

EUROPEAN CORPORATES: (ACTIVE) CASH IS KING

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European non-financial corporates have seized the opportunity of state-guaranteed loans to build up cash reserves, especially in France (EUR183.8bn), the UK (GBP157bn) and Italy (EUR84.5bn). Looking at subsidies and partial unemployment schemes as a share of the loss of NFC's value added over Q1-Q3 2020, we find that companies in the Netherlands, Belgium and the UK benefited from the most direct liquidity state support in 2020, which helped protect their profitability at a time of crisis (see Figure 1). Direct state support has also been key to lower NFC cash losses and protect their net savings.

At the same time, NFC total deposits have increased across all European countries, with highest rises registered in France (+26% to EUR880.3bn), the UK (+26% to GBP757.4bn) and Italy (+27.5% to EUR391.6bn) - see Figure 2. However, comparing the increase in NFC deposits to the increase in NFC new bank loans, we find that the highest excess cash holdings in the UK (GBP117bn), Germany (EUR84bn) and France (EUR79bn) - see Figure 3. This means that in these countries, NFCs mainly used new loans to build up cash reserves. In countries where the difference between the increase in deposits and the increase in loans is negative (the Netherlands and to a lower extent Italy), companies used parts of their cash reserves in addition to the loans.

Figure 1 – State support to NFCs, direct liquidity vs guarantees

NFC	Gross value added (Q1-Q3 2020 vs Q1-Q3 2019), EURbn	Liquidity state support (subsidies and partial unemployment schemes), EURbn	Share of liquidity state support in VA loss	Gross operating surplus (Q1-Q3 2020 vs Q1-Q3 2019), EURbn	Margins (Q1-Q3 2020 vs Q1-Q3 2019), pp	Taxes on production, Q1-Q3 2020, EURbn	Taxes on income & wealth Q1-Q3 2020, EURbn	Cash from operating activities, Q1-Q3 2020, EURbn	Cash from operating activities, Q1-Q3 2019, EURbn	State Guaranteed Loans (take-up), EURbn
Germany	-76	46	60%	-46	-1.2	9	-49	-13	3	59
France	-105	77	73%	-66	-3.7	51	-32	-34	25	135
Italy	-75	39	52%	-37	-0.7	13	-16	0	21	118
Spain	-71	33	47%	-41	-2.7	7	-13	38	68	118
Netherlands	-11	20	178%	3	2.2	5	-17	45	37	40
Belgium	-18	18	97%	-10	-1.1	3	-6	7	18	50
UK	-71	60	85%	-13	1.1	25	-32	3	27	58

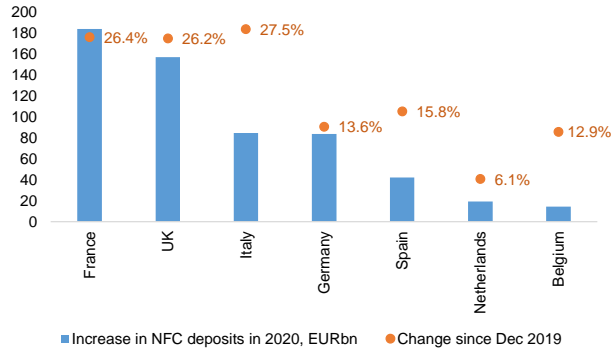
Sources: Eurostat NFC accounts, Allianz Research

Overall, the build-up of cash reserves is positive as it provides buffers for future debt redemptions even if this is not a short-term concern anymore. In line with our expectations¹, most European governments have increased (or are expected to) the maturity of state-guaranteed loans as well as their grace periods (see Figure 4). Hence, debt repayments should be less of a future cash-flow issue in 2021, which is good news considering that the

¹ https://www.eulerhermes.com/en_global/news-insights/economic-insights/Europe-One-in-four-corporates-will-need-more-policy-support-in-2021-to-avert-a-cash-flow-crisis.html

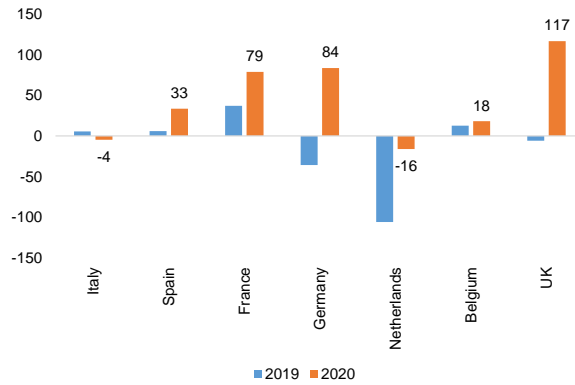
debt coverage ratio remains below the Eurozone average in Italy, France, Spain and Belgium (see Figure 5).

Figure 2 – Increase in total NFC deposits, as of December 2020



Sources: ECB, Bank of England, Allianz Research

Figure 3 – Increase in total NFC deposits minus increase in total NFC new loans, bn local currency



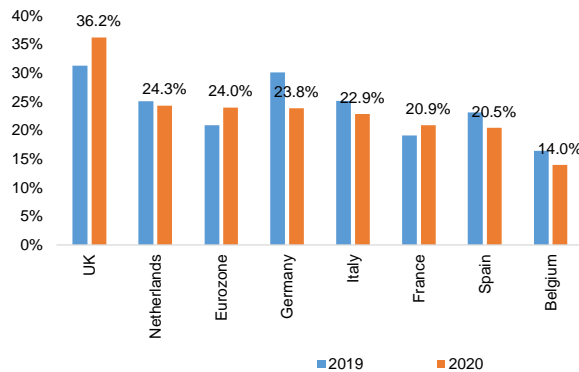
Sources: ECB, Allianz Research

Figure 4 – State-guaranteed loans (SGL) grace period and maturity

Country	SGL grace period (years)	SGL maturity (years)
Germany	2	10
France	2	6
Italy	3	6
Spain	2	8
Belgium	1	Max. 12 month; for SMEs extension possible up to 3-yr
Netherlands	1	BMKB : 4 GO-C : 6
UK	1.5	10

Sources: various, Allianz Research

Figure 5 – NFC total deposits / total bank debt

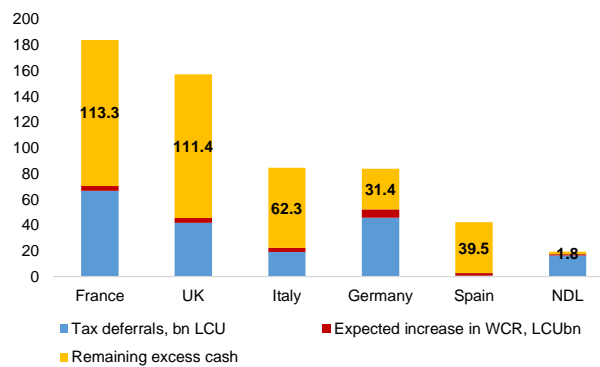


Sources: ECB, BIS, Allianz Research

In the very short-term, with loan repayments delayed by at least one year in most European countries, NFC excess cash is likely to be used to repay tax deferrals and finance additional working capital requirements. Hence, we find the highest upside risks to the investment recovery in France, the UK, Italy and Germany. During recovery phases, when companies rebuild inventories² and payment discipline is likely to relax, WCR tend to increase. This was the case in 2010 (+2 days on average in Western Europe) and in 2017 (+1 day). Taking into account an increase of 2 days in 2021, we find that additional financing of EUR6.6bn would be needed in Germany, EUR4bn in France, GBP3.8bn in the UK, EUR3.2bn in Italy, EUR2bn in Spain, EUR1bn in the Netherlands and EUR0.8bn in Belgium. If we add to this the tax deferrals from 2020, we find the highest remaining cash piles for companies in France (EUR113bn or more than 8% of GDP), the UK (GBP111bn or more than 6% of GDP), Italy (EUR62bn or more than 5% of GDP) and Germany (EUR31bn or 3% of GDP).

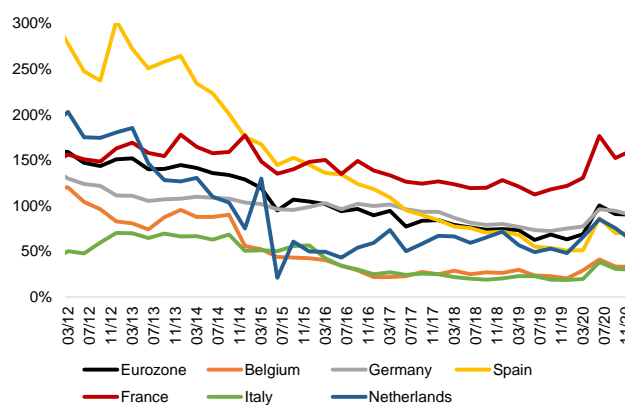
Exiting the Covid-19 crisis will be key to bringing confidence back and transforming this excess cash into investment. But until this happens, the cost-effectiveness of state support measures remains a question.

Figure 6 – Increase of working capital requirements and tax deferrals vs NFC “excess cash”, bn LCU



Sources: ECB, Bloomberg, Allianz Research

Figure 7 – NFC deposits to total gross fixed investment



Sources: Eurostat, ECB, Allianz Research

² https://www.eulerhermes.com/en_global/news-insights/economic-insights/is-the-chinese-ox-reflating-the-world-one-container-at-a-time.html

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