›› Launch of the KfW-ifo Credit Constraint Indicator – data points to calm before the storm
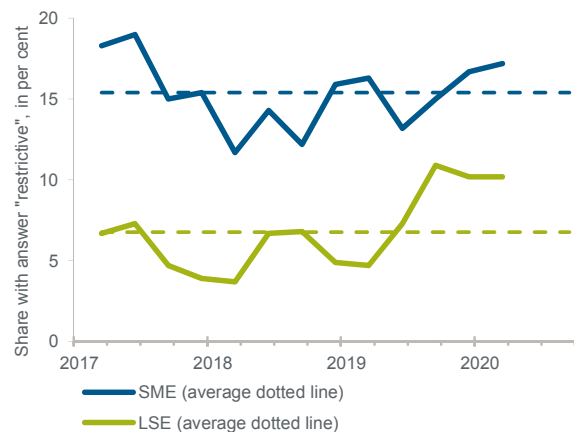
- The KfW-ifo Credit Constraint Indicator: a new quarterly format based on a scale-of-enterprise evaluation of the ifo economic surveys on access to credit.

- The findings on the first quarter of 2020 do not yet show the impact of the coronavirus outbreak.

- Will businesses continue to have access to credit in the coronavirus crisis? From now on, the KfW-ifo Credit Constraint Indicator can provide valuable insights into this issue.

Percentage of enterprises in loan negotiations

KfW ifo Credit Constraint Indicator: How did banks conduct themselves in loan negotiations?
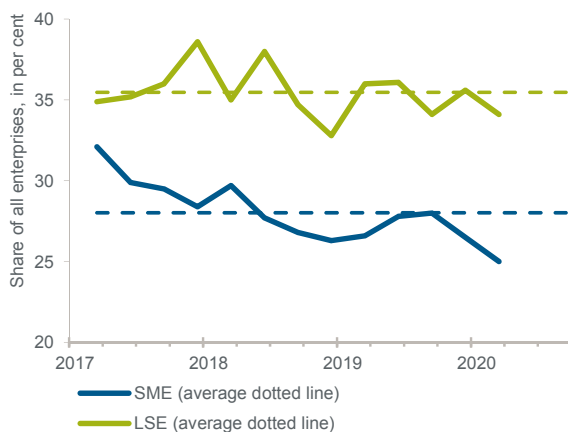
Sources: KfW Research, ifo Institute

The new KfW-ifo Credit Constraint Indicator: launched in troubled times but at the right moment

The measures required to contain the pandemic have brought broad sections of the economy to an abrupt standstill. In order to prevent longer-term damage and allow the economy to recover quickly, a functioning provision of credit to businesses through the banking system will be crucial. The liquidity assistance being provided together with KfW is therefore an important contribution to the German Federal Government's overall package of measures.

The ifo Institute's quarterly survey of companies' assessments of banks' willingness to lend is highly relevant in the current exceptional economic situation. The scale-of-enterprise evaluation delivers important data on how access to credit is evolving for SMEs and large enterprises. Moreover, it allows industry-specific conclusions to be drawn on manufacturing, construction and civil engineering, retail, wholesale and services. The share of enterprises currently in loan negotiations also allows trends around credit demand to be identified.

A good starting position: until recently credit hurdles were low

In the first quarter, only 17.2% of SMEs that were in loan negotiations reported that finance institutions were taking a restrictive approach. This suggests financing conditions were very good at the start of the year. Credit constraints for SMEs were generally on a low level similar to the average of the past three years, rising only slightly by 0.5 percentage points on the previous quarter. Service providers in particular had greater difficulty accessing credit (+3.3 percentage points). There is reason to believe that this reflects the first impacts of the coronavirus, as the impact on particular segments of the service sector such as transport, hospitality, entertainment and events quickly became apparent during the early phase of the outbreak.

Only 10.2% of large enterprises complained about barriers to credit access. However, the credit constraint indicator for this size class doubled within a year. Large manufacturing enterprises were particularly affected, highlighting the consequences of trade conflicts and industrial recession.

The KfW-ifo Credit Constraint Indicator in figures

Shares in per cent		Quarter/Year						q-o-q	y-o-y
		Q1/19	Q2/19	Q3/19	Q4/19	Q1/20		q-o-q	y-o-y
Credit constraint									
Manufacturing	SME	14.8	12.3	17.2	18.5	16.5		-2.0	1.7
	LSE	1.3	8.6	13.9	14.9	13.8		-1.1	12.5
Construction	SME	8.3	6.3	6.1	6.0	4.6		-1.4	-3.7
	LSE	5.2	6.9	8.5	7.8	13.0		5.2	7.8
Retail trade	SME	16.9	15.7	16.9	22.6	18.3		-4.3	1.4
	LSE	5.1	2.4	5.8	7.0	10.7		3.7	5.6
Wholesale trade	SME	18.2	20.2	19.1	16.9	18.8		1.9	0.6
	LSE	10.0	12.0	9.6	6.8	7.2		0.4	-2.8
Services	SME	19.1	14.6	15.2	17.4	20.7		3.3	1.6
	LSE	7.9	4.7	8.4	5.2	5.4		0.2	-2.5
Germany	**SME**	**16.3**	**13.2**	**15.0**	**16.7**	**17.2**		**0.5**	**0.9**
	LSE	**4.7**	**7.3**	**10.9**	**10.2**	**10.2**		**0.0**	**5.5**
Percentage of enterprises	SME	26.6	27.8	28.0	26.5	25.0		-1.5	-1.6
in loan negotiations	LSE	36.0	36.1	34.1	35.6	34.1		-1.5	-1.9

Source: KfW Research, ifo Institute

Explanations and abbreviations:

S(mall and) M(edium-sized) E(nterprises).

L(arge-)Scale E(nterprises).

Change in percentage points q(uarter)-o(ver)-q(uarter).

Change in percentage points on prior-year quarter.

Construction and interpretation of the KfW-ifo Credit Constraint Indicator

The Credit Constraint Indicator has been surveyed on a quarterly basis since 2017 as part of the ifo economic surveys following a methodological revision. Credit constraint shows the percentage of enterprises that describe banks' position in loan negotiations as 'restrictive'. In order to ensure that estimates of banks' lending propensity are based on enterprises' original experiences, only those enterprises are surveyed that previously reported having conducted loan negotiations with banks in the preceding three months. The development of this percentage can then be interpreted as an indicator of changes in demand for bank loans.[1]

The evaluation of the survey findings for the KfW-ifo Credit Constraint Indicator is broken down by size classes and sectors. Each month about 9,000 enterprises from trade and industry, construction, wholesale, retail and services (without the banking and insurance sectors or the state) are polled on their business situation, among them some 7,500 SMEs. Enterprises are generally classed as small to medium-sized if they employ a workforce of not more than 500 and record an annual turnover not exceeding EUR 50 million. For a more accurate analysis, however, these quantitative distinctions have to be drawn more narrowly for retail trade (maximum annual turnover of EUR 12.5 million), the building and the construction industry (up to 200 employees) and services (maximum annual turnover of EUR 25 million). All enterprises that exceed at least one of these thresholds are classed as large-scale enterprises.

---

[1]For a more detailed description of credit constraint see Marjenko et al. (2019), 'Die neue Kredithürde: Hintergründe und Ergebnisse' ('*The new Credit Constraint Indicator: background and findings* – our title translation, in German), ifo Schnelldienst 18/2019, p. 46–48.