S&P Global Ratings

Credit Conditions Europe Q3 2024

Keep Calm, Carry On

June 25, 2024

This report does not constitute a rating action.

Key Takeaways

- **Overall:** Our base-case view on the economic and credit outlook for Europe has not fundamentally changed from April. We expect growth will gradually pick up, even as the disinflation trend continues, and enable the European Central Bank (ECB) to return to a neutral policy stance by the third quarter of 2025.
- **Risks:** Geopolitical risk--primarily related to potential spillovers from the wars in Ukraine and Gaza--represents the main systemic risk, although Europe's de-risking from China carries its own perils. The principal macro tail risks include a protracted period of slow growth or interest rates that remain higher for longer than we expect.
- **Ratings:** Ratings performance remains balanced, with lower-rated borrowers benefiting from improving financing conditions, including market access. Pockets of risk remain particularly where fixed rate debt matures for overleveraged borrowers--typically in the 'CCC' category. Credit losses within the banking sector will likely normalize from a low level, while a few negative rating actions could emerge in residential mortgage-backed securities (RMBS) and auto asset-based securities (ABS). April's downgrade of Altice France S.A. (CCC+/Developing/--), which is present in 98% of European collateralized loan obligations (CLOs) that we rate, did not have any material rating impact on those CLO transactions.

Editor's note: S&P Global Ratings' Credit Conditions Committees meet quarterly to review macroeconomic conditions in Asia-Pacific, emerging markets, North America, and Europe. Discussions center on identifying credit risks and their potential ratings impact on various asset classes, as well as borrowing and lending trends for businesses and consumers. This commentary reflects views discussed in the European Credit Conditions Committee on June 19, 2024.

The European economic and credit environment continues to strengthen gradually, despite significant political and geopolitical uncertainty clouding the outlook. Our base-case scenario of a soft landing in Europe has largely materialized. With disinflation continuing, even as employment and wages hold up, we anticipate that the glide path for eurozone rates will return to a neutral 2.5% by the third quarter of 2025. Barring any systemic shocks, this bodes well for credit trends broadly as issuers' financial policies move beyond dealing with the fallout from higher rates, and as financing conditions--including market access for lower-rated borrowers--continue to improve. This benign base-case scenario underpins the optimism evident in financial markets, where credit spreads remain close to historical lows and volatility is low (see charts 1 and 2). Additionally, many equity markets in developed economies remain close to record highs.

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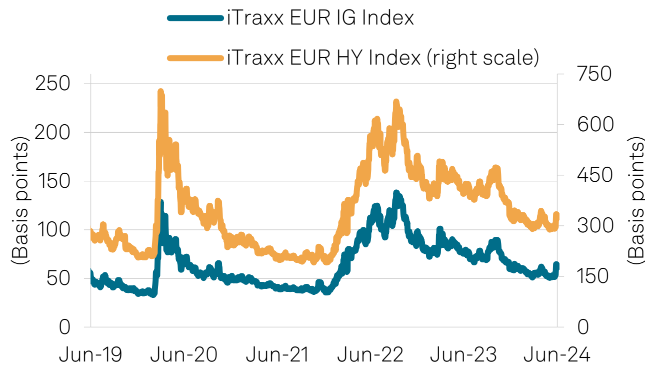
Chart 1

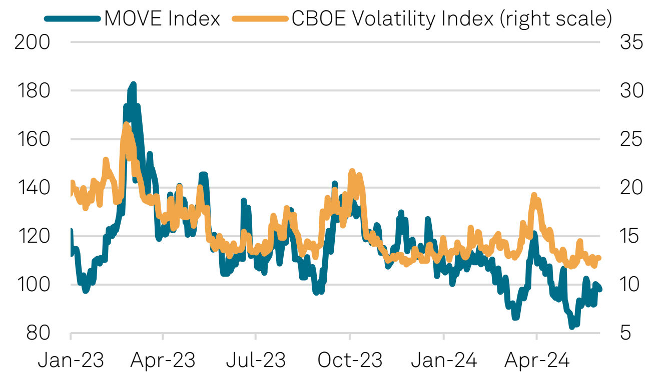
Credit default swap spreads close to two-year lows



Data as of June 18, 2024. Sources: S&P Global Market Intelligence and S&P Global Ratings Credit Research & Insights.

Chart 2

Global volatility remains very low



Data as of June 18, 2024. Sources: FRED and S&P Global Market Intelligence.

So, what could upset the apple cart? Front and center are political and geopolitical risks that, by nature, are difficult to predict. Closest to home, the snap French election is creating political uncertainty in France, with potential implications for key policies across the EU. By contrast, the U.K. elections will likely add more policy certainty to the macro outlook. Europe is also in the crossfire of a burgeoning trade war between the U.S. and China that we view as structural in nature. More orthodox macro-credit risks are mainly related to vulnerabilities in interest rate-sensitive sectors, where credit pressures could persist if interest rates remain restrictive for longer than we anticipate. However, there is a shrinking pool of rated issuers that are heavily affected by high interest rates as borrowers have adjusted to the reality of higher rates over the past two years.

Key considerations from a risk perspective include:

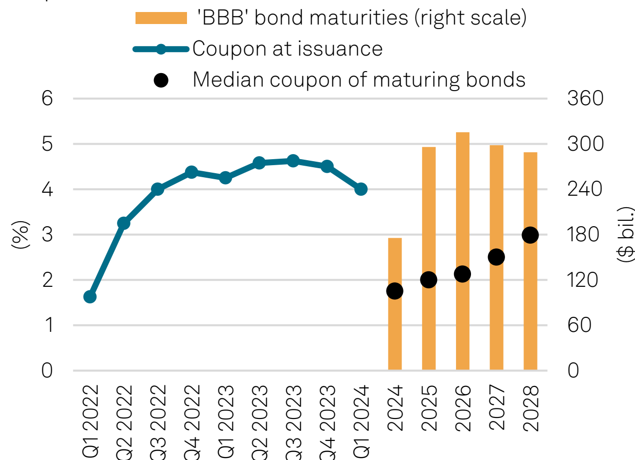
- **European elections:** While the center parties held their ground in the recent European Parliamentary elections, the shift towards overtly euro-sceptic parties in France and Germany, has already triggered a snap parliamentary election in France. Based on current polling, a hung parliament seems to be the most likely outcome of the French election. This could herald a period of "cohabitation" between President Macron and a minority government led by Marine Le Pen's far-right National Rally. In turn, a weak divided government might struggle to adopt fiscal measures required to put French debt/GDP back onto a credible downward path. A more overtly euro-sceptic French government might also threaten the EU's unity on key policies, for instance on enlargement, joint defense, and financial support for Ukraine.
- **Regional wars:** Our base case remains that the war of attrition in Ukraine will continue through the year, even as the ferocity increases, with both sides deploying their expanding military arsenals. We anticipate that military and economic support from the West will continue at least through 2024. Challenges could arise in 2025, depending on the result of the U.S. election and potential EU funding restrictions due to dissent among member states. The evident risks relate to any direct entanglement of NATO and an intensifying humanitarian crisis in the region. The war in Ukraine also shifts European governments' focus away from recent policy priorities, such as the economy, inequality, and climate change. Instead, governments prioritize defense and security, with implications for already stretched sovereign budgets. Meanwhile in the Middle East, the risks associated with an opening of a second front between Israel and Hezbollah are rising. Yet our base case remains that both parties and their supporters do not have any interest in the conflict spreading unpredictably across the region.

- **Trade and tariffs:** The EU's trade relationship with China is based on de-risking, not de-coupling. As an open, trade-oriented economy, the EU has developed a strong two-way trade relationship with China. China is the EU's third-largest export market and its largest import partner. Even so, the EU has become highly dependent on some of China's strategic industries, especially those required to power the energy transition. A case in point is the EU's provisional imposition of 10%-38% tariffs or "countervailing duties," in addition to the existing 10% levied on battery electric vehicles (BEV) produced in China and exported to Europe. These tariffs are supposed to slow BEV imports and buy some time for European original equipment manufacturers (OEMs) to develop their product range and become more competitive. They remain contentious, however, particularly in Hungary, Italy, Spain, and Poland since these countries are incentivizing Chinese foreign direct investments to establish local BEV production facilities. Some European OEMS, such as Stellantis N.V. and Renault SA, do not support these tariffs either as they seek to develop joint ventures with Chinese BEV producers in Europe.
- **Longer-than-expected restrictive interest rates:** The full effect of the rise in interest rates is still feeding through to households and corporate borrowers with long-dated fixed-rate mortgages and borrowings (see charts 3 and 4). Most borrowers had time to plan for the expected increase in debt service costs or pay off debt, while the rally in long-dated bond prices over the past nine months helped mitigate the effect for many. Yet the challenge remains acute for more vulnerable speculative-grade issuers that typically have less financial flexibility than investment-grade borrowers. This encompasses those struggling with failing business models, high leverage, an inability to generate positive free cash flows, or the need to refinance over the next 12-18 months.

Chart 3

Investment-grade issuers have more time and flexibility...

European 'BBB' rated nonfinancials

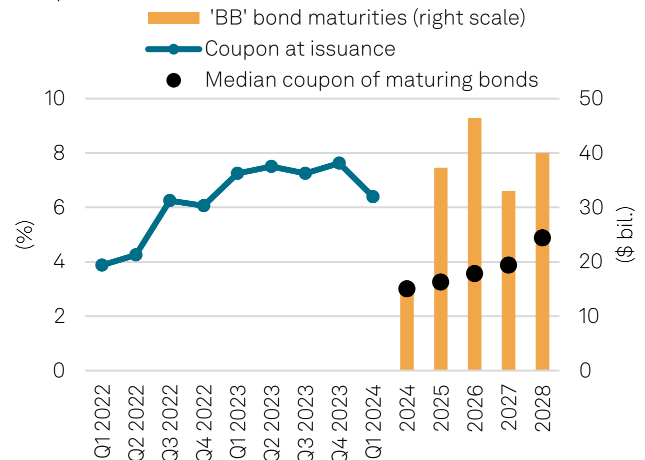


Data as of March 31, 2024. Chart shows median coupons of newly issued and maturing bonds. Includes European nonfinancial corporate bonds and notes rated 'BBB+', 'BBB', or 'BBB-'. Q--Quarter. Sources: Refinitiv, S&P Market Intelligence, and S&P Global Ratings Credit Research & Insights.

Chart 4

...to adapt to higher rates on fixed-rate debt than speculative-grade issuers

European 'BB' rated nonfinancials



Data as of March 31, 2024. Chart shows median coupons of newly issued and maturing bonds. Includes European nonfinancial corporate bonds and notes rated 'BB+', 'BB', or 'BB-'. Q--Quarter. Sources: Refinitiv, S&P Market Intelligence, and S&P Global Ratings Credit Research & Insights.

'CCC' rated issuers account for 7.9% of speculative-grade ratings in the corporate sector, close to the five-year average. Tighter credit standards and the higher cost of debt meant many rated borrowers amended and extended existing facilities. Very weak covenant protection and a more confrontational stance from company owners also contribute to defaults and lower recovery rates. As a result, we considered 11 of the 19 defaults in Europe year-to-date--almost 60%--were distressed exchanges by vulnerable entities that we

classify as rating defaults under our criteria. Our base-case assumption is that the European speculative-grade default rate will stabilize at about 3.75% by March 2025, from 4.30% as of April 30, 2024.

- **Commercial real estate (CRE) is not out of the woods yet.** Financing conditions for real estate issuers are improving, supported by the prospects of some easing in short-term rates. As downward momentum behind valuations and tenant demand eases, credit quality in European real estate is generally starting to stabilize. This is less the case in more vulnerable segments, such as non-prime office properties that are exposed to slow economic growth and the shift toward working from home. Due to ongoing debt refinancing, interest rate coverage ratios will likely remain under some pressure, while any political risk that translated into higher bond yields could delay the recovery of asset valuations in the CRE sector.

Top European Risks

Spillovers from regional wars

Risk level	Moderate	Elevated	**High**	Very high	Risk trend	Improving	Unchanged	**Worsening**

Geopolitical risk remains high as two regional wars drag on, with no end in sight. They carry the risks of drawing in other state and non-state combatants, and of an intensifying humanitarian crisis. The latter could become politically destabilizing if it leads to a flight of refugees seeking sanctuary abroad. Fatigue over the Russia-Ukraine war could create friction among Western allies over the level of ongoing political, military, and economic support that they are willing to provide. The unresolved war in the Middle East inflames ethnic tensions across the world and has already sparked protests and outbreaks of violence. These geopolitical confrontations represent a significant source of event risk that could disrupt supply chains, trigger risk aversion and a flight to quality, and shift governments' spending priorities.

International trade tensions extend to Europe

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	**Unchanged**	Worsening

Increasing trade tensions between the U.S. and China put Europe in a difficult position. The EU must balance China's importance as a trade partner with protecting the integrity of the single market, particularly where Chinese products and materials are essential for the energy transition. It remains uncertain whether trade protection measures to counter subsidies, which are provided to key strategic industries in China, will buy sufficient time for affected European industries to improve their competitive position. One risk is that Europe could become embroiled in a burgeoning trade war with China. Another is that trade disagreements could surface between EU member states as some solicit Chinese foreign direct investments to establish local production facilities (for example for batteries and BEVs) to avoid tariffs.

Restrictive interest rates persist longer than expected

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	**Unchanged**	Worsening

Sticky core inflation, particularly in services, and low unemployment--even with subpar growth--could limit the scope for the ECB and the Bank of England (BoE) to ease policy rates over the short term. Yet with credit conditions easing as refinancing volumes surge and credit spreads tightening to multi-year lows, credit vulnerabilities associated with high rates are becoming less systemic in nature. Nonetheless, the substantial step-up in nominal financing costs could still challenge stretched fixed-rate borrowers who need to refinance longer-dated maturities in 2025, particularly if market sentiment changed quickly. Tightening credit standards for bank lending and central banks aiming to shrink their balance sheets could exacerbate the situation.

Protracted period of low growth in Europe

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	**Unchanged**	Worsening

After having absorbed the rise in inflation and rate shocks, with the labor market remaining tight, the likelihood of a macro-induced lapse into recession is relatively low. But given continuously high rates, low demand for credit, elevated energy prices, eroded savings buffers, and fiscal headwinds, the risk of the European economy continuing to suffer an extended period of subpar growth is meaningful. As public debt remains high, few European governments have sufficient fiscal space for contra-cyclical support for their economies, even though the NextGenerationEU recovery plan still has funding capacity through 2026.

Real estate risk to the broader economy is moderating

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	**Improving**	Unchanged	Worsening

Financing conditions for real estate issuers are improving, supported by the prospect of declining short-term rates. As downward momentum behind valuations and tenant demand eases, credit quality in European real estate is generally stabilizing, albeit less so in more vulnerable segments, such as non-prime office. Selective market access and elevated financing costs could persist over an extended period, which could lead to distressed sales. For residential property, higher mortgage rates are still feeding through to borrowers. More adverse developments could spill over to the broader economy and impair consumer confidence, spending, employment, and European banks' asset quality.

Structural risks

Disruptions linked to climate change and the energy transition could increase

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	Unchanged	**Worsening**

Growing tensions between the goal to reduce net emissions in the EU by 57% by 2030 and the regulatory burden and associated costs of implementing all aspects of the European Green Deal raise the risk of abrupt, and potentially contradictory, changes in climate policies. European election results could soften and back load the path to meeting current emissions targets. Changing targets and regulations could disrupt industries and business planning, notably in the automotive, building, cement, steel, chemicals, transportation, and utilities sectors.

Cyber risks are gaining ground

Risk level	Moderate	**Elevated**	High	Very high	Risk trend	Improving	Unchanged	**Worsening**

The pace of digitalization--including the advance of artificial intelligence--in the global economy and heightened geopolitical discord in Europe, the Middle East, and Africa (EMEA) expose corporates and countries to mounting cyber risks, with targets ranging from utilities to insurers and government agencies. This can result in substantial business disruption, monetary loss, and reputational damage that could weigh on credit quality and, more broadly, undermine public confidence in key institutions and infrastructure. A particular concern centers on the spread of misinformation and hacktivism through malicious cyber activities to influence voters during upcoming elections.

Source: S&P Global Ratings.
Risk levels may be classified as moderate, elevated, high, or very high. They are evaluated by considering both the likelihood and systemic impact of such an event occurring over the next one to two years. Typically, these risks are not factored into our base-case rating assumptions, unless the risk level is very high.
Risk trend reflects our current view on whether the risk level could increase or decrease over the next 12 months.

Macroeconomic Outlook

- We expect GDP growth will gradually recover toward potential growth on the back of an increase in consumer spending in the second half of 2024 and investments in 2025.
- Although the decline in inflation may not be smooth, we still expect eurozone headline inflation will move sustainably back to the 2% target by mid-2025.
- This will still enable the ECB to cut rates by 25 basis points (bps) per quarter until the deposit rate bottoms out at 2.5% in the third quarter of 2025.

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Eurozone

We largely confirm our growth, inflation, and monetary policy forecasts. GDP growth will likely accelerate to 1.4% in 2025 (compared with 1.3% in our previous forecast), from 0.7% this year, as lower commodities prices (primarily energy) rebalance terms of trade, support disinflation, and contribute to the recovery of real incomes.

Barring any new shocks, the 2% inflation target will likely be achieved by mid-2025 as a rebound in productivity, moderating profit margins, and slower wage growth will reduce core inflation further. We expect inflation will recede to 2.2% in 2025 (previous forecast: 2.6%), after 2.4% this year (previous forecast: 2.1%) and 5.4% in 2023. The marginal upward revision to our inflation forecast for 2025 reflects a more delayed appreciation of the exchange rate than we anticipated. The delay results from the postponement of the U.S. Federal Reserve's (Fed's) expected first rate cut to December 2024 and the volatility caused by political uncertainties in Europe. That said, a return of the euro to fair value against the U.S. dollar remains our base-case expectation, given that GDP growth and policy rates will likely converge on both sides of the Atlantic over the forecast horizon.

With growth likely to return to potential over the next twelve months--not above--and inflation back toward the target--not below--we continue to forecast a quarterly cut in ECB rates until the deposit rate bottoms out at 2.5% in the third quarter of 2025, compared with 3.75% currently. We believe the ECB's monetary policy will have ceased to be restrictive but will not be expansionary by 2025. We once again revised our unemployment rate forecast to 6.5% over 2024-2025, instead of 6.6% previously, as the labor market continues to prove its resilience.

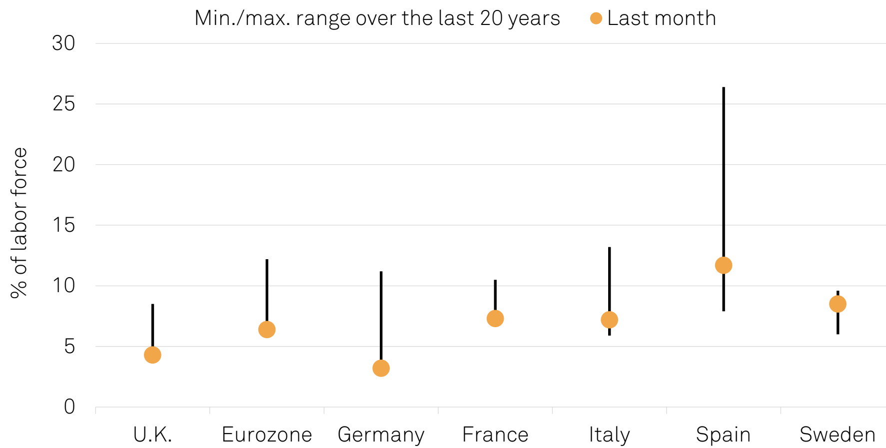
Economic activity will continue to strengthen over the rest of the year after more favorable terms of trade rekindled growth in the first quarter. The soft landing of the economy we were expecting has largely materialized. After five quarters of quasi-stagnation, eurozone GDP finally rose a robust 0.3% in the first three months of this year. The return to growth mainly results from a sustained recovery in the terms of trade. The recovery is linked to the decline in energy commodity prices, which enables inflation to recede, lending rates to fall, and confidence to recover. The resilience of the labor market, with unemployment rates in most countries close to or at historical lows (see chart 5), also contributes to the recovery of the European economy.

Although set to decelerate, wages are growing at a higher pace than consumer prices. Given the current wage agreements, households will continue regaining the purchasing power they lost during the energy crisis. Job vacancies have peaked but are still plentiful, representing 3% of the workforce in the first quarter of 2024. This level of vacancies is still too high to push up the unemployment rate. What's more, households have not yet benefited much from the fall in gas prices. The benefits should be more evident by the end of this year when operators and tax authorities normally adjust retail power and gas tariffs to wholesale market prices. Additionally, lending rates will continue to decline, thanks to easing monetary policy. This will benefit investments, especially in the housing sector. Overall, domestic demand will continue to

strengthen, first through consumer spending from the second half of 2024, and then through investments from 2025. This will enable a return to potential GDP growth.

Chart 5

Unemployment rates at, or close to, record lows in all major European economies (%)



Source: S&P Global Ratings.

Further disinflation is unlikely to proceed smoothly, prompting the ECB to remain cautious about cutting rates. While inflation fell steadily to 2.4% in April 2024 from a peak of 10.6% in October 2023, it rebounded slightly by 20 bps in May 2024 to 2.6% in the headline index and 2.9% in the core index. This rebound was widely expected, mainly due to the end of government support for domestic energy prices and public transport in some countries. But May's rebound illustrates how long it will take for inflation to return to the 2% target. Most of the base effects on energy and food prices that caused the ups and downs of this inflationary wave are behind us. Second-round effects, namely wages, are now causing inflation, and it will not be until productivity recovers or profit margins narrow that inflation will recede further. This is unlikely to occur before mid-2025, given the slow decline in wage growth. In the meantime, we expect inflation will hover around 2.5%.

In this context, we expect the ECB will adopt a cautious stance. The central bank will wait for confirmation of inflation, especially core inflation, from hard wage data and staff projections before deciding on further rate cuts. This translates into rate cuts at the end of each quarter, when wage data and staff projections are updated, until inflation lands on target and growth is back on track, which should be the case by the third quarter of 2025. Such an approach would leave room for five more rate cuts, a cumulative 125 bps, after the first cut of 25 bps in June 2024.

U.K.

A less resilient labor market paves the way for rate cuts in August 2024. Similar to the eurozone, the U.K. is benefiting from improving terms of trade and a rebound of investments, as the effects of past rate rises faded in the first half of this year. GDP expanded by 0.6% in the first quarter and offset last year's contraction. We therefore revised our U.K. GDP growth forecast for 2024 to 0.6%, from 0.3%. Despite a recovery of purchasing power, however, consumers remain cautious about increasing their spending, not least due to high interest rates, high inflation, and a cooling labor market (see chart 6).

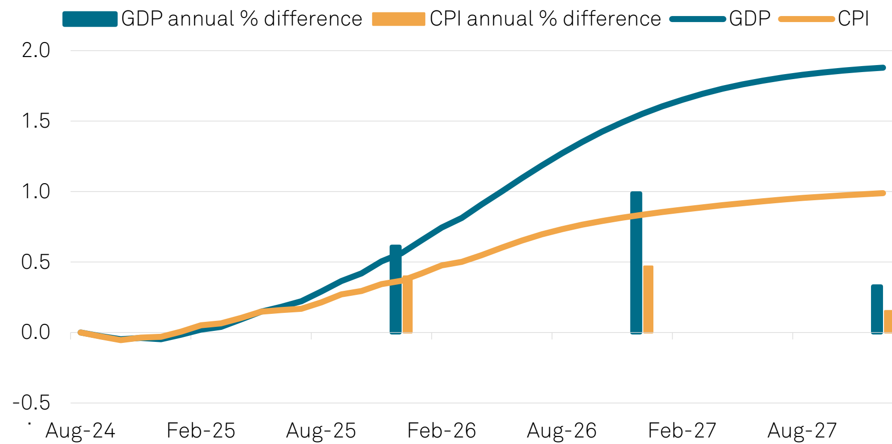
We expect a further increase in unemployment, which will ease wage and inflationary pressures in the second half of 2024. We expect inflation will average 2.8% this year and 2.4% in 2025.

Slowing inflation will pave the way for the BoE to cut rates from August. We expect a total of three cuts this year and rate cuts of 125 bps in 2025 as the economy returns to potential growth.

Chart 6

The effects of monetary policy changes on inflation and economic activity are lagged

Estimated effects of BoE rate cuts on inflation and GDP



CPI--Consumer price index. Source: S&P Global Ratings.

Key assumptions

- Geopolitical developments, mostly the wars in Ukraine and Gaza, do not escalate.
- Political uncertainties in Europe lessen after the French and U.K. elections and the appointment of a new European Commission. The ECB's transmission protection instrument (TPI) is a credible bulwark for smoothing spreads.
- Economic relations between China and the EU do not turn into a trade war as the two regions are highly interconnected.
- The de-coupling of monetary policies on both sides of the Atlantic does not lead to a disorderly tightening of European long-term yields and foreign-exchange volatility.
- Energy supplies remain stable and supply chains are not disrupted.

Key risks

- Longer duration and escalation of the wars in Ukraine and Gaza that could test the resilience of the European economy even more.
- Increasing political uncertainties in Europe, not least due to the French snap elections.
- Unwarranted and disorderly tightening of global financing conditions, with central banks, especially the Fed, slow to cut policy rates.
- Deteriorating economic relations between the EU and China, after the EU imposed provisionary countervailing duties on Chinese BEV producers.
- Spike in unemployment due to sharply rising labor costs eroding corporate profitability.

What to look out for over the next quarter

Beyond political and geopolitical developments, we will monitor whether wage momentum slows enough to facilitate further rate cuts, and whether rising real wages boosts consumer spending.

Financing Conditions

- Demand continues to underpin constructive financing conditions as investors seek to lock in returns against a backdrop of falling interest rates.
- Primary markets continue to see strong issuance for both investment- and speculative-grade issuers, accompanied by robust leverage loan supply. Yet we expect issuance will slow in the second half of 2024.
- Even though near-term refinancing risk has diminished, many borrowers are dealing with higher financing costs since refinancing is the primary driver of issuance. We estimate the refinancing of 2024 maturities has increased financing costs by up to 2.4% for 'BBB' rated issuers and 3.4% for 'BB' rated issuers.
- Mixed ratings performance trends are prevalent--with a reduction in negative bias, including in the speculative-grade realm--even as defaults have reached their highest number since 2008.

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Favorable momentum continues, with credit conditions easing as the ECB starts to cut rates from record highs. This is despite the recent market fallout following the announcement of the snap election in France that increased spreads between French and German 10-year government bonds by 30 bps to about 77 bps, while iTRAXX spreads widened by 40 bps in the speculative-grade segment and 10 bps in the investment-grade segment. Credit spreads remain close to their lowest level since March 2022 and corporate yields have continued to trend lower, particularly for 'CCC' rated issuers, as investors have moved along the credit curve.

Primary market activity remains strong, supported by investment-grade and speculative-grade bond issuances alike. Primary rated bond issuance was up about 23% in the first five months of 2024, compared with the same period last year (see chart 7). While investment-grade bond issuance in Europe increased by 15% year over year, speculative-grade bond issuance rose 103%, after subdued activity in 2023, supported by investors' anticipation of rate cuts. The pace of speculative-grade bond issuances in 2024 has picked up, compared with the pace of leveraged loan issuances. We note that the volume of leveraged loan issuances is still twice as high as it was in 2023. Refinancing remains the dominant theme as investors look to lock in attractive yields and issuers seek to take advantage of the strong demand before a potential increase in market volatility through 2024.

Near-term refinancing risk has subsided but pockets of risks remain as the relative cost of financing increases. Constructive financing conditions in the first five months of 2024 presented a window of opportunity that many companies took to refinance upcoming debt. Upcoming maturities over 2024-2025 remain manageable for both speculative-grade and investment-grade issuers (see chart 8). As of April 1, 2024, only 5.3% of debt that was rated 'CCC' or below had a maturity date in 2024. Strong activity in late 2023 and early 2024 enabled speculative-grade nonfinancial companies to reduce maturities in 2025 by 35%. However, speculative-grade debt maturities will reach €185 billion in 2026, 64% of which are rated 'B' or below.

While near-term refinancing risk has decreased, the cost of funding has risen for most borrowers. As of April 1, 2024, European 'BBB' rated issuers could face an increase of about 2.3 percentage points when refinancing since bonds that mature in 2024 have a lower median coupon. Meanwhile, 'BB' rated issuers in Europe could face a more pronounced increase in funding costs of up to 3.4 percentage points, which could put pressure on some lower-rated issuers.

Chart 7

Primary bond market issuance remains constructive through Q2 2024

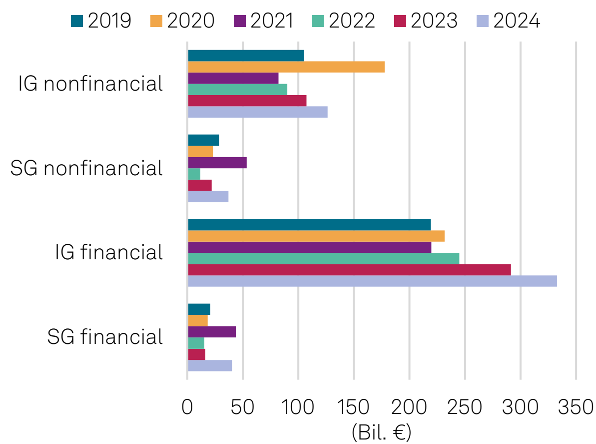
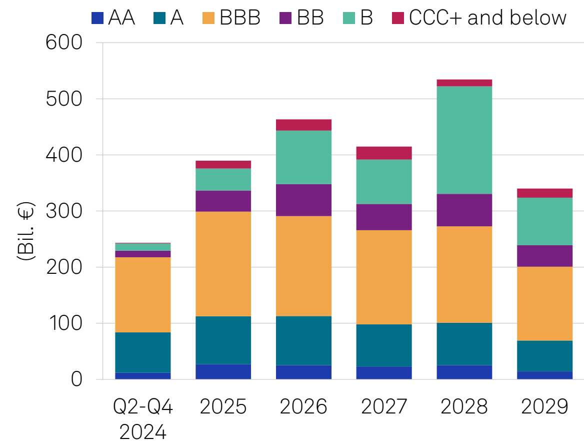


Chart shows issuance data for January-May each year. Includes both financial and nonfinancial corporates with rated debt. IG--Investment-grade issuers. SG--Speculative-grade issuers. Sources: Refinitiv and S&P Global Ratings Credit Research & Insights.

Chart 8

Upcoming debt maturities remain manageable for European nonfinancial corporates



Q--Quarter. Data as of April 1, 2024. Includes European nonfinancial corporate issuers' bonds, loans, and revolving credit facilities that are rated by S&P Global Ratings. Foreign currencies are converted to U.S. dollars at the exchange rate on April 1, 2024. Source: S&P Global Ratings Credit Research & Insights.

Ratings performance trends are generally positive but defaults continue to be elevated. Negative bias (the share of issuers with ratings that either have negative outlooks or are on CreditWatch with negative implications) has contracted since the start of the second quarter this year and remains well below five-year averages for issuers in all rating categories. This implies the number of negative rating actions will decline. So far, most downgrades occurred in the real estate and consumer products sectors.

The current corporate default total in Europe is the highest since 2008, with nearly 60% of defaults resulting from distressed exchanges. The current default rate for the 12 months ended on April 30, 2024, is 4.3%. Consumer-sensitive sectors, such as consumer products and media and entertainment, have led default numbers to date. In our base case, we expect the European trailing 12-month speculative-grade corporate default rate will level out at about 3.75% by March 2025 as growth improves and interest rates continue to decrease. If GDP growth and rate declines fall short of our expectations, the default rate could rise to 5%.

Credit Cycle Indicator (CCI)

Debt levels are normalizing across Europe, albeit with variations across countries

Our eurozone CCI is stabilizing at a low level (see chart 9). In essence, nominal GDP has increased, debt growth has been curtailed in response to high interest rates, and house prices have stalled. Barring any systemic, especially geopolitical, shocks, our CCI hints at a more positive credit environment ahead. This is borne out by our equity market factor, which has almost reached pre-COVID-19 peaks in some countries and exceeded them in others.

The correction in **household debt to GDP** reduced household debt to GDP to 15- to 20-year lows in Italy, Spain, the Netherlands, and the U.K. In contrast, while household debt to GDP in Germany and France is not particularly high, retrenchment has only been back to pre-COVID-19 levels. A similar pattern is evident across major European countries in relation to **corporate debt to GDP.** The corporate debt ratio in Germany is typically stable and relatively low, suggesting that the combination of high inflation, slow real GDP growth, and disrupted supply chains may have increased the pressure on German corporates to maintain debt at the current levels, given the size of their industrial base and need for working capital. The situation in France is different in that corporate debt to GDP remains relatively high at early 2019 levels. We note, however, that the Bank for International Settlements' debt figures capture corporates' unconsolidated debt position and that intercompany loans account for a relatively high proportion of French companies' debt.

Chart 9

Eurozone credit cycle indicator

Peaks in the CCI tend to lead credit stresses by six to 10 quarters. When the CCI's upward trend is prolonged or the CCI nears upper thresholds, the associated credit stress tends to be greater. Sovereign risk is not included as a formal part of the CCI. CCI--Credit cycle indicator. Q--Quarter. Sources: Bank for International Settlements, Bloomberg, and S&P Global Ratings.

Financial Institutions

- Our outlook for European banks remains largely stable, with a pronounced positive bias of 45% in southern Europe.
- Solid capitalization and liquidity, improved profitability, and resilient asset quality continue supporting the ratings on European banks, despite the economic slowdown and increased political uncertainty.
- Lower interest rates and sluggish loan growth will put pressure on net interest margins and force banks to focus on cost control measures to preserve sound profitability and maintain their planned shareholder distributions.
- While asset quality remains remarkably resilient, a moderate deterioration is likely, particularly in the more vulnerable small and midsize enterprises (SMEs) portfolios, unsecured consumer credit, and CRE exposures. Yet a deterioration should be contained, with credit costs normalizing from low levels.
- Key risks include tighter liquidity conditions that could increase funding costs for some banks, market turbulence, which could destabilize weaker banks and non-banks, and a harder economic landing that could intensify asset quality deterioration.

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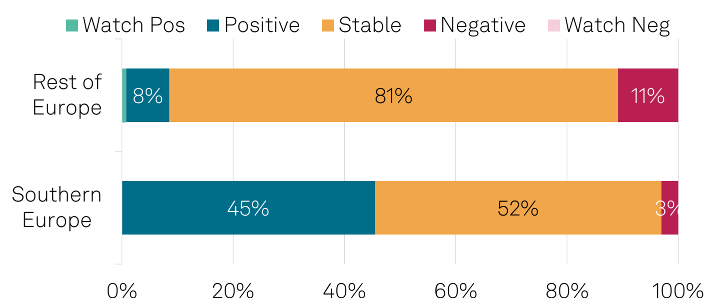
Key developments

Banks in southern Europe benefit from a positive momentum. These banks largely completed asset quality clean-ups and reduced their reliance on external funding to a minimum. Additionally, economic growth in southern Europe is more solid than in the rest of Europe, with positive fiscal dynamics in Greece and Portugal strengthening sovereign creditworthiness. Banks' profitability benefited significantly from higher interest rates and several years of cost reductions. Thus, the ratings outlook on about 45% of southern European banks is positive, compared with 8% in the rest of Europe (see chart 10). We note, however, that the ratings on southern European banks are generally lower than those on other European peers.

Chart 10

Bank ratings in southern Europe have a positive bias



Source: S&P Global Ratings.

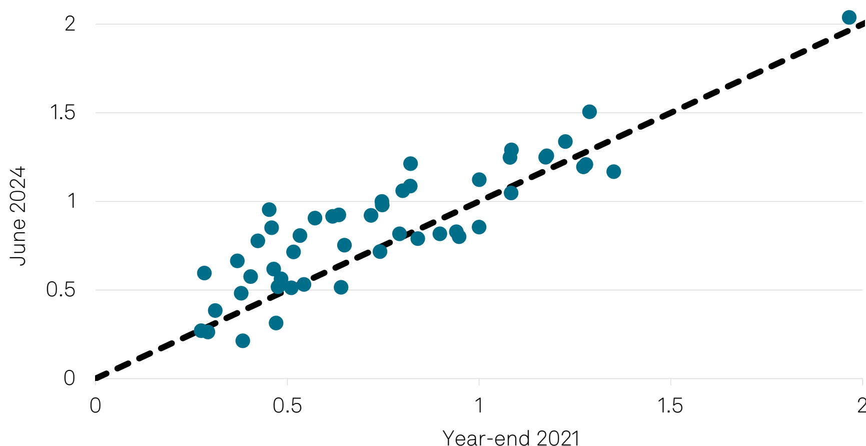
European banks' results remained solid in the first quarter of 2024 and will likely hold up through 2024. The decline in policy rates will put pressure on banks' net interest margins, which will fall in some cases. Balance sheet hedges and other drivers could provide resilience. Either way, banks will redouble their focus on fee income generation and cost management, even if eurozone banks will benefit from the end of contributions to the Single Resolution Fund this year. Heavily fixed cost bases and residual wage inflation imply limited scope for tactical cost savings. We therefore view banks' continued investments in digital transformation as essential for structural efficiency gains and for delivering less complex, more resilient operations.

Banks will maintain attractive shareholder distributions, combining cash dividends and share buybacks. In this regard, banks benefit from solid profitability, comfortable capital headroom, modest balance sheet growth, and the manageable effect of Basel III amendments on regulatory capital. Additionally, banks' increasing use of significant risk transfer--which enables them to pass on losses to non-banks--and their scope to reduce capital ratios moderately will support shareholder distributions, even if profitability declines and business volumes pick up. Although European banks' valuations have improved as a result, they remain far below book value in many cases (see chart 11). Price-to-earnings valuations also fall short of other economic sectors. The risk of policy interventions, for example in the form of additional bank taxes, is often cited as a reason for banks' comparably low valuations.

Chart 11

While equity valuations have improved, they remain below book value for many banks

Comparison of price-to-book ratios of the top 100 rated European banks



Sources: S&P Capital IQ and S&P Global Ratings.

Asset quality is proving resilient but we anticipate some moderate deterioration. The slowdown in economic activity and still high financing costs will put pressure on borrowers, particularly in the case of highly leveraged SMEs and unsecured lending to low-income retail customers. Corporate bankruptcies have increased in Europe and our default rate is also on the rise. Some banks face single-name defaults and an increase in provisions but credit costs are typically rising modestly and from very low levels. We continue monitoring CRE risk, even though banks--including German and Swedish banks with higher CRE exposures--are dealing well with the pressures from the sector. Only the creditworthiness of CRE monoliners has been impaired. Mortgage asset quality, in turn, will remain resilient on the back of the solid labor market performance.

Market debt issuance has been robust so far. In the first five months of 2024, European financial institutions placed 20% more debt in the market than they did in the same period last year. Investors remained constructive and continue seeking returns, which enabled banks to deliver their annual funding plans ahead of time. As a result, they are well covered in case investors' appetite weakens in the second half of 2024. Increased covered bond issuances, barely expanding business volumes, and robust deposit stocks mean that banks' liquidity positions remain very comfortable.

Raiffeisen Bank International AG (Raiffeisen) and UniCredit Bank AG (UniCredit) are under increased pressure from the ECB to accelerate the reduction of their banking activities in Russia. The other European bank with large operations in Russia, Hungarian OTP Bank, does not fall under the ECB's supervision. The task is more challenging for Raiffeisen, which has larger

operations in Russia, meaning more equity investments are at risk and the reliance on profits from Russia is higher. Additionally, potential breaches of sanctions remain a key risk and constitute the main reason why Raiffeisen recently decided to abandon its plans to upstream some of the capital trapped in Russia by buying an interest in a construction company. We affirmed our 'A-/A-2' long- and short-term issuer credit ratings on Raiffeisen on May 24, 2024, but maintained the negative outlook to reflect the reputational, political, and financial tail risks that the bank faces until it sufficiently de-risks its Russian operations.

Domestic mergers and acquisitions could be back. Nationwide Building Society surprised the market in March 2024 with its announcement of a preliminary agreement to buy Virgin Money in the U.K., which shortly after became a firm offer. In May, Banco Bilbao Vizcaya Argentaria S.A. announced its decision to launch a voluntary tender offer to Banco Sabadell's shareholders, after the latter's board of directors rejected a previous acquisition proposal under similar terms. While different in nature, both deals show bank management's appetite for more transformational deals that offer the potential to gain scale, strengthen the franchise, and achieve efficiencies, at a time when capital positions are solid, valuations have improved, and credit demand and business activity remains muted. More deals could follow.

Results of the ECB's cyber stress test, which assessed 109 banks, will be out soon. The exercise aims at identifying shortcomings in banks' responses to a potential cyber attack against their own infrastructures or those of third-party providers, causing a severe service disruption. Ensuring banks' resiliency against outages at third-party providers, including large cloud service providers, ranks high in the regulatory agenda as it has been a source of problems for banks in the past. A few weeks ago, for example, Banco Santander disclosed customer data breaches at a database hosted by an outside provider and in 2023, banks were affected by cyber incidents at EquiLend and ION.

Global systemically important financial institutions in the EU started to disclose their green asset ratios (GARs) at the end of 2023 and the rest will follow in 2024. The GAR aims to capture the share of assets that qualify as environmentally sustainable, according to the EU Taxonomy. The average GAR disclosed at end-2023 was very low, at 2.8%. We do not think this number is reflective of the efforts banks are making to finance the green transition. Due to the way it is calculated--the numerator excludes foreign operations and small companies--the GAR does not provide a comparable assessment of banks' relative positioning, in our view.

Key risks

- **Tighter liquidity leading to higher funding costs and market turbulence:** Some banks could struggle with higher funding costs, particularly if they lack deep franchises. Beyond that, heightened geopolitical risks or unexpected monetary policy decisions could lead to market turbulence. The latter could destabilize financial institutions with weaker funding structures--especially non-banks with high refinancing needs--and expose banks to higher counterparty credit risks.
- **A protracted, painful recession:** This could undermine the financial health of corporates and households, weaken banks' asset quality--particularly the performance of more vulnerable portfolios--and cloud business prospects beyond our expectations.
- **Commercially and operationally fragile business models:** These will become an issue if banks cannot tackle inefficiencies, digitalize their business, and sustain cyber resilience.

Nonfinancial Corporates

- European companies remain resilient, despite the economic slowdown. Upgrades are outpacing downgrades and the overall proportion of the portfolio on negative outlook has fallen below 14%, albeit slightly higher in the speculative-grade category at 16%.
- The capital goods sector reported the most positive result in terms of net rating actions. Companies exposed to megatrends, such as digitalization, decarbonization, energy management, and automation, strengthened their credit metrics and reduced volatility in cash generation.
- The full effect of higher interest rates is increasingly affecting lower-rated, highly leveraged companies.
- Refinancing conditions remain supportive for European issuers. Most companies that approached the bond and loan markets were able to finance or refinance but the conditions varied significantly among sectors and issuers.

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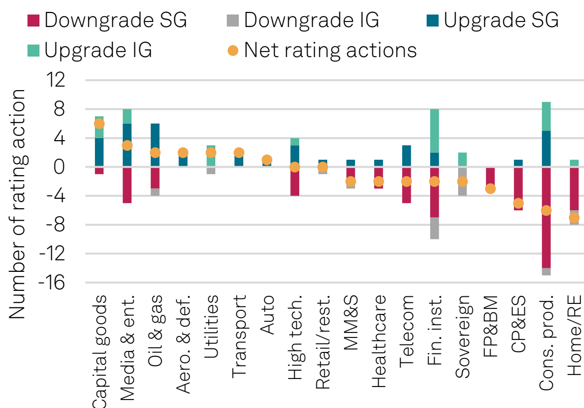
Key developments

European companies' remained resilient in the first half of 2024. Positive rating actions prevailed, while negative actions were concentrated on the lower end of the rating scale. Downgrades to 'B-' from 'B' and to the 'CCC' category from 'B-' mainly resulted from the combined negative effects of weaker operating performance and higher interest rates. Similar to 2023, these hit hardest in the real estate sector (see chart 12). Positive rating actions were not limited to specific categories, with several upgrades in the investment-grade space. In our view, Europe's strengthening economy will improve the net bias, which is already well below five-year averages (see chart 13), over the second half of this year.

Chart 12

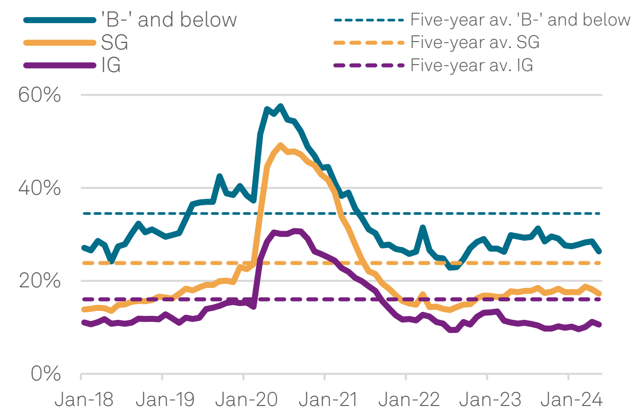
Speculative-grade companies accounted for 63% of upgrades and 81% of downgrades



Data as of May 31, 2024. Rating actions are from Jan. 1, 2024, to May 31, 2024. CP&ES--Chemicals, packaging, and environmental services. FP&BM--Forest products and building materials. MM&S--Metals, mining, and steel. IG--Investment-grade. SG--Speculative-grade. Source: S&P Global Ratings Credit Research & Insights.

Chart 13

Negative bias is well below five-year averages



Data as of May 31,2024 Includes nonfinancial corporates and only considers parent issuers. Negative bias: percentage of issuers with negative outlooks or ratings on CreditWatch negative to total number of issuers. IG--Investment-grade. SG--Speculative-grade. Source: S&P Global Ratings Credit Research & Insights.

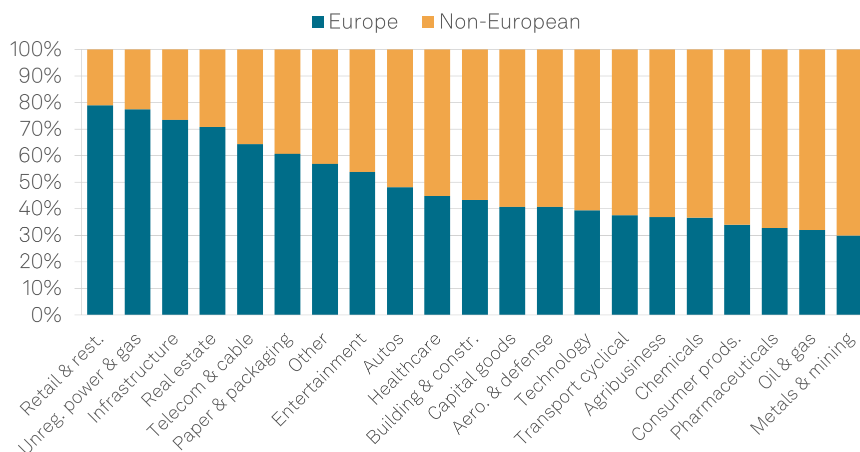
The positive net rating trend is most pronounced in the capital goods sector. Through mid-June 2024, this sector reported seven upgrades and only one downgrade, continuing the positive trend from last year. Upgrades include large companies, such as Siemens AG (to 'AA-/Stable/A-1+' from 'A+/Stable/A-1+'), ABB Ltd. (to 'A/Stable/A-1' from 'A-/Stable/A-2'), and Schneider Electric S.E. (to 'A/Stable/A-1' from 'A-/Stable/A-2'). These companies positioned their portfolios to capture

growth and megatrends, including digitalization, decarbonization, energy management, and automation, thus reducing volatility and increasing the resilience of revenues and margins. We expect their financial policies will be commensurate with the higher ratings.

Potential changes in terms of trade can have mixed effects. We currently do not envisage any major changes in trading conditions but note that the net effect of any revisions of the terms of trade with China or any other large country is difficult to assess for our rated universe. Potential retaliations could at least partly offset the benefits from reduced competition. European companies are largely exposed to exports outside of Europe, unlike U.S. companies, which are more domestically oriented. Retaliations can have a significant effect on more export-oriented sectors (see chart 14).

Chart 14

The metals and mining sector has the highest non-European exposure



Source: S&P Global Ratings.

Higher interest rates have increased the incentive to reduce debt, particularly for those companies in the 'B' category having a large stock of debt. More vulnerable companies with anemic growth and weak profitability may struggle to refinance their highly levered capital structures in light of higher interest rates. Under these conditions, the strategic leeway to reduce the stock of debt is very limited and companies often depend on asset sales, which tend to be difficult in a stress scenario. Recent notable downgrades to the 'B' category include Altice France (to 'CCC+/Developing/--' from 'B+/Stable/--'), as well as Ardagh Group S.A. and its glass-packaging subsidiaries (to 'CCC-/Negative/--' from 'B/Stable/--') in March 2024 and April 2024, respectively. Both companies communicated the intention to review their capital structures and reduce debt amounts. This has triggered downgrades as we see the concrete risk of a distressed exchange, which is tantamount to a default under our criteria. In both cases, the companies are considering options that would protect or create advantages for old or new secured creditors at the expense of unsecured creditors.

Some companies' aggressive deleveraging tactics expose the potential risks of eroded creditor protections and, ultimately, lower recoveries. We have seen cases where private-equity owners have stopped supporting smaller companies, contrary to the situation during the pandemic. The gap between bid and ask asset valuations, particularly in the case of distressed issuers, could pave the way for pre-emptive restructurings under the guise of value preservation. Porous covenant protection clauses and a high risk of value leakage due to owners' behavior and tactics generally leave lenders in a significantly weakened position to defend recoveries on their debt exposure. This means the number of distressed exchanges will likely remain high.

Sovereigns

- Despite benign financing conditions and supportive nominal GDP growth over the next three years, G7 members' sovereign debt is unlikely to return to pre-pandemic levels by 2027.
- We estimate that, in EMEA, Italy and France would have to improve their primary balance by more than 2% of GDP on a cash basis to stabilize their debt. We consider this consolidation is unlikely.
- Considering the current stage in electoral cycles, only an increase in market pressure could persuade larger eurozone sovereigns to implement fiscal tightening.

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Key developments

The largest EU member states' debt levels are rising. The COVID-19 pandemic and the energy price shock in 2022 spurred governments to borrow from markets to fund vaccines and provide fiscal relief for households and companies during a period of unusually low interest rates. This was underpinned by global central banks' quantitative easing policy. While the ECB is now shrinking its balance sheet via quantitative tightening and the average cost of debt for European governments is on the rise, this is happening very gradually. Moreover, post-pandemic inflation is still supportive of nominal GDP growth across the developed world. We expect the pace of nominal GDP growth across developed European economies, except for Italy, will grow faster in nominal terms than its cost of debt even out to 2027.

Despite (or perhaps because of) these still benign financing conditions, electoral considerations appear to be impeding faster progress on debt reduction in the largest European economies. This trend applies to developed sovereigns globally. Notably, Italy and France would have to improve their primary balance by more than 2% from current fiscal positions to stabilize their debt. At present, we do not expect this consolidation to happen. Considering the current stage in electoral cycles, only an increase in market pressure could persuade governments to implement fiscal tightening. Any large increase in financing costs for a eurozone sovereign would quickly increase the cost of capital for the entire economy because financing costs for domestic banks would rise. Overall, we expect governments, regardless of their political stripe, will respond more quickly to pressure from markets than from European institutions.

Not all advanced sovereigns are subject to rising public debt. In Cyprus, Greece, Ireland, and Portugal--smaller ex-program economies--buoyant nominal GDP growth that is often linked to tourism, low borrowing costs, and fiscal prudence meant debt to GDP declined by an average of 16 percentage points of GDP over 2019-2023, compared with an average increase of 8.5 percentage points of GDP for the rest of the developed sovereigns we rate.

Key risk

TPI ineligibility: The European Commission has recommended initiating an excessive deficit procedure against several EU member states, in most cases because these governments are in breach of the 3% GDP general government deficit threshold. If ratified, these sovereigns' debt securities would become ineligible for purchases under the ECB's TPI, which could have ramifications for their cost of funding.

Structured Finance

- Some recent corporate downgrades have highlighted the degree of overlap between European CLO portfolios, although credit stress for an individual obligor is generally unlikely to have significant knock-on effects on CLO transactions.
- Aside from putting underlying borrowers under pressure, higher interest rates also mean that liquidity facilities in ABS and RMBS transactions can cover fewer note coupon payments than before.
- European securitization issuance has boomed over the past three months, with investor-placed volumes in May exceeding any other month since the global financial crisis (GFC). This volume growth has been broad-based, with CLOs being the largest contributor.
- We lowered only 2% of our European structured finance ratings over the past 12 months, while we raised 10%.

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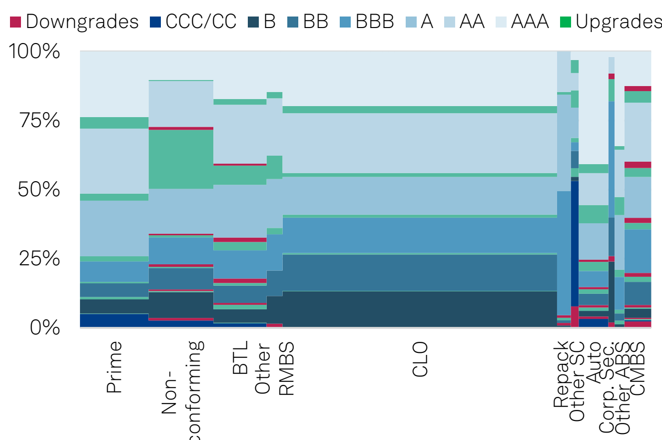
Key developments

In European structured finance, ratings generally trended higher over the past 12 months, despite interest rate rises from the past two years continuing to feed through to underlying borrowers. We lowered only 2% of our securitization ratings in the 12 months to May 31, 2024, while we raised 10% (see chart 15). Commercial mortgage-backed securities (CMBS) have been most affected by downgrades, although this sector constitutes a small portion of our outstanding European securitization ratings and has also seen upgrades as some transactions deleverage. Outside CMBS, U.K. nonconforming and legacy buy-to-let (BTL) RMBS have seen underlying arrears rise substantially since 2022. These subsectors include a significant number of loans originated before the GFC. Now, borrowers typically pay a floating rate but may be unable to qualify for more favorable rates on new loan products. Additionally, almost all securitized BTL mortgage loans make payments on an interest-only basis, meaning any rate rise affecting the loans has had a directly proportional effect on the borrowers' monthly instalments. This is beginning to lead to some negative rating actions for related RMBS transactions, though typically only at lower levels in the capital structure.

Chart 15

Upgrades still dominate, with some downgrades in CMBS

European structured finance ratings heatmap

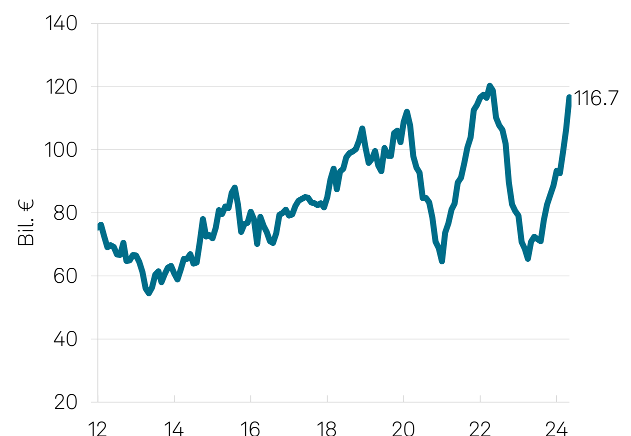


Based on rating transitions over the 12 months to May 31, 2024. ABS--Asset-backed security. BTL--Buy-to-let. CMBS--Commercial mortgage-backed security. CLO--Collateralized loan obligation. SC--Structured credit. Source: S&P Global Ratings.

Chart 16

Volumes approach a post-crisis peak

European investor-placed securitization issuance



Based on 12-month rolling volumes. Source: S&P Global Ratings.

European securitization issuance has boomed over the past quarter. In May this year, investor-placed volumes reached their highest monthly level since the GFC. Rolling 12-month issuance increased sharply and is close to a post-GFC high (see chart 16). This uptick in volumes has been broad-based across sectors, although the largest contribution has come from the resurgent CLO market, where year-to-date issuance has already topped €20 billion, compared with only €26 billion for full-year 2023. This has been fueled by renewed demand from Asian and U.S. investors, but also improving availability of underlying collateral. Origination volumes for corporate leveraged loans and high-yield bonds have bounced back to longer-term average levels after 18 months in the doldrums. Additionally, more seasoned CLOs are beginning to amortize and liquidate, rather than being refinanced or reset. As a result, CLO structures are returning principal to investors and releasing collateral to the secondary market, which has helped spur new issuance volumes. Outside CLOs, the anticipated refinancing of several large legacy U.K. RMBS transactions also supported volumes. Some originators may be frontloading their issuance plans, ahead of potential market volatility surrounding elections later this year. However, evidence for any connection between election results and significant seasonality in European securitization issuance is virtually non-existent.

Key risks

- **In late March, a sharp dip in the price of bonds issued by Altice France--and the downgrade of the company to 'CCC+'--once again highlighted the overlapping nature of portfolios backing European CLOs.** The Altice group represented the largest individual issuer of debt to European CLOs that we rate, appearing in 98% of the transactions. That said, a declining market value or downgrade of an individual obligor--even if widely held by CLOs--is generally unlikely to have significant knock-on effects on those transactions. The effect is cushioned because CLOs have no forced-sale mechanism that would make them realize losses related to the market value of the underlying debt. Additionally, the downgrade, or even default, of a single obligor generally has limited repercussions for CLO performance, given the granular and diverse nature of the collateral pools.
- **Aside from creating affordability strains for underlying borrowers, high interest rates can also cause more structural pressures in some structured finance transactions.** Many ABS and RMBS structures rely on external liquidity support to ensure the timely payment of note interest in certain stress scenarios. The capacity of liquidity facilities to cover payment disruptions partly depends on the note coupons and the size of such facilities. Back in 2020, when interest rates were low, we found that external liquidity support could, on average, have covered 2.6 years of class A note interest payments in ABS transactions that we rate, and more than six years in RMBS transactions. However, given the subsequent increase in benchmark rates and therefore floating-rate note coupons, these figures have decreased substantially to 0.3 and 0.7 years, respectively. This could reduce the capacity of transactions to absorb significant operational disruption caused by certain features or events, including commingling or cyber attacks.

International Public Finance

- Many European local and regional governments (LRGs) remain resilient to rising spending pressures. National deficit and debt restrictions either increase deficits at regional and local government and public-sector tiers or deter economic recovery due to lower spending, especially on capital investments.
- The credit quality of European social housing providers diverges, depending on risk appetite amid rising maintenance costs. Some providers opt for continuing large development programs, while others become more proactive in asset management.
- Universities may need to adjust strategies as the expected decline in the number of international students will weaken their revenue growth and financial performance.

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Key developments

Low economic growth continues to strain LRGs' budgets. Revenues are growing slowly. Increases in wages and utility bills, as well as higher interest rates, raise operating spending, with many governments currently constraining their expenditures, in line with national deficit and debt restrictions (see chart 17). Since the projected economic recovery will not improve LRGs' budgetary performance, we expect many LRGs will reduce infrastructure investments in real terms. Exceptions include Italy and Spain, where LRGs will increasingly utilize EU capital grants.

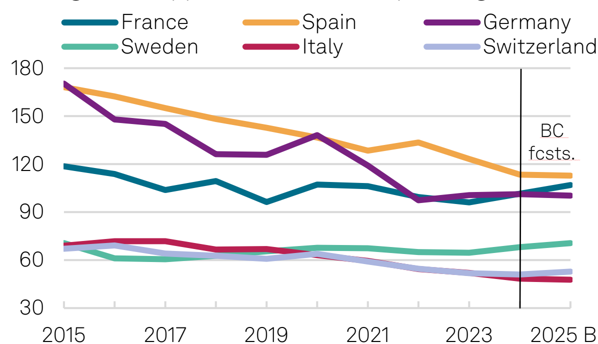
Credit quality of U.K. social housing providers diverges but continues to stabilize overall. Most entities in the sector are rated in the 'A' category, with 10% in the 'BBB' category (see chart 18).

U.K. universities' high reliance on international students is becoming increasingly risky. Heightened geopolitical uncertainty and changing immigration policies could discourage international students from studying in the U.K. and reduce universities' tuition fee income.

Chart 17

European LRGs' debt burden will stabilize or increase

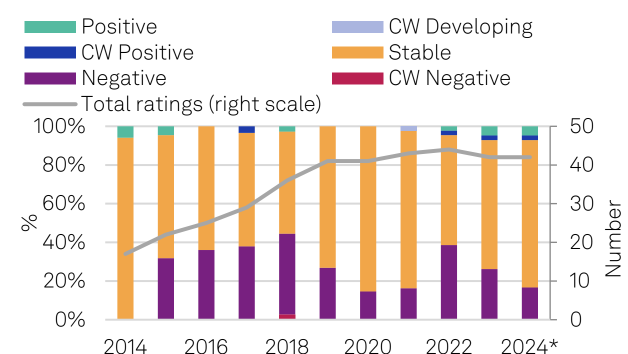
Average tax-supported debt (% of operating revenues)



Data for all rated LRGs, including confidential ratings. We used actual data when they were available. BC--Base case. Source: S&P Global Ratings.

Chart 18

U.K. social housing negative outlook bias at 10-year low



*Year-to-date. Source: S&P Global Ratings.

Key risks

- **Deterioration in public services:** Declining capital investments could impair the quality of public services, while demand keeps rising due to increasing and ageing populations.
- **Escalation of geopolitical risks:** Higher demand for defense spending and still elevated price levels could add pressure on public finances.
- **U.K. election:** While substantial changes in the government's public sector policy are unlikely, we expect that the evolution of the institutional framework will become more predictable.

Insurance

- The first half of 2024 has been marked by seasonal weather-related claims, with June's floods in Germany constituting the most recent weather event.
- While non-life insurers have already adjusted premium rates in recent years in response to claims inflation, we expect premium rates will increase further, mainly in motor insurance.
- Reinsurers continued to benefit from attractive pricing and favorable adjustments to terms and conditions during more orderly contract renewal rounds in the first half of 2024, compared with 2023.
- Despite muted economic growth and pending geopolitical risks, European capital markets were favorable and severe impairments from real estate or other illiquid investments did not materialize.

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Key developments

Natural catastrophes bring the insurance protection gap back into focus. About 60% of EU households are not insured against natural perils. This is mostly due to a lack of awareness of flood, storm, and hail risks, but also high insurance rates in hazard-prone areas. German authorities tend to at least partially compensate uninsured households, increasing the latter's unwillingness to pay the high insurance rates that are prevalent in flood zones. While claims estimates for the floodings that occurred in June are still uncertain--the German insurance association's early estimate amounts to €2 billion--we do not expect any immediate effect on our insurance ratings (see charts 19 and 20).

Given the attractive market conditions in the reinsurance market, attachment points for excess-of-loss coverage have climbed, meaning claims retention levels at primary insurers have increased. The effect of recent natural catastrophe events remains uncertain. Before 2023, reinsurers carried the majority of peak losses, while primary insurers' net losses were more limited. The recent change in market dynamics could increase primary insurers' coverage, except in countries such as France or Spain, where public sector schemes carry the bulk of risks. We understand that the natural catastrophe claims from the past six months are well within reinsurers' budgets.

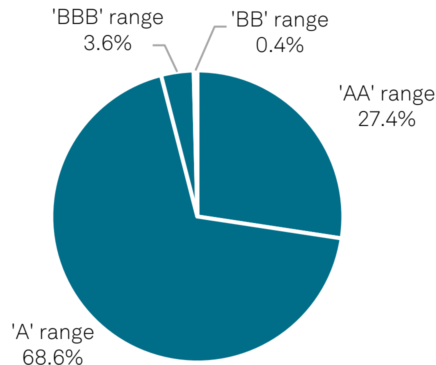
We continue to monitor closely insurers' and reinsurers' investments. With investments of about €11 trillion in the EU alone, the insurance sector is exposed to investment risks from equity and bond markets, as well as exposure to real estate, private equity, and private debt. We expect insurers will benefit from higher reinvestment rates, with limited impairments so far.

Key risks

- **Impaired equity and bond investments because of external factors:** Even though insurers' direct exposure to geopolitical and economic risks is very limited, they are major investors in capital markets. As evidenced in previous crises, a prolonged capital market downturn might lead to a deterioration of insurers' balance sheets.
- **Reduced incomes from illiquid investments:** Life insurers increased their exposure to illiquid assets in search for yield when interest rates were low. Asset values in the private equity and private debt market, as well as in certain segments of the real estate sector, could decline further.

Chart 19

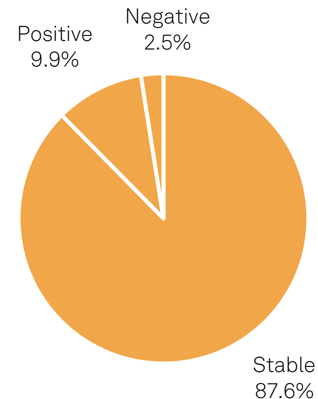
Ratings on European insurers are mainly in the 'A' category



Data as of June 14, 2024. Source: S&P Global Ratings.

Chart 20

The ratings outlook on most European insurers is stable



Data as of June 14, 2024. Source: S&P Global Ratings.

Related Research

- Credit Conditions Asia-Pacific Q3 2024: A Trade Showdown Unfolds, June 25, 2024
- Economic Outlook Eurozone Q3 2024: Growth Returns, Rates Fall, June 24, 2024
- U.K. Economic Outlook Q3 2024: A Cooling Labor Market Paves The Way For Rate Cuts, June 24, 2024
- Economic Outlook U.S. Q3 2024: Milder Growth Ahead, June 24, 2024
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- Global Nonfinancial Corporate Medians History And Outlook Midyear 2024, June 19, 2024
- Default, Transition, and Recovery: An Increase In Distressed Exchanges Drives Defaults In Europe, June 12, 2024
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- European ABS And RMBS: External Liquidity Reserves Withstand Rising Rates, March 22, 2024
- France Long-Term Rating Lowered To 'AA-' From 'AA' On Deterioration Of Budgetary Position; Outlook Stable, May 31, 2024
- EU Sovereign Debt 2024: Mixed Outlook And New Rules, Feb. 7, 2024

This report does not constitute a rating action.

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Appendix: Q3 2024 Economic Data And Forecast Summaries

Table 1

Real GDP (%)

	Eurozone	Germany	France	Italy	Spain	Netherlands	Belgium	Switzerland	U.K.
2022	3.4	1.9	2.6	4.1	5.8	4.4	3.0	2.7	4.3
2023	0.6	0	1.1	1.0	2.5	0.2	1.4	0.7	0.1
2024f	0.7	0.3	0.9	0.9	2.2	0.5	1.4	1.2	0.6
2025f	1.4	1.2	1.4	1.2	1.9	1.5	1.4	1.5	1.2
2026f	1.4	1.2	1.4	1.1	2.0	1.4	1.4	1.4	1.7
2027f	1.3	1.1	1.3	1.0	2.0	1.5	1.3	1.5	1.7

f--Forecast, annual average. Source: S&P Global Ratings Research.

Table 2

CPI inflation (%)

	Eurozone	Germany	France	Italy	Spain	Netherlands	Belgium	Switzerland	U.K.
2022	8.4	8.7	5.9	8.7	8.3	11.6	10.3	2.8	9.1
2023	5.4	6.0	5.7	5.9	3.4	4.1	2.3	2.1	7.3
2024f	2.4	2.7	2.6	1.4	3.0	2.8	3.9	1.4	2.8
2025f	2.2	2.3	2.0	1.9	2.0	2.5	2.3	1.3	2.4
2026f	1.9	1.9	1.8	1.7	2.0	1.9	2.0	1.1	2.1
2027f	1.8	1.9	1.8	1.7	1.8	2.0	1.9	1.1	2.0

CPI--Consumer price index. f--Forecast, annual average. Source: S&P Global Ratings Research.

Table 3

Unemployment rate (%)

	Eurozone	Germany	France	Italy	Spain	Netherlands	Belgium	Switzerland	U.K.
2022	6.7	3.1	7.3	8.1	13	3.5	5.6	4.4	3.9
2023	6.5	3.0	7.3	7.7	12.2	3.6	5.5	4.1	4.0
2024f	6.5	3.3	7.6	7.3	11.6	3.8	5.6	4.2	4.4
2025f	6.5	3.2	7.7	7.4	11.4	4.0	5.5	4.3	4.6
2026f	6.4	3.1	7.5	7.4	11.3	3.9	5.5	4.1	4.4
2027f	6.3	3.1	7.4	7.4	11.2	3.8	5.4	4.0	4.4

f--Forecast, annual average. Source: S&P Global Ratings Research.

Table 4

10-year government bond yields (%, annual average)

	Eurozone	Germany	France	Italy	Spain	Netherlands	Belgium	Switzerland	U.K.
2022	2.0	1.2	1.5	3.2	2.2	1.4	1.7	0.8	2.3
2023	3.3	2.5	2.9	4.3	3.5	2.8	3.1	1.1	3.9
2024f	3.1	2.4	3.0	3.9	3.3	2.7	3.0	0.8	4.0
2025f	3.1	2.4	2.9	4.0	3.2	2.7	2.9	1.2	3.6
2026f	3.1	2.4	2.9	4.0	3.3	2.8	3.0	1.2	3.5
2027f	3.2	2.5	3.0	4.1	3.4	2.8	3.1	1.2	3.5

f--Forecast. Source: S&P Global Ratings Research.

Table 5

Exchange rates (annual average)

	----Eurozone----		----U.K.----		----Switzerland----	
	USD/EUR	EUR/USD	USD/GBP	EUR/GBP	CHF/USD	CHF/EUR
2022	1.05	0.95	1.23	1.17	0.95	1.00
2023	1.08	0.92	1.24	1.15	0.90	0.97
2024f	1.08	0.93	1.27	1.16	0.89	0.96
2025f	1.09	0.92	1.29	1.14	0.90	0.98
2026f	1.16	0.86	1.30	1.11	0.91	1.05
2027f	1.17	0.85	1.30	1.11	0.91	1.07

CHF--Swiss franc. f--Forecast. Source: S&P Global Ratings Research.

Table 6

Policy interest rates (%, year-end)

	----Eurozone (ECB)----		U.K. (BoE)	Switzerland (SNB)
Policy rates	Refinancing rate	Deposit rate	Bank rate	Policy rate
2022	2.5	2.0	3.25	1.0
2023	4.5	4.0	5.25	1.75
2024f	3.4	3.25	4.5	1.0
2025f	2.65	2.5	3.25	1.0
2026f	2.65	2.5	3.0	1.0
2027f	2.65	2.5	3.0	1.0

BoE--Bank of England. f--Forecast. SNB--Swiss National Bank. Source: S&P Global Ratings Research.

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