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To the attention of

Wolfgang Schill
Director General, Economics
European Central Bank
Kaiserstrasse 29
60311 Frankfurt am Main, Germany

26 June 2009

Dear Mr Schill, Dear Wolfgang,

The ECB's interventions over the past months have been decisive and its analysis of current and upcoming policy challenges widely shared by the business community.

However, the introductory statement presented by President Trichet after the 4 June Governing Council meeting has highlighted one point of divergence regarding working capital pressures faced by euro-area companies, which I thought useful to clarify with you.

The ECB explained in that statement, and again in its June Monthly Bulletin (page 7), that the contraction in short-term loans to the corporate sector reflects "a lower need for working capital in view of the sharp deterioration in economic activity". This tends to contradict regular feedback we receive from our member federations and from companies.

Working capital positions and their financing are currently under tremendous pressure due to the combined effect of a sharp drop in demand and rising credit constraints. This is a direct threat to the financial strength and survival of many firms.

Companies' current assets in cash and receivables have worsened rapidly in recent months whereas current liabilities have remained relatively stable as accounts payable, accrued liabilities, taxes, and interest payments have adjusted more slowly.

To make matters worse, payment delays have risen, as companies throughout value chains experience liquidity constraints. This problem has been further exacerbated by the evaporation of affordable credit insurance and trade financing instruments.

We see therefore the reduction in short-term loans to companies as deriving from complex interactions between demand and supply side factors, rather than from lower working capital needs as suggested in the ECB's analysis.

Many SMEs currently deplore the fact that accessing bank lending – their traditional form of external financing – often comes at prohibitive costs and conditions as banks continue to tighten their standards.

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A clear indication of the continued need for the external financing of working capital is found in the recent figures for commercial paper and short-term note issuances. While the number of issuers has decreased noticeably from a peak in the summer of 2008, demand per issuer has picked up in recent months and is currently higher than pre-recession levels. This demonstrates that companies having access are eager to tap external funding when it is available.

In its June Monthly Bulletin, the ECB has already acknowledged that (page 45): "the trends towards higher debt securities issuance and the slowdown in bank financing point to possible difficulties experienced by firms in obtaining funding via banks". This assessment is true and also applicable to short-term financing flows.

As you know, we have in our "Access to Finance" report from March 2009 taken a position in favour of the temporary purchase of short-term corporate debt instruments by central banks. We believe this would diversify financing options for companies and help free up bank lending channels.

We are well aware that the challenges to restore a normal functioning of credit channels are increasingly complex with a banking sector on the mend and risk of corporate default at historic heights. We believe that access to market-based financing can play a significant buffer role and should be actively supported.

In such a fragile and low inflation environment, we fully trust that you are monitoring the situation very closely and will consider all options deemed appropriate to prevent a further escalation of the credit crisis.

Kind regards,

Marc Stocker
Economics Director
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