

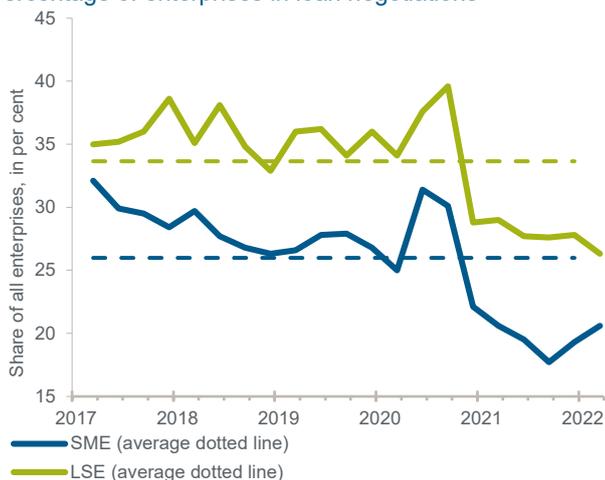
# »» Banks ease credit access for SMEs again

12 April 2022

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- Demand for credit by German SMEs continued to recover at the start of the year, while larger enterprises saw their interest in bank loans drop to a new low.
- At the same time, the downward trend of the KfW ifo Credit Constraint Indicator for SMEs continued. The longer-term average is now within reach again.
- Loan applications from large enterprises, by contrast, were met with significantly increasing scepticism from banks. This may be a sign of the first consequences of Russia's attack on Ukraine, the economic impact of which is generating growing default risks.

Percentage of enterprises in loan negotiations

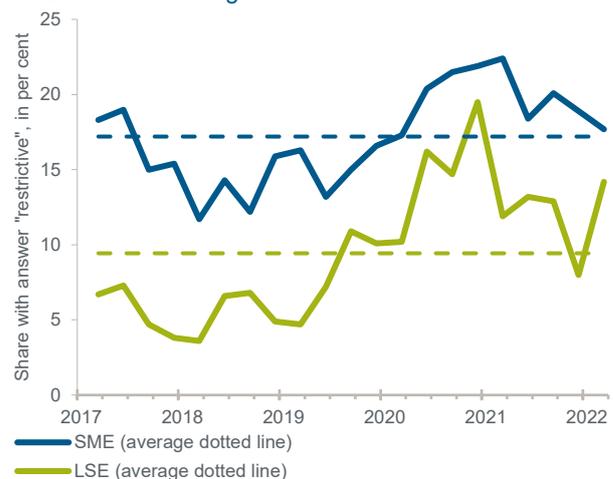


Sources: KfW Research, ifo Institute

## SMEs' demand for credit has risen again

Demand for credit by small and medium-sized enterprises (SMEs) bottomed out in the summer of 2021. Since then we have been witnessing a gradual trend reversal. In the first quarter more than one fifth (20.6%) of surveyed SMEs reported loan negotiations with banks. Measured against the long-term average of 26%, however, SMEs' interest in bank financing remains low. The weak credit demand by large enterprises, in turn, decreased even further. Only 26.3% (-1.5 PP) of enterprises in this size category sought loans from banks. That was the lowest share recorded since the beginning of the time series in 2017. As the businesses were surveyed in the period from 1 to 24 March and thus after the beginning of Russia's invasion of Ukraine, the findings suggest that the war has not resulted in any liquidity bottlenecks of macroeconomic relevance.

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



## Credit access for SMEs is improving

Small and medium-sized enterprises can access bank loans more easily again. In the first quarter the KfW ifo Credit Constraint Indicator fell to 17.7%, declining by nearly 5 PP within a year. Given Russia's aggression, it is doubtful whether the easing of credit constraints can continue. The war in the heart of Europe is weakening the economy through a massive increase in the cost of energy, by exacerbating material bottlenecks and by generating enormous uncertainty. Financial institutions are therefore likely to reassess default risks and readjust their lending policy. The sharp tightening of credit constraint for large enterprises (+6.2 PP) could be a first sign of this. Manufacturing firms, which are closely integrated into the international division of labour, were hit particularly hard. In March 22.6% of them complained that banks were negotiating loans on restrictive terms, which means that share more than doubled in the space of a quarter.

## The KfW ifo Credit Constraint Indicator in figures

Shares in per cent			Quarter / Year					q-o-q	y-o-y
			Q1/21	Q2/21	Q3/21	Q4/21	Q1/22		
<b>Credit constraint</b>									
Manufacturing	SME		21.5	15.4	17.3	18.3	11.7	-6.6	-9.8
	LSE		9.5	11.0	16.4	11.1	22.6	11.5	13.1
Construction	SME		6.6	11.0	4.9	5.9	6.3	0.4	-0.3
	LSE		28.8	47.6	6.6	13.3	12.7	-0.6	-16.1
Wholesale trade	SME		21.5	25.8	15.9	14.9	14.3	-0.6	-7.2
	LSE		5.9	6.0	7.7	8.8	9.5	0.7	3.6
Retail trade	SME		27.9	29.5	17.7	18.7	22.9	4.2	-5.0
	LSE		26.2	17.5	10.4	5.4	5.2	-0.2	-21.0
Services	SME		26.8	20.3	26.9	23.4	24.9	1.5	-1.9
	LSE		10.4	13.6	10.4	3.4	6.2	2.8	-4.2
<b>Germany</b>	SME		<b>22.4</b>	<b>18.4</b>	<b>20.1</b>	<b>18.9</b>	<b>17.7</b>	<b>-1.2</b>	<b>-4.7</b>
	LSE		<b>11.9</b>	<b>13.2</b>	<b>12.9</b>	<b>8.0</b>	<b>14.2</b>	<b>6.2</b>	<b>2.3</b>
<b>Share of enterprises</b>	SME		20.6	19.5	17.7	19.3	20.6	1.3	0.0
<b>in loan negotiations</b>	LSE		29.0	27.7	27.6	27.8	26.3	-1.5	-2.7

Sources (examples): 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>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 only), ifo Schnelldienst 18/2019, p. 46–48.