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The determinants of recent developments in bank loans in France and Germany

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Over the recent period, developments in bank loans to the private sector in the euro area have diverged significantly across countries. While France, like most euro area countries, has seen rapid growth in bank loans since 2004 mainly due to the sharp increase in housing loans, Germany has been characterized over the past four years by a persistent stagnation of bank lending as regards both credit to non-financial corporations and loans to households.

The paper presents an empirical description of the main macroeconomic factors that may explain developments in loans and determine whether the trends currently observed in France and Germany are exceptional or not in the light of past experience in both countries. To this end, the analysis relies on the modelling of loan developments in real terms, with the main explanatory variables being real GDP growth, the investment-to-GDP ratio, the nominal interest rate and yield spreads between corporate and government bonds.

The analysis of causality relationships – in the sense of Granger causality – between these explanatory variables and loan-related variables supports the assumption that in the French case, the growth rate of bank loans is an endogenous variable, which does not appear to structurally affect real activity. In other words, credit developments appear to hinge much more on real economic activity than vice versa. Conversely, in the German case, results suggest that causality could run in both directions, as credit growth seems to be simultaneously cause and consequence of real economic variables. Moreover, the study of impulse response functions following shocks simulated on loans shows that the assumption of a possible one-off influence of credit supply on real activity cannot be ruled out, neither in France nor in Germany.