BANK OF ENGLAND

Impacts of the Covid-19 crisis: Evidence from 2 million UK SMEs

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Disclaimer: The views expressed here are those of the authors and not necessarily those of the Bank of England or any of its policy committees.

Why are SMEs important?

- Important to UK banks
- Rely on the UK banking system (banks account for 85% of UK SME debt)
- Make a big contribution to the economy (61% of employment, 52% of turnover)
- Covid-19 hit SMEs harder than larger corporates

The average UK SME saw a 30% decline in turnover growth during the Covid period

SMEs in arts and recreation and accommodation and food in London and Scotland contracted more than the average

Less heterogeneity in cash flow impact

Bounce Back Loan Scheme (BBLS) highest take-up in accommodation and food (by fraction of firms) and north of England

Firms in more affluent areas harder hit and more likely to use BBLS

This paper uses extremely granular data on the more than 2 million UK SMEs that have relationships with nine major banks

Monthly data on all UK SME current accounts and loans

AIB | Barclays | BoI | CYBG | Danske Bank

HSBC | LBG | NatWest | Santander

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Experian

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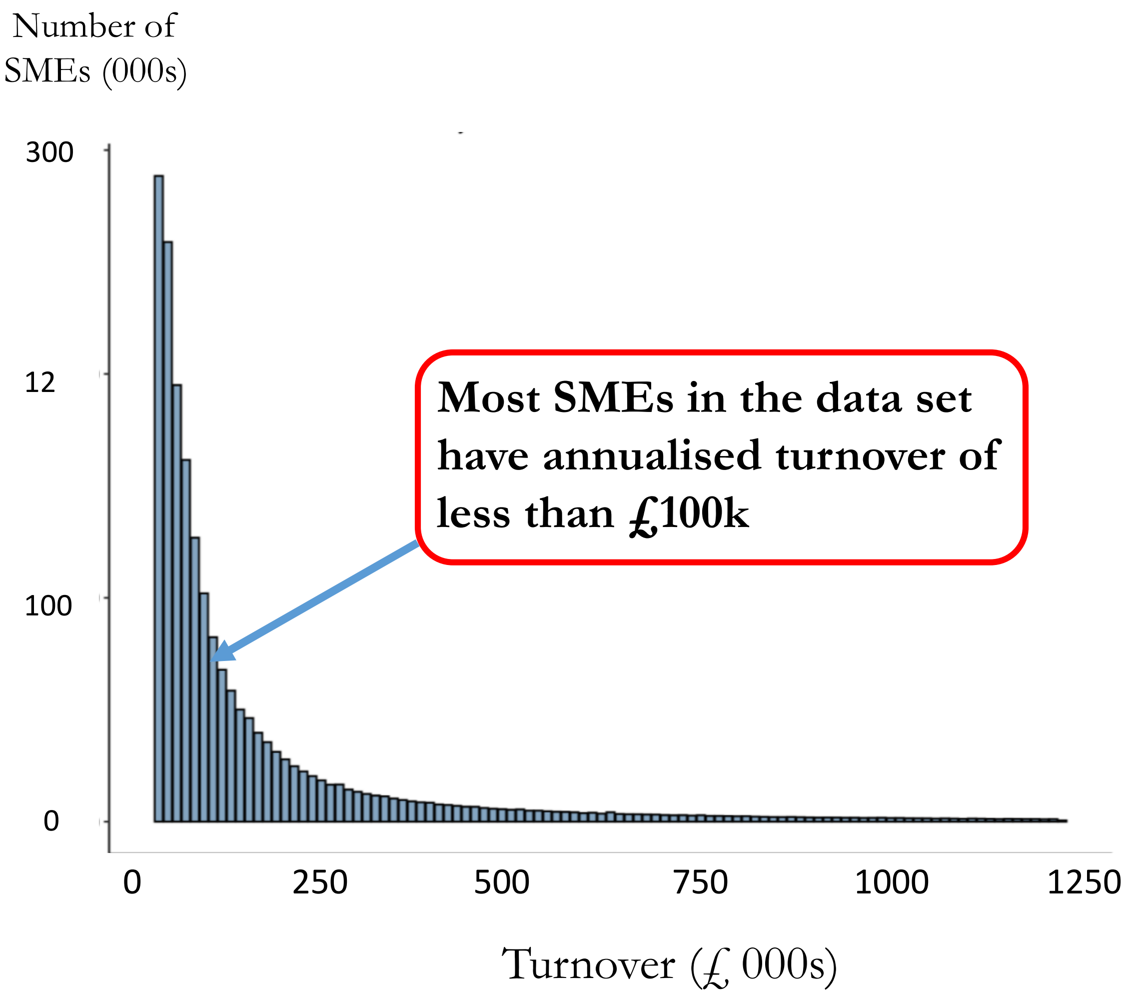
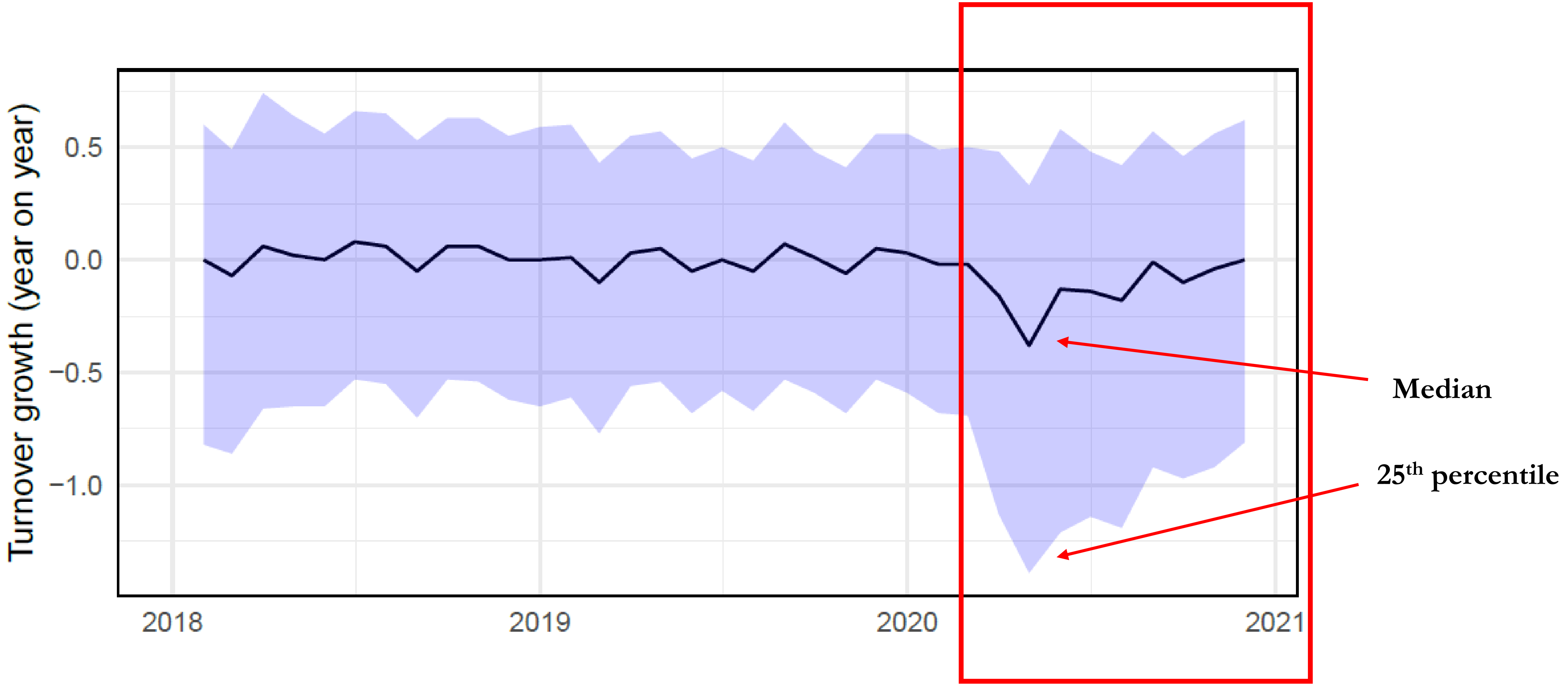
The data covers a large number of very small businesses

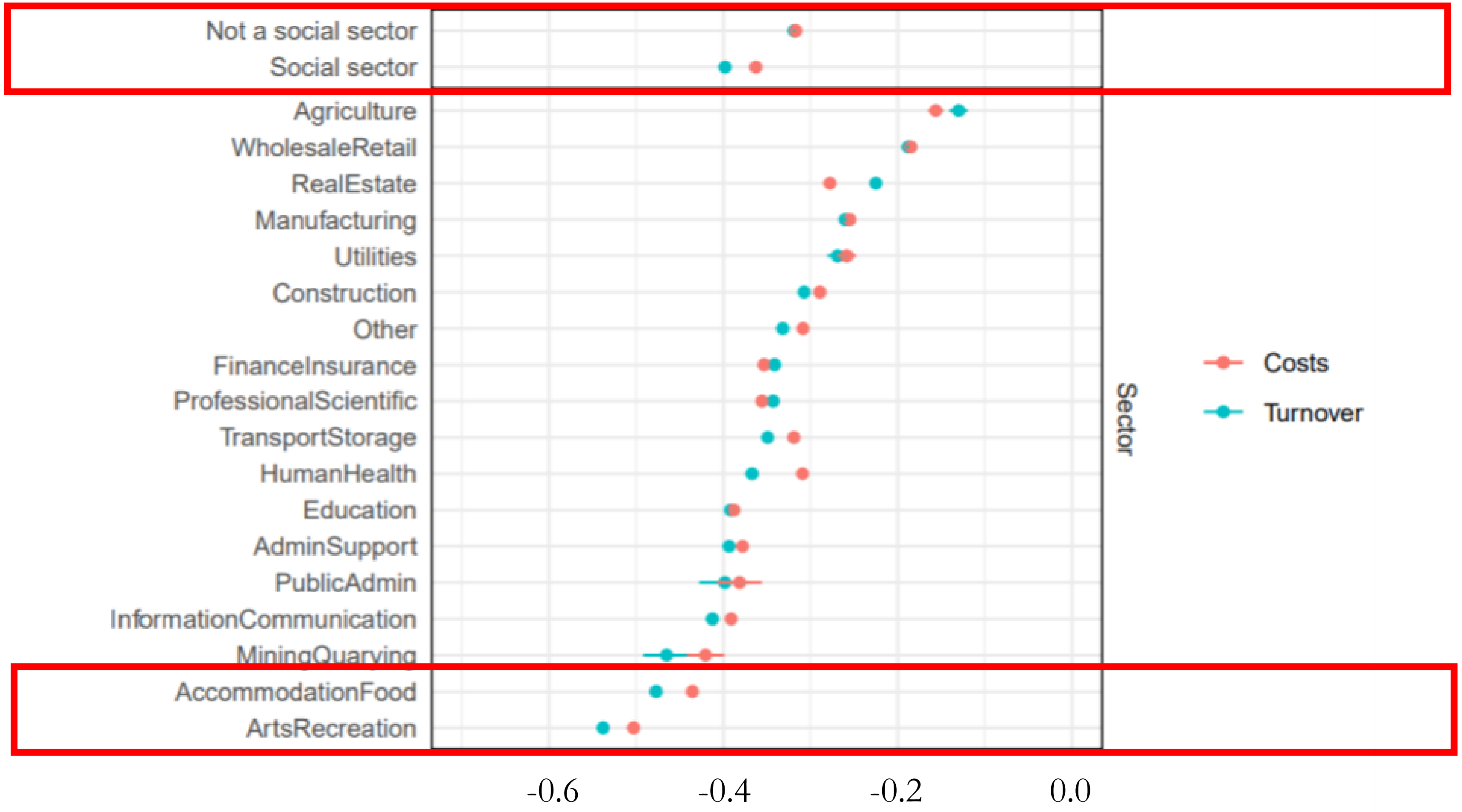


- 5 billion data points
- 2 million limited company SMEs
- Transaction-level information
- Timely reporting (6 week lag)

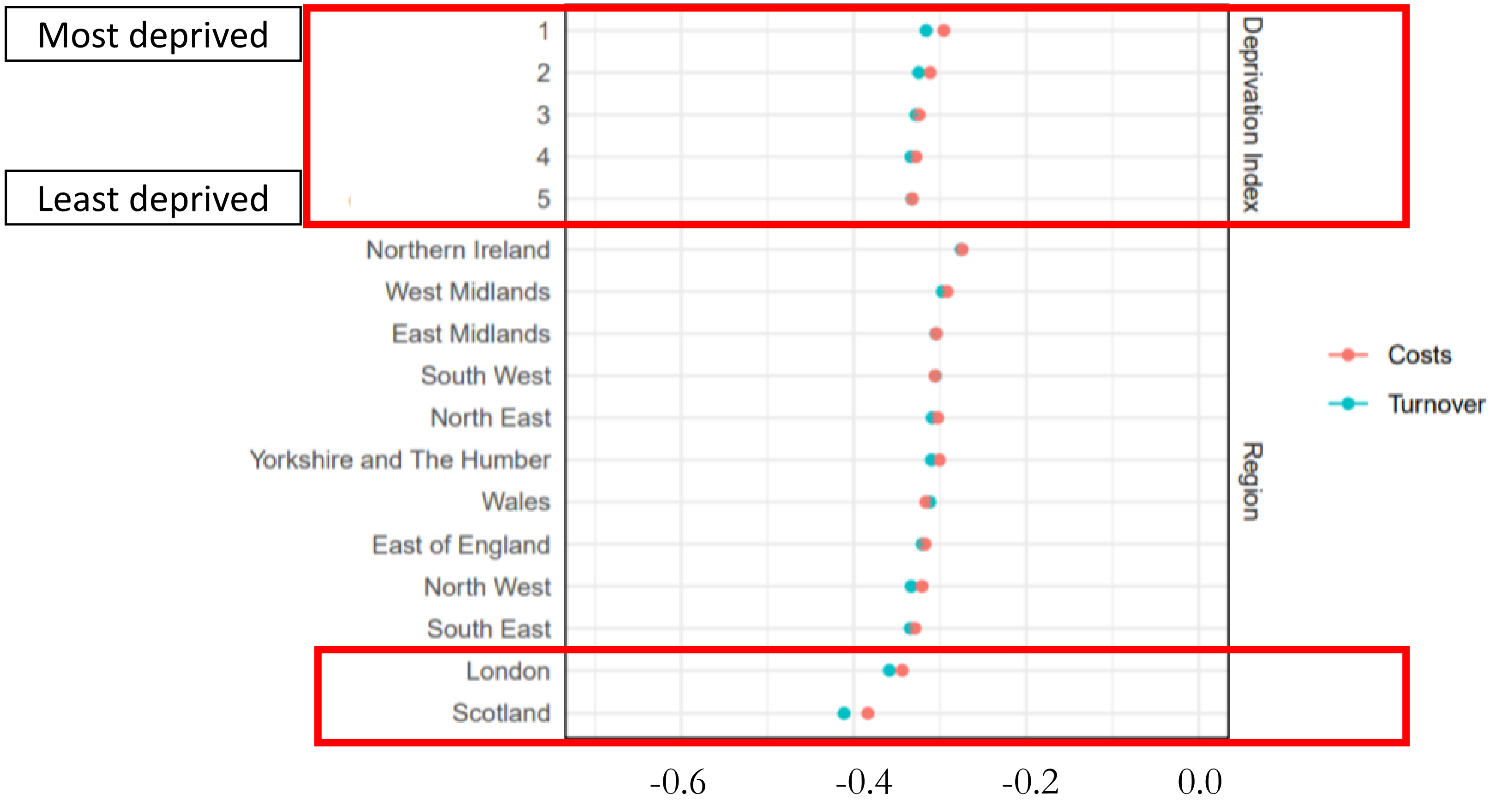
Median SME turnover fell 30% in May 2020



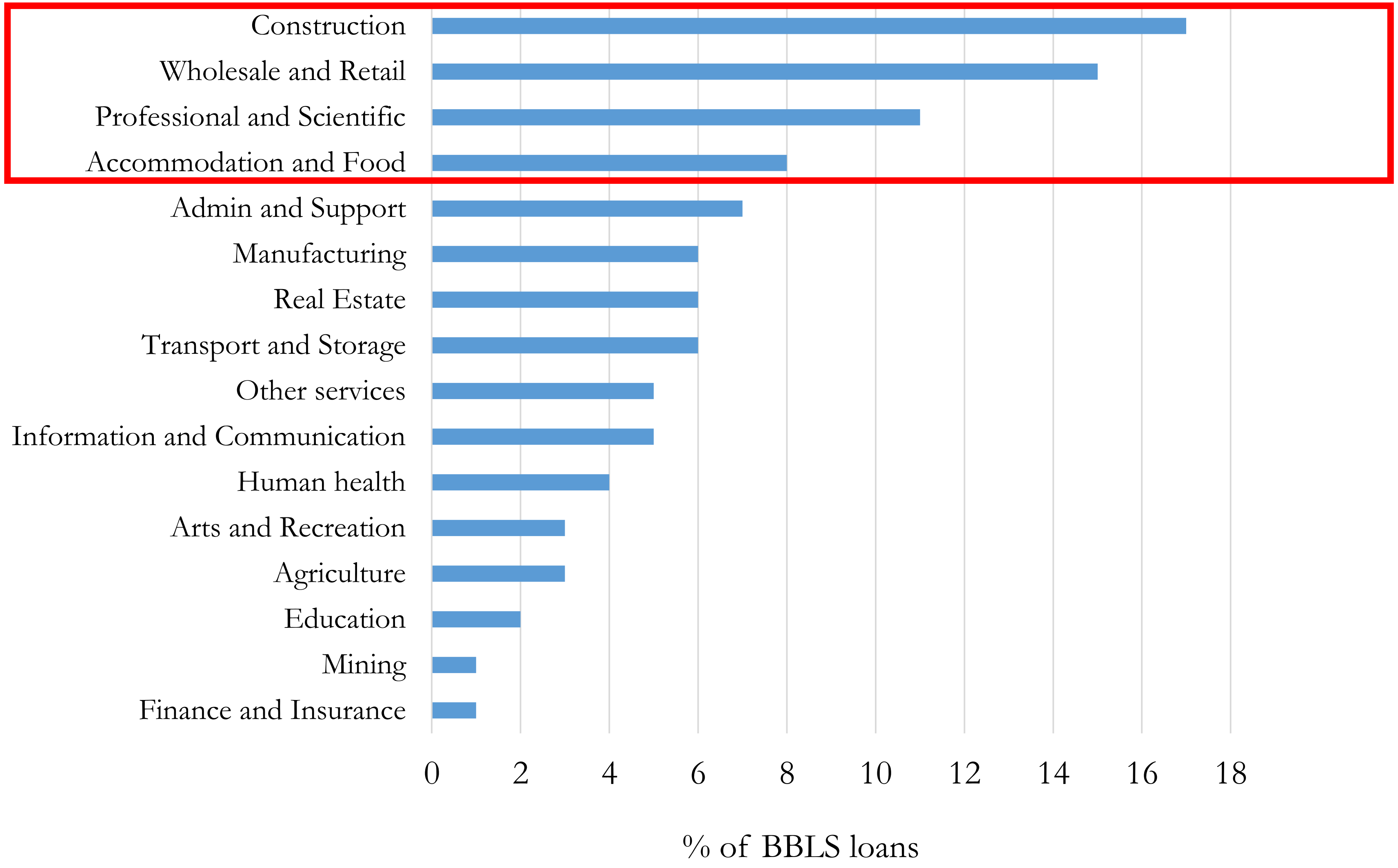
Accommodation-food and Arts-recreation contracted most in April – December 2020, compared to the pre-covid period



London, Scotland and more affluent areas hit hardest

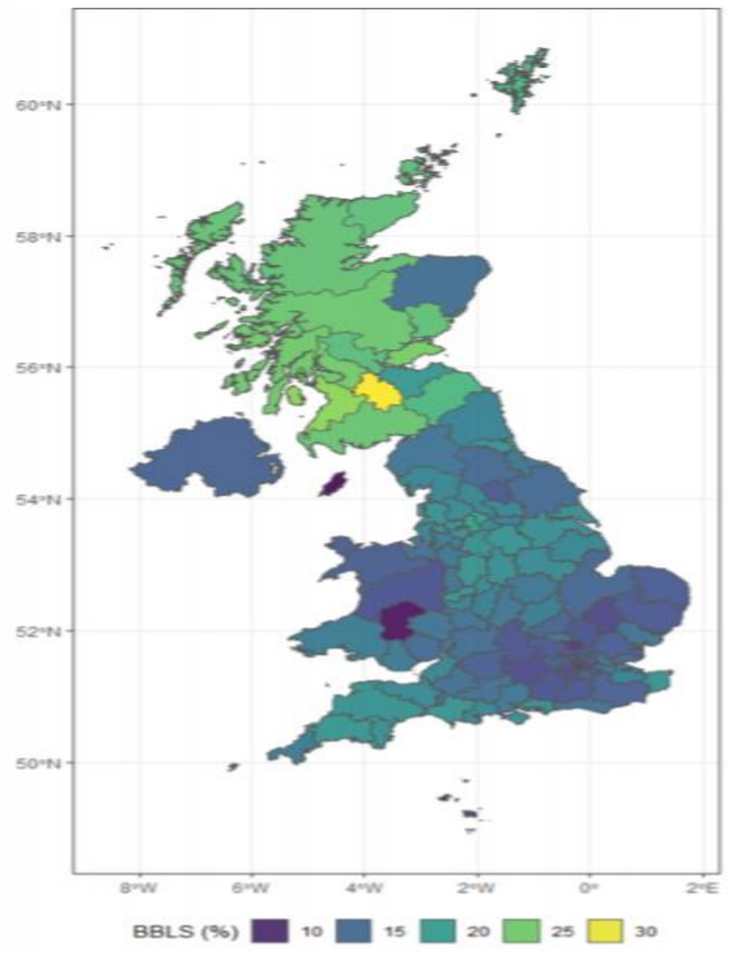


BBLS uptake was also quite heterogeneous across sectors



Top 4 sectors accounted for 51% of total BBLS uptake

And across regions – highest uptake was in northern England and Scotland



The likelihood of having a BBLS loan is highest for

- Smaller and younger firms
- Firms in least deprived areas – rich neighbourhoods have reduced spending more
- Less clear pattern observed for turnover growth – the scheme was not targeted to a specific group

Future Work: The Incidence of Zombies

- Across the board lending could harbour unproductive companies
- About 10% of firms can be classified as zombies pre-covid and 11% of firms with a BBLS loan are zombies
- Aims: (1) Quantify the mitigating impact of BBLS on zombie distress (relative to the general population) and (2) Cost/benefit of BBLS – save jobs now vs. low productivity in the future

Concluding Remarks

Covid-19 has caused SMEs significant distress in terms of turnover, arrears and defaults

Preliminary investigation suggests that BBLS has helped

- Need to quantify the impact

The take up of BBLS has been quite heterogeneous across sector and regions

More work on evaluating the net benefits of scheme lending

- Pay special attention to zombie lending