



COVID-19 : TOWARDS A SUDDEN AND GLOBAL SURGE IN BUSINESS INSOLVENCIES

BRUNO DE MOURA FERNANDES

ECONOMIST WESTERN EUROPE

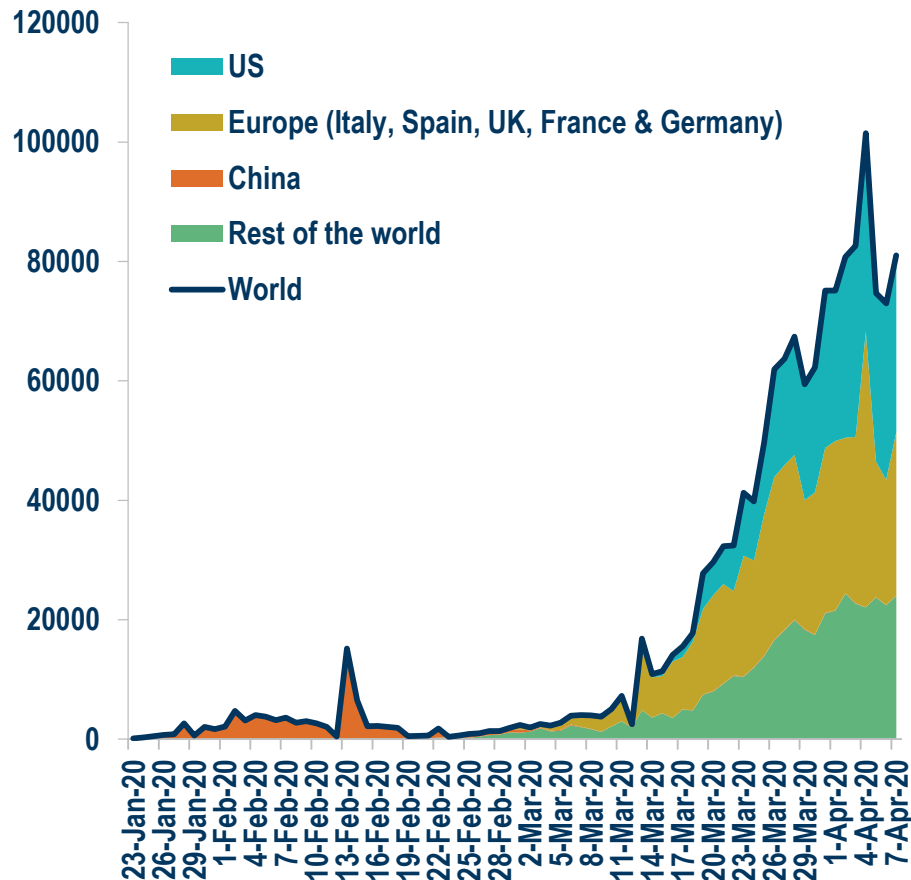
| CONTENTS

- Evolution of the pandemic
- Leading indicators of its economic impact in Europe
- Global economic scenario and updated business insolvency outlook
- Central banks and governments are acting fast and strongly
- Medium and long-term consequences of the pandemic

COVID-19: FROM A CHINESE EPIDEMIC TO A GLOBAL PANDEMIC

Daily new confirmed cases of coronavirus

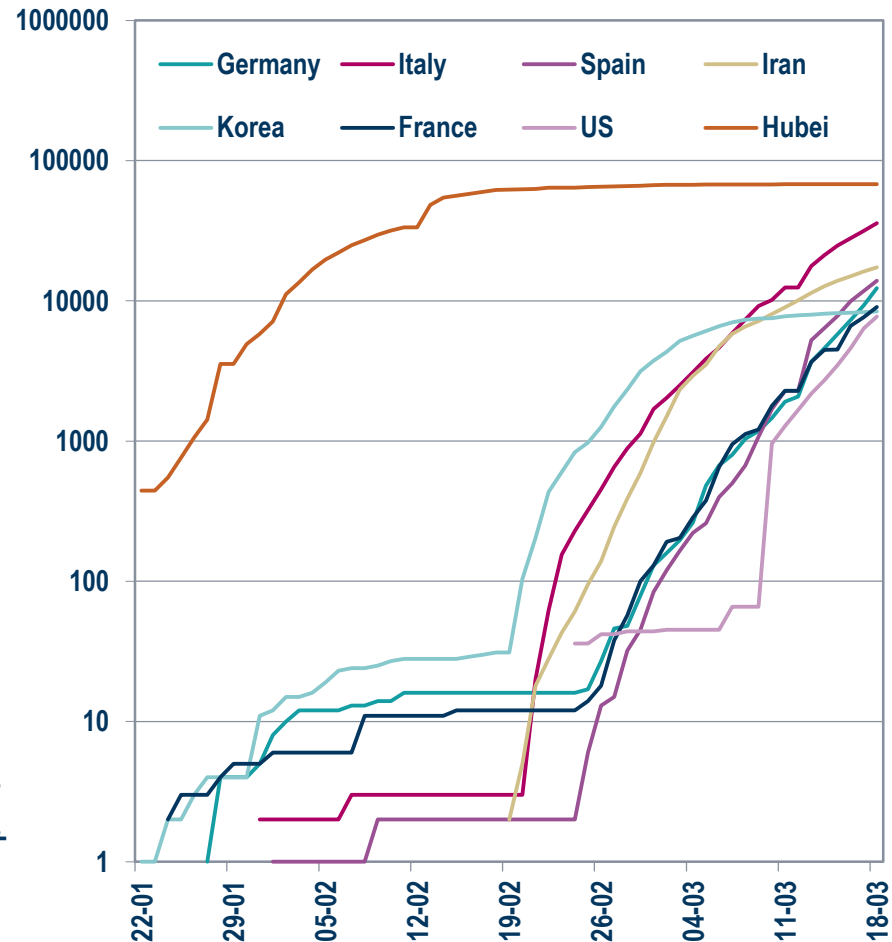
As of April 7, 2020



Sources: JHU CSSE, Coface

Total confirmed coronavirus cases worldwide

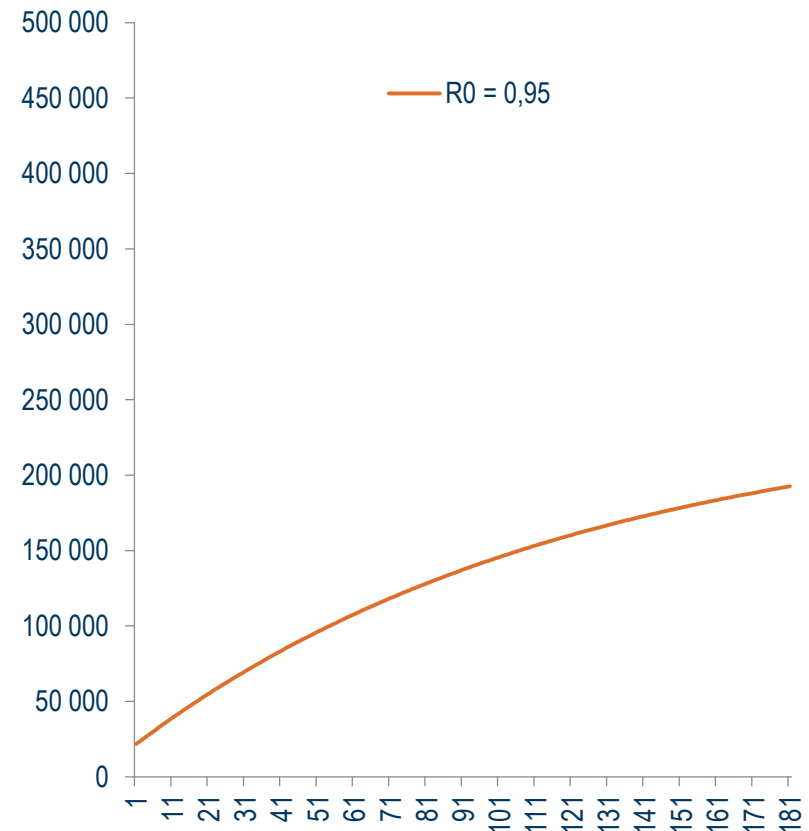
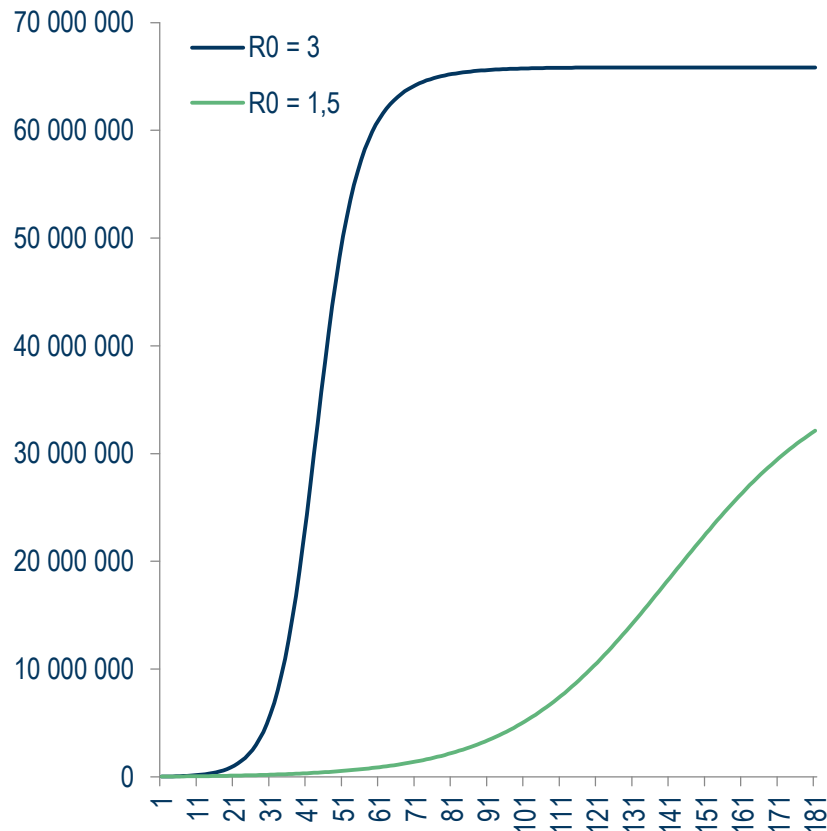
(log scale, source: John Hopkins)



HOW LONG WILL THE LOCKDOWN LAST? LEARNING FROM THE MODELLING OF PANDEMIC PROPAGATION

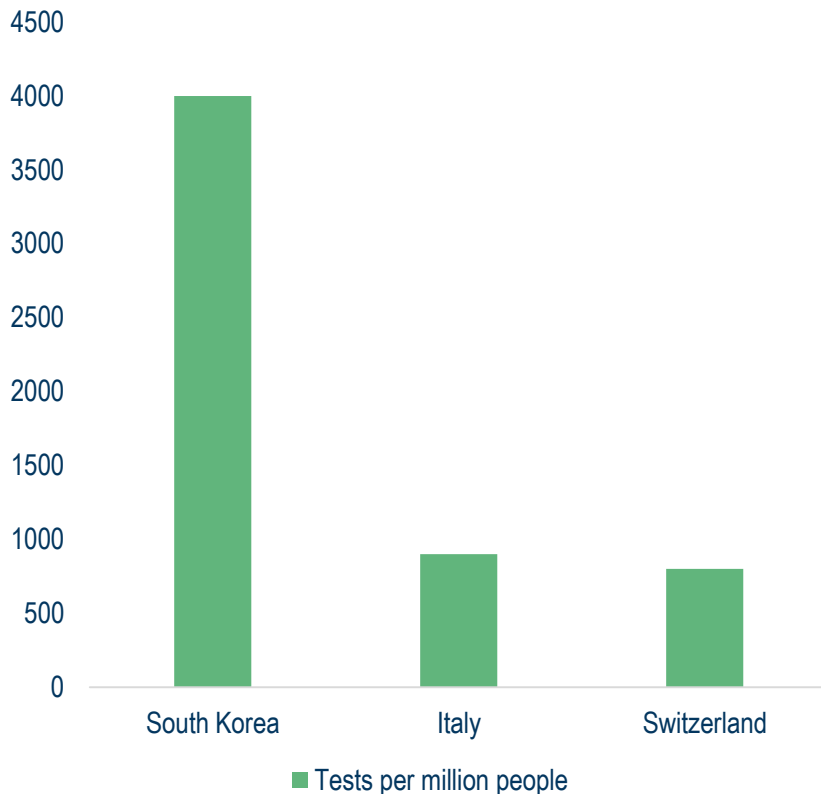
France: Scenarios of propagation of the outbreak (Y axis: population, X axis: days)

R0 = Propagation rate = number of daily contacts X probability of contagion X length of disease



HOW LONG WILL THE LOCKDOWN LAST? LEARNING FROM ASIA

COVID-19's tests per million people



Source: FT and Coface

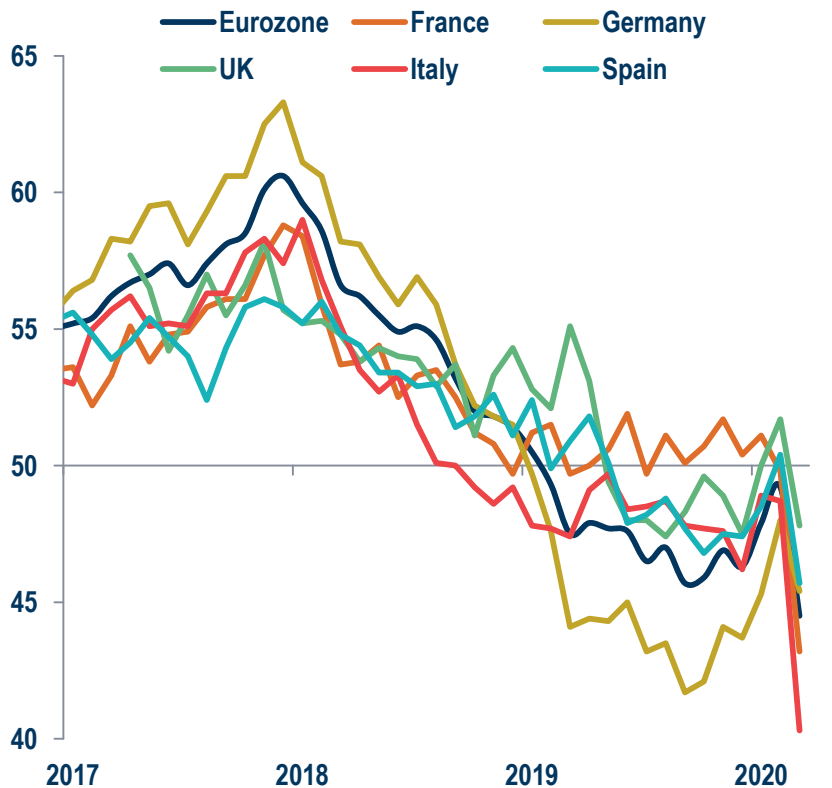
China: Share of businesses that resumed work (national sources)

Share of businesses that resumed work in China			
Provinces	Mar 3	Mar 24	%GDP 2019
Sichuan	61%	77%	4.1%
Shandong	61%	78%	7.7%
Fujian	62%	76%	3.5%
Guangdong	60%	76%	9.8%
Jiangsu	59%	76%	9.3%
Zhejiang	57%	77%	5.7%
Hunan	61%	75%	3.7%
Shanghai	57%	74%	3.3%
Hebei	56%	74%	3.6%
Henan	52%	72%	4.8%
Beijing	49%	71%	3.1%
Hubei	29%	48%	4%

MARCH BUSINESS SURVEYS IN EUROPE POINT TO A COLLAPSE, ESPECIALLY IN SERVICES

Manufacturing PMI

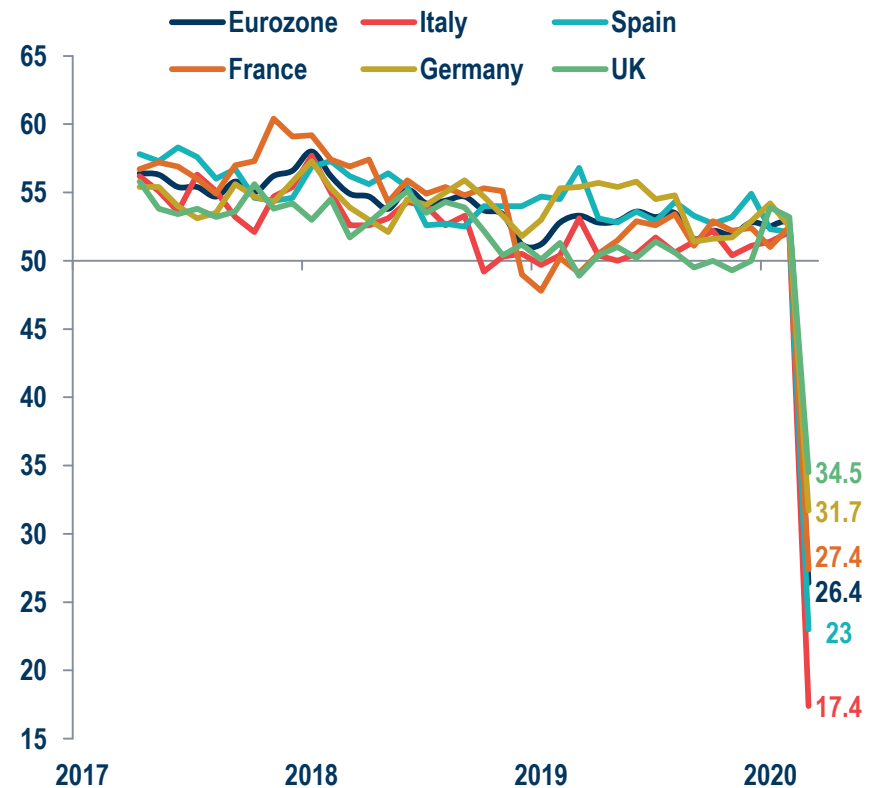
(50 = no-change threshold)



Sources: Markit, Datastream, Coface

Services PMI

(50 = no-change threshold)



Sources: Markit, Datastream, Coface

BEYOND SUPPLY CHAIN DISRUPTIONS, CONTAINMENT MEASURES HAVE LED TO A SLUMP IN DEMAND

Estimated household consumption loss due to containment measures in France*:

	<i>Consumption share</i>	<i>Change in consumption</i>
Agriculture/agrifood	18%	+6%
Industry (excl. agrifood)	30%	-60%
Construction	2%	-90%
Market services	46%	-33%
<i>Excl. housing services</i>	27%	-56%
<i>Housing services (rent bills)</i>	19%	0%
Non-market services	5%	-34%
Total Consumption	100%	-35%

*difference between the economic activity estimated during the last week of March and the activity of a "normal" week

Source: INSEE

THE EVOLUTION OF THE PANDEMIC DRIVES ECONOMIC PROSPECTS

Q1 2020

Q2 2020

Q3 2020

Q4 2020

Baseline scenario

Peak in China. Lockdowns start in Europe and the US.

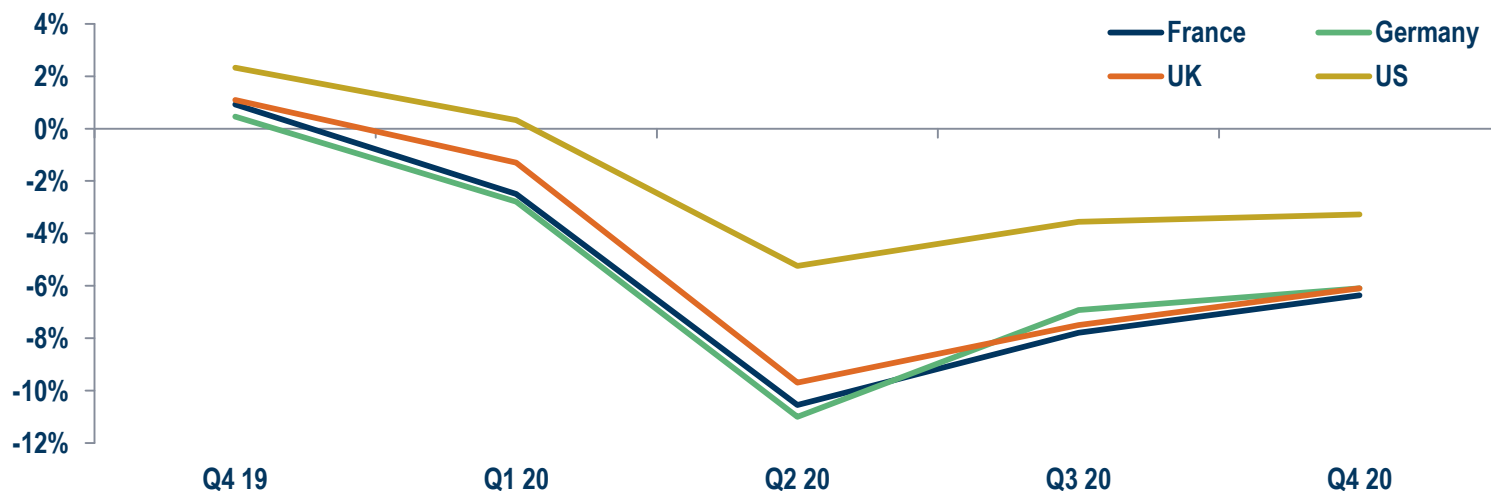
Lockdown ends in Europe and in the US, then very gradual reopening.

The gradual reopening process goes on, no second wave of pandemic but both businesses and consumers remain very cautious.

Risk scenario

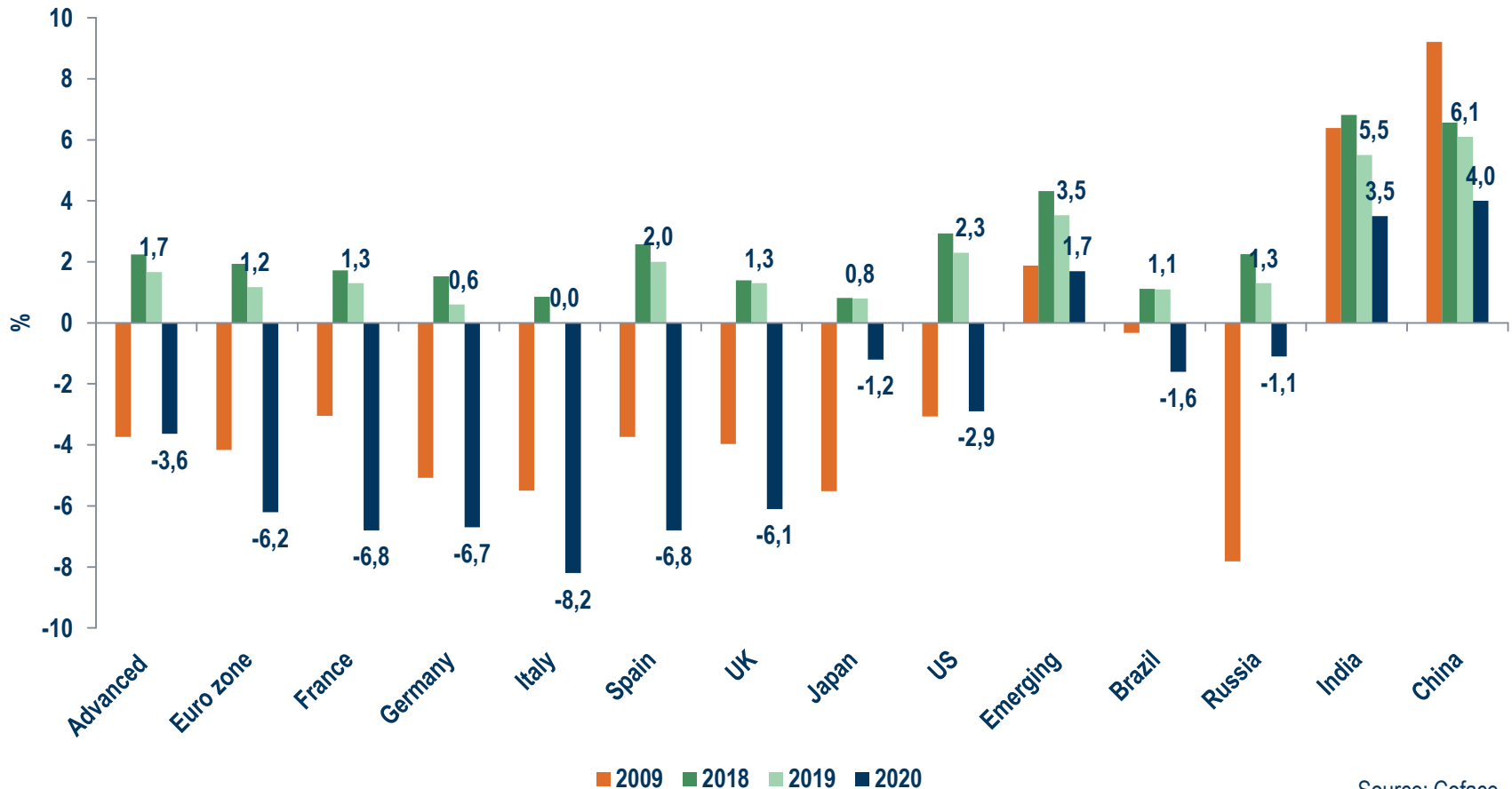
Second wave of pandemic in Asia and/or Europe and the US, leading to additional quarantine periods.

Coface's GDP Growth Forecast (year on year, baseline scenario)



THE SHARPEST DOWNTURN SINCE THE GLOBAL CREDIT CRISIS

GDP growth (Coface forecast for 2020)

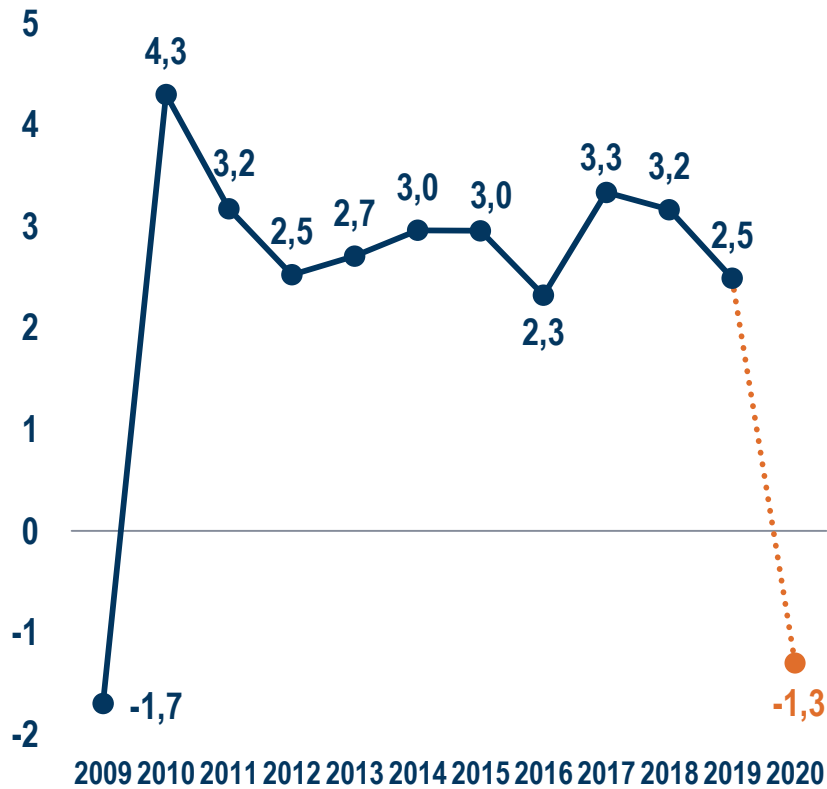


Source: Coface

THE SHARPEST DOWNTURN SINCE THE GLOBAL CREDIT CRISIS (2)

Coface's world GDP estimates and forecasts

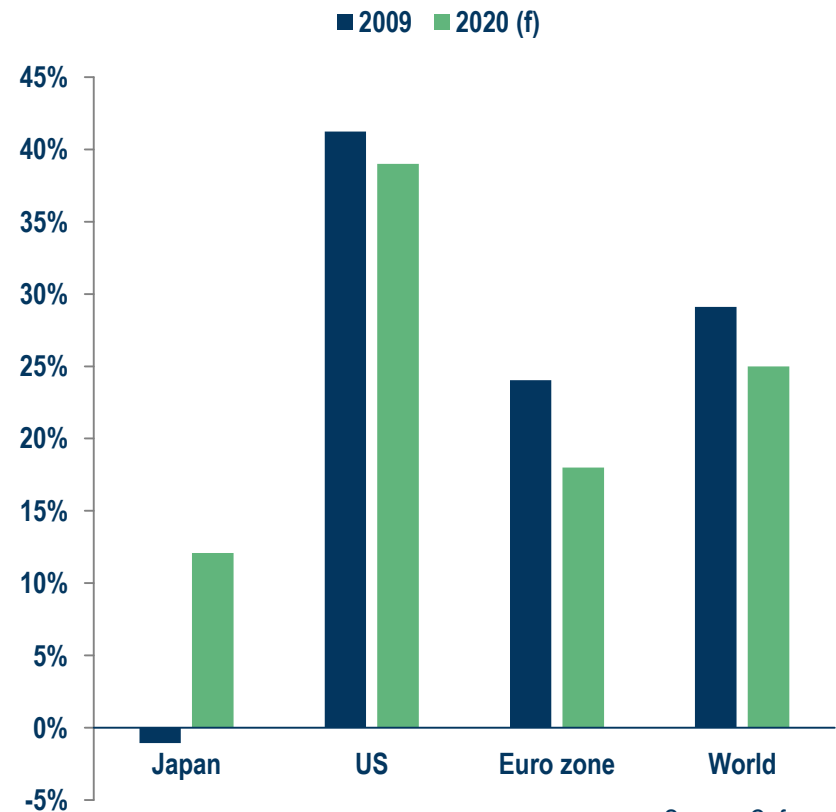
Annual average, %



Sources: IMF, National authorities, Datastream, Coface

Coface's Business Insolvency Forecasts

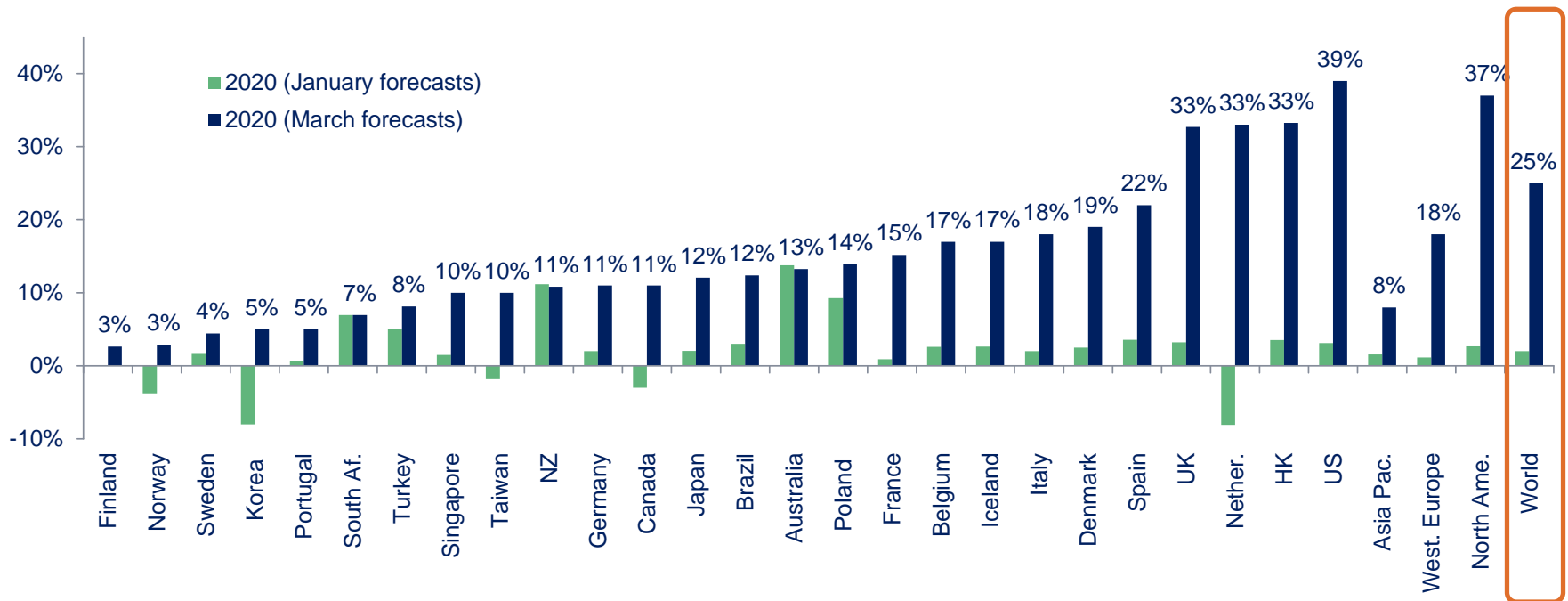
YoY % change



Source: Coface

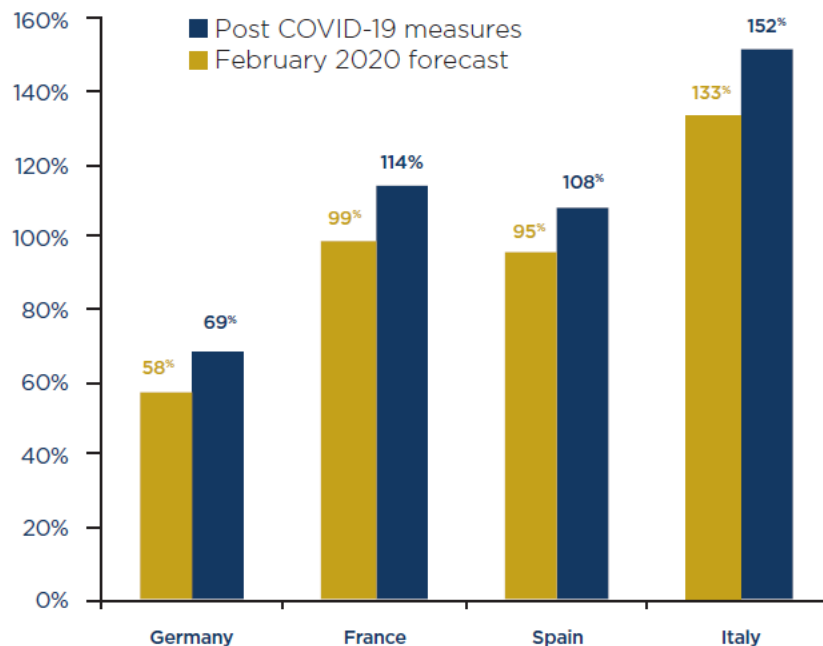
TOWARDS A BROAD-BASED AND DOUBLE-DIGIT INCREASE IN BUSINESS INSOLVENCIES IN 2020

Coface's World Business Insolvency Forecasts
(year on year % change)



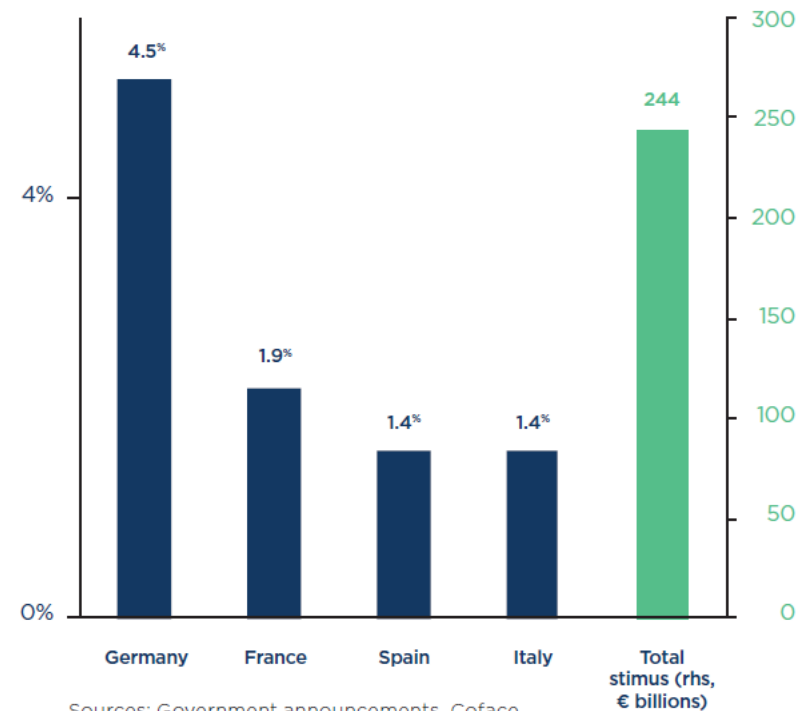
CENTRAL BANKS AND GOVERNMENTS ARE ACTING FAST AND STRONGLY

Public debt in 2020 (% of GDP)



Sources: Government announcements, Coface

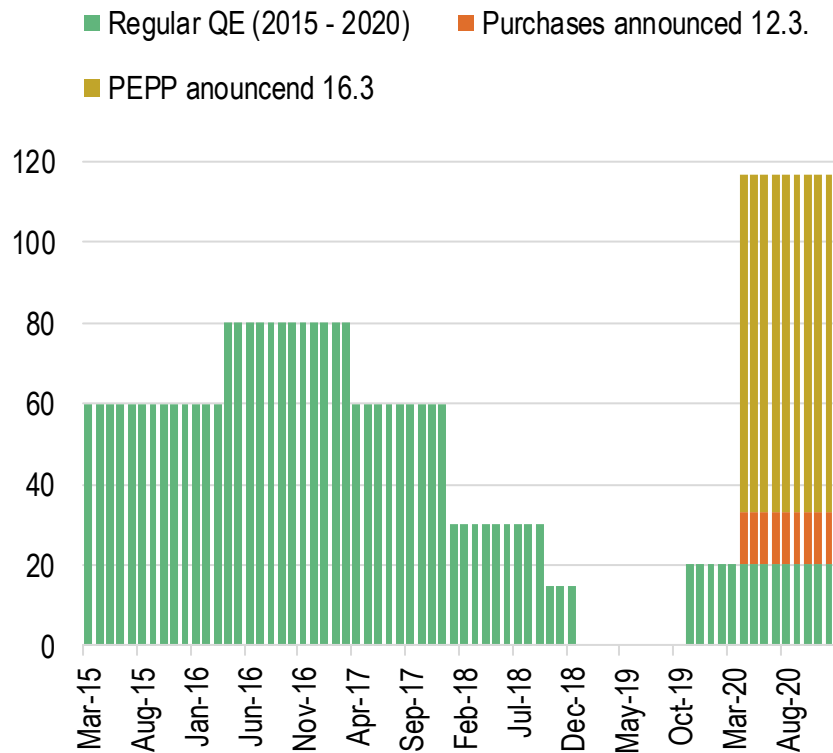
Fiscal stimulus in the Eurozone (% of GDP)



Sources: Government announcements, Coface

CENTRAL BANKS AND GOVERNMENTS ARE ACTING FAST AND STRONGLY (2)

ECB: Net asset purchases per month (in billion Euro)



Source: ECB, Coface

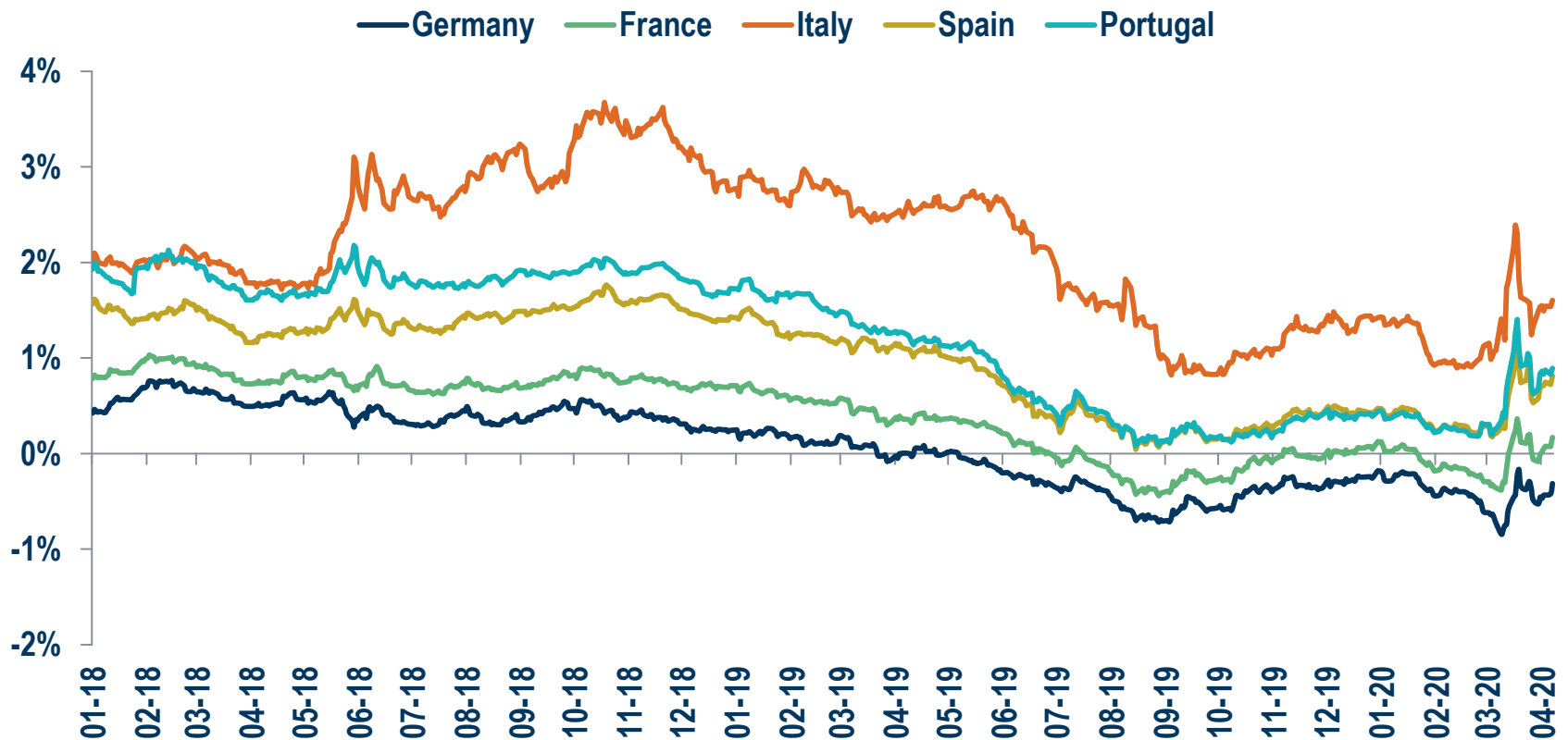
Measures announced by the European Central Bank (ECB) and the Bank of England (BoE)

- **March 10:** BoE makes an emergency 50 basis points interest rate cut (from 0.75% to 0.25%).
- **March 12:** ECB adds a temporary envelope of additional net asset purchases of €120bn (until the end of the year).
- **March 18:** ECB announces €750 billion Pandemic Emergency Purchase Programme (PEPP):
 - No monthly spending limit
 - Flexibility to deviate from the benchmark allocation across countries (capital key) or from buying 1/3rd of a countries debt
 - Expansion of the range of eligible assets to non-financial commercial paper
- **March 19:** BoE cuts interest rates to all-time low of 0.1% and announces it will buy an additional £200bn of UK government and corporate bonds.

GIVEN THE MAGNITUDE OF THE FISCAL RESPONSE REQUIRED, FEARS OF A DEBT CRISIS IN THE EURO ZONE

ITALY IS THE MAJOR SOURCE OF CONCERN, BUT NOT THE ONLY ONE

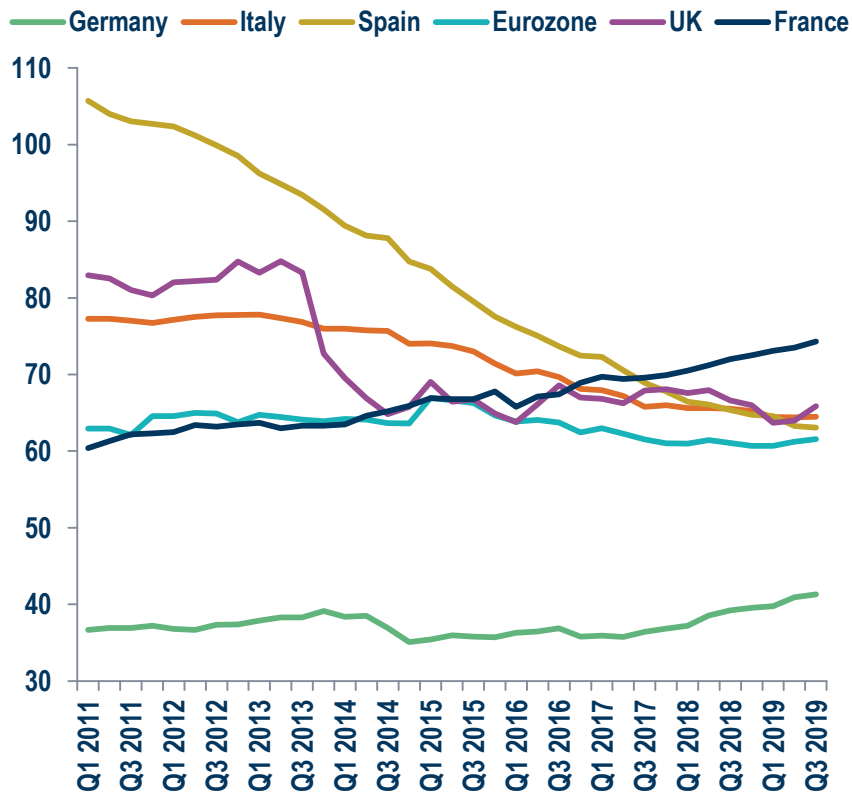
Eurozone: Sovereign bond yields



Source: Datastream

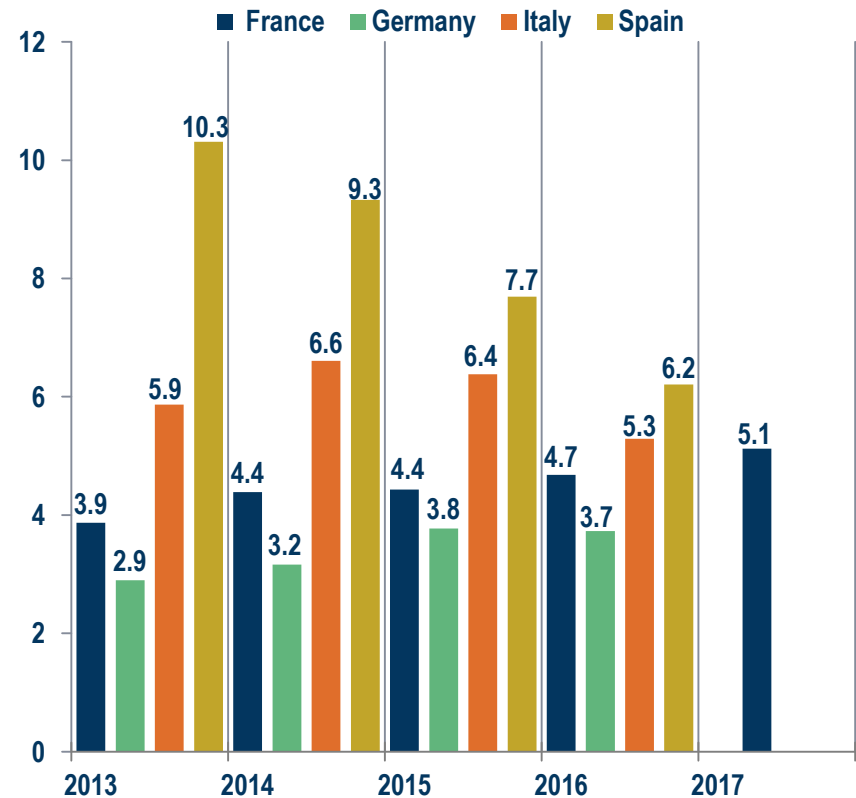
THE PANDEMIC IS LIKELY TO EXACERBATE THE EXISTING CORPORATE VULNERABILITIES

Europe: Non-financial corporate debt
(% of GDP)



Sources: Banque de France, Coface

Eurozone: share of “zombie” companies
(as a % of total)



Sources : Orbis, Coface

WHAT LONG-TERM CONSEQUENCES FOR BUSINESSES?

- Greater political and debt crisis risks in emerging markets
- Faster « Japanization » of the world economy
 - Both corporate and public debt will increase further
 - Central banks will play a pivot role to support the private sector:
 - Direct support: central banks buy corporate bonds and even stocks
 - Indirect support: governments nationalize at risk companies, but the central bank buys more government bonds
- Future of globalization: no relocation, but more diversified suppliers
 - Usual drivers are still at play: 1) penetrating a fast rising market, 2) producing at lower cost, 3) accessing commodities
 - No massive relocations, but businesses will diversify their suppliers