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 fourth wave of the "Survey on the access to finance of small and medium-sized enterprises in the euro area".[1] The survey was conducted between 21 February and 25 March 2011, and covered 7,532 firms in the euro area.[2] This box provides information on the financial situation, financing needs and the access to financing of SMEs in the euro area. These results are compared with those for large firms over the six preceding months (i.e. from September 2010 to February 2011).

The financial situation of SMEs remained more difficult than that of large firms

Overall, compared with the previous survey round[3], the financial situation of euro area SMEs remained broadly unchanged in the period from September 2010 to February 2011, while

1 For further details, see the ECB's "Survey on the access to finance of SMEs in the euro area", 27 April 2011, available on the ECB's website at http://www.ecb.europa.eu/stats/money/surveys/sme/html/index.en.html

2 In this round of the survey, the sample size was increased by around 1,200 firms. 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 employees or more.

3 The previous survey referred to the period from March to September 2010.

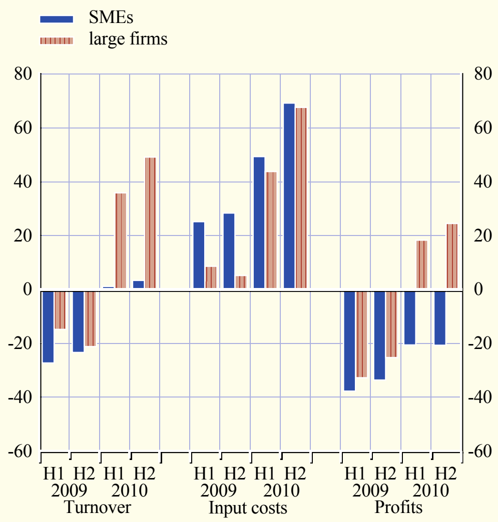
it continued to clearly improve for large firms. The net percentage of euro area SMEs reporting an increase in turnover during the six months preceding the interview was slightly positive, at 3% (see Chart A). At the same time, there were more SMEs reporting a deterioration in profits than SMEs reporting an improvement (21% in net terms as in the previous survey). Recent hikes in oil and commodity prices have heightened input cost pressures and may have held profits back. On balance, 69% of euro area SMEs reported an increase in input costs (up from 44% in the previous survey). A larger net percentage of SMEs reported an increase in labour costs as well. This general assessment of cost increases is also shared by large firms, but their overall situation appears to be mostly more favourable than that of SMEs. Large firms continued to register net increases in both turnover (49%) and profits (68%) and the situation has clearly improved since the previous survey round. For large firms, the recovery appears broadly based across all sectors of the economy. For SMEs, however, only those sectors with more cyclical, industrial operations reported a clear improvement. Instead, services and construction companies were still lagging behind over the survey sample.

External financing needs of euro area SMEs increased slightly

External financing needs were generally reported to have increased slightly. This is likely to reflect the positive underlying momentum of the economic recovery (see Chart B). A net percentage of 6% of SMEs saw their need for bank loans increase between September 2010 and February 2011, compared with 3% in the previous survey. Firms signalled, in particular, a net increase in needs for bank overdrafts and credit lines (up to 12%, from 9% in the previous survey). Although the need for trade credit changed little on balance since the last survey, the survey continued to indicate a slight increase in the need for inter-company financing. Compared with SMEs, a smaller

Chart A Indicators of the financial situation of euro area firms

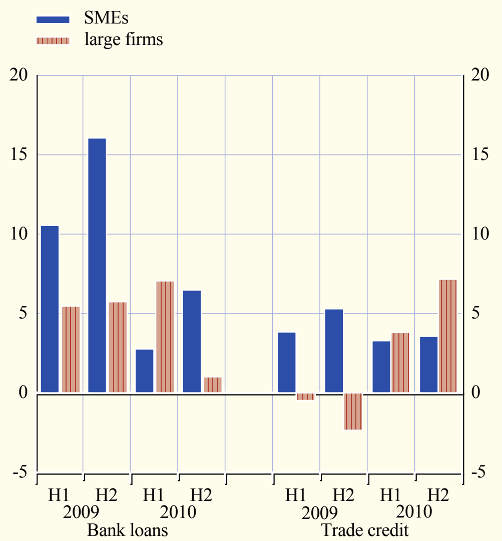
(in net percentage of respondents)



Source: ECB and European Commission survey on the access to finance of SMEs.
Notes: Change over the preceding six months. Net percentages are defined as the difference between the percentage of firms reporting an increase for a given factor and that reporting a decrease.

Chart B External financing needs of euro area firms

(in net percentage of respondents)



Source: ECB and European Commission survey on the access to finance of SMEs.
Notes: Change over the preceding six months. Net percentages are defined as the difference between the percentage of firms reporting an increase in needs and that reporting a decrease.

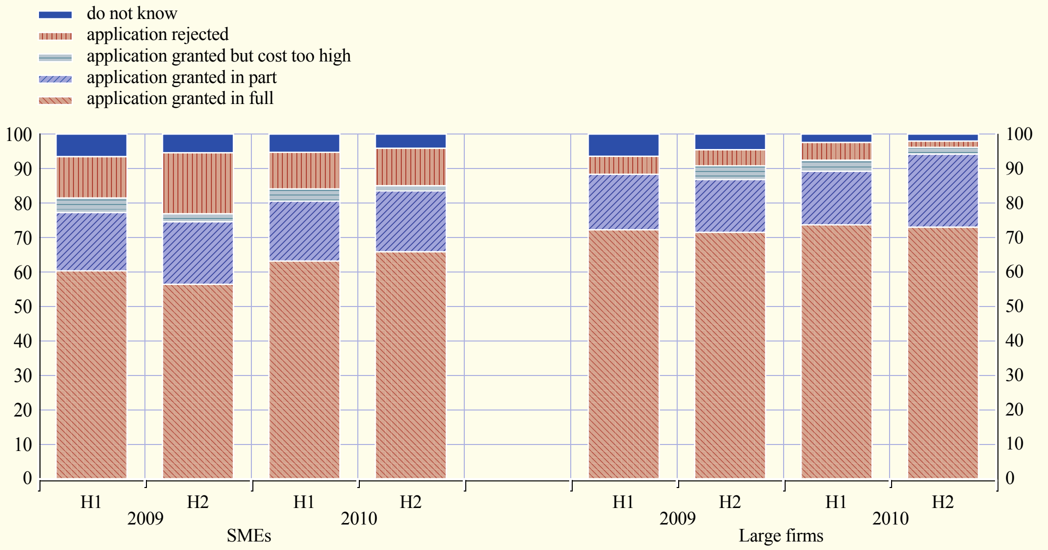
percentage of large firms reported increased needs for bank loans (1%, compared with 7% in the previous survey), while more large firms, on balance, signalled increased needs for trade credit. This is in line with the observed pro-cyclical pattern of trade credit, developments in which tend to be closely linked to the exchange of goods and services and, hence, to economic activity. Fixed investment and inventory, as well as working capital, contributed to this slight increase in financing needs, but their overall contribution remained broadly unchanged with respect to the previous survey. Compared with SMEs, however, large firms reported a much stronger increase in financing needs related to fixed investment and inventory and working capital.

Bank loan applications slightly more successful between September 2010 and February 2011

Between September 2010 and February 2011 around one-quarter of SMEs applied for a bank loan, a proportion broadly unchanged from the previous survey. As in the previous survey round, nearly half of SMEs did not apply because they had sufficient internal funds to cover their financing needs. In fact, euro area SMEs may have made some moderate deleveraging efforts in recent quarters, since their debt-to-asset ratio continued to decrease according to survey results. The percentage of firms not applying for a loan for fear of rejection remained broadly stable at 7%. 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 C). In addition, the number of euro area SMEs receiving the full amount they applied for continued to increase, reaching 66%. Compared with SMEs, the situation of larger firms improved even more, with 35% applying for a loan (as in the previous survey) and only 2% of them seeing their application rejected (compared with 5% in the previous survey). Alternative sources of financing, and especially trade credit, developed along similar lines between September 2010 and February 2011.

Chart C Outcome of loan applications by euro area firms

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



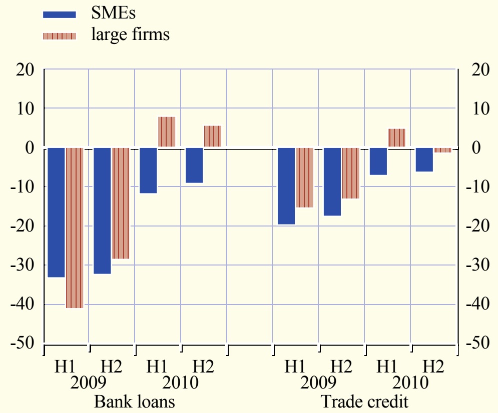
Source: ECB and European Commission survey on the access to finance of SMEs.

Availability of external financing for SMEs improved, albeit moderately

For SMEs the 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 in net terms, to -9% (compared with -12% in the previous survey round). A similar picture emerges for trade credit availability, where the perceived deterioration continued to decline during the same period. By contrast, for euro area large firms, the assessment was clearly positive and showed an increase in the availability of bank loans (as well as of debt securities and equity). Overall, issues related to "access to finance" were quoted as the most pressing problem by 16% of responding SMEs, a proportion broadly similar to that of the previous survey, while this percentage stood at 10% for large firms (also broadly unchanged from the previous survey). "Finding customers" remained by far the most pressing problem facing euro area SMEs (for 25% of them), while 14% of SMEs reported either "competitive pressure" or "costs of production" as the most pressing issues.

Chart D Availability of external financing for euro area firms

(in net percentage of firms that applied for external financing)



Sources: ECB and European Commission survey on the access to finance of SMEs.
Notes: Change over the preceding six months. Net percentages are defined as the difference between the percentage of firms reporting an increase in availability and that reporting a decrease.