

ACCESS TO BANK LOANS FOR SMES IN SLOVAKIA

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Abstract: *Despite significant and irreplaceable role that small and medium – sized enterprises (SMEs) play in the Slovak economy, their access to sources of finance is difficult. The paper deals with the access of SMEs to bank loans, as it is their main external source of finance. Compared to large enterprises, SMEs are more likely to suffer from asymmetric information problems, and so from financing constraints. This situation was more pronounced after the outbreak of the financial crisis in 2009. Banks responded to the new situation by increased caution when they granted loans. The aim of the article is to analyze the development of loans to small and medium-sized enterprises in the Slovak Republic and subsequently draft the measures that could help improve the business environment of SMEs in Slovakia. The performed analysis suggests that we can identify differences in access to bank loans for SMEs and large enterprises and documents it in the individual development stages with concrete statistical data.*

Key words: *Small and medium – sized enterprises, loans, banks*

1. INTRODUCTION

It is generally acknowledged, that small and medium – sized enterprises (SMEs) are the backbone of all economies, as well as a key source of economic growth, dynamism and flexibility. Small businesses are particularly important for bringing innovative products or techniques to the market.

Creation of an appropriate business environment is an important factor in the small and medium business (corporate) sector development. It presupposes, among the others, especially improving of the access to capital. Financing is necessary to help them set up and expand their operation, develop new products, and invest in new staff or production facilities.

The paper deals with the loan financing to SMEs in Slovakia.

Financial, as well as debt crisis in the Euro area naturally influenced obtaining loans. As the article reveals, the bank loans had been quite common and accessible source of financing even in Slovakia before 2009, which is true also for the risky segment of SMEs (depending on the core and genesis of their business). Commercial banks thanks to high levels of their deposits had started to create more flexible and affordable credit schemes.

The supply side replied to the financial crisis almost immediately, especially by the tightening of the bank lending conditions. The lending was almost completely frozen at the time of the deepest crisis. Risks associated with required guarantees had the highest impact on tightening of the standards, which were tightened especially for the category of SMEs.

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The aim of the article is to analyze the development of loans to small and medium-sized enterprises⁴⁴ in the Slovak Republic and subsequently draft the measures that could help mitigate the negative impacts of the crisis on SMEs in Slovakia. It is a survey carried out *ex post facto*. It involved secondary data from the National Bank of Slovakia.

2. THE POSITION OF SMEs IN THE ECONOMY OF THE SR

In Slovakia, similarly to other developed economies, SMEs are recognized and classified as a basis of economy. In order to improve the business environment for their development, it is necessary to assess their position and monitor development. A deeper analysis of the SME sector in the context of time allows identifying existing trends, expecting future developments and preparing measures to ensure the optimal development.

Based on the data processed from the Statistical Office of the Slovak Republic (SO SR) there were 557 758 active entities in 2016, out of which 557 122 were small and medium-sized enterprises (i.e. they accounted for 99.9% of the total number of business enterprises). In year-on-year comparison the total number of active SMEs increased by 4.9%. The development of the overall number of active SMEs thus continues to be positive. Even the number of small and medium-sized enterprises - entrepreneurs which declined between 2009 and 2015, increased by 2.5% in 2016, as was the case of small and medium enterprises - legal entities (by 9.1%).

The largest share in this category was represented by micro entities (97.1%), small enterprises (2.3%) and medium enterprises accounted for the smallest representation (0.5%). Natural entities – entrepreneurs comprised nearly two thirds (62.3%) from the total number of active SMEs in Slovakia.

Comparing with the available data for the whole EU, we can conclude, that size structure of the business sector in the Slovak Republic is largely similar to the size structure of enterprises of the other EU Member States [1]. Moreover, the micro enterprises represent more significant proportion in the Slovak business sector than in the other EU countries.

In Slovakia the achieved share of small and medium-sized enterprises in employment in the business economy was 7.3 p.p. higher than in the countries of the EU – 28 in 2016. In the scope of individual size categories in Slovakia in comparison with EU-28 countries, micro enterprises had the most dominant position (a share higher by 15.4 p.p.), accordingly as well as with the size structure of enterprises.

3. SME FINANCE IN THE SR

SME finance is based on the same principles and it works with the similar procedures as the corporate finance generally. SMEs, however, have more specificities, which are reflected in their financial management processes.

These are connected with their smaller size, lower degree of diversification, more limited market and higher riskiness.

⁴⁴ The categorization of enterprises used in Slovakia, as well as in the other EU Member States, is according to the Recommendation of the European Commission no. 2003/361/EC valid from 1.1. 2005. Enterprises qualify as SMEs if they fulfil the criteria laid down in the Recommendation. In addition to the staff headcount ceiling, an enterprise qualifies as a SME if it meets either the turnover ceiling or the balance sheet ceiling, but not necessarily both.

They have different structure of assets compared to large companies – share of their fixed assets to total assets is significantly lower. On the other hand, the share of current liabilities to assets is higher, which indicates their higher financial vulnerability [2].

SMEs tend to have less financial strength, do not have sufficient collateral, which is usually the main reason why banks refuse to provide credit to them and why such businesses obtain it so hard. Smaller businesses and enterprises with a shorter history have only short-term contacts with the banks and therefore pay higher interest rates and the banks require higher guarantees from them. [3].

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SME finance is more complicated due to the fact, that they require different spectrum of financial tools in various stages of life – cycle.

These companies often depend on the informal sources of finance at the initial stages of their life. External sources are getting to be important with the beginning of the expansion stage and access to them can influence the development trajectory significantly.

The specific features of SMEs include also their benefits, esp. their flexibility. SMEs have closer contact with customers and so they can adapt to their new needs faster.

In Slovakia, SMEs are primarily financed from their own sources, respectively from loans and leasing. According to Majkova [4], these are the sources that they know and therefore they most often use them.

This fact is confirmed by the results of the research on access of the SMEs to external sources of financing which was realized by Slovak Business Agency in 2015 [5].

We analyze the development of the SME finance in Slovakia through bank loans in the next part of the paper, while we concentrate on the impact of the financial crisis on the loan financing.

4. DEVELOPMENT OF LOAN – FINANCING IN THE SR

Development of the financing of the corporate sector by bank loans in the centrally planned economy (before 1989) was given by the state policy. Banking system was a single stage. The core of the system was the State Bank of Czechoslovakia, which was not only a central bank, but it served as a commercial bank, too. There were several other banks, but the main feature was a state ownership of banks and their central management. The banking sector did not monitor the companies, while it was not worried about the solvency of borrowers (it was guaranteed by state).

Changes of the Slovak economy and formation of the financial system caused the need for the transformation of the banking system. After 1989 there was a conversion to a two – tier banking system (the central bank and commercial banks). An important step (in connection with the establishment of the SR) was the formation of National bank of Slovakia (NBS) (central bank). There was lending to companies in the first years after the establishment of the SR performed

(often without their adequate monitoring and that is why less creditworthy companies got loans). Increasing number of new enterprises and entrepreneurs (due to privatization) increased the risk of businesses that had difficulties in repaying of debt service of loans. As a result, the number of outstanding loans was also increasing, it was over 30% in 1998.

These problems were also transferred to the banking sector, which did not have enough resources to provide further loans (lack of resources for profitable companies and reluctance to provide loans to distressed companies). Insufficient legislative regulation of dealing with problem loans deteriorated the situation in this area. Problems of the corporate sector manifested more markedly in the late 90s. The problems of the companies with repayment of the loans made the banks to increase interest rates.

The reform of the banking sector was necessary for the rescue of banks and their relations with the business sector. It was realized in the late 90s. It contributed to the standardization of the environment, which created the basis and potential for corporate lending and expansion of foreign banks created a more competitive credit environment.

In the pre – accession period (1999 – 2003) after the implementation of the reform of the banking sector the corporate lending improved. Competition among the subjects of the banking sector contributed to increasing interest in SMEs. Obtaining credit remained still problematic for start – ups, and problems with obtaining long – term loans for investment activities persisted. The average annual credit growth of the business sector (in %) in the period 2001 – 2004 suggests that the development of lending to the corporate sector was in red numbers as opposed to household lending [6]. This development was associated with better management of companies, which had sufficient internal funds and so their need to borrow from external entities was lower.

Post – accession period, in terms of lending to corporate sector, can be divided into 2 stages:

1. The first post – accession years (2004 – 2007),
2. The period since the outbreak of the financial crisis to present day (2008 – 2015).

We monitor the growth of debt finance of the whole corporate sector in 2004 – 2007. Especially in 2006 the banking sector recorded an increased interest of SMEs in bank loans. Despite the interest in SMEs in this period research of the World bank [7] conducted in 2005 in Central and Eastern Europe countries (CEE countries) confirmed that SMEs feel more limited in funding opportunities compared to larger companies.

The financial crisis had a significant impact on lending to the corporate sector. Even though it was induced in the retail banking segment primarily, it affected especially the rights of companies in terms of lending.

In 2008 the Slovak banking sector was profitable and we document the high rate of credit growth. The situation has changed since this year. Banks responded to the crisis immediately, mainly by tightening of the lending conditions.

Risks associated with required guarantees had the highest impact on tightening of the standards, which were tightened especially for the category of SMEs [8].

In 2014, compared to year 2013 the state of provided entrepreneur credits of SMEs rose by 10.9%, which represents the most significant interannual rise since the year 2008. The extent

of SMEs bank loans usage (the share of SMEs-PO along with bank credits) rose interannually from 1.3% to 17.7%. The share of entrepreneurs, which make use of bank credits, rose interannually in all size categories of SMEs. Long-term highest share of entrepreneurs, which make use of bank credits, is in category of medium-sized enterprises (52.8%, rise of 0.4%). In category of small-sized enterprises 42.0% of the subjects seemed to make use of bank credits (interannual rise of 1.1%) and in the category of microenterprises 15.4% (interannual rise of 1.4%). The state-guaranteed loans are provided by the Slovak guarantee and development bank (SZRB), primarily to those SMEs, which does not possess sufficient credit security, or are considered to be unreliable for commercial banks. The basic principle of providing Guarantees for loans relies on the breakdown of risks between SZRB, the client and the partner subject. In the year 2015 the total sum of bank guarantee portfolio of SMEs was 109 mil. euro (interannual decrease of 3.5%). In contrary, state-provided guarantees for the SME rose in the interannual comparison by 46.2% to a sum of 38 mil. euro (SZRB, Eximbank). Average credit tariff rate of provided bank credits for SMEs in the year 2015, in accordance to NBS data, decreased by 0.4% to 3.4%.

Indicator	Year							
	2008	2009	2010	2011	2012	2013	2014	2015
Provided business loans to SMEs in mil. Eur	12 092	12 032	12 046	10 600	11 038	10 734	11 902	13 217
Total provided business loans in mil. Eur	15 679	15 156	15 174	16 117	15 523	15 102	14 837	16 119
Short-term loans granted to SMEs in mil. Eur	4 797	4 981	4 987	4 188	4 481	4 532	5 385	
A long-term loans to SMEs in mil. Eur	7 295	7 051	7 059	6 412	6 557	6 202	6 517	
The share of SMEs (corporate). bank loan	16.0%	18.2%	17.7%	16.5%	16.3%	16.4%	17.7%	
State guarantees granted to SMEs in mil. Eur	99	81	70	84	87	38	26	38
State-guaranteed loans for SMEs in mil. Eur	157	143	139	167	136	157	113	109
Interest rate for SME in %	4.6	3	3.2	3.2	3.8	3.6	3.8	3.4

Table 1: Funding development of SMEs in 2008 – 2015

Source: SBA processed on the basis of the financial statements of businesses

5. SUMMARY AND CONCLUDING REMARKS

The more difficult access to finance of SMEs is approved in a performed analysis of the development of bank loans financing to Slovak enterprises. It suggests that we can identify differences in access to finance for SMEs and large enterprises. These differences were significant especially in transition and pre-accession period. After joining the EU, there were positive trends in reducing disparities, but the economic crisis contributed to the disruption. Banks responded to the crisis by tightening of the standards, which were tightened especially for the category of SMEs.

The situation starts to stabilize slowly. In 2014, compared to year 2013 the state of provided entrepreneur credits of SMEs rose by 10.9%, which represents the most significant interannual rise since the year 2008.

Because of their crucial significance for the economy of our state, improvement of access to finance of SMEs represents one of the most significant challenges for the creators of the

economic policy. Economic policy measures to improve the access of SMEs to credit should be directed to the following areas:

- Increase awareness of SMEs,
- In the provision of guarantees,
- Expand opportunities in microfinance.

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