



COVID-19: The impact on business

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COVID-19: The impact on business

1. Situation overview

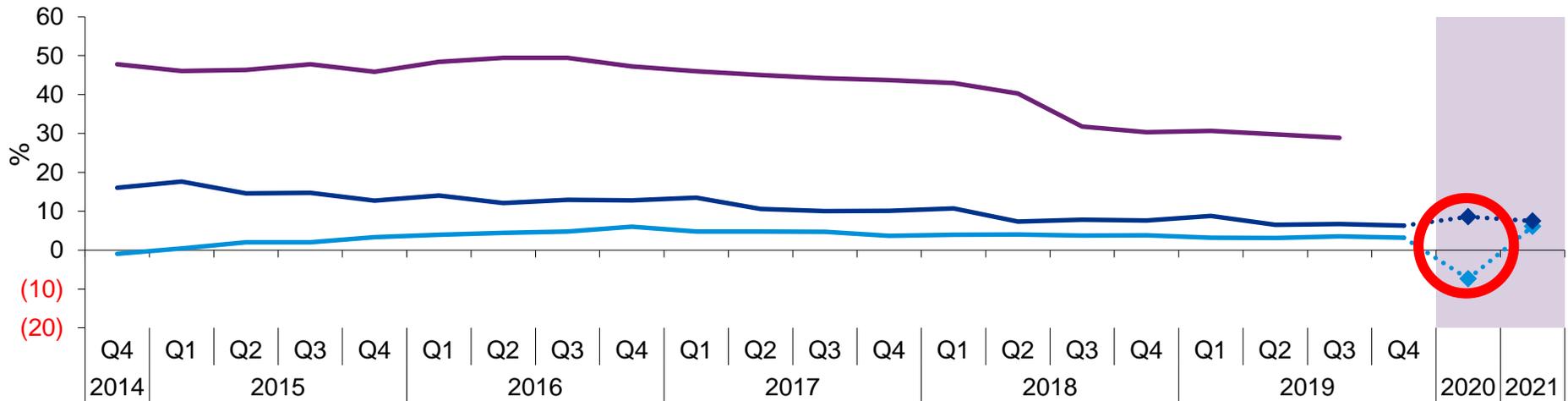
2. The effects of COVID-19

3. The new reality



The shock of COVID-19: an abrupt end to recent growth? ...

Cyprus economy and NPLs

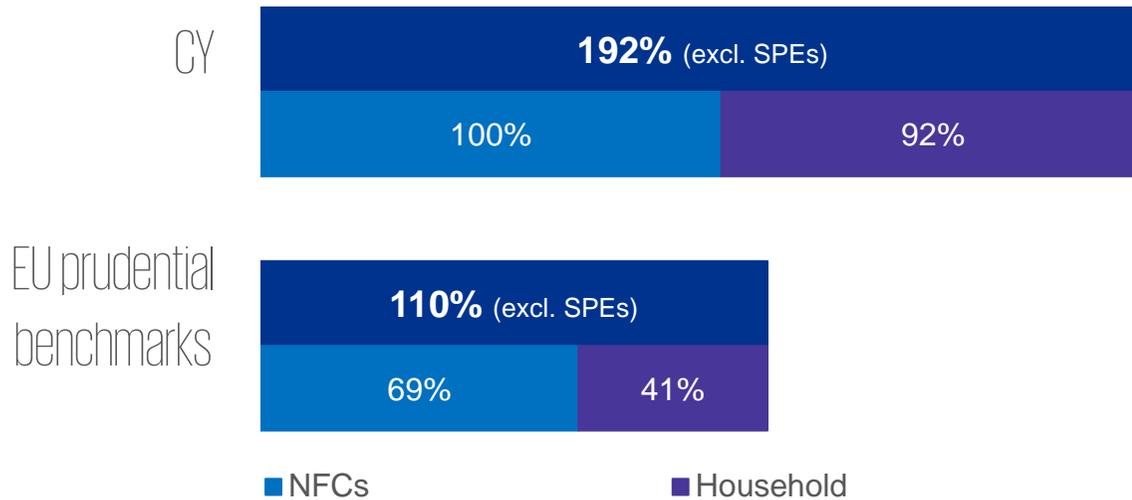


	2014	2015	2016	2017	2018	2019		Forecasts	
	Q4	Q4	Q4	Q4	Q4	Q3	Q4	2020	2021
— GDP growth (Y-o-Y change)	(0,9) %	3,3 %	6,0 %	3,7 %	3,8 %	3,5 %	3,2 %	(7,4) %	6,1 %
— Unemployment rate	16,0 %	12,7 %	12,8 %	10,1 %	7,6 %	6,7 %	6,3 %	8,6 %	7,5 %
— NPL ratio	47,8 %	45,8 %	47,2 %	43,7 %	30,3 %	28,8 %			

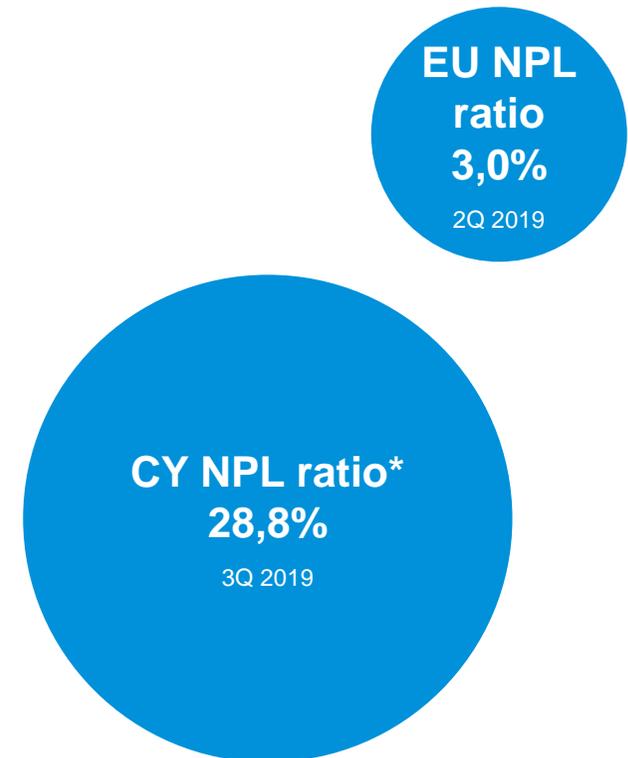
Source: Central Bank of Cyprus, CyStat, European Commission (2020-2021 forecasts)

... Against a backdrop of high private sector debt and NPLs

Private Sector Debt to GDP %



NPLs %



High NPLs and excessive private sector debt remain the main sources of risk for Cyprus (CBC)

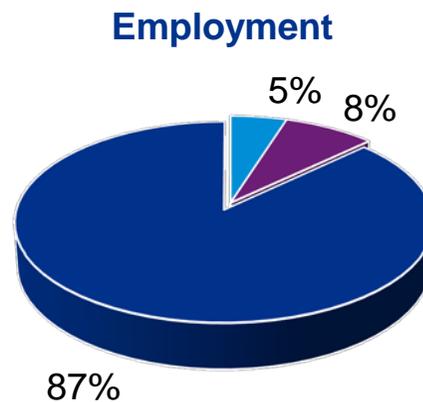
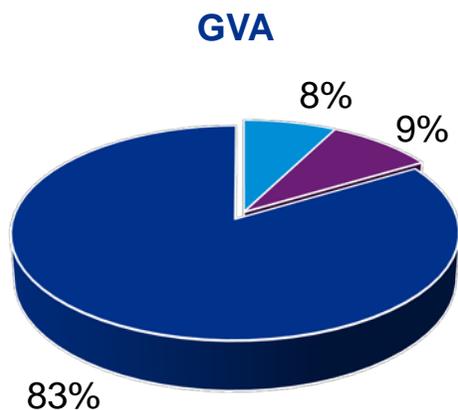
Cyprus continues to have significant macroeconomic **imbalances**, primarily **high stocks of private debt and NPLs** (European Commission)

*including loan portfolios sales, the NPL ratio will be closer to 50%

Source: Central Bank of Cyprus, European Banking Authority

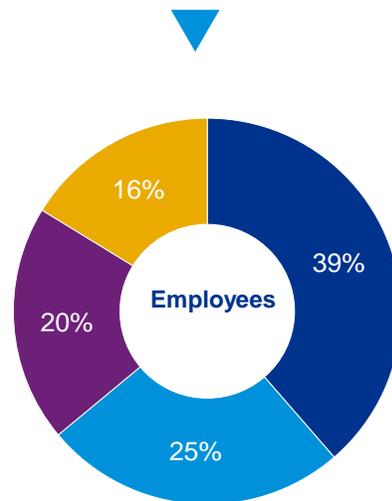
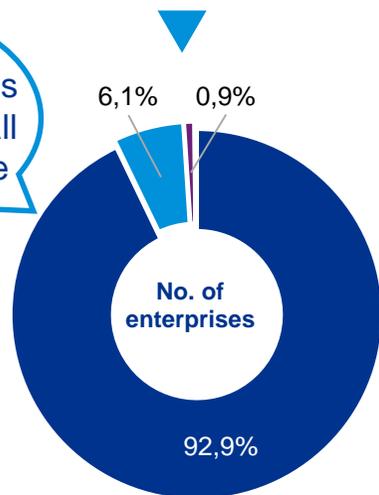


Non-Financial Corporations are the backbone of the local economy ...



- Financial and insurance activities
- Public administration and defence
- Non-financial corporations

99,9% of enterprises are very small, small and medium in size



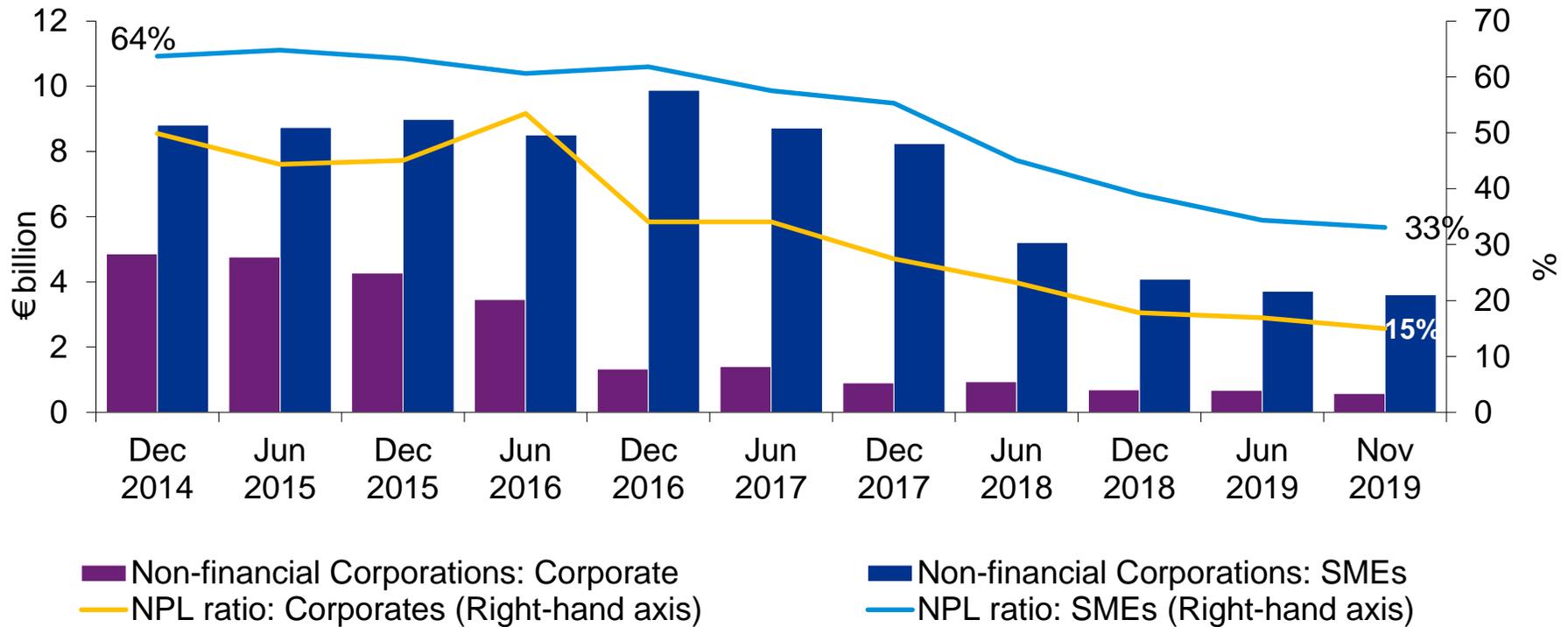
- Micro (0 - 9)
- Small (10 - 49)
- Medium-sized (50 - 249)
- Large (250+)

Source: Cystat, European Commission (2019)



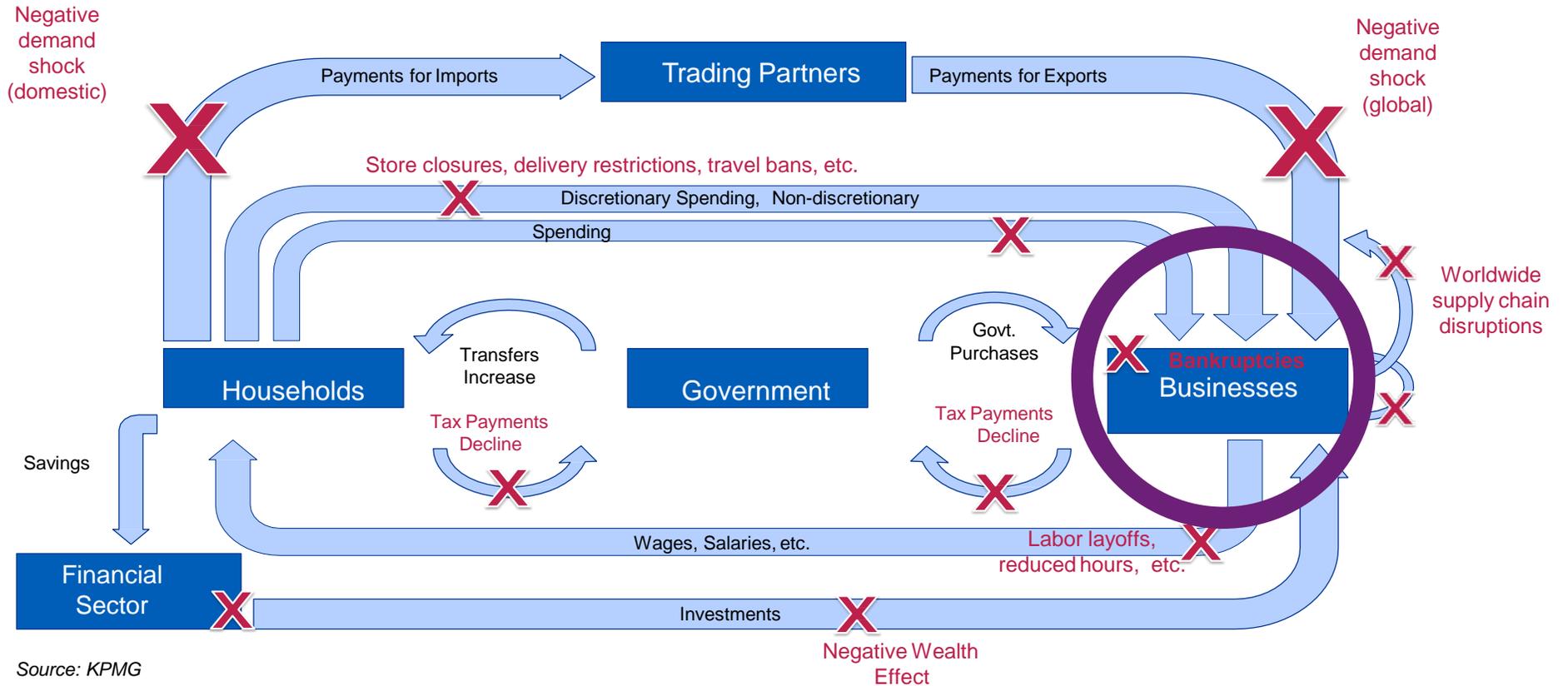
... the SME sector remains particularly problematic

Movement of non-performing loans



Source: Central Bank of Cyprus

COVID-19 disruption: a complete breakdown of the economic circuit ...



Source: KPMG

Business failure has a multiplier chain effect on the economy: loss of employment, reduction in household disposable income, trade credit losses, bank losses, state losses (taxes, duties etc), reduction in investment activity

... Amplified by the high level of debt

Debt Amplifies Growth Through All Channels of Growth

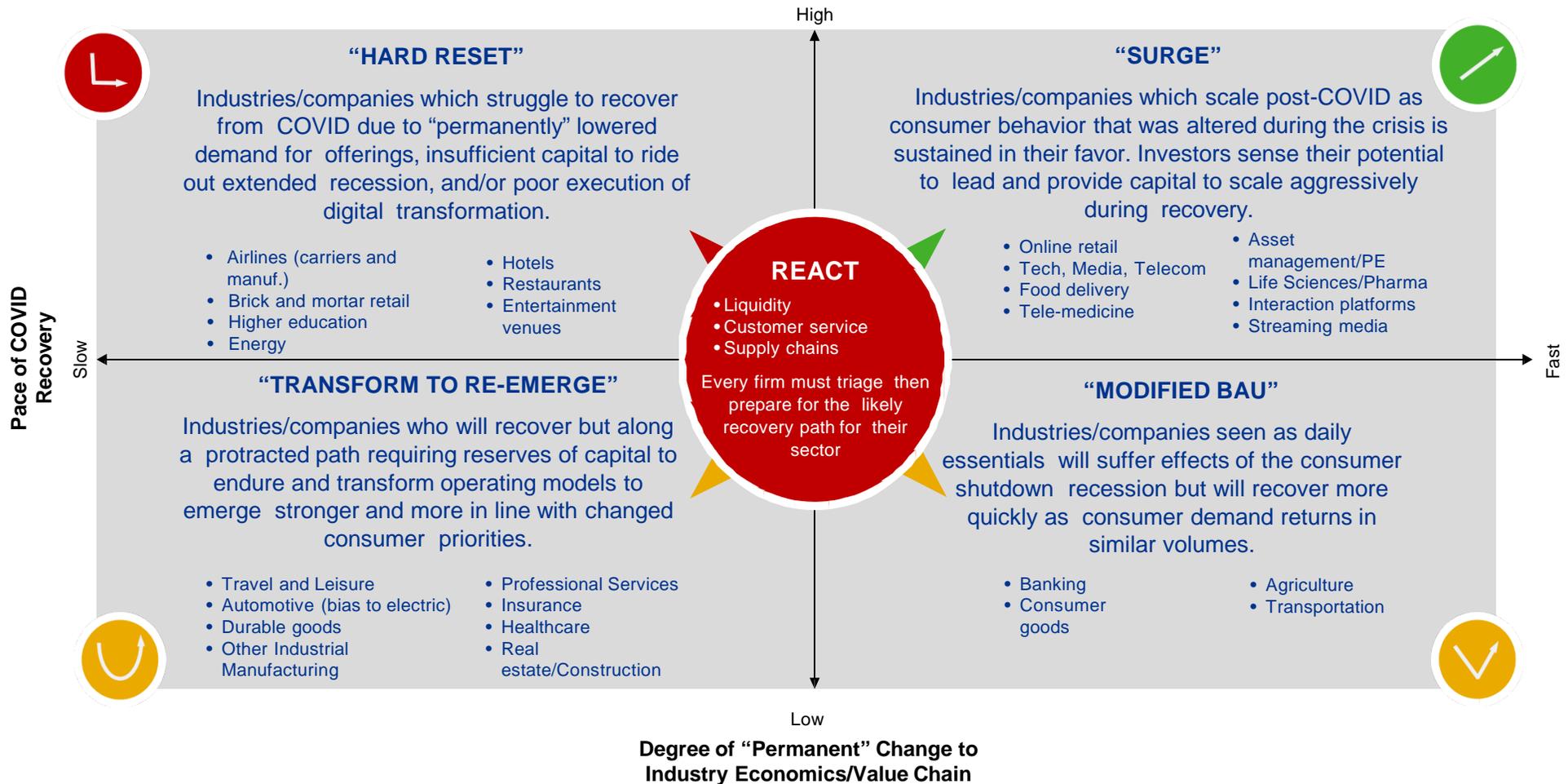


Debt Amplifies Contraction Through All Channels of the Economy



Source: KPMG

... with varying degrees of risk exposure on industry sectors



The key business challenges of COVID-19

Business / Operating Models

- Breakdown of conventional delivery channels
- Supply chain disruption
- Inflexible processes and structures
- Inadequate corporate governance structures

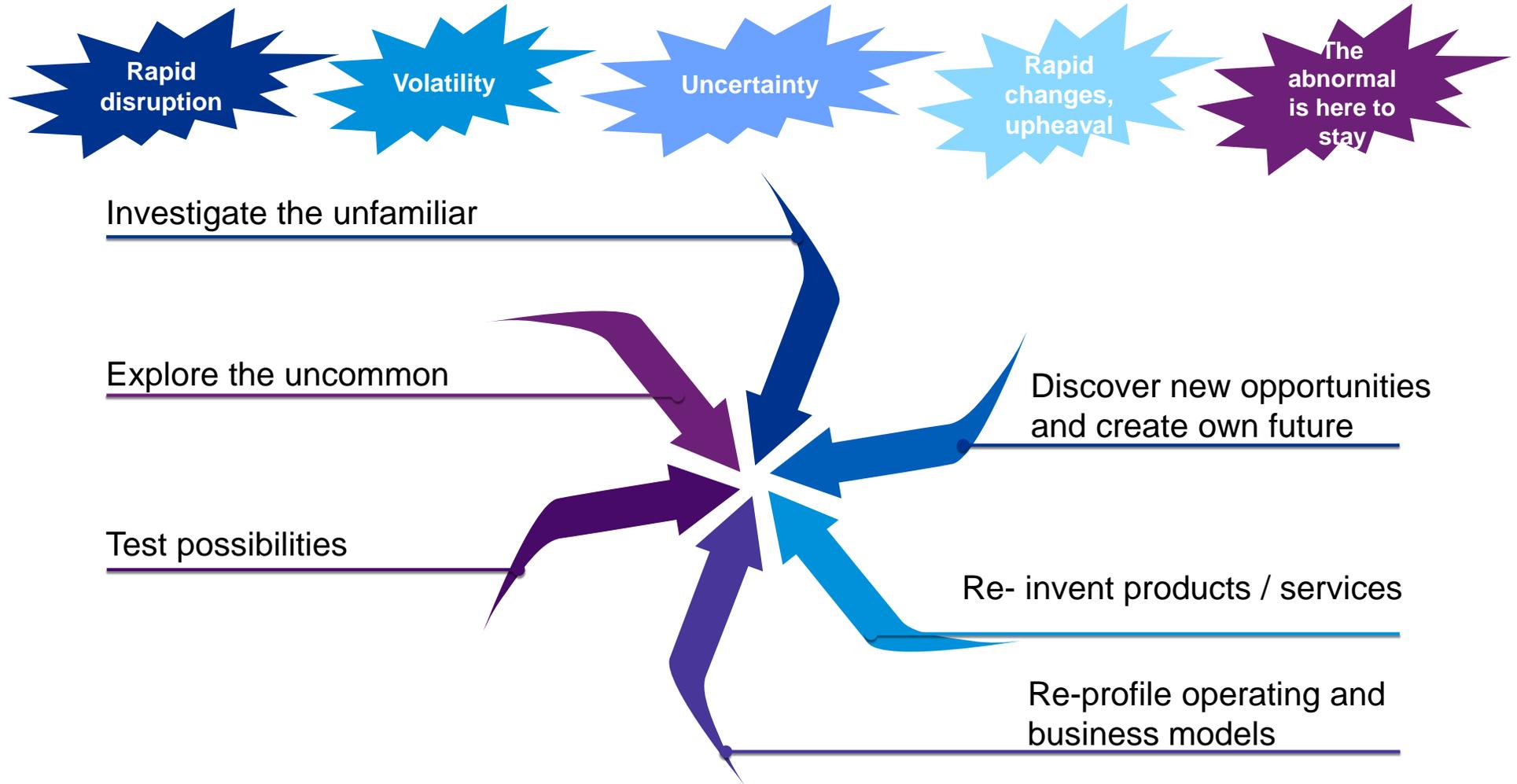
Funding

- Lack of liquidity buffers
- Over-leveraged
- Capital-debt imbalances
- Tax, other state and trade credit obligations overdue

Planning

- Lack of up-to-date, reliable financial information
- Absence of planning: financial projections, cash flow forecasting, profit vs cash focus
- No contingency and business continuity planning
- Ill-planned communications and relationships with key stakeholders (banks, clients etc.)

A new business paradigm? The new norm will be the abnormal



“Intelligence is the ability to adapt to change” [Stephen Hawking]

Only the fittest and more adaptive will survive

Emerging themes - key success factors for the new reality

1

Critical reassessment of operating and business models, challenge the status quo modus operandi and key business assumptions, re-configure operations, re-invent income streams, transform the cost base for more efficiency, explore outsourcing activities / managed services

2

Outward-looking, with an open eye to the rapid evolution of markets and competition: rapid changes in demand patterns, new customer expectations and behaviours leading to a re-design / re-positioning of service propositions and pricing and customer journeys

3

Alternative delivery channels and supply chains, **e-commerce**

4

Increased utilisation of technology, data analytics, need for a **digital strategy**

5

Agility, flexibility, adaptation: new structures, processes, remote / flexible work

6

Corporate governance, responsibility and accountability: transparency, product and organisational health and safety, more attention to quality and reliability, ethical and communal responsibility, clear and honest communications, managerial / BoD obligation to safeguard the viability of the business

Emerging themes - key success factors for the new reality

7

Stakeholder relationship building (banks, clients, suppliers, workforce), **strategic alliances and collaborations**, possible M&A activity, market consolidation

8

Diligent planning discipline, up-to-date financial information, modelling, forecasting, stress testing, contingency and business continuity planning, expert advice, early warning tools, rigorous and reliable monitoring, reporting feedback and re-adjustment mechanisms

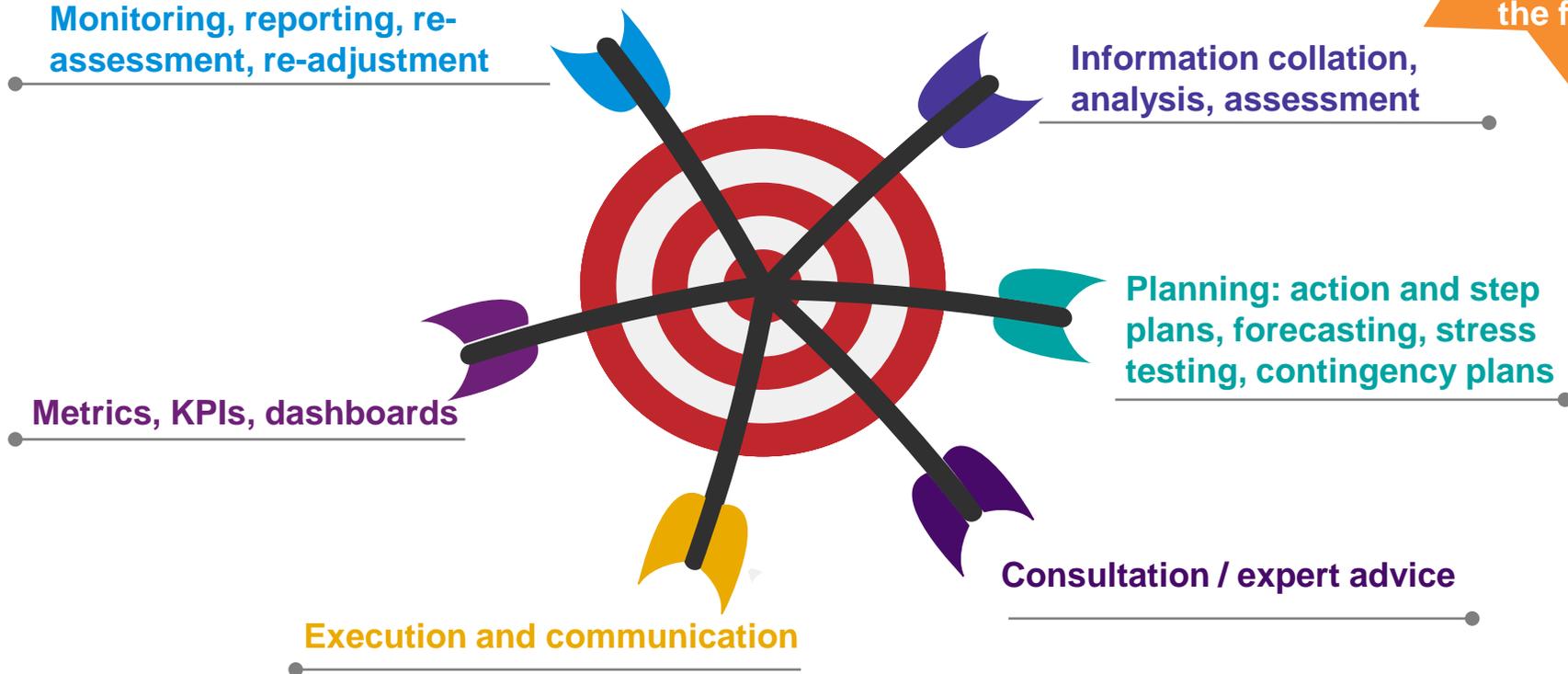
9

Cash vs profit focus, access to cash liquidity, building safety buffers, actively managing working capital and liquidity, proactive management of debt and capital, **comprehensive preventive debt restructuring and debt de-leverage**

Strategic planning for recovery and staying relevant in the new reality

Diligent Strategic Planning = Resilience

This is the only way to re-invent the future!



Thank you

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