



# **CompNet Workshop**

**OPENING REMARKS by YVES MERSCH**

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**EUROPEAN CENTRAL BANK**

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I have been following the rich activity of the Network since it was set up and I can say that I am familiar with the results obtained so far. The topic that you address is an important policy issue, especially nowadays, when there is a renewed concern for growth.

Without triumphalism it is certainly fair to say that Europe is a more stable and stronger union today than it was a year ago. One clear sign is that after having experienced a banking crisis, a crisis of public and private debt, a crisis of trust in institutions and political decision making, NOW the focus is clearly turning on laying the foundations for sustained growth.

Restoring competitiveness has been identified as the source of balanced growth and employment.

I therefore want to focus my remarks today on how competitiveness problems can be addressed and more precisely on a particular issue that is currently on everybody's mind when it comes to factors that hamper productivity growth and job creation, namely limited access to finance.

I see from the agenda of the workshop that there is a session dedicated to credit constraints, so I am sure that you will put forward many interesting results.

Do not forget that balance sheet repair is also necessary for a return to normal procedures. The fragmentation of financing conditions across countries was one of the most prevalent problems we are currently facing. In countries where the banking sector experienced large balance sheet shocks related to deteriorating sovereign debt, access to bank credit had tightened substantially with both supply and demand factors at work.

Within countries, small and medium size firms (SMEs) are the most affected by fragmentation of the banking sector. Interest rate spreads on SME loans compared with those for large non-financial companies have widened by an average of 40 basis points since 2010. Productivity developments and leverage of SME have also widened entailing reassessment of credit risk.

The ECB's biannual survey on the access to finance of SMEs in the euro area (SAFE) points out that, indeed, access to finance is increasingly seen as a bottleneck, especially in Italy, Spain, Greece and Ireland. Of course, the crisis did have some cleansing effects, exposing the fragility of firms that could not withstand competitive pressures. However, the most productive firms should be allowed to thrive. But the first bottleneck is the absence of clients.

You are probably wondering which is the role of the ECB in this matter. First of all, it is important to understand that the ECB has already done a lot in dealing with the root causes of the current crisis.

We have taken measures to reduce unwarranted heterogeneity in financing conditions across the euro area in our mandate as liquidity provider to the banking system.

With Outright Monetary Transactions, we have taken tail risks out of the market by creating a fully credible backstop against unfounded fears about the euro area.

Financial fragmentation has been reduced, as shown by the best summary indicator, the level of Target2 balances. They have declined by 25%, since the peak last year.

Banks' access to funding is improving, including in some of the peripheral counties.

However, economic conditions in the euro area remain challenging, as shown by some key macroeconomic indicators, such as GDP growth or unemployment and especially youth unemployment. Availability of credit to SMEs in some parts of the euro area remains constrained. But we are equally aware of the dangers of zombie banks and evergreening of loans depressing economic activity.

There is an on-going debate on further measures ECB could take on improving financing conditions. These include, for instance: measures to revitalize the market for Asset Backed Securities or additional long-term refinancing operations. All these limited measures are under study or theoretically available on the shelf.

Let me now recap my points.

ECB has taken and will continue to take appropriate measures to ensure that bank funding is not a source of financial fragmentation or an impediment to bank lending.

Governments, on the other hand, have a broader mandate with respect to ensuring growth. A number of governments are implementing measures to support the financing of SMEs. We see these measures together with the use of EU financial instruments (EIB and EU structural funds) as very important in unlocking access to funding and investment growth.

It is very important to have a micro-firm level perspective on the matter, one that complements the traditional macro analysis. CompNet is in this regard at the forefront of current research and we expect very relevant results coming from the unique firm-level dataset that you are setting up with the collaboration of the national central banks.

Given the importance of the addressed topics, the research currently ongoing within CompNet is extremely relevant from the policy perspective. We have seen the results obtained after one year of activity, as summarized in the Interim Report, and we are looking forward with interest to seeing the results after two years and three years of activity, respectively.

Thank you for your attention and I wish you a fruitful workshop.