EUROPEAN CENTRAL BANK
EUROSYSTEM

Press release

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Survey on the Access to Finance of Enterprises: strong tightening in perceived financing conditions amid continued rise in turnover

- Euro area firms signalled a continued increase in turnover, while higher labour, production and interest costs weighed on their profitability. Turnover is expected to increase further over the next six months.
- Lack of skilled labour and rising input costs were widely reported as the main concerns.
- Over the next year, firms expect their selling prices and wage costs to increase on average by 6.1% and 5.4%, respectively.
- A comprehensive indicator of how firms perceive financing conditions shows a continued deterioration (47%), the highest since the start of the survey in 2009.
- The net percentage of firms reporting tighter price terms and conditions for bank loans reached a historical high.

In the latest round of the twice-yearly Survey on the Access to Finance of Enterprises (SAFE) in the euro area, covering the period from October 2022 to March 2023, firms indicated a continuing improvement in business activity, with increased turnover reported more frequently among large enterprises than among small and medium-sized enterprises (SMEs) (Chart 1).

A net[1] 16% of SMEs reported a deterioration in profits, while large firms signalled no change in profits on balance. Lower profitability reflects a rise in the cost of labour, with the net percentage of firms reporting an increase in labour costs (77%) reaching a new historical peak in the survey. The net

[1] Net percentages are defined as the difference between the percentage of enterprises reporting an increase and the percentage reporting a decrease.

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percentage of firms indicating a rise in costs for materials and energy (89%) remained high, although it was slightly below the figure reported in the previous survey round. This reflected an easing in supply bottlenecks, along with falling energy prices. Increasing interest expenses also had a negative impact on profitability, with the net percentage standing at its highest level since the survey started. Increases in labour costs and interest expenses were reported more broadly by large firms than by SMEs, while the net percentage of firms indicating an increase in other costs was similar across firm sizes.

The latest survey round provides quantitative information on euro area firms' expectations about their selling prices and wages over the next 12 months. Firms reported on average that they expect their selling prices to increase by 6.1% and their employees' wages to rise by 5.4% over the next 12 months (Chart 2).[2] Labour and non-labour input costs, inflation expectations and demand conditions were reported to be the most important factors for firms' price-setting behaviour over the next year.

Firms' replies on external financing needs and availability continued to reflect the monetary policy tightening. Compared with the previous survey round, fewer euro area firms reported a net increase in demand for external financing across instruments, while availability deteriorated slightly. This resulted in a net 6% of firms reporting a widening of the financing gap (compared with 9% in the last survey round). The smaller increase in the financing gap was mainly due to a lower net percentage of large firms signalling a wider financing gap in this survey round (net 6%, down from 11% in the previous round, Chart 3).

In addition, euro area firms reported a tightening in financing conditions. In particular, a net 87% cited higher bank interest rates (up from 71% in the previous round), reflecting the transmission of the monetary policy tightening to the cost of borrowing for corporations. A comprehensive indicator of how firms perceive financing conditions shows a continued deterioration (47%), the highest since the start of the survey in 2009.

Despite tighter financing conditions, the net percentage of firms reporting obstacles to obtaining a bank loan remained broadly unchanged at 7%, with net percentages of 5% for large firms and 9% for SMEs.

Looking ahead, euro area firms expect a further deterioration in the availability of bank loans and credit lines in the coming six months, but expect an improvement in the availability of internal funds in net terms.

[2] Firms' expectations about their future selling prices reported here cannot be directly compared with commonly used measures of consumer price inflation expectations. Firms' responses reflect producer prices rather than a consumption basket as in the case of the Harmonised Index of Consumer Prices (HICP).

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The report published today presents the main results of the 28th round of the SAFE in the euro area, conducted between 6 March and 14 April 2023 and covering the period from October 2022 to March 2023. The sample comprised 10,983 enterprises, of which 10,085 (92%) are SMEs (i.e. firms with fewer than 250 employees).

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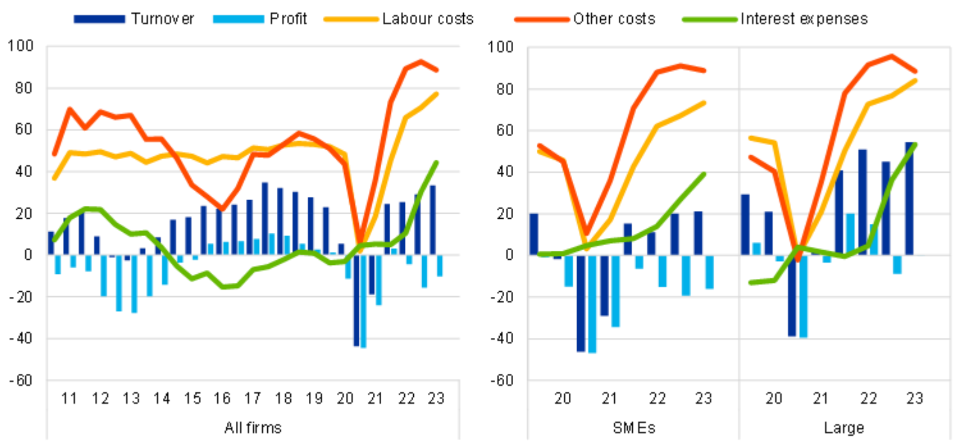
Notes:

- The report on this SAFE survey round, together with the questionnaire and methodological information, is available on the ECB's website.
- Detailed data series for the individual euro area countries and aggregate euro area results are available from the ECB's Statistical Data Warehouse.

Chart 1

Changes in the income situation of euro area enterprises

(net percentages of respondents)

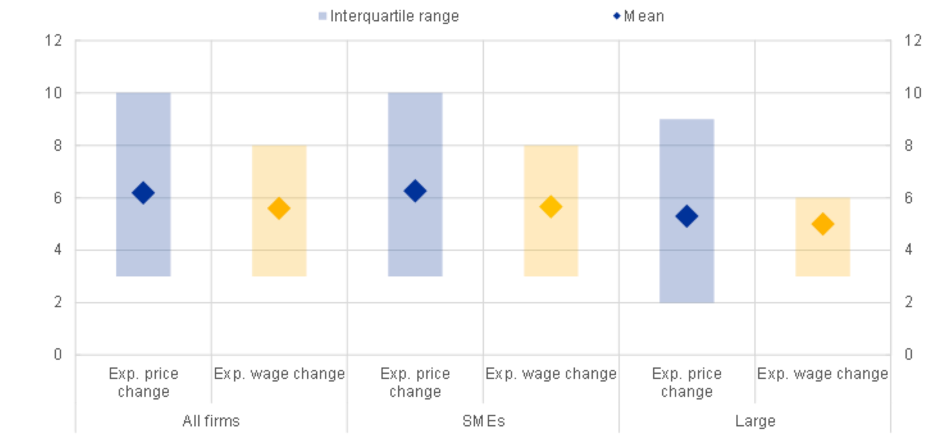


Base: All enterprises. The figures refer to rounds 3-28 of the survey (March 2010-September 2010 to October 2022-March 2023) for all firms and to rounds 21-28 (April 2019-September 2019 to October 2022-March 2023) for SMEs and large firms.
Notes: Net percentages are the difference between the percentage of enterprises reporting an increase for a given factor and the percentage reporting a decrease. The data included in the chart refer to Question 2 of the survey.

Chart 2

Average expected price and wage changes

(weighted percentages)

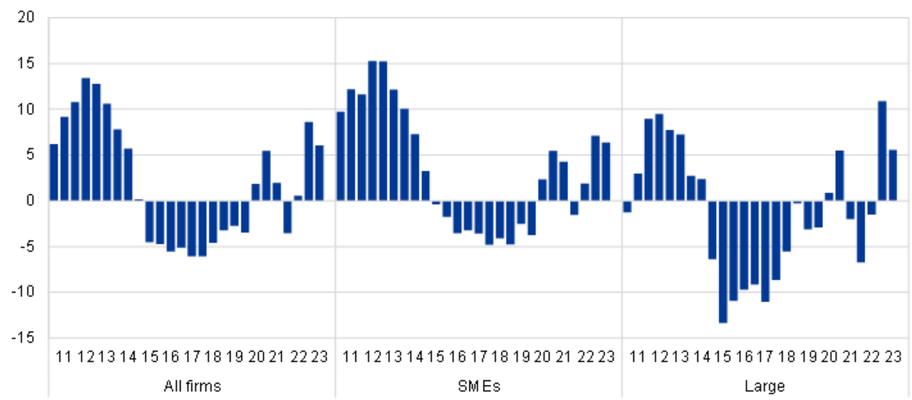


Base: All enterprises. The figures refer to round 28 of the survey (October 2022-March 2023).
Notes: Average euro area firm expectations about selling prices and wages of current employees for the next 12 months, along with interquartile ranges, using survey weights. The statistics are computed after trimming the data at the country-specific 1st and 99th percentiles.

Chart 3

Changes in the external financing gaps reported by euro area enterprises

(weighted net balances)



Base: Enterprises for which the instrument in question is relevant (i.e. they have used it or considered using it). Respondents replying “not applicable” or “don’t know” are excluded. The figures refer to rounds 3-28 of the survey (March 2010-September 2010 to October 2022-March 2023).
Notes: The financing gap indicator combines both financing needs and the availability of bank loans, credit lines, trade credit, and equity and debt securities issuance at firm level. For each of the five financing instruments, the indicator of the perceived change in the financing gap takes a value of 1 (-1) if the need increases (decreases) and availability decreases (increases). If enterprises perceive only a one-sided increase (decrease) in the financing gap, the variable is assigned a value of 0.5 (-0.5). The composite indicator is a weighted average of the financing gaps for the five instruments. A positive value for the indicator points to an increase in the financing gap. Values are multiplied by 100 to obtain weighted net balances in percentages.

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