2026 promises more momentum for corporate lending

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- Lending from German banks to businesses gathered pace somewhat in the third quarter. KfW Research has calculated that new lending grew by 1.9% on the same quarter of the previous year. Adjusted for prices, however, it declined along with business investment.
- In the Deutsche Bundesbank's Bank Lending Survey, banks have reported growing credit demand for more than a year now. This perception has likely been nurtured by the stronger upward trend in commercial housing construction loans, which are not included in our estimate of new lending business.
- Financing conditions remain challenging. The decline in credit costs is coming to an end as banks apply stricter lending criteria amid growing default risks.
- The outlook for the credit market is more positive nonetheless. KfW Research expects economic growth and business investment to accelerate significantly. This will provide positive impetus on the supply and demand side of the credit market. We therefore expect to see increasing momentum in new lending already this quarter and in the year ahead.

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

Loan commitments are growing at a slightly faster pace

KfW Research estimates that the growth of new lending accelerated slightly in the summer. After a very weak 0.8% in the second quarter, the growth rate increased to a decent 1.9% in the third quarter. Although this is positive, on closer inspection the growth rate remains sobering. Measured by the deflator for business investment, which shows a price increase of 2.5% for the third quarter, new lending has dropped in real terms on the same quarter of the previous year, as did business investment.

Major differences between sectors

In the Bundesbank's October Bank Lending Survey (BLS)[1], the majority of banks reported growing credit demand for the preceding three-month period on the previous quarter for the sixth consecutive time now. Against this backdrop, it is somewhat disappointing that the recovery in new lending calculated by us has thus far been only weak. Sharp differences in credit market trends between sectors have likely contributed to this discrepancy. Although we do not break down new lending by economic sector, a glance at the development of loan portfolios can help provide sufficient insight (see Figure 2). It reveals that in the third quarter bank loans to housing companies grew strongly by almost 5% year on year. They make up around 20% of the entire corporate loan portfolio. However, our definition of new lending specifically excludes loans for housing purposes to businesses and self-employed people.[2] Our analysis therefore does not include a major driver of the lending growth perceived by banks. On the opposite side of the spectrum, the decline by nearly 4% in loan portfolios to manufacturing enterprises reflects the difficult situation of German industry.

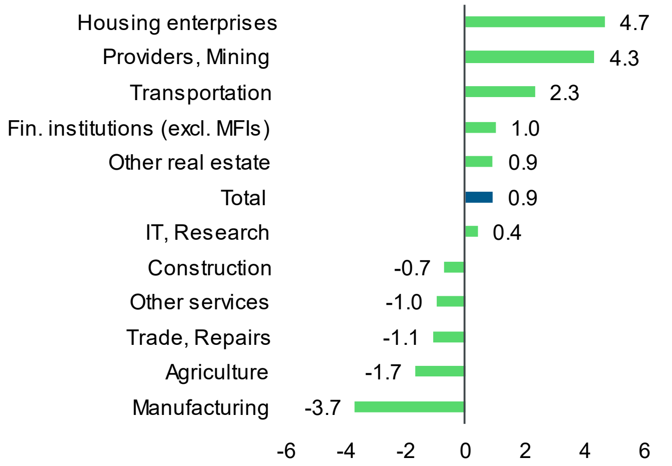
Interest rate cuts are ending, banks remain strict

New lending is likely to have been bolstered once again by falling interest rates in the third quarter. Average credit costs for businesses dropped by 24 basis points to 3.6% compared with the second quarter. This was mainly driven by loans with maturities of less than one year and to a lesser extent by loans with terms of one to five years. Loans with longer maturities even became slightly more costly. The potential for interest rate cuts, however, thus appears to have been exhausted. In fact, given the current growth trend in capital market interest rates, a further minor increase in interest rates for longer maturities can be expected.

The trend towards gradual tightening of lending policy continued in the third quarter as well. A small majority of banks surveyed under the BLS tightened their lending criteria in the third quarter as well. They again justified their stricter lending criteria for businesses with a more negative assessment of the risk situation. That is plausible given the rising numbers of business insolvencies and associated impairment losses. In 2025, 11.7% more businesses declared insolvency up to September than the previous year.[3] The rate of increase has thus eased but insolvencies are still rising and remain on an elevated level compared with past years. Banks' cautious lending practices are also reflected in the development of the KfW ifo Credit Constraint Indicator, which was near the record high level of the previous quarter for small and medium-sized enterprises in the third quarter as well.[4]

Figure 2: Development of loan portfolios by economic sector

3rd quarter, variation on previous year in per cent



Sources: Deutsche Bundesbank, KfW Research

The upswing expected for 2026 will also create better prospects for the corporate lending market

We expect economic growth to accelerate significantly to 1.5% in 2026 on the back of the spending package of the Federal Government.[5] It is our expectation that this will noticeably revive private investment activity. We currently forecast growth of around 2.5% for business investment on a price-adjusted basis and twice that rate in nominal terms. Growth will begin to pick up slightly already in the fourth quarter before the upswing gathers pace in the course of 2026. Growing financing needs for investment and broader economic activity will positively affect both the demand side and the supply side of the credit market through an easing of the risk situation. This will create space for noticeably higher growth in new lending business. We expect loan commitments to businesses to grow by around 3% already for the final quarter of 2025 and the first quarter of 2026 – with potential for further acceleration in the course of this year.

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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[1] Deutsche Bundesbank (2025), Bank Lending Survey for Germany, October 2025.

[2] The publicly available data does not permit loans extended for housing purposes to be directly attributed to the economic sector of housing enterprises. However, a high degree of correlation can be expected. Our definition of new lending does not include loans to finance institutions either. Although they show only minor growth rates,

these are slightly above the average. The definition was thus chosen in order to be able to assess the supply of credit to the real economy while establishing consistency with the concept of business investment, which likewise excludes private residential construction investment.

[3] Federal Statistical Office (2025), Beantragte Regelinsolvenzen im November 2025: +5,7 % zum Vorjahresmonat (*Applications for ordinary insolvencies in November 2025: +5.7 on the same month in the previous year* – our title translation, in German), press release of 12 December 2025.

[4] Schoenwald, S. (2025), The handbrake is still on in the credit market, KfW-ifo Credit Constraint Indicator Q3 2025, KfW Research

[5]Scheuermeyer, P. et al. (2025), Economy in a standby position, KfW Business Cycle Compass November 2025, KfW Research.