

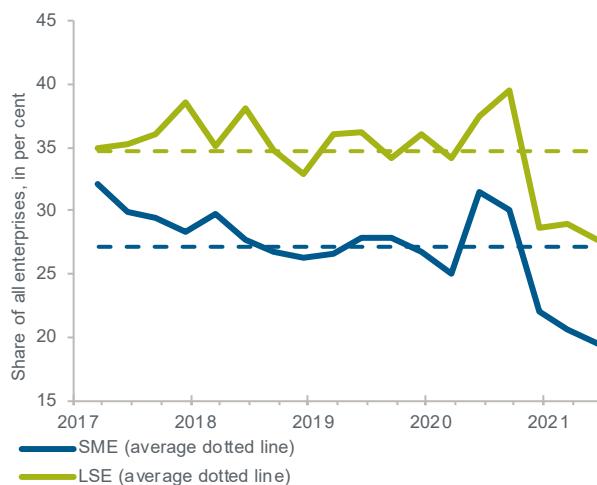
## »» SMEs can access credit more easily again – large enterprises, particularly construction firms, face problems

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- In the second quarter of 2021 the share of enterprises in loan negotiations continued trending downward, although the drop for SMEs was slightly more moderate than in the previous quarters.
- Uncertainty about the easing of temporary supply bottlenecks and the impact of virus variants has likely contributed to credit demand declining for over a year now.
- Banks are tightening their lending policy slightly towards large enterprises, particularly construction firms. SMEs, especially manufacturers and service providers, can access credit more easily again.

**Share of enterprises in loan negotiations**



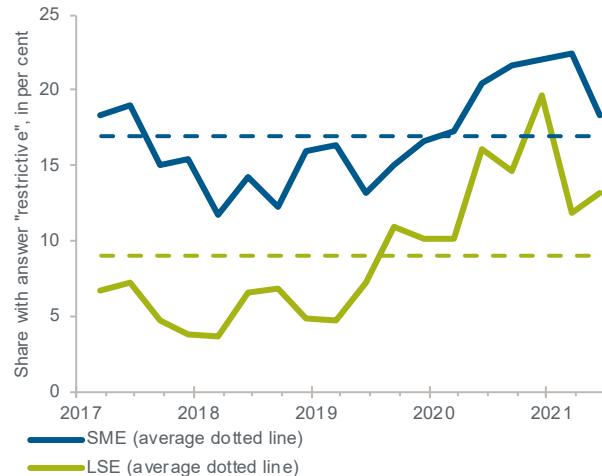
Sources: KfW Research, ifo Institute

### Credit demand remains low, ...

Demand for bank loans continues on a low, below-average level, probably because businesses' cash levels have increased substantially year on year. The share of SMEs that conducted loan negotiations with their banks in the second quarter dropped by 1.1 percentage points to 19.5%. This was the lowest level recorded since the survey began in 2017. Among large enterprises, that share dropped again by 1.3 percentage points to 27.7%, after a minimal rise in the previous quarter.

The main thing which businesses need in order to overcome the consequences of the pandemic is predictability. High uncertainty resulting from new virus variants such as Delta+, which could stop the recovery in its tracks, and supply bottlenecks continue to affect the investment behaviour and credit demand of businesses. One example where this is evident is the construction sector. Although it has shown great strength all the way through the pandemic, businesses of all sizes are borrowing less. At the same time, banks are restricting their lending to construction firms that still require loans. One

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



explanation might be the significant recent increase in the price of raw materials such as timber, as well as generally higher construction costs.

### ... as constraints have risen slightly for large enterprises but fallen for SMEs

Overall figures, however, reveal differences between sectors and enterprise sizes. The KfW-ifo Credit Constraint Indicator for SMEs has dropped again noticeably for the first time since March 2020 and is now at 18.4%. The lifting of restrictions is mainly benefiting small and medium-sized service providers (-6.7 percentage points to 20.3%) but also the heavily export-oriented manufacturing sector (-6.1 PP to 15.4%). Banks are restricting their lending rather more strongly to SMEs in the construction sector (+4.4 PP to 11%) and in wholesale and retail (+4.3 PP to 25.6% and +1.6 PP to 29.5%). Retail is the only sector in which large enterprises are finding it easier to persuade banks to lend them money. Banks are restricting their lending much more strongly to firms in the construction sector (+18.8 PP to 47.6%) and services (+3.2 PP to 13.6%).

# KfW Research

## KfW-ifo Credit Constraint Indicator: July 2021

### The KfW-ifo Credit Constraint Indicator in figures

Shares in per cent		Quarter / Year					q-o-q	y-o-y
		Q2/20	Q3/20	Q4/20	Q1/21	Q2/21		
<b>Credit constraint</b>								
Manufacturing	SME	20.6	20.4	16.0	21.5	15.4	-6.1	-5.2
	LSE	18.0	13.8	23.9	9.5	11.0	1.5	-7.0
Construction	SME	8.7	7.8	11.0	6.6	11.0	4.4	2.3
	LSE	32.6	31.0	34.7	28.8	47.6	18.8	15.0
Wholesale trade	SME	15.0	21.9	22.9	21.5	25.8	4.3	10.8
	LSE	10.5	13.5	5.3	5.9	6.0	0.1	-4.5
Retail trade	SME	22.3	19.8	20.8	27.9	29.5	1.6	7.2
	LSE	10.4	19.4	26.6	26.2	17.5	-8.7	7.1
Services	SME	24.0	26.0	29.1	27.0	20.3	-6.7	-3.7
	LSE	15.5	13.3	12.5	10.4	13.6	3.2	-1.9
<b>Germany</b>	<b>SME</b>	<b>20.4</b>	<b>21.5</b>	<b>21.9</b>	<b>22.5</b>	<b>18.4</b>	<b>-4.1</b>	<b>-2.0</b>
	<b>LSE</b>	<b>16.2</b>	<b>14.7</b>	<b>19.5</b>	<b>11.9</b>	<b>13.2</b>	<b>1.3</b>	<b>-3.0</b>
<b>Share of enterprises in loan negotiations</b>	SME	31.4	30.1	22.1	20.6	19.5	-1.1	-11.9
	LSE	37.6	39.6	28.8	29.0	27.7	-1.3	-9.9

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