

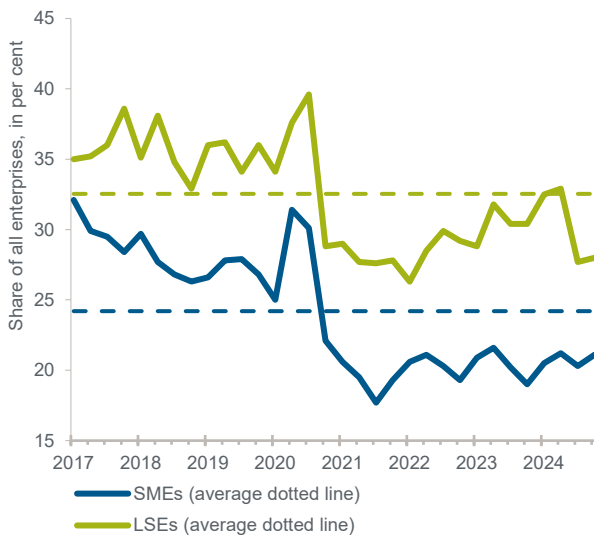
# Record share of SMEs unhappy with restrictions on lending

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- In the fourth quarter of 2024, SMEs and large enterprises were hardly interested in new loans despite the downward trend in interest rates. Credit demand remained below average primarily because of the phase of economic weakness and the pessimistic outlook.
- A record share of SMEs reported restrictive behaviour on the part of banks in loan negotiations. Lending criteria for large enterprises were also tight; restrictions fell only slightly below the previous maximum.

Percentage of enterprises in loan negotiations



Sources: KfW Research, ifo Institute

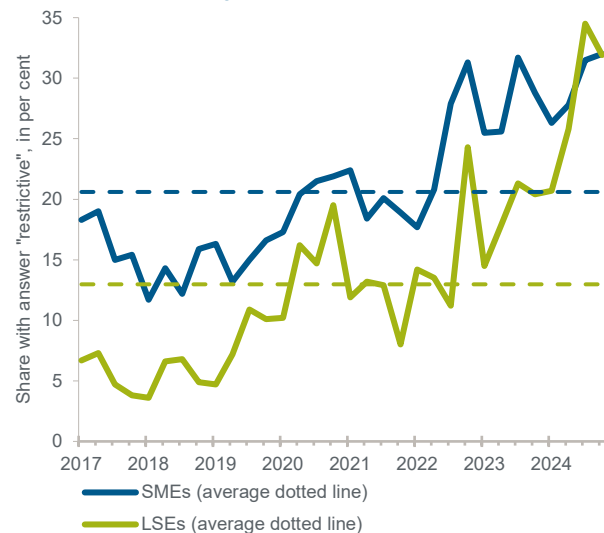
## Falling interest rates provided little stimulus for demand

Large enterprises and small and medium-sized enterprises (SMEs) are showing little interest in loans. Demand for credit remained below the long-term average of their respective size class again in the fourth quarter. The easing of monetary policy did create a moderate downward trend in interest rates in the past months but demand recovered only slightly on the previous quarter. The share of large enterprises and SMEs applying for loans rose at the end of the year to 28.0% (+0.3 PP) and 21.1% (+0.8 PP), respectively. While relatively tight financing conditions continue to be a burden on demand, it is likely that the ongoing economic weakness, increased economic policy uncertainty and pessimistic business expectations weigh more heavily on companies, causing them to hesitate in committing to long-term loan agreements.<sup>1</sup>

## For SMEs, access to credit was more restrictive than ever

Access to credit for businesses interested in borrowing was more restrictive than average in the fourth quarter of 2024. Never before have so many SME reported strict criteria from

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



banks. The share reached 32%, exceeding the previous maximum since the introduction of the new survey methodology in 2017. Three months ago, a record proportion of large enterprises (LSEs) reported restrictive lending behaviour. The share of large enterprises with difficult loan negotiations fell only marginally by 2.6 PP to 31.9% at the end of the year. The tightening of lending practices affected all sectors and size classes with the exception of the services sector and large manufacturing enterprises. The reported decrease for large manufacturing enterprises, however, does not signal a trend reversal. At 35.5% (-4.9 PP), credit constraint indicator fell only slightly to its second-highest level since data was first recorded. Among SMEs, exceptionally strict bank lending standards were reported by wholesalers (+11.9 PP to 36.7%), manufacturers (+2.2 PP to 33.4%) and retailers (+3.6 PP to 37.2%). In all three sectors, a record proportion of SMEs classified bank behaviour as restrictive. Companies in these sectors are operating in a poor business environment and have weak sales expectations and therefore plan to cut jobs.<sup>2</sup>

## The KfW ifo Credit Constraint Indicator in figures

Shares in per cent		Quarter / Year					q-o-q	y-o-y
		Q4/23	Q1/24	Q2/24	Q3/24	Q4/24		
<b>Credit constraint</b>								
Manufacturing	SME	26.3	20.3	29.2	31.2	33.4	2.2	7.1
	LSE	16.7	18.3	20.5	40.4	35.5	-4.9	18.8
Construction	SME	23.9	25.0	34.3	21.2	24.8	3.6	0.9
	LSE	13.5	18.8	28.1	19.8	28.0	8.2	14.5
Wholesale trade	SME	33.8	28.9	27.2	24.8	36.7	11.9	2.9
	LSE	20.8	9.6	20.9	21.1	21.6	0.5	0.8
Retail trade	SME	28.0	34.1	27.4	33.6	37.2	3.6	9.2
	LSE	28.6	21.3	35.1	15.9	36.2	20.3	7.6
Services	SME	31.4	29.7	25.2	35.1	31.6	-3.5	0.2
	LSE	23.7	27.2	31.6	36.9	27.9	-9.0	4.2
<b>Germany</b>	<b>SME</b>	<b>28.8</b>	<b>26.3</b>	<b>27.8</b>	<b>31.5</b>	<b>32.0</b>	<b>0.5</b>	<b>3.2</b>
	<b>LSE</b>	<b>20.4</b>	<b>20.7</b>	<b>25.8</b>	<b>34.5</b>	<b>31.9</b>	<b>-2.6</b>	<b>11.5</b>
<b>Share of enterprises in loan negotiations</b>	SME	19.0	20.5	21.2	20.3	21.1	0.8	2.1
	LSE	30.4	32.5	32.9	27.7	28.0	0.3	-2.4

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.<sup>3</sup>

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.

<sup>1</sup> Cf. Körner, J. (2024), Weak investment activity is limiting the recovery of lending, KfW Credit Market Outlook: October 2024, KfW Research.

<sup>2</sup> Cf. Scheuermeyer, P. (2024), SMEs are not optimistic about the new year, KfW-ifo SME Barometer: December 2024, KfW Research.

<sup>3</sup> 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.