Spanish SMEs in the European context: Measuring access to bank finance

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Latest ECB survey data confirm an improvement in Spanish firms´ access to bank credit –particularly at the SME level– breaking the negative trend in recent years. Progress on banking union, ECB liquidity support measures, and the Spanish financial sector restructuring process have all played a major part in explaining the survey´s positive results.

The latest ECB data clearly show the improvement that has taken place in Spanish firms' access to bank credit, as firms themselves have acknowledged. Overall, more abundant, and less expensive, financing is now available. Banks are more willing to lend and the rejection rate for loan applications has dropped. Progress is further confirmed by favorable developments at the SME level. Credit to SMEs for new operations is growing strongly, while the cost increment paid compared to their European peers has diminished. In parallel, the spread over the Euribor that Spanish banks charge on new loans to SMEs has fallen since mid-2013. However, while access to credit is better for SMEs as a whole, micro-enterprises have benefited less from the improvement.

The recent financial crisis caused a drastic tightening of credit conditions for bank financing to Spanish businesses. Furthermore, after recording strong growth during the expansionary period, the growth of bank lending turned negative, largely due to firms' need to deleverage, although supply-side restrictions also played a major part. This scenario was compounded by the fragmentation of the European financial market, which led to higher borrowing costs in those countries hardest hit by the sovereign-debt crisis (which included Spain).

The ECB's intervention and the banking union project represented a turning point: (i) reducing financial-market fragmentation; (ii) improving borrowing conditions; and, (iii) stimulating the recovery from recession. Since mid-2013, the difference between the interest rates Spanish firms pay for bank loans and the rates paid by firms elsewhere in the euro area has narrowed. The stock of credit has continued to decline, but the rate has slowed, and new lending has recovered. Therefore, these two variables (quantity and price) are already clearly showing the change in trend taking place in firms' access to bank credit. This trend change has come from both the supply side (banks have relaxed their requirements) and the demand side (in the context of GDP growth, demand is now more solvent).

Against this background, this article aims to take a closer look at the conditions under which firms

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are able to access bank finance. The focus will be on SMEs[2] in particular, as, given their size, it is smaller businesses that are most dependent on bank credit. This analysis draws upon the information provided in the ECB's survey on firms' access to finance, which allows the situation of Spanish businesses to be compared with that of firms in other eurozone countries across a range of business sizes.

The most recent round of the ECB survey, published in June 2015, refers to the situation prevailing between October 2014 and March 2015. It therefore allows for an assessment of the impact of the ECB's measures and the implementation of banking union on access to finance conditions. As the preceding rounds of the survey go back to 2009 (a total of 12 have been published), it is possible to examine the impact of both the crisis and the recovery, and so detect any possible structural change in the conditions of access to bank finance.

As discussed below, the findings suggest that although the crisis had a bigger negative impact on access to credit in Spain, since late 2014, the improvement has been stronger, in terms of both the availability of credit and the conditions under which it is granted. What is more, evidence shows that credit to SMEs for new operations is growing strongly and that the cost of borrowing is falling, both in comparison with the interest rate paid by European companies, and the smaller spread over the 12-month Euribor rate charged by Spanish banks.

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Recent developments in extension of credit and interest rates

Bank credit to the Spanish private sector has fallen by 26% since the peak reached in late 2008, clearly demonstrating the intensity of the deleveraging process taking place. The drop was bigger in the case of credit to businesses (34% by the end of 2014), and it was particularly sharp in the case of lending to construction and real estate activities. Comparing the contraction in credit to firms in Spain with the situation elsewhere in the eurozone, from 2008 to 2014, the drop in Spain was four times the eurozone average, with Spanish businesses facing the third most intensive reduction in the eurozone, behind only Ireland and Slovenia. The available information shows that credit to Spanish businesses fell consistently from late 2010 through September 2014, when there was a reversal in the trend, with a slight increase in credit in the last quarter of 2014.

In terms of the interest rates on business lending, until mid-2008, Spanish businesses paid rates below the eurozone average on loans of up to a million euros (the typical size of loans to SMEs). The situation then reversed, with an unfavourable spread widening for Spain, which reached a maximum of 152 basis points (bp) in April 2013. Since then, spreads have gradually narrowed, standing at 57 bp in May 2015. In the case of loans of over a million euros, the difference from the euro area reached 120 bp at year-end 2013, but dropped back to 45 bp in May 2015.

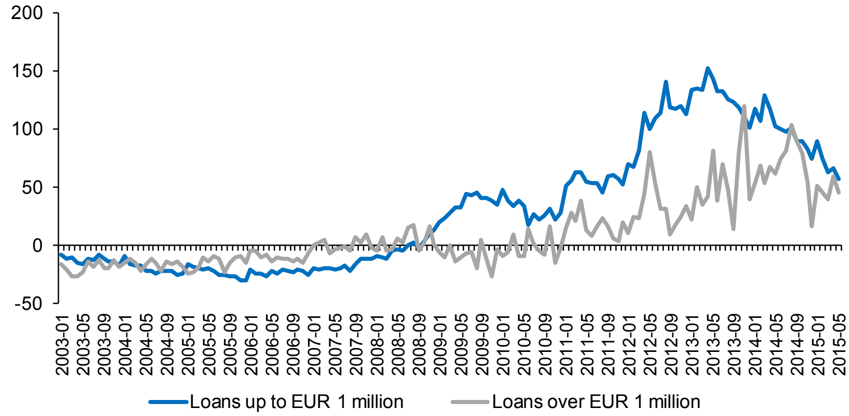
In short, this initial information about how bank lending to firms and interest rates have evolved shows a clear change of trend in 2014, as credit has stopped contracting and the price disparity with the eurozone is being corrected. Furthermore, new credit transactions for less than a million euros are growing strongly, while the interest rate spread on this credit, with respect to the 12-month Euribor, is falling. Specifically, the spread has dropped 91 bp in the last twelve months (from

[2] SMEs comprise a wide range of firms operating under very different conditions, subdivided into micro (less than 10 employees), small (10 to 49 employees) and medium-sized enterprises (50 to 249 employees).

Exhibit 1

Difference between the interest rate on a bank loan to a firm in Spain and the euro area

Basis points



Source: ECB.

May 2014 to May 2015), and it has been falling since May 2013 (down 156 bp).

The importance of access to finance for firms

The ECB survey indicator that sheds some light on the relevance of access to finance to the proper functioning of firms is its greater or lesser importance compared to other variables, such as finding customers, competition, regulation, etc.

As Exhibit 2 shows, Spanish SMEs have always been more worried about the problem of access to finance than larger companies and the majority of their Eurozone peers. Access to finance has even been their predominant concern in the second half of 2009, coming before other concerns such as obtaining customers. In the second half of 2009, the gap separating them from other eurozone businesses reached a peak of 14.7 percentage points, as 34.2% of Spanish SMEs identified access to finance as their main problem, compared to 19.5% of eurozone SMEs.

Since mid-2011, the percentage of Spanish SMEs reporting access to finance as their main problem has dropped much faster than in the eurozone as a whole, such that the differential between them has narrowed. Nevertheless, according to the most recent information, Spain's percentage is still 2 pp above the eurozone average, with a percentage of 13.1% compared to the eurozone's 11.1%. Compared to

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the major eurozone economies, difficulties obtaining finance were reported by a larger share of SMEs in Spain than in Germany (6.7%) or France (9.4%), but by the same amount as in Italy (13.1%).

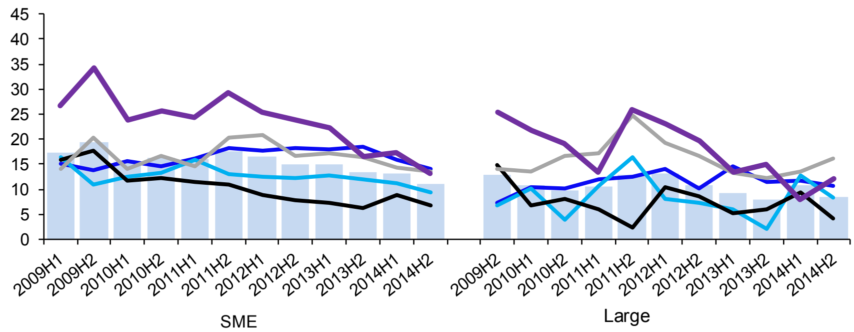
Although not shown in the Exhibit, the most important problem facing Spanish SMEs today is finding customers (27.2% of firms reported this to be a problem), followed by competition (18%). This situation contrasts with that in the second half of 2009, when access to finance was the main problem, overshadowing that of finding customers.

The breakdown by company size reveals that both in Spain and other countries, the problem of access to finance diminishes with increasing size. In the particular case of large firms, except for a one-off

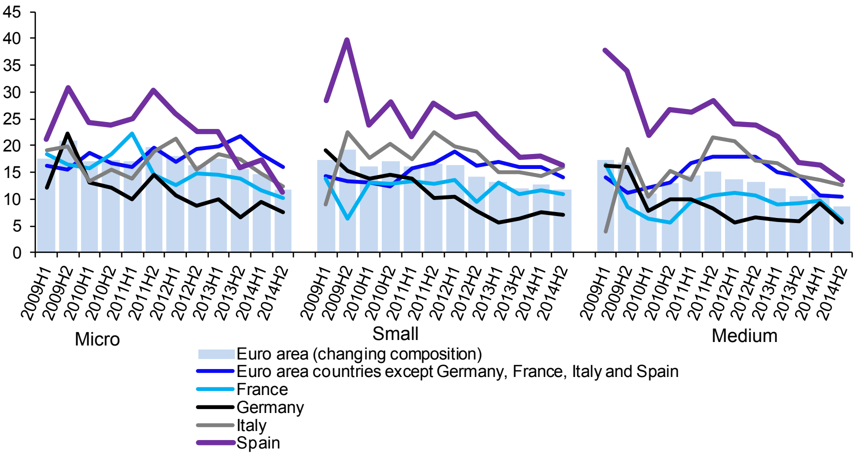
Exhibit 2

Percentage of firms considering that the most important problem they face is access to finance

a) SME and large



b) Micro, small, medium



Note: Figures refer to rounds 1 (First half 2009=2009H1) to 12 (October 2014-March 2015=2014H2) of the survey.
Source: ECB.

period (the survey in late 2014), Spanish firms have always been above the eurozone average in terms of the percentage identifying access to finance as their main problem, the current difference being 3.5 pp (12.1% compared with 8.6%).

One point that stands out in the Spanish case is that in the most recent survey, the difference between SMEs and large firms in terms of the percentage identifying access to finance as their main problem had practically disappeared, dropping to less than a percentage point, compared with 9.2 pp in the previous survey.

An analysis disaggregated by SME size shows more Spanish firms than European ones in general identifying access to finance as their main problem. However, for all levels of firm size, the differences between Spain and the eurozone have been shrinking and they have disappeared altogether in the case of micro-enterprises. Meanwhile the difference is around 5 pp for other SMEs and a larger percentage of Spain's small firms still identify access to finance as their main problem (16.4%).

Has the availability of bank credit improved?

The ECB's questionnaire asks firms if there have been changes in the availability of finance, *i.e.* if availability has improved or worsened. Exhibit 3 shows the difference between the percentage of firms that feel it has become more readily available and those that feel it has become scarcer. If this percentage has a positive value, it means that there has been a net improvement in the availability of credit. If it has a negative value, there has been a worsening.

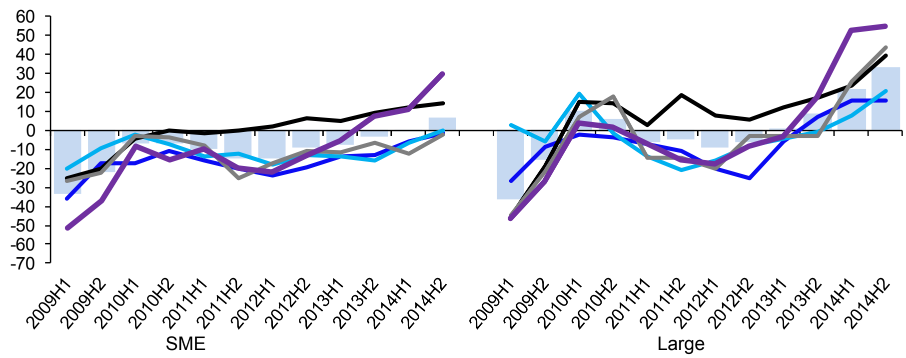
The first thing that stands out in the case of Spanish SMEs is that until mid-2013, the predominant view among firms was that bank credit had become less readily available. There has since been a significant improvement, with a net percentage of 30 pp taking a positive view of credit availability in the most recent survey round, dated June 2015. This perception has improved so much that the net percentage of Spanish SMEs considering credit to be more readily available now exceeds the eurozone average by 23 pp.

Large firms have also seen an improvement in the availability of credit since mid-2013, and their percentage exceeds that of SMEs by a wide margin, with a difference of 32 pp in the June 2015 survey (55 compared with 23 pp). In the latest survey available, large firms also reported a bigger improvement in the availability of finance.

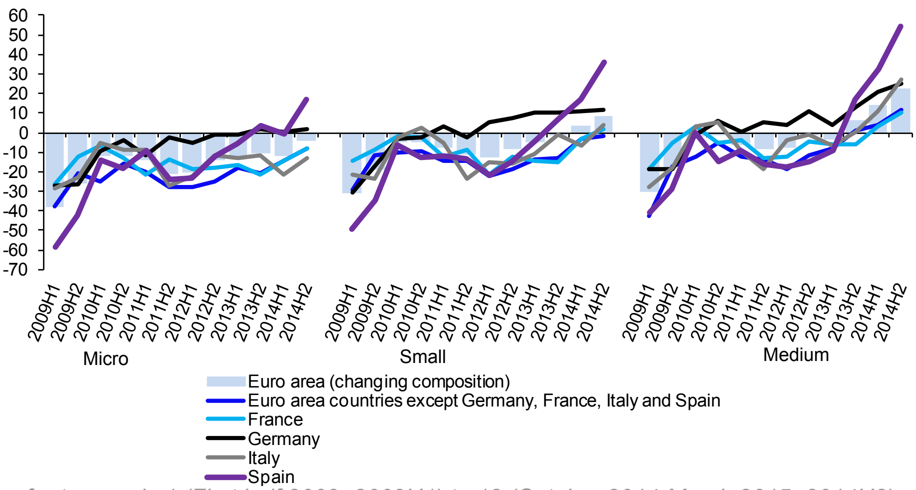
Exhibit 3

Difference between the percentage of firms considering bank credit availability to have increased and those considering it to have decreased

a) SME and large



b) Micro, small, medium



Note: Figures refer to rounds 1 (First half 2009=2009H1) to 12 (October 2014-March 2015=2014H2) of the survey.
Source: ECB.

For Spanish SMEs, the availability of bank credit is clearly proportional to size. In previous years, when the percentage of firms taking the view that less finance was available predominated, it was micro-enterprises that suffered most from restrictions on access to credit. Similarly, in recent years, during the recovery, micro-enterprises have also perceived a smaller improvement, with a net percentage of 17 pp in the latest survey, compared with 36 and 54 pp for small and medium-sized enterprises, respectively. It is therefore the smallest firms (those with fewer than 10 employees) that have suffered from the restrictions on access to credit most and are benefiting least from the recovery.

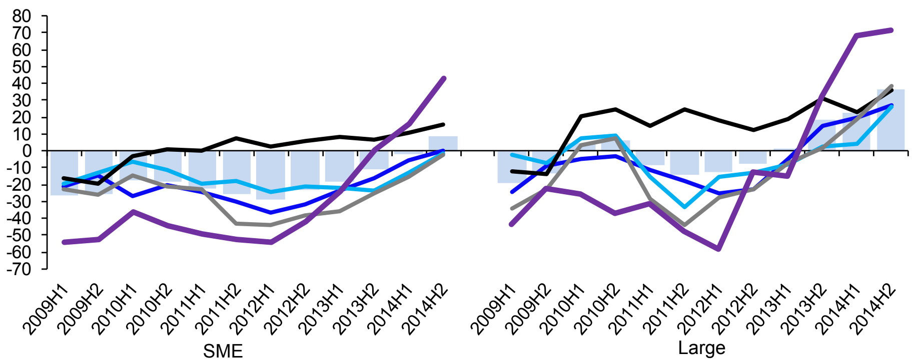
Banks' willingness to lend

The amount of bank financing available has also improved, and firms have the perception that banks have become more willing to lend. The percentage of Spanish SMEs that feel banks are unwilling to give credit no longer predominates. In the second half of 2012, the difference between those reporting an increase in willingness and those reporting a

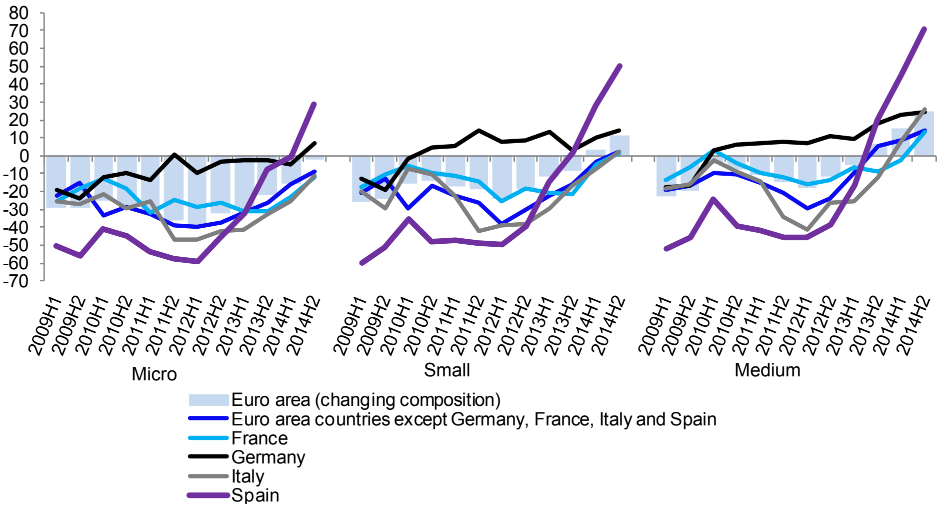
Exhibit 4

Difference between the percentage of firms considering the willingness of banks to lend to have increased and those considering it to have decreased

a) SME and large



b) Micro, small, medium



Note: Figures refer to rounds 1 (First half 2009=2009H1) to 12 (October 2014-March 2015=2014H2) of the survey.
Source: ECB.

decrease in willingness was -54%. Since mid-2013, the net percentage is positive and higher than that of the euro area, the difference peaking at 42.7% in the most recent survey round. The situation among large Spanish firms is similar, but with higher net percentages, the most recent being 71.9%.

Both large Spanish firms and SMEs of all sizes perceive banks to be more willing to lend, although micro-enterprises have noticed the improvement least.

Among SMEs, firms of all sizes perceive banks to be more willing to lend, although micro-enterprises have noticed the improvement least, as the current net percentage reported is 28.4%, compared with 49.9% among small firms, and 71% among medium-sized ones. In all three groups, the percentages exceed the European averages.

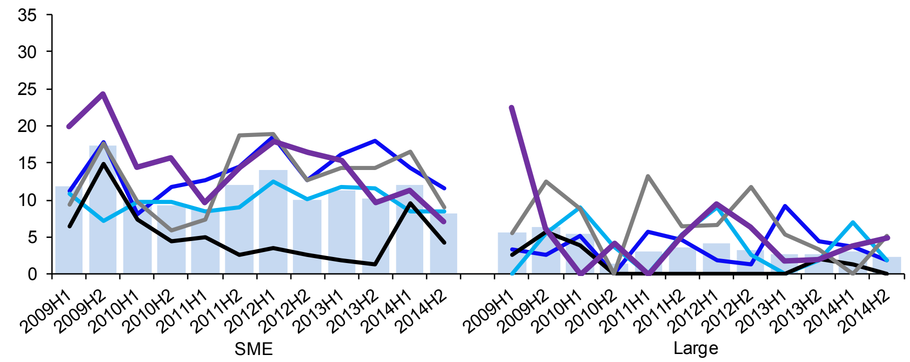
Access to bank credit: Rejection rate

What percentage of applications for credit have banks rejected? As Exhibit 5 shows, since the second half of 2013, the rejection rate for Spanish

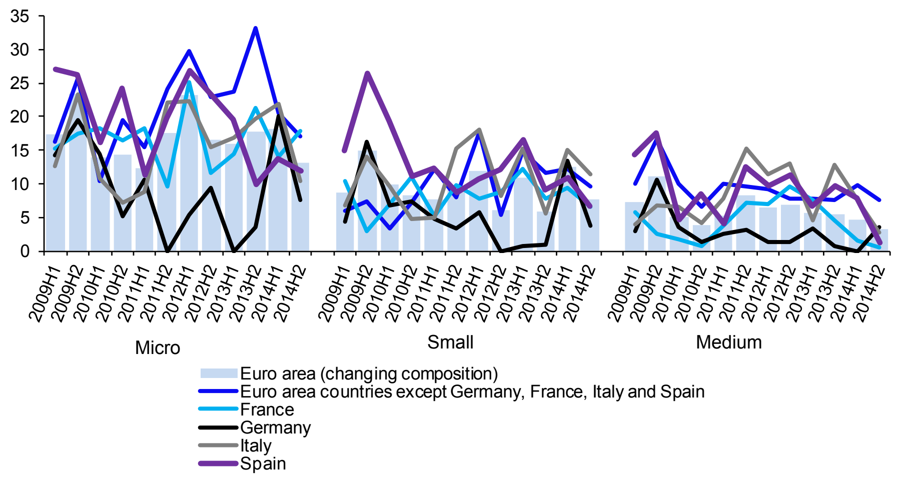
Exhibit 5

Percentage of firms' applications for bank loans that were rejected

a) SME and large



b) Micro, small, medium



Note: Figures refer to rounds 1 (First half 2009=2009H1) to 12 (October 2014-March 2015=2014H2) of the survey.
Source: ECB.

SMEs has been lower than the eurozone average, and is currently 7% compared to the European average of 8.1%. This is the lowest recorded rejection rate in Spain and the eurozone.

The rejection rate among large firms is much smaller, although the difference with SMEs narrowed to just 2.1 pp in Spain in the last survey. This difference is smaller than that in the eurozone as a whole (5.8 pp). Currently, 4.9% of applications for bank credit by large Spanish firms are rejected, compared with a eurozone average of 2.3%.

Again, there are big differences between the three groups of SMEs, such that the likelihood of obtaining bank credit increases with company size. The rejection rate in Spain is currently 11.9% for micro-enterprises, 6.7% for small firms, and just 1.2% for medium-sized firms. It is striking that the rejection rate for medium-sized firms is lower even than that for large firms (2.6%). Rejection rates for all three types of SMEs in Spain have dropped below the eurozone average in the last survey referring to the period October 2014-March 2015.

Conditions for access to bank credit: Interest rates, fees and collateral requirements

Credit availability is essential to finance consumer spending and investment. Fortunately, as discussed, credit for new operations is growing in Spain in the case of business loans for under a million euros, as well as for consumer credit and household mortgages.

However, it is important not only that bank credit become more widely available, but that lending conditions, particularly in terms of interest rates, fees and collateral requirements, also improve.

In the case of interest rates, the latest information available shows a clear turning point for Spanish SMEs, as, for the first time since the ECB began its survey, a larger percentage of firms report interest rates to have fallen than report them to have risen, -33% in net terms (Exhibit 6). This is worth highlighting as this percentage rose to a positive 80% in net terms in the first half of 2011 and remained high until the second half of 2013. It is also worth noting that it is the first time that the situation in Spain is better than that in the eurozone, as the net percentage reported is currently -33% in Spain compared to a net percentage of -25% in the eurozone.

The latest ECB survey shows a clear turning point for Spanish SMEs as regards to interest rates. For the first time since the survey began, a larger percentage of firms report interest rates to have fallen than report them to have risen.

The reduction in borrowing costs for large Spanish firms began earlier, as since the second half of 2013 the percentage of firms holding the view that interest rates had dropped exceeded that of firms considering them to have risen. The net percentage reported is currently -70.2%, much higher than in the case of SMEs (-33%). More large Spanish firms also perceive there to be a drop in interest rates than do their European peers, with percentages of -70.2% and -56.6% being reported, in net terms, respectively.

Once again, among SMEs, it is the micro-enterprises that have seen a smaller decrease in the cost of financing, as the difference between those considering banks to have raised interest rates and those considering them to have cut them is currently -12.3%, compared to -36.8% among small firms, and -65% among medium-sized firms. Moreover, while among micro-enterprises the net percentage reported is only negative in the most recent survey, among small and medium-sized firms it was already negative in the survey covering the period April-September 2014. Another point that stands out is that the net negative percentages for the three types of SMEs are higher (in absolute terms) in Spain than the euro area, such that the drop in interest rates on bank loans was felt more intensely by Spanish firms.

As well as a cut in interest rates on bank loans, there has also been an improvement in other borrowing costs, such as bank charges, although this does not mean they have fallen. Indeed, a larger percentage of Spanish SMEs still consider them to have gone up rather than down, although the net percentage seeing a rise has decreased markedly. In particular, after reaching a net value of close to 80% in late 2011 and early 2012, it has now fallen to 12.5%, and is below the European average (26%) for the first time, above only Germany.

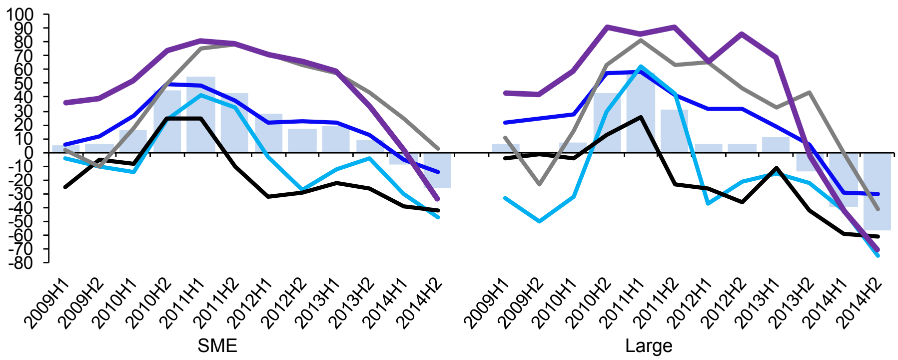
In the case of large firms, there has also been a strong drop in the net percentage reported,

Exhibit 6

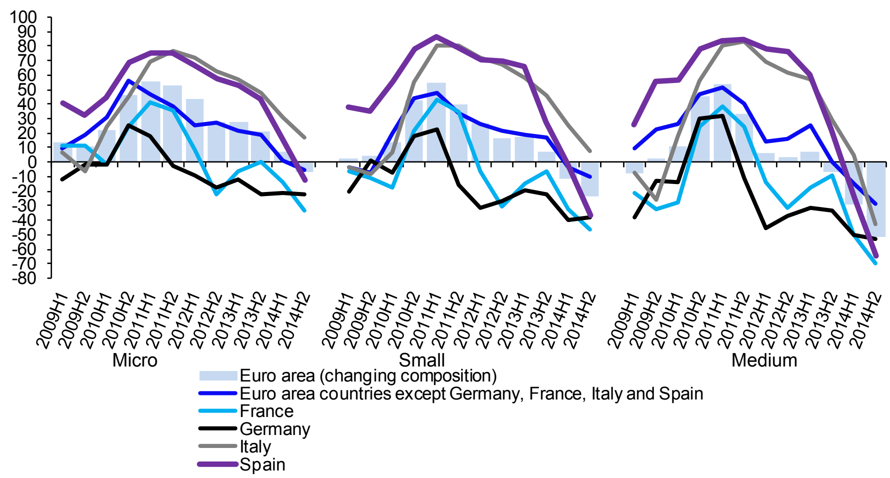
Conditions of access to bank credit. Difference between the percentage of firms considering the variable analysed to have increased and those considering it to have decreased

A) Interest rate

a) SME and large



b) Micro, small, medium



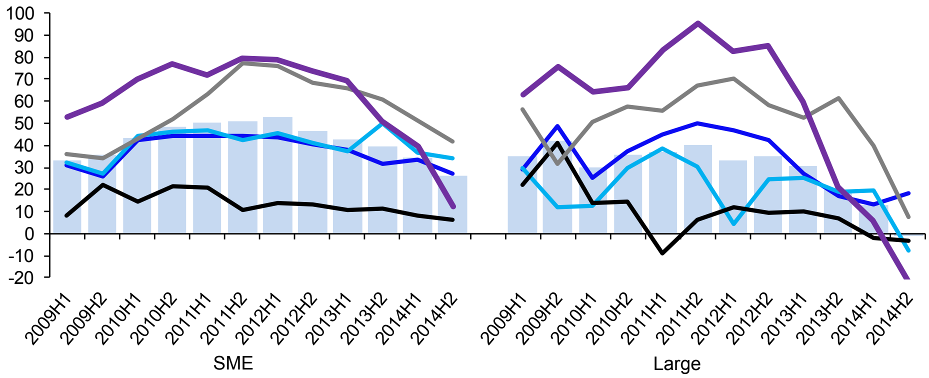
Note: Figures refer to rounds 1 (First half 2009=2009H1) to 12 (October 2014-March 2015=2014H2) of the survey.
Source: ECB.

Exhibit 6 (Continued)

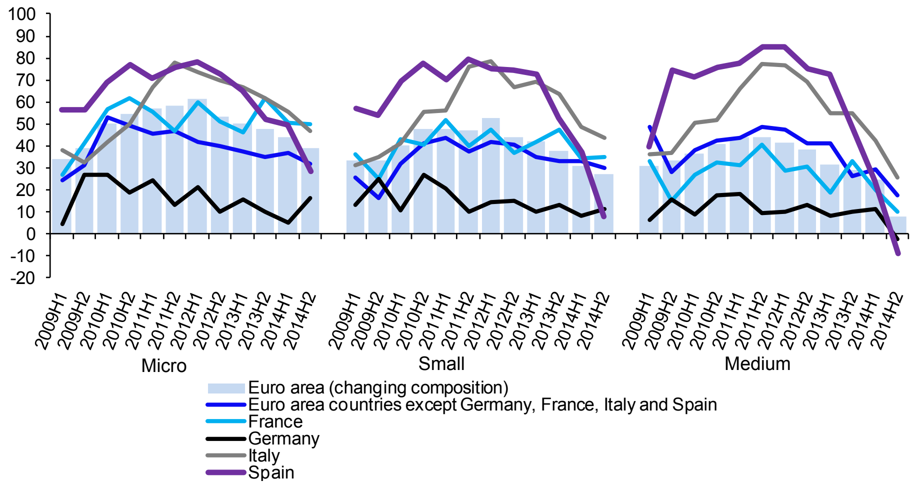
Conditions of access to bank credit. Difference between the percentage of firms considering the variable analysed to have increased and those considering it to have decreased

B) Other borrowing costs

a) SME and large



b) Micro, small, medium



Note: Figures refer to rounds 1 (First half 2009=2009H1) to 12 (October 2014-March 2015=2014H2) of the survey.
Source: ECB.

with a negative value (-21.5%) which is larger in absolute value than the eurozone (-1%).

All three types of SMEs have seen an improvement, with a net negative percentage among medium-sized firms (-9%) that has an absolute value higher even than among German counterparts. Among micro-enterprises, there are still 28% more firms that consider non-interest borrowing costs to have increased than those considering them to have decreased, although the value of 28% is the lowest at any time in the period analysed.

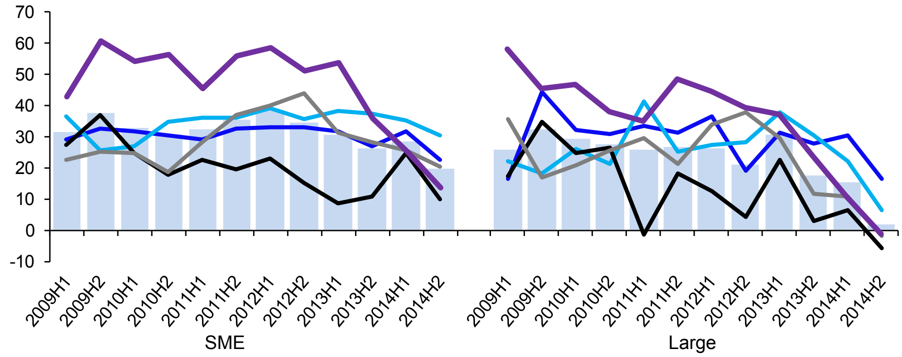
Finally, a similar picture emerges in the case of the collateral requirements to obtain bank credit as that for borrowing costs: a) the situation has improved, although the net percentage reported is positive for Spanish SMEs (13.6% compared to 19.8% for European SMEs); b) the net percentage reported by large Spanish firms has

Exhibit 6 (Continued)

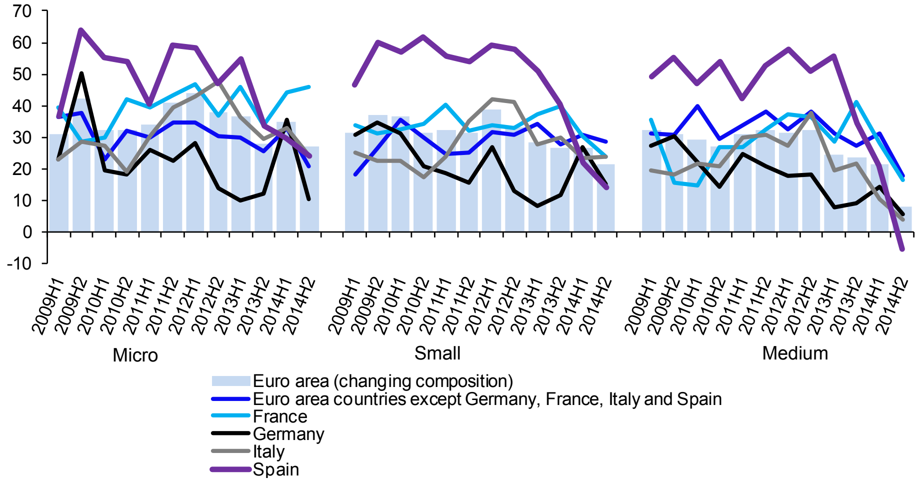
Conditions of access to bank credit. Difference between the percentage of firms considering the variable analysed to have increased and those considering it to have decreased

C) Collateral requeriments

a) SME and large



b) Micro, small, medium



Note: Figures refer to rounds 1 (First half 2009=2009H1) to 12 (October 2014-March 2015=2014H2) of the survey.
Source: ECB.

turned negative for the first time (-1.1% compared with a positive value of 2% in the eurozone); and c) micro-enterprises perceive the improvement in collateral requirements least, although the current situation is the best recorded.

Bank credit: From collapse to recovery

Based on the overall picture that emerges from the information available for the range of variables relating to Spanish firms' access to bank finance, it can be concluded that:

a) Late 2014 marked a turning point as regards the stock of outstanding business credit, which increased for the first time since 2010.

b) Loans of less than a million euros for new operations (typical of SMEs) have been growing since end-2013. This credit tranche has expanded by 10.3% over the last twelve months (from June 2013-May 2014 to June 2014-May 2015). Larger transactions have begun to grow since February 2015, and although the cumulative amount has dropped by 9% in the last twelve months, this drop is much smaller than that twelve months earlier (-19.8%).

c) The difference between the interest rates Spanish SMEs and their European peers pay for bank loans has dropped by more than half since end-2013, and currently stands at 57 bp. The spread on loans of more than a million euros has also narrowed, currently standing at 45 bp. In May 2015 (the most recent data available), Spanish SMEs paid an interest rate 142 bp higher than large firms, a similar difference to that existing in the eurozone (130 bp).

d) The spread over the 12-month Euribor Spanish banks charge on a business loan of less than a million euros has dropped 91 bp in the last twelve months (from May 2014 to May 2015), and the spread on larger loans has fallen by 23 bp over the same period. The spread on loans of less than a million euros has been falling since May 2013 (down 156 bp).

e) Despite the improvement in access to finance, it remains the biggest problem faced by 13.1% of Spanish SMEs, a percentage slightly above the European average (11.1%). In the latest survey (referring to the period October 2014 to March 2015), this percentage was the lowest since the ECB's surveys began in 2009. This positive fact merits highlighting, given that at one point, 37.7% of Spanish SMEs reported it to be the main problem they faced, *i.e.* more serious than finding customers.

f) The rejection rate on bank loan applications of Spanish SMEs is currently 7%, a smaller percentage than that reported by European SMEs as a whole (8.1%). The probability of rejection is lower among large companies (4.9% in Spain compared with 2.3% in the euro area). Among SMEs, the rejection rate decreases with size, as micro-enterprises report a rate of 11.9%, small firms, 6.7%, and medium-sized firms, 1.2%. All three rates are currently lower in Spain than the eurozone, which is a clear indicator of the improvement in access to credit in Spain.

g) The perception among Spanish firms is that banks have become more willing to lend. This perception is stronger in Spain than among European firms on average, and emerges more strongly in the latest ECB survey. At present, in the case of Spanish SMEs, the difference between the percentage taking the view that banks are more willing to lend and those taking the opposite view is 42.7% (compared with 9% in the eurozone). This difference rose to 71.9% among large firms (36.4% in the euro area), but dropped to 28.4% (-1.7% in the euro area) among micro-enterprises.

h) As well as reporting that interest rates on bank loans have declined, firms also consider the other conditions on access to finance (fees and collateral requirements) to have improved, although those SMEs considering them to have increased still outnumber those that do not. Conversely, the majority of large firms consider conditions to have improved. It is in this most recent survey that the other financing conditions are reported to have improved most.

In short, putting all the pieces together (progress of lending, interest rates, spreads on Euribor, rejection rate, credit access conditions, banks' willingness to lend, etc.), the most recent information available clearly shows an improvement in Spanish firms' access to bank finance, thus breaking the trend over recent years. The improvement has been driven by progress towards banking union (reducing the differences in borrowing costs between countries), the ECB's measures (which have lowered the cost of credit and made it more widely available), restructuring of the Spanish banking sector (enabling banks to lend more and on better terms), and the economic recovery (fostering more solvent credit demand).