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

Carlo Altomonte (Bocconi & Bruegel)

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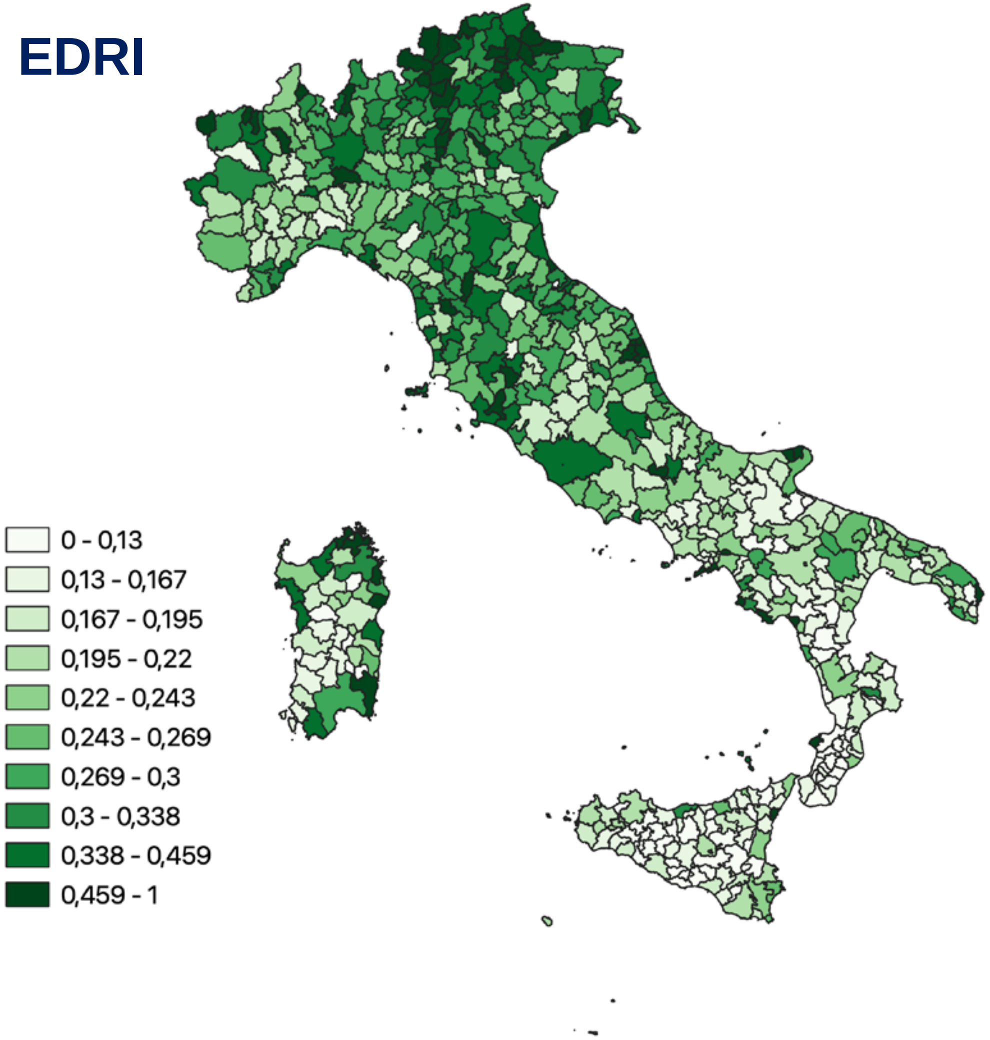
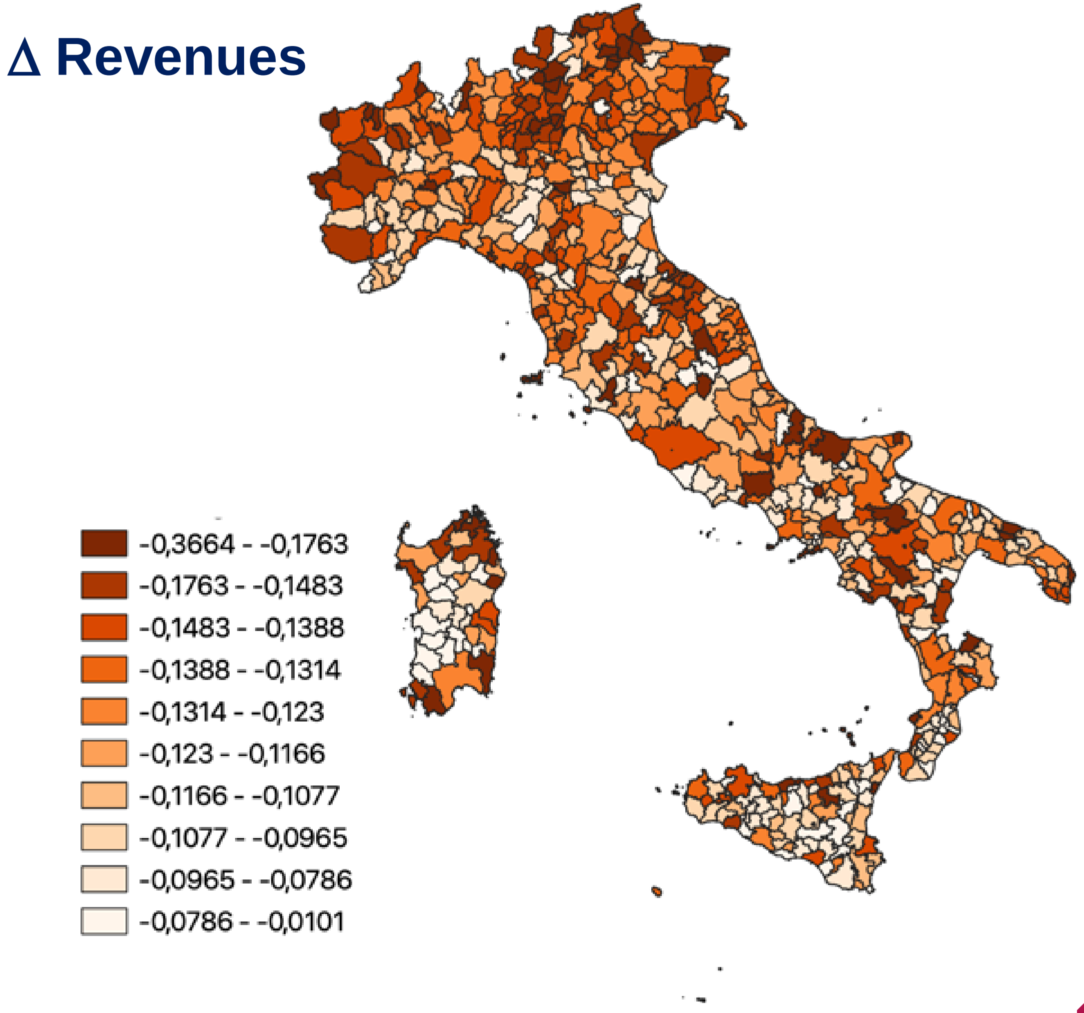
Overview & key messages

MICRO PROD

- 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

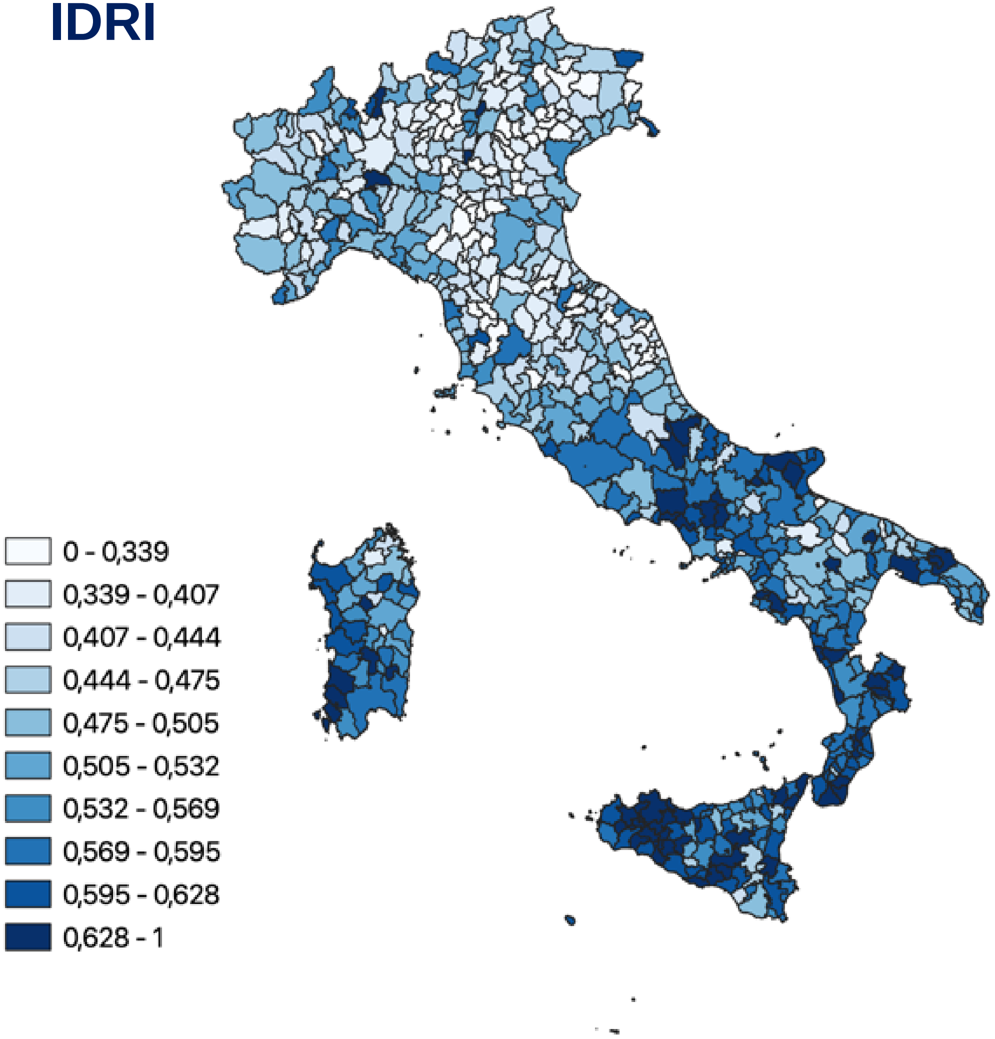
GVCs exposure and Revenues



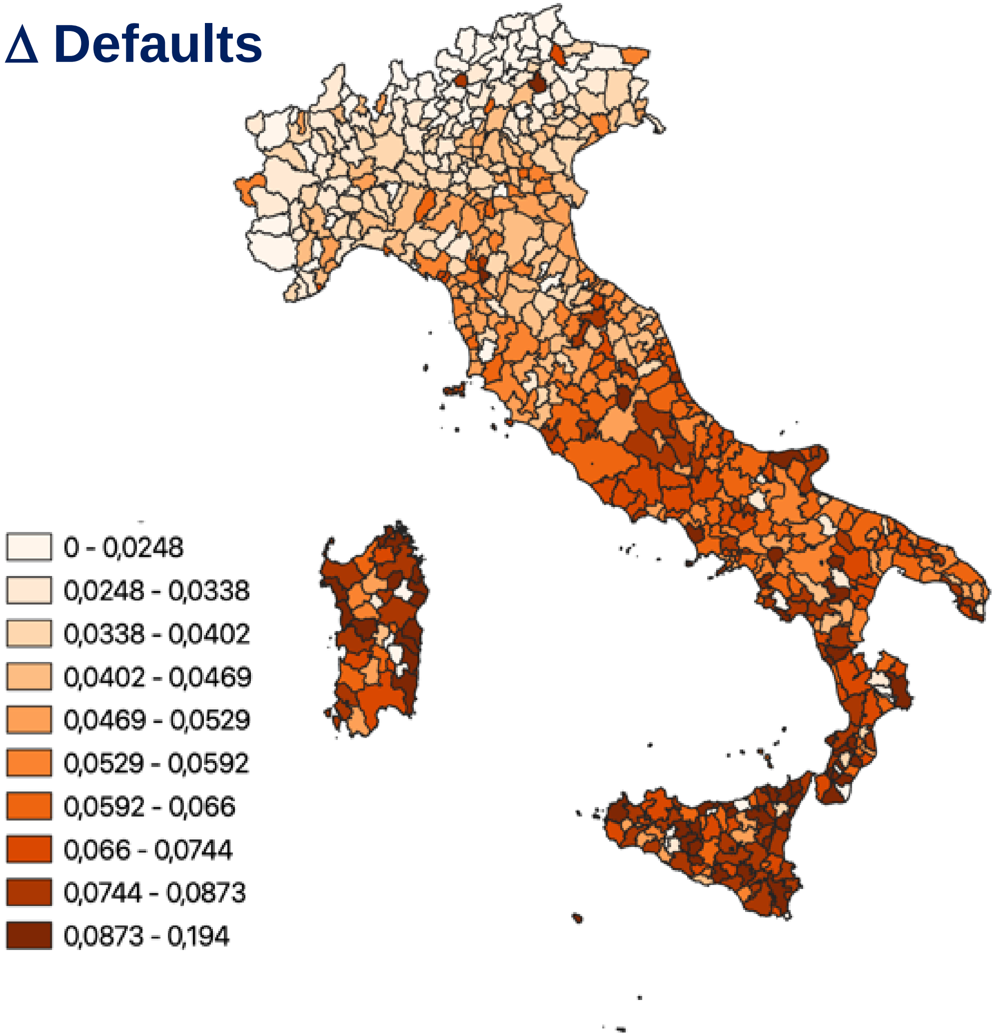


Health exposure and Defaults

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

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

Source: CERVED Group (preliminary estimates, do not quote)

Key findings - 2

MICRO PROD

- 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