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■ Small and medium-sized enterprises not disadvantaged by Basel II

On Thursday, Deputy Governor Kristina Persson spoke under the heading "Banking and regional development" at a research conference in Stockholm, organised by the Göran Collert Foundation. The subjects discussed included Basel II and its effects on small companies.

"A number of countries, including Sweden, are preparing for the new regulations for banks and other financial institutions – Basel II – which are expected to come into force in 2007. Some ten countries' central banks and supervisory authorities have endorsed the proposed regulations. Basel II is a large, extensive regulatory framework that needs to be illustrated and commented on from a number of different perspectives. One aspect is the consequences for small and medium-sized enterprises (SMEs)," said Ms Persson.

"For example, I have come across claims that Basel II will make it more difficult for small and medium-sized enterprises to borrow money from the banks. Personally, I believe that many SMEs will actually benefit from the new regulations and find greater opportunities to obtain credit."

"In the first place, Basel II contains certain regulations that explicitly benefit smaller companies over larger companies:

- Loans for amounts up to EUR 1 million to a small company will only carry 75 per cent of the capital requirement of a corresponding loan to a larger company.
- Lending to companies with a maximum of EUR 50 million in annual turnover will also carry a lower capital requirement than equivalent loans to larger companies.

The argument put forward in the Basel agreement for this relatively advantageous treatment of smaller companies has been that the banks can often complement their risk assessments with knowledge of non-quantifiable factors, such as the competence of the owners and company management. Another reason has been that the banks are expected to be able to achieve a greater risk spread in their lending to SMEs that are active in different sectors and regions."

"Secondly, Basel II means in purely general terms that the capital adequacy requirement will be more closely linked to the risk level of the banks' exposures. A less standard capital adequacy requirement will probably mean that the banks will become even better at analysing and assessing credit risks. This will also mean that they have an incentive to require compensation for their credit risks instead of routinely refusing loans to smaller, higher-risk companies. One consequence of this may be that many SMEs that have previously been refused loans can now obtain bank loans, but may have to pay interest at a higher rate than lower-risk companies," said Ms Persson.

"However, it will probably be a pedagogical challenge for both central banks/supervisory authorities and the banks themselves to explain the significance of an initiative like Basel II. The banks should do more to clarify, for their employees and borrowers in particular, exactly what Basel II implies, how loan applications should be assessed and credit risks managed", concluded Ms Persson.