Box 3

SURVEY ON THE ACCESS TO FINANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE EURO AREA: OCTOBER 2012 TO MARCH 2013

This box presents the main results of the eighth round of the "Survey on the access to finance of small and medium-sized enterprises (SMEs) in the euro area".[1] The survey was conducted between 18 February and 21 March 2013 and covered 7,510 firms, of which 6,960 (i.e. 93%) had less than 250 employees (and are thus categorised as SMEs). This box describes the changes in the financial situation, financing needs and access to financing of SMEs in the euro area over the six preceding months (i.e. from October 2012 to March 2013).[2] In addition, developments for SMEs are compared with developments for large firms over the same period.

Overall, most euro area SMEs continued to mention "Finding customers" as their dominant concern (27%, as in the previous survey round). "Access to finance" was mentioned by the second largest percentage of euro area SMEs (16%, down from 18%), whereas large euro area firms mentioned that concern less frequently than SMEs (11%, down from 14%).

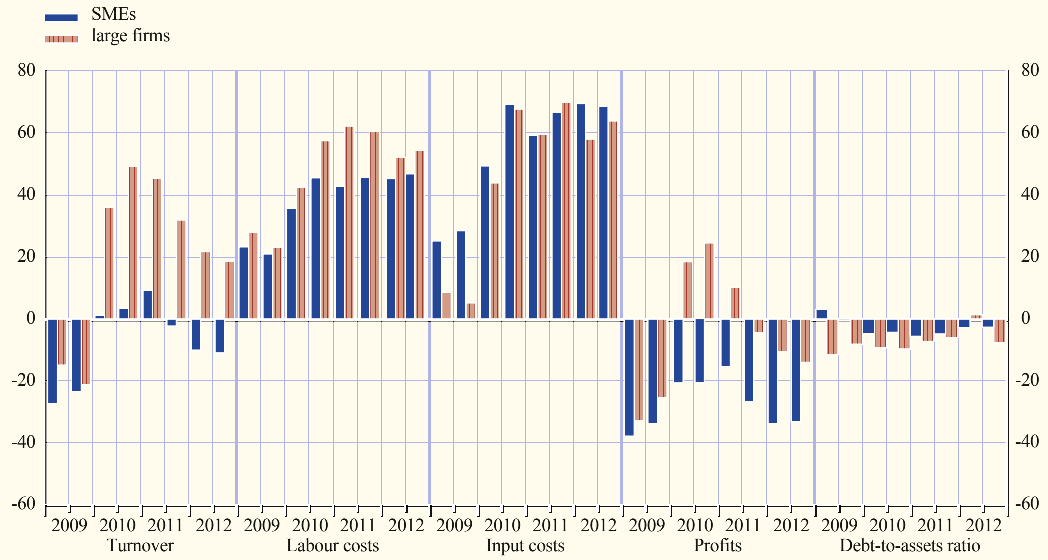
Deterioration in the financial situation of SMEs similar to the previous survey

In the period from October 2012 to March 2013, which was characterised by weak economic activity in the euro area, the financial situation of euro area SMEs continued to deteriorate. In the survey period, euro area SMEs continued to report, in net terms,[3] a decline in turnover (-11%, broadly stable compared with -10% in the previous survey period; see Chart A). In addition, a high net percentage of euro area SMEs continued to report increases in labour and other costs (47% and 69% respectively, compared with 45% and 69%). As a consequence of lower turnover and adverse cost developments, euro area SMEs reported a continued decline in profits (-33%, compared with -34%). By contrast with SMEs, large euro area firms reported, on balance, an increase in turnover in the period from October 2012 to March 2013 (19%, down from 22%). In addition, the deterioration in their profits was, on balance, much more moderate (-14%, down from -10%) than that of euro area SMEs.

1 A comprehensive report, detailed statistical tables and additional breakdowns were published in the "Statistics" section of the ECB's website on 26 April 2013 (see "Monetary and financial statistics/Surveys/Access to finance of SMEs").
2 The reference period for the previous survey round (H1 2012) was April to September 2012.
3 Net terms refer to the difference between the percentage of firms reporting an increase and those reporting a decrease.

Chart A Indicators of the financial situation of euro area firms

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



Sources: ECB and European Commission survey on the access to finance of SMEs.
Note: Net percentages are defined as the difference between the percentage of firms reporting an increase for a given factor and those reporting a decrease.

Against the background of still high corporate indebtedness, heightened risk aversion of banks especially with respect to less creditworthy borrowers, and subdued demand for credit, euro area SMEs continued to reduce their leverage (in net terms -3%, unchanged from the previous survey period). After broadly unchanged leverage in the last survey period, large euro area firms resumed their deleveraging in the period from October 2012 to March 2013 (on balance -8%, down from 1%).

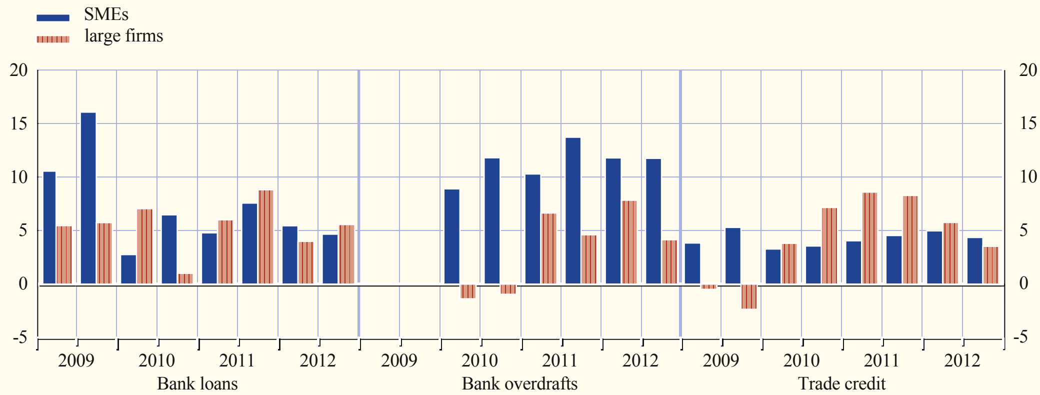
Continued increase in the external financing needs of euro area SMEs

On balance, 5% of the euro area SMEs reported an increase in their need for bank loans and 12% reported an increased need for bank overdrafts (both roughly unchanged from the previous survey round; see Chart B). The development of the need for trade credit was similar, with a net percentage of 4% of euro area SMEs reporting an increase (compared with 5%). Among the factors affecting SMEs' need for external financing, fixed investment and inventory and working capital played the largest role. For fixed investment, on balance, 13% of euro area SMEs (up from 10%) reported an increased impact of this factor on their external financing needs. Euro area SMEs also reported, on balance, a somewhat higher need for external financing resulting from insufficient availability of internal funds (7%, up from 5%).

Large firms also reported, on balance, a slight increase in the need for bank loans (6%, up from 4% in the previous survey round) and a reduced need for trade credit (4%, down from 6%) and bank overdrafts (4%, down from 8%).

Chart B External financing needs of euro area firms

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



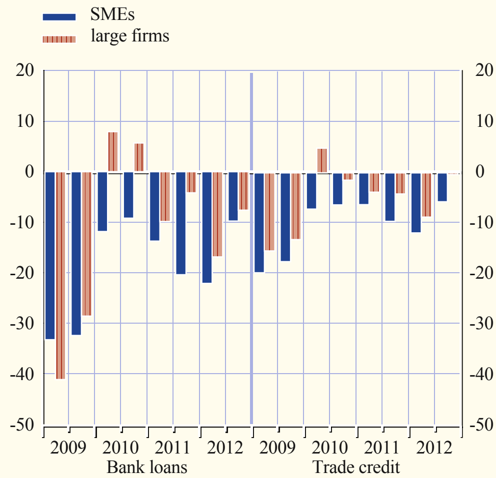
Source: ECB and European Commission survey on the access to finance of SMEs.
Note: Net percentages are defined as the difference between the percentage of firms reporting an increase in needs and those reporting a decrease.
Data for bank overdrafts (which include also credit lines and credit cards overdraft) are not available for the first two rounds of the survey.

Continued but considerably slower deterioration in the availability of external financing for euro area SMEs

Between October 2012 to March 2013, the net percentage of euro area SMEs reporting a deterioration in the availability of bank loans declined markedly, to -10% (compared with -22%; see Chart C). The net percentage reached levels last seen in the second half of 2010. Euro area SMEs also reported, on balance, a considerably smaller deterioration in the availability of bank overdrafts (-14%, up from -23%) and trade credit (-6%, up from -12%). Turning to the factors affecting the deterioration in the availability of external financing, SMEs continued to refer in particular to a worsening of the general economic outlook (-35% in net terms, up from -41%), but to a lesser extent than in the previous survey period. The continued negative assessment at the euro area level signals risks related to subdued economic activity and the creditworthiness of borrowers, which banks take into account in their lending policy. The net percentage of euro area SMEs reporting a worsening in their firm-specific outlook (-16%, up from -20%) also declined in the period from October 2012 to March 2013. At the euro area level, SMEs' own capital had, on balance, a broadly neutral impact on the availability of external financing (-2%, compared with -5%). Similar to these demand-

Chart C Availability of external financing for euro area firms

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



Source: ECB and European Commission survey on the access to finance of SMEs.
Note: Net percentages are defined as the difference between the percentage of firms reporting an increase in availability and those reporting a decrease.

driven factors, SMEs indicated a smaller deterioration in banks' willingness to provide a loan in the period from October 2012 to March 2013 (-21%, up from -27%).

In line with the smaller net deterioration in the availability of bank loans, euro area SMEs also reported, on balance, considerably less tightening of the terms and conditions of bank loan financing. On balance, remarkably fewer euro area SMEs reported an increase in interest rates (17%, down from 27% in the previous survey), possibly reflecting the improved funding situation of banks. With respect to non-price terms and conditions, euro area SMEs reported, on balance and for the first time since the first half of 2011, an increase in the size of the loans (3%, from -8%), pointing to less quantitative constraints in the availability of loans. In addition, SMEs reported, on balance, a smaller increase in collateral requirements (35%, down from 39%).

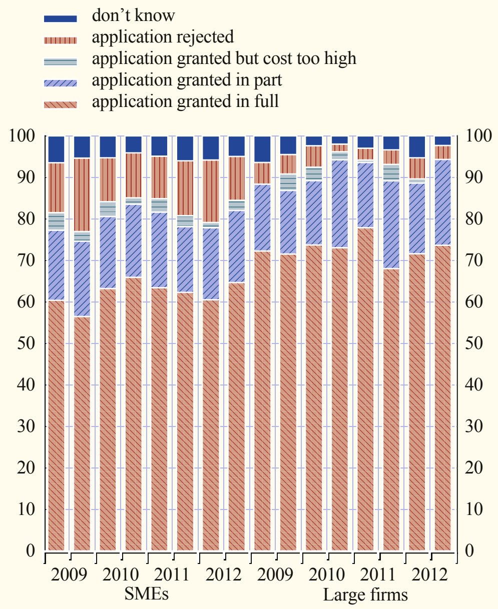
As in the case of euro area SMEs, the availability of bank loans to large firms deteriorated less than in the previous survey period (-8%, up from -17%). In addition, the degree of deterioration remained somewhat lower than for euro area SMEs, indicating that large firms generally have easier access to finance than SMEs.

Significant financing obstacles for euro area SMEs, though some moderation seen since previous survey

When looking at the actual outcome of bank loan applications by SMEs between October 2012 to March 2013, the situation shows tangible signs of improvement at the euro area level. Of the euro area SMEs, 65% reported that they had received the full amount of their loan application (compared with 60% in the previous survey period; see Chart D), which was close to the level in the second half of 2010 (66%). By contrast, 11% (down from 15%) reported that their bank loan application had been rejected, and 10% (unchanged from the previous survey period) that they received only a limited amount of their application. For bank overdrafts, euro area SMEs also reported a decline in the rejection rate (10%, down from 14%). When summing up the percentages of SMEs reporting loan applications which were rejected, loan applications for which only a limited amount was granted, and loan applications which were granted but not used by the SMEs because the borrowing costs were too high, as well as the percentage of SMEs that did not apply for a loan for fear of rejection (i.e. discouraged borrowers) to an encompassing measure of financing obstacles, a share of 30% (down from 32%) of euro area SMEs reported that their desired loan applications were not successful in the period from October 2012 to March 2013.

Chart D Outcome of loan applications by euro area firms

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



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

For large firms, the rate of success when applying for a bank loan was higher than for SMEs and increased to 74% (up from 72%). The rejection rate declined somewhat (3%, down from 5%). An encompassing measure of financing obstacles points to a percentage of 15% (down from 18%) of large firms, indicating that large firms generally had better access to finance than SMEs.