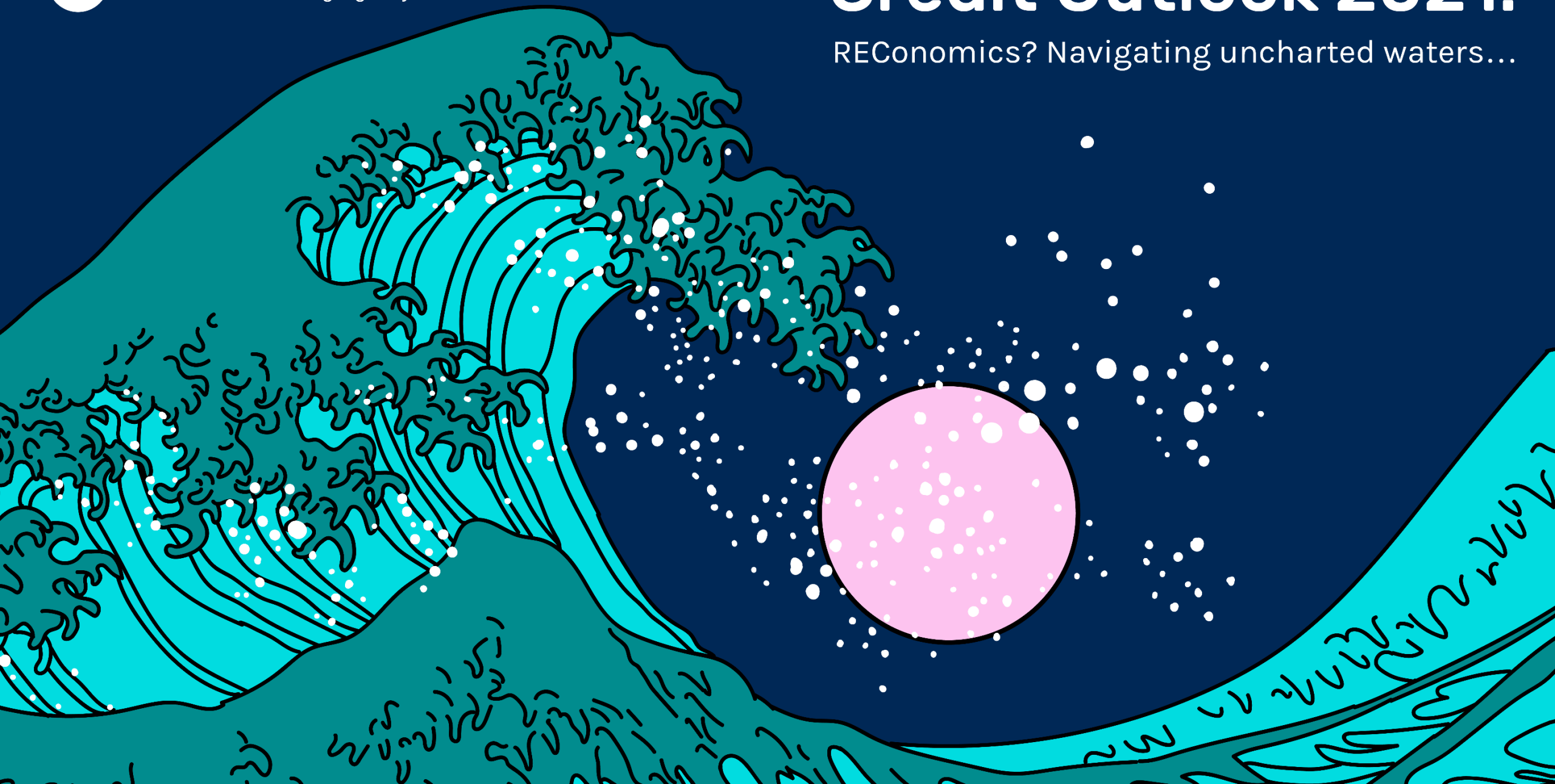


# Credit Outlook 2021:

REconomics? Navigating uncharted waters...



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### **Our rating**

*The rating of Cerved Rating Agency is an opinion, issued by Cerved Rating Agency, on the creditworthiness of a company; therefore it assesses the capability of the company to generate sufficient cash flows for a prompt debt repayment in a given time horizon.*

## Preface

The Credit Outlook 2021 reflects Cerved Rating Agency's opinion on the credit risk level of Italian non-financial companies in 2021.

The estimation of the probability of default is based both on the consolidated portfolio of ratings outstanding as of 31.12.2020 and macro-economic projections for 2021, including European and Italian economic measures aimed at supporting economic recovery.

The aggregate data is further detailed by industry, company size and geographical area, including sensitivity analysis which considers various scenarios related to the development of the vaccination campaign and herd immunity dynamics.

## Prefazione

Il Credit Outlook 2021 riflette l'opinione di Cerved Rating Agency sul livello di rischio di credito delle società non finanziarie italiane nel 2021.

La stima della probabilità di default si basa sia sul portafoglio consolidato di rating in essere al 31.12.2020 sia su proiezioni macroeconomiche 2021, includendo le misure economiche europee e italiane volte a sostenere la ripresa economica.

I dati aggregati sono ulteriormente dettagliati per settore, dimensione dell'azienda e area geografica, inclusa l'analisi di sensitività che considera vari scenari relativi allo sviluppo della campagna vaccinale e alle dinamiche dell'immunità di gregge.

# Executive summary

- ❖ The **pandemic shock** of Covid-19 found the World unprepared in facing such a challenging scenario; in 2020, the global economy experienced a severe contraction, more than twice the one following the Great Financial Crisis.
- ❖ The **massive economic measures**, both monetary and fiscal, provided prompt support to companies and households but the inheritance of 2020 will still weigh on 2021 path to recovery...
- ❖ The Agency envisages a **general increase of the credit risk profile** of Italian non-financial companies; the estimated probability of default as of December 2021 is projected to **rise to 6% vs. 5.1%** as of Dec. 2020, **+34% from the pandemic outbreak (Feb. 2020)**.
- ❖ The **recovery's path will be uneven showing** wider dispersion (increased variance) across industries, geographical areas and different company sizes.
- ❖ The **highest risk sectors remain tourism, restaurants and constructions**; within these sectors, up to **115k companies could face a default event** by the end of 2021. Pharma and IT&Telcom confirm low credit risk profiles.
- ❖ The **velocity of the vaccination** campaign is one of the key factors underlying the research. Through a sensitivity analysis, it has been estimated **that a delay in the vaccination campaign development** with respect to the herd immunity target (Q3 2021) could **increase the median probability of default up to 40 bps**.
- ❖ A **reverse in the increasing trend of probability of default is expected in 2022** as most of the population will be vaccinated and the global economic recovery will consolidate.

# Sommario Generale

- ❖ Lo shock pandemico da COVID-19 ha trovato il mondo impreparato ad affrontare uno scenario così impegnativo; nel 2020 l'economia globale ha registrato una forte contrazione, più del doppio di quella a seguito della Grande Crisi Finanziaria.
- ❖ Le massicce misure economiche, sia monetarie che fiscali, hanno fornito un pronto sostegno alle imprese e alle famiglie, ma l'eredità del 2020 peserà ancora sul percorso di ripresa del 2021...
- ❖ L'Agenzia prevede un aumento generale del profilo di rischio di credito delle società non finanziarie italiane; la probabilità di default stimata a dicembre 2021 è prevista in aumento al 6% rispetto al 5,1% a Dicembre 2020, + 34% dallo scoppio della pandemia (Febbraio 2020).
- ❖ Il percorso della ripresa sarà irregolare, mostrando una più ampia dispersione (maggiore varianza) tra i settori, le aree geografiche e le diverse dimensioni aziendali.
- ❖ I settori a più alto rischio rimangono il turismo, la ristorazione e le costruzioni; all'interno di questi settori, fino a 115mila aziende potrebbero dover affrontare un evento di default entro la fine del 2021. Pharma e IT & Telcom confermano profili di basso rischio di credito.
- ❖ La velocità della campagna di vaccinazione è uno dei fattori chiave alla base della ricerca. Attraverso un'analisi di sensitività, è stato stimato che un ritardo nel progresso della campagna vaccinale rispetto all'obiettivo di immunità di gregge (Q3 2021) potrebbe aumentare la probabilità mediana di default fino a 40 bps.
- ❖ Nel 2022 è prevista un'inversione della tendenza all'aumento della probabilità di default, poiché la maggior parte della popolazione sarà vaccinata e la ripresa economica globale si consoliderà.

# AGENDA

**1**

**2020 Year Review in 10 pictures**

**2**

**2021 (Oeconomia sana in corpore sano...)**

**3**

**Italian non-financial companies Credit Outlook 2021**

**4**

**Wrap-up**

A close-up photograph of a person's hand holding a silver pen, poised to write on a document. The document features a bar chart with purple bars. In the background, a laptop and a smartphone are visible on a desk. The scene is set in an office environment, with other people's hands and arms visible in the blurred background.

## **2020 Year Review in 10 pictures**





1

COVID-19 shocked the World!

2

Unprecedented global GDP drop, but China still growing

3

Lockdown measures caused significant drop in hours worked

4

Financial markets showed a remarkable resilience

5

Further support from central banks and fiscal policy

6

Record high levels of global debt in any form and shape

7

Extreme poverty increased sharply

8

Pandemic accelerated some key forces of change

9

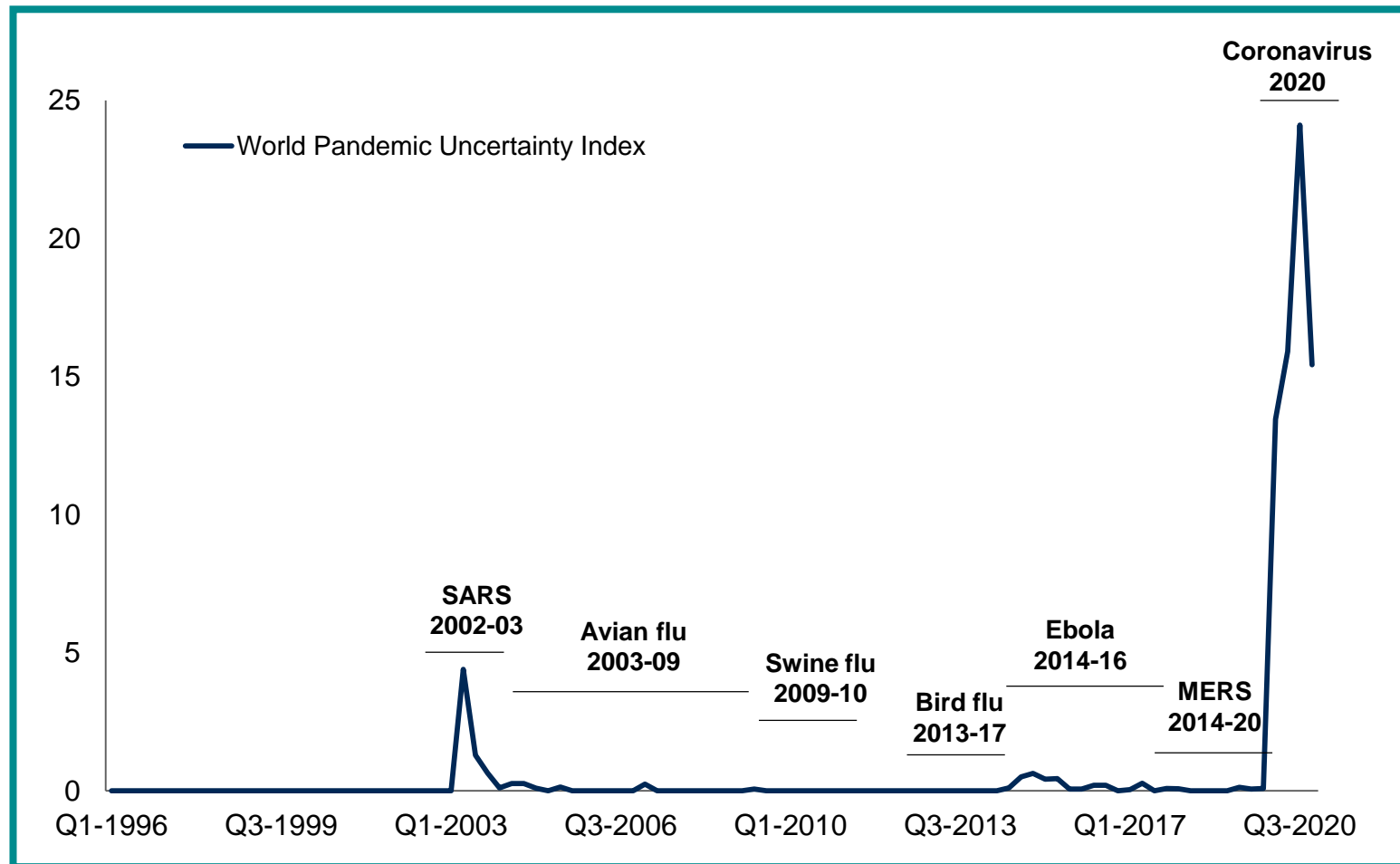
ITALY: Pandemic worsened some structural problems

10

But Italy has the strength to catch up with the global rebound

# COVID-19 shocked the World!

In 2020 COVID-19 cases and deaths rose to 83 million cumulative cases and over 1.8 million deaths globally since the start of the pandemic as of 31.12.2020



Source: : Ahir, H, N Bloom, and D Furceri (2018), "World Uncertainty Index", Stanford mimeo

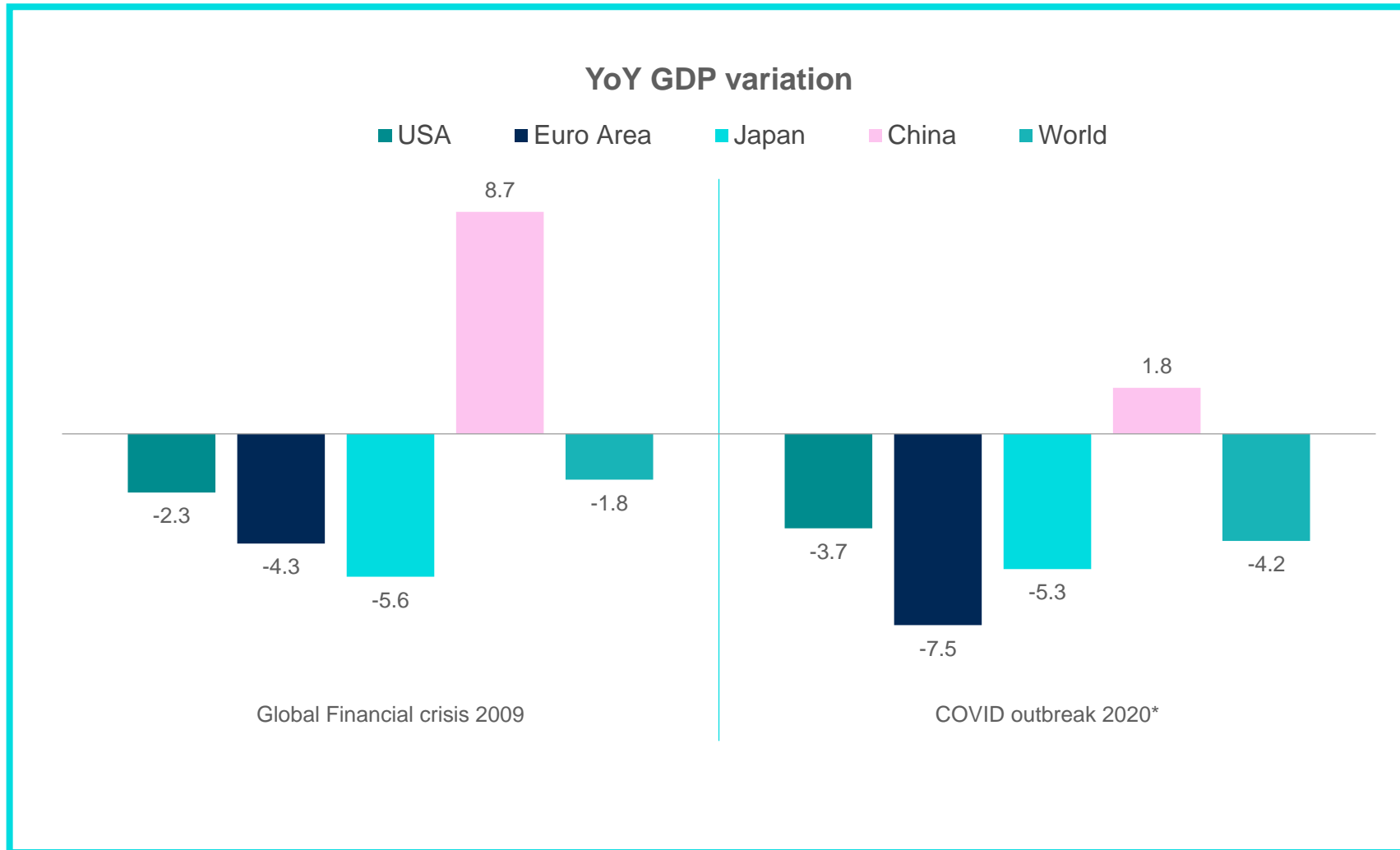
**1.8M**  
**Fatalities**

**83M**  
**Covid-19 Cases**  
**Worldwide**





# Unprecedented global GDP drop, but China still growing



**Worst global  
growth decline  
since 1945**

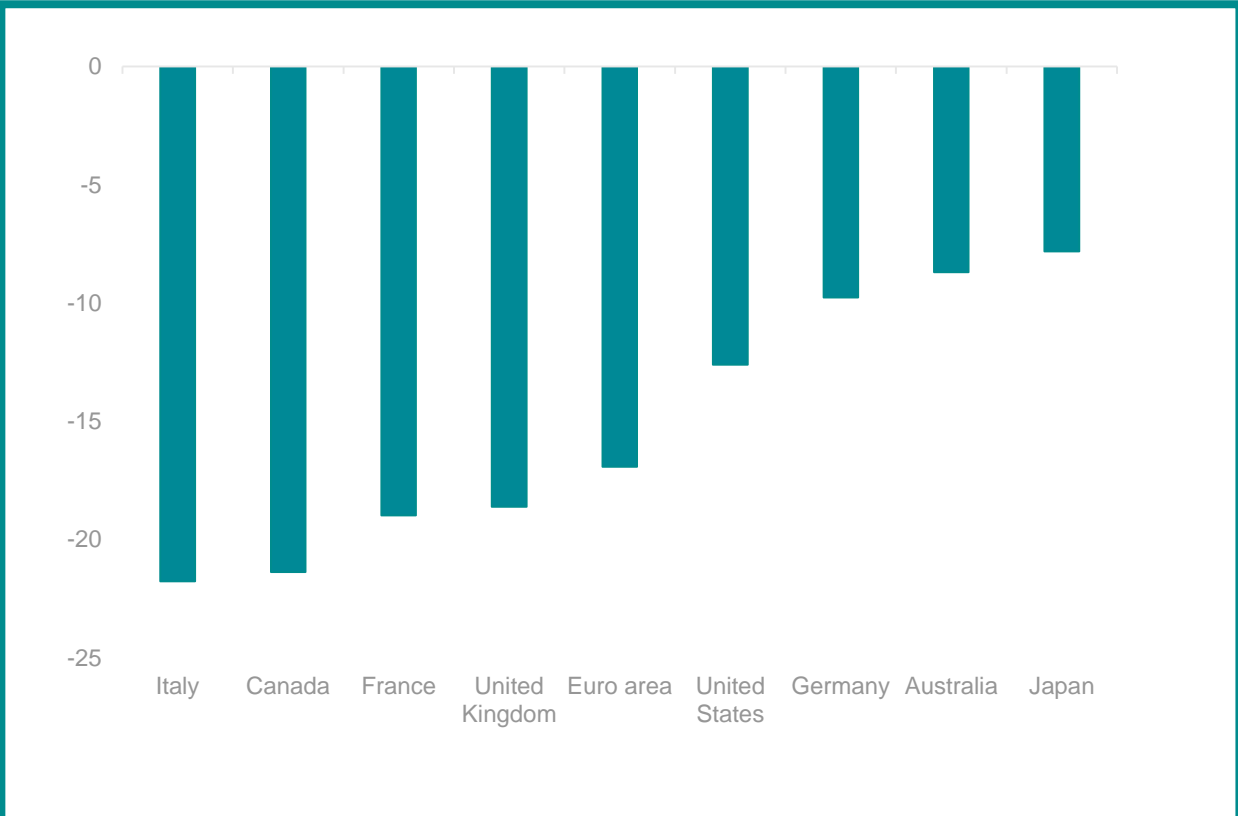
**2.3x  
World GDP  
contraction vs.  
GFC**

**Different  
impact across  
countries**



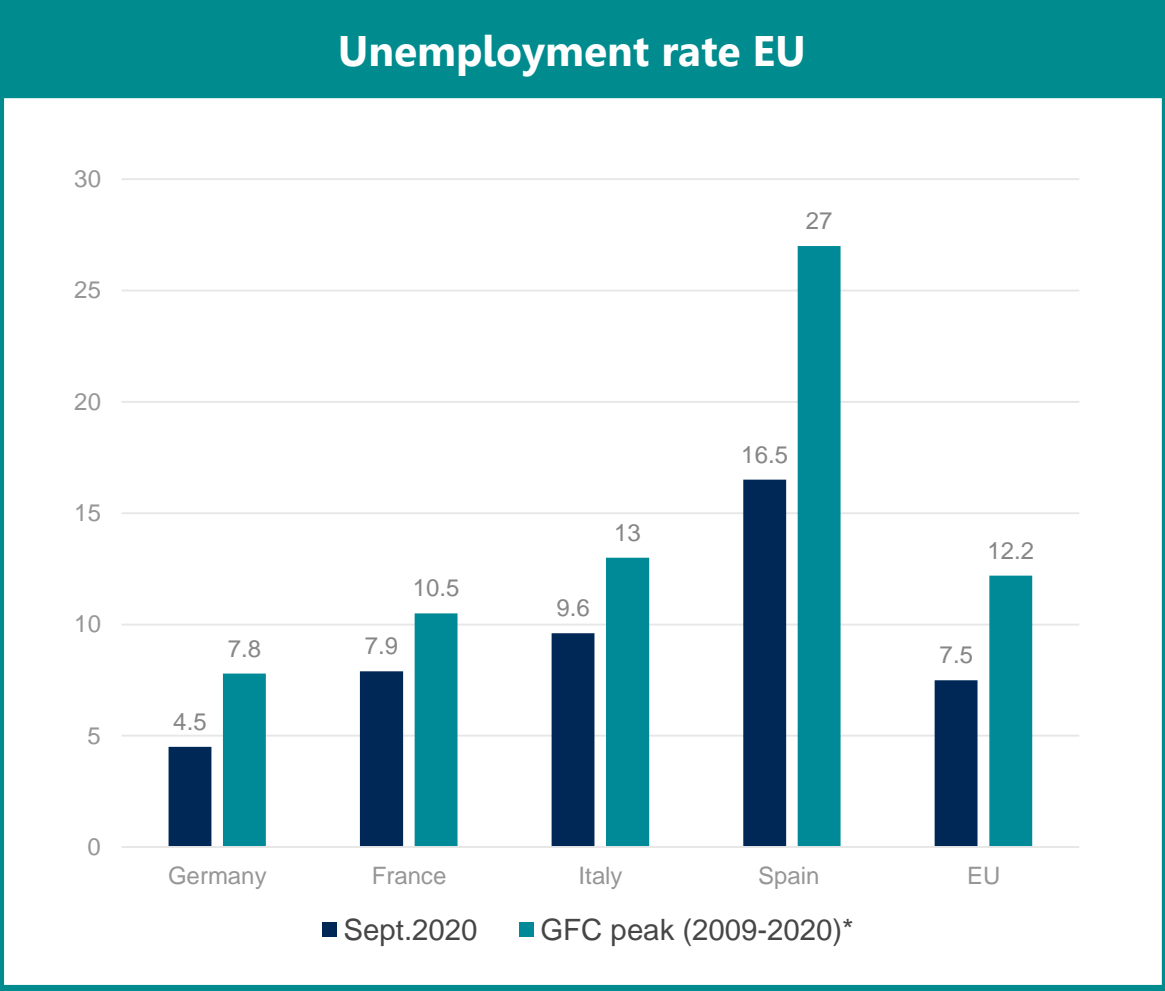
# Lockdown measures caused significant drop in hours worked

...but job retention schemes prevented a spike of unemployment rate in many countries



**Total hours worked 2Q2020  
(% change from 2019Q4)**

Source: EURSOSTAT



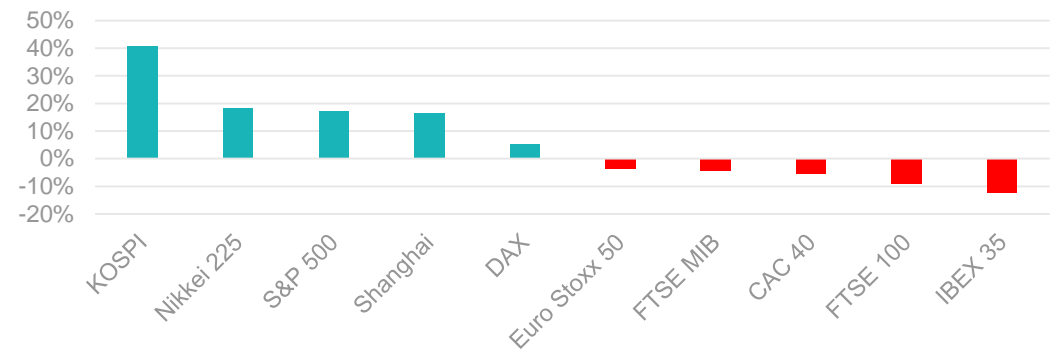
Source: OECD Economic Outlook 2020



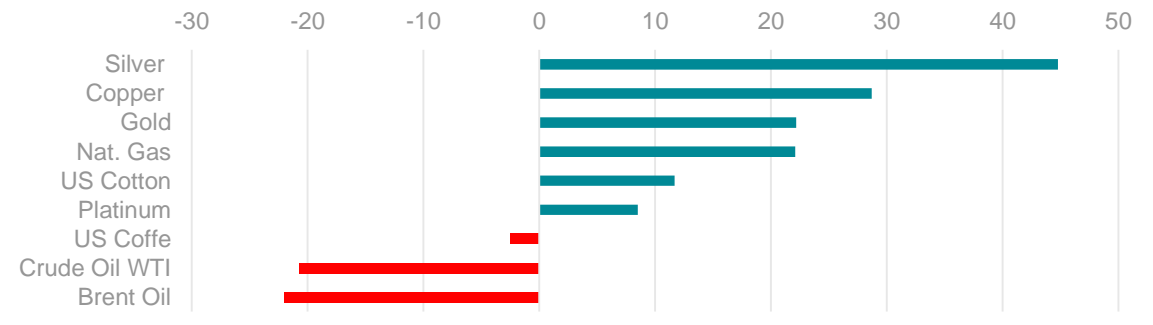
# Financial markets showed a remarkable resilience

USA and Asian Stock markets closed FY2020 with double digit gains; Sovereign Bond Yields keep decreasing. Precious metals shine, negative performance for Brent/Crude oil; Euro benefits from financial markets risk-on.

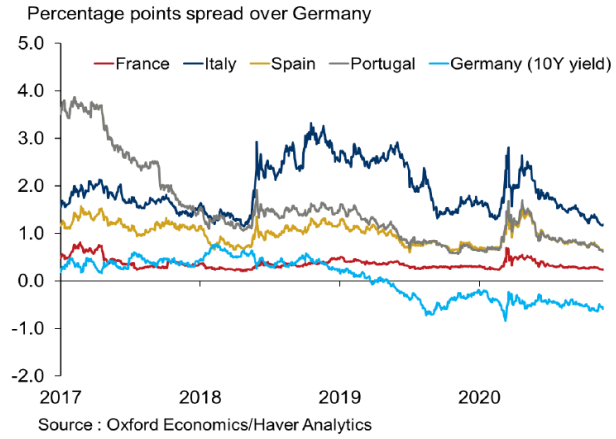
Major Stock Indexes 2020 performance



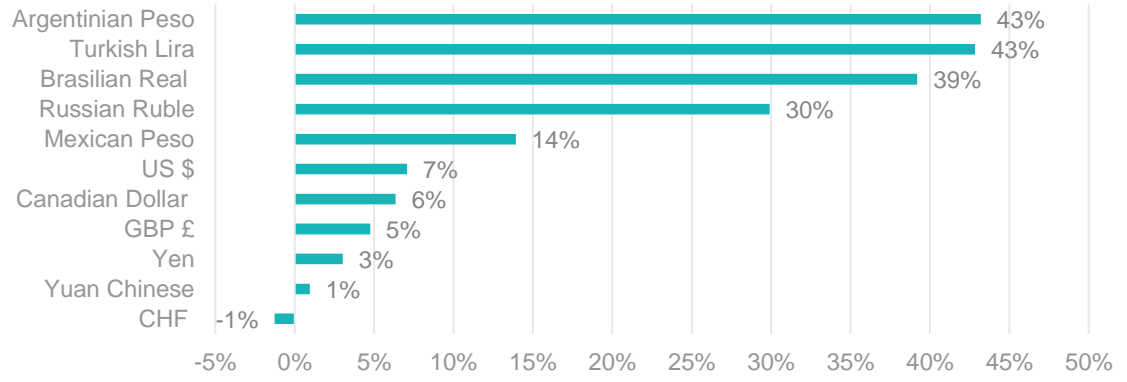
FY 2020 Commodities



Eurozone: Ten-year government bond spreads



Eur vs. other currencies 1Yr. % as of 31.12.2020

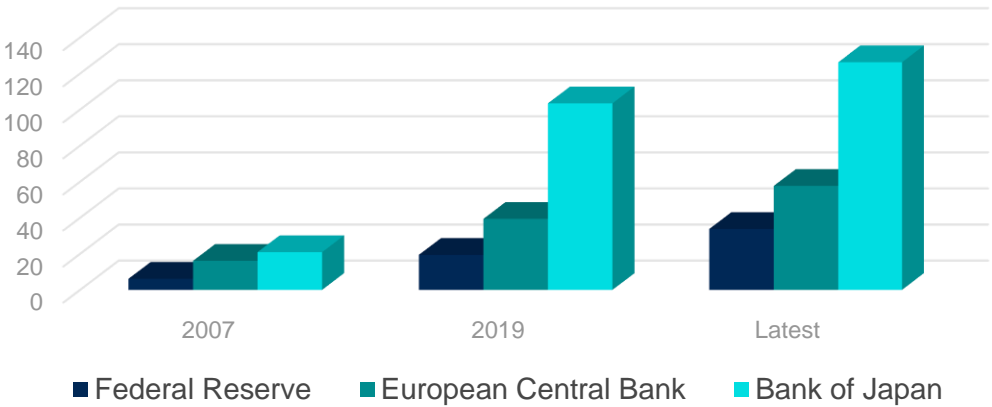




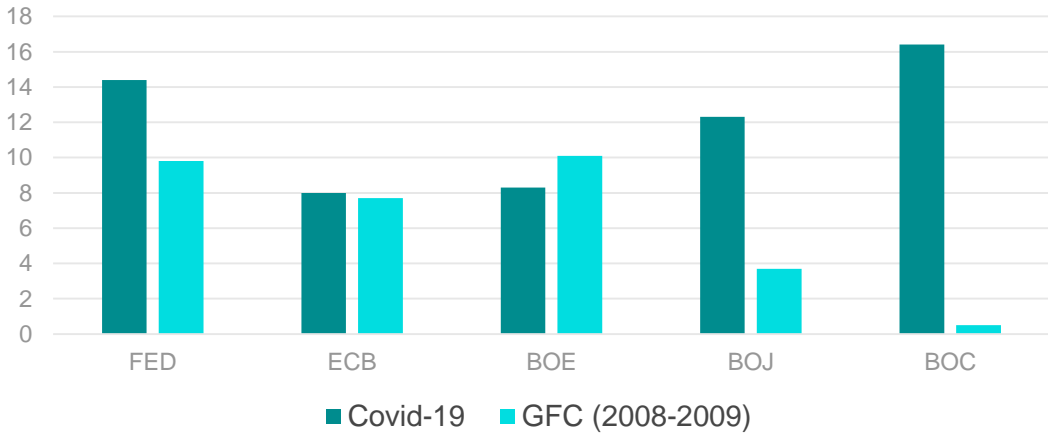
# Further support from central banks and fiscal policy...

Massive monetary measures and moratoria prevented a spike in bankruptcies but risks of «zombie» companies rise

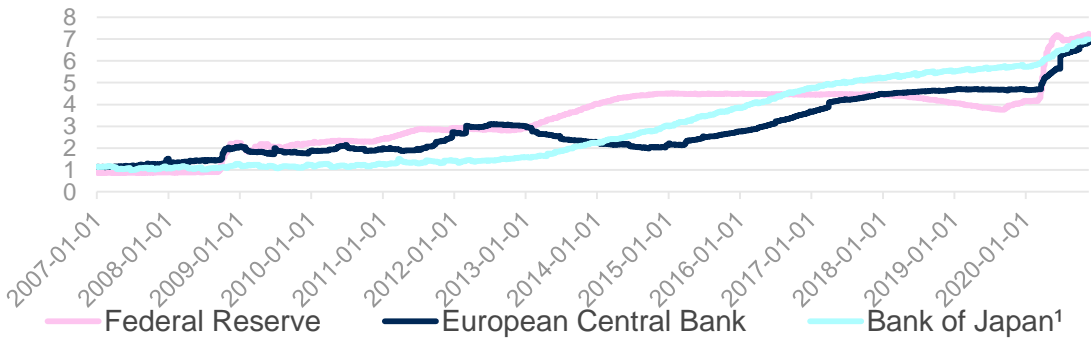
Central bank total assets (%GDP)



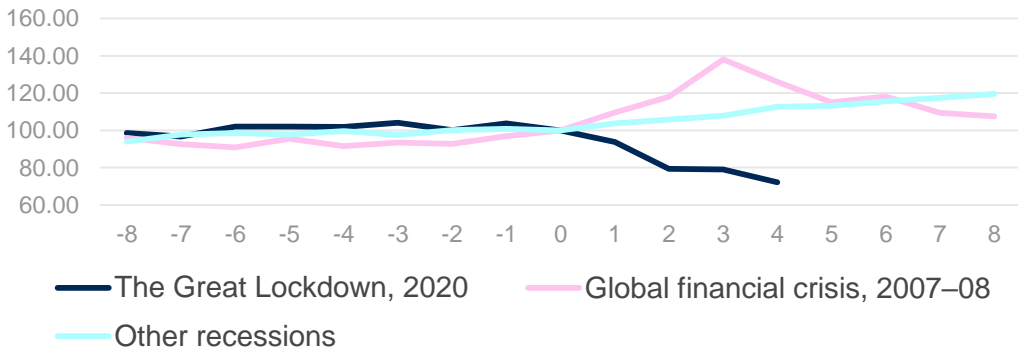
Monetary measures COVID crisis vs GFC (%GDP)



Central bank total assets (Trillion national currency)



Advanced Economies Bankruptcies (Index, last prerecession quarter = 100)

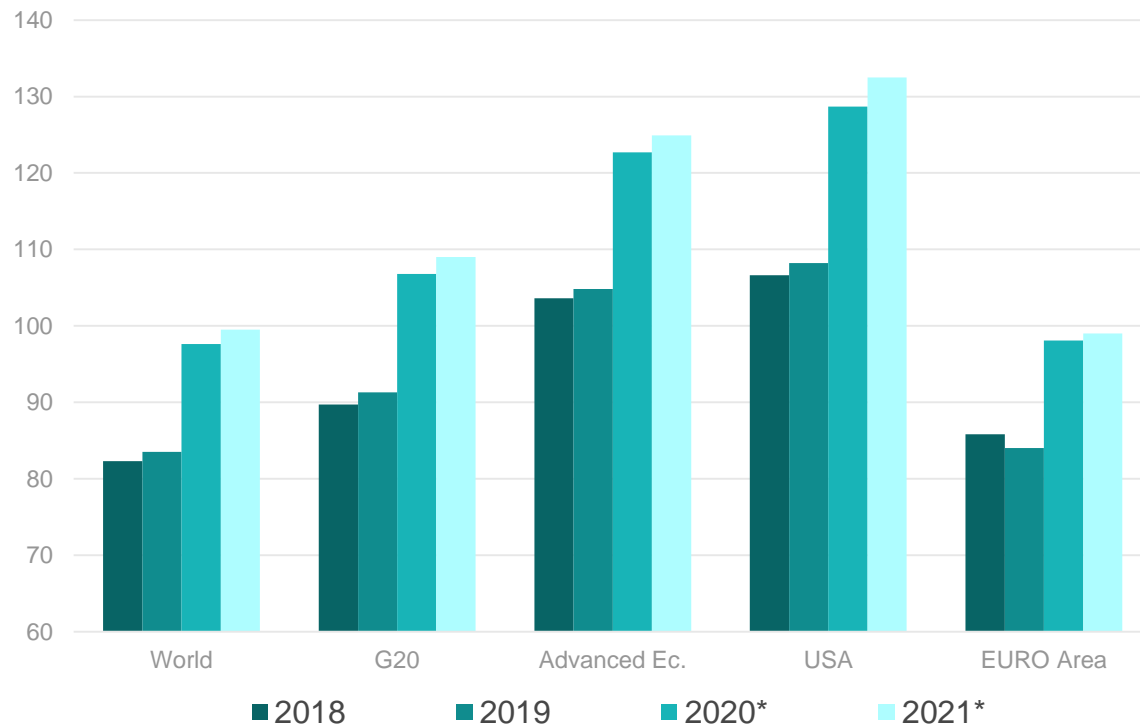




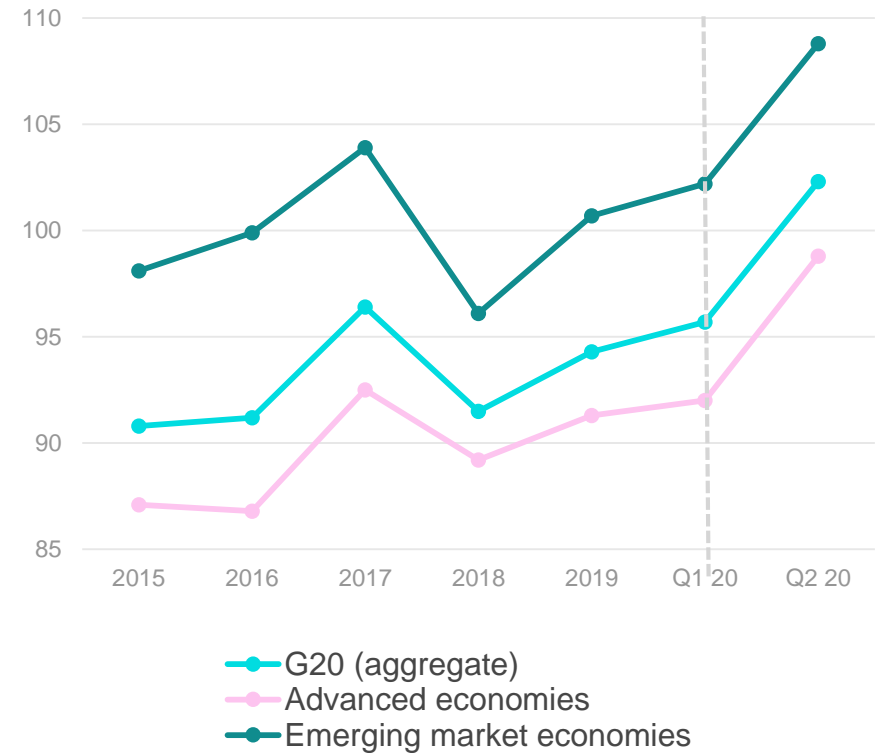
# ...led to record high levels of global debt in any form and shape

Global debt has surged by over \$15 trillion since 2019, hitting a new record of over \$275 trillion in Q3 2020 spurred by huge fiscal and monetary response to the pandemic

## Public Gross Debt (%GDP)



Source: IMF Fiscal Monitor 2021

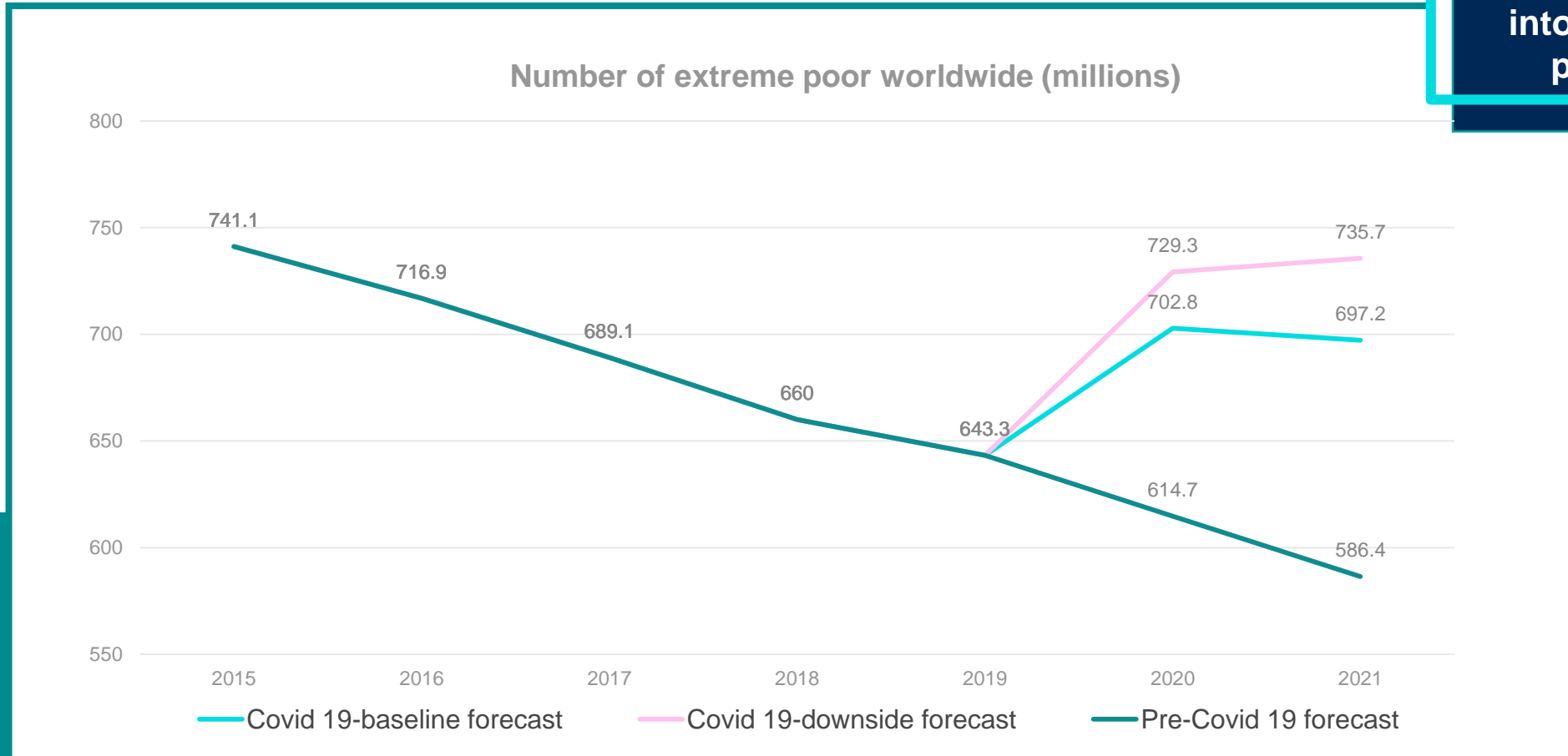


## Total credit to non-financial corporations (%GDP)

Source: BIS

# 7 Extreme poverty increased sharply

**+100M  
people pushed  
into extreme  
poverty**

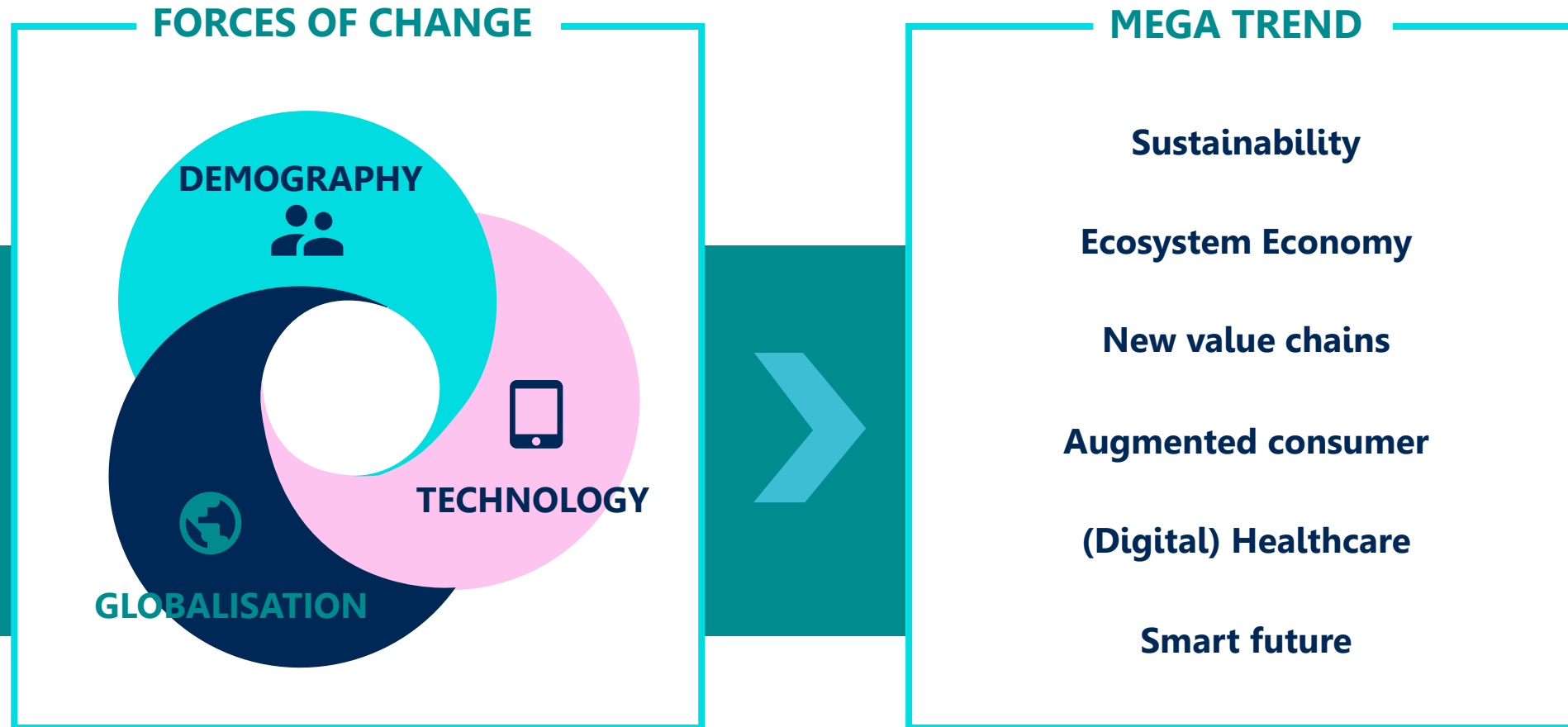


Source: World Bank, Lakner et al (2020), PovcalNet, Global Economic Prospects





# Pandemic accelerated some key forces of change...

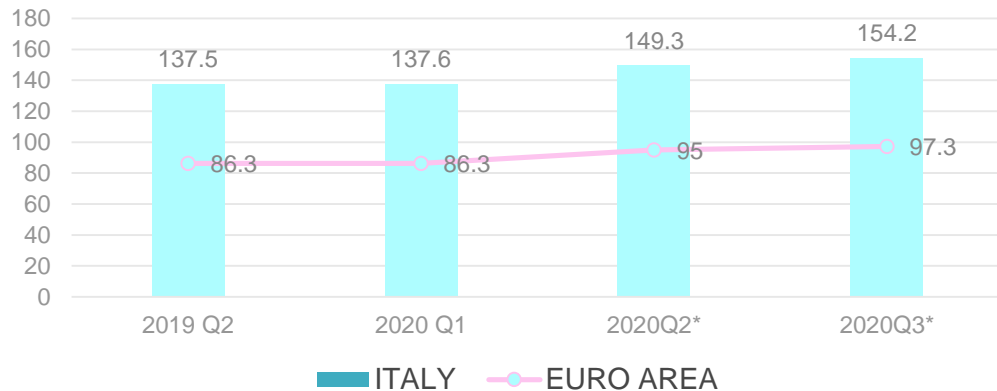




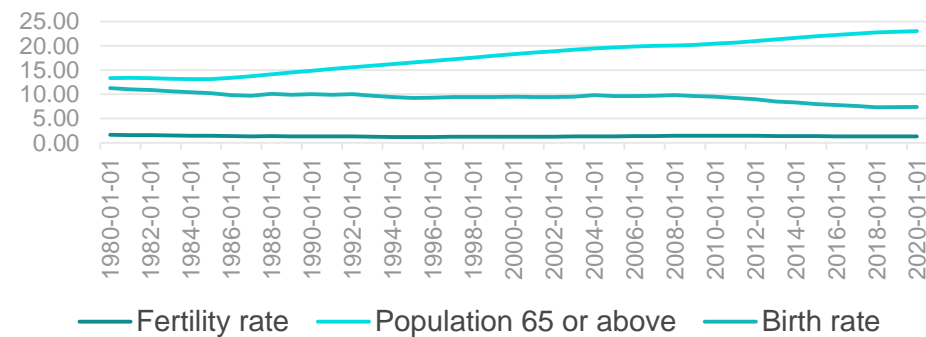
# ITALY: Pandemic worsened some structural problems...

High Public Debt, stagnating productivity and demographic dynamics hampering economic growth

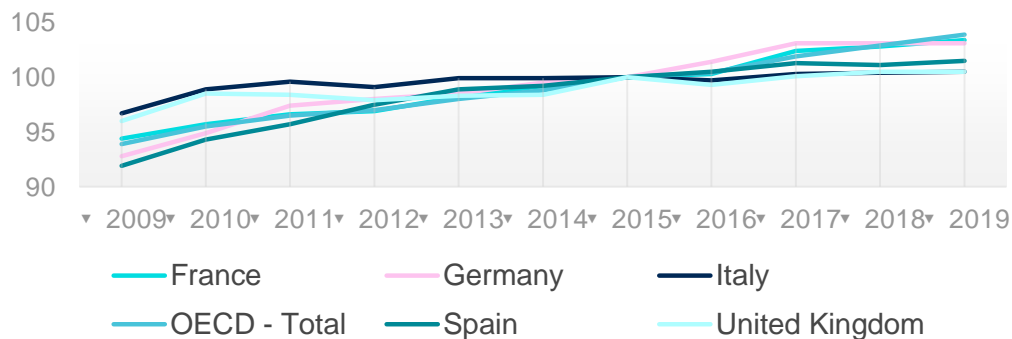
## Gov. Debt to GDP (%)



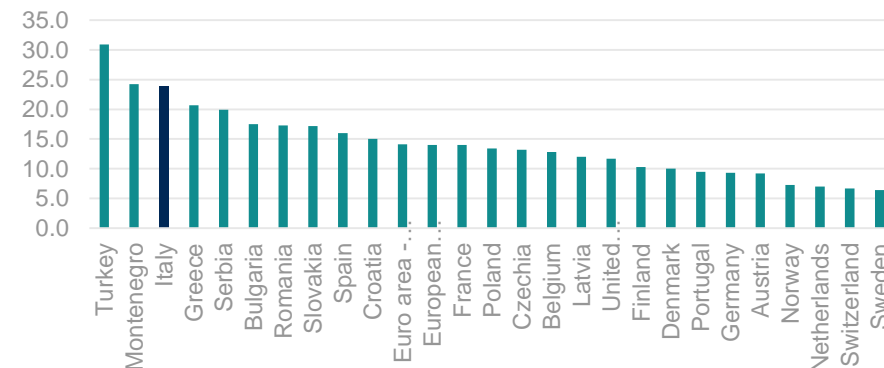
## Demography Italy



## GDP per hour worked



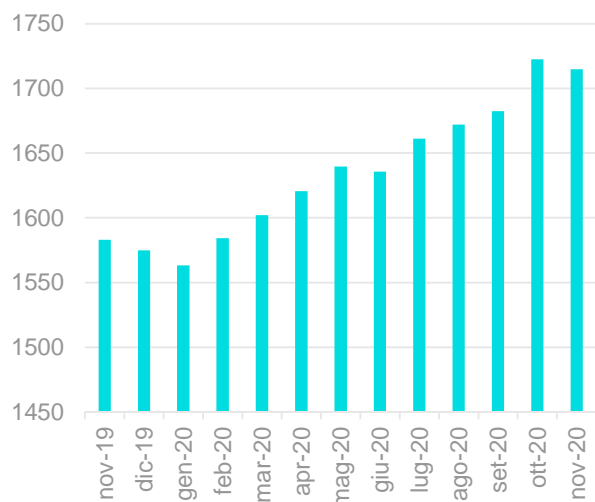
## NEET



# ...but Italy has the strength to catch up with the global rebound

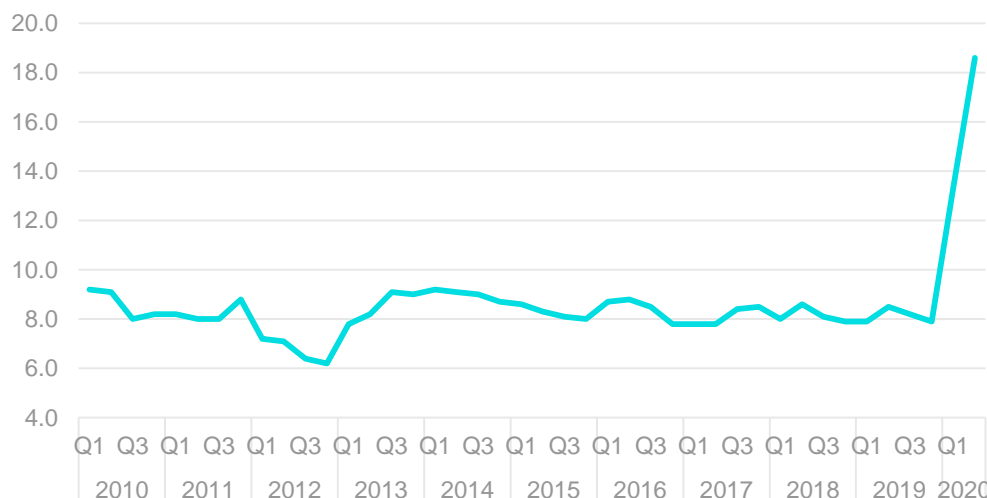
Pandemics reduced income but surge in bank deposits confirming Italians saving propensity; private household indebtedness remains limited

## Households bank deposits



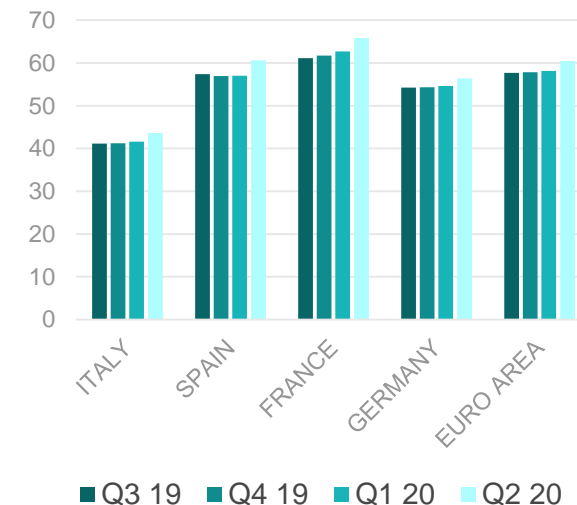
Source: ABI

## Gross saving rate (b)



Source: ISTAT

## Household indebtedness (%GDP)

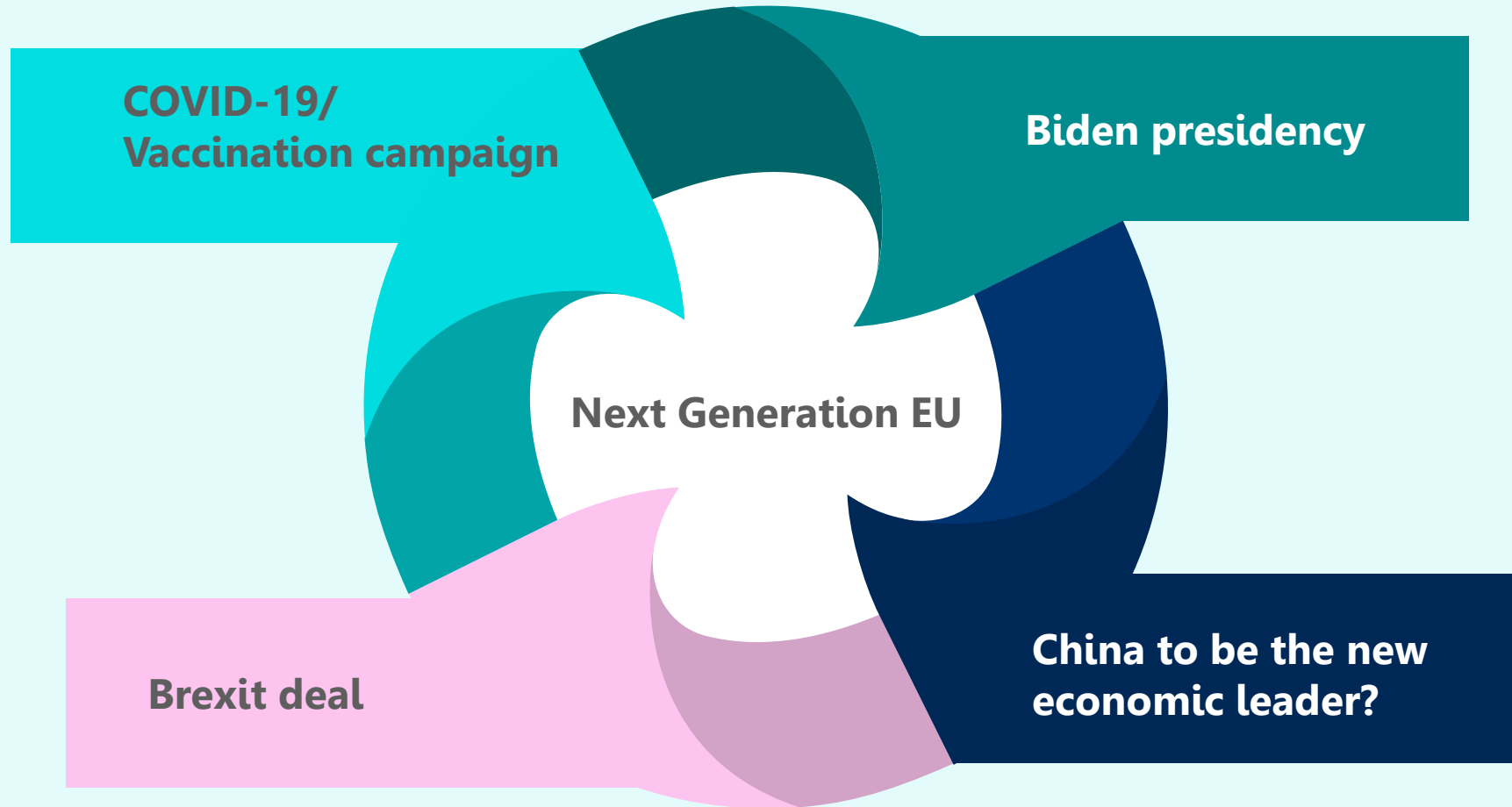


Source: BIS



**2021**  
**«Oeconomia» sana in**  
**corpore sano**

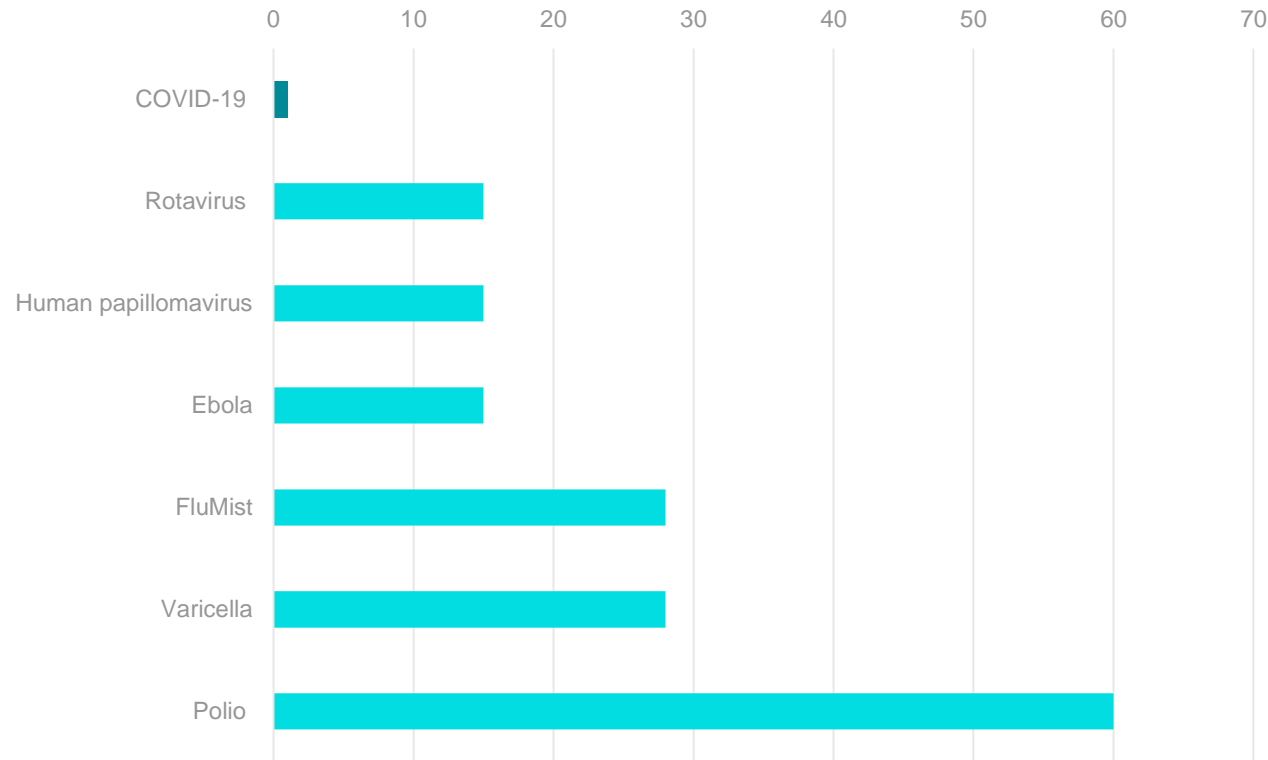
# Beginning of 2021 - Heritage of 2020



# Despite the «quickest» vaccine development in history...

Vaccine development process has typically taken a decade or longer...

## Vaccine development timeline (years)



## Main SARS COV-2 vaccines



Moderna



Pfizer/Biontech



Novavax



Sinopharm



J&J

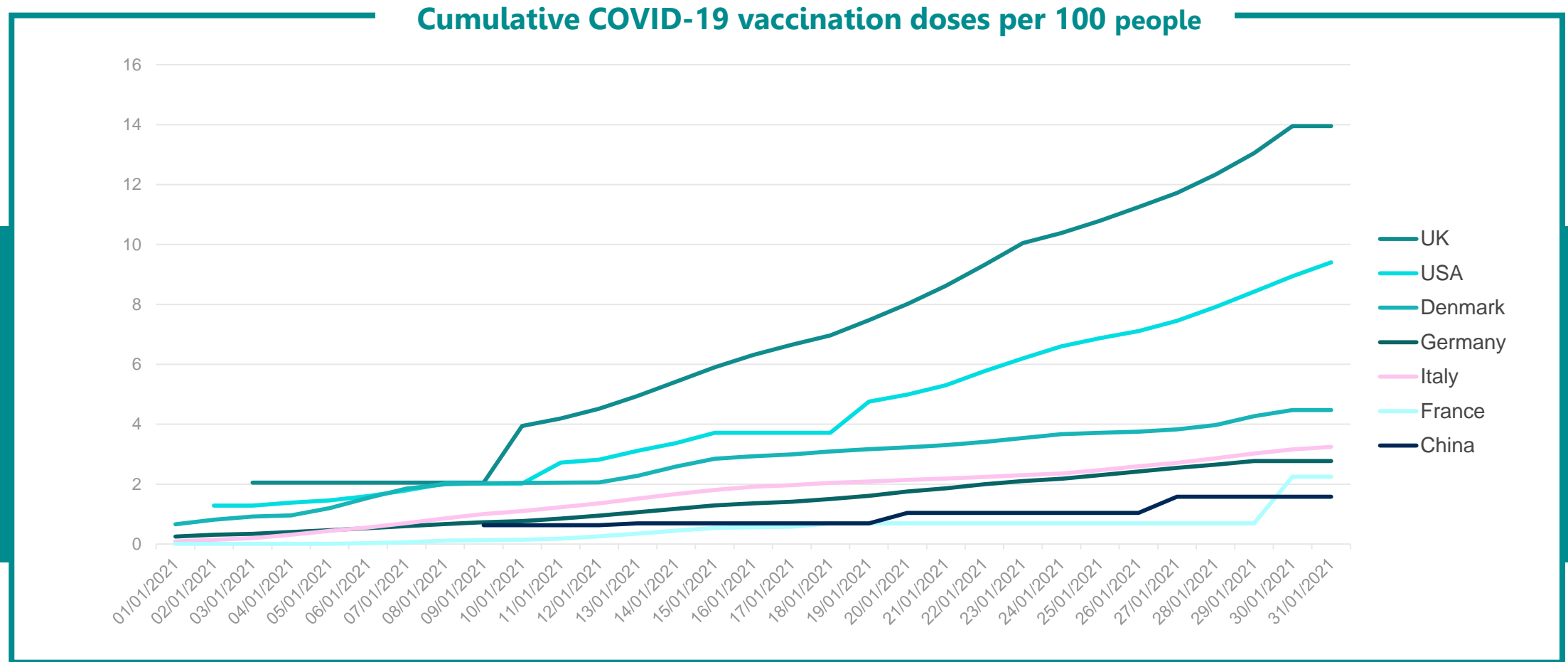


Sputnik V



# ... many uncertainties remain (virus mutations, vaccine distribution)

Herd immunity is likely to be reached only on 3Q2021...meanwhile precautionary measures remain in place



# Bideneconomics: what to expect?

On trade side, despite expected better political and economic relationships with Europe, no immediate revision on tariffs for Italian products

## Economic scenarios

- Higher Corporate taxes and public investments in Healthcare, Infrastructure and Education
- Minimum Salary increase
- Reinforcement of financial regulations
- Expanding Health-care system (Obamacare); lowering prices of medicines and drugs
- Climate: Reduce CO2 emission to 0 by 2050; rejoin Paris deal

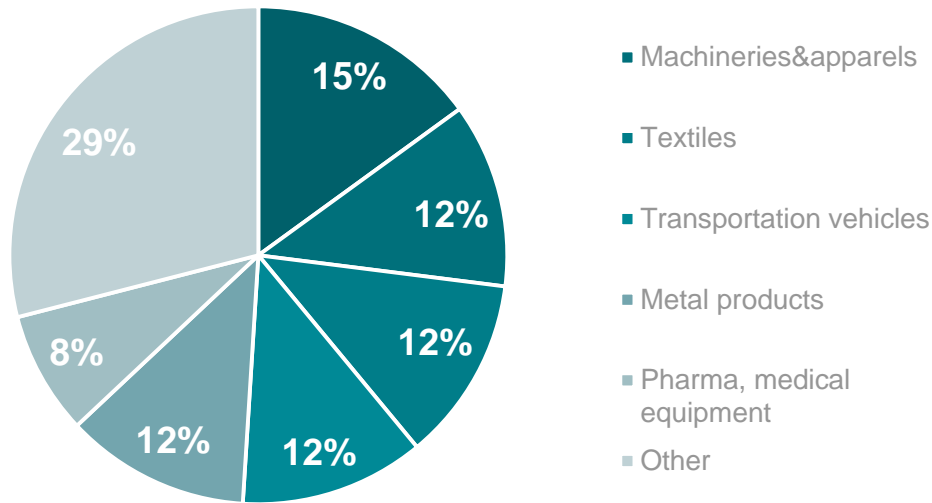
- **Europe:** More cooperation (Paris deal) & potential review of tariffs for European products (only medium-long term);
- **Russia:** Biden's win may lead to more sanctions and an even deeper freeze in U.S.-Russia relations
- **China:** expectations for tone down in conflicts, but little likely to change
- **Middle-East:** many crisis spots, situation to be evaluated at more granular level

## Geo-political relationships

# BREXIT deal «saved» €25bn. of Italian export

The deal prevented hard Brexit and new barriers to trade in goods and services; border controls restored.

## Italian export to UK



**5.2%**  
of total Italian  
Export

**2.2%**  
of total Italian  
Import

## New tariffs avoided

Beef, dairy, poultry, pork, lamb, cereals, sugar and several processed foodstuffs

**+50% or above**

Processed fish products

**+25%**

Cars

**+10%**

Textiles and footwear

**+12% & +17%**

# China to be the new world economic leader?

RCEPP and CAI deals sealed in 2020 reinforce new leadership of China at global level

## RCEPP

30%  
Global  
Economy

2.2bn  
consumers

30%  
Global  
population

- Italy's export towards these Countries up to \$43bn (8% of Italy total export)
- First time rival East Asian powers China, Japan and South Korea have been in a single free trade agreement
- Aim to reduce or remove tariffs on industrial and agricultural products

## CAI

198bn  
EU export to  
China (2019)

362bn  
EU import  
from China  
(2019)

140bn  
EU FDI to China  
over the last 20  
years

**Removes barriers to foreign investments in China for certain EU industries like:**

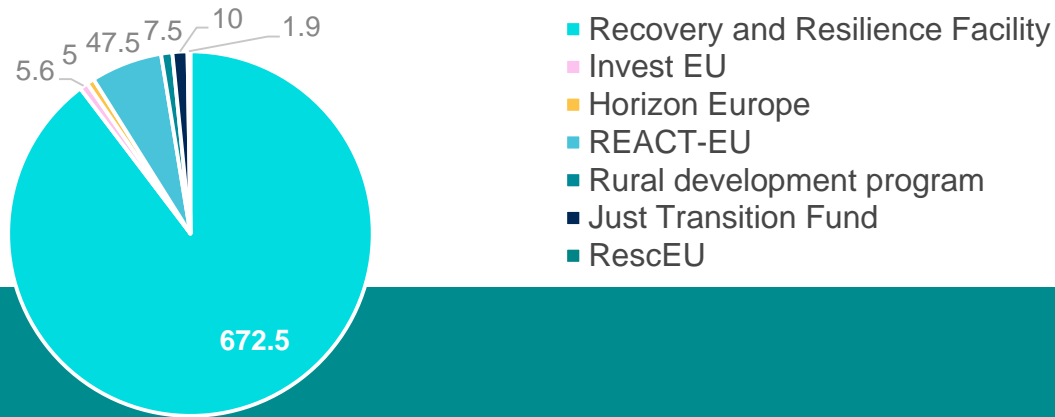
- Transport and telecom
- new energy vehicles
- cloud computing services
- financial services and health

**Elimination of quantitative restrictions, equity caps or joint venture requirements**

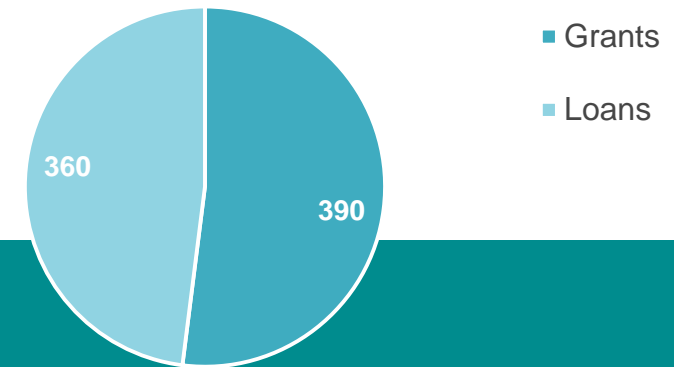
# The impact of Next Generation EU for 2021 remains subdued

The biggest recovery plan in the European Union history is ready to be deployed but full implementation will take many years

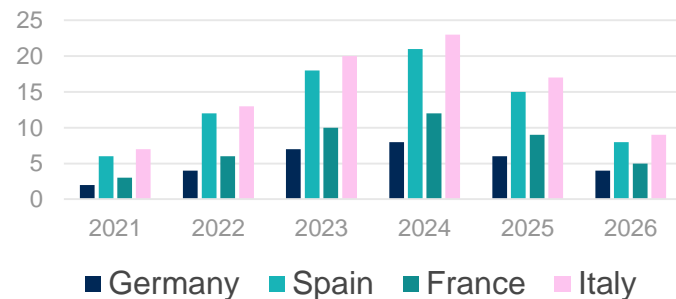
**NGEU: EU total allocation (750 Eur bn.) by instrument**



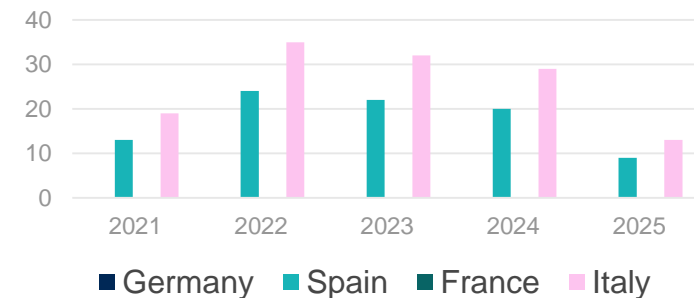
**Total Next Gen.EU (Eur bn.)**



**Grants Next Gen. EU (Eur bn.)**



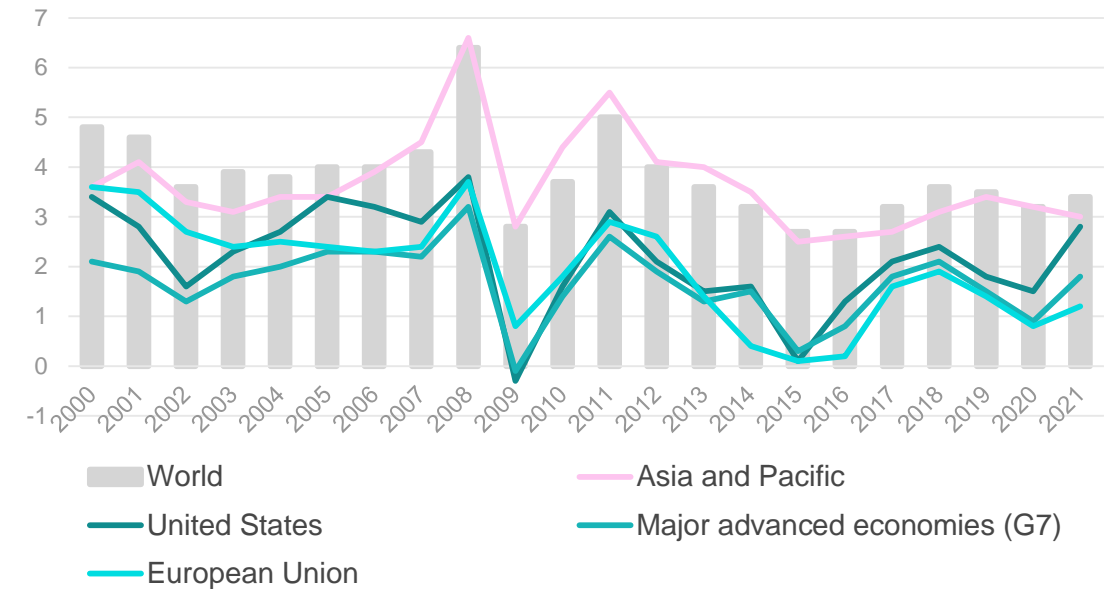
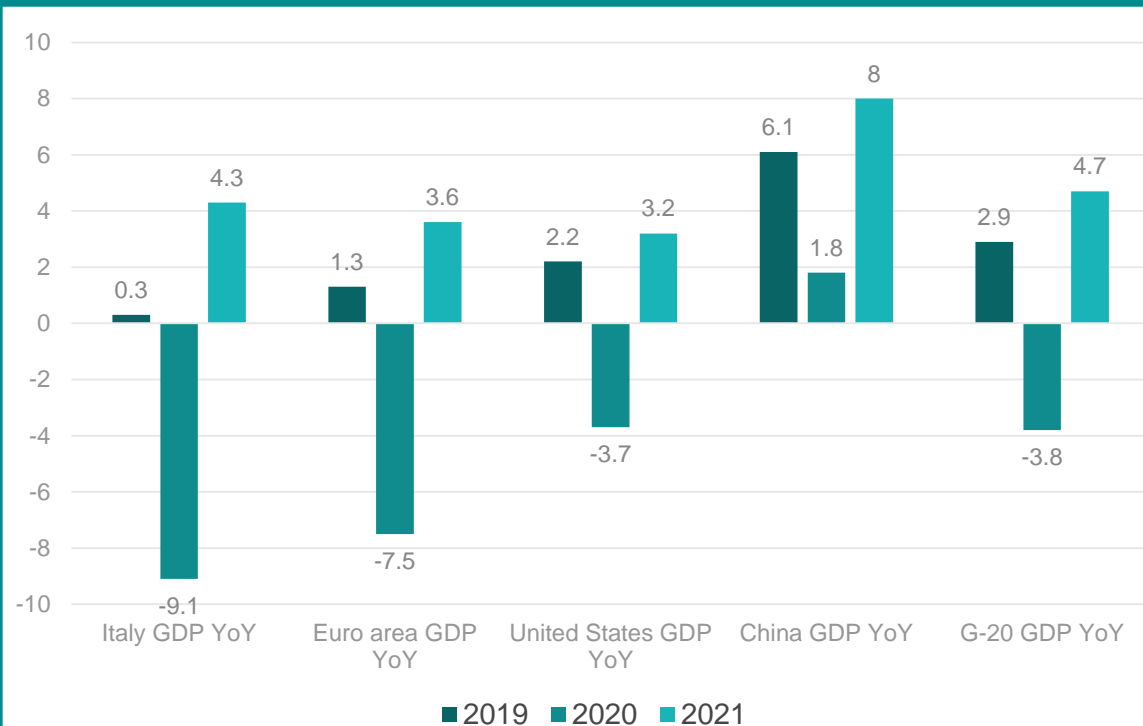
**Loans Next Gen.EU (Eur bn.)**



# The global economy will rebound in 2021; Inflation to remain broadly low

The strength of the recovery is seen to vary significantly across countries and geographical regions

## Real GDP growth



## Inflation World

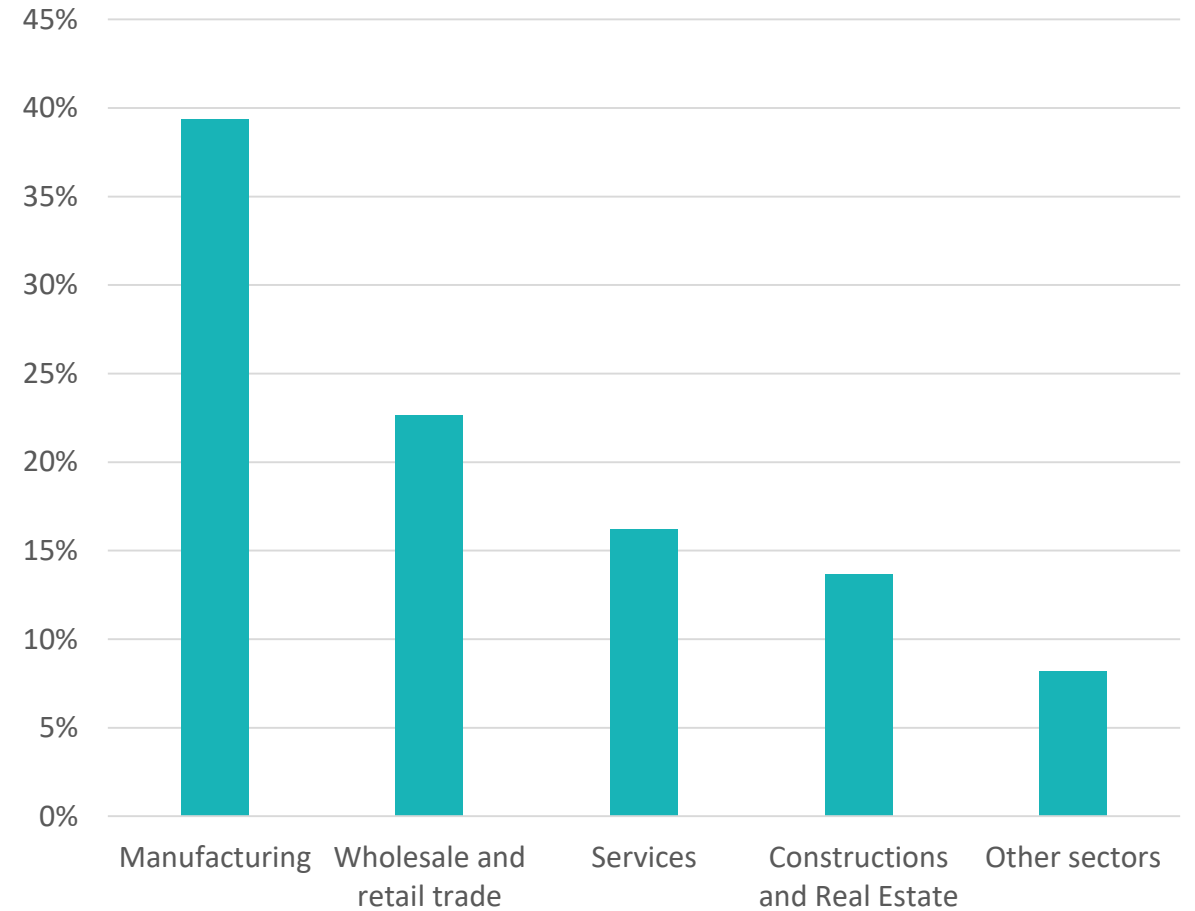
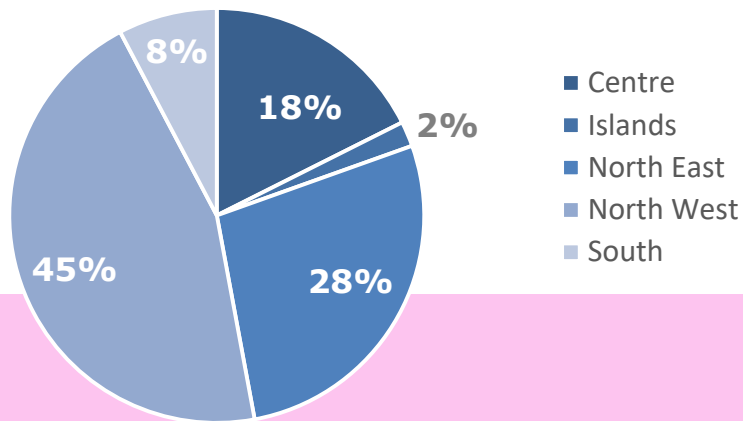
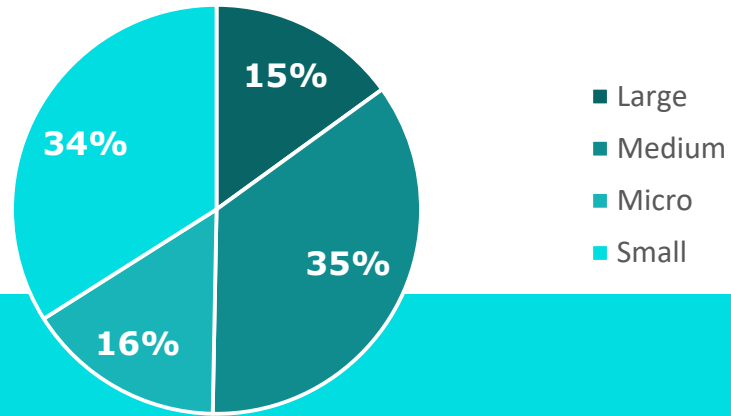




# Italian non-financial companies economic Outlook 2021

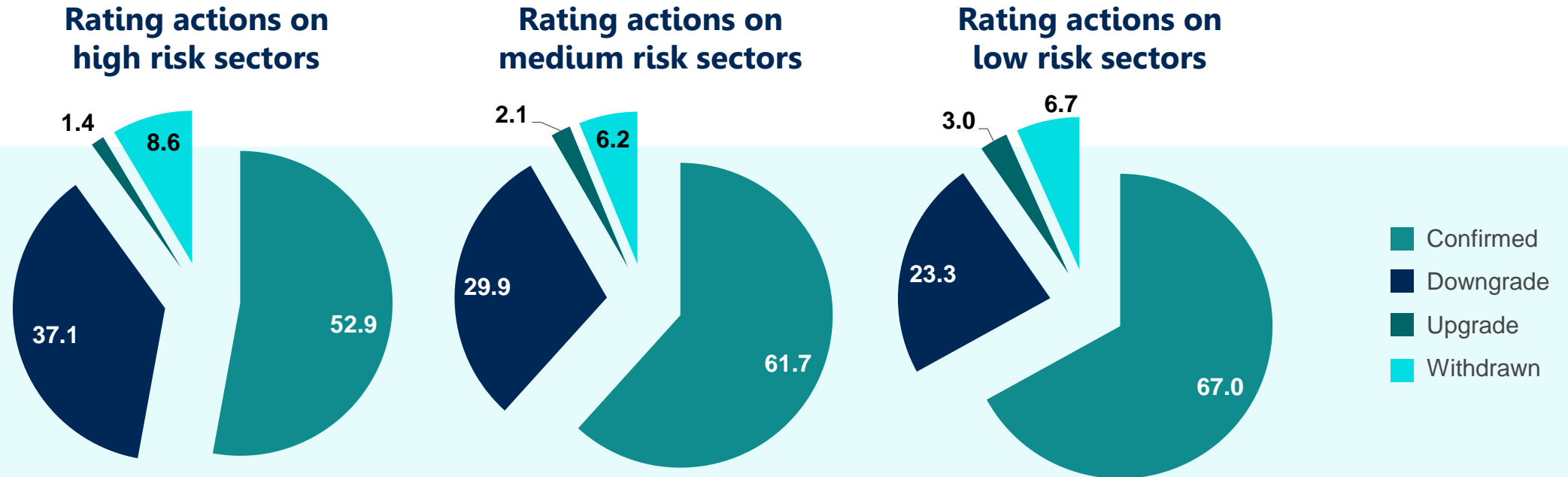
# Breakdown of ratings outstanding as of December 2020

The sample consists of 25.746 credit ratings outstanding as of 31.12.2020



# Research activity showed the way...

Higher risk sectors identified a priori\* by the Agency's research activities at the very beginning of the pandemic eventually experienced most downgrades\*\*



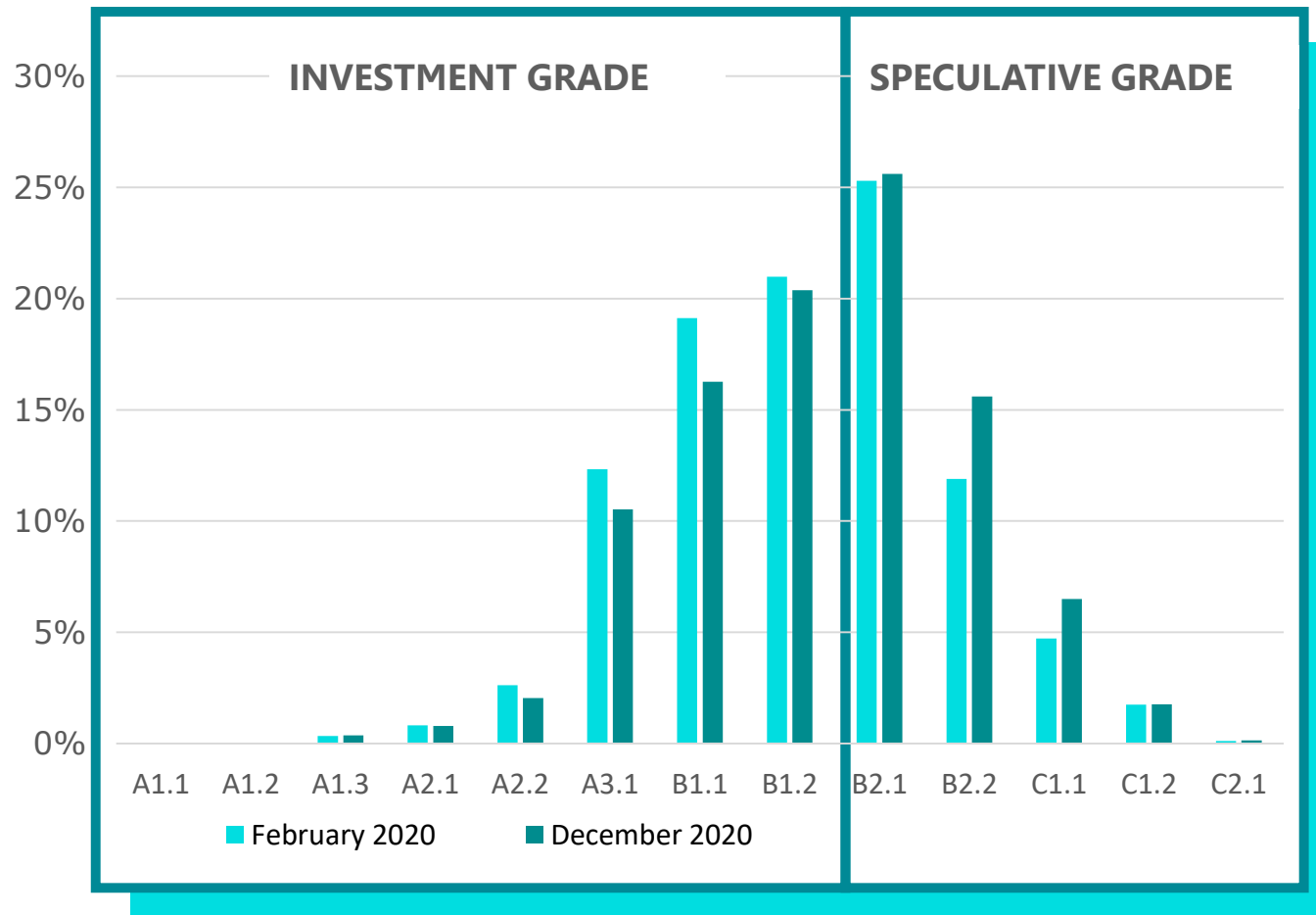
\*Sector clustering by estimated risk level as of March 2020

\*\*Rating actions from 1<sup>st</sup> March to 31<sup>st</sup> Dec. 2020

Source: Cerved Rating Agency

# COVID impact on NFC Italian corporates ratings

Portfolio of outstanding ratings showed that the Speculative grade ratings increased by 13.2% in 2020



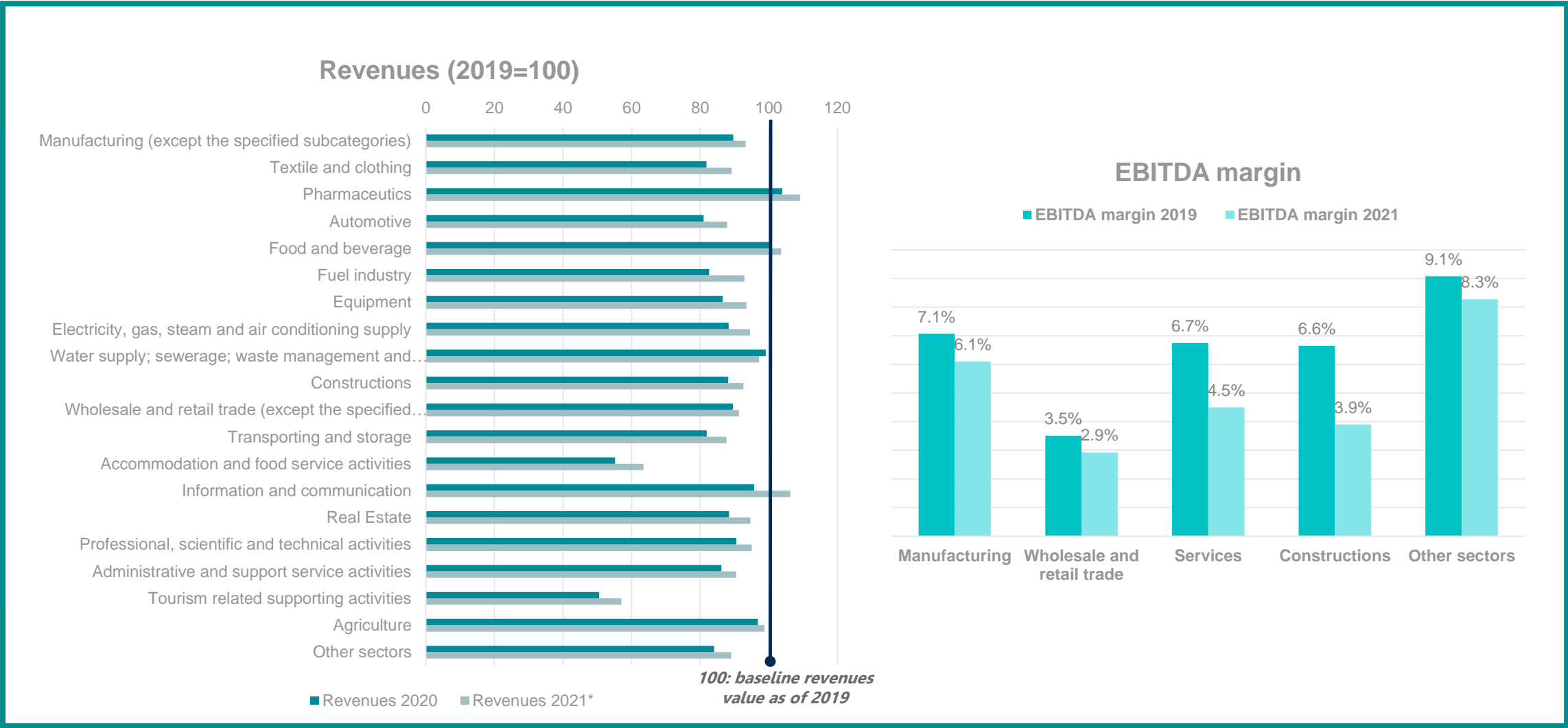
Area	February 2020	December 2020
Safety	16.1%	13.8%
Solvency	40.1%	36.6%
Vulnerability	37.2%	41.2%
Risk	6.6%	8.4%

Grade	February 2020	December 2020
Investment	56.2%	50.4%
Speculative	43.8%	49.6%

# Main Outlook drivers and assumptions

DRIVERS	ASSUMPTIONS
VACCINATION ROLLOUT	Herd immunity by 3Q 2021; cases decrease as vaccination campaign progress
ECONOMIC ACTIVITY REBOUND	2021 GDP +3.5% (Banca d'Italia) 2021 Households consumption +3.2% (Banca d'Italia) 2021 Export +9.8% (Banca d'Italia)
GOVERNMENT ECONOMIC MEASURES	Job retention schemes, Moratoria, Guaranteed Loans, Consumption incentives bonus
NEW NORMAL	E-commerce, E-delivery, Digitalisation

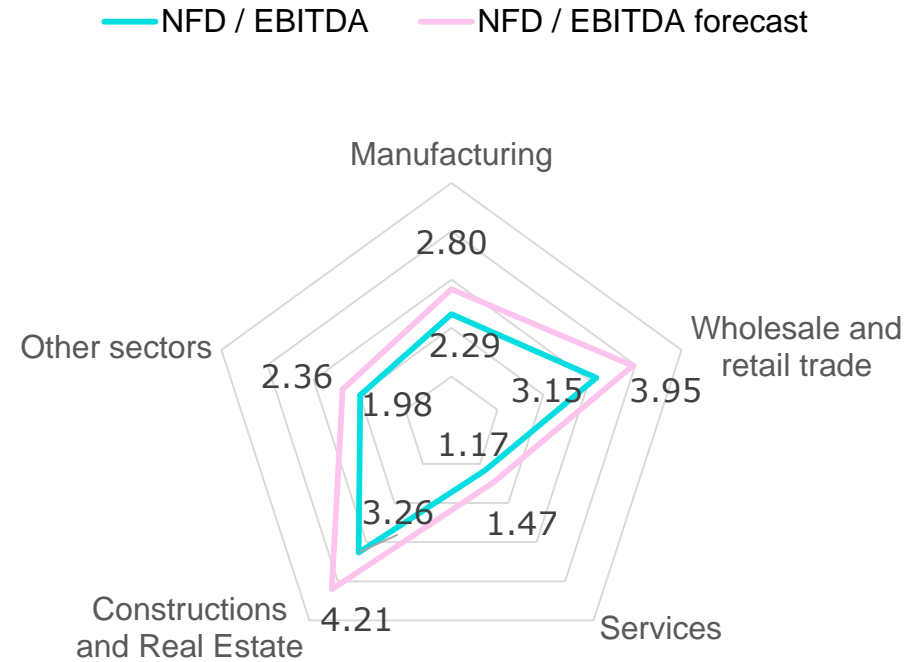
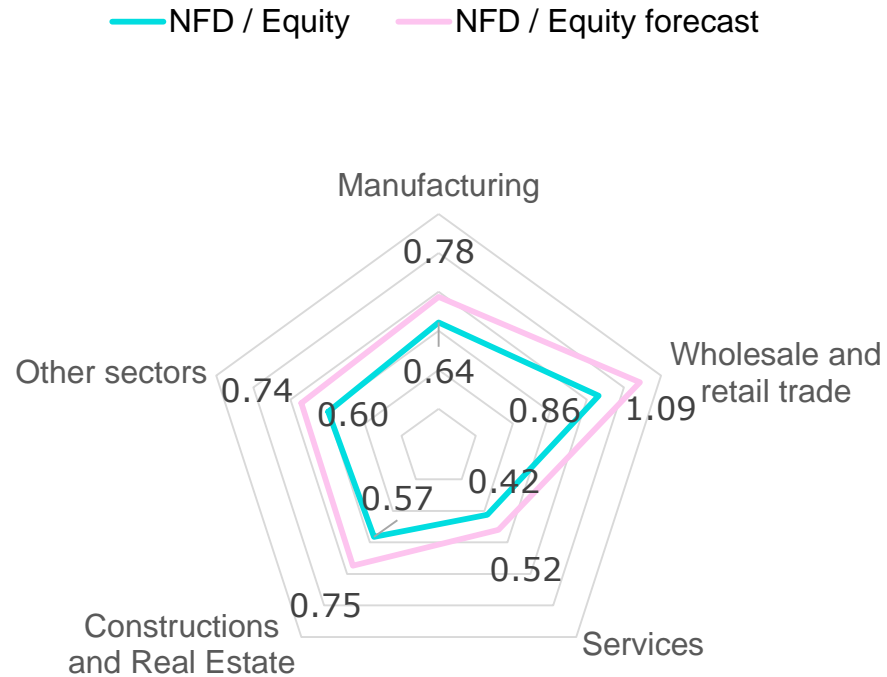
# 2021 – Revenues and operating margins to rebound but still below pre-Covid levels





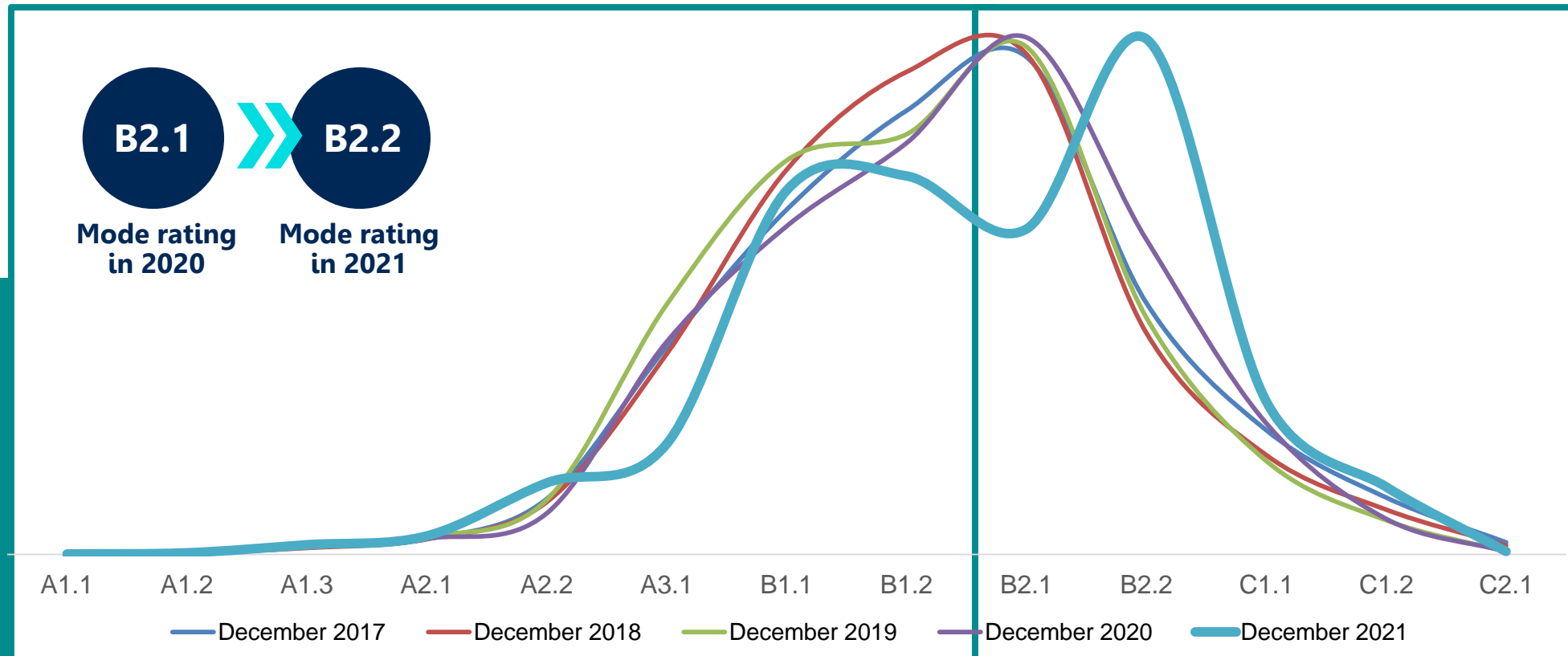
# But financial leverage is expected to worsen...

Improved access to guaranteed loans will weigh on the financial structure with the risk of wiping out more than 10 years of de-leveraging by Italian companies



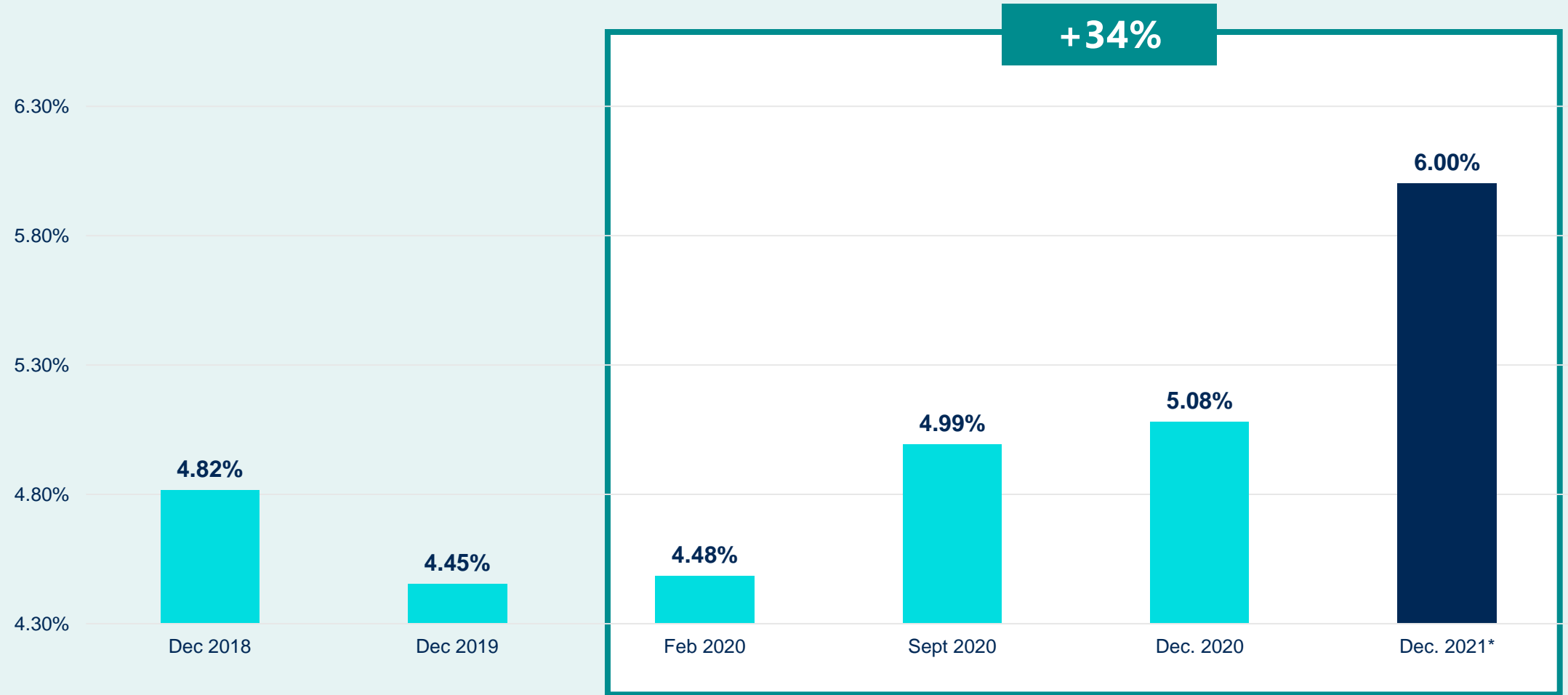
# Shift toward Speculative Grade rating classes

General negative trend of rating migrations due to higher expected riskiness of Italian non financial companies



# Average Probability of Default to jump up to 6% in 2021

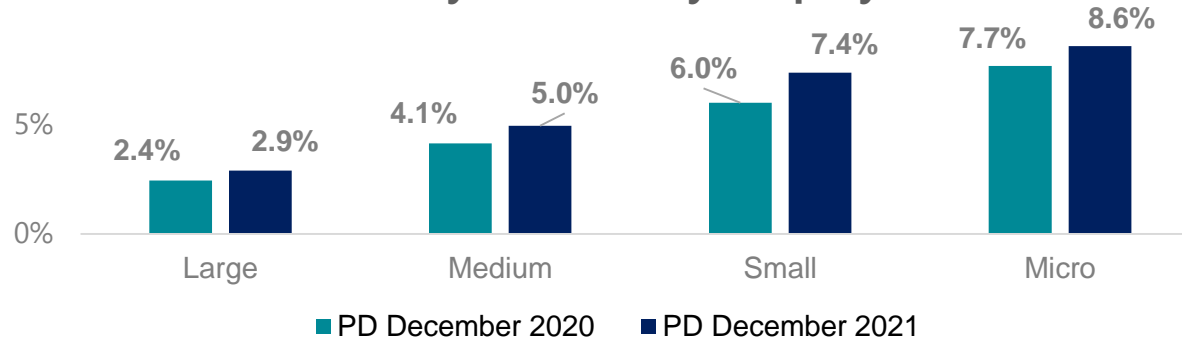
Since the pandemic outbreak, the historical probability of default could increase up to + 34% in December 2021



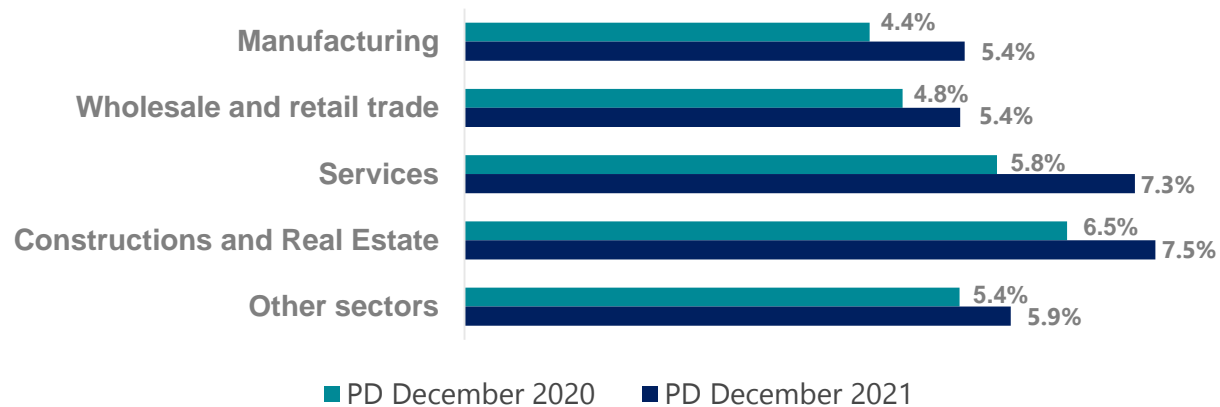
# High level of PDs variance

Non-homogeneous risk distribution across size, industries and geographical areas

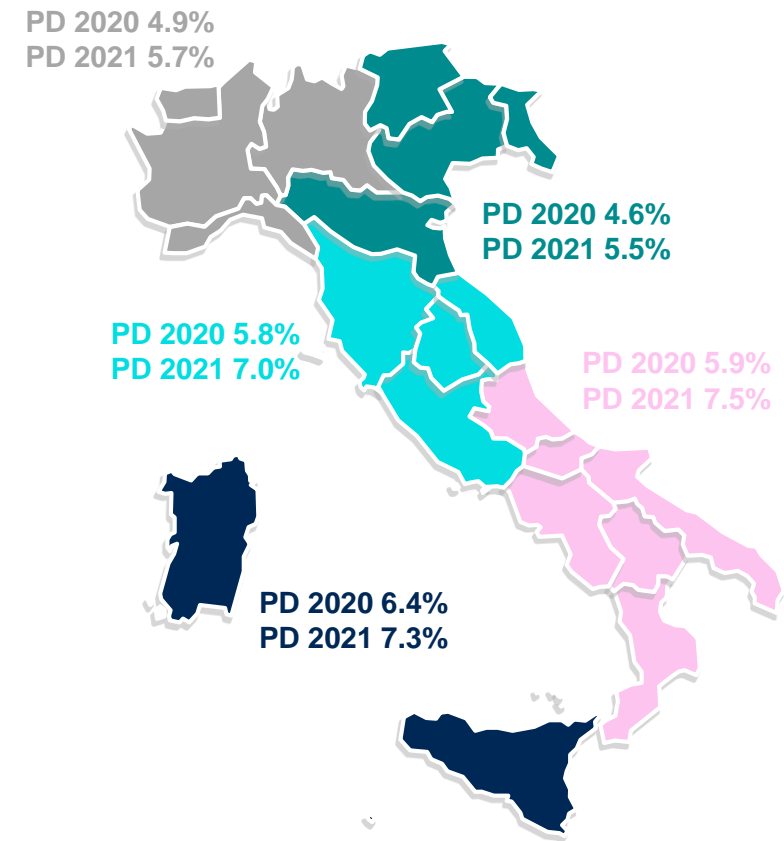
Probability of Default by company size



Probability of Default by industries

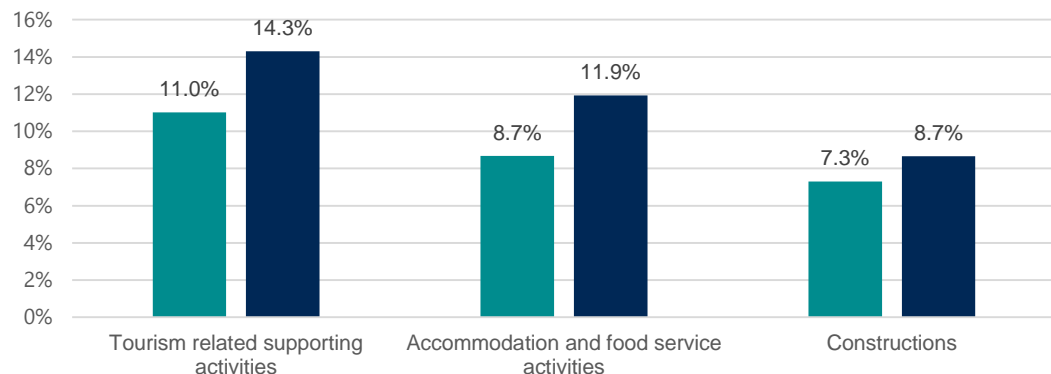


Probability of Default by Geographical area

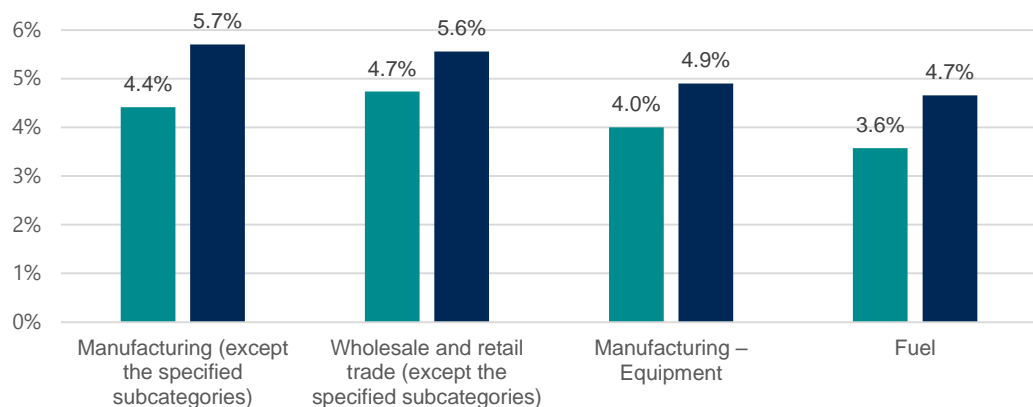
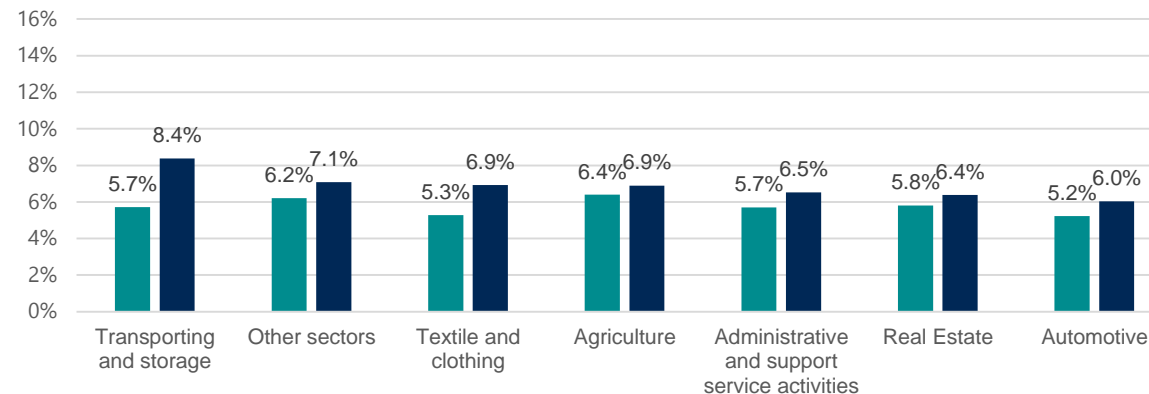


# Highest PDs are more than twice the average portfolio ones

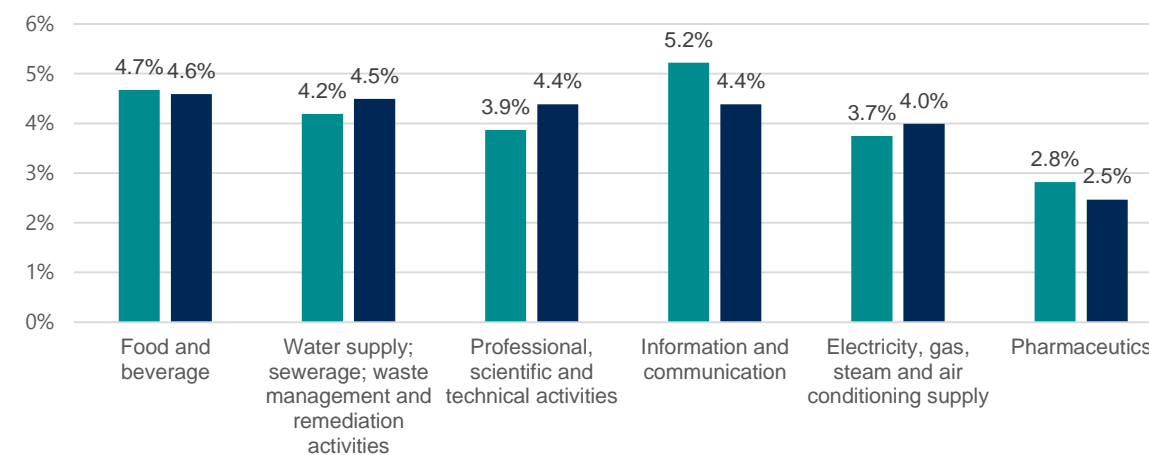
## HIGH RISK



## MEDIUM-HIGH RISK



## MEDIUM-LOW RISK



## LOW RISK

# Within the first three riskiest sectors, around 115K companies could face a default event

Companies  
at risk



## CONSTRUCTIONS

744.187 active companies

65.000



## ACCOMMODATION AND FOOD SERVICE ACTIVITIES

398.132 active companies

47.000



## TOURISM RELATED SUPPORTING ACTIVITIES

17.571 active companies

2.500

**1.15 million companies** operate in these sectors, employing more than **3 million** people

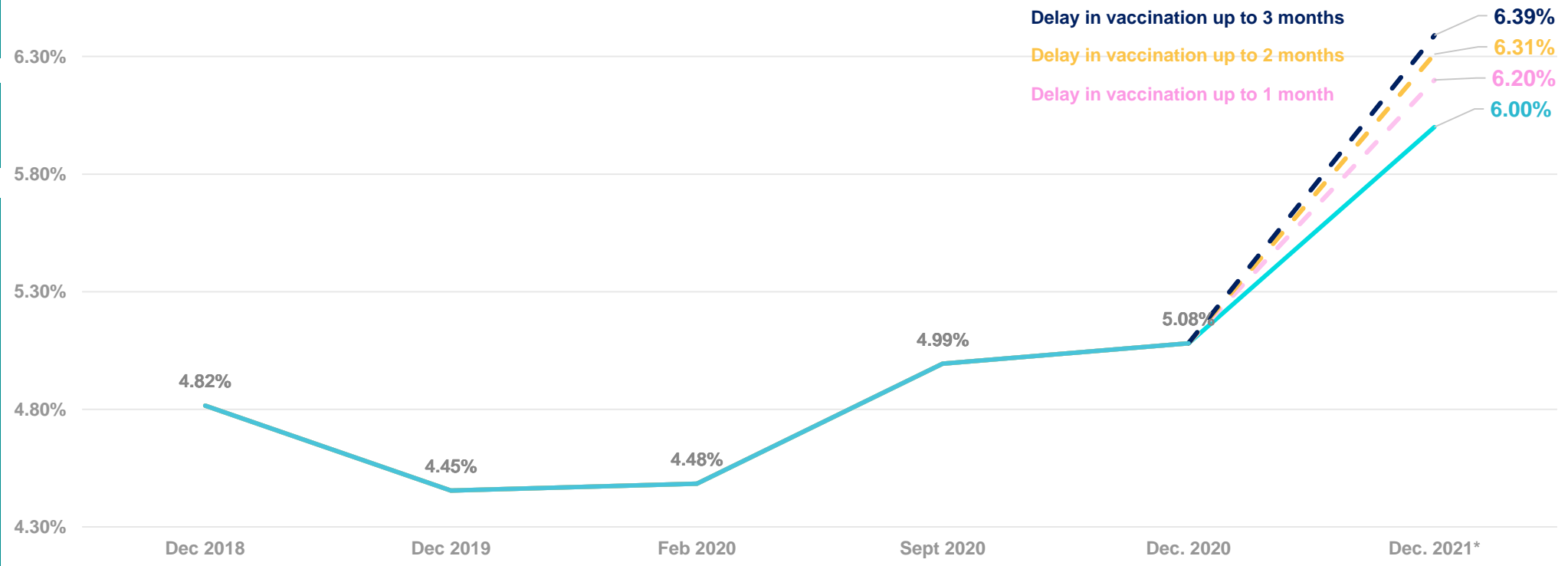
Out of these, **around 10%** (roughly 115K companies) are at **high default risk**

This number is **expected to rise** in case of **delays** in vaccine campaign...

# Up to 40 bps of PD if the vaccination campaign target delays 3 months

Assumption of "Herd immunity" by the 3Q 2021; non-linear negative impact of the delay in vaccination campaign

Evolution of PD based on vaccination campaign rollout



# KEY FINDINGS

- Expected Portfolio PD (2021) 6% vs 5.1% (2020)

- High dispersion across sectors: Tourism, Hospitality and Constructions show highest, Pharma, Utilities and IT the lowest risk of default

- Within the first three riskiest sectors 115k companies could face a default event

- Uncertainty remains: up to 40bps of PD increase in case of vaccine distribution target delay

- Beyond 2021: PDs declining as the economic recovery is expected to consolidate



# Be data-driven



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