The dark clouds of the coronavirus crisis are gradually dissipating. In the SME sector, the situation appears to be easing slightly. Still, the return to full economic activity will be difficult and, for most businesses, is unlikely before the spring of 2021. Most of Germany’s small and medium-sized enterprises (SMEs) will feel the impact of the coronavirus crisis for a long time. That was the finding of the second representative supplementary survey conducted by KfW Research in early June 2020.

While the effect of the coronavirus crisis is slowly decreasing across the breadth of the sector, losses in turnover remain significant. In May, 61% of SMEs suffered coronavirus-induced turnover losses. On average, companies lost 46% of their normally anticipated turnover, or around EUR 46,000 per affected business.

At the same time, losses were spread very unevenly. Most enterprises suffered less in May than the month before, but larger enterprises were more affected and lost more. Overall, SMEs lost around EUR 88 billion of their annual turnovers in May.

The ongoing heavy losses in turnover are putting a strain on SMEs’ liquidity. It is true that the situation appears to have eased for some companies, as 25% currently report having adequate liquidity reserves, 6 percentage points more than in the survey of early April. Another 6% have reserves for up to one year. But at the same time the share of SMEs with short-term liquidity problems has grown slightly. Around one in five enterprises will run out of liquidity in four weeks at the latest.

The slight easing allows us to be cautiously optimistic. With its comprehensive coronavirus response and progress in containing the spread of infections, Germany is on a good path. What is most important is to have faith in a sustainable recovery. The German Government’s economic stimulus package provides welcome impetus.

Germany’s small and medium-sized enterprises are taking a deep breath. The coronavirus pandemic in Germany appears to have passed its peak. The month of May brought visible progress in slowing the spread, allowing the measures introduced in the second half of March such as contact restrictions and comprehensive mandatory business closures to be relaxed again.

The gradual rollback of the containment measures adopted in response to the pandemic is making many small and medium-sized enterprises hopeful that their situation will ease. A strong indication of this is the most recent improvement of SME business confidence identified in the KfW-ifo SME Barometer. In May it recovered a good one fifth of the

Figure 1: Estimated duration of burdens from the coronavirus crisis

The chart illustrates the estimated duration of burdens from the coronavirus crisis, with the total SMEs taking 8.5 months to return to the pre-crisis level. Different expectations regarding time until return to full economic activity (affected companies) are shown, with categories ranging from large enterprises to manufacturing and knowledge-intensive services. The time until business situation normalises (in months) is also indicated for each category.
Most SMEs expect to return to full business activity in March 2021

A second representative supplementary survey conducted by KfW Research in early June 2020 now casts a spotlight on the current coronavirus situation in the SME sector. The findings underscore that even though a slight easing is foreseeable, the consequences of the crisis will accompany a large portion of enterprises for a prolonged period (Figure 1). Thus, 60% of SMEs expect to feel the consequences for a long time (dark blue segment of the circle in Figure 1). On average, these enterprises expect their business situation to return to normal in about 8 1/2 months – so around March 2021.

German SMEs are thus slightly more optimistic than, for example, the OECD in its current economic forecast, which does not see a return of real GDP to the pre-crisis level until the fourth quarter of 2021, not even in its more favourable ‘single-hit’ scenario.3

Half the enterprises that made a prediction about the time it will take to return to normal expect to be able to achieve their pre-crisis level by the end of 2020. But one in four predict at least 12 months and one in ten expect to remain affected for a very long period of at least one and a half years (a rate of 6%, or nearly 230,000 businesses).

A further 7% of SMEs reported having already achieved their pre-crisis level at the time of the survey (first week of June 2020). But this positive development contrasts with 9% of SMEs that do not expect to achieve their pre-crisis level ever again. Another element of the overall picture is that almost one quarter of all SMEs in Germany have so far not been affected by the coronavirus crisis.

**Light at the end of the tunnel: Coronavirus impact is receding gradually**

Of all the possible consequences of the coronavirus crisis, decreases in demand are the main challenges for SMEs in June as well, mirroring the responses in the previous survey. In May, even slightly more businesses reported coronavirus-

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**Figure 2: Current impact of the coronavirus crisis on SMEs (as at 12 June 2020)**

Source: First supplementary coronavirus survey to the KfW SME Panel 2020 (2–14 April 2020) and second supplementary coronavirus survey to the KfW SME Panel 2020 (2–12 June)
induced turnover losses than in March (61 vs. 58%). That was an increase of 114,000 SMEs, meaning around 2.3 million are affected. Besides decreases in turnover, a large number of SMEs still deplore the depletion of liquidity – although the proportion of affected SMEs is, at 33%, significantly lower than in April (44%).

Overall, none of the possible further consequences of the coronavirus crisis appear to have a greater impact in June than in April. The gradual relaxation of coronavirus restrictions in the past weeks are thus showing clearly positive effects. Only 14% of enterprises still reported business disruptions as a result of employee absences (-11 percentage points), 18% of SME deplored a reduced sales region and 17% have production problems resulting from disrupted supply chains. A mere 4% of SMEs have not yet reopened any of their operations (-10 percentage points).

As in April, possible difficulties in paying leasing instalments (-3 PP to 1%), suppliers (-1 PP to 4%), loan instalments (-2 PP to 3%), office rents (-5 PP to 2%) and salaries (-5 PP to 10%) were rather less significant in the spectrum of coronavirus consequences – and currently play a much smaller role still. Around one in ten businesses currently face challenges in complying with applicable hygiene and distancing requirements.

### In May the coronavirus crisis cost businesses EUR 45,000 in turnover

The decline in turnovers reflects the full force with which the coronavirus pandemic hit the SME sector. In the month of May, SMEs lost an average 46% of the turnover typically anticipated for May – in cases where enterprises were affected by turnover losses as a result of the coronavirus crisis. That represents an arithmetic mean of around EUR 45,000 across all size classes and sectors (comparison value for March 2020: EUR 39,000).

As was the case in the last April survey, the span is also very wide, reflecting the circumstances of each segment. Across the various segments, other service providers recorded the lowest average turnover loss, at approx EUR 20,000. In contrast, May turnover losses of manufacturing SMEs averaged EUR 169,000. Larger enterprises with more than ten employees suffered average turnover losses of EUR 276,000, 14 times more than smaller SMEs with up to ten employees.

However, the median decrease in turnover was much lower. In half the enterprises that suffered crisis-induced losses in turnover in May, these losses were not more than EUR 7,200 (March 2020: EUR 8,000). This moderate drop is due to the fact that the overwhelming majority of SMEs are very small businesses. The median number of full-time equivalent employees in the SME sector in Germany is two. Because they are so numerous, micro and small businesses play a crucial role in defining the aggregate values across the overall SME sector. This also means that segments with significantly higher losses in turnover such as manufacturing and large enterprises hardly make a difference in the aggregate analysis.

### In May, almost all businesses were able to limit losses in turnover but larger enterprises lost more!

Two opposing trends could be observed in May. First, average losses in turnover as a result of the coronavirus crisis decreased in all SME segments under review (Figure 4). In contrast with March, turnover losses dropped an average 7 percentage points across all businesses (March 2020: 53%). The construction sector in particular recorded a much lower percentage loss in turnover in May (-26 percentage points), to the extent that companies were affected.

![Figure 3: Impact of the coronavirus crisis on SMEs’ May turnovers by segment](image)

Note: The chart shows the drop in turnover in May 2020 compared with the respective companies’ average monthly turnover and normally anticipated May turnover. The absolute decline in turnover in euros is based on 2018 turnover figures.

Source: KfW SME Panel 2019 in conjunction with second supplementary coronavirus survey to the KfW SME Panel 2020 (2–12 June 2020).
in turnover in May were therefore around EUR 13 billion or EUR 119 billion. SMEs’ aggregate coronavirus-induced loss-

mentary coronavirus survey, it is possible to estimate the total loss in turnover of small and medium-sized enterprises.

In addition to the causes already outlined – a higher number of affected businesses and the sharp rise in losses among large enterprises –, a comparison of different months must take into account the fact that containment measures have been adopted since mid-March (business closures in the catering and hospitality sector, stationary retail and many personal services), although some of them differ from state to state. Nationwide physical distancing requirements were not imposed until 22 March. The decreases in turnover identified in the first supplementary coronavirus survey for March were therefore not incurred over the entire month but specifically during the period affected by the containment measures.

Three quarters (76%) of the losses of May occurred in the small and medium-sized service segments – which reflects their overall weight in the SME sector (76% of all SMEs operate in service sectors) – as well as recently with a clearly higher proportion in the segment of other services (61%). A comparison across business size classes shows that large enterprises account for a slightly higher volume (53%), while in March it was evenly divided between small businesses with up to ten employees and larger SMEs.

**At least EUR 250 billion was lost in the past three months**

After SMEs already lost at least EUR 75 billion in annual turnover in March, at least another EUR 88 billion was now added in the month of May. Under the assumption that April was similarly impacted, the combined loss in turnover across all SMEs during this three-month period was around EUR 250 billion. Measured against the total annual turnover of Germany’s SMEs of around EUR 4,700 billion, at a minimum more than 5% of that total has been lost so far.

Not all businesses were affected by losses in turnover in May, as turnover remained roughly unchanged for 34% of SMEs – slightly fewer than in the comparison month of March (40%). Some SMEs were also able to increase their turnover in May. That currently applies to 5% of businesses, slightly more than in March (2%), although this remains a modest percentage (the average increase in these enterprises’ turnover on the same month last year was around 30%). Retailers and wholesalers in particular recorded notable increases in turnover in May (14%), although for the most part these were likely catch-up effects.

**Liquidity situation has eased only moderately**

Even if the relaxing of restrictions has somewhat eased the situation of SMEs, the continuing high losses in turnover are
still putting pressure on the liquidity position of many businesses. Around one in three SMEs currently report a reduction in liquidity reserves due to the coronavirus crisis. Many SMEs can no longer sufficiently replenish their liquidity reserves because of the loss or reduction of proceeds from receivables and sales revenues, so they are surviving on cash alone. When businesses no longer have sufficient liquid funds such as cash, bank balances, cheques, etc. to meet ongoing payment obligations, they default on their payments and are ultimately at risk of insolvency.

The findings therefore demonstrate that the liquidity situation has eased slightly for at least some SMEs. In addition to the relaxing of the pandemic containment measures, this may have been supported by multiple legislative initiatives and measures adopted by the German Federal Government to support enterprises in Germany. These include, for example, the option to defer the payment of commercial rents, social security contributions or taxes. The emergency coronavirus support measures for micro-businesses and solo entrepreneurs that have been offered since April may also have helped to bridge liquidity bottlenecks.

However, the still relatively high share of SMEs with short-term liquidity problems underscores the fact that the situation for SMEs remains very tense and the threat of a wave of insolvencies is far from over. The bridging assistance of EUR 25 billion included in the Federal Government’s economic stimulus package of early June might help at least part of the hardest-hit sectors and businesses stave off insolvency due to their inability to pay their bills.

A relatively high share of 25% of all SMEs declared generally having sufficient liquidity reserves – a 6 percentage-point increase on the previous survey. A further 24% of enterprises can at least draw on liquid funds for up to six months (+2 PP), and a further 6% have liquidity reserves for up to a year before running the risk of having to close down (-1 PP).

Figure 5 Liquidity remaining until closure of business
Calculated from the first survey month, percentage of enterprises

<table>
<thead>
<tr>
<th>Sufficient reserves</th>
<th>19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 12 months</td>
<td>6</td>
</tr>
<tr>
<td>UP to 6 months</td>
<td>7</td>
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<tr>
<td>Up to 2 months</td>
<td>16</td>
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<tr>
<td>Up to 4 weeks</td>
<td>14</td>
</tr>
<tr>
<td>1-2 weeks</td>
<td>4</td>
</tr>
</tbody>
</table>

The question asked in the surveys was: Assuming the current situation continues with no improvement: Starting from 1 April / 1 June 2020, how long will your liquidity last (before you have to suspend or close down your business operations)?

Sources: First supplementary coronavirus survey to the KfW SME Panel 2020 (2–14 April 2020) and second supplementary coronavirus survey to the KfW SME Panel 2020 (2–12 June)

If the current situation persists without improving (counted from 1 June 2020), around 21% of all SMEs will run out of liquidity in four weeks at the latest, which would mean by the end of June. After that, they might have to suspend trading or close down permanently. Five per cent of businesses actually have enough cash for just 1–2 weeks, while 16% can hold out for up to one month. Compared with the survey in early April, the percentage of SMEs with short-term liquidity problems has thus risen slightly. In contrast, the percentage of businesses whose liquidity buffer will last for one to two months has dropped noticeably from 33 to 24%.

The KfW SME Panel (KfW-Mittelstandspanel) has been conducted since 2003 as a tracking survey of small and medium-sized enterprises in Germany. The basic population includes all private-sector companies from all industries with annual turnovers of up to EUR 500 million. The KfW SME Panel is the only representative survey of the German SME sector, making it the most important source of data on issues relevant to the SME sector and for informing policymakers.

Further information can be obtained here.
1 Borger, K. (2020), *KfW-ifo SME Barometer: May 2020, A sigh of relief*, KfW Research. The KfW-ifo SME Barometer indicator family is based on a scale-of-enterprise evaluation of the ifo economic surveys which are used to calculate, among other things, the well-known ifo Business Climate Index. Each month about 9,000 enterprises from trade and industry, construction, wholesale, retail and services (without the banking and insurance sectors or the state) are polled on their business situation, among them some 7,500 SMEs. In deviation from the definition used in the KfW SME Panel, enterprises are generally classified here as small to medium-sized if they employ not more than 500 workers and generate annual turnover not exceeding EUR 50 million.


4 A further recent but not representative study on European SMEs arrived at similar values for German businesses. In that study, around 30% of SMEs across the EU reported a turnover loss of at least 80% as a result of the coronavirus crisis. Based on the supplementary survey to the KfW SME Panel, the corresponding value is 25%. In addition, the 50% decreases in turnover for German SMEs reported in that study are comparable to the value presented here (53%). For details see: https://smeunited.eu/admin/storage/smeunited/200417-covid19-impact1.pdf

5 Other services includes many SME retailers or wholesalers. Among them are also businesses operating in the areas of nursing, training, culture and sport. The second large segment of service providers, knowledge-intensive services, comprises service industries with an above-average proportion of graduates in the total workforce or services heavily based on technology. These include, for example, architecture and engineering firms, law firms, tax and management consultancies, data processing and telecommunication services. The definition is based on what is known as the NIW/ISI list of research-intensive industries and services, which in turn follows the Federal Statistical Office’s ‘Classification of Economic Activities (WZ 2008)’.

6 Here, manufacturing comprises R&D-intensive manufacturing and other manufacturing enterprises. Research- and development-intensive (R&D intensive) manufacturing is defined as those manufacturing sub-sectors whose average research and development intensity (R&D intensity: ratio of R&D expenses to turnover) is higher than 3.5%. The definition is based on what is known as the NIW/ISI list of research-intensive industries and services, which in turn follows the Federal Statistical Office’s ‘Classification of Economic Activities (WZ 2008)’. Engineering, medical technology, instrumentation and control technology, vehicles, pharmaceuticals and office equipment are of particular quantitative importance.

7 Unlike workforce participation, the number of full-time-equivalents (FTEs) illustrates actual demand for labour. FTE employees are calculated from the number of full-time employees (including business owners) plus the number of part-time employees multiplied by the factor 0.5. Apprentices are not included.

8 This is presumably due to the fact that the SME sector is characterised by a large number of micro-businesses and solo entrepreneurs. Many of them do not have to pay office rent, employee salaries or leasing instalments for machines. In other words, many are able to cover the cost of staying in business even when they lose turnover.

9 Economic surveys by the ifo Institute have revealed that around one quarter of enterprises requested liquidity assistance in April and May. Service providers and wholesale and retail companies accounted for the highest shares, at 30% each. For details see: https://www.ifo.de/node/55914