COPING WITH COVID-19 IN DIFFERING WAYS – WHAT THE CRISIS MEANS FOR CENTRAL EUROPE

Allianz Research, 27 August 2020

Global Economic Outlook

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GLOBAL OUTLOOK

01

COVID-19: THE PHASE 2 MARATHON

Fresh virus outbreak – back to stage 1

Stage 1: Full lockdowns to 'flatten the curve'

- Expand healthcare capacity (treatment, testing, monitoring)
- Fiscal / monetary safety nets to reduce downside risks & cushion economic blow

Stage 2: Gradual opening of national economies

- Mass testing, tracking & isolation of new cases
- Ongoing targeted confinement measures incl. border restrictions & event bans
- Policy to focus on boosting economic recovery prospects

Remember we are here!

Stage 3: Global economy getting back on track

- Bans on large events & border restrictions to be eased as pandemics around the globe ends
- Ongoing fiscal & monetary policy support aimed at providing tailwind to rebound

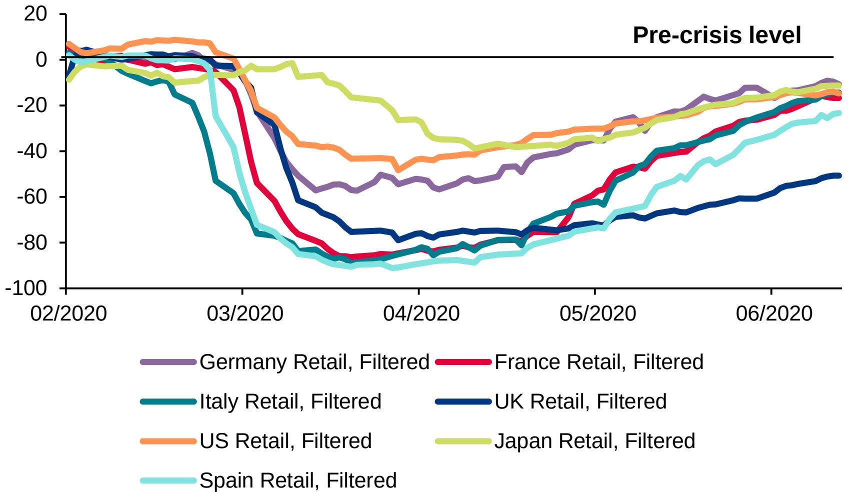
Stage 4: Habemus vaccine!

- Global rollout allows for return to normalcy without border restrictions, testing & bans on large events
- Policy support can be gradually withdrawn

Sources: OECD, Allianz Research framework from March 2020

PHASE 2 WILL BE DARWINIAN

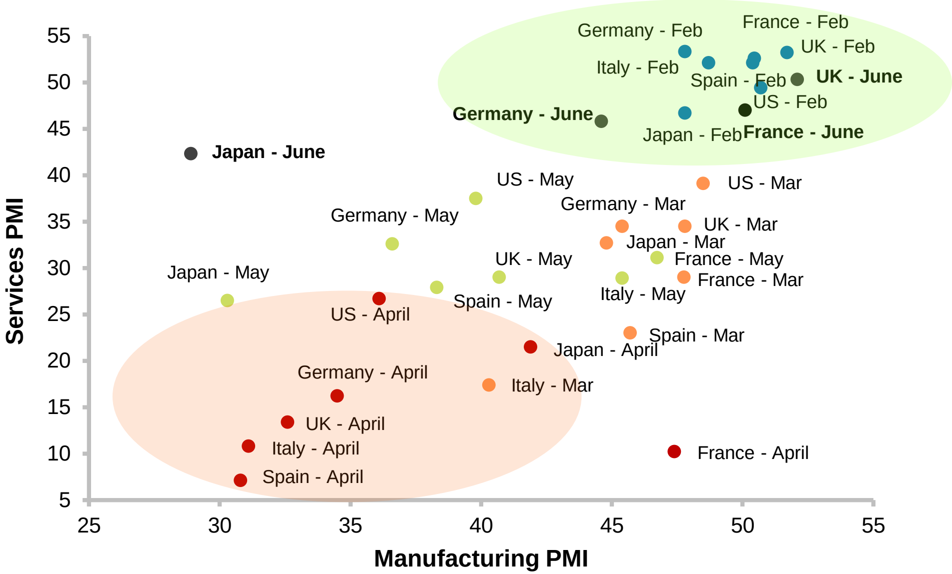
Retail stores visits, daily*



*Daily Google mobility data for „Retail", adjusted for weekends and holidays , filtered trend

Sources: Google, Allianz Research

Manufacturing vs Services PMI, above 50 means expansion



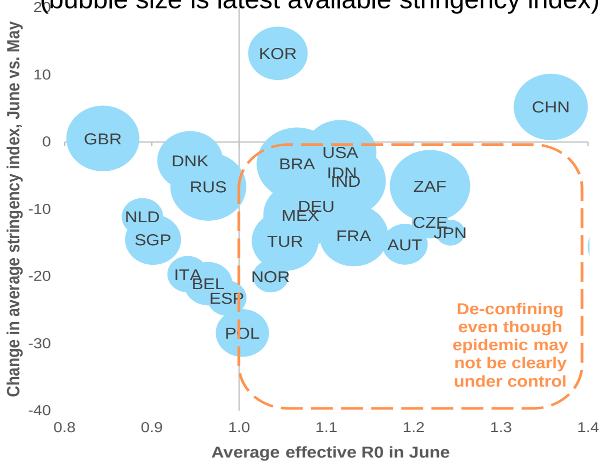
Sources: Markit, Allianz Research

Retail stores visits are slowly recovering in line with the deconfinement strategies but initial conditions and lockdown stringency will push for asymmetric recoveries.

An unprecedented shock in the services sector with the trough being reached in April. Some countries recover faster (Germany, US) but globally the index is plateauing below pre-crisis levels.

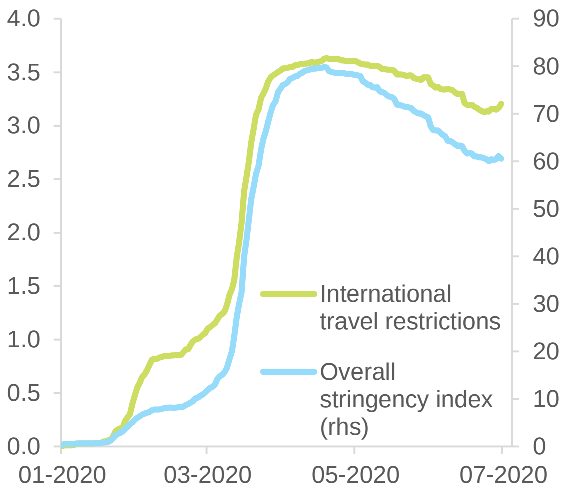
NEW WAVELETS: LIGHT AND LOCALIZED LOCKDOWNS

De-confining: managing the effective reproduction rate (bubble size is latest available stringency index)



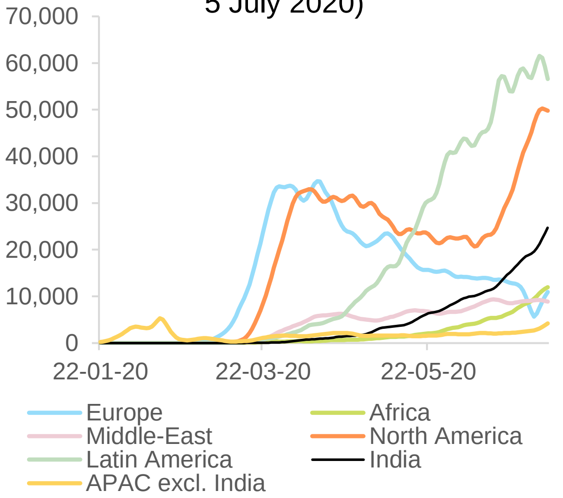
Sources: Various, Euler Hermes, Allianz Research

Stringency indices



Sources: Oxford University, Euler Hermes, Allianz Research

Daily number of new Covid-19 cases (as of 5 July 2020)



Sources: John Hopkins University, Euler Hermes, Allianz Research

Many countries still battle with too high R0. Cluster management and physical distancing measures could help cap R0 for countries with previous lockdowns

It is likely to be long before all containment measures are removed. Stringency indices have been faster to rise than decline, particularly for international travel.

Hot spots include Latin America, the United States, United Kingdom and India

GLOBAL ECONOMY: NO RETURN TO PRE-CRISIS LEVELS BEFORE END OF 2021

Real GDP growth, %

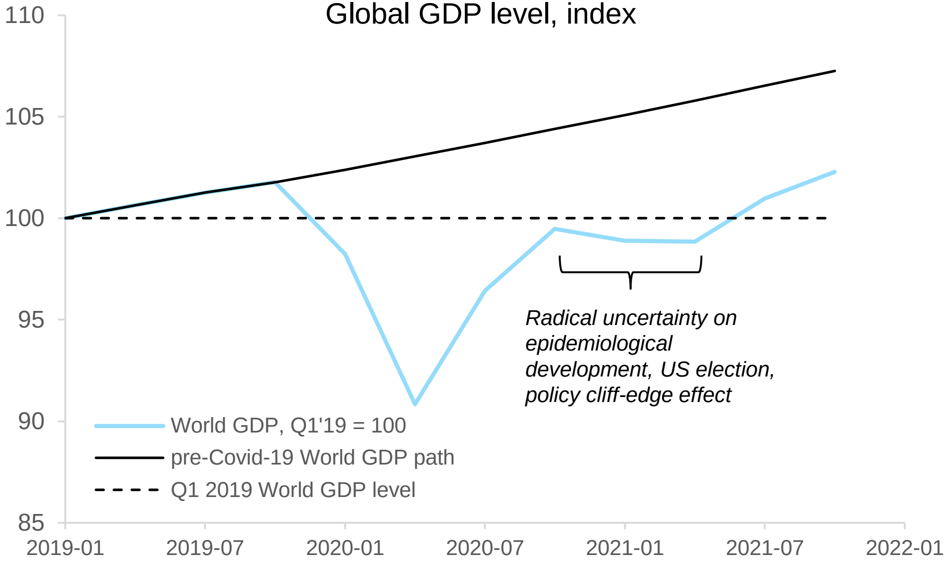
	2017	2018	2019	2020	2021
World GDP growth	**3.3**	**3.1**	**2.5**	**-4.7**	**4.8**
United States	2.4	2.9	2.3	-5.3	3.7
Latin America	**1.0**	**1.0**	**0.1**	**-6.8**	**3.1**
Brazil	1.3	1.3	1.1	-7.0	3.0
United Kingdom	1.8	1.3	1.4	-13.3	5.0
Eurozone members	**2.7**	**1.9**	**1.3**	**-9.0**	**6.0**
Germany	2.8	1.5	0.6	-7.0	4.5
France	2.4	1.8	1.5	-10.8	7.4
Italy	1.7	0.7	0.3	-11.2	6.6
Spain	2.9	2.4	2.0	-11.0	7.0
Russia	1.8	2.5	1.3	-5.2	3.0
Turkey	7.5	2.8	0.9	-4.7	4.2
Asia-Pacific	**5.2**	**4.7**	**4.2**	**-1.3**	**5.9**
China	6.9	6.7	6.1	1.5	7.6
Japan	2.2	0.3	0.7	-5.7	2.2
India	7.0	6.1	4.7	-3.6	7.5
Middle East	**1.4**	**0.9**	**0.3**	**-6.3**	**2.2**
Saudi Arabia	-0.7	2.4	0.3	-4.0	2.0
Africa	**3.1**	**2.7**	**1.9**	**-3.1**	**4.0**
South Africa	1.4	0.8	0.3	-7.8	5.4

** Weights in global GDP at market price, 2019*

NB: fiscal year for India

Sources: National sources, Euler Hermes, Allianz Research

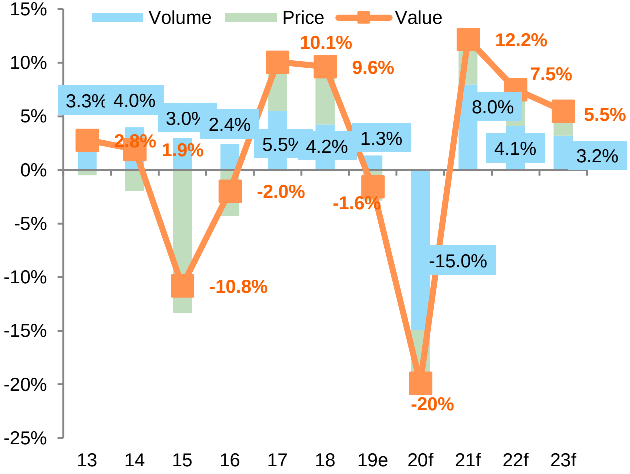
Global GDP level, index



Which economies will drive the global recovery? United States, Germany and China (although a far cry compared to GFC). **Who are the laggards?** United Kingdom, France, Spain, Italy, vulnerable EM (e.g. Latin America, Turkey, South Africa, India)

TRADE: RETURN TO PRE-CRISIS LEVELS IN 2022/ 2023

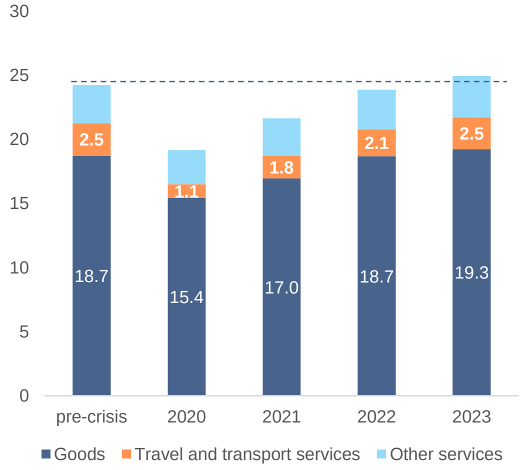
Global trade growth, in volume terms and value (%, y/y)



Sources: Sources: IHS Markit, Allianz Research

Trade could plummet by -15% in volume terms (-20% in value) due to the Covid-19 shock on goods and – for the first time – on services.

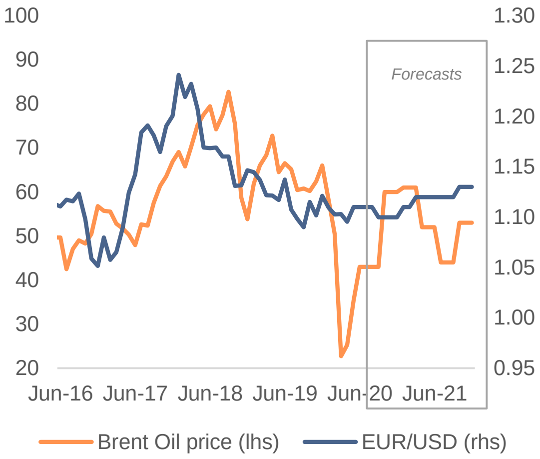
Medium-term trade in value terms (USDtn)



Sources: International Trade Center, Allianz Research

Assumptions medium-term: reduced US-China uncertainty but stable tariffs, no immediate threat of massive reshoring, air transport back to pre-crisis in 2023.

Oil prices and EUR/USD

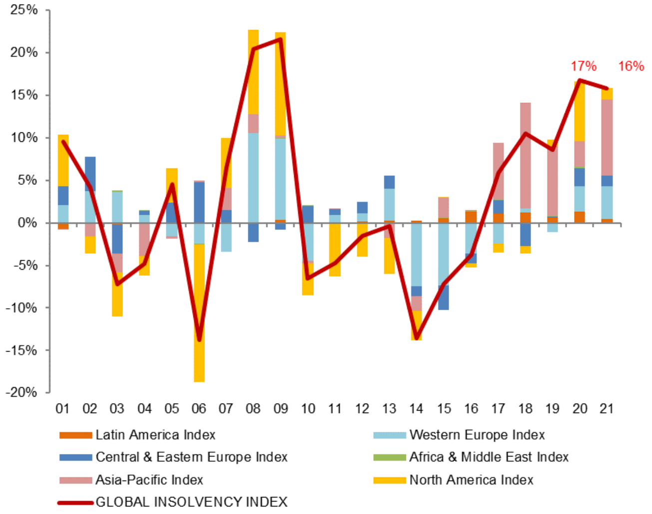


Sources: Bloomberg, Euler Hermes, Allianz Research

The oil and commodity price shock will lead to a negative price effect on trade in 2020. 2021 will see a return to 52.5 after an average of 47 in 2020.

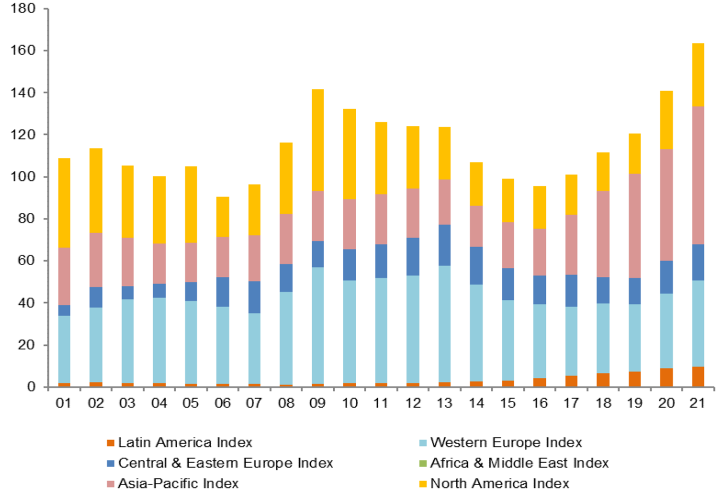
GLOBAL INSOLVENCIES ARE SET TO RISE BY +35% BY 2021

Insolvency figures and forecasts (changes)



Source: Euler Hermes, Allianz Research

Insolvency figures and forecasts (levels)

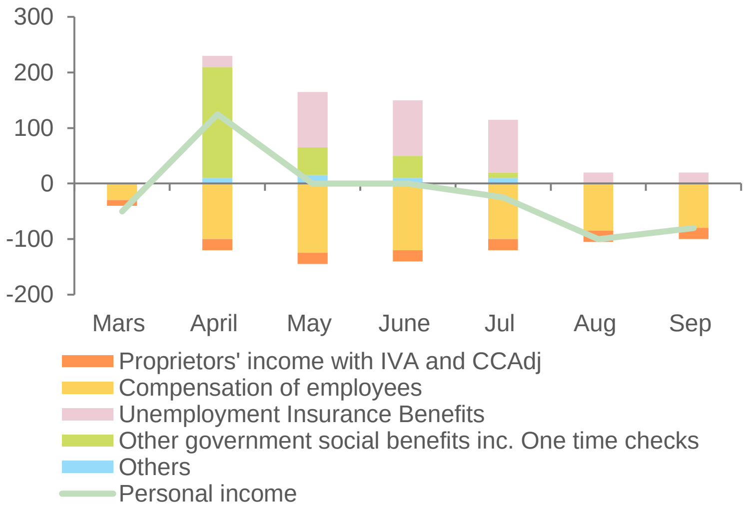


Source: Euler Hermes, Allianz Research

At a global level our insolvency index is to reach its record level of 2009 in 2020 and overall to surge by +35% by end of 2021 (after respectively +17% in 2020 and +16% in 2021). Should policy relief be withdraw too fast the rises will be +5 to +10pp higher – and should the recovery switch from U-shape to L-shape the rises will be +50 to +60pp higher. All the regions are contributing to the global rise including Central & Eastern Europe (+20% in 2020 and +12% in 2021).

USA: HOUSEHOLDS TO FACE A REVENUE CLIFF

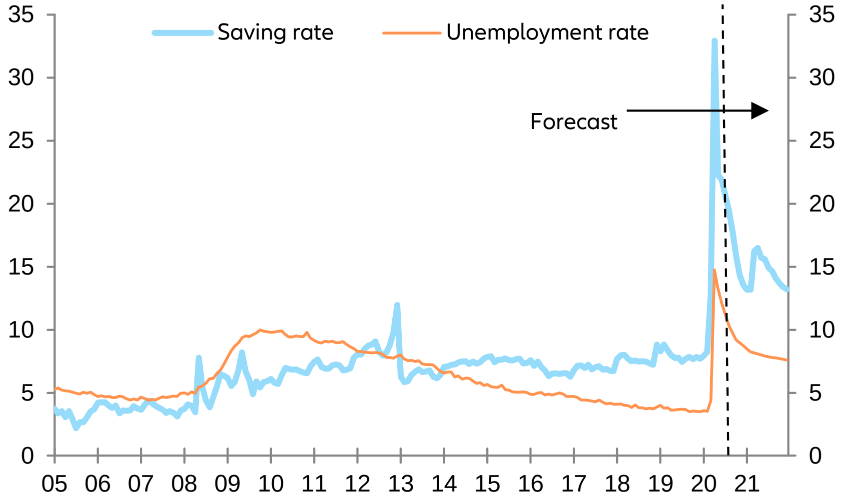
Sources of revenues for households (USD bn)



Sources: Nomura, Allianz Research

The termination of helps dedicated to absorbing the shock at a labor market level, will represent a so-called revenue – cliff.

US unemployment and saving rates (%)

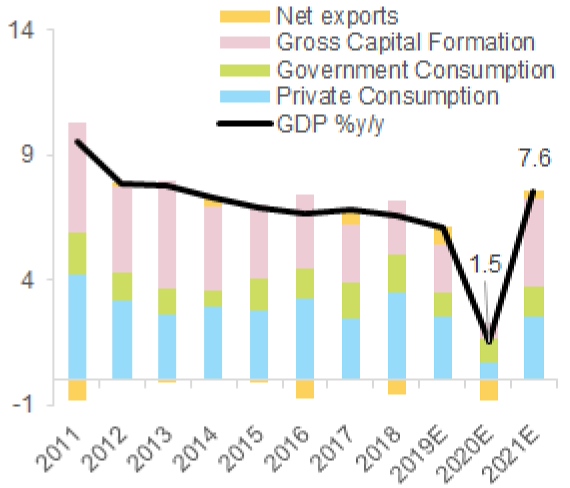


Philadelphia Fed, Euler Hermes, Allianz Research

High uncertainty and conviction that public debt will need to be reimbursed in the future will weigh long-lastingly on households' savings rate.

CHINA GROWTH FORECAST FOR 2020 AT +1.5%

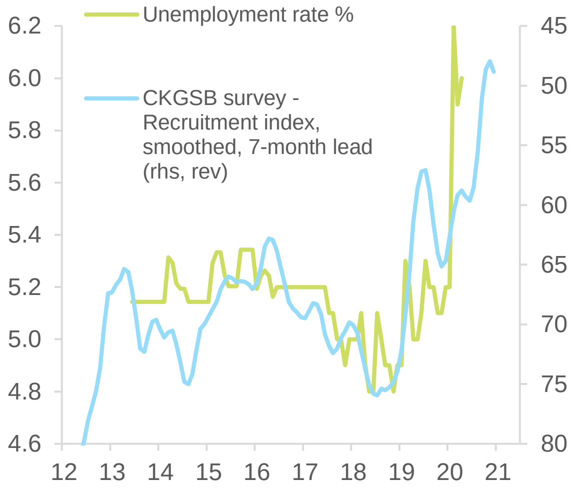
GDP growth (%) and contributions (pp)



Sources: National sources, Euler Hermes, Allianz Research

After the slump in GDP growth in Q1 (at -6.8% y/y), we expect a gradual recovery, becoming more visible in H2. We expect 2020 GDP growth at +1.5%.

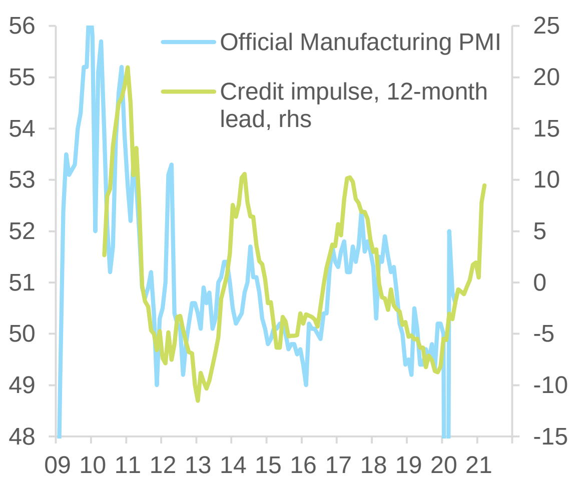
Unemployment rate and leading indicator



Sources: Wind, Euler Hermes, Allianz Research

Leading indicators point to the unemployment rate remaining at elevated levels (around 1pp above long-term average) for the rest of 2020.

Credit impulse & PMI

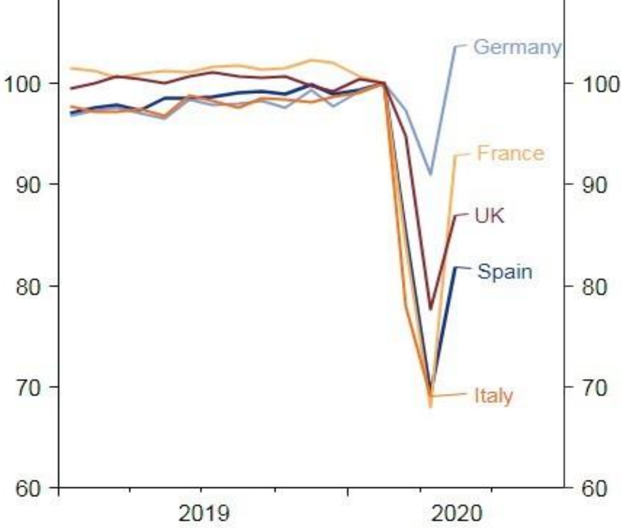


Sources: PBOC, Euler Hermes, Allianz Research

We expect fiscal support amounting to 7.1% of GDP (up from 2.7% forecast before the COVID-19 crisis). In terms of monetary policy, further injections of liquidity and policy rate cuts are likely.

EUROZONE: UNITED THEY FELL, DIVIDED THEY WILL RISE -9% IN 2020, +6% IN 2021

Retail Sales
Index: February 2020=100



Sources: Refinitiv, Allianz Research

Key factors driving short-term economic performance

	Germany	France	Italy	Spain	UK
Lockdown lengths (weeks)	6	8	10	10	12
Lockdown strictness*	73	89	87	81	73
Lockdown strictness x length	439	713	866	806	874
Fiscal stimulus (% of GDP)	7.5%	6.7%	4.5%	2.5%	5%
Services (% total gross value added)	69.3%	78.9%	73.9%	74.8%	79.8%

*Sources: Allianz Research. *Note: Oxford stringency index*

The Eurozone economy has passed the trough, but high-frequency indicators are suggesting that the recovery will be gradual, drawn-out and uneven across countries. On Average pre-crisis GDP will not be reached before 2023.

Looking at selected key drivers of divergence (policy decisions on lockdown length & strictness, fiscal response economic features such as the size of the service sector) explains which the UK, Spain and Italy will lag the other Eurozone countries and in particular Germany.

PROTRACTED CRISIS SCENARIO (30%)

	U-SHAPED RECOVERY (BASE CASE)	PROTRACTED CRISIS (WORST CASE)
SCENARIO	• Drastic confinement measures, taking heavy toll on economy & markets • Sharp recession in H1 20 across DMs & several large EMs, followed by weak recovery	• Longer health crisis triggers brutal market dive • Systemic credit event leads to liquidity crisis • Policymakers unable to restart growth
HEALTH POLICY	• Belated & uncoordinated policies • Persistent localized containment measures; incl. targeted travel restrictions	• Reinfections with generalized domestic confinement • Borders closed again until end-2020
ECONOMIC POLICY	• Aggressive fiscal & monetary easing • Direct support measures	• Even more aggressive fiscal & monetary policy • Not very effective

ECONOMIC IMPACT

U-shaped recovery (base case):

GDP growth, %	2020	2021
World	-4.7	+4.8
US	-5.3	+3.7
China	+1.5	+7.6
Eurozone	-9.0	+6.0
UK[1]	- 13.3	+5.0

Global trade volume	**2020** -15%
Insolvencies	**2020-21** +35%

Protracted crisis (worst case):

GDP growth, %	2020	2021
World	-9.4	-0.5
US	-12.0	-2.0
China	-6.6	+1.8
Eurozone	-20.0	-2.5
UK[1]	-24.0	-5.0

Global trade volume	**2020** -30%
Insolvencies	**2020-21** +90%

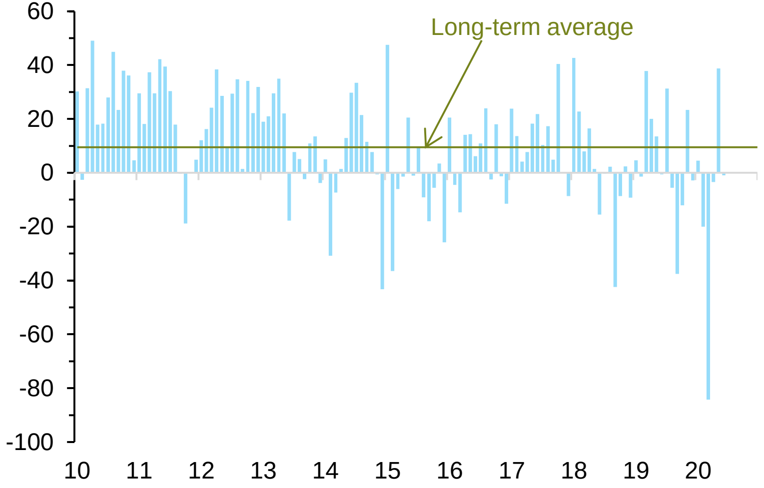
1 Extended lockdown and BREXIT uncertainties may worsen outcome for UK. Source: Allianz Research

EMERGING MARKETS

02

EMERGING MARKETS: CAPITAL FLOWS HAVE BOTTOMED OUT…

Net capital flows to EMs ex. China (USD bn)

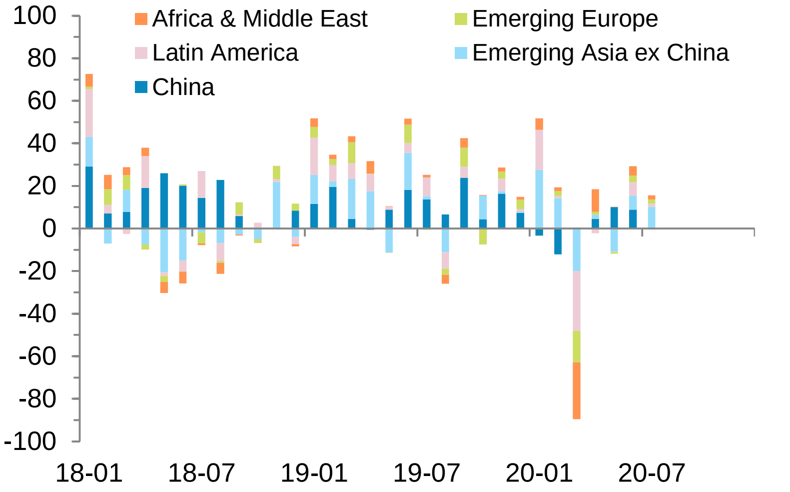


Sources: National statistics, IIF, Allianz Research estimates

Overall net capital flows to EMs dropped sharply to record lows in March: -USD 84 bn ex. China (and -USD 157 bn including China).

Partial recovery in May.

Net non-resident portfolio flows to EMs by region (USD bn)

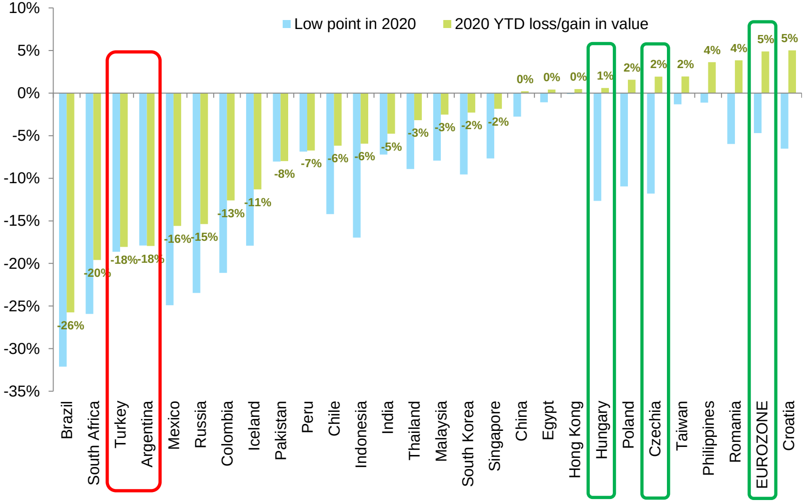


Sources: National statistics, IIF, Allianz Research estimates

Similarly, net portfolio flows (equity and debt flows, a sub-section of overall net capital flows) to EMs fell sharply to a record low of -USD 89 bn in March. But moderate and steady recovery from April to July.

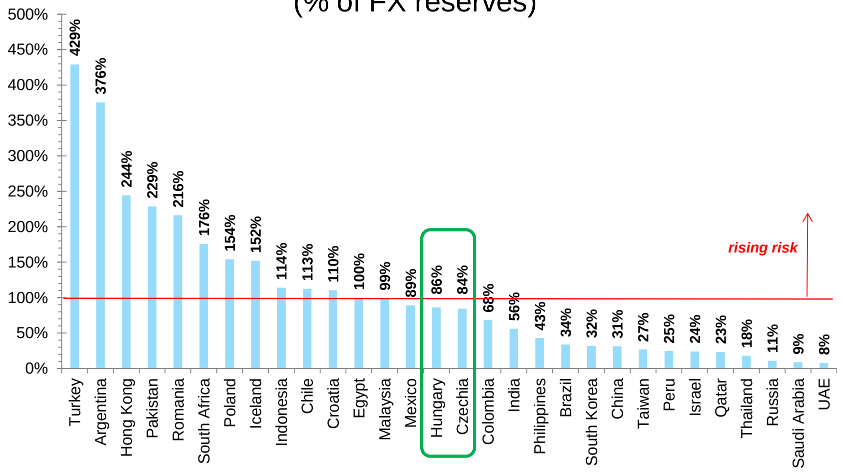
EMERGING MARKETS: …BUT RISKS OF SUDDEN STOPS STILL REMAIN

Exchange rates of selected Emerging Markets
(change vs. USD, mid-August 2020)



Sources: National statistics, IIF, Allianz Research estimates

Emerging Markets: Gross external financing requirement
(% of FX reserves)



Note: Gross external financing requirement = current account balance + maturing external debt repayments in the next 12 months.

Sources: IHS Markit, Allianz Research

Foreign exchange selling off is past the trough for most EMs, but pressures to remain high.

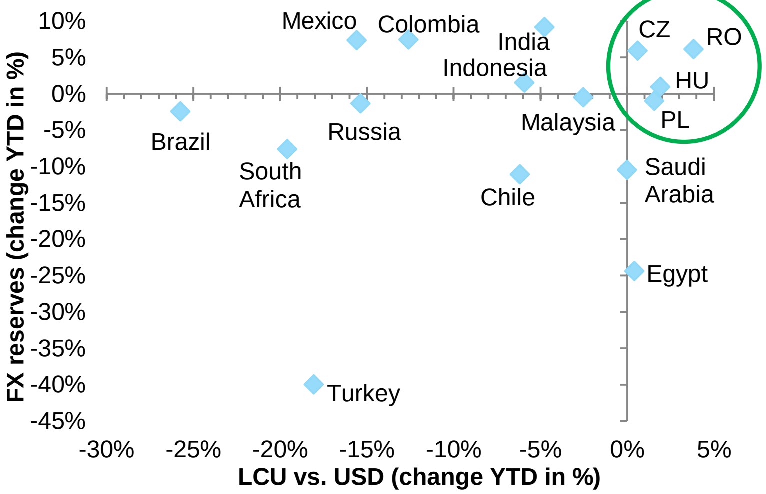
CEE currencies recovered along with the EUR.

In Turkey and Argentina, gross external financing requirements surged further from around 250% at end-2019.

Hungary's and **Czechia**'s gross external financing requirement are (still) comfortable.

EMERGING MARKETS: THE COVID-19 QE PROGRAMS COULD ENDANGER CENTRAL BANKS' CREDIBILITY

Exchange rate changes vs. FX reserves changes



Sources: IHS Markit, Allianz Research

Government bond purchase programs in EMs

Country	Policy rate	Gov. bond purchases by Central Bank: Size (% of GDP, purchased since March)	Gov. bond purchases by Central Bank: Primary / secondary market?	Foreign-owned local gov. bonds (% of total)	Total FX-denominated debt (% of GDP) *	Inflationary risk
Indonesia	4.25%	6.4% **	Primary & secondary	38.6%	21.3%	
Poland	0.10%	4.6%	Secondary	23.4%	49.5%	
Croatia	2.50%	3.4%	Secondary	na	na	
Thailand	0.50%	2.4%	Secondary	17.2%	14.5%	
Turkey	8.25%	1.6%	Secondary	10.1%	63.8%	
Philippines	3.25%	1.6%	Secondary	na	na	
Colombia	3.25%	1.1%	Secondary	24.5%	27.9%	
India	4.00%	0.8%	Secondary	3.6%	12.1%	
South Africa	3.80%	0.7%	Secondary	37.2%	35.3%	
Hungary	0.75%	0.4%	Secondary	18.6%	62.1%	
Romania	1.75%	0.4%	Secondary	19.3%	na	
Costa Rica	0.75%	Has started ***	Secondary	na	na	
Brazil	2.25%	Announced, not started	Secondary	10.4%	29.4%	
Chile	0.50%	Announced, not started	Secondary	na	52.6%	
Czechia	0.25%	Announced, not started	Secondary	40.6%	34.5%	
Malaysia	2.00%	Announced, not started	Unspecified	25.3%	32.5%	

* Both public and private debt. ** Bank Indonesia already owned about 15% of tradable government bonds before Covid-19.
*** Central Bank of Costa Rica was authorized and approved purchases of up to 0.7% of GDP .

Sources: National statistics, IHS Markit, Allianz Research

Turkey has by far burned the most FX reserves this year to defend its currency – albeit with limited success.

CEE's FX reserves have remained stable.

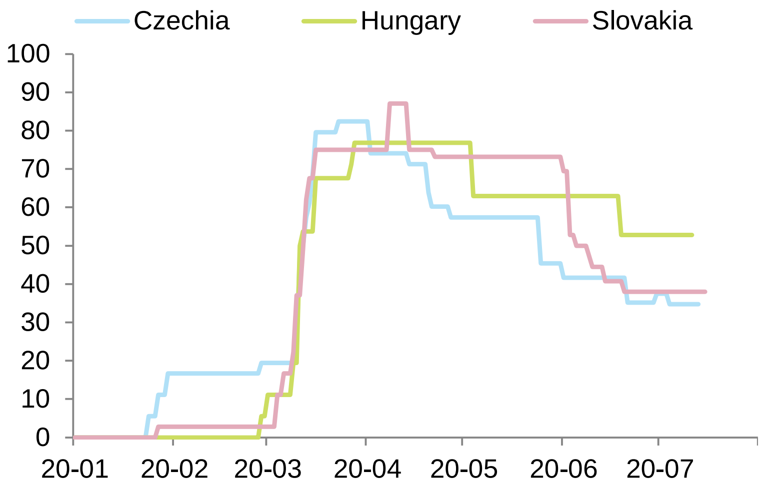
Some EMs have begun to purchase government bonds to ensure smooth functioning of bond markets and sufficient liquidity for banks to support private sector credit. This is mostly different from QE in AEs and much smaller in scale. Indonesia, Poland, Croatia, Turkey and South Africa require monitoring.

EMERGING EUROPE

03

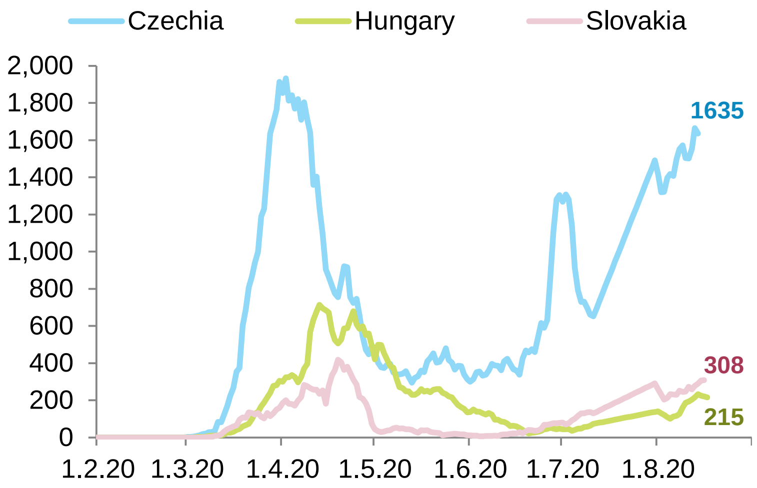
CENTRAL EUROPE: COVID-19 – HEADING FOR A SECOND WAVE?

Lockdown stringency index



Sources: Oxford Economics, Allianz Research

New confirmed cases of Covid-19 (7 days sum)



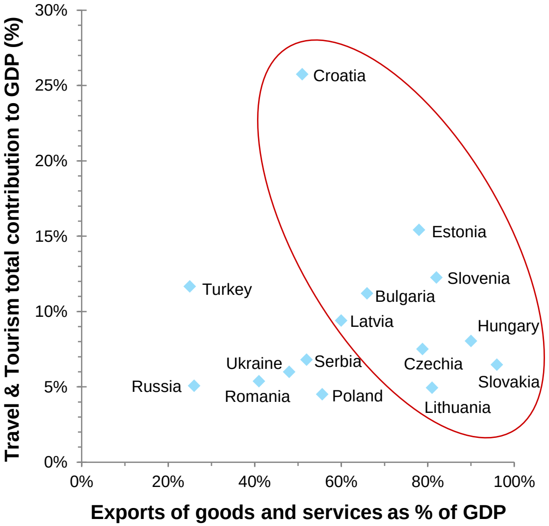
Sources: Various, Allianz Research

Lockdowns have been markedly eased in Central Europe but continue to affect businesses.

What's more, the easing appears to have led to a 2nd wave in **Czechia, Hungary** and **Slovakia**: Weekly new Covid-19 cases have significantly increased from their lows in May or June.

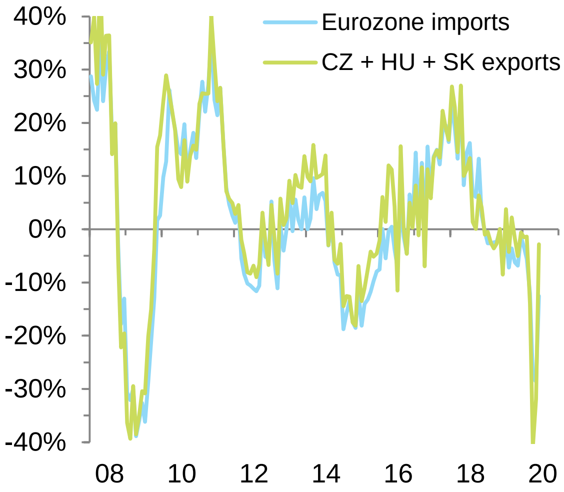
CENTRAL EUROPE: ECONOMIC ACTIVITY SLUMPED IN Q2, ESPECIALLY IN APRIL… (1)

Vulnerable open Economies



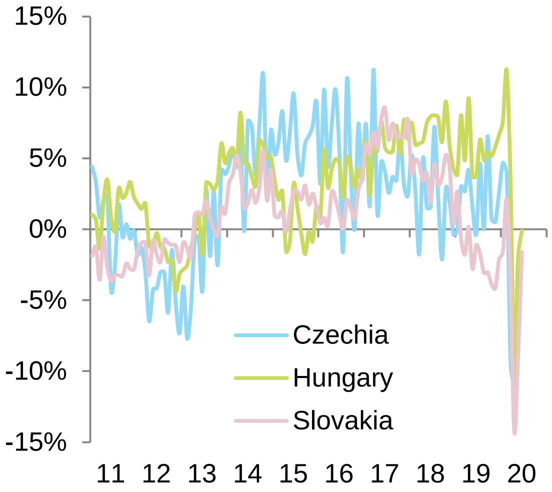
Sources: National statistics, IHS Markit, Allianz Research

External trade of goods (% y/y)



Sources: National statistics, IHS Markit, Allianz Research

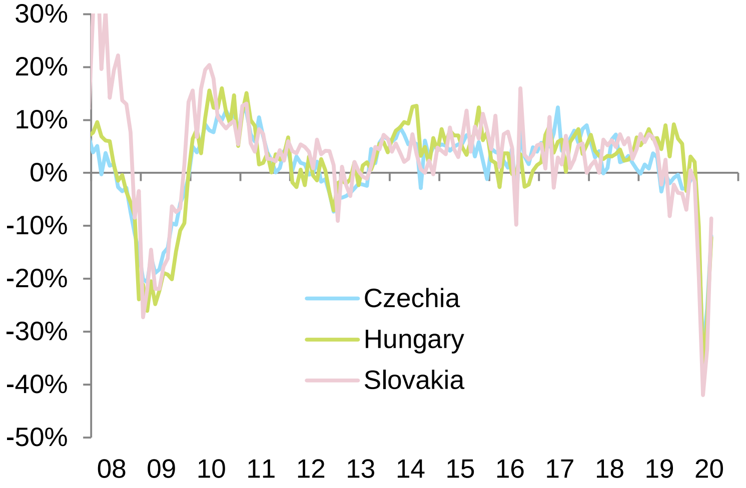
Real retail sales (% y/y)



Sources: National statistics, IHS Markit, Allianz Research

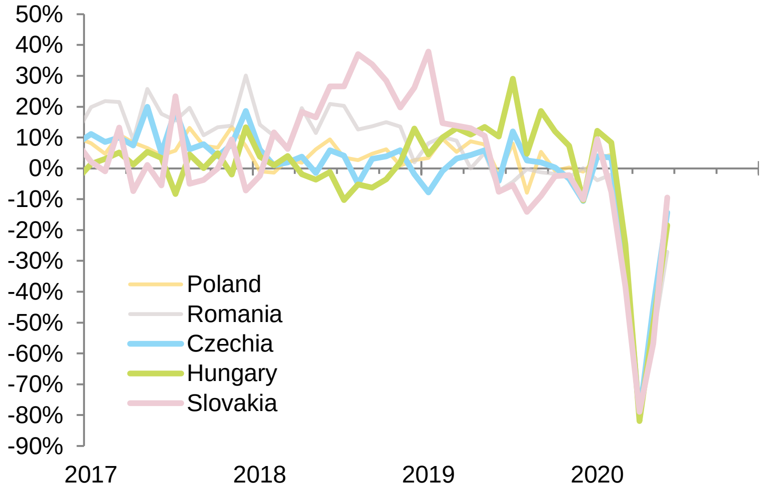
CENTRAL EUROPE: ECONOMIC ACTIVITY SLUMPED IN Q2, ESPECIALLY IN APRIL… (2)

Industrial production (% y/y)



Sources: National statistics, IHS Markit, Allianz Research

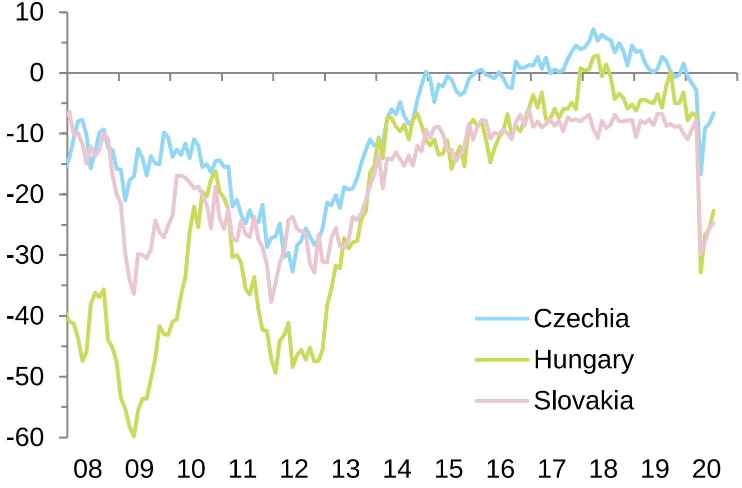
Automotive production (% y/y)



Sources: National statistics, IHS Markit, Allianz Research

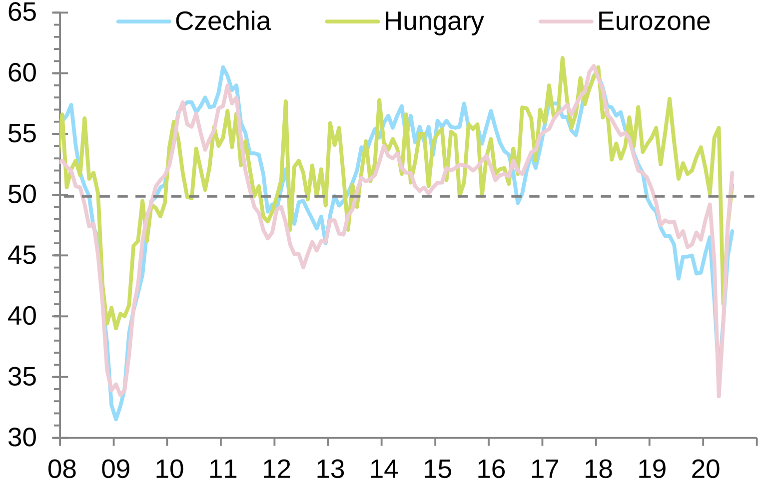
CENTRAL EUROPE: …BUT APRIL WAS LIKELY THE TROUGH

Consumer confidence index



Sources: European Commission, Allianz Research

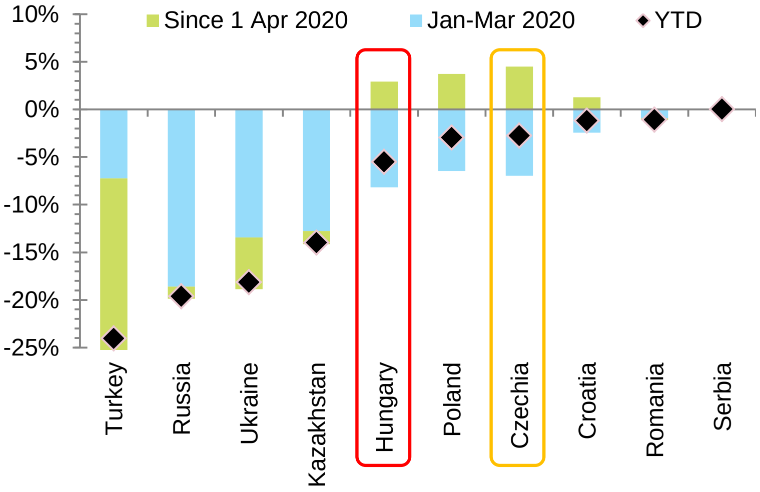
Manufacturing PMIs



Sources: IHS Markit, Allianz Research

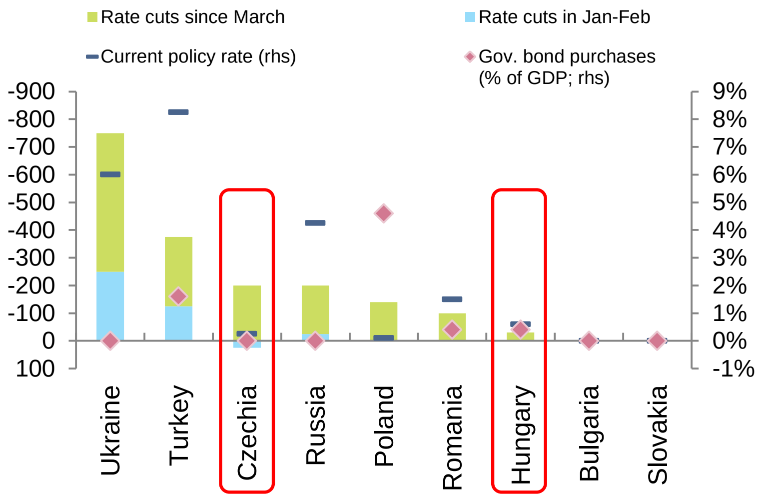
EMERGING EUROPE: EASING CURRENCY PRESSURES ALLOW MONETARY STIMULUS

Exchange rates (changes vs. EUR)



Sources: IHS Markit, Allianz Research

Monetary policy accommodation varies



Sources: IMF, national statistics, Allianz Research

After strong depreciation in Q1 (notably in March), **Central European** currencies recovered in April-August.

CIS+ currencies did not. And **Turkey**'s lira remains under pressure, despite heavy intervention - expect further weakening.

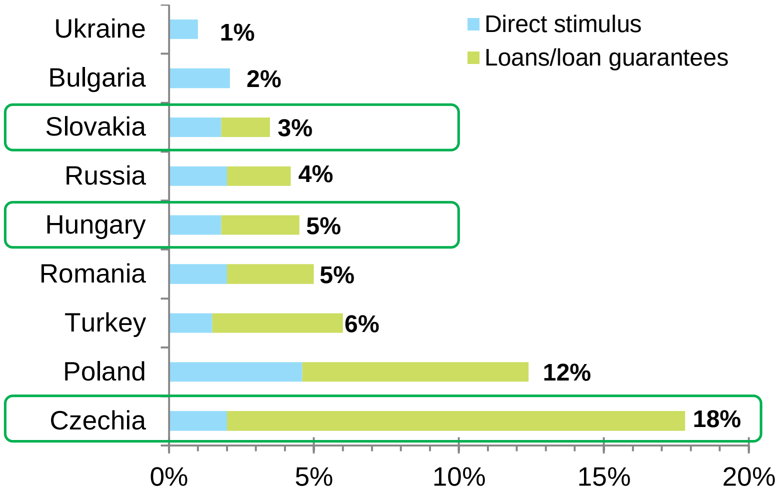
Romania, **Croatia** and **Serbia** manage their floats markedly.

Czechia and **Hungary** do not have much room for interest rate cuts anymore.

Hungary has bought government bonds worth 0.4% of GDP so far. **Czechia** has also announced QE-like stimulus but not implemented so far.

EMERGING EUROPE: DIRECT FISCAL STIMULUS IS STILL MODEST

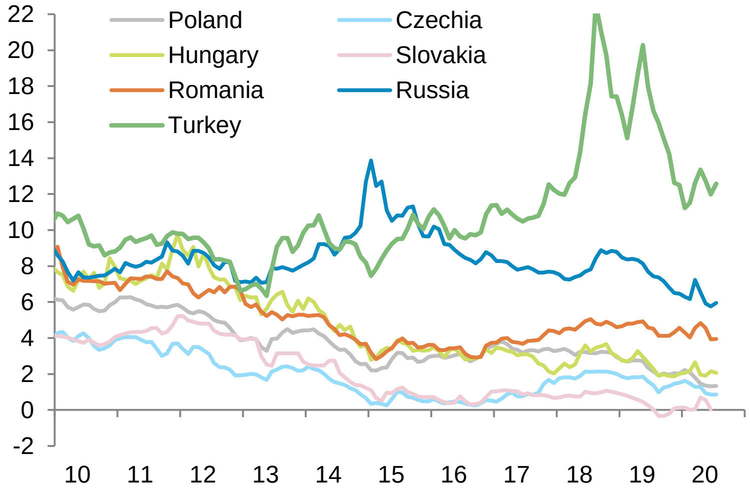
Fiscal stimulus measures (% of GDP)



Sources: IHS Markit, Allianz Research

Direct fiscal stimulus amounts to about 2% of GDP in **Czechia**, **Hungary** and **Slovakia**.

10-year government bond yields (%)



Sources: IHS Markit, Allianz Research

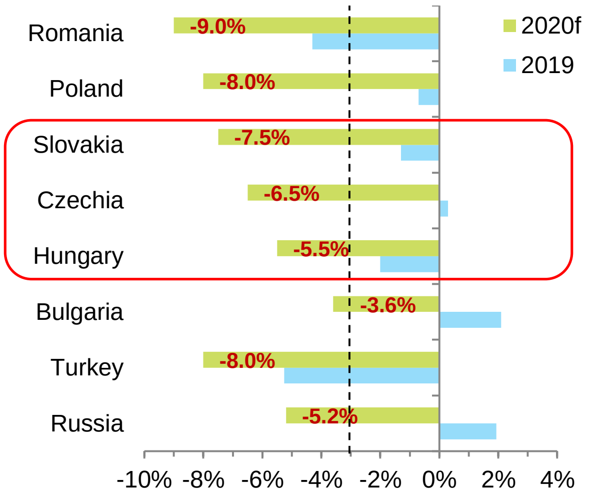
Financing of deficits is still doable at reasonable rates, except for Turkey.

Hungary, along with Croatia, Estonia and Romania have already issued Eurobonds.

Domestic debt has also been issued successfully and is preferred by most countries.

EMERGING EUROPE: PUBLIC FINANCES WILL DETERIORATE BUT REMAIN MANAGEABLE OVERALL

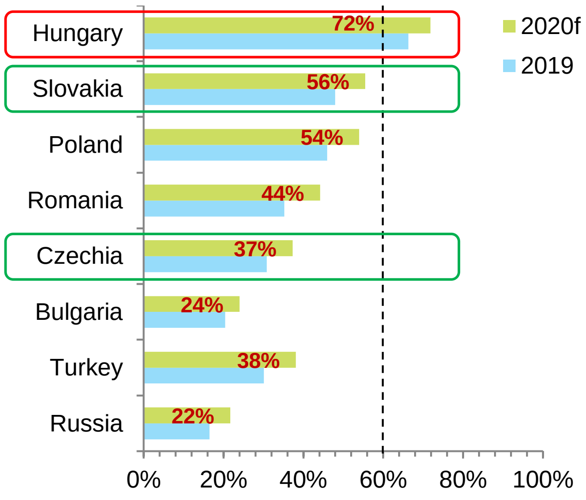
Fiscal balance (% of GDP)



Sources: Eurostat, IMF, Allianz Research forecasts

Together with cyclical revenue weakness, additional spending will widen fiscal deficits…

Public debt (% of GDP)



Sources: Eurostat, IMF, Allianz Research forecasts

…and increase public debt-to-GDP ratios.

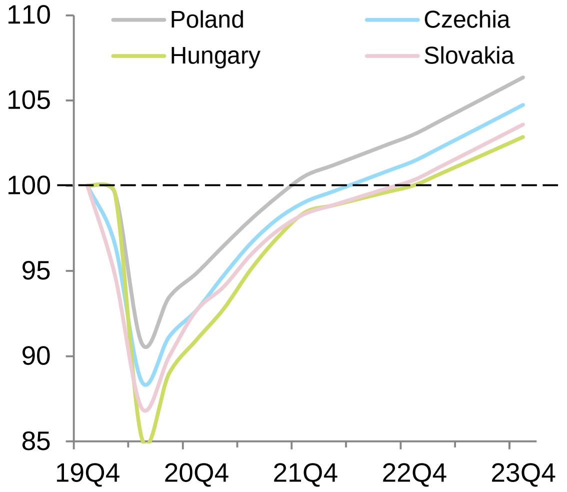
Yet, these ratios should remain in check, except for Hungary

EMERGING EUROPE: GROWTH SCENARIOS

Real GDP growth forecasts		Baseline: 2-month confinement scenario		Protracted crisis scenario	
	2019	2020	2021	2020	2021
Emerging Europe	**2.3**	**-5.3**	**3.9**	**-9.7**	**0.2**
Poland	4.1	-4.4	4.2	-8.3	0.2
Czechia	2.6	-7.1	5.3	-14.1	-1.5
Romania	4.1	-6.0	4.2	-11.5	0.5
Hungary	4.9	-7.4	5.1	-11.0	0.5
Slovakia	2.3	-8.3	5.9	-14.5	0.5
Croatia	2.9	-7.0	6.0	-13.0	0.5
Bulgaria	3.4	-4.9	4.1	-10.5	0.5
Slovenia	2.4	-7.0	6.0	-12.0	0.5
Lithuania	3.9	-2.4	2.6	-11.8	0.5
Latvia	2.2	-6.8	5.0	-12.0	0.5
Estonia	4.3	-6.8	6.0	-12.2	0.5
Turkey	0.9	-4.7	4.2	-9.6	0.4
Russia	1.3	-5.2	3.0	-8.3	0.1
Ukraine	3.2	-6.9	4.8	-11.8	0.5

Sources: National statistics, IHS Markit, Allianz Research forecasts

Real GDP forecasts (2019 Q4 = 100)



Sources: National statistics, IMF, IIF, Allianz Research

Czechia, **Hungary** and **Slovakia** should reach pre-crisis level GDP only in H2 2022.

Poland likely at the end of 2021 already.

CZECHIA, HUNGARY AND SLOVAKIA FOCUS

03

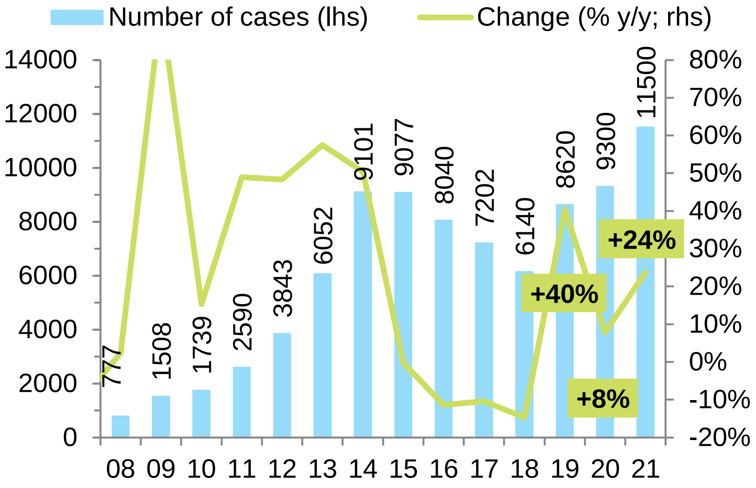
CZECHIA: GDP TO CONTRACT BY -7.1% IN 2020 AND INSOLVENCIES TO RISE BY +33% IN 2020-2021

CZECHIA - Key Forecasts		2018	2019	2020	2021
GDP		**2.9**	**2.4**	**-7.1**	**5.3**
Consumer Spending		**3.2**	**3.0**	**-5.0**	**3.5**
Public Spending		**3.7**	**2.9**	**6.5**	**3.5**
Investment		**10.5**	**2.4**	**-12.0**	**5.5**
Stocks	*	**-1.3**	**0.1**	**-0.5**	**-0.2**
Exports		**4.5**	**1.2**	**-17.0**	**12.0**
Imports		**6.0**	**1.7**	**-15.0**	**10.5**
Net exports	*	**-0.8**	**-0.3**	**-2.4**	**1.7**
Current account (% of GDP)		**0.4**	**-0.3**	**-0.8**	**-0.7**
Unemployment rate		**2.2**	**2.0**	**6.0**	**5.8**
Wages		**8.6**	**7.0**	**4.0**	**3.0**
Inflation (aop)		**2.2**	**2.9**	**3.1**	**1.9**
CZK per EUR (aop)		**25.6**	**25.7**	**26.4**	**26.8**
CZK per EUR (aop, % change)		2.6	-0.1	-2.9	-1.5
Fiscal balance (% of GDP)		**0.9**	**0.3**	**-6.5**	**-3.9**
Public debt (% of GDP)		**32.6**	**30.8**	**37.3**	**39.1**

Change over the period, unless otherwise indicated. * contribution to GDP growth

Sources: National statistics, IMF, IHS Markit, Allianz Research

Corporate insolvencies (number and annual change)



Sources: CRIF, Euler Hermes

Corporate insolvencies surged already by +40% in 2019, mainly due to weaknesses in manufacturing (notably automotive), and are forecast to rise by a cumulative +33% in 2020-2021.

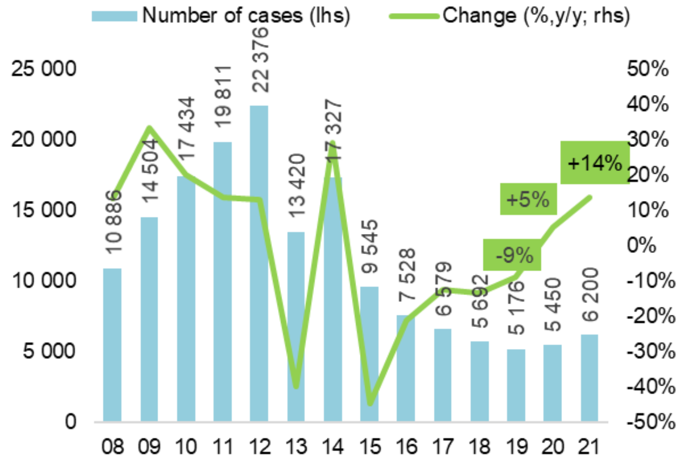
HUNGARY: GDP TO CONTRACT BY -7.4% IN 2020 AND INSOLVENCIES TO RISE BY +20% IN 2020-2021

HUNGARY - Key Forecasts		2018	2019	2020	2021
GDP		5.1	4.9	-7.4	5.1
Consumer Spending		4.0	4.4	-4.8	4.0
Public Spending		2.0	2.0	5.0	2.0
Investment		17.1	15.3	-15.0	8.5
Stocks	*	0.1	-1.7	-0.3	0.0
Exports		4.3	6.0	-15.0	9.8
Imports		6.8	6.9	-15.0	10.0
Net exports	*	-1.8	-0.5	-0.6	0.2
Current account (% of GDP)		0.0	-0.8	-1.8	-0.5
Unemployment rate		3.7	3.4	6.5	6.0
Wages		11.7	10.2	5.0	5.0
Inflation (aop)		2.8	3.4	3.4	3.0
HUF per EUR (aop)		318.8	325.3	351.4	358.4
HUF per EUR (aop, % change)		-3.1	-2.0	-8.0	-2.0
Fiscal balance (% of GDP)		-2.1	-2.0	-5.5	-3.5
Public debt (% of GDP)		70.2	66.3	71.8	71.6

Change over the period, unless otherwise indicated. * contribution to GDP growth

Sources: National statistics, IMF, IHS Markit, Allianz Research

Corporate insolvencies (number and annual change)



Sources: National sources, Euler Hermes

After a steady decline from 2015 to 2019, corporate insolvencies are forecast to rise by a cumulative +20% in 2020-2021.

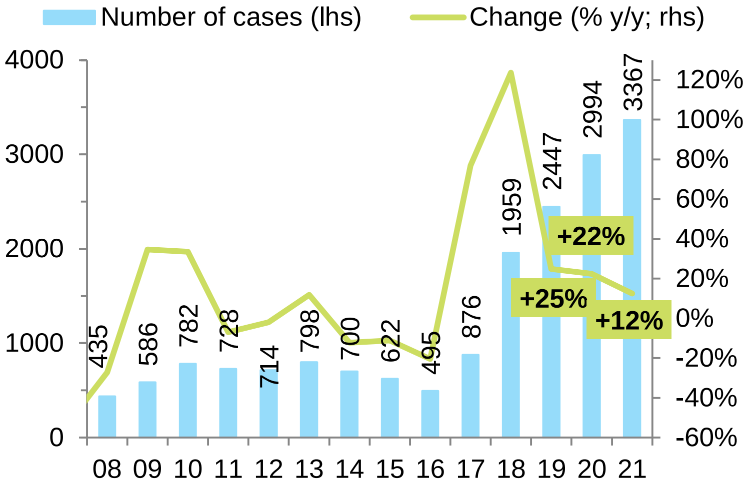
SLOVAKIA: GDP TO CONTRACT BY -8.3% IN 2020 AND INSOLVENCIES TO RISE BY +38% IN 2020-2021

SLOVAKIA - Key Forecasts		2018	2019	2020	2021
GDP		**3.9**	**2.4**	**-8.3**	**5.9**
Consumer Spending		**4.2**	**2.1**	**-5.0**	**4.0**
Public Spending		**0.2**	**4.6**	**4.8**	**3.0**
Investment		**2.6**	**6.8**	**-14.5**	**8.0**
Stocks	*	**0.4**	**-0.3**	**0.1**	**-0.2**
Exports		**5.3**	**1.7**	**-18.0**	**13.0**
Imports		**4.9**	**2.6**	**-15.0**	**11.6**
Net exports	*	**0.6**	**-0.8**	**-3.3**	**1.7**
Current account (% of GDP)		**-2.6**	**-3.2**	**-4.5**	**-2.6**
Unemployment rate		**6.6**	**5.8**	**9.0**	**8.0**
Wages		**7.0**	**8.7**	**5.0**	**3.0**
Inflation (aop)		**2.5**	**2.8**	**2.0**	**1.6**
USD per EUR (aop)		**1.18**	**1.12**	**1.13**	**1.12**
USD per EUR (aop, % change)		-4.6	5.2	-0.9	0.9
Fiscal balance (% of GDP)		**-1.0**	**-1.3**	**-7.5**	**-3.9**
Public debt (% of GDP)		**49.4**	**48.0**	**55.5**	**56.1**

Change over the period, unless otherwise indicated. * contribution to GDP growth

Sources: National statistics, IMF, IHS Markit, Allianz Research

Corporate insolvencies (number and annual change)



Note: A change in insolvency law includes bankruptcies of sole proprietorships in corporate bankruptcies, effective from 1 March 2017. This explains the sharp rise in total insolvencies from 2017-2019.

Sources: Ministry of Justice, Euler Hermes

Corporate insolvencies are forecast to rise by a cumulative +38% in 2020-2021.

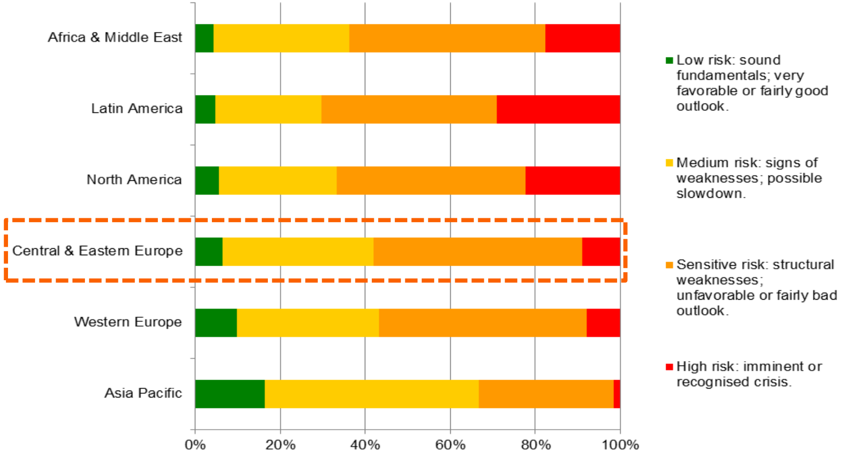
SECTOR OUTLOOK

04

GLOBAL PICTURE OF SECTOR RISK RATINGS

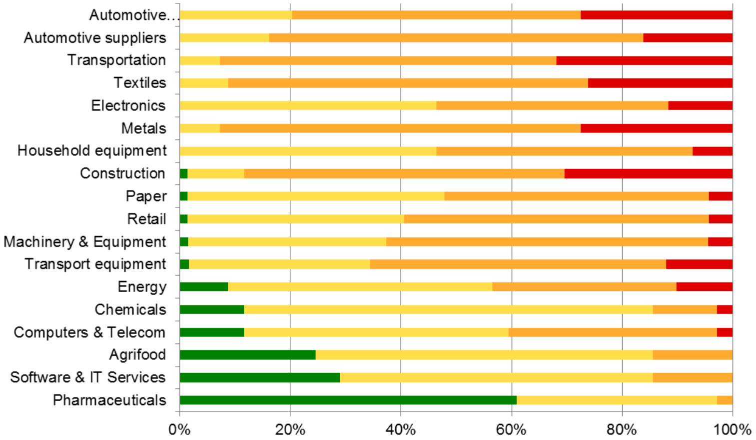
AS OF MID 2020 (18 SECTORS IN TOP 69 COUNTRIES)

Sector risk ratings as of mid 2020
(in number of sectors, by level of risk)



Sources: Euler Hermes, Allianz Research

Sector risk ratings as of mid 2020
(in number of countries, by level of risk)

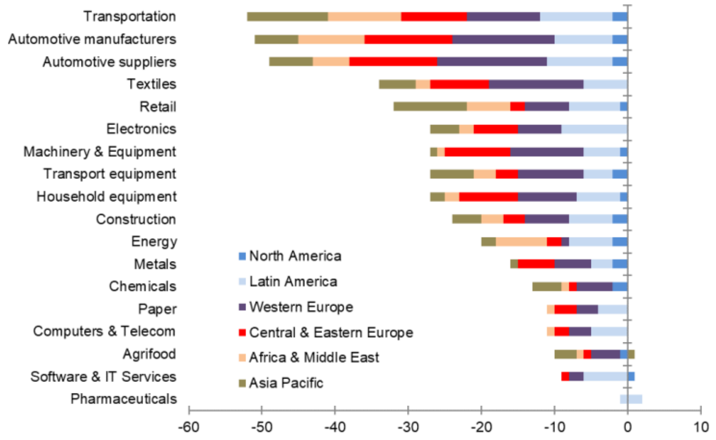


Sources: Euler Hermes, Allianz Research

Between Q4 2019 and Q2 2020, ‘Low risk’ ratings have declined from 12% to 9% of the total number of ratings. ‘Medium risk’ ratings are now accounting for 36% of the total compared to 50% prior to the covid-19 related crisis. On the opposite, ‘Sensitive risk’ ratings have gone up from 33% to 44%, and ‘High risk’ ones from 9% to 12%.

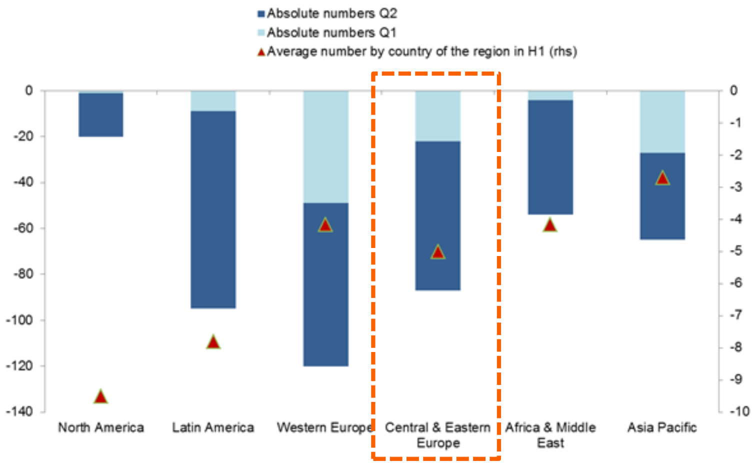
A GLOBAL WAVE OF DOWNGRADES IN H1 2020 NOTABLY FOR TRANSPORTATION, AUTOMOTIVE, TEXTILES AND RETAIL

Changes in sector risk ratings, by sector and by region



Sources: Euler Hermes, Allianz Research

Quarterly changes in sector risk ratings, by region

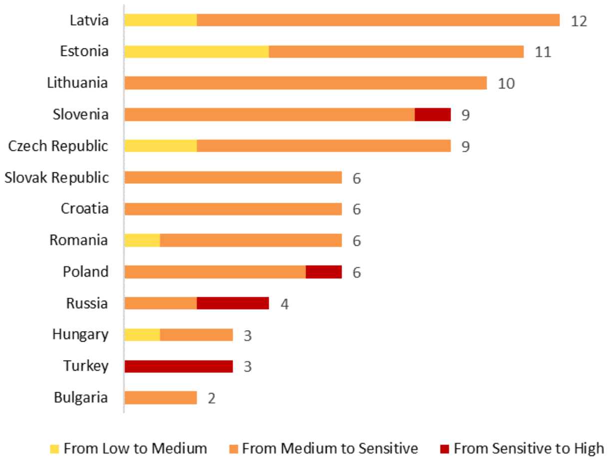


Sources: Euler Hermes, Allianz Research

Most downgrades targeted sectors in front-line re the covid-19 outbreak. Yet, the intensity of the shock and the weaker outlook are devastating also for sectors considered as the most fragile at the dawn of the crisis. Agrifood, IT services and Pharmaceuticals keep on offering resilience. Downgrades occured alongside the propagation of the virus and the deterioration of the economic situation. CEE posted a noticeable number of downgrades: in average 5 out of 18 sectors were downgraded in H1 2020, notably in Q2, compared to 5 for the global average.

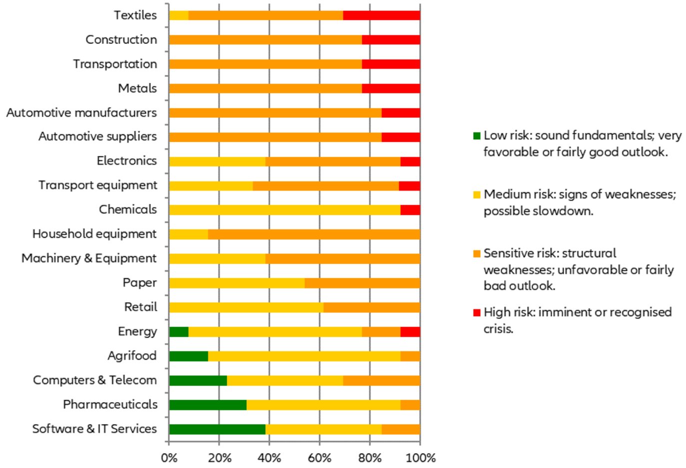
IN CEE DOWNGRADES MAINLY OCCURRED IN SMALLER ECONOMIES AND MOST EXPOSED SECTORS

Changes in sector risk ratings in H1 2020
(in number of sectors, by country)



Sources: Euler Hermes, Allianz Research

Sector risk ratings as of mid 2020 in CEE
(in number of countries, by level of risk)



Sources: Euler Hermes, Allianz Research

In sync with global trends, most downgrades in CEE targeted sectors in front-line re the covid-19 outbreak: Automotive suppliers (12 countries) and manufacturers (12), transportation (9) and textile (8). Yet, the intensity of the economic shock and the weaker outlook are impacting smaller economies and specific sectors such as Machinery equipment (8), household equipment (8) and metals (5). Downgrades to ‘high risk’ are in Slovenia (textile), Poland (transportation), Russia (transportation and metals) and Turkey (Auto manuf and suppliers, transportation).

WATCH OUT FOR DIVERGENCES ACROSS CENTRAL AND EASTERN EUROPE

	Automotive manufacturers	Automotive suppliers	Construction	Transportation	Chemicals	Pharmaceuticals	Agrifood	Textiles	Paper	Electronics	Metals	Retail	Machinery & Equipment	Transport equipment	Software & IT Services	Household equipment	Computers & Telecom	Energy
Russia	High	High	High	High	Medium	Medium	Medium	High	Sensitive	Sensitive	High	Sensitive	Sensitive	Sensitive	Sensitive	Sensitive	Sensitive	Medium
Turkey	High	High	High	High	High	Low	Sensitive	High	Sensitive	High	High	Sensitive	Medium	Sensitive	Medium	Sensitive	Sensitive	High
Poland	Sensitive	Sensitive	High	High	Medium	Low	Medium	Sensitive	Sensitive	Sensitive	High	Sensitive	Sensitive	Sensitive	Sensitive	Sensitive	Sensitive	Medium
Czech Republic	Sensitive	Sensitive	Sensitive	Sensitive	Medium	Low	Low	Sensitive	Medium	Medium	Sensitive	Medium	Sensitive	Sensitive	Low	Sensitive	Medium	Medium
Romania	Sensitive	Sensitive	Sensitive	Sensitive	Medium	Medium	Low	Sensitive	Medium	Sensitive	Sensitive	Sensitive	Medium	Medium	Low	Sensitive	Medium	Medium
Hungary	Sensitive	Sensitive	Sensitive	Sensitive	Medium	Medium	Medium	Sensitive	Medium	Medium	Sensitive	Medium	Medium	Medium	Medium	Medium	Medium	Medium
Croatia	Sensitive	Sensitive	Sensitive	Sensitive	Medium	Sensitive	Medium	High	Medium	Sensitive	Sensitive	Medium	Sensitive	High	Medium	Sensitive	Medium	Medium
Bulgaria	Sensitive	Sensitive	Sensitive	Sensitive	Medium	Medium	Medium	Sensitive	Medium	Medium	Sensitive	Medium	Medium	Sensitive	Low	Sensitive	Sensitive	Sensitive
Slovenia	Sensitive	Sensitive	Sensitive	Sensitive	Medium	Medium	Medium	High	Sensitive	Sensitive	Sensitive	Medium	Sensitive		Medium	Sensitive	Low	Medium
Lithuania	Sensitive	Sensitive	Sensitive	Sensitive	Medium	Low	Medium	Sensitive	Sensitive	Medium	Sensitive	Medium	Sensitive	Sensitive	Low	Sensitive	Low	Low
Latvia	Sensitive	Sensitive	Sensitive	Sensitive	Medium	Medium	Medium	Sensitive	Sensitive	Sensitive	Sensitive	Sensitive	Sensitive	Sensitive	Medium	Sensitive	Medium	Medium
Estonia	Sensitive	Sensitive	Sensitive	Sensitive	Medium	Medium	Medium	Medium	Medium	Medium	Sensitive	Medium	Medium	Medium	Medium	Medium	Low	Sensitive
Slovakia	Sensitive	Sensitive	Sensitive	Sensitive	Medium	Medium	Medium	Sensitive	Medium	Sensitive	Sensitive	Medium	Sensitive	Medium	Low	Sensitive	Medium	Medium

- Low risk: sound fundamentals; very favorable or fairly good outlook.
- Sensitive risk: structural weaknesses; unfavorable or fairly bad outlook.
- Medium risk: signs of weaknesses; possible slowdown.
- High risk: imminent or recognised crisis.

THANK YOU

Allianz Research

Global Economic Outlook

August 2020

EULER HERMES

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