Credit Conditions Europe Q2 2021:

New Horizons, Old Risks

March 30, 2021

(Editor's Note: S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in each of four regions (Asia-Pacific, Emerging Markets, North America, and Europe). Discussions center on identifying credit risks and their potential ratings impact in various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the European committee on March 24, 2021.)

Key Takeaways

- **Overall:** While Europe faces another difficult few months with a resurgent virus, cautious optimism is warranted once vaccination programs finish in late summer (after a slow and fractious start) and the economy rebounds--but slower than in the U.S.
- **Risks:** Vaccine supply, logistics, and vaccine hesitancy are key near-term concerns. Further out we see the threat of new variants and the potential for corporate insolvencies that so far have been artificially depressed. Renewed volatility and a repricing of risk spilling over from the U.S. to Europe is a new, elevated risk.
- **Credit:** Fiscal and monetary support will continue through the year to ensure the pandemic is contained and recovery is well established. This has contributed to greater ratings stability in Europe, with few corporate rating actions and a gradual decline in negative outlooks in recent months. However, the proportion of corporate weakest links (rated 'B-' or below with negative outlooks or on CreditWatch negative) remains elevated at 14%.

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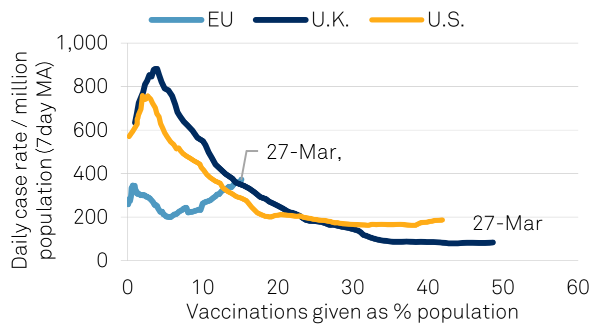
Conditions are in place for a solid economic recovery in Europe in the second half of this year, but this remains highly dependent on the vaccine rollout reaching critical mass and an ebbing in the rising infection tide (in the EU) (see chart 1). Any further lockdowns or the emergence of new variants of concern would delay full recovery in the EU beyond the first quarter of 2022 and increase the growing growth gap emerging between the EU and U.S., boosted by the $1.9 trillion stimulus package.

The European authorities' comprehensive and timely fiscal and monetary support has limited economic fallout from the pandemic so far. This will continue at an elevated level during 2021 until the pandemic subsides and the recovery is sustainable. But it has come at some considerable cost. For instance, we estimate net long-term commercial borrowings to cover 2021 eurozone sovereign funding requirements could be €583 billion (4.9% GDP), up from €141 billion (1.2%) in 2019.

Chart 1

EU Battling To Ramp-Up Vaccinations While Infections Rise

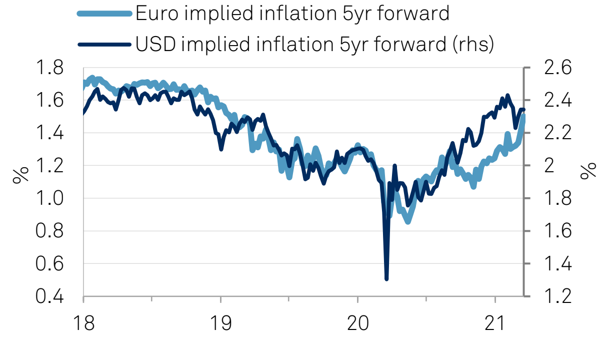
(Daily data from Dec. 31, 2020 – March 23, 2021)



Source: Our World In Data, S&P Global Ratings.

Chart 2

Inflation Expectations in Europe Tracking U.S. Higher But From Lower Level



Source: Refinitiv, S&P Global Ratings.

Corporates continue to be significant beneficiaries. Primarily designed to shore up liquidity, this support has taken various forms including the provision of loan guarantees, loan payment and tax holidays, and short-time working subsidies. But recently, reflecting growing concerns over solvency, governments have started to adapt their support programs (for instance in Spain, Italy, and France) to provide equity and quasi-equity to recapitalize viable companies and encourage investment, with a particular focus on small and midsize enterprises (SMEs), sectors, and regions hit hardest by the pandemic. Deciding when and how to phase out these measures will be a complicated task. Withdrawing support too early could result in a spike of insolvencies and put the economic recovery at risk, while maintaining support measures for too long could keep alive unviable companies and delay the needed structural adjustment.

For financial institutions, the authorities' fiscal measures are keeping nonperforming assets (NPAs) under control. Through 2021 we expect to see more evidence of weakening asset quality, particularly among corporates, although the peak of problem loans may come only in 2022. This should be broadly manageable provided the recovery in Europe remains on track.

Similarly, the various income support and payment deferral schemes have benefitted structured finance borrowers and supported collateral performance. But, even though less than 4% of our ratings on structured finance securities in Europe have been lowered since March 2020, we expect collateral performance to come under pressure later in the year as and when these supports are withdrawn and unemployment rises further.

Rising pressures on input costs. Underinvestment and the curtailment of production capacity during COVID-19 has reduced the elasticity of supply in certain product categories as demand has recovered, particularly in China. Shortages and supply chain bottlenecks have caused a sharp rise in the cost of many key inputs, notably agricultural goods, oil, industrial commodities, freight (especially containers), and semiconductors. The risk for corporates is that margins come under pressure. Those businesses that are carrying a higher absolute debt and exposed to pressured margins are likely to experience a slower recovery in their financial risk profiles--despite an upturn in activity.

We are concerned that rising costs in coming months could trigger a destabilizing increase in inflation expectations, even with few signs of wage pressures in Europe. While more a challenge for the U.S. Federal Reserve than the European Central Bank given implied forward inflation rates in the two regions (see chart 2), nonetheless an investor strike in government bond markets could challenge central banks to intervene to prevent excessive yield curve steepening, creating unwelcome volatility in financial markets and a reset in risk pricing. While higher yields would benefit banks' profitability, and improve reinvestment returns for life insurers and pension funds, any material rise in financing costs would hit highly leveraged credits quite hard, particularly in COVID-19-exposed industries, such as leisure or transportation.

This vulnerability is also apparent in the 14% of European corporate speculative-grade credits rated at 'B-' or below with negative outlooks or on CreditWatch negative, albeit an improvement of 2 percentage points since the end of last year. This indicates still high default risk, notwithstanding significant financial support and regulatory forbearance the authorities are providing. Our base case expectation is that the speculative-grade default rate in Europe could reach 6.5% by the end of the year, up from 5.4% at the end of February 2021.

S&P Global Ratings believes there remains high, albeit moderating, uncertainty about the evolution of the coronavirus pandemic and its economic effects. Vaccine production is ramping up and rollouts are gathering pace around the world. Widespread immunization, which will help pave the way for a return to more normal levels of social and economic activity, looks to be achievable by most developed economies by the end of the third quarter. However, some emerging markets may only be able to achieve widespread immunization by year-end or later. We use these assumptions about vaccine timing in assessing the economic and credit implications associated with the pandemic (see our research here: www.spglobal.com/ratings). As the situation evolves, we will update our assumptions and estimates accordingly.

Top European Risks

Table 1

Top European Risks

Insolvency remains a major concern for more vulnerable corporates

Risk level	Very low	Moderate	Elevated	High	**Very high**	**Risk trend**	**Improving**	Unchanged	Worsening

After a difficult winter with national stringency measures being imposed as the virus ricocheted around the region, the various national emergency support measures have evolved and been extended. In particular, the fiscal response is migrating to smooth the transition to a stronger recovery by providing grants to write off debt in the most vulnerable corporate sectors and quasi-equity for investment. Even so, recovery for the most vulnerable (largely service) sectors is likely to take several years, heightening the risk of rising nonperforming assets for banks and default for companies in the 'B' rating category, as well as SMEs, whose business models, cash generation ability, or capital structures may no longer be viable without, at a minimum, restructuring their debt. These risks would be exacerbated if emergency support measures were to be withdrawn prematurely.

Vaccine supply, logistics, new variants, and communication challenges could further delay the EU's recovery

Risk level	Very low	Moderate	Elevated	**High**	Very high	**Risk trend**	**Improving**	Unchanged	Worsening

Although Europe has now administered 116 million (March 27) approved vaccinations covering over 15% of the population across the region, the EU program is running behind schedule and needs to be ramped up significantly to hit the target of vaccinating 70% of the adult population by late summer. Near-term production shortages, complexity of logistics, and conflicting messages concerning the safety of certain approved vaccines highlight the material risk of missing the target. Apart from the vaccine rollout, further lockdown measures and, most of all, the risk of new variants emerging, would push full recovery in the EU even further behind the U.S., the latter being boosted by the latest $1.9 trillion stimulus package.

Disorderly repricing of risk in the U.S. spilling over to Europe

Risk level	Very low	Moderate	**Elevated**	High	Very high	**Risk trend**	Improving	Unchanged	**Worsening**

The combination of an aggressive U.S. post-election fiscal stimulus, a dovish Fed, and rising inflationary expectations conjure up the spectacle of the taper tantrum in 2013. The risk is that the long-awaited repricing of risk happens in a disorderly manner, as the Fed falls behind the curve in embarking down the road of tightening policy. The risk for Europe would be tightening credit conditions spilling over into the region before the recovery takes hold.

Technology, regulation present challenges and risks in a post-COVID-19 world

Risk level	Very low	**Moderate**	Elevated	High	Very high	**Risk trend**	Improving	Unchanged	**Worsening**

COVID-19 has accelerated secular change and raised the bar for governments' commitment to protect the environment, not least to reach net zero by 2050. Emissions Trading Scheme (ETS) CO2 prices have soared to €42/ton, and while countries will likely expand restrictive CO2 targets onto broader sectors, this will only happen when an economic recovery has been firmly established. Technology and regulation will play key roles in this transition. This comes not without moderate systemic risk. Already we see the vulnerabilities of the IT infrastructure powering the network economy, as seen recently in the SolarWinds spying scandal and the Microsoft Exchange email software hack. In the next few years, transitioning to a low-carbon world will start to disrupt industries and business models, creating winners and losers. Regulation will play an important role but will inevitably create tensions between governments, for instance as the EU moves to set global standards by introducing initiatives such as the Digital Services Act and the Digital Markets Act, a digital sales tax, and in due course border carbon taxes.

Source: S&P Global Ratings.

* **Risk levels** may be classified as very low, moderate, elevated, high, or very high. They are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically, these risks are not factored into our base case rating assumptions unless the risk level is very high.
** **Risk trend** reflects our current view about whether the risk level could increase or decrease over the next 12 months.

Macroeconomic Outlook

- Conditions are in place for a solid economic recovery in Europe in the second half of this year, and we have marginally changed our GDP forecasts for 2021. But the outlook remains largely uncertain and highly contingent on the race between the vaccine and the virus.
- While fundamental factors are unlikely to push euro long-term yields much higher, ECB bond purchases may be unable to offset co-movements with U.S. yields in a timely manner. An unwarranted tightening of financing conditions would jeopardize our baseline scenario.

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The eurozone could not avoid falling back into recession at the turn of the year, given ongoing social-distancing measures and restrictions on mobility. GDP in the fourth-quarter of 2020 declined a quarterly 0.7% on consumer spending, and real-time data suggest that first-quarter 2021 GDP will also be down. But lockdowns 2.0 have had only one-third of the impact on the economy compared with lockdowns 1.0, whose economic costs ran €20 billion a week. Under the lockdown 2.0 regime, factories, construction sites, and a few non-essential stores were able to work almost normally. Consumers and producers have learned to cope a bit better with restrictions on mobility. Exports to China, Europe's largest partner, have recovered and have been a support to European industry, which also had to catch up on large backlogs.

The recovery remains uneven. The manufacturing sector is leading the way, being only half a percent below pre-COVID-19 output levels in January, the construction sector is now down less than 8% and the service sector is still lagging. But the recovery is also uneven among the manufacturing and the service sectors. In the goods-producing sector, consumer electronics is still 10% down over the year, while the chemical and the steel industries, both benefitting from Chinese demand, are already above previous year's levels. In the service sector, wholesale and retail is down 15% on pre-COVID-19 levels, while communication and information services are up 3%.

The pace of vaccinations has been slow, with some 14% of the population in the main eurozone countries now having received their first doses of vaccine, versus more than 45% in the U.K.

A positive aspect is that the European labor market is withstanding lockdowns 2.0 rather well. The eurozone economy added 540,000 jobs during the fourth quarter and has already recovered 40% (2 million) out of the 5 million jobs lost during the first lockdown. Online job postings suggest that the recovery in the European labor market is continuing over the first months of 2021 despite the restrictions.

Inflation spiked at the start of the year to 0.9% from -0.3% on one-off factors (such as the normalization of German VAT rate, shift in the sales season, changes in the consumer price basket) and the rise in oil prices. Energy prices will drive inflation close to the ECB target of 2% by the summer, but we expect inflation to stabilize through the end of 2021, before falling back to 1.2% in 2022, as pressures on wages remain low and the oil price is not assumed to rise further next year.

The risk of premature fiscal austerity has receded somewhat with the EU suggesting a one-year delay to the end of 2022 for the reinstatement of its budgetary rules. Some governments have already extended their support. On the monetary policy side, the ECB reinforced its commitment to keep financing conditions favorable by increasing the pace of bond purchases from April in the context of U.S. yields rising sharply. The ECB slowed the pace of quantitative easing (QE) to €19 billion a week in the past three months, from €23 billion the three months before. Note that the remaining envelope of the PEPP program until completion in March 2022 (€1.04 trillion) is enough to cover almost the full amount of gross long-term commercial borrowing of eurozone sovereigns expected for this year by our sovereign team (€1.26 trillion)[1]. This might shield euro government yields from rising U.S. yields. Under its two QE programs, the ECB is now holding 29% of eligible euro government bonds. However, the ECB's holdings vary sharply between issuers, ranging, for instance, from 25% for Italian bonds to 44% for Dutch bonds.

Given this backdrop, we amend but do not change radically our forecasts. We now expect the eurozone economy to rebound by 4.2% this year versus 4.8% before, the consequence of a slow start to vaccinations being partially offset by GDP in 4Q20 that was higher than we expected. At the

[1] *Sovereign Debt 2021: Developed EMEA's Commercial Borrowing Could Reach $1.4 Trillion, March 1, 2021*

same time, we revised the outlook for 2022 a bit higher (4.4% versus 4.0%). We're putting inflation for 2021 a percentage point higher to 1.6%, but keeping it at 1.2% for 2022.

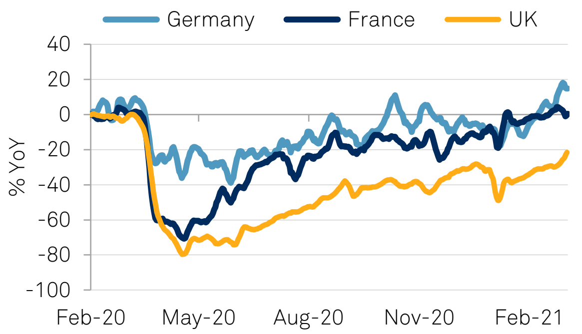
Chart 3

German Industrial Production Vs. Manufacturing Orders (3 Months Rolling Average)

Source: Refinitiv, S&P Global Ratings

Chart 4

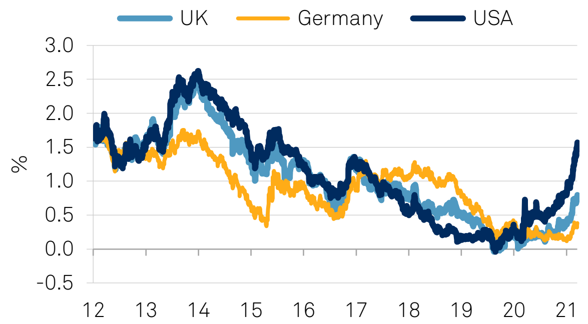
New Job Postings (% YoY)



Source : Indeed HiringLab, S&P Global Ratings

Chart 5

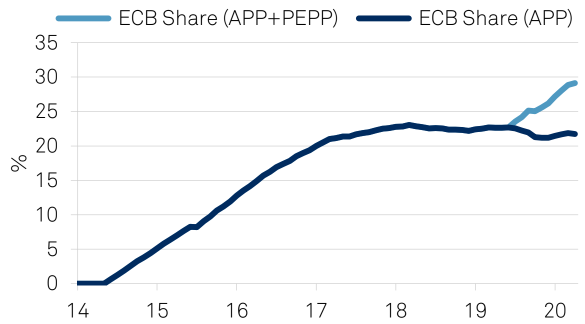
Yield Curves Steepening (10Y-2Y Govt Bonds)



Source: Refinitiv, S&P Global Ratings

Chart 6

Share Of Eurozone Public Sector Debt Held By The ECB (excl. Supranational Bonds)



Source : Refinitiv, ECB, S&P Global Ratings. APP—Asset Purchase Program, PEPP—Pandemic Emergency Purchase Program

Key Assumptions

- The pace of vaccinations is set to accelerate during the second quarter, so that widespread immunization is in reach over the summer. This would allow governments to gradually ease restrictions on mobility and allow European economies to come out of recession during the second quarter.
- We expect the ECB to look through a further increase in inflation this year. The ECB, with a new strategy, is not expected to raise key policy rates over the next two years. It will also continue to be a net purchaser of bonds until shortly before raising rates.
- Financing conditions in Europe are expected to remain supportive. The strong commitment of the ECB to support the recovery and slower reflation due to a smaller fiscal stimulus in Europe than in the U.S. are reasons why we believe German 10-year yields might remain slightly negative in nominal terms through 2023.

Key Risks

- Insufficient acceleration of the vaccination program, which would jeopardize the objective of achieving widespread immunization over the summer and a progressive easing in restrictions on mobility, would lead us to revise our growth forecasts for 2021 downward in an uneven way across sectors and countries.
- While fundamental factors are unlikely to push euro long-term yields much higher, the ECB's bond purchases may not be able to offset co-movements with U.S. yields in a timely manner, leading to an unwarranted tightening of financing conditions.

– A delay in the implementation of the EU stimulus package could pose a downside risk to our growth prospects for 2021 but would conversely be an upside risk for 2022, considering that 70% of the Recovery and Resilience Facility (RRF) grants have to be allocated by 2022.

What To Look For Over The Next Quarter

We will first monitor whether the pace of vaccination is picking up as expected. We will also have an eye on short-term developments in inflation and their impact on financing conditions, especially on long-term interest rates given current pressure on U.S. long-term yields. Finally, we will be tracking the pace at which the EU stimulus package may be implemented after national governments submit their spending plans to the EU by the end of April.

The U.K. Is Poised To Emerge From Lockdown After Taking The Hit In The First Quarter

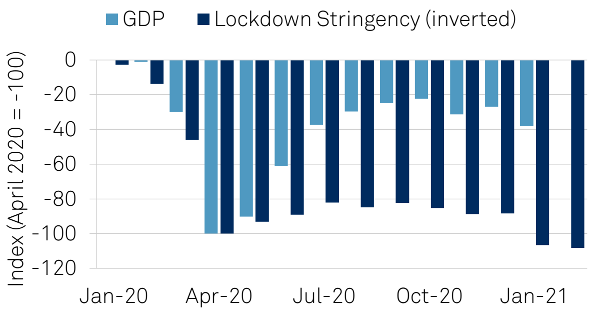
Economies across the world have adapted – to some extent – to operating under lockdown conditions, and the U.K. is no exception (see chart 7). Recent PMI (purchasing managers' indices) data reflect that relative resilience. Helped also by extensive government and monetary policy support, the U.K. economy is likely to suffer much less from the latest, severe lockdown than it did in the second quarter of 2020.

Still, with non-essential businesses closed for more than three months, the economy is likely to have taken a significant hit at the beginning of the year, concentrated in sectors that provide face-to-face services, such as travel, hotels, restaurants, and entertainment. In fact, in February, household spending via credit and debit cards on these services was 44% below pre-pandemic levels (see chart 8). But under the circumstances, this is still better than the average 60% shortfall in the second quarter of 2020. The picture looks similar for aggregate household spending, and it is this new contraction that has mainly driven our downward revision for GDP growth to just 4.3% for this year as a whole, from 6% earlier[2].

But conditions for a strong recovery, starting in the second quarter, remain in place. Key support measures have just been extended in the March budget, such as the furlough program, which currently supports more than 10% of the labor force, and new measures have been introduced, too. The measures help to prevent the economy from suffering more permanent damage while restrictions are gradually lifted and demand growth remains relatively weak. Beyond its direct effect in limiting the spread of the virus, the success of the U.K.'s vaccination efforts should also boost household spending via confidence effects, fueled by large amounts of accumulated savings. However, because of the setback in the first quarter of this year, the full strength of the recovery will become fully apparent only next year when we expect the economy to grow 6.8%.

Chart 7

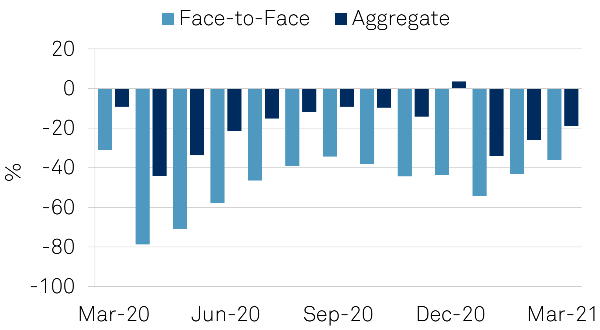
Impact Of Lockdown Stringency On The Economy Has Eased Over Time Deviation from prepandemic levels (GDP data until January)



Source: Blatavnik School of Government (University of Oxford), ONS, S&P Global Ratings.

Chart 8

Face-to-Face and Aggregate Household Spending Took A Bigger Hit in Q2 2020 Debit and credit card spending - deviation from February 2020 levels



Source: ECB, BOE, S&P Global Ratings

[2] *Economic Research: U.K. Recovery: Delayed But Stronger, March 9, 2021*

Financing Conditions

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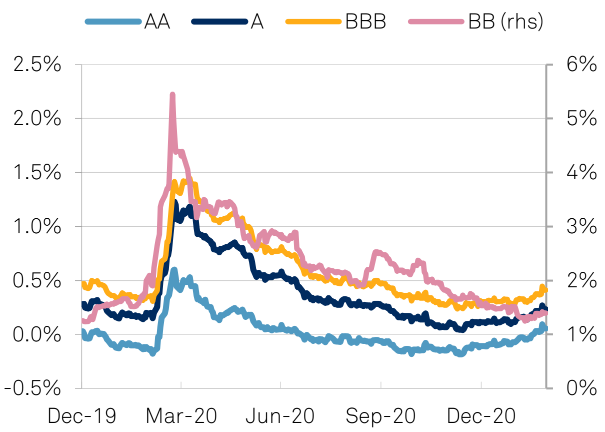
- Despite some increase in volatility, the ECB's commitment to keep financing conditions favorable, as well as the extension of state-backed loan guarantee schemes, will keep these downside risks to financing conditions at bay.
- Credit vulnerabilities will continue to exacerbate for corporates in sectors most exposed to COVID-19-related restrictions.
- ESG issuance will continue its rapid growth pace, boosted by investors' appetite and the ECB's commitment to a greener financial market.

Financing Conditions Will Remain Favorable Despite Higher Volatility

European government bond yields remain at historical lows, despite a contained uptick following the recent surge in U.S. Treasury yields, which has been mirrored by a similar increase in corporate bond yields (see chart 9). Besides diverging economic fundamentals on both sides of the Atlantic, notably in terms of fiscal support, the European Central Bank's (ECB) recent announcement to step up the pace of bond purchases over the coming months - signaling its willingness and ability to fight tightening pressures on European financing conditions and to support the zone's economic recovery - should keep yields in the eurozone low. Therefore, while we may see more volatility over the next months, a material increase in European corporates' bond yields is unlikely.

Chart 9

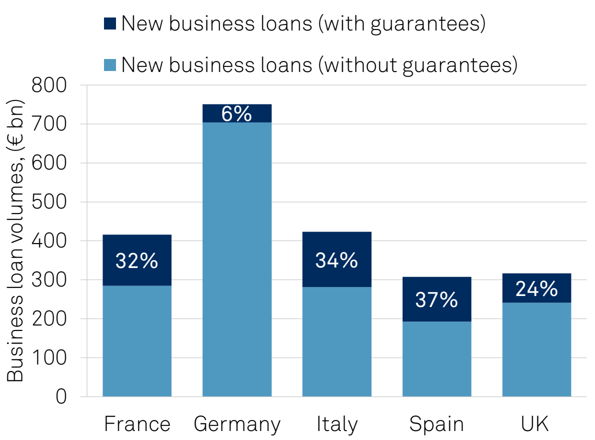
Bond Yields for European Corporates Remain Extremely Favorable



Source: Refinitiv, S&P Global Ratings

Chart 10

A Shielding Effect: Usage of Government Guaranteed Loans Varies Across Europe (Mar-Dec 2020)



Source: ECB, BOE, S&P Global Ratings

State-Backed Loan Guarantee Schemes Support Bank Lending To Corporates

The results of the ECB's Bank Lending Survey (BLS) underline the importance of state-backed guarantees in supporting loans to non-financial corporates. Credit standards and conditions for companies with guarantees eased significantly in 2020, while they tightened for those not benefitting from guarantees. Banks expect a similar, although less pronounced, divergence in the first half of this year. In this context, the extension of state guarantees in some European countries should help support financing conditions. The U.K., for instance, recently introduced the Recovery Loan Scheme as the successor to the Coronavirus Business Interruption Loan Scheme and the Bounce Bank Loans Scheme; in France, the recently launched semi-equity debt program enables SMEs to access €20 billion in the form of loans and subordinate bonds for investment purposes, on top of existing support measures. We are also starting to see some authorities prepared to restructure some government-guaranteed loans (for instance, in Spain) so that debt affordability for borrowers is improved and they are less likely to default.

Nevertheless, the proportion of COVID-19-related state-guaranteed business loans to total new lending (including refinancing) differs across countries. For instance, 37% of new bank lending in Spain between March and December 2020 was backed by the government, compared with 6% in Germany; hence a smaller proportion of corporates in Germany may be shielded from the decoupling in financing conditions associated with guaranteed loans against nonguaranteed loans (see chart 10).

Additionally, takeup rates of these business loan support schemes also diverge strongly across major European countries. For example, SMEs and corporates in France have tapped into 47% of the guaranteed loans envelope as of beginning of 2021, while Germany and Italy see weaker participation with only 15% and 26%, respectively. Similarly, there are also geographical variations on the type of business benefitting from these schemes, whereby credit support to larger enterprises accounted for almost 60% of guaranteed loan volumes in Germany, compared with 30% in Spain and only 7% in the U.K. where the participation of SMEs in government-backed credit support is disproportionately greater.

Conditions Continue To Worsen For The Hardest-Hit Sectors

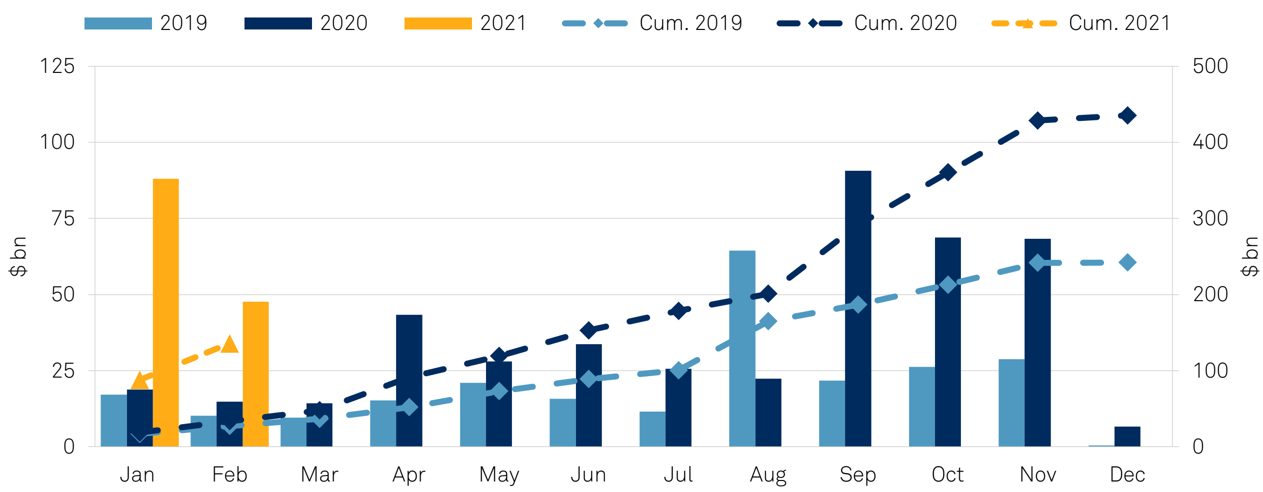
The extended COVID-19-related restrictions over winter and spring amid renewed waves of infections and new variants have unevenly altered financing conditions for corporates. Similar to last year, financing conditions are set to decouple between sectors most vulnerable to the health-related restrictions – like leisure and entertainment or commercial real estate - and the rest, for two reasons. First, these sectors have seen more downgrades over the past year, resulting in a deterioration of their market credit conditions. Given the prolonged restrictions and subsequent economic uncertainty, more downgrades are likely to come. Second, banks similarly perceive higher credit risks for these sectors and are thus more reluctant to provide loans or will do so on less favorable terms. Indeed, respondents to the BLS expect the most severe tightening in credit standards and conditions to occur in the retail trade and commercial real estate sectors.

ESG Bonds Will Continue Their Rise

Over the first 10 weeks of the year, ESG issuance in the eurozone was around 4.5 times higher than over the same period a year earlier (see chart 11). This comes after 80% annual growth in 2020. The share of ESG bonds in total issuance is surging as environmental, social, and governance considerations grow in import for investors and because of particularly attractive financing conditions. The trend of accelerating ESG issuance is set to continue, further boosted by the ECB's commitment to a greener financial market.

Chart 11

ESG Issuance Starts The Year Particularly Strong



Source: IFR, S&P Global Ratings

Financial Institutions

- Our outlook bias for European banks remains negative (37% of the top 100 European banks carry negative outlooks), despite some outlook revisions back to stable in the first few months of the year.
- We have yet to see the full impact of the pandemic crisis on banks' asset quality and ultimately on provisioning requirements. So far, the extension of support measures is keeping nonperforming assets (NPAs) under control. We may not see the peak until 2022.
- Amid low interest rates, still elevated provisioning needs, limited business growth, and the need to adjust to digital change, banks' management teams face heightened pressure to undertake measures that ensure the long-term viability of their business models.

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Key Developments

- **With fiscal support measures largely in place, asset quality deterioration remains contained. But it is only a matter of time until problems emerge.** Through 2021 we expect to see more evidence of weakening asset quality, particularly among corporates, although the peak of problem loans may come only in 2022. Provided that European economies rebound, we see the additional NPAs resulting from the pandemic --largely emerging from the nonfinancial corporate sector-- as broadly manageable for banks. Performance will differ across banks and countries, however. Policymakers and regulators are discussing NPA alleviation strategies to reduce the risk that persistent high NPA levels could constrain lending. Whether such measures are needed will become clearer in 2022.
- **Banks amassed provisions in 2020, but more will be required in 2021.** While all European banks increased credit provisions in 2020 in anticipation of future asset quality problems, only a few did it heavily (U.K., Irish, and Dutch banks). Most others opted for more gradual recognition over time. We expect their provisioning charges will therefore remain elevated in 2021, before reducing more meaningfully in 2022.
- **The scale and nature of support measures for the real economy have varied widely.** While support measures have been instrumental to contain the damage to banks' balance sheets, the uptake was sometimes well below the announced size of the packages. Loan moratoriums have been widely used by bank borrowers (the European Systemic Risk Board quantified loans in moratoriums amounting to around €840 billion at September 2020, or about 5% of outstanding loans; see chart 12). Both households and companies, particularly SMEs, benefited from payment holidays, with Hungary, Cyprus, Croatia, and Portugal reporting the highest use. In some countries, the end of payment holidays did not result in a spike in delinquencies, but it is too early to conclude that will happen across the board.

  In turn, the uptake of government guarantees to back new corporate lending (€435 billion, or the equivalent of 2.8% of total loans) has been more modest (see chart 13). This looks somewhat surprising. On paper at least, the government-guaranteed schemes look like a good credit option for banks, as governments will assume the bulk of credit losses if borrowers struggle to repay. Operational difficulties or the possibility of companies accessing direct grants may explain why uptake varies by country. So far, the provision of government-guaranteed loans is largely concentrated in six countries: Spain, Italy, Poland, France, Portugal, and the U.K.

Chart 12

The End of Moratoriums Poses More Challenges For Some Than for Others

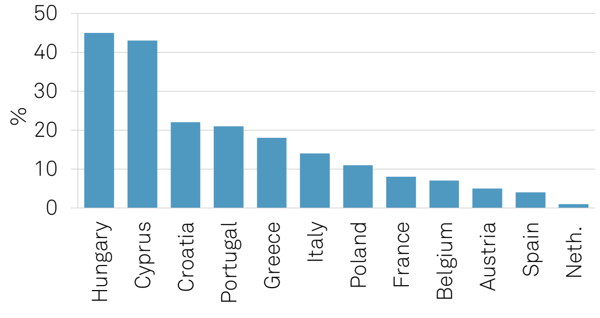
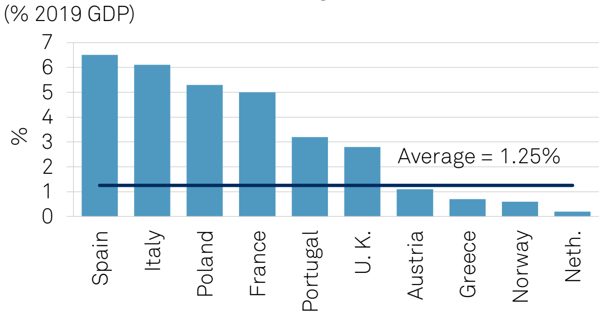


Chart 13

Recourse to Government Guarantees Is Largely Concentrated in Six Countries



Source: ESRB. "Financial stability implications of support measures to protect the real economy from the COVID-19 pandemic", Feb. 2021

- **Future fiscal support will likely take the form of solvency, rather than liquidity support,** as has largely been the case up to now. France and Spain are taking steps in that direction already. While at the onset of the crisis authorities' priority was to ensure households and companies had enough liquidity to cope with months of very low activity, the goal has now shifted to restore the strength of balance sheets to support growth.
- **Banks' year-end 2020 results did not produce major surprises**. Because performance in the second half of the year was clearly better than in the first half, banks' annual preprovision profits were somewhat above our expectations. Still, four of the top 20 European banks reported pretax losses, while pretax profits for the remaining 16 were down 40% from 2019. Revenues held up slightly better than we expected, and buoyant capital markets activity benefited some, but some banks also made good progress in cost cutting. Provisioning did not deviate materially from our forecasts. Restructuring announcements have become more common in recent months, with banks undertaking further downsizing initiatives and refocusing certain business lines to offset likely further margin tightening.
- **Banks' capitalization largely held up and improved slightly for many.** The amendment of regulatory requirements (quick fix of the capital requirements regulation), the ban on dividend payments, and banks' ability to remain profitable helped to sustain capitalization. Ratios might decline in 2021, as banks face more regulatory headwinds and distributions restart, but we expect this to be generally modest.
- **Regulators slightly relaxed constraints on banks' dividend distributions.** Retaining capital to support the economy and absorb losses remains a priority, but the distribution of some dividends to shareholders is now possible. For example, the ECB caps dividends at 15% of banks' accumulated profits in 2019-2020 or 20 basis points of their CET1 (common equity tier 1) ratio, whichever is lower. Banks will largely make use of this easing. This recommendation applies until the end of September 2021, when the ECB will reevaluate the situation and may decide to return to normal.
- **The EBA officially launched its stress test exercise covering 50 European banks to check the resilience of capital to negative macroeconomic developments.** Results will be published by the end of July. The ECB will run a parallel test on another 53 European institutions under its supervision. Given the still high uncertainty, market participants will surely welcome the additional disclosure of information the exercise will bring, as it will help them to form and compare views. The exercise will not have a formal pass-or-fail capital threshold. But those entities reporting weaker results will be under increased scrutiny and, if they are particularly poor, we expect they would be required to take corrective actions. Regulators will use the results of the stress test exercise in their decisions on banks' regulatory capital requirements and may equally use them to have a more tailor-made approach to dividend distribution. The EBA also indicated that the outcome of the exercise may help to inform authorities' future decisions regarding the withdrawal of the flexibility measures granted to help banks navigate through the pandemic or the need to take additional measures should economic conditions deteriorate further.
- **Merger and acquisition activity gained momentum.** In-market consolidation—already underway in Spain and Italy-- still looks like the preferred option for banks, as it offers the possibility of realizing larger cost synergies. The ECB's accommodative stance, ensuring that M&A transactions are not too capital punitive, could provide a further push.

Key Risks

- **A soft, longer economic recovery** that proves painful to the private sector and thus results in higher asset quality problems for banks, higher provisioning needs, and weaker profitability.
- **Banks' limited success** in revamping their operating models, adapting quickly to an increasingly digitalized word, and improving their profitability. While all banks are conscious of the need to transform their business and are focusing their strategies in that direction, the sense of urgency, budget depth, ability to deliver, and quality of execution could vary widely.
- **A reversal of the favorable market conditions** currently prevailing. We expect monetary policy to remain extremely accommodative, and succeed in keeping funding costs low for governments, companies, and banks. However, a shift in investors' risk perceptions or appetite that would challenge the status quo would be detrimental for players with the weakest market access and credit quality.

Nonfinancial Corporates

- Diverging paths continue between more resilient manufacturing and export-facing sectors and more socially disrupted sectors struggling to adapt amid uncertainty about the timing and strength of recovery.
- Key risks relate to the timing of withdrawal of support measures, growing cost push inflation eroding margins, and the risk of an inflation scare triggering volatility in financial markets and tightening credit conditions.

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Key Developments

- **Ratings trends are showing signs of stabilizing** as many sectors have weathered the pandemic in resilient fashion, while the more socially disrupted sectors are struggling with further restrictions and huge uncertainty around when and how strong their recovery will prove to be. The pandemic's acceleration of secular change only increases the stakes for impacted sectors.
- **At end-March, 33% of speculative-grade ratings stood at 'B-' or below, 2 percentage points less than at the start of the 2021.** Weakest links (rated 'B-' or below with negative outlooks or on CreditWatch negative) now comprise 14% of speculative-grade ratings - almost 4 points lower than year-end – with 68% (64% December 2020) operating in the five most COVID-19-disrupted sectors: media and entertainment, restaurants/retail, auto, capital goods, and transportation.
- **Both sustainability and the environment have become more important societal issues** following the pandemic. And in Europe, it provides opportunities for business as the authorities look to build back greener, for instance, as reflected in the €673 billion Recovery and Resilience Facility (RRF) that is at the core of the Next Generation EU recovery plan. The auto sector is benefiting from this trend as future mobility plays an important role in achieving any CO_2 emission targets. Automakers, which have performed better than our expectations during the pandemic partly due to the preference for private mobility, should see light vehicle sales growing in the coming quarter by about 8%-10% in Europe under our assumptions. However, it won't be easy for incumbent producers to maintain market positions and profitability, even though they are investing heavily in electric and hybrid model ranges with remarkable reductions in CO_2 emissions[3].

Assumptions

- **The leisure sector (praying for summer)** has lost ground because of stringency measures to combat COVID-19. Prospects for summer remain in the balance due to the third wave and uncertainties about the pace of the vaccine rollout in Europe. We believe that hospitality might benefit from local tourism. Limitations to international travel are likely to remain until the pandemic becomes manageable, including via a rollout of vaccination programs to the rest of the world. Businesses are adapting. Some luxury hotels are starting to offer hybrid models including lifestyle experiences, like luxury spas, to cater to a new market in their expectation that business travel faces a prolonged slowdown. The segment holiday homes is the sweet spot within the leisure subsector, being prepared for staycations in the U.K. and France, for instance.
- **We are more optimistic about the timing of the recovery for restaurants and bars** that should fully reopen after most of the population has been vaccinated in Europe by early autumn. However, credit metrics for businesses in this sector are unlikely to return to pre-COVID-19 levels until 2023.
- **More time spent at home has supported the durable goods sector** with increasing purchases of home appliances and furniture. Part of this spending will likely return to other uses during the second part of this year, assuming lockdowns have ended. However, we believe a significant percentage of people will continue to spend more time at home due to enhanced remote work and continue to invest in making homes more comfortable and efficient.
- **Airlines and airports and related suppliers are likely to suffer the most disruption** from the pandemic. The end of mobility restrictions due to COVID-19 remains highly uncertain as governments balance the risks of new waves of disease, more transmissible variants, and potential reduced efficacy of vaccines. We anticipate a delayed and subdued recovery of business traffic, airlines' most profitable segment, that will take some years to return to pre-COVID-19 levels. The need for people to travel on business has structurally reduced thanks to

[3] *Global Autos: A Bumpy Road To Recovery From COVID-19, Dec. 10, 2020*

virtual solutions that have provided essential tools for communication in the last year. This development provides an unexpected benefit in reducing carbon emissions and, over time, may also encourage business to build greater resilience in their supply chains by moving suppliers closer to home.

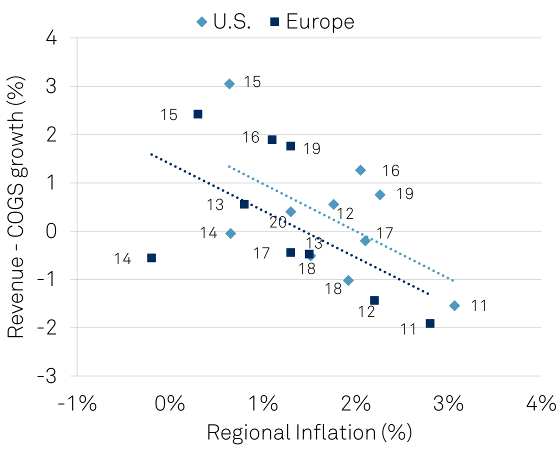
- **The metals and mining sector continues to recover** because of high demand and prices for iron ore, copper, and steel, largely due to the rapid recovery in the Chinese economy. That has been the main driver for some positive trends we are seeing in some areas of capital goods where new machinery orders are growing and in the auto sector where light vehicle sales have been strong. However, the shortage of semiconductor chips is a temporary headwind that is likely to last one or two quarters. We anticipate the supply issues will cause some short-term production shutdowns in the next quarter, particularly in the auto and electronics industries.

Key Risks

- **Policy mistakes.** Authorities face a complicated task of deciding when and how to phase out support measures. Or, how to adjust existing measures as some initiatives taken at the beginning of the pandemic--intended to ensure access to liquidity—may not be effective for companies currently in need of capital support. Withdrawing support too early could result in a spike of insolvencies and put at risk the economic recovery, while maintaining support measures for too long could keep alive unviable companies and delay the needed structural adjustment.

Chart 14

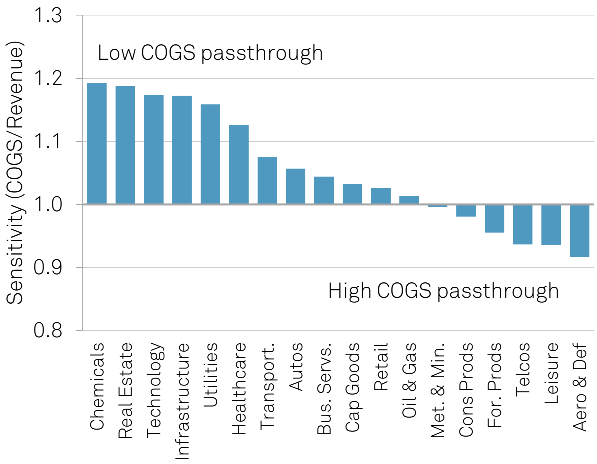
Ability To Pass On Rising Costs in U.S. and Europe



Source: S&P Global Ratings

Chart 15

Margins Typically Pressured in More Regulated/Fixed Price Contract Industries as COGS Rise



Source: S&P Global Ratings. COGS—cost of goods sold

- **Rising input costs squeezing margins**: Underinvestment and the curtailment of production capacity during COVID-19 has reduced the elasticity of supply as demand has recovered, particularly in China. Shortages and supply chain bottlenecks have elevated the cost of many key inputs, notably for agricultural goods, oil, industrial commodities, metals, freight (especially containers), and semiconductors. The risk for corporates is that margins will decline, as historically has been the case for those industries--such as regulated industries (utilities, infrastructure) and B2B activities (chemicals, real estate, transportation)--where an increase in costs have not been easily passed through to end clients (see charts 14 and 15). Businesses carrying a higher absolute level of debt and exposed to margin pressure are likely to experience a slower recovery of their financial risk profile despite an upturn in activity.
- **A rise in longer-term inflation expectations tightening credit conditions.** While we anticipate burgeoning inflation pressures to be transient in the absence of the development of more fundamental wage pressures, we remain concerned that an inflation scare could create volatility in government bond markets if investors challenge central banks to change forward guidance to bring forward the turn in the rate cycle. A disorderly repricing would hit highly leveraged credits, particularly in COVID-19-disrupted industries, such as leisure or transportation, putting into question the viability of vulnerable companies and raising the risk of default.

International Public Finance

- European local and regional governments (LRGs) remain largely resilient to pandemic-inflicted economic difficulties.
- Some entities, however, face stronger headwinds to their credit standing. In response to COVID-19, regions in Austria and Germany have adopted a countercyclical fiscal policy. We believe that the delayed exit from the pandemic will produce wider budget deficits in 2021.
- A post-pandemic transformation of local economies with signs of accelerated suburbanization across Europe will test the budget strengths of large urban areas, leading to lower demand for urban services, including transport, and commercial real estate. This will dent the base of property taxes and increase demands for subsidies to protect the quality and quantity of public services.
- Compared with international peers, U.K. universities benefit from solid domestic and overseas demand that supports their performance despite constrained mobility.
- The U.K. government's focus on the better quality of social housing might renew financial pressure on housing associations and crowd out their investments in new units amid still high demand.

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Key Developments

– **Most European LRGs demonstrate resilience to economic difficulties**. In unitary Western European counties, LRGs received central government grants that largely covered revenue loss as well as their elevated spending on health care, social care, and transport. Nevertheless, the gradual reduction of the central government's support, combined with demographic pressures in the Nordics and accumulated infrastructure investment backlog in France and Italy, will lead to a moderate widening of their budget deficits in 2021-2022. Due to the peculiarities of the financing system, most Spanish regions and municipalities may anticipate smaller revenues in 2022. Despite the availability of short-term support, though, the crisis may exacerbate financial pressure in the medium to long term on LRGs, which have already suffered from underfunding. We continue to observe a weakening trend for the institutional frameworks under which Swedish and U.K. LRGs operate.

– **Regional governments in Austria and Germany, though, remain committed to expansionary financial policy.** Most German states have temporarily lifted the constitutional requirement for balanced accounts (the so-called "debt brake") for 2021. We believe that regional governments in these countries continue to provide a substantial fiscal stimulus to the local economies suffering from the consequences of COVID-19. As a result, debt burdens for some states may increase materially above our previous expectations and lead to negative rating actions. Since the start of the pandemic, we lowered two ratings on German states and revised outlooks to negative on two other German states and four Austrian states.

– **In our view, large urban areas might face prolonged budget deficits as a result of the post-pandemic transformation of their economic fabric.** With accelerated suburbanization, demand for public and private services and commercial and residential real estate in core cities could diminish. That would deal a double blow to the city's finances, due to the erosion of the property tax base and a rising demand for subsidies to municipal companies. We maintain negative outlooks on ratings of Greater London Authority, City of Brussels, City of Paris, City of Rome, and City of Stockholm.

– **The business model for U.K. universities remains highly uncertain**. While they have benefitted from higher-than-expected admissions of domestic and non-EU students in the current academic year, the pandemic has severely disrupted the continuity of the academic year and led to restrictions on mobility, particularly affecting international students. Attracting international students has been always a strength of leading U.K. universities.

– **We anticipate that U.K. social housing providers might face renewed financial pressure** due to the government's intention to raise quality standards for social housing and pursue a decarbonization agenda. Growing spending on existing units could accelerate borrowings or delay development projects, necessary to meet a still strong demand. Positively, most large housing associations have sufficient liquidity facilities and benefit from strong access to capital market and local banks. Social housing providers in Sweden, France, Germany, and the Netherlands are in general less exposed to market activities and their performance will recover quicker, in our view.

Insurance

- The recovery of the bond and equity markets helped restore much of the capital surplus that European insurers lost in 2020. Full year 2020 results also displayed limited asset impairments, and we expect this risk to reduce further.
- Insurance claims fueled by COVID-19 in 2020 are unlikely to reoccur because of the usual annual renewal of contracts that are being renewing annually and are updated for pandemic exclusions. We believe that ongoing exposures to the delayed 2020 Olympics and the 2020 European Football Championships are limited and reinsured to a high degree.
- Economic recovery is likely to fuel insurance companies' top lines over the course of the year. We note the varying pace of recovery among European regions, partly owing to more or less successful vaccination and testing strategies.

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Key Developments

Capital market trends put a tight squeeze on European insurers' capital surpluses in 2020. Following some costs for derisking and impairments, we believe that many European insurers now display a capital surplus close to pre-COVID-19 levels. While capital market volatility and potential asset impairments remain a risk, we expect a normalization over the course of 2021.

The M&A trend continues, alongside favorable financing conditions for the European insurance sector. Large insurers are refocusing and deleveraging by selling subsidiaries, with acquirers increasing leverage on their balance sheets. There appears to be a strategic fit for some recent deals, often strengthening already well-established market positions. However, we closely monitor the process and success or failure of integration efforts as well as the performance of acquired subsidiaries.

Insurance claims appear to be trending back to normal, for instance, with COVID-19 lockdown-related business interruption claims not reoccurring after contract renewals. With annual non-life insurance contract renewals, pandemics are being explicitly excluded or insurance rates are reflecting explicit inclusion. We observe a number of court cases on 2020 claims still in dispute but assume residual costs to be manageable. With economic activity picking up and lockdowns ending, frequency claims, such as for motor third-party liability, might rise from 2020 lows. As of now we don't assume these to match pre COVID-19 levels anytime soon. Consequently, our stable view of the outlook for the European non-life primary insurance sector remains unchanged.

Low interest rates persist and remain a drag on insurers' investment returns, squeezing investment margins in traditional, guaranteed life insurance in particular. While European insurers continue their efforts to switch new business to capital-light products with low or no guarantees, the legacy liabilities accumulated over decades dominate some life insurers' balance sheets. However, we anticipate that existing capital buffers, along with composite insurers' robust earnings from non-life insurance, will help protect the current ratings. All in all, we believe prospects for European life insurers are stable.

Reinsurance rates are continuing their rise. We also see the same developments in industrial lines, primary insurance. However, we believe the reinsurance market is not yet a hard market, that is, with strong demand and rising prices. Besides higher rates, we see some tightening in terms and conditions, with an increasing focus on communicable disease and exclusions for silent cyber. We believe the global reinsurance sector didn't earn its cost of capital in 2020, as it has struggled to do in the past four years, due to COVID-19-related losses, large natural catastrophe losses, adverse loss trends, and fierce competition. As a result, our view of the global property & casualty reinsurance sector remains negative.

Key Risks

- COVID-19-related capital market volatility and subsequent investment losses.
- Increasing downgrades of corporate bond investments, raising capital requirements.
- Low interest rates, which are mainly hurting life insurers with legacy back books.
- A rise in refinancing needs following increasing M&A in the insurance sector.

Structured Finance

- Downgrades on less than 4% of European structured finance ratings since March 1, 2020.
- Most rating actions confined to smaller asset classes backed by distressed corporate sectors, such as retail and leisure, with few actions on consumer-backed securitizations and CLOs.
- Many mortgage borrowers that took a payment holiday have now resumed their scheduled monthly installments, although in some countries the takeup of deferral schemes remains significant.

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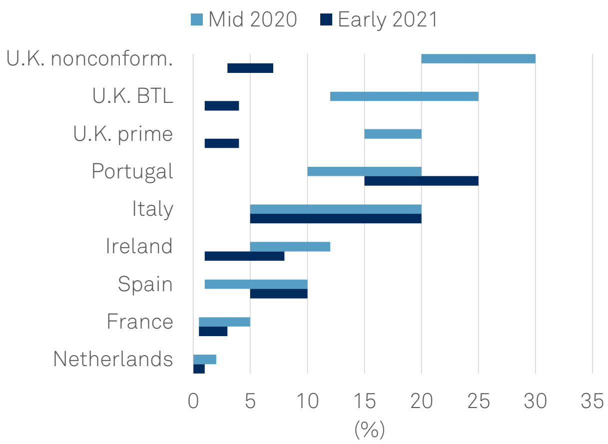
Key Developments

We have lowered less than 4% of our ratings on structured finance securities in Europe since the onset of the COVID-19 pandemic in March 2020. Corporate securitizations backed by leisure businesses and commercial mortgage-backed securities linked to retail and hotel real estate have been most affected but constitute a small portion of the overall European securitization landscape. By contrast, we have lowered relatively fewer ratings on European leveraged loan CLOs (collateralized loan obligations), which are backed by a more sector-diverse array of corporate exposures and where active management of the underlying loan portfolios has helped stem the decline in credit quality.

Chart 16

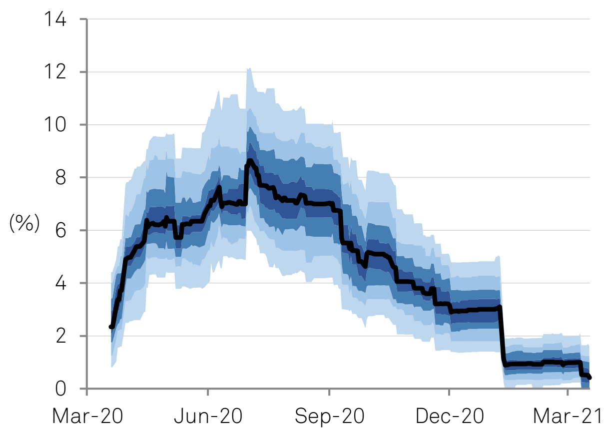
Payment Deferral Uptake In European RMBS



BTL—Buy-to-let. Source: S&P Global Ratings estimates

Chart 17

European CLO Exposure To Corporate Obligors On CreditWatch Negative



Solid line is the median, with each band representing a decile, from 10th to 90th percentiles. Estimates based on portfolios from latest available trustee reports, with ratings updated. Source: S&P Global Ratings.

For securitization sectors backed by lending to consumers—such as residential mortgage-backed securities (RMBS)—support measures like payment deferral schemes have helped prevent any significant deterioration in credit performance. Due to different eligibility criteria and application processes, the original takeup of mortgage payment deferrals varied significantly between countries and lenders, and the subsequent evolution has too (see chart 16). Across the U.K. RMBS transactions that we rate, the number of deferral cases has dropped since the initial peak in mid-2020. In the U.K. nonconforming RMBS sector, for example, anecdotal evidence from servicers suggests that 80%-90% of borrowers that initially took a payment holiday are now once again paying their scheduled monthly installments, while relatively few have fallen into arrears. In other countries, such as Italy, uptake has remained more stable as the schemes initially offered were typically longer in duration than in the U.K.

The credit quality of assets backing European CLOs generally deteriorated following the onset of the pandemic but has since stabilized. For example, across the European CLOs we rate, the median exposure to obligors whose ratings are on CreditWatch with negative implications has fallen back to pre-pandemic levels (see chart 17), indicating lower exposure to downgrade risk in the short term. This change in portfolio composition has partly been driven by CLO managers actively trading out of weaker corporate credits and sectors and redeploying proceeds into more defensive exposures.

Key Risks

We expect European structured finance credit performance to remain under pressure through 2021. For securitization sectors backed by lending to consumers, underlying borrowers have benefited from both income support through furlough schemes and reduced outgoings through payment deferral schemes, as well as repossession moratoriums for those already in credit distress. While many of these schemes have been extended in line with extensions to social restrictions, collateral performance could eventually begin to deteriorate as these support measures come to an end and unemployment rises, even though these effects may not fully materialize until the second half of 2021.

For corporate-backed transactions too, there remains some risk to ratings if greater credit distress creeps up among underlying borrowers. For example, the annualized default rate for European speculative-grade corporates was 5.4% at the end of February—a greater than twofold increase over the previous 12 months—and could rise to more than 6% by end-2021, in our view. The knock-on effect for European CLO ratings will partly depend on how well collateral managers continue mitigating credit deterioration through trading activity.

Related Research

- Credit Conditions Europe Q2 2021: New Horizons, Old Risks, March 30, 2021
- Credit Conditions Emerging Markets Q2 2021: Brighter Prospects, Prone To Setbacks, March 30, 2021
- Credit Conditions North America Q2 2021: As Outlook Brightens, Risks Remain, March 30, 2021
- Credit Conditions Asia-Pacific Q2 2021: Uneven Recovery, March 30, 2021
- Economic Outlook Europe Q2 2021: The Path To A Strong Restart, March 25, 2021
- Orderly Global Reflation Will Support The Recovery From COVID-19, March 22, 2021
- Central Banks, Credit Markets, And The Catch-22 Taper, March 22, 2021
- Spain's €11 Billion Aid Package For The Private Sector Signals A Shift From Liquidity To Solvency Support, March 18, 2021
- Global Debt Leverage: Near-Term Crisis Unlikely, Even As More Defaults Loom, March 10, 2021
- U.K. Recovery: Delayed But Stronger, March 9, 2021
- The European Speculative-Grade Corporate Default Rate Could Reach 6.5% By December 2021, Feb. 25, 2021
- COVID-19 Heat Map: Some Bright Spots In Recovery Amid Signs Of Stability, Feb. 17, 2021

Appendix 1: Economic Data and Forecast Summaries

Table 2

Real GDP %

	Ger.	Fra.	Ita.	Spa.	Neth.	Belg.	Eurozone	U.K.	Switz.
2019	0.6	1.5	0.3	2.0	1.6	1.7	1.3	1.4	1.1
2020	-5.2	-8.2	-8.9	-11.0	-3.8	-6.3	-6.8	-9.9	-3.0
2021f	3.2	5.6	4.7	5.7	3.1	4.3	4.2	4.3	3.6
2022f	3.7	4.2	4.2	6.6	3.3	4.1	4.4	6.8	3.0
2023f	1.8	2.0	1.8	2.9	1.9	2.0	2.1	2.2	1.8
2024f	1.6	1.9	0.9	2.2	1.6	1.5	1.6	1.8	1.6

Source: Oxford Economics; f--S&P Global Ratings forecast.

Table 3

CPI Inflation %

	Ger.	Fra.	Ita.	Spa.	Neth.	Belg.	Eurozone	U.K.	Switz.
2019	1.4	1.3	0.6	0.8	2.7	1.2	1.2	1.8	0.4
2020	0.4	0.5	-0.1	-0.3	1.1	0.4	0.3	0.9	-0.7
2021f	2.0	1.4	1.3	1.6	1.7	1.8	1.6	1.3	0.3
2022f	1.3	1.2	1.1	1.3	1.4	1.4	1.2	2.0	0.3
2023f	1.5	1.3	1.1	1.4	1.5	1.6	1.4	1.8	0.4
2024f	1.6	1.3	1.3	1.5	1.6	1.8	1.5	1.7	0.6

Source: Oxford Economics; f--S&P Global Ratings forecast.

Table 4

Unemployment Rate %

	Ger.	Fra.	Ita.	Spa.	Neth.	Belg.	Eurozone	U.K.	Switz.
2019	3.1	8.5	9.9	14.1	3.4	5.4	7.6	3.8	4.4
2020	4.2	8.2	9.2	15.6	3.8	5.6	8.0	4.5	4.8
2021f	4.4	8.9	9.9	16.6	3.9	6.0	8.5	6.3	5.2
2022f	4.0	9.3	9.8	15.9	3.8	5.6	8.2	5.5	4.9
2023f	3.6	8.8	9.4	15.2	3.6	5.4	7.7	4.4	4.8
2024f	3.3	8.4	9.1	14.8	3.5	5.3	7.4	4.3	4.6

Source: Oxford Economics; f--S&P Global Ratings forecast, annual averages.

Table 5

10y Government Bond Yields

	Ger.	Fra.	Ita.	Spa.	Neth.	Belg.	Eurozone	U.K.	Switz.
2019	-0.2	0.1	1.9	0.7	-0.1	0.2	0.4	0.9	-0.5
2020	-0.5	-0.2	1.2	0.4	-0.3	-0.1	0.1	0.3	-0.5
2021f	-0.4	-0.1	0.7	0.4	-0.2	0.0	0.0	0.4	-0.3
2022f	-0.2	0.2	1.1	0.6	0.0	0.2	0.3	0.5	-0.2
2023f	-0.1	0.3	1.3	0.8	0.1	0.4	0.4	1.1	-0.1
2024f	0.0	0.5	1.6	1.0	0.3	0.5	0.6	1.5	-0.1

Source: Oxford Economics; f--S&P Global Ratings forecast, annual averages.

Table 6

Exchange Rates

	Eurozone	------ U.K-----		Switzerland	
	US$/€	US$/£	€/£	SFr/US$	SFr/€
2019	1.12	1.28	1.14	0.99	1.11
2020	1.14	1.28	1.13	0.94	1.07
2021f	1.19	1.32	1.11	0.93	1.10
2022f	1.20	1.34	1.12	0.94	1.13
2023f	1.20	1.36	1.13	0.95	1.15
2024f	1.20	1.38	1.15	0.96	1.15

Sources: Oxford Economics; f--S&P Global Ratings forecast, annual averages.

Table 7

Policy Interest Rates %

	Eurozone (ECB)		U.K. (BoE)	Switzerland (SNB)
Policy Rates	Deposit Rate	Refi Rate		
2019	-0.43	0.00	0.75	-0.75
2020	-0.50	0.00	0.23	-0.75
2021f	-0.50	0.00	0.10	-0.75
2022f	-0.50	0.00	0.10	-0.75
2023f	-0.50	0.00	0.10	-0.75
2024f	-0.50	0.08	0.15	-0.75

Sources: Oxford Economics; f--S&P Global Ratings forecast, annual averages.

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