KfW Research

KfW-ifo Credit Constraint Indicator: April 2021

Large companies find it easier to access loans again – banks remain restrictive for SMEs

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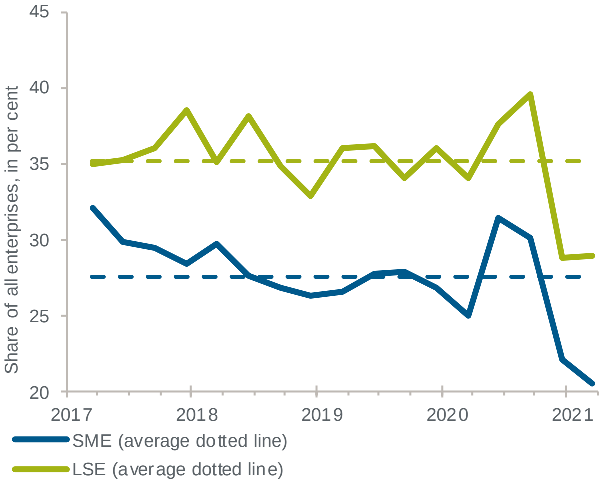
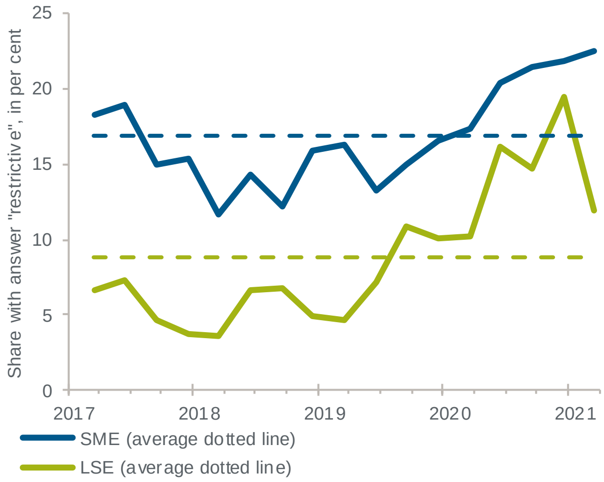
- The share of businesses in credit negotiations continued to decline in the first quarter of 2021. Large companies' demand has stagnated at the low level of the previous quarter.
- Reluctance to invest and uncertainty about the further course of the pandemic and an increased debt burden in parts of the corporate sector, as well as government guarantee programs and subsidies are likely to curb credit demand.
- Banks are slightly tightening their lending policies again but only for SMEs. Large companies, especially in the manufacturing sector, are once again finding it much easier to access bank loans.

Share of enterprises in loan negotiations



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



Sources: KfW Research, ifo Institute

Demand for bank credit remains low ...

Demand for bank loans remained at a weak, below-average level in the first quarter of the new year. The proportion of SMEs that conducted loan negotiations with their banks in the first quarter fell by around 1.5 pp to 20.6%. This is the lowest value since the start of the survey in 2017. Among large companies, this share rose minimally by 0.2 pp to 29%, which is likely to be related to the economic recovery in the manufacturing sector and an upturn in export demand.

The pandemic continues to curb companies' investment and thus credit demand behaviour. In the sectors particularly affected by the restrictions, such as the hospitality industry, the tight financial situation – in some cases coupled with existential fears – is likely to prevent some companies from taking out further loans. On the other hand, government guarantee programmes, special depreciation allowances and (equity) grants are likely to be preferred by the companies particularly affected.

... but SMEs face increasing and large companies decreasing credit constraints

For companies that are still currently seeking loan financing, there are differences according to sector and company size: The KfW-ifo Credit Constraint Indicator for SMEs, for example, has been rising steadily since March 2020 and now stands at 22.5%. Not surprisingly, the banks are particularly restrictive in the case of SME service providers (27%), which have been hit hard by the pandemic, and now also the retail sector (27.9%). SMEs in the construction sector (6.6%) can currently report signs of relief. Large companies, with the exception of wholesalers, are once again much more successful in persuading banks to grant loans. The manufacturing sector is again finding it much easier to access financing (-14.4 pp to 9.5%), which is probably related to the economic recovery, especially abroad.

Note: This paper contains the opinion of the author and does not necessarily represent the position of KfW.

The KfW-ifo Credit Constraint Indicator in figures

Shares in per cent		Q1/20	Q2/20	Q3/20	Q4/20	Q1/21	q-o-q	y-o-y
		Quarter/Year						
Credit constraint								
Manufacturing	SME	16.8	20.6	20.4	16.0	21.5	5.5	4.7
	LSE	13.8	18.0	13.8	23.9	9.5	-14.4	-4.3
Construction	SME	4.6	8.7	7.8	11.0	6.6	-4.4	2.0
	LSE	13.0	32.6	31.0	34.7	28.8	-5.9	15.8
Wholesale trade	SME	18.2	15.0	21.9	22.9	21.5	-1.4	3.3
	LSE	10.7	10.5	13.5	5.3	5.9	0.6	-4.8
Retail trade	SME	18.9	22.3	19.8	20.8	27.9	7.1	9.0
	LSE	7.2	10.4	19.4	26.6	26.2	-0.4	19.0
Services	SME	20.7	24.0	26.0	29.1	27.0	-2.1	6.3
	LSE	5.4	15.5	13.3	12.5	10.4	-2.1	5.0
Germany	**SME**	**17.3**	**20.4**	**21.5**	**21.9**	**22.5**	**0.6**	**5.2**
	LSE	**10.2**	**16.2**	**14.7**	**19.5**	**11.9**	**-7.6**	**1.7**
Share of enterprises	SME	25.0	31.4	30.1	22.1	20.6	-1.5	-4.4
in loan negotiations	LSE	34.1	37.6	39.6	28.8	29.0	0.2	-5.1

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.