Business Survey 2021

Coronavirus crisis is putting pressure on businesses – financing environment is becoming more difficult

Summary

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The financing situation of businesses in Germany is currently more difficult than in previous years as a result of the coronavirus pandemic and the resulting economic crisis. This is not only due to the uncertain economic environment but also to the deteriorating equity capital situation of many companies and the associated downgrade in credit ratings. Business investment was accordingly subdued last year. These are the findings of our Business Survey 2021.

KfW Group has carried out its 20th broad survey of enterprises of all size classes, sectors, legal forms and regions together with 18 umbrella organisations, trade and regional business associations. It was conducted between mid-December 2020 and the end of March 2021 and essentially maps the situation and sentiment prevailing in the year 2020. It therefore paints a good picture of the situation of businesses in the coronavirus crisis. The most important findings:

1. The financing situation of enterprises in Germany has deteriorated noticeably, especially in the sectors hit hardest by the pandemic. Around 36% of enterprises reported having easy access to credit. More than one in four surveyed businesses, by contrast, reported difficulties, a more than twofold increase on the previous year.

2. At the same time, demand for bank loans rose significantly last year, with 62.2% of businesses conducting loan negotiations. This rise reflects the increased cash needs of many businesses as a result of the coronavirus crisis.

3. Long-term loans were particularly sought-after, with 59.6% of businesses interested in loans conducting negotiations with banks. A considerable part of these loans were likely used to build up liquidity buffers. Only around 39.9% of loan negotiations involved short-term loans.

4. Compared with previous years, however, loan negotiations failed more often in the year 2020. With a share of 18.6%, negotiations for short-term loans failed particularly often in the past year. Negotiations for medium-term and long-term loans were slightly more successful, with failure rates of 14.8 and 12.1%.

5. The expansion of businesses' equity ratios that could be observed since the turn of the millennium is not likely to have continued last year. Thus, 39.5% of the surveyed enterprises reported a decline in their equity ratio. Only 29.7% of businesses reported an improvement.

6. Thus, after the crisis it will probably be very important for many enterprises to strengthen their equity base again. Around 37% of the surveyed businesses are currently planning to increase their equity ratio. A particularly high share of 72% of these plan to do this by retaining earnings. Among those that are not planning an increase, for 35.9% of businesses the main reason is that they believe their equity ratio to be adequate. In 29.9% of businesses, however, an increase often fails because they see no way of achieving it at this time.

7. The coronavirus crisis also put downward pressure on many businesses' ratings last year, with 34.5% reporting a downgrade. Only 16% of the surveyed businesses were able to improve their ratings.

8. The current crisis and its consequences could significantly influence what financing instruments will be interesting or accessible to businesses in the future. The survey findings illustrate that after the crisis, businesses will look particularly favourably on instruments that preserve or expand their equity ratios. These include, above all, internal funding, deposits from family or shareholders and leasing. But respondents reported that debt capital instruments, such as short-term and medium-term bank loans, will also become increasingly important. Underutilised instruments, such as private equity, mezzanine capital, factoring and bonds, on the

other hand, could become even less important in the future.

9. Despite the severity of the crisis, around two thirds of the surveyed enterprises invested in their business last year, although lower amounts than the year before. Around 42.1% of businesses reported having reduced the scope of their investment projects. At the same time, around 46% of enterprises reported that at least one planned investment project could not be carried out, most often because of the unfavourable economic situation (30.7%).

10. These findings suggest that many enterprises may not have been able to implement planned projects but replaced them with (smaller) investment projects that helped them better adapt to the crisis situation. The investment goals stated also point in this direction. Around 52% of enterprises mentioned digitalisation as their primary investment goal and some 37% stated cost reductions.

11. Most businesses are cautiously optimistic about their investment plans for the current year. Around seven in ten surveyed enterprises plan to invest in their business. Some 40% of enterprises even plan to increase their investment expenditure compared with last year. The primary investment goals are, again, digitalisation projects (50.4%), replacement investments (48.1%), cost reductions (45.2%) and expansion investments (42.8%).