Europe COVID-19 tracker

Fears over new virus variants

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Economics - Europe

- Signs of reduced efficiency of current vaccines against some virus variants have cast some doubts on the normalisation story
- Case numbers are falling in most of Europe but relaxation of restrictions is still elusive in spite of lockdown fatigue
- Latest surveys on economic activity support our expectations for a sluggish start of the year in the eurozone

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More mixed news on vaccine efficiency

Recent developments have cast doubts on the prospects of a return to more normal conditions later in the year thanks to ongoing vaccine rollouts. Indeed, according to preliminary results of a recent study, the AstraZeneca vaccine does not appear to offer protection against mild and moderate disease caused by the South African virus variant (FT, 7 February). Granted, the impact on more severe forms of the disease is still to be determined. But these results highlight the risk that current vaccines could fail to curb significantly the transmission of some virus strains. Therefore, the road to herd immunity remains quite uncertain.

On a more positive note, early evidence from Israel suggest that vaccines are starting to have an effect on new cases (Chart 11). In addition, several pharmaceutical companies have recently announced measures to increase production of vaccines in Europe, raising hopes for a more rapid rollout in the coming weeks. Finally, based on latest studies, the World Health Organization has just announced that it is now recommending the AstraZeneca vaccine for use worldwide by all adults (and not just people aged below 65, which is the current guideline prevailing in several European countries), with an interval of 8 to 12 weeks between the two doses.

Relaxation of restrictions still elusive in spite of lockdown fatigue

Another encouraging development is the fact that case numbers are now falling in most European countries, including in Spain and Portugal, the two countries where the pandemic has been the most virulent recently. The only major exception has been Greece, where a surge in new infections has led the government to impose a new lockdown in the Athens region.

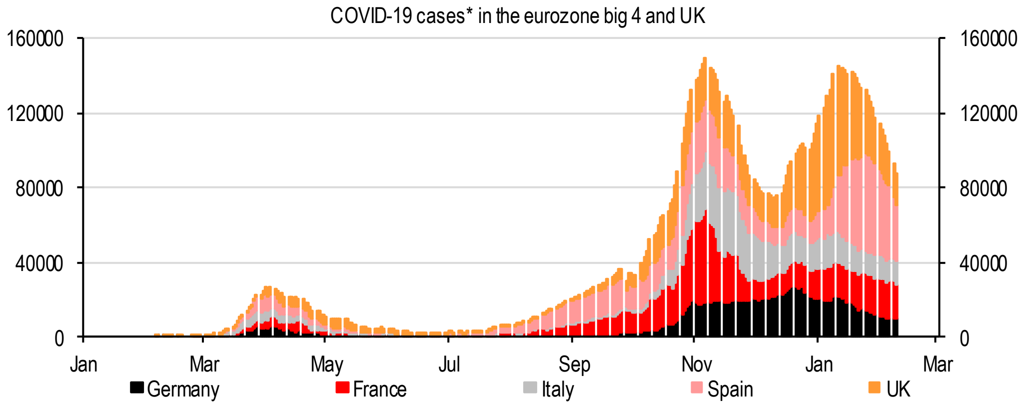
However, in spite of this better backdrop, European countries are still reluctant to ease significantly current restriction measures. In France, according to latest studies, the new virus variants (from the UK, South Africa and Brazil) would now represent more than 20% of new infections (Le Figaro, 5 February). Therefore, even if new cases have somewhat stabilized recently, a third lockdown is still a possibility. In Germany, the federal government and heads of federal states have just agreed to generally extend the nationwide lockdown until at least early March (with the exception of hairdressers). Finally, in Italy, the government is only starting to reluctantly ease restrictions, with (for example) ski resorts and gyms set to reopen in the 'yellow' regions from 15 February.

The delayed consumption recovery stemming from current restrictions is the main factor behind our lower GDP growth forecast for 2021. Latest leading indicators on economic activity (Charts 15-16) have pointed to a sluggish start for 2021, supporting our more cautious view.

This is a redacted version of a report by the same title published on 10-Feb-21. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

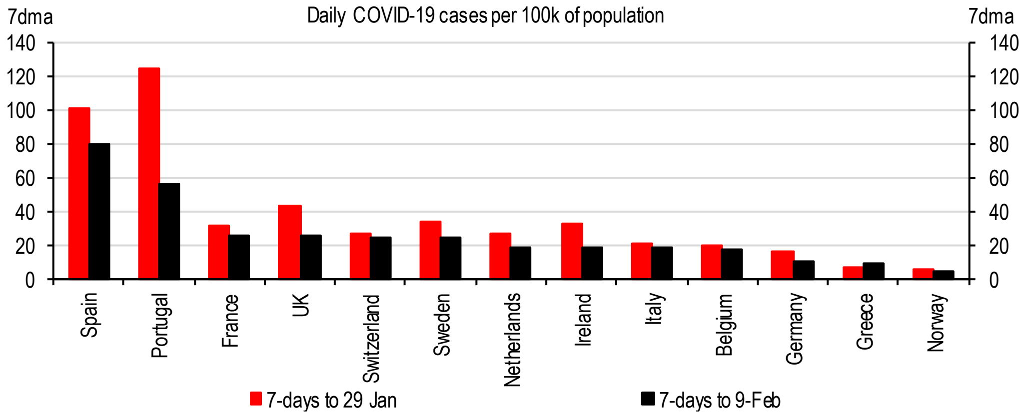
Cases are still falling…

1. Case numbers in the Big 4 plus UK are down almost 40% from their mid-January peak



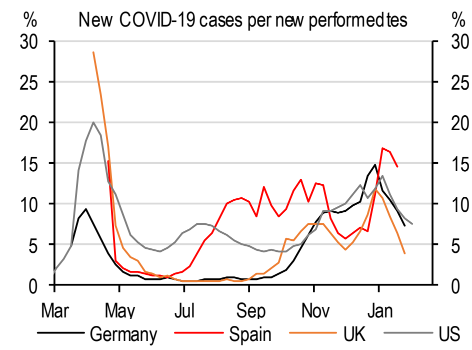
Source: Refinitiv Datastream, HSBC. Notes: *7-day moving average. **UK cases include a jump of almost 23,000 on Sunday, 4 October 2020, as a backlog of over 15,000 missing cases were added after an error in the tracking system came to light (Reuters, 4 October).

2. New infections are declining in most of European countries, except Greece



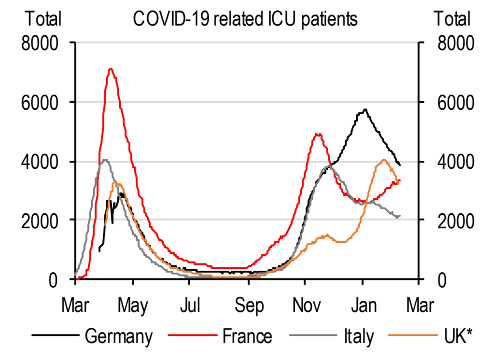
Source: Refinitiv Datastream, HSBC. *Note, weekends numbers are reported as 0, so 7-days to does not include Saturday and Sunday.

3. Lower case numbers are reflecting a drop in positivity rates of tests…



Source: Macrobond, HSBC

4. …and are starting to feed through to hospitalisations

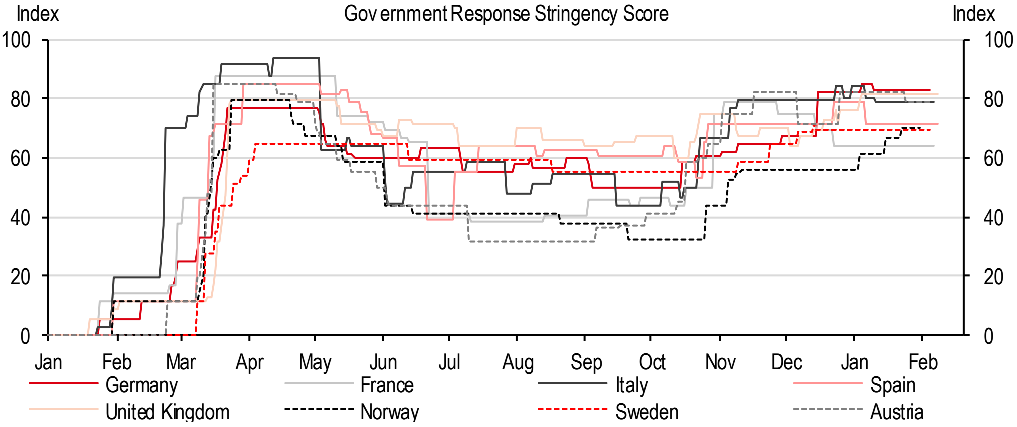


Source: Macrobond, HSBC.

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

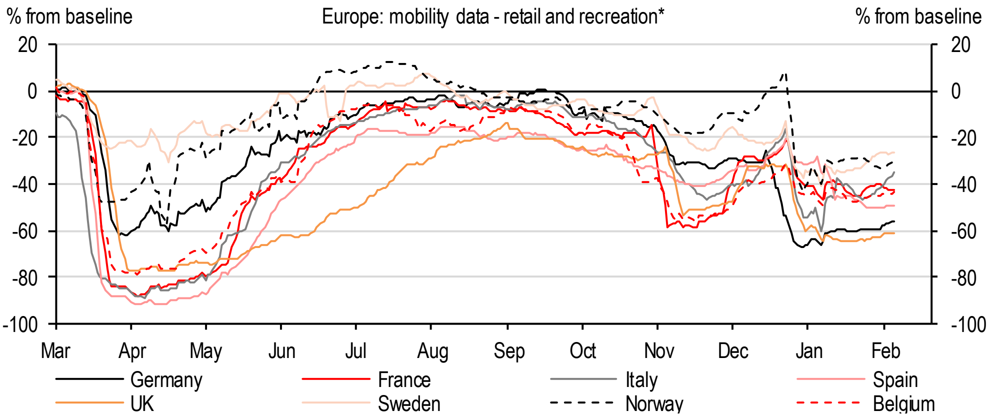
…but a relaxation of restriction measures is not in sight yet

5. There are no signs of easing restrictions yet



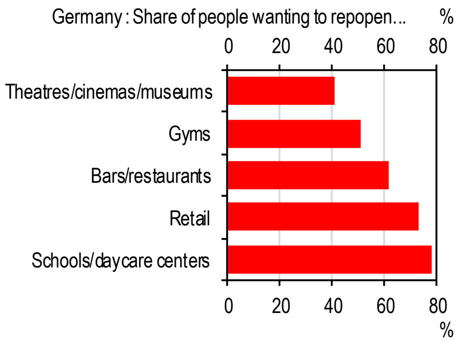
Source: Oxford COVID-19 Government response Tracker, HSBC. Note: Data as at 8 February 2021.

6. Mobility data appears to have stabilised at a lower level due to ongoing restrictions



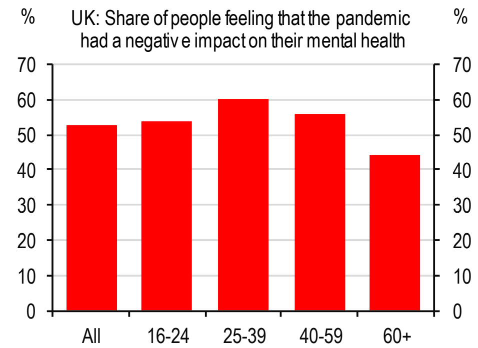
Source: Google, HSBC. Note: *7-day moving average

7. Signs of lockdown fatigue in Germany



Source: Kantar/Bild poll (4 February), HSBC

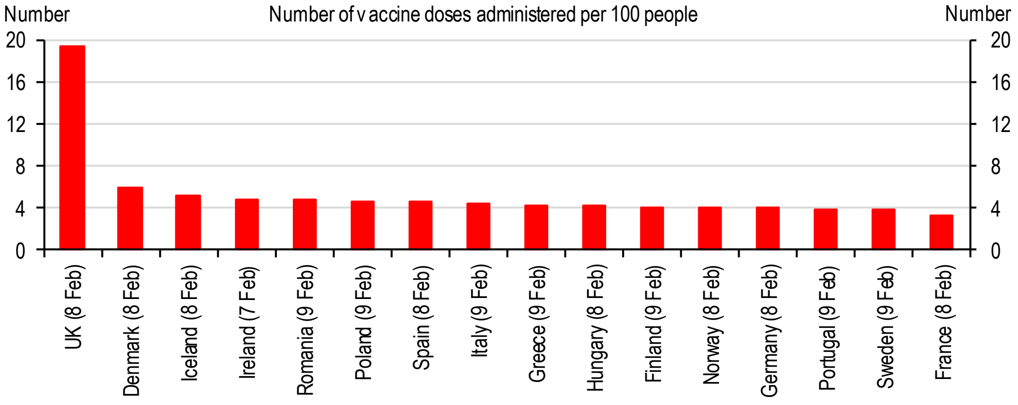
8. More than half of Britons feel the pandemic has harmed their mental health



Source: YouGov poll (4 February), HSBC

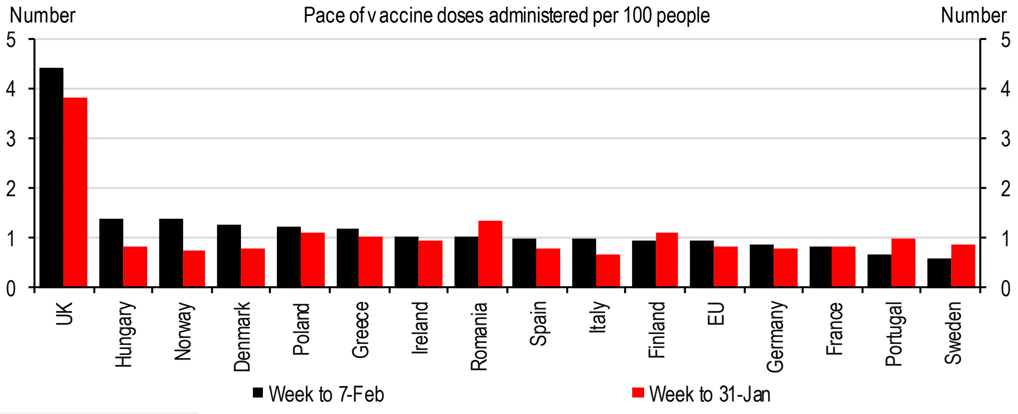
Vaccinations still have a long way to go

9. The UK is powering ahead, with a higher supply and a speedier strategy



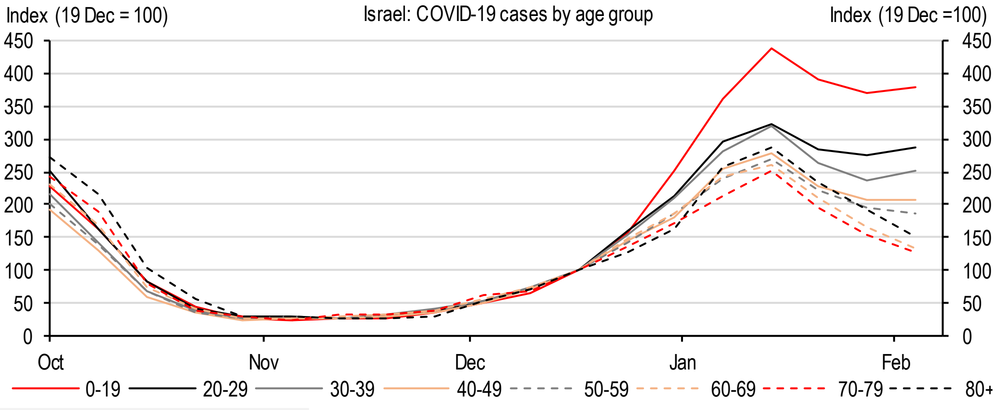
Source: Our World in Data, HSBC.

10. Vaccination rates have picked up in some EU countries but remain largely inferior to the pace seen in the UK



Source: Our World in Data, HSBC.

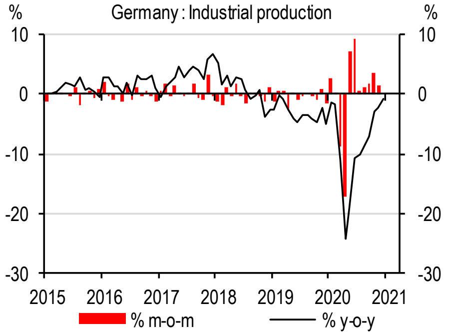
11. Early signs in Israel suggest that vaccines are having an impact, with older age groups (who have been vaccinated) seeing case numbers fall more quickly



Source: Our World in Data, Refinitiv Datastream, HSBC

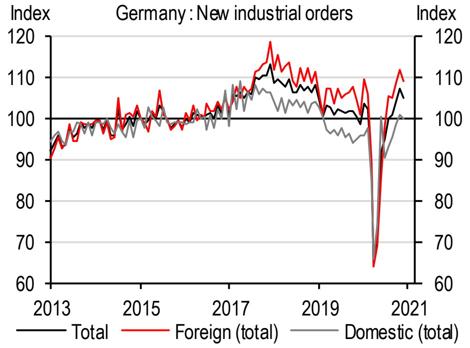
Mixed signals on economic activity

12. German industrial output was steady in December in spite of tighter restrictions



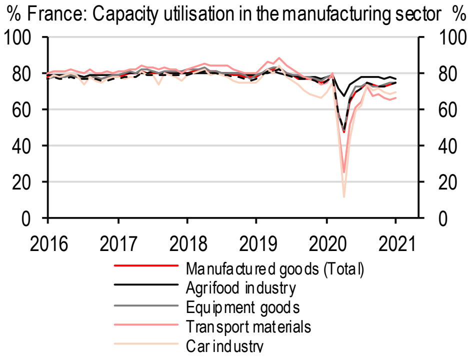
Source: Macrobond, HSBC

13. Industrial orders point to some moderation in the manufacturing recovery



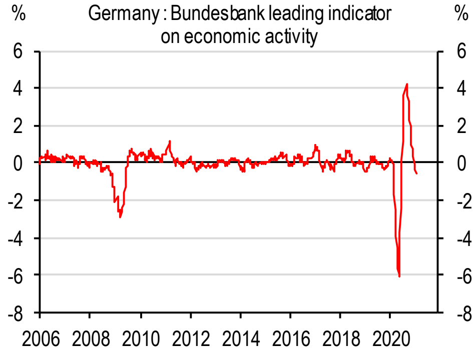
Source: Macrobond, HSBC

14. Capacity utilisation in French industry remains below its pre-crisis levels



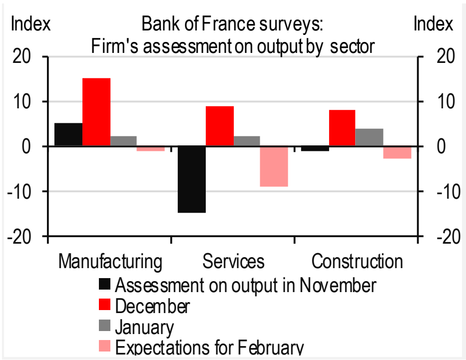
Source: Banque de France, HSBC

15. Sluggish start of the year for economic activity in Germany



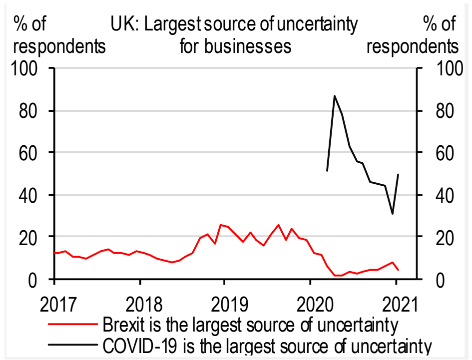
Source: Bundesbank, HSBC

16. The same picture is evident in France



Source: Banque de France, HSBC

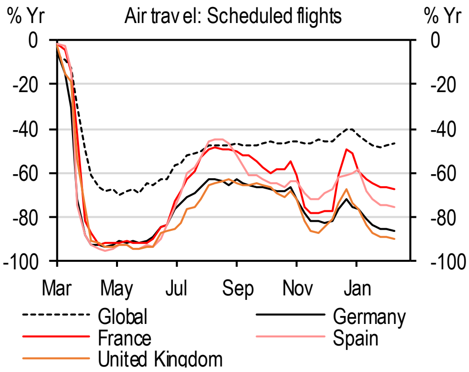
17. COVID-19 remains the largest source of uncertainty for about half of UK businesses



Source: BoE Decision Maker Panel, HSBC

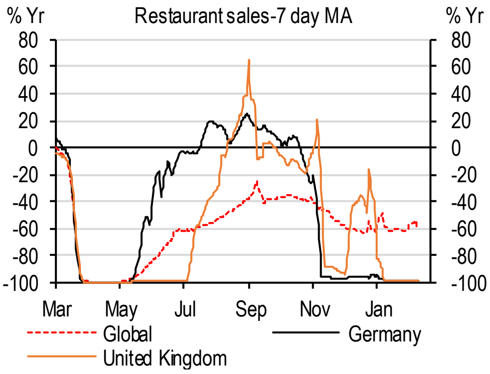
Real-time activity data

18. Demand for air travel in Europe is still very weak…



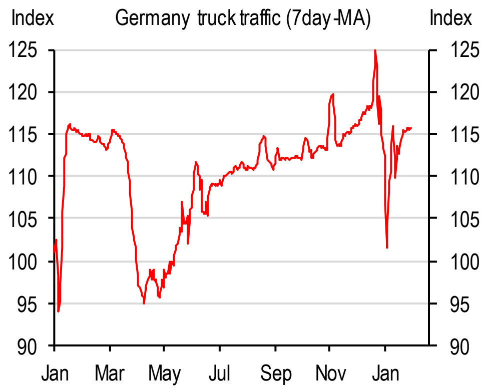
Source: OAG flights scheduler, HSBC.

19. … and the outlook for restaurant bookings remains exceptionally grim



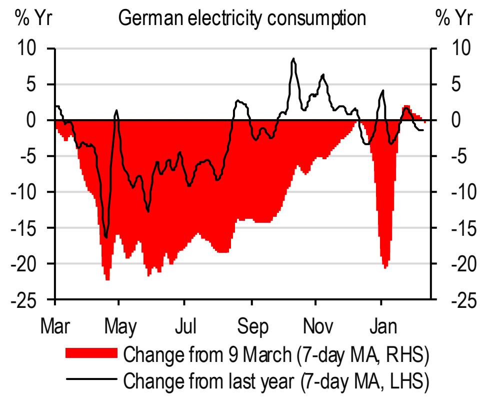
Source: OpenTable, HSBC.

20. Truck traffic has recovered after a huge drop, partly reflecting seasonal patterns



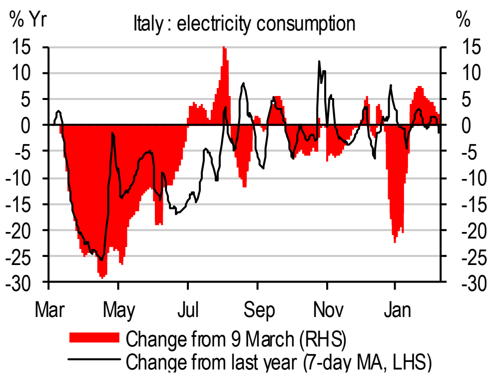
Source: Macrobond, HSBC.

21. Electricity consumption remains broadly flat in Germany...



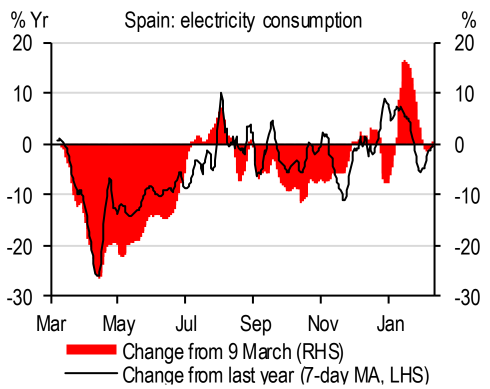
Source: Macrobond, HSBC.

22. …and in Italy



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

23. Spanish demand has normalised after a weather-related surge in January



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

Latest on restrictions in the major countries

24. 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 early 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).
France	On 24 November, President Emmanuel Macron outlined the key features of a gradual, three-step softening of the lockdown measures put in place on 30 October. First, since 28 November, non-essential shops have been allowed to reopen under stricter health measures. Second, the nationwide lockdown was officially lifted on 15 December and replaced by an 8pm-6am nationwide curfew (with limited exemptions including work or medical emergencies). 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 the reopening of cinemas, theatres and museums (initially planned on 7 January) or the reopening of restaurants (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. 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 also a 'white' category was 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 8 February, no region is in the 'red' category, the majority of regions (17 out of 20) are in the 'yellow' category and the rest 'orange' (even if some municipalities are still subject to tougher restrictions). No region is in the 'white' category. From 15 February, ski resorts, gyms and swimming pools will re-open in the yellow regions, although with distancing requirements.

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

Country	Latest on the lockdown measures
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: HSBC.

A substantial vaccine rollout lies ahead

25. 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 160m	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%

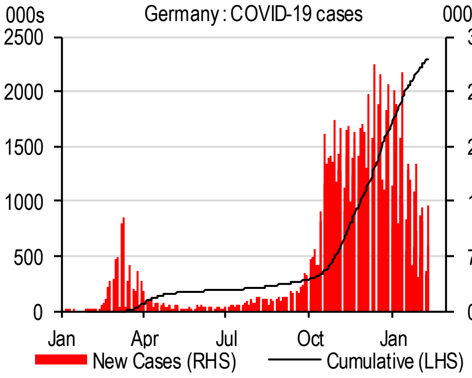
UK

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.

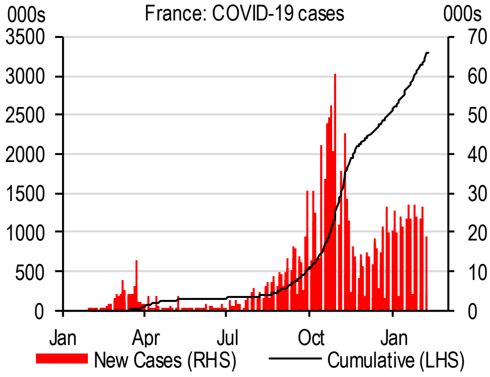
COVID-19 in Western Europe

26. German cases are now on a clear downward trend



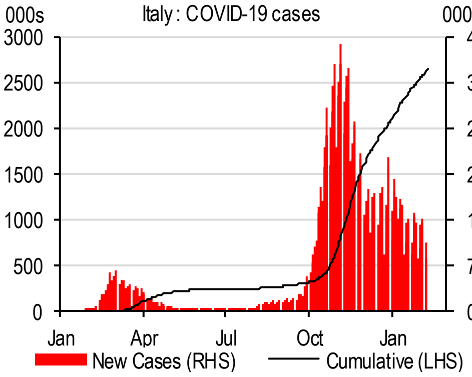
Source: Refinitiv Datastream, HSBC.

27. Cases in France have started to stabilise, even if the UK variant is becoming more widespread



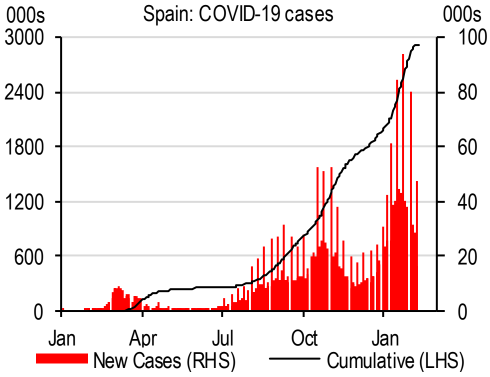
Source: Refinitiv Datastream, HSBC.

28. Cases are still falling steadily in Italy



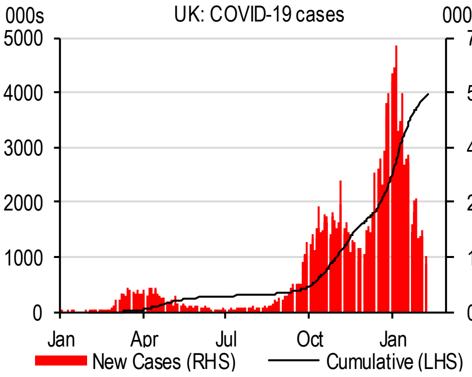
Source: Refinitiv Datastream, HSBC.

29. Better signs in Spain where the number of cases seems to have peaked



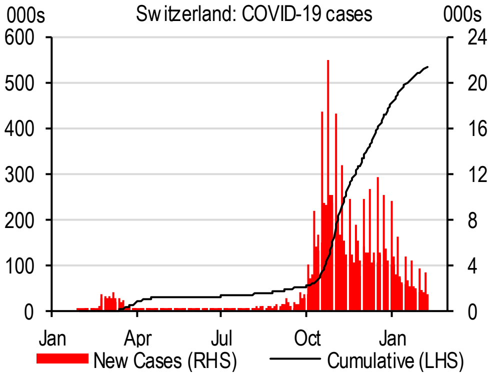
Source: Refinitiv Datastream, HSBC.

30. Cases are now falling rapidly in the UK...



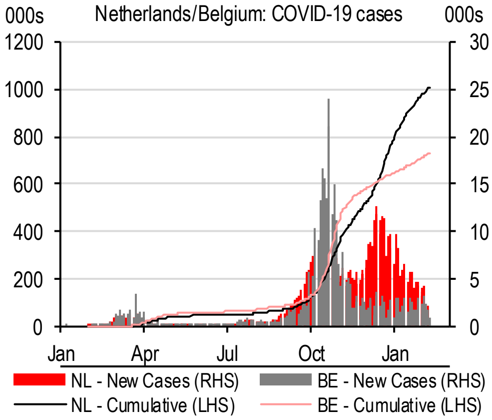
Source: Refinitiv Datastream, HSBC.

31. … and in Switzerland



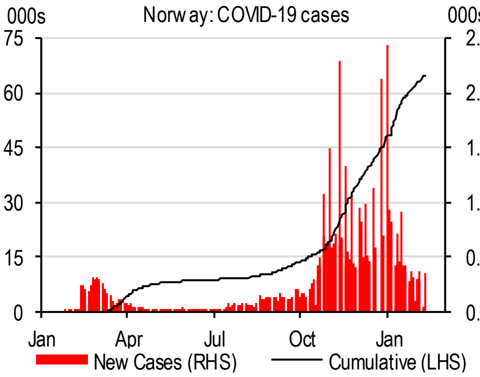
Source: Refinitiv Datastream, HSBC.

32. Infection rates remain relatively contained in Belgium and the Netherlands



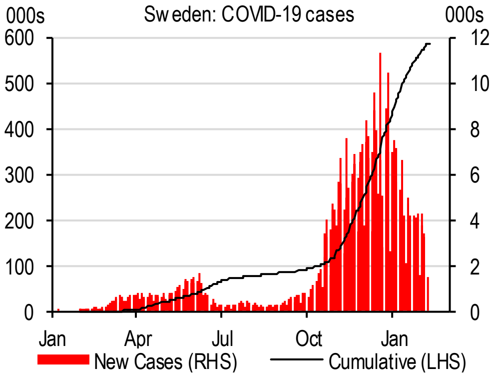
Source: Refinitiv Datastream, HSBC.

33. In Norway case numbers have reverted to very low levels



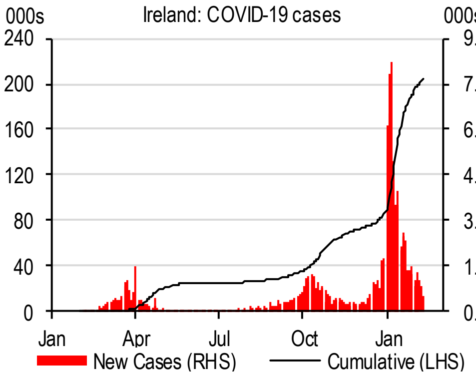
Source: Refinitiv Datastream, HSBC.

34. Sweden has seen cases come down too…



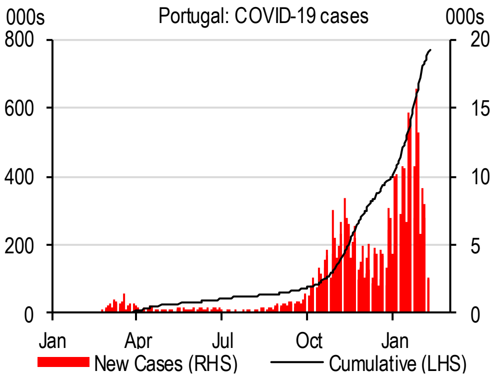
Source: Refinitiv Datastream, HSBC.

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



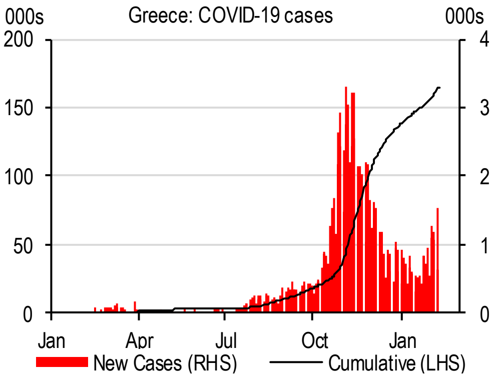
Source: Refinitiv Datastream, HSBC.

36. Some better signs in Portugal even if the number of new infections remains high



Source: Refinitiv Datastream, HSBC.

37. Cases have edged up in Greece, leading the government to tighten restrictions in Athens



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	Overall, the German federal government has scrapped both the balanced budget goal as well as the national debt brake until at least the end of 2021 and invoked debt financed fiscal support of roughly EUR300bn on the federal level alone in 2020 and 2021 to support the economic recovery from the COVID-19 crisis via two supplementary budget proposals for 2020 alone including: ◆ Direct payments to self-employed people, small- and medium-size enterprises (SMEs) and larger businesses to cope with the hit by the COVID-19 disease and the lockdown-related revenue shortfalls (EUR25.0bn); ◆ Bailouts for public institutions, municipalities and social security systems (EUR13.0bn); ◆ Temporary tax redemptions and tax credits (EUR13.3bn); ◆ Child benefit bonus of EUR300 per child (EUR4.3bn); ◆ Social security contribution limit at 40% for 2020 (EUR5.3bn); ◆ Temporary VAT cut until end-2020 (EUR20.0bn); ◆ Additional healthcare investment (EUR5.75bn); and, ◆ Enhancing the existing short-time work scheme by increasing the maximum duration from 12 to up to 24 months, increasing the wage compensation for longer-term short-time workers up to 87% of the net wage, and refunding employers' social security payments for employees in short-time work. Moreover, the government proposed a number of longer term expenditures that are not directly linked to tackling the COVID-19 disease but to ease the path towards a sustainable economic recovery; eg: ◆ Increased state subsidy for EEG (EUR11.0bn); ◆ Funding for long-run investment projects, eg, "green energy" (EUR36.0bn); and, ◆ Frontloading of planned public investment and expenses (EUR10.0bn). As an additional tool, a debt financed state fund worth EUR200bn as part of the so-called "Wirtschaftsstabilisierungsfonds" (WSF) was established that could either be used for KfW refinancing measures (EUR100bn) as well as for direct investment via acquiring shares in businesses (EUR100bn) to bolster their liquidity and ensure their solvency during the pandemic. As of 9 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 9 February EUR5.25bn of EUR9.47bn 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 02 February, a total of EUR47.1bn in KfW loans have been drawn, while direct credit guarantees only sum up 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 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 EUR14.9bn as of 9 February while the number of workers effectively benefiting from the short time compensation scheme was 2.4 million in December, down from a peak at 8.6 million in April.
Guarantees	Public guarantees (by Bpifrance) to maintain credit lines. EUR300bn (about 12.4% of GDP) of guarantees have been granted. This can cover 90% of a loan for companies with less than 5,000 employees and less than EUR1.5bn of turnover (the maximum is 80% if one of these two conditions is met). The amount cannot exceed three months of turnover in 2019 or, for innovative firms or firms created since 1 January 2019, two years of payroll. According to the Finance Ministry, EUR132.7bn of guaranteed loans had been granted by banks by 29 January. The government announced on 15 October a six-month extension of public guarantees (so that companies can apply until 30 June 2021). On 29 October, Finance Minister Bruno Le Maire declared that struggling businesses would be given the opportunity to defer repayments for one extra year without being considered as defaulting by banks. Mr Le Maire furthermore announced direct loans granted by the state in case a company fails to meet its financing needs: up to EUR10,000 for companies with fewer than 10 employees, EUR50,000 for those with fewer than 50 employees, and 3 months of turnover for companies with more than 50 employees.

Source: HSBC. Ministry of Finance.

40. Italy: 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.

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. 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).

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

Measure	Detail
Direct measures	Supporting joint research initiatives (EUR140m mobilised using public and private sources for research on vaccines, diagnosis and treatment) and help with the procurement of protective equipment and respiratory devices. EUR37bn (0.3% of GDP) pledged to the so-called "Corona investment initiative" to support healthcare systems, SMEs and the labour market. Rather than requesting that its member countries refund the unspent pre-financing of EU funds, the EC will allow them to keep the funds for use as co-financing for additional projects. Another EUR28bn (0.2% of GDP) of EU structural funds will be made fully eligible for COVID-19 related expenses. On 28 May, the EC unveiled its proposal for a 'Next Generation EU' fund of up to EUR750bn, which was agreed by the European Council on 21 July with minor changes. Delays then followed due to a possible 'rule of law' conditionality attached to the funds, which Hungary and Poland opposed, with the European Council reaching a final compromise on 10/11 December, which was signed off by the European Parliament on 18 January. Once all the secondary legislation has been drafted and approved, this will now have to be ratified by the national parliaments. The structure of the fund works as follows. The European Commission (EC) will be able to borrow the funds using the EU budget as a guarantee until 2026 (but no later). Of the EUR750bn, EUR390bn will be 'grants' while the 'loans' will be EUR360bn. The money borrowed by the EC must be reimbursed by 2058. Funds (both 'loans' and 'grants') will be made available "for the sole purpose of addressing the consequences of the COVID-19 crisis". Countries have to submit recovery and Resilience plans with the list of projects they would like to finance 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 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.
Guarantees	A EUR25bn pan-European guarantee fund allocated by the European Investment Bank (EIB), which will be provided to the banks as a first-loss insurance to help them extend their credit lines to SMEs, covering EUR200bn of loans.
Fiscal backstops	EUR240bn of a credit line (Pandemic Crisis Support) from the European Stability Mechanism (ESM) based on the existing credit line (ECCL) of up to 2% of GDP per country. The only requirement to access the credit line is that countries "commit to use this credit line to support domestic financing of direct and indirect healthcare, cure and prevention related costs due to the COVID-19 crisis". Although the Eurogroup statement also says that "afterwards, countries should "remain committed to strengthen economic and financial fundamentals". So far no country has requested the ESM credit facility. An unemployment reinsurance system (SURE): The EC issues up to EUR100bn of debt, "building on the EU budget as much as possible" and backed guarantees provided voluntarily by the countries, which will be used to finance the short-time work compensation schemes set up by the countries. The fund has been approved by the European Council. EUR90.3bn (of the EUR100bn possible) have been allocated so far to 18 countries, and the EC has already successfully issued EUR39.5bn by December 2020, which were disbursed to the eligible countries.

Source: HSBC. European Council, European Commission.

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

Measure	Detail
Direct Measures	The UK government has now announced GBP280bn worth of measures since March, according to costings published by the Office for Budget Responsibility alongside the Spending Review on 25 November. The biggest single measure so far has been the Job Retention Scheme (JRS) in which companies were eligible for grants covering 80% of furloughed workers' salaries up to a cap of GBP2,500, plus National Insurance contributions – launched on 20 March. The estimated gross cost of this scheme for 2020/21 is GBP62.5bn. The government had planned to retire this scheme at the end of October and replace it with the less expensive Jobs Support Scheme (Open) and Jobs Support Scheme (Closed). However, when the new lockdown measures for England were announced, the JRS was extended, initially to the end of November, then to the end of March and then again, to the end of April. This extension means there will no longer be a 'job retention bonus' paid in January. The government also said employees who had been let go since 23 September could be re-employed and furloughed under the new scheme. The JSS (Open and Closed) may need to be reintroduced when the lockdown is lifted: the former is a short-time work subsidy scheme for companies hit by lower demand, which was launched on 24 September, but made more generous on 22 October. The latter is for companies, which are forced to close, and is a less generous version of the JRS, whereby employees will receive 67% of their normal wage up to a cap of GBP2,100. On 8 July, a set of new measures were announced, this time not so much to cushion the blow of lockdowns, but to entice people back out and restart the economy. These included a 6-month cut in VAT from 20% to 5% for restaurants, hotels and cultural attractions, which was extended in October from January to the end of March. It also included a 6-month stamp duty 'holiday', raising the tax-free threshold on house purchases from GBP125,000 to GBP500,000. On 24 September, against a backdrop of rising COVID-19 case numbers, the Chancellor announced a new Winter Package of measures. As well as the aforementioned JSS, the Chancellor eased the terms of government-backed loans and deferred VAT payments, extended the July VAT cut for hospitality businesses (from mid-January to end March), and introduced more help for the self-employed. On 22 October, as well as upgrading the terms of the JSS (Open), he also added grants for companies and extended an increase to Universal Credit benefit payments. On 4 January, following the announcement of the renewed lockdown, the Chancellor announced a GBP4.6bn package of business support, comprising GBP4bn of direct grants of up to GBP9,000 for retail, hospitality and leisure companies and GBP594m of discretionary funding for affected businesses, to be delivered by local authorities. On our latest forecasts, public sector net borrowing looks set to come in at 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.

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