

# »» Access to credit remains challenging for businesses

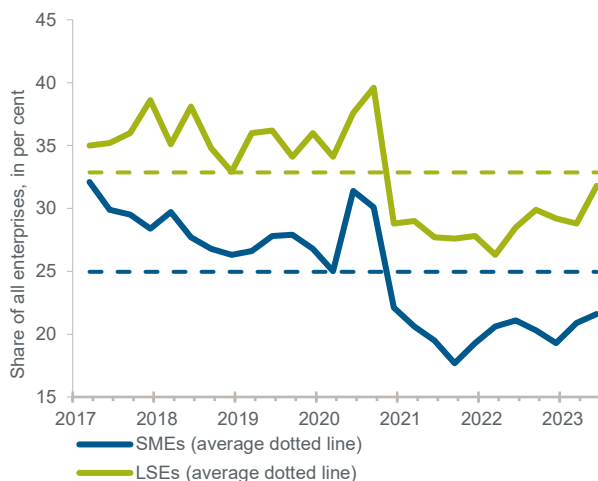
1 August 2023

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- More businesses were in negotiations about a bank loan in the second quarter, signalling a mild recovery in credit demand.
- The KfW ifo Credit Constraint Indicator for SMEs is mostly unchanged from the previous quarter. More large enterprises, on the other hand, complained about banks' restrictive lending policies.
- The previous large differences between economic sectors became smaller, primarily driven by easier credit access for small and medium-sized service providers and large construction firms.

Percentage of enterprises in loan negotiations

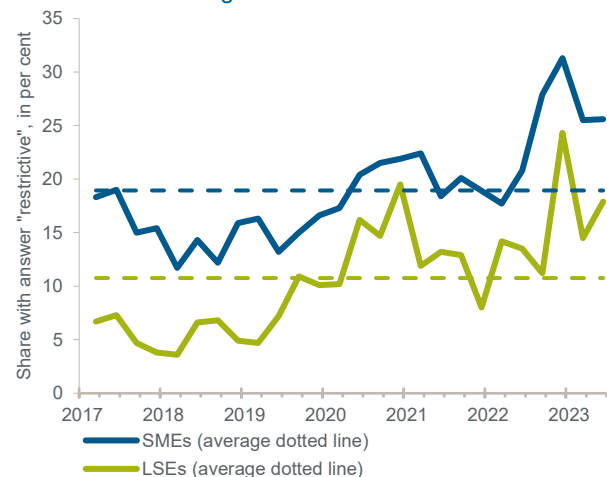


Sources: KfW Research, ifo Institute

## Credit demand is pointing moderately upwards

In the second quarter the share of surveyed enterprises that were in loan negotiations with banks remained below the long-term average again in both size classes, although just barely so in the case of large enterprises. Thus, the share of businesses seeking loans in this size class increased on the winter quarter by a substantial 3.0 PP to 31.6%. The share of small and medium-sized enterprises that were in discussion with their banks about possible loans was also higher, at 21.6%. Although the increase was a mere 0.7 PP, it was the second one in a row. Overall, a cautious rebound in demand for bank loans by businesses thus became apparent in the second quarter. This suggests that borrowing will likely stabilise despite the sharp interest rate rise last year and that a similar downturn as in private residential construction loans can be avoided. It is another reason that we continue to anticipate moderate growth in business investment in 2023 despite the weak economic environment.<sup>1</sup> That is good news given the great need for investment in digitalisation and climate neutrality.

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



## Businesses continue to face above-average credit constraints

After credit access eased in the first quarter, financial institutions tended to be cautious in their responses to loan applications from corporate customers in the second quarter. The KfW ifo Credit Constraint Indicator remained nearly unchanged for SMEs, with 25.6% (+0.1 PP) of SMEs noting that their banks were restrictive in loan negotiations. The differences between sectors levelled out. Banks previously applied strict lending criteria to small and medium-sized services businesses in particular. The situation eased considerably for this group of enterprises in the second quarter, as the credit constraint indicator for them dropped by 4.9 PP to 26.5%. This reflects the improved economic situation in the services industries, which is helping to further reduce remaining financial burdens from the pandemic. In the segment of large enterprises, credit constraint tightened to 17.9% (+3.4 PP) after falling sharply in the previous quarter. At least there was a silver lining in this size class as well. Credit constraint for large construction firms, which were hit particularly hard by tighter lending policies, eased by 15.8 PP to 30.9%.

## The KfW ifo Credit Constraint Indicator in figures

Share in per cent		Quarter / Year					q-o-q		y-o-y
		Q2/22	Q3/22	Q4/22	Q1/23	Q2/23			
<b>Credit constraint</b>									
Manufacturing	KMU	17.7	27.7	24.8	21.0	25.0	4.0	7.3	
	GU	15.8	8.7	29.8	7.8	14.7	6.9	-1.1	
Construction	KMU	13.6	18.3	23.2	19.6	24.7	5.1	11.1	
	GU	6.8	13.3	39.0	46.7	30.9	-15.8	24.1	
Wholesale trade	KMU	18.8	17.3	22.6	20.2	26.0	5.8	7.2	
	GU	7.8	11.8	8.1	11.7	18.9	7.2	11.1	
Retail trade	KMU	15.5	17.2	25.8	21.9	23.2	1.3	7.7	
	GU	12.4	9.3	6.4	22.6	15.8	-6.8	3.4	
Services	KMU	25.9	33.2	39.9	31.4	26.5	-4.9	0.6	
	GU	12.6	15.3	25.2	19.4	21.9	2.5	9.3	
<b>Germany</b>	<b>KMU</b>	<b>20.8</b>	<b>27.9</b>	<b>31.3</b>	<b>25.5</b>	<b>25.6</b>	<b>0.1</b>	<b>4.8</b>	
	<b>GU</b>	<b>13.5</b>	<b>11.2</b>	<b>24.3</b>	<b>14.5</b>	<b>17.9</b>	<b>3.4</b>	<b>4.4</b>	
<b>Share of enterprises</b>	KMU	21.1	20.3	19.3	20.9	21.6	0.7	0.5	
<b>in loan negotiations</b>	GU	28.5	29.9	29.2	28.8	31.8	3.0	3.3	

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.<sup>2</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> Cf. Scheuermeyer, P. et al. (2023), Economic recovery with one foot on the brake, KfW Business Cycle Compass May 2023.

<sup>2</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), ifo Schnelldienst 18/2019, p. 46–48.