

»» Access to credit remains difficult for businesses

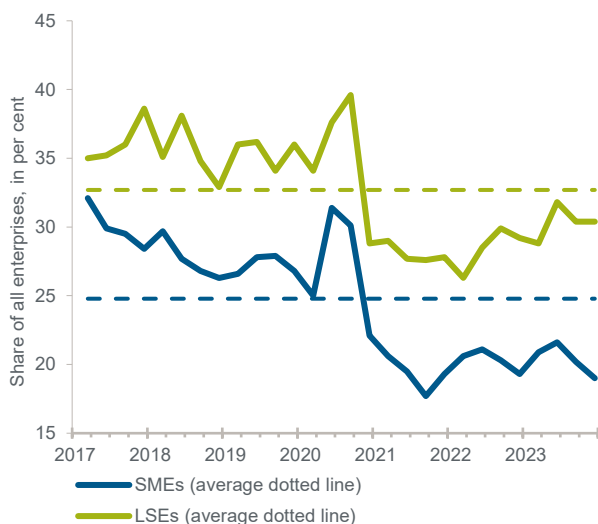
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- The share of enterprises that commenced loan negotiations with banks continues to be below average. The historically high interest rates are dampening their interest in credit.
- The obstacles businesses perceive in their negotiations have eased slightly compared to the previous quarter but remain pronounced. Given the weak economic outlook, the credit constraint indicator is not very likely to decrease significantly.

Percentage of enterprises in loan negotiations



Sources: KfW Research, ifo Institute

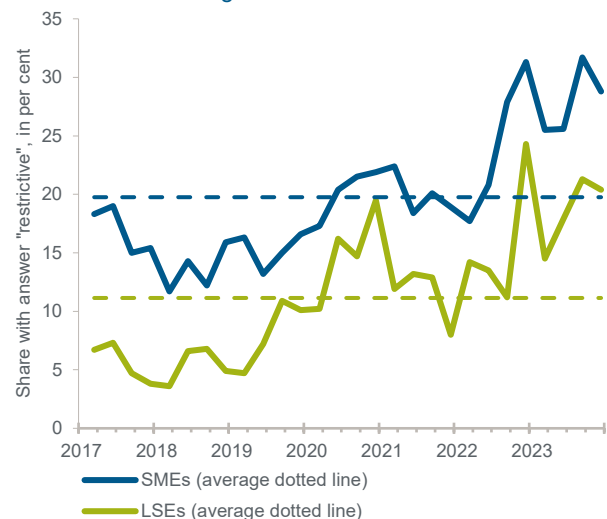
Businesses continue to exhibit little interest in credit

Credit demand by businesses of both size classes remained weak towards the end of 2023. A below average share of businesses negotiated a loan with their bank for the third straight year. According to the Deutsche Bundesbank's October Bank Lending Survey (BLS), the high financing costs resulting from the restrictive monetary policy continued to be the main reason for the slump in demand.¹ However, despite the historically very high increases in credit interest rates over the past months, demand for credit did not drop any further but remained steady on a low level. The share of large-scale enterprises that were in loan negotiations with their banks stagnated at the level of the previous quarter. Among small and medium-sized enterprises (SMEs), that share has now fallen for the second time after recovering slightly in the spring, slipping by 1.2 PP to 19.0%. The persistent restraint in demand is also reflected in the figures on new lending to businesses. Credit volume decreased by around 15% in the third quarter.

Restrictions are putting the brakes on lending

After a record high share of SMEs described the positions of banks in loan negotiations as restrictive, the results of the

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



December survey point to a slight easing. The proportion of SMEs deploring difficult loan negotiations dropped by 2.9 PP to 28.8% of companies. Among large enterprises that share fell by a mere 0.9 PP to 20.4%. But credit constraints remain well above their historic average. According to the October BLS, banks tightened their credit requirements for loans to the two business groups on the basis of what they perceived to be elevated credit risks for SMEs and large-scale enterprises due to the more subdued economic activity of the industry branch(es). The tighter standards for accessing loans reported by businesses likely reflect this, and the weak economic outlook suggests that they will probably not be eased any time soon.

Perceived credit constraints are mixed across the various economic sectors. In manufacturing and the main construction industry, companies of all sizes reported lower credit constraints than in the previous quarters. Among wholesale SMEs, the tightening of credit restrictions that could be observed since the beginning of the year continued (33.8% / +4.3 PP). The credit constraint indicator for large scale wholesalers also rose by 9.9 PP to 20.8%. Overall wholesale trade is suffering from weak turnover.²

The KfW ifo Credit Constraint Indicator in figures

Shares in per cent		Quarter / Year					q-o-q		y-o-y
		Q4/22	Q1/23	Q2/23	Q3/23	Q4/23			
Credit constraint									
Manufacturing	SME	24.8	21.0	25.0	32.4	26.3	-6.1	1.5	
	LSE	29.8	7.8	14.7	19.1	16.7	-2.4	-13.1	
Construction	SME	23.2	19.6	24.7	29.0	23.9	-5.1	0.7	
	LSE	39.0	46.7	30.9	30.1	13.5	-16.6	-25.5	
Wholesale trade	SME	22.6	20.2	26.0	29.5	33.8	4.3	11.2	
	LSE	8.1	11.7	18.9	10.9	20.8	9.9	12.7	
Retail trade	SME	25.8	21.9	23.2	26.4	28.0	1.6	2.2	
	LSE	6.4	22.6	15.8	32.6	28.6	-4.0	22.2	
Services	SME	39.9	31.4	26.5	32.9	31.4	-1.5	-8.5	
	LSE	25.2	19.4	21.9	22.6	23.7	1.1	-1.5	
Germany	SME	31.3	25.5	25.6	31.7	28.8	-2.9	-2.5	
	LSE	24.3	14.5	17.9	21.3	20.4	-0.9	-3.9	
Share of enterprises	SME	19.3	20.9	21.6	20.2	19.0	-1.2	-0.3	
in loan negotiations	LSE	29.2	28.8	31.8	30.4	30.4	0.0	1.2	

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.³

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): October results of the Bank Lending Survey in Germany, press release of 24 October 2023.

² Cf. Destatis (2023), Wholesale prices November 2023, press release of 12 December 2023

³ 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.