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

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BETTER POLICIES FOR BETTER LIVES

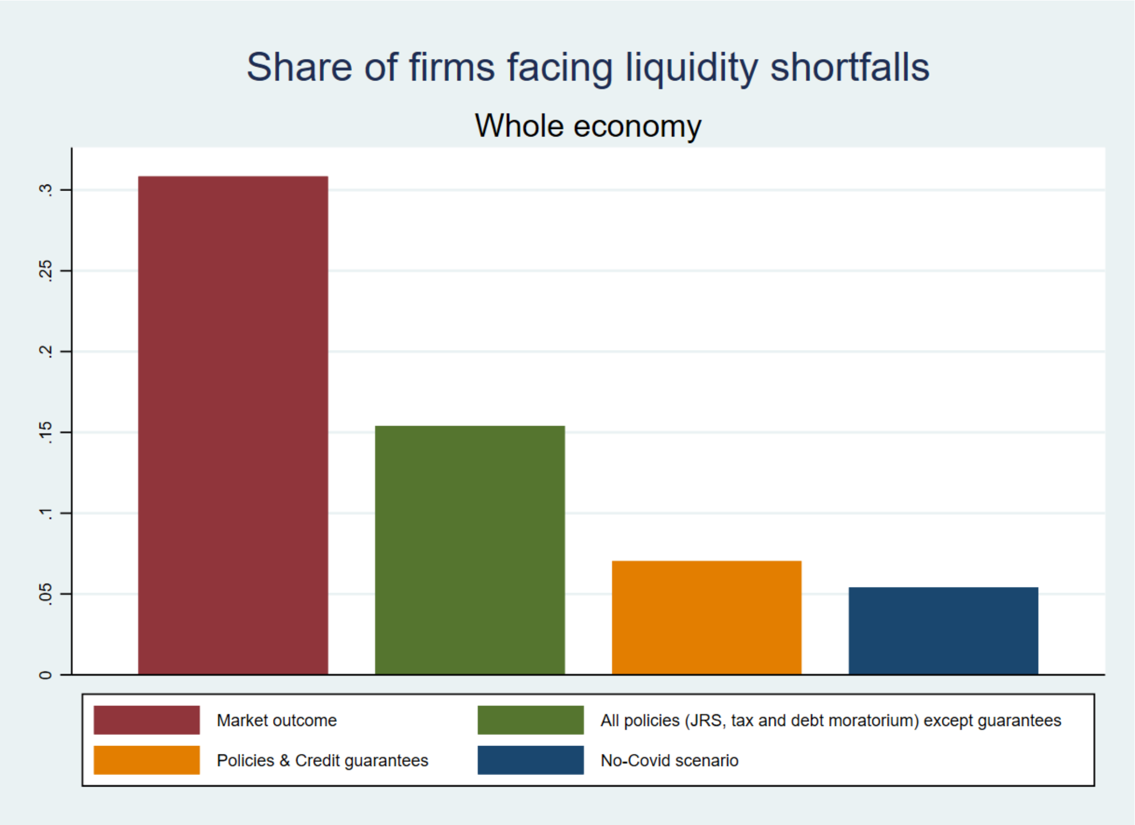
So far, so good…

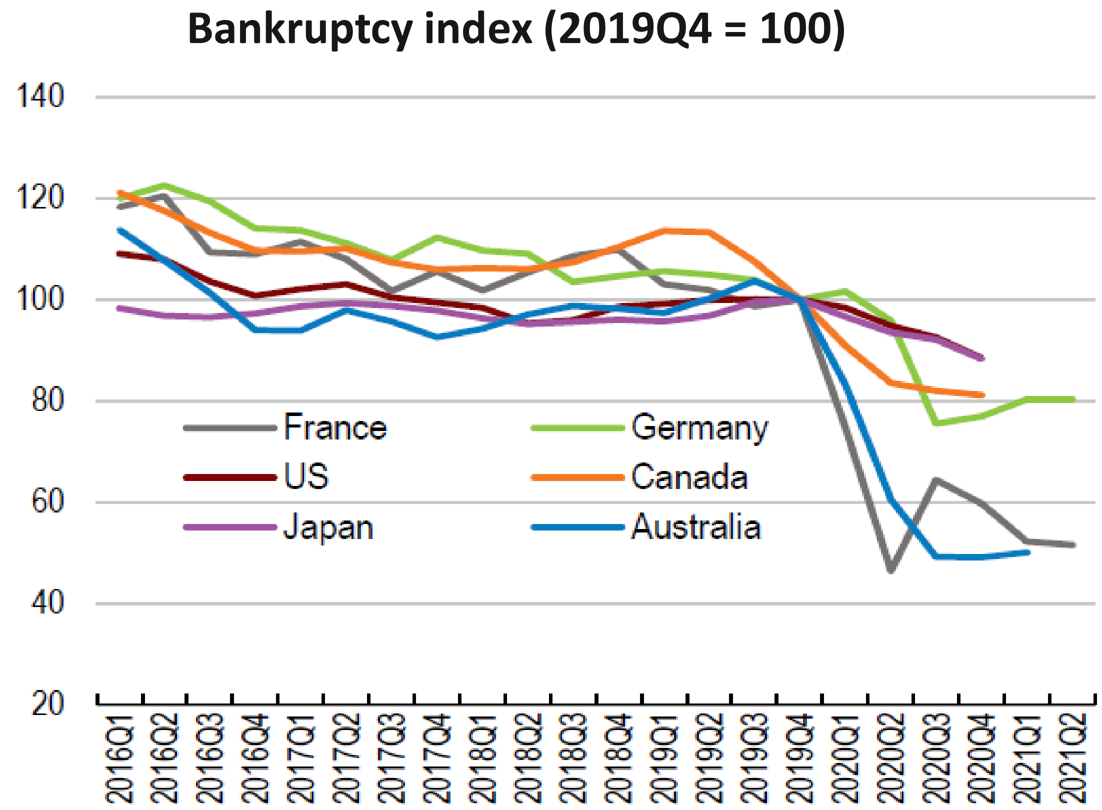
Widespread policy intervention protected SMEs from

widespread liquidity crisis

adverse market selection mechanism

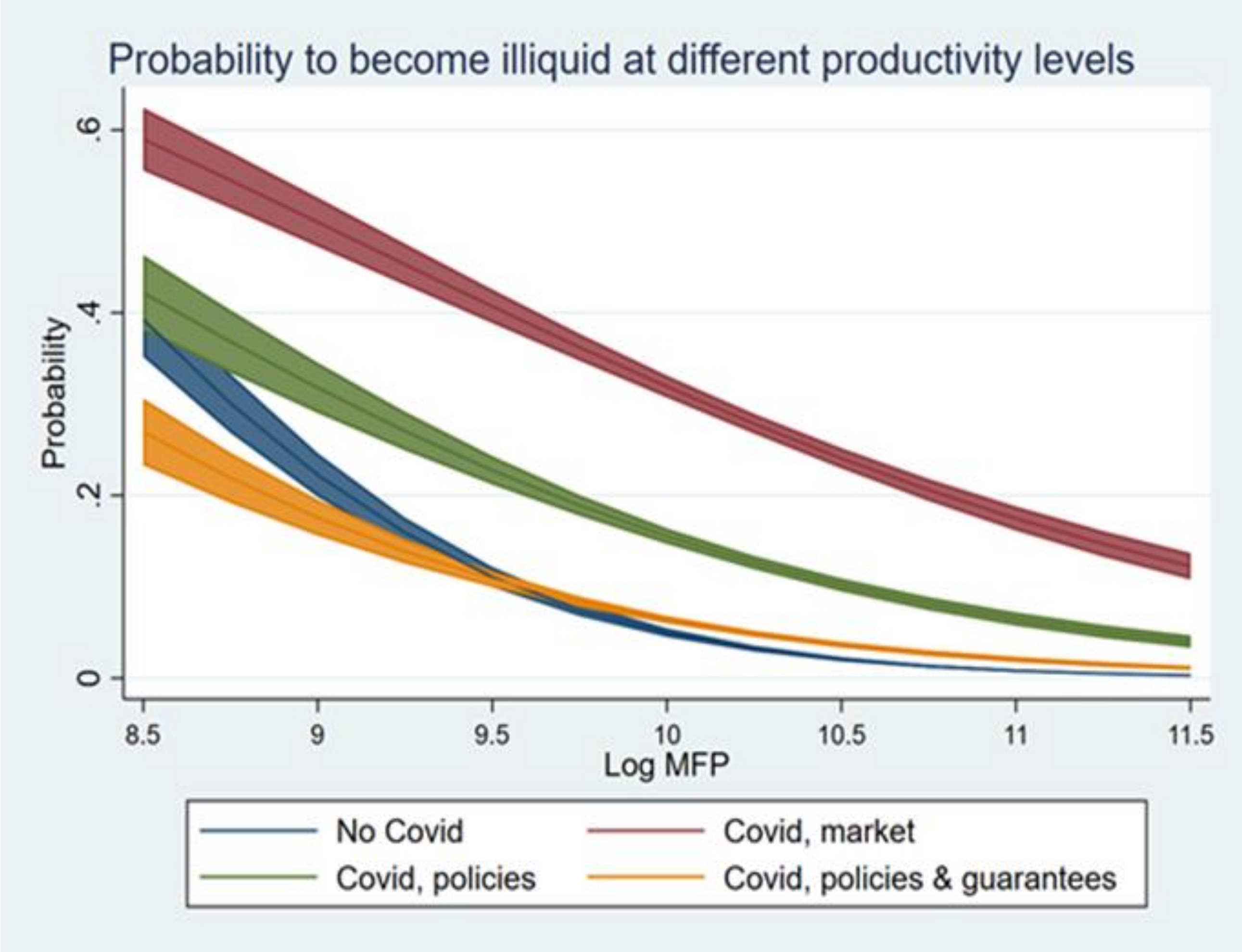
Hibernation of the corporate sector





"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"

Policies protected SMEs landscape from a counter-productive destruction



How did COVID-19 and related policies affect market selection mechanism?

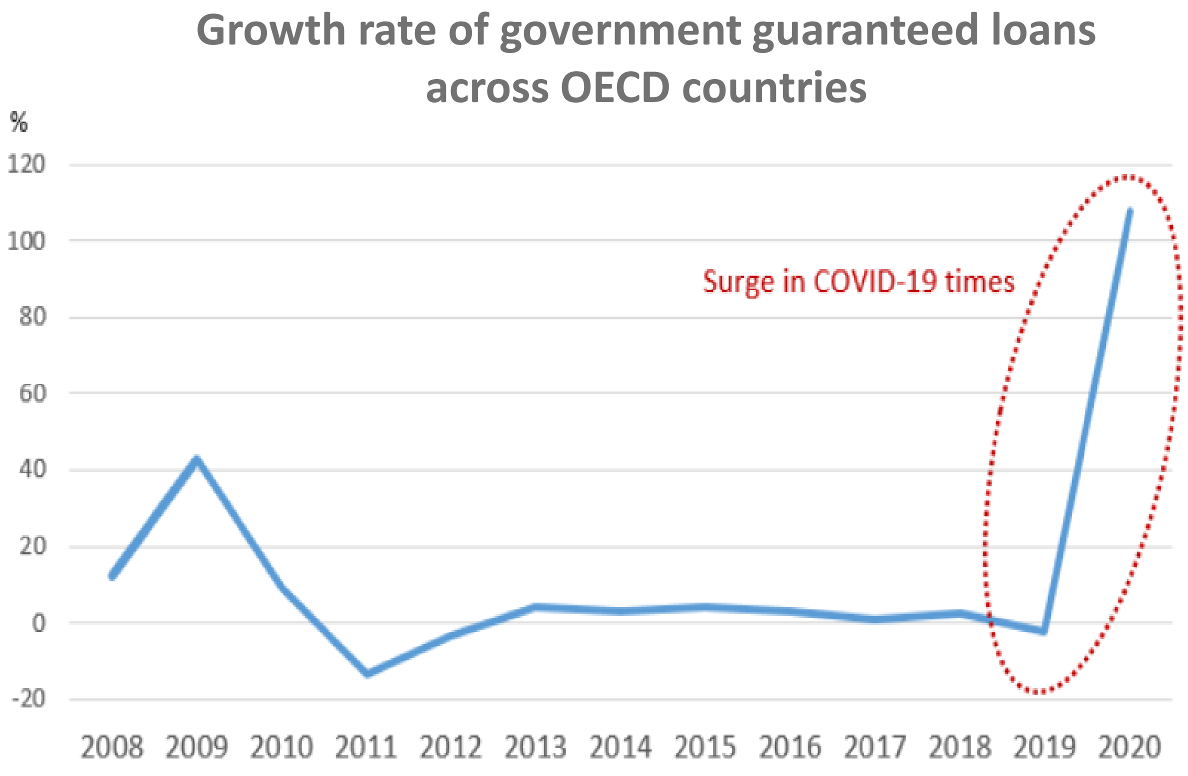
1) The COVID-19 shock had the potential to seriously **distort market selection**.
2) Swift **policy actions corrected** part of the **inefficiency of market selection** in the short-term by
   - shielding many high productive firms from distress;
   - supporting zombie firms only to a limited extent.

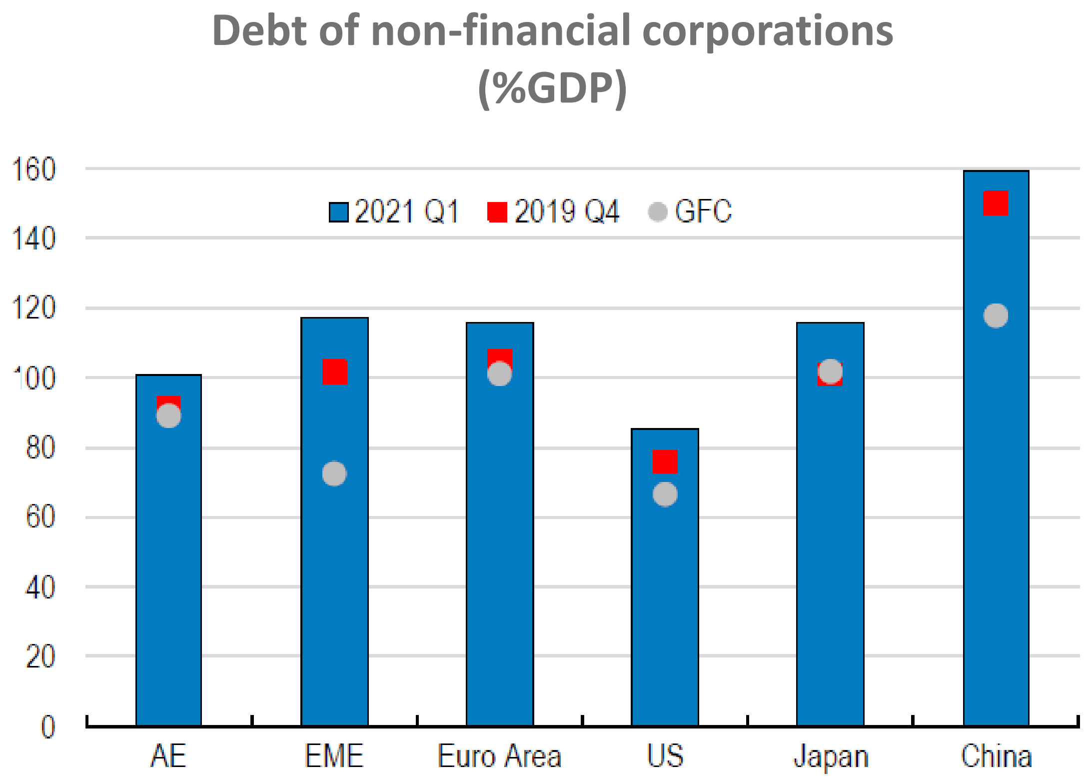
… but medium term challenges for SMEs

Risk of
misallocation

Risk of
debt overhang

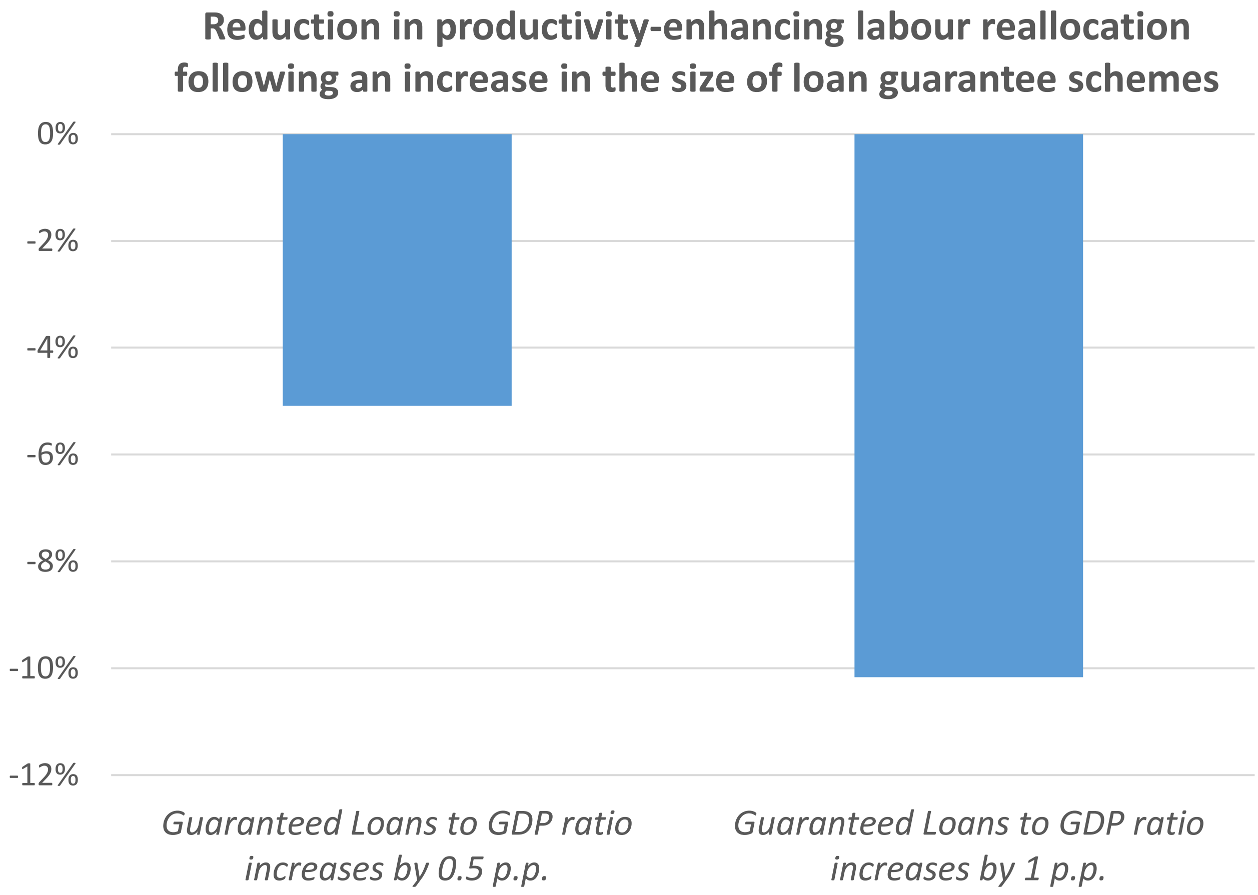
The use of debt instruments and over-indebtedness





"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"

Risk 1. Misallocation: the case of loan guarantees



How could large loan guarantee schemes affect productivity via reallocation over the medium-long run?

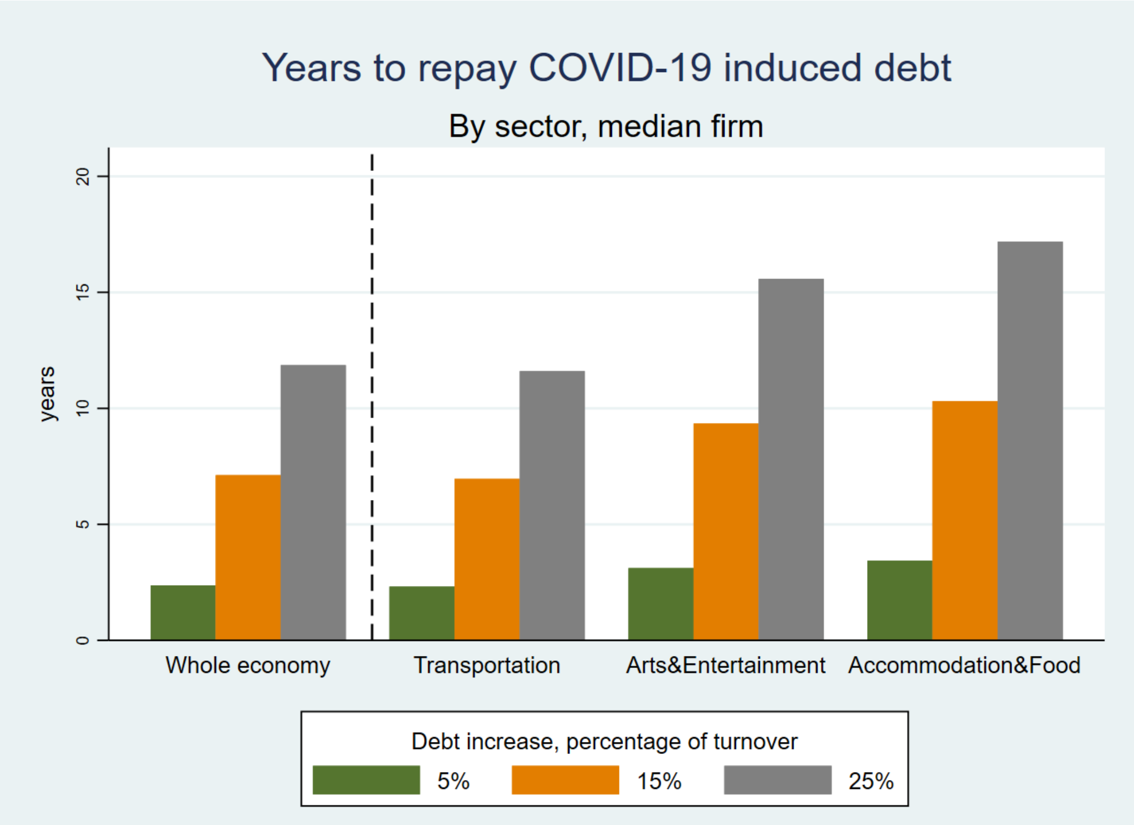
1) Loan guarantee schemes could **weaken** the **reallocation** of resources from low to high productivity firms.

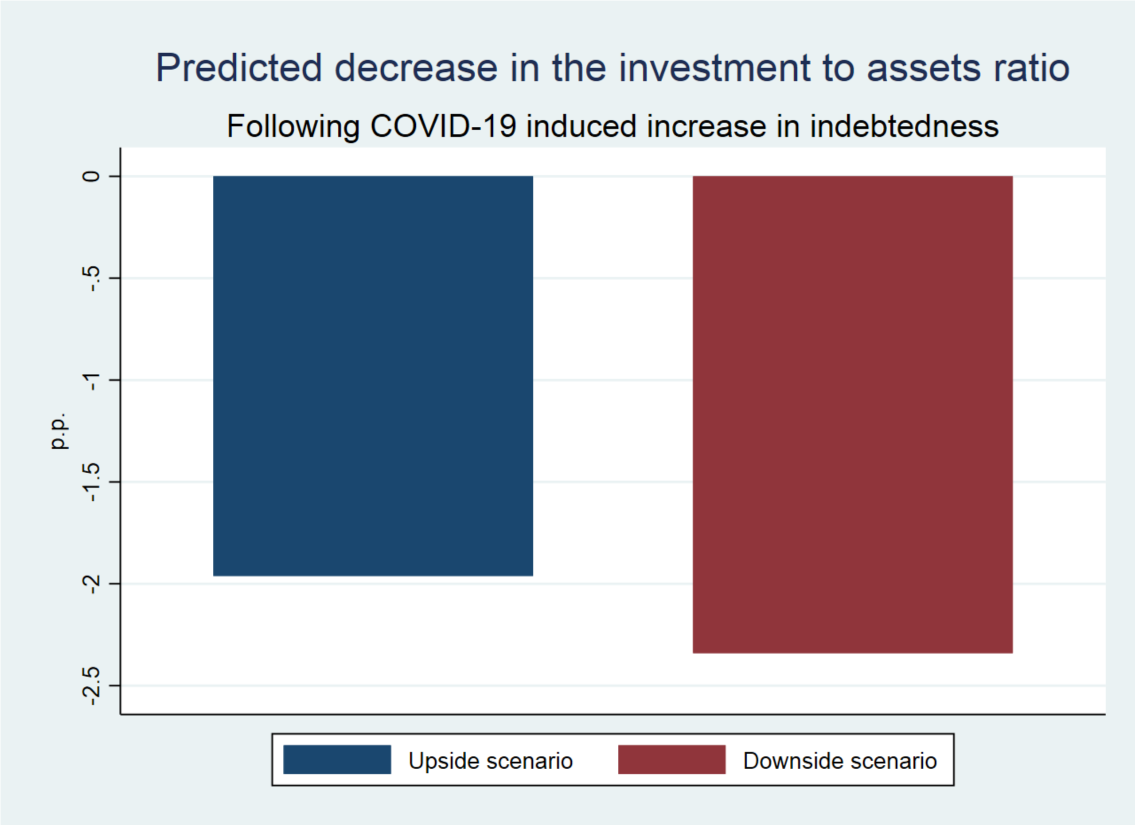
2) But the effect is **heterogeneous:**
   - It turns positive for small scale schemes;
   - It is more benign in intangible-intensive sectors.

Risk 2. Debt overhang

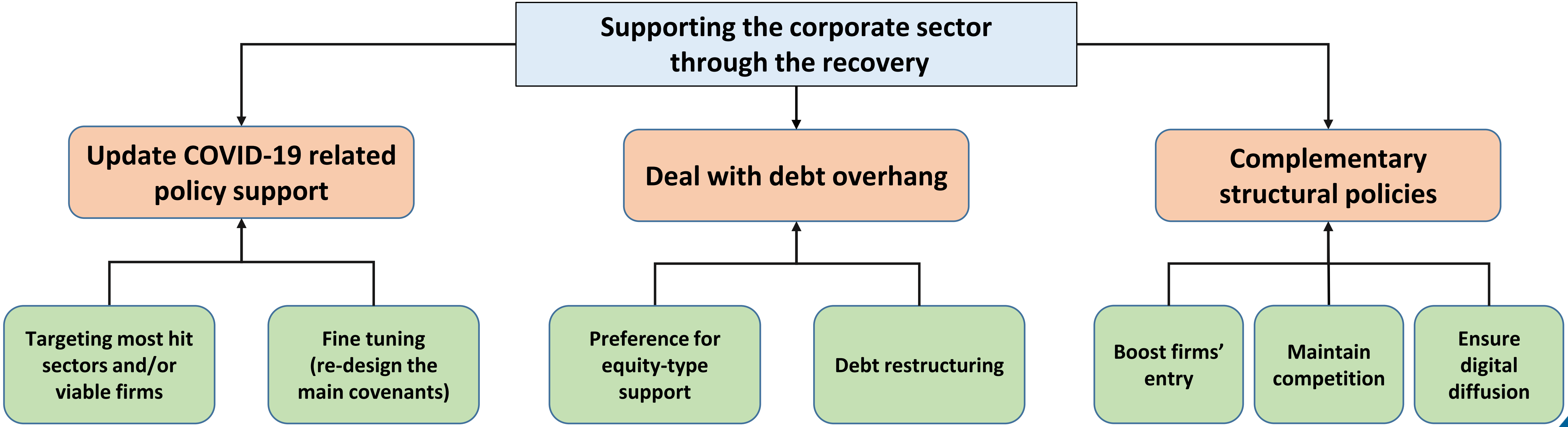
Firms in most hit sectors may face difficulties to repay COVID-19 induced debt…

… and to continue investing in the post-crisis world





Pandemic policy: from hibernation to reallocation



Thank you!

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