

»» Banks tighten lending to SMEs slightly

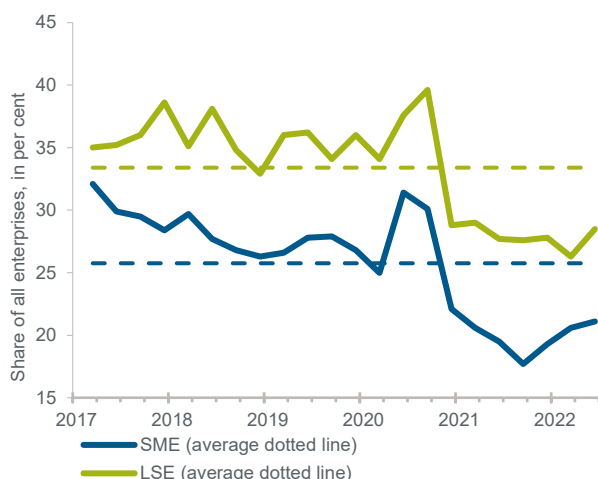
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- The share of small and medium-sized enterprises engaged in loan negotiations with banks rose moderately in the second quarter, while the proportion of large enterprises grew significantly.
- Small and medium-sized enterprises are facing much more restrictive lending policies than in the previous quarters. Credit constraints were significantly loosened only for retailers.
- Banks were on average slightly less restrictive towards large enterprises. However, sharp sectoral differences with strong swings in both directions must be noted.

Percentage of enterprises in loan negotiations



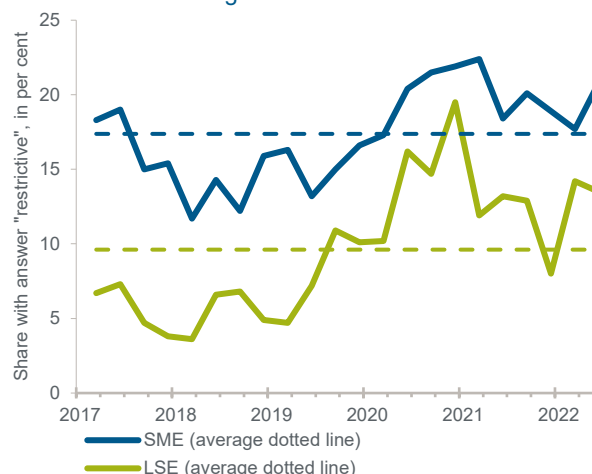
Sources: KfW Research, ifo Institute

Businesses are showing more interest in bank loans ...

After the all-time low of last summer, small and medium-sized enterprises (SMEs) are applying for more loans again. In the second quarter, 21.1% (+0.5 PP) of surveyed SMEs reported being in negotiations with banks. But it remains to be seen whether that already means a reversal of the downward trend in the proportion of SMEs in credit negotiations that began already before the pandemic (long-term average: 25.8%). In particular, it must be kept in mind that the increase in the share of SMEs that had initiated credit negotiations in the first two quarters is probably due primarily to the war in Ukraine and the high rates of inflation. These two factors have noticeably increased short-term financing requirements. Credit growth might therefore decrease slightly in the coming quarters in the course of the expected economic downturn.

The picture is similar for large enterprises, with the share of large firms in negotiations with banks having increased substantially to 28.5% (+2.2 PP). The increased demand for bank loans among these businesses is in line with a Bundesbank survey in which energy-intensive businesses in particular described labour and production costs as an urgent or extremely urgent problem (Bundesbank, 2022).¹

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



... but banks are much more restrictive, especially towards SMEs.

After a moderate easing that lasted several quarters, the KfW ifo Credit Constraint Indicator for SMEs rose considerably in all economic sectors with the exception of retail (+3.1 PP). Banks exercised more restraint in new lending particularly towards the construction and civil engineering sector (+7.3 PP), manufacturers (+6.0 PP) and wholesalers (+4.5 PP). The sharp drop in credit constraint in the retail sector (-7.4 PP) might be attributable to the generally more positive business outlook after the lifting of most infection-control measures. Although credit constraint was relaxed for large enterprises on the aggregate (-0.7 PP), lending conditions were tightened to a similar degree for individual sectors there as they were for SMEs. Credit constraint increased particularly in the retail and services sector, which has been hit hard by high inflation rates, climbing by 7.2 PP and 6.4 PP for large enterprises. The comparatively sharp drop in manufacturing (-6.8 PP) and construction and civil engineering (-5.9 PP), however, might be a reflection of a gradual easing of the material and supply bottlenecks affecting large enterprises.

The KfW ifo Credit Constraint Indicator in figures

Shares in per cent		Quarter / Year					q-o-q	y-o-y
		Q2/21	Q3/21	Q4/21	Q1/22	Q2/22		
Credit constraint								
Manufacturing	SME	15.4	17.3	18.3	11.7	17.7	6.0	2.3
	LSE	11.0	16.4	11.1	22.6	15.8	-6.8	4.8
Construction	SME	11.0	4.9	5.9	6.3	13.6	7.3	2.6
	LSE	47.6	6.6	13.3	12.7	6.8	-5.9	-40.8
Wholesale trade	SME	25.8	15.9	14.9	14.3	18.8	4.5	-7.0
	LSE	6.0	7.7	8.8	9.5	7.8	-1.7	1.8
Retail trade	SME	29.5	17.7	18.7	22.9	15.5	-7.4	-14.0
	LSE	17.5	10.4	5.4	5.2	12.4	7.2	-5.1
Services	SME	20.3	26.9	23.4	24.9	25.9	1.0	5.6
	LSE	13.6	10.4	3.4	6.2	12.6	6.4	-1.0
Germany	SME	18.4	20.1	18.9	17.7	20.8	3.1	2.4
	LSE	13.2	12.9	8.0	14.2	13.5	-0.7	0.3
Share of enterprises	SME	19.5	17.7	19.3	20.6	21.1	0.5	1.6
in loan negotiations	LSE	27.7	27.6	27.8	26.3	28.5	2.2	0.8

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(quarter)-o(ver)-q(quarter).

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.²

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 The Bundesbank's surveys of firms – applications for assessing the financial situation in the corporate sector, Monthly Report June 2022, p. 85–98.

² 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 only), ifo Schnelldienst 18/2019, p. 46–48.