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PART 2/2

COMMISSION STAFF WORKING DOCUMENT

Ex-ante assessment of the EU SME Initiative

Ex-ante assessment of the EU SME Initiative

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V. ANNEXES

Annex 1 to Chapter 1: The SME credit guarantee schemes in the EU[1]

Data on the provision of guarantees to the benefit of SMEs in Europe is scarce. Some market information is gathered by AECM, the European Association of Mutual Guarantee Societies.[2] These data cover SME loan guarantees provided by AECM members (based on information about countries with at least one AECM member). However, AECM membership varies from year to year, not only by the countries that have AECM "members" but also by AECM membership within a given country. Moreover, time lags in data reporting have to be taken into account. Hence, the "raw" data cannot be used directly to assess overall market developments in European guarantee business. Rather, several adjustments have to be conducted even for short-term comparisons. Therefore, in the following, only the most recent developments (2011-2012) are analysed, after having applied some necessary data adjustments.

In terms of total **volume** of outstanding guarantees, the core countries are Italy, France, Germany, and Spain, while the total **number** of outstanding guarantees is highest in Italy (866,237 in 2011),[3] France (449,450 in 2012), Turkey (264,118), Poland (150,314), Portugal (71,968), and Spain (80,077).

Within the EU, the **average size** per outstanding guarantee is largest in Latvia (EUR 227k in 2012), the Czech Republic (EUR 157k), Slovenia (142k), Germany (120k), and the Netherlands (119k). In contrast, France (34k) and Italy (41k in 2011), the two leading countries in terms of total number and value of guarantees, have relatively small average guarantee sizes per loan. Compared to the value of economic activity, guarantees are relatively important (measured by the volume of outstanding guarantees in portfolio as a percentage of GDP) in Italy (2.3%), Portugal (1.8%), Hungary (1.4%), and Romania (1.3%).

In 2012, according to preliminary AECM data, the total *volume* of outstanding guarantees on SME loan portfolios amounted to EUR 78.5bn.[4] The volume of *new guarantees granted that year* was reported to be at a level of EUR 26.1bn. For those AECM members that consistently reported data for the last two years the volume of outstanding guarantee

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[1] Based on Kraemer-Eis, Lang, and Gvetadze (2013a) and Kraemer-Eis, Lang, and Gvetadze (2013b).

[2] AECM has currently 40 members in 20 EU Member States, Montenegro, Russia, and Turkey. EU countries without an AECM member are Cyprus, Denmark, Finland, Ireland, Malta, Sweden and the UK, even if guarantee activities exist. Some members are national associations or networks and thus have their own member organisations. AECM has private, mutual, public, and public-private mixed members. Source: AECM.

[3] For data availability reasons, AECM statistics include Italian members' business figures with a time lag of one year. This is also true for the diagrams and tables presented throughout this chapter.

[4] In order to allow for annual comparisons, the figures presented here were adjusted by AECM for (relatively small) counter-guarantee activities of those members which reported such activities for the first time in 2012. (Guarantees emitted can be backed by counter-guarantees. In issuing the counter guarantee, the (typically public) counter guarantor takes over the risk from the guarantor, up to a pre-defined share of the guarantee (OECD, 2013b)).

business decreased by 4.2% compared to 2011.[5] In line with this development, the volume of new guarantees decreased by 6.0%.
At the same time, the total *number of outstanding guarantees* in portfolio of AECM members was at a record level of 2.1m in 2012, when 636k *new guarantees* were issued. For those AECM members that consistently reported data for the last two years, **the number of outstanding guarantees increased by 10.0%, and the number of new guarantees by 3.5%.** This seems to reflect some bottoming out of the negative trend after strong falls in the number of new guarantees in 2010 and 2011.

The observed **decrease in values with a parallel increase in the number of guarantees** is reflected in the development of the *average guarantee sizes* for which AECM statistics show an increase from EUR 34.1k in 2008 to EUR 40.2k in 2011, while the value dropped back again in 2012 to EUR 37.9k, i.e. towards the average size reached in prior years. According to AECM, the recent developments could be explained by an increase of guarantees with smaller amounts, as well as of short term guarantees (i.e. working capital loan guarantees and bridge financing guarantees, which have in general smaller amounts). Short term guarantees generally (for AECM members) cover less than 12 months[6].

[5] In order to report reasonable growth rates, several adjustment of AECM statistics were conducted. However, these modifications led to only minor changes in growth rates:

- The figures were adjusted by AECM for counter-guarantee activities of members which reported such activities for the first time in 2012.
- We deducted the Italian members' data. These are included in AECM statistics with a time-lag of a year.
- We deducted the data for AECM members that did not report business figures for 2011 or 2012.

[6] As regards developments in 2012 by country (for which 2011 and 2012 data is available), strongest increases in the value of new guarantees granted per year were recorded for the Czech Republic (+19.3%), Portugal (+19.0%), Romania (+13.2%), Estonia (+10.6%), Hungary (+7.7%), Austria (+5.2%), and Turkey (+3.6%). The strongest decreases were observed in Greece (-84.1%), Luxembourg (-82.7%), and Bulgaria (-70.4%). Moreover, several countries with large guarantee activities recorded substantial slumps in new business in 2012, e.g. France (-7.2%), Spain (-24.6%), Germany (-5.1%), and the Netherlands (-46.6%). In some countries (e.g. Bulgaria and Greece), cuts in the budgets allocated to these purely public guarantee schemes led to the strong decreases in guarantee activity.

Annex 2 to Chapter 1: The SME securitisation market in the EU[7]

Despite the financial and sovereign crisis, the European securitisation market in general has performed, in terms of losses, relatively well so far. The low losses find their reason not only in the typically high granularity/diversification of these transactions, but also in structural features that helped to counterbalance the negative effects of the deteriorating European economy (e.g. increased SME default rates).

As shown above, the track record of the SME securitisation in Europe is relatively short; the market started only towards the end of the 1990's – at the time, this segment was unknown to investors and rating agencies, and the technique of securitisation was also new to most of the originators. The related uncertainty was one of the reasons for the generally conservative structures in the SME securitisation segment.

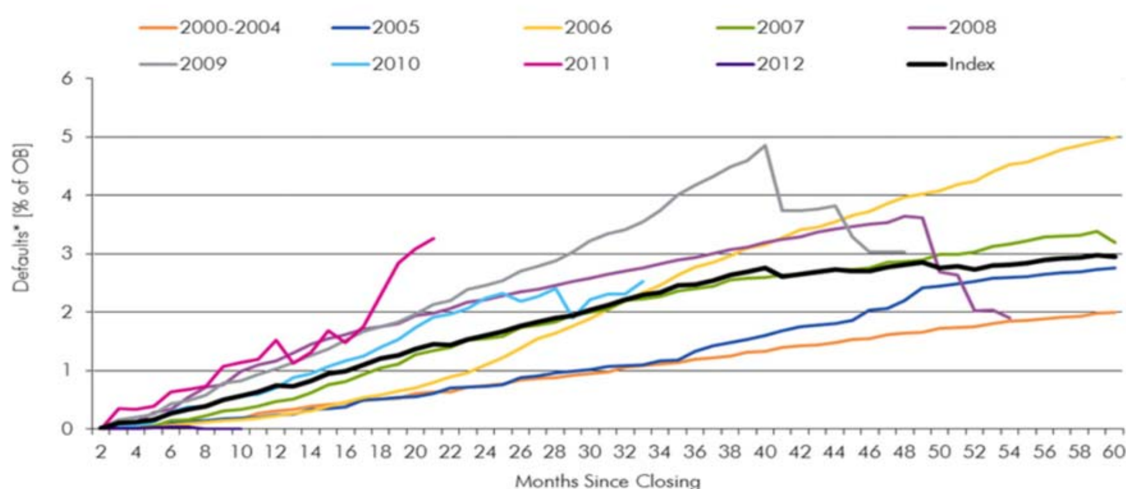
The tightening of credit conditions for SMEs has been mentioned earlier; although this development has a direct negative impact on the SMEs it has indirectly a positive effect for new loan vintages, and hence for the quality of newly securitised portfolios, as banks have become more risk averse. However, the sovereign crisis and weak macroeconomic fundamentals in many European countries had also negative effects on SME transactions and it is expected that the credit quality of existing portfolios in stressed markets will further deteriorate, as the performance of SME portfolios is typically dependent on GDP growth trends. Moreover, many counterparties in SME-related transactions will continue to suffer from the on-going stress in the European banking system. In fact, the latest data shows that the performance of SME ABS deteriorated. For example, in the SME securitisation transactions rated by Moody's (in the EMEA region), the 90-360 day delinquency rate rose to 4.91% in December 2012 from 2.13% in December 2011, predominantly reflecting the weakness in markets such as Portugal, Spain, and Italy. However, a small number of badly performing transactions are mainly responsible for the weakness in these markets (Moody's, 2013b).

Figure V.1 depicts cumulative credit events (or defaults) on original balance by vintage for the EMEA region (transactions analysed by Moody's). It shows a relatively constant development over time for most vintage years.

Due to various reasons and as explained in more detail in several EIF working papers (e.g. Kelly and Kraemer-Eis, 2011), also the SME securitisation market has been hit by a wave of downgrades. Typically, AAA *tranches* show strong rating stability, but today also AAA and AA *tranches* migrate downward, often driven by downgrades of the respective country/sovereign ratings and the limitation by the country ceilings (Fitch, 2013b), or driven by downgrades of (not replaced) counterparties. The rating transition data shows that the downgrade pressure for SME transactions was across all *tranche* levels.

[7] Based on Kraemer-Eis, Lang, and Gvetadze (2013a) and Kraemer-Eis, Lang, and Gvetadze (2013b).

Figure V.1: EMEA SME ABS cumulative credit events or defaults on original balance (seasoning by vintage)



Source: Moody's (2013a)

Terminated transactions are included in the index calculation; Moody's believes that this information must be included for an accurate representation of trends over time. Additionally, Moody's notes that vintage seasoning charts might move unexpectedly for the last few data points because transactions start at different points in time within a vintage and hence some transactions may be more seasoned than others. The index includes only the transaction rated by Moody's.

The following example (Table V.1) shows the *tranche* rating migration since transaction closing of the SME Collateralized Loan Obligation (CLO) transactions that have been rated by Fitch. For example: of all *tranches* that have initially been rated AAA, 31% (by number) have paid in full (pif), only 12% are still AAA, 23% moved to AA etc.

Table V.1: Fitch European SMEs Rating Transition Matrix (April 2013)*

% of *tranches*		Current rating									
		PIF	AAAsf	AAsf	Asf	BBBsf	BBsf	Bsf	CCCsf	CCsf	Csf
Initial ratings	AAAsf	31%	12%	23%	21%	9%	3%	0%	1%	0%	0%
	AAsf	15%	0%	29%	12%	12%	9%	15%	6%	3%	0%
	Asf	6%	0%	10%	44%	10%	10%	13%	2%	2%	2%
	BBBsf	6%	0%	0%	6%	6%	27%	10%	25%	14%	6%
	BBsf	4%	0%	0%	0%	8%	19%	19%	15%	23%	12%
	Bsf	0%	0%	0%	0%	0%	57%	14%	0%	0%	29%
Initial ratings	CCCsf	0%	0%	0%	0%	0%	0%	0%	10%	30%	60%
	CCsf	0%	0%	0%	0%	0%	0%	0%	0%	40%	60%
	Csf	0%	0%	0%	0%	0%	0%	0%	0%	0%	100%

Source: Fitch (2013c)

**The addition sf indicates a rating for structured finance transactions*

Annex 3 to Chapter 1: Alternative methodologies to measure financial gaps

Currently there is no widely-accepted methodology to measure the amount of SMEs' financial gap, defined as the amount of finance not granted to financially viable enterprises at current market conditions. In principle, a demand and supply functions for loans should be estimated – e.g. through a simultaneous-equation regression system – once the relevant data on interest rates, loan volumes, firms and banks characteristics (like assets, capital requirements, prospective sales, etc.) have been collected. Such an exercise does not appear to have been seriously attempted in the empirical literature on EU SMEs' finance, presumably due to the paucity of reliable data on SME financials and the relevant sections of banks' balance sheets.

An important strand of the empirical literature on corporate finance has attempted to identify the determinants of firms' financial constraints.[8] In the presence of imperfect financial markets or of agency costs between managers and financiers the Modigliani-Miller theorem breaks down and suggests external and internal financing sources become imperfect substitutes. As a consequence, in their pioneering work Fazzari, Hubbard and Petersen (1988) argued that enterprises who indicate restrictions in their access-to-finance conditions should present a direct proportion between internally-generated cash flows and investment decisions; thus a positive relation between cash flow and investments in an appropriate regression should identify the degree of financial constriction in the sample under exam. However, this approach was criticised in a seminal article by Kaplan and Zingales (1997), who advocated a direct approach to categorising financial constraints by examining statements made by managers in SEC filings.

A recent literature study by Hadlock and Pierce (2010) has reviewed the robustness of the relations suggested by Fazzari, Hubbard and Petersen (1988), Kaplan and Zingales (1997), the related article by Lamont et al. (2001), and by Whited and Wu (2006). Their comparative literature assessment concludes that, between 1995 and 2004, US enterprises' financial constraints are best predicted by only two variables: size and age.

This strand of work can hardly be applied to estimate EU SMEs' financing gap. Apart from the substantial data requirements (empirical work on the issue has been conducted mainly in the US, and thus should be started afresh for the EU), a recent time series comparison within the Euro area[9] suggests that the Northern area, thanks to the business restructuring previously undertaken, shows in the 1996-2010 period a relatively higher growth of cash flow compared to the South (more than 26%). Furthermore, size and age are virtually definitory features of SMEs, and could hardly be used as predictors of financially-constrained firms for the scope of this exercise.

[8] Part of this literature is surveyed in OECD (2012).

[9] See OECD (2012).

Annex 4 to Chapter 1: Measurement challenges and proposed solutions

In order to obtain a reasonable estimate of the loan financing gap, the following measures were considered with respect to each assumption.

Assumption 1

a. In order to identify "lower bound" in the loan financing gap, the EuroStat definition of "High-Growth SMEs" (HG SMEs) was used as a proxy for "highly financially viable" SMEs (in terms of loan financing). The share of HG SMEs is available from the EuroStat panel survey for years 2007 and 2010.[10]

b. In order to identify an "upper bound", the preferred strategy was to use the proportion of SMEs with positive turnover in the six months prior to the survey date. This information was obtained from EC and ECB SAFE[11] micro-level data. The underlying assumption is that this observed proportion actually represent the financially viable subset of SMEs in each country.

Assumption 2

c. As anticipated in point *b*, EC and ECB published the "Survey on the access to finance of SMEs in the euro area", in which information on loan finance seeking and achievement for a varying number of EU Countries (see Section C. for overall data coverage). This study currently represents the most comprehensive effort to assess the ability for European SMEs to access loan financing.

Average Loan Size

d. Due to the unavailability of first-hand data on the average loan size per SME,[12] the following strategy was adopted. For each Member State, data on average amounts of non-current liabilities was extracted from representative samples of firms contained in Orbis (2013) Database. In order to derive the average size of SME loans, these amounts were multiplied by the ratio of loans over total non-current debt, obtained from the Banque de France BACH-ESD Database.[13] Assuming that the two datasets contain a representative sample of each country's industry structure, an estimated value for each country's average SME loan size was calculated. Outliers beyond 1.5 times the distribution's standard deviation were discarded, while missing values were extrapolated.

Data sources and coverage

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[10] Eurostat (2011) Access to finance statistics, part of "Structural business statistics Unit"

[11] European Central Bank, (2013) Statistical Data Warehouse [Online]. Available at: https://sdw.ecb.testa.eu/ (Accessed: November 2013); European Commission, *"Survey on the access to finance of SMEs in the euro area (SAFE)"*, waves 2009 and 2011

[12] For a number of EU countries, a figure representing the share of loans to SMEs over the total loans issued was obtained from OECD, (2012) and included in the Country Fiches (see Annex 6 to Chapter 1).

[13] Banque de France, (2013) Bank for the Accounts of Companies Harmonized (BACH-ESD Database) [Online] Available at: http://www.bachesd.banque-france.fr/ (Accessed: November 2013).

Demographic data on the SME industry are obtained from SME Performance Review's Annual Report on European SMEs, Data on SME access to finance come from ECB SAFE Survey (Waves from 2009 to March 2013). Data concerning average loan amounts is calculated by matching representative samples collected from Bureau Van Dijk's Orbis Database of Company information, with BACH-ESD Database of aggregate information on non-financial corporations. Only SMEs operating in sectors B-N, excluding those in sector K (financial and insurance activities), are included in the estimation sample.

Annex 5 to Chapter 1: Member State data availability and robustness tests

The following table illustrates the different sample representativity in each period. The ability to represent the entire EU28 population has been measured by taking into account different aspect: in terms of fraction of Member States covered, in terms of amounts of loans issued to the total private sector and in terms of proportion of SMEs analysed. Coverage ability of the samples is disaggregated into three groups, depending on data availability. A first category is represented by countries with full data coverage. The second group includes country with unavailable data on the share of high-growth SMEs, a figure needed for the calculation of the lower bound loan financing gap. For such countries, the average EU high-growth SME proportion over total SMEs was used in the estimation process. The last group contains countries with unknown information on the average SME loan size. For such remaining countries, the average EU loan size was used in order to compute the loan financing gap.

Table V.2: Sample Representation with respect to Reference Indicator. Cumulative Sums

		Period							
Reference Indicator	**Country Type**	**2009H1**	**2009H2**	**2010H1**	**2010H2**	**2011H1**	**2011H2**	**2012H1**	**2012H2**
Nr. of Member States	**Countries with full data**	21.4%	17.9%	17.9%	17.9%	35.7%	17.9%	17.9%	17.9%
	Countries with average HG Share	39.3%	28.6%	28.6%	28.6%	67.9%	28.6%	28.6%	28.6%
	Countries with average loan size	64.3%	32.1%	28.6%	28.6%	67.9%	28.6%	28.6%	28.6%

OUTSTANDING LOAN AMOUNTS	**Countries with full data**	61.0%	60.9%	62.2%	62.2%	63.2%	62.8%	62.0%	62.0%
	Countries with average HG Share	66.9%	65.2%	66.2%	66.2%	69.3%	66.5%	65.4%	65.4%
	Countries with average loan size	94.0%	68.5%	66.2%	66.2%	69.3%	66.5%	65.4%	65.4%

NR. OF SMEs	**Countries with full data**	52.3%	52.0%	52.7%	52.7%	61.9%	52.6%	53.0%	53.0%
	Countries with average HG Share	61.9%	60.9%	61.3%	61.3%	81.2%	61.2%	61.7%	61.7%
	Countries with average loan size	83.4%	61.7%	61.3%	61.3%	81.2%	61.2%	61.7%	61.7%

Annex 6 to Chapter 1: Country Fiches

BOX V.1: DESCRIPTION OF COUNTRY INDICATORS

Macroeconomic Indicators

(Data source(s): European Commission Country-Specific Recommendations for 2013 European Semester, Staff Working Document.)

GDP growth rate:

The GDP growth rate measures how fast the economy is growing. Technically, it is the percentage increase or decrease of GDP (Gross Domestic Product) compared to the previous year. The GDP growth rate is driven by retail expenditures, government spending, exports and inventory levels. The GDP growth rate is the most important indicator of economic health. If it is growing, so will business, jobs and personal income. If it's slowing down, then businesses will hold off investing in new purchases and hiring new employees, waiting to see if the economy will improve. This, in turn, can easily further depress the economy and consumers have less money to spend on purchases.

Source: European Commission, "European Economic Forecast, Autumn 2013", Statistical Annex

Output gap:

The output gap is the difference between the actual level of national output and the estimated potential level, expressed as a percentage of the level of potential output. Potential output is the maximum level of goods and services an economy can produce on a sustained basis with existing resources (labour, capital equipment, and technological and entrepreneurial know-how) without generating inflation pressures. Economists also refer to potential output as trend output or the production capacity of the economy. A positive output gap occurs when actual output is more than the full-capacity output. Negative output gap occurs when actual output is less than full-capacity output.

Source: European Commission, "European Economic Forecast, Autumn 2013", Statistical Annex

Unemployment rate:

The unemployment rate is the number of people unemployed as a percentage of the labour force. The labour force (or economically active population) includes both employed and unemployed people, but not the economically inactive, such as pre-school children, school children, students and pensioners. An unemployed person is defined by Eurostat as: someone aged 15 to 74 (in Italy, Spain, the United Kingdom, Iceland, Norway: 16 to 74 years); without work during the reference week; available to start work within the next two weeks (or has already found a job to start within the next three months); actively having sought employment at some time during the last four weeks.

Source: European Commission, "European Economic Forecast, Autumn 2013", Statistical Annex

Government net lending/borrowing as % of GDP:

The European system of national and regional accounts (ESA95) defines general government net lending (+)/ net borrowing (-) as the difference between general government revenue and expenditure. This figure is an important indicator of the overall situation of government finances. It is usually expressed as a percentage of GDP. The ESA95 definition of net lending differs from the Maastricht definition in that it does not include streams of payments and receipts from swap agreements and forward rate agreements, as these are recorded as financial transactions rather than interest expenditure.

Source: European Commission, "European Economic Forecast, Autumn 2013", Statistical Annex

Gross Government debt:

Public debt is defined in the Maastricht Treaty as consolidated general government gross debt at nominal value, outstanding at the end of the year. The general government sector comprises central government, state government, local government, and social security funds. The relevant definitions are provided in Council Regulation 479/2009, as

amended by Council Regulation 679/2010. Data for the general government sector are consolidated between sub-sectors at the national level. The figures are measured in euro and presented as a percentage of GDP.

Source: European Commission, "European Economic Forecast, Autumn 2013", Statistical Annex

Corporations net lending/borrowing as % of GDP:

Profits, measured as net entrepreneurial income, are mainly used to pay taxes and remunerate capital in the form of interest and dividends paid to shareholders. The remainder, after withdrawing net capital transfers, net fixed capital formation, changes in inventories and net acquisitions of valuables, forms the net lending/borrowing of non-financial corporations. Non-financial corporations are generally net borrowers, which means that they have to finance at least part of their investment by borrowing from other sectors, mainly households. The figures are measured in euro and presented as a percentage of GDP.

Source: European Commission, Economic and Financial Affairs Directorate General, "Forecast Data Management System" (last accessed: 21/11/2013).

Financial market indicators

(Data source(s): Bank for International Settlements and Eurostat, IMF, European Commission,

World Bank and ECB)

Sovereign interest rates spread versus Bund:

The long term interest rate spread, also known as the "risk premium" (when positive) is the spread between the 10-year country bond, and the benchmark, 10-year German bond (Bund). A positive spread represents the increment in interest rates that investors have to be paid for loans and investment projects in the reference country compared to Germany.

Source: European Commission Country-Specific Recommendations for 2013 European Semester, Staff Working Document.

Loans-To-Deposit Ratio:

This figure, also known as the LTD ratio, is a commonly used statistic for assessing banks' liquidity. It is calculated by dividing the banks' total loans by their total deposits. LTD ratio is expressed as a percentage. A high LTD ratio means that banks will generate more income, but at the same time they might not have enough liquidity to cover any unforeseen fund requirements. If the ratio is too low, banks are less exposed to risk, but at the same time they may not be earning as much as they could be. Data is extracted from ECB's Statistical Database and concerns loans and deposits for Euro Residents for countries in the Euro Area, and domestic loans and deposits for Member States *outside the Euro Area.*

Source: European Central Bank, (2013) Statistical Data Warehouse [Online]. Available at: https://sdw.ecb.testa.eu/ (Accessed: November 2013)

Non-performing loans ratio:

A loan is only deemed non-performing if it is in default or close to default. More precisely, a loan is non-performing when payments of interest and principal are past due by 90 days or more, in accordance with the Basel II definition of default, or when there are good reasons to doubt that debt payments will be made in full. The ratio is calculated as the amount of non-performing loans over total loans, and it is expressed as a percentage.

Source: European Commission Country-Specific Recommendations for 2013 European Semester, Staff Working Document.

Capital adequacy ratio:

The capital adequacy ratio (CAR), is a measure of the financial strength of a bank, expressed as a ratio of its capital to its assets. This ratio is used to protect depositors and promote the stability and efficiency of financial systems around the world. Two types of capital are measured: tier one capital, which can absorb losses without a bank being required

to cease trading, and tier two capital, which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors.

The Bank for International Settlements' Basel committee for international banking supervision has drawn up global standards for capital adequacy and also established criteria for the classification of loans in terms of risk. The Basel committee's target capital adequacy ratios - how much capital a bank should set aside as a proportion of risky assets - are called Basel ratios, or sometimes BIS ratios or just capital ratios.

Source: European Commission Country-Specific Recommendations for 2013 European Semester, Staff Working Document.

Return on bank's equity:

This ratio indicates the net income per dollar of equity capital of country banks. It shows how profitable country's banks are by comparing their total income to their total shareholders' equity. The return on equity ratio (ROE) measures how much the shareholders earned for their investment in the bank. The higher the ratio percentage, the more efficient bank's management is in utilizing its equity base and the better return is to investors. Numerator and denominator are first aggregated on the country level before division.

Source: European Commission Country-Specific Recommendations for 2013 European Semester, Staff Working Document.

Central Bank liquidity as % of liabilities:

Central bank liquidity is the ability of the central bank to supply the liquidity needed to the financial system. It is measured as the liquidity supplied to the economy by the central bank, i.e. *the flow of monetary base from the central bank to the financial system. The monetary base, otherwise known as base money or M-zero (M0), relates to the supply of money in the economy and comprises the currency (banknotes) in circulation and banks' reserves with the central bank. Central bank liabilities include currency, the government's account, and reserves.*

Source: European Commission Country-Specific Recommendations for 2013 European Semester, Staff Working Document.

Banks' exposure to vulnerable countries receiving official financial assistance:

Bank's exposure amounts are provided by the Bank for International Settlements and presented as a percentage of country's GDP. Exposure is calculated as consolidated foreign claims and other potential exposures (derivatives contracts at positive market value, guarantees extended and credit commitment). "Vulnerable" countries are those receiving official financial assistance. In this respect, covered countries are: Cyprus, Greece, Hungary, Ireland, Latvia, Portugal, Romania and Spain.

Source: European Commission Country-Specific Recommendations for 2013 European Semester, Staff Working Document.

Foreign ownership of the banking system:

Foreign ownership of the banking systems represents the percentages of total banks' shares held by foreigners (by country of residence). Ownership, and country of ownership, is based on both direct and indirect ownership. The indicator is expressed as the percentage of total foreign-held banks' assets over total banks assets.

Source: European Commission Country-Specific Recommendations for 2013 European Semester, Staff Working Document.

SME specific Indicators

(Data sources: EC: Small Business Act for Europe Forecasts, OECD: Financing SMEs and Entrepreneurs 2013, Eurostat: Structural Business Statistics, ECB: Survey on the access to finance of SMEs in the euro area SAFE, EC: SME Access to Finance Index)

In the following indicators, SMEs are defined by the "staff headcount" criteria rather than the "financial ceilings" (*see* "Evaluation of the SME Definition", Centre for Strategy and Evaluation Services). *Therefore, SMEs are defined as enterprises with less than 250 employees. However, in the case were this definition is no applicable, the alternative definition on turnover is adopted. In such case, SMEs are defined as those having annual turnovers not exceeding €50 million.*

Share of SMEs over Total Enterprises:

Represents the percentage of Total Enterprises numbers in sectors B-N (excluding financial services) that is composed by small and medium enterprises (staff headcount criteria). Data is based on Eurostat's structural business statistics database.

Source: European Commission SME Performance Review, 2012 Annual Report

Share Employees in SMEs over Total:

Represents the share of total persons employed in sectors B-N (excluding financial services) working in small and medium enterprises (staff headcount criteria). Data is based on Eurostat's structural business statistics database and provided by European Commission SME Performance Review.

Source: European Commission SME Performance Review, 2012 Annual Report

Share of Bank loans to SMEs over Total:

Observed from the supply side, this percentage indicates the relative importance of loans to SMEs in terms of outstanding loan amounts (where this is not applicable, the measure is calculated either on new loans or it is derived via econometric estimation). Data was collected by OECD and published in the report "Financing SMEs and Entrepreneurs 2013: An OECD Scoreboard" and is measured in the period 2007-2011.

Source: OECD, Financing SMEs and Entrepreneurs 2013: An OECD Scoreboard; Econometric Estimates (see Annex 7 to Chapter 1)

Share of SME Loans In Total SME Debt:

This percentage indicates the relative impact of loans in SMEs' balance sheets. It is calculated by dividing the total non-current debt of SMEs by the total amount of loans issued to SMEs in a specific country. Data is based on representative samples from Banque de France BACH-ESD Database

Source: Banque de France, (2013) Bank For The Accounts Of Companies Harmonized (BACH-ESD Database) [Online] Available at: http://www.bachesd.banque-france.fr/ (Accessed: November 2013)

Growth in SMEs Loans:

*Represents the Growth rate of SME loans (nominal amounts) in the country of reference and over the reported period. Data is obtained from OECD data. Where OECD data is not available, an econometric estimate of the growth rate is reported instead (marked with the symbol †). In some cases, stock amounts are not available and flow measures (*i.e. newly issued loans) are reported instead. In some countries OECD uses loans below the € 1 million amount as a proxy for loans to SMEs.

Source: OECD, Financing SMEs and Entrepreneurs 2013: An OECD Scoreboard; Econometric Estimates (see Annex 7 to Chapter 1)

SMAF Debt Sub-Index (2011):

The European Commission SME Access to finance (SMAF) debt sub-index provides an indication of the development of SMEs' access to debt finance over time for the EU and its Member States. The index provided in this document differs from the original version, calculated using the EU average in 2007 as 100. Here, the latest available figure is rescaled to represent the EU average in the year of reference. The debt finance sub-index is composed of indicators based on loan volumes and interest rates, and therefore reflects the availability of bank finance for SMEs.

Source: European Commission, (2012) SME Access to Finance Index

Share of Discouraged SMEs:

This percentage is based on European Central Bank's Survey on the access to finance of SMEs (SAFE), also published jointly with the European Commission at the EU28 level (in 2009 and 2011). It represents the share of surveyed SMEs, in the country and year of reference, that did not apply to bank loans in the six months prior to the interview because they believed their application would have been rejected.

Source: European Central Bank Survey on the access to finance of SMEs in the euro area (SAFE), waves 2009H1 to 2012H2. European Commission Survey on the access to finance of SMEs in the euro area (SAFE), waves 2009 and 2011

Number of Initiatives Supporting loans under Structural Funds

This corresponds to the number (or an estimate) of the initiatives concerning loans and guarantees currently undergoing in Member States co-financed by European Structural Funds.

Source: European Commission, (2012) Summary report on the progress made in financing and implementing financial engineering instruments co-financed by Structural Funds (Programming Period 2007-2013), situation as of 31 December 2011

Interest Rate Spread For SME Loans:

Defined as the interest rate for loans up to 1 million EUR, usually associated with loan requests by small and medium enterprises. The spreads refer to maturities over 1 year and below 5 years, unless otherwise stated. Data was extracted from European Central Bank's database.

Source: European Central Bank, (2013) Statistical Data Warehouse [Online]. Available at: https://sdw.ecb.testa.eu/ (Accessed: November 2013)

Loan Financing Gap Indicators

(Data source(s): OECD: Financing SMEs and Entrepreneurs 2013, ECB: Survey on the access to finance of SMEs in the euro area SAFE, ECB Database, EC calculations)

Share of SMEs Unsuccessful In Obtaining Loan Financing:

This percentage is based on European Central Bank's Survey on the access to finance of SMEs (SAFE), also published jointly with the European Commission at the EU28 level (in 2009 and 2011). It represents the share of surveyed SMEs, in the country and year of reference, which applied to bank loans in the six months prior to the interview and got rejected by the bank or obtained conditions that were not acceptable for them and hence refused the loan.

Source: European Central Bank Survey on the access to finance of SMEs in the euro area (SAFE), waves 2009H1 to 2012H2. European Commission Survey on the access to finance of SMEs in the euro area (SAFE), waves 2009 and 2011

Estimated Interval for SME Loan Financing Gap:

This indicator expresses the range in which the debt financing is expected to lie. The lower bound of this interval is represented by the debt financing needs of high-growth SMEs unsuccessful in obtaining loan financing (source: EuroStat). The upper bound represents the product of the number of firms with positive turnover growth in the past six months (source: ECB) and the average loan size per SME in each Member State. See Chapter 1 on "Methodology" for an in-depth description of the estimation methods applied.

Source: European Commission estimation (see Chapter 1 for methodology)

Average Loan Size per SME:

This figure expresses the average loan size per SME, calculated following the methodology illustrated in Annex 4 to Chapter 1. Country coverage of this figure is limited, therefore in the calculation of loan financing gaps the amounts for missing countries are approximated by means of extrapolation.

Source: Orbis, (2013) Orbis. Bureau van Dijk. [Online]. Available at: https://orbis2.bvdep.com/ (Accessed: October 2013)

Sample Country Fiche

This page illustrates the template used for the country fiches and provides guidance on how to read each country fiche.

Country Name

Macroeconomic Indicators

MACROECONOMIC BASED		FINANCIAL BASED	
GDP growth rate :	%	Loans-to-deposit ratio:	%
Output gap :	%	Non-performing loans ratio :	%
Unemployment rate :	%	Bank capital adequacy ratio :	%
Government net lending / borrowing as % of GDP:	%	Return on bank equity :	%
Gross government debt :	%	Central Bank liquidity as % of liabilities :	%
Corporations net lending/borrowing as % of GDP:	%	Banks' exposure to vulnerable countries :	%
Sovereign interest rates spread versus Bund :	%	Foreign ownership of the banking system :	%

Financial Indicators for SMEs

DEMAND SIDE		SUPPLY SIDE	
Share of SMEs over total enterprises :	%	SMAF debt sub-index :	Index
Share of SME employment :	%	Number of Initiatives Supporting loans under Structural Funds:	#
Share of Bank loans to SMEs over Total :	%	Growth in SME loans:	%
Share of SME loans in total SME debt:	%	Interest Rate Spread for SME loans:	%
Share of discouraged SMEs :	%	Average loan size per SME:	€ mil
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (xxxx - xxyy):	%	Estimated Interval for SME Loan Financing Gap (xxxx - xxyy):	€ Mln

Green background if decreasing trend, Red if increasing trend, Blue if stable

Green background if decreasing trend, Red if increasing trend, Blue if stable

Country Profile

[Detailed country profile]

The country profile might contain further information based on additional data and new trends.

NOTE: This background only reflects the backward-looking trends measured in the reference period (stated in brackets).

Notes

Austria

Macroeconomic Indicators

GDP growth rate (2013):	0.4%	Loans-to-deposit ratio (2012):	110.3%
Output gap (2013):	-1.0%	Non-performing loans ratio (2012):	2.7%
Unemployment rate (2013):	5.1%	Bank capital adequacy ratio (2012):	16.1%
Government net lending / borrowing (2013) as % of GDP:	-2.5%	Return on bank equity (2012):	7.6%
Gross government debt (2013):	74.8%	Central Bank liquidity as % of liabilities (2012):	2.1%
Corporations net lending/borrowing (2013) as % of GDP:	1.9%	Banks' exposure to vulnerable countries (2012):	2.0%
Sovereign interest rates spread versus Bund (2012):	0.9%	Foreign ownership of the banking system (2009):	19.4%

Financial Indicators for SMEs

Share of SMEs over total enterprises (2013):	99.7%	SMAF debt sub-index (2011):	107.8
Share of SME employment (2013):	67.8%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	1
Share of Bank loans to SMEs over Total (2007-2011):	59.0%†	Growth in SME loans (2007 - 2011):	41.4%†
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2012-12):	0.09%
Share of discouraged SMEs (2012H2):	2.0%	Average loan size per SME (2009 - 2012):	EUR 76,000.
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2011H2 -2012H2):	4.9%	**Estimated Interval For SME Loan Financing Gap (2011 - 2012):**	31 - 411 € Mln

Country Profile

The Austrian economy continues to perform comparatively well. Real GDP has grown at an annual rate of 0.4% in 2013 and 0.9% in 2012, down from 2.8% in the year before. Both external and domestic demand components have been weak and reflected developments in main trading partners (in particular Germany and CESEE), investment uncertainty, an unwillingness of households to further reduce their savings rate from already low post-2009 crisis levels, and fiscal consolidation. Unemployment at 5.1%, though on the rise, is the lowest in the EU.

The 2012 fiscal outturn was favourable, benefitting from lower interest costs and buoyant labour taxes. The headline deficit in 2012 amounted to 2.5% of GDP. In 2013, despite over-performance of federal revenue and better than expected subnational budget balances, the consolidation has decelerated due to additional support for the financial sector. The 2013 deficit now implies a structural expansion, notched up by a recently-approved stimulus package, it is nonetheless projected to remain at -2.5%. In 2012, public debt stood at 74% of GDP and would rise to 74.8% in 2013. The global financial crisis has exerted significant pressure on Austria's financial system. However, Austrian banks on the whole have benefitted from limited exposures to sovereign and market risks, a stable funding structure, and relatively favourable macroeconomic conditions. In CESEE countries, Austrian banks have not resorted to large-scale deleveraging, notwithstanding somewhat weaker growth, recent volatility, and rising vulnerabilities, including high and rising NPLs. According to the IMF, domestic banks show signs of overcapacity. In addition, substantial liquidity and capital support was provided by the government and three mid-sized domestic banks were fully or partly nationalised.

Austria is one of the few EU Member States where the SME sector has, so far, weathered the crisis without any lasting downturn, as confirmed by a comfortable SMAF debt sub-index at 107.8 and the low share of discouraged firms. Bucking the trend, since 2005 Austria has added another 5% of SMEs with almost 10% of additional employment and an increase in value added of more than 20%, despite an abrupt but temporary downfall in 2009. Despite vulnerabilities in the banking sector, SMEs continue to have comparatively easy access to bank credit. According to the ECB, the share of Austrian SMEs who report access to finance as the most pressing problem is the lowest in the euro area. The same holds for rejection rates of loan applications. Consequently, the fraction of SMEs unsuccessful in obtaining loan financing is as low as 4.9% in 2012. However, new equity finance for SMEs lags behind European benchmarks with only 6% of SMEs having access to this type of funding in 2011.

† Econometric estimate on outstanding amounts

Belgium

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	0.1%	Loans-to-deposit ratio (2012):	77.0%
Output gap (2013):	-1.7%	Non-performing loans ratio (2011):	2.8%
Unemployment rate (2013):	8.6%	Bank capital adequacy ratio (2011):	19.1%
Government net lending / borrowing (2013) as % of GDP:	-2.8%	Return on bank equity (2011):	0.7%
Gross government debt (2013):	100.4%	Central Bank liquidity as % of liabilities (2012):	4.0%
Corporations net lending/borrowing (2013) as % of GDP:	1.1%	Banks' exposure to vulnerable countries (2012):	9.7%
Sovereign interest rates spread versus Bund (2012):	1.5%	Foreign ownership of the banking system (2009):	60.7%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.8%	SMAF debt sub-index (2011):	97.7
Share of SME employment (2013):	67.6%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	12
Share of Bank loans to SMEs over Total (2007-2011):	59.2%[§]	Growth in SME loans (2007 - 2011):	37.9%[§]
Share of SME loans in total SME debt (2012):	49.5%	Interest Rate Spread for SME loans (2012-12):	1.36%[b]
Share of discouraged SMEs (2012H2):	5.0%	Average loan size per SME :	n.a.
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2011H2 -2012H2):	7.8%	Estimated Interval For SME Loan Financing Gap (2011 - 2012):	249 - 2,009 € Mln

Country Profile

The Belgian economy is expected to register modest positive growth in 2013. While private consumption has started to pick up in the course of 2013, the short-term outlook for investment remains weaker. As a consequence, domestic demand is still expected to contract in 2013, which is made up for by positive net exports. The latter is projected to become less of a driver behind overall growth in 2014, expected to come in at 1.1%, as domestic components are forecast to gain strength and take over this role. For 2015 this pattern should apply even more with growth of 1.4% of GDP. The outlook for the labour market is generally weak and unemployment is expected to climb to 8.6% in 2013 and reach 8.7% in 2014 before slowly retreating to 8.4% in 2015. The government deficit is expected to arrive at 2.8% in 2013, and 2.6% in 2014. Government debt is expected to hover around 100% of GDP in upcoming years.. The Belgian financial system is large, concentrated and closely interconnected with the rest of the world. The 4 largest banks account for around 75% of consolidated system assets and assets of foreign owned banks account for around 60.7% of the sector. The top three Belgian banks were hit hard by the 2008 global financial crisis and the State provided substantial capital injections, funding and capital guarantees. Part of this support has been repaid since, though the indirect exposure of the Belgian sovereign to the financial system continues to be non-negligible given remaining guarantees. Since 2008, banks have shed investment banking and asset management operations and shifted focus towards more traditional business areas. Deleveraging has reduced the size of the banking system from around 470% of GDP in 2007 to around 320% of GDP in 2012, driving the loan-to-deposit ratio down to 77%. Belgian banks are well capitalised (as of Q2 2012 the system CAR ratio stood at 17.5%) and asset quality appears satisfactory, with a relatively low exposure to vulnerable countries (9.7% in 2012) and NPLs at 2.8%; however, the system is struggling with low profitability, featuring a ROE at 0.7% in 2011.

Although SME loans have grown by 37.9% during the crisis and the share of bank loans to SMEs is a solid 59.2%, the fraction of SMEs unsuccessful in obtaining loan financing in 2012H2 was below 8%, and the loan rejection rate and the share of discouraged SMEs are close to the euro area average. Data from the National Bank of Belgium shows that new loans of less than EUR 1m, which are almost exclusively taken by SMEs, grew by 1.6%, while larger loans registered a growth rate of -1%. Interest rates have increased mildly in comparison to year end 2012 (ed. Except for floating rates which decreased somewhat) *- in line with the relatively low proportion of Belgian SMEs reporting increasing rates in the latest ECB SAFE survey. As of August 2013, floating rate loans to NFCs of less than EUR 250k cost on average 2.2%, compared to an interest rate of 1.97% for loans between 250k and 1 million and 1.76% for loans of more than one million. The cost of debt compares favourably to Germany and other euro area countries* (ed. German floating rate loans to NFCs of less than EUR 250k cost on average 3.44% and loans of between 250k and 1 million cost 2.33% as of August 2013)*. According to Commission figures, Belgium outperforms the EU average in terms of access to venture capital and in terms of access to State support for SMEs* (ed: SBA Factsheet)*. A number of public schemes aimed at supporting access to finance for SMEs are available in the country. In Flanders the consultancy service FINMIX, introduced in November 2011, gives entrepreneurs the opportunity to present projects in front of a panel which provides advice on a financing mix tailored to their situation. The Walloon government operates a credit guarantee scheme, providing guarantees of bank loans up to EUR 25,000.*

b Maturity Up to 1 year; § On new loans (flow)

Bulgaria

Macroeconomic Indicators

GDP growth rate (2013):	0.5%	Loans-to-deposit ratio (2012):	115.8%
Output gap (2013):	-1.7%	Non-performing loans ratio (2012):	16.9%
Unemployment rate (2013):	12.9%	Bank capital adequacy ratio (2012):	16.7%
Government net lending / borrowing (2013) as % of GDP:	-2.0%	Return on bank equity (2012):	7.9%
Gross government debt (2013):	19.4%	Central Bank liquidity as % of liabilities (2012):	0.0%
Corporations net lending/borrowing (2010) as % of GDP:	7.8%	Banks' exposure to vulnerable countries :	n.a.
Sovereign interest rates spread versus Bund (2012):	3.0%	Foreign ownership of the banking system (2009):	83.7%

Financial Indicators for SMEs

Share of SMEs over total enterprises (2013):	99.8%	SMAF debt sub-index (2011):	92.2
Share of SME employment (2013):	75.9%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	1
Share of Bank loans to SMEs over Total (2007-2011):	70.7%†	Growth in SME loans (2007 - 2011):	5.4%†
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2012-12):	0.59%[b]
Share of discouraged SMEs (2011H1):	4.2%	Average loan size per SME (2009 - 2012):	EUR 93,000.
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2009H1 -2011H1):	7.9%	Estimated Interval For SME Loan Financing Gap (2009 - 2011):	483 - 687 € Mln

Country Profile

The Bulgarian economy was severely hit by the economic and financial crisis in 2009, which was accompanied by the burst of a real estate bubble. A sudden stop of foreign capital in 2009 forced a rapid adjustment of the current account and also a private sector deleveraging. As a result, outstanding real household debt fell relative to the end of the 2009 and outstanding real credit to non-financial corporations stagnated. Consequently, (real) domestic demand has been growing at an annual average rate of 0.36% since the end of 2009, inducing a subdued GDP growth (0.5% projected in 2013). The Bulgarian banking system – 83.7% foreign-owned – withstood the financial crisis and the recession reasonably well (the ROE stands out at 7.9%), despite a mounting stock of non-performing loans (16.9% in 2012). Although the banking system was less leveraged than in the rest of the EU even before the crisis, leverage was substantially reduced in the period 2008-2010, reaching in 2011 a ratio of total debt to total assets more than 3 percentage points lower than its value in 2007, and in 2012 a loan-to-deposit ratio of 115.8%. Although total assets increased by about 50% between 2007 and 2011, loans grew very slowly during the period – only about 10%.

Bulgarian SMEs, and particularly micro enterprises, exhibit gross returns and productivity lower than those of large corporates structurally. In response to the crisis in 2009, about 37% of Bulgarian SMEs decreased the number of employees and 22% reduced wages. Also, 22% postponed investment plans. In 2009, 18% of SMEs had difficulties in servicing their debt, while in 2010-11 about 45% of Bulgarian SMEs had difficulties in accessing external finance, and an 86% estimate that they do not have sufficient finance to carry out all necessary investment. Indeed, the SMAF debt sub-index in 2011 was sensibly below the EU average (92.2), and in fact loans to SMEs in the 2007-2011 period fell by 38.0%. In 2012 relative to 2011, SMEs report fewer difficulties to access external finance, with micro enterprises reporting the smallest improvements. Throughout the period 2010-12, access to finance has improved with the size of the SME. In 2012, an important factor improving access to finance was the quality of management and organisation practices. According to an EIB bank lending survey in Bulgaria, credit standards are expected to remain broadly the same during the second half of 2013, while at the same time demand for loans from SMEs is expected to increase. During this period, banks expect to apply wider margins on the SME lending rate relative to the interbank rate and collateral requirements will be further tightened. Foreign banks perceive international constraints – notably parent group NPLs and EU regulation – as the main business obstacle in Bulgaria.

b Maturity Up to 1 year; † Econometric estimate on outstanding amounts

Croatia

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	-0.7%	Loans-to-deposit ratio (2012):	130.1%
Output gap (2013):	-2.1%	Non-performing loans ratio (2012):	13.2%
Unemployment rate (2013):	16.9%	Bank capital adequacy ratio (2012):	20.2%
Government net lending / borrowing (2013) as % of GDP:	-5.4%	Return on bank equity (2012):	7.8%
Gross government debt (2013):	59.6%	Central Bank liquidity as % of liabilities :	n.a.
Corporations net lending/borrowing as % of GDP:	n.a.	Banks' exposure to vulnerable countries :	n.a.
Sovereign interest rates spread versus Bund (2012):	4.9%	Foreign ownership of the banking system :	n.a.

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2011):	98.5%	SMAF debt sub-index :	n.a.
Share of SME employment (2011):	67.5%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	n.a.
Share of Bank loans to SMEs over Total (2007-2011):	66.1%†	Growth in SME loans (2007 - 2011):	-11.2%†
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans :	n.a.
Share of discouraged SMEs (2011H1):	5.2%	Average loan size per SME :	n.a.
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2009H1 -2011H1):	5.2%	**Estimated Interval For SME Loan Financing Gap (2009 - 2011):**	59 - 434 € Mln

Country Profile

The macroeconomic situation of Croatia remains difficult. The country has been in recession for the last five years and structural problems and the rather protected labour market will not solve the problems of high unemployment and low growth quickly.. On the fiscal side, the budget deficit remains high and public debt is projected at 59.6% of GDP at the end of 2013. The EU entry per se will not bring FDI and growth – domestic reforms are a precondition for this. The banking sector is well-capitalised with a ROE of 7.8% and CAR of 20.2%, but subject to risks from the weak real economy (declining profitability, steep rise in NPLs), high euroisation and significant exposure to the sovereign (credits to SOEs, holding of short-term government debt),. However, credit growth in the private sector is weak. The government did take measures to support demand and supply of credit, but due to the general macro-economic uncertainty a pick-up in credit activity is not yet visible. In addition, the loss of the sovereign's investment-grade credit rating exposes Croatia to a rise in borrowing costs.

Apart from a few champions with international business activities, the rest of the corporate sector is dominated by SMEs. With 4.7 employees, the average Croatian SME is slightly bigger than the average EU SME, with 4.2 employees. Between 2001 and 2010, the number of SMEs grew by 71%, while the number of large enterprises decreased by a third. In terms of economic value, the rise of the SME sector was even more significant. Furthermore, despite a recent shrinkage in SMEs' share of GDP – by 1.4 percentage points – Croatian SMEs account for 67.5% of employed workers, a shade above the EU average. Croatian SMEs account for just over 41% of the country's exports. While SME loans have shrunk by 11.2% over the 2007-2011 period, according to the latest EIB bank lending survey, banks expect to further decrease supply of SME loans by 25% over the next 6 months. Demand for loans by SMEs is also expected to decrease by 25% over the next six months. Funding conditions to SMEs are not expected to change over the next 6 months. Foreign banks perceive local market outlook, regulation, and asset quality (which continues to deteriorate) as the main business constraints. On the other hand, conditions on intragroup funding are expected to ease up.

† Econometric estimate on outstanding amounts

Cyprus

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	-8.7%	Loans-to-deposit ratio (2012):	111.2%
Output gap (2013):	-5.8%	Non-performing loans ratio (2012):	15.5%
Unemployment rate (2013) :	16.7%	Bank capital adequacy ratio (2012):	9.4%
Government net lending / borrowing as % of GDP (2013):	-8.3%	Return on bank equity (2012):	-33.2%
Gross government debt (2013):	116.0%	Central Bank liquidity as % of liabilities (2012):	8.7%
Corporations net lending/borrowing as % of GDP (2012):	9.6%.	Banks' exposure to vulnerable countries :	n.a.
Sovereign interest rates spread versus Bund (2012):	5.5%	Foreign ownership of the banking system (2009):	37.0%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.8%	SMAF debt sub-index (2011):	100.0
Share of SME employment (2013):	81.4%	Number of Initiatives Supporting Loans under Structural Funds (2007 - 2013):	3
Share of Bank loans to SMEs over Total (2007-2011):	60.0%†	Growth in SME loans (2007 - 2011):	9.0%†
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2013-06):	0.87%
Share of discouraged SMEs (2011H1):	1.7%	Average loan size per SME :	n.a.
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2009H1 -2011H1):	4.8%	**Estimated Interval For SME Loan Financing Gap (2009 - 2011):**	36 - 58 € Mln

Country Profile

The country is facing a deep recession with economic growth declining by 2.4% in 2012 and is expected to fall more sharply in 2013. Despite its €10bn bailout in March the Cypriot economy has shrunk by 8.7% in 2013, with unemployment increasing to 16.7% over the year. Unemployment in 2014 is now expected to reach 19.2%, up from the original forecast of 16.9%. Tight capital controls, which are expected to last until January 2014, are putting downward pressure on the economy, with a predicted GDP contraction of 8.7% this year and additional fall in output of 6.5% in 2014. The budget deficit increased from 5.3% of GDP in 2010 to 6.3% in 2011; as the authorities moved ahead with fiscal and restructuring measures and the economy turned down. The deficit remained at 6.4% of GDP in 2012 and is expected to rise to 8.3% of GDP in 2013. Competitiveness and innovation are weak, partly because of the constraints of the small market size. Cyprus has a comparative advantage in a number of sectors (including tourism, agro-food, aquaculture, bio-economy, etc.) but still needs to take action to address the deterioration of competitiveness in these activities. Long term competitive advantage in offshore services and relationships with Russian investors could be damaged by the crisis resolution. Despite the capital controls, confidence in the banking system has continued to fall with net outflows since March reaching EUR 8 billion, representing 12% of all deposits. In 2011 bank assets totaled EUR 152bn (835% of GDP), commercial bank assets with Cypriot parents were EUR 92bn (500% of GDP). Exposure of these banks to Greece was EUR 29bn, or 160% of GDP. They also held EUR1.6bn of Cypriot government bonds but only minimal amounts of sovereign debt from other distressed euro area countries. Deposits raised in Cyprus totaled EUR 42bn, of which more than half (EUR 23bn) came from non-residents. Non-resident deposits came largely from Russia and – to a lesser extent – other CIS states. In addition, EUR 23bn were raised abroad, mainly in Greece (EUR 17bn). Asset quality keeps deteriorating due to the recession, and deleveraging continues, as Cypriot banks record a loan-to-deposit ratios of 93%, down from 111.2% in 2012.

SMEs make up 99.8% of enterprises and absorb 60% of bank loans. But the banking crisis has eventually tightened credit and the small market size and lack of suitable intermediaries are important constraints. The bank lending survey for Cyprus reports tightening credit standards for loans and credit lines to enterprises in the second quarter of 2013. Banks' margins on average loans recorded larger increases compared to the previous quarter and collateral requirements increased. On the demand side, net demand for all loan categories continued to decline in the second quarter. The decrease was larger than previously anticipated and banks expect demand to continue to decline in the next quarter.

† Econometric estimate on outstanding amounts

Czech Republic

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	-1.0%	Loans-to-deposit ratio (2012):	83.6%
Output gap (2013):	-3.4%	Non-performing loans ratio (2012):	5.1%
Unemployment rate (2013):	7.1%	Bank capital adequacy ratio (2012):	15.7%
Government net lending / borrowing (2013) as % of GDP:	-2.9%	Return on bank equity (2012):	20.9%
Gross government debt (2013):	49.0%	Central Bank liquidity as % of liabilities (2012):	0.1%
Corporations net lending/borrowing (2013) as % of GDP:	0.4%	Banks' exposure to vulnerable countries :	n.a.
Sovereign interest rates spread versus Bund (2012):	1.3%	Foreign ownership of the banking system (2009):	89.8%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.9%	SMAF debt sub-index (2011):	83.6
Share of SME employment (2013):	69.7%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	2
Share of Bank loans to SMEs over Total (2007-2011):	19.5%§	Growth in SME loans (2007 - 2011):	-33.7%§
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2012-12):	-0.08%
Share of discouraged SMEs (2011H1):	3.6%	Average loan size per SME (2009 - 2012):	EUR 46,000
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2009H1 -2011H1):	5.1%	Estimated Interval For SME Loan Financing Gap (2009 - 2011):	124 - 871 € Mln

Country Profile

Real GDP in the Czech Republic is expected to decrease by 1.0% in 2013. The projected recovery in economic activity in the EU is forecast to support the Czech economy from 2014 on, whereas domestic demand should appreciably strengthen only in 2015, along with improved labour market conditions and restored confidence in the corporate sector. The Czech banking sector is very liquid and profitable, with a ROE of 20.9% in 2012. The Czech financial system appears well positioned to withstand spillover risks, given a CAR of 15.7% and a NPL ratio of 5.1%. A reemergence of financial stress in the euro area entails a risk of deleveraging by European parent banks, which would adversely affect Czech domestic credit conditions through parent-subsidiary relationship (foreign ownership reaches 89.8%). However, the effect of such deleveraging would be limited since Czech banks are self-reliant in their funding. This soundness of the financial sector as well as good standing of balance sheets of households and the corporate sector limits the vulnerability to the euro area financial spillovers.

Although large corporations are awash with liquidity, the situation for SMEs is characterised by problems of access to finance (the SMAF debt sub-index in 2011 was 83.6, much below the EU average). In 2011 SME loans were significantly below their 2007 level. Whereas total business loans declined by 10% between 2007 and 2010, SME loans declined by 38%. Credit conditions also deteriorated as shown by the doubling of the interest rate spread between SMEs and total business loans from 2007 to 2010. Last but not least, bankruptcies among SMEs were more than three times greater in 2011 than in 2008. According to the latest EIB bank lending survey banks expect to increase supply of SME loans by 20% over the next 6 months. Demand for loans by SMEs increased by 40% over the last six months and is expected to increase by another 20% over the next six months. Funding conditions to SMEs are expected to ease over the next 6 months, and the share of SMEs unsuccessful in obtaining loan financing in the 2009-2011 period has decreased to 5.1%. The policy response to this situation was the stepping up of guarantee activities. In 2010 1435 SMEs received loans under the national GUARANTEE programme. In parallel the Czech Export Bank and the Export Guarantee and Insurance Company received State support during 2009 and 2010 to increase export finance and insurance.

§ On new loans (flow)

Denmark

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	0.3%	Loans-to-deposit ratio (2012):	219.3%
Output gap (2013):	-4.7%	Non-performing loans ratio (2012):	4.2%
Unemployment rate (2013):	7.3%	Bank capital adequacy ratio (2012):	17.9%
Government net lending / borrowing (2013) as % of GDP:	-1.7%	Return on bank equity (2012):	1.0%
Gross government debt (2013):	44.3%	Central Bank liquidity as % of liabilities (2012):	1.4%
Corporations net lending/borrowing (2013) as % of GDP:	8.8%	Banks' exposure to vulnerable countries (2012):	4.8%
Sovereign interest rates spread versus Bund (2012):	-0.1%	Foreign ownership of the banking system (2009):	19.9%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.6%	SMAF debt sub-index (2011):	95.9
Share of SME employment (2013):	66.8%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	3
Share of Bank loans to SMEs over Total (2007-2011):	10.7%[§]	Growth in SME loans (2007 - 2011):	-16.1%[§]
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2012-12):	0.89%[a]
Share of discouraged SMEs (2011H1):	2.4%	Average loan size per SME :	n.a.
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2009H1 -2011H1):	5.7%	Estimated Interval For SME Loan Financing Gap (2009 - 2011):	182 - 838 € Mln

Country Profile

Denmark's GDP is projected to grow at a 0.3% annual rate in 2013, but its output level continues to lie below potential (by 4.7% this year), reflecting a shortfall of aggregate demand over supply, but also a significant decline in the competitiveness over the 00's. The recession continues to affect the unemployment rate, which is lingering at 7.3%. The financial situation of the Government is solid, with public debt equal to 44.3% of GDP. General government deficit is projected to decrease substantially to 1.7% in 2013 compared to 4.1% in 2012. The very low (negative) sovereign spread vs. German bund in 2012 is partly explained by the safe-haven status of Denmark during the financial crisis.

Denmark has a large banking sector with bank assets amounting to over four times GDP. In spite of the large number of small institutions, the sector is highly concentrated. The two largest banks (Danske Bank and Nordea) account for some 2/3 of total assets. Despite significant cross-border exposures, exposures to the vulnerable EU countries remain in general limited,, higher compared to Nordic peers and are mainly concentrated on Ireland. Banks' capitalisation and liquidity have improved, but especially smaller banks still need to build more robust capital and liquidity buffers. Return on equity has recovered somewhat for large systemic banks but it is still negative for small banks on average. High levels of household debt may pose a risk to mid-term financial and economic stability (loan-to deposit ratio 219.3% in 2012. NPLs in 2012 increased to 4.2% from 3.7% at the end of 2011).

Total corporate borrowing from banks has been reduced since the end of 2009. This is partly explained by the corporate sector's considerable savings surplus as corporate investment has been substantially reduced. Financial institutions lending to SMEs declined by around 30% between 2007 and 2009, recovered with a 23% increase in 2010, but stagnated again in 2011 leaving the total value of SME lending well below pre-crisis levels. Demand for loans has played an important role in this development but SMEs' access to finance has also deteriorated. Banks have restricted their lending and tightened the credit standards especially for small loans. The interest rate spread between large and small loans increased consistently during the crisis and reached 3.43% in 2011, which was relatively larger than in other countries. The fraction of financially viable SMEs unsuccessful in obtaining loan financing reached 5.7% in 2011. The availability of bank finance for SMEs – as measured in 2011 by a SMAF debt sub-index of 95.9 – is slightly below the EU average. Venture capital financing experienced a sharp drop in 2009 and continued to decline in 2010 before recovering significantly in 2011.

In order to support SMEs' access to finance government loan guarantees and loans have been increased during the crisis. Also export guarantees and export credits have been used to support the development and operations of Danish export firms. In 2009 the government introduced a package which improved SME financing and export opportunities by strengthening loan guarantees, get-started loans, export guarantees and by improving access to risk capital for new businesses. In 2012, another complementing policy package was introduced.

[a] Maturity Over 1 year; [§] On new loans (flow)

Estonia

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	1.3%	**Loans-to-deposit ratio (2012):**	127.2%
Output gap (2013):	1.2%	**Non-performing loans ratio (2012):**	3.4%
Unemployment rate (2013):	9.3%	**Bank capital adequacy ratio (2012):**	19.6%
Government net lending / borrowing (2013) as % of GDP:	-0.4%	**Return on bank equity (2012):**	13.9%
Gross government debt (2013):	10.0%	**Central Bank liquidity as % of liabilities (2012):**	0.1%
Corporations net lending/borrowing (2013) as % of GDP:	3.8%	**Banks' exposure to vulnerable countries :**	n.a.
Sovereign interest rates spread versus Bund (2010):	3.2%	**Foreign ownership of the banking system (2009):**	94.9%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.7%	**SMAF debt sub-index (2011):**	100.7
Share of SME employment (2013):	77.9%	**Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):**	6
Share of Bank loans to SMEs over Total (2007-2011):	58.6%[†]	**Growth in SME loans (2007 - 2010):**	3.8%[†]
Share of SME loans in total SME debt:	n.a.	**Interest Rate Spread for SME loans (2012-12):**	0.79%[a]
Share of discouraged SMEs (2011H1):	6.6%	**Average loan size per SME (2009 - 2012):**	EUR 50,000
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2009H1 -2011H1):	12.2%	**Estimated Interval For SME Loan Financing Gap (2009 - 2011):**	19 - 135 € Mln

Country Profile

Estonia has recovered quickly to sustained growth after the 14.1% fall in GDP in 2009, following the collapse of its housing market and the global financial crisis. Growth of 1.3% is projected for 2013 with balanced contribution from both exports and domestic demand. Unemployment has fallen from 16.9% in 2010 to 9.3% in 2013, but is above pre-crisis levels. Tightening capacity constraints have prompted a strong private investment response (an increase of more than 50% in the last two years), but private investment's contribution to growth is projected to decline. After remarkable adjustment, public finances are sound and the government is committed to continue prudent fiscal policy – the budget deficit of 0.3% is expected to ameliorate in 2014. General government debt stands at 10% in 2013, which is the lowest in Europe. The Estonian banking sector is highly concentrated and dominated by Nordic banks. The aggregate market share of the four major (Nordic) banks (Swedbank, SEB, Nordea and Danske Bank) amounts to close to 90% of total assets. The size of the financial sector is, however, relatively small in the total economy. Extensive bank write-downs have cut NPLs in half from their peak in mid-2010 to about 3% and loan quality has improved. Banks are profitable, liquid, and well-capitalised. Due to rapidly growing domestic deposits the loan-to-deposit ratio has decreased considerably to 127% in 2012 from 163% two years earlier. Towards the end of 2012 the fall in the loan to deposit ratio slowed, indicating a gradual recovery of the loan market and a deceleration in deposit growth. Growth in the loan portfolio started in 2012 and continued moderately in 2013, mainly from increased borrowing by companies.

An overwhelming majority of companies in Estonia are SMEs who rely mainly on bank-based financing. At the same time a substantial share of the medium-size and large enterprises in Estonia are owned by foreign companies, which provide them with other alternatives for obtaining funds beyond the local financial sector. The main institution to support access to finance in Estonia is KredEx. KredEx provides loan financing, credit lines and loan guarantees, which are partly funded by national government and partly by EU. In addition, KredEx provides financing instruments that are fully funded by the EU. According to SBA Fact Sheet 2012, Estonia's overall performance in terms of SMEs' access to finance is positive and above the EU average. In particular willingness of banks to provide loans, access to public financial support and the cost of credit have contributed to improved access to finance. Yet loans to SMEs have contracted by 3.8% in 2007-2010 and the share of SMEs unsuccessful in obtaining loan financing in 2009-2011 has increased to 12.2%.

[a] Maturity Over 1 year; [†] Econometric estimate on outstanding amounts

Finland

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	-0.6%	**Loans-to-deposit ratio (2012):**	173.0%
Output gap (2013):	-2.7%	**Non-performing loans ratio (2012):**	0.5%
Unemployment rate (2013):	8.2%	**Bank capital adequacy ratio (2012):**	15.2%
Government net lending / borrowing (2013) as % of GDP:	-2.2%	**Return on bank equity (2012):**	11.5%
Gross government debt (2013):	58.4%	**Central Bank liquidity as % of liabilities (2012):**	0.7%
Corporations net lending/borrowing (2013) as % of GDP:	1.4%	**Banks' exposure to vulnerable countries (2012):**	0.4%
Sovereign interest rates spread versus Bund (2012):	0.4%	**Foreign ownership of the banking system (2009):**	67.1%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.7%	**SMAF debt sub-index (2011):**	114.5
Share of SME employment (2013):	61.6%	**Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):**	4
Share of Bank loans to SMEs over Total (2007-2011):	21.0%[§]	**Growth in SME loans (2007 - 2011):**	-31.7%[§]
Share of SME loans in total SME debt:	n.a.	**Interest Rate Spread for SME loans (2012-12):**	0.39%[b]
Share of discouraged SMEs (2012H2):	1.0%	**Average loan size per SME (2009 - 2012):**	EUR 179,000
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2011H2 -2012H2):	2.9%	**Estimated Interval For SME Loan Financing Gap (2011 - 2012):**	50 - 352 € Mln

Country Profile

In Finland GDP growth has been weak over the past five years and since the beginning of 2012 the country has been in a recession. Finnish GDP is currently 5% smaller than it was before the sharp decline in 2009. Exports have declined by a fifth from the pre-crisis levels and the current account turned negative in 2011. In addition to weak global demand, exports have been depressed by a deteriorating competitiveness since 2007. Fixed investment started to recover in 2010 and 2011, but has been declining since 2012 due to excess capacity and weak demand. A still negative growth of -0.6% is projected for 2013, leading to a further increase in the unemployment rate. Recent years have seen a clear deterioration in public finances, as the budget deficit has increased to 2.2% in 2013 and the debt over GDP is quickly approaching the 60% threshold. The Finnish banking sector is in relatively good shape and its capital position is strong. Due to low exposure to vulnerable countries (0.4%), the banking sector has not been much affected by the crisis. The profitability of the banking sector remained fair in the first half of 2013, although the net operating profit declined by 20% from a year ago. The smaller banks have difficulties in maintaining profitability in the current environment of sluggish economic growth and low interest rates. NPLs have grown slightly, but are still at low levels (0.5 %). Public sector and households run deficits adding to vulnerabilities. The growth of loans to households and non-financial corporate sector was above EU-average in 2011-2012 but is now declining – depressed by weak economic performance.

SMEs access to finance has been supported by the strong banking sector and increased public financing. According to the ECB access to finance survey only 11% of SMEs reported access to finance as their main pressing problem during the second half of 2012. Moreover, four out of six concerns listed in the survey were more often considered the most pressing problem. In addition, only 1% of SMEs did not apply for a loan because of fear of rejection and more than half reported that they did not apply for a loan as they had sufficient internal funds. Also the 2012 survey of the Confederation of Finnish Industries suggest that firms have in general adequate access to finance but there is increasing divergence between firms of different size. Access to finance does not appear to be a pressing problem for the Finnish SMEs. However, banks seem to have increased their credit standards and the share of rejected loan applicants increased to 11% during the second half of 2012 compared to 5% half a year earlier. Interest rate spreads between large and small loans started to increase again in the middle of 2011 and continued to widen in 2012. The Finnish government has actively supported SME financing during the crisis and a number of policy measures were taken. Especially the activities of the government-owned financing company Finnvera were enhanced. SME loans, loan guarantees and also export credits guarantees provided by Finnvera were all expanded during the crisis.

[b] Maturity Up to 1 year; [§] On new loans (flow)

France

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	0.2%	Loans-to-deposit ratio (2012):	111.6%
Output gap (2013):	-2.9%	Non-performing loans ratio (2012):	4.5%
Unemployment rate (2013):	11.0%	Bank capital adequacy ratio (2012):	14.0%
Government net lending / borrowing (2013) as % of GDP:	-4.1%	Return on bank equity (2012):	3.4%
Gross government debt (2013):	93.5%	Central Bank liquidity as % of liabilities (2012):	3.5%
Corporations net lending/borrowing (2013) as % of GDP:	-1.0%	Banks' exposure to vulnerable countries (2012):	8.0%
Sovereign interest rates spread versus Bund (2012):	1.0%	Foreign ownership of the banking system (2009):	10.8%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.8%	SMAF debt sub-index (2011):	103.4
Share of SME employment (2013):	63.7%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	36
Share of Bank loans to SMEs over Total (2007-2011):	20.6%	Growth in SME loans (2007 - 2011):	16.9%
Share of SME loans in total SME debt (2012):	46.6%	Interest Rate Spread for SME loans (2012-12):	1.45%
Share of discouraged SMEs (2012H2):	8.0%	Average loan size per SME (2009 - 2012):	EUR 47,000.
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2011H2-2012H2):	9.9%	Estimated Interval For SME Loan Financing Gap (2011 - 2012):	717 - 5,148 € Mln

Country Profile

After stagnation in 2012, France's real GDP is forecasted to expand by 0.2% in 2013 and the recovery is projected to further unfold through 2014. The recession has had a severe impact on the unemployment rate, increased from 9.6% in 2011 to 10.2% in 2012 and is expected to reach 11.0% in 2013. The external position is expected to continue weakening in the medium term. The current account deficit remained important in 2012 (2.1% of GDP) although it narrowed due to a slight improvement in the trade deficit (-3.1% of GDP in 2012 after -3.6% in 2011). The relatively dynamic international demand and the sluggish internal demand are expected to result in a further reduction in the current-account deficit (to 1.5% of GDP in 2015) while the measures to restore competitiveness could start to impact on export growth. The public deficit is expected at 4.1% of GDP in 2013, down from 4.8% in 2012 but above the 3.9% target set by the Council in June 2013. Since 2011, the rapid fiscal consolidation has relied heavily on revenue measures, even though expenditure growth was also significantly reduced. As a consequence of the still high public deficit, the government debt is forecasted to reach 93.5% of GDP in 2013 (90.2% in 2012). Part of the increase reflects financial support to other Euro area countries (direct and through the EFSF to Greece, Ireland and Portugal, and contributions to the ESM). The sovereign spread versus German bonds is positive but small, at 1.0% on average in 2012, and has even reduced since. The business climate, which started to pick up in industry in spring 2013, has been recently improving across all sectors. However, the financial situation of non-financial corporations in France is particularly difficult with a profit share which stands at only 28.4% of gross value added in 2012, the lowest ratio in the EU.. This implies that companies will need to restore their profitability before investment and competitiveness can pick up. The French financial sector is large, sophisticated, and integrated both vertically and internationally. Four of the largest 25 global banks were French in 2012 (based on total assets). However, banks' profitability is low, with a ROE at 3.4% in 2012, and they remain exposed to wholesale funding conditions. Banks achieved their deleveraging objectives in 2012, without engendering a credit crunch, and strengthened their balance sheets: the NPL ratio is at 4.5% and the capital adequacy ratio at 14.0%.

There are more than 2.5 million SMEs in France and they account for 99.8% of all enterprises. The vast majority are micro firms (between 1 and 9 employees). The French SME sector does not differ substantially from the Europe-wide one, except that micro-firms are more prevalent and more productive in France. The availability of bank finance for SMEs – as measured by a SMAF debt sub-index of 103.4 – is above the EU average in 2011. In 2013, the fraction of SMEs that did not fully or substantially obtain new loan financing was 11%, one percentage point more than in 2011-2012. In the period from October 2012 to March 2013, 28% of French SMEs applied for a bank loan, the highest percentage in the Euro area. Although bank lending rates have been declining over the same period, SMEs reported an increase in their debt-to-assets ratio and in net interest expenses. French SMEs are heavily dependent on domestic markets and lack the capacity or support to exploit export opportunities. Export revenues account only for 7% of SME revenues compared with 21% for large corporates. Domestic focus, lack of scale and limited financial sophistication mean that SMEs have been less agile in responding to the crisis: between 2008 and 2011, SMEs saw a decline in revenues of 12%, while large companies saw a decline of 3% over the same period. A reorientation towards growing export markets seems critical as SMEs are not part of the supply chain but sell final, finished products. They face growth thresholds –

e.g. growing from 49 to 50 employees involves 34 additional regulatory requirements – and are among the least profitable in Europe, making it more difficult for them to sustainably borrow. The current SME demand for credit is largely for working capital financing, i.e. very few SMEs have invested to boost competitiveness in the last 5 years. While 50% of SMEs can have access to group funding resources, it is crucial for those not belonging to a group – especially young and fast-growing firms as well as those that are restructuring – to have access to broader or alternative funding sources. Equity markets are not used sufficiently, due in part to the low profitability of SMEs. Moreover, SMEs often lack awareness of alternative fund sources, such as public funding schemes, equity investors and nascent peer-to-peer lenders. Awareness-building campaigns hence would be beneficial. In France the most effective measure to improve levels of SME credit has been the enhanced coordination of intervention across funding instruments through the institution of the Public Investment Bank (BPI). The BPI, created in 2012 by merging the three existing public investment entities, currently provides about EUR 15 billion in financing and EUR 12 billion in public guarantees. In 2013, a number of additional schemes have been launched to further increase the financial resources and the activities of the BPI..

Germany

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	0.5%	Loans-to-deposit ratio (2012):	102.6%
Output gap (2013):	-1.0%	Non-performing loans ratio (2011):	3.0%
Unemployment rate (2013):	5.4%	Bank capital adequacy ratio (2012):	17.3%
Government net lending / borrowing (2013) as % of GDP:	0.0%	Return on bank equity (2010):	8.8%
Gross government debt (2013):	79.6%	Central Bank liquidity as % of liabilities (2012):	1.2%
Corporations net lending/borrowing (2013) as % of GDP:	2.2%	Banks' exposure to vulnerable countries (2012):	8.4%
Sovereign interest rates spread versus Bund (2012):	0.0%	Foreign ownership of the banking system (2009):	10.8%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.5%	SMAF debt sub-index (2011):	92.4
Share of SME employment (2013):	62.8%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	12
Share of Bank loans to SMEs over Total (2007-2011):	19.8%†	Growth in SME loans (2007 - 2011):	-7.5%†
Share of SME loans in total SME debt (2012):	48.0%	Interest Rate Spread for SME loans (2012-12):	1.02%
Share of discouraged SMEs (2012H2):	2.0%	Average loan size per SME (2009 - 2012):	EUR 166,000
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2011H2 -2012H2):	4.4%	**Estimated Interval For SME Loan Financing Gap (2011 - 2012):**	710 - 5,779 € Mln

Country Profile

German GDP is forecast to expand by 0.5% in 2013. After the rebound of 2010-2011, the momentum weakened in 2012 as growth was significantly affected by the slowdown in global economic activity and the prevailing uncertainty caused by the debt crisis. Real GDP declined in Q4 2012 and stagnated in the first quarter of this year, also reflecting weather effects. Exports, especially to the euro area, decreased during this period and investment in machinery and equipment saw a six quarter decline that ended in Q2 2013, while consumption remained robust. Going forward, conditions are in place for a steady domestic demand-driven expansion of the economy. Equipment investment is set to gradually recover amongst dissipating uncertainty and favourable financing conditions while low interest rates and the robust labour market should further support private consumption and housing investment.

Balance sheets in Germany are generally healthy with, for example, low debt-to-GDP ratios in the household, corporate, and government sectors. This allows Germany to better absorb shocks from other trading partners instead of transmitting or amplifying them to its supply chain partners. The crisis revealed serious vulnerabilities in the financial sector. Since then, substantial public support measures in conjunction with the sector's own adjustment efforts and the rebound of the German economy appear to have stabilized the sector. Of the €29 billion in capital and €174 billion in guarantees that distressed institutions received around €12 billion of capital has been repaid to the financial stability fund (SoFFin) and only €1.1 billion in guarantees remain. Funding conditions remain favorable for most German banks and the system's reliance on wholesale funding has continued to decline. According to the IMF, the banking system would benefit from a further increase in capital.

Overall, the trend figures show that German SMEs have weathered the crisis well. Since 2005, German SMEs in all sub-size classes have been on an upward trajectory in terms of number, employment and gross value-added, a trend that was only temporarily halted at the beginning of the financial crisis in 2008. German SMEs continue to have relatively easy access to bank credit, although in 2011 the SMAF debt sub-index was 92.4, below the EU average. Loans to non-financial corporations are increasing, albeit at lower rates than before the crisis. According to the ECB, the share of German SMEs who report access to finance as the most pressing problem is among the lowest in the euro area and the share of SMEs unsuccessful in obtaining loan financing is below 5%. The same applies to loan rejection rates.

† Econometric estimate on outstanding amounts

Greece

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	-4.0%	Loans-to-deposit ratio (2012):	84.1%
Output gap (2013):	-12.8%	Non-performing loans ratio (2012):	20.7%
Unemployment rate (2013):	27.0%	Bank capital adequacy ratio (2012):	9.5%
Government net lending / borrowing as % of GDP (2013):	-13.5%	Return on bank equity (2011):	-34.2%
Gross government debt (2013):	176.2%	Central Bank liquidity as % of liabilities (2012):	31.3%
Corporations net lending/borrowing as % of GDP (2012):	21.2%	Banks' exposure to vulnerable countries (2012):	13.7%
Sovereign interest rates spread versus Bund (2012):	21.0%	Foreign ownership of the banking system (2009):	21.1%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.9%	SMAF debt sub-index (2011):	89.0
Share of SME employment (2013):	85.1%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	43
Share of Bank loans to SMEs over Total (2007-2011):	69.1%†	Growth in SME loans (2007 - 2011):	-23.8%†
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2012-12):	1.33%[b]
Share of discouraged SMEs (2012H2):	16.0%	Average loan size per SME (2009 - 2012):	EUR 233,000
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2011H2 -2012H2):	16.4%	**Estimated Interval For SME Loan Financing Gap (2011 - 2012):**	1,129 - 4,207 € Mln

Country Profile

In 2013 the Greek economy will be in its sixth year of prolonged, deep recession. The GDP is likely to contract by 4%, however, signs of recovery are present. Both survey- and market-based indicators suggest an improvement in confidence and business outlook, although the turning point is yet to be confirmed by hard evidence. For 2014, a modest output growth of 0.6% is forecasted, with further improvements in the medium term. Private and public consumption will continue to decline, while net exports continue to contribute positively to growth. Investment is recovering from its steep decline already in 2013, and a robust rebound – 6.4% increase – in gross capital formation is forecasted for 2014. Unemployment is expected to rise further to 27% in 2013, with a possible slight improvement in 2014. Despite the large adjustment in domestic demand, and the improvement in the external balance, the current account is still in deficit. Greece made significant efforts towards fiscal consolidation: in 2013 the budget deficit is expected to worsen to a double-digit figure of 13.5%. The very high level of public debt is expected to decline only over the medium-to-long run, and debt sustainability is highly conditional on the assumed recovery of economic output and the primary surplus. Greece relies on official (EU/IMF) sources to finance its deficit and maturing public debt. The second Greek programme, launched in 2012, brought EUR 164bn of new funding to cover the country's financing needs until 2016. Hit by major losses both on their government bond portfolio and their lending to the private sector, Greek banks needed to be recapitalised. The capital position of the four major banks – NBG, Alpha, Piraeus and Eurobank – has been restored by mid-2013 chiefly from official sources, with minor private-sector participation. Deleveraging is still on-going: in Q1 2013 bank assets contracted by 2.6%. Domestic deposits begin to recover after long decline and the loan-to-deposit ratio is down at 84.1% in 2012. Banks, however, still rely heavily on central bank liquidity, including Emergency Liquidity Assistance. Loan quality is still on the decline: NPLs in Q1 2013 reached 29% of total loans, up from 20.7% in 2012.

The SME sector plays a higher role in the economy relative to most other EU Member States*. Micro enterprises are particularly important: they account for 56.6% of all jobs and 33.9% of the value-added. The crisis has caused a dramatic decrease in the number of Greek SMEs: about 90 thousand units are estimated to have disappeared between 2008 and 2011. As to SMEs' access to finance, Greece scores significantly below the EU average according to the country's SBA Factsheet and the SMAF debt sub-index. SME loan rejection rates are particularly high and in 2010-2012 one sixth of those who applied for loan financing have been unsuccessful in obtaining it. Access to venture capital is also particularly difficult. The lack of funding available to SMEs is confirmed by the ECB SAFE survey, where 38% of SME respondents mentioned access to finance as the single most pressing problem they face. To support SME financing, a JEREMIE programme was launched in 2011, providing credit guarantees, low-cost financing and venture capital to micro- and small enterprises. The National Fund for Entrepreneurship and Development (ETEAN SA) provides financial sources by co-investing funds with banks to provide loans to SMEs at low interest rates.*

The EIB has various activities targeting SMEs in the country, such as participation in the roll-out of state-guaranteed SMEs loans, and the launching of the SME Guarantee Fund and the Trade Finance Enhancement programme.

[b] Maturity Up to 1 year; † Econometric estimate on outstanding amounts

Hungary

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	0.7%	Loans-to-deposit ratio (2012):	116.3%
Output gap (2013):	-3.5%	Non-performing loans ratio (2012):	15.8%
Unemployment rate (2013):	11.0%	Bank capital adequacy ratio (2012):	15.9%
Government net lending / borrowing (2013) as % of GDP:	-2.9%	Return on bank equity (2012):	-1.2%
Gross government debt (2013):	80.7%	Central Bank liquidity as % of liabilities (2012):	0.6%
Corporations net lending/borrowing (2013) as % of GDP:	5.9%	Banks' exposure to vulnerable countries :	n.a.
Sovereign interest rates spread versus Bund (2012):	6.4%	Foreign ownership of the banking system (2009):	54.1%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.9%	SMAF debt sub-index (2011):	80.4
Share of SME employment (2013):	73.0%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	4
Share of Bank loans to SMEs over Total (2007-2011):	58.4%	Growth in SME loans (2007 - 2011):	-26.7%
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2012-12):	2.47%[a]
Share of discouraged SMEs (2011H1):	5.3%	Average loan size per SME (2009 - 2012):	n.a.
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2009H1 -2011H1):	2.6%	Estimated Interval For SME Loan Financing Gap (2009 - 2011):	251 – 1,0291 € Mln

Country Profile

After falling back into recession in 2012 with a GDP contraction of 1.7%, Hungary's economy is expected to experience a slow recovery in 2013: GDP growth is forecast at 0.7%, with output remaining significantly below potential. Net exports are likely to contribute positively towards aggregate output, in parallel with an improvement in aggregate demand in Germany, Hungary's key export market. However, after more than 4 years of deleveraging, domestic demand will become the primary contributor of economic growth. Household consumption is projected to pick up slowly, as in an environment of historic low inflation limited wage increases will begin to counteract the impact of deleveraging and employment uncertainty. The on-going decline in private capital formation, due to existing unused capacities, borrowing constraints and low business confidence, is only partially offset by stronger public investment resulting from the expected higher uptake of EU funds. The fiscal deficit is likely to bounce back from last year's 2% to 2.9% in 2013. As a consequence, the government's public debt reduction plan is expected to lose its momentum, with the debt-to-GDP ratio moving slightly above 80%.

Given Hungary's sub-investment grade sovereign rating and the relatively high annual refinancing needs, public sector funding can be vulnerable to a slowdown or reversal in capital flows to emerging markets. Financial conditions, and bank lending in particular, contribute negatively to the output. After more than 4 years of deleveraging, the stock of outstanding bank credit to the corporates and households was still declining, by 6.9% and 7.1% respectively, in Q2 2013. However net flow of credit to the corporate sector turned positive in August and September among SMEs on account of the central bank's Funding for Growth Scheme. The deleveraging has been exacerbated by the government's strategy of significantly increasing the tax burden on the financial sector. This in turn resulted in a sharp decline in bank profitability and a subsequent withdrawal of parent funding from foreign-owned subsidiaries. The declining access to funding, together with the level of non-performing loans (20% in the corporate and 18% in the household sector in Q2 2013)), creates supply-side constraints on credit flows. According to a central bank's estimate, about half of the currently observed decline in outstanding corporate credit is due to a shortfall in supply.

In line with observations in other crisis-hit economies, decline in lending affects SMEs more than larger enterprises in Hungary as well. New credit flows to SMEs on an annual basis declined by 35% from 2007 to 2011, whereas the decline in credit flows to large corporates amounted only to 15%. More than half of a SME loan portfolio is denominated in foreign currencies (EUR or CHF), and largely unhedged. Central bank's data indicates that more than one-third of the SME's foreign currency loans have suffered from at least a 30% increase in the local currency value of the principal due to the depreciation of the exchange rate, putting significant pressure on debt servicing. Official initiatives to support SMEs' access to financing include Garantiqa, a credit guarantee fund with majority public ownership, and AVHGA, a guarantee fund specialised in agriculture financing. The use of these guarantee funds are relatively high: 6% of total corporate lending was guaranteed by the schemes, compared to the EU average of 1.5%.

However, Garantiqa's guaranteed credit stock declined in 2012, indicating that factors beyond increased risk, such as funding constraints or credit demand may play an important role in the general decline in SME credit stock. In April 2013 the Hungarian central bank launched its 'Funding for Growth' programme, providing low-cost refinancing for new SME loans, as well as funding for the conversion of existing foreign currency loans to local currency products. Preliminary data shows significant interest and

uptake during the first few months of the programme. Also, the central bank's loan officer survey shows that together with the ambitious interest rate cuts, the programme also brought an improvement in the banks' willingness to extend loans to SMEs. Critics of the programme, however, point out the high fiscal costs that could arise in the future, and the potential of the new funding to be used for speculating against the currency.

[a] Maturity Over 1 year;

Ireland

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	0.3%	Loans-to-deposit ratio (2012):	90.0%
Output gap (2013):	-0.9%	Non-performing loans ratio (2012):	18.7%
Unemployment rate (2013):	13.3%	Bank capital adequacy ratio (2012):	18.7%
Government net lending / borrowing (2013) as % of GDP:	-7.4%	Return on bank equity (2011):	-15.0%
Gross government debt (2013):	124.4%	Central Bank liquidity as % of liabilities (2012):	10.9%
Corporations net lending/borrowing (2013) as % of GDP:	5.0%	Banks' exposure to vulnerable countries (2012):	2.1%
Sovereign interest rates spread versus Bund (2012):	4.7%	Foreign ownership of the banking system (2009):	49.9%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.7%	SMAF debt sub-index (2011):	91.0
Share of SME employment (2013):	69.0%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	n.a.
Share of Bank loans to SMEs over Total (2007-2011):	63.7%	Growth in SME loans (2010 - 2011):	0.9%
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2012-12):	-1.82%[b]
Share of discouraged SMEs (2012H2):	15.0%	Average loan size per SME :	n.a.
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2011H2 -2012H2):	21.2%	**Estimated Interval For SME Loan Financing Gap (2011 - 2012):**	205 - 1,525 € Mln

Country Profile

The Irish data for 2012 suggests a GDP growth of just 0.2% last year, which is significantly lower than previously reported. Continued weakness in external demand, particularly in the UK and the euro area, was the main factor contributing to this slowdown. The GDP growth forecast for 2013 is at 0.3%. First quarter figures suggest broad-based weakness across the economy. Consumption is at a stand-still; exports of goods and services – a driver of economic performance in recent years – have also stalled. There has, however, been a gradual improvement in employment. Government's access to market funding has continued to improve and sovereign yields reached new post crisis lows in the second quarter. Banking sector liquidity has improved and deleveraging remains on track, but there is continued uncertainty over asset quality and profitability, linked to the persistent rise in mortgage arrears. The legislature has recently modified the bankruptcy process to address this. In its most recent Macro-Financial Review, the Central Bank identified the need for the domestic banking sector to reconfigure its business models to focus on the core business of lending to the real economy. Domestic deposits have remained stable, which has enabled the removal of the Eligible Liabilities Guarantee scheme. The May 2013 ECB policy rate reduction, however, may have a mixed effect on bank profitability. This depends on the pricing and composition of Irish banks' assets and liabilities, as tracker loan interest rates are reduced as well as interest rates on liabilities such as deposits. Irish bank margins remain very narrow and banks are still reliant on central-bank funding.

New bank lending to SMEs has declined by 82% since the pre-crisis peaks. This trend has continued though at a slower pace. Credit advanced to non-financial SMEs fell by 4.6% at end-June 2013, compared with a 4.1% decline at the end of the previous year. Total new lending to SMEs amounted to just under EUR 2.4 billion during the last four quarters to end-June 2013. According to ECB banking lending survey data, lending spreads for SMEs in Ireland are about 150 basis points higher than those reported for German SMEs. Banks spoken to during a recent IIF/Bain mission to Ireland, however, suggest that the real rate may be 400 basis points above the German equivalent. This difference may be partially explained by the EUR 1m threshold set by the ECB. There is no clear agreement among leading economists in Ireland as to whether the problem of weak SME lending is more of supply or demand in the country. All that were spoken to during the recent IIF/Bain mission to Ireland agree that there is some element of both. It is clear that households and SMEs are continuing to deleverage. While this rebalancing is necessary, it constrains domestic demand at a time when the public sector is undertaking an even larger correction. The main source of national statistics capturing demand for SME credit in Ireland is the SME Credit Demand Survey prepared for the Department of Finance. The results from the most recent survey show that SME credit demand, while remaining low, continues a modest upward trend (40% of SMEs having requested at least one type of bank finance in the period October 2012 to March 2013.). This is helped by a backdrop of continued stabilisation in the marketplace, driven by improved trading conditions for larger SME's. The overall rejection rate slightly increases at 21.2% which is lower than the 23% decline rate recorded in 2012. Of particular concern is the level of SMEs discouraged from applying for a loan. While demand itself has yet to improve significantly, there has been a positive improvement in the perception of whether or not banks are lending to the sector. It would appear that a significantly higher

proportion of SMEs feel that banks are now lending to SMEs. This enhanced lending sentiment should lay the ground for a modest uptake in demand in the next six months. During discussions with banks and the official sector, two concerns have been raised regarding the effectiveness of a securitisation market for SME loans, which may be particularly salient in Ireland. The first is the non-standardisation of SME loans which make it difficult to bundle. The second is the size of the market. During the same discussions, banks also emphasised the difficulties in disentangling SME property lending from core business lending, as property related loans which fall outside of the core business of companies often make up the majority of SME loans. The Irish government, led by the Department of Finance, established the SME State Bodies Group (SBG) which closely looks at the credit environment for SMEs. Targets for SMEs lending of EUR 4bn each were set for both the Bank of Ireland and AIB. It does not look like these targets will be met. Moreover, much of these lending activities are rolling-over/restructuring existing loans. In addition, it established a Credit Review Office (CRO) which can monitor failed credit applications and issue an opinion as to whether or not an application should be accepted. But over the past two years the CRO has reviewed only 300 loan applications. Its impact however may be a lot larger, as it encourages banks to avoid challenges being sent to the office in the first place.

[b] Maturity Up to 1 year;

Italy

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	-1.8%	Loans-to-deposit ratio (2012):	107.5%
Output gap (2013):	-4.5%	Non-performing loans ratio (2012):	12.9%
Unemployment rate (2013):	12.2%	Bank capital adequacy ratio (2012):	13.3%
Government net lending / borrowing (2013) as % of GDP:	-3.0%	Return on bank equity (2012):	1.0%
Gross government debt (2013):	133.0%	Central Bank liquidity as % of liabilities (2012):	7.3%
Corporations net lending/borrowing (2013) as % of GDP:	1.4%	Banks' exposure to vulnerable countries (2012):	3.5%
Sovereign interest rates spread versus Bund (2012):	4.0%	Foreign ownership of the banking system (2009):	12.3%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.9%	SMAF debt sub-index (2011):	99.7
Share of SME employment (2013):	80.1%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	34
Share of Bank loans to SMEs over Total (2007-2011):	18.5%	Growth in SME loans (2007 - 2011):	8.0%
Share of SME loans in total SME debt (2012):	50.4%	Interest Rate Spread for SME loans (2012-12):	2.37%
Share of discouraged SMEs (2012H2):	6.0%	Average loan size per SME (2009 - 2012):	EUR 153,000
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2011H2-2012H2):	11.7%	Estimated Interval For SME Loan Financing Gap (2011 - 2012):	3,328 - 20,731 € Mln

Country Profile

Following a prolonged recession, the Italian economy is showing timid signs that a gradual mild recovery is expected to start in the last quarter of 2013, driven in the first place by positive export growth in turn sustaining investment. Medium- to high-frequency indicators show that business confidence is stabilising and consumer confidence strengthened whilst services and manufacturing PMI"s reached expansionary territories in the last months . Tight credit conditions and political uncertainty continue to weigh on private sector demand and public sector deficit is due to remain within 3% in 2013. The unemployment rate has been on an ascending path and reached levels just above 12 in 2013. The recession eroded the household saving rate which is expected to remain below 13% over the next three years (still above the EU average). Following a significant fiscal adjustment and ECB announcement of the Outright Monetary Transactions (OMT) framework in August 2012, sovereign yields have fallen considerably and Italy has been able to meet its demand for financing on the market at rather contained yields.

Banca d'Italia has run an asset quality review for 20 large and medium-sized banking groups whose coverage ratios either were lower than average or had decreased significantly. These groups account for roughly 40% of the banking system NPLs. It emerged that the average NPL ratio for the targeted sample of individual credit files was roughly 27% - higher than the recorded national average. It should also be recalled that the definitions of non-performing loans in the EU are highly heterogeneous, and the one adopted in Italy is particularly severe. Banca d'Italia has stressed that applying to Italian banks the definition of non-performing loans adopted by leading European banks, which inter alia excludes fully collateralized positions, would lead to a much higher coverage ratio of the Italian banking system, and on an increasing trend over the last three years.

There has been an accelerated decline in lending to the non-financial corporate sector (including SMEs) in Italy in 2013. Credit advanced to non-financial SMEs fell by 4.7% at end-August 2013, compared with a 2.5% decline at the end of the previous year. The fall in credit advanced to enterprises with less than 20 employees has been in line with the aggregate credit developments to non-financial corporations. In terms of pricing, interest rates increased across the board in 2012. Small firms (i.e. with less than 20 employees) paid on average a positive spread between 200 and 300 bps vis-à-vis medium and large companies, with the construction sector particularly hit, whilst small loans (i.e. less than 250.000 euro) priced with a premium spread of roughly 200 bps over large loans (i.e. above 1 million). Last but not least the NPL ratio for SMEs reached levels close to 20% at end-2012 compared to about 13% for the aggregate banking sector. There is no clear agreement as to whether the problem of weak SME lending is more of supply or demand driven. In its recent Financial Stability Report, Banca d'Italia stresses that the contraction of lending stemmed from declining demand for loans and from the tightening of supply conditions by banks, itself due above all to the increasing riskiness of borrowers and to the persistent fragmentation of wholesale funding markets. In addition, for small firms the financial tensions are exacerbated by the difficulty in accessing external sources of finance alternative to bank credit. The overall common message emerging from the main sources of information on SMEs is that persistently tight supply conditions have contributed to the credit contraction for firms. An increased riskiness of loans to enterprises has induced banks to raise interest rates and reduce the amounts disbursed. Access to bank credit remains more difficult for smaller firms, which find it harder to tap

alternatives. In addition, the number of rationed companies increased in 2012 and 2013. Small and medium companies (i.e. employee class 1-249) reported the higher percentages of loan application rejections – almost the double of large companies (above 250 employees).

Against this background, several measures have been put forward to support SMEs. In October 2011, a co-investment agreement was signed between the European Investment Fund and the Italian Investment Fund. EUR 200 million was allocated to increase the financial resources available to support the capitalisation and development of SMEs. In December 2011 the Ministry of Economy and Finance introduced an allowance for (new) corporate equity ('ACE') to reduce the debt bias in Italian firms' financial structure; the 2014 draft budgetary law envisages to step up this initiative in the coming years. In October 2011, Cassa Depositi e Prestiti (CDP) decided to make EUR 10 bn. available to Italian banks to finance SMEs (on top of the EUR 8 bn granted already in 2009). Also in December 2011, the Government refinanced the existing Central Guarantee Fund for SMEs for the next 3 years (EUR 400 million per year). The Fund was also enhanced with a government backstop guarantee, and eligibility conditions were relaxed in June 2013. During the crisis the Fund turned out to be the main financial support instrument for SMEs and the December 2011 decision ensured the continuation of the fund for the period 2012-2014.

In 2011, the Italian Strategic Fund (majority-owned by CDP) was established and endowed with EUR 4.4 billion to acquire stakes in firms with good profitability and growth prospects and to be considered of major national interest. Furthermore, in 2009 and 2012, two debt moratoria were agreed between the government, corporate trade associations and the Italian Banking Association, allowing SMEs with good economic prospects (no bad debts, restructured loans or on-going foreclosures) to suspend the repayment of principal on loans and obtain an extension of the duration of loans for credit advances In July 2013, the previous agreements were renewed. In August 2012, a measure was adopted allowing SMEs to access financial markets by issuing mini-bonds with interest-deductible interest payments, and in December 2012, an innovative crowd-funding tool was created. Also in 2012, a Fund for Sustainable Development was established to strengthen Italian productive structures, support R&D projects and promote the international presence of Italian firms. Finally, the government decided in April 2013 to accelerate the repayment of government commercial debt arrears – for an amount of EUR 27 billion and EUR 20 billion in 2013 and 2014 respectively – which will contribute to the easing of SMEs' liquidity conditions.

Latvia

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	4.0%	Loans-to-deposit ratio (2012):	183.4%
Output gap (2013):	0.2%	Non-performing loans ratio (2012):	9.6%
Unemployment rate (2013):	11.7%	Bank capital adequacy ratio (2012):	16.7%
Government net lending / borrowing (2013) as % of GDP:	-1.4%	Return on bank equity (2012):	22.2%
Gross government debt (2013):	42.5%	Central Bank liquidity as % of liabilities (2012):	0.0%
Corporations net lending/borrowing (2013) as % of GDP:	6.2%	Banks' exposure to vulnerable countries :	n.a.
Sovereign interest rates spread versus Bund (2012):	3.1%	Foreign ownership of the banking system (2009):	69.2%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.7%	SMAF debt sub-index (2011):	117.2
Share of SME employment (2013):	77.6%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	5
Share of Bank loans to SMEs over Total (2007-2011):	57.4%†	Growth in SME loans (2007 - 2011):	-19.3%†
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2012-12):	1.27%[b]
Share of discouraged SMEs (2011H1):	0.6%	Average loan size per SME (2009 - 2012):	EUR 79,000.
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2009H1 -2011H1):	6.8%	Estimated Interval For SME Loan Financing Gap (2009 - 2011):	35 - 171 € Mln

Country Profile

Latvia continues to be one of the growth champions in the EU as GDP rose by 5.3% in 2011 and 5% in 2012. In 2013 growth is projected to remain robust at 4% despite moderating effects from the weaker external environment. The forecast for 2014 is 4.1%. Exports have grown strongly in 2011-2012 while private consumption is turning into a key economic driver in 2013. Growth is however expected to be broad-based in 2014. The unemployment rate has declined but it is still relatively high, projected at 11.7% in 2013. After comprehensive fiscal consolidation in 2009-2011, Latvia's public finances are on a sustainable path: public debt is expected to peak this year at 42.5% and to start declining in 2014. Successful consolidation is reflected in the declining sovereign interest rate spread versus Bund (1.52 % in August 2013).

On 1 January 2014 Latvia will become the 18th member of the euro area. The banking system is recovering from the financial crisis and the related collapse of the housing market, and returned to profits in 2012 with a ROE of 22.2%. The system-wide capital adequacy ratio stands at 16.7% (2012), well above the regulatory requirement. The process of deleveraging continued in 2012 (bank credit has contracted by around 40 percentage points of GDP since its peak) reflecting asset write-offs and reduced exposure to retail lending. Despite significant deleveraging, the loan-to-deposit ratio (excluding non-resident deposits) stood still relatively high at 183.4% in 2012. NPLs have decreased steadily from the peak of 19.4% in September 2010 to 11.1% in 2012 and quality of the credit institutions loan portfolio continued to improve in 2012. Nevertheless credit risk, especially with regards to households, remains a major concern for credit institutions. Non-resident deposits in the banking system have been expanding rapidly to about 40% of GDP in 2012 after a temporary contraction during the crisis in 2009-2010. In January 2013, the European Commission pointed out the need of continuous prudent regulations of non-resident banking and later in the year the Latvian financial regulator introduced higher liquidity requirements for banks having high exposure to non-resident deposits. Lending to the non-financial corporate sector continued to decline in 2012, but showed signs of stabilisation in 2013 and credit institutions also report increasing demand by the non-financial sector. In the second quarter of 2013 only 2.7% of producers indicated the lack of funding as the primary growth-restrictive factor while limited demand was considered to be the major growth-restrictive factor (41% of respondents). According to the Bank of Latvia survey credit standards applied to non-financial corporations remained broadly unchanged in 2012, but became somewhat tighter in the first half of 2013 particularly for short-term loans. Since 2010 credit institutions have reported an upward trend in loan demand by the non-financial corporate sector and this trend continued in the first half of 2013. In the second half of 2013, credit institutions expect an increase in loan demand from both households and non-financial corporations.

SMEs have a more pronounced role in the Latvian economy compared to the EU average. They generate higher share of value added and also account for a larger share of employment. This is partly explained by a somewhat different structure of the SME sector in Latvia in which the share of small and medium-sized enterprises is higher and that of micro enterprises lower compared to the EU average. This structure still prevails even though the number of small and medium-sized companies declined considerably during the crisis while active entry of new micro enterprises increased the share of micro enterprises. SMEs seem to

benefit from relatively good access to finance, backed by EU structural funds and government policies to support the availability of finance. According to the Bank of Latvia the interest rate spread between large and small (up to 1 million euro) loans to non-financial corporate sector almost disappeared during the first half of 2013 as interest rates on large loans increased slightly while that on small was on the declined. That notwithstanding, the volume of credit to SMEs contracted by 19.3% during the 2007-2011 period.

[b] Maturity Up to 1 year; [†] Econometric estimate on outstanding amounts

Lithuania

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	3.4%	Loans-to-deposit ratio (2012):	138.0%
Output gap (2013):	0.0%	Non-performing loans ratio (2012):	18.6%
Unemployment rate (2013):	11.7%	Bank capital adequacy ratio (2012):	15.2%
Government net lending / borrowing (2013) as % of GDP:	-3.0%	Return on bank equity (2012):	7.0%
Gross government debt (2013):	39.9%	Central Bank liquidity as % of liabilities (2012):	0.0%
Corporations net lending/borrowing (2012) as % of GDP:	6.8%	Banks' exposure to vulnerable countries :	n.a.
Sovereign interest rates spread versus Bund (2012):	3.3%	Foreign ownership of the banking system (2009):	83.4%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.8%	SMAF debt sub-index (2011):	111.6
Share of SME employment (2013):	76.0%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	19
Share of Bank loans to SMEs over Total (2007-2011):	71.6%†	Growth in SME loans (2007 - 2010):	-0.9%†
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2012-12):	0.08%[b]
Share of discouraged SMEs (2011H1):	10.0%	Average loan size per SME (2009 - 2012):	EUR 92,000.
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2009H1 -2011H1):	14.4%	**Estimated Interval For SME Loan Financing Gap (2009 - 2011):**	79 - 1,030 € Mln

Country Profile

After an extensive macroeconomic adjustment the Lithuanian economy has been recovering quickly from the financial crisis and is one of the fastest growing economies in the EU. GDP is approaching its pre-crisis level. Exports in particular, but also private consumption, have been the key drivers. Investment activity started to recover in 2011, before declining again in 2012 on the back of reduced public investment. However, after strong growth in 2011 and 2012, the pace of growth is projected to moderate somewhat in 2013. Unemployment has declined, but still remains relatively high at close to 12%. Government finances have improved considerably due to extensive fiscal consolidation. Public debt is at 40% and the budget deficit is projected at 3% in 2013, slightly down from the previous 3.2% albeit still above the government original target. The largely foreign-owned financial system is liquid and well capitalised. Foreign subsidiaries manage almost 90% of banking system assets, 69% controlled by the 3 largest banks. Vulnerabilities have decreased in the banking sector, as the loan-to-deposit ratio has fallen significantly (from 187% in 2008 to 121% in 2012). The loan portfolio in the banking sector is gradually recovering. For the first time since the beginning of the crisis the assets in the financial system were not decreasing in 2012. Loans to non-financial corporate sector increased by 2.1% after having declined since the beginning of the crisis as both bank and corporate balance sheets have improved and confidence has increased. NPLs continued to decline driven by the improving situation in the non-financial corporate sector. Two thirds of all non-financial enterprises were operating profitably in 2012 and the share of those encountering financial difficulties was further decreasing. However, NPLs remain at a relatively high level.

Based on the SMAF sub-index, SMEs do not seem to suffer major problems in accessing finance. According to the SBA Fact Sheet 2012 in particular access to public financial support, willingness of banks to provide a loan and interest rate spread between large and small loans were more supportive to SME financing than the EU-average; yet the share of discouraged SMEs is still hovering around 10%. The Bank of Lithuania bank lending survey conducted during the second half of 2013 indicated that banks eased their general credit standards to the non-financial corporate sector for the last year and half. Moreover the banks intend to ease these credit standards further over the next half-year period. This is expected to benefit especially SMEs. The demand for loans by the non-financial corporate sector grew for a third consecutive year as reported by the banks. During the next half-year period the surveyed banks expect an increase in the demand for loans to SMEs and long-term loans, in particular.

[b] Maturity Up to 1 year; † Econometric estimate on outstanding amounts

Luxembourg

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	1.9%	Loans-to-deposit ratio (2012):	94.9%
Output gap (2013):	-2.2%	Non-performing loans ratio (2012):	0.3%
Unemployment rate (2013):	5.7%	Bank capital adequacy ratio (2012):	17.5%
Government net lending / borrowing (2013) as % of GDP:	-0.9%	Return on bank equity (2012):	9.8%
Gross government debt (2013):	24.5%	Central Bank liquidity as % of liabilities (2012):	0.6%
Corporations net lending/borrowing (2011) as % of GDP:	-1.6%	Banks' exposure to vulnerable countries :	n.a.
Sovereign interest rates spread versus Bund (2012):	0.3%	Foreign ownership of the banking system (2009):	90.6%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.5%	SMAF debt sub-index (2011):	127.9
Share of SME employment (2013):	67.8%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	n.a.
Share of Bank loans to SMEs over Total (2007-2011):	49.0%†	Growth in SME loans (2007 - 2011):	-6.6%†
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2012-12):	0.88%[b]
Share of discouraged SMEs (2011H1):	14.2%	Average loan size per SME (2009 - 2012):	EUR 172,000
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2009H1 -2011H1):	19.6%	Estimated Interval For SME Loan Financing Gap (2009 - 2011):	69 - 619 € Mln

Country Profile

Luxembourg's economy is expected to grow by 1.9% in 2013, propped up by a turnaround in the net export contribution. Domestic demand would remain weak as for low confidence, rising unemployment and fiscal consolidation. Growth is predicted to stall at 1.8% in 2014 along with a recovering euro area. Unemployment is forecasted to increase to 5.7% in 2013 and 6.4% in 2014. The government deficit is expected to worsen to 0.9% in 2013, but to deteriorate slightly to 1% in 2014, while government debt is forecasted to increase from 21.7% of GDP in 2012 to 25.7% in 2014. Luxembourg's financial system is very large relative to the size of the country and closely interconnected with the rest of the world. As of 2012, consolidated system assets amounted to around 2,200% of GDP and assets of foreign-owned banks accounted for close to 90% of total sector assets. The financial sector accounts for around 33% of GDP, 11% of employment and 25% of fiscal revenue. Banks are well capitalised and profitable. Asset quality appears good. As of Q2 2012 the system CAR ratio stood at 17.5%, NPLs at 0.3% and ROE at 9.8%.

The country's SME sector is relatively small and generally well serviced by the domestic banking sector. Access to public financial support is deemed strong and so is access to venture capital. Based on data from the Banque Central du Luxembourg concerning floating rate loans, new lending to NFCs was more or less flat during the first 8 months of 2013 compared to the same period last year (-0.2%). However, new loans of less than EUR 1m, which are almost exclusively taken by SMEs, fell sharply by 10.6%. Interest rates have decreased somewhat across loan volumes in comparison to year end 2012. As of August 2013 floating rate loans to NFCs of less than EUR 1 million cost on average 2.05%, compared to an interest rate of 1.55% for loans of more than one million. The cost of debt compares favourably to Germany and other euro area countries, with a spread vs Bund at 0.3%.

The Luxembourg Future Fund was launched in 2012. The fund aims at supporting economic diversification by helping to attract innovative entrepreneurial activities. It will invest in SMEs active in various areas of technology, including ICT. Targeted fund size is 150 million euros.

[b] Maturity Up to 1 year; † Econometric estimate on outstanding amounts

Malta

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	1.8%	Loans-to-deposit ratio (2012):	83.7%
Output gap (2013):	-0.5%	Non-performing loans ratio (2012):	8.3%
Unemployment rate (2013):	6.4%	Bank capital adequacy ratio (2012):	13.9%
Government net lending / borrowing (2013) as % of GDP:	-3.4%	Return on bank equity (2012):	24.2%
Gross government debt (2013):	72.6%	Central Bank liquidity as % of liabilities (2012):	1.1%
Corporations net lending/borrowing as % of GDP:	n.a.	Banks' exposure to vulnerable countries :	n.a.
Sovereign interest rates spread versus Bund (2012):	2.6%	Foreign ownership of the banking system (2009):	36.3%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.9%	SMAF debt sub-index (2011):	104.4
Share of SME employment (2013):	76.3%	Number of Initiatives Supporting Loans under Structural Funds (2007 - 2013):	1
Share of Bank loans to SMEs over Total (2007-2011):	61.0%[†]	Growth in SME loans (2007 - 2011):	-14.6%[†]
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2012-12):	3.07%[a]
Share of discouraged SMEs (2011H1):	6.3%	Average loan size per SME :	n.a.
Share of SMEs* Unsuccessful In Obtaining Loan Financing (2009H1 - 2011H1):	6.3%	**Estimated Interval For SME Loan Financing Gap (2009 - 2011):**	18 - 61 € Mln

Country Profile

Malta has not been successful in closing the gap between its economic level and that of the more advanced EU Member States and needs to address the structural bottlenecks that impede its growth potential. Real GDP grew by 0.8% in 2012. The Commission forecasts growth to accelerate to 1.8% in 2013 and 1.9% in 2014 on the back of increasing domestic demand.

Malta's economic restructuring towards marketable services would achieve higher effectiveness if accompanied by labour market and education reforms to address skills mismatches.

The authorities aim to gradually reduce the budget deficit to 0.8% of GDP by 2016, and achieve the medium-term objective of a balanced budget in structural terms. The authorities expect the general government debt to peak at 72.9% of GDP in 2013 and to decline gradually thereafter to below 69% of GDP in 2016.

Certain structural factors in the Maltese economy are having an adverse impact on the business environment for SMEs. Generalized wage indexation has a bearing on competitiveness and creates risks wage-price spirals. The participation rate for women and older could be increased, and the economy faces skills mismatches due to low levels tertiary education attainment and high early school leaving. Energy supply is not diversified and the near-full dependency on imported oil tends to raise the cost base for enterprises although the planned electricity interconnector could bring some relief.

The banking sector is large, with total assets of around 800% of GDP, although only about one third of it deals with the domestic economy, and exposure to the real estate market is significant. Proposals are under examination by the central bank to establish a national development bank which could potentially provide a suitable counterpart for SME lending as well as intermediation of loans in infrastructure, RDI, etc. There are market gaps in all forms of private sector financing – consistent with limitations of the market size.

According to figures by the central bank of Malta, private sector loan growth has turned negative. In particular, loans to the non-bank public sector decreased by 2.7% q-o-q in the second quarter of 2013 while loans to the non-bank private sector (including SMEs) contracted by 0.4% after growing by 0.3% the previous quarter.

The Bank Lending Survey for Malta, conducted in April 2013, concluded that credit standards applied on lending to enterprises and households remained unchanged during the first quarter. Demand for loans by enterprises remained unchanged while there is some evidence of increased demand by households for house purchases and consumer lending.

Banks expect credit standards applied to non-financial corporations to remain unchanged in the next quarter. Furthermore, demand for loans by firms and households are also expected to remain unchanged.

[a] Maturity Over 1 year; [†] Econometric estimate on outstanding amounts; *The sample size for viable SMEs was too small to be representative, so a broader SME sample was analysed

Netherlands

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	-1.0%	Loans-to-deposit ratio (2012):	129.0%
Output gap (2013):	-3.4%	Non-performing loans ratio (2012):	3.1%
Unemployment rate (2013):	7.0%	Bank capital adequacy ratio (2012):	14.3%
Government net lending / borrowing (2013) as % of GDP:	-3.3%	Return on bank equity (2012):	10.1%
Gross government debt (2013):	74.8%	Central Bank liquidity as % of liabilities (2012):	1.1%
Corporations net lending/borrowing (2013) as % of GDP:	12.2%	Banks' exposure to vulnerable countries (2012):	12.0%
Sovereign interest rates spread versus Bund (2012):	0.4%	Foreign ownership of the banking system (2009):	5.3%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.7%	SMAF debt sub-index (2011):	102.0
Share of SME employment (2013):	65.3%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	5
Share of Bank loans to SMEs over Total (2007-2011):	62.3%†	Growth in SME loans (2007 - 2011):	-11.0%†
Share of SME loans in total SME debt (2009):	49.6%	Interest Rate Spread for SME loans (2012-12):	0.30%
Share of discouraged SMEs (2012H2):	10.0%	Average loan size per SME :	n.a.
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2011H2 -2012H2):	13.2%	Estimated Interval For SME Loan Financing Gap (2011 - 2012):	610 - 3,330 € Mln

Country Profile

It is expected that the Dutch economy may contract by 1% in 2013 on the back of weakened private consumption, lower levels of investments and decreasing government spending. Although private consumption may remain weak over the short to medium term, stronger exports, investments and government spending are forecasted to push growth up to 0.2% in 2014. The decline in disposable household income and a continued slump in the housing market are the main causes of the consumption-side weakness. Unemployment is expected to increase to around 7% in 2013 and 8% in 2014. The government deficit is expected to improve from 4.1% of GDP in 2012 to 3.3% in 2013 and 2014, taking into account a policy package of EUR 6 billion in additional consolidation measures. Government debt is expected to increase from 71.3% of GDP in 2012 to 76.4% in 2014. The Netherlands is currently under an Excessive Deficit Procedure.

The Dutch financial system is large and heavily dominated by the three banks. The state has significant ownership in the system after bail-outs following the 2008 financial crisis. Foreign banks account for around 10% of system assets. The capital position of banks is improving although rising provisions for bad loans have put pressure on profitability in recent years. As of Q2 2012 total system CAR stood at 14.3%, NPLs at 3.1% and ROE at 10.1%.

*Access to finance conditions for Dutch SMEs appear to have deteriorated since the beginning of the euro area crisis. Since the pre-crisis peak, new bank lending to SMEs in the Netherlands, measured as loans of less than EUR 1 million, has decreased by around 32% according to Central Bank figures. The ECB Bank Lending Survey (BLS) reported tightened credit conditions for 15 out of 19 quarters between 2009 and Q3 2013, and demand for credit is reported to have decreased in 19 out of 19 quarters. These results are mirrored in the ECB SAFE survey, according to which credit supply fell in 8 out of 8 half-year periods between 2009 and 2012H2. Looking at the most recent developments, the volume of new loans of less than EUR 1 million decreased by around 2.5% over the first 8 months of 2013 compared to the same period last year. 29% of SMEs reported a decline in credit conditions over the last 6 months in the latest SAFE survey. Interest rates on loans of less than 1 million appear to be on an increasing trend. As of August 2013, floating rate loans (*ed: and loans with an initial fixing of less than 1 year*) to non-financial corporations (NFCs) of less than 1 million cost on average around 3.27% in the Netherlands, compared to 2.33% in Germany (*ed: loans of between EUR 250k and EUR 1 million*). Floating rate loans of above EUR 1 million cost around 1.74%.The spread between smaller and larger floating rate loans has increased over the past year, from around 50bps in 2012 to an average of 155bps so far in 2013. The difference between smaller and larger loans in terms of interest rates is particularly large for floating loans, while the spread is small (around 30bps) in the 1-5 year bracket. Selection bias, whereby only very credit-worthy smaller firms get access to longer term credit, could explain this relationship.*

The increasing spread between larger and smaller loans appears to be driven by an increase in risk pricing by banks. However, higher spreads are said to reflect a return to sound banking principles rather supply constraints. The extremely loose credit conditions experienced before the crisis were unsustainable and today's risk pricing is more in line with fundamentals.

Demand for credit has not only fallen (as per above), the quality and character of demand has also deteriorated. With falling disposable income and house prices pushing down domestic demand, profitability in the Dutch SME sector has decreased significantly. Structural shifts have also reduced the viability of many firms, for example in the retail sector, driving the share of SMEs unsuccessful in obtaining a bank loan up to 13.2% in 2011-2012. At the same time the character of demand has also changed. While before the crisis SMEs were mainly seeking capital for investments, they are now primarily interested in funding working capital. The latest ECB SME survey lends some support to this picture; 23% of Dutch SMEs report increased funding needs for working capital, while only 16% report increasing needs for funding fixed investments. These developments have significantly contributed to an increased rejection rate and perceived tighter credit standards.

Supply capacity is not seen as a binding constraint for credit intermediation at the current juncture; however, poor profitability and constrained access to equity could lead to supply constraints developing once credit demand picks up. In addition, the Dutch banking sector has effectively been reduced to three banks, meaning that limited competition could push up costs in the future. Building alternative, non-bank sources of funding for SMEs is likely to become increasingly important going forward.

A number of public schemes aimed at supporting access to finance for SMEs are available in the Netherlands. The Guarantee Scheme for SMEs (BMKB) supports SMEs with collateral shortages to obtain credit from banks. The state guarantees the loan segment for which collateral is lacking. Since November 2008 firms with up to 250 employees are eligible and loans of up to EUR 1.5 million can be covered under the scheme. The Growth Facility (GFAC) offers banks and private equity enterprises a 50 % guarantee on newly issued equity or mezzanine. The Guarantee for Entrepreneurial Finance (GO) was launched in March 2009. The scheme provides banks with a 50 % guarantee on new bank loans ranging from EUR 1.5 million to EUR 50 million. A microfinance institution, Qredits, was launched in 2009, supported by the government and banks. Plans for launching credit cooperatives and improving access to credit reference services are also in the pipeline. Uptake of public guarantee schemes in the Netherlands has so far been relatively limited. The main reason appears to be the focus of the main scheme, BMKB, on longer-term financing, while demand is concentrated mainly on shorter term working capital.

† Econometric estimate on outstanding amounts

Poland

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	1.3%	**Loans-to-deposit ratio (2012):**	112.6%
Output gap (2013):	-2.1%	**Non-performing loans ratio (2012):**	5.1%
Unemployment rate (2013):	10.7%	**Bank capital adequacy ratio (2012):**	14.1%
Government net lending / borrowing (2013) as % of GDP:	-4.8%	**Return on bank equity (2012):**	14.5%
Gross government debt (2013):	58.2%	**Central Bank liquidity as % of liabilities (2012):**	0.0%
Corporations net lending/borrowing (2013) as % of GDP:	7.7%	**Banks' exposure to vulnerable countries :**	n.a.
Sovereign interest rates spread versus Bund (2012):	3.5%	**Foreign ownership of the banking system (2009):**	64.1%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.8%	**SMAF debt sub-index (2011):**	85.6
Share of SME employment (2013):	68.1%	**Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):**	109
Share of Bank loans to SMEs over Total (2007-2011):	28.4%†	**Growth in SME loans (2007 - 2011):**	-25.6%†
Share of SME loans in total SME debt (2012):	48.0%	**Interest Rate Spread for SME loans (2012-11):**	0.09%
Share of discouraged SMEs (2011H1):	3.2%	**Average loan size per SME (2009 - 2012):**	EUR 72,000.
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2009H1 -2011H1):	5.9%	**Estimated Interval For SME Loan Financing Gap (2009 - 2011):**	500 - 2,800 € Mln

Country Profile

After producing an impressive output growth of 4.5% in 2011, Poland's economy grew 1.9% in 2012 and is projected to grow by 1.3% in 2013. Fiscal consolidation, together with lowering consumer confidence and weaker job creation were behind the moderation. A gradual improvement in domestic demand, together with an improving global economic outlook, should bring growth back to around 2.5% in 2014.

On the fiscal front, the slowdown may affect budgetary consolidation; the public sector deficit is projected to remain around 4% (ESA-2010) in the medium term. A recently announced plan to nationalise the privately-funded leg of the country's pension system could, however, bring a one-off decline of around 8.5 percentage points in Poland's public debt to GDP ratio of 58.2% without additional measures.

The Polish banking system, dominated for 64.1% by foreign-owned financial institutions, has weathered the crisis relatively well. Banks are well-capitalised and have been consistently profitable in the last 5 years. The slow, orderly withdrawal of parent funding has been more than compensated by domestic deposits, allowing a modest, but consistent increase in bank assets. A risk factor, however, is the foreign-currency denominated mortgage portfolio, comprising about 22% of total loans and more than half of mortgages. Besides putting an exchange rate-contingent pressure on NPL ratios, these loans are increasingly funded from domestic sources, causing a balance-sheet mismatch and systemic reliance on hedging through swaps.

According to the EIB lending survey, foreign banks in Poland highlight the economic outlook and asset quality problems (both domestically and internationally) as their main business constraints. However, both problems are perceived to be declining in magnitude. In fact, both supply and demand are expected to ease up in the near future, with demand leading supply somewhat.

In Poland the SMEs' role in employment is in line with the European peers and the SMEs' 51.5% contribution to the value added is slightly lower than the EU average of 58.1%. Poland has more micro-businesses and fewer small enterprises compared to the EU average. According to the country's most recent Small Business Act (2012) factsheet, Poland scores relatively well in terms of access to finance for SMEs, with the exception of venture capital (ed. European Commission, Directorate General Enterprise and Industry, 2012). *However, the SMAF sub-index on credit conditions placed in 2011 Polish SMEs at 85.6, well below the EU average. This might be linked to the performance of SME loans in the 2007-2011 period, which experienced a 25.6% contraction.*

Financial engineering institutions to support SME access to external sources of finance, such as guarantee funds and loan funds, have been developing in Poland since the mid-1990s. Two well-developed networks of such funds exist, covering about 90 funds in all. Recent policy actions aiming to strengthen access to bank funding include government counter-guarantees to regional guarantee funds and the setting up of provisions to create a National Guarantee Agency (NGA), which should start its activities in 2013, also with a counter-guarantee mandate. Several measures to create new sources of non-bank finance have been introduced, such as a flood damage aid fund for enterprises, regional funds for start-ups, and a pilot program offering debt financing for social economy enterprises.

† Econometric estimate on outstanding amounts

Portugal

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	-1.8%	Loans-to-deposit ratio (2012):	95.7%
Output gap (2013):	-4.6%	Non-performing loans ratio (2012):	9.8%
Unemployment rate (2013):	17.4%	Bank capital adequacy ratio (2012):	12.3%
Government net lending / borrowing (2013) as % of GDP:	-5.9%	Return on bank equity (2012):	0.3%
Gross government debt (2013):	127.8%	Central Bank liquidity as % of liabilities (2012):	10.6%
Corporations net lending/borrowing (2013) as % of GDP:	2.3%	Banks' exposure to vulnerable countries (2012):	17.6%
Sovereign interest rates spread versus Bund (2012):	9.1%	Foreign ownership of the banking system (2009):	23.1%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.9%	SMAF debt sub-index (2011):	90.0
Share of SME employment (2013):	78.9%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	17
Share of Bank loans to SMEs over Total (2007-2011):	77.5%	Growth in SME loans (2007 - 2011):	4.0%
Share of SME loans in total SME debt (2012):	60.1%	Interest Rate Spread for SME loans (2012-12):	1.72%[b]
Share of discouraged SMEs (2012H2):	6.0%	Average loan size per SME (2009 - 2012):	EUR 137,000
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2011H2-2012H2):	7.1%	Estimated Interval For SME Loan Financing Gap (2011 - 2012):	398 - 1,966 € Mln

Country Profile

Portugal's real GDP fell by 3.2% in 2012, in particular due to a 6.8% drop in domestic demand. The latest Commission forecasts foresee a gradual recovery of the economy with still a GDP contraction of 1.8% in 2013 and positive growth of 0.8% growth in 2014. Investment has contracted every quarter since the end of 2008, falling by -6.8% in 2013-Q2 (yoy)– with major reductions in construction (13.0%). While these figures point to a much better investment performance than in previous quarters, high corporate debt levels and tight financing conditions are expected to drag on investment in the medium term. However, if financing conditions improve and external demand strengthens as expected,a modest uptake in investment is likely in 2014.

Bank capitalisation has improved significantly following the successful completion in 2012 of the bulk of the capitalisation exercise. Banco de Portugal has indicated that the group of eight lenders had a core Tier 1 capital ratio of 11.9% in 2013-Q2, well above the threshold of 10%. Funding pressures have eased somewhat. By 2013-Q2, banks had reduced their reliance on Eurosystem liquidity support by over EUR 11bn compared to the peak level reached in June 2012, including EUR 3.5bn in early repayments of the 3-year LTROs. The absolute amount of ECB lending was around EUR 49bn, a low level for the period starting with the second round of the Long-Term Refinancing Operation (LTRO) in February 2012. Two of the major banks in the system successfully returned to the international bond markets.

Weakened bank profitability is driven by the domestic environment and high impairments from corporates. NPLs are currently around 10.6% (2013-Q2). Aggregate deposits remain resilient and are in line with pre-programme levels on the back of increased competition for funding in the domestic market and relatively high deposit rates offered by banks – typically around 200 bps above 3m-Euribor. This has a significant impact on banks' cost structure vis-à-vis the euro area average. Moreover, mortgages of pre-crisis vintages – with a low spreads below current funding costs – represent a serious constraint to profits. Subsidiaries located outside the euro area have boosted earnings, as have gains from the sale of Portuguese sovereign debt, but not sufficiently to offset weak domestic performance in core business, heavy structure costs and the financing cost of the pre-crisis mortgages. Over the mid-term there will be ongoing downward pressure on Portuguese bank profitability in view of the continued credit impairment, high unemployment and general deleveraging of the economy.

High sovereign spreads, less favourable domestic conditions and poor bank profitability are at the root of the relatively high lending rates in Portugal. Bank loans granted in the 12 months ending in June 2013 to smaller companies (under EUR 1 million) were 25% below the past decade's average annual level. New mortgage loans were less than one-sixth of the previous decade's average.

Lending to households remains depressed amid low consumer confidence and a general reluctance to spend on housing and on durable goods. Nonetheless, credit standards and conditions in the household segment remain broadly unchanged and the view of banking sources is that the decline in new household lending is mostly justified by demand side factors, including the low albeit improving consumer confidence levels and the continued subdued situation in the real estate market. The decline in loans to SMEs has been particularly salient in sectors operating on the domestic market. In aggregate terms, credit continued to contract in

2013-H1, although at a slower pace, reflecting on-going deleveraging by banks and non-financial corporates, particularly in construction.

According to the ECB banking lending survey data, lending spreads for SMEs in Portugal over the past two years have typically been 250-300 basis points higher than those reported for German SMEs. Banks interviewed to during a recent IIF/Bain mission to Portugal, however, suggest that the actual rate may be even higher, at up to 600 basis points above the German equivalent (ed. IIF/Bain SME sector review meetings, which took place on 22/23 July 2013.). *This discrepancy may partially be explained by the EUR 1m threshold set by the ECB, which is quite high.*

The bank lending survey performed in July 2013 suggested credit standards, terms and conditions applied to loans to companies and households have remained broadly unchanged throughout 2013-H1. As a precautionary measure and reflecting the need to service existing high debt burdens, both households and nonfinancial corporates have started to deleverage. There has been some stabilisation in the demand for loans to private businesses to finance inventories, working capital and debt restructuring. For 2013-Q3 most of the surveyed banks foresee no changes in credit standards and in the demand for loans by non-financial corporations is expected to remain unchanged.

[b] Maturity Up to 1 year;

Romania

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	2.2%	Loans-to-deposit ratio (2012):	130.9%
Output gap (2013):	-1.8%	Non-performing loans ratio (2012):	17.3%
Unemployment rate (2013):	7.3%	Bank capital adequacy ratio (2012):	14.7%
Government net lending / borrowing (2013) as % of GDP:	-2.5%	Return on bank equity (2012):	-0.3%
Gross government debt (2013):	38.5%	Central Bank liquidity as % of liabilities (2011):	2.1%
Corporations net lending/borrowing (2013) as % of GDP:	6.3%	Banks' exposure to vulnerable countries :	n.a.
Sovereign interest rates spread versus Bund :	n.a.	Foreign ownership of the banking system (2009):	76.1%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.7%	SMAF debt sub-index (2011):	92.4
Share of SME employment (2013):	66.9%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	1
Share of Bank loans to SMEs over Total (2007-2011):	61.4%†	Growth in SME loans (2007 - 2011):	-29.1%†
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2012-12):	1.72%[b]
Share of discouraged SMEs (2011H1):	7.0%	Average loan size per SME (2009 - 2012):	EUR 49,000
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2009H1 -2011H1):	11.8%	Estimated Interval For SME Loan Financing Gap (2009 - 2011):	179 - 1,402 € Mln

Country Profile

The European Commission forecasts a 2.2% growth of Romanian GDP in 2013, but there is potential for an even stronger growth as agriculture and especially exports are developing very well this year. The current account deficit is forecast to decline to 1.2% of GDP in 2013, a remarkable result for an economy that has previously suffered from high current account deficits. As for fiscal policy, Romania managed to exit the Excessive Deficit Procedure this year and holds public debt below 40% of GDP. The central bank is managing the currency tightly as there is a high stock of foreign currency loans.

The overall banking sector is suffering from the legacy of the crisis with NPLs at 17.3% in 2012 and still rising. The leverage in the sector as measured by the loan-to-deposit ratio is at 130.9% and coming down while credit growth is still subdued. For the SME sector this translates into difficult access to finance. Both external and domestic financing of the SMEs advanced at a relatively slow pace in December 2010-June 2012 (4.9% against 8.2% for non-financial corporations, with growth rates being adjusted for exchange rate movements) and the number of SMEs that took a loan decreased so that the weight of SMEs which reported financing from either local or external banks and NBFIs remained low, at approximately 21 % of the operating SMEs. The share of Romanian business owners who report deterioration in the willingness of the banks to provide loans has remained stable at 41%, which is well above the EU-average of 30%. In the Access to Finance Indicator of the European Commission Romania moved from 102 in 2008 to 93 in 2011 (EU average 2007 = 100). The cost of credit for small businesses (for loans under EUR 1 million) is about 17% higher than for larger enterprises. This gap has narrowed slightly since 2010.

The economic importance of the SMEs using financial loans is high, yet SMEs exhibit significant structural vulnerabilities. Credit risk is growing (the non-performing loan ratio reached 23.2% in July 2012 from 15.1% at end-2010), much higher than that of corporations (4.3% in July 2012). A large share of loans in foreign currency was granted to SMEs which are largely unhedged borrowers. Additionally, a decrease in gross profit margins and a decline in cash flows (from the core activity) have contributed to an increase in credit risk. This unfavourable development was offset by the higher indebtedness and the faster asset turnover, so that the return on equity was on a slight increase (7.7% in 2011 compared to 7.4% in 2010). The SMEs that were supported by credit guarantee funds posted a better performance in 2013: (i) the return on equity equalled 23.5%; (ii) the interest coverage ratio was further above-par, reporting a comfortable 2.1 level; (iii) the asset use was higher (asset turnover came in at 125%), whereas (iv) the non-performing loan ratio stood significantly below the average reported by the SMEs (10.9% compared to 23.2% in July 2012), which advocated for a wider use by banks of the support offered by credit guarantee funds to the eligible SMEs.

According to the latest EIB bank lending survey, banks expect to decrease supply of SME loans by 33% over the next 6 months. At the same time demand for loans by SMEs is expected to increase by 22% over the next six months. This means that funding conditions to SMEs are expected to tighten significantly during this period. Main business impediments for foreign banks are asset quality problems (both domestic and those faced by the parent group abroad) as well as domestic regulation.

SMEs faced a challenge in identifying financial resources for servicing outstanding debts. The average duration for collecting

SMEs' claims stabilised in 2011, but remains long (in 2011 the average duration stood at 119 days compared to 117 days in 2010). Micro-enterprises and small enterprises saw the largest increase in the period between the delivery of goods/services and the collection of their equivalent value (over 6% rise in the claim collection duration in 2011). In January 2011 – August 2012, roughly 91% of major payment incidents were accounted for by SMEs (of which 52% were generated by micro-enterprises).

[b] Maturity Up to 1 year; [†] Econometric estimate on outstanding amounts

Slovakia

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	0.9%	Loans-to-deposit ratio (2012):	88.5%
Output gap (2013):	-3.3%	Non-performing loans ratio (2012):	5.0%
Unemployment rate (2013):	13.9%	Bank capital adequacy ratio (2012):	15.8%
Government net lending / borrowing (2013) as % of GDP:	-3.0%	Return on bank equity (2012):	11.2%
Gross government debt (2013):	54.3%	Central Bank liquidity as % of liabilities (2012):	3.9%
Corporations net lending/borrowing (2013) as % of GDP:	9.3%	Banks' exposure to vulnerable countries :	n.a.
Sovereign interest rates spread versus Bund (2012):	3.1%	Foreign ownership of the banking system (2009):	96.1%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.4%	SMAF debt sub-index (2011):	92.4
Share of SME employment (2013):	58.4%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	0
Share of Bank loans to SMEs over Total (2007-2011):	73.5%	Growth in SME loans (2007 - 2010):	31.9%
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2012-12):	0.53%
Share of discouraged SMEs (2011H1):	5.3%	Average loan size per SME (2009 - 2012):	n.a.
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2009H1 -2011H1):	8.0%	Estimated Interval For SME Loan Financing Gap (2009 - 2011):	118 – 329 € Mln.

Country Profile

Real GDP in Slovakia is projected to grow by 0.9% in 2013. Strong exports coupled with weaker internal demand have led the current account to a strong surplus position since 2012. Successful fiscal consolidation continues to take place, as the fiscal deficit nears the Maastricht criterion of 3% of GDP while public debt is at around 54.3% of GDP. Slovakia's economy is expected to grow stronger in 2014, in line with a global economic recovery. However, only modest declines in the unemployment rate are projected for 2014 and 2015.

The banking sector remains sound, reflecting a traditional business model and prudent oversight. Retail banking is dominant with healthy capital and liquidity buffers. Bank profitability is under pressure due to a weak operating environment and a special levy on bank liabilities. Household lending continued to expand at a relatively rapid pace, while corporate credit declined. Although lending rates have gone lower in accordance with ECB rates, lending to the corporate sector progressively slowed since 2011 before contracting in 2012, mainly reflecting weakening credit demand due to the uncertain economic outlook.

According to the latest EIB bank lending survey, banks expect to leave unchanged the supply of SME loans over the next 6 months. On the other hand, demand for loans by SMEs is expected to decrease by 20% over the next six months. Banks' margin over the interbank rate is expected to increase by 20%, but other funding conditions to SMEs are not expected to change. Main business impediments for foreign banks are the uncertainty concerning the economic outlook, funding and NPL levels, at the local and parent bank level. Group capital constraints are also mentioned as drivers for tightened supply.

SMEs constitute the bulk of the Slovak production: nearly 100% of the Slovak enterprises and 58.4% of employees belong to the SME sector. In the SME Access to Finance Index of the European Commission, Slovakia has been catching up from a low in 2008 to 95% of the 2007 EU average in 2011. However, the share of loan applications rejected by banks was higher, at 25%, than the EU average of 15% in 2011. It has also increased since 2010, when it was 19%. The cost of credit for SME in Slovakia was, in 2011, 29% higher than for larger enterprises, the gap having increased from 20% in 2010. As for the policy response, there was a certain decline in 2009 and 2010, but in 2011 SME government guaranteed loans and SME government direct loans increased beyond the levels of 2008.

Slovenia

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	-2.7%	Loans-to-deposit ratio (2012):	100.2%
Output gap (2013):	-3.1%	Non-performing loans ratio (2012):	15.0%
Unemployment rate (2013):	11.1%	Bank capital adequacy ratio (2012):	11.9%
Government net lending / borrowing (2013) as % of GDP:	-5.8%	Return on bank equity (2012):	-2.5%
Gross government debt (2013):	63.2%	Central Bank liquidity as % of liabilities (2012):	8.5%
Corporations net lending/borrowing (2013) as % of GDP:	3.8%	Banks' exposure to vulnerable countries :	n.a.
Sovereign interest rates spread versus Bund (2012):	4.3%	Foreign ownership of the banking system (2009):	29.1%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.8%	SMAF debt sub-index (2011):	91.5
Share of SME employment (2013):	70.3%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	3
Share of Bank loans to SMEs over Total (2007-2011):	50.1%	Growth in SME loans (2007 - 2011):	32.4%
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2012-12):	1.40%
Share of discouraged SMEs (2011H1):	6.2%	Average loan size per SME (2009 - 2012):	EUR 191,000
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2009H1 -2011H1):	10.1%	Estimated Interval For SME Loan Financing Gap (2009 - 2011):	121 - 850 € Mln

Country Profile

In the second half of 2011, Slovenia entered into recession. Output contracted by 2.5% in 2012, and a further decline of 2.7% is expected for 2013, with prospects of further GDP decline for 2014. Fiscal consolidation, rising unemployment and income uncertainty constrains both public and private consumption, whereas investment is also falling due to the corporate sector's deleveraging needs. Net exports are expected to contribute positively to economic growth.

The headline fiscal deficit declined from 6.3% in 2011 to 3.8% in 2012, but it is expected to rise again near 6% in 2013. The reversal is partly due to the deteriorating cyclical position, and partly to the phase-out of some one-off measures. Public debt is expected to rise at 63.2% of GDP in 2013 and to 70.1% in 2014, and could further increase if a public consolidation of the banking system were initiated.

The mainly domestically-owned Slovenian banking system generated a loss in 2012 for the third consecutive year, mainly due to heavy loan losses in the corporate portfolio. Capital adequacy – especially for domestically owned banks, which were more heavily hit by loan losses and cannot rely on capital injections from parent sources – has declined well below the EU average. Two smaller banks have already been liquidated at a cost of EUR1.3bn, but further recapitalisation is likely to be necessary – potentially from official external sources. The consequent rapid deleveraging resulted in a close to 10% decline in corporate credit relative to 2010, which is expected to continue.

According to the latest EIB bank lending survey, foreign banks report tightening demand and supply conditions, with supply expected to tighten further while demand becomes more neutral. Supply conditions are determined by the local economic outlook, funding and NPL problems.

Slovenia's SME sector scores high in terms of economic importance – both in employment and value added – relative to EU counterparts. Credit supply to the SME sector is declining with Slovene banks' general lack of willingness to lend, as confirmed by the EIB's Bank Lending Survey. Public lending to SMEs, mostly provided by funds such as the Slovene Enterprise Fund (SEF) and the Slovenian Regional Development Fund, declined by almost 50% between 2007 and 2010. The public sector provides credit guarantees and interest rate subsidies through the Slovene Enterprise Fund. Guarantees are also provided by Slovenian Investment and Development Bank (SID). SID Bank refinances SME lending of commercial banks, and it provides direct loans to SMEs in case of market failure.

Spain

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	-1.3%	Loans-to-deposit ratio (2012):	92.4%
Output gap (2013):	-5.2%	Non-performing loans ratio (2012):	7.1%
Unemployment rate (2013):	26.6%	Bank capital adequacy ratio (2012):	11.4%
Government net lending / borrowing (2013) as % of GDP:	-6.8%	Return on bank equity (2012):	-2.9%
Gross government debt (2013):	94.8%	Central Bank liquidity as % of liabilities (2012):	12.0%
Corporations net lending/borrowing (2013) as % of GDP:	6.4%	Banks' exposure to vulnerable countries (2012):	6.2%
Sovereign interest rates spread versus Bund (2012):	4.4%	Foreign ownership of the banking system (2009):	10.2%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.9%	SMAF debt sub-index (2011):	103.0
Share of SME employment (2013):	75.4%	Number of Initiatives Supporting loans under Structural Funds (2007 - 2013):	5
Share of Bank loans to SMEs over Total (2007-2011):	34.6%§	Growth in SME loans (2007 - 2011):	-55.8%§
Share of SME loans in total SME debt (2012):	73.5%	Interest Rate Spread for SME loans (2012-12):	1.06%
Share of discouraged SMEs (2012H2):	10.0%	Average loan size per SME (2009 - 2012):	EUR 223,000
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2011H2 -2012H2):	21.8%	**Estimated Interval For SME Loan Financing Gap (2011 - 2012):**	6,003 - 26,397 € Mln

Country Profile

Spain is implementing a long-term adjustment following the burst of the construction and housing bubble that left Spain with significant macroeconomic imbalances, including public and private sector indebtedness, high unemployment, and fragile financial sector. Funding conditions tightened in the summer of 2012, to the point where the yield on Spanish 10 year sovereign bonds was 7.5% and banking borrowing from the ECB was around 40% of GDP. As a result, Spain requested financial assistance from euro area Member States for the recapitalization of the financial institutions and the agreement was signed in July 2012.

The Spanish economy entered in a double-dip recession in the second quarter of 2011 as financial sector stress, private sector deleveraging and the need for fiscal consolidation took their toll on economic activity. After 10 quarters on contraction, GDP turned marginally positive in the third quarter of 2013 and positive annual growth is expected in 2014. However, economic growth is expected to be subdued as the need to correct large imbalances constrains the strength of the recovery.

Spain has undertaken some long-term structural reforms, in particular reducing unit labour costs and improving labour market flexibility and competitiveness. In addition, there has been significant restructuring in the financial sector, through recapitalisation, increased provisioning and the restructuring of weak banks. Also the supervisory and regulatory practices have been significantly enhanced.

As a result of weaker economic activity there is also weak credit activity, which banks attribute almost unanimously to lack of demand rather than supply constraints. GDP is below potential and therefore incentives for investment in new capacity are limited. Deleveraging by households and firms continues, and accordingly credit to nongovernment borrowers was 8% less yoy in September 2013 and down 18% from end-2008. While there is less demand by SMEs for new investment, SMEs are looking for short-term working capital. Banks seem to have internalised the view that lending capacity looks set to exceed credit demand for some time. Yet, the weakness in credit extension may be not only a demand problem, but might also stem from heightened bank's risk aversion: for example NPLs increased to 12.1% from 7.1% during 2013. Regulatory uncertainty will sustain tight lending standards ahead of asset quality reviews and stress tests next year. Stepped-up provisioning requirements on refinanced credits will have the same effect in the short run, even though much current credit demand is for refinancing by good quality borrowers.

Reductions in SME risk weights under CRDIV next year (to 0.57 from 0.75 for loans under EUR 1m in retail books) may have little effect on lending if investment demand remains depressed. The marked reduction in credit – together with banks' recapitalisations and the OMT – has led to improved bank liquidity. Excess liquidity among domestic banks has ended last year's deposit wars and is prompting some to lower deposit rates. SMEs' credit volumes are, however, problematic, as witnessed by a decrease of flows of new loans of up to 1 € Mln by 55.8% in 2007-2011, by the high share of SMEs unsuccessful in obtaining loan financing (21.8%) and the subsequent worsening of the financial gap to 6,003 - 26,397 € Mln. National policy initiatives to ease access to finance for companies have been stepped up recently, including an increased availability of financing via the state development bank ICO.

§ On new loans (flow)

Sweden

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	1.1%	Loans-to-deposit ratio (2012):	181.5%
Output gap (2013):	-2.3%	Non-performing loans ratio (2012):	0.7%
Unemployment rate (2013):	8.1%	Bank capital adequacy ratio (2012):	11.8%
Government net lending / borrowing (2013) as % of GDP:	-0.9%	Return on bank equity (2012):	12.3%
Gross government debt (2013):	41.3%	Central Bank liquidity as % of liabilities (2012):	0.0%
Corporations net lending/borrowing (2013) as % of GDP:	1.2%	Banks' exposure to vulnerable countries (2012):	4.1%
Sovereign interest rates spread versus Bund (2012):	0.1%	Foreign ownership of the banking system (2009):	6.8%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.8%	SMAF debt sub-index (2011):	97.4
Share of SME employment (2013):	64.2%	Number of Initiatives Supporting Loans under Structural Funds (2007 - 2013):	1
Share of Bank loans to SMEs over Total (2007-2011):	90.2%	Growth in SME loans (2007 - 2010):	6.8%
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2012-12):	0.48%
Share of discouraged SMEs (2011H1):	4.8%	Average loan size per SME :	n.a.
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2009H1 -2011H1):	5.1%	Estimated Interval For SME Loan Financing Gap (2009 - 2011):	247 - 2,046 € Mln

Country Profile

The Swedish economy has been relatively resilient to the crisis with an average annual growth rate of about 1% over the period 2007-2012 compared to the euro area average of about -0.25%. However, towards the end of 2012 growth stagnated also in Sweden. For 2013, the Swedish economy is projected to grow by 1.1%. Despite the good post-crisis performance, Sweden could still move closer to full capacity utilisation, which is reflected in an output gap of -2.3%. The relatively strong krona and low global economic activity weight on exports and domestic demand is crucial in keeping up growth. Unemployment declined to 7.8% in 2011, but has been rising moderately and currently stands at 8.1%.

Backed by good economic performance and sound fiscal policies, public finances are strong in Sweden. General government deficit was 0.9% and gross government debt is projected to be 41.3% in 2013 - well below the EU average. This is reflected also in the 10-year sovereign interest rate spread versus German Bund that was 0.1% in 2012.

Sweden has a large banking sector in relation to the national economy. Total assets in relation to GDP are over 400%. The banking sector is highly concentrated with four large banking groups accounting for roughly 70% of the sector's assets. The major Swedish banks are financially strong at present. However, high levels of household debt, the large and strongly interconnected banking sector and high reliance on wholesale funding introduce some risk to the system. Swedish banks have been relatively little exposed to the current financial crisis as they do not hold large amounts of debt from vulnerable countries. However, Sweden plays a central role within the Nordic and Baltic banking system and the banks suffered from the economic turmoil in the Baltic countries in 2009. Swedish banks are second only to Swiss banks in their cross-border exposure (foreign credit exposure some 170 % of GDP).

Supported by the relatively good economic environment the Swedish SMEs do not appear to experience major difficulties in accessing finance. In 2011 loan applications were rejected only for 3.3% and partly rejected for 3.7% of SMEs applying for a credit. However, SME loans and venture capital have both declined during the crisis. A survey conducted by the Swedish public finance company ALMI suggests that loan volumes to enterprises declined at the height of the crisis, recovered towards the end of 2011 when weakening situation turned loan volumes down again, and resumed recovery in 2013. In September 2013, 3 out of 4 bank managers expected to see an increase in bank lending to enterprises during the 12 months. The high share of bank loans to SMEs (91%) may be partly explained by the fact that intercompany loans have been excluded. The interest rate spread between large and small loans declined in 2009 and then increased moderately in 2010 and 2011 to around 1%. During the crisis the government increased support to SMEs mainly by enhancing the activities of the public finance company ALMI. The lending volume of ALMI was increased in 2009, but it returned to normal levels in 2010.

United Kingdom

Macroeconomic Indicators

Indicator	Value	Indicator	Value
GDP growth rate (2013):	1.3%	Loans-to-deposit ratio (2012):	110.1%
Output gap (2013):	-2.2%	Non-performing loans ratio (2011):	4.0%
Unemployment rate (2013):	7.7%	Bank capital adequacy ratio (2011):	15.7%
Government net lending / borrowing (2013) as % of GDP:	-6.4%	Return on bank equity (2011):	2.2%
Gross government debt (2013):	94.3%	Central Bank liquidity as % of liabilities :	n.a.
Corporations net lending/borrowing (2013) as % of GDP:	1.9%	Banks' exposure to vulnerable countries (2012):	9.9%
Sovereign interest rates spread versus Bund (2012):	0.2%	Foreign ownership of the banking system (2009):	45.8%

Financial Indicators for SMEs

Indicator	Value	Indicator	Value
Share of SMEs over total enterprises (2013):	99.6%	SMAF debt sub-index (2011):	99.1
Share of SME employment (2013):	54.2%	Number of Initiatives Supporting Loans under Structural Funds (2007 - 2013):	37
Share of Bank loans to SMEs over Total (2007-2011):	20.1%	Growth in SME loans (2007 - 2011):	-16.4%
Share of SME loans in total SME debt:	n.a.	Interest Rate Spread for SME loans (2012-12):	0.96%[a]
Share of discouraged SMEs (2011H1):	7.4%	Average loan size per SME :	n.a.
Share of Financially Viable SMEs Unsuccessful In Obtaining Loan Financing (2009H1 -2011H1):	8.3%	Estimated Interval For SME Loan Financing Gap (2009 - 2011):	1,321 - 8,782 € Mln

Country Profile

The European Commission forecasts 1.3% growth in 2013 and 2.2% in 2014, on the back of moderate internal demand growth and some improvements in net exports.

Fiscal consolidation has brought the budget deficit down from 11.4% in 2009 to 6.1% in 2012, a figure which is expected to edge up to 6.4% in 2013. Government debt has risen from 67.1% in 2009 to 88.7% in 2012, and is forecast to increase to 94.3% in 2013. Growth expectations have improved during the course of 2013 and the government has detailed its plans for fiscal consolidation measures until 2017-18 in its Spending Round. The challenge for the UK is to sustain the emergent economic recovery while ensuring that growth is macroeconomically balanced.

The latest BoE's Financial Stability Report concludes that UK banks' capital buffers, available to cushion losses and ensure the supply of credit in a stress scenario, are somewhat thinner than what headline regulatory capital ratios suggest, as reflected in the market value of major UK banks' shareholder equity, which fell on average to around two-thirds of book value. Progress by banks in raising capital is continuing and investor confidence is picking up The latest BoE Credit Conditions survey suggests that the cost of bank lending has fallen in recent months, in particular for larger businesses, which can be partly attributed to the on-going effects of the Funding for Lending Scheme (FLS). A slight easing in credit availability was reported, but credit conditions continue to be generally tight for small companies. The loan-to-deposit ratio stood at 110.1% in 2012. NPLs stood at 4% in 2011, almost the same as in 2010.

The Bank of England reports in its October Trends in Lending that net lending to SMEs and businesses at large continued to decrease in the first half of 2013, which is due to both supply and demand factors. Lenders reported that demand from credit from companies was still subdued, while SME survey evidence continues to show a large share of loan application rejections.

On the supply side the National Institute for Social and Economic Research reported a tightening of credit conditions since the crisis. Rejection rates have been significantly higher post-crisis although availability of credit to SMEs has increased somewhat in recent months. Improved bond finance and US private placements have provided cheaper finance for large firms and this appears to have led to some increase in credit availability for mid-tier corporates and larger SMEs that have relatively strong balance sheets. The Bank of England reports that overall credit conditions for SMEs have improved, but that this improvement has been more pronounced for larger enterprises. SMEs that are more dependent on bank finance have not benefited to the same degree from the reduction in the cost of finance from capital markets. Indeed, the share of SMEs unsuccessful in obtaining loans has increased to 8.3%, and as a consequence the SME financing gap has widened to 1,321 - 8,782 € Mln.

Government programmes to support SMEs include the FLS, which was launched in July 2012 to boost lending to the real economy. Banks and building societies that increase lending to UK households and businesses are able to borrow more in

the FLS, and do so at lower cost than those that scale back lending. Recent reports suggest the FLS has had little impact on channeling funds to SMEs (though it has had a significant impact on household lending). Another important measure launched in March 2012 was the National Loan Guarantee Scheme (Government guarantees on unsecured borrowing by banks), which aimed to make GBP 20bn available to SMEs over a three year period at a reduced borrowing cost.

[a] Maturity over 1 year;

Annex 7 to Chapter 1: Methodological Note: Estimation of the SME Loans Share over total Loans issued to Private Sector

The Issue

In the last decade, several efforts aimed to broaden the information base concerning European SMEs have been successful in obtaining a number of statistics of high relevance for economists and decision-makers. However, so far most endeavours have only focused on SME's "demographics" (measures of size by number, employment, turnover or value added) and thus overlooked their financial structure. As a result, it is currently impossible to identify the financial impact of SMEs on the economy of several EU Member States, either in terms of debt instruments (loans, leasing, overdrafts, *etc.*) or capital. Measures such as the *average loan size* for an SME, the *average size of a leasing contract* and the *average overdraft* are therefore beyond the reach of European decision makers, even though their relevance is undisputable.

Shortly after the advent of the financial crisis, because of the specific problems that SMEs were facing with respect to larger enterprises, a number of projects have started focusing specifically on SMEs' ability to access financial markets *(Eurostat Access to finance statistics*, *ECB* SAFE Survey). Nevertheless, no real attempt to quantify the losses caused by the inability to access financial markets has been established so far. The depicted situation concerns most financial instruments used by SMEs, and bank loans in particular.

Measures to assess the magnitude of EU SMEs' loan market

In order to obtain a comprehensive overview of the different SME loan markets among European Member States, three dimensions are considered of particular relevance. First, the total amount of SME loans (alternatively summarized by the *share of SME loans over total loans issued*), which indicates the importance of SMEs in financial terms. Secondly, the proportion of SMEs that benefit from a bank loan, identifying the importance of the specific financial instrument for EU SMEs. Thirdly, the *average SME loan size* (which can be easily derived from the first two indicators), a measure that is able to highlight the significant heterogeneity that exists among EU Member States in terms of financial needs of SMEs.

Recent studies concerning EU SMEs' loan market

With respect to the amount of SME loans, the study on *Financing SMEs and Entrepreneurs (OECD, 2012)* proves to be one of the main sources for further analysis. In this study, the elaboration of the *share of loans obtained by SMEs* represents one of the most important contributions to this field up to date. Data was collected from national central banks, and where the breakdown by employee size classes was not available, a proxy was used instead (*loans under 1 million EUR*[14]). However, also the OECD study has its limitations, most importantly the fact that because of its mandate it excludes several EU Member States.

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[14] A recent study published by the International Finance Corporation (IFC, 2012) shows that the size of the loan is indeed an accurate predictor of the actual size of the firm. In their studied sample, IFC found that over 80% of firms receiving "SME loans", between $10,000 and $1-2 million were indeed SMEs and only under 2% of these were in fact large enterprises.

Moreover, in the last two publications this study does not focus on assessing also the proportion of SMEs that benefit from a loan.

An insight on this important measure is provided by a comprehensive survey carried in 2010 and 2011 by IFC[15] in the context of SME banking. The outcome is included in the IFC Enterprise Finance Gap Database, which currently covers 177 countries worldwide. Among the available variables, there is also a measure concerning the share of SMEs that have a loan or credit line. However, country coverage is also an issue with IFC data, since it only covers Eastern European countries.

Econometric estimation: the only third way?

The lack of information concerning loans to SMEs constitutes a critical situation that would be important to address in future EU-wide studies. In the meantime, there is still the need to evaluate the impact of EU SMEs on the economy from such important perspective, even more so in relation to the nature of this ex-ante assessment.

Therefore, the following sections will provide a coherent way (although among the possibly infinite alternatives) of estimating the SME loan share for all EU Member States.

Set-up of the predictive model

The following sections will focus on creating a predictive model for the SME loan share over total loans issued by banks. The underlying idea is the following: supposing a predictive model for this variable in the OECD sample is identified, and assuming that such sample is representative of the set of EU Member States, it is possible to apply the same model to all EU countries and obtain a prediction of the SME loan share over total loans.

Variable Description

Because OECD data on SME loan shares is given in panel form (years 2007-2011), the dataset used for the purpose of building the predictive model has also been constructed in panel form (years 2007-2012).

Table V.3 illustrates the variables included in the study. Note that not all of them were actually included in the final model. All variables come for *World Bank's DataBank* Database (chosen in order to use indicators as much harmonized as possible), except for the SME loan share which comes from OECD, and for the share of population employed in SMEs.

The share of population employed in SMEs is built as follows: SME Employment shares are obtained for EU MS using European Commission's SME Performance Review Data[16]. Data for remaining countries comes from the 2011 World Bank's Report (Ayyagari, Demirguc-Kunt, and Maksimovic, 2011) on SME contribution to employment.[17] In order to preserve the panel data form for all countries, values for each year are extrapolated under the assumption that they follow EU's average trend (+0.06% between 2005 and 2013).

[15] IFC Enterprise Finance Gap Database (2012)

[16] Data for Croatia obtained from the Croatian Bureau of Statistics

[17] Data for Korea refers to 2004 and is deemed too outdated. 2009 Data from KOSTAT (Statistics Korea) is used instead.

TABLE V.3: SUMMARY OF INCLUDED VARIABLES

	Nr. of Obs	***Mean***	***Std. Deviation***	***Minimum***	***Maximum***
log of GDP (constant 2005 US$)	228	26.11	1.68	22.58	30.24
log of Population, total	228	16.26	1.51	12.92	19.56
Domestic credit to private sector (% of GDP)	214	119.29	61.09	29.50	302.25
Bank non-performing loans to total gross loans (%)	217	5.19	4.68	0.10	19.70
Number of Persons Employed in SMEs (Millions)	183	8.65	12.38	0.13	67.28
Market capitalization of listed companies (% of GDP)	228	58.65	50.76	3.79	323.66
Services, etc., value added (% of GDP)	150	66.93	8.42	42.96	86.73
Stocks traded, total value (% of GDP)	228	0.53	0.74	0.00	4.50
Labor force participation rate, total (% of total population ages 15-64)	185	70.81	6.50	50.00	82.40
Employment to population ratio, 15+, total (%)	185	54.91	6.32	41.80	72.20
Bank capital to assets ratio (%)	211	7.75	3.24	3.20	23.60
Population ages 15-64 (% of total)	228	68.12	2.12	64.28	72.94
Share of Persons Employed in SMEs over Total Enterprises	226	0.66	0.15	0.17	0.88
Share of SME loans in total business loans (Outstanding Amounts)	79	0.42	0.25	0.15	0.92
Share of SME loans in total business loans (New Loans)	20	0.21	0.09	0.09	0.40

SOURCE: WORLD BANK (2013)

Sample representativity

To what extent is the OECD sample representative of the EU Member States? Table V.4 illustrates the results of the equality test for means for a number of variables. Column Two returns the t-statistics, while Column One returns the associated P-Value. Using a significance level of 5%, we can see that for the majority of these variables the assumption on representativity is not respected.

TABLE V.4: SAMPLE REPRESENTATIVITY TESTS

Label	**P-Value**	**T-Statistic**
Services, etc., value added (% of GDP)	87.37%	-0.16

Label	P-Value	T-Statistic
Domestic credit to private sector (% of GDP)	46.32%	-0.73
Bank capital to assets ratio (%)	18.61%	1.33
Labor force participation rate, total (% of total population ages 15-64)	18.24%	-1.34
Population ages 15-64 (% of total)	9.41%	1.68
Employment to population ratio, 15+, total (%)	2.76%	-2.22
Number of Persons Employed in SMEs (Millions)	1.81%	-2.38
Market capitalization of listed companies (% of GDP)	0.10%	-3.32
log of Population, total	0.06%	-3.46
Stocks traded, total value (% of GDP)	0.05%	-3.53
Bank nonperforming loans to total gross loans (%)	0.03%	3.63
log of GDP (constant 2005 US$)	0.00%	-4.71
Share of Persons Employed in SMEs over Total Enterprises	0.00%	4.55

SOURCE: EUROPEAN COMMISSION ESTIMATIONS

In particular, we can observe that the OECD sample over-represents bigger countries with respect to GDP, population and volumes of stocks traded. On the other hand, the OECD sample also underrepresents EU countries in terms of the employment levels in SMEs and the percentage of nonperforming loans.

Clustering of data

In order to counter the potential bias in the estimates, countries in the dataset are clustered using the information provided by the variables depicted in Table V.4. Using Duda/Hart stopping rule (Duda, Hart, & Stork, 1997) a total of 3 clusters is identified. The characteristics for selected variables in each generated cluster are described in Table V.5:

TABLE V.5: SUMMARY OF VARIABLES BY CLUSTER

	Nr. of Obs	Mean	Std. Deviation	Minimum	Maximum
Cluster 1					
log of GDP (constant 2005 US$)	93	25.89	0.85	24.02	27.27
log of Population, total	93	15.92	0.50	14.92	16.89
log of Labor force, total	93	15.22	0.49	14.23	16.14
log of Number of Persons Employed in SMEs (Millions)	93	14.79	0.49	13.95	15.75
Cluster 2					
log of GDP (constant 2005 US$)	30	23.69	0.64	22.58	24.46
log of Population, total	30	13.87	0.65	12.92	14.64

log of Labor force, total	30	13.16	0.73	12.05	14.01
log of Number of Persons Employed in SMEs (Millions)	30	12.87	0.74	11.79	13.75
Cluster 3					
log of GDP (constant 2005 US$)	60	27.88	1.04	25.99	30.21
log of Population, total	60	18.05	0.58	17.31	19.56
log of Labor force, total	60	17.33	0.60	16.67	18.88
log of Number of Persons Employed in SMEs (Millions)	60	16.73	0.51	15.88	18.02

SOURCE: WORLD BANK (2013)

Overall, the cluster analysis has identified 3 categories of countries ("smaller", "medium" and "bigger"). Throughout the analysis, this cluster variable will be treated as an indicator, and it will represent the differences in terms of SME loan shares for the smaller (2) and bigger (3) group respectively (group 1, the average group, will be treated as control).

Predicted values, goodness of fit

Two different cross-sectional linear models were estimated using a robust estimator controlling for the heteroskedasticity of data. The first model reaches an overall R^2 of 67.3%, while the second a 60.4%. In both models the cluster class variable is highly significant and presents very similar coefficients. In the second model, variables included in the cluster analysis are discarded, and only the remaining variables are used (these mostly concern key financial indicators of each country), and the indicator EU (1 if the state is a member of the EU) is included and highly significant. Table V.6 portrays the main results.

TABLE V.6: LINEAR ESTIMATION MODEL FOR SHARE OF SME LOANS

	Model 1 (4 instances)				**Model 2**
Cluster Class 2 (Dummy)	-0.125***	-0.152***	-0.124***	-0.171***	-0.187***
	(0.043)	(0.032)	(0.032)	(0.035)	(0.036)
Cluster Class 3 (Dummy)	-0.382***	-0.354***	-0.375***	-0.306***	-0.376***
	(0.043)	(0.042)	(0.040)	(0.058)	(0.044)
Share of Persons Employed in SMEs over Total Enterprises		0.460***	0.476***	0.482***	
		(0.165)	(0.160)	(0.155)	
Stocks traded, total value (% of GDP)			0.043***	0.071***	
			(0.014)	(0.019)	
log of GDP (constant 2005 US$)				-0.041**	
				(0.020)	

Member of the European Union (Dummy)					0.159***
					(0.049)
Market capitalization of listed companies (% of GDP)					0.001**
					(0.000)
Bank capital to assets ratio (%)					0.023***
					(0.007)
Constant Term	0.626***	0.336***	0.296**	1.336**	0.300***
	(0.041)	(0.120)	(0.120)	(0.530)	(0.097)
Observations	**74**	**74**	**74**	**74**	**71**
R^2	**0.552**	**0.636**	**0.661**	**0.673**	**0.604**

STANDARD ERRORS IN PARENTHESES * P < 0.10, ** P < 0.05, *** P < 0.01

Panel or Cross- Section approach ?

Exploiting the panel form of the information on SME loan shares, an alternative estimation model is represented by panel data regression. However, there are multiple reasons why a panel data regression is unfit in this case.

First, our purpose is to create a predictive model of loan shares based on the specific characteristics of a country, assuming the relationship between covariates and the outcome variable is constant throughout years (*i.e.* assuming there is a non-measurable structural model that regulates this phenomenon). Secondly, the number of countries with data on SME loan shares is fairly low, therefore the small sample bias that would result from using estimation models that take into account the time dimension (e.g. between effects estimation on country averages) would be higher than the bias of non-random country effects (which are as much as possible controlled by the other variables).

Even fixed-effects estimation methods would suffer the very low volatility of SME loan shares (between-years standard deviation in OECD data ranges from 0.24% to 3.30%), which would result in the impossibility to provide a good estimation model with panel data tools (R^2 = 19.26%). The cross-section approach instead provides an artificial way to multiply the size of the sample (by 4 to 5 times) thus allowing for a higher reliability of results.

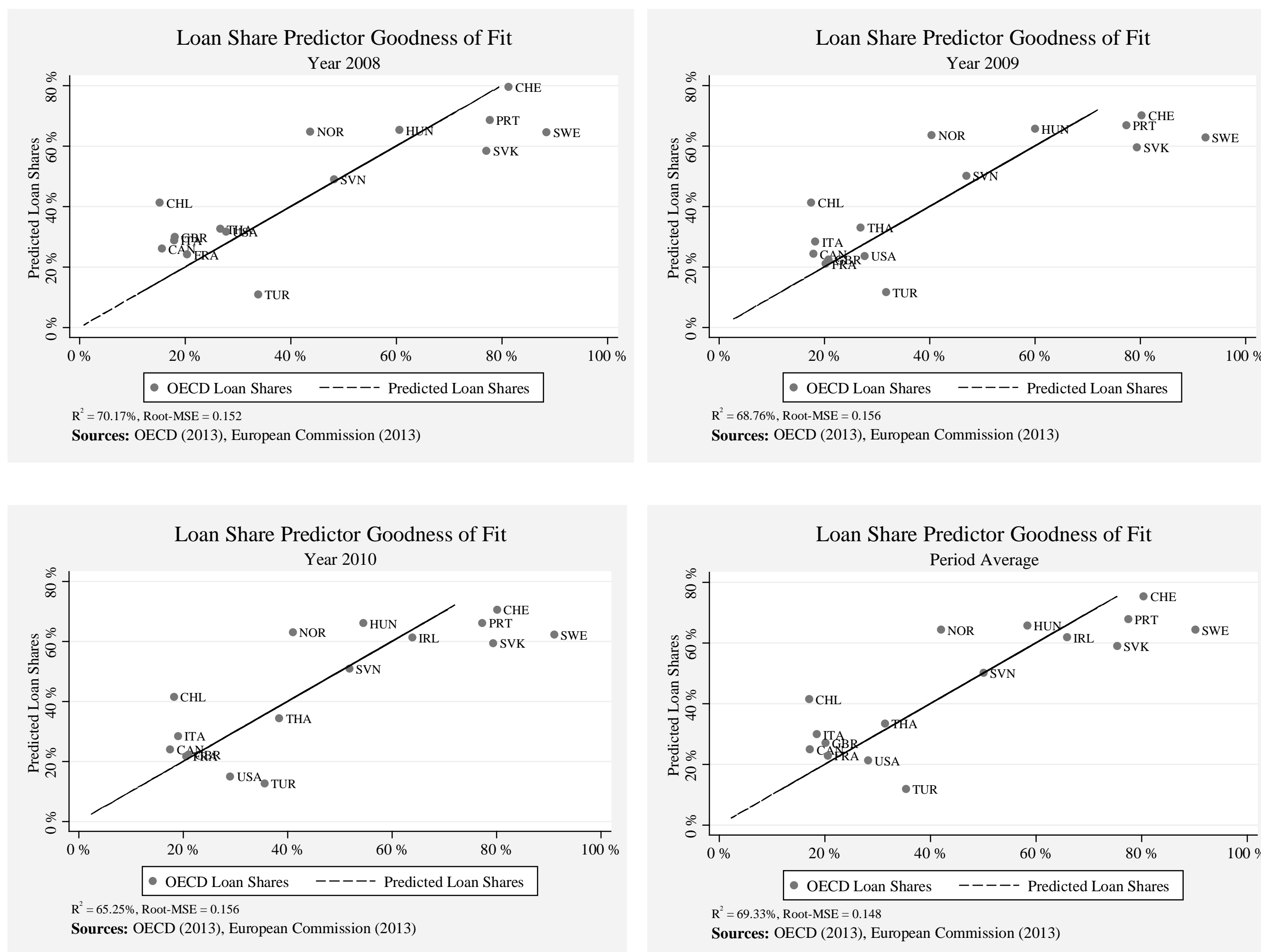
Goodness of Fit

Model 1 presents desirable characteristics that makes this latter more viable for prevision purposes. Using a 5% significance level, the null-hypothesis on the normality of errors is not rejected. Moreover, coefficients of different variables are constant across different model specifications. Finally, the possibility of multi-collinearity in used variables is escaped by analysing the variance inflation factors, and the path of information criteria is constantly rising as the model reaches its fullest specification. Model 2 also shares some of these characteristics, but its true purpose is to provide alternative predictions in order to state the overall reliability of the estimation process.

Predictive ability

A test on the predictive ability of the estimated model is run by using SME loan shares provided by the OECD study. Results on the period average and per selected years are depicted in Figure V.2.

FIGURE V.1: PREDICTIVE ABILITY ACROSS COUNTRIES, SELECTED YEARS AND PERIOD AVERAGE



The overall predictive power of the model is high. However, it is also true that for some of the smallest countries the actual SME loan share might be underestimated, while for some of the largest countries this figure might be overestimated.

Predicted Values and consistency

Using the predictive model, SME loan shares for missing EU countries are elaborated for various years. It is interesting to note that all predictions are within the 0 to 1 range. After excluding a small number of outliers, the following predictions for the period average are obtained (Table V.7):

Table V.7: Predicted Loan shares vs OECD Shares

Country	*Predicted*		OECD	
	Average	Std. Dev	Average	Std. Dev
Austria	58.73%	0.46%		
Belgium	58.79%	0.34%		
Bulgaria	70.67%	0.48%		
Croatia	66.14%	0.25%		
Cyprus	59.60%	0.54%		
Czech Republic	62.48%	0.29%		
Denmark	61.48%	0.36%		
Estonia	58.58%	0.30%		
Finland	61.69%	2.58%		
France	22.09%	1.22%	20.56%	0.24%
Germany	19.21%	1.09%		
Greece	68.50%	0.11%		
Hungary	65.77%	0.38%	58.38%	3.30%
Ireland	61.41%	0.42%	65.85%	1.95%
Italy	28.77%	0.42%	18.46%	0.39%
Latvia	57.73%	0.46%		
Lithuania	71.62%	0.39%		
Luxembourg	49.01%	0.24%		
Malta	60.80%	0.07%		
Netherlands	60.17%	2.12%		
Poland	28.20%	0.16%		
Portugal	67.80%	1.82%	77.50%	0.49%
Romania	61.35%	0.54%		
Slovak Republic	58.95%	0.54%	75.40%	5.68%

Country	Predicted		OECD	
	Average	Std. Dev	Average	Std. Dev
Slovenia	50.08%	0.75%	50.08%	2.64%
Spain	34.36%	1.90%		
Sweden	62.89%	1.06%	90.23%	1.60%
United Kingdom	24.03%	3.42%	20.12%	1.09%

SOURCE: OECD, 2013

Conclusions

The accuracy of estimated values varies consistently across countries. As it is easy observable in countries tend to occupy the two extremes of the distribution, that is, "bigger countries" in demographic terms tend lie in the lowest part of the distribution, whilst smaller countries tend to be more SME-based in terms of loan-markets. While this statement seems fairly reasonable, there is yet no literature that explicitly confirms or rejects these findings. Moreover, the ability of the model to control for the development stage of the equity market and additional financial indicators makes it more robust with respect to smaller countries with particularly developed financial markets (this is of particular relevance since in the financial gap analysis we only considers NACE industries from B to N excluding insurance and financial services).

A final word of warning: given all the necessary precautions in building this model and its soundness in terms of predictive ability and behaviour, it would be presumptuous to retain the presented values as something more than educated guesses. However, this should not be considered a superfluous exercise: rather, it should stimulate further research in this topic, with the objective to obtain a more comprehensive overview of SME importance in EU Member States in demographic as well as in financial terms.

Annex 1 to Chapter 2: General assumptions underlying the SME Initiative

In evaluating the three options the following aspects have been treated as assumptions:

1. The SME initiative is proposed as a "joint instrument" which is a mechanism foreseen in the Common Provisions Regulation (CPR) governing the implementation of the ESIF. It allows ESIF contributions to be brought together with EU programmes managed directly by EIB/EIF, such as COSME or Horizon 2020, for the achievement of the same policy objectives as EU instruments, using the same delivery mechanism (i.e. involving the same counterparties) and applying the same requirements (e.g. terms, reporting, audit, etc.), while complying with the respective legal bases. Differences apply only to eligibility criteria related to the final beneficiaries, in particular the geographical criteria.

2. In respect to utilisation of ESIF funds under this initiative, it is assumed that changes to the CPR will be made with a view to enabling the implementation of all three options. Should the proposed instrument, for whatever reason, not have enough absorption capacity, ESIF contributions may be returned to the national authorities (return clause).

3. No changes are assumed in the financial regulatory framework of CRD IV in the short term. It is understood that revisions to the Basel Securitisation framework and certain aspects of Solvency II currently under discussion could have a significant impact on the willingness of capital market investors to become more active in SME securitisation in Europe.

4. All three options are compatible with each other, assuming sufficient critical mass is reached in terms of volume of available resources and in terms of minimum number of Member States and regions with a diversified degree of economic activity. The critical mass estimates the resources required to achieve a meaningful impact of the initiative. The EIB communicated estimated minimum volumes for the three options to the EFC and namely EUR 3 bn for Option 1 and 4-5 bn for Option 2 and 3. The EIB Group will assess the feasibility of the Options (individually and as a combination) following the decision of the MS to adhere to the Initiative and make ESI Funds available. In that context, the EIB Group will refine the minimum necessary volume with the aim to ensure adequate resources are available to generate the expected impact (on the basis of the initial indications) and to facilitate as much as possible the implementation of the Options potentially lowering the minimum amounts if feasible.

5. In all cases, contractual arrangements would ensure that access to public guarantees for partner banks would be strictly conditional on passing the benefits on in the form of new loans to SMEs. This type of conditionality is already applied through the existing joint instruments.

6. The instruments would be designed to provide assurance that the amount of funds contributed by a particular Member State from its ESIF programme would generate loans to a value of several times the amount through lending to SMEs in that Member State for the benefit of the respective programme areas.

7. Compatibility of the instrument with other obligations under the CPR would have to be ensured (notably feasibility of the phased drawdown and management fee approach).

8. Reporting rules under FR art 140.8 and under CPR are largely aligned and consistent; there are however some differences which will be taken into account in the design of the "joint instrument" and the details will be set out in the Funding Agreement.

9. Compliance with best practice in the asset backed market: standards of quality, transparency, simplicity and liquidity will be required from originating financial institutions in accordance with Prime Collateralised Security standards.

10. Broad eligibility criteria are compatible with irrevocable guarantees and ABS investments, despite EAFRD eligibility criteria are narrower than those required under the CPR.

Annex 2 to Chapter 2: Assumptions underlying the leverage calculations

5.1.2 Option 1

Leverage is calculated as the ratio between the new debt finance to eligible SMEs to be originated by the financial intermediaries and the corresponding contribution of the ERDF and EAFRD[18] from the relevant Member State to the financial instrument. Such minimum leverage may vary between participating Member States..

The modalities of EIB Group's involvement are assumed to be that EIB participates in the senior risk with relatively high volumes and that EIF retains a mezzanine risk with relatively lower volumes. EIF's participation is therefore assumed to be relatively high-risk compared to EIB's senior involvement.

It is assumed that EIB Group's total involvement in the initiative is capped, in the range of EUR 36 to 49bn over 6 to 7 years. This cap on EIB Group's involvement, necessary to ensure maintenance of a credit profile compatible with other parallel activities performed by the Group, will in many situations lead to a cap on the achievable instrument volumes and to a certain amount of "unexploited potential". Such "unexploited potential" of the instrument therefore refers to a 'gap' between the volume of guarantees that could, theoretically, be originated under the instrument (given its leverage) and the volume of committed resources (from ESIF and EIB Group) that are assumed to be available. This 'gap' can be counter-acted through the involvement of third party risk-takers (i.e. NPBs).[19] With this in mind, the table below is intended to give an indication of the leverage factors achievable in weak and strong SME credit environments. Given the leverage and the cap on the EIB maximum volume, the total volume achievable under the facility is dependent on the amount of NPB involvement available: to the extent this is not available, there will be ESIF resources unspent.

	Leverage	NPBs cover 50% of unexploited potential	No cover of unexploited potential
Weakest SME credit environment	**2.6 times**	*ESIF fully spent*	*ESIF fully spent*
Strongest SME credit environment	**14 times**	*ESIF 16% unspent*	*ESIF 32% unspent*

For well diversified SME portfolios with more "standard" credit metrics (i.e. with an average credit quality equivalent to a portfolio rating in the range of B2/B1), the leverage effects would be as follows:

	Leverage
"average" SME credit quality (B1/B2)	**5 times**

[18] EAFRD eligibility criteria are narrower than those required under the CPR.

[19] It should be noted that the actual level of market (or NPB) demand is an aspect addressed separately by the High Level Expert Group of the EFC (2013b).

There is the potential for NPBs to have a large impact on the leverage achieved in Member States with strong SME credit environments. However, it should be recalled that, in absolute terms, the volumes that would need to be committed in order to make such leverage factors a reality are very material. As a working assumption, therefore, it is retained that ***an average leverage factor of 5 times should be achievable on Option 1,*** with some potential for higher leverage factors, depending on the overall portfolios credit quality.

5.1.3 Option 2

Leverage is calculated as the ratio between the new debt finance to eligible SMEs to be originated[20] by the financial intermediaries and the corresponding contribution of the ERDF and EAFRD[21] from the relevant Member State to the financial instrument. Such minimum leverage may vary between participating Member States.

The modalities of EIB Group's involvement are assumed to be that EIB participates in the senior risk with relatively high volumes and that EIF participates in the mezzanine risk (in a position senior to ESIF resources), with relatively lower volumes. EIF's participation is therefore assumed to be relatively high-risk compared to EIB's senior involvement.[22]

As under Option 1, it is assumed that EIB Group's total involvement in the initiative is capped, in the range of EUR 36 to 49bn over 6 to 7 years. Similarly to the findings under Option 1, this cap will in many situations imply a certain level of unexploited potential that can be addressed only through the presence of third party investors (which could include, but is not limited to, NPBs). The table below is intended to give an indication of the leverage factors achievable in weak and strong SME credit environments:

	Leverage	Third-parties cover 50% of unexploited potential	No cover of unexploited potential
Weakest SME credit environment	**3.5 times**	*ESIF fully spent*	*ESIF fully spent*
Strongest SME credit environment	**14.1 times**	*ESIF 21% unspent*	*ESIF 43% unspent*

A situation in which the full potential of a securitisation transaction could not be exploited (due to the necessary cap on EIB involvement and the absence of sufficient third party investors), could result, as shown in the table above, in a lower absorption of ESIF resources (i.e. part of ESIF resources could remain unspent).

However, mitigants to this ESIF absorption risk are:

- *Tranches* of funded transactions may still be usefully retained by originators and used, for example, for refinancing with the ECB (hence transactions could nevertheless be

[20] The volume of new SME assets is tentatively assumed to be one-to-one with the volumes of existing SME assets securitised under the Initiative.

[21] See footnote 18.

[22] In fact, EIB's involvement is assumed to be via the purchase of an Aa3 rated senior asset, whereas EIF's involvement (insofar as it relates to mandate activity) is assumed to be relatively capital intensive for the Group (EIF exposure likely in the range of Ba1/Baa3).

executed and value added provided, although with sub-optimal impact on market revitalisation);

- *Tranches* of unfunded transactions (in particular the senior *tranche*) might not need to be transferred to third parties in order to achieve capital relief (thus reducing the notional volumes that will need to be placed with investors).

For well diversified SME portfolios with more "standard" credit metrics (i.e. with an average credit quality equivalent to a portfolio rating in the range of B2/B1), the leverage effects would be as follows:

	Leverage
"average" SME credit quality (B1/B2)	**7 times**

For the instrument as a whole, leverage will depend strongly on the mix of participating SME credit environments in the initiative. One finds, indeed, that the instrument leverage[23] can vary between approximately 3.5 times and 14 times, assuming that third-parties are available to cover all unexploited potential. A central scenario (in which roughly equal volumes of ESIF resources are deployed in weak and strong SME credit environments) would lead to a ***working assumption of an approximate 7 times instrument leverage,*** depending on the overall portfolios credit quality.

5.1.4 Option 3

Leverage is calculated as the ratio between the new debt finance to eligible SMEs to be originated[24] by the financial intermediaries and the corresponding contribution of the ERDF and EAFRD[25] from the relevant Member State to the financial instrument. Such minimum leverage may vary between participating Member States. The analysis of leverage for Option 3 is similar to that carried out under Option 2, except that ESIF resources for a given Member States would be in this structure distributed across first loss pieces (locally, as in Option 2) and would also contribute to absorbing losses on the pooling platform (on mezzanine *tranches*). The intention is that the diversification achieved on the pooling platform results in a larger cumulated volume of mezzanine risk that can be acquired and, consequently, a larger aggregate volume of ABS origination (which, in turn, allows for a larger volume of new SME lending and a higher leverage of ESIF resources).

The requirement to obtain a similar mezzanine rating will imply that, in a weak SME credit environment (affecting certain countries), significant proportions of ESIF resources will be absorbed locally in first loss piece investments, leaving relatively little ESIF resources available for pooling. The converse is true for a strong SME credit environment.

[23] Calculated as the ratio of the *total* volume of new SME lending to the *total* volume of ESIF resources deployed (i.e. across all participating Member States).

[24] The volume of new SME assets is tentatively assumed to be one-to-one with the volumes of existing SME assets securitised under the Initiative.

[25] See footnote 18.

Consequently, the leverage results will depend strongly on the underlying SME credit environment.

	Leverage	Third-parties cover 50% of unexploited potential	No cover of unexploited potential
Weakest SME credit environment	**3.9 times**	*ESIF fully spent*	*ESIF fully spent*
Strongest SME credit environment	**17 times**	*ESIF 26% unspent*	*ESIF 52% unspent*

A situation in which the full potential of a securitisation transaction could not be exploited (due to the necessary cap on EIB involvement and the absence of sufficient third party investors), could result, as shown in the table above, in a lower absorption of ESIF resources (i.e. part of ESIF resources could remain unspent).

However, mitigants to this ESIF absorption risk are:

- *Tranches* of funded transactions may still be usefully retained by originators and used, for example, for refinancing with the ECB (hence transactions could nevertheless be executed and value added provided, although with sub-optimal impact on market revitalisation);
- *Tranches* of unfunded transactions (in particular the senior *tranche*) might not need to be transferred to third parties in order to achieve capital relief (thus reducing the notional volumes that will need to be placed with investors).

For well diversified SME portfolios with more "standard" credit metrics (i.e. with an average credit quality equivalent to a portfolio rating in the range of B2/B1), the leverage effects would be as follows:

	Leverage
"average" SME credit quality (B1/B2)	**9 times**

For the instrument as a whole, leverage will therefore depend strongly on the mix of participating SME credit environments (i.e. Member States) in the initiative and the level of diversification that can be achieved (linked, inter alia to the number of transactions and the number of participating countries). One finds, indeed, that the instrument leverage can vary between approximately 4 times and 16 times, assuming that third-parties are available to cover all unexploited potential. A central scenario (in which roughly equal volumes of ESIF resources are deployed in weak and strong SME credit environments) would lead to a ***working assumption of 9 times instrument leverage,*** depending on the overall portfolios credit quality.

It should be noted that, thanks to diversification and risk pooling effects, compared to Option 2, Option 3:

- achieves higher leverage and, at the same time,
- provides higher financial benefit for the originator through higher risk transfer and hence higher marketability and higher added value for SMEs.