



# FEATURE: AFTER THE PANDEMIC

## **THIS CHAPTER PRESENTS**

an overview of the impact of Covid-19 on SMEs since 2020 through a series of direct questions and analysis of changes in metrics tracked over time such as growth

## KEY FINDINGS

The challenges directly associated with the pandemic have continued to wane:

- When first asked in Q2 2020, 68% of SMEs saw the pandemic as a major barrier to their business.
- Since then the impact has declined steadily, to 34% by Q4 2021 and 12% in Q4 2022.
- SMEs that continued to see the pandemic as a barrier included those with a worse than average risk rating (16% v 7-8% with a minimal or low risk rating) and those in Transport (24%) and Hotels & Restaurants (23%).

Just under 1 in 5 SMEs had received pandemic-related funding, typically from a Government-backed scheme:

- 18% of SMEs in H2 2022 had received pandemic-related funding, 95% of those that had applied. Funding was most likely to have been taken by those with 10-49 employees (29%), compared to 12% of the largest SMEs, with limited variation by sector or risk rating.
- Across all demographics, more than 90% of those who had received funding said that it was provided under a Government-backed scheme.

Most of those with such funding said they were repaying it as required. 6% said they were struggling to repay and more broadly 21% of those still repaying their facility had concerns about making the repayments:

- 18% of those who received the funding said that they had already repaid it in full, with little variation by size of SME (19-21% with the exception of those with 1-9 employees, 14%).
- 64% were repaying it as required, increasing by size of SME from 60% of 0 employee SMEs with pandemic funding to 78% of those with 50-249 employees. 6% were struggling to make repayments and 12% were not due to start repaying yet, both more likely amongst smaller SMEs.

- Amongst those that have not repaid their facility in full, 1 in 5 were concerned about making repayments, declining by size of SME from 23% of such 0 employee SMEs to 7% of those with 50-249 employees.

**The impact of the pandemic can be seen in changes to SME growth and fears around the economic climate, but there was also an increase in innovation:**

- In 2019, 37% of SMEs (excluding Starts) reported having grown, but by Q2 2021 as the pandemic made itself felt on annual figures, this halved to 15%. Since then there has been an improvement, and in Q4 2022 28% reported having grown.
- Expected future growth was affected more immediately, declining from 52% in 2019 to 24% in Q2 2020 as the pandemic first took effect. By Q2 2021 the proportion planning to grow was back to 2019 levels (52%) but this was not maintained and in Q4 2022, 40% of SMEs were planning to grow.
- Another immediate impact was seen in the proportion rating the economic climate as a major barrier to their business, increasing from 21% in 2019 to 47% in Q2 2020. The impact then reduced (to 21% in both Q2 and Q4 2021) but as new economic headwinds presented themselves further increases were seen in 2022, to 35% in Q4 2022.
- Faced with these challenges, levels of innovation increased during the pandemic, from 35% in 2018 to 46% in Q4 2020. They have declined somewhat since overall (to 37% in Q4 2022) due to lower levels of innovation amongst 0 employee SMEs.

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Financially, levels of credit balances were maintained but there were also more injections of personal funds and a higher appetite for finance:

- Despite the challenges posed by the pandemic, the proportion of SMEs holding £10,000 or more of credit balances increased from 23% in 2019 to 35% in Q4 2021 and has changed little since.
- Initially, there were also more injections of personal funds, increasing from 24% in 2019 to 40% in Q2 2021, but back to 31% by Q4 2022.
- Reflecting the trading conditions and the availability of Government backed funding, future appetite for finance increased from 22% in 2019 to 40% in both Q2 and Q4 of 2020. However, by Q4 2022 this was back to pre-pandemic levels at 22%.

These metrics are reported on in more detail in their respective chapters.

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From Q2 2020, as the UK entered its first lockdown, the SME Finance Monitor has tracked SME sentiment around the pandemic and the impact this has had on business performance. This impact has been measured in a number of ways:

- Through a series of bespoke questions that directly referenced the impact of the pandemic
- Through analysis of existing metrics such as growth, profitability, availability of finance etc that might be impacted by the pandemic.

In 2020 and 2021, this analysis was contained in a specific “Covid” chapter within the SME Finance Monitor report for the year. This chapter provided an analysis of both the specific Covid questions and also key headlines around the impact on standard metrics, overall and by size of SME. More detail on these standard metrics was then provided in the relevant chapters, reported in the normal way, so as to maintain continuity with past (and future) reports.

Like the pandemic itself, sentiment during 2020 did not follow a linear path - overall Q2 was very challenging, Q3 was a bit better and Q4 broadly no worse, but some sectors, notably Hotels & Restaurants and Transport have seen some marked swings in sentiment. The story for 2021 was of an improving position overall in terms of sentiment and reducing impact, although with some evidence by Q4 2021 of the improvement slowing, with new challenges emerging beyond the immediate impact of the pandemic, such as increasing costs and the effect of the new trading arrangements with the EU. The same was true in 2022, with the impact of the pandemic waning, but the rate of inflation increasing, as were energy prices, and no further improvement seen in SME sentiment on many metrics.

As the immediate impact of Covid has receded (in Q2 2020, 68% of SMEs saw it as a major barrier, by Q4 2022 this figure was 12%) and been replaced by newer challenges, this 2022 report does not include a Covid chapter per se. Questions previously reported here have been included in the relevant chapters instead. What has been kept for this year is a summary of the impact of the pandemic, use of pandemic related funding and changes over time of key metrics (growth etc) to provide an easy ‘snapshot’ of how SMEs are feeling.

## THE PANDEMIC AS A FUTURE BARRIER

Since the SME Finance Monitor started, SMEs have been asked to rate a series of potential barriers in terms of impact, giving each a score out of 10 where 10 is a major barrier. In Q2 2020 an additional barrier was added: 'The impact of the coronavirus pandemic'. This is included with the other barriers in the 'Future' chapter but is shown here for completeness, and to demonstrate why a Covid specific chapter is no longer needed.

In Q2 2020, 68% of SMEs rated the pandemic as a major barrier. A year later, in Q4 2021, that proportion had halved to 34% of all SMEs and a further 12 months later in Q4 2022, 12% of SMEs saw the pandemic as a major barrier.

As the table below shows:

- Sentiment about the pandemic was very similar for those with 0 or 1-9 employees.
- Those with 10-49, and more notably those with 50-249 employees were slightly less concerned at the outset (although still a majority) and saw more of an improvement in Q4 2020 and Q2 2021. By Q4 2022, 6% of those with 50-249 employees were concerned about the pandemic, half the level of their smaller peers.
- Those with a worse than average risk rating were slightly more concerned initially and levels of concern have remained somewhat above their peers since.
- Those in the Hotel & Restaurant sector were the most concerned in Q2 2020 (87%) and have remained consistently ahead of most of their peers (23% in Q4 2022), with the exception of Transport (24% in Q4 2022).
- Excluding the Permanent non-borrowers increased concern amongst remaining SMEs to 74% initially (v 58% on PNBs) and this trend continued as concern decreased in both groups to 17% v 7% in Q4 2022.

**The impact of the pandemic: 8-10 score**

Over time By date of interview – row percentages	Q2 2020	Q4 2020	Q2 2021	Q4 2021	Q2 2022	Q4 2022
<b>All SMEs</b>	<b>68%</b>	<b>51%</b>	<b>45%</b>	<b>34%</b>	<b>15%</b>	<b>12%</b>
0 emp	68%	52%	46%	34%	15%	12%
1-9 emps	67%	52%	43%	31%	17%	12%
10-49 emps	62%	45%	30%	33%	12%	8%
50-249 emps	54%	38%	23%	19%	9%	6%
Minimal external risk rating	59%	42%	33%	24%	10%	8%
Low	70%	43%	37%	30%	18%	7%
Average	66%	54%	45%	33%	14%	11%
Worse than average	70%	52%	45%	38%	17%	16%
Agriculture	57%	35%	23%	17%	18%	7%
Manufacturing	68%	45%	39%	29%	16%	8%
Construction	74%	42%	35%	26%	13%	12%
Wholesale/Retail	64%	45%	42%	40%	18%	13%
Hotels & Restaurants	87%	72%	60%	53%	20%	23%
Transport	70%	70%	64%	43%	19%	24%
Property/ Business Services	60%	46%	44%	29%	13%	5%
Health	68%	54%	43%	44%	14%	11%
Other	71%	64%	45%	32%	17%	14%
PNBs	58%	39%	38%	25%	10%	7%
All excl PNBs	74%	57%	49%	40%	20%	17%
Starts	66%	52%	52%	38%	13%	10%
2-5 years trading	76%	55%	45%	37%	20%	15%
6-9 years	69%	51%	43%	42%	18%	14%
10-15 years	70%	52%	43%	31%	18%	16%
15 years+	65%	50%	41%	30%	14%	10%

Q93 All SMEs

## PANDEMIC RELATED FUNDING

Since it was announced during the pandemic that Government backed funding would be made available to SMEs through BBLs and CBILs and more recently the Recovery Loan Scheme, awareness and use of such schemes has been tracked on the SME Finance Monitor.

In Q3 2022, recognising the closure of the original schemes and repayments starting, the questions were simplified and amended again to focus on repayment. Data on these amended questions is reported here for H2 2022 to maximise base sizes, but is consistent with previous similar questions in the 2021 report.

All SMEs were asked if they had applied for any pandemic related funding at any stage. As the table below shows, 19% said that they had, with almost all (95%) successful. Most (91%) said that the funding in question was from a Government backed scheme:

Applications for pandemic related funding (all SMEs H2 2022)	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>8502</b>	<b>1683</b>	<b>2934</b>	<b>2766</b>	<b>1119</b>
Applied and received funding	18%	17%	22%	29%	12%
Applied but did not receive funding	1%	1%	1%	*	*
Thought about applying but didn't	6%	7%	6%	3%	1%
Did not apply for any finance	74%	76%	71%	67%	87%
<b>% successful with application</b>	<b>95%</b>	<b>94%</b>	<b>96%</b>	<b>98%</b>	<b>96%</b>

NQBB1 All SMES from Q3 2022 excluding "no response received"

Further analysis of those who had received funding showed:

- Limited variation by risk rating (16-19% with the slight exception of those with a Low risk rating (21%)).
- Limited variation by sector (17-22%) with the exception of Agriculture (13%) and Health (15%)
- Excluding the PNBs saw 27% of remaining SMEs having received funding. The Permanent non-borrower definition has not been changed to include this new question and the impact on PNB and use of finance calculations is detailed below.
- Starts were less likely to have received funding (6% but they would have been very new businesses when these schemes were available) with little difference otherwise by age (22-25%) with the slight exception of those trading for more than 15 years (18%).
- Across all demographics 9 in 10 or more of applicants said this was Government backed funding.

Repayments of Government backed facilities started 12 months after the facility was agreed. A new question from Q3 2022 asked those who had received pandemic related funding how they were managing with the repayments.

As the table below shows, almost 1 in 5 who took such funding said they had now paid it all back, and a further two thirds (64%) were repaying with no issues.

6% of those with a facility said they were struggling to make the repayments (1% of all SMEs) and this was more likely to be the case for those with such funding in the Transport sector (13%) and the very small group of Starts with such funding (16%):

Repaying pandemic related funding (all SMEs who received this funding H2 2022)	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>1951</b>	<b>295</b>	<b>706</b>	<b>811</b>	<b>139</b>
Have already paid it all back	18%	19%	14%	19%	21%
Paying it back as required	64%	60%	74%	73%	78%
Struggling to pay it back as required	6%	7%	6%	2%	1%
Not due to start paying it back yet	12%	14%	7%	6%	1%

NBB2B2 All SMEs from Q3 2022 who had received pandemic related funding

All SMEs that still had pandemic funding were also asked how concerned they were about repaying this (and any other) funding as repayments fell due. 1 in 5 (21%) expressed some concern about the repayments to be made, declining by size of SME:

Level of concern about repayment (all SMEs who still have this funding H2 2022)	Total	0 emp	1-9 emps	10-49 emps	50-249 emps
<b>Unweighted base:</b>	<b>1619</b>	<b>241</b>	<b>605</b>	<b>658</b>	<b>115</b>
Very concerned	6%	7%	6%	3%	*
Fairly concerned	15%	16%	11%	8%	7%
<b>Any concern</b>	<b>21%</b>	<b>23%</b>	<b>18%</b>	<b>11%</b>	<b>7%</b>
Not very concerned	23%	22%	24%	29%	27%
Not at all concerned	56%	55%	59%	60%	66%

NBB2bb All SMEs from Q3 2022 who had received pandemic related funding and not yet repaid it

SMEs with such funding that were more likely to be concerned about repayments included those with a worse than average risk rating (31% v 10-12% of other ratings), those in the Transport or Health sectors (30% and 29%) and those trading for 2-5 years (34%).

The 21% that said they were concerned represent 3% of all SMEs. They also form part of the 7% of all SMEs in the 'Concerned about repayments' group detailed in Chapter 5.

## THE IMPACT OF PANDEMIC FUNDING ON OVERALL USE OF FINANCE

The questions about pandemic related funding were asked separately to the main 'use of external finance' questions (Q15 etc) in order to maintain consistency for these long running questions. However, this has given rise some anomalies. Some SMEs said at the pandemic questions that they had a Government backed facility that had not yet been repaid, but they had not mentioned having a 'bank loan' or other facility at Q15. This may be because they saw the pandemic funding as something different to run of the mill borrowing, given it is Government backed and was not subject to the usual rules and process of application.

Across the quarters for which corrections are possible (Q3 2021 to Q4 2022), this initially made relatively little difference to the overall picture, but it has recently become slightly more of an issue. Note that, going forward from January 2023, the questionnaire had already been adjusted and the status of Government backed loans will be asked next to overall use of finance (Q15). Any SMEs still repaying a Government backed facility will automatically be considered to be 'Using external finance'.

The analysis below for H2 2022 adjusts for those SMEs who took government backed pandemic funding and had not yet repaid it in full. It places them in the correct category (that of 'using external finance') if they were not already there. 5% of all SMEs have been re-allocated to the external finance category as a result:

All SMEs H2 2022	Original definition	Adjusted for pandemic funding
<b><i>Unweighted base:</i></b>	<b>1951</b>	<b>1951</b>
Using external finance	33%	38%
Not using finance but not a PNB	16%	14%
Permanent non-borrower	51%	48%

NBB2B2/Q15 All SMEs H2 2022

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Adjusting the figures for using finance and Permanent non-borrowers for 2022 as a whole resulted in:

- The correction for external finance of +4 percentage points to 40%.
- The correction for PNBs of -2 percentage points to 46%.
- Initially therefore, 16% of all SMEs were neither using finance nor meeting the definition of a PNB in 2022. Once these corrections were made, this group comprised 14% of all SMEs.

Given the relatively small change on an annual basis to the size of each of these groups, none of the tracking data used in this report has been amended unless specifically stated, as corrected data will feed in from 2023 and analysis showed that in H2 2022 the revised definitions gave very similar answers (within 1-2%) on key metrics such as growth, credit balances, attitudes to finance and future barriers.

Further analysis on this issue is provided in Chapter 5.

## THE IMPACT OF THE PANDEMIC ON KEY METRICS

The remaining chapters of this report follow the usual structure and so provide a detailed update on all key metrics. The two tables below provide a snapshot of a selection of key metrics both overall and by size of SME, for Q2 and Q4 of 2020, 2021 and 2022, plus 2019 for context. Further details on all these metrics can be found in their respective chapters.

The table of business demographics below shows that:

- The proportion of SMEs planning to grow was soon impacted by the pandemic, almost halving from pre-pandemic levels to 24% in Q2 2020. It did then start to increase again and was at 52% by Q2 2021, although that proportion then eased somewhat to 44% by Q4 2021 and 40% by Q4 2022. The decline to Q4 2022 was seen amongst all but the largest SMEs, and notably for the smallest.
- As would be expected, reported growth based on the previous 12 months took longer to be impacted by the pandemic but by Q4 2020 had declined to 16%. By Q4 2021, 26% were reporting growth, with little further change to Q4 2022 (28%). This still leaves all sizes of SME below pre-pandemic growth levels, especially those with 50-249 employees (23% from 66%).
- Faced with the disruption of the pandemic, the proportion of SMEs reporting that they had innovated increased from 35% pre-pandemic to 46% in Q4 2020. By Q4 2021 the proportion was somewhat lower at 36%, with little change since and back in line with pre-pandemic levels. Here, though, the largest SMEs were more likely to be reporting innovative activity than pre-pandemic (71% from 50%) with no decline from Q4 2020.
- The proportion engaging in any international trade also increased somewhat, from 16% pre-pandemic to 19% in Q4 2020, with little change since. Whilst 0 employee SMEs have seen a steady increase in international activity (13% to 18% in Q4 2021 and 16% in Q4 2022), the proportion of SMEs with employees trading internationally has been more variable.
- The proportion seeing the economic climate as a barrier peaked in Q2 2020 at 47%, the highest recorded to date on SMEFM. It then declined to 21% in 2021, but has started to increase since (to 35% in Q4 2022) and remains above pre-pandemic levels for all but the largest SMEs.

## Business demographics

Over time All SMEs

By date of interview – row percentages

	2019	Q2 2020	Q4 2020	Q2 2021	Q4 2021	Q2 2022	Q4 2022
<b>Have grown (excl Starts)</b>	<b>37%</b>	<b>33%</b>	<b>16%</b>	<b>15%</b>	<b>26%</b>	<b>29%</b>	<b>28%</b>
0 emp	33%	32%	15%	14%	24%	27%	26%
1-9 emps	43%	38%	19%	18%	28%	35%	32%
10-49 emps	54%	48%	22%	22%	36%	44%	42%
50-249 emps	66%	47%	18%	18%	23%	27%	23%
<b>Plan to grow</b>	<b>52%</b>	<b>24%</b>	<b>42%</b>	<b>52%</b>	<b>44%</b>	<b>41%</b>	<b>40%</b>
0 emp	49%	24%	41%	50%	42%	37%	38%
1-9 emps	56%	25%	45%	56%	48%	52%	46%
10-49 emps	66%	30%	48%	60%	57%	60%	54%
50-249 emps	76%	33%	38%	50%	49%	51%	48%
<b>Have innovated</b>	<b>35%</b>	<b>42%</b>	<b>46%</b>	<b>43%</b>	<b>36%</b>	<b>38%</b>	<b>37%</b>
0 emp	31%	38%	42%	41%	34%	33%	34%
1-9 emps	43%	51%	55%	48%	43%	50%	45%
10-49 emps	51%	63%	65%	62%	54%	61%	58%
50-249 emps	50%	61%	65%	61%	66%	75%	71%
<b>Any international trade</b>	<b>16%</b>	<b>14%</b>	<b>19%</b>	<b>17%</b>	<b>19%</b>	<b>19%</b>	<b>18%</b>
0 emp	13%	12%	17%	15%	18%	17%	16%
1-9 emps	22%	19%	26%	21%	22%	23%	20%
10-49 emps	30%	29%	34%	33%	27%	31%	28%
50-249 emps	31%	36%	37%	40%	34%	31%	23%
<b>Economic climate a barrier</b>	<b>21%</b>	<b>47%</b>	<b>36%</b>	<b>21%</b>	<b>21%</b>	<b>30%</b>	<b>35%</b>
0 emp	20%	47%	36%	21%	20%	30%	35%
1-9 emps	22%	49%	39%	22%	24%	33%	36%
10-49 emps	20%	46%	36%	15	22%	27%	29%
50-249 emps	25%	39%	30%	11%	14%	17%	24%

The table of business funding metrics shows that SMEs were using a variety of ways to access funding, aside from external finance:

- Despite the challenging trading conditions, the proportion of SMEs holding £10,000 or more in credit balances increased steadily from 23% pre-pandemic to 35% in Q4 2021 and Q2 2022. In Q4 2022, 31% held such sums, typically the larger SMEs.
- There was also an increase in injections of personal funds into the business, reported by 40% of SMEs in Q2 2021, compared to 24% pre-pandemic. Again, the proportion has reduced somewhat since, to 31% in Q4 2022, still above pre-pandemic levels for 0 employee SMEs
- Looking ahead, the proportion of SMEs with any future appetite for finance (plan to apply or a Future would-be seeker) increased from 22% in 2019 to 40% in both Q2 and Q4 2020 and for all but the largest SMEs. This increase was not maintained into 2021 and has been at pre-pandemic levels since Q4 2021, but lower than previously seen for those with 50-249 employees.

### Business funding

#### Over time – All SMEs

By date of interview – row percentages

	2019	Q2 2020	Q4 2020	Q2 2021	Q4 2021	Q2 2022	Q4 2022
<b>£10k+ credit balances</b>	23%	28%	33%	31%	35%	35%	31%
0 emp	16%	19%	24%	23%	29%	28%	25%
1-9 emps	44%	53%	56%	56%	52%	59%	53%
10-49 emps	76%	84%	83%	86%	78%	86%	85%
50-249 emps	94%	88%	93%	95%	95%	95%	94%
<b>Injections of personal funds</b>	24%	29%	38%	40%	35%	34%	31%
0 emp	25%	29%	41%	43%	37%	36%	34%
1-9 emps	23%	28%	35%	33%	30%	29%	24%
10-49 emps	13%	17%	18%	13%	15%	12%	14%
50-249 emps	5%	9%	10%	6%	8%	4%	4%
<b>Any future appetite for finance*</b>	22%	40%	40%	28%	24%	24%	22%
0 emp	22%	39%	40%	30%	24%	24%	21%
1-9 emps	25%	42%	41%	25%	26%	23%	26%
10-49 emps	24%	40%	35%	23%	19%	22%	25%
50-249 emps	25%	34%	21%	15%	16%	12%	14%

\*includes those planning to apply and Future Would-be seekers