The impact of COVID-19 on productivity: preliminary firm-level evidence from Italy

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Overview & key messages

- Common Covid-19 shock with heterogeneous consequences: industries and regions (via their historical industrial specialisation)
- Two type of shocks: external, related to GVCs disruptions (EDRI); internal, related to costs associated to social distancing measures and health protocols (IDRI)
- Evidence from Italy that these two shocks lead to different consequences for firms: lower turnover from EDRI; higher probability of default for IDRI
  - new (endogenous) channel through which regional disparities might emerge within the EU
- Looking at support measures across firms (guaranteed loans), and their phasing out, evidence points at manageable impact on NPLs, but higher potential impact on employment
GVCs exposure and Revenues

EDRI

△ Revenues
Health exposure and Defaults

IDRI

Δ Defaults
Key findings - 1

- Diff in Diff specification with local area controls (density of economic activity, mobility during lockdown, industry FE) and time-varying controls for the evolution of the epidemic (excess mortality at the local level).

- Areas more exposed to GVC shocks tend to experience decreasing revenues and higher unpaid invoices, i.e. a short-term shock. Conversely, areas more specialized in proximity-based activities are more likely to experience an increase in the probability of default of local firms, with possible longer-term structural consequences.

- Health-related indicators, such as Covid-19 excess mortality, tend to be uncorrelated with the predicted evolution of firms’ performance in a territory.
Phasing out of subsidies

Analysis of 1,030,899 SMEs having received 115bn € in guaranteed loans (85% avg. guarantee; 96% of all loans granted to SMEs), and employing 5.8M people

<table>
<thead>
<tr>
<th>Category</th>
<th>Loans (M €)</th>
<th>Loans at risk (M €)</th>
<th>Employees (N)</th>
<th>Empl. at risk</th>
<th>N. of firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safe</td>
<td>45,969 €</td>
<td>776 €</td>
<td>2,239,115</td>
<td>38,803</td>
<td>308,172</td>
</tr>
<tr>
<td>vulnerable not-impacted</td>
<td>31,726 €</td>
<td>2,211 €</td>
<td>1,361,157</td>
<td>96,200</td>
<td>284,516</td>
</tr>
<tr>
<td>vulnerable impacted</td>
<td>13,901 €</td>
<td>759 €</td>
<td>864,230</td>
<td>48,231</td>
<td>181,884</td>
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<tr>
<td>risky impacted</td>
<td>727 €</td>
<td>137 €</td>
<td>55,410</td>
<td>9,970</td>
<td>9,347</td>
</tr>
<tr>
<td>zombie light</td>
<td>14,008 €</td>
<td>2,619 €</td>
<td>789,239</td>
<td>157,989</td>
<td>166,071</td>
</tr>
<tr>
<td>zombie</td>
<td>8,731 €</td>
<td>2,486 €</td>
<td>477,471</td>
<td>149,784</td>
<td>80,909</td>
</tr>
<tr>
<td>TOTAL</td>
<td>115,062 €</td>
<td>8,988 €</td>
<td>5,786,622</td>
<td>500,976</td>
<td>1,030,899</td>
</tr>
</tbody>
</table>

Source: CERVED Group (preliminary estimates, do not quote)
Key findings - 2

- Firms >10E (11% of sample) have received 64% of the total funds, vs. firms <5E (76% of the sample) have received 23% of total funds.

- 23% of total jobs at risk come from the HoReCa industry, which represents only 12% of firms, and only 5% of loans, but 28% of all ‘zombie-light’ firms.

- The impact on NPLs is going to be limited: loans at risk are 7.8% of total loans in the sample (96% of all loans given to SMEs), i.e. less than 9bn €.

- The impact on employment is potentially of a different order of magnitude, with 500,000 people at risk from corporate defaults.

- The employment estimate is a lower bound, as it does not include those employees that might be laid off by surviving firms in order to restore profitability, as STW schemes are phased out.