DOES BANKING SECTOR SUPPORT SMES IN THE TIME OF CRISIS?
- THE CASE OF V4 COUNTRIES AND SERBIA -

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Abstract

The global crisis of the first decade of the 21st century will produce long-term negative effects on the real and financial sectors of many countries. Caused in the financial sector, it has quickly transferred to the real one, causing a recession in many countries. In this paper we will try to identify the role of the banks in financing of small and medium-sized enterprises (SMEs) within the Višegrad group (V4) countries (Poland, the Czech Republic, Slovakia and Hungary) and Serbia. The aim of this paper is to try to answer the main question such as: does banking sector, in these analyzed five countries, support SMEs in the period of global economic crisis? The paper is focused on economic aspects and tries to explain effects and results on the market-SMEs-banking sector relationship.

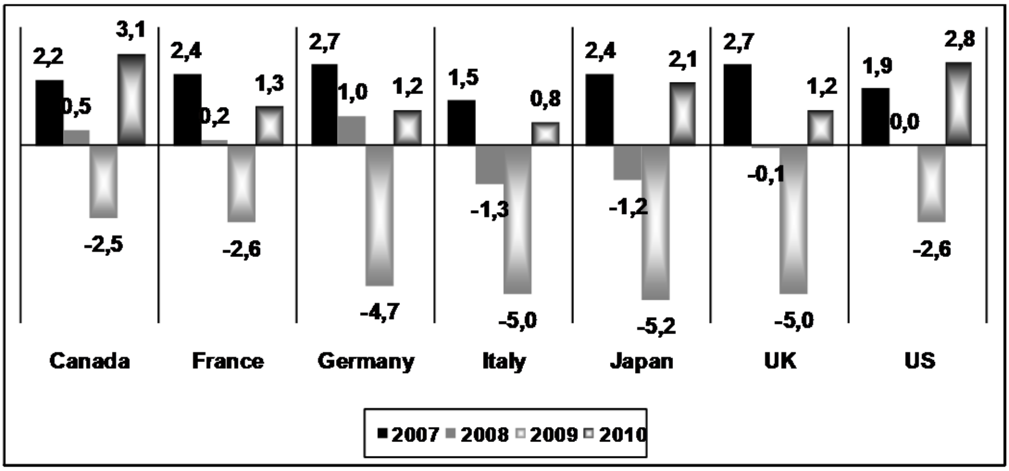
Keywords: *global crisis, banking sector, small and medium enterprises, real and financial sector*

1. Introduction

The origins of the global economic crisis are by now well-known. They can be traced back primarily to an unsustainable housing-connected credit expansion in the United

States (US). The problems in the US financial market became evident in the second half of 2007, and shortly afterwards spread to other advanced economies. The performance of the leading industrialized economies, known as the Group Seven (G7), deteriorated rapidly in 2008, as it can be seen in Figure 1. The US, first of all, and then France, Canada and Germany saw a substantial decrease in gross domestic product (GDP) in real terms – whereas the United Kingdom (UK), Japan and, above all, Italy were already in recession. In the next year the recession went into full swing throughout the G7. It is, however, the assessment of the International Monetary Fund (IMF) and the Statistical Office of the European Communities (Eurostat) that the G7, on the ground of ongoing policy measures, will revert to growth in 2010.

Figure 1 - Real GDP growth (in per cent): G7, 2007-2010



Sources: IMF (for Canada); Eurostat (for the remaining countries)

The economic crisis has rapidly transferred to other countries in Europe and all over the world. Different countries have been affected differently, which depended on external influences and the state of internal relations within the country. The consequences of the crisis are still felt and will be evident for quite a while. In this paper we will try to focus on the impact of the crisis on SMEs sector and their relationship with the banking sector, in terms of identifying the possibilities for providing favorable sources of funding.

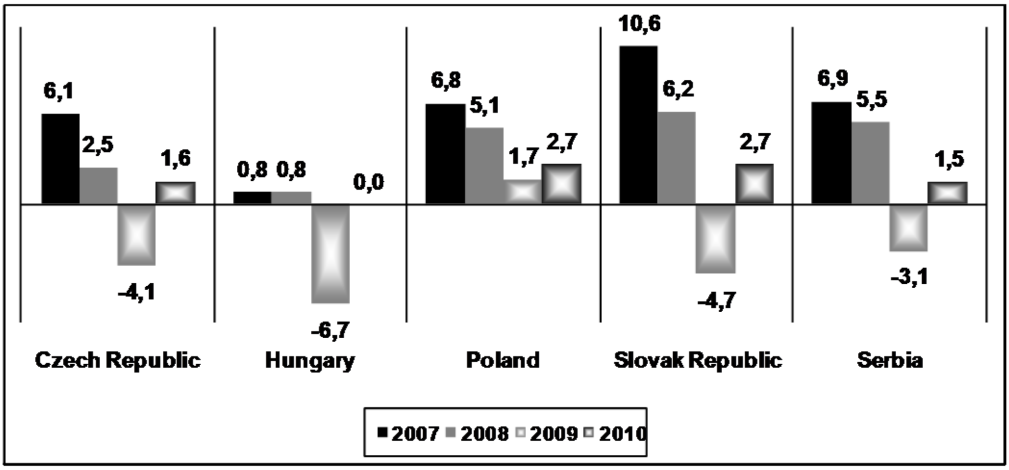
The paper consists of three parts. The first entitled "Macroeconomic overview and banking sector in the V-4 countries and Serbia during the period of global crisis" - which will indicate the movement of the main macroeconomic parameters and parameters related to the performance of banks in the given region. In the second part we provide a brief overview of the state in SMEs sector in the five countries observed, including the financing structure of SMEs sector and the problems which arise in this field. In conclusion, we try to answer the question of whether and to what extent bank loans are pre-dominant and to what extent banks helped or not to SMEs sector in times of crisis.

2. Macroeconomic overview and banking sector in the V-4 countries and Serbia during the period of global crisis

Unlike the G7 economies, all the economies of the V4 group continued to grow in 2008, as presented in Figure 2. This was mostly due to foreign direct investment still pouring into the region, as shown in Figure 3 (which depicts the foreign direct investment intensity, as the average value of inward and outward foreign direct investment flows in relation to GDP). In 2009 the situation, however, changed for the worse, following the sharp decline in demand from export markets and more difficult or expensive access to external finance[1]. It was only Poland that did not enter recession, but the growth in 2010 at a pre-crisis rate has not been foreseen even for this country.

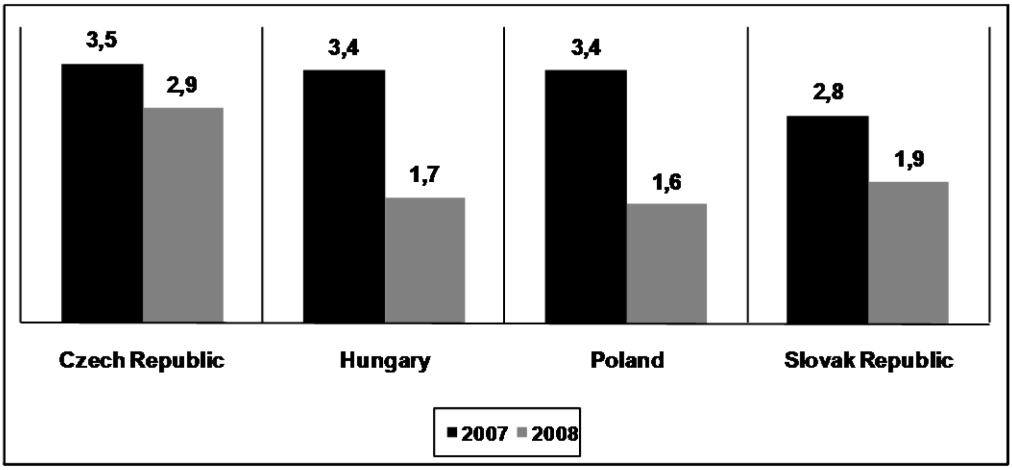
[1] *The turning point, after which banks became more rigid in lending, was September 2008, when major financial institutions in the US – Lehman Brothers, American International Group, Fannie May and Freddie Mac – collapsed or underwent nationalization.*

Figure 2 - Real GDP growth (in %): V4 and Serbia, 2007-2010



Sources: Eurostat (for V4); National Statistical Office (for Serbia, 2001-2009); IMF (for Serbia, 2010)

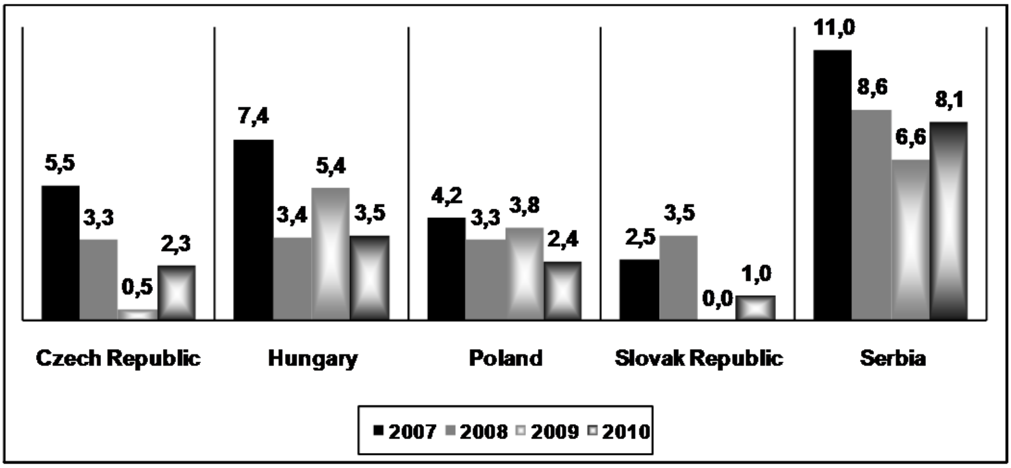
Figure 3 - Foreign direct investment intensity (in % of GDP): V4, 2007-2008



Source: Eurostat

The contraction in economic activity in the V4 region, and in Serbia, has had a significant impact on other macroeconomic variables, such as inflation and unemployment.

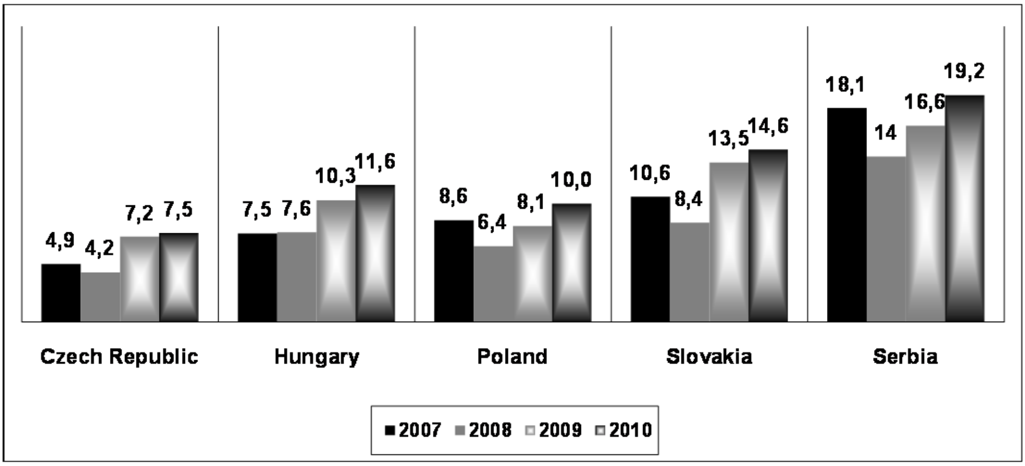
Figure 4 - Inflation rate (in %): V4 and Serbia, 2007-2010



Sources: IMF and Eurostat (for V4); National Statistical Office and authors' estimate (for Serbia)

Figure 5 shows that inflation, with the exception of the Slovak Republic, was the highest in 2007. Serbia recorded even double-digit rate of inflation at that time. But the subsequent fall in domestic demand, which was especially sharp in 2009, contributed in the Slovak Republic, the Czech Republic and Serbia to the lowest inflation they have experienced in recent memory. In economies that have had difficulties in keeping inflation under control, such as Hungary and Serbia, lower inflation has enabled central banks to relax their policies substantially in an effort to encourage lending to firms and individuals, and thus give rise to economic growth. In some cases, however, the economic growth predicted for 2010 will proceed in parallel with higher inflation.

Figure 5 - Unemployment rate (in %): V4 and Serbia, 2007-2010



Sources: Eurostat (for V4); National Statistical Office (for Serbia)
Note: As of October (for 2007-2009) and of April (for 2010)

The highest unemployment rate in all the observed countries has been recorded in 2010, despite the fact that economic activity is showing clear signs of recovery (see Figure 5). This is one of the most harmful effects of the crisis.

Those are some of the macroeconomic conditions in the V4 region, and in Serbia, created predominantly by the global forces, the likes of which have not been seen since the Great Depression of the last century.

From 2007 to 2009, the number of banks in the Visegrad Group (V4) and Serbia, both those with majority domestic and those with predominantly foreign capital, has not significantly changed. As seen from Table 1, which presents the data from the analyzed countries, from all countries, the greatest number of banks is in Poland, then follow Hungary, Serbia, the Czech Republic and Slovakia.

Table 1 – Total Number of Banks (foreign-owned)

Year	2007	2008	2009
Serbia	35 (21)	34 (20)	34 (20)
Poland	64 (54)	70 (60)	71 (60)
Hungary	40 (27)	39 (25)	39 (25)
Slovakia Republic	26 (15)	26 (16)	28(13)
Czech Republic	30(7)	32(7)	32(7)

Source: European Bank for Reconstruction and Development, National Bank of Serbia, National Bank of Poland, National Bank of Hungary, National Bank of Serbia, Czech National Bank

What is evident from the previous Table is that the number of banks in individual countries has not significantly changed during the crisis. On the other hand, an indicator of capital adequacy in the banking systems of the V4 group and Serbia was above the statutory minimum, and has recorded growth in all countries in 2009 compared with the year 2008, which gave extra stability to banking systems of these countries. The highest capital adequacy ratio is evident in the banking sector in Serbia, thanks to sharp measures by the central bank aimed at preserving the stability of the financial system.

Table 2 - Capital Adequacy Indicators - Tier 1 ratio (%)		
Year	**2008**	**2009**
Serbia	21,9	21,4
Poland	10,2	12,1
Hungary	10,9	11,9
Slovakia Republic	10,1	11,6
Czech Republic	10,6	12,3

Source: European Central Bank, National Bank of Serbia

As clearly shown by the following Table, the highest profitability measured by return on assets (ROA) in 2008 have been identified in the banking sector in Serbia (2.1%), while in 2009 the maximum profitability of the banking sector hit Hungary (rather strange, since the entire economy was decreasing close to 7%), in which the greatest growth of profitability was achieved if compared with the previous year.

Table 3 - Return on Assets – ROA (%)		
Year	**2008**	**2009**
Serbia	2,1	1,0
Poland	1,3	0,7
Hungary	1,0	1,7
Slovakia Republic	0,8	0,5
Czech Republic	1,4	1,1

Source: European Central Bank, National Bank of Serbia

Return on equity (ROE), in comparison to other countries in late 2008 but as well in 2009 was the highest in Hungary (15.1%) and (22.5%) respectively. During the crisis profitability has reduced, as measured by these indicators in three countries (Serbia, Poland and Slovakia), while in the Czech Republic and Hungary, or in other countries within the analyzed group with the highest profitability of the banking sector, it has increased.

Table 4 - Return on Equity – ROE (%)		
Year	**2008**	**2009**
Serbia	9,3	4,6
Poland	14,3	7,0
Hungary	15,1	22,5
Slovakia Republic	10,3	5,6
Czech Republic	14,6	17,1

Source: European Central Bank, National Bank of Serbia

3. The short overview on financing sources of the SMEs in the V-4 countries and Serbia - How the banks have financed the SME sector in the time of crisis?

The problem that exists in the V4 countries, including Serbia, is the lack of studies and research dealing with the funding of the SMEs sector (*Eric D., 2006, pp. 9-16, Michal Tvrdoň, Werner Bernatík, 2010. pp. 159-169*). Based on analysis of the European Venture Capital Association (EVCA) it is estimated that during the period of 1990-2004 near 1,000 investments were carried out in Central and Eastern Europe in the form of private equity investments totaling approximately to 7 billion euro. Today in Central and Eastern Europe operates 77 funds specialized in investments in private equity, which led to exit more than 400 investments. The management structure has changed and now most key people come from the countries where the investments are conducted. Great incentive for the development of private equity investments was given by the reforms of pension funds systems. Some local markets, particularly the Warsaw Stock Exchange, have become an attractive place to implement a strategy for exit. However, if we compare the total number of successful investments and exits with the total number of SMEs (that is estimated to over one million in the analyzed region) we will realize that the share of equity funding is quite small.

Recognizing the efforts of the governments of many countries to develop programs to support this sector, whose importance has grown from year to year, the impression remains that the dominant source of SMEs funding in the region V-4 and Serbia – is the bank loan. In the majority of small and medium enterprises in the region there are still difficulties in securing capital, which can be explained in different ways, ranging from the lack of a sufficient level of domestic savings in the financial systems of each country, to a large exposure to risk of each individual economic entity. The problem of the lack of and limited access to financial resources significantly reduce access of SMEs to new markets and new technologies. Under the conditions of crisis, vitality of all businesses is extremely important. Hence, experience in the financing of SMEs sector, especially regarding the role of banks in it, is what interests us in this study. Below we summarize the basic features of financing the SMEs sector in the observed region, with special emphasis on the efforts of the authorities to find more favorable terms of financing from traditional bank loans.

Czech Republic – Membership of the Czech Republic in the European Union has brought new opportunities to domestic entrepreneurs to obtain funds to finance their activities through structural funds. In the period 2004 -2006 to operating program of industry and entrepreneurship was opened. After that, the European Commission approved the Operational Program of Entrepreneurship and Innovation for 2007-2013, which was the mainstay of direct support to small and medium-sized enterprises in 2009. In 2007, the national support program was completed aimed exclusively at SMEs, financed entirely from the state budget of the Czech Republic (with the exception of the guarantee program, proclaimed in 2009 within the anti-crisis measures). This has led to significant changes in terms of funding support to small and medium-sized enterprises for the benefit of using resources that are jointly funded by the EU programs, coupled with the possibility of obtaining support from national programs available to businesses of all sizes.

Given the economic crisis, which led to a decline in basic macroeconomic parameters and growth of unemployment, in 2009 the Guarantee program for operating loans financed from the state budget was adopted on the basis of a national plan to fight the crisis. Its goal was to preserve the access of SMEs to bank loans. In late 2009 the program was expanded in the field of wholesale and retail trade, tourism and education. Ministry of Industry and Commerce, in response to the economic crisis, prompted the use of financial resources from the operational program for entrepreneurship and innovation and allowed entrepreneurs to get support on the basis of the so-called Temporary framework.

Direct financial support is not the only and most effective means of promoting entrepreneurship in the SMEs sector. Entrepreneurship development is directly conditioned by the quality of business environment. The business environment is comprised of a wide range of conditions for entrepreneurship in the field of legislation, institutional structure and functioning of the market (*Ivana Mandysová*, *2010, pp. 199-206*). The best support for the entrepreneurship by the state is to remove administrative barriers to business in all its forms. For this reason, the Ministry of Industry and Trade has systematically worked to improve it by implementation of concrete measures aimed at all businesses, without favoring certain categories. These measures include the gradual introduction of electronic forms of communication with the Administration of the Czech Social Security. Another example is the introduction of lump-sum payments for motor vehicles, instead of keeping records of trips (journals) for small entrepreneurs, who use motor vehicles for reaching taxable income. There are examples in other industries, such as energy, where regulatory improvements have been achieved.

According to a recent survey, taking into account 833 enterprises, more than 2/3 experienced more difficult access to financing. Besides the tightening of credit conditions, credit has also become more expensive according to 22% of respondents. Loans for mergers and acquisitions (M&A) have been discontinued by banks almost completely, investment loans have been largely reduced and access to short-term financing has become more difficult to some extent.

At the end of 2008, the Ministry of Industry and Trade transferred about 37.2 million euro to the turnover fund of the Czech-Moravian Guarantee and Development Bank as guarantee for loans provided by commercial banks. In February, the Ministry of Industry and Trade announce another section in the Guarantee program, which will allow entrepreneurs to get a guarantee for bank loans from commercial banks. In total, the Ministry of Industry and Trade is counting with 61.4 million euro for the Guarantee program.

In 2009, the Government adopted anti-crisis measures that are open for further modifications based on the economic development. A significant part of these measures is focused on SMEs. They include:

- Reduction of the tax burden of enterprises (the DPPO rate) by two percentage points between 2009 and 2010,
- Faster depreciation of assets,
- Returns of VAT are sped up down to 15 days for those subjects who will file their VAT returns electronically,
- Investment into transportation infrastructure will be increased with higher subcontracting effects for SMEs.

Within the Operational Program Enterprise and Innovation 2007-2013, financed by the Structural Funds, there are new measures focusing on the use of new non-subsidy financial instruments to support innovative projects of young and high growth enterprises. These new instruments include:

- Venture-capital funds: The JEREMIE joint initiative concerns an instrument of the European Commission and European Investment Fund for the support of venture capital, micro-loans and guarantees for SMEs.
- Business angels can be associated in networks which are supported within the Prosperity Program. Czech Invest supports the establishment and development of business angels networks and informs SMEs about the existence of these non-traditional sources of financing to mediate contacts between firms and these entities.

In addition, the program includes financial support to SMEs in the form of interest-free and advantageous subordinated loans of e.g. development projects of SMEs with focus on purchasing new technologies and guarantees (with a financial contribution). In the Structural Funds' Operational Program Enterprise and Innovation 2007-2013, for the priority axes "Establishment of firms" and "Development of firms" that include these measures, there are allocated 873 million euro. To cope with the crisis a program was set up, run by state owned Guarantee and Development Bank for SMEs. The budget is 1.5 billion euro. Under the program guarantees and credit loans are provided. Governmental anti-crisis measures support exports by increasing the registered capital of the Czech Export Bank. Furthermore the services of the Export Guarantee and Insurance Corporation will become cheaper. In the Operational Program Enterprise and Innovation 2007-2013, for the priority axis "Business development services" that includes these measures, 246 million euro have been allocated.

Hungary – In order to measure banks' expectations related to SMEs' demand for credit and its changes, the Ministry for National Development and Economy, the Bank Association and the National Federation of Savings Co-operatives made a monthly survey among Hungarian financial institutions in 2009. According to it, the financial resources that can be provided to SMEs by financial institutions will decrease in the near future. Financial institutions expect that SMEs' credit risk will grow in the following three months especially related to micro and small enterprises. Although there was a smaller increase in the credit stock of SMEs in Q4-2008 financial institutions expect that the demand for credit will decrease, especially among small enterprises. When asked to express their opinion on how the demand for investment credit and short term loans will change in the future, the financial institutions answered that the demand for investment credit will decrease and for short term loans will increase.

In Hungary 2/3 of SME credit were short term loans in 2008. In the new financial situation caused by the crisis the biggest risk of the banks is to renew short term loans of SMEs that they need for continuing their operation.

The investment credits of SMEs have always been very low (5% of the total SME credit in 2008). The business expectation of SMEs is very pessimistic which makes them to postpone their investment.
In Hungary, the New Hungary Portfolio Guarantee Program has been put in the place further to the financial crisis. Within the portfolio guarantee program, Venture Finance Hungary Plc. provides direct guarantee for the financial claims (backing SME credits) of the financial intermediaries (mostly commercial banks) based on pre-determined risk sharing, thus improving the SMEs' bank finance options. For a given credit, the amount of collateral to be secured by Venture Finance Hungary Plc is a maximum of 80% of the bank claim – the rest constitutes the bank's own risk. The guarantee program offers credits amounting to a maximum of about 344 thousand euro. The resources to be invested for this purpose are total 97 million euro.

In Hungary the total public guarantee that is provided by Garantiqa Credit guarantee Co. Ltd. to banks against loans to SMEs have been increased from 1.5 to 3 million euro.

Commercial banks received new refinancing credit from the Hungarian Development Bank in order to maintain and increase their investment credit offer to SMEs (172 million euro) with a capped interest rate. Due to this credit line, SMEs can obtain preferential credits of between 34 000 and 340 000 euro).

The New Hungary Enterprise Development Credit Program (total resources of 550 million euro operate through the National Development Bank and its intermediaries and offer SMEs a long term preferential investment credits with interest rates based on 3 monthly EURIBOR rate with a 4-6% spread. The SMEs can obtain credit between 3.5 and 10.3 million euro. The New Hungary Microcredit Program started to operate in order to provide credit for micro enterprises. The total resources of the program are about 200 million euro. A new Working Capital Credit is put in place through which SMEs can obtain working capital credit with preferential conditions between of 34 000 and 688 000 euro. 80% of the Working Capital Credit is guaranteed by the Garantia Credit guarantee Co. Ltd

Poland - In Poland, SMEs have several advantages which are particularly precious during a crisis and fall in demand. These companies are not involved in risky financial operations; they do not try to access unknown market segments. This conservative approach is often under fire of criticism during economic expansion but when crisis loomed it showed that SMEs avoided mistakes which led bigger companies into trouble thanks to that. It should be taken into consideration that Poland has not been affected by the crisis as much as other countries, which certainly have had important implications for business operations of the entire SMEs sector.

Micro-enterprises are also showed great flexibility. They can increase and decrease the scale of their operation to reasonable extent relatively quickly. Moreover, since Polish SMEs are particularly active in services and trade, so they depend on the domestic demand rather than exports. Small businesses in Poland operate in relatively safe market niches. The automobile repair sector is a good example: many car owners have to postpone their decisions to buy new vehicles and the demand for repairs of old cars has increased. However, despite these advantages SME sector has not been totally able to avoid troubles related to crisis. One in four companies reports problems due to downturn and among their biggest "headaches" in the difficult times they list: too high taxes, administrative burdens, lack of institutional aid, credit crunch. Small companies which co-operate with bigger ones are often heavily dependent on their big clients, usually one and only. On the other hand - 42% of Polish SME's have not noticed so far the impact of the crisis on their economic condition and 7% of them even report increase in turnover. In a case like that the affected companies cannot count on a significant support from the state or state institutions. They have to rely on themselves and their own abilities to survive.2

Polish financial system has already been modernized significantly, in part due to the increasing role of foreign banks, but margins remain large, suggesting that competition is insufficient. Banking infrastructure is underdeveloped in rural areas. This is a problem that can be encountered not only in Poland or other V-4 countries, but beyond, almost in the entire Central and Eastern Europe. Cooperative banks should be consolidated to reduce fixed costs and facilitate access to credit. Moreover, the legal framework for collateral suffers from the inefficiency of the commercial court system, which generates huge uncertainties for creditors in recovering pledged assets. Recent legislation aimed at simplifying procedures goes in the right direction, but enforcement should be strengthened and the senior position of the state to call collateral removed.

The planned privatization of the Warsaw Stock Exchange is of key importance, as it has the potential to enhance the Polish financial markets integration within the network of European stock exchanges, broaden the listed companies' shareholders base, improve liquidity and provide greater finance for SMEs. Compared to other OECD countries, including those in Eastern Europe, the distribution of Polish enterprises is heavily skewed toward small firms, suggesting that important obstacles prevent them from developing their businesses. These structural weaknesses might explain why exporters have trouble reaching distant markets. Previous OECD work focusing on Polish SMEs has argued that the fragmentation of support policies among various entities should be reduced and co‑ordination among them improved. This is particularly the case for the government financing schemes that provide guarantees and facilitate access to finance. The loan and guarantee funds should be rationalized, and their operation and fees standardized through consolidation or increased co‑operation. SMEs often lack basic skills in business and financial management, accounting and marketing. Hence, public support should target these areas for SME training. This applies as well to vocational training for which participation is heavily skewed against SME employees compared to other Eastern European countries.

In countries where market reforms are at a more advanced stage, such as Poland, current priorities for government with respect to the environment for SME development include bringing legislation and regulations in line with EU standards in preparation for EU accession, encouraging the banking system to adapt and recognize the SME sector as a potential market for a range of financial products, facilitating the development of venture capital funds for that minority of SMEs that seek external equity, and working in partnership with the private sector to establish an effective

[2] Michal Tvrdoň, Werner Bernatík, ECONOMIC CRISIS AND ITS IMPACT ON SMES: THE CASE OF VISEGRAD GROUP COUNTRIES

support infrastructure. Rapid growth of SMEs has been one of the great successes of the post-Communist transformation in Poland.

Slovakia - According to the analysis of the impact of the global economic crisis on SMEs by the National Agency for the Development of Small and Medium Enterprises (NADSME), only 2% of SMEs feel that access to credit is a serious problem in Slovakia. However, late payments remain an issue for Slovak SMEs, with 65% of small firms admitting to experiencing liquidity problems as a result. In response, companies are postponing payments to their own suppliers, instead seeking bank loans and selling assets. Relaxed state aid rules have enabled the Slovak authorities to channel more resources to SMEs from European structural funds. The government is seeking to link its support to energy-efficient innovations and technology transfer, and has begun to establish clusters of SMEs which can access major European funding program. As part of a series of measures to support SMEs, the Slovak Guarantee and Development Bank (SZRB), has signed a contract with commercial banks to provide rapid bank guarantees[3].

The most spread form employed to finance business, at present in Slovakia is primarily an offer of various commercial credits. The possibilities of gaining financial sources in Slovakia are diverse and interesting especially for small and medium-sized companies. From among the before-mentioned credits the short-term ones employed, to a great extent, by SMEs in Slovakia include: current account credits and short-term purpose loans. As for the long-term credits the most frequently provided are: investment credits, mortgage credits and forfeiting. In financing, similar to other countries, short-term loans are pre-dominant. They do not serve for developing the firm’s business activity. They are designed to overcome a short-term deficiency of the means of payment. The first examined credit type in the above-mentioned banks is the current account credit.

Slovak government has tried, similar to other countries, to provide adequate financial support to SMEs sector, which can be seen from the following two tables. What is evident is the increased level of assistance, both in absolute and relative terms.

Table 5 - State aid in Slovakia

Year	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
State aid, in mil. EUR	143,36	163,34	265,02	306,29	307,32	300,93	406,08	440,27

[3] Michal Tvrdoň, Werner Bernatík, ECONOMIC CRISIS AND ITS IMPACT ON SMES: THE CASE OF VISEGRAD GROUP COUNTRIES

Source: Ministry of Finance of the Slovak Republic (2009), www.finance.gov.sk

During the 2009, the state aid has risen by 8.4% (34.19 million euro) comparing with 2008. In 2009 the state aid was financed by the state own sources (322.97 million euro) and fond of the European Union (117.30 million euro).

Table 6 - Indicators of the State aid in Slovakia in 2009

Year	Indicators of the State aid			
	% GDP	Per citizen in EUR	Per employed in EUR	% of the state budget
2009	0,69	81,16	186,10	3,30

Source: Ministry of Finance of the Slovak Republic (2009), www.finance.gov.sk

To support the SME sector the amount of 7.58 million Euro has been allocated, of which 3.91 million were allocated from state sources. 49 beneficiaries received support, in accordance with the following schemes:

- Scheme for SMEs support in accordance with Directive SK 65/2003 - 1.58 million euro
- Scheme to support entrepreneurship in the tourism industry in accordance with Directive SK 67/2003-2.05 million euro
- Scheme for SMEs support in accordance with JPD 2 a. XS 4 / 2005 - 1.31 million euro
- Scheme to support entrepreneurship in the tourism industry in line with the directive JPD 2 a. XS 5 / 2005 - 0.71 million euro
- The scheme to support research and development through the Agency for support of research and development - 1.93 million euro.

All funds are awarded in the form of grants. Venture capital is used exclusively to finance the start of production or finance expansion of production and not for purposes of supporting the development, research and innovation. According to Eurostat, pre-start and start venture capital investments and development investments of venture capital in Slovakia in 2005 amounted to 0.002% of GDP. For comparison with the Czech Republic, we can mention that they reached 0006% and in the year 2007 0013% of GDP, in Hungary 0053% in 2005 and 0.011% in 2007. Average in the EU 15 was 0.137% of GDP (while 2008 was 0.131%).

Tabuľka 7 Average venture capital by country and by the market prices

	Slovakia		**Czech Republic**	
	Early stage investments	*Expansion and replacement investments*	*Early stage investments*	*Expansion and replacement investments*
1997				
1998	0.004	0.006	0.008	0.006
1999	0.001	0.008	0.001	0.048
2000	0	0.007	0.025	0.172
2001	0.012	0.025	0.01	0.029
2002	0.003	0.008	0.001	0.036
2003	0	0.009	0.001	0.001
2004	0.006	0.006	0	0.01
2005	0.001	0.001	0	0.006
2006	0	0	0	0.001
2007	0	0	0	0.013
2008	0	0	0	0
	Hungary		**EU-15**	
	Early stage investments	*Expansion and replacement investments*	*Early stage investments*	*Expansion and replacement investments*
1997			0.009	0.044
1998	0	0.083	0.02	0.066
1999	0.004	0.012	0.036	0.1
2000	0.003	0.056	0.07	0.151
2001	0.026	0.018	0.044	0.096
2002	0.003	0.021	0.028	0.079
2003	0	0.028	0.021	0.085
2004	0	0.116	0.022	0.83
2005	0.004	0.049	0.227	0.114
2006	0.005	0.035	0.053	0.131
2007	0.002	0.009	0.02	0.106
2008	0.002	0	0.022	0.109

Source: National agency for the development of SMEs in Slovakia, www.nadsme.sk

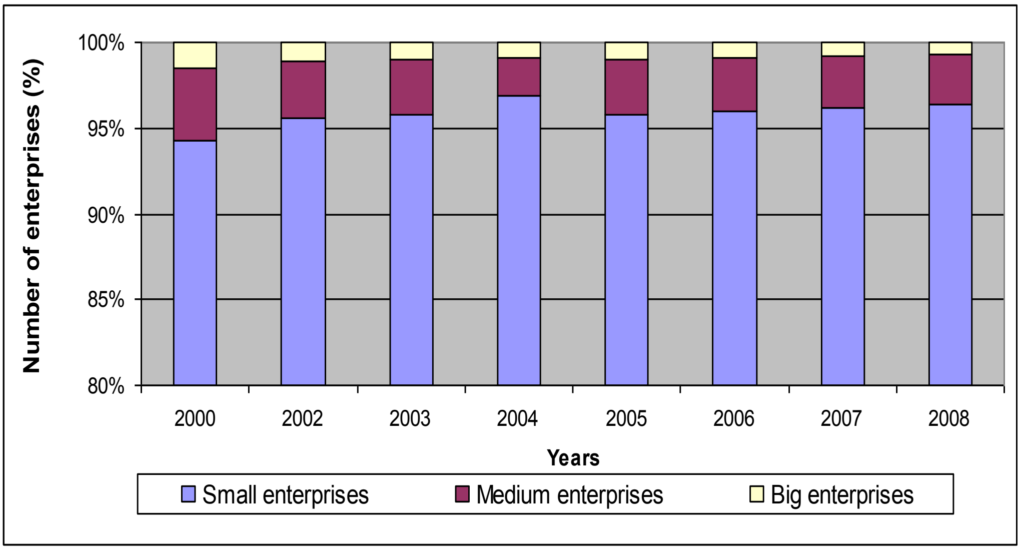
Bearing in mind the overall effort, which cannot be disputed, it must be concluded that the scope of state aid is relatively small. A similar statement applies to all other countries of the observed region. Namely, the needs of SMEs sector for financial resources significantly exceed the capabilities of the government. Therefore, in financing, entrepreneurs and owners of small and medium-sized businesses in Slovakia were forced to rely largely on bank loans as the most important external sources of funding.

Serbia - The development of small and medium-sized enterprises and entrepreneurship has been set as a priority and an imperative by the Serbian government. By developing and implementing the Strategy for Development of Competitive and Innovative Small and Medium Enterprises 2008-2013 the government has set goals and provided long and short term development guidelines. The baseline for the strategy adoption is found in the Strategy for Development of Small and Medium Enterprises and Entrepreneurship in the Republic of Serbia 2003-2008 and in the Action Plan for Stimulating Development of Small and Medium Enterprises 2005-2007. The strategy is based on the fact that SMEs play a key role in the country's economic growth and prosperity. The basic goal defined in the strategy refers to fostering further strengthening and more dynamic development of the sector, along with more efficient use of SMEs' potentials and capacities.[4]

The basic macroeconomic indicators show the increasing influence of SMEs sector on the overall development of Serbian economy. According to the latest available official data, in 2008 SMEs on average accounted for 99.7% of the total number of economic entities, 43.2% of employment, 35% of GVA, 45.5% of export and 59.3% of the overall import, as well as 67.2% of employment, 66.6% of turnover and 59.1% of GVA of the non-financial sector of the Serbian economy.[5]

[4] Djuricin, S., Beraha, I. Financial Support for SMEs, Erenet Profile, September 2010
[5] Report on SMEE 2008, Ministry of Economy and Regional Development, Development Fund of the Republic of Serbia, Republic Agency for the development of SMEE, Belgrade, 2009

Figure 6 - SME's share in total number of enterprises



Source: Ministry of Economy and Regional Development, Republic Development Bureau, Republic Agency for Development of SME and Entrepreneurship (2009): Report on Small and medium-sized enterprises and entrepreneurship 2008, Beograd

SMEs' share in total number of enterprises in Serbia, as well as their role in economic growth and development, is growing year after year. According to the Serbian Chamber of Commerce, the total number of companies in Serbia in 2008 was 87,109. The number of entrepreneurs and independent stores is significantly higher, exceeding the figure of about 200 000. The SMEs account for 99% of all active enterprises. The SMEs dominate in almost every sector of the economy. According to the ownership structure, the greatest number of these companies pertains to private sector. It is believed that the growth in the number of SMEs is a result of government policy aimed at creating business environment that is stimulating for their development. A set of new legislation and regulations referring to enterprise's establishment and performing procedures, contributed greatly to the dynamics achieved in the number of new companies.

The effects of the world economic crisis have influenced to a great extent the operations of small and medium enterprises. The first effects of the crisis in the Republic of Serbia were felt at the beginning of October 2008, when the consequences of reduced inflow of foreign capital became visible. This increased the price of capital and thus put in question the operation and development of the SMEs sector. The effects of the crisis imposed new business conditions, which, among other things, are characterized by a more rigid discipline in debt repayment.

Statistical office of the Republic of Serbia has conducted a research on the topic; "*Status, needs and problems of SMEs*".[6] The research was conducted on a sample of 3,000 SMEs whose financial statements existed in Serbian Business Register Agency records. The study indicates that 54.6% of SMEs use their own resources for investment funding, 30.6% use external sources for investment funding and 14.8% gave no response. The structure of external sources of finance is homogenous, the most frequent are domestic commercial bank loans – 40%, followed by borrowing from cousins and friends – 15%, leasing – 14%, loans provided by state funds and institutions – 10%, foreign loans – 7%, guarantee funds – 5%, donors and nongovernmental organizations – 5%; and other external sources of finance – 4%. 59,7% of the respondents had some investment activities during the last three years and most of them invested in the equipment (58%), commercial properties (38%) and patents and licenses (4%). 46% of medium and 32% of small enterprises use consulting services.

The crisis affected the liquidity/solvency of SMEs, led to an increase of the cost of capital, reduction in amount of funds and loans available to SMEs, fluctuations of foreign exchange rate and reduction in import/export activities and in the level of employment. In January 2009, the Serbian government adopted a set of measures aimed at lessening the negative impacts of world financial crisis on SME sector. As a result of that, foreign credit lines were introduced. Credits are being approved by domestic banks at more favourable terms. In 2009 the total of 480 million euro was assigned to crediting SMEs.

Institution	**Amount**
EIB	250 million euro
KfW	100 million euro
EBRD	100 million euro
Italian government	30 million euro
	Total = 480 million euro

In February 2009, the Serbian Government adopted a set of policy measures in order to minimize the negative impact of the global financial crisis. *Program for stimulation of production, export and liquidity of the economy* was launched with following Government's set of measures: subsidized loans for maintaining the liquidity and financing durable current assets, loans provided by the Serbian Development Fund (Fund provides 30% of each loan and banks make placement of 70% of each separate loan, with 75% of banks' placement guaranteed by the Guarantee fund) and

[6] *Serbian Agency for Development of Small and Medium-Sized Enterprises and Entrepreneurship (2009),* State, Needs and Problems of Small and Medium-Sized Enterprises and Entrepreneurship – Report on Research*, Belgrade [Translation from Serbian]*

subsidized consumer loans and financial leasing for purchase of domestic products. As the results of the lower liquidity the banks have been experiencing, the National Bank of Serbia (NBS) reduced the reserve requirement on external borrowing. The key interest rate was also reduced during 2009 and in 2010 (currently 9.5%)[7]. The Government has increased the amount of guaranteed deposits (citizens, entrepreneurs and SMEs) from 3000 € to 50000 €. Lower inflows of foreign currencies and withdrawals of foreign currency savings caused the depreciation of RSD in 4Q 2008 and 1Q 2009. Having in mind predominant foreign currency exposure of SMEs in Serbia, it severely hit SMEs who borrowed in euro especially during 2009, due to increased annuities re-payments in local currency - RSD. [8]

Table 8 - External sources of financing of business of SMEs sector in Serbia[9]

Type of source	Per cent of the enterprises surveyed
Domestic loans of commercial banks	40%
Borrowing from family/friends	15%
Leasing	14%
Foreign loans	10%
Loans by state institutions and funds	7
Domestic NGOs	5
Guarantee funds	5
Other	4

Source: RASMEE, Belgrade, 2009, pp. 40-1

The same survey went deeper into the analysis of sources of funding, indicating that the SMEs sector financed its activities with more than 70% of internal resources and only 21% external (also including bank loans). Figure 7 shows how SMEs in Serbia were financed. Table 9 summarizes the available funds and realized funds through bank loans.

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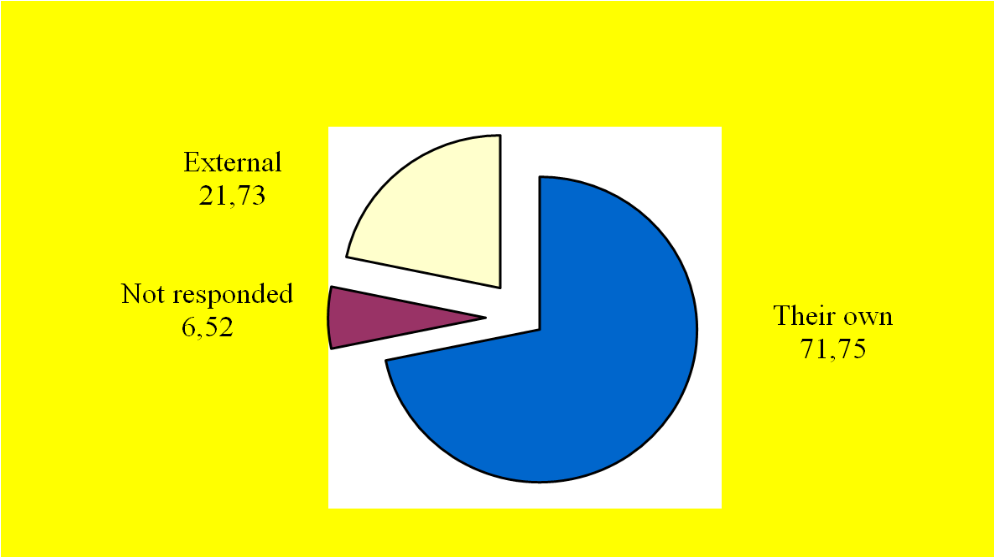
[7] Mackolm Harper "*Practical Microfinance – A Training Manual*", ITDG Publishing, London, 2003.

[8] Paunovic S., Paunovic, M. Financing SMEs in Serbia, Erenet profile Vol. V, No. 1., March 2010.

[9] Dejan Erić, THE NEED TO ENGLARGE SOURCES OF FINANCING OF SMALL AND MEDIUM SIZED ENTERPRISES UNDER THE CONDITIONS OF GLOBAL CRISIS, Case of Serbia, ERENET Profile Vol. V, No. 1., March 2010.

Figure 7 – Sources of financing SMEs in Serbia – 2009



Source: RASMEE, Belgrade, 2009, pp. 40-1

Table 9 - Overview of realized and available funds by creditors in 2008 (in euro)	
REALIZED FUNDS	**I-XII 2008**
Revolving Credit Fund of the Republic of Serbia	7,739,307.20
European Investment Bank -Apex global loans	9,850,000.00
Loan of the Government of the Republic of Italy	12,331,107.17
Funds placed from revolving	3,627,390.85
TOTAL	**29,920,414.37**
AVAILABLE FUNDS	**XII 2008**
Revolving Credit Fund of the Republic of Serbia	3,506,992.62
European Investment Bank -Apex global loans	15,672,119.61
Loan of the Government of the Republic of Italy	59,880.04
TOTAL	**19,238,992.27**

Source: Ministry of Economy and Regional Development, Republic Development Bureau, Republic Agency for Development of SME and Entrepreneurship (2009): Report on Small and medium-sized enterprises and entrepreneurship 2008, Belgrade

Serbian banking system operates under very strict and tight legislations and regulations. Bank lending conditions have significantly tightened with the crisis in the global financial sector. That is the reason why the growth rate of the credits issued to the private sector fell down to 16.5% in 2008 compared to 24.3% in 2007. The share of loans issued to private sector in Serbian GDP has increased steadily and the average capital ratio (capital/total assets) of all banks in Serbia rose up to 21% in 2007.

The results not only show that entrepreneurs do not use bank loans in large amount, except when they are forced to, but that there are significant problems in the credit financing. The most common problems of using credits are the following:

- High interest rates (22%)
- High banking costs (16%)
- Collateral (15)
- Long period of approval (14)
- Limited amount of loan (12)
- Insufficient information (10)
- Insufficient network of branches (8)
- Other (3).

With all stated above, there is an additional problem in Serbia - the lack of microcredit. The law on microcredit has not been adopted, so that Serbia is one of the last countries in the region without this form of financing of SMEs sector and micro-financing institution. In addition, it is evident that the activities of private equity funds have significantly reduced. In Serbia, there have been delays in the development of capital markets, so that the situation with regard to alternative financing of SMEs sector is not too bright.

4. Conclusion

In this paper we tried to identify the relationship between trends of macroeconomic parameters, the banks and the need for funding of small and medium-sized enterprises in the region of V-4 countries and Serbia. The global crisis has had an impact on almost all observed countries. Except for Poland, in which there has been a slowdown in growth, all other countries in 2009 had problems with the recession in the real sector. In these processes, especially SMEs have been affected, whose significance is expressed at the macroeconomic level, for all the observed countries.

Despite problems at the macro level, the profitability of the banking sector in most countries has not decreased. On the contrary, this indicates the great vitality of the sector, which in turn is a positive sign that it can help to faster recovery after the crisis. However, it is evident that in relation to the SMEs sector, banks have not helped much. They have their own interests, aimed at creating shareholder value and carrying little for broader social goals or interests to support the SMEs sector from which the overall economic recovery in the region depends on.

In all the surveyed countries there are definite patterns and mechanisms of support to SMEs sector by the state. Governments of all countries have recognized the importance of this sector and the need to support it, particularly in times of crisis. However, the common denominator for all countries is that sources of state aid are insufficient, in terms of the needs of SMEs sector.

Finally, as one of the common problems of SMEs in all five countries, there is more difficult and limited access to financing. As a rule, the dominant source of financing is represented by own funds and as far as the external sources are concerned - bank loans. Although there are various support schemes, it is a source that is essentially unfavorable – it is very expensive (in some countries, interest rates have not decreased but rather increased), requires complicated administrative procedures in terms of providing the necessary documentation, it is a limited source of the financial statements of SMEs, etc. Despite numerous problems with the use of loans, we have found that SMEs were largely left to the banks, i.e. the dominance of bank loans in funding sources. On the other hand, banks have not always respected the interests of SMEs. The question that arises for some future research is which sector suffered losses during the crisis and which one won?

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