SMEs in COVID times: financial conditions, public support and hints on productivity

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So far, so good...

Widespread policy intervention protected SMEs from widespread liquidity crisis and adverse market selection mechanism.
Hibernation of the corporate sector

“The widespread availability of public financial support have sheltered European SMEs from the worst of the crisis, enabling them to meet their most urgent liquidity needs”
How did COVID-19 and related policies affect market selection mechanism?

1) The COVID-19 shock had the potential to seriously distort market selection.

2) Swift policy actions corrected part of the inefficiency of market selection in the short-term by
   - shielding many high productive firms from distress;
   - supporting zombie firms only to a limited extent.
... but medium term challenges for SMEs

Risk of misallocation

Risk of debt overhang
The use of debt instruments and over-indebtedness

“Lending activity spiked to its highest level since the run-up to the 2008 financial crisis, which caused the outstanding corporate loan amount to rise to exceed EUR 4.75tr in the Euro-area”
How could large loan guarantee schemes affect productivity via reallocation over the medium-long run?

1) Loan guarantee schemes could **weaken** the reallocation of resources from low to high productivity firms.

2) But the effect is **heterogeneous**:
   - It turns positive for small scale schemes;
   - It is more benign in intangible-intensive sectors.
Firms in most hit sectors may face difficulties to repay COVID-19 induced debt...

... and to continue investing in the post-crisis world
Pandemic policy: from hibernation to reallocation

Supporting the corporate sector through the recovery

Update COVID-19 related policy support
- Targeting most hit sectors and/or viable firms
- Fine tuning (re-design the main covenants)

Deal with debt overhang
- Preference for equity-type support
- Debt restructuring

Complementary structural policies
- Boost firms’ entry
- Maintain competition
- Ensure digital diffusion
Thank you!

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