

ACCESS TO FINANCE

Improving access to finance is essential to restoring growth and enhancing competitiveness. Investment and innovation are not possible without adequate financing. Difficulties in accessing finance are one of the main obstacles obstructing the growth of businesses, particularly small and medium sized enterprises (SMEs).

Bank lending remains the most important source of external financing for SMEs and the second one for large corporations¹. Furthermore, SMEs have few alternatives to it. They cannot directly access capital markets and the European venture capital markets are underdeveloped. Improving access to capital markets is therefore crucial to increase our competitiveness².

SMEs have been particularly affected by tighter credit conditions and financial instability. Debt financing has become more expensive and difficult to obtain, in particular in countries under market pressure, and for higher risk projects and borrowers. Besides, late payment of invoices has deteriorated the liquidity of businesses and therefore intensified their financing needs.

1. Key statistical indicators

1.1. Bank lending

The flow of new bank loans has dropped sharply in many Member States, and is likely to stay subdued due to the combined effect of tighter bank credit conditions and lower solvent demand. Although euro area banks have received significant funding support from the European Central Bank (ECB), many seek to strengthen their balance sheets in order to regain access to market funding. Also the spread between bank lending rates to companies and the yield for the 5-year sovereign bond have decreased in some countries³, which might suggest decreased interest of banks in financing private sector and in consequence generating crowding-out effect.

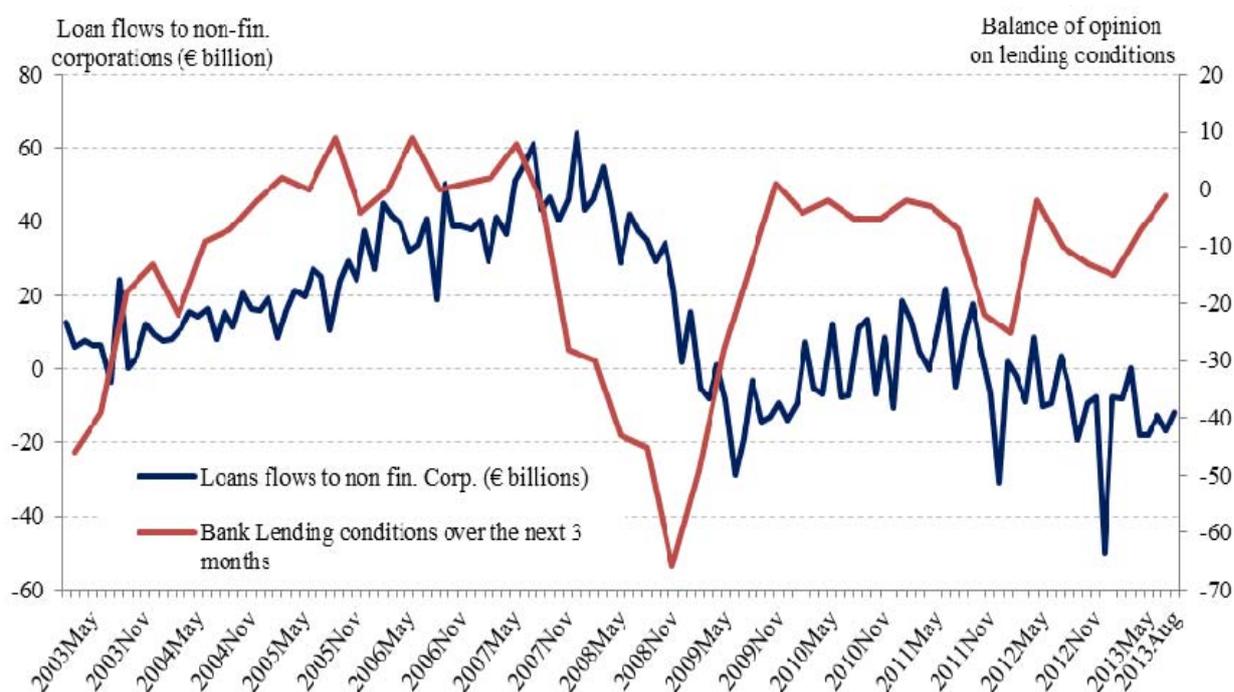
In the euro area, net lending conditions have been deteriorating since the second half of 2007, with a lessening of the negative trend between 2009 and the first half of 2011. The continuing economic uncertainty has kept loan volume growth negative in 2012 on the back of lower demand and tighter lending conditions (see figure 1).

¹ Behind leasing and factoring.

² A Stronger European Industry for Growth and Economic recovery – Industrial Policy Communication Update COM(2012) 582.

³ Statistical Data Warehouse, European Central Bank.

Figure 1. Loans to non-financial corporations in the euro area (€ billion, last three months)

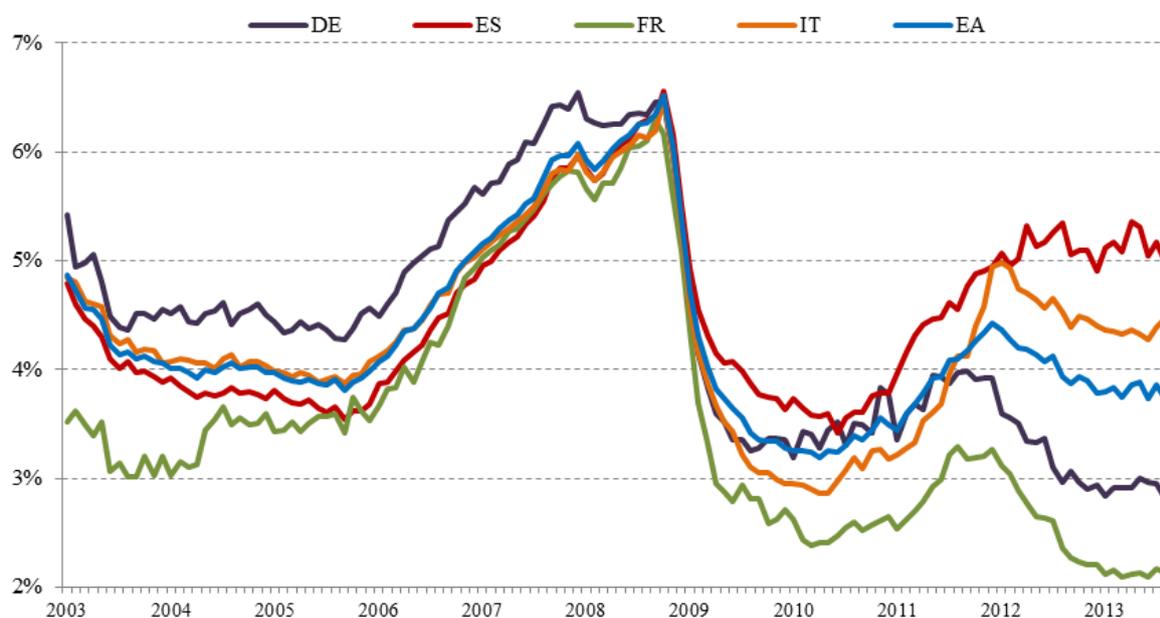


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On the demand side, the persistently weak level of economic activity, high uncertainty, low confidence and the need to reduce the high debt levels have continued to weigh on borrowing. On the supply side, there has been a tightening of credit standards for bank loans to non-financial firms.

From a cross-country perspective, financial markets in the euro area progressed steadily towards integration in the years following the introduction of the single currency. This was reflected among others in a convergence of interest rates for private sector loans. However, with the start of the crisis, the banking sector and financial markets gradually fragmented along national borders. These borders separated countries on the basis of their perceived capacity to cope with a banking crisis. Although the level of fragmentation has receded in some markets, like that for bank funding, it remains high for the lending to non-financial corporations, as reflected in the widening of interest rate differentials (see figure 2). This underlines the need to complete the single market for financial services, breaking the vicious circle between sovereign risk and bank risk.

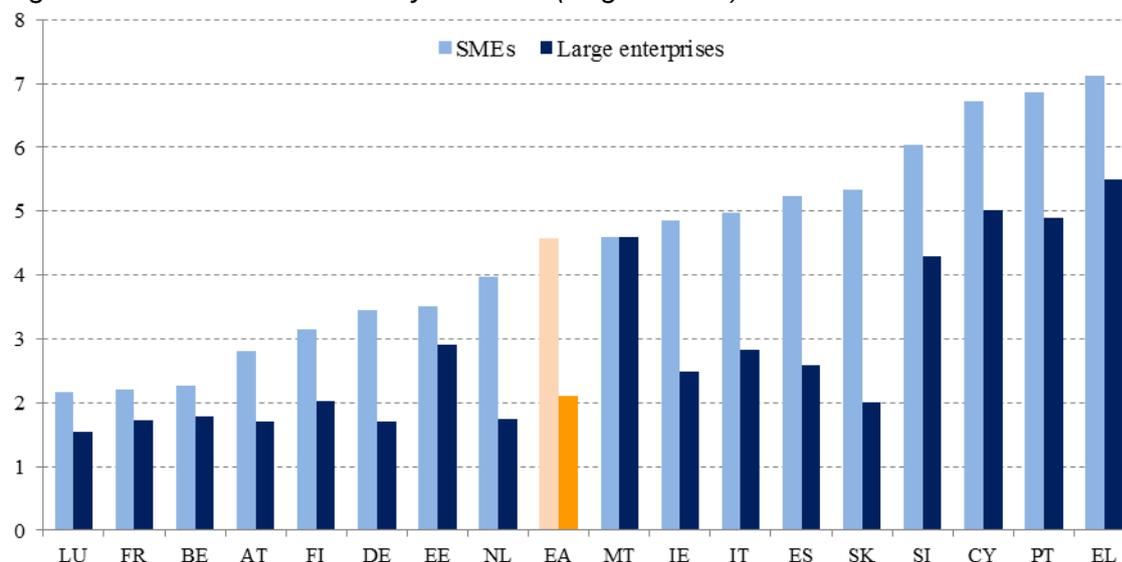
Figure 2. Interest rates for one-year loans up to EUR 1 million



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SMEs are especially strongly dependent on banks' liability to provide loans, since most of them do not have access to market financing as an alternative. In the recent period, credit conditions remain tighter for SMEs than for large firms, as reflected in the highest interest rates (see figure 3) and rejection rates for the former.

Figure 3. Interest rates for one-year loans (August 2013)⁴

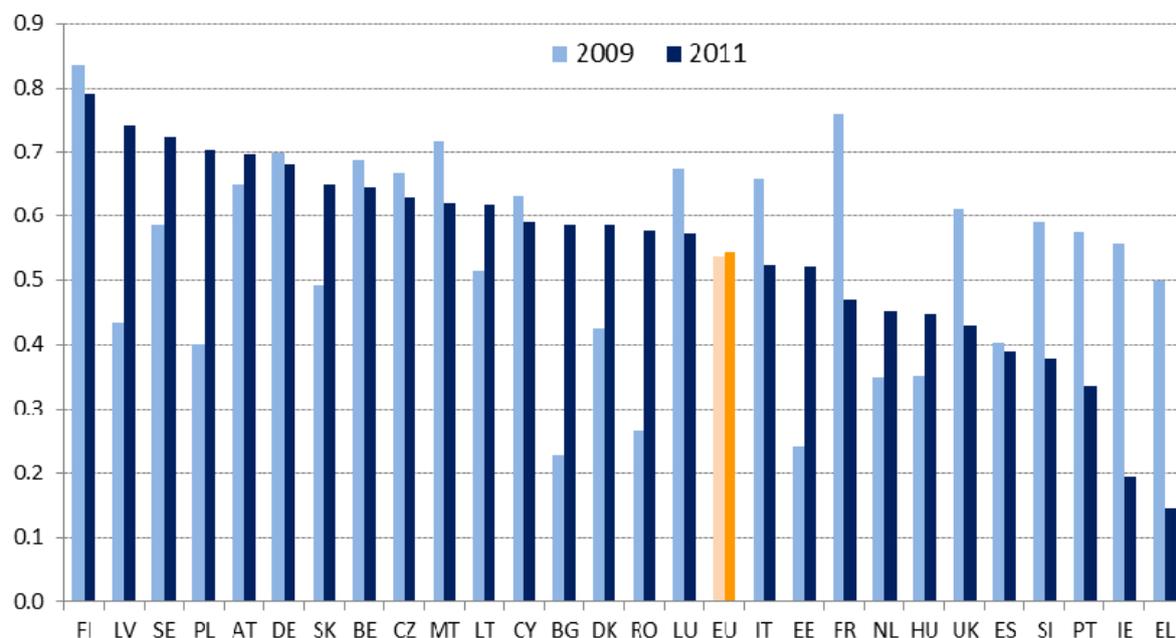


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⁴ Loans up to EUR 250.000 are used as proxy for loans to SMEs, and those over EUR 1 million a proxy for loans to large enterprises.

Beyond the aggregate volumes and average interest rates, the situation of individual firms is perceived differently on the ground. According to the ECB/Commission survey⁵ on access to finance, the situation is particularly worrying in Slovenia, Ireland, Portugal and Greece, as it has also worsened considerably since 2009 (see figure 4).

Figure 4. SMEs' access to bank loans



ECB/Commission, Commission calculations based on responses to six questions

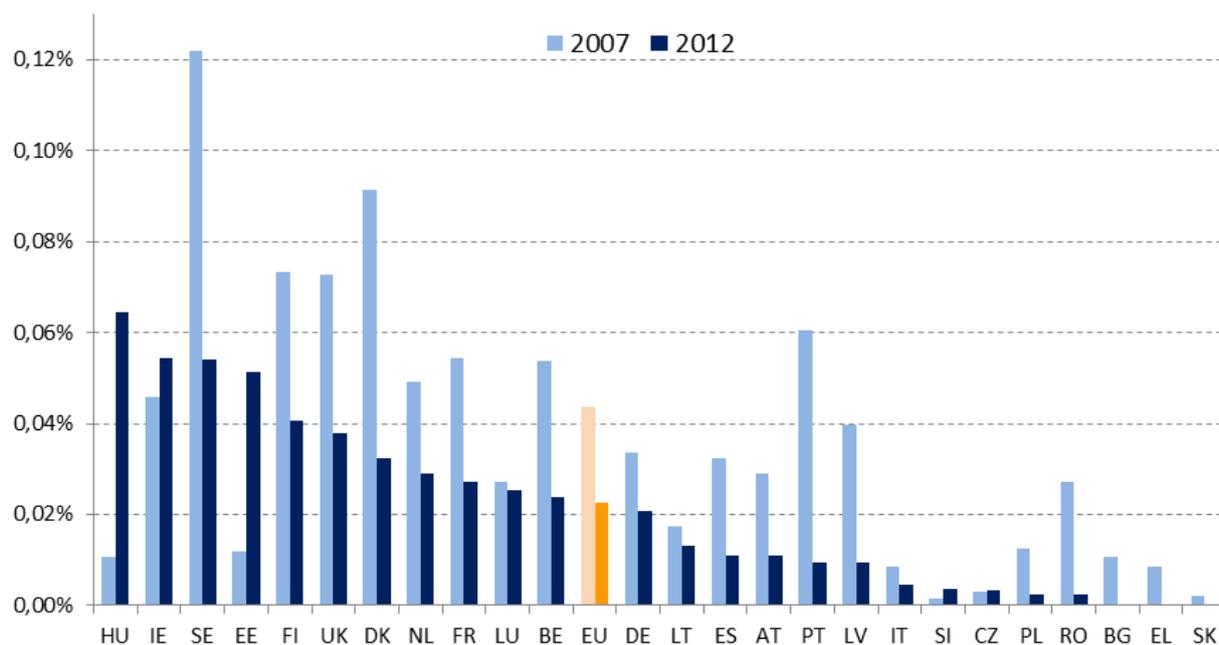
1.2. Non-bank lending

Equity financing is essential for innovative firms that have the potential for rapid growth and are willing to accept outside equity investors. These firms are a small minority of all firms, but can grow into large companies. Overall, equity financing is used by 7% of European SMEs.

As concerns venture capital, the deteriorating economic outlook and the sovereign debt crisis have taken negatively impacted on its availability. The amount of venture capital as a percentage of GDP has decreased in most Member States, although there are significant differences across countries (see figure 5). The situation is especially acute in Bulgaria, Greece and Slovakia. At EU level, in 2012, the total amount of venture capital raised (3.6bn) and the amount of investments (3.2bn) decreased on a yearly basis, by 31% and 14% respectively. As regards exits, trade sale, write-off and sale to another private equity firm were prominent last year with IPOs non-existent.

⁵ The ECB/Commission survey on access to finance collects information from SMEs on their perception and experience of bank lending. A composite indicator is constructed on the basis of the responses to the following questions: net increase in the need for bank loans in the past six months; not applying for a loan in the past six months for fear of rejection; applying for a loan in the past six months but being rejected, or rejecting the offer because of too high costs; net improvement in the availability of loans in the past six months; net increase in the size of bank loans in past six months; net improved willingness of banks to provide a loan in past six months. 0 indicates the worst possible situation and 1 the best possible one.

Figure 5. Venture capital as % of GDP (2012)

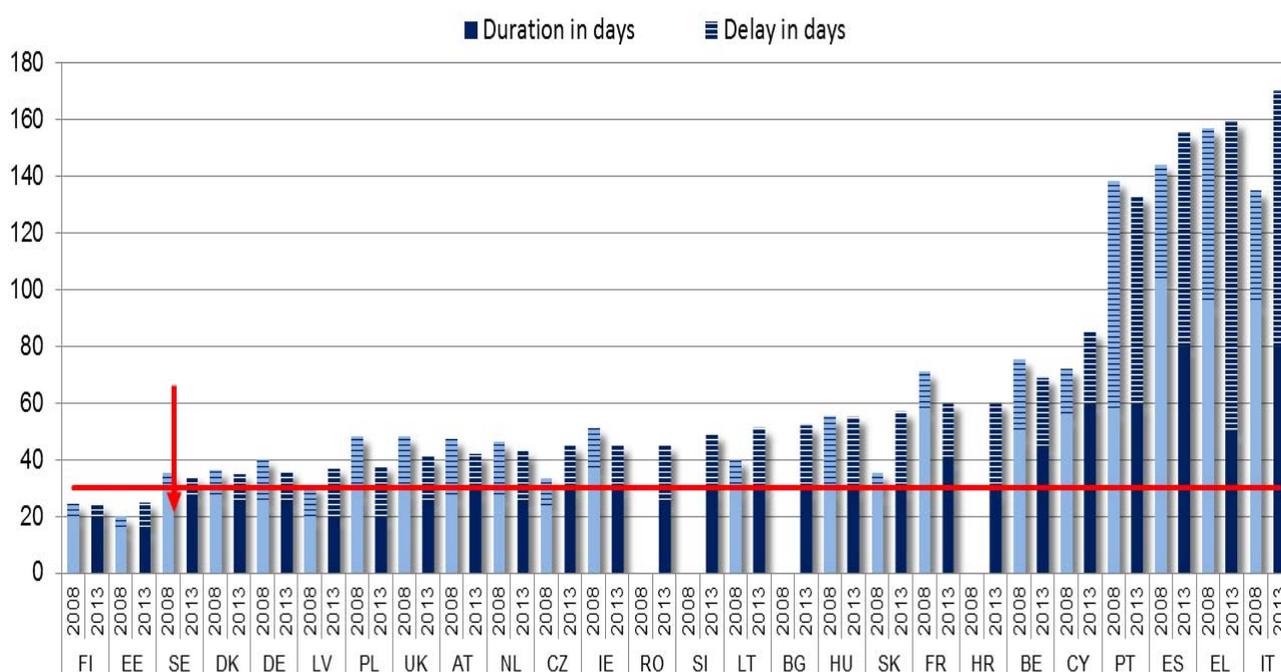


Source: EVCA, Eurostat

1.3. Payment times of public authorities

Late payments in commercial transactions can also cause financial problems and uncertainty for suppliers, particularly small businesses. In the public sector, the average time it takes public authorities to pay their bills has deteriorated between 2008 and 2013 (see figure 6). There are four Member States where the payment time of public authorities is a pronounced problem: Italy (average payment time of 170 days), Greece (159 days), Spain (155 days) and Portugal (133 days). The situation in Spain and Italy has worsened considerably since 2008.

Figure 6. Payment times for public authorities, duration/ delays in days



Source: European payment index, Intrum Justitia

2. Policy responses

Coordinated efforts by the Member States are needed to improve the access to finance, including learning from good practices, and constantly monitoring actions with the aim to shift resources to those that work best. Public resources have already been mobilised to sustain investment in innovation, especially by SMEs. However, only by unlocking private funds can we ensure the level and sustainability needed to finance investment by EU companies.

With regard to bank lending, the deleveraging of the financial sector has an impact on access to finance. Besides actions aimed at the banking system, countries have also introduced policies to improve access to finance, in particular creating or expanding loan guarantee schemes. The effectiveness of these measures can only be measured over time.

Lower bank lending is clearly weighing on economic growth, but the overall impact will also depend on the availability of alternative sources of funding and the policy responses. In this respect, Member States have adopted various measures that could foster alternative financing mechanism but their impact will be seen over time.

Member States have been adopting several measures to fight late payments. As of mid-October, twenty-six Member States have notified the transposition of the Late Payment Directive⁶ which had to be transposed by 16 March 2013. Portugal, Greece, Spain and Italy have all adopted plans to deal with the stock of arrears.

⁶ Directive 2011/7/EU on combating late payment in commercial transactions.