

Recent economic performance of Spanish SMEs and developments in their access to external financing according to the ECB's half-yearly survey

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Rationale

In recent years the Spanish business sector has experienced unprecedented shocks: the onset of the pandemic, supply chain bottlenecks and escalating commodity prices. In this setting, it is important to assess the sector's economic and financial situation.

Takeaways

- Between April and September 2022, the recovery in activity recorded in the previous two six-month periods continued for Spanish SMEs. However, higher production costs meant that profits declined at the majority of the firms surveyed.
- For the first time since 2013, the survey signals a deterioration in the availability of bank financing.
- In any event, despite rising slightly, the indicator of obstacles to obtaining bank loans remains at historically low levels.

Keywords

Turnover, profits, financial situation, SAFE, access to finance, bank loans, financing conditions.

JEL classification

L25, M21, M41.

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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 in the euro area (SAFE) 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 these firms are mostly SMEs (just over 90%), a group of larger firms is also included, allowing the results to be compared across different firm sizes. The survey includes questions on changes experienced over the past six months in the firms' economic and financial situation, the availability of external finance, the main factors that affect access thereto and the terms and conditions on which such finance has been obtained.

Drawing on the results of the latest round of the survey, which covers the period from April to September 2022,¹ this article analyses the recent developments in Spanish SMEs' financial situation and conditions for access to finance, comparing them with those of larger firms and of their euro area peers. Specifically, their responses as to how their business (mainly turnover and profits) has developed are examined, this being followed by an analysis of their perception of conditions for access to external finance, focusing in particular on bank lending which is the source of external finance most used by smaller firms.

Financial situation

According to the SAFE results, overall, Spanish firms' business activity continued to perform positively in the period from April to September 2022. On the latest data (see Chart 1.a), the number of Spanish SMEs reporting an increase in turnover was, for the third consecutive time, higher than those reporting a decline. 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. The difference between the two groups (net percentage) stood at 18.6%, a marked increase compared with the previous round of the survey (6.9%), although slightly lower than that signalled by the expectations for the period six months earlier (27.5%). This positive rate of recovery in turnover may partly be a result of the favourable impact of the lifting of the mobility restrictions adopted to tackle the pandemic, which were phased out in the period covered by the survey. In any event, in Spain, SMEs continued to fare less well than larger firms. This was also true in the euro area as a whole, where the above indicators showed similar patterns.

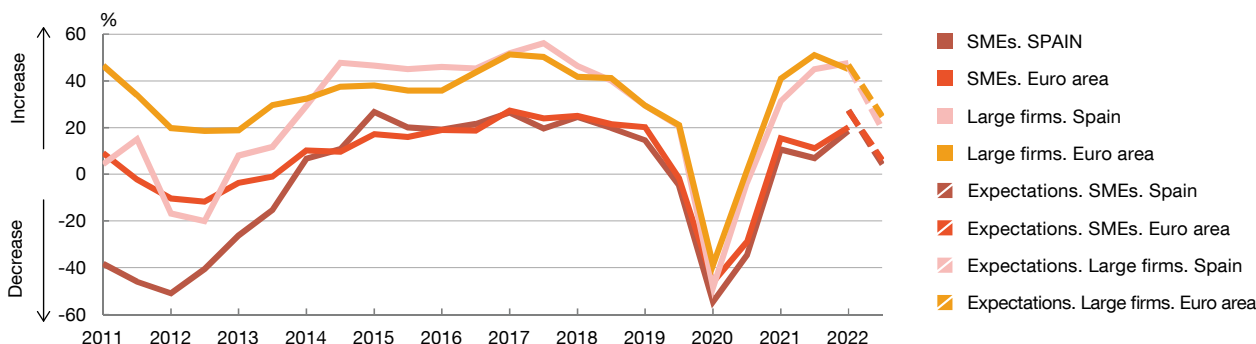
Expectations for the following six months (October 2022 to March 2023) among Spanish SMEs point to a marked slowdown in business activity, with just 4.3% (in net terms) expecting their turnover to grow in the period, 23 percentage points (pp) less than the previous figure. Large firms

¹ The survey was conducted between 7 September and 14 October 2022.

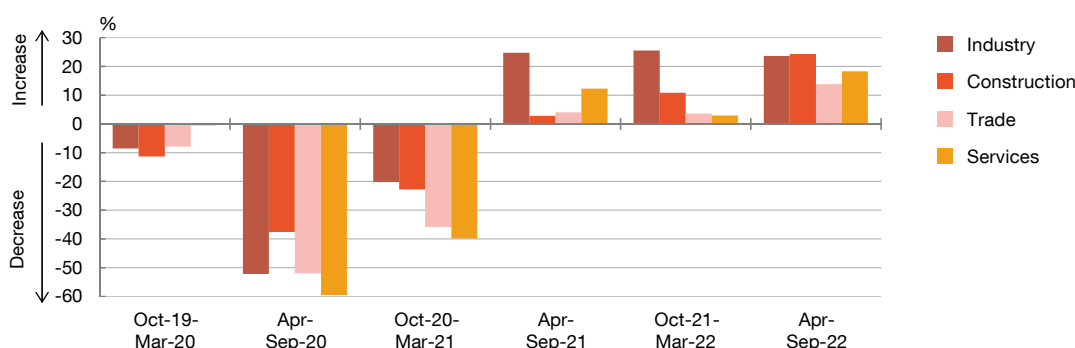
Chart 1

Turnover continues to grow, but expectations point to a slowdown

1.a Change in turnover. Breakdown by firm size (a) (b)



1.b Change in turnover 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.

b There are two rounds of the survey every year, each covering a six-month period, from April to September and from October to the following March.



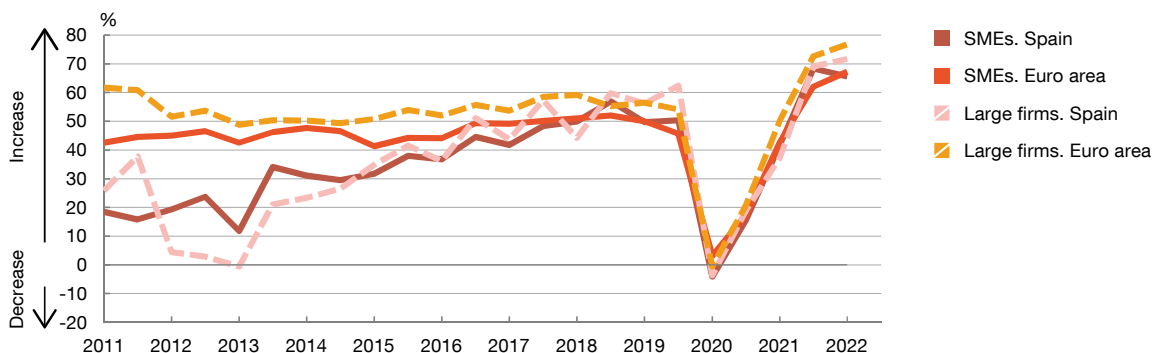
also expect to see a decline in their turnover, although it would continue to outperform that of SMEs. Consistent with Spanish firms' lower expectations, euro area SMEs are also less optimistic regarding the outlook for their turnover over the next six months, with just 13% (in net terms) expecting it to continue to perform favourably, well below the 34% reported in the previous survey round.

The sectoral breakdown for Spain shows that, overall, turnover evolved favourably across all the productive sectors in the period April to September 2022 in net terms (see Chart 1.b). The construction sector saw the highest number of SMEs in net terms reporting an increase in turnover (24.3%); this is also a sharp gain on six months earlier (10.8%). The industrial sector registered another high figure (23.6%), very similar to the last two rounds of the survey. Meanwhile, trade and services were the two sectors that posted a comparatively less dynamic performance, with only 13.8% of SMEs in trade and 18.3% in services reporting higher turnover, albeit compared with just 3.6% and 2.9%, respectively, in the last survey round. Moreover, services recorded the

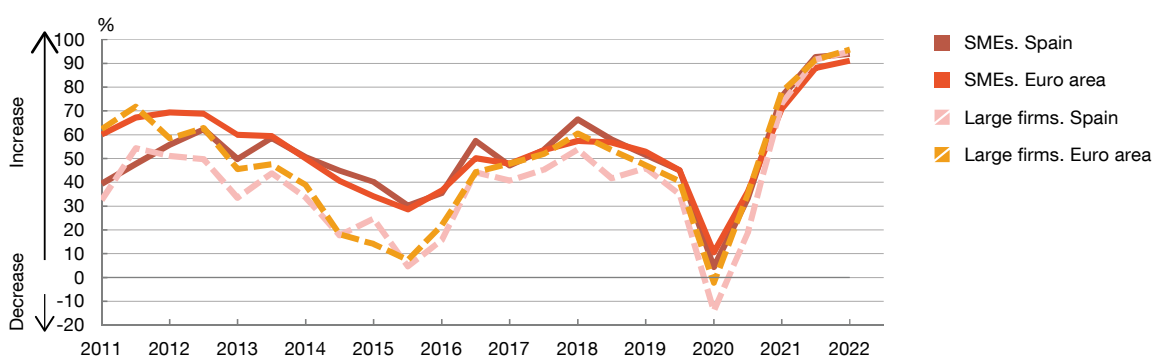
Chart 2

Widespread decline in corporate profits on account of higher costs

2.a Change in labour costs. Breakdown by firm size (a) (b)



2.b Change in other costs. Breakdown by firm size (a) (b)



SOURCES: ECB and European Commission (SAFE).

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

b There are two rounds of the survey every year, each covering a six-month period, from April to September and from October to the following March.



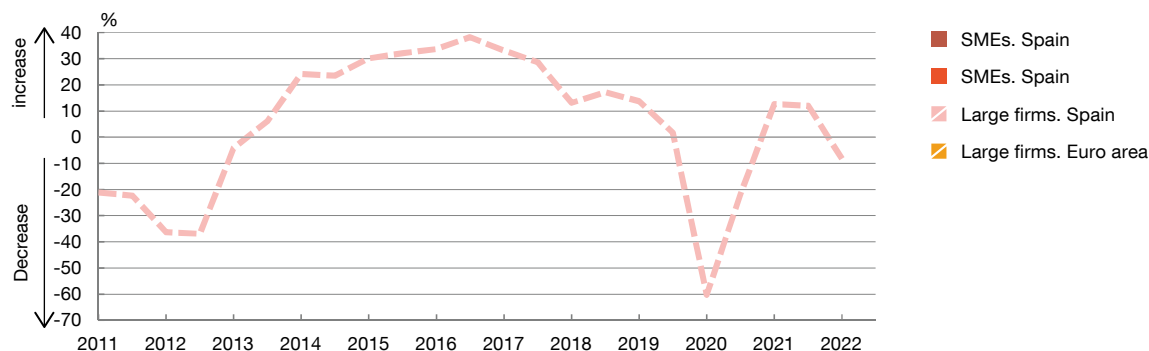
highest growth on the previous period, possibly related to the gradual easing of the restrictions on activity which had hit this sector the hardest.

The SAFE results also show that, over the period analysed, both the cost of inputs and labour costs continued to rise across the board. Specifically, 65.2% (in net terms) of Spanish SMEs reported that their labour costs had increased, and 94% that all their other production costs had risen (see Charts 2.a and 2.b). Not only are these figures all-time highs since the start of the series, but they are also well above the reported rate of growth of turnover. Accordingly, rising production costs have had a significant impact on recent profit performance. Thus, between April and September 2022, the proportion of Spanish SMEs reporting a decline in profits far outweighed the percentage of those reporting growth in profits, with the difference between the two groups standing at 25%, 2 pp more than in the previous round of the survey (see Chart 2.c). The majority of large firms also reported a decline in profits, with the net percentage standing at -8%, compared with profit growth in the last two survey rounds. The euro area data are similar in terms of profits, although the percentages for SMEs are somewhat lower than in Spain. The sectoral breakdown

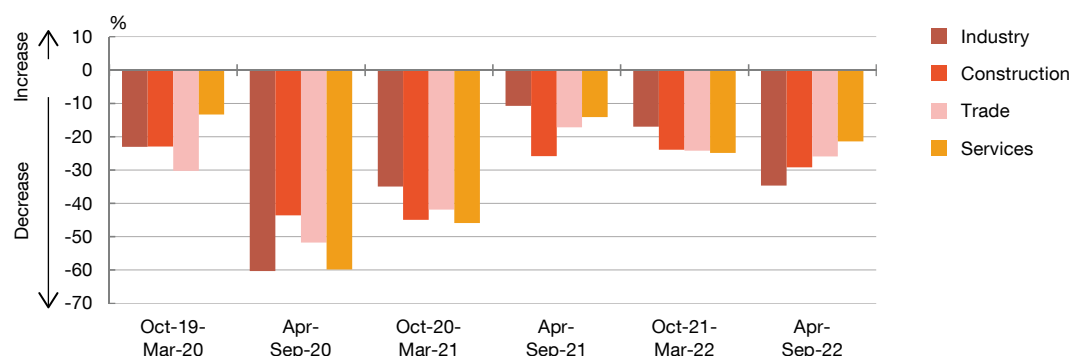
Chart 2

Widespread decline in corporate profits on account of higher costs (cont'd)

2.c Change in profits. Breakdown by firm size (a) (b)



2.d 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.

b There are two rounds of the survey every year, each covering a six-month period, from April to September and from October to the following March.



shows that, overall, firms' profits have performed poorly across all economic sectors, with net percentages – with the sole exception of the services sector – more negative than those registered in the previous survey round (see Chart 2.d).

Lastly, according to a synthetic indicator that assesses firms' vulnerability based on their economic situation and indebtedness, the percentage of vulnerable Spanish SMEs² held steady, at 7%, between April and September 2022. Similarly, the proportion of profitable firms,³ i.e. those whose economic and financial situation evolved more favourably, was unchanged at 3.7%. In the euro area, the percentage of vulnerable SMEs rose slightly, by almost 1.5 pp to 5.5%, while the proportion of firms in a more comfortable financial position fell by 0.5 pp to around 4%.

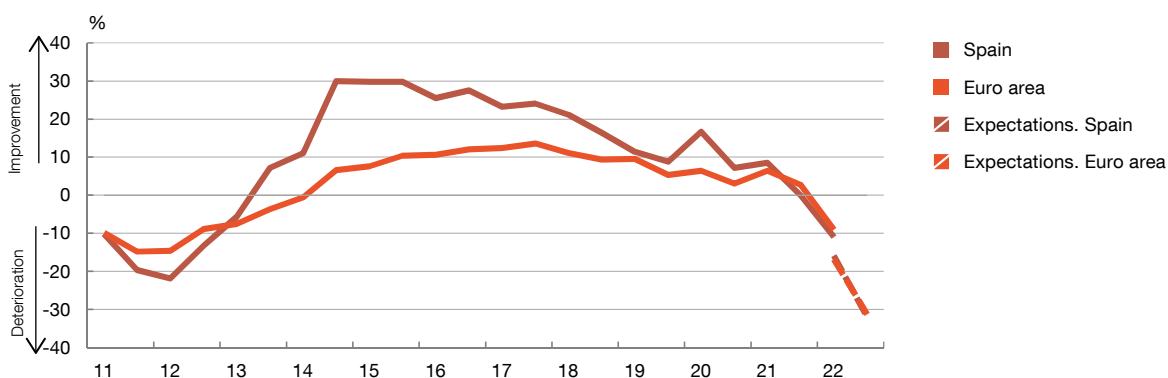
2 Vulnerable firms are those that report lower turnover, decreasing profits, higher interest expenses and a higher or unchanged debt-to-assets ratio.

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.

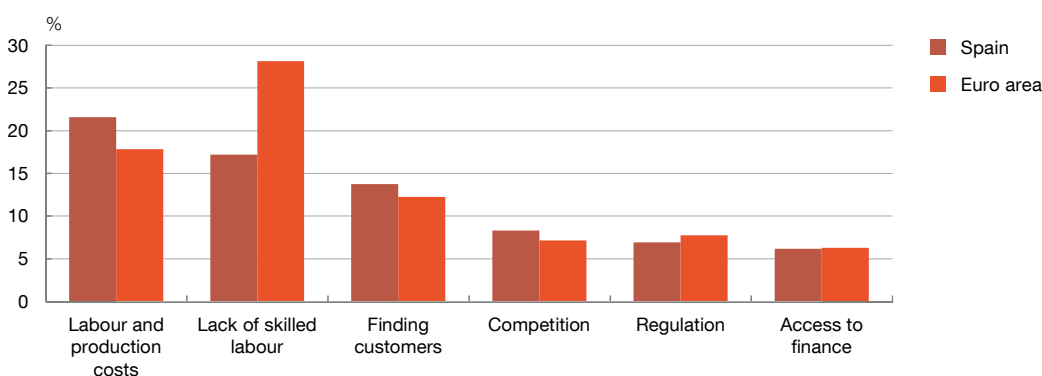
Chart 3

Access to bank finance deteriorated in Spain, for the first time since 2013

3.a SMEs' perception of availability of bank loans (a) (b)



3.b SMEs' main concerns, April to September 2022 (a) (b)



SOURCES: ECB and European Commission (SAFE).

- a Percentage of firms reporting an improvement less those reporting a deterioration.
- b There are two rounds of the survey every year, each covering a six-month period, from April to September and from October to the following March.



Access to external financing

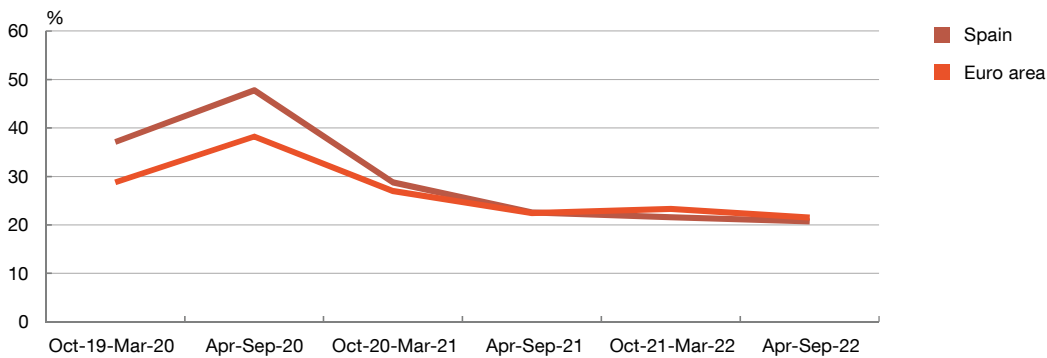
An analysis of access to external financing shows that, for the first time since 2013, between April and September 2022 Spanish SMEs' perception of the availability of bank loans – which are their main source of financing – deteriorated in net terms, as the proportion that detected an improvement in their availability was 11 pp lower than the percentage that perceived a deterioration (see Chart 3.a).⁴ Even so, the deterioration was more moderate than they had expected six months earlier. In the euro area as a whole, access to bank loans evolved similarly, deteriorating for 9% of SMEs (in net terms). This is the first time since 2014 that a perceived deterioration in the willingness of banks to provide credit is reported for the euro area overall. However, both in Spain and the euro area the level of deterioration is much less than that observed during the last financial crisis and,

⁴ These results are consistent with those observed in the July and October 2022 waves of the Spanish Bank Lending Survey where banks reported that credit standards for loans to SMEs had been tightened.

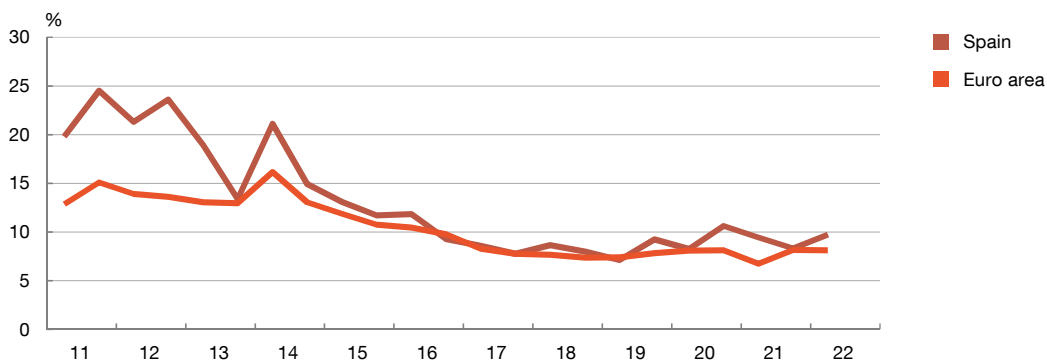
Chart 4

Difficulties obtaining bank financing rose slightly in Spain, although they remained low by historical standards

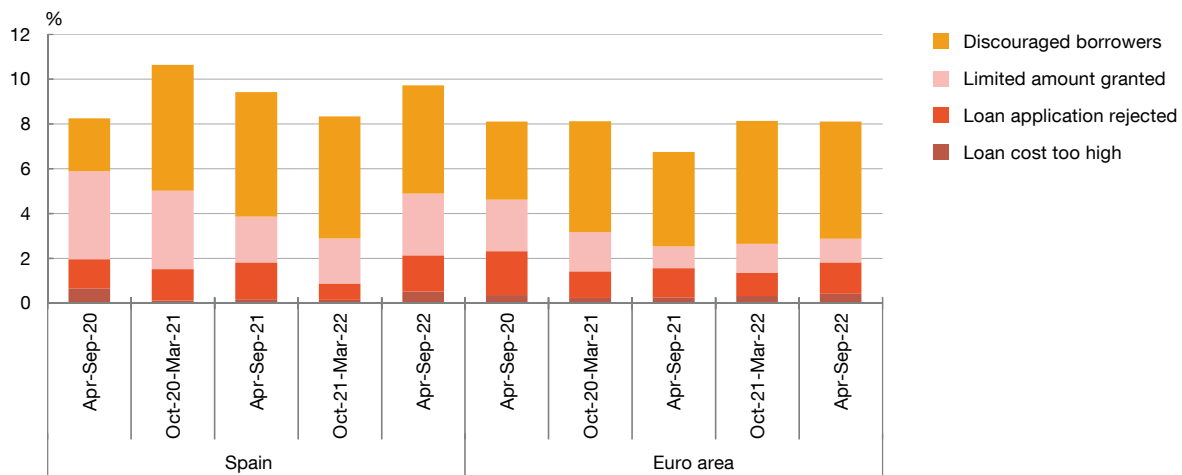
4.a SMEs applying for bank loans



4.b SMEs having difficulties obtaining bank loans (a)



4.c SMEs facing obstacles to obtaining bank loans, by reason (b)



SOURCES: ECB and European Commission (SAFE).

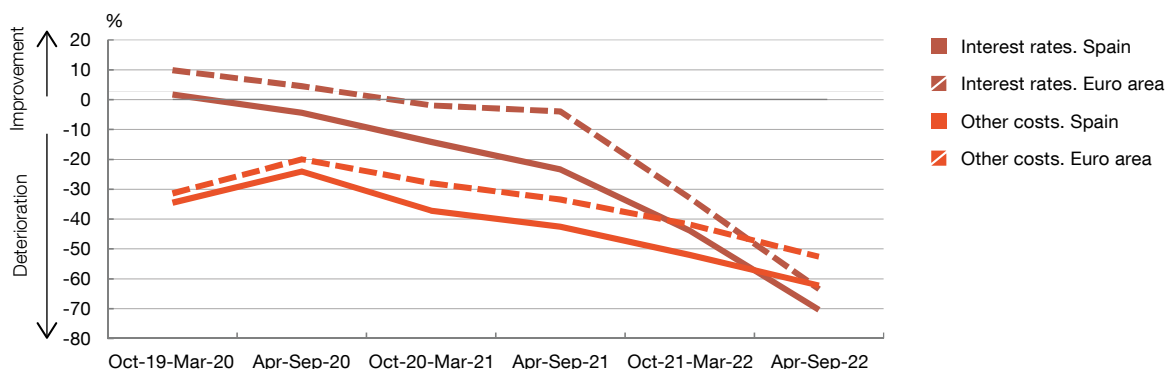
- a There are two rounds of the survey every year, each covering a six-month period, from April to September and from October to the following March.
- b This indicator shows the percentage of firms reporting (i) loan applications that were rejected, (ii) loan applications for which only a limited amount 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).



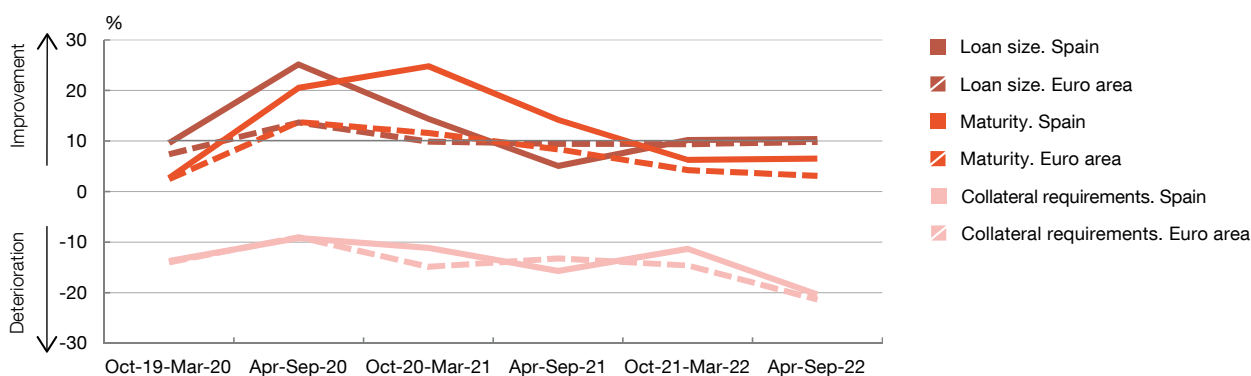
Chart 5

Some credit terms and conditions have tightened

5.a Change in terms and conditions of bank loans to SMEs. Financing costs (a)



5.b 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.



in particular, in 2009 when negative percentages of up to -37% (Spain) and -22% (euro area) were recorded. Meanwhile, for the period October 2022 to March 2023, both Spanish and euro area SMEs expect to see further significant deterioration in their access to finance, according to their responses to the survey mainly as the result of a worsening of the general economic outlook.

Despite the deterioration in their perception of access to external financing, when asked what their main concern was, higher production costs was the factor reported by the largest proportion of Spanish SMEs (almost 22%), while access to financing continued to be their least main cause of concern, being selected by just 6% of the total (see Chart 3.b). In the euro area, the lack of skilled labour was again the dominant concern for SMEs, followed by higher production costs, while, as in Spain, access to financing remained the least important obstacle in this respect.

According to the survey, the proportion of SMEs that applied for a bank loan between April and September 2022 remained low, both in Spain (21%) and in the euro area (22%), very similar to the

previous survey round (see Chart 4.a).⁵ These are the lowest figures recorded since the survey began in 2009, probably because a high percentage of SMEs still hold enough liquidity, after many resorted to bank credit in 2020 to meet their financing needs and build up liquidity buffers against the backdrop of the COVID-19 pandemic.

The percentage of SMEs that had difficulties obtaining bank financing rose slightly in Spain, to almost 10%, 1.5 pp more than six months earlier, while in the euro area it remained somewhat lower, at around 8%, levels very similar to those of the previous survey round (see Chart 4.b). However, in both cases, this indicator is still low by historical standards and distant from the values reached during the financial crisis when in Spain, for example, it rose above 20%. The small rebound in difficulties obtaining financing reported in Spain in 2022 was primarily the result of an increase in rejected applications and, to a lesser extent, an increase in the percentage of SMEs that received only a part of the loan amount they had requested, or were granted the funding but at a higher cost. By contrast, there was a small drop in discouraged borrowers, i.e. SMEs that did not apply for a loan for fear of rejection (see Chart 4.c).

Lastly, the SMEs surveyed reported further tightening of some of the terms and conditions applied to bank loans in the period from April to September 2022. Thus, the net percentage of SMEs reporting an increase in both interest rates and other financing costs rose significantly again (see Chart 5.a). Specifically, in net terms, 64% of euro area SMEs reported an increase in interest rates, the highest figure recorded since the survey began, and 70% of Spanish SMEs, the highest figure recorded since 2012. This rise in interest rates is linked to the ECB's monetary policy normalisation, which has led to hikes in the official interest rate. As regards other terms and conditions, collateral requirements became stricter in the period, but maturities and loan amounts granted improved, with both increasing somewhat for most firms. These trends were reported both in Spain and the euro area (see Chart 5.b).

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⁵ These results are consistent with those observed in the July and October 2022 waves of the Spanish Bank Lending Survey where banks reported lower demand for loans from SMEs.