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Loans for SMEs – gap in Europe widens further

Author: Dr Michael Schwartz, phone +49 (0) 69 7431-8695, research@KfW.de

According to the ECB, small and medium-sized enterprises (SMEs) in Southern Europe are reporting continuing or increasing financing problems. In contrast, German SMEs are reporting hardly any difficulties. This is reason enough to take up the results of the ECB research and to compare these to the KfW SME Panel results.

Unlike almost every country of the Euro area, small and medium-sized enterprises in Germany were able to largely brave the difficult economic environment of the recent past. It is not without reason that neighbouring European countries look upon the German SME sector as a model and guarantor for growth, employment and prosperity.[1]

Along with the inflow of capital and the low interest rates, the strong performance and strength of exports outside of Europe are the main factor why SMEs in Germany are facing a – compared to the Euro area – comfortable financing situation (Chart 1).

ECB sees German SMEs in special position – gap with Southern Europe widens further

The European Central Bank (ECB) proves this in its recently published regular study on the terms of financing in the Euro area (ECB SAFE).[2] Thus, on balance the demand of German SMEs for bank loans has again declined (Chart 1). In the whole Euro area, on the other hand, the demand for loans has again increased. Here the economic development in the reforming countries of Southern Europe is having an impact. It leads to higher demand for loans from SMEs in order to maintain ongoing business operations.

In parallel, the credit supply gap has been declining continuously in Germany. If in 2006 16 % of the demand for loans could be satisfied due to lack of credit availability, in 2011 the credit supply gap was significantly less at 6 %. In addition to declining demand for loans, the access to loans (supply side) still remains good. However, in many other Euro countries there is still a problem in terms of supply; access to loans continues to worsen and is particularly serious in Southern Europe.

Equity base at all-time high

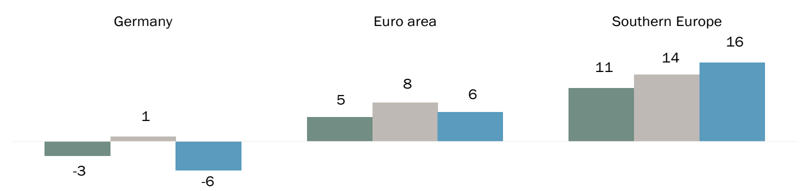
The "special position" of German SMEs is not only a result of the environment. It is also a sign of a higher equity base resulting from the experiences of the Dotcom bubble. More and more, German SMEs cover upcoming investment projects using their own funds. The KfW SME panel 2012[3] again demonstrates that the ability of German SMEs to finance investments using own funds has continually increased in of investments were covered by own funds in 2006, this figure increased to 54 % by 2011. That trend is continuing in 2013.

This is in addition to high and stable profitability. Underpinned by strong domestic demand in the last years, sales and return on sales have trended consistently positively. In particular the stability of return on sales – which was hardly affected by the financial, economic and, most recently, Euro crisis – at between 5 and 6 % allows the SMEs to stabilise their equity base at a high level or even improve it (Chart 3). In particular the small enterprises with less than 10 full-time employees – making up 92 % of all SMEs in Germany – have had the strongest growth in the past years. Alone in 2011 their average equity ratio increased by 1.9 percentage points to 23.5 %. The corresponding ratio for the whole SME sector is 26.9 % – an increase of eight percentage points compared to 2002.

Chart 1: The "market" for SME bank loans in the Euro area

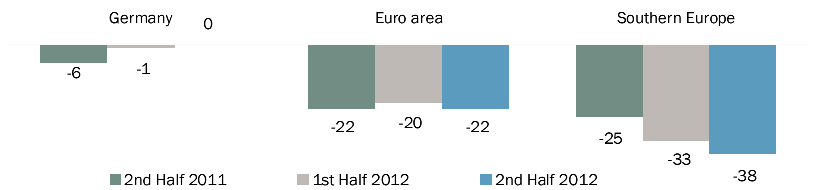
SME demand for bank loans

Balance of SMEs reporting "increased" and SMEs reporting "decreased"



Availability of bank loans for SMEs

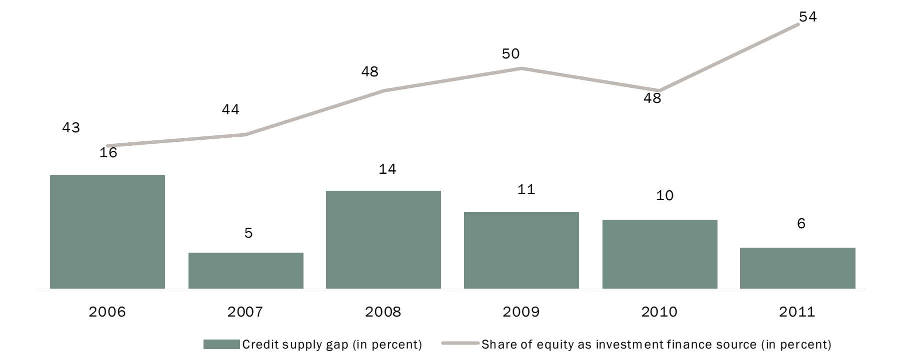
Balance of SMEs reporting "improved" and SMEs reporting "worsened"



Notes: Southern Europe comprises Italy, Spain, Portugal and Greece. Country-specific data is only available for three periods of data collection. For Southern Europe and the Euro area a mean value of all individual countries is used respectively.

Source: ECB-SAFE 2012, 2011, 2010

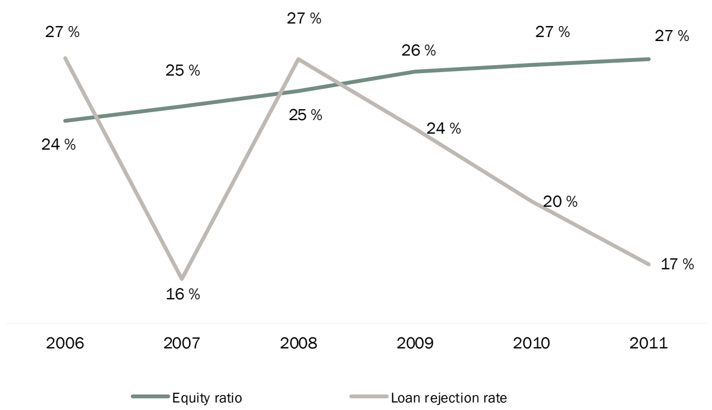
Chart 2: Ability to finance using own funds in German SMEs from 2006 to 2011



Note: The credit supply gap is the estimated share of enterprises' demands for loans not satisfied due to a lack of loan offers from the bank, in terms of the actual demand for loans.

Source: KfW SME Panel 2007–2012

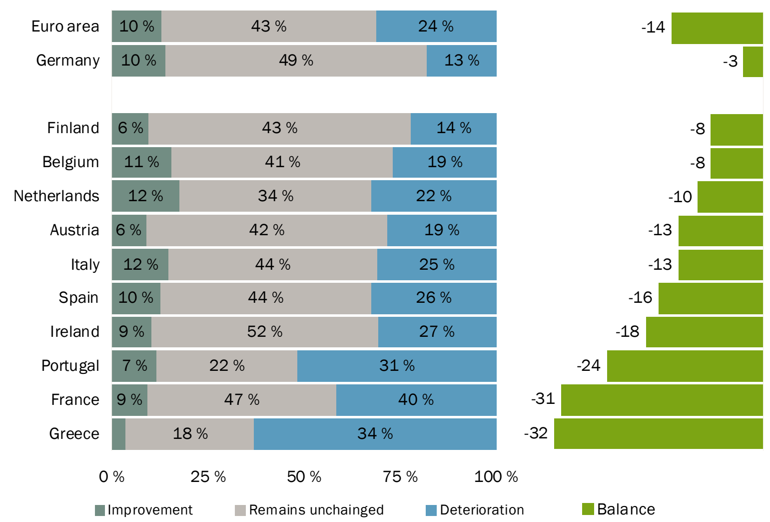
Chart 3: Equity ratio and loan rejections in the SME sector



Note: Loan rejection rate is the share of SMEs for which all loan negotiations fail and they do not receive a loan offer from the bank, in terms of enterprises with loan negotiations.

Source: KfW SME Panel 2007–2012

Chart 4: Expectations regarding access to bank loans in the coming six months



Source: ECB-SAFE 2012

Thus, the SME sector in Germany is better prepared to deal with more restrictive financing conditions (such as most recently with the Euro crisis) than SMEs of other EU countries. Possibly tightening restrictions in lending of investment loans can be more easily endured and offset through greater use of own funds.

German SMEs see no major problem in access to finance

Already the KfW credit market outlook[4] emphasises the relatively favourable conditions for German enterprises compared to their European counterparts. Bearing this in mind it is of little surprise that German SMEs look comparably optimistic into the future (Chart 4). When asked how they estimate access to bank loans to develop through spring 2013, SMEs in Germany have by far the most confident outlook in the Euro area (-3 balance points). More serious is the situation of SMEs in Southern Europe where the credit crunch continues un-abated.

A sustainable improvement of the current difficult financing situation of SMEs in the European periphery is not in sight – particularly in light of the ongoing economic weakness of the Southern European countries. In addition, the Spanish banking sector is still in a restructuring phase.■

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[1] See also: The Economist (2012), Why doesn't France have a Mittelstand? The Economist, 20. October 2012, S. 56.

[2] European Central Bank (ECB) (2012), Survey on the access to finance of small and medium-sized enterprises in the Euro area. April to September 2012, European Central Bank, Frankfurt am Main.

[3] Schwartz, M. (2012), KfW SME Panel 2012: Strong Performance – High Risks, KfW Bankengruppe, Frankfurt am Main.

[4] Hornberg, C. (2012), KfW credit market outlook December 2012. New lending business: ahead of the decline, KfW Bankengruppe, Frankfurt am Main.