

BKS

Bundesvereinigung
Kreditkauf und Servicing e.V.

 **Frankfurt School**
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German Excellence. Global Relevance.

NPL-Barometer

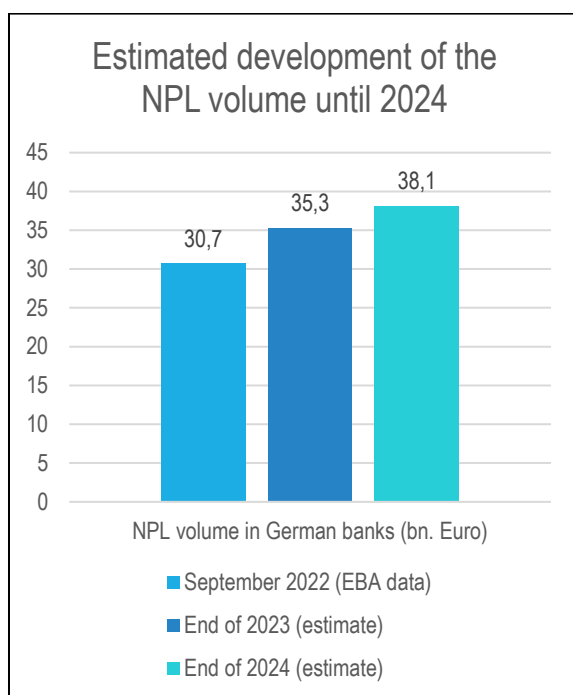
December 2022 / January 2023



NPL-Barometer December 2022

In the December survey of the NPL Barometer, which is published by the Bundesvereinigung Kreditkauf und Servicing (Federal Association for Loan Purchase and Servicing) and the Frankfurt School of Finance & Management, the risk managers in the leading German credit institutions were asked for their assessment of the German market for non-performing loans (NPLs). They expect an increase in non-performing loan portfolios in 2023 - albeit at a lower level than forecasted in the survey of summer 2022.

On average, an increase to 35.3 billion euros is expected by the end of 2023 - an increase of 15 percent compared to 30.7 billion euros reported by the EBA for September 2022. In the summer, the risk managers still estimated an increase to 37.6 billion euros. This is now expected for the end of 2024 - with an average of 38.1 billion euros. An increase of 24 per cent compared to September 2022.



Methodology: The index values of the NPL Barometer are always between -1 (declining NPL market) and +1 (growing NPL market) and are surveyed for the past and the coming twelve months. The overall climate is calculated from these two values.

For example, when asked about the prices of NPLs, one can answer "have risen" (-1), "have remained the same" (0) and "have fallen" (+1). With a view to the significance of the answers for the NPL market (from the buyer's perspective), these are coded with the values in brackets. The percentage results can then be offset (netted) against each other. For example, if 40% answer that prices will rise, 30% that they will stay the same and 30% that they will fall, the total value is $(-1 \cdot 40) + (0 \cdot 30) + (1 \cdot 30) = -10$. The balances are then calculated for each question and can then be easily compared with each other and over time.

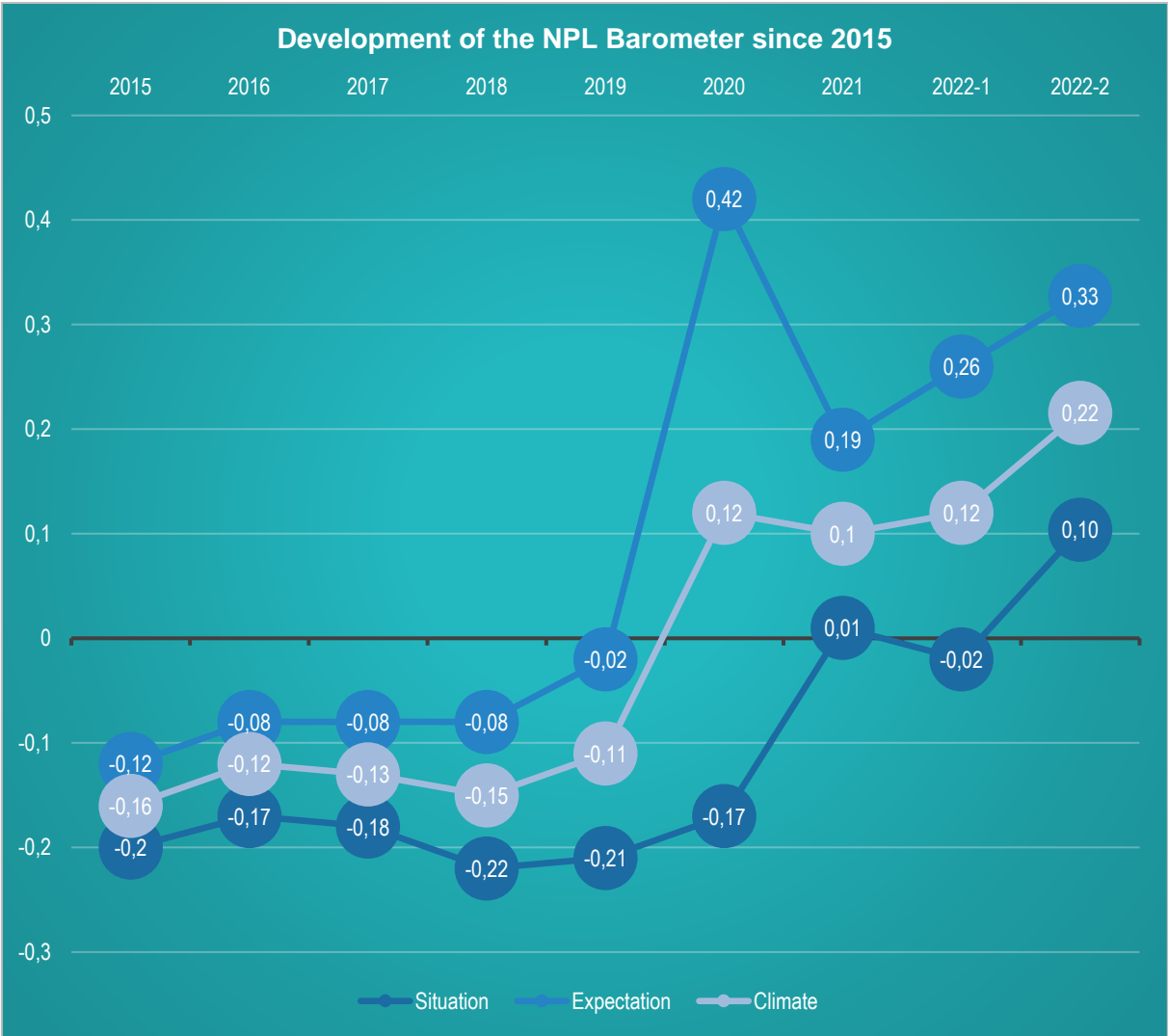
Source: [EBA-Risk Dashboard](#), NPL-Barometer

At 0.22, **the overall climate of the NPL Barometer climbs to its highest value** since its introduction in 2015. Although the expected value for the next twelve months of 0.33 is below the peak value reached at the outbreak of the corona pandemic, the position value for the past twelve months was still -0.17 then and is now also at its highest level since 2015 with 0.10.

In the **situation assessment** regarding the past twelve months, significant developments towards a more active **NPL market** can be seen. In the summer of 2022, only three percent of respondents saw an increase in consumer NPL portfolios, 14 percent a decrease and 52 percent no change. By December 2022, however, 21 per cent of respondents could already see an increase in this area. 32 percent saw no change and 18 percent saw a decrease. There was also an increase in the share of sold NPLs and external servicing. In the summer, only ten percent saw an increase in consumer credit. In December, it was already 21 percent. In addition, 15 percent saw a decline in sold and outsourced receivables in the summer. In December, this value dropped to zero. All in all, the value for the assessment of the situation rose from **-0.02 to 0.10 - the highest value** since the start of the NPL Barometer in 2015.

The **expected value** for the coming twelve months also shows an upward trend - i.e., increased expected market activity. It rises **from 0.26 to 0.33 and is thus the second highest** since the survey. It is surpassed only by the expected value during the corona pandemic, which climbed to 0.42 points. Specifically, 58 per cent believe that NPL holdings will increase in the consumer loan sector, 21 per cent in the residential sector, 46 per cent in the CRE sector and 49 per cent in the SME sector. As far as the share of sold and outsourced receivables is concerned, almost no one expects a decline. Depending on the asset class, between 18 and 36 percent expect an increase in sales and external servicings.

Sources: [EBA-RiskDashboard](#), [SCHUFA-Kreditkompass](#), NPL-Barometer



Source: NPL-Barometer

With regard to the **NPL ratios**, the risk managers of the credit institutions are relatively cautious in December. In the consumer segment, they expect an increase from 2.1 percent to 2.7 percent by the end of 2023 and 3.2 percent by the end of 2024. And in the RRE segment, the NPL ratio is also expected to grow steadily to up to 1.9 percent by the end of 2024. However, in the area of CRE and SME loans, of all things, the expected values for 2023 are below the EBA's September value. In September, these had risen by 0.3 percentage points to 2.4 and 2.7 per cent respectively compared to June, reflecting the tense situation in the German economy. In the summer survey, respondents had assumed NPL ratios of 2.8 and 3.0 per cent for CRE and SME receivables by the end of 2022 alone, and even expected 3.1 and 3.7 per cent for these asset classes by the end of 2023. In this respect, expectations

have been lowered considerably, as now only 2.2 and 2.4 percent are expected by the end of 2023. This is certainly also influenced by the current information from the Federal Statistical Office on GDP growth in 2022 at around 1.9 per cent as well as by the fall in international gas prices to "pre-war" levels.

Estimated NPL ratios for the years 2022 and 2023 (average of responses)			
	September 2022 (EBA/SCHUFA)	End of 2023 (Estimate)	End of 2024 (Estimate)
Consumers	2,1 %	2,7 %	3,2 %
RRE	0,7 %	1,4 %	1,9 %
CRE	2,4 %	2,2 %	2,5 %
SME	2,7 %	2,4 %	3,0 %

Sources: [EBA-RiskDashboard](#), [SCHUFA-Kreditkompass](#), NPL-Barometer

In summary, the current edition of the NPL Barometer paints an ambivalent picture of the German credit market. On the one hand, increasingly rising NPL portfolios and NPL market activity have been registered in recent months, on the other hand, the respondents continue to be cautious about forecasting NPL volumes and NPL ratios in the next two years. It could be in their minds that the situation during the Corona crisis ended smoothly due to state aid measures. It is possible that the risk managers in the banks are hoping for a similar outcome, which would be made possible by the gas price brake, first signs of a general calming of the market or stabilising supply chains and further state aid for the economy and consumers.

Statements from the BKS Advisory Board

„NPLs will increase significantly in Germany in 2023 and then again in 2024, be it 20, 15 or 10 percent. This will also mean an increase in NPL expertise with servicing, outsourcing and transactions, which has been established for years. It is a good thing that we have developed fair and transparent standards for this.“

Prof. Dr. Christoph Schalast, Professor of Mergers & Acquisitions, Business Law and European Law, Frankfurt School of Finance & Management, Lawyer, Notary, Managing Partner Schalast & Partner Attorneys at Law

"The times in which one could watch (exaggeratedly formulated) how property prices rose continuously simply due to the circumstance of 'too much demand versus too little supply' are likely to be over for the time being, and not only in the commercial sector. This means that longer holding periods can be expected, especially in project development. This also means that in conurbations, unrealistic price expectations on the part of some sellers are currently coming up against a group of buyers who are acting more cautiously because of higher interest rates."

Markus Thanner, Head of Credit Risk Management, Bankhaus Bauer

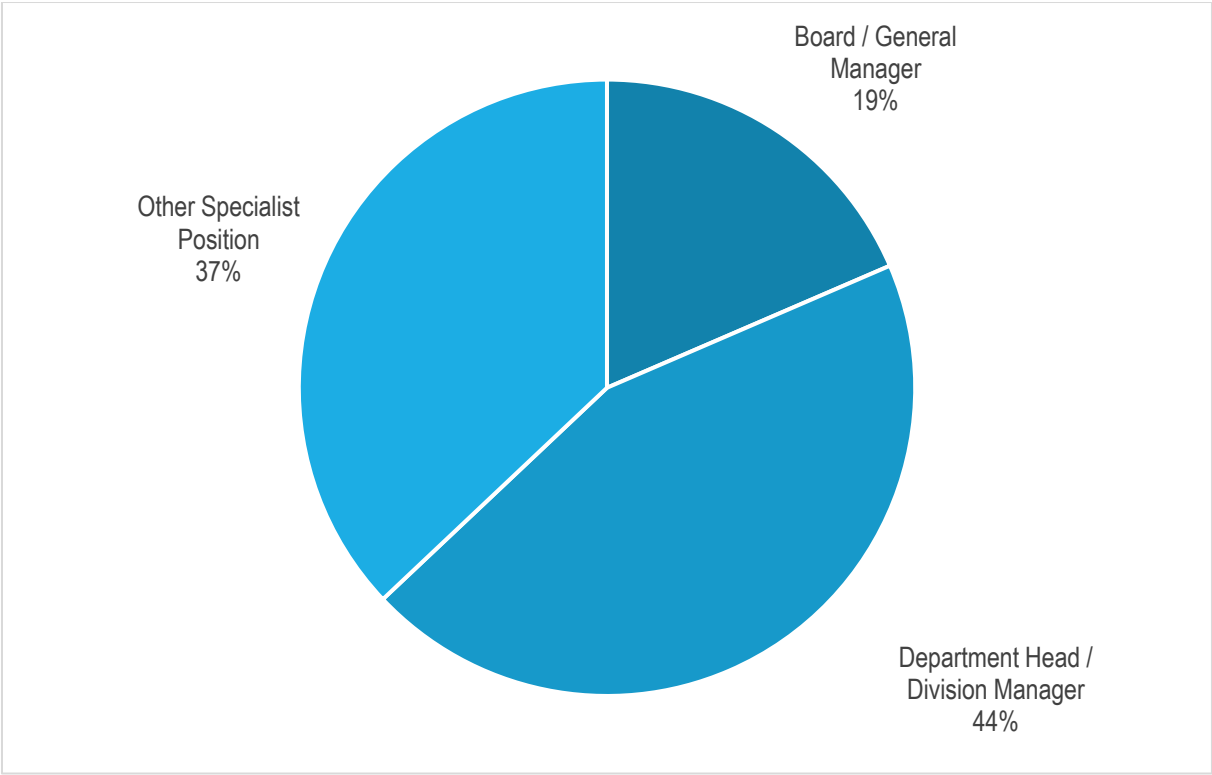
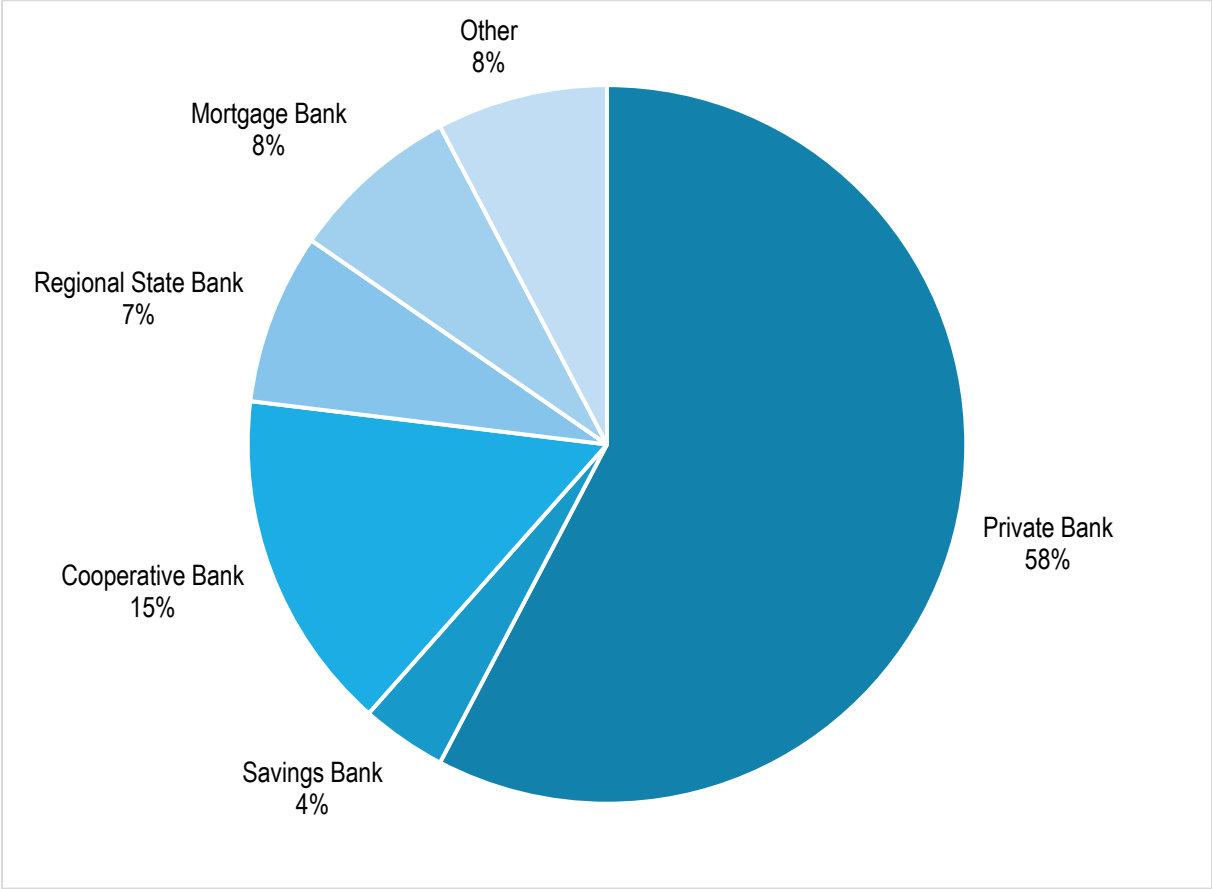
„The development of the NPL market in the past two years is reflected in the expectations of market participants. Although an increase in market activity is expected, the expectations regarding the development of NPL ratios are more restrained than in the past. For 2023, a decline in volumes is even expected in some cases. It remains to be seen whether the current government support measures will actually be as effective as in the Corona crisis and whether the crisis factors currently burdening the economy will again be countered to the same extent.“

Torsten Kohl, Head of Division Problem Loans Management, Mainzer Volksbank eG

„The concern and uncertainty among people are clearly noticeable. We see this especially in the real estate sector. In order to pay off residual debts and create liquidity, attempts are also being made to make provisions by means of real estate annuities and to reduce the debt burden in this way.“

Janine Hardi, lawyer, founder, RentePlusImmobilie

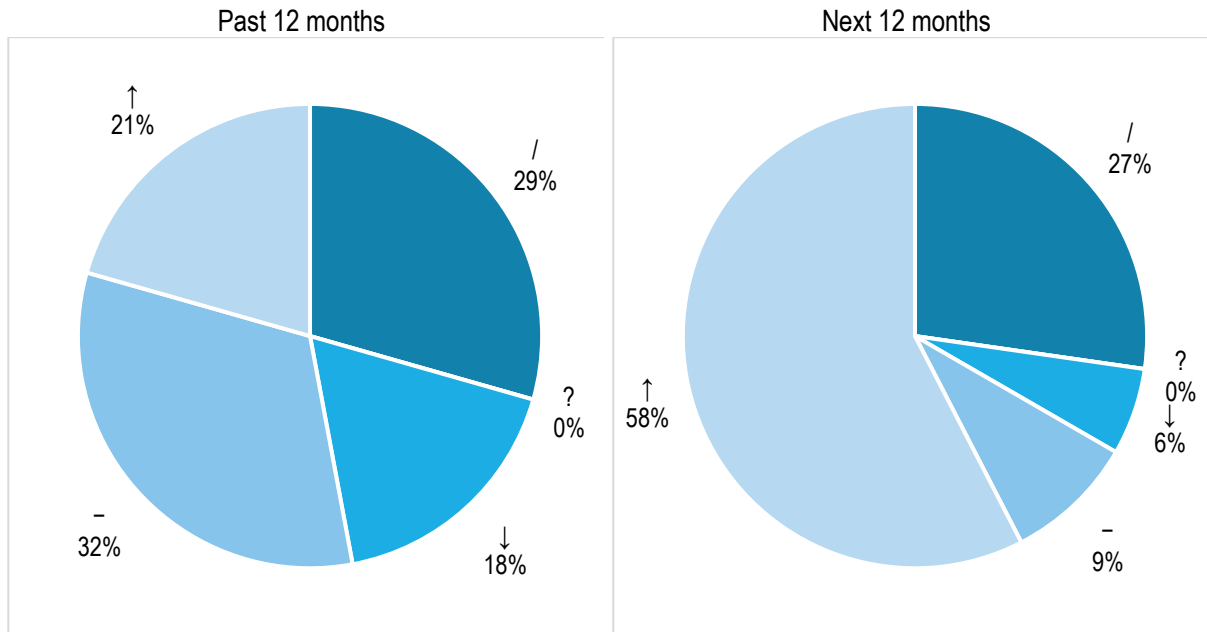
Participants structure



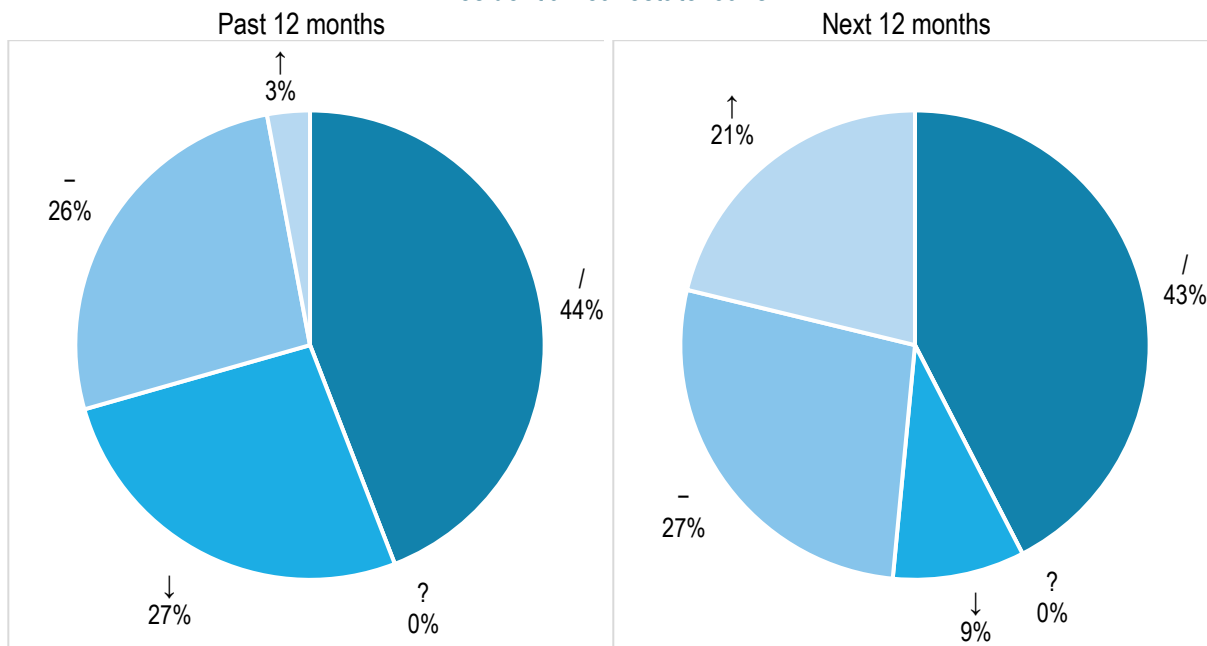
Annex

NPL inventories

Consumer loans



Residential real estate loans



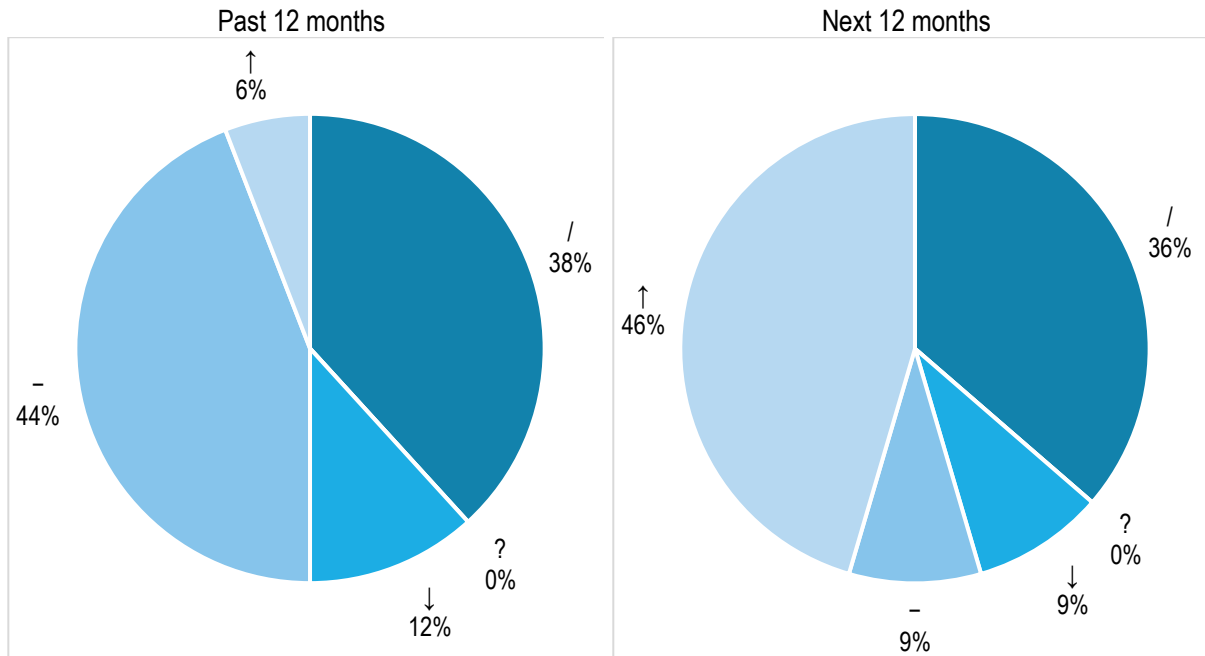
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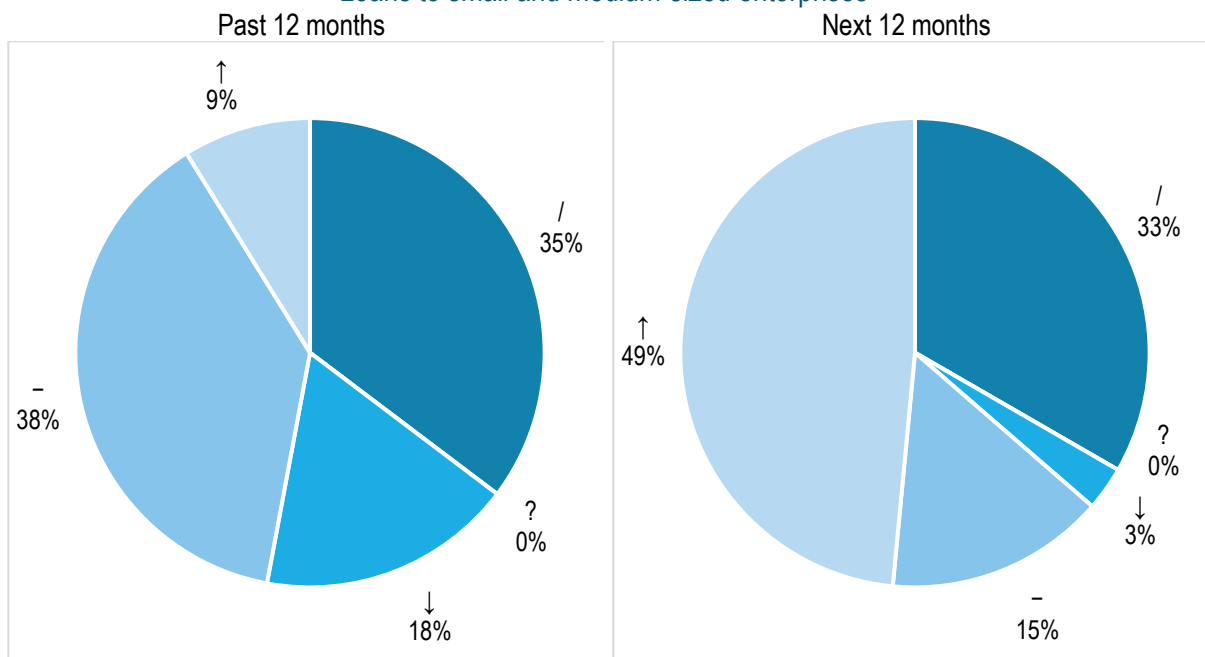
Annex

NPL inventories

Commercial real estate loans



Loans to small and medium-sized enterprises

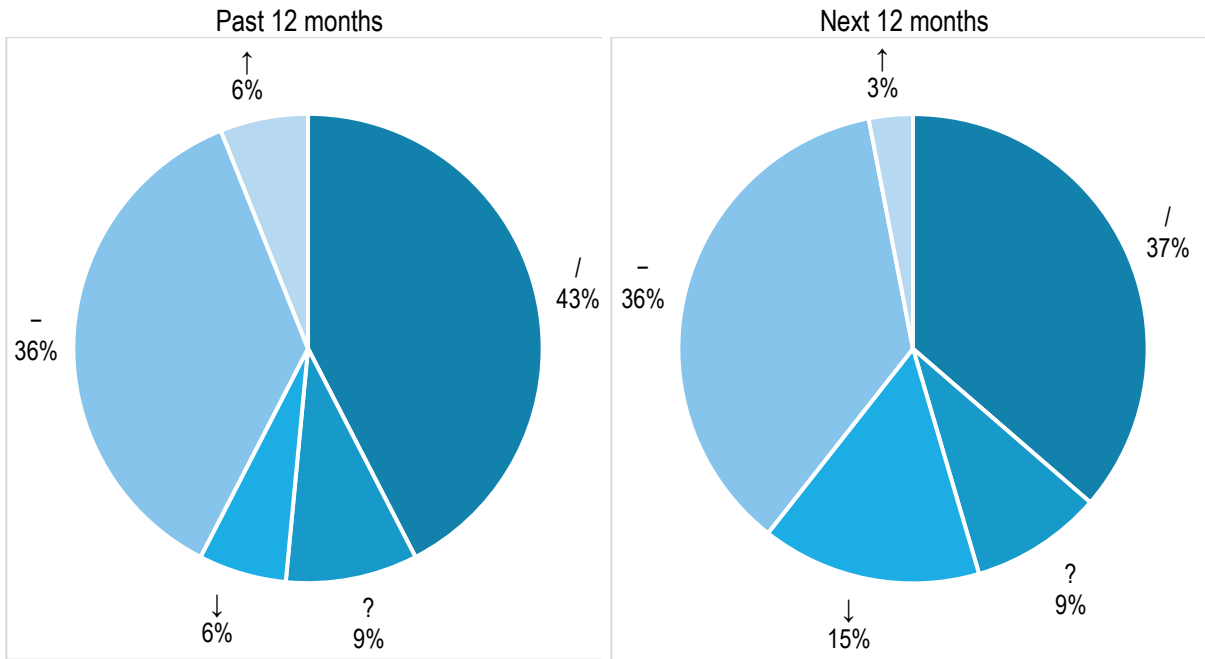


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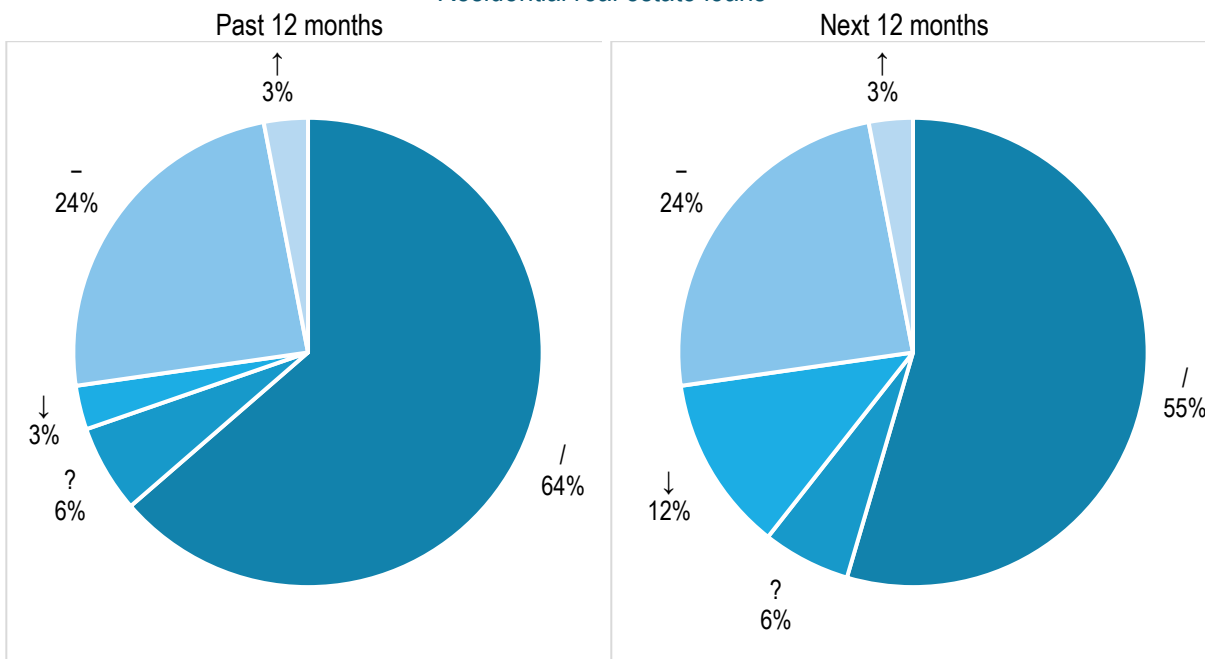
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NPL sale prices

Consumer loans



Residential real estate loans

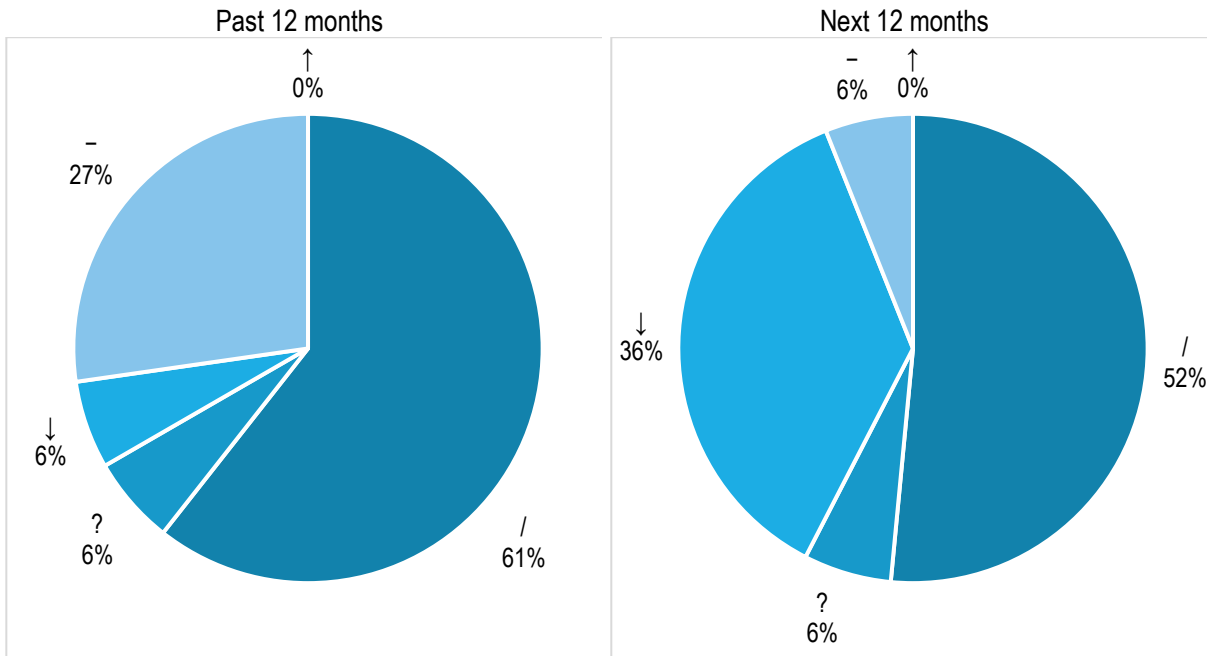


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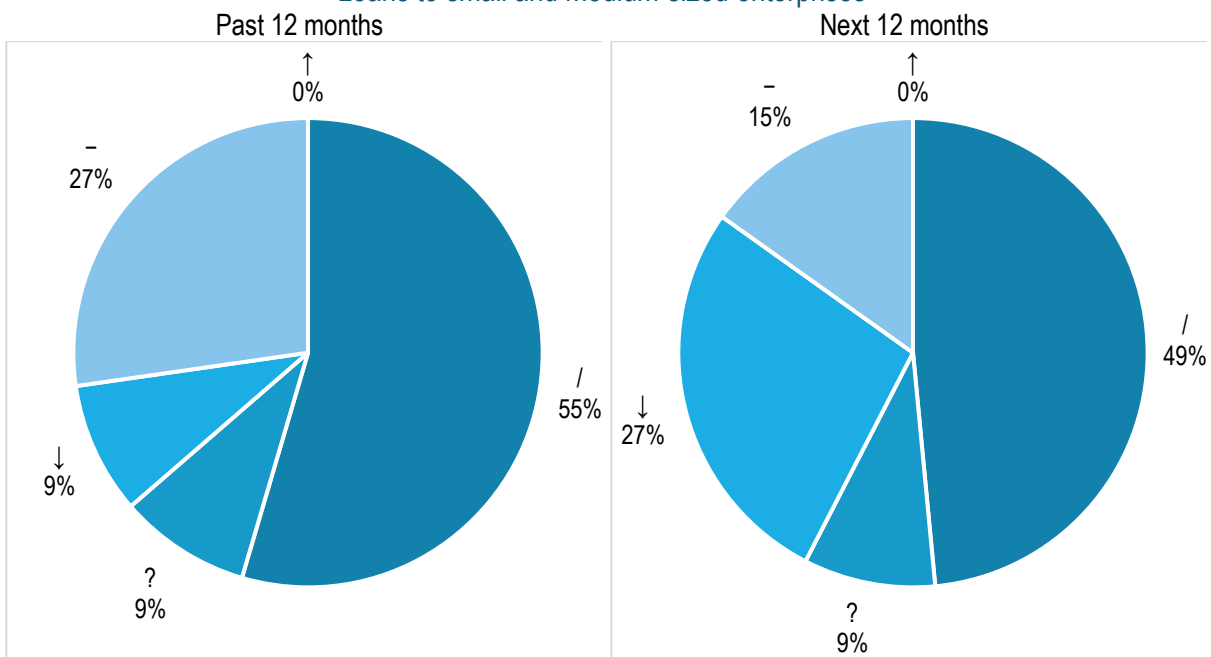
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NPL sale prices

Commercial real estate loans



Loans to small and medium-sized enterprises

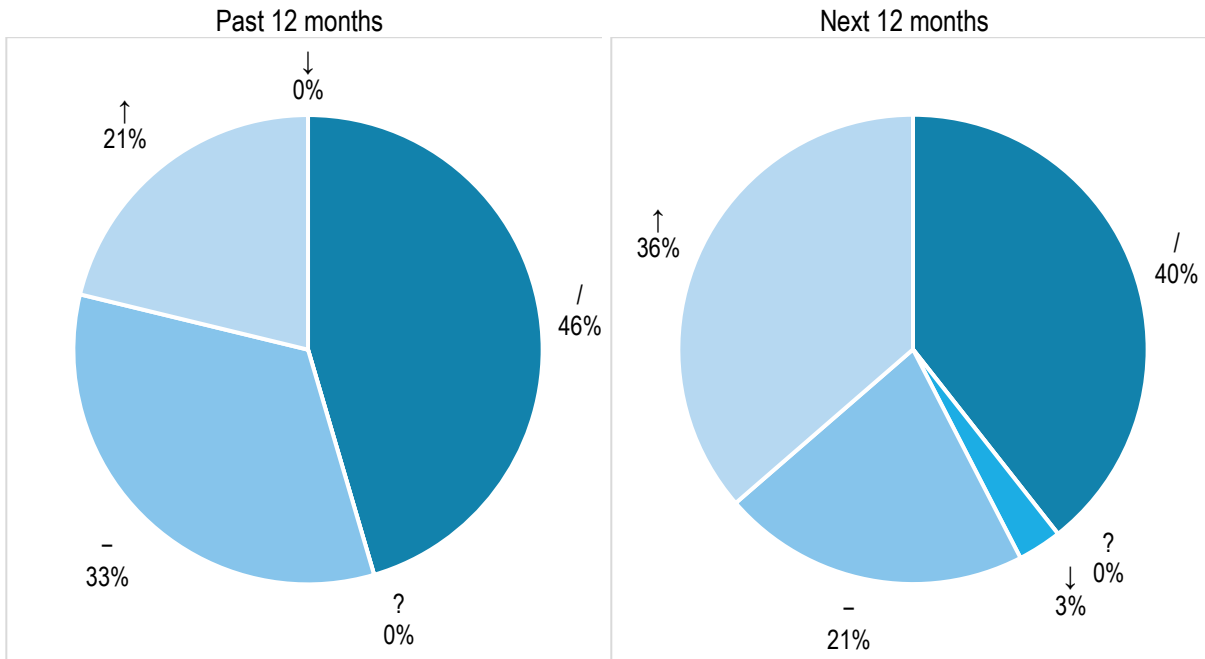


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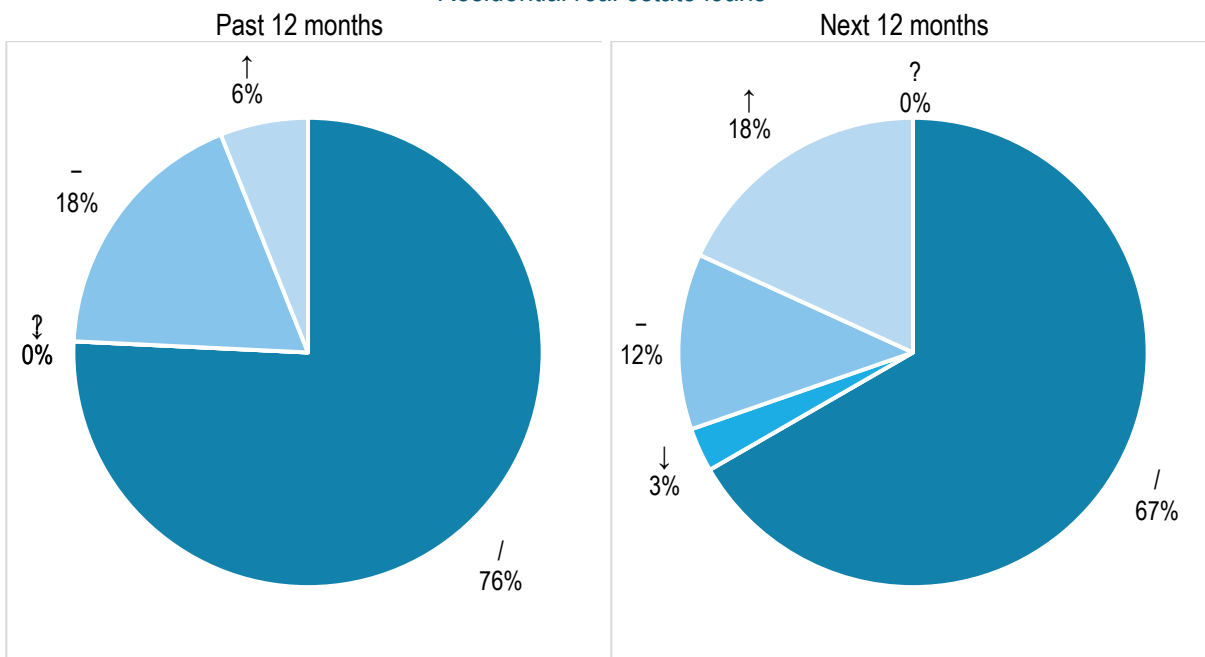
Annex

Share of sales and external servicing

Consumer loans



Residential real estate loans

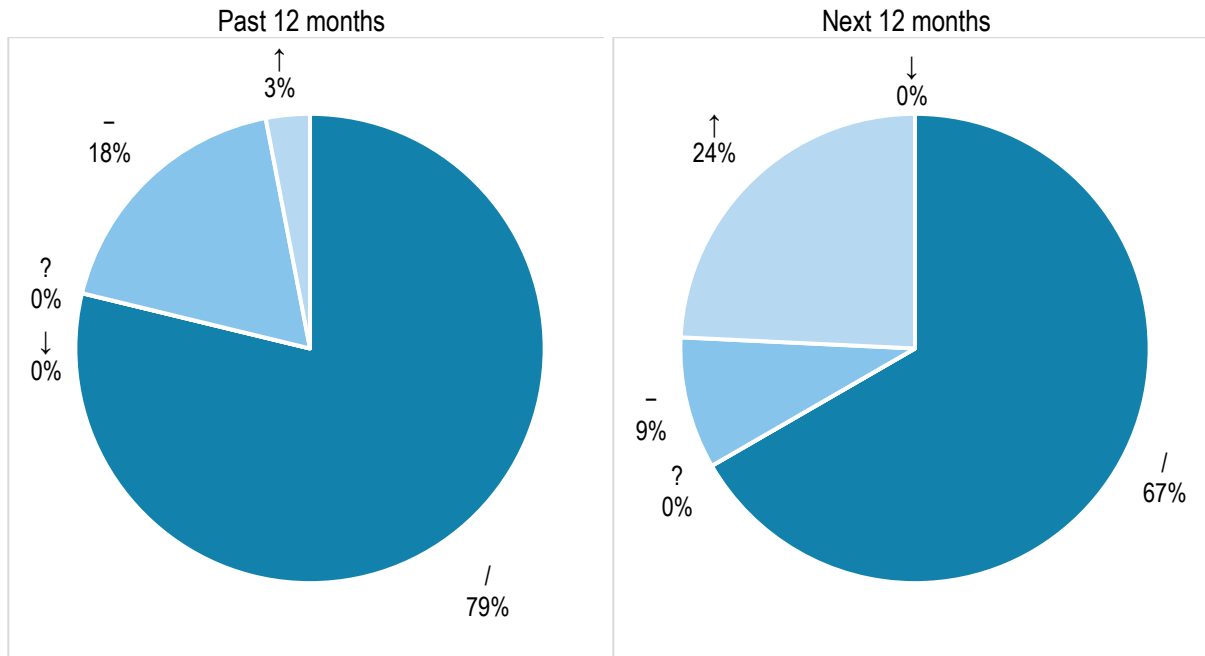


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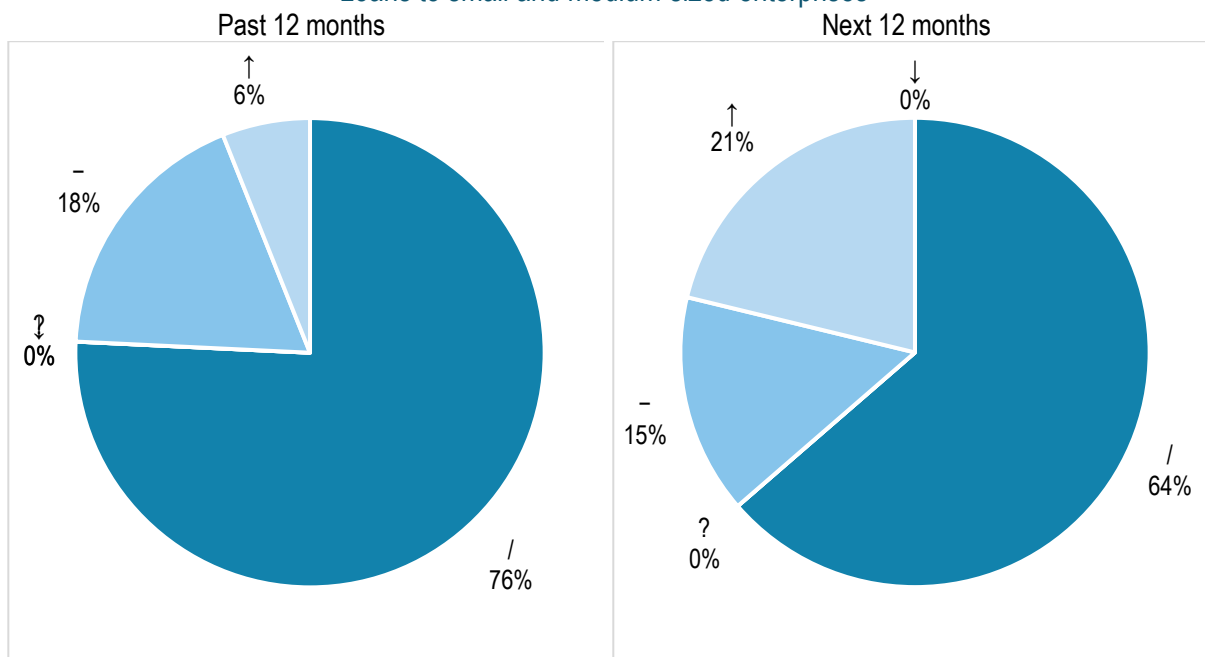
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Share of sales and external servicing

Commercial real estate loans



Loans to small and medium-sized enterprises

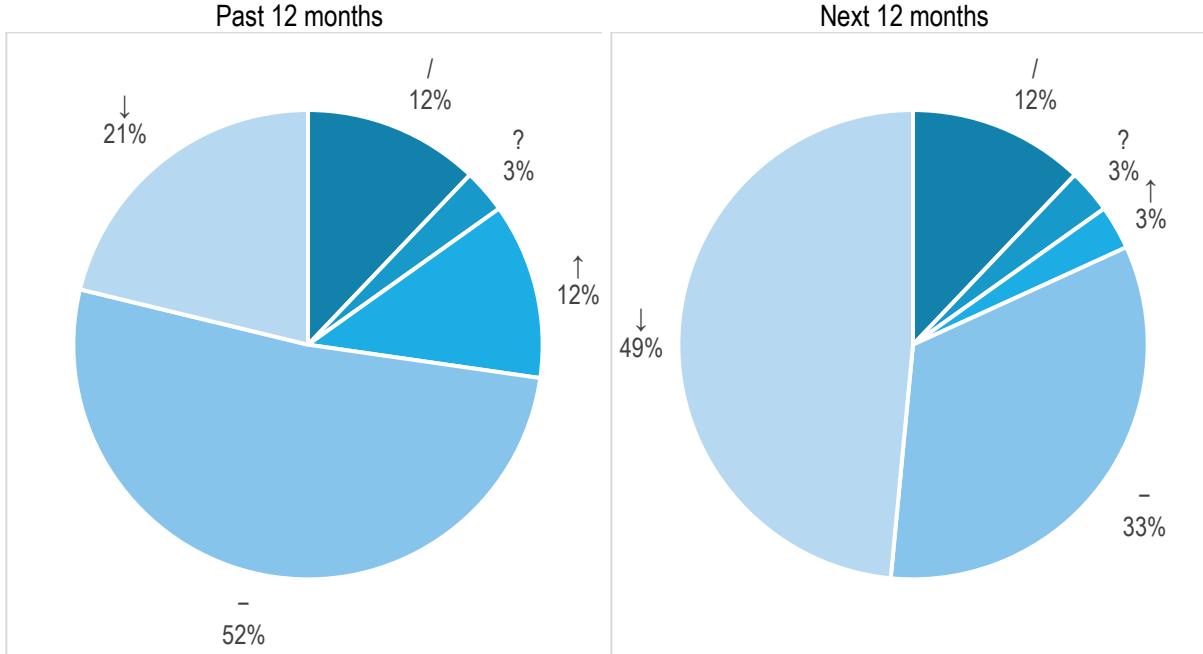


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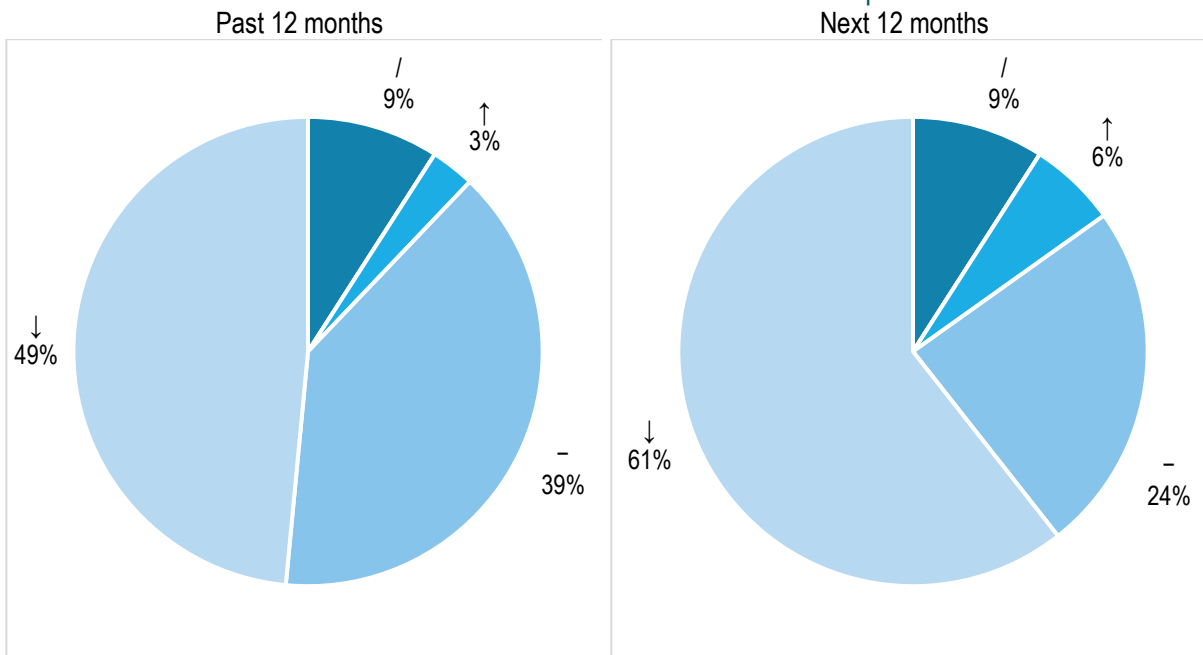
Annex

Regulatory environment

with regard to capital requirements or requirements for the recognition of provisions



with a view to additional administrative burden in our departments

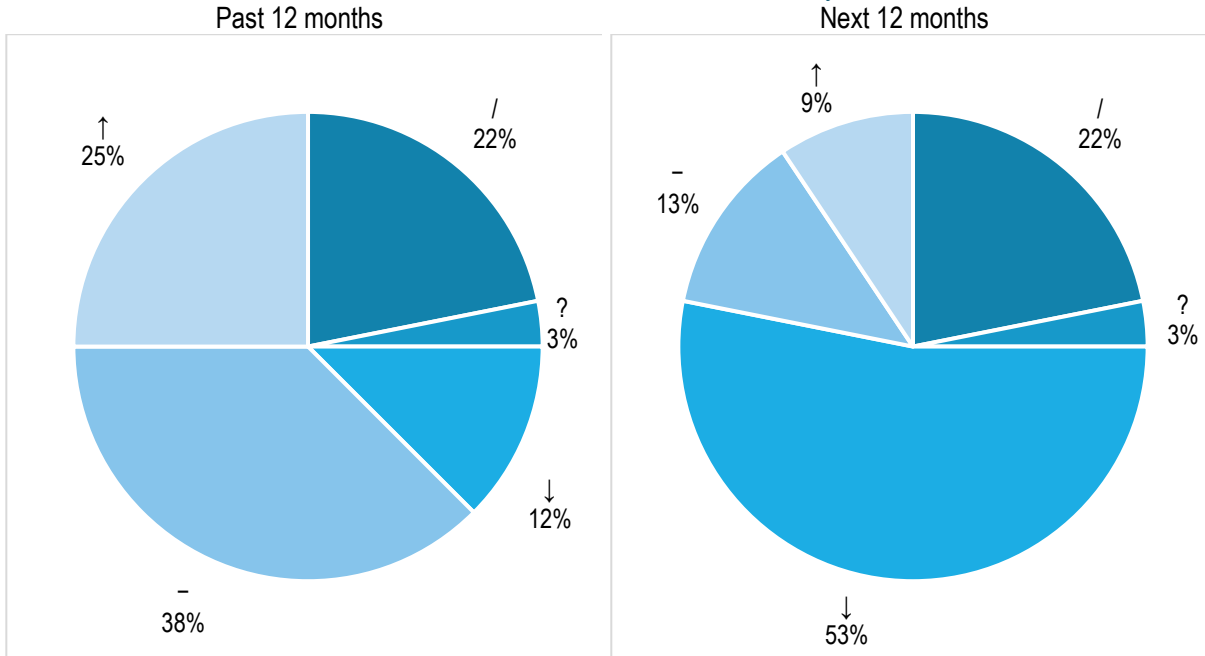


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 ↓ negative development (higher burden) ↑ positive development (lower burden)

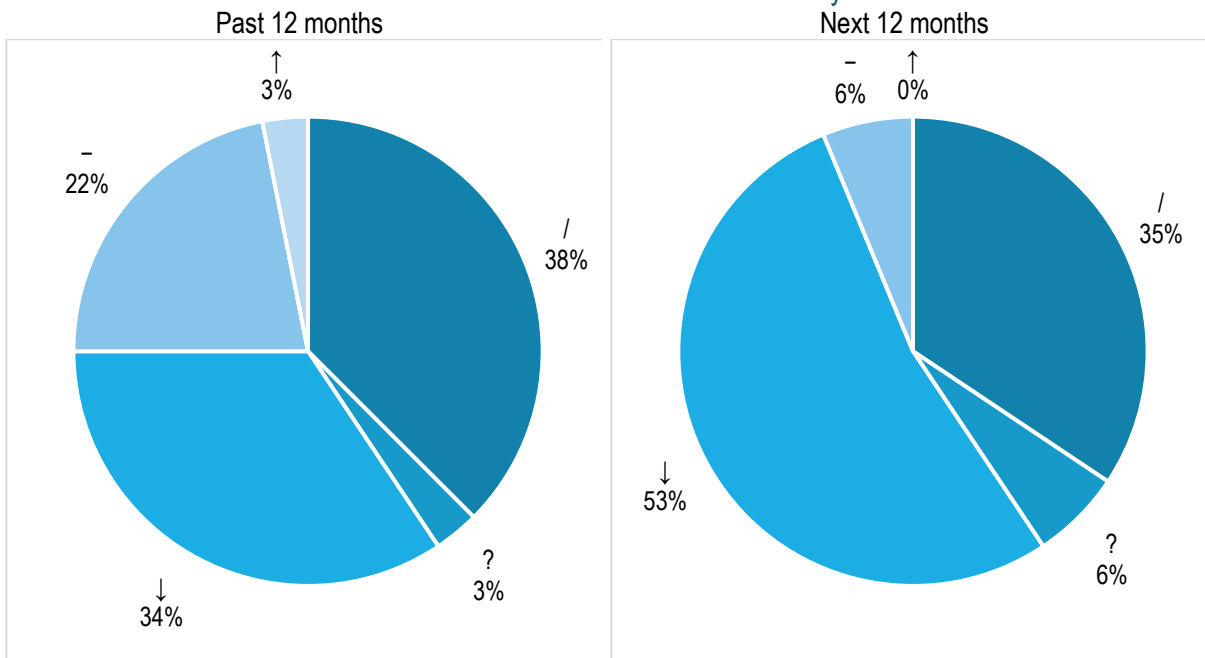
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Real estate prices

Residential real estate loans in Germany



Commercial real estate loans in Germany



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NPL-Barometer December 2022

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Publisher:

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