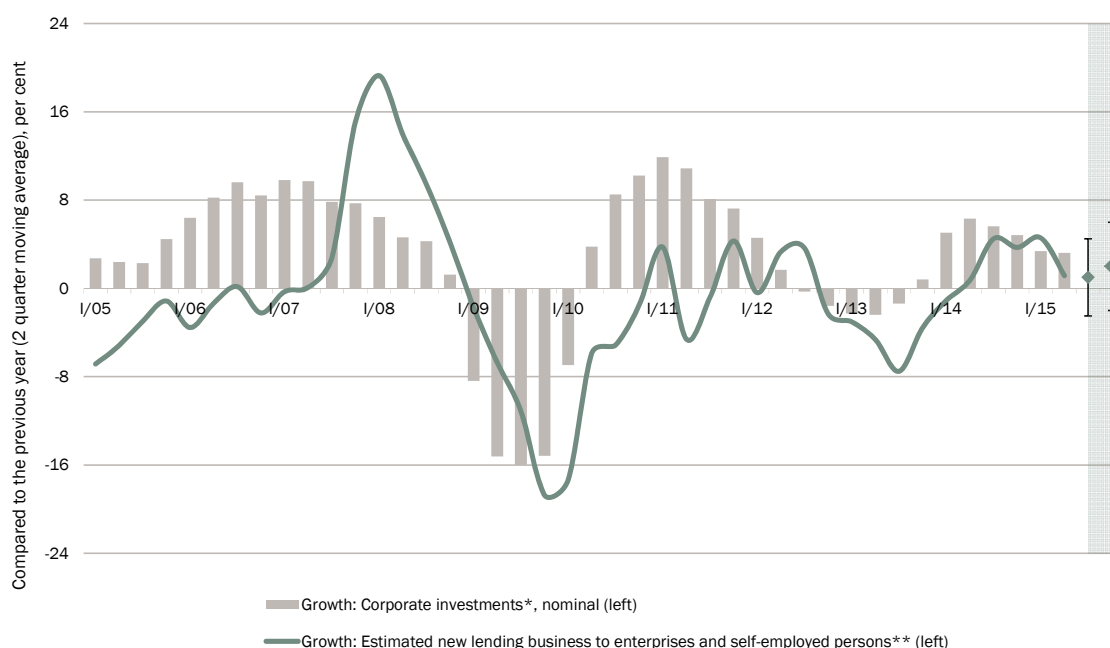


## KfW Credit Market Outlook September 2015

### Terms for bank loans remain excellent

- ***New lending business slowed in the spring. In the second quarter of 2015, it managed growth of just 1.2% compared to the previous year***
- ***General conditions remain good***
- ***Lending should regain momentum towards the end 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)

According to KfW estimates, new lending from credit institutions to companies and self-employed persons grew by 1.2% in the second quarter of 2015 compared to the same period last year. The expected slowdown has been more pronounced than expected. Uncertainty resulting from the escalation in the Greek debt crisis might have led to a certain reticence among companies. Fundamental reasons for the weakness are lacking. Therefore, we anticipate a stabilisation of the credit market and are expecting a growth of new lending in the third quarter of around 1% year-on-year (two quarter moving average).

### Competition among the banks ensures excellent financing conditions

This is not a supply side issue: according to the Ifo credit hurdle, it is becoming increasingly easier for businesses to obtain a bank loan. In August, just 15% of the companies polled reported difficulties in accessing credit. This is a new historic low. Credit terms are also con-

tinuing to improve. Whether it is margins, collateral requirements, loan amounts or maturities, banks are accommodating their credit customers (see Bank Lending Survey for Germany). This reflects the excellent negotiating position companies have. German companies have ample means of internal financing as measured by their muted investment activity. According to press reports, foreign institutes want to enhance their presence on the German credit market, which should ensure even more intense competition.

### **Conclusion and future outlook:**

Extremely low interest rates and favourable terms make bank credit an attractive financing instrument for German companies. With an upturn in investment activity in the second half of the year, demand for credit should also regain strength. The risks for this evaluation are new uncertainties that could cause entrepreneurs to exercise greater care. Alongside concerns about economic developments in China, it also includes the question of whether Europe can make progress in collectively tackling the refugee crisis.

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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.