

»»» Lending to corporates remains very strong for the time being

12 December 2018

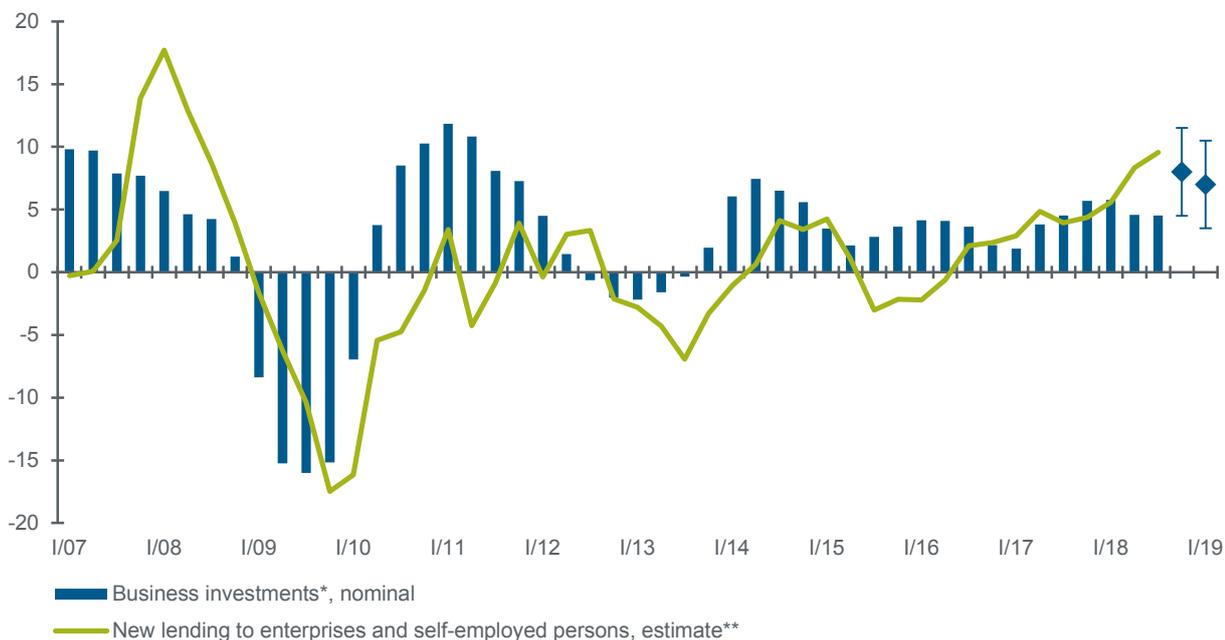
Author: Dr Sebastian Wanke, phone +49 69 7431-9784, sebastian.wanke@kfw.de

Press contact: Christine Volk, phone +49 69 7431-3867, christine.volk@kfw.de

- New lending to enterprises and self-employed persons grew at an unusually fast pace again in the third quarter, up 9.6 % year-on-year. Lending has thus accelerated again while investment momentum has remained unchanged.
- As was the case in previous quarters, short-term loans played a key role in new lending, which probably has to do with recent erratic cyclical trends.
- Looking ahead, we expect continuing high but slightly lower new lending growth rates. With the business cycle stabilising on a lower growth level than at the turn of the year 2017 to 2018, credit demand momentum for the financing of both inventories and investment should ease slightly.

Figure 1: New lending by German banks to domestic businesses and self-employed persons*

Variation on the previous year (moving two-quarter average), in per cent



* non-public investment in equipment, industrial buildings and other facilities

** excluding commercial housing loans and excluding loans to financing institutions and insurance industry

Credit momentum remains unusually strong

The long series of positive corporate lending growth rates continued in the third quarter of 2018. What is more, KfW's estimates for Germany indicate that new lending to corporates and self-employed persons (excluding residential construction and financial institutions) even increased once again on a high level. The growth rate in the third quarter increased from 8.3 to 9.6 % year-on-year (moving average over two quarters).

Cyclical slowdown is also driving lending

The high growth rate took us by surprise last time, given that the business cycle had already slowed down in the spring. But it was precisely this slowdown in economic growth that had significantly contributed to the higher momentum of lending at the time. It obviously caught many enterprises off guard, requiring them to build up stockpiles, causing additional costs.

As stock-keeping is typically just temporary, it is usually refinanced using short-term loans. During the spring as well, a particularly high increase in new lending was in fact observable in short and medium-term maturities as well. But the momentum of this trend did not pick up again in the third quarter.

These findings are consistent with the most recent Bank Lending Survey, from which we know that the motivation for lending during the summer has shifted again from stock-keeping towards financing investment. This is a positive sign for the sustainability of Germany's cyclical upturn as it signals that businesses are optimistic about the future. The hard data of the German Federal Statistical Office, however, so far only confirm part of the observations made in the Bank Lending Survey. Figure 1 shows that although the momentum of nominal corporate investment remained constant on a robust level in the past two quarters it has not picked up again.

Figure 2: Loans to enterprises and self-employed persons

Indexed development of new loan commitments



Sources: Deutsche Bundesbank, KfW Research

Upward trend has continued since 2015

If we look at the level of new lending to businesses and self-employed persons instead of growth rates, we see that the upward trend that set in in early 2015 after the barren spell of many years remains intact. The slightly lower increase at the current margin should be interpreted as a welcome normalisation on a level of new lending that can now be regarded as sound again (see Figure 2).

Outlook: Cyclical stabilisation should slow momentum of new lending from two directions

A major determinant of the development of new lending to businesses and self-employed persons is the growth of business investment. This, for its part, depends on the general economic trend. Germany's upswing has shifted down a gear this year. Recently, special factors have additionally weighed on GDP growth. The most significant one was the production bottlenecks in the automotive industry in summer, which had run into serious delays involving type approvals in accordance with the new WLTP procedure.

We expect the negative impacts of this crucial temporary effect to reverse already in the final quarter of 2018 and the underlying cyclical trend to dominate again afterwards. In short, we expect the business cycle to stabilise but on a lower level than at the turn of the year 2017 to 2018, when we were facing extraordinarily strong momentum.

Such stabilisation means two things: First, the demand for short-term loans to finance stocks is likely to decline and second, the growth of loans for investment purposes, that is, for longer term loans, should decrease slightly. The combination of both is therefore likely to lead to a significant drop in the dynamic of new lending but nevertheless on an above-average level based on the last ten years as a benchmark. ■

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 VAR model in which 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.