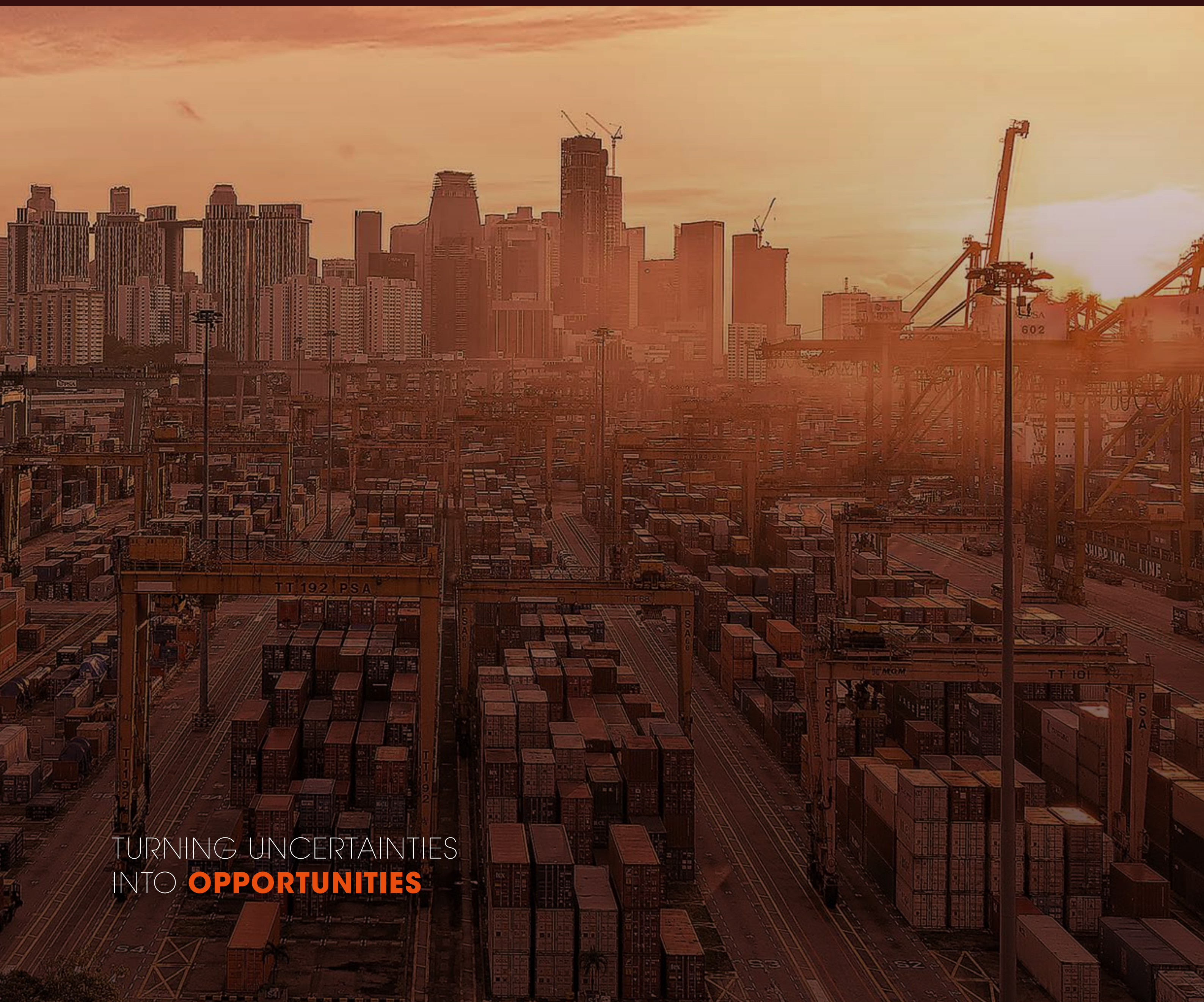
CREDENDO

EXPORT BAROMETER **2020**

HOW HAS **THE COVID-19 CRISIS** IMPACTED BELGIAN EXPORTERS?



TURNING UNCERTAINTIES
INTO **OPPORTUNITIES**

2020 EXPORT BAROMETER:

HOW BUSINESSES ARE DEALING WITH THE PANDEMIC

- **1,164 businesses** have taken part in the fifth Export Barometer survey carried out by Credendo and Trends-Tendances
- No less than **24 sectors** are represented among the respondents
- The hot topic in the 2020 barometer is obviously the **Covid-19 pandemic**
- Businesses **remain** on the whole fairly **confident** despite the crisis
- However, the **economic impact** will continue to be felt in 2021

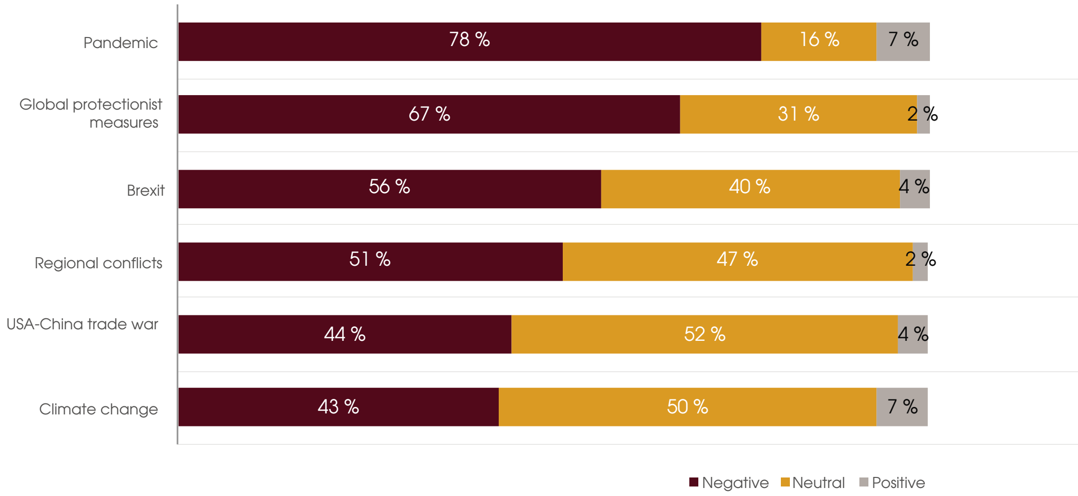
Trends tendances & CREDENDO

PROFILE OF BUSINESSES ACTIVE INTERNATIONALLY

As in previous years, half of the businesses surveyed are active in export markets. Neighbouring countries (the Netherlands, Germany, France, the United Kingdom) are still by far the primary markets, cited by nearly eight out of ten exporting businesses. This is followed by non-neighbouring EU nations (33%), the United States and Canada (17%), non-EU European countries (16%) and Asia (16%). Asia is, however, cited as a promising export market by 35% of businesses. Unsurprisingly, large-scale exports outside Europe relate much more to businesses that earn more than half their turnover from exports. Asia (32%) and the United States and Canada (31%) are the major markets for these businesses.

Even before the second wave of Covid-19 hit in the autumn, the World Bank estimated that the planet was experiencing its deepest economic recession since the Second World War. Moreover, never before in the period since relevant data were first collected in 1870 had an economic crisis hit so many countries around the world at the same time. It is no surprise that the Covid-19 pandemic has taken centre stage among the current issues covered by the traditional Export Barometer carried out by Credendo and Trends-Tendances. Among the businesses surveyed, close to four out of every five respondents reported experiencing a negative impact. One in two even mentioned a strongly negative impact. By way of comparison, protectionism and Brexit have a negative impact for 67% and 56% of respondents respectively.

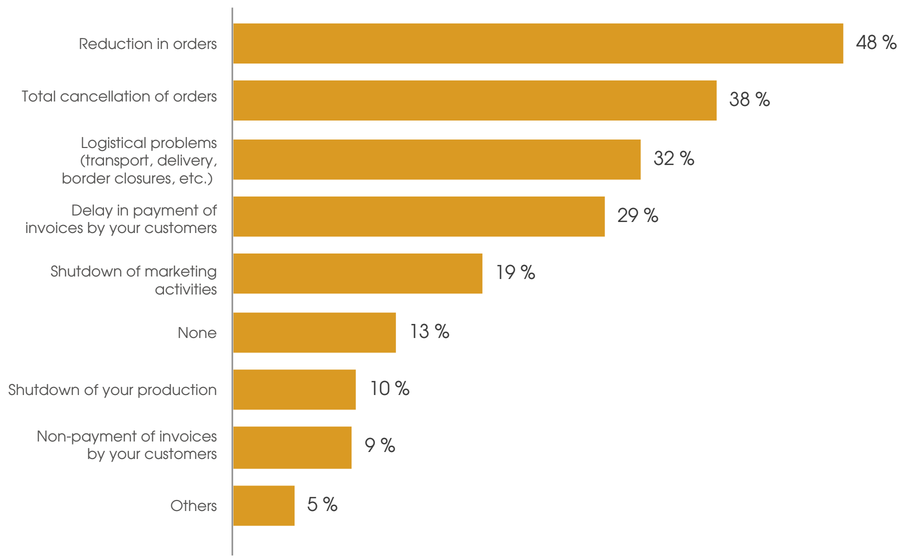
Impact of the principal sources of uncertainty



A SHOCK ON DEMAND ABOVE ALL

Since the beginning of the pandemic, temporary closures of businesses and borders and transport-related problems have been used to explain the economic slowdown. The Export Barometer also shows that the primary impact is being felt on the demand side too, with reduced and cancelled orders being cited as one of the main obstacles by the businesses surveyed. This illustrates yet again the severity of the economic shock, with consumption being driven down by confinement and a sharp rise in unemployment, and many sectors quite simply at a standstill due to lockdown. The shutdown of customer-attraction activities, production and face-to-face interactions (category: others) is also cited by many businesses.

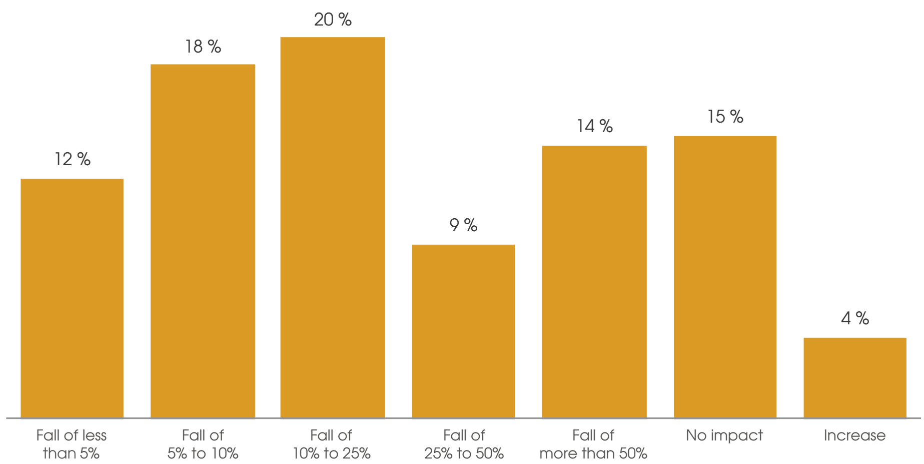
Impact of the Covid-19 pandemic



ONE BUSINESS IN TWO SIGNIFICANTLY AFFECTED

In detail, we can see that one business in seven has seen exports fall by more than 50%, with close to half of the businesses surveyed experiencing a drop in excess of 10%. Unfortunately, this does not come as a surprise. The World Trade Organisation is in fact anticipating a 9.2% fall in the volume of global trade in goods in 2020. Europe is expected to be very hard hit, with a predicted drop of 11.7% in exports, while Asia will do better (-4.5%) thanks in particular to a more limited impact of the pandemic in China, South Korea and Japan. Nonetheless, some businesses are managing to play it right and have seen their exports grow as a result of the pandemic, essentially in the food industry (exports up for 15.6% of businesses), energy (20%) and biotechnology (25%) sectors.

Extent of the impact of the pandemic on exports

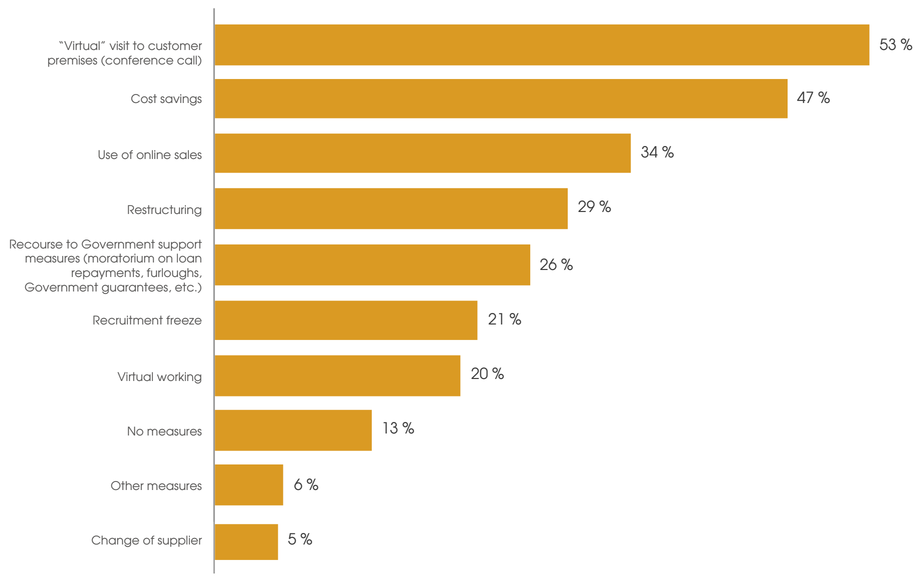


NB: the total for the responses is 92%, with 7.6% of businesses surveyed not yet in a position to estimate the impact of the pandemic on their exports.

ACCELERATED VIRTUALISATION

To deal with this crisis, businesses have adopted a range of different measures to keep their export activities moving and to stay afloat. Overall, aspects related to increased use of virtual systems and technologies are the most commonly cited, including organising virtual visits at customer premises (53% of businesses), online sales (34%) and virtual working (20%), thus an accumulated total of 107% (each business was able to indicate several responses). Virtualisation therefore ranks ahead of paring-down of corporate structures, cost savings (47%) and restructuring (29%), and ahead of recourse to Government measures (26%). We should note at this juncture that the authorities have also implemented comprehensive measures, which businesses might not have felt as active support, such as the agreement with the financial sector for a moratorium on loans, the freeze on bankruptcies, and payment deferrals. The role of the State up to this point in mitigating the impact of the crisis is therefore probably more substantial than indicated by the respondents. Over the first nine months of 2020, bankruptcies thus remained relatively limited at a figure of 5,505, 30% lower than during the same period in 2019. Unfortunately, the end of certain measures could result in a wave of liquidations.

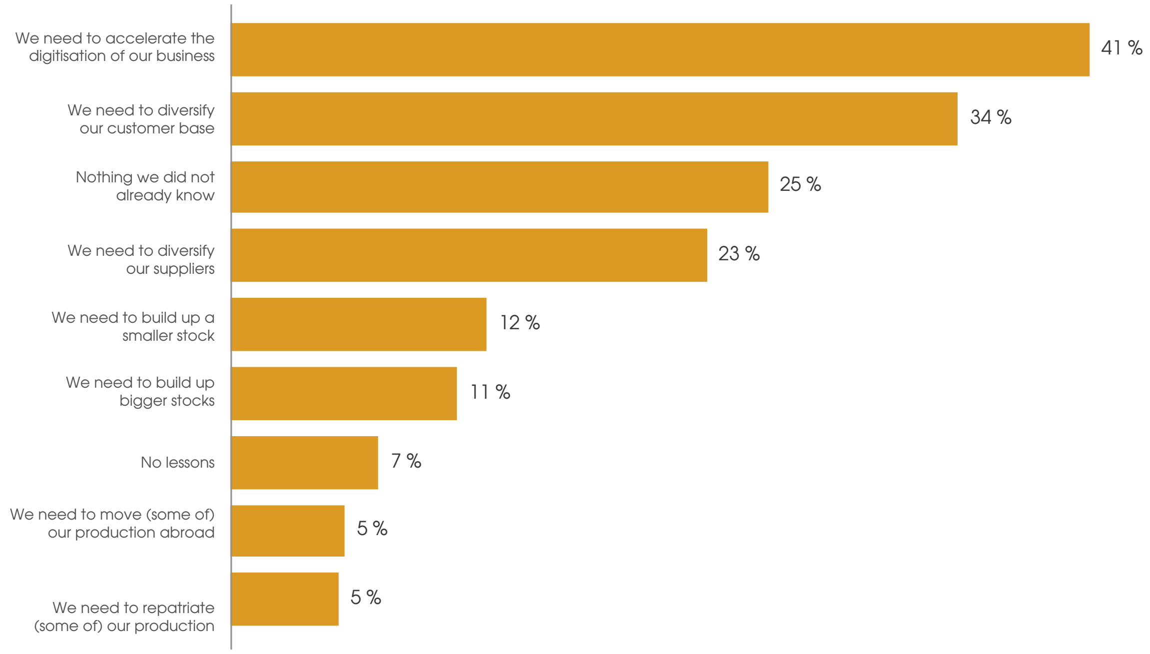
Measures implemented by businesses



THE (FIRST) LESSONS FROM THE CRISIS

Unsurprisingly, the first lesson to be learned from the crisis, according to the businesses surveyed, is that they must accelerate the use of virtual and digital systems and tools. They also want to diversify their suppliers and customers, and are looking at the geographical fit of their production activities. These lessons stem directly from the major macroeconomic issues of supply chain diversification and production relocation. They are often summarised by the phenomenon of deglobalisation, which does however mask the fact that this is essentially a reshaping of international trade, rather a "reglobalisation". In general terms, increased virtualisation and reglobalisation confirm that the pandemic has acted as a genuine trend accelerator.

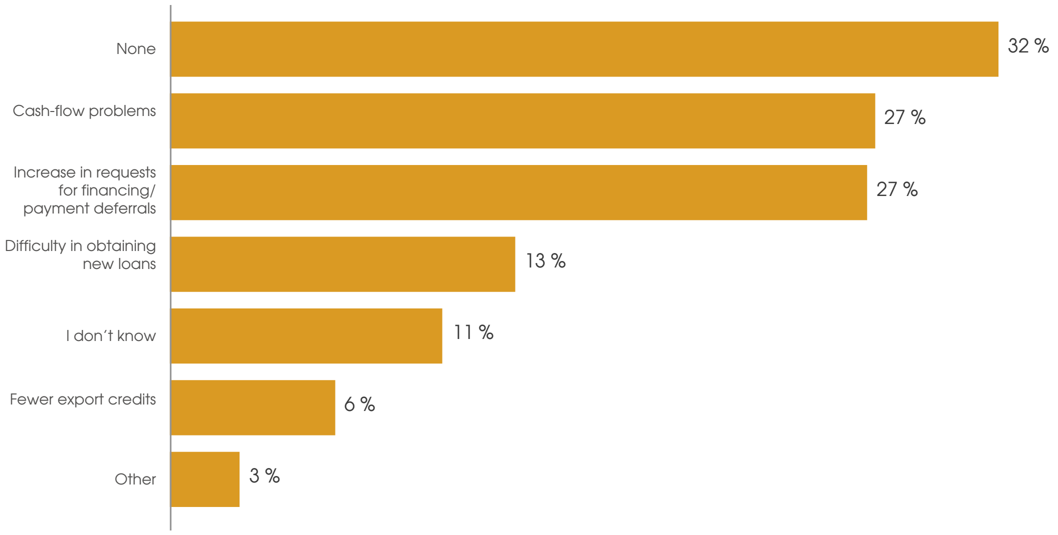
Lessons from the crisis



WIDESPREAD FINANCING PROBLEMS

However, for many businesses, the principal short-term issue associated with the crisis is managing to get through it, which unfortunately will not be possible for all respondents. Overall, one in three businesses claimed not to have been impacted. Conversely, many have experienced cash-flow issues, struggled to obtain a new loan or dealt with an increase in requests for financing or payment deferral from customers. It should be noted that Credendo has also put in place programmes intended to support businesses active internationally. On the one hand, the export credit agency extended and strengthened its activities associated with direct financing and financial guarantees to banks. Credendo has also set up a reinsurance programme for private credit insurers aimed at maintaining credit coverage, and manages this programme on behalf of the Belgian Government. The goal is clearly to avoid situations where temporary difficulties have definitive consequences for businesses.

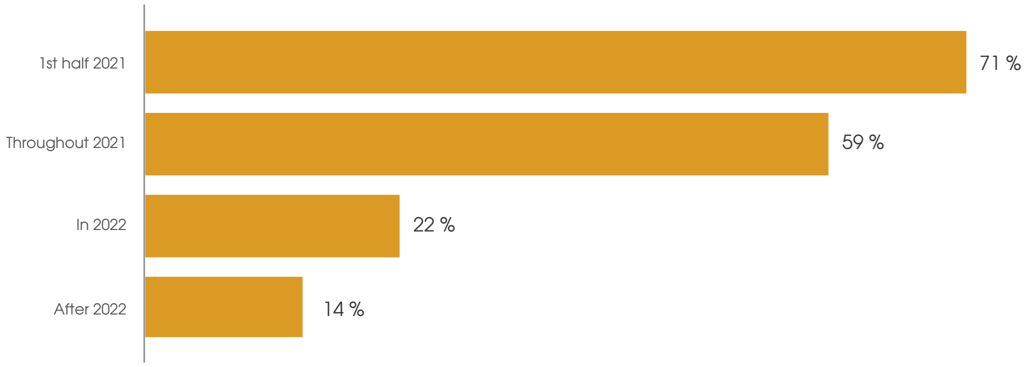
Impact of the crisis on financing needs



LASTING IMPACT ON EXPORTS

Despite the various measures put in place, one of the key lessons learned from our Export Barometer is that businesses that are active internationally are worried the impact will continue in 2021 and even beyond. Six out of ten respondents thus fear that the pandemic will have an influence on their exports throughout 2021. Once again, this generally confirms the WTO's forecasts, which anticipate growth of 7.2% in the volume of global trade in goods in 2021. This figure will not permit a return to the level recorded before the coronavirus crisis. It should be noted that 2019 had already been negative for international trade, recording a 0.1% decline in global volumes.

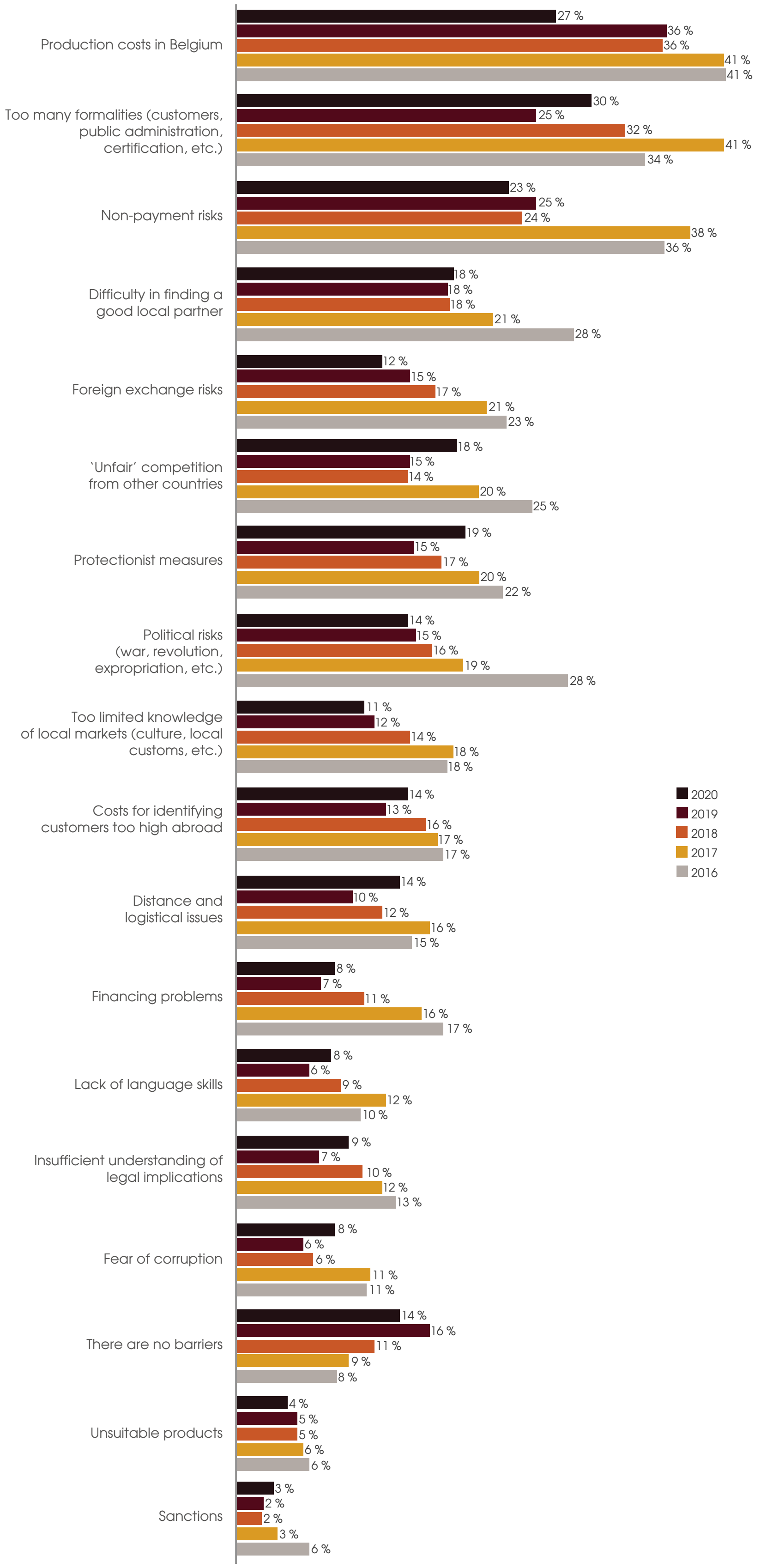
Impact of the pandemic on exports in the coming years



BARRIERS TO EXPORT

Economic factors such as the pandemic and trade disputes are far from being the only elements that affect international trade. Businesses are also dealing with more systemic challenges that limit their exports. Among the barriers singled out by the businesses surveyed, administrative formalities were the most significant in 2020, and there was also a net increase in the number of businesses citing unfair competition from other countries and protectionist measures. This is no great surprise, given an international climate marked by a certain return to protectionism. Administrative formalities (customs, various regulatory aspects, etc.) also form part of what the WTO refers to as non-tariff barriers. According to FPS Economy, the number of trade defence measures (anti-dumping, anti-subsidy and safeguards) implemented by countries against EU Member States increased by 41% between 2010 and 2018. In terms of good news, we should note that production costs in Belgium seem to be less unfavourable than in previous years, accentuating the positive trend observed since 2016. This confirms the figures on competitiveness from Eurostat and FPS Economy. Between 2008 and 2018, Belgium essentially erased its competitive disadvantage in terms of wage cost per unit produced compared to Germany and France. Non-payment risks (which we will come back to later), foreign exchange risks, political risks and lack of knowledge of local markets (with the possibility of obtaining information through the internet) are also having a much less significant effect on businesses.

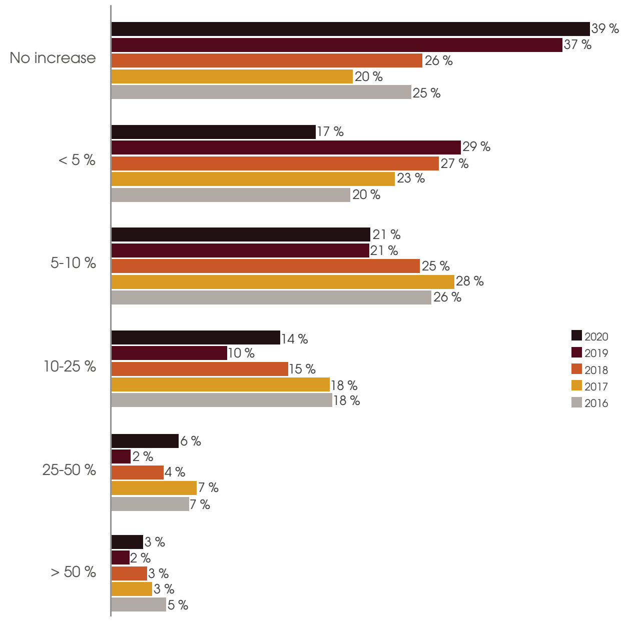
Principal barriers to export policy



WEAK EXPECTED EXPORT GROWTH

The pandemic, Brexit, trade disputes and protectionism are making the export outlook more gloomy. Nearly four out of ten businesses are not forecasting any increase in their exports over the next three years, a proportion that has doubled since 2017. We should note, however, that businesses with nil or limited exports are more pessimistic (57.3% do not predict any growth) than those that are more active in export markets. Among the businesses surveyed that earn between 25% and 100% of their turnover from exports, only one in five is banking on a zero increase in sales abroad. Close to one third are aiming for significant growth of 5% to 10% and one in five is even expecting growth of 10% to 25% in exports over the coming three years.

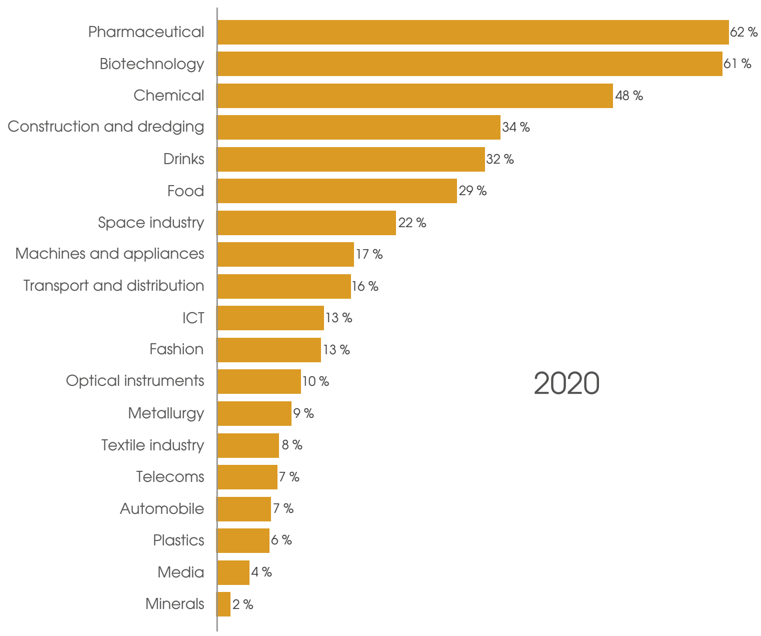
Expected growth in exports over the next three years



PHARMACEUTICALS AND BIOTECHNOLOGY THE MOST PROMISING SECTORS

According to survey respondents, the sector with the best export prospects is pharmaceuticals, which has overtaken biotechnology (61%). The pandemic has clearly further strengthened the outlook for these two sectors, which are traditionally very active in Belgium. In 2019, exports of drugs and vaccines from Belgium leapt to €49.8 billion, thus representing an eighth of Belgium's total exports. Chemicals, construction and dredging, along with the space industry, were cited less frequently than in 2019, in contrast to drinks, food, transport and distribution. It is worth noting that if we focus on the responses from businesses about their own sectors, pharmaceutical (89%) and chemical companies (80%) and manufacturers of machines and appliances (69%) are the most confident. Conversely, the automobile sector (7%) and the textile industry (17%) have doubts about their export potential.

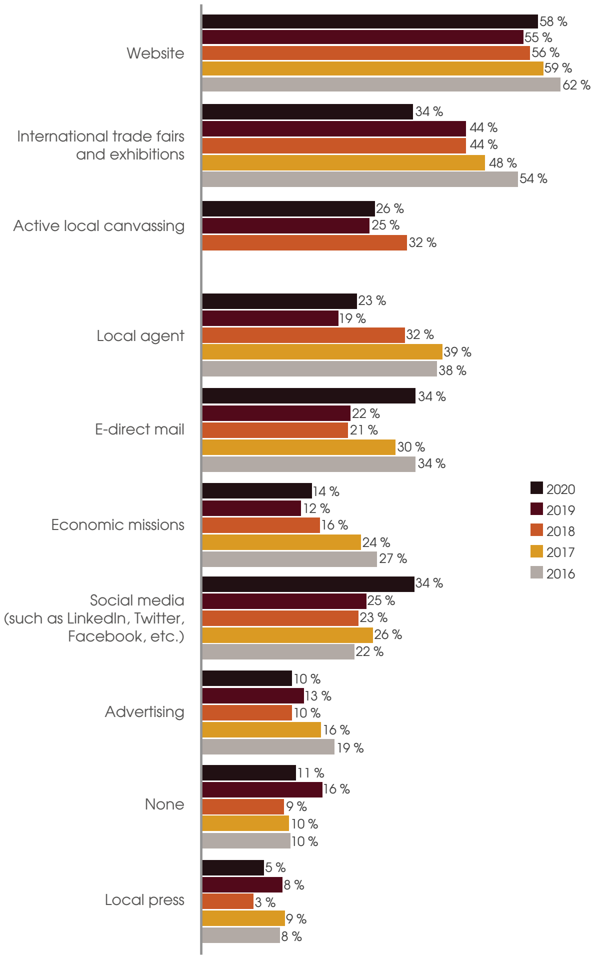
Sectors with the greatest export potential



DIGITAL PROMOTION

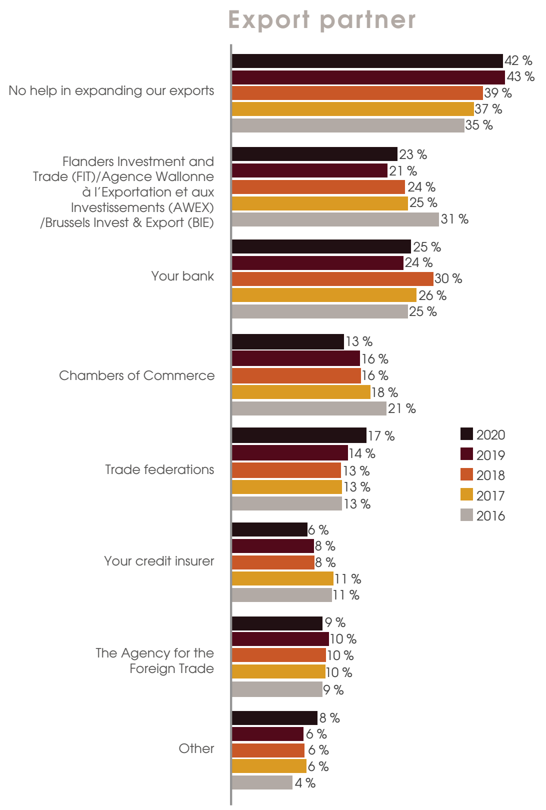
To exploit their export potential, businesses are increasingly turning to digital tools. The primary tool for attracting customers is thus a new website, cited by close to six out of ten businesses surveyed. This has widened the gap with international trade fairs and exhibitions. While the latter have been abandoned during the pandemic, they are still important for more than half of businesses that earn at least 50% of their sales through exports. Covid-19 has given new impetus to e-direct mail and has boosted social media (Facebook, Twitter, etc.) as a tool for identifying and attracting customers. This phenomenon is global – Facebook has seen its advertising revenues accelerate with growth of more than 16% in the first nine months of the year, largely thanks to small and medium-sized enterprises, as major advertisers like Unilever, Ford and Coca-Cola have stopped advertising on social networks.

Marketing tools envisaged for attracting customers in new countries



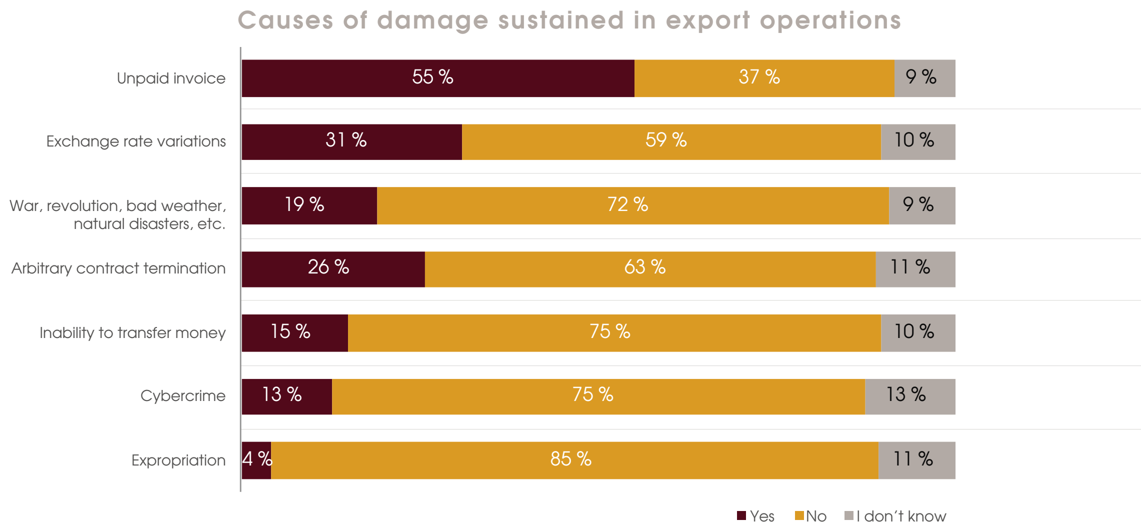
WHICH PARTNERS DO BUSINESSES USE?

When asked about the partners that helped them implement their export activities, more than 40% of businesses said they had none. The Bank and the regional export agencies (FIT, Awex, hub.brussels) were then cited on an almost equal footing by a quarter of businesses surveyed. However, we should note that the order of the responses is different for businesses that earn at least half their turnover through exports. In such cases, the combination of regional agencies and banks is listed first, before "no help", which was the answer given by nearly four out of ten businesses. Conversely, the switch-over from Chambers of Commerce to trade federations was apparent for all categories of businesses.



UNPAID INVOICES THE NUMBER 1 RISK

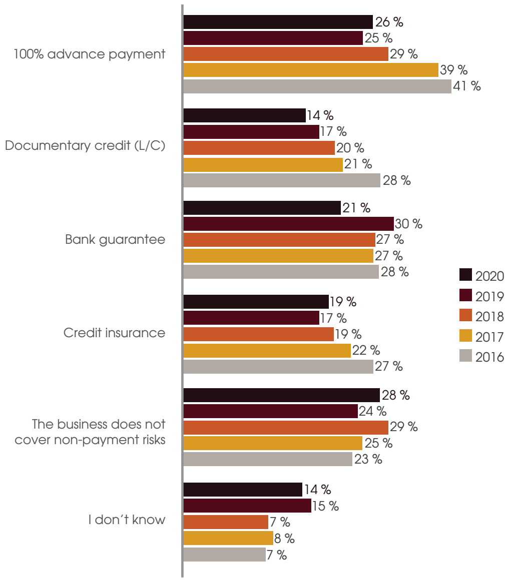
Unpaid invoices are by far the most widespread negative experience for export businesses. This affects more than half of the businesses surveyed and, in fact, nearly two thirds of those that earn more than 25% of their sales through exports. Unfortunately, it is likely that this trend will continue in 2021, which makes good coverage even more necessary. Among the other risks, exchange rate variations were ranked second, and were mentioned especially by businesses more dependent on exports (47%). On the positive side, wars, revolutions, bad weather, etc., are less of an issue. In geographical terms, businesses exporting to neighbouring countries overall experienced fewer unpleasant surprises across all categories.



PROTECTION AGAINST NON-PAYMENT RISKS

Among the various tools enabling businesses to limit non-payment risks, 100% advance payment remains the most widely used, with a response rate of 26.4% among the businesses surveyed. However, this trend has clearly been falling over the last five years. Documentary credit is also in clear decline since this barometer was initiated. Use of bank guarantees reduced significantly in 2020. Conversely, credit insurance has remained steady and is still a popular choice (26%) for businesses with substantial export activities (more than a quarter of turnover). The credit insurance and reinsurance programmes managed by Credendo have therefore made it possible in general to maintain coverage. It is worth noting that more than 25% of businesses take the chance on not covering non-payment risk.

Coverage of non-payment risks



BUSINESSES FAIRLY CONFIDENT

There are many possible explanations as to why numerous businesses still do not cover their non-payment risks. In particular, there is the fact that they remain overall fairly confident despite the pandemic. On a scale from 1 to 10, the average score for economic confidence is 5.6 in 2020, which does not indicate a clear deterioration compared to the mean for previous years (between 5.7 and 6.3).

5

MEASURES

to help provide payment certainty in these uncertain times

As our annual Export Barometer shows, the current pandemic is creating a great deal of uncertainty for you as a business owner. Your customers might be asking you to extend payment dates, whereas you are having to pay your own suppliers earlier or are experiencing cash flow problems. However, there are some methods of overcoming part of this uncertainty, to ensure that invoices are paid, that they are paid on time and that you can meet your own payment obligations. A summary of these methods is given below.

1

ASK FOR PAYMENT ON ACCOUNT

You have probably heard of the 'no money, no honey' policy where customers have to pay before an order is prepared or production started. However, in times like these this is not always a straightforward solution: your customers may not have the funds available to pay for goods at the time of ordering or before delivery and business owners need the profit to give them the necessary breathing space so that they can get through these uncertain times. But if you and your customer are prepared to meet each other halfway, i.e. with partial pre-payments, both parties will benefit. Make sure any arrangements are discussed beforehand with customers and ensure you have a written record of your agreements to avoid any misunderstandings at a later stage.

2

LOOK AT THE BIGGER PICTURE

A second – though less obvious – way of overcoming payment uncertainty is to look at the bigger picture. If your customer forms part of a larger group, then its parent or sister company might be able to provide the necessary payment guarantee. However, do your homework and check that the related company has been less hard hit by the crisis and has the necessary funds available in case your customer is unable to pay. It is therefore important to do a credit check on that company. This arrangement, of course, requires negotiation and the parent or sister company must be recorded in contract documents, which requires some effort.

3

ASSIGN INVOICES AND TRANSFER CREDIT RISK

A third way of overcoming payment uncertainty is factoring, which is a service offered by banks and specialist factoring companies. Factoring is a form of accounts receivable financing, whereby you assign your invoices (or even your entire customer bookkeeping) and transfer the credit risk to a specialist company, i.e. the factoring company. In exchange for a fee to the factoring company, you immediately receive an advance payment of 80-90% of all submitted invoices. As soon as the customer has paid the factoring company, you usually receive the remaining amount. The biggest advantage for you is that you don't have to wait for your money and don't have to chase any invoices. Factoring is particularly suitable for growing companies, because the amount of financing increases as their credit portfolio increases. Factoring implies that you no longer control your own invoices, which might negatively affect the relationship with your customer.

4

USE A LETTER OF CREDIT

A fourth mechanism to ensure payment certainty is a Letter of Credit (L/C) or documentary credit. This is an irrevocable payment commitment whereby customers take out a loan with their bank, which in turn undertakes to pay the supplier, provided that the supplier complies with the obligation to submit a number of predetermined specific documents. The lending bank pays the loan amount to your bank, which in turn pays you. Your bank then recovers the amount from the lending bank. The advantage for you is that you can rely on your own bank and are no longer dependent on the customer's willingness or ability to pay.

5

TAKE ADVANTAGE OF CREDIT INSURANCE

Last but not least, credit insurance can be very helpful. Credit insurance covers the risk of non-payment of invoices by domestic and foreign customers. Reasons for non-payment can be: inability (for instance, bankruptcy) or unwillingness to pay, also known as commercial risk, or non-payment due to problems beyond the control of the foreign buyer (for example, foreign exchange shortage), also known as political risk. If your customer is unable to pay and credit insurance has been taken out prior to conclusion of the contract of sale, the insurance company will pay. The latter then handles the claim and tries to recover the money from your customer. One such insurance company is the Belgian public credit insurer Credendo, which offers both **whole turnover** insurance and per-transaction insurance. The amount of the premium depends on the type of credit insurance, the rating of the country of export and the creditworthiness of your customer.

» **Whatever cover you choose, it is important to check the situation in the relevant country as well as the political and commercial risks. The higher the risk, the more uncertain the situation and the stronger the recommendation to take one of the above measures to combat non-payment.**

Responsible editor: Nabil Jijakli - Credendo, rue Montoyerstraat 3, 1000 Brussels, Belgium, T +32 (0)2 788 88 00, www.credendo.com