

**Focus**

In July 2020, European heads of government met in Brussels to negotiate a new multi-annual budget for the European Union for the period 2021-2027. Part of the negotiations was a separate European support package for countries hit by (the economic consequences of) the corona crisis. The exact elaboration of the new multi-annual budget will follow in the coming months. However, much is already known about the Covid stimulus package. What agreements have been made by the EU to battle the economic effects of the corona crisis?

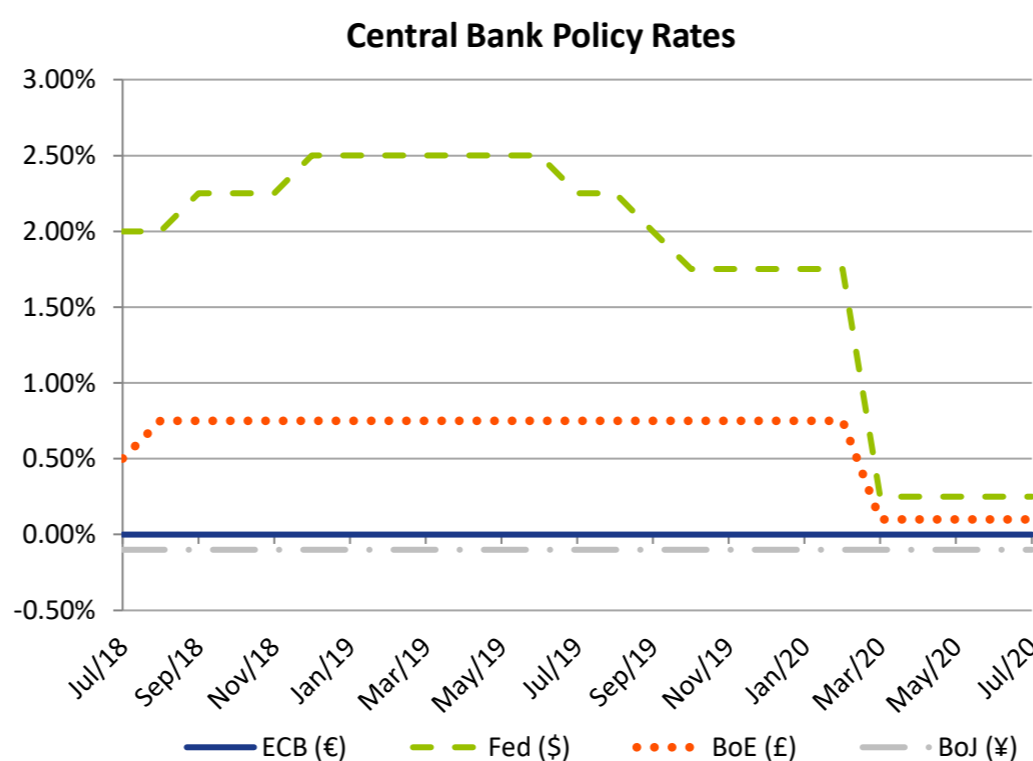
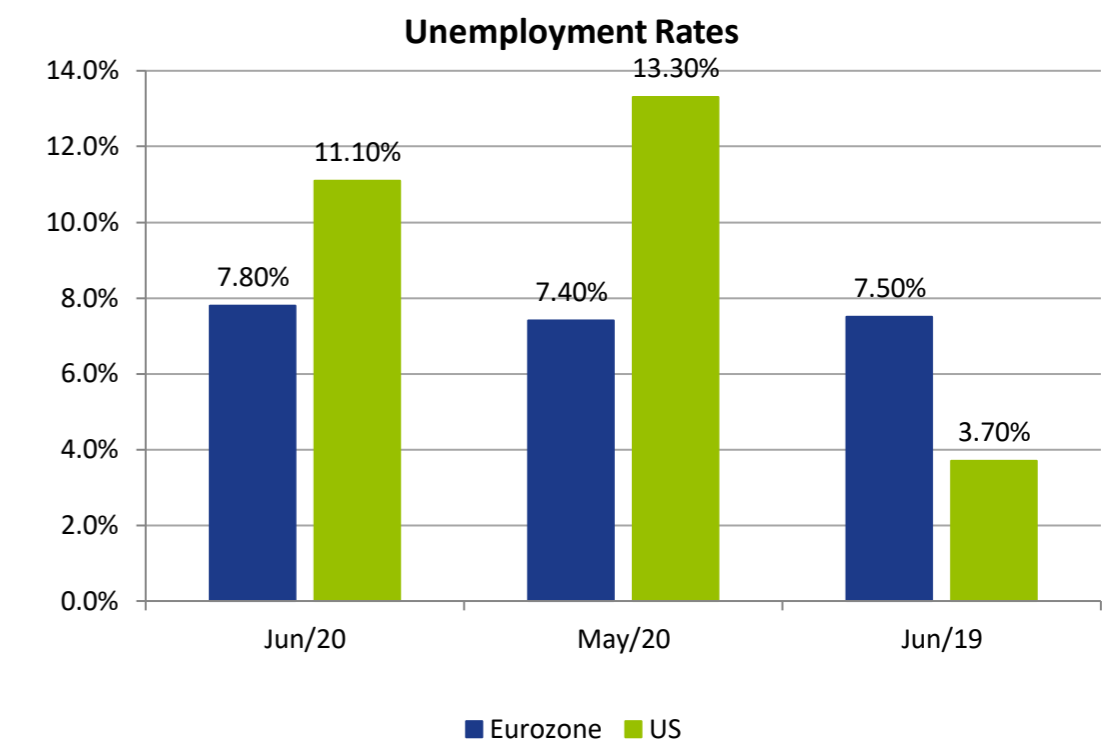
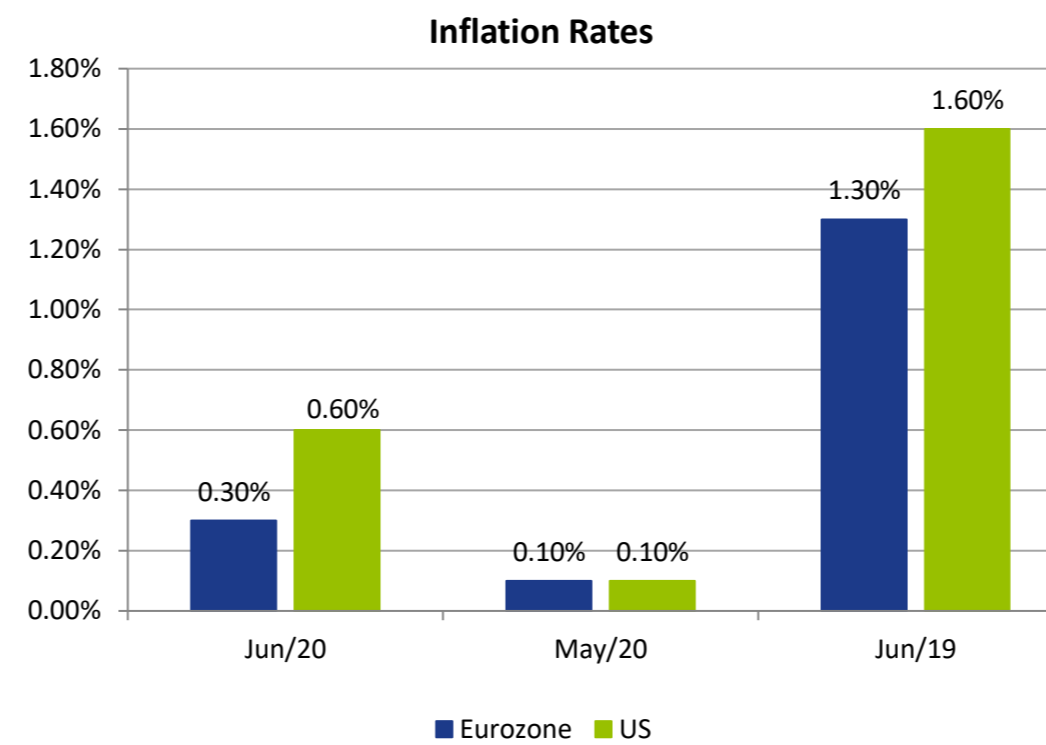
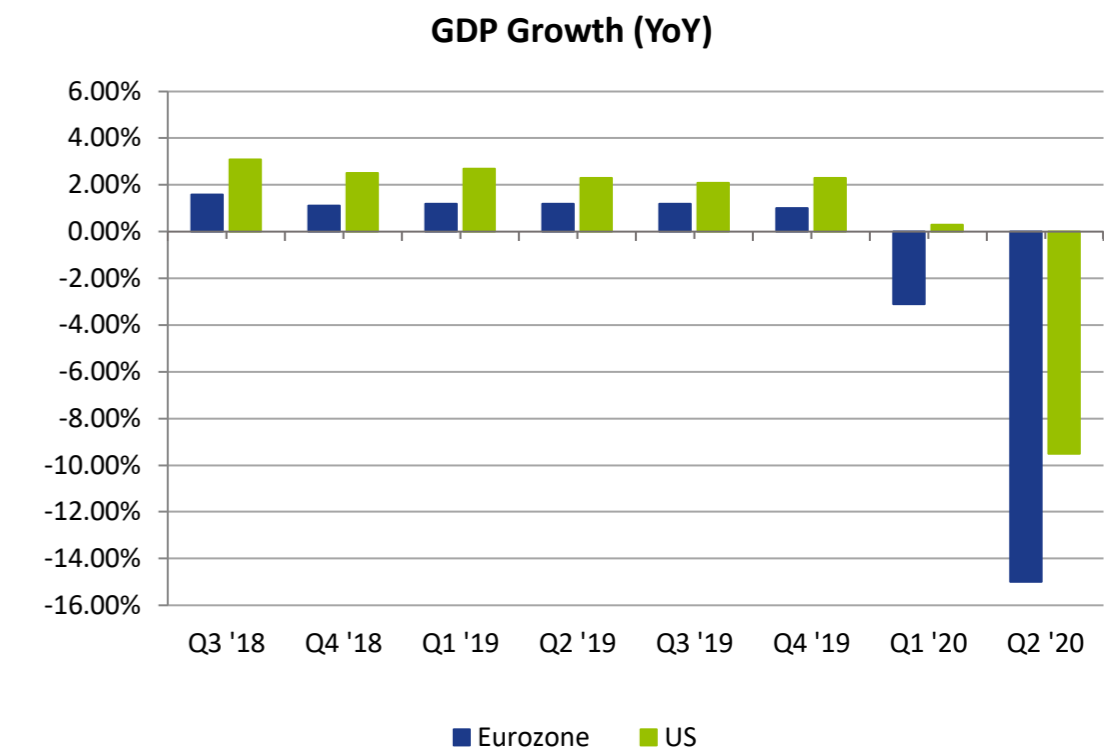
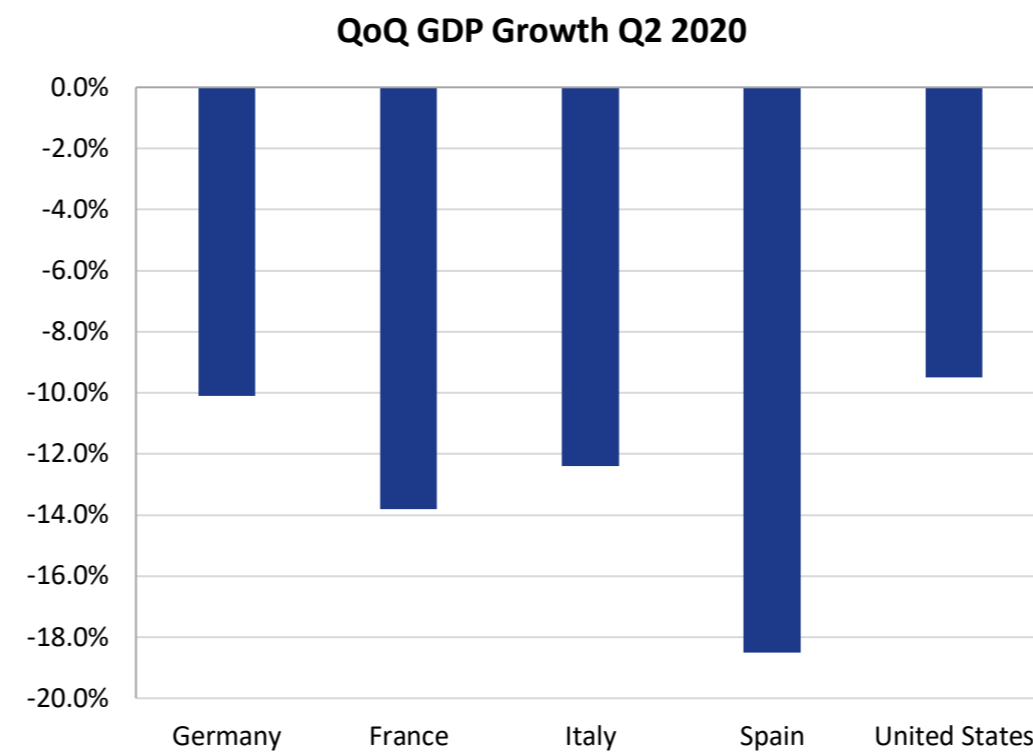
Initially, Germany and France proposed a support package whereby the bulk of the package (EUR 500 billion) should be distributed as grants among the affected countries. However, this was met with resistance from mainly Sweden, Denmark, Austria, and the Netherlands. These countries were soon referred to as "the frugal 4". They demanded a smaller aid package, consisting only of loans.

The final coronavirus support fund has a size of EUR 750 billion. The EU will distribute approximately EUR 390 billion as grants and EUR 360 billion as loans, which will mature up to 2058. The money will be borrowed by the European Commission on the financial markets and will be partly financed by the introduction of European taxes on plastic packaging, a CO2 tax and a tax for large tech companies.

Funds are distributed based on the extent to which countries are affected by the corona crisis. In the original European Commission proposal, the money was still distributed based on country size, GDP per capita and unemployment over the period 2015-2019. However, this has been partly adjusted after criticism from several countries. While 70% of the fund will still be distributed according to the above criteria in the years 2021 and 2022, 30% of the fund will be allocated in 2023 based on a contraction in real GDP in 2020 and the rise in unemployment in 2020. According to the EU, this should result in a distribution of funds to countries most affected. Preliminary growth figures show that the eurozone countries are affected severely by the coronacrisis (refer to graph).

To qualify for funding, countries must implement reforms that enhance economic growth, create jobs and / or enhance the economic and social resilience of their economies. It is also possible to invest in sustainable initiatives or technological development. If an EU government believes that such targets have not been met, it can invoke what is known as an emergency brake mechanism. The mechanism requires EU leaders to investigate the use of the funds within three months, while payments are stopped in the meantime.

The packages announced are yet to be approved by the European Parliament and the national parliaments of the Member States in the coming months. If this happens, the coronavirus support fund will make its first payments in 2021.



Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa2	AA-
Russia	BBB-	Baa3	BBB
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

**Review & preview**

Figures from the European statistics agency Eurostat show that the budget deficit of the eurozone has increased significantly in the first quarter of this year, mainly caused by the current corona crisis. The eurozone budget deficit increased to 2.2% of gross domestic product (GDP) in the first quarter of 2020, compared to a deficit of 0.7% of GDP in the fourth quarter of 2019. The government debt-to-GDP in the eurozone averaged around 86.3% in the first quarter. In a non-crisis situation, European budgetary rules apply a maximum debt of up to 60% of GDP, but this will not be applied for the time being due to the crisis. Eurostat also expects the debt-to-GDP ratio to rise in the second quarter of 2020, as countries have borrowed many billions to deal with the corona crisis.

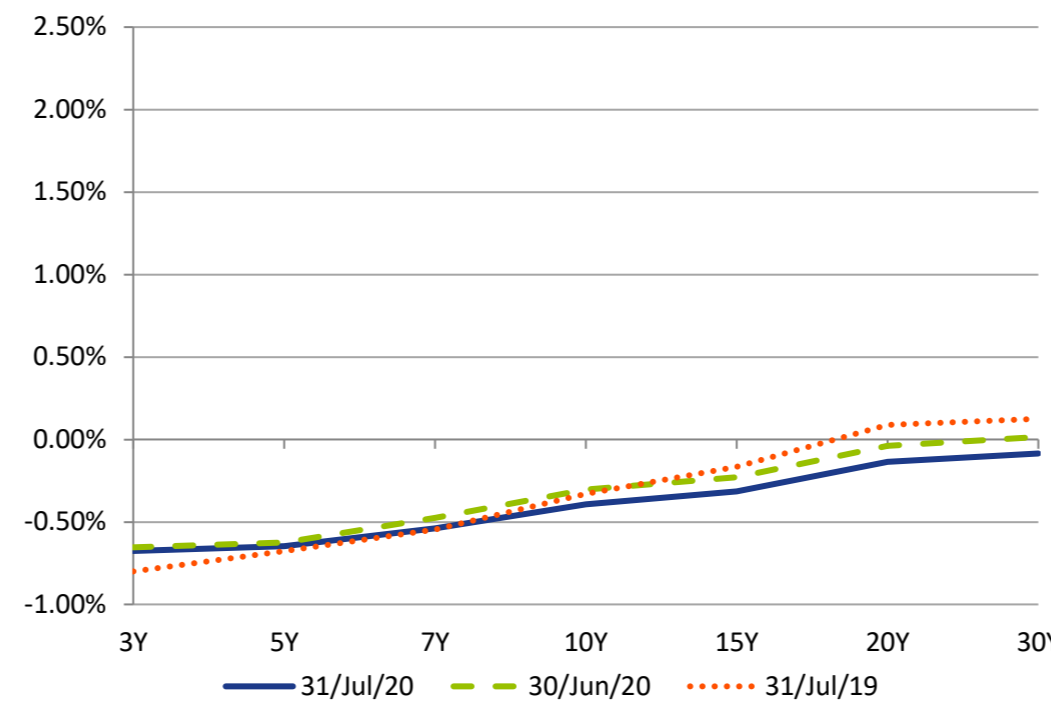
The corona crisis does not seem to put a brake on venture capital in the techsector, as European tech companies attracted billions in growth money in the last quarter of this year. In the second quarter of 2020, EUR 9.0 billion was invested in this sector. This indicates a growth in investments in the European tech sector of 5.7% compared to the first quarter of 2020. Nearly EUR 3.0 billion (of EUR 9.0 billion) was invested in software companies in the past quarter. The pandemic is also providing new business opportunities for large tech companies. Research by market research agency GlobalData shows an increase in performances of the top 25 global technology companies, driven by the extensive use of IT resources and infrastructure as a result of lock downs and remote working.

At the end of July, the Federal Reserve (Fed) announced that the duration of seven of the stimulus packages to combat the corona crisis will be extended until the end of this year. Furthermore, the Commercial Paper Funding Facility (CPFF) will be extended through March 2021. In addition, the Fed's benchmark interest rate will remain unchanged at 0.00% to 0.25%. Central bankers expect, especially as the virus could flare up again, that stimulation policies will be needed for a long time. The Fed is considering additional measures, besides its current stimulus packages.

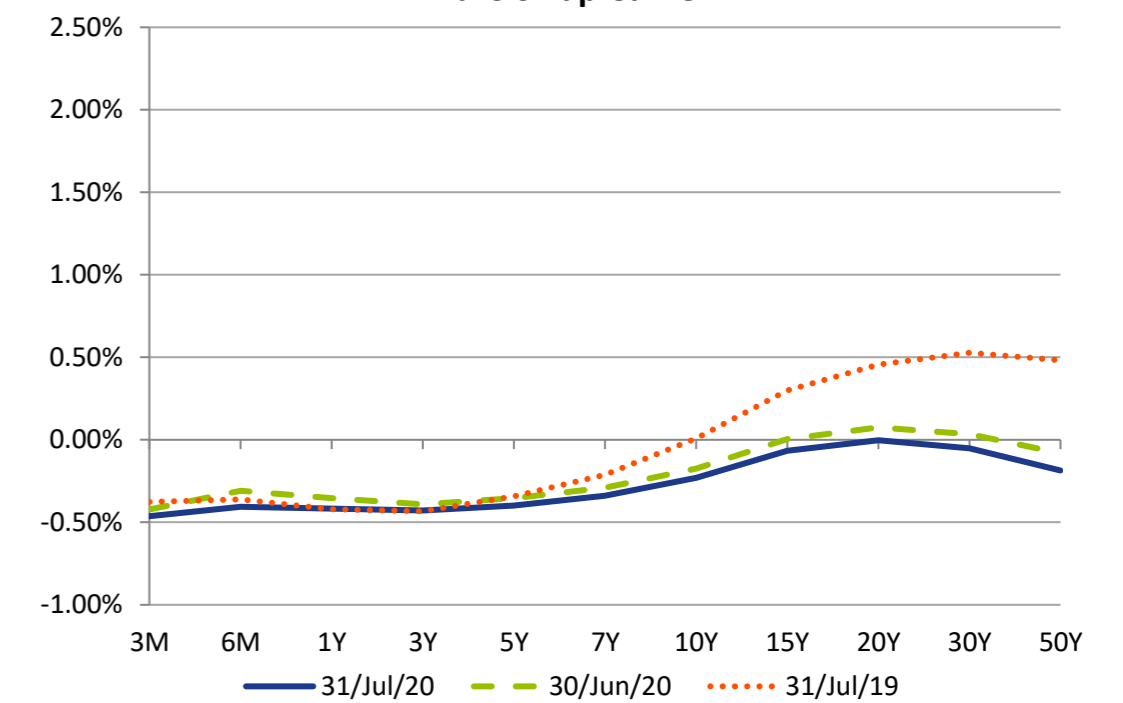
**Agenda**

- 6 August: Core inflation NL
- 6 August: BoE interest rate decision
- 12 August: Core inflation US
- 14 August: Economic growth NL Q2 2020
- 19 August: Core inflation eurozone
- 25 August: Economic growth DE Q2 2020
- 27 August: Economic growth US Q2 2020

**Dutch Government Bond Curve**



**Euro Swap Curve**



Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa3	AA-
ING Bank	A+	Aa3	AA-
ABN AMRO	A	A1	A+
BNG Bank	AAA	Aaa	AAA
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	BBB+	A3	BBB
BNP Paribas	A+	Aa3	AA-
Barclays Bank	A	A1	A+
Credit Suisse Int.	A+	A1	A

Currencies	31/Jul/20	30/Jun/20	31/Jul/19
EUR/USD	1.178	1.123	1.108
EUR/GBP	0.900	0.906	0.911
EUR/CHF	1.076	1.064	1.101
EUR/JPY	124.750	121.240	120.470
EUR/DKK	7.448	7.452	7.468
EUR/SEK	10.339	10.471	10.705
EUR/CAD	1.580	1.525	1.461
EUR/AUD	1.649	1.627	1.618
EUR/CNY	8.215	7.937	7.626

**Yields 10Y Government Bonds**

