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PRESS RELEASE

Sensitivity to the crisis of SME financing in Belgium
(Article for the December 2015 Economic Review)

The banking crisis and the sovereign debt crisis both affected bank lending to businesses in Belgium. However, a reduction in the supply of loans is likely to have a greater impact on SME financing, since most SMEs are heavily dependent on funds lent to them by the banks to finance their activities.

The worsening economic conditions following the outbreak of the financial crisis in 2008 was accompanied by a decline in bank lending to non-financial corporations as a whole. However, not all businesses were affected to the same degree, as the size of the firm proved to be an important factor. The slowdown had a bigger impact on large firms, as they issued debt securities, which had become more cost effective, instead of obtaining bank loans, thus partially circumventing the scarcity of the latter. Conversely, in the absence of such easy access to the financial markets, SMEs' demand for loans showed a less marked decline even though the conditions imposed by the banks may have seemed less favourable to them, and lending to that type of business was maintained during the crisis episodes at a higher level than was expected in the light of the economic situation.

Business surveys and bank lending surveys reveal that the terms and conditions associated with loans were adjusted in different ways according to the size of the firm. It emerges that the main reasons for restricting the supply of loans to large companies were increased funding costs and balance sheet constraints, reflected in higher interest margins and limits on the size and duration of the loan, while the tougher terms for SMEs were dictated more by higher perceived risks, giving rise to demands for additional collateral.

These findings are borne out by an analysis of the microeconomic data which, among other things, permit an assessment of the financial health of each firm by means of a composite indicator. That approach reveals that firms which are in a more fragile financial position and therefore present greater risks of insolvency are concentrated among SMEs. In addition, the ones which were already in a relatively precarious position when the crisis erupted generally saw their financial health deteriorate in the ensuing years. As the risk factor plays a key role in Belgian banks' policies on the provision of funds for SMEs, it is likely that this change has depressed lending in recent years.

Econometric estimates also show that, given an unchanged level of risk, the banks would not have become more restrictive towards their existing customers after the onset of the crisis. This suggests that they favoured maintaining long-term relationships with their customers. On the other hand, they would have become less inclined to take risks in lending to SMEs with which they had no previous trading relationship, by giving preference to those with a better risk profile.

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