

# **BUSINESS SURVEY 2013**

## **Corporate financing stable, despite weak economic conditions**

### **Summary**

The KfW Bankengruppe, in collaboration with a number of business associations, has carried out its twelfth business survey. A wide range of companies – firms of every size and every legal form, operating in every sector and every region of Germany – were questioned on their relationship with their banks, their borrowing conditions, and their financing practices. A total of 26 specialist trade associations and regional business associations took part in the survey. The results of the survey, which was conducted within a short period in the first quarter of 2013, reflect the current situation.

### **The key findings are:**

- Despite the weak state of the economy, the overall financing situation for companies remains good
- Small companies and young businesses are experiencing significant structural problems in accessing credit
- Entrepreneurs see lending as the core function of their main banks, both now and in the future
- Larger SMEs are growing increasingly interested in financing linked to capital markets

This latest survey took place in a more difficult economic environment than in the previous year. The challenging nature of this environment is evident in the very limited improvement seen both in returns on sales and in the credit ratings which are based on those returns. This has not yet had any implications for company financing. In fact, the overall situation in company financing has shown a marginal improvement compared to the previous year's survey, and is distinctly more favourable than in other Eurozone countries. As usual, small companies and young businesses are experiencing significant structural problems in accessing credit.

### **Conditions for financing**

1. The general company financing situation remains good, and is virtually unchanged compared to the previous year. Admittedly, there are more companies which still see themselves facing more difficulties in accessing credit (22 %) than those which are finding credit easier to obtain (9 %). However, the proportion of companies reporting that credit has become more difficult to obtain has fallen by three percentage points compared to the previous year. At the same time, the proportion of companies who are finding that borrowing has become easier has risen by one percentage point, indicating that the financing climate overall has actually improved marginally against the previous twelve months.

2. The current situation seems positive, even from a long-term perspective. Among companies with an annual turnover below EUR 25 million, access to credit – measured on the number of reports of a deterioration in access – is currently judged to be even better than in surveys carried out before the financial crisis (which recorded the lowest values registered to date).
3. However, small businesses continue to confront significantly greater problems in accessing credit than larger companies. Among small companies (those with an annual turnover below EUR 1 million), 31 % report difficulties in borrowing, more than twice as many as companies whose yearly turnover exceeds EUR 50 million. Of those companies which have been trading for less than six years, 29 % report increased difficulties in accessing credit; these firms also view their access to credit in a much more negative light than other companies. These findings – which have also been observed in the surveys preceding this one – are an expression of the structural problems faced by small and young companies alike when looking to borrow.
4. The main causes of difficulty in accessing credit which companies quote are an increased demand for information from lending institutions [more stringent project documentation requirements (82 %), and the disclosure of business figures and business strategies (78 %)], together with the requirement for a higher level of loan collateral (79 %). Among lending institutions there is a general sensitivity to risk with all customer groups, and this remains at a high level. This is evident from the fact that scarcely any difference can be identified between the various company groupings in the degree to which they are affected by this requirement for information. On the other hand, large companies (over EUR 50 million turnover) ascribe less importance (53 %) to increased demands for loan collateral.
5. Problems in obtaining any credit whatsoever were cited by 44 % of firms reporting difficulties, somewhat more than in the previous year. The proportion of small companies (up to EUR 1 million turnover) indicating they have problems in general with access to credit is 62 %, almost seven times higher than companies whose annual turnover exceeds EUR 50 million. Among those young companies which report difficulties in borrowing, the proportion indicating this as the reason is as high as 67 %.

#### **Trends in financial figures and credit ratings**

6. The weakness of the economy is reflected in key financial figures at the start of 2013. Returns on sales are stagnating: 31 % of those companies surveyed report an improvement in their return on sales, whereas 28 % report a decline. For comparison, the corresponding values in the previous year's survey were 43 % and 20 % respectively.
7. By way of contrast, capital ratios remain positive, and are unchanged from the previous year, with a net balance of 29 points. But here too, there is an unfavourable underlying long-term trend: at best, company investment is stagnating.
8. In line with these developments, credit ratings have improved to a smaller extent than in the previous year. In the current survey, the balance of improved credit assessments dropped to 15 points, outweighed by the score of 21 points in the preceding study. Large companies in particular had less success than the previous year in improving their credit ratings. If this trend continues, the level of financing difficulties noted by companies may well increase in the next survey.

#### **Investment financing and plans for 2013**

9. Of those companies which were planning to invest, 42 % have applied for a loan for that purpose. Out of these companies, 25 % presently report that their request for an

investment loan has not been granted (as against 27 % in the previous year's survey). Loan applications from small companies (with an annual turnover below EUR 1 million) and young businesses are, respectively, six and seven times as likely to be declined as applications from companies with an annual turnover in excess of EUR 50 million. This is further evidence of the significantly greater structural problems faced by these companies in accessing credit.

10. The two reasons most frequently quoted for loan applications being refused were – as in previous years – inadequate collateral (59 %) or too low a capital ratio (40 %). In the majority of cases, a negative lending decision had a direct impact on the implementation of the investment project: for one in three companies, having the loan application rejected meant the end of the project, and for a further 49 % the investment project could only be realised to a limited extent or after some delay.
11. The investment climate has deteriorated further compared to the previous year. Currently, 28 % of those questioned are planning to increase investment, compared to 31 % in the year before. On the other hand, the proportion of those questioned who plan to invest less has risen from 14 to 17 %.

#### **What today's clients expect from their main banks**

12. From the companies' perspective, supplying credit is a main bank's core function; 94 % responded in this way. The high importance which businesses attach to their main bank's loan offering varies very little from company to company, regardless of the company's size or business sector.
13. Moreover, the larger enterprises questioned (with annual turnovers exceeding EUR 250 million) expect their main banks to have the knowledge and competence to issue promissory note loans (33 %) and bonds (21 %). This is testament to the increasing level of interest shown by large companies in these financing instruments as alternatives to bank loans.
14. In line with the high importance companies attach to the provision of credit by the banks, advice on credit ratings (70 %) and on funding assistance (60 %) constitute the most important consultancy services. Last but by no means least, more than 80 % of companies expect their main bank to provide a named personal contact.