

»» Challenges are mounting for businesses negotiating loans

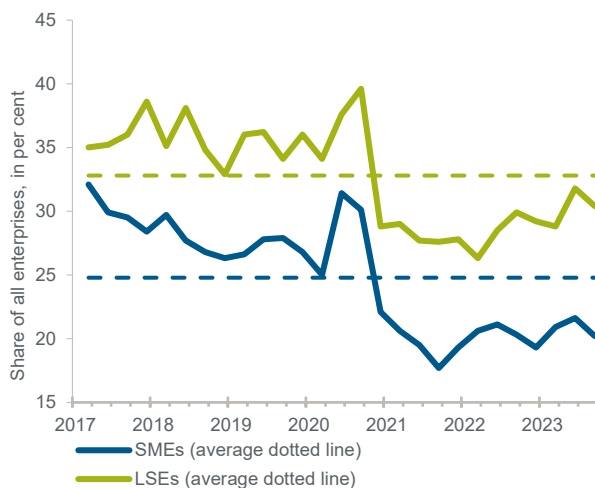
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- The share of businesses that were in loan negotiations with banks remained below the long-term average in both size classes in the third quarter of 2023 as well.
- The KfW ifo Credit Constraint Indicator for SMEs surged, marking a new high. Large enterprises also reported more hurdles in accessing loans.
- Small and medium-sized enterprises of all sectors experienced more restrictive lending policies, particularly services businesses and manufacturers.

Percentage of enterprises in loan negotiations



Sources: KfW Research, ifo Institute

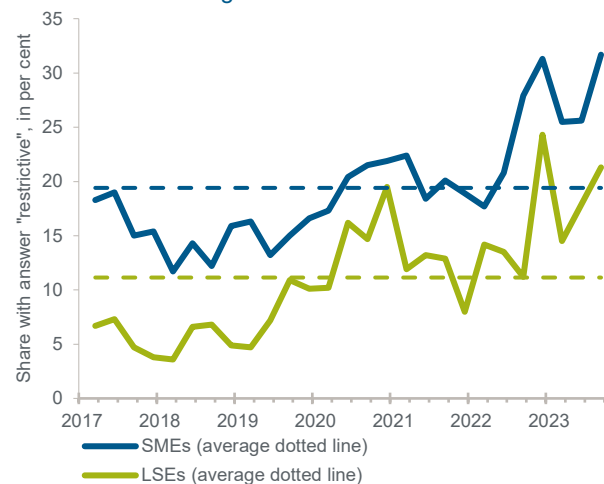
Businesses continue to show subdued interest in loans

Following increased demand in the spring, the number of businesses requesting bank loans was down again in the summer quarter. The proportion of companies surveyed who were in loan negotiations decreased to 20.2% among small and medium-sized enterprises (SMEs) and to 30.4% among large enterprises. The shares thus remained below their respective historical averages. However, the decline was only a moderate 1.4, less than a typical quarterly variation. Given the dim economic prospects and restrictive monetary policy, the findings of the survey are in line with expectations and continue to point towards weak but steady credit demand from enterprises.

Higher interest rates and tighter lending policies are making borrowing more difficult

The Deutsche Bundesbank's July Bank Lending Survey suggested that tighter lending conditions were coming to an end.¹ But in the eyes of enterprises, the actual trend in the third quarter is diametrically opposed to this expectation. In their view, the barriers to obtaining a bank loan have increased again, and considerably. The KfW ifo Credit Constraint Indicator for small and medium-sized enterprises

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



surged by 6.1 percentage points. Of the SMEs who were in loan negotiations, 31.7% regarded the policies of banks as restrictive. This slightly exceeded the previous record high since the revision of the survey methodology in 2017. During the financial market crisis and at the beginning of the 2000s, however, an even higher percentage of businesses surveyed reported facing tighter credit access conditions. The growing difficulties in negotiating a loan are probably due in part to the continuing interest rate rises. Lately, average rates payable on corporate loans surpassed 5%. That is another significant markup on the 4.7% of the second quarter. Moreover, a further tightening of lending policies as a result of the more depressed economic sentiment and an associated reassessment of risks by banks is also plausible.

The rising barriers to credit affected SMEs from all economic sectors. Loan applications from SMEs in the services sector (32.9% / +6.4 PP) and manufacturing (32.4% / +7.4 PP) were subjected to particularly rigorous scrutiny from banks. Large enterprises also reported that banks were again adopting a more restrictive approach. Credit constraint for this company size class increased by 3.4 PP to 21.3%.

The KfW ifo Credit Constraint Indicator in figures

Shares in per cent		Quarter / Year						
		Q3/22	Q4/22	Q1/23	Q2/23	Q3/23		
Credit constraint								
Manufacturing	SME	27.7	24.8	21.0	25.0	32.4	7.4	4.7
	LSE	8.7	29.8	7.8	14.7	19.1	4.4	10.4
Construction	SME	18.3	23.2	19.6	24.7	29.0	4.3	10.7
	LSE	13.3	39.0	46.7	30.9	30.1	-0.8	16.8
Wholesale trade	SME	17.3	22.6	20.2	26.0	29.5	3.5	12.2
	LSE	11.8	8.1	11.7	18.9	10.9	-8.0	-0.9
Retail trade	SME	17.2	25.8	21.9	23.2	26.4	3.2	9.2
	LSE	9.3	6.4	22.6	15.8	32.6	16.8	23.3
Services	SME	33.2	39.9	31.4	26.5	32.9	6.4	-0.3
	LSE	15.3	25.2	19.4	21.9	22.6	0.7	7.3
Germany	SME	27.9	31.3	25.5	25.6	31.7	6.1	3.8
	LSE	11.2	24.3	14.5	17.9	21.3	3.4	10.1
Share of enterprises	SME	20.3	19.3	20.9	21.6	20.2	-1.4	-0.1
in loan negotiations	LSE	29.9	29.2	28.8	31.8	30.4	-1.4	0.5

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.²

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 Cf. Deutsche Bundesbank (2023): July results of the Bank Lending Survey in Germany, press release of 25 July 2023.

² 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.