

WEAK DEMAND FOR CREDIT, BUT ALSO WEAK SUPPLY

RESULTS OF A TELEPHONE SURVEY

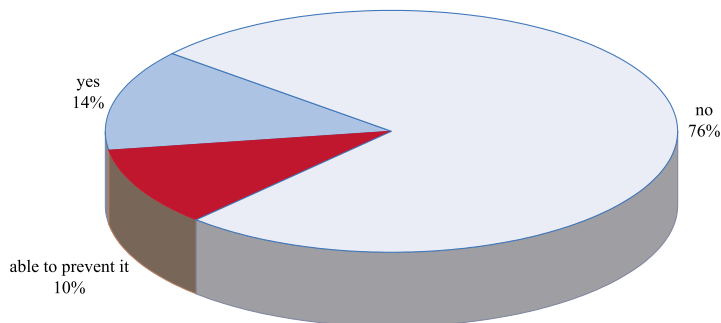
The poor investment and growth activity in Germany is frequently blamed – at least in part – on the changed lending behaviour of banks. In its Monthly Report of October 2002, the Bundesbank states that bank lending has markedly declined and is now below its year earlier level. The primary cause, however, is said to be cyclical, i.e. the weak demand for credit by business and private households, although there are indications of a certain reluctance to lend on the part of the banks. The new equity rules (Basel II) are considered to have an effect only to the extent to which they have heightened the profit and risk awareness of the banks.

In October, the Ifo Institute in co-operation with the research institute empirica–delasasse, Cologne, conducted a telephone survey of 1,100 representative firms, in order to gain additional information on the demand side.

Figure 2

CREDIT SUPPLY

Question: In the past few months, were any of your loans called or were your credit lines (including overdraft facilities) reduced?



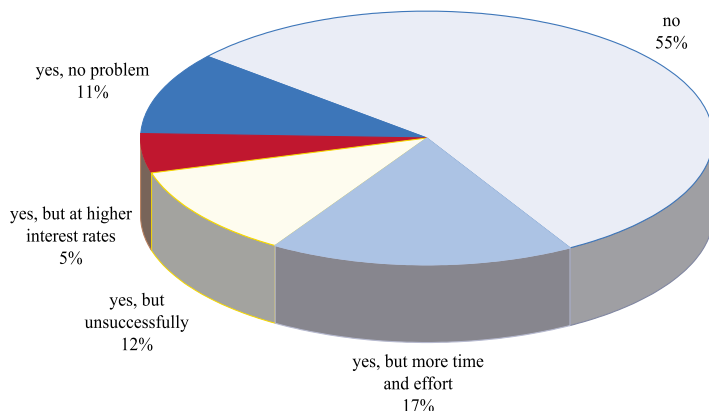
Source: Telephone survey of October 2002, Ifo Institute und empirica-delasasse.

The survey findings confirm the presently weak demand for loans. Only 45% of the surveyed firms applied for new loans or tried to extend or raise credit lines (incl. overdraft facilities) in the past few months. Only 11% of the firms met with no problems, whereas 17%, though successful, had to spend more time and effort than in the past because the banks asked for additional information regarding performance, creditworthiness, etc. Another 5% had to accept higher interest rates in order to get a new loan, an extension or an increase of a credit line. In 12% of the surveyed firms, the banks refused a loan or the firms were unable to accept the conditions (see Fig. 1).

Figure 1

CREDIT DEMAND

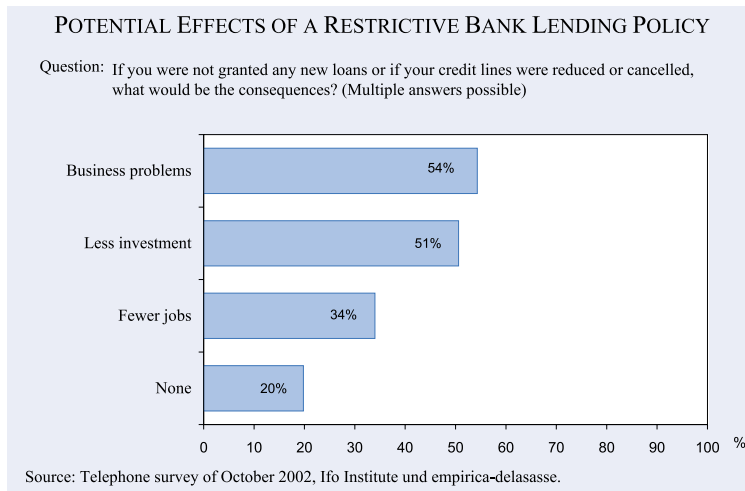
Question: In the past few months, did you apply for new bank loans or for an extension or increase of your credit lines (including overdraft facilities)?



Source: Telephone survey of October 2002, Ifo Institute und empirica-delasasse.

Another question asked whether the firms' loans were called or their credit lines (incl. overdraft facilities) were cut. A quarter of the surveyed firms said the banks intended to call their loans or cut their credit lines, only half of them succeeded in preventing this (see Fig. 2).

The answers to both questions permit the conclusion that the presently declining lending is not only due to the cyclically weak loan demand by business and private parties, but that the banks are more restrictive in granting new loans or dealing with existing loans.

Figure 3

A third, more hypothetical question asked the firms about the effects on their business if no new loans were granted or if current credit lines were cut or cancelled. The answers show that the firms and thus the overall economy would suffer considerable hardship (multiple answers were possible). 54% of the firms said they would expect business problems, 51% would have to cut back their investment, and a good third would reduce their staff. Only 20% of the firms claimed that the refusal or reduction of a loan would not have any negative consequences at present (see Fig. 3).

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