a potentially split Congress. We expect the Electoral College to confirm President-elect Biden's victory on 14 December, leading to his inauguration on 20 January 2021. Our baseline is for a Republican Senate majority following run-off races in Georgia on 5 January.

Given heightened political polarisation, we believe the next President will be significantly constrained in his capacity to implement domestic agenda priorities. We do not expect major legislative changes on taxation or spending on healthcare, social security, education, housing or the environment, given likely opposition in Congress. The President could, however, resort to executive orders.

The ability to effectively design and implement policies is critical from a credit perspective, as the US' credit rating is constrained by two principal factors. First, the steady decline in productivity growth. This may have been driven by: i) low interest rates, which have kept afloat marginally-productive excess capacity; ii) decreased competition in US product markets, driven by increasing barriers to entry and weak antitrust enforcement; and iii) troubling social outcomes, which constrain labour-force participation, diminish human capital formation, and suppress aggregate demand.

A second principal rating constraint relates to fiscal metrics. Public debt is high and rising, a trend exacerbated by the current administration's procyclical fiscal policies pre-corona. On top of this is the sizeable stimulus in 2020 and the federal government's significant contingent liabilities from pension and healthcare-related obligations. We expect the US' fiscal

fundamentals to remain structurally weaker over the coming years, with public debt increasing to 128% of GDP in 2020 and to 140% by 2025, almost 30pp above 2019 levels, and about 20pp above those of France and the United Kingdom. Additional budgetary stimulus could emerge in Q1 2021, following possible approval of a smaller fiscal package extending benefits in the coming period after a USD 908bn proposed package by a bipartisan group of Senators. While crucial in providing support to the economy, spending further weighs upon fiscal fundamentals.

In addition, the United States' declining ability to achieve bi-partisan compromise raises doubts concerning the capacity to adopt a fiscal consolidation strategy once the economy has returned to full potential and moreover raises risk for brinkmanship before the debt ceiling suspension expires in July 2021.

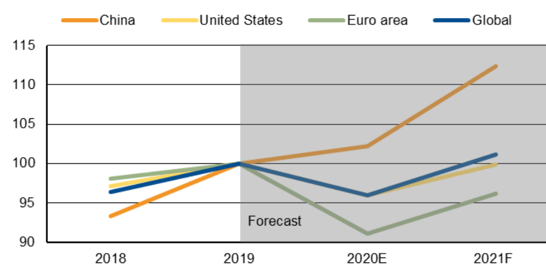
Looking abroad, we expect the Biden presidency to normalise US trade relations with Europe and seek to rebuild a transatlantic alliance. The government will, however, likely maintain or seek to expand sanctions against countries such as Russia and Turkey. Moreover, fundamental differences over technology and security issues with China, President-elect Biden's preference for domestic producers ("Buy American") in procurement, and the potential introduction of carbon-adjustment fees on countries that fail to meet environmental obligations are unlikely to result in new regional free-trade agreements led by the US over coming years. However, the next US administration is likely to restore some of the lost trust among traditional partners and allies, also supporting the US dollar as the predominant global reserve currency.

China and Japan: credit challenges require shifts in policy and reform direction

We forecast strong growth of 9.9% in **China** (A+/Negative) in 2021, as China's recovery has gained strength since re-openings began mid-February, with containment policies having *largely* controlled coronavirus spread within China's borders in the period since March. Elevated 2021 growth would come after growth of 2.2% for 2020. China is seen remaining the world's main growth engine (**Figure 15**) – accounting for no less than one third of global growth next year.

The latest Five-Year Plan outlined in October's Central Committee plenary sessions (and to be more fully fleshed out in March 2021's National People's Congress) defined a vision for a doubling of the size of GDP by 2035, implying more sustainable average growth requirements of about 4.4% per annum between 2022-35 if we first assume 2021 growth of 9.9%. A moderation of unsustainably high annual growth objectives and a sustained shift away from seeking an elevated *quantity* of economic growth to instead seeking high *quality* growth could support consideration of a stabilisation of China's rating Outlooks in 2021.

Figure 15. Real GDP level, 2019=100, baseline case



Source: National statistics institutes, Scope Ratings GmbH

However, non-financial sector debt has continued to build – reaching 280% of GDP in Q2 2020, doubling from 139% in 2008. Recent state-owned enterprise defaults are a consequence of this. The non-augmented general government deficit will remain wide at 6.6% of GDP in 2021 (after 11.9% in 2020), with public debt foreseen increasing rapidly to 86% of GDP by end-2025 (from 53% in 2019 and 27% as of 2008). However, central government debt remains a more modest 18% of GDP as of Q2 2020. On 28 February 2020, Scope affirmed China's A+ credit ratings but maintained the Outlook at Negative.

Japan (A+/Negative) faces substantial credit challenges, including low growth, high deficits and rising debt, driven by weak demographics and exacerbated by the 2020 crisis, with a GDP decline of around 5% this year. Yoshihide Suga, Japan's newly elected prime minister, has committed to pursuing the three-pillar strategy of Abenomics: i) a very accommodative monetary policy; ii) supportive fiscal policy; and iii) structural reform.

In the near term, Suga's focus will be on mitigating the adverse impact of the Covid crisis on the economy and staving off deflation. Longer term, Suga will have to address Japan's structural challenges posed by a rapidly shrinking and ageing population. This long-standing issue structurally weighs on Japan's weak fiscal fundamentals given a shrinking tax base and rising age-related expenditure. Similarly, poor demographics constrain growth potential, which is one of the lowest among advanced economies (estimated at 0.5%). The Covid-19 crisis has only accentuated pre-existing weaknesses. Fiscal support in 2020 of JPY 118trn (21% of GDP) will push the budget deficit and public debt up to 11% and 262% of GDP, while GDP is not expected to return to pre-crisis levels before 2025.

A structural reform programme and long-term recovery plan that address outstanding challenges are key. While fiscal consolidation should wait until immediate economic pressures have been alleviated, Japan needs to strike the right balance between supporting the economy and formulating a credible fiscal consolidation once the economy has returned to full potential. This challenge is substantial, and we believe it unlikely that Japan's public debt will be placed on a sustained downward trajectory over the foreseeable future.

Annex I: Macroeconomic outlook, 2019-2021F

Country/region	Real GDP growth (annual average, %)				Policy rates (%)		
	2019	2020E	2021F	Medium-run potential	End-2019	End-2020	End-2021
Euro area[1,2]	1.3	(8.9)	5.6	1.3	(0.5)	(0.5)	(0.5)
Germany	0.6	(5.7)	4.1	1.0			
France	1.5	(11.0)	7.0	1.4			
Italy	0.3	(9.6)	5.6	0.7			
Spain	2.0	(12.0)	6.0	1.5			
Netherlands	1.6	(5.0)	4.0	1.4			
Belgium	1.7	(7.8)	5.5	1.2			
Austria	1.4	(7.0)	4.5	1.6			
United Kingdom	1.3	(11.0)	6.6	1.5	0.75	0.10	0.10
Poland	4.6	(3.9)	3.5	2.5			
Russia	1.3	(4.5)	2.5	1.5			
Turkey	0.9	0.7	6.2	3.9			
United States	2.2	(4.0)	4.0	1.9	1.50-1.75	0-0.25	0-0.25
China	6.0	2.2	9.9	5.0			
Japan[3]	0.7	(5.0)	3.0	0.5	(0.1)	(0.1)	(0.1)
World[1]	2.8	~ (4.0)	~ 5.4	-	-	-	-

Country/region	Unemployment rate (%)			General government balance (% of GDP)			Public debt level (% of GDP)		
	2019 (AVG)	2020E (AVG)	2021F (AVG)	2019	2020E	2021F	2019	2020E	2025F
Euro area[1]	7.6	8.5	9.4	-0.6	(9.6)	(6.9)	84	101	102
Germany	3.1	4.5	5.0	1.5	(6.8)	(5.9)	60	69	72
France	8.5	8.5	9.5	-3.0	(11.3)	(6.3)	98	120	121
Italy	9.9	9.3	10.5	-1.6	(11.5)	(9.0)	135	159	166
Spain	14.1	17.0	18.0	-2.9	(12.5)	(9.5)	96	121	125
Netherlands	3.4	4.5	5.5	1.7	(7.2)	(5.5)	49	59	66
Belgium	5.4	5.2	5.4	-1.9	(8.0)	(4.0)	99	116	116
Austria	4.5	5.7	5.5	0.7	(10.0)	(6.5)	71	85	80
United Kingdom	3.7	5.1	8.0	-2.3	(16.4)	(8.8)	85	110	120
Poland	5.4	4.0	4.0	-0.7	(9.0)	(5.0)	46	59	55
Russia	4.6	6.0	5.5	1.9	(5.5)	(3.0)	14	20	21
Turkey	13.7	13.5	13.0	-5.6	(9.9)	(8.5)	33	45	69
United States	3.7	8.0	6.0	-6.3	(16.0)	(12.0)	109	128	140
China[4]	5.1	5.7	5.1	-6.3	(11.9)	(6.6)	53	66	86
Japan	2.4	3.0	2.5	-3.3	(11.0)	(6.0)	238	262	262
World[1]	-	-	-	-	-	-	-	-	-

Negative values shown in parentheses

Source: Scope Ratings forecasts, Macrobond, IMF

[1]Global and euro aggregates calculated based on weighting economies using purchasing power parity GDP. Global growth forecasts are based on Scope forecasts for forecasted countries and IMF forecasts for countries not forecasted by Scope.

[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

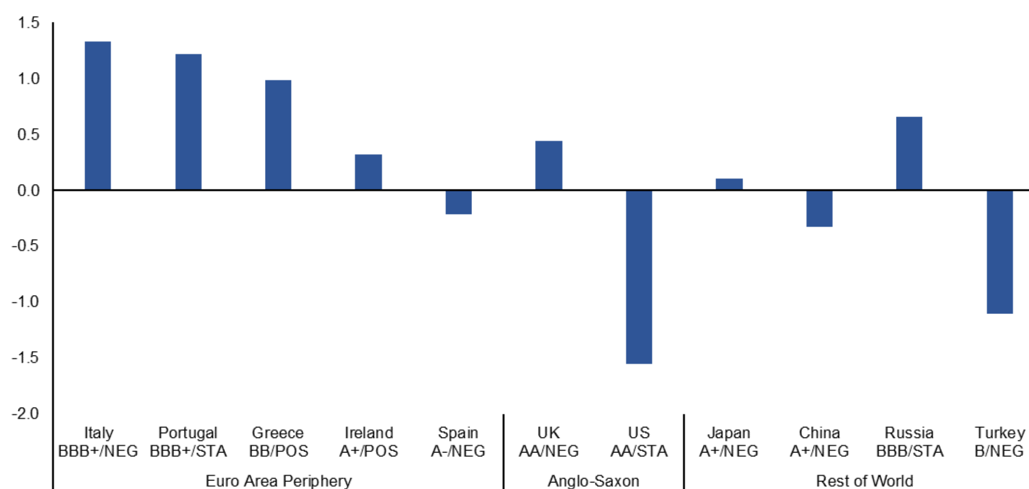
[4]Unemployment is survey-based urban unemployment rate

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

Scope's global long-term foreign-currency issuer ratings, as of 9 December 2020

Europe						Other Countries	
EU				EFTA			
Euro area		Non-euro area					
Austria	AAA/Stable	Bulgaria	BBB+/Stable	Norway	AAA/Stable	China	A+/Negative
Belgium	AA/Negative	Croatia	BBB-/Stable	Switzerland	AAA/Stable	Georgia	BB/Negative
Cyprus	BBB-/Stable	Czech R.	AA/Stable			Japan	A+/Negative
Estonia	AA-/Stable	Denmark	AAA/Stable			Russia	BBB/Stable
Finland	AA+/Stable	Hungary	BBB+/Stable			Turkey	B/Negative
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 9 December 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.

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
Nov	6 November	Turkey*	Downgrade/Outlook Change*	B/Negative

*Downgrade and new rating level refer to foreign-currency long-term ratings only.

Annex III: Related research

Central & Eastern Europe Q4 Sovereign Update: full economic recovery to be gradual and uneven
(19 October 2020)

Sovereign Outlook Q4 Update: gradual, uneven recovery faces new virus-containment challenge in Q4
(12 October 2020)

Central & Eastern Europe Sovereign Update: rebound has begun but full recovery only after 2021
(15 July 2020)

Sovereign Outlook Q3 Update: gradual, uneven global recovery; meaningful risks remain on the horizon
(8 July 2020)

Central & Eastern Europe 2020 Sovereign Update: Covid-19 triggers deep recession, market volatility
(27 April 2020)

Sovereign Outlook 2020 Update: Covid-19 pandemic creates high risks, triggers deep global recession
(2 April 2020)

Sovereign Outlook 2020: slow growth, political uncertainty, rising debt add pressure on policymakers
(2 December 2019)

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