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EXECUTIVE SUMMARY

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COVID-19, business support and SME productivity in the UK

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In this paper we draw on arguments related to behavioural additionality to consider how UK COVID-19 emergency public support measures – Furlough funding and loan guarantees – during the pandemic have influenced firms’ future investment intentions and employee well-being. Both provide an early indication of potential effects on future productivity. The potential linkages and mechanisms are suggested using Logic Models. Survey data from the SME Finance Monitor for 2020Q3 and 2020Q4 and the Health and Well-being Survey 2021 provide data and we estimate probit models, instrumenting for different combinations of policy instruments (Furlough/loan, loan only, Furlough-only). Overall, we find widespread positive short-term impacts of the government support schemes on investment planning and smaller impacts on employee well-being. For example, firms which received a combination of Furlough and loans are 17.2 percentage points more likely to plan investments in capital equipment than firms with no pandemic support. The same group of firms are 9.2 per cent less likely to report mental health absences and 9.9 per cent less likely to report sickness absences. While it is too early to draw firm conclusions our results suggest that public support during the pandemic is contributing to more positive investment intentions and well-being and potentially to sustaining or growing productivity which will be crucial in the recovery.