Q3 2020 Sovereign Update

Covid-19 pandemic's economic impact: gradual and uneven global recovery with significant risks still on the horizon

Public Finance, Scope Ratings GmbH, 8 July 2020

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Executive Summary

Scope revises down significantly its 2020 global growth forecast to **about -4.5%**, which would represent the sharpest global contraction of the post-war era. This is expected to be followed by recovery of **5.8**% growth in 2021. Under a stressed economic scenario, global growth in 2020 sees -7.3%, with sluggish recovery next year of 3.7%. Results across baseline and stressed scenarios are summarised in the below **Figure 1**.

Baseline scenario assumptions:

A renewed increase in virus in H2 2020 in advanced economies is assumed to be "manageable" in most such nations. Renewed virus transmission impedes ongoing economic recovery, but recovery continues in most cases, even if at a more gradualised pace or with moderate interruption to growth outcomes later in the year. Only a selective second round of economic restrictions are undertaken, although with more intensive restrictions seen in specific country cases such as in the United States or the United Kingdom, and most nations do not return to full lockdown. This scenario is similar to a "check mark- or wing-shaped" global recovery with a decelerating recovery slope after the speedy pick-up in activity of recent months.

Stressed scenario assumptions:

Second round of coronavirus cases and activity in Europe and the United States forces countries to reimpose highly disruptive full or partial lockdowns by Q3 or Q4 2020, with a double-dip economic contraction extending into prolonged economic weaknesses over 2021. This scenario could reflect the postponed *mass* availability of vaccine(s) and/or effective therapeutics with coronavirus remaining a prime restriction to "normal economic conditions" through 2021. This is akin to a W-shaped recovery outcome with, on top, severely weakened economic conditions in 2021.

Full macro-economic forecasts are presented in Annex I.

Impact of economic scenarios on sovereign risk:

Implications of this crisis for sovereign risk link significantly to monetary and fiscal policy responses being activated – which raise debt ratios longer term, could incentivise moral hazard and weaken government balance sheets. Higher unemployment, non-performing loan (NPL) ratios and private sector default instances weaken private and banking sector resiliencies – especially under the stressed scenario. Central bank actions continue, however, to transfer a significant share of new public debt accrued to monetary authorities – momentarily at least easing the scale of sovereign liquidity or solvency risk from the standpoint of private sector creditors. Weakened reserve coverage ratios and FX instability are additional risks to emerging market issuers.

Scope's scheduled sovereign review dates for the remainder of 2020 are included in Annex IV.

Figure 1: Scope's baseline and stressed scenarios, as of 8 July 2020

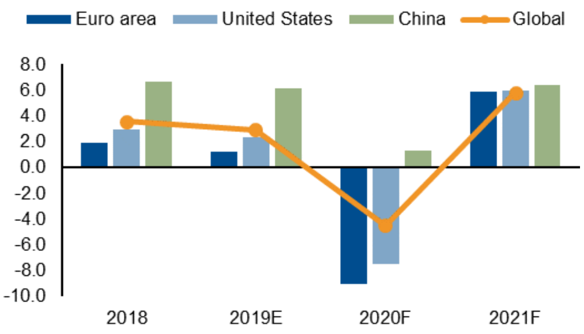
Country/region	Real GDP growth							
		Baseline scenario				Stressed scenario		
	2019E	2020F (July)	Diff. from Apr.	2021F (July)	Diff. from Apr.	2020F (July)	2021F (July)	Medium-run potential
Euro area	1.2	(9.1)	↓ 2.6	5.9	↑ 1.4	(12.7)	2.7	1.3
Germany	0.6	(5.5)	↓ 0.3	3.2	↓ 0.1	(8.8)	0.9	1.2
France	1.5	(11.0)	↓ 4.7	7.2	↑ 3.1	(14.8)	5.7	1.2
Italy	0.3	(10.0)	↓ 2.5	7.5	↑ 3.0	(12.8)	1.6	0.7
Spain	2.0	(12.5)	↓ 4.5	7.0	↑ 2.5	(17.0)	2.5	1.7
United Kingdom	1.5	(10.4)	↓ 7.1	8.8	↑ 7.0	(12.4)	3.7	1.5
Russia	1.3	(6.8)	↓ 3.5	4.0	↑ 1.7	(10.1)	3.2	1.5
Turkey	0.9	(4.2)	↓ 3.2	5.8	↑ 2.8	(6.7)	3.3	3.9
United States	2.3	(7.5)	↓ 4.0	6.0	↑ 3.9	(12.0)	2.5	<2.0
China	6.1	1.3	↓ 2.7	6.4	↑ 0.4	0.3	5.7	5.0
Japan	0.7	(6.0)	↓ 2.0	3.0	↑ 1.1	(9.0)	1.0	<1.0
World	2.9	~ (4.5)	↓ 4.0	~ 5.8	↑ 1.8	~ (7.3)	~ 3.7	-

Negative growth rates presented in parentheses. Source: Scope Ratings GmbH forecasts, Haver Analytics.

Global Outlook: July 2020

In this sovereign update, we significantly revise down 2020 global growth to about -4.5% (**Figure 2**), followed by 5.8% in 2021. There has been momentary slowdown in infection rates in Europe and China since Q1 with re-openings significantly under progress, in line with expectation, although case counts in the United States have recently re-risen markedly, with fresh economic restrictions being introduced. After a rapid recovery in activity in many areas of the world in recent months, a gradual, more uneven path of recovery moving ahead is anticipated. Renewed occurrence of Covid-19 in the 2H 2020, as global economies reopen and daily new cases reach global records, and the more durable impacts of this crisis on mobility and spending behaviours are expected to inhibit the speed of economic "normalisation". This is similar to a "check mark- or wing-shaped" recovery, with a decelerating recovery slope after recent months' rapid gains.

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

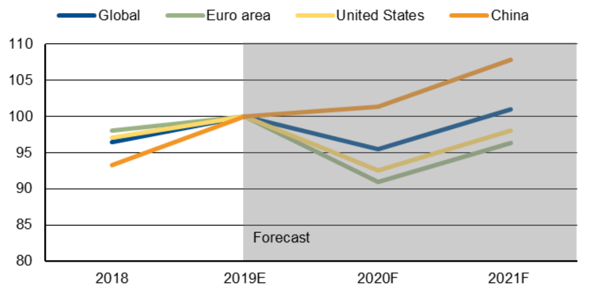


Source: National statistics institutes, Scope Ratings GmbH forecasts

Under the baseline scenario, the euro area economy sees -9.1% in 2020, led by sharp recessions in Spain (-12.5%), France (-11.0%) and Italy (-10.0%), with more moderate growth decline in Germany (-5.5%). Of the four largest euro area member states, recoveries next year are foreseen ranging from 3.2% in Germany to 7.4% with Italy. Outside the EU, the UK, the United States and Japan similarly see significant contractions in activity this year (-10.4%, -7.5% and -6.0% respectively), with subsequent recoveries of 8.8%, 6.0% and 3.0% next year. In emerging markets, China sees its weakest economic growth since 1976 of 1.3% in 2020, while Russia's and Turkey's economies contract 6.8% and 4.2% respectively.

In an alternative stressed case, we assess a scenario under which a second round of Covid-19 cases brings economies back to full or partial lockdown in H2 2020 – with a return to H1 2020 restriction depths on non-essential activities by Q4 2020 under this adverse case. Here, we assume that the postponement of mass availability of vaccine(s) or of effective therapeutics means governments face significant restrictions to "normal economic conditions" even through 2021.

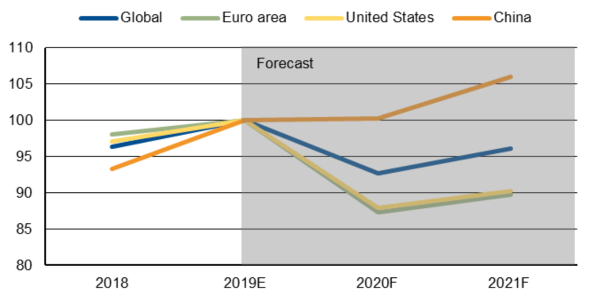
Figure 3. Real GDP level, 2019=100, baseline case



Source: IMF, Scope Ratings GmbH forecasts

The stressed scenario (**Figure 4**) sees global growth contract in 2020 an historic 7.3%, with the euro area witnessing a growth drop of 12.7% (and the US receding 12%). China observes roughly zero 2020 growth. Under the stressed scenario, 2021 recovery is more moderate despite heavier 2020 GDP drops. The world economy grows an unimpressive 3.7% in 2021, with the euro area and United States economies recovering 2.7% and 2.5%; China grows 5.7%.

Figure 4. Real GDP level, 2019=100, stress case



Source: National statistics institutes, Scope Ratings GmbH forecasts

There is both upside and downside risk to Scope's economic baseline. A more robust than anticipated continuation of release of pent-up demand supported by extraordinary fiscal and monetary stimulus (Annex II lists policy support to date) – including extensions of existing VAT deferral, income support or furlough programmes – and/or a better than anticipated Q2 2020 GDP could present upside risks to growth. Conversely, downside growth risks include those outlined under the stressed case or, alternatively, any reversal in inflated global asset markets, crystallisation of corporate debt risks or intensification of trade tensions.

Implications of this crisis for sovereign risk link significantly to monetary and fiscal policy responses being activated – which raise debt ratios longer term. Higher unemployment, and/or more elevated NPL ratios and private sector default incidences weaken private and banking sector resiliencies. Central bank actions continue, however, to momentarily ease the scale of sovereign liquidity or solvency risks from the standpoint of private sector lenders to governments.

Regional Views

Core Europe

The outlook for **Germany** (AAA/Stable) reflects the short duration of its lockdown period and large fiscal support to mitigate the economic shock. For 2020, we expect a real GDP contraction of around 5.5%, assuming that a second fiscal support package of 4% of GDP is put in place. The cut in the VAT rate, together with various measures to support business – independent of firm size and sector – abet recovery of some of the output losses of April and May. The outlook for 2021 reflects an expectation of continuous – though gradual – recovery, depending on the size of the global upswing and the ability of domestic industry to organise structural change, especially in the automotive sector.

In **France** (AA/Stable), the downward revision of 2020 growth expectations to -11% reflects an extended lockdown and more modest direct fiscal support of 4.4% of GDP. A second stimulus package could lead to upside revisions of growth later in 2020 but would adversely impact an already high public debt ratio, currently expected to reach 124% of GDP by year-end. The decision to form a new government could help support the speed of economic recovery in 2021 with policy priorities including reforms of the healthcare system, pension reform, the greening of the economy, and decentralisation.

The **Netherlands** (AAA/Stable) faces a contraction of around 6-7% this year with moderate direct stimulus (of 3.7% of GDP) and weak liquidity and guarantee support (3.4% of GDP). In **Belgium** (AA/Negative), direct fiscal support is among the lowest in the EU at 1.4% of GDP, while liquidity support measures of 21% of GDP ease against the growth drop (-8.2% expected in 2020).

Italy, Spain and Portugal

Scope revised its Outlook on **Italy**'s BBB+ credit ratings to Negative on 15 May. Public- and private-sector balance sheets have weakened owing to 2020's unprecedented economic shock. The fiscal deficit is expected to climb well above 10% of GDP with public debt to increase to around 160% of GDP. But this crisis has also demonstrated a core rationale underpinning Scope's investment-grade rating on Italy compared to more pessimistic opinions in markets: Italy's systemic importance in the euro area and extraordinary support available from European institutions under severe scenarios. Here, the deterioration in Italian sovereign risk is *slowed* by ongoing European support.

Spain's A-/Stable rating is subject to downside risk as the coronavirus shock exacerbates the country's structural fiscal and labour market imbalances. We expect a deep recession in 2020 (of about -12.5%), a significant rise in the debt-to-GDP ratio (to around 120% of GDP), and, given widespread use of temporary contracts and about 40% of employed working in sectors strongly hit by the crisis (incl. tourism, recreation), also a steep increase in the unemployment rate to at least 20%.

For **Portugal** (BBB+/Stable), the shock will reverse the gradual unwinding of economic and fiscal imbalances observed since 2014 and raise the debt-to-GDP ratio to around 140% this year.

Greece and Cyprus

Greece (BB/Positive) is especially exposed to this year's shock via the economy's high dependence on the hard-hit tourism sector and high share of self-employed. Greek banks' weak core profitability and the still high burden of NPLs limit abilities to support the general economy. In addition to policy actions by European institutions, especially those of the ECB, the precautionary measures already taken by the Greek government to contain the public health crisis and the fiscal measures activated to support the economy are expected to ease the 2020 drop-off in growth. Real GDP is projected to, nonetheless, decline by 7.8% this year.

Cyprus (BBB-/Stable) faces a difficult external environment, with 2020 reversing years of solid economic growth and fiscal performance given an open economy concentrated in a few sectors dependent upon either external demand or foreign financing.

UK and Ireland

UK: Scope expects a severe 10.4% economic contraction in the UK in 2020, with the budget deficit to increase to well above 10% of GDP and public debt to rise above 100% of GDP (from 85% in 2019). Potential no-deal Brexit contingency planning late in 2020 is expected to add additional budgetary costs. Economic uncertainties linked to Brexit will damage investment and impede recovery in 2020 as well as growth in future years, although Scope does not expect a no-deal Brexit on 1 January 2021. However, the UK maintains significant credit strengths. UK yields are near historic lows: at or under 0% on the short to medium end and only 0.2% to borrow for 10 years. Similarly, UK interest payments are at their lowest since World War II. The next scheduled review date of the UK rating is 24 July.

In **Ireland** (A+/Positive), growth, deficit and debt fundamentals have worsened significantly; however, Ireland's credit ratings remain anchored by a mature, diversified and high-growing economy.

Central & Eastern Europe (CEE)

CEE exposures to Western Europe constitute a downside risk to regional growth this year. Among the 11 EU CEE economies, we still project the lowest output decline in **Poland** (A+/Stable), although nonetheless a significant 4.2% 2020 drop under the baseline. By contrast, **Hungary** (BBB+/Stable), the **Czech Republic** (AA/Stable) and **Slovakia** (A+/Negative) are the most exposed to global value chains, reflecting higher dependence on automotive industries. We project growth of -6%, -7.5% and -8.1% in 2020 for the three nations. Next, **Slovenia** (A/Stable)'s real GDP is forecast to shrink by 7.6%. We project **Romania** (BBB-/Negative)'s output in 2020 to decline 6.3%.

Croatia (BBB-/Stable) will be heavily hit with an anticipated GDP contraction of nearly 9% this year. We expect **Bulgaria** (BBB+/Stable)'s GDP to contract by 7%. Bulgaria and Croatia are in the last stages prior to entries to the Exchange Rate Mechanism II – which Scope considers credit positive. Lastly, we expect the three **Baltic economies** to shrink by 7.5-8%.

As economic uncertainty remains high, we expect non-euro CEE currencies to remain volatile, although improvements in global sentiment could bring additional strengthening. Central bank FX reserves, at above an IMF adequacy threshold of 100% coverage of short-term external debt in most cases (although Romania's level is lower at around 80%), should be enough in most cases to address exchange rate pressures. For CEE euro area member states, the ECB asset purchase programmes underpin very low borrowing rates.

Turkey, Russia and Georgia

Turkey (BB-/Negative), as the lowest rated issuer in Scope's rated sovereign universe, sees significant risk from the crisis and implications for emerging market issuers. We expect a GDP contraction of 4.2% in 2020 under a baseline (and 6.7% in the stressed scenario), with a rebound of 5.8% next year (and 3.3% under the stressed scenario). The budget balance is foreseen worsening to around -10% of GDP in 2020, with general government debt rising to at least 40% of GDP (from 33% in 2019). Turkey's external sector vulnerabilities, including significant FX debt and high external debt, increases its sensitivity to any extended period of global economic weakness and/or "risk-off" market conditions.

Russia (BBB/Stable)'s economic recovery will be challenged by OPEC+ arranged cuts in petroleum production, lower-for-longer oil prices, as well as weak household consumption. We have thus revised growth in 2020 down to -6.8%. However, sizeable fiscal and FX reserves enable a more extensive policy response to support recovery. Following the recent 2020 constitutional amendments, we expect broad policy continuity with regards to prudent fiscal, monetary and currency policies. More profound structural reform to raise the economy's weak medium-term growth potential (estimated at 1.5%), however, is unlikely to arrive soon – a constraint on Russia's sovereign rating.

We project **Georgia** (BB/Negative)'s real GDP to contract 5% in 2020 after growth of 5% in 2019.

United States

The Covid-19 shock is exposing and exacerbating US social, fiscal, economic and institutional weaknesses while highlighting the benefit the US government nonetheless draws from issuing the world's reserve currency. These contrasting credit relevant forces remain balanced at a below consensus AA rating level, but the longer the healthcare, labour market and social crises persist, the greater the materiality and irreversibility of their medium-run impact on the US' credit outlook will be. Despite the forceful interventions of the Federal Reserve and Congress, we expect a deep recession of around -7.5% in 2020 and unemployment to average at least 10% this year. The historic fiscal stimulus of around 15% of GDP comes against an already high fiscal deficit pre-crisis, raising the outstanding budget deficit to around 20% of GDP this year and resulting in a public debt ratio of near 140% of GDP. While we expect an economic recovery in 2021, risks are skewed to the downside given uncertainties regarding the depth and length of the Covid-19 shock, which come on top of pre-existing vulnerabilities of the US economy, including a highly leveraged corporate sector, a shifting trade policy, particularly vis-à-vis China, and a polarised Congress in the run-up to presidential elections of 3 November.

China and Japan

On 28 February 2020, Scope affirmed **China**'s A+ ratings but maintained the Outlook at Negative. Scope has differed from US rating agencies in Scope's assignment well in advance of the crisis of a Negative Outlook on China (since 2018). Although the economy is now rebounding, the impact from the pandemic will reduce China's growth to 1.3% in 2020, with an increase in the general government deficit to 11% of GDP. Public debt is foreseen continuing to rise sharply to 68% of GDP by end-2020, from 54% in 2019. The effects of the sharp economic downturn alongside associated monetary and fiscal expansionary policies will further structurally aggravate pre-existing balance sheet vulnerabilities reflected in the Negative Outlook and bring higher levels of public and private sector debt, stressing financial stability longer term. Scope's next scheduled review of China's ratings is by 14 August.

Japan's A+/Negative rating reflects downside rating risks the government faces as the coronavirus shock exacerbates already weak growth and fiscal metrics, which will again force authorities to postpone fiscal consolidation targets for several years, resulting in an increase in debt-to-GDP to around 260% in 2024.

Nordics and Switzerland

Denmark, **Norway**, **Sweden** (all rated AAA/Stable) and **Finland** (AA+/Stable) are expected to see more moderate GDP contractions in 2020 of 5% for Finland, 4% in the case of Denmark, 3.75% for Norway and 3.25% in Sweden. Public debt is expected to increase, to about 70% of GDP (from 59%) in the case of Finland, and to more moderate levels in other Nordics. Increases in deficits and debt have not led as yet to significant deterioration in creditworthiness, thanks to very strong public finances pre-crisis.

Switzerland (AAA/Stable) is expected to see a growth contraction of around 7% in 2020 driven, in part, by significant downturns in its main trading partners. Overall, risks to its sovereign rating are modest.

Additional research

Global

2020 External Vulnerability and Resilience rankings for 63 countries: Covid-19 Crisis update, 21 Apr

Scope's framework for potential sovereign rating actions during the Covid-19 crisis, 9 Apr

Western Europe

Spain: balancing countercyclical fiscal policy during C-19 and debt sustainability risks after, 7 Jul

France: Cabinet reshuffle signals shift to more political integration at critical juncture, 6 Jul

Large, targeted and temporary: Germany's stimulus programme to help stabilise the economy, 5 Jun

Italy's debt sustainability challenge is increasing, though ECB support mitigates liquidity risk, 3 Jun

The EU's EUR 750bn recovery fund proposal aims to balance loans, grants and own resources, 29 May

From loans and guarantees to grants: Europe's forceful, evolving Covid-19 policy response, 20 May

Euro Area Gross Financing Needs in 2020: rise mitigated by favourable composition, 13 May

Italy: debt sustainability hinges on ECB policy as Covid-19 crisis results in rise in debt and funding needs, 8 May

Spain's credit vulnerabilities to Covid-19: growth, labour market and public finances, 22 Apr

ECB & Eurogroup: sovereign liquidity risks reduced but real political test still to come, 17 Apr

France's emergency fiscal support protects economy at cost of sharply wider budget deficits, 17 Apr

Other Europe

Nordic economies: Covid-19 impairs 2020 growth but public debt levels manageable, 25 Jun

UK faces historic dual coronavirus, Brexit challenges; counterbalancing credit strengths remain, 12 Jun

Central and eastern Europe

Croatia: Covid-19 to compound ERM II entry and government's long-term economic reform challenges, 29 May

Central and Eastern Europe: monetary policy is easing Covid-19 capital markets disruption – five charts, 18 May

Five charts to explain Turkey's major external sector vulnerabilities in 2020, 5 May

Q2 2020 Central and Eastern Europe (CEE) Sovereign Update, 27 Apr

Turkey: Covid-19 crisis, significant external vulnerabilities present major challenges in 2020, 23 Apr

Oil price war and Covid-19: three factors supporting Russia's resilience amid the crisis, 8 Apr

Rest of World

US dollar's global dominance remains intact; EUR and RMB still far behind but for how long?, 10 Jun

United States: public health, labour market and social crises darken the fiscal outlook, 5 Jun

Japan: extensive fiscal stimulus further postpones fiscal consolidation, 28 Apr

Covid-19 exacerbates United States' vulnerabilities, 7 Apr

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

Country/region	Real GDP growth (%)						Policy rates[1] (%)		
	2019E	2020F (Baseline)	2020F (Stressed)	2021F (Baseline)	2021F (Stressed)	Medium-run potential	End-2019	End-2020	End-2021
Euro area[2]	1.2	(9.1)	(12.7)	5.9	2.7	1.3	(0.5)	(0.5)	(0.5)
Germany	0.6	(5.5)	(8.8)	3.2	0.9	1.2			
France	1.5	(11.0)	(14.8)	7.2	5.7	1.2			
Italy	0.3	(10.0)	(12.8)	7.5	1.6	0.7			
Spain	2.0	(12.5)	(17.0)	7.0	2.5	1.7			
Netherlands	1.7	(6.8)	(9.4)	4.6	1.6	1.4			
Belgium	1.4	(8.2)	(10.7)	4.6	3.0	1.3			
Austria	1.6	(6.5)	(10.0)	3.5	1.5	1.6			
United Kingdom	1.5	(10.4)	(12.4)	8.8	3.7	1.5	0.75	0.10	0.00
Poland	4.2	(4.2)	(5.8)	4.5	5.4	2.5			
Russia	1.3	(6.8)	(10.1)	4.0	3.2	1.5			
Turkey	0.9	(4.2)	(6.7)	5.8	3.3	3.9			
United States	2.3	(7.5)	(12.0)	6.0	2.5	<2.0	1.50-1.75	0-0.25	0-0.25
China	6.1	1.3	0.3	6.4	5.7	5.0			
Japan[3]	0.7	(6.0)	(9.0)	3.0	1.0	<1.0	(0.1)	(0.1)	(0.1)
World	2.9	~ (4.5)	~ (7.3)	~ 5.8	~ 3.7	-	-	-	-

Country/region	Unemployment rate (%)[1]			General government balance[1] (% of GDP)			Public debt level[1] (% of GDP)		
	2019E (AVG)	2020F (AVG)	2021F (AVG)	2019E	2020F	2021F	2019E	2020F	2024F
Euro area	7.6	9.7	10.1	(0.6)	(11.3)	(3.9)	84	102	100
Germany	3.2	4.5	5.0	1.4	(11.8)	(2.0)	60	73	72
France	8.5	10.0	11.0	(3.0)	(12.5)	(4.0)	98	124	121
Italy	9.9	9.5	10.3	(1.6)	(11.9)	(6.1)	135	160	156
Spain	14.1	20.0	19.0	(2.8)	(12.0)	(6.0)	96	120	118
Netherlands	3.4	5.0	5.5	1.7	(6.0)	(2.0)	49	59	62
Belgium	5.4	7.0	7.5	(1.9)	(8.0)	(4.0)	99	117	119
Austria	4.5	5.5	5.0	0.7	(9.0)	(4.0)	70	83	76
United Kingdom	3.8	6.3	5.9	(2.1)	(16.0)	(5.2)	85	112	118
Poland	5.4	8.5	6.5	(0.7)	(8.4)	(5.2)	46	56	57
Russia	4.6	5.0	4.8	1.9	(6.0)	(3.3)	14	25	29
Turkey	13.7	15.3	13.9	(5.3)	(9.7)	(7.4)	33	40	60
United States	3.7	10.0	8.0	(5.8)	(20.0)	(12.5)	109	136	145
China[4]	5.2	5.9	5.4	(6.4)	(11.1)	(7.3)	54	68	89
Japan	2.4	4.0	3.0	(2.8)	(10.0)	(5.0)	237	262	260
World	-	-	-	-	-	-	-	-	-

Negative values shown in parentheses

Source: Scope Ratings forecasts, Haver Analytics.

[1]Projections under Scope's baseline economic scenario

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

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

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

Annex II: Fiscal and monetary response

Fiscal stimulus announcements in response to the Covid-19 pandemic

Euro area					
Country	Fiscal stimulus, EUR	Fiscal stimulus, % of GDP	Public guarantees, EUR	Public guarantees, % of GDP	Key measures
Germany	EUR 286bn	8.0	EUR 757bn	24.0	Social spending and company emergency aid in a coordinated effort to prevent deeper economic disruption. Rescue fund to provide virus-hit companies with loans and guarantees as well as buy stakes in stricken businesses. Temporary VAT reduction and income support for families.
France	EUR 110bn	4.7	EUR 3150bn	13.0	Reduced social security contributions, unemployment benefits, solidarity fund for self-employed
Italy	EUR 80bn	4,6	EUR 400bn	25	Funds for the health system, liquidity to small- and medium-sized enterprises (SMEs), increase in social safety nets, tax deadline extension, social security contributions relief, childcare subsidies
Spain	EUR 46bn	3.7	EUR 164bn	13.2	Delay in mortgage payments, easing social security contributions, increase in safety nets and unemployment benefits, EUR 16bn fund for autonomous communities
Netherlands	EUR 26.8bn	3.6	EUR 30.6bn	4.0	Liquidity to SMEs and self-employed, support for heavily impacted industries, childcare subsidies
Belgium	EUR 10.2bn	2.2	EUR 51.9bn	11.0	Healthcare spending, social benefits for unemployed and self-employed, support to hard-hit sectors and vulnerable groups, liquidity support through easing taxes and social security contributions
Austria	EUR 31bn	7.8	EUR 9bn	2.3	Tax relief, support to furloughed employees, support to SMEs and self-employed
Ireland	EUR 11.3bn	3.4	EUR 2bn	0.6	Illness benefit payments, wage subsidies, unemployment benefits, support to businesses, health expenditure, Pandemic Stabilisation and Recovery Fund, credit guarantee scheme
Finland		~ 3.0	EUR 1.68bn	0.7	Healthcare spending, lower pension contributions, grants to SMEs and self-employed, social and unemployment assistance
Portugal	EUR 3bn	1.5	EUR 13bn	6.8	Flexible payment schedules for tax payments, reduction of social security contributions, credit line to affected businesses
Greece	EUR 6.8bn	3.5	EUR 4bn	2.1	Loan payment relief, support to SMEs, self-employed and health sector workers
Other European countries					
Country	Fiscal stimulus, local currency	Fiscal stimulus, % of GDP	Public guarantees, local currency	Public guarantees, % of GDP	Key measures
UK	GBP 160bn	8.0	GBP 330bn	14.9	NHS spending, tax breaks and cash grants to companies in hard-hit sectors, liquidity for SMEs, wage compensation, sick pay refund
Switzerland	CHF 31bn	4.4	CHF 42bn	6.1	Wage subsidies to SMEs, support for self-employed and laid-off workers
Poland	PLN 104bn	4.6	PLN 174.5bn	7.8	Salary integration, delayed social security contributions, help for the self-employed, infrastructure investment, healthcare spending
Sweden	SEK 544bn to SEK 832bn	10.8 to 16.6*	SEK 230bn	4.6	Wage subsidies for short-term leave, sick leave, loans to SMEs, rent subsidies to vulnerable sectors

Norway	NOK 160bn	5.5**	NOK 100bn	2.8	VAT cuts, tax and social contributions deferral, support for the self-employed, support for the aviation sector, household income protection scheme, measures for business
Denmark	DKK 131.4bn	5.7*	DKK 94.7bn	4.1	Government grants to cover companies' fixed costs, salary integration for employees and self-employed, support for SMEs and hard-hit businesses, spending on healthcare needs, temporary liquidity measures
Other Countries					
Country	**Fiscal stimulus, local currency**	**Fiscal stimulus, % of GDP**	**Public guarantees, local currency**	**Public guarantees, % of GDP**	**Key measures**
US	USD 2trn	9.0	USD 860bn	4.0	Direct payments to individuals and families, unemployment insurance benefits, funds for hospitals and state and local governments, loans and guarantees to small businesses and distressed companies
China	RMB 4.2trn	4.1			Epidemic control and medical equipment, unemployment benefits, social insurance relief, VAT waivers, electricity bill discounts, infrastructure spending projects
Japan	JPY 33.9trn	4.9	JPY 84.1bn	12.1	Cash handouts to individuals and affected businesses, tax and social security contributions deferrals, liquidity support to businesses
Russia	RUB 5trn	4.5	RUB 700bn	0.6	Tax breaks (tourism, airlines), preferential loans, tax breaks for SMEs
Turkey	TRY 75bn	1.5	Up to TRY 255bn	5.5	Suspension of social security contributions, support for low-income pensioners, payments to households in need, VAT deductions, three-month ban on layoffs, state payments of workers' salaries, debt relief for local gov'ts

* of 2019 GDP; **of 2019 mainland GDP

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

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

Central bank	Monetary response
Federal Reserve	• **Interest rate cuts**: -150bps (in two steps) to now 0-0.25% target range • **Asset purchases**: initially at least USD 700bn in Treasuries and agency mortgage-backed securities purchases over coming months, then converted to unlimited purchases • **Support for credit markets:** liquidity injections and facilities to support the flow of credit • **International coordination:** extended use and conditions of swap lines with major central banks • **Banking rule easing**: encourage banks to utilise liquidity and capital buffers they have to extend credit
ECB	• **Asset purchases**: additional EUR 120bn of QE + EUR 1,350bn Pandemic Emergency Purchase Programme (PEPP), including flexibility on time, jurisdiction and instrument of purchases, and extension to Greek sovereign bonds and commercial paper • **Support for credit markets**: additional long-term refinancing operations (LTROs), more favourable conditions on targeted long-term refinancing operations (TLTROs), relaxation of collateral standards, non-targeted Pandemic Emergency Longer-Term Refinancing Operations (PELTRO) • **International coordination:** extended use of euro swap and repo lines • **Banking rule easing**: capital and liquidity rules softened to prevent credit crunch, reductions in counter-cyclical capital buffer rates by national central banks
Bank of Japan	• **Asset purchases**: enhance ETF and REIT annual purchase targets up to JPY 12trn and JPY 180bn respectively, lifting annual JBG purchase benchmark of JPY 80trn, quadrupling the corporate bond and commercial paper holdings to JPY 20trn • **Support for credit markets**: loans at 0% interest rate for corporate financing (Special Funds-Supplying Operations); including easing collateral requirements • **Banking rule easing**: decrease by 25bps for loan rate on USD liquidity swaps, relaxation of regulatory capital and liquidity buffers
Bank of England	• **Interest rate cuts**: -65bps (in two steps) to 0.1% • **Asset purchases**: expand holdings of government and sterling non-financial investment-grade corporate bonds by GBP 300bn

	• **Support for credit markets**: new Term Funding Scheme targeted at SMEs (TFSME), Covid Corporate Financing Facility, launched together with Her Majesty's Treasury, Contingent Term Repo Facility • **Banking rule easing**: 200bp cut in the counter-cyclical capital buffer rate to 0% and relaxation of regulatory capital requirements
People's Bank of China	• **Interest rate cuts**: 30bp reduction (in two steps) to 2.2% on the 7-day reverse repo rate • **Support for credit markets**: injections and targeted support to provinces most hard hit**,** cut reserve requirement rate, RMB 1.8trn in funding for banks to lend to SMEs and firms in agriculture, liquidity injections of RMB 5.7trn into the banking system via open market operations, policy banks to offer RMB 350bn in special loans to small firms, new instruments to support lending to medium-sized enterprises

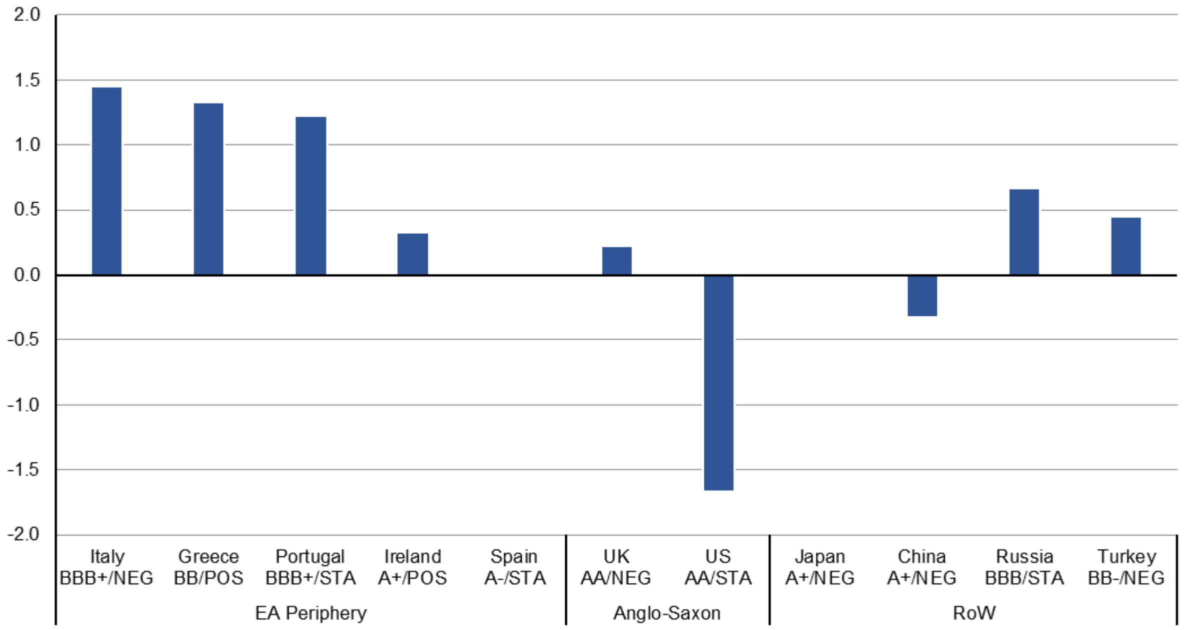
Source: Central banks' announcements, IMF, OECD, Scope Ratings GmbH

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

Scope's global long-term sovereign issuer ratings, as of 8 July 2020

Europe						**Other Countries**	
EU				**EFTA**			
Euro area		Non-euro area					
Austria	AAA/Stable	Bulgaria	BBB+/Stable	Norway	AAA/Stable	China	A+/Neg
Belgium	AA/Negative	Croatia	BBB-/Stable	Switzerland	AAA/Stable	Georgia	BB/Negative
Cyprus	BBB-/Stable	Czech	AA/Stable			Japan	A+/Negative
Estonia	AA-/Stable	Denmark	AAA/Stable			Russia	BBB/Sta
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+/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-/Stable						

Scope ratings vs US agencies', as of 8 July 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 Jun	Romania	Affirmation	BBB-/Negative

Annex IV: Scope Publication Calendar (Rest of 2020)

Month	Date	Entity
July	10-07-20	Republic of Turkey
	10-07-20	Russian Federation
	10-07-20	Land of Baden-Wurttemberg
	17-07-20	Hellenic Republic
	17-07-20	Republic of Bulgaria
	24-07-20	Federal Republic of Germany
	24-07-20	Free State of Bavaria
	24-07-20	Kingdom of Belgium
	24-07-20	Republic of Malta
	24-07-20	United Kingdom
	31-07-20	Portuguese Republic
	31-07-20	The Grand Duchy of Luxembourg
August	07-08-20	Republic of Cyprus
	07-08-20	Republic of Estonia
	14-08-20	Kingdom of the Netherlands
	14-08-20	People's Republic of China
	21-08-20	Kingdom of Spain
	21-08-20	Republic of Latvia
	28-08-20	French Republic
September	04-09-20	Republic of Lithuania
	11-09-20	Republic of Poland
	11-09-20	Italian sub-sovereign
	18-09-20	Republic of Hungary
	25-09-20	Spanish autonomous communities
October	02-10-20	Czech Republic
	02-10-20	Republic of Georgia
	16-10-20	Japan
	16-10-20	Slovak Republic
	16-10-20	European Investment Bank
	16-10-20	Land of Berlin
	23-10-20	Republic of Slovenia
	23-10-20	Swiss Confederation
	30-10-20	European Union
	30-10-20	Italian Republic
	30-10-20	Republic of Austria
November	06-11-20	Republic of Croatia

December	06-11-20	United States of America
	06-11-20	Free State of Bavaria
	06-11-20	Republic of Turkey
	20-11-20	Land of Baden-Wurttemberg
	27-11-20	German Länder
	27-11-20	Romania
	04-12-20	Hellenic Republic
	04-12-20	Ville de Quimper
	11-12-20	Kingdom of Denmark
	11-12-20	Kingdom of Sweden
	11-12-20	Republic of Finland
	11-12-20	Russian Federation
	18-12-20	Ireland
	18-12-20	Kingdom of Norway

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