

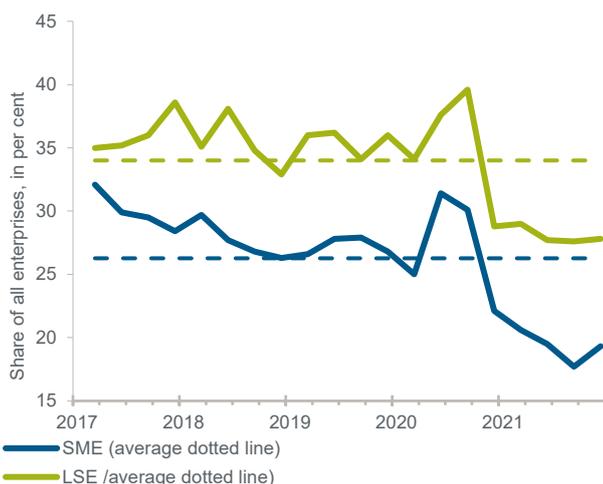
## »»» Credit constraints are easing – large enterprises are benefiting the most

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- Credit demand from small and medium-sized enterprises recovered slightly in the fourth quarter but remains distinctly weak.
- Prospective borrowers viewed banks as being less restrictive.
- Large enterprises reported a particularly favourable change in banks' lending policy. Credit constraints fell markedly to below-average levels for this size class.

### Percentage of enterprises in loan negotiations



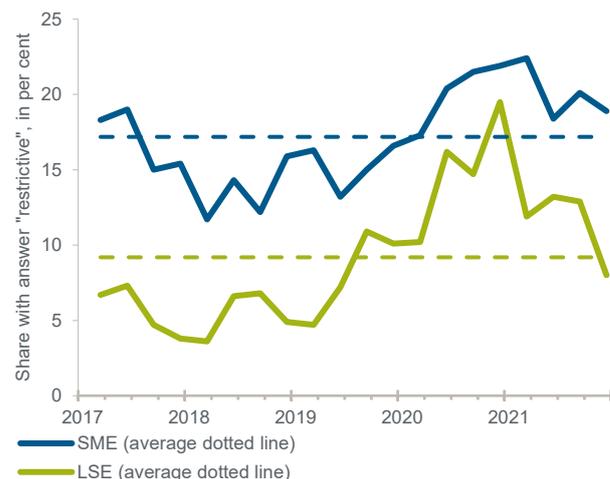
Sources: KfW Research, ifo Institute

### Downward trend in credit demand from SMEs has stopped

After five consecutive declines, more small and medium-sized enterprises (SMEs) have been negotiating loans again. The share of surveyed SMEs requesting bank loans rose by 1.6 PP to 19.3% in the fourth quarter. However, that rate continues to be well below the longer-term average of 26.3%. Credit demand from large enterprises remained stagnant on a low level. In these size classes, 27.8% (+0.2 PP) reported having been in talks with banks to raise debt.

The ongoing weakness in credit demand is in line with our expectations. Supply bottlenecks and the new Omicron variant have disrupted economic activity and are weighing on investment sentiment. On the other hand, higher prices for materials, inputs and investment projects are driving businesses' financing requirements, as are new pandemic-induced liquidity gaps. But these effects are insufficient to bring about a clear trend reversal in credit demand.

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



### Credit constraints are lower – large enterprises benefit

Barriers to credit access for businesses have reduced in the final quarter despite the worsening of the pandemic situation. For SMEs, however, the KfW ifo Credit Constraint Indicator decreased only minimally. The share of SMEs reporting a restrictive response from banks was 18.9%, which was above the average. Easier credit access was reported particularly by small and medium-sized services businesses, although this group continues to be the one facing the highest credit constraints (-3.5 PP to 23.4%). Banks have relaxed their lending policy significantly for larger enterprises. The credit constraint for this size class fell by more than twice the average quarterly variation (-4.9 PP to 8.0%). Fewer than one in ten large enterprises thus reported difficulties accessing credit in the final quarter of 2021.

## The KfW ifo Credit Constraint Indicator in figures

Shares in per cent		Quarter / Year					q-o-q	y-o-y
		Q4/20	Q1/21	Q2/21	Q3/21	Q4/21		
<b>Credit constraint</b>								
Manufacturing	SME	16.0	21.5	15.4	17.3	18.3	1.0	2.3
	LSE	23.9	9.5	11.0	16.4	11.1	-5.3	-12.8
Construction	SME	11.0	6.6	11.0	4.9	5.9	1.0	-5.1
	LSE	34.7	28.8	47.6	6.6	13.3	6.7	-21.4
Wholesale trade	SME	22.9	21.5	25.8	15.9	14.9	-1.0	-8.0
	LSE	5.3	5.9	6.0	7.7	8.8	1.1	3.5
Retail trade	SME	20.8	27.9	29.5	17.7	18.7	1.0	-2.1
	LSE	26.6	26.2	17.5	10.4	5.4	-5.0	-21.2
Services	SME	29.1	26.8	20.3	26.9	23.4	-3.5	-5.7
	LSE	12.5	10.4	13.6	10.4	3.4	-7.0	-9.1
<b>Germany</b>	<b>SME</b>	<b>21.9</b>	<b>22.4</b>	<b>18.4</b>	<b>20.1</b>	<b>18.9</b>	<b>-1.2</b>	<b>-3.0</b>
	<b>LSE</b>	<b>19.5</b>	<b>11.9</b>	<b>13.2</b>	<b>12.9</b>	<b>8.0</b>	<b>-4.9</b>	<b>-11.5</b>
<b>Share of enterprises</b>	SME	22.1	20.6	19.5	17.7	19.3	1.6	-2.8
<b>in loan negotiations</b>	LSE	28.8	29.0	27.7	27.6	27.8	0.2	-1.0

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>1</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>1</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), ifo Schnelldienst 18/2019, p. 46–48.