Europe COVID-19 tracker

Tough times ahead despite ongoing vaccinations

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Economics - Europe

- Infection numbers are still rising at a concerning pace
- While vaccinations are being rolled out, progress across countries has been mixed…
- …and in the near term, restrictions are tending towards tightening, rather than loosening

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Ongoing COVID-19 threat is leading to further measures

The COVID-19 caseload remains worryingly high, not only in the UK but also in the eurozone Big 4 (charts 1 & 2). Moreover, those headline numbers may be flattered by a drop in testing at the end of December (chart 3), whereas positivity rates have continued to rise sharply (chart 4). Overall, the UK remains the hot spot in Europe, due to the prevalence of the highly infectious COVID-19 strain, which is responsible for more cases than all other variants combined there (chart 5). Consequently, the number of ICU patients in the UK has surged significantly, whereas they remain steady in France and Italy, and even dropped somewhat in Germany (chart 6).

Against that backdrop, governments have been either tightening restrictions or, at least, postponing any planned easing of measures. Hence, the stringency level of restrictions for many countries has reached a record reading (chart 7), while activity has slowed markedly (chart 8).

A mixed picture on vaccinations

Vaccines offer hope of an eventual improvement, of course. And recent data show some decent progress in this respect, particularly in the UK, but also in Italy and Spain (chart 9). In contrast to that, the rollout in France remains underwhelming – though it is still in line with the government's (arguably unambitious) goal of 1m vaccinations by the end of January (chart 10). This low target might be explained by continued, perhaps intensifying, vaccine scepticism (chart 11). Vaccinations have also had a bumpy start in Germany. Like in France, most German federal states decided to distribute both vaccine doses, instead of using up the first tranche for as many first shots as possible. The few federal states that followed this (UK) strategy, have shown higher vaccination rates (chart 12), which points to supply bottlenecks.

Q4 strength, but it may not last

Meanwhile, economic data for Q4 continue to surprise to the upside. For one, the unemployment rate in the eurozone dropped for the fourth consecutive month in November, with a particularly strong reading in Italy (chart 13). German labour market data for December were also solid, defying headwinds from a second strict national lockdown (chart 14). That said, new applications for short time work also soared in November and December (chart 15). Hence, the recent downward trend in short time working is likely to be reversed (chart 16). That would chime with a softening in activity in early 2021. Therefore, a quick roll-out of vaccines remains the key to easing restrictions and, in turn, unlocking the much hoped-for economic recovery this year.

This is a redacted version of the report published on 11-Jan-21. Please contact your HSBC representative or email AskResearch@hsbc.com for information.

Issuer of report: HSBC Trinkaus & Burkhardt AG

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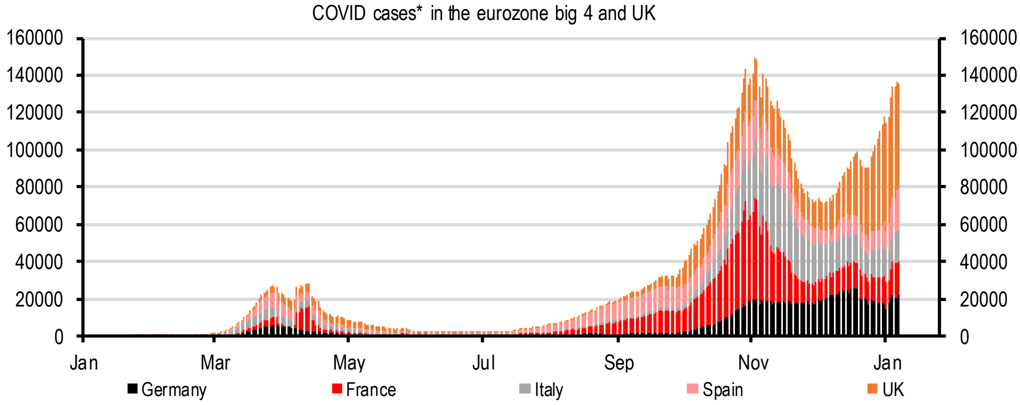
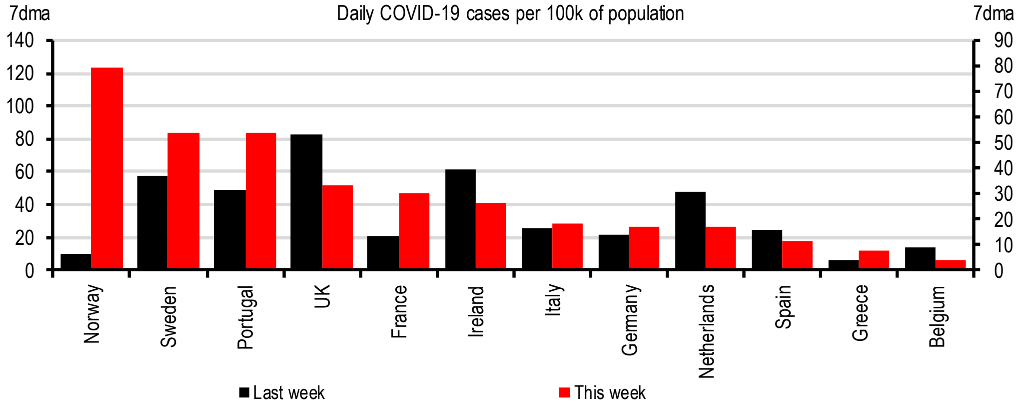
Case numbers high and rising

1. Combined new infections in the Big 4 + UK are still climbing towards their all-time high



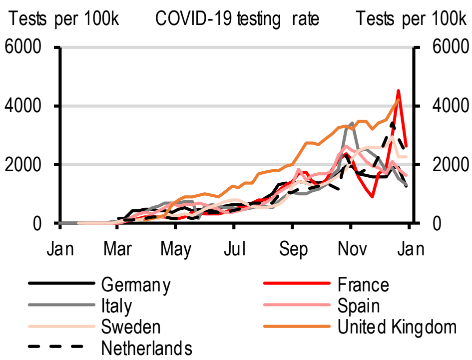
Source: ECDC, Our World in Data, HSBC. Notes: *7-day moving average. **UK cases include a jump of almost 23,000 on Sunday, 4 October 2020, as a backlog of over 15,000 missing cases were added after an error in the tracking system came to light (Reuters, 4 October).

2. While the UK and Ireland saw improvements, the situation in many other countries deteriorated further in the past week, particularly in Scandinavia and Portugal



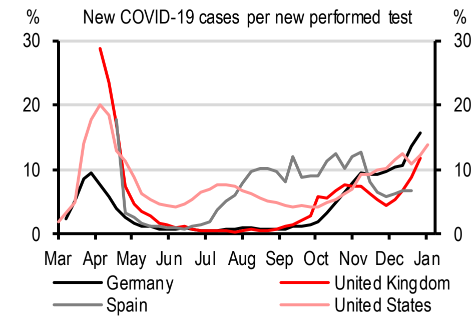
Source: Our World in Data, HSBC. Note: Week ended 12 January 2021.

3. Less testing over year-end holidays might be flattering case numbers…



Source: Macrobond, HSBC

4. …positivity rates have continued to rise

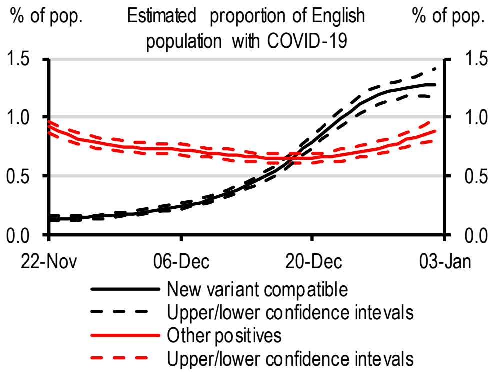


Source: Macrobond, HSBC

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

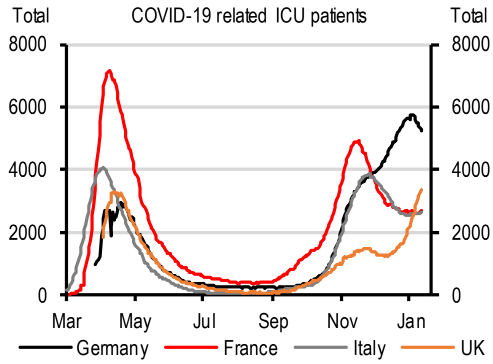
Rising infections = more restrictions

5. A new COVID-19 strain in England accounts for the majority of new cases



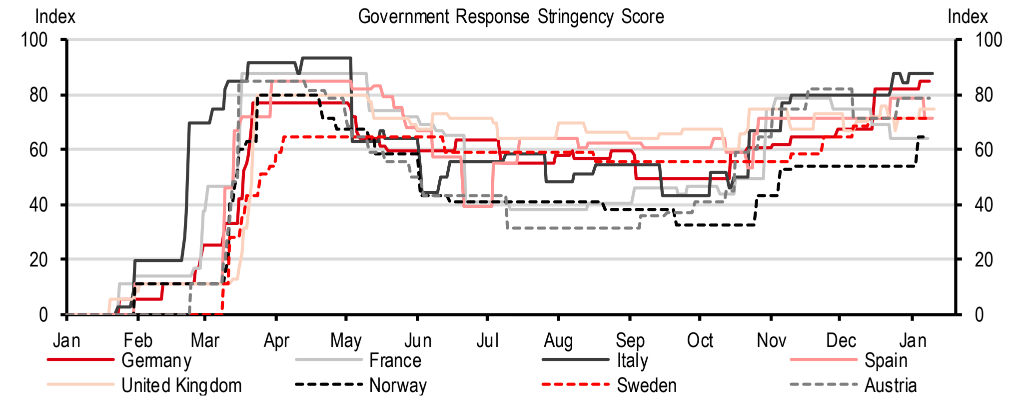
Source: ONS, HSBC

6. ICU hospitalisations have surged in the UK and remained elevated elsewhere



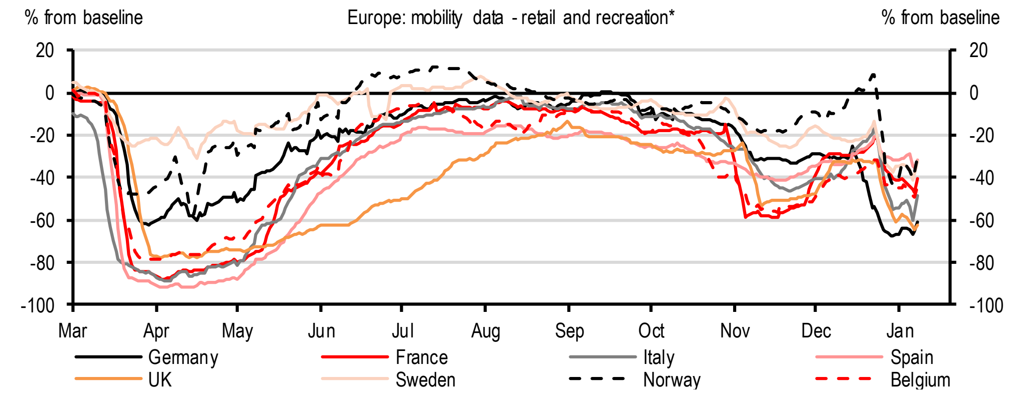
Source: Macrobond, HSBC

7. Restrictions have tended towards tightening rather than loosening…



Source: Oxford COVID-19 Government response Tracker, HSBC. Note: Data as at 12 January 2021.

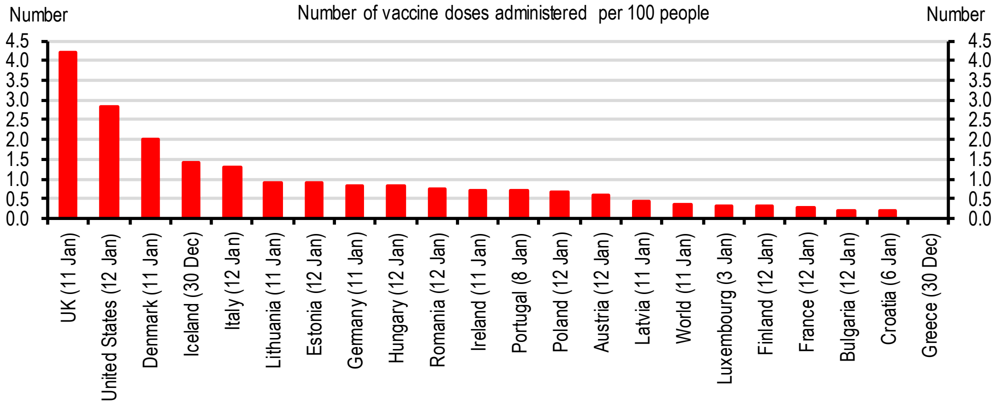
8. …which is depressing economic activity



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

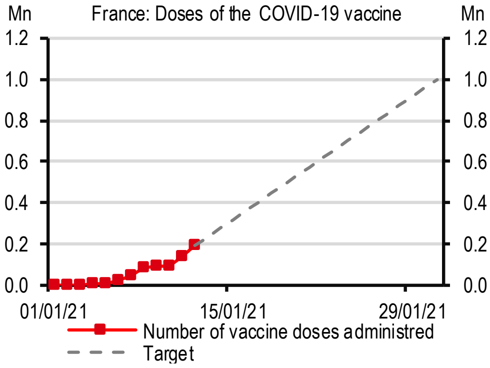
Vaccinations still have a long way to go

9. Mixed progress so far



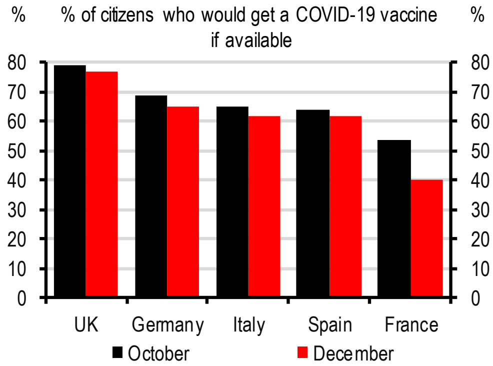
Source: Our World in Data, HSBC

10. France's vaccination numbers are low, but the target is unambitious…



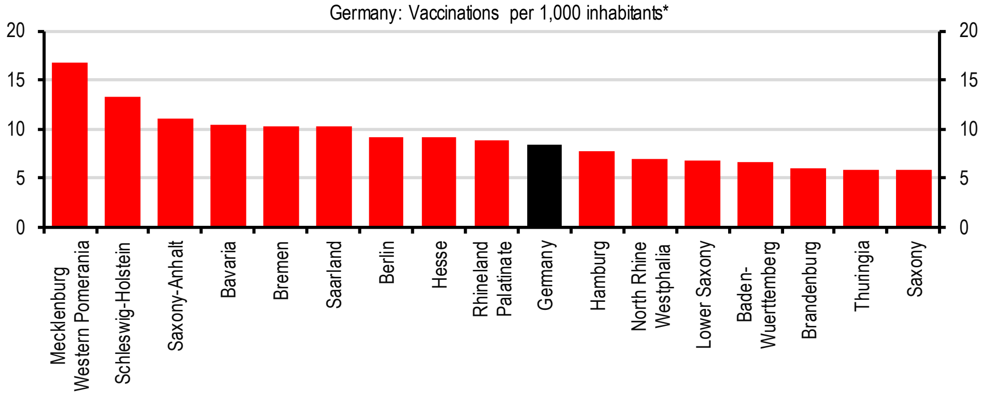
Source: COVIDTRACKER France, HSBC

11. …against a backdrop of vaccine scepticism



Source: Ipsos, HSBC

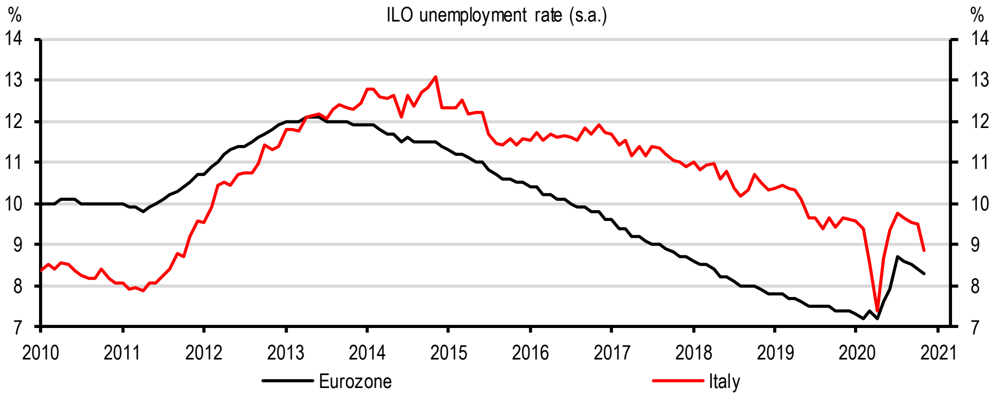
12. Germany also had a slow start but there are large differences between states



Source: RKI, HSBC * data as of 11 January. Note: Only Mecklenburg Western Pomerania has not hold back any available vaccine for a second vaccine shot since the beginning of the vaccination campaign and thus following the UK-strategy

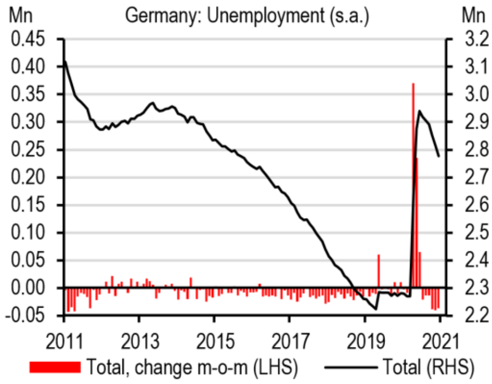
How long can the labour market resilience continue?

13. Eurozone unemployment dropped again in October and significantly in Italy…



Source: Macrobond, HSBC

14. In Germany, the labour market recovery extended into December…

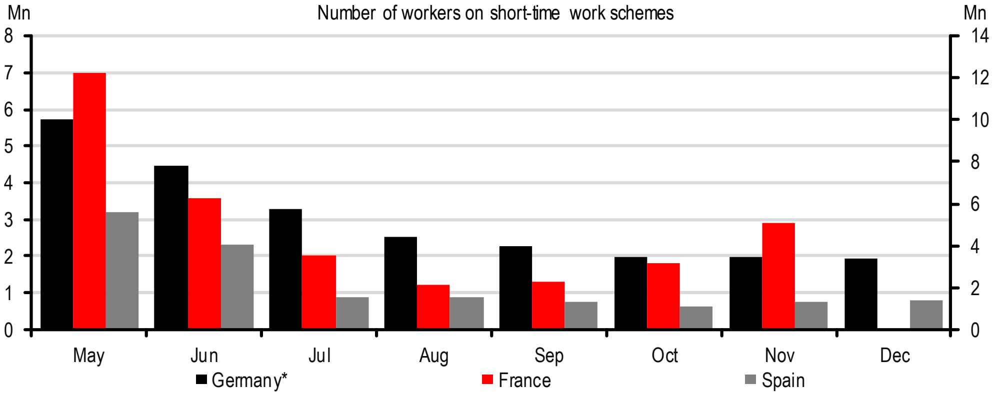


Source: Macrobond, HSBC

15. …but short time work scheme usage is up again…

Source: Macrobond, HSBC

16. …and has also been rising in France



Source: IFO institute, French labour ministry, Ministry of Labour, HSBC*Nov and Dec based on IFO estimates

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

Country	Latest on the lockdown measures
Germany	During a COVID-19 summit on 5 January 2021 the German government and the heads of federal states decided to extend the nationwide lockdown of non-essential retail shops and services (exceptions still apply to e.g. grocery stores, pharmacies, banks, opticians, petrol stations auto repair shops, post offices or dry cleaners) until at least 31 January. 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. In addition to the previous round of restrictions, factory canteens are now longer allowed to seat customers but can be opened for take-away only. Schools remain closed in all federal states until the end of January with the exception of emergency care. An analogous approach is taken in daycare centres. Moreover, the federal state of Bavaria announced that from 18 January using public transport and visiting a supermarket is only allowed for people wearing FFP-2 masks. Restrictions on personal mobility have also been tightened further. Regions that exceed the incidence threshold of 200 infections per 100k inhabitants within 7 days could now are facing an automatic travel ban. If enacted, people living in these areas are only allowed to move within a circle of 15km around their home, but the prosecution of wrongdoers is up to the federal states, of which some – like e.g. North-Rhine Westphalia – have stated that they won't do that. Moreover, restrictions for personal meetings have been tightened up as well, now mirroring those in the first lockdown period in spring. Hence, only personal meetings with one person from a different household at both public and private places are allowed, instead of up to five people from two different households. Finally, people traveling to Germany from designated risk areas abroad now need to provide a negative test result for entering Germany and then still have to quarantine for at least five days. To end the quarantine after five days a second negative test result is then 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. Given that the number of daily new cases has gradually risen since the start of 2021, next steps of the easing process are quite uncertain. The reopening of cinemas, theatres, and museums planned for 7 January has been once again delayed and 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 at 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 were loosened slightly from 7 January, allowing for employees currently working from home to go back into office one day a week if they want. On a local level, the incidence rate has recently risen more rapidly in some departments in the east and the south-east. As a result, a stricter curfew (starting on 6pm instead of 8pm nationwide) is currently applied to 22 departments. This stricter curfew could be extended to more departments in the following weeks, depending on the evolution of the pandemic.
Italy	Since 26 October, all cinemas, theatres, gyms, swimming pools, and ski resorts have been closed. 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. Primary and middle schools stay open while distance learning will be applied in high schools (for at least 75% of the total schooling time). However, following the Christmas period, schools have not re-opened yet other than in three regions (and with 50% presence). From 6 November, a nationwide curfew was 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. In general, in the 'red' and 'orange' regions, restaurants are shut all day and mobility is restricted to essential reasons (work, health). In the 'red' regions, non-essential retail shops also remain closed and schools for children from 11 years of age will be 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 regional differentiation. Currently there are five 'orange' regions (Lombardia, Vento, Emilia Romagna, Calabria, and Sicilia), while the others are yellow. Still, mobility restrictions across regions remain in place for all the country, at least for now. From 16 January, home visits should be limited to two adults. Ski resorts remain closed for now.
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 6 a 'high' level, while only 1 (Ceuta) has a 'low' risk level. Confinement measures (no movement across or between territories other than for health, work, legal, and education reasons) affect around 1,000 municipalities and 13 regions have closed their external borders (including Catalonia, Navarra, La Rioja, Aragon, Asturias, Andalusia, and Basque Country). Most municipalities have introduced restrictions of some sort to mobility, gatherings etc. while some 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.

A 10-day isolation period applies to all arrivals from numerous countries, including France and Spain. 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 for 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 10 days). On 8 January, the government confirmed that travellers entering England would be required to test negative for COVID-19 within 72 hours before entry.

Source: HSBC

A substantial vaccine rollout lies ahead

18. 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	300m + option to buy 100m more = 400m	Adenovirus	90%
BioNTech/Pfizer	200m + option to buy 100m more = 300m	mRNA	95%
CureVac	225m + option to buy 180m more = 405m	mRNA	TBD
GSK/Sanofi	300m	Protein adjuvant	TBD
Janssen/JNJ	200m + option to buy 200m more = 400m	Adenovirus	TBD
Moderna	80m + option to buy 80m more = 160m	MRNA	95%

Germany

Organisation	Dose	Type of vaccine	Reported effectiveness*
BioNTech/Pfizer	30m	mRNA	95%
CureVac	TBD	mRNA	-
IDT Biologika	5m	-	TBD
From EU	Up to 100m	-	-

France

Organisation	Dose	Type of vaccine	Reported effectiveness*
AstraZeneca/Oxford University	28mn by June, from EC	Adenovirus	90%
BioNTech/Pfizer	49m (including 26 mn by June), from EC	mRNA	95%
Moderna	7mn by June, from EC	MRNA	95%
Total (including other providers like CureVac, GSK/Sanofi and Janssen/JNJ)	225mn (including 77mn by June), from EC		-

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

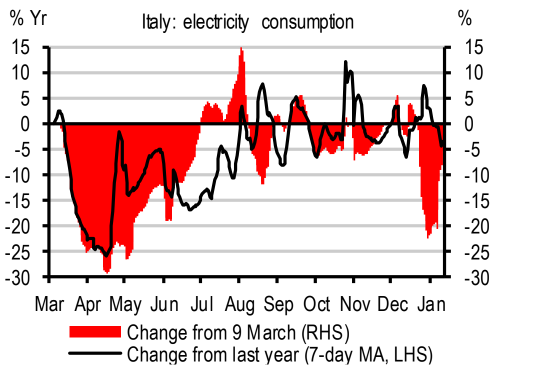
UK

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	7m	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.

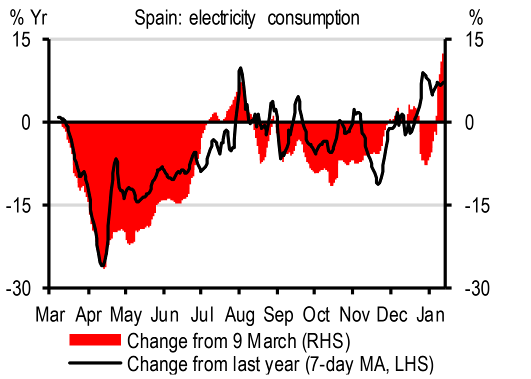
Real-time activity data

19. Annual electricity demand growth remains muted in Italy even after the New Year's break…



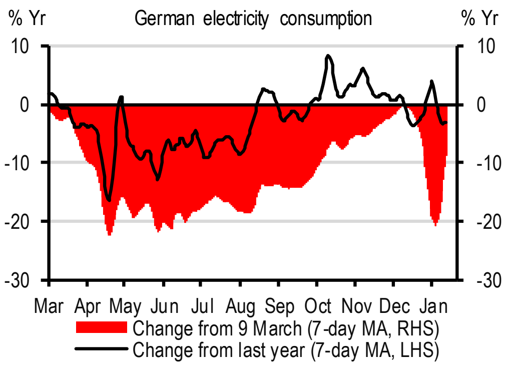
Source: HSBC calculations based on Terna (electricity network provider).

20. …while in Spain the latest up-tick seems to have stabilised…



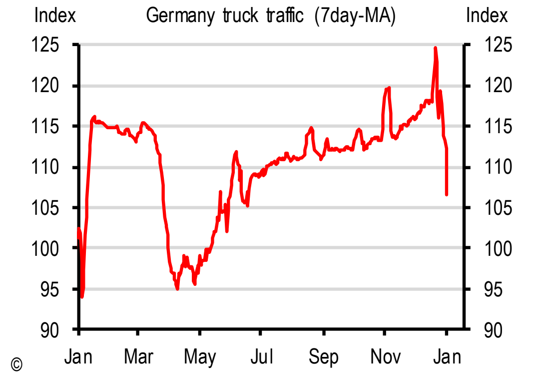
Source: HSBC calculations based on REF (electricity network provider).

21. … as it has in Germany, though on comparably low levels



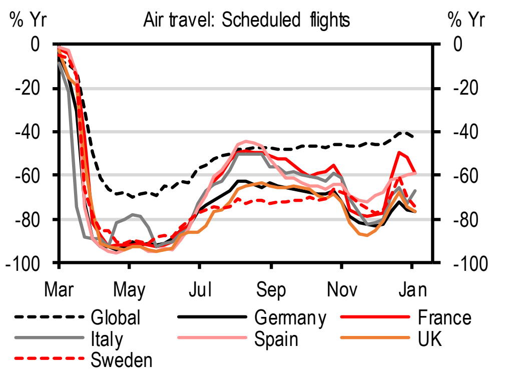
Source: Macrobond, HSBC

22. Truck traffic is also down significantly but that merely reflects a typical seasonal pattern



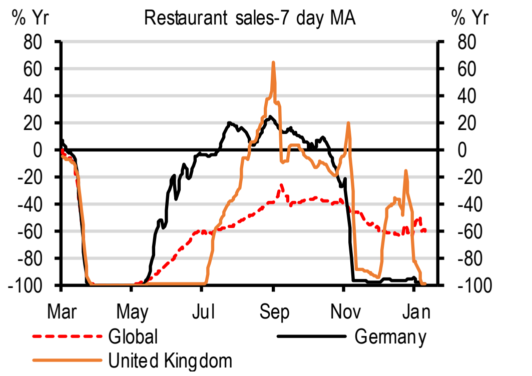
Source: Macrobond, HSBC

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



Source: OAG flights scheduler, HSBC

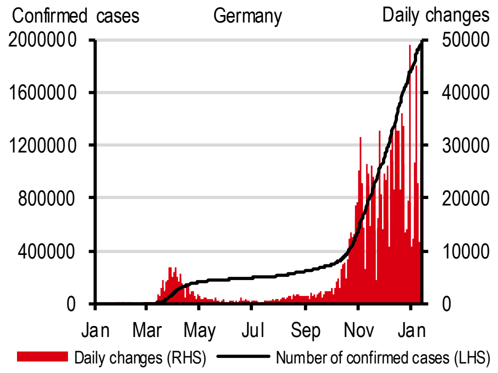
24. Unsurprisingly, the outlook for restaurant bookings remains exceptionally grim



Source: OpenTable, HSBC

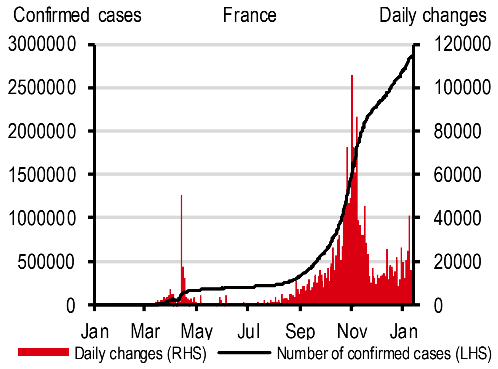
COVID-19 in Western Europe

25. German cases have begun to rise again from the holiday related slump



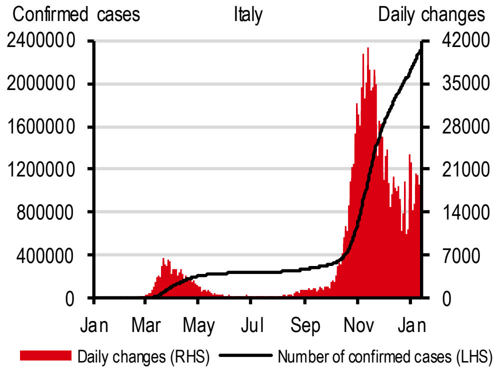
Source: ECDC, Our World in Data, HSBC

26. A similar pattern seems to be the case in France



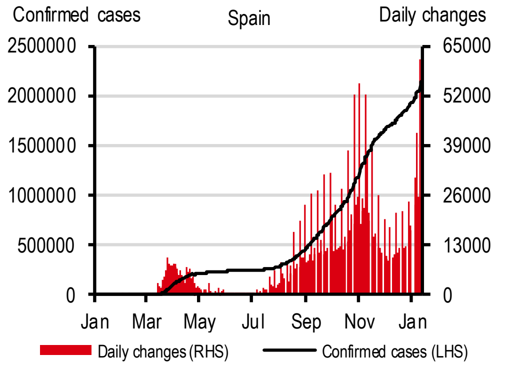
Source: ECDC, Our World in Data, HSBC

27. In Italy, the situation looks more stable…



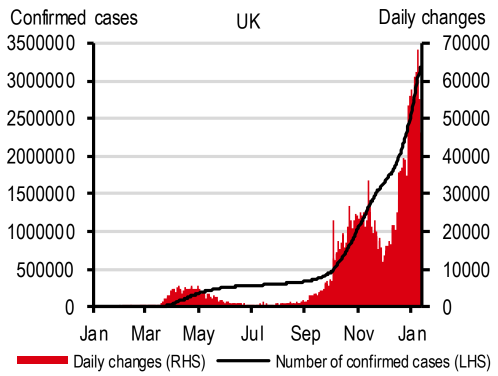
Source: ECDC, Our World in Data, HSBC

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



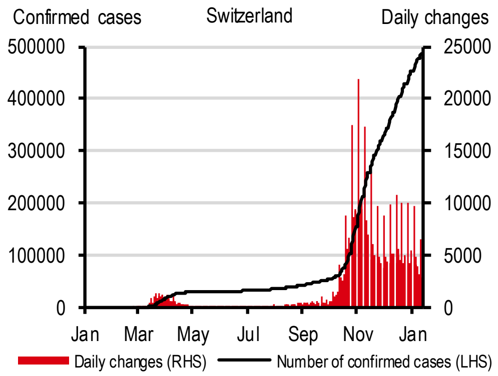
Source: ECDC, Our World in Data, HSBC. Note: There were 61,422 cases recorded on Monday, 11 January, but zero cases on the Saturday and Sunday. So this number probably covers cases over the weekend and on the Monday.

29. Though growth momentum has stopped, new infections in the UK are deeply worrying



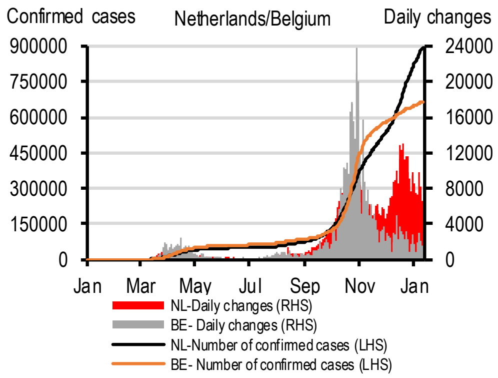
Source: ECDC, Our World in Data, HSBC
Note: *Jump on 4 October driven by incorporation of missing cases – see footnote on Chart 1. Even accounting for the volatility, cases are rising quickly.

30. Switzerland is also confronted with stubbornly high numbers going into 2021



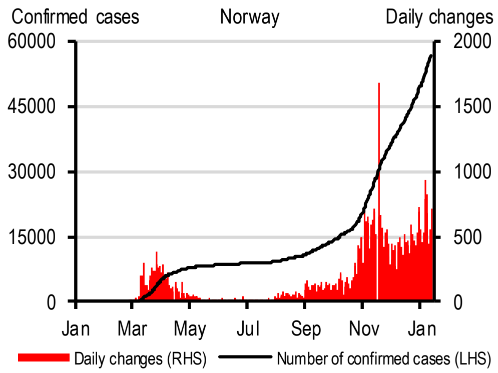
Source: ECDC, Our World in Data, HSBC

31. The Low Countries are doing comparably fine at the moment…



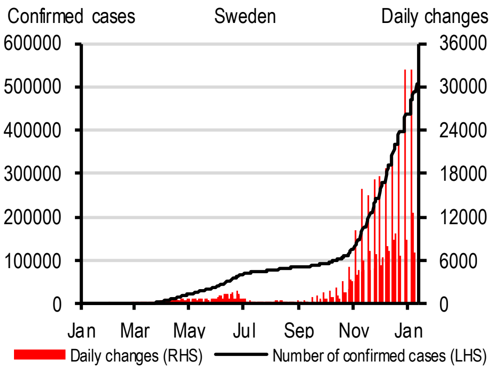
Source: ECDC, Our World in Data, HSBC

32. …as in Norway, where case numbers are on the rise but at low levels by European standards



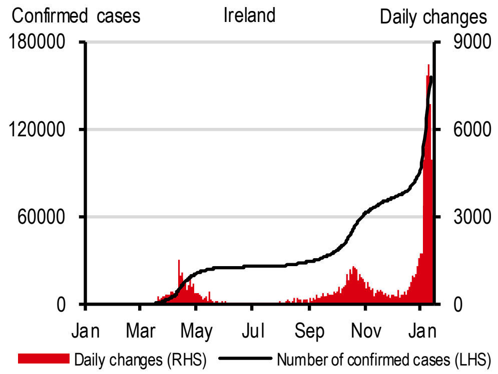
Source: ECDC, Our World in Data, HSBC

33. Sweden remains a COVID-19 hot spot in Europe…



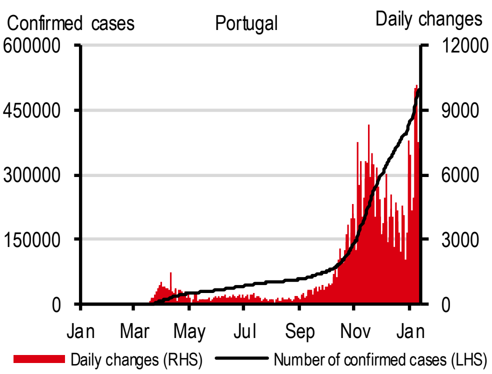
Source: ECDC, Our World in Data, HSBC
Note: There were zero cases recorded on 19-21 December but 22,319 recorded on 22 December so this number probably covers cases over these days

34. …though it still lags Ireland, which at least has stopped its exponential trend growth



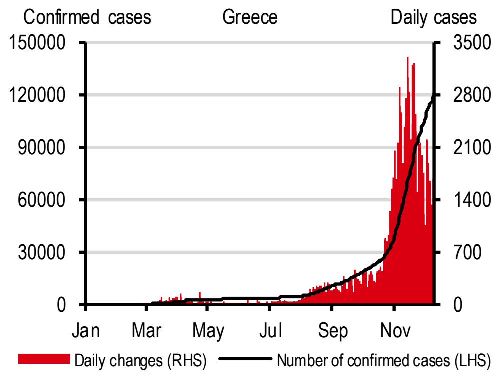
Source: ECDC, Our World in Data, HSBC

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



Source: ECDC, Our World in Data, HSBC

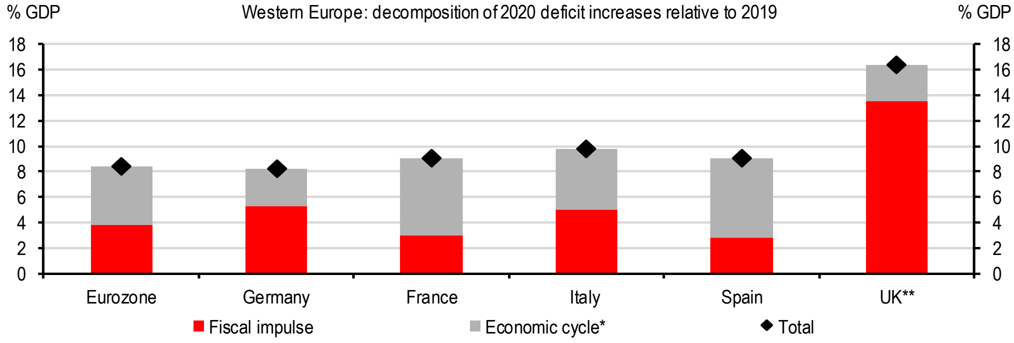
36. ...while in Greece the situation has slightly improved over the holiday season



Source: ECDC, Our World in Data, HSBC

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

37. 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.

38. 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; e.g.: ◆ Increased state subsidy for EEG (EUR11.0bn); ◆ Funding for long-run investment projects, e.g., "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. On 13 December, the Finance Ministry specified the additional support measures for businesses in the second hard lockdown. Both the so called Überbrückungshilfe (interim aid), which was extended until June 2021, as well as the immediate support measures (November-Aid) aimed at businesses that are forced to close down completely, started to give across-the-board payments. In the latter more generous scheme, businesses are compensated by up to 75% of their respective November and December 2019 revenues. As of 12 January, EUR1.3bn of EUR4.5bn approved payments have been drawn. While more firms are eligible for the Überbrückungshilfe – as technically every business that has seen a substantial plunge in revenues due to the pandemic and the lockdown measures – this scheme only pays for fixed cost compensations of up to EUR200,000 per month. Of EUR1.6bn approved subsidies until mid-December, only cEUR1.2bn has 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 12 January, a total of EUR46.1bn in KfW loans have been drawn, while direct credit guarantees only sum up EUR4.3bn.

Source: HSBC. Ministry of Finance.

39. 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 EUR11.9bn as of 13 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, EUR131.2bn of guaranteed loans had been granted by banks by 1 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.

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

Measure	Detail
Direct measures	Parliament approved in the summer a new package of fiscal support worth EUR25bn (1.5% of GDP) this year and another EUR6bn (0.4% of GDP) next year. This follows on from EUR75bn (4.5% of GDP) of fiscal measures implemented earlier in the year to support the health sectors, workers and firms. The government expects a deficit of 10.8% of GDP this year based on the multi-annual budgetary plan approved on 6 October (we see it as 11.4%). Following the 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 by another six weeks until 31 December, totalling some EUR5bn in total (0.3% of GDP). On 7 November, an additional EUR2.5bn of financial support measures were agreed on by the government. These 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. According to the press, a total EUR20bn package, including additional support measures to those mentioned above, might go to parliament soon, even if it will weigh on the 2021 deficit as opposed to this year's (Il Sole 24 Ore, 17 November). 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. 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 could be used to finance a temporary reduction of labour taxes from 2021 – one of the reform priorities identified by the EC for Italy – 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 also wants to start put aside some money for a major income tax reform. In the draft Recovery and Resilience plan, seen by the press (Corriere della Sera, 7 December) and set to be presented to the European Commission in early 2021 to unlock EUR207bn of funding over the next six years, the government identifies six strategic areas: digitalisation and innovation, ecologic transition, infrastructure, education, social and territorial inclusion and gender parity and health. The Finance Ministry expects 60% 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 2.3ppt by 2026 (but 1.1ppt in a less optimistic scenario in terms of additionally of investment). The structural reforms included in the plan (particularly on the labour market, including a widespread income tax reform) should help to 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, 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). The government is considering extending the guarantees until 30 June 2021, subject to EU approval (Il Sole 24 Ore, 22 October). 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. There have been about EUR400bn of guaranteed loans of which about EUR300bn is for moratorium payments on the loans (of which two-thirds is to firms and a third to households and self-employed) and another EUR80bn of loans to SMEs guaranteed by Fondo di Garanzia. The loans guaranteed by SACE to exporting firms topped cEUR16bn.

Source: HSBC. Ministry of Finance, Fondo di Garanzia.

41. Spain: A budget for 2021 at last

Measure	Detail
Direct measures	Spain has approved EUR28bn (2.5% of GDP) in discretionary fiscal measures to support the economy. These include measures to support the health sector, workers' protection schemes, extension of unemployment benefits, and measures to support households and firms hit hardest by the crisis. For the short-time work compensation scheme (ERTE), initially SMEs were exempted from 100% of their social contributions and 75% for all other firms (EUR17.9bn). Short-time schemes have now been extended until January 2021, but the discount to firms' social contribution has been progressively reduced (currently 35/25%). From 15 June, a new temporary minimum citizenship income scheme of EUR460 per adult to up to EUR1,015 per household is also available. On 3 July, the government announced further support measures, among which EUR10bn will be available for equity support to strategic firms and EUR1.1bn in fiscal incentives to renew vehicles for low-income earners. 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. This means higher deficit and debt, at least in the near term. We see the deficit nearing 10% of GDP next year and declining slowly in 2022, with the structural deficit at about 5% of GDP. This could leave a difficult consolidation challenge for the Spanish government going forward, which might raise concerns among investors and rating agencies. Under pressure from the junior party, UP, the government also appears to be working on a four-day working week (El Mundo, 4 December) and a further rise of the minimum wage from EUR950 to EUR1,000 per month from January (El Economista, 2 December). The latter would come on top of the 40%+ rise seen in the past four years. Similar reforms could increase the rigidity of the labour market, potentially unwinding the benefits of past reforms and delaying the recovery.
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, a little more than EUR100bn has been used.

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

42. 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.

43. 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.

Disclosure appendix

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