EUROPEAN CENTRAL BANK

EUROSYSTEM

Survey on the Access to Finance of Enterprises in the euro area

Fourth quarter of 2024

January 2025

Contents

1 Overview of the results

This report presents the main results of the 33rd round of the Survey on the Access to Finance of Enterprises (SAFE) in the euro area, which was conducted between 20 November and 18 December 2024. In this survey round, firms were asked about economic and financing developments over the period between October and December 2024. The sample comprised 5,393 enterprises in the euro area, of which 4,997 (93%) had fewer than 250 employees.[1]

Overall, survey results indicate that the monetary policy easing cycle is reducing the interest rates charged to firms. This is the first time that a net easing has been recorded. A net 4% of firms reported a decrease in bank interest rates, compared with a net 4% reporting an increase in the previous quarter. While, as in the previous quarter, a net 7% of large firms observed a decline in interest rates, this quarter marks the first instance since the start of quarterly data reporting that SMEs (a net 1%) have reported a decrease. However, in net terms, firms indicated a further slight tightening of other loan conditions, both price and non-price.

Firms reported no change in the need for bank loans and a small reduction in bank loan availability (**Table 1**, columns 9-10 at the end of this section and **Chart 2** in Section 2). In the fourth quarter of 2024 firms reported no change in the need for bank loans, while a net 2% reported a reduction in the availability of bank loans. As a result, the financing gap for bank loans – an index capturing the difference between changes in needs and availability – increased for a net 1% of firms, after declining for a net 2% in the previous quarter. Looking ahead, firms expect a modest improvement in the availability of bank financing over the next three months.

More firms than in the previous round perceived the general economic outlook to be the main factor hampering the availability of external financing (**Chart 5** in Section 2). In the fourth quarter of 2024, a net 22% of firms reported that a worsening economic outlook had reduced external financing availability, up from 20% in the previous quarter. Firms also reported a worsening impact of their firm-specific outlook on financing availability.

A greater share of firms than in the previous quarter reported an increase in the willingness of banks to lend (**Chart 6** in Section 2). On balance, 8% of firms reported an improvement in banks' willingness to lend, up from 6% in the previous survey round. A net 4% of SMEs reported an improvement in banks' attitudes towards them, whereas this figure rises to 15% for large firms.

The share of firms applying for bank loans remained relatively low, mainly because of the high levels of internal funds (**Chart 7** in Section 2). In the fourth quarter of 2024 the share of firms applying for bank loans was 17%. The most common reason reported by firms for not applying for a bank loan was the amount of

1 See Annex 3 for details of methodological issues relating to the survey.

internal funds at their disposal, which these firms considered sufficient to finance their business plans.

The percentage of firms reporting obstacles to obtaining a bank loan remained broadly stable. Among enterprises that judged bank loans to be relevant, 6% reported obstacles when seeking to obtain a loan (**Table 1**, columns 11 and 12 in this section, and **Chart 8** in Section 2).

In spite of the decline in interest rates in the fourth quarter of 2024, an estimated indicator of firms' financing conditions tightened moderately, although the least since 2019 (Chart A in this section). The indicator reflects firms' perceptions of price terms and conditions of financing, including changes in bank interest rates and other bank-related costs such as charges, fees and commissions. It is one of three "principal components" capturing how euro area firms view overall financing conditions.[2] During this survey period, the indicator continued its sharp decline since the peak in 2023, reaching levels similar to those seen in 2018. This rapid decline highlights the ongoing reduction in interest rates while other borrowing costs are rising. A comparison across firm sizes shows that large firms indicated slightly better overall financing conditions than small and medium-sized enterprises (SMEs).

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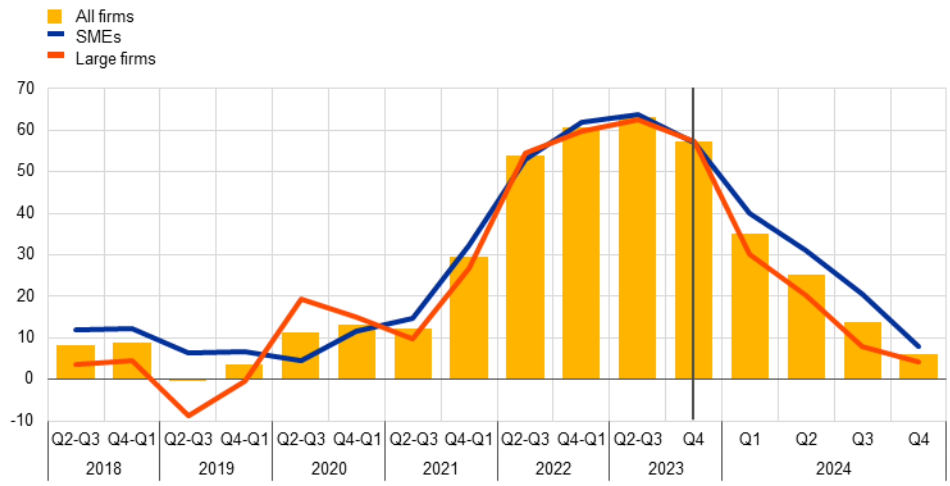
2 The indicator is derived from a factor analysis covering changes in (i) price terms and conditions of bank loans (changes in interest rates and other costs of bank loans); (ii) non-price terms and conditions (changes in collateral requirements); (iii) the financial position of firms (in terms of changes in profits, credit history and own capital); and (iv) firms' perceptions of changes in the willingness of banks to provide credit. The reported indicator is one of three main principal components and mainly relates to price terms and conditions. The other two indicators relate respectively to non-price terms and conditions for loans and to the financial position of the firm. The methodology for computing this indicator has been updated from that presented in the box entitled "Financing conditions through the lens of euro area companies", *Economic Bulletin*, Issue 8, ECB, 2021. The revised approach includes updating the factor analysis at each wave using all available historical data and calculating each indicator as a linear combination of the underlying variables. This combination is subsequently rescaled to a range of -100 to 100 by dividing it by its theoretical maximum. In each survey round, the most recent value is reported, while the historical data are maintained as they are.

Chart A

Change in price terms and conditions as perceived by euro area firms

(weighted scores)



Base: Enterprises that applied for a bank loan.
Notes: Indicator derived from factor analysis. For details of the analysis see footnote 2. The indicator is based on firm-level survey replies from 2018 to the fourth quarter of 2024, using the replies on changes in the previous six months up to the third quarter of 2023 and on changes in the previous three months thereafter. The aggregate indicators are the average of firm-level scores, weighted by size, economic activity and country. Positive values indicate a deterioration in firms' financing conditions. The individual scores have a range of between -100 and 100.

Enterprises reported on net an increase in turnover over the last three months. A net 6% reported increased turnover (**Chart 9** in Section 3), almost unchanged from 7% in the previous quarter, with large firms showing a significant improvement. Firms are optimistic about future turnover, with a net 11% of them expecting increases.

Slightly more firms continued to signal a deterioration in profits, despite reporting relatively less cost pressure than in the previous quarter. A net 14% of euro area enterprises signalled a decline in their profits (after 12% in the previous quarter). However, there was a decline in the net percentage of firms reporting higher labour costs and materials and energy costs compared with the previous quarter.

The financial vulnerability of euro area enterprises declined (**Chart 10** in Section 3). According to this indicator, 4% of euro area enterprises encountered major difficulties in running their business and servicing their debts over the past three months (down by 3 percentage points from the previous quarter).

Fewer enterprises reported an increase in investment in the last three months (**Chart 11** in Section 3). The net share of firms expecting an increase in investment over the next three months declined further across size classes.

Firms still expect the rise in their selling prices to moderate over the next 12 months in view of lower expectations for wage cost increases (**Chart 12, Chart 13** and **Chart 14** in Section 3.3). Selling prices are expected to increase by 2.9% on average (down marginally from 3% in the previous survey round), while expectations for wage increases stood at 3.3% (down from 3.5%). Across size classes, SMEs continue to report higher expectations for selling prices and non-labour input costs than larger firms, while the wage cost and employment growth expectations of the two size categories are more closely aligned. On average, firms in services expect their selling prices and wages to increase at a stronger pace than firms in other sectors. In addition, firms kept their non-labour input cost and employment growth expectations for the next 12 months unchanged at 3.8% and 1% respectively on average.

Euro area firms' median inflation expectations increased slightly across all horizons, bringing a halt to the previous declines (**Chart 15** in Section 3.4). Median inflation expectations stood at 3.0% for annual inflation in one, three and five years. Compared with September 2024, median inflation expectations increased by 0.1 percentage points across all horizons. Overall, SMEs continue to report higher inflation expectations compared with large firms across all horizons. Revisions to the longer-term inflation outlook were predominantly driven by large firms. Inflation expectations have shifted upward across sectors. The strongest increase was in the trade sector, where expectations rose from 2.5% in the previous survey round to 2.9% for the one-year horizon and 3.0% for the three and five-year horizons.

Fewer firms reported that risks to the five-year-ahead inflation outlook are broadly balanced, with risks still perceived as being tilted to the upside (**Chart 17** in Section 3.4). With regard to inflation in five years, fewer firms (33%, down from 41%) perceived the risks to the outlook as broadly balanced. The increase in the percentage of firms seeing upside risks (51%, up from 46%) was similar to the rise in the percentage of those seeing risks to the downside (16%, up from 12%).

Firms reported paying significant attention to domestic inflation, and to a higher extent than a year ago, noting that the primary factors influencing the change in domestic inflation in 2024 were input costs rather than profits. To gain deeper insights into how inflation dynamics influence firms' expectations in the euro area, this survey round includes a new set of ad hoc questions. Firms were asked about their current and past level of attention to inflation and the factors they think influenced inflation dynamics in the last 12 months.

Additionally, firms were asked about the inflation target set by the European Central Bank (ECB). Nearly half of the firms surveyed are aware of the 2% target, and these firms have lower inflation expectations than those believing the inflation target to be significantly above 2%. Among the respondents, 48% identified the target as being 2%. The median inflation expectations of these respondents stand at 2.5% across all time horizons (one, three and five-year). Firms believing the inflation target to be significantly above 2% reported significantly different expectations, in particular projecting higher inflation for the long-term horizon.

Table 1

Latest developments in SAFE country results for euro area firms

(net percentages and percentages of respondents)

	Needs				Availability				Financing gap (bank loans)		Financing obstacles		Vulnerable firms	
	Bank loans		Credit lines		Bank loans		Credit lines							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024	Q3 2024	Q4 2024
Euro area	-2	0	6	5	1	-2	-2	-1	-2	1	6	6	7	4
BE	2	3	15	16	-1	0	-1	-8	0	1	7	3	6	7
DE	-8	-5	7	3	-9	-10	-9	-9	-1	2	6	8	9	3
IE	1	5	3	5	3	3	5	5	0	1	4	4	5	7
GR	2	4	9	11	11	10	7	18	-4	-3	9	14	3	2
ES	-3	2	-5	1	13	8	7	9	-10	-3	5	5	5	3
FR	2	0	3	7	0	-10	0	-7	2	6	5	7	7	4
IT	5	2	7	7	4	9	0	6	2	-3	7	4	6	3
NL	-7	-4	17	2	1	2	-3	14	-5	-6	2	3	5	4
AT	-7	4	9	-1	1	-13	0	-9	-2	9	4	5	11	3
PT	-3	1	7	3	14	4	7	6	-8	-1	3	6	6	4
SK	-4	1	0	5	0	-4	4	1	-1	3	7	7	3	5
FI	0	24	10	28	-8	-27	-4	-27	4	26	6	5	9	8

Notes: For the “financing gap”, see the notes to Chart 2; for “financing obstacles”, see the notes to Chart 8; for “vulnerable firms”, see the notes to Chart 10. “Q3 2024” refers to round 32 (July-September 2024) and “Q4 2024” refers to round 33 (October-December 2024). Financing obstacles and vulnerable firms refer to the percentages of respondents, while the other indicators in the table are expressed in net percentages.

2 Firms' financing conditions

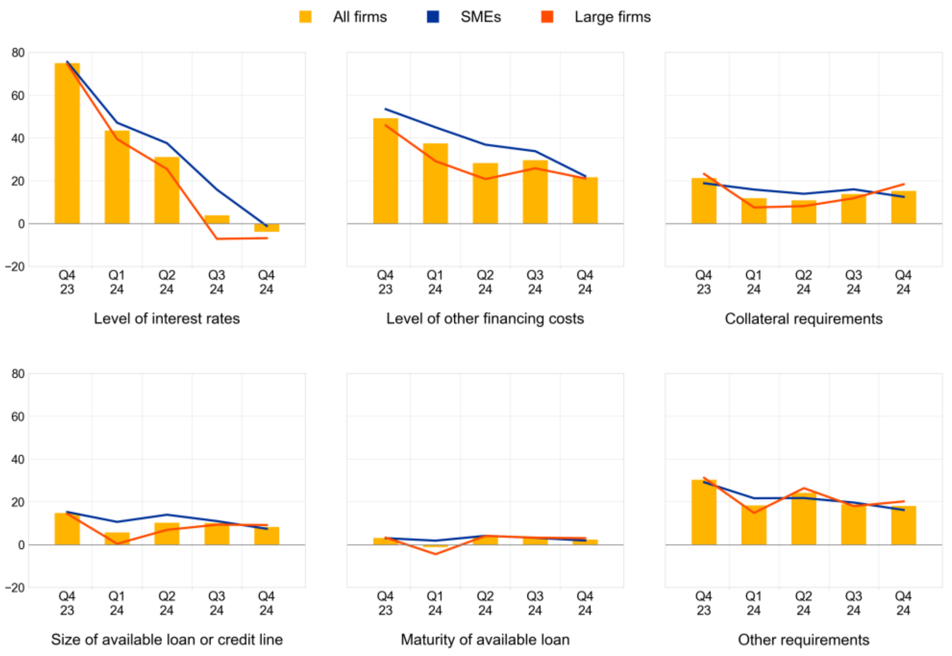
2.1 Firms reported a decline in the interest rates of bank loans

In this survey round firms observed a decrease in bank interest rates, while indicating a further slight tightening of other loan conditions (Chart 1). In the fourth quarter of 2024 a net 4% of firms reported a decrease in bank interest rates, compared with a net 4% reporting increases in the previous quarter. While, as in the previous quarter, a net 7% of large firms observed a decline in interest rates, this quarter marks the first instance since the start of quarterly data reporting that SMEs (a net 1%) have reported a decrease. Meanwhile, a net 22% of firms (down from 30% in the third quarter of 2024) reported an increase in other financing costs, such as charges, fees and commissions, and 15% (up from 14% in the third quarter of 2024) reported stricter collateral requirements. Across size classes, the share of large firms indicating stricter collateral requirements was greater than that of SMEs.

Chart 1

Changes in the terms and conditions of bank financing for euro area enterprises

(net percentages of respondents)



Base: Enterprises that had applied for bank loans (including subsidised bank loans), credit lines, or bank or credit card overdrafts. The figures refer to pilot 2 and rounds 30 to 33 of the survey (October-December 2023 to October-December 2024).
Notes: Net percentages are the difference between the percentage of enterprises reporting an increase for a given factor and the percentage reporting a decrease. The data included in the chart refer to Question 10 of the survey.

2.2 A small decrease in availability, coupled with unchanged needs, widened the financing gap for bank loans

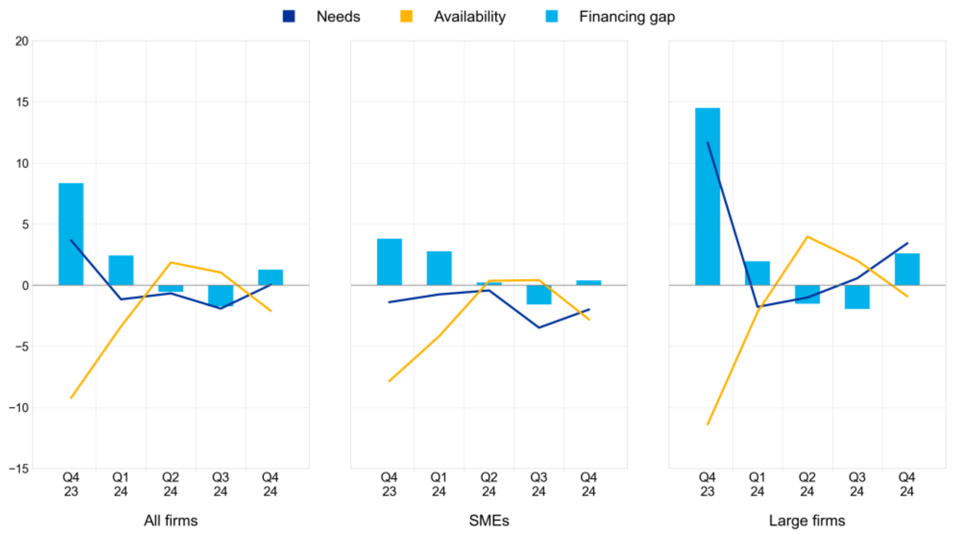
Firms reported no change in the need for bank loans (Chart 2). In the fourth quarter of 2024 firms reported no change in the need for bank loans (a net 0%, compared with 2% reporting a decrease in the previous quarter), with SMEs indicating a decline in the need for bank loans (a net -2%, up from -3%) and large firms on average signalling a small increase (a net 3%, up from 1%).

Firms reported a small decline in the availability of bank loans (Chart 2). The net percentage of firms reporting a decline in the availability of bank loans was 2%, compared with a net 1% reporting an improvement in the previous quarter. The reduction was reported by firms of all sizes. The small decrease in the availability of bank loans aligns with the recent tightening of banks' credit policies, especially regarding credit standards, as highlighted by the euro area bank lending survey during the same period. The financing gap for bank loans – an index capturing the difference between changes in needs and availability – became positive for a net 1% of firms, compared with a net 2% of firms experiencing a negative financing gap in the previous quarter.

Chart 2

Changes in euro area enterprises' financing needs and the availability of bank loans

(net percentages of respondents)



Base: Enterprises for which the instrument in question is relevant (i.e. they have used it or considered using it). Respondents replying "not applicable" or "don't know" are excluded. The figures refer to pilot 2 and rounds 30 to 33 of the survey (October-December 2023 to October-December 2024).
Notes: The financing gap indicator combines both financing needs and the availability of bank loans at firm level. The indicator of the perceived change in the financing gap takes a value of 1 (-1) if the need increases (decreases) and availability decreases (increases). If enterprises perceive only a one-sided increase (decrease) in the financing gap, the variable is assigned a value of 0.5 (-0.5). A positive value for the indicator points to a widening of the financing gap. Values are multiplied by 100 to obtain weighted net balances in percentages. The data included in the chart refer to Questions 5 and 9 of the survey.

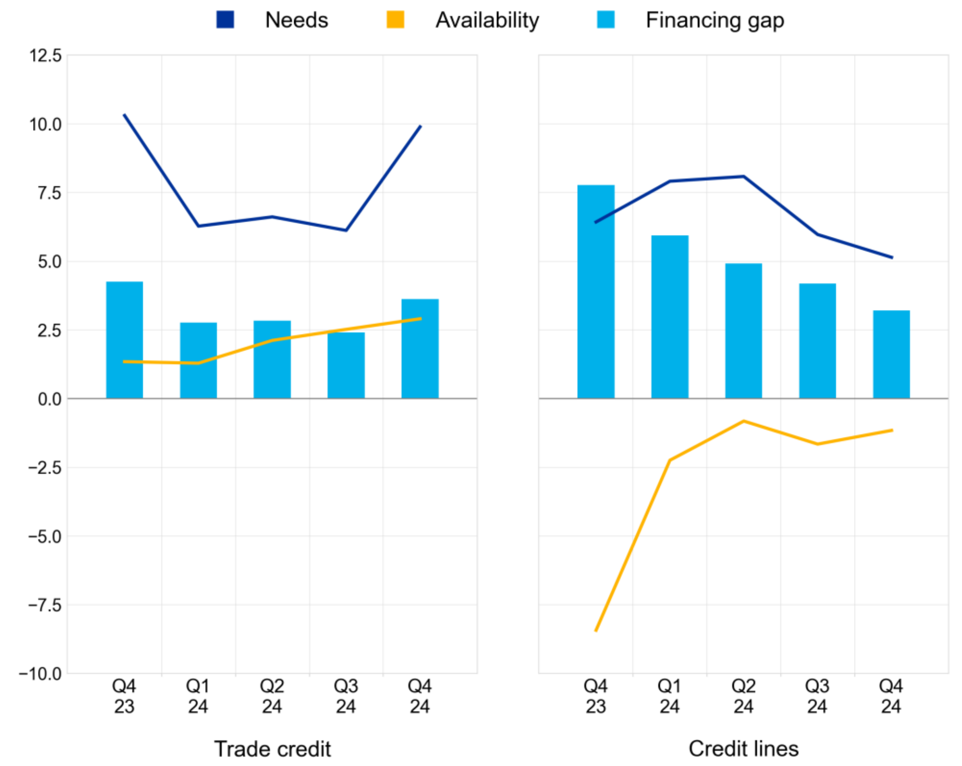
Firms reported an increase in the need for trade credit, with a modest improvement in availability (Chart 3). A net 10% of companies reported a higher need for trade credit (up from 6% in the previous quarter), possibly reflecting their willingness to improve their cash management in times of uncertainty. At the same time, a net 3% of firms (as in the previous quarter) signalled increased availability.

Fewer firms reported an increased need for credit lines, while availability declined slightly (Chart 3). In this survey round, a net 5% of firms reported an increased need for credit lines (down from 6% in the third quarter of 2024), while continuing to signal a slight decline in availability (-1%, compared with -2% in the previous quarter).

Chart 3

Changes in euro area enterprises' financing needs and the availability of trade credit and credit lines

(net percentages of respondents)



Base: Enterprises for which the instrument in question is relevant (i.e. they have used it or considered using it). Respondents replying "not applicable" or "don't know" are excluded. The figures refer to pilot 2 and rounds 30 to 33 of the survey (October-December 2023 to October-December 2024).
Notes: For a description of the indicator, see the notes to Chart 2. The data included in the chart refer to Questions 5 and 9 of the survey.

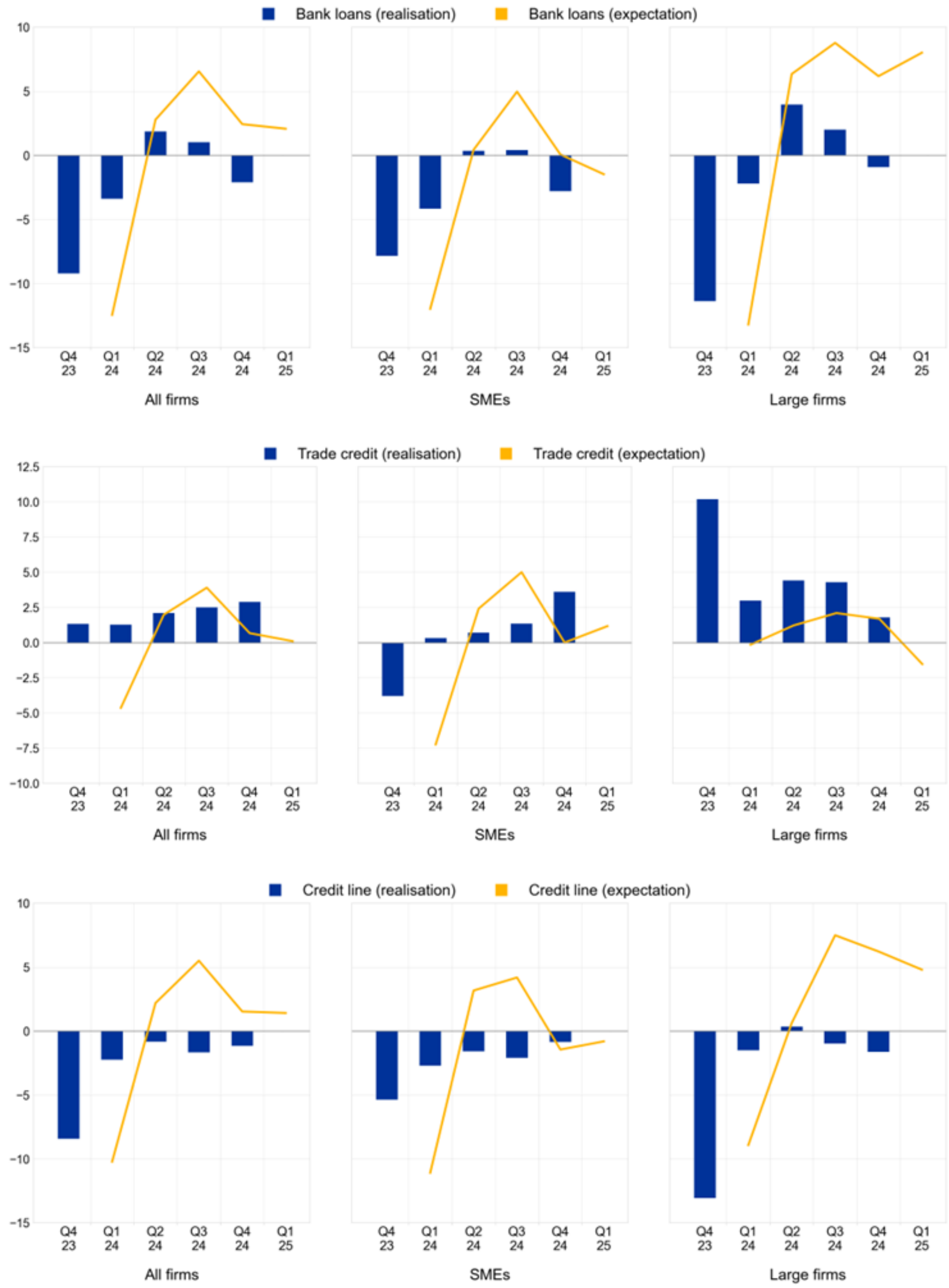
2.3 Firms expect the availability of external financing to improve slightly, with some differences across size classes

Looking ahead, firms expect small improvements in the availability of external financing over the next three months, as in the previous survey round (Chart 4). A net 2% of firms expect access to bank loans to improve over the next three months and a net 1% expect an improvement in credit lines, while on balance firms do not expect changes in the availability of trade credit. Unlike large firms, SMEs expect to see a slight decline in the availability of bank loans and credit lines.

Chart 4

Changes in euro area enterprises' expectations regarding the availability of financing

(net percentages of respondents)



Base: Enterprises for which the instrument in question is relevant (i.e. they have used it or considered using it). The figures refer to pilot 2 and rounds 30 to 33 of the survey (October-December 2023 to October-December 2024).
Notes: See the notes to Chart 1. The data included in the chart refer to Questions 9 and 23 of the survey. The expectation line has been shifted forward by one period to allow for a direct comparison with realisations.

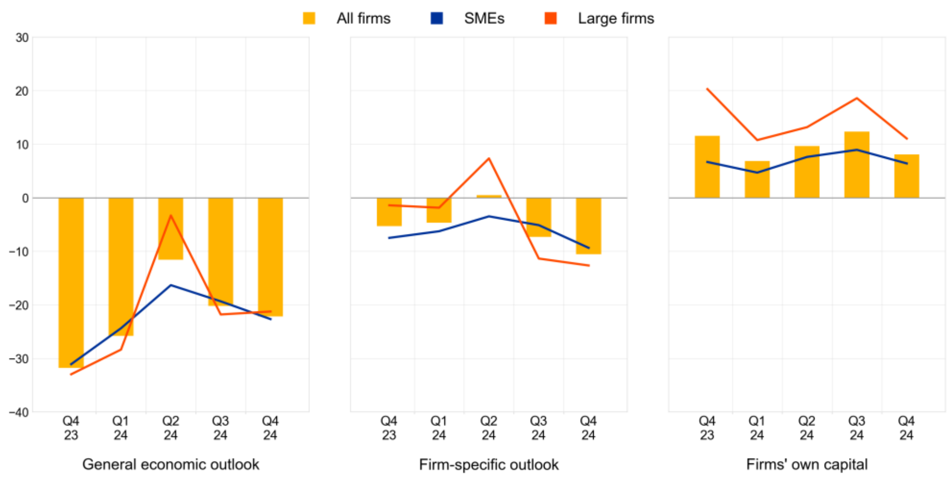
2.4 More enterprises perceived the general economic outlook as negatively affecting the availability of external finance

Slightly more firms perceived the general economic outlook as the main factor hampering the availability of external financing than in the previous survey round (Chart 5). In the fourth quarter of 2024 a net 22% of firms reported that a deterioration in the general economic outlook had reduced the availability of external financing, up from a net 20% in the third quarter of 2024. In this survey round, SMEs were slightly more pessimistic than large firms when reporting a deterioration in the availability of external financing due to the general economic outlook (net 23%, up from 19% in the previous quarter, compared with 21% of large firms, down from 22%). Additionally, a net 11% of firms indicated that the impact of their firm-specific outlook, in terms of sales and profits, on the availability of external financing was worsening, compared with 7% in the previous survey round. This perception was shared by both SMEs (a net -9%) and large firms (a net -13%). Firms continued to signal an improvement in their own capital position (a net 8%, down from 12% in the previous quarter) and creditworthiness (Chart 6, a net 13%, similar in the previous quarter).

Chart 5

Changes in factors that have an impact on the availability of external financing to euro area enterprises (general economic outlook, firm-specific outlook and firms' own capital)

(net percentages of respondents)



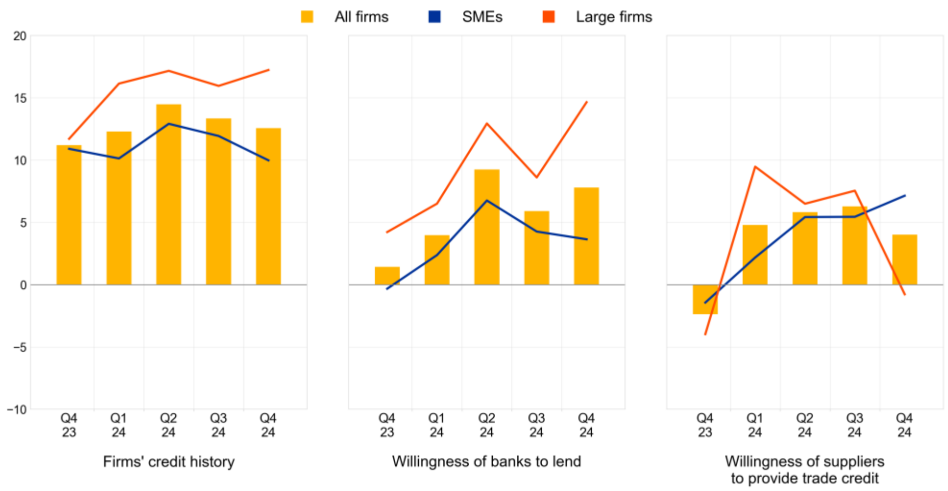
Base: All enterprises. The figures refer to pilot 2 and rounds 30 to 33 of the survey (October-December 2023 to October-December 2024).
Notes: See the notes to Chart 1. The data included in the chart refer to Question 11 of the survey.

More firms reported an increase in the willingness of banks to lend than in the previous survey (Chart 6). On balance, 8% of firms reported an improvement in banks' willingness to lend, up from 6% in the previous survey round. A net 4% of SMEs reported an improvement in banks' attitudes towards them, whereas this figure rises to 15% for large firms. Firms also signalled that business partners were more willing to provide trade credit (a net 4%, down from 6% in the previous survey round). In this survey round, large firms reported a quite significant deterioration in the perception of the willingness of their trading partners to provide credit (a net -1%, compared with 8% reporting higher willingness in the previous quarter). This may signal that they are experiencing some difficulty in obtaining finance in the short-term in an environment of considerable uncertainty for the business outlook.

Chart 6

Changes in factors that have an impact on the availability of external financing to euro area enterprises (firm's credit history, willingness of banks to lend and willingness of suppliers to provide trade credit)

(net percentages of respondents)



Base: All enterprises; for the category "willingness of banks to lend", enterprises for which at least one bank financing instrument (credit line, bank overdraft, credit card overdraft, bank loan or subsidised bank loan) is relevant. The figures refer to pilot 2 and rounds 30 to 33 of the survey (October-December 2023 to October-December 2024).
Notes: See the notes to Chart 1. The data included in the chart refer to Question 11 of the survey.

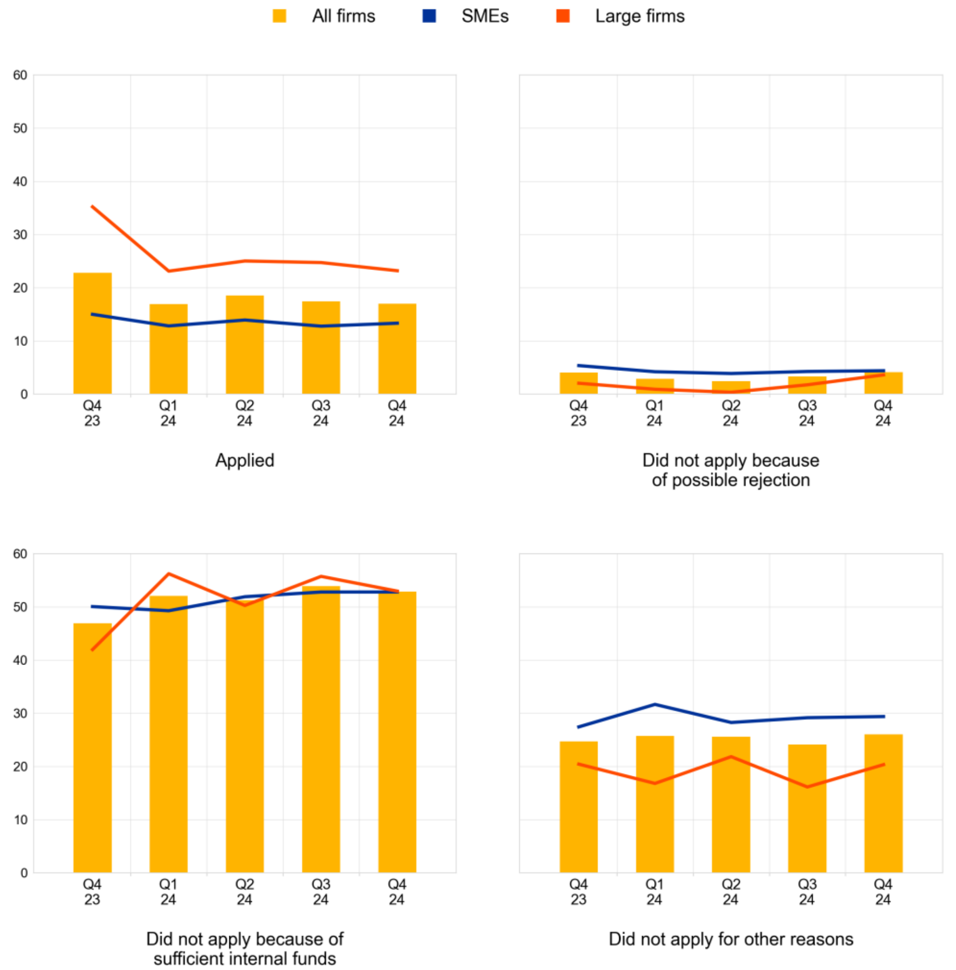
2.5 Few firms applied for bank loans, with no changes in overall financing obstacles

Firms continued to report low applications for bank loans (Chart 7). In the fourth quarter of 2024 the share of bank loan applications stood at 17% (as in the previous quarter) across all firms (13% for SMEs and 23% for large firms). Meanwhile, only a few firms felt discouraged from applying for bank loans, with 4% citing this reason, similarly to the previous quarter. The most frequently cited reason by firms for not applying was having sufficient internal funds to finance their business plans, with 53% stating that this was the case, a figure broadly unchanged from the previous quarter. This picture was consistent across different size categories.

Chart 7

Applications for bank loans by euro area enterprises

(percentages of respondents)



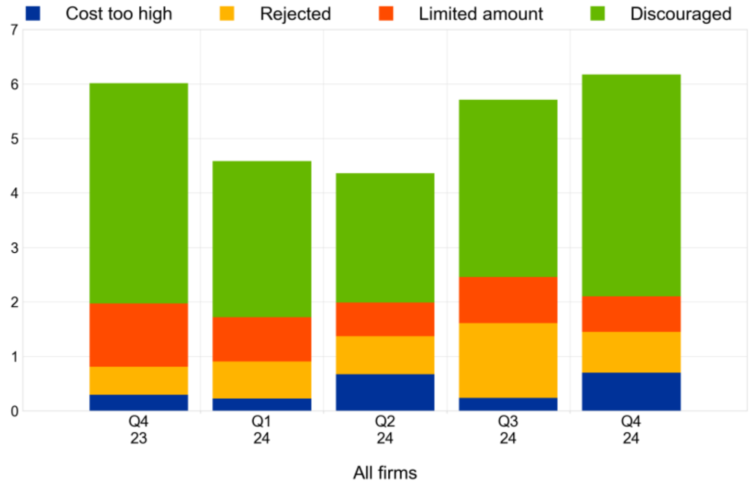
Base: Enterprises for which bank loans (including subsided bank loans) are relevant. The figures refer to pilot 2 and rounds 30 to 33 of the survey (October-December 2023 to October-December 2024).
Notes: The data included in the chart refer to Question 7A of the survey.

The percentage of firms reporting obstacles to obtaining a bank loan remained broadly stable (Chart 8). Among firms that considered bank loans relevant for their enterprise, 6% – the same percentage as in the previous quarter – encountered obstacles when seeking to obtain a loan, with a similar picture across size classes. This survey round indicated a slight uptick in the percentage of firms experiencing discouragement in applying for bank loans.

Chart 8

Obstacles to obtaining a bank loan

(percentages of respondents)



Base: Enterprises for which bank loans (including subsidised bank loans) are relevant. The figures refer to pilot 2 and rounds 30 to 33 of the survey (October-December 2023 to October-December 2024).
Notes: Financing obstacles are defined here as the total of the percentages of enterprises reporting (i) loan applications that resulted in an offer that was declined by the enterprise because the borrowing costs were too high, (ii) loan applications that were rejected, (iii) a decision not to apply for a loan for fear of rejection (discouraged borrowers), and (iv) loan applications for which only a limited amount was granted. The data included in the chart refer to Questions 7A and 7B of the survey.

3 The economic situation of euro area firms

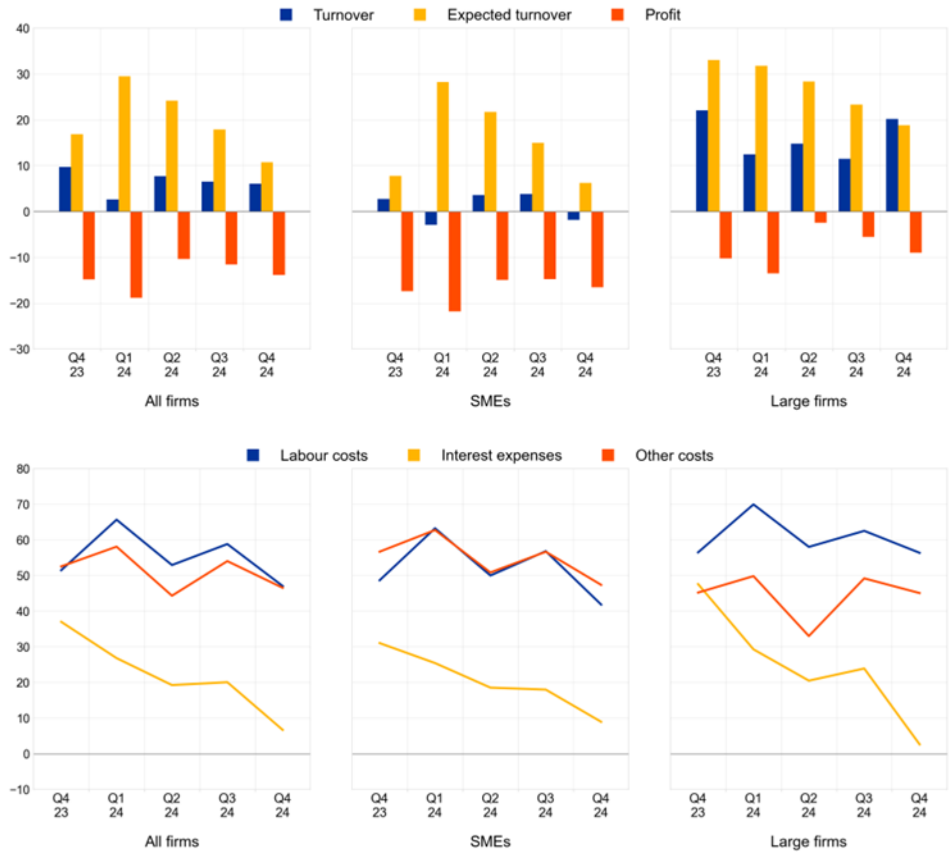
3.1 Turnover increased slightly, with costs still weighing on profitability

Over the last three months, few enterprises on balance reported an increase in turnover (Chart 9). The net percentage of euro area firms experiencing higher turnover decreased slightly to 6%, down from 7% in the third quarter of 2024. When considering firm sizes, large firms showed a significant improvement, with the net percentage reporting increased turnover nearly doubling to 20% from 11%, although remaining below the net percentage observed a year ago. Conversely, SMEs indicated a decline, with a net decrease of 2% compared with a previous increase of 4%. Looking ahead, firms remained optimistic about future turnover, although the net percentage expecting increases over the next three months fell to 11%, from 18% in the previous quarter, particularly among large firms.

Chart 9

Changes in the economic situation of euro area enterprises

(net percentages of respondents)



Base: All enterprises. The figures refer to pilot 2 and rounds 30 to 33 of the survey (October-December 2023 to October-December 2024).
Notes: See the notes to Chart 1. The data included in the chart refer to Question 2 of the survey.

Euro area firms reported a slightly greater deterioration in profits this quarter compared with the last. A slightly larger net percentage of euro area enterprises signalled a decline in profits, (a net -14%, compared with -12% in the third quarter). The decline was more widespread among SMEs, with a net 17% reporting lower profits (down from a net -15% in the previous quarter), compared with a net 9% of large firms reporting a deterioration (down from a net -6%).

Fewer firms reported higher cost pressures overall, including for materials, energy, and labour costs. As labour cost pressures eased, the net share of firms reporting increased labour costs dropped to 47%, compared with 59% in the previous quarter. Similarly, the net percentage of firms experiencing rising material and energy costs fell to 47% from 54% previously. Both large firms and SMEs reported declines in labour and material and energy cost increases, with those for labour costs being reported more widely for large firms than SMEs.

Increasing interest expenses continued to have an impact on profitability, although less so than in the previous quarter. The net share of firms reporting higher interest expenses decreased to 7%, down from 20% in the previous quarter.

SMEs were slightly more affected, with a net 9% reporting increased expenses, compared with 3% for large firms. This indicates that the effects of previous monetary policy tightening are rapidly diminishing.

Over the past three months, the percentage of financially vulnerable enterprises has decreased, especially among large firms (Chart 10). The financial vulnerability indicator, which offers a comprehensive evaluation of firms' financial health, shows that only 4% of euro area enterprises experienced significant difficulties in managing their business and servicing their debts during this period, down from 7% in the previous quarter.[3] The reduction in vulnerability was more notable among large firms. Meanwhile, the proportion of financially resilient firms – those better equipped to withstand adverse shocks – decreased slightly to 4%, with a higher number of large firms than SMEs falling into this category.

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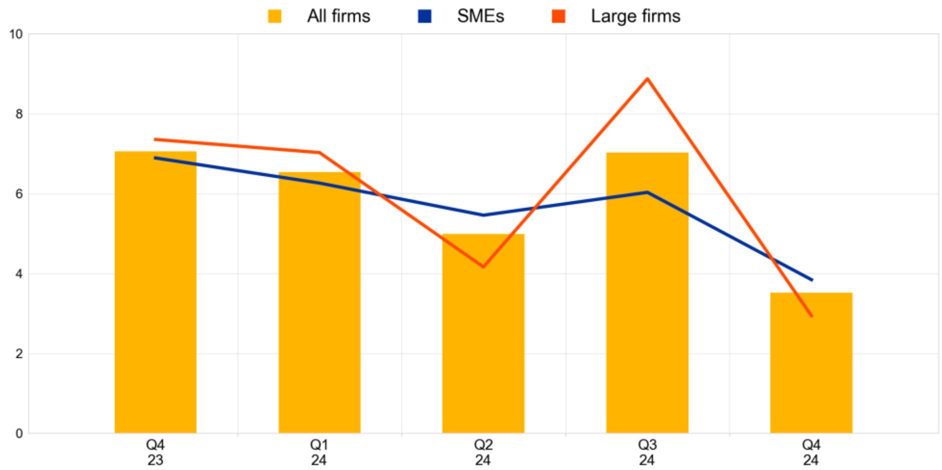
[3] Vulnerable firms are defined as firms that simultaneously report lower turnover, decreasing profits, higher interest expenses and a higher or unchanged debt-to-assets ratio, while financially resilient firms are those that simultaneously report higher turnover and profits, lower or no interest expenses and a lower or no debt-to-assets ratio. See the box entitled "Distressed and profitable firms: two new indicators on the financial position of enterprises", *Survey on the Access to Finance of Enterprises in the euro area, October 2017 to March 2018*, ECB, June 2018.

Chart 10

Vulnerable and financially resilient firms in the euro area

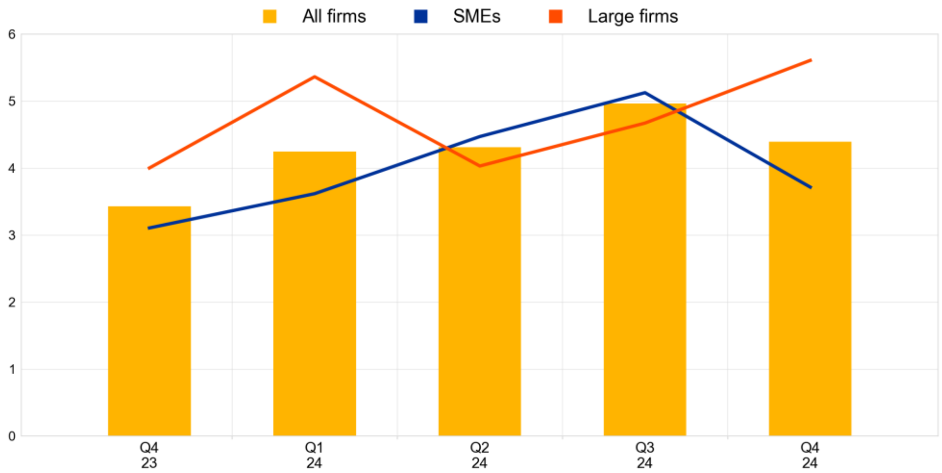
a) Vulnerable firms

(percentages of respondents)



b) Financially resilient firms

(percentages of respondents)



Base: All enterprises. The figures refer to pilot 2 and rounds 30 to 33 of the survey (October-December 2023 to October-December 2024).

Notes: For a definition of "vulnerable firms" and "resilient firms", see footnote 3. The data included in the chart refer to Question 2 of the survey.

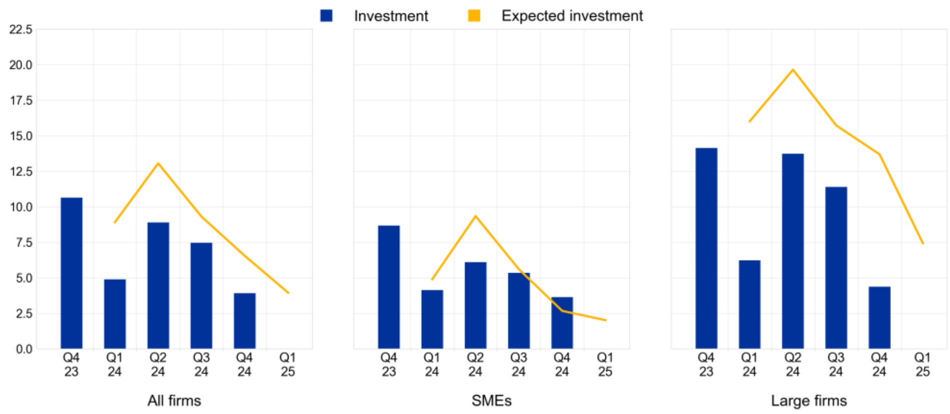
3.2 Investment activity remained subdued, and this trend is expected to continue in the first quarter of 2025

Fewer enterprises reported an increase in investment over the past three months (Chart 11). The net percentage of firms indicating a rise in investment decreased to 4% in the fourth quarter of 2024, down from 7% in the previous quarter. This decline was more pronounced among large firms (a net 4%, down from 11% in the previous quarter), while for SMEs the figure was broadly unchanged. The survey responses underscore the significant uncertainty surrounding business investment in the euro area and the continued impact of earlier monetary policy tightening. Looking forward, firms expect increases in their investment to continue moderating.

Chart 11

Changes in realised and expected fixed investments of euro area enterprises

(net percentages of respondents)



Base: All enterprises. The figures refer to pilot 2 and rounds 30 to 33 of the survey (October-December 2023 to October-December 2024).
Notes: See the notes to Chart 1. Bars refer to developments over the preceding six months and lines to expectations over the next six months. The data included in the chart refer to Questions 2 and 26 of the survey. The expected investment line is shifted by one period to compare with realisations.

3.3 Firms’ expectations regarding selling prices and wage costs over the next 12 months continue to moderate

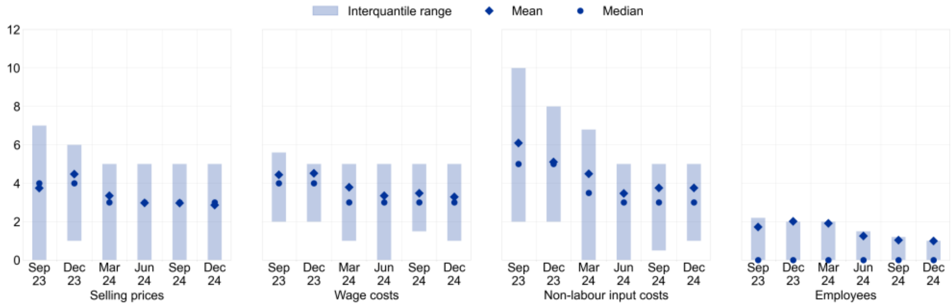
Firms’ expectations of selling price and wage cost increases moderated, while expectations for other input cost increases remained unchanged (Chart 12). Firms expect their selling prices to increase by 2.9% on average over the next 12 months, down marginally from 3.0% in the previous survey round. The dispersion of selling price expectations remained stable, with slightly more than one-quarter of firms in the survey still expecting prices not to increase over the next year.[4] Expectations for wage cost increases dropped to 3.3% on average from 3.5% in the previous survey round, reflecting firms’ current perception of easing labour cost pressures (Chart 9).

4 The share of firms expecting non-positive selling price changes was 29%, the same as in September 2024. This was after 34% in June 2024, 33% in March 2024, 24% in December 2023 and 30% in September 2023.

Chart 12

Expectations for selling prices, wages, input costs and employees one year ahead

(percentage changes over the next 12 months)



Base: All enterprises. The figures refer to rounds 29 to 33 (April-September 2023 to October-December 2024) of the survey, with firms' replies collected in the last month of the respective survey waves.
Notes: Mean and median euro area firm expectations of changes in selling prices, wages of current employees, non-labour input costs and number of employees for the next 12 months, along with interquartile ranges, using survey weights. The statistics are computed after trimming the data at the country-specific 1st and 99th percentiles. The data included in the chart refer to Question 34 of the survey.

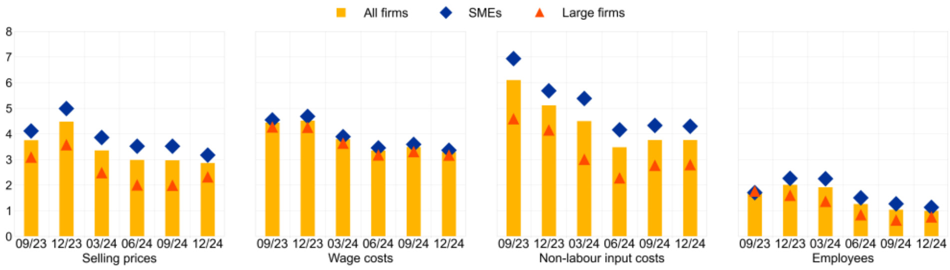
Firms continue to expect their non-labour input costs to increase by 3.8% on average over the next year, with enterprises in the services sector predicting higher increases (Chart 12 and Chart 14). The expected increase in non-labour input costs stood at 3.8%, unchanged from the previous survey round and reflecting moderate upward pressures in energy and material costs. In this survey round, the distribution of the expected average increase in non-labour input costs continued to be less dispersed, as firms in the lowest part of the distribution, measured by the interquartile range, reported increases in their expectations compared with the previous survey round (1.0%, up from 0.5%).

Across firm sizes, SMEs continued to report higher expectations for selling prices and non-labour input costs than large firms (Chart 13). On average, SMEs expected higher increases than large firms, both in their selling prices (3.2%, compared with 2.3%) and in non-labour input costs (4.3%, compared with 2.8% unchanged from September 2024). By contrast, SMEs' expectations for wage cost increases over the next year are broadly aligned with those of large firms (3.4% compared with 3.2%).

Chart 13

Expectations for selling prices, wages, input costs and employees one year ahead, by size class

(percentage changes over the next 12 months)



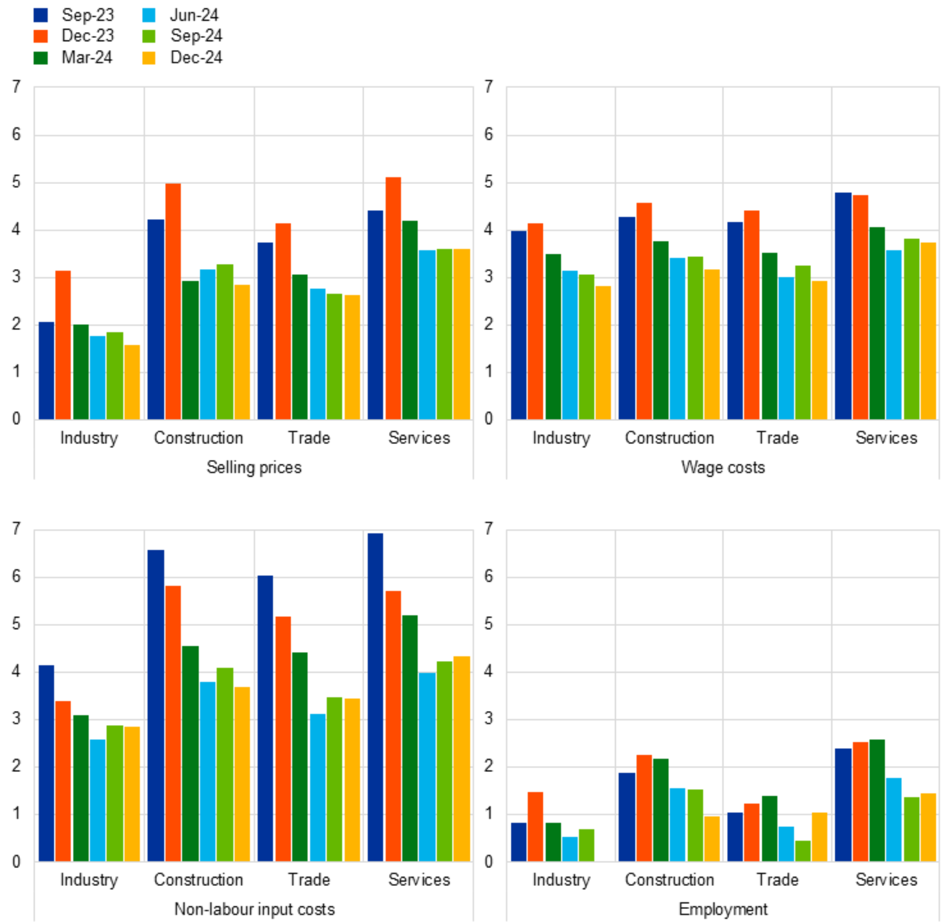
Base: All enterprises. The figures refer to rounds 29 to 33 (April-September 2023 to October-December 2024) of the survey, with firms' replies collected in the last month of the respective survey waves.
Notes: Weighted average euro area firm expectations of changes in selling prices, wages of current employees, non-labour input costs and number of employees for the next 12 months using survey weights. The statistics are computed after trimming the data at the country-specific 1st and 99th percentiles. The data included in the chart refer to Question 34 of the survey.

Comparing developments across sectors (**Chart 14**), firms in services continue to expect larger selling price increases than in other sectors (3.6% unchanged from the previous survey round, compared with a range of 1.6% to 2.8% in other sectors). Despite a moderation, wage cost expectations in services (3.7% down from 3.8%) remain the highest across sectors, with expectations at 2.8% and 2.9% (down from 3.1% and 3.2%) for firms in the industry and trade sectors respectively.

Chart 14

Average expectations for selling prices, wages and input costs one year ahead, by sector

(percentage changes over the next 12 months)



Base: All enterprises. The figures refer to rounds 29 to 33 (April-September 2023 to October-December 2024) of the survey, with firms' replies collected in the last month of the respective survey waves.
Notes: Mean euro area firm expectations of changes in selling prices, wages of current employees, non-labour input costs and number of employees for the next 12 months, along with interquartile ranges, using survey weights. The statistics are computed after trimming the data at the country-specific 1st and 99th percentiles. The data included in the chart refer to Question 34 of the survey.

On average, firms still expect employment growth to increase by 1% over the next year, while the median firm expects zero growth (Chart 12 and Chart 14). This reflects the fact that the distribution of expected changes in staffing levels is skewed to the upside, with some firms expecting larger increases but most expecting modest increases or no change. Across sectors, the expected increase in employment was larger in the services sector by 1.5% (up from 1.4%) while firms in the industry and construction sector report 0% (down from 0.7%) and 1.0% (down from 1.5%) employment growth over the next year, respectively.

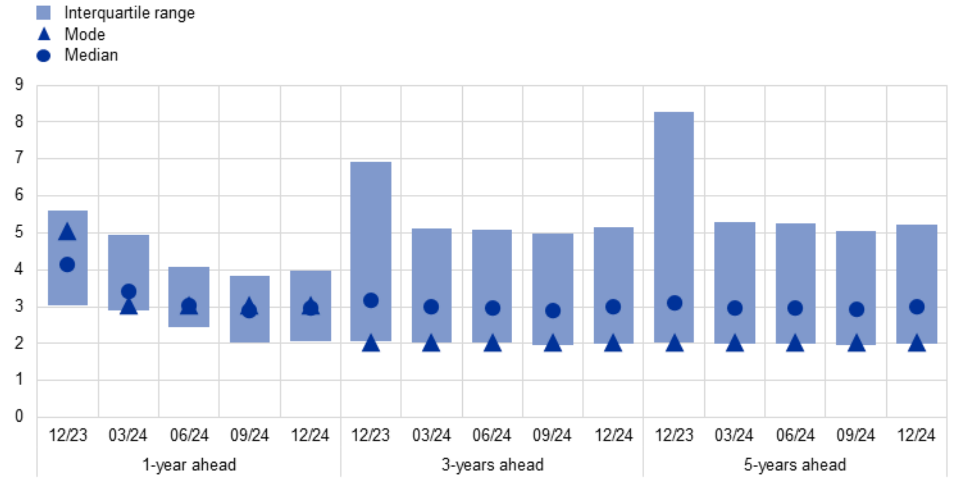
3.4 Firms' inflation expectations increased slightly

Euro area firms' median inflation expectations increased slightly to 3% across all horizons, bringing a halt to the previous declines (Chart 15). Compared with the latest survey round in September 2024, median inflation expectations for all firms increased by 0.1 percentage points to 3.0% across the one, three and five-year horizons. Revisions to longer-term inflation expectations were driven by large firms, increasing from 2.1% at the three and five-year horizons to 2.6% and 2.7%, respectively. SMEs, however, continued to report higher inflation expectations compared with large firms across all horizons (**Chart 16**). Inflation expectations have shifted upward across sectors, with the strongest increase observed in the trade sector, where expectations rose from 2.5% to 2.9% for the one-year horizon and from 2.5% to 3.0% for the three and five-year horizons. Meanwhile, the industry sector's one-year ahead expectations remained unchanged, but its three and five-year expectations increased from 2.5% to 2.9%.

Chart 15

Firms' expectations for euro area inflation at different horizons

(annual percentages)

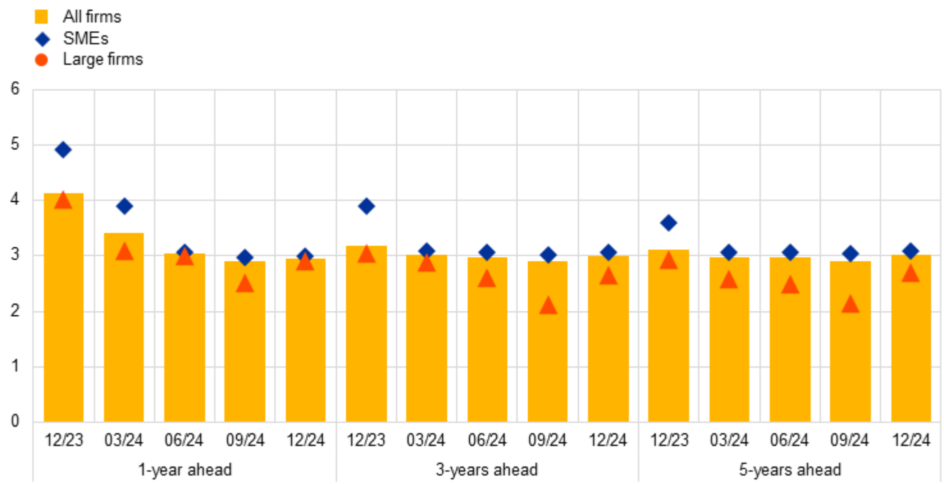


Base: All enterprises. The figures refer to pilot 2 and rounds 30 to 33 of the survey (October-December 2023 to October-December 2024).
Notes: Survey-weighted median, mode and interquartile ranges of firms' expectations for euro area inflation in one year, three years and five years. Quantiles are computed by linear interpolation of the mid-distribution function. The statistics are computed after trimming the data at the country-specific 1st and 99th percentiles. The data included in the chart refer to Question 31 of the survey.

Chart 16

Firms' median expectations for euro area inflation by size class

(annual percentages)



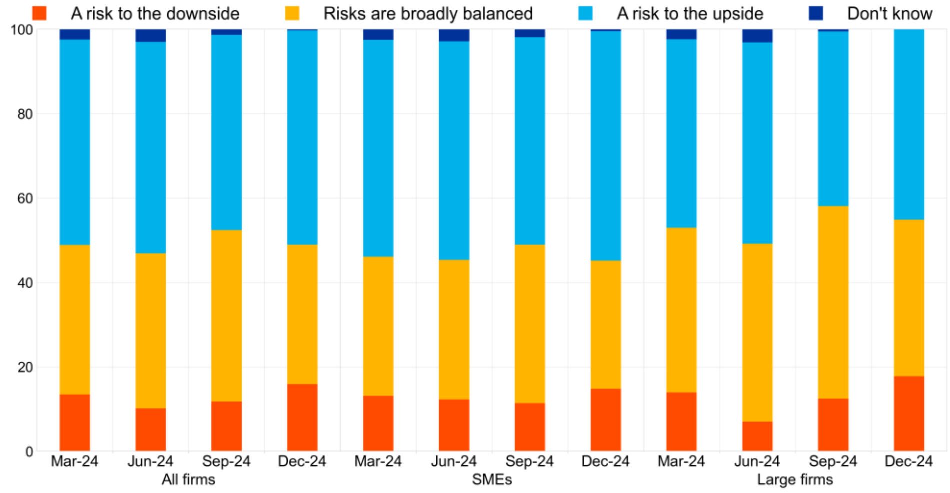
Base: All enterprises. The figures refer to pilot 2 and rounds 30 to 33 (October-December 2023 to October-December 2024) of the survey, with firms' replies collected in the last month of the respective survey waves.
Notes: Survey-weighted median of euro area firms' expectations for euro area inflation in one year, three years and five years. The statistics are computed after trimming the data at the country-specific 1st and 99th percentiles. The data included in the chart refer to Question 31 of the survey.

Fewer firms reported that risks to the five-year-ahead inflation outlook are broadly balanced, with risks still perceived as being tilted to the upside (Chart 17). In total, 33% of firms perceived the risks to their inflation outlook over the next five years as broadly balanced (down from 41% in the previous survey round). The share of firms seeing upside risk increased (51%, up from 46%), as did the share of those seeing risks to be to the downside (16%, up from 12%). For both large firms and SMEs, risks remain clearly tilted to the upside. More large firms reported downside risks to the inflation outlook, while the share of SMEs reporting upside risks remains larger.

Chart 17

Firms' perceived risks about euro area inflation five years ahead, by firm size

(weighted percentages)



Base: All enterprises. The figures refer to rounds 30 to 33 (January-March 2024 to October-December 2024) of the survey.
Notes: Survey-weighted percentages of firms' subjective inflation outlook over the next five years. Firms that answered "don't know" in Question 31 are not considered. The data included in the chart refer to Question 33 of the survey.

Box 1

Firms' attention to inflation and their knowledge of the ECB's inflation objective

This box explores firms' attention to the development of domestic inflation and their knowledge of central banking objectives in terms of inflation, emphasising differences across firm size classes. To gain deeper insights into how inflation dynamics influence firms' expectations in the euro area, this survey round includes a new set of ad hoc questions. Typically, the survey seeks information about firms' expectations regarding euro area inflation. In this round, firms were also asked about the factors they believe influenced inflation in 2024 in the country where they mainly operate, their level of attention to actual inflation, and how this attention has shifted compared with a year ago. In addition, firms were asked to state, in their view, what inflation rate the ECB targets. Survey responses on the target are correlated with inflation expectations for the next one, three and five years to evaluate how firms' expectations of euro area inflation align with their knowledge of the inflation target. The descriptive analysis provided in this box is intended to help achieve a better understanding of how firms form their inflation expectations in a period characterised by a disinflation process after an abnormal inflation surge, and how these expectations align with central banking objectives. In addition, the survey replies offer some insights into how much firms know about monetary policy and how they view monetary policy credibility.[5]

According to the firms surveyed, input costs, rather than profits, were the primary factors driving the change in domestic inflation in 2024 in the country where they mainly operate (Chart A). In total, 55% of firms identified non-labour input costs (such as energy, raw materials or other operating

5 See also Coibion, O., Gorodnichenko, Y., Kumar, S. and Pedemonte, M. (2020), "*Inflation expectations as a policy tool?*", Journal of International Economics, Vol. 124; Candia, B., Coibion, O. and Gorodnichenko, Y (2024), "The inflation expectations of U.S. firms: Evidence from a new survey", *Journal of Monetary Policy*, Vol. 145; Baumann, U., Ferrando, A., Gorodnichenko, Y., Georgarakos, D. and Reinelt, T. (2024), "SAFE to update inflation expectations? New survey evidence on euro area firms", *Working Paper Series*, No 2949, ECB.

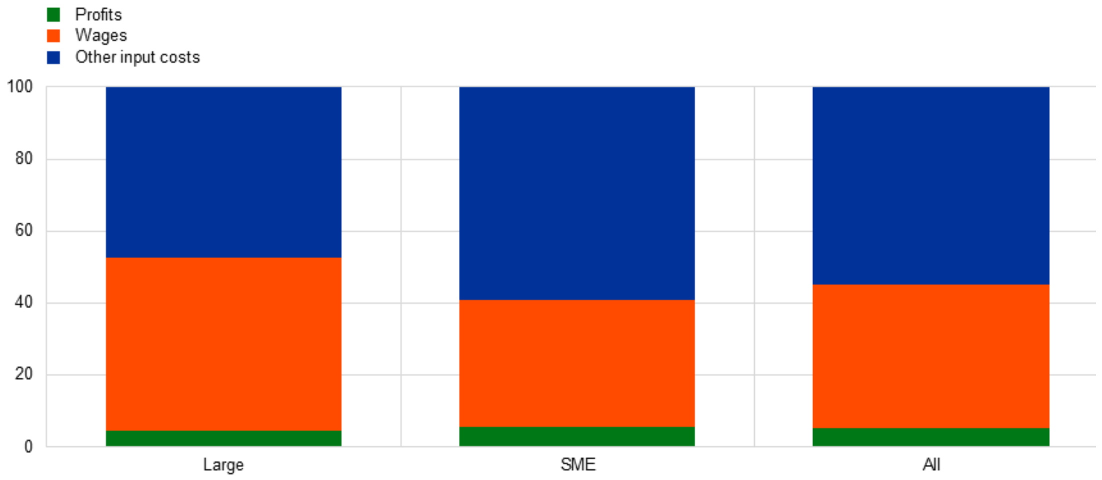
expenses) as the main contributors to inflation in 2024 in the country where they mainly operate, while 40% pointed to wage costs, with some variation between SMEs and large firms. Meanwhile, large firms said that in their view the change in domestic inflation had been driven almost equally by wages on the one hand and other input costs on the other (around 48% in each case), whereas SMEs gave the view that non-wage input costs had a much greater impact than wage costs (59% compared with 35%). Very few firms cited profits as a driver of inflation (around 5% for both size categories).

Firms' inflation expectations are unaffected by their assessments of the primary factors influencing past domestic inflation (Chart B). Chart B presents median euro area inflation expectations for firms categorised into three groups based on their views of the main factors driving domestic inflation last year. There is no significant difference in expectations across these groups that can be attributed to any of the three factors. SMEs that identified profits as the main driver of past inflation are the exception, tending to predict higher future inflation at the long horizon.

Chart A

Main factors driving domestic inflation (over the last 12 months), by size class

(percentages of respondents)

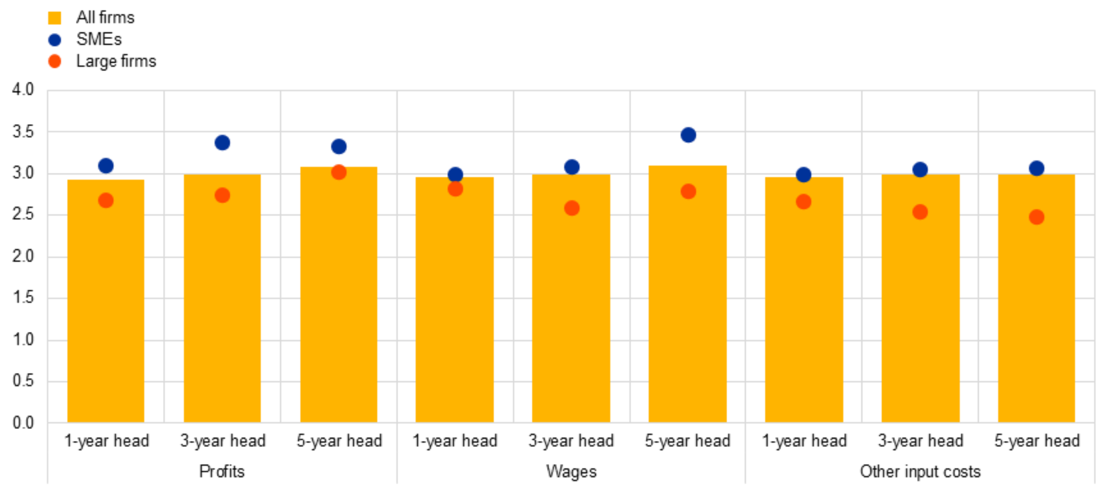


Base: All enterprises.
Notes: Firms were asked to indicate what has been the main factor driving the change in the general level of prices for goods and services over the past 12 months in the country where they mainly operate.

Chart B

Firms' median expectations of euro area inflation by main factors driving past domestic inflation, by size class

(annual percentages)



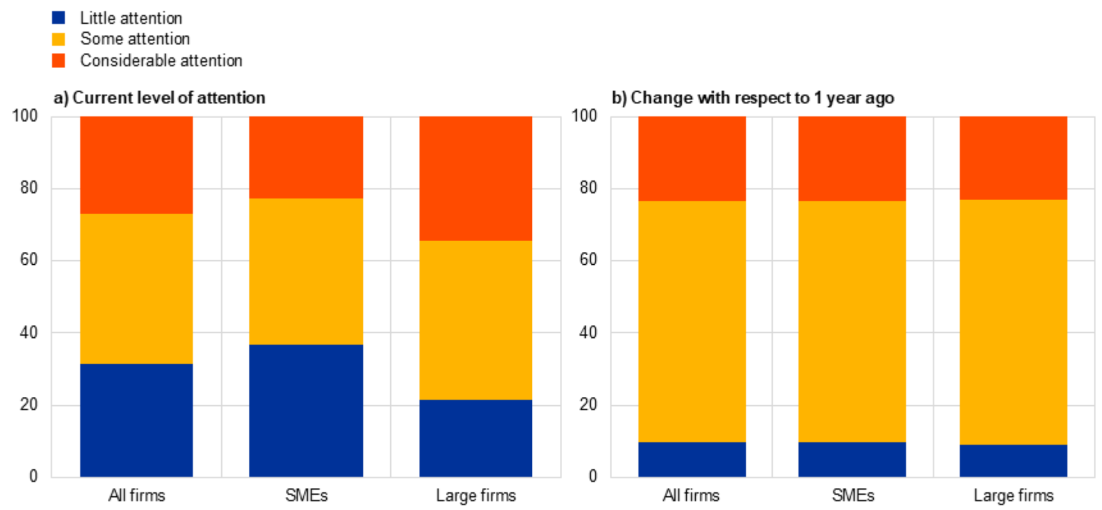
Base: All enterprises.
Notes: Survey-weighted median of euro area firms' expectations for euro area inflation in one year, three years and five years according to the main factor driving past inflation (Questions 31 and QA1). The statistics are computed after trimming the data at the country-specific 1st and 99th percentiles.

Firms reported that they pay significant attention to domestic inflation, and to a higher extent than a year ago (Chart C). Around 70% of firms indicated that they are currently paying some attention (42%) or considerable attention (27%) to inflation in the country where they mainly operate. Across size classes, large firms tend to pay more attention than SMEs: 44% pay some attention and 34% considerable attention compared with 41% and 22% for SMEs. Although the majority of firms (67%) reported paying the same level of attention to inflation as a year ago, 23% have increased their level of attention despite the disinflationary process. This percentage increases to 32% among those currently paying considerable attention to inflation.

Chart C

Firms' attention to inflation

(percentages of respondents)



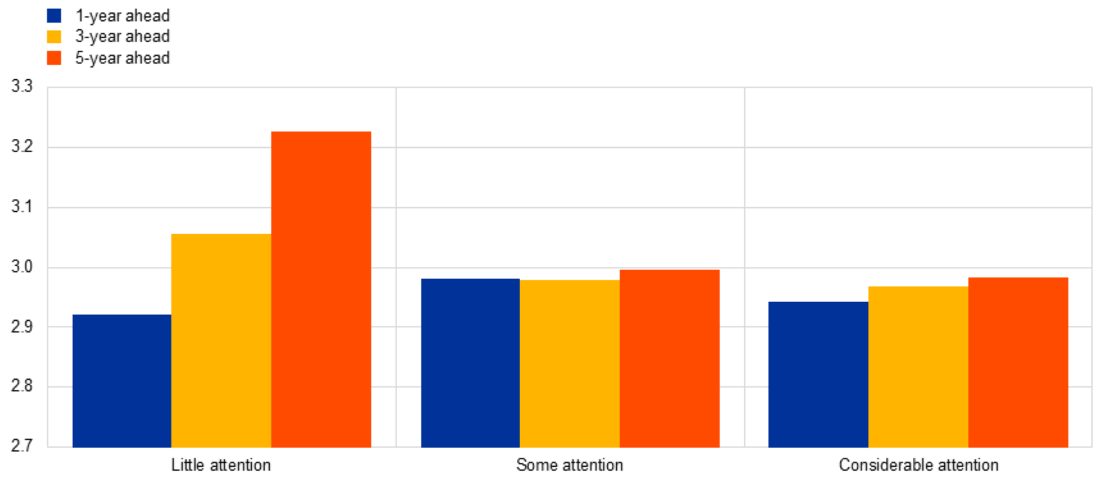
Base: All enterprises.
Notes: Firms were asked to indicate their current level of attention to inflation (panel a) and the change in the level of attention compared with one year ago. Firms that answered "don't know" are not considered.

Firms paying more attention to inflation have broadly the same inflation expectations as other firms (Chart D). The median inflation expectations for those firms reporting that they currently pay little attention to inflation are 2.9%, 3.1% and 3.2% at the one, three and five-year horizons respectively, while for those firms paying considerable attention these percentages are slightly lower at 2.9%, 3.0% and 3.0%.

Chart D

Firms' inflation expectations across different levels of attention to inflation

(annual percentages)



Base: All enterprises.
Notes: Survey-weighted median of euro area firms' expectations for euro area inflation in one year, three years and five years according to the level of current attention to inflation. The statistics are computed after trimming the data at the country-specific 1st and 99th percentiles.

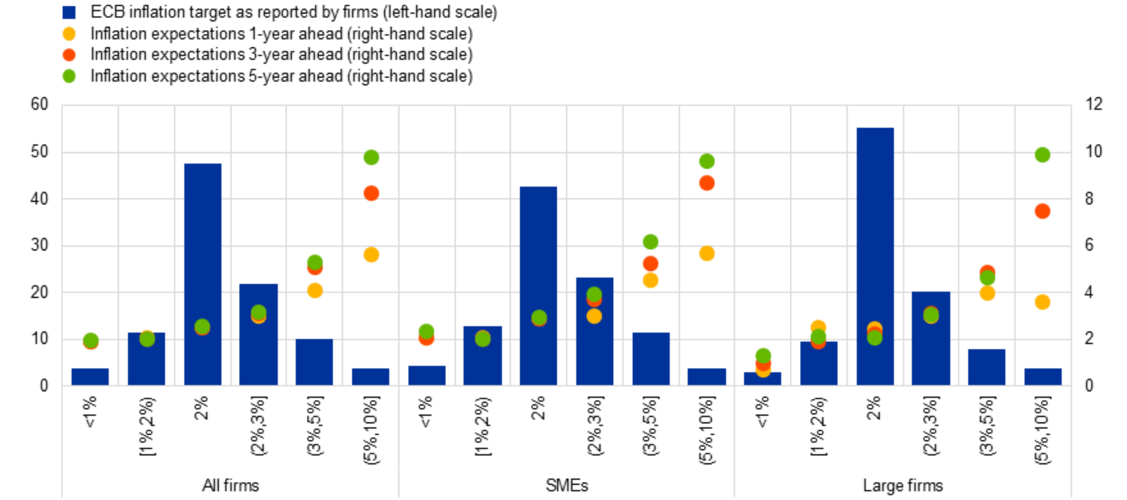
Nearly half of the firms surveyed identified the ECB inflation target at 2% (Chart E). Among the respondents, 48% believed the target as being 2%, while 12% thought it to be between 1% and 2%, and 22% assumed it was between 2% and 3%. Awareness of the ECB's 2% inflation target is higher among large firms (55%) than among SMEs (43%).

Firms that see either exactly or approximately what inflation rate the ECB targets have lower inflation expectations than those who believe the target to lie significantly above 2%. The median inflation expectations for firms that indicate the ECB' inflation target at 2% are consistently at 2.5% across all time horizons (one, three and five-year), with some differences across size classes. Even in the case of those that know the ECB's target, SMEs' inflation expectations are slightly higher, at 2.9% for the one and three-year horizons and 3.0% for the five-year horizon. By contrast, for large firms, these expectations stand at to 2.5%, 2.3% and 2.1%, respectively. Firms believing that the ECB's inflation target stands significantly above 2% report significantly different expectations, in particular projecting higher inflation for the long-term horizon.

Chart E

Firms' knowledge of the ECB's inflation target and euro area inflation expectations

(left-hand scale: percentages of respondents; right-hand scale: annual percentages)



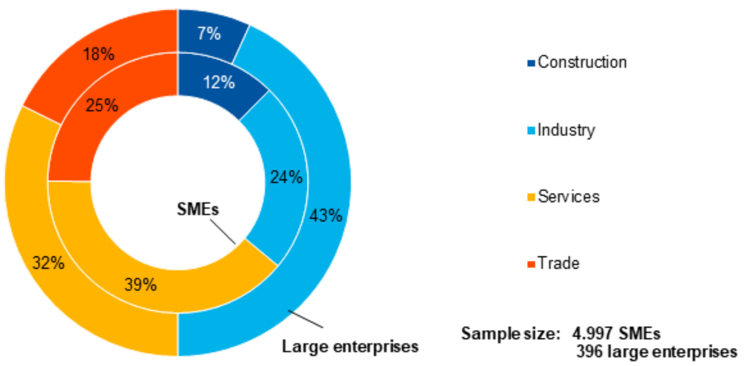
Base: All enterprises.
Notes: Firms were asked to say what inflation rate the ECB targets in their view. They were asked to provide answer as an annual percentage rate. Survey-weighted median of euro area firms' expectations for euro area inflation in one year, three years and five years are displayed according to the distribution of the replies. The statistics on inflation expectations are computed after trimming the data at the country-specific 1st and 99th percentiles.

Annexes

Annex 1
Descriptive statistics for the sample of enterprises

Chart 18
Breakdown of enterprises by economic activity

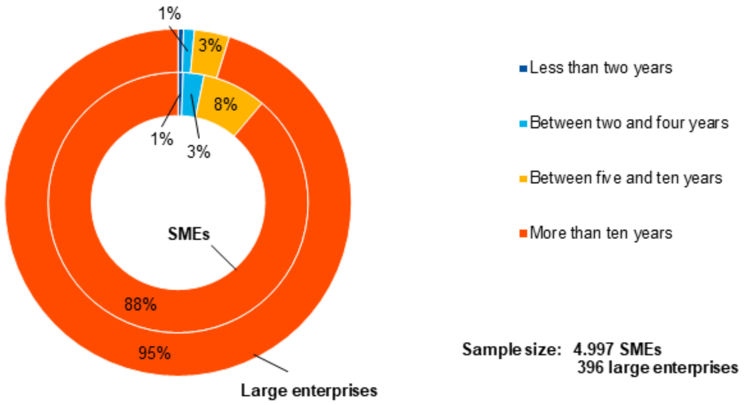
(unweighted percentages)



Base: The figures refer to round 33 of the survey (October-December 2024).

Chart 19
Breakdown of enterprises by age

(unweighted percentages)

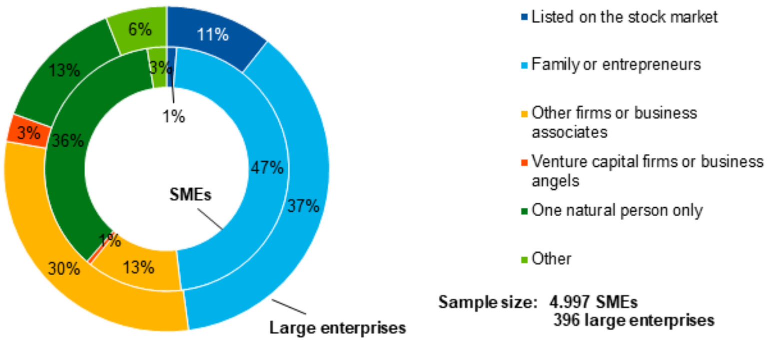


Base: The figures refer to round 33 of the survey (October-December 2024).

Chart 20

Breakdown of enterprises by ownership

(unweighted percentages)

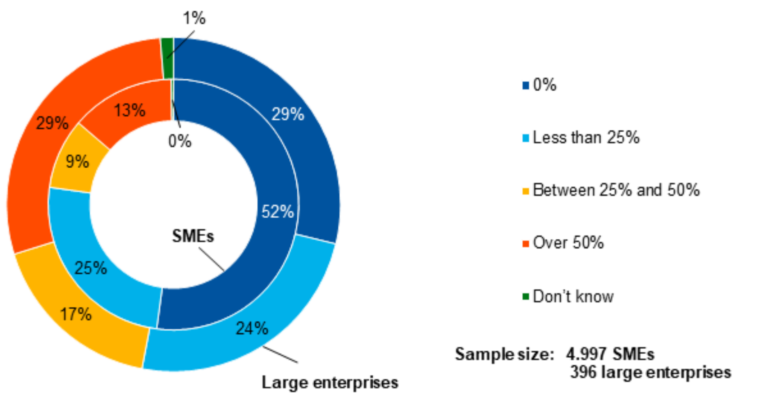


Base: The figures refer to round 33 of the survey (October-December 2024).

Chart 21

Breakdown of enterprises by exports

(unweighted percentages)



Base: The figures refer to round 33 of the survey (October-December 2024).

Annex 2
Methodological information on the survey

For an overview of how the survey was set up, the general characteristics of the euro area enterprises that participate in the survey and the changes introduced to the methodology and the questionnaire over time, see the "Methodological information on the survey and user guide for the anonymised micro dataset", which is available on the ECB's website.[6]

This round follows the same format as in the second quarter of 2024 wave, where Questions Q0b, Q32 and Q6A were removed; items f, h, j, m, r and p were removed from Question Q4; items c, d, g and h were removed from Question Q5; item c was removed from Questions Q7A and Q7B; item h was removed from Question Q11; items c, d, g and h were removed from Question Q9; item j was removed from Question Q23; and Questions Q2, Q10 and Q26 were asked of all firms with a three-month reference period.

The following six ad hoc questions were added on prices and inflation.

i) From your firm's perspective, what has been the main factor driving the change in the general level of prices for goods and services in the country it mainly operates in over the past 12 months?

ii) Firms differ in how much attention they pay to inflation. Some might regularly monitor, discuss and seek information about inflation, while others might not. How much attention does your firm currently pay to (consumer price) inflation in the country you mainly operate in?

iii) Would you say that your firm is currently paying less, more or about the same attention to (consumer price) inflation in the country you mainly operate in compared with 12 months ago?

iv) The European Central Bank's primary objective is to maintain price stability. In your firm's view, what inflation rate does the ECB target? Please provide your answer as an annual percentage rate.

v) How likely do you think it is that the ECB will maintain price stability in the euro area economy over the next three years?

vi) What do you think will be the change in the general level of prices of goods and services in the euro area at the following points in time? Please provide your answer as an annual percentage rate.

6 Survey on the access to finance of enterprises – Methodological information on the survey and user guide for the anonymised micro dataset.

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For specific terminology please refer to the ECB glossary (available in English only).

PDF ISSN 1831-9998, QB-AP-24-004-EN-N
HTML ISSN 1831-9998, QB-AP-24-004-EN-Q