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

Experian

Bank of England
The data covers a large number of very small businesses

Most SMEs in the data set have annualised turnover of less than £100k.
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

<table>
<thead>
<tr>
<th>Sector</th>
<th>% of BBLS loans</th>
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<tbody>
<tr>
<td>Construction</td>
<td>16</td>
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<tr>
<td>Wholesale and Retail</td>
<td>14</td>
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<tr>
<td>Professional and Scientific</td>
<td>12</td>
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<tr>
<td>Accommodation and Food</td>
<td>10</td>
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<tr>
<td>Admin and Support</td>
<td>8</td>
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<tr>
<td>Manufacturing</td>
<td>8</td>
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<td>Real Estate</td>
<td>6</td>
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<td>Transport and Storage</td>
<td>6</td>
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<tr>
<td>Other services</td>
<td>6</td>
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<tr>
<td>Information and Communication</td>
<td>4</td>
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<td>Human health</td>
<td>4</td>
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<tr>
<td>Arts and Recreation</td>
<td>4</td>
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<tr>
<td>Agriculture</td>
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<td>Education</td>
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<td>Mining</td>
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<td>Finance and Insurance</td>
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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