S&P Global Ratings

Credit Conditions Europe Q2 2022:

Seismic Shocks, Security & Supply

March 29, 2022

(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 23, 2022.)

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Key Takeaways

- **Overall:** The invasion of Ukraine represents a seismic systemic shock to Europe and the world. The humanitarian crisis as well as border and energy security are critical short-term priorities. The political and economic repercussions will take longer to play out. They carry significant downside risks given the highly uncertain and volatile situation, even though the European economy and financial markets have held up well so far.
- **Risks:** Energy security, further supply chain disruption, and amplification of existing inflation pressures are the dominant risks in light of the ongoing Russian invasion of Ukraine. Frontloading a monetary policy response to high inflation could lead to an excessive tightening in financing conditions. Barring a more severe variant, COVID-19 is now increasingly viewed as endemic in Europe.
- **Credit:** Financing conditions are expected to tighten as European central banks focus on inflation even as the growth outlook slows. The 14-month improving trend in credit quality is likely to reverse, with cost input pressures to increasingly weigh on corporate margins through the year. We expect default rates to move higher toward 2.5% by year end.

In the space of a few weeks, the unprovoked Russian invasion of Ukraine has triggered a second major systemic shock in Europe, and the world, in as many years. Given the highly fluid and uncertain situation, the consequences for Europe will be many and varied. A measured defensive military response and humanitarian assistance are critical priorities in the short term. The political and economic response continues to ratchet higher. Only five countries at the UN General Assembly voted against a resolution for an immediate end to the Russian offensive in Ukraine (Russia, Belarus, North Korea, Syria, and Eritrea). China and India, notably, were among the 34 countries abstaining. Several rounds of financial sanctions are being implemented and more are likely the longer Russian aggression persists, potentially including secondary sanctions to limit circumvention. The economic impact in Europe will take effect gradually depending on the course of the conflict. But, in our view, it hinges on the stringency of sanctions, countersanctions, and supply chain disruptions in relation to energy, industrial commodities, and certain agricultural products where Russia, Belarus, and Ukraine are important exporters.

The economic consequences are just beginning to unfold. In our baseline scenario, we expect the conflict in Ukraine to impact activity in Europe for one to two quarters. This aligns with market expectations, evident in an expected fall in the Urals crude discount to Brent later in the year (see chart 1). We are not assuming the conflict extends to other countries or the use of unconventional weapons in Ukraine. EU and U.K. growth is expected to slow, not stall, to a 3.3% and 3.5% annual rate, respectively, in 2022. While already high, rising inflation pressures will be amplified by the

On March 9, 2022, S&P Global Ratings announced the suspension of its commercial operations in Russia. Following that, on March 15, 2022, the EU announced a ban on providing credit ratings to legal persons, entities, or bodies established in Russia. In light of this, S&P Global Ratings will withdraw all of its outstanding ratings on relevant issuers before April 15, 2022, the deadline imposed by the EU.

dislocation in commodity markets (including for certain agricultural products). And even when the conflict is over, we believe that reversing sanctions will likely be slow and gradual. Headline inflation is expected to peak around 8% and 6% during the year in the U.K. and EU, respectively.

Chart 1

Urals Discount To Brent Reached $30/bbl

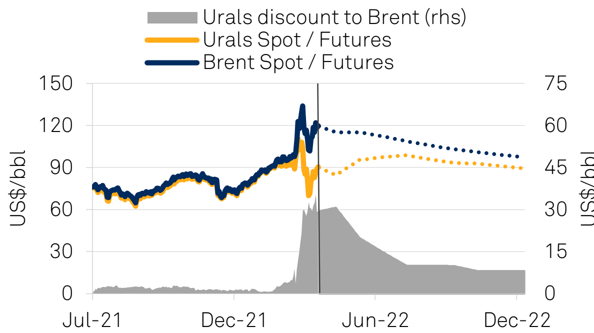


Chart 2

EU Energy Dependency On Russia Proving Expensive (Dec. 31, 2019=100)

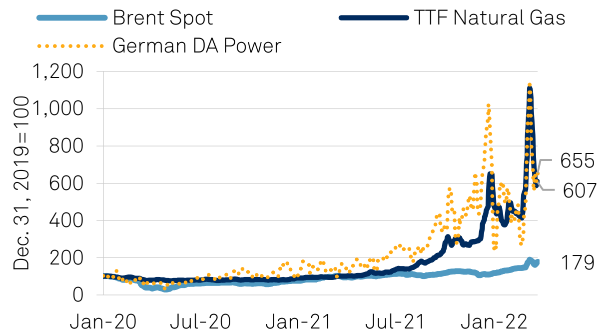


Chart 3

TTF Natural Gas Prices Remain Elevated Through Winter 2022

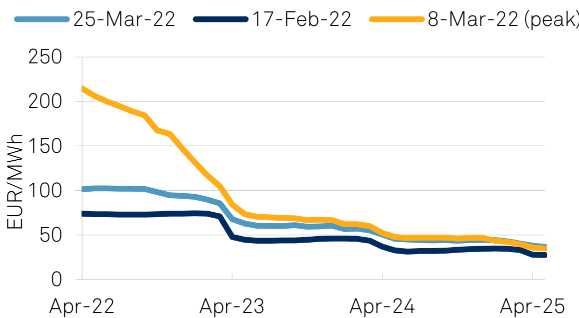
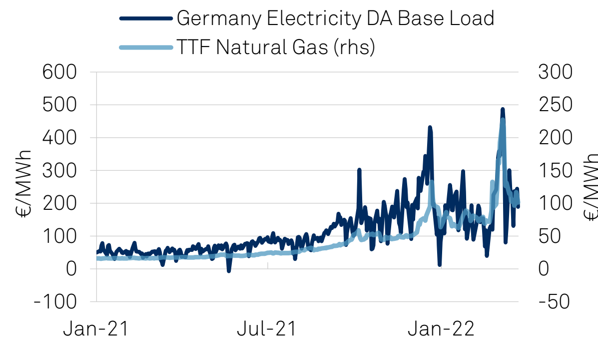


Chart 4

Volatile Gas Prices Key Driver Of Electricity Prices In Europe



Source: Bloomberg. Data as of Mar. 25, 2022

However, the downside risks are significant. Even without the conflict spilling over into other countries or with a significant escalation involving unconventional weapons, it could persist for much longer than one to two quarters, the humanitarian crisis could get much worse, and financial and energy sanctions regimes could be tightened up even more.

An extended disruption of Russian energy supplies to the EU (particularly natural gas) would be particularly consequential. This could occur if full, or partial, Western sanctions were extended to Russian energy exports, Russia cut off supplies, or transit routes were damaged. Currently, Russian energy imports are specifically excluded under the current sanctions framework due to the EU's high dependency on Russian energy (especially gas). However, we expect political pressure will continue to build for a more punitive approach as long as Russia continues hostilities in Ukraine, even if it comes at an economic cost to Europe. In anticipation, European countries are seeking alternative suppliers as quickly as possible. The U.S. has already said it will strive to ensure an additional 15 billion cubic meters (bcm) of LNG to the EU before the end of the year, and Germany is negotiating for additional LNG from Qatar. Furthermore, this diversification drive dovetails with the new REPowerEU strategy announced on March 8 to achieve independence from Russian fossil fuels by 2027 - an ambitious program accelerating the transition to renewables, improving energy efficiency, and diversifying gas imports.

But the reality is that replacing 140 bcm of Russian gas quickly (including 118 bcm through pipelines) remains aspirational in the near term[1]. S&P Global Commodity Insights estimates that spare LNG regasification capacity of around 40-50 bcm is available in Europe if LNG supply can be

[1] *Europe's Exit From Russian Gas: 10 Questions On Utilities, March 17, 2022*

acquired. Also, alternative gas supplies from Norway, North Africa, and Azerbaijan could provide an additional 25 bcm. This would still leave Europe reliant on about 70 bcm of Russian gas.

Sourcing LNG remains difficult and very expensive. Globally, LNG is a tight market that operates on long-term contracts, given extended payback periods and the heavy capital expenditure required upfront. This means that LNG prices would have to remain at historically high levels to encourage those owning long-term contracts to sell to European buyers if they can. Current natural gas prices remain above €100/MWh, over 6 times higher than prices at the end of 2019 (see chart 2). Even then, without significant state subsidies or guarantees, the private sector will have little incentive to buy any additional gas required to rebuild storage levels back to 90% (from about 26% as of mid-March) by October 2022 given that forward sales for next winter would realize losses (see chart 3).

The bottom line is a potential supply shortfall and further energy price spikes, if tougher sanctions extend to Russian energy exports to the EU, which some may view as a necessary next step to counter Russian aggression. In this high-risk scenario, spot Brent crude prices could return above recent highs of $137/bbl (see chart 1); TTF natural gas could flare back up above €150-€180/MWh (see chart 4), with a commensurate impact on European electricity prices. Almost certainly, this would necessitate a degree of energy rationing for more energy-intensive industries and require government intervention, such as capping prices or providing subsidies to some businesses and households. In our view, a supply shock causing material production shutdowns would have a bigger negative impact on eurozone growth than short-term volatility in the price of energy.

Other key messages

- **Financing conditions: The seismic shock caused by the invasion of Ukraine represents a turning point in the credit cycle**, not least because central banks are hiking rates from historical lows to counter amplified inflation pressures even as growth slows, potentially sharply. Although credit quality has been consistently improving for 14 months, and refinancing risk is low for most nonfinancial corporates, we don't expect defaults in Europe to remain at zero for much longer.
- **Sovereigns: On average, eurozone governments are still refinancing their debt at around 100 basis points below the average cost of their entire debt stock** even after yields had risen more than 100 bps in the last year. A growing risk is that central banks, including the ECB, are no longer able to look through the amplified inflationary consequences of the conflict in Ukraine. Frontloading a material tightening in monetary policy would be taxing for growth and weaken public finances.
- **Financial institutions: The exposure of the four European banks most directly affected by the consequences of the war in Ukraine and related sanctions effects** - OTP, Austrian Raiffeisen, UniCredit, and Société Générale – is largely contained. However, the impact on group profitability is more significant (particularly for Raiffeisen and OTP). Although to different degrees, all banks will suffer from second-round effects, notably additional pressure on already modest returns and higher operational risks.
- **Nonfinancial corporates: The key transmission channels affecting credit prospects stem most directly from escalating energy costs and supply chain disruptions** exacerbated by Russia's invasion of Ukraine. We are concerned that profit margin pressures could start to ratchet up in 2022 as growth slows, compounded by the dilemma of raising wages to compensate for cost-of-living increases. Liquidity is not a pressing issue for most (although variation margin calls for utility companies are being monitored closely), even though we expect funding costs to rise and access to capital markets to be restricted for some more vulnerable companies.
- **Structured finance: Underlying collateral credit quality and counterparty risk are the two main contagion channels we are watching as the Russia-Ukraine conflict unfolds**, although we only anticipate a limited impact on the European transactions we rate. European CLOs may contain some assets affected by the conflict, notably in the autos, building materials, and utilities sectors, but overall CLO exposure in these sectors is quite small.
- **Insurance: While direct insurance and investment exposure to Russia and Ukraine for the larger European insurers appears limited**, we are monitoring certain lines closely given the volatile and rapidly changing environment, including sanctions. These lines include: aviation/marine, credit, political risk business, business interruption, and cyber.

Top European Risks

Table 1

The conflict in Ukraine risks further commodity supply shocks, extended price pressures, and stalling growth

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

Russia's military aggression in Ukraine and the resulting commodity price shock -- including for some agricultural products, industrial metals, and oil and gas -- together with a raft of sanctions (with exceptions for Russian energy supplied to the EU) -- underpin our revised base case forecasts. For Europe, this translates into moderately slower growth, higher inflation pressures, and delays to planned fiscal consolidation.

Downside risks to our base case remain material. They include the conflict lasting longer than one to two quarters and sanctions being tightened further and remaining in place for an extended period. Of particular consequence, and a high risk, would be sanctions or countersanctions that rapidly curtailed Russian energy supplies to Europe. This would trigger a further significant energy price shock, with the risk that the economy could stall if activity was curtailed on the back of a material rationing of energy, or production in energy-intensive activities becoming uneconomic.

While the risk of NATO becoming embroiled in a wider conflict would be catastrophic, we view this as a low likelihood tail risk.

A growing geopolitical schism as the world order fractures

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

The conflict threatens a deeper geopolitical schism between autocratic and democratic blocs that could undermine decades of economic cooperation and development, with widespread implications for global security, trade, supply chains, communications, the environment, and global health. The conflict also threatens to destabilize lower-income countries in Africa as higher food prices lead to greater food poverty that has in the past caused social upheaval and triggered migratory flows of people toward Europe.

Escalating inflation forces the ECB and other central banks to frontload rate tightening, generating a rate shock for governments, households, and companies

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

A growing downside risk, as another supply side shock causes headline inflation to diverge further from target, is that the BoE and ECB are forced to rapidly raise interest rates, despite slowing growth and some demand destruction over time for high-priced commodities. Wage pressures feeding off tight labor markets and declining real incomes would add to the urgency.

The resulting sharp reset of interest rate expectations would increase financial market volatility, increase credit spreads, tighten financing conditions, and potentially restrict access to financing for those governments and corporates with weaker balance sheets and near-term refinancing requirements. The structural task of restoring balance sheets extends to many advanced economy sovereigns that ran significant deficits to counter COVID-19. This is a multiyear process with our concern that the budgetary consolidation required to maintain sovereign credit quality in Europe may be delayed by higher spending incurred to address the security, humanitarian, and economic effects unleashed by Russia's military aggression in Ukraine. Already the reactivation of the fiscal rules in the EU's Stability and Growth Pact, originally planned for 2023, looks to be delayed by at least another year.

COVID-19 increasingly viewed as endemic in Europe

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

Vaccine efficacy and the reduced severity of the dominant omicron variant is enabling European health authorities to shift toward treating the disease as endemic. Almost all remaining restrictions are being removed, despite infection rates remaining high and above previous peaks in some European countries. This contrasts with China where zero-COVID-19 tolerance translates into sporadic citywide lockdowns, with consequent disruptive effects for supply chains, adding to European supply pressures.

While the risk of new COVID-19 "escape variants" cannot be totally excluded, the rapid development of vaccine technologies and treatments provides some reassurance that future outbreaks would likely present a lower health risk and prove less economically disruptive than experienced over the last two years in Europe.

Structural Risks

Energy transition becomes even more critical and challenging for Europe

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

The Russia-Ukraine crisis has starkly exposed the risks of relying on Russian oil and gas during the energy transition in Europe. In the short term, security of supply remains paramount even at the cost of switching to more carbon-intensive energy sources, such as coal, or a more costly relaunch of nuclear. At the same time, the political priority is to accelerate the energy transition with more ambitious plans for renewables, biofuels and, as required, LNG. This will take at least two to three years, involve changes to the energy market design in Europe, and be challenging, given raw material and component shortages as well as rising inflation pressures. In addition, the growing gap between current emission trajectories and those needed to align to a 1.5 degree Celsius target by 2030 will disrupt industries and business models (notably in the automotive, building, cement, steel, transportation, and utilities sectors) and create societal tension as policymakers struggle to balance short-term social and economic priorities with long-term decarbonization ambitions.

Mounting cyber attack risks from geopolitical tensions and increasing digitalization

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

The pace of digitalization in the global economy exposes corporates and countries to mounting cyber risks—where targets can include anything from utilities to insurers to government agencies, weigh on credit quality, result in substantial monetary losses, and undermine confidence in key institutions and infrastructure. Russia's use of cyber attacks during its military conflict with Ukraine proves how these moves are becoming a more prevalent means of weaponry, with systemic implications.

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.

S&P Global Ratings acknowledges a high degree of uncertainty about the extent, outcome, and consequences of Russia's military intervention in Ukraine. Irrespective of the duration of military hostilities, sanctions and related political risks are likely to remain in place for some time. Potential effects could include dislocated commodities markets -- notably for oil and gas -- supply chain disruptions, inflationary pressures, weaker growth, and capital market volatility. As the situation evolves, we will update our assumptions and estimates accordingly. See our macroeconomic and credit updates here: Russia-Ukraine Macro, Market, & Credit Risks. Note that the timing of publication for rating decisions on European issuers is subject to European regulatory requirements.

Macroeconomic Outlook

- For the moment, the European economy is weathering the conflict well, with our latest EU growth forecast at 3.3% for 2022, down 1.1 percentage points versus December, and inflation at 5.0% for the year, up 3.0 points.
- External trade, commodity prices, and confidence are the main channels of propagation of this new shock to the European economy that we assume will dampen activity for one to two quarters.
- Our expectation is that the ECB will start raising the policy rate gradually from December, with the repo rate reaching 1.5% by mid-2024.
- Clear downside risks to our forecast are a protracted conflict between Russia and Ukraine or its expansion. So are uncertainties about how much of the higher costs households are willing to absorb by tapping into their savings.

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Eurozone

- **The European economy was recovering from the omicron wave of COVID-19 when it got rattled by the conflict in Ukraine.** Omicron did not derail the European economy at the end of last year, despite record-high incidence rates in many countries. Yet, it caused a sharp slowdown, with eurozone GDP growing by a modest 0.3% in the final quarter of 2021, compared with more than 2% in each of the previous two quarters. Consumer spending has been a drag on growth, falling a quarterly 0.6% in the fourth quarter of 2021 due to renewed restrictions on mobility and contact-intensive activities. On the other hand, business investment, exports, and inventories rose sharply in the final three months of 2021, helped by a strong rebound in German industry (up 2% in the fourth quarter) after severe bottlenecks led to production stops in the third quarter. That said, industry is far from business as usual. The shortage of raw materials remains an important factor limiting production, particularly in the capital goods sector, and production is still struggling to make up for the backlog (see chart 5).

Chart 5

Eurozone Industry – Materials Cited As A Factor Limiting Production

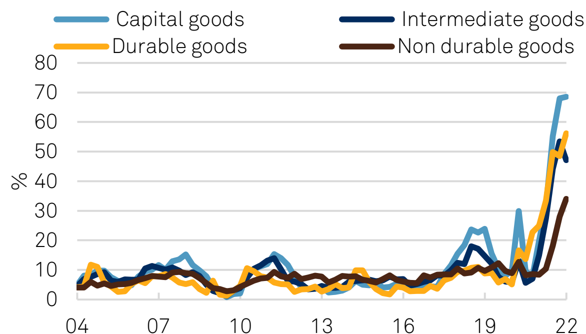
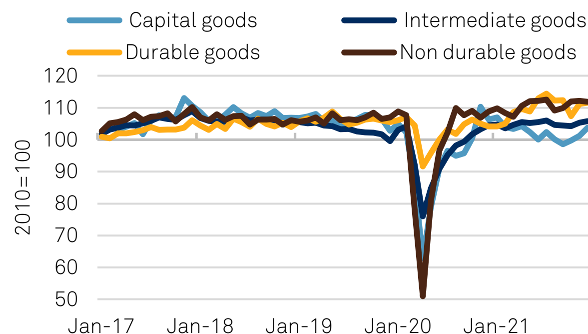


Chart shows the proportion of eurozone firms reporting a lack of material and/or equipment as the main factor limiting production. Source: European Commission.

Chart 6

Eurozone Industry – Production By Sector



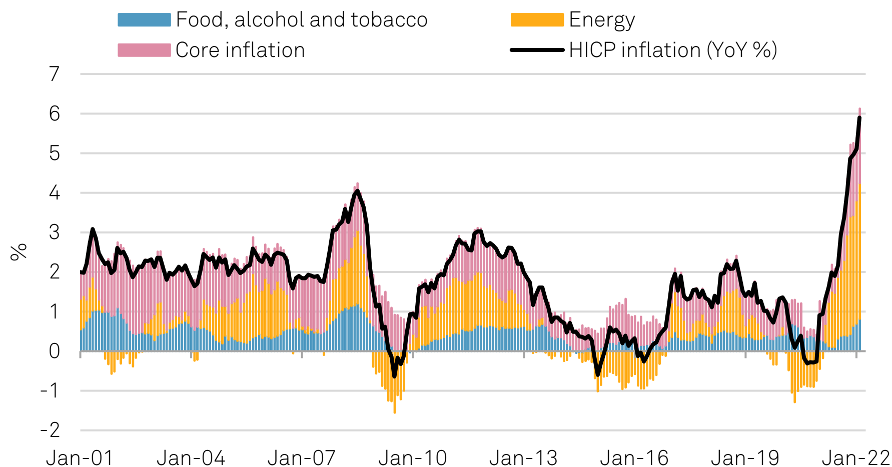
Source: Eurostat

- **On the COVID front, the first months of 2022 are the opposite of the last months of 2021.** A sharp drop in new infections allowed most European governments to lift restrictions. Consumer-facing services have reopened. Retail sales increased 0.2% in volume in January, despite soaring consumer prices, fueled by more jobs and excess savings, with wages remaining modest compared to what the tight labor market would suggest. Inflation climbed to 5.9% in February on soaring energy prices. Inflation is also becoming broader, with food prices now also on the rise (see chart 7).
- **At this stage, its seems that the European economy can withstand the conflict in Ukraine, but not without consequences for growth and inflation.** External trade, commodity prices, and confidence are the main channels of propagation of this new shock to the European economy. Taking them into consideration, we have lowered our GDP growth forecasts for the eurozone in 2022 by 1.1 points to 3.3% and raised our inflation forecasts by 3.0 points to 5.0%. Two-thirds of GDP growth in 2022 is just carryover from 2021, as GDP has been lowered by the pandemic last year. The factors supporting our forecasts are that Russia is only the fifth destination of EU

exports, accounting for no more than 4% of total goods exports. Higher energy and commodity prices can be cushioned by excess savings and fiscal policy, which is working to mitigate their impact in most European countries. What's more, if confidence takes a severe knock from the conflict, it will be from a high level. In this new context, we expect the ECB to raise rates 25 basis points a quarter from December until the repo rate reaches 1.5% by mid-2024. The window for a first hike in rates would open as soon as September. However, we believe the ECB might be tempted to wait for the release of its 2026 inflation forecasts in December before acting.

Chart 7

Eurozone HICP Inflation And Contributors



Source: Eurostat, S&P Global Ratings Research

- **That said, uncertainty surrounding our forecasts is unusually high.** Commodities prices have a larger direct impact on the European economy. However, the duration, intensity, and extent of the conflict can knock confidence and exacerbate supply chain issues. Bottom line: The risks for growth are tilted to the downside, and the risk for inflation is on the upside.

Key Assumptions

- In our baseline scenario, we expect the conflict in Ukraine to dampen activity for one to two quarters. We do not expect the conflict to extend to other countries or involve unconventional weapons.
- Russian exports of oil and gas to the EU will not be cut off.
- Commodities prices, especially oil, should ease gradually once the conflict stops.
- Supply chains should not be permanently disrupted.

Key risks

- A longer duration, higher intensity, and extension of the conflict to other countries, which could lead us to reassess our baseline scenario. Confidence and supply chains could be particularly impaired by an extension or an intensification of the conflict. Supply chains could permanently be disrupted.
- An overreaction of monetary policy to high inflation, leading to an unwarranted tightening in financing conditions.
- Renewed disruption of supply chains in Asia because of COVID-19.

What to look for over the next quarter

- Any development in the conflict between Russia and Ukraine.
- Commodity prices and global supply chains.
- Consumer behavior (saving rate) in the context of a shock on confidence and high inflation.
- Possible spread of COVID-19 to Europe from Asia, even if the virus has a lesser impact on the economy.

U.K.

Inflation Above Target Well Into 2023

- **The recovery momentum still present in the U.K. economy now faces headwinds from much higher inflation**, which could peak at about 8% this year. Inflationary pressures have picked up since our previous forecast, most recently due to the Russia-Ukraine conflict, which pushed up global energy prices, but which will also have second- and third-round effects via supply chains and higher food and commodity prices. The U.K.'s direct exposure to Russia and Ukraine is very limited.

  Upward price pressures will to some extent become embedded in the wider economy via domestically produced goods and particularly stronger wage growth, so that inflation will also remain above the Bank of England's target of 2% well into 2023. To curb these dynamics, the BoE raised its policy rate for the third time in March, bringing it back to pre-pandemic levels of 0.75%.

  Because tightening may have a stronger impact in this situation—where it is occurring in an economy that is naturally slowing after a strong recovery —it may mean that further tightening might be less than wider market expectations suggest.
- **The main impact on the economy will come from inflation, not from higher interest rates,** which even after further tightening will remain historically accommodative. A head start into 2022 and a significant household savings buffer will offset some of this impact. We now expect GDP growth of 3.5% this year and 2.3% next year.
- **Risks to the forecast are unusually elevated**. A protracted conflict between Russia and Ukraine or its expansion are clear downside risks. So are uncertainties about how much of the higher costs households are willing to absorb by tapping into their savings.

Financing Conditions

Global Tailwinds Replaced by Regional Headwinds

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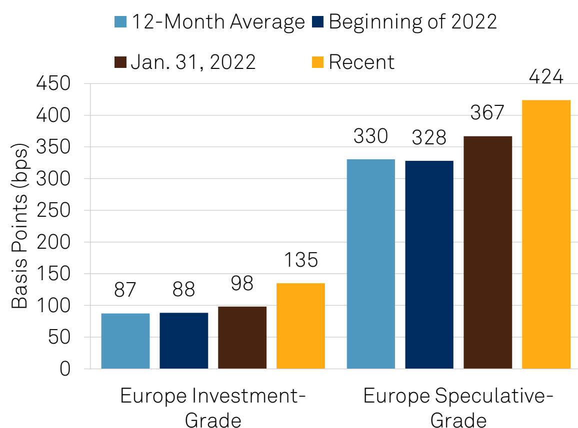
- **Financing costs set to steepen sharply.** The haven status of core European benchmarks may seem questionable based on the sharp movement upward in benchmark yields in recent weeks, with 10-year German Bund yields at levels last seen in 2018, but the reality is more straightforward. Investors are more focused on underlying inflation, rising commodity costs, and what the combination of the two might mean for rate hikes and less accommodative monetary policy, all while economic growth expectations are scaled back.
- **The rise in financing costs has been exacerbated by a steep rise in credit spreads**, due to a reduction in risk appetite and a renewed focus on credit pricing, rather than solely specific concerns about credit fundamentals. Indeed, despite recent tightening, European speculative-grade spreads have risen by about 29% since the start of the year, while investment-grade spreads have risen by over 50% (see chart 8). Clearly, spreads were rising from a very low base, and the recent widening only brings them back to 2020 levels. Still, the reality is that the period of cheap financing costs has passed - at least for now.

Chart 8

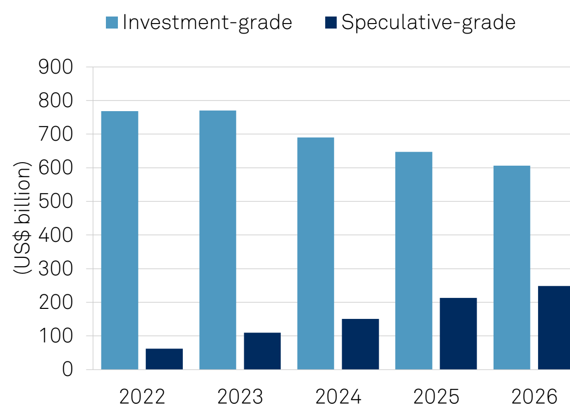
European Spreads Surge



Source: S&P Global Ratings, S&P Down Jones Indices, Federal Reserve Bank of St. Louis. Data as of Mar. 24, 2022.

Chart 9

Near-Term Maturities Focus - Primarily On IG



Includes bonds, loans, and revolving credit facilities rated by S&P Global Ratings. Data and foreign currencies converted to U.S. dollars as of Jan. 1, 2022. Source: S&P Global Ratings Research.

- **Issuance has stalled, but low refinancing risk should mitigate near-term pinch points for speculative-grade borrowers.** European nonfinancial issuance through mid-March stands at around half its 2021 level. On the surface this is not unduly concerning because continued growth was a tall order following the record-breaking years which preceded. However, of more concern is that primary markets remain effectively closed at least to speculative-grade issuers for close to a five-week period, due partly to investor pullback and issuer reticence about sharply increasing clearing pricing levels. However, near-term speculative-grade refi risk is limited as issuers took advantage of accommodative financing conditions over recent years to term out maturities. The result is that around 90% of debt maturing through 2023 is investment-grade rated (see chart 9). While investment-grade issuers may have easier access to markets, they are going to need it as European corporate debt reaches its peak maturity in 2023.
- **Credit quality not an issue for now – but tide may be turning.** Europe has yet to experience a default in 2022, in contrast to the total of five for the same period in 2021. Positive rating actions continue to outpace negative actions in February – for the 14th consecutive month – pointing to an underlying trend of ongoing recovery in credit quality. Nevertheless, there is a long way to go to recover to pre-COVID levels, with downgrades between February 2020 and 2022 still outnumbering upgrades by a factor of 2.2, and positive rating momentum has slowed. In fact, the number of weakest links* has risen for the first time in 19 months, with European weakest links rising to 61 from 48. It is likely that defaults will not remain at zero for much longer, considering that weakest-link default rates are on average 8x higher than overall speculative-grade default rates and the concurrent risks of higher inflation, spiraling energy costs, and the ongoing conflict.

** Issuers rated 'B-' or lower with negative outlooks or ratings on CreditWatch with negative implications.*

Financial Institutions

- When everything suggested that in 2022 the pandemic would be over, Europe would benefit from solid economic growth, and monetary policy would start normalizing, the Russian invasion of Ukraine altered the picture.
- We immediately lowered the ratings on Russian, Ukrainian, and Belarusian financial institutions to reflect a strong likelihood of near-term default.
- Our ratings on Western European financial institutions, however, remain broadly unchanged, as direct exposure to Russia and Ukraine is limited. Only four banks—Raiffeisen, OTP Bank, Société Générale, and UniCredit—which run domestic operations in Russia and Ukraine, are relatively more exposed. We expect them to be able to manage the shock, although ratings pressure could rise for some if they ultimately end up losing the capital invested there and thus future income streams.
- Second-order effects, from slower economic growth, higher commodity prices, more persistent inflation, and financial market volatility, could become more relevant for European banks--particularly to their profitability prospects. Furthermore, the likely escalation of cyber attacks and the difficulties in implementing sanctions heighten operational risks for banks.

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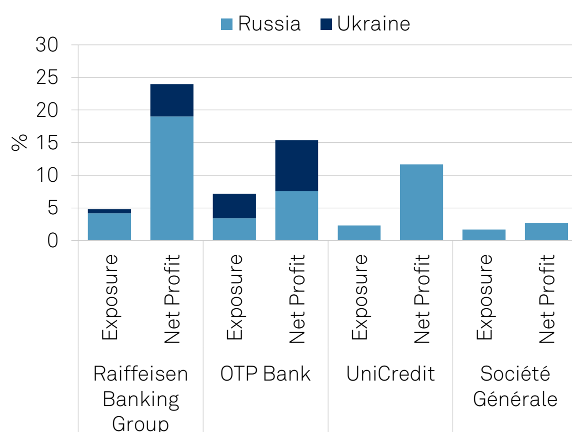
Key Developments

- **Hungary's OTP, Austria's Raiffeisen, Italy's UniCredit, and France's Société Générale, all operate domestic subsidiaries in Russia and Ukraine, and so are directly exposed to the consequences of the war in Ukraine and related sanctions effects.** Overall, we expect these banks to prove resilient. Their exposure to the region is contained (see chart 10), although the contribution to group profits is more significant, particularly for Raiffeisen and OTP, representing 24% and 15% in 2021. Weaker credit conditions in Russia or policy interventions could mean that these European banks have to recognize losses on their equity investments (and any intragroup funding) and potentially lose future earning streams from Russian and Ukrainian operations. Therefore, they could face increased ratings pressure, particularly if second-order effects weakened credit conditions in neighboring countries where they also operate.

Chart 10

Raiffeisen And OTP Are The European Banks Most Directly Exposed To Negative Developments In Russia And Ukraine

Share of group assets and profits from Russia and Ukraine

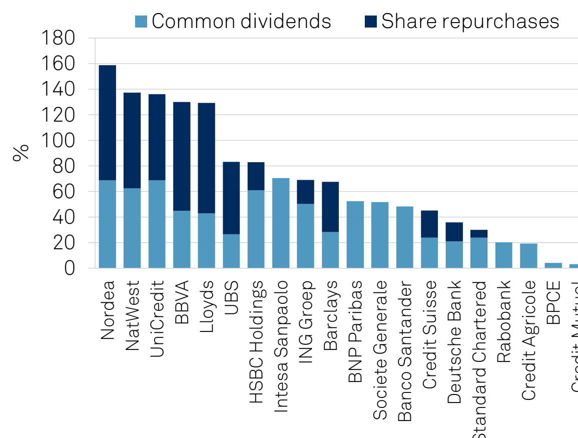


Exposure calculated over total assets for Raiffeisen and OTP, over EAD for UniCredit and SocGen. Source: EBA, Banks' own Reporting, S&P Global Ratings.

Chart 11

European Banks Have Stepped Up Shareholder Distributions After The Hiatus In 2020

S&P's expectations for distributions in 2022 (% net income)



Note: Some of the buyback programs had already started in 2021 and may extend beyond 2022. Data as of Jan. 27, 2022. Source: S&P Global Ratings.

- **The war in Ukraine will reduce Europe's growth prospects this year and thus cloud banks' already modest profitability prospects.** But at present we don't see capital or funding threats for European banks. Furthermore, the impact is likely to be uneven, varying across banking systems and banks. While prior to the invasion of Ukraine and under a brighter economic outlook, we already saw limited profitability improvements in 2022, now downside risks to our forecasts have mounted. Revenues could decrease (due to lower business volumes and lower prospects for earnings linked to market performance), and operating costs as well as credit

costs could rise. Lending books to corporates rather than households are more vulnerable in our view. At present, though, we expect the impact will be broadly manageable for the European banking sector.

- **The likelihood of cyberattacks against European banks and key financial infrastructure has increased.** And with that, the risk of business interruption and financial impact. Additionally, European banks will run into higher compliance risks, since ensuring adherence to frequently updated sanctions may prove operationally difficult.
- **The failure of Sberbank Europe due to an acute liquidity crunch tested Europe's crisis management framework.** And it may not be the only one: VTB Bank Europe could be next. The problem was quickly identified and addressed. Five different resolution authorities were involved and decided to resolve five of the group's eight subsidiaries, which were sold to local banks, and liquidate the remaining three. Neither depositors not taxpayers lost money. The collapse of Sberbank also serves as a good reminder of how quickly an institution could fail once depositor confidence fades away. Following the imposition of sanctions to its Russian parent, Sberbank suffered large deposit outflows and managed to resist only five days.
- **Concerns about potential build-up of asset bubbles in property markets led to the reinstatement of banks' countercyclical buffers in several jurisdictions, namely Germany, Switzerland, and Norway.** Others like Sweden, the Netherlands, or Ireland could be next, as real estate prices there have increased in the high single or double digits recently. The higher capital requirements will be enforced with some delays, and banks should not have trouble complying with them. Whether the measure will be effective to curb credit supply and reduce the pace of property price expansion is more of a question mark. Indeed, authorities may need to activate broader macro and micro prudential measures to avoid a bubble.
- **Distributions to shareholders are back, and we don't think most players will place these decisions on hold for now** (see chart 11). Only the banks more directly affected by the war in Ukraine and its consequences for Russia could reconsider them if the most severe scenarios were to materialize. In light of their stronger than expected performance in 2021, capital running above targeted levels for many and the delayed, likely softer implementation of the Basel III reforms, European banks have announced generous distributions to shareholders. In some cases, distributions will exceed our profit expectations for 2022, as banks aim at compensating shareholders from dividends lost during the pandemic. Banks' capitalization could thus decline somewhat but will remain solid overall.

Key Risks

- **The persistence of high energy prices and inflation, supply bottlenecks, and potentially weaker confidence that would take a higher toll on growth and erode corporates' profitability**. In turn, this would hamper the quality of banks' loan books and their business and profitability prospects. Additionally, in a scenario of persistent high inflation, banks' management teams will find harder to keep operational expenses under control.
- **Unexpected, abrupt tightening of monetary policy leading to restrictive financing conditions and financial turbulence.** Riskier borrowers could suffer from higher funding costs and limited access to financing, which would ultimately result in higher credit losses for banks. A rapid, sharp market repricing could also expose banks to mark-to-market losses and weaker earnings from market-related business, like asset management.
- **A build-up of asset bubbles in some property markets.** Given that our base case contemplates only a smooth tightening of monetary policy and still abundant liquidity, property markets may remain dynamic and, in the absence of wider regulatory measures, lead to the buildup of asset bubbles.
- **Banks' failure to deliver commercially and operationally resilient business models.** To become more profitable, banks need to continue addressing their inefficiencies, while at the same time they have to accelerate their digital transformation to cope with rapidly changing customer preferences and increased competition from digitally advanced new entrants.
- **Widespread, high-impact cyber attacks.**

Nonfinancial Corporates

- We lowered 52 ratings on companies based in Russia to 'CCC-' and placed them on CreditWatch negative to reflect our concerns about their ability to service and repay outstanding debt and the increased risk of default due to the sanctions. We also lowered five ratings in Ukraine to 'B-' after the downgrade of the sovereign rating to this level, reflecting the effects of the conflict on the economy.
- For European corporates and utilities, the broadest shock from the conflict is the increase in energy costs that we now see as structural.
- The European energy transition plan has been accelerated, but the measures outlined in the REPowerEU plan designed to lessen the impact of energy cost increases will take several years. Even so, many companies in the most energy-intensive sectors have headroom in the current ratings, having reported extremely solid results in 2021.
- In addition, some metals, agricultural goods, fertilizers, and a few other goods are becoming increasingly scarce due to the conflict and sanctions applied against certain Russian entities.

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Key Developments

- **The increase in energy costs in Europe is particularly pronounced given the dependence on Russian gas.** The EU imports 90% of the gas it consumes and, on average, about 40% comes from Russia (45% in 2021), with few options available to substitute this quantity with alternative suppliers or energy sources. The sharp increase in gas prices caused by the conflict has the broadest financial impact on utilities, which then feeds through to corporates. We note that the visible impact will appear gradually once corporate's energy contracts with utility companies roll off and are renewed at higher prices. The end of winter might help as gas needs for household uses declines, but the need to replenish very low gas stocks in Europe will replace this lower demand. We are also monitoring risks related to potential interruptions in supply and potential alternative solutions. We are aware that many utilities have in place hedging structures that limit their exposure to price and volume risks. Nevertheless, the sudden increase in gas prices in a few cases has led to enormous calls on liquidity to meet variation margin calls. Working capital, more generally, is also much higher given the more volatile operating environment.
- **The REPowerEU plan under discussion in the EU will attempt to mitigate the negative impact of energy cost increases for corporates**. The EU is inclined to keep retail energy prices under control through price controls or subsidies. In addition, we expect governments to cushion the impact of higher energy prices for companies via temporary tax measures on windfall profits.

Chart 12

European Pipeline Gas Imports By Source

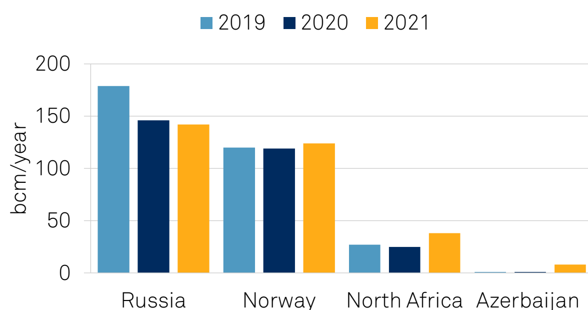
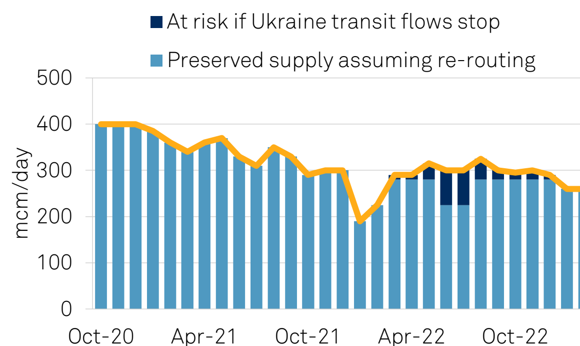


Chart 13

Russian Gas Flows To Europe (NWE/CEE/IT)



Source: S&P Global Commodity Insights

- **Energy is not the only part of the equation, the cost of several other raw materials and goods is increasing.** Beyond gas and oil, Russia produces metals and agricultural products, and Ukraine is also a large exporter of wheat, barley, and sunflower seeds (see charts 14 and15). The sanctions imposed on the exports of Russian goods and the effects of the conflict in Ukraine have determined increases in cost of several raw materials and are pushing up inflation. These add to the disruptions and the bottlenecks already created by COVID-19 and not yet solved in many sectors.

Chart 14

Wheat Exporters: Share Of World Exports By Country, 2021/22e

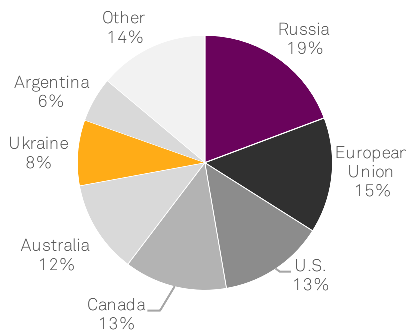
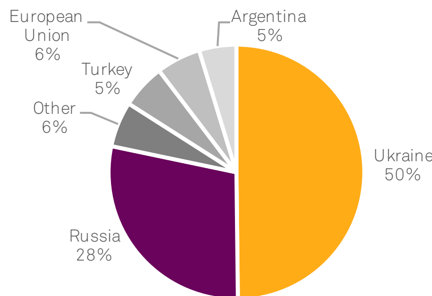


Chart 15

Sunflower Seed Oil, World Exports, 2021/22e



Source: USDA, World Agricultural Outlook Board (WAOB). Shows estimates of production for growing season 2021/22 made in February prior to start of conflict.

– **Most sectors will take a hit from the conflict, but the extent will vary by industry.** The effect on demand as a result of weaker consumer and business confidence could weaken companies' ability to grow topline revenues. Profit margin pressures could start to ratchet up in 2022 as not all companies will be able to pass cost increases to their customers on a timely basis and for the entire rise. Besides, companies will increasingly be pressured to raise wages to compensate for cost-of-living increases, which will reduce profits. We note that the most energy-intensive sectors benefit from headroom in the ratings thanks to solid results reported in 2021. Plus, demand in many cases is still solid for now, and this helps compensate for the increase in energy costs. Companies' ability to pass costs through to customers will a key driver of credit quality. This pass-through has been relatively easy in most industries since inflationary pressures started to increase, also thanks to exceptionally strong demand in many sectors recovering from the pandemic. The conflict is creating new challenges; the chart below shows how we expect them to display in sectors that seem more exposed to the effects of the conflict.

Chart 16

Russia-Ukraine: Assessment Of Impact On EMEA Corporate And Infrastructure Sectors[2]

Source: S&P Global Ratings

Key Risks

– **Market volatility will stall the availability of debt funding and increase cost of funding for issuers.** Investor concerns about high energy costs, inflationary pressures, and interest rate hikes have been further exacerbated by the Russia-Ukraine conflict, causing all key indicators

[2] *Russia-Ukraine Conflict, Implications For European Corporate And Infrastructure Sectors, March 16, 2022*

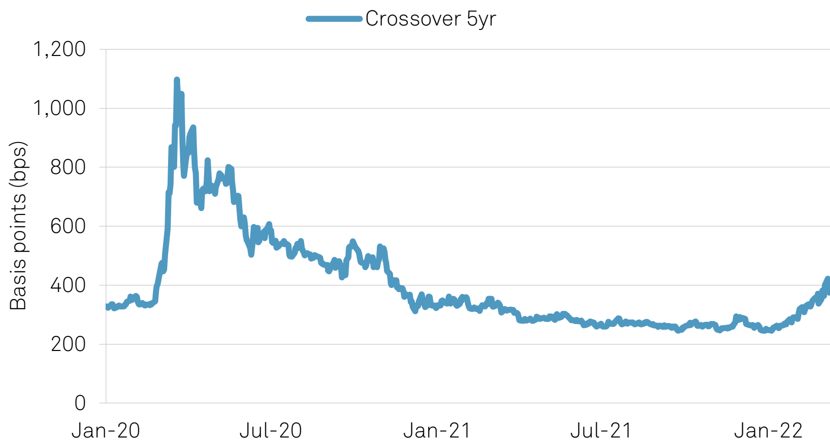
such as yields and the iTraxx Crossover Index to increase sharply (see chart 16). Uncertainty surrounding these factors will have a threefold effect on raising capital for speculative-grade issuers:

- The cost of funding will increase for existing and new issuers alike, and the premium applied will vary by sector and type of issuer;
- A flight to quality will mean issuers vulnerable and exposed to high energy costs or raw material shortages due to the conflict will need to wait much longer to refinance or raise liquidity as, for some, no yield premium will be sufficient to offset investor concerns; and
- Sponsor activity and the M&A pipeline will stall as banks reassess their appetites to underwrite financing transactions, as many carry exposure from deals that have not yet gone to market (such as for Morrisons).

Uncertain sentiment and market backdrop could make it more difficult to raise supplementary liquidity to manage working capital disruptions, such as seen during the pandemic, which in turn could lead to pre-emptive restructuring activity, particularly in automotive, capital goods, and consumer goods sectors, which are susceptible to the first wave of raw material shortages and cost of input inflation.

Chart 17

European iTraxx Crossover Index



Source: S&P Global Ratings Research

Sovereigns

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Key Developments

- **Federal Reserve Chair Powell's warning on March 21 that the U.S. central bank needs to act expeditiously to reign in above-target inflation is starting to resonate across the U.K. and eurozone,** where headline inflation rates are currently at multidecade highs. With the BoE already having hiked three consecutive times in as many meetings, pressure on the ECB to tighten is likely to rise further. In short, it may no longer be tenable to "look through the inflation fallout" of the war in Ukraine, the way it made sense to look through the economic fallout of COVID-19.
- **The arguments in favor of "looking through" are:**
  - There is no evidence of gathering wage pressures in the eurozone.
  - Core inflation remains relatively well behaved (at 2.5% in February).
  - The price action in eurozone sovereign bond markets over the last 12 months already amounts to de facto tightening of the cost of credit as markets position for the phasing out of net asset purchases.
  - There is not much that the central banks can do to offset a one-off cost shock via higher energy prices if it is due to permanent factors (permanently lower energy imports from the Russia).
- **The key arguments in favor of the ECB shifting to a more hawkish stance are**:
  - Survey-based indicators of long-run inflation expectations are uniformly rising. For example, a majority of market participants in the inflation options market now expect the ECB will not meet its 2% target over the next five years. As such, the risk scenario that haunts most investors now is that the ECB, like the Fed, will have to jack up rates to levels well above expected inflation to re-exert their control over rising prices.
  - Some anecdotal evidence that wage demands are building.

Key Risks

- **While front-loaded monetary tightening in the eurozone is not our baseline expectation, there is little doubt that, after an extended period of unusually low nominal and real interest rates, this is the risk foremost in investors' and analysts' minds today.** It should be noted that, even after the 100 basis point rebound in yields over the last year, we still estimate that on average eurozone governments are refinancing their debt at around 100 bps below the average cost of their entire stock. Therefore, some buffer still exists. But what if the stagflationary scenario implies policy tightening of another 200 bps or more? That would be highly damaging to growth.
- **We already know the monetary transmission channel is fully functioning in Europe.** The most recent episode of this occurred in 2018 and 2019 in Italy, after the newly elected M5S-Lega government signaled a lack of interest in complying with EU fiscal rules by launching new spending programs and questioning Italy's membership in monetary union. On the back of this signaling, Italian 10-year spreads widened some 165 bps during May and June 2018 to 282 bps (versus 154 bps today). That was enough to choke off investment spending and headline GDP in 2019 in Italy.
- **There is no question that a further 200 bps in monetary tightening would tax European growth and thus weaken public finances,** although the risks around resetting interest rates are more manageable in developed versus emerging markets. This is even more so in those economies where private debt is elevated. Taken together, public and private debt is at 357% of GDP in Ireland, 347% in France, 315% in the Netherlands, 290% in Spain, 289% in the U.K., 275% in Italy, and 200% in Germany.

Insurance

- European insurers have very limited direct insurance and investment exposure to Russia. While global groups like Allianz and AXA so far have been active in the market, their Russian share of global activities is minimal.
- Few European insurers have sizable exposure in a consolidated group context, the exceptions being Cyprus-based KLPP, whose ratings we placed on CreditWatch with negative implications and Austria-based Uniqa, where we revised the outlook on the ratings to negative.
- Because European insurers are large investors in international capital markets, like all insurers they are exposed to capital market volatility, including where the economic outlook changes.
- Europe-based (re)insurers may face second-order insurance losses from the Russia-Ukraine conflict mainly in lines such as aviation/marine, credit, political risk business, business interruption, and cyber.

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Key Developments

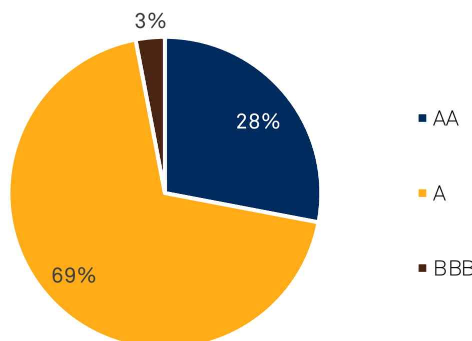
While (re)-insurers announced a halt to new business and contract renewals in Russia, existing contracts are still in place. We assume claim payments will continue to be made in a timely manner, within the range of contractual obligations. We are closely monitoring ties between European (re)-insurers and Russian insurance and corporate clients. As of now we believe the financial connection has not been fully severed, allowing for premium and claims payments.

Second-order effects for European (re)insurers could come in the form of increased insurance losses, mainly from aviation/marine, credit, political risk business, business interruption, cyber, and property damage.

We see European insurers' capital surplus as a key rating strength enabling the sector to weather potential capital market volatility. The sector proved resilient in 2020 despite massive capital market volatility involving about €11 trillion of insurance investments. Risk-free rates have risen 50 bps in first-quarter 2022, supporting profitability of life insurance contracts in force, benefitting regulatory solvency ratios, and our view of capital adequacy.

Chart 18

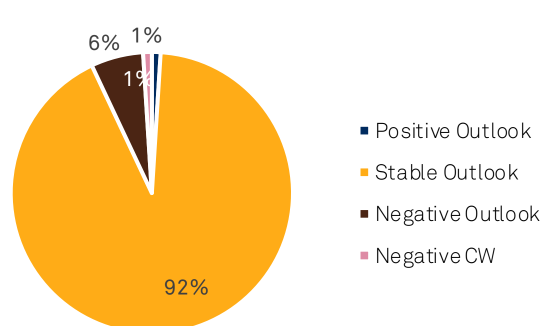
Rating Distribution



Source: S&P Global Ratings.

Chart 19

Outlook Distribution



Source: S&P Global Ratings.

Key Risks

- Capital market volatility might cause asset impairments, weakening profitability.
- Direct exposure to Russia might see a hit but appears well manageable.
- Materially higher inflation (and interest rates) might have a negative (positive) impact on insurers' financials, but not necessarily material enough to impact any rating scores.
- Nonpayment of claims or premium payment, despite existing contractual obligations, might constitute a default if the receiver is not on the sanctions list.
- Second-order insurance losses mainly from aviation/marine, credit, political risk business, business interruption and cyber.

Structured Finance

- We currently expect the Russia-Ukraine conflict to have a limited impact on the European structured finance transactions we rate.
- A weaker macroeconomic backdrop could hurt consumers' ability to service debt backing ABS and RMBS, but the effect on ratings will likely be minimal.
- European CLOs could see underlying credit deteriorate but typically have limited exposure to the corporate sectors most at risk and benefit from active portfolio management.
- Downgrades affected less than 2% of European structured finance ratings over the past 12 months.

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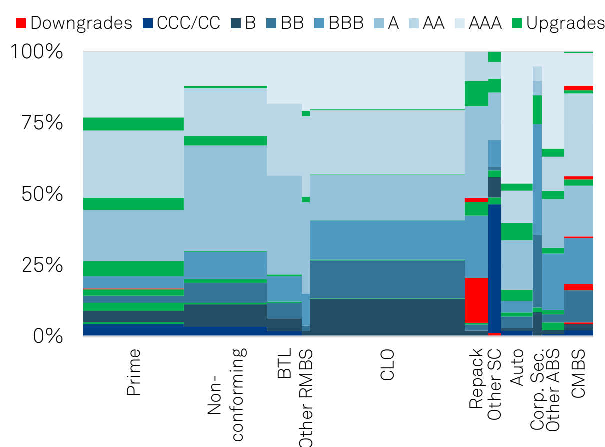
Key Developments

- **Across European structured finance, most of the recent rating actions have been upgrades**, and we lowered less than 2% of our ratings in the sector in the 12 months to end-February 2022 (see chart 19). Weakness has mostly been confined to the repack sector, where several downgrades in January 2022 were correlated and due to a rating action on a single underlying entity. There have been few rating actions on European leveraged loan CLOs (collateralized loan obligations), although this is the structured finance sector that could be most exposed to the Russia-Ukraine conflict. Credit pressure on the underlying corporate obligors would likely first show as CreditWatch negative placements in CLO portfolios. For now, though, across the European CLOs that we rate, the median exposure to obligors whose ratings are on CreditWatch negative remains less than 1%, down from a peak of nearly 9% in mid-2020 but up from close to zero at the beginning of the year (see chart 20).

Chart 20

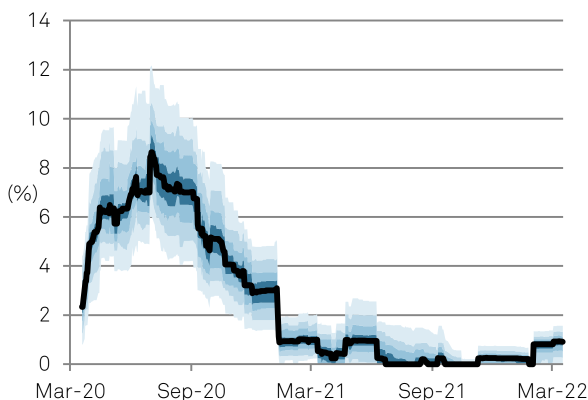
European Structured Finance Ratings Heatmap



BTL—Buy-to-let. SC—Structured credit. Based on cumulative count of rating actions between Mar. 1, 2021 and Feb. 28, 2022. Source: S&P Global Ratings.

Chart 21

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.

Key Risks

- **We expect the Russia-Ukraine conflict to have a limited impact on the European structured finance transactions we rate**, although there are two possible contagion mechanisms: underlying collateral credit quality and counterparty risk.
- **Few of the transactions we rate have direct exposure to collateral in the conflict region.** Collateral-related pressures could, however, come to bear through second-round effects, such as lower economic growth, higher inflation, and tighter monetary policy hurting consumers' ability to service debt backing ABS (asset-backed securities) and RMBS (residential mortgaged-backed securities), for example. Even given our revised macroeconomic base case assumptions, we don't see widespread deterioration of consumer-backed collateral as a material risk to ratings in the short term. That said, credit performance among nonconforming mortgage borrowers will be an area to watch.

- **European CLOs are the principal corporate-backed sector where some underlying credits could be more directly affected by the conflict**, and emerging corporate risks could ultimately hurt CLO performance. For instance, disruptions within the chemicals industry could negatively affect CLOs: The industry represents the third-largest sector exposure in the European CLOs we rate, and Russia supplies a high proportion of EU imports for certain chemicals. However, CLO transactions benefit from significant obligor and sector diversification in the underlying corporate loan portfolios, and active portfolio management also allows some risk mitigation, as evidenced during the COVID-19 pandemic. The corporate sectors that are likely most affected by the conflict—such as autos, building materials, and utilities—represent only small exposures across CLO portfolios.
- **Counterparty risk considerations are a limiting factor for the ratings on some European structured securities.** As a result, any rating pressure on financial institutions that act as transaction counterparties—such as bank account or swap providers—can have a corresponding effect on structured finance ratings. Although European financial institutions are on the front line in terms of sanctions, the implications are so far most significant for banks in Russia, Belarus, and Ukraine, and limited for those domiciled elsewhere. A handful of international banks we rate do have meaningful Russian or Ukrainian exposure through local subsidiaries, but the materiality—and therefore the effect on counterparty risk in structured finance transactions—remains modest.

International Public Finance

- The Russian invasion of Ukraine and ensuing sanctions severely reduced the ability of Russian and Ukrainian local and regional governments (LRGs) to honor their debt obligations in full, especially to nonresidents.
- Elevated inflation will likely have a positive impact on revenues of public-sector entities in the next the next year. However, slowing economic growth, rising interest rates, and increasing spending demands may lead to sustained pressure on financial performance and higher debt burdens in subsequent years.
- U.K. social housing providers will struggle to improve financial performance as debt burdens rise to fund investments in existing and new housing stock.

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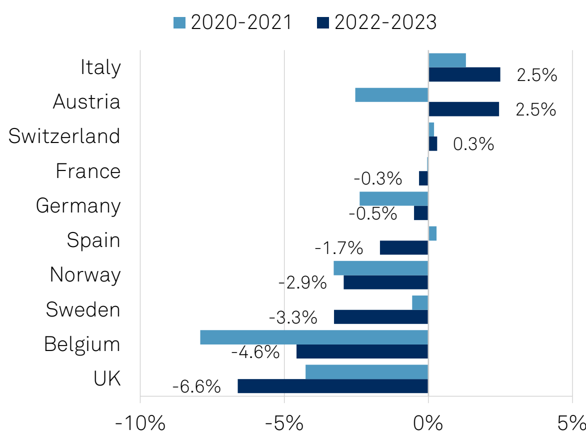
Key Developments

- **We have lowered the ratings on Russian LRGs to 'CCC-' and placed them on CredtiWatch with negative implications.** Also, we lowered the rating on the Ukrainian capital city of Kyiv to 'B-' and also placed it on CreditWatch negative. So far, we have not taken rating actions on other LRGs in Central and Eastern Europe, despite the disruption in trade in the region, elevated energy prices, and an increased demand for public services due to a large influx of Ukrainian refugees.
- **We still believe the post-pandemic economic recovery will benefit most LRGs in Western Europe.** Although less support from central governments, higher inflation, and infrastructure needs might sustain budget deficits, we project the LRG funding gap to fall in many countries.
- **U.K. social housing providers face a difficult balance** to maintain large investments in new development needed to achieve government-inspired targets as well as improve the standards of rental housing--including better fire safety and energy efficiency. As a result, financial performance will remain subdued and debt will continue to rise, leading to a persistently high debt burden. Rising inflation (up to 8% in our forecast for the U.K.) will further pressure their performance as rent cannot exceed 4% in fiscal-year 2023.
- **Lower spending during the pandemic and steady demand helped U.K. universities improve their financial performance**. Although frozen fees for domestic students and higher inflation will lead to weaker financial performance over the next two years, the ability of managers to steer through the pandemic with positive outcomes highlights the fundamental strength of this sector.

Chart 22

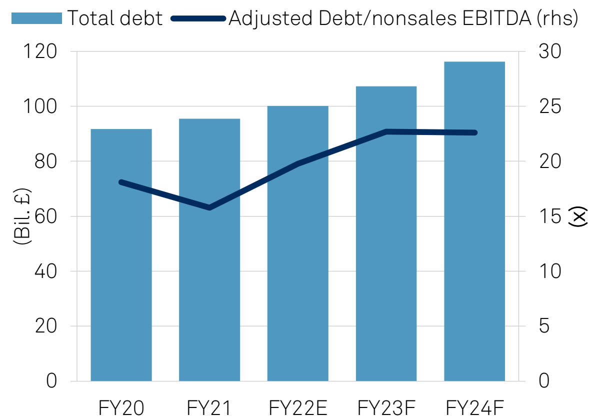
Funding Gap Of European LRGs Is Set To Reduce In Our Base Forecast For 2022-2023



Source: S&P Global Ratings.

Chart 23

Debt Burden Of U.K. Social Housing Providers Will Reach Very High Levels In 2022-2024



Source: S&P Global Ratings. E—estimate; F--forecast

Key Risks

- Uncertainty about the costs of reaching net-zero carbon and how this spending will be financed.
- Limited financial assistance from the central governments could crowd out other spending.

Related Research

- Economic Outlook Eurozone Q2 2022: Healthy But Facing Another Adverse Shock, March 28, 2022
- Economic Outlook U.K. Q2 2022: A Painful Surge In Inflation, March 28, 2022
- Ratings Actions Waypoint: The Russia-Ukraine Conflict As Of March 25, 2022,March 28, 2022
- Global Auto Sales Forecasts: Russia-Ukraine Conflict Imperils Recovery, March 22, 2022
- Russia-Ukraine Conflict Will Test Agribusiness Supply Chain Efficiencies And Consumers' Appetite For More Food Inflation, March 18, 2022
- Europe's Exit From Russian Gas: 10 Questions On Utilities, March 17, 2022
- Russia-Ukraine Conflict. Implications For European Corporate And Infrastructure Sectors, March 16, 2022

This report does not constitute a rating action.

The views expressed in the Macroeconomic Outlook section (pages 6-8) are the independent opinions of S&P Global Ratings' economics group, which is separate from, but provides forecasts and other input to, S&P Global Ratings' analysts. S&P Global Ratings' analysts use these views in determining and assigning credit ratings in ratings committees, which exercise analytical judgment in accordance with S&P Global Ratings' publicly available methodologies.

Appendix 1: Economic Data and Forecast Summaries (March 2022)

Table 2

Real GDP %

	Ger.	Fra.	Ita.	Spa.	Neth.	Belg.	Eurozone	U.K.	Switz.
2020	-4.9	-8.0	-9.1	-10.8	-3.8	-5.7	-6.5	-9.4	-2.5
2021	2.9	7.0	6.6	5.0	4.8	6.1	5.2	7.5	3.7
2022f	2.9	3.2	3.1	6.1	3.2	2.6	3.3	3.5	2.4
2023f	2.8	2.0	2.1	4.2	2.1	1.6	2.6	2.3	1.9
2024f	2.2	2.0	1.5	2.7	2.0	1.6	2.1	2.2	1.8
2025f	1.7	1.6	0.9	2.1	1.8	1.6	1.7	2.0	1.5

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

Table 3

CPI Inflation %

	Ger.	Fra.	Ita.	Spa.	Neth.	Belg.	Eurozone	U.K.	Switz.
2020	0.4	0.5	-0.1	-0.3	1.1	0.4	0.3	0.9	-0.7
2021	3.2	2.1	1.9	3.0	2.8	3.2	2.6	2.6	0.6
2022f	5.0	4.2	5.6	5.8	5.0	5.7	5.0	6.3	2.1
2023f	2.4	2.2	1.8	2.3	2.6	2.2	2.2	2.4	0.8
2024f	2.1	2.0	1.5	1.8	2.2	2.1	1.9	1.6	1.0
2025f	2.0	2.0	1.7	1.9	2.1	2.0	1.9	1.8	1.3

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

Table 4

Unemployment Rate %

	Ger.	Fra.	Ita.	Spa.	Neth.	Belg.	Eurozone	U.K.	Switz.
2020	3.9	8.0	9.3	15.6	4.9	5.6	8.0	4.5	4.8
2021	3.5	7.9	9.5	14.8	4.2	6.3	7.7	4.5	5.1
2022f	3.1	7.4	9.0	12.1	3.7	5.5	6.9	4.1	4.7
2023f	3.0	7.4	9.0	11.1	3.6	5.3	6.7	4.1	4.6
2024f	2.9	7.2	8.8	10.5	3.4	5.2	6.5	3.9	4.4
2025f	2.9	6.9	8.6	9.8	3.3	5.1	6.3	3.9	4.3

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.
2020	-0.5	-0.2	1.2	0.4	-0.3	-0.1	0.1	0.3	-0.5
2021	-0.3	0.0	0.8	0.4	-0.2	0.0	0.1	0.7	-0.3
2022f	0.3	0.7	1.9	1.3	0.4	0.8	0.9	1.5	0.4
2023f	0.8	1.2	2.4	1.8	0.9	1.1	1.3	1.9	0.7
2024f	1.3	1.7	3.0	2.4	1.4	1.6	1.9	2.2	1.0
2025f	1.6	2.1	3.5	2.7	1.7	1.9	2.2	2.3	1.4

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

Table 6

Exchange Rates

	Eurozone	------ U.K-----		Switzerland	
	US$/€	US$/£	€/£	SFr/US$	SFr/€
2020	1.14	1.28	1.13	0.94	1.07
2021	1.18	1.38	1.16	0.91	1.08
2022f	1.10	1.32	1.19	0.95	1.04
2023f	1.14	1.35	1.19	0.97	1.10
2024f	1.17	1.37	1.17	0.95	1.11
2025f	1.17	1.36	1.16	0.96	1.13

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		
2020	-0.50	0.00	0.23	-0.75
2021	-0.50	0.00	0.11	-0.75
2022f	-0.48	0.00	0.85	-0.75
2023f	0.21	0.45	1.00	-0.41
2024f	1.10	1.35	1.11	0.13
2025f	1.25	1.50	1.36	0.63

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

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