Europe COVID-19 tracker

Easing is the name of the game

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Economics - Europe

- The COVID-19 situation is further improving across Europe…
- …leading to fewer restrictions and a return of tourism…
- …which could further increase inflationary pressures

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As infection numbers drop, more and more restrictions are being lifted
New infection and COVID-19-related ICU numbers remain on the right track, moving downwards across countries in Europe (charts 1-4). Apart from contact restriction measures, the progress in the vaccination campaigns – not only in the UK but increasingly so in the EU as well – contributed to this development, as is underlined by the comparably low infection numbers among (more and more fully) vaccinated elderly people (charts 5-8). However, as long as the vaccination protection has not reached herd immunity level, mutations like the Indian variant might slip through the protection shield and thus bear the risk of another COVID-19 wave in the upcoming months (chart 9).

That said, the majority of European countries are already in easing mode with respect to restrictions (charts 11-13). While the UK has officially entered stage three (of four) in its re-opening plan – allowing indoor dining and attending theatres and sport events – some EU countries like Denmark and Austria also largely removed restrictions lately. Above all, people across Europe are longing for a holiday season not only for economic reasons in tourism dependent countries (Spain, Greece, Portugal) but for net importers of international travel (UK and Germany) as well (charts 16,17). We expect a rebound in tourism activity in the summer, but only at roughly 50% of the pre-pandemic volume, as restrictions are faced by both potential travellers (e.g. via the confusing traffic light system in the UK) and tourism service providers (e.g. due to hygiene stipulations).

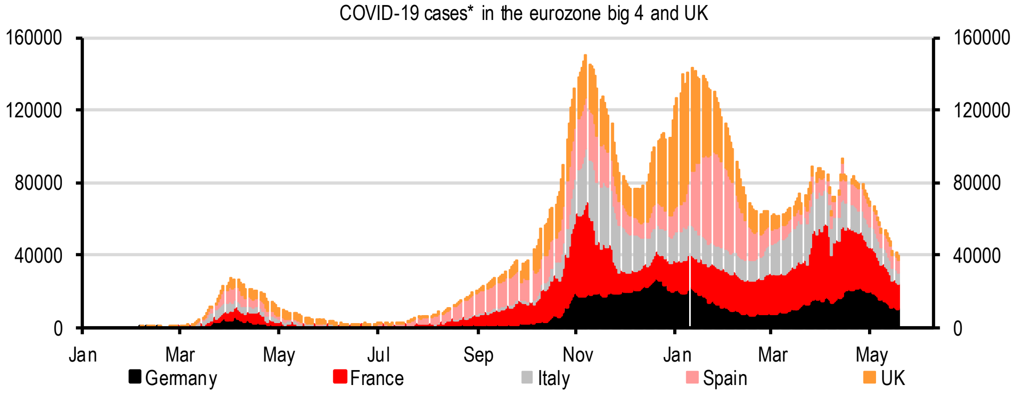
Service price inflation is muted so far but could potentially surge in summer
A revival of tourist activities would boost labour demand in associated sectors. The strong resilience of the European labour market, recently underlined by the UK data for April, has so far heavily relied on the intensive use of short time work and furlough schemes (charts 18-20). While in Germany (and Spain) vacancies in the service sector will likely be easily filled by furloughed workers, things are less so clear e.g. in Italy (chart 21), because as long as schemes remain generous, people might not be willing to return to their previous jobs. Possible labour bottlenecks could thus amplify supply constraints in the service sector and also lift wages as in the UK (chart 22).

In combination with a probably huge (pent-up) demand for lockdown affected services, this could easily lay the ground for a substantial uptick in service price inflation in the summer. Although Eurozone headline inflation continued its upward trend in April, this was merely based on a strong rebound in goods price inflation, while service price inflation remains muted and core inflation even dropped (chart 23). In the UK on the other hand, core CPI inflation went up in April but by much less than in the US (charts 24).

This is an abridged version of a report by the same title published on 19-May-21. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

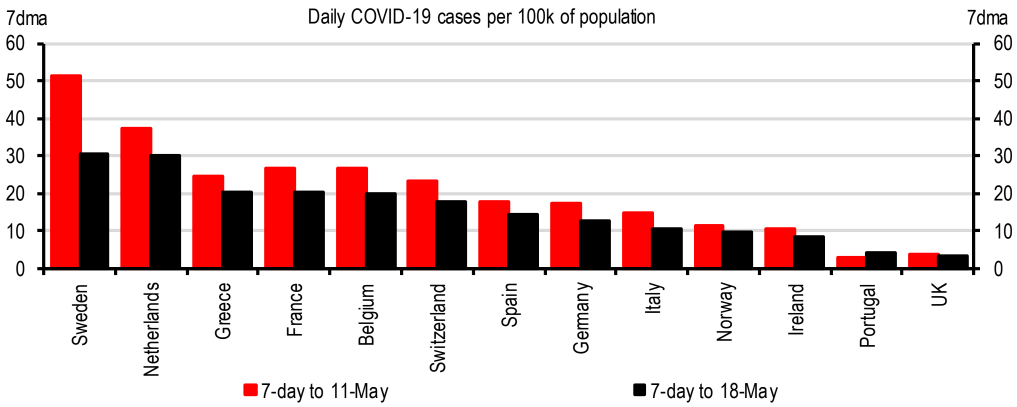
The downward trend in infection and ICU numbers continues

1. New infection numbers are further declining in the big European countries…



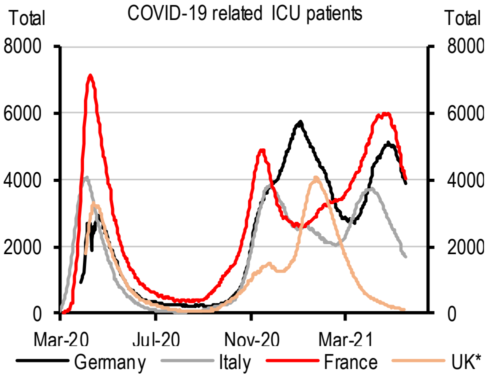
Source: Refinitiv Datastream, HSBC. *7-day moving average. Note: UK cases include a jump of almost 23,000 on Sunday, 4 October 2020, as a backlog of over 15,000 missing cases were added after an error in the tracking system came to light (Reuters, 4 October).

2. …as well as in the smaller countries on a broad basis



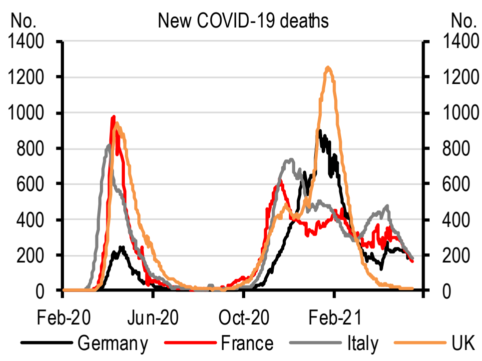
Source: Refinitiv Datastream, HSBC. Note: Weekend numbers are reported as 0, so "7-days to" does not include Saturday and Sunday.

3. ICU occupations by COVID-19 patients are now past their peaks…



Source: Macrobond, HSBC. *Medically ventilated

4. …in line with COVID-19 related deaths numbers

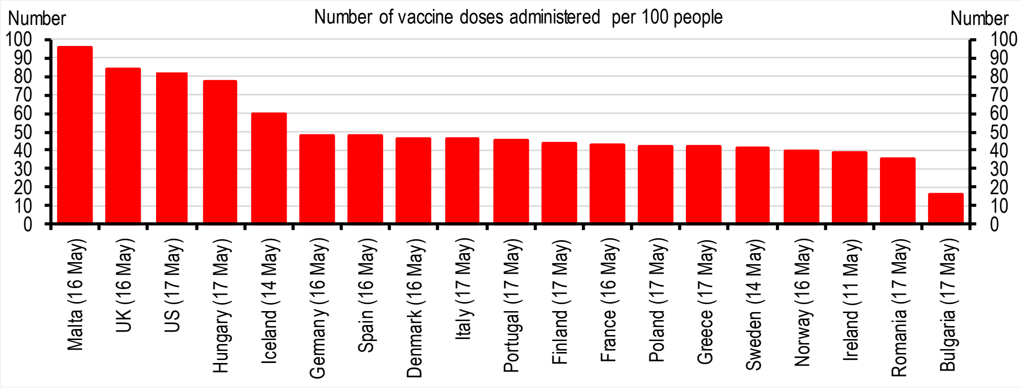


Source: Our World in Data, HSBC. *7dma

We acknowledge the assistance of Harriet Smith, HSBC Bank plc, in the preparation of this report.

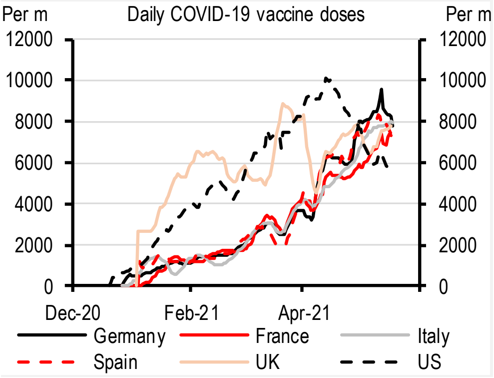
The vaccination campaign keeps rolling in the EU

5. EU countries are slowly closing the gap to the UK and the US in vaccination speed



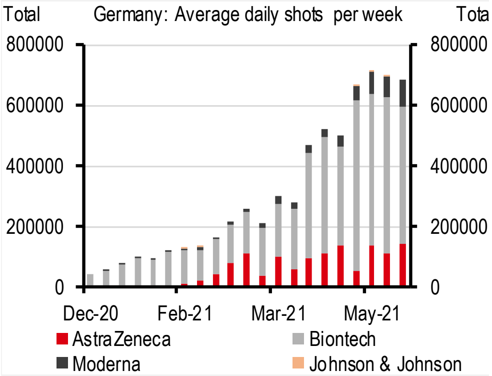
Source: Our World in Data, HSBC

6. The recent vaccination progress could be mostly upheld last week…



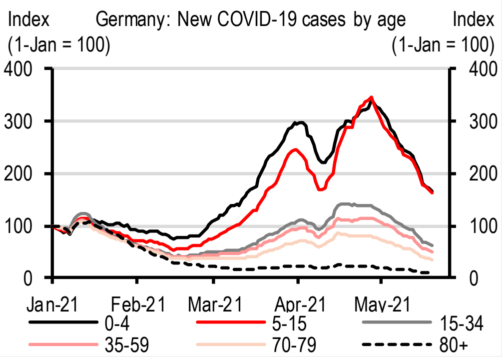
Source: Our World in Data, HSBC.

7. …even in countries like Germany where a national holiday distorted the distribution



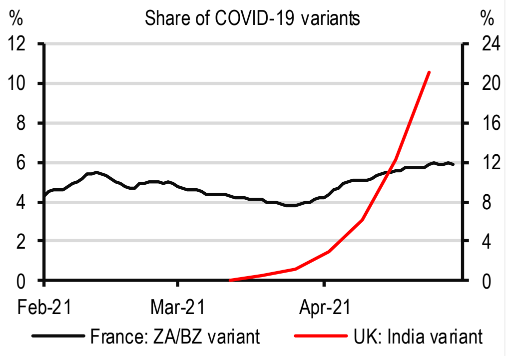
Source: Macrobond, HSBC

8. The stronger the vaccination progress, the lower the case numbers in comparison to the start of the vaccination campaign



Source: Macrobond, HSBC

9. The UK has seen an uptick in the Indian variant, while on the continent other mutations are still more prevalent



Source: Santé Publique France, GISAID, HSBC

A substantial vaccine rollout is under way

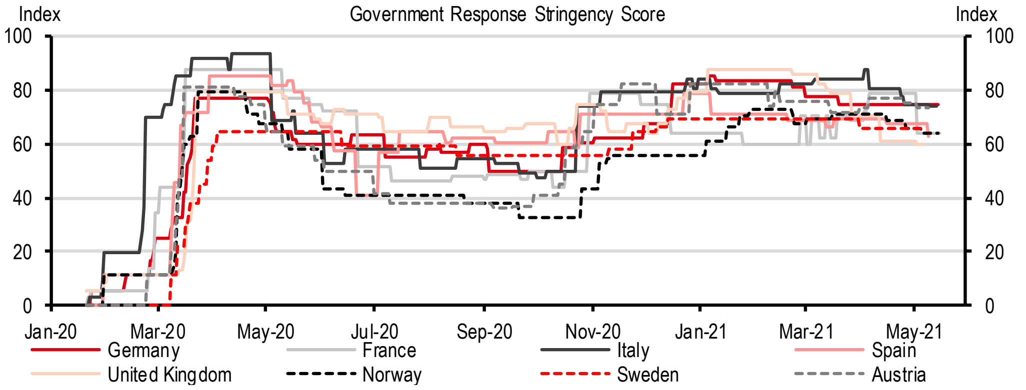
10. In the long-run vaccine supply is not an issue for Europe

	EC		
Organisation	**Dose**	**Type of vaccine**	**Reported effectiveness***
AstraZeneca/Oxford University	Up to 400m	Adenovirus	70.4%
BioNTech/Pfizer	Up to 604m	mRNA	95%
CureVac	Up to 405m	mRNA	TBD
GSK/Sanofi	Up to 300m	Protein adjuvant	TBD
Janssen/JNJ	Up to 400m	Adenovirus	66%
Moderna	Up to 460m	mRNA	95.6%
	Germany		
Organisation	**Dose**	**Type of vaccine**	**Reported effectiveness***
AstraZeneca/Oxford University	56m	Adenovirus	70.4%
BioNTech/Pfizer	30m + 64m from EC = 94m	mRNA	95%
CureVac	20m + 54m from EC	mRNA	-
GSK/Sanofi	55m	Protein adjuvant	TBD
Janssen/JNJ	37m	Adenovirus	66%
Moderna	50m	mRNA	95.6%
	France		
Organisation	**Dose**	**Type of vaccine**	**Reported effectiveness***
AstraZeneca/Oxford University	Up to 60m from EC	Adenovirus	70.4%
BioNTech/Pfizer	Up to 91m from EC	mRNA	95%
Moderna	Up to 69m from EC	mRNA	95.6%
CureVac	Up to 45m from EC	mRNA	TBD
GSK/Sanofi	Up to 24m from EC	Protein adjuvant	TBD
Janssen/JNJ	Up to 35m from EC	Adenovirus	66%
	Italy		
Organisation	**Dose**	**Type of vaccine**	**Reported effectiveness***
AstraZeneca/Oxford University	16m from EC	Adenovirus	70.4%
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	70.4%
BioNTech/Pfizer	20m from EC	mRNA	95%
Janssen/JNJ	20m	Adenovirus	66%
	UK		
Organisation	**Dose**	**Type of vaccine**	**Reported effectiveness***
AstraZeneca/Oxford University	100m	Adenovirus	70.4%
BioNTech/Pfizer	40m + 60m**	mRNA	95%
GSK/Sanofi	60m	Protein adjuvant	TBD
Janssen/JNJ	30m	Adenovirus	66%
Moderna	17m	mRNA	95.6%
Novavax	60m	Protein adjuvant	89%
Valneva	Up to 100m	Inactivated whole virus	TBD

Source: AstraZeneca, BioNTech, CureVac, GSK, Janssen, Moderna, Novavax, IDT Biologika, Valneva, HSBC. *Maximum reported. ** News reports on 28 April 2021 suggested that the UK had secured an additional 60m doses (see Sky News)

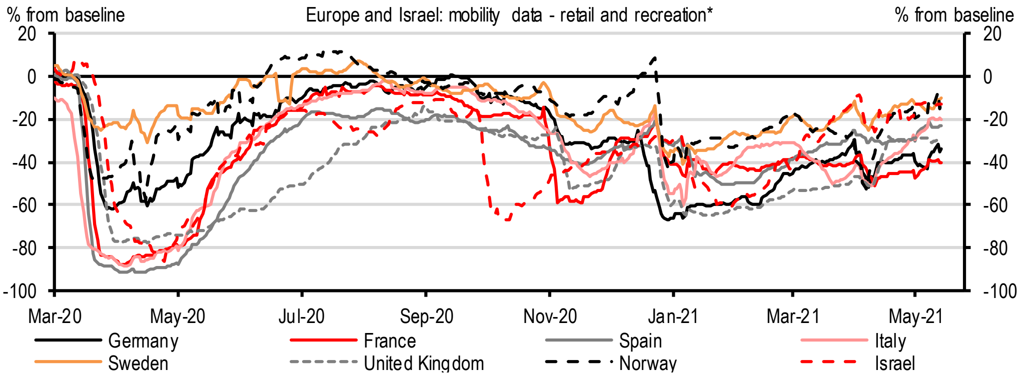
First steps of easing measures are visible in the mobility data

11. Restrictions are being eased somewhat across countries lately…



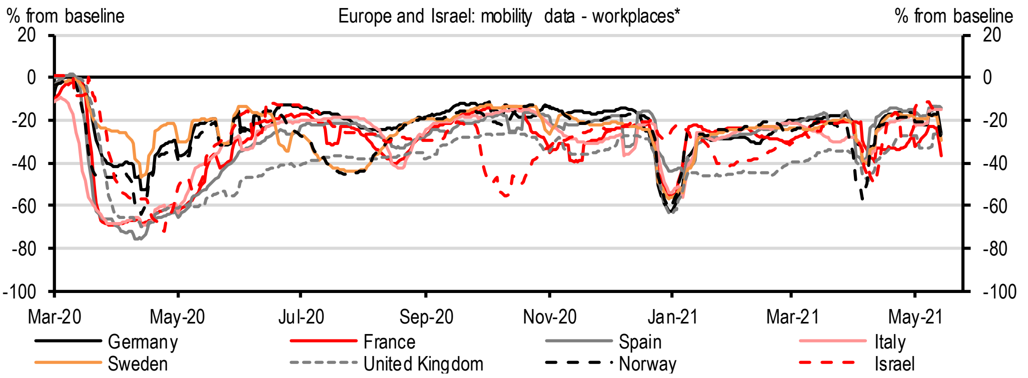
Source: Oxford COVID-19 Government response Tracker, HSBC. Note: Data as at 9 May 2021.

12. …which is more and more visible in higher activity data



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

13. While working from home still remains rather popular despite the vaccination progress



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

Latest on restrictions in the major countries

14. In the Big 4, some limited loosening is looming

<table>
<tr><th>Country</th><th>Latest lockdown measures</th></tr>
<tr><td>Germany</td><td>On 22 March, the Chancellery and the Heads of Federal States agreed upon extending the following lockdown restrictions:

Private meetings are limited to five persons (children up to 14 years are not counted) from two different households in public and private places.
When using public transport or visiting shops, surgical masks or masks of the KN95 of FFP" standards must be worn. 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.
Non-essential private domestic travelling should be generally avoided (but is not prohibited). Travellers from abroad who enter Germany from a designated COVID-19 risk area need to register before entering and have to quarantine for at least 10 days or provide a negative test result after five days at the earliest.
Entering Germany from a high-risk designated area additionally requires a negative test result.

On 21 April, the Bundestag amended the "Infection Protection Act", including the so called "Emergency Break" to unify the measures to contain the spread of the virus at a national level. While these measures are similar to those set out above, they also contain some further refinements, for example:

If the incidence level in a region exceeds 100 on three consecutive days, the additional measures specified in the law including a nightly curfew from 10:00pm to 5:00am automatically apply from the day after next. The measures came into force on 23 April and apply for as long as an epidemic emergency situation is officially declared, but until 30 June 2021 at the latest.
Regarding schools, alternating instruction is mandatory starting at an incidence level of 100. If the incidence level increases to 165 schools will have to close and remote learning will become mandatory (apart from some exceptions).
An obligation for businesses to provide remote working opportunities is now anchored in the Infection Protection Act. Employers must offer employees the option for remote working wherever possible. This regulation is now also applied regardless of the 7-day incidence level. If companies claim that remote working is not possible for certain employees, they have to proof this in case of an investigation and are also required to at least test those employees regularly (without any compensation for it by the government).
Above an incidence level of 150, retail stores (with the exception of stores for daily needs such as supermarkets) and services (eg, zoos, museums etc.) will have to close. Between 100 and 150, visiting a retail store will still be possible after booking an appointment in advance and under the precondition of presenting a negative COVID-19 test.

However, on 4 May, the Bundestag passed a decree that basically exempts fully vaccinated people and recovered COVID-19 patients from certain restriction measures such as providing an obligatory test for using services and lifting contact restrictions for them as well.</td></tr>
<tr><td>France</td><td>The government has adopted additional restriction measures since the start of the year. A stricter curfew (starting on 6pm instead of 8pm) has been put in place at the national level since 16 January. France's borders with countries outside the EU have been closed since 31 January. Travel with French overseas territories is also banned, except under exceptional circumstances. For people entering France from EU countries, a negative virus test is required. Non-food shopping centres larger than 20,000 square meters have also closed since 31 January.

On 20 March, full-time local lockdowns were put in place in 19 departments (covering all the Paris region) for at least four weeks. The restriction measures in confined departments include the closure of non-essential shops and services, limitations of travel to within 10km from homes and a ban on interregional travel. In addition, remote working is strongly encouraged wherever possible. At the national level, the curfew has been relaxed slightly, starting at 7pm instead of 6pm.

On 31 March, President Macron announced an extension of these rules to all metropolitan France from 3 April in the evening. All interregional travel has been banned from 5 April. In addition, schools were closed for between three and four weeks, including the already planned two-week-long spring holidays.

However, restrictions have started to be gradually eased. On 26 April, kindergartens and primary schools reopened. On 3 May, secondary and high schools reopened but only at half capacity for pupils aged above 13 years. All restrictions on domestic travel (limitations within 10km from homes and a ban on interregional travel) were also lifted on 3 May.

On 19 May, non-essential shops, cultural places (museums, cinemas) and the outdoor part of bars and restaurants partially reopened, but with restrictions on capacity: 50% for bars and restaurants (with a maximum of 6 per table), 35% for cinemas, theatres and stadiums and 8m^2 per customer for shops and museums. Moreover, the curfew starts now at 9pm instead of 7pm.

The next steps of the planned relaxation process are:

9 June: Reopening of gyms and of the indoor part of bars and restaurants. Rules on remote working would be eased. The curfew would start at 11pm instead of 9pm.
30 June: End of the national curfew and of existing capacity limits. May be possible to attend an event of more than 1,000 people with a COVID-19 health pass.

This calendar remains subject to the evolution of the pandemic and could be adapted to the situation in each region.</td></tr>
</table>

14. In the Big 4, some limited loosening is looming

Country	Latest lockdown measures
Italy	Since November 2020, Italian regions have been split into three categories – 'red', 'amber' and 'yellow' – depending on several criteria related to COVID-19. The classification is updated on a weekly basis. From 15 January, a 'white' category was also introduced, with very limited restrictions. In the 'red' and 'orange' regions, secondary schools are closed, restaurants are shut all day and mobility is restricted to essential reasons (work, health). On top of that, in the 'red' regions all non-essential shops and services (eg, hairdressers) are shut as well as schools from 11 years of age (13 years in the 'orange'). With infection rates having declined significantly, on 26 April several regions have been downgraded by one or two notches. As of 19 May, there is only one region left in the 'orange' category (Valle d'Aosta), while the rest of the country is now in the 'yellow' zone. According to Corriere della Sera, three-regions (Sardegna, Molise and Friuli) could be about to turn 'white' with no restrictions applying. Primary schools have now been reopened everywhere (up to 13 years of age), while high school attendance will be between 50% and 100%. In the latest COVID-19 decree approved on 18 May, the government has laid out a timeline for lifting restrictions at the national level (these do not apply to 'white' regions). Outdoor restaurants, cinemas and theatres and museums have already been allowed to reopen (in the case of restaurants, both for lunch and dinner). From 22 May, shopping centres will be open also on weekends and ski resorts will be allowed to re-open (although the ski season is basically over). From 24 May gyms will be re-opened and from 1 June indoor restaurants. From 15 June it will be the time of theme parks and museums, and from 1 July indoor swimming pools, sport halls, trade exhibitions and congresses. Home visits to relatives and friends remain permitted once a day, up to a maximum of four people (in addition to the residents). From 19 May, the curfew has been delayed from 10pm to 11pm (still until 5am). It will then be delayed further from 12pm from 7 June and will be abolished altogether on 21 June. As for international travel, until 31 July people arriving from the EU, UK and Israel no longer have to quarantine, but they will be required to show a vaccine certificate, or a negative COVID-19 test undertaken within 48 hours before departure.
Spain	The Spanish Health Ministry has identified four levels of alert for the regions based on a series of indicators related to COVID-19 infection rates. As of 19 May, only two regions (including the Madrid region) have an 'extreme' level of risk, with six in the 'high' category. Pressures on the hospital system have eased, with ICU occupancy rates from COVID-19 patients now below 20% across the country (18%), compared to over 40% reached at the peak of the third wave of the pandemic earlier in the year, even though it remains elevated in some regions (37.5% in the Madrid region). On 9 May, the state of emergency expired and was not extended by the government. With that, the nationwide curfew also came to an end, although some regions still have it (for example, the Balearic Islands have it in place from 11pm to 6am until 25 May, and the Valencia community from midnight to 6am). Most regions have now also reopened their external borders, which had been closed since the beginning of the year. Some restrictions, though, remain in place at the regional level. For example, in the Madrid region bars and restaurants have to shut at midnight, and there remain limitations in terms of capacity (50% indoor and 75% outdoors). In the Basque Country bars and restaurants have close at 10pm, while the government has said some mobility restrictions will remain in place between 11pm and 6am. On 17 May the government also launched a tourism campaign ("You deserve Spain") which will last 10 weeks, aimed at attracting 40-50 million tourists this year (about half of pre-crisis levels). For entry, a negative COVID-19 test is required.
UK	On 4 January, Prime Minister Boris Johnson announced a national lockdown for England, including the closure of all schools. On 22 February, he laid out a new four-step framework for lifting the lockdown. On the first of the milestones he laid out, 8 March, schools reopened and permission to meet one other member of another household outdoors for recreation was added (previously such meetings were only allowed for exercise). On 29 March, there was a further relaxation in outdoor restrictions, allowing outdoor gatherings of up to six people. The second step, implemented on 12 April, saw hairdressers and gyms reopen, and pub and restaurants allowed to serve customers outdoors (including selling alcohol without food). The third, on 17 May, saw indoor food and drink service, museums, theatres and sports stadia reopened. However, the fourth (no earlier than 21 June), which would see the government aim to "remove all legal limits on social contact", including opening nightclubs, is in some doubt, given the increased instances of the Indian variant of the virus. It is not clear that life will quite return to normal, even if the timetable goes to plan: the government is apparently considering using COVID-19 certification (or 'vaccine passports') to allow people access to certain places, while media reports suggest some government advisers want mask wearing and social distancing to continue (*The Times*, 6 April 2021). For the rest of the UK, plans for further lifting of restrictions vary by country. For most of Scotland, hairdressers and some retailers reopened on 5 April, outdoor hospitality and gyms on 26 April, with an indoor alcohol ban lifted and cinemas reopened on 17 May. In Wales, the government indoor hospitality also resumed on 17 May. In Northern Ireland, hairdressers have been able to reopen since 23 April and non-essential retail and outdoor hospitality since 30 April, with indoor service pencilled in for 24 May. International leisure travel will no longer be illegal from 17 May, with regulations on testing and quarantine requirements guided by a traffic light system, with lighter restrictions for amber and green listed countries, depending on their levels of COVID-19 infection rates and variants present (UK Government, 12 May 2021). Inbound arrivals will be subject to the same rules. Entry into the UK from a 'red list' of 40 countries, including South Africa, Brazil and India, remains banned to non-UK or Irish nationals. As of 15 February, for those who cannot be refused entry from these countries – ie, returning British or Irish nationals – a mandatory 10-day quarantine in government-approved accommodation applies.

Source: HSBC, country data

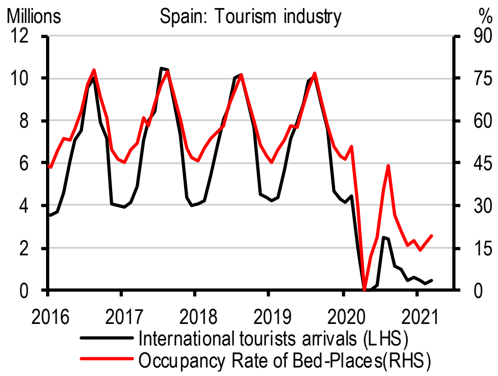
15. Restrictions have been tightened, but they are still not as tight as last spring

	Germany			France			Italy			Spain			UK		
	Spring 2020	Autumn	Now	Spring 2020	Autumn	Now	Spring 2020	Autumn	Now	Spring 2020	Autumn	Now	Spring 2020	Autumn	Now
Restaurants and bars	Shut down except delivery/take away	Shut down except delivery/ take away	Shut down except delivery/take away	Shut with delivery authorised (17 Mar-11 May)	Shut with delivery authorised	Open for open air services since 19 May, closed for indoor service until 9 June	Shut (12 Mar-1 June)	Shut from 6pm, except delivery/take away	From 26 April allowed to re-open both for lunch and dinner	Shut (15 Mar-11 May*)	Open (some restrictions to opening hours)	Open (some regions have imposed restrictions to opening hours)	Shut down except delivery/take away (23 Mar-4 Jul)	Shut down except delivery/take away (5 Nov-2 Dec)	Open but with restrictions (groups of 30 outside, 6 inside)
Non-essential retail	Mainly closed with some few exceptions (23 Mar, partial easing starting from 20 April, open since 6 May)	Open but under strict hygiene conditions (not more than one customer per 10 square meters of sales area)	Shops open by pre-appointment (one customer per 40sqm allowed) subject to local infection numbers	Shut (17 Mar-11 May)	Shut	Open since 19 May (limited to one customer per 8sqm)	Shut (12 Mar-4 May) but some were allowed to open from 14 April (stationeries, kids clothing shops)	Open (with social distancing)	From 26 April allowed to re-open in most of the country (about 80% of the population).	Shut (15 Mar-11 May*)	Open	Open (some regions have imposed restrictions to opening hours)	Mainly closed with some exceptions (23 Mar-15 Jun)	Mainly closed with some exceptions (5 Nov-2 December)	Open since 12 April
Non-essential services	Shut down except essential medical services	Shut down of many, but not all sectors (e.g. hairdressing)	Mostly shut down (recent exceptions apply now also for e.g. hairdressers again)	Shut (17 Mar-11 May)	Shut	Most non-essential services re-opened from 19 May	Shut (12 Mar-18 May) but some (gyms, leisure centres) until 25 May	Open	Most non-essential services re-opened from 26 April	Shut (28 Mar-11 May*)	Open	Open	Shut down except essential medical services	Largely shut down but with exceptions, e.g. housing related services	Most no-essential services reopened since 12 April, with restrictions
Construction sector	Open	Open	Open	Mostly shut due to health concerns (but no mandatory closures)	Open	Open	Shut (25 Mar-4 May)	Open	Open	Shut (28 Mar-12 April)	Open	Open	Open	Open	Open
Non-essential manuf.	Open	Open	Open	Mostly shut due to health concerns (but no mandatory closures)	Open	Open	Shut (25 Mar-4 May)	Open	Open	Shut (28 Mar-12 April)	Open	Open	Open	Open	Open
Non-essential PA	Generally open but with shift to remote and digital solutions	Open	Open (working from home encouraged)	Shut (but work from home possible)	Open	Open (working from home encouraged)	Shut (12 Mar-4 May)	Open (working from home encouraged)	Open (working from home encouraged)	Shut (12 Mar-11 May*)	Open	Open	Generally open but with shift to remote and digital solutions	Generally open but with shift to remote and digital solutions	Generally open but with shift to remote and digital solutions
Education	No physical classes across all education tiers with remote working in schools and universities (13 Mar, gradual return to physical classes starting from end of April)	Physical primary and secondary education open; tertiary education remains remote	Schools re-opened partially nationwide but federal states decide on the specific rules and limitations	Schools and universities were closed. Very gradual re-opening from 18 May, mainly for primary and secondary schools	Primary, secondary and high schools remain open. Universities are closed (lessons held at distance)	Primary schools reopened on 26 April. Secondary and high schools reopened on 3 May, but at half capacity for pupils aged above 13.	Schools and universities closed from 5 Mar. Schools only re-opened on 14 Sep)	Open for primary education, secondary at least 75% remotely	Nurseries and primary schools open again from 26 April up to 13 years of age, secondary schools between 50% and 100%.	All schools closed between 9 and 18 March, and didn't reopen until September	Open	Schools remain open overall although some regions and municipalities have shut them	All schools, colleges and universities closed from 21 March, except for children of key workers	Physical primary and secondary open; tertiary encouraged to teach remotely where possible	Open, having been fully closed between late December and 8 March
People's mobility	Public meetings between different households limited to one person per household only (23 Mar-3 May)	Public meetings with people of other households limited to one household and a maximum of 10 persons	If local incidence level above 150: Private meetings limited to one person outside the own household; curfew from 10p.m. to 5.a.m.	Essential travel only (17 Mar-11 May) then limited to 100km around home	Essential travel only	Curfew from 9pm to 7am.	Essential travel only (12 Mar - 3 Jun)	Curfew (11pm-6am) in regions accounting for a third of the population	Curfew 22pm-5am, no mobility across regions other for work and health related reasons, no private gatherings and home visits	Essential travel only (15 Mar-11 May*). Restrictions to regional travel still in place until 21 June	Curfew 11pm-6am (regions can bring forward or back the start or end time by one hour)	Curfew 11pm-6am (regions can bring forward to 10pm). Most regions are keeping their external borders closed, Domestic tourism prohibited.	No mixing outside of one's household	Mixing with one other person from another household allowed outside (5 Nov-2 Dec). People living alone may form a 'support bubble'	Up to six people allowed to mix outside from 29 March, then inside from 17 May. All restrictions planned to be removed by 21 June.
Share of the economy in a lockdown	**About 25% (peak)**	**5-10%**	**Around 10%**	**Around 30% (peak)**	**Around 10%**	**Around 5%**	**About a third**	**Around 5%**	**Around 5%**	**35-40% (peak)**	**0%****	**0%****	**Around 30%**	**Around 10%**	**<.1%*****

Source: HSBC. Notes: *Spain run a three phase exit strategy and different regions were at different stages. 11 May was when the major restrictions were lifted in regions comprising about half of the Spanish population, but it was not until 21 June that all of Spain entered Phase 3, or the so-called 'new normality'. **This reflects nation-wide restrictions; the measures implemented by the individual regions might already be affecting part of their economies. **UK column denotes announced timetable for England only, conditional on continued improvement in virus situation; similar rules and timelines exist for Scotland, Wales and Northern Ireland, .***While only nightclubs and adult entertainment remain strictly under a lockdown in England, other service sector businesses remain subject to restrictions, including social distancing and limited group sizes.

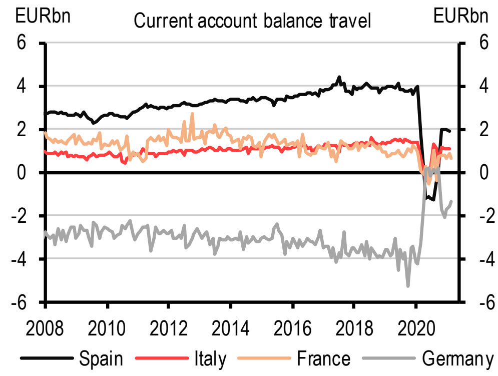
Tourism comes back but will the service sector workers as well?

16. Since March 2020 international tourism has largely ground to a halt, apart from a short summer bounce…



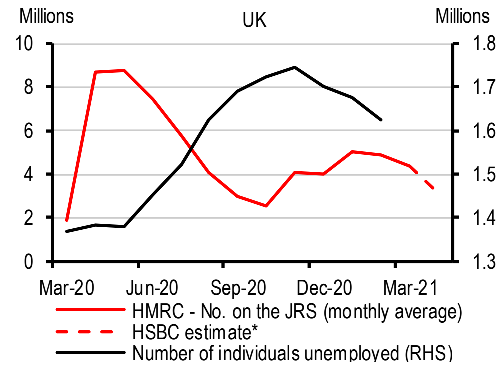
Source: Macrobond HSBC

17. …which hurts tourism dependent countries particularly but also aggravated trade imbalances in the eurozone



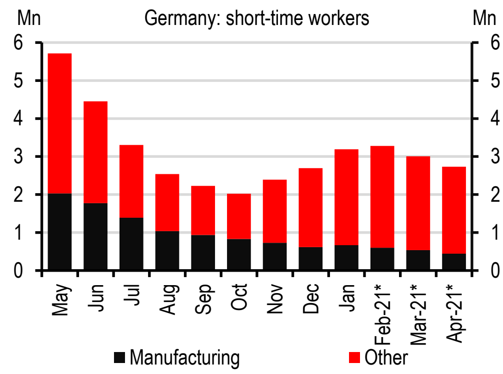
Source: Macrobond HSBC

18. UK labour market data imply a significant drop in JRS use in April



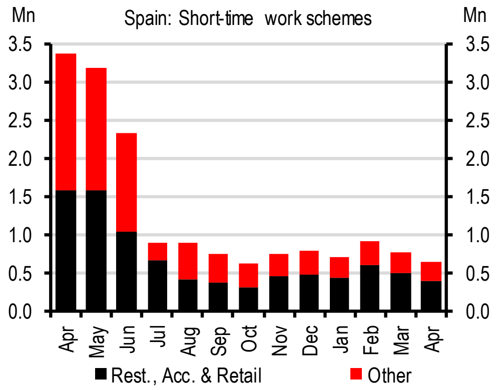
Source: ONS, HMRC. Note: *based on ONS survey

19. In the EU short time workers should fill the vacancies after re-openings in the service sector in Germany…



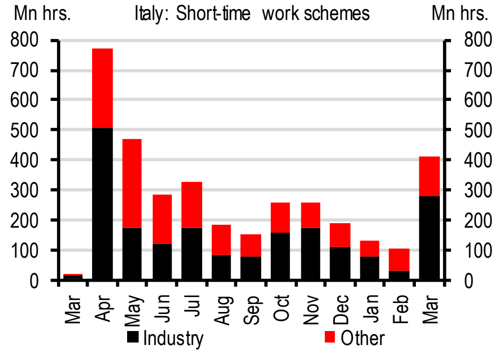
Source: Bundesagentur fur Arbeit, IFO, HSBC. *IFO estimates

20. …as well as in Spain given their relatively high numbers



Source: Spanish Labour Ministry, HSBC

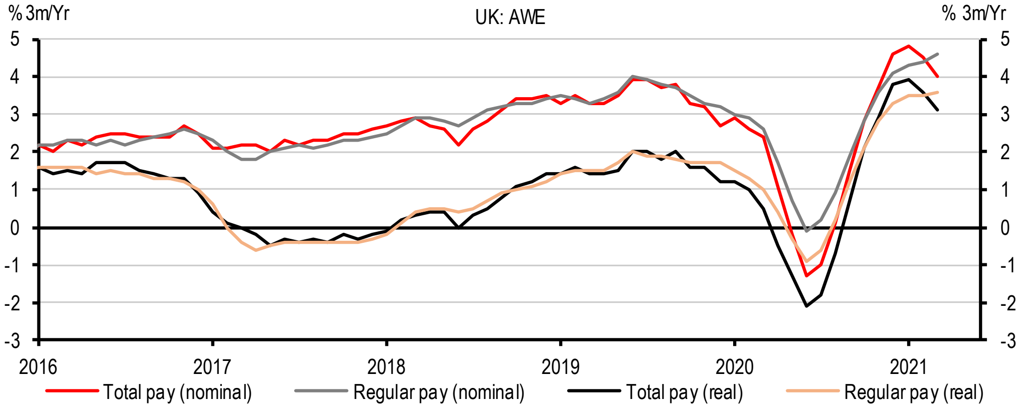
21. However in Italy manufacturing workers make up the bulk of short time working



Source: Italian Social Security Institute, HSBC

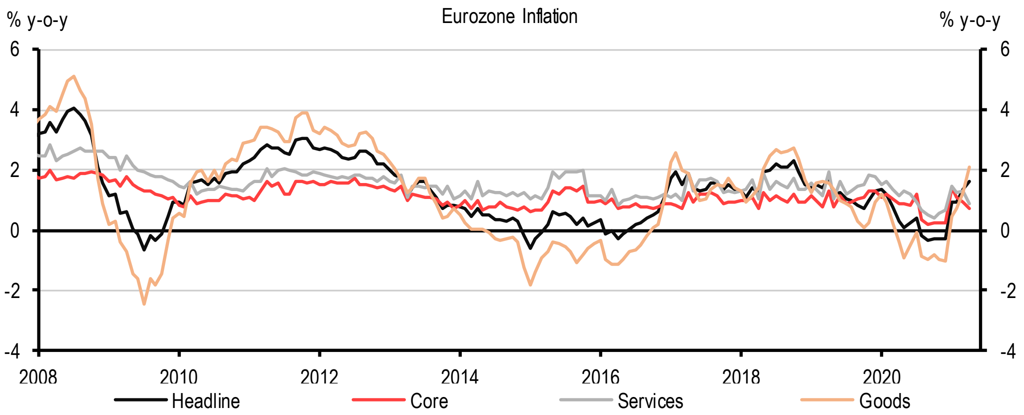
Additional inflation pressure from services is slowly building up

22. In the UK re-openings were accompanied by higher regular wages…



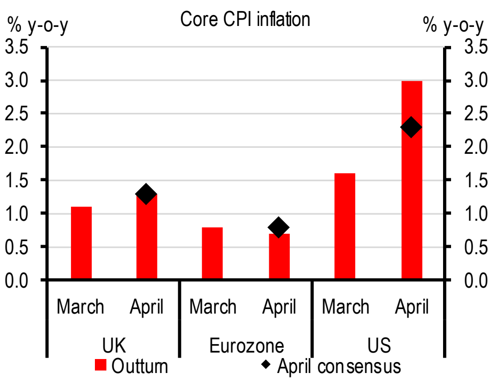
Source: ONS

23. Such a development in the Eurozone might pose upward pressure to service inflation which so far is rather muted in comparison to goods inflation



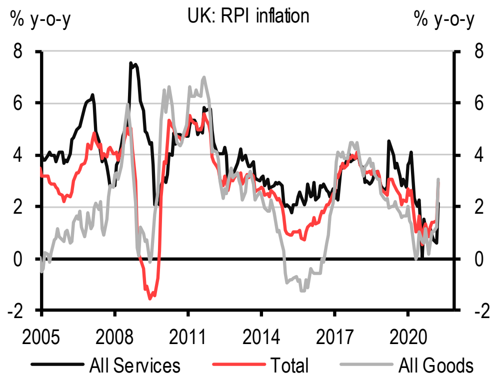
Source: Macrobond HSBC

24. While core inflation in Europe has so far not followed the latest US surge…



Source: Refinitiv Datastream, Bloomberg

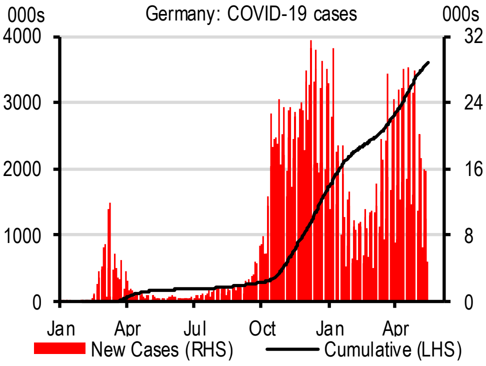
25. … there are pockets of upward pressure, including in the RPI inflation measure



Source: Macrobond, HSBC

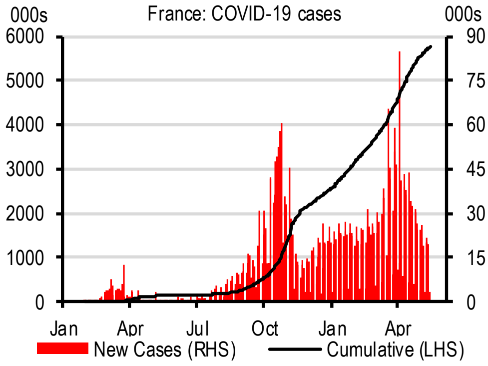
COVID-19 in Western Europe

26. The downward trend in new infection numbers in Germany continues…



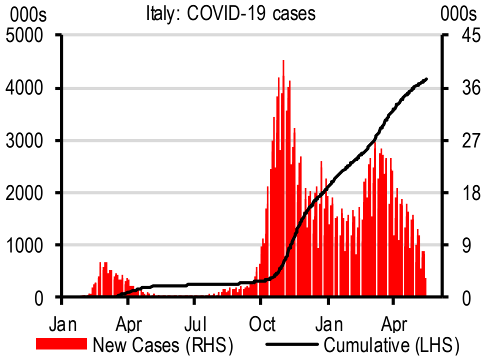
Source: Refinitiv Datastream, HSBC

27. …in line with the development in France



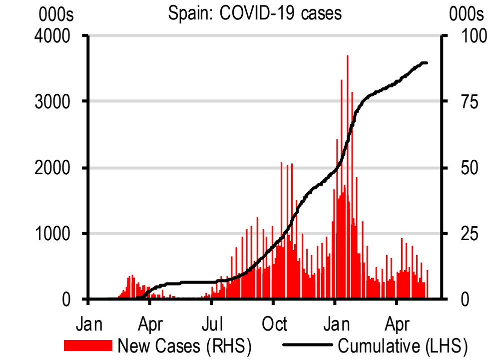
Source: Refinitiv Datastream, HSBC

28. In Italy infection numbers remain broadly stable on comparably low levels



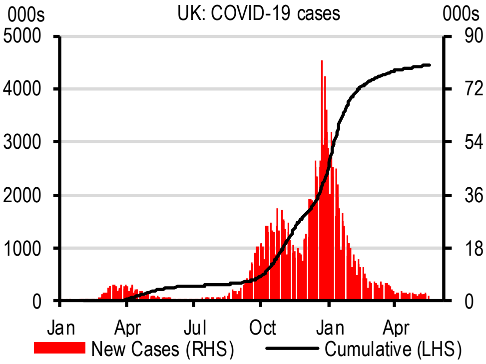
Source: Refinitiv Datastream, HSBC

29. While in Spain the already rather weak third wave is basically gone



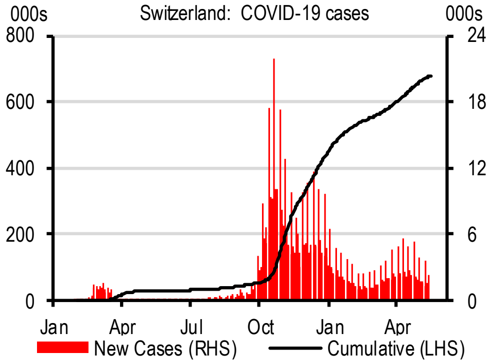
Source: Refinitiv Datastream, HSBC

30. Despite the Indian variant was detected in some regions, the UK looks still fine



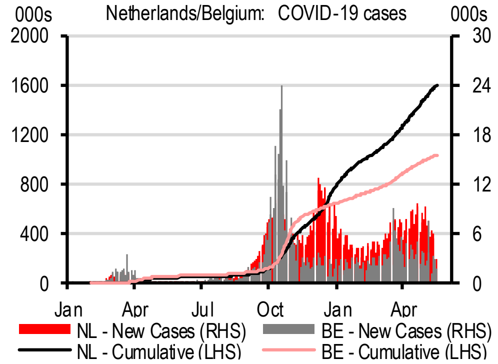
Source: Refinitiv Datastream, HSBC

31. In Switzerland case numbers go down less quickly than in most EU countries



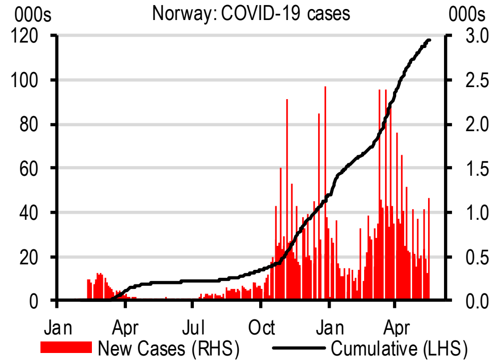
Source: Refinitiv Datastream, HSBC

32. The low countries have finally broken the third wave



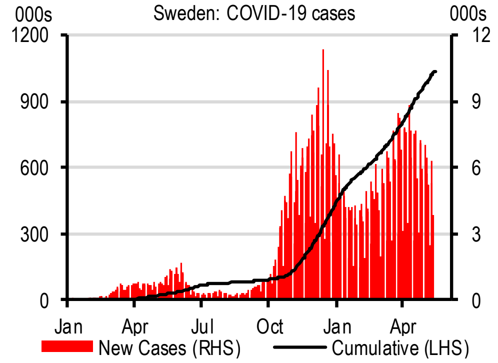
Source: Refinitiv Datastream, HSBC

33. While new cases slightly increased, the overall level in Norway is exceptionally low



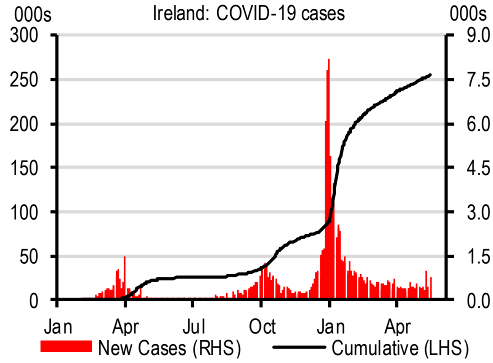
Source: Refinitiv Datastream, HSBC

34. Sweden has still the largest new infection numbers in relation to its population in Europe



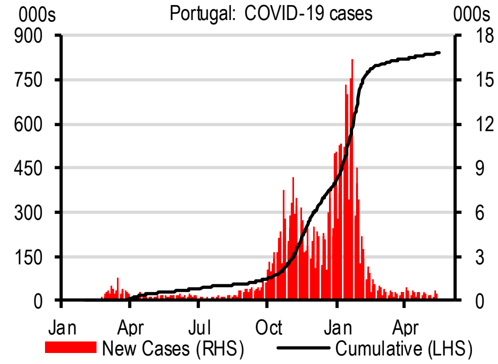
Source: Refinitiv Datastream, HSBC

35. While Ireland remains almost new infection free…



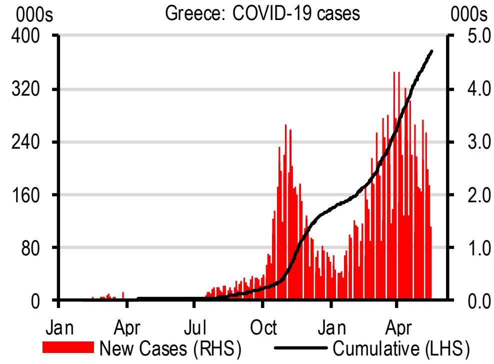
Source: Refinitiv Datastream, HSBC

36. …which is even more true of Portugal



Source: Refinitiv Datastream, HSBC

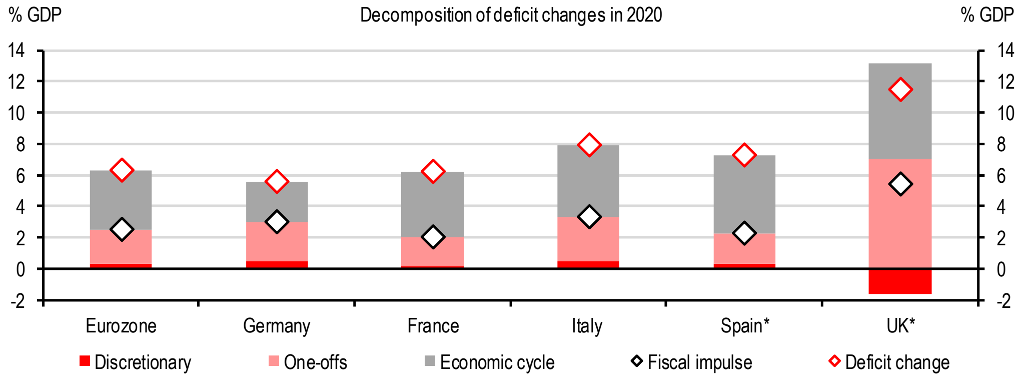
37. In Greece case numbers were only marginally down from previous weeks



Source: Refinitiv Datastream, HSBC

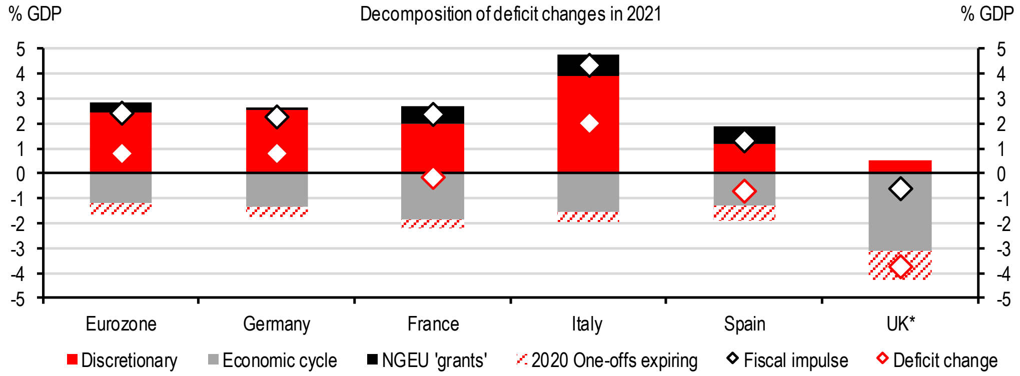
Fiscal measures (in the Big 4 eurozone countries and the UK)

38. Fiscal policy was highly expansionary in the eurozone last year...



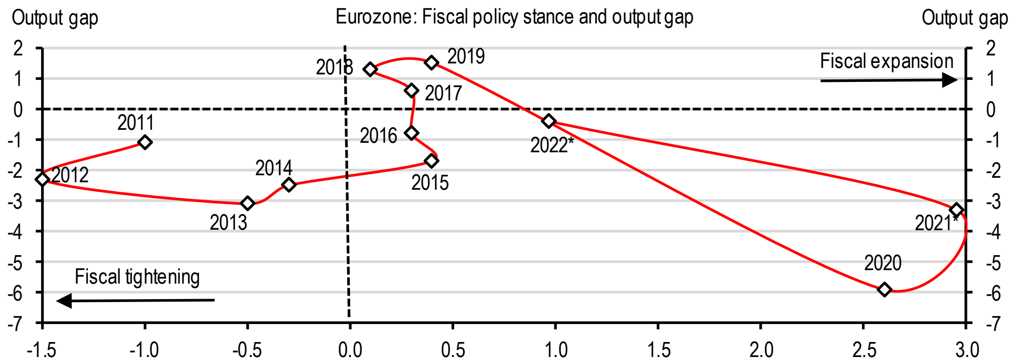
Source: HSBC calculations based on national statistical institutes, Eurostat and European Commission, 2020 budgets and amendments. Note: * Refers to fiscal year 2020/21 NB The 'Economic Cycle' component for eurozone countries and the Big 4 includes the 'normal' short-time work compensation schemes but not the extensions and more generous terms agreed in response to the COVID-19 crisis, for the UK it includes the Job Retention Scheme (JRS).,

39. ...and could be even more expansionary this year after the recent upward revisions of fiscal deficits by member states, and thanks to the support of the NGEU fund



Source: HSBC calculations based on national statistical institutes, Eurostat and European Commission, 2020 budgets and amendments. Note: * Refers to fiscal year 2020/21 NB The 'Economic Cycle' component for eurozone countries and the Big 4 includes the 'normal' short-time work compensation schemes but not the extensions and more generous terms agreed in response to the COVID-19 crisis, for the UK it includes the Job Retention Scheme (JRS).

40. This should contribute to the gradual closing of the output gap, as should the support already in the system, which has not yet found its way through to the economy



Source: HSBC calculations based on national statistical institutes, Eurostat and European Commission, 2020 budgets and amendments. NB The adjusted series takes into account that due to ongoing restrictions at least part of the stimulus implemented last year and this year did not actually feed through into the economy but will only do so once restrictions are lifted.

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

<table>
<tr><th>Measure</th><th>Detail</th></tr>
<tr><td>Direct measures</td><td>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. While the actual deficit in 2020 came in far short of the previous estimations at 4.2% of GDP, many planned expenditures for reviving the German economy in the longer run were merely shifted towards 2021 and beyond. Overall, the government has created a EUR300bn envelope in 2020/21 in allowed additional debt issuance designated among others for:

◆ 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);
◆ Special one-time 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 like:

◆ Increased state subsidy for keeping energy costs at bay (EUR11.0bn);
◆ Funding for long-run investment projects, e.g. "green energy" (EUR36.0bn);
◆ Frontloading of planned public investment and expenses (EUR10.0bn).

That said, the actual spending on these issues has been significantly lower than these numbers suggested, even taking into account the latest supplementary budget from 23 April, which allows the federal government to increase by another EUR60.4bn in 2021.

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 May, EUR8.5bn for recapitalisation measures were drawn.

In light of the recent lockdown extension, the German government undertook adjustments to make the Überbrückungshilfe III simpler as well as more generous and more applicable to a larger group of companies. The details are as follows:

◆ Companies are eligible to apply in the event of a COVID-19-related drop in sales of at least 30% in a single month;
◆ Companies with annual sales of up to EUR750m are now permitted to get support from the programme;
◆ Subsidy volumes and discount amounts have been increased to up to EUR1.5m in bridging assistance ("Überbrückungshilfe") per month including for November and December 2020;
◆ Targeted provisions for particularly hard-hit sectors:
    ○ Retail sector: 100% of seasonal merchandise can be deducted as fixed costs
    ○ Travel industry: comprehensive allowance of costs and lost sales due to cancellations
◆ Start-up assistance for solo self-employed significantly improved and expanded (doubled to a one-time 50% of the reference period turnover)

As of 18 May; applications for EUR12.7bn for the "Überbrückungshilfe III" have been made, of which EUR6.98bn have already been allocated. Meanwhile, as of 18 May; EUR11.58bn of the approved payments of EUR14.51bn have been drawn from the previous and more generous November/December-Aid programme, while the roughly EUR4.66bn in approved applications for the Überbrückungshilfen I+II" have now been almost completely allocated. In addition, solo self-employed have been able to submit applications for the new start-up assistance since 16 February 2021. EUR1.05bn of applications with a total volume of EUR1.14bn have been paid out, as of 18 May.</td></tr>
<tr><td>Guarantees</td><td>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 18 May, a total of EUR50.74bn in KfW loans have been drawn, while direct credit guarantees only sum up to EUR4.83bn.</td></tr>
</table>

Source: HSBC, Ministry of Finance.

42. France: Public deficit for 2021 is seen at 9% of GDP by the government to update

Measure	Detail
Direct measures	Many fiscal initiatives have been launched by the French government in 2020. Four budget plans were unveiled in March, April, June and November 2020 that included a total of EUR73bn in emergency support measures. They included, in particular, measures to directly support the corporates the most affected by restrictions (subsidies for SMEs from the so-called Solidarity fund, targeted exemptions of social security contributions) and to protect workers' wages via a more generous short-term work compensation scheme. In particular, companies closed due to administrative decisions or suffering a loss of turnover superior to 50% are eligible each month to subsidies under the Solidarity Fund compensating between 80 and 100% of their losses (with a ceiling at EUR10k) or corresponding to between 15 and 20% of their 2019 reference turnover (up to EUR200k per month) if it's more advantageous. A broader fiscal package to support the economic recovery was also 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 in particular large tax cuts for companies (EUR15.3bn, mainly in production taxes). 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. On 20 March 2021, Bruno Le Maire announced new aid measures for businesses affected by closures. Indeed, the Solidarity Fund is now open to businesses closed due to administrative decisions and being hit by a loss of turnover of at least 20%. Companies forced to close on weekends may also be eligible for subsidies (up to EUR1.5k per month) if their loss of turnover is more than 20%. In addition, several beneficiaries of the Solidarity Fund have been eligible from 31 March for a mechanism covering a part of their fixed costs (70% for companies with more than 50 employees and 90% of others). On 30 March, Finance Ministry also announced new support measures (for a total of EUR200mn) for some companies in the retail sector (mainly for clothes, shoes, leather goods and sports goods) which are in difficulties due to large unsold inventories. On 31 March, after the announcement of a new national lockdown, Finance ministry has indicated that the fiscal cost of supporting French companies should pick up to EUR11bn per month, from EUR6bn in February. The use of the short-time work scheme should also pick up due to the closure of non-essential retail and the closure of schools (for an additional cost estimated up to EUR4bn by the government). The French government is planning a very gradual withdrawal of support measures in the coming months. Indeed, current measures have been extended for the whole month of May. From June, eligibility rules for the Solidarity Fund will be enlarged in order to support firms during the reopening phase. All companies suffering from a loss of turnover relative to the 2019 reference of at least 10% will have access to subsidies compensating 40% of the loss. This support will be gradually phased out (30% of loss in July, 20% in August) before being terminated in September. The cost for using the short-term working scheme will also gradually increase for businesses (15% of total subsidies in July and 20% in August, versus 0% currently for the sectors the most impacted by restrictions and 10% for others). All in all, in the 2021 Stability Program released on 14 April, the government revised its public deficit forecast to 9% of GDP for this year (instead of 8.5% and after an actual deficit of 9.2% in 2020), with the public debt rising to 118% of GDP (from 115.7% in 2020). These projections rely on a GDP growth assumption of 5% in 2021, revised down from 6%. In the subsequent years, the public deficit would drop below 3% of GDP only in 2027, with the fiscal consolidation led by better control of public spending (with a growth limited to 0.7%) rather that any tax hikes. The Solidarity fund has disbursed EUR26.0bn as of 13 May, while the number of workers effectively benefiting from the short-time compensation scheme was around 3.0m in April, down from a peak at 8.4m in April 2020.
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. 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 three months of turnover for companies with more than 50 employees. On 23 April 2021, the government announced an extension of the scheme to the end of 2021. Corporates are authorised to use the funds to repay the debt due to suppliers. According to the Finance Ministry, EUR138.0bn of guaranteed loans had been granted by banks by 7 May.

Source: HSBC, Ministry of Finance.

43. Italy: The government now expects a deficit of almost 12% of GDP this year

Measure	Detail
Direct measures	The Italian government obtained in February the approval by parliament to increase the deficit limit for this year by up to EUR32bn (1.8% of GDP) relative to the 2021 budget approved last December, and revised up the official government target to 8.8% of GDP (from 7% previously). The new government led by Mario Draghi approved on 19 March a new decree (DL Sostegni) to allocate the remaining part of the EUR32bn from the previously agreed deficit expansion. The measures approved include: ◆ EUR11bn in compensation for the sectors hit by the restrictions and who experienced revenue losses in excess of 30% last year relative to 2019. The support will be of a minimum of EUR1k per recipient and up to EUR150k. The measure should benefit around 3 million firms and self-employed workers according to the Finance Minister, for an average compensation of EUR3,700 per recipient. ◆ EUR700m in extra support for hotels and resorts hit by the last-minute decision by the government not to re-open ski resorts on 15 February as initially planned, and EUR1.7bn overall for the tourism sector. ◆ EUR4.5bn have been allocated to the acquisition and delivery of vaccines, other medicines related to the COVID-19 crisis and to support the domestic production of vaccines. ◆ EUR3.3bn to finance the extension of the short-time work scheme (CIG) from the end of March until the end of June and of the prohibition for firms to lay off workers (other than in exceptional cases) also from 31 March until 31 June (and until the end of October for firms which decide to tap the emergency short-time work scheme). ◆ EUR3bn in support of the regions and local entities (of which EUR800m for public transport), EUR300m for schools, EUR400 for culture. ◆ Seasonal workers and workers in the culture industries who lost their job will receive a one-off support worth EUR2,400 while those in the sport industry between EUR1,200 and 3,600. ◆ EUR1bn goes to refinance the minimum citizenship income. ◆ There will be a support to reduce gas and electricity bills in April, May and June worth EUR600m. Other measures have been agreed in support for agriculture and fishing industry. On 15 April, the Italian government approved the new multi-annual budgetary plan, in which it significantly revised up the deficit forecast for this year, to 11.8% of GDP. It also announced that there will be a new fiscal package worth around EUR40bn (2.5% of GDP), which the government said it intends to pass through parliament in the coming weeks. According to the document, the new package will include measures to finance the extension of the emergency short-time work compensation schemes until June, compensation measures for the self-employed and firms hit by the crisis (which according to the government account for half of the total support measures implemented this year), as well as a new multi-annual domestic investment fund, which will also have an impact on the deficit in the coming years (according to the Finance Minister, this should be worth EUR56bn in total, Reuters, 20 April). 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. For 2021, Next Generation EU 'loans' should help finance the government's planned fiscal expansion, contributing to the 1.3ppt fiscal expansion enshrined in the 2021 budget. Italy's Recovery and Resilience Plan (RRP) approved on 25 April foresees EUR235bn of measures between 2021 and 2026, with around three-fifths spend on investments and one-fifth in fiscal incentives to firms, 40% to the ecological transition and 25% to digitalisation.
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 9 April 2021, according to the Bank of Italy, there were EUR158bn of moratorium payments on the loans, of which EUR123bn to firms and the rest to households and self-employed, and another EUR120.7bn of loans to SMEs guaranteed by Fondo di Garanzia (from around EUR145bn of requests), of which EUR24.8bn with a 100% guarantee. The loans guaranteed by SACE to exporting firms topped EUR21bn.

Source: HSBC, Ministry of Finance.

44. Spain: Another extension for the short-time work schemes

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 was 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: ◆ Income tax up 2ppt for those with income above 300k (EUR580m); ◆ VAT on sugar drinks up from 10% (reduced rate) to the normal 21% rate (EUR5400m); ◆ Lower exemption for firms on repatriated profits for firms with revenues higher than EUR40m (EUR470m); ◆ Some 'green' taxes: waste (EUR860m) and plastic tax (EUR490m); ◆ Higher wealth tax, from 2.5% to 3.5% for wealth above 10 million; ◆ Reduction in the tax deduction for private pension plans from 8k to 2k. (EUR490m); and, ◆ Digital (EUR750m) and financial transaction tax (EUR970m) The initial proposal of a 15% minimum tax on corporate taxes was scrapped in the end due to the economic crisis. 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. The government has recently announced an additional EUR11bn (1% of GDP) of support measures for firms and self-employed workers (El País, 24 February). According to the Finance Minister, this should include EUR7bn in direct non-reimbursable aid for companies and self-employed people struggling to pay their bills; EUR3bn to help restructure state-backed loans to businesses, including, as a last resort, debt cancellation for small and medium enterprises; and EUR1bn for "capitalisation", which could include the state taking temporary stakes in some groups (FT, 12 March). Last year, the government had already set up a fund (Solvency Support Fund) with a budget of EUR10bn to invest in debt and equity instruments in companies active in Spain that had been affected by the crisis. The European Commission has recently approved amendments to the fund enabling the government to undertake restructurings, provide direct fiscal support through tax credits, advance payments and convertible loans (El País, 24 February). Furthermore, the government intends to frontload EUR27bn of spending from the EU Next Generation EU (NGEU) 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. The Spanish government recently extended the short-time scheme (ERTE) until the end of May, for firms which between April and December did not recover 70% of their activity and have had more than 15% of their workforce under short-time work. Firms will not have to pay their social contributions (from up to 100% for the firms which had to shut down due to restrictions) while firms will not be permitted to lay-off workers (otherwise they will have to pay back to the government the subsidies received through the scheme). The cost for the government of the extension from 31 January to 31 May are estimated to be EUR5.4bn (0.4% of GDP). In light of these changes and the deteriorating economic outlook, the government has recently revised up the 2021 deficit target from 7.7% of GDP to 8.5%, but we think the final outturn could be closer to 10% of GDP given the government's stated intention to front-load the NGEU fund.
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).

45. 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. A 'Next Generation EU' (NGEU) fund of up to EUR750bn (in 2019 prices) agreed by the European Council in July. Following delays due to the 'rule of law' conditionality attached to the funds, which Hungary and Poland opposed, the Council reached a compromise on 10/11 December, signed off by the European Parliament on 18 January. 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 (RRPs) with the list of projects to finance by the end of April, 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" have the highest score, while "effective contribution to the green and digital transition shall also be a prerequisite for a positive assessment" (see: https://ec.europa.eu/info/sites/info/files/document_travail_service_part1_v2_en.pdf). 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' 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. The EC has recently said it should start issuing under the NGEU fund in July rather than in June as previously said, and that it should be able to raise EUR15-20bn per month which could raise some challenges in terms of the ability of countries to obtain their advance payments (13% of the total allocations) in full upon approval of their Recovery and Resilience Plans (RRPs), which only for the 'grants' portion alone of the RRF would amount to about EUR45bn. Procedures are now starting for the ratification through the national parliaments which will have to do so of the Own Resources Decision (ORD) to increase in the EU budget own resource ceiling needed to make room for the NGEU. As stated by the European Budget Commissioner Johannes Hahn on 14 April, Germany, Estonia, Poland, Hungary, Austria, Finland, Romania, the Netherlands, Ireland and Lithuania have still not ratified the ORD, which is a necessary step before the EC can start issuing debt. On 26 March, after the German parliament ratified the decision, the German Constitutional Court (GCC) put the parliament decision on hold as it was looking into a legal challenge claiming that the EU is not entitled to raise common debt and that the EU budget has to be financed entirely from own resources (Cicero, 28 March). On 21 April, though, the GCC decided that the ratification of the ORD by the German parliament could go ahead, as is "does not appear highly likely that the Bundestag's overall budgetary responsibility were indeed violated". However, it reiterated the importance for the legality of NGEU that it is limited in time, size and scope, and left the door open for a final decision on the matter to overrule the initial decision.
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. To access the funds, countries have to "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 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.

46. The UK: Government is willing to spend 'whatever it takes' to tackle the outbreak

Measure	Detail
Direct Measures	The UK government has now announced GBP344bn worth of measures since March 2020, according to costing figures contained in the latest UK Budget, published on 3 March 2021. Policies contained in the Budget, which accounts for GBP44bn of those, included an extension of the biggest single measure so far – the Job Retention Scheme. Under the scheme, companies are eligible for grants covering 80% of furloughed workers' salaries up to a monthly cap of GBP2,500. The government had planned to retire the scheme at the end of October 2020, but it has now been extended four times. The latest extension, announced at the Budget, takes the scheme out to the end of September 2021. However, employers will need to pay 10% of the 80% wage subsidy in July, rising to 20% in August and September. Other schemes were also extended at the March 2021 Budget, including a VAT cut from 20% to 5% for restaurants, hotels and cultural attractions – the 5% rate will now run until the end of September 2021, when it will climb to 12.5%, before then returning to the full 20% in April 2022. In addition, a stamp duty 'holiday' announced last July, which raises the tax-free threshold on house purchases from GBP125,000 to GBP500,000, will run until the end of June. Then, between June and September, the 'nil rate' band will be set at GBP250,000. 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. Then, on 3 March, GBP5bn worth of 'restart' grants were set out for the hospitality and non-essential retail businesses, as well as gyms and personal care services. These grants will be worth up to GBP18,000. The government has, however, begun to outline measures to stabilise the public finances for when the economy recovers, including a planned corporation tax hike for large corporates, from 19% to 25%, in 2023, and a freeze to income tax personal allowance thresholds. Based on updated economic forecasts, and the measures announced in the March Budget, the OBR expects public borrowing of GBP234bn (10.3% of GDP) in the 2021/22 fiscal year, following borrowing of GBP303bn (14.5% of GDP) in 2020/21.
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, HMT.

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