

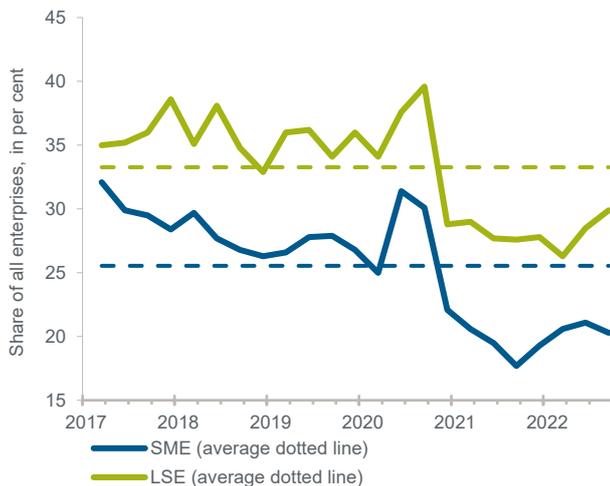
»» Credit access has become significantly more difficult for SMEs

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Author: Stephanie Schoenwald, phone +49 (0)69 7431-6446, stephanie.schoenwald@kfw.de
Press contact: Christine Volk, +49 (0)69 7431-3867, christine.volk@kfw.de

- A spike of more than 7 percentage points pushed the credit constraint for small and medium-sized enterprises (SMEs) to a new record high in the third quarter. Around 28% of businesses engaged in loan negotiations reported facing restrictive bank lending policies.
- SME service providers and manufacturing companies were particularly affected.
- In stark contrast, access to credit eased for large enterprises.

Percentage of enterprises in loan negotiations

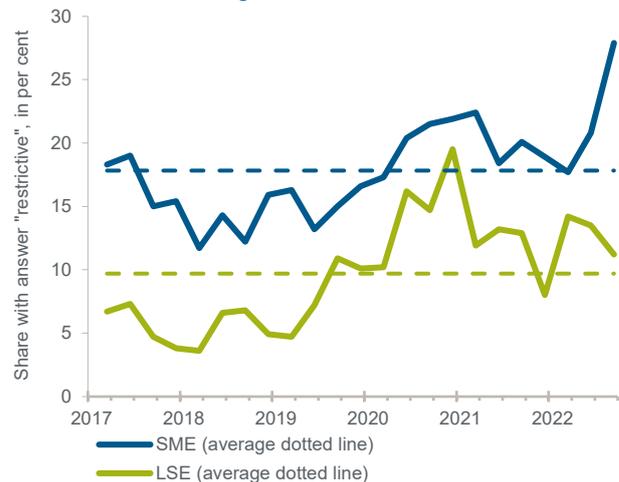


Sources: KfW Research, ifo Institute

Overall credit demand has hardly changed.

The share of enterprises in loan negotiations with banks remained below the long-term average in both size categories. The survey results must be seen in the context of the exceptionally strong lending growth achieved by German banks so far this year. The volume of loans outstanding to domestic non-financial corporations grew by around 13% in August on the previous year. A possible explanation for this discrepancy is that high financing requirements for working capital and inventories are emerging as a consequence of the massive increase in energy prices and persistent supply bottlenecks. In order to close such liquidity gaps, businesses could start by mainly drawing on existing lines of credit that do not require any new negotiation. In addition, high-volume loans to a small number of businesses can have a noticeable influence on the market result in the current exceptional situation. One example is the loans extended by KfW in support of energy utilities on behalf of the Federal Government.

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



SMEs looking to borrow are facing considerable barriers

The KfW ifo Credit Constraint Indicator for SMEs rose steeply in the third quarter. Of the surveyed SMEs who were in loan negotiations, 27.9% regarded the policies of banks as restrictive. That was 7.1 percentage points more than in the previous quarter – a surge more than three times the average quarterly variation. It means that the Credit Constraint Indicator for small and medium-sized enterprises has reached a new record high since the current survey methodology was introduced in 2017. Service providers were more likely than other SMEs to complain about difficulties accessing credit (33.2%), followed by manufacturers (27.7%). Given the looming recession, the huge spikes in energy prices and rising interest rates, more cautious bank policies and worsening financing terms were to be expected. It is therefore surprising that the situation for large enterprises eased for the second consecutive quarter. In this size class, credit constraint fell to 11.2% (-2.3 PP). The advantage which large enterprises traditionally have in accessing credit is therefore also widening significantly.

The KfW ifo Credit Constraint Indicator in figures

Shares in per cent		Quarter / Year					q-o-q	y-o-y
		Q3/21	Q4/21	Q1/22	Q2/22	Q3/22		
Credit constraint								
Manufacturing	SME	17.3	18.3	11.7	17.7	27.7	10.0	10.4
	LSE	16.4	11.1	22.6	15.8	8.7	-7.1	-7.7
Construction	SME	4.9	5.9	6.3	13.6	18.3	4.7	13.4
	LSE	6.6	13.3	12.7	6.8	13.3	6.5	6.7
Wholesale trade	SME	15.9	14.9	14.3	18.8	17.3	-1.5	1.4
	LSE	7.7	8.8	9.5	7.8	11.8	4.0	4.1
Retail trade	SME	17.7	18.7	22.9	15.5	17.2	1.7	-0.5
	LSE	10.4	5.4	5.2	12.4	9.3	-3.1	-1.1
Services	SME	26.9	23.4	24.9	25.9	33.2	7.3	6.3
	LSE	10.4	3.4	6.2	12.6	15.3	2.7	4.9
Germany	SME	20.1	18.9	17.7	20.8	27.9	7.1	7.8
	LSE	12.9	8.0	14.2	13.5	11.2	-2.3	-1.7
Share of enterprises	SME	17.7	19.3	20.6	21.1	20.3	-0.8	2.6
in loan negotiations	LSE	27.6	27.8	26.3	28.5	29.9	1.4	2.3

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(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.¹

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.

¹ 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.