HSBC Global Research

17 February 2021

Europe COVID-19 tracker

More light, but still in the middle of the tunnel

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Economics - Europe

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- European COVID-19 cases are falling further across the board
- Vaccinations are helping reduce infection rates, but lockdowns are unlikely to be eased quickly…
- …as rising fears of virus mutations might hold back politicians

Fewer cases, further vaccination progress, but no end to lockdowns yet

Infection rates are coming down further in almost all European countries (charts 1 and 2). This is underlined by falling positivity rates (chart 3). Even more importantly, ICU numbers are also declining or at least levelling out (chart 4) as infection rates decline particularly among the elderly population (chart 5). After all, it is this age group that is at the centre of the ongoing, still early, stages of the vaccination campaigns (chart 6). In this respect, the UK by far outpaces its European peers (charts 7 and 8), even if some countries are following slightly different vaccination strategies (chart 9 and 10). The availability and distribution of several vaccines might play a role, too, particularly as initially vaccine campaigns in the EU were almost entirely reliant on the Pfizer-BioNTech vaccine (chart 11).

The latest data suggest that there have been immediate effects from the vaccination campaigns. People who got the shots first have developed significantly more anti-bodies, while infection rates in their age/peer groups declined more rapidly (charts 13 and 14). That said, considering the relatively small share of the population that has been vaccinated so far, it seems more likely that the latest leg down in infections is first and foremost a consequence of the ongoing restrictions (charts 15-17). These seem unlikely to be eased substantially in the near term. The German government last week extended the national lockdown until at least 7 March, while Italy reversed the decision to re-open ski resorts on 15 February at the last minute, both aiming to contain the spread of the more infectious COVID-19 mutations. To that end, Germany also temporarily closed its borders with Austria and the Czech Republic, causing not only some political backlash within the EU, but also potentially increasing the pressure on already strained supply chains across Europe.

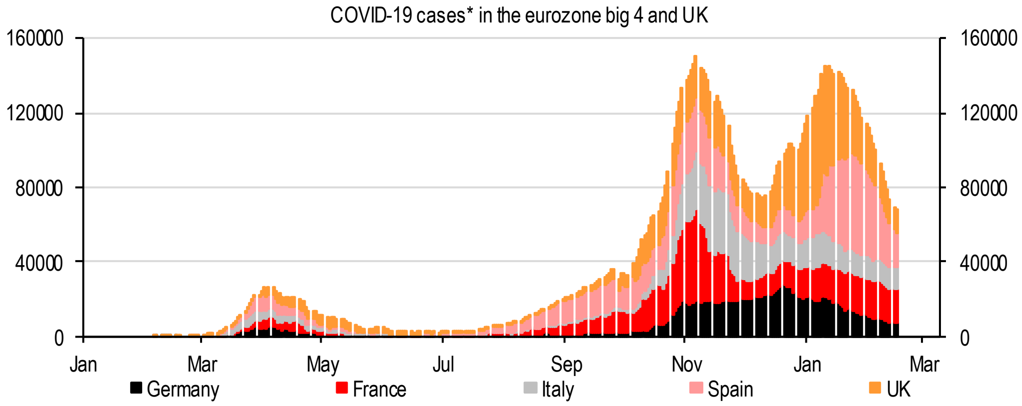
Latest GDP data confirm economic resilience story in Q4

On the plus side, economic data are still surprising to the upside. The French labour market continued to recover in Q4 and the second estimate for eurozone GDP brought another slight upward revision (charts 18 and 19). The UK outperformed the eurozone in Q4, posting a 1.0% q-o-q GDP increase, although in a full-year 2020 comparison the UK still sits at the bottom end (chart 20 and 21). However, the much better than expected Q4 outcome in combination with the vaccination progress led us to increase our full year UK-GDP forecasts for 2021 and 2022. The reflation theme continues to dominate financial markets, as underlined by the latest ZEW survey (chart 22). But the January print for UK inflation – while showing an uptick – was still far below central bank targets (chart 23) and is broadly in line with our view of modest underlying inflation pressures at best.

This is a redacted version of a report of the same name published on 17-Feb-21. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

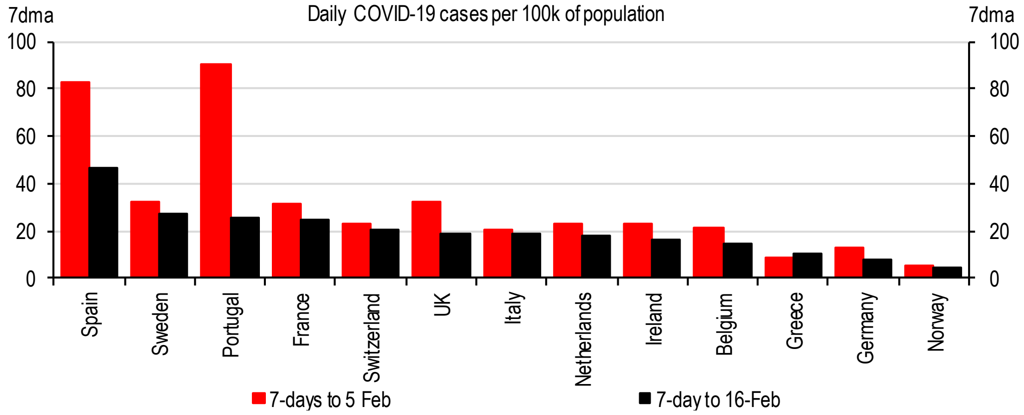
Things are slowly moving in the right direction

1. Overall, the COVID-19 situation in Europe is becoming more encouraging…



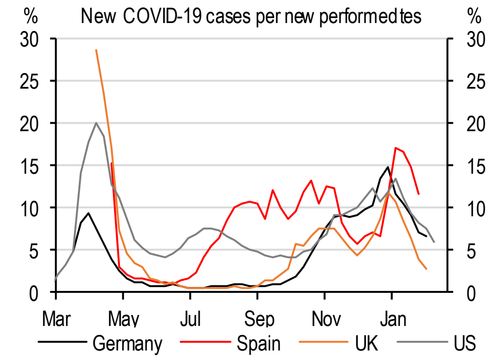
Source: Refinitiv Datastream, HSBC. Notes: *7-day moving average. **UK cases include a jump of almost 23,000 on Sunday, 4 October 2020, as a backlog of over 15,000 missing cases were added after an error in the tracking system came to light (Reuters, 4 October).

2. …as almost every country saw a decline in new infection rates from the previous week



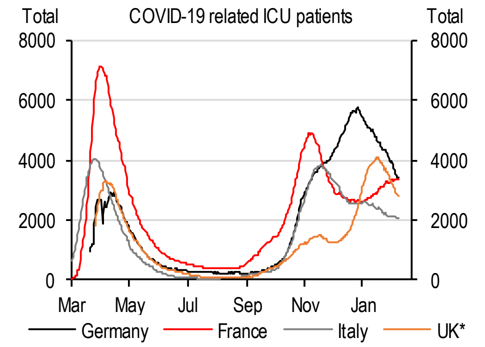
Source: Refinitiv Datastream, HSBC. *Note, weekends numbers are reported as 0, so 7-days to does not include Saturday and Sunday.

3. A lower percentage of positive test results underlines this trend,…



Source: Macrobond, HSBC

4. …as does the ICU numbers, which are falling or at least stabilising

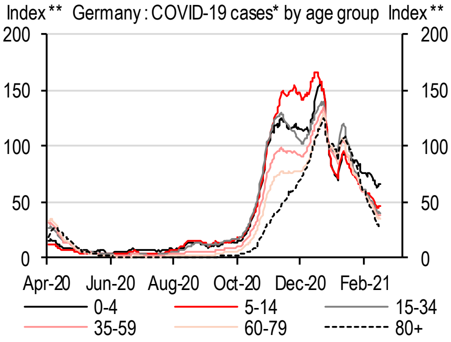


Source: Macrobond, HSBC. *Medically ventilated

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

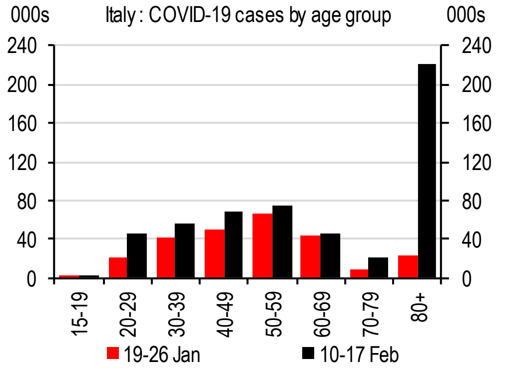
Vaccination seems to contribute to lower infection numbers

5. Infection numbers for the elderly recently show the largest decline...



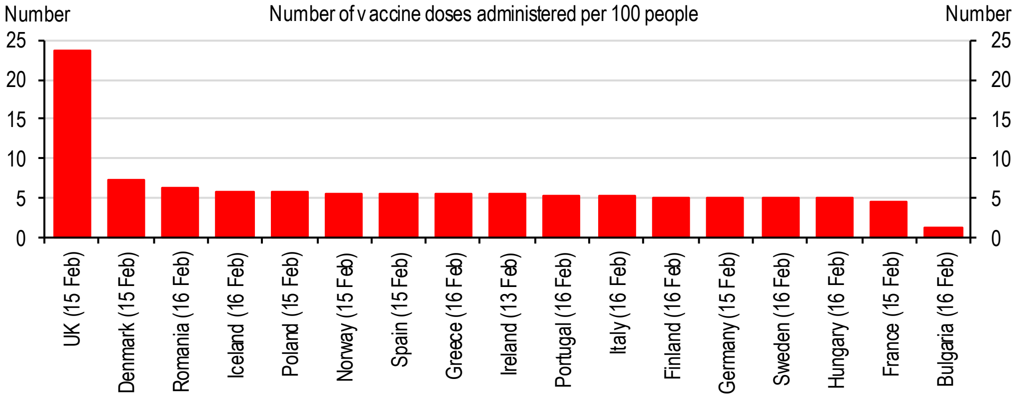
Source: Macrobond, HSBC. *7-dma. **Index (29/12/2020 = 100)

6. ...and also Italy has now started the vaccination campaign for the elderly after having prioritised health sector workers



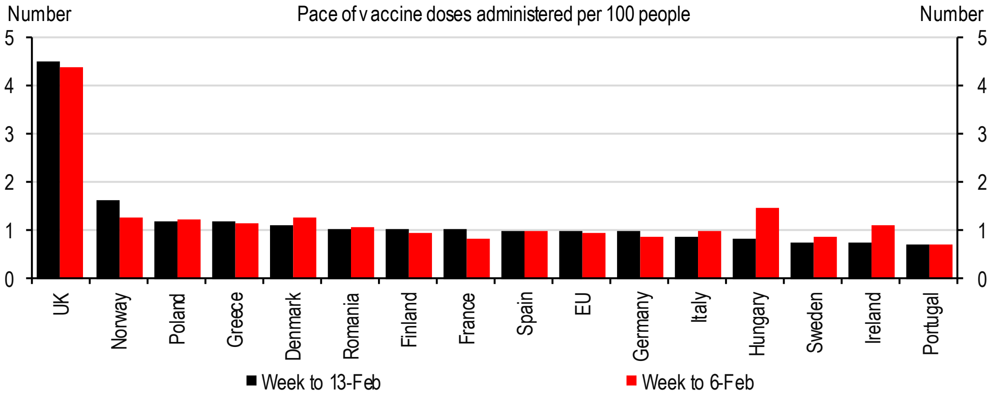
Source: Italian Health Ministry, HSBC

7. When it comes to vaccinated people, EU countries are lagging far behind the UK…



Source: Our World in Data, HSBC

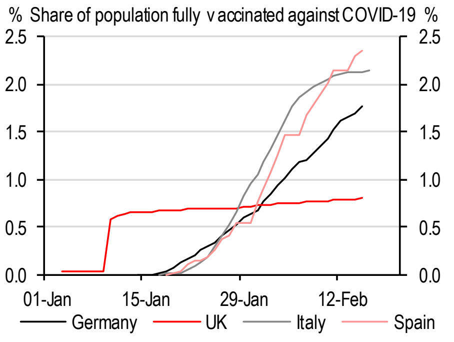
8.… and are not really catching up either



Source: Our World in Data, HSBC

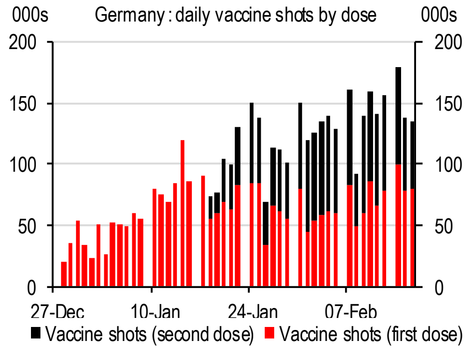
Different strategies could explain different speeds of vaccination

9. EU countries so far are sticking to their full vaccination strategy…



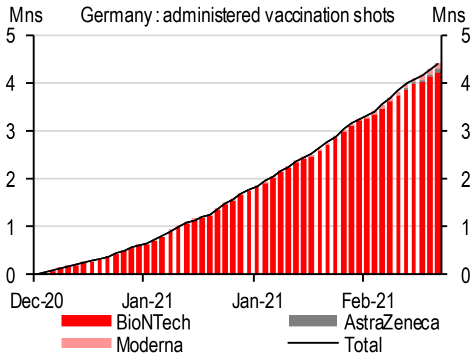
Source: Macrobond, HSBC

10. …as, for instance, in Germany more than half of all shots are now follow-ups



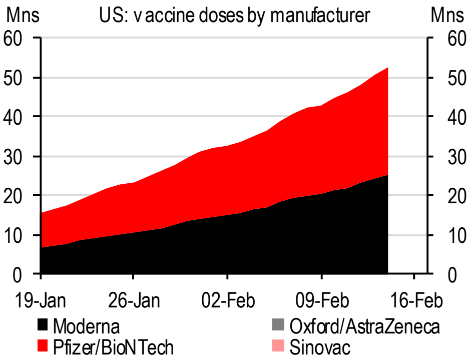
Source: Macrobond, HSBC

11. So far the EU has had to rely almost entirely on the Pfizer-BioNTech vaccine…



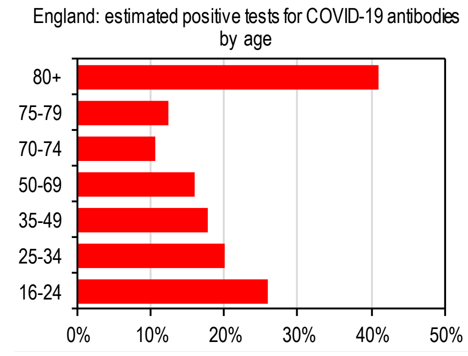
Source: Macrobond, HSBC

12. …while e.g. the US secured privileged access to the Moderna vaccine supply



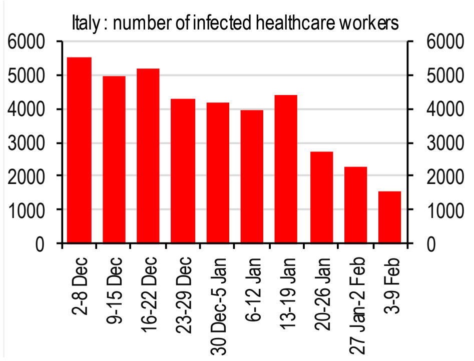
Source: Our World in Data, HSBC

13. Significant antibody reaction of 80+ citizens in England imply an effective impact of the vaccination program



Source: ONS, HSBC

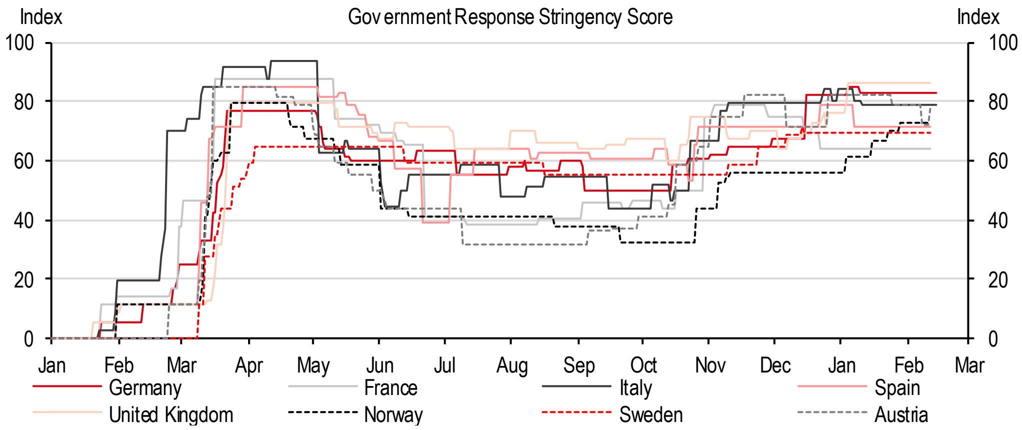
14. This is mirrored in markedly declining infection numbers among health care personal in Italy, which got vaccinated first



Source: Italian Health Ministry, HSBC

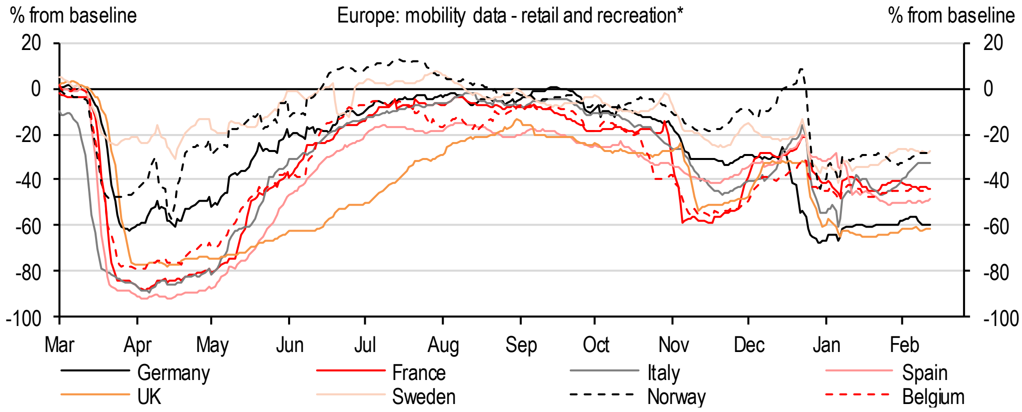
Hard restrictions remain in place despite the vaccine progress

15. Italy is the latest example of a U-turn in restriction easing



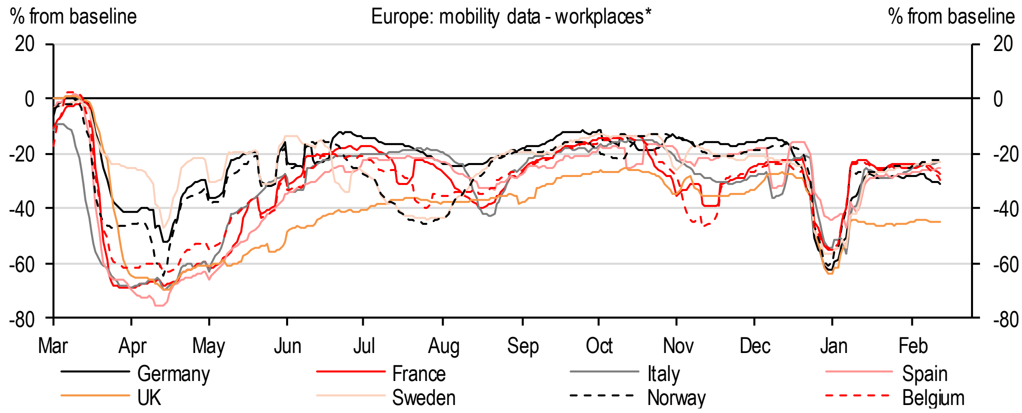
Source: Oxford COVID-19 Government response Tracker, HSBC. Note: Data as at 8 February 2021.

16. Lockdowns and restrictions still heavily curb leisure activities outside home…



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

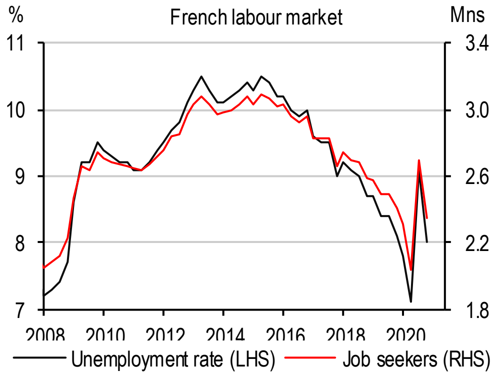
17. …while during the latest round of restrictions workers seem to be mostly unaffected



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

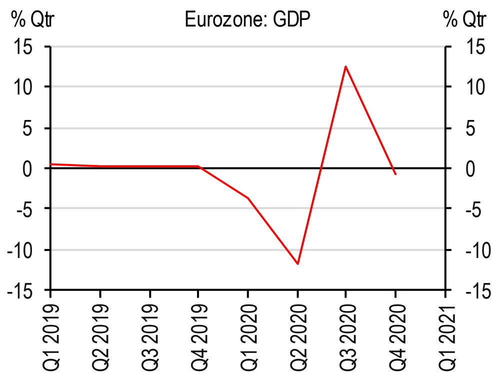
Economic data remain constructive despite the lockdowns

18. The French labour market showed a remarkable resilience in the final quarter



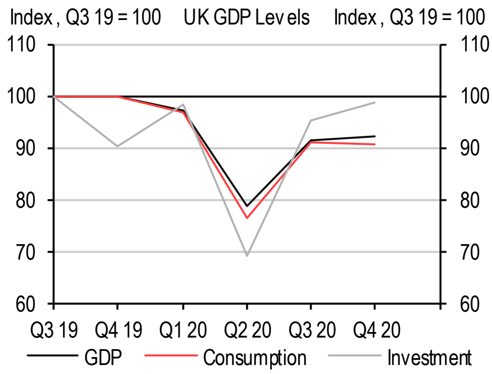
Source: INSEE, HSBC

19. Eurozone GDP contracted again in Q4, but by far less than many feared…



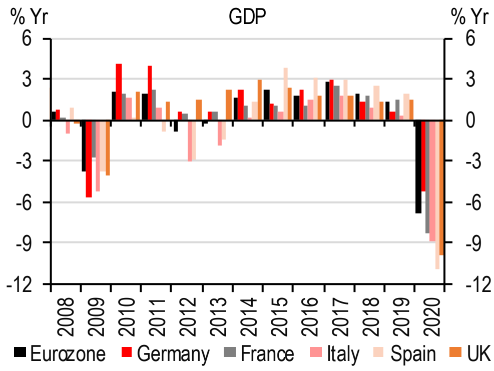
Source: Refinitiv Datastream, HSBC

20. …while the UK even achieved a healthy Q4 GDP increase despite the lockdowns



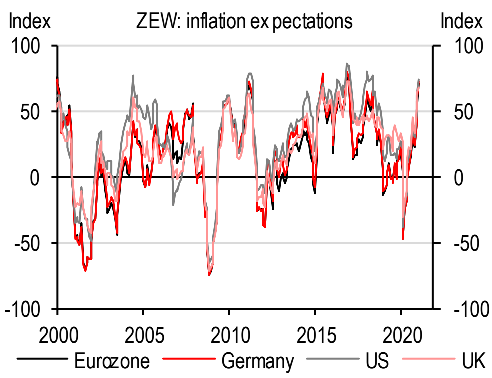
Source: Refinitiv Datastream, HSBC

21. In 2020 as a whole, however, only Spain saw a slightly larger GDP drop than the UK among Europe's largest economies



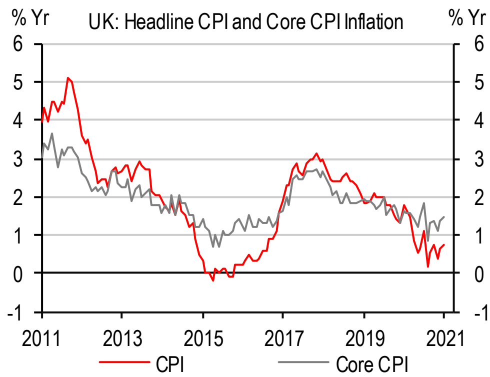
Source: Macrobond, HSBC

22. Financial market analysts are buying more and more into the reflation trade...



Source: Macrobond, HSBC

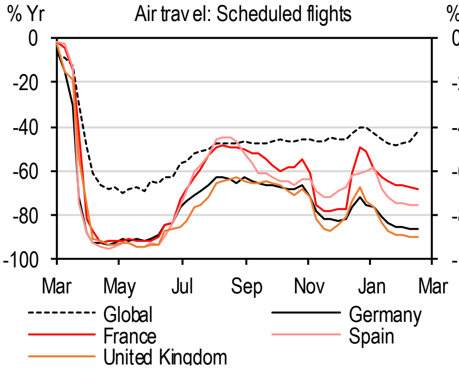
23. ...but most recent inflation data are still fully in line with a loose monetary policy



Source: Refinitiv Datastream, HSBC

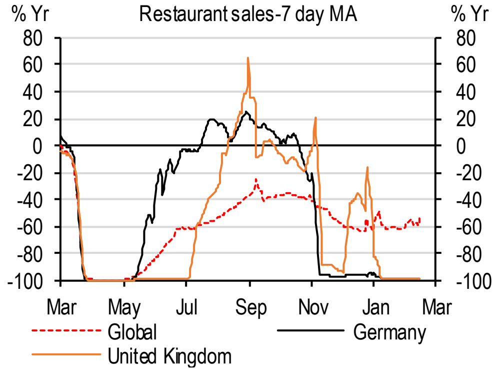
Real-time activity data

24. Air travel recovering globally, but stuck at very low levels in Europe



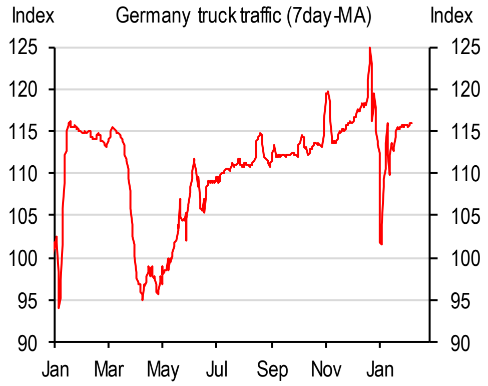
Source: OAG flights scheduler, HSBC

25. Due to lockdowns, restaurant bookings are looking even worse than air travel



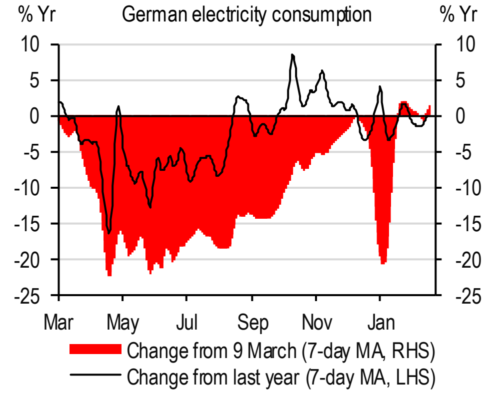
Source: OpenTable, HSBC

26. German truck traffic remained flat, but border controls might affect this



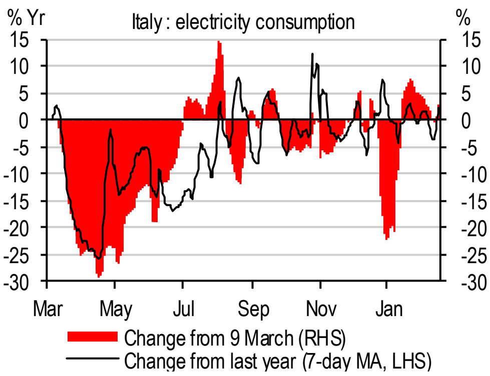
Source: Macrobond, HSBC

27. German electricity consumption went up during last week's cold weather period..



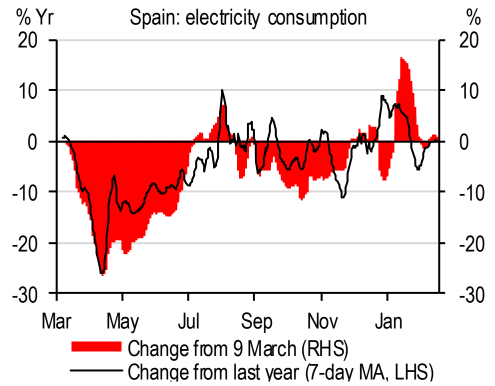
Source: Macrobond, HSBC

28. …as it obviously also did in Italy...



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

29. ...while in Spain it was merely flat



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

Latest on restrictions in the major countries

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

Country	Latest on the lockdown measures
Germany	The German government and head of federal states agreed to generally extend the nationwide lockdown of non-essential retail shops, restaurants bars and most services (exceptions apply to, e.g., grocery stores, pharmacies, banks, opticians, petrol station auto repair shops, post offices, or dry cleaners) until at least 7 March on their summit on 10 February. The exception are hairdressers, who are now allowed to open up again from 1 March. While schools will remain closed in all federal states until 14 February, what happens beyond that date will be decided on the federal level and most likely been subject to the local incidence levels. Restrictions on personal mobility remain basically unchanged from the tightened restrictions since 11 January. Hence, personal meetings are limited to one person from a different household at both public and private places. This also includes children below the age of 14 years. When using public transport or visiting shops, people have to wear medical masks instead of simple textile masks, to increase protection for the mask user. An even stricter rule applies for employees and visitors of nursing homes, who have to wear FFP-2 masks for at least as long as there is not a sufficient protection through vaccination. Also remote working is strictly recommended and businesses are pressed to provide opportunities for remote working wherever possible. 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 until at least 17 February. 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 from the Austrian Federal State of Tyrolia from 14 February, as entry from these areas is now generally prohibited (with exceptions for e.g. transit of goods) to contain the spread of the new COVID-19 mutations from the UK and South Africa.
France	Since 28 November, non-essential shops have been allowed to reopen under stricter health measures. On 15 December, the nationwide lockdown was lifted and replaced with 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 for 7 January) and restaurants (initially planned for 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 the office one day a week if they want). Kindergartens, and 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 aimed 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 been closed since 31 January. Finally, recourse to remote working will be stepped up in businesses and public administration. Looking ahead, additional restrictions (including a national lockdown) could be decided if the number of new cases continue to rise 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. 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. Following the Christmas period, high schools are yet to re-open in about half of the regions. 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, 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 from 11 years of age are shut. The classification is updated on a weekly basis. From 15 February, for the first time since the beginning of the year, there have been more regions moving up the scale than down, with now five regions in the orange category: Abruzzo, Liguria, Tuscany, Umbria (which was already red), and Trentino-Alto Adige (previously only Alto Adige was orange). All the other regions are 'yellow'. In light of the recent up-tick in infection rate and the spreading of the UK-variant, the Health Minister also overturned at the last minute (on the evening of 14 February) the prior decision to re-open ski resorts from 15 February, causing widespread protests and demands for compensation from the operators in the sector. Ski resorts will now remain shut at least until 5 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). Following the renewed wave of infections, many regions have recently announced a further tightening of restrictions. 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.
UK	On 4 January, PM Boris Johnson announced a national lockdown for England, including the closure of all schools until mid-February. The expectation is that the rest of the country will move out of lockdown into a tiered system, by area, depending on the prevalence of the virus, with schools being the priority for re-opening. On 27 January the PM said he hoped that schools would reopen on 8 March, and that he would lay out a framework for the loosening of restrictions on 22 February. 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, though Wales has announced plans to start reopening primary schools from 22 February. The tougher restrictions followed the spread of a new strain of COVID-19, which is up to 70% more infectious than the existing strains, according to early modelling. The UK suspended all travel corridors on 18 January, meaning that if you arrive in the country from anywhere outside the UK, Ireland, the Channel Islands, or the Isle of Man you will need to self-isolate for 10 days. As of 15 December, the option is also available to take a private test, which, if negative, reduces the isolation period to five days. However, given the new South African 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. For those who cannot be refused entry - i.e. returning British or Irish nationals - a mandatory 10-day quarantine in government-approved accommodation will apply from 15 February. All other travellers entering the UK are required to test negative for COVID-19 72 hours before leaving the country they are in (BBC, 8 January).

Source: Government releases, HSBC

A substantial vaccine rollout lies ahead

31. 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 300m	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%

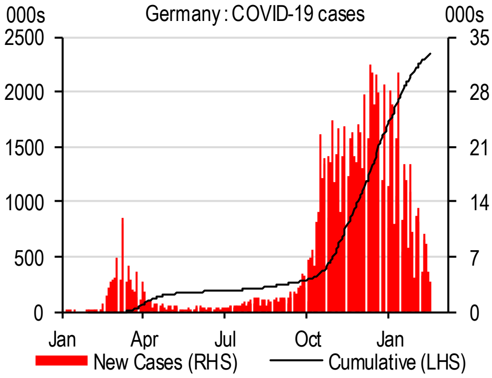
UK

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%
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 **15% of EU vaccine, but this was reported in November. Since, the EU has secured additional doses.

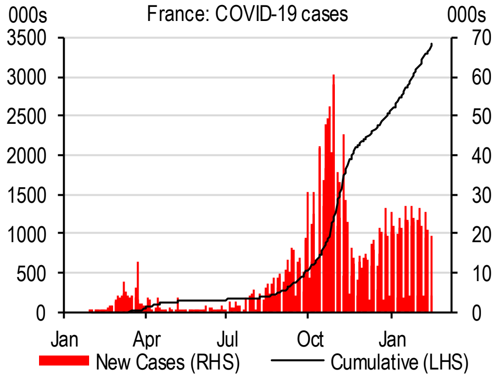
COVID-19 in Western Europe

32. German new infection numbers are now back at pre-second-wave levels



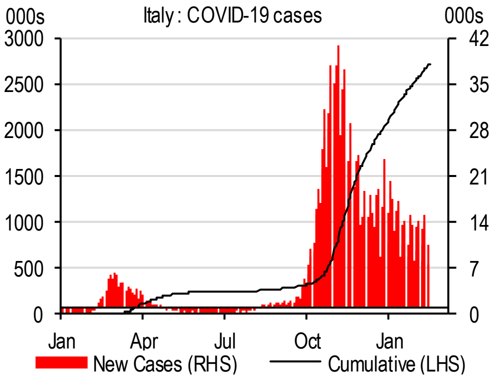
Source: Refinitiv Datastream, HSBC

33. In France, new infections remain higher, although they are slowly declining



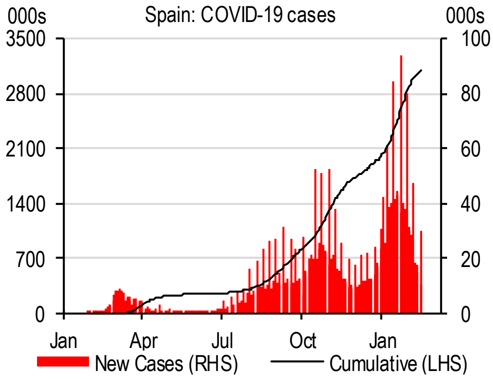
Source: Refinitiv Datastream, HSBC

34. Italian new infection numbers appear to have broadly stabilised at relatively high levels



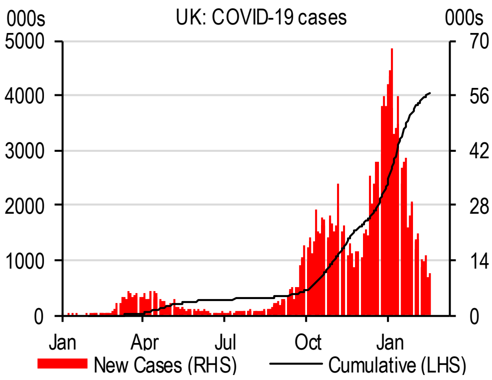
Source: Refinitiv Datastream, HSBC

35. In Spain the latest huge up-tick seems to have been stopped



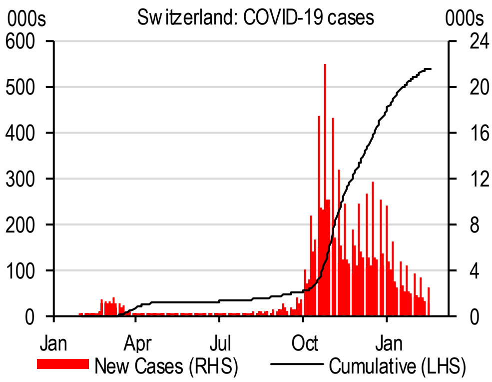
Source: Refinitiv Datastream, HSBC

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



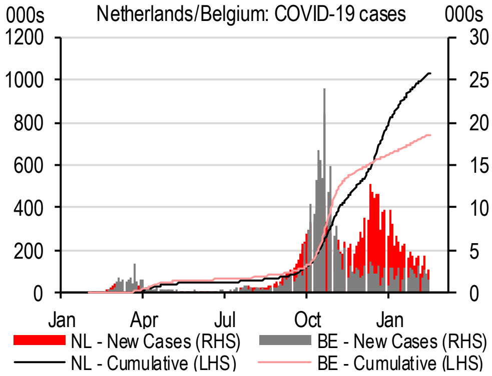
Source: Refinitiv Datastream, HSBC

37. Swiss case numbers have continued to decline markedly in recent weeks



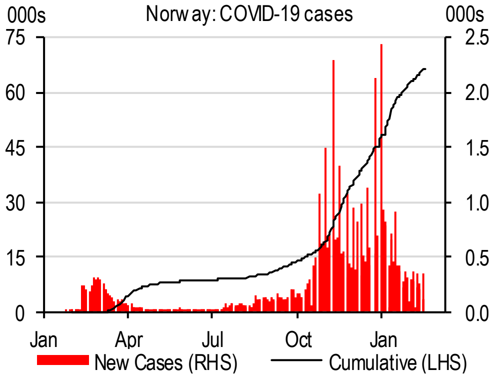
Source: Refinitiv Datastream, HSBC

38. The COVID-19 situation in Belgium and the Netherlands remains roughly unchanged



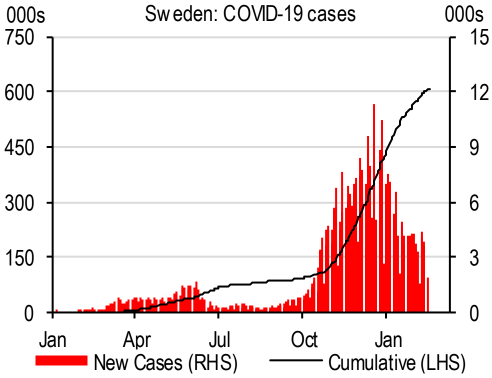
Source: Refinitiv Datastream, HSBC

39. Norway still is the country with the lowest COVID-19 incidence numbers in Europe



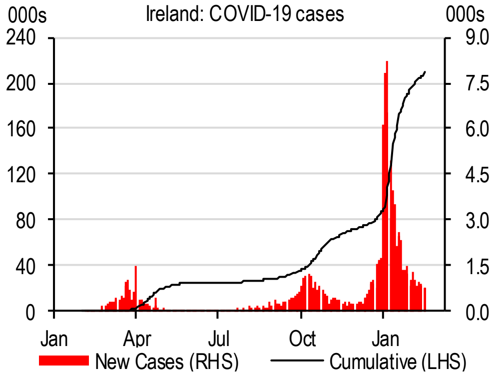
Source: Refinitiv Datastream, HSBC

40. Sweden is on its way back to lower new infection numbers…



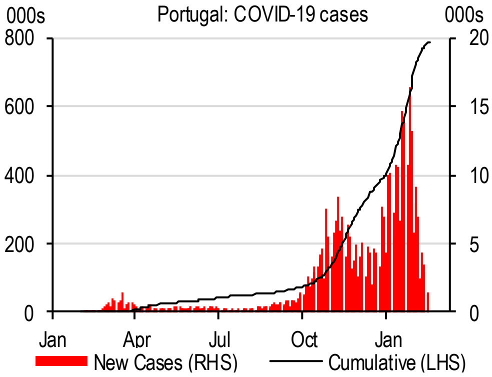
Source: Refinitiv Datastream, HSBC

41. …as is Ireland after the exceptionally strong increase in early January



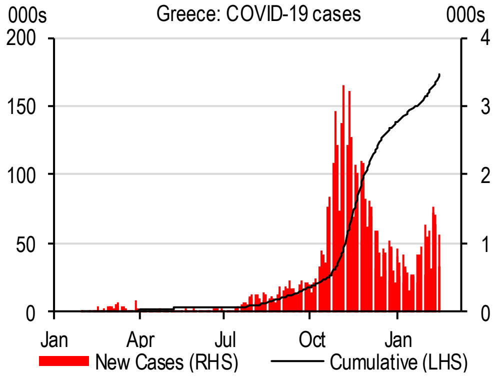
Source: Refinitiv Datastream, HSBC

42. Good news also from Portugal, as the third wave seems to be have been contained…



Source: Refinitiv Datastream, HSBC

43. … while Greece is the only eurozone country with still rising infection numbers



Source: Refinitiv Datastream, HSBC

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

44. 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 16 February, EUR8.36bn for recapitalisation measures were 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: o Retail sector: 100% of seasonal merchandise can be deducted as fixed costs o 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) Meanwhile, as of 16 February, EUR6.13bn of EUR9.80bn approved payments have been drawn from the previous and more generous November/December-Aid program.
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 11 February, a total of EUR47.5bn in KfW loans have been drawn, while direct credit guarantees only sum up to EUR4.3bn.

Source: HSBC. Ministry of Finance.

45. 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. 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 EUR15.0bn as of 16 February while the number of workers effectively benefiting from the short time compensation scheme was 2.4m in December, down from a peak at 8.6m in April. On 16 February, the Labour Minister announced that the current conditions for the short-term 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, EUR133.1bn of guaranteed loans had been granted by banks by 5 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 3 months of turnover for companies with more than 50 employees.

Source: HSBC. Ministry of Finance.

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

Measure	Detail
Direct measures	Following the latest round of restrictions introduced from 26 October, the Finance Minister has also announced new measures, including grants to all firms hit by the new restrictions and a further extension of short-time work schemes until the end of March. Further measures include support for firms to pay taxes and rentals, an extension of the categories of firms affected by the lockdown and benefitting from the grants made available by the government, postponements of tax instalments due in November, as well as funds for parental leave and baby sitters. In total, the government expects an additional deficit of up to EUR32bn (1.8% of GDP) from the latest measures. The package will add to this year's deficit. The government is currently debating the possibly extension of the short-time work scheme (CIG) beyond the current deadline of 31 March, and with that also a possibly extension of the prohibition for firms to lay off workers (other than in exceptional cases) also in place until 31 March. For 2021, EU recovery 'loans' should help finance the government's planned fiscal expansion, pushing the fiscal deficit from 5.7% in the no policy change scenario to 7% of GDP in the government's plans (to which one should add the latest EUR30bn package). The expansionary measures in 2021 are set to support the sectors and workers hit hardest by the crisis and reduce the tax burden on medium-low income earners, and extend short-time work schemes and guarantees to the banks (both until June). Some EU funds should be used to finance a temporary reduction of labour taxes from 2021 which could take the form of cuts to social contributions paid by firms to incentivise permanent hires, particularly among the young. The government has confirmed the permanent reduction in income tax for those earning between EUR28k and EUR40k (introduced temporarily this year) and the tax credit for firms' investment in the south of Italy. It has also extended until June 2022 the 110% tax credit for investments in renovations to improve the environmental efficiency of the housing stock.
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 15 January 2021, according to the Bank of Italy, there were EUR183bn of moratorium payments on the loans (of which about three-quarters are to firms and the rest to households and self-employed) and another EUR100bn of loans to SMEs guaranteed by Fondo di Garanzia (from cEUR130bn of requests), of which EUR23.3bn with a 100% guarantee. The loans guaranteed by SACE to exporting firms topped EUR21bn.

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

47. 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. 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).
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).

48. 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 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 has recently issued a guideline 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: 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.
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.

49. 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 GBP381bn or 18.4% of GDP in 2020/21. A Budget is scheduled to be delivered on 3 March 2021.
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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