Uncertainty and the energy price shock are slowing the revival in lending

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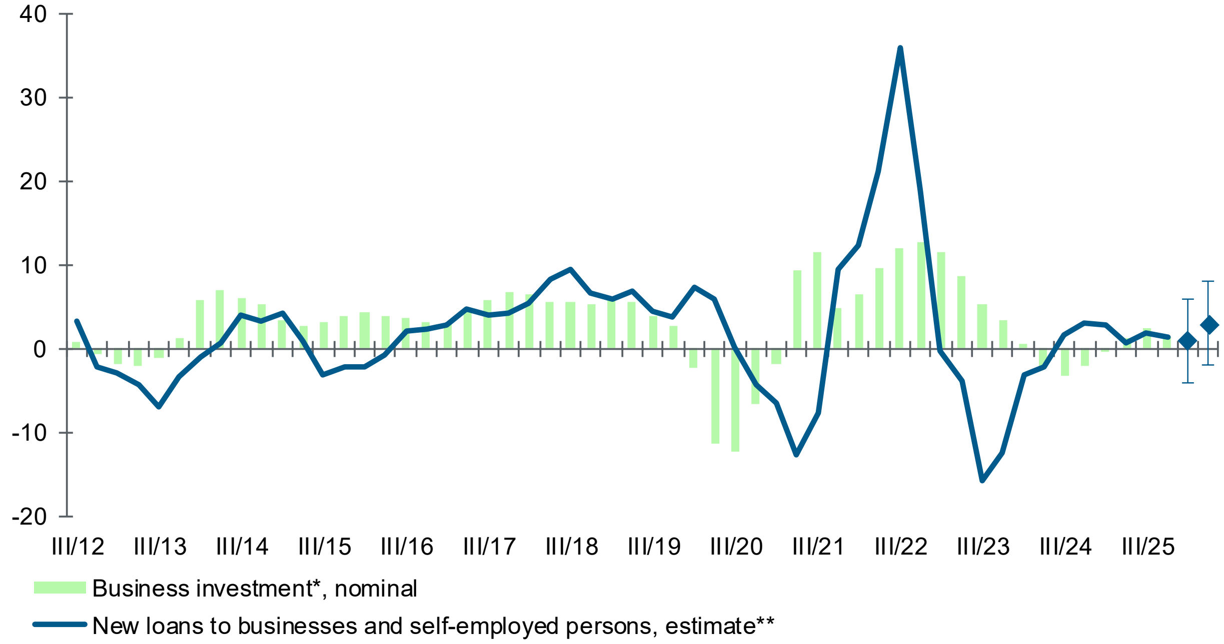
- Estimated new lending weakened in the fourth quarter. Growth slowed to 1.4% compared with the same quarter of the previous year, primarily due to falling corporate investment.
- The energy price shock could have a twofold effect on new lending: While highly affected firms are reporting increased liquidity needs to cover higher energy costs, the remaining enterprises are deliberately holding back on investment and borrowing. Overall, however, this liquidity need is likely to remain below that seen in the shock year 2022.
- After a subdued start to the year, new lending could rise markedly from the second quarter of 2026 on the back of higher liquidity demand; nevertheless, the outlook remains challenging owing to multiple sources of uncertainty.

Figure 1: New lending by German banks and savings banks to domestic businesses and self-employed persons*

Variation on the previous year (moving two-quarter average), in per cent



* non-public investment in equipment, industrial buildings and other facilities
** excluding commercial housing loans and excluding loans to financing institutions and insurance industry

Source: KfW Research, Destatis.

New loan commitments slipped at the end of the year

Towards the end of 2025, German banks issued significantly fewer new loans to non-financial corporations and the self-employed. Growth in estimated new lending slowed to 1.4% year on year in the fourth quarter, after an increase of 1.9% in the third quarter. This is a sobering result in view of solid economic growth at year-end. The decisive factor behind the decline in new lending was the 1.8% nominal drop in corporate investment in the fourth quarter and the associated subdued demand for credit. Firms likely continue to assess the cyclical environment and outlook as fragile and therefore held back on investment, particularly in machinery and equipment. The signs for a revival of the German economy were positive at the start of the year, as measured by sentiment indicators, but weakened in March due to higher energy prices.[1,2] The escalation in the Middle East is also damping credit dynamics. Given the currently hard-to-predict effects of higher energy prices on the German economy, the credit market outlook is also highly uncertain. As a basis for the following considerations, we assume high oil and gas prices for an extended period due to damage to production capacities in the Gulf region. As this places a tangible burden on the real economy, German gross domestic product is expected to grow by only 0.9% this year – significantly less than forecast in early February.[3] If the intensity and persistence of the energy price shock continue to increase, actual developments could turn out significantly stronger than we expect.

Corporate investment curbed

After the investment slump, a technical rebound in corporate investment is expected for the first quarter of 2026 but no investment boom is in sight. The fragile cyclical environment and the renewed energy price shock are dampening firms' investment appetite significantly. A relaxation of the crisis in the Middle East and greater corporate confidence in the economic outlook could prompt stronger investment at the earliest from the autumn. For the full year 2026, we project corporate investment to stagnate in view of higher energy costs. Corporate investment will therefore cease for the time being to act as a steady driver of lending.

The historically close link between corporate investment and new lending currently appears somewhat weaker than in the past. According to recent surveys, SMEs report that they prefer internal financing over long-term bank financing for investment projects.[4] With growing corporate confidence in reliable revenues and stable cash flows, external bank financing could regain attractiveness.

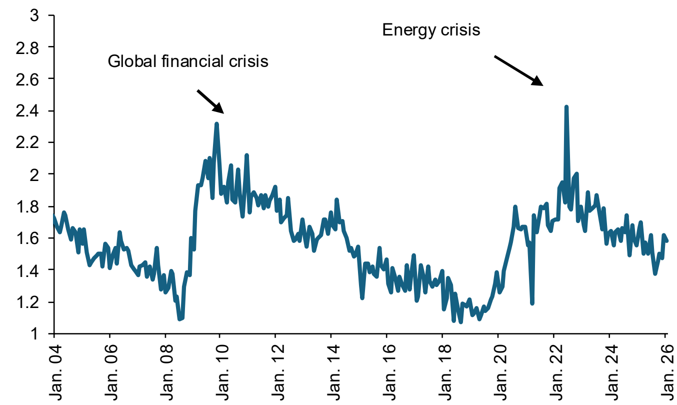
Credit interest in the crosscurrents of the energy price shock

From the perspective of banks and enterprises, financing needs rose slightly in the fourth quarter.[a,5] However, this interest did not translate into actual new loan signings, as the decline in new lending in the fourth quarter clearly shows. Besides the economic cycle, the rise in energy prices is likely to be a key factor shaping credit demand this year. The response of credit interest depends on firms' individual financial positions. A two-tier picture is therefore to be expected: firms with solid balance sheets generally refrain from taking on additional debt for precautionary reasons. By contrast, financially constrained firms and those particularly hard hit by price increases are likely to expand their credit demand in order to cover the sharply increased expenditures for energy and intermediate goods in the short term. In addition, higher precautionary liquidity holdings can be expected. Under the assumption of a continued increase in energy prices for the time being, we expect a rise in credit demand to bridge liquidity shortfalls. The increase in demand is likely to be significantly weaker than in 2022 for two reasons: first, companies are now more resilient thanks to improved energy efficiency[6], second, this is a global oil price shock without the immediate risk of supply shortages for German firms.

Tight financing conditions are a drag

The indicator for average corporate lending rates (MFI interest rate statistics) fell only marginally in February, by around 10bp on the previous month to 3.6%. The sharp rise in capital market yields in response to the strong increase in oil prices indicates that lending rates also moved higher with the outbreak of the Middle East conflict. Rising inflation expectations are the key driver of higher bank refinancing costs. In addition, banks are demanding higher margins for risk provisioning. In the 2022 energy crisis and the 2008/2009 global financial crisis, banks sharply widened their margins at short notice due to heightened uncertainty (see Figure 2). In view of geopolitical tensions, an increase in risk premia on new lending is to be expected now as well, although – in line with our energy price assumptions – less pronounced than in the aforementioned crises. Overall, higher interest rates and wider margins are likely to curb new lending for the time being.

Figure 2: Interest margins of German banks vis-à-vis non-financial corporations



Source: ECB, KfW Research.

Restrictive bank lending

In the fourth quarter of 2025, firms and banks again reported tighter restrictions in the lending process.[7,8] Against the backdrop of a fragile economy and higher default risks in the corporate sector, these supply constraints appear proportionate.[9] A departure from this restrictive course has moved further out of reach due to war-related financial market developments. This will not be expected until the economy returns to a stable growth path.

Outlook for new lending remains in positive territory

A cyclical upswing supported by the fiscal package could provide a medium-term tailwind to new lending, although the energy price shock will initially prevent a marked acceleration. While the ongoing weakness in corporate investment continues to dampen new lending, the renewed increase in energy prices is boosting demand for liquidity cushions, which is likely to have a stronger effect in the second quarter. How strong the effects on lending will be is highly uncertain. Roughly, we expect lower growth for the first quarter of 2026 than in the previous quarter before loan take-up could gather pace due to crisis-related liquidity needs. A faster-than-expected easing of the geopolitical situation and a strengthening of economic confidence could also revive lending through a more lasting impulse.

[a] The slight increase in demand could also be due to the rise in commercial housing loans. These are excluded from the definition of new lending used here.

The structure of the KfW Credit Market Outlook

New lending business is determined by adding to the quarterly variation of existing loans (data from the Deutsche Bundesbank on loans extended by German banks to domestic enterprises and self-employed professionals without housing construction loans and without loans to financial institutions and the insurance industry) a simulated on-schedule repayment behaviour (per quarter). The publication is presented in the form of the thus determined new lending business variation rate against the prior-year quarter, with the variation rate expressed as the moving two-quarter average. The forecast of new lending business is supported by a VAR model in which GDP, the twelve-month money market rate and business investments are taken into account as the most important explanatory variables. Business investments comprise all non-public investment in equipment, industrial buildings and other facilities. They are calculated by KfW quarterly on the basis of the national accounts data from the Federal Statistical Office.

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[2] Wanke, S. (2026) Stuck in the Strait of Hormuz, KfW-ifo SME Barometer: March 2026, KfW Research.

[3] Schumacher, D. (2026) Ein hartnäckiger Energiepreisschock (*A persistent energy price shock* – in German only), Economics in Brief, April 2026, KfW Research.

[4] Gerstenberger, J. und M. Schwartz (2025) Kleine Unternehmen greifen seltener zum Bankkredit – finanzieren damit aber größeren Anteil ihrer Investitionen (*Small businesses are less likely to take out bank loans – but use them to finance a larger proportion of their investments* – in German only), Focus No. 500, May 2025, KfW Research.

[5] Bundesbank (2026), Bank Lending Survey for Germany, January 2026.

[6] Brüggemann et al. (2025) Klimaschutzinvestitionen der Unternehmen fallen real um knapp 8 % auf 80 Mrd. EUR – Rückgang getrieben von Großunternehmen (*Corporate investment in climate protection falls by just under 8% in real terms to €80 billion – a decline driven by large companies* – in German only), KfW Climate Barometer 2025, KfW Research.

[7] Körner, J. (2026) Small and medium-sized enterprises struggle to access credit, KfW-ifo Credit Constraint Q4 2025, KfW Research.

[8] Bundesbank (2026), Bank Lending Survey for Germany, January 2026.

[9] Bundesanstalt für Finanzdienstleistungsaufsicht (2026) Risiken im Fokus 2026 (in German only).