Business Survey 2020

Lending climate: Businesses are well equipped for the crisis

Summary

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KfW Group has completed its 19th broad survey of enterprises of all size classes, sectors, legal forms and regions together with 18 umbrella organisations, trade and regional business associations. The survey was carried out between mid-December 2019 and the end of March 2020, overlapping with the outbreak of the coronavirus pandemic and the containment measures introduced in the second half of March. The findings therefore paint a good picture of the situation in which businesses found themselves when they were hit by the crisis. The present report provides the findings on the topic of credit access. The findings on digitalisation are published separately.

The survey revealed that the financing situation of enterprises in Germany was good until the outbreak of the coronavirus crisis. Enterprises' robust self-financing capacity, low interest rates and German banks' relaxed lending criteria were major contributors. As before, however, small businesses were still much more likely to face difficulties in accessing credit than large enterprises. Structurally lower creditworthiness levels and problems providing adequate collateral remain concentrated in these businesses. These conditions lead to rejections of applications and unfavourable terms for the affected businesses. The individual survey results:

1. The financing situation for enterprises was largely good until the end of March. The proportion of enterprises reporting difficulties in accessing credit was 13.4%. In contrast, 56.8% of businesses indicated that accessing credit was 'easy'. But the outbreak of the coronavirus crisis put an end to the record high lending climate. The first figures for the second quarter of 2020 show that credit constraints have increased for businesses.

2. The positive development of businesses' equity base that was evident since the turn of the millennium also continued last year. Thus, 43.9% of the surveyed enterprises reported that their equity ratio had improved. At the same time, however, 14.8% reported a drop in their equity ratio. The equity situation of many businesses can be expected to deteriorate in the current financial year as a result of the coronavirus crisis.

3. Rating scores improved again on a broad front in 2019, with 32.5% of enterprises reporting improved credit ratings. However, reports of lower credit ratings increased to a proportion of 11.3%. The impact of the current crisis is likely to put further pressure on companies' credit ratings this year.

4. Bank loans remain an important source of funding. Last year, 50.3% of businesses negotiated loans with banks but that share declined sharply in the past years. In the survey year 2016, 59% of respondents reported having negotiated loans. However, current figures on new lending indicate that the coronavirus crisis will significantly increase businesses' demand for credit.

5. Short-term loans were most sought-after in 2019, with 52.5% of businesses needing credit negotiating such loans. Long-term and medium-term loans, however, were just behind with 51.5 and 49.5%.

6. With a share of 14.4%, negotiations on medium-term loans failed more often than others last year. Negotiations on short-term and long-term loans were slightly more successful with rates of 10.6 and 9.8%.

7. The current survey underscores that internal funding continues to play by far the most important role in business financing. Bank loans, as well as loans and deposits from shareholders and family members, also play an important role. Alternative forms of financing such as mezzanine or equity finance, on the other hand, continue to be less relevant. Newer financing instruments such as loans from credit funds as well as crowd financing have also not yet been able to make a breakthroug