PRESS RELEASE

Business location Germany needs investment push

- **BDL calls for decision to invest in the future**
- **Leasing essential factor to sustainable and digital transformation**
- **Industry survey indicates strong demand for investment in the energy turnaround**
- **Leasing industry provides financing for 72.21 billion euro's worth of investment in 2022 (+4.0 percent)**

Berlin, 2nd March 2023 – In 2022, leasing companies in Germany financed investment in machinery, vehicles, IT equipment, real estate and other assets to the tune of 72.21 billion euro. This projected volume of new business, as assessed by the German Economic Institute in Cologne, corresponds to a rate of growth of 4 percent. But in spite of this healthy increase, the leasing industry sees the mounting investment deficit in the economy as a cause for concern. Germany has found itself beset by extraordinary difficulties for over three years: first because of the corona pandemic, and then because of the war of aggression Russia is waging against Ukraine. Supply-chain difficulties, rocketing energy prices and the spiralling costs of raw materials have taken their toll on companies' liquidity, and sapped their reserves. Investment plans have been put on ice. "And all this at a time when the German economy needs a hefty boost in investment spending to meet the challenges posed by the energy turnaround, digitalization, and the need to maintain the country's competitiveness," said Kai Ostermann, President of the German Leasing Association (BDL).

Shortfall in investment is jeopardizing competitiveness

Particularly with digitalization, the time available to keep up with the relentless pace of development is becoming ever shorter: "Failure to invest today inevitably means having to make a much greater effort just a few years down the line in order to avoid falling hopelessly behind." The need to invest in modern, long-lasting business assets is enormous; otherwise, the digital and sustainable transformation will not gain any momentum. According to a KfW study, extra annual investment of some 70 billion euro will be required if Germany is to reach its climate neutrality targets by (at the latest) the middle of the century. It further estimates that 100 to 150 billion euro per annum will be needed to finance digitalization. "With their expertise in investment objects and economic sectors, leasing companies seem predestined to finance a significant proportion of their customers' investments," explained Ostermann.

BDL survey of its members' views indicates strong demand for investment in energy-turnaround measures

The leasing industry has long been financing photovoltaic and biomass power plants, heat pumps, as well as air-conditioning, refrigeration and ventilation technology. It has been bringing bicycles and e-mobility (including the requisite charging infrastructures) onto the streets, and introducing and rolling out energy-efficient production machinery. It also finances modern, safe and innovative technologies for service providers, the skilled-trades sector, construction and business companies, farmers and medical practices. Last year, new business acquired through the leasing of renewable-energy systems increased by 82 percent. "At present, our customers very much want to acquire sustainable assets, and to achieve energy efficiency and energy self-sufficiency," was Ostermann's take on the BDL's survey.

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Consultation on sustainable business investment

Besides providing financing, leasing companies offer a wide range of services in connection with the use of leased business assets. Increasingly, their customers – medium-sized enterprises in the main – are seeking their advice on sustainability: for example, on choosing investment objects, or on how to tap into funding programmes. “The leasing industry has a key role to play in the successful transformation of the German economy,” insisted Ostermann. “But as things are, we have to keep our hand poised over the handbrake. We could offer our customers even greater support if obstacles to investment were removed.” He is convinced that stifling bureaucracy, complex and protracted approval procedures, and uncertainty surrounding the supply of energy are dampening investment intentions.

“Double whammy” of forward-looking investment incentives and well designed funding programmes

Companies will need planning security, a reliable and transparent regulatory framework, a broad range of financing options, and a targeted array of development aids if they are to contribute to the new “Speed Setting Germany” aspiration with their private investments. Just to keep on track to reach its renewable-energy targets will involve a tripling of Germany’s wind-energy output and a doubling of its photovoltaic-systems capacity by 2030. “Time is not on our side,” said Dr. Claudia Conen, head of the BDL’s Management Board. “For example, obtaining approvals for new wind turbines can take up to six years. “It’s up to the politicians to map out the way forward towards a secure future. Where’s the political ‘double whammy’ we need to ensure that our future investment is in the right direction, and to reinforce Germany’s standing as a business location?”

Speeding up bureaucratic processes and creating incentives for investing in sustainability are two obvious ways of achieving progress. “Targeted public funding programmes that don’t discriminate against specific forms of financing would accelerate transformation,” explained Conen. If investment incentives are to achieve their full potential, state funding programmes and private investment activity must be co-ordinated with each other in a way that takes account of practical realities.

In the BDL survey, the Association’s member companies identified the difficulties leasing parties experience in accessing funding programmes as the greatest obstacle to their making an investment. For politicians often see the principal of ownership rather than the principal of utilization as definitive when they draw up these programmes. “But that misses the point of entrepreneurial decision-making. For most companies, how an asset is to be used is the prime consideration, and not how an acquired and fully owned asset is financed. And in terms of achieving sustainability, that makes perfect sense. This must be reflected in funding- programme eligibility rules. Policy-makers must therefore take greater account of leasing in their calculations.

Developments within the various leasing-asset classes

In the past year, the dynamics of development with the different leasing-asset classes varied. The largest proportion of the leasing market is accounted for by **Passenger-Car Leasing**, and new business in this segment was up by 2 percent. This growth was attributable to some of the effects of the current high rate of inflation, and to the shortage of available vehicles. Unsurprisingly, price reductions offered by carmakers were something of a rarity.

While the volume of new car-leasing business increased, and while there was moderate growth in new-vehicle registrations overall (up 1 percent), the number of leasing agreements concluded fell by 5.5 percent. The proportion of all newly registered passenger cars accounted for by leasing dropped to 45.6 percent. In 2021, because of the peculiar market situation prevailing, leased cars accounted for a record 48.8 percent of the market for new cars.

"Because their current vehicles have such low mileages, and in view of the waiting times for new vehicles, many companies have extended their existing leasing agreements," explained Ostermann. According to the German Vehicle Registration Office (KBA), the number of new vehicles registered by commercial owners fell by approx. 1 percent, while the number of new vehicles registered by private owners increased by around 5 percent. Even so, companies remain by far the largest leased-vehicle customer group.

"On top of that, SMEs and medium-sized companies are hesitating to invest in their vehicle fleets on account of spiralling prices, preferring instead to prioritize investment in necessary replacements, or in energy efficiency".

There was strong growth in new business obtained through the leasing of **Bicycles and E-scooters**. This asset group last year grew by 32 percent, which was far above the average rate of growth. There was also a pronounced increase in the leasing of **Aircraft, Water Craft and Rail Vehicles**: this asset group grew by 31 percent. "Leasing companies are financing electrically powered buses, electric cars, bicycles, climate-friendly trams, works trains and goods trains; all this shows the impact the leasing industry is having on the mobility revolution," commented the BDL President.

The **IT Equipment** segment shone with a rate of growth of 14 percent after some years of stagnation or even decline. "Many companies have recognized the urgency of the need to press on with digitalization, and are now investing," explained Ostermann. "Basically, there's no alternative to leasing when it comes to financing IT equipment. Nothing else is as effective, and some approaches can even be seen as an investment in obsolescence".