

Crunch stifles SME growth aspirations

(3 November 2008 – Australia) The ability for small businesses to borrow has fallen significantly, according to business opinion in the latest edition of East & Partners' SME Banking Markets Report for October 2008.

SMEs are looking to grow, but believe they are constrained in their access to credit. This has resulted in the proportion of SMEs that plan to borrow money from banks over the next six months significantly falling from 77.1 percent to 65 percent in just six months.

East & Partners' financial markets analyst, Peter Drennan, said "SMEs simply don't know if they can borrow in the current economic climate".

The reduction in planned borrowing comes mainly from small business uncertainty. The percentage of SMEs that are unsure if they will borrow in the next six months nearly doubled since April 2008 to 21.7 percent of all SMEs.

The result of this market uncertainty could be significant for the Australian economy in the long term. The lack of business lending in the market has curbed a number of long term investment strategies by small businesses. Development Projects, Capital Expenditure and Business Acquisition are among the casualties.

"Businesses are instead focusing on extra working capital in order to keep up the growth rates that they have experienced during recent high growth years", Drennan said.

In October 2008, 82.2 percent of SMEs that plan to lend will do so for working capital to fund growth.

Recent developments in Australia, however, could turn around the potential growth in the small business lending market. Developments range from a dive in interest rates and added Government support to market consolidation.

"Recent interest rate falls will fuel even greater demand for business lending, which creates a significant opportunity for banks looking for extra revenue", Drennan said.

At the 24 October Small Business Summit held in Brisbane, the Government also gained assurance from banks about the availability of finance to small business.

"Also, the likes of St George and BankWest can be more confident in lending to SMEs, with the AA credit ratings of their soon-to-be parent companies in Westpac and CBA respectively", Drennan added.

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About East & Partners' SME Markets Report

East & Partners' SME Banking Markets Report is an ongoing six-monthly research service designed to deliver bank market share, wallet share, customer satisfaction, mind share, engagement and churn analysis for banking products among small to medium enterprises turning over A\$1m to 20 million per annum. The report is based on interviews with a structure sample of 1500 SME enterprises.

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