Low SME credit demand – constraints remain higher than average

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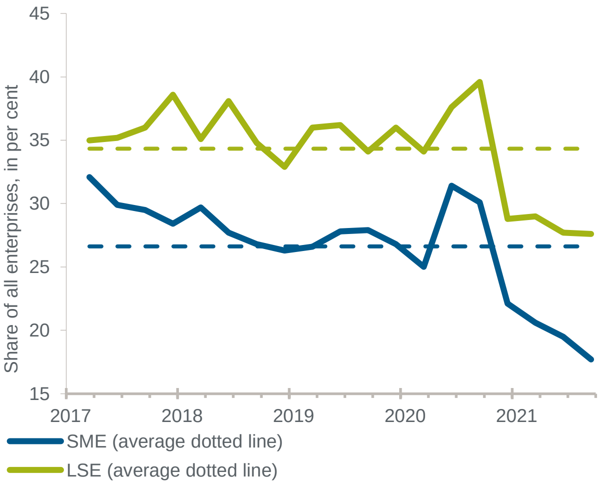
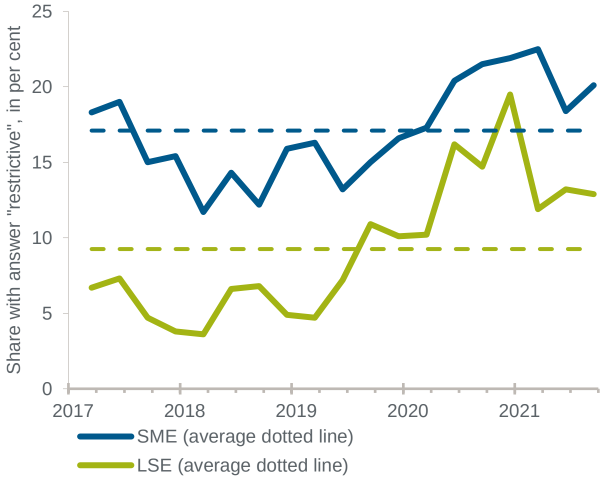
- Fewer and fewer businesses are requesting loans from banks. In the third quarter, the share of SMEs in loan negotiations dropped again significantly to below 18%.
- Credit constraints developed unevenly but remained higher than average for both enterprise size classes.
- Small and medium-sized enterprises again faced higher credit barriers. The recent countermovement, however, which was driven primarily by service enterprises, did not fully offset the sharp drop from the previous quarter.

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 loans has stalled

Credit demand from small and medium-sized enterprises (SMEs) continues to trend downward. Between July and September, the share of SMEs that were negotiating loans with banks fell by a further 1.8 PP to just 17.7%. The rate thus hit a record low for the third consecutive quarter. The share of large enterprises seeking bank loans also dropped. To be sure, the drop was only a marginal -0.3 PP. Nonetheless, this marks a new low of 27.6% for this size class since the survey began in the year 2017.

Demand for loans is also likely to remain below average in the coming months. The economic recovery and government support payments of now more than EUR 50 billion have improved companies' financial position. Businesses also deposited unusually large amounts in bank accounts during the coronavirus crisis. According to data for August, the increase for non-financial corporations was EUR 140 billion, or +23% on February 2020. As uncertainty wanes, companies can now use this liquidity for upcoming financing requirements, for example for capital expenditure.

Credit constraints remain without a clear direction but moderately elevated

In the third quarter, more than 20% of SMEs again reported that banks were restrictive in loan negotiations. But the 1.7 PP increase in the KfW-ifo Credit Constraint Indicator was too low to fully offset the improvements in credit access in the previous quarter. Small and medium-sized service providers were particularly affected by tighter lending policies (+6.6 PP to 26.9%), while manufacturing SMEs faced only minor tightening despite the impact of persistent supply bottlenecks (+1.9 PP to 17.3%). Conversely, SMEs from the retail, wholesale and construction sectors actually benefited from significantly looser lending practices. The Credit Constraint Indicator for large enterprises moved sideways and thus remained slightly above the average recorded since 2017.

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		Q3/20	Q4/20	Q1/21	Q2/21	Q3/21	q-o-q	y-o-y
		Quarter/Jahr						
Credit constraint								
Manufacturing	SME	20.4	16.0	21.5	15.4	17.3	1.9	-3.1
	LSE	13.8	23.9	9.5	11.0	16.4	5.4	2.6
Construction	SME	7.8	11.0	6.6	11.0	4.9	-6.1	-2.9
	LSE	31.0	34.7	28.8	47.6	6.6	-41.0	-24.4
Wholesale trade	SME	21.9	22.9	21.5	25.8	15.9	-9.9	-6.0
	LSE	13.5	5.3	5.9	6.0	7.7	1.7	-5.8
Retail trade	SME	19.8	20.8	27.9	29.5	17.7	-11.8	-2.1
	LSE	19.4	26.6	26.2	17.5	10.4	-7.1	-9.0
Services	SME	26.0	29.1	27.0	20.3	26.9	6.6	0.9
	LSE	13.3	12.5	10.4	13.6	10.4	-3.2	-2.9
Germany	**SME**	**21.5**	**21.9**	**22.5**	**18.4**	**20.1**	**1.7**	**-1.4**
	LSE	**14.7**	**19.5**	**11.9**	**13.2**	**12.9**	**-0.3**	**-1.8**
Share of enterprises	SME	30.1	22.1	20.6	19.5	17.7	-1.8	-12.4
in loan negotiations	LSE	39.6	28.8	29.0	27.7	27.6	-0.1	-12.0

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.[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.