

ESRI SPECIAL ARTICLE

Irish small firm financing: Where are we 20 years since the financial crisis?

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Abbreviations

ECB	European Central Bank
GVA	Gross Value Added
SAFE	Survey on Access to Finance for Small Firms
SBCI	Strategic Banking Corporation of Ireland
SMEs	Small and Medium Enterprises

1 Introduction

The impact of credit markets on economic activity came to the fore in Ireland following the 2007 global financial crisis. Significant challenges in the banking sector led to a severe contraction in credit availability, in particular for small- and medium-sized firms. During the crisis, this credit crunch had an impact on investment activity and employment (Gerlach-Kristen et al., 2015), and caused considerable financial distress (Lawless et al., 2015). The collapse in the banking sector led to systemic changes in financial intermediation such as competition issues and market exits, changing risk appetite and new macro- and micro- prudential regulations.

Since the financial crisis, the Irish economy has recovered and grown robustly, even in the face of the repeated economic shocks of recent years (Brexit, COVID-19, the war in Ukraine). However, credit levels in the economy have not recovered to the same extent. Indeed, recent research has pointed towards lower than expected investment by Irish small firms and a continued reliance on internal funds when financing capital outlays (Lawless et al., 2020; Gargan et al., 2024).

To attempt to better understand the credit landscape in Ireland for small enterprises nearly 20 years on from the onset of the financial crisis, this research paper revisits trends in credit access and places these trends in a pan-European context. It also explores some of the major SME bank financing policy changes that have occurred in Ireland since the onset of the financial crisis, and places these changes in the context of developments in the operating landscape for firms.

More specifically, using data from the ECB survey on access to finance for small firms (SAFE), the paper reviews trends in credit applications, credit rejections and discouraged borrowers for a range of financing types, including bank loans, credit lines and overdrafts, trade credit and other external financing. The research also considers heterogeneous impacts across different types of firms (by age, size and sector of activity). Furthermore, it draws on more detailed econometric work by Coates et al. (2025) and considers the policy implications of this research.

A number of findings emerge. Credit demand by SMEs the across euro area peaked following the financial crisis and has been declining ever since. This downward trend is likely to reflect the financial disruption, with firms applying to replace existing credit lines and seeking emergency working capital as the banking sector and economy collapsed.

However, even controlling for firm-level, macroeconomic and other factors such as interest rates and the structure of banking sector, [Coates et al. \(2025\)](#) show a downward trend in demand over time. This is potentially a worrying sign when correlated with Europe's well-known investment gap and productivity challenge.¹ These trends are mirrored in the data for Ireland.

There are two clear differences between Ireland and other countries. Irish firms have a higher demand for trade credit and a lower demand for bank loans than that found in other countries. Bank loan demand has not risen substantially, even with very strong recent economic growth domestically. This finding supports recent research ([Lawless et al., 2020](#)) that continues to show a reliance on internal funds, and is also supported by case study data undertaken for this paper on retail firms in Ireland. In market-based systems like the United States, firms benefit from a diversified financing landscape where bank lending is supplemented by deep capital markets, including venture capital and corporate bonds. In contrast, the European ecosystem remains predominantly bank-based. For most European firms, especially SMEs, bank credit is the primary source of external finance, with fewer viable alternatives in the capital markets. This greater bank dependency means that bank lending conditions are a major determinant of firm investment and growth in the euro area. The fact that bank loan demand in Ireland is significantly lower in an euro area context is concerning as it suggests a potential mismatch between the banking sector and the needs of domestic firms.

Furthermore, Ireland's banking sector for small firms has higher interest rates than other euro area countries. In theory, interest rates can be thought of as a combination of four factors: the cost of funds for the bank; the administrative costs of the bank; a risk premium that captures the

¹ This was outlined in the Draghi report, which presented challenges to European future growth rate through low investment and productivity.

probability of default by the firm; and the mark-up or profit of the credit institution, which reflects their level of market power. SME lending often relies on relationship-based banking and the collection of soft information, through which banks gradually learn about borrower quality over time (A. N. Berger and Udell, 1995). Therefore, lending to smaller firms typically involves relatively high administrative and monitoring costs, reflecting the opacity of small enterprises and the need for banks to invest in costly screening and ongoing oversight in the absence of hard financial information. In addition to that, interest rates might also reflect borrower risk characteristics such as profitability, leverage and collateral availability, as well as banks' funding conditions and technologies (A. Berger and Udell, 2006). This Special Article does not attempt to identify the specific drivers of the level of interest rates in Ireland, but instead focuses on analysing trends in credit demand and supply. Coates et al. (2025) show that, controlling for firm characteristics and macroeconomic developments, higher interest rates and lower competition in the Irish banking system have suppressed demand and likely explain, in part, the lower bank finance usage in Ireland in recent years.

In terms of the ongoing reliance on trade credit, this may have impacts for the efficiency of financial intermediation. These credit facilities are not as flexible as other working capital as they are tied to the firm's existing supply chain and they shift risk from the providers of this finance to the firms themselves, as well as their suppliers. Furthermore, trade credit usage is often not a good substitute for bank financing, in particular for investment goods, given the term, size and cost of this financing relative to bank credit.

Over and above trade credit usage, aggregated data and external research have shown that non-bank financing in Ireland has increased notably in recent years and now accounts for half of the volume of new credit (CBI, 2025b). Recent research (McCarthy and Ramírez, 2025) indicates that this is likely to be directed towards borrowers who otherwise would be excluded rather than directly as price competition to the banking sector.

On the supply side, in terms of rejection rates, there is a clear downward pattern for all Irish firms over the period since 2013; this is consistent with the pattern observed in other euro area countries. This pattern holds even

after controlling for firm-level characteristics and macroeconomic factors in Coates et al. (2025). Young Irish firms are shown to have substantially lower rejection rates than their euro area counterparts, while Irish micro firms exhibit higher rejection rates, specifically for bank loans and other financing. Within Ireland, there are still differences between firms with higher rejection rates for micro- and young firms relative to their older and larger counterparts. While part of these differences are likely to be explained by factors including credit worthiness, typically young firms without a track record can find it difficult to convince external financiers. As these firms are often the fastest growing, any impacts can cascade in terms of the broader economic impacts if they are financially constrained.

At the same time, discouraged borrowers (firms that did not apply due to fear of rejection) are lower in Ireland than the euro area average. Coates et al. (2025) show this relationship remains robust even after accounting for firm-level characteristics and macroeconomic factors.²

It is worth considering what can reconcile the three broad findings of this paper: a) Irish SMEs are experiencing a lower level of bank loan demand; b) a higher trade credit usage; and c) falling rejection rates. The general explanation for this triple finding relates to both general economic developments since the financial crisis as well as the structure of the banking sector. First, as the economy has recovered, credit risk has likely declined and firms' fundamentals have improved. This is likely to generate more internal funds but also to facilitate greater levels of credit allocation by banks.

Second, and specifically relating to the banking sector, the Irish financing system has been shown to experience higher interest rates, driven in part by weak competition following the post-crisis consolidation of the sector (McCann and McIndoe-Calder, 2012). In effect, the weak competition and the high price for credit manifest not as credit denial but as credit priced at levels that suppress demand, with SMEs substituting toward trade credit as an alternative, and typically less efficient, form of financing characterised by

² It is worth noting that the discouraged borrower indicator does not capture price-based voluntary exclusion: firms that choose not to seek bank credit because prevailing interest rates and lending terms are unattractive (for example due to low competition).

shorter maturities and smaller amounts. These findings are underscored by the scenario analysis in Coates et al. (2025) in which they show that if interest rates and competition in Ireland were aligned with euro area countries, demand for bank credit would be significantly higher. This combination of improved economic conditions and structural banking sector challenges can go a considerable distance in explaining the triple finding.

Finally, this paper considers the policy changes that relate to bank financing for enterprises since the onset of the crisis. More specifically, it takes a brief look at the credit guarantee schemes, the Strategic Banking Corporation of Ireland's (SBCI) activities, as well as the role of Microfinance Ireland. A majority of the existing policies such as credit guarantee schemes and the SBCI's on-lending facilities primarily address quantity constraints by reducing lender risk or providing wholesale funding through intermediaries. However, the results of our analysis suggest more of an emphasis on the level of the interest rates as well as competition in the market. Policies that directly target the price of credit would be well suited to the specific friction our analysis identifies. Furthermore, the evidence presented in this paper points to the need for greater support for young and micro firms, which face the greatest financing challenges in the Irish credit market.

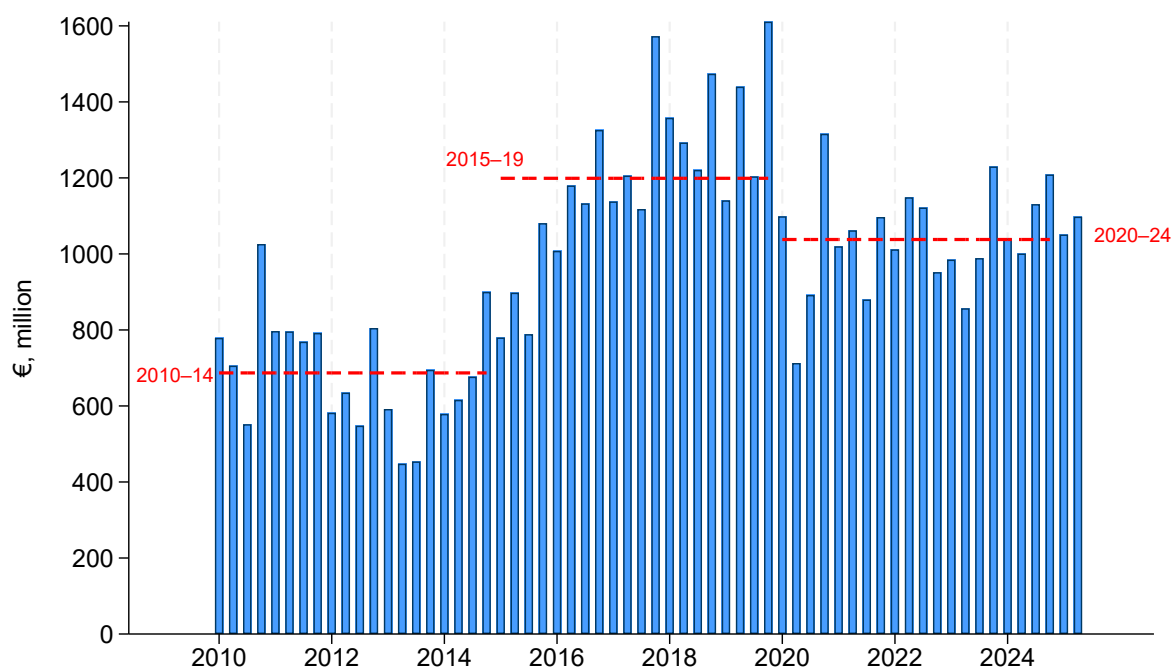
Further research into Ireland's relatively high cost of credit compared to the euro area average and barriers to entry for private banks will be valuable. International evidence, however, suggests that even when such barriers are well understood and addressed, improvements in SME credit conditions may be slow to materialise. For example, in Italy, Bofondi and Gobbi (2004) shows that entrant banks face persistent informational disadvantages relative to incumbents, as their applicant pools contain a disproportionate share of previously rejected borrowers. As a result, new entrants cannot immediately compete on price and may initially charge higher rates to reflect higher default risk. In the interim, exploring measures such as the direct lending facilities supported by state-backed agencies in several European countries merits consideration as a means of increasing the financing options available to SMEs with unmet demand. Other longer term policies aimed at fostering competition as well as the completion of the European savings and investment union should continue to be of focus to policymakers. New entrants through digital disruptors or non-bank finance

may expand financing options going forward and represent an additional important avenue for future research.

2 Background and overview

In this section, we provide a brief overview of trends in credit and new lending to SMEs in Ireland to contextualise the more granular, micro-level research in Section 3. We also consider cross-country trends in interest rates for SMEs and small loans to understand broad pricing trends for bank finance to firms.

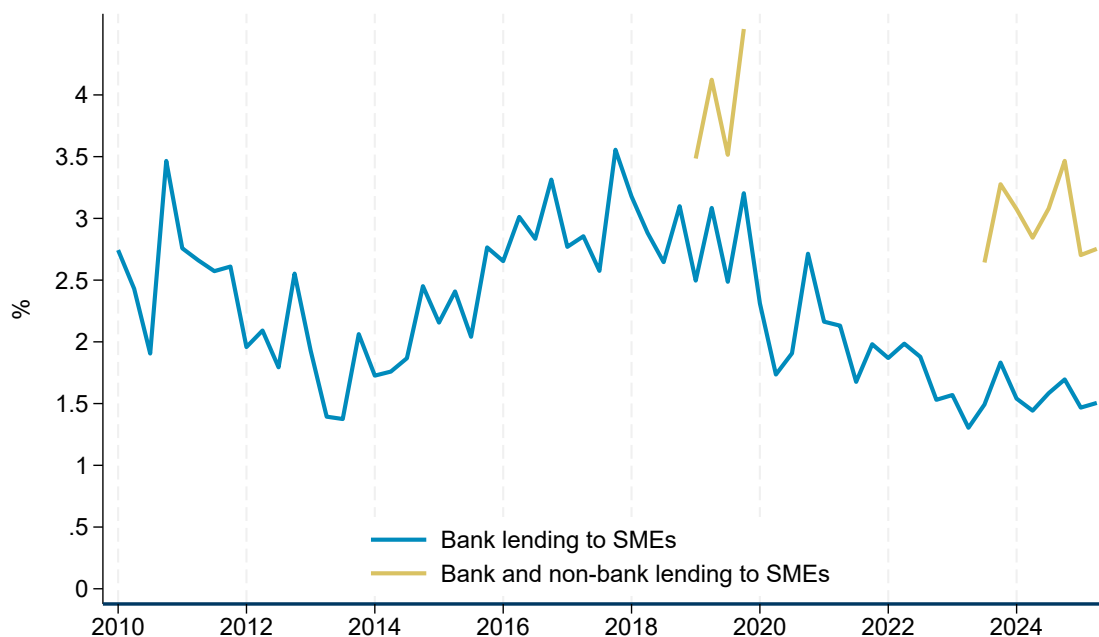
The level of new lending to SMEs varied substantially over the period 2010 to 2025 (Figure 1). From 2010 to 2015, credit remained low, averaging €680 million per quarter. Between 2015 and 2020, new lending increased quite quickly and remained at a high level, with an average of €1.2 billion per quarter. Since 2020, new lending has settled at a lower level of around €1 billion per quarter.

FIGURE 1: NEW LENDING TO SMES

Source: Central Bank of Ireland (*SME and Large Enterprise Credit and Deposits - Table A.14.1*)

New lending to SMEs as a percentage of gross value added (GVA) in the domestic sectors of the economy follows a similar pattern (Figure 2).³ Despite an increase in this share over 2015–2017, this measure was flat over 2018–2020, and has trended downwards since 2020. It is currently lower than it was in the period following the financial crisis. It is clear that the strong growth in output from the domestic sectors has not been accompanied by higher levels of new lending.

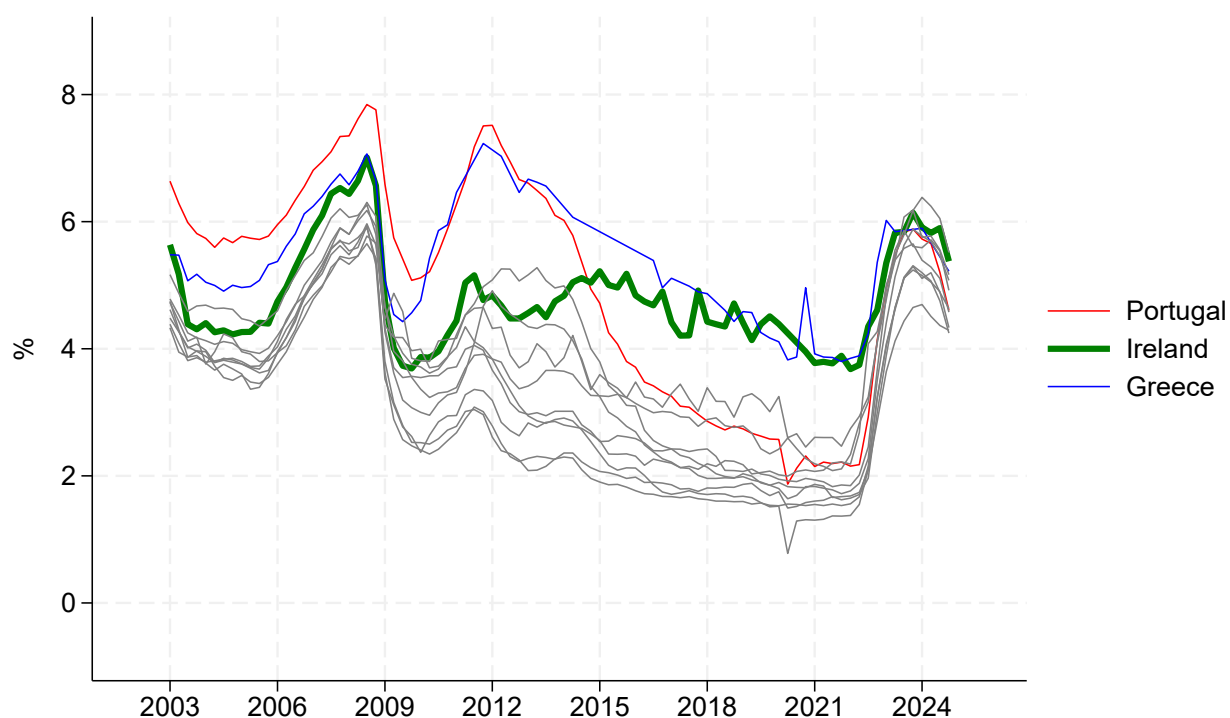
³ Domestic GVA is the relevant base for such a comparison because it excludes the foreign-dominated sectors where headline GVA can include large amounts of depreciation and other distortions.

FIGURE 2: NEW LENDING TO SMES AS A SHARE OF GVA FROM DOMESTIC SECTORS

Sources: Central Bank of Ireland (SME and Large Enterprise Credit and Deposits – Table A.14.1), CBI (2025b), and Central Statistics Office (Quarterly Gross Value Added in domestic sectors at current prices)

It is this puzzle, and the policy context surrounding it, that this paper seeks to explore in detail. What explains the combination of continued growth in output and flat to declining levels of new bank lending?

This question should be considered in the context of the structure of the banking sector and the credit landscape faced by SMEs. For instance, interest rates offered to SMEs are typically higher than the euro area average. Figure 3 shows the development over time of Irish interest rates on loans with a value less than €1 million. Portugal and Greece are also highlighted as examples of countries with interest rates notably higher than the average over certain periods.

FIGURE 3: INTEREST RATES ON LOANS <€1M

Source: Eurostat

Note: The Eurostat series refers to loan size rather than firm size but the rates are comparable to the Central Bank of Ireland series for loans to SMEs.

In Coates et al. (2025), we consider the impact of these structural differences in the banking landscape between Ireland and other euro area countries empirically. A counterfactual modelling exercise suggests that, controlling for firm characteristics and macroeconomic factors at the country level, demand for bank loans would have been approximately 12 per cent higher in the 2010s if Irish interest rates for SMEs had converged to the average level of the countries included in the survey.

In addition, the level of concentration in the banking sector with respect to lending to SMEs is high in Ireland.⁴ The Central Bank of Ireland finds that 100

⁴ Headline measures of concentration in the banking sector do not capture the extent of concentration because of the role of international credit institutions and the relative volumes of borrowing by large multinationals compared with SMEs. It is necessary to focus explicitly on SME lending.

per cent of bank lending to SMEs in the second quarter of 2025 was from the five largest banks (CBI, 2025a). This concentration is also highlighted as an issue by the participants in a case study exercise conducted by the Department of Enterprise, Trade and Employment; see Box A below.

On the other hand, the role of non-bank finance is growing, which may mitigate the effects of the concentrated bank lending sector to some degree. Total new non-bank lending has increased from €2.1 billion in 2019 (Heffernan et al., 2021) to €4.3 billion in 2024 (CBI, 2025b). Figure 2 shows that this growth has not been large enough to offset the drop in bank lending as a share of domestic GVA.

McCarthy and Ramírez (2025) examine whether non-bank lending is providing competition to existing bank lenders or expanding access to credit among previously excluded borrowers. Comparing interest rates on observably similar loans, they find that non-bank rates are, on average, 58 basis points *higher* than bank rates. Specifically, loans associated with real estate and construction, which account for approximately 50 per cent of non-bank lending in recent years, carry a substantially higher premium. The authors indicate that this potentially suggests that borrowers in these sectors are turning to non-bank lenders, not because they offer a more competitive alternative to banks, but because they cannot obtain bank financing at the same price. In this way, the authors conclude that non-bank lenders appear to be primarily serving a different segment of the credit market rather than competing for existing bank customers.

In summary, lending to Irish SMEs has fallen as a share of output in domestic sectors, while it is clear that Irish SMEs operate in an environment of weaker bank competition and higher interest rates compared with euro area peers. The suite of policies applied to SME credit access is considered in more detail in Section 4. First, Section 3 outlines the survey data analysed and presents findings relating to credit demand, discouragement and credit constraints.

3 Data, indicators and key trends

3.1 Overview of data and indicators

This paper uses data from the European Central Bank's (ECB) Survey on the Access to Finance of Enterprises (SAFE). Initially launched in 2009, the survey evolved from semi-annual rounds with a restricted number of euro area countries, to broader 'common rounds' covering 20 euro area countries, 7 additional EU Member States, and some other countries. For consistent comparison, the paper focuses on 12 euro area countries that have consistently participated (Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Portugal, Slovakia, and Spain), with more than 280,000 firm-level observations. Firms vary by size (micro to large) and operate in four sectors. These are:

- Industry (NACE sectors B–E: mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities);
- Construction (NACE F);
- Trade (NACE G: wholesale and retail trade; repair of motor vehicles and motorcycles); and
- Services (an aggregated category comprising sectors H–N: transportation and storage; accommodation and food service activities; information and communication; real estate activities; professional, scientific and technical activities; and administrative and support service activities).

Firms in Agriculture, forestry and fishing (NACE A), Financial and insurance activities (NACE K), and Public administration and defence (NACE O), Education (NACE P), and Human health and social work activities (NACE Q) are excluded.

SAFE collects detailed information on whether firms apply for credit, the outcomes of those applications, and a wide set of firm characteristics, including size, age, profitability and employment activity.

This paper explores firm access to finance by examining five indicators: credit demand, credit applied, credit constraint, credit denial and discouraged borrowers. These indicators are constructed using firm responses to specific questions within the SAFE survey.

On the demand side, firms are asked if they have applied for the following types of financing in the past six months: a) bank loan, b) trade credit, c) other external financing or d) credit line, bank overdraft or credit cards overdraft. For each credit type, firms were asked to select one of the following responses: 1) they applied, 2) they did not apply because of possible rejection, 3) they did not apply because of sufficient internal funds or 4) they did not apply for other reasons. Firms applying for any of these types of credit fall into our credit applied indicator, and those that did not apply due to fear of rejection are considered discouraged borrowers. Overall credit demand comprises both actual credit applications and discouraged borrowers.

On the supply side, after applying for financing, firms are asked about the outcome of their application. Possible responses include: a) receiving the full amount, b) receiving 75 per cent or more, c) receiving less than 75 per cent, d) rejecting the offer due to high cost, e) being fully rejected, or f) still waiting for a decision. If a firm's response falls under categories c, d, e or they did not apply due to fear of rejection, they are considered credit constrained. Meanwhile, credit denial includes firms that applied for credit but were either rejected outright or received less than 75 per cent of the requested amount.

This framework, informed by the methodology developed by Ferrando et al. (2013) and applied to the Irish context by Holton and McCann (2012) and Gerlach-Kristen et al. (2015), allows us to systematically separate supply-side from demand-side drivers of the financing patterns observed in our data.

Table 5 in Appendix 1 contains further detail on the definition of each indicator.

3.2 Trends in key indicators

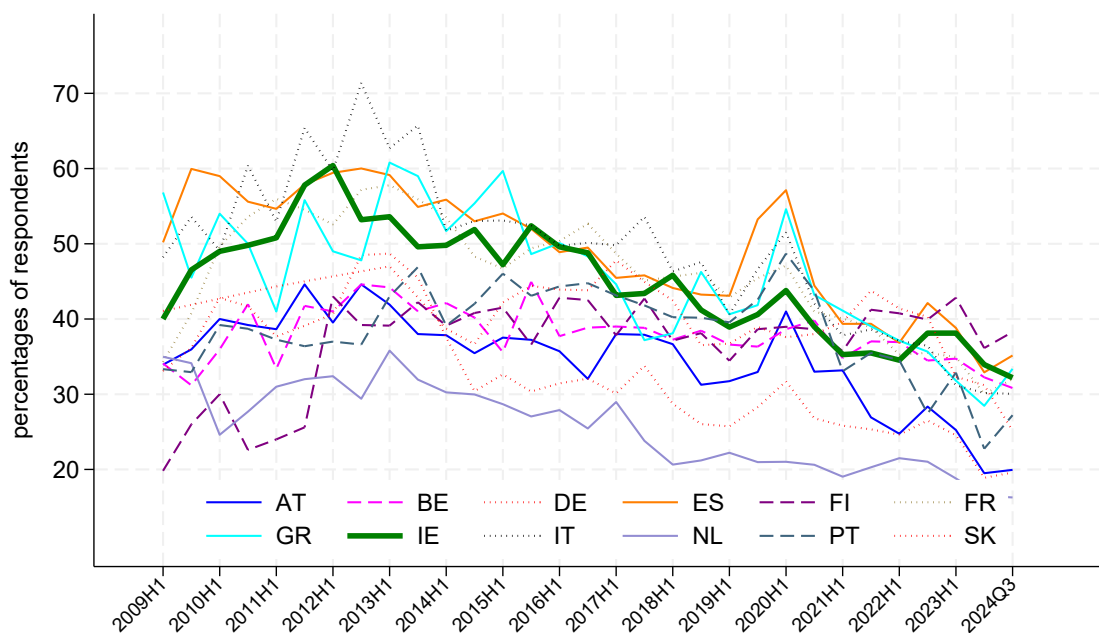
In this sub-section, we present the key trends across credit demand and credit supply, and explore these developments by firm and financing type. The heterogeneity is important as access to finance challenges can often be concentrated across particular groups of firms or enterprises (A. Berger and Udell, 2006) and thus the policy response needs to be carefully targeted.

Credit demand

As outlined above, the indicator for credit demand is straightforward to interpret. If a firm applied for credit, or if they indicated a willingness to apply but did not apply out of fear of rejection, they are deemed to have credit demand. The following section presents the overall trends in credit demand for 12 euro area countries and examines whether these trends differ by financing type.

The overall trend shown in Figure 4 is one of gradual decline in credit demand as euro area economies recovered from the global financial crisis. However, there is significant variation, both between countries and between survey rounds within countries. Irish credit demand is towards the higher end of the range of countries throughout the period 2009–2024.

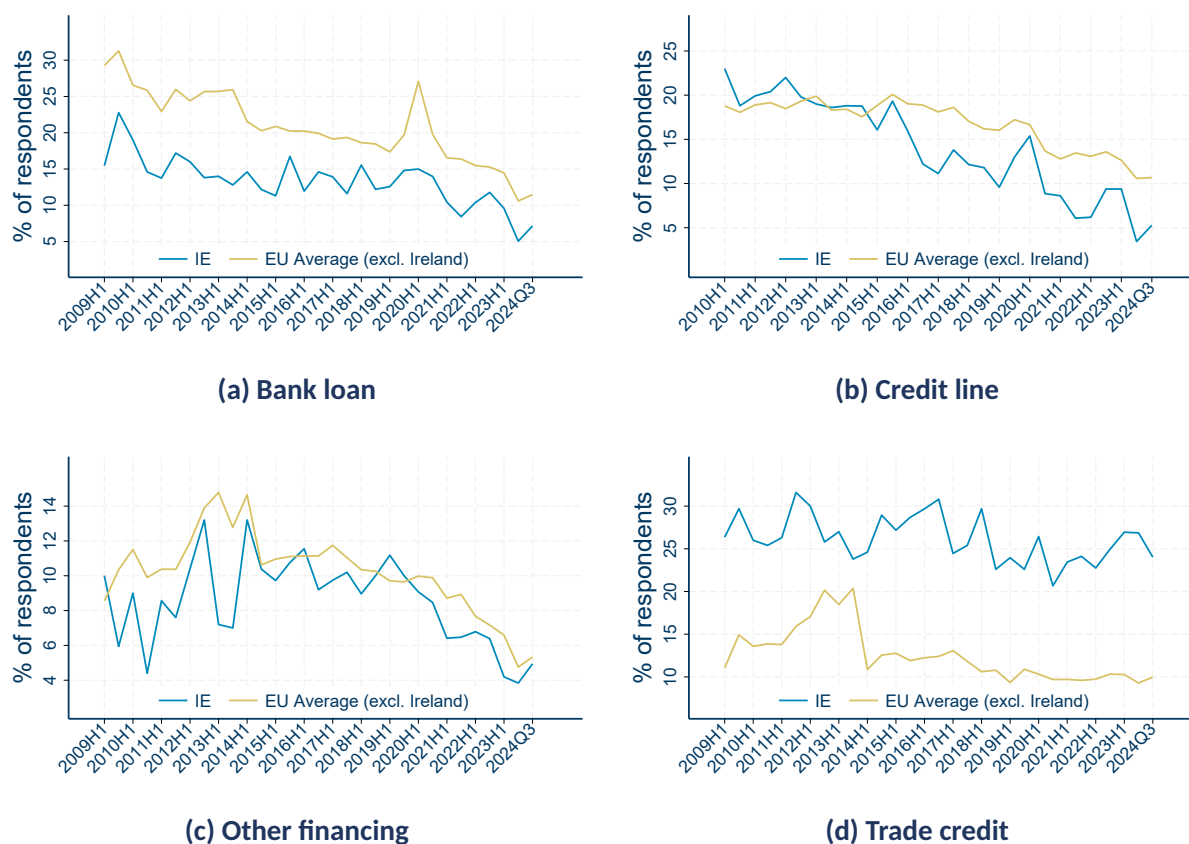
FIGURE 4: CREDIT DEMAND ACROSS EUROPE



Source: SAFE survey

Credit applications

While the trend in aggregate credit demand in Ireland mirrors that of the broader euro area, this may mask differences in financing types across countries. To understand this in more detail, we explore the differential trends in Ireland relative to other euro area countries by type of financing. Four types are presented in Figure 5: bank loans, shorter term credit lines, trade credit and other financing. It is clear that the relatively high share of Irish firms applying for credit is a function of the differential demand patterns across financing types in Ireland, compared to other euro area countries.

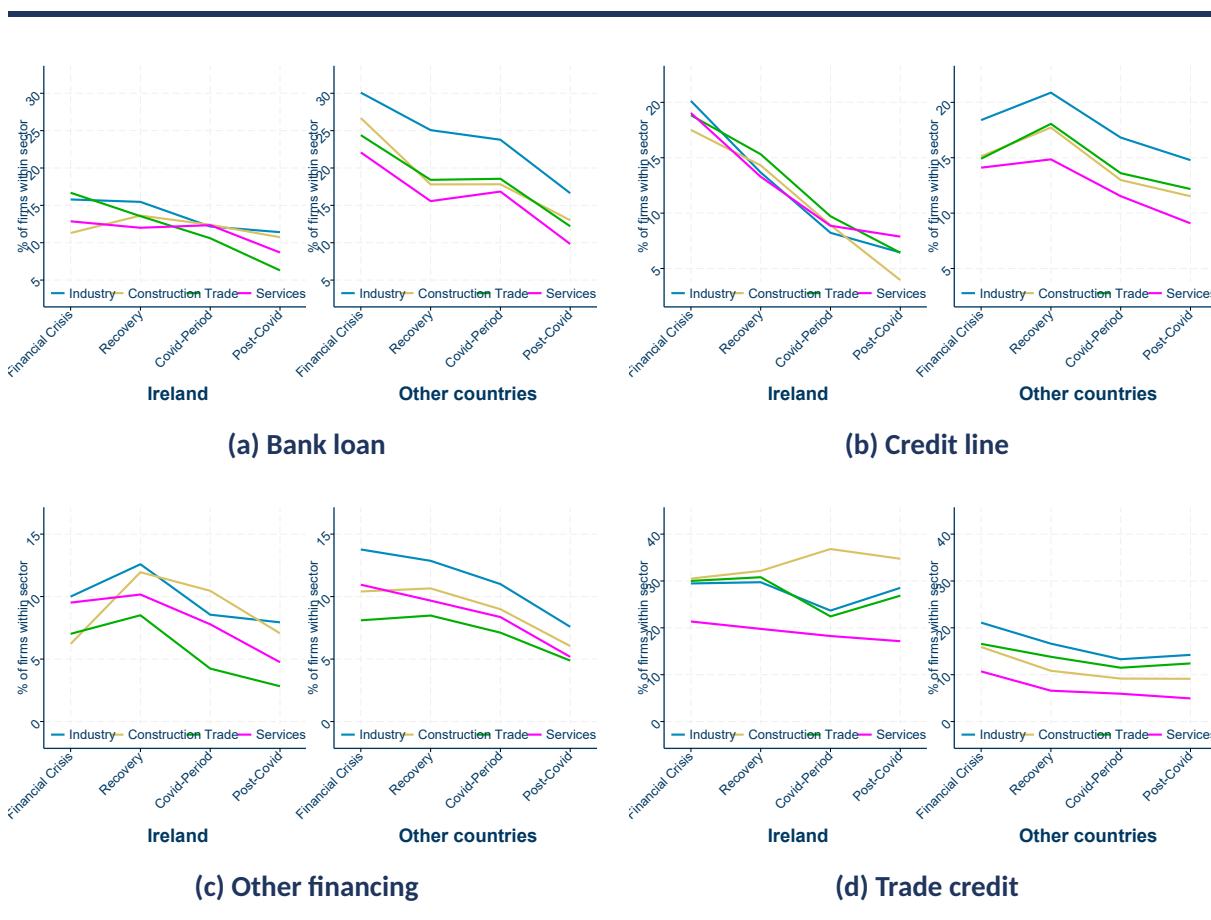
FIGURE 5: CREDIT APPLICATIONS ACROSS FINANCING TYPES

Source: SAFE survey

More specifically, Irish firms exhibit stronger demand for trade credit facilities relative to other countries; this has remained the case throughout the period (Panel d). For bank loans, while a downward trend has been evident for both Irish and euro area enterprises, Irish firms clearly have lower demand for bank loans and credit line (Panels a and b). These patterns hold in our modelling exercise (Coates et al., 2025), even after controlling for firm-level characteristics and macroeconomic variables. For other external financing (which includes equity financing and other external funding sources), Irish firms appear to have demand trends similar to that of other countries (high demand following the financial crisis and a subsequent moderation overtime).

Looking at the total applications across financing types hides important heterogeneity. Different sectors have specific financing needs and firm size can impact credit trends. Firm age also matters; for example, younger businesses might face challenges accessing to bank loans relative to their older counterparts. Exploring applications across these groups of firms will aid understanding of the differences in financing needs and challenges among businesses, and how these preferences differ between Ireland and other euro area countries.

FIGURE 6: CREDIT APPLICATIONS ACROSS SECTOR



Source: SAFE survey

Figure 6 reveals distinct preferences in financing sources across four sectors: industry, construction, trade and services. In euro area countries excluding Ireland, bank loans are the most preferred option across all sectors, followed by applications for credit lines. Across all credit types, industrial firms apply

more often, in relative terms, than firms in other sectors. The trends in Ireland however, differ significantly from the patterns in the euro area. In Ireland, the most preferred financing facility is trade credit. Applications for trade credit are consistently higher than the average in all four sectors. Specifically, construction shows the highest reliance on trade credit, with one-third of firms applying. Firms in industry have the highest credit demand for bank loans, while credit lines are most sought after by services firms.

There is a gradual downward trend over time, in credit demand among old and young firms for all finance types (Figure 7). Across the euro area, old firms generally show a stronger tendency to seek bank facilities and trade credit, while young firms are more inclined towards other financing relative to their older peers. In Ireland, however, older firms tend to seek bank financing less frequently than the euro area average, while demand for credit lines by younger firms has nearly converged to the average. Specifically, since the COVID-19 period, young Irish firms have shown increased demand for bank loans relative to their euro area peers. In terms of trade credit, beside the fact that this is the most sought after financing type by both young and old firms in Ireland, younger firms tend to rely more on this type of credit than older ones.

FIGURE 7: CREDIT APPLICATIONS ACROSS FIRM AGE

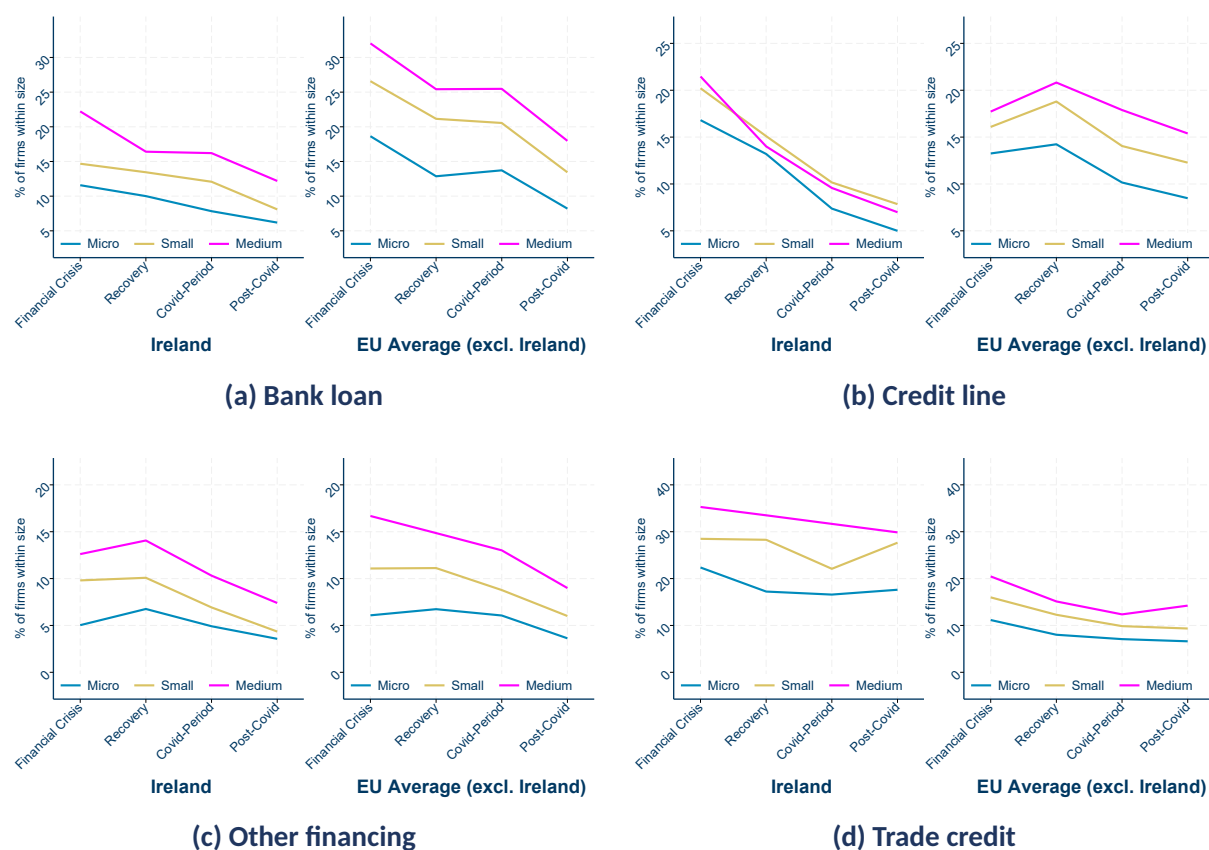


Source: SAFE survey

Across the euro area, bank loans and credit lines are the most preferred financing options among firms of all sizes (Figure 8). Meanwhile, Irish firms consistently show much stronger demand for trade credit compared to the average, with around 30 per cent of medium firms, 30 per cent of small firms and about 20 per cent of micro firms applying.

In the euro area generally, medium-sized firms are seen to have the highest share of applications for all types of financing; however, this pattern does not hold true in Ireland. Small Irish firms have a higher share of applications for credit lines relative to medium-sized firms.

FIGURE 8: CREDIT APPLICATIONS ACROSS FIRM SIZE



Source: SAFE survey

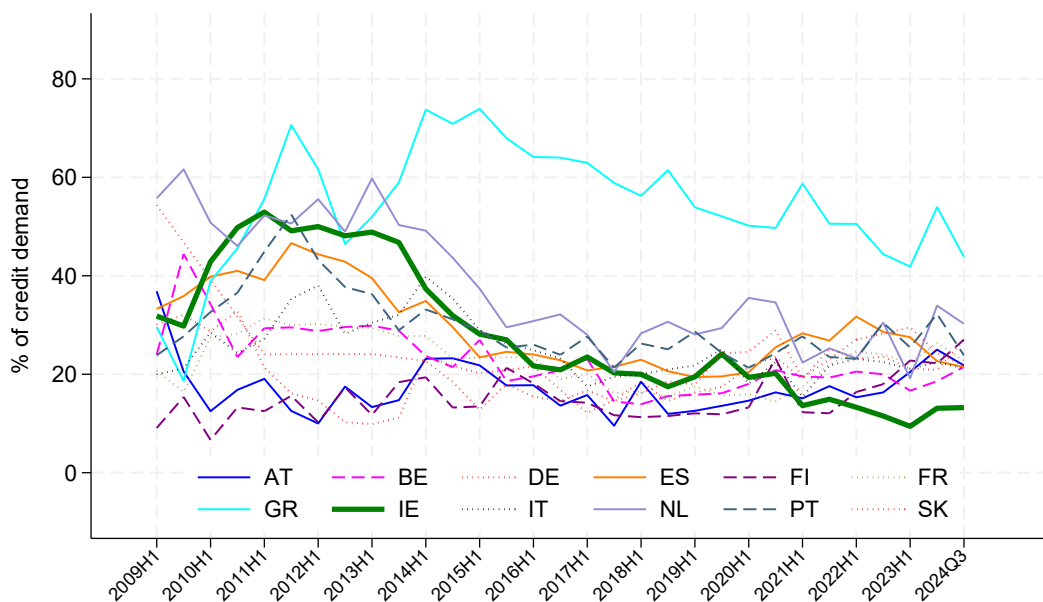
Credit constraints

In this sub-section, we briefly outline the general trends in credit constraint indicators overall and, as above, by financing type and firm type.

Following a significant increase during the global financial crisis in most euro area countries, there has been a general and sustained fall in credit constraints over time across euro area countries in the sample since the euro area economic recovery began in 2013 (Figure 9). However, the trend has slightly reversed since COVID-19 for some countries. Credit constraints in Ireland mirror those in the broader euro area. However, the decline in rejections for Irish firms has been more pronounced. Credit constraints in

Ireland rose during 2020 and 2021, before falling to the lowest in the euro area by 2023.

FIGURE 9: CREDIT CONSTRAINT BY COUNTRY OVER TIME



Source: SAFE survey

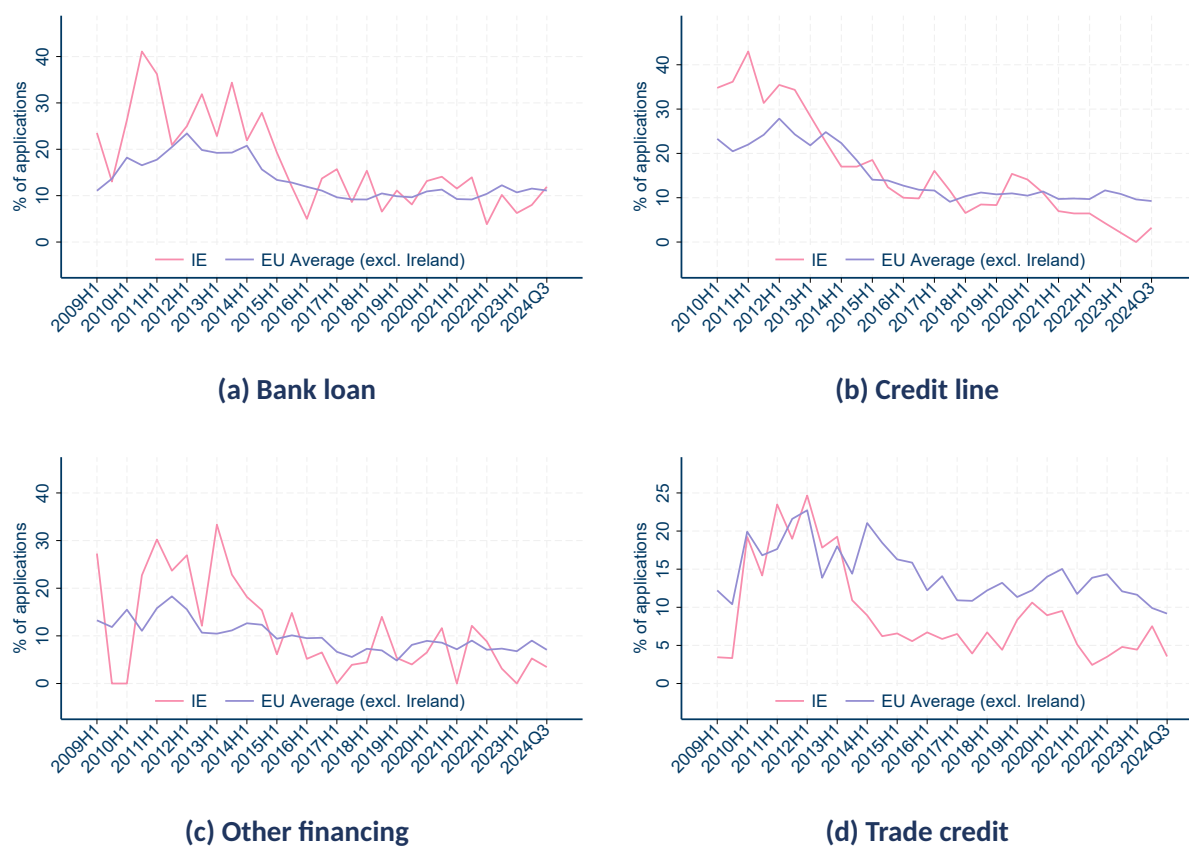
The trends in our broad indicator of credit constraints include both firms who have been rejected and those classified as discouraged borrowers. These latter firms have indicated they would like financing but are not willing to apply for it. It is plausible that discouraged borrowers may have different observable characteristics compared to firms experiencing credit rejection. For example, these borrowers may react differently to factors such as the perception of uncertainty in the market or the perception of the banking system's willingness to lend. These potential borrowers have been examined in more detail in Ferrando and Mulier (2015).

Here, to explore whether these type of firms are affecting the overall trend, we analyse separately firms who experienced credit denial and those who were discouraged.

Credit rejection and credit denial

Throughout the sample period, there has been a fall in the share of credit-denied firms across all types of financing, both in Ireland and across euro area countries (Figure 10). While the fall in credit denial in Ireland mirrors the overall trend, there are notable differences in the level and pattern across financing types. Although rejections have declined substantially since the financial crisis, rejections for bank facilities in Ireland have actually increased since 2023. This leaves Ireland with a slightly higher rate of denials for bank loans, while still maintaining a lower level of denials for other financing options, compared to the euro area.

FIGURE 10: CREDIT DENIAL ACROSS FINANCING TYPES



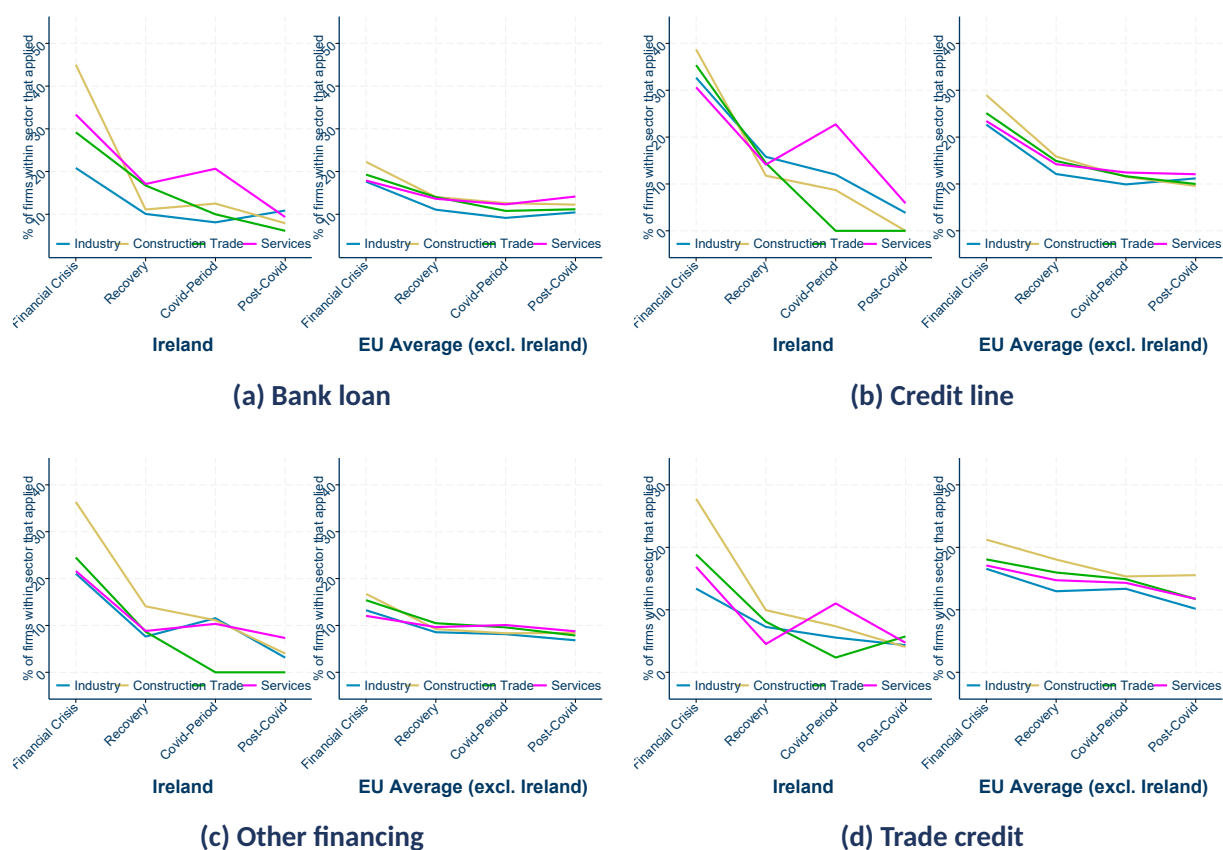
Source: SAFE survey

We now explore financing by type, sector, firm age and firm size to examine the differences in credit denial rates across these categories. In particular, this analysis describes which types of firms and finance are more likely to face rejections.

The breakdown of credit denial by sector is shown in Figure 11. Credit rejections in the euro area have moderated across all sectors since the financial crisis. Services firms face relatively higher denial rates when applying for bank facilities and other financing, while remaining at the lower range in terms of trade credit. Credit access for industrial firms has improved the most, particularly regarding bank loans and trade credit.

Irish firms in all sectors report significantly lower levels of credit rejection compared to the euro area average. The trade and services sectors experienced the most notable improvements in access to bank financing. In the case of trade credit, firms in industry and construction experience lower denial rates relative to those in the trade and services sectors.

FIGURE 11: CREDIT DENIAL ACROSS SECTOR

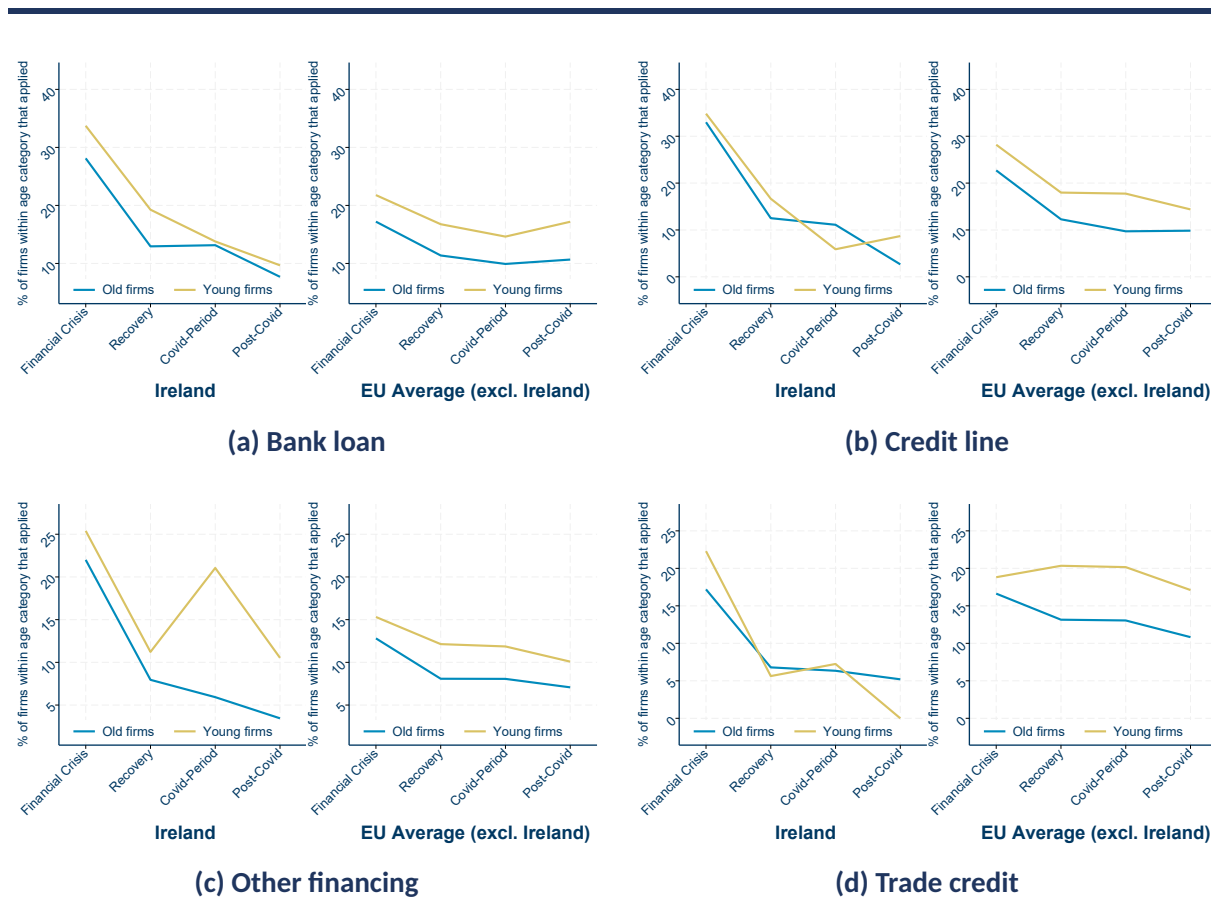


Source: SAFE survey

Credit denials in euro area countries have eased across all financing types for both young and old firms since the financial crisis (Figure 12). Generally, younger firms are more likely to be denied credit than their older peers. There is a slight uptick in the proportion of young firms facing rejections for bank loans since the COVID-19 pandemic, indicating recent challenges facing this firm group.

Indeed young Irish firms now have a substantially lower rejection rate than those in other euro area countries. One notable observation is the slight rise in rejection rates for younger firms when applying for credit lines since COVID-19, which seems to buck the general trend of improving credit access.

FIGURE 12: CREDIT DENIAL ACROSS FIRM AGE



Source: SAFE survey

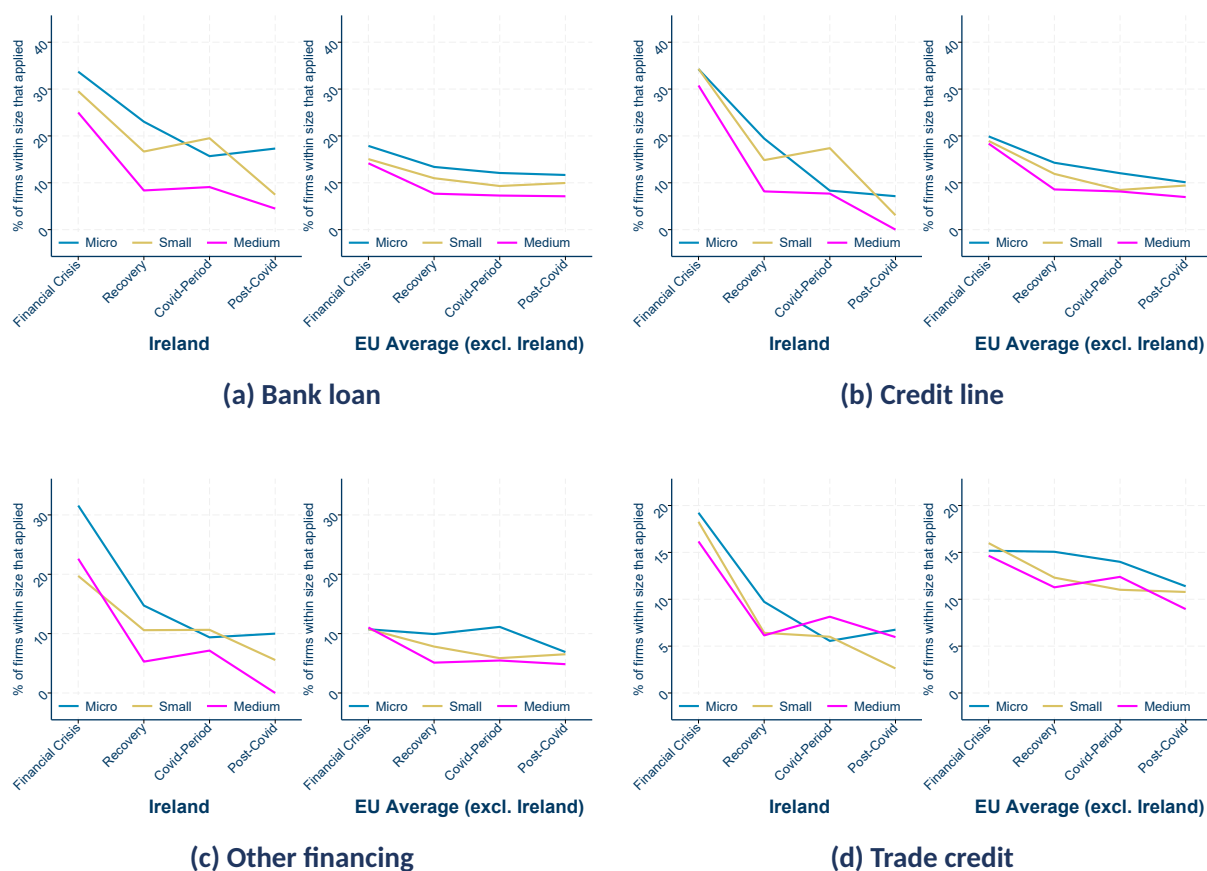
The data from SAFE show that medium-sized firms have better access to all types of financing relative to small and micro firms, though the gap between them varies by period.

During the financial crisis, Irish firms experienced higher credit rejection rates than the average for euro area countries (Figure 13). Since then, rejection rates here have fallen. Currently, Irish small and medium firms report fewer credit denials than their euro area peers. This does not hold true for Irish micro firms, who encounter greater difficulties in securing bank loans and other financing than the average. Recall that these rejection rates occur in a context of relatively low demand and relatively high interest rates, and that the rejection rates themselves relate only to those firms choosing

to apply for credit. In a market with low competition, high interest rates and limited lending activity, rejection rates are unlikely to be the best measure of the efficiency of financial intermediation.

One notable feature in firm access to trade credit in Ireland is that small firms experience lower rejection rates compared to medium-sized peers.

FIGURE 13: CREDIT DENIAL ACROSS FIRM SIZE



Source: SAFE survey

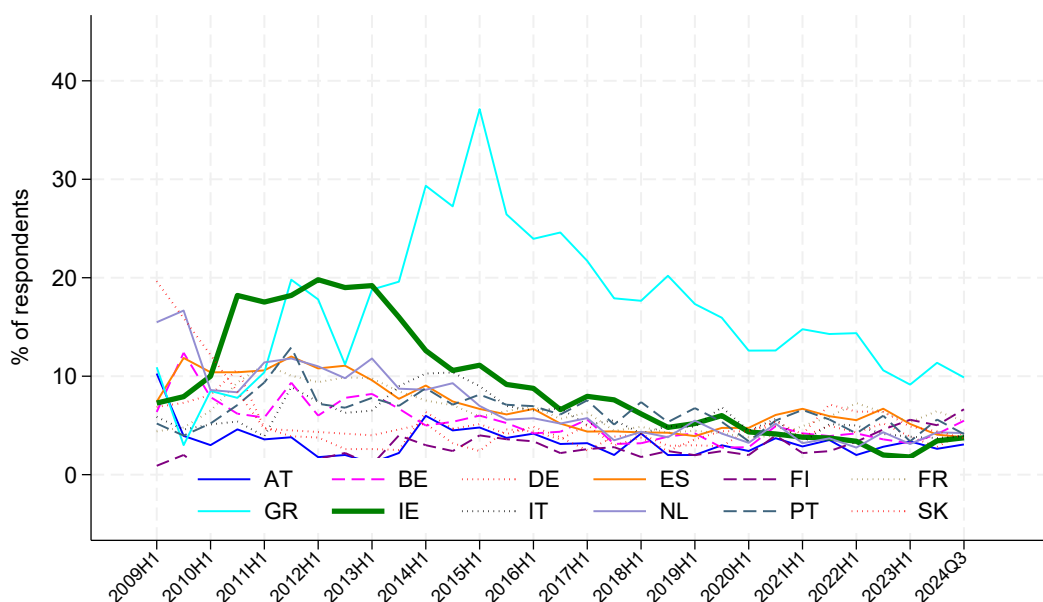
Discouraged borrowers

Borrower discouragement has been recognised as a prevalent phenomenon within debt markets (A. N. Berger et al., 2021). It is important to explore this

type of borrower, as discouraged borrowers represent firms that need financing but do not apply because they expect their application to be rejected. This reveals a hidden component of credit rationing that is absent from traditional measures (like rejection rates). Prior studies indicate that discouraged borrowers are twice as frequent as borrowers who experience rejection (M. Berger and Sclip (2023)). Failing to account for this group would lead to an underestimation of the full extent of credit constraints in the economy. In this section, we explore this group of firms across the euro area since the financial crisis, as well as how patterns of discouragement vary by financing types, firm size, age and sector.

Across the euro area, the proportion of discouraged borrowers declined steadily after the financial crisis, but it has edged upward slightly following COVID-19 (Figure 14). Ireland had a high share of discouraged borrowers during the financial crisis but this declined over time. Currently, Ireland has one of the lowest levels of discouraged borrowers.

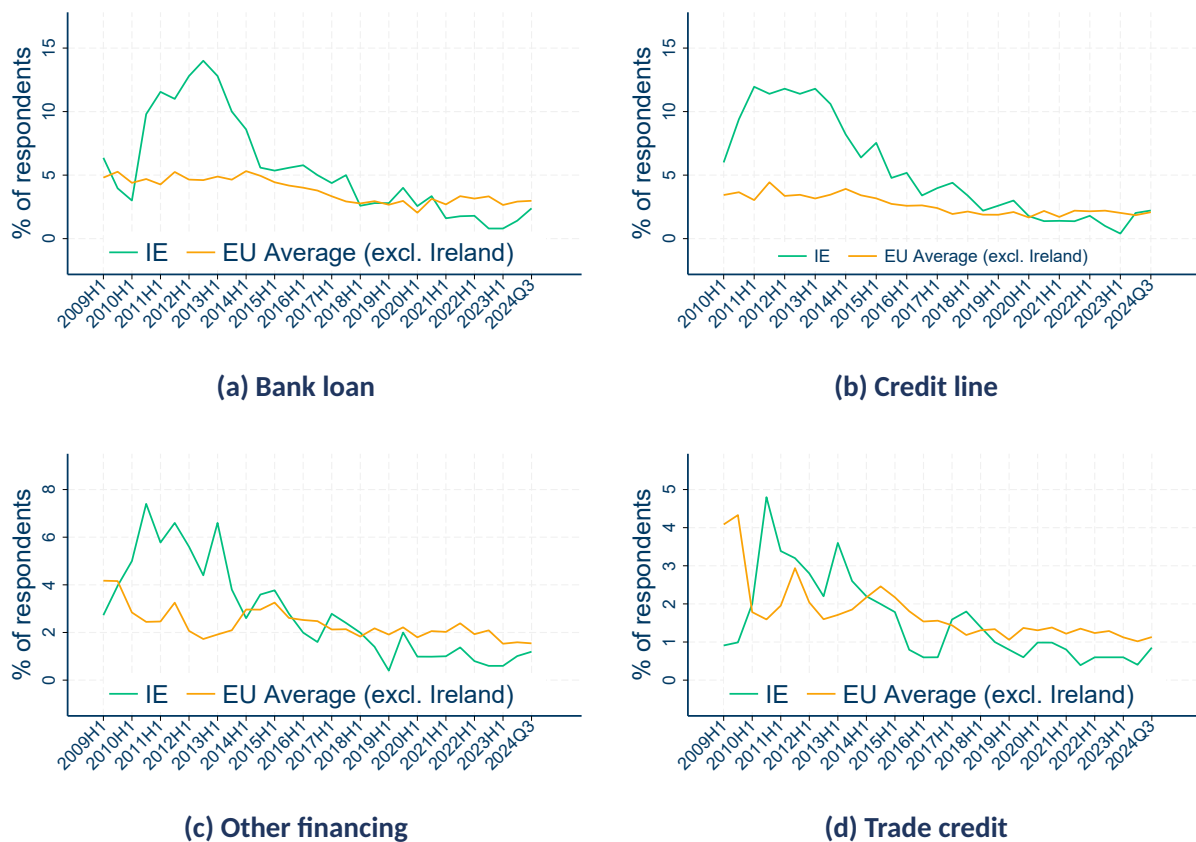
FIGURE 14: DISCOURAGED BORROWERS BY COUNTRY OVER TIME



Source: SAFE survey

Ireland experienced a higher level of discouraged borrowers during the financial crisis across all financing types (Figure 15). However, the subsequent period saw a pronounced decline. Ireland now reports levels of discouraged borrowers below the euro area average for most financing categories, except for credit lines, which is close to the euro area average. It is important to note that the level of discouraged borrowers registered an up-tick in Ireland, across all financing types, since late 2022.

FIGURE 15: DISCOURAGED BORROWERS ACROSS FINANCING TYPES



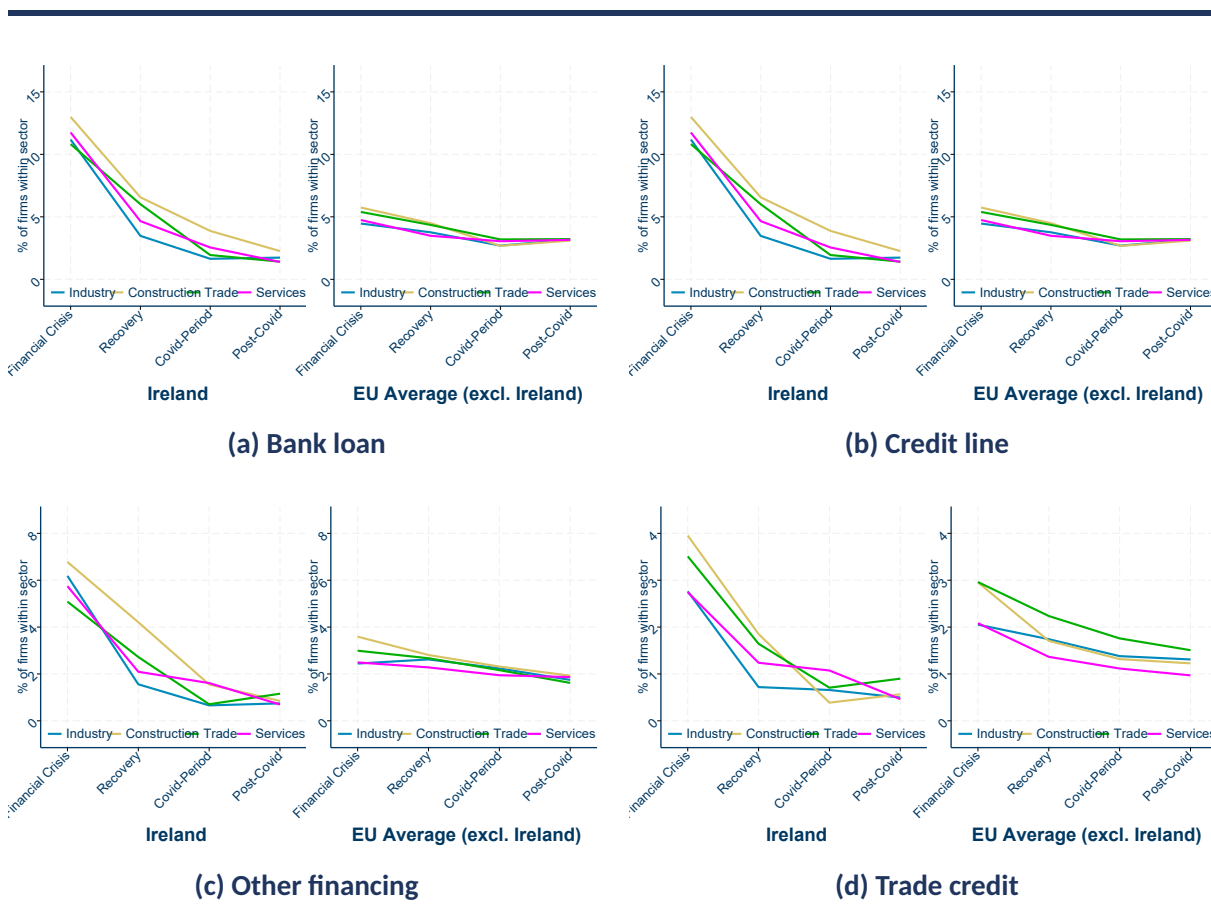
Source: SAFE survey

We now explore heterogeneity in credit market activity among discouraged borrowers, by firm size, sector and firm age.

Figure 16 illustrates the declining trend in discouraged borrowers in euro area countries, across all sectors and financing channels. Ireland, in

particular, experienced a notable shift: during the financial crisis, its level of discouraged borrowers exceeded the euro area average, but this subsequently declined substantially and now stands below the average. Construction firms have the largest share of discouraged borrowers for loans and credit lines. The sector showing the strongest improvement in reducing borrower discouragement is that of services, which currently has the lowest share of discouraged borrowers across all financing channels.

FIGURE 16: DISCOURAGED BORROWERS BY SECTOR

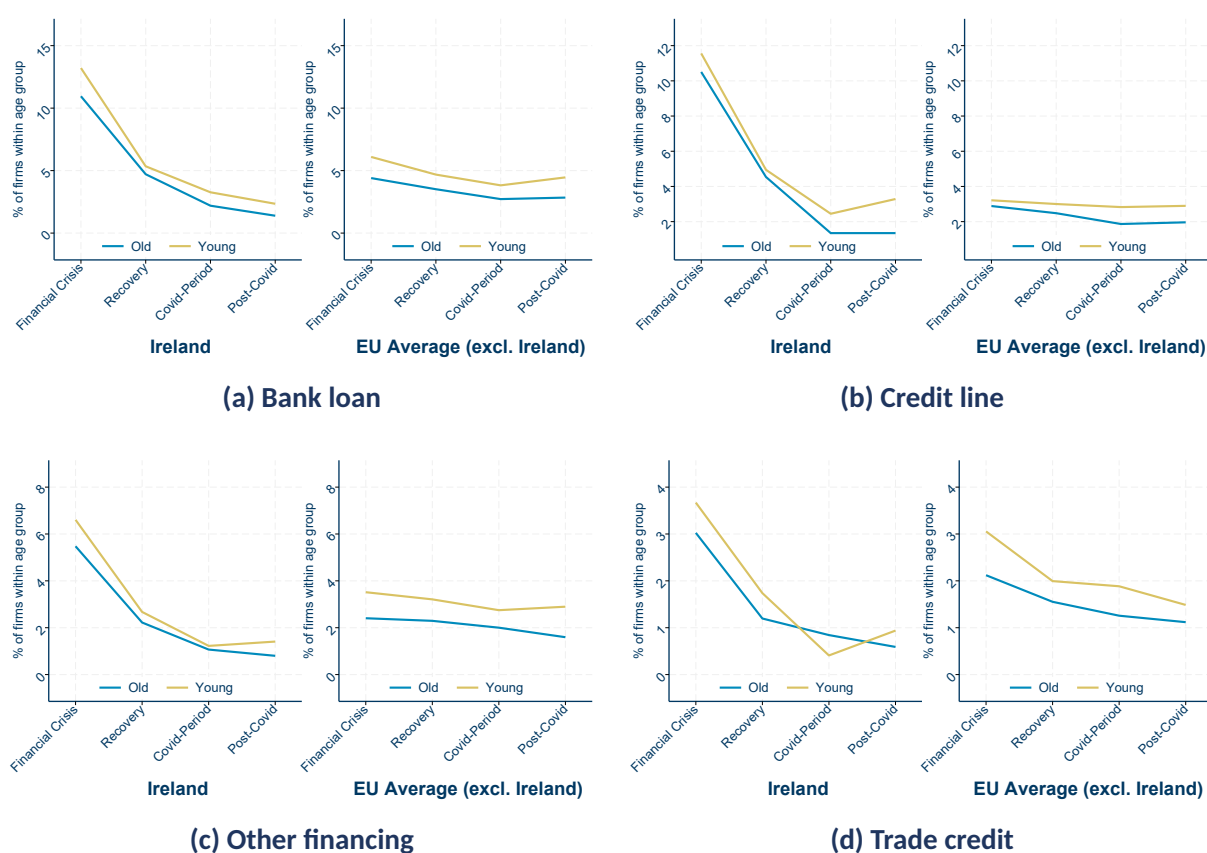


Source: SAFE survey

Examining the age distribution within the discouraged borrower group, younger firms are consistently more discouraged from seeking financing; this is seen all across the sample countries (Figure 17).

Showing a more pronounced decline since the financial crisis relative to the euro area average, Irish firms, both young and old, currently exhibit lower levels of discouragement across all financing types, except for credit lines. A slight upward trend has been observed for younger firms in all types of financing since COVID-19. Irish young firms now are more likely to be discouraged from applying for credit lines compared to their euro area peers.

FIGURE 17: DISCOURAGED BORROWERS ACROSS FIRM AGE

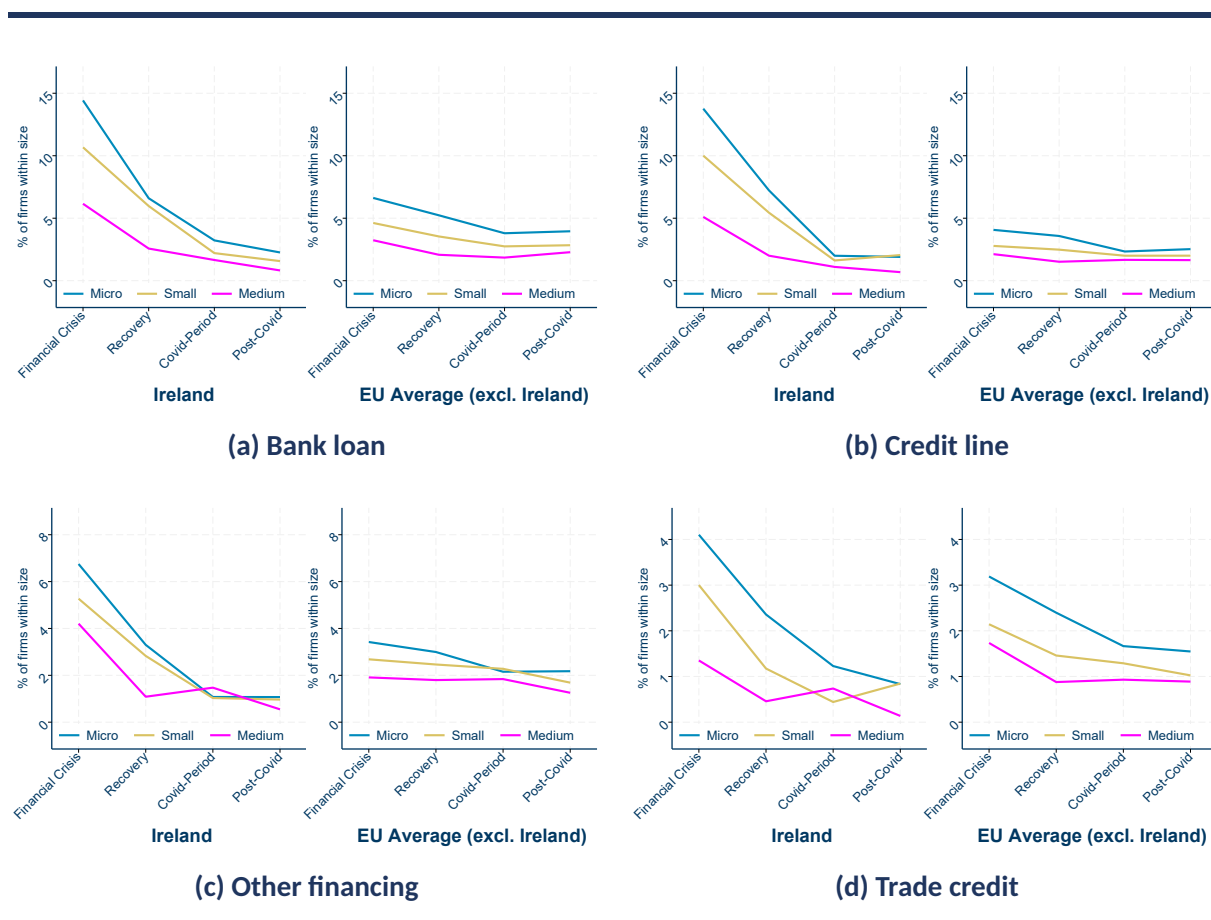


Source: SAFE survey

Across firm size, euro area countries have seen a steady reduction in discouraged borrowers for all financing instruments (Figure 18). Micro and small firms are more likely to be discouraged than their medium-sized peers, though the gap varies over different time periods.

Since the financial crisis, Irish firms of all sizes have experienced a sharp decline in discouraged borrowing, and their current level is below the euro area average. This pattern is evident across all financing channels, with medium-sized firms showing the lowest levels of discouragement. Micro and small firms have similar degrees of discouragement in applying for credit lines, trade credit and other financing.

FIGURE 18: DISCOURAGED BORROWERS ACROSS FIRM SIZE



Source: SAFE survey

Summary of key indicator findings

The above analysis highlights several notable trends. First, both credit demand and access exhibit cyclical patterns. During and after the financial crisis, applications increased significantly while rejections rates became prevalent in the market. This is likely due to the fact that, following the

financial crisis, the surge in applications included many firms experiencing worsening economic conditions, combined with stricter credit evaluation imposed by banks. Discouraged borrowers also followed this trend – a high level during the financial crisis, moderating over time, though showing an upward trend since the COVID-19 pandemic. This is understandable given the COVID-19 pandemic generated extreme uncertainty about future revenue, demand and economic recovery, with firms less likely to take on additional debt when their ability to repay was unclear.

Second, beyond these overall trends, there are differential patterns among firms across sectors, age and size. Some notable features emerge; for example, older firms tend to seek more finance from banks and trade credit, while young firms are more inclined towards alternative finance instruments. In addition, younger firms are more likely to face credit rejections compared to their older counterparts in all financing types. Micro and small firms face higher rejection rates and show a stronger tendency to self-exclude from credit applications.

While aligned with euro area trends at a high level, Ireland does exhibit significant divergences. First, Ireland is positioned among countries with higher levels of overall credit demand. However, this masks key features of the credit market in Ireland. In particular, Ireland has a notably lower level of demand for bank credit facilities compared to other euro area countries, while showing a strong reliance on trade credit. This is consistent across sectors, firm age and firm size. Reliance on trade credit presents some risks. For example, while bank facilities are typically larger and more structured funding options, and in many cases provide longer-term capital for investment, trade credit primarily serves as a short-term liquidity tool, functioning as working capital for firms. This reliance on trade credit presents challenges for strategic investment, particularly in areas such as research and development, which are critical for ensuring the long-term competitiveness and sustainability of firms in Ireland. Overall, credit denial and discouragement in Ireland is low compared to levels among its euro area counterparts. However, this further masks real challenges facing Irish firms, especially smaller and younger firms. Looking more closely at different types of financing, denial rates have increased significantly since late 2022, and are now slightly higher than the average for bank loans, with micro firms being

the most affected. Further, young Irish firms tend to be disproportionately discouraged from seeking credit line financing.

Box A: Irish-owned SMEs – Retail sector

To provide further insights on the role of trade credit, qualitative work with market participants was undertaken. This case study is based on the experience of Irish-owned SMEs operating in the retail sector (both in Ireland, the UK and continental Europe).

Over time, trade credit has come to play a more important role for Ireland's indigenous retail sector. SMEs often use trade credit in their daily operations. Trade credit means a supplier allows a business to receive goods now and pay for them later, usually within an agreed time period. This gives the firm time to sell their products before paying the supplier. Because of this, the firm can keep enough stock available and manage its cash more easily, since it does not have to pay immediately when the goods arrive.

The consolidation of the banking sector after the financial crisis has reduced the lending market from eight banks to three main domestic banking groups. Only two of the three remaining banks play an effective role in providing financing facilities to much of the retail sector. With the absence of competition and choice, retail enterprises have looked at alternative options to supplement their requirements (for example, use of Government schemes (SBCI), trade credit, and bank overdrafts). A substantial body of research demonstrates that firms increase their reliance on trade credit when bank credit is constrained or costly. C. V. Atanasova and Wilson (2003) find, using UK firm-level panel data, that bank-borrowing constrained firms substitute away from bank credit toward trade credit, and that the proportion of constrained firms increases during periods of tight credit conditions. C. Atanasova (2007) provides further evidence that firms use trade credit as a substitute for finance provided by the financial sector at the margin and when they are credit constrained, with reliance on trade credit increasing during periods when bank credit is expensive or scarce.

The SMEs participating in this case study have emphasised that Ireland is atypical by European standards given the absence of a state-backed

business bank. Cross-country data show that government ownership of banks is widespread globally (La Porta et al. (2002), Panizza (2024)) and that virtually every EU Member State maintains at least one national development bank (Frigerio and Vandone (2020), Schmit et al. (2011)). In other jurisdictions, such banks facilitate easier access to finance for SMEs and, in many cases, offer more favourable interest rates and longer loan repayment schedules.

This box was prepared by Dermot Coates of the Department of Enterprise, Trade and Employment.

4 Existing policy environment

In this section, we consider a number of policy initiatives. We explore whether the targeting and focus of these activities aligns with the data and evidence presented above. This research does not aim to evaluate the efficacy of any of these supports; neither does it attempt to review the specific design in detail.

In the discussion below, we focus on the provision of debt financing, leaving an exploration of equity funding to future work. We consider three broad categories of policy intervention established since the financial crisis: credit guarantees, the activities of the SBCI and microfinance supports. Current and future policy should be considered in the context of the conclusions that can be drawn from the analysis above.

For Ireland, a number of differentiating points came through in the empirical research. First, there is a notably lower level of demand here than in other countries for bank facilities (loans and credit lines), and a higher level of demand for trade credit. This finding holds when we control for differences in firm and macroeconomic characteristics. Second, credit access for bank facilities in Ireland is better (lower credit constraints) than in other countries in the post-COVID period. This suggests a strong recovery in the banking sector relative to the period of the financial crisis.

4.1 Credit guarantee schemes

The use of risk-sharing initiatives through credit guarantees have long been a prominent instrument for dealing with credit market imperfections. Indeed, Honohan (2010) notes that often the allure of these policies is that their risk-sharing element masks the true cost of these schemes with very little capital outlay by the guaranteeing agency at the outset. He further notes that it is particularly difficult to gauge the actual benefit of these schemes due to a lack of international monitoring and follow up, and vague initial goals. Further, Andini et al. (2022) notes that public credit guarantees should be provided to firms that are both creditworthy and credit constrained, and that identifying this group of firms can be extremely challenging ex ante.

Despite these drawbacks, there are a number of studies that show clear benefits of credit guarantees. Bertoni et al. (2023) estimate that the treatment effect of partial credit guarantees is up to 10 years after the treatment in French SMEs; the findings indicate that beneficiaries of guaranteed loans experience significantly higher growth in sales, employment and total assets than otherwise similar companies. Furthermore, Bartoli et al. (2013) also show that firms that received a guarantee under the Italian system during the financial crisis experienced less financial tension during periods of financial stress. In the UK, Cowling (2010) finds that the government-initiated Small Firms Loan Guarantee Scheme from as far back as 1981 met its primary objective of lower credit constraints.

The first Irish Credit Guarantee Scheme (CGS), established in 2012, was modelled on the UK scheme at the time. It was amended in early 2016 to address recommendations of a review conducted in 2014. In particular, the amendment saw an increase in the portfolio cap, an increase in the amount guaranteed and an extension of the scheme to both non-bank lending and re-financing.

The scheme changed fundamentally in 2020 when an additional facility was extended to firms affected by the COVID-19 pandemic. The portfolio cap was removed in line with EU rules on temporary state aid, while the lending limit was increased to €2 billion over the lifetime of the fund. The COVID-19 CGS

was characterised by a rolling period of deadlines and extensions. The scheme eventually expired in June 2022. It was quickly replaced by the Ukraine CGS, which had similar characteristics. The Ukraine scheme expired in December 2024.

TABLE 1: CHANGING CHARACTERISTICS OF CGS

Year	Name	GTV	IR premium	Lending limit	Portfolio cap	Notes
2012	CGS	75%	2%	€150m p.a.	10%	
2016	CGS	80%	Set by minister	€150m p.a.	13%	Extended to non-bank
2020 (July)	COVID-19	80%	0.25% - 1.0%	€2bn	0%	Deadline Dec 2020 Lower rates in return for portfolio cap removal
2020 (Nov)	COVID-19	80%	0.25%-1.0%	€2bn	0%	Deadline June 2021
2021 (Mar)	COVID-19	80%	0.25%-1.0%	€2bn	0%	Deadline Dec 2021
2022 (Jan)	COVID-19	80%	0.25%-1.0%	€2bn	0%	Deadline June 2022 Last drawdown Nov 2022
2022 (Dec)	Ukraine	80%	Varies by size	€1.2bn	0%	Expired Dec 2024

Source: Credit Guarantee Act 2012, available [here](#).

Credit Guarantee (Amendment) Act 2016, available [here](#).

Credit Guarantee (Amendment) Act 2020, available [here](#).

Announcement of extension November 2020, available [here](#).

Announcement of extension March 2021, available [here](#).

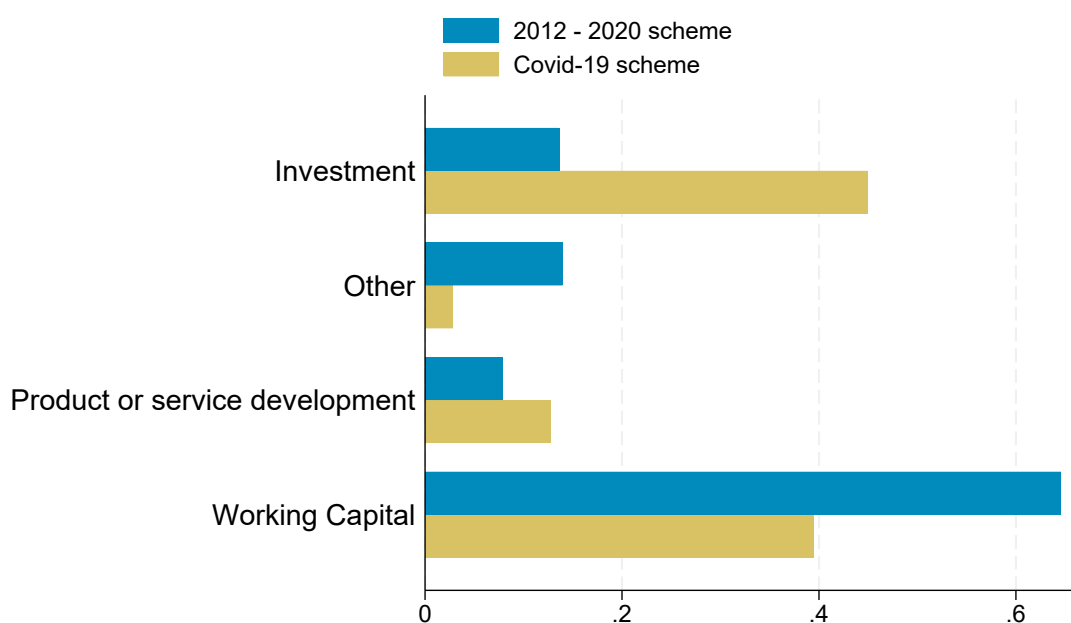
Announcement of extension January 2022, available [here](#).

Credit Guarantee (Amendment) Act 2022, available [here](#).

The scale of guaranteed lending since 2020 reflects a fundamental change in the nature of the CGS. Guaranteed loans at this scale represent a significant intervention in the business finance market. Indeed, approximately 6 per cent of total new lending to businesses since September 2020 has been guaranteed by the Government.

The COVID-19 CGS was used by firms to finance different activities compared with the CGS from 2012 to 2020. Figure 19 plots the share of loans (by number of loans) used to finance working capital, investment and product or service development. Perhaps counter-intuitively, the crisis lending support scheme established during COVID-19 was used more as a general investment or R&D fund, while the non-crisis support scheme operating from 2012 to 2020 was used primarily for working capital needs.⁵

FIGURE 19: SHARE OF LOANS BY INTENDED USE



Source: Department of Enterprise, Trade and Employment

This difference in intended uses of the CGS across the two periods, for example disproportionate funding of working capital during the non-crisis period compared to substantial funding for investment and R&D during the crisis period, suggests that the goals of each scheme may not have been entirely clear. However, it does point to the flexibility inherent in this system to respond during crisis periods. Indeed, supporting large-scale investment and product development during a period of uncertainty is a form of

⁵ Some of the greater outlay on investment may be for infrastructure related to COVID-19; screens, signage etc.

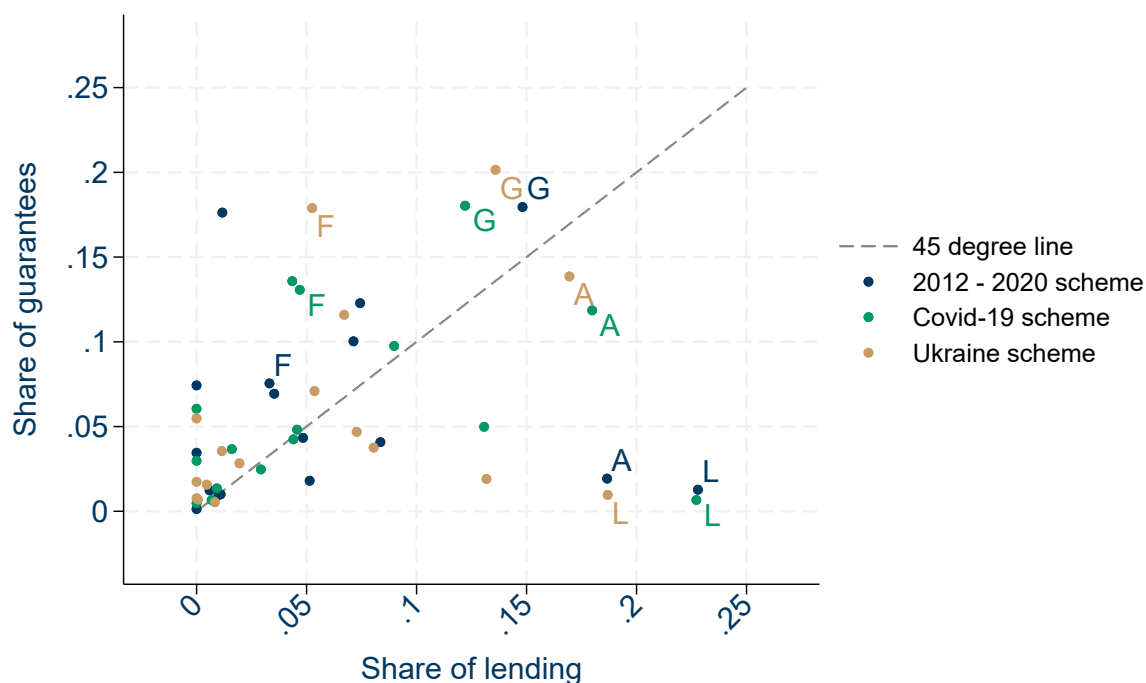
counter-cyclical policy support designed to unlock the growth potential in firms by facilitating capital accumulation or innovation.

In general, the sectoral split of the guaranteed loans by value was similar across the three schemes. However, the COVID-19 scheme supported sectors more exposed to the demand shock presented by the pandemic. Figure 20 compares the share of lending by sector with the share of guaranteed loans by sector across the three time periods. For the smaller sectors, the share of lending broadly matches the share of guarantees.

We highlight several trends among sectors that account for a larger share of credit.

- The share of total lending going to construction firms was broadly consistent at 5 per cent. However, the share of total guarantees going to construction firms increased with each scheme, rising to 18 per cent during the Ukraine scheme.
- Real estate activities (L) account for a large share of lending but a negligible share of guarantees because much of the activities of that sector are excluded from the credit guarantee scheme.⁶ Similarly, agriculture, forestry and fishing (A) accounted for a much smaller share of guaranteed lending in the original 2012–2020 CGS than it did in the subsequent two schemes because primary agriculture activities were excluded in the original scheme.
- Wholesale and retail trade (G) consistently accounts for a large large share of lending (around 14 per cent) and of guarantees (around 19 per cent).

⁶ See Appendix A of the CGS Information booklet <https://enterprise.gov.ie/en/publications/publication-files/sme-cgs-information-booklet.pdf> for more information.

FIGURE 20: SHARE OF LOANS AND SHARE OF GUARANTEES BY SECTOR BY SCHEME

Source: Department of Enterprise, Tourism and Employment and Central Bank of Ireland

Note: Shares are calculated based on the euro value of lending and of guaranteed lending.

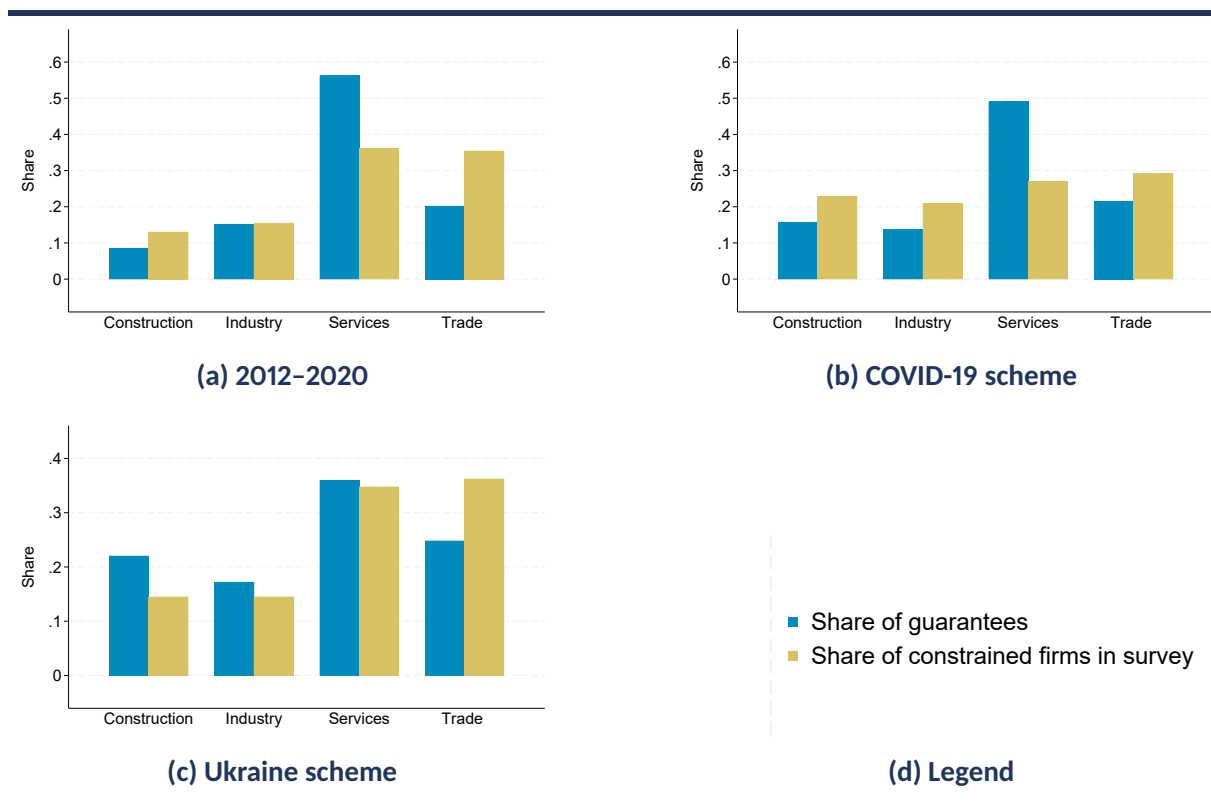
Each dot represents a sector. The colour of the dot captures which credit guarantee scheme is being represented. The sectoral share of total lending in the relevant time period can be read on the horizontal axis, while the share of guaranteed loans can be read on the vertical axis. Some sectors of interest are labelled and discussed in the accompanying text.

In addition, we can link this analysis of the guarantees with the above analysis of credit constraints based on survey data. In that regard, the sectoral distribution of guarantees under the credit guarantee schemes appears to be aligning with the distribution of credit constraints expressed in the survey data. Figure 21 presents the share of constrained firms from the survey data in each of the sectors in the survey and compares it with the share of guarantees for each of the same sectors.⁷

⁷ The denominator for the share of guarantees is adjusted to account for the sectors excluded from the SAFE survey. The guarantee data is grouped on a NACE Rev2 sectoral basis to align with the survey sectors.

Construction again exhibits different behaviour in the most recent scheme, with a higher degree of credit constraint expressed in the survey and an even larger increase in the share of guarantees going to the sector. Indeed, 18 per cent of new lending to firms in the construction sector since September 2020 has been guaranteed.

FIGURE 21: SHARE OF GUARANTEES AND SHARE OF CONSTRAINED FIRMS BY SECTOR



Source: Department of Enterprise, Tourism and Employment and SAFE survey

4.2 SBCI lending schemes

A more direct instrument than the use of credit guarantees, state-backed on-lending schemes have increasingly been a feature of the policy landscape since the establishment of the SBCI in 2014.

Table 4 summarises the lending schemes SBCI has operated. The schemes vary by size and in terms of their objectives. For example, the Agriculture Cashflow Support Loan Scheme was targeted at farmers during a period of

volatile prices for agricultural produce. Two sequential Brexit support schemes aimed to support businesses exposed to the trade shock caused by Brexit. Similar schemes operated during the COVID-19 pandemic. The Growth and Sustainability Loan Scheme has a dual mandate to support businesses in pursuing growth opportunities or sustainability objectives. This scheme remains in operation and offers loans of duration of 7–10 years aimed at supporting Irish SMEs, mid-caps, farmers, and fishers in making long-term investments that enhance productivity, sustainability and climate resilience.

TABLE 2: SBCI LENDING SCHEMES

Name	Period	Underwriter
Growth and Sustainability Loan Scheme	Sep 2023--June 2026	EIF
Future Growth Scheme	June 2019--March 2023	
COVID-19 Loan Scheme	July 2022--Dec 2022	EIB
COVID-19 Working Capital Loan Scheme	Mar 2020--Jul 2021	EU Horizon 2020 Financial Instruments
Energy Efficiency Loan Scheme	Jul 2022--Dec 2023	European Fund for Strategic Investment
Brexit Loan Scheme	Mar 2018--Jul 2021	InnovFin SME Guarantee Facility
Brexit Impact Loan Scheme	Oct 2021--Dec 2022	DETE/EIF
Ag Cashflow Support Loan Scheme	Jan--Dec 2017	Some EU liquidity used

Source: Information provided by Department of Enterprise, Tourism and Employment
SBCI annual reports 2018–2024, available [here](#).

Note: EIF – European Investment Fund
EIB – European Investment Bank
DETE – Department of Enterprise, Tourism and Employment

The SBCI funding comes from the Ireland Strategic Investment Fund, the European Investment Bank and German investment bank KfW. This funding is distributed through retail banks and other entrants into the SME lending market.

Many European countries have a state-owned organisation similar to the SBCI, though the exact mix of activities offered differs from country to country. Some of these organisations also offer services to households and individuals. Service offerings to firms are similar to those offered by SBCI, although export financing and advisory services are offered in some countries.

In some cases, the state-backed promotional banking organisations are responsible for administering credit guarantee schemes rather than the government. Some countries combine the role of the promotional bank with equity investment, either directly or through venture capital funds. Table 3 summarises the activities of these organisations.

TABLE 3: ACTIVITIES OF ORGANISATIONS SIMILAR TO SBCI

Country	Lending support	Guarantee	Export finance	Equity investing	Advisory	Household supports
Austria	X	X		X		
Bulgaria	X	X	X	X		
Croatia	X	X	X	X	X	
Czechia	X	X		X		
Denmark	X	X	X	X		
Finland	X	X	X			
France	X	X	X		X	
Germany	X			X	X	X
Italy	X	X	X	X		
Latvia	X	X	X	X		X
Lithuania	X	X			X	
Malta	X	X				
Poland		X	X			X
Portugal	X	X	X			
Slovakia	X	X		X		
Slovenia	X		X			
Spain	X	X		X		
UK	X			X	X	
Ireland	X	X				

Source: Information available on individual promotional bank websites, links to which are available at the website of the [European Long-term Investors Association](#).

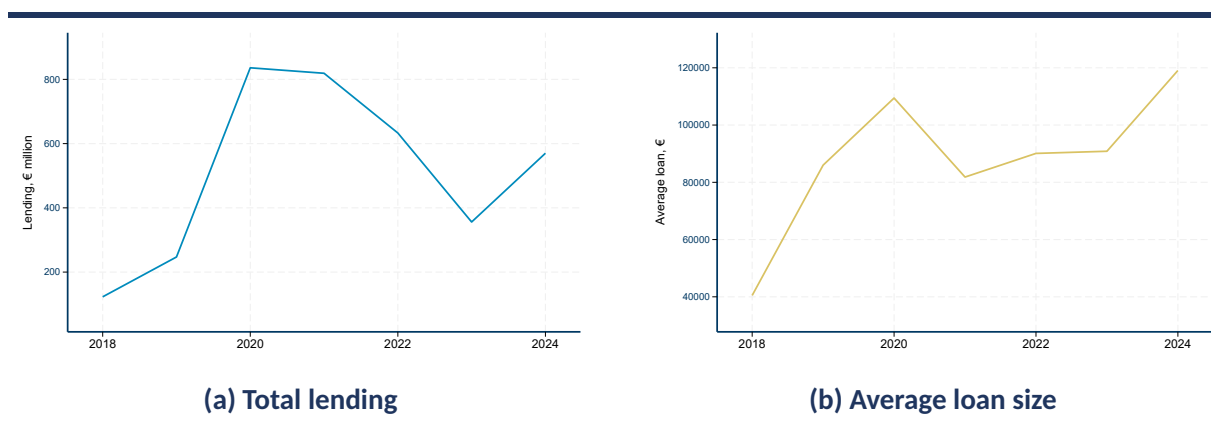
The provision of state-backed export credit is a key distinguishing feature of the Irish credit landscape relative to other countries. Irish agencies (Enterprise Ireland, IDA Ireland, Údarás na Gaeltachta and Bord Bia) provide direct intervention through non-repayable grants and equity investments, rather than the specific protection of state-backed trade insurance. In addition, these agencies provide intensive, sector-specific consultancy and global connectivity. For instance, Irish SMEs can leverage the extensive internationalized advisory networks of EI and the IDA for localized market intelligence and regulatory navigation. By contrast, in many euro area countries, state-backed export credit agencies provide de-risking

instruments, which means they provide insurance and guarantee against buyer default.

SBCI supports have enabled a growth in non-bank finance of SMEs. Several of these non-bank lenders offer peer-to-peer financing in the Irish market and they have been subject to Central Bank regulation since 2022. This regulation ensures that SBCI-supported non-bank lenders operate within a supervised framework.

Figure 22 shows that the SBCI's various lending schemes on aggregate display the sort of flexibility recommended above. On-lending peaked during the pandemic period when businesses most required support. However, increases in the average loan size means that greater overall drawdowns are not matched by increases in the number of firms benefiting.

FIGURE 22: ANNUAL LENDING THROUGH SBCI SCHEMES AND AVERAGE LOAN VALUE, €



Source: SBCI Annual reports 2018–2024

4.3 Microfinance in Ireland

Considerable international research has established that micro firms often experience higher rejection rates and higher credit constraints than other firms. This is often due to opacity, a lack of collateral or alternatively (for younger micro firms) a lack of proven track record. Therefore, specific financing supports have been introduced to directly lend to these enterprises.

In Ireland these firms have traditionally borrowed from the banking sector, but in 2012, Microfinance Ireland was established, a not-for-profit microfinance organisation aimed to directly support microenterprises. It is funded by a combination of government funds and bank loans. It was originally facilitated by the Social Finance Foundation and now through the SBCI. It further benefits from a guarantee issued under the InvestEU Portfolio Guarantee.

The Irish microfinance environment has been informed by the European Microfinance Network and is similar to the UK and Hungarian systems, where non-bank lenders can distribute loans. By contrast, in Austria and Germany banks have a monopoly on lending to microenterprises and non-bank lenders must partner with a bank to distribute microfinance.

In some cases, organisations similar to Microfinance Ireland also provide technical assistance or guidance similar to that provided by Enterprise Ireland. There may be arguments in favour of a 'one-stop-shop' for microbusinesses if institutional frictions exist between the provision of technical assistance and access to finance.

However, half of all applications to Microfinance Ireland since 2021 have been referrals from local enterprise offices rather than direct applications by the firm (MFI, 2025). This suggests that the advisory and credit application elements of the system are well integrated. Indeed, this represents an increase on the period before 2021, when the corresponding figure was 38 per cent. In addition, Microfinance Ireland provide post-approval mentoring services that are delivered by the local enterprise office (MFI, 2024).

TABLE 4: MICROFINANCE IRELAND LENDING SCHEMES

Name	Business age	Loan amount	Max term	Current Interest Rate
Start-up loan	Up to 1 year	€5k–50k	3 years	5.5–6.5%
Cashflow loan	Established businesses	€5k–50k	3 years	5.5–6.5%
Expansion loan	Established businesses	€5k–50k	5 years	5.5–6.5%
Small loan	All ages	€2k–5k	3 years	5.5–6.5%
Agri loan	All ages (NACE sector A01, A02)	€2k–50k	5 years	5.5–6.5%
Vehicle loan	All ages (vehicles only)	€2k—50k	5 years	5.5–6.5%

Source: Information available on Microfinance Ireland website, on the page marked ‘Our loan packages’.

Existing research, as well as the findings in this paper, point towards higher rejection rates for Irish micro firms. It is important that an institution like Microfinance Ireland continues to operate as part of the SME financing architecture in Ireland. This is especially the case in an environment of low competition in the banking sector generally and a high cost of finance.

Finally, while this section has focused on debt-based interventions, it is worth acknowledging a gap in the Irish landscape relative to peer economies. In countries such as the United States, Germany and the UK, equity and quasi-equity instruments play a significant role in supporting the firms least suited to conventional debt, including micro, young and high-risk firms, and where data on such financing flows is sufficiently developed to enable targeted policy evaluation. In Ireland, equivalent instruments remain underdeveloped. Given that our empirical analysis identifies these types of firms as facing the greatest financing challenges, this represents a clear gap between where the need is greatest and where the current policy architecture is focused.

5 Main policy implications and conclusions

This research has found that credit demand by firms in Ireland for bank financing has remained low over the period since the financial crisis. Indeed, not only do Irish firms have a lower level of bank loan demand, they have a higher trade credit usage than similar enterprises in other euro area countries. These findings apply across firms and sectors, and are consistent with recent research, which notes a high level of internal financing usage (Gargan et al., 2018; Lawless et al., 2020; Gargan et al., 2024). Coates et al. (2025) find that, controlling for types of firms (by age, size and sector) and macroeconomic conditions across countries, loan demand has been suppressed by higher interest rates and low competition in Ireland relative to other countries; this is likely to explain, in part, these findings.

Our findings, as well as the international literature on SME access to finance, suggest a number of policy implications. Generally, policy interventions need to have two main characteristics: flexibility to adapt and change to the economic and financial cycle; and consistency and targeting to address credit access challenges for specific groups of firms experiencing difficulties.

A major expansion in the credit market policy architecture occurred following the financial crisis. Three key elements of this approach have been: the introduction of partial credit guarantees; the establishment of the SBCI and its use of on-lending; and the establishment of Microfinance Ireland. This architecture provides a foundation on which to build, though policy implementation and targeting remain critical to its effectiveness. However, our analysis suggests that the prevailing friction in the Irish SME credit market is one of credit pricing rather than quantity access. Existing policies primarily address quantity constraints, which means reducing lender risk or channelling wholesale funding through intermediaries. However, these credit channels operate within the existing competitive structure with higher interest rates faced by Irish SMEs. Policies that directly target the price of credit may therefore be more precisely suited to the friction our analysis identifies.

Several avenues warrant attention. First, the persistently low level of competition in the Irish SME banking market and high interest rates are likely

to have been suppressing credit demand relative to other euro area countries since the financial crisis. Alternative approaches, such as exploring a greater role for state-backed agencies in direct lending, may merit further consideration, in particular if a benchmarking exercise relative to other European countries shows such a gap in provision. Second, the evidence presented in this paper points to the particular vulnerability of Irish young and micro firms. More permanent, targeted measures for these groups would complement existing non-debts schemes and supports provided by other agencies. Third, new entrants, whether digital disruptors or non-bank lenders, may expand financing options going forward and represent an important avenue for future research and policy attention.

Further research is needed on several fronts: the efficacy of recent policy developments; the drivers of Ireland's relatively high cost of credit compared to the euro-area average; the potential role of structural reform in fostering a more competitive lending environment; and exploring the barriers to entry for private banks.

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Appendix: Definitions of indicators

TABLE 5: OVERVIEW OF CREDIT DEMAND AND CREDIT CONSTRAINT DEFINITIONS

Credit demand

Binary indicator (1=yes, 0=no) if a firm:

- Applied for a bank loan, credit line, trade credit, or other external financing (credit applied = 1).
- Did not apply due to possible rejection (discouraged borrower = 1).

Credit constraint

Binary indicator (1=yes, 0=no) for firms that had a credit demand (credit demand indicator = 1) and experienced any of the following:

- Application was rejected.
- Firm refused offer because the cost was too high.
- Received less than 75 per cent of the amount applied for.
- Did not apply because of possible rejection (discouraged borrower).

Credit denial

Binary indicator (1=yes, 0=no) for firms that had a credit demand (credit demand indicator = 1) and experienced any of the following:

- Application was rejected.
- Received less than 75 per cent of the amount applied for.

Credit applied

Binary indicator (1=yes, 0=no) if a firm:

- Applied for a bank loan, credit line, trade credit, or other external financing.

Discouraged borrowers

Binary indicator (1=yes, 0=no) for firms that experienced any of the following:

- Did not apply because of possible rejection.
-