Europe COVID-19 tracker

Vaccine vacillations

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Economics - Europe

- New cases have fallen in the UK and Ireland …
- … but risen in Spain and Portugal
- As vaccination programmes ramp up, reported supply delays for some vaccines have prompted concerns and criticism

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Caseload concern shifts from the British Isles to the Iberian Peninsula
After a severe third wave, new cases have fallen in both the UK and Ireland, suggesting the national lockdowns may be working (Chart 2). However, the overall level of new infections in Europe's major economies has been broadly stable this week (Chart 1), due to sharply rising cases in Spain and Portugal (Chart 5). ICU occupancy is still rising in the UK and creeping up in France, though it has fallen in Germany and Italy (Chart 6). Germany's lockdown has been extended until at least 14 February and the extended curfew in France now applies nationwide (Table 17).

The UK still tops Europe's vaccination league table, with 4.6m people (nearly 7% of the population) now having had a first dose. Encouragingly, after a few days of falling vaccination numbers, the UK rate picked up again yesterday (Chart 10). The approach to vaccination differs across countries, for example with Italy prioritising key workers (60% of its 1.2m vaccinations so far have been to health workers). This means Italy is immunising a higher number of younger people than other countries (Chart 12).

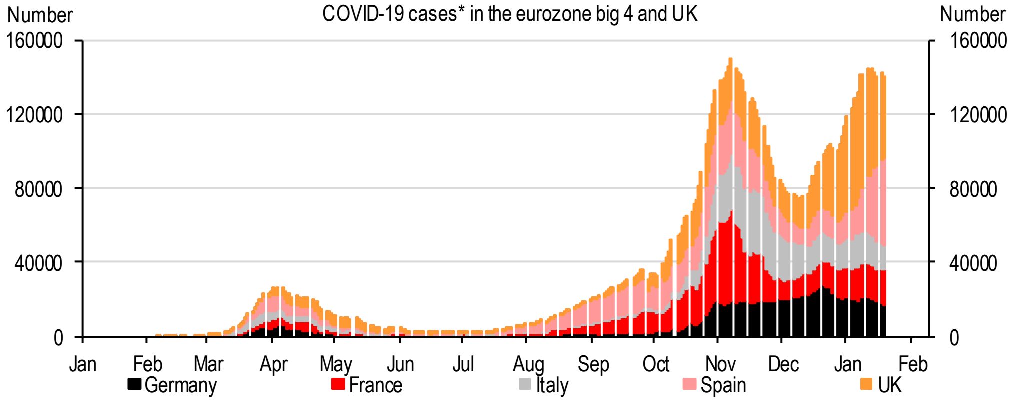
Vaccine supply delays prompt concerns and criticism
Plans by Pfizer to delay some vaccine supplies have prompted fierce criticism from some European politicians – particularly in Nordic and Baltic states, where countries have been warned that they will receive fewer doses than originally expected over the coming weeks. Although the delay reflects manufacturing changes that should boost output over the longer term, the reductions could set Europe's inoculation programs back. According to the FT, the reductions may also reflect a ruling from the European Medicines Agency that more doses could be extracted from each vial, despite this requiring special equipment that is not always available (source: FT, 20 January). Italy, which may receive 29% fewer vials than expected next week, was reported to be considering legal action (source: Reuters, 20 January). Any delays in receiving the second dose of the Pfizer vaccine is particularly unwelcome in light of Israeli data suggesting that a single dose might provide less protection than initially hoped (Source: Guardian, 20 January). And despite having one of the fastest vaccine roll-outs, hospitalisations in Israel picked up again over recent days (Chart 13).

Weak demand should keep inflation low, but input costs are rising
The pandemic is keeping core inflation low in the eurozone, which remained at a record low in December (0.2% y-o-y, Chart 14). However, inflation should start to rise fairly sharply due to higher oil prices (Chart 15) and some one-off factors. And there are some signs of rising price pressures evident in the PMIs (Chart 16). It's a similar story in the UK, which also faces potential near-term price pressures as a result of supply disruption related to Brexit.

This is a redacted version of the report published on 20-Jan-21. Please contact your HSBC representative or email AskResearch@hsbc.com for information.

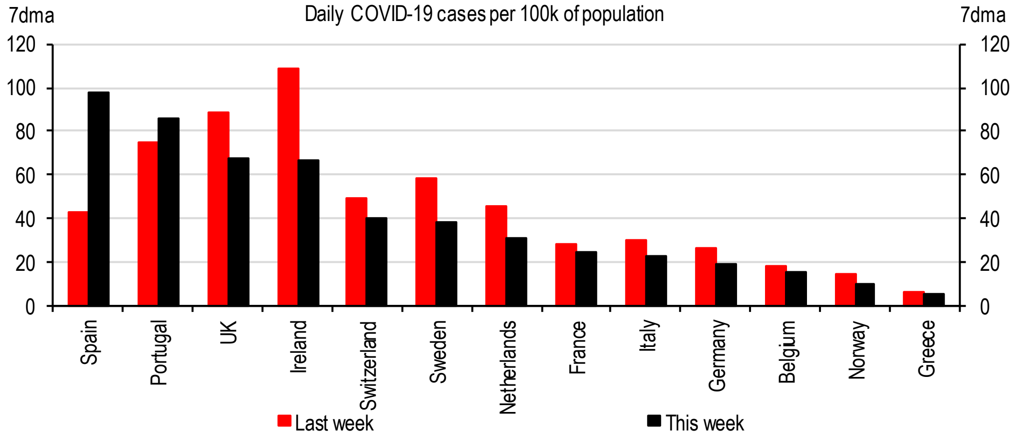
Case numbers high and rising

1. Combined new infections in the Big 4 + UK have levelled off



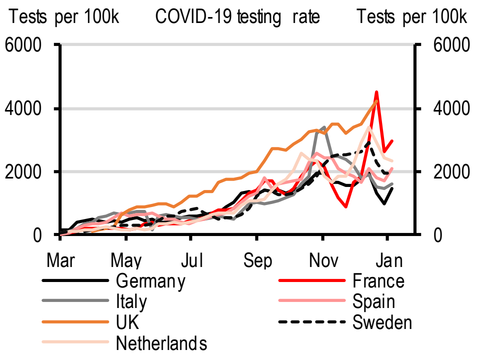
Source: ECDC, Our World in Data, HSBC. Notes: *7-day moving average. **UK cases include a jump of almost 23,000 on Sunday, 4 October 2020, as a backlog of over 15,000 missing cases were added after an error in the tracking system came to light (Reuters, 4 October).

2. With the UK and Ireland improving, Spain is now a cause for concern



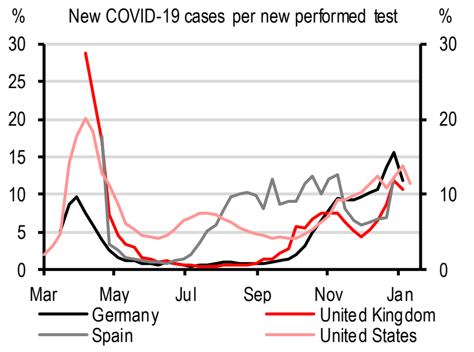
Source: Our World in Data, HSBC. Note: Week ended12th December.

3. Testing is picking up again in the Big 4 eurozone economies



Source: Macrobond, HSBC

4. Positivity rates have started to fall

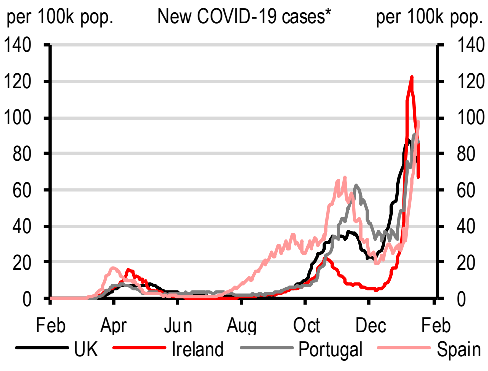


Source: Macrobond, HSBC.

We acknowledge the assistance of Emily Wagenmann, HSBC Bank plc, in the preparation of this report.

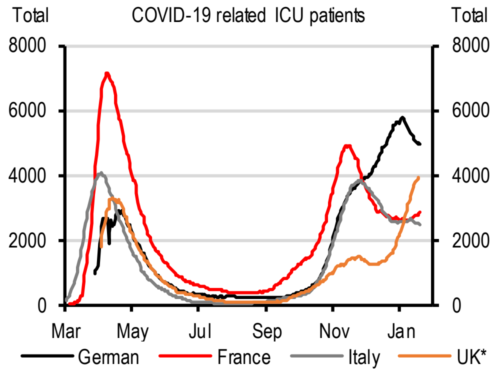
Rising infections = more restrictions

5. Lockdowns appear to be working in the UK and Ireland



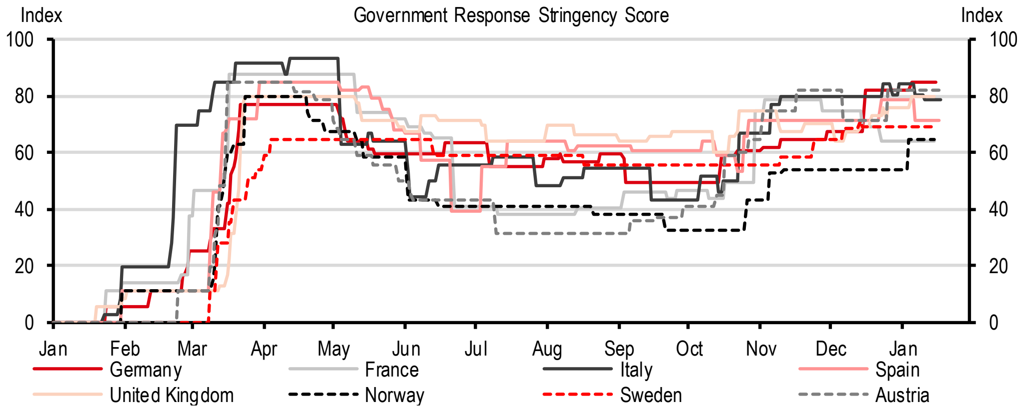
Source: Refinitiv Datastream, HSBC

6. ICU hospitalisations still rising in the UK and creeping up in France



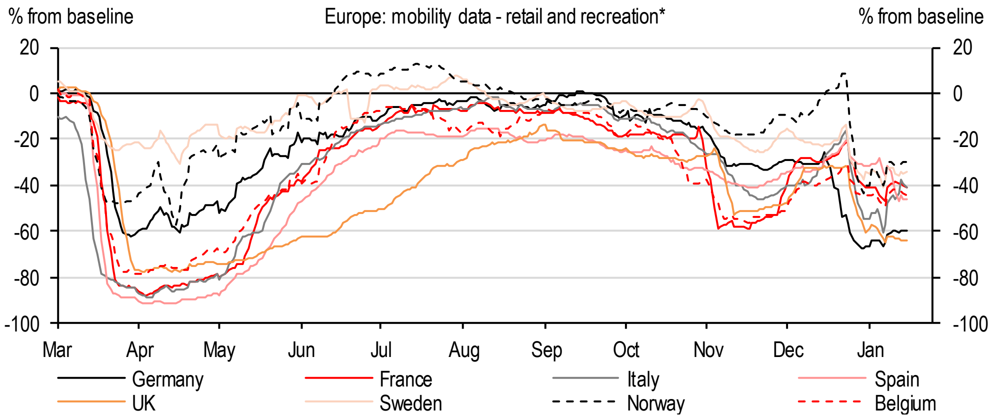
Source: Macrobond, HSBC. *Medically ventilated

7. Restrictions still relatively tight …



Source: Oxford COVID-19 Government response Tracker, HSBC. Note: Data as at 18 January 2021.

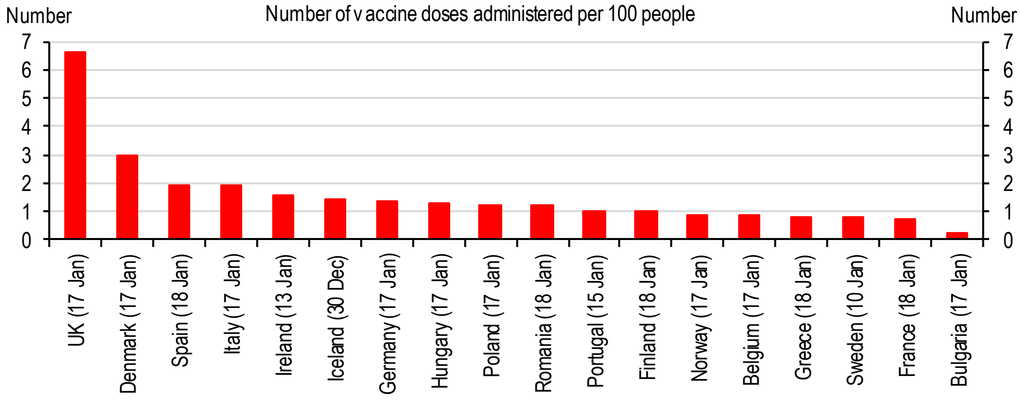
8. …which is depressing economic activity



Source: Google, HSBC. Note: *7-day moving average

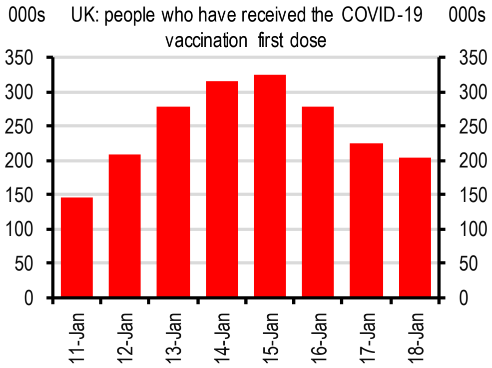
Vaccinations still have a long way to go

9. The UK tops Europe's vaccination league table



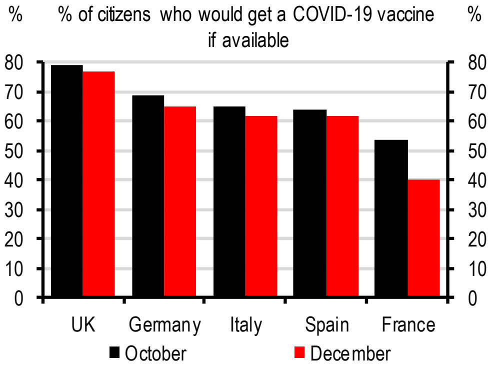
Source: Our World in Data, HSBC.

10. After a few days of falling, the UK's vaccination rate remains high …



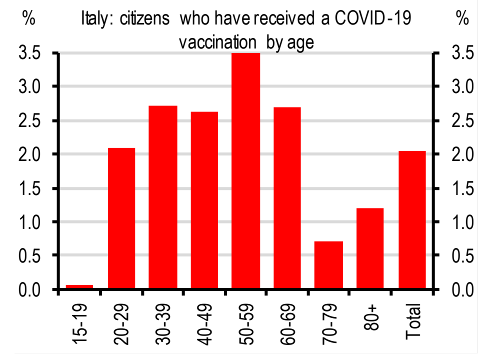
Source: UK.Gov, HSBC

11. …and the population is still willing



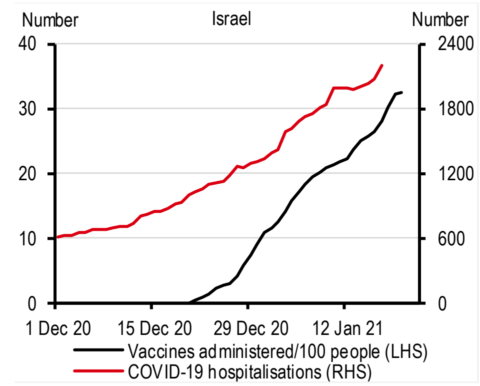
Source: Ipsos, HSBC

12. Italy is vaccinating key workers first



Source: Health Ministry, HSBC

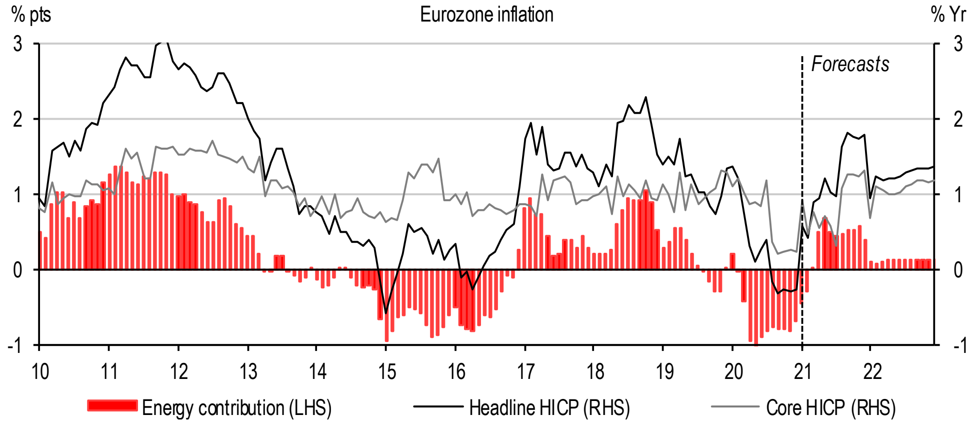
13. Despite high vaccination rates, Israeli hospitalisations accelerated this week



Source: Refinitiv Datastream, HSBC

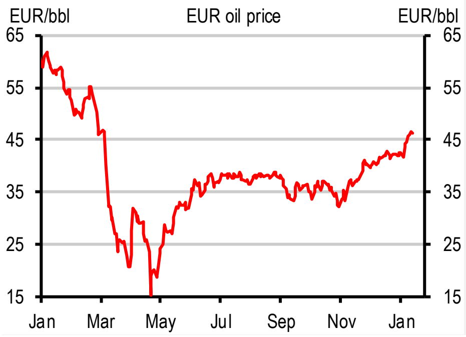
Inflation could be about to rise relatively sharply

14. The pandemic is weighing on inflation, but other factors mean it is about to rise



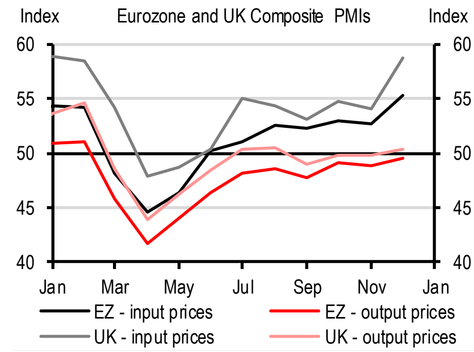
Source: Refinitiv Datastream, HSBC

15. A higher oil price is one factor that might drive eurozone inflation higher



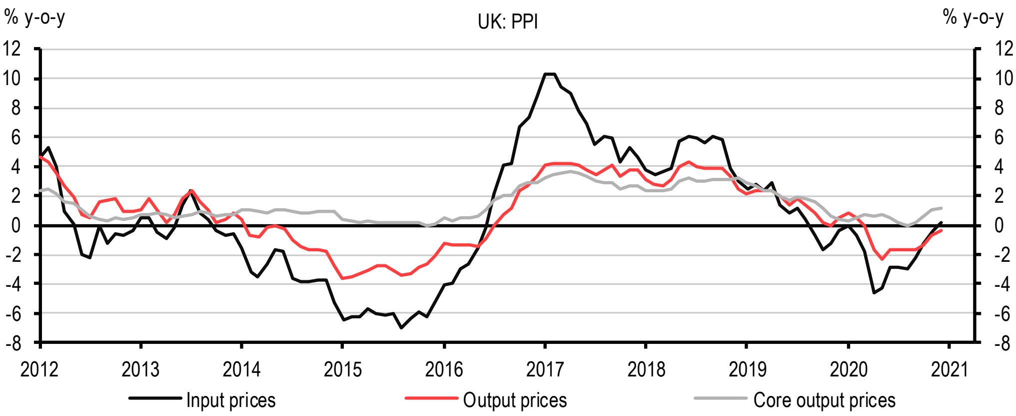
Source: Refinitiv Datastream, HSBC

16. … but input prices more generally may be picking up



Source: Refinitiv Datastream, HSBC

17. The UK perhaps faces near-term inflationary bottlenecks arising from Brexit



Source: Refinitiv Datastream, HSBC

18. Restriction measures across the eurozone Big 4 and the UK

Country	Latest on the lockdown measures
Germany	The German government and head of federal states agreed on 19 January to extend further the nationwide lockdown of non-essential retail shops and services (exceptions still apply to, e.g., grocery stores, pharmacies, banks, opticians, petrol station auto repair shops, post offices, or dry cleaners) for at least two additional weeks until 14 February. Delivery and pickup of take-away meals for home consumption by restaurants will remain possible to mitigate the lockdown impact on this sector, but on-site consumption remains prohibited, as will be the consumption of alcoholic beverages in public areas. Factory canteens are not allowed to seat customers and can be opened for take-away only. Schools also remain mostly closed in all federal states until 14 February, but apart from emergency care offers, there are now exemptions possible on the federal level to reopen schools earlier under certain circumstances. A similar approach applies to day-care centres. Also, when using public transport or visiting shops, people now have to wear medical masks instead of simple textile masks, to increase protection for the mask user. An even stricter rule applies for employees and visitors of nursing homes, who have to wear FFP-2 masks for at least as long as there is not a sufficient protection through vaccination. Restrictions on personal mobility have been slightly modified, but remain basically unchanged from the tightened restrictions since 11 January. Hence, personal meetings are limited to one person from a different household at both public and private places. This also includes children below the age of 14 years. In particularly extreme infection situations with an incidence of more than 200 per 100,000 inhabitants in a week, Federal states should restrict the movement radius to 15km around the place of residence, unless there is a valid reason for travelling. There won´t be a nationwide curfew for the time being. After a lengthy debate, there was only an agreement on a paragraph stating that additional measures can be imposed in regions with high infection rates. In addition to previous decisions, the government will enact a formal decree that forces businesses to provide work from home opportunities for all staff that are not indispensable until at least 15 March. Finally, people travelling to Germany from designated risk areas abroad still need to provide a negative test result and then quarantine for at least five days. To end the quarantine after five days a second negative test result is required.
France	On 24 November, President Emmanuel Macron outlined the key features of a gradual, three-step softening of the lockdown measures put in place on 30 October. First, since 28 November, non-essential shops have been allowed to reopen under stricter health measures. Second, the nationwide lockdown was officially lifted on 15 December and replaced by an 8pm-6am nationwide curfew (with limited exemptions including work or medical emergencies). Outside of the curfew period, free movement, including across regions and abroad, is now allowed. That said, given that the number of daily new cases still exceeded the 5,000 threshold set by President Macron, the curfew has been a bit more severe than initially planned (with a start time at 8pm instead of 9pm). The curfew was temporarily suspended on the night of 24 December to allow limited gatherings for Christmas. However, the number of daily new cases has gradually risen since the start of 2021, leading the government to postpone the next steps of the easing process and even to tighten restriction measures again. A stricter curfew (starting on 6pm instead of 8pm nationwide) has initially been decided in the most affected regions in the east and the south-east. On 14 January, the government announced that this stricter curfew will be extended to the whole country for at least two weeks. The next steps of the easing process remain quite uncertain. The reopening of cinemas, theatres and museums planned initially on 7 January will not occur before early February at the earliest. The reopening of restaurants planned on 20 January has also been postponed and will not occur before mid-February at the earliest. Moreover, the objective of allowing all high school pupils to return to school on 20 January has been delayed as well. In-person classes in universities are still not authorised until at least early February. Conversely, kindergartens, primary and secondary schools are currently fully open, but with strict health protocols (including mandatory mask wearing for pupils older than 6). Finally, remote working remains mandatory where it is applicable but rules have been loosened slightly from 7 January, allowing for employees currently working from home to go back into office one day a week if they want.
Italy	Since 26 October, all cinemas, theatres, gyms, swimming pools and ski resorts have been closed (the latter until at least 15 February). Outdoor gatherings are prohibited. Masks have to be worn both indoor and outdoor. Restaurants and bars have to shut from 6pm (they can stay open later only for home delivery service, but no longer for take-away from 16 January, see Corriere della Sera, 12 January). A maximum of four people can sit at a table (six if from the same household). Consuming food and drinks in public places after 6pm is banned. Shopping malls (other than those selling food) must be shut on Saturdays and Sundays. Group outdoor amateur sporting activities are suspended (but not organised ones for children). Attendance at sporting events is prohibited. Capacity in public transport limited to 50%. Primary and middle schools stay open while distance learning will be applied in high schools (for 25-50% of the total schooling time). Following the Christmas period, schools are yet to re-open in about two-thirds of the country (and in the remaining one-third they re-opened with 50% presence). From 6 November, a nationwide curfew was also introduced, from 10pm to 6am, when people are not allowed to leave their homes other than for work or health-related reasons. Since November, Italian regions have been split into three categories, 'red', 'amber' and 'yellow', depending on several criteria related to COVID-19. From 15 January also a 'white' category was introduced, but so far with no region in it. In the 'red' and 'orange' regions, restaurants are shut all day and mobility is restricted to essential reasons (work, health). Home visits should be limited to two adults. In the 'red' regions, non-essential retail shops also remain closed and schools from 11 years of age are shut. During the Christmas period (23 December - 10 January), all the territory was labelled as either 'red' or 'orange', depending on the day. From 11 January, Italy has reverted back to the regional differentiation. The classification is updated on a weekly basis. As of 20 January, 3 of the 20 Italian regions are 'red' (Lombardia, Sicilia, and the autonomous province of Bolzano) accounting for about a quarter of the population. Six regions are 'yellow' and all the others 'orange'.
Spain	From 25 October, Spain reintroduced the 'state of alert' and a nationwide curfew from 11pm to 6am, leaving some flexibility to the regions to adjust the start and end times by one hour each side (for example, the Madrid region has delayed the starting time to midnight, Catalonia has brought it forward to 10pm). So far, there has been no nationwide lockdown, but the Health Ministry has identified four levels of alert for the regions based on a series of indicators related to COVID-19 infection rates. Of the 19 regions, 7 (including Catalonia and the region of the capital city Madrid) have an 'extreme' risk level and another 7 are 'high', while only 1 (Ceuta) has a 'low' risk. Following the rapid increase in the number of COVID-19 cases in the third wave and renewed pressures on the hospital system (ICU occupancy rate of COVID-19 patient increased back above 30% across the country and are around 50% in some regions, including Catalonia) many regions have recently announced a further tightening of restrictions and the central government is considering the possibility to bring forward the start of the curfew to 8pm at the national level (20minutos, 20 January). Most regions are currently applying strict confinement measures (no movement across regions and in some cases even within regions other than for health, work, legal, and education reasons) and restrictions of some sort to mobility, gatherings, etc. In some districts and municipalities non-essential activities, particularly in the restaurants and accommodation sector, have been shut.

UK

On 4 January, PM Boris Johnson announced a national lockdown for England, including the closure of all schools until mid-February. This follows on from a period where increasing swathes of the country were places under Tier 4 measures. These restrictions, which were introduced on 20 December, put certain regions into effective lockdown with all non-essential shops, bars and restaurants closed and people being asked not to leave their homes without a good reason. On 20 December, London and part of the South East were placed into Tier 4. Tier 4 regions were expanded to cover 43% of England's population on 26 December, then rising to 78% on 31 December. Beyond the closure of schools, the differences between Tier 4 and the full lockdown are relatively small, with the full lockdown including some additional measures such as the closure of outdoor gyms and the banning of bars selling takeaway alcohol. It is worth noting, though, that for those regions of the UK which were not in Tier 4 during Christmas, indoor gatherings of up to three households were permitted.

Scotland also announced a nationwide lockdown on 4 January, while Wales and Northern Ireland have implemented lockdowns since 20 December and 26 December respectively. In all nations, schools have remained closed following the scheduled return from the Christmas holidays. The tougher restrictions followed the spread of a new strain of COVID-19, which is up to 70% more infectious than the existing strains, according to early modelling.

The UK suspended all travel corridors on 18 January, meaning that if you arrive in the country from anywhere outside the UK, Ireland, the Channel Islands, or the Isle of Man you will need to self-isolate for 10 days. As of 15 December, the option is also available to take a private test, which, if negative, reduces the isolation period to five days. However, given the new South African variant of the virus, it was announced on 7 January that entry into England would be banned to those who have travelled from or through any southern African country in the last 10 days (apart from UK or Irish nationals, who would be required to self-isolate for ten days). On 8 January, the government confirmed that travellers entering the UK would be required to test negative for COVID-19 72 hours before leaving the country they are in (BBC, 8 January)

Source: HSBC.

A substantial vaccine rollout lies ahead

19. Europe should receive a decent amount of all different types of the first vaccine shots

EC

Organisation	Dose	Type of vaccine	Reported effectiveness*
AstraZeneca/Oxford University	Up to 400m	Adenovirus	90%
BioNTech/Pfizer	Up to 600m	mRNA	95%
CureVac	Up to 405m	mRNA	TBD
GSK/Sanofi	300m	Protein adjuvant	TBD
Janssen/JNJ	Up to 400m	Adenovirus	TBD
Moderna	Up to 160m	MRNA	95%

Germany

Organisation	Dose	Type of vaccine	Reported effectiveness*
BioNTech/Pfizer	30m + 64m from EC = 94m	mRNA	95%
CureVac	TBD	mRNA	-
IDT Biologika	5m	-	TBD
Moderna	20m + 30m from EC = 50m	MRNA	95%
From EU	Up to 100m	-	-

France

Organisation	Dose	Type of vaccine	Reported effectiveness*
AstraZeneca/Oxford University	44m (including 28m by June), from EC	Adenovirus	90%
BioNTech/Pfizer	49m (including 26 m by June), from EC	mRNA	95%
Moderna	24m (including 7m by June), from EC	MRNA	95%
CureVac	45m from EC	mRNA	TBD
GSK/Sanofi	24m from EC	Protein adjuvant	TBD
Janssen/JNJ	35m from EC	Adenovirus	TBD

Italy

Organisation	Dose	Type of vaccine	Reported effectiveness*
AstraZeneca/Oxford University	16m from EC	Adenovirus	90%
BioNTech/Pfizer	40.5m from EC	mRNA	95%
Various providers	70m	-	-

Spain

Organisation	Dose	Type of vaccine	Reported effectiveness*
AstraZeneca/Oxford University	31.5m from EC	Adenovirus	90%
BioNTech/Pfizer	20m from EC	mRNA	95%
Janssen/JNJ	20m	Adenovirus	TBD

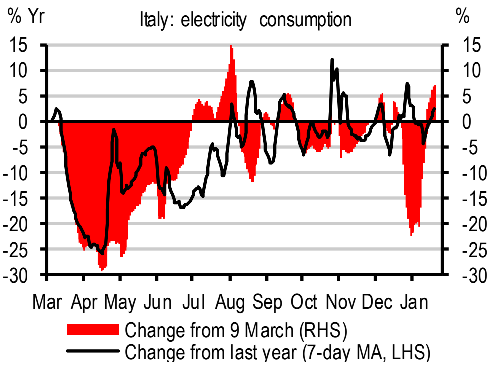
UK

Organisation	Dose	Type of vaccine	Reported effectiveness*
AstraZeneca/Oxford University	100m	Adenovirus	90%
BioNTech/Pfizer	40m	mRNA	95%
GSK/Sanofi	60m	Protein adjuvant	TBD
Janssen/JNJ	30m	Adenovirus	TBD
Moderna	17m	MRNA	95%
Novavax	60m	Protein adjuvant	TBD
Valneva	60m	Inactivated whole virus	TBD

Source: AstraZeneca, BioNTech, CureVac, GSK, Jassen, Moderna, Novavax, IDT Biologika, Valneva, HSBC. *maximum reported **15% of EU vaccine, but this was reported in November. Since, the EU has secured additional doses.

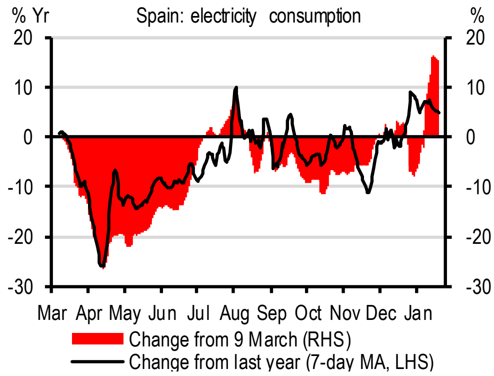
Real-time activity data

20. Annual electricity demand is up slightly in Italy…



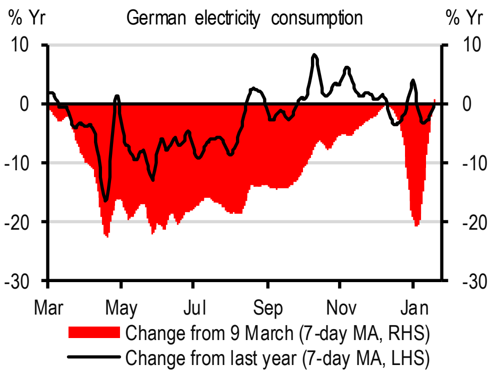
Source: HSBC calculations based on Terna (electricity network provider).

21. …and Spain…



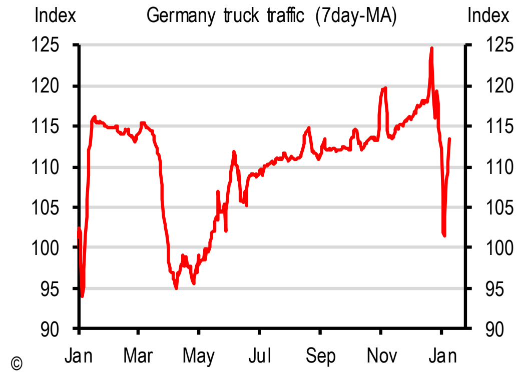
Source: HSBC calculations based on REF (electricity network provider).

22. … but flat in Germany



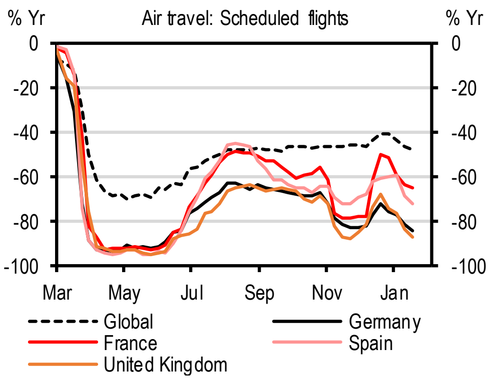
Source: Macrobond, HSBC.

23. Truck traffic is down significantly, but that partly reflects a typical seasonal pattern



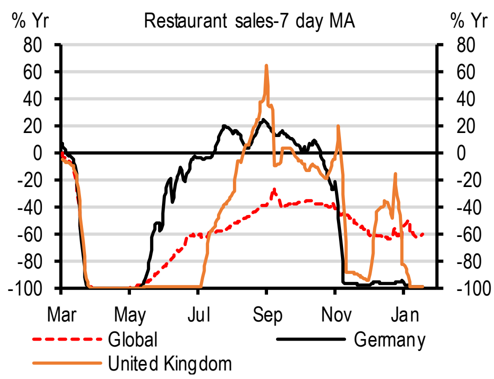
Source: Macrobond, HSBC.

24. The tougher restrictions are already visible in a further drop in air travel



Source: OAG flights scheduler, HSBC.

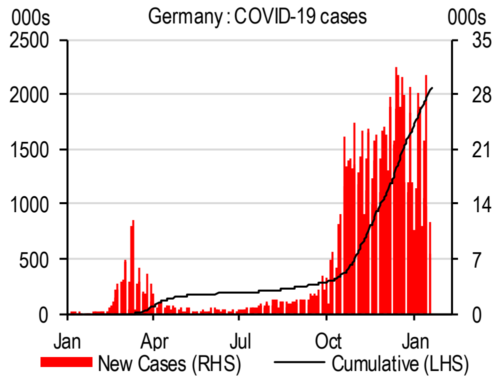
25. Unsurprisingly, the outlook for restaurant bookings remains exceptionally grim



Source: OpenTable, HSBC.

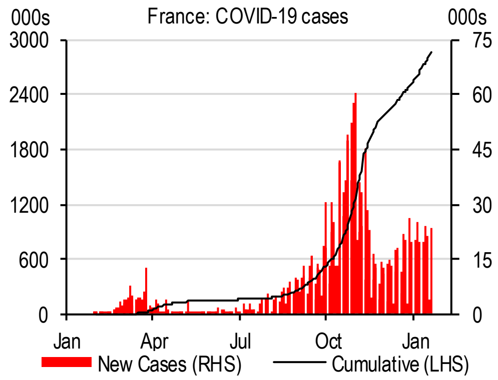
COVID-19 in Western Europe

26. German cases have been volatile



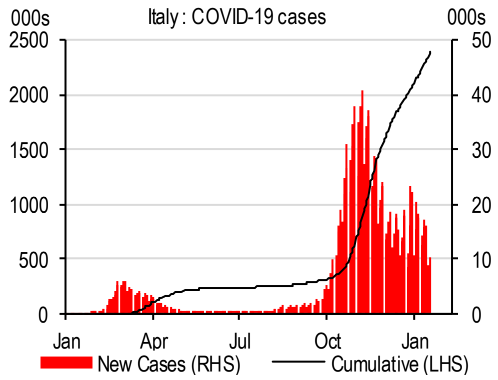
Source: ECDC, Our World in Data, HSBC.

27. Cases are creeping up in France



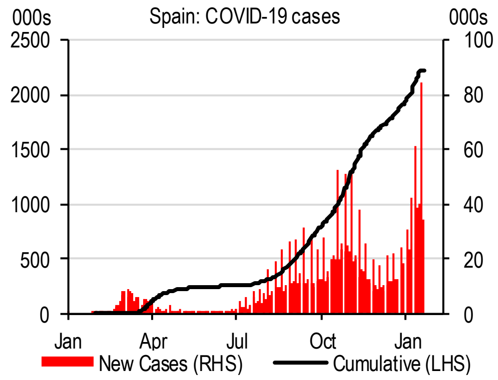
Source: ECDC, Our World in Data, HSBC.

28. In Italy the situation looks more stable…



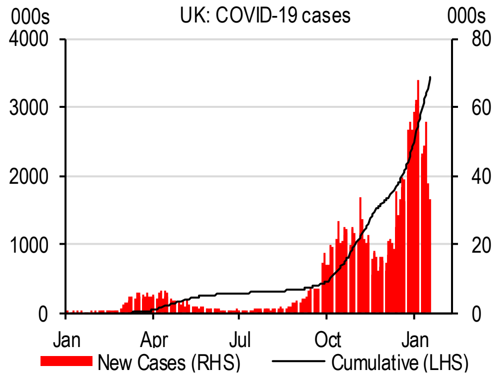
Source: ECDC, Our World in Data, HSBC.

29. ...while in Spain it has become much worse



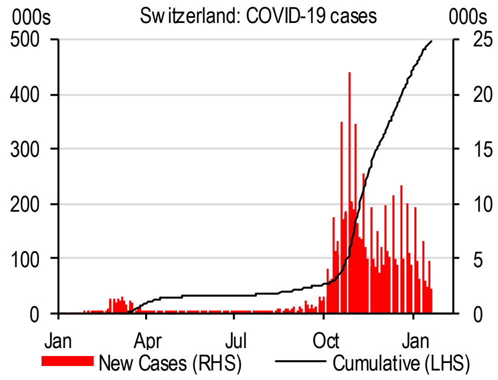
Source: ECDC, Our World in Data, HSBC..

30. Cases have fallen in the UK…



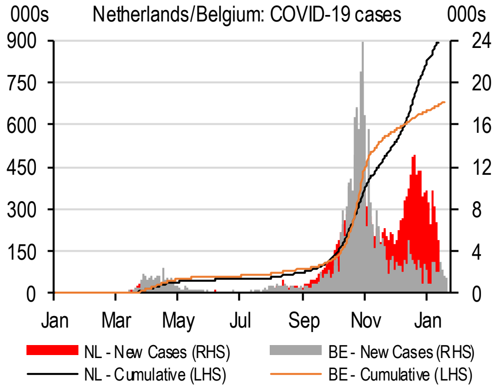
Source: ECDC, Our World in Data, HSBC.
Note: *Jump on 4 October driven by incorporation of missing cases – see footnote on Chart 1. Even accounting for the volatility, cases are rising quickly.

31. … and Switzerland



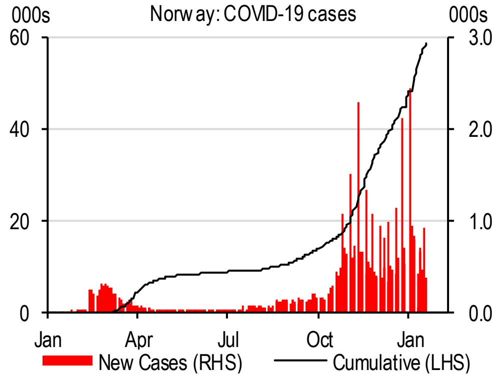
Source: ECDC, Our World in Data, HSBC.

32. The Low Countries are doing comparably well at the moment…



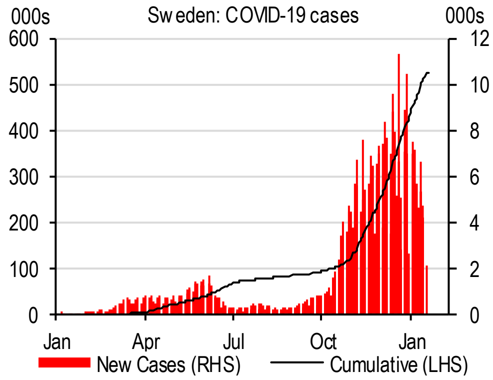
Source: ECDC, Our World in Data, HSBC.

33. …and in Norway case numbers have fallen back a bit



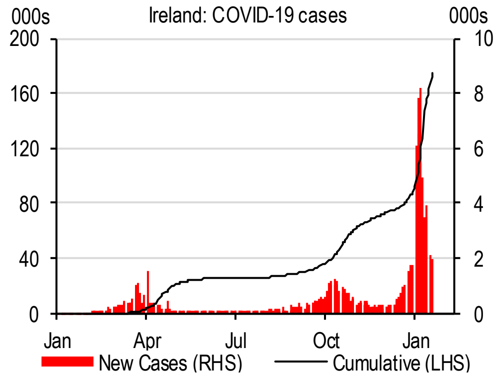
Source: ECDC, Our World in Data, HSBC.

34. Sweden has seen cases come down too…



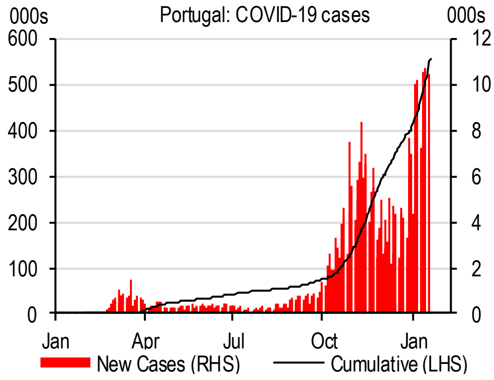
Source: ECDC, Our World in Data, HSBC.
Note: There were zero cases recorded on 19-21 December but 22,319 recorded on 22 December so this number probably covers cases over these days.

35. …and there has been a sharp drop in Ireland



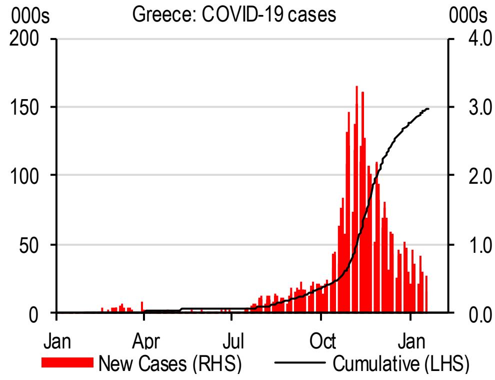
Source: ECDC, Our World in Data, HSBC.

36. Portugal has seen an alarmingly strong increase in case numbers recently…



Source: ECDC, Our World in Data, HSBC.

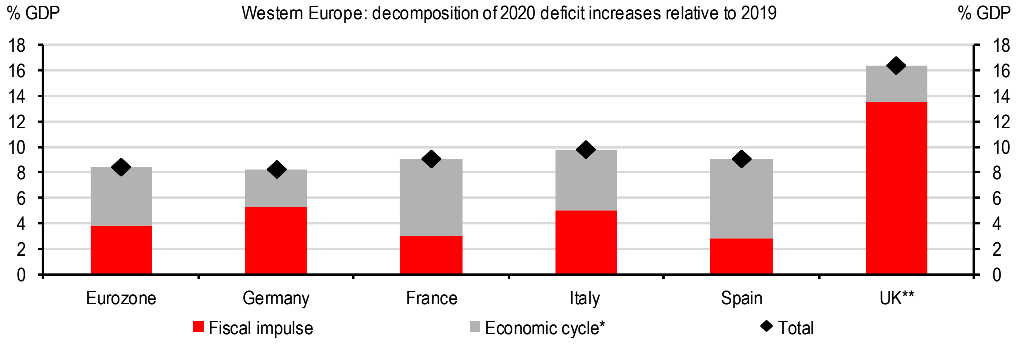
37. ...while in Greece the situation improved



Source: ECDC, Our World in Data, HSBC.

Fiscal measures (in the Big 4 eurozone countries and the UK)

38. Germany is leading the way in the eurozone in terms of fiscal stimulus measures this year, but the UK is dwarfing eurozone countries



Source: HSBC calculations, European Commission.
Notes: *This includes the 'normal' short-time work compensation schemes (i.e. excluding exceptions and more generous terms introduced due to the COVID-19 crisis). **For the UK, it refers to the financial year 2020/21 relative to 2019/20 and the job support scheme is included in the fiscal impulse.

39. Germany: Fiscal headroom allows generous direct support and guarantee schemes

Measure	Detail
Direct measures	Overall, the German federal government has scrapped both the balanced budget goal as well as the national debt brake until at least the end of 2021 and invoked debt financed fiscal support of roughly EUR300bn on the federal level alone in 2020 and 2021 to support the economic recovery from the COVID-19 crisis via two supplementary budget proposals for 2020 alone including: ◆ Direct payments to self-employed people, small- and medium-size enterprises (SMEs) and larger businesses to cope with the hit by the COVID-19 disease and the lockdown-related revenue shortfalls (EUR25.0bn); ◆ Bailouts for public institutions, municipalities and social security systems (EUR13.0bn); ◆ Temporary tax redemptions and tax credits (EUR13.3bn); ◆ Child benefit bonus of EUR300 per child (EUR4.3bn); ◆ Social security contribution limit at 40% for 2020 (EUR5.3bn); ◆ Temporary VAT cut until end-2020 (EUR20.0bn); ◆ Additional healthcare investment (EUR5.75bn); and, ◆ Enhancing the existing short-time work scheme by increasing the maximum duration from 12 to up to 24 months, increasing the wage compensation for longer-term short-time workers up to 87% of the net wage, and refunding employers' social security payments for employees in short-time work. Moreover, the government proposed a number of longer term expenditures that are not directly linked to tackling the COVID-19 disease but to ease the path towards a sustainable economic recovery; eg: ◆ Increased state subsidy for EEG (EUR11.0bn); ◆ Funding for long-run investment projects, eg, "green energy" (EUR36.0bn); and, ◆ Frontloading of planned public investment and expenses (EUR10.0bn). As an additional tool, a debt financed state fund worth EUR200bn as part of the so-called "Wirtschaftsstabilisierungsfonds" (WSF) was established that could either be used for KfW refinancing measures (EUR100bn) as well as for direct investment via acquiring shares in businesses (EUR100bn) to bolster their liquidity and ensure their solvency during the pandemic. As of 12 January, EUR7.9bn for recapitalisation measures were drawn. In light of the recent lockdown extension, the Finance Ministry announced further modifications to the additional support measures for businesses on 19 January. In particular, the eligibility for the Überbrückungshilfe III (interim aid) was extended and the conditions became much more generous (compared to first two programmes) starting from January, as they will replace the immediate support measures (November/December-Aid) aimed at businesses that are forced to close down completely and which were designed to provide across-the-board payments. In the latter more generous scheme, businesses are compensated for up to 75% of their respective November and December 2019 revenues. As of 19 January EUR2.77bn of EUR7.5bn approved payments have been drawn from the November/December-Aid program. For the less generous Überbrückungshilfe I and II – this scheme only pays for fixed cost compensations of up to EUR200k per month – so far EUR2.86bn from an approved EUR3.14bn have been drawn.
Guarantees	Direct fiscal measures were flanked by very generous guarantee schemes designed to provide liquidity support for German businesses of all sizes from SMEs to big corporations. In this respect, the available sum of loan guarantees for programmes offered by the German promotional bank KfW, as well as direct guarantees, sum up to roughly EUR820bn. While most of the KfW loans do not provide a full bail-out and thus up to 20% of the default risk remains with the respective commercial banks, the government has also set up a fully guaranteed loan programme for SMEs ("KfW-Schnellkredit" or "quick loan). Moreover, the government has set aside EUR400bn for direct credit guarantees for, as an example, bond issuances by larger companies and corporations as part of the WSF. As of 19 January, a total of EUR46.3bn in KfW loans have been drawn, while direct credit guarantees only sum up to EUR4.3bn.

Source: HSBC. Ministry of Finance.

40. France: Extension of emergency support measures into 2021

Measure	Detail
Direct measures	Many fiscal initiatives have been launched by the French government in 2020. Three budget plans were unveiled in March, April and June that included a total of EUR136bn (5.6% of GDP) in additional public spending. They included, in particular, measures to directly support the corporates the most affected by restrictions (especially for SMEs via the so-called Solidarity fund) and to protect workers' wages via a more generous short-term work compensation scheme. A new broader fiscal package to support the economic recovery was presented on 3 September. This package includes measures worth EUR100bn (4.1% of GDP) until the end of 2024 and is more focused on structural measures and potential growth. It aims in particular to support the transition towards a greener economy, improve the competitiveness of French firms and boost youth employment and labour force skills. On 28 September, the French government gave more details on its near-term fiscal plans in detailing its 2021 draft budget. It includes large tax cuts for companies (EUR9bn vs EUR5.7bn in 2020, mainly in production taxes), but much less for households (EUR0.4bn vs EUR10.2bn in 2020). Because of the second nationwide lockdown effective from 30 October, a fourth amended 2020 budget was unveiled on 4 November. The government earmarked an additional EUR20bn in COVID-19 relief funds, reflecting in particular enhanced support for companies via the Solidary fund, targeted exemptions of social security contributions for the most affected companies and tax credits for commercial landlords agreeing to waive rent for at least one month. This fourth amended 2020 budget also unveiled the revised macroeconomic projections of the government with GDP growth, fiscal deficit and public debt, respectively, seen at -11.0%, 11.3% of GDP and 119.8% of GDP in 2020. On 11 December, Finance Minister Bruno Le Maire announced that EUR8bn of additional funds will be earmarked to the 2021 budget. This would allow financing the extension of emergency support measures into the year for a total worth EUR20bn, taking into account unused existing funds. Government projections have also been revised with GDP now set to expand by 6% in 2021 (instead of 8.0% in the initial 2021 draft budget law presented in September). The government expects the fiscal deficit to decline only to 8.5% of GDP in 2021 (instead of 6.7%), with the public debt ratio rising to 122.4% of GDP (instead of 116.2%). All in all, the Solidarity fund had disbursed EUR12.4bn as of 17 January while the number of workers effectively benefiting from the short time compensation scheme was 2.9 million in November, down from a peak at 8.6 million in April.
Guarantees	Public guarantees (by Bpifrance) to maintain credit lines. EUR300bn (about 12.4% of GDP) of guarantees have been granted. This can cover 90% of a loan for companies with less than 5,000 employees and less than EUR1.5bn of turnover (the maximum is 80% if one of these two conditions is met). The amount cannot exceed three months of turnover in 2019 or, for innovative firms or firms created since 1 January 2019, two years of payroll. According to the Finance Ministry, EUR131.6bn of guaranteed loans had been granted by banks by 8 January. The government announced on 15 October a six-month extension of public guarantees (so that companies can apply until 30 June 2021). On 29 October, Finance Minister Bruno Le Maire declared that struggling businesses would be given the opportunity to defer repayments for one extra year without being considered as defaulting by banks. Mr Le Maire furthermore announced direct loans granted by the state in case a company fails to meet its financing needs: up to EUR10,000 for companies with fewer than 10 employees, EUR50,000 for those with fewer than 50 employees, and 3 months of turnover for companies with more than 50 employees.

Source: HSBC. Ministry of Finance

41. Italy: Some EUR100bn in total support measures this year

Measure	Detail
Direct measures	Following the latest round of restrictions introduced from 26 October, the Finance Minister has also announced new measures, including grants to all firms hit by the new restrictions and a further extension of short-time work schemes until the end of March. Further measures include support for firms to pay taxes and rentals, an extension of the categories of firms affected by the lockdown and benefitting from the grants made available by the government, postponements of tax instalments due in November, as well as funds for parental leave and baby sitters. In total, the government expects an additional deficit of up to EUR30bn (1.8% of GDP) from the latest measures. The package is expected to be submitted shortly to parliament (Il Sole 24 Ore, 19 January), and should add to this year's deficit. For 2021, EU recovery 'loans' should help finance the government's planned fiscal expansion, pushing the fiscal deficit from 5.7% in the no policy change scenario to 7% of GDP in the government's plans (to which one should add the latest EUR30bn package). The expansionary measures in 2021 are set to support the sectors and workers hit hardest by the crisis and reduce the tax burden on medium-low income earners, and extend short-time work schemes and guarantees to the banks (both until June). Some EU funds should be used to finance a temporary reduction of labour taxes from 2021 which could take the form of cuts to social contributions paid by firms to incentivise permanent hires, particularly among the young. The government has confirmed the permanent reduction in income tax for those earning between EUR28k and EUR40k (introduced temporarily this year) and the tax credit for firms' investment in the south of Italy. It has also extended until June 2022 the 110% tax credit for investments in renovations to improve the environmental efficiency of the housing stock. The Cabinet approved the Recovery and Resilience plan, to unlock some EUR210bn of EU funding over the next six years, on 12 January. This will now have to be discussed by parliament and is set to be presented to the European Commission by April. In the latest draft (Corriere della Sera, 13 December) the government identified six strategic areas: digitalisation and innovation, ecologic transition, infrastructure, education, social and territorial inclusion and gender parity and health. The Finance Ministry expects 70% of the funds to be used for investments and intends to use EUR24bn in 2021(1.4% of GDP) followed by EUR34bn (2% of GDP) in 2022, leading to a 0.3ppt boost to growth in 2021 and 0.5ppt in 2022, and up to 3ppt by 2026. The structural reforms included in the plan (particularly on the labour market, including a widespread income tax reform) should help boost the long-term growth potential.
Guarantees	Extension (from EUR1bn to EUR3bn) of the SME guarantee fund to maintain financing for small firms (by Fondo di Garanzia, an entity of the state-owned promotional bank Cassa Depositi e Prestiti). EUR4bn allocated by SACE (state-owned export credit agency) in support of SMEs facing liquidity issues and to support export (covering loans of up to EUR5m). The total amount of guarantees provided was intended to unlock liquidity for the firms of up to EUR350bn. An expansion was announced in April 2020, intended to provide EUR400bn of liquidity for firms – EUR200bn for the domestic market and EUR200bn for exports (taking the total to EUR750bn, according to the PM, but due to a duplication between the two schemes, we think the total is EUR450-500bn). Up to EUR25,000 are available immediately, based on a valid tax document for the previous year, and with a 100% guarantee. The guarantee is 90% for firms with less than 5,000 workers and less than EUR1.5bn of revenues, 80% for firms with more than 5,000 workers, and between EUR1.5bn and EUR5bn of revenues, and 70% for larger firms. As of 1 January 2021, there were cEUR200bn of moratorium payments on the loans (of which about three-quarters are to firms and the rest to households and self-employed) and another EUR100bn of loans to SMEs guaranteed by Fondo di Garanzia (from cEUR130bn of requests). The loans guaranteed by SACE to exporting firms topped cEUR21bn.

Source: HSBC. Ministry of Finance, Fondo di Garanzia

42. Spain: A budget for 2021 at last

Measure	Detail
Direct measures	On 6 December, after lengthy negotiations, the minority government of PSOE and Unidas Podemos (UP) obtained the necessary support for the 2021 budget from the regional parties (among which the Catalan Republican Left, EH Bildhu and Democratic Party of Catalonia) and passed the budget through parliament. That's the first time since 2018 that Spain has managed to pass a budget, and the first time in five years it did so before the end of the year. The budget contemplates about EUR6bn of fiscal consolidation measures, including a minimum 15% corporate tax on large companies, some tax increases for very high-income earners, a sugar tax and new taxes on digital and financial transactions. To gain the support of the Catalan regional pro-independence parties, without which the coalition government of PSOE and Unidas Podemos (UP) would not have had the required majority, the government pledged a reform of the regional financing system in the future to make it more equitable (the current system penalises Catalonia) and which – if followed through – could potentially put additional strain on the central government's budget as the regional financing system is a zero-sum game. Furthermore, the government intends to frontload EUR27bn of spending from the EU Recovery Fund next year, a large chunk of which will be initially paid for issuing Spanish government bonds and reimbursed by the European Commission (EC) only at a later stage once (and if) the projects have been approved. If implemented, this strategy should lead to higher deficit and debt, at least in the near term. We see the deficit crossing 10% of GDP next year and declining slowly in 2022, with the structural deficit at about 5% of GDP.
Guarantees	Guarantees of up to EUR100bn provided to the banks by the Instituto de Crédito Oficial (ICO), the state promotional bank, for certified liquidity needs within the next 12 months (18 months SMEs and self-employed), covering up to 80% of the loans to SMEs and self-employed, and up to 70% of the loans to larger firms (new loans) and 60% for other loans. On 3 July, the government added a further EUR40bn to the scheme, taking the maximum loan coverage to EUR140bn. So far, cEUR120bn has been used.

Source: HSBC. Ministry of Finance, Moncloa, Instituto de Crédito Oficial (ICO)

43. The EU: Brussels' proposed Recovery Fund is step change in joint EU fiscal response

Measure	Detail
Direct measures	Supporting joint research initiatives (EUR140m mobilised using public and private sources for research on vaccines, diagnosis and treatment) and help with the procurement of protective equipment and respiratory devices. EUR37bn (0.3% of GDP) pledged to the so-called "Corona investment initiative" to support healthcare systems, SMEs and the labour market. Rather than requesting that its member countries refund the unspent pre-financing of EU funds, the EC will allow them to keep the funds for use as co-financing for additional projects. Another EUR28bn (0.2% of GDP) of EU structural funds will be made fully eligible for COVID-19 related expenses. On 28 May, the EC unveiled its proposal for a 'Next Generation EU' fund of up to EUR750bn, which was agreed by the European Council on 21 July with minor changes. Delays then followed due to a possible 'rule of law' conditionality attached to the funds, which Hungary and Poland opposed, with the European Council reaching a final compromise on 10/11 December, which was signed off by the European Parliament on 18 January. Once all the secondary legislation has been drafted and approved, this will now have to be ratified by the national parliaments. The structure of the fund works as follows. The European Commission (EC) will be able to borrow the funds using the EU budget as a guarantee until 2026 (but no later). Of the EUR750bn, EUR390bn will be 'grants' while the 'loans' will be EUR360bn. The money borrowed by the EC must be reimbursed by 2058. Funds (both 'loans' and 'grants') will be made available "for the sole purpose of addressing the consequences of the COVID-19 crisis". Countries have to submit recovery and resilience plans with the list of projects they would like to finance, which will be assessed by the EC within two months of the submission, against the criteria of consistency with the country-specific recommendations. "Growth potential, job creation and economic and social resilience" shall have the highest score, while "effective contribution to the green and digital transition shall also be a prerequisite for a positive assessment". The assessment will then have to be approved by the Council by qualified majority voting (QMV), which means 15 countries representing at least 65% of the population. Countries will then receive an advance payment worth 13% of the total allowance. So far, all countries have expressed an interest in the 'grants' (most expect to submit their Recovery and Resilience plans to the EC in February 2021) but only a few have expressed an interest in the 'loans'. As for the subsequent disbursements, the EC assesses the "satisfactory fulfilment of the relevant milestones and targets". It will then seek the opinion of the Economic and Financial Committee (a lower level meeting of the Finance Minister gathering) and in "exceptional" cases where one or more members consider that there are "serious deviations from the satisfactory fulfilment" of the targets "they may request the President of the European Council to refer the matter to the next European Council" meeting. No payment will be made until "the next European Council has exhaustively discussed the matter". The whole process should not take longer than three months and in the end, the opinion of the EC prevails.
Guarantees	A EUR25bn pan-European guarantee fund allocated by the European Investment Bank (EIB), which will be provided to the banks as a first-loss insurance to help them extend their credit lines to SMEs, covering EUR200bn of loans.
Fiscal backstops	EUR240bn of a credit line (Pandemic Crisis Support) from the European Stability Mechanism (ESM) based on the existing credit line (ECCL) of up to 2% of GDP per country. The only requirement to access the credit line is that countries "commit to use this credit line to support domestic financing of direct and indirect healthcare, cure and prevention related costs due to the COVID-19 crisis". Although the Eurogroup statement also says that "afterwards, countries should "remain committed to strengthen economic and financial fundamentals". So far no country has requested the ESM credit facility. An unemployment reinsurance system (SURE): The EC issues up to EUR100bn of debt, "building on the EU budget as much as possible" and backed guarantees provided voluntarily by the countries, which will be used to finance the short-time work compensation schemes set up by the countries. The fund has been approved by the European Council. EUR90.3bn (of the EUR100bn possible) have been allocated so far to 18 countries, and the EC has already successfully issued EUR39.5bn by December 2020, which were disbursed to the eligible countries.

Source: HSBC. European Council, European Commission

44. The UK: Government is willing to spend "whatever it takes" to tackle the outbreak

Measure	Detail
Direct Measures	The UK government has now announced GBP280bn worth of measures since March, according to costings published by the Office for Budget Responsibility alongside the Spending Review on 25 November. The biggest single measure so far has been the Job Retention Scheme (JRS) in which companies were eligible for grants covering 80% of furloughed workers' salaries up to a cap of GBP2,500, plus National Insurance contributions – launched on 20 March. The estimated gross cost of this scheme for 2020/21 is GBP62.5bn. The government had planned to retire this scheme at the end of October and replace it with the less expensive Jobs Support Scheme (Open) and Jobs Support Scheme (Closed). However, when the new lockdown measures for England were announced, the JRS was extended, initially to the end of November, then to the end of March and then again, to the end of April. This extension means there will no longer be a 'job retention bonus' paid in January. The government also said employees who had been let go since 23 September could be re-employed and furloughed under the new scheme. The JSS (Open and Closed) may need to be reintroduced when the lockdown is lifted: the former is a short-time work subsidy scheme for companies hit by lower demand, which was launched on 24 September, but made more generous on 22 October. The latter is for companies, which are forced to close, and is a less generous version of the JRS, whereby employees will receive 67% of their normal wage up to a cap of GBP2,100. On 8 July, a set of new measures were announced, this time not so much to cushion the blow of lockdowns, but to entice people back out and restart the economy. These included a 6-month cut in VAT from 20% to 5% for restaurants, hotels and cultural attractions, which was extended in October from January to the end of March. It also included a 6-month stamp duty 'holiday', raising the tax-free threshold on house purchases from GBP125,000 to GBP500,000. On 24 September, against a backdrop of rising COVID-19 case numbers, the Chancellor announced a new Winter Package of measures. As well as the aforementioned JSS, the Chancellor eased the terms of government-backed loans and deferred VAT payments, extended the July VAT cut for hospitality businesses (from mid-January to end March), and introduced more help for the self-employed. On 22 October, as well as upgrading the terms of the JSS (Open), he also added grants for companies and extended an increase to Universal Credit benefit payments. On 4 January, following the announcement of the renewed lockdown, the Chancellor announced a GBP4.6bn package of business support, comprising GBP4bn of direct grants of up to GBP9,000 for retail, hospitality and leisure companies and GBP594m of discretionary funding for affected businesses, to be delivered by local authorities. On our latest forecasts, public sector net borrowing looks set to come in at GBP408bn or 19.1% of GDP.
Guarantees	A package of government loan guarantees for businesses up to GBP330bn (or more if necessary). For larger corporates, a Corporate Financing Facility of "low cost easily accessible commercial paper". The facility will stand ready to offer unlimited financing to eligible companies over the coming year, according to a letter from the Chancellor to the Governor of the Bank of England. For smaller businesses, the Coronavirus Business Interruption Loan Scheme (CBILS), which allows SMEs to borrow up to GBP5m (up from GBP1.2m originally), with no interest due in the first six months. The scheme was further expanded to offer 80% guaranteed loans of up to GBP25m to companies with turnover between GBP45m and GBP500m, and reformed to reduce any claim on business owners' personal assets as collateral. On 27 April, the government guarantee was increased to 100% for small firms borrowing up to GBP50,000 under the new Bounce Back Loans (BBLs) programme. And on 24 September, the Chancellor announced a number of changes to make the terms on the CBILs and BBLs easier, including extending the term of the government guarantee and introducing payment delays for struggling companies. New GBP1.25bn fund for innovative start-ups announced on 20 April, comprising GBP500m "Future Fund" for high growth companies and another GBP750m in loans and grants for smaller start-ups.

Source: HSBC, Ministry of Finance

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