July 2022 Sovereign Mid-Year Outlook

Recovery slowdown, high inflation and rising rates present divergence in sovereign ratings and outlooks

Sovereign and Public Sector, Scope Ratings GmbH, 18 July 2022

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| Bloomberg: RESP SCOP

Executive summary

Growth in the global economy is expected to slow to **around 3.1%** in 2022, compared with the **4.5%** expected this year under our December 2021 projections. We forecast **3.6%** global growth for 2023 with the skew of risk for our outlook remaining on the downside entering the coming year. Current stagflationary conditions hold both positive and negative impacts for sovereign ratings, with more sovereign borrowers seeing downside rating actions than upside actions since the escalation of the Russia-Ukraine war. We summarise projections for major economies in **Table 1** below, with full forecasts available via **Tables 2 and 3**.

Economic assumptions (global baseline scenario):

The slowdown in economic recovery is ongoing. Impediments to growth include elevated energy and commodity prices, weakened economic sentiment and slowdown of economic trading partners. Annual inflation remains elevated even though tighter monetary policy is leading to higher rates. Even when inflation peaks and starts to moderate over coming quarters, significant market instability and correction are likely. However, we do not expect a global financial crisis. Economic slowdown and the *gradual* easing of elevated inflation will cause front-loaded central bank tightening to decelerate, halt or even reverse in cases by 2023. Currency depreciation will force the tightening by more dovish central banks (such as the ECB) – or they risk importing further inflation.

2022 annual growth, while weakened, remains consistent with our economic baseline entering this year of above-potential although uneven economic growth with a downside skew of risk. 2023 output growth will display further slowdown on annual bases across many economies (China being a crucial exception) as high prices restrict purchasing power while post-Covid rebounds fade in force. There is significant likelihood of technical recession (defined as two consecutive quarters of output contraction) over 2022-23 in certain countries, even if such recession is shallow and annual growth rates remain moderately positive. With respect to Covid-19, as societies learn to live with coronavirus, further risk of setback to recovery will prevail as more transmissible virus variants present a renewed rise in cases and fresh restrictions are contemplated – specifically in China.

Sovereign rating outlook

One crucial legacy of the Covid-19 crisis has been a government debt overhang. In this respect, high inflation can be credit positive near term via trimming of debt ratios. However, inflation derails *real* economic growth and, with time, increasingly constrains central banks' room for manoeuvre should price-stability mandates be compromised. As such, persistent inflation – should this restrict lender of last resort functions of a central bank to intervene during market failures – is credit negative as inflation endures. This is reflected in our rating actions. Since Russia's further invasion of Ukraine, we have revised three countries' ratings lower (Russia, Ukraine, Turkey), a further three countries' rating Outlooks to Negative (Japan, China, Czech Republic) with only three countries' ratings/Outlooks revised to the upside (Croatia, Portugal, Cyprus) – see **Annex II**, **Figure 10** – with these countries benefitting from benign public debt trajectories and, for Croatia, forthcoming euro accession. Six sovereign issuers are presently rated on Negative Outlook (two EU members, and four non-EU – see **Annex II**, **Figure 7**), while four sovereigns are on Positive Outlook – all four in the euro area (Cyprus, Latvia, Lithuania, Portugal). Scope's scheduled sovereign review dates for the remainder of 2022 are listed via **Annex III**.

Table 1: Scope's growth forecasts, summary, as of 18 July 2022

Country/region	Real GDP growth (%)					
		Baseline scenario				Medium-run potential
	2021	2022F	Diff. from Dec.*	2023F	Diff. from Dec.*	
Euro area	5.3	2.8	↓1.6	1.8	↓0.3	1.4
Germany	2.9	1.6	↓2.8	1.7	↓0.1	1.0
France	6.8	2.4	↓1.6	1.2	↓0.6	1.5
Italy	6.6	3.0	↓1.5	1.5	↓0.6	1.0
Spain	5.1	4.1	↓1.9	2.0	↓0.6	1.5
United Kingdom	7.4	3.5	↓1.1	1.0	↓1.7	1.5
Russia	4.8	(10.5)	↓13.2	1.0	↓1.0	1.8
Turkey	11.0	5.8	↑3.5	3.5	↑1.1	3.9
United States	5.7	1.7	↓1.8	2.0	↓0.9	2.0
China	8.1	3.6	↓1.6	5.1	↑0.1	5.0
Japan	1.7	1.8	↓1.8	1.7	↑0.1	0.4
World	6.1	3.1	↓1.4	3.6	↓0.1	3.0

*Changes compared with December 2021's 2022 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; official rates, 2020-23F

Country/region	Real GDP growth (annual average, %)								Policy rates (EOP, %)			
				Baseline scenario				Medium-run potential				
	2020	2021E	Diff. from Dec-21[1]	2022F	Diff. from Dec-21[1]	2023F	Diff. from Dec-21[1]		End-2020	End-2021	End-2022	End-2023
Euro area[2]	(6.5)	5.3	↑ 0.3	2.8	↓ 1.6	1.8	↓ 0.3	1.4	(0.5)	(0.5)	0.75	1.50
Germany	(4.9)	2.9	↑ 0.5	1.6	↓ 2.8	1.7	↓ 0.1	1.0				
France	(7.8)	6.8	↑ 0.3	2.4	↓ 1.6	1.2	↓ 0.6	1.5				
Italy	(9.1)	6.6	↑ 0.0	3.0	↓ 1.5	1.5	↓ 0.6	1.0				
Spain	(10.8)	5.1	↑ 0.4	4.1	↓ 1.9	2.0	↓ 0.6	1.5				
Netherlands	(3.9)	4.9	↑ 0.5	2.9	↓ 0.1	2.2	↑ 0.2	1.4				
Belgium	(5.7)	6.2	↑ 0.5	2.3	↓ 0.6	1.3	↓ 0.5	1.2				
Austria	(6.8)	4.9	↑ 0.7	3.7	↓ 0.3	2.0	-	1.6				
Ireland	5.9	13.4	↓ 1.5	6.2	↓ 0.7	5.0	↑ 0.1	4.0				
Finland	(2.2)	3.0	↓ 0.4	1.5	↓ 1.2	0.4	↓ 1.2	1.2				
Portugal	(8.4)	4.9	↑ 0.3	5.5	↑ 0.5	1.4	↓ 1.1	1.8				
Greece	(9.0)	8.3	↓ 0.6	4.9	↑ 0.6	2.1	↓ 0.4	1.0				
Slovakia	(4.4)	3.0	n.a	2.2	n.a	3.4	n.a	2.5				
Luxembourg	(1.8)	6.9	n.a	2.0	n.a	2.3	n.a	2.4				
Lithuania	(0.0)	4.9	n.a	1.8	n.a	2.8	n.a	2.8				
Slovenia	(4.2)	8.1	n.a	3.9	n.a	2.5	n.a	3.5				
Latvia	(3.8)	4.5	n.a	2.5	n.a	2.5	n.a	2.5				
Estonia	(2.6)	8.2	n.a	1.2	n.a	2.7	n.a	3.0				
Cyprus	(5.0)	5.5	n.a	2.0	n.a	3.2	n.a	2.5				
Malta	(8.2)	10.3	n.a	5.0	n.a	4.9	n.a	3.5				
Western Europe ex-euro area												
United Kingdom	(9.3)	7.4	↑ 0.6	3.5	↓ 1.1	1.0	↓ 1.7	1.5	0.10	0.25	1.75	2.00
Switzerland	(2.5)	3.7	↑ 0.2	2.4	↓ 0.4	2.0	↑ 0.6	1.6	(0.75)	(0.75)	0.00	0.00
Sweden	(2.3)	4.9	↑ 0.9	1.9	↓ 1.4	1.1	↓ 1.1	1.8	0.00	0.00	1.50	2.00
Norway	(1.3)	4.0	↑ 1.0	3.4	↓ 0.5	1.3	↓ 0.4	1.8	0.00	0.50	2.25	3.00
Denmark	(2.0)	4.9	↑ 1.0	3.3	↑ 0.5	0.9	↓ 1.0	1.5	(0.60)	(0.60)	0.30	1.15
EU central and eastern Europe ex-euro												
Poland	(2.1)	5.8	↑ 0.3	4.9	↑ 0.8	3.1	↓ 0.6	3.0	0.10	1.75	7.00	6.00
Romania	(3.6)	5.9	↓ 1.3	4.8	↓ 0.2	4.5	↓ 0.5	4.0	1.50	1.75	5.50	5.00
Czech Republic	(5.5)	3.5	↑ 0.5	1.6	↓ 3.1	2.7	↓ 1.3	2.5	0.25	3.75	7.00	6.00
Hungary	(4.7)	7.1	↓ 0.4	4.0	↓ 1.4	3.4	↓ 0.6	3.0	0.60	2.40	10.75	7.75
Bulgaria	(4.0)	4.2	n.a	1.8	n.a	3.5	n.a	2.8	0.00	0.00	0.00	0.00
Croatia	(7.8)	10.2	n.a	3.5	n.a	3.7	n.a	3.0	0.05	0.05	0.05	-
Non-EU emerging Europe												
Russia	(2.5)	4.8	↑ 0.3	(10.5)	↓ 13.2	1.0	↓ 1.0	1.8	4.25	8.50	8.00	7.00
Turkey	1.8	11.0	↑ 0.2	5.8	↑ 3.5	3.5	↑ 1.1	3.9	17.00	14.00	14.00	14.00
Ukraine	(4.0)	3.4	n.a	(31.0)	n.a	17.5	n.a	2.5	6.00	9.00	30.00	20.00
Serbia	(0.9)	7.4	n.a	3.0	n.a	4.0	n.a	4.3	1.00	1.00	3.50	3.00
Georgia	(6.7)	10.4	n.a	8.0	n.a	5.0	n.a	5.0	8.00	10.50	11.50	10.50
Rest of World												
United States	(3.4)	5.7	↑ 0.2	1.7	↓ 1.8	2.0	↓ 0.9	2.0	0-0.25	0-0.25	3.25-3.5	3.75-4
China[3]	2.3	8.1	↑ 0.1	3.6	↓ 1.6	5.1	↑ 0.1	5.0	3.85	3.80	3.80	3.70
Japan[4]	(4.6)	1.7	↑ 0.2	1.8	↓ 1.8	1.7	↑ 0.1	0.4	(0.1)	(0.1)	(0.1)	(0.1)
World	(3.1)	6.1	↑ 0.3	3.1	↓ 1.4	3.6	↓ 0.1	3.0				

Negative values shown in parentheses

Source: Scope Ratings forecasts, Macrobond, IMF

[1]Changes compared with Scope December 2021's 2022 Sovereign Outlook forecasts ("n.a" reflects countries not forecasted as of the December 2021 Sovereign Outlook)

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

[3]Shown for China's policy rate is the bank prime loan rate

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

Table 3. Global economic outlook: unemployment, fiscal metrics

Country/region	Unemployment rate[5] (annual average, %)				General government balance (% of GDP)				Public debt level (% of GDP)				
	2020	2021E	2022F	2023F	2020	2021E	2022F	2023F	2020	2021E	2022F	2023F	2027F
Euro area	7.9	7.7	6.8	6.8	(7.1)	(5.1)	(4.6)	(3.6)	97	96	94	93	90
Germany	3.7	3.6	3.1	3.2	(4.3)	(3.7)	(4.7)	(3.1)	69	69	72	71	66
France	8.0	7.9	7.5	7.8	(8.9)	(6.5)	(5.8)	(4.7)	115	113	112	112	115
Italy	9.3	9.5	8.3	8.1	(9.6)	(7.2)	(5.5)	(4.7)	155	151	147	146	144
Spain	15.5	14.8	13.4	13.1	(10.3)	(6.9)	(5.3)	(4.3)	120	118	115	115	113
Netherlands	4.9	4.2	3.3	3.1	(3.7)	(2.6)	(1.5)	(1.6)	55	52	48	46	47
Belgium	5.7	6.3	5.9	6.1	(9.0)	(5.5)	(4.9)	(4.6)	113	108	107	108	118
Austria	6.1	6.2	4.8	4.6	(8.0)	(5.9)	(3.6)	(2.6)	83	83	83	79	73
Ireland	5.8	6.2	4.8	4.9	(5.1)	(1.9)	(0.7)	(0.0)	58	56	50	47	35
Finland	7.8	7.6	6.5	6.5	(5.5)	(2.6)	(2.0)	(1.9)	75	72	71	71	72
Portugal	7.1	6.6	5.7	5.6	(5.8)	(2.8)	(2.5)	(1.7)	135	127	122	118	106
Greece	17.6	14.8	12.4	11.7	(10.2)	(7.4)	(3.8)	(2.8)	206	193	172	157	148
Slovakia	6.6	6.8	6.7	6.4	(5.5)	(6.2)	(4.9)	(3.1)	60	63	61	56	52
Luxembourg	6.7	5.4	5.2	5.2	24.8	24.4	(0.3)	0.0	25	24	26	26	26
Lithuania	8.5	7.1	7.3	7.0	(7.3)	(1.0)	(4.4)	(2.7)	47	44	43	42	38
Slovenia	5.0	4.7	4.4	4.3	(7.8)	(5.2)	(4.9)	(4.6)	80	75	71	70	66
Latvia	8.1	7.6	7.5	7.0	(4.5)	(7.3)	(7.0)	(3.5)	43	45	46	46	40
Estonia	6.9	6.2	6.9	6.8	(5.6)	(2.4)	(4.4)	(3.7)	19	18	21	23	26
Cyprus	7.6	7.5	7.1	6.5	(5.8)	(1.7)	2.0	(0.6)	115	104	98	95	75
Malta	4.4	3.5	3.3	3.4	(9.5)	(8.0)	(5.8)	(4.5)	53	57	59	60	58
Western Europe ex-euro area													
United Kingdom	4.7	4.6	3.9	4.0	(12.8)	(8.0)	(5.7)	(4.9)	103	95	90	87	84
Switzerland	3.1	3.0	2.5	2.4	(2.8)	(1.9)	(0.1)	0.2	42	42	40	39	34
Sweden	8.5	8.8	7.7	7.7	(2.7)	(0.2)	(0.1)	(1.3)	40	37	34	34	30
Norway	4.8	4.4	3.3	3.4	(2.8)	0.9	4.7	4.2	47	48	47	46	45
Denmark	5.7	5.1	4.4	4.5	(0.2)	(0.3)	1.0	0.7	42	37	32	33	33
EU central and eastern Europe ex-euro													
Poland	3.2	3.4	2.7	2.7	(6.9)	(1.9)	(3.2)	(3.2)	57	54	48	45	46
Romania	6.3	5.7	7.0	6.0	(9.3)	(7.5)	(7.5)	(5.5)	47	49	53	55	60
Czech Republic	2.6	2.8	2.5	2.5	(5.8)	(5.9)	(4.5)	(3.8)	38	42	44	45	44
Hungary	4.1	4.0	3.9	3.8	(7.8)	(6.8)	(5.6)	(4.8)	80	77	76	75	68
Bulgaria	6.1	5.3	5.2	5.3	(4.0)	(4.1)	(4.8)	(2.6)	25	25	25	27	26
Croatia	7.7	7.6	6.7	6.2	(7.3)	(2.9)	(2.8)	(2.5)	87	80	77	74	66
Non-EU emerging Europe													
Russia	5.8	4.8	8.0	7.0	(4.0)	0.7	(1.5)	(3.9)	19	17	17	20	23
Turkey	13.1	12.0	11.0	11.0	(4.5)	(3.3)	(2.3)	(2.7)	40	42	38	39	45
Ukraine	9.5	10.3	0.0	0.0	(6.0)	(4.0)	(19.7)	(17.9)	61	49	80	82	87
Serbia	10.1	11.4	11.0	10.0	(8.0)	(4.1)	(3.5)	(2.0)	58	57	57	55	46
Georgia	18.5	20.6	18.1	17.6	(9.3)	(6.0)	(3.9)	(2.6)	60	49	46	45	42
Rest of World													
United States	8.1	5.4	3.7	3.6	(14.5)	(10.2)	(3.9)	(3.6)	134	133	127	123	123
China[6]	5.6	5.1	5.8	5.7	(10.7)	(6.0)	(7.7)	(7.1)	68	73	78	82	96
Japan	2.8	2.8	2.6	2.5	(9.0)	(7.6)	(7.0)	(4.0)	259	263	263	261	264
World													

Negative values shown in parentheses

Source: Scope Ratings forecasts, Macrobond, IMF

[5]Unemployment rate data source is Eurostat for EU member states; national unemployment series otherwise

[6]Unemployment is survey-based urban unemployment rate

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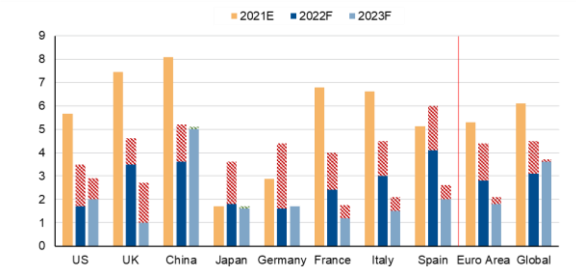
Global Outlook: July 2022

We project a marked recovery slowdown. Impediments to growth include elevated commodity prices, weakened economic sentiment and tightening of global rates policies. We revise down our forecast for global growth this year to 3.1% (**Figure 1**), from 4.5% under our December 2021 projection. The global economy ought to grow by 3.6% next year, remaining above an estimated medium-run potential growth rate of 3%. Growth in 2022, while weakened, remains in line with our expectation entering this year of robust i.e. above-potential but uneven growth with multiple downside risks we referenced entering 2022 crystallising, such as i) high inflation and central bank tightening; ii) potential Russian aggression against Ukraine and emerging market vulnerabilities as G4 central banks taper; and iii) a correction in bubbly financial asset markets. As monetary policy tightens, rates rise and annual inflation stays elevated, further significant market instability is likely even as inflation peaks and starts to moderate. However, we do not expect a global financial crisis. The *gradual* easing of elevated inflation over coming quarters and economic slowdown will cause front-loaded tightening of monetary policy to decelerate, halt or even reverse in cases by 2023.

We believe risk to 2023 economic growth is, similar to risk entering 2022, skewed to the *downside*. There is likelihood of technical recession (two consecutive quarters of output contraction) over 2022-23 in certain countries – such as for the United States, even if recession is shallow in most such cases and annual growth rates remain moderately positive. With respect to Covid-19, the risk of a setback to recovery prevails as more transmissible virus variants present renewed rises in cases and fresh economic restrictions are considered – such as under China's zero-Covid policy.

Figure 1. Global growth %, 2021-23F



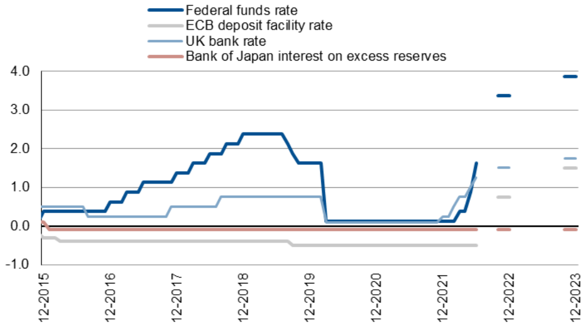
Note: Red (green) stripes show a downward (upward) revision from Dec-2021 forecasts. Source: Eurostat, nat'l statistical agencies, Scope Ratings forecasts.

In 2022, we assume reduced growth for the euro-area aggregate – 2.8% for the year, cut from a 4.4% forecast entering the year, before continued normalisation nearer the potential rate of economic growth to 1.8% for 2023. Elevated inflation and reduced household purchasing power, falls of consumer confidence, supply-side bottlenecks and risk of further halt of energy supplies amid Russian economic retaliation undermine economic expectations.

We expect the UK economy to expand 3.5% this year (cut from an earlier 4.6% forecast) before 1.0% growth in 2023 (cut 1.7pps from our Dec-2021 estimate). The US economy is seen slowing to 1.7% in 2022 (cut in half from 3.5% expected entering 2022) before returning to potential growth of 2% by 2023. Our growth forecast for Japan is 1.8% in 2022 (again, cut in half from 3.6%) before 1.7% for 2023. As for emerging economies, we have slashed our growth forecast for China by 1.6pps to 3.6% for 2022, before recovery of 5.1% next year – with a 2023 recovery acting as a catalyst of *modestly* higher global growth for 2023. The Russian economy is expected to contract by more than 10% this year, before an "L-shaped" recovery entering 2023. Turkish growth was marked up amid credit-fuelled recovery.

A central risk to Scope's economic baseline is further significant tightening of global financial conditions, in the form of higher long-term bond yields, a further correction in global equity markets and/or further appreciation of the US dollar via safe-haven flows. This could be result of current very high inflation surprising to the upside and/or behind-the-curve central banks tightening faster than currently communicated. Faster policy tightening cuts risk of inflation becoming more deeply engrained but also raises risk of policy mistakes exacerbating financial instability. Alongside Federal Reserve and Bank of England hikes (**Figure 2**) and quantitative tightening, we expect the ECB to start raising rates later this week for the first time this cycle while introducing near term a novel 'anti-fragmentation' programme against rises of periphery yield spreads.

Figure 2. Policy rate %, with forecasts



Source: Central banks, Scope Ratings forecasts

One crucial legacy of the Covid-19 crisis has been higher government debt stocks. In this respect, high inflation can be credit positive near term via trimming of debt ratios. However, persistent inflation derails output growth and constrains central banks' room for monetary manoeuvre. As such, more *persistent* inflation leans credit negative. This is reflected in our rating actions. Since Russia's further invasion of Ukraine, we have revised lower three countries' ratings (Russia, Ukraine, Turkey), changed three countries' Outlooks to Negative (Japan, China, Czech Republic) with only three countries' ratings/Outlooks revised to the upside (Croatia, Portugal, Cyprus). Six sovereign issuers are presently rated on Negative Outlook and four sovereigns on Positive Outlook. Russia has defaulted while Ukraine is contemplating debt restructuring.

Regional Views

Core Europe

The credit outlook of **Germany** (AAA/Stable) remains stable despite a deterioration in economic growth. Fallout from the Russia-Ukraine war, including sharply rising inflation and supply-chain disruptions, has pushed out Germany's recovery from the pandemic crisis. We expect growth of 1.6% for 2022, less than half our growth expectation of 4.4% before the escalation of the war in Ukraine – contributing to a weakening euro-area economic outlook. Growth is expected to be 1.7% in 2023 on back of tightening monetary policies and slower economic growth among key trading partners. Despite slower growth, the German government retains significant room for budgetary manoeuvre. Our expectation is for decline in medium-run debt-to-GDP from 72% in 2022 to 66% by 2027. However, the financing flexibility of the central government is constitutionally constrained by the debt brake. Increased use of special funds, which are excluded from debt-brake rules, will help finance green transition and increased military spending but have curtailed the transparency of Germany's fiscal framework. Significant downside economic risks remain to our baseline expectations. Notably, the possibility of a sharp reduction in gas supplies over coming months could result in gas rationing in parts of the industrial base, risking deeper economic recession.

France (AA/Stable) experienced a strong economic rebound in 2021 (6.8%), but growth is expected to slow sharply in 2022 (to 2.4%) due to lower growth of private consumption and investment, amid higher inflation and rising economic uncertainties. GDP slowdown is seen continuing in 2023 (1.2%) before returning closer to its potential rate of circa 1.5%. Longer-than-expected deployment of countercyclical economic measures should delay fiscal consolidation and push up public debt to around 115% of GDP by 2027 from 97% pre-Covid. Higher uncertainty around structural reform momentum following 2022's presidential and legislative elections furthermore constrains government capacity to raise potential growth and materially reduce budget deficits, while addressing credit challenges from labour-market rigidity and an ageing population.

The **Netherlands** (AAA/Stable) is expected to see economic growth of around 2.9% this year, slowing from 4.9% of 2021, before expanding 2.2% in 2023. Resilience to recent Russian cut-off of gas to Netherlands is supported by storage facilities enough to get through the next winter and several months afterwards, although a more permanent replacement of Russian energy is likely to prove challenging. The fiscal deficit is expected to ease to 1.5% of GDP this year with a public-debt ratio falling to a pre-Covid level (of 48.4% of GDP by end-2022).

Despite only moderate direct ties to Russia and Ukraine, **Belgium** (AA-/Stable) nevertheless stands to be adversely impacted by the war, largely due to sharp increases in global energy prices and a slowdown in trading partners' economies. We expect Belgian growth to moderate to 2.3% in 2022 before gradually converging on a medium-run potential rate of around 1.2% by 2025. The public debt trajectory is expected to remain on a rising trend longer run, reaching 118% of GDP by 2027 – reflecting a ratings challenge. **Luxembourg** (AAA/Stable) has demonstrated resilience over recent economic crises, with only mild recession of 1.8% in 2020 followed by a strong rebound of 6.9% in 2021. We see growth easing to 2.0% in 2022, then picking up and converging on medium-run potential of 2.4%. Public debt is expected to stabilise at low levels of around 26% of GDP in the period to 2027.

In **Austria** (AAA/Stable), we expect real growth of 3.7% this year. Austria's energy mix is heavily reliant upon Russian gas (accounting for 80% of gas imports, 18% of energy consumption), increasing the economy's sensitivity to potential shortages during the coming winter. We expect the budget to remain in deficit this and next year, at 3.6% and 2.6% of GDP. Austria's debt-to-GDP ratio is seen stabilising at around 83% of GDP before trending lower over coming years but it remains the highest among AAA-rated sovereigns.

Italy, Spain and Portugal

Italy (BBB+/Stable)'s economic and fiscal outlooks have deteriorated since escalation of the Russia-Ukraine war given economic reliance on Russian energy and a more fragmented parliament after the split of Five Star Movement from the government due to divergence of policy opinions around the response to the economic crisis and weapons shipments to Ukraine. While stimulus from EU funding ought to prevent stagflation, we expect growth of circa 3% this year (down from a forecast of 4.5% before the war's escalation), before 1.5% growth next year with average CPI inflation to exceed 6% this year and 3% in 2023.

As regards the budget, we expect a government deficit of around 5.5% of GDP this year and around 4.7% next year, declining gradually to around 3.5% by 2027. We expect Italy's government debt ratio to ease to 144% of GDP by 2027 and annual gross government financing requirements to remain close to 30% of GDP a year. The credibility of the ECB's forthcoming anti-fragmentation instrument and the government's continued willingness and ability to implement reform (upon which Next Generation EU disbursements are conditioned) *after* the next elections are crucial to avoiding further adverse repricing of risk for Italian government bonds and ensuring the sustainability of debt under low growth, higher interest-rate conditions.

Spain (A-/Stable)'s economy was resilient during 2022 H1, reflecting lower exposure to the Ukraine war compared with that of euro-area peer economies. The growth outlook benefits from strong recovery of tourism. The unemployment rate hit its lowest levels since 2008 in May 2022, at 13.1%. Despite these strengths, we expect growth to slow to 4.1% (versus 4.6% under our May 2022 review) and 2% (3.3%) for 2022 and 2023.

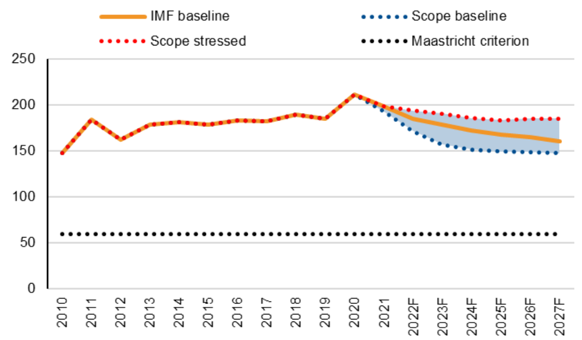
This downside growth revision is due to high inflation and reduced external demand, given global supply chain disruptions affecting core European trading partners weigh on Spain's manufacturing sector.

Inflation rose to 10.2% in June 2022, largely driven by rising energy and food prices, which negatively affect household consumption, despite a recently implemented mechanism capping electricity prices and a EUR 9bn public support package. We see the headline government deficit moderating to 5.3% of GDP in 2022 before 4.3% in 2023, with the debt-to-GDP ratio stabilising around 115% over 2022-2023.

Portugal's (BBB+/Positive) ratings are supported by improving public finances, despite headwinds associated with a worsening global economic outlook. Output growth should remain strong in 2022, at 5.5% (4.2% in our May 2022 review), thanks to high growth carry-over from 2021 and strong recovery of international tourism, before slowing to 1.4% (2%) in 2023. This slowdown follows weakening of household consumption, under a context of accelerating consumer price inflation (8.7% YoY in June). We expect the headline government deficit to decline to around 2.5% of GDP in 2022 and 1.7% in 2023. Combined with robust growth, this should drive a decline of the debt-to-GDP ratio to under pre-Covid levels, or to about 118% by end-2023.

Greece, Cyprus and Malta

Figure 3. Greece general government debt, % GDP



Source: IMF World Economic Outlook, Scope Ratings forecasts.

In September 2021, Scope became the first credit rating agency to upgrade Greece to BB+ – one notch below investment grade. Since then, we have revised up growth expectations to 4.9% for 2022 (from 4.6% for this year entering 2022), before 2.1% for 2023. We expect a headline budget deficit of 3.8% of GDP (and a primary deficit of 1%) this year, better than government objectives of 4.4% (and 2%) respectively, before a balanced primary account is reached over 2023-27, with a headline deficit of around 2.9% of GDP in those years. The aggregate debt ratio is estimated to decline much faster than previously anticipated, supported by elevated inflation, above-potential real economic growth alongside fiscal consolidation, from a 206.3% of GDP peak of 2020 to 171.6% by end-2022 (dipping this year under pre-Covid levels of 180.7% of 2019), before moderation to 147.7% by 2027 (**Figure 3**).

Inflation reached 12.1% YoY in June, and 10-year government bond yields rose to 4.7% in mid-June, before easing to 3.5% by time of writing. Yields nevertheless reflect levels not seen since Covid-19 crisis peaks. However, European Central Bank support measures have been activated in support of Greece's debt markets. In our September rating announcement, we referenced Eurosystem support for Greece being reinforced after the (Covid-19) crisis as representing a potential further upside rating trigger from BB+. ECB actions since Covid-19 have marked a significant pivot from Greece's pre-Covid exclusion from ECB monetary operations due to non-investment grade ratings. A novel anti-fragmentation programme could further anchor confidence that exceptional ECB support for Greece since the Covid-19 crisis is more permanent, rather than specific to recent crises. Such a permanent Eurosystem backstop for Greek markets anchors the ratings trajectory.

The non-performing loan ratio of Greek banks declined significantly from 48.9% in March 2018 to 11.6% by March 2022. Greece exits post-bailout Enhanced Surveillance next month, raising uncertainty with respect to fiscal discipline. The ruling party is leading opinion polls ahead of next elections by summer 2023, although a coalition government is likely to be required after elections. Our next scheduled review of Greece's sovereign ratings is 2 December 2022.

We changed the Outlook for **Cyprus**'s BBB- ratings from Stable to Positive on 24 June 2022. The economy recovered robustly from the Covid-19 economic crisis. The country is especially exposed to consequences of the war in Ukraine given direct trade linkages in tourism and professional services with Russia but it maintains sturdy economic momentum. We expect Cyprus to grow 2% in 2022 followed by 2.7% on average over 2023-26. **Malta** (A+/Stable)'s economic recovery has been much stronger than anticipated after growth reached 10.3% in 2021. We expect growth of around 5% in 2022 and 2023, followed by gradual convergence to medium-run potential of 3.5%. Malta was removed from the Financial Action Task Force's grey list in June 2022, reflecting strengthened oversight of its financial system and enforcement of anti-money laundering and counter-terrorism financing frameworks.

UK and Ireland

After continued growth during 2022, we expect a sharp slowdown in the **United Kingdom** (AA/Stable) economy by next year with growth falling under medium-run potential rates to only 1.0%. After one of the sharpest contractions among advanced economies during the Covid-19 crisis (-9.3%), the UK economy grew by 7.4% in 2021 on the back of a recovery in private demand. While we expect growth of 3.5% in 2022, a worsening cost-of-living crisis should result in slower household consumption over the coming months. Despite only moderate direct economic ties with Russia and Ukraine, the UK is significantly impacted by economic consequences of the war.

Spiking energy and raw materials prices and supply-chain disruptions have intensified and are fuelling already-strong inflationary pressure that existed before the war's escalation. With monthly YoY inflation likely to exceed 10%, we see the Bank of England raising bank rate to 1.75% by end-2022 and output to contract in Q4. Debt to GDP is expected to decline gradually, but there remain significant adverse contingencies should growth fall under expectations or were increased spending needed to cushion vulnerable households from inflation. Turbulent political conditions since the 2016 referendum to leave the European Union resulted in a third conservative prime minister in a row ending his or her term early. Policy uncertainty remains elevated as the next government is likely to reassess previously announced tax increases as well as spending priorities. Longer-run challenges to the credit outlook include uncertainty concerning the lasting impact of the UK-EU Trade and Co-operation Agreement.

We affirmed **Ireland**'s sovereign credit rating (AA-/Stable) in April 2022. Economic output is recovering strongly from the pandemic crisis, and we expect robust growth of 6.2% for this year before 5.0% in 2023. Strong growth of the multinational enterprise sector, including pharmaceuticals and IT, continues to anchor output expansion. The underlying economy is expected to grow slightly above 4% in 2022 and 2023 despite continued supply-side challenges and rising inflationary pressure for households and businesses. Strong economic performance is expected to maintain public debt ratios on a declining trajectory, supporting the credit outlook. The debt-to-GNI ratio stood at around 103% as of end-2021 (56% of GDP), the former remaining above pre-pandemic levels. However, we expect the debt-to-GDP ratio to fall to 51% of GDP this year and 35% by 2027. Ireland is among countries that could see reduced competitiveness from changes of global corporate tax policy. However, the scale of impact remains unclear and hinges around the policies Ireland adopts in response to ease consequences.

Nordics and Switzerland

Denmark, **Norway**, **Sweden** (all rated AAA/Stable) and **Finland** (AA+/Stable) performed comparatively well in economic terms through the pandemic crisis with comparatively shallow recessions of 2020 and all exceeding pre-pandemic levels of output by mid-2021. Economic growth is expected to remain robust this year, but slow significantly by next year with economies each seeing below-potential rates of economic growth ranging from 0.4% for Finland to 1.3% for Norway next year. The significant downside growth revision for Finland for 2022-23 reflects its geographical proximity to Russia and closer economic ties between them.

The region has not been immune to sharp rises in inflation since escalation of the war. Our lowered growth expectations for 2023 reflect tighter monetary policies, which are likely to result in falls of house prices as mortgage costs rise. Norges Bank has been especially proactive, and we expect an increase in the sight deposit rate by 175bps in 2022 and a further 75bps next year. Riksbank is expected to follow a similar path with its repo rate hiked 150bps by end-2022 and a further 50bps in 2023. Government debt ratios are seen either remaining fairly stable over the next five years (Finland and Denmark) or slowly declining (Norway, Sweden).

Following escalation of the war, geopolitical concerns have emerged in the form of tail risks relevant to Finland's and Sweden's credit outlooks that have resulted in shifts of fiscal and foreign policy. Defence spending is set to increase for the two countries in coming years, although without reversing expected gradual improvements in headline fiscal deficits. More fundamentally, both countries abandoned historically neutral military positions and signed NATO accession protocols. Once ratified, NATO membership will act as a deterrent to any direct attack from Russia.

In **Switzerland** (AAA/Stable), we expect output growth of 2.4% for 2022. Withdrawal from negotiations around a fresh institutional framework agreement with the EU raises uncertainty around relations with its largest trading partner, complicating a process for establishing future trading arrangements. We expect Switzerland's debt-to-GDP ratio at 40.2% and a balanced budget this year, before returning to a modest budget surplus from 2023. Exposure to Russia and Ukraine remains limited as far as trade and financial activities, although energy dependence is more substantive. To counter inflationary pressure, the Swiss National Bank has accelerated tightening, hiking the policy rate in June to -0.25%. This strategy strengthened the Swiss franc; appreciation is helping keep inflation at comparatively moderate levels (2.5% YoY on average in 2022).

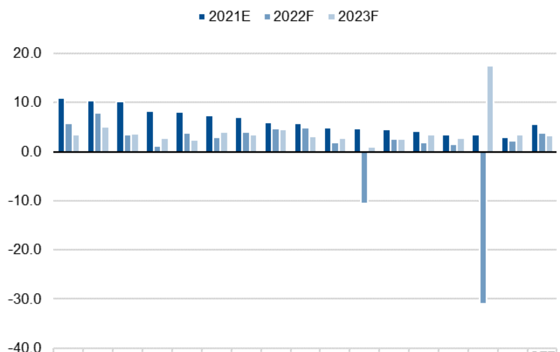
EU central and eastern Europe

The Russia-Ukraine war represents an exogenous shock for central and eastern European member states of the European Union (CEE-11), defining risks for the region for coming quarters. The dangers are multiple, ranging from higher and more persistent inflation to slower economic growth to widening external and budgetary deficits to disruptions of supply chains and of imports of Russian energy. Still, economic growth will continue for the CEE region under our baseline. Full-year growth for the CEE-11 should average 3.8% this year before 3.3% in 2023 (**Figure 4, next page**).

Direct trade with Russia, Ukraine and Belarus (under international economic sanctions alongside Russia) are not significant for most economies of the region – amounting to between 5%-6.5% of GDP in 2021 for **Poland** (A+/Negative), **Hungary** (BBB+/Stable) and the **Czech Republic** (AA/Negative). Still, shortages of key inputs of these economies – energy, metals, other commodities – and complications associated with indirect trading channels could severely disrupt industrial production, and, should disruptions be prolonged, impair the credit quality of exposed CEE-11 sovereigns. Global value-chain participation is highest for **Slovakia** (A+/Stable), followed by that of Hungary and the Czech Republic.

Russia is likely to expand retaliatory economic measures against EU countries via further limiting or halting energy supplies. The Czech Republic, Slovakia, **Slovenia** (A/Stable) and Hungary rely on Russia for more than 80% of their natural gas consumption. Any abrupt and prolonged suspension of Russian gas reduces near-term growth and exacerbates inflation.

Figure 4. 2021-23 real growth %, CEE



	TR	GE	HR	EE	SI	RS	HU	RO	PL	LT	RU	LV	BG	CZ	UA	SK	CEE-11
2021E	11.0	10.4	10.2	8.2	8.1	7.4	7.1	5.9	5.8	4.9	4.8	4.5	4.2	3.5	3.4	3.0	5.6
2022F	5.8	8.0	3.5	1.2	3.9	3.0	4.0	4.8	4.9	1.8	-10.	2.5	1.8	1.6	-31	2.2	3.8
2023F	3.5	5.0	3.7	2.7	2.5	4.0	3.4	4.5	3.1	2.8	1.0	2.5	3.5	2.7	17.5	3.4	3.3

Diagram sorted by 2021 growth rates. Source: European Commission, national statistics agencies, IMF, Scope Ratings forecasts.

At the same time, rapid deterioration of external balances due to high energy and agricultural prices and resilient domestic and import demand place downside pressure on regional currencies, even as central banks raise rates. Poland and Hungary's current-account deficits are seen widening to above 4% and around 5% of GDP respectively for 2022, from deficits of below 1% and around 3% of GDP in 2021. Still, forex reserves of most CEE-11 central banks are currently adequate to bridge a phase of intense capital outflows from emerging markets. In addition, ECB euro liquidity lines granted to Polish and Hungarian central banks – of up to EUR 10bn and EUR 4bn – support the zloty and forint as the two currencies devalue.

Average inflation has risen to above 10% in the CEE-11. We expect further rate hikes across central banks of the region, before central banks such as those of Poland, Hungary and the Czech Republic start reversals of rate increases by 2023 as elevated inflation cools. If supply-side bottlenecks are prolonged and further hikes of commodity prices elevate inflation expectations, central banks could face further tightening pressure. This will be difficult to execute absent damaging recovery and swelling interest costs.

We anticipate general government deficits this year of between circa 3% of GDP for Poland and **Croatia** (BBB+/Stable) to highs of 7.5% of GDP for **Romania** (BBB-/Stable), with a CEE-11 average budget deficit of 4.7% of GDP this year as compared with 4.4% last year. Fiscal support against price rises has widened deficits. Next year, deficits across the region ought to remain significant – 3.8% of GDP for the CEE-11 as a bloc. For many CEE governments, such as those of Poland and Hungary, public debt ratios have declined since 2021. Still, governments need to demonstrate renewed commitment to fiscal consolidation, especially for sovereigns with other stress factors such as weakening governance institutions, political instability or forthcoming elections, such as Poland, Hungary, Romania, Slovakia and **Bulgaria** (BBB+/Stable). Success in consolidation of government finances, resolving weakening institutions and easing political uncertainty will inform the trajectories of sovereign ratings. Croatia's euro-area accession by 1 January 2023 and Bulgaria's planned accession the following year advance ratings upside – Croatia was upgraded two notches on 15 July to BBB+.

We do not expect the war to have a permanent impact on the Baltic states (**Lithuania** (A/Positive), **Latvia** (A-/Positive), **Estonia** (AA-/Stable)). Baltic natural gas transmission systems have already been connected with Polish and EU systems, while connection of Baltics' and continental Europe's electricity grids is planned for completion by 2025.

Non-EU emerging Europe

In **Russia** (WD), severe international economic and financial sanctions have resulted in deep economic contraction this year, anticipated to be in excess of 10% – the steepest decline in output since 1994. We expect economic depression of 2022 to be trailed by stagnation next year (an L-shaped recovery). We do not envision a fast economic rebound because of our expectation that sanctions stay in place over a prolonged phase with assumption of no Russian regime change.

The recent recovery of the Russian rouble is unsustainable and partially artificial based upon capital controls of the central bank. For the moment, higher energy prices help offset the impact of an EU oil embargo on foreign-currency inflows and the rouble. From 2023 onward, an EU boycott of Russian oil implies substantive costs for the energy sector and real economy with material adverse implications for rouble. A complete replacement of the European market for Russia is out of the question any time soon given limited physical infrastructure reaching Asia.

Russia's foreign debt default in June after selective default for rouble debt in the second half of March holds limited near-term financial implications as high energy revenue helps the State finance itself. Russia's access to foreign markets is mostly closed anyhow. In the longer run, foreign default will restrict Russia's financing flexibility and is another blow to investor confidence, likely to further discourage foreign investment Russia badly requires. The foreign default complicates debt payment and borrowings of the private sector, whose external debt is around four times that of the State. After Russia's full-scale invasion of Ukraine, Scope cut Russia's credit ratings to C, prior to becoming the first EU rating agency to withdraw Russia's credit ratings after an EU ban of ratings services.

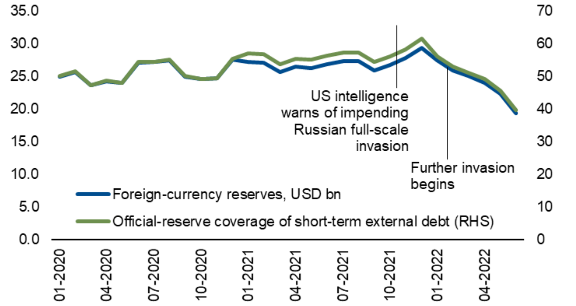
Russia's decoupling from the west and subsequent limitation of technological absorption result in lesser productivity growth, impeding growth of real income. Important non-extractive industries rely on imported components. The share of foreign value added exceeds 50% in such industries, with around half of such components coming from the EU, the US, the UK, Canada and Japan, much of which cannot easily be replaced with imports from China or domestic alternatives. We expect medium-run growth potential to moderate to 1%-1.5% a year, from 1.5%-2.0% before escalation of the war.

On 17 June, we confirmed the CCC credit ratings of **Ukraine** while assigning a Negative Outlook on the basis of severe recession, potential debt restructuring and a weakening of the external sector. Scope was the only credit rating agency to rate Ukraine on a Negative Outlook ahead of the 24 February invasion, and assess significant likelihood of such military action being taken by Russia.

Recently, Ukrainian officials have warmed to the idea of debt restructuring, seeking an initial decision around this before 1 September, when USD 1.4bn of Eurobond principal and interest payments are due. The IMF is advising on any decision as to whether to repay the September bond as currently planned. Ukraine might consider a consent solicitation for bondholder approval of changes to bond terms. In our view, debt restructuring is probable, whether ahead of September or thereafter, given significant costs of the war and the longer-run reconstruction. This presents a downside risk to ratings – especially in foreign currency.

We revise up our estimate of the severe economic losses of 2022 to -31% (from -37.5%) ahead of a 17.5% recovery in 2023. The general government debt ratio may reach 79.5% of GDP in 2022, from 48.9% in 2021, prior to edging higher to conclude a forecast horizon (to 2027) around 87%. Under this baseline, our assumptions are for a headline budget deficit of 19.7% of GDP this year, rising from a pre-crisis 4.0% deficit of 2019, followed by an average general government deficit of 14.5% over 2023-27. The costs of Ukraine's reconstruction are estimated as USD 750bn (291% of average 2023-27 GDP).

Figure 5. Ukraine reserves and reserve coverage



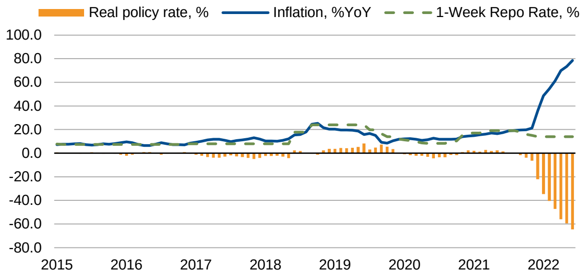
Source: National Bank of Ukraine, IMF, Scope Ratings.

The National Bank of Ukraine (NBU)'s foreign-currency reserves dropped to USD 19.4bn in June (**Figure 5**) – above dangerous levels at this stage but having declined rapidly from peaks of USD 29.4bn as of December 2021. The pace of declines has accelerated recently as the central bank attempts to defend the hryvnia while funding a USD 5-7bn monthly state financing gap. A significant NBU rate increase has reintroduced a positive real policy rate, but a further hike(s) might be necessary to defend the currency and ease financial-system risk.

We downgraded ratings of **Turkey** by one notch to B-/Negative (foreign currency) and B/Negative (local currency) on 11 March, on the basis of unsustainable economic policies and the risk of a deeper balance of payments and financial crisis.

Inflation had risen to fresh post-2002 highs of 78.6% in June (**Figure 6**), the highest since the 1990s. A consequential real policy rate of -64.6% represents the lowest by far of any emerging market but, since 2021, Turkish monetary authorities have become numb to inflation data due to political interference.

Figure 6. Turkish inflation rate and policy rate



Source: Turkish Statistical Institute, Turkish central bank, Scope Ratings.

The lira has fallen 53% in value since September 2021 highs. However, we consider a rate hike in 2022 as unlikely. Instead, unsustainable policy making has been adopted against forex sell-off pressures, intended to encourage resident sector investment and savings in domestic currency. However, such regulations are unlikely over the long run to prevent a severe currency crisis, and instead will encourage macro imbalances to accrue such as distortions of lira value and forex flexibility, strengthening the sovereign-bank nexus, exacerbating economy-wide shortages of foreign currency while undercutting fiscal strengths.

The possibility of a more severe economic crisis is likely to interact with institutional and political challenges ahead of scheduled 2023 presidential and parliamentary elections. We consider it unlikely that President Recep Tayyip Erdoğan relinquishes power easily after any elections. At the same time, there exist upside scenarios after the election of ultimate change of government and policy direction, after a phase of instability. As such, elections could either reinforce (our baseline) or, possibly, reverse the credit trajectory of Turkey.

Due to stronger-than-anticipated economic data and acceleration of lira lending to 56% YoY by June, we revise up our short-run growth expectation to 5.8% for 2022 (from 3.6% as of our April 2022 estimate), before slowdown to 3.5% in 2023. Turkey's external-sector vulnerabilities, including net FX reserves at a record low of below USD 60bn alongside weakening of the current account, raise vulnerabilities under a scenario of deeper economic and institutional crises.

The governments of **Georgia** (BB/Stable) and **Serbia** (first-time BB+/Stable ratings assigned last month) face challenging tasks in balancing their relations with Russia with economic and institutional convergence with the EU. While Ukraine and Moldova were granted candidature status for EU accession in June, Georgia was granted a "European perspective" – i.e., candidacy only upon meeting specified institutional and governance targets. Aside from Ukraine, we consider Georgia as the most geopolitically at-risk country of our rated sovereign universe to Russian aggression – challenging its credit outlook. We foresee Georgia growing 8% this year and Serbia 3%.

United States

The **United States** (AA/Stable) economy contracted by 0.4% in 2022 Q1, with a meaningful likelihood of technical recession should Q2 present a negative quarter as is possible. We expect growth to moderate to 1.7% for 2022 (cut from the 2.3% under our April forecast), after the 5.7% of 2021, before 2% growth for 2023. The risk of technical recession remains elevated in 2023 as the Federal Reserve tightens. The economic rebound has been accompanied by recovery in labour markets – we see the unemployment rate averaging 3.7% in 2022 before 3.6% in 2023 – under the Federal Reserve's estimate of long-run unemployment of 4%, fuelling further price rises.

Inflation has accelerated sharply since early 2021, with core personal consumption expenditure (PCE) price rises of 4.7% YoY in May, slightly off February 2022 highs of 5.3%. Headline PCE inflation was 6.3% in May, after 6.6% highs of March. However, consumer price inflation reached fresh highs of 9.1% in June. We expect inflation to peak and *gradually* begin to recede during 2022 although remaining above 2% symmetrical objectives through 2023. In response to inflationary pressure, the Federal Reserve has raised policy rates by a cumulative 150bp since March and concluded net asset purchases in early March. It began quantitative tightening in June, and we expect rate hikes to 3.25-3.5% by end-2022 and 3.75-4% as of end-2023.

We expect a further reduction of the general government deficit, reaching 3.9% of GDP in 2022, from 14.5% in 2020 and 10.2% in 2021, before averaging 4.3% of GDP over 2023-27. We expect the general government debt ratio to drop further this year despite economic slowdown, to 127% (from 134% peaks of 2020), before edging sideways to around 123% by 2027. Credit risks facing our below-consensus AA credit ratings for the US rise after mid-term elections in November this year. We expect the Democrats to lose control of Congress, raising political gridlock and potential governance challenges while increasing risk around misuse of the debt-ceiling instrument, which the US Treasury is projected to hit after mid-term elections.

China and Japan

We affirmed the A+ sovereign credit rating of **China** in June 2022 but revised the Outlook to Negative. This Outlook revision reflected significant structural public-sector deficits and the steepening of an upside public debt trajectory compared with our December forecasts. Budget stimulus in response to the pandemic crisis raised general government debt to 73% of GDP in 2021 and we expect debt to reach 96% of GDP by 2027. Under the IMF's broader debt definition, which includes debts of local government financing vehicles and other off-balance-sheet entities, the government's 'augmented debt' ratio stood at 96% of GDP as of 2020 and is seen reaching 129% by 2026, significantly above debt ratios of sovereign peers with similar wealth levels.

The Outlook revision also reflected the challenge and associated risks of achieving sustainable economic growth without exacerbating large financial imbalances – e.g., avoiding a 'hard landing'. At the end of 2021, debt levels of households and non-financial corporates stood at 221% of GDP, far higher than that of the United States (68%), euro area (112%) and other advanced economies (142%). Chinese authorities have introduced appropriate policies to address financial imbalances and curtail leverage across crucial economic sectors, such as real estate. Such structural reforms are contributing to the economic slowdown, however – with growth estimated at 3.6% this year after a weak Q2 GDP print – as well as a correction in the housing market. The weaker economic outlook puts pressure on China's public finances, while risking a slowdown in reform momentum.

In May, we revised the Outlook for **Japan**'s A rating from Stable to Negative. The economic recovery has been uneven and lagged that of other advanced economies with growth of 1.7% in 2021 and 1.8% expected for 2022. This has required additional budget stimulus. We see structural fiscal pressures due to an ageing population weighing on medium-run fiscal performance, with limited potential of meaningful budget consolidation. Effects of weak economic growth and wide fiscal deficits further push up Japan's very high public debt ratio to 264% of GDP by 2027.

Deterioration of public finances means the government is increasingly dependent upon the Bank of Japan's accommodative monetary policy. However, Japanese monetary policies are facing challenges under a context of tightening of global financial conditions with rising pressures on yen. This comes on top of longer-run financial stability concerns. A persistent environment of negative policy rates, increasingly forceful policy interventions and sustained yen devaluation could give rise to credibility concerns for the central bank and threaten to erode yen's reserve-currency status.

Annex I. Additional research

Western Europe

Germany's gas squeeze: partial temporary solution takes shape to cutting Russian gas dependence, 14 Jul

United Kingdom: turbulent domestic politics continues to cloud fiscal outlook, 11 Jul

France's legislative elections: government faces setback in addressing credit challenges, 22 Jun

Italy: bond-buying shift from ECB to private sector requires policy flexibility, political stability, 15 Jun

France's legislative elections: a far-left majority would exacerbate credit challenges, 13 Jun

Germany: special funds are reducing fiscal transparency; debt ratio still trending down, 9 Jun

Italy: key reforms and EU funds needed to meet ambitious productivity and growth goals, 31 May

Italy: lower growth, higher inflation than euro area peers, yet EU funds should avert stagflation, 6 May

Finland, Sweden: Covid-19 resilience creates buffers against conflict costs and geopolitical risks, 4 May

President Macron faces narrow path to reform given less favourable socio-economic conditions, 3 May

Macron's re-election reassures on policy continuity, but reform doubts hang over credit outlook, 25 Apr

France: welfare state faces fiscal squeeze if no change in policy under next president, 21 Apr

France: inflation-linked bond supports funding flexibility but with higher near-term debt costs, 20 Apr

Germany: further downside risks for the economy amid deepening sanctions against Russia, 14 Apr

Spain's surging inflation sets back economic, fiscal recovery; growth to slow in 2022, 1 Apr

Central and eastern Europe

Bulgaria: no-confidence vote increases early election risk, restricts capacity for reform, 22 Jun

Serbia: growth momentum, policy discipline cushion economic blows from war in Ukraine, 13 Jun

Southern and eastern European countries set to receive most EU funds in 2021-27, 7 Jun

Ukraine: war-torn economy to shrink 40% in 2022; daunting financing, reconstruction task ahead, 24 May

EU retains multibillion-euro spare funding capacity to further support member states, Ukraine, 9 May

Global and rest of the world

Cyprus: sound economic and fiscal outlook, improving banking sector sustain credit fundamentals, 30 Jun

Russian oil embargo: Europe faces manageable cost squeeze; Russia's long-term growth outlook worsens, 2 Jun

Egypt: current account pressures grow as rate hikes, inflation make IMF support more urgent, 20 May

Russia: tougher sanctions widen disconnect between rouble and economy, increasing retaliation risk, 10 May

Russian gas stoppages stress EU's political unity and economic outlook, accelerate Russian gas exit, 2 May

Russia-Ukraine crisis: CEE, Egypt, Turkey pay economic price for trade, energy, tourism ties, 26 Apr

Russia: record current account surplus disguises longer-term impact of sanctions, 21 Apr

Africa's electricity challenge: rising oil, gas prices to weigh on growth and fiscal outlooks, 13 Apr

Turkey: deterioration of credit profile, unsustainable governance raise likelihood of deeper crisis, 4 Apr

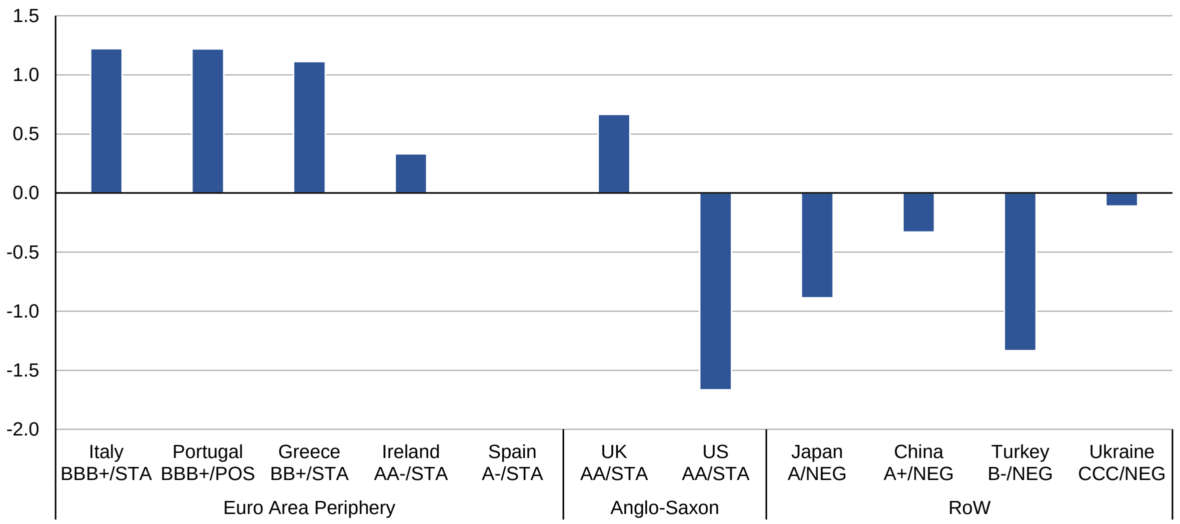
Annex II: Scope's sovereign ratings and recent rating actions

Figure 7. Scope's global long-term sovereign issuer ratings, as of 15 July 2022

Europe						Other Countries	
EU				EFTA			
Euro area		Non-euro area					
Austria	AAA/Stable	Bulgaria	BBB+/Stable	Norway	AAA/Stable	China	A+/Negative
Belgium	AA-/Stable	Croatia	BBB+/Stable	Switzerland	AAA/Stable	Georgia	BB/Stable
Cyprus	BBB-/Positive	Czech R.	AA/Negative			Japan	A/Negative
Estonia	AA-/Stable	Denmark	AAA/Stable			Russia	WD
Finland	AA+/Stable	Hungary	BBB+/Stable			Serbia	BB+/Stable
France	AA/Stable	Poland	A+/Negative			Turkey	B-/Negative
Germany	AAA/Stable	Romania	BBB-/Stable			Ukraine	CCC/Negative
Greece	BB+/Stable	Sweden	AAA/Stable			USA	AA/Stable
Ireland	AA-/Stable	UK	AA/Stable				
Italy	BBB+/Stable						
Latvia	A-/Positive						
Lithuania	A/Positive						
Luxembourg	AAA/Stable						
Malta	A+/Stable						
Netherlands	AAA/Stable						
Portugal	BBB+/Positive						
Slovakia	A+/Stable						
Slovenia	A/Stable						
Spain	A-/Stable						

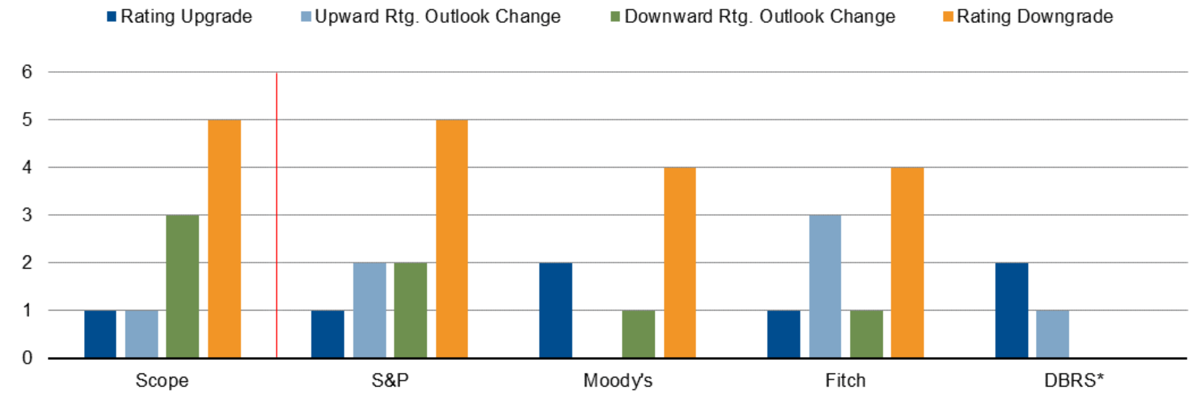
NB: only foreign-currency ratings are displayed.

Figure 8. Scope ratings vs US agencies', as of 15 July 2022 (rating notches)



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 9. Number of rating revisions since 24 February 2022 (since Russia's escalation of Ukraine war)



NB. Rating revisions since 24 February 2022 for the 38 countries that Scope has rated publicly since 24 February 2022 (including revisions for Russia until ratings of Russia were withdrawn on 17 March 2022 and including Serbia since Scope started rating Serbia on 3 June 2022). *Among countries that Scope has rated, DBRS has not rated Bulgaria, Croatia, Hungary, Romania, Russia, Serbia, Turkey and Ukraine (as such, the above is from a sample of 30 rated countries in the case of DBRS).

Figure 10. Scope's sovereign rating actions, 2022 YTD

Month 2022	Date	Sovereign	Rating action	Rating & Outlook*
Jan	14 January	Latvia	Outlook change	A-/Positive
	14 January	Poland	Outlook change	A+/Negative
	14 January	Cyprus	Affirmation	BBB-/Stable
	21 January	Czech Republic	Affirmation	AA/Stable
	28 January	Croatia	Outlook change	BBB-/Positive
	28 January	Ukraine	First-time rating assignment	B/Negative
Feb	18 February	Switzerland	Affirmation	AAA/Stable
Russia further incursion in the Ukraine began on 24 February 2022.				
Mar	1 March	Russia	Downgrade/ Under review	BB+/Review for dng
	1 March	Ukraine	Downgrade/ Under review	CCC/Developing
	4 March	Russia	Downgrade/ Under review	CCC/Review for dng
	10 March	Russia	Downgrade/ Under review	C/Developing
	11 March	Turkey	Downgrade	B-/Negative
	17 March	Russia	Ratings withdrawn	Ratings withdrawn
	18 March	Luxembourg	Affirmation	Affirmation
Apr	22 April	Ireland	Affirmation	AA-/Stable
May	6 May	Japan	Outlook change	A/Negative
	13 May	Portugal	Outlook change	BBB+/Positive
	27 May	Spain	Affirmation	A-/Stable
Jun	3 June	China	Outlook change	A+/Negative
	3 June	Serbia	First-time rating assignment	BB+/Stable
	3 June	United Kingdom	Affirmation	AA/Stable
	17 June	Ukraine	Confirmation/ Outlook assign	CCC/Negative
	24 June	Cyprus	Outlook change	BBB-/Positive
Jul	8 July	Czech Republic	Outlook change	AA/Negative
	15 July	Croatia	Rating upgrade/ Outlook chg	BBB+/Stable

Annex III: Scope Rating Publication Calendar (Rest of 2022)

Month	Date	Entity
July	22-07-22	European Financial Stability Facility
	22-07-22	European Stability Mechanism
	22-07-22	French Republic
	29-07-22	European Investment Bank
	29-07-22	Italian Republic
August	05-08-22	Grand Duchy of Luxembourg
	05-08-22	Swiss Confederation
	12-08-22	City of Milan
	12-08-22	Republic of Austria
	12-08-22	Republic of Georgia
	19-08-22	Region of Lombardy
	19-08-22	Republic of Slovenia
	26-08-22	Republic of Bulgaria
	26-08-22	Republic of Turkey
September	02-09-22	Hungary
	09-09-22	Black Sea Trade And Development Bank
	09-09-22	European Atomic Energy Community
	09-09-22	European Union
	23-09-22	Free State of Bavaria
	23-09-22	Republic of Malta
	23-09-22	Romania
	23-09-22	Swiss cantons
October	07-10-22	Ireland
	07-10-22	Kingdom of Sweden
	07-10-22	Russian Federation
	14-10-22	European Bank For Reconstruction And Development
	14-10-22	Kingdom of Belgium
	14-10-22	Republic of Finland
	21-10-22	Kingdom of Denmark
	21-10-22	Kingdom of Norway
	28-10-22	Japan
	28-10-22	Portuguese Republic
	28-10-22	Slovak Republic
November	11-11-22	Federal Republic of Germany
	11-11-22	Kingdom of Spain
	11-11-22	United States of America
	18-11-22	Republic of Lithuania
	25-11-22	Kingdom of the Netherlands
	25-11-22	People's Republic of China
	25-11-22	Republic of Estonia
	25-11-22	Spanish autonomous communities
	25-11-22	United Kingdom
	25-11-22	Council of Europe Development Bank
December	02-12-22	Czech Republic
	02-12-22	French Republic
	02-12-22	Hellenic Republic
	02-12-22	Republic of Latvia
	09-12-22	German states
	09-12-22	Land of Baden-Wuerttemberg
	09-12-22	Land of Berlin
	09-12-22	Republic of Croatia
	09-12-22	Republic of Cyprus
	09-12-22	Republic of Poland

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