



NATIONAL BANK OF GREECE

Economic Analysis Department



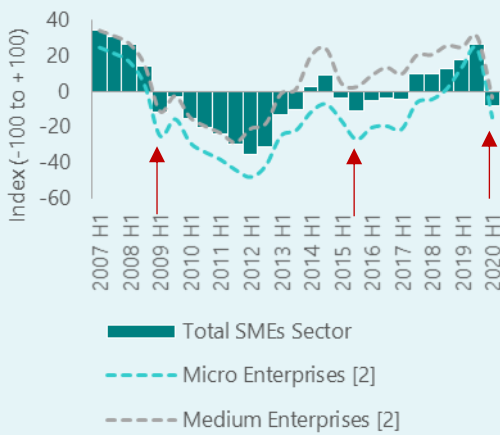
SMEs' Confidence Report

Business Survey 2020 H1

August 2020

One in three SMEs displays enhanced defensiveness in the face of the impact of the Covid-19 pandemic

SME confidence index^[1]



Source: NBG Business Survey Note: For the period prior to 2011, the progress of variables is estimated on the basis of a smaller sample of questions, though the sample has a high correlation with the variables.

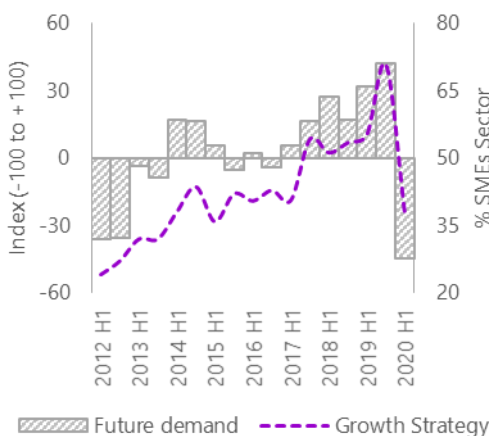
The pandemic brought a halt to the upward trend of the confidence index, which returned to negative territory after positive 5 semesters.

Accordingly, the index fell to -8 points in 2020H1 (from +26 points in 2019H2), approaching the levels of the previous crises (start of the recession in 2009 and imposition of capital controls in 2015).

The deterioration in the index is a common feature across all business sizes (with a drop of 30–40 points), while the intensity and pace of the decline reflect the extent to which developments totally wrong-footed business players.

[1] The index corresponds to the net balance of answers, for decrease (-100), unchanged (0) and increase (+100). [2] Business sizes are grouped on the basis of turnover, as follows (in € millions): Micro (0 – 0.5) Medium (2.5 – 10)

Future outlook indices



Source: NBG Business Survey

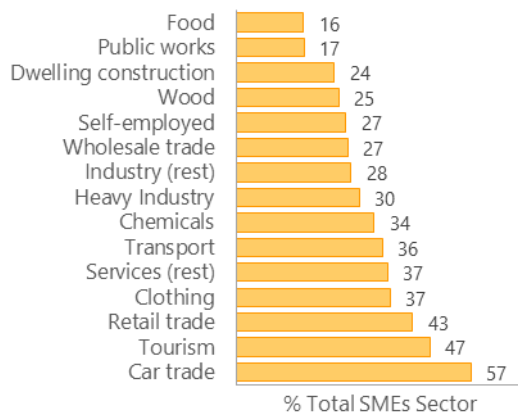
The impact of the pandemic on economic life and the consequent uncertainty have taken a severe toll on SMEs' expectations for the future.

Specifically, the future demand index retreated 87 points (the biggest drop between successive 6-month periods in aggregate and across business sizes), while also posting the lowest performance of 10 years (-45 points).

In addition, the percentage of SMEs targeting growth has fallen back, having retreated to 37% of the sector in 2020H1 (from 71% in 2019H2) – levels not seen since 2015.

[1] The index corresponds to the net balance of answers, for decrease (-100), unchanged (0) and increase (+100). Future demand is defined as demand conditions in the next 6 months.

Target: survival



Source: NBG Business Survey

The impact of the pandemic is amplifying business uncertainty, with the percentage of SMEs merely targeting survival rising from 10% to 33% of the sector in just six months.

To take a closer look, the sectors with the largest percentage of companies struggling to survive are the car trade, tourism and retail trade (57%, 47% and 43% of their sectors, respectively).

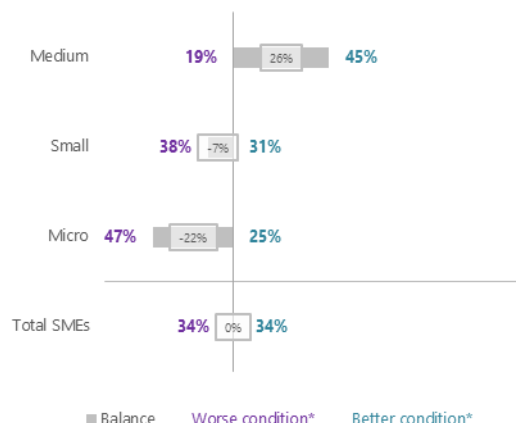
By contrast, the food and construction sectors (especially public works) are more optimistic, with less than 1/5 of firms stating that they are focusing on survival for the foreseeable future.

Successfully riding the current storm requires the right mobilization of the defence capabilities of SMEs. Thus, for the 1/3 of companies that have enjoyed improving sales performance, liquidity and profitability, it will be easier to meet the challenges of the times. Conversely, an equivalent proportion of businesses find themselves in a worse position, requiring more energetic support in order to weather the impact of the pandemic.

When we look at the various business sizes, medium-sized businesses clearly present the best picture (45% in better condition), while micro enterprises are likely to face more serious difficulties (with 47% in worse condition).

* 2020 compared with 2008

Situation of SMEs at time of crisis (2020 vs 2008)

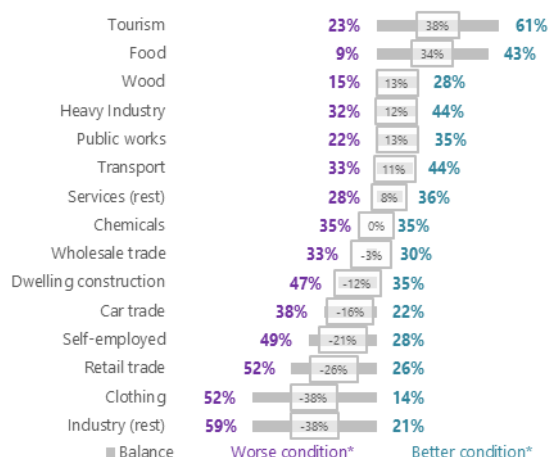


Source: NBG Business Survey

At sector level, tourism stands out more positively thanks to the previous decade of strong growth (61% in better condition), thus giving room to absorb some of the heat of the current crisis, which is impacting the sector with particular intensity. The food sector also stands out positively (43% in better condition), which has sustained its export dynamic throughout the pandemic.

By contrast, retail, clothing and other industries appear to have less strong lines of defence and will require more determined support, as the share of businesses that are worse off than in 2008 amounts to more than 50% of the sector.

Situation of SMEs at time of crisis (2020 vs 2008)



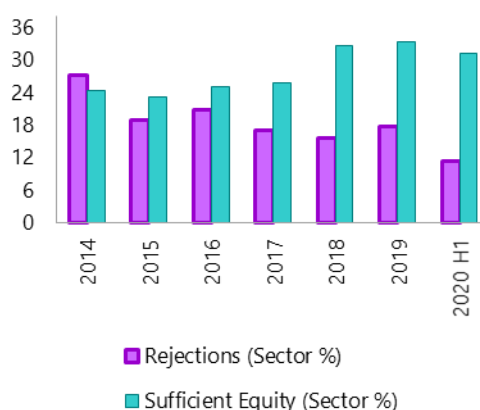
Source: NBG Business Survey

** The survey was carried out 24/02/2020 and 15/04/2020

The reduction in the adequacy of own funds will likely increase demand for financing. Specifically, the percentage of SMEs who state that their equity is sufficient has dropped to 31% in 2020H1 (from 34% in 2019).

In the meantime, the banking sector has been responding purposefully to the new demand, reducing the rejection rate in the case of new loan applications to just 12% in 2020H1 (from 18% in 2019), thereby helping SMEs to cope with the fallout from the crisis.

Funding ratios



Sources: SAFE European Central Bank survey, NBG Estimates

Particular emphasis as regards funding flows (and government support) must be placed on exporting sectors (manufacturing, tourism and transport). The appositeness of this observation lies in the fact that, at the time the pandemic struck, a significant proportion of these sectors (circa 20-40%) were embarked on investment programs to cover the gap with their main international competitors.

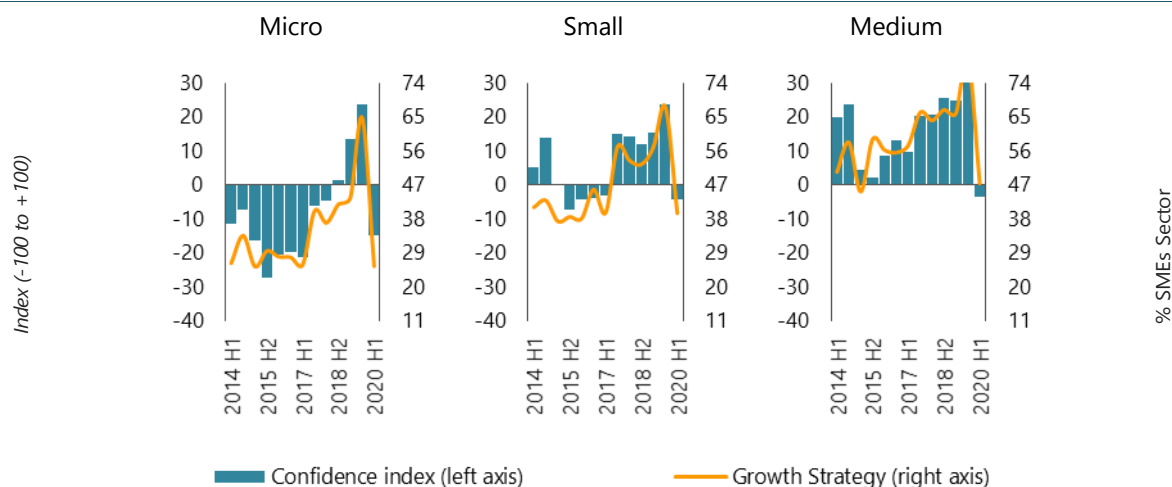
SMEs in midst of recovery investment programmes



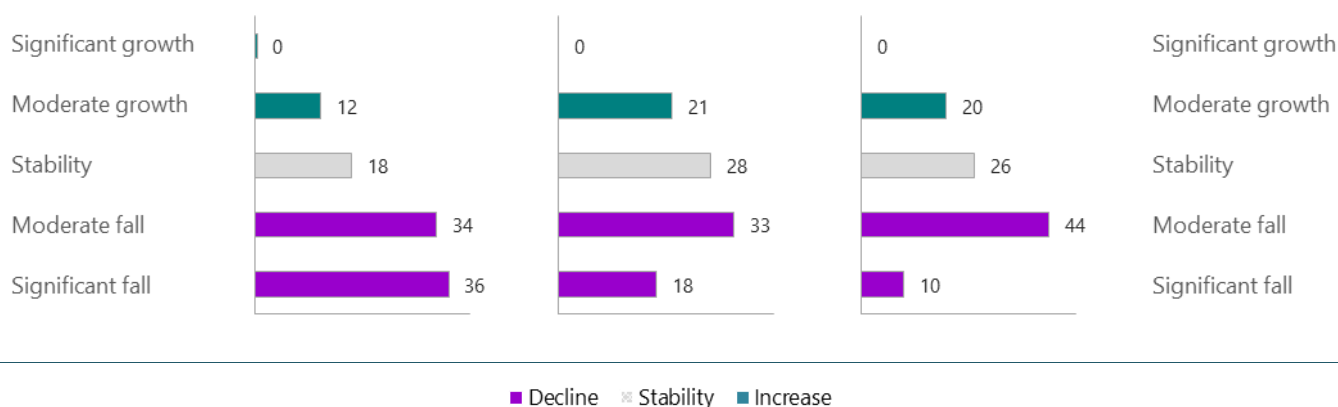
Source: NBG Business Survey

Annex I: Breakdown by size ^[1]

Confidence index



Estimate of progress in sales 2020



[1] Business sizes in this section are grouped on the basis of their turnover (in € millions) as follows: Micro (0 - 0.5), Small (0.5 - 2.5), Medium (2.5 - 10)

[2] The index corresponds to the net balance of answers, for decrease (-100), unchanged (0) and increase (+100).

Source: NBG Business Survey

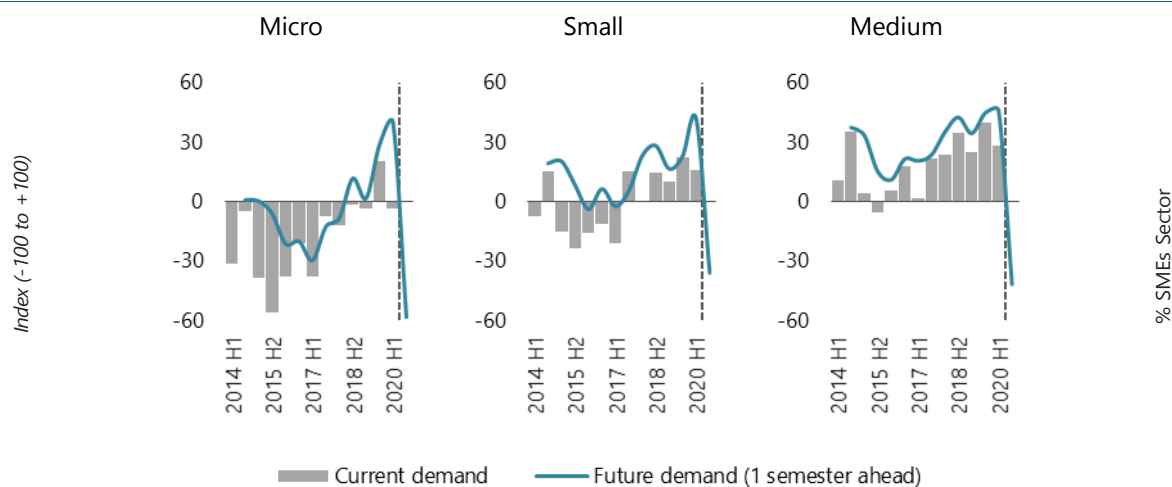
When we look at the various business sizes, we can see the downward trend of the confidence index, which has returned to negative territory across all the various categories. Specifically:

Micro enterprises: The rapid rise in the confidence index during the preceding period – thanks to which the performance of this group of businesses was similar to that of larger enterprises – was reversed as a result of the pandemic, with the index declining by 39 points (to -15 points vs +24 points in 2019H2). At the same time, estimates regarding sales are very negative, with 70% of those questioned foreseeing a decline (by an average of -23%), with a concomitant negative impact on businesses' growth targets (down to 26% of the sector from 65% in 2019H2).

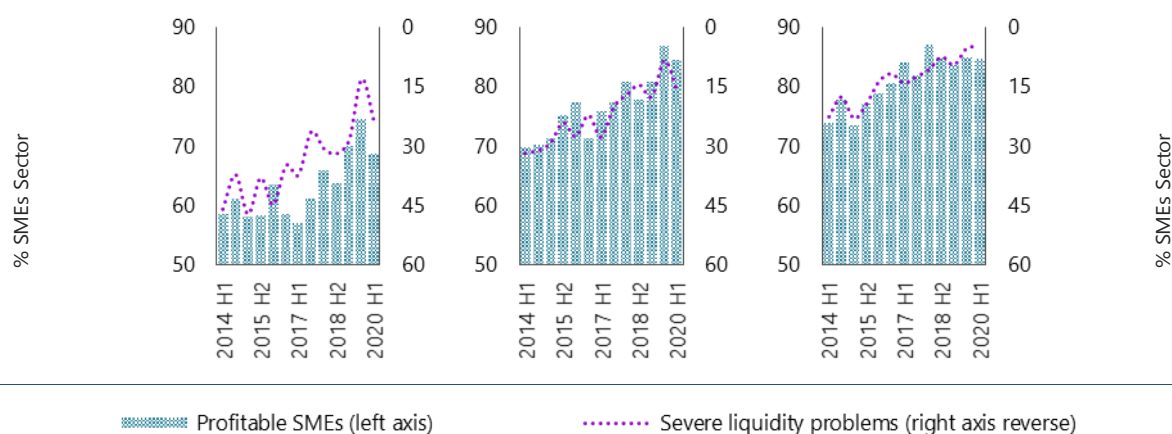
Small businesses: This group of businesses shows a smaller change in the confidence index (decline of 28 points, to -4 points from +24 points in 2019H2). However, the drop in sales (-11%) has had a significant impact on businesses' growth targets (down to 40% of the sector from 68% in 2019H2).

Medium-sized enterprises: The business confidence index has shifted to negative territory for the first time since 2013, with a decline of 35 points (-4 points vs +31 points in 2019H2). This sector displays the least negative estimates for decline in sales (just 8%), thus keeping overall expectations for growth higher (47% of the sector).

Trends in demand



Profitability & liquidity



[1] Business sizes in this section are grouped on the basis of their turnover (in € millions) as follows: Micro (0 - 0.5), Small (0.5 - 2.5), Medium (2.5 - 10)

[2] The index corresponds to the net balance of answers, for decrease (-100), unchanged (0) and increase (+100).

Source: NBG Business Survey

Indices for current and future demand present a downward picture, with significant differentiation across business classes.

Specifically, current demand appears to be on a downward path across all business sizes, though with the exception of micro enterprises that remain in positive territory (-4, +16 and +28 points respectively).

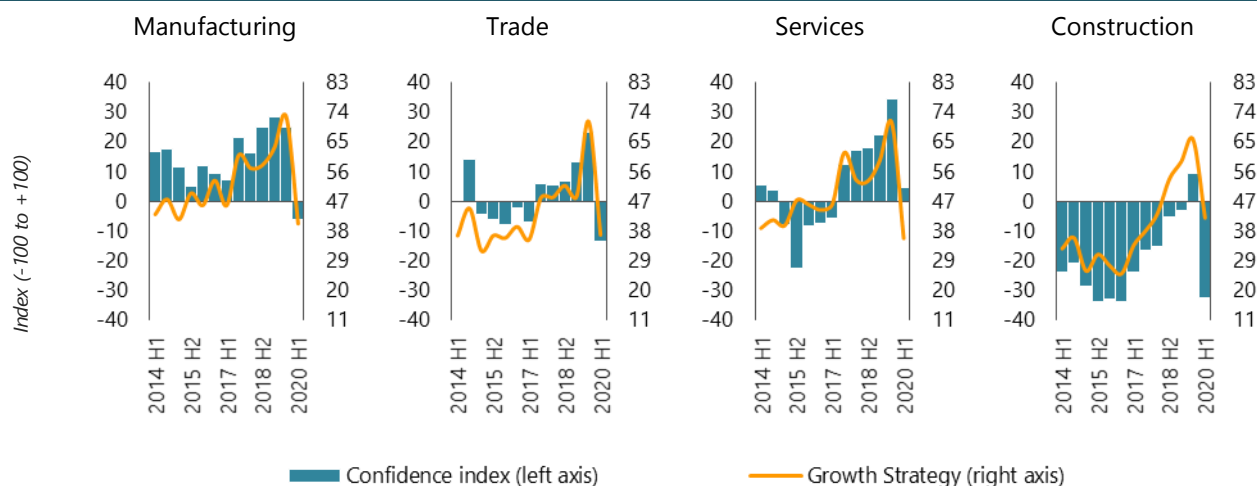
When we look at future demand, we see more uniform behaviour across the various categories, showing (a) a dramatic decline (in the case of micro enterprises, by as much as 98 points), and (b) negative values for all the various categories (-58, -36 and -42 points respectively).

When we focus on how businesses will respond to the challenges presented by the new crisis, we see a comparative advantage among medium-sized enterprises, since:

- i. They face relatively smaller liquidity problems (5% of the sector vs 16% for small and 24% for micro enterprises), while during the current half year they do not seem to show deterioration.
- ii. They account for a high percentage of profitable enterprises, which stayed unchanged despite the pandemic as compared with a decline of 6 and 2 percentage points in the case of micro and small enterprises respectively.

Annex II: Breakdown by sector

Confidence index



Sales Estimates 2020



The index corresponds to the net balance of answers, for decrease (-100), unchanged (0) and increase (+100).

Source: NBG Business Survey

To look more closely at the various individual sectors, we can see that the downward course in the confidence index is a shared feature. Specifically:

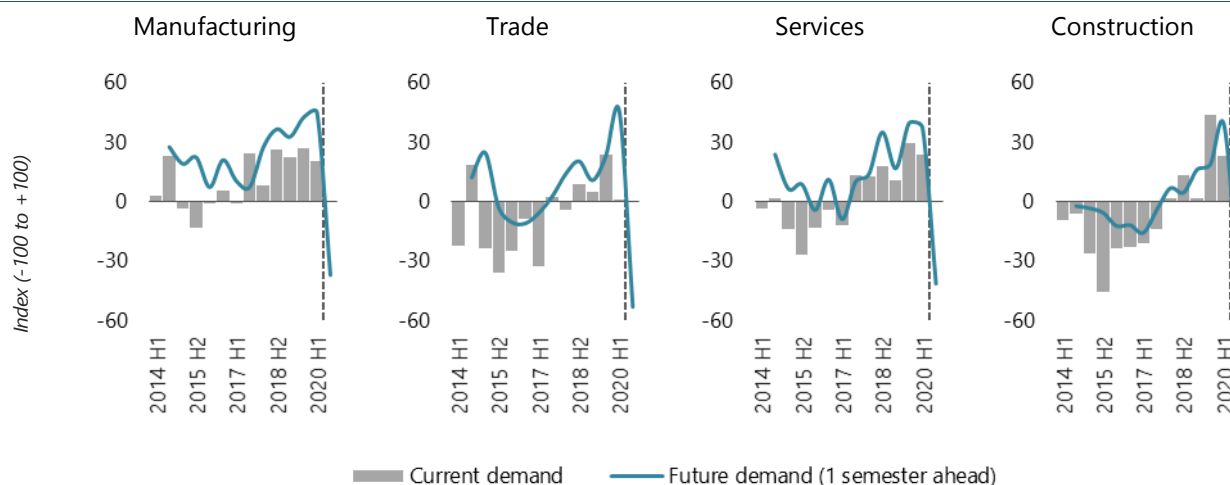
Manufacturing: The confidence index has shifted back to negative territory for the first time since 2012, while businesses' forecasts for growth present a significant decline (at just 40% of the sector in 2020H1 vs 73% in 2019H2). However, the sector anticipates only a small decline in sales for 2020, at just over 7%.

Trade: Here the confidence index presents a decline of circa 37 points, returning to 2013 levels. At the same time, 60% of SMEs expect a decline in sales (-14% on average), dragging growth forecasts down with them (37% of the sector vs 71% in 2019H2).

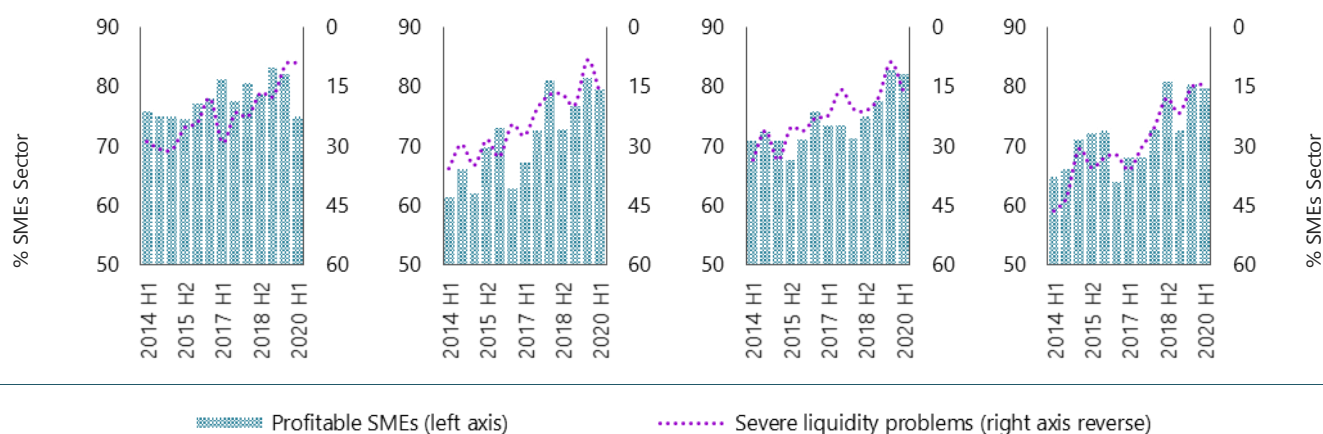
Services: This is the only sector with a positive confidence index, albeit presenting a significant decline (to 5 points from 34 points in 2019H2). However, expectations of a big drop in sales (-20%) is affecting negatively the growth strategies of businesses in the sector (down to 36% of the sector from 71% in 2019H2).

Construction: This sector presents the sharpest drop of all in the confidence index (down 42 points), thus returning to 2015 levels and negative territory. However, the relatively small anticipated decline in sales (just -2%) helps to keep expectations for growth relatively high (42% of the sector).

Trends in demand



Profitability & liquidity



Source: NBG Business Survey

The decline in the future demand index is steep across all sectors. However, sustained good profitability and liquidity conditions are functioning positively in dealing with the crisis. Specifically:

Manufacturing: The current demand index presented a small decline (6 points), while future demand dropped more sharply (82 points). The percentage of profitable SMEs decreased to 75% of the sector (from 82% in 2019H2), though the relatively few liquidity problems (9% of the sector) help to improve the situation.

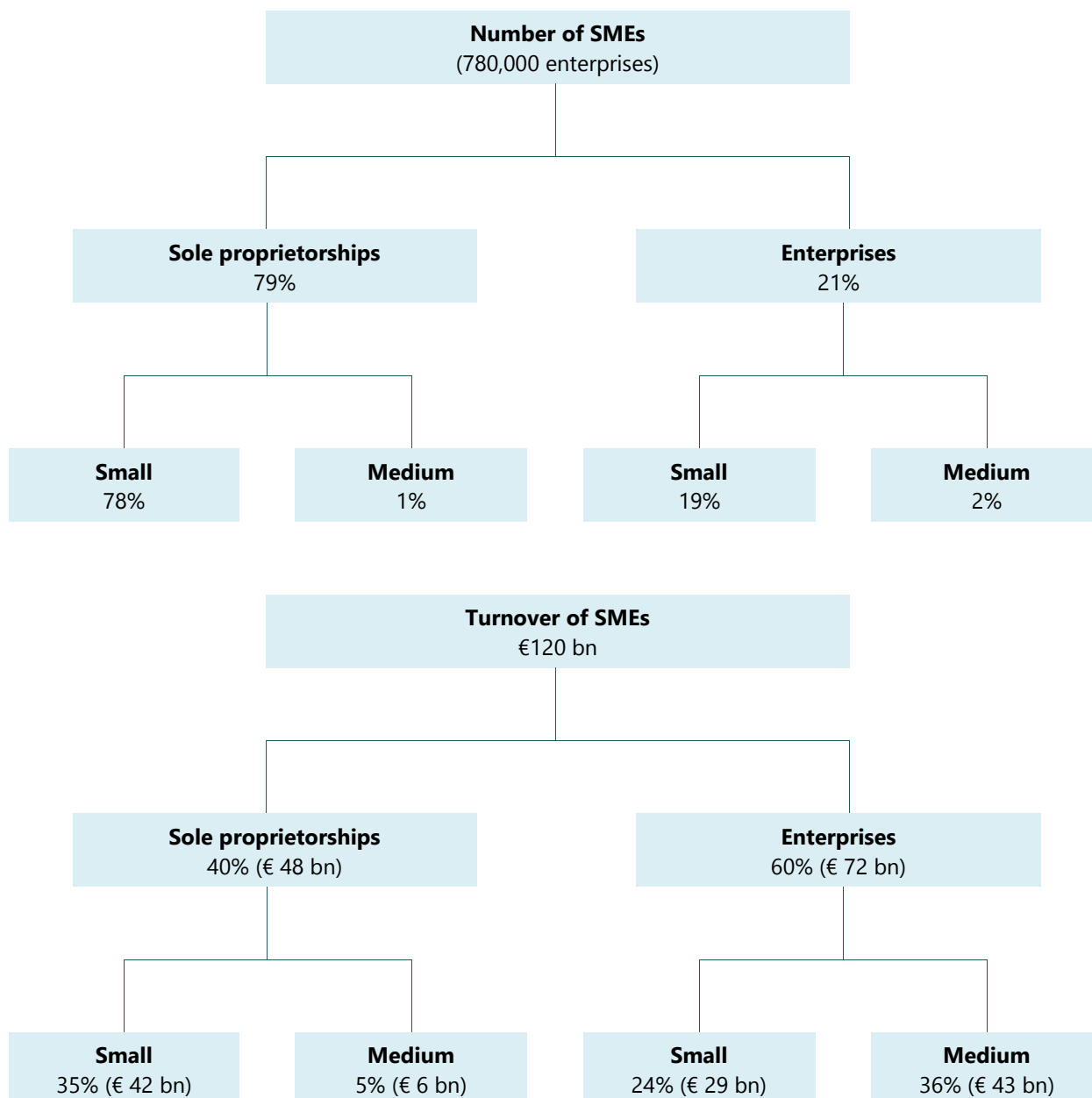
Trade: This sector faces the biggest drop in current and future demand (-23 & -98 points respectively). Furthermore, despite containing a high percentage of profitable SMEs (80% of the sector), the more severe liquidity problems (17% of the sector vs 8% in the previous semester) mean that they are in need of support.

Services: Current demand has dropped to +23 points in 2020H1 (from +44 points in 2019H2), while the future demand index has fallen more sharply (-78 points). The sector contains a high percentage of profitable SMEs (82% of the sector), though liquidity problems are growing (in 16% of the sector vs 9% in 2019H2).

Construction: The current demand index stayed in positive ground for the 4th consecutive semester; however, future demand has returned to 2012 levels.

Annex III: Methodology

Mapping the SME segment in Greece



* For the purposes of the survey, small enterprises are those reporting turnover of less than €1 million and medium-sized enterprises are those reporting turnover of between €1 million and €10 million. * In this mapping, the features of each category were approached based on a European Commission classification that distinguishes enterprises by number of employees (**small**: up to 10 employees and **medium**: 10-50 employees).

Source: European Commission (SBA Factsheet 2015), Eurostat, Hellenic Statistical Authority. (2015 Structural Survey of Enterprises), NBG Estimates

- The circa 780,000 SMEs in Greece generate turnover of around €120 billion.
- 4/5 of SMEs are sole proprietorships, which account for a corresponding share of the total domestic business sector (compared with just ½ of the business sector in Europe).
- Although sole proprietorships comprise the majority of SMEs, the greater share of turnover (60%) is generated by companies of various legal status (SA, limited partnership, limited liability, etc.).

Sample description

Distribution of number of companies of sample ^[1]					
Turnover In €mio	Manufacturing	Trade	Services	Construction	Total SMEs
1: (0 - 0,1]	40	50	50	16	156
2: (0.1 - 0,5]	41	32	28	4	105
3: (0.5 - 1,0]	40	40	40	10	130
4: (1.0 - 2,5]	46	46	14	6	95
5: (2.5 - 5,0]	38	38	21	1	77
6: (5.0 - 10,0]	28	28	16	3	64
Total SMEs	184	234	169	40	627

[1] Depending on data availability, there is possible deviation of 10%

Percentage mix of SMEs by sector ^[2] (based on turnover)					
Turnover (€ m)	Manufacturing	Trade	Services	Construction	Total SMEs
1: (0 - 0,1]	6%	8%	8%	3%	25%
2: (0.1 - 0,5]	7%	5%	4%	1%	17%
3: (0.5 - 1,0]	6%	6%	6%	2%	21%
4: (1.0 - 2,5]	5%	7%	2%	1%	15%
5: (2.5 - 5,0]	3%	6%	3%	0%	12%
6: (5.0 - 10,0]	3%	4%	3%	0%	10%
Total SMEs	29%	37%	27%	6%	100%

[2] Weighted average of the last decade

Sources: EL.STAT. Company Register (2007), ICAP database, Eurostat, NBG Estimates

- Our survey examines a sample of enterprises with a turnover of below €10 million, which, for the purposes of the analysis, we define as small and medium-size enterprises (SMEs).
- Enterprises were selected using a stratified sampling method, in line with the standards of similar surveys carried out by international organizations. Specifically, a total of 627 enterprises were selected in such a way as to enable even distribution of the sample on the basis of two key factors: scale of turnover (6 scales) and sector of activity (Manufacturing, Trade, Services, Construction).
- In order to draw conclusions that are representative of the SME segment, answers were weighted according to the participation of each sub-set in the total turnover of the segment. Thus, findings were arranged (i) by size, (ii) by sector, and (iii) for the entire SME business sector. In line with the methodology, the segments are weighted, in principle, on the basis of their contribution shares in total turnover and not the number of enterprises.

Constructing a business confidence index

- In order to construct a confidence index for SMEs, we included a number of basic questions regarding the level of business activity in the previous and in the coming half year. The model for the questions is based on the harmonized questionnaire recommended by the OECD and the European Commission, thereby enhancing the comparability of the index.
- The Index questions offer 3 alternative answers: increase (+), no change (=), decrease (-), or above normal (+), normal (=), below normal (-). To begin with, we convert the number of answers per category (+, =, -) to percentages and then we calculate the net result by subtracting the (-) from the (+) percentage. Last, the confidence index for each sector is the average of the net results for the following questions:
 - ✓ For manufacturing: The level of orders, inventories, and future production trend.
 - ✓ For services: The business situation of the firm in the previous half year, past and future demand trend.
 - ✓ For trade: Level of inventories, past and future demand.
 - ✓ For construction: Level of backlog, and future employment trend.
- For the SME sector, the business confidence index has been estimated as a weighted average of its subsectors (the weights being the shares of the sectors' turnover in the economy).
- By carrying out the survey on a regular 6-month basis we should be able to form a picture of SMEs' course over time, as reflected in the index. To draw reliable conclusions, comparison will be made between the current index level and its long-term average (so as to correct possible over-optimism or over-pessimism bias).
- The evolution of the confidence index (and any other reviews over the course of time) does not take into account the closing of companies, just the developments regarding businesses operating during the period this survey is carried out.

Survey ID

- Company: KANTAR
- Methodology: Quantitative research in the form of Computer Aided Telephone Interviewing - C.A.T.I., using a 20-minute structured questionnaire.
- Sample: A total of 627 interviews were conducted:
 - ✓ 391 enterprises with annual turnover up to EUR 1 million (freelancers, sole proprietorships, unlimited companies, limited partnerships, limited liability companies, SAs)
 - ✓ 236 enterprises with annual turnover between EUR 1 million and 10 million (unlimited companies, limited partnerships, SAs, limited liability companies)
- Geographical coverage:
 - ✓ Athens, Thessaloniki, Heraklion, Ioannina, Kavala, Larissa, Patras
- Sampling: multi-stage, stratified, non-proportional sampling for sector, turnover size & geographical area in each of the two sets of samples. Quotas relating to turnover and for the booster sample.
- Statistical error: in each of the two sets of samples of 627 enterprises the maximum statistical error is estimated at +/- 4.15% at a 95% confidence level.
- Period of survey: 24/02/2020 - 15/04/2020
- Survey framework: The survey was carried out in line with ESOMAR and SEDEA (Association of Greek Market and Opinion Research Companies) codes of conduct and the quality control requirements set by PESS (Quality Control in Data Collection). A total of 39 researchers and 2 reviewers with experience and know-how in business surveys participated in the field research.



SMEs

Business Survey

August 2020

Jessie Voumvaki

Deputy Chief Economist

+30 2103341549

e-mail: fvoumv@nbg.gr

Georgios Sakkas

+30 2103341547

e-mail: sakkas.georgios@nbg.gr

This report is provided solely for the information of professional investors who are expected to make their own investment decisions without undue reliance on its contents. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation for any offer to buy. Any data provided in this bulletin has been obtained from sources believed to be reliable. Because of the possibility of error on the part of such sources, National Bank of Greece does not guarantee the accuracy, timeliness or usefulness of any information. National Bank of Greece and its affiliate companies accept no liability for any direct or consequential loss arising from any use of this report.