

SURVEY ON THE ACCESS TO FINANCE OF SMEs IN THE EURO AREA

– SEPTEMBER 2010 TO FEBRUARY 2011 –

This report presents the salient features of the results of the fourth wave of the survey “Access to finance of small and medium-sized enterprises”, conducted between 21 February and 25 March 2011 on behalf of the European Central Bank. It provides evidence on the financial situation, financing needs and access to external financing of small and medium-sized enterprises (SMEs) in the euro area, compared with large firms, during the preceding six months, i.e. the period from September 2010 to February 2011.¹ In addition, it provides an overview of developments in access to finance across the largest euro area countries.

1. The financial situation of euro area SMEs

As in the previous (H1 2010) survey round, the net percentage of euro area SMEs reporting an increase in turnover during the six months preceding the survey interview was slightly positive (at 3%), driven by the positive underlying momentum of the recovery in economic activity (see Chart 1). Despite positive developments in turnover, there were more SMEs reporting a deterioration in profits than SMEs reporting an improvement (21% in net terms). Recent hikes in oil and commodity prices have heightened input cost pressures and, on balance, 69% of euro area SMEs reported an increase in input costs, while 46% also reported an increase in labour costs in net terms². In addition, almost a quarter of euro area SMEs, in net terms, reported an increase in net interest expenses, suggesting that their debt burden somewhat grew. In sum, broad-based increases in costs may have held back profits.

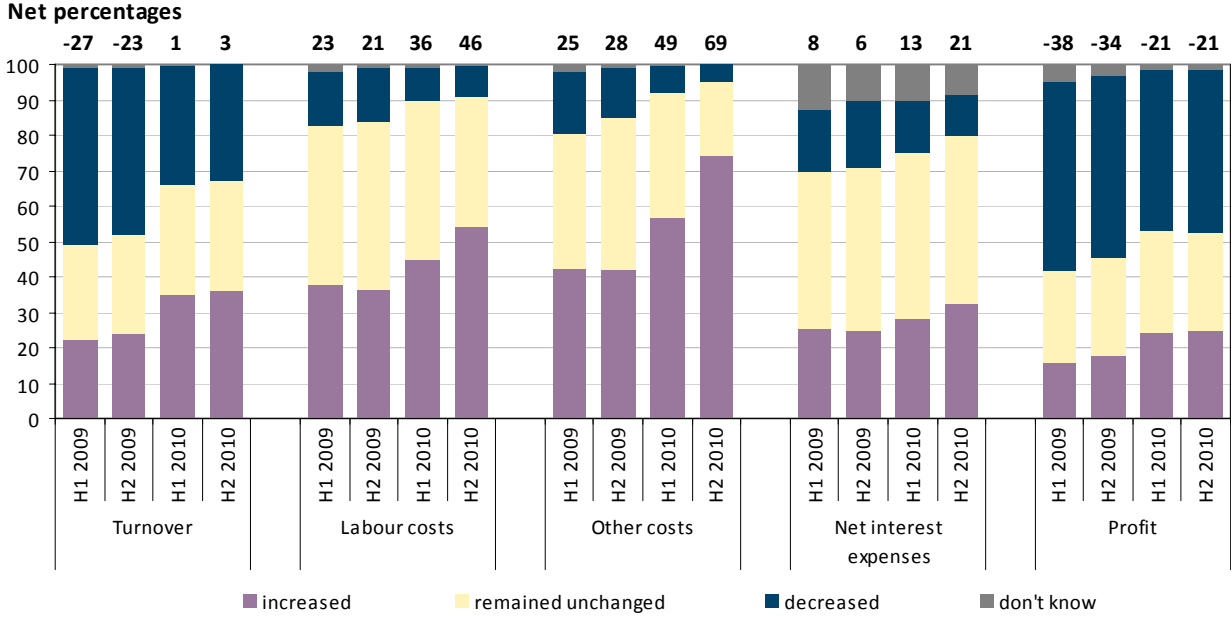
This general assessment of cost increases is also shared by large firms (see Chart 1a in Annex 1), but their overall situation appears to be largely more favourable than that of SMEs. Large firms continued to record net increases in turnover and profits in the six months preceding the interview and the situation has clearly improved since the previous survey round.

¹ In all charts, the reference period for the current survey round is referred to as “H2 2010”. “H1 2010” actually corresponds to the period from March to September 2010.

² Macroeconomic labour cost indicators for this period are not yet available, but considering the modest salary increases agreed in recent years, slightly higher salary increases were anticipated at the beginning of 2011, owing to expectations of a continued economic recovery.

Chart 1: Change in the income situation of euro area SMEs

(over the preceding six months; percentage of respondents)



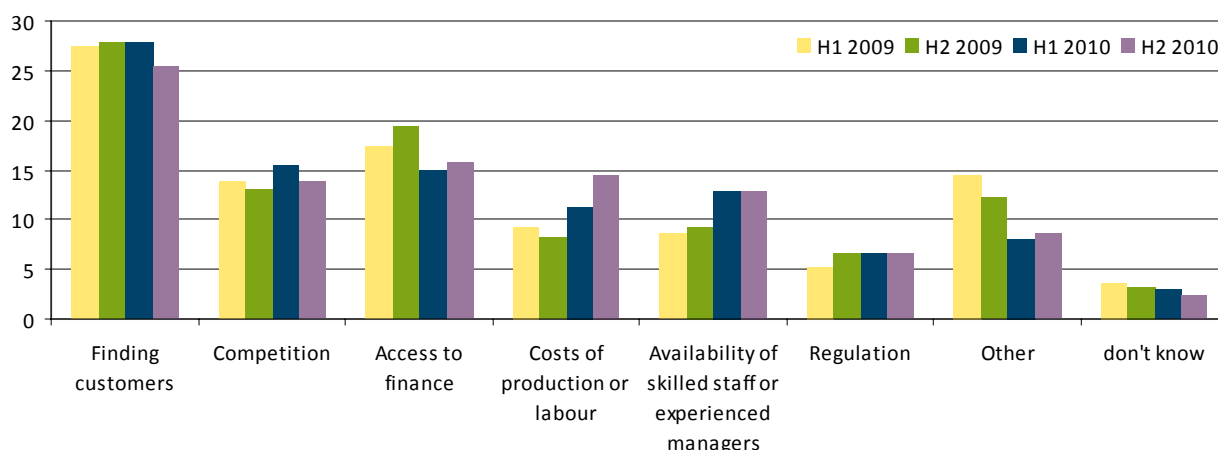
Base: All SMEs.

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.

When asked about their most pressing problem, between September 2010 and February 2011, about a quarter of survey respondents replied “finding customers” (see Chart 2). This was slightly less than in previous survey rounds. “Access to finance”, “costs of production or labour” and “competition” were indicated as the most pressing problem by approximately 15% of respondents each. Compared with the two previous survey rounds, there was an increasing number of respondents pointing to problems linked to input costs (14%, compared with 11% in the previous survey and less than 10% in the 2009 surveys). The proportion of SMEs quoting “access to finance” as their most pressing problem was broadly similar to that of the previous survey. By contrast, “access to finance” is considered as the most pressing issue by only 10% of large firms (see Chart 2a in Annex 1).

Chart 2: The most pressing problem faced by euro area SMEs

(percentage of respondents)



Base: All SMEs.

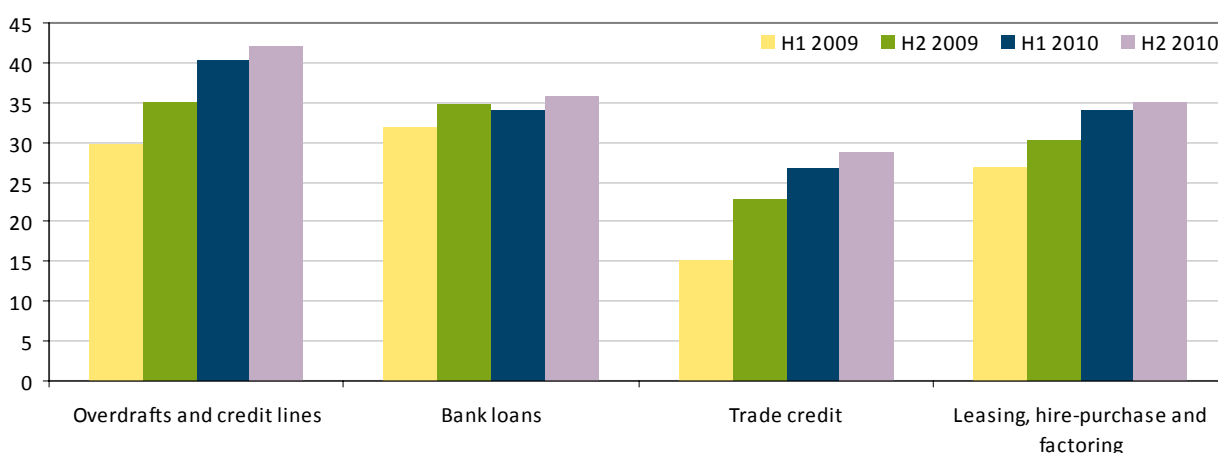
Note: The results for H1 2009 were based on a more limited sample.

2. Sources of and access to finance

In line with the ongoing recovery in economic activity, the percentage of SMEs using external sources of finance tended to increase slightly, but broadly across sources, compared with the previous survey rounds. Between September 2010 and February 2011, 40% of responding firms drew on their overdraft facilities or credit lines and more than a third used a bank loan (see Chart 3). Meanwhile, the increasing use of leasing, hire-purchase or factoring (by 34% of SMEs according to the latest survey results) or trade credit (by 27% of SMEs) confirmed the revival of inter-company financing. The rise in the number of firms using external finance was even more evident for large firms (see Chart 3a in Annex 1).

Chart 3: Sources of external financing of euro area SMEs

(over the preceding six months; percentage of respondents)



Base: All SMEs.

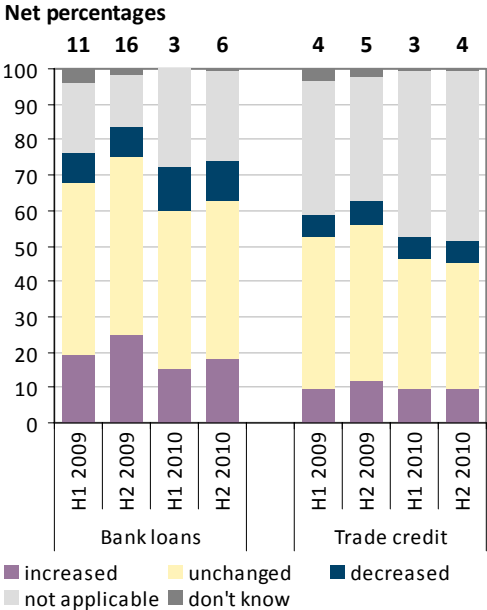
The increase in the use of external finance reflected both the slight rise in external needs³ (demand) and the somewhat less negative developments in the availability of finance (supply).

A net percentage of 6% of firms saw their need for bank loans increase between September 2010 and February 2011 (compared with 3% in H1 2010) (see Chart 4). On the other hand, the need for trade credit changed little.

Overall, the factors affecting the financing needs have changed relatively little since the last survey. Fixed investment and inventory and working capital continued to contribute to the slight increase in financing needs, although their overall contribution remained broadly in line with the picture provided by previous surveys (see Chart 5). Compared with SMEs, large firms reported a much stronger increase in financing needs, in particular related to higher fixed investment and inventories and working capital activity (see Chart 5a in Annex 1).

Chart 4: Change in external financing needs of euro area SMEs

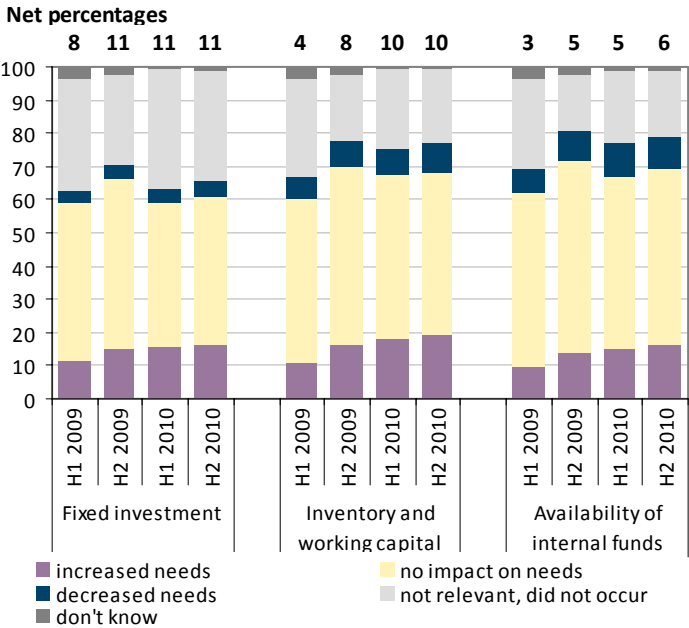
(over the preceding six months; percentage of respondents)



Base: All SMEs.

Chart 5: Change in factors affecting the external financing needs of euro area SMEs

(over the preceding six months; percentage of respondents)

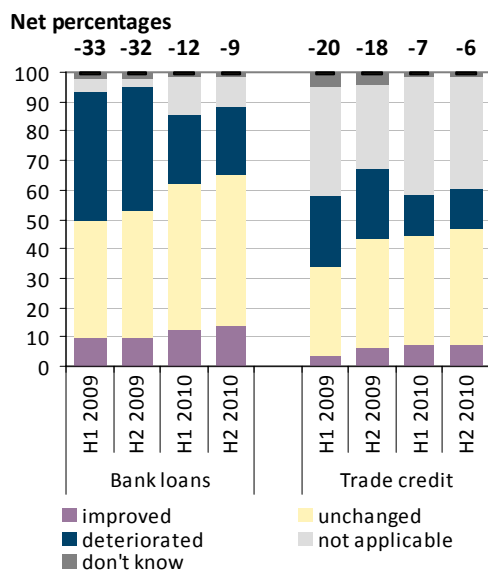


Base: All SMEs.

³ Regardless of whether they have applied or not for external financing, all survey respondents are asked about their needs for each possible external source of financing (i.e. bank loans, bank overdrafts and credit lines, trade credit, equity and debt securities issuance).

Chart 6: Change in availability of external financing for euro area SMEs

(over the preceding six months; percentage of respondents)



Base: SMEs that had applied for external financing.

Chart 6a in Annex 1).

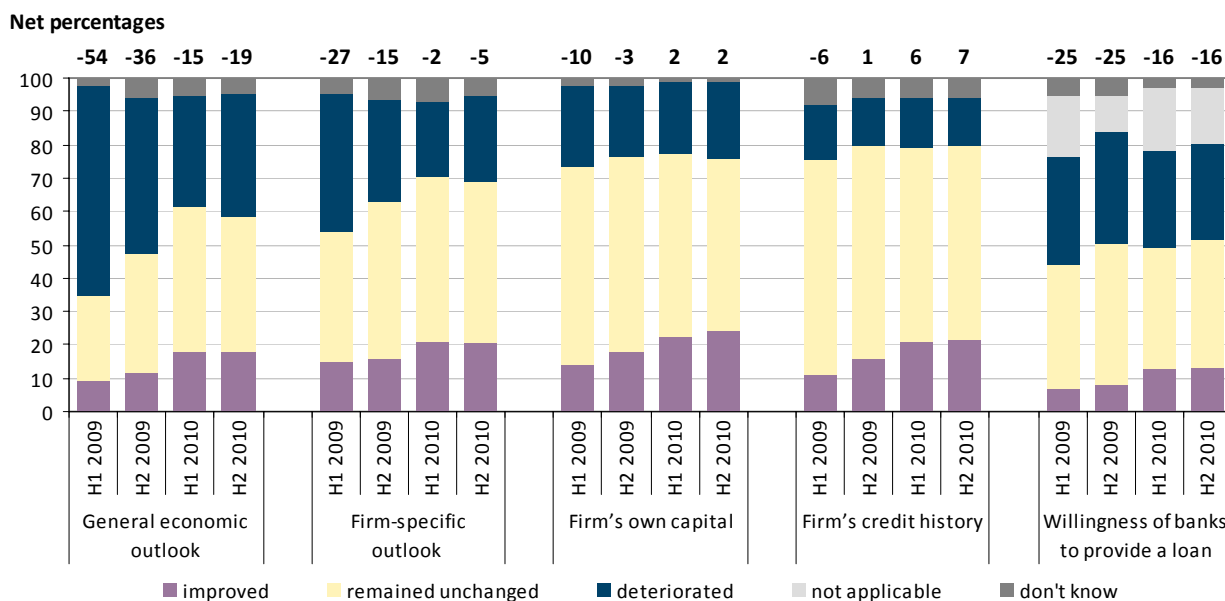
Turning to the factors affecting positively the availability of external financing, firms reported in particular their own capital position and their credit history (see Chart 7). By contrast, the general economic and firm-specific outlooks were still judged to be exerting a negative effect on credit availability according to, respectively, 19% and 5% of firms on balance (compared with 15% and 2% in the previous survey round). The supply of credit is judged to have remained broadly unchanged. On balance, 16% of firms considered that the willingness of banks to provide loans continued to deteriorate between September 2010 and February 2011, but this percentage has not changed since the previous survey.

At the same time, survey results show that access to external financing sources, and in particular bank loans, continued to improve, albeit moderately. On balance, firms' opinion about the availability of bank loans improved by 3 percentage points, to -9% (see Chart 6). This was particularly evident 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 continued to decrease between the last months of 2010 and the first two of 2011.

By contrast, for large firms in the euro area the assessment was clearly positive and showed an increase in the availability of bank loans and debt securities to the detriment of trade credit (see

Chart 7: Change in factors having an impact on the availability of external financing to euro area SMEs

(over the preceding six months; percentage of respondents)



Base: All SMEs.

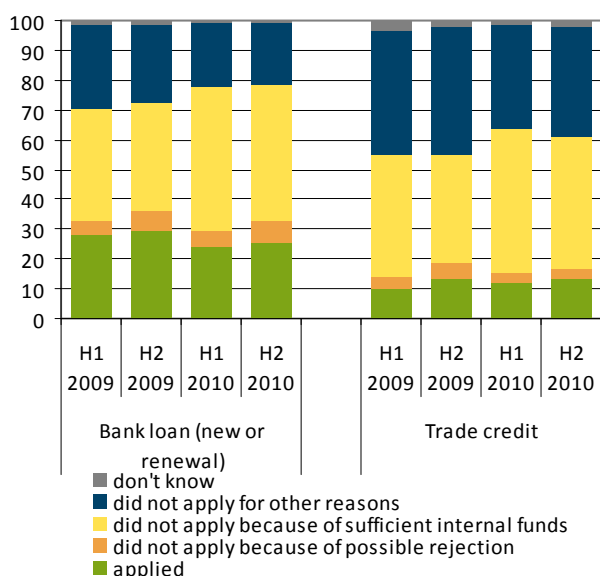
Applications for external financing and their success

Between September 2010 and February 2011 around one-quarter of SMEs applied for a bank loan, a proportion broadly unchanged with respect to the previous survey (see Chart 8). Nearly half of SMEs did not apply for a bank loan because they considered that they had sufficient internal funds to cover their financing needs. The percentage of firms not applying for a loan for fear of rejection stayed broadly stable (at 7%, compared with 6% in the previous survey round).

As regards the outcome of bank loan applications, the rejection rate remained basically unchanged with respect to the previous survey round (at 11%) (see Chart 9). In addition, the number of euro area SMEs receiving the full amount they applied for continued to increase, reaching 66% in the latest wave of the survey. The situation of larger firms improved in this regard compared with the previous wave, with 35% applying for a loan and only 2% of them seeing their application rejected. Alternative sources of financing, and especially trade credit, developed along similar lines during the reference period.

Chart 8: Applications for external financing by euro area SMEs

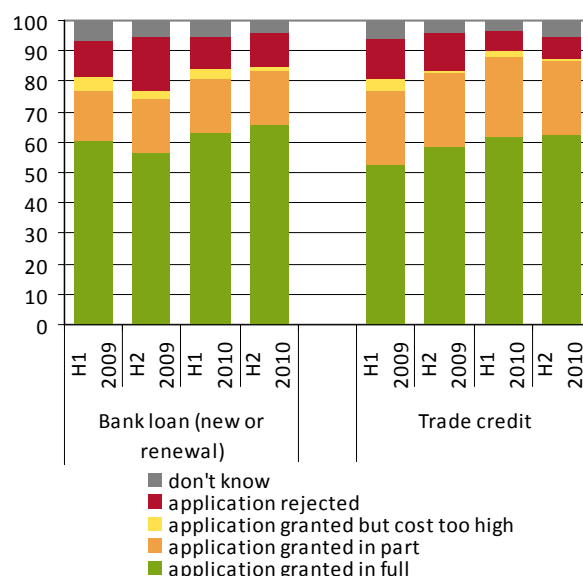
(over the preceding six months; percentage of respondents)



Base: All SMEs.

Chart 9: Outcome of the applications for external financing by euro area SMEs

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



Base: SMEs that had applied for bank loans or trade credit.

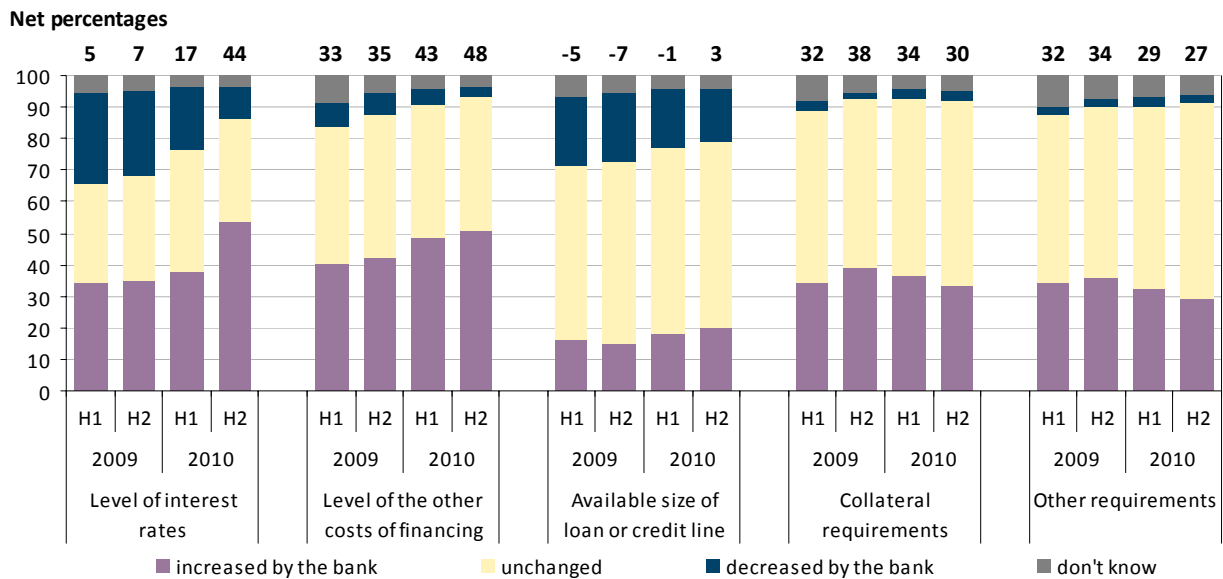
Terms and conditions of loan financing

More than half of the sampled euro area SMEs reported increases in interest rates charged and other costs of financing (charges, fees and commissions), while in net terms there was a small improvement in the requirements related to collateral and loan covenants (see Chart 10). On balance, more SMEs reported an increase in price-related terms of bank loans (notably interest rates charged) from 17% in the previous survey round to 44% in the last survey. Large firms tended to share the assessment related to the interest rate charges, although on average their overall situation appears to be less severe.

This general worsening of the terms and conditions for bank loans is in line with the results of the January 2011 bank lending survey. In particular, banks reported a further slight net tightening for loans to SMEs and a continuous widening of margins on loans to that category of firms.⁴

⁴ According to the bank lending survey for the euro area, the net tightening of credit standards had actually declined from 4% in Q3 2010 to 0% in Q4 2010. These developments reflect a further slight net tightening for loans to SMEs (at 2%, after 7% in Q3 2010), as well as a standstill for loans to large firms (0%, after 5% in Q3 2010). As regards the factors contributing to the move towards broadly unchanged credit standards in Q4 2010, banks' risk perceptions, and notably the industry- and firm-specific outlook, contributed less to a net tightening of banks' credit standards than in the previous quarter.

Chart 10: Change in terms and conditions of bank loans granted to euro area SMEs
(over the preceding six months; net percentage of firms that had applied for bank loans)

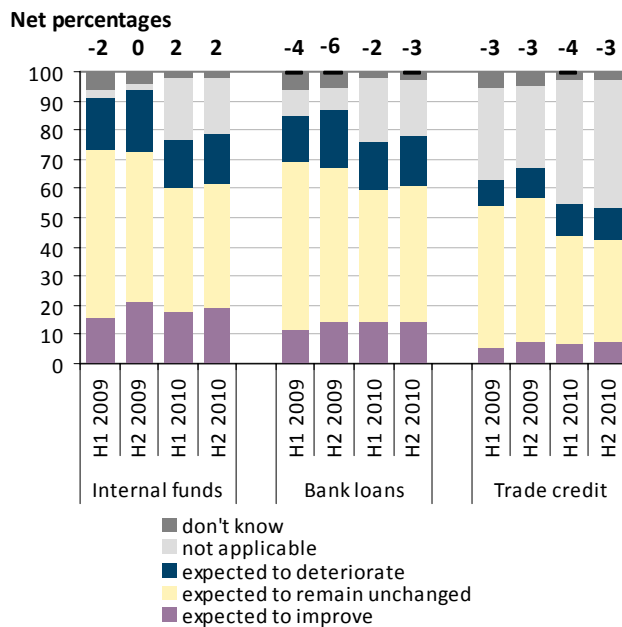


Base: SMEs that had applied for bank loans or trade credit.

Note: The net percentages are defined as the difference between the percentage of firms reporting that the given factor has increased and the percentage of firms reporting that it has decreased.

Chart 11: Change in euro area SMEs' expectations regarding access to finance

(over the following six months; net percentage of respondents)



Base: All SMEs.

Note: The net percentages are defined as the difference between the percentage of firms expecting an improvement in the source of finance and the percentage of firms expecting a deterioration.

Expectations of access to finance

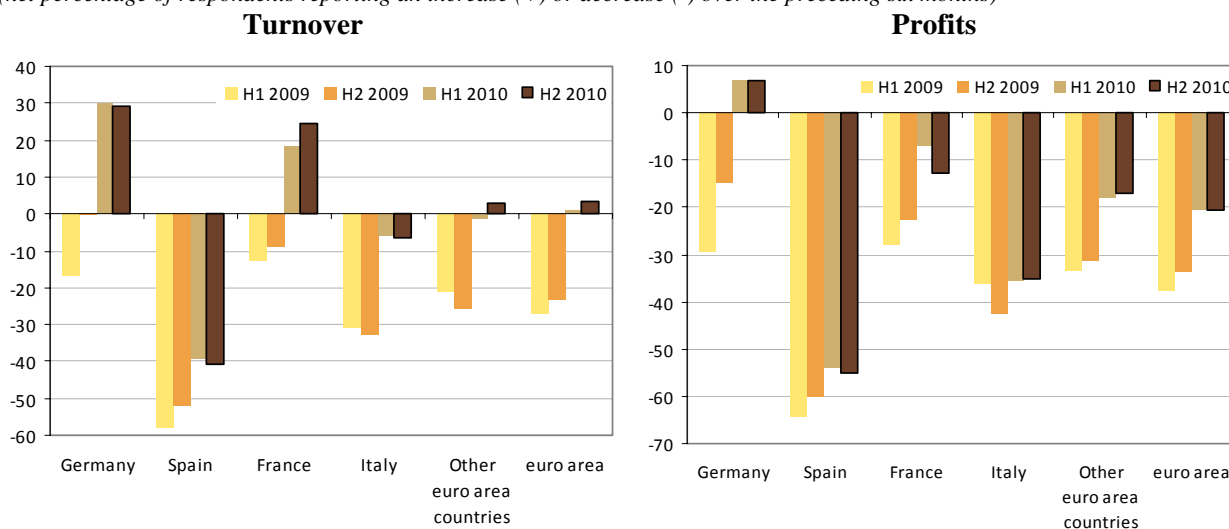
In terms of net percentages, SMEs did not expect any major change in the following six months regarding access to finance (see Chart 11). On balance, firms expect availability of internal funds to slowly improve, while that of bank loans and trade credit is still expected to deteriorate. By contrast, the overall assessment provided by larger firms was clearly more positive and, on balance, large firms expected a clear improvement for all sources of finance in the period from March to August 2011. On balance, 23% and 8% of large firms were expecting improvements in their internal funds and bank loans, respectively.

3. Overview of main country results⁵

The survey results show mixed developments across countries. Starting with the overall income situation (see Chart 12), the euro area appears to be divided between those countries where SMEs reported decreased turnover (Spain and to a lesser extent Italy) and those countries where they reported an increased turnover in net terms (Germany, France and on average in the remaining euro area countries – although the positive average conceals substantial divergence among smaller countries). This grouping may be seen as being in line with countries’ developments in industrial production indices and alternative business surveys such as the PMI indices and those of business confidence from the European Commission. In all countries (except Germany), however, developments in profits appear to have been dampened by a broad-based increase in costs, notably raw material and other input costs, but also labour costs, which appear to have registered increases in all euro area countries. In interpreting this last result, one has to keep in mind that in most euro area countries, wage increases are typically introduced at the beginning of the year (and also that the survey does not provide any information on the *magnitude* of these labour cost increases).

Chart 12: Income situation of SMEs across euro area countries

(net percentage of respondents reporting an increase (+) or decrease (-) over the preceding six months)



Base: All SMEs.

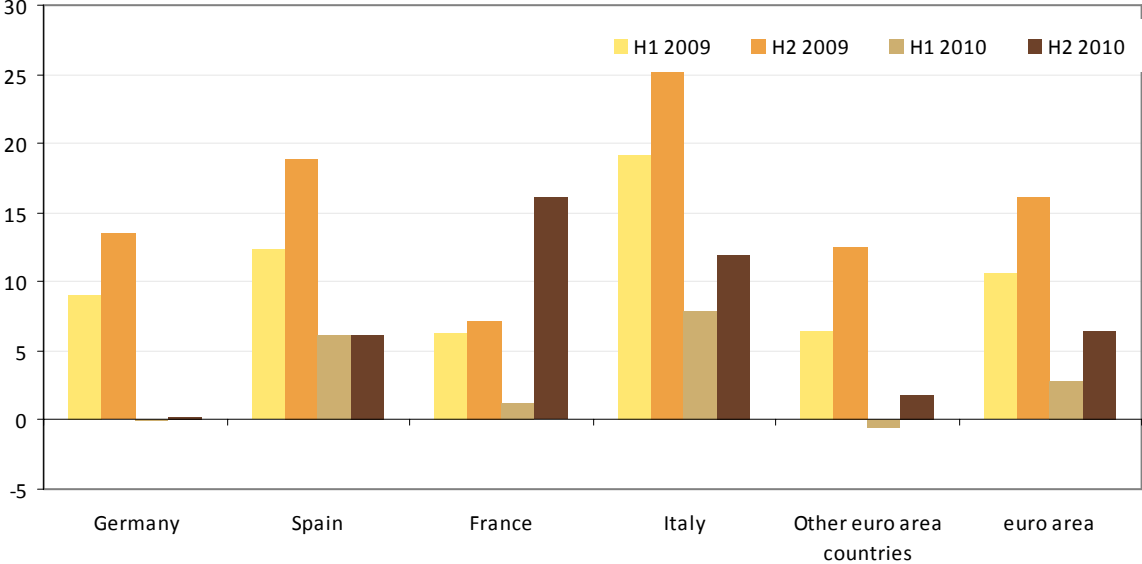
Note: The net percentage refers to the difference between the percentage of respondents replying “turnover/profits has/have increased” and the percentage of respondents replying that “turnover/profits has/have decreased”.

Regarding access to finance, divergences among euro area countries clearly persist. In general, financing needs have increased slightly compared with the previous survey round (see Chart 13). Across countries, the two main reasons given by SMEs to explain their external financing needs were investment and working capital. However, there was a clearly higher proportion of firms in some countries (in particular

⁵ The total euro area sample size was 7,532 firms, of which 6,941 had less than 250 employees. Besides being representative at the euro area level, the sample is also representative for the four largest euro area countries, i.e. Germany, France, Italy and Spain where 1,000 firms were interviewed in each country (see Annex 2). The sample size in the other countries was increased in the H2 2010 wave to 500 firms in order to have representative sample in the smaller countries as well. This will allow, in time, significant comparisons to be made across countries.

Italy and Spain) reporting a deterioration in the availability of internal funds as a reason for them to turn towards external financing.

Chart 13: Change in needs of SMEs for bank loans across euro area countries
(over the preceding six months; net percentages)

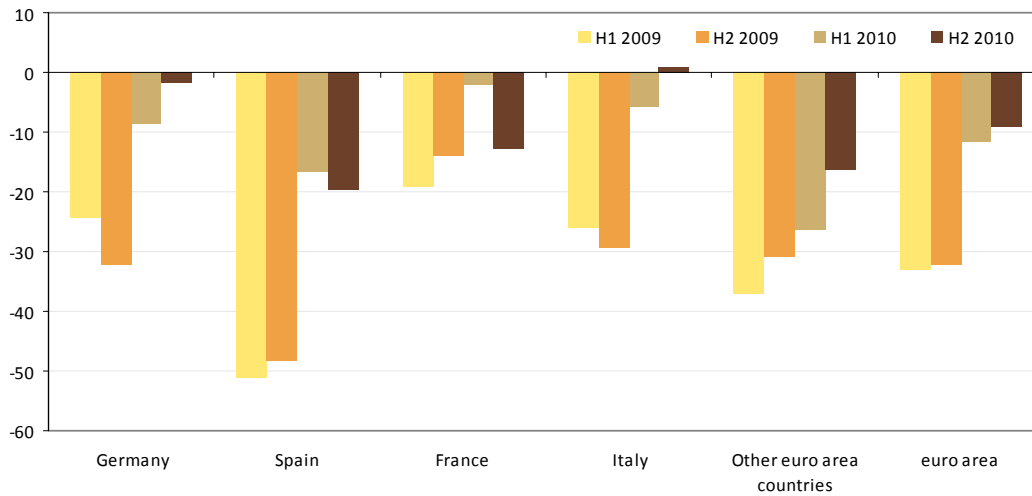


Base: All SMEs.

At the same time, the survey results also show a smaller net percentage of firms reporting a deterioration in the availability of bank loans at the euro area level. There again, from a country standpoint, two groups tend to emerge. On the one hand, as shown in Chart 14, the survey results from Germany and Italy suggest an improvement in the availability of bank loans. The survey results from Spain and France, on the other hand, hinted at a continued and even heightened deterioration in bank loan availability. In this survey round, French firms appeared to have suffered a particular setback in accessing bank loans, especially compared with previous surveys. This development could be explained by ongoing domestic debates regarding the continuation of public guarantees and policy measures aimed at facilitating access to credit implemented during the crisis. Those countries where SMEs perceived an improvement in the relative availability of bank loans generally also reported improvements in the general economic and firm-specific outlook. Conversely, those countries which reported an unchanged or slightly deteriorated availability of bank loans generally explain it by a more negative assessment of the general economic and firm-specific outlook.

Chart 14: Change in the availability of bank loans perceived by SMEs across euro area countries

(over the preceding six months; net percentages)

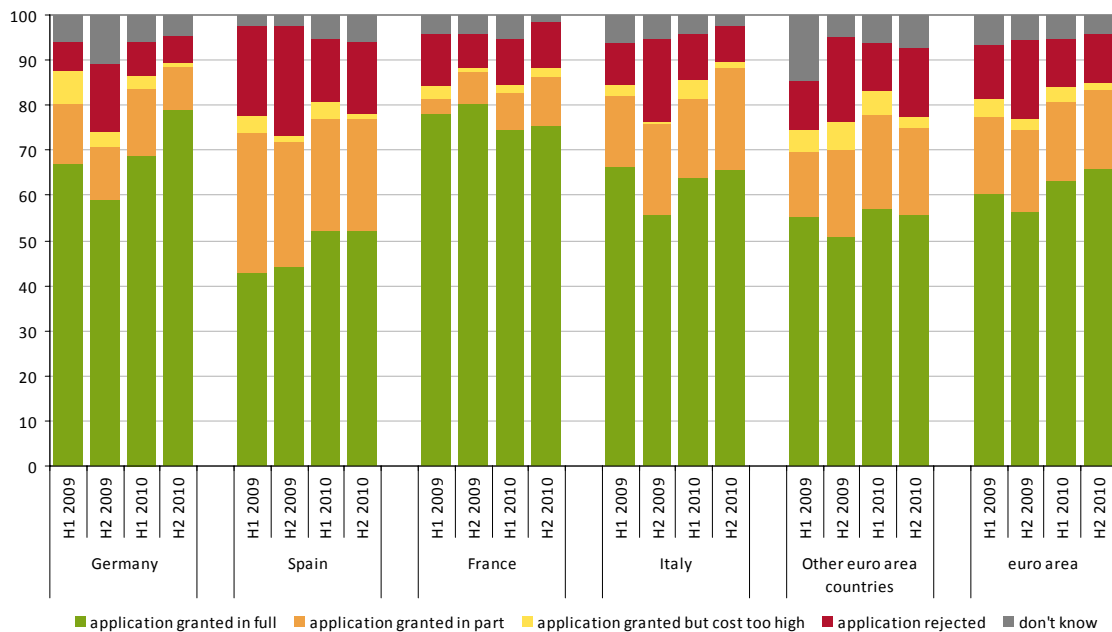


Base: All SMEs that applied for external financing.

As shown in Chart 15, SMEs in Spain continued to report significantly lower success rates than in other countries when applying for a bank loan (i.e. slightly more than 50% compared with 66% at the euro area level), broadly unchanged from the previous survey. By contrast, the success rate of German firms when applying for a loan increased substantially (from 69% in the previous survey round to 79% between September 2010 and February 2011). At the same time, it should be noted that a smaller number of German SMEs actually applied for a loan during the reference period (about 20%, compared with 23% in the previous survey and 25% at the euro area level). Comparatively, almost 30% of Spanish firms applied for a loan.

Chart 15: Outcome of the application for bank loans by SMEs across euro area countries

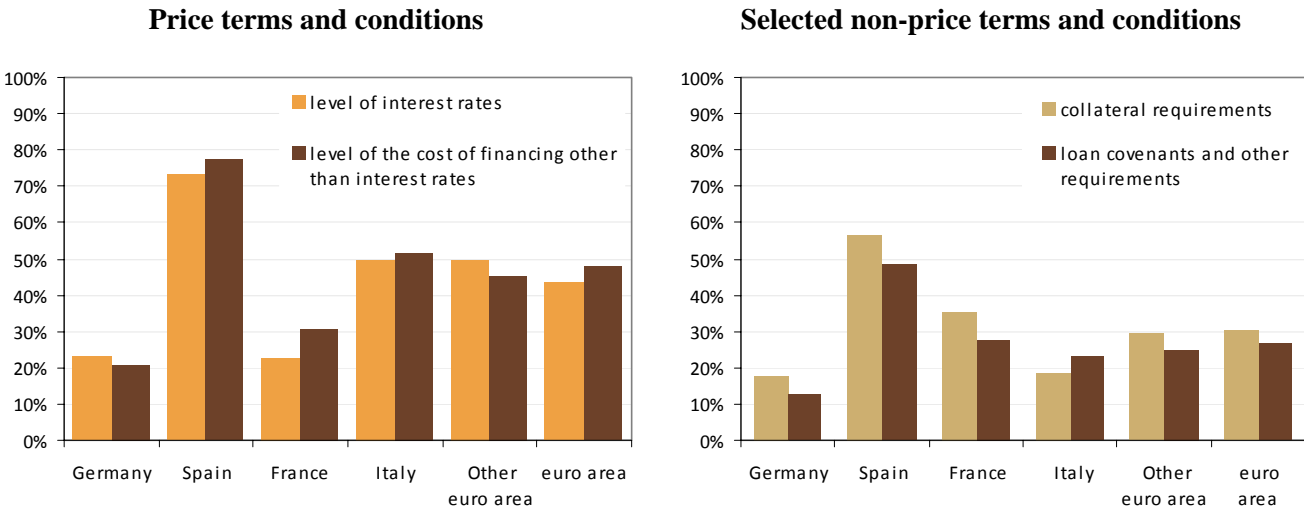
(over the preceding six months; percentage of firms that applied for bank loans)



Base: All SMEs that applied for bank loans.

Turning to the terms and conditions of bank financing (see Chart 16), a higher percentage of firms across countries reported that the level of interest rates, as well as the levels of other costs of financing (charges, fees and commissions), were increased by banks between September 2010 and February 2011. In line with the developments in the statistics on bank interest rates, Spanish SMEs reported among the highest net percentages. For non-price conditions, which include the requirements of collateral, covenants and other guarantees, the picture across countries is more mixed. Germany and Italy had the lowest (net) percentage of firms reporting increased collateral requirements. Moreover, in these two countries the situation had improved compared with previous survey rounds.

Chart 16: Change in terms and conditions of bank loans to SMEs across euro area countries
(over the preceding six months; net percentages)

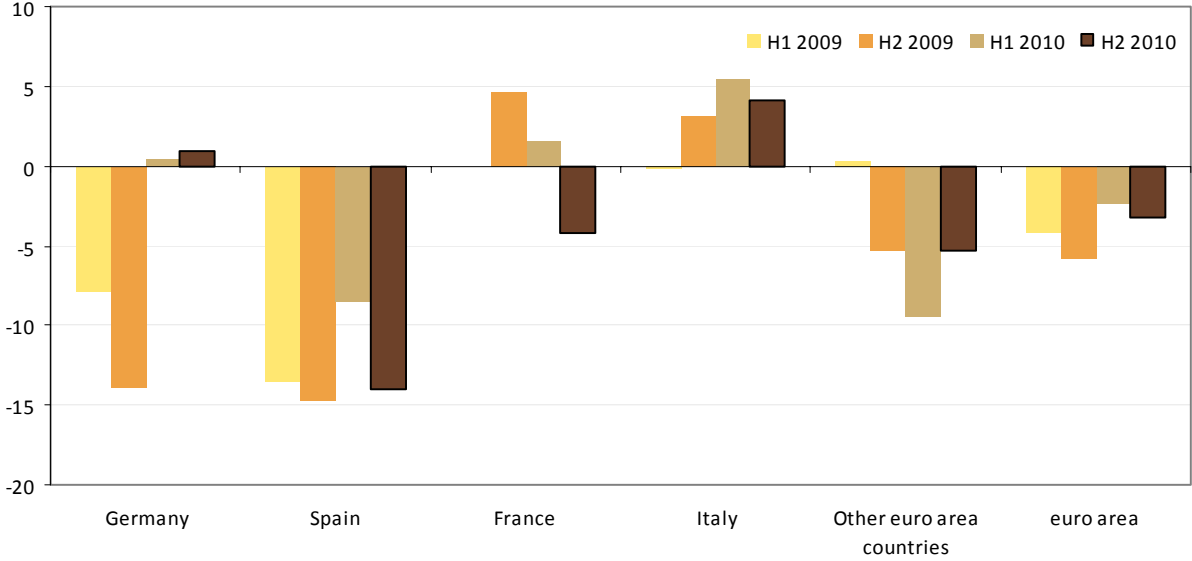


Base: All SMEs that applied for a bank loan.

Regarding expectations of future developments in access to finance for the coming six months, respondents were, in net terms, broadly neutral at the euro area level, with only slightly more firms expecting a deterioration than firms expecting an improvement (see Chart 17). In Germany and Italy, the balance of opinion for future developments shows that in net terms, SMEs are expecting the availability of bank loans to actually improve in the six months ahead. This is not the case for France, possibly because some credit intermediation measures are planned to be phased out by June 2011. In Spain, SMEs remained pessimistic and tend to foresee a further deterioration in the availability of bank loans and, more generally, in access to external financing in the six months ahead.

Chart 17: SMEs' expectations regarding access to bank loans across euro area countries

(over the following six months; net percentages)

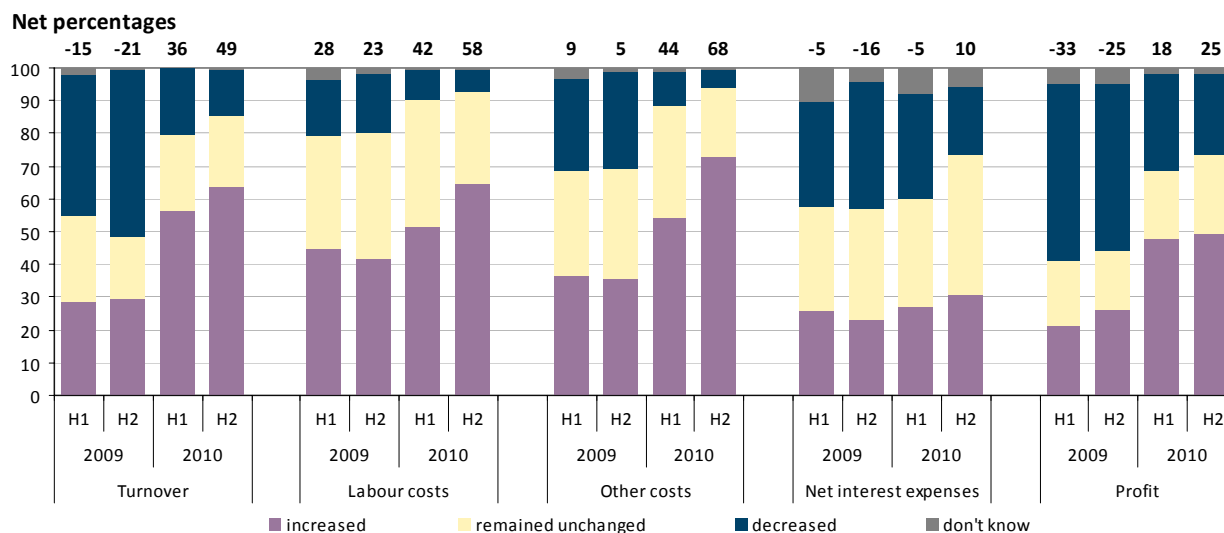


Base: All SMEs that applied for external financing.

ANNEX 1: LARGE FIRMS – OVERVIEW OF THE SURVEY REPLIES

Chart 1a: Change in the income situation of large euro area firms

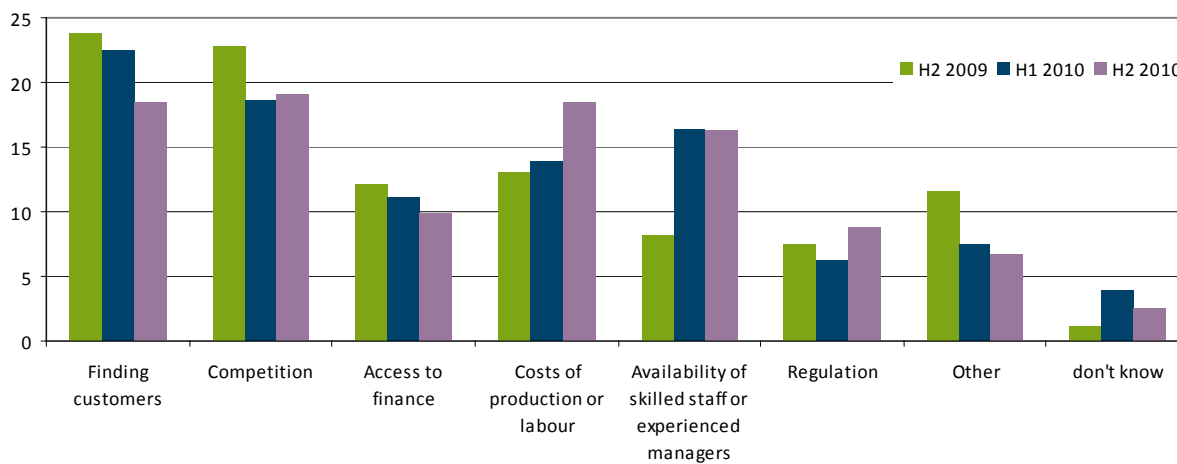
(over the preceding six months; percentage of respondents)



Base: All large firms.

Chart 2a: The most pressing problem faced by large euro area firms

(percentage of respondents)

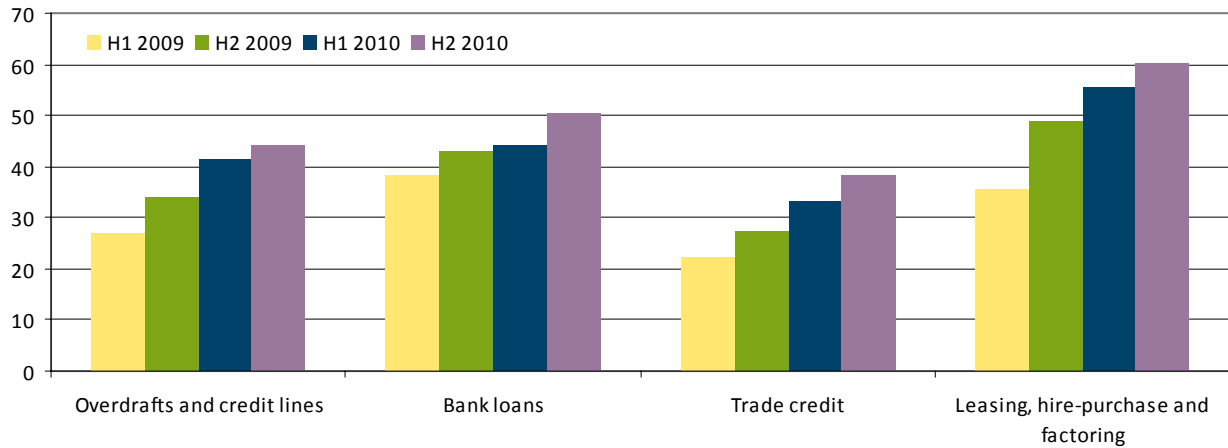


Base: All large firms.

Note: Figures for H1 2009 are not comparable and therefore not shown in the chart.

Chart 3a: Financing structure of large euro area firms

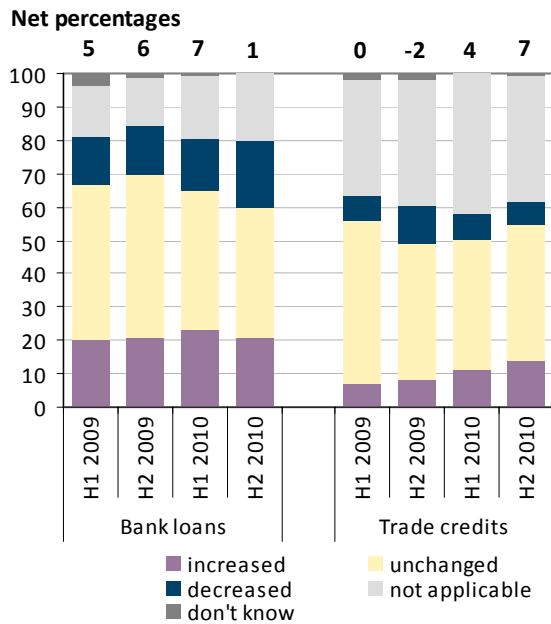
(over the preceding six months; percentage of respondents)



Base: All large firms.

Chart 4a: Change in external financing needs of large euro area firms

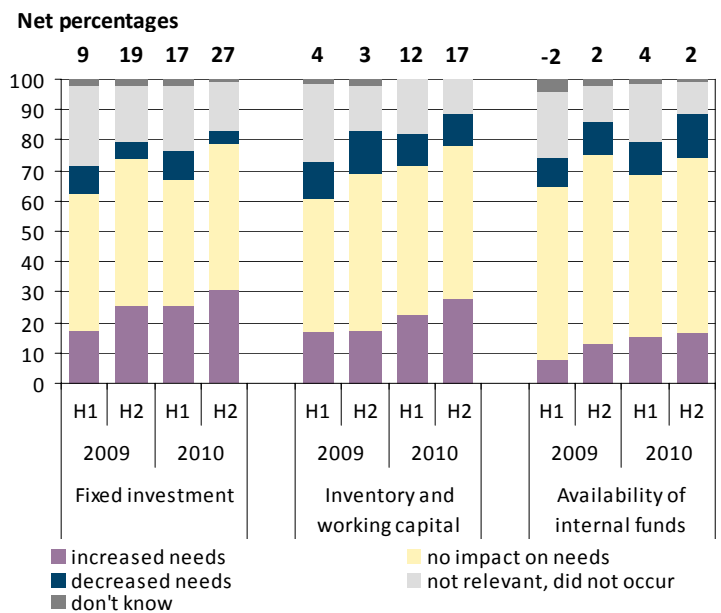
(over the preceding six months; percentage of respondents)



Base: All large firms.

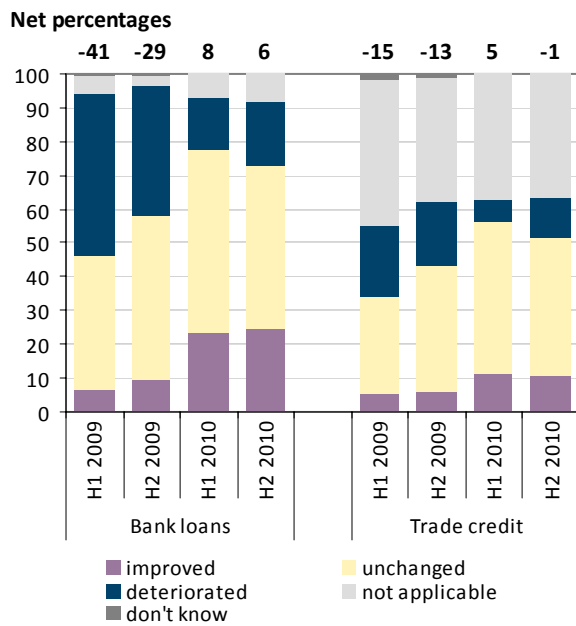
Chart 5a: Factors affecting the external financing needs of large euro area firms

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



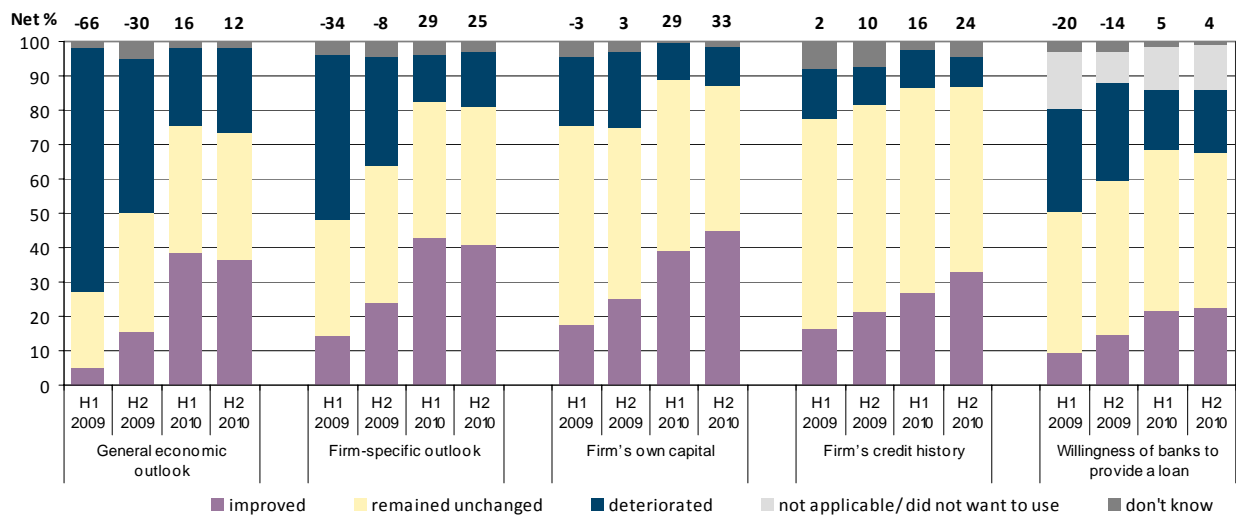
Base: All large firms.

Chart 6a: Change in availability of external financing to large euro area firms
(over the preceding six months; percentage of respondents)



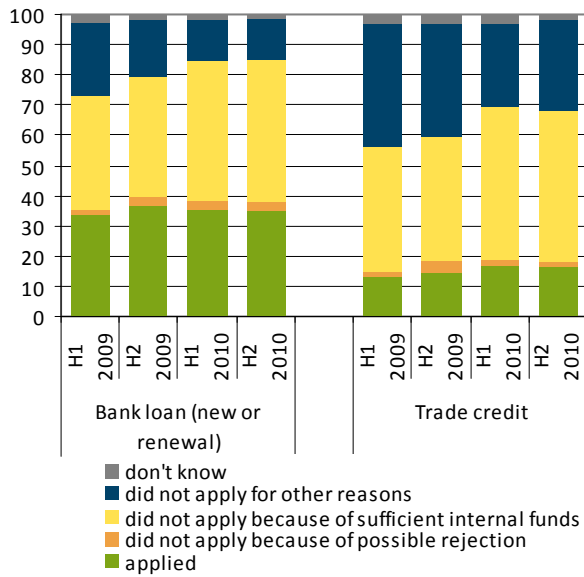
Base: Large firms that had applied for external financing.

Chart 7a: Factors having an impact on the availability of external financing for large euro area firms
(change over the preceding six months; percentage of respondents)



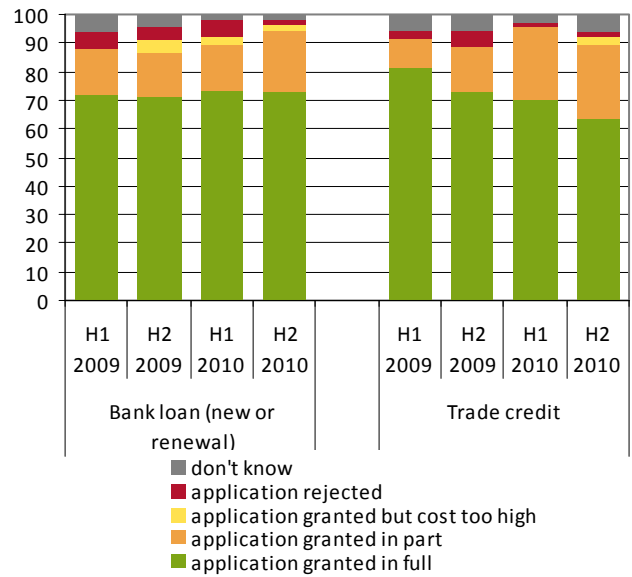
Base: All large firms.

Chart 8a: Applications for external financing by large euro area firms
(over the preceding six months; percentage of respondents)



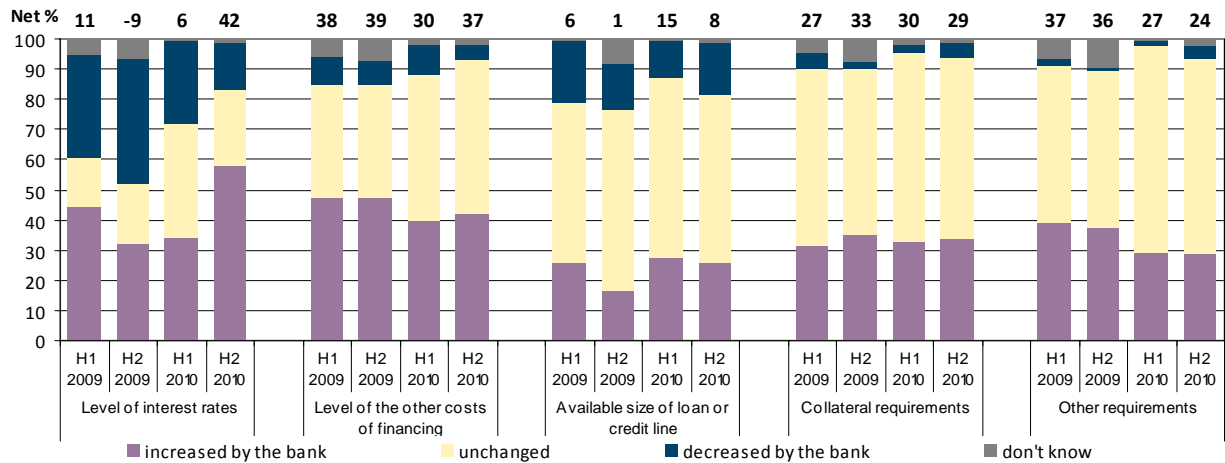
Base: All large firms.

Chart 9a: Outcome of the applications for external financing by large euro area firms
(over the preceding six months; percentage of firms that had applied for bank loans or trade credit)



Base: Large firms that had applied for bank loans or trade credit.

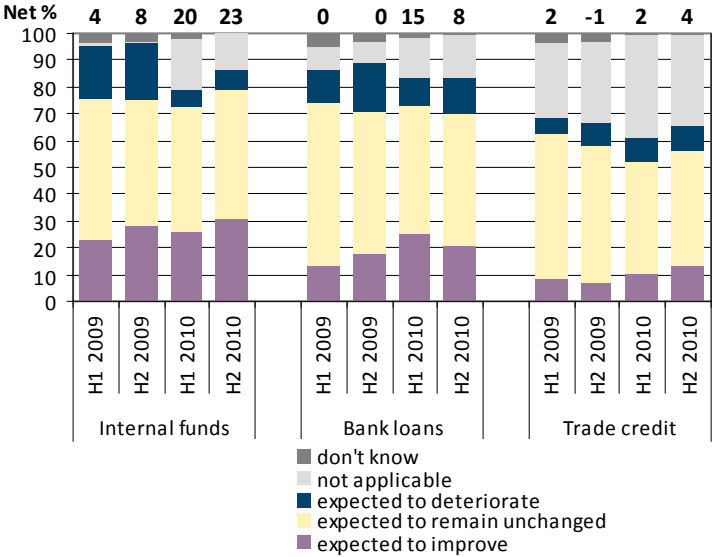
Chart 10a: Change in terms and conditions of bank loans granted to large euro area firms
(change over the preceding six months; percentage of firms that had applied for bank loans)



Base: Large firms that had applied for bank loans.

Chart 11a: Large euro area firms' expectations regarding access to finance

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



Base: All large firms.

ANNEX 2: METHODOLOGICAL INFORMATION ON THE SURVEY AND GENERAL CHARACTERISTICS OF THE FIRMS IN THE SAMPLE

This annex presents an overview of the methodology of the survey and the general characteristics of the euro area firms that participated in this survey.

Background

The data presented in this report were collected through a survey of companies in the euro area, conducted on behalf of the European Central Bank. The first two waves were carried out by Gallup, while the following ones were carried out by IPSOS MORI, in cooperation with the IPSOS network of national research agencies in the various countries. To the best of our knowledge there were no breaks attributable to the change of provider. Some changes in the questionnaire (for instance, the change to the wording of “internal funds” and “equity”, and additional questions on bank overdrafts) may have caused a break in the series between the H2 2009 and H1 2010 waves.

The survey interviews were conducted between 21 February and 25 March 2011.

Sample selection

The companies in the sample were randomly selected from the Dun & Bradstreet database of firms. The sample was stratified by firm size class, economic activity and country. The number of firms in each of these strata of the sample was adjusted to increase the accuracy of the survey across activities and size classes. For example, the proportion of small firms selected for the sample was higher than their economic weight. The results were then corrected using the appropriate weights (as described below).

The total euro area sample size was 7,532 firms, of which 6,941 had less than 250 employees.

As regards the stratification by firm size class, the sample was constructed to offer the same precision for micro (1 to 9 employees), small (10 to 49 employees) and medium-sized (50 to 249 employees) firms. In addition, a sample of large firms (250 or more employees) was included in order to be able to compare developments for SMEs with those for large firms.

Number of interviews conducted with euro area firms, broken down by firm size class

	Number of interviews		Number of interviews
Micro	2,510	Medium-sized	1,816
Small	2,615	Large	591

The sample sizes for each economic activity were selected to ensure sufficient representativeness across the four major activities: industry, construction, trade and services. The statistical stratification was based on economic activities at the one-digit level of the European NACE classification (Rev. 1.1). Enterprises from mining and quarrying (C), manufacturing (D), and electricity, gas and water supply (E) were combined into “industry”. “Construction” is simply construction (F). “Trade” includes wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods (G). “Services”

includes enterprises in hotels and restaurants (H), transport, storage and communication (I), real estate, renting and business activities (K), education (M), health and social work (N) and other community, social and personal service activities (O).

Agriculture, hunting and forestry (A), fishing (B), financial intermediation (J), public administration (L), activities of households (P), extra-territorial organisations and bodies (Q), holding companies (NACE 74.15) and private non-profit institutions were excluded from the sample.

Number of interviews conducted with euro area firms, broken down by economic activity

	Number of interviews
Industry	1,960
Construction	767

	Number of interviews
Trade	2,072
Services	2,733

Finally, the sample sizes in the different countries were selected on the basis of a compromise between the costs of the survey at the euro area level and representativeness at the country level. Besides being representative at the euro area level, the sample is also representative for the four largest euro area countries, i.e. Germany, France, Italy and Spain (see the section entitled “Weighting” below for information on the weights used). The sample size in the other countries was increased in the H2 2010 wave to 500 firms in each country, which will allow some significant results to be drawn from these countries. Additionally, the six smallest countries in the euro area (Cyprus, Estonia, Luxembourg, Malta, Slovenia and Slovakia) were not included in the sample, as they represent less than 3% of the total number of employees in the euro area. The results are only very marginally affected by this under-coverage. The sample structure by country is as follows:

Number of interviews conducted with euro area firms, broken down by country

	Number of interviews
Belgium	517
Germany	1,000
Ireland	500
Greece	500
Spain	1,000
France	1,004

	Number of interviews
Italy	1,000
Netherlands	502
Austria	500
Portugal	509
Finland	500

Fieldwork

All interviews were conducted by telephone (CATI). The person interviewed in each company was a top-level executive (general manager, financial director or chief accountant).

Questionnaire

The questionnaire used for the survey is available on the ECB’s website. It was translated into the respective languages for the purposes of the survey.

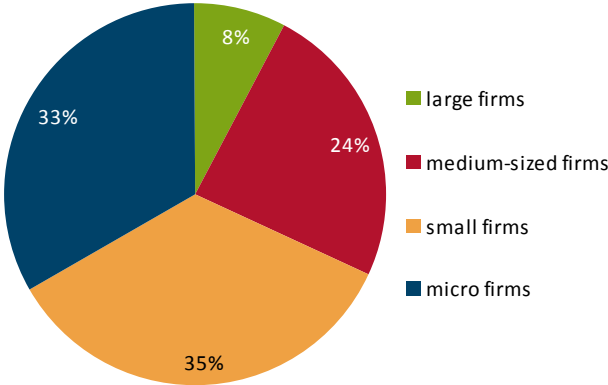
Weighting

In order to restore the modified proportions, with regard to company size and economic activity (see the section “Sample selection” above), calibrated weights were used. Since the economic weight of the companies varies according to the size of the company, there are two main classes of weights which can be used: (i) weights that restore the proportions of the number of firms in each size class, economic activity and country, and (ii) weights that restore the proportions of the economic weight of each size class, economic activity and country. In this report the second set of weights is used, as the objective is to measure the effect of access to finance on economic variables. The number of persons employed is used as a proxy for economic weight.⁶

The calibration targets were derived from the latest figures of Eurostat’s Structural Business Statistics in terms of the number of persons employed, by economic activity, size class and country, with figures from national accounts and from different country-specific registers to cover for activities not included in the Structural Business Statistics regulations.

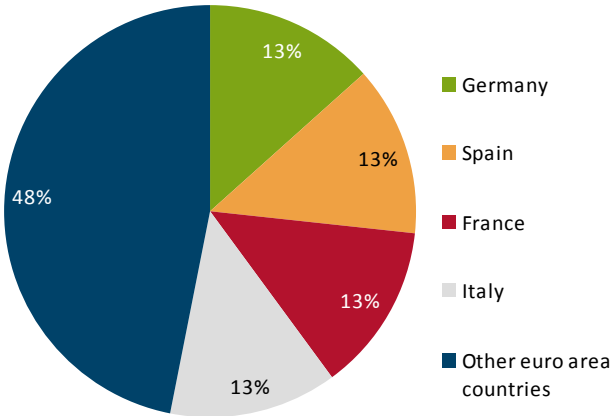
Descriptive statistics of the sample of firms

Chart A: Breakdown of firms into size classes



Sample size: 7,532

Chart B: Breakdown of firms across countries

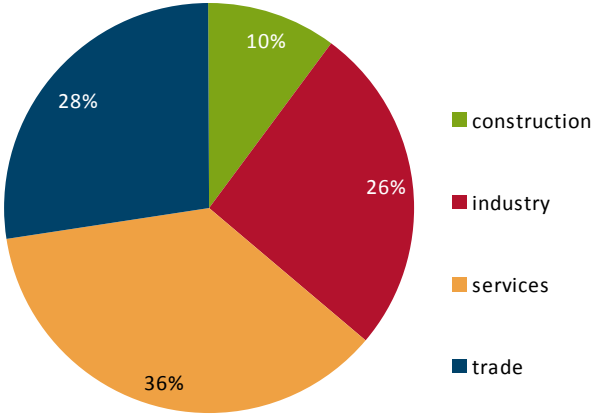


Sample size: 7,532

Note: Firms have been classified according to size in terms of the number of employees: micro firms have between 1 and 9 employees, small firms between 10 and 49, medium-sized firms between 50 and 249, and large firms have 250 or more employees.

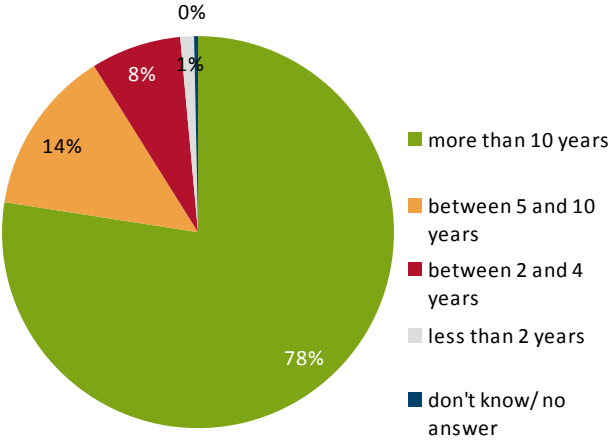
⁶ According to official statistics, 92% of firms in the euro area are micro firms (with 1 to 9 employees), 7% are small firms, 1% are medium-sized firms and 0.2% are large firms. However, in terms of economic weight, as measured by the number of persons employed, micro firms represent 31%, small firms 22%, medium-sized firms 16% and large firms 30% of all firms.

Chart C: Breakdown of firms across economic activities



Sample size: 7,532

Chart D: Breakdown of firms by firm age



Sample size: 7,532

Chart E: Breakdown of firms according to ownership

