Collateral squeeze - challenges for corporate finance in Austria
Access to finance for SMEs

“Access to finance” has become a big challenge for SMEs, especially in the last decade. Regulatory frameworks (Basel III/IV) require SMEs to meet increasingly stringent requirements from banks.

These factors include:
- Increased ‘collateral requirements’ for credit institutions;
- Shorter "maturities of loans" are caused by the current revision of the Capital Requirements Directive (CRD V), the Capital Requirements Regulation (CRR II) and the Recovery and Resolution Directive (BRRD).

Credit institutions must further reduce their risk of liquidity shortcomings (so-called "net stable funding ratio")
Access to finance for SMEs

- Due to **high transaction costs** and the **low-interest situation**, the income situation is becoming increasingly widespread for credit institutions.

- In consequence:
  - smaller projects (i.e.: SMEs, innovative startups) are **no longer considered** as targets;
  - credit institutions can lend **less long-term loans** and these are also offered at **more expensive terms**.

New lending to SMEs in the euro area and other EU countries (Source: EBA, 2016)
The Austrian Case:
Coverage of Loans by banks (2009 | 2015)

In comparison to 2009 the share of „rejected loans“ and/or „reduced loans“ for SMEs has increased considerably.
Reasons for rejected/reduced loans 2015

- Insufficient securities offered for loans: 77%
- Low credit worthiness assessed by bank: 44%
- Investment projects too risky: 17%
- Investment projects - non convincing: 7%
- Other reasons: 12%

Source: marketmind
### OenB | Central Credit Register

<table>
<thead>
<tr>
<th>New Loans 2015 reported to OenB Central Credit Register</th>
<th>2015 in bn. EUR</th>
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</thead>
<tbody>
<tr>
<td>New Loans</td>
<td>Enterprises</td>
</tr>
<tr>
<td>New loans for „real estate activities“</td>
<td>53</td>
</tr>
<tr>
<td>New Loans for „non-real estate activities“</td>
<td>106</td>
</tr>
<tr>
<td>Other domestic borrowers (private persons)</td>
<td>27</td>
</tr>
<tr>
<td>Public sector</td>
<td>68</td>
</tr>
<tr>
<td>Financial and insurance activities</td>
<td>222</td>
</tr>
<tr>
<td>Other non-resident borrowers</td>
<td>155</td>
</tr>
<tr>
<td>Euro area countries except Austria</td>
<td>125</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>758</strong></td>
</tr>
</tbody>
</table>

Source: OenB
OenB | Central Credit Register

Developments of New Loans | Enterprises

- **Nominal increase**: 1,0 % p.a.
- **Decline**: - 0,5 % p.a.
- **Decline**: - 0,9 % p.a.

*Source: OenB, Oryx Capital*
Collateral squeeze impacts on corporate finance

Companies - bank loans obtain as desired
- Seems to be positive at the first sight.
- Due to regulatory framework, banks have to increase collaterals from companies.
- Collaterals of companies are used up at an earlier stage, future growth steps and innovation activities get reduced.

Companies - reduced bank loans obtained
- Current growth steps and innovation activities can't be realized as planned, because bank loans get reduced.
- Due to regulatory framework, banks have to increase collaterals from companies.
- Collaterals of companies are used up at an "even" earlier stage, future growth steps and innovation activities get reduced.

Companies - bank loans are rejected although company projects are promising
- Due to the promising outline of company projects, companies would have had access to bank loans a couple of years ago. Nowadays, companies are not able to provide the increasingly required collaterals to banks and therefore loans are rejected.
- These companies are not able to realize growth steps and innovation activities, and consequently experience a loss of competitiveness.

Companies - not qualifying for a bank loan
- Filter functions of banks works effectively and is justified.

Companies - not applying for bank loans due to past experience
- These companies constitute the "silent group".
- Experienced a bank loan rejection in the past.
- Due to the negative experience, companies do not apply for a loan anymore and therefore lose competitiveness.

"Collateral Squeeze" leads to less innovation and growth activities in companies, and has long-lasting negative effects due to a reduced level of competitiveness.
Collateral squeeze – Measures undertaken by aws
aws — guarantee instrument

Austria Wirtschaftsservice (aws)

- Domestic
  EUR 725 Mill.
- Internationalisation
  EUR 725 Mill.
- Venture Capital
  EUR 725 Mill.
- SME
  EUR 750 Mill.

state guarantee framework
aws – guarantee instrument

Including state-aid, for:
- SMEs
- R&D– projects (also for large enterprises)
- Environmental investments (also for large companies)
- Investments in new facilities or in the context with new products in regional development areas (including large companies)

Without state-aid, for:
- Large enterprises > 250 employees
- Investments not covered in EU directive
Successful cooperation with EU since 1998:

- **aws guarantees co-financed by EIF since 1998:**
  - Co-financed guarantee volume: ~ 1 bn. EUR
  - Number of projects supported: ~ 8000
Positive effects of aws guarantees on enterprises

Source: KMU-Forschung Austria, 2016

- Enterprises experience additional positive effects, such as:
  - Quality of the Projects (more innovative, more accurate)
  - Business Strategy (e.g. new fields of activity)
  - Reduction of Capital Costs
  - Possibility to raise equity funds
  - Improved bargaining position of companies towards banks.

- The highest impact of guarantees was seen for innovation-oriented enterprises.

- In relation to a reference group aws-guaranteed businesses grow faster in terms of turnover and staff.

Due to favorable economic effects and positive impacts on companies the Austrian Federal Government recently increased the volume of new guarantees for SMEs from EUR 200 Mio to EUR 300 Mio. p.a.
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