

## Credit Constraint Indicator

From the Ifo Business Survey for July 2010

### Further Easing of Credit Constraints

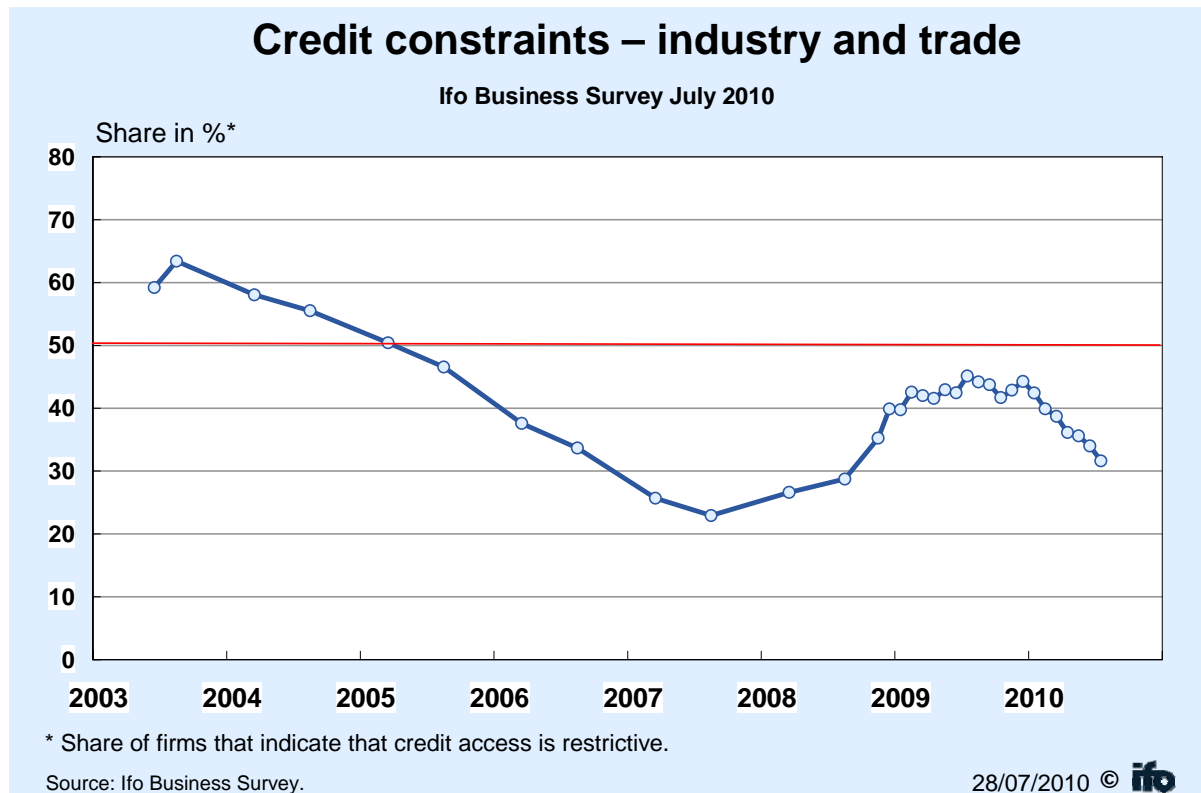
Credit constraints for German industry and trade continued to ease for the seventh month in succession. Currently 31.6% of the surveyed firms complain of restrictive bank lending policies, compared with 34.0% in June. In July 2009 the credit hurdle was at its highest point during the economic and financial crisis at 45.1%. Within one year it has thus fallen by 13.5 percentage points. The recovery in Germany is currently not being constrained much at all by banks' lending practices.

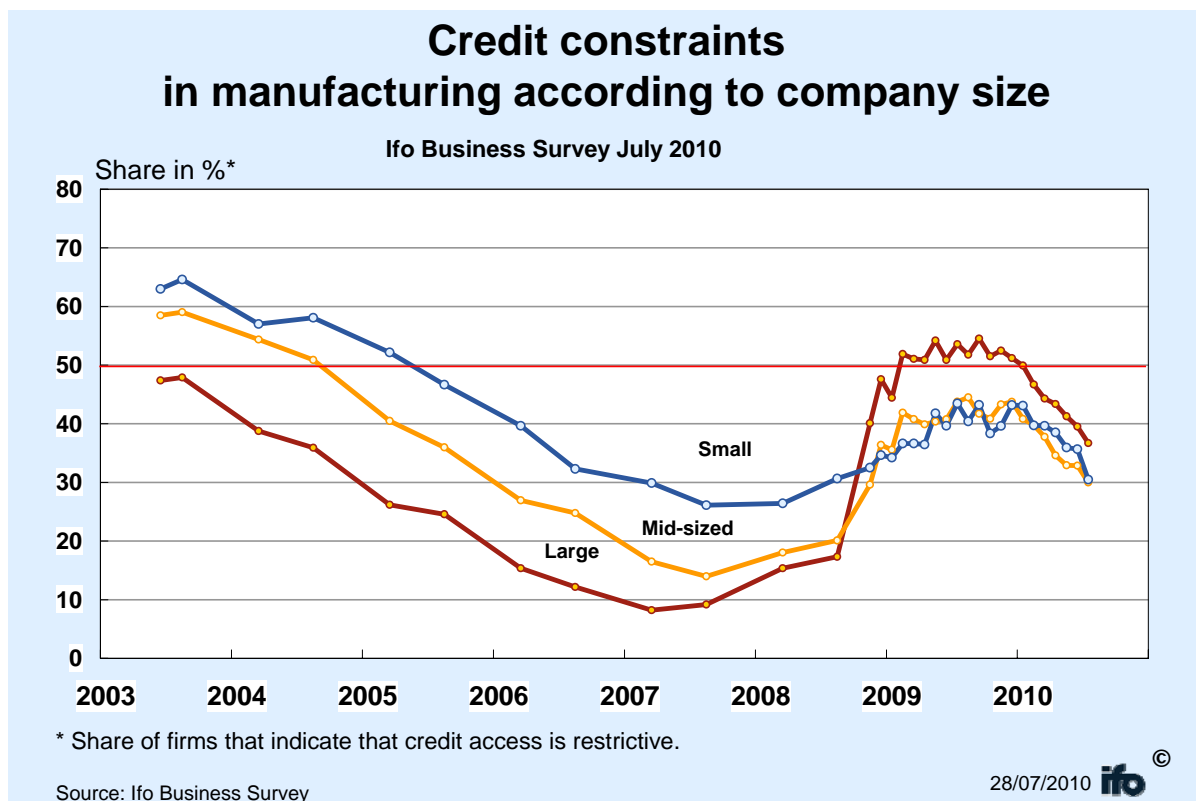
As already in the past month, the credit hurdle fell in all survey sectors in July – in manufacturing, construction and in the distributive trade. In *manufacturing* the complaints about restrictive lending policies were fewer among all company sizes. For large companies the credit hurdle fell by 2.8 percentage points to 36.7% and for mid-sized companies by 2.9 percentage points to 30.0%. The strongest easing was for small manufacturers where the credit constraints weakened by 5.2 percentage points to 30.5%.

In *construction* 38.2% of the survey participants report access to credit as difficult. This is 2.1 percentage points less than in June. In the *distributive trade* the credit hurdle fell by 1.5 percentage points to 28.5%.

Hans-Werner Sinn

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#### Share of firms indicating that credit access is restrictive

Month/Year	07,09	08,09	09,09	10,09	11,09	12,09	01,10	02,10	03,10	04,10	05,10	06,10	07,10
<b>Industry and trade</b>	45.1	44.2	43.7	41.7	42.9	44.3	42.4	39.9	38.7	36.1	35.6	34.0	31.6
<b>Manufacturing firms</b>													
<i>large</i>	53.6	51.8	54.5	51.5	52.5	51.2	49.9	46.7	44.3	43.4	41.3	39.5	36.7
<i>medium-sized</i>	43.8	44.5	41.7	40.8	43.3	43.7	40.8	39.7	37.8	34.6	32.9	32.9	30.0
<i>small</i>	43.5	40.4	43.2	38.3	39.6	43.2	43.1	39.7	39.6	38.5	35.9	35.7	30.5
<b>Construction</b>	47.0	46.5	46.5	47.1	47.4	50.6	47.8	42.7	44.6	43.5	40.9	40.3	38.2
<b>Trade</b>	42.5	41.7	39.9	37.6	38.6	40.0	38.5	36.8	35.0	31.2	33.0	30.0	28.5

Source: Ifo Business Survey

**Legend:** The credit constraint indicator is based on ca. 4,000 responses of firms in industry and trade from the sectors manufacturing, construction, wholesaling and retailing. The firms are asked to respond to the following question: "How would you assess the current willingness of banks to extend credit to businesses"? The answers to choose from are "accommodating", "normal" and "restrictive". The credit constraint is calculated from the percentages of the responses to the last of the three categories. For the compilation of the credit constraint indicator for German industry and trade, the percentage shares from manufacturing, construction and retailing and wholesaling are weighted with the average credit volume of these sectors in 2005.

Large firms are those that have more than 249 employees or a turnover of more than €50 million. Small firms are those that have less than 50 employees or a turnover of less than €10 million.