

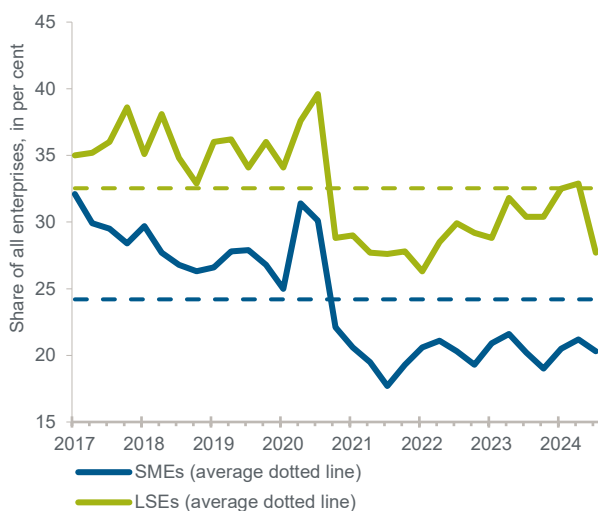
»» Banks are raising the bar in loan negotiations with businesses

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- The downturn in economic sentiment over the past months put an abrupt end to the upward trend in credit demand from large enterprises in the third quarter. At the same time, only around one in five small and medium-sized enterprises were still negotiating a loan with their bank.
- Businesses interested in borrowing faced tightening requirements in their negotiations. The KfW ifo Credit Constraint Indicator for SMEs climbed to a level that was around the high of last summer.
- Among large enterprises, a record-high share of businesses even viewed banks' lending policies as restrictive. Access to finance became particularly difficult for manufacturers.

Percentage of enterprises in loan negotiations

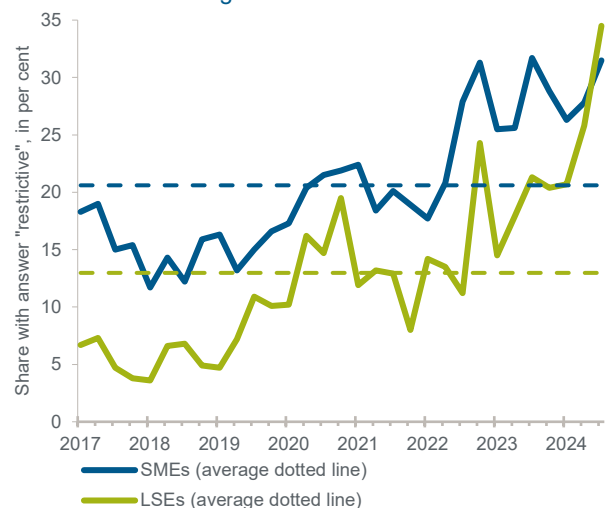


Sources: KfW Research, ifo Institute

Businesses applied for fewer loans

The hoped-for economic upturn in Germany is not yet in view. Businesses are therefore taking a correspondingly negative view of the economic situation and their outlook on the future is also pessimistic.¹ This is weighing on firms' investment propensity in particular. It was therefore to be expected that the sharp drop in sentiment of the past months would now also leave a visible imprint on enterprises' credit demand. In the third quarter, the share of large enterprises conducting loan negotiations with banks fell abruptly by 5.2 PP to just 27.7%. That stopped the gradual return of borrowing appetite from large enterprises for the time being. Credit demand from small and medium-sized enterprises (SMEs) has lacked dynamic already since 2021. Since that time, the share of surveyed SMEs seeking a loan from a bank has oscillated in a corridor around the 20% mark. The minor drop to 20.3% (-0.9 PP) observed in the third quarter of 2024 thus aligns with the ongoing sideways trend on a below-average level.

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



Banks apply particularly strict lending criteria for large enterprises

Besides low demand, the restrictive lending behaviour of banks is another reason lending activity has been slow to pick up since the energy crisis has abated.² According to the surveyed enterprises, financial institutions applied strict criteria particularly to large enterprises in the third quarter. The Credit Constraint Indicator for this company size jumped by an unusually high 8.7 percentage points for the second consecutive quarter to 34.5%. It thus surpassed the previous high of the time series that began in 2017 yet again. The main reason for this was the rapid deterioration in access to finance for large enterprises from the manufacturing sector (+19.9 PP). The persistent industrial recession likely caused loan applications from this sector to be subjected to rigorous scrutiny. The fact that, for once, access to finance was slightly easier for SMEs than for large enterprises can be of little consolation to the former. After all, 31.5% of SMEs also viewed banks' behaviour as restrictive. The KfW ifo Credit Constraint Indicator for SMEs therefore rose significantly as well, by 3.7 PP, thus approaching the previous record level.

ifo Credit Constraint Indicator in figures

Shares in per cent		Quarter / Year					q-o-q	y-o-y
		Q3/23	Q4/23	Q1/24	Q2/24	Q3/24		
Credit constraint								
Manufacturing	SME	32.4	26.3	20.3	29.2	31.2	2.0	-1.2
	LSE	19.1	16.7	18.3	20.5	40.4	19.9	21.3
Construction	SME	29.0	23.9	25.0	34.3	21.2	-13.1	-7.8
	LSE	30.1	13.5	18.8	28.1	19.8	-8.3	-10.3
Wholesale trade	SME	29.5	33.8	28.9	27.2	24.8	-2.4	-4.7
	LSE	10.9	20.8	9.6	20.9	21.1	0.2	10.2
Retail trade	SME	26.4	28.0	34.1	27.4	33.6	6.2	7.2
	LSE	32.6	28.6	21.3	35.1	15.9	-19.2	-16.7
Services	SME	32.9	31.4	29.7	25.2	35.1	9.9	2.2
	LSE	22.6	23.7	27.2	31.6	36.9	5.3	14.3
Germany	SME	31.7	28.8	26.3	27.8	31.5	3.7	-0.2
	LSE	21.3	20.4	20.7	25.8	34.5	8.7	13.2
Share of enterprises	SME	20.2	19.0	20.5	21.2	20.3	-0.9	0.1
in loan negotiations	LSE	30.4	30.4	32.5	32.9	27.7	-5.2	-2.7

The KfW

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. Scheuermeyer, P. (2024), SME sentiment has fallen but remains slightly more stable than in large enterprises, KfW-ifo SME Barometer: September 2024, KfW Research.

² Cf. Körner, J. (2024), Weak investment activity is limiting the recovery of lending, KfW Credit Market Outlook: October 2024, KfW Research.

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.