

»» Credit constraints decreased at the start of the year

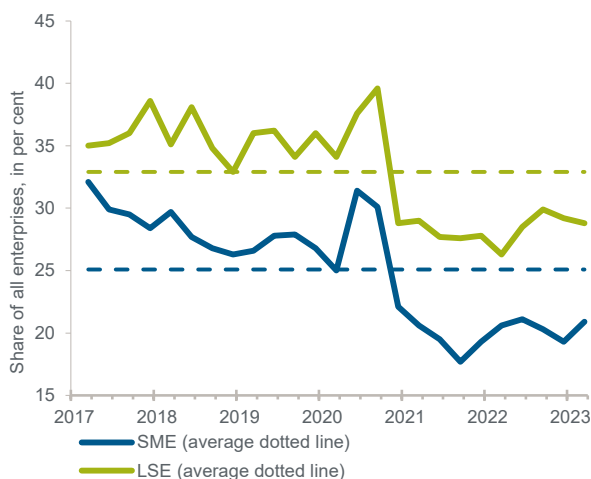
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- The share of businesses in loan negotiations continues to trend sideways on a low level.
- After credit constraints reached a record high in the previous quarter, businesses of both size classes were able to access bank loans more easily again at the start of the year. However, one quarter of small and medium-sized enterprises still perceive the behaviour of banks in loan negotiations as restrictive.
- Credit constraints eased more significantly overall for large enterprises. However, there are significant differences between economic sectors.

Percentage of enterprises in loan negotiations

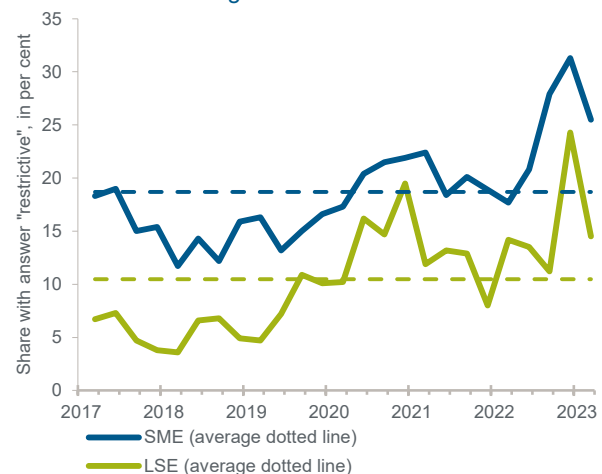


Sources: KfW Research, ifo Institute

Credit demand remains on a low level without a clear trend

The share of enterprises conducting loan negotiations with banks has been moving sideways with fluctuations for two years now. While 20.9% of the small and medium-sized enterprises (SMEs) surveyed sought a bank loan in the first quarter (+1.6 PP), that figure was 28.8% for large enterprises (-0.4 PP). Based on this indicator, demand for credit in both size classes thus persistently remains below the long-term average. We see this as confirmation of our view that the double-digit increases observed in new lending to businesses in the past year will now reverse quickly. After all, the easing of tensions in the energy markets and of supply bottlenecks has reduced crisis-induced related liquidity needs, which means the driving force behind strong lending activity is weakening. The decline in the use of KfW loans to energy enterprises also reflects this. At the same time, the persistently weak economic outlook and high credit costs are preventing loan demand for fixed investments from picking up pace.

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



The easing of the energy crisis is coupled with improved access to credit

The likelihood of energy shortages and persistent energy price extremes has dropped in the past months. The improved risk situation is likely to have significantly contributed to the easing of access to loans in the first quarter. The KfW ifo Credit Constraint Indicator for SMEs dropped by 5.8 PP to 25.5%. Thus, the proportion of surveyed enterprises of this size class that see the attitude of banks as restrictive remains far above average. But the fact that loan negotiations have become easier across all economic sectors should be viewed as positive. The picture is much more mixed for large enterprises, however. To be sure, the credit constraint indicator for large enterprises overall has fallen by nearly 10 PP to just 14.5%. But this is mainly due to the substantial easing of lending criteria for large manufacturing enterprises (-22 PP), while lending policies were tightened significantly for large construction firms (+7.7 PP) and large retailers (+16.2 PP). The response of financial markets to changes in the assessment of risks in the banking sector is unlikely to have had any influence yet on the outcomes of the survey. The events may prompt banks to tighten their lending policies again but it is uncertain to what extent.

The KfW ifo Credit Constraint Indicator in figures

Shares in per cent		Quarter / Year				Q1/23	q-o-q y-o-y	
		Q1/22	Q2/22	Q3/22	Q4/22			
Credit constraint								
Manufacturing	SME	11.7	17.7	27.7	24.8	21.0	-3.8	9.3
	LSE	22.6	15.8	8.7	29.8	7.8	-22.0	-14.8
Construction	SME	6.3	13.6	18.3	23.2	19.6	-3.6	13.3
	LSE	12.7	6.8	13.3	39.0	46.7	7.7	34.0
Wholesale trade	SME	14.3	18.8	17.3	22.6	20.2	-2.4	5.9
	LSE	9.5	7.8	11.8	8.1	11.7	3.6	2.2
Retail trade	SME	22.9	15.5	17.2	25.8	21.9	-3.9	-1.0
	LSE	5.2	12.4	9.3	6.4	22.6	16.2	17.4
Services	SME	24.9	25.9	33.2	39.9	31.4	-8.5	6.5
	LSE	6.2	12.6	15.3	25.2	19.4	-5.8	13.2
Germany	SME	17.7	20.8	27.9	31.3	25.5	-5.8	7.8
	LSE	14.2	13.5	11.2	24.3	14.5	-9.8	0.3
Share of enterprises	SME	20.6	21.1	20.3	19.3	20.9	1.6	0.3
in loan negotiations	LSE	26.3	28.5	29.9	29.2	28.8	-0.4	2.5

Sources: 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.