

Small Business Economic and Financial Conditions

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Abstract

The economic environment has improved for small businesses over the past year, although conditions remain subdued. Survey measures of business conditions and confidence have improved but remain weaker for small businesses than for large businesses. Most small businesses remain profitable and many have reportedly supported margins by implementing cost-saving initiatives. While small businesses continue to report challenges in obtaining finance on terms that suit their needs, access to finance appears to have improved over the past year. Credit has become cheaper, with variable lending rates for small businesses declining by a little more than the cash rate this year. Credit has also become more readily available to small businesses, including credit that is unsecured or secured by non-physical assets. This has been driven in part by stronger competition in the business lending market. This article discusses recent trends in economic and financial conditions for small businesses, drawing on insights from the Reserve Bank's 33rd Small Business Finance Advisory Panel and recent liaisons with lenders focused on the small business lending market.

Introduction

In July 2025, the RBA convened its 33rd annual Small Business Finance Advisory Panel to discuss issues relating to the provision of finance and the broader economic environment for small businesses.¹ The Panel provides valuable insights on conditions faced by small and medium enterprises (SMEs) and complements information drawn from the RBA's liaison program, economic indicators, business surveys and data from financial institutions.²

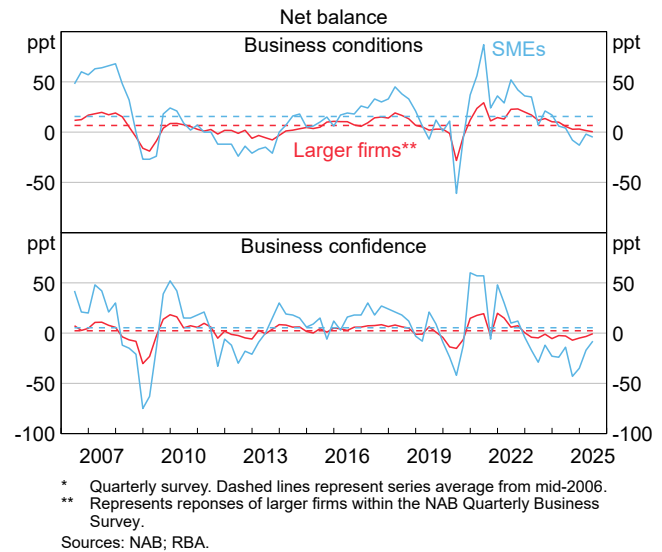
Understanding developments in economic and financial conditions for small businesses is important because small businesses account for a large share of output, employment and income in the Australian economy (Commonwealth of Australia 2025; Chan, Chinnery and Wallis 2023). Small businesses can face challenges accessing finance, which can hamper their growth and limit their ability to innovate (Jones 2024). This article provides an update on small business economic and financial conditions, drawing on insights from the Panel, recent liaisons with financial institutions and other data sources.

Economic conditions for SMEs

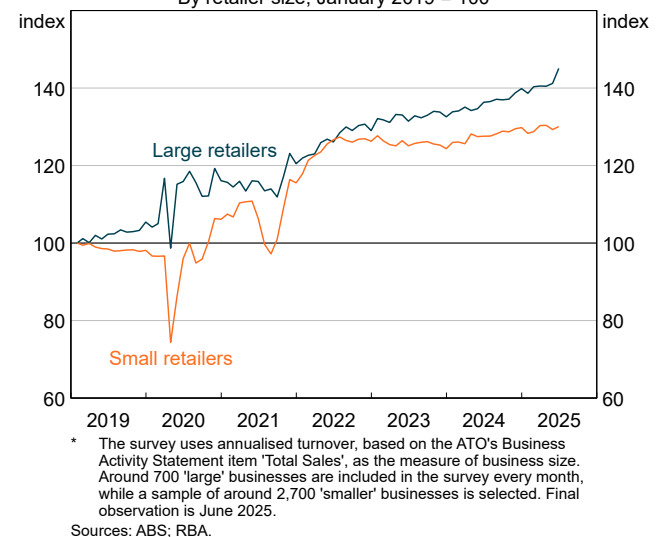
Economic conditions for small businesses have improved over the past year but remain subdued. Survey measures of business conditions and confidence for small businesses have improved over the past year but remain below their long-run averages and are weaker than those for large firms (Graph 1). These measures suggest that business conditions are weakest for small businesses in the manufacturing and retail industries (NAB 2025a).

Although aggregate private demand has started to recover (RBA 2025a), demand has remained weaker for small businesses relative to larger businesses. Small retailers have experienced more subdued sales growth than large retailers since late 2022 (Graph 2) and this divergence has persisted into 2025 despite a recent pick-up in household consumption growth. Survey measures of trading conditions and forward orders also remain weaker for SMEs than for larger businesses (NAB 2025a). Panellists reported mixed demand conditions, with those exposed to discretionary spending generally reporting more difficult conditions.

Graph 1
Business Sentiment*



Graph 2
Retail Sales Values*
By retailer size, January 2019 = 100



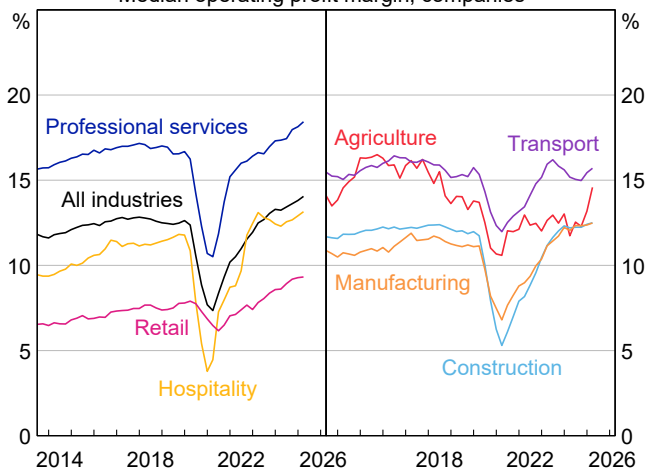
Profitability

ABS data to March 2025 indicate that the median operating profit margin for small businesses improved a little over the year and that operating profit margins remained stable across the broader distribution of small businesses (RBA 2025c). According to these data, most small businesses remained profitable. Across most industries, the median operating profit margin was broadly stable or improved a little (Graph 3).

Graph 3

Small Business Profit Margins

Median operating profit margin, companies*



* Selected industries; net profits as year-ended operating revenue less operating costs and wages; not including government payments (e.g. JobKeeper); includes companies with annual turnover less than \$50 million; seasonally adjusted. Latest observation March 2025.

Sources: ABS (BLADE); RBA.

Profit margins have been supported by a slowing in cost growth. Aggregate wages growth in the economy has eased from recent peaks, although some panellists continued to report difficulty in sourcing labour with specialised skills. Businesses in the RBA's liaison program (which covers businesses of all sizes) have recently reported that non-labour cost growth has eased, and an increasing number of businesses expect non-labour cost growth to converge with CPI inflation over the year ahead (RBA 2025e).³ This is consistent with business surveys noting an easing in cost pressures for SMEs, though they remain high by historical standards (NAB 2025a).

Businesses have also supported profit margins by implementing cost-saving initiatives. Panellists and liaison contacts have reported for some time that weak demand has limited their ability to pass on cost increases. Some panellists reported that constraints on passing on cost increases were exacerbated by the

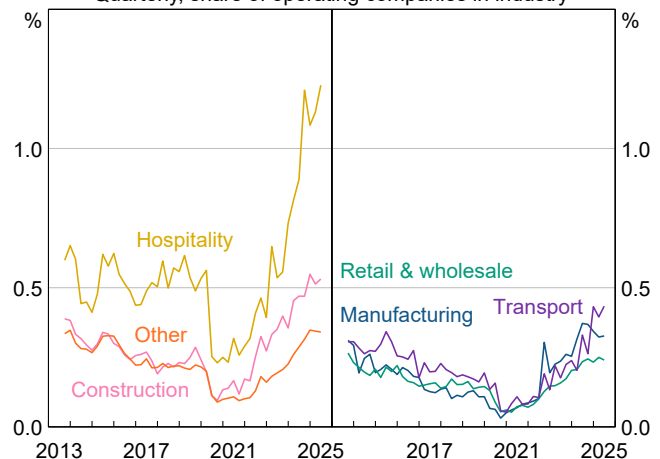
length of contracts (in which prices cannot be renegotiated until the contract expires), lags between when customer orders are priced and delivered, and difficulties exploiting economies of scale as a small business. In response, panellists and liaison contacts report that they have implemented measures to reduce costs, including by reducing staff or hours worked. They have also focused on improving productivity, including by using artificial intelligence (AI).⁴ Business surveys suggest that many small business owners plan to cut costs and seek better terms with suppliers to protect margins (NAB 2025b; Banjo Loans 2025).

Company insolvencies have risen in recent years, driven largely by small businesses with fewer than 20 employees. The share of companies entering insolvency is elevated in the hospitality and construction industries – where the operating environment has been challenging, particularly for smaller firms – though at an economy-wide level the insolvency rate is around its longer run average (Graph 4; RBA 2025c). The increase in insolvencies follows a period of exceptionally low company insolvencies during the pandemic. This partly reflects the removal of pandemic support (including the Australian Taxation Office resuming enforcement actions on unpaid taxes), rising costs, weak growth in demand and higher interest rates (RBA 2025d).

Graph 4

Company Insolvencies by Industry*

Quarterly, share of operating companies in industry



* Seasonally adjusted.

Sources: ABS (BLADE); ASIC; RBA.

Factors affecting access to and supply of SME finance

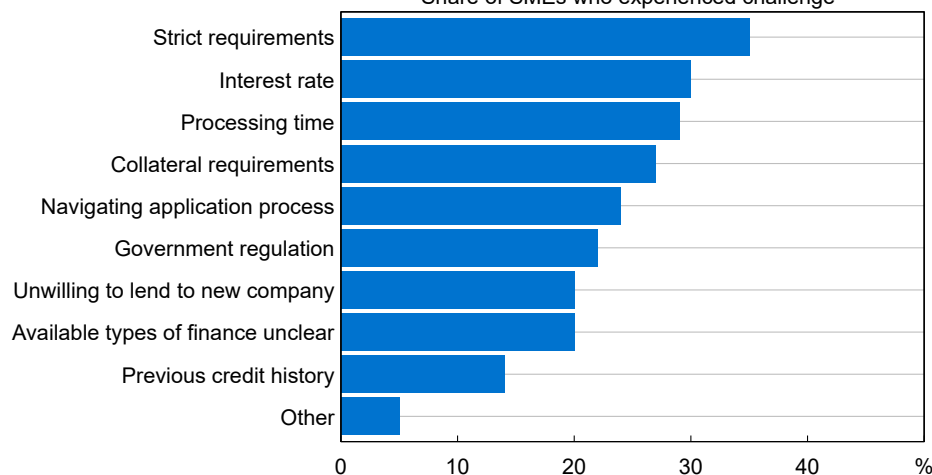
SME loans account for around half of total business credit in Australia. Even so, for many years small businesses have reported challenges in obtaining finance. One in five SMEs has experienced challenges when looking to obtain finance, according to a recent survey (Banjo Loans 2025). The most commonly reported challenges are lender requirements being too strict, difficulty obtaining a suitable interest rate, long processing times and the requirement to provide property or personal assets as collateral (Graph 5). Despite this, panellists and liaison contacts suggest that access to finance for SMEs has improved along numerous dimensions over the past couple of years. These include more competitive pricing, faster approval times, more streamlined application processes and a broader range of funding products (including improved availability of unsecured funding or funding that is not secured by physical assets such as property). The improvements have been driven by a range of factors supporting the willingness and capacity of lenders to supply credit to small businesses. These include the growing presence of specialist and non-traditional SME lenders, heightened competition among traditional bank lenders, higher broker activity and ongoing strong business loan book performance.

Growth of specialist SME lenders and alternative forms of finance

In recent years, specialised lenders and alternative forms of finance have gained market share within the SME lending market, increasing the breadth of financing options available to smaller businesses. Examples of these lenders include:

- **Specialist SME lenders, including non-banks:** The non-bank share of SME lending has increased strongly since the start of 2022, particularly for smaller loans (Graph 6).⁵ Non-banks are subject to fewer prudential regulatory constraints than banks and tend to lend to riskier borrowers (Hudson, Kurian and Lewis 2023). Many non-banks specialise in specific forms of lending, such as automotive or equipment finance. Lender liaison suggests that private credit firms – which are a type of non-bank lender (Chinnery *et al* 2024) – provide some SME lending, though they are more active in larger business lending. In addition, some entrants to the banking sector in recent years have focused on targeted SME lending, contributing to competition in the market.
- **Non-traditional financing:** The range of non-traditional financing options available to small businesses has increased over the past decade (McCowage and Nunn 2022). Examples of non-traditional lending include:

Graph 5
Challenges To Accessing Finance
Share of SMEs who experienced challenge*



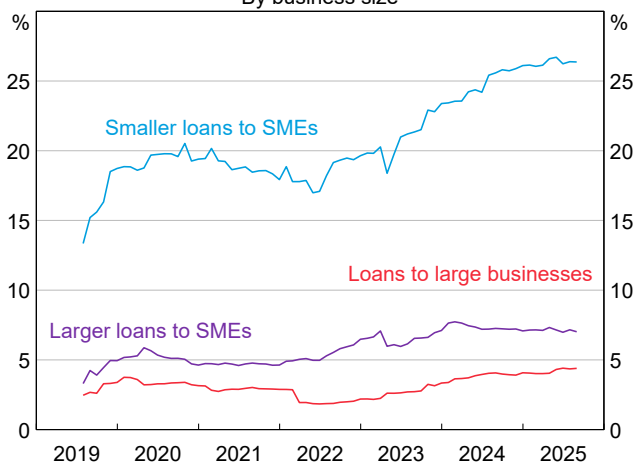
* From cohort of SMEs that experienced challenges when obtaining finance. Categories not mutually exclusive.

Source: Banjo Loans.

- balance sheet lending, in which lenders use transaction data to identify creditworthy business borrowers and provide loans from their own balance sheets
- revenue-based financing, in which a share of the borrower's revenue or profits is dedicated to repaying the outstanding loan balance
- marketplace lending, in which funds from retail or wholesale investors are lent to businesses via loan requests on an online platform
- donation and rewards-based crowdfunding, which allows businesses to raise funds as a donation or in exchange for non-monetary rewards or products
- crowd-sourced equity funding, in which businesses issue shares to the public, typically through an online platform.

Surveys suggest many SMEs are increasingly exploring alternative funding options (Banjo Loans 2025). Consistent with this, several panellists reported having used or explored non-traditional financing options.

Graph 6
Non-bank Share of Business Lending*
By business size



* Excludes loans to financial businesses. Not seasonally adjusted or break-adjusted. Business size definitions changed in April 2023 and June 2024.

Sources: APRA; RBA.

Banks' strategic focus on business lending

Multiple banks – including the major banks – have indicated a new strategic focus on expanding business lending (to both SMEs and large businesses) in recent profit reporting, a theme that has been supported by lender liaison. This pivot has contributed to stronger competition in the business lending market. Stronger competition has supported the supply of credit to small businesses, particularly over the past year, through more competitive pricing, improved application processes and an incremental easing in lending standards from some lenders (discussed below).

Higher broker activity

Greater broker activity for SME lending in recent years has also likely supported the supply of credit, by supporting lender competition and helping to match potential borrowers with lenders who can provide finance on suitable terms. Lenders have reported in liaison that the share of loans originated and refinanced by brokers has risen over recent years, consistent with recent survey data (Banjo Loans 2025). Broker origination reportedly accounts for a larger share of asset finance loans relative to other business loans.

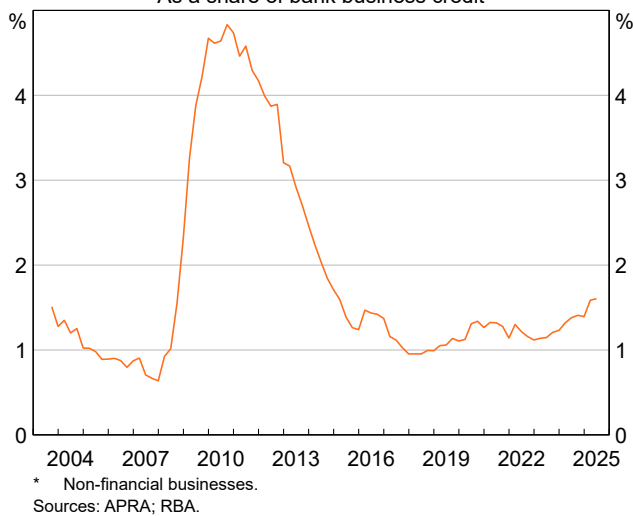
Strong loan book performance

Business loan quality has remained sound in recent years, which has supported lenders' willingness to supply credit. Banks' non-performing business loans have increased over the past two years, consistent with challenging conditions for some sectors (such as hospitality, discretionary retail and construction (RBA 2025c)), but remain low by historical standards (Graph 7). Banks' loan books have been little affected by the rise in insolvencies because most insolvent businesses have little debt (RBA 2025b). Given the resilience of loan book performance, some lenders have expressed in liaison an appetite to take on a little more risk in their SME lending, including by increasing their volumes of less well-secured lending.

Graph 7

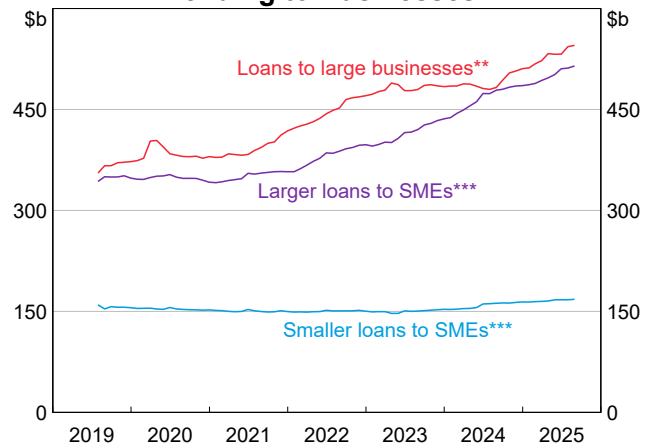
Banks' Non-performing Business Loans*

As a share of bank business credit



Graph 8

Lending to Businesses*



* Data cover financial institutions with \$2 billion or more of business credit; break adjusted for changes to business size definitions in April 2023 and June 2024 but not seasonally adjusted. Excludes loans to financial businesses.

** Businesses with annual turnover of \$75 million or more.

*** SMEs have annual turnover of less than \$75 million; loans classified as 'smaller' if lender has exposure of less than \$1.5 million to the business and 'larger' if lender has exposure of \$1.5 million or more.

Sources: APRA; RBA.

Recent trends in the volume, cost and availability of SME finance

Lending volumes

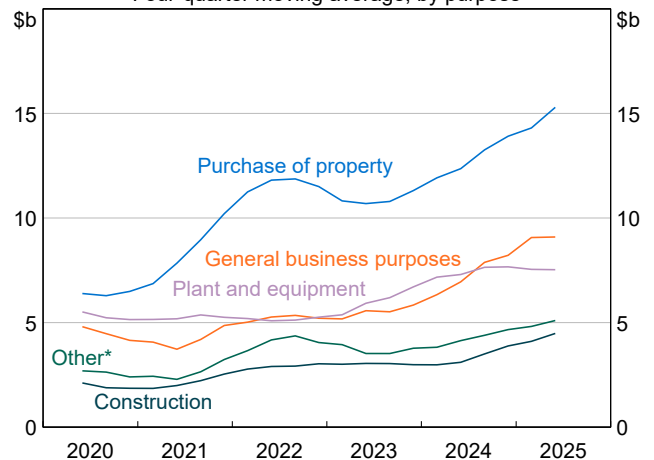
The stock of outstanding SME loans has grown by around 61/2 per cent over the past year, driven almost entirely by growth in larger loans to SMEs (Graph 8). Growth in smaller loans to SMEs has been very weak for several years and was around 31/2 per cent over the past year. This weak growth partly reflects measurement issues in the way smaller loans to SMEs are defined.⁶ However, in liaison, lenders have suggested that the weak growth over the past year could also reflect subdued demand because of the challenging economic environment.

SME lending growth has been strongest to businesses in services-related sectors (including business services, rental, hiring and real estate services, and household services) over the past year, followed by agriculture and manufacturing. Growth in new fixed-term SME loans has predominantly been driven by loans for the purchase of property, general business purposes and construction (Graph 9). By contrast, growth in new fixed-term SME loans for plant and equipment purchases has been weak.

Graph 9

Fixed-term SME Loan Commitments

Four-quarter moving average, by purpose

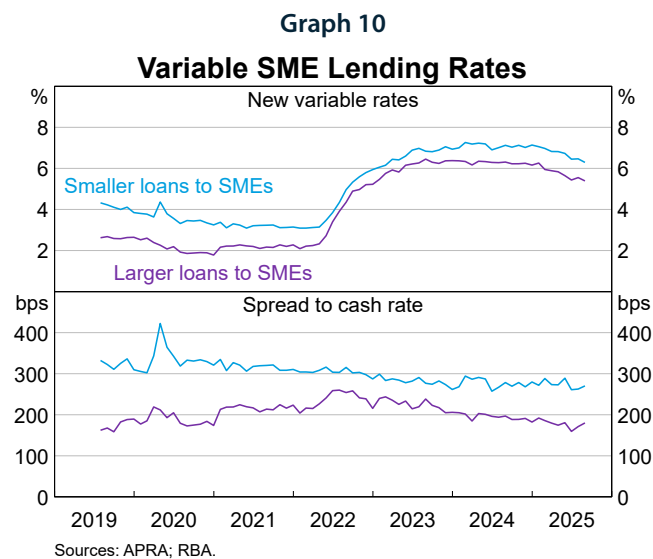


* Includes loans for acquisitions, working capital and wholesale finance.

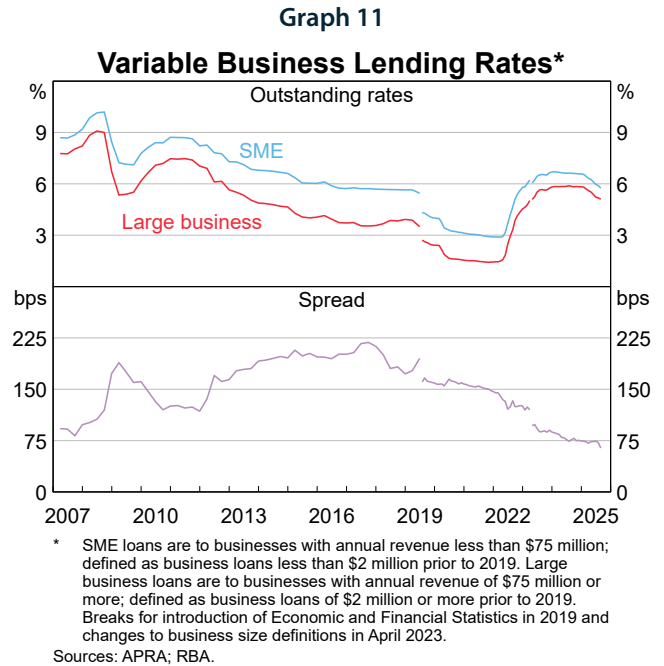
Sources: ABS; APRA; RBA.

Borrowing costs

Variable interest rates on loans to SMEs have declined by a little more than the cash rate this year, consistent with increased lender competition. As a result, variable SME lending rate spreads to the cash rate have narrowed a little further, continuing the trend of recent years (Graph 10). Amid the more competitive environment, lenders have reported more frequent negotiation by customers on small business loan rates in recent years, for both broker and non-broker originated loans.



Small businesses typically face higher borrowing costs than larger businesses. This is partly because they are assessed as being at greater risk of default according to banks' risk modelling and because banks hold relatively more capital against SME loans. However, the spread between SME and large business lending rates has narrowed to a historically low level in recent years (Graph 11). This trend partly reflects changes to business size definitions in April 2023 and June 2024 that resulted in some large business loans (which pay lower interest rates on average) being reclassified as SME loans. Reductions to the Australian Prudential Regulation Authority's capital requirements for banks' SME loans, which became effective from January 2023, may also have contributed.⁷



Availability of finance

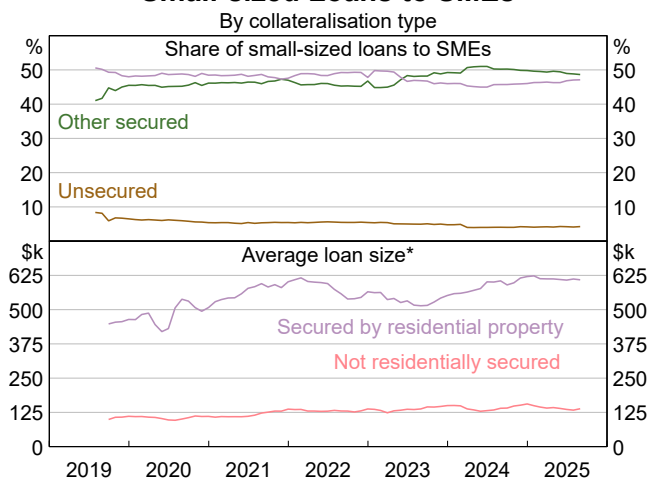
It can be challenging to consistently measure changes in the availability of finance, particularly for business lending given the wide range of loan types available. However, insights can be gleaned by looking at lending standards, which are broadly defined and include dimensions such as the maximum size of credit lines, minimum interest coverage ratios and minimum covenant strengths. Overall, insights from lender liaison suggest that lending standards remain prudent and that heightened competition has not led to a broad decline in business lending standards (RBA 2025c). However, lenders in liaison have indicated some examples of an incremental easing in lending standards for SME lending over the past year or two along some dimensions. Some lenders reported in liaison that their own risk appetite for SME lending had increased slightly, or they had observed this in their competitors, which has manifested in different ways. This includes a greater willingness to provide unsecured or less well-secured credit, increasing the share of new SME loans that are granted through automated approval processes and lower benchmarks for serviceability assessments in a few cases. Some of these factors are described in more detail below.

Collateral requirements

For some time, small businesses have noted that the requirement to provide residential property or other physical assets as collateral is a key challenge to accessing finance. However, lender liaison and insights from the Panel suggest that the availability of credit that is unsecured or secured by non-physical assets has increased recently. Some lenders report that they have increased or are planning to increase their volumes of unsecured or less well-secured lending. Some report expanding access to unsecured lending for startups that have a detailed business plan, though initially only for small amounts, while others are offering discounted lending rates on existing unsecured loan products for specific purposes such as green projects. Panellists also reported improved availability of unsecured loans (including from non-traditional finance providers such as balance sheet lenders), though typically at higher interest rates.

Nevertheless, the share of SME credit that is unsecured has remained below 5 per cent over recent years. Around half of small-sized loans to SMEs are secured with assets other than residential property (such as vehicles and equipment) and this share has increased somewhat since 2019 (Graph 12).⁸ The remainder are secured by residential property. New loans secured with residential property are on average four-and-a-half times as large as non-residentially secured loans.

Graph 12
Small-sized Loans to SMEs
By collateralisation type



* New loans; 3-month moving average.
Sources: APRA; RBA.

Several factors could explain why the share of unsecured small business credit has remained very low. It may be that unsecured finance has only become marginally more accessible, or that increased availability of unsecured finance has not been met with increased demand. Consistent with the experience reported by panellists, customers may also be more likely to take out these loans for only relatively short timeframes (e.g. to manage temporary cash flow issues) given these loans are typically extended at higher interest rates.⁹ Furthermore, some non-bank providers of unsecured lending are not well captured in official data sources.

Application processes and other non-price factors

Fast decision times are important for many small businesses, especially those that need funding quickly to take advantage of growth opportunities. Many lenders have invested in digitisation and automation over the past few years to improve processing times, simplify application processes and reduce costs. This includes making use of customers' transaction histories and bank statement analysis to automate loan decision-making. Numerous lenders have also simplified the loan application process by relaxing their documentation requirements for smaller SME loans.

In addition to improving their application processes, lenders have invested in several other non-price initiatives to improve services to SMEs, including:

- **Regional branches:** Some lenders have invested in expanding their branch networks in regional areas. This aims to provide banks with direct contact to regional businesses so that their needs are better understood.
- **Internet banking capabilities:** Numerous lenders have invested in improving their internet banking capabilities in recent years (particularly through improved mobile applications). This allows banking services to be more readily available to businesses, reducing the need for businesses to contact their bank to facilitate transactions and manage their funds.
- **Provision of other services:** Some lenders provide extra services to customers in addition to the provision of finance. These include foreign exchange and trade services, discounted legal and accounting services, and assistance with incorporating AI into their business.

Overall, lenders' improvements to application processes and investments in non-price service offerings have helped to reduce some barriers to accessing finance commonly reported by SMEs.

Conclusion

Economic conditions for small businesses have improved over the past year but remain subdued. Conditions have remained weaker for small businesses than for large businesses. Cost growth has eased, though cost pressures remain elevated by historical standards. Small businesses have largely remained resilient; most businesses have remained profitable and many have supported margins through cost-saving initiatives, though insolvencies have risen over recent years after being exceptionally low during the pandemic.

Although many small businesses still face challenges in accessing finance, panellists on the Small Business Finance Advisory Panel and lenders in liaison have reported that access to finance for small businesses has improved over the past year. This has been supported by increased competition within the SME lending market, alongside increased broker activity and strong loan book performance over recent years. Borrowing costs have declined by a little more than the cash rate, and the spread between SME and large business lending rates has narrowed to a historically low level. Finance that is unsecured or secured by non-physical assets has reportedly become more readily available, though unsecured credit remains a small share of overall small business finance. Lenders have invested in technology to reduce loan approval times, simplify application processes and improve access to banking services. Altogether, improved access to finance has eased financial conditions for small businesses by making credit cheaper and more readily available. This should support small businesses' ability to manage their cashflows, grow and invest.

Endnotes

- * The authors are from Domestic Markets Department and would like to thank Peter Wallis, Alessio Galluzzi, Eleanor Barnett, Maddie Roberts, Philipp Grozinger, Angelina Bruno, Mark Chambers, James Holloway, David Wakeling, Michelle Lewis and Michael Thornley for assistance and feedback on this article. They would also like to thank members of the 2025 Small Business Finance Advisory Panel for their participation in this year's discussion and lenders for their participation in liaisons related to SME finance.
- 1 The 2025 Panel comprised representatives from 10 SMEs across Australia, covering a range of sectors. For more information, see RBA (2025f).
 - 2 In this article, we draw on data sources that use different definitions of 'small business' and 'SME'. As such, we use the terms 'small business' and 'SME' interchangeably.
 - 3 Contacts in the RBA's liaison program tend to be medium- to larger-sized firms (Dwyer, McLoughlin and Walker 2022).
 - 4 Liaison contacts have also suggested that AI is a significant source of stress for many small businesses. Small businesses have raised concerns that they may struggle to compete with larger businesses that have more resources to invest in understanding how best to use AI.
 - 5 Within credit data reported to the Australian Prudential Regulation Authority, SMEs are defined as businesses with annual revenue of less than \$75 million. 'Smaller' (or 'small-sized') loans to SMEs are loans where the lender's total exposure to the business is less than \$1.5 million.
 - 6 As noted above, the definition of 'smaller' and 'larger' loans to SMEs is based on the size of lenders' exposure to the business. Because these thresholds are fixed, they do not capture some growth in nominal loan sizes due to inflation. For example, if average loan sizes to SMEs become larger due to inflation, then a higher share of SME credit will be classified as 'larger' rather than 'smaller' – even if the underlying characteristics of the businesses remain unchanged.
 - 7 These changes lowered the risk weights on loans to SMEs, reducing the amount of capital banks are required to hold against these loans. They also revised the definition of retail SMEs, which attract lower capital requirements than loans to non-retail SMEs, to include loan exposures of up to (but not including) \$1.5 million. Lower capital requirements reduce the cost to banks of funding SME loans (all else equal).
 - 8 Data on the share of credit secured by residential property are unavailable for larger SME loans.
 - 9 Unsecured loans tend to be available for shorter tenors and at lower maximum loan sizes compared with loans secured with property (Productivity Commission 2021).

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