New lending to businesses and self-employed persons continued with high momentum in the second quarter of 2020. After the pace of growth doubled to 7.3% in the first three months of the year, new credit commitments increased slightly less in the second quarter, up 6% on the previous year.

Owing to massive losses in turnover as a result of the pandemic, the financial situation of many enterprises is highly precarious. Along with other instruments, loans play a significant role in bridging liquidity shortages. Unlike in the financial crisis of 2009, access to credit appears to have become only moderately more difficult.

After resorting to short-term credit instruments at the beginning of the crisis, companies sharply increased their use of loans with longer maturities even as their capital expenditure collapsed. The fact that enterprises are willing and able to secure their business operations for the longer term is good news for the stability of the economic recovery.

Lending continued at a high level during the peak of the coronavirus crisis

The German economy suffered a deep shock from the pandemic. Economic output contracted by around 10% in the second quarter. The restrictions on public life had serious consequences for businesses. In a supplemental survey conducted by KfW Research, two in three SMEs reported having suffered losses in turnover in May. The resulting liquidity shortages, however, which threatened the existence of many businesses, could also be mitigated through additional lending. According to KfW Research, this is illustrated by the significant increase of new lending to domestic enterprises and self-employed persons. Between April and June, banks extended 6.0% more loans than during the same peri-
od last year. The rate of growth has thus hardly slowed since the beginning of the year (+7.3%).

Focus is shifting to longer maturities
A look at the borrowing terms reveals a remarkable change (see Figure 2). At the beginning of the crisis, enterprises first resorted to short-term credit instruments, for example by drawing on existing credit lines. This pattern is typical of an economic downturn. In the past quarter, however, the situation reversed.

Figure 2: New lending business by maturity

Rising by 17%, long-term loans with maturities of five or more years increased at an exceptionally high rate. The use of state credit guarantees, among them the KfW programmes, is likely to have facilitated this. This is good news for the stability of the economic recovery. Longer maturities give enterprises more financing certainty and allow them to distribute the burden of their losses from the crisis over longer periods. This improves the prospects for the long term continuation of their operations. However, part of this increase is surely also attributable to deferment agreements, while the financing of capital expenditure, which has collapsed dramatically, has probably played a minor role at best.

Criteria for accessing credit have been tightened only moderately so far
Despite the strong growth, the momentum of new lending business has remained slightly below our expectations. Given the businesses’ financial hardship and growing risks of default, the question is whether banks are too reluctant to lend and excessively restricting their supply of credit. So far, there are no indications of this. Although credit has become slightly more difficult to access, criteria have so far only been tightened moderately. In the survey conducted for the KfW ifo Credit Constraint Indicator\(^2\) at the end of June, only one fifth of SMEs deplored restrictive lending practices. During the global financial crisis, that share was more than twice as high. The findings of the Bank Lending Survey paint a similar picture. In the July edition, most financial institutions reported having tightened their lending criteria for enterprises. However, the net balance was 9.4 percentage points, far below the 2009 level (37 percentage points). Rather, enterprises followed other pathways to obtain funding besides bank loans, such as tapping into state subsidy programmes or issuing substantially more bonds.

Outlook: Lending momentum is trending downward
The far-reaching relaxation of restrictions has already allowed the economy to recover in the course of the second quarter and liquidity shortages are decreasing. On the other hand, investment activity and associated funding needs are likely to remain weak. New lending business is therefore likely to slow significantly over the remainder of the year and might even decline. Given the unprecedented nature of the coronavirus crisis, it remains to be said that forecast uncertainty is extraordinarily high.

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