

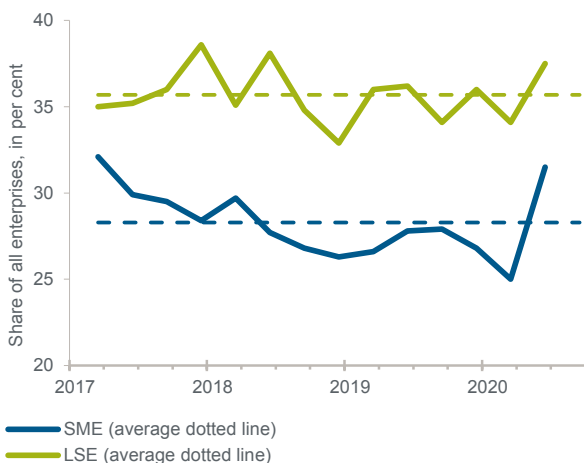
## »»» KfW-ifo Credit Constraint Indicator rises as coronavirus makes banks more cautious

9 July 2020

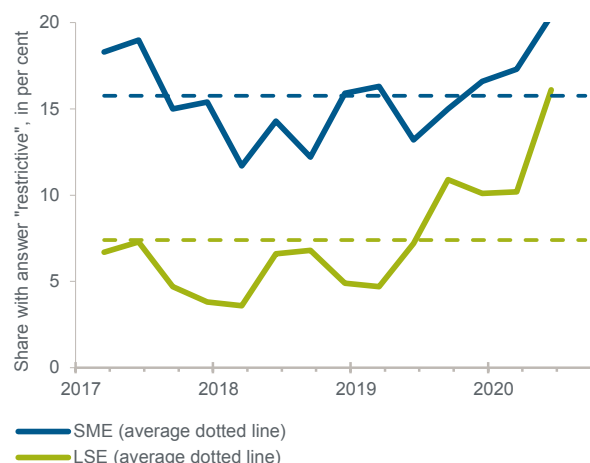
Author: Stephanie Schoenwald, phone +49 69 7431-6446, stephanie.schoenwald@kfw.de  
Press contact: Wolfram Schweickhardt, phone: +49 69 7431 1778, wolfram.schweickhardt@kfw.de

- In the second quarter of 2020, the KfW-ifo Credit Constraint Indicator climbed to a new high since the survey methodology was revised.
- Funding requirements rise as a result of the coronavirus crisis: more SMEs are negotiating loans.
- Among small and medium-sized companies, service providers face the highest barriers to credit access.
- Banks' scepticism also affects large-scale enterprises.

### Percentage of enterprises in loan negotiations



### KfW-ifo Credit Constraint Indicator: How did banks conduct themselves in loan negotiations?



Source: KfW Research, ifo Institute

### In the pandemic, credit demand is rising and so are credit constraints

There is no question that the impact of the coronavirus crisis on the German economy is dramatic. Businesses are facing enormous losses in turnover and despite some improvements, the liquidity situation of one in three SMEs remained tight in June as well.<sup>1</sup> The resulting funding requirements are reflected in a rising demand for bank loans. The share of surveyed SMEs that have negotiated loans with banks increased noticeably from 25.0 to 31.5% in the second quarter.

At the same time, a good one fifth of SMEs reported that banks were conducting loan negotiations on restrictive terms. Compared with the previous quarter, the KfW-ifo Credit Constraint Indicator rose by 3.1 percentage points, reaching the highest level since the new survey methodology was introduced in 2017. Considering the significantly increased credit risks due to the deep recession, the difficulties which SMEs are experiencing in accessing credit are limited so far. A comparison with the values of the 'old' ifo Credit Constraint

Indicator during the global financial crisis of 2009 highlights this. At the time, more than 40% of the surveyed small and medium-sized manufacturing firms complained about difficulties in accessing credit. The fact that the current crisis is having less of an impact on banks' willingness to lend is not just due to the financial institutions' improved position but also to the comprehensive economic support measures.

### A tougher lending environment for large enterprises as well

The entire economy is firmly in the grip of the pandemic and large enterprises are not immune. They have even seen their barrier to credit access rise nearly twice as high as the indicator for SMEs (+5.9 percentage points). Furthermore, almost all economic sectors are facing increased credit constraints. Service providers are particularly affected. In the SME sector, 24% of them are complaining that banks have become restrictive, while the Credit Constraint Indicator for large service providers jumped noticeably by 10.1 percentage points to now 15.5%.

The KfW-ifo Credit Constraint Indicator in figures

Shares in per cent		Quarter/Year					q-o-q	y-o-y
		Q2/19	Q3/19	Q4/19	Q1/20	Q2/20		
<b>Credit constraint</b>								
Manufacturing	SME	12.3	17.2	18.9	16.8	20.7	3.9	8.4
	LSE	8.6	13.9	14.9	13.8	17.8	4.0	9.2
Construction	SME	6.3	6.0	5.9	4.6	8.3	3.7	2.0
	LSE	6.9	8.5	7.3	13.0	32.9	19.9	26.0
Wholesale trade	SME	15.7	16.8	22.4	18.2	15.0	-3.2	-0.7
	LSE	2.4	5.6	7.0	10.7	10.5	-0.2	8.1
Retail trade	SME	20.2	18.9	16.8	18.9	22.3	3.4	2.1
	LSE	12.0	9.6	6.8	7.2	10.4	3.2	-1.6
Services	SME	14.6	15.2	17.0	20.7	24.0	3.3	9.4
	LSE	4.7	8.4	5.1	5.4	15.5	10.1	10.8
<b>Germany</b>	<b>SME</b>	<b>13.2</b>	<b>15.0</b>	<b>16.6</b>	<b>17.3</b>	<b>20.4</b>	<b>3.1</b>	<b>7.2</b>
	<b>LSE</b>	<b>7.2</b>	<b>10.9</b>	<b>10.1</b>	<b>10.2</b>	<b>16.1</b>	<b>5.9</b>	<b>8.9</b>
<b>Percentage of enterprises in loan negotiations</b>	SME	27.8	27.9	26.8	25.0	31.5	6.5	3.7
	LSE	36.2	34.1	36.0	34.1	37.5	3.4	1.3

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(arter)-o(ver)-q(arter).

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.<sup>ii</sup>

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.

<sup>i</sup> Gerstenberger, J. and Schwartz, M. (2020), *Coronavirus crisis in Germany's SMEs: Return to full economic activity still far off, but gradual opening has eased pressure on liquidity*, Focus on Economics No. 294, KfW Research.

<sup>ii</sup> 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.