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Central Bank of Ireland
Eurosystem

SME Market Report

2021

SME Market Report 2021

The Central Bank of Ireland's *SME Market Report* aims to provide context, timely information and a review of the challenges to Irish Small and Medium Enterprises (SMEs) financing.[1] This report draws on a range of data sources to provide an overview of various aspects of the challenges posed to SMEs including (1) the economic impact of COVID-19 on SMEs, (2) bank lending to SMEs, (3) demand for credit, (4) supply of credit and (5) loan performance.

Overview

18 per cent
of SMEs applied for credit, March to October 2020

- SME credit demand remained low compared to previous years (20 per cent of SMEs applied over April to September 2019) even as applications increased elsewhere in the euro area.
- Box 2 provides an updated overview of government supports – credit demand may have been lower given the availability of supports.
- SMEs did not apply for credit mainly due to sufficient funds but some report aversion to debt.

€3.1bn
in annual gross new lending to non-financial non-real estate SMEs as of Q4 2020

- Gross new lending to SMEs has declined over 2020 but remains above the levels from 2010 to 2016.

59 per cent
of new credit applications were for working capital purposes, March to October 2020

- SMEs were borrowing for liquidity needs over investment especially since the pandemic.
- Financing of SMEs in Ireland is broadly typical of the euro area.

15 per cent
of credit applications rejected, March to October 2020

- SME credit rejection rates were mostly unchanged but rejections for part of the requested amount increased. Rejection rates for loans or overdrafts in Ireland were higher than the euro area median.
- Banks reported credit standards for SMEs tightened in Ireland while loosening for guaranteed loans, as in the euro area.
- Changes in bank credit standards were not driven by factors relating to bank balance sheets, but mainly by the general economic deterioration and firm specific factors.

3.6 per cent
of SME credit balances remain undrawn in the Accommodation & Food sector

- The share of credit balances remaining undrawn is small in some of the most affected sectors such as Accomodation & Food.
- Undrawn shares have increased to 31 per cent in Construction while declining to 14 per cent in Wholesale & Retail and 6 per cent in Other Services.

26 per cent
of SME non-financial non-real estate balances at January 31st 2021 availed of a payment break during 2020

- Payment breaks were widely used by SMEs through 2020 and more SME debt was under a moratorium in Ireland than in the majority of euro area countries.
- Expired payment breaks have mainly returned to full payments on extended or existing terms.

-95 per cent
net percentage change in SME turnover in the Accommodation & Food sector – i.e. share of firms where turnover increased less the share where turnover decreased, March to October 2020

- Among SMEs, turnover declines have been common, especially in Hotels & Restaurants.
- In the euro area, Ireland had more SMEs with declining turnover on net (62 per cent) although not substantially more than the euro area median.

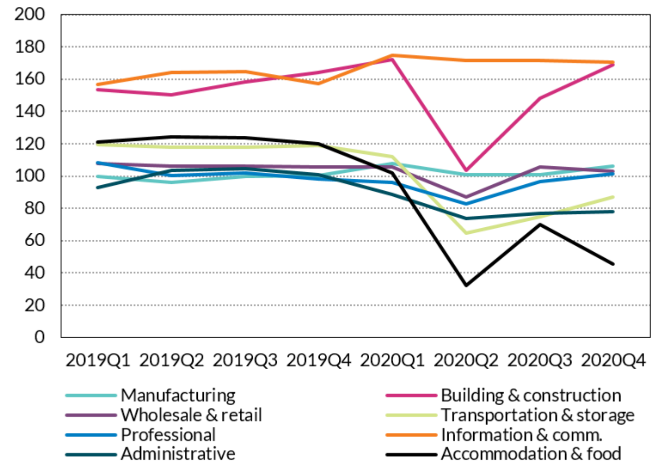
21.7 per cent
of 2019 SME performing credit balances flowing into higher risk categories

- Some performing SME balances have been reclassified to a higher risk category due to a significant increase in credit risk (17.7 per cent) but few have moved to non-performing (3 per cent).

1 The economic impact of Covid-19

Figure 1 | The shock to aggregate turnover from 2020 Q2 onwards is larger in some sectors ...

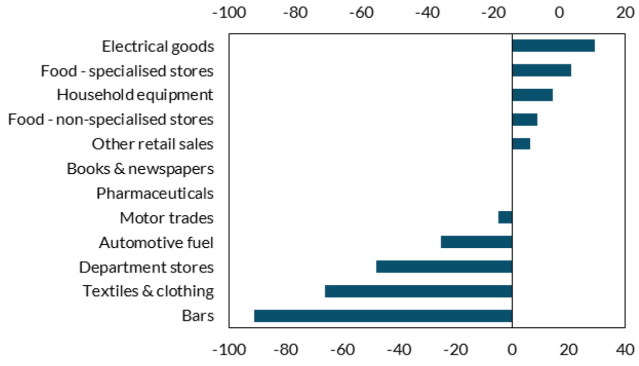
Aggregate sales index (base = 2015) for major sectors



Source: CSO Industrial Production & Turnover, Building & Construction Index and Monthly Services Index, 2019 Q1 to 2020 Q4.

Figure 2 | ...but aggregate sectors can hide very large shocks in sub-sectors – such as within Retail.

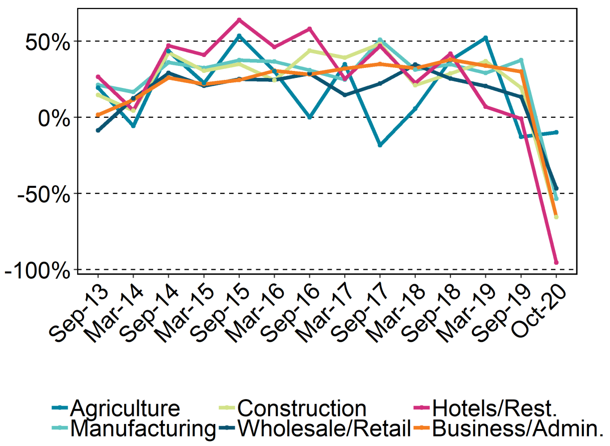
Percentage change in sales values in sub-sectors of the Retail sector, February 2021 percentage change on February 2020



Source: CSO Retail Sales Index for the months of February 2021 and February 2020

Figure 3 | Among SMEs, turnover declines have been common, especially in Hotels & Restaurants...

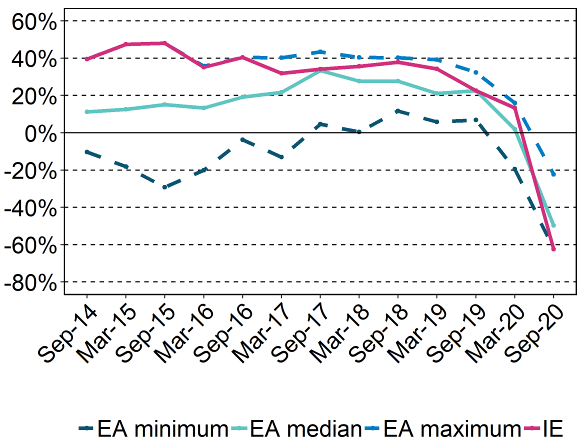
Net percentage change in turnover – share of firms where turnover increased less the share where turnover decreased



Source: Department of Finance Credit Demand Survey, September 2013 to October 2020.

Figure 4 | ... and most common in Ireland although not substantially more than the euro area median.

Net percentage change in turnover – share of firms where turnover increased less the share where turnover decreased



Source: ECB/EC Survey on the Access to Finance of Enterprises, September 2014 to September 2020

Aggregate sales have decreased in most sectors during the pandemic but the scale and dynamics of the shock differs across sectors. The largest declines in 2020 Q2 occurred in Building and Construction and Accommodation & Food (both down 69 per cent) with smaller falls elsewhere. By Q3, sales in most sectors began to recover continuing into Q4 with Accommodation & Food being a notable exception.

Among sub-sectors in the Retail sector, turnover outcomes can vary substantially. For example, in February 2021 sales increased for some sub-sectors compared to February 2020, such as Electrical goods (29 per cent), contrasting with large declines in Bars (91 per cent) and Textiles & Clothing (66 per cent).

Following years of broad net turnover increases, SMEs experienced large net declines during the pandemic, especially in Hotels & Restaurants (95 per cent). The smallest declines were in Agriculture (10 per cent).

In the euro area, Ireland had the most SMEs with declining turnover on net (62 per cent) and the second-most stringent COVID-19 containment measures over the period April to September 2020 according to the Oxford COVID-19 Government Response Tracker.[2] [3] In comparison, at the euro area median 50 per cent of SMEs on net reported turnover declines. Finland had the smallest share of firms reporting turnover declines on net at 22 per cent on net.

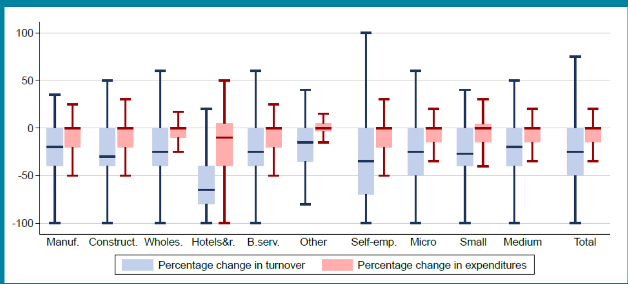
Box 1: SME resilience to the COVID-19 shock

Box authors: Janez Kren, Conor O'Toole, Martina Lawless, Fergal McCann and John McQuinn (john.mcquinn@centralbank.ie)

The COVID-19 pandemic represents an unprecedented shock to the operating environment of businesses, especially SMEs. This box provides a summary of the findings of forthcoming research from Kren et al. (2021) which uses survey data to explore the impact of COVID-19 on SME turnover, expenditure patterns and profitability during 2020.

SMEs have adjusted to the turnover shock through expenditure reductions and the use of public support. The distribution of turnover shocks and expenditure adjustments by sector are illustrated in Figure 5. The box shows quartiles, the mid-line is the median, and the end lines are the min and max values. Turnover has reduced across the distribution at the median and 75th percentile and across all sectors and firm sizes, especially in Hotels & Restaurants. Alongside declines in turnover, SMEs have reduced expenditure at the median across all sectors and firm sizes but seem to have had difficulties in reducing expenditure as much as turnover declines even with public support.

Figure 5: Distribution of turnover and expenditure shocks by firm size and sector



Source: Kren et al. (2021) and Department of Finance Credit Demand Survey. Boxplots exclude outside values.

The relationship between turnover declines and expenditure is further explored to understand the extent to which SMEs with reduced turnover adapted by reducing expenditure. Estimating a linear relationship between turnover declines and expenditure reductions (via Ordinary Least Squares regression) suggests, through the slope, that for every Euro of lost turnover, expenditure was reduced by 36 cents on average (Figure 6). This indicates firms only partially offset declines in turnover with reduced expenditure even with government supports. This relationship varies little by the size of the SME but on a sector basis the relationship is strongest for SMEs in Manufacturing (56 cents) and Hotels & Restaurants (51 cents). This linear relationship is further illustrated in Figure 7 with inter quartile ranges and local means (average values limited to different segments of the data). The top left quadrant is especially noteworthy for the number of dots (representing SMEs) which experienced reduced turnover but increased expenditure.

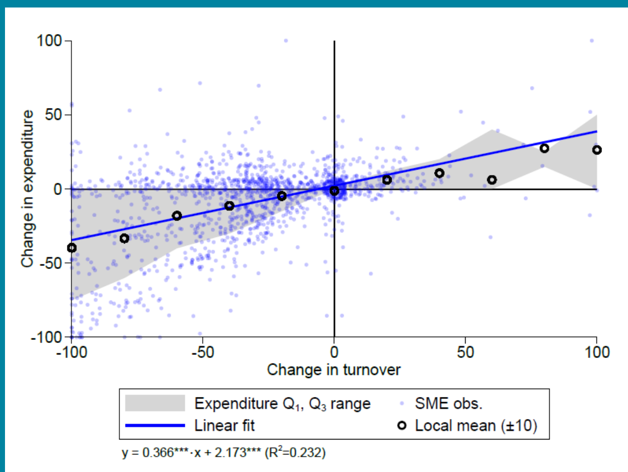
Figure 6: Change in expenditure

	Change in expenditure					Expenditure elasticity	
	Freq.	Mean	Q_1	Med.	Q_3	Constant	Slope
Manufacturing	179	-8.7	-20	0	1	3.929**	0.560***
Construction	130	-8.6	-20	0	0	0.892	0.351***
Wholesale	452	-6.2	-10	0	0	0.104	0.326***
Hotels & restaurants	159	-18.4	-40	-10	5	13.766***	0.512***
Business services	323	-11.1	-20	0	0	0.598	0.419***
Other	205	-1.6	-3	0	5	3.850**	0.198***
Self-employed	153	-13.2	-20	0	0	−2.022	0.370***
Micro	408	-8.3	-15	0	0	1.809	0.360***
Small	552	-7.5	-15	0	4	3.530***	0.357***
Medium	335	-8.3	-15	0	0	2.004	0.355***
Total	1448	-8.5	-15	0	0	2.173***	0.366***

Slope coefficients, β_1 from equation 1, are expenditure elasticity of turnover. Significance levels (*** p<0.01, ** p<0.05, * p<0.1) estimated using robust standard errors. Regressions exclude outliers with changes greater than 100%.

Source: Kren et al. (2021) and Department of Finance Credit Demand Survey, March - October 2020.

Figure 7: Relationship between expenditure and turnover



Source: Kren et al. (2021) and Department of Finance Credit Demand Survey, March - October 2020.

Further exploration of the composition of firm expenditures helps to deepen the understanding of how firms adjusted to the COVID-19 shock. Figure 8 shows that SME expenditures are mostly variable (79 per cent) and cost structure does not differ substantially across sector or size. Among variable costs, the largest costs are purchases (37 per cent) and wages (35) per cent. Fixed costs such as utilities, rent, debt payments or commercial rates are a much smaller component of total expenditure at 11 per cent with some minor variation across sector and size. A further 10 per cent of expenditure is not fixed or variable but is classified as miscellaneous.

Figure 9 shows how the sub-components of expenditure were adjusted downward, including through the use of government supports. About two thirds of SMEs reduced purchases of goods and services or wages (including through government subsidy schemes) with a median expenditure reduction of 40 per cent for both. Around half of firms reduced these expenditures by between 70 and 20 per cent. Around 28 per cent of SMEs reduced Revenue (median 30 per cent) or utilities payments (median 20 per cent). A fifth of SMEs reduced commercial rates and around 10 percent reduced rent, interest or debt payments.

Figure 8: Percentage of expenditure components

	Variable costs				Fixed costs					
	Purch.	Wages	Taxes	All	Util.	Rent	Debt	Com.	All	Misc.
Manufacturing	47	28	5	81	5	2	1	2	10	9
Construction	38	36	7	81	4	1	2	2	9	10
Wholesale	52	24	6	82	4	3	2	2	11	7
Hotels & restaurants	29	37	7	73	7	4	2	3	16	11
Business services	23	46	8	76	5	4	1	2	12	12
Other	28	45	4	77	5	2	1	1	10	13
Self-employed	44	22	9	75	7	5	2	2	15	9
Micro	37	34	7	79	5	4	2	2	13	9
Small	36	38	6	80	5	2	2	2	11	9
Medium	37	37	4	78	4	2	1	1	9	13
Total	37	35	6	79	5	3	2	2	11	10

Means of item's share in total expenditures. Purch.=purchases of goods and services, Com.= commercial rates.

Source: Kren et al. (2021) and Department of Finance Credit Demand Survey, March - October 2020.

Figure 9: Change in expenditure

	$N_{\Delta E_i<0}$	$Share_{\Delta E_i<0}$	Mean	Q_1	Med.	Q_3
Goods & services purchases	385	68.9	-46.7	-70	-40	-20
Wages, personal costs	363	64.8	-46.5	-70	-40	-20
Payments to Revenue	154	27.5	-39.9	-60	-30	-10
Utilities	153	27.4	-25.8	-40	-20	-10
Commercial rates	111	19.9	-51.8	-100	-50	-10
Rent	63	11.3	-39.4	-50	-25	-15
Interests and debt payments	55	9.9	-37.6	-80	-25	-10
Other expenditures	102	18.2	-56.6	-100	-50	-20

This table includes only 560 SMEs that had experienced decline in total expenditure and provided data on changes in each item. Among this subset, 37% are rentees and 61% have some debt. Mean, median and quartiles apply only to firms with decreases in the expenditure item.

Source: Kren et al. (2021) and Department of Finance Credit Demand Survey, March - October 2020.

Even with government supports, expenditure reductions have only partially offset declines in turnover meaning that profitability is challenged and further losses may accumulate. Figure 10 shows SME profit margins for 2019 and 2020 for major sectors. SME average profit margins were 24 per cent in 2019 but declined to -9 per cent in 2020. The impact of COVID-19 is especially severe in the Hotels & Restaurants sector where average profit margins dropped from 29 per cent in 2019 to -35 per cent in 2020. In other sectors, profit margins were similar to the SME total and all were loss making in 2020.

Few firms were already in financial difficulty going into the pandemic (Figure 11). Only 3.2 per cent of SMEs made a loss in both 2019 and 2020 and an additional 10.2 per cent only broke even in 2019 but made a loss in 2020. Other firms appear to have been in a healthier profitability position heading into the pandemic. However, COVID-19 and Brexit may present business model challenges going forward.

Figure 10: Average profit margin (per cent of turnover) by sector and year

Source: Kren et al. (2021) and Department of Finance Credit Demand Survey.

Figure 11: Profitability cross-tabulation, percentage shares of total

	Profitability in 2020			
Profitability in 2019	Loss	Broke even	Profit	Total
Made a loss	3.2	2.2	1.9	7.3
Broke even	10.2	9.0	9.7	28.3
Made a profit	22.8	19.8	21.9	64.4
Total	36.1	30.9	33.0	100.0

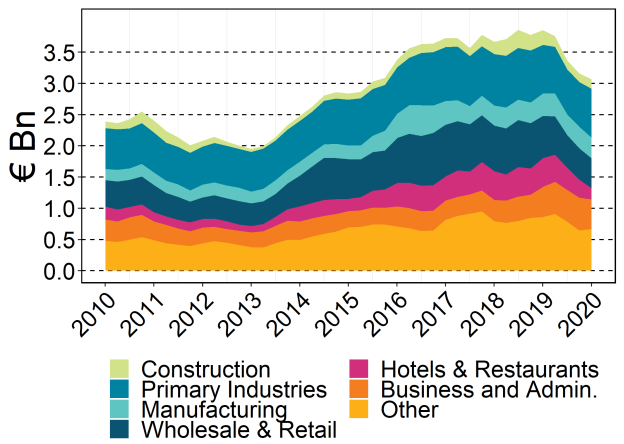
Source: Kren et al. (2021) and Department of Finance Credit Demand Survey.

The findings demonstrate the difficulties SMEs had in adjusting to the COVID-19 shock. While the structure of costs appears to be largely variable, mostly purchases and wages, firms could only partially adjust expenditure downwards even with government supports. Even with public supports and expenditure adjustments, firms made losses on average for 2020 suggesting further losses are expected to accumulate until the pandemic recedes. Only a small share were loss making or just breaking even before the pandemic suggesting most appear to be otherwise sustainable businesses. COVID-19 and Brexit related business model changes may represent further challenges going forward.

2 New and existing lending

Figure 12 | Gross new lending to SMEs has declined over 2020 but remains above the levels of from 2010 to 2016...

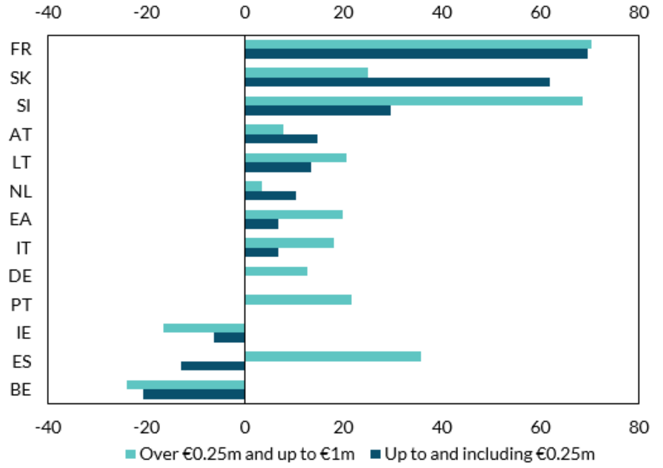
Gross new SME lending by sector (4 quarter rolling summation, by quarter), Q4 2020



Source: Central Bank of Ireland Credit, Money and Banking Statistics

Figure 13 | ...and new lending for loans below €1m has been lower during the pandemic and in comparison to euro area peers...

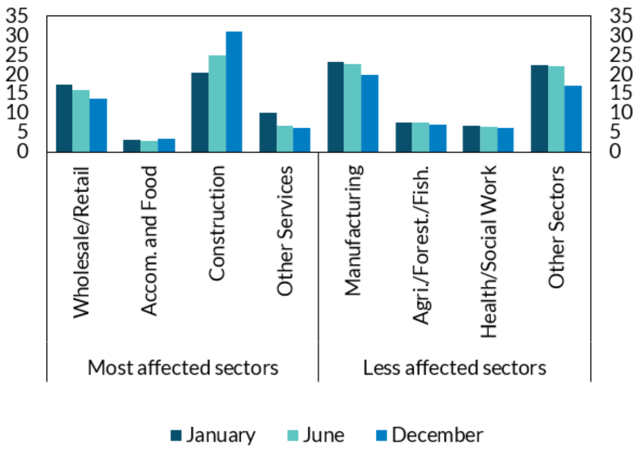
Percentage change in the volume of new NFC non-revolving lending by loan size comparing pre-pandemic period (Apr-Dec 2019) to pandemic (Apr-Dec 2020)



Source: ECB Monetary and Financial Statistics

Figure 14 | ...with varying shares of undrawn credit facilities available.

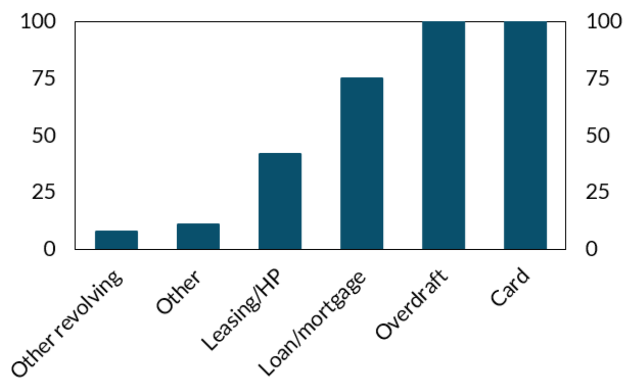
Share of credit balance remaining undrawn by sector, January, June and December 2020



Source: Central Bank of Ireland monitoring template data

Figure 15 | Preliminary data suggests bank lending is only a small share of total business credit agreements for some lending products.

Share of bank lenders in all business lending agreements with financed amounts less than €1m on 31-12-2020, by product type.



Source: Central Credit Register dataset, Macro-Financial Division calculations

Annual gross new lending to non-financial non-real-estate SMEs declined to €3.1bn by 2020 Q4 – down 20 per cent on 2019 Q4. Declines occurred in all major sectors but remain above levels in 2016 Q2 and earlier.

New NFC lending for smaller loans (a proxy for SMEs) declined during the pandemic compared to the same months in 2019 – 6 per cent for loans less then €0.25m and 16 per cent for loans between €0.25m and €1m. Among most euro area countries lending increased substantially – likely aided by early guarantee schemes.

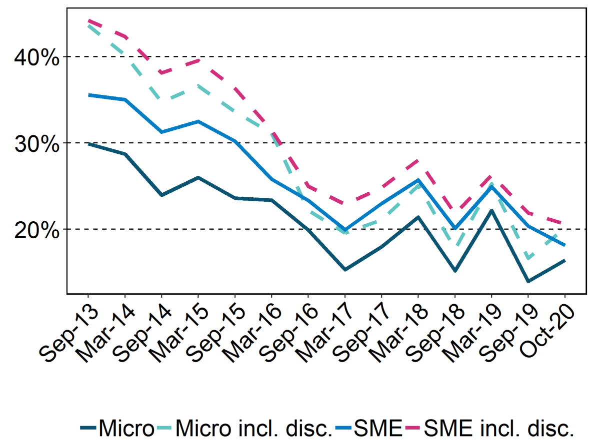
The share of credit balances remaining undrawn is small in some of the most affected sectors (3.6 per cent in December for Accommodation & Food). The scope to drawn down undrawn credit varies in other sectors, having fallen in Wholesale & Retail (to 14 per cent) and Other Services (to 6 per cent) but rising in Construction (to 31 per cent).

A preliminary analysis of business lending agreements from the Central Credit Register dataset shows non-bank credit agreements predominate for certain products.[4] [5] Non-banks provide the bulk of Leasing & Hire Purchase (58 per cent), Other products not listed (89 per cent) and Other revolving products (92 per cent).

3 Credit demand

Figure 16 | SME credit demand remained low...

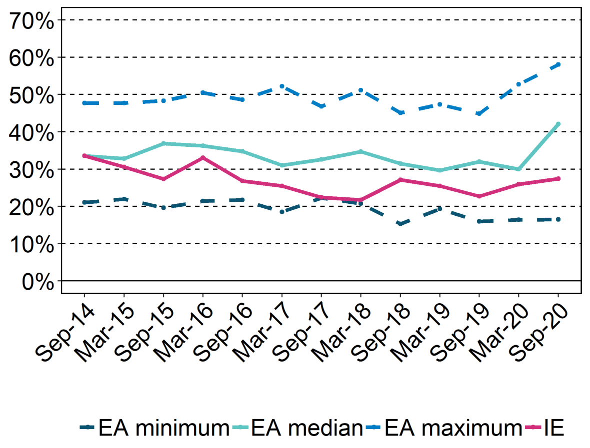
Credit application rates and applications including borrowers discouraged from applying, September 2013 to October 2020



Source: Department of Finance Credit Demand Survey, September 2013 - October 2020.

Figure 17 | ...even as demand increased elsewhere

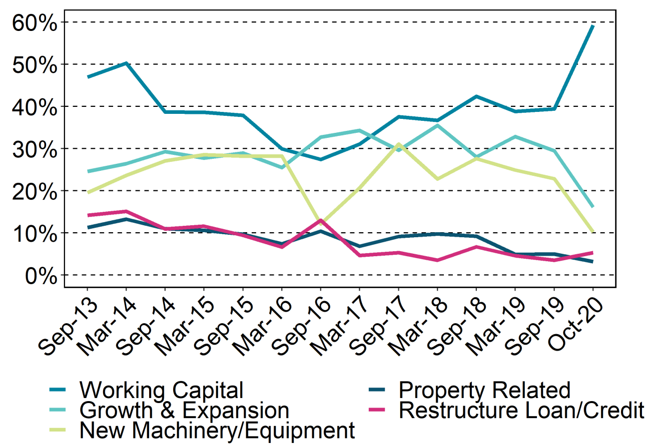
Application rates for bank loans or overdrafts, where relevant, for Ireland and the euro area, September 2013 to September 2020[6]



Source: ECB/EC Survey on the Access to Finance of Enterprises, September 2014 - September 2020[7]

Figure 18 | SMEs were borrowing for liquidity needs over investment especially since the pandemic...

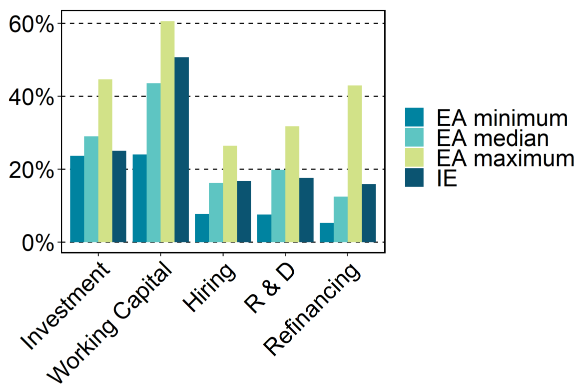
Share of credit applications by purpose, September 2013 to October 2020



Source: Department of Finance Credit Demand Survey, March to October 2020

Figure 19 | ...and financing of SMEs in Ireland is broadly typical of the euro area.

Share of financing (external and internal) by purpose, March - September 2020[8]



Source: ECB/EC Survey on the Access to Finance of Enterprises, April to September 2020

The rate at which SMEs applied for bank credit was low (18 per cent) compared to previous years which may be due to substantial public supports provided (see Box 2). The credit application rate for Micro firms was typically lower (16 per cent). Adding latent credit demand from discouraged borrowers who did not apply for bank credit does not add substantially to overall credit demand.[9]

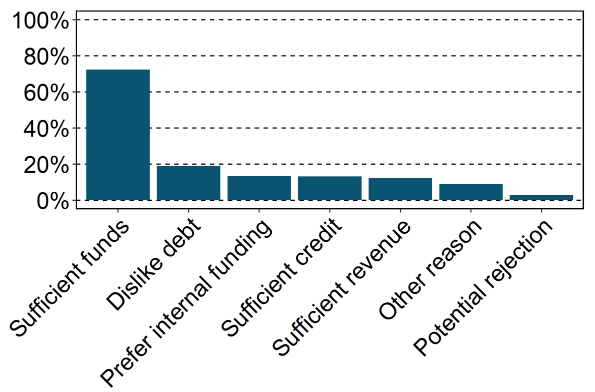
SME application rates for loans or overdrafts increased to 42 per cent in September 2020 at the median in the euro area but were little changed in Ireland. Application rates for Irish SMEs (27 per cent) were lower than the euro area median but were above the lowest country rate (16 per cent).

As of October 2020, Irish SME credit applications were primarily for Working Capital (59 per cent) over Growth & Expansion (16 per cent) or New Machinery or Equipment (10 per cent). This composition is especially pronounced compared to before the pandemic in September 2019.

The current financing composition of SMEs in Ireland is broadly similar to the euro area. Financing of investment among Irish SMEs (25 per cent) is slightly below the euro area median (29 per cent) whereas financing for Working Capital (51 per cent) is slightly above the euro area median (44 per cent).

Figure 20 | SMEs did not apply for credit mainly due to sufficient funds...

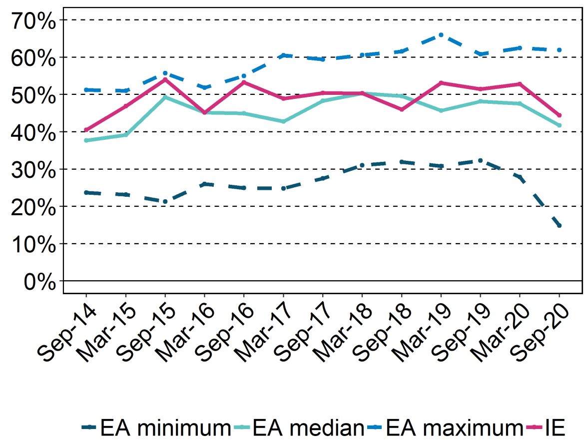
Percentage share of reason for not applying for credit, March 2020 to October 2020



Source: Department of Finance Credit Demand Survey, March - September 2020.

Figure 21 | ...this reason was also commonly cited in euro area countries.

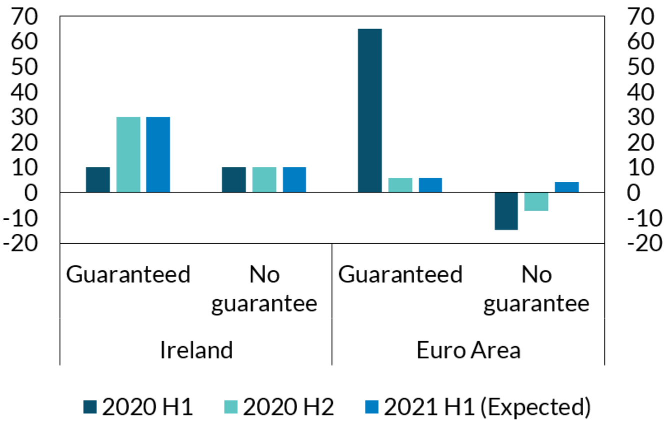
Percentage of SMEs which did not apply for loans due to sufficient internal funds, September 2013 to September 2020



Source: ECB/EC Survey on the Access to Finance of Enterprises, September 2014 - September 2020.

Figure 22 | Banks reported higher SME credit demand especially for guaranteed borrowing once the new scheme launched but later than elsewhere.

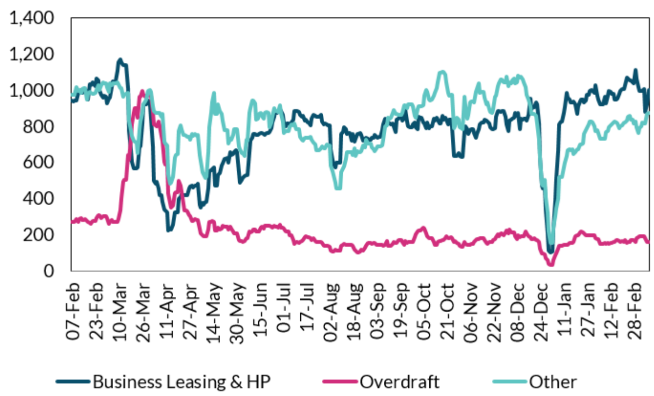
Diffusion index indicating increased demand (up to 100 for all banks) and negative (-100 for all banks), 2002 Q4 to 2020 Q4



Source: Bank lending survey

Figure 23 | Credit enquiries for companies have stabilised following an initial significant increase driven by overdrafts.

Number (7 day moving average) of credit enquiries for companies by product type, February 7th 2020 to February 28th 2021.



Source: Central Credit Register, and Central Bank of Ireland calculations. Statistics Division.

The main reason SMEs did not apply for credit was due to sufficient internal funds (72 per cent) or other similar reasons such as sufficient revenue (12 per cent) or credit (13 per cent). However, debt aversion was apparent with 19 per cent citing dislike of debt and 13 per cent preferring internal funding instead. Possible rejection was cited by 3 per cent, suggesting most SMEs are not dissuaded from applying for credit.

The share of SMEs in Ireland which did not apply for loans due to sufficient internal funds as of September 2020 (44 per cent) was typical of the euro area (42 per cent). More SMEs across the euro area cited this reason before the pandemic occurred – 53 per cent for Ireland and 48 per cent for the euro area.

Banks in Ireland reported higher SME credit demand, primarily for government guaranteed credit, once the Credit Guarantee Scheme was introduced in 2020 H2 and expected this to continue into 2021 H1. In the euro area, banks reported higher SME credit demand for guaranteed credit earlier, in 2020 H1, while demand for credit without a guarantee declined.

Credit enquiries for company overdrafts have stabilised following a significant increase at the beginning of the pandemic. Since the initial increase, overdraft enquiries have gradually declined while business leasing & hire purchase and other credit have gradually increased.

Box 2: An update on government COVID-19 supports

Box authors: Derek Lambert (derek.lambert@centralbank.ie) and Jane Kelly (jane.kelly@centralbank.ie).

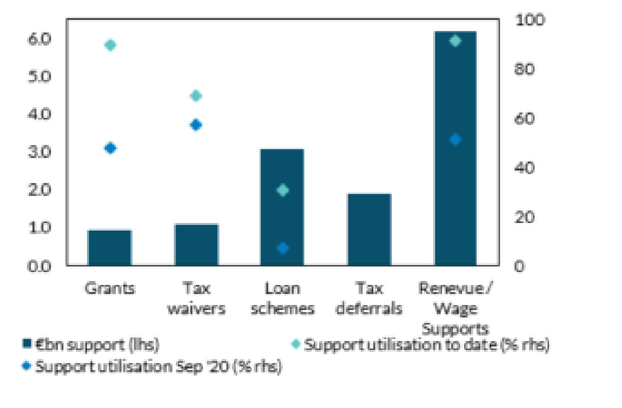
The Irish government responded to the pandemic with a wide range of policy supports for the enterprise sector (Lambert et al., 2020).[10] This box provides an updated overview of the type of schemes available as well as scheme take-up, as of 19th March 2021. It also provides a brief European context.

The full list of government supports is available at the Department of Enterprise, Trade and Employment. The schemes include indirect loans via banks with a government guarantee and direct loans from state agencies such as Enterprise Ireland. Grants, income supports and equity injections are also available. Additional supports provided through Budget 2021 include the Covid Restrictions Support Scheme (CRRS). This provides a payment to premises forced to close through level 3 or greater restrictions, with an estimated cost of €40 million per week under level 3 restrictions or €80 million per week under level 5 restrictions. Individual schemes include:

Business Supports	Scheme Description	Expiry Date	Amount Allocated	Amount Drawn
Employment Wage Subsidy Scheme (EWSS)	Subsidises 70 per cent of employee wage up to €410 max p/w	30 June 2021	Estimated cost to March 2021: €2.35 billion	As of 18 March 2021€2.38 billion
Covid Restrictions Support Scheme (CRSS)	Payment based on 2019 average weekly turnover for premises negatively affected by COVID-19 restrictions	30 June 2021	Estimated cost €40 million p/w under Level 3 / €80 p/w million under level 5	As of 18 March 2021 €385.8 million
Covid-19 Credit Guarantee Scheme	80 per cent government guarantee on approved lending from €10,000 to €1 million	31 December 2021 or until fully subscribed	€2 billion	As of 11 March 2021: €214.73 million
Future Growth Loan Scheme	Loans over 5-10 years for companies affected by COVID-19 ranging from €100,000 to €3 million	Available until fully subscribed. Note: AIB and BOI fully subscribed	€800 million total available following €500 million expansion in July 2020	As of 19 March 2020 €675.99 million in total uptake. €416.99 million since July expansion
Restart Grant (plus)	Grant aimed at helping micro and small businesses with the costs associated with reopening	Scheme closed to new applications as of 31 October 2020	€550 million total. €250 million expanded by €300mn under the Restart Grant plus	As of 19 March 2021 €633.22 million total (Restart Grant Plus - €445.30 million)
COVID-19 Working Capital Scheme & Brexit Loan Scheme	Provides short term liquidity where cash flow has been impeded by COVID-19 or Brexit, from €10,000 to €1 million	Working Capital Scheme: No expiry date Brexit Loan Scheme: 31 March 2021	€425 million available through both schemes. €125 million expansion expected	Working Capital Scheme: €136.69 million Brexit Loan Scheme €57.89 million
Sustaining Enterprise Fund	Up to €800k in grants and repayable advances	Small Enterprise portion of fund closed for new applications	€180 million	As of 19 March 2021 €155.05 million
Other tax measures	VAT reduction: From 13.5 to 9 per cent for hospitality and tourism -> Commercial Rates Waiver -> Warehousing of tax liabilities ->	VAT rate for hospitality expires 31 Dec 2021 Commercial rates waiver extended to end Q2 2021 Warehousing remains open	Estimated cost of VAT reduction for hospitality & tourism €401 million Estimated cost of commercial rates waiver €300 million per quarter	Commercial Rates Waiver: €729.9 million at end Dec 2020 €1.9bn of tax liabilities warehoused to date (13 Jan 2021)

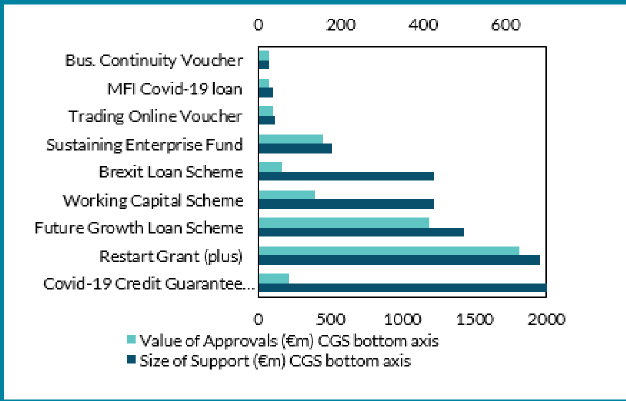
The COVID-19 Credit Guarantee Scheme is the largest support available to SMEs. Up to €2 billion is available in Government guaranteed loans, worth 1 per cent of GNI*. Take-up as of 11th March 2021 was €214.7 million, drawn down from 3,575 qualifying loans (Figure 25). The local authority provided Restart Grant has the greatest number of approvals with 109,595 applications approved as of 19 March 2021, at a value of €633 million. This exceeds the initial allocation of €550 million. The Restart Grant plus is closed to new applicants as of 31 October 2020. However, a further €135 million has been allocated to the scheme to fund outstanding applications, bringing total allocation to €685 million. The Future Growth Loan Scheme received the third highest level of approvals with 2,080 applications approved since the July expansion, valued at €417 million. It offers a longer term (up to 10 years) and a larger amount than other loan schemes. Wage subsidy support provided through the EWSS was expected to expire by end March 2021, with a €2.35 billion estimated cost. However the EWSS has been extended to end June 2021. To date the cost to the exchequer under the EWSS is €2.38 billion. Tax measures such as the commercial rates waiver have also been extended to end June 2021.

Figure 24: Size and utilisation of Government supports



Source: Department of Enterprise, Trade and Employment COVID-19 and Brexit Business Supports Table, Revenue Commissioners.

Figure 25: Size and value of Government supports (Mar 2021)



Source: Department of Enterprise, Trade and Employment COVID-19 and Brexit Business Supports Table.

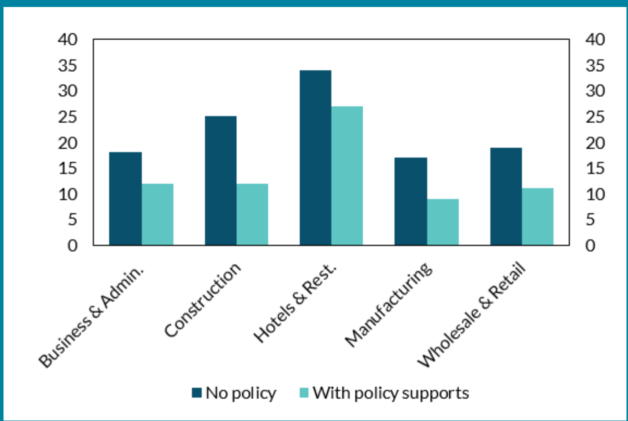
Support utilisation is highest among grant based supports and has increased significantly since September 2020 from approximately 50 per cent support utilisation to just under 90 per cent utilisation. (Figure 24). This is explained by the increase in utilisation for the Restart Grant plus which more than doubled in value from €218 million in September 2020 to €445 million as of 19 March 2021. Support utilisation also increased significantly among loan schemes, increasing from 7 per cent in September 2020 to 30 per cent by March 2021. Forthcoming research from Kren et al. (2021) suggests not all firms have been availing of government supports, even for grants, with micro firms reporting the lowest usage.

The ESRB (ESRB 2021) provides a comparison of the announced size and uptake of various European measures enacted to support firms, as at end Q3 2020 expressed as a percentage of 2019 GDP.[11] Ireland ranked in the top 4 in terms of uptake of direct grants but was below average in terms of announced size and uptake for public guarantees. This message is reinforced by Conefrey et al., (2021) which show direct fiscal supports to be high in Ireland compared to other EU countries, with the Irish supports weighted more towards direct rather than indirect supports such as credit guarantees.[12] [13]

The ESRB considers potential "cliff-effects" as COVID-19 related policies become phased-out (ESRB 2021). These will depend on the underlying duration of payment holidays or loans. The longer the maturity of loans covered under a public guarantee the less susceptible they should be to "cliff effects". However, the effects of direct grant phase-outs would be more immediate. In Ireland specifically, cliff effects for tax deferrals are mitigated by an interest free period one year after reopening. Finally a trade-off exists between supporting the economy and avoid maintaining support for too long. Lifting support too soon could lead to "cliff-effects". Maintaining support will affect budgetary pressure and competitiveness in the real economy and risk prolonging support to firms which may no longer be viable.

Modelling the Financial Distress (FD) of SMEs with debt suggests that supports (announced up to July stimulus in 2020) have reduced the financial distress of firms in all sectors but comparatively less in the Hotels & Restaurants sector (Figure 26). SMEs in FD are defined as firms with less than three months cash reserves to cover operational costs.

Figure 26: Comparing estimated of the percentage share of SMEs in financial distress (debt-weighted) by sector with current supports and no supports up to 2020 H2

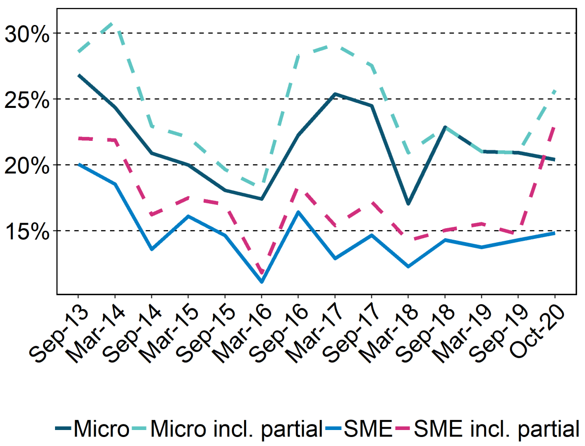


Source: Model-based estimates from McCann and Yao (2020) By construction, this debt-weighted exercise relates only to firms with debt balances above zero in the 2018-19 data.

4 Credit Supply

Figure 27 | SME credit rejection rates were mostly unchanged but rejections for part of the requested amount have increased...

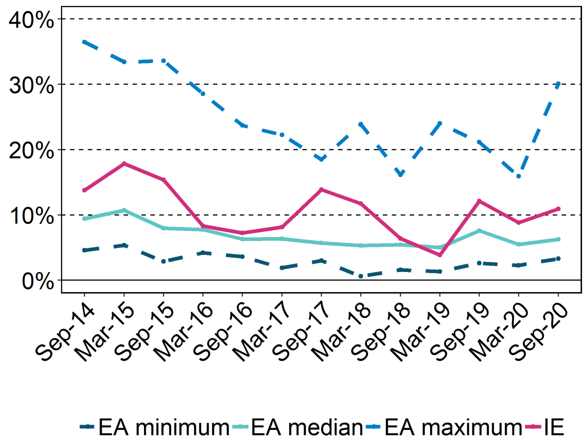
SME credit rejection rates and rejection rates including rejections for part of the requested amount.



Source: Department of Finance Credit Demand Survey (CDS), September 2013 to October 2020

Figure 28 | ... and rejection rates for loans or overdrafts in Ireland were higher than the euro area median.

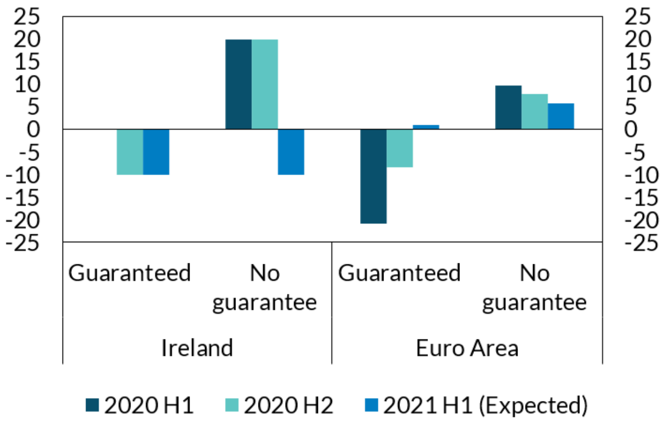
Loan/overdraft rejection rates for Ireland and the euro area.[14]



Source: ECB/EC Survey on the Access to Finance of Enterprises (SAFE), September 2020

Figure 29 | Banks reported credit standards for SMEs tightened in Ireland while loosening for guaranteed loans, as in the euro area...

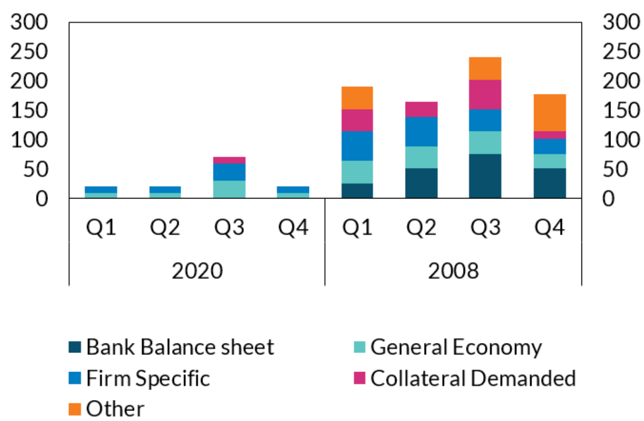
Diffusion index indicating net positive (tightening to 100 for all banks) and negative (loosening down to -100 for all banks), 2020 H1 and 2020 H2



Source: Bank lending survey

Figure 30 | ...and lending standards in 2020 were driven mainly by general economy and firm specific factors, in contrast to 2008.

Each factor measured by a diffusion index indicating net positive contributions (maximum of 100 for all banks) and negative contributions (minimum of -100), quarters in 2020 and 2008



Source: Bank lending survey

SME rejection rates for bank credit (15 per cent) were little changed from before the pandemic but rejections for part of the requested amount increased bringing total credit constrained SMEs to 23 per cent according to CDS data. Micro firms reported higher rates of credit rejections (20 per cent, or 26 per cent including partial rejections).

According to data from SAFE, rejection rates for loans and overdrafts were higher in Ireland (10.9 per cent) than the euro area median (6.3 per cent). Rejection rates in Ireland remain well above the lowest in the euro area (3.3 per cent).

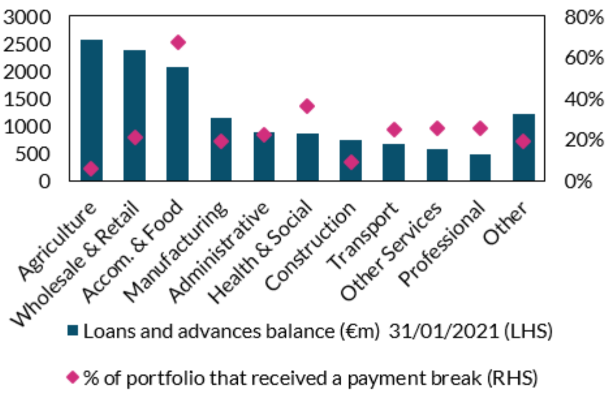
Banks report tightening lending standards for SMEs in Ireland during 2020 but loosening standards for guaranteed lending upon the introduction of the Credit Guarantee Scheme in 2020 H2. Similar trends are evident across the euro area albeit with less tightening of standards and greater loosening for guaranteed lending.

In 2020, the economy and firm specific circumstances were the main factors contributing to lending standards in contrast to 2008. In 2008, bank balance sheets were the primary factor but many other factors contributed including the general economy, firm specific circumstances, collateral demanded and other factors.

5 Loan performance

Figure 31 | Payment breaks were widely used for ROI SME lending through 2020...

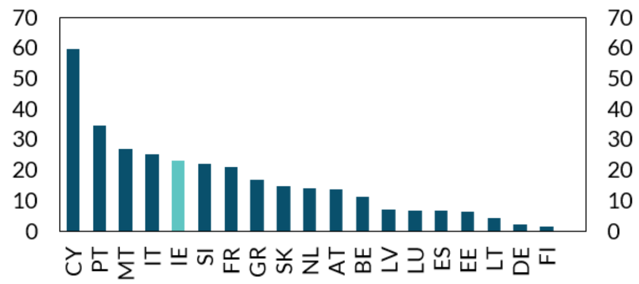
Total Irish-resident (ROI) non-financial non-real estate SME lending balances (€m January 31st, 2021) and per cent of lending which ever received a COVID-19 payment break by sector.[15]



Source: Central Bank of Ireland COVID-19 Modification of Contracts' templates

Figure 32 | ... and more SME debt was under a moratorium in Ireland than in the majority of euro area countries.

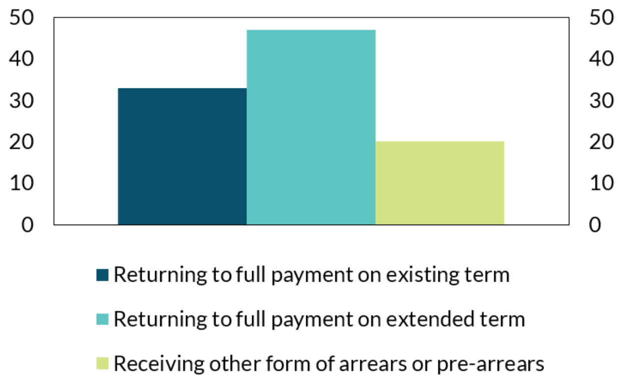
Share of SME loans under EBA-compliant moratoria for June 2020[16]



Source: European Banking Authority data

Figure 33 | Expired payment breaks have mainly returned to full payments on extended or existing terms...

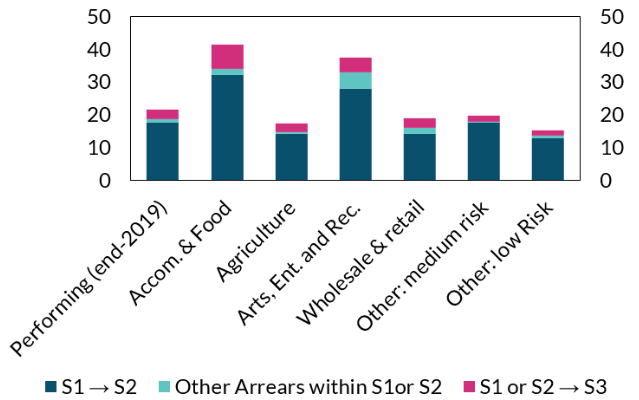
Share of expired Irish-resident SME payment breaks by payment break status at point of expiry, year end 2020



Source: Central Bank of Ireland COVID-19 Modification of Contracts' templates

Figure 34 | ...and some performing SME balances have been reclassified due to a significant increase in credit risk but few have moved to non-performing.

Share of Irish-resident SME performing balances at year-end 2019 by flow into IFRS credit risk staging categories during 2020 and sector.[17]



Source: Central Bank of Ireland loan-level data

Payment breaks were widely used for ROI SME lending through 2020 with 26 per cent of debt balances at end of January 2021 having availed of this. This ranged from as high as 67 per cent of balances in Accommodation & Food to 6 per cent in Agriculture and 9 per cent in Construction.

In the euro area, Ireland was among the countries with some of the largest shares of outstanding balances under EBA-approved moratorium as at June 2020. Ireland was fifth in the euro area out of nineteen countries.

80 per cent of SME lending returned to full payment upon expiry of a payment break by the end of 2020. Expired payment breaks returned to full payment on extended (47 per cent) or existing terms (33 per cent). 20 per cent are receiving other forms of arrears or pre-arrears.

Throughout 2020, 21.7 per cent of 2019 SME performing balances (S1) flowed into other categories, mostly due to a significant credit risk increase (S2, 17.7 per cent). A small share flowed to non-performing (S3, 3 per cent). The largest flows into higher categories were in the Accommodation & Food sector (41.5 per cent, including 7.6 per cent into non-performing) and the Arts. Entertainment and Recreation sector (37.4 per cent).

Appendix 1: Data Sources

- CSO *Industrial Product & Turnover, Building & Construction Index and Monthly Services Index*, 2020Q4. These indexes provide a timely measure of aggregate sales indexed to 2015. The Industrial Product & Turnover includes coverage of local units with at least 3 employees in in NACE Rev. 2 divisions 05 - 35, the Building & Construction Index has coverage for all enterprises in NACE Rev 2 divisions 41, 42 and 43 and the Monthly Services Index has coverage for enterprises with an annual turnover value of more than €500,000 or enterprises with more than 100 persons engaged in NACE Rev. 2 Sections G to S with exclusions.
- CSO *Retail Sales Index*, January 2021. This index provide a timely measure of aggregate sales indexed to 2015. Coverage is of all businesses in Ireland in NACE Rev.2 divisions 45, 47 and 56.30.
- Department of Finance *SME Credit Demand Survey*, March – October 2020. This nationally representative survey of 1,500 Irish SMEs collects information on demand for credit, success in applying for credit and trading performance.
- European Central Bank (ECB) / European Commission (EC) *Survey on the Access to Finance of Enterprises* (SAFE), April 2020 – September 2020. The Irish component of this European survey contains information for 500 SMEs. The cross-country nature of the survey allows credit conditions faced by Irish SMEs to be placed in a euro area context.
- Central Bank of Ireland *Credit, Money and Banking* statistics, Q4 2020. This source contains outstanding lending by quarter and sector for all Irish credit institutions. See Business Credit and Deposits Explanatory Notes for more details. Sector classifications used in Central Bank, Credit, Money and Banking statistics broadly correspond to NACE Rev. 2. Agriculture (including Forestry and Fishing) correspond to Primary Industries and Accommodation & Food correspond to Hotels & Restaurants. Questions on this data may be directed to statistics@centralbank.ie.
- ECB *Monetary and Financial Statistics*, December 2020. This dataset provides monthly euro area new lending data to non-financial corporations. These data are for loans other than revolving loans and overdrafts, convenience and extended credit card debt (at all maturities), and include renegotiations.
- Central Bank of Ireland monitoring template data. These datasets provides timely aggregated information on outstanding and undrawn balances, sector of activity and loan repayment for SME loans at retail banks.
- Central Bank of Ireland loan-level data. This dataset provides information on a wide range of loan characteristics including outstanding balances, sector of activity and loan repayment for the population of enterprise loans outstanding at retail banks.
- Central Bank of Ireland Modification of Contracts' template data. These datasets provides timely aggregated information on outstanding and loan repayment for SME loans at retail banks.
- Central Bank of Ireland *Central Credit Register dataset*. This is a dataset based on credit information submitted by lenders and lender enquiries on the Central Credit Register following new loan applications. Over time, coverage of the dataset has been extended to a range of bank and non-bank lenders and a variety of financial products such as business loans, overdrafts, hire purchase and asset finance. The dataset can be limited as a measure of estimated or approximated credit demand as it does not capture immediate rejections or discouraged borrowers, which do not apply because of potential rejection. Similarly, borrowers may apply to many lenders which could exaggerate estimated or approximated credit demand.
- *Bank Lending Survey* for 2020 Q4. This survey provides quarterly qualitative data from Irish banks. The survey asks questions on supply and demand conditions in the loan market. The data from this survey complement quantitative data on developments in the lending market.
- EBA data, June 2020 was a special data collection exercise to gather evidence on the use of moratoria and public guarantees in the EU banking sector. The data was collected according to EBA reporting and disclosure guidelines.

Appendix 2: Classification of SMEs

For the purposes of the Central Bank of Ireland aggregate statistical series and the Department of Finance SME Credit Demand Survey, an SME counterparty is defined as any entity engaged in an economic activity, irrespective of legal form (i.e. corporation, partnership, sole-trader, etc.), which employs fewer than 250 persons and whose annual turnover does not exceed €50 million or whose annual balance sheet does not exceed €43 million. This is consistent with the SME definition in the Central Bank's SME Lending Regulation, the Credit Review Office and the European Commission, for the later see here.

In the SAFE survey, SMEs are defined solely by their employment size. Three categories of SME are analysed: Micro firms, with less than 10 employees, Small firms with 10 to 49 employees, while Medium firms are those with 50 to 249 employees. All firms with more than 250 employees are considered to be Large firms and are removed from the analysis.

The Central Bank of Ireland loan-level data do not contain the relevant information on borrowing firms to define SMEs in a similar fashion. All firms managed in retail and business banking units of the subject banks are classified as SMEs, while all exposures managed in corporate banking divisions are considered to be Large firms and excluded from the analysis.

In the Bank Lending survey, large and small and medium-sized enterprises are defined according to annual net turnover. A firm is considered an SME if its annual net turnover is less than €50 million.

In the Central Credit Register datset, for the purposes of analysing bank and non-bank contracts, SMEs were approximated by examining all business credit agreements active on December 31st 2020 which have a financed amount or credit limit no greater than €1 million.

Appendix 3: Footnotes

1. Enquiries and comments relating to this document should be addressed to: Macro-Financial Division, Central Bank of Ireland, PO Box 559, Dublin 1. Email: MFDadmin@centralbank.ie
2. In these data the euro area comprises of data for Austria, Belgium, Germany, Greece, Finland, France, Italy, The Netherlands, Portugal and Spain. Only these countries were consistently sampled in the survey.
3. Stringency is assessed according to the Oxford COVID-19 Government Response Tracker stringency index. This index is a composite measure of 8 different indicators encompassing closures of schools, workplaces and public transport, stay at home requirements, restrictions on gatherings, movement and international travel and cancellation of public events. For each indicator, a score is created by taking the ordinal value of the severity of the policy and subtracting an extra half point if the policy is general rather than targeted, if applicable. Each of these are then rescaled by their maximum value to create a score between 0 and 100, with a missing value contributing 0. These scores are then averaged to get the composite indices. For the purposes of this report an average of the composite index was calculated over the period March 1st to October 31st for each euro area country and compared to the score for Ireland.
4. Banks were defined as licensed banks, branch banks, credit unions and non-banks owned by banks. All other lenders are classified as non-banks.
5. Credit agreements classified as “Other revolving facilities”, include stocking finance, letter of credit, invoice discounting. Credit agreements classified as “Other” refer to all other product types not classified as Leasing or Hire Purchase, Loan or Mortgages, Overdraft, Card or “Other revolving”.
6. Firm size is typically defined according to the firms’ employment size, Micro firms have less than ten employed, Small firms have 10-49 employed and Medium have 50-249 employed. In this specific survey a firms meeting the employment condition and one of the following turnover or balance sheet conditions qualifies; Micro – turnover or balance sheet of less than or equal to €2m, Small – turnover or balance sheet of less than or equal to €10m and Medium – turnover of less than or equal to €50m or balance sheet of less than or equal to €43m.
7. Multiple reasons may be given such that totals may exceed 100 per cent
8. Multiple reasons may be given such that totals may exceed 100 per cent
9. Discouraged borrowers here includes borrowers who did not apply due to potential rejection, past rejection or a belief that banks are not lending for periods before the March-October 2020 wave. In the March-October 2020 wave firms were only asked if they did not apply due to potential rejection.
10. Lambert, D., McCann, F., McQuinn, J., Myers, S and Yao, F. (2020), "SME finances, the pandemic, and the design of enterprise support policies", Financial Stability Note No. 8, Central Bank of Ireland.
11. European Systemic Risk Board (February 2021) "Financial stability implications of support measures to protect the real economy from the COVID-19 pandemic".
12. Conefrey, T., Hickey, R and McInerney, N. (2021) "COVID-19 and the Public Finances in Ireland" Economic Letter Vol. 2021, No. 3.
13. Conefrey et al (2021) estimate that the purchase programmes boosted output by over 0.4 per cent in 2020 relative to a counterfactual scenario excluding the policy supports, and by almost 1.4 per cent by 2021.
14. Respondents are asked whether their request for credit was successful according to three categories, Yes, No and partially.
15. "Other" is the sum of sectors with balances less than €400m.
16. EBA data reported here only refers to EBA compliant moratoria. In a few countries such as Finland and Germany, non EBA compliant mortoria can be substantial amounting to around 40 per cent of all moratoria. In a majority of countries non-EBA moratoria are negligible or less than 10 per cent.
17. S1 – performing, S2 – significant credit risk increase, Other Arrears – arrears greater than €100 and S3 - non-performing

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