

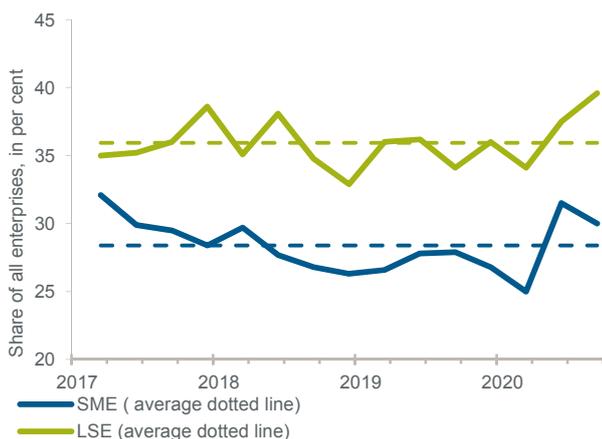
## Small and medium-sized enterprises face growing barriers in accessing credit

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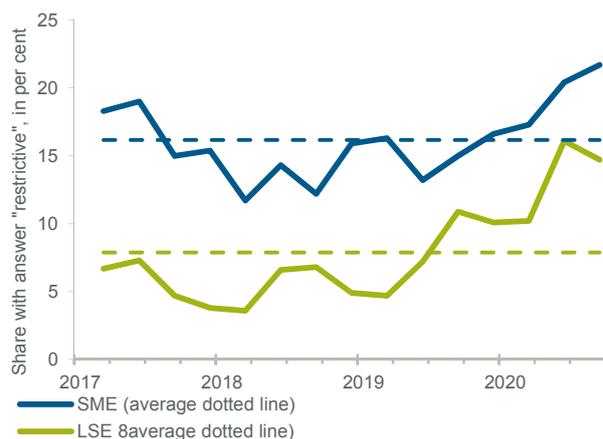
- The KfW ifo Credit Constraint Indicator for SMEs increased to 21.7% in the third quarter of 2020.
- Despite the burdens caused by the pandemic, the share of SMEs conducting loan negotiations is falling.
- Large enterprises are experiencing slightly improved access to bank loans.
- A closer look at the sectors shows a mixed picture. SME service providers, large retailers and wholesalers reported greater difficulties in accessing credit.

### Share of enterprises in loan negotiations



Sources: KfW Research, ifo Institute

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



### The credit market has proven effective in the crisis but constraints are rising for SMEs

The pandemic continues to dominate business activity. The pre-crisis level remains a long way off and rising infections are making the road back increasingly bumpy. However, the economic situation in Germany has improved swiftly and continuously since the April low.<sup>1</sup> That is likely the reason that businesses' demand for credit in the third quarter was only moderately above average levels. The share of SMEs that were conducting loan negotiations even dropped slightly by 1.5 percentage points to 30%. That is a positive signal because it shows that, overall, businesses have overcome their worst financial hardship.

At the same time, banks are tightening their lending policy with moderation. The KfW ifo Credit Constraint Indicator for SMEs rose by 1.3 percentage points on the previous quarter to 21.7%. This is a second consecutive record high. However, it must be taken into consideration that the time series since the introduction of the new survey methodology in 2017

is still very short and that supply restrictions during the global financial crisis were much more pronounced. Nonetheless, banks are increasingly restrictive in their lending to small and medium-sized enterprises.

### The gap between SMEs and large enterprises is widening again, trends between sectors are mixed

The financing barriers for large enterprises, on the other hand, fell after rising sharply in the second quarter (-1.4 percentage points). The gap in credit access between SMEs and large enterprises has thus widened again. Fewer than 15% of large enterprises perceived the banks as being restrictive.

A look across the sectors shows mixed trends. While credit constraint decreased across both size classes in the construction and manufacturing sectors, barriers rose for wholesalers and large retailers. Small and medium-sized service providers remain most affected, as more than one quarter of them now face greater difficulty accessing credit.

The KfW ifo Credit Constraint Indicator in figures

Shares in per cent		Quarter / Year					q-o-q	y-o-y
		Q3/19	Q4/19	Q1/20	Q2/20	Q3/20		
<b>Credit constraint</b>								
Manufacturing	SME	17.2	18.9	16.8	20.7	20.5	-0.2	3.3
	LSE	13.9	14.9	13.8	17.8	13.8	-4.0	-0.1
Construction	SME	6.0	5.9	4.6	8.3	7.8	-0.5	1.8
	LSE	8.5	7.3	13.0	32.9	31.0	-1.9	22.5
Wholesale trade	SME	16.8	22.4	18.2	15.0	22.0	7.0	5.2
	LSE	5.6	7.0	10.7	10.5	13.5	3.0	7.9
Retail trade	SME	18.9	16.8	18.9	22.3	20.2	-2.1	1.3
	LSE	9.6	6.8	7.2	10.4	19.4	9.0	9.8
Services	SME	15.2	17.0	20.7	24.0	26.4	2.4	11.2
	LSE	8.4	5.1	5.4	15.5	13.4	-2.1	5.0
<b>Germany</b>	<b>SME</b>	<b>15.0</b>	<b>16.6</b>	<b>17.3</b>	<b>20.4</b>	<b>21.7</b>	<b>1.3</b>	<b>6.7</b>
	<b>LSE</b>	<b>10.9</b>	<b>10.1</b>	<b>10.2</b>	<b>16.1</b>	<b>14.7</b>	<b>-1.4</b>	<b>3.8</b>
<b>Percentage of enterprises in loan negotiations</b>	SME	27.9	26.8	25.0	31.5	30.0	-1.5	2.1
	LSE	34.1	36.0	34.1	37.5	39.6	2.1	5.5

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> Borger, Klaus. (2020), **SME business confidence has risen again**, KfW-ifo SME Barometer: September 2020, 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.