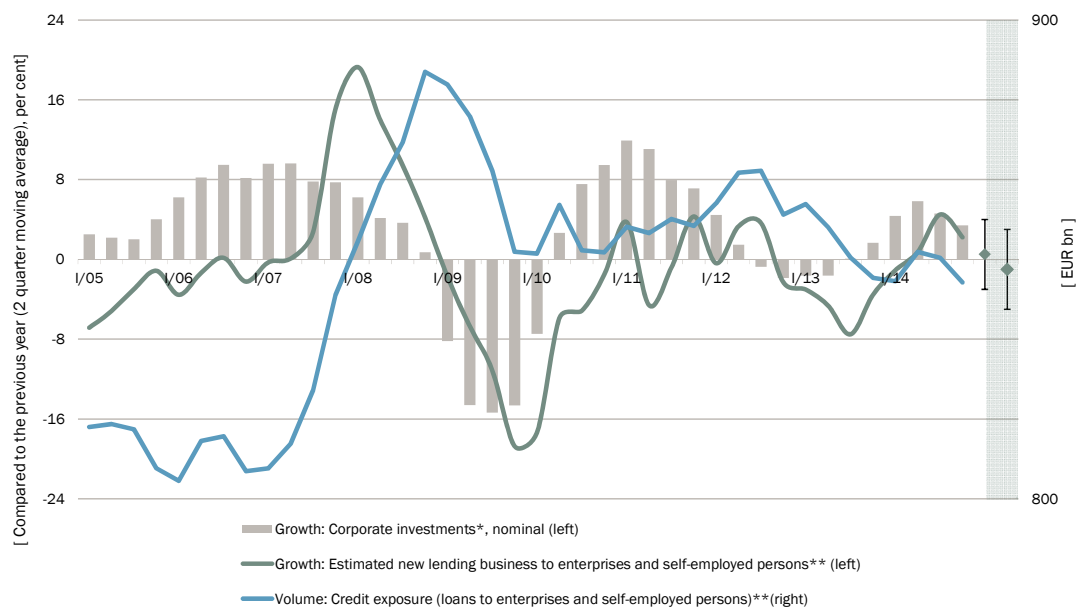


## KfW Credit Market Outlook March 2015

### No impetus for credit growth in Germany

- ***In the fourth quarter of 2014, new lending was up by 2.2% year-on-year.***
- ***Credit market activity is likely to slow down again in 2015.***



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

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

According to KfW estimates, new lending from banks to companies and the self-employed increased by 2.2% year-on-year in the fourth quarter of 2014, again bolstered by the development of long-term loans. For the first quarter, we continue to expect a slight increase of around 0.5% compared to the same quarter in the previous year (two quarter moving average). Overall, however, total new lending business in Germany is likely to weaken in 2015.

The credit supply is excellent and will remain so in the foreseeable future. Banks have sufficient equity and enough liquidity to offer loans. So the renewed slowdown in growth, which already set in in the fourth quarter of 2014, is again due to weak demand from German enterprises. We expect companies to only gradually overcome their current investment weakness. Moreover, solid profits and high savings in recent years have provided them with a financial buffer, comfortable enough to finance investment activities from their own funds. According to the ECB's Bank Lending Survey, banks are planning to ease their credit standards, which signals that they too are expecting weaker credit growth.

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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.