

9. CZECH REPUBLIC

Key facts on SME financing

In 2016, there were roughly 1.1 million active enterprises in the Czech Republic. 99.8% of these firms were SMEs with less than 250 employees each. Together, they employed almost 1.8 million people or 58.4% of the Czech Republic's workforce. Micro-firms dominated the business landscape, comprising 96.3% of all SMEs in 2015¹.

SME interest rates continued their decline in 2016 as they dropped by 20 basis points vis-à-vis 2015, reaching a record low at 2.5%. Over the 2007-16 period, SME interest rates dropped by 50.3% in total.

Venture capital investments peaked in 2008, and then declined dramatically up to and including 2016 to 10.2% of its peak value. Growth capital fell even more steeply, from EUR 192.0 million in 2009 to EUR 4.9 million in 2016.

Government support for enterprises and entrepreneurs primarily comprises measures with respect to developmental and operational financing, export support, support of the energy sector, development of entrepreneurial skills and financial literacy of entrepreneurs, technical education and research, as well as development and innovation.

In December 2012, the Czech government adopted a Small and Medium Sized Enterprises Support Strategy 2014-20 (SME 2014+), which represents the key strategic document for the preparation of the European Union (EU) cohesion policies over the 2014–20 programming period in the area of enterprise development. This is specifically for the preparation of the Operational Programme Enterprise and Innovations for Competitiveness (OPEIC), and similarly important national SME support programmes.

SME 2014+ also acknowledges the need to support social enterprises and strengthen social entrepreneurs' education. The SME 2014+ concept is implemented through national programmes that support enterprises, such as the GUARANTEE, REVIT or Inostart programmes; and via the OPEIC.

SME 2014+ aims to motivate entrepreneurs to utilise available funding for the development of their businesses through national and EU programmes. This includes several tools, such as government loan guarantees (Czech-Moravian Guarantee and Development Bank), financing schemes for exporting SMEs (Czech Export Bank) and innovative businesses (INOSTART programme), as well as a programme to draw financial resources from the EU structural funds (OPEIC), which provides support to SMEs through grants, preferential loans and guarantees.

The Czech-Moravian Guarantee and Development Bank (CMGDB) is a specialised state-owned banking entity with a mission to primarily facilitate SME access to financing. In 2016, the bank obtained an additional CZK 10 billion from the European Fund for Strategic Investments to strengthen the national GUARANTEE programme. Another guarantee scheme, launched in April 2017 and administered by the CMGDB, is the

EXPANSION programme. It aims to facilitate access of SMEs to bank loans by providing them with soft (subsidised, preferential) investment loan and a financial contribution in a form of interest rate subsidies of commercial co-loan (applicable only for projects in disadvantaged regions).

In June 2016, the Agency for Entrepreneurship and Innovation (API) was established. API is an implementing organisation for support programmes of the OPEIC. It has a branch in every region of the Czech Republic. Apart from administering OPEIC support programmes, it provides potential beneficiaries with information on the potential for financial support from the operational programme and holds expert workshops on OPEIC support schemes.

Table 9.1. Scoreboard for the Czech Republic

Indicator	Unit	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Debt											
Outstanding business loans, SMEs	CZK million	476 267	555 030	527 545	550 072	587 908	589 675	610 789	621 385	652 590	703 141
Outstanding business loans, total	CZK million	745 797	850 765	784 069	783 538	831 206	840 593	871 578	890 229	935 364	995 318
Share of SME outstanding loans	% of total outstanding business loans	63.86	65.24	67.28	70.20	70.73	70.15	70.08	69.80	69.77	70.64
New business lending, total	CZK million	852 729	866 109	780 874	667 977	599 089	694 944	500 502	544 725	607 585	510 582
New business lending, SMEs	CZK million	208 216	207 237	147 740	123 398	124 117	129 830	86 660	97 764	118 217	100 464
Share of new SME lending	% of total new lending	24.42	23.93	18.95	18.47	20.72	18.68	17.31	17.95	19.46	19.68
Short-term loans, SMEs	CZK million	73 626	72 433	77 853	45 531	40 360	41 742	36 974
Government loan guarantees, SMEs	CZK million	1 925	3 529	6 369	6 593	472	1 534	3 251	4 010	6 913	3 530
Government guaranteed loans, SMEs	CZK million	2 959	5 094	9 550	10 070	630	2 215	4 616	5 771	9 947	5 055
Direct government loans, SMEs	CZK million	931	286	209	629	1 090	782	101	86	65	7
Non-performing loans, total (amount)	CZK million	22 816	35 340	61 904	70 166	67 876	61 480	62 032	58 694	52 677	50 288
Non-performing loans, total	% of all business loans	3.06	4.15	7.90	8.96	8.17	7.31	7.12	6.59	5.63	5.05
Interest rate, SMEs	%	5.03	5.57	4.64	4.01	3.73	3.48	3.13	3.76	2.70	2.50
Interest rate, large firms	%	4.05	4.84	3.46	3.34	2.63	2.43	1.89	2.00	1.80	1.80
Interest rate spread	% points	0.98	0.73	1.18	0.67	1.10	1.05	1.24	1.76	0.90	0.70
Non-bank Finance											
Venture and growth capital	EUR thousand	120 789	103 986	219 659	151 222	18 284	9 492	20 392	34 936	10 420	9 061
Venture and growth capital (growth rate)	%, year-on-year growth rate	..	-13.91	111.24	-31.16	-87.91	-48.09	114.83	71.32	-70.17	-13.04
Other Indications											
Payment delays, B2B	Number of days	16	18	19	14	14	15	14	14	14	19
Bankruptcies, SMEs	Number	839	873	1 280	1 301	1 263	1 345	1 379	1 228	1 001	904
Bankruptcies, SMEs (growth rate)	%, year-on-year growth rate	..	4.05	46.62	1.64	-2.92	6.49	2.53	-10.95	-18.49	-9.69

Source: See Table 9.3 of the full country profile.

StatLink  <http://dx.doi.org/10.1787/888933666872>

SMEs in the national economy

SMEs play an important role in creating jobs in the Czech Republic and generally contribute to social stability and economic development. Their development may, however, be hindered by factors such as insufficient collateral necessary for obtaining capital or loans, limited resources to access information (especially on new technologies and potential markets), limited marketing reach, obstacles to entering foreign markets, as well as insufficient innovative potential.

In 2016, there were roughly 1.1 million active enterprises in the Czech Republic. 99.8% of these firms were SMEs with less than 250 employees each. Together, they employed almost 1.8 million people or 58.4% of the Czech Republic's workforce. Micro-firms dominated the business landscape, comprising 96.3% of all SMEs in 2015.

The value added by SMEs continues to grow on a year-on-year basis, reaching nearly CZK 3 trillion in 2016. The share of SMEs that directly export is lower than that of large companies, and amounts to one-third of the whole export. The statistics may, however, be skewed by the fact that SMEs often play the role of suppliers to large enterprises that produce for export.

SME lending

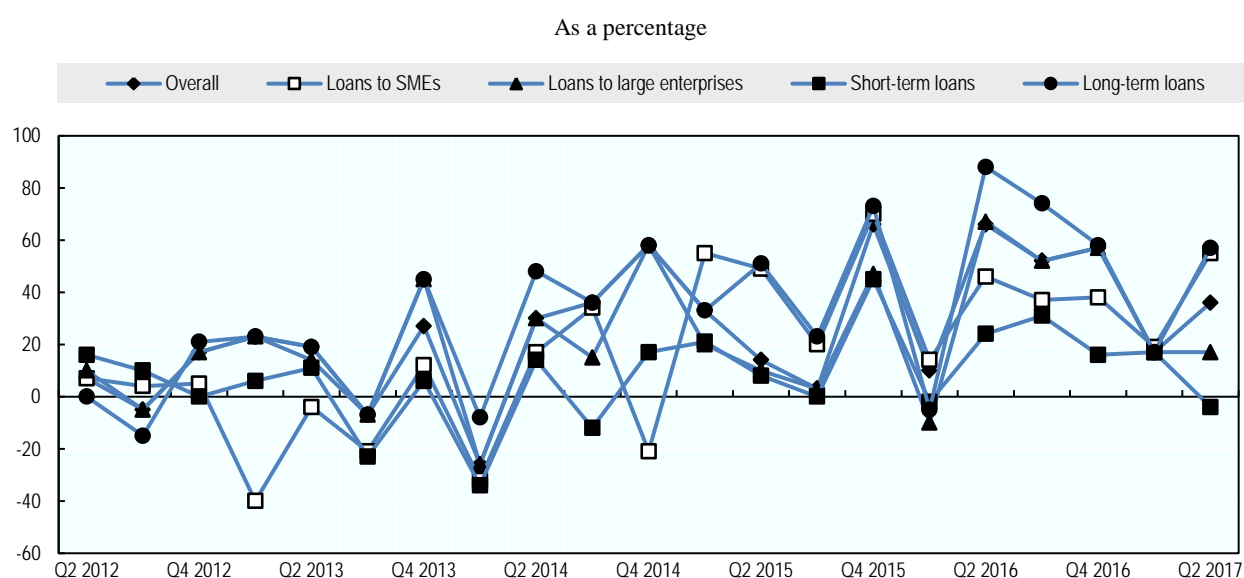
New SME loans declined continuously between 2007 and 2010 by a cumulative 40.7%, recovering slightly in 2011 and 2012 to grow by 0.6% and 4.6% respectively. In 2013, this upward trend again reversed with new SME lending dipping by 33.3% in the span of a single year. Recovery since then has been uneven, with increases in 2014 and 2015 and a 15.0% drop in 2016. Total new business loans peaked in 2008, before contracting by a total 30.8% in 2008-11. Since then, it has followed a similar pattern to new SME lending, with contractions in 2013 and 2016.

The similar evolution is mainly due to the impact economic activity had on the volume of new loans in general. Its decline in 2013 negatively affected new lending volumes, especially for SMEs. The increase in new loan volumes in 2014 was a result of the recovery in economic activity. Moreover, in 2016 there was a discrepancy in the evolution of the volumes of new CZK loans and new EUR loans as the former decreased and the latter increased.

Overall, volumes of new loans to non-financial enterprises remain on the long run on a lower level in comparison with the pre-crisis period (before 2009). From the long-term perspective we can see an effort by companies to optimise their balance sheets and use their own sources for financing their operational and investment expenses. In a context of growing demand for long-term credit, new loans are utilised especially for financing mergers and acquisitions, restructuring, as well as for debt and fixed investment expenses.

As in the reference period new SME loans shrank more than new business loans, the SME loan share in total new business loans decreased from 24.4% in 2007 to 19.7% in 2016. This trend is caused by two factors. Banks implemented stricter rules for credit risk management, placed higher demands on the financial health of borrowers and requested higher loan collateral. Entrepreneurs, on the other hand, faced lower order volumes, and fears of an uncertain economic development led to more reluctance in lending money along with more efficient methods of utilising own resources.

Figure 9.1. Changes in demand for loans to companies in the Czech Republic

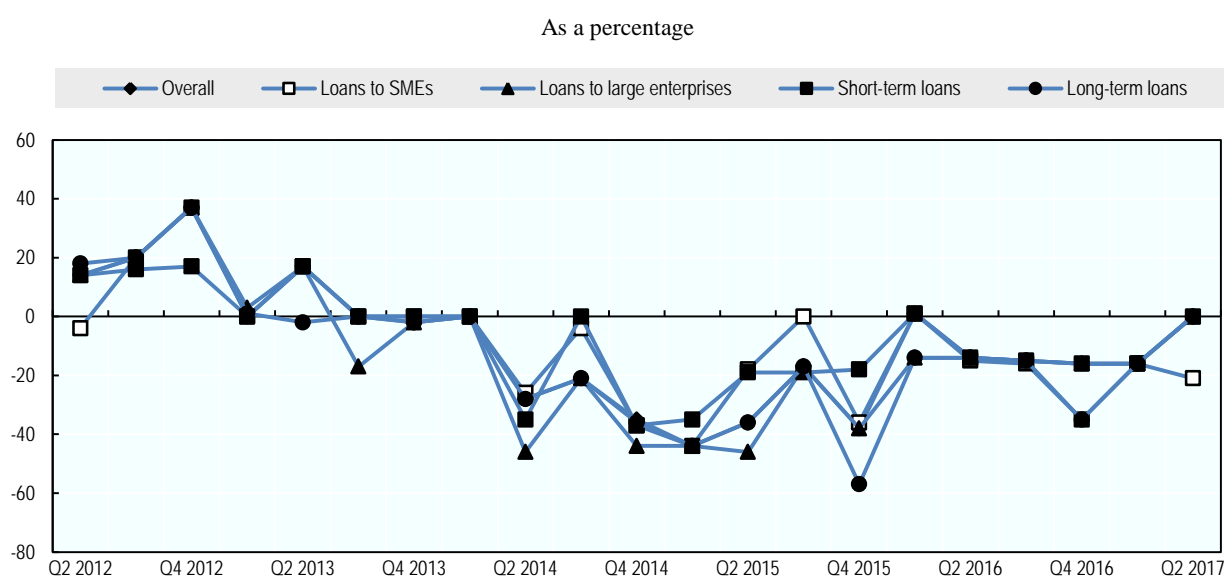


Source: Czech National Bank. Bank Lending Survey 2017. (http://www.cnb.cz/en/bank_lending_survey/index.html).

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Credit conditions

SME interest rates were down for the second year in a row, falling by 20 basis points in 2016 vis-à-vis 2015, to reach a record low of 2.5%. This represents a cut of more than half from its 2007 level. Large enterprises' interest rates also followed a similar pattern of decline since 2007, to reach 1.8% in 2016. Interest rate spread fluctuated between 2007 and 2016, dropping by almost half in 2015 and declining by a further 22.2% in 2016 to reach 0.7 percentage points.

Figure 9.2. Credit standards for non-financial corporations in the Czech Republic

Source: Czech National Bank. Bank Lending Survey 2017 (http://www.cnb.cz/en/bank_lending_survey/index.html).

StatLink  <http://dx.doi.org/10.1787/888933666853>

Table 9.2. Venture capital and growth capital investments in the Czech Republic

By stage of investment, in EUR thousand

Stage	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Seed	0	0	0	0	0	0	2 602	0	300	712
Start-up	500	282	0	13 141	2 718	127	1 038	2 935	1 300	3 488
Later stage venture	2 027	41 091	27 675	9 939	6 475	5 124	800	2 600	70	0
Total venture	2 527	41 373	27 675	23 080	9 193	5 251	4 440	5 535	1 670	4 200
Growth	118 262	62 613	191 984	128 142	9 092	4 240	15 952	29 428	8 750	4 860

Source: Invest Europe.

StatLink  <http://dx.doi.org/10.1787/888933666891>

Other indicators

The proportion of non-performing loans to all loans almost tripled between 2007 and 2010, going from 3.1% to 9.0%, respectively. This could be attributed to a worsening of the Czech economic climate in the same period. Since then, this percentage has fallen steadily, from 7.3% in 2012 to 5.1% in 2016, still remaining well above pre-crisis levels. 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.

SME bankruptcies increased year-on-year between 2007 and 2010, and remained more or less the same until 2013. In 2007-13, the total increase in SME bankruptcies stood at over 64.4%. Since then, it has declined continuously, falling from 1 379 SME bankruptcies in 2013 to 904 in 2016, the lowest figure since 2009.

Government policy response

Government policy support to SMEs is based on Act No. 47/2002 Coll., regarding the support to small and medium-sized enterprises, and on the document Small and Medium-sized Enterprises Support Strategy 2014-20. The issue of 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 the subsequent economic recession, the government was looking for ways to facilitate access to finance for SMEs.

The Czech-Moravian Guarantee and Development Bank, the Czech Export Bank and the Export Guarantee and Insurance Corporation are state-owned institutions. Given the decline in SME lending and its impact on employment, investment and exports, guarantee activities were stepped up in the aftermath of the crisis. In the framework of anti-crisis measures, the Ministry of Industry and Trade provided assistance under several programmes. All of these programmes are evaluated regularly and presented in the “Report on Developments in Small and Medium-sized Enterprises and their Support”, that is submitted to the government and to parliament.

In accordance with the Strategy for the support of small and medium-sized enterprises for 2014-20, and the Action Plan to support small and medium-sized enterprises in 2016 and 2017, the Ministry of Industry and Trade considers strengthening the growth motivation of SMEs to be an important priority. Eligible SMEs must be marketing-ready and able to find new markets outside the Czech Republic (both in territorial and product terms), enter them and survive in these markets. It bears upon an increased ability for international expansion and extending the scope of export, production and sales activities.

The Marketing programme, which had been prepared in this spirit within the Operational Programme Enterprise and Innovation for Competitiveness 2014-20 (OPEIC 2014-20), was approved by the Government Decree no. 581 of 14 July 2014. The aim of the marketing programme, to which the sum of CZK 1.5 billion has been allocated, is to increase the internationalisation of small and medium entrepreneurs by supporting their participation in foreign exhibitions and fairs, the provision of advantaged consulting services, and more.

GUARANTEE programme

The national guarantee programme for small businesses (GUARANTEE) allows small businesses (less than 50 employees) to obtain a guarantee for a bank loan (investment and operational loans), using as a part of its funding resources from terminated former guarantees and repaid loans. The programme is administered by the CMGDB that has been under full control of the Czech government since 2012. Eligible firms need to be registered in the Czech Republic, and not operate in primary production in the areas of agriculture, fisheries and aquaculture.

During 2016, 1 824 guarantees were issued for a total amount of CZK 3.5 billion that corresponded to credits in the amount of CZK 5 billion, enabling entrepreneurs to finance their projects. In this programme, the CMGDB cooperates on a contractual basis with partner private banks and provides SMEs with partial guarantees (up to 80% of the loan provided by the private bank).

EXPANSION programme

The first call from the programme EXPANSION financed from the OPEIC 2014-20 has been launched in April 2017. It facilitates access of SMEs to bank loans by providing them with soft (subsidised, preferential) investment loan and a financial contribution in a form of interest rate subsidies of commercial co-loan (applicable only for projects in disadvantaged regions). The programme is administered by the CMGDB. Eligible firms need to be registered in the Czech Republic, and not operate in primary production in the areas of agriculture, fisheries and aquaculture.

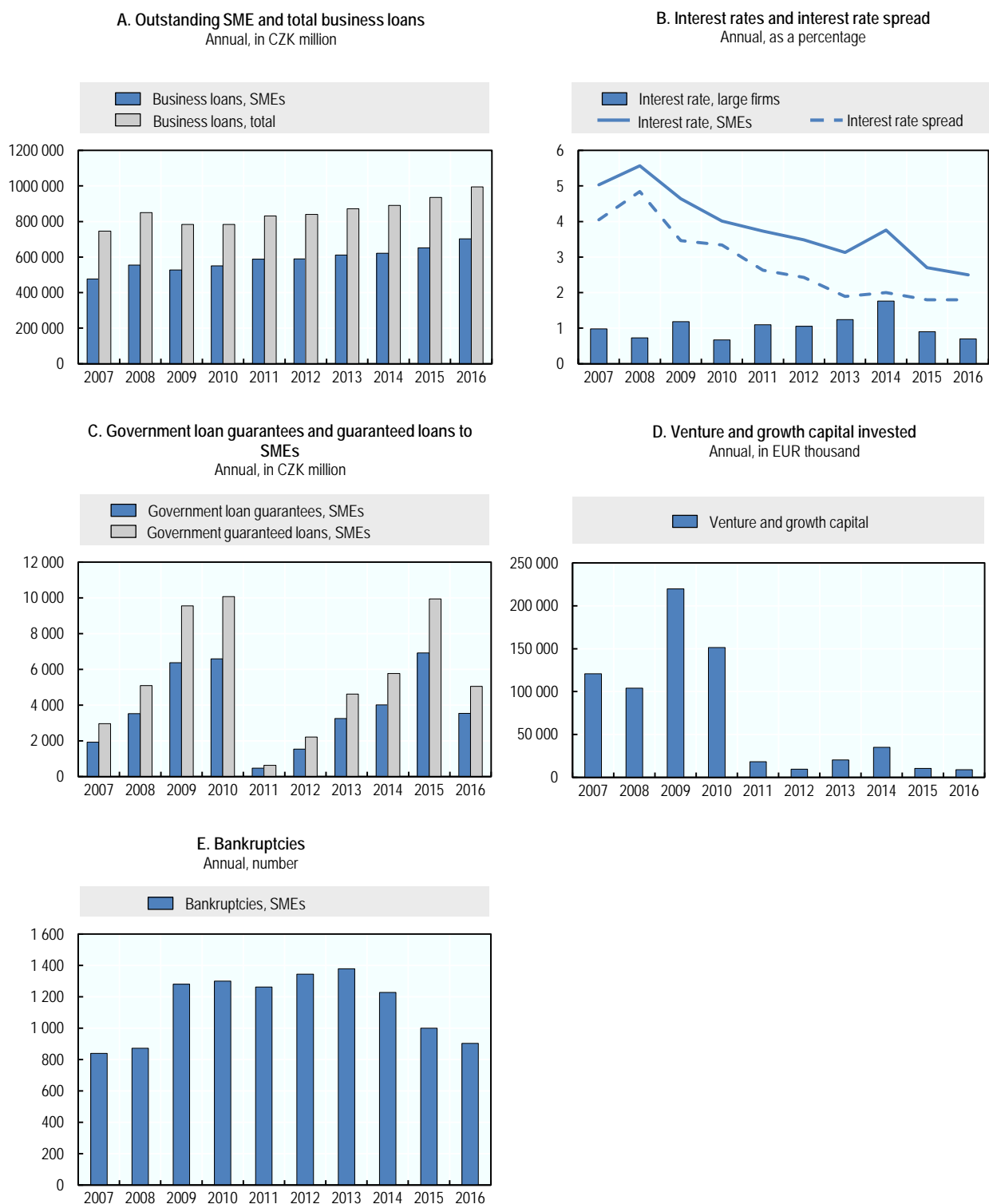
Planned allocation to the programme is CZK 8.8 billion, out of which CZK 2.2 billion is determined for the first call running until March 2019. In this programme, the CMGDB cooperates on a contractual basis with partner private banks which provide SMEs with a co-loan. The CMGDB offers businesses a preferential loan representing a maximally 60% of project eligible expenditure, to a maximum of CZK 100 million.

The evolution of loan guarantees

As illustrated by Figure 9.3.C, in 2010, the sources for guarantees within the Operational programme for Enterprise and Innovation (OPEI) have dried out. Consequently, there was a new government programme initiated in 2011 to cover the funding of the above mentioned Guarantee programme. The launch of the programme was, however, quite slow.

In 2016 there was a plan to launch a new OPEIC programme, EXPANSION (loan guarantees) to complement the government funded Guarantee. To increase its absorption capacity, in 2016 the Guarantee programme was geographically limited to Prague. Businesses outside Prague were still eligible, with the exception of the companies from the manufacturing industry (which were most of them). EXPANSION has been funded by the OPEIC, which rules out the Prague region from its eligible beneficiaries (rules of the ESIF). The programme has, however, only started in mid-2017, hence the drop in the volume of guarantees provided in 2016.

Figure 9.3. Trends in SME and entrepreneurship finance in the Czech Republic



Source: Charts A and B: Czech National Bank. Chart C: Czech-Moravian Guarantee and Development Bank (CMGDB). Chart D: Invest Europe. Chart E: CRIF – Czech Credit Bureau.

Table 9.3. Definitions and sources of indicators for the Czech Republic's scoreboard

Indicator	Definition	Source
Debt		
Outstanding business loans, SMEs	Stock of loans issued to resident non-financial businesses with 0-249 employees or with unknown number of employees and with total revenue CZK 0-1 500 million	CNB, Loan register
Outstanding business loans, total	Outstanding loans to non-financial sectors other than government (stock)	CNB, ARAD
New business lending, total	All new business loans	CNB, ARAD
New business lending, SMEs	New business loans < CZK 30 million	CNB, ARAD
Short-term loans, SMEs	New business loans < CZK 30 million with maturity up to 1 year	CNB, selection from SNOB
Government loan guarantees, SMEs	Volumes of guarantees provided by the CMGDB	CMGDB
Government guaranteed loans, SMEs	Volumes of commercial loans guaranteed by the CMGDB guarantees stated above	CMGDB
Direct government loans, SMEs	Preferential loans provided by the CMGDB	CMGDB
Non-performing loans, total	Amount of total non-performing business loans	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 from CNB ARAD data
Non-bank finance		
Venture and growth capital	Venture and growth capital, total amount invested	Invest Europe
Other indicators		
Payment delays, B2B	Barometer of payment moral	Atradius
Bankruptcies	A number of enterprises ruled bankrupt	CRIF

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