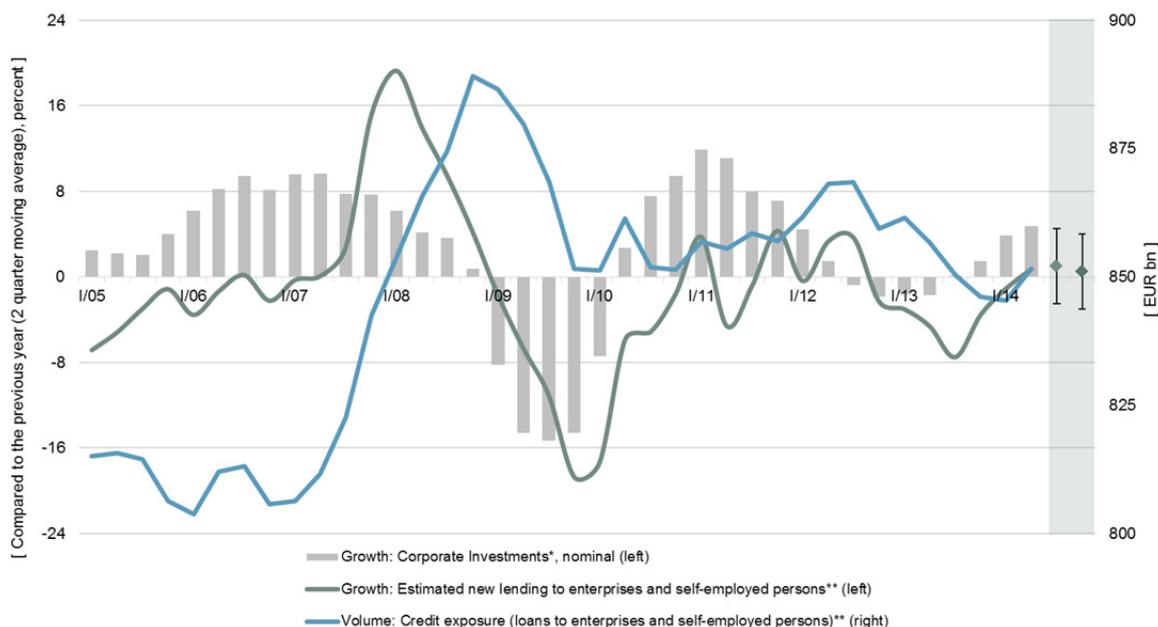


KfW Credit Market Outlook September 2014

New lending: feeble recovery

- **Estimated new lending grew 0.7% year-on-year in the second quarter of 2014.**
- **We expect hardly any additional momentum in the further course of the year.**



* non-public investments in equipment, commercial buildings and other plants

** excludes commercial building loans and loans to insurance and financial institutions (excluding MFIs)

In the second quarter of 2014, new lending by credit institutions to companies and self-employed persons as estimated by KfW has increased by 0.7% year-on-year – the first positive growth rate in one and a half years. This also reflects the good economic situation during the winter months. We expect that the increase will persist, but we do not anticipate any acceleration. The growth rate of new lending should be about 1.0% above the previous year's level in the third quarter (moving-average growth rate over two quarters).

Supply good, demand above low-point

There was a 1.6% quarter-on-quarter decrease in corporate investment in the second quarter. This, however, only eroded part of the strong growth in the first quarter. Compared to the previous year's second quarter, corporate investment was still a good 4% higher. We expect 3.7% (nominal) year-on-year growth in 2014, corresponding to 1.6% GDP growth this year. Following a long phase of declining investment and weak loan demand, companies are now slowly in want of replacement investments. As the capacity utilisation of companies is rising despite a weaker economy, some companies also need to invest in expansion.

However, this will not suffice for another material stimulation of loan demand in the third quarter, especially since company's finances are more comfortable than ever before. Banks are nonetheless anticipating another slight increase in demand. We expect the current trend to last through the winter, without any stronger rise in loan demand, though. The picture shown by sentiment indicators in recent months is too uncertain for this.

Loan supply remains excellent. The ifo credit constraint indicator stood at 17.9 % in August, meaning that less than one fifth of companies polled believe that lending is currently restrictive. Moreover, the interest rates for corporate loans are still at a low level and could drop even further as a result of the ECB measures. The banks' lending standards were unchanged in the second quarter; according to the Bank Lending Survey banks expect more lenient standards in the third quarter. Loan conditions were already eased a little in the second quarter.

End of the year: growth persists

Conclusion: New lending meets our moderate expectations. We do not anticipate any further significant recovery in the second half of the year. Although companies do have a need for replacement or even expansion investment, the sentiment is not high-spirited and far from indicating a new credit boom. Therefore, we only forecast a slight increase over the last year in 2014.

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Appendix

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 a VAR 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.