



An Roinn Fiontar,
Trádála agus Fostaíochta
Department of Enterprise,
Trade and Employment

SME and State Bodies Group Meeting

Kildare Street - Room 101

13 July 2022

Ministerial Attendees:

- An Tánaiste and Minister for Business, Enterprise and Innovation, Leo Varadkar TD
- Minister for Finance, Pascal Donohoe TD
- Minister for Public Expenditure and Reform, Michael McGrath TD
- Minister of State, Damien English TD

Opening Remarks

The Tánaiste opened the meeting by welcoming the SME representatives and State bodies. He mentioned he would need to leave early due to the previous day's no confidence vote which had consumed a lot of his time. He noted that the state had achieved its target of 2.5 million people at work and that the Multi National Corporation sector was a huge asset to the Irish economy.

The Tánaiste highlighted some of the current schemes underway within his department such as the €90m innovation seed fund program and a revised credit guarantee system. He explained that one of his department's targets was to achieve two green unicorns (companies with a valuation of 1 billion+) per annum. He also outlined the effects of covid 19, inflation and war in Ukraine have been having on the group's members and the government are keen to know what issues are impacting their credit demand and investment appetite.

Minister Donohoe highlighted the importance of these meetings for informing budgetary and tool making decisions as they enabled the government to understand the challenges currently faced by Irish SMEs. He noted that the current economic environment was very uncertain but that the Irish economy was growing, inclusive of sectors currently facing challenges. The economy was led by those working in the public and private sectors. He said the government had decided to bring forward the budget by two weeks and that the Summer Economic Statement's overall package was more than €6 billion. This was the largest non-covid budget in many years, in excess of €6 billion.

Minister McGrath agreed that the current global economy was uncertain, and that the global economic deterioration was having negative impacts on companies such as rising energy costs and inflationary pressures on demand. The Summer Economic Statement is valued at €6.7m - €5.7m in expenditure and €1m in taxation. He acknowledged that inflation was increasing 4/5 times greater than expected and that there had been a great increase in capital spending in the last couple of years, largely driven by the Pandemic and the conflict in Ukraine. The Minister said this was the most important meeting that he had attended in some time, and he was very interested to hear what the SME sector had to say. He passed over to Ms. Bernadette Hawkes to do the tour de table.

The Tánaiste then advised that the format of the meeting with consist of a tour de table of the SME representatives followed by remarks from the State Bodies with closing remarks from the Ministers.

Issues raised by the SME representatives included:

- Large staff absences caused by Covid were impacting many services, including manufacturing and hospitality/tourism.

- There was concern that the seasonal flu will stretch already depleted sick pay resources
- Smaller firms having to make new relationships with banks due to the shrinking banking sector
- Some SMEs struggling with leadership and management of working in a hybrid environment.
- Inflation at 9.1% in US, Irish SMEs are worried it will impact global economy.
- Tourism sector was down by 26% and there was concern regarding Q4.
- Ukraine: Significant rising costs & 15% of rooms/hotels were now contracted by the government leading to a lack of availability for tourists
- The increase in VAT in March will be inflationary – adding to VAT rate would only fuel inflation.
- Higher personal taxation rates hinder SME's far more than larger counterparts, support and encourage middle rate taxation band.
- Forced closures of restaurants for nearly two years during Covid means the industry is seen as high risk by banks.
- Impacts of Ukraine being a huge supplier of food imports (cooking oil, wheat etc) for restaurants and rising energy costs.
- Cost of Energy for an Average Restaurant with 65 seats has increased from €25k to 55k.
- No major demand for credit availability – Big banks are not making their loan targets.
- Rising costs in terms of energy, raw materials, labour and labour availability.
- Infrastructure challenges for Dublin: labour demand for housing crisis and water legislation.

Banking & Payments Federation Ireland:

- Monetary policy and rising costs have been increasing the Irish debt since January.
- Position of Irish banks is improving, and the balance sheets of banks are now much cleaner.
- Key issue is the change in migration: 25% Irish retail banks leaving the industry, affecting 420k personal and 70k business accounts.
- Uncertainty, supply chains and inflation were all key issues.
- Majority of funding is self-financing. Peer to peer lending much more costly on average.
- Government demand survey showed that demand was highest in hotel sector.
- There is significant knowledge within the banks of each of the sectors.

Euronext:

- Public markets underutilised by SMEs, public markets have a role to play in addressing some challenges raised today
- Government needs to look at the ability of Irish companies to access funding
- Stock Market: Companies listed on Euronext raised more than €4.2m of investment.
- Smaller Irish companies continue to rely on public finance
- Euronext would like to see enhanced access to markets for SMEs, enhanced ecosystem and policy/taxation supports both on company side and the investment side.
- Need market wide response to inject confidence.

State Bodies:

- Broad acknowledgement for increased state intervention due to Covid.
- A lot of businesses are very stretched at present, but evidence suggests they will bounce back.
- Credit demand has been more muted in 2022 but still strong nevertheless.
- Start-ups comprised 60% of MFI's business and insolvencies were not as bad as expected.
- Increased investment post-Covid has slowed again due to uncertainty but there is a good level of resilience.

Ministerial Responses

Minister Donohoe: The Minister noted the key themes raised during the meeting such as absenteeism, uncertainty, and debt revenue warehousing. He said there is a difference between shocks in the economy, which tend to be sudden and shifts which are gradual.

The state went through almost every available resource during Covid. If the current situation is a shift and the government floods the economy with supports, in the medium-term this will mean that IE will not have responded to the shift. Shifts require adjustment and this has happened before. For example, when IE joined the single market. This time the shift could be the move to renewable energy.

Minister McGrath: The Minister said that the issue of labour shortages had been mentioned a lot. He acknowledged that in terms of Covid, there is still a lot of work to be done in terms of public lending. Pay pressures were also mentioned a lot during the meeting and the Minister said he was conscious that the public sector sets a benchmark

around private sector pay. The Minister said that many sounded unsure of the underlying position across the economy. The government believe that the underlying position is strong.

There is funding for infrastructure, but delivery was the key issue. The state has had to adjust public works contracts. The link between enterprises and offering public services is very important in order to have the necessary resources. The Minister said he was glad that employment permits were not raised today and that these have been improving according to the brief. He agreed that sentiment was very important because there was a lot of money out there.

Minister English: The Minister said that permits are on the road to being fixed and that he hoped to change the legislation to make this system more flexible. However, there was a need for members to put more effort into their applications to reduce delays. He believed that Enterprise must lead on the shift around talent and skills. He questioned why there were 1 million people who could be working but are not.

In terms of hybrid working, he said this was a conversation that companies needed to have with their own staff. The SME taskforce and advice for businesses needed to be a bit louder out there.

Attendees (in-person)

1.	Neil McDonnell (ISME)
2.	Elizabeth Bowen (SFA)
3.	Ian Talbot (Chambers Ireland)
4.	Martina Fitzgerald (Scale Ireland)
5.	Eoghan O'Mara Walsh (ITIC)

6.	Aidan Finnegan (BICC)
7.	Tim Fenn (IHF)
8.	Adrian Cummins (RAI)
9.	John McGrane (FBNI)
10.	Aebhric McGibney (Dublin Chambers)
11.	Brian Hayes (BPFI)
12.	Daryl Byrne (Euronext)
13.	Donal Leahy (EI)
14.	Catherine Collins (CRO)
15.	Des McCarthy (MFI)
16.	John Cantwell (NTMA)
17.	Padraic McElwee (LEO)
18.	June Butler (SBCI)
19.	Louise Heenan (DFIN)
20.	Bernadette Hawkes (DETE)
21.	Fiona Kilcullen (DETE)
22.	Leah Deverell (DETE)