

»» The situation in the credit market is becoming increasingly difficult for businesses

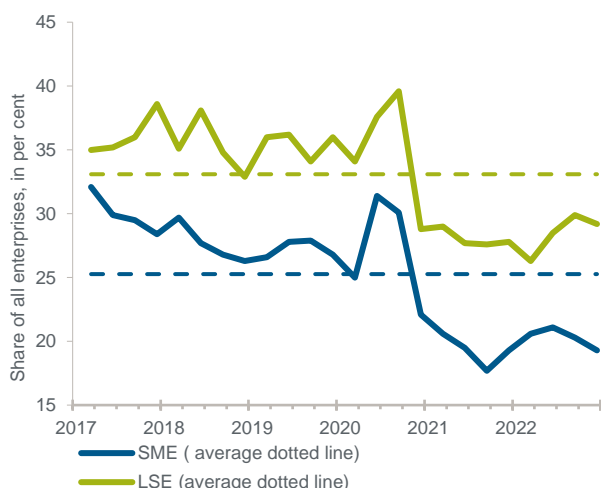
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Author: Dr Jens G. Herold Esteves, phone +49 69 7431-9385, jens.herold_esteves@kfw.de

Press contact: Christine Volk, +49 69 7431-3867, christine.volk@kfw.de

- SMEs now face record-tight credit constraint. Large enterprises are also increasingly grappling with stricter lending conditions. Banks are taking a much closer look at borrowers, particularly in manufacturing, construction and services.
- The share of businesses conducting loan negotiations remains well below average and fell again on the previous quarter. Further interest rate rises and the business cycle will likely do their part to keep the situation tense.

Percentage of enterprises in loan negotiations

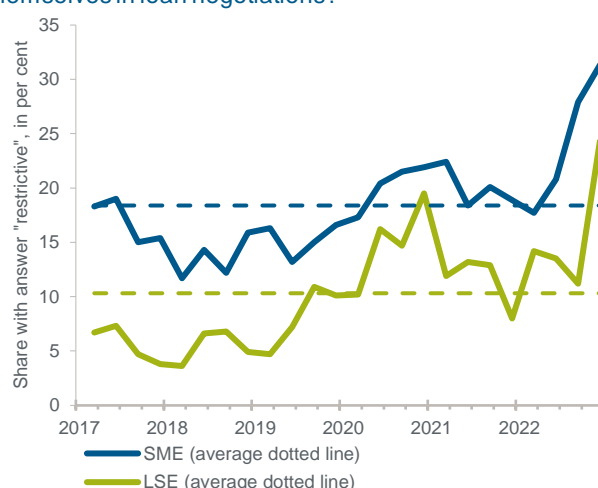


Sources: KfW Research, ifo Institute

Share of businesses in loan negotiations remains below average

In the fourth quarter the share of businesses conducting loan negotiations was again well below the average, dropping to 19.3% of the surveyed small and medium-sized enterprises (-1 PP) and 29.2% of large enterprises (-0.7 PP). The declining share of businesses in loan negotiations is in conflict with the observation that the volume of new lending by banks has experienced a dramatic surge since the start of the year 2022. In Q3 2022 it stood at 36.1%, well above the growth of the past years. A possible explanation for this finding may well be that, in particular, large enterprises or businesses that have been hit hardest by the war and the energy crisis currently have exceptionally high financing requirements. Besides, state support measures for severely affected companies are an additional driver of lending activity. As the economic situation turns bleaker, the share of enterprises that are in loan negotiations will likely be more closely aligned with the development of credit demand in the coming quarters. This will also be due to the fact that investment activity will likely be weaker in 2023.

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



A very tense environment for loan negotiations

After the KfW ifo Credit Constraint Indicator fell moderately in the third quarter, it virtually spiked in the fourth quarter of 2022. Of the surveyed SMEs who were in loan negotiations, 24.3% – more than twice as many as in the previous quarter – regarded the banks' policies as restrictive. Large enterprises are following the trend that was already evident among SMEs for the past three quarters. The Credit Constraint Indicator reached a new record high of 31.3% for SMEs in the fourth quarter of 2022. Tighter lending conditions primarily affected SME retailers (+8.6 PP) and services businesses (+6.7 PP). For manufacturers, on the other hand, the tense situation in the credit market appears to be easing slightly on the previous quarter (-2.9 PP). Expected additional interest rate rises and the difficult macroeconomic environment are likely combining to ensure that the situation remains difficult and may even worsen further.

The KfW ifo Credit Constraint Indicator in figures

			Quarter / Year						
Shares in per cent			Q4/21	Q1/22	Q2/22	Q3/22	Q4/22	q-o-q	y-o-y
Credit constraint									
Manufacturing	SME		18.3	11.7	17.7	27.7	24.8	-2.9	6.5
	LSE		11.1	22.6	15.8	8.7	29.8	21.1	18.7
Construction	SME		5.9	6.3	13.6	18.3	23.2	4.9	17.3
	LSE		13.3	12.7	6.8	13.3	39.0	25.7	25.7
Wholesale trade	SME		14.9	14.3	18.8	17.3	22.6	5.3	7.7
	LSE		8.8	9.5	7.8	11.8	8.1	-3.7	-0.7
Retail trade	SME		18.7	22.9	15.5	17.2	25.8	8.6	7.1
	LSE		5.4	5.2	12.4	9.3	6.4	-2.9	1.0
Services	SME		23.4	24.9	25.9	33.2	39.9	6.7	16.5
	LSE		3.4	6.2	12.6	15.3	25.2	9.9	21.8
Germany	SME		18.9	17.7	20.8	27.9	31.3	3.4	12.4
	LSE		8.0	14.2	13.5	11.2	24.3	13.1	16.3
Share of enterprises	SME		19.3	20.6	21.1	20.3	19.3	-1.0	0.0
in loan negotiations	LSE		27.8	26.3	28.5	29.9	29.2	-0.7	1.4

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 only), ifo Schnelldienst 18/2019, p. 46–48.