SMEs in Europe lack an estimated 400bn of bank-financing

- **The Eurozone's SME bank-financing gap has considerably reduced since 2015**, when the ECB began its quantitative easing program. The gap measures the difference between demand and supply of credit for SMEs, meaning it captures the unaddressed demand for credit. It is expected to have decreased from 6% of GDP in 2015 to 3% of GDP in 2019 (or EUR400bn) therefore moving closer to but remaining higher than the 2% of GDP seen in the US, where corporate financing is much more diversified between bank credit and market financing.
- However, **country heterogeneity persists**. SME bank financing gaps are the highest in the Netherlands (22% of GDP), Belgium (14%) and France (9%) where growth in corporate debt has outpaced activity. In Belgium and France, the gaps have even widened between 2015 and 2019, and SMEs tend to have much higher debt ratios compared to three years ago. Meanwhile, SMEs in Southern Europe have strongly adjusted their loan demand downwards, mainly as credit supply did not follow.

[Paris, 9th April 2019] – Small and Medium Enterprises (SMEs) represent more than 99% of all European non-financial corporates and depend on banks for 70% of their external financing. Besides generating close to 60% of total Gross Value Added, they employ over 90 million people. Euler Hermes' new study focuses on SMEs as critical actors in the European economy; it estimates the bank financing gap for SMEs in the Eurozone as a whole and in six main countries: Germany, France, Italy, Spain, the Netherlands and Belgium.

This study was jointly produced by Euler Hermes Economic Research and Euler Hermes Rating. Established in 2001 and based in Hamburg and Paris, Euler Hermes Rating was the first credit rating agency to be registered under the EU regulation on credit rating agencies. It is specialized in delivering independent credit opinions on SMEs and MidCaps. Moody's has a 4.99% stake in Euler Hermes Rating GmbH. In June 2017, Euler Hermes Rating launched **TRIB**Rating, a robust assessment of creditworthiness for SME's developed through the Euler Hermes collaboration with Moody's Investors Service

- **Narrowing the SME bank-financing gap**

"*The Eurozone's SME bank-financing gap is expected to have decreased from 6% of GDP in 2015 to 3% of GDP in 2019 in the Eurozone. This level moves the Eurozone's bank-financing gap closer to, but still higher than, the 2% of GDP seen in the US*", said **Kai Gerdes, Head of Analysis at Euler Hermes Rating**.

However, Euler Hermes' latest report highlights a major contrast between the core Eurozone countries (Germany, France, Belgium and the Netherlands) and Southern European countries, such as Italy and Spain. Euler Hermes observed a strong increase in loan demand in the core countries but a significant decline in Southern European countries (-59% in Italy, -45% in Spain). In addition, loan supply in core countries increased much more than in Southern European countries. "*On one side this can be related to a more timid growth in credit supply by banks but also to a higher self-financing capacity in these countries compared to core Eurozone countries",* explains **Ana Boata, Senior Economist for Europe**. *"In addition, investment growth in Southern European countries has picked-up later than in the rest of the region while financing their working capital has become a larger constraint, and increased their dependency on short-term credit."*

While the bank financing gaps are expected to decrease in most countries in 2019, compared to 2015, they are likely to widen in Belgium and France, where the stock of corporate debt is the 4th and 5th highest in the Eurozone. It shows that companies in these countries are more vulnerable to an economic downturn, given their high dependency on debt to finance their investments.

- **The bank financing gap should remain stable going forward as the ECB adopted a more dovish stance**

SMEs dependency on banks remains high in the Eurozone with 70% of external financing being reliant on banks, against 40% in the US, where market funding plays a bigger part. However, the ECB's very accommodative monetary policy has supported the reduction in the SME bank financing gap. The current monetary policy is now set to continue at least until the end of 2020, meaning interest rates should remain low and liquidity should stay abundant. This policy is crucial to European SMEs as any gap between loan demand and supply could lead to lower investment growth, which could be a constraint on the overall Eurozone economic growth in the future.

What is **TRIB**Rating?

TRIBRating is a valuable new service that can benefit all players in the SME and MidCap funding space. Using a detailed, tailored and transparent methodology and SME-specific modelling, **TRIB**Rating offers a robust assessment of creditworthiness. The independent, globally comparable credit ratings may enable small- to medium-sized businesses to attract a wider range of funding sources. The **TRIB**Rating methodologies, available in Germany, France, Italy and Spain, were developed in collaboration with Moody's Investors Service, a leading global rating agency with extensive experience of developing rating methodologies across a range of sectors. Coupled with Euler Hermes's extensive credit risk and sector knowledge, **TRIB**Rating identifies, analyzes and monitors the specific credit characteristics of SMEs and MidCaps.

Press contact

EULER HERMES GROUP

Jean-Baptiste Mounier
+33 (0)1 84 11 51 14
jean-baptiste.mounier@eulerhermes.com

FOOTPRINT CONSULTANTS

Cécile Jacquet
+33 (0)1 80 48 14 80
cjacquet@footprintconsultants.fr

Quentin Giudicelli
+33 (0)1 80 48 14 80
qgiudicelli@footprintconsultants.fr

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We predict trade and credit risk today, so companies can have confidence in tomorrow.