

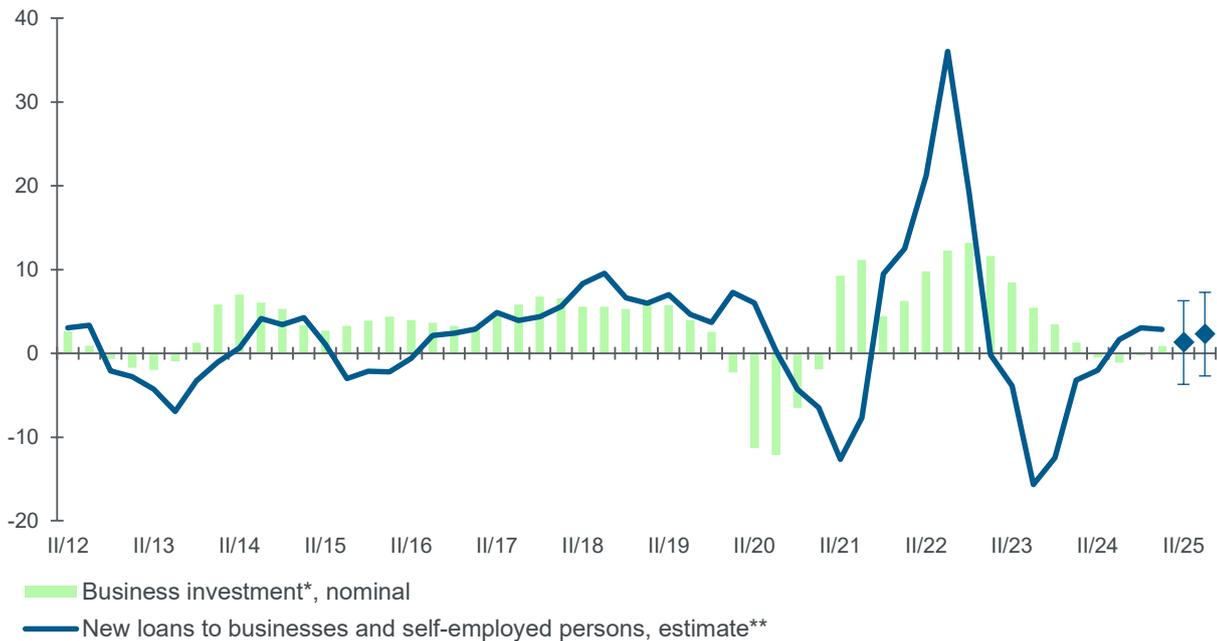
New lending to businesses continues to grow moderately after tariff hit

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- Corporate lending is moving sideways. KfW Research has calculated that new lending in the first quarter of 2025 grew by 2.9% on the same quarter of the previous year. Despite the improved economic outlook driven by pull-forward effects and favourable loan interest rates, new lending developed only at a modest rate.
- The economic uncertainty caused by US tariff policies is hampering lending by making businesses more reluctant to invest and banks more cautious in approving loans.
- Growing financing requirements of businesses on the back of rising sentiment and expectations for economic impetus from the fiscal package are giving new lending a bit of a boost again this quarter.

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

Corporate lending is growing at a slow pace

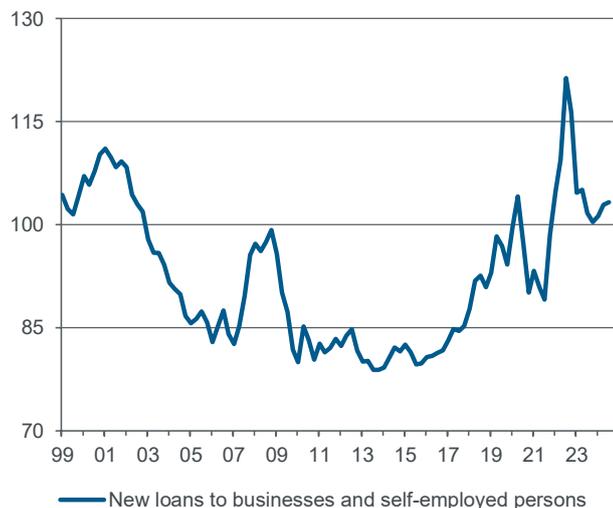
At the beginning of the year, the growth of new lending to businesses moved sideways. KfW Research has calculated that new lending from German banks to businesses and self-employed persons increased by 2.9% in the first quarter of 2025 on the same quarter of the previous year, almost at the same rate as at the end of 2024. The performance of the German economy had a positive effect on new lending. In the first quarter, increased shipments to the US in anticipation of the tariff increases gen-

erated a surprising production surge. The positive development of business investment, with nominal additional expenditure of 1.3% on the preceding quarter, gave new business a moderate tailwind. Decreased credit interest rates, particularly for short-term loans with maturities of less than a year, also strengthened demand for loans in this maturity segment. Given the supportive economic and interest-rate environment, however, new lending to businesses was moderate overall. The volume of lending continued to increase on the previous year but remained on a

weak level when accounting for inflation. Businesses generally remain reluctant to take up new loans. Estimating how the corporate lending market will continue to evolve remains fraught with great uncertainty given the impacts of the tariffs, which are already leaving an imprint on export figures, as well as the solid industrial activity¹ and generally rising confidence.

Index of estimated new lending

Index, avg. 1998=100



Source: KfW Research.

Cautious investment growth due to tariff shock

The US tariff policies are reducing businesses' propensity to invest through the uncertainty channel while companies' increased optimism about the economic outlook is improving the investment environment in the near to medium term.² The increase in trade uncertainty in April is likely to have caused enterprises to defer their investment plans. To be sure, the agreement in the tariff conflict between the EU and the US at the end of July has brought more planning certainty for enterprises. However, the stability of the agreement and the losses in sales due to the base tariff of 15% on most goods cannot yet be fully estimated. Therefore, the dampening effect of tariffs on businesses' investment expenditure is likely to continue. Besides, investment activity could weaken further if the cyclical impacts of the tariff shock become more noticeable.

However, the reluctance to invest could be partly offset by the attractive depreciation options for business investments that have been in effect since July ('Investment Boosters') and the 'Made for Germany' investment initiative of German businesses. Furthermore, businesses in selected sectors such as the defence and construction industry, which will foreseeably benefit from government contracts on the basis of the Special Fund, might have an interest in increasing their investment expenditure. A possible incentive for these businesses is to adapt their production facilities and capacities to the demand in a timely manner. KfW Research therefore expects nominal investment expenditure in 2025 to grow at a slow rate of around 3% on the previous year. Businesses' investment expenditure will thus increasingly stabilise new business activity in the coming months.

Changed economic environment is driving interest for loans

Businesses have so far responded only cautiously to the more favourable interest rates and brighter economic outlook. Recent

survey results already suggest that businesses' demand for credit is growing. According to the Bank Lending Survey (BLS) for the second quarter, banks have already noted a significant increase in loan applications from enterprises.³ The KfW ifo Credit Constraint Indicator for the second quarter also found that more large enterprises participated in loan negotiations.⁴ However, the survey results are less clear for small and medium-sized enterprises (SMEs).

Businesses are currently likely to require more funds for various financial reasons. First, they are hedging themselves against trade policy risks. According to a current survey by the European Commission, German businesses are planning to build stockpiles as a buffer against trade disruptions and to diversify their trading partners.⁵ But lending could also be bolstered in the coming months by liquidity bottlenecks which businesses may experience as a result of the new trade situation.

Second, as already mentioned, businesses' funding requirements for fixed capital expenditure are increasing as a result of the expected economic upturn driven by the fiscal package. The growing financing requirements should soon be reflected in the new business figures.

New lending continues to benefit from interest rate cuts

It is true that the downward trend in interest rates is gradually stalling. In April and May, only the short-term loan interest rates fell at a moderate rate. Despite the foreseeable end of the monetary easing cycle, banks still have scope for further interest rate reductions in the short and medium-term segments. They are benefiting from low funding costs as they had already raised deposit interest rates less than credit interest rates during the interest tightening cycle. The interest differential between average credit and deposit interest rates remains significantly above the pre-crisis level, at around 150 bp. But the downward potential for longer-term credit interest rates is already exhausted as the key interest rate reductions are already priced into interest rates for longer maturities.

Credit demand is facing more restrictive lending practices

In light of the expected adverse macroeconomic effects of US foreign policy, banks will by and large maintain their restrictive lending policies. The burdens which tariffs will have on credit quality and loan portfolios will have on bank balance sheets are currently difficult to assess. As a result, banks are avoiding additional risks. The KfW ifo Credit Constraint Indicator shows that this is hitting SMEs particularly hard. Banks will not loosen their lending standards again until credit quality has stabilised with the economic recovery and trade policy risks subside.

Only for defence companies are there already signs of improved credit access. Politically motivated by the defence initiative at EU level, multiple German banks have announced their readiness to broaden their guidelines for transactions with the defence industry in order to bolster defence expenditure. However, the relatively small defence industry plays only a minor role in stimulating new lending.

Taken together, however, the restrictive lending practices mean that not all loan applications received from businesses will be granted. Given the existing economic risks, this is appropriate and will not stand in the way of moderate growth.

Trade policy is hampering stimulation of new lending

Given the uncertain economic effects of the changed trading environment, new lending is temporarily losing momentum. However, businesses' positive outlook due to the fiscal and economic policy packages and the favourable interest rate environment will support lending more strongly in the current quarter. KfW Research therefore expects new lending to continue growing moderately after dipping in the second quarter.

In order for the corporate credit market to recover more substantially, however, more stability and reliability will be necessary in the medium term. Only then will businesses enter into longer-term loan agreements for their investment projects and will banks soften their conservative risk assessments. If the economic and investment environment improves more significantly on the back of fiscal policy and business incentives, however, new lending could grow even more strongly than anticipated.

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 and, using leading financial and economic indicators, are projected into the future with the aid of a vector autoregressive model.

¹ Scheuermeyer, P. (2025) US tariffs: significant impact on exports. German industrial activity otherwise quite robust Economics in Brief No. 252, KfW Research.

² Borger, K. (2025), Sentiment continues to improve on expectations, KfW-ifo SME Barometer June 2025, KfW Research.

³ Deutsche Bundesbank (2025) Bank Lending Survey in Germany, July 2025.

⁴ Schoenwald, S. (2025) Credit access is becoming harder for SMEs, KfW ifo Credit Constraint Indicator Q2 2025, KfW Research.

⁵ European Commission (2025) European Business Cycle Indicators, 2nd Quarter 2025, Technical Paper 081, July 2025.