EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB-PUBLIC

Mario DRAGHI
President

Mr Brian Hayes
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt, 1 September 2015

L/MD/15/499

Re: Your letter (QZ-104)

Honourable Member of the European Parliament, dear Mr Hayes,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 22 June 2015.

Small and medium-sized enterprises (SMEs) are, particularly in crisis periods, more likely to experience difficulties in obtaining external funding than large firms. In order to monitor the developments in this sector, the Eurosystem, in cooperation with the European Commission, has been conducting a biannual survey on the access to finance by enterprises (SAFE) since 2009. The survey covers micro, small and medium-sized firms as well as large firms and it provides evidence on the financial situation of SMEs and the financing conditions faced by SMEs as compared with those of large firms covering a reporting period of six months.

The results presented in the SAFE survey rely mostly on qualitative data extracted from the answers of the surveyed firms considering their experience during the last six months. The figures that you mentioned, about the change in bank lending rates, refer to question 10 in the survey.[1] This question is about the terms and conditions of bank financing, such as bank loans, overdrafts and credit lines. Firms which have applied for these types of financing in the past six months are asked whether the level of interest rates increased, remained unchanged or decreased in the past six months.

[1] The text of the questionnaire used for the SAFE is available on the ECB's website at: https://www.ecb.europa.eu/stats/money/surveys/sme/html/index.en.html

Since mid-2009 the SAFE surveys have been reporting net increases in the level of interest rates for SMEs in Ireland. More specifically, in your letter you refer to the October 2014-March 2015 SAFE survey, which reports that 25% of SMEs in Ireland recorded an increase in bank lending rates. This figure refers to the net percentage increase, i.e. it is computed as the difference between the percentage of SMEs which reported an increase in interest rates (41%) and the percentage that reported a decrease (16%). In the Department of Finance survey (Red C SME Credit Demand Survey, October 2014 to March 2015), the percentage reporting a reduction (24%) is somewhat higher.

When comparing both surveys, it should be noted that discrepancies in the figures can be expected, since they are based not only on different samples of SMEs, but also on different-sized samples, with the Department of Finance survey including a much higher number of Irish firms. In addition, the questions in the surveys are not identical. For the questions on interest rates you are referring to, the SAFE survey asks only those firms that applied for bank credit, while the Department of Finance survey asks all firms covered by the survey.

In addition, in your letter you refer to trading conditions of Irish SMEs, mentioning that recently 84% of Irish SMEs from the Department of Finance survey reported an increase or a stabilisation of these conditions. This figure happens to be identical to the percentage of SMEs in Ireland from the SAFE survey which reported an increase or a stabilisation in turnover in the most recent SAFE survey (question 2 in the survey).

Finally, let me stress that the Eurosystem has taken a number of actions that are currently helping to restore the normal functioning of the monetary policy transmission mechanism, thereby facilitating the financing of SMEs. In terms of financing structure, SMEs in the euro area are typically more dependent on bank lending than larger enterprises. In this respect, the credit easing package adopted in June 2014 and the expanded asset purchase programme have contributed to lowering the level of bank lending rates and to narrowing the cross-country dispersion of borrowing costs, thereby having a positive impact on the financing costs for SMEs. Recent bank lending surveys for the euro area as a whole show that increased competition between banks has contributed to an easing of credit conditions since the beginning of 2015.

Yours sincerely,

[signed]

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