



# SME Lending

January 2012



An Roinn Airgeadais  
Department of Finance



# SME Credit

## Funding

- Central Bank identified that SME and mortgage credit of €11 – 16.5 bn of gross new lending would be required over a 3 year period to end 2013
- Government imposed a combined SME lending target of €21 bn on each of the two Pillar Banks for the calendar years 2011 – 2013
  - Some €3 bn in 2011: Pillar Banks indicate that they have achieved this target
  - €3.5 bn in 2012
  - €4 bn in 2013
- Pillar Banks and Ulster Bank received over €300 m from the **EIB** for lending to SMEs for investment purposes in 2011

## Monitoring

- The Pillar Banks submit annual lending plans to the Department outlining in detail how they will achieve lending targets
- Pillar Banks report monthly figures to Credit Review Office (CRO) and Department of Finance
- CRO produces quarterly reviews of its activities including an assessment of progress in relation to lending targets
- The Department and CRO meet with the Pillar Banks on a quarterly basis to discuss progress in terms of sanctions and drawdowns
- The Department also liaises closely with the Central Bank to ensure that it has a complete picture of the SME sector in order to formulate policy in this area

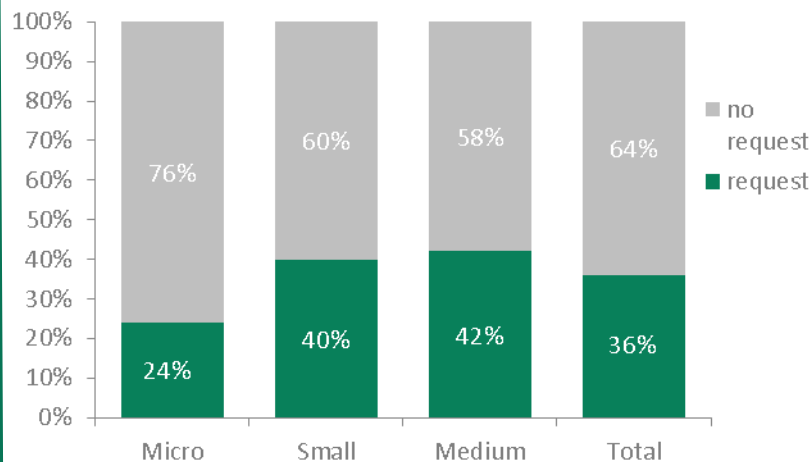


# SME Lending Demand Study\*

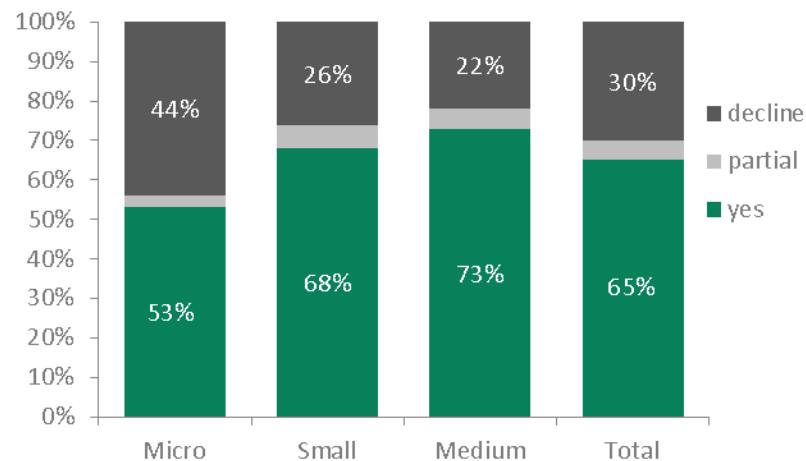
## Summary

- Completed by external consultants for the period April – September 2011 and conducted in October 2011
- 1,506 SME's were included in the sample for the survey from 11,500 companies that were contacted in order to complete the survey
- Trading conditions were reported as difficult especially for the micro sector

## Demand



## Application Decisions (excluding pending)



\* SME Lending demand Survey Prepared on behalf of the Department of Finance, November 2011 Mazars



# SME Credit

## Policy Responses

- There is a strong commitment in the **Programme for Government** to SMEs
- The Government appointed a **Minister with special responsibility for Small Business**, John Perry, T.D..
- The Minister chairs the **Advisory Group on Small Businesses**
- The Minister is hosting a series of **regional meetings** to discuss access to bank credit with key local stakeholders in the SME sector to raise awareness and ensure direct communication. These will complement the information provided by the Lending Demand Survey and better inform the design and implementation of future Government policies on credit to the SME sector
- The **CRO** assists SMEs that have been refused credit by banks
- The **Credit Suggestions Initiative** sought input from members of the public on how to increase the number of SMEs applying for credit and a number are being implemented by the relevant organisations
- A **Jobs Initiative** was announced by the Department of Jobs, Enterprise and Innovation with particular emphasis on the importance of the SME sector in employment generation, building confidence in the SME sector
- A **follow-up** Lending Demand Survey to the one completed in November 2011 will be conducted in April 2012 to cover the period from October 2011 – March 2012



## Specific Initiatives

### CGS

- Temporary partial credit guarantee scheme, concept similar to schemes in other EU member States
- €150 m available per annum for commercially viable, well performing companies that cannot secure credit facilities due to either of the following two market failures:
  - Insufficient collateral for the additional facilities; or
  - Growth/expansionary SMEs which, due to their sectors, markets or business model are classified as higher risk under current credit evaluation practices
- Government approved a draft bill in November 2011
- Tender for operator of the scheme closed in January 2012
- To commence operation in Q2 2012

### MicroFinance Loan Fund

- Commercial basis loans for start-up businesses and micro enterprises
- Initial Exchequer investment of €10 m
- Intended to be leveraged with private sector funding and capital
- Targeted at businesses at the margin of commercial lending decisions
- The Fund will be demand led

### Code of Conduct for SME Lending

- Revised Code published specifically concerning lenders dealing with SMEs that are either in difficulties or facing financial stress
- Came into effect 1<sup>st</sup> January 2012 with a full review to take place in 2012
- Code available at [www.centralbank.ie/regulations/pages/codes.aspx](http://www.centralbank.ie/regulations/pages/codes.aspx)



# Trends in Business Credit and Deposits

## Q3 2011

Chart 1: Quarter-on-Quarter Rates of Change in Credit Advanced to All Irish Private-Sector Enterprises and SMEs (excl. financial intermediation and property-related sectors)

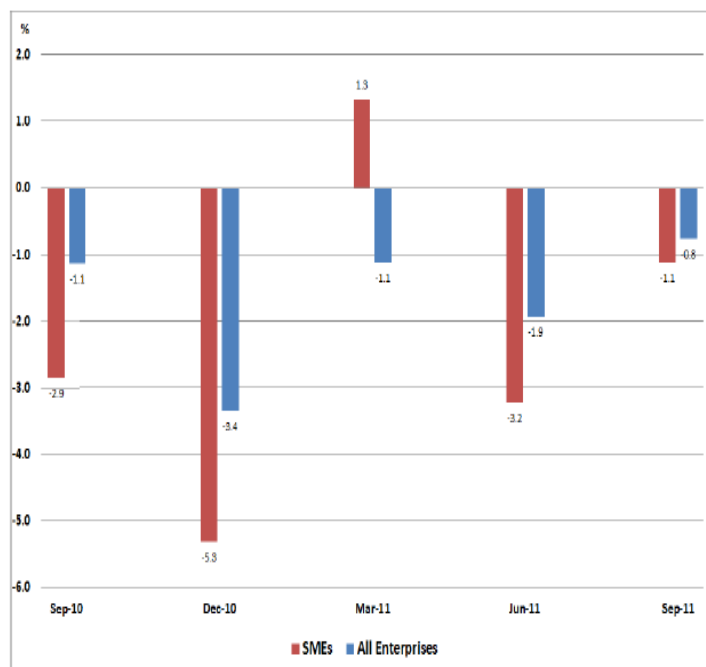


Chart 2: Annual Rates of Change in Credit Advanced to Irish Private-Sector Enterprises



Source: Central Bank of Ireland data



# Disclaimer

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