

PRESS RELEASE

Investments in the future hold great potential for the leasing industry

- In 2021 leasing companies financed 72 billion euro's worth of future-oriented investments in Germany (+3.4 percent)
- Leasing industry finances more than a quarter of all investments in equipment
- Economy back on course for growth despite uncertain outlook
- Leasing has key role to play in transformation of the economy

Berlin, 2nd March 2022 – Last year leasing companies in Germany financed investments in machinery, vehicles, IT equipment, real estate and so-called other assets to the tune of 72 billion euro. This figure represents a year-on-year growth rate of 3.4 percent. “After the initial shock of COVID-19 in 2020, the economy staged something of a recovery in 2021,” explained Kai Ostermann, President of the Bundesverband Deutscher Leasing-Unternehmen (German Leasing Association, or BDL in short) at the Association’s latest press briefing. In the first nine months of 2021, the volume of new business acquired by leasing companies grew by a good 7 percent, though in the fourth quarter, supply shortages and the lengthening of producers’ delivery times somewhat dampened the continuing healthy demand for leasing services. “The summer upswing lost some of its momentum,” said Ostermann. However, he added that the growth recorded was a healthy sign of ongoing economic recovery.

Ambivalent outlook

Given recent developments in Ukraine, the BDL President is ambivalent about the prospects for the current year: “Some sectors, such as the construction industry, are seeing steady growth. Corona restrictions are being lifted, and delivery and supply problems may soon start to recede, which would enable companies to work down order backlogs. All of this should speed up the process of economic transformation.” Demand for leasing services, noted Ostermann, is also strong. However, rising inflation and interest rates, and, above all, a military escalation in Ukraine (plus all the sanctions this might trigger) could impact economic activity in unpredictable ways.

Nevertheless, from the point of view of the leasing industry, the basic outlook for future years is encouraging. Germany, like other countries, is faced with major economic challenges. The 2020s will be a decade of investment: not only in order to achieve an energy turnaround and digitalization goals, but also to cope with demographic change. “Harnessing new technologies and sustainable assets is the key to managing a process of transformation that is already under way,” remarked Ostermann. “With their expertise in investment objects and economic sectors, leasing companies are predestined to provide the lion’s share of the financing these investment projects will require.”

Leasing sector is enabling the *German Mittelstand* to transform itself

The leasing sector, which in 2022 celebrates the 60th anniversary of its debut in the German marketplace, has for a long time been a provider of financing for renewable energy plants such as solar PV farms and wind parks. Leasing companies are also helping to bring electric mobility and bicycle power to German streets. And they are financing the introduction – and popularizing – of energy-efficient production machinery and modern, safe, innovative technologies in all kinds of economic sectors – e.g. in

service companies, skilled trades businesses, construction and industrial companies, hospitals, medical practices and the care-provision sector.

More than a quarter of all German investment in equipment (26.7 percent in 2021) is financed by leasing companies. And besides providing straightforward investment financing, these companies offer a wide range of service products, as well as consultative support in connection with the drawing up of individualized sustainability reports and the accessing of economic transformation funding. Ostermann is emphatic: “The leasing industry is playing a vital role in the successful transformation of the German economy”.

“But meeting the challenges of the transformation process will require a concerted effort from politicians, the business world, scientists and society at large,” insisted Dr. Claudia Conen, head of the BDL’s Management Board. She highlighted the opportunities that exist for the German economy: “Even if it is now showing its age, our Renewable Energies Act was, in its time, a boon for exporters. If we as a national economy press on with the transformation process, there is every chance that German companies will establish themselves as leaders in their respective markets, and this will secure our prosperity.” But she added that businesses needed a dependable and transparent regulatory framework, a robust mix of financing tools, more generous and better targeted support for research and innovation, as well as operating conditions that allowed them to plan with certainty.

Creating investment incentives and up-to-date support programs

As well as speeding up approval procedures and cutting red tape, incentivizing investments in sustainability would seem to be the way forward. “Publicly funded subsidy programs can help investors get green projects up and running in the marketplace, while leasing allows companies to switch over quickly to new technologies,” commented Ostermann. “The innovation premium to promote electric cars shows just how successfully leasing can complement funding programs. Which is why greater attention should be paid to leasing in the formulation of funding policy.”

Instead, policymakers tend to adhere to the principle of ownership rather than the principle of use and usefulness when they are drawing up funding programs. “That misses the point of entrepreneurial activity. For most companies, it is the use and usefulness of an asset that matters, and not who owns it. This makes perfect sense when sustainability is part of the consideration,” continued Dr. Conen. She believes the conditions drawn up for participation in funding programs should reflect this. “We need targeted, calculable incentives that are not designed to favour one form of financing over another, and that will revitalize investment activity in Germany.”

Cutting red tape and achieving a regulatory environment that differentiates better between levels of risk

Ostermann sees excessive bureaucracy and an unduly harsh regulatory regime as further impediments that are preventing the leasing industry from unleashing its full potential as a driver of investment. “Leasing companies should not be measured by the same yardstick as banks. They are less complex and are exposed to much lower levels of risk. The concept of supervision enshrined in the current regulatory regime fails to take account of this,” reflected the BDI President. All the main regulatory initiatives are designed primarily with the activities of the major internationally active banks in mind. But these supervisory standards are then also applied willy-nilly to the medium-sized players active in the leasing industry. “We need proportionality and a greater degree of differentiation. Ideally, there should be a regulatory framework specifically for the leasing industry.”



How the leasing-object categories performed

In 2021 demand for the various types of leasable assets varied. Virtually every leasing segment was affected by supply-chain disruptions. **Vehicle Leasing**, i.e. the leasing of passenger cars and commercial vehicles, usually accounts for most of the value of the leasing market, and this was the case in 2021 (72 percent). While new car-leasing business was affected by supply bottlenecks and increased by just 2 percent, new commercial-vehicle leasing business was up by 9 percent. This was because more vehicles were available for leasing, and demand in the booming transport sector was high.

In 2021 there was an overall year-on-year decrease of 10 percent in the number of new car registrations. However, leasing last year accounted for a higher proportion of new car registrations (40.9 percent) than in the preceding year (37.6 percent). Two out of every five vehicles newly registered in Germany are leased," commented Ostermann. "The ratio for company vehicles taken on their own is most likely even higher still."

Machinery, the second largest leasing segment, recorded an increase in new business of 3 percent. "Here, we may see some catch-up growth in the current year. On the other hand, the sanctions being imposed on Russia might make companies in Germany and elsewhere put their investment plans on hold, at least in the short term", commented the BDL President.

There was negative growth (-3 percent) in the **Office Machines, Computers, Server and IT Equipment** segment; it too had to contend with shortages of intermediate products – in particular computer chips.

For the first time, the report on developments in the leasing market was drawn up by the Cologne-based German Economic Institute (IW). The figures presented in the IW forecast are a projection for the entire leasing sector based on the findings of a partial survey conducted by the BDL.



<i>Forecast for the Leasing Market in 2021</i>	
Leasing and hire purchase	72.0 billion euro (+3.4 %)
- thereof from hire purchase	9.0 billion euro (+10.2 %)
- thereof from new leasing business	63.0 billion euro (+2.5 %)
Equipment leasing	60.9 billion euro (+0.6 %)
Real-estate leasing	2.1 billion euro (+132 %)
Equipment leasing penetration rate	26.7 %
<i>Segments (Leasing + Hire Purchase)</i>	<i>Year-on-Year Comparison with 2020</i>
Passenger cars	2 %
Commercial vehicles	9 %
Production machinery	3 %
Office machines, IT	-3 %
Medical technology	3 %
Other equipment	8 %
Aircraft, watercraft and railed vehicles	-28 %
Source:	
German Economic Institute (IW), BDL	