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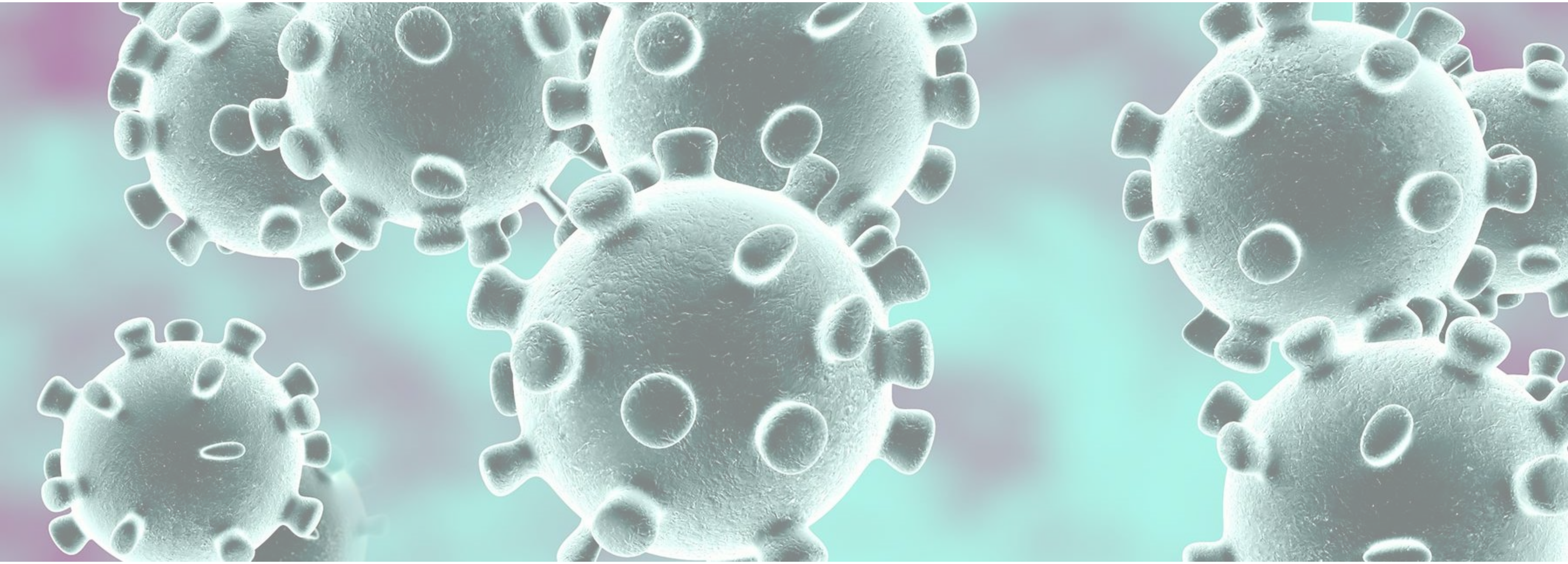


Coronavirus impact monitor – 23 March 2020

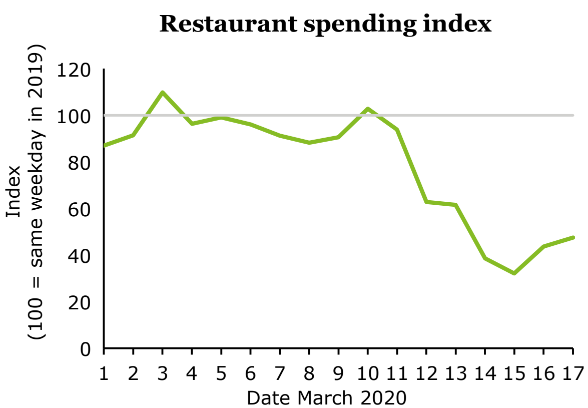
Deloitte Economics

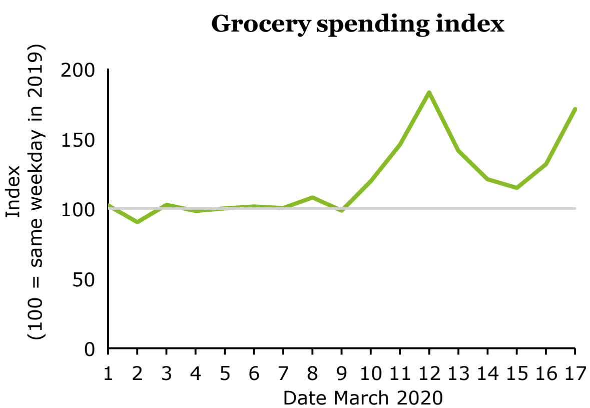
Greenland edition

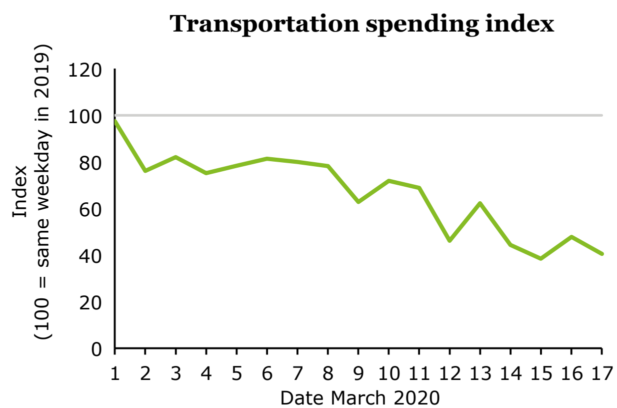
Local government introduce aid package to help the Greenlandic economy through the COVID-19 health crisis

- Between 20 January 2020 and 19 March 2020, the number of global confirmed COVID-19 cases has risen from seven to about 208k. In Greenland, the number of confirmed cases has increased from two on March 18 2020 to four on March 22 2020 and remains at four on March 23 2020.
- However, the health crisis has pushed the global and Greenlandic economies into unchartered territory. The government is signalling that it is doing whatever it takes to prevent a situation where the capacity of the healthcare system is breached. This includes extraordinary measures, and like many other countries Greenland – especially in Nuuk - is de facto closed down.
- Right now, the challenge is not so much that consumers are unwilling to spend money: In many cases, consumers are unable to spend money. Figures from Denmark, for instance, show that spending at restaurants and on transportation is down by some 60%. Grocery spending, in contrast, is up by some 75%, likely reflecting stock building (see charts below).
- To help the Greenlandic economy through the crisis the Government of Greenland has introduced an aid package including: Postponement of tax payments, compensation to employee retention, compensation for reduced turnover and state-guaranteed loans.

Dramatic changes in consumer spending patterns in Denmark





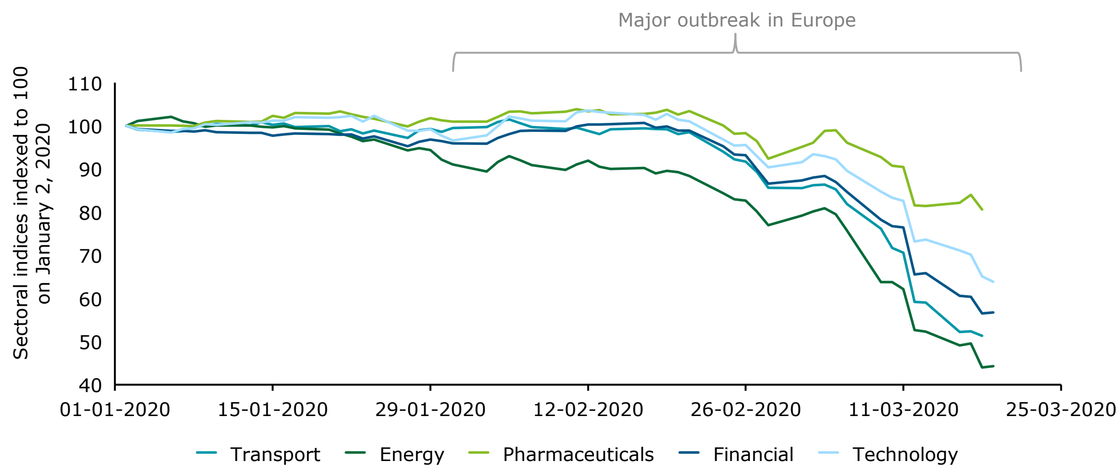


Note: Based on transactions with cards and MobilePay, Danske Bank has compiled detailed consumer spending data
Sources: Danske Bank, Deloitte analysis

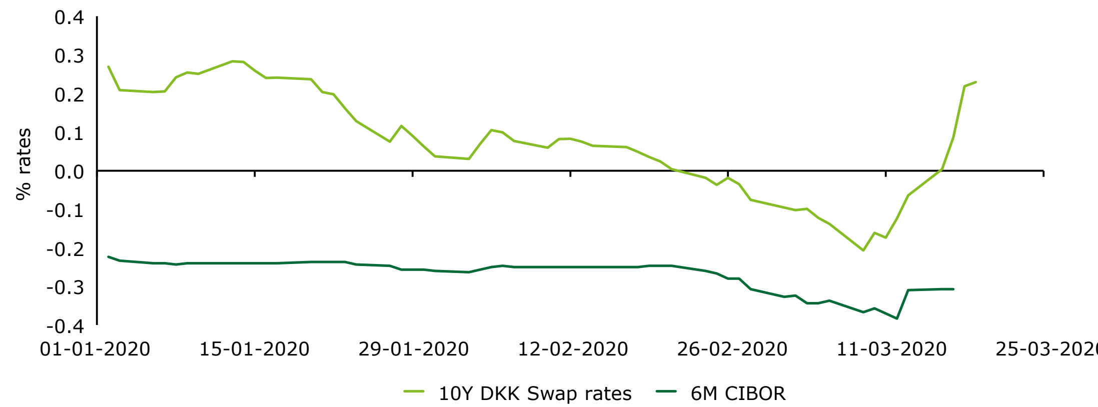
European equity markets suffering major losses from the outbreak of COVID-19

- European equity indices have suffered material losses following the COVID-19 outbreak in Europe.
- Especially the Transport industry, including airlines, was severely affected by the spread of the virus and related travel bans. The EURO STOXX Transport index has been down by some 49% since the end of January 2020, driven by a material decline in volumes.
- The European energy sector, including oil and gas companies, has lost some 56% since the end of January 2020. Declining energy prices have applied downward pressure on energy equities.
- Financials, including banks, have also experienced value destruction. Market concerns about increased credit losses and funding squeeze are likely drivers.
- Other industries such as Pharmaceuticals and Technology have held up relatively well, as the sectors are less exposed to a near-term contraction in consumer spending.
- The outlook of slower economic growth translates into lower interest rates. However, due to market sell-off and lack of liquidity, rising interest rates are now seen in many markets.
- Equity market volatility has spiked to levels not experienced since the global financial crisis (see appendix).

Equity markets: Sectoral indices in Europe



Interest rates: 10Y Interest rate (swap) and 6M interest rates (CIBOR)

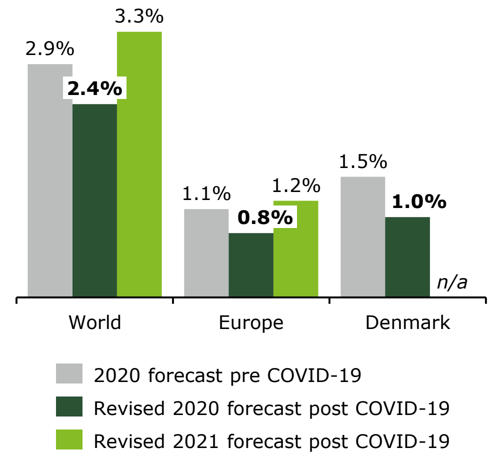


Note: 1) All indices are on a European basis: EURO STOXX Transport, Energy, Pharmaceutical, Financials and Technology index
Sources: Thomson Reuters Eikon, European Union

Severe slowdown of the world economy throughout 2020

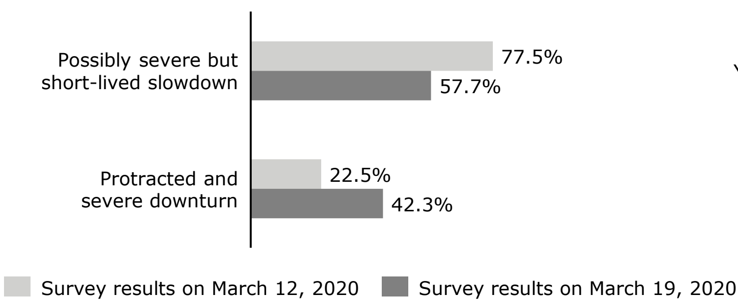
- The disruption of the global supply and demand chain, as well as financial markets translates into an adjustment of economic growth projections worldwide:
  - According to the OECD, the global economy in 2020 is expected to grow by 2.4% instead of the initially estimated 2.9%, while European growth slows down from 1.1% to 0.8%.
  - In Denmark, bank estimates from Nordea Markets project a decrease in economic growth rates from 1.5% to 1.0% or even 0.5% in the worst-case scenario.
- Nevertheless, projections for 2021 for global and European economic growth by the OECD remain optimistic and are subject to an upward adjustment to 3.3% and 1.2%, respectively, in response to the slowdown in 2020. *However, please note that OECD has not updated its projections since our last report as of 13 March*
- However, within the last week, expectations for the timing of recovery of the world economy post COVID-19 have decreased significantly. For instance, responses from nearly 2,000 participants in a Global Deloitte Economics webinar with colleagues and clients on 19 March 2020 show that about 40% expect the activity to rebound not until 2021 and beyond. Last week, this was only the expectations among 23% of the participants (n=3,000).

Economic growth projections

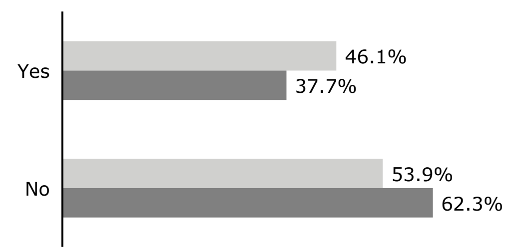


Results of Deloitte surveys

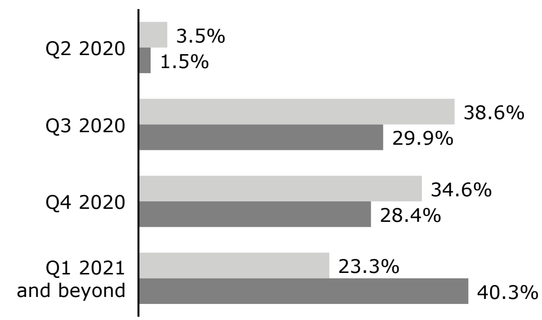
What will be the ultimate impact on economic growth of COVID-19?



Do policymakers have sufficient policy tools to cushion the economy from the COVID-19 shock?



When do you think activity will rebound in your economy?



1) Deloitte surveys conducted on 12 and 19 March 2020, involving about 3,000 colleagues and clients from all over the world

Deloitte surveys, OECD Economic outlook (November 2019) and Coronavirus update (March 2020) for global and EU figures; Nordea markets estimates for Denmark

COVID-19 has caused a lock-down in Greenland as well, impacting several sectors (1/2)

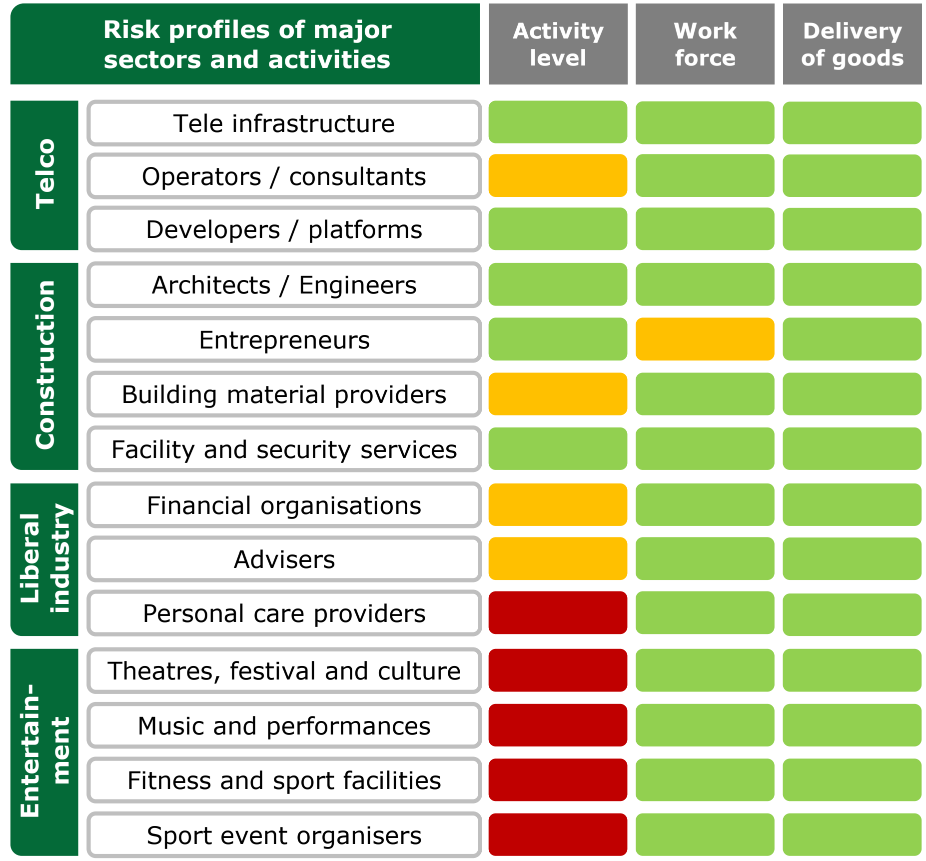
- As per 22 March 2020, there has been four cases of COVID-19 confirmed in Greenland and Nuuk has been locked down to contain the contagion and to shield the already limited healthcare sector in Greenland.
- Some of the major sectors in Greenland are set to experience decreased revenue. The primary sources of risk are 1) decreased activity level due to forced lock-down, 2) ability to get the necessary work force to Greenland and 3) delivery of goods. Research for minerals could be set back due to situation on the financial markets.
- As per 20 March 2020, all passenger transport by air and sea in and out of Greenland, as well as domestically, has been suspended until April 3rd 2020. Goods transportation by air and sea will continue to ensure supplies, along with transportation, which is critical to society. It is estimated that flight departures will decrease 75% as a consequence of the lock-down[1].
- Fishery is the largest and most important sector in Greenland. Although transportation of goods in Europe is still open, demand for especially shrimps might decrease for a longer period due to the global crisis. The industrial buyers and factories might be forced to close down impacting the activity negatively and staffing onboard the trawlers at sea may become problematic as the work force cannot travel to Greenland.
- The raw material sector in Greenland is impacted as the exploration activities could decrease as a consequence of lower investment levels within the sector. The sector is furthermore impacted as foreign specialists and employees are unable to travel to Greenland decreasing the mineral and metal mines activities as well as the exploration activities.
- Specifically, the ban on gathering and travel will impact the leisure sector. The high season has not yet started in Greenland. However, if the conditions persist over the summer, the sector will be significantly impacted due to lower activity. The sector has already been forced to close as a consequence of the lock-down.
- The retail industry is impacted by the lock-down in term of the physical stores being forced to close. The grocery stores, including food and non-food products, will remain open.

Notes: 1) Deloitte analysis

COVID-19 has caused a lock-down in Greenland as well, impacting several sectors (2/2)

- The telco industry is not expected to be significantly impacted other than operators and consultants with the industry being unable to facilitate meetings in person.
- The construction industry is primarily threatened in terms of replacement of the work force as the construction workers cannot travel to Greenland. It is uncertain if the hardware stores will remain open.
- The liberal industry includes financial organisations, advisers and personal care facilities. The financial organisations and advisors are not expected to be impacted significantly except for the inability to facilitate meetings in person. The personal care facilities as e.g. hairdressers are impacted as these are forced to close due to the lock-down.
- The entertainment industry, including among others theatres, music performances and fitness centres are significantly impacted as the lock-down has forced these to close as well.
- The city development project as well as other commercial development projects might be impacted due to higher level of uncertainty causing investors to hesitate directly impacting the external financing opportunities.
- All sectors faces the risk of a slowdown due to lack of employees if the breakout spreads
- Technical areas faces the risk of a machinery breakdown, which can´t be repaired due to lack of spareparts and specialist to repair them.
- Many sectors faces a risk due to chain-reactions. If i.e. fishing factories are locked down, there will be no places to sell the fish for near coast vessels

Note; the analysis are not to be considered a complete list – and the risk profile can change rapidly due to changes in the covid-19 situation.



Notes: 1) Deloitte analysis

Key messages

The global economic slowdown is set to hit the Greenlandic economy, but public support and alignment with the private sector will ease the long-lasting impact

- Between 20 January 2020 and 19 March 2020, the number of global confirmed COVID-19 cases has risen from seven to about 208k. In Greenland, the number of confirmed cases is four on March 23 2020 (from March 18 to March 22 the number remained at two).
- COVID-19 has caused severe damage on the world economy. The equity markets have suffered major losses, and equity market volatility has spiked to levels not experienced since the global financial crisis. Supply chain disruptions and negative demand shocks have spread from China to the rest of the world.
- In Greenland, especially leisure, including aviation, hotels and restaurants, and the entertainment industry have already suffered major losses due to the lock-down of the economy. But also the raw material industry experiences negative consequences in terms of lower investment levels and lack of competences as foreign specialist can't enter the country. The greenlandic economic council has indicated, that the economic growth in Greenland must be expected to be less than the estimated 3,9 percent, which where the expectations from February 2020.
- According to a Global Deloitte Economics survey among 2,000 colleagues and clients from all over the world on 19 March 2020, expectations are that the economic slowdown will be deep and last throughout 2020.
- However, governments all over the world, including Greenland, are introducing major aid packages to help companies and employees through the health crisis. This may ease the severe and long-lasting impact of COVID-19 on the world economy.
- Deloitte Economics will continue monitoring the impact of the Coronavirus in Denmark and globally.

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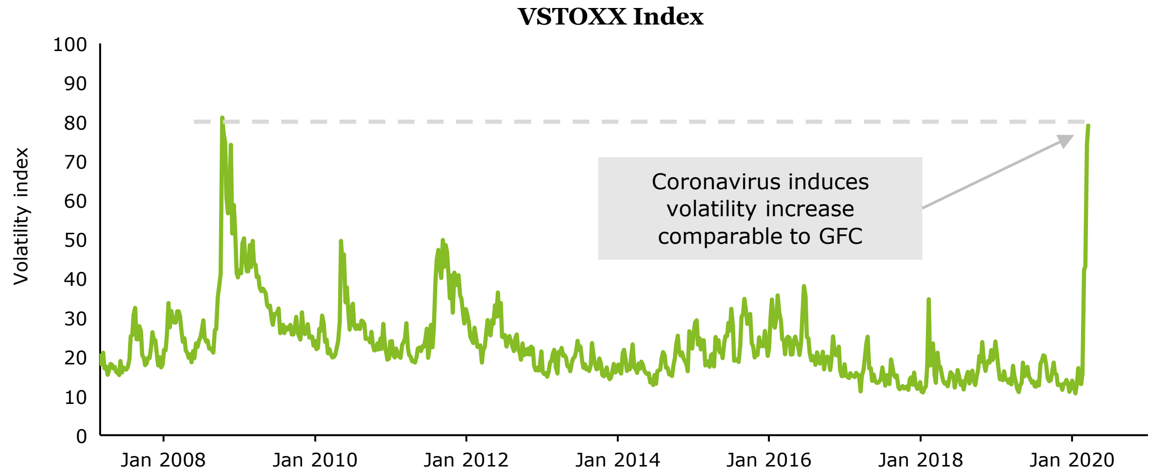
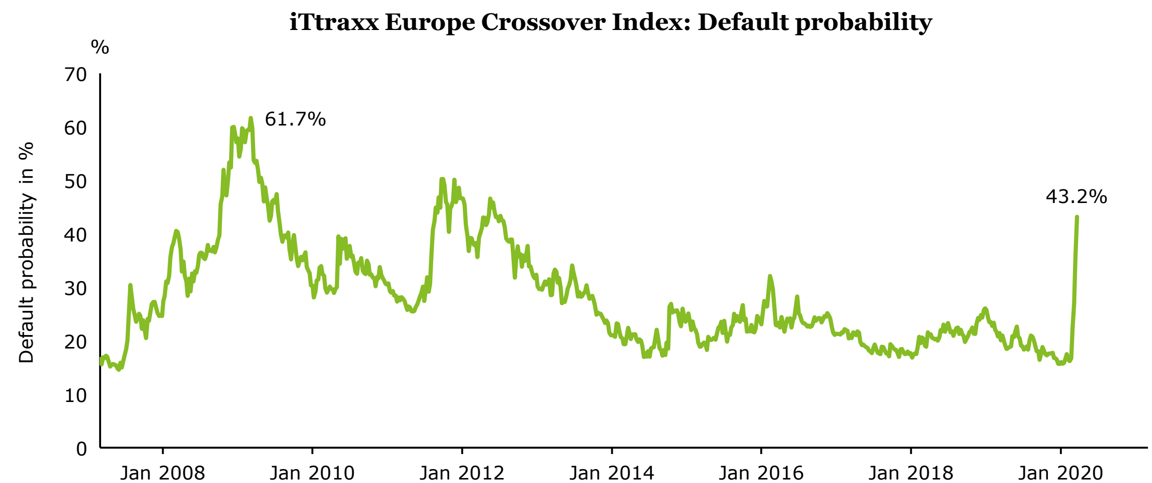
Appendix

Equity market volatility at highest level since the global financial crisis

- The VSTOXX index measures 30-day implied volatility of the EURO STOXX 50 equity index and reflects investors' uncertainty abut future equity market moves.
- As shown in the graph above, the Coronavirus induced an increase in volatility to a level comparable to that experienced during the global financial crisis in 2008, underlining investors' fear of a recession.



- The chart opposite shows the development in the implied default probabilities based on the 5Y iTraxx European Crossover spread of Credit Default Swaps and an assumed recovery rate of 40%. It measures default probabilities on a portfolio of sub-investment grade corporate debt in Europe.
- With a current default probability of about 43%, we are on the highest level since the European debt crisis, but still below peak financial crisis levels.
- As the index reflects cost of debt, any refinancing will be costly for leveraged companies, even though interest rates are close to record low.



Note: 1) VSTOXX as volatility index of EURO STOXX 2) Default probability calculated based on 5Y iTraxx European Crossover CDS and a recovery rate of 40%
Sources: Thomson Reuters Eikon