

»» Accessing credit is becoming more difficult again for businesses

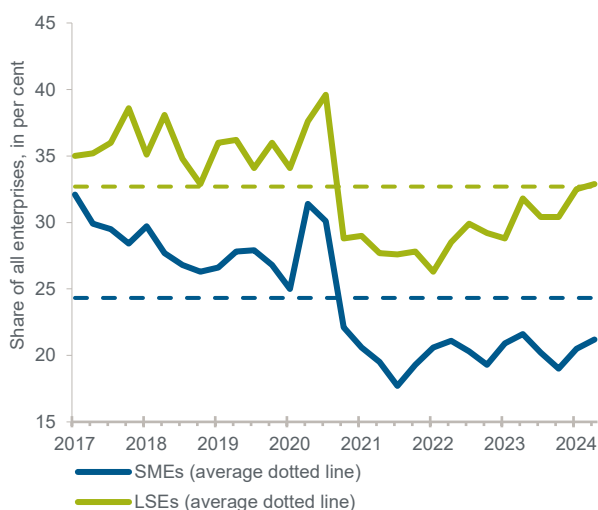
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- In the second quarter, small and medium-sized enterprises were slightly more interested in bank loans, although their appetite for loans remained subdued. Credit demand from large corporates, on the other hand, continued trending upwards and returned to an average level again after nearly four years.
- After easing slightly in the preceding quarters, the KfW-ifo Credit Constraint Indicator for SMEs tightened again, while constraints for large enterprises surged to a new high.
- The economic upswing coming to a halt may have prompted banks to become more cautious.

Percentage of enterprises in loan negotiations

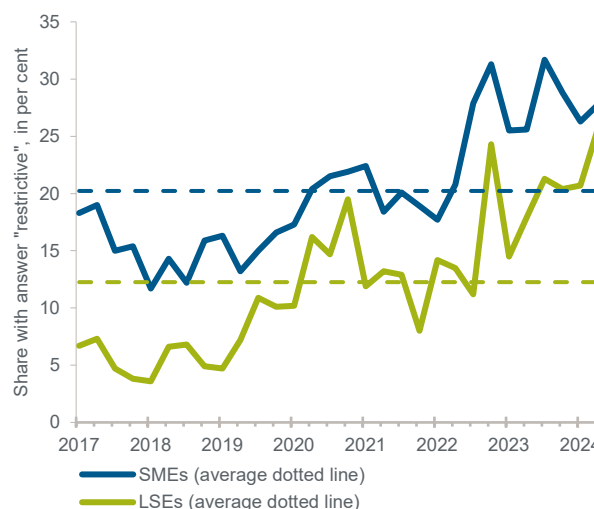


Sources: KfW Research, ifo Institute

Credit demand from SMEs remains subdued

In the spring, more small and medium-sized enterprises (SMEs) were in discussions with their banks about loans for the second straight quarter. The proportion of firms surveyed that were in loan negotiations rose to 21.2%. The increase of 0.7 PP was too weak, however, to break the sideways trend that has remained on a below-average level for around two years now. This is unlikely to change until the hoped-for economic recovery materialises. As our supplementary survey to the KfW SME Panel demonstrated, that this is the most important influencing factor for SMEs' investment activity.¹ In the wake of the monetary easing and the resulting drop in borrowing costs, SMEs will also likely be more willing to cover the associated financing requirements with bank loans. Credit demand from large enterprises has already shown a much stronger recovery, and the share of companies willing to borrow reached 32.9% in the second quarter of 2024, exceeding the average since 2017 for the first time since the summer of 2020.²

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



Banks are taking a good look at loan applications

From a business point of view, the barriers to obtaining a loan from a bank increased again in both size classes in the second quarter of 2024. The policies of banks were considered restrictive by 27.8% of SMEs (+1.5 PP). This means that after two straight decreases in credit constraint, access to credit has become more difficult again. Banks tightened their lending standards for large enterprises even more. In this size class, the share of enterprises reporting difficult loan negotiations rose by a hefty 5.1 PP, taking it to 25.8%. It slightly surpassed the previous peak recorded during the energy crisis in 2022. One crucial factor influencing the banks' restrictive lending practices is most likely the stagnating economic recovery. A weak macroeconomic environment is weighs on businesses development prospects and, hence, their credit standing. The outlook for an easing of credit constraints are likely to improve again as the economic recovery firms up.

The KfW ifo Credit Constraint Indicator in figures

Shares in per cent		Quarter / Year					q-o-q	y-o-y
		Q2/23	Q3/23	Q4/23	Q1/24	Q2/24		
Credit constraint								
Manufacturing	SME	25.0	32.4	26.3	20.3	29.2	8.9	4.2
	LSE	14.7	19.1	16.7	18.3	20.5	2.2	5.8
Construction	SME	24.7	29.0	23.9	25.0	34.3	9.3	9.6
	LSE	30.9	30.1	13.5	18.8	28.1	9.3	-2.8
Wholesale trade	SME	26.0	29.5	33.8	28.9	27.2	-1.7	1.2
	LSE	18.9	10.9	20.8	9.6	20.9	11.3	2.0
Retail trade	SME	23.2	26.4	28.0	34.1	27.4	-6.7	4.2
	LSE	15.8	32.6	28.6	21.3	35.1	13.8	19.3
Services	SME	26.5	32.9	31.4	29.7	25.2	-4.5	-1.3
	LSE	21.9	22.6	23.7	27.2	31.6	4.4	9.7
Germany	SME	25.6	31.7	28.8	26.3	27.8	1.5	2.2
	LSE	17.9	21.3	20.4	20.7	25.8	5.1	7.9
Share of enterprises	SME	21.6	20.2	19.0	20.5	21.2	0.7	-0.4
in loan negotiations	LSE	31.8	30.4	30.4	32.5	32.9	0.4	1.1

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.³

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. Gerstenberger, J. and Schwartz, M. (2024): Zinswende mit überschaubarem Zusatzeffekt auf die Investitionen im Mittelstand (Interest rate reversal is having a moderate additional impact on SMEs' investments – in German only), Focus on Economics No. 462, KfW Research.

² The difference in credit demand from SMEs and large enterprises is also evident in the Deutsche Bundesbank's Bank Lending Survey. For the first time in two years, banks perceived an increase in credit demand from corporates resulting from increased financing requirements of large enterprises. Cf. Deutsche Bundesbank (2024), [July results of the Bank Lending Survey in Germany](#), press release of 16 July 2024.

³ 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.