European Banking Authority

# NOTE ON SMALL AND MEDIUM ENTERPRISES LENDING

PREPARED BY A WORKSTREAM OF THE SUB-GROUP VULNERABILITIES

## Vulnerabilities in SME lending

This note[1] assesses emerging vulnerabilities in EU/EEA banks' small and medium enterprises[2] (SME) portfolios against the backdrop of a more adverse macro-financial environment. After a period of exceptionally low insolvencies during the COVID-19 pandemic, business failures among SMEs have risen markedly as public support measures are expiring, lending conditions are tightening, and firms are facing persistent pressure from high energy prices, inflation, sector specific weak demand and input cost volatility. Given the systemic importance of SMEs for the European economy and their sizeable weight in banks' corporate loan books, these developments are relevant not only for borrower resilience but also for the outlook for banks' asset quality and provisioning.

This analysis brings together several dimensions of SME credit risk. It first documents the rise in insolvencies and the structural importance of SME lending in EU/EEA banking systems. It then reviews asset quality indicators, including non-performing loans (NPLs), IFRS 9 stage 2 exposures and early arrears, to identify whether potential credit deterioration is already visible or still building beneath headline ratios. The note also examines the role of forbearance measures and the extent to which they may reflect prudent borrower support or, in some cases, a delayed recognition of underlying weaknesses. Finally, it highlights the strong links between SME lending, commercial real estate (CRE) and collateral structures, which may amplify vulnerabilities in a higher-for-longer interest rate environment. The note also explores the implications from advanced technologies such as artificial intelligence on SME lending. Two boxes complement the main analysis. The first provides evidence from the Danish banking sector on the relationship between SME pricing and asset quality, while the second uses AnaCredit data to illustrate how SME risk is concentrated across sectors and countries, with a particular role for real estate-related activities. Overall, the objective is to identify where risks are concentrated, whether they are broadening, and what these developments may imply from a supervisory and policy perspective.

## SME insolvencies in Europe are on the rise

Following a historically low period of insolvencies during the pandemic, SME bankruptcies across Europe have risen markedly since 2021, reflecting the normalisation of insolvency dynamics after the withdrawal of emergency support measures and the impact of a much more challenging macro-financial environment driven by the confluence of higher interest rates, stubborn inflation, elevated geopolitical risks, and structural economic shifts.

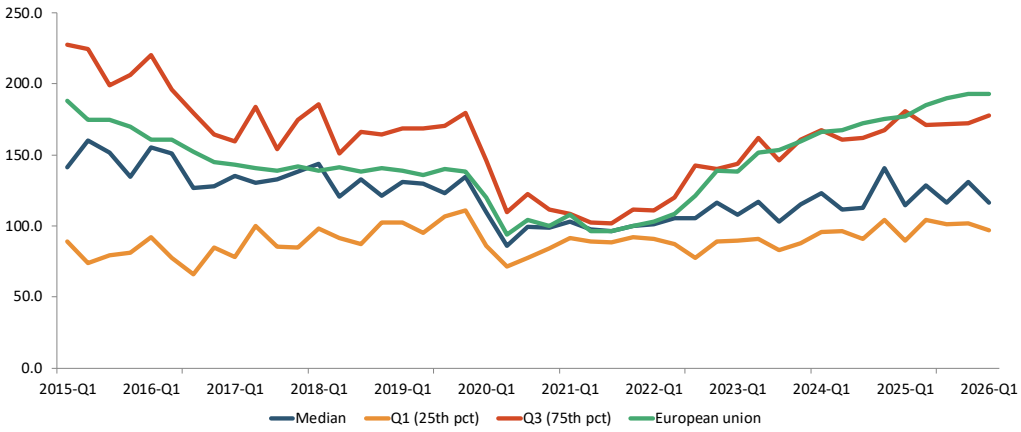
At EU level, business insolvencies have returned to—and in many countries exceeded—their average pre-pandemic levels, although they remain well below the peaks observed after the global

[1] This note was prepared by a dedicated workstream established under the Sub-group on Vulnerabilities (SGV) to examine SME lending and related vulnerabilities, reflecting the importance of SMEs for employment, investment and economic activity in the European Union and their reliance on bank financing. The analysis benefited from the expertise, analytical input and discussions of the workstream's members, whose contributions are gratefully acknowledged.

[2] Throughout this report, SMEs are identified in accordance with Commission Recommendation 2003/361/EC, i.e. enterprises employing fewer than 250 persons and with annual turnover not exceeding EUR 50 million and/or an annual balance-sheet total not exceeding EUR 43 million. Where alternative data sources apply a different SME perimeter, this is indicated where relevant.

financial crisis and the euro area sovereign debt crisis. Eurostat data indicate that insolvency declarations increased at a steady pace through 2023 and 2024, with further sharp increases recorded in 2025, pointing to a period of elevated and accelerating insolvency levels. Figure 1 summarises the evolution of corporate insolvencies in the EU since 2018.

*Figure 1:Corporate bankruptcies[3] in EU (2021=100)*




*Source: Eurostat*

The rise in corporate insolvencies reflects both delayed implications from earlier shocks and new pressures. The withdrawal of pandemic support (e.g., loan moratoria, guarantees and tax deferrals) has exposed structurally weaker firms that were previously kept afloat by extraordinary measures. At the same time, high inflation and cost shocks—especially in energy, raw materials, commodities, labour and intermediate inputs—have compressed corporate margins, particularly for SMEs with limited pricing power. Finally, tighter monetary policy and higher interest rates since 2022 have increased debt-servicing burdens and reduced refinancing capacity, disproportionately affecting highly leveraged and short-maturity-dependent SMEs.

The increase in insolvencies across Europe has been uneven across sectors, with SMEs in hospitality, and in transport. Declarations also increased substantially in information technology (IT) although the trend was more volatile. Perhaps apart from IT, the dominance of SMEs can vary throughout countries, yet one could assume that there is a high share of small businesses or family-owned firms in both healthcare and transport sectors. Such firms are often characterised by thin margins and high sensitivity to energy and labour costs.

Across Europe, SMEs account for most insolvency cases by number. While the Eurostat data cover all enterprises, SMEs represent most of the business in the EU[4], making the aggregate insolvency statistic broadly representative of the developments affecting SMEs. Their prominence in insolvency statistics reflects not only their numerical dominance in the but also their generally lower

[3] Eurostat data depicting bankruptcy declarations index (2021=100), 27 EU states; quartile data and median are unweighted by country size. Data for EU 27 shows weighted figure therefore driven by larger in size economies

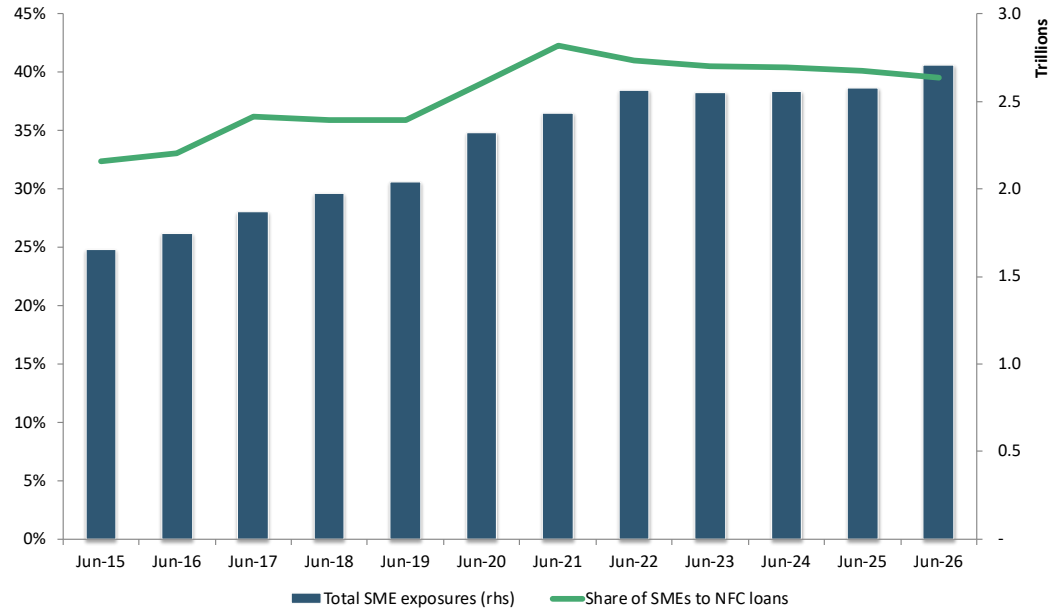
[4] In 2025, SMEs accounted for 99.8% of all enterprises in the EU's economy [Annual Report on European SMEs 2025/2026].

resilience compared to large corporates due to their greater vulnerability to recent economic shocks and supply chain disruptions.

## EU/EEA banks' form an important lender for SMEs

The data indicates that SME exposures[5] remain a structurally significant component of EU/EEA banks' loan portfolios, both in absolute terms and relative to total lending. Total exposures to SMEs have increased steadily over the past decade, reaching approximately EUR 2.6 trillion in recent years. Over the same period, the share of SME lending in total loans has trended gradually upwards, suggesting SME credit has grown broadly in line with—or slightly faster than—overall lending. Figure 2 shows the evolution of EU/EEA banks' SME exposures in levels and as a share of total loans.

*Figure 2: EU/EEA banks' exposures to SMEs (EUR trillion) and share of SMEs to NFC loans[6] (%)*




*Source: EBA Supervisory data*

When focusing specifically on lending to non-financial corporates, SMEs consistently account for a substantial proportion—around 40% in recent years—highlighting their central role in banks' corporate portfolios. This share increased notably during the pandemic, reflecting the impact of public support measures, including loan guarantee schemes and targeted lending programmes. Although the share has stabilised since then, it remains above pre-pandemic levels.

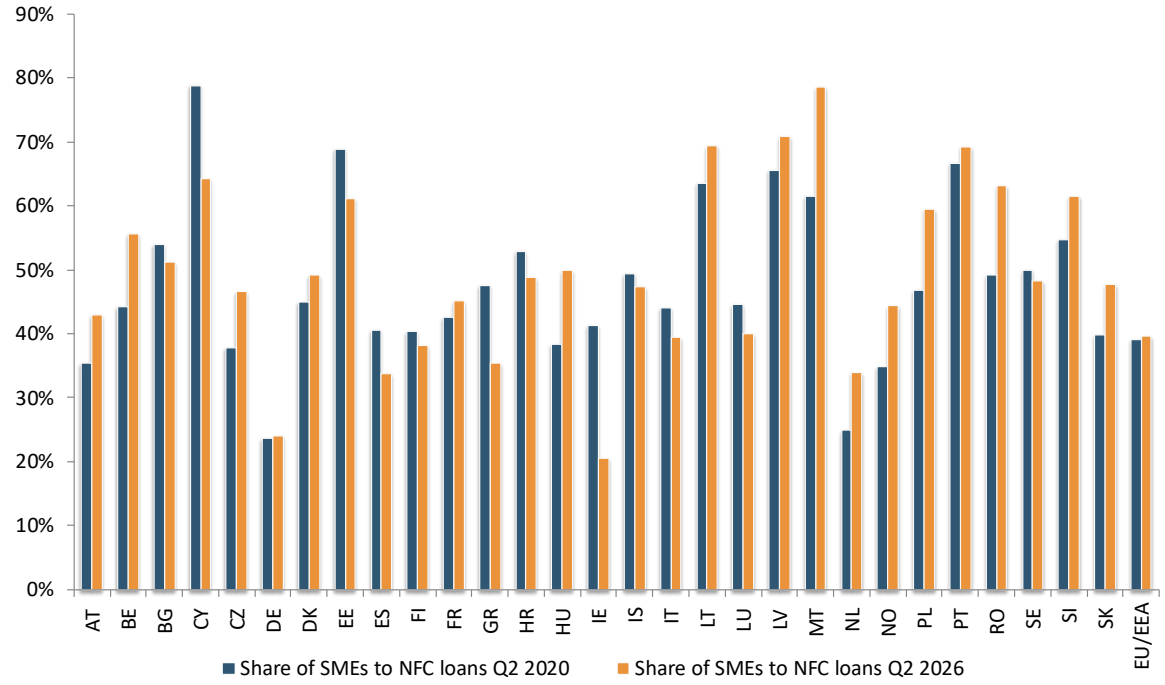
[5] For the purposes of this note, the terms "SME exposures", "SME lending" and "SME loans" are used interchangeably and refer to banks' loan and advances to SMEs, unless otherwise specified. While these terms may have different meanings in other contexts, particularly as "exposures" can encompass a broader range of positions, their use in this note refers specifically to lending exposures reported in the underlying supervisory data.

[6] A change in the sample of institutions included in the analysis took place in December 2020, when the coverage was expanded to include a larger number of smaller institutions. As a result, the number of banks in the sample increased from around 130 to approximately 330. Developments before and after 2020 should therefore be interpreted with some caution, as part of the observed change may reflect the broader sample coverage rather than underlying changes in lending activity.

At the same time, SME lending developments have been heterogeneous across EU/EEA countries, likely reflecting a combination of demand- and supply-side factors. Differences in economic growth and financing needs may have resulted in varying demand for SME credit, while banks may also have pursued different lending strategies depending on their risk appetite, profitability considerations and allocation towards other portfolios or business lines. An additional factor may be the increasing role of non-bank lenders: in some jurisdictions, private credit funds and other non-bank financial institutions have expanded their provision of financing to SMEs, increasing competition for traditional bank lending. While bank lending remains the primary source of external finance for most European SMEs, the growing presence of alternative lenders, such as private credit, may therefore partly contribute to differences in bank lending dynamics across countries. While the relative importance of these factors is difficult to disentangle, the observed heterogeneity likely reflects a combination of economic conditions, banks' strategic choices and differences in the structure of national financing markets.

Overall, the high share of SME loans in most jurisdictions underscore that SME exposures represent a material and persistent potential source of credit risk for banks. Given the strong sensitivity of SMEs to macroeconomic conditions, the recent increase in insolvencies in SME-intensive sectors may have implications for banks' asset quality, warranting continued monitoring, which might also entail an extra effort to allocate additional resources from their side. Figure 3 highlights cross-country variation in the share of SME lending in banks' exposures.

*Figure 3: Share of SME lending to NFC loans of EU/EEA banks exposures by country*[7]




*Source: EBA Supervisory data*

[7] Cross-country differences in the share of lending to SMEs should be interpreted with some caution, as they may partly reflect differences in the coverage and composition of the reporting institutions across jurisdictions. This may be especially relevant in banking systems where smaller and locally oriented institutions play an important role in financing SMEs. Consequently, comparatively low or high SME lending

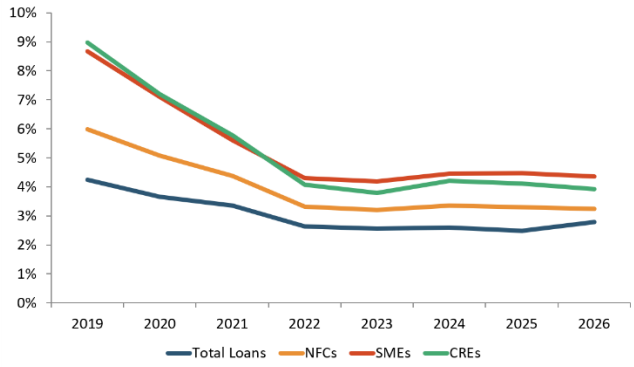
## SME asset quality mirrors the sluggish macroeconomic environment

SME portfolios, along with commercial real estate exposures, had historically a lower asset quality than other corporate segments, and in specific large corporations. It is noted that asset quality trends in the SME segment, is largely driven by CRE dynamics, also given that there is material overlap of these two asset classes in supervisory financial reporting[8]. To some extent this is expected, due to idiosyncratic factors of SME exposures. Nevertheless, in the recent years, the gap has narrowed significantly.

Although corporate insolvencies have increased markedly across many EU countries, the deterioration in banks' SME asset quality indicators has been considerably more muted, except for elevated share of stage 2 loans. There can be several explanations for this divergence. For example, insolvency statistics capture all businesses entering formal bankruptcy procedures, irrespective of whether they have bank debt, while bank asset quality indicators relate only to borrowers with bank exposures. Moreover, many insolvencies involve micro-enterprises with minor exposures and therefore have little direct impact on banks' loan portfolios. In broad, borrower bankruptcy would generally lead to NPLs, rising corporate insolvencies need not translate into a proportional increase in aggregate NPL volumes, as the impact depends on the failing firms' outstanding bank borrowing and may be offset by repayments, write-offs or NPL disposals. It could also signal in broad more conservative bank lending practices, cautious counterparty selection, or effective early problem management, which from a credit perspective can be a positive signal for the sector.

NPL ratios across all segments have declined significantly since 2020, not least to efforts by banks, supervisory community as well as policy action plan (e.g. European Commissions NPL Action Plan of 2017) which has also enforced the secondary NPL market. With this, the gap in NPL ratios between SME and CRE portfolios vis-à-vis other segments has significantly narrowed. This improvement, however, has largely plateaued since 2022–2023. Figure 4 compares NPL ratios trends across counterparty segments.

*Figure 4: EU/EEA banks' NPL ratios trend by counterparty segment*




*Source: EBA Supervisory data*

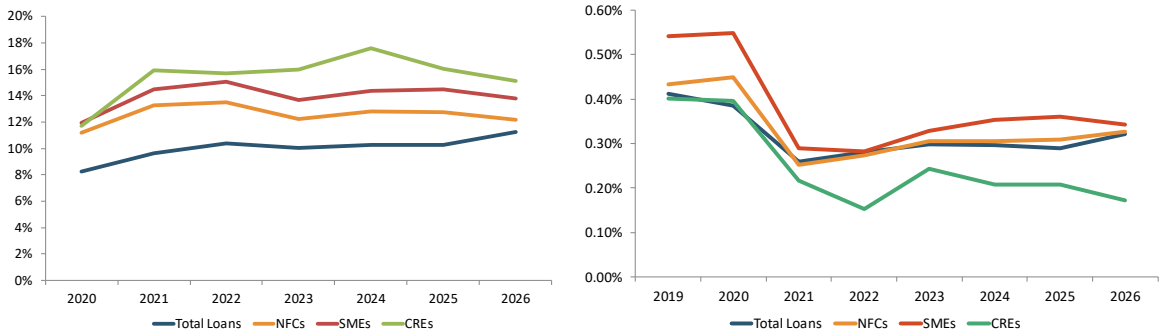
Yet forward-looking indicators may point to a more nuanced outlook. Early arrears (30–90 days past due) have increased steadily in SME portfolios since 2021, reaching the highest levels among all

shares in individual countries may not solely reflect differences in underlying lending patterns or market structures but may also be influenced by sample coverage.

[8] See below for further analysis on these overlaps.

segments by 2025, having a diverging trend compared to other segments. This contrasts with a more moderate and stabilised trend in NFCs and total loans, suggesting that credit deterioration is emerging first and more prominently in SMEs (although this trend is partly driven by the CRE dynamics that have been already highlighted before). At the same time, Stage 2 exposures remain elevated for SMEs and CRE segments, pointing to a large stock of under-performing loans vulnerable to migration into default under adverse conditions. Figure 5 shows Stage 2 allocations and early arrears (30–90 days past due) by counterparty segment.

*Figure 5: EU/EEA banks Stage 2 allocation (left) and Past due >30 days and <=90 days (right) trend by counterparty segment*




*Source: EBA Supervisory data*

In addition, SMEs are more prevalent in sectors currently experiencing rising insolvencies[9], further amplifying risks. The lagged transmission of tighter financial conditions implies that the observed increase in early arrears may translate into higher NPL inflows over time, even if headline asset quality indicators remain stable in the near term.

Despite the broadly stable aggregate share of Stage 2 SME exposures in recent years, developments remain heterogeneous across EU countries. While the data point to an overall improvement since 2020, dispersion across jurisdictions has increased, suggesting that credit risk dynamics have become more uneven across the Union and that vulnerabilities persist in a number of banking systems. Nevertheless, cross-country comparisons should be interpreted with caution. Differences across jurisdictions may not only reflect underlying borrower creditworthiness, but also variations in the composition of SME loan portfolios, including sectoral concentrations and the prevalence of secured versus unsecured lending. In addition, banks' implementation of IFRS 9 may influence the proportion of exposure classified as Stage 2. Relevant practices include the calibration of quantitative thresholds for identifying a significant increase in credit risk (SICR), the use of forward-looking information, model specifications and the application of management overlays. Changes to classification criteria and processes, including refinements introduced in response to supervisory findings, may also affect Stage 2 ratios over time. Collateralisation, including loan-to-value ratios for lending secured by commercial real estate-backed, is also relevant when assessing the potential

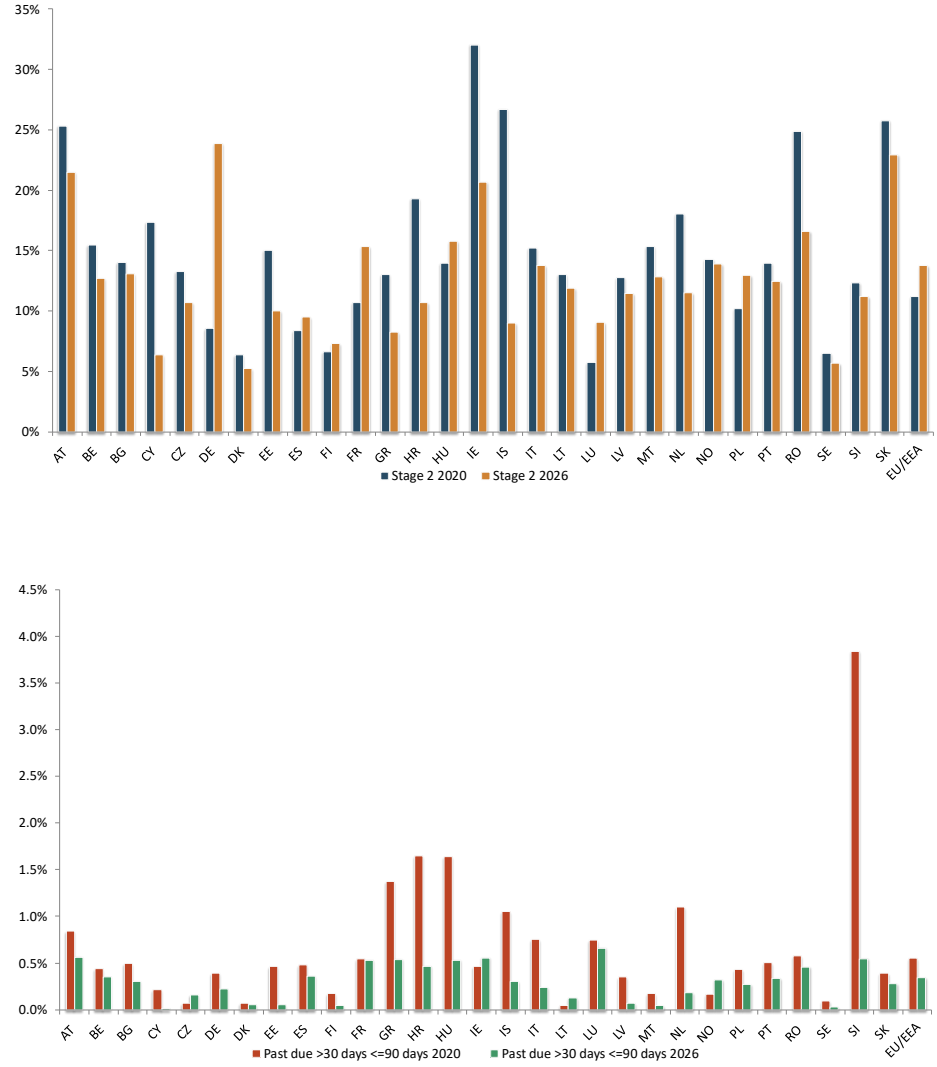
[9] According to Eurostat data the sectoral distribution of insolvencies suggests that financial pressures have been pronounced in sectors where SMEs constitute the dominant share of enterprises, e.g. hospitality and transport. Nevertheless, insolvency statistics primarily capture the number of firms entering bankruptcy and therefore naturally place greater weight on sectors characterised by large numbers of small enterprises. Consequently, the sectoral pattern of insolvencies should not be interpreted as direct evidence that banks' SME credit portfolios have deteriorated to the same extent.

losses associated with these exposures. Differences in Stage 2 ratios across banks and countries may therefore reflect a combination of underlying credit risk, portfolio composition and classification practices.

Nevertheless, the share of Stage 2 loans declined significantly in most countries, by 2025, although the drivers may vary across countries and banks. In several countries particularly those with initially high ratios a sizeable share of loans remains classified as Stage 2. These exposures warrant continued monitoring. A closer examination of movements into and out of Stage 2, alongside changes in banks' classification practices, would help assess the extent to which elevated ratios reflect persistent borrower vulnerabilities.

In contrast, early arrears (30–90 days past due) present a more mixed and, in some counties, less benign picture. While some countries show a decline compared to 2020, others exhibit increases or only limited improvement, pointing to renewed pressure on borrowers under tighter financial conditions. Notably, the persistence or re-emergence of early arrears in several jurisdictions may signal incipient deterioration that is not yet fully reflected in Stage 2 or NPL ratios. Figure 6 summarises cross-country changes in Stage 2 exposures and early arrears between 2020 and 2025.

*Figure 6: Changes in Stage 2 Exposures and Early Arrears (Q2 2020–Q2 2026)*




*Source: EBA Supervisory data*

Provisioning levels are an important complement to asset quality indicators, as they provide an indication of banks' capacity to absorb expected credit losses and mitigate the impact of deteriorating exposures on earnings and capital. For SME exposures, NPL coverage ratios have gradually declined from around 50% in 2019 to 42% in 2024, remaining broadly stable thereafter. Coverage of SME Stage 2 exposures has been considerably lower but very stable, at around 4% in recent years, while coverage of past-due SME exposures has remained at around 5–6%. While these levels partly reflect the lower expected losses associated with exposures that have not yet defaulted, they also underline the potential for additional provisioning needs should credit quality deteriorate and exposures migrate towards non-performing status. This is particularly relevant for SMEs, where financial difficulties may translate relatively quickly into repayment problems. Moreover, the lower NPL coverage compared with earlier years implies greater reliance on collateral values and expected recoveries which could prove less favourable in an economic downturn. Overall, the broadly stable coverage ratios in recent years do not currently point to a material weakening in provisioning and to some extent could be attributed to legacy NPL disposals

with higher coverage ratios, yet they warrant continued monitoring against the backdrop of SMEs' sensitivity to weaker economic conditions, cost and trade pressures, and refinancing risks.

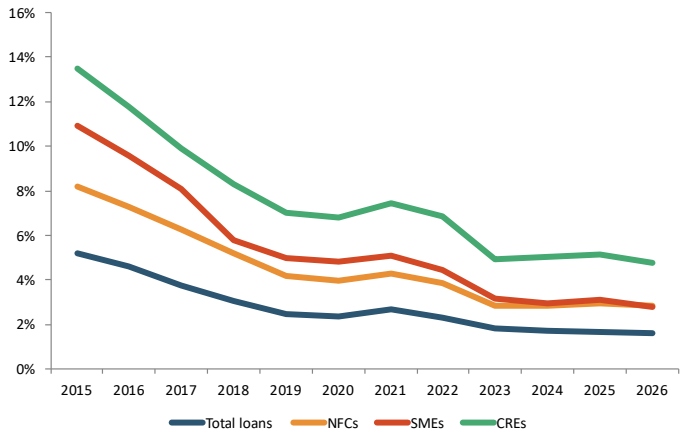
Taken together, the data suggest that, despite the overall improvement in headline indicators, forward-looking credit risk remains uneven and might materialise with a lag, particularly in more vulnerable banking systems.

## Forbearance Measures: Sound Risk Management or masking risks?

Forbearance ratios have declined significantly across all portfolios since 2014, indicating a gradual normalisation of asset quality following earlier crisis periods. Data from earlier periods show structurally higher forbearance levels of SMEs and CREs exposures than total loans suggesting a greater reliance on borrower support measures in these segments compared to other portfolios.

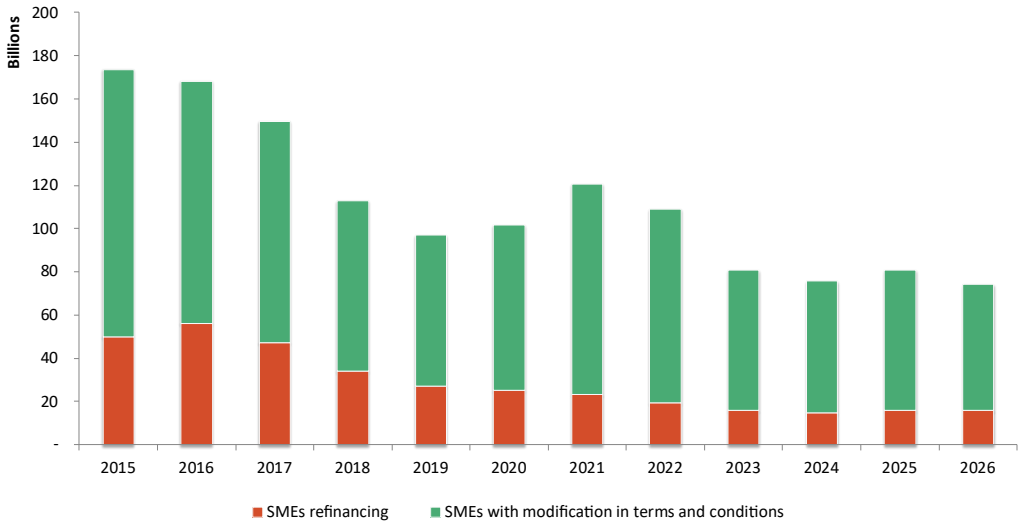
The composition of forbearance measures applied to SME exposures is broadly similar to that observed for the overall NFC portfolio, suggesting largely comparable restructuring practices across corporate segments. In both cases, modifications to terms and conditions account for the majority of forborne exposures. While refinancing measures represent a somewhat larger share of forborne SME loans than in the broader NFC portfolio, they remain a relatively limited component of total forbearance measures and have declined in both absolute and relative terms in recent years. Although refinancing can provide temporary liquidity support to viable borrowers and help contain near-term NPL formation, its declining use suggests that the associated risk of delaying the recognition of credit deterioration has become less pronounced. Figure 7 presents forbearance ratios by portfolio, while Figure 8 shows the composition of forborne SME exposures by refinancing measures and modifications to terms and conditions.

*Figure 7: EU/EEA banks' forbearance ratio by segment (%)*




*Source: EBA Supervisory data*

*Figure 8: EU/EEA banks forbearance (EUR bn)*



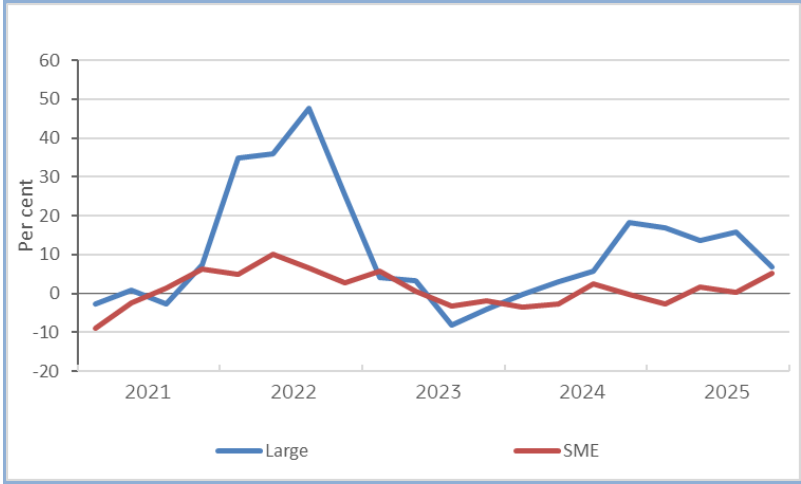

*Source: EBA Supervisory data*

**Box 1: Evidence from the Danish banking sector on lending margins and asset quality**

Banks play a key role in financing firms of different sizes and risk profiles, including SMEs, which make an essential contribution to economic growth and employment. In some cases, SMEs may exhibit higher credit risk than larger corporates, particularly where limited financial buffers, less diversified revenues and narrower financing options increase their vulnerability to adverse shocks. Lending to borrowers with increased credit risk profile is not problematic per se, provided that risks are properly identified, monitored and priced. From a financial stability perspective, the key issue is whether banks adequately account for the higher risk characteristics of these exposures through appropriate provisioning, capital allocation and lending margins. The following analysis assesses developments in SME lending, with a focus on whether observed pricing and risk indicators are consistent with the underlying risk profile.

SME lending has remained subdued since mid-2023 for the Danish banking sector, in contrast to robust lending growth to large corporates. As a result, the share of SMEs in total lending to non-financial corporations (NFCs) has declined to around one-third, compared with nearly one-half in 2020. At the same time, SME exposures are structurally concentrated in smaller banks. For instance, in Denmark, SMEs account for around 30% of NFC lending at significant institutions, compared with more than 70% at smaller banks. This suggests that smaller banks are disproportionately exposed to vulnerabilities in the SME segment, a pattern that is likely to be observed across other EU countries as well.

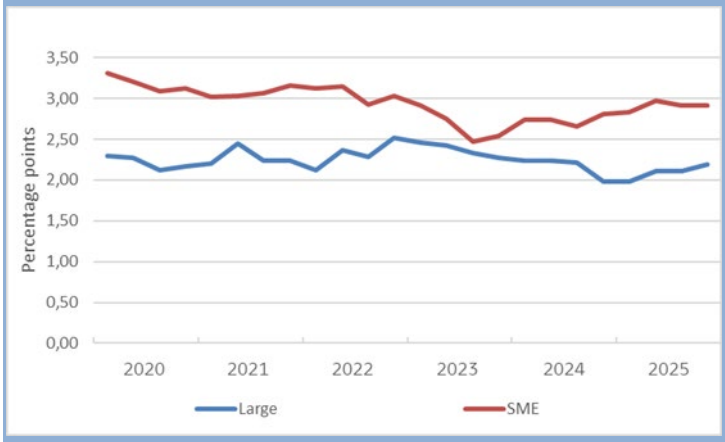
*Figure 9: Year-on-year lending growth for large firms and SMEs (Danish banking sector)*




*Source: Danmarks Nationalbank*

Lending margins for SMEs are consistently higher than for large firms. This partly reflects risk-based pricing. However, structural factors also play a role. SMEs typically face greater information asymmetry due to more limited financial disclosure compared to large corporates, while large firms may benefit from stronger bargaining power vis-à-vis banks. As such, observed margin differentials reflect a combination of higher credit risk and market structure factors.

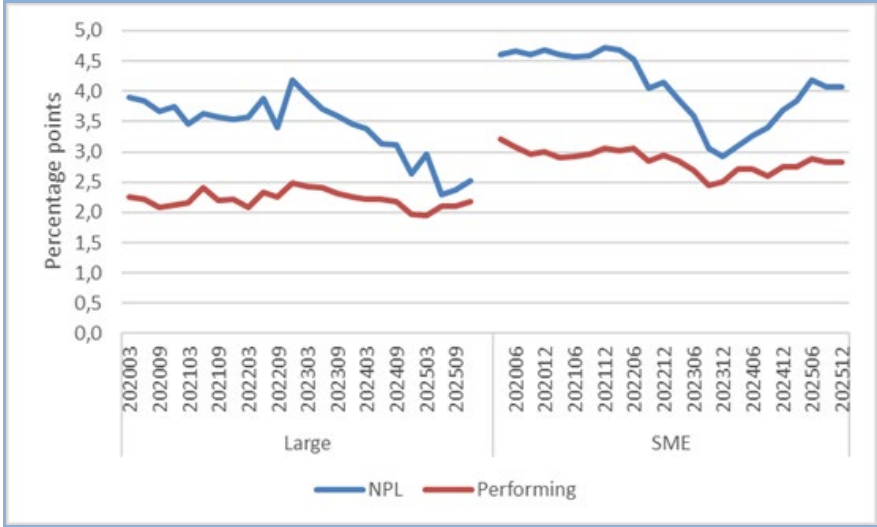
*Figure 10: Lending margins for large firms and SMEs (volume weighted margins) for Danish banking sector*




*Source: Danmarks Nationalbank*

NPL ratios followed a declining trend from 2020 to 2023, before increasing thereafter and subsequently improving again in 2025. While the evolution of NPL ratios for SMEs broadly mirrors that of large firms over time, the level is consistently higher, pointing to elevated underlying credit risk in the SME segment. Lending margins are higher for NPL exposures than for performing loans, with a larger gap for SMEs compared to large firms. However, the higher aggregate lending margins observed for SMEs cannot be explained solely by their higher share of NPLs, suggesting that other factors, including weaker financial ratios among SMEs than large firms, are also relevant.

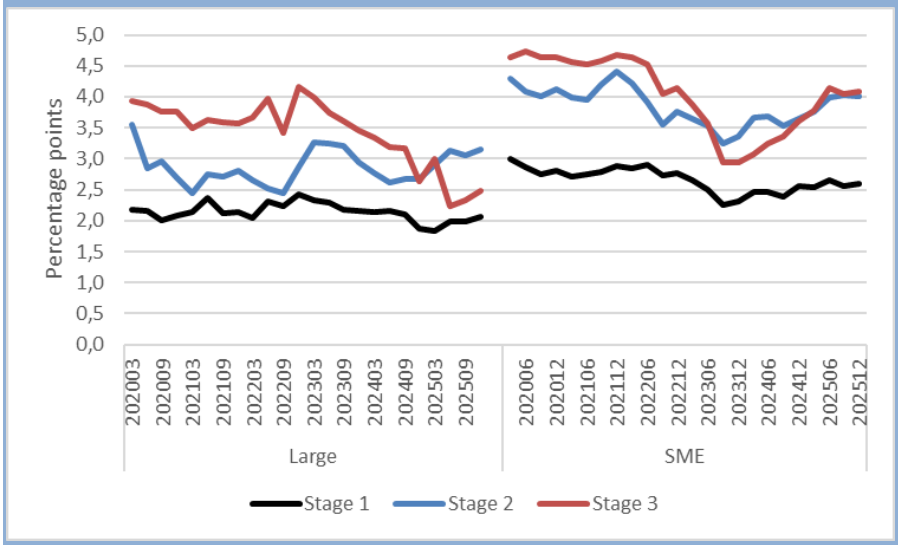
*Figure 11: Lending margins by performing status and firm size for Danish banking sector*




*Source: Danmarks Nationalbank*

Looking at IFRS 9 staging, the share of Stage 2 exposures for SMEs increased in 2022 and has remained elevated since, although it has been gradually declining since mid-2024. By contrast, the share of Stage 3 exposures has remained broadly stable since 2022. Across stages, SMEs exhibit significantly higher shares of Stage 2 and Stage 3 loans compared to large firms, again indicating higher credit risk. Lending margins increase with credit deterioration, following a similar pattern as observed for NPL exposures. Importantly, SME lending margins remain higher than those for large firms within each IFRS stage, confirming that the margin differential is not solely driven by differences in the distribution of exposures across stages. However, the analysis shows that asset quality indicators are consistent with observed loan pricing.

*Figure 12: Lending margins by IFRS9 stage and firm size for Danish Banking sector*

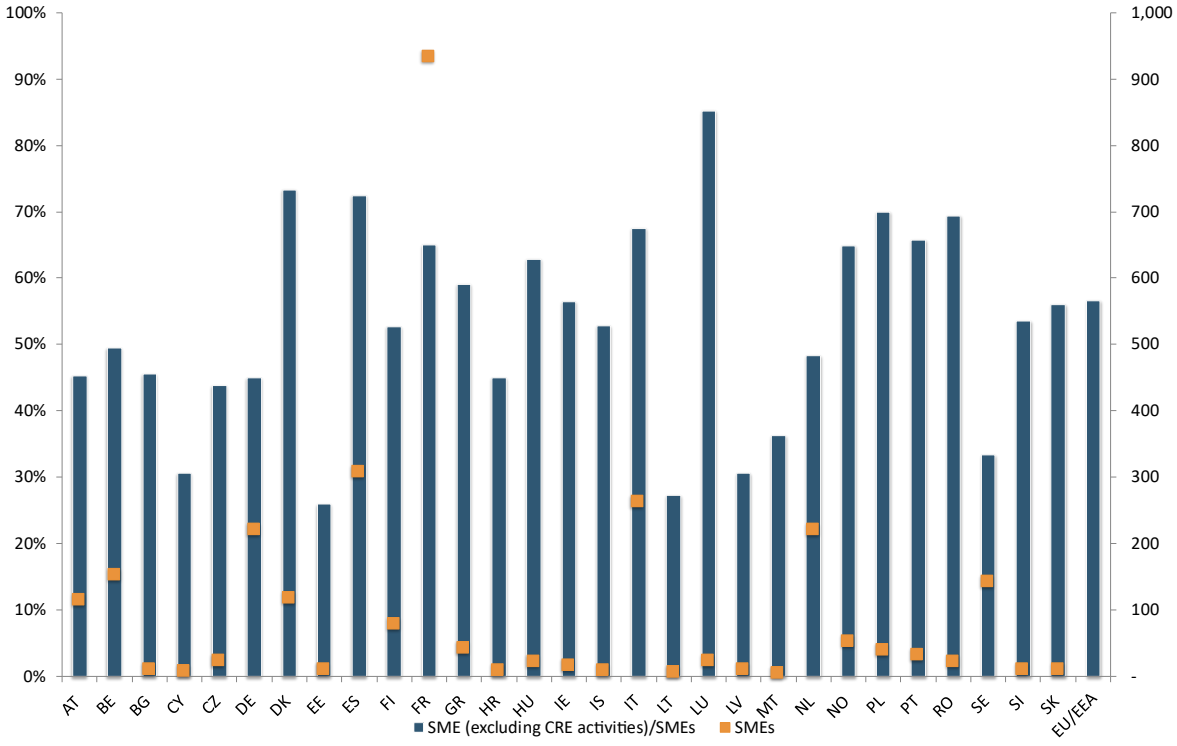



*Source: Danmarks Nationalbank*

## SME lending has strong interlinkages with commercial real estate exposures

CRE exposures represent a very relevant and, in some jurisdictions, dominant component of SME lending, highlighting a strong interlinkage between SME credit risk and real estate market developments. It is estimated that on aggregate over 40% of SME exposures are related to CRE[10]s. The relatively high share of CRE within SME portfolios implies that asset quality metrics for SMEs are partly driven by real estate dynamics, including property valuations, refinancing conditions, ongoing structural changes (e.g. work-from-home) and interest rate developments. As a result, stress in CRE markets can transmit directly into SME portfolios, amplifying credit risk beyond what would be expected from operating performance alone. This interdependence can also affect the interpretation of key indicators such as NPL ratios, Stage 2 allocations and early arrears, as deterioration may reflect both sector-specific real estate pressures and broader SME vulnerabilities. In a rising interest rate environment, this linkage is particularly relevant, as higher financing costs and declining collateral values may jointly contribute to increased default risk and migration across impairment stages, reinforcing downside risks to banks' asset quality. Figure 13 provides a cross-country view of SME exposures not related to CRE.

*Figure 13: Share of SME exposures of EU/EEA banks exposures excluding CREs activities and total exposures towards SMEs (EUR billion) by country (Q2 2026)*

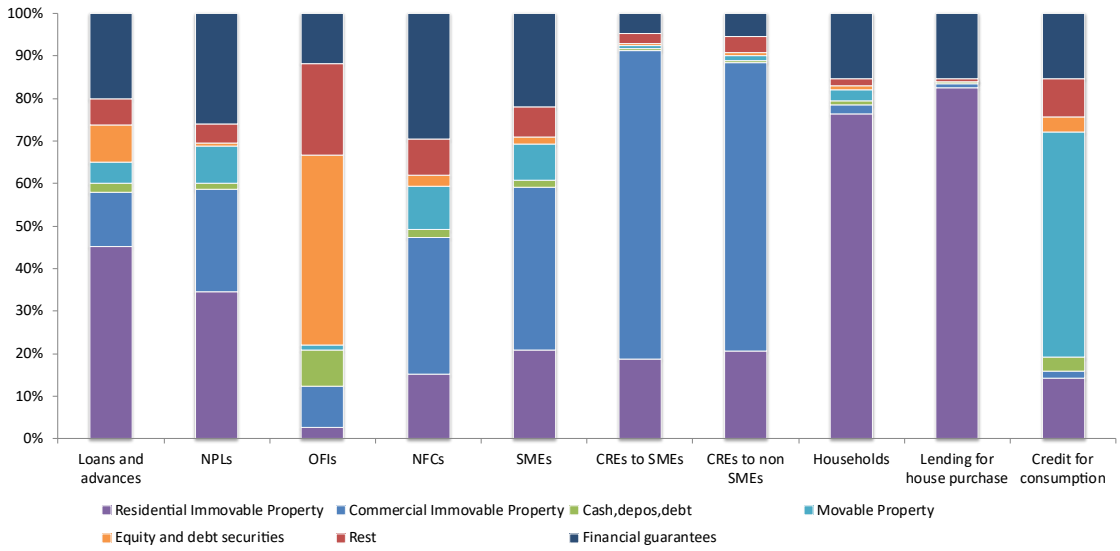



*Source: EBA Supervisory data and EBA analysis*

[10] CRE exposures include all loans secured by commercial real estate collateral. They are therefore not limited to income-producing real estate (IPRE) or acquisition, development and construction (ADC) lending, but also include loans to corporates secured by commercial property, where repayment primarily depends on the borrower's business performance.

The composition of collateral backing SME lending highlights a strong reliance on immovable property (real estate) as the primary risk mitigant, alongside a significant contribution from financial guarantees. Real estate collateral accounts for a substantial share of exposures across loan categories, including SMEs, and is particularly dominant in CRE-related lending. This underscores the central role of property markets in underpinning the credit quality of SME portfolios, as collateral values are closely linked to real estate price dynamics and refinancing conditions. At the same time, the data indicate a non-negligible use of financial guarantees, possibly reflecting the importance of public support schemes and credit risk transfer mechanisms, particularly in the post-pandemic period. Other forms of collateral—such as movable property or financial assets—play a more limited role. This concentration on immovable property implies that SME asset quality is highly sensitive to developments in real estate markets, as well as to the continued effectiveness of guaranteed schemes. In a context of rising interest rates and potential valuation adjustments, this may amplify downside risks, as declining collateral values and tighter refinancing conditions could simultaneously weaken both borrower repayment capacity and loss mitigation prospects, thereby affecting NPL ratios and provisioning needs. Yet the underlying real estate collateral could also act as an additional collateral in which it generally reduces expected loss of a bank. It is, therefore, important, to distinguish between traditional SME operating loans and loans to SMEs purposed for income-producing real estate or land acquisition, development and construction. Figure 14 summarises the composition of collateral by lending segment.

*Figure 14: EU/EEA banks' collateral by lending segment (Q2 2026)*



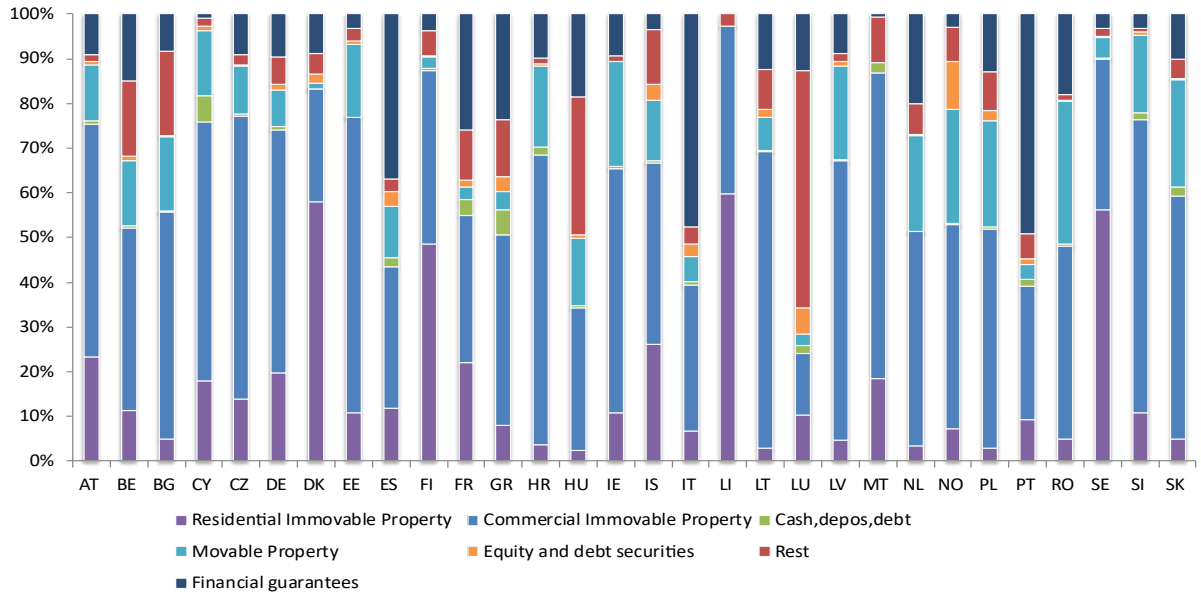

*Source: EBA Supervisory data*

Collateral composition for SMEs across countries shows marked heterogeneity, reflecting differences in lending models and policy support schemes. Nordic countries exhibit a strong reliance on residential immovable property (RIP), consistent with mortgage-based lending structures and well-developed property markets. By contrast, smaller jurisdictions tend to rely more heavily on collateral in the form of commercial immovable property (CIP).

In addition, financial guarantees account for a significant share of collateral in countries that have made extensive use of public guaranteed schemes, notably Italy, Spain, Portugal and France. This highlights the lasting impact of policy support measures— not least related to those introduced

during COVID crisis but also recent EU programs such as (InvestEU, NextGenEU) which include guarantees from both state-owned lenders but also European Investment Bank —in shaping collateral structures. Overall, these differences underline the importance of country-specific factors in assessing collateral quality and comparability across banking systems. Figure 15 shows the collateral composition of SME lending by country.

*Figure 15: Collateral composition of SME lending by country (Q2 2026)*




*Source: EBA Supervisory data*

**Box 2: SME lending in the Eurozone remains heavily concentrated in real estate-related activities, although sectoral weights have started to shift[11]**

Analysis of Anacredit data[12] confirms the strong reliance of the SME lending segment on the real estate industry. Data shows that more than EUR 1 trillion, or 44% of aggregate SME lending by Eurozone banks, is directed to the sectors “Real estate activities” (around 36%) and “Construction” (7.4%). Trade and manufacturing also remain systemically important, accounting for 10.8% and 9.1%, respectively. Beyond these sectors, only a limited number of additional NACE categories exceed a 5% share professional, scientific and technical activities (7.9%), and administrative and support service activities (5.5%) (Figure 16).

[11] The views expressed in this box are those of the authors and do not necessarily reflect the official positions of the ECB. All errors are authors’ responsibility. The dataset used in this paper contains confidential statistical information. Its use for the purpose of the analysis described in the text has been approved by the relevant ECB decision making bodies. All the necessary measures have been taken during the preparation of the analysis to ensure the physical and logical protection of the information.

[12] This box provides insights based on Anacredit data available at the ECB on sectoral exposures of SME lending. The scope of the dataset is limited to lending of SSM significant and less significant institutions to corporate SME client’s resident in the Euro Area. The dataset does not cover reporting agents that are subject to reporting derogation according to the Anacredit regulation, which should be borne in mind when interpreting nominal stocks derived from the dataset.

This concentration pattern should, however, be read alongside changes in the underlying sectoral mix over time. The relative importance of certain sectors gradually declined between 2022 and 2025. Manufacturing, for example, fell from 10.9% of aggregate SME loan volumes in 2022 to 9.1% in 2025, declining in each year of the period, while wholesale trade followed a similar pattern, decreasing from 12.1% to 10.8%.

*Figure 16: Sectoral shares in aggregate SME lending – Dec 2025 (%)*




*Source: ECB Anacredit*

Anacredit data also confirms the strong heterogeneity of SME lending across countries. Among the ten largest debtor countries by SME loan volumes, the combined share of real estate activities and construction ranges from 14% to 73%, while trade ranges from 3% to 21% and manufacturing from 3% to 26%. This points to a high degree of heterogeneity in national SME lending structures. The contrast is particularly visible among the four largest debtor countries by SME lending volume: France and Germany are characterised by relatively high real estate exposure and lower shares in manufacturing and trade, whereas Italy and Spain display a more balanced or even opposite sectoral profile (Figure 17).

*Figure 17: Sectoral shares in SME lending for selected country (%)*



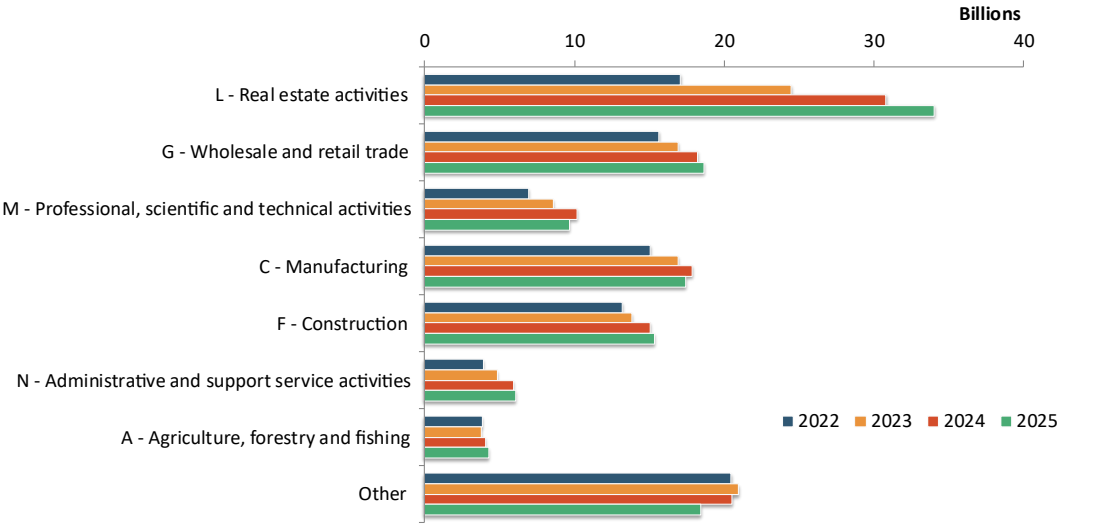

*Source: ECB Anacredit*

**The deterioration in SME asset quality is concentrated in a few countries and sectors, but vulnerabilities are broadening**

The assessment of SME asset quality using Anacredit data shows a more nuanced picture. Since 2022, the evolution of SME asset quality has been far from uniform across the EU. While some Western European countries have experienced the largest increases in SME NPL volumes, reflecting the size of their banking sectors and SME portfolios, developments in relative terms have been more mixed. Several Central and Western European countries have recorded rising SME NPL ratios over recent years, whereas many Southern and Eastern European countries have continued to improve asset quality following the substantial balance sheet clean-up undertaken over the past decade. This points to increasingly diverging credit quality trends across regions, despite broadly stable aggregate indicators.

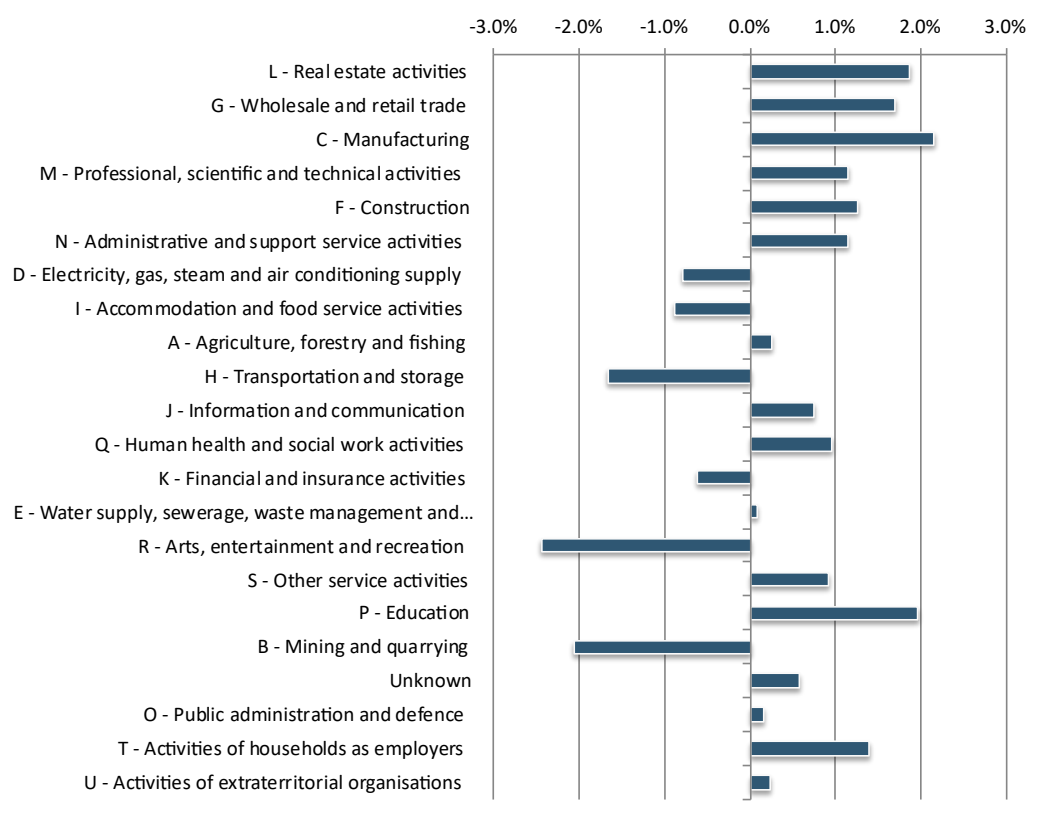
While the geographical analysis highlights that recent increases in SME credit deterioration have been concentrated in a limited number of jurisdictions, examining developments across economic sectors provides additional insight into the underlying sources of these vulnerabilities. Figure 18 and Figure 19 show that real estate activities and construction stand out as the main contributors to the worsening in SME asset quality, both in volume terms and in changes in NPL ratios. The NPL ratio for real estate activities increased from 2.2% in 2022 to 4% in 2025, while the ratio for construction rose from 7.6% to 8.9%. Together, these two sectors accounted for an increase of EUR 19 bn in NPL volumes, equivalent to 69% of the aggregate rise in SME NPLs. In fact, for real estate related SME lending in Austria, France and Germany, the sectoral NPL deterioration in these three countries alone explains more than two thirds, or 70%, of aggregate SME NPL developments in Europe. Declines in real estate NPLs in other countries partly offset this trend. Substantial asset quality weakening is also visible in other high-volume sectors, notably manufacturing, where the NPL ratio increased from 6.1% in 2022 to 8.2% in 2025, and wholesale and retail trade, where it rose from 5.7% to 7.4%.

*Figure 18: Changes in NPL volumes between 2022 and 2025 by NACE sector (EUR bn)*




*Source: ECB Anacredit*

*Figure 19: Change in NPL ratio between 2022 and 2025 by sector (percentage points)*




*Source: ECB Anacredit*

More importantly, data suggests that vulnerabilities are no longer confined to a narrow set of sectors but are becoming more broad-based. In 2022, nine of the twenty-two sectors already had elevated NPL ratios (i.e. above 5%), with the highest levels recorded in arts, entertainment and

recreation (9.6%), construction (7.6%) and accommodation and food service activities (7.6%), reflecting the lingering effects of the post-COVID period. By 2025, the picture had worsened: sixteen out of twenty-two sectors reported worse NPL ratios than in 2022 although ten remain above 5%. The three sectors with the highest NPL ratios were construction (8.9%), manufacturing (8.2%), and wholesale and retail trade (7.4%), while two additional sectors recorded NPL ratios above 7%.

From a policy perspective, these findings suggest a need to combine a targeted and a broader-based supervisory focus. On the one hand, heightened attention appears warranted for real estate-related SME exposures and for those banking systems where the recent deterioration has been most pronounced. On the other hand, the widening of vulnerabilities across sectors concerned points to the importance of maintaining a broader monitoring framework, including close tracking of sectoral asset quality trends, underwriting standards and refinancing risks, in order to identify earlier signs of stress and to assess whether pockets of weakness could become more systemic over time.

## Assessment of SME Vulnerabilities and Sectoral Weaknesses

An EBA survey conducted in Spring 2026 by the EBA with 85 banks across all European jurisdictions, the risk assessment questionnaire, points to continued concerns regarding the resilience of SME portfolios over the next 12–24 months. Banks primarily highlight cost pressures, weakening demand conditions and sector-specific vulnerabilities as the main drivers of the vulnerabilities for the SME exposures. The findings also reveal significant regional heterogeneity, reflecting differences in economic structures, sectoral composition and exposure to energy, trade and geopolitical risks across jurisdictions.

Across all regions, exposure to energy or input cost volatility emerges as the most consistently identified source of vulnerability. The concern is particularly pronounced in Eastern Europe, where 92% of respondents identified it as a key risk factor, followed by Southern Europe (77%) and Western Europe (60%). Even in Northern Europe, more than half of respondents (52%) considered it among the main risks. This suggests that SMEs remain highly sensitive to commodity price developments and broader supply-side disruptions. This pattern is also consistent with observed developments in asset quality according to Anacredit data. Sectors characterised by relatively high energy input costs—particularly manufacturing—have experienced a more pronounced deterioration in credit quality, suggesting that elevated production costs and margin compression continue to weigh on debt-servicing capacity despite the moderation in energy prices (see Figure 23). Weak demand and sector-specific downturns also rank among most significant concerns, particularly in Western Europe (56%) and Southern Europe (50%). This likely reflects expectations of slowing economic activity, weaker consumption patterns and growing pressure on SME profitability in cyclical sectors. In Northern Europe, responding banks additionally emphasised sensitivity to interest rate changes (43%) as concern, potentially reflecting higher indebtedness levels or a larger prevalence of variable-rate borrowing structures among SMEs. The perceived lack of “good” borrowers, could also be a source of concern for the banking sector and interrelate with weak demand and sector-specific downturns.[13]

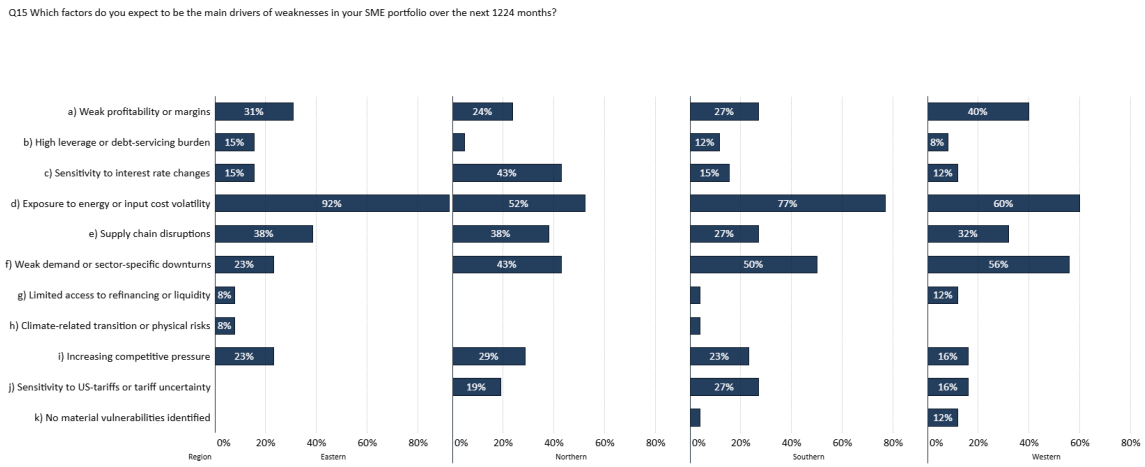
Supply chain disruptions remain another important concern, especially in Eastern and Northern Europe, where close to 40% of respondents identified them as a source of weakness. Tariff

[13] German Banks Struggle to Find Credit-Worthy Borrowers Despite Excess Capital

uncertainty and US-related trade tensions were also mentioned, particularly in Southern Europe, suggesting that trade fragmentation and geopolitical tensions continue to weigh on SME risk assessments. At the same time, weak profitability or margins were identified by 40% of Western European respondents and around one quarter to one third in other regions, indicating that many SMEs may still struggle to pass higher costs on to customers in an environment characterised by weaker demand and increased competition.

By contrast, leverage and debt-servicing burdens were generally not perceived as a dominant vulnerability, while refinancing and access to liquidity concerns remained comparatively limited across regions. This may reflect that funding conditions remain manageable for now despite tighter financial conditions, although this could change should economic conditions deteriorate further.

*Figure 20: Factors that banks expect to be the main drivers of weaknesses in SMEs portfolios by region*



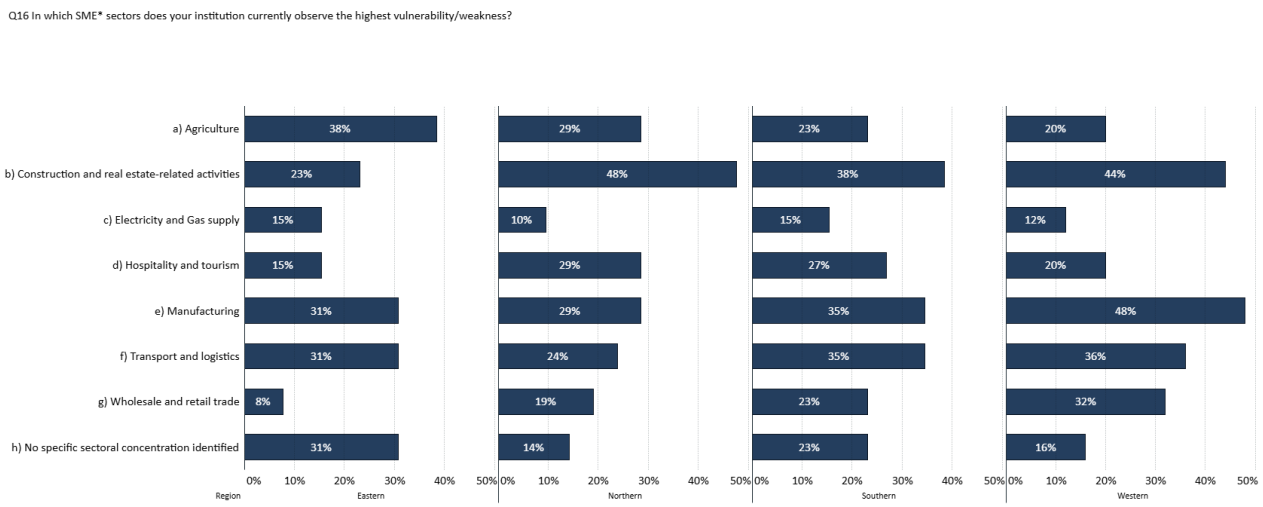

*Source: Risk Assessment Questionnaire*

From a sectoral perspective, vulnerabilities appear concentrated in a relatively limited number of industries. Construction and real estate-related activities were identified as sectors with the highest vulnerability by 40% of respondents overall, making it the most frequently cited sector. This likely reflects the prolonged impact of elevated interest rates, declining real estate activity, rising financing costs and weaker investment conditions. Manufacturing was the second most frequently identified vulnerable sector (36%), followed by transport and logistics (32%). Both sectors remain exposed to input cost volatility, supply chain disruptions, weaker external demand and increasing geopolitical fragmentation risks. The survey findings are broadly corroborated by AnaCredit data, which show a recent increase in non-performing loans in the manufacturing sector across EU banks. This suggests that the sector's deterioration is already becoming visible in observed credit quality, reinforcing banks' expectations that manufacturing remains one of the more vulnerable segments within SME portfolios (see also Figure 23).

Regional differences remain pronounced. According to survey responses, vulnerabilities in Eastern Europe are concentrated in agriculture, manufacturing and transport and logistics, reflecting exposure to commodity price volatility, climate-related disruptions, energy-intensive production and trade corridor dependencies, while the relatively high share of respondents reporting no specific sectoral concentration suggests risks are more broadly distributed across SME portfolios.

Northern Europe shows the strongest concentration of vulnerabilities in construction and real estate-related activities, likely linked to weaker commercial property markets and subdued investment, alongside concerns in manufacturing, agriculture and hospitality. In Southern Europe, vulnerabilities are more evenly spread across construction and real estate, manufacturing, and transport and logistics, with hospitality and tourism remaining particularly exposed given the importance of tourism to several economies and its sensitivity to weaker household spending and geopolitical uncertainty. Western Europe exhibits the highest reported vulnerabilities in manufacturing and construction and real estate, followed by transport and logistics and wholesale and retail trade, pointing to concerns over industrial competitiveness, weaker export demand, supply chain fragmentation, margin compression and softer consumer spending. Figure 17 shows the results of the survey by region.

*Figure 21: SME sectors in which banks identify highest vulnerabilities by region*




*Source: Risk Assessment Questionnaire*

Overall, the results suggest that SME credit risks appear increasingly shaped by structural sectoral vulnerabilities and prolonged cost as well as demand pressures rather than by isolated macro-financial shocks alone. Construction, manufacturing and transport-related sectors appear particularly vulnerable across most regions, while agriculture and tourism-related sectors exhibit more geographically concentrated risks (See Box 3 on sectoral concentrations).

From a supervisory and risk management perspective, the findings underscore the importance of maintaining close monitoring of SME portfolios exposed to volatile input costs, cyclical downturns and sector-specific stress factors. Institutions may need to ensure that sectoral concentration risks, borrower repayment capacity and collateral valuations remain adequately captured in credit risk monitoring and provisioning frameworks. Given the regional dispersion observed in the risk assessment questionnaire, banks and supervisors may also need to remain attentive to jurisdiction-specific vulnerabilities and potential second-round effects stemming from geopolitical fragmentation, trade disruptions, high energy prices prolonged weak demand conditions or renewed energy market stress.

## The evolving role of artificial intelligence in SME lending

The relevance of advanced technologies, in particular artificial intelligence (AI) for bank lending and SME lending is growing. AI and other advanced technologies have the potential to make SME lending both more efficient and accessible, and loan allocation more equitable. AI can impact SME lending and credit management by contributing to improve speed and efficiency of loan origination for banks and reducing loan approval time for SMEs. 61% of respondents to the spring 2026 RAQ have indicated to use some forms of AI in their credit and client profiling. According to the survey results, the most common areas of usage are creditworthiness assessment, profiling for credit risk scoring and customer risk profiling.

AI could substantially impact SME loan approval and the credit lifecycle. It can shift loan approval from more static and manual reviews to more automated and dynamic underwriting. With its capacity to process vast datasets, including alternative datasets such as, e.g., real-time cash flow and digital transactions, AI has the potential to strongly reduce SME loan application assessment and approval times. At the same time, its usage can mitigate human biases and maintains risk compliance.

Banks may also benefit from the use of AI in more efficient loan data management. Given the high and growing volume of financial data involved in SME loan approval and management, AI can facilitate data management to process and analyse information faster. Rather than manual document processing, AI tools can automatically extract data from loan applications, tax documents, and other critical documentation. AI can thereby not only help to reduce errors but also facilitate the evaluation process. The use of AI in risk modelling has the potential to improve borrower assessments by processing large volumes of structured and unstructured data, identifying patterns and emerging risk signals, and supporting more forward-looking evaluations of creditworthiness than traditional modelling approaches. However, these benefits depend on robust model governance, data quality and appropriate human oversight.

Over the longer term, the wider adoption of AI in SME lending could facilitate access to finance by improving the efficiency and accuracy of credit assessments. Enhanced risk differentiation may support a more efficient allocation of credit, increase banks' risk-bearing capacity, and enable more risk-sensitive pricing. These improvements could ultimately broaden access to credit for viable SMEs and, by reducing information asymmetries and improving the customer experience, also stimulate demand for bank lending.

While AI has the potential to improve credit assessment and broaden access to finance for SMEs, its increasing use also introduces new risks. These include concerns over model bias and explainability, data privacy and quality, cyber threats, third-party dependencies, and the potential for model errors to result in inaccurate credit decisions or discriminatory outcomes. Recent developments with advanced frontier AI models have demonstrated that AI usage can significantly enhance cyber risk. More specifically, for SME lending, ECB analysis[14] has shown that AI-driven algorithms may allow banks to exploit market power, potentially raising lending margins and reduce

[14] For more details, please read the detailed ECB's article: "AI and the euro area economy".

competitive pressure and distort credit allocation. Evidence from US research[15] also suggests that machine-learning credit models may worsen access to credit for minorities.

## Conclusions and policy considerations

The analysis in this note points to rather stable but existent vulnerabilities in SME portfolios, mainly stemming from the increasing macroeconomic uncertainties. SME insolvencies have increased materially since 2021 and accelerated further in 2025, confirming that the post-pandemic adjustment is still unfolding and that a more difficult macro-financial environment is increasingly testing less resilient firms. Given the material share of SMEs in banks' lending to non-financial corporates, these developments matter directly for the asset quality outlook of the European banking sector. Headline NPL ratios remain broadly contained, but this should not lead to complacency. Higher early arrears, elevated Stage 2 stocks and persistent sectoral pockets of weakness suggest that underlying credit deterioration may still be working its way through bank balance sheets with a lag.

The note also shows that SME risk cannot be assessed in isolation from broader structural features of bank lending portfolios. Forbearance measures have declined over time, yet they remain structurally higher for SMEs than for other portfolios, which may indicate a continued reliance on restructuring tools to contain borrower distress. In parallel, the strong overlap between SME lending and CRE exposures, together with the heavy use of immovable property and guarantees as credit risk mitigants, means that pressures from the real estate cycle, refinancing conditions and collateral revaluation can transmit directly into SME asset quality. The evidence in Box 2 reinforces this assessment: the Danish case suggests that higher SME lending margins are broadly consistent with higher underlying risk, while the AnaCredit evidence shows that the deterioration in asset quality is concentrated in a limited number of sectors and countries (i.e. evidences of "pockets of risk"), especially in real estate-related activities, even as vulnerabilities are gradually broadening. The evidence therefore suggests that risks are not necessarily acute at system level, but they are sufficiently visible, heterogeneous and interconnected to warrant close supervisory attention, especially in jurisdictions and sectors where insolvencies and early arrears are already rising more clearly.

From a policy perspective, the findings of this Note argue for a combination of targeted and system-wide monitoring. First, supervisors should continue to scrutinise whether rising SME distress is being identified sufficiently early through staging, provisioning and borrower classification practices, particularly where forbearance remains elevated. Second, banks may need to demonstrate that refinancing and restructuring measures are used for prevention of financial difficulties in an early stage rather than as mechanisms that merely postpone loss recognition. Third, supervisory attention should remain focused on jurisdictions and institutions with strong concentrations in SME sectors linked to construction and commercial real estate, where borrower weakness and collateral-related risks may interact. The evidence in Box 2 also points to the value of more granular monitoring of pricing, sectoral concentrations and country-specific pockets of deterioration, as these may provide earlier signals of emerging stress than aggregate headline indicators alone. More broadly, the current environment reinforces the need for banks to maintain prudent underwriting, robust valuation and provisioning practices, and sufficiently granular

[15] See Mao, Udell, Kallus "Fairness Under Unawareness: Assessing Disparity When Protected Class is Unobserved", Cornell University, 2019.

sectoral monitoring so that an initially contained deterioration in SME portfolios does not evolve into a potentially broader asset quality problem.

# List of figures

*Figure 1:Corporate bankruptcies in EU (2021=100)* ..... 3
*Figure 2: EU/EEA banks' exposures to SMEs (EUR trillion) and share of SMEs to NFC loans (%)* ..... 4
*Figure 3: Share of SME lending to NFC loans of EU/EEA banks exposures by country* ..... 5
*Figure 4: EU/EEA banks' NPL ratios trend by counterparty segment* ..... 6
*Figure 5: EU/EEA banks Stage 2 allocation (left) and Past due >30 days and <=90 days (right) trend by counterparty segment* ..... 7
*Figure 6: Changes in Stage 2 Exposures and Early Arrears (Q2 2020–Q2 2026)* ..... 9
*Figure 7: EU/EEA banks' forbearance ratio by segment (%)* ..... 10
*Figure 8: EU/EEA banks forbearance (EUR bn)* ..... 11
*Figure 9: Year-on-year lending growth for large firms and SMEs (Danish banking sector)* ..... 12
*Figure 10: Lending margins for large firms and SMEs (volume weighted margins) for Danish banking sector* ..... 12
*Figure 11: Lending margins by performing status and firm size for Danish banking sector* ..... 13
*Figure 12: Lending margins by IFRS9 stage and firm size for Danish Banking sector* ..... 13
*Figure 13: Share of SME exposures of EU/EEA banks exposures excluding CREs activities and total exposures towards SMEs (EUR billion) by country (Q2 2026)* ..... 14
*Figure 14: EU/EEA banks' collateral by lending segment (Q2 2026)* ..... 15
*Figure 15: Collateral composition of SME lending by country (Q2 2026)* ..... 16
*Figure 16: Sectoral shares in aggregate SME lending – Dec 2025 (%)* ..... 17
*Figure 17: Sectoral shares in SME lending for selected country (%)* ..... 18
*Figure 18: Changes in NPL volumes between 2022 and 2025 by NACE sector (EUR bn)* ..... 19
*Figure 19: Change in NPL ratio between 2022 and 2025 by sector (percentage points)* ..... 19
*Figure 20: Factors that banks expect to be the main drivers of weaknesses in SMEs portfolios by region* ..... 21
*Figure 21: SME sectors in which banks identify highest vulnerabilities by region* ..... 22

Tour Europlaza, 20 avenue André Prothin CS 30154
92927 Paris La Défense CEDEX, FRANCE
Tel. +33 1 86 52 70 00

E-mail: info@eba.europa.eu

https://eba.europa.eu