Sovereign Outlook 2024

Soft economic landing and turn of the global rate cycle balance fiscal and geopolitical risks for sovereigns

Sovereign and Public Sector, Scope Ratings, 15 December 2023

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Executive summary

For 2024, our baseline is for a soft landing of the global economy, a turn of the global rate cycle, fiscal pressure from an ageing population, green transition and defence needs, and ongoing geopolitical risk. Our forecasts point to above-potential global growth of 3.1% for 2024, the same as our 3.1% estimate for this year. We expect major central banks to start cutting rates at the latest by the second half of the year. Our macro projections for the major economies are summarised in **Table 1** below, with full forecasts available in **Tables 2** and **3** of **Annex I**.

Key themes for 2024:

Sovereign ratings in 2024: Entering 2024, there are 10 sovereigns on Negative Outlook (Austria, Belgium, Egypt, Estonia, France, Japan, Slovakia, Türkiye, Ukraine, and the US) and two on Positive Outlook (Ireland and Bulgaria) among our 40 publicly-rated sovereigns.

Soft landing for the global economy next year: For 2024, we assume an economic recovery in the euro area and 1.1% growth. The growth of the US economy should stay strong at 2.2%, defying market pessimism. Conversely, the UK is seen growing a moderate 0.4%, China is expected to slow to 4.4% and Japan to 0.8%. Central and Eastern European EU member states should recover to around 2.5%. Risks to our 2024 global economic projections are balanced.

Global growth and inflation stay exposed to geopolitics: The world order is becoming increasingly multipolar. Global growth will remain sensitive to geopolitical events. Any significant escalation of geopolitical risks next year could raise inflation and curb growth. Conversely, there are scenarios in which some geopolitical risks could ease.

Inflation expected to continue moderating but a further supply-side shock is a risk: Our long-standing baseline is higher inflation for longer. Our general expectation is for inflation to average above 2% for most economies next year, even as it continues under our baseline to moderate from 2022 highs.

Official rates to stay at peaks beyond market expectations, but rate cuts by H2 2024: Given our assumption of higher rates for longer, we do not foresee rate cuts by the spring of next year. Nevertheless, we foresee most central banks have already reached peak official rates, with the first cuts from major central banks starting by latest H2-2024. Japan is an exception: the Bank of Japan is foreseen ending its negative-rate regime next year. Continued balance-sheet reduction and rate cuts may see further steepening of the yield curve.

Higher rates and structural spending pressures challenge debt sustainability and financial stability: Sovereigns are facing a gradual rise of their interest burdens as debt rolls over at higher refinancing costs. Fiscal challenges are especially meaningful for EU member states as fiscal rules are reinstated in 2024 and spending pressures rise, including from an ageing population, green transition and defence requirements. Furthermore, tighter financial conditions link to concerns around financial stability, although the global system remains resilient.

Pivotal 2024 elections mark a crossroads for global governance: A year of elections scheduled for 2024 in the United States, the EU (parliamentary) and the United Kingdom among others will play an historic role in determining the institutional and economic-policy outlooks for the coming years.

Better conditions next year for emerging market sovereigns: Emerging markets should be supported next year by the peak of the Federal-Reserve rate cycle, expectation of Federal-Reserve rate cuts and a weakening dollar, alongside a soft-landing global baseline.

Climate and demographic change are rising challenges for debt sustainability: Climate risks and demographic change are among the most crucial structural challenges sovereigns will confront. Understanding such risks will prove increasingly crucial for sovereign credit assessment in 2024 and beyond.

Table 1: Scope's growth forecasts, summary, as of 15 December 2023

Country/region	Real GDP growth (%)							
			Baseline scenario					Medium-run potential
	2021	2022E	2023E	Diff. from July.*	2024F	Diff. from July.*	2025F	
Euro area	5.9	3.4	0.7	↓ 0.3	1.1	↓ 0.4	1.7	1.4
Germany	3.1	1.9	(0.3)	↓ 0.2	0.3	↓ 1.1	1.6	0.8
France	6.4	2.5	0.9	↑ 0.2	1.0	↓ 0.4	1.5	1.35
Italy	8.3	3.7	0.7	↓ 0.5	0.8	↑ 0.0	1.3	1.0
Spain	6.4	5.8	2.4	↑ 0.6	1.8	↓ 0.3	1.9	1.75
Netherlands	6.2	4.4	0.2	↓ 0.6	1.3	↑ 1.0	1.8	1.4
United Kingdom	8.7	4.3	0.6	↑ 0.6	0.4	↓ 0.4	1.5	1.5
Türkiye	11.4	5.5	4.1	↑ 1.4	3.3	↑ 0.3	3.5	3.9
United States	5.8	1.9	2.4	↑ 0.5	2.2	↑ 0.9	2.0	2.0
China	8.4	3.0	5.3	↑ 0.3	4.4	↑ 0.1	4.1	4.0
Japan	2.3	0.9	1.8	↑ 0.6	0.8	↓ 0.2	0.4	0.4
World	6.3	3.5	3.1	↑ 0.2	3.1	↑ 0.1	3.2	2.6

*Changes compared with July 2023's 2023 Sovereign Mid-Year Outlook forecasts. Negative growth rates presented in parentheses.
Source: Scope Ratings forecasts, regional and national statistical offices, IMF.

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Key themes for 2024

Sovereign ratings in 2023-24

In 2023, we downgraded six countries: China (A/Stable), Czech Republic (AA-/Stable), Egypt (B-/Negative), Hungary (BBB/Stable), Poland (A/Stable), and South Africa (BB/Stable). We did not downgrade any euro-area sovereigns.

Five countries' Outlooks were revised down from Stable to Negative: Austria (AAA/Negative), Belgium (AA-/Negative), Estonia (AA-/Negative), France (AA/Negative), and the United States (AA/Negative). Two countries' Outlooks were revised from Positive to Stable: Latvia (A-/Stable) and Lithuania (A/Stable).

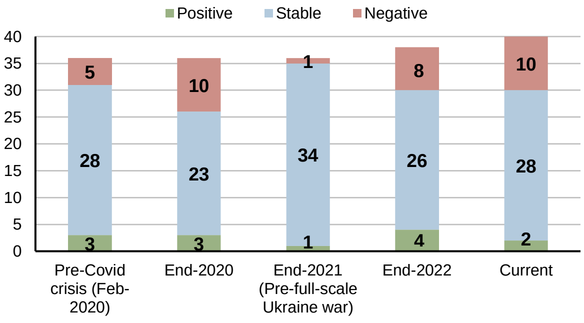
We upgraded Cyprus (BBB+/Stable), Greece (BBB-/Stable) and Portugal (A-/Stable) and revised the Outlooks to Positive for Bulgaria (BBB+/Positive) and Ireland (AA-/Positive). Ukraine's Outlook change from Negative to Stable was on domestic debt only.

Overall, our downside rating actions in 2023 contrasted with the upside rating actions of peer credit rating agencies during 2023 (see **Annex II**).

In 2023, we introduced first-time sovereign ratings for Egypt in March and Morocco in September, bringing our publicly-rated portfolio to 40 countries. Of these, 33 are investment-grade and seven sub-investment-grade (the latter all emerging markets). **Annex II** presents a summary of ratings and rating actions this year.

We thus enter 2024 with 10 sovereigns on a Negative Outlook and two on a Positive Outlook from our universe of 40 publicly-rated sovereigns (**Figure 1**). Since seven of 10 Negative Outlooks currently assigned are on high-income sovereigns, advanced-economy and euro-area sovereigns may see greater downgrade risk next year than in previous years, while emerging markets may receive a degree of relief following significant downgrades in 2022 and 2023. Our key themes and regional views will drive our credit rating decisions in 2024.

Figure 1. Scope sovereign rating Outlooks, number of sovereigns

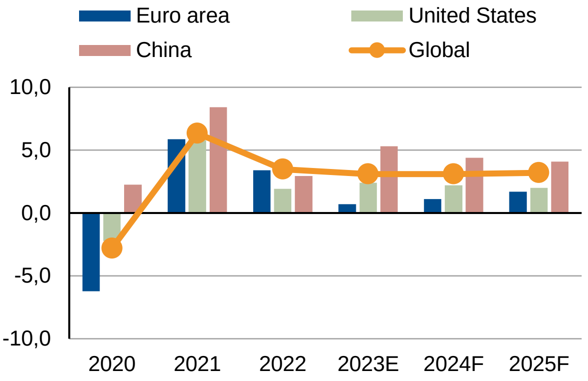


Source: Scope Ratings

Soft landing for the global economy next year; recovery in Europe

Our baseline is for a soft landing for the global economy following the fastest rise in rates in modern history. We have held a different view from market expectations of recession. Our forecasts point to 3.1% global economic growth for 2024, in line with an estimated 3.1% global growth this year (**Figure 2**), and thus for global growth to stay above its medium-run potential (estimated at 2.6%) next year, as it has since 2020.

Figure 2. Global growth %, 2020-25F



Source: Eurostat, national statistical agencies, Scope Ratings forecasts

We assume rates will remain at their peaks for a large part of 2024, and for longer than markets presently expect. This reflects our expectation that inflation will generally remain above 2% even as it recedes further next year. Core inflation is still well above 2% in many economies.

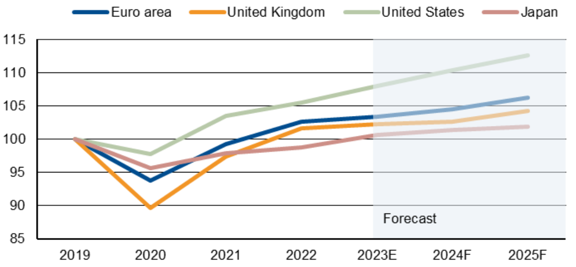
We maintain a balanced skew of risk for our 2024 global economic projections.

Upside potential to growth expectations reflects: i) a faster than expected decline in inflation and/or policy rates easing sooner or faster; ii) resilient private demand as Covid-19 savings are expended, wages rise and labour markets stay strong; iii) China achieving growth of around 5% next year; and/or iv) fiscal support, such as EU financing, anchoring spending.

Downside risks reflect the potential for: i) inflation upside surprises, causing rates to remain at peaks for longer than anticipated or even further Federal Reserve or ECB tightening; ii) geopolitical risks to intensify; iii) financial instability to re-emerge amid higher rates for longer; and iv) Chinese growth to underperform.

In 2024, we assume recovery in the euro-area economy of 1.1%, following estimated growth of 0.7% this year. Nevertheless, euro-area growth will remain below potential next year. This reflects weak 2024 growth in Germany (0.3%), alongside growth at around potential in France (1.0%), Italy (0.8%) and Spain (1.8%).

Figure 3. Real GDP level, index, 2019=100



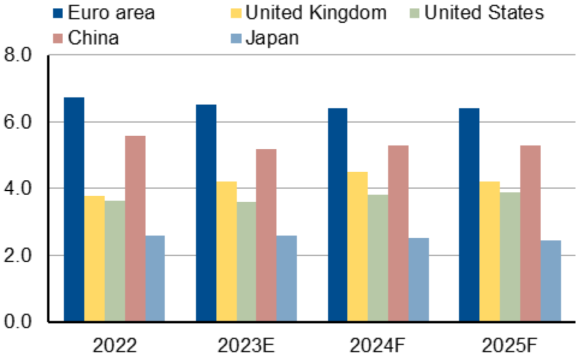
Source: Eurostat, national statistical agencies, Scope Ratings forecasts

Our forecasts are for the UK economy to grow 0.4% next year, after 0.6% this year. Growth of the US economy should stay at an impressive 2.2% in 2024 after strong 2.4% growth this year. US economic recovery has outpaced Europe's (**Figure 3**). Meanwhile, our growth forecast for Japan is 0.8% next year – although remaining double potential – after a strong 1.8% growth this year.

In emerging economies, China is set to slow to 4.4%, after 5.3% growth in 2023. Türkiye is seen growing 3.3% in 2024, after 4.1% this year. South Africa grows 1.2% next year, after 0.9% in 2023.

Unemployment is seen remaining roughly unchanged next year at or near its record lows (**Figure 4**), exerting continued pressure on inflation.

Figure 4. Unemployment rate, %



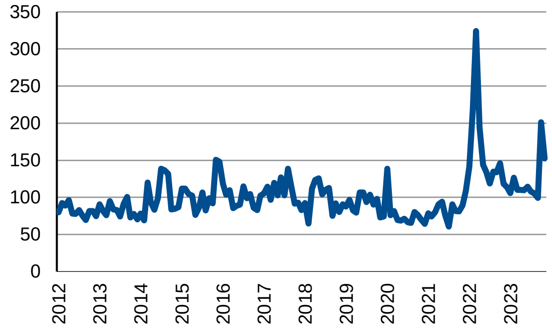
Source: Eurostat, national statistical agencies, Scope Ratings forecasts

Global growth, inflation and budget outlooks remain exposed to geopolitics

Global growth will remain sensitive to geopolitics next year, and likely thereafter. The multiplication of tensions constitutes a risk for our economic outlook, given the ongoing Russia-Ukraine war, the Israel-Hamas war in the Gaza Strip, and tensions between the US and China, including over Taiwan. In this respect, the 2024 US elections will prove central for the evolution of geopolitical risks.

As geopolitical risk stands near recent highs (**Figure 5**), global defence spending will pressure the budgetary dynamics of both advanced- and developing-economy sovereigns.

Figure 5: Geopolitical Risk Index, basis points



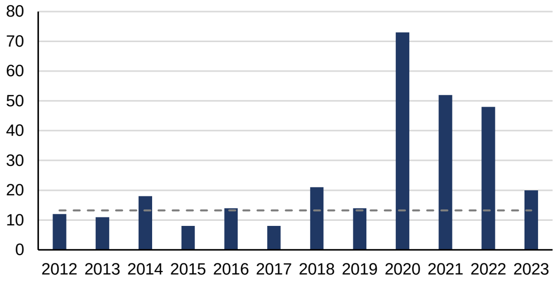
Note: March 2022 refers to Russia's full-scale invasion of Ukraine; October 2023 relates to Hamas' attack on Israel. As of November 2023. Source: Caldara and Iacoviello, Scope Ratings.

Similarly, any significant escalation in global geopolitical risks next year could raise inflation and curb growth. Although not our base case, a significant conflagration of risks in the Middle East could send Brent prices past USD 100 a barrel again, which may threaten a re-run of the supply-side crises of the 1970s. Those crises structurally de-anchored inflation. Under such a scenario, further global monetary-policy tightening would likely follow.

The expansion of the BRICS and inclusion of the African Union in the G-20 demonstrate a reshaping of multilateral institutions and thus the potential for additional frictions between the Global North and Global South. This will make trade restrictions more probable (**Figure 6**), especially concerning raw materials required for strengthening innovation, technology and green industry.

Conversely, we note positively that there are also scenarios in which some geopolitical risks ease in 2024 or in future years. These include any agreement around a lengthier Israel-Hamas truce, or if weaker financial and military support for Ukraine ultimately produces conditions for a truce or frozen conflict.

Figure 6: Trade restrictions remain high compared with pre-Covid averages, number of notifications received by the World Trade Organization, by year



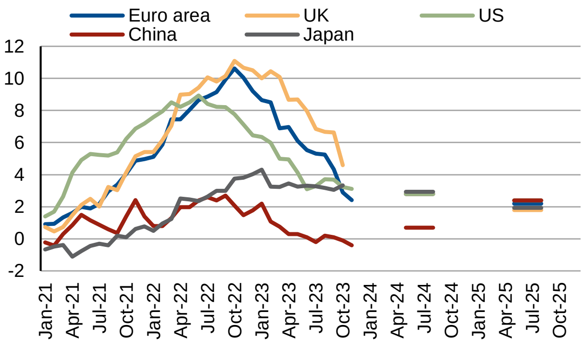
Note: data display quantitative restrictions; dotted line represents a pre-Covid average from 2012 and 2019. Source: World Trade Organization, Scope Ratings.

Inflation expected to continue moderating but a further supply-side shock reflects core risk

Our long-standing view since the summer of 2021 is for higher inflation for longer. As inflation continues to moderate from 2022's multi-decade highs, our expectation is for inflation to generally average above 2% across most economies next year (**Figure 7**), even as disinflation gradually progresses.

The recent decline of energy prices and easing of supply-chain bottlenecks, tight monetary policy and decelerating economic momentum have contributed to declines in inflation. This declining path is expected to continue, barring base effects that might temporarily send year-over-year rates higher in some economies.

Figure 7. Headline inflation, %YoY, 2021-2025F



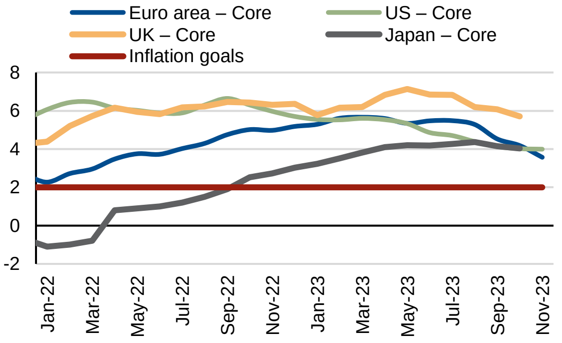
Source: National/regional statistics bodies, Scope Ratings forecasts

Average annual inflation might only approach central-bank targets by 2025. Of the large economies, the main exception has been China, where we see inflation averaging just 0.7% next year after 0.3% this year, well under China's 3% inflation goal. Our forecasts envision Chinese inflation rising nearer its 3% objective by 2025.

We forecast euro-area inflation at 2.8% next year before slowing 2.2% in 2025, after 5.5% this year. In the United Kingdom, inflation of 2.8% is expected next year and 1.8% by 2025, after 7.4% this year. In the United States, we are factoring in consumer price index (CPI) inflation of 2.8% for 2024 before 2.4% for 2025, after 4.1% this year. In Japan, we see inflation of 2.9% next year, before reverting to near the Bank of Japan's 2% objective by 2025 – as higher inflation for Japan demonstrates some durability.

Even though lower commodity prices are pushing down headline inflation rates, we nevertheless see inflation persisting at above-target levels for much of next year because of the stickiness of underlying price changes (**Figure 8**). Core inflation has decelerated but remains at 3.6% in the euro area as of November and at or above 4% in other major economies.

Figure 8. Core inflation, %YoY



Source: Eurostat, US Bureau of Labor Statistics

Strong nominal wage and pension-pay growth are expected, given indexation schemes and collective bargaining amid tight labour markets.

Conversely, the phasing out of government measures aimed at alleviating the effects of the cost-of-living crisis has mixed consequences for price dynamics during 2024-25. While the expiration of price caps might push up retail energy prices, the end of temporary transfers could soften recovery of private demand, pushing down prices. US dollar depreciation could aid disinflation for the rest of the world ex-US vis-à-vis currency channels.

Our baseline projection assumes no further significant supply-side shocks before the end of the forecast horizon. A further supply-side crisis reflects the core risk to our inflation forecasts.

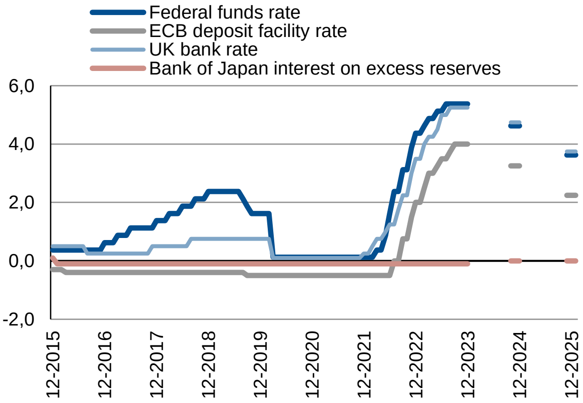
Official rates stay at peaks beyond market expectations, but rate cuts to start by H2 2024

Unlike market consensus, we did not forecast rate cuts by major central banks this year. Under an assumption of higher rates for longer, we do not foresee rate cuts from the main central banks by the spring of next year as per current consensus. This scepticism around early rate cuts rests on i) core inflation being above target; and ii) a credibility problem for central banks should they pivot to cuts too soon – just over six months after the last hike – and before the inflation battle is decidedly won. Still, given inflation has been easing, we anticipate most central banks have already reached peak rates, and that first cuts will start by latest the second half of 2024 (**Figure 9, next page**).

Unless there is a significant weakening in the economic outlook, we see the ECB starting to cut rates later in 2024 than markets are pricing in. Despite below-potential projected growth for the euro area, unemployment remains near record lows and a pre-condition for easing rates is a further reduction of core inflation as well as wage growth, given negotiated wages of 4.7% YoY as of Q3 this year.

Our assumption is for a similarly cautious approach from the Federal Reserve (given core personal consumption expenditure inflation of 3.5% in October) and the Bank of England (as wage growth remains high). Conversely, Japan is expected to end the globe's last negative-rate regime next year and slightly raise rates.

Figure 9. Policy rates, %, with forecasts



Source: Central banks, Scope Ratings forecasts

While we expect central banks to loosen monetary policy at the short end with interest-rate cuts, we also expect them to continue, if not accelerate, their quantitative tightening at the longer end by slowly unwinding earlier balance-sheet policies. The Bank of England, Federal Reserve and ECB have been reducing their balance sheets either by ending reinvestment of proceeds from maturing securities and/or by actively selling securities before maturity.

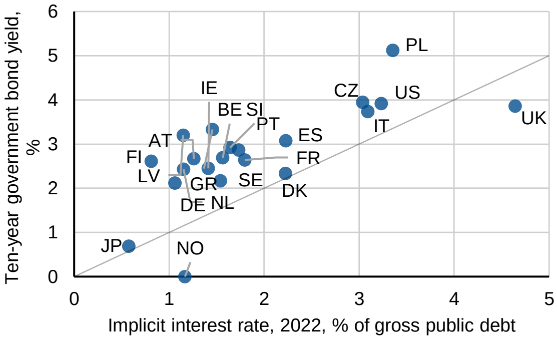
The Federal Reserve has allowed up to USD 95bn of Treasuries and mortgage-backed securities to roll off its balance sheet each month since September 2022. The Bank of England ceased reinvestments of maturing Gilts in February 2022 and opted to actively sell holdings of non-financial investment-grade corporate bonds in November 2022. The ECB only began shrinking its balance sheet at the end of 2022 by winding down the Targeted Longer-Term Refinancing Operations, and has gradually shrunk the EUR 3trn Asset Purchase Programme (APP) since March 2023, partly ceasing reinvestment. There have been no reinvestments of APP redemptions since July 2023.

The ECB announced this month plans to start unwinding the EUR 1.7trn Pandemic Emergency Purchase Programme (PEPP) asset portfolio from the second half of 2024 on, and fully discontinue reinvestments under the PEPP by the end of 2024. As the PEPP allows the ECB to buy bonds of member states seeing material widening of credit spreads, the continued eligibility of bonds under the Transmission Protection Instrument (TPI) is crucial for EU member states. The TPI is a permanent tool to address financial stability concerns. Still, we expect all central banks to adopt quantitative tightening gradually and to adjust or halt such measures should there be sign(s) of meaningful market disruption.

Higher rates challenge debt sustainability and financial stability

Borrowing costs are at elevated levels following past monetary-policy tightening, higher inflation for longer, and high economic uncertainty. Long-end government yields remain elevated and today are higher than average interest rates on existing debt for most sovereigns (**Figure 10**). Therefore, sovereigns face a gradual rise in their interest burdens over the coming years as debt rolls over at higher refinancing costs.

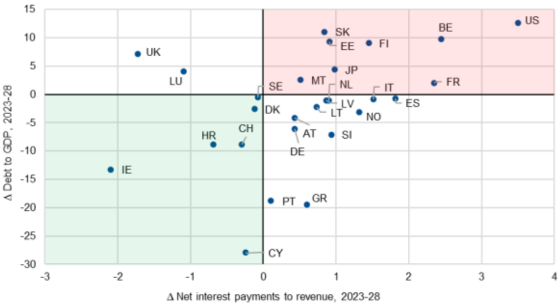
Figure 10. Ten-year government bond yields versus implicit interest rates, % (vertical), % of gross public debt (horizontal)



Yields as of 14 December 2023. Source: European Commission, Macrobond.

For instance, the net interest burden of the United States is seen increasing by around 3.4pps of revenue over 2023-28 (**Figure 11**), while that of euro-area member states should also rise over this period (except Croatia, Cyprus, Ireland and Luxembourg). This rising budgetary burden coincides with rising expenditure needs associated with ageing populations, national defence, as well as the digital and climate transitions. Governments must balance the need to fund such policy priorities while consolidating their public finances in the coming years in view of less fiscal space.

Figure 11. Change in debt to GDP and change in net interest payments as a share of general government revenue, advanced economies, 2028F-2023E



Source: Eurostat, IMF, Scope Ratings forecasts

Although most governments reduced their debt ratios between 2021-23, we see debt levels of many sovereigns rising again from 2023-28. The benefits of high inflation for debt reduction are waning as inflationary pressures ease and the growth outlook remains weak. We took positive rating actions this year on the few sovereigns with projections of significant declines in their debt ratios, such as Cyprus, Greece, Portugal and Ireland.

Fiscal challenges are especially meaningful for EU member states as fiscal rules will be reinstated next year. Ongoing discussions to reform the rules suggest the 60% of GDP debt and 3% deficit thresholds are here to stay. Though with only a quarter of EU member states[1] estimated to comply with both limits as of 2023, there remains uncertainty concerning how quickly debt and deficit reductions should be implemented.

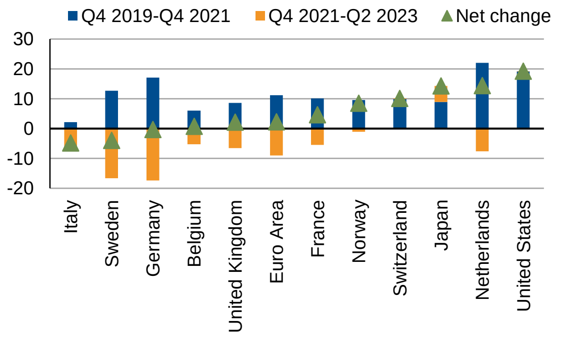
The past tightening of financial conditions raises risks regarding financial stability. Non-financial-sector debt remains near its highs reached globally during the pandemic crisis, standing at USD 227trn as of Q2 2023, or 247% of GDP. Although non-financial corporates have typically weathered Covid-19 and cost-of-living crises well thanks to strong government support, higher rates for longer erode debt-servicing capacities.

Bankruptcies are generally low compared with their historical averages but have started rising. Default risks could be especially pronounced in sectors hardest hit by the Covid-19 pandemic and the energy-price crises as government support is withdrawn.

Vulnerabilities in real-estate markets are another cause for concern. Years of low rates underpinned rapid real-estate price growth across the advanced economies. Recent higher borrowing costs have cut demand for mortgages and high economic uncertainty has weighed on consumer confidence.

Since Q4 2021, real residential house prices have declined by as much as 17% in Germany and Sweden, 7% in Italy, and 9% for the euro area as a whole following the price rises of 2020-21 (**Figure 12**). Although transaction volumes remain low, most housing markets are adjusting in an orderly fashion. Robust labour markets have aided household balance sheets, which have been especially crucial to stabilising markets where variable-rate lending is widespread, such as Sweden.

Figure 12. Changes in real residential prices, %



Source: Bank for International Settlements, Scope Ratings

Nevertheless, the drop in yields in recent weeks has seen renewed demand for refinancing and purchasing of homes. It has also gotten cheaper for companies to borrow — something they are making use of.

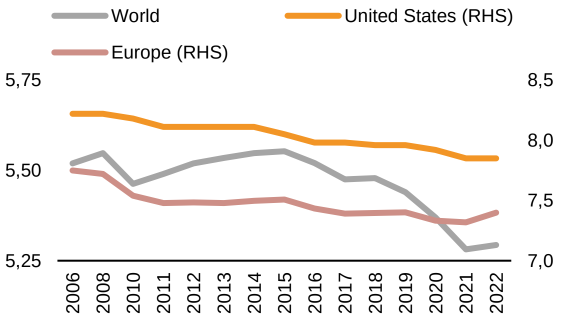
Commercial real estate firms have faced more significant challenges, which we expect to remain a concern next year. Declining profitability and higher financing costs have already forced some firms to sell assets, including several Swedish developers, and resulted in some high-profile insolvencies such as Signa in Austria. Interlinkages of bank and non-bank financial players in the sector could act as an amplifying factor in the event of a wider crisis.

The failure of several US regional banks and the takeover of Credit Suisse by UBS sparked early fears of a systemic banking crisis, which were contained by the emergency response from authorities. Still, current monetary-policy stances spell an end of an era in which banks have had access to abundant, cheap funding and could pressure institutions for which business models, funding and solvency are vulnerable to higher rates.

Pivotal 2024 elections mark a crossroads for global governance

Elections scheduled next year should play an historic role in determining the institutional and economic-policy outlooks not only for the United States and Europe but beyond. In recent decades, the United States has seen political polarisation and a degree of weakening of democratic strengths. America's withdrawal as guarantor of global democracy has had broader effects (**Figure 13**).

Figure 13. Democracy Index, US, Europe and world, scores



Scores range from 0-10 (most democratic). Source: Economist Intelligence Unit (2023).

Although 2020 elections of the United States put the declining trajectory of governance standards on hold, former president Donald Trump's lasting effects on the United States have not been meaningfully reversed even after three years of the Joseph Biden presidency. Elections scheduled for 5 November 2024 threaten to resume if not entrench an earlier path, potentially fundamentally changing American democracy.

In Europe, far-right parties are also seeing higher voter support across many nations and latest opinion polling

[1] Estonia, Ireland, Lithuania, Luxembourg and Netherlands.

for European elections in May 2024 indicate a possible political shift. Politico's poll of polls as of early December indicated that the far-right Identity and Democracy party is expected to gain 85 of 720 seats (up from 76 seats in 2019) with Eurosceptic European Conservatives and Reformists gaining 79 seats (62 seats in 2019). While this remains well under projected shares of the larger centre-right European People's Party (polling at 168 seats) and centre-left Progressive Alliance of Socialists and Democrats (141 seats), a potentially higher representation of far-right and Eurosceptic groups and/or an adoption of some of their positions by the larger political blocs to attract voters may increasingly influence the political debate of Europe.

This is likely to result in continued obstacles for common migration and asylum policies and a reversal of some climate-protection and green-transition policies. Still, disagreements among Europe's far right politicians should curb their policy impact in other areas. For example, public spending: the Netherlands' Geert Wilders favours increased budgetary discipline while Italy's Deputy Prime Minister Matteo Salvini supports more-flexible budget rules. Far-right groups in Germany and Austria, contrary to those in Italy, also question EU support for conflicts in Ukraine and Israel.

Figure 14. Select 2024 elections

Date	Country/union	Potential implications
Nov-24	United States	Further polarisation, repeat of the debt-ceiling crisis, return of former President Trump?
		Implications for the war in Ukraine?
May-24	European Union	Risk of shift to the political right in line with multiple national elections?
		Implications for EU policy?
No later than Jan-25	United Kingdom	Return of Labour to power, after 10+ years of Tory government?
2024	South Africa	Does the African National Congress need to rule in coalition?
Mar-24	Russia & Ukraine	Impossible to hold Ukrainian elections because of war?
Mar-24	Türkiye	Can Erdoğan win again? Will economic policy pivot again?
24-May	Belgium	Prolonged government formation after elections
By 2024	Germany	German regional elections in East Germany's Sachsen, Thüringen, Brandenburg:
		How strong will Alternative for Germany prove? Implications for national elections by 2025?

Source: Scope Ratings

The next UK general elections (**Figure 14**) are due by the end of January 2025 and will likely take place in autumn 2024. Against the backdrop of a challenging economic outlook and continued above-target inflation, Rishi Sunak's government faces a difficult election. The next government will inherit a challenging budgetary outlook. Without raising taxes or stronger growth, the country is likely to face either further deterioration of public services or higher budget deficits.

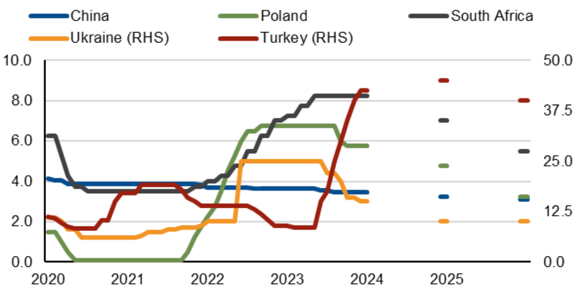
Better conditions next year for emerging-market sovereigns

Emerging markets should be supported next year by the peak of the Federal-Reserve rate cycle, expectation of Federal-Reserve rate cuts, and a weakening US dollar, alongside a soft-landing global baseline. This has already supported appreciating developing-economy currencies, declining local yields, and easing hard-currency risk spreads. This should provide a degree of support for emerging-market sovereign ratings next year, after the significant downgrades of recent years.

Aside from a peak of the rate cycle in major economies, select emerging-market central banks have already begun reducing rates. Unlike past cycles that have generally seen emerging markets lag and/or mirror Federal-Reserve actions, emerging-market rate hikes preceded US rate rises in this cycle from 2021-22, and emerging-market rate cuts have begun ahead of the turn in US rates.

Central banks that are cutting range from those that have trimmed rates, arguably prematurely, like the National Bank of Poland ahead of recent elections (**Figure 15**), to those that have cut rates cautiously and maintained a significant real rate, like the National Bank of Georgia. Some central banks are still hiking, like the Central Bank of the Republic of Türkiye (confronting very-high inflation after a hawkish pivot) as well as the Central Bank of Egypt, where inflation mainly hinges on actions on its exchange-rate framework. Significant diversity exists even if inflation is generally expected to decline and rates expected to ease.

Figure 15. Emerging-market official rates, %



Source: national central banks, Scope Ratings forecasts

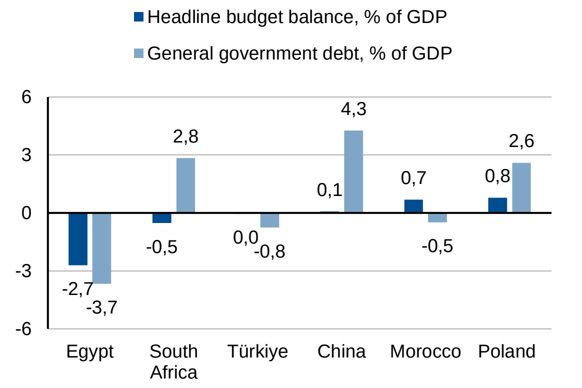
In 2024, we believe the People's Bank of China will slightly cut rates further to ease economic slowdown while balancing financial-stability risks, especially in real estate.

There is limited space to trim policy rates in Egypt and Türkiye by the end of 2024, but inflation is expected to moderate over time from current very high levels, to 25% in 2025 from 60% in 2024 for Türkiye, and 25% by 2025 from 40% next year for Egypt. Egypt is likely to devaluate the pound following recent presidential elections to secure IMF monies, while Türkiye should maintain its monetary-policy normalisation even acknowledging municipal elections approaching in March 2024.

After 2024 general elections, South Africa will see growth hampered by structural economic vulnerabilities, such as a long-standing energy crisis. Although inflation is expected to remain under the upper bound of the South African Reserve Bank's range next year, elections add to economic uncertainties amid already-challenging business conditions.

A rising interest and debt burden (**Figure 16**) remain among the most pressing challenges for the next South-African government in view of debt to GDP forecast at 93% by 2028. A vulnerable fiscal position and weakening of growth drove our downgrade of South Africa this October.

Figure 16. Emerging markets' fiscal flexibility constrained by rising interest burden, high public debt, Δ 2024 vs 2023, basis points



Source: IMF, Scope Ratings forecasts

By contrast, Morocco is benefiting from a stronger economic performance, with output growth near potential of 3% next year and inflation continuing to fall. This underpins its BB+ rating – the highest rating of our publicly-rated African sovereign portfolio.

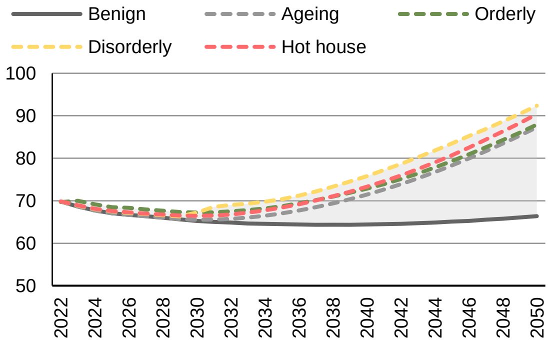
In Ukraine, the credit outlook is clouded by an uncertain outcome of a protracted war, risks to international financing and the expectation of finalisation of an external debt treatment. This underpins CC/Negative ratings on foreign debt.

Beyond our current rating universe, the economic outlook is likely to stay challenging for many vulnerable and low-income economies facing foreign-currency liquidity shortages. Distressed African countries risk having weaker credit profiles for longer unless agreement can be reached around a better co-ordinated global debt restructuring architecture. Any improvement needs to overcome the challenge of burden sharing among a much more diverse group of creditors.

Climate and demographic change are rising challenges for debt sustainability

Climate risks and demographic change are among the most crucial structural challenges sovereigns will face in coming decades and should be better integrated in sovereign-credit assessment. Scope recently performed long-term debt-sustainability analyses considering the effects of ageing populations and the climate scenarios developed by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) for sovereigns, with a concentration on EU countries.

Figure 17. Average public debt-to-GDP ratio across the EU, varying scenarios, % of GDP



Note: The EU average is shown as a simple average. Source: Scope Ratings.

Our results demonstrate that climate and demographic risks moderately affect medium-run public-debt trajectories for most countries but become increasingly credit relevant and mutually reinforcing in the long run. Population ageing presents a significant challenge by 2050, potentially raising public debt by up to 21% of GDP on average across EU sovereigns (**Figure 17**).

Of the NGFS climate scenarios, the orderly transition scenario presents the lowest risk for sovereign debt sustainability, pushing up debt by just 1% of GDP on average. Climate-related effects of a disorderly transition represent the greatest risk by 2050 and could result in a further rise in public debt of around 5pps. Alternatively, the hot house scenario could see an unsustainable rise in debt ratios by the second half of this century.

Financing mitigation and adaptation efforts will require policy change from national governments. In addition, EU-level instruments and policies can help cut the asymmetric climate challenges of member states. This can include more extensive use of burden-sharing mechanisms such as the Recovery and Resilience Facility, which has proven effective in addressing disparities in fiscal space and fostering more-ambitious public investment and reforms. In addition, a proposed 'Green Golden Rule' could alleviate tensions between a need for fiscal consolidation under EU rules and requirement to finance green expenditure.

Regional views for 2024

Core Europe: budgetary pressures remain; Negative Outlooks for France, Belgium and Austria

Entering 2024, our credit outlook for **Germany** (rated AAA) remains Stable despite weak economic growth. The effects of higher inflation and rates have cut household purchasing power and continue to weigh on activity in the construction sector. Weaknesses in industrial output are set to continue next year as order backlogs decline, although a gradual recovery in real wages should support consumption. After a contraction in output of 0.3% this year, we expect slow growth of 0.3% next year, increasing to 1.6% in 2025.

Despite slower growth, the German government retains significant room for budgetary manoeuvre. Our expectation is for debt to GDP to decline from 65% in 2023 to 59% by 2028. However, the Federal government's financing flexibility is constitutionally constrained by the debt brake. The court ruling in November enforced strict limitations on the use of extra-budgetary funds, declaring the re-purposing of unused funds as unconstitutional and placing clear restrictions.

Emergency situations declared to suspend the debt brake must be renewed annually. Budget discussions will test the unity of the coalition government next year and facilitate renewed debate around reform of the debt brake. Germany has the economic and fiscal capacity to address the structural pressures it faces, but cross-party political will is needed to meet such challenges.

We revised the credit Outlook to Negative for **France** (AA/Negative) in May this year. While the country is expected to see moderate growth of 1.0% in 2024 (after 0.9% this year), household consumption is projected to remain subdued as crisis-support measures are phased out and energy prices stay moderate. The effects of high inflation and an uncertain outlook for the labour market are expected to outweigh the positive effects of a stabilisation in wages and a declining household savings rates. Investment will be constrained by higher rates. Net exports are unlikely to support growth as weak external demand compounds strong import reliance.

We see the fiscal deficit declining to 4.3% of GDP by 2025 due to the withdrawal of energy-related support measures and a stronger commitment to budgetary consolidation through annual spending reviews. However, growing investment needs and inflation-indexing pensions and social benefits will maintain pressure on public spending. Additional revenue generation is constrained by only moderate economic activity and an already high tax burden. In the long run, we see continued primary deficits, rising interest expenditure, and growth in line with potential to underpin a moderately-rising debt-to-GDP to 112% by 2025.

We expect the **Netherlands** (AAA/Stable) to recover, with growth of 1.3% in 2024 and 1.8% in 2025, after growth of just 0.2% this year. After declining to an estimated 47.3% in 2023 (-7.4pps from 2020's cyclical peaks), general government debt-to-GDP should remain stable at around 46.2% by 2028. The fiscal deficit is seen at 1.5% of GDP next year, after a better-than-anticipated 1.2% of GDP estimated for 2023. Geert Wilders' success in recent Dutch general elections is unlikely to result in political stability, although it remains uncertain whether Wilders will head the next Dutch government. Governance risks are a challenge in the longer run for one of the world's remaining AAA-rated sovereigns.

Belgium (AA-/Negative) has seen continued economic growth during the cost-of-living crisis supported by government measures, high household wealth and indexation of wages. We see growth of 1.3% next year, after 1.5% this year, gradually converging on modest growth potential of around 1.2%. Long-run economic and fiscal pressures continue to present a challenge for the ratings. Elevated structural budgetary pressures, such as rising interest and ageing-related spending, underscore sustained and widening budget deficits, forecast at 5.1% on average over 2023-28.

Wide budgetary deficits coupled with moderating economic momentum underpin a rising debt trajectory. Public debt is projected to reach 115% of GDP by 2028, 11pps above 2022 levels and the largest expected rise among EU member states. In addition, ongoing institutional and political challenges, characterised by political fragmentation and polarisation in regional and federal parliaments, and eroding support for an already fragile governing coalition, could result in prolonged government formation after 2024 elections. Such factors resulted in revision of the Outlook on Belgium to Negative in September 2023.

Luxembourg (AAA/Stable) showed remarkable resilience during the Covid-19 pandemic, but economic momentum has since slowed owing to weak investment and lower net exports. After a forecast 0.6% contraction in 2023, we expect growth to rebound to 1.6% in 2024 and 2.3% in 2025. However, the medium to long-term outlook remains resilient thanks to an accommodative fiscal stance, normalising financing conditions and recovering exports. Budget deficits will prove wider than those before Covid-19, rising to 2.7% in 2024, from 1.9% in 2023 and 0.3% in 2022. Public debt will rise to 30% of GDP by 2025 but is expected to stabilise after that, thanks to buoyant growth. This still leaves the sovereign with an ample fiscal cushion for future crises.

For **Austria** (AAA/Negative), the economy is foreseen returning to moderate growth of 0.8% in 2024, after a decline of 0.4% this year because of weak private consumption and investment. The revision of Austria's credit Outlook to Negative in July 2023 reflected the economy’s persistent reliance on Russian natural gas imports, and expectations of continued divergence of fiscal fundamentals compared with those of highly-rated sovereign peers following the Covid-19 and energy crises. The general government deficit should remain stable next year at 2.4% of GDP. General government debt-to-GDP is expected to stay broadly stable at around 76.2% next year, reflecting nevertheless a decline from 83% at 2020 highs, but remaining the highest of AAA-rated sovereign borrowers.

Italy’s ratings affirmed; Spain’s steady economy; Portugal’s sustained debt decline

We expect economic growth in **Italy** (BBB+/Stable) to remain moderate at 0.8% next year, after slowing to 0.7% this year. Despite resilient net-export performance, high inflation has weakened domestic demand and industrial activity. We anticipate headline inflation easing to 2.4% next year, from 6.1% this year. In the medium run, the Italian economy continues to face structural challenges of low productivity growth and weak demographics. However, as a core beneficiary of Next Generation EU (NGEU) financing, which will progress under the now revised Recovery and Resilience Plan, Italy has an opportunity to boost its economic-growth potential.

Larger-than-anticipated fiscal costs of construction tax credits introduced during the Covid-19 crisis resulted in slower declines in budget deficits. We thus only expect a return to primary surpluses by 2025, one year later than earlier assumed. This may challenge Italian bonds’ eligibility under the TPI and result in Italy being one of the EU member states potentially facing an Excessive Deficit Procedure during the coming years after reinstatement of revised EU fiscal rules.

Still, Italy’s long average debt maturity (which mitigates the effects of higher financing costs) as well as the recent parliamentary majority (supporting political stability following 2022 elections) underpinned our decision to leave Italy’s credit ratings unchanged in December. We assume a gradual reduction of the general government deficit from 5.3% of GDP this year to 4.6% next year and 2.9% by 2028. The public-debt ratio should stabilise around 141% over 2023-28 – continuing to pose a challenge for the credit ratings.

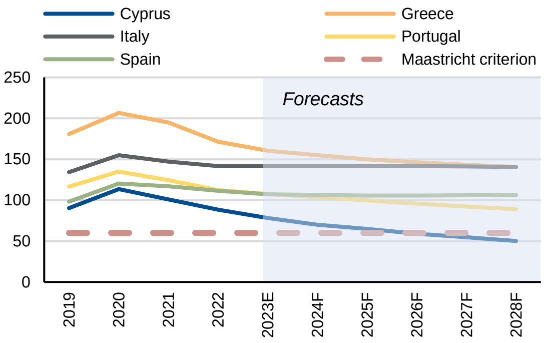
We see steady growth in **Spain** (A-/Stable). Despite global economic uncertainties, the economy should maintain its resilience, with economic output rising 1.8% next year, faster than the euro-area average. Positive labour-market dynamics and productivity improvements are core factors contributing to this growth. Despite limited fiscal leeway, measures announced under the 2024 Budget Plan prioritise pension revaluations and salary rises. Spain has been effective at deploying its NGEU funds, receiving funding and achieving milestones to date. Investments and reforms of this plan have driven growth and facilitated business investment, especially into green and digital sectors. A continued decline in the general government deficit is expected to 3.3% of GDP next year, with debt to GDP falling to 105.5% by 2025.

Prime Minister Pedro Sánchez secured a second term following 2023 elections and an investiture vote. This required controversial agreements to achieve necessary backing, notably enactment of an amnesty law and the establishment of specific fiscal provisions for Catalonia. Agreed measures include debt relief, alterations in investment distribution, and fiscal self-governance. This poses challenges for the nation's principles of unity among the regions, potentially amplifying regional fragmentation and affecting national cohesion. However, this situation may result in more comprehensive reforms of the regional financing system.

We upgraded the sovereign ratings of **Portugal** (A-/Stable) in March 2023 given the country’s robust fiscal management, resulting in consistent improvements of fiscal sustainability. Debt to GDP is projected to decline from a 135% high during the pandemic crisis to below 100% by 2025 (**Figure 18**). Portugal has achieved a strong turnaround in its primary fiscal balance, shifting from a 3.1% deficit in 2020 to an estimated surplus of 2.8% of GDP this year. The trend of government borrowing rates remaining below nominal growth has contributed to a favourable negative interest-rate differential, facilitating debt reduction.

Following the strong recovery from the pandemic crisis, growth should moderate under its potential next year to 1.2%, after 2.1% growth this year. Weakening external demand and persistently high although declining inflation present short-run challenges. Still, a surge in public investment supports growth.

Figure 18. Southern Europe: debt-to-GDP, %



Source: IMF World Economic Outlook (WEO), Scope Ratings forecasts

Greece and Cyprus: Recent upgrades and favourable economic outlook

Scope was the first Western credit rating agency to upgrade Greece (BBB-/Stable) to an investment grade (IG) level in August 2023. IG sends a strong signal that Greece is continuing to place its crises of the past 15 years behind it. Achieving investment grade from ECB-approved rating agencies like Scope, DBRS, Standard & Poor’s, and Fitch Ratings removes risks to Greece’s eligibility for ECB asset purchases and as collateral for repo operations.

Our baseline is for another year of above-potential economic growth at 2.2% next year and 2.3% for 2025 – after an estimate of 2.1% this year. This compares favourably against our 1.1% growth forecast for the euro-area aggregate next year, after 0.7% for the euro area this year.

The Greek economy is outperforming as growth in household consumption continues, supported by unemployment that we forecast will decline to 9.2% on average next year, its lowest average since 2008. Investment should also turn around, helped by ECB deposit rates recently reaching a peak at 4% even if policy rates remain at their peaks for a good part of 2024. Export growth could help, anchored by demand recovery in European trading partners alongside a continued rebound of tourism services.

Debt has continued to decline strongly (**Figure 18, previous page**). General government debt is seen reaching 141% of GDP by 2028, with Greece sustaining primary surpluses over the forthcoming years. This also ensures Greece sustains its eligibility under ECB programmes – such as the TPI. Nevertheless, there are several risks for the outlook, including continued uncertainty over further upside inflation surprises. Politics are also a risk. As borrowing conditions ease for Greece and reform straight-jackets are taken off, the concern is a gradual drift towards reversals of the reforms of earlier crisis years. Over the medium run, environmental challenges are an increasing risk for the economy given exposures from tourism and agriculture.

Cyprus (BBB+/Stable) has recovered strongly from the pandemic crisis driven by pent-up demand, a strong labour market, and growth across virtually all economic sectors. The faster-than-anticipated recovery in tourism supports exports after the economy successfully diversified away from Russia. The economy is seen expanding 2.7% next year, after 2.2% this year. Cyprus' fiscal outlook remains favourable despite government support measures countering the cost-of-living crisis. Solid budget surpluses averaging 2.3% of GDP over 2023-28 reflect the strongest fiscal performance forecast among EU member states. This underpins steady and rapid debt reduction in coming years, with debt to GDP reaching 50% by 2028, from 115% at 2020 peaks. Such factors supported our upgrade of Cyprus' credit ratings in November this year.

Malta (A+/Stable)'s economy has rebounded quickly following the pandemic crisis. Growth is seen remaining above potential, with real growth projected at 3.9% in 2024, after 4% this year. The economy's resilience is driven partly by decisive support measures adopted by the government to mitigate the effects of the cost-of-living crisis, a strong recovery in tourism, favourable net-export performance, and a buoyant labour market. However, the outlook for government debt remains only stable despite this strong economic performance. This is partly explained by high budget deficits, which should remain above 3% of GDP through 2027. Public debt is expected to reach 57% of GDP by 2027.

UK: Stable Outlook but fiscal challenges; Ireland's growth slows

The economy of the **United Kingdom** (AA/Stable) has proven more resilient than expected this year. Significant upside revisions to GDP mean output enters 2024 around 1.8% above 2019 levels, placing the UK's post-pandemic recovery in line with that of France. As high rates continue to pressure private consumption and investment, we see output rising by just 0.4% next year before returning to the medium-run growth potential of 1.5% the year after.

Rising government indebtedness in coming years will pressure future governments to raise taxes, unless there is a sustained improvement in growth. The government faces increasing spending pressures in areas such as health and social care, education, defence and transport. In combination with the UK's flexible fiscal framework and limited headroom in fiscal targets kept by the current chancellor compared with his predecessors, debt is set to rise gradually from 103% in 2023 to 110% by 2028. Budget deficits are seen at well above 3% of GDP over the forecast horizon.

Even with the overall tax burden expected to hit record levels, it remains moderate when compared with that of other large European economies. This leaves room for future fiscal consolidation for the next government after elections likely to take place next autumn. In November, we affirmed the UK's AA credit ratings.

Ireland's sovereign credit ratings were affirmed at AA- and the Outlook changed to Positive in March 2023. Strong growth in the multinational enterprises sector, such as pharmaceuticals and information technology, supported exceptional growth in 2021 and 2022. However, we anticipate output declining by 1.2% this year, with a continued slowdown to 3.1% growth in 2024 and 3.5% in 2025 as domestic and global capacity constraints become more evident. The underlying economy is expected to grow around 2.5% next year, after about 3% this year – despite inflationary pressure affecting businesses and households.

Continued budget surpluses driven by corporate tax revenues are expected to maintain public-debt ratios on a declining path, supporting the credit outlook. The debt-to-modified gross national income ratio is estimated to fall to 77% (45% of GDP) by end-2023. Debt levels are seen reaching 32% of GDP by 2028. The government has announced plans to create a sovereign wealth fund with assets of EUR 100bn by 2035 for contributing to pension and climate costs.

Financial-stability risks mitigated in the Nordics; Credit-Suisse risks removed for Switzerland

Denmark, **Norway**, **Sweden** (all rated AAA/Stable) and **Finland** (AA+/Stable) share wealthy and competitive economies, robust economic and fiscal governance frameworks, low-to-moderate public-debt ratios and sound external and financial sectors. While we expect gradual recovery in household consumption and investment, the region is seen facing continued headwinds next year as the combination of high private-sector debt and higher rates moderate economic activity.

However, all Nordic economies have demonstrated resilience over the pandemic and energy crises, helped by targeted support from strong fiscal frameworks, only marginal reliance on Russian gas, and an elevated share of renewables in aggregate energy consumption. While robust public-sector balance sheets (most notably Norway's given a sovereign wealth fund of USD 1.5trn) enable adoption of large-scale budgetary support, governments have exercised restraint in avoiding fuelling inflationary pressure.

External-sector cushions and strengthened regulatory requirements ensure the economies' comparative resilience to macro-financial risks under scenarios of severe downturns. Nordic economies also benefit from exceptional strength in specific sectors such as Norway's revenues from the oil and gas sector and Denmark from its pharmaceuticals sector, which are both expected to help sustain large current-account surpluses in 2024 and 2025.

Regional central banks have tightened policies this year. As inflation eases, we see central banks keeping policy rates stable for a period before gradually reversing tightening. The speed of such easing may be faster in economies seeing weak growth such as Sweden. Households' sensitivities to higher rates given elevated debt and a correction in housing markets have raised financial-stability concerns. In Sweden, nearly 90% of outstanding loans have refinancing terms of two years or below, resulting in a rapid pass-through of higher rates, exerting pressures on household incomes. However, strongly-capitalised banks and ample household financial assets help mitigate such risks and will stem spill-over across the region's highly-interconnected financial systems.

Economic growth is expected to stay under potential next year. Sweden is foreseen remaining in mild recession for a second year with output declining 0.3%, while other Nordic economies see modestly positive growth: Finland (0.7%), Norway (0.9%) and Denmark (1.4%).

Growth of 1.4% is forecast in **Switzerland** (AAA/Stable) in 2024 after an estimated 0.8% this year. Switzerland's direct exposures to risks tied to the merger of UBS and Credit Suisse have been eliminated over the second half of 2023. UBS has exited the CHF 9bn Loss Protection Agreement without calling on any guarantees, and Credit Suisse has repaid all loans provided under public-liquidity facilities. Despite potential negative implications the takeover could have on the contribution of the banking system to output and employment, the prompt intervention of regulators, the strength of UBS's business model and balance sheet, and ample liquidity provision by the Swiss National Bank all helped stabilise market confidence and financial stability. At the same time, the solution found entails a greater concentration of financial-system contingency risks.

EU CEE: disinflation supports stronger growth, but fiscal challenges remain

The EU's 11 Central and Eastern European member states (CEE-11) are expected to benefit next year from a significant slowdown in inflation. Inflation should range from 2.7% for the **Czech Republic** (AA-/Stable) to 6.5% in **Romania** (BBB-/Stable), falling from very high levels this year. Moreover, progress on disbursements of NGEU funding will support economic growth. In this context, we see growth in the CEE-11 picking up in 2024 to 2.5% (**Figure 19, next page**). This will be supported by higher real incomes and more-dynamic external demand from euro-area partners. All central banks of the region are expected to reduce rates next year – with some such as the National Bank of Poland and the Hungarian National Bank having already begun rate cuts this year. The rise in growth is likely to strengthen by 2025, with CEE-11 growing 3.0%.

The budgetary outlooks of the CEE-11 should improve on the back of less restrictive financing conditions. Yet, important disparities will prevail across countries concerning progress on fiscal consolidation. Slovakia and Romania are expected to display the widest budgetary deficits next year, whereas the Baltic states, Croatia, the Czech Republic and Slovenia may display deficits at or under 3% of GDP. We expect Slovakia, Romania, Estonia, Poland, and Bulgaria to experience the largest rises in public debt by 2028 (**Figure 20, next page**). Conversely, Slovenia is projected to achieve the most significant public-debt deleveraging.

We downgraded **Poland**'s ratings to A, Hungary's to BBB and Czech Republic's to AA- this year. For Poland, the outcome of October parliamentary elections is constructive for Poland's credit ratings at this new level. The opposition under ex-premier Donald Tusk has achieved a parliamentary majority. The centrist coalition under Tusk holds the mandate of reversing some of the damage to political and press institutions after democratic backsliding under Law and Justice (PiS) in the past eight years. Nevertheless, despite this electoral result, governance challenges remain. Significant divergence of views within the governing coalition could restrict government effectiveness and stability, while PiS retains significant power and leverage across State institutions.

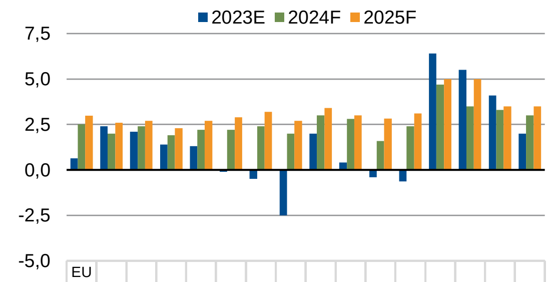
The general government debt ratio should resume an upside trajectory from next year. The general government deficit is seen averaging 4.0% from 2024-2028. A EUR 5.1bn tranche of pre-financing from REPowerEU has been approved for Poland, although the remainder of EU recovery funding is expected to be disbursed only gradually and conditional upon reform.

Macroeconomic and fiscal outlooks remain robust for **Croatia**. The general government is seen displaying moderate deficits over the coming years. Coupled with solid nominal growth, this should see the public-debt ratio trending below the 60% Maastricht threshold by 2025, supporting the rating outlook.

This year, we revised **Bulgaria**'s credit Outlook to Positive from Stable, on the country's BBB+ long-term ratings. This reflects our expectation of euro-area entry by 2025 at the earliest. The main obstacle relates to the Treaty of Maastricht's price-stability criterion, which Bulgaria does not presently meet. Still, even if a gap to meeting the inflation criterion were to remain, we expect the European Commission to adopt a flexible execution of its reference-rate calculation.

Slovakia is foreseen benefiting from a moderate growth rebound next year. However, Prime Minister Robert Fico's measures have permanent effects on the health of public finances. Public debt is set to rise, from 56.8% of GDP in 2023 to 67.9% by 2028. This is a challenge for the ratings. As for **Slovenia**, private consumption will benefit from average inflation receding to 4.0% next year from 7.4% in 2023. Public debt is seen moderating from 69.0% of GDP in 2023 to 61.9% by 2028.

Figure 19. 2023-25F real growth, CEE, %



	EU CEE-11	HR	BG	SK	SI	LV	LT	EE	RO	PL	CZ	HU	GE	UA	TR	RS
		Euro-area CEE							Non-euro EU CEE				Non-EU Emerging Europe			
■2023E	0,6	2,4	2,1	1,4	1,3	-0,1	-0,5	-2,5	2,0	0,4	-0,4	-0,6	6,4	5,5	4,1	2,0
■2024F	2,5	2,0	2,4	1,9	2,2	2,2	2,4	2,0	3,0	2,8	1,6	2,4	4,7	3,5	3,3	3,0
■2025F	3,0	2,6	2,7	2,3	2,7	2,9	3,2	2,7	3,4	3,0	2,8	3,1	5,0	5,0	3,5	3,5

Sorted by 2023 growth estimates. Source: Scope Ratings forecasts.

Figure 20. 2019-28F general government debt, CEE, % of GDP

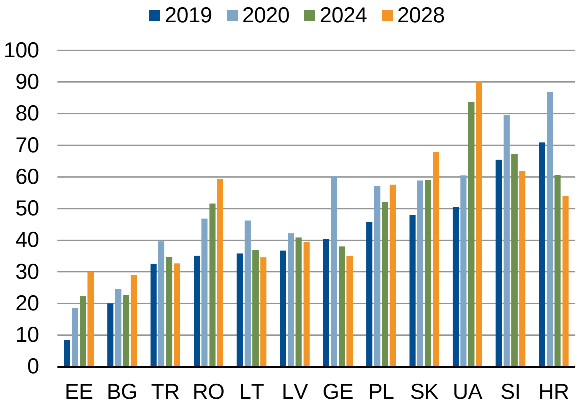


Diagram sorted by 2019 general government debt levels. Source: Eurostat, national statistics agencies, IMF WEO, Scope Ratings forecasts.

Non-EU Emerging Europe: Ukraine's second debt restructuring; Türkiye's monetary-policy normalisation

Since August 2022, Scope Ratings has assigned **Ukraine**'s foreign debt a CC credit rating and a Negative Outlook[2], against our baseline of a second external debt restructuring by 2024. The Ministry of Finance of Ukraine announced on 24 March 2023 an intent for further treatment of the sovereign's external commercial debt. Negotiations with foreign debtholders recently began and are expected to be completed in the coming months.

If negotiations conclude in Ukraine's second external debt restructuring (following 2022's debt-service suspension), under Scope's sovereign rating methodology, this would be evaluated by a temporary "selective default" foreign-debt rating by next year – on execution of a distressed debt exchange. The Group of Creditors – comprising select G7 countries – agreed on 24 March 2023 to an extension of their existing debt-service suspension for Ukraine until 2027, from an earlier end date of end-2023. The authorities plan a single comprehensive debt restructuring next year, but if agreement on this with commercial creditors cannot be reached, an intermediate step of a further deferral of Eurobond payments appears possible.

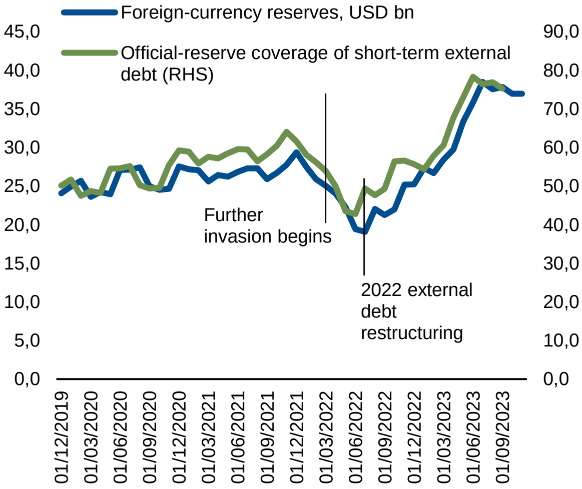
Our forecasts observe a rise of the general-government debt ratio to 90% of GDP by 2028, from 78.5% at end-2022 – the former nearly doubling the 49% ratio as of 2021 before the full-scale war.

We maintain our estimate of 5.5% growth this year, before 3.5% growth for 2024. Our forecasts assume a protracted war. Inflation is seen falling further next year, after averaging 12.8% this year, with the central bank continuing to cut rates.

[2] A CC rating signals approximately a 62% probability of default within two years under Scope rating definitions.

Foreign-currency reserves stood at near all-time highs at USD 37.0bn in November 2023, double the USD 19.1bn at July-2022 lows (**Figure 21**) – anchored by international financial support and debt relief. The European Commission recently recommended starting negotiations for Ukraine's accession to the EU.

Figure 21. Ukraine reserves and reserve coverage



Source: National Bank of Ukraine, IMF, Scope Ratings

Complementing the actions of the international sector, Ukraine has since January of this year enhanced domestic-bank financing of the sovereign to eliminate monetary financing. The resilience of the domestic financial system supports credit ratings on domestic debt. Scope has rated Ukraine's domestic-currency debt at CCC since May 2022, with the Outlook revised to Stable this May.

Türkiye (foreign-currency debt rated B-/Negative) has pursued policy normalisation since general elections in May 2023. Rates have been hiked by 3,150 basis points, while the lira has depreciated more than 35% against the dollar this year and macroprudential measures were simplified. There is uncertainty about the duration of this normalisation process, however, ahead of municipal elections scheduled in March 2024. Nevertheless, tighter funding conditions are slowing credit growth and domestic consumption, although the weaker lira is bolstering net foreign trade. Real growth is forecast at 3.3% in 2024 as the economy adjusts to a more restrictive policy mix but reach 3.8% in 2025 as sounder policies support investor confidence. This follows 4.1% growth this year based on post-earthquake reconstruction and pre-election spending.

Inflation will remain on a rising trajectory in the first half of 2024 because of lira depreciation and the effects of tax hikes. We project that average inflation will rise from 55% this year to 60% in 2024. Nonetheless, monetary tightening and economic slowdown should help contain soaring domestic prices by the second half of the year. Inflation should ease to 25% by 2025 if policy normalisation is sustained.

The budget deficit is projected to remain wide, at 6.3% of GDP in 2024, the same level as that estimated for this year. Nevertheless, high inflation and high growth support the general government debt ratio, projected to decline to 34.7% of GDP in 2024 and 32.7% by 2028. Scope next reviews Türkiye's credit ratings early in 2024.

Georgia (BB/Stable) is expected to grow 4.7% next year, after an estimated 6.4% this year, boosted by a surge in immigration, financial, remittance and transit-trade flows since Russia's full-scale war in Ukraine, alongside continued recovery of tourism services. However, the surge in re-exports from Georgia to Russia has raised concerns among Western partners about the observation of trade sanctions against Russia. Inflation is seen remaining moderate at 2.2% next year and 3.0% in 2025, with gradual rate reductions from the National Bank of Georgia although monetary policy is expected to stay tight.

We expect a moderate general government deficit of 2.3% of GDP next year, with the general government debt ratio declining to 38% by end-2024 before 35.1% by end-2028. Georgia has recently seen democratic backsliding and governance risk with associated consequences such as delays of the IMF programme – a core credit-rating constraint. The European Commission recently recommended Georgia for EU candidate status contingent on the completion of set requirements. After Ukraine, we consider Georgia to be the most exposed sovereign of our publicly-rated portfolio to geopolitical risk. Nevertheless, we do not envision a material escalation of conflict in the foreseeable future.

Serbia (BB+/Stable) maintains a solid macroeconomic framework and promising economic growth. Despite temporary slowdown this year because of inflation and links to a sluggish European economy, a rebound is projected next year to growth of 3.0% and 3.5% in 2025. Inflation is expected to decline gradually, averaging 4.4% next year. Fiscal policies have cut deficits, with a forecast deficit of 1.8% of GDP next year. Serbia faces risks from its dependence on external-debt financing, a vulnerable debt structure, weak governance, and complexities of its EU accession associated with Kosovo and European sanctions on Russia.

The United States faces institutional challenges and rising debt

November 2024's presidential elections will determine the institutional direction of the **United States** (AA/Negative) from 2025, with significant ramifications beyond the United States. Ex-President Trump is expected to gain the Republican-Party nomination next year, and currently has a slight edge in an election against incumbent President Biden. The entry of independent and third-party candidates furthermore skews elections to favouring the ex-President under a baseline. Still, significant uncertainty remains.

Governance is a big theme for next year even before the election – with risk of government shutdown returning again early next year. Political gridlock has furthermore become the norm following 2022 mid-term elections, as seen by multiple funding crises this year and the first-ever removal of a House Speaker. Prevailing governance challenges underscore our Negative Outlook.

In the aftermath of 2024 elections, government and Congress might need to contend with a debt-ceiling crisis once a current suspension of the debt limit from this June expires by 1 January 2025. Episodes of debt-ceiling confrontations are expected to stay a feature of American policy making, with risks from such stand-offs elevated under conditions of a polarised society, probable further political divisions after 2024 elections and expectations of sustained fiscal deficits over forthcoming years – raising incentives for (inappropriately) using the debt ceiling to curtail deficits.

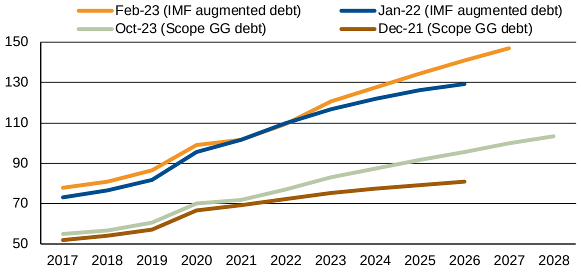
Scope has challenged the United States' status as the benchmark AAA-rated, risk-free borrower and our AA rating furthermore recognises general government debt expected to rise from around 122% of GDP at year-end 2023 to 135% in 2028. This is a credit concern although the United States holds the highest debt tolerance of any borrower rated by Scope.

As concerns the economy, our projections remain for moderate output growth of 2.2% next year, after the 2.4% estimated this year. Labour-market conditions have stayed tight and unemployment is seen averaging 3.8% next year, after 3.6% in 2023.

China's sovereign rating downgraded; Japan's monetary accommodation gradually removed

In May 2023, Scope downgraded **China**'s sovereign credit rating to A and revised the Outlook to Stable. Our downgrade was driven by high structural public-sector deficits and a steepening general government debt trajectory. We expect general government debt to reach 87% of GDP in 2024, from 60% before the Covid-19 pandemic, and to continue to rise to 104% by 2028 (**Figure 22**) as further fiscal support is required given the sharp property-market correction.

Figure 22. China government debt forecasts, Scope general-government (GG) debt and IMF augmented-government definitions, % of GDP



Source: IMF and Scope Ratings data and forecasts

Under the IMF's broader debt definition, including debts of local government financing vehicles and other off-balance-sheet entities, the government's "augmented-debt" ratio stood at 110% of GDP as of 2022 and is seen reaching 147% by 2027, significantly above general government debt ratios of economies with comparable wealth levels.

The downgrade also reflected a decline in medium-run growth expectations and challenges to sustainable economic growth absent exacerbating financial imbalances.

In June 2023, total credit to the private non-financial sector stood at 228% of GDP, significantly above the averages for emerging economies (156%) and advanced economies (162%). Chinese authorities have introduced appropriate policies to curtail financial imbalances and reduce leverage across crucial economic sectors, such as real estate. When such policies risk slowing economic growth to below politically-acceptable levels, credit restrictions were eased as demonstrated by a 16-point plan introduced in November 2022. We cut our estimate of China's sustainable medium-run growth from 5% to 4% over the past year, and this may decline further unless reforms addressing challenges associated with an ageing population and with the real-estate sector are adopted. After 5.3% this year, we expect growth of 4.4% in 2024, trending after that towards potential of 4%.

Japan (A/Negative)'s economic recovery from the Covid-19 crisis has been uneven. After shrinking by 4.3% in 2020, growth recovered to 2.3% in 2021 and 0.9% in 2022, helped by one of the largest stimulus programmes of advanced economies. Japan is among the last G-10 economies to see output recover to pre-Covid levels.

As a response to flagging growth and rising prices, the government announced a further large-scale stimulus package of JPY 17trn (2.9% of GDP) in November, the fourth set of economic measures announced since the start of the cost-of-living crisis. We project growth of 0.8% in 2024 and 0.4% in 2025, after 1.8% this year.

Rising prices have raised concerns around the sustainability of the Bank of Japan's ultra-accommodative monetary policy. After widening the band around the 10-year JGB yield target from 0.25% to 0.50%, the Bank of Japan increased the flexibility of its bond buying to allow yields to reach 1%, while the short-term policy rate has remained at -0.1%. We see the negative-rate regime being eliminated next year. Despite very gradual tightening of its policies, the Bank of Japan has been buying government bonds at a record pace this year while the yen trades around 140 against the dollar after recent gains. Inflation may stay above 2% through 2024 but return slightly under target after that.

Structural pressures due to an ageing population continue to weigh on debt and economic outlooks. General government deficits could average 4.6% over 2023-28 while public debt will decline modestly over 2023-24, before rising gradually thereafter.

Morocco's credit stronger than South Africa's; Egypt sees balance-of-payment risk

Scope downgraded **South Africa**'s ratings to BB and assigned a Stable Outlook on 6 October 2023. We expect general government debt to rise to 93% by 2028, from 71% at end-2022. This is based on rising headline government deficits averaging 7.5% of GDP between 2024-28 as interest payments increase. The deficit is expected at 6% of GDP this year, underperforming a 4% objective for FY2023-24.

We see economic growth of 1.2% for 2024, following slowdown to 0.9% this year. Inflation will moderate to 5.0% next year, edging inside the central bank's 3-6% target range to average around the mid-point of the target range by 2025, with the Reserve Bank seen starting rate cuts next year.

Governance challenges are reflected in our credit ratings. There is the possibility of the African National Congress needing to rule in coalition following 2024 general elections. Under such a scenario, this could present greater policy-making uncertainties.

Scope published first-time BB+/Stable ratings for **Morocco** in September 2023, emphasising strengthened institutional frameworks, strong funding flexibility, a favourable debt profile and an ambitious structural-reform agenda.

The Al-Haouz earthquake this year had a devastating human impact, but we deem macroeconomic effects to be negligible so far, thanks to the demonstrated ability of the authorities to cope with such crises. We project growth will accelerate to 3.4% in 2024 as price pressures ease, external demand strengthens and agricultural output normalises, although the risk of drought remains near- and longer-term.

Budget deficits remain wide but will narrow over coming years. A 4.2% deficit is expected in 2024, after an estimated 4.9% in 2023. General government debt should decline modestly to 67% of GDP by 2028, from 72% at 2020 highs although the net interest burden is set to rise from 9% of revenue this year to 11% over the same period because of the higher funding rates.

Under Scope's Africa Initiative, we also published first-time ratings for **Egypt** (B-/Negative) in March.

Egypt is facing balance-of-payment risks that are constraining domestic economic activity. Output growth is projected at 3.8% next year, after 4.2% in 2023. Private consumption is penalised by high inflation. Inflation could rise further if the pound is devalued. Such a devaluation is our baseline, as part of IMF conditionality. Yet, uncertainties around the reform agenda and on financial support from the official sector continue to weigh on investor sentiment, as have geopolitical risks.

An annual budget deficit above 8% of GDP is expected over the forecast horizon, pointing to risks for budget consolidation due to expenditure rigidities, among which are food and energy subsidies, as well as wages and pensions revalorisation. High debt-servicing outlays and delays in the execution of reform further cloud the fiscal outlook. This could weigh on Egypt's restricted international market access amid significant gross financing needs over the coming years. Public debt is forecast to stay high – above 90% of GDP until 2026, even though declining gradually thanks to high nominal economic growth.

Annex I: Table 2. Global economic outlook: growth, inflation and official rates, 2021-2025F

Country/region	Real GDP growth (annual average, %)								Headline inflation[2] (annual average, %)							Policy rates (EOP, %)				
	2021	2022	2023E	Diff. from Jul-23[1]	2024F	Diff. from Jul-23[1]	2025F	Medium-run potential	2021	2022	2023E	Diff. from Jul-23[1]	2024F	Diff. from Jul-23[1]	2025F	End-2021	End-2022	End-2023	End-2024	End-2025
Euro area[3]	5.9	3.4	0.7	↓ 0.3	1.1	↓ 0.4	1.7	1.4	2.6	8.4	5.5	↓ 0.1	2.8	↓ 0.2	2.2	(0.5)	2.0	4.0	3.25	2.25
Germany	3.1	1.9	(0.3)	↓ 0.2	0.3	↓ 1.1	1.6	0.8	3.2	9.0	6.1	↓ 0.2	2.7	↓ 0.4	2.3					
France	6.4	2.5	0.9	↑ 0.2	1.0	↓ 0.4	1.5	1.35	2.1	5.8	5.8	↑ 0.5	2.8	↑ 0.1	1.9					
Italy	8.3	3.7	0.7	↓ 0.5	0.8	↑ 0.0	1.3	1.0	1.9	8.7	6.1	↓ 0.4	2.4	↓ 0.6	1.9					
Spain	6.4	5.8	2.4	↑ 0.6	1.8	↓ 0.3	1.9	1.75	3.0	8.5	3.5	↑ 0.1	3.3	↑ 0.5	2.3					
Netherlands	6.2	4.4	0.2	↓ 0.6	1.3	↑ 1.0	1.8	1.4	2.8	11.6	4.1	↓ 0.6	1.6	↓ 1.8	2.3					
Belgium	6.9	3.0	1.5	↑ 0.6	1.3	↑ 0.1	1.2	1.2	3.2	10.3	2.4	↓ 1.3	4.2	↑ 2.0	2.1					
Austria	4.4	4.8	(0.4)	↓ 0.6	0.8	↓ 0.7	1.5	1.6	2.8	8.6	7.7	↑ 0.1	3.8	↑ 0.1	2.4					
Ireland	14.8	9.5	(1.2)	↓ 6.3	3.1	↓ 1.6	3.5	4.0	2.4	7.9	5.4	↑ 0.1	3.3	↑ 0.3	2.1					
Finland	3.2	1.6	0.0	-	0.7	↓ 0.3	1.3	1.2	2.1	7.2	4.5	↓ 0.5	1.8	↓ 0.5	2.0					
Portugal	5.7	6.8	2.1	↓ 0.5	1.2	↓ 0.8	1.6	1.8	0.9	8.1	5.3	↓ 0.2	3.5	↑ 1.0	2.2					
Greece	8.4	5.6	2.1	↓ 0.2	2.2	↑ 0.6	2.3	1.0	0.6	9.3	4.2	↑ 0.2	2.4	↓ 0.9	2.3					
Slovakia	4.8	1.8	1.4	-	1.9	↓ 0.1	2.3	2.5	2.8	12.1	10.9	↑ 0.9	5.2	↓ 0.3	3.0					
Luxembourg	7.2	1.4	(0.6)	↓ 2.4	1.6	↓ 0.7	2.3	2.5	3.5	8.1	3.0	↑ 0.2	3.1	↑ 0.1	2.1					
Lithuania	6.2	2.5	(0.5)	↑ 0.9	2.4	-	3.2	2.5	4.6	18.9	8.8	↓ 0.7	3.2	↑ 0.2	2.4					
Slovenia	8.4	2.9	1.3	-	2.2	↓ 0.2	2.7	3.0	2.1	9.0	7.4	↑ 0.4	4.0	↑ 0.5	2.8					
Latvia	4.1	3.5	(0.1)	↓ 1.6	2.2	↑ 0.4	2.9	2.5	3.2	17.2	9.3	↑ 0.8	2.9	↑ 0.4	2.5					
Estonia	8.0	(1.3)	(2.5)	↓ 1.2	2.0	↓ 0.3	2.7	2.2	4.5	19.4	9.1	↓ 0.9	3.2	↓ 0.3	2.3					
Cyprus	9.9	5.6	2.2	↓ 0.3	2.7	↓ 0.1	3.0	3.0	2.3	8.1	3.5	↓ 0.4	2.4	↓ 0.3	2.2					
Malta	12.4	8.2	4.0	↑ 0.3	3.9	↑ 0.1	3.4	3.5	0.7	6.1	5.6	↓ 0.2	3.0	↓ 0.4	2.3					
Croatia	10.2	6.4	2.4	-	2.0	-	2.6	3.0	2.7	10.6	8.5	↑ 0.7	4.8	↑ 0.7	2.7					
Western Europe ex-euro area																				
United Kingdom	8.7	4.3	0.6	↑ 0.6	0.4	↓ 0.4	1.5	1.5	2.6	8.9	7.4	↓ 0.4	2.8	↓ 0.3	1.8	0.25	3.5	5.25	4.75	3.75
Switzerland	5.4	2.7	0.8	↓ 0.2	1.4	↓ 0.7	1.4	1.5	0.6	2.9	2.2	↓ 0.2	1.6	↓ 0.6	2.0	(0.75)	1.0	1.75	1.75	1.5
Sweden	5.9	3.0	(0.7)	↓ 0.2	(0.3)	↓ 1.4	2.1	1.8	2.7	8.3	8.6	-	3.7	↑ 0.7	2.1	0.0	2.5	4.0	3.25	2.25
Norway	4.0	3.2	1.7	↑ 0.5	0.9	↓ 0.4	1.4	1.8	3.5	5.8	5.5	-	4.0	↑ 1.3	2.7	0.5	2.75	4.5	4.0	3.5
Denmark	6.8	2.7	1.1	↓ 0.4	1.4	↑ 0.2	1.9	1.5	1.9	7.5	3.4	↓ 0.4	2.0	↓ 1.1	2.3	(0.60)	1.75	3.6	3.2	2.4
EU central and eastern Europe ex-euro																				
Poland	6.8	5.3	0.4	↓ 2.1	2.8	↑ 0.8	3.0	3.0	5.1	14.4	11.4	↓ 1.3	3.5	↓ 3.9	3.1	1.75	6.75	5.75	4.75	3.25
Romania	5.9	4.7	2.0	↓ 1.0	3.0	↓ 1.1	3.4	4.0	5.0	11.8	10.5	↓ 0.5	6.5	↑ 0.3	4.0	1.75	6.75	7.0	5.75	5.25
Czech Republic	3.5	2.4	(0.4)	↓ 0.6	1.6	↓ 1.2	2.8	2.5	3.8	15.1	10.7	↑ 0.1	2.7	↑ 0.3	2.2	3.75	7.0	7.0	4.0	3.0
Hungary	7.0	4.6	(0.6)	↓ 1.0	2.4	↓ 0.5	3.1	2.5	5.1	14.8	17.2	↓ 0.3	5.1	↓ 0.2	3.9	2.4	13.0	10.75	7.0	5.0
Bulgaria	4.2	3.4	2.1	↑ 0.5	2.4	↓ 0.6	2.7	2.75	2.8	13.1	9.4	↑ 0.1	3.8	-	2.9	0.0	1.3	3.8	3.55	3.0
Non-EU emerging Europe																				
Türkiye	11.4	5.5	4.1	↑ 1.4	3.3	↑ 0.3	3.5	3.9	19.6	73.8	55.0	↑ 10.0	60.0	↑ 20.0	25.0	14.0	9.0	42.5	45.0	40.0
Ukraine	3.4	(29.1)	5.5	↑ 1.5	3.5	↑ 1.0	5.0	3.0	9.4	20.2	12.8	↓ 1.6	4.1	↓ 5.2	5.0	9.0	25.0	15.0	10.0	10.0
Serbia	7.7	2.5	2.0	-	3.0	-	3.5	4.0	4.1	11.9	12.3	↑ 0.5	4.4	↑ 0.3	3.4	1.0	5.0	6.5	5.25	4.0
Georgia	10.5	10.2	6.4	↓ 1.1	4.7	↓ 1.4	5.0	5.0	9.6	11.9	2.5	↑ 0.2	2.2	↓ 0.6	3.0	10.5	11.0	9.75	8.25	7.0
Rest of World (Advanced)																				
United States	5.8	1.9	2.4	↑ 0.5	2.2	↑ 0.9	2.0	2.0	4.7	8.0	4.1	↓ 0.2	2.8	↓ 0.4	2.4	0-0.25	4.25-4.5	5.25-5.5	4.75-5	3.75-4
China[4]	8.4	3.0	5.3	↑ 0.3	4.4	↑ 0.1	4.1	4.0	0.9	2.1	0.3	↓ 0.4	0.7	↓ 1.5	2.4	3.8	3.65	3.45	3.25	3.1
Japan[5]	2.6	0.9	1.8	↑ 0.6	0.8	↓ 0.2	0.4	0.4	(0.2)	2.5	3.2	↑ 0.8	2.9	↑ 0.6	1.9	(0.1)	(0.1)	(0.1)	0.0	0.0
Africa																				
South Africa	4.7	1.9	0.9	↑ 0.1	1.2	-	1.5	1.5	4.6	7.0	6.1	↓ 0.1	5.0	↓ 0.1	4.5	3.75	7.0	8.25	7.0	5.5
Egypt	3.3	6.6	4.2	↑ 0.2	3.8	↓ 1.4	4.5	5.5	4.5	5.8	35.0	↑ 7.0	40.0	↑ 27.0	25.0	8.25	16.25	19.75	25.0	21.0
Morocco	8.0	1.3	2.7	↓ 0.5	3.4	n/a	3.4	3.0	1.4	6.6	6.3	n/a	3.5	n/a	2.9	1.5	1.5	3.0	3.5	3.0
World	6.3	3.5	3.1	↑ 0.2	3.1	↑ 0.1	3.2	2.6	4.7	8.7	7.0	↑ 0.3	5.5	↑ 0.5	4.1					

Negative values shown in parentheses. Source: Scope Ratings forecasts, Macrobond, IMF.

[1] Changes compared with Scope July 2023's Mid-Year 2023 Sovereign Outlook forecasts ("n/a" reflects forecasts not available as of the July 2023 Sovereign Outlook). [2] HICP headline inflation for euro-area member states; otherwise, CPI headline inflation.

[3] Shown for the euro-area policy rate is the ECB deposit facility rate. [4] Shown for China's policy rate is the one-year bank prime loan rate. [5] Shown for Japan's policy rate is the deposit rate on current account balances.

Annex I: Table 3. Global economic outlook: unemployment, fiscal metrics, 2021-28F

Country/region	Unemployment rate[6] (annual average, %)					General government balance (% of GDP)						Public debt level (% of GDP)					
	2021	2022	2023E	2024F	2025F	2021	2022	2023E	2024F	2025F	2028F	2021	2022	2023E	2024F	2025F	2028F
Euro area	7.7	6.7	6.5	6.4	6.4	(5.2)	(3.6)	(3.3)	(3.0)	(2.7)	(2.4)	95	91	90	89	88	87
Germany	3.6	3.1	3.0	3.0	2.9	(3.6)	(2.5)	(2.2)	(1.6)	(1.2)	(0.9)	69	66	65	64	62	59
France	7.9	7.3	7.3	7.4	7.3	(6.5)	(4.8)	(4.9)	(4.7)	(4.3)	(3.8)	113	112	110	111	112	112
Italy	9.5	8.1	7.8	7.6	7.6	(8.8)	(8.0)	(5.3)	(4.6)	(4.0)	(2.9)	147	142	142	142	142	141
Spain	14.8	12.9	12.2	11.8	11.6	(6.7)	(4.7)	(4.0)	(3.3)	(3.5)	(4.0)	117	112	107	106	105	107
Netherlands	4.2	3.5	3.6	3.7	3.7	(2.2)	(0.1)	(1.2)	(1.5)	(1.4)	(2.0)	52	50	47	46	46	46
Belgium	6.3	5.6	5.6	5.6	5.6	(5.4)	(3.5)	(4.9)	(4.8)	(4.9)	(5.5)	108	104	105	106	108	115
Austria	6.2	4.8	5.2	5.5	5.6	(5.8)	(3.5)	(2.5)	(2.4)	(2.2)	(2.0)	83	78	76	76	75	72
Ireland	6.2	4.5	4.4	4.3	4.3	(1.5)	1.7	1.0	1.1	1.2	0.9	54	44	45	42	39	32
Finland	7.6	6.8	7.2	7.2	7.1	(2.8)	(0.8)	(2.5)	(3.2)	(3.2)	(1.3)	73	73	73	77	80	82
Portugal	6.7	6.2	6.6	6.8	6.8	(2.9)	(0.3)	0.6	0.2	0.1	(0.2)	125	112	108	104	100	89
Greece	14.8	12.4	10.8	9.2	8.6	(7.0)	(2.3)	(2.0)	(1.6)	(1.6)	(1.7)	195	171	160	155	150	141
Slovakia	6.8	6.2	5.9	5.9	5.8	(5.2)	(3.5)	(5.7)	(6.5)	(6.5)	(4.0)	61	58	57	59	62	68
Luxembourg	5.4	4.6	5.2	5.6	5.8	0.6	(0.3)	(1.9)	(2.7)	(1.5)	(0.7)	25	25	27	29	30	31
Lithuania	7.2	6.0	6.8	7.0	6.6	(1.1)	(0.7)	(2.0)	(2.5)	(2.0)	(1.4)	43	38	37	37	36	35
Slovenia	4.8	4.0	3.6	3.6	3.5	(4.6)	(3.0)	(3.6)	(3.0)	(2.3)	(1.7)	74	72	69	67	65	62
Latvia	7.5	6.8	7.0	6.7	6.5	(7.2)	(4.6)	(3.5)	(3.0)	(2.8)	(1.5)	44	41	41	41	41	39
Estonia	6.2	5.6	7.0	7.0	6.8	(2.5)	(1.0)	(3.0)	(2.6)	(2.9)	(2.7)	18	19	21	22	24	30
Cyprus	7.5	6.8	6.7	6.4	6.1	(2.0)	2.6	2.4	2.3	2.3	2.2	101	88	78	70	65	50
Malta	3.4	2.9	2.7	2.6	2.5	(5.7)	(5.1)	(5.0)	(4.5)	(4.1)	(2.0)	54	52	54	55	57	56
Croatia	7.6	6.7	6.6	6.5	6.2	(2.5)	0.1	(0.8)	(1.4)	(0.9)	(0.7)	78	68	63	61	59	54
Western Europe ex-euro area																	
United Kingdom	4.6	3.8	4.2	4.5	4.2	(8.3)	(5.5)	(4.5)	(4.1)	(4.0)	(3.8)	105	102	103	106	108	110
Switzerland	3.0	2.2	2.0	2.3	2.5	(0.3)	1.0	0.7	1.0	0.6	0.7	42	41	35	33	31	26
Sweden	8.9	7.5	7.7	8.2	8.3	0.0	1.1	(0.4)	(1.2)	(0.4)	0.4	37	33	32	33	34	32
Norway	4.4	3.2	3.6	3.8	3.9	10.6	26.0	15.2	14.5	13.1	9.8	43	37	38	37	36	34
Denmark	5.1	4.5	4.9	4.7	4.4	4.1	3.3	2.3	1.4	1.0	(0.0)	36	30	30	28	27	27
EU central and eastern Europe ex-euro																	
Poland	3.4	2.9	2.8	2.8	2.8	(1.8)	(3.7)	(5.6)	(4.9)	(4.0)	(3.6)	54	49	49	52	54	58
Romania	5.7	5.6	5.5	5.3	5.2	(7.2)	(6.3)	(6.3)	(6.0)	(5.4)	(5.4)	49	47	49	52	54	59
Czech Republic	2.8	2.4	2.7	2.7	2.6	(5.1)	(3.2)	(3.6)	(2.6)	(2.1)	(1.5)	42	44	45	44	44	43
Hungary	4.0	3.6	4.1	4.0	3.8	(7.2)	(6.2)	(5.7)	(4.5)	(3.6)	(3.5)	77	74	70	69	68	67
Bulgaria	5.3	4.3	4.4	4.4	4.4	(4.0)	(2.9)	(3.0)	(3.1)	(3.2)	(2.7)	24	23	21	23	25	29
Non-EU emerging Europe																	
Türkiye[7]	12.0	10.5	9.5	10.5	11.5	(2.8)	(0.9)	(6.3)	(6.3)	(3.8)	(3.8)	42	32	35	35	34	33
Ukraine[7]	10.4	n/a	n/a	n/a	n/a	(3.4)	(16.3)	(17.7)	(16.5)	(9.9)	(6.2)	49	78	78	84	85	90
Serbia	11.4	9.6	9.7	9.1	8.7	(3.3)	(0.1)	(1.8)	(1.8)	(1.2)	(1.3)	56	54	51	50	48	43
Georgia	20.6	17.3	16.5	16.0	16.0	(6.0)	(2.6)	(2.6)	(2.3)	(2.2)	(1.9)	50	40	38	38	38	35
Rest of World (Advanced)																	
United States	5.4	3.6	3.6	3.8	3.9	(11.6)	(3.7)	(7.0)	(6.6)	(7.6)	(7.5)	126	121	122	124	127	135
China[8]	5.1	5.6	5.2	5.3	5.3	(6.0)	(7.5)	(7.1)	(7.0)	(7.2)	(7.8)	72	77	83	87	91	104
Japan	2.8	2.6	2.6	2.5	2.5	(6.2)	(7.1)	(6.6)	(5.1)	(4.0)	(4.0)	255	258	257	255	256	261
Africa																	
South Africa	34.3	33.5	32.3	32.5	32.5	(5.5)	(4.7)	(6.0)	(6.5)	(6.9)	(8.6)	69	71	75	77	81	93
Egypt	7.4	7.3	7.1	7.3	7.3	(7.0)	(5.8)	(5.5)	(8.2)	(8.2)	(7.7)	90	89	96	92	91	79
Morocco	12.0	11.8	12.6	12.7	12.9	(6.0)	(5.2)	(4.9)	(4.2)	(3.8)	(3.4)	69	71	69	69	69	67
World																	

Negative values shown in parentheses. Source: Scope Ratings forecasts, Macrobond, IMF.

[6] Unemployment rate data source is Eurostat for EU member states; national unemployment series otherwise. [7] Türkiye and Ukraine fiscal-balance figures are for the central-government budget balance.

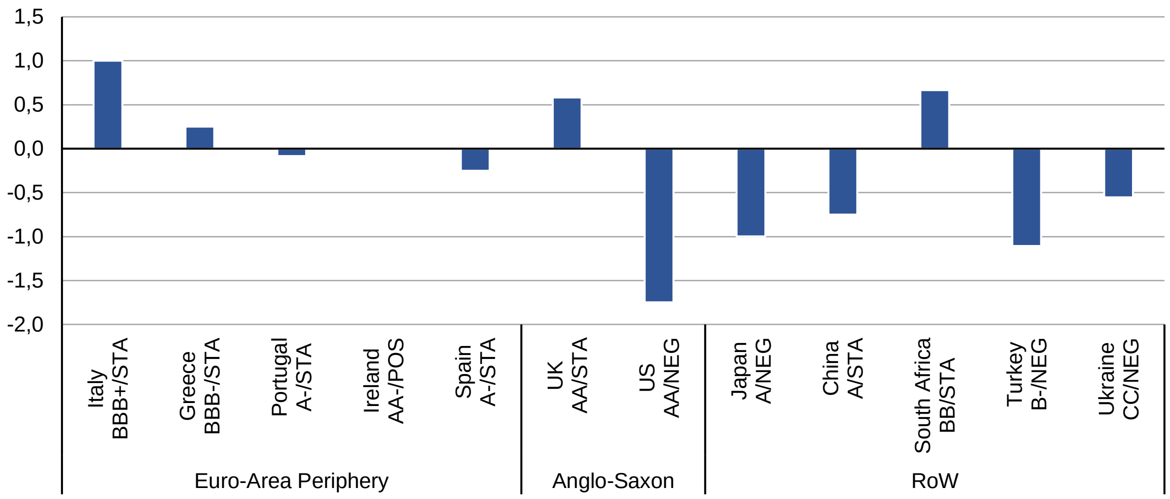
[8] Unemployment is survey-based urban unemployment rate.

Annex II: Scope’s sovereign ratings and recent rating actions

Figure 23. Scope’s publicly-issued long-term foreign-currency sovereign credit ratings, as of 15 December 2023

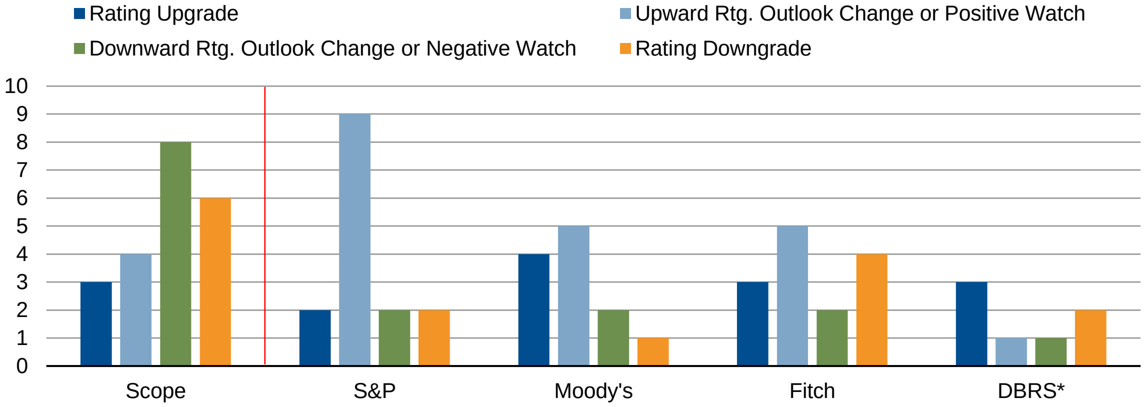
Europe				Rest of the World	
Euro area		Non-euro area EU		Africa	
Austria	AAA/Negative	Bulgaria	BBB+/Positive	Egypt	B/Negative
Belgium	AA-/Negative	Czech Rep.	AA-/Stable	Morocco	BB+/Stable
Croatia	BBB+/Stable	Denmark	AAA/Stable	South Africa	BB/Stable
Cyprus	BBB+/Stable	Hungary	BBB/Stable	North America & Asia	
Estonia	AA-/Negative	Poland	A/Stable	China	A/Stable
Finland	AA+/Stable	Romania	BBB-/Stable	Japan	A/Negative
France	AA/Negative	Sweden	AAA/Stable	United States	AA/Negative
Germany	AAA/Stable	Other western Europe			
Greece	BBB-/Stable	Norway	AAA/Stable		
Ireland	AA-/Positive	Switzerland	AAA/Stable		
Italy	BBB+/Stable	United Kingdom	AA/Stable		
Latvia	A-/Stable	Emerging Europe			
Lithuania	A/Stable	Georgia	BB/Stable		
Luxembourg	AAA/Stable	Serbia	BB+/Stable		
Malta	A+/Stable	Türkiye	B-/Negative		
Netherlands	AAA/Stable	Ukraine	CC/Negative		
Portugal	A-/Stable				
Slovakia	A+/Negative				
Slovenia	A/Stable				
Spain	A-/Stable				

Figure 24. Scope sovereign rating levels versus the US agency average* (rating notches), as of 15 December 2023



*Average of S&P, Moody’s and Fitch Ratings. NB: Calculated based on alpha-numeric conversion on a 20-point scale from AAA (20) to D (1) with US agency ratings adjusted to the Scope rating scale. Positive/Negative Outlooks are treated with a +/-0.33 adjustment. Credit Watch positive/negative with a +/-0.67 adjustment. RoW = Rest of the world. Calculated based on foreign-currency long-term issuer ratings.

Figure 25. Number of rating revisions since 24 February 2023 (since one-year anniversary of Russia's war on Ukraine)



NB. Rating revisions on either foreign- or local-currency ratings since 24 February 2023 for the 40 countries that Scope has rated publicly since 24 February 2023 (including revisions for Egypt since Scope started rating publicly Egypt on 31 March 2023 and Morocco since Scope started rating publicly Morocco on 8 September 2023). *Among countries that Scope has rated, DBRS does not rate Bulgaria, Croatia, Egypt, Hungary, Morocco, Romania, Serbia, South Africa, Türkiye and Ukraine (so, the above is from a sample of 30 rated countries for DBRS).

Figure 26. Scope's sovereign rating actions, 2023 YTD

Month 2023	Date	Sovereign	Rating action	Rating & Outlook*
Jan	27 January 27 January 27 January	Switzerland Georgia Luxembourg	Affirmation Affirmation Affirmation	AAA/Stable BB/Stable AAA/Stable
Feb	24 February	Hungary	Downgrade/ Outlook change	BBB/Stable
Mar	17 March 24 March 31 March 31March	Romania Portugal Ireland Egypt	Affirmation Upgrade/ Outlook change Affirmation/ Outlook change First-time rating assignment	BBB-/Stable A-/Stable AA-/Positive B/Negative
Apr	21 April 28 April 28 April	South Africa Lithuania Latvia	Affirmation/ Outlook change Affirmation/ Outlook change Affirmation/ Outlook change	BB+/Negative A/Stable A-/Stable
May	5 May 12 May 12 May 12 May 26 May 26 May 26 May	United States China Estonia Ukraine Czech Republic Croatia France	Under review for downgrade Downgrade/ Outlook change Affirmation/ Outlook change Affirmation/ Outlook change (domestic debt) Downgrade/ Outlook change Affirmation Affirmation/ Outlook change	AA/Developing A/Stable AA-/Negative CC/Negative AA-/Stable BBB+/Stable AA/Negative
Jun	2 June 29 June	Poland United States	Downgrade/ Outlook change Confirmation/ Outlook assigned	A/Stable AA/Negative
Jul	7 July 14 July 21 July 21 July	Austria Italy Bulgaria Slovenia	Affirmation/ Outlook change Affirmation Affirmation/ Outlook change Affirmation	AAA/Negative BBB+/Stable BBB+/Positive A/Stable
Aug	4 August 4 August	Greece Türkiye	Upgrade/ Outlook change Affirmation	BBB-/Stable B-/ Negative
Sep	1 September 8 September 15 September 15 September 15 September 22 September	Malta Morocco Sweden Belgium Egypt Finland	Affirmation First-time rating assignment Affirmation Affirmation/ Outlook change Downgrade Affirmation	A+/Stable BB+/Stable AAA/Stable AA-/ Negative B-/ Negative AA+/Stable

	29 September	Norway	Affirmation	AAA/Stable
	29 September	Denmark	Affirmation	AAA/Stable
Oct	6 October	Japan	Affirmation	A/ Negative
	6 October	Slovakia	Affirmation	A+/ Negative
	6 October	Spain	Affirmation	A-/ Stable
	6 October	South Africa	Downgrade/ Outlook change	BB/ Stable
	20 October	Germany	Affirmation	AAA/ Stable
	27 October	Serbia	Affirmation	BB+/ Stable
Nov	3 November	United Kingdom	Affirmation	AA/ Stable
	3 November	Netherlands	Affirmation	AAA/ Stable
	17 November	Cyprus	Upgrade	BBB+/ Stable

*Foreign-currency issuer ratings and rating Outlooks.

Annex III: Related research

CEE Mid-Year Sovereign Outlook: inflation subsides but economic recovery remains fragile
(25 July 2023)

Sovereign Mid-Year 2023 Outlook: negative rating outlook framed by slowdown, high debt, rising rates
(18 July 2023)

Central and Eastern Europe Outlook 2023: growth falters, EU funding crucial as debt payments rise
(15 December 2022)

Sovereign Outlook 2023: Sovereign Outlook 2023: rating pressures rise due to war in Ukraine, slow growth, high inflation
(12 December 2022)

Central and Eastern Europe: Russia's war in Ukraine defines mounting credit risks this year and next
(26 July 2022)

Sovereign mid-year outlook: slowdown, inflation, rising rates create divergent ratings trajectories
(18 July 2022)

2022 Central & Eastern Europe Outlook: sound growth, but deficits, governance, geopolitics are risks
(14 December 2021)

Sovereign Outlook 2022: Covid-19, structural inflation, monetary tightening challenge global outlook
(7 December 2021)

Central and Eastern European Sovereign Outlook: GDP to fully recover crisis losses by 2022
(30 June 2021)

Sovereign Outlook: global GDP to rise 6% in 2021, 4.4% in 2022 amid debt, variant & inflation risks
(17 June 2021)

CEE 2021 Sovereign Outlook: region set for uneven 2021 rebound amid higher debt, external risks
(17 December 2020)

Sovereign Outlook 2021: global growth recovers amid high debt; changing fiscal, monetary frameworks
(9 December 2020)

Central & Eastern Europe Q4 Sovereign Update: full economic recovery to be gradual and uneven
(19 October 2020)

Sovereign Outlook Q4 Update: gradual, uneven recovery faces new virus-containment challenge in Q4
(12 October 2020)

Central & Eastern Europe Sovereign Update: rebound has begun but full recovery only after 2021
(15 July 2020)

Sovereign Outlook Q3 Update: gradual, uneven global recovery; meaningful risks remain on the horizon
(8 July 2020)

Sovereign Outlook 2020: slow growth, political uncertainty, rising debt add pressure on policymakers
(2 December 2019)

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