# 2020 Sovereign Outlook

Persistent slowdown, political uncertainty and rising global debt in the age of ultra-low rates

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| Bloomberg: SCOP

# Executive summary

Slower global growth of around 3%, high market volatility and persistent policy unpredictability will remain key themes for the sovereign outlook for next year. Monetary policy space available across major global central banks is now less effective at facilitating higher growth and inflation, with the focus now turning to national governments to use available *fiscal* space and implement structural reforms. Unresolved trade disputes, rising levels of global indebtedness, the structural slowdown in China and overvalued asset markets remain the main downside risks for European and global economies.

Key messages include:

- **Growth:** Policymakers face significant challenges in 2020, from slowing economic growth in the US and China, to sluggish growth in the euro area. Further central bank easing and easier fiscal policy will help, however, to support growth of around 3% globally next year.
- **Politics:** Policy and political uncertainty is set to continue, possibly aggravating the effects of slow growth and reducing the ability among sovereigns to respond to shocks. Despite the latest pause, US-China trade disputes could return, impacting global supply chains.
- **Monetary policy:** Interest rates will remain very low, if not negative, in 2020, supporting the global economy as well as sovereigns' debt dynamics and liquidity. However, highly accommodative financial conditions continue to fuel a build-up of global debt, increasing already significant macro-financial imbalances, with relevant longer-term implications for sovereign ratings globally.
- **Fiscal policy:** More-expansionary fiscal policies are expected in 2020 for many countries, with easing of 0.4% of potential GDP in the euro area, but are unlikely to provide enough support to return growth to the higher global expansion rates of 2017-18. Fiscal space continues to be heterogeneously distributed, with some available budgetary room in countries like Germany and Netherlands but limited fiscal space in many countries that are expanding fiscal policy such as Italy, Turkey and China.
- **Institutional developments:** In Europe, the combination of Brexit and trade-related uncertainties, and persistently weak euro area growth prospects, should create sufficient pressure on new EU leaders to pursue a more ambitious, co-ordinated structural and institutional reform agenda for the region, including pursuing the completion of the EU Banking Union.
- **Ratings:** Current "risk-on" market conditions contrast with sluggish global growth, rising non-financial sector debt levels and macro-financial imbalances, which are challenges for sovereign ratings next year. Entering 2020, sovereigns with a Negative Outlook are the UK, China, Turkey and Romania, while Greece, Portugal, Russia and Lithuania have a Positive Outlook.
- **Climate change:** Related risk assessments will gain greater public policy momentum as governments and supranational institutions contribute to a more substantial orientation towards environment, social and governance (ESG) risks in 2020.

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# Key themes for 2020

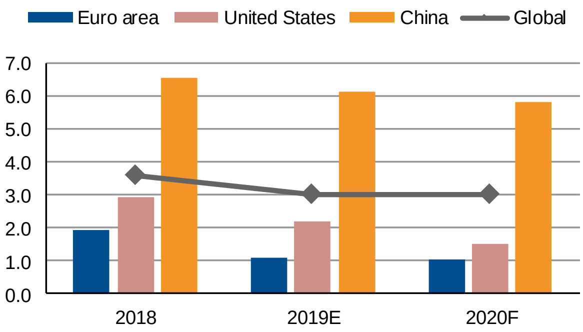
## Slow global growth continues in 2020

The outlook for the global economy remains challenging as ongoing trade disputes and heightened political uncertainty continue to act as drags on global trade, manufacturing activity, and business sentiment.

Scope's global forecast points to growth of around 3.0% next year (**Figure 1**), materially under recent peaks of 3.6% in 2018 and 3.8% in 2017 but near an estimated 3.0% in 2019. The *main* drivers of slow global growth in 2020 are: i) the ongoing structural slowdown in China's economy to 5.8% growth next year from 6.1% in 2019; ii) the cyclical and structural slowdown in the US (1.5% growth in 2020, after 2.2% in 2019); and iii) low growth in the euro area (1.1% in 2020, after an estimated 1.2% in 2019). Anaemic growth in Japan (0.5% in 2020, from 0.9% this year) and below-potential growth in the UK (1.2% in 2020, after 1.2% in 2019) are further drivers.

Tepid euro area growth will be driven by lower annual growth in 2020 in France (1.2%) and Spain (1.7%) with only very modest recoveries foreseen in Germany (1.0% growth in 2020, after 0.5% in 2019) and Italy (0.6%, after 0.2% in 2019). Against this, recoveries in some emerging markets, including Russia (1.5% growth in 2020, after 1.0% in 2019) and Turkey (3%, after 0.2% in 2019) are raising global growth. More on Scope's growth forecasts can be found in Annex II.

**Figure 1. Global growth, 2018-2020F,** %




Source: IMF, Scope Ratings GmbH

The global expansion cycle is in a mid-to-late phase, posing significant risks to European and global economies in 2020.

First, the US government's trade disputes are likely to continue. Although the US and China are negotiating a 'Phase 1' trade agreement for a rollback of tariffs, the dispute could easily re-escalate in 2020, a US election year. In addition, the US-EU trade conflict could return, threatening regional and global supply chains.

Second, China's structural slowdown and financial stability risks have relevant implications for the global economy. Third, rising levels of global private and public sector debt, accentuated by low if not negative interest rates, present increasing macro-financial imbalances, which are relevant in the longer term for sovereign risk. Bubble-like imbalances rooted in ultra-accommodative monetary policies can be observed in, for example, overvalued US asset markets, elevated US corporate debt stocks, negative yielding bonds, and the inflated real estate markets in multiple countries.

Lastly, the gradually attenuating effectiveness from major central banks' policy easing, amidst already stretched central bank balance sheets and rates at or under zero, means central banks will have fewer tools at their disposal when the business cycle inevitably turns. This may curtail central banks' future abilities to act as lenders of last resort and to restore price stability.

While we expect central banks like the Federal Reserve and the European Central Bank (ECB) to have an easing bias in 2020, fiscal and structural economic policies have to play a greater role in raising growth and inflation, with central bank policies facing diminishing returns. At the same time, fiscal easing needs to be executed prudently, by respecting fiscal rules and recognising varying degrees of fiscal space. This pertains to governments – from Italy to the UK to the US to Turkey – that have stepped up fiscal expansion to stabilise growth, although under conditions of high debt and/or already material macro-economic imbalances.

## Build-up of global debt and financial imbalances

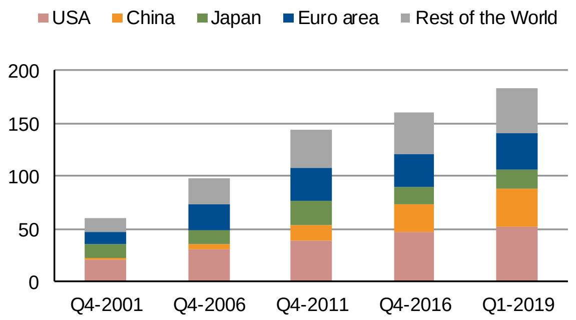
The prolonged lax financial conditions are impeding much-needed global deleveraging and encouraging risk-taking. The latest figures from the Bank for International Settlements point to a new high in total private and public non-financial-sector debt stocks in reporting countries, at USD 184trn in Q1 2019, or 238% of total GDP (**Figure 2**). The US, China, Japan and the euro area account for around 72% of global debt.

After the 2008-09 Global Financial Crisis, we have seen stabilisation, but not a reduction, in total debt levels as a share of GDP in advanced economies. At the same time, total debt in emerging markets has surged in the last decade, driven foremost by China, whose total debt stock reached 259% of GDP in Q1 2019, up from 146% in 2007. China's debt ratio now surpasses that of the US' total non-financial sector and matches that of the euro area. Despite the financial crisis laying bare the huge risks of irresponsible lending and borrowing practices, global debt levels are even higher a decade on. This has a bearing on the sovereign ratings of individual nation-states as well as globally, given the interconnectedness of international financial systems. Rock-bottom interest rates have, however, improved the serviceability of debt.

With slower global growth, sustaining high and rising debt stocks now depends even more on very low interest rates. However, the ultra-accommodative stances of global central banks are encouraging risk-taking and exacerbating global financial imbalances.

The stock of bonds with negative yields now stands at about USD 12trn. Moreover, the low rates are prompting investors to search for yield and take on riskier and less liquid assets to meet return targets. The IMF[1] recently referenced equity markets as being overvalued in Japan and the US, while yield spreads on investment-grade and high-yield bonds in the euro area and the US appear overly compressed compared to their fundamentals. In addition, emerging market bonds show signs of overvaluation for more than a third of the issuers in JP Morgan's Emerging Markets Bond Index.

**Figure 2. Global debt*,** USD trn




* of reporting countries.
Source: Bank for International Settlements, Scope Ratings GmbH

These rising imbalances now appear even harder to correct given the clear penchant for increasingly accommodative monetary policy in an environment of slow growth and low inflation. A sharp repricing of financial conditions in the future could expose elevated asset prices, with significant spill-over onto highly-indebted public and private sector issuers.

## New EU leadership: EC priorities and prospects for Banking Union

EU policymakers strike compromises when needed and, despite varying national interests, are able to retain strong cohesion in the face of external pressure. The euro area crisis, which led to several institutional changes, and the EU's comparative ability to deal with Brexit with one voice, support this view.

We thus expect the EU's new leadership to address Europe's future challenges. European Commission (EC) President Ursula von der Leyen recently laid out the EC's political priorities for the coming years. These include a European green deal, digitalisation and competition, and Europe's social market economy, including a deepening of the Economic and Monetary Union. Another priority relates to the establishment of a defence union, driven by: i) the waning trust in NATO; ii) the prospect of the EU losing one of its two nuclear powers, i.e. the UK via Brexit; and iii) Europe's vicinity to some of the most densely populated regions (the Middle East, North Africa, and the Sahel region), whose political and economic distress is likely to be compounded by climate change, which could again lead to large migratory flows to Europe.

Focusing on the prospects of a **deeper Economic and Monetary Union**, the recent proposal of German Finance Minister Olaf Scholz to complete the Banking Union did not demand an EU Treaty change. The proposal went beyond the paradigm of 'risk reduction' (non-performing loans (NPLs) and government credit risk) before 'risk sharing'; instead, it accepted that these two issues can be achieved simultaneously. In addition, the proposal extends the discussion on the harmonisation of bank taxes and the need for common rules on insolvency and bank resolution.

The broad contours of a compromise in which each EU member state moves its respective red line – on (re)deposit insurance, insolvency law, cross-border integration, taxation, the regulatory treatment of sovereign debt exposures, and even a safe asset – are becoming clearer. Despite the many obstacles to a deal – including policy details, timing and sequencing as well as the required political capital that is running thin, especially in Germany and Italy – negotiating positions are likely to shift in the right direction.

For 2020, it is thus possible that the combination of Brexit, a continued volatile and protectionist US trade policy, and persistent threats to euro area growth will create sufficient pressure on Europe's policymakers to agree on a political roadmap towards a genuine Banking Union. Our view is further reinforced by our expectation that the ECB's Governing Council is less likely to agree on *additional* monetary stimulus in 2020 compared to over 2019, given monetary stimulus' dissipating economic benefits, the increasingly more vocal opposition among governors and the ECB's forthcoming policy review.

## Limits to monetary policy: going forward, what can the ECB do?

Central banks have so far taken the lead in responding to the slowdown. However, as monetary policy reaches the limits of its effectiveness to foster growth and rekindle inflation while the risk of further imbalances in debt, equity and real estate markets amplifies, the ECB is expected to revise, for the first time since 2003, its guiding principles, key assumptions and tools used for the implementation of its monetary policy strategy.

This would allow the ECB to consider new challenges, including from population ageing, lower long-term interest rates, the weaker relation between inflation and unemployment, and climate change, as well as potentially rebalance its policies away from easing and towards financial stability.

[1] IMF, Global Financial Stability Report 2019

This review may include: changes to the price stability definition and the inflation target; an explicit introduction of a symmetrical band; discussions on additional instruments; and revised strategies on directing asset purchases towards green bonds once a common framework for sustainable finance is agreed. In short, under President Christine Lagarde, the ECB is likely to become more political going forward, maintaining the very accommodative monetary policy stance.

## European fiscal space: yes, but will there be adequate stimulus?

As central banks reflect on these issues, the key question is whether governments will finally react. At the lower bound of interest rates, fiscal policy is more effective with higher fiscal multipliers. In addition, other things being equal, lower interest rates expand fiscal space, that is, the budgetary room for governments to implement discretionary fiscal policy without endangering their market access and debt sustainability.

Based on our analysis and judgement centred on six complementary market and long-term sustainability-related indicators, we have classified 35 countries as having either *significant* (16), *some* (14) or *limited* (5) fiscal space (**Figure 3**). Crucially, our study abstracts from fiscal rules.

**Figure 3. Scope's fiscal space assessment**

| Region | Scope's fiscal space assessment: Limited | Some | Significant |
|---|---|---|---|
| Euro area | IT | BE, CY, FR, GR, MT, PT, SI, ES | AT, EE, FI, DE, IE, LV, LT, LU, NL, SK |
| Non-euro area | | HR, HU, PL, RO, UK | BG, CZ, DK, SE |
| EFTA | | | NO, CH |
| Other | CN, JP*, TR, US* | RU | |

*Does not account for reserve currencies.
Source: Scope Ratings GmbH

And yet, despite the fiscal space available to most EU member states, their draft budgetary plans do not point towards significant aggregate fiscal expansion (with around 0.4% of potential GDP seen in euro area budget expansion next year). This is likely due to a combination of fiscal rules (e.g. Germany's 'debt brake') and political preferences (e.g. Germany's 'black zero'). Still, fiscal and investment stimulus can also be achieved by using flexibility in fiscal rules, for example, via investment, green funds or the mobilisation of EU resources.

Concrete examples include: i) France's EUR 10bn innovation fund, created in 2018 to support investment in high-tech industries (*Fonds pour l'innovation et l'industrie*); ii) the Netherlands' EUR 50bn investment fund planned for 2020, focusing on knowledge development, innovation and infrastructure; and iii) proposals in Germany to fund investment in climate policies and in softening the impact of the ageing population (*Deutschlandfonds*). The size of the German instruments is yet to be determined.

Looking at the mobilisation of EU resources, we note that the Budgetary Instrument for Convergence and Competitiveness[2], which will support structural reforms and public investment in the form of grants, is not a euro area budget with the capacity and mandate to provide a counter-cyclical fiscal stimulus.

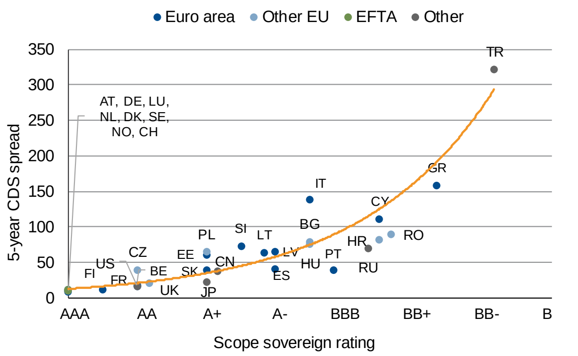
Finally, the EC is proposing the creation of the InvestEU Fund under the next 2021-27 EU budget to mobilise at least EUR 650bn in additional investment. Overall, while positive, these initiatives are likely to raise GDP growth by only a few tenths of a percent, falling short of the stimulus needed to provide meaningful support to euro area aggregate demand.

Absent the needed fiscal support to global growth coming from the euro area, fiscal stimulus is likely to come from countries with already high debt (the US, Japan, UK) or with outsized deficits (China, Turkey).

## Divergence between Scope's and the market's sovereign risk assessment

Slow global growth, rising non-financial sector debt levels and macro-financial imbalances in a context of limited efficacy from additional central bank easing and varying capacities of governments to implement counter-cyclical fiscal stimulus set the stage for sovereign risk entering 2020. Here, we note some divergence between our sovereign ratings and the market's perception of risk as proxied via five-year CDS spreads (**Figure 4**).

**Figure 4. Five-year dollar CDS spreads vs Scope's ratings**(3, next page)**, bps**




N.B. CDS spreads as of 29 November 2019
Source: Bloomberg, Scope Ratings GmbH

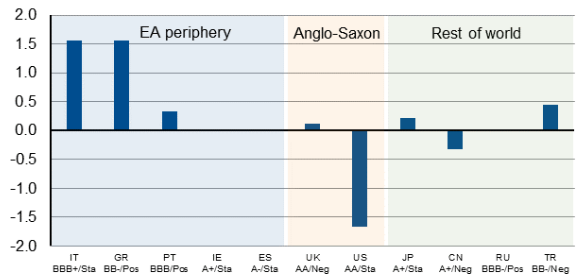
Sovereigns with a Negative Outlook presently are the UK (AA), China (A+), Turkey (BB-) and Romania (BBB-) while Greece (BB), Portugal (BBB), Russia (BBB-) and Lithuania (A-) have a Positive Outlook. Of our universe of 36 rated countries, 28 thus hold a Stable Outlook and 33 have an investment-grade rating of BBB- or above, with only Greece, Georgia and Turkey

[2] This instrument requires a minimum national co-financing rate of 25% of the total cost of the investment; it is based, for at least 80% of the funds, on the population and inverse of GDP per capita; its size is expected to be no more than EUR 17bn, operational as of 2021.

in non-investment-grade territory. Our sovereign ratings and 2019 rating actions are summarised in **Annex I**.

Acknowledging the present "risk-on" market conditions, there are several disparities versus our sovereign ratings. First, the market continues to see Italian risk as somewhat more elevated compared to our BBB+ rating, which is 1-2 notches above the assessment of the US rating agencies, premised on Italy's systemic importance and associated likelihood of receiving multilateral support in worst-case scenarios. Second, while our ratings on Portugal (BBB) and Greece (BB) are above the average assessment from the US agencies, reflecting, in part, our view on long debt maturities and high shares of debt being held by official creditors, the market's view is more optimistic at present spread levels. Third, even though Turkey's credit ratings are the lowest in our rated universe, market evaluation of Turkish risk appears even more negative. Finally, we rate the United States at only AA, 1-2 notches below the US agencies (**Figure 5**), challenging the view of US treasuries being the global risk-free asset.

**Figure 5. Scope's ratings vs US rating agency average[3]**, notches

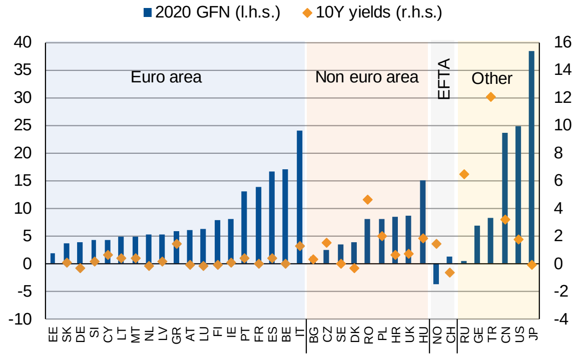



Source: Reuters Eikon, Scope Ratings GmbH

Our rating assessments also capture risks stemming from government financing needs in 2020. In the EU, Italy is the only country with gross government financing needs above 20% of GDP (**Figure 6**), a threshold above which the IMF deems countries to have 'limited' fiscal space. Next to Italy, Belgium, Spain and Hungary have gross financing needs of between 15% and 20% of GDP next year among the EU-28. Outside the EU, three governments stand out as needing to meet significant funding needs: Japan, the United States and China.

However, these countries will benefit from sustained low financing rates, supporting market access and abilities to roll over debt. Of the countries with more meaningful gross financing needs, only China displays a 10-year borrowing rate of above 2% while countries with higher market financing rates like Turkey and Georgia face moderate funding needs in 2020.

**Figure 6. 2020 annual GFN & 10-year government yields**, % of GDP (l.h.s.); % (r.h.s.)




N.B. Yields as of 29 November 2019
Source: IMF, Bloomberg, Scope Ratings GmbH

## ESG: growing policy focus

A wide consensus is emerging on the need to address climate change and its economic costs. Numerous public and private entities are increasingly using green bond issuances to finance ESG-related projects. The Climate Bond Initiative is projecting a new high in total green bond issuance: USD 250bn by year-end 2019, up from USD 170.9bn in 2018.

Governments and supranational institutions will be contributing to a more substantial orientation towards ESG in 2020 and beyond. For example, the European Investment Bank (AAA/Stable) recently changed its energy lending policy to align all financing activities with Paris Climate Agreement goals from the end of 2020 onwards. The new policy will end financing for fossil fuel projects, including gas, from the end of 2021, and instead mobilise EUR 1trn by 2030 for investment in clean-energy innovation, energy efficiency and renewable sources.

In addition, civil society and green political parties are pushing the climate agenda. This is likely to provide additional legislative impetus for more ambitious schemes to reduce carbon emissions, higher taxes on fossil fuels, and higher subsidies for increasing energy efficiency and renewables use.

Capital markets are adapting to this new reality. The total value of outstanding green bonds, at USD 730bn, remains small compared to the estimated USD 30trn of assets relying on ESG ratings. A major impediment to larger issuance volumes is the lack of definition for the use of proceeds from these bonds. The EC is currently producing a taxonomy to better define environmentally sustainable activities. This is a necessary first step, but needs further clarification, including a comprehensive assessment of the quantifiable impact of activities on the environment, and possibly an extension of its scope to account for the social and governance dimensions, both of which are important ingredients in the UN's Sustainable Development Goals.

[3] 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. As of 29 November 2019.

# Regional views for 2020

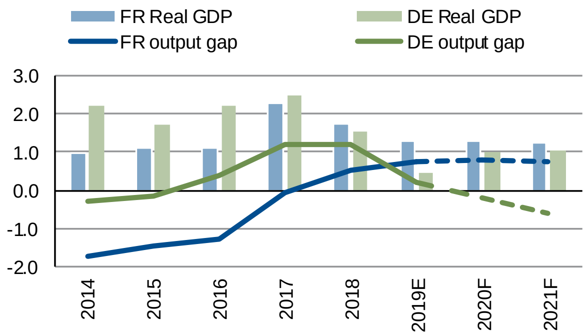
## Core Europe: inverse policy action needed in Germany and France

Germany (AAA/Stable) and France (AA/Stable), the two largest euro area economies, will face inverse trajectories in economic and fiscal policies.

While France has become a growth engine for a weakened euro area in 2019 (with growth of about 1.3%, before 1.2% in 2020), the German economy is close to stagnation after a long expansion (we expect 0.5% growth in 2019, before 1% in 2020). The French economy is bolstered by consumption and investment, amplified by fiscal stimulus from the government. By contrast, the German economy is suffering from weak external demand and a large investment gap of around 5% of GDP, partly triggered by its fiscal 'black zero' policies.

In order to secure its competitive economic base, Germany needs government policies designed to raise capacity, ideally via public infrastructure investment and raising the attractiveness of private investment. The French government, on the other hand, can make use of its resilient economic situation to move ahead with the key part of President Emmanuel Macron's reform agenda, namely to overhaul the pension and healthcare system. This would allow Macron to overcome a long-standing structural impediment to higher growth potential and support a long-run improvement in the fiscal balance.

**Figure 7. Real GDP growth and output gap, %**




Source: AMECO, Scope Ratings GmbH

Regarding labour markets, structural unemployment remains high in France, while Germany's competitive industry has led to sustained job creation, bolstered by a previous period of favourable global growth. Now, French employment growth has caught up to Germany's and is set to surpass it in 2019. Even so, France still requires a longer period of strong employment growth to achieve the employment rates in Germany (75.9%), which remains markedly above that of France (65.4%).

Inverse policy trajectories are also visible on the fiscal side. French debt, at almost 100% of GDP, requires more consolidation efforts over the medium term, and currently low interest rates could support government efforts. In contrast, the German government is sticking to an objective of balanced budgets, despite a pronounced weakness in output this year and the wide investment gap in both physical and digital infrastructure, with the latter exacerbating the disparity in property prices between urban and rural areas.

For both countries, the increasing economic and demographic dispersion between rural and urban areas remains a major challenge. Macron faces increasing opposition from mayors and electorates in rural regions, while former East German regions feel increasingly ignored by the federal government, seeing their support for the ruling political parties decline. In our view, better-designed and greater financial support for these regions, in particular local administrations, could help address this issue.

Finally, the political environment will shape the inverse policy trajectories in the two countries. The French government has so far resisted the 'yellow vest' protests and enjoys a stable majority in Parliament. The two German coalition parties, by contrast, have seen frequent defeats in regional elections over 2019, leading to dissent within the coalition and calls for its break-up. All political scenarios for Germany – a continuation of the current government, a new coalition, or snap elections – have the potential to further postpone needed policy reforms. The French government, on the other hand, can use the opportunity of a more stable political and economic environment in 2020 to advance its reform agenda.

## Will Brexit 'happen' at last?

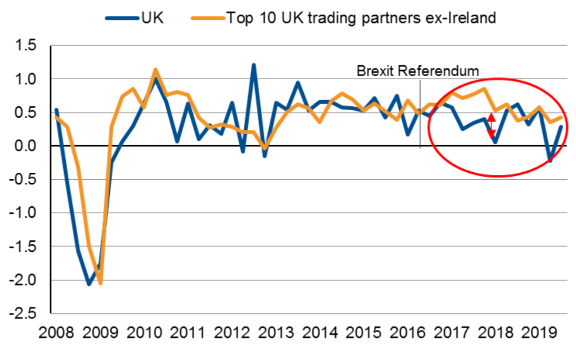
After three Article 50 extensions – on 29 March, 12 April and 31 October – the upcoming general elections in the UK (AA/Negative) on 12 December could result in a Tory *majority* government. This would give the Conservative government its best chance to date to execute a soft Brexit under terms similar to those agreed with the EU on 17 October. Thereafter, the post-Brexit transitional phase(s) would follow.

On this basis, the UK would leave the EU sometime in 2020 'in name only'. In other words, should the UK exit with the withdrawal agreement next year, it would still remain a member of the single market and EU customs union for a long period thereafter. The UK would enter a standstill transitional phase, during which painstaking new talks around a new free-trade agreement with the EU, as well as renegotiations of around 40 other free-trade agreements that the UK currently benefits from as an EU member state, would need to be settled on. Such a next phase would take well beyond the end-2020 proposed end-date for the transition, requiring hypothetically an extension of the transition beyond 2020.

Conversely, if the UK parliamentary *opposition* can capture more seats in elections than anticipated – enough to deliver at least a hung parliament, or even a majority – a longer period of uncertainty would ensue. In our view, a no-Brexit, second-referendum scenario remains the second most probable end-outcome (after Scope's soft-Brexit baseline) and is more likely than a hard Brexit (the latter defined as the UK exiting the single market and European customs union *fully*).

Regardless of the electoral outcome, uncertainty related to Brexit will continue to weigh on UK economic growth, which we expect to grow only 1.2% in 2020 (although with growth picking up on a quarterly basis in 2020), after 1.2% this year. We already estimate the cost of Brexit uncertainty on the UK economy at well over 1% of GDP (**Figure 8**) since the 2016 referendum.

**Figure 8. UK economy versus top 10 trading partners excluding Ireland**, % QoQ GDP growth




Source: Haver, Scope Ratings GmbH

The UK's fiscal deterioration is likely to be a core risk to its credit outlook in 2020, with both major political parties pledging significant programmes of budgetary expansion. After the UK's budget deficit for 2018-19 was revised upwards to 1.9% of GDP, we expect the deficit in 2019-20 to rise to around 2.4%, possibly breaching 2.5% in 2020-21. Fiscal and institutional degradation will be key to the UK's rating outlook in 2020.

Finally, Brexit is having both positive and negative effects on the economy of its neighbour Ireland (A+/Stable). While uncertainty is hurting investment in Ireland and damaging its exports to the weakened UK economy, UK-situated businesses are moving investment to Ireland. A no-deal Brexit would significantly damage Ireland's economy (and would lead to recession) – but we do not anticipate this scenario.

## Italy, Spain and Portugal: diverging political stability amidst high debt

Scope's BBB+/Stable rating on Italy balances the country's record of primary surpluses and its systemic economic and financial importance – which increases the likelihood of multilateral support for Italy in severe liquidity crisis scenarios – against concerns over the country's low growth and high public debt. After Italy's debt stock was revised up to 138% of GDP (as of Q2 2019), debt sustainability has become an even more salient issue entering 2020. We anticipate a fairly flat debt trajectory in the coming period – with the risk of a materially higher debt ratio in the event of a more significant regional downturn. In 2020, the longevity of the Five Star Movement-Democratic Party government will be tested, although the parties will be incentivised to maintain the coalition with far-right opposition party Lega still well ahead in polling.

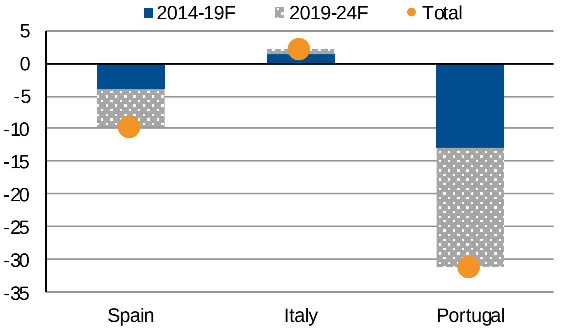
Italy's 2020 budget targets a deficit of 2.2% of GDP, roughly unchanged from the estimated 2019 deficit. This is to be followed by deficits of 1.8% of GDP in 2021 and 1.4% of GDP in 2022, according to government estimates. While we similarly forecast a deficit of around 2.2% of GDP next year, the government's 2021-22 budget expectations appear overly optimistic. In addition, in structural terms, the deficit is set to deteriorate by 0.3pp, compared to the EC's recommended *adjustment* of 0.6% of GDP in 2020. The expected nominal rate of growth of net primary government expenditure in 2019 and 2020 also exceeds the advised adjustment. As such, the EU has noted that Italy's 2020 plans do not comply with the provisions of the Stability and Growth Pact.

Still, given the present government's less antagonistic approach in its relations with the EU (compared with that of the previous Five Star Movement-Lega government), Italian budget deficits that are likely to remain under the Maastricht limit of 3% of GDP, and with the ECB now firmly in easing mode with a restart of quantitative easing, Italy's funding rates are likely to remain accommodative next year (even allowing for 10-year yields, which have edged up to 1.3% at the time of writing, from 2019 lows of around 0.8%). This will support debt sustainability.

The **rating implications of the November elections for Spain (A-/Stable)** are tilted to the downside, as the continued political stalemate raises doubts about the emergence of a stable government able to address the country's challenges. Spain's fourth election in as many years, on 10 November, again confirmed that the next government can only be formed through a coalition or partnership across several parties given the country's increasingly fractured political environment. This matters from a credit perspective, as the prospect of a longer period of a weak government, if any, implies that the remaining challenges of the country – high public debt, labour market rigidities, low total factor productivity, and the perennial question of Catalan independence – may remain unaddressed.

Even if the prospect of yet another election compels opposition parties to facilitate a PSOE-Unidas Podemos government, led by Prime Minister Pedro Sánchez, the resulting minority government is likely to be weak and dependent on the recurrent support of other parties for each legislative bill. As its economic outlook has weakened, Spain's credit outlook now hinges on the country's political leadership to govern in the context of a fragmented and politically polarised parliament. For 2020, the emergence of a stable coalition that can implement the fiscal consolidation and reforms needed to address economic vulnerabilities and political challenges will be crucial.

**Figure 9. Debt reduction projections**, % of GDP




Source: IMF, Scope Ratings GmbH

In contrast with Spain's political stalemate, the Positive Outlook on Portugal's BBB rating reflects the country's sustained debt reduction and the gradual unwinding of economic imbalances, expected to continue after the strong electoral victory in October of the Socialist Party. In a context of relative political stability and policy continuity, we expect Portugal's fiscal position to remain robust, even if the new minority government may have to make concessions to left-wing allies, including hiring public sector employees for social services and increasing the monthly minimum wage further to around EUR 750 from EUR 600 today. In addition, Portugal still faces a notable investment gap and rising social pressures, partly from its ageing population. Still, despite the economic slowdown and possibly lower future levels of primary surpluses, we expect Portugal to reduce its debt-to-GDP ratio to below 110% over the coming years (**Figure 9**).

## Greece and Cyprus: ongoing debt and NPL reduction

The Positive Outlook on Greece's BB rating reflects our expectation of a continuation of business-friendly structural reforms and an acceleration of privatisations. Our view is underpinned by the country's political stability, reflected in the stable parliamentary majority of Kyriakos Mitsotakis' government. The political stability also reduces the risk of policy reversals in the context of continued surveillance from multilateral creditors, whose periodic reviews remain a precondition for activating sequential debt relief measures.

Growth should average 2.5% over 2020-22, as recent and planned structural reforms have improved the long-term growth outlook. A key factor supporting the economic recovery will be the reduction of NPL stocks via securitisation, which will relieve the burden on bank balance sheets. The resulting capital relief will strengthen the financing capacity of domestic banks and help to tackle the crisis-induced investment gap that is weighing on Greece's economic potential.

Greece is again on track to meet its goal of a primary surplus of 3.5% of GDP in both 2019 and 2020, in line with the agreement reached with its international creditors. Going forward, we expect a renegotiation of this agreement, which, in conjunction with growth-enhancing reforms, could be justified, particularly after the significant decline in Greek bond yields, reflecting macroeconomic improvements and relative political stabilisation in the country.

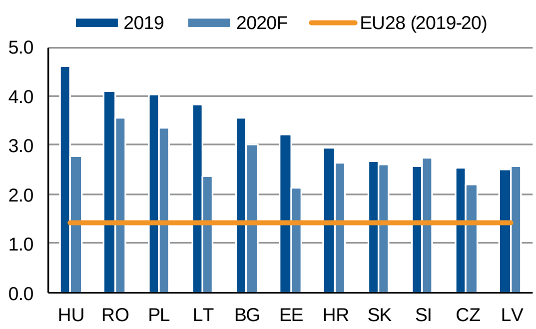
Cyprus (BBB-/Stable) is set to post one of the highest growth rates among euro area countries over the next few years, setting the stage for a renewed reduction in its debt-to-GDP ratio. The government's commitment to high primary surpluses and its track record of outperforming fiscal targets bolster our expectation of a decline in the public debt ratio to around 75% of GDP by 2024, from 103% in 2018.

## CEE: slowing growth but improved resilience due to domestic demand

The EU's central and eastern European economies (CEE 11) have so far weathered the global economic slowdown, reflected in an average projected growth rate of 3.3% in 2019 with several countries growing above potential. This reflects the region's ongoing resilience, owing to a gradual shift in key growth drivers away from a reliance on net exports and more towards domestic demand. The CEE region's strong domestic demand reflects: i) high wage growth and tight labour markets; ii) loose fiscal and monetary policies; and iii) robust public investment supported by EU funds.

However, the slowdown in western Europe will weigh on CEE economic performance in 2020, especially in countries with a high exposure to the German industrial sector, such as Hungary (BBB+/Stable), the Czech Republic (AA/Stable), Slovakia (A+/Stable) and Romania (BBB-/Negative). Still, resilient domestic demand and better-diversified growth, particularly in Poland (A+/Stable), should prevent a more-pronounced slowdown. Overall, in 2020, CEE economies will grow on average 0.5-0.7pps less than in 2019 (**Figure 10**).

**Figure 10. Real GDP growth rates in CEE 11**, %




Source: EC, Scope Ratings GmbH

The credit quality of CEE sovereigns remains supported by ongoing public debt reductions and falling interest expenditure, providing some space for fiscal stimulus against any deeper-than-projected slowdowns in 2020.

The fiscal stance, though, has been procyclical in most of these economies over 2018-19, not fully capitalising on strong growth to consolidate fiscal books. Public debt-to-GDP ratios in Croatia, Hungary and Slovenia are still higher than the EU reference value of 60%. Among the CEE 11, we project an increase in the debt-to-GDP ratio in 2020 for Romania only, due to the large increase in pensions adopted in 2019.

The CEE region is also indirectly benefitting from the loose monetary policies of the major global central banks, which supported net portfolio inflows into the region during 2019 and resulted in an overall decline in government bond yields. Still, the ECB's and Federal Reserve's accommodative policy, combined with the weaker regional growth outlook, is likely to constrain most non-euro-area CEE central banks from raising rates in 2020 despite inflationary pressures. Still, Hungary may raise rates in H2 2020 only as inflationary and exchange rate pressures increase. In addition, large current account and fiscal deficits could prompt the Romanian central bank to tighten its policy in 2020 unless the new government pursues a more prudent fiscal stance. The Czech Republic is likely to be the only CEE country that cuts rates, given easing price pressures.

In 2020, CEE governments will focus on ongoing negotiations over the EU's next long-term budget for 2021-27, which is based on the EC's draft proposal foreseeing significant reductions in EU fund allocations to CEE countries. These are key for the region's investment and growth outlooks, with the financial allocation for 2014-20 as a share of 2018 GDP ranging from 9% for Slovenia to up to 21% for Croatia. Given the region's economic importance, as well as the role of its leaders in helping to install Ursula von der Leyen as EC President, we expect the 2021-27 budget proposals to be meaningfully adjusted in the region's favour.

Finally, political developments are key for the investment and fiscal outlooks of CEE countries. Despite ongoing EC 'Rule of Law' procedures, Poland and Hungary will continue to attract foreign investment while electoral set-backs for ruling parties – in Poland, the Law and Justice party did not achieve a two-thirds majority in the Sejm; in Hungary, Fidesz lost Budapest – could result in more moderate policymaking, defusing additional tensions with the EU. Romania's fiscal outlook crucially depends on the government's formation after elections next year. Finally, we would consider Bulgaria's and Croatia's possible entries into the EU's Exchange Rate Mechanism II in 2020 as credit-positive.

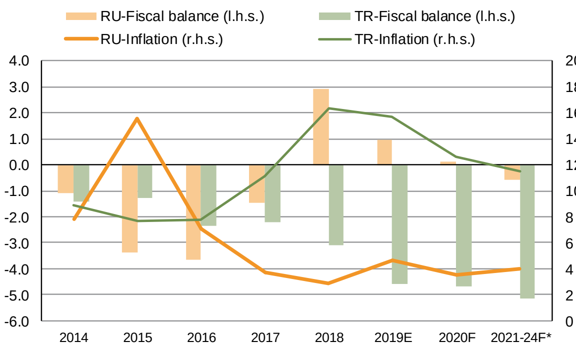
## Cautious outlook on Turkey; Russia's policies bolster external resilience

In 2020, Turkey's Negative Outlook on its BB- rating could be stabilised if: i) credible fiscal, monetary and economic policies are adopted; ii) the country's external vulnerabilities are reduced; and/or iii) the deterioration in Turkey's governance framework is reversed. Conversely, Turkey's ratings could be downgraded to a single-b classification if: i) macroeconomic instability is further heightened via external sector deterioration and/or external shocks; ii) fiscal, central bank and structural economic policies remain inconsistent with assuring the economy's long-run sustainability; and/or iii) further institutional degradation, geopolitical tensions or renewed security concerns arise.

Recent economic developments are positive: inflation has declined to 8.6% YoY as of October 2019 (though still above the 5% target) after a peak of 25.2% in October 2018; lira sentiment has improved; the current account balance has reversed to a *surplus* of 0.8% of GDP in the year to September 2019, from a peak deficit of 6.6% of GDP in the year to May 2018, albeit mainly driven by import contraction; and official reserves have picked up to USD 105.5bn as of mid-November 2019, from a low of USD 84bn last October.

Still, we remain cautious despite these improvements. The central bank has cut its one-week repo policy rate since July to 14%, from a peak of 24%. In 2020, a core rating-relevant concern will be whether aggressive rate cuts resume beyond the extent called for by fundamentals. If rate cuts are too aggressive, including those made under any influence from the Turkish president, they could undermine Turkey's central banking framework and raise the likelihood for renewed macro-economic instability. In addition, monetary easing is taking place at the same time as significant fiscal easing, which has seen the general government deficit increase to an estimated 4.6% of GDP in 2019, from 2.2% of GDP in 2017 (**Figure 11**).

**Figure 11. Fiscal and inflation trajectories**, % of GDP (l.h.s.); % (r.h.s.)




*refers to average.
Source: IMF, Scope Ratings GmbH

Overall, given the weakening in Turkey's governance and policy-making institutions, the lack of correction in *structural* economic imbalances, the risk for further significant monetary and fiscal policy easing in 2020, and the likelihood of geopolitical risks re-emerging around sanctions vis-à-vis the US or military actions, for example, in Syria, we remain cautious regarding Turkey's credit outlook entering 2020.

Conversely, the Positive Outlook on Russia's BBB- rating reflects the sovereign's robust budgetary position resulting from a fiscal policy focused on rebuilding fiscal buffers over the past few years, as well as the improved external sector resilience underpinned by a strong external-creditor position and flexible exchange rates. These factors improve the Russian economy's capacity to cope with external shocks, including with regards to mitigating the economic impact of additional tightening in US sanctions – including those on Russian bonds.

In 2020, we expect growth of around 1.5%, up from 1% in 2019. This will be driven by continued private investment into the energy sector, supported by Denmark's approval of the construction of Gazprom's Nord Stream 2, as well as an easing of fiscal and monetary policies. After delays in the envisaged public investment programme, fiscal policy is set to ease in order to address domestic economic challenges, via a public investment strategy comprising 'National Projects', with EUR 360bn of investment estimated for 2019-24, primarily focused on transport infrastructure.

In addition, given the moderation in Russia's inflation outlook – inflation fell to an annual rate of 3.8% in October and is set to average 3.7% in 2020 – the Russian central bank cut the key rate from 7% to 6.5% in October, with further easing possible in 2020. Still, growth remains curtailed by ongoing sanctions-related risks, weak consumer confidence and assumptions for a moderate decline in oil prices to USD 57 per barrel in 2020 from currently USD 62.

## Nordics and Switzerland: moderate growth and ongoing financial risks

Norway, Sweden and 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. Growth in the region will remain moderate in 2020, ranging from 2.5% in Norway (mainland economy) to 1.6% in Denmark, 1.5% in Sweden and only 1.2% in Finland.

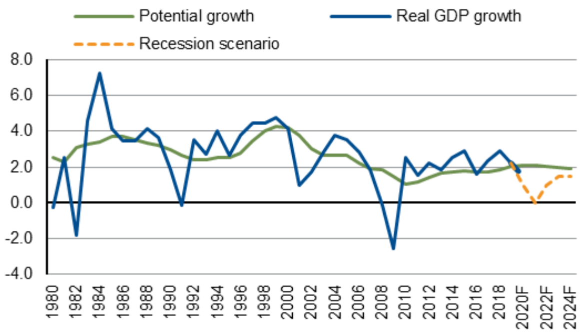
The well-known risks to the region's financial stability stem from high household indebtedness – tied mostly to mortgage debt stocks and, in some cases, real estate markets – as well as from commercial real estate sectors, consumer loans and corporate debt. To preserve returns, Nordic pension funds are delving into much riskier assets, which might prove difficult to offload if markets turn. However, the highly capitalised banking systems, robust public sector balance sheets (most notably, Norway's with a sovereign wealth fund of USD 1.1trn, or 339% of mainland GDP), external buffers and strengthened regulatory requirements ensure the economies' resilience against macro-financial risks, including scenarios of severe economic downturns and financial crises. Policymakers are also reacting, with the counter-cyclical capital buffer rates increasing in Norway (to the 2.5% cap from 31 December 2019, soon to be in line with the world's highest rates in Sweden and Hong Kong) and in Denmark (from 1.0% to 2.0% by December 2020 with a possible additional increase of 0.5pps in this rate to be recommended in Q1 2020).

In Switzerland (AAA/Stable), growth is projected to recover moderately to 1.6% in 2020, from a subdued 1% in 2019, assuming a small appreciation in the Swiss franc against the euro. Downside risks to the growth outlook stem mostly from the external environment – notably, an intensification in safe-haven-driven inflows to the franc due to heightened political uncertainty and volatility in international markets. A policy rate cut by the Swiss National Bank in 2020 is possible, but interventions in the foreign exchange market to ease appreciation pressures would be the first line of defence. We expect a new framework arrangement to be agreed between Switzerland and the EU – though after a Brexit happens.

## Cyclical and structural factors to lower US growth during election year

The economic outlook for the US (AA/Stable) is subject to downside risks, which further interest rate cuts by the Federal Reserve are unlikely to abate. We expect the US economy to slow significantly within the next two years, with a technical recession around or just after the US presidential elections a possibility for the following reasons:

**Figure 12. US potential and real GDP growth**, %




Source: Congressional Budget Office, Scope Ratings GmbH

First, indicators measuring manufacturing and non-manufacturing sentiment are off late 2018 peaks, driven by the uncertainty surrounding future developments in US trade policy. Given the upcoming presidential elections on 3 November 2020, a re-escalation of trade conflicts at some stage in 2020 is a more likely scenario given its presumed appeal to parts of President Donald Trump's electoral base.

Second, tightening labour markets are supporting solid wage growth and starting to weigh on corporate profits. Given weakened business sentiment and wage-induced pressures on corporate profits, we expect business investment to decline. Here, we note that the contribution of private fixed capital formation to real GDP growth was already negative in Q2 and Q3, a trend likely to continue into 2020.

Third, the economic boost from the administration's fiscal policy is expected to fade by the end of 2019. The Hutchins Center Fiscal Impact Measure estimates that the government's tax and spending policies will act as a drag by 2020, after adding about 0.5pps to real GDP growth in each quarter of 2019.

Fourth, we note the steady decline in US productivity and potential growth. This may be driven by a combination of: i) low rates, sustaining marginally productive excess capacity; ii) decreased competition in US markets, driven by increasing barriers to entry and weak antitrust enforcement sustained by lobbying and campaign contributions; and iii) troubling social outcomes[4], which constrain labour-force participation, diminish human capital formation, and suppress aggregate demand and future productivity growth.

Finally, a divided and polarised US Congress, and the lack of consensus in US politics, also increases the risk of significant policy swings at each electoral change, which in turn increases uncertainty for US investors, businesses and households. With Congress now overseeing a formal impeachment inquiry into the president, a decrease in partisanship, including after the 2020 elections, is highly unlikely to take shape to allow underlying structural challenges to be addressed, including very high fiscal deficits, which the IMF now estimates will average 5.4% of GDP for 2019-24, underlining Scope's AA/Stable rating on the US.

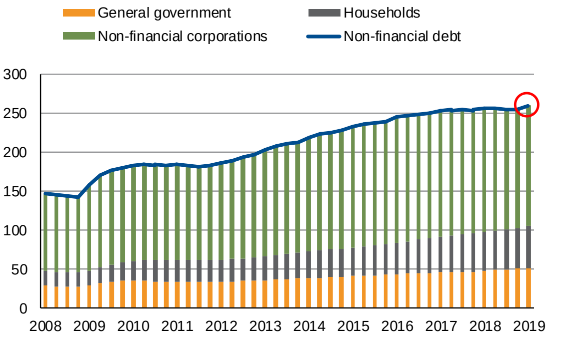
## China and Japan: fiscal and financial stability risks are areas to watch

In 2020, our assessment on China (A+/Negative) will hinge on the interplay between conflicting forces on policymakers i) to maintain, if not accelerate, significant economic reforms to redress macro-financial imbalances; and ii) to ease policy and delay reforms to counteract a slowing economy. Resolving this tension is fundamental to China's public- and private-sector debt trajectories going forward, and, as such, China's A+ rating trajectory. Protests in Hong Kong are unlikely to impact China's ratings meaningfully.

China's total non-financial-sector debt rose to 259% of GDP as of Q1 2020, nearly doubling from 142% in 2008 – reflecting rises in corporate, government and household debt levels. The IMF estimates total non-financial-sector debt (which under its definition stood at 257% of GDP at end-2018) to rise to 295% of GDP by 2024. This renewed increase in Chinese debt stocks alongside rising defaults in some smaller lenders and regional state-owned enterprises spell increasing risks for both the domestic and global economies. Public debt amounted to 51% of GDP in 2018 (rising from only 27% in 2008) and is expected to pick up to 77% of GDP by 2024. We expect the budget deficit to remain elevated at approximately 6.0% of GDP in 2020 (pre-stabilisation fund transfers), from just 1.8% in 2014. China has stepped up tax cuts and accelerated the issuance of local government debt earmarked for infrastructure projects to support the economy.

Risks to China's policy setting have increased owing to the escalation of trade disputes with the US and implications for China's growth and external sector dynamics. We forecast a modest slowdown to 5.8% growth in 2020, after an estimated 6.1% growth rate this year, as growth edges lower towards its medium-run potential rate of around 5%. This slowdown presents challenges to European and global growth and informs our view of continued slow global growth next year, as China's economy accounted for 16% of the global economy and 27% of global growth as of 2018.

**Figure 13. China's non-financial sector debt**, % GDP




Source: Bank for International Settlements, Scope Ratings GmbH

Finally, Japan's A+/Stable rating reflects its wealthy, diversified economy with a robust external position and excellent funding flexibility. Still, its ageing population is weighing on potential growth and hampering efforts to reduce very high public debt levels (at 237% of GDP as of 2018). The government's policy mix of an expansionary monetary policy, a flexible fiscal policy and structural reforms is appropriate but insufficient to meaningfully raise the country's growth potential.

The Bank of Japan is set to pursue its ultra-loose monetary policies in 2020 as the central bank looks to support the economy and boost inflation. We will closely monitor potential financial stability risks stemming from the Bank of Japan's prolonged ultra-loose policies. Low interest rates will continue to weigh on bank profitability and encourage risk-taking while large-scale purchases of Japanese government bonds may induce a shortage of much-needed safe assets for banks, insurance companies and pension funds.

Fiscal consolidation remains difficult as social welfare costs and consecutive expansionary supplementary budgets weigh on the budget balance. The 1 October VAT rate hike reflects the government's commitment to fiscal consolidation, although a credible, long-term consolidation plan is still lacking. The target for reaching a primary surplus – which was pushed back from 2025 to 2027 – will be difficult to achieve given optimistic growth assumptions underlying budgetary plans.

[4] A high share of the population depends on federal programmes for nutrition, healthcare, education and housing; erosion of socio-economic mobility; disappointing tertiary education outcomes; stagnating incomes among many households; and greater income and wealth inequality.

# Annex I: Scope's 2019 ratings and rating actions

**Figure 14: Scope's global long-term sovereign issuer ratings, as of 2 December 2019**

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

**Figure 15: Scope's sovereign rating actions in 2019 as of 2 December 2019**

| | Date | Sovereign | Rating action | Rating & Outlook |
|---|---|---|---|---|
| Q1 | 8 February | Norway | Affirmation | AAA/Stable |
| | 22 February | Bulgaria | Upgrade/Outlook change | BBB+/Stable |
| | 8 March | Austria | Affirmation | AAA/Stable |
| Q2 | 5 April | Portugal | Affirmation/Outlook change | BBB/Positive |
| | 5 April | Estonia | Affirmation | A+/Stable |
| | 12 April | Netherlands | Affirmation | AAA/Stable |
| | 3 May | France | Affirmation | AA/Stable |
| | 10 May | Greece | Upgrade | BB-/Positive |
| | 14 June | Turkey | Affirmation | BB-/Negative |
| | 21 June | Slovenia | Upgrade | A/Stable |
| Q3 | 26 July | Finland | Affirmation | AA+/Stable |
| | | Sweden | Affirmation | AAA/Stable |
| | | Denmark | Affirmation | AAA/Stable |
| | | Russia | Affirmation/Outlook change | BBB-/Positive |
| | | USA | Affirmation | AA/Stable |
| | 23 August | Cyprus | Affirmation | BBB-/Stable |
| Q4 | 4 October | Lithuania | Affirmation/Outlook change | A-/Positive |
| | 18 October | Hungary | Upgrade | BBB+/Stable |
| | | Greece | Upgrade | BB/Positive |
| | 1 November | Poland | Affirmation | A+/Stable |
| | 15 November | Slovakia | Affirmation | A+/Stable |

# Annex II. Macro-economic outlook 2018-20F

| Region | Real GDP growth (%) | | | | Inflation (%) | | | | Policy rates (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019E | 2020F | Medium-run potential | Target | 2018 (avg.) | 2019F (avg.) | 2020F (avg.) | End-2018 | End-2019 | End-2020 |
| Euro area | 1.9 | 1.2 | 1.1 | 1.2 | <2.0 | 1.8 | 1.3 | 1.3 | 0.00 | 0.00 | 0.00 |
| Germany | 1.4 | 0.5 | 1.0 | 1.3 | | 1.9 | 1.4 | 1.3 | | | |
| France | 1.7 | 1.3 | 1.2 | 1.5 | | 2.1 | 1.2 | 1.3 | | | |
| Italy | 0.9 | 0.2 | 0.6 | 0.7 | | 1.2 | 0.8 | 1.0 | | | |
| Spain | 2.4 | 2.0 | 1.7 | 1.7 | | 1.7 | 1.0 | 1.2 | | | |
| United Kingdom | 1.4 | 1.2 | 1.2 | 1.5 | 2.0 | 2.3 | 1.8 | 1.9 | 0.75 | 0.75 | 0.75 |
| Russia | 2.3 | 1.0 | 1.5 | 1.0-1.5 | 4.0 | 2.9 | 4.0 | 3.7 | 7.75 | 6.0 | 5.0 |
| Turkey | 2.8 | 0.2 | 3.0 | 3.9 | 5.0 | 16.3 | 15.7 | 12.6 | | | |
| United States[1] | 2.9 | 2.2 | 1.5 | <2.0 | 2.0 | 2.0 | 1.8 | 1.9 | 2.25-2.50 | 1.50-1.75 | 1.00-1.25 |
| China | 6.6 | 6.1 | 5.8 | 5.0 | 3.0 | 1.9 | 2.3 | 2.4 | | | |
| Japan | 0.8 | 0.9 | 0.5 | <1.0 | 2.0 | 1.0 | 1.0 | 1.3 | | | |
| World | 3.6 | 3.0 | ~3.0 | | - | - | - | - | | | |

| Region | Unemployment rate | | | General government balance (% of GDP) | | | Public debt level (% of GDP) | | Current account (% of GDP) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019E | 2020F | 2018 | 2019E | 2020F | 2018 | 2024F | 2018 | 2019E | 2020F |
| Euro area | 8.2 | 7.7 | 7.5 | -0.5 | -0.9 | -0.9 | 85.4 | 76.1 | 2.9 | 2.8 | 2.7 |
| Germany | 3.4 | 3.2 | 3.3 | 1.9 | 1.1 | 1.0 | 61.7 | 45.6 | 7.3 | 7.0 | 6.6 |
| France | 9.1 | 8.6 | 8.4 | -2.5 | -3.3 | -2.5 | 98.4 | 97.8 | -0.6 | -0.5 | -0.4 |
| Italy | 10.6 | 9.9 | 9.6 | -2.2 | -2.2 | -2.2 | 134.8 | ~138[2] | 2.5 | 2.9 | 2.9 |
| Spain | 15.3 | 13.9 | 13.2 | -2.5 | -2.2 | -2.0 | 97.1 | ~95 | 0.9 | 0.9 | 1.0 |
| United Kingdom[4] | 4.1 | 3.8 | 3.8 | -1.9 | -2.4 | ≤-2.5 | 86.8 | ~85 | -4.3 | -5.0 | |
| Russia | 4.8 | 4.8 | 4.7 | 2.9 | 1.3 | 1.0 | 14.6 | 16.9 | 6.8 | 5.7 | 5.1 |
| Turkey | 11.0 | 13.8 | 13.7 | -3.1 | -4.6 | -4.7 | 30.2 | 35.2 | -3.5 | 0.4 | -1.0 |
| United States | 3.9 | 3.7 | 3.5 | -5.7 | -5.6 | -5.5 | 104.3 | 115.8 | -2.4 | -2.5 | -2.6 |
| China[3] | 3.8 | 3.8 | 3.8 | -4.8 | -6.0 | -6.0 | 50.6 | 76.6 | 0.4 | 1.2 | 1.0 |
| Japan | 2.4 | 2.4 | 2.4 | -3.2 | -3.0 | -2.2 | 237.1 | 237.6 | 3.5 | 3.3 | 3.3 |
| World | - | - | - | - | - | - | - | - | - | - | - |

Source: Scope Ratings GmbH, IMF, European Commission and Federal Reserve forecasts, Haver.

[1] Inflation for the United States is the YoY change in Core PCE prices; headline inflation shown for all other countries/regions.

[2] By 2021

[3] China's general budget figures exclude fiscal stabilisation fund transfers.

[4] UK budget figures refer to public sector net borrowing for a specific fiscal year (e.g. 2019F = forecast for 2019-20 fiscal year)

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