In cooperation with the German Private Equity and Venture Capital Association (BVK)
and the Deutsche Börse Venture Network

Global politics weigh on investor sentiment in German venture capital market

1 August 2025 // Author: Dr Georg Metzger, phone +49 69 7431-9719, georg.metzger@kfw.de

- Uncertainty has caused sentiment indicators to fall across the board
- Investment appetite has dropped as well but expectations remain better than average
- Growing satisfaction with quality and innovativeness of deal flow is a bright spot

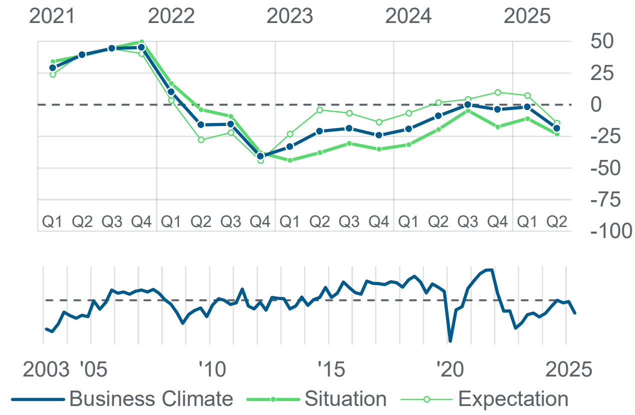
Sentiment dipped in early summer of 2025

Sentiment in the German venture capital (VC) market collapsed in early summer. The VC market sentiment indicator fell by 17 points to -18.8 balance points in the second quarter of 2025. Thus, it switched back to red after showing amber in the previous quarters, when everything was suggesting a new phase of green was coming soon.

Business sentiment is calculated as the average of situation assessments and six-month business expectations. Both views worsened significantly in the second quarter, although expectations were disproportionately worse. The indicator for the current business situation shed 12.2 points, dropping to -23.2 balance points, while the indicator for expectations fell by 21.7 points to -14.5 balance points. Thus, expectations remain better than situation assessments but the gap between the two indicators is narrower than it has been for more than two years. This shows that VC investors do not expect the business situation to recover quickly.

The unexpected, sharp drop in confidence was likely caused by the increased uncertainty which the global political events of recent weeks have brought, most prominently by the erratic trade policy of the US, with Donald Trump's 'Liberation Day' ushering in the second quarter. But the geopolitical tensions in the Middle East that flared up during the survey period and temporarily affected oil prices and share markets have likely contributed as well.

Development of venture capital sentiment indicator



Venture capital 'traffic lights'

Values in balance points

	Q2 '25	Δ Q1 '25	Low	High
Business climate	-18.8	-17.0	-60.6	+45.1
Business situation	-23.2	-12.2	-55.1	+49.8
Bus. expectations	-14.5	-21.7	-70.2	+44.1
Fundraising	-31.9	-21.2	-67.0	+74.0
Interest rates	-24.8	+14.3	-100.8	+45.9
Exit opportunities	-52.4	-21.7	-70.5	+75.5
Trade-sales	-67.5	-23.3	-87.4	+60.4
Secondaries	-25.2	-19.3	-56.1	+57.2
IPOs	-43.7	-15.3	-51.2	+100.1
Buy-backs	-32.3	-20.6	-49.3	+47.7
Depreciations	-22.6	-6.6	-47.0	+31.2
New investment	-8.6	-9.4	-72.7	+30.9
Entry valuations	-5.5	-24.5	-55.8	+48.3
Dealflow quantity	+4.3	-10.2	-46.0	+32.2
Dealflow quality	+19.7	+16.9	-23.4	+28.3
DF innovativeness	+18.9	+22.2	-48.2	+35.8

Colour scheme of sentiment indicator dots: values in the lowest tercile are marked 'red', in the medium tercile 'amber' and in the highest tercile 'green'. Indicator design may lead to deviations from previous publications.

Source: KfW Research, BVK and DBVN.

Fundraising climate back to square one

After the interest rate reversal in early 2022, the fundraising climate literally crashed within a year. It took a further two years for the fundraising climate to reach a positive indicator value again for the first time at the end of 2024, climbing above its long-term average. That changed again fundamentally in the first half of 2025. The fundraising climate has deteriorated again. Its indicator now sits at -31.9 points, not far from its last low of -42.8 points in the fourth quarter of 2022. While expectations – despite falling – remained significantly better than situation assessments in the first quarter (which pointed to an only temporary decline), expectations in the second quarter of 2025 slumped by 35.2 points and are now on the same level as situation assessments. This shows that investors do not expect the fundraising situation to improve over the next six months. Previously, it was only in times of crisis (global financial crisis, euro crisis, COVID-19 pandemic, energy price crisis / interest rate reversal) that fundraising expectations fell at the same rate as in the previous quarter.

The steep decline in the fundraising climate is all the more noteworthy as the ECB steadfastly adhered to its interest rate reduction cycle and again lowered deposit interest rates in June to now 2% – half of the record high recorded in September 2022 (4%), when fundraising sentiment fell to its most recent low. Supported by the interest rate reduction, the interest environment climbed by 14.3 points to -24.8 balance points, making up for a large portion of its decline in the first quarter. This decline was presumably a response to the temporary interest rate rise in Germany in the wake of the Federal Government's establishment of the special funds for infrastructure and defence.

Uncertainty has ruined the mood again

The exit environment deteriorated again considerably in the second quarter. The indicator for exit opportunities fell by 21.7 points to -52.4 balance points. Similarly as for the fundraising environment, it was particularly the expectation level that worsened, dropping down to the level of situation assessments. The frosty exit landscape has become an enduring burden for the VC market in the past three years. Initially, it was the lower valuation level that made profitable exits more difficult. But even when valuations picked up again, the exit environment improved only very slowly on the back of more optimistic expectations. What also played a role was that despite the recovery on the stock markets, where prices climbed to new highs, IPOs failed to materialise and those that were announced were repeatedly cancelled. It appears that the risk of setbacks was regarded as unacceptably high for public listings. In the US, which is also relevant for the realisation of IPOs by German start-ups and, thus, for German VC investors, the number of IPOs of VC-funded companies was lower than ever since the financial crisis in the last three years of 2022–2024. Nonetheless, high hopes for higher numbers of IPOs were held time and again in each of those years. IPO activity was expected to pick up significantly in 2025 as well. With its direct impacts on the volatility on stock markets, however, the erratic tariff and trade policy of the new US administration has eliminated this optimism for the first half of the year. German VC investors no longer appear to have hope that the IPO deal pipeline will open up in the second half of the year either. Thus, expectations around the IPO environment, which lost 15.3 points to drop to -43.7 balance points, have deteriorated sharply and are now as low as situation assessments.

Investor sentiment has also collapsed with regard to the remaining exit channels. The exit environment for trade sales has dropped to a new five-year low, plunging by 23.3 points to -67.5 points. In fact, there was also a sharp drop in the exit deals concluded in the second quarter, the vast majority of which are trade sales in Germany. Expectations around this were only marginally better than situation assessments so that the outlook for the next six months is positive to a limited extent only.

Investment activity is a bright spot

Investment activity in the German VC market was very robust in the second quarter of 2025. The number of large deals remained steady and the deal volume grew, driven in part but not exclusively by individual megadeals. At the same time, investment appetite fell by 9.4 points to -8.6 balance points. Unlike the indicators previously described, for which the outlook has clouded massively, situation assessments here have deteriorated sharply, but expectations remain more optimistic than average and even improved moderately. As the actual level of investments in the second quarter was high, this may point to a slightly weaker third quarter with the prospect of stronger investment activity in the final quarter.

It appears that attractive investment opportunities have at least emerged in the second quarter. Although the indicator for the level of VC demand decreased by 10.2 points, it remains better than average at 4.3 balance points. Assessments of the quality and innovativeness of the deal flow have improved noticeably. Both indicators rose by 16.9 points to 19.7 points and by 22.2 points 18.9 points, respectively. These attractive investment opportunities, however, do not appear to be available at bargain prices. Thus, satisfaction with entry valuations for new commitments has fallen sharply. The indicator plunged by 24.5 points to now -5.5 balance points. This is an unexpected development, especially since this sentiment indicator typically rises with a worsening market environment. The current price level is evidently being perceived as unacceptably high in the valuation of new commitments given the high uncertainty, especially with regard to the future challenges around fundraising and exits.

Comments on the current trend

Dr Dirk Schumacher,
Chief Economist of KfW

‘Sentiment in the German venture capital market deteriorated surprisingly fast in the second quarter. Geopolitical events brought great uncertainty and were the main reason business sentiment slumped noticeably at the beginning of summer’, said Dr Dirk Schumacher, Chief Economist of KfW. ‘Unlike what the sentiment trend suggests, however, the actual development of investment activity was positive. Attractive investment opportunities still appear to exist but are probably seen as too expensive by many investors in light of the high uncertainty. What we need now, at both national and international level, is a reliable economic policy that contributes to easing the situation and wins back confidence in the capital markets. This will also help to break the blockade of exit channels and improve the fundraising environment for VC investors.’

Ulrike Hinrichs,
Executive Board Member at the German Private Equity and Venture Capital Association (BVK)

'The slump in sentiment in the German venture capital market came as a surprise, especially considering the quite steady rebound in confidence for the past almost three years and the lively investment activity in the first half of the year. But venture capital investors appear to be keenly aware of the geopolitical uncertainties and VC-specific problems in the capital market’, commented Ulrike Hinrichs, Executive Board Member at the BVK. ‘Nonetheless, we still have good reason to hope that sentiment will shift towards a recovery again by the end of the year. Venture capital investments are picking up around the world. International investors have a growing interest in Europe, which is directing additional capital to the continent. A substantial portion of it will also flow into the financing of start-ups and tech firms as well as improve exit and fundraising opportunities. The sentiment in the venture capital market will reflect this sooner rather than later.’

Calculation of the German Venture Capital Barometer

The **German Venture Capital Barometer** is based on a quarterly survey of the members of the German Private Equity and Venture Capital Association (Bundesverband Deutscher Kapitalbeteiligungsgesellschaften – BVK), the member investors of the Deutsche Börse Venture Network (since the 2nd quarter of 2021) and further private equity companies with registered offices in Germany. It reports the business climate in the German venture capital market on the basis of assessments provided by private equity firms with a focus on young companies. All sentiment indicators represent the average of the balance of situation assessments (share of ‘good’ minus share of ‘bad’) and the balance of expectations identified at the same time for the coming six months, normalised to their respective historical mean balance values as baseline level. As a result, the maximum or minimum value of the indicator may exceed or fall below +100 or -100 as the actual maximum or minimum. Because of the way the barometer is constructed, positive indicator values point to above-average sentiment and negative values to below-average sentiment.

The **German Private Equity and Venture Capital Association (BVK)** is the voice and the face of the private equity industry in Germany. The association is committed to improving conditions and facilitating access to private equity so that even more businesses in Germany can benefit from private equity. It has some 300 members. These include around 200 private-equity companies and investors as well as some 100 consulting firms and service providers of the industry.

BVK
Bundesverband Beteiligungskapital e.V.

The **Deutsche Börse Venture Network (DBVN)** was launched in 2015 and is now Europe’s largest network for growth finance and ‘Capital Market Readiness’. It focuses on providing efficient access to capital and has an extensive range of networking and training services. The network of more than 200 fast-growth businesses and more than 450 investors has already enabled 13 IPOs and numerous trade sales.

Deutsche Börse Venture Network