

Box 2**SURVEY ON THE ACCESS TO FINANCE OF SMALL AND MEDIUM-SIZED ENTERPRISES IN THE EURO AREA: OCTOBER 2013 TO MARCH 2014**

This box presents the main results of the tenth round of the “Survey on the access to finance of small and medium-sized enterprises (SMEs) in the euro area”.¹ The latest survey round was conducted between 20 February and 24 March 2014. The total euro area sample size was 7,520 firms, of which 6,969 (93%) were SMEs (i.e. they had fewer than 250 employees). The box describes the changes in the financial situation, financing needs and access to finance of SMEs in the euro area over the period from October 2013 to March 2014.² In addition, developments for SMEs are compared with those for large firms over the same period.

Summary of the main results

Overall, euro area SMEs reported that their financial situation continued to deteriorate, albeit at a slower pace. “Finding customers” remained the dominant concern for SMEs (with

1 A comprehensive report, detailed statistical tables and additional breakdowns were published in the “Statistics” section of the ECB’s website on 30 April 2014 (see “Monetary and financial statistics”/“Surveys”/“Access to finance of SMEs”).

2 The reference period for the previous survey round was April to September 2013.

24% mentioning this issue as their main problem, unchanged from the previous survey round), followed by “cost of production or labour” (15%, up from 14%). “Access to finance” was slightly less of a concern (14%, down from 16% in the previous survey round); large euro area firms cited this concern less often than SMEs (8%, down from 10%).

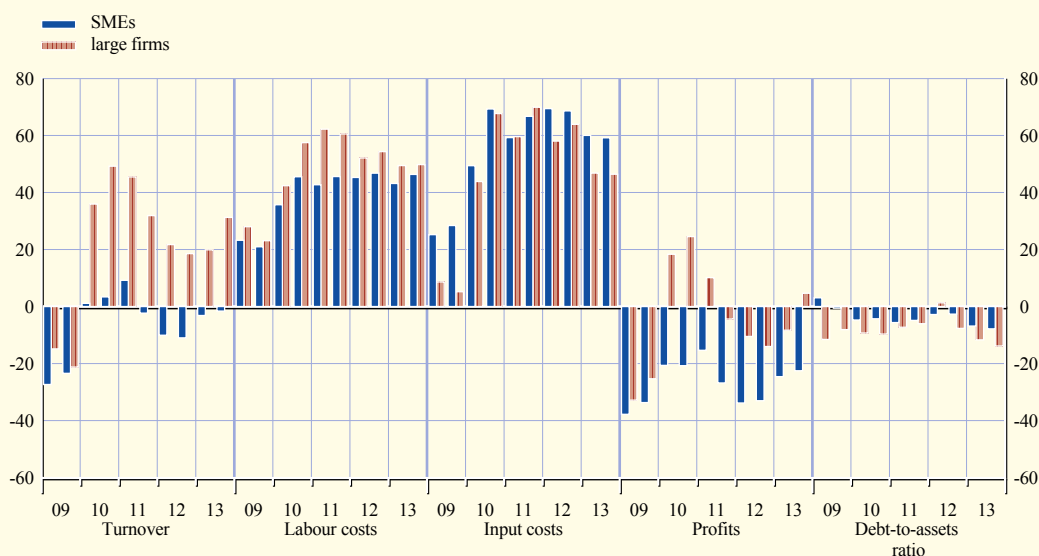
Deterioration in the financial situation of SMEs slower than in the previous survey

In the period from October 2013 to March 2014, the financial situation of euro area SMEs continued to deteriorate, albeit at a slower pace than in the previous survey period. SMEs continued to report a decline in turnover in net terms³, (-2%, compared with -3% in the last survey round; see Chart A). In addition, a high net percentage continued to report increases in labour and other costs (46% and 59% respectively, compared with 43% and 60% in the previous period). In line with turnover and cost developments, euro area SMEs continued to report a decline in profits (-23%, compared with -25%). By contrast with SMEs, large euro area firms reported, on balance, an increase in turnover (with the net percentage rising to 31% from 20% in the previous survey round) and an increase in profits (5%, up from -8%).

Against the background of still high corporate indebtedness, euro area SMEs reported a further net decrease in their leverage in the period from October 2013 to March 2014 (-8%, after -7% in the previous survey round), aimed at improving their creditworthiness. Large euro area firms also reported a stronger deleveraging pattern (-14%, compared with -12%).

Chart A Indicators of the financial situation of euro area firms

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



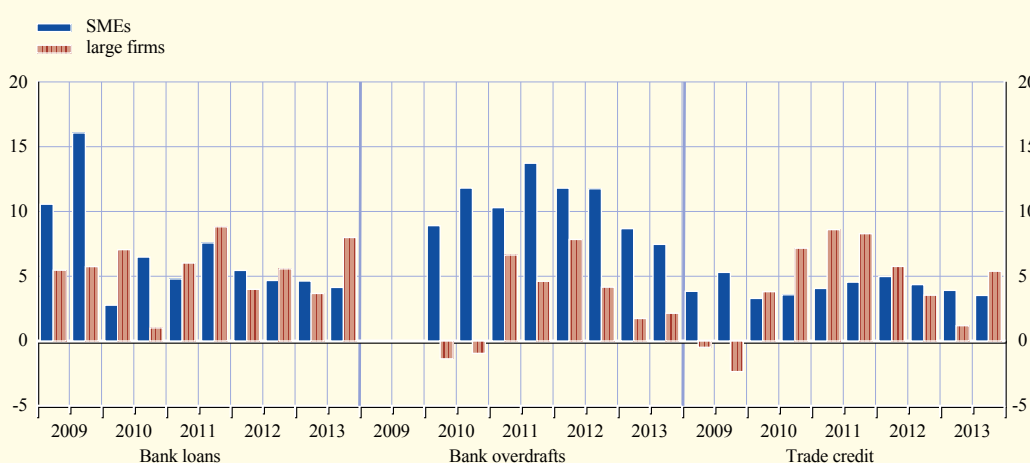
Source: ECB and European Commission survey on the access to finance of SMEs.

Note: Net percentages are defined as the difference between the percentage of firms reporting an increase for a given factor and that reporting a decrease.

³ “Net terms” refers to the difference between the percentage of firms reporting an increase and that reporting a decrease.

Chart B External financing needs of euro area firms

(change over the preceding six months; 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 that reporting a decrease. Data for bank overdrafts (which also include credit lines and credit card overdrafts) are not available for the first two rounds of the survey.

Contained increase in the external financing needs of euro area SMEs

On balance, 4% of euro area SMEs reported an increase in their need for bank loans (marginally lower than the 5% in the previous survey round; see Chart B) and 7% reported an increased need for bank overdrafts (down from 9% in the previous survey round). The picture was, overall, similar for trade credit, for which a net percentage of 4% of euro area SMEs (unchanged from the previous survey period) reported a higher need. Among the factors affecting SMEs' need for external financing, fixed investment, along with inventory and working capital, played the largest role. On balance, 11% of euro area SMEs reported that fixed investment had had an impact on their external financing needs (unchanged from previous survey round). SMEs also reported, on balance, a somewhat higher need for external financing resulting from insufficient availability of internal funds (5%, up from 3%).

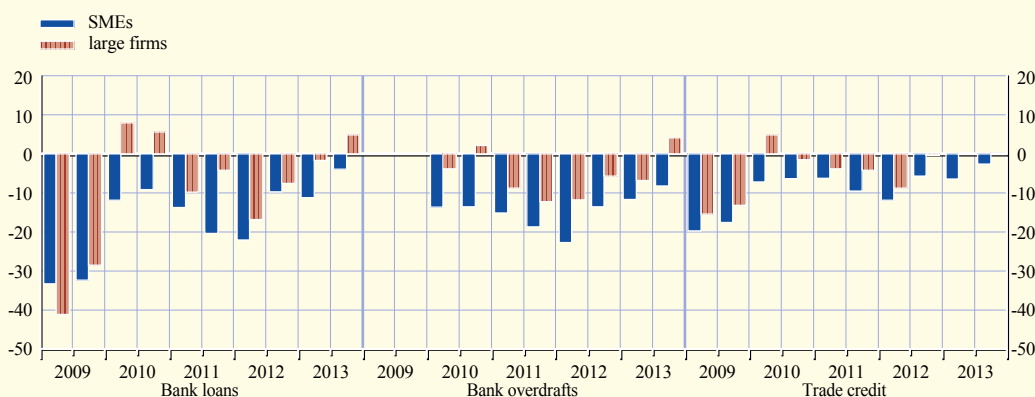
Similarly, large firms reported, on balance, an increase in their need for bank loans (8%, up from 4% in the previous survey round) and trade credit (5%, up from 1%). The net percentage reporting an increase in their need for bank overdrafts remained unchanged at 2%.

Smaller deterioration in the availability of external financing for euro area SMEs

The net percentage of euro area SMEs reporting a deterioration in the availability of bank loans declined to -4% between October 2013 and March 2014 (from -11%; see Chart C). A smaller net percentage also reported a deterioration in the availability of both bank overdrafts (-8% after -12%) and trade credit (-3% after -6%). Turning to the factors affecting the availability of external financing, SMEs continued to refer in particular to a worsening of the general economic outlook, but to a significantly smaller degree than in the previous survey period (-12% in net terms, down from -24%). Indeed, SMEs reported signals of a reduced deterioration in most of the factors related to the availability of external financing between October 2013 and March 2014.

Chart C Availability of external financing for euro area firms

(change over the preceding six months; net percentage of firms that had 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 that reporting a decrease.

The net percentage of euro area SMEs citing a worsening in their firm-specific outlook declined to -1% from -5%, while SMEs' own capital continued on balance to have a positive impact on the availability of external financing (3%, unchanged from the previous survey round). A similar picture was reported on the supply side, with SMEs indicating a smaller deterioration in banks' willingness to provide a loan (-11%, down from -17%).

In line with the stabilisation in the availability of bank loans, euro area SMEs also reported, on balance, an improvement in the terms and conditions of bank loan financing. Only 9% in net terms reported an increase in interest rates (down from 19% in the previous survey). With respect to non-price terms and conditions, SMEs indicated on balance a marginal easing, with an increase in the size (2%, up from -1%) and unchanged tightening in the maturity of loans (-1%). In addition, the net percentage of SMEs reporting an increase in collateral requirements fell to 27% from 31% in the previous survey period.

The availability of bank loans for large firms improved with respect to the previous survey period (5%, up from -2%) indicating generally less constrained access to finance for large firms compared with SMEs.

Continuing financing obstacles for euro area SMEs, with an unchanged share of successful loan applications and a marginal reduction in the rejection rate

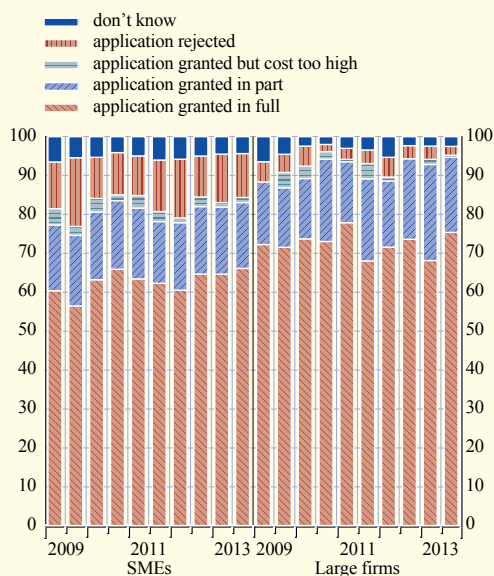
The outcome of bank loan applications by SMEs between October 2013 and March 2014 shows few signs of improvement in the situation at the euro area level. Broadly unchanged from the previous survey period, 25% of euro area SMEs applied for a bank loan, while 47% did not apply because of sufficient internal funds. Of the SMEs that had applied for a loan, 66% reported that they had received the full amount of their loan application (virtually unchanged from the previous survey period; see Chart D). 11% reported that their bank loan application had been rejected (down from 12%) and 10% that they had received only a part of the requested amount (up from 8%). For bank overdrafts, euro area SMEs reported a broadly unchanged rejection rate (11%).

An encompassing measure of financing obstacles calculated by adding together the percentages of SMEs reporting loan applications which were rejected, loan applications for which only a limited amount was granted and loan offers which were not used by the firm 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, shows that a share of 12% of euro area SMEs (unchanged from the previous survey round) reported difficulty in obtaining the financing they needed in the period from October 2013 and March 2014.

Large firms had greater success applying for bank loans than SMEs, with 75% of requests met (up from 68%). The rejection rate remained broadly unchanged at 2%. As regards the above-mentioned encompassing measure of financing obstacles, only 6% of large firms (down from 8%) reported difficulties.

Chart D Outcome of loan applications by euro area firms

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



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