Q2 2020 Sovereign Update

Covid-19 pandemic's economic impact: significant risk as the world economy falls into recession

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Executive Summary

Scope has revised down its 2020 global growth forecast to **about -0.5%**, which represents the sharpest and deepest global recession since the global financial crisis when 2009 growth troughed at -0.1%. The downward revision is due to exceptional macro-economic and financial sector disruptions in 2020 rooted in the Covid-19 pandemic, affecting all countries as highlighted in **Figure 1**.

Impact on sovereign ratings:

Cyclical implications of the crisis relate to the severity and duration of the downturn in the near-term with risks linked to rising non-performing loans (NPLs), unemployment and corporate defaults. Structural implications correspond to monetary and fiscal policy responses being deployed – which raise debt ratios longer-term and weaken government balance sheets. Higher borrowing rates and FX depreciation are further rating-relevant risks. Countries most exposed *include*: China (rated A+/Negative), Japan (A+/Stable), Italy (BBB+/Stable), Spain (A-/Stable), and Turkey (BB-/Negative).

Click here to access Scope's 2020 sovereign calendar to see upcoming review dates.

Baseline assumptions:

First, the Covid-19 outbreak in China is contained *within* the country's borders by end-March and there's a momentary slowing of infections by end-Q2 in Europe and the United States, with an associated gradual lifting of containment measures. Second, economic output among most developed economies declines steeply in Q2 and recovers only gradually beginning in Q3, depending on the country. Third, as China is the centre of the global supply chain and the starting location of this public health crisis, its recovery will precede those in trading partners like the US and Europe, with the latter economies beginning to recover after a delay. Finally, we expect neither a "V-shaped" nor an "L-shaped" recovery but rather something in between, balancing longer-lasting effects of the pandemic on supply chains and sentiment and impacts from potential further waves of infection.

Risks to baseline:

Baseline assumptions are skewed to the downside as growth could be weaker if the economic shock from the Covid-19 crisis endures longer. Two alternative scenarios capturing downside risks are presented in **Annex II**.

Figure 1: Scope's baseline economic outlook, as of 2 April 2020

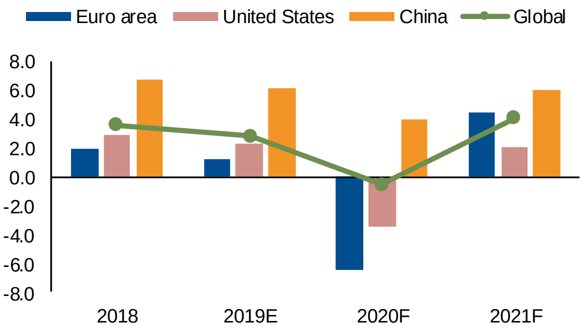
Country/region	Real GDP growth (%)				
	2019E	2020F (April)	Diff. from Dec.	2021F (April)	Medium-run potential
Euro area	1.2	~ (6.5)	↓ 7.6	~ 4.5	~ 1.2
Germany	0.6	(5.2)	↓ 6.2	3.3	1.3
France	1.2	(6.3)	↓ 7.5	4.1	1.5
Italy	0.2	(7.5)	↓ 8.1	4.5	0.7
Spain	2.0	(8.0)	↓ 9.7	4.5	1.7
United Kingdom	1.4	(3.3)	↓ 4.0	1.8	1.5
Russia	1.3	(3.3)	↓ 4.8	2.3	1.3
Turkey	0.9	(1.0)	↓ 4.0	3.0	3.9
United States	2.3	(3.5)	↓ 5.0	2.1	<2.0
China	6.1	4.0	↓ 1.8	6.0	5.0
Japan	0.8	(4.0)	↓ 4.5	1.9	<1.0
World	2.9	~ (0.5)	↓ 3.5	~ 4.0	-

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

Global Outlook: April 2020

The global economy is headed for the deepest recession since the Global Financial Crisis. Given the economic sudden stop due to containment actions, we have revised down our 2020 global growth forecast to about -0.5% (**Figure 2**), from an earlier (and already weak, below-consensus) estimate for 2020 growth of "about 3%" per forecasts included in the 2020 Sovereign Outlook (released 2 December 2019).

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



Source: IMF, Scope Ratings GmbH forecasts

The downward revision is due to extraordinary macro-economic and financial sector disruptions in 2020 rooted in the coronavirus pandemic. The downside revisions to global growth are broad-based and include for China (to about 4%, from 5.8% in December forecasts), the US (to about -3.5% from 1.5% in December), the euro area (to -6.5%, from 1.1%) and Japan (to -4%, from 0.5%). In the euro area, Italy's and Spain's forecasts see the largest downside revisions. Germany's (-5.2%, from 1.0%) and France's (-6.3%, from 1.2% in December) growth forecasts also see large changes. In emerging markets, Russia sees weak growth this year (-3.3%), while Turkey's economy returns to recession (about -1%).

As outlined in a 13 March Special Comment, Scope's baseline assumes the coronavirus pandemic is near fully contained in China by end-March. For Europe and the US, we assume a momentary slowdown in infection cases by the time these nations exit spring and enter summer, although the risk of additional infection waves as containment measures are relieved remains pronounced. We consider there to be risks to future economic recovery so long as there is no vaccine and/or effective medical treatment for broad use.

A gradual recovery has begun in China since mid-February as factories and businesses have started to reopen. With that said, we do not expect a "V-shaped" recovery in the global economy as some effects of the pandemic on supply chains and economic sentiment will be much longer-lasting, nor do we expect an "L-shaped" recovery in which economic activity remains at a trough for a very prolonged period. We expect something in between. China's recovery will precede those in trading partners like the United States and Europe, with the latter economies beginning to recover after a delay – helped by fiscal stimulus (**Figure 3**).

Risks to baseline forecasts of about -0.5% global growth for 2020 are skewed to the downside and growth could be (significantly) weaker if: i) containment actions bring greater economic damage in the near-term; ii) larger than expected disruptions in production processes delay the recovery; iii) the period before the virus is brought under control causes greater strain in debt and equity markets; iv) the policy response is ineffective and/or remains more unilateral than multilateral; v) the virus spread does not slow down in the northern hemisphere by the summer; and/or vi) governments are not much better prepared should the virus return later in 2020.

Under two alternative scenarios (results in Annex II), we demonstrate downside risks to growth. In the first alternate case, we assume lockdowns and quarantine policies are extended significantly to the end of Q3 2020. This scenario sees global growth contract an unprecedented 3.5%, with the euro area seeing a growth decline of 11.5% (and the US economy receding about 8%). China also sees its slowest growth since 1976 of about 2%. In the second alternate case, we assume a combination of a period of extended containment measures and a more pronounced recession in the US of 10% in 2020 with very high unemployment, potentially linked to a US corporate credit crisis. This scenario sees global growth contract 5.5%, with the euro area seeing a very steep GDP decline of 16%. China observes growth of only 0.5%.

There are both cyclical- and structural-economic-related implications for sovereign ratings. Cyclical implications of the crisis relate to the severity and duration of the downturn in global economies in the near-term and risks linked to rising NPLs, unemployment and corporate defaults. Structural implications correspond to monetary and fiscal policy responses being deployed, which raise public debt ratios longer-term and weaken balance sheets. Higher borrowing rates and FX depreciation are further rating-relevant risks.

Figure 3. Select fiscal actions against the crisis

Country	Fiscal stimulus, EUR	Fiscal stimulus, % GDP	Public guarantees, EUR	Public guarantees, % GDP
Germany	EUR 122bn	3.8	EUR 600bn	18.0
France	EUR 45bn	1.9	EUR 300bn	12.4
Italy	EUR 25bn+	1.4+	EUR 350 bn	19.6
Spain	EUR 17bn	1.4	EUR 100bn	8.0
UK	GBP 41.5bn	1.9	GBP 330bn	14.9
US	USD 800bn	4.0	USD 900bn	4.5

More complete listing of announced fiscal actions in Annex III.
Source: governments' announcements, OECD, Scope Ratings GmbH

Regional Views

Core Europe

Germany (AAA/Stable) and **France** (AA/Stable) face a contraction in economic output in real terms of 5.2% and 6.3% in 2020 respectively, assuming a gradual lifting of containment measures starting mid-April. The extent of the recession in 2020 will be partially mitigated by sizeable fiscal support, including economy-wide application of short-time work pay schemes.

In Germany, large-scale fiscal stimulus (3.8% of GDP) together with a loan and guarantees package of EUR 600bn (18% of GDP) will allow the state to support businesses in the case of lockdown extensions while, in France, more modest fiscal stimulus of 2% of GDP and a guarantees package (of 13.4% of GDP) reflect the economy's more limited fiscal space with increasing public debt projected to hit 110% of GDP at year end-2020. The large-scale fiscal support in Germany and resulting increase in public debt in the direction of 65-70% of GDP remain manageable, in recognition of the economy's commensurate credit strengths that leave the German government with fiscal capacity to use if needed in the case of a more adverse shock.

The **Netherlands** (AAA/Stable) benefits from large fiscal space to mitigate the crisis impact, while **Belgium**'s AA/Negative rating is subject to downside risks resulting from high (99% of GDP) and rising debt.

Italy, Spain and Portugal

Italy: Scope's next scheduled sovereign review date of Italy's BBB+ credit ratings is on 15 May 2020. Public- and private-sector balance sheets have weakened from this unprecedented economic shock. The 2020 budget deficit is expected to break 7% of GDP and public debt could easily rise past 145% of GDP. But the crisis also demonstrates one core rationale underpinning Scope's investment-grade rating for Italy compared to the more pessimistic view of market participants: Italy's systemic importance in the euro area and the extraordinary support from European institutions under worst-case scenarios. The *fundamental* deterioration that has occurred and is still ongoing, acknowledging European support and Italy's multiple other credit strengths (e.g. long average maturity of public debt, moderate private debt, history of primary fiscal surpluses), increases pressures on Italy's BBB+ credit rating.

Spain's A-/Stable rating is subject to downside risk as the Covid-19 shock exacerbates the country's structural fiscal and labour market imbalances. We expect a deep recession for this year (of about -8%), a significant rise in the debt-to-GDP ratio to around 110% 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. For **Portugal** (BBB+/Stable), we expect sustained debt reduction and the gradual unwinding of economic imbalances to reverse this year.

Greece and Cyprus

Greece (BB/Positive) is particularly exposed to the Covid-19 shock via the economy's high dependence on its hard-hit tourism sector and high share of self-employed in the economy. Greek banks' weak core profitability and the still high burden of NPLs limit their abilities to support the broader economy. We have thus revised our forecast for Greece's real growth to -7% for this year. Still, public debt sustainability is shielded to an extent from current capital markets volatility given its large share of debt held by official creditors, a very long average maturity of debt, a sizeable cash buffer and the recent inclusion of Greek government securities in the ECB's Pandemic Emergency Purchase Programme.

Cyprus (BBB-/Stable) faces a less supportive external environment, likely reversing years of solid economic growth and fiscal performance given its open economy, which is concentrated in a few sectors dependent on either external demand or foreign financing, such as tourism, construction and real estate, banking, and professional services.

UK and Ireland

UK: On 7 February 2020, Scope affirmed the United Kingdom's AA credit ratings and maintained a Negative Outlook due to risks related to Brexit, reversals in fiscal consolidation and deterioration in the UK's fiscal policy framework. The scale of the economic contraction expected in 2020 (-3.25% growth expected with risks skewed to the downside) means the budget deficit may total about 10% of GDP this year, with a sharp increase in government debt to at least 95% of GDP, accelerating fiscal deterioration. However, the UK maintains significant credit strengths, including a very long average maturity of public debt, a well-capitalised financial system and sterling's reserve currency status that anchor its credit rating levels. The next scheduled calendar review date of the UK is on 24 July.

In **Ireland**, the sharp contraction in growth anticipated this year alongside a EUR 3bn (0.9% of GDP) package of fiscal stimulus may challenge its A+/Positive ratings.

Central & Eastern Europe (CEE)

Containment measures and CEE economies' high integration in western European value chains will lead to significant output losses in 2020. With euro area growth forecasted at about -6.5% for 2020, we expect EU CEE member countries to slide into deep recession this year, although the magnitude of contraction will vary. The temporary halt in production by major western European carmakers will adversely affect growth in CEE, including for **Slovakia** (A+/Stable), **Hungary** (BBB+/Stable), **Slovenia** (A/Stable), the **Czech Republic** (AA/Stable) and **Romania** (BBB-/Negative), where car industries account for 10-13% of GDP. The consumption shock to the services sector will have a bigger negative impact on CEE countries with higher shares of self-employed and temporary employment such as **Poland** (A+/Stable). We forecast contraction of around 2.5% in Poland, 3.5% in the Czech Republic, and between 4.5 and 6.0% in many other CEE economies.

CEE countries face additional risks from weakening currencies in non-euro nations and funding stresses, while large-scale fiscal and monetary stimulus in response to the crisis affect debt imbalances over the medium term. Announced fiscal measures are sizeable: Poland: up to 9.4% of GDP; the Czech Republic up to 18% of GDP; Slovakia up to 1.1% of GDP; the Baltic states between 5-7% of GDP; and Slovenia and Bulgaria up to 4% of GDP each. Downside rating risks for CEE economies are rising, for example, with regards to Romania, which faces increasing risk from already weak public finances limiting authorities' room for fiscal support to stabilise the economy during the crisis.

Turkey, Russia and Georgia

Turkey, as the lowest rated issuer in Scope's rated sovereign universe, will see significant risks from the present global economic and financial market turmoil. We expect a GDP contraction of around 1% in 2020, but growth could be significantly lower (see adverse scenarios in **Annex II**). Turkey's external sector weakness, including significant FX debt exposure and high external debt outstanding, increases its sensitivity to any extended period of global economic weakness and/or "risk-off" market conditions. Scope's next scheduled sovereign review date on Turkey is 10 July.

Russia (BBB/Stable) faces the dual impact of the oil price war with Saudi Arabia and the global economic fallout from the Covid-19 pandemic, which have pushed crude prices below sustainable levels for all oil-exporting countries. We expect Russia's public finance position to remain strong, however, given prudent fiscal policymaking and substantial cash reserves. This provides the government with significant fiscal room to support its economy and counter the impact of the Covid-19 crisis and lower-for-longer oil prices, which may lead to higher growth in 2020 than the currently predicted -3.3%. An upcoming referendum on changes to the Constitution and the approaching Duma elections in 2021 also put pressure on the government to increase spending. The Stable Outlook is underpinned by strengthened resilience against shocks (including against economic sanctions) as reflected in improved reserve coverage ratios and current account surpluses.

Georgia (BB/Stable) is highly vulnerable to exchange rate changes in the current environment with 55% of all loans, 62% of deposits, and 80% of public debt (mostly multilateral concessional loans) denominated in foreign currency, predominately in euros and dollars.

United States

The Covid-19 health and economic crises will exacerbate underlying social, fiscal and economic weaknesses in the United States (rated AA/Stable, 1-2 rating notches under assessments for the US by credit rating agency peers: see Annex IV). Despite the forceful interventions by the Federal Reserve and Congress, we expect a deep recession of around -3.5% in 2020 and unemployment to rise above 10%. The historic fiscal stimulus of around 9% of GDP comes on top of an already high fiscal deficit prior to this crisis, raising the deficit further to around 15% of GDP, resulting in an overall debt-to-GDP ratio increase to above 130% by 2024. While we expect an economic recovery in 2021, risks are titled to the downside given the uncertainty of the depth and length of the Covid-19 economic shock as well as pre-existing vulnerabilities of the US economy, including a highly leveraged corporate sector, a shifting trade policy agenda, particularly vis-à-vis China, and a divided and polarised Congress in the run-up to the US presidential elections of 3 November.

China and Japan

On 28 February, Scope affirmed **China**'s A+ ratings but maintained the Outlook at Negative. Scope has differed from US rating agencies in Scope's assignment of the Negative Outlook on China since 2018. Although now in gradual economic recovery, China's growth is expected to slow to about 4% in 2020, with an increase in the *augmented* fiscal deficit to well above 15% of GDP. Ratings downside relates to whether the economy can get back going again fast enough given financial stability risks should the disruption to global value chains last longer or be deeper than anticipated. In addition, the effects of the sharp economic downturn alongside the associated monetary and fiscal expansionary policies will further structurally aggravate pre-existing balance sheet vulnerabilities reflected in the Negative Outlook and result in higher levels of public and private sector debt, stressing financial stability longer-term.

Japan's A+/Stable rating is subject to downside risk as the Covid-19 shock exacerbates the country's already weak growth and fiscal metrics, which will again force authorities to postpone fiscal consolidation targets for several years, resulting in a steady rise in the debt-to-GDP ratio to around 255% by 2024.

Nordics and Switzerland

Denmark, **Norway**, **Sweden** (all rated AAA/Stable) and **Finland** (AA+/Stable) are expected to see significant GDP contraction in 2020 due to the pandemic, with Norway's growth decline in addition aggravated by the collapse in Brent crude prices. One of the most important sources of risk relates to expected downturns in residential and commercial real estate markets and the extent of risk within mortgage, commercial and consumer loan markets. Still, sovereign ratings risks to Denmark, Norway and Sweden are more modest.

Switzerland (AAA/Stable) is expected to see a growth contraction of 1.5-2% in 2020 driven, in part, by the significant downturns of its main trading partners. The government plans to deploy a fiscal aid package of about 6% of GDP. Overall, risks to the sovereign rating are modest given Switzerland's credit strengths, including the Swiss franc's reserve currency status

Additional research

Covid-19: Matrix for assessment of economic vulnerability and healthcare capacity, 25 Mar

Exceptional circumstances demand exceptional action: Scope on Europe's Covid-19 crisis response, 19 Mar

Covid-19 pandemic's economic impact: significant risk as the world economy falls into recession, 18 Mar

Special Comment: Covid-19 Risks and Impact on the 2020 Global Outlook, 13 Mar

Covid-19 in Italy: what is the budget deficit, sovereign debt and credit rating outlook?, 26 Mar

Germany's emergency fiscal programme should help stabilise national and euro area economy, 24 Mar

Greece and the COVID-19 outbreak: Five factors to watch in 2020 and beyond, 20 Mar

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

Country/region	Real GDP growth (%)				Policy rates (%)		
	2019E	2020F	2021F	Medium-run potential	End-2019	End-2020	End-2021
Euro area[1]	1.2	~ (6.5)	~ 4.5	~ 1.2	(0.5)	(0.5)	(0.5)
Germany	0.6	(5.2)	3.3	1.3			
France	1.2	(6.3)	4.1	1.5			
Italy	0.2	(7.5)	4.5	0.7			
Spain	2.0	(8.0)	4.5	1.7			
United Kingdom	1.4	(3.3)	1.8	1.5	0.75	0.10	0.25
Russia	1.3	(3.3)	2.3	1.3			
Turkey	0.9	(1.0)	3.0	3.9			
United States	2.3	(3.5)	2.1	<2.0	1.50-1.75	0-0.25	0-0.25
China	6.1	4.0	6.0	5.0			
Japan[2]	0.8	(4.0)	1.9	<1.0	(0.1)	(0.1)	(0.1)
World	2.9	~ (0.5)	~ 4.0	-			

Country/region	Unemployment rate (%)		General government balance (% of GDP)		Public debt level (% of GDP)		
	2019E (AVG)	2020F (AVG)	2019E	2020F	2019E	2020F	2024F
Euro area	7.6	~ 10.0	(0.8)	< (7.5)			
Germany	3.2	4.1	1.4	(5.9)	60	67	66
France	8.5	9.1	(3.0)	(7.9)	98	112	110
Italy	9.9	> 13.0	(1.6)	< (7.0)	135	> 145	
Spain	14.1	18.0	(2.5)	(8.0)	96	110	110
United Kingdom[4]	3.8	> 6.0	(2.0)	(10.0)	83	95.0	
Russia	4.8	4.7	1.3	(3.0)	13	19	25
Turkey	13.8	16.5	(4.6)	(8.5)	30	35	
United States	3.7	10.0	(5.6)	(15.0)	105	125	135
China[3]	3.6	6.0	(4.9)	< (6.5)	56	60	
Japan	2.3	4.0	(3.0)	(7.0)	238	255	255
World	-	-	-	-	-	-	-

Negative values shown in parentheses

Source: Scope Ratings forecasts, Haver Analytics.

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

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

[3]China's general budget figures exclude fiscal stabilisation fund transfers; unemployment is survey-based urban unemployment

[4]UK's public debt figures refer to a specific *fiscal* year (e.g. 2019E = estimate for end-2019/20 fiscal year)

Annex II: Alternate scenario results

Given the unprecedented nature of the shock, we demonstrate the downside risks with two alternative scenarios. In the first alternative case, we assume lockdowns and quarantine policies are extended significantly to the end of Q3 2020. This scenario sees global growth contract an unprecedented 3.5%, with the euro area seeing a growth decline of 11.5% (and the US economy receding 8%). China also sees its slowest growth since 1976 of about 2%.

In the second alternate case, we assume a combination of a period of extended containment measures and a more pronounced recession in the US of 10% in 2020 (potentially linked to a corporate credit crisis). This scenario sees global growth contract 5.5%, with the euro area seeing a very steep GDP decline of 16% (with Italy and Spain both near -20% in 2020). China witnesses near-recession with growth of only 0.5%.

Stress 1: Lockdown through Q3 2020

Country/region	Real GDP growth (%)			
	2019E	2020F (April)	Diff. from Dec.	Medium-run potential
Euro area	1.2	~ (11.5)	↓ 12.6	~ 1.2
Germany	0.6	(9.0)	↓ 10.0	1.3
France	1.2	(10.3)	↓ 11.5	1.5
Italy	0.2	(12.5)	↓ 13.1	0.7
Spain	2.0	(13.0)	↓ 14.7	1.7
United Kingdom	1.4	(6.0)	↓ 7.3	1.5
Russia	1.3	(8.8)	↓ 10.3	1.3
Turkey	0.9	(4.0)	↓ 7.0	3.9
United States	2.3	(8.0)	↓ 9.5	<2.0
China	6.1	2.0	↓ 3.8	5.0
Japan	0.8	(7.0)	↓ 7.5	<1.0
World	2.9	~ (3.5)	↓ 6.5	-

Stress 2: Pronounced US recession and quarantine relief only by January 2021

Country/region	Real GDP growth (%)			
	2019E	2020F (April)	Diff. from Dec.	Medium-run potential
Euro area	1.2	~ (16.0)	↓ 17.1	~ 1.2
Germany	0.6	(11.2)	↓ 12.2	1.3
France	1.2	(13.5)	↓ 14.7	1.5
Italy	0.2	(17.5)	↓ 18.1	0.7
Spain	2.0	(18.0)	↓ 19.7	1.7
United Kingdom	1.4	(8.5)	↓ 9.8	1.5
Russia	1.3	(11.3)	↓ 12.8	1.3
Turkey	0.9	(7.0)	↓ 10.0	3.9
United States	2.3	(10.0)	↓ 11.5	<2.0
China	6.1	0.5	↓ 5.3	5.0
Japan	0.8	(10.0)	↓ 10.5	<1.0
World	2.9	~ (5.5)	↓ 8.5	-

Negative growth rates denominated in parentheses. Source: Scope Ratings GmbH estimates, IMF, Haver Analytics.

Annex III: Fiscal and monetary response

Figure 4: Fiscal stimulus announcements in response to the Covid-19 pandemic

Euro area					
Country	**Fiscal stimulus, EUR**	**Fiscal stimulus, % GDP**	**Public guarantees, EUR**	**Public guarantees, % GDP**	**Key measures**
Italy	EUR 25bn+	1.4+	EUR 350 bn	19.6	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
France	EUR 45bn	1.9	EUR 300bn	12.4	Reduced social security contributions, unemployment benefits, solidarity fund for self-employed
Spain	EUR 17bn	1.4	EUR 100bn	8.0	Delay in mortgage payments, easing social security contributions, increase in safety nets and unemployment benefits
Germany	EUR 122bn	3.8	EUR 600bn	18.0	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.
Netherlands	EUR 15.6bn	2.0	EUR 1.4bn	0.2	Liquidity to SMEs and self-employed, support for heavily-impacted industries, childcare subsidies
Ireland	EUR 6.3bn	3.2*			Illness benefit payments, wage subsidies, unemployment benefits, support to businesses

Austria	EUR 29bn	7.3	EUR 9bn	2.3	Tax relief, support to furloughed employees, support to SMEs and self-employed
Portugal	EUR 5.7bn	3.0	EUR 3bn	1.4	Flexible payment schedules for tax payments, reduction of social security contributions, credit line to affected businesses
Greece	EUR 6.8bn	3.5	EUR 1bn	0.5	Loan payment relief, support to SMEs, self-employed and health sector workers
Other European countries					
Country	**Fiscal stimulus, local currency (LC)**	**Fiscal stimulus, % GDP**	**Public guarantees, LC**	**Public guarantees, % GDP**	**Key measures**
Poland	PLN 66bn	2.9	PLN 74.5bn	3.3	Salary integration, delayed social security contributions, help for the self-employed, infrastructure investment, healthcare spending
Denmark	DKK 65bn	2.8	DKK 220bn	9.5	Government grants to cover companies' fixed costs, salary integration for self-employed, support for SMEs and hard-hit businesses
UK	GBP 41.5bn	1.9	GBP 330bn	14.9	NHS spending, tax breaks and cash grants to companies in hard-hit sectors, liquidity for SMEs, sick pay refund
Norway	NOK 65bn	1.8	NOK 100bn	2.8	VAT cuts, tax and social contributions deferral, support for the self-employed, support for the aviation sector
Switzerland	CHF 22bn	3.0	CHF 20bn	2.9	Wage subsidies to SMEs, support for self-employed and laid-off workers
Other Countries					
Country	**Fiscal stimulus, LC**	**Fiscal stimulus, % GDP**	**Public guarantees, LC**	**Public guarantees, % GDP**	**Key measures**
US	USD 800bn	4.0	USD 900bn	4.5	About 800bn in direct outlays (USD 250bn for direct payments to individuals and families, USD 250bn for unemployment insurance benefits, USD 130bn for hard-hit hospitals and USD 150bn for state and local governments), and about USD 900bn for loans and guarantees (USD 367 for small businesses with less than 500 employees and USD 500bn for distressed companies).
China	N.A.	N.A.			Social insurance relief, VAT waivers, electricity bill discounts, infrastructure spending projects
Japan	JPY 15trn	2.4			About JPY 15trn (JPY 13trn relate to agreed stimulus from December 2019). Additional significant measures in the realm of up to JPY 30trn under discussion.
Russia	RUB 2trn	2.0			Tax breaks (tourism, airlines), preferential loans, tax breaks for SMEs
Turkey	TRY 101.2bn	2.0			Suspension of social security contributions, support for low-income pensioners, payments to households in need, VAT deductions

* of national GNI

Source: governments' announcements, OECD, Scope Ratings GmbH

Figure 5: 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, now converted to unlimited purchases • **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 750bn 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 forthcoming targeted long-term refinancing operations (TLTROs)

	• **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**: double ETF and REIT annual purchase targets (up to JPY 12trn (USD 112.5bn) for ETFs and JPY 180bn for J-REITs) • **Support for credit markets**: loans at 0% interest rate for corporate financing (Special Funds-Supplying Operations); increase in the upper limit for purchases of commercial paper and corporate bonds by JPY 2trn • **Banking rule easing**: decrease by 25bps for loan rate on USD liquidity swaps
Bank of England	• **Interest rate cuts**: -65bps (in two steps) to 0.1% • **Asset purchases**: GBP 200bn fresh asset purchases of government and sterling non-financial investment-grade corporate bonds • **Support for credit markets**: new Term Funding Scheme targeted at SMEs (TFSME) • **Banking rule easing**: 200bp cut in the counter-cyclical capital buffer rate to 0% effective immediately
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 500bn in funding for banks to lend to SMEs and firms in agriculture, policy banks to offer RMB 350bn in special loans to small firms

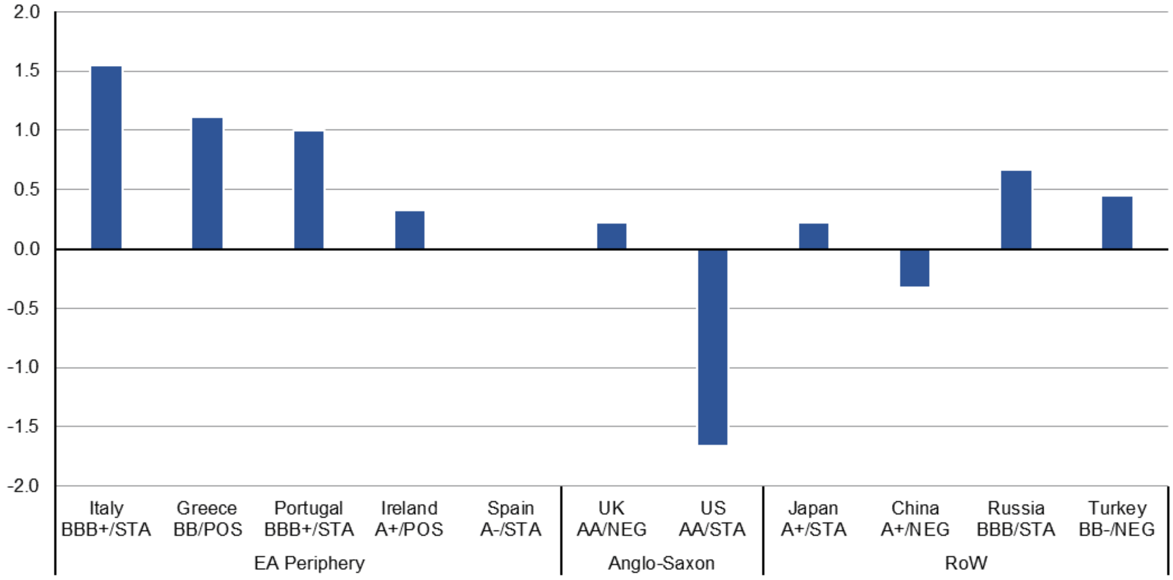
Source: Central banks' announcements, Scope Ratings GmbH

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

Figure 6: Scope's global long-term sovereign issuer ratings, as of 2 April 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/Stable
Cyprus	BBB-/Stable	Czech	AA/Stable			Japan	A+/Stable
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+/Stable						
Latvia	A-/Stable						
Lithuania	A-/Positive						
Luxembourg	AAA/Stable						
Malta	A+/Stable						
Netherlands	AAA/Stable						
Portugal	BBB+/Stable						
Slovakia	A+/Stable						
Slovenia	A/Stable						
Spain	A-/Stable						

Figure 7: Scope ratings vs US agencies', as of 2 April 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.

Figure 8: Scope's sovereign rating actions in Q1 2020

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

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