Keynote address by Minister Donohoe to Central Bank, ESRI & EIB Webinar 'Enterprise financing and investment in Ireland - tackling the challenges of COVID-19, digitalisation and climate change'

From Department of Finance

By: Minister for Finance; Paschal Donohoe

Published on 19 April 2021

Last updated on 19 April 2021

Check Against Delivery

INTRODUCTION

Thank you to Stephen for your introduction, and to the joint hosts of this webinar, the Central Bank, ESRI and EIB.

Thanks to the Kemmy Business School at the University of Limerick for their support of the event.

Today I would like to talk to you about the financing of our domestic enterprises and how this links to the Government’s economic response to the pandemic, plans for the medium term post-pandemic period, and the structural changes our society and economy must make to achieve the necessary climate and digital transitions.

Speed and scale of response to the supply and demand shocks created by the pandemic has been the leitmotif of our economic response.

Since March last year, we have moved rapidly, using the public sector balance sheet to replace lost private sector demand, in order to ensure that firms, workers and incomes were supported and protected through wage subsidies, deferrals of liabilities and income supports.

Our overarching objective has been to support households and firms, as well as to limit the ‘scarring’, or permanent, effects of the pandemic.

And as we look towards a cautious reopening of the economy over the weeks and months ahead, it is clear from last week’s Stability Programme Update that the relationship between economic activity and public health restrictions has weakened over each successive wave.
The adaptability and innovation shown by businesses and consumers is borne out by the high frequency real-time economic data published by my Department, which shows that the impact of the current set of restrictions is around half that of the spring 2020 lockdown.

Much of this is down to the flexibility of our domestic enterprises.

Firms have innovated and adapted.

Many cafés, restaurants and bars have switched to a take-away service.

There has been a huge shift towards online retailing.

The move to working from home has been extraordinary.

I know from personal experience how difficult that can be, yet businesses up and down the country have adapted and moved on.

Consumers have adjusted too.

Last month’s VAT data, up 8½ per cent on the first quarter last year, shows that people have altered their behaviour.

They are buying local, buying online and have shifted their consumption habits.

The adaptability and innovation shown by businesses and consumers is also borne out by the economic data.

My department publishes high frequency real-time economic data on a monthly basis.

Looking at things like payments data and online shopping, we can see that the impact of the current set of restrictions is, as I have said, around half that of the spring 2020 lockdown.

In the medium—term, the speed at which the economy can recover will, of course, depend on the success of our vaccination programme.

A consistent theme of the IMF and World Bank Spring meetings that I attended recently is that vaccine policy is economic policy.

And our vaccination programme will be the touchstone for the domestic recovery and the prospects for our SMEs.

**SME RESEARCH**

So the key focus of all our efforts has been to bolster our domestic economy and our SMEs.

This is because SMEs are a critical element of Irish society and the backbone of our economy providing the majority of employment across all of the towns and villages in our country.
The Central Statistics Office showed in 2018 that SMEs represented 99.8% of enterprises in Ireland and more that two thirds of all persons are engaged by enterprises, generating 46.2% of total turnover in the private sector.

I welcome research that helps us better understand the complex challenges that businesses may face and that can input into the wider evidence-based policy making process.

As Minister for Finance, I have seen over the past year how timely access to data and economic research has can help to make better decisions in service of the Irish people.

So I strongly support all efforts to enhance our research and data capabilities.

The joint Central Bank-ESRI research paper is a result of an ongoing longstanding productive working relationship between my Department, the Bank and the ESRI, using up-to-date information gathered directly from SMEs as part of the 2020 edition of the long-established Credit Demand Survey.

The new EIB survey on investment in Europe provides an important pan-European dimension to research in this area. And it confirms that Ireland performs well.

So our SME community will be central to our recovery as a nation. We will work with them to get people back to work, building on the strong legacy of our vibrant business community.

In doing so, we will build a stronger, fairer, and more sustainable economy prepared for the next phase of disruptive technologies and on a pathway to a low-carbon future.

**ROLE OF THE GOVERNMENT IN SUPPORTING SMES**

There are over 170 Government business supports potentially available to SMEs. The supportingsmes.ie website is available to help SMEs navigate this range of Government supports and keep up-to-date on related news and events.

As Minister for Finance, one of my responsibilities is to ensure that those viable businesses who wish to access credit from bank and non-bank sources can do so.

This is why the Strategic Banking Corporation of Ireland and Credit Review Office were established.

The SBCI’s role is to provide and promote the provision of credit to SMEs and increase the availability of appropriately priced, flexible funding to viable Irish SMEs.

The SBCI offers a wide range of supports to the SME sector, with current focus on responding to the COVID-19 crisis. In particular, I welcome the SBCT’s work to expand on-lenders beyond the retail banks. This extension means that more SMEs will be able to access credit from an increased diversity of sources in both bank and non-bank credit.

The Credit Review Office supports SMEs who have applications refused or an existing credit facility withdrawn or amended.
SMEs can apply to the Office after exhausting the internal appeals process in the participating institution and, while it cannot compel the banks to lend, it has a strong record of getting decisions changed when it supports the declined borrower.

I would like to use this opportunity to thank the outgoing Credit Reviewer, John Trethowan, for his tireless work over the last ten years and wish him all the best.

Government supports, together with general forbearance from the financial system, including payment breaks, have meant that Irish businesses have not, to date, looked to access credit during COVID-19 restrictions at greater levels than the pre-COVID period.

Of course fundamental uncertainty about the future trajectory of the economy, consumer behaviour and supply chains have played their part too.

The Central Bank’s CBI SME Market Report 2021 published earlier this month shows that SME credit demand remained low, as in previous years, even as applications increased elsewhere in the euro area.

Notwithstanding this, it is expected that SME demand for credit and the use of State-back loans will increase as COVID-19 restrictions are lifted and the economy and businesses reopen.

**BUDGETARY POLICY**

In early March I spoke to the ESRI and highlighted the extraordinary State response to COVID-19, using counter-cyclical policy to respond visibly and decisively.

This counter-cyclical approach has only been possible as a result of the careful management of the economy and the public finances in recent years.

Before the onset of the COVID-19 pandemic last year, our public finances were in good shape.

Ireland entered the Covid-19 crisis from a position of strength.

Banks and SMEs came into this crisis healthier than they did the financial crash.

We had a budget surplus, robust growth, cash reserves and a labour market that was close to full employment.

Our problem then was the potential overheating of our small open economy.

However, just over one-year on and there are over 900,000 people on some form of State income support.

With a value of almost €38 billion, or nearly a fifth of national income (GNI*), the budgetary support provided by Government to tackle the economic impact of the pandemic has been extraordinary.
We have utilised the full suite of budgetary supports including direct expenditure, taxation measures and so-called ‘below the line’ supports, such as loan guarantee schemes.

The COVID-19 Credit Guarantee Scheme is the largest loan guarantee scheme in the history of the State.

As the majority of businesses utilising the scheme are micro businesses and the sectors most active are Retail, Accommodation, Agriculture and Construction, jobs throughout the country, often in areas without a multinational presence, will be retained.

While almost 4,000 loans have been drawn to a value of more than €238 million, there is plenty of lending capacity available in this scheme and I would encourage SMEs to use this scheme to obtain loans at interest rates below market rates as they look to re-open their businesses.

The Future Growth Loan Scheme has also been very successful. This €800 million Scheme has demonstrated the market appetite for longer term credit of 7 to 10 years that enables strategic investment by eligible businesses.

The Microfinance COVID-19 Business Loan Scheme, designed to support microenterprises that do not meet the conventional risk criteria applied by commercial lenders, has seen a very strong uptake with €21.8 million in loans approved since its introduction to 848 businesses. This represents four times its normal annual lending rate.

For SMEs and small midcaps, equity financing options can be explored via State supported initiatives, such as Enterprise Ireland’s Seed and Venture Capital Scheme or the Halo Business Angel Network.

**EUROPEAN APPROACH**

Overall, Ireland’s budgetary response has been among the most significant within the EU.

However, as Eurogroup President, I am keenly aware that any talk of investment or recovery cannot be seen solely in national terms.

The EU’s supportive fiscal policy stance, combined with the suspension of fiscal rules and the establishment of a temporary framework for state aid, have allowed governments to put in place unprecedented levels of budgetary support.

And another key factor underpinning our ability to support the economy at this scale has also been the monetary policy response of the ECB, which has facilitated the fiscal action of Member States like Ireland.

Next Generation EU, including the Recovery and Resilience Facility, is a flagship joint response.

It encompasses a €750 billion temporary recovery instrument to help repair the immediate economic and social damage brought about by the coronavirus pandemic.
It is designed to ensure that post-COVID-19 Europe, and in turn SMEs, will be greener, more digital, more resilient and better fit for the current and forthcoming challenges.

There is unanimous support from Eurogroup colleagues for ongoing fiscal support across the euro area into 2022 and the need to avoid premature withdrawal of budgetary support.

**REOPENING IRELAND**

Since last Monday we have seen the Government’s implementation of a phased easing of restrictions.

This cautious approach will continue until a substantial level of vaccination has been achieved, at which point we will move to reopen our society more widely. The Government will continue to be agile in the policy decisions to help affected businesses and workers.

Nonetheless, we are committed to restoring the public finances to a sustainable trajectory and ensuring that Ireland does not become a fiscal outlier as we emerge from the pandemic period.

Therefore, once the public health situation allows, supports will be unwound in an appropriate and incremental way.

There will be no cliff-edge in the removal of support.

Supports will continue for as long as is necessary to ensure a strong recovery.

We have not fought this pandemic and its economic fallout for over a year on a scale that is unprecedented in Irish economic history just to fall at the final hurdle.

As businesses get back on their feet and beyond the immediate challenges of COVID and Brexit, we must prepare for the longer-term, by setting out a sustainable and strategic vision for our SMEs and entrepreneurs.

For the past year, the focus of our supports has been to protect, workers, firms, jobs and incomes.

As we start to reopen, we need to build into those supports mechanisms to help businesses thrive as our economy’s structure adjusts to the challenges of climate change, digitalisation and broader technological change.

**DIGITALISATION**

It is crucial that we empower SMEs to keep pace with the digital transformation of the global economy and avail of the opportunities that come with it.

While COVID-19 has undoubtedly accelerated some of this transformation, we need to continue to encourage this process through the appropriate policy interventions.

Over the medium-term, an important but still open question relates to the extent of any permanent damage to the productive capacity of the economy from the pandemic.
At this stage, the evidence base is extremely limited and the scale of ‘scarring’ will only become clear over time, as more data become available.

My Department will continue to monitor this closely and work with our research partners to build the evidence base.

The more widespread adoption of new technologies and ecommerce by consumers and firms has likely cushioned the impact of the most recent lockdown and suggests that there is potential for a boost to future productivity from this ‘digital dividend’.

However, the potential for further adaptation to restrictions is of course considerably more limited in industries dependent on physical proximity, such as personal services and hospitality.

CLIMATE CHANGE

Addressing the challenge of climate change is a key priority for Government.

The Programme for Government commits us to an average 7% per annum reductions in overall greenhouse gas emissions from 2021 to 2030, and to achieving net zero emissions by 2050.

The updated Climate Action Plan will identify and set out the far reaching policy changes across every sector to deliver the necessary emissions reductions.

While the enterprise sector does not account for a major proportion of our total emissions, at approximately 13%, it will play a critical role in managing and achieving the transition to a low carbon economy by driving innovation in other sectors, such as transport and agriculture and being the “agents of change”.

Building sustainable low carbon businesses is becoming increasingly imperative. Early movers will be best placed to be competitive whereas those who delay will face rising costs. Innovation will be a powerful tool in addressing the decarbonisation challenge.

In terms of business supports, the SBCI is currently engaging with lenders to develop a custom product for SMEs for energy efficiency measures and is investigating how it will include climate action elements within future loan guarantee and liquidity schemes.

CONCLUSION

I would like to conclude by once again thanking the Central Bank, ESRI and EIB for inviting me to speak at what is an important event, showcasing research that can help us better understand the needs and challenges facing SMEs.

SME policy is a cornerstone of Government policy, given the vital importance of the SME sector to the economy.

The Government is committed to supporting our SME sector who are facing the twin challenges of Covid-19 and Brexit. But beyond immediate challenges, we are focussed not just on recovery and getting people and businesses back to work, but also in building a
stronger, fairer, and more sustainable economy prepared for the next phase of disruptive technologies and on a pathway to a low-carbon future.

Thank you.

Ends