SME Growth Index

September 2025

ScotPac Business Finance

Research completed in partnership with East & Partners, surveying Business Owners and Decision Makers in Australia.

OVER 10 YEARS OF RESEARCH

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Executive Summary

SMEs Balancing Record Growth Potential with Rising Pressures

Confidence, constraints, and complexity. For Australian SMEs in 2025, these three forces are shaping a business landscape that is simultaneously buoyed by record growth expectations and weighed down by mounting financial and regulatory pressures.

Welcome to the 23rd edition of ScotPac's SME Growth Index – the nation's definitive barometer of SME sentiment and strategy. The findings in this latest report reveal a sector walking a tightrope between renewed optimism and structural headwinds that threaten to derail momentum.

Growth Picture Brightens – but Sentiment Gap Widens

Almost 60% of SMEs expect revenue to rise over the next six months, with average forecasts reaching double-digits for the first time in the Index's history. Mining remains a consistently positive driver of growth, but optimism is also running high across the business and professional services sector, where firms are bullish about short-term prospects. Yet this confidence is far from universal.

More than a third of SMEs – including over 70% in Victoria – anticipate declining revenues to March 2026, and one in four now describe themselves as being in outright contraction. The "stable middle ground" that once characterised much of the SME sector has all but disappeared, with firms pushed to either side of the growth divide.

Investment Appetite Still Strong as Pressures Grow

Despite this polarisation, six in ten SMEs plan to inject new capital into their businesses over the coming months, and more than half intend to fund that expansion through non-bank lenders – now double the proportion turning to banks. However, around 90% of SMEs remain heavily reliant on their own funds or family finance, a strategy that risks constraining long-term ambitions.

Beyond investment, other pressures are increasing.

- Wage inflation and soaring energy costs are eroding margins, pushing SMEs into defensive measures such as recruitment freezes, delayed capital expenditure, and cost-cutting that could compromise future productivity.
- The constantly shifting tax landscape continues to catch many businesses off guard, particularly smaller firms facing costly reforms such as the removal of ATO debt interest deductibility.
- Natural disasters, once considered isolated events, have become recurring national shocks, disrupting two-thirds of SMEs and leaving more than one in four with no preparation.

Meanwhile, household savings – battered by inflation and successive interest rate rises – have rebounded far more strongly than predicted, adding another layer of complexity to demand forecasts.

Brokers, Lenders and Government: Pivotal Roles

Against this backdrop, SMEs face an extraordinary balancing act. Those with momentum are seeking smarter, more flexible ways to fund expansion, while those under strain urgently require working capital support to steady the ship. In both cases, the role of brokers, lenders, and advisers is pivotal – helping SMEs turn resilience into recovery, and recovery into growth.

The role of policymakers and governments is also crucial. Australian SMEs contribute more than half of national GDP, yet the multiple constraints highlighted in this Report continue to act as a handbrake on their performance - leaving productivity levels around 50% lower than those of larger businesses.

Closing this productivity gap is achievable and essential for the health of our economy. It will require practical and supportive government settings that respond to SME concerns - cutting red tape, incentivising skills development, and encouraging investment in innovation.

With the right framework in place, SMEs can redirect their energy toward growth and performance, strengthening their role as the backbone of Australia's economy.

Jon Sutton
CEO ScotPac

Round 23 SME Growth Index Highlights

59% of SMEs are projecting revenue growth of a record average of **10%**

25% of SMEs are in outright contraction mode – a threefold rise since 2014

60% of SMEs plan to expand new business investment or capital expenditure

55% of SMEs plan to fund new business investment with non-bank finance

82% of SMEs said wage inflation remains their most pressing cost concern

72% of SMEs have stopped hiring new staff to mitigate insolvency risk

65% of SMEs have been directly or indirectly affected by natural disasters

44% of SMEs have never accrued ATO debt while **22%** owe the ATO money

21% of SMEs said productivity constraints have resulted in higher wage bills

Soaring Growth Rates Mask Deep Divide in SME Growth Forecasts

Business Services joins Mining among the nation's most buoyant sectors

Overview

Almost 60% of Australia's SME owners and operators are projecting revenue growth in the six months to March 2026, by a new record average increase of 10.1%.

By contrast, 35% of SMEs expect revenue to fall by an average of -14% over the period. And alarmingly, one in four SMEs are in outright contraction.

Just 6% of SMEs expect no change in half-year revenue, compared with the nearly 30% "sitting on the fence" at the peak of the pandemic in 2020.

Sector and National Snapshots

SMEs in the Mining sector (81%) remain the most optimistic about the next half-year. Other industries largely bullish about revenue growth include Business Services (73%), Transport (66%), Agriculture (61%) and Wholesale (59%). Less than half of the SMEs in Construction (26%) and Manufacturing (40%) expect better trading results.

Western Australia reclaimed the mantle as the most positive state, with 91% of SMEs expecting near-term revenue growth. Queensland SMEs (84%) and New South Wales SMEs (61%) are also upbeat. On the flip side, Victoria continues to lag, with just 28% of SMEs forecasting growth into 2026.

59%

of SMEs are projecting double digit average revenue growth in the next six months

35%

of SMEs are forecasting a decline in revenue to March 2026

25%

of SMEs are in outright contraction mode with little hope of recovery

For SMEs

With sharp divergences in revenue outlook across sectors and geographic lines, the lesson is clear: **business conditions are no longer uniform**. Agility – being ready to seize opportunities as they arise – will be key to success for SMEs with a growth mindset. Those facing downturns should focus on **cash flow stability** and **tailored restructuring support**.

For Brokers

Brokers have a pivotal role to play as SMEs navigate mixed revenue outlooks. Clients pursuing growth need **scalable finance solutions to expand**, while those anticipating contraction will look to their brokers for guidance on **working capital, debt restructuring**, and **cash-flow management strategies**.

How can ScotPac help?

ScotPac has the market-leading range of business lending and cash flow solutions to give SMEs the best chance of success. Today, we support more than 9,300 businesses, including unlocking $26.3 billion in invoices annually. Find out more about ScotPac's award-winning Invoice Finance solution.

Non-Bank Funding Doubles Bank Lending for New SME Investment

Heavy reliance on retained funds may stifle growth opportunities

Overview

Three in every five SMEs are planning new business investment or capital expenditure in the next six months - slightly higher than the levels recorded just prior to the March Federal Election.

Demand for **non-bank lending sources** to fund investment has doubled over the past five years and now stands at 55%. This uptake has been evenly spread across SMEs expecting both revenue growth and contraction.

Banks Lose Further Ground

By contrast, the proportion of SMEs intending to use **bank borrowing** has slipped again to 27% - split between main relationship banks (16%) and secondary bank lenders (11%). The result marks a 12% year-on-year decline, bringing reliance on banks close to the historical low of 26% in 2022.

High Use of Retained Funds

Despite these shifts, a very high proportion of SMEs continue to back new investment with **retained earnings** rather than borrowing. This was particularly pronounced among growth SMEs (91%), compared with 60% of SMEs with stable or declining revenue.

The use of **private credit** - including funding from friends and family - remained steady throughout 2025 at 32%.

60%

of SMEs plan to invest in their business in the next six months

55%

of SMEs intend to use non-bank funding sources for new investment

89%

of SMEs plan to use their own funds to partially or full fund new investment

For SMEs

With retained earnings still a dominant funding source for SMEs, business owners should look to **balance self-financing with external capital** to avoid constraining growth aspirations. Exploring a **mix of funding options**, including non-bank finance, will help SMEs remain agile and protect cash flow during uncertain conditions.

For Brokers

With banks stepping back from the SME market despite **strong investment appetite**, brokers are uniquely positioned to match businesses with the right funding solutions, particularly in the booming asset finance class. By providing clear guidance, they can cement their role as valued partners in **driving SME growth and resilience**.

How can ScotPac help?

Businesses need access to funds and capital to grow and succeed. ScotPac has helped thousands of businesses expand by securing the right business funding through our products. Find out more about our Business Expansion Financing Solutions, including our popular Boost Business Loan.

Multiple Tax System Changes Set to Impact Smaller SMEs

More education needed to keep micro-businesses informed

Overview

There is mixed awareness of important changes to our tax system that have potential to affect most SMEs.

- 84% are aware of planned tax changes to superannuation balances over $3 million
- Only 45% of small SMEs know of the extension of the $20,000 Instant Asset Write-Off
- 52% understand there are no business tax cuts on the horizon, with this knowledge more common among larger firms.

ATO Tax Debt

One in five SMEs (22%) confirmed they are carrying outstanding ATO debt, with higher incidence among small (24%) v large SMEs (20%).

However, only half of the total SME market is aware that tax debt interest will no longer be deductible, dropping to 38% for smaller SMEs which are most likely to be affected.

Over the past five years:

- 57% of SMEs incurred ATO debt
- 23% of SMEs cleared ATO debt, including 12% who repaid last year
- 44% of SMEs never accrued tax debt, with incidence higher among large businesses (48%) than smaller ones (39%).

22%

of SMEs have an outstanding ATO debt while 44% have never accrued debt

62%

of smaller SMEs are not aware of ATO interest charge changes

55%

of small SMEs are not aware of the temporary extension to the Instant Asset Write-off limit

For SMEs

Patchy awareness of tax changes is putting smaller SMEs at risk of missing critical updates such as the **non-deductibility of ATO debt interest**. Taking steps to stay informed – by checking ATO updates, consulting advisers, and joining industry bodies – can help SMEs **avoid unexpected costs** and to make the most of incentives like the $20,000 Instant Asset Write-Off.

For Brokers

Helping time-poor SMEs navigate upcoming tax changes is a great opportunity for brokers to **elevate their role as trusted advisers**. By explaining both the risks and incentives these reforms bring, brokers can deepen client relationships and position themselves not just as sources of funding, but as **long-term partners in financial strategy and business growth.**

How can ScotPac help?

With a General Interest Charge that currently stands at 10.78% and is no longer tax-deductible, managing tax debt through an ATO payment plan is now a very expensive option for SMEs. ScotPac can help with smarter, more affordable solutions to manage ATO debt that retain the benefit of deductible interest payments.

Natural Disaster Impacts are a Mainstream Risk for SMEs

Primary lenders emerge as key advisors in business recovery efforts

Overview

More than two-thirds of Australian SMEs have been negatively affected by natural disasters in recent years, including bushfires in Victoria, and floods and cyclones throughout Queensland and New South Wales.

- **Direct impacts:** 34% of SMEs reported tangible losses such as property damage and product or inventory loss.
- **Indirect impacts:** 42% experienced flow-on effects including production delays, increased insurance costs, and operational downtime.

Larger SMEs were disproportionately affected, with 68% reporting disruption, reflecting the more complex nature of their supply chains and customer markets.

Trusted Sources of Financial Guidance

When recovering from disaster impacts, SMEs most often turn to their primary lenders (33%) and trading partners / suppliers (32%)

When preparing for future risks, a quarter of SMEs said they would rely on their accountant for financial advice, while 17% would consult business colleagues or trade partners on tasks such as emergency management preparedness and contingency planning.

65%

of SMEs have been affected by natural disasters in the past 5 years

33%

of SMEs struck by natural disasters turn to their primary lender for financial advice

26%

of SMEs have not sought any advice on disaster preparation

For SMEs

With most SMEs across the country having felt the impacts of recent natural disasters, businesses that have not sought advice on disaster preparation are leaving themselves vulnerable to future disruptions. Seeking professional financial advice is key to **safeguard operations, supply chains, and long-term resilience.**

For Brokers

With a quarter of SMEs having taken no steps to prepare for natural disaster impacts, brokers have an opportunity to engage with clients to help them develop **financial contingency plans** that **protect cash flow and strengthen resilience** against future shocks.

How can ScotPac help?

When business disruptions occur, it's reassuring for SMEs to know they can access funds when they need them most. That is what ScotPac's new Line of Credit delivers. It gives business owners fast and flexible access to funding up to $500,000 and greater control over cash flow. SMEs can move at their own pace, safe in the knowledge they will only pay for the funds they use.

Rising Wages and Energy Bills Top SME Cost Concerns

Insolvency mitigation measures threaten new jobs and innovation

Overview

Wage inflation remains the most pressing challenge for Australian business owners, with 82% nominating it as a major concern, up from 72% in 2022. This follows the 3.5% rise in the national minimum wage on 1 July to $24.95 per hour ($948 per week).

Beyond wages, other significant cost pressures identified by SMEs included Electricity (49%), Fuel (42%), Compliance (39%), Interest costs (35%), Gas (30%) and Logistics (28%).

Electricity is now a critical burden, consuming 7.5% of the average SME cost base - a staggering 51% increase in just 18 months.

Cost Mitigation Strategies

To shield themselves from rising costs and the threat of insolvency, SMEs are adopting a range of short-term defensive measures that risk long-term consequences:

- 72% have frozen recruitment
- 62% are delaying capital expenditure
- 58% have reduced their cost base

Additionally, 7% of SME owners are working longer hours to help offset pressures, another unsustainable interim fix.

82%

of SMEs listed rising wages as a major cause of cost pressure

49%

of SMEs said sharply rising electricity costs were a leading concern

72%

of SMEs have stopped hiring new staff to mitigate insolvency risk

For SMEs

Rising business costs are squeezing margins and forcing many SMEs into short-term staffing and cost-cutting practices that risk undermining long-term growth. **Proactive financial planning and advice** can help **balance survival strategies with future investment**. 19% of SME's are focused on longer term cash flow management solutions through receivables finance.

For Brokers

With SMEs increasingly relying on defensive measures like recruitment freezes and delayed capital spend, brokers can play a critical role in **providing flexible funding solutions that ease cash flow pressures**, without jeopardising long-term growth potential.

How can ScotPac help?

SMEs across all sectors need a reliable source of cash flow to stay on top of costs and succeed. ScotPac's team of lending specialists work with brokers and business owners to tailor working capital solutions that keep SMEs running smoothly in the face of rising costs. Find out more about how ScotPac can help SMEs more easily and predictably manage their cash flow.

Systemic Constraints Hamper SME Progress on Productivity

Closing the productivity gap between SMEs and larger businesses is a national priority

Overview

A combination of multiple constraints is squeezing the ability of Australian SMEs of all sizes to improve productivity, efficiency and competitiveness.

The **top five constraints** SMEs identified are:

- **Higher wages (21%)** – placing upward pressure on operating costs.
- **Hiring delays (16%)** – slowing business growth and limiting capacity.
- **Lack of agility (14%)** – reducing responsiveness to market opportunities.
- **Lower profits (13%)** – restricting reinvestment in innovation and growth.
- **Lack of innovation (9%)** – hampering long-term competitiveness.

Other notable impediments include reduced competitiveness (8%), inhibited growth (6%), shelved expansion plans (5%), and asset underutilisation (5%).

Collectively, these factors highlight the systemic challenges SMEs face in sustaining productivity and seizing growth opportunities compared with larger and better resourced businesses.

21%

of SMEs said rising wage costs is the greatest barrier to productivity gains

16%

of SMEs said problems recruiting staff is the main inhibitor of innovation

8%

of SMEs said the failure to enhance productivity was hurting their competitiveness

For SMEs

Recent analysis from the Productivity Commission found that **SMEs lag large firms in productivity performance gains by around 50%.** In addition to governments prioritising support for SMEs, breaking through productivity barriers will require **innovation, agility, and smart financial planning.**

For Brokers

The Institute of Public Accountants has found the key barriers to improving SME productivity include government red tape, ongoing skills gaps, and the slow adoption of technology, either due to cost or uncertainty. Brokers can't fix all of these, but they can play a valuable role by structuring **funding solutions that free up capital for SME innovation and growth.**

How can ScotPac help?

For over 35 years, ScotPac has been helping SMEs unlock working capital to innovate and grow. For example, if a business needs new assets or equipment to operate more efficiently, ScotPac's Asset Finance is one of the tools we have available to help maximise SME productivity and drive Australia's economic future.

Methodology

ScotPac's bi-annual SME Growth Index, is Australia's longest running research report on SME sentiment towards revenue growth prospects.

This is the 23rd consecutive round of ScotPac's SME Growth Index. Each index round includes a mix of core questions and special questions which are refreshed in line with trends and challenges in the SME business environment.

The Round 23 research was conducted by East & Partners who interviewed 724 SME enterprises with annual revenues of A$1-$20 million.

All interviews were conducted over Zoom or MS Teams by an accredited East & Partners interviewer, speaking with the company Owner/ CEO (57%), CFO (21%), Finance Director (14%), Treasurer or other senior office holder.

The sample was framed in accordance with ANZSIC codes to provide a natural sample of the Australian enterprise population. 71% of interviewees were in Australian metropolitan centres, while 29% reside in regional areas.

The SMEs surveyed have operated continuously for an average of 16 years and manage an average of 53 full-time equivalent employees.

Sectors represented in the survey included Property & Business Services (13%), Manufacturing (13%), Wholesale (12%), Retail (11%), Transport & Storage (10%), Personal & Other Services (10%), Construction (10%) and other industries including Mining & Resources, Agriculture, Media & Telco, Accommodation, Cafes & Restaurants, Finance & Insurance (non-bank) and Electricity, Gas & Water.

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About ScotPac

ScotPac is Australia and New Zealand's largest and longest-standing non-bank SME business lender, providing funding to small, medium and large businesses from start-ups to enterprises exceeding $1 billion revenues.

For over 35 years ScotPac has helped thousands of business owners succeed, offering fast and flexible funding. We were recently awarded The Adviser Magazine's Debtor Finance Loan of the Year for a sixth time. ScotPac currently supports more than 9,300 businesses and funds an average of $26.3 billion of invoices annually.

From simple to complex, small to large, start-up, growth or turnaround, ScotPac has Australasia's largest range of funding solutions. Our expert teams can tailor the right finance package to match all your business needs.

Experts in SMEs

For over 35 years, ScotPac has been helping small and medium sized businesses with a variety of customised business finance solutions. From debtor finance to invoice finance, our team are specialists in ensuring our clients receive tailored solutions that work for them and their business.

Fast funding

With timely service and flexible products, we can ensure your business is up and running in as little as 48 hours. Plus, we focus on measurable business growth and view our work with clients as a relationship, not a transaction.

Tailored solutions

Whether you're interested in exploring what sort of business finance solutions are available, or simply want a better cash flow management solution designed by specialists with the right industry know-how, make sure to contact the team here at ScotPac.

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Call 1300 145 344 or
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