

Box 4

THE RESULTS OF THE “SURVEY ON THE ACCESS TO FINANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE EURO AREA: SECOND HALF OF 2009”

This box presents the results of the second wave of the “Survey on the access to finance of small and medium-sized enterprises in the euro area”.¹ This survey was conducted on behalf of the ECB between 19 November and 18 December 2009 and covered 5,320 firms in the euro area.² It provides evidence on the financial situation, financing needs and access to finance of small and medium-sized enterprises (SMEs) and, for purposes of comparison, large firms in the euro area in the second half of 2009. Given the recent introduction of the survey caution should be exercised when drawing firm conclusions from the variations in the responses over time.

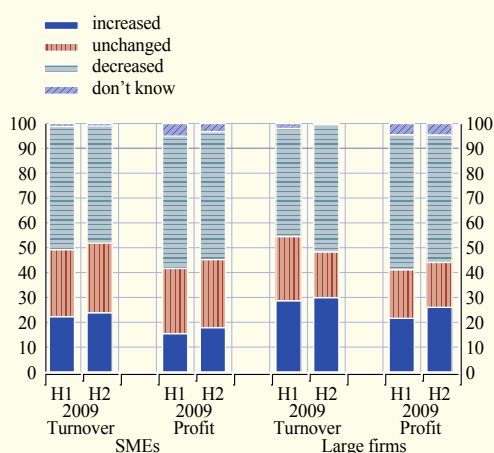
The financial situation of euro area SMEs

In the second half of 2009 the income and debt situation of SMEs changed only marginally. The percentage of SMEs reporting a deterioration in profits decreased to 51%, from 53% in the first half of 2009, while the percentage reporting an increase in profits rose to 18%, from 15% (see Chart A). On balance, 34% of the SMEs (as against 38% in the first half of 2009) reported a deterioration in their profits.³ Profit developments were somewhat less negative for large firms, as 25% (33% in the first half of 2009) on balance reported a deterioration in their profits. In addition, the percentage of SMEs reporting a decrease in turnover also declined slightly (from 50% to 47%), while the percentage reporting a higher turnover increased somewhat (from 22% to 24%), in line with a slight improvement in economic activity in the second half of 2009.

The most pressing problem facing euro area SMEs in the second half of 2009 continued to be finding customers (28%, as against 27% in the first half of 2009), followed by access to finance (19%, as against 17%). Among large firms, by contrast, finding customers (24%) and competition (23%) were the problems mentioned most, whereas access to finance (12%) was mentioned less often as the most pressing problem.

Chart A Indicators of the financial situation of euro area firms

(change over the preceding six months; percentage of respondents)



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

1 For further details, see ECB, “Survey on the access to finance of SMEs in the euro area: second half of 2009”, 16 February 2010, available on the ECB’s website (<http://www.ecb.europa.eu/stats/money/surveys/sme/html/index.en.html>). This survey is conducted jointly by the ECB and the European Commission every two years and, in a somewhat reduced form, by the ECB every six months. The survey mainly asks about developments over the preceding six months, which on this occasion correspond to the second half of 2009.

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 or balance of firms reporting an increase (decrease) is calculated as the difference between the percentage of reported “increases” (“decreases”) and the percentage of reported “decreases” (“increases”).

External financing needs of euro area SMEs

While half of the SMEs reported an unchanged need for bank loans in the second half of 2009, a quarter of them reported an increase in bank financing needs and only slightly less than 10% a reduction (see Chart B). On balance 16% of SMEs (up from 11% in the first half of 2009), especially micro and small firms, reported an increase in their need for bank loans. By contrast, the balance of large firms reporting an increase in the need for bank loans remained lower and broadly unchanged (6%, as against 5% in the first half of 2009). This difference across firm sizes reflects a greater recourse by large firms to market-based financing, the conditions of which became considerably more favourable in the second half of 2009. In addition, SMEs' reported need for trade credit⁴ remained broadly unchanged (on balance 5% of SMEs reported an increase, as against 4% in the first half of 2009), while that of large firms declined somewhat (-2%, as against 0%).

Regarding the factors having an impact on the net increase in the external financing needs of SMEs, there were some noticeable differences across firm sizes. Fixed investment was more important for large and medium-sized firms, while the increased need for external financing of micro and small firms was attributable above all to inventories and working capital.

Applications for external financing

In the second half of 2009, 29% of the SMEs applied for bank loans (new loans or the renewal of existing loans), a percentage that was broadly unchanged from the first half of the year. Generally, the percentage of firms that applied for loans increased with firm size. Likewise, the percentage of firms that did not apply for fear of rejection decreased with firm size. Just 7% of SMEs did not apply for a bank loan for fear of rejection, as against 5% in the first half of 2009.

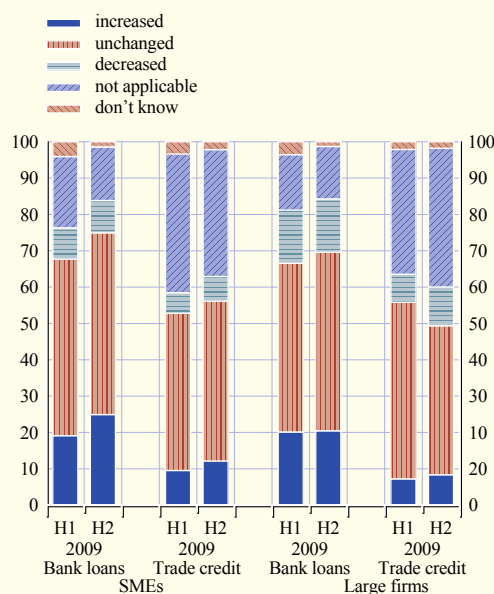
As regards the outcome of the applications for external financing, a large majority (75%)⁵ of the SMEs reported that they had received either the full amount of the bank loans they had applied for or part of the amount, compared with 77% in the first half of 2009 (see Chart C). Meanwhile, the rejection rate increased: the percentage of SMEs reporting a rejection of their bank loan applications increased to 18%, from 12% in the first half of 2009. As in the first half of the

⁴ Trade credit is defined in the context of the survey as the purchase of goods or services by one firm from another, without immediate cash payment.

⁵ Due to rounding effects, the percentage of applications granted in full (56%) and the percentage of applications granted in part (18%) add up to 75%.

Chart B External financing needs of euro area firms

(change over the preceding six months; percentage of respondents)



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

year, the application success rate was higher and the rejection rate lower the greater the size and age (from the age of two years up to more than ten years) of the firm. The full or partial bank loan application success rate (87%) and the rejection rate (5%) remained stable for large firms. In contrast to bank loans, the success rate of SMEs in obtaining trade credit increased, but in this case too the success rate increased with firm size.

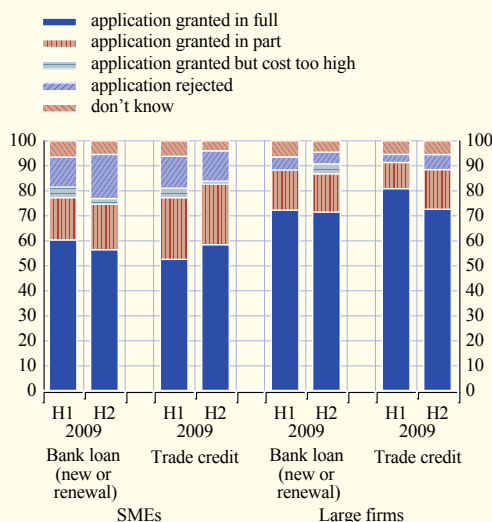
Availability of external financing to euro area SMEs

The assessment by large firms of the availability of bank loans in the second half of 2009 was less negative (-29% on balance, as against -41% in the first half), mainly due to a decline in the percentage of large firms reporting a deterioration. At the same time, the net percentage of SMEs reporting a deterioration in the availability of bank loans (in the form of new loans or the renewal of existing loans) was broadly unchanged from the first half of 2009 (-32%, as against -33% in the first half). 42% of the SMEs reported a deterioration and 10% an improvement (see Chart D). In line with the variation in external financing needs across firm sizes, large firms may have been less negative regarding the availability of bank financing as they had partly replaced it with market-based financing. With respect to trade credit, both SMEs and large firms reported, on balance, a slightly lower deterioration in its availability in the second half of 2009.

As in the first half of 2009, the main factors behind the deterioration in the availability of external financing for SMEs were the general economic and the firm-specific outlook and banks' willingness to provide loans (see Chart E). On the positive side, the net percentage of SMEs reporting a deterioration in the general economic and the firm-specific outlook decreased considerably in the second half of 2009. On balance, all firm size classes except micro firms reported an improvement in their firm's own capital and credit history, which may be linked to the somewhat slower pace of decline in profits. By contrast, SMEs'

Chart C Outcome of applications for external financing by euro area firms

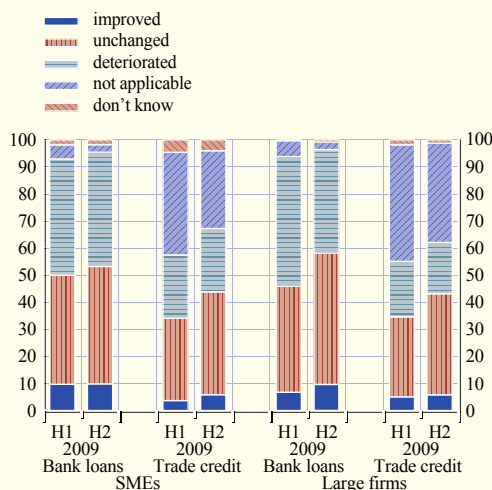
(over the preceding six months; percentage of firms that applied for bank loans or trade credit)



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

Chart D Availability of external financing to euro area firms

(change over the preceding six months; percentage of firms that applied for external financing)



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

assessment of banks' willingness to provide a loan remained broadly unchanged: 33% (as against 32% in the first half of 2009) of the SMEs reported a deterioration in banks' willingness to provide a loan, while only 8% (7% in the first half of 2009) saw an improvement. At the same time, the net percentage of large firms reporting a deterioration in banks' willingness to provide a loan decreased to 14%, from 20% in the first half of 2009.

Terms and conditions of bank loans

Around one third of SMEs reported an increase in the level of the interest rate charged on bank loans in the second half of 2009 (specifically 35%, broadly unchanged from the figure for the first half of 2009), while 27% reported a decline (29% in the first half of 2009). In particular a higher net percentage of micro firms reported an increase in the level of interest

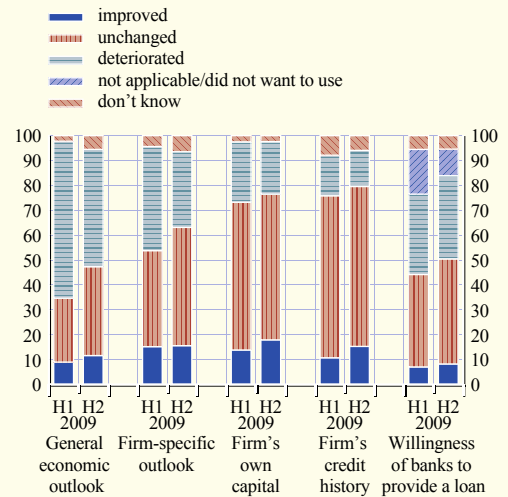
rates, which may be linked to the ongoing deterioration in their own capital and credit history, whereas the net percentages of small and medium-sized firms reporting an increase were smaller. By contrast, large firms on balance reported a decline in the level of interest rates. In addition, slightly more than one-third of the SMEs on balance reported a further increase in collateral requirements and in other requirements, such as loan covenants, as well as in charges, fees and commissions. Large firms, on balance, also reported a further tightening of these conditions. At the same time, large percentages of firms reported that such conditions had remained unchanged (between 45% and 54% of the SMEs and between 38% and 55% of the large firms).

Expectations regarding access to financing

Around half of the SMEs expected their access to internal and external financing sources to remain unchanged in the first half of 2010. At the same time, the percentages of SMEs expecting a deterioration in their access to bank loans (20%) and trade credit (11%) in the first half of 2010 continued to be somewhat larger than the percentages of SMEs expecting an improvement (14% for bank loans and 8% for trade credit). While also around half of the large firms expected their access to internal and external financing to remain unchanged, large firms were on balance somewhat more optimistic about their internal funds and access to bank loans in the first half of 2010.

Chart E Factors having an impact on the availability of financing to euro area SMEs

(change over the preceding six months; percentage of respondents)



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