

Czech Republic

SMEs in the national economy

There are roughly 1.1 million active enterprises in the Czech Republic, most of them SMEs with less than 250 employees (99.84% of all enterprises as of 2014), employing almost 1.78 million people (59.4 % of Czech Republic's workforce). The bulk of them are micro firms, covering 92.7% of SMEs.

Table 10.1. **Distribution of firms in the Czech Republic, 2014**

By firm size

Firm size (employees)	Number	%
All firms	1 115 053	100
SMEs (1-249)	1 112 281	99.8
Micro (1-9)	1 031 325	92.5
Small (10-49)	58 884	5.3
Medium (50-249)	22 072	2
Large (250+)	2 772	0.2

Note: Data includes active enterprises (businesses) registered in statistical Business Register. Activity is indicated by existence of employers or income. Non-employer and non-income enterprises are not included.

Source: Sources: Czech Statistical Office, Table Businesses according to number of employees.

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SME lending

New SME lending declined continuously between 2007 and 2010, in total by 41% over this period, and recovered afterwards with 0.6% and 4.6% in 2011 and 2012 respectively. In 2013, this upward trend came to a halt as new SME loans fell sharply by 33% year-on-year. New business loans for all enterprises peaked in 2008 and then contracted by 31% over the 2008-11 period. In 2012, a recovery of business loans was observed, which proved to be short-lived as, however, as the amount of new loans plummeted by 28% in 2013 year-on-year, mirroring the evolution of SME lending.

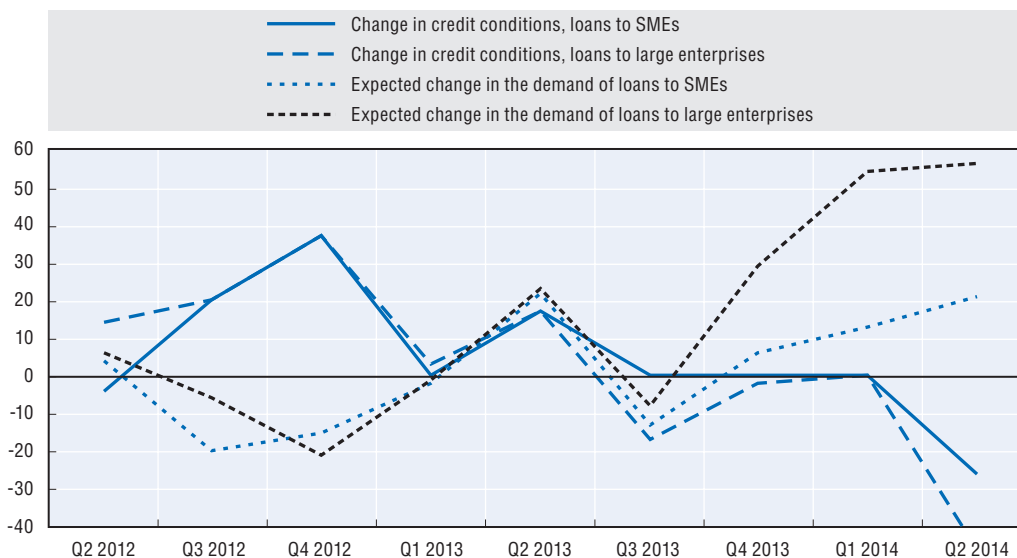
As SME loans shrank more than business loans in general, the SME loan share in total business loans decreased from 24% in 2007 to 17% in 2013. This trend is caused by two factors: on the side of banks stricter rules for credit risk management placed higher demands on financial health of borrowers and higher loan collateral; on the side of entrepreneurs, the lower volume of orders and fears of an uncertain economic development lead to extra prudence to borrow and incentivised them to find more efficient ways of using internal financial resources.

Credit conditions

SME interest rates were down by 35 base points in 2013 vis-a-vis 2012, reaching a new record low and thereby continuing their decline since 2007. Over the 2007-13 period, SME interest rates dropped by 38% in total. The average interest rate charged to large enterprises also decreased from a peak of 4.8% in 2008 to 1.9% in 2013. The interest rate spread followed an erratic pattern between 2007 and 2013, increasing one year and decreasing the other. In 2013, the interest rate spread rose by 26 base points to 1.2%, more than in any other year since 2007. This means that cost of credit is substantially higher for SMEs than for large enterprises.

The Czech National Bank first conducted the quarterly Bank Lending Survey in 2012. According to the surveyed bank officials, credit conditions have tightened up to the third quarter of 2013, both for SMEs as well as for large enterprises. The recent survey reveals that banks further eased their credit standards in all segments of the credit market in the second quarter of 2015. The easing was mostly due to competitive pressure and better expectations regarding future economic developments. Average interest margins decreased across the board. Demand for loans increased in all credit market segments in 2015 Q2. Nonfinancial corporations' demand for loans increased for the fifth quarter in a row, mainly due to fixed investment financing, mergers and acquisitions and business restructuring. Together with credit standards, banks also eased the terms and conditions for providing loans, as more than half of the banking market lowered average interest margins. A smaller part of the banking market also eased the non-interest conditions.

Figure 10.1. **Change in credit conditions and the expected demand for loans in the Czech Republic, 2012-14**



Source: Bank Lending Survey, Czech National Bank.

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Equity financing

Venture capital peaked in 2008, and then declined dramatically up to and including 2013 by a factor of more than ten. Growth capital declined even faster. Whereas more than EUR 191 million of growth capital was invested in 2009, this amount plummeted

to EUR 4 million in 2012. Equity investments shrank further in 2013, as growth capital investments were only slightly up and venture capital investments almost halved year-on-year (see Table 10.2). The total venture capital has more than tripled compared to the previous year 2013.

Table 10.2. **Venture and growth capital investment in the Czech Republic 2007-14**
By stage of investment, in EUR thousand

	2007	2008	2009	2010	2011	2012	2013	2014
Seed	0	0	0	0	0	0	516	0
Start-up	500	281	..	13 139	2 713	127	1 341	2 993
Later stage venture	3 692	31 543	28 248	9 910	7 811	5 101	924	6 134
Total venture	4 192	31 825	28 248	23 048	10 523	5 229	2 781	9 067
Growth	116 238	72 121	191 347	116 142	7 733	4 220	4 440	29 386

Source: EVCA.

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Other indicators

The proportion of non-performing loans to all loans almost tripled between 2007 (3.1%) and 2010 (9%) as the Czech economic climate soured, and modestly decreased afterwards. 7.1% of all loans were non-performing in 2013, down by 2.8% year-on-year, but still well above the pre-crisis level. It should also be noted that the quality of loans categorised as non-performing is deteriorating and that Czech banks face an elevated credit risk. The proportion of non-performing loans to all loans between 2013 (7.1%) and 2014 (6.5%) decreased modestly.

SME bankruptcies increased every year between 2007 and 2013, a decline of 3% in 2011 being the sole exception. Over the 2007-13 period, SME bankruptcies were up by 64%. The pace of this increase has been abating, however; only a year-on-year uptick of 2.5% in the number of SME bankruptcies was observed in 2013. Between 2013 and 2014, the number of SME bankruptcies decreased by 10.9%, observing the lowest number of bankruptcies since 2009.

Government policy response

The SMEs support government policy is based on Act No. 47/2002 Coll., on support to small and medium-sized enterprises and the document Small and Medium-sized Enterprises Support Strategy 2014-20. Financing small and medium-sized enterprises has been one of the key themes of the Czech Government in recent years. In the aftermath of the financial crisis and subsequent economic recession, the government is looking for ways to facilitate access to finance for SMEs. The Czech-Moravian Guarantee and Development Bank, Czech Export Bank and the Export Guarantee and Insurance Corporation are state-owned institutions and are active in this area. Given the decline in SME lending, with its associated impact on employment, investment and export, guarantee activities have been stepped up. In the framework of anti-crisis measures, the Ministry of Industry and Trade provided assistance under the following programmes.

Operational Programme Enterprise and Innovation 2007 – 2014 (OPEI)

Operational Programme Enterprise and Innovation (OPEI) was an essential tool for the Ministry of Industry and Trade to draw financial resources from the EU Structural Funds 2007-13. The main objective of the OPEI is the support and increase of

competitiveness in the Czech Republic (and its regions) by promoting innovation, rapid implementation of research and development in the manufacturing sector, stimulating demand for research and development, commercialisation of research and development, promotion of entrepreneurship, and growth of the knowledge economy. OPEI reflects an EU strategy focusing on indirect and direct support for entrepreneurs, especially SMEs (more than 80% of this support is dedicated to SMEs), and in general on overcoming existing barriers of access to capital. Support is provided primarily to businesses with higher innovation potential, to stimulate R&D in enterprises, to establish co-operation between academia and business, and to encourage starting-up new businesses as well as further development of existing businesses seeking to increase their competitiveness, with an emphasis on regions with structural problems and high unemployment. OPEI is composed of six priority axes designed for business and it is further divided into areas of support and individual programmes. It is co-financed by EU Structural Funds, namely the European Regional Development Fund, and the state budget, at a percentage ratio of 85/15. Allocation for the whole programming period 2007-14 achieved EUR 3.7 billion. The support was distributed to enterprises through grants, preferential loans and preferential guarantees.

Table 10.3. **The Czech Republic's Operational Programme Enterprise and Innovation (OPEI), 2007-14**

	Unit	2007	2008	2009	2010	2011	2012	2013	2014
Amount of funds paid to beneficiaries	EUR million	50	82	189	262	398	549	541	439

Source: Czech Ministry of Industry and Trade.

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The GUARANTEE programme

The National guarantee programme for small businesses (GUARANTEE) uses part of its funding resources from terminated former guarantees and repaid loans. The guarantee programme is administered by the Czech-Moravian Guarantee and Development Bank (CMZRB) that has been under full control of the Czech Republic since 2012. During 2014, 1 952 guarantees were issued for a total amount of CZK 4 billion that corresponded to credits in the amount of CZK 5.7 billion, enabling entrepreneurs to finance their projects. In this programme, the CMZRB cooperates on a contractual basis with partner private banks and provides SMEs with partial guarantees (70% of the loan provided by the private bank).

Table 10.4. **Guarantees issued and loans guaranteed in the Czech Republic, 2007-14**

Indicator	Unit	2007	2008	2009	2010	2011	2012	2013	2014
Guarantees issued	Number	482	1 043	878	1 224	111	697	1546	1 952
Guarantees issued	CZK million	1 925	3 529	6 369	6 593	472	1 534	3 251	4 010
Loans guaranteed	CZK million	2 959	5 094	9 550	10 070	630	2 215	4 616	5 711
% guaranteed	%	65	69	67	65	75	69	70	70

Source: Czech-Moravian Guarantee and Development Bank (CMZRB).

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The REVIT programme

Framework programme REVIT is focused on support of SMEs operating in regions with lower and declining economic activity and high unemployment (e.g. structurally disadvantaged regions), or in regions affected by natural disaster. The programme enables SMEs to gain preferential loans (usable for covering investment or operational costs) and financial contribution. SMEs in regions affected by natural disaster can additionally gain preferential guarantees and financial contribution to a guaranteed loan. The programme is funded by national resources and is administered and managed by the CMZRB.

The INOSTART programme

INOSTART is focused on supporting small, innovative start-ups that have difficulties to raise funds to finance their business activities due to the large risk, a short financial history and low collateral. The programme allows newly established, innovative entrepreneurs during the first three years of their business activity to gain access to credit so that they are given support in the form of guarantees for loans at up to 60% of the outstanding loan principal. The programme also includes advisory services related to the strategic direction of the company and the implementation of business plans. A pilot programme was implemented in two regions, in the Moravian-Silesian and Olomouc. The programme is funded by a Swiss-Czech Cooperation fund. Loans are provided by the private bank Česká spořitelna, guarantees by the Moravian Guarantee and Development Bank, and advisory services by the consulting company Erste GRANTIKA Advisory. The loan (ranging from CZK 0.5 million to CZK 15 million) can be used for the purchase of tangible and intangible investment and non-investment assets, and to cover operating costs. Grants to counselling are provided up to 10% of the relevant loan, up to CZK 150 000. After the pilot phase in 2014 were approved the changes of the Programme. This included the extension of the programme to the whole territory of the Czech Republic, its extension to medium-sized enterprises, as well as the provision of advisory services for entrepreneurs before starting their project.

Czech Export Bank and the Export Guarantee and Insurance Company

In 2013, the Czech Export Bank (CEB) continued to support small and medium-sized enterprises in the form of special programs to obtain financing for direct export activities or subcontracts for Czech exporters. The volume of contracts between CEB and exporters from the SME segment amounted to CZK 371 million. In 2013, 32 new contracts, including amendments, were signed.

The CEB also continued to implement its programme in support of subcontractors – SMEs and is currently strengthening cooperation with the commercial banking sector, which already includes an agreement with four private banks that are the most active in financing SMEs.

Another form of support for small and medium-sized enterprises realised by the CEB consists in financing of factoring companies. This funding represented a major support distribution channel for this business segment. The volume of aid granted in the form of refinancing factoring companies for purchase of receivables amounted to CZK 2.6 billion. Through factoring, CEB supported 127 Czech exporters and financed 15 798 receivables of 748 foreign buyers. Cooperation with factoring companies will remain a crucial form

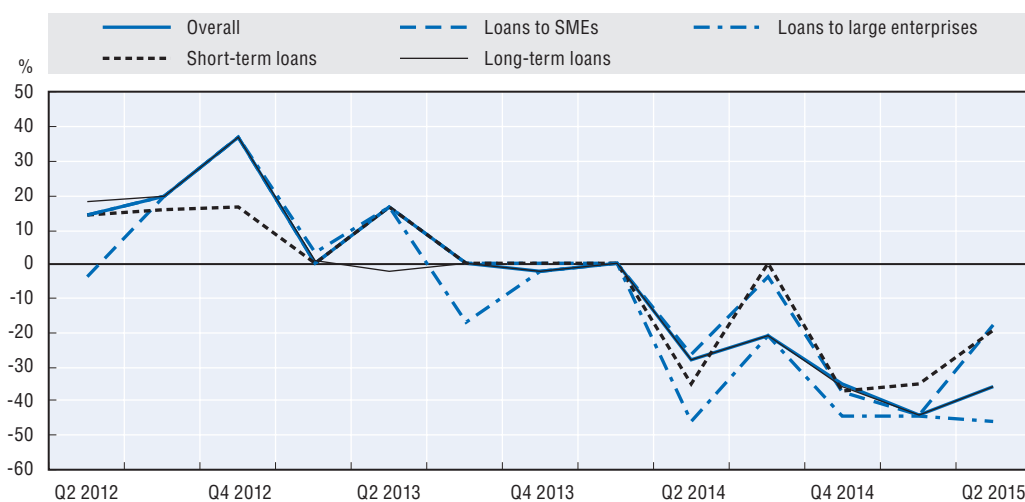
of support for small and medium businesses in the future. The Export Guarantee and Insurance Company (EGAP) continued its activities in support of SMEs. In 2013, the volume of new contracts for insurance of export supplier credits, loans to finance production for export (pre-financing), and exporters' bank guarantees who meet the criteria for small and medium-sized enterprises, reached CZK 593 million and was divided into 40 new contracts. EGAP created, especially for small and medium-sized enterprises, a simplified version of the insurance, which is to reduce the administrative demands of the entire process of insurance and time of negotiations. Currently it is possible to execute an application for insurance within three calendar days.

In 2014, the volume of aid granted in the form of refinancing factoring companies was CZK 4.1 billion. Through factoring, CEB supported 139 Czech exporters and financed 26 013 receivables from 1 070 foreign buyers.

In the second half of 2013, EGAP focused on marketing and educational activities supporting only the segment of SMEs. The feedback of these training courses were used for creation of a package of eight new insurance products designed and tailored precisely to exporters that are small and medium-sized enterprises.

Figure 10.2. **Credit standards for non-financial corporations in the Czech Republic, 2012-15**

As a percentage

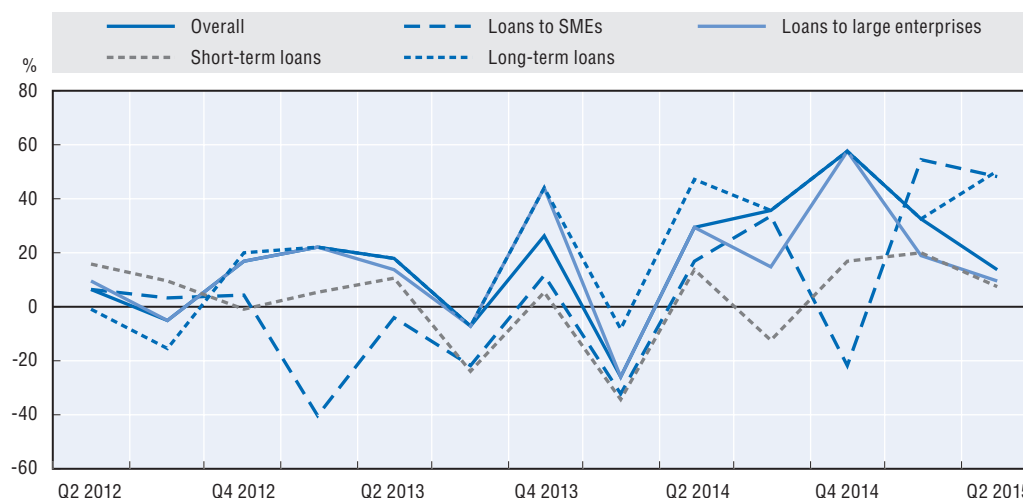


Source: Czech National Bank.

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Figure 10.3. **Changes in demand for loans to non-financial corporations in the Czech Republic, 2012-15**

As a percentage



Source: Czech National Bank.

 StatLink <http://dx.doi.org/10.1787/888933331020>

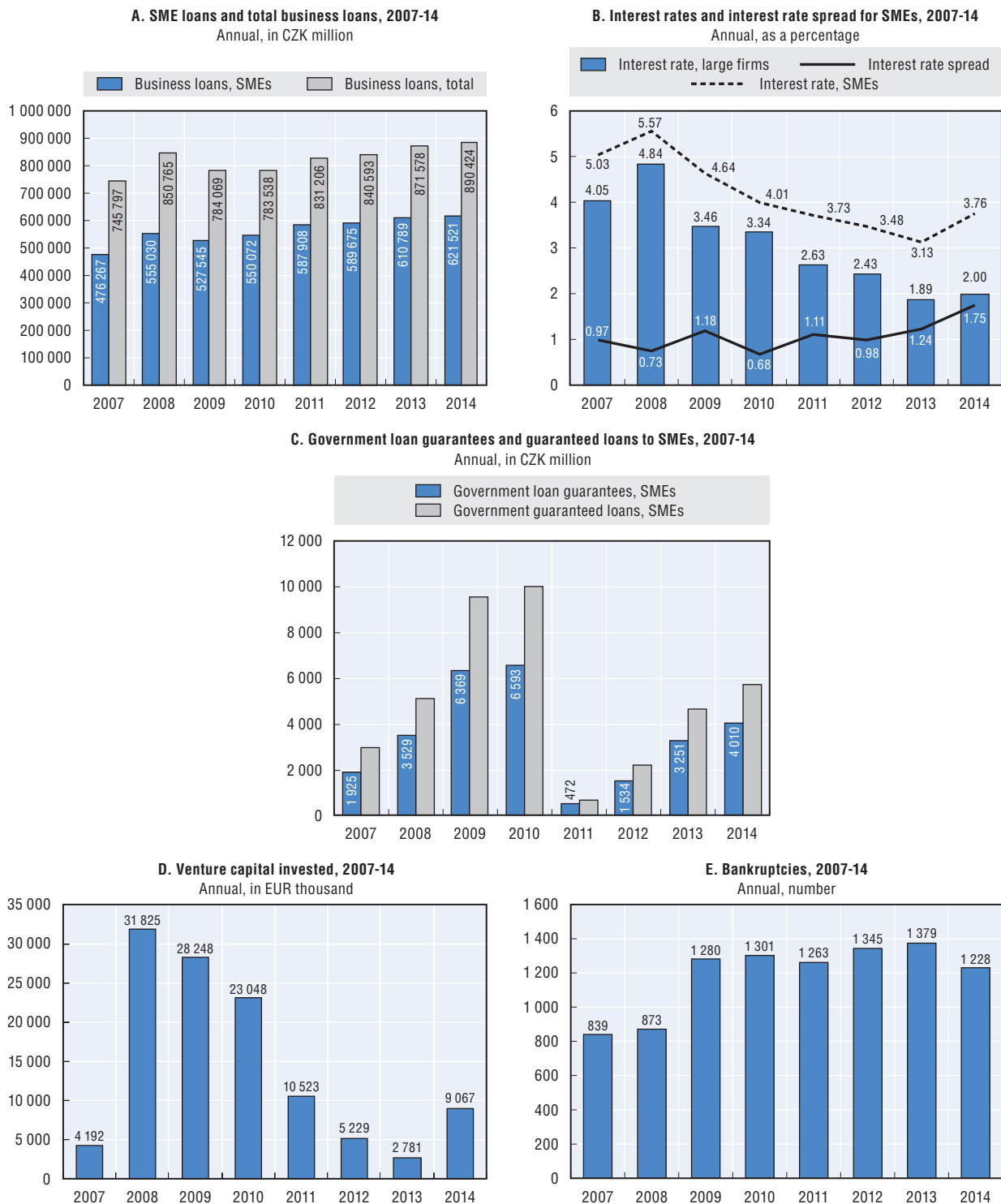
 Table 10.5. **Scoreboard for the Czech Republic, 2007-14**

Indicators	Units	2007	2008	2009	2010	2011	2012	2013	2014
Debt									
Outstanding business loans, SMEs (stock)	CZK million	476 267	555 030	527 545	550 072	587 908	589 675	610 789	621 521
Outstanding business loans, total (stock)	CZK million	745 797	850 765	784 069	783 538	831 206	840 593	871 578	890 424
New business loans, SMEs (flows)	CZK million	208 216	207 237	147 986	123 398	124 117	129 830	86 660	97 764
New business loans, total (flows)	CZK million	852 729	866 109	780 874	667 977	599 089	694 944	500 502	544 725
New short-term loans, SMEs (flow)	CZK million	..	..	..	73 626	72 453	77 858	45 531	40 360
Government loan guarantees, SMEs	CZK million	1 925	3 529	6 369	6 593	472	1 534	3 251	4 010
Government guaranteed loans, SMEs	CZK million	2 959	5 094	9 550	10 070	630	2 215	4 616	5 711
Non-performing loans, total	CZK million	22 816	35 340	61 904	70 166	67 876	61 480	62 032	57 873
Interest rate, SMEs	%	5.03	5.57	4.64	4.01	3.73	3.48	3.13	3.76
Interest rate, large firms	%	4.05	4.84	3.46	3.34	2.63	2.43	1.89	2.00
Interest rate spread (SME - Large)	Basis points	0.97	0.73	1.18	0.68	1.11	0.98	1.24	1.75
Equity									
Venture and growth capital (seed and early stage)	EUR thousand	500	281	..	13 139	2 713	127	1 857	2 933
Venture and growth capital (later stage venture)	EUR thousand	3 692	31 543	28 248	9 910	7 811	5 101	924	6 134
Total venture capital	EUR thousand	4 192	31 825	28 248	23 048	10 523	5 229	2 781	9 067
Growth capital	EUR thousand	116 238	72 121	191 347	116 142	7 733	4 220	4 440	29 386
Other									
Average payment delays, B2B	Days	..	..	..	15	17	16	14	15
Average payment delays, B2C	Days	..	..	..	12	13	11	10	10
Payment delays (=delay after due day)	Days	16	18	19	14	14	15	14	13
Payment duration (=period from invoicing day till day when enterprise gets money)	Days	68	72	77	70	71	75	76	73
Bankruptcies, SMEs	Number of enterprises	839	873	1 280	1 301	1 263	1 345	1 379	1 228
Bankruptcies, total (business entities)	Number of enterprises	1 000	1 074	1 486	1 621	1 778	1 946	2 245	2 145

Source: See Table 10.6.

 StatLink <http://dx.doi.org/10.1787/888933332547>

Figure 10.4. Trends in SME and entrepreneurship finance in the Czech Republic



Source: See Table 10.6.

StatLink  <http://dx.doi.org/10.1787/888933331030>

Table 10.6. **Definitions and sources of indicators for the Czech Republic's scoreboard**

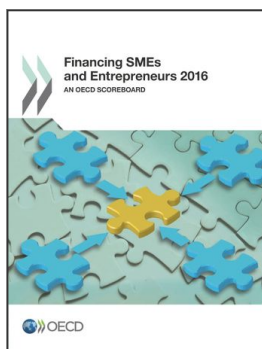
Indicator	Definition	Source
Debt		
Outstanding business loans, SMEs (stock)	Stock of loans issued to residents non-financial businesses with 0 - 249 employees or with unknown number of employees and with a total revenue of CZK 0 - 1 500 million	CNB, Loan register
Outstanding business loans, total (stock)	Outstanding loans to non-financial sectors other than government (stock)	CNB, ARAD
New business loans, SMEs (flows)	New business loans < CZK 30 million	CNB, ARAD
New business loans, total (flows)	All new business loans	CNB, ARAD
New short-term loans, SMEs (flow)	New business loans < CZK 30 million with maturity up to 1 year	CNB, select from ARAD
Government loan guarantees, SMEs	Programmes of ČMZRB	ČMZRB
Government guaranteed loans, SMEs	Programmes of ČMZRB	ČMZRB
Non-performing loans, total		CNB, ARAD
Interest rate, SMEs	From new business loans < CZK 30 million	Calculations based on CNB ARAD data
Interest rate, large firms	From new business loans > CZK 30 million	Calculations based on CNB ARAD data
Interest rate spread (SME - Large)		Own calculation
Equity		
Venture and growth capital (seed and early stage)		EVCA
Venture and growth capital (later stage venture)		EVCA
Total venture capital	Growth capital investments into business entities in the Czech Republic	EVCA
Growth capital	Seed, start-up, later-stage growth capital investments into business entities in the Czech Republic	EVCA
Other		
Average payment delays, B2B	European Payment Index	Intrum Justitia
Average payment delays, B2C	European Payment Index	Intrum Justitia
Payment delays (=delay after due day)		ČSOB factoring
Payment duration (=period from invoicing day until the day the enterprise gets money)		ČSOB factoring
Bankruptcies, SMEs	Corporations only	CRIF (from Insolvency Register of Ministry of Justice)
Bankruptcies, total (business entities)	All business entities (corporations + sole traders)	CRIF (from Insolvency Register of Ministry of Justice)

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