KfW

»» Credit demand by businesses is down sharply – banks are becoming more restrictive

28 January 2021

Author: Stephanie Schoenwald, phone +49 69 7431-6446, stephanie.schoenwald@kfw.de
Press contact: Christine Volk, phone +49 69 7431-3867, christine.volk@kfw.de

- In the final quarter of 2020, the share of businesses engaged in loan negotiations fell to the lowest level in both size classes since the surveys were first conducted.

- Credit demand has fallen despite renewed restrictions to contain the pandemic, most likely due to weak business investment.

- At the same time, banks have tightened their lending policy: the KfW-ifo Credit Constraint Indicator increased moderately for SMEs and sharply for large enterprises.
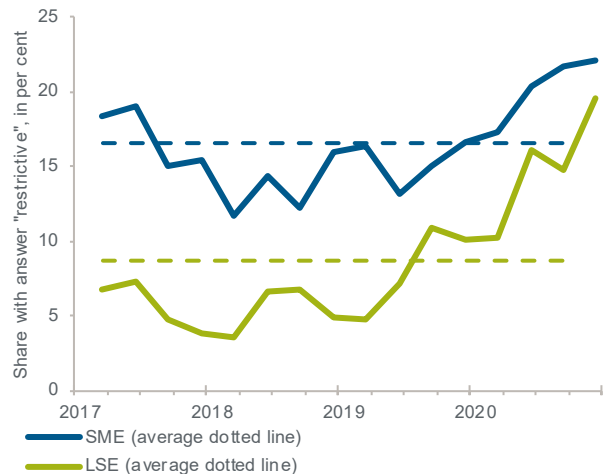
Share of enterprises in loan negotiations

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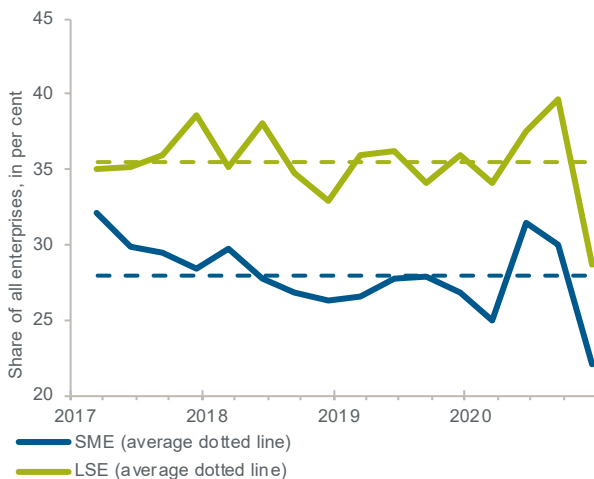
Sources: KfW Research, ifo Institute

So far, businesses have applied for fewer loans in the second wave of COVID-19 ...

In the last months of 2020, new restrictions were imposed on business activities in response to the sharp rise in new infections. Affected businesses, such as hospitality and personal service providers, again suffered massive turnover losses. Yet businesses' interest in bank loans took a nosedive. The share of SMEs that conducted loan negotiations with banks in the fourth quarter fell by around 8 PP to 22.1%. The drop among large enterprises was even more pronounced, at nearly 11 PP In this size class, only 28.7% approached their bank for financing. These were the lowest levels recorded since surveys began in the year 2017.

The main reason for the weak demand for credit is likely uncertainty about the further course of the pandemic, which makes businesses very much reluctant to invest. According to preliminary figures of the German Federal Statistical Office, companies invested 6.6% less in their business in 2020 than in the previous year. Furthermore, an important part of the economy, the manufacturing sector, has hardly been affected by restrictions, unlike in the spring. And

despite all problems, the additional financial support for businesses has limited the liquidity shortages. Another aspect is that some businesses may no longer be able or willing to take on additional debt burdens to offset losses in turnover.

... but credit constraints continue to grow

However, the difficulties are growing for enterprises that nonetheless want to borrow. The KfW-ifo Credit Constraint Indicator for SMEs grew only minimally, but for the sixth consecutive time, by 0.4 PP to now 22.1%. Banks were particularly restrictive towards loan applications from SME service providers (29.5%), while manufacturing SMEs reported that their situation improved (16%). These sector-specific differences in credit access reflect the asymmetrical impact of the pandemic on economic sectors. After the respite in the previous quarter, large enterprises are also facing greater difficulty in accessing bank loans. Following a strong rise of nearly 5 PP, almost one fifth of large enter-prises encountered sceptical financial institutions.

KfW Research
KfW-ifo Credit Constraint Indicator: January 2021

The KfW-ifo Credit Constraint Indicator in figures

Shares in per cent		Q4/19	Q1/20	Q2/20	Q3/20	Q4/20	q-o-q	y-o-y
Credit constraint								
Manufacturing	SME	18.9	16.8	20.7	20.5	16.0	-4.5	-2.9
	LSE	14.9	13.8	17.8	13.8	23.9	10.1	9.0
Construction	SME	5.9	4.6	8.3	7.8	11.0	3.2	5.1
	LSE	7.3	13.0	32.9	31.0	34.7	3.7	27.4
Wholesale trade	SME	22.4	18.2	15.0	22.0	22.9	0.9	0.5
	LSE	7.0	10.7	10.5	13.5	5.4	-8.1	-1.6
Retail trade	SME	16.8	18.9	22.3	20.2	20.8	0.6	4.0
	LSE	6.8	7.2	10.4	19.4	26.6	7.2	19.8
Services	SME	17.0	20.7	24.0	26.4	29.5	3.1	12.5
	LSE	5.1	5.4	15.5	13.4	12.9	-0.5	7.8
Germany	**SME**	**16.6**	**17.3**	**20.4**	**21.7**	**22.1**	**0.4**	**5.5**
	LSE	**10.1**	**10.2**	**16.1**	**14.7**	**19.6**	**4.9**	**9.5**
Share of enterprises	SME	26.8	25.0	31.5	30.0	22.1	-7.9	-4.7
in loan negotiations	LSE	36.0	34.1	37.5	39.6	28.7	-10.9	-7.3

(Column group header: Quarter/Year spans Q4/19 through Q4/20)

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 (y-o-y)

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.[i]

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.

---

[i]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 only), ifo Schnelldienst 18/2019, p. 46–48.