

Spare a few thoughts for small and medium-sized enterprises (SMEs). While banks and the property sector are getting much attention, SMEs in other sectors are likely to be among the hardest hit by the credit crunch.

Large companies tend to have diversified sources of external finance, but SMEs typically depend exclusively on banks. Without working capital to pay suppliers and wages, many profitable SMEs may be forced to shrink or shut down.

It's frightening when you compare the neglect of SMEs with the extraordinary efforts the Government has made over recent weeks to guarantee credit to banks and subprime mortgage borrowers.

This may be a case of the boy who called wolf. SMEs seem always to be complaining about access to financing and the cost of credit – even during good times. Banks can reasonably be expected to tighten lending criteria during recessions as customers' financial prospects dim and risks increase. Moreover, the demand for loans shrinks during downturns, so tighter criteria don't necessarily leave SMEs credit-constrained.

But the vicious deleveraging that is underway threatens to squeeze out genuinely profitable businesses, particularly smaller ones.

What can the Government do to alleviate the credit crunch facing SMEs? For starters, the authorities should insist that banks have ample capital, since the quantity of loans that a bank can make is proportional to its capital.

Second, banks should be persuaded, or forced if necessary, to shift credit from zombie property developers to more deserving customers. Property can no longer be allowed to crowd out other sectors.

Finally, special credit facilities for SMEs should be considered if conditions continue to deteriorate. Credit guarantee schemes are surprisingly common across the world, though there is little convincing evidence that such programmes are effective. Designing a scheme that would work well for this country is a major challenge.