Box 3

THE RESULTS 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 third round of the “Survey on the access to finance of small and medium-sized enterprises in the euro area”. The survey was conducted between 27 August and 22 September 2010 and covered 5,312 firms in the euro area. The box summarises the survey results and provides information on financing needs, the financial situation and the access to financing of SMEs in the euro area, compared with large firms, in the six preceding months (i.e. roughly March to September 2010).

External financing needs of euro area SMEs increased moderately

Needs for external financing of euro area firms were generally reported to have increased, albeit moderately so. On balance, the need for bank loans in the period from March to September 2010 grew at a slower pace than that recorded in previous surveys: a net proportion of 3% of SMEs saw their needs for bank loans rise (compared with 16% in the second half of 2009). Meanwhile, the need for inter-company financing slightly increased (see Chart A). Fixed investment, inventory and working capital as well as the availability of internal funds all contributed to the slight increase in financing needs.

In contrast to SMEs, large firms reported a noticeable increase in financing needs, in particular for inventory and working capital (in line with a revival of activity) and for mergers and acquisitions.

1 For further details, see the ECB’s “Survey on the access to finance of SMEs in the euro area”, 22 October 2010, which is available on the ECB’s website at http://www.ecb.europa.eu/stats/money/surveys/sme/html/index.en.html. This survey was developed in collaboration with the European Commission. A joint ECB/European Commission round is conducted every two years. Every six months, the survey is organised exclusively by the ECB and repeats a part of the overall questionnaire in order to assess the latest developments in the financing conditions for firms in the euro area. This was the case for the most recent survey round.

2 SMEs include micro firms (1-9 employees), small firms (10-49 employees) and medium-sized firms (50-249 employees). Large firms, also included in the sample, are defined as firms with 250 employees or more.
The financial situation of SMEs remained more difficult than that of large firms

Overall, compared with previous survey rounds, the overall financial situation of euro area SMEs generally improved in the period from March to September 2010, although not as much as that of large firms. A significantly lower proportion of euro area SMEs reported decreases in turnover and a higher proportion reported increases in the six months preceding the survey compared with previous survey rounds (see Chart B). This represents a noticeable improvement on the outcome in the previous round of the survey (for H2 2009). It also bodes well for the revival of economic activity which has been observed, and which has been illustrated by data for industrial production and real GDP growth since the beginning of the year. However, the profit situation of SMEs deteriorated further over the review period, albeit at a slower pace than in the two preceding survey rounds, with a net 21% of euro area SMEs reporting a reduction in profits. This could be linked to a noticeable increase in production costs (both labour and other costs) perceived by survey respondents between March and September 2010.

Large firms appear to be significantly better off in various respects than SMEs. The net percentage of large firms reporting an increase in turnover was 36% (compared with only 1% for SMEs) and net increases in profits appear to have resumed between March and September 2010. For large firms, the recovery appears to have been broadly based across sectors of the economy. For SMEs, however, only those with more cyclical, industrial activities reported a clear positive improvement, while services and construction companies were still lagging behind between March and September 2010.

Bank loan applications were slightly more successful

Fewer SMEs applied for a bank loan in the six months prior to the latest survey than in the

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**Chart B Indicators of the financial situation of euro area firms**

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

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**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)

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previous survey rounds, mainly because nearly half the euro area SMEs considered that they had sufficient internal funds. In fact, euro area SMEs may have continued to deleverage in recent quarters, since their debt-to-asset ratio decreased further according to the survey results. 11% of respondents reported that they had had no debt in the previous six months (nearly twice as many as in the previous survey). The percentage of firms which had not applied for a loan for fear of rejection remained broadly stable at 6%.

As regards the outcome of bank loan applications, the rejection rate dropped significantly compared with the previous survey round (from 18% in the second half of 2009 to 11% between March and September 2010). In addition, the number of euro area SMEs receiving the full amount they applied for increased noticeably (to 63% in the latest survey round from 56% in the second half of 2009). The situation of large firms also broadly improved in this regard, but much less markedly than in 2009. In particular, the bank loan rejection rate for large firms, at 5%, was significantly lower than for SMEs. Alternative sources of financing, and especially trade credit, developed along similar lines between March and September 2010. As a result, issues related to “access to finance” dropped from second to third place in a ranking of SMEs’ most severe problems.

**Availability of external financing deteriorated, but significantly less so than in 2009**

The deterioration in the availability of bank loans (new loans or renewals of existing loans) for SMEs continued between March and September 2010. 24% of SMEs reported a worsening in the availability of external financing, while only 12% reported an improvement (see Chart D). However, this deterioration was significantly less severe than that reported throughout 2009 and even less acute in those sectors where economic activity is picking up more strongly, notably in industry. A similar picture emerges for trade credit availability, where the perceived deterioration was largely dampened over the review period. By contrast, large euro area firms’ assessments were clearly positive and showed an improvement in the availability of external sources of finance.

**Chart D Availability of external financing for euro area firms**

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

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

Note: H1 2010 corresponds to the period from March to September 2010.