

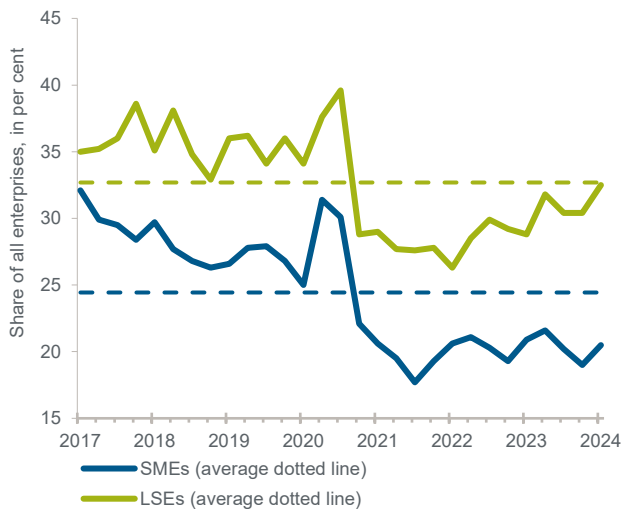
»»» Credit access for SMEs improved slightly but remains restrictive

14 May 2024

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- More SMEs and large enterprises were in negotiations for bank loans in the first quarter of 2024. Demand from large enterprises almost returned to the average level. The end of the interest-tightening cycle and signs of a moderate economic rebound likely favoured the increase in demand.
- Both enterprise size classes continued to perceive the behaviour of banks in loan negotiations as restrictive. Still, SMEs were able to access bank loans slightly more easily than before.

Percentage of enterprises in loan negotiations

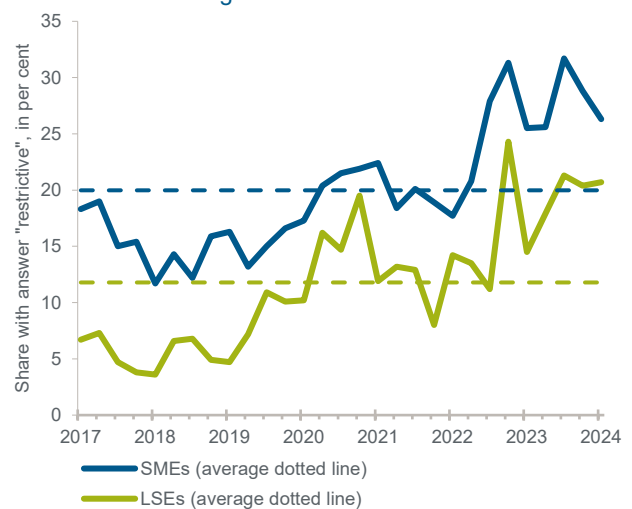


Sources: KfW Research, ifo Institute

Slightly more businesses applied for loans

At the start of the year, businesses of both size classes applied for more loans again. Among large enterprises, the share of interested applicants rose by 2.1 percentage points on the previous quarter to 32.5%, marking a return to the average range since 2017. By contrast, in the past three years only a below-average share of large enterprises engaged in loan negotiations. The increase in demand among small and medium-sized enterprises was slightly lower, rising 1.5 percentage points to 20.5%. It is true that SMEs were more willing to borrow again than in the second half of 2023, but their appetite for loans remained below average. The steep rise in loan interest rates for businesses came to an end in autumn of 2023, and interest rates have begun to come down slowly ever since. According to the Deutsche Bundesbank's Bank Lending Survey for the first quarter, the high interest level is becoming increasingly less relevant as a driver of the decrease in loan demand.¹ Furthermore, economic activity picked up slightly in the first quarter of 2024 and should stabilise demand for loans into the future as well.

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



Restrictions remain tighter than average

After credit constraints had eased for all businesses in the fourth quarter of 2023, they developed in opposite directions across enterprise size classes in the first quarter of 2024. The share of SMEs that perceived banks' lending practices as restrictive decreased by 2.5 PP to 26.3%. Among large enterprises, 20.7% of companies – an almost negligible increase of 0.3 PP – reported difficult loan negotiations. In summary, the imminent economic rebound is likely to have facilitated the moderate improvement in credit access for SMEs. There were mixed assessments of credit constraint across the various economic sectors. SME manufacturers (20.3% / -6.0 PP) and wholesalers (28.9% / -4.9 PP) reported a noticeable relaxation of lending standards on the previous quarter, which is consistent with the weak but improved business confidence in both sectors.² SME retailers, on the other hand, reported a tightening in credit constraint to 34.1% (+6.1 PP). Retail trade in particular is suffering from consumer restraint, which may explain why banks have been more cautious in their lending practices.³

The KfW ifo Credit Constraint Indicator in figures

Shares in per cent		Quarter / Year					q-o-q	y-o-y
		Q1/23	Q2/23	Q3/23	Q4/23	Q1/24		
Credit constraint								
Manufacturing	SME	21.0	25.0	32.4	26.3	20.3	-6.0	-0.7
	LSE	7.8	14.7	19.1	16.7	18.3	1.6	10.5
Construction	SME	19.6	24.7	29.0	23.9	25.0	1.1	5.4
	LSE	46.7	30.9	30.1	13.5	18.8	5.3	-27.9
Wholesale trade	SME	20.2	26.0	29.5	33.8	28.9	-4.9	8.7
	LSE	11.7	18.9	10.9	20.8	9.6	-11.2	-2.1
Retail trade	SME	21.9	23.2	26.4	28.0	34.1	6.1	12.2
	LSE	22.6	15.8	32.6	28.6	21.3	-7.3	-1.3
Services	SME	31.4	26.5	32.9	31.4	29.7	-1.7	-1.7
	LSE	19.4	21.9	22.6	23.7	27.2	3.5	7.8
Germany	SME	25.5	25.6	31.7	28.8	26.3	-2.5	0.8
	LSE	14.5	17.9	21.3	20.4	20.7	0.3	6.2
Share of enterprises in loan negotiations	SME	20.9	21.6	20.2	19.0	20.5	1.5	-0.4
	LSE	28.8	31.8	30.4	30.4	32.5	2.1	3.7

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.⁴

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 (2024), [April results of the Bank Lending Survey in Germany](#), press release of 9 April 2024.

² Cf. Ifo Institute (2024), [ifo Business Climate Index for Germany](#) (March 2024).

³ Cf. Destatis (2024) [Einzelhandelsumsatz im Februar real um 1.9 % niedriger als im Vormonat](#) (*Retail turnover in February 1.9% lower in real terms than in the previous month – our title translation, in German*).

⁴ 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.