# Sovereign Mid-Year 2023 Outlook

## Economic slowdown, challenging fiscal dynamics and high interest rates underpin negative outlook for sovereign ratings

Sovereign and Public Sector, Scope Ratings GmbH, 18 July 2023

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# Executive summary

We have modestly revised up our forecast for global economic growth this year to **2.9%**, from 2.6% under our December-2022 projection. However, we have lowered the 2024 forecast by 0.3pps to **3.0%**. Persistent inflation, monetary policy tightening, and challenging fiscal dynamics have resulted in sovereign borrowers facing more negative rating actions than positive rating actions since the start of this year. We summarise projections for major economies in **Table 1** below, with full macro forecasts available in **Tables 2 and 3**.

**Economic assumptions (global baseline scenario):**

*A 'new normal' of volatile economic growth:* We projected a slowdown for this year, especially in Europe, followed by an uneven recovery entering next year. This challenging economic outlook reflects cost-of-living crises and higher global interest rates. Upside factors for 2023 growth have crystallised, such as resilient demand and employment, China ending most of its zero-Covid policies by January, and the energy crisis in Europe last winter being less severe than anticipated. But these have been partly offset by downside risks that have crystallised, including persistent inflation surprises, more aggressive central-bank rate hikes and real-estate market corrections.

Our forecasts for this year assume slow growth in the euro area (1.0%), stagnation in the United Kingdom (zero growth), resilient albeit slowing growth in the United States (1.9%) and recovery in China (5.0%). Next year, we see a moderate pick-up in Europe: 1.5% growth for the euro area and 0.8% in the United Kingdom, counterbalanced by a weakening of the US economy (1.3%) and China (4.3%).

*Higher-for-longer inflation:* The global slowdown is raising labour-market slack, although unemployment remains near multi-decade lows and continues to exert pressure on prices. Our view is for higher-for-longer inflation even as inflation recedes from its peaks. Global and euro-area inflation forecasts for this year are slightly cut from our December 2022 estimates. Conversely, inflation forecasts for 2024 have been modestly raised.

*Higher rates for longer:* We have raised our expectation for Federal Reserve, European Central Bank and Bank of England rate rises. Furthermore, our expectation remains for rates from said central banks to be held at peaks until second-half 2024 at least. Tighter monetary policy raises the risk of policy mistakes that could facilitate financial instability.

**Sovereign rating outlook:**

The combination of constrained monetary policy and challenging fiscal dynamics puts pressure on credit ratings for emerging-market as well as advanced-economy sovereigns. Fast price rises lower the real value of existing debt. This is credit positive for rated sovereigns, but the benefits erode as interest payments rise and central bank room for manoeuvre is curtailed.

In line with our **negative outlook** for sovereign ratings for this year, we have seen more negative than positive sovereign rating actions so far in 2023. Downside rating actions have accelerated since the escalation of the Russia-Ukraine war. Since the start of this year, we have downgraded four countries' ratings (China, Czech Republic, Hungary, Poland) and lowered seven countries' Outlooks (Austria, Estonia, France, Latvia, Lithuania, South Africa, United States) while only three sovereigns' ratings or Outlooks have been revised higher (Ireland, Portugal and Ukraine). See **Annex II**, **Figure 12**. Ten sovereign borrowers (or 26% of publicly-rated sovereigns) are presently rated on a Negative Outlook alongside two sovereigns (or 5% of the sovereign portfolio) rated on Positive Outlook – see **Figure 13**, **Annex II**. Scope's scheduled sovereign review dates for the remainder of 2023 are listed in **Annex III**.

**Table 1: Scope's growth forecasts, summary, as of 18 July 2023**

| Country/region | Real GDP growth (%) | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Baseline scenario | | | | Medium-run potential |
| | 2021 | 2022E | 2023F | Diff. from Dec.* | 2024F | Diff. from Dec.* | |
| Euro area | 5.3 | 3.5 | 1.0 | ↑ 0.3 | 1.5 | ↓ 0.3 | 1.5 |
| Germany | 2.6 | 1.9 | (0.1) | ↑ 0.1 | 1.4 | ↓ 0.1 | 0.9 |
| France | 6.4 | 2.5 | 0.7 | ↑ 0.2 | 1.4 | ↓ 0.2 | 1.4 |
| Italy | 7.0 | 3.7 | 1.2 | ↑ 0.7 | 0.8 | ↓ 0.7 | 1.0 |
| Spain | 5.5 | 5.5 | 1.8 | ↑ 0.5 | 2.1 | ↓ 0.4 | 1.8 |
| United Kingdom | 7.6 | 4.1 | 0.0 | ↑ 0.6 | 0.8 | ↓ 0.3 | 1.5 |
| Türkiye | 11.4 | 5.6 | 2.7 | ↓ 0.3 | 3.0 | - | 3.9 |
| United States | 5.9 | 2.1 | 1.9 | ↑ 0.8 | 1.3 | ↑ 0.2 | 2.0 |
| China | 8.4 | 3.0 | 5.0 | ↑ 0.7 | 4.3 | ↓ 0.9 | 4.0 |
| Japan | 2.2 | 1.0 | 1.2 | ↓ 1.1 | 1.0 | ↓ 0.8 | 0.4 |
| World | 6.3 | 3.4 | 2.9 | ↑ 0.3 | 3.0 | ↓ 0.3 | 2.7 |

*Changes compared with December 2022's 2023 Sovereign Outlook forecasts. Negative growth rates presented in parentheses.
Source: Scope Ratings forecasts, regional and national statistical offices, IMF.

## Table 2. Global economic outlook: growth, inflation and official rates, 2020-2024F

| Country/region | Real GDP growth (annual average, %) | | | | | | | | Headline inflation[2] (annual average, %) | | | | | | | Policy rates (EOP, %) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022E | 2023F | Diff. from Dec-22[1] | 2024F | Diff. from Dec-22[1] | Medium-run potential | 2020 | 2021 | 2022E | 2023F | Diff. from Dec-22[1] | 2024F | Diff. from Dec-22[1] | End-2020 | End-2021 | End-2022 | End-2023 | End-2024 |
| **Euro area[3]** | (6.2) | 5.3 | 3.5 | 1.0 | ↑ 0.3 | 1.5 | ↓ 0.3 | 1.5 | 0.2 | 2.6 | 8.4 | 5.6 | ↓ 0.5 | 3.0 | ↑ 0.6 | (0.5) | (0.5) | 2.0 | 4.0 | 3.75 |
| Germany | (4.1) | 2.6 | 1.9 | (0.1) | ↑ 0.1 | 1.4 | ↓ 0.1 | 0.9 | 0.3 | 3.2 | 9.0 | 6.3 | ↓ 1.2 | 3.1 | ↑ 0.7 | | | | | |
| France | (7.8) | 6.4 | 2.5 | 0.7 | ↑ 0.2 | 1.4 | ↓ 0.2 | 1.35 | 0.5 | 2.1 | 5.8 | 5.3 | ↑ 1.0 | 2.7 | ↑ 0.6 | | | | | |
| Italy | (9.0) | 7.0 | 3.7 | 1.2 | ↑ 0.7 | 0.8 | ↓ 0.7 | 1.0 | (0.2) | 1.9 | 8.7 | 6.5 | ↑ 1.3 | 3.0 | ↑ 1.0 | | | | | |
| Spain | (11.3) | 5.5 | 5.5 | 1.8 | ↑ 0.5 | 2.1 | ↓ 0.4 | 1.75 | (0.3) | 3.0 | 8.5 | 3.4 | ↓ 1.8 | 2.8 | ↑ 0.6 | | | | | |
| Netherlands | (3.9) | 6.2 | 4.4 | 0.8 | ↑ 0.1 | 0.3 | ↓ 0.8 | 1.4 | 1.1 | 2.8 | 11.6 | 4.7 | ↓ 4.9 | 3.4 | ↑ 0.4 | | | | | |
| Belgium | (5.4) | 6.3 | 3.2 | 0.9 | ↑ 0.7 | 1.2 | ↓ 0.1 | 1.2 | 0.4 | 3.2 | 10.3 | 3.7 | ↓ 1.3 | 2.2 | ↓ 0.8 | | | | | |
| Austria | (6.5) | 4.7 | 4.9 | 0.2 | ↓ 0.4 | 1.5 | ↑ 0.0 | 1.6 | 1.4 | 2.8 | 8.6 | 7.6 | ↑ 1.6 | 3.7 | ↑ 0.5 | | | | | |
| Ireland | 5.6 | 13.4 | 12.1 | 5.1 | ↓ 0.2 | 4.7 | ↑ 0.5 | 4.0 | (0.5) | 2.4 | 7.9 | 5.3 | ↓ 0.5 | 3.0 | ↑ 0.5 | | | | | |
| Finland | (2.4) | 3.1 | 1.6 | 0.0 | ↓ 0.2 | 1.0 | ↓ 0.4 | 1.2 | 0.4 | 2.1 | 7.2 | 5.0 | ↑ 0.5 | 2.3 | ↑ 0.3 | | | | | |
| Portugal | (8.3) | 5.5 | 6.7 | 2.6 | ↑ 1.3 | 2.0 | ↓ 0.1 | 1.8 | (0.1) | 0.9 | 8.1 | 5.5 | ↓ 0.3 | 2.5 | ↑ 0.2 | | | | | |
| Greece | (9.0) | 8.4 | 5.9 | 2.3 | ↑ 1.2 | 1.6 | ↑ 0.1 | 1.0 | (1.3) | 0.6 | 9.3 | 4.0 | ↓ 1.8 | 3.3 | ↑ 0.5 | | | | | |
| Slovakia | (3.3) | 4.9 | 1.7 | 1.4 | ↑ 0.9 | 2.0 | ↓ 0.4 | 2.5 | 2.0 | 2.8 | 12.1 | 10.0 | ↓ 5.0 | 5.5 | ↑ 0.7 | | | | | |
| Luxembourg | (0.8) | 5.1 | 1.6 | 1.8 | ↓ 0.4 | 2.3 | ↓ 0.2 | 2.5 | 0.0 | 3.5 | 8.4 | 2.8 | ↓ 0.9 | 3.0 | ↑ 0.7 | | | | | |
| Lithuania | 0.1 | 5.9 | 1.9 | (1.4) | ↓ 1.9 | 2.4 | ↓ 0.7 | 2.5 | 1.1 | 4.6 | 18.9 | 9.5 | ↑ 2.5 | 3.0 | ↑ 0.5 | | | | | |
| Slovenia | (4.2) | 8.3 | 5.7 | 1.3 | - | 2.4 | ↑ 0.1 | 3.0 | (0.3) | 2.1 | 9.0 | 7.0 | ↑ 1.2 | 3.5 | ↑ 0.1 | | | | | |
| Latvia | (2.2) | 4.1 | 2.8 | 1.5 | ↑ 1.6 | 1.8 | ↓ 1.2 | 2.5 | 0.1 | 3.2 | 17.2 | 8.5 | ↑ 0.5 | 2.5 | - | | | | | |
| Estonia | (0.6) | 8.0 | (1.3) | (1.3) | ↓ 2.1 | 2.3 | ↓ 0.9 | 2.2 | (0.6) | 4.5 | 19.4 | 10.0 | ↑ 3.0 | 3.5 | ↑ 1.0 | | | | | |
| Cyprus | (4.4) | 6.6 | 5.6 | 2.5 | ↑ 0.3 | 2.8 | ↑ 0.3 | 3.0 | (1.1) | 2.3 | 8.1 | 3.9 | ↓ 0.1 | 2.7 | ↑ 0.7 | | | | | |
| Malta | (8.5) | 11.6 | 7.1 | 3.7 | ↑ 0.4 | 3.8 | ↑ 0.2 | 3.5 | 0.8 | 0.7 | 6.1 | 5.8 | ↑ 1.2 | 3.4 | ↑ 0.8 | | | | | |
| Croatia | (8.2) | 10.2 | 6.3 | 2.4 | ↑ 0.6 | 2.0 | ↓ 0.3 | 3.0 | (0.0) | 2.7 | 10.6 | 7.8 | ↑ 1.3 | 4.1 | ↑ 0.6 | | | | | |
| **Western Europe ex-euro area** | | | | | | | | | | | | | | | | | | | | |
| United Kingdom | (11.0) | 7.6 | 4.1 | 0.0 | ↑ 0.6 | 0.8 | ↓ 0.3 | 1.5 | 0.9 | 2.6 | 8.9 | 7.8 | ↑ 0.3 | 3.1 | - | 0.1 | 0.25 | 3.5 | 6.0 | 5.5 |
| Switzerland | (2.5) | 4.2 | 2.1 | 1.0 | ↑ 0.4 | 2.1 | ↑ 0.2 | 1.5 | (0.7) | 0.6 | 2.9 | 2.4 | ↑ 0.2 | 2.2 | ↑ 0.3 | (0.75) | (0.75) | 1.0 | 2.0 | 2.0 |
| Sweden | (2.3) | 5.9 | 2.9 | (0.5) | ↓ 0.1 | 1.1 | ↑ 0.1 | 1.8 | 0.7 | 2.7 | 8.3 | 8.6 | ↑ 0.7 | 3.0 | ↑ 0.6 | 0.0 | 0.0 | 2.5 | 4.25 | 4.0 |
| Norway | (1.9) | 4.0 | 3.2 | 1.2 | ↓ 0.8 | 1.3 | ↓ 0.9 | 1.8 | 1.3 | 3.5 | 5.8 | 5.5 | ↑ 1.3 | 2.7 | ↑ 0.5 | 0.0 | 0.5 | 2.75 | 4.25 | 4.25 |
| Denmark | (2.0) | 4.9 | 3.8 | 1.5 | ↑ 1.7 | 1.2 | ↓ 0.2 | 1.5 | 0.3 | 1.9 | 7.5 | 3.8 | ↓ 0.7 | 3.1 | ↑ 1.1 | (0.60) | (0.60) | 1.75 | 3.6 | 3.6 |
| **EU central and eastern Europe ex-euro** | | | | | | | | | | | | | | | | | | | | |
| Poland | (2.0) | 6.8 | 5.4 | 2.5 | ↑ 1.0 | 2.0 | ↓ 0.9 | 3.0 | 3.4 | 5.1 | 14.4 | 12.7 | ↑ 0.5 | 7.4 | ↑ 0.4 | 0.1 | 1.75 | 6.75 | 6.5 | 5.75 |
| Romania | (3.6) | 5.9 | 4.7 | 3.0 | ↑ 0.8 | 4.1 | ↓ 0.4 | 4.0 | 2.6 | 5.0 | 11.8 | 11.0 | ↑ 0.4 | 6.2 | ↑ 0.2 | 1.5 | 1.75 | 6.75 | 7.0 | 5.0 |
| Czech Republic | (5.5) | 3.5 | 2.4 | 0.2 | - | 2.4 | ↓ 0.8 | 2.5 | 3.2 | 3.8 | 15.1 | 10.6 | ↑ 1.5 | 2.4 | ↓ 1.6 | 0.25 | 3.75 | 7.0 | 6.0 | 4.5 |
| Hungary | (4.7) | 7.2 | 4.6 | 0.1 | - | 2.5 | - | 2.5 | 3.3 | 5.1 | 14.8 | 17.5 | ↑ 3.0 | 5.3 | ↑ 0.5 | 0.6 | 2.4 | 13.0 | 11.5 | 6.5 |
| Bulgaria | (4.0) | 4.2 | 3.4 | 1.6 | ↑ 0.6 | 3.0 | ↑ 0.0 | 2.75 | 1.2 | 2.8 | 13.1 | 9.3 | ↑ 2.0 | 3.8 | ↑ 0.3 | 0.0 | 0.0 | 1.3 | 3.3 | 2.3 |
| **Non-EU emerging Europe** | | | | | | | | | | | | | | | | | | | | |
| Russia | (2.0) | 4.7 | (1.6) | (0.8) | ↑ 3.2 | 0.9 | ↓ 0.1 | 1.0 | 3.4 | 6.7 | 13.9 | 6.0 | ↓ 1.5 | 5.0 | - | 4.25 | 8.5 | 7.5 | 7.0 | 6.0 |
| Türkiye | 1.9 | 11.4 | 5.6 | 2.7 | ↓ 0.3 | 3.0 | - | 3.9 | 12.3 | 19.6 | 73.8 | 45.0 | ↓ 7.6 | 40.0 | ↑ 7.7 | 17.0 | 14.0 | 9.0 | 17.5 | 20.0 |
| Ukraine | (3.8) | 3.4 | (29.1) | 4.0 | ↓ 1.5 | 2.5 | ↓ 5.0 | 2.5 | 2.7 | 9.4 | 20.2 | 14.4 | ↓ 8.6 | 9.3 | ↓ 5.1 | 6.0 | 9.0 | 25.0 | 20.0 | 15.0 |
| Serbia | (0.9) | 7.5 | 2.3 | 2.0 | ↓ 0.7 | 3.0 | ↓ 0.4 | 4.0 | 1.6 | 4.1 | 11.9 | 11.8 | ↑ 2.4 | 4.1 | ↓ 0.8 | 1.0 | 1.0 | 5.0 | 6.0 | 4.5 |
| Georgia | (6.7) | 10.5 | 10.2 | 7.5 | ↑ 0.5 | 6.1 | ↑ 0.3 | 5.0 | 5.2 | 9.6 | 11.9 | 2.3 | ↓ 3.5 | 2.8 | ↓ 1.0 | 8.0 | 10.5 | 11.0 | 9.0 | 7.0 |
| **Rest of World (Advanced)** | | | | | | | | | | | | | | | | | | | | |
| United States | (2.8) | 5.9 | 2.1 | 1.9 | ↑ 0.8 | 1.3 | ↑ 0.2 | 2.0 | 1.3 | 4.7 | 8.0 | 4.2 | ↓ 0.9 | 3.0 | ↓ 0.1 | 0-0.25 | 0-0.25 | 4.25-4.5 | 5.5-5.75 | 5-5.5 |
| China[4] | 2.2 | 8.4 | 3.0 | 5.0 | ↑ 0.7 | 4.3 | ↓ 0.9 | 4.0 | 2.4 | 0.9 | 2.1 | 0.7 | ↓ 1.6 | 2.2 | - | 3.85 | 3.8 | 3.65 | 3.55 | 3.45 |
| Japan[5] | (4.3) | 2.2 | 1.0 | 1.2 | ↓ 1.1 | 1.0 | ↓ 0.8 | 0.4 | (0.0) | (0.2) | 2.0 | 2.4 | ↑ 1.0 | 2.3 | ↑ 1.3 | (0.1) | (0.1) | (0.1) | (0.1) | (0.1) |
| **Africa** | | | | | | | | | | | | | | | | | | | | |
| South Africa | (6.0) | 4.7 | 1.9 | 0.8 | ↓ 0.3 | 1.2 | ↓ 0.5 | 1.5 | 3.3 | 4.6 | 7.0 | 6.2 | ↓ 0.4 | 5.1 | ↑ 0.3 | 3.5 | 3.75 | 7.0 | 8.75 | 8.0 |
| Egypt | 3.6 | 3.3 | 6.6 | 4.0 | n.a | 5.2 | n.a. | 5.5 | 5.7 | 4.5 | 5.8 | 28.0 | n.a. | 13.0 | n.a. | 8.25 | 8.25 | 16.25 | 18.25 | 17.75 |
| **World** | (2.8) | 6.3 | 3.4 | 2.9 | ↑ 0.3 | 3.0 | ↓ 0.3 | 2.7 | 3.2 | 4.7 | 8.7 | 6.7 | ↓ 0.2 | 5.0 | ↑ 0.5 | | | | | |

Negative values shown in parentheses. Source: Scope Ratings forecasts, Macrobond, IMF.

[1]Changes compared with Scope December 2022's 2023 Sovereign Outlook forecasts ("n.a" reflects countries not forecast as of the December 2022 Sovereign Outlook). [2]HICP headline inflation for euro area Member States; otherwise, CPI headline inflation.

[3]The euro area policy rate is the ECB deposit facility rate. [4]China's policy rate is the one-year bank prime loan rate. [5]Japan's policy rate is the deposit rate on current account balances.

## Table 3. Global economic outlook: unemployment, fiscal metrics, 2020-24F

| Country/region | Unemployment rate[6] (annual average, %) | | | | | General government balance[7] (% of GDP) | | | | | | Public debt level (% of GDP) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022E | 2023F | 2024F | 2020 | 2021 | 2022E | 2023F | 2024F | 2028F | 2020 | 2021 | 2022E | 2023F | 2024F | 2028F |
| **Euro area** | 7.9 | 7.7 | 6.7 | 6.5 | 6.5 | (7.1) | (5.3) | (3.6) | (3.5) | (3.1) | (2.4) | 97 | 96 | 92 | 90 | 89 | 87 |
| Germany | 3.7 | 3.6 | 3.1 | 3.0 | 2.9 | (4.3) | (3.7) | (2.6) | (2.9) | (2.4) | (1.0) | 69 | 69 | 66 | 66 | 66 | 63 |
| France | 8.0 | 7.9 | 7.3 | 7.1 | 7.1 | (9.0) | (6.5) | (4.6) | (4.8) | (4.8) | (3.6) | 115 | 113 | 112 | 111 | 112 | 114 |
| Italy | 9.3 | 9.5 | 8.1 | 7.8 | 7.6 | (9.7) | (9.0) | (8.0) | (4.5) | (4.0) | (3.1) | 155 | 150 | 144 | 142 | 141 | 139 |
| Spain | 15.5 | 14.8 | 12.9 | 12.7 | 12.6 | (10.1) | (6.9) | (4.8) | (4.4) | (3.2) | (4.2) | 120 | 118 | 113 | 110 | 108 | 110 |
| Netherlands | 4.9 | 4.2 | 3.5 | 3.5 | 3.9 | (3.7) | (2.6) | (1.1) | (2.3) | (2.9) | (2.9) | 55 | 52 | 50 | 50 | 51 | 54 |
| Belgium | 5.6 | 6.3 | 5.6 | 5.8 | 5.7 | (9.0) | (5.5) | (3.9) | (5.1) | (5.0) | (5.6) | 112 | 109 | 105 | 107 | 108 | 119 |
| Austria | 6.1 | 6.2 | 4.8 | 5.0 | 5.1 | (8.0) | (5.8) | (3.2) | (3.0) | (1.7) | (1.0) | 83 | 82 | 78 | 77 | 75 | 69 |
| Ireland | 5.8 | 6.2 | 4.5 | 4.0 | 4.1 | (5.0) | (1.6) | 1.6 | 1.3 | 1.6 | 1.1 | 58 | 55 | 45 | 40 | 35 | 24 |
| Finland | 7.8 | 7.6 | 6.8 | 7.1 | 7.1 | (5.6) | (2.8) | (0.9) | (2.3) | (2.1) | (2.1) | 75 | 73 | 73 | 73 | 75 | 80 |
| Portugal | 7.1 | 6.6 | 6.0 | 6.9 | 6.7 | (5.8) | (2.9) | (0.4) | (0.2) | (0.2) | 0.3 | 135 | 125 | 114 | 108 | 103 | 88 |
| Greece | 17.6 | 14.8 | 12.5 | 10.7 | 10.2 | (9.7) | (7.1) | (2.3) | (2.0) | (1.6) | (1.8) | 206 | 195 | 171 | 161 | 155 | 142 |
| Slovakia | 6.6 | 6.8 | 6.2 | 6.0 | 6.0 | (5.4) | (5.4) | (3.5) | (5.8) | (4.8) | (3.9) | 59 | 62 | 59 | 58 | 59 | 63 |
| Luxembourg | 6.7 | 5.4 | 4.6 | 4.9 | 4.8 | (3.4) | 0.7 | 0.2 | (2.2) | (1.7) | (0.5) | 25 | 25 | 25 | 26 | 28 | 28 |
| Lithuania | 8.5 | 7.2 | 6.0 | 7.5 | 8.0 | (6.5) | (1.2) | (0.6) | (2.4) | (2.2) | (1.4) | 46 | 44 | 38 | 38 | 38 | 38 |
| Slovenia | 5.0 | 4.8 | 4.0 | 4.0 | 4.0 | (7.7) | (4.6) | (3.0) | (4.1) | (2.6) | (1.4) | 80 | 75 | 70 | 68 | 66 | 59 |
| Latvia | 8.1 | 7.5 | 6.8 | 6.7 | 6.7 | (4.4) | (7.1) | (4.4) | (3.8) | (3.0) | (1.8) | 42 | 44 | 41 | 41 | 42 | 42 |
| Estonia | 6.9 | 6.2 | 5.6 | 6.9 | 7.5 | (5.5) | (2.4) | (0.9) | (3.5) | (2.6) | (2.6) | 19 | 18 | 18 | 21 | 22 | 29 |
| Cyprus | 7.6 | 7.5 | 6.8 | 6.6 | 6.5 | (5.8) | (2.0) | 2.1 | 1.9 | 2.0 | 2.0 | 114 | 101 | 87 | 80 | 72 | 53 |
| Malta | 4.2 | 3.4 | 3.0 | 2.9 | 3.0 | (9.7) | (7.8) | (5.8) | (5.1) | (4.5) | (2.5) | 53 | 55 | 56 | 57 | 58 | 58 |
| Croatia | 7.7 | 7.7 | 6.9 | 6.6 | 6.4 | (7.3) | (2.5) | 0.4 | (0.8) | (1.4) | (0.9) | 87 | 78 | 68 | 63 | 62 | 57 |
| **Western Europe ex-euro area** | | | | | | | | | | | | | | | | | |
| United Kingdom | 4.7 | 4.6 | 3.8 | 3.9 | 4.2 | (13.0) | (8.3) | (6.3) | (5.6) | (4.9) | (4.1) | 106 | 108 | 103 | 104 | 107 | 112 |
| Switzerland | 3.2 | 3.0 | 2.2 | 2.2 | 2.3 | (3.1) | (0.3) | 1.0 | 0.1 | 0.5 | 0.4 | 79 | 42 | 41 | 40 | 38 | 32 |
| Sweden | 8.5 | 8.8 | 7.5 | 7.2 | 7.5 | (2.8) | 0.0 | 0.7 | (0.5) | (0.8) | 0.2 | 40 | 37 | 33 | 33 | 33 | 31 |
| Norway | 4.8 | 4.4 | 3.2 | 3.5 | 3.6 | (2.6) | 10.6 | 26.0 | 24.4 | 23.0 | 17.9 | 45 | 43 | 37 | 40 | 40 | 37 |
| Denmark | 5.6 | 5.1 | 4.5 | 4.9 | 4.9 | 0.2 | 3.6 | 3.3 | 2.2 | 1.2 | (0.2) | 42 | 37 | 30 | 29 | 28 | 30 |
| **EU central and eastern Europe ex-euro** | | | | | | | | | | | | | | | | | |
| Poland | 3.2 | 3.4 | 2.9 | 2.7 | 2.8 | (6.9) | (1.8) | (3.7) | (4.2) | (3.5) | (3.9) | 57 | 54 | 49 | 49 | 50 | 55 |
| Romania | 6.3 | 5.7 | 5.6 | 5.5 | 5.3 | (9.2) | (7.1) | (6.2) | (4.9) | (4.4) | (4.7) | 47 | 49 | 47 | 47 | 47 | 52 |
| Czech Republic | 2.6 | 2.8 | 2.4 | 2.9 | 2.6 | (5.8) | (5.1) | (3.6) | (3.6) | (2.4) | (1.7) | 38 | 42 | 44 | 45 | 43 | 42 |
| Hungary | 4.1 | 4.0 | 3.6 | 4.3 | 4.1 | (7.5) | (7.1) | (6.2) | (4.2) | (3.4) | (2.5) | 79 | 77 | 73 | 71 | 68 | 62 |
| Bulgaria | 6.1 | 5.3 | 4.3 | 4.2 | 4.1 | (3.8) | (3.9) | (2.8) | (3.0) | (2.9) | (1.8) | 25 | 24 | 23 | 22 | 23 | 26 |
| **Non-EU emerging Europe** | | | | | | | | | | | | | | | | | |
| Russia | 5.8 | 4.8 | 3.9 | 5.0 | 5.2 | (4.0) | 0.8 | (2.2) | (3.8) | (2.8) | (2.2) | 19 | 16 | 20 | 22 | 23 | 19 |
| Türkiye | 13.1 | 12.0 | 10.5 | 11.0 | 11.0 | (3.5) | (2.7) | (0.9) | (5.6) | (4.8) | (4.7) | 40 | 42 | 31 | 40 | 41 | 46 |
| Ukraine | 9.5 | 10.3 | n.a. | n.a. | n.a. | (5.3) | (3.4) | (16.3) | (19.1) | (17.0) | (6.5) | 61 | 49 | 78 | 90 | 102 | 93 |
| Serbia | 10.1 | 11.4 | 9.4 | 10.5 | 10.0 | (8.0) | (4.1) | (3.1) | (3.2) | (2.5) | (1.8) | 59 | 57 | 55 | 54 | 53 | 51 |
| Georgia | 18.5 | 20.6 | 17.3 | 17.1 | 16.8 | (9.3) | (6.0) | (2.6) | (2.2) | (2.1) | (1.8) | 60 | 50 | 40 | 37 | 37 | 34 |
| **Rest of World (Advanced)** | | | | | | | | | | | | | | | | | |
| United States | 8.1 | 5.4 | 3.6 | 3.7 | 4.0 | (14.0) | (11.6) | (5.5) | (6.4) | (6.7) | (6.5) | 133 | 126 | 122 | 122 | 124 | 133 |
| China[8] | 5.6 | 5.1 | 5.6 | 5.4 | 5.5 | (9.7) | (6.0) | (7.5) | (7.1) | (6.9) | (6.4) | 70 | 72 | 77 | 83 | 88 | 107 |
| Japan | 2.8 | 2.8 | 2.6 | 2.5 | 2.4 | (9.1) | (6.2) | (7.8) | (6.4) | (4.2) | (3.7) | 259 | 255 | 261 | 258 | 257 | 265 |
| **Africa** | | | | | | | | | | | | | | | | | |
| South Africa | 29.2 | 34.3 | 33.5 | 32.9 | 33.4 | (9.6) | (5.6) | (4.5) | (5.6) | (6.1) | (8.1) | 69 | 69 | 71 | 71 | 73 | 88 |
| Egypt | 8.0 | 7.4 | 7.3 | 7.3 | 7.3 | (7.5) | (7.0) | (5.8) | (7.4) | (9.1) | (5.6) | 86 | 90 | 89 | 99 | 90 | 80 |
| **World** | | | | | | | | | | | | | | | | | |

Negative values shown in parentheses. Source: Scope Ratings forecasts, Macrobond, IMF.

[6]Unemployment rate data source is Eurostat for EU Member States; national unemployment series otherwise. [7]Türkiye and Ukraine fiscal-balance figures are for the central-government budget balance.

[8]Unemployment is survey-based urban unemployment rate.

# Contents



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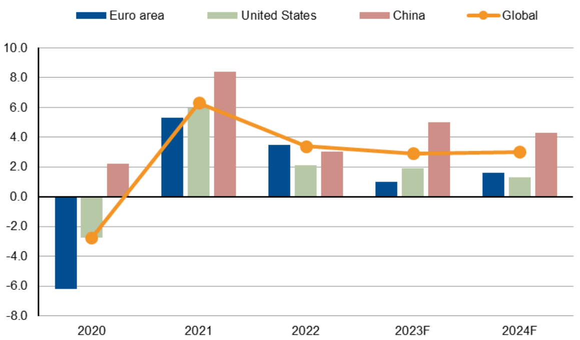
# Global Outlook: July 2023

We have projected a slowdown for 2023, especially in Europe, followed by uneven recovery entering next year. This challenging economic outlook reflects cost-of-living crises and tightening of global rates. We have modestly revised up our forecast for global economic growth for this year to 2.9% (**Figure 1**), from 2.6% in our December-2022 projection – in line with crystallisation of several upside factors of a "neutral" overall balance of economic risk outlined for this year. Upside risks, which have materialised, reflect resilient demand and employment, China ending most of its zero-Covid policies, and the energy crisis in Europe this past winter being less severe than anticipated. However, downside risks such as persistent inflation surprises, more aggressive central-bank hikes and real-estate market corrections have as well crystallised.

As anticipated, some economies, such as Germany and the euro-area aggregate, entered technical recession (two consecutive quarters of output contraction) although most economies are expected to display positive annual growth for the calendar year. We have lowered our global forecast for 2024 by 0.3pps to 3.0%. Nevertheless, global growth for 2023-24 currently remains in the middle of an historical range.

**Figure 1. Global growth %**, 2020-24F




Source: Eurostat, national statistics, IMF, Scope Ratings forecasts

For 2023, we have revised up annual growth for the euro area to an above-consensus 1.0% (from a 0.7% forecast entering the year), before 1.5% in 2024. This reflects -0.1% growth this year for Germany, alongside slowdown in France (0.7%), Italy (1.2%) and Spain (1.8%). A less-severe energy crisis during the winter of 2023/24 is foreseen as gas-storage capacities stay high, even as recoveries slow down by the 2H of this year.

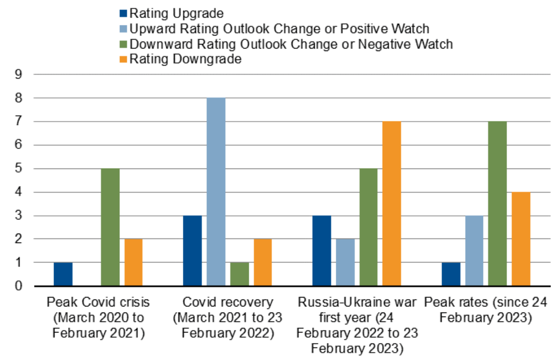
We expect the UK economy to stagnate (zero growth this year), before slow growth of 0.8% next year (cut 0.3pps from our Dec-2022 estimate). The US economy is expected to display resilient growth of 1.9% this year (despite a slowdown in the second half) before slowing to 1.3% next year. Our growth forecast for Japan has been cut to 1.2% this year and to 1.0% for 2024. As for emerging economies, we hiked our China growth forecast 0.7pps to 5.0%* for this year but cut our outlook for 2024 to 4.3%. The Russian economy is expected to contract again (0.8%) this year (nevertheless revised up sharply from a previous -4% forecast), before seeing growth of 0.9% next year. Turkish growth is expected at 2.7% in 2023 and 3.0% (2024).

The global slowdown is raising labour-market slack, although unemployment remains near multi-decade lows and is exerting pressure on prices. We have assumed higher-for-longer inflation even as we have seen inflation gradually backing off from the peaks. Global and euro-area inflation forecasts for this year are only modestly cut from December estimates, but inflation forecasts for 2024 have been further hiked (see **Table 2**).

We raised our expectations for Federal Reserve, ECB and Bank of England rate rises, and expect rates to be held at peaks until at least late 2024. Tighter monetary policy raises the risk of policy mistakes that could facilitate financial instability.

In line with our negative sectoral outlook for sovereign ratings for 2023, we have seen more negative than positive sovereign rating actions so far this year (**Figure 2**), with downside rating actions having accelerated since escalation of the Russia-Ukraine war.

**Figure 2. Number of Scope sovereign rating revisions**, by period




Source: Scope Ratings

One legacy of the crises of the past three years has been higher government debt. High inflation is credit positive initially in trimming debt ratios. But *persistent* inflation derails growth, results in structurally-higher interest rates, impairs debt profiles and constrains central bank room for manoeuvre. On balance, persistent inflation leans credit negative. Latent risk from rises in debt stocks is crystallising today as rates rise and central banks are comparatively restricted.

Since the start of the year, we have downgraded four countries' ratings (China, Czech Republic, Hungary, Poland) and lowered seven countries' Outlooks (Austria, Estonia, France, Latvia, Lithuania, South Africa, United States) with only three sovereigns' ratings or Outlooks revised up (Ireland, Portugal, Ukraine). Ten sovereign borrowers are presently rated on Negative Outlook compared with two sovereigns on Positive Outlook (see **Annex II**).

*Amended from 5.2% inserted in error in the version published on 18 July 2023.

# Regional Views

## Core Europe: Economic slowdown and fiscal challenges for the ratings

Our credit outlook on **Germany** (rated AAA/Stable Outlook) remains Stable even though the country entered technical recession during winter 2022-23. The weak start to this year was driven by tepid household and government consumption, reflecting inflationary pressures and drawdown of Covid-19 spending programmes. We expect slow recovery from the crises of the past three years against a backdrop of continued high inflation and elevated rates, as the export-intensive economy faces the effects of a more challenging geopolitical landscape.

Growth is likely to be supported during the second half of the year as government spending rises, notably on defence and the energy transition, while consumer spending is helped by easing inflation and as real wages begin stabilising. Even considering gradual improvements, we foresee stagnation this year with output growth of -0.1%, followed by moderate recovery of 1.4% next year.

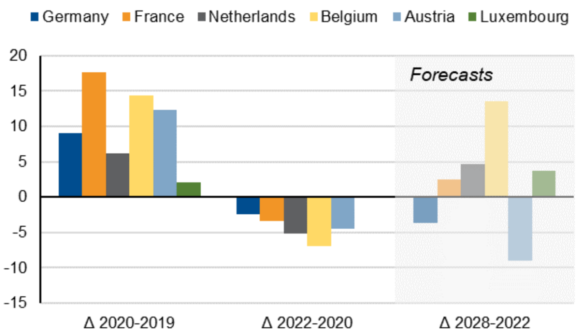
Previous challenges tied to supply-chain disruptions have started to ease and the risk of gas rationing next winter has been mitigated by high levels of gas storage and new liquefied-natural-gas supplies coming online. But geopolitical tensions continue to cloud the outlook as Germany further decouples from Russia, while attempting to reduce its dependence on China, which remains its largest single trading partner.

Despite muted economic recovery after recent crises, the German government retains some room for budgetary manoeuvre. Our expectation is for a gradual decline in debt-to-GDP from 66.3% in 2022 to 62.7% by 2028. The Federal government's financing flexibility is constitutionally regulated by the debt brake, which was reinstated this year. The increased use of special funds, which are excluded from debt-brake rules and to a degree weaken Germany's fiscal framework, is nevertheless helping to finance energy-crisis support, rising military expenditure and much-needed investment in the green economy.

We recently placed **France**'s AA credit ratings on Negative Outlook because of i) weakening public finances; and ii) implementation risks for the government reform agenda. The budget deficit is foreseen at 4.1% of GDP on average over 2023-2028 as a more challenging economic and socio-political environment complicates the withdrawal of countercyclical policy measures. Significant investment in the climate transition, armed forces and industry constrains the reduction in expenditure. A moderate rise in debt to GDP is anticipated, from 111.6% last year to around 114% by 2028 (**Figure 3**), reflecting assumption of wide, although declining, primary fiscal deficits, a gradual rise in interest payments, and real growth aligned with medium-run potential rates.

French growth is forecast to fall from 2.6% in 2022 to 0.7% this year before rising modestly to 1.4% next year. Domestic demand will stay sluggish because of negative real wage growth, higher borrowing rates and persistent domestic and international economic uncertainty. However, reforms of the unemployment-benefit and pensions systems support the labour market. An historically low rate of unemployment (at its lowest since 2008) reflects favourable effects of the recovery from the pandemic crisis and earlier economic reforms.

**Figure 3. Core Europe: debt-to-GDP change**, pps




Source: Eurostat, Netherlands Bureau for Economic Policy Analysis, Scope Ratings forecasts

The **Netherlands** (AAA/Stable) economy has slowed. 2023 economic growth of just 0.8% is foreseen before 0.3% next year. Both figures are below average medium-run potential of around 1.4%. The slowdown reflects high inflation, tighter funding conditions and sluggish external trading conditions. Nevertheless, we see household demand staying comparatively resilient and the government budget stance staying accommodative. State support measures have added to pressures on budgetary dynamics. The headline government deficit could widen to 2.3% of GDP this year and to nearly 3% by 2024. As a result, we see general government debt to GDP returning on a gently rising trajectory from 2024, concluding a forecast horizon to 2028 around 54%. The Mark Rutte government fell recently after infighting over migration policies, with elections mid-November at the earliest.

**Belgium** (AA-/Stable)'s economy has slowed amid elevated price pressures and tightening funding conditions. At the same time, high household wealth and the automatic indexation of wages, coupled with government support measures of around 1.3% of GDP, have helped cushion the economy. After buoyant growth of 3.2% last year, we foresee growth of 0.9% this year before stabilising thereafter around 1.2% a year. Long-run economic and fiscal pressures continue to pose challenges as concerns the rating outlook. Large and gradually rising budget deficits of above 5%

of GDP over the forecast horizon underpin a firmly upward-sloping general government debt trajectory, with public debt seen reaching 119% of GDP by 2028.

Despite **Luxembourg** (AAA/Stable)'s significant resilience during recent crises, economic momentum has slowed. The country displayed growth of 1.6% last year, which included two non-consecutive quarters of negative growth (Q2 and Q4). The medium-to-long run economic outlook is strong thanks to an accommodative fiscal stance, resilient private consumption and the prevalence of high-growth economic sectors. Our baseline is growth of 1.8% this year, followed by 2.3% next year. Budget deficits will be wider than those of the pre-Covid era, which, counterbalanced by the strong economic growth, will see public debt stabilise below 29% of GDP, leaving the country with still ample fiscal cushions for future crises.

On 7 July, we placed **Austria**'s AAA credit rating on Negative Outlook. The economy is seen stagnating this year, with growth of 0.2% before 1.5% next year. Downside risks relate to still-high dependence on gas from Russia, accounting for 59% of gas imports from January-May this year, and uncertainties around how independence from Russian gas by 2027 – per an EU-wide target under REPowerEU – ought to be reached. Near-term risks are mitigated by high levels of gas storage, as well as reduced gas consumption by households and firms. The fiscal outlook balances the withdrawal of costly Covid-19 measures with eco-social tax reforms taking effect reducing revenue, higher interest expenditure as well as costs of spending against the cost-of-living crisis. We expect a budget deficit this year similar to that of the previous year around 3% of GDP. The debt-to-GDP ratio stood at 78.4% at year-end (YE) 2022, remaining the highest among the AAA-rated sovereigns, and is expected to decline modestly, reaching around 77% by the end of this year.

## Italy and Spain: comparative economic resilience; Portugal's declining debt drives rating upgrade

The economy of **Italy** (BBB+/Stable) is on track to outperform that of many large euro-area economies for a third consecutive year. After 3.7% growth last year, a strong Q1 this year supports annual growth of above 1%, despite high exposure to the cost-of-living crisis and trade disruptions of the war in Ukraine. Inflation is declining and set to converge towards an ECB 2% target by the end of next year. However, tight financing conditions, the withdrawal of government support measures, and a slowdown in external demand should weaken growth next year, which we expect at only 0.8%. Structural challenges of low productivity growth and weak demographics require the full and speedy deployment of Next Generation EU funding.

Italy's sovereign bond market has adjusted fairly well to the tightening in monetary policy. The government has succeeded in preserving confidence through a prudent approach to fiscal policy, while domestic investors have supported demand in debt capital markets. The debt-to-GDP ratio is expected to decline gradually towards 140% of GDP in the coming years, aided by robust nominal growth and a budget deficit gradually declining to 3% of GDP. A significantly rising interest burden and mounting fiscal pressure from an ageing population will, nevertheless, challenge the capacity of the government to preserve necessary primary budget surpluses medium run. Over the longer term, Italy's elevated debt load and funding requirements remain the core challenges for the rating.

**Spain** (A-/Stable) retains significant credit strengths related to a sizeable and diversified economy. Despite the adverse economic effects of Russia's war in Ukraine, the Spanish economy demonstrated meaningful resilience with growth of 5.5% last year. Nevertheless, a slowdown has been anticipated, with projected growth of 1.8% this year before 2.1% in 2024. The country's medium-run growth prospects are expected to be favourably affected by public investment from the Recovery and Resilience Plan. This Plan allocates grant funding of EUR 69.5bn, equivalent to 5.6% of pre-pandemic GDP.

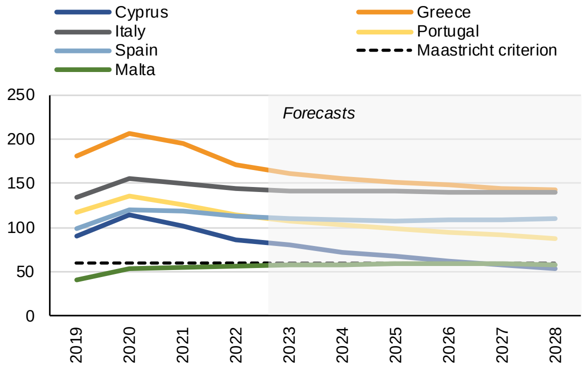
With regard to the budgetary outlook, Spain displayed improvements last year, as the general government deficit was cut to 4.8% of GDP, marking a 2.1pp improvement on the year before. Nevertheless, the budget faces pressures from rising pension payments and an extension of energy-support policies. The fiscal deficit is projected to decline moderately to 4.4% of GDP this year. The Spanish government's forecast of a 6% rise in tax revenues this year relies on collections from a new wealth tax, temporary windfall taxes on banks and energy companies, as well as higher social security contributions. But we see this optimistic forecast as challenging due to subdued consumer and business confidence medium run. Furthermore, Spain's public expenditure is on a rising path.

In view of upcoming general elections, a fragmented political landscape adds to uncertainty, as no single party is seen securing a majority, making coalition-building crucial for governance. Prolonged political stalemate presents risk to needed reforms.

**Portugal** (A-/Stable) has made strong strides in strengthening its fiscal fundamentals over the past years, surpassing efforts by Italy and Spain in speed and effectiveness. This progress, reflecting an improved debt outlook (**Figure 4, next page**) and greater capacity to navigate longer-run economic and fiscal risks, underpinned our recent rating upgrade.

Portugal has achieved the third biggest reduction in public debt-to-GDP ratio in the European Union between 2015 and 2023, with a projected decline of 23pps, despite challenges from pandemic and energy crises. The debt-to-GDP ratio is seen continuing to decline and reaching around 88% by 2028, approaching levels from before the global financial crisis. This downward debt path enables Portugal to better manage its rising interest expenditure, given elevated financing rates, limit borrowing requirements, and maintain financial stability. Although interest expenditure as a share of government revenue is expected to stay above euro-area averages, it is set to stay below pre-pandemic crisis levels and be more closely aligned with that of Spain.

**Figure 4. Southern Europe: debt-to-GDP**, %

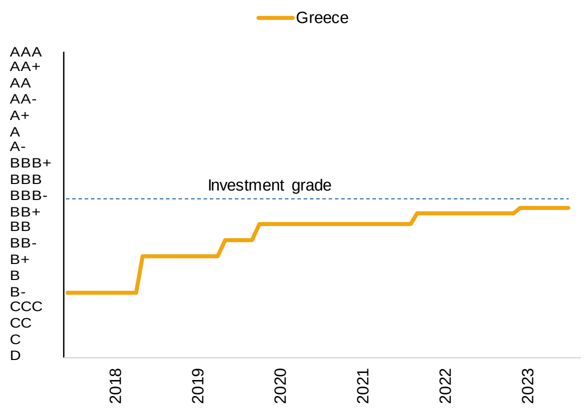



Source: Eurostat, Scope Ratings forecasts

## Greece's election result is credit positive; economic resilience of Cyprus and Malta

Recent elections in Greece (BB+/Positive) yielded a strong result for incumbent New Democracy, delivering the party an outright parliamentary majority for an additional four years. The election result validates our announcement on 2 December 2022 when we assigned a Positive Outlook to the BB+ sovereign ratings of Greece (**Figure 5**), the first credit rating agency to do so. The result of the elections supports our consideration around investment grade. This rating is bolstered by the business-friendly policy programme recently outlined.

**Figure 5. Greece sovereign rating**, Scope Ratings




NB. Positive/Negative Outlooks are treated with a +/-0.33 adjustment. Credit Watch positive/negative with a +/-0.67 adjustment. Foreign-currency long-term issuer ratings are displayed. As of 14 July 2023.
Source: Scope Ratings.

Scope's sovereign ratings assigned to Greece and other countries are highly predicated on institutional support and the availability of a lender of last resort. Greece's relationship with Europe has seen strengthened institutional support in recent years, including materially better access to European Central Bank and European Union funding. As long as Greece stays compliant with Europe's rules, Scope views the ECB as likely to back Greek markets in the future under adverse contingencies. The election outcome is expected to bolster said backstop at least for the next four years.

The economy is expected to slow to 2.3% growth this year (although this figure is upgraded 1.2pps from our December projection) before 1.6% next year. This follows robust 8.4% growth in 2021 and 5.9% in 2022, although quarterly output remains 23% below levels from before the global financial crisis. Inflation is seen staying higher for longer, reinforcing a cost-of-living crisis, but we see harmonised inflation easing from 9.3% YoY in 2022 to 4.0% this year and 3.3% in 2024.

The credit outlook is aided by a robust decline in public debt underway. Under an optimistic scenario of no significant setback to recovery, our debt-sustainability analysis (**Figure 4**) envisions debt-to-GDP reaching 161.2% this year before 142.2% by 2028, reflecting a meaningful decline from the 206.3% all-time peak of 2020. If so, debt levels may converge on that of higher-rated Italy. In financial markets, the spread on Greek debt to Germany has fallen to around 140bps from 295bp last October; and a near-record 22bps below Italy.

Nevertheless, Greece's rating outlook factors in challenges: i) still-elevated government debt; ii) banking-system fragilities (even though non-performing loans have declined); iii) uncertainties around how robust Greece's fiscal policy framework will prove under conditions of lighter European fiscal oversight and more substantive market access; and iv) longer-run political risk.

The next scheduled review of Greece is 4 August 2023.

**Cyprus** (BBB/Stable) has performed strongly in recent years despite near-term economic headwinds. Initial fears of structural damage to the economy from direct trade linkages to Russia and Ukraine, in particular in international tourism, have been assuaged as the country diversified effectively to other markets. After growth of 5.6% last year, we expect the economy to expand at a more moderate pace of 2.5% this year, followed by convergence to around 3% during the forecast horizon to 2028. This, combined with our expectation of very strong fiscal performance, reflecting meaningful budget surpluses of around 2% of GDP, underpin a strong decline in public debt to below 60% of GDP by 2027 under baseline projections.

Despite challenges posed by the pandemic crisis and Russia-Ukraine conflict, **Malta** (A+/Stable)'s economy has similarly demonstrated resilience, owing in part to decisive support measures implemented by government to mitigate economic effects of said crises.

We foresee growth of around 3.7%-3.8% over 2023-24, followed by stabilisation to near growth potential of 3.5%. However, fiscal deficits are seen staying high – above 3% of GDP through 2025 – underpinning a moderate rise in public debt to 58% by 2024, from the 56% in 2022 (and 40% in 2019).

## UK: persistent inflation and rate tightening; Ireland's robust economy

The economy of the **United Kingdom** (AA/Stable) has stagnated over the past year with output remaining 0.5% below pre-pandemic levels as of Q1 this year. Stronger-than-anticipated wage growth has supported household consumption so far, leading us to revise up our growth forecasts for this year by 0.6pps since December. Still, due to the adverse effects of persistent inflation and high interest rates, we see GDP flat lining this year followed by weak recovery in 2024 of 0.8%, well under medium-run potential of around 1.5%.

Government finances are expected to stay under pressure given persistent budget deficits. General government debt as a share of GDP is forecast to rise from 103% in 2022 to 111% by end-2025. While debt levels are expected to remain comparatively stable after that, this expectation hinges on the policies of the next government after a general election to be held no later than January 2025.

A tight labour market and continued upside pressure on wages (regular pay growth of 7.3% YoY during the three months to May) brought core consumer price rises to 7.1% by May. To bring inflation back towards its 2% target, the Bank of England increased the Bank Rate in June by 50bps to 5.0%, bringing total tightening of this current cycle to 490bps since December 2021. As a result, rising mortgage rates are leading to a decline in house prices, which are around 4% below their 2022 peaks, albeit still well above pre-pandemic prices. We expect further monetary tightening in the second half of this year and elevated policy rates to remain in place for much of the next year, likely to result in further falls in house prices. Out of around nine million outstanding residential mortgages, 800,000 are due to come off fixed-rate deals in the second half of 2023 with a further 1.6m households coming off next year.

In March, we affirmed **Ireland**'s sovereign credit rating at AA- and revised the Outlook to Positive. This Outlook change reflected resilient economic performance since the escalation of the Ukraine war, and solid growth prospects underpinned by Ireland's capacity to attract sizeable foreign direct investment. We expect robust growth of 5.1% this year before 4.7% in 2024. We see the underlying economy growing by around 3.5% this year as a strong labour market and positive real wage growth anchor consumer spending.

The Outlook change is also helped by a highly favourable fiscal trajectory, with a return to government surpluses since 2022 and marked decline underway in general government debt levels. Given possible volatility of future corporate tax revenues, the government intends to set up a sovereign wealth fund alongside the existing National Reserve Fund to set aside excess revenue. Sustained revenue growth is set to support continued improvements in fiscal metrics, offsetting the effects of cost-of-living support measures and moderately higher interest expenses. Public-debt ratios are expected to stay on a declining path. The debt-to-modified gross national income ratio stood around 83% as of end-2022 (45% of GDP) and is expected to decline to 77% (35% of GDP) by end-2024. Debt-to-GDP is seen reaching around 24% by 2028.

## Higher rates in the Nordics; Swiss public finances stay solid

**Denmark**, **Norway**, **Sweden** (all rated AAA/Stable) and **Finland** (AA+/Stable) share wealthy and competitive economies, robust economic and fiscal governance frameworks, low-to-moderate levels of public debt, and sound external and financial sectors. But the Nordic region has suffered an economic slowdown due to high inflation and sharply higher rates.

Growth is likely to slow significantly this year. We see output contraction of 0.5% in Sweden (nearly unchanged from our December forecast), stagnation in Finland, and moderate growth in Norway (1.2%) and Denmark (1.5%). With output having largely recovered from recent crises, growth is expected to stay below its medium-run potential rate next year, curbed by elevated interest expenses being paid on high private-sector debt.

Given elevated inflation, regional central banks have raised rates (Norges Bank and Riksbank each hiked policy rates to 3.75% last month). We expect further monetary tightening in the second half of the year, with policy rates thereafter staying elevated through 2024. Households' sensitivities to higher rates given high levels of indebtedness and a correction in housing markets (especially in Sweden) have raised financial-stability concerns, while some firms exposed to vulnerable commercial real estate markets have experienced funding difficulties. Nevertheless, strongly-capitalised banking systems and high household assets should help contain risks from any more severe market correction and limit spill-over across the region's interconnected banking systems.

Stable government finances and strong fiscal frameworks anchor strong sovereign ratings. Governments are holding back from large further stimulus to avoid fuelling inflation. This is despite the challenging near-term economic outlook and otherwise robust public-sector balance sheets (most notably Norway's given a sovereign wealth fund of nearly USD 1.5trn). Low debt-to-GDP ratios of Denmark (30% in 2022), Sweden (33%) and Norway (37%) are expected to stay stable over the coming years. The exception is Finland, where the debt level is forecast to rise from 73% of GDP in 2022 to 80% by 2028, owing to weak growth and fiscal deficits. Although the new government has pledged to achieve cost savings, its room for manoeuvre is restricted.

For **Switzerland** (AAA/Stable), real growth of around 1% is forecast this year, before 2.1% for next year. Inflation is expected to stay comparatively moderate. Public finances are solid, given moderate general government surpluses anticipated over coming years, despite the likely absence of Swiss National Bank profit allocations. The now-completed takeover of Credit Suisse by UBS entails relatively limited direct risks for the sovereign as the Public Liquidity Backstop Facility of up to CHF 100bn, which benefits from a sovereign guarantee, had been fully repaid by the end of May. There remains a risk that a CHF 9bn Federal guarantee is triggered if losses on a specific Credit Suisse portfolio exceed CHF 5bn. At the same time, contingent banking system risks to the sovereign are today more concentrated on the combined UBS-Credit Suisse entity, with a pro-forma total balance sheet of CHF 1.6trn at YE 2022, or 208% of GDP.

## EU CEE: rating downgrades in view of weakening governance, economic challenges

The decline in energy prices is contributing to a gradual decrease in high headline inflation, but tighter monetary policies and tepid external demand are hampering fragile recovery, with substantive downside economic risks for this year. We expect a year of subdued real growth, averaging 1.7% for the 11 EU Member States of Central and Eastern Europe (CEE-11) before 2.5% growth next year, compared with the strong growth of 4.4% for the region last year.

Nevertheless, our forecast growth for countries of the region varies significantly (**Figure 6**): **Poland** (A/Stable): 2.5% (2023), 2.0% (2024); **Czech Republic** (AA-/Stable): 0.2%, 2.4%; **Hungary** (BBB/Stable): 0.1%, 2.5%; **Slovakia** (A+/Negative): 1.4%, 2.0%; **Romania** (BBB-/Stable): 3.0%, 4.1%; **Bulgaria** (BBB+/Stable): 1.6%, 3.0%; **Croatia** (BBB+/Stable): 2.4%, 2.0%; **Slovenia** (A/Stable): 1.3%, 2.4%; **Lithuania** (A/Stable): -1.4%, 2.4%; **Latvia** (A-/Stable): 1.5%, 1.8%; and **Estonia** (AA-/Negative): -1.3%, 2.3%.

Inflation is gradually slowing (**Figure 7, next page**). We see most economies of CEE-11 achieving single-digit inflation by the end of this year. Nevertheless, inflation in economies such as Poland (12.7% in 2023, 7.4% in 2024), Hungary (17.5%, 5.3%) and Romania (11%, 6.2%) remain exceptionally high. Projected average CEE-11 inflation this year is 11.8%, before 5.6% next year.

Against risks of higher inflation for longer, regional central banks have instead held back from further rate rises. The National Bank of Poland has held rates unchanged at 6.75% since September of last year, with an expectation of a rate *cut* prior to the end of this year – possibly symbolically before the elections. The Hungarian National Bank is seen cutting the base rate to 11.5% by year-end (from 13.0%), before this reaches 6.5% by end-2024.

External-sector deficits are improving but remain considerable. The terms-of-trade shock caused by higher energy costs last year is reversing and weak domestic demand is dampening growth in imports. As a result, the average current-account balance in CEE-11 is expected to improve.

Fiscal sustainability is a concern. Regional governments continue to navigate the challenge of balancing fiscal prudence with a need for supporting economies amid uncertainty, such as support for core economic sectors, alleviating energy-related stress, infrastructure investment, and addressing meaningful defence needs within the current environment. The weighted-average budget deficit of CEE-11 is seen reaching 4.1% of GDP this year before 3.4% next year, compared with 4.0% last year. Deficits range this year from 5.8% (Slovakia) to only 0.8% (Croatia). However, significant debt issuance in the early months of the year has cut risks around financing the deficits.

Flows of EU funding remain crucial. Allocated funding from the EU Multiannual Financial Framework (MFF) for 2014-2020 must be absorbed by this year at the latest; otherwise, the funds are subject to cancellation. The flow of EU funding this year is expected to be significant as the distribution of funds from the Recovery and Resilience Facility takes place alongside MFF 2021-27 and conclusion of the MFF 2014-20. Any substantial delays or cuts in EU funding presents negative repercussions for policy flexibility, fiscal-consolidation plans, alongside the health of external finances. The EU's Rule of Law mechanism has risen meaningfully in significance, with consequences especially for Hungary and Poland.

We recently downgraded Poland to A (from A+) and changed the Outlook to Stable. Scope has so far been the only rating agency to downgrade Poland in response to recent institutional backsliding. Upcoming parliamentary elections by the autumn create uncertainties with respect to policy making and institutional direction.

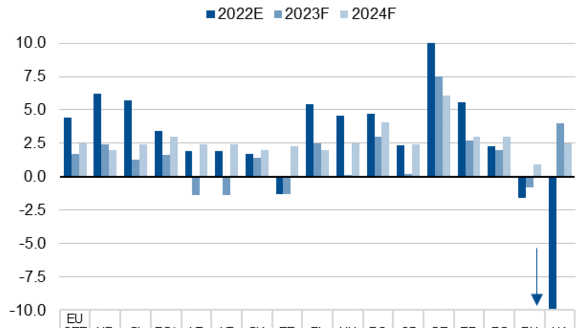
Furthermore within the Visegrád Group, we recently downgraded Hungary (to BBB) and Czech Republic (to AA-), while Slovakia remains on Negative Outlook. Rating revisions within this group of countries were driven by concerns with respect to governance, the economic outlook, inflation risk, fiscal dynamics, and external susceptibilities.

The Baltic States: Estonia, Latvia, and Lithuania have received downside Outlook revisions this year. The Outlook changes reflect challenges such as cost-of-living crises and geopolitical risks relevant to the Eastern Europe region.

Crucial for the ratings trajectory of Bulgaria is achieving further progress in adopting the euro by 2025. Bulgaria's euro-adoption timetable has faced significant delays, due to political instability (five elections held over the last two years) and difficulties in fulfilling the price-stability criterion needed for euro accession. We expect the newly-formed government to continue pursuing reform linked to accession.

Finally, Croatia's economic convergence progress supported its euro-area accession from 1 January 2023. This strengthened the resilience of the sovereign's BBB+ credit ratings, with the rating furthermore anchored by a favourable trend in government debt.

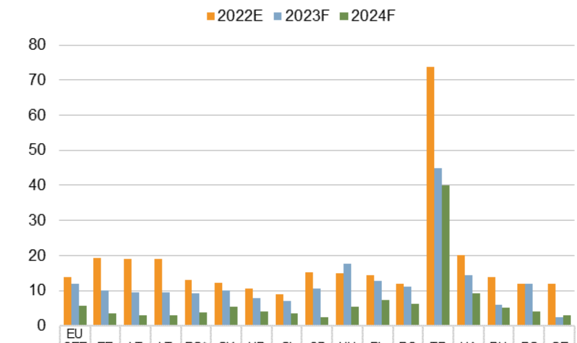
**Figure 6. 2022E-24F real growth (CEE)**, %




| | EU CEE -11 | HR | SI | BG* | LT | LT | SK | EE | PL | HU | RO | CZ | GE | TR | RS | RU | UA |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Euro-area CEE | | | | | | | Non-euro EU CEE | | | | Non-EU Emerging Europe | | | | |
| 2022E | 4.4 | 6.3 | 5.7 | 3.4 | 1.9 | 1.9 | 1.7 | -1.3 | 5.4 | 4.6 | 4.7 | 2.4 | 10.2 | 5.6 | 2.3 | -1.6 | -29. |
| 2023F | 1.7 | 2.4 | 1.3 | 1.6 | -1.4 | -1.4 | 1.4 | -1.3 | 2.5 | 0.1 | 3.0 | 0.2 | 7.5 | 2.7 | 2.0 | -0.8 | 4.0 |
| 2024F | 2.5 | 2.0 | 2.4 | 3.0 | 2.4 | 2.4 | 2.0 | 2.3 | 2.0 | 2.5 | 4.1 | 2.4 | 6.1 | 3.0 | 3.0 | 0.9 | 2.5 |

Diagram sorted by 2022 growth rates. *Bulgaria is in the Exchange Rate Mechanism II. Source: Eurostat, national statistics agencies, Scope Ratings forecasts.

**Figure 7. 2022E-24F headline inflation**, CEE, % of GDP




| | EU CEE -11 | EE | LT | LT | BG* | SK | HR | SI | CZ | HU | PL | RO | TR | UA | RU | RS | GE |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Euro-area CEE | | | | | | | Non-euro EU CEE | | | | Non-EU Emerging Europe | | | | |
| 2022E | 13.9 | 19.4 | 18.9 | 18.9 | 13.1 | 12.1 | 10.6 | 9.0 | 15.1 | 14.8 | 14.4 | 11.8 | 73.8 | 20.2 | 13.9 | 11.9 | 11.9 |
| 2023F | 11.8 | 10.0 | 9.5 | 9.5 | 9.3 | 10.0 | 7.8 | 7.0 | 10.6 | 17.5 | 12.7 | 11.0 | 45.0 | 14.4 | 6.0 | 11.8 | 2.3 |
| 2024F | 5.6 | 3.5 | 3.0 | 3.0 | 3.8 | 5.5 | 4.1 | 3.5 | 2.4 | 5.3 | 7.4 | 6.2 | 40.0 | 9.3 | 5.0 | 4.1 | 2.8 |

Diagram sorted by 2022 consumer-price inflation rates. *Bulgaria is in the Exchange Rate Mechanism II. Source: Eurostat, national statistics agencies, Scope Ratings forecasts.

## Non-EU CEE: Ukraine's foreign debt restructuring; Turkey's partial policy normalisation

In **Ukraine**, we affirmed the foreign-currency long-term issuer and foreign-law securities ratings at CC and maintained a Negative Outlook on 12 May 2023. This reflected a baseline since 2022's external debt restructuring for a second debt renegotiation by mid-2024. In line with this, the Ministry of Finance of Ukraine announced on 24 March 2023 its intention of beginning discussion with external commercial creditors around a further debt treatment next year. The foreign-debt ratings are expected to be downgraded should negotiations advance for the further reprofiling of foreign debt-service payments.

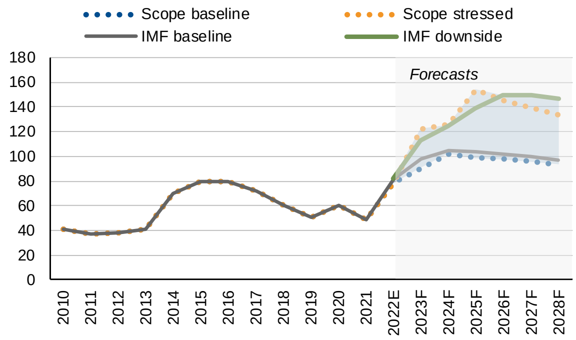
Furthermore, we have assumed a more significant debt restructuring, including debt forgiveness, as part of the long-run solution for Ukraine. In March 2023, the Group of Creditors committed to executing such a comprehensive debt restructuring once the war ends or at the latest by the end of the IMF programme by 2027. Such a (third) foreign debt treatment to restore debt sustainability will presumably require more substantive losses for the private sector.

In May, we furthermore affirmed Ukraine's long-term local-currency issuer ratings and domestic securities ratings in local and foreign currency at CCC and revised the Outlook from Negative to Stable. This reflected a stronger prioritisation in the forthcoming years on domestic commercial-bank financing of the sovereign and associated curtailment in the likelihood of near- to medium-term restructuring of domestic debt. Nevertheless, longer-term risks remain in view of a protracted war and associated uncertainties.

Economic contraction during 2022 amounted to a severe 29%. We have expected above-consensus growth of 4% growth this year before 2.5% in 2024. Inflation is seen averaging 15.0% in 2023 and 10.9% in 2024 – better than our expectations from December as actions have been taken to ensure monetary and exchange-rate stability, with the National Bank of Ukraine expected to begin a rate-cut cycle later this year.

Our baseline is for rises in Ukraine's general government debt to about 102% of GDP by 2024 from the 78% at end-2022 and double the 49% ratio of 2021 before Russia's full-scale invasion (**Figure 8**).

**Figure 8. General government debt (percent of GDP)**, Ukraine, by scenario*




*Scenarios are pre-debt restructuring seen near the end of the forecast horizon. Source: Ministry of Finance (Ukraine), Ukraine State Statistics Service, IMF and Scope Ratings forecasts.

However, foreign-currency reserves rose to USD 35.8bn by June 2023, from USD 19.1bn at the July 2022 lows, the former reflecting the highest levels since

2011. The continued receipt of international financial assistance has rebolstered reserves.

Following general elections this May, **Türkiye** (foreign-currency debt rating of B-/Negative) has initiated a phase of partial policy normalisation following the appointments of a new minister of finance and central-bank governor. Lira depreciation, gradual monetary tightening, and simplification of prudential measures have contributed to restoring a degree of near-term confidence in the country's economic outlook.

Still, loose and unorthodox policies are expected to persist over the longer run given policy inclinations of President Recep Tayyip Erdoğan. Overall economic governance is not expected to have structurally changed course and there is a risk that the President halts or reverses the current process of policy normalisation, for instance by reintroducing credit and fiscal stimulus, ahead of municipal elections in March 2024.

Output growth is foreseen moderating from 5.6% last year to 2.7% in 2023, before picking up modestly to 3.0% next year. Currency depreciation is likely to bolster net foreign trade but monetary tightening may slow domestic demand.

Inflation is seen easing to still very high levels of 45% this year and 40% in 2024 (**Figure 7, previous page**) thanks only to more favourable base effects, reduced energy prices, and moderate domestic-demand growth. Even so, pressure on the currency and wage rises weigh on this declining inflation trajectory, which is subject to near-term reversal. The lira has lost nearly 30% of its value against the dollar this year, contributing to inflation.

Türkiye's current-account deficit is forecast at USD 55bn (around 5.5% of GDP) this year. The central bank will actively manage negative net foreign-exchange reserves. Türkiye will also leverage its regional influence to secure bilateral financial support and foreign investment. Over the long run, unorthodox economic policies continue to pose a risk to the ratings.

Scope's next scheduled review of Türkiye's credit rating is 4 August 2023.

The economy of **Georgia** (BB/Stable) has demonstrated unexpectedly strong performance over recent years. This contributed to our affirmation of the sovereign's credit rating in January. Nevertheless, the rating outlook remains constrained. Aside from Ukraine, Georgia is assumed to be the most geopolitically at-risk sovereign of our publicly-rated universe of 39 countries. Domestic political risks represent a further challenge for the rating.

After a severe 6.7% decline in GDP in 2020, the economy grew by an exceptional 10.5% in 2021 and 10.2% in 2022. We see growth staying strong at 7.5% this year and 6.1% in 2024 before moderating to annual growth potential of around 5%. Headline inflation is expected to moderate to a below-target 2.3% this year and 2.8% next year – dis-inflated by the strong lari. Policy-rate cuts are seen continuing this year to 9.0% by year-end before 7.0% by end-2024. Strong nominal growth alongside a government commitment to fiscal consolidation hold debt-to-GDP on a declining trajectory, reaching 34% by 2028.

With respect to **Serbia** (BB+/Stable), after a sluggish first half of the year, we anticipate growth will accelerate in the second half of 2023 as real incomes improve. We expect growth of 2.0% this year, followed by 3.0% next year. Inflation is seen entering single digits by year-end and is aimed to rest below the upper end of the target range (4.5%) by end-2024.

To support liquidity, Serbia has a two-year Stand-By Arrangement with the IMF, focused on energy-sector reform, and has made a return on international markets via two issuances in January of this year. However, reliance on Russian gas remains a vulnerability for energy security. Serbia imports 100% of its gas from Russia, even though EU sanctions have resulted in a complete halt in crude-oil importing from Russia, with most of Serbia's oil today coming from Iran.

The probability of early elections has risen, as indicated by President Aleksandar Vučić, especially after recent anti-government demonstrations. Elections may be possible next spring.

## A Negative Outlook for the United States due to long-run risks of a divided nation

We recently confirmed the United States' credit rating at AA and assigned a Negative Outlook. The AA credit rating level remains structurally below that assigned to the United States by peer rating agencies. This was after we placed the United States credit rating under review for downgrade on 5 May.

The Negative Outlook reflects recurring risks over the long run associated with the debt ceiling, interacting within an environment of: i) a rise in political polarisation and brinkmanship; and ii) a persistent weakening in government finances vis-à-vis sovereign peers.

The recent debt-limit crisis was resolved after Congress approved a last-minute suspension of the debt limit until 1 January 2025, avoiding a technical default. This was in line with our baseline expectations. Nevertheless, the debt limit binds again in roughly a year and a half, after potentially highly-contested 2024 federal elections that might further divide the nation. The frequency of debt-ceiling stand-offs alongside a recurring, non-negligible possibility of temporary non-repayment during specific and severe episodes constitutes a unique vulnerability for the United States among the nation's highly-rated sovereign peer group.

Conservative Republicans are calling for an extra USD 120bn in non-defence spending cuts for fiscal year 2023-24 beyond May's debt-ceiling agreement and linked anti-abortion social provisions to passage of annual defence funding. This raises the risk of a government shutdown later this year. The presidential and congressional elections next year hold significant stakes and potential governance implications.

The general government deficit declined to 5.5% of GDP last year, down 6.1pps on the previous year. Nevertheless, we expect headline budget deficits to turn higher from this year on, rising to about 6.4% of GDP this year before stabilising around a 6.6% average during 2024-28 (compared with a 4.8% average from 2015-19). This medium-run projection accounts for savings from the Fiscal Responsibility Act, which ended the recent debt-ceiling crisis. The Congressional Budget Office estimates the deal might trim deficits by USD 1.5trn over 2023-33 (about 0.5% of GDP a year as concerns 2027 and 2028 deficits) and curtail debt-to-GDP around 3pps by 2033.

Nevertheless, cuts to discretionary spending from the Fiscal Responsibility Act only partly offset effects of deficit-raising policies, spending pressures from an ageing population, as well as expectations of higher debt-servicing costs. The United States' general government debt-to-GDP ratio dropped to 121.7% in 2022. Nevertheless, this improvement in the debt ratio is expected to start reversing this year, as debt concludes a forecast horizon to 2028 around 133%.

We estimate economic growth of an above-consensus 1.9% in 2023 (raised from 1.1%) before 1.3% next year – as high-frequency indicators pointed to continued growth in Q2 this year. This nevertheless assumes fresh slowdown in the second half of the year. Labour-market conditions have stayed tight although we see unemployment climbing slightly to 3.7% this year before 4.0% in 2024.

Headline price pressures have decelerated in recent months, but core inflation remains high. Inflation is exacerbated by a weakening dollar. Headline consumer-price-index inflation is expected to moderate only gradually, averaging 4.2% in 2023 before 3.0% in 2024. As a response to inflation risks, our baseline is for further rate hikes from the Federal Reserve, before rates are held at a high terminal rate well into 2024. Due to higher rates for longer, financial-stability risk in the United States is expected to stay a thematic in the coming years, although the swift and effective response from policy makers earlier this year prevented spread of a regional banking crisis.

## Higher debt drives downgrade of China; Japan's fiscal sustainability hinges on the central bank

We downgraded **China**'s sovereign credit rating to A from A+ in May this year and revised the Outlook to Stable from Negative. This means we rate China one level below peer rating agencies. In its efforts to engineer a 'soft landing', the government faces a difficult balancing act of deleveraging the economy, while maintaining politically-acceptable rates of economic growth.

The downgrade reflects high structural public-sector deficits and the steepening rise in public-sector debt. Budgetary stimulus as a response to the pandemic crisis raised general government debt levels from 60% in 2019 to 77% of GDP by 2022 and we expect debt to reach 107% by 2028. Under the IMF's broader definition of debt, which includes that of local government financing vehicles and other off-balance-sheet entities, debt levels are substantively higher and the debt trajectory steeper. According to the IMF, the government's 'augmented debt' stood at 99% of GDP as of 2020 and can reach 149% by 2027, up a further 15pps from IMF estimates last year.

The rating downgrade also reflected a weaker medium-run economic growth outlook. The crisis in the real-estate sector is weighing on government efforts to achieve sustainable economic growth without further exacerbating large financial imbalances, including high levels of non-financial sector debt. Recent policy support for the economy and the end of the zero-Covid policy ought to support output growth of around 5.0% this year (raised 0.7pps on December forecasts), even acknowledging the Q2 slowdown. This is largely driven by a strengthened outlook for the services sector, while growth in manufacturing remains weak. However, we cut growth for 2024 by 0.9pps to 4.3%. Absent successful reforms, we see China's growth potential gradually declining, possibly falling under 3% from 2030. As the rest of the world deals with high inflation, China is confronting instead deflation risk. We trimmed our inflation forecast for 2023 to 0.7%, and held forecasts for 2024 unchanged at 2.2%.

**Japan** (A/Negative)'s economic recovery from the Covid-19 crisis has been uneven and complicated by weakening external conditions and rising import prices following Russia's escalation of war in Ukraine. As a response to flagging growth and rising prices, the government announced significant budget support of JPY 29trn (5.2% of GDP) last October. Nevertheless, we cut growth for this year 1.1pps to 1.2%, and next year 0.8pps to 1.0%. Growth is projected to slow to 0.4% by 2027 as the post Covid-19 recovery slows and the government gradually withdraws budgetary support.

Rising prices have raised concerns around the sustainability of the Bank of Japan's monetary-policy stance given policy tightening across much of the remainder of the advanced world. The Bank of Japan widened the band around the 10-year government-bond yield target from 0.25% to 0.50% while the short-term policy rate remains at -0.1%. The former has also prompted record foreign-exchange interventions and government-bond purchases. We see inflation staying above 2% through 2024 but returning to below target thereafter.

Substantive structural pressures from an ageing population continue to weigh on fiscal and economic outlooks, with limited potential for meaningful budgetary consolidation. Public debt-to-GDP will decline modestly over 2023-24, thanks to the benefits of high inflation, before returning on a gradually rising trend longer run. Deterioration in public finances means the government is dependent on the Bank of Japan's accommodative monetary policy. Any rise in credibility concerns for the central bank could threaten to erode yen's reserve-currency status.

## South Africa and Egypt's ratings confront debt and foreign-currency liquidity challenges

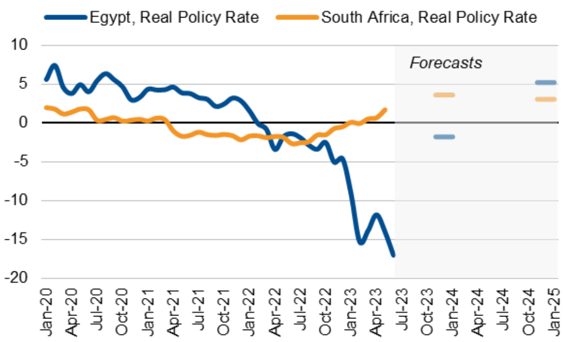
We project growth in **South Africa** (BB+/Negative) of 0.8% this year, down from the 1.9% in 2022 and below the economy's 1.5% potential annual rate, before a sluggish rebound of 1.2% growth next year.

Headline inflation is seen averaging 6.2% this year before 5.1% in 2024. In May, the South African Reserve Bank appropriately hiked rates by 50bps to 8.25%. We foresee the central bank further hiking the main lending rate (**Figure 9**) this year, before cutting rates before end-2024.

However, we have historically assumed a rising trajectory of South African debt as our baseline. The government debt stock is seen rising to 76.7% of GDP by 2025 and 88.2% of GDP by 2028, from 56% in 2019 and 24% at 2008 lows. As importantly, net interest payments are a growing burden on the national budget, accounting for around 18.5% of general government revenue this year, before rising to nearly 28% by 2028 under our baseline scenario. Resultantly, fiscal deficits are growing.

Governance challenges are considered within our rating outlook, ahead of general elections by 2024. Scope placed South Africa's BB+ credit ratings on Negative Outlook earlier this year, with the next scheduled review of the ratings by October.

**Figure 9. Real official rates**, South Africa and Egypt, %




Source: Macrobond, Scope Ratings forecasts

Finally, we assigned B/Negative first-time ratings for Egypt on 31 March 2023, our second public sovereign credit rating in Africa (after South Africa).

After an economic rebound of 6.6% in 2022, output growth is forecast at 4.0% in 2023 before 5.2% in 2024, assuming IMF financial assistance bolsters higher confidence in the economy. Domestic consumption would benefit from gradual declines in inflation from 28% in 2023 to a forecast 13% next year. Inflation would, nevertheless, still remain significantly above a central-bank target of 7% (±2pps) by Q4 2024 given devaluation of the pound.

The general-government deficit remains wide at 7.4% of GDP this year and 9.1% in 2024 due to high net interest payments and challenges ahead sustaining material fiscal consolidation. Still, general government debt is set to decline to 80% of GDP by 2028, from 99% as of 2023, helped by primary fiscal surpluses and strong economic growth potential, provided successful implementation of IMF-programme policy conditionality.

Slower-than-anticipated progress on structural reform could further cut foreign-currency availability amid challenging financial-market conditions and higher policy uncertainty ahead of the presidential elections. A sustained reduction in external-sector risk is required for any consideration of a stabilisation in Egypt's rating Outlook.

# Annex I. Our research commentaries so far in 2023

## Western Europe

Italy: recovery plan is falling short in boosting growth amid still resilient economy – 27 June

Germany: economy to rebound in 2024 on government, consumer spending after stagnation this year – 2 June

Greece: first-round election result is credit positive, reducing policy uncertainty – 23 May

France and Spain take different paths on pension reform; demographic challenges remain – 10 May

Spain: fiscal outlook improves on resilient economy but jobs, inflation, pension challenges remain – 2 May

Portugal: fiscal prudence and robust growth prospects improve debt sustainability – 5 April

France: pension reform to spur medium-term fiscal gain at governance cost – 21 March

Switzerland: UBS-Credit Suisse takeover highlights long-standing financial sector contingency risk – 20 March

Italy: recovery plan to face delays in investment phase as burden falls on local authorities – 9 March

Italy: deficit revisions show cost of past fiscal policies, call for prudence – 2 March

Netherlands: economy resilient but fiscal deficit to widen in the medium term – 1 March

Greece: positive rating outlook yet material challenges remain – 22 February

Spain: higher funding costs provide strong incentive to broaden public debt domestic investor base – 20 February

Italy: domestic investors vital for supporting government funding as market conditions shift – 8 February

Germany: medium-run post-pandemic recovery to lag AAA peers – 7 February

Italy demonstrates economic and fiscal resilience, but higher growth needed to reduce debt – 31 January

Spain: sovereign borrowing costs contained despite rise in yields, tighter ECB policy – 26 January

France: government's reform credentials, long-term fiscal resilience hinge on pensions overhaul – 17 January

## Central & Eastern Europe

Russia stuck in recession despite state spending; budget deficits points to longer-term weaknesses – 21 June

Türkiye’s policy mix: will President Erdoğan’s post-election pivot be sustained? – 20 June

Poland: Institutional deterioration and legal disputes with EU weaken credit standing – 13 June

Turkey: Erdoğan’s re-election limits prospects for tackling economic challenges, unorthodox policies – 30 May

Turkey: close election outcome worsens long-running uncertainty over economic policy – 16 May

Ukraine set for foreign debt restructuring next year; debt forgiveness likely medium term – 17 April

Poland: rule-of-law and monetary-policy weaknesses challenge ratings – 31 March

Romania: fiscal sustainability hinges on pension, tax reform as growth slows – 27 March

Managing public debt in the CEE-11: challenges, opportunities shift as borrowing costs rise – 16 March

Russia: financial strains set to grow as sanctions worsen structural weaknesses – 24 February

Georgia: robust economic performance, but geopolitical risks challenge outlook – 13 February

Bulgaria: high inflation, political stability key to timetable for euro accession – 9 February

Turkey: early election points to growing risk of future disruptive economic adjustment – 24 January

## Rest of the World

African sovereigns: deeper, coordinated debt relief needed to strengthen credit profiles – 6 July

Longer-run risks from the debt ceiling compromise US credit standing – 15 May

Policy reversal in Turkey, consolidation in Egypt crucial for coping with large external deficits – 20 April

Egypt faces uneasy reform mix to address build-up of external vulnerabilities – 13 April

South Africa: governance risk and rising debt challenge credit ratings – 20 March

United Kingdom: deal with EU reduces uncertainty and supports growth outlook – 6 March

Egypt: shift to flexible exchange rate is crucial even at risk of exacerbating debt challenges – 21 February

Debt-ceiling crisis a key risk to credit ratings of US government – 17 February

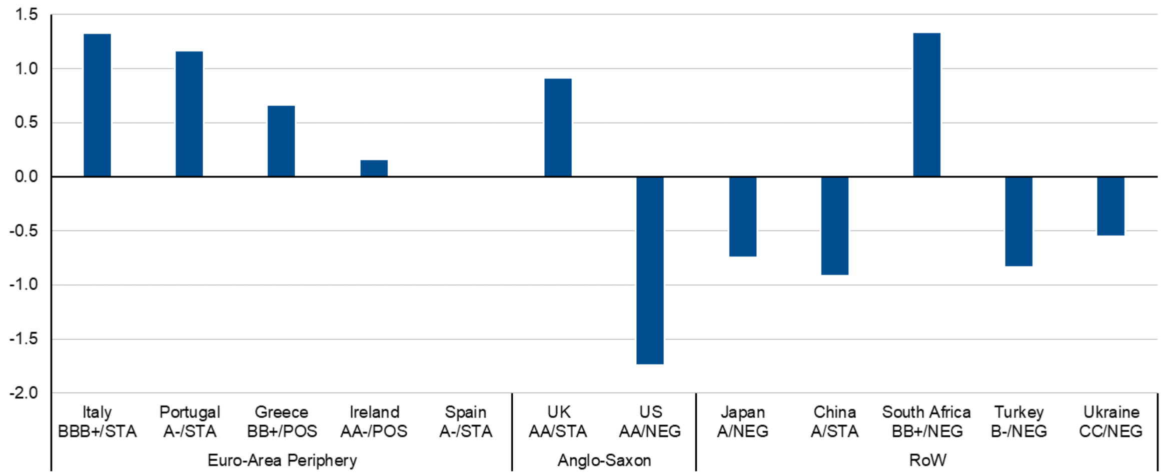
Africa Sovereign Monitor: stressed economies need policy adjustment, international support – 1 February

# Annex II: Scope's sovereign ratings and recent rating actions

**Figure 10. Scope's publicly-issued long-term foreign-currency sovereign credit ratings**, as of 14 July 2023

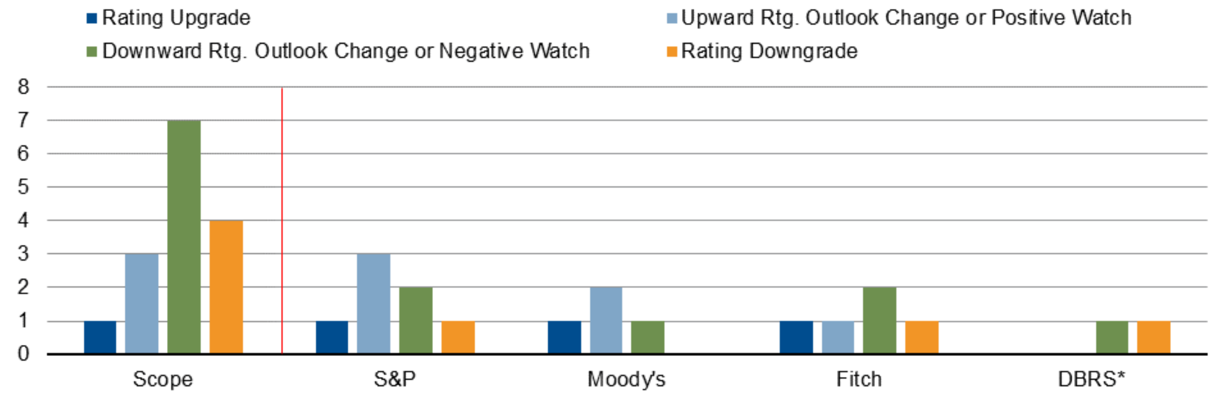
| Europe | | | | Rest of the World | |
|---|---|---|---|---|---|
| Euro area | | Non-euro area EU | | Africa | |
| Austria | AAA/Negative | Bulgaria | BBB+/Stable | Egypt | B/Negative |
| Belgium | AA-/Stable | Czech Rep. | AA-/Stable | South Africa | BB+/Negative |
| Croatia | BBB+/Stable | Denmark | AAA/Stable | North America & Asia | |
| Cyprus | BBB/Stable | Hungary | BBB/Stable | China | A/Stable |
| Estonia | AA-/Negative | Poland | A/Stable | Japan | A/Negative |
| Finland | AA+/Stable | Romania | BBB-/Stable | United States | AA/Negative |
| France | AA/Negative | Sweden | AAA/Stable | | |
| Germany | AAA/Stable | Other western Europe | | | |
| Greece | BB+/Positive | Norway | AAA/Stable | | |
| Ireland | AA-/Positive | Switzerland | AAA/Stable | | |
| Italy | BBB+/Stable | United Kingdom | AA/Stable | | |
| Latvia | A-/Stable | Emerging Europe | | | |
| Lithuania | A/Stable | Georgia | BB/Stable | | |
| Luxembourg | AAA/Stable | Serbia | BB+/Stable | | |
| Malta | A+/Stable | Türkiye | B-/Negative | | |
| Netherlands | AAA/Stable | Ukraine | CC/Negative | | |
| Portugal | A-/Stable | | | | |
| Slovakia | A+/Negative | | | | |
| Slovenia | A/Stable | | | | |
| Spain | A-/Stable | | | | |

**Figure 11. Scope sovereign rating levels versus the US agency average* (rating notches)**, as of 14 July 2023




NB: Calculated based on alpha-numeric conversion on a 20-point scale from AAA (20) to D (1) with US agency ratings adjusted to the Scope rating scale. Positive/Negative Outlooks are treated with a +/-0.33 adjustment. Credit Watch positive/negative with a +/-0.67 adjustment. RoW = Rest of the world. Calculated based on foreign-currency long-term issuer ratings.

**Figure 12. Number of rating revisions since 24 February 2023 (since the one-year anniversary of Russia's war in Ukraine)**




NB. Rating revisions on either foreign- or local-currency ratings since 24 February 2023 for the 39 countries that Scope has rated publicly since 24 February 2023 (including revisions for Egypt since Scope started rating Egypt on 31 March 2023). *Among countries that Scope has rated, DBRS has not rated Bulgaria, Croatia, Egypt, Hungary, Romania, Serbia, South Africa, Türkiye and Ukraine (as such, the above is from a sample of 30 rated countries in the case of DBRS).

**Figure 13. Scope sovereign rating Outlooks**, number of sovereigns

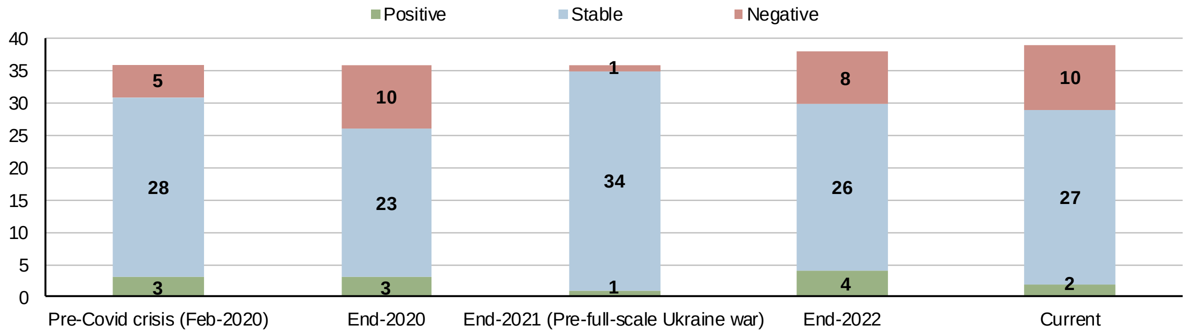



**Figure 14. Scope's sovereign rating actions**, 2023 YTD

| Month 2023 | Date | Sovereign | Rating action | Rating & Outlook* |
|---|---|---|---|---|
| Jan | 27 January<br>27 January<br>27 January | Switzerland<br>Georgia<br>Luxembourg | Affirmation<br>Affirmation<br>Affirmation | AAA/Stable<br>BB/Stable<br>AAA/Stable |
| Feb | 24 February | Hungary | Downgrade/ Outlook change | BBB/Stable |
| Mar | 17 March<br>24 March<br>31 March<br>31March | Romania<br>Portugal<br>Ireland<br>Egypt | Affirmation<br>Upgrade/ Outlook change<br>Affirmation/ Outlook change<br>First-time rating assignment | BBB-/Stable<br>A-/Stable<br>AA-/Positive<br>B/Negative |
| Apr | 21 April<br>28 April<br>28 April | South Africa<br>Lithuania<br>Latvia | Affirmation/ Outlook change<br>Affirmation/ Outlook change<br>Affirmation/ Outlook change | BB+/Negative<br>A/Stable<br>A-/Stable |
| May | 5 May<br>12 May<br>12 May<br>12 May<br>26 May<br>26 May<br>26 May | United States<br>China<br>Estonia<br>Ukraine<br>Czech Republic<br>Croatia<br>France | Under review for downgrade<br>Downgrade/ Outlook change<br>Affirmation/ Outlook change<br>Affirmation/ Outlook change (domestic debt)<br>Downgrade/ Outlook change<br>Affirmation<br>Affirmation/ Outlook change | AA/Developing<br>A/Stable<br>AA-/Negative<br>CC/Negative<br>AA-/Stable<br>BBB+/Stable<br>AA/Negative |
| Jun | 2 June<br>29 June | Poland<br>United States | Downgrade/ Outlook change<br>Confirmation/ Outlook assigned | A/Stable<br>AA/Negative |

| | | | | |
|---|---|---|---|---|
| Jul | 7 July<br>14 July | Austria<br>Italy | Affirmation/ Outlook change<br>Affirmation | AAA/Negative<br>BBB+/Stable |

*Foreign-currency issuer ratings and rating Outlooks.

## Annex III: Scope Ratings Publication Calendar (Rest of 2023)

| Month | Date | Entity |
|---|---|---|
| July | 21-07-23 | Region of Lombardy |
| | 21-07-23 | European Bank for Reconstruction and Development |
| | 21-07-23 | European Investment Bank |
| | 21-07-23 | City of Milan |
| | 21-07-23 | Republic of Bulgaria |
| | 21-07-23 | European Stability Mechanism |
| | 21-07-23 | European Financial Stability |
| | 28-07-23 | Republic of Slovenia |
| | 28-07-23 | Black Sea Trade and Development Bank |
| August | 04-08-23 | Hellenic Republic |
| | 04-08-23 | Republic of Turkey |
| | 04-08-23 | Hungary |
| | 11-08-23 | Swiss cantons |
| September | 01-09-23 | Free State of Bavaria |
| | 01-09-23 | European Atomic Energy Community |
| | 01-09-23 | European Union |
| | 01-09-23 | Republic of Malta |
| | 08-09-23 | Portuguese Republic |
| | 08-09-23 | Romania |
| | 15-09-23 | Arab Republic of Egypt |
| | 15-09-23 | Ireland |
| | 15-09-23 | Kingdom of Sweden |
| | 15-09-23 | Kingdom of Belgium |
| | 22-09-23 | Republic of Finland |
| | 29-09-23 | Kingdom of Norway |
| | 29-09-23 | Kingdom of Denmark |
| October | 06-10-23 | Japan |
| | 06-10-23 | Slovak Republic |
| | 06-10-23 | Kingdom of Spain |
| | 06-10-23 | South Africa |
| | 13-10-23 | Republic of Lithuania |
| | 13-10-23 | Republic of Latvia |
| | 20-10-23 | Spanish autonomous communities |
| | 20-10-23 | Federal Republic of Germany |
| | 20-10-23 | United States of America |
| | 27-10-23 | People's Republic of China |
| | 27-10-23 | Republic of Serbia |
| | 27-10-23 | Republic of Estonia |
| | 27-10-23 | Ukraine |
| November | 03-11-23 | United Kingdom |
| | 03-11-23 | Kingdom of the Netherlands |
| | 03-11-23 | Council of Europe Development Bank |
| | 10-11-23 | Czech Republic |
| | 10-11-23 | Republic of Croatia |
| | 10-11-23 | French Republic |
| | 17-11-23 | German states |
| | 17-11-23 | Land of Berlin |
| | 17-11-23 | Republic of Cyprus |
| | 17-11-23 | Land of Baden-Wuerttemberg |
| | 24-11-23 | Republic of Poland |
| December | 01-12-23 | Italian Republic |
| | 08-12-23 | Region of Lombardy |
| | 08-12-23 | Swiss Confederation |
| | 08-12-23 | Republic of Georgia |
| | 08-12-23 | Grand Duchy of Luxembourg |
| | 08-12-23 | City of Milan |
| | 08-12-23 | Republic of Austria |
| | 08-12-23 | Black Sea Trade and Development Bank |

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