SMEs during COVID-19

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Three messages as impulses for discussion...

1. In spite of the second lockdown, the financial situation of companies has mostly remained stable over the past months, also due to government rescue measures.

2. So far, access to credit has remained open and bank loans have helped to bridge liquidity gaps with first signs of increasing credit constraints arising.

3. A functioning credit channel is a necessary but not sufficient prerequisite for reviving corporate investment and innovation.
The crisis has hit the corporate sector with full force.

**SMEs in Germany affected by the consequences of Corona** (in percent)

- April '20: 80%
- September '20: 63%
- June '20: 72%
- January '21: 68%

Source: 1st – 4th supplementary coronavirus survey to the KfW SME Panel 2020
Companies faced severe liquidity problems – particularly in spring 2020. But the situation stabilized.

Liquidity remaining until closure of business
(if situation persists/ level of sales slumps remains constant, in percent)

- **Max. 2 Months**
  - January '21: 32%
  - April '20: 51%

- **Sufficient Reserves**
  - January '21: 33%
  - April '20: 19%

Source: 1st and 4th supplementary coronavirus survey to the KfW SME Panel 2020
The corporate sector is also not likely to be at risk of over-indebtedness. Most companies were well-positioned before the crisis.

Development of equity ratio in 2020  (compared with 2019, in percent)

- Equity ratio decreased: 31
- Equity ratio remained stable: 39
- Equity ratio increased: 11

Source: 4th supplementary coronavirus survey to the KfW SME Panel 2020
Although new lending to enterprises saw very strong dynamics in the first half of 2020 – it cooled considerably in the second half.

New lending by German banks to domestic businesses and self-employed persons (Variation on the previous year (moving two-quarter average), in percent

<table>
<thead>
<tr>
<th></th>
<th>Q4 '19</th>
<th>Q1 '20</th>
<th>Q2 '20</th>
<th>Q3 '20</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td>3,7</td>
<td>7,3</td>
<td>6,0</td>
<td>0,3</td>
</tr>
</tbody>
</table>

Source: KfW Credit Market Outlook
Banks are becoming more restrictive.

KfW-ifo Credit Constraint Indicator – How did banks conduct themselves in loan negotiations? (Share with answer “restrictive”, in percent)

Source: KfW-ifo Credit Constraint Indicator
SME investments will see a much sharper adjustment compared to the financial crisis.

Changes in SMEs’ investment plans in the course of the year
(share of companies in percent)

<table>
<thead>
<tr>
<th>Year</th>
<th>Carried out as planned</th>
<th>Reduced/Deferred</th>
<th>Abandoned completely</th>
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</thead>
<tbody>
<tr>
<td>2008</td>
<td>62</td>
<td>29</td>
<td>10</td>
</tr>
<tr>
<td>2009</td>
<td>62</td>
<td>25</td>
<td>13</td>
</tr>
<tr>
<td>2020</td>
<td>47</td>
<td>35</td>
<td>18</td>
</tr>
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Source: 3rd supplementary coronavirus survey to the KfW SME Panel 2020
Despite initial push: Corona crisis weighs on digitalisation and innovation efforts in SMEs

Share of SMEs who reduced or stopped respective activities under Corona (in percent)

- Innovation: 25%
- Digitalisation: 14%

Source: 3rd supplementary coronavirus survey to the KfW SME Panel 2020