Report

The economic impact of COVID-19 on SMEs in Europe

This document summarises the replies to a survey SMEunited conducted with its member organisations about the economic impact of COVID-19 on the economy in general and specifically on SMEs.

1. Figures on GDP growth below European Commission Forecast

In its Spring Forecast published on 6th May the European Commission projected a decrease of economic activities in 2020 of -7.4% for EU27 (Euro area -7.7%) in case the confinements were lifted before summer and there is no second wave of infections, which requires new lock-downs.

SMEunited figures show that the recession will be even worse and we expect a downturn of about 9% for 2020 (-1.5% point) compared to the EC Forecast. These figures are confirmed by the OECD and the IMF expects an even worse outcome for Europe.

We see the reason for this correction in a significant slower restart of the economy after lifting lock-down measures than expected.

2. Deepening of recession impacts also employment and household deficits

Our results show also that the delayed recovery will lead to higher overall figures for unemployment and we expect that for 2020 the unemployment rate for both, the EU27 and the Euro area will be about 1% point above the EC Forecast (9.0% and 9.6%).

Furthermore, the delay also has consequences for public households with less revenues from taxes and social contributions, and higher expenditures on social measures and continuation of business support measures. Here we expect an increase of budget deficits in the range of 1.5% compared to the EU Forecast (8.3% EU27 / 8.5% Euro area).

3. Delay of recovery will also feed into next year

Without being able to provide quantitative data, the delay of the recovery will feed into next year and will have a negative impact on the expected figures for GDP growth, unemployment and deficits. Some of our members report even an increase of the unemployment rate for 2021 compared to 2020.

4. Private investment and private consumption most hit by the COVID-19 crisis

More than 90% of SMEs report a decrease in turnover as a consequence of the crisis. They are impacted by having had to stop the activities completely or partially, facing problems with supply chains or unavailable employees. Up to 20% of SMEs lost 100% of its turnover for several weeks. At the macroeconomic level this sums up to a reduction of private consumption of about 9% for 2020, but an increase in 2021 in the range of 6%.

At the same time, about 2/3 of SMEs report that they have delayed investment decision or downsized investments. In total we expect a decline in private investments of about 15% for 2020, but a positive development for 2021.

5. Main problem for SMEs is access to liquidity and risk of insolvency

About 40% of SMEs report liquidity problems as a consequence of the economic lock-down. In the most affected sectors like hospitality, retail and construction, 50% of SMEs have liquidity shortage. Therefore, delaying payments for taxes, social contribution and bank loans as well as the provision of new loans supported by public guarantees is still needed.

In parallel, we see an increasing risk that SMEs become insolvent, because most of the liquidity support measures increase the debt ratio and do not provide equity. Therefore, any kind of re-capitalisation will be needed to allow SMEs a recovery and to make them able to start investing again.

Please do not hesitate to contact Gerhard Huemer, Director for Economic and Fiscal Policy (Email: g.huemer@smeunited.eu) for further questions.