

**MEDIUM-SIZED BUSINESSES:  
HIGH-DEBT, DECLINING PROFITS AND FINANCING GAP DUE TO COVID-19**



After the corona shock, European SMEs are showing very high levels of debt, a considerable deterioration in profitability in some cases, and insufficient capitalization

- The Covid-19 pandemic is particularly affecting small and medium-sized enterprises (SMEs) in France and Italy
- Compared to its European counterparts, German SMEs have come through the crisis relatively well so far
- Already before the crisis 20% "zombies" among Italian SMEs, in France 11%, Germany 10%



In France and Italy in particular, the Covid-19 pandemic is taking a toll on small and medium-sized enterprises (SMEs): they are currently lacking financial resources totaling an estimated EUR 100 billion - despite the extensive economic stimulus packages and after the exclusion of so-called "zombie" companies. In Germany too, SMEs lacking around EUR three billion of financial resources for a sufficient recapitalization. In view of the lack of EUR 70 billion in Italy and around EUR 29 billion in France, however, the local SMEs are in a much better position. This is the conclusion of a recent analysis by the world's leading credit insurer Euler Hermes.

"European SMEs have a very high level of debt, significantly deteriorated profitability and insufficient capitalization," Ron van het Hof, CEO of Euler Hermes in Germany, Austria and Switzerland says. "In the medium term, this is a very bad combination for the solvency of these companies. In

Italy and France in particular, Covid-19 is making the situation increasingly acute, even if the numerous economic stimulus packages have at least avoided a short-term liquidity crisis. German SMEs have once again proven to be relatively robust and have so far come through the crisis relatively well compared to their European counterparts."

In this country too, debt has increased as a result of numerous liquidity measures. In France in particular, however, it is almost twice as high in relation to gross domestic product (81% of GDP) as in Germany (43% of GDP). In Italy, the debt of 65% of GDP is above average also in a European comparison (average: 63%).

**In terms of profitability, French SMEs are at the bottom of the European league**

"French small and medium-sized companies are now at the bottom of the European league in terms of profitability, even behind Italy," Ana Boata, Head of Macroeconomics at Euler Hermes says. "The profitability of French SMEs has fallen dramatically by 7 percentage points (pp) since the beginning of the year compared to -0.6 pp in Germany. In Italy, we estimate that profitability has also fallen by up to 3pp<sup>[1]</sup>. With 33%, the equity ratio in Italy is the lowest and thus



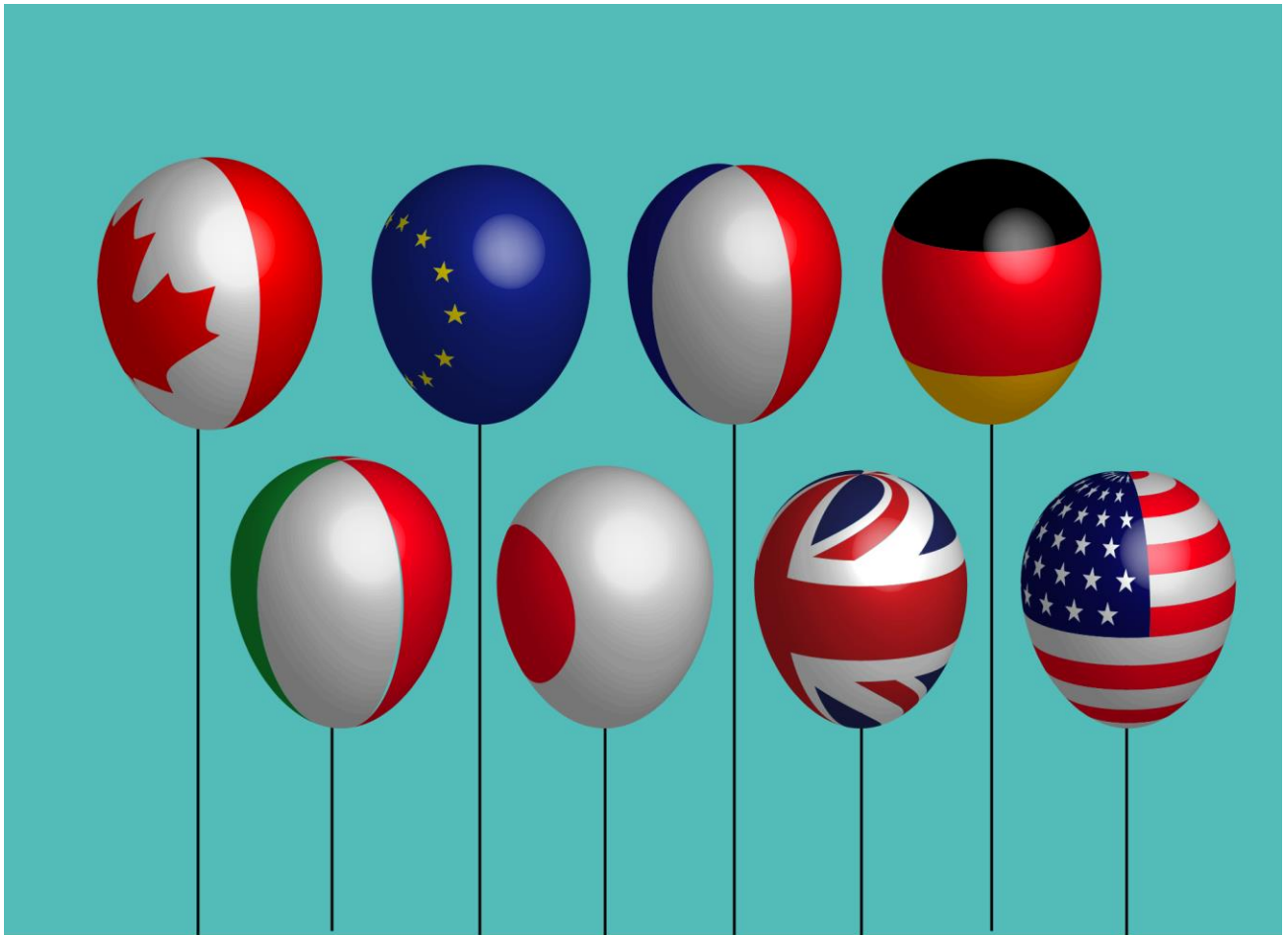
well below the 40% that is generally considered as being adequate. Accordingly, Italy is the country where the greatest need for additional funding for recapitalization exists."

In France, the equity ratio of SMEs is 37%, while in Germany, at 39%, only slightly below the recommended capital adequacy level. In their analysis, the economists have already deducted such companies that were already practically unviable before the Covid 19 pandemic.

"A majority of medium-sized companies are proving to be very robust even in the current crisis, especially in Germany, Van het Hof says. "This fact, however, must not hide the fact that there are



numerous zombie companies in their shadow in Europe - even before the Covid-19 pandemic. In Italy, for example, even before the crisis, around one-fifth of the SMEs were no longer economically viable, while in France (11%) and Germany (10%) only about half as many were known. However, this number is likely to have increased dramatically with the current crisis, as have the financing requirements of SMEs. The situation will be particularly tight for companies and sectors that had little buffer before the crisis."



In Germany, the equity ratio before the pandemic was particularly low in the transportation industry: in shipping it was around 32%, in aviation 29%. With Covid-19 the existing financing gap has widened again. In France and Italy, companies in the hotel and restaurant industry as well as in mechanical engineering and trade had particularly bad starting positions and therefore have the greatest need for capital now.

The complete study can be found here: <https://ots.de/lYcKea>

<sup>[1]</sup> Figures are currently available for Germany and France until H1 2020, in Italy only for Q1 2020. The decline in profitability of up to 3pp in Italy is an expert estimate.

Euler Hermes is the world leader in credit insurance and a recognized specialist in bonding and guarantees, debt collection and protection against fraud or political risks. Every day, Euler Hermes monitors and analyzes the insolvency of more than 80 million small, medium and multinational companies through its proprietary monitoring system. Overall, the expert analyses cover markets that account for 92% of the global gross domestic product (GDP).

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*Source: Euler Hermes Germany*