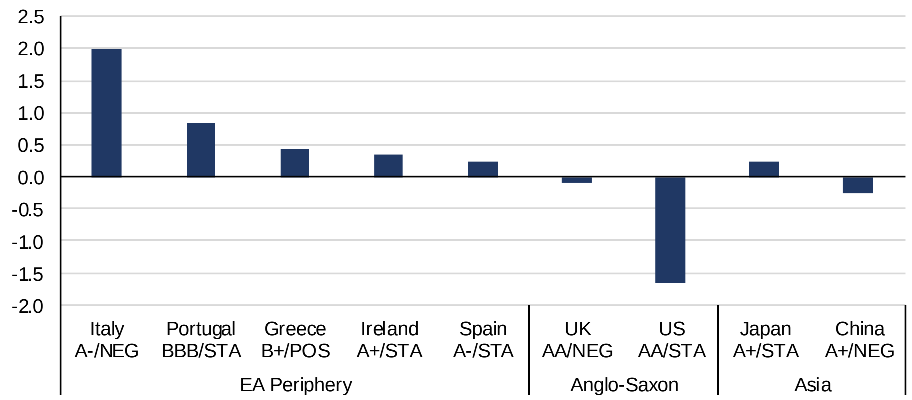
Q4 2018 Sovereign Update: Three Populism Threats, Scope's Views and Rating Actions

Scope maintains its constructive view on the 2018 outlook for the euro area economy, despite signs of moderating growth, as noted in its Q3 update. However, global risks, notably from trade protectionism, are rising. Thus, in this update, Scope highlights three key threats, all rooted in populism, which will dominate the political agenda and concern financial markets in Q4 2018: i) a crucial few months for Brexit negotiations before the UK's scheduled March 2019 exit; ii) a potentially conflictual negotiation between the EU and Italy over its budget; and iii) continued inward-looking policies with uncertain consequences from the United States, in the context of politically polarised congressional elections on 6 November.

Figure 1: Scope's global long-term sovereign ratings, as of 8 October 2018

Europe						Other Countries	
European Union				European Free Trade Association			
Euro area		Non-euro area					
Austria	AAA/Stable	Bulgaria	BBB/Positive	Norway	AAA/Stable	China	A+/Negative
Belgium	AA/Stable	Croatia	BB+/Stable	Switzerland	AAA/Stable	Georgia	BB/Stable
Estonia	A+/Stable	Czech Republic	AA/Stable			Japan	A+/Stable
Finland	AA+/Stable	Denmark	AAA/Stable			Russia	BBB-/Stable
France	AA/Stable	Hungary	BBB/Positive			Turkey	BB-/Negative
Germany	AAA/Stable	Poland	A+/Stable			United States	AA/Stable
Greece	B+/Positive	Romania	BBB/Negative				
Ireland	A+/Stable	Sweden	AAA/Stable				
Italy	A-/Negative	UK	AA/Negative				
Latvia	A-/Stable						
Lithuania	A-/Stable						
Netherlands	AAA/Stable						
Portugal	BBB/Stable						
Slovakia	A+/Stable						
Slovenia	A-/Stable						
Spain	A-/Stable						

Figure 2: Scope ratings vs US agencies', as of 8 October 2018 (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 +/-0.25 adjustment. Credit Watch positive/negative with a +/-0.50 adjustment.

Figure 3: Scope's Q3 2018 sovereign rating actions

Date	Sovereign	Rating Action	Rating & Outlook
20-Jul	Ireland	Affirmed	A+/Stable
	Poland	Affirmed	A+/Stable
26-Jul	Turkey	Under Review	BB+/Downgrade Review
27-Jul	Croatia	Upgrade	BB+/Stable
10-Aug	United Kingdom	Affirmed	AA/Negative
16-Aug	Turkey	Downgrade/Outlook chg	BB-/Negative
21-Aug	Slovenia	Affirmed	A-/Stable
21-Sep	USA	Affirmed	AA/Stable
	China	Outlook change	A+/Negative

Source: Scope Ratings GmbH.

Team leader

Dr Giacomo Barisone
+49 69 6677389 22
g.barisone@scoperatings.com

Analysts

Alvise Lennkh, CFA
+49 69 6677389 85
a.lennkh@scoperatings.com

Dennis Shen
+49 69 6677389 68
d.shen@scoperatings.com

Jakob Suwalski
+49 69 6677389 45
j.suwalski@scoperatings.com

Dr Bernhard Bartels
+49 69 6677389 19
b.bartels@scoperatings.com

Levon Kameryan
+49 69 6677389 21
l.kameryan@scoperatings.com

Pawel Borowski
+49 69 6677389 45
p.borowski@scoperatings.com

Related Research

Public Finance Ratings Calendar

Scope Ratings GmbH

Neue Mainzer Straße 66-68
60311 Frankfurt am Main

Phone +49 69 6677389 0

Headquarters

Lennéstraße 5
10785 Berlin

Phone +49 30 27891 0
Fax +49 30 27891 100

info@scoperatings.com
www.scoperatings.com

Bloomberg: SCOP

Three threats to the global economy as consequences of populism advancing in the EU and US…

- **Brexit negotiations enter the home-stretch as we enter Q4 2018, with the UK and the EU seeking the elusive deal…**

In a report last August, Scope stated its view that the most likely end-state of negotiations is a long-run soft Brexit (Scope's baseline). Next to this, an eventual no-Brexit 'Breversal' is the second most probable scenario, rather than hard Brexit, with the latter defined as the UK (affirmed on August 10 at AA/Negative) exiting the single market and customs union. Building towards this long-run end-state, in the near term, Scope considers either: i) a transitional 'Brexit-in-name-only' with an agreement and entry into a near-identical transition period in which true negotiations on the future relationship would begin or ii) an Article 50 extension (and the UK's status inside the EU) as the most probable outcome by 29 March 2019.

That said, concerns surrounding a hard Brexit are likely to remain material in Q4. This is not least as a self-imposed October 2018 target for an agreement approaches, a date that could easily be missed, with indications now of the deal time horizon shifting into November or December. As the March 2019 exit date nears, protracted economic uncertainty has had a gradual, but undeniable impact in setting back growth in the UK. When Scope assessed the performance of the UK economy against the performance of the UK's closest trading partners, it appears that the exit process may have already cost the UK at least 1.2% in output since the vote. The costs of Brexit would be far greater however in a 'no-deal' scenario with Brexit trade-related risk exposures estimated as being the highest for the UK itself, with 10-17% of GDP potentially affected, though there are also material risks facing the UK's closest trading partners like Ireland and Germany.

UK economy shows increasing Brexit fatigue ahead of looming negotiation deadlines, says Scope, September 13

Scope expects UK to avoid no-deal Brexit, but high economic uncertainty underscores Negative Outlook, August 27

- **Italian anti-establishment government releases 2019 budget and faces a period of pushback in Q4…**

The finalisation of Italy's (A-/Negative) 2019-21 economic and fiscal targets is ongoing, and the 2019 budget is due to be submitted to the European Commission by 15 October. Even though the government held the 2019 fiscal deficit forecast to under the 3% Maastricht level (at 2.4% of GDP), the significant upward revision in deficit objectives, continued non-observance of the debt brake rule, and a breach of Italy's progress towards its medium-term objective of a structural balanced budget have increased risk of a new Excessive Deficit Procedure. Here, the boundaries of flexibility tolerated under the Stability and Growth Pact will be tested. Increased friction between the government and the EU moreover has moreover raised market concerns, with higher interest rates challenging Italy's debt sustainability given its elevated debt stock. This holds systemic risks. Italian 10-year bond yields stand at 3.3%, well above levels from early 2018.

Italy's expansionary budget goals add to growing risks to sovereign rating, October 2

Italy has to balance budgetary ambitions with limited fiscal space, says Scope Ratings, August 30

- **'America First' agenda instigates trade conflicts and global uncertainty, as the US goes to vote in November…**

Led by the US administration, there is an increasing risk that governments focus on a political agenda which prioritises national interests and bilateral agreements over a multilateral approach. Notwithstanding the still-to-be-ratified new trade agreement between the United States, Mexico and Canada (USMCA) – a deal reached with minor concessions in exchange for President Trump's ability to claim victory – it is the growing escalation of a "trade war" between the United States and China that poses severe risks to global growth, financial conditions, expectations and confidence, and could reduce long-run potential output. In addition, the unilateral withdrawals of the US from reciprocal agreements (e.g. JCPOA with Iran, Paris Climate Change Agreement) and international institutions (UN Human Rights Council) are leading to the loss of trust among governments and traditional allies, making for a more unstable international order.

The nationalist, inward-looking 'America First' agenda is likely to gain further importance during the mid-term elections in November. Thus, in Scope's view, it is unlikely that a new spirit of bipartisanship will emerge post-congressional elections to address the country's underlying structural challenges, including a weakening *potential* growth outlook, high and rising public debt also given recent tax cuts and expansionary budgetary legislation, and significant pension- and healthcare-related liabilities. These factors drive Scope's affirmation of the United States' AA rating despite the dollar's reserve currency status.

Why the United States is no longer AAA, October 1

US public finance vulnerabilities: Is the dollar's reserve currency status really enough?, October 1

US fiscal policy raises debt-sustainability concerns as Fed raises rates, September 27

… and Scope's Major Calls and Views on:

- **Euro area economy and the ECB**

In Scope's view, there are still multiple factors supporting a constructive outlook in 2018 despite recent moderating economic signs. However, risks to 2019 and beyond are building. The European Central Bank (ECB)'s announcement to reinvest its sovereign debt holdings for the foreseeable future even though net bond purchases are now scheduled to end in December 2018 highlights the return towards a more conventional monetary policy. Still, in Scope's view, the ECB's monetary policy stance is expected to remain accommodative with the earliest possible point for an ECB rate hike in the fall of 2019.

German pension system overhaul shifts burden to young workers, posing risks to fiscal sustainability, September 25

Ten years on from the collapse of Lehman Brothers: a sovereign perspective, September 17

- **Euro area periphery**

National and European reforms since the euro area crisis have bolstered the EU's resilience and continue to support the outlook in the euro area periphery. While periphery sovereigns ratings remain constrained by high levels of public- and private-sector debt, political uncertainties and fragmentation, large negative international investment positions, and banking system fragilities, Scope upgraded periphery ratings ahead of rating agency competitors, including on Spain (A-/Stable), Ireland (affirmed on July 20 at A+/Stable), Portugal (BBB/Stable) and Greece (B+/Positive).

Greece emerges from its bailouts reformed but debt sustainability remains central challenge, August 21

Scope's sovereign risk assessment: further refinements and how we are different, July 11

- **France**

Scope views positively a series of broad-based structural reforms initiated by France's (AA/Stable) President Macron, and sees higher growth potential over the medium-term, but gross government debt will remain clearly above 90% of GDP.

France's weakening economy yet to reflect the depth of Macron's reforms and budget measures, September 26

- **Turkey and the EM crisis**

On 16 August 2018, Scope downgraded Turkey's credit rating to BB- from BB+ and changed the Outlook to Negative, one day before similar downgrades by S&P and Moody's. Scope's decision reflected: (1) the deterioration in the country's economic policy predictability and credibility, in view of monetary, fiscal and structural economic policies inconsistent with the rebalancing of the economy onto a more sustainable path; (2) accentuated macroeconomic imbalances including a deteriorating inflation outlook; and (3) the impact of balance of payment weaknesses on modest levels of international reserves. The assignment of a Negative Outlook reflected continuing heightened macro-economic, policy and event-related uncertainty and risks, which threaten to further test Turkey's external vulnerabilities.

Scope is monitoring the situation in Turkey closely, as continued stresses emerge in developing countries under conditions of Federal Reserve interest rate increases and tightening global financial conditions.

Five major threats to Turkey's sovereign creditworthiness, August 13

Turkey needs to reinstate credible economic management framework to ensure credit rating, says Scope, July 16

- **Central & Eastern Europe**

The relationship of some CEE countries, including Poland (affirmed on July 20 at A+/Stable) and Hungary (BBB/Positive), with the EU has worsened. Even though Article 7 procedures from the EU have been opened against both Poland and Hungary, Scope does not anticipate EU sanctions owing to this requiring the unanimous vote of the EU-28. However, there are meaningful uncertainties surrounding possible funding cuts in the 2021-27 EU budget to countries including Hungary amid discussions over stricter conditions for access to development funds tied to the rule of law. Scope noted in a Q3 study its differentiation between the credit quality of some CEE sovereigns – like Bulgaria (BBB/Positive) and Hungary versus Romania (BBB/Negative) and Croatia (BB+/Stable, upgraded in July 2018).

Hungary's current economic strength offsets dangers from EU political isolation, September 18

Central and Eastern European sovereign risk: It pays to be discerning, says Scope Ratings, September 4

Poland maintains strong economic growth, though proposed EU funding changes present major challenges, July 25

- **China and Japan**

Scope considers China's debt and economic adjustment to be an important risk in 2018 and beyond, tying to risks to the global economy as China posts slower growth. In September 2018, Scope revised the Outlook on China's A+ rating to Negative from Stable owing to i) significant public-sector deficits and a growing public-sector debt stock; and ii) high levels of total non-financial sector debt alongside pressures for targeted policy easing. Scope's A+/Stable rating on Japan balances the unsustainable public debt level, weak growth and unfavourable demographics with a broad reform agenda.

EU-Japan FTA carries political weight though trade gains are more modest and longer term, July 19

- **Nordics and Switzerland**

While Scope identifies imbalances in the housing market as one of the core challenges for Nordic sovereigns, housing risks are contained by favourable macroeconomic conditions, high standards for lending, and macro-prudential measures.

Switzerland faces steady if slowing growth amidst currency and real estate risks, September 20

Norway's elevated property prices present risks, though buffers limit sovereign implications, July 23

- **ESG & sovereign risk**

Environmental, Social and Governance (ESG) risks play an increasing role in financial markets. Scope's Public Finance team reviewed the distinct nature of ESG factors and sovereign credit risks, their areas of overlap and inter-dependence as well as some of the challenges the financial community faces when integrating both concepts into decision-making processes. Scope views the further exploration of sustainability in sovereign risk as an important ongoing area of research.

Annex I: Macro-economic Outlook

In 2018, Scope expects robust and broad-based economic growth in the euro area, but with risks skewed firmly to the downside when compared with 2017's growth level of 2.4%, especially following the relatively soft first and second quarters. Boosted by tax cuts and fiscal spending, Scope anticipates robust growth in the United States in 2018 (2.9%), but somewhat lower growth in the UK compared with the UK's 1.7% growth in 2017 given Brexit uncertainty and as earlier export sector momentum tapers. Scope envisions similarly a modest slowdown in China, the world's largest contributor to economic growth, from 2017's 6.9% to around 6.5% for the 2018-19 period, as reforms to address financial risks bite and trade conflicts deepen. Scope foresees a sharp slowdown in Turkey owing to the current economic crisis.

Global growth conditions will be supported by robust consumer and business confidence though downside risks are increasing, including from central bank policy normalisation, asset price risks, global trade protectionism and emerging market instabilities. Inflation remained roughly stable in the euro area at 2.1% in September 2018, though core inflation remained tepid at 0.9%. Continued improvements in fiscal balances in the euro area are anticipated and, together with robust growth, debt-to-GDP ratios are expected to gradually fall for most European sovereigns. Lastly, the United States' current account deficit is anticipated to increase compared with 2017 levels (despite trade policies intended to reduce deficits), as the US pursues higher growth, with the euro area's current account surplus benefitting consequently. Turkey's wide trade deficit has shown some signs of correction, while China's current account balance maintains a gradual decline, edging into deficit in the first two quarters of 2018, representing a potential major structural shift in the global economy.

Macro-economic overview (based on IMF and European Commission Forecasts):

Region	Real GDP growth (%)		Inflation (%)		Fiscal balances (% GDP)		Debt level (% of GDP)		Current account (% of GDP)	
	2015-17	2018-19F	2015-17	2018-20F	2015-17	2018-20F	2017	2020F	2015-17	2018-20F
Euro area	2.1	2.1	0.6	1.5	-1.5	-0.5	86.6	79.3	3.4	3.2
Germany	2.0	2.2	0.7	1.8	0.9	1.6	64.1	52.2	8.5	8.2
France	1.4	1.8	0.5	1.6	-3.2	-2.5	97.0	95.1	-0.9	-0.9
Italy	1.1	1.1	0.5	1.3	-2.3	-0.9	131.5	124.9	2.4	2.3
Spain	3.3	2.5	0.4	1.7	-4.3	-2.2	98.4	93.9	1.6	1.6
Netherlands	2.5	2.8	0.5	2.1	-0.4	0.7	56.7	49.0	9.0	9.0
United Kingdom	2.0	1.5	1.1	2.3	-3.2	-1.5	87.0	85.2	-5.0	-3.5
Russia	-0.4	1.6	8.8	3.5	-2.8	0.2	17.4	19.9	3.2	3.9
Turkey	5.4	4.2	8.9	10.3	-2.0	-3.0	28.5	27.9	-4.4	-4.9
United States	2.2	2.8	1.2	2.4	-4.1	-5.6	107.8	111.3	-2.4	-3.3
China	6.8	6.5	1.7	2.6	-3.5	-4.2	47.8	57.6	2.0	1.2
Japan	1.3	1.0	0.4	1.3	-3.9	-2.8	236.4	232.3	3.6	3.8

Source: IMF, ECB, EC, BoE, CNBS, RSSTAT, TRSTAT, FRBSF, BOJ.

Annex II: Scope's 2018 rating actions & 2017-18 publications

Country	Rating	2018 Rating action	Strengths	Weaknesses	Publications
Austria	AAA/Stable	n/a	1) Wealthy & diversified economy 2) Strong external position 3) Sound public finances	1) Banking sector vulnerability 2) High public debt 3) Ageing population	Rating Report
Belgium	AA/Stable	n/a	1) Wealthy & diversified economy 2) Sound external position 3) Reform efforts	1) Slow fiscal consolidation 2) High public debt 3) Labour market rigidities	Rating Report
Estonia	A+/Stable	n/a	1) Robust growth 2) Strong public finances 3) Institutional strengths and EU membership 4) Sound banking system	1) Small size of the economy 2) External vulnerability 3) Eroding competitiveness	A pan-Baltic capital market: Sign of progress towards a European capital markets union Rating Report
Finland	AA+/Stable	Affirmed	1) Wealthy & diversified economy 2) Strong institutions 3) High debt affordability	1) Growth constraints 2) High and rising household debt	Special Comment: Risks abound for overheated Nordic housing market, but no crisis Rating Report
France	AA/Stable	n/a	1) Large & diversified economy + euro area membership 2) Macro-financial stability 3) Favourable debt structure	1) High public debt and deficit 2) Labour market rigidities	Reforming France: Supply-side "Macronomics" strengthen growth potential France: Macron's labour market measures are likely to boost structural reform momentum Rating Report
Germany	AAA/Stable	n/a	1) Large and diversified economy 2) Sound public finances 3) Sound external position	1) Ageing population 2) Banking sector fragilities	Germany's pension system overhaul shifts burden to young workers, raising risks to fiscal sustainability Merkel IV will be her most fragile government with unclear implications for Europe Merkel's government to push ahead, despite weakened authority Rating Report
Greece	B+/Positive	Upgraded from B- to B+ and changed Outlook to Positive from Stable	1) Compliance adjustment programme* 2) Improving budget performance* 3) More favourable policy environment*	1) High public debt 2) Fragile recovery prospects 3) Banking sector risks	Eurogroup & Greece: A dynamic, implicit continuum of sovereign debt seniority Sovereign risks from euro area periphery housing are contained as recoveries take hold Rating Report
Ireland	A+/Stable	Affirmed	1) EU and euro area membership + institutional strengths 2) Public and private deleveraging 3) Robust growth potential	1) Vulnerability to economic reversal 2) High public & private debt 3) External vulnerabilities 4) Financial system risks	Sovereign risks from euro area periphery housing are contained as recoveries take hold Rating Report
Italy	A-/Negative	Affirmed; Changed Outlook to Negative	1) Large & diversified economy + euro area membership 2) Primary surpluses & reforms 3) Resilient debt structure	1) High public debt 2) Growth below potential 3) Banking fragilities 4) Political uncertainties	Italy's expansionary budget goals add to growing risks to sovereign rating Election Risk to Reforms Clouds Italian Sovereign Outlook Rating Report
Latvia	A-/Stable	Affirmed	1) Strong public finances 2) Commitment to structural reforms 3) Sound economic performance 4) Euro area membership	1) External vulnerabilities, including high non-resident debt in banking sector 2) Unfavourable demographics 3) Weak productivity gains	A pan-Baltic capital market: Sign of progress towards a European capital markets union Rating Report
Lithuania	A-/Stable	n/a	1) Continued fiscal consolidation 2) Euro area membership 3) Commitment to structural reforms	1) Unfavourable demographics 2) Low potential growth 3) Vulnerability to external shocks	A pan-Baltic capital market: Sign of progress towards a European capital markets union Rating Report

Netherlands	AAA/Stable	n/a	1) Wealthy & diversified economy 2) Solid external position 3) Sound public finances	1) High private debt 2) Vulnerability to external risks 3) Labour market inefficiencies	Rating Report
Portugal	BBB/Stable	Affirmed	1) Euro area membership 2) Budgetary performance 3) Ongoing structural reforms 4) Favourable debt profile	1) High public & external debt 2) High private sector debt 3) Elevated implicit liabilities 4) Low potential growth	Rating Report
Slovakia	A+/Stable	Affirmed	1) Euro area membership 2) Robust economic performance 3) Moderate levels of government debt	1) External vulnerabilities 2) Adverse demographics 3) Rising household indebtedness	Rating Report
Slovenia	A-/Stable	Affirmed	1) Euro area membership 2) Improved macro & fiscal performance 3) Improved external position	1) High public debt 2) Reform implementation 3) Ageing population	Rating Report
Spain	A-/Stable	Affirmed	1) Euro area membership 2) Large, diversified economy 3) Resilient economic recovery 4) Reduction of economic, fiscal and external imbalances	1) High public and external debt 2) Elevated structural unemployment 3) Low productivity growth 4) Political fragmentation leading to policy inertia	Spain's evolving fiscal framework: implications for the sovereign and its regions Catalan election will not lead to the region's independence – regardless of the result Catalonia to remain in Spain, but tensions escalate Rating Report
EU non-euro area					
Croatia	BB+/Stable	Upgraded from BB to BB+	1) EU membership since 2013 2) Improved budgetary performance 3) Strengthening external position	1) High debt levels, elevated share of foreign-currency debt 2) Low potential-growth outlook 3) Institutional weaknesses	CEE Case Study: How Scope's Qualitative Scorecard informs sovereign ratings Rating Report
Bulgaria	BBB/Positive	Affirmed; changed Outlook to Positive	1) EU membership 2) Low & declining public debt 3) CA surplus & sound reserve coverage	1) Private sector spillover risks 2) No lender of last resort 3) Institutional weaknesses	CEE Case Study: How Scope's Qualitative Scorecard informs sovereign ratings Strong external position, fiscal discipline underpin Bulgaria's economy, but labour constraints loom Rating Report
Czech Republic	AA/Stable	Affirmed	1) Broad & diversified economy 2) Sound public finances 3) Resilient current account	1) Demographics 2) Household financial vulnerability	Rating Report
Denmark	AAA/Stable	Affirmed	1) Wealthy & diversified economy 2) Robust public finances 3) Sound external position	1) High private debt 2) Labour market constraints 3) Banking sector vulnerabilities	Special Comment: Risks abound for overheated Nordic housing market, but no crisis Rating Report
Hungary	BBB/Positive	Affirmed; changed Outlook to Positive	1) Robust economic performance* 2) High absorption of EU funds* 3) Fiscal consolidation* 4) Improving debt structure*	1) High government debt 2) Low non-price competitiveness 3) Labour shortages 4) Weakening institutional credibility	CEE Case Study: How Scope's Qualitative Scorecard informs sovereign ratings Rating Report
Poland	A+/Stable	Affirmed	1) Strong economic growth 2) Sound fiscal and monetary framework 3) Resilient banking system 4) Adequate external buffers	1) High reliance on capital inflows 2) Growing budgetary pressures 3) Political uncertainties 4) Demographic headwinds	Special Comment: Poland to maintain robust growth, despite threat from Article 7 Rating Report
Romania	BBB/Negative	n/a	1) EU membership 2) Convergence process 3) High growth rate	1) Pro-cyclical fiscal policies 2) Vulnerabilities to ST shocks 3) Institutional weaknesses	CEE Case Study: How Scope's Qualitative Scorecard informs sovereign ratings Rating Report
Sweden	AAA/Stable	Affirmed	1) Wealthy & div. economy 2) Solid growth & fiscal performance 3) Low external risk	1) Financial stability risks 2) High private debt levels	Special Comment: Risks abound for overheated Nordic housing market, but no crisis Rating Report

UK	AA/Negative	Affirmed	1) Reserve currency status 2) Historical institutional strengths 3) Large, diversified economy	1) Brexit-related uncertainty 2) Weakening economic outlook 3) Less predictable policy framework	UK sovereign outlook tested by heightened Brexit uncertainty Brexit presents unique challenges to the UK’s economic outlook and debt sustainability Risks to Brexit Trade Talks Pronounced as UK, EU Approach Next Phase Uncertainties around Brexit challenge UK credit outlook Rating Report
EFTA					
Norway	AAA/Stable	Affirmed	1) Fiscal & CA surpluses 2) Sovereign wealth fund 3) Strong macro governance	1) Macroeconomic imbalances 2) High household debt 3) Low productivity growth	Special Comment: Risks abound for overheated Nordic housing market, but no crisis Rating Report
Switzerland	AAA/Stable	n/a	1) Wealthy & diversified economy 2) Prudent fiscal management 3) Strong external position 4) Deep capital markets	1) Adverse demographics 2) Large and concentrated banking sector 3) Exposure to real estate risks	Rating Report
Non-Europe					
China	A+/Negative	Affirmed; changed Outlook to Negative	1) Strong growth, large and diversified economy 2) High external resilience 3) Scope for reforms	1) Significant increases in economy-wide debt* 2) Worsening public finances* 2) Macroeconomic imbalances*	China’s National People’s Congress holds meaningful credit implications China’s sovereign ratings hinge on deleveraging initiatives Rating Report
Georgia	BB/Stable	Affirmed	1) Sustained economic performance 2) Commitment to structural reform 3) Fiscal consolidation	1) Reliance on external financing 2) Low per-capita income 3) Elevated dollarisation level	Georgia’s liberal trade policy will help to mitigate its external vulnerabilities Rating Report
Japan	A+/Stable	Affirmed	1) Diversified economy 2) Great funding flexibility 3) Strong external position	1) High debt levels 2) Growth below trend 3) Weak public finances	Unfavourable demographics and structural bottlenecks limit fiscal consolidation efforts in Japan Rating Report
Russia	BBB-/Stable	n/a	1) Strengthening macro stability 2) Strong external position 3) Sound public finances	1) Low growth potential 2) Geopolitical risks 3) Weak governance	A Putin victory may spur some structural reforms, but not enough to boost Russia’s subdued growth Four Reasons Why Russia Is Investment Grade and Turkey Is Not Rating Report
Turkey	BB-/Negative	Downgraded from BB+ to BB-; changed Outlook to Negative	1) Large, resilient economy 2) Favourable demographics 3) Sound public finances 4) Well-regulated banking sector	1) Deterioration in institutional strengths* 2) Increased macroeconomic imbalances* 3) Risks to reserve adequacy*	Five major threats to Turkey’s sovereign creditworthiness Mind the external gap: currency and inflation risks challenge Turkey’s foreign debt roll-over Four Reasons Why Russia Is Investment Grade and Turkey Is Not Rating Report
USA	AA/Stable	Affirmed	1) Wealthy, diversified economy 2) Global reserve currency status 3) Institutional checks and balances 4) Deep, liquid capital markets	1) Weakening potential growth 2) High and rising public debt 3) Elevated contingent liabilities 4) Polarisation and policy uncertainty	Why the United States is no longer AAA US Fiscal Outlook: Politically polarising tax cuts boosts short-term growth, raises deficits US government obligations & contingent liabilities: a high and rising fiscal risk The unparalleled status of the US dollar in an evolving global environment Polarisation in US politics is leading to policy inaction and uncertainty Rating Report

* Refers to rating drivers.

Scope Ratings GmbH

Headquarters Berlin

Lennéstraße 5
D-10785 Berlin

Phone +49 30 27891 0

Frankfurt am Main

Neue Mainzer Straße 66-68
D-60311 Frankfurt am Main

Phone +49 69 66 77 389 0

Paris

33 rue La Fayette
F-75009 Paris

Phone +33 1 82 88 55 57

London

Suite 301
2 Angel Square
London EC1V 1NY

Phone +44 203-457 0 4444

Madrid

Paseo de la Castellana 95
Edificio Torre Europa
E-28046 Madrid

Phone +34 914 186 973

Milan

Via Paleocapa 7
IT-20121 Milan

Phone +39 02 30315 814

Oslo

Haakon VII's gate 6
N-0161 Oslo

Phone +47 21 62 31 42

info@scoperatings.com
www.scoperatings.com

Disclaimer

Scope Ratings GmbH, Lennéstrasse 5, 10785 Berlin, District Court for Berlin (Charlottenburg) HRB 192993 B, Managing Director: Torsten Hinrichs.