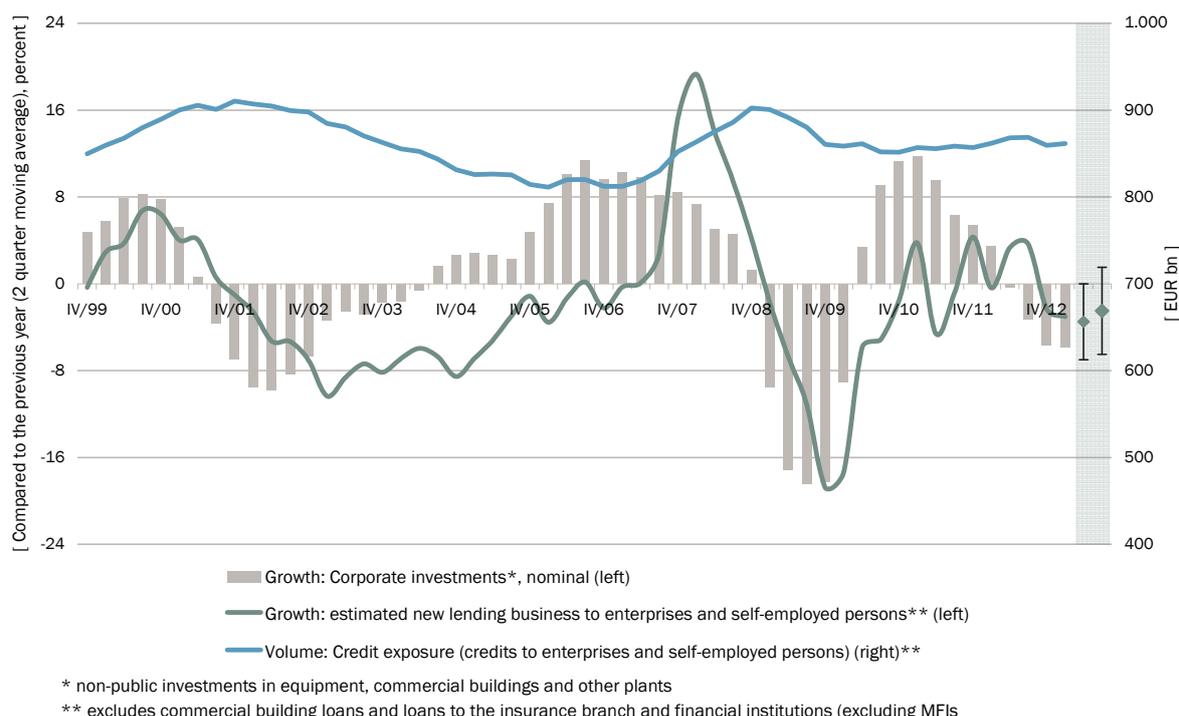


KfW Credit Market Outlook June 2013

Lending business: Decline in new lending continues



The volume of new lending by banks to enterprises and self-employed professionals in Germany is set to contract further in the second quarter by around 3.5 % on the prior quarter, according to KfW's calculations. Business financing requirements will not increase again until investment picks up in autumn.

Demand for credit continues to be weak

The sluggish economy and weak investment activity of the past half-year have led to a further reduction in new lending business. Across the first half-year of 2013, demand for credit has remained below the prior-year level. Only when the recovery consolidates and investment activity picks up do we expect new lending business to return to growth. This will not occur until after summer.

Enterprises in Germany that need finance nonetheless still have excellent access to credit. This is corroborated by our 2013 Business Survey. The ifo credit hurdle is also near its historic low. In addition, according to the Bank Lending Survey of the Deutsche Bundesbank, in the last three months banks have relaxed their lending criteria for the first time in two years and are not planning to tighten them again for the next three months.

New lending reflects economic slowdown

In the first quarter of this year, new lending to enterprises and self-employed professionals was 3.0 % below the prior-year level (moving growth rate across two quarters). Business investments overall suffered somewhat less than expected from the weak winter half-year. Investment as well as loan amounts, however, remained significantly below prior-year levels. We do not expect a return to growth in lending business in Germany until autumn.

Conclusion: Germany's credit market continues to contract. Investment activity is likely to recover in the course of the year but will not fully filter through to the credit market until later in the year. Thanks to continuing favourable financing conditions, new lending business will then return to growth as well.

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Annex

The structure of the KfW Credit Market Outlook:

New lending business is determined by adding to the quarterly variation of existing loans (data from the Deutsche Bundesbank on loans extended by German banks to domestic enterprises and self-employed professionals without housing construction loans and without loans to financial institutions and the insurance industry) a simulated on-schedule repayment behaviour (per quarter). The publication is presented in the form of the thus determined new lending business variation rate against the prior-year quarter, with the variation rate expressed as the moving two-quarter average.

The forecast of new lending business is performed on the basis of the PAI model in which the GDP, the twelve-month money market rate and business investments are taken into account as the most important explanatory variables. Business investments comprise all non-public investment in equipment, industrial buildings and other facilities. They are calculated by KfW quarterly on the basis of the national accounts data from the Federal Statistical Office and, using leading financial and economic indicators, are projected into the future with the aid of a vector autoregressive model.