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RECENT ECONOMIC PERFORMANCE OF SPANISH
SMEs AND DEVELOPMENTS IN THEIR ACCESS TO
EXTERNAL FINANCING ACCORDING TO THE
EUROPEAN CENTRAL BANK'S HALF-YEARLY SURVEY

Álvaro Menéndez and Maristela Mulino

ABSTRACT

The latest SAFE results show that the activity of Spanish SMEs continued to grow in the period from October 2021 to March 2022, albeit at a slower pace than six months earlier. The rise in costs prompted a deterioration in profits for most of these firms. Access to external finance is not a factor of concern for most SMEs; indeed, the indicator of obstacles to obtaining bank loans has held at very low values. However, the results show an interruption of the trend of improving availability of bank loans during the period analysed, linked to the SMEs' pessimistic perception of the general economic environment. In addition, a significant percentage of SMEs reported an increase in financing costs. Against a backdrop of heightened uncertainty generated, among other factors, by the economic repercussions of the war in Ukraine, overall the respondent firms anticipated a deterioration in access to finance for the period April-September 2022.

Keywords: turnover, profits, financial situation, SAFE, access to finance, bank loans, financing conditions.

JEL classification: L25, M21, M41.

RECENT ECONOMIC PERFORMANCE OF SPANISH SMEs AND DEVELOPMENTS IN THEIR ACCESS TO EXTERNAL FINANCING ACCORDING TO THE EUROPEAN CENTRAL BANK'S HALF-YEARLY SURVEY

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Introduction

Since 2009, the European Central Bank (ECB), jointly with the European Commission, has conducted the Survey on the Access to Finance of Enterprises (SAFE) in the euro area on a six-monthly basis. The survey comprises a sample of nearly 11,000 euro area firms, of which around 1,300 are Spanish. Although the bulk are SMEs (just over 90%), a group of larger firms is also included, allowing the results to be compared across different firm sizes. The questionnaire includes questions regarding changes in the past six months in the firms' economic and financial situation, the availability of external finance, the main factors affecting access thereto and the terms and conditions under which such finance has been obtained.

Concern over these matters has risen in the last two years both in Spain and the rest of the world, initially due to the crisis triggered by the COVID-19 pandemic and, more recently, on account of the adverse effects stemming from the global production chain bottlenecks, rising input costs and the war in Ukraine. Against this backdrop, the information provided by the SAFE is all the more important. Based on the results of the latest round of this survey, which covers the period from October 2021 to March 2022,¹ this article analyses the recent developments in the financial situation and financing conditions of Spanish SMEs, comparing them with those of larger firms and of their euro area peers. The second section discusses the responses regarding the course of these firms' business activity (mainly turnover and profits), while the third section goes on to analyse their perception of conditions of access to external finance, focusing in particular on bank lending, as the source of external finance most used by smaller firms.

Financial situation

According to the SAFE results, overall, firms' business activity continued to performed positively in the period from October 2021 to March 2022. As Chart 1.1 shows, the number of firms reporting an increase in turnover was, for the second

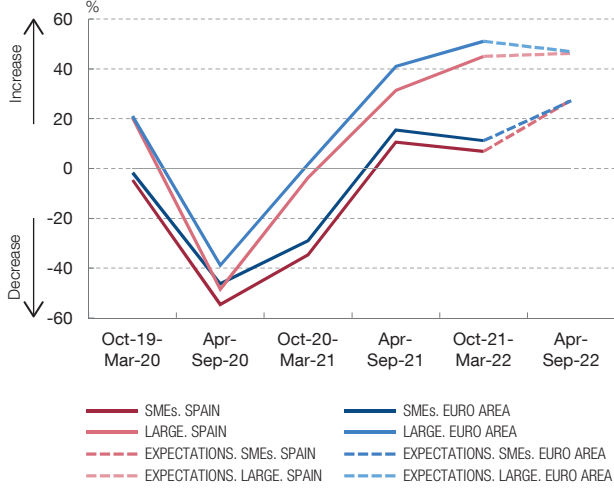
¹ The survey was conducted between 7 March and 15 April 2022.

Chart 1

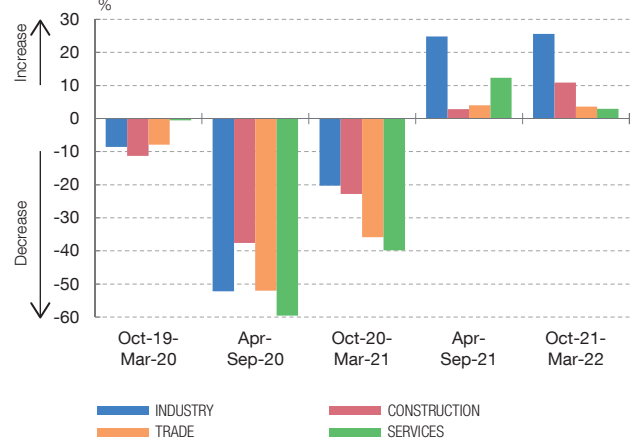
LESS BOUYANT TURNOVER FOR SMEs AND A MARKED INCREASE IN SELLING PRICES

Firms' turnover again performed positively in the period October 2021-March 2022, in line with the previous survey round. This followed a sharp fall-off in turnover in 2020 as a result of the COVID-19 pandemic. However, in the SMEs segment, growth slowed somewhat compared with the previous period, probably linked to the restrictions imposed on activity following the steep increase in COVID-19 infections during part of the period covered by the survey, along with the production chain bottlenecks and the rise in inflation. The turnover growth came in an inflationary environment, associated with both expected inflation and higher production costs, which many firms have passed through to selling prices.

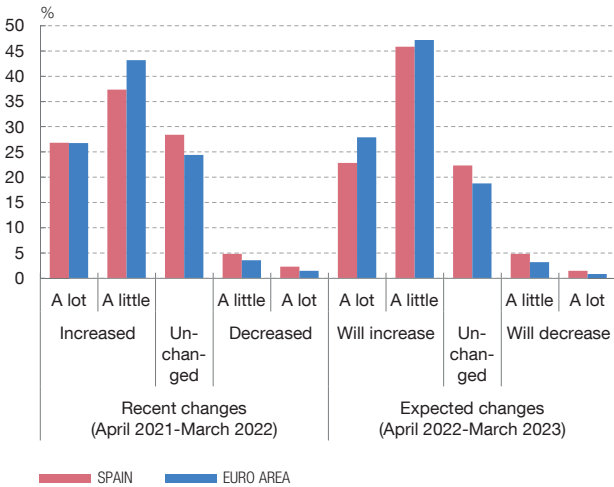
1 CHANGE IN TURNOVER. BREAKDOWN BY FIRM SIZE (a)



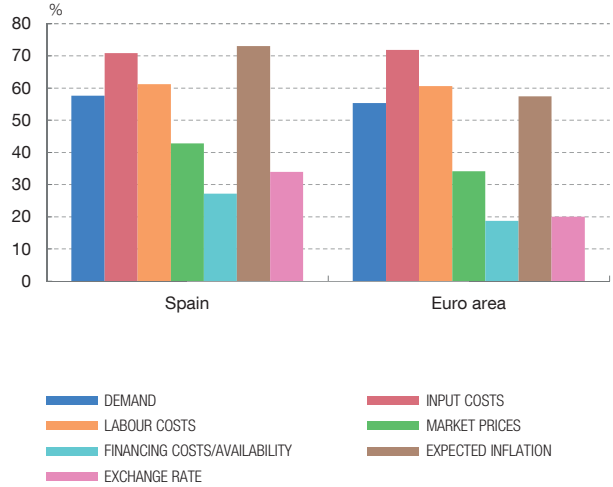
2 CHANGE IN TURNOVER OF SPANISH SMEs. BREAKDOWN BY SECTOR (a)



3 CHANGE IN SELLING PRICES. SMEs



4 FACTORS INFLUENCING SELLING PRICES



SOURCES: ECB and European Commission (SAFE).

a Percentage of firms reporting an increase less those reporting a decrease.

time in a row, higher than those stating the contrary. This indicates a continuation of the recovery path, following the sharp fall-off in turnover recorded in 2020 as a result of the COVID-19 pandemic. However, in the case of Spanish SMEs, the difference between the two groups (net percentage) stood at 6.9%, down on the previous round of the survey (10.6%). This points to the recovery in turnover slowing somewhat, which may partly owe to the adverse impacts of the restrictions imposed on activity (following the sharp increase in COVID-19 infections during part of the period covered by the survey), the rise in inflation, the global production chain bottlenecks and, more recently, the geopolitical tensions and the war in Ukraine. Despite this setting of heightened uncertainty, the information from the SAFE suggests positive economic expectations among Spanish SMEs for the period April-September 2022, with a net 27.2% expecting turnover to grow during this period (see Chart 1.1). Spanish SMEs fared less favourably than larger firms. The same was true in the euro area as a whole, where the above indicators showed similar patterns, suggesting that the various factors that constrained turnover during this period had a comparatively larger impact on smaller firms than on larger ones both in Spain and the euro area. Expectations for the next six months show a similar trend, with large firms anticipating more favourable developments in their business activity than SMEs.

Looking at the sectoral breakdown, all of the productive sectors maintained a positive overall change in turnover in the period October 2021-March 2022 (see Chart 1.2), with the industrial sector registering the sharpest increases (a net percentage of 25%, similar to six months earlier). The services sector showed the least robust performance: just 2.9% (in net terms) of SMEs in the sector reported an increase in turnover, well below the figure from six months earlier (12.2%). These developments may be linked to the restrictions on activity following the rise in COVID-19 infections during part of the period, which affected this sector more than others.

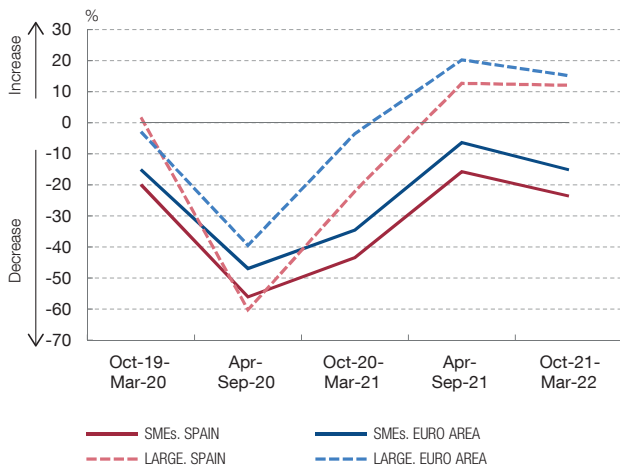
The survey also includes relevant information on recent changes in selling prices. In the last round of the SAFE, the majority of the Spanish respondents (both SMEs and large firms) reported having raised selling prices between April 2021 and March 2022. In Spain, 37% of respondents indicated increasing their prices by “a little” and nearly 27% reported increasing them by “a lot” (see Chart 1.3), similar percentages to those for the euro area as a whole. The firms also reported that selling prices would continue to climb, with the proportion expecting to raise them by “a lot” and by “a little” remaining similar in the period April 2022-March 2023. As regards the factors influencing this rise in prices, expected inflation was the most important, reported by 73% of Spanish firms. This was followed by the increase in the costs of inputs (both energy and other materials), which was cited by 71% of firms, while 61% reported that the growth in labour costs was a relevant factor in their decision to raise prices (see Chart 1.4). Again, these figures are very similar to those observed for the euro area as a whole.

Chart 2

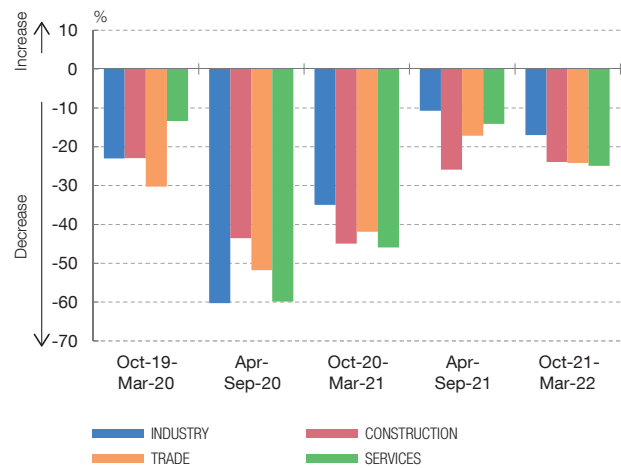
RISING COSTS DRIVE DOWN BUSINESS PROFITS

Rising input and labour costs prompted a decline in profits overall, with increasingly higher net negative percentages. In the period October 2021-March 2022, the proportion of Spanish SMEs reporting a decrease in profits exceeded those reporting an increase by 23 pp, a figure 7 pp higher than six months earlier. The sectoral breakdown reveals a widespread fall in profits, with net percentages turning more negative in nearly all sectors compared with the previous survey round.

1 CHANGE IN PROFITS. BREAKDOWN BY SIZE (a)



2 CHANGE IN PROFITS OF SPANISH SMEs. BREAKDOWN BY SECTOR (a)



SOURCES: ECB and European Commission (SAFE).

a Percentage of firms reporting an increase less those reporting a decrease.

The rise in input and labour costs also had a significant impact on the recent performance of firms' profits, leading to higher negative net percentages in the responses of the firms surveyed. Thus, from October 2021 to March 2022, the proportion of Spanish SMEs that reported decreasing profits amply exceeded those reporting an increase, with the net percentage standing at 23%, 7 percentage points (pp) more than in the previous round of this survey (see Chart 2.1). The sectoral breakdown suggests that, overall, firms' profits performed adversely across all sectors of activity, with net percentages that, save for the construction sector, were more negative than in the previous survey round (see Chart 2.2).

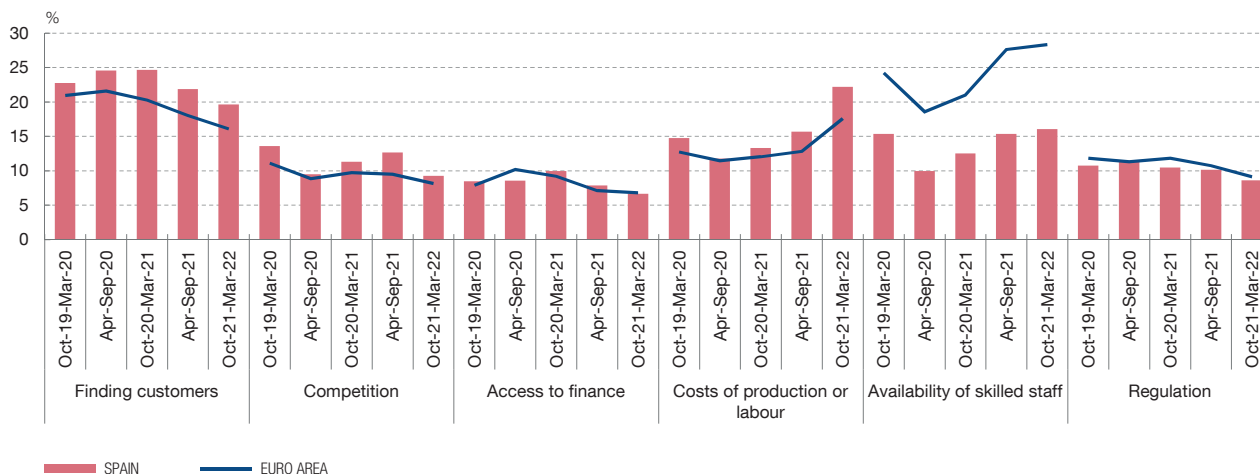
Also evidencing the growing concern about higher costs were firms' responses about the problems affecting their activity, with 22% of Spanish SMEs mentioning the increase in commodity and labour costs as the main problem, 7 pp more than in the previous round. It was also the most relevant factor among such firms in Spain (see Chart 3). Similar developments were also observed in the euro area as a whole, where it was the second most cited factor, behind the lack of skilled labour, which continues to be the main problem affecting the activity of a majority of European SMEs. By contrast, access to finance was once again the problem least reported by firms in both Spain and the euro area (7% in both cases); this percentage was slightly lower than in the previous survey round.

Chart 3

GROWING CONCERN AMONG SMEs REGARDING THE RISE IN COSTS

22% of Spanish firms reported the increase in commodity and labour costs as the most important problem, up 7 pp on the previous survey round. A similar pattern is observed for the euro area as a whole, where this factor was the second most reported after the lack of skilled staff. At the opposite extreme, access to finance was again the least reported concern both in Spain and the euro area.

THE MAIN PROBLEMS FACING SMEs



SOURCES: ECB and European Commission (SAFE).

Lastly, according to a synthetic indicator that assesses firms’ vulnerability by drawing on their financial situation and level of indebtedness, the percentage of vulnerable Spanish SMEs² increased slightly, to 7%, between October 2021 and March 2022, in line with the lower growth in activity and the fall in profits. In a similar vein, the proportion of profitable firms³ – proxied by those whose economic and financial situation improved – decreased moderately, to 3.7% (see Charts 4.1 and 4.2). In the euro area, the percentage of vulnerable SMEs remained stable, at around 4%, whereas the proportion of firms that can be characterised as profitable decreased by slightly over 1 pp, to also stand at around 4%.

Access to external financing

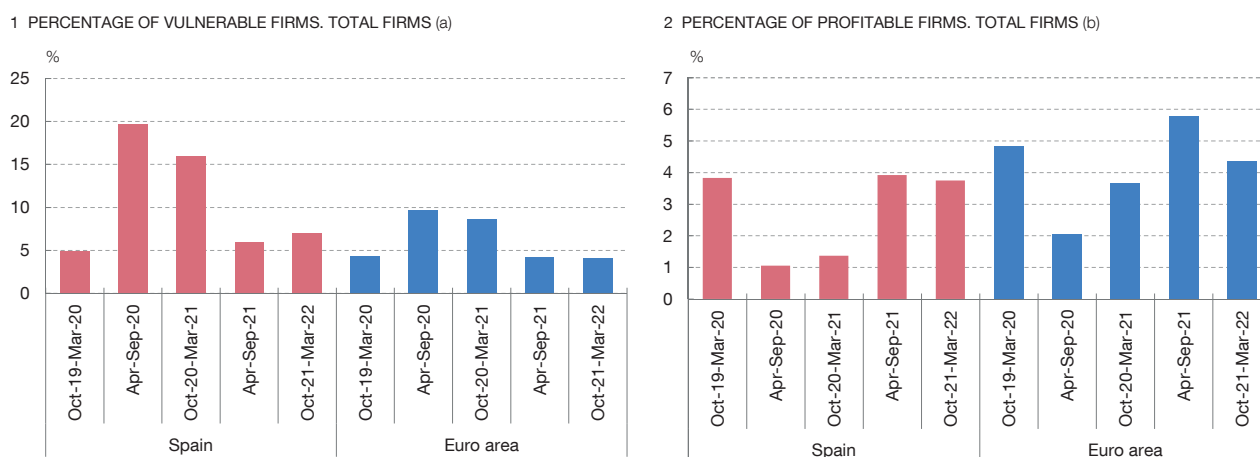
Turning to bank loans – SMEs’ main financing source –, Chart 5.1 shows that Spanish SMEs’ perception of the availability of this source of financing remained stable between October 2021 and March 2022. This was because the proportion of SMEs that detected improvements in availability was the same as those that perceived a deterioration, thus breaking the trend of steady improvement observed since 2013.

2 Vulnerable firms are those that report lower turnover, decreasing profits, higher interest expenses and a higher or unchanged debt-to-assets ratio.
 3 Profitable firms are those that report higher turnover and profits, lower or no interest expenses and a lower or no debt-to-assets ratio.

Chart 4

SLIGHT INCREASE IN THE PROPORTION OF VULNERABLE SMEs IN SPAIN AND MODERATE DECREASE IN THE PERCENTAGE OF PROFITABLE FIRMS

The percentage of vulnerable Spanish SMEs increased slightly, to 7%, between October 2021 and March 2022, while that of profitable firms decreased moderately, to 3.7%. In the euro area, the percentage of vulnerable SMEs remained stable, at around 4%, whereas the proportion of firms that can be characterised as profitable decreased somewhat, to also stand at around 4%.



SOURCES: ECB and European Commission (SAFE).

- a Vulnerable firms are those that report lower turnover, decreasing profits, higher interest expenses and a higher or unchanged debt-to-assets ratio.
 b Profitable firms are those that report higher turnover and profits, lower or no interest expenses and a lower or no debt-to-assets ratio.

In the euro area as a whole, access to bank loans continued to improve overall, but only for 2.7% of SMEs in net terms, the lowest percentage in the survey since 2014. SMEs cited the negative impact of the general economic environment as the most relevant factor behind this slowdown in the improvement in access to bank loans compared with six months earlier (see Chart 5.2). Moreover, both Spanish and euro area SMEs anticipated a deterioration in access to finance for the period April-September 2022, very likely reflecting their negative perception due to the greater uncertainty following the outbreak of war in Ukraine.⁴

Furthermore, the survey revealed that the proportion of SMEs that applied for a bank loan between October 2021 and April 2022 remained at low levels, standing at 22% in Spain and 23% in the euro area, percentages very similar to those in the previous survey round (see Chart 6.3). These are the lowest values recorded since the survey began in 2009, a circumstance likely attributable to the liquidity still retained by a high percentage of SMEs, as many of them had resorted to bank credit to cover their financing needs and also, in some cases, to build up liquidity buffers in April-September 2020, in the context of the COVID-19 pandemic.

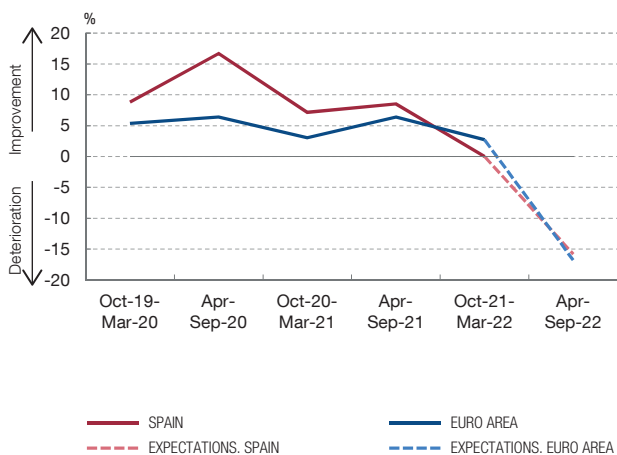
⁴ The respondent firms' expectations may have been affected due to the survey being conducted (between 7 March and 15 April) shortly after the war in Ukraine began (in late February).

Chart 5

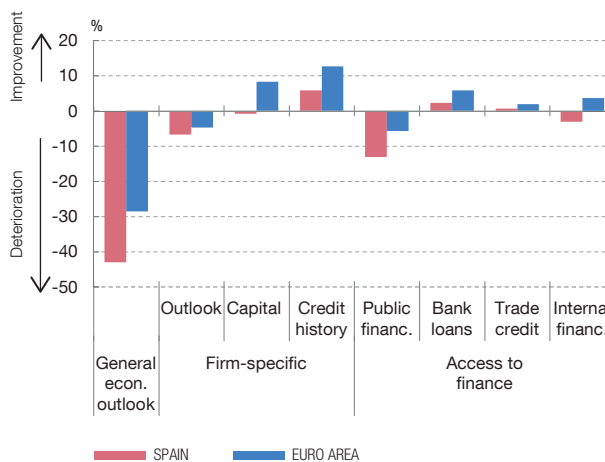
ACCESS TO BANK FINANCE CEASED TO IMPROVE IN SPAIN FOR THE FIRST TIME SINCE 2013

Between October 2021 and March 2022 the perception of the availability of bank financing remained stable for Spanish SMEs, breaking the trend of steady improvement observed since 2013, and it continued to improve in the euro area, albeit for the lowest percentage since 2014. Firms perceive that this is highly influenced by the negative impact of the general economic environment. In this setting, credit demand remained at low levels, as did the indicator of obstacles to bank loans. Respondent firms overall anticipate a deterioration in access to finance for the period April-September 2022.

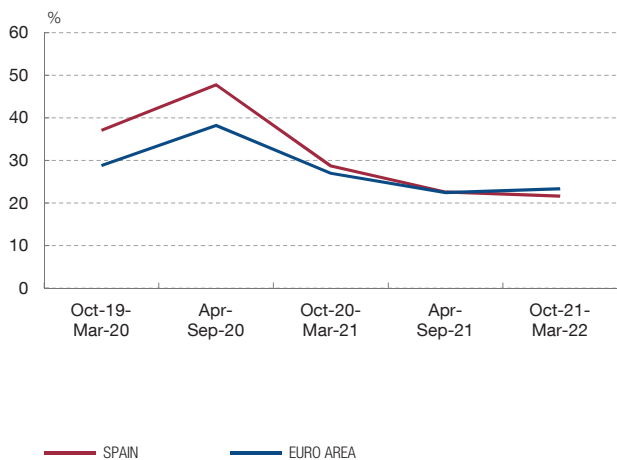
1 SMEs' PERCEPTION OF THE AVAILABILITY OF BANK LOANS (a)



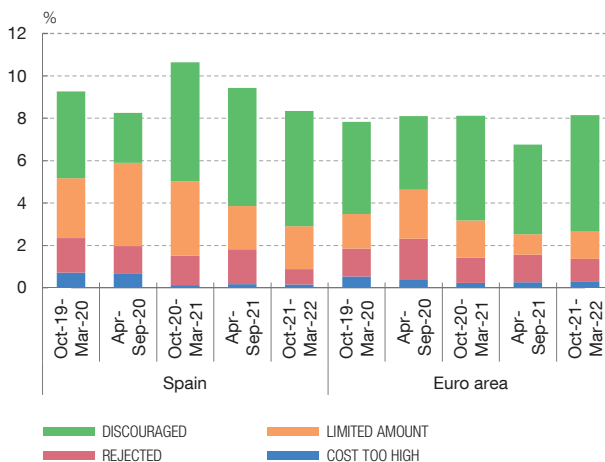
2 CHANGES IN THE FACTORS AFFECTING THE AVAILABILITY OF FINANCING FOR SMEs (a)
October 2021 - March 2022



3 SMEs THAT HAVE APPLIED FOR BANK LOANS



4 SMEs FACING OBSTACLES TO OBTAINING BANK LOANS (b)



SOURCES: ECB and European Commission (SAFE).

- a Percentage of firms reporting an improvement less those reporting a deterioration.
- b This indicator shows the percentage of firms reporting (i) loan applications that were rejected, (ii) loan applications for which only a limited amount was granted, (iii) loan applications that resulted in an offer but the enterprise considered the borrowing costs too high, and (iv) a decision not to apply for a loan for fear of rejection (discouraged borrowers).

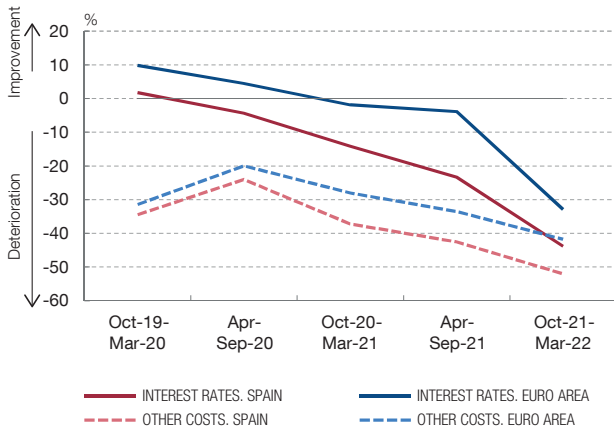
The indicator of obstacles to bank loans remained at low levels, both in Spain and in the euro area, at around 8%. In both cases, the changes are minimal compared with the prior period. In Spain, there was a slight decrease, of 1 pp, mainly on account of the lower proportion of rejected applications, which was offset by an increase in discouraged borrowers (SMEs that did not apply for a loan for fear of rejection).

Chart 6

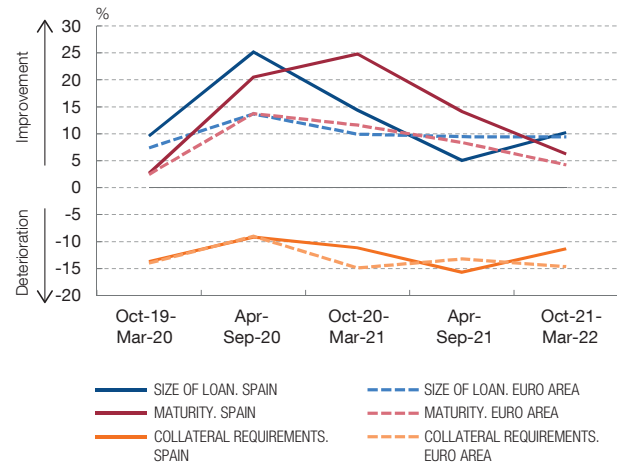
SOME CREDIT TERMS AND CONDITIONS ARE TIGHTENING

The percentage of SMEs reporting an increase in both interest rates and other financing costs increased significantly. The rise in the proportion of such SMEs was somewhat sharper in Spain than in the euro area and may be attributable, at least in part, to the gradual normalisation of monetary policy. Turning to other terms and conditions, there has been a moderate increase in collateral requirements, but the maturity and amounts granted improved, with both increasing somewhat.

1 CHANGE IN TERMS AND CONDITIONS OF BANK LOANS TO SMEs. FINANCING COSTS (a)



2 CHANGE IN TERMS AND CONDITIONS OF BANK LOANS TO SMEs. OTHER TERMS AND CONDITIONS (a)



SOURCES: ECB and European Commission (SAFE).

a Percentage of firms reporting an improvement less those reporting a deterioration.

Lastly, the SMEs surveyed reported that some of the terms and conditions applied to bank loans tightened in the period from October 2021 to March 2022. Thus, the net percentage of SMEs reporting an increase in both interest rates and other financing costs significantly increased once again (see Chart 6.1). This proportion, which was somewhat higher in Spain than in the euro area, appears to be linked to the ECB’s gradual normalisation of monetary policy. Turning to other terms and conditions, collateral requirements became stricter, but there were improvements in the maturity and amounts granted, with both increasing somewhat for most firms. These trends were reported both in Spain and in the euro area (see Chart 6.2).

30.6.2022