HSBC Global Research

3 March 2021

Europe COVID-19 tracker

Vaccines vs variants, central banks vs markets

Free to View
Economics - Europe

- Infection rates have stopped falling in Germany and France and have picked up in Italy, possibly due to the UK variant…
- …so, despite further evidence of vaccine efficacy, the chance of a material loosening in restrictions in Q1 is slim…
- …and as the labour market may be softening again, market expectations for higher policy rates may be unwarranted

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Vaccines vs variants

The news on COVID-19 infections across Europe this week has not been good. The caseload across Europe's Big 5 economies has stopped falling, while numbers have started to increase again in France and Italy (chart 1). New variants may be playing a role – the more-infectious UK variant is working its way across the continent and is estimated to account for around 40% of European cases outside the UK (chart 3). There are also concerns about the South Africa and Brazil variants. Although they make up less than 2% of European infections over the past month, that masks regional differences – the South Africa variant accounted for over a fifth of cases in the Grand Est region of France, leading to restrictions there (Le Journal de Dimanche, 25 February).

Fears about the infectiousness, and vaccine resistance, of new variants is one reason why governments have remained reluctant to ease restrictions by much any time soon. In Germany, much of the national lockdown will remain in place until 28 March (Deutsche Welle, 2 March), while France's PM Jean Castex pointed to 20 departments which may be subject to further restrictions from this weekend (RFI, 25 February).

The vaccination programme continues to represent light at the end of the tunnel. The UK continues to lead the way in Europe, with roughly a third of the population having received a first vaccine dose (chart 5). And there are further signs that infections among people who were vaccinated early – namely, those aged over 85 – are falling more quickly than the rest of the population (chart 6). But progress across Europe remains fairly slow and vaccine scepticism, though lower than last year (chart 9), poses a risk to the rollout.

Central banks vs markets

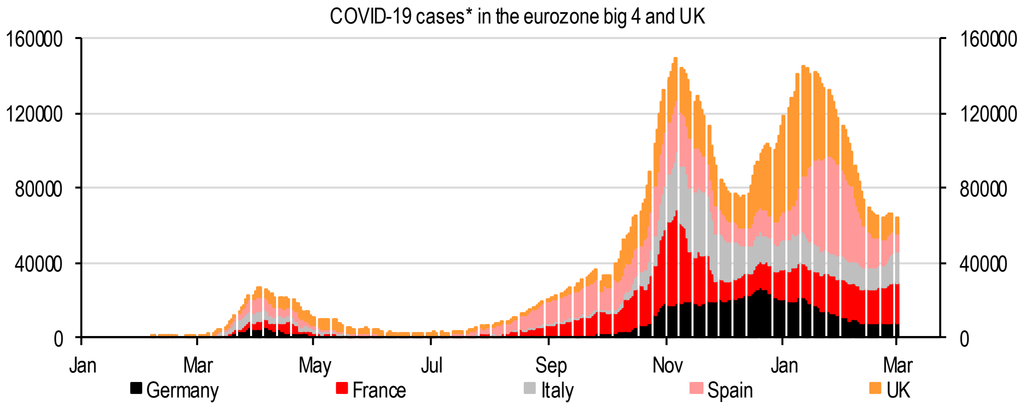
On the economy, reflation remains a major theme. While market rate expectations have softened a touch since the end of last week, they nevertheless point to multiple rate hikes from the ECB and the BoE by 2025 (chart 15). Against this backdrop, we were struck that the pace of ECB asset purchases actually fell back last week (chart 16). But, while we see the ECB riding out the bond selloff (ECB Preview: Money talks, 1 March), its words are getting tougher, with François Villeroy de Galhau this week saying that the ECB "can and must react against" unwarranted rises in yields (Bloomberg, 1 March).

To us, market expectations seem toppish. Our view not only reflects near-term concerns about COVID-19 cases and variants, but also our expectation that a persistent degree of labour market slack will keep labour costs and prices in check. Indeed, ongoing restrictions saw the jobs numbers starting to soften again in February in Germany and Spain (charts 17 and 18). And, to the extent that we see sub-target inflation possible over the medium term (chart 19), we think expectations for higher policy rates are premature.

This is a redacted version of a report by the same title published on 03-Mar-21. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

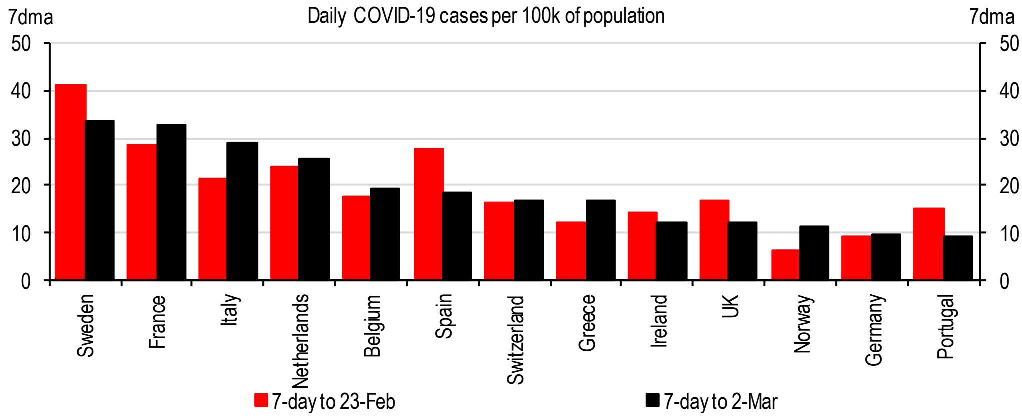
COVID-19 infections still a mixed bag

1. Overall cases are broadly steady across Europe's Big 5 as a whole…



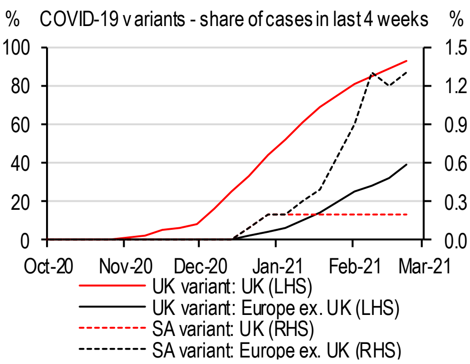
Source: Refinitiv Datastream, HSBC. *7-day moving average. Note: UK cases include a jump of almost 23,000 on Sunday, 4 October 2020, as a backlog of over 15,000 missing cases were added after an error in the tracking system came to light (Reuters, 4 October).

2. …but the numbers are up in France and Italy



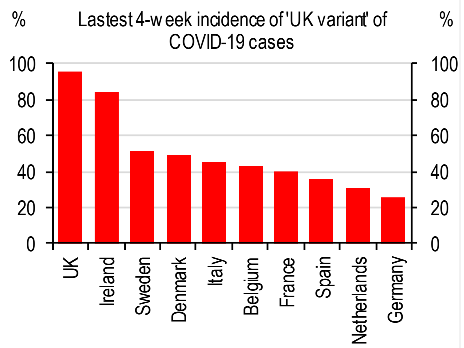
Source: Refinitiv Datastream, HSBC. Note: Weekend numbers are reported as 0, so "7-days to" does not include Saturday and Sunday.

3. The UK variant accounts for around 40% of cases in Europe outside the UK…



Source: GISAID, HSBC

4. ...but the share is not as high in Germany

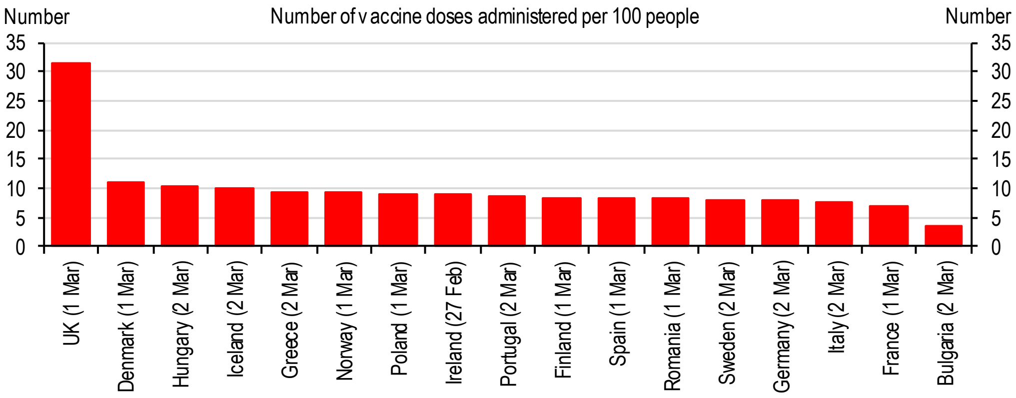


Source: GISAID, HSBC

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

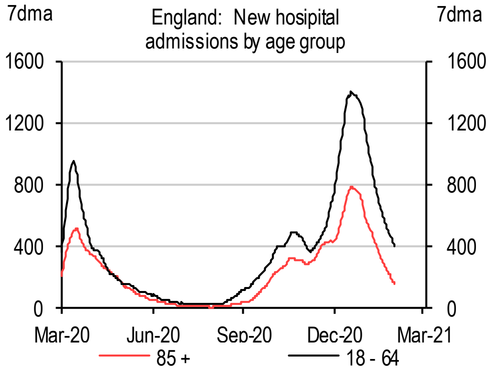
Vaccination seems to contribute to lower infection numbers

5.The UK is the significant frontrunner on the vaccine rollout…



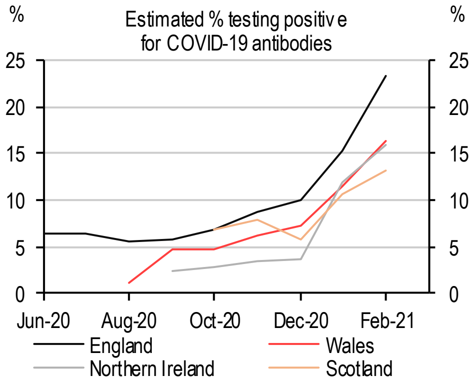
Source: Our World in Data, HSBC

6. …and cases continue to fall quickly among people aged over 85…



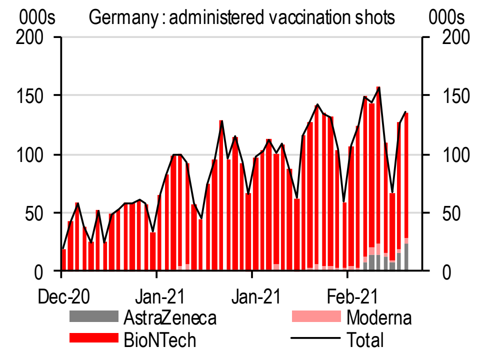
Source: UK.Gov, HSBC

7. …while an increasing share of the UK population has antibodies



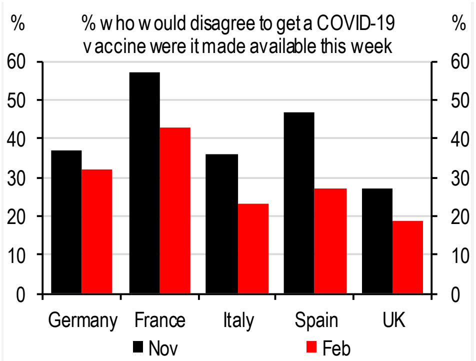
Source: ONS, HSBC

8. The AstraZeneca vaccine share remains fairly low in Germany



Source: Macrobond, HSBC

9. While vaccine scepticism has fallen, it remains most elevated in France



Source: YouGov, HSBC

A substantial vaccine rollout lies ahead

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

EC

Organisation	Dose	Type of vaccine	Reported effectiveness*
AstraZeneca/Oxford University	Up to 400m	Adenovirus	70.4%
BioNTech/Pfizer	Up to 600m	mRNA	95%
CureVac	Up to 405m	mRNA	TBD
GSK/Sanofi	300m	Protein adjuvant	TBD
Janssen/JNJ	Up to 400m	Adenovirus	66%
Moderna	Up to 450m	MRNA	95.6%

Germany

Organisation	Dose	Type of vaccine	Reported effectiveness*
BioNTech/Pfizer	30m + 64m from EC = 94m	mRNA	95%
CureVac	TBD	mRNA	-
IDT Biologika	5m	-	TBD
Moderna	20m + 30m from EC = 50m	MRNA	95.6%
From EU	Up to 100m	-	-

France

Organisation	Dose	Type of vaccine	Reported effectiveness*
AstraZeneca/Oxford University	44m (including 28m by June), from EC	Adenovirus	70.4%
BioNTech/Pfizer	49m (including 26 m by June), from EC	mRNA	95%
Moderna	24m (including 7m by June), from EC	MRNA	95.6%
CureVac	45m from EC	mRNA	TBD
GSK/Sanofi	24m from EC	Protein adjuvant	TBD
Janssen/JNJ	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%

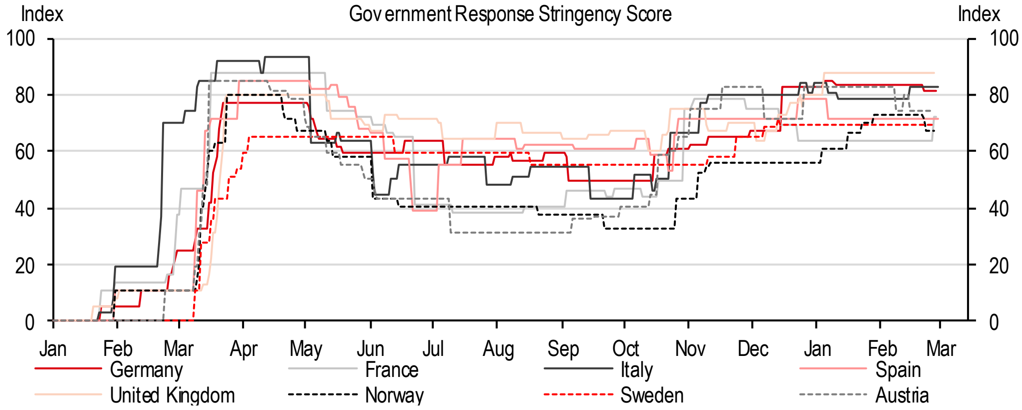
UK

Organisation	Dose	Type of vaccine	Reported effectiveness*
AstraZeneca/Oxford University	100m	Adenovirus	70.4%
BioNTech/Pfizer	40m	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 190m	Inactivated whole virus	TBD

Source: AstraZeneca, BioNTech, CureVac, GSK, Jassen, Moderna, Novavax, IDT Biologika, Valneva, HSBC.
*Maximum reported.

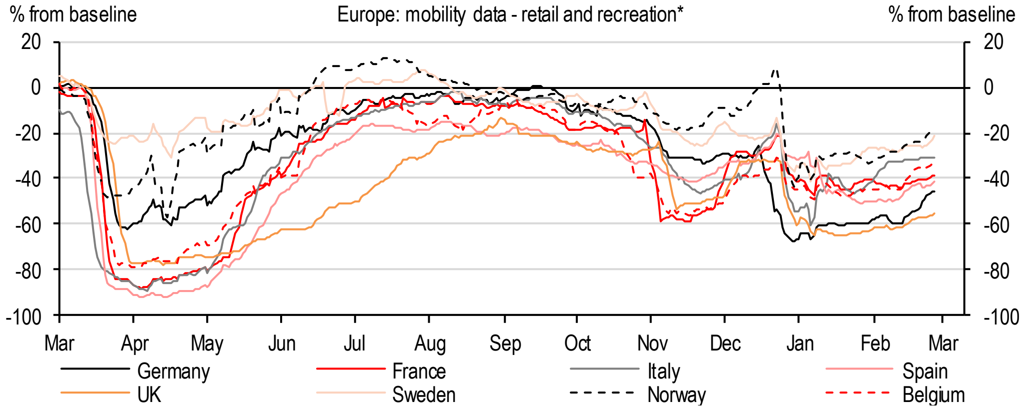
Governments are cautious in lifting restrictions

11. Restrictions remain tight



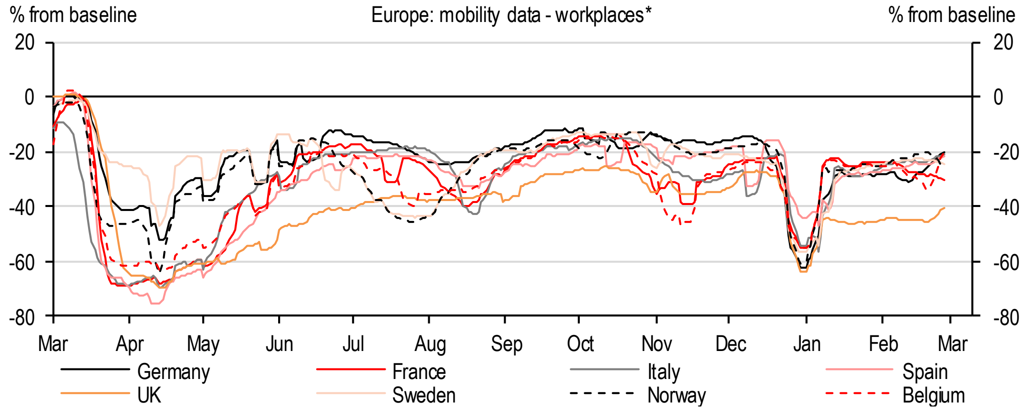
Source: Oxford COVID-19 Government response Tracker, HSBC. Note: Data as at 22 February 2021.

12. Mobility data point to modest further gains in activity…



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

13. …while workers did not seem to have been affected much by the latest restrictions



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

Latest on restrictions in the major countries

14. Restrictions are ongoing, if not ramping up, in continental Europe

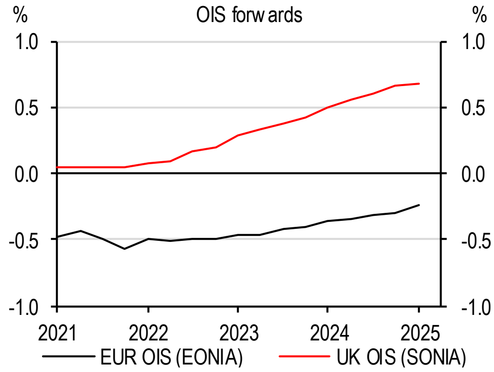
Country	Latest lockdown measures
Germany	The German government and head of federal states are likely to agree to generally extend the nationwide lockdown of non-essential retail shops, restaurants, bars and many services until at least 28 March on their summit on 3 March. While some business sectors could be reopened earlier, these measures are subject to certain criteria which indicate a controllable infection situation, at least at the relevant regional level. Schools have been partially reopened since 15 February, though federal states have taken slightly different approaches with respect to how many classes return physically and which precautions and safety measures are applied. Restrictions on personal mobility were slightly eased, too. According to the white paper, personal meetings will be limited to five persons (children up to 14 years are not counted) from two different households at both public and private places. When using public transport or visiting shops, people still have to wear medical masks to increase protection for the mask user. An even stricter rule applies for employees and visitors of nursing homes, who have to wear FFP-2 masks for at least as long as there is not a sufficient protection through vaccination. Also, remote working is strictly recommended and businesses are pressed to provide opportunities for remote working wherever possible until at least 30 April. A followup summit on restrictions and lockdowns is scheduled for 22 March. People travelling to Germany from designated risk areas abroad still need to provide a negative test result and then quarantine for at least five days. To end the quarantine after five days a second negative test result is required. Moreover, non-residents travelling from regions with an incidence level above 200 infections per 100k inhabitants and or countries with a known virus mutation are prohibited to enter Germany. Exemptions apply only for transit passengers or goods trade (e.g. lorry drivers). Additionally, Germany has enacted strict border controls for traffic from the Czech Republic and the Austrian Federal State of Tyrolia until at least 17 March, as entries from these areas are now generally prohibited (with exceptions for, e.g., transit of goods) to contain the spread of the new virus mutations from the UK and South Africa.
France	On 15 December, the nationwide lockdown was lifted and replaced by an 8pm-6am nationwide curfew (with limited exemptions including work or medical emergencies). However, the number of daily new cases has gradually risen since the start of 2021, leading the government to postpone the next steps of the easing process, like reopening of cinemas, theatres and museums (initially planned on 7 January) and restaurants (initially planned on 20 January). The initial objective of allowing all high school pupils to return to school on 20 January has been delayed as well. There have been only very limited relaxations for universities (with a partial return to in-person classes) and firms (remote working remains mandatory where applicable but rules have been loosened slightly from 7 January, allowing for employees currently working from home to go back into office one day a week if they want). Kindergartens, primary and secondary schools are still fully open, but with strict health protocols (including mandatory mask wearing for pupils older than 6). Conversely, the government has adopted additional restriction measures since the start of the year. A stricter curfew (starting on 6pm instead of 8pm nationwide) has been put in place at the national level since 16 January (and even earlier for some of the most affected regions in the east and the south-east). On 29 January, Prime Minister Jean Castex announced new measures aiming at preventing a third nationwide lockdown. 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. Finally, recourse to remote working will be stepped up in businesses and public administration. More recently, local stricter restrictions have also been announced in the departments where the pandemic is the most virulent. A local lockdown effective on weekends has been put in place in the department of Alpes-Maritimes and in the agglomeration of Dunkirk. In these areas, the number of new cases of COVID-19 has recently increased due to the different variants of the coronavirus. On 25 February, Jean Castex announced an enhanced surveillance on 20 departments in the north, the Paris region, the east and the southeast. The Prime Minister is due to announce this week whether additional restrictive measures have to be taken in these territories where the virus is circulating very actively and endangers hospital services. Looking ahead, additional restrictions on the local level or the national level (including a national lockdown) could be decided if the number of new cases rises more significantly or if the threats posed by the new virus variants (especially the UK variant) appear too high.
Italy	Since 26 October, all cinemas, theatres, gyms, swimming pools and ski resorts have been closed and remain shut to date. Outdoor gatherings are prohibited. Masks have to be worn indoor and outdoor. Restaurants and bars have to shut from 6pm (they can stay open later only for home delivery service, but from 16 January no longer for take-away as consuming food and drinks in public places after 6pm is now also banned). Shopping malls (other than those selling food) must be shut on Saturdays and Sundays. Group outdoor amateur sporting activities are suspended (but not organised ones for children). Attendance at sporting events is prohibited. Capacity in public transport is limited to 50%. Primary and middle schools are open while distance learning is applied in high schools for 25-50% of the total schooling time. 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. From 15 January, a 'white' category was also introduced, with very limited restrictions. In the 'red' and 'orange' regions, secondary schools, non-essential shops and restaurants are shut all day and mobility is restricted to essential reasons (work, health). In the 'red' regions, schools from 11 years of age are shut (13 years in the 'orange'). The new government has tightened further some mobility restrictions in the 'red' regions (e.g., visits to family and friends are no longer allowed) and also extended the prohibition to travel across regions until 27 March. The classification is updated on a weekly basis. From 1 March, for the first time since early January, there are two 'red' regions (Basilicata and Molise) plus parts of the Umbria regions, while nine of the 20 Italian regions are 'orange' (including some of the largest regions, Lombardia, Piemonte, Emilia Romagna, Toscana, Campania) and the others 'yellow' (with the exception of Sardinia which is 'white'). The government will reassess the situation on 15 March.
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. 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. As of 10 February, out of the 19 regions, 17 have an 'extreme' risk level and the remaining 2 are 'high' (from 7), with no region in the 'low' category risk, as Spain experienced a rapid increase in the number of COVID-19 cases in the third wave and renewed pressures on the hospital system (ICU occupancy rate of COVID-19 patients are above 40% across the country, around 50% in some regions, including Catalonia and the region of capital city Madrid, and around 60% in the Valencia region). Many regions tightened restrictions in January due to rising infection rates. For example, the Madrid region has brought forward the start of the curfew to 10pm (after having initially delayed it to midnight) and restaurants have to shut at 9pm, the Valencia region is prohibiting meetings of more than two people, in Andalusia shops and restaurants have to shut at 6pm and the city of Seville will be confined, while the Basque Region has also closed the borders of all its municipalities. The government is allowing regions to bring forward the start of the curfew to 8pm. Most regions already had their external borders closed. With the peak of the third wave passed, some restrictions are starting to be lifted. For example, the Madrid region delayed again the start of the curfew to 11pm and Catalonia is now enabling extra-curriculum activities for children and organised sport activities.
UK	On 4 January, PM Boris Johnson announced a national lockdown for England, including the closure of all schools until at least mid-February. On 22 February, he laid out a new four-step framework for lifting the lockdown, beginning with schools reopening and a small increase in permitted outdoor interaction on 8 March. On 29 March, there will be a further relaxation in outdoor restrictions. The remaining steps will depend on progress made against four targets relating to the spread of COVID-19 and success of vaccinations. The second step, which will be implemented on 12 April at the earliest, would see hairdressers and gyms reopen, and pub and restaurants allowed to serve customers outdoors (including selling alcohol without food). The third step (no earlier than 17 May) would extend this to indoor food and drink service, and see theatres and sports stadia reopened. And the fourth stage (no earlier than 21 June) would see the government aim to "remove all legal limits on social contact", including opening nightclubs. There will no longer be a tiered approach, with rules in all regions of England seeing rules change in the same way at the same time. Scotland, Wales and Northern Ireland have implemented lockdowns since late December, and will follow similar gradual re-opening paths, dependent on the data. In all nations, schools have remained closed following the scheduled return from the Christmas holidays, though primary schools began to reopen on 22 February in Wales and Scotland. The UK suspended all travel corridors on 18 January, meaning that if you arrive in the country from anywhere outside the UK, Ireland, the Channel Islands, or the Isle of Man you will need to self-isolate for 10 days. As of 15 December, the option is also available to take a private test, which, if negative, reduces the isolation period to five days. However, given the new South African and Brazilian variants of the virus, entry into the UK has been banned from a 'red list' of 22 countries including South Africa, Brazil and Portugal. As of 15 February, for those who cannot be refused entry – i.e. returning British or Irish nationals – a mandatory 10-day quarantine in government-approved accommodation now applies. All other travellers entering the UK are required to test negative for the virus 72 hours before leaving the country they are in (BBC, 8 January).

Source: HSBC, country data.

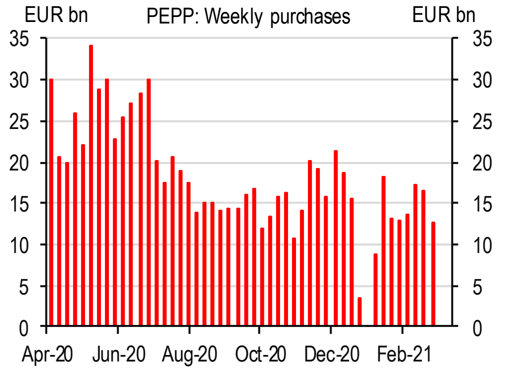
Central banks versus markets

15. OIS forwards point to multiple rate rises…



Source: Bloomberg, HSBC

16. …but, while ECB talk has toughened, PEPP purchases slowed last week

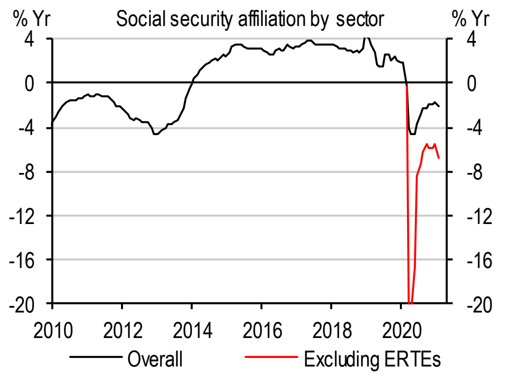


Source: Bloomberg, ECB, HSBC

17. German unemployment edged up in February…

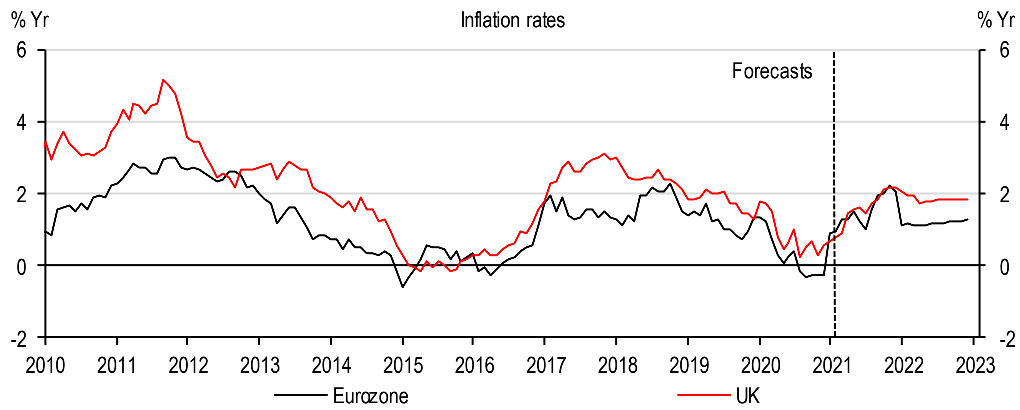
Source: Macrobond, HSBC

18. …while the Spanish numbers softened too



Source: Spanish Labour Ministry, HSBC

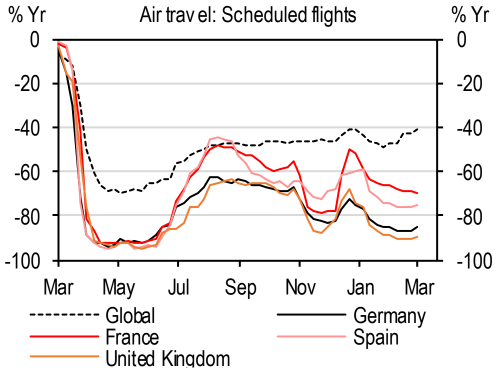
19. An inflation roller coaster lies ahead, but we think labour market slack should keep underlying price pressures in check



Source: Refinitiv Datastream, HSBC calculations.

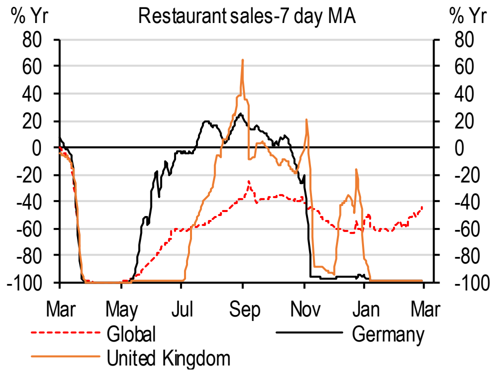
Real-time activity data

20. Air travel remains extremely depressed in Europe…



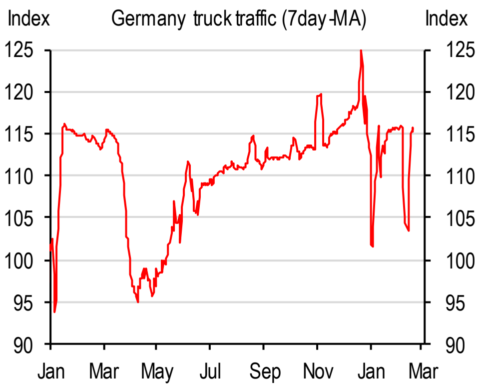
Source: OAG flights scheduler, HSBC

21. …while dine-in restaurant activity is non-existent in the UK and Germany



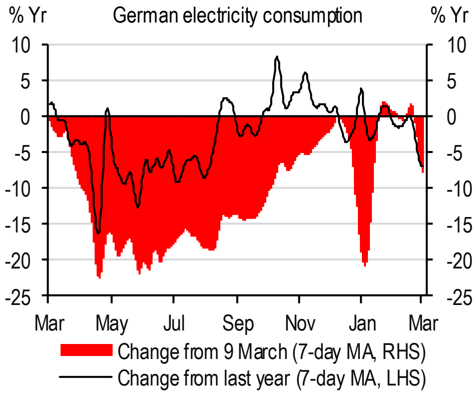
Source: OpenTable, HSBC

22. German truck traffic took a dip recently and border controls might have affected it



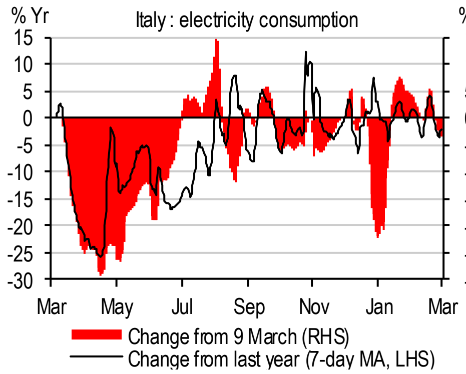
Source: Macrobond, HSBC

23. Electricity consumption is down a little on last year in Germany…



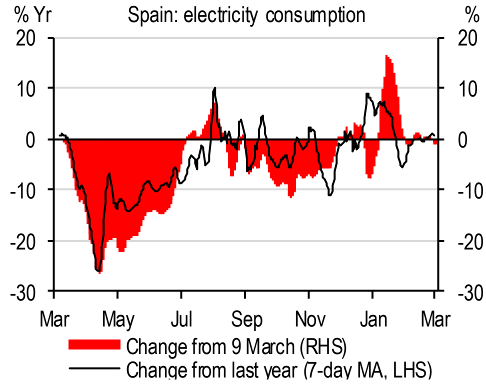
Source: Macrobond, HSBC

24. …and Italy…



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

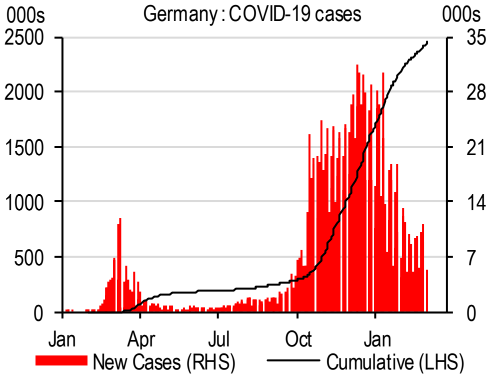
25. ...but up marginally in Spain



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

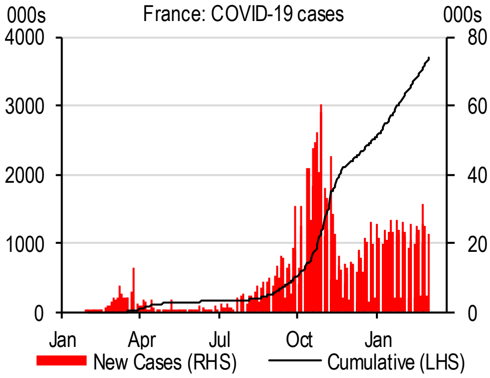
COVID-19 in Western Europe

26. German infection numbers have plateaued…



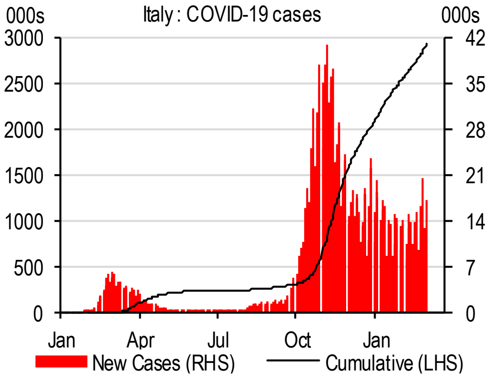
Source: Refinitiv Datastream, HSBC

27. …while the French numbers remain uncomfortably high…



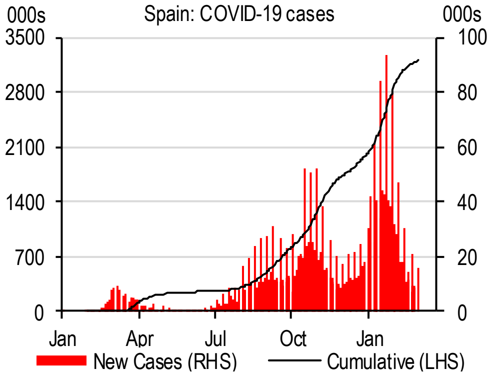
Source: Refinitiv Datastream, HSBC

28. …and cases in Italy have picked up…



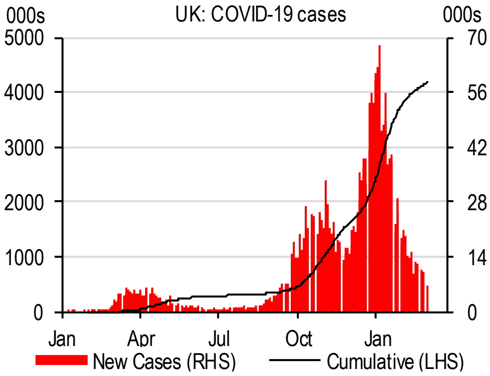
Source: Refinitiv Datastream, HSBC

29. ...but are still declining in Spain



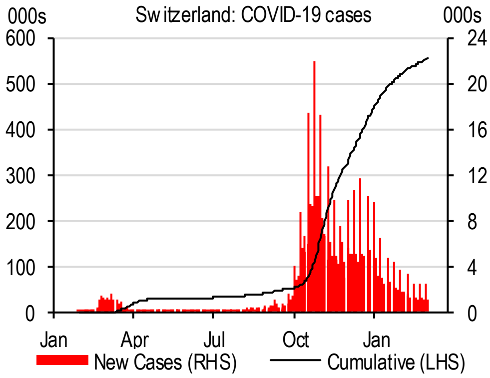
Source: Refinitiv Datastream, HSBC

30. The UK has seen a continued improvement in COVID-19 infections



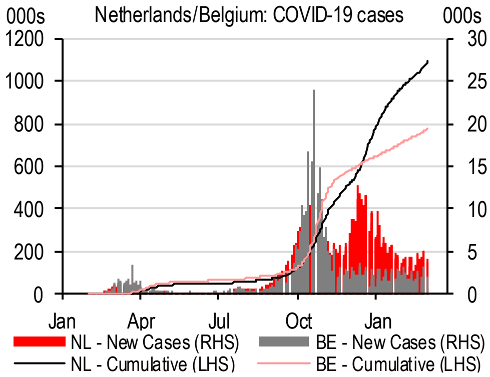
Source: Refinitiv Datastream, HSBC

31. Swiss case numbers may be starting to level off



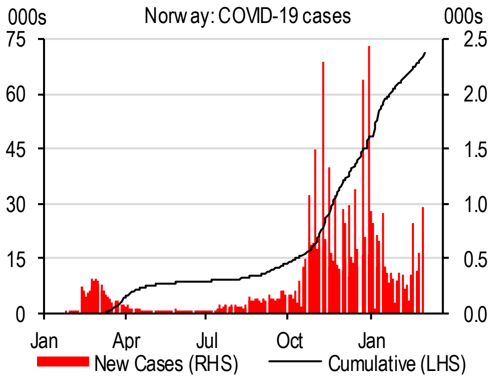
Source: Refinitiv Datastream, HSBC

32. Cases appear to have risen a little in the Netherlands…



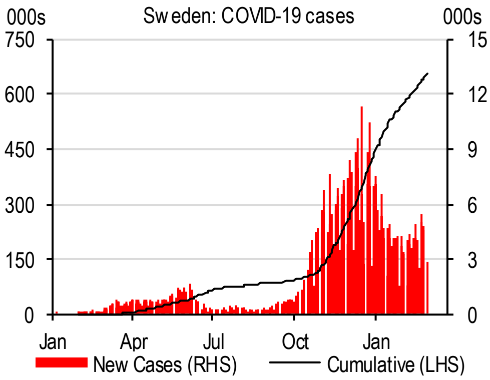
Source: Refinitiv Datastream, HSBC

33. …Norway…



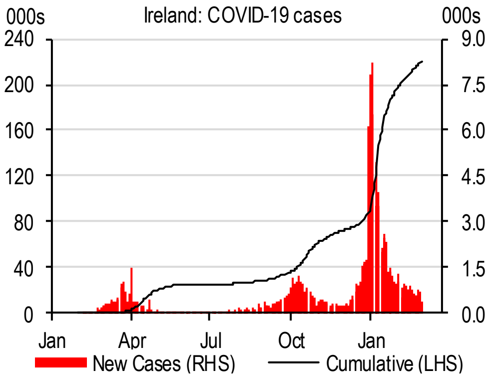
Source: Refinitiv Datastream, HSBC

34. …and Sweden…



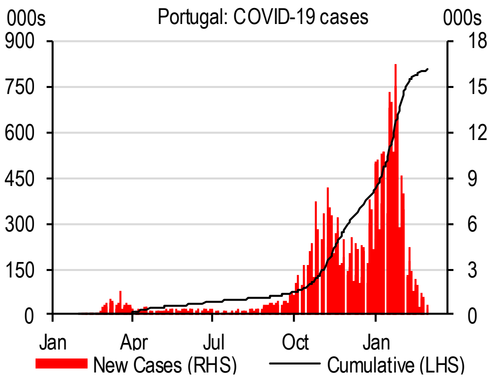
Source: Refinitiv Datastream, HSBC

35. …while numbers in Ireland have fallen a little further



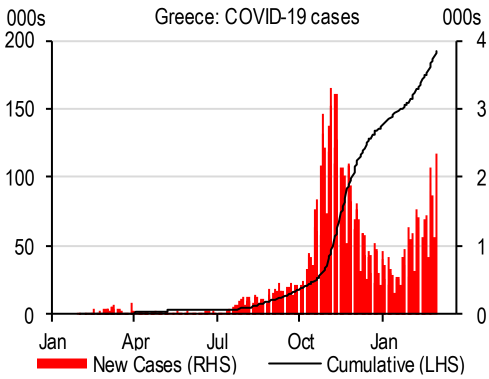
Source: Refinitiv Datastream, HSBC

36. Infections continue to fall in Portugal…



Source: Refinitiv Datastream, HSBC

37. …but are rising fast again in Greece



Source: Refinitiv Datastream, HSBC

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

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

Measure	Detail
Direct measures	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 amongst 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); ◆ Child benefit bonus of EUR300 per child (EUR4.3bn); ◆ Social security contribution limit at 40% for 2020 (EUR5.3bn); ◆ Temporary VAT cut until end-2020 (EUR20.0bn); ◆ Additional healthcare investment (EUR5.75bn); and, ◆ Enhancing the existing short-time work scheme by increasing the maximum duration from 12 to up to 24 months, increasing the wage compensation for longer-term short-time workers up to 87% of the net wage, and refunding employers' social security payments for employees in short-time work. Moreover, the government proposed a number of longer term expenditures that are not directly linked to tackling the COVID-19 disease but to ease the path towards a sustainable economic recovery; eg: ◆ Increased state subsidy for EEG (EUR11.0bn); ◆ Funding for long-run investment projects, eg, "green energy" (EUR36.0bn); and, ◆ Frontloading of planned public investment and expenses (EUR10.0bn). As an additional tool, a debt financed state fund worth EUR200bn as part of the so-called "Wirtschaftsstabilisierungsfonds" (WSF) was established that could either be used for KfW refinancing measures (EUR100bn) as well as for direct investment via acquiring shares in businesses (EUR100bn) to bolster their liquidity and ensure their solvency during the pandemic. As of 2 March, EUR8.36bn for recapitalisation measures have been drawn. In light of the recent lockdown extension, the German government undertook adjustments to make the Überbrückungshilfe III simpler, the support more generous and available to a larger group of companies. The details are as follows: ◆ Companies are eligible to apply in the event of a Corona-related drop in sales of at least 30% in a single month ◆ For companies with annual sales of up to EUR750m ◆ Subsidy volume and discount amount have been increased: up to EUR1.5m in bridging assistance ("Überbrückungshilfe") per month including 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 consideration 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 turnover) As of 2 March, applications for EUR1.92bn for the "Überbrückungshilfe III" have been made, of which EUR0.53bn has already been allocated. Meanwhile, as of 2 March, EUR7.68bn of EUR10.37bn approved payments has been drawn from the previous and more generous November/December Aid program, while the roughly EUR3.5bn in approved applications for the Überbrückungshilfen I+II" has now been almost completely allocated.
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 25 February, a total of EUR48.24bn in KfW loans has been drawn, while direct credit guarantees only summing to 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 2020 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. 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. 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, the Solidarity fund had disbursed EUR15.8bn as of 2 March while the number of workers effectively benefiting from the short-time compensation scheme was 2.1m in January, down from a peak at 8.6m in April. On 16 February, the Labour Minister announced that the current conditions for the short-time work compensation scheme would be extended by one month (until 1 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, EUR133.7bn of guaranteed loans had been granted by banks by 19 February. 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 three months of turnover for companies with more than 50 employees.

Source: HSBC, Ministry of Finance.

40. Italy: Another EUR32bn in support to the sector hit by the restrictions

Measure	Detail
Direct measures	The latest fiscal measures announced in response to renewed restrictions, including grants to all firms hit by the new restrictions and a further extension of short-time work schemes until the end of March. Further measures include support for firms to pay taxes and rentals, an extension of the categories of firms affected by the lockdown and benefitting from the grants made available by the government, postponements of tax instalments due in November, as well as funds for parental leave and baby sitters. In total, the government expects an additional deficit of up to EUR32bn (1.8% of GDP) from the latest measures and has recently revised up its deficit estimates for 2021 to 8.8% of GDP (from 7% previously). The new government led by Mario Draghi is working on a decree to allocate the remaining part of the additional support measures. This decree is likely to include support for the sectors hit by the restrictions based on lost revenues (including possible compensation 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), support measures for the self-employed, and a possible extension of the short-time work scheme (CIG) beyond the current deadline of 31 March – and with that, a possible extension of the prohibition for firms to lay off workers (other than in exceptional cases) also in place until 31 March. According to the press, the measures should be approved next week by the cabinet before going to parliament. For 2021, EU recovery 'loans' should help finance the government's planned fiscal expansion, contributing to the 1.3ppt fiscal expansion enshrined in the 2021 budget. The expansionary measures in 2021 are set to support the sectors and workers hit hardest by the crisis and reduce the tax burden on medium-low income earners, and extend short-time work schemes and guarantees to the banks (both until June). Some EU funds should be used to finance a temporary reduction of labour taxes from 2021 which could take the form of cuts to social contributions paid by firms to incentivise permanent hires, particularly among the young. The government has confirmed the permanent reduction in income tax for those earning between EUR28k and EUR40k (introduced temporarily this year) and the tax credit for firms' investment in the south of Italy. It has also extended until June 2022 the 110% tax credit for investments in renovations to improve the environmental efficiency of the housing stock.
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 29 January 2021, according to the Bank of Italy, there were EUR189bn of moratorium payments on the loans, of which about EUR137bn to firms and the rest to households and self-employed, and another EUR106bn of loans to SMEs guaranteed by Fondo di Garanzia (from EUR131bn of requests), of which EUR23.7bn with a 100% guarantee. The loans guaranteed by SACE to exporting firms topped EUR21bn.

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

41. 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'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. Prime Minister Pedro Sànchez recently announced an additional EUR11bn (1% of GDP) of upcoming support measures for firms and self-employed workers (El Pais, 24 February). Furthermore, the government intends to frontload EUR27bn of spending from the EU Recovery Fund next year, a large chunk of which will be initially paid for issuing Spanish government bonds and reimbursed by the European Commission (EC) only at a later stage once (and if) the projects have been approved. If implemented, this strategy should lead to higher deficit and debt, at least in the near term. We see the deficit crossing 10% of GDP next year and declining slowly in 2022, with the structural deficit at about 5% of GDP. 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). Despite the extension, the finance minister has recently reiterated the expected deficit target of 7.7% of GDP for 2021 (Reuters, 14 January 2021).
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).

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' (NGEU) 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 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" shall have the highest score, while "effective contribution to the green and digital transition shall also be a prerequisite for a positive assessment". On 22 January, the EC issued guidelines for countries to draft their Recovery and Resilience plan to obtain the NGEU funds and what to include in terms of investment, reforms etc (see here: 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' (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. Procedures are now starting for the ratification through the national parliaments which will have to do so (ten of the 27 EU members) of the increase in the EU budget own resource ceiling needed to make room for the NGEU. This is a necessary step before the EC can start issuing debt. The Dutch parliament is set to vote on this on 25 February, while the German parliament also starts the procedure to ratify the increase on the same day.
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 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 account for GBP44bn of the measures, 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 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, consisting of 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 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 GBP355bn (16.9% 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, Ministry of Finance.

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