

Box 2

**THE RESULTS OF THE FIRST ROUND OF THE “SURVEY ON THE ACCESS TO FINANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE EURO AREA”**

This box presents the results of the first round of the “Survey on the access to finance of small and medium-sized enterprises in the euro area”.<sup>1</sup> The survey was conducted by the ECB in cooperation with the European Commission between 17 June and 23 July 2009 and covered 6,000 small and medium-sized enterprises (SMEs), as well as large firms, in the euro area.<sup>2</sup> It provides evidence on changes in the financing conditions of euro area SMEs and large firms, with respect to the previous six months, i.e. broadly corresponding to the first half of 2009. Given that this is the first time the survey has been conducted, the results described below should be interpreted with caution.

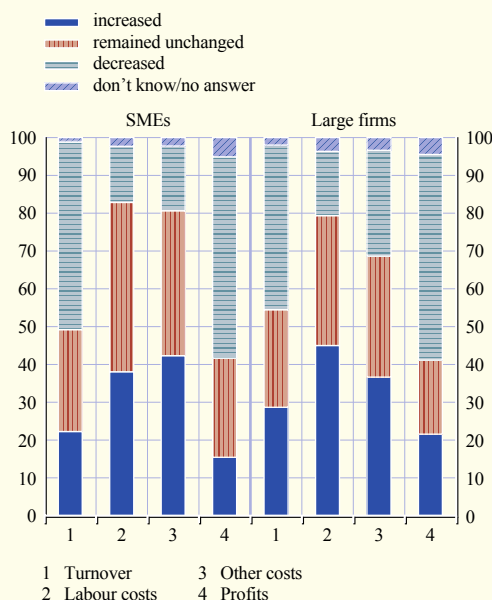
**The financial situation of euro area SMEs in the first half of 2009**

A net percentage<sup>3</sup> of around one-quarter of the respondent euro area SMEs (27%) reported a decrease in their turnover in the first half of 2009 (see Chart A), whereas large firms provided a somewhat less negative assessment (15%). At the same time, a net percentage of 23% of the SMEs reported an increase in their labour costs and a net 25% reported an increase in other costs (e.g. material and energy costs). These turnover and cost developments had a negative impact on firms’ profits (net income after taxes). In fact, a net percentage of 38% of the SMEs and a somewhat lower 33% of the large firms reported a decrease in their profits in the first half of 2009. Hence, it appears that over the reporting period SMEs were somewhat more affected by the economic downturn.

The survey results confirm the weak overall demand in the first half of 2009. In fact, the most pressing problem confronting euro area SMEs during that period was to find customers (27% selected this reply). This was followed by “access to finance”, which was reported as the most pressing issue by 17% of the SMEs, especially smaller ones. Competition (reported by 14% of the SMEs as the most pressing problem), production costs (notably labour costs) and a lack of skilled workers were also

**Chart A Selected indicators of the financial situation of euro area firms, change over the preceding six months**

(percentages of respondents)



Source: ECB/European Commission survey on the access to finance of SMEs.

1 See European Central Bank (2009), “Survey on the access to finance of small and medium-sized enterprises in the euro area”, September.  
 2 SMEs include micro firms (1-9 employees), small firms (10-49 employees) and medium-sized firms (50-249 employees). Large firms are defined as firms with 250 or more employees.  
 3 The net percentage of firms reporting an increase (decrease) is calculated as the difference between the percentage of firms reporting “increases” (“decreases”) and the percentage reporting “decreases” (“increases”).

seen as most pressing issues (both of the latter two were reported by 9% of the SMEs).

### External financing needs of euro area SMEs in the first half of 2009

Nearly half of the firms (49% of the SMEs and 46% of large firms) reported that their need for bank loans had remained unchanged in the first half of 2009 (see Chart B). At the same time, the share of the SMEs reporting an increase in their bank financing needs was somewhat higher than the share of those reporting a decline. As a result, in net terms, 11% of the SMEs reported an increase in their need for bank loans, compared with 5% in the case of large firms. Regarding trade credit, a net 4% of the SMEs reported an increased need for trade credit, while the net percentage for large firms equalled 0%.

Fixed investment was regarded the most important factor that contributed to increasing financing needs. A net percentage of 8% and 9% of the SMEs and large firms respectively reported that fixed investment had increased their need for external financing during the preceding six months. External financing needs for inventories and working capital appear to have increased somewhat as well.

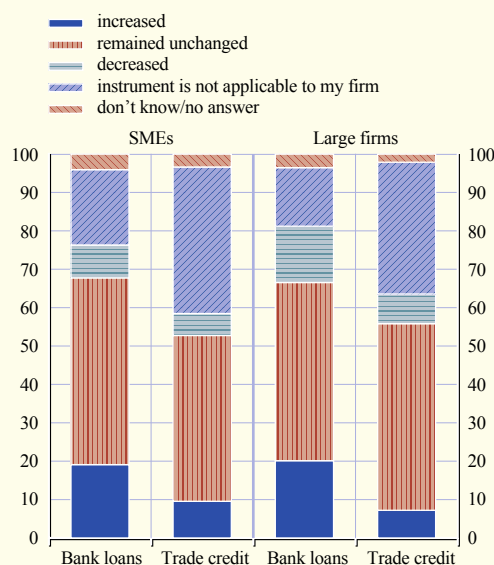
### Applications for external financing

In the first half of 2009, a minority of firms (28% of the SMEs and 34% of the large firms) reported that they had applied for bank loans, i.e. either a new loan or a renewal of an existing loan. The main reason for not applying for a loan was sufficient availability of internal funds (reported by 37% of the SMEs and 38% of the large firms). Only 5% of the SMEs reported that they did not apply because they thought their application might be rejected.

Of the SMEs that had applied for bank loans in the first half of 2009, 77% reported that they had received all or part of the amount requested (see Chart C). By contrast, 12% of the SMEs

**Chart B External financing needs of euro area firms, change over the preceding six months**

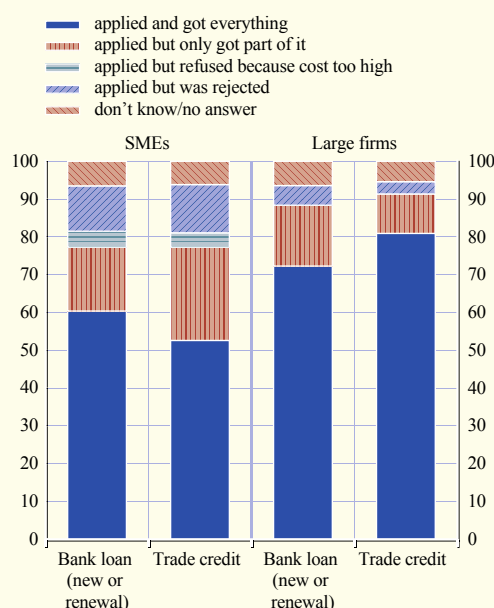
(percentages of respondents)



Source: ECB/European Commission survey on the access to finance of SMEs.

**Chart C Outcome of the applications for external financing by euro area firms over the preceding six months**

(percentages of firms that have applied for external financing)



Source: ECB/European Commission survey on the access to finance of SMEs.

reported that their application had been rejected by the bank. The larger and the older the firms, the more successful they were in obtaining a loan. For instance, only 5% of the large firms had their loan applications rejected. Regarding trade credit and other external financing, the picture is broadly similar. The majority of firms that had applied for trade credit or other external financing in the first half of 2009 had received the full amount requested.

### Availability of external financing for euro area SMEs in the first half of 2009

The firms that had applied for any category of external financing in the first half of 2009 were also asked whether the availability of the various external financing alternatives had improved or deteriorated over that period. A net 33% of those SMEs reported a deterioration in the availability of bank loans (for new loans or the renewal of an existing loan) in the first half of 2009 (see Chart D). This net percentage was higher for large firms (41%). By contrast, for trade credit a somewhat higher net percentage of the SMEs (20%) than of large firms (15%) reported a deterioration.

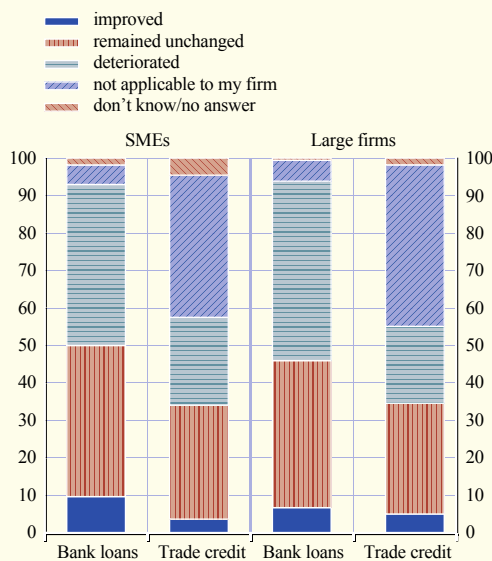
The availability of external financing depends on various factors, including the general economic outlook, the firm-specific situation and the attitude of lenders. A sizeable net percentage of 54% of the euro area SMEs considered that the general economic outlook had had a negative impact on the availability of financing, while a lower net percentage (27%) of the SMEs assessed their firm-specific situation as having deteriorated in the first half of 2009 (see Chart E). In addition, a net percentage of 10% and 6% respectively of the SMEs reported that their firm's own capital and credit history had deteriorated over the previous six months. Overall, this indicates that the general economic situation in the first half of 2009 was the most important factor behind the deterioration in the availability of financing. Regarding the supply-side effects on the availability of external financing, a net percentage of 25% of the SMEs reported that banks' willingness to provide a loan had decreased over the preceding six months, while 37% of the SMEs reported that banks' willingness had remained unchanged. The smaller the firm, the larger was the net percentage reporting such a deterioration. The willingness of business partners to provide trade credits or of investors to invest in equity or debt securities was also judged to have decreased, although less markedly than that of banks.

### Terms and conditions of bank loans

As regards the terms and conditions of bank loans, a net 5% of the SMEs reported that the level of interest rates had increased in the first half of 2009. Non-interest terms and conditions appear to have played a more important role in the deterioration of the availability of external financing.

**Chart D Availability of external financing for euro area firms, change over the preceding six months**

(percentages of firms that had applied for external financing)



Source: ECB/European Commission survey on the access to finance of SMEs.

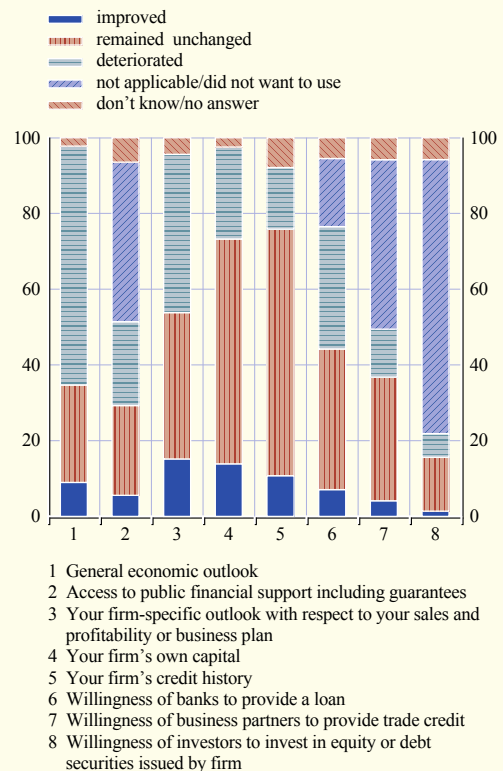
The net percentage of SMEs reporting an increase in the cost of financing other than interest rates (e.g. charges, fees and commissions) was much higher (33%) than that reporting an increase in interest rates. In addition, a considerable net percentage of the SMEs reported an increase in collateral requirements (32%) and in other non-price terms and conditions, such as loan covenants and information requirements (32%). A smaller net percentage of the SMEs reported a decrease in the available size of the loan or credit line (5%) or in the available loan maturity (2%). At the same time, the majority of the firms reported that non-price terms and conditions had not changed in the first half of 2009.

#### Expectations regarding access to financing

Looking forward, the majority of the SMEs expected their access to financing in the second half of 2009 to remain broadly unchanged across an array of financing alternatives (i.e. bank loans, trade credit, etc.). In addition, the proportion of SMEs that expected the availability of financing to deteriorate was only slightly larger than that expecting an improvement. For example, a net percentage of 2% of the SMEs expected the availability of internal financing to deteriorate in the second half of 2009; for bank loans, the corresponding figure was 4%. Large firms, by contrast, were somewhat more optimistic in their expectations regarding their access to finance in the second half of 2009. Regarding the growth outlook over the next two to three years, the SMEs expected their average turnover growth to be lower, on balance, than the growth they had experienced in the previous three years. At the same time, nearly 40% of the SMEs did not foresee obstacles in obtaining the financing for their medium-term growth aspirations.

**Chart E Factors having an impact on the availability of financing to euro area SMEs, changes over the preceding six months**

(percentages of respondents)



Source: ECB/European Commission survey on the access to finance of SMEs.