



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Access to finance in the Western Balkans

Conference on “Access to Finance,
Bank Lending and the Banking Sectors
in CESEE Countries”

Prishtina, 14 November 2017

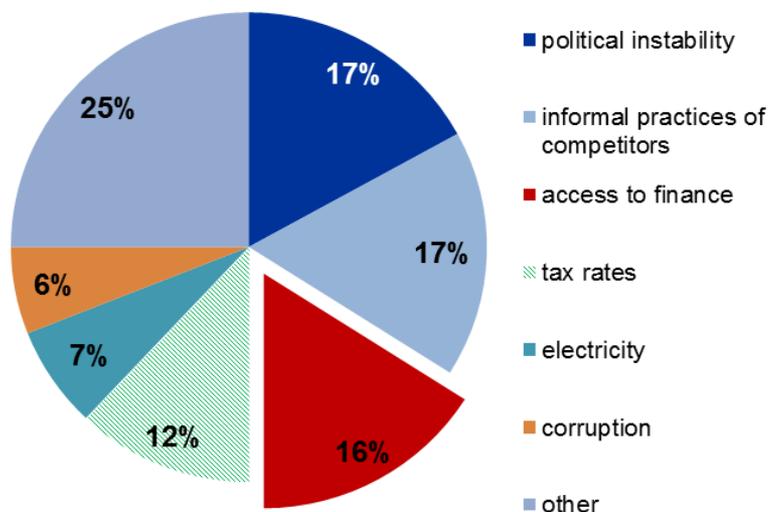
The views expressed are those of the presenter and not necessarily those of the ECB.

Overview

- 1 Introduction
- 2 Measuring credit constraints
- 3 Determinants of credit constraints
- 4 Policy responses
- 5 Conclusions

Access to finance is a major obstacle for firms

Major obstacles for firms located in the Western Balkans (in % of respondents)



Sources: EBRD BEEPS V and authors' calculations.

WEF Global Competitiveness Ranking 2016-2017 (rank out of 138 countries)

Country	Ease of access to loans	Affordability of financial services
Albania	106	92
Bosnia and Herzegovina	68	115
FYR Macedonia	45	60
Montenegro	97	104
Serbia	73	124

Sources: World Economic Forum.
Note: Kosovo is not included in the ranking.

- Definition of access to finance: availability of good-quality financial services at reasonable cost (Claessens and Tzioumis, 2006)
- Macroeconomic implications of access to finance constraints:
 - Hurdle for economic development, especially if financial markets are underdeveloped
 - Monetary policy transmission is hampered

Actual credit constraints based on events

Characteristics of actual credit constraints by country (% of total constraints)

	Albania	Bosnia and Herzegovina	FYR Macedonia	Kosovo	Montenegro	Serbia
Loan was rejected	2	14	5	4	7	5
<i>Did not apply for loan because...</i>						
... application procedures too complex	12	21	16	0	2	9
... interest rates were not favourable	80	55	58	96	84	74
... collateral requirements were too high	4	5	13	0	2	3
... size of loan and maturity insufficient	2	2	5	0	5	3
... did not think it would be approved	0	3	3	0	0	7

Sources: EBRD BEEPS V and authors' calculations.

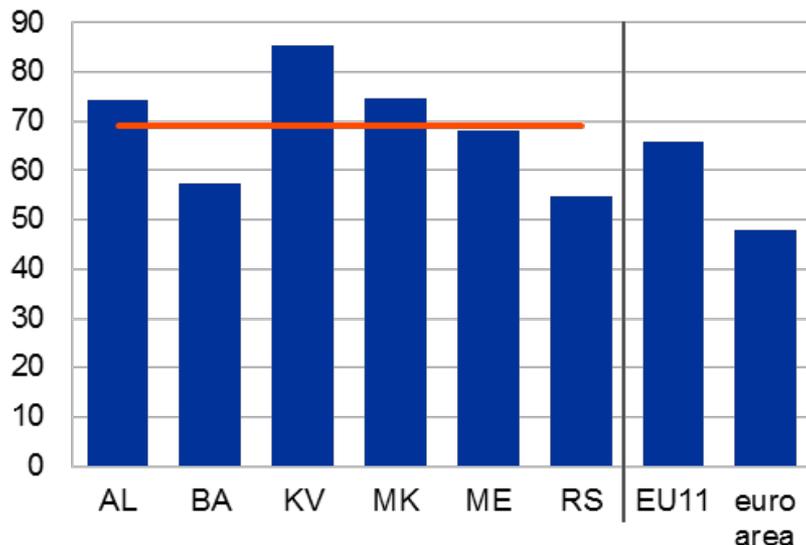
Note: Percentages may not exactly add up due to rounding.

- Unfavourable bank lending rates by far the most severe constraint, followed by too complex application procedures
- Between 2008 and 2012-2014, actual credit constraints *increased* in Albania and Montenegro, while they considerably *decreased* in Kosovo
- Perceived credit constraints (based on judgement) *increased* in Kosovo and Montenegro, *decreased* in all other countries

Bank-level and macroeconomic determinants (1)

Bank concentration

(in % of total banking sector assets, 2016)

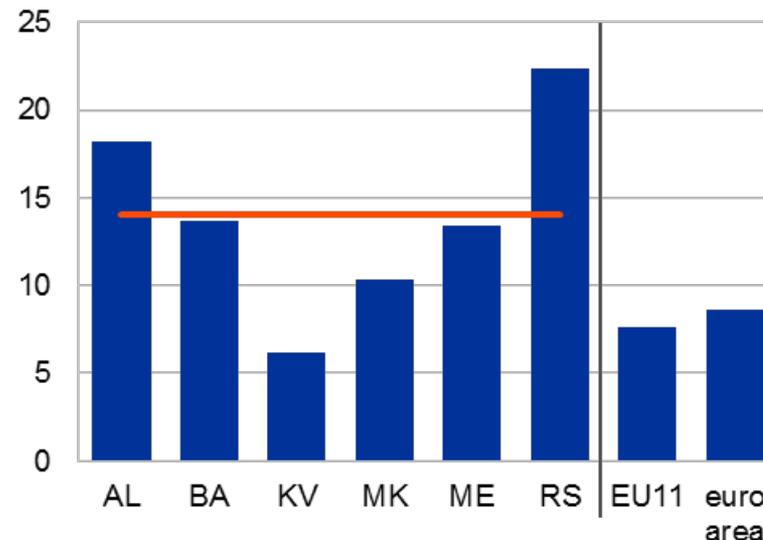


Sources: ECB banking structural financial indicators (SSI dataset), national authorities and authors' calculations.

Note: unweighted average of the share of assets of the five largest banks as a percentage of total assets, 2016.

Non-performing loans

(in %, 2015)



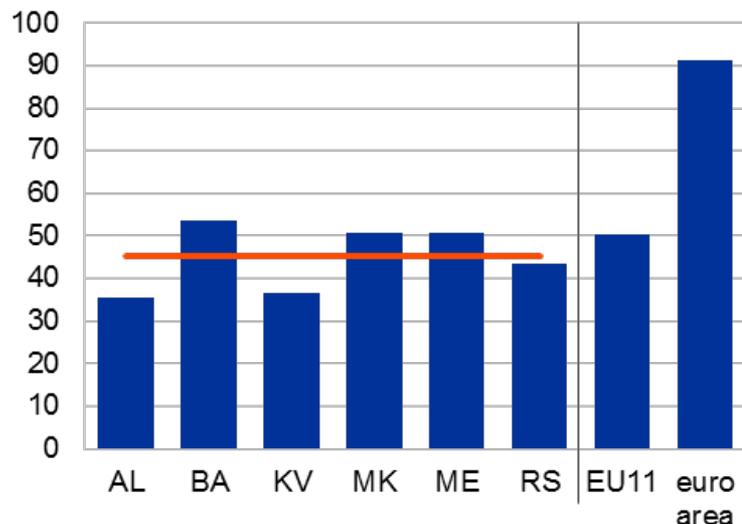
Sources: World Bank World Development Indicators (WDI) and authors' calculations.

Note: Cyprus is excluded from the unweighted euro area average.

- Impact of bank concentration on access to finance ambiguous (literature pointing into both directions)
- High share of non-performing loans in total loans worsens access to finance
- Other relevant characteristics: share of foreign banks (ambiguous), innovative banks (positive impact on access to finance)

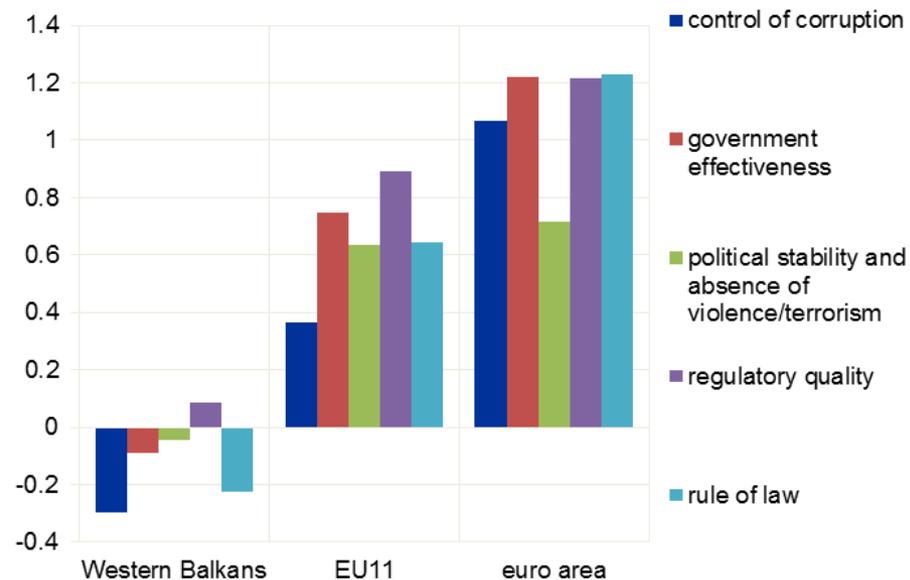
Bank-level and macroeconomic determinants (2)

Domestic credit to the private sector
(in % of GDP, 2015)



Sources: World Bank WDI and authors' calculations.
Note: Cyprus is excluded from the unweighted euro area average.

Governance indicators
(average of units of a standard normal distribution, 2015)



Sources: World Bank Worldwide Governance Indicators and authors' calculations.

- Deeper financial intermediation reduces financing constraints as financial systems become more developed
- Structural and institutional development important; high corruption and weak rule of law (e.g. collateral and bankruptcy laws) detrimental to access to finance

Firm-level determinants

- **Firm size:** most important determinant, small and medium-sized enterprises are 36% and 28% more likely to face access to finance constraints
- **Loan holder:** firms with outstanding loans have 23% probability of not facing financing constraints for an additional loan
 - Small and medium-size loan holders have easier access to credit than large loan holders → are large companies overleveraged in the Western Balkans?
- **Being located in the capital city:** 10% less likely to be constrained if located in capital city → more banks present, higher competition
- **Being audited:** increases access to finance by alleviating asymmetric information problem, 6% less likely to be credit constrained
- **Expecting operational increase:** 5% less likely to be credit constrained if firm expects to grow in the next fiscal year
- **Firm age:** probability of financing obstacles decreases with every extra year of a firm's operations (by 0.7%), but non-linear (diminishing) effect

Review of Economic Reform Programmes

- Most Western Balkan countries **identify and analyse problem**
- List of measures **included in most structural reform priorities**
- Most countries are rightly **focusing on SMEs**
- **Main measures** foreseen or currently implemented:
 - State-funded loan facilities or guarantee schemes
 - Improve financial literacy among SME owners to support credit application process
- **Additional structural reforms** foreseen or currently implemented which might **create an environment more conducive to bank lending**:
 - NPL resolution
 - Improving governance
 - Strengthening property rights
 - Increasing judicial efficiency

Conclusions

- **Limited access to finance is one of the biggest obstacles** in doing business in the Western Balkans
- Problem has even **worsened for some countries over time**
- **Unfavourable bank lending rates are the most severe constraint** to obtaining bank finance
- **Relevant bank-level and macroeconomic determinants:** bank concentration, non-performing loans, level of financial intermediation, structural and institutional development
- **Relevant firm-level determinants:** firm size, having an outstanding loan, being located in the capital city, being audited, expecting an operational increase, firm age
- **Most countries** in the Western Balkans are **actively tackling access to finance constraints** through various measures