Credit Conditions Europe Q4 2021:

Rampant Recovery, New Risks

Sept. 28, 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 Sept. 22, 2021.)

Regional Credit Conditions Chair

Osman Sattar
London
osman.sattar
@spglobal.com
+44-20-7176-7198

Contents

Key Takeaways

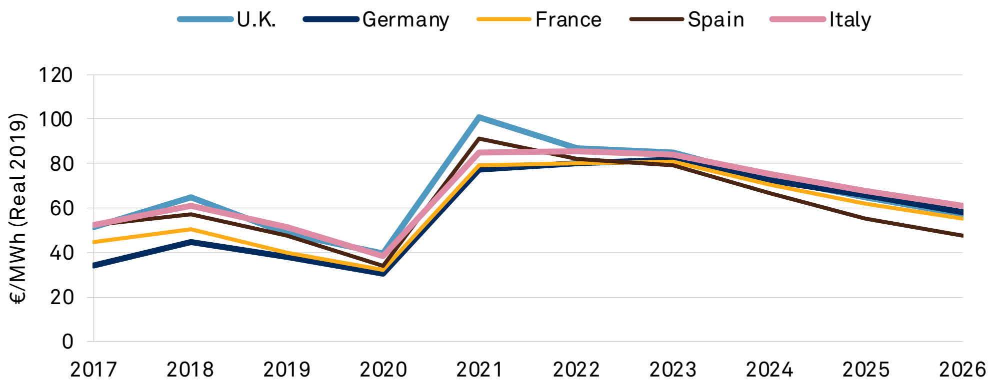
- **Overall:** Economic activity is rebounding in Europe as COVID-19 infection rates decline, vaccination rates continue to rise, and social mobility returns. The strength of the recovery, led by consumer demand, has added to supply chain disruptions that are likely to persist into 2022. Although the emergence of vaccine-resistant coronavirus strains remains an elevated risk, we see this as a risk to the pace of economic growth rather than a risk of contraction.
- **Risks:** Economic growth has proven stronger than many expected, but pressures on earnings--supply chain dislocations, inflation, and related cost pressures--are rising. If these elements persist longer than we currently expect, and major central banks take first steps to taper bond purchases, it could presage tighter financial conditions for borrowers, including a rise in interest rates sooner than we now forecast. Higher borrowing costs could hurt weaker borrowers, given the huge step-up in aggregate debt since the pandemic, even though debt-servicing costs remain historically very low.
- **Credit:** Financing conditions remain favorable, with yield-hungry investors increasingly turning toward lower-rated debt. What's more, fiscal policy remains supportive, and is becoming more targeted toward sectors hardest hit by the pandemic. These factors continue to limit the extent of credit deterioration.

The unexpectedly stronger economic recovery is broadly supportive of credit quality but is reckoning with balancing high demand against constraints in global supply chains. We expect that supply bottlenecks and rising costs will be transient for most commodities. However, some prices--particularly for gas--may rise further over the winter because of dwindling stocks. Indeed, we think power prices will remain elevated over 2022 and 2023 (see chart 1), given tightening supply from an acceleration in the closures of thermal and nuclear power generation arising from ambitious European environmental targets.

With vaccinations effective, the evolving fiscal policy response to COVID-19 is now more targeted to sectors hardest hit by the pandemic and continues to bolster the recovery. 71% and 67% of the populations in the U.K. and EU have received at least one dose of vaccine. And the vaccines continue to provide a highly effective defense against severe disease, lowering the rate of hospital intensive care unit (ICU) admissions (see chart 2). These factors are reflected in credit quality, in our improving ratings and outlooks (see chart 3).

Chart 1

Power Prices Are Forecast To Remain Elevated Into 2022 And 2023

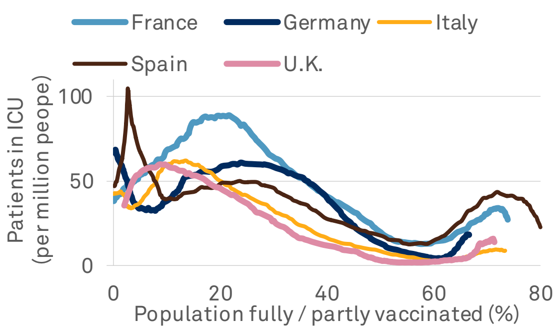


The chart shows S&P Global Platts' forecasted average daily spot prices. These price assumptions are different from S&P Global Ratings' price assumptions and we do not use them in our base-case assumptions, but they provide a good indication of future power prices. Source: S&P Global Platts.

Chart 2

Vaccinations Are Providing An Effective Defense Against Severe Disease

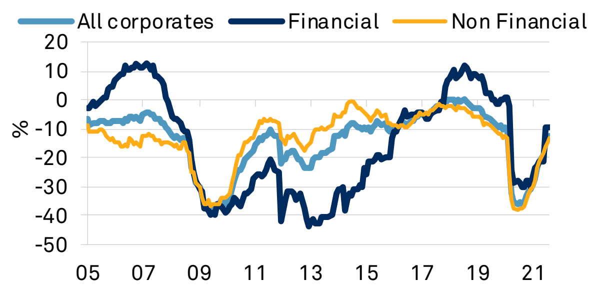
(Data from Jan. 1, 2021 – Sept. 24, 2021)



ICU: Intensive care unit. Source: Our World In Data.

Chart 3

European Corporate Net Negative Ratings Bias Continues To Narrow*



*Net ratings bias is positive bias minus negative bias. Data as of Aug. 31, 2021. Source: S&P Global Ratings.

The ramifications from property developer China Evergrande Group's distress could rattle investors' confidence in China's property sector, and for speculative-grade markets broadly. This may potentially diminish funding access for related sectors, in addition to weighing on China's real estate market (see "Credit FAQ: Evergrande Default Contagion Risk—Ripple Or Wave?" published Sept. 20). The property sector is one of the largest contributors to China's economy and is entwined with issues of housing, employment, middle-class wealth, and the health of other related industries. While we currently see few direct ramifications for European credit, it adds to existing downside pressures on China's economy, which will curb global growth. European non-financial corporates most exposed to Greater China in terms of revenue exposure are those in the semiconductor and automobile sectors (see chart 4).

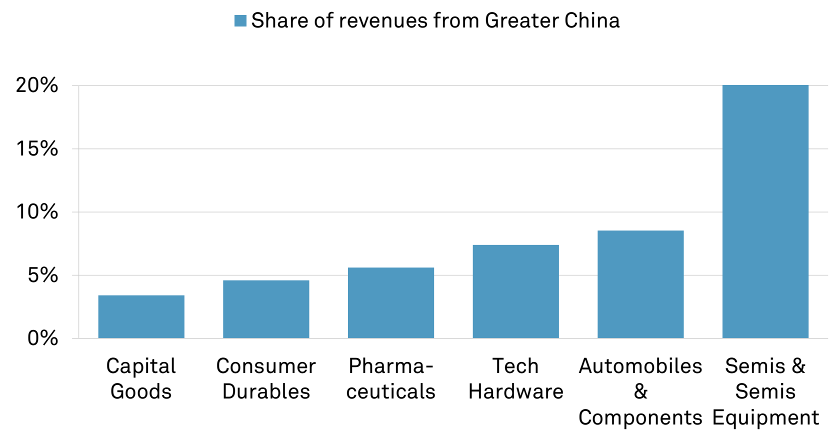
European bank asset quality trends remain benign, thanks to strong economic growth and targeted fiscal support to economies. Recent regulatory stress tests highlight the capital strength of European banks, and we see it as increasingly unlikely that bank asset quality will undermine this. Still, profitability remains weak, even though we expect an improvement this year largely thanks to lower credit provisions. The persistence of negative eurozone rates for several more years and the sector's difficulty in realizing cost efficiencies will remain strong headwinds to achieving adequate risk-adjusted pricing in the most overbanked markets.

European structured finance ratings continue to hold up well, with downgrades on less than 2% of the portfolio over the last 12 months. Most of these arose in the commercial mortgage-backed securities sector, for some transactions linked to retail assets suffering ongoing structural shifts. In contrast, upgrades exceeded downgrades in sectors backed by consumer lending, including residential mortgage-backed securities and auto-backed securities. Even as fiscal support measures targeted at households--such as furlough schemes--start to wind down, the ongoing economic recovery is underpinning credit quality in these asset classes.

For nonfinancial corporates, negative effects from the spike in inflation, driven by higher costs in materials and shipping, threaten operating profits for many. While we expect these factors to be transient, their impact may be more pronounced for corporates that lack cost pass-through clauses in their contracts or pricing power. We also see the squeeze on margins persisting into next year as companies' short-term raw material hedges run off. Meanwhile, corporates are likely to generally face higher costs from the EU's sustainability measures, including stringent measures to reduce greenhouse gas emissions. While many European corporates already have plans in place to reduce emissions, the EU's ambitious targets may well require expenditures sooner than currently planned. Feeling the most effect of this, we expect, will be the transportation, auto, utilities, buildings, steel, and cement sectors.

Chart 4

Selected European Corporate Sectors: Revenue Exposures To China



Data shows aggregated total revenues assignable to Greater China for rated non-financial corporates in Europe. We have excluded companies in the extractive industries (those in the energy and materials sector) as most of these can be assumed to be exposed to China through global commodity price trends. Also not shown are sectors where the exposure is less than 3%. Revenue figures are from the most recently reported revenues using S&P Capital IQ data. Country exposures are derived from geographic segment data in published report and accounts. Specific country exposures are not always given and definitions are not consistent across companies, so all data should be viewed as an indicative approximation rather than a precise exposure.
Source: S&P Capital IQ, S&P Global Ratings calculations.

Top European Risks

Table 1

Supply chain constraints and other inflation pressures leading to downside risk for earnings

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

High demand, rising energy prices, and supply bottlenecks are driving input costs and inflation higher, highlighting vulnerabilities in global supply chains. If this persists longer than we currently expect, it could reduce corporate margins in more competitive sectors, and, more broadly, presage some tightening in financing conditions--particularly if combined with the start of QE tapering later this year. While inflation pressures are a greater near-term concern in the U.S. at this point in the cycle, Europe faces a similar predicament and is exposed to potential financial spillovers from the U.S.

Accumulated corporate and government debt creates fragility on the path to policy normalization

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

Economic recovery and ongoing extraordinary monetary and fiscal stimulus risks creating complacency about the enormous step-up in corporate and sovereign debt over the last 18 months. Though debt-servicing costs remain historically low, fragilities may become more pronounced in the coming years, especially for corporates, given the still high 30% of speculative-grade companies (rated 'B-' and lower) that we view as vulnerable. A structural challenge of strengthening balance sheets also extends to governments and central banks. This will be a multiyear process with the risk that political considerations could impede and delay the budgetary tightening required to maintain sovereign credit quality and restore the fiscal headroom necessary to fight the next financial shock.

Vaccine-resistant coronavirus strains slow the economic recovery

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

The ramp-up in vaccination levels over the summer in Europe have underpinned rising consumer and business confidence, with footfall in the retail and domestic leisure sectors returning toward pre-pandemic levels. But COVID-19 infections remain significant and could still cause disruptions over the winter if symptomatic cases (including those with flu-like symptoms) cause widespread absenteeism from the workplace. Greater downside risk from an economic perspective would be linked only to a rapid decline in efficacy of existing vaccines or from the emergence of new vaccine-resistant coronavirus strains that threaten to overwhelm health care systems once again.

Structural Risks

Transition toward a low-carbon economy presents 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. The upcoming UN Climate Change Conference (COP26) may result in further international commitments toward this goal, while in Europe the EU's Fit for 55 plan targets a 55% cut in carbon emissions by 2030. This ambitious target will disrupt industries and business models, creating winners and losers. The most impacted companies are likely to include those in the automotive, building, cement, steel, transportation, and utilities sectors. More broadly, the move away from fossil fuel to renewables for electricity generation challenges companies to plan now to secure future power needs. Global policy alignment, including regulation, will be also important in reaching the net-zero target but will inevitably create tensions between governments, for instance, if the EU moves to set global standards by unilaterally introducing policies such as the carbon border adjustment tax.

Critical global infrastructure and interdependent digital networks highly vulnerable to cyber attacks

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

The next major threat to the global financial system could easily be cyber related, with more correlated risk and more rapid contagion than suggested by historical experience. This is due to both opaque and complex global supply chains as well as a digitally interconnected ecosystem, often with reliance on a concentrated number of cloud service providers. Such an event could trigger widespread rating actions, particularly for entities with weaker balance sheets that lack adequate cyber insurance or other means of liquidity to address the potential financial impact.

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

Primary contact

Sylvain Broyer
Frankfurt
sylvain.broyer@spglobal.com
+ 49-69-33-9991-331

Marion Amiot
London
marion.amiot@spglobal.com
+44-20-7176-0128

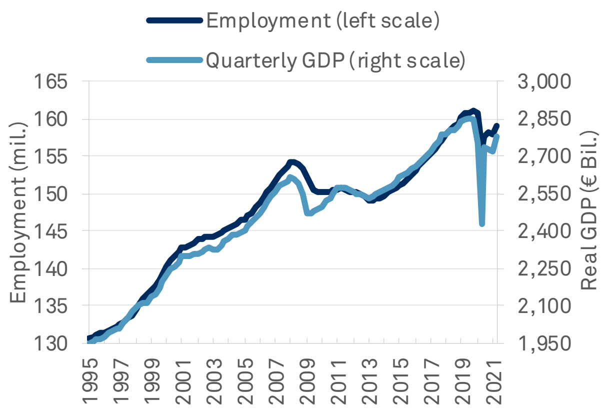
Boris Glass
London
boris.glass@spglobal.com
+44-20-7176-8420

– **The resurgence of the virus hasn't derailed the recovery.** The rebound of the European economy since the lifting of restrictions in March and April has been strong, in terms of GDP (up 2.2% in the second quarter) and employment (up 0.7 percentage points). Consumer demand, unleashed and boosted by high savings, accounted for most of the quarterly increase in activity, which was particularly strong in wholesale and retail trade, accommodation, transportation, and recreational services. The resurgence of the COVID-19 virus that dented sentiment during the summer hasn't derailed the recovery, especially in services, judging by real-time indicators of mobility, restaurant reservations, and online job postings. The strong acceleration of vaccination in June and July (the share of the fully vaccinated population has nearly doubled in three months in the eurozone to reach 65% by mid-September) and the low level of hospitalizations may have contributed to this resilience. Against this backdrop and based on higher GDP at the end of the second quarter than assumed in our previous baseline, we have revised upward our 2021 growth forecast for the eurozone to 5.1% from 4.4%. Our forecast for 2022 remains unchanged at 4.5%. The uplift in 2021 growth forecasts means that the pre-crisis level of GDP could be reached before the end of this year, one quarter ahead of our previous projections, while unemployment, at 7.6% in July, has already fallen to the rate we expected to hit by the end of 2022.

– **The strength of the recovery has caused frictions, including material shortages.** With inventory levels historically low and capacity utilization slightly above the long-term average, shortages of materials and equipment, instead of weak demand, are now the primary factor limiting industrial production--primarily in the capital goods and consumer durables sectors. Labor shortages are hitting the construction sector, as indeed they were pre-pandemic. These bottlenecks led to a decline in industrial production in May and June, which recovered in July.

Chart 5

Eurozone GDP And Unemployment



Source: Refinitiv, S&P Global Ratings.

Chart 6

Material And Equipment Shortages Are Limiting Eurozone Production

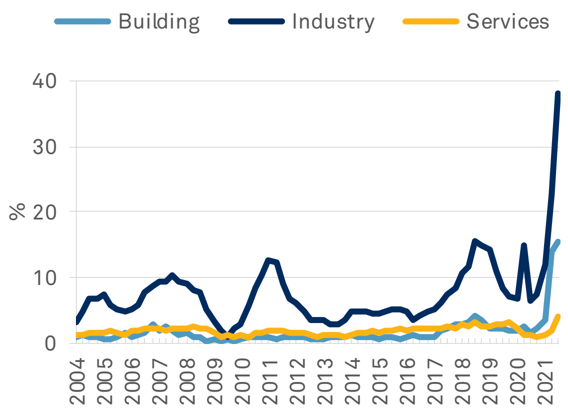


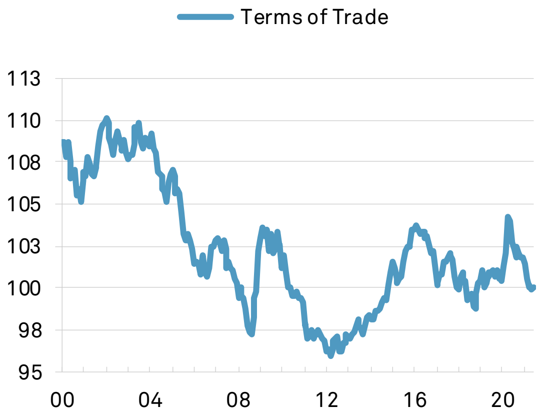
Chart shows the proportion of eurozone firms reporting a lack of material and/or equipment as the main factor limiting production. Source: European Commission.

– **Rising commodity prices.** While the peak in industrial and agricultural commodity prices seems to be behind us, soaring now are energy prices, particularly for gas and coal, which impact power prices (up 9.4% year on year). The surge in energy prices had inflation overshooting most forecasts. In August, energy accounted for 1.6 percentage points of the 3% headline inflation observed in the eurozone. At the same time, underlying inflationary pressures remain contained, as hourly wage growth slowed to 2.1% year on year in the first quarter, and negotiated wages slowed even more in the second quarter, to 1.7%. We have revised our inflation forecast upward for 2021 (to 2.2% from 1.8%), to account for the momentum in energy prices, but we continue to see inflation decelerating below the European Central Bank's (ECB's) target next year. That said, while rising raw material prices are lifting production costs, the past depreciation of the euro is helping European manufacturers on the revenue side. As a result, the "terms of trade" in goods--the ratio of export prices to import prices--have not worsened much and are in line with the past five-year average. This factor can contribute to containing the pass-through of cost pressures on final prices.

- **Policy support is continuing, while adapting to the normalization of economic activity.** Instead of implementing an abrupt end to furlough schemes and support for corporates, most European governments are amending their support, turning it into more targeted terms for sectors still subject to restrictions. At the same time, European money has started to flow to EU member states. The European Commission issued €45 billion of long-term bonds between mid-June and mid-July to finance its NextGenerationEU recovery program. The EC plans to issue €80 billion this year in long-term bonds and €800 billion by end-2026 (equivalent to 5% of EU GDP). On the monetary policy side, the ECB has dialed back its net purchases under the pandemic QE program PEPP (Pandemic Emergency Purchase Programme), to €65 billion in August from €88 billion in July. And as financial conditions have improved, the ECB has announced it will conduct moderately fewer net purchases under the PEPP in the coming quarter than it conducted in the first half of the year. By reducing QE, we see the ECB responding to the lower issuance of debt securities in a way that does not jeopardize financial conditions. The ECB is not expected to commit on tapering--winding down PEPP net purchase to zero--before its December meeting.

Chart 7

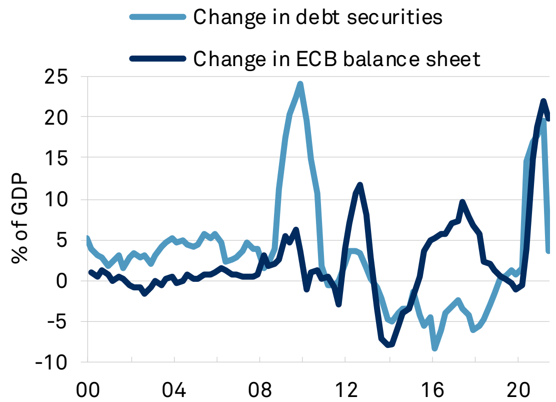
Eurozone Terms Of Trade In Goods



Ratio of export prices to import prices; lower ratios indicate a worsening.
Source: Refinitiv, S&P Global Ratings.

Chart 8

Eurozone Total Debt Securities And Monetary Expansion



Source: ECB, S&P Global Ratings

Key Assumptions

- **We do not expect COVID-19 to derail the ongoing recovery in services.** Given the progress of vaccination and the low rate of hospitalization, we believe that governments will not dramatically delay the normalization of social and economic life. Our baseline forecast assumes a gradual return to business as usual through early next year.
- **We expect bottlenecks to ease slowly.** Industrial production restarted in July. The price of material and agricultural commodities and freight costs seems to have peaked. The assessment of inventory levels is no longer deteriorating as it did the months before. That said, we do not expect all bottlenecks to disappear for another few quarters.
- **We assume that financing conditions will not worsen drastically,** especially not as a result of tapering announcements by the U.S. Federal Reserve and the ECB. This supposes that the ECB will continue to consider the current hump in inflation as transitory and will not start lifting key rates before 2024. This also requires the ECB to manage a smooth exit from its pandemic QE program in December, probably recalibrating and redefining its other QE program (the APP or Asset Purchase Programme) at the same time to avoid a sharp decline in net purchases.

Key Risks

- **The main risk to our base case lies in a potential increase in COVID-19-related hospitalizations.** This risk is less pronounced than it was three months ago, as vaccination has progressed greatly in recent months. However, as the vaccination process is not complete and the virus may continue to mutate, it would be premature to consider that the pandemic is behind us.
- **Weaker external demand or a sharp deterioration in the terms of trade for European companies emerges as a downside risk in our scenario.** The worldwide recovery, particularly

in Asia, may be slowing more than thought. Gas prices could rise further as the winter is coming and stocks are below average. Note that energy prices are affecting both producers and consumers. They have a direct impact on consumer price inflation.

- **Favorable market conditions are not a given.** A sustained rise in energy prices could lead financial markets to expect central banks to hike rates earlier than currently expected. Concrete announcements by the Fed and the ECB for tapering net bond purchases are expected in the final months of the year. The reaction of the markets will largely depend on their communication. What's more, the process of forming the next government in Germany, where elections were held on Sept. 26, could take time and delay decision-making at the European level, particularly current discussions about budget rules.
- **Household spending of excess savings still constitutes the main positive risk to our baseline.** We estimate that European households accumulated around 2.7 points of GDP (€300 billion) in excess cash reserves last year, and these reserves have increased further at the start of the year. The big question is how much, how fast, and how they will spend it. In any case, excess savings poses an upward risk to our baseline assumptions for housing investment, consumer spending, and domestic prices.

U.K. Recovery Still On Track

- **Despite a pause in July--largely due to one-off factors--the recovery remains on track**. We forecast GDP growth of 6.9% this year and 5.2% in 2022. The U.K. should regain pre-pandemic levels of activity by early 2022.
- **The recovery will continue to be driven predominantly by consumers catching up to pre-pandemic spending levels.** However, consumers have so far remained rather cautious, even as the economy has reopened. The full force of extra consumer spending will be felt in 2022, when the savings rate is set to fall to around 7%, from our current estimate of 9.5%.
- **We do not see a widespread shortage of workers in the economy as a whole.** Still, shortages in strategic jobs with specific skills, for example in transportation, have created downstream bottlenecks. This is partly because many EU nationals with such skills left the U.K. during the pandemic--some estimates put this figure at around 200,000, and it is now more difficult to hire from the EU. To the extent that jobs do not depend on labor supply from the EU, shortages should dissipate as the pace of recovery moderates.

  Wage growth has also been significant in recent months, with regular pay growth of 5.9% on average across the whole economy. But base effects played an important role here, as well as compositional effects from different speeds of hiring across individual sectors.
- **Consumer price inflation (CPI) made its largest leap in recent history in August, jumping to 3.2% from just 2% a month earlier.** However, this was largely driven by the price-lowering effect of the government's "Eat Out to Help Out" restaurant subsidies introduced in the summer of 2020. Even if inflation were to reach 4% in December--which would be in line with the Bank of England's expectations--annualized price growth would still average just 2.5%, more benign than the high 3.2% for August suggests.

  However, there are further pressures in the pipeline. Wholesale electricity and gas prices have already risen sharply on the back of increases in global energy prices, and retail prices are set to follow suit once the regulator's new higher price caps come into effect on Oct. 1, allowing suppliers to increase retail tariffs.

  Higher prices of energy, transportation, and materials have already entered supply chains, and will ultimately also affect CPI. In August, producer input prices were 11% higher than a year ago and producer output prices were 6% higher. Some input price pressures have yet to show up in output prices, and, initially exacerbated by some persistence in supply and staff shortages, will likely be passed on to consumers. This process will underpin inflation well into next year.
- **To account for the increased price pressures, most prominently from energy, we have revised our forecast for inflation upward.** We now expect inflation of 3.4% on average in the final quarter of this year, compared with 2.7% in our previous forecast. We see the impact on GDP growth as limited because higher wage growth will offset inflation's impact on household purchasing power, whose spending remains underpinned by a strong catch-up momentum.
- **In our view, inflation will turn out to be mostly transient.** Global pressures on supply should ease as the recovery of economies across the globe matures, demand abates, and supply chains adapt. Most inflationary pressures currently at play should ease in 2022. Inflation could run higher for longer than we currently forecast if the effects from more stringent post-Brexit customs checks next year exceed those already factored into our forecast.

Financing Conditions

- Cumulative corporate debt issuance stood at €530 billion as of Aug. 31. While this is 10% lower than a year ago, issuance remains elevated compared with pre-pandemic levels.
- The share of speculative-grade nonfinancial corporate debt is increasing rapidly, to 28% this year so far, from 13% in earlier years. Lower-rated corporates are particularly at risk of further credit deterioration, facing a future financial shock, or difficulties servicing debt burdens should interest rates increase earlier or higher than we forecast.

Primary contact
Sarah Limbach
Paris
sarah.limbach
@spglobal.com
+33-1-4420-6708

Financing Conditions Remain Highly Favorable For European Corporates, But The Rise Of Lower-Rated Issuance Casts Some Worries

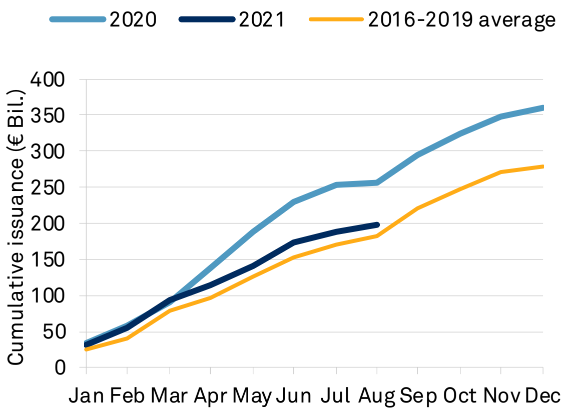
Financial and nonfinancial corporate issuance in the eurozone slowed considerably during July and August compared with 2020. Over the eight months to end-August 2021, corporate issuance was about €530 billion. Of that, nonfinancial corporate (NFC) issuance is 23% lower than 2020, but still 8% higher than pre-pandemic levels. We see the lower issuance this year than last as evidence of the more subdued need for capital among European corporates, given they had been refinancing and restructuring their debt in the record-low yield environment over the past 18 months. Many have also benefitted from pandemic-related state support programs and lower operational costs during subdued economic and business activity through the course of the second quarter.

Capital markets made a solid start into September, right before the much-awaited ECB meeting on Sept. 8, while weak volumes in the preceding months underline the fact that market participants were not expecting a tightening of financing conditions and consequently didn't see the need for a massive frontloading of issuance.

At the same time, investors--hungry for yields in the ongoing record-low yield environment--have increasingly turned toward lower-rated debt and issuance by weaker issuers, which is accelerating. Debt issuance by speculative-grade issuers represented 16% of total issuance so far this year, compared with 10% in the previous two years. This development is even more pronounced when looking at NFCs only, where the share of speculative-grade-rated deals increased to 28% this year, from an average 13% in 2019 and 2020. The share of issuance by the weakest-rated NFCs ('B' and below) surged, to 12% from an average 4%. This is exacerbated by the accelerated credit deterioration caused by the economic impact of COVID-19 on European credit markets. While 18% of the rated European portfolio (including sovereigns) carries a rating with a negative outlook or is on CreditWatch with negative implications, this share rises to 30% for the riskiest issuers (those rated 'B-' and below). These issuers would be most prone to difficulties in coping with their debt burden should interest rates rise earlier or faster than expected, or when confronted by the next financial shock.

Chart 9

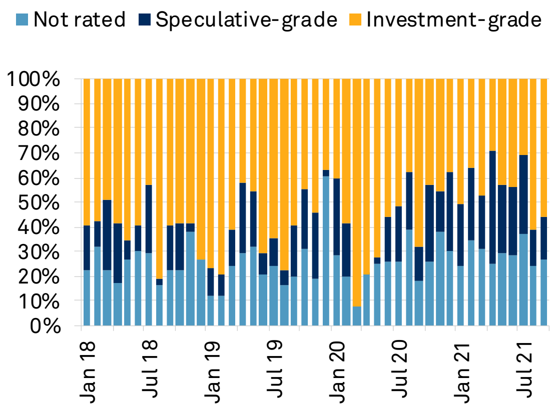
Eurozone NFC Issuance Remains Above Pre-Pandemic Levels



Source: Refinitiv, S&P Global Ratings.

Chart 10

The Share Of Debt Issued By Speculative-Grade NFCs Has Increased



Data as of August 2021. Source: ECB, S&P Global Ratings

Financial Institutions

Primary contact

Elena Iparraguirre
Madrid
elena.iparraguirre
@spglobal.com
+34-91-389-6963

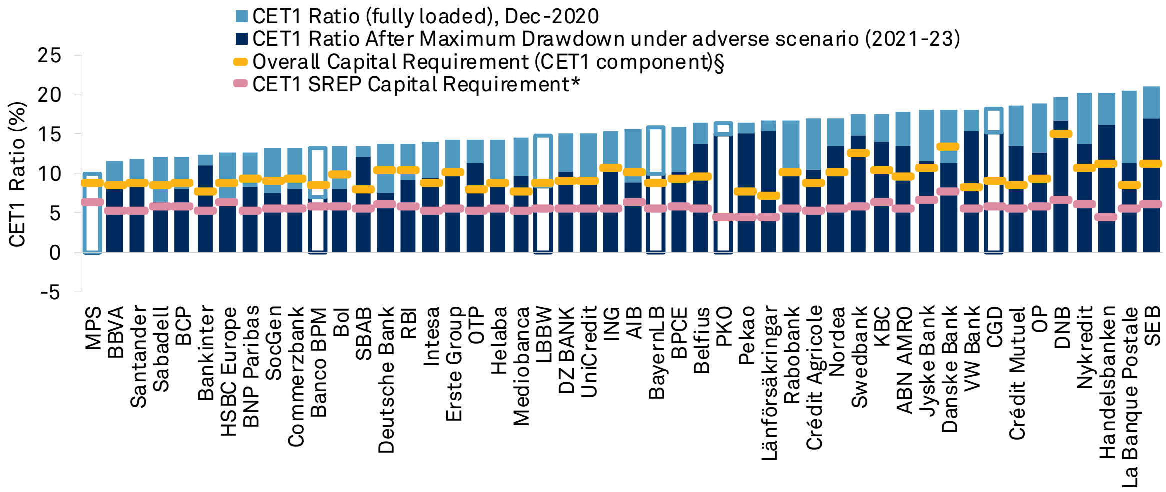
- As economic activity normalizes, the possibility of the pandemic shock becoming a capital event for banks is becoming more remote, though we haven't yet seen its full impact on asset quality. Distributions to shareholders are returning.
- Weak structural profitability, however, is a greater risk to European banks. The persistence of negative interest rates in the eurozone well into 2024 will undermine revenue prospects; overbanked markets will keep competition high, challenging adequate risk-adjusted pricing, and banks will need to tackle their inefficiencies while accelerating digitalization.
- Although there is still a risk of a much weaker than forecast economic recovery or of a disorderly capital markets correction, the buildup of asset price bubbles and the risk of mispricing may become more relevant over the next few years.

Key Developments

- **The EBA-ECB stress test highlights the resilience of EU banks.** The recent (July 2021) EU bank stress test showed that banks performed well, a noteworthy outcome because the macroeconomic stress scenario was much more severe than in past tests. In aggregate, European banks' CET1 (common equity tier 1) depletion under the scenario was quantified at about 500 basis points (bps). Yet, given their solid starting point, even this level of depletion left their post-shock CET1 capital position at a still-comfortable 10%. Furthermore, more than one-half of the banks exceeded that level, and only two banks saw their capitalization falling below regulatory requirements. In general, we don't think the results have significant regulatory consequences for banks. Only the weakest performers (a minority of banks) could be asked to take corrective measures or face higher capital--and they should be able to cope with it. Still, some individual bank results show a larger divergence around the average, both in the magnitude of the potential capital depletion and the end results. The stress test also showed once again that the risk of AT1 (additional tier 1) instruments skipping coupon payments in a crisis is not theoretical: 22 of the 50 banks in the test would be in that situation under the stress scenario.

Chart 11

EBA Stress Test: Banks Show Broadly Solid Resilience In The Stress Scenario



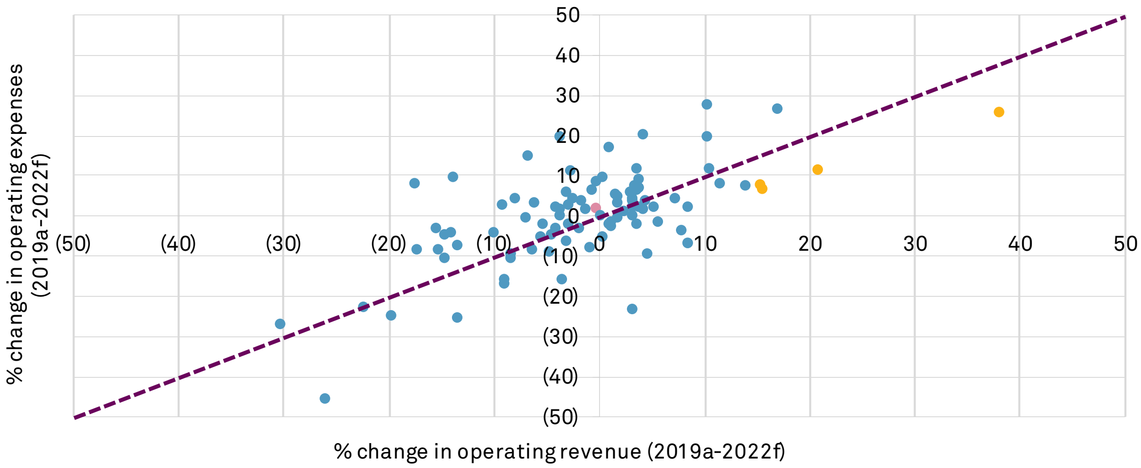
Filled bars are banks rated by S&P Global Ratings. BNG Bank N.V. and Nederlandse Waterschapsbank N.V. not shown (no SREP breach, highly capitalized). Source: S&P Global Ratings, EBA.

- **Dividends and share buybacks will resume.** The ECB has already stated it does not plan to extend its general ban on distributions to shareholders beyond September. Given that most banks performed well in the stress test, it is likely that a majority will receive approval to their dividend distribution or share buyback proposals. The relative weakness of their stock prices means more banks may opt for buybacks than in the past. It remains to be seen whether banks try to compensate shareholders for distributions already missed; we expect this will be a minority of instances.
- **Lower credit impairments led to better 2Q2021 results, but earnings growth difficulties persist.** While only a few banks (notably in the Nordics, the U.K., and Israel) started to release

credit provisions built up in 2020, most continued setting aside additional provisions, though less than in the first quarter and much less than in 2020. In the second quarter, lower credit impairments were the main factor supporting improvements in earnings. But weak margins continue to constrain profitability, which will remain the case as long as rates stay in negative territory. The carry trade from TLTRO (targeted longer-term refinancing operations) is helping around the edges but doesn't change the overall picture much.

Chart 12

For Over Half The Top 100 European Banks, Growth In Costs Will Exceed Growth In Earnings In 2022



Data as of June 24, 2021. Dashed line indicates proportionate change in both metrics. Pink dot is the median, 1.3% rise in costs, 0.1% fall in revenue. Gold dots are banks that undertook material acquisitions. Source: S&P Global Ratings.

- **Nordic bank regulators are gradually reinstating banks' countercyclical capital buffers and amortization requirements for mortgages, reverting some COVID-19 measures.** This suggests that Nordic regulators now see limited risk of banks facing high credit losses from the pandemic or constraints in the supply of credit to the private sector. Rather, they likely are paying more attention to the risks of imbalances building up--particularly in the real estate market--and higher leverage or risk taking by banks, amid a still extremely accommodative monetary policy, and so are more focused on banks buttressing their capital positions for future crises. As economies recover, those risks may also become more relevant for regulators across the rest of Europe.
- **Waiting for the European Commission legislative proposal to implement the agreed revisions to Basel III capital rules.** The European Banking Authority (EBA) and the ECB are advocating for a full, strict implementation of Basel III rules, which already include flexibility for phasing in some of the changes. Conversely, some European banks are lobbying to play down the effect of the output floor in particular. Uneven global implementation of the standards would dilute one of the intended goals: make capital ratios more comparable globally. In the EBA's latest impact study (published at end-2020), the estimated decline of capital ratios under new EU standards ranged from 170 bps for CET1 and 190 bps for Tier I.
- **In-market consolidation continues.** The most significant transaction now on the table is the potential acquisition of a relevant part of troubled Italian Banca Monte dei Paschi di Siena (MPS) by competitor UniCredit. UniCredit and the Italian government, majority owner of MPS, just agreed on extending negotiations beyond the original deadline, so it will take a bit longer to know whether they come to an agreement. UniCredit aims for the deal to have a neutral impact on its regulatory capital, which would imply the government assuming some costs and retaining bad assets and the legal risk. The required restructuring at MPS may also be a politically complicated issue in the region. There are other small transactions on the agenda as well: Nordax Bank AB's acquisition offer for Bank Norwegian ASA, the sale of AXA Bank Belgium to Crelan, and the sale of HSBC France's retail activities to Promontoria MMB (holding company of My Money Bank), both still pending regulatory approvals, as well as deals in the Irish market, such as the Bank of Ireland's acquisition of assets from KBC Ireland, and Permanent TSB's purchase of Ulster Bank assets.
- **The ECB published some initial findings from its ongoing climate stress test.** Final results are expected by the end of the year. As a first step and ahead of the more complex bottom-up climate stress test exercise planned for 2022, the ECB undertook an initial top-down exercise

on all eurozone monetary financial institutions, focused on banks' exposures to nonfinancial companies. More than the high-level preliminary findings of the exercise, there is great value in the ECB's efforts in gathering information about banks' exposure to climate risk (physical and transition risks) and measuring their potential financial costs under different scenarios. It also evidences European authorities' strong commitment to tackle climate change.

European banks' issuance of ESG bonds continues to grow. Issuance so far this year amounts to €53 billion, compared with €47 billion for all of 2020. Green bonds dominate issuance, but innovation continues and this year we have seen the first issuance of sustainability-linked bonds, which link the coupon rates to the issuer achieving predefined sustainability targets.

Key Risks

- **Interruption of the ongoing economic recovery,** potentially because of a resurgence in infections or hospitalizations that governments try to contain by reimposing greater restrictions or a too-early or too-abrupt phaseout of fiscal stimulus. Such a scenario would prove painful to the private sector and thus result in higher asset quality problems for banks than we currently anticipate, 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. If weak profitability persists, it impairs banks' capacity to build up capital internally and externally, reducing their capacity to deal with unexpected shocks, effectively channel credit to the economy, and make the necessary investment to transform business processes and the customer proposition.
- **A reversal of the favorable market conditions** currently prevailing, ultimately resulting in higher funding costs for governments, companies, and banks, or more difficulties in accessing to funding. This could happen if inflationary pressures prove not to be temporary, triggering a shift in authorities' extremely accommodative monetary policy, or if investor perceptions or risk appetite turn. That would hurt players with weaker credit quality and market access the most.
- **Distortion of risk pricing and a buildup of asset bubbles, particularly in the property market**, because of prolonged accommodative monetary policy and excess savings.

Nonfinancial Corporates

Primary contacts

Barbara Castellano
Milan
barbara.castellano
@spglobal.com
+39-2-7211-1253

- The negative outlook bias on corporate ratings has continued to reduce. Most sectors have returned near to pre-COVID-19 levels on this metric and in a few cases have exceeded it. Still, this is not the case for sectors that we do not expect to recover until 2023 or beyond--due to the prolonged effects of restrictions applied in response to the pandemic--including commercial aerospace, transportation, leisure and entertainment. In the third quarter, positive rating actions continued to outnumber negative actions (with 27 upgrades and 8 downgrades), but the overall quality of the rated portfolio remains weaker than pre-COVID.
- The spike in inflation continues, driven by energy, raw material, and logistics costs and exacerbated by bottlenecks and supply inefficiencies. We continue to see these as temporary, but the negative effects on corporates' profits can be meaningful, particularly if they have little room to pass through increases in costs to customers.

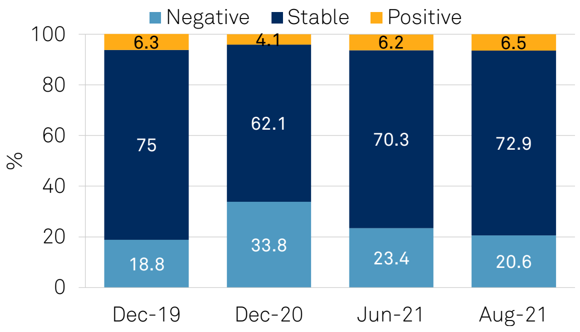
Key Developments

- **The strong global recovery has created imbalances between demand and supply as well as logistics bottlenecks that have proven beneficial to some sectors but detrimental to many that are bearing the rise in costs.** Cargo shipping is the most remarkable example. Maritime port congestions, container shortages, and no way to immediately adjust supply to demand have resulted in the industry generating extraordinary cash flow and profits. For some shipowners and operators, this has translated into positive rating actions, with seven upgrades in shipping and logistics sectors since June 2021. The pandemic-inspired boom in e-commerce and shifts in spending away from services toward tangible goods have supported a rebound in shipping volumes and a consequent increase in freight rates. The trend has been reinforced by recovering international trade and the recent scarcity of major raw materials and parts, which require the exploration of new solutions outside the usual routes. It doesn't appear that the gap between demand and supply will close in the near term, not least because of port congestion and container shortages, as well as the typical lead time of 12-18 months to build new vessels. Current conditions for shipping and logistics companies may well last at least until mid-2022, and higher shipping costs will likely continue to pressure corporate earnings, as discussed below.
- **Increased input and logistic costs, as well as parts shortages, create a threat to operating profits for many corporates.** While we expect the current spike in inflation to be temporary, 2021 earnings are likely to take a hit in many corporate sectors. We expect that in some cases the effect will be greater still in 2022, as the renewal of raw material and energy hedges could come at higher costs than in 2021. However, we note that in some cases strong demand and product scarcity have helped to lessen the negative effects from higher input and energy costs. For example, the auto sector faced increases in several input costs--metals, chemicals, logistics--and a scarcity of semiconductors that led to plant closures. In response, automakers have concentrated production on more profitable segments amid healthy demand for new models. These include a high percentage of electric vehicles, which in many countries benefit from incentives that make them more attractive to customers. We assume this strategic choice should limit the effect of increased costs on 2021 full-year performances that we still expect to be on average positive. Similar dynamics have occurred in other sectors that have benefited from a sharp increase in demand and limited ability to adjust supply in real time. As the economic distortions created by COVID-19 reduce, these dynamics may lessen next year, particularly if the scarcity effect dissipates as a consequence of weaker demand.
- **The impact of potential costs related to sustainability measures is becoming more concrete.** The EU's Fit for 55 plan, published in July, sheds fuller light on Europe's plans to achieve a minimum 55% reduction in net greenhouse gas emissions by 2030 (from 1990 levels) and be climate neutral by 2050. Under the plan, fossil energy sources would gradually be replaced, in favor of electrification, through renewable sources such as wind power. Companies will have to bear increasing costs related to their direct CO_2 emissions. The implementation of the plan requires a lot of work and the definition of clear rules that must be adopted at the national level. As result of the negotiations, the final framework might differ from the initial one. However, the path is clear: the EU is adopting the world's most stringent position on CO_2, with the greatest impact for transportation, autos, utilities, buildings, steel, and cement. We are aware that many European companies already have strategies in place to achieve emissions reductions. However, they may face higher costs than expected and need larger investments than planned relatively soon to cope with Fit for 55's ambitious targets.

- **The increase in spot gas prices raises concerns for European energy costs.** The impact from higher spot prices should not be dramatic for European corporates for now, as in most cases gas and power prices are based on pre-agreed contractual rates rather than on spot prices. With European energy policies focused on transitioning to renewable energy, the possibility to increase supply through thermal or nuclear generation is limited. And supply from non-EU countries, heavily influenced by political agreements, can be difficult to forecast. Higher, more volatile energy costs may be more common during the energy transition phase.

Chart 13

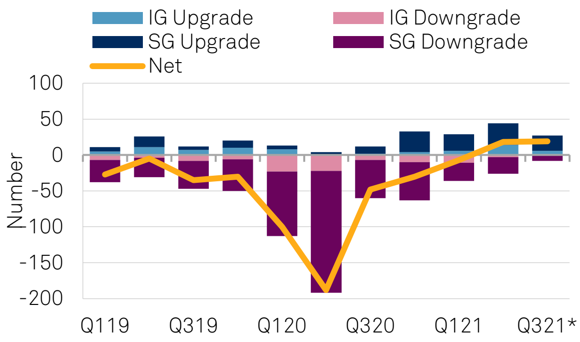
European Nonfinancial Corporate Outlooks Recover



*Q321 up until end-August. Source: S&P Global Ratings.

Chart 14

European Nonfinancial Rating Actions Turn Net Positive



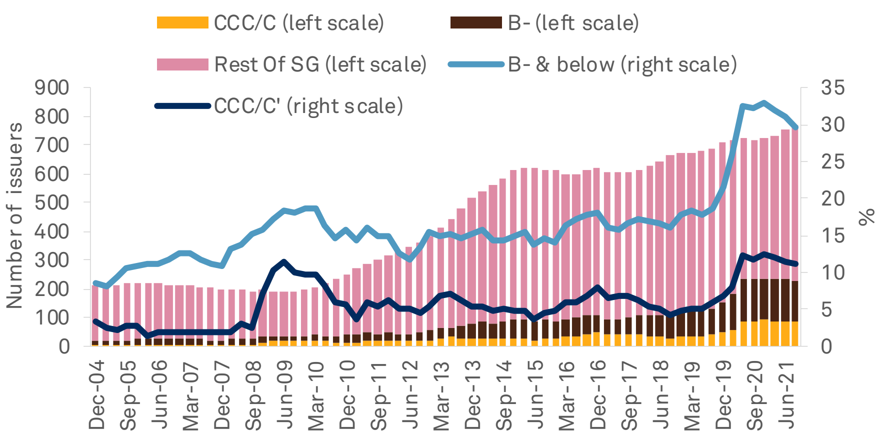
Source: S&P Global Ratings.

Key Risks

- **With about 30% of our speculative-grade ratings rated 'B-' or lower, a sudden change in the cost of debt might trigger a wave of defaults.** This is not our base case. Indeed, we note that the number of defaults in 2021 has been very modest relative to the composition of the portfolio. There have been 11 defaults in the eight months to end-August 2021, compared with 21 in the same period in 2020. We have revised our expected default rate downward, now assuming the rate will be 3.25% over the period to July 2022, compared with the historical rate of 4.7% at end-June 2021. We note that very supportive financial markets have allowed refinancing at very competitive conditions, and liquidity is not generally a main concern. Still, uncertainties about the pace of recovery in sectors still feeling the effects of COVID-19 leave an open risk. In sectors like media and entertainment, oil and gas, aerospace and defense and capital goods, the share of speculative-grade ratings is almost 50% globally. In our view, the main risk is linked to a repricing of risk that pushes up credit spreads; we currently see the possibility of an increase in reference interest rates as a more remote risk.

Chart 15

The Larger Proportion Of Weaker European Issuers Remains A Risk



Source: S&P Global Ratings Research; S&P Global Market Intelligence's CreditPro®.

Sovereigns

- With 72% of its savings-rich adult population vaccinated, Europe has entered a growth sweet spot. GDP growth is set to top 5% this year, while GDP levels are in line to return to pre-pandemic levels by end-2021, a year earlier than previously projected.
- The more than doubling of natural gas prices, alongside signs of a slowdown in China, are key risks for Europe's open, trade-dependent economy (and have already elicited a fiscal response).
- One silver lining for the eurozone from the pandemic is the recognition that domestic demand, particularly investment, has to play a larger role in European growth.
- We are revising downward our eurozone budgetary deficit projections for 2021 on the back of surging indirect tax revenues, and the expiration of extraordinary spending, as employment and company earnings recover.
- Despite rising headline inflation, nearly all eurozone yield curves are below zero up to the five-year maturity, with 10-year Italian yields at 0.7% at publication time.

Primary contact

Frank Gill
Madrid
frank.gill
@spglobal.com
+34-91-788-7213

Key Developments

- **The strong rebound of the eurozone economy is generating tailwinds for fiscal consolidation.** Most recently, the French government revised down its projected budgetary deficit for 2021 to 8.4% of GDP (from 9.4%), with Spanish authorities also foreseeing a better than targeted full-year result. Most eurozone governments report that tax receipts during the first half of 2021 have exceeded 2019 levels. Moreover, rapidly mending job markets mean fewer payouts under furlough programs. Still, expenditures remain elevated and deficits are large. Much will depend upon the details of revisions to the fiscal rules written into the EU's Stability and Growth Pact. It is now accepted wisdom that the fiscal exertions deployed last year prevented a far sharper and more protracted economic collapse than what materialized.
- **Cost of eurozone sovereign debt remains negative up to the five-year maturity level for nearly all major issuers.** Bond markets were unmoved by the Sept. 9 ECB announcement that it would moderate net bond purchases in the fourth quarter. Hawkish predictions about the implications of a shortfall of tradeable government bonds have yet to materialize. Concerns that the pandemic would lead to a tightening of the bank-sovereign nexus also appear to be overblown; the share of public debt held by banks has barely budged since December 2019.
- **The EU has issued €54 billion in long-term bonds for its €800 billion NextGenerationEU program, with a full-year target of €80 billion** (excluding EU bill issuance). Given the declining stock of tradeable eurozone sovereign debt in secondary markets, and strong Asian interest in a European reserve asset, all four bond sales have been heavily oversubscribed this year. As the EU plans to issue an average of €150 billion per year over 2022-2026, we believe the trend in the euro's rising share of global reserve holdings should continue over the medium term. Indeed, between first-quarter 2020 and first-quarter 2021, allocated reserves in euros increased to 20.7% from 20.1%, a pace of increase twice that of sterling, but also clearly connected to a decline in global holdings of the U.S. dollar.

Key Risks

- **Rising energy costs and Chinese financial market volatility are risks to Europe's trade-driven economy.** With exports equivalent to 27% of GDP, the eurozone economy is 1.5x more open than China, and 2.7x more open than the U.S. In the aftermath of the 2007-2009 global financial crisis, Europe pivoted toward external demand to stabilize GDP; last year's eurozone current account surplus of €349 billion was the world's highest. One silver lining from the pandemic for Europe's policy stance is that it has highlighted the critical role of domestic demand, and particularly investment, in the economy.
- **Most European governments are already intervening to limit the pass-through of higher wholesale energy costs into household tariffs, at a fiscal cost.** Recent weeks have seen a series of fiscal interventions to reduce the pass-through of rapidly rising wholesale gas prices to household energy bills. So far, the cost does not appear to exceed 0.2% of GDP (in Italy's case), also because of the strong performance of some indirect taxes, especially VAT, that may offset reductions on energy-related taxes.
- **German election results won't necessarily end the pre-election pause in eurozone decision-making.** Brussels has been on an extended pause ahead of the key Sept. 26 German parliamentary elections. The risk is of more extended pause, given the likely need for negotiations for the formation of a multiparty government.

International Public Finance

- With a strong economic recovery underway, many European local and regional governments (LRGs) will exit the pandemic with a strong budgetary performance. Their tax revenues will likely increase, and we expect extraordinary grants from central governments will wane very gradually.
- LRGs in federal states such as Austria, Belgium, and Germany--which adopted counter-cyclical fiscal policies during the pandemic--will gradually switch to a budgetary consolidation mode. They will likely maintain elevated deficits this year but shrink them afterward.
- Longer-term demand for better public infrastructure and assets, as well as spending on net-zero carbon initiatives, will emerge as the main pressure points for European public-sector entities, including local governments and social housing providers.

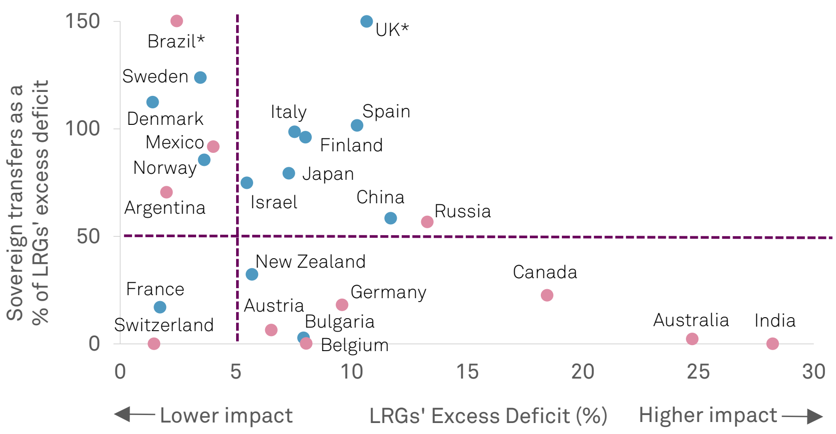
Primary contact
Felix Ejgel
London
felix.ejgel
@spglobal.com
+44-20-7176-6780

Key Developments

- **In most unitary (non-federal) countries, central governments provided LRGs massive financial support during the pandemic**. Central government grants exceeded the loss of revenues, while LRGs reduced spending on maintenance and capex due to social-distancing measures.
- **Since 2020, higher regional deficits in federal countries, resulting in elevated debt burdens, led to most of the negative rating actions on European LRGs**. LRGs with negative outlooks are now concentrated in Spain and Austria, reflecting pressure on the general government and still subdued recovery in the leisure/hospitality sector.
- **Germany's election outcome may give an indication of EU spending appetite.** Higher spending, including investments in infrastructure as well as energy transition spending , will likely resurface as the prime reason for financial deficits across all European LRGs. Still, the availability of EU funds (and for the U.K., central government funds) aimed at energy efficiency could reduce financial pressure.

Chart 16

Sovereign Transfers To LRGs In Unitary States Exceeded Their Excess Budget Deficit From The Pandemic



* For Brazil and the U.K. sovereign transfers as a proportion of LRG's excess deficit exceeds 150%. Pink dots indicate federal states. Source: S&P Global Ratings.

Key Risks

- **Delayed economic recovery.** This could hinder budget consolidation in federal countries and the consistency of central government transfers in unitary states.
- **Trends such as working from home, suburbanization, and digitalization could reshape the economics of cities.** It could also change the demand and costs for public-sector services, such as public transportation, higher education, and social housing.
- **Uncertainty about the financial costs of achieving net zero and how the costs will be financed.** Limited financial assistance from the central governments could crowd out spending on other pressing needs.

Insurance

- The European insurance sector is mostly back to the previous status quo, that is, the lower-for-longer interest rate environment. In some markets, vehicle traffic is still below historical levels, benefitting motor insurers with lower frequency claims.
- Flooding events and wildfires in Europe have come at great human and economic cost; the insured loss appears manageable for rated non-life insurers in those regions.
- Despite rate increases in the reinsurance sector in 2021, challenges remain for those reinsurers with exposure to flooding events in Europe, China, and, in the U.S., California wildfires and a busy start to the U.S. hurricane season. 2021 may become an active claims year for reinsurers.

Primary contact

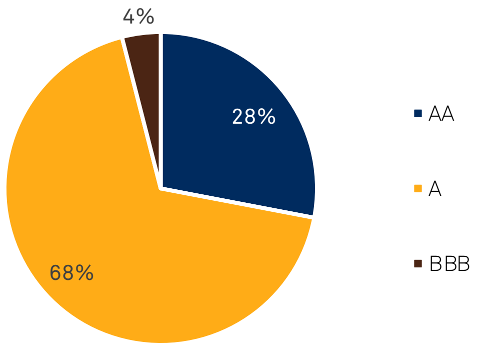
Volker Kudszus
Frankfurt
volker.kudszus
@spglobal.com
+49-69-33999-192

Key Developments

- **First-half 2021 results evidenced comfortable operating earnings for European non-life insurers, while life insurers continue to suffer low interest rates.** While flooding events in some European regions represent an earnings event for non-life insurers, we don't expect a ratings impact. Our rated non-life primary insurers generally have advanced reinsurance programs in place. Tailwinds from a lower number of motor frequency claims should fade over time as traffic trends back to normal. European life insurers continue to promote capital-light products, cutting costs, searching for yield pickup to cover guarantees in legacy back books, and taking opportunities to offload them by sale or reinsurance.
- **European insurers are well placed to weather potential capital market volatility as capital surpluses recover.** Even during the height of the COVID-19 crisis, European insurers' ratings proved resilient against external shocks, and the sector kept its average rating in the 'A' range (see chart 17). Capitalization and diversification are key strengths for European insurers, supporting the 88% of stable rating outlooks (see chart 18).
- **Reinsurers are facing an active natural catastrophe year.** Losses so far this year indicate that 2021 could potentially be another expensive natural catastrophe loss year for the reinsurance industry. In Europe, the floods in July were a significant loss event, followed by Hurricane Ida in August, while insured natural catastrophe losses in the first half of the year have been the second highest on record. The global reinsurance sector in 2017-2020 didn't earn its cost of capital due to COVID-19-related losses, large natural catastrophe losses, adverse loss trends in certain casualty lines, and fierce competition among reinsurers exacerbated by alternative capital. As a result, our sector view of the global property/casualty reinsurance sector remains negative. At the same time, we expect the firming rate environment will continue in the upcoming P/C renewal season in 2022.

Chart 17

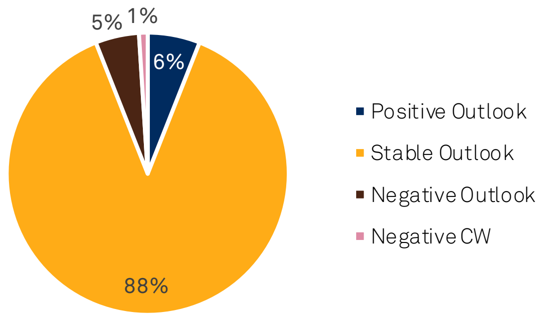
Rating Distribution



Source: S&P Global Ratings.

Chart 18

Outlook Distribution



Source: S&P Global Ratings.

Key Risks

- **Low interest rates,** a burden to the investment margins of life insurers with legacy back books.
- **COVID-19-related capital market volatility** and subsequent investment losses.
- **Claims volatility on the rise,** potentially outpacing rate increases for reinsurers.
- **Downgrades of corporate bond investments**, raising capital requirements.

Structured Finance

- Downgrades on less than 2% of European structured finance ratings over the past 12 months.
- Most downgrades in the CMBS sector, where some transactions backed by retail real estate are suffering longer-term pressures.
- Pandemic-related support schemes for underlying borrowers in consumer-backed sectors are winding down, potentially unmasking some credit distress, though likely limited in scale.
- Cessation of sterling LIBOR by year-end may cause technical issues in some transactions, but a negative ratings impact looks unlikely.

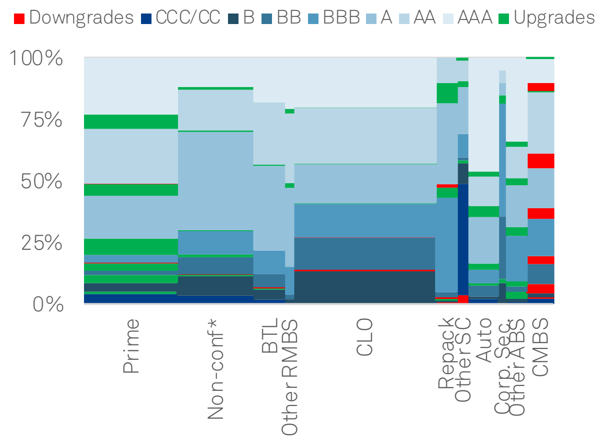
Primary contact
Andrew South
London
andrew.south
@spglobal.com
+44-20-7176-3712

Key Developments

Structured finance ratings have continued to hold up well, and we lowered less than 2% of our ratings on European structured finance securities in the 12 months to end-August 2021 (see chart 19). Weakness has been confined mostly to the commercial mortgage-backed securities (CMBS) sector, where some transactions linked to retail assets have seen their ratings lowered due to ongoing structural shifts in the sector, as well as continued operational disruption due to social restrictions. By contrast, we have lowered relatively few ratings on European leveraged loan CLOs (collateralized loan obligations), where underlying credit performance has stabilized since the early months of the pandemic, partly due to active management of the underlying loan portfolios. In fact, across the European CLOs that we rate, the median exposure to obligors whose ratings are on CreditWatch with negative implications has now fallen close to zero from a peak of nearly 9% in mid-2020 (see chart 20), indicating lower exposure to downgrade risk in the short term.

Chart 19

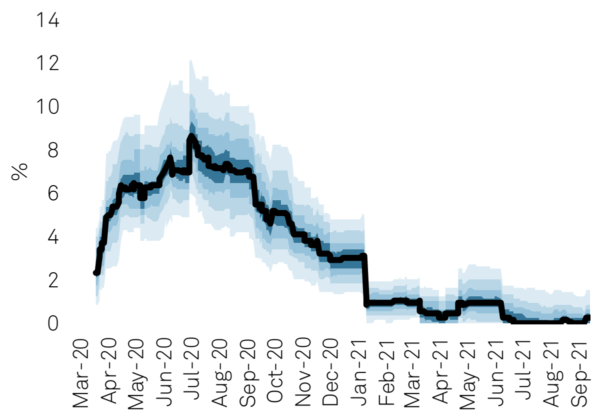
European Structured Finance Ratings Heatmap



*Non-conforming. BTL—Buy-to-let. SC—Structured credit. Based on cumulative count of rating actions between Sept. 1, 2020 and Aug. 31, 2021. Source: S&P Global Ratings.

Chart 20

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.

In sectors backed by lending to consumers--such as residential mortgage-backed securities (RMBS) and auto asset-backed securities (ABS)--upgrades outnumber downgrades. For these sectors, a key development is the gradual wind-down of borrower support measures originally enacted due to the pandemic, such as debt payment deferral and short-time work schemes. In the U.K., for example, all government-sanctioned payment holidays end on Sept. 30, along with the employee furlough scheme. In Ireland, the pandemic unemployment payment scheme is now closed to new applicants (although payments will continue until February 2022), and the employment wage subsidy scheme is set to finish at the end of the year. In Italy, a general ban on redundancies ended on June 30, although employees in certain sectors most affected by the pandemic can continue to receive support until December.

Key Risks

Given the burgeoning economic recovery, the base case outlook for European securitization credit performance is positive. Throughout the pandemic, transactions have behaved as designed and performance declines have been modest.

Considering the CLO sector, we look to trends in the 12-month default rate for European speculative-grade corporates. This peaked at just over 6% in March, was less than 5% in June, and we forecast it will be back to only about 3% by mid-2022. This would be close to the steady-state level of the pre-pandemic era--when European corporate defaults remained low for nearly a decade--and would no longer be putting any significant pressure on European CLOs, especially given managers' initial portfolio selection and ability to trade.

For transactions backed by lending to consumers, most of the underlying borrowers will be standing on their own feet within the next few months, as most of the payment deferral and employee assistance schemes across different countries finally come to an end. While there is some risk that this removal of policy support will unmask a degree of underlying credit distress, we expect the wind-down of these schemes will be well synchronized with the counteracting economic rebound.

One area to monitor as we approach year-end is the phaseout of sterling LIBOR. Most securitizations with sterling LIBOR exposures are in the process of transitioning both assets and liabilities to alternative benchmarks, such as the Bank of England base rate or SONIA. However, delays in obtaining noteholders' and underlying borrowers' consent for contractual changes, or eventual reliance on documented fallback provisions, could potentially lead to cash flow stress.

In general, we believe there is limited scope for downward rating pressure on European securitizations due to LIBOR transition. To cause a downgrade, revised transaction terms would need to materially deviate from current market expectations regarding the year-end sterling LIBOR rate, the LIBOR to SONIA credit adjustment spread, or the time to solicit noteholders' consent on replacing LIBOR with an alternative benchmark. That said, there remains uncertainty about potential litigation related to changes in the mortgage contracts, which may prevent benchmark replacement or induce legal costs.

Editor: Rose Marie Burke.

Related Research

- Economic Outlook Europe Q4 2021: A Faster-Than-Expected Liftoff, Sept. 23, 2021
- Economic Outlook U.K. Q4 2021: Recovery Still On Track, Sept. 23, 2021
- Global Reinsurers Grapple With Climate Change Risks, Sept. 23, 2021
- Evergrande Default Contagion Risk--Ripple Or Wave? Sept. 20, 2021
- The Energy Transition: Offshore Wind Picks Up, Sept. 20, 2021
- Europe's Renewable Energy Ambitions Lift Wind Turbine Makers' Prospects, Sept. 20, 2021
- The Energy Transition And What It Means For European Power Prices And Producers: Sept. 2021 Update, Sept. 17, 2021

This report does not constitute a rating action.

The views expressed in the Macroeconomic Outlook section (pages 5-7) 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

Table 2

Real GDP %

	Ger.	Fra.	Ita.	Spa.	Neth.	Belg.	Eurozone	U.K.	Switz.
2019	1.1	1.8	0.3	2.0	1.9	1.8	1.5	1.4	1.1
2020	-4.9	-8.0	-8.9	-10.8	-3.8	-6.3	-6.5	-9.8	-2.7
2021f	3.1	6.2	6.0	6.3	3.6	5.4	5.1	6.9	3.2
2022f	5.0	3.6	4.4	6.4	3.3	3.5	4.5	5.2	3.1
2023f	2.1	2.3	1.8	3.2	2.0	2.1	2.2	1.8	1.8
2024f	1.7	1.9	0.9	2.3	1.8	1.5	1.7	1.6	1.7

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	2.9	1.9	1.6	2.2	2.1	2.2	2.2	2.2	0.5
2022f	1.7	1.7	1.4	1.2	1.8	1.6	1.6	2.6	0.5
2023f	1.6	1.6	1.3	1.4	1.7	1.6	1.5	1.8	0.6
2024f	1.8	1.7	1.5	1.5	1.8	1.8	1.6	1.8	0.7

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

Table 4

Unemployment Rate %

	Ger.	Fra.	Ita.	Spa.	Neth.	Belg.	Eurozone	U.K.	Switz.
2019	3.2	8.4	10.0	14.1	3.4	5.4	7.6	3.8	4.4
2020	3.9	8.0	9.3	15.5	3.8	5.6	7.9	4.5	4.8
2021f	3.7	8.1	10.0	15.0	3.5	6.3	7.9	4.9	4.9
2022f	3.5	8.3	9.3	14.4	3.7	5.8	7.6	4.9	4.7
2023f	3.4	8.2	8.9	14.0	3.6	5.7	7.4	4.4	4.5
2024f	3.3	7.9	8.7	13.8	3.5	5.6	7.1	4.2	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.
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	-0.3	0.0	0.8	0.4	-0.3	0.0	0.1	0.7	-0.2
2022f	0.0	0.4	1.3	0.8	0.1	0.4	0.5	1.0	0.1
2023f	0.3	0.7	1.7	1.1	0.4	0.7	0.8	1.5	0.3
2024f	0.3	0.8	1.9	1.2	0.5	0.8	0.9	1.7	0.3

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	1.20	1.39	1.16	0.91	1.09
2022f	1.21	1.40	1.16	0.93	1.12
2023f	1.21	1.41	1.16	0.94	1.14
2024f	1.21	1.41	1.17	0.95	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	0.17	-0.75
2024f	-0.44	0.00	0.46	-0.69

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

spglobal.com/ratings