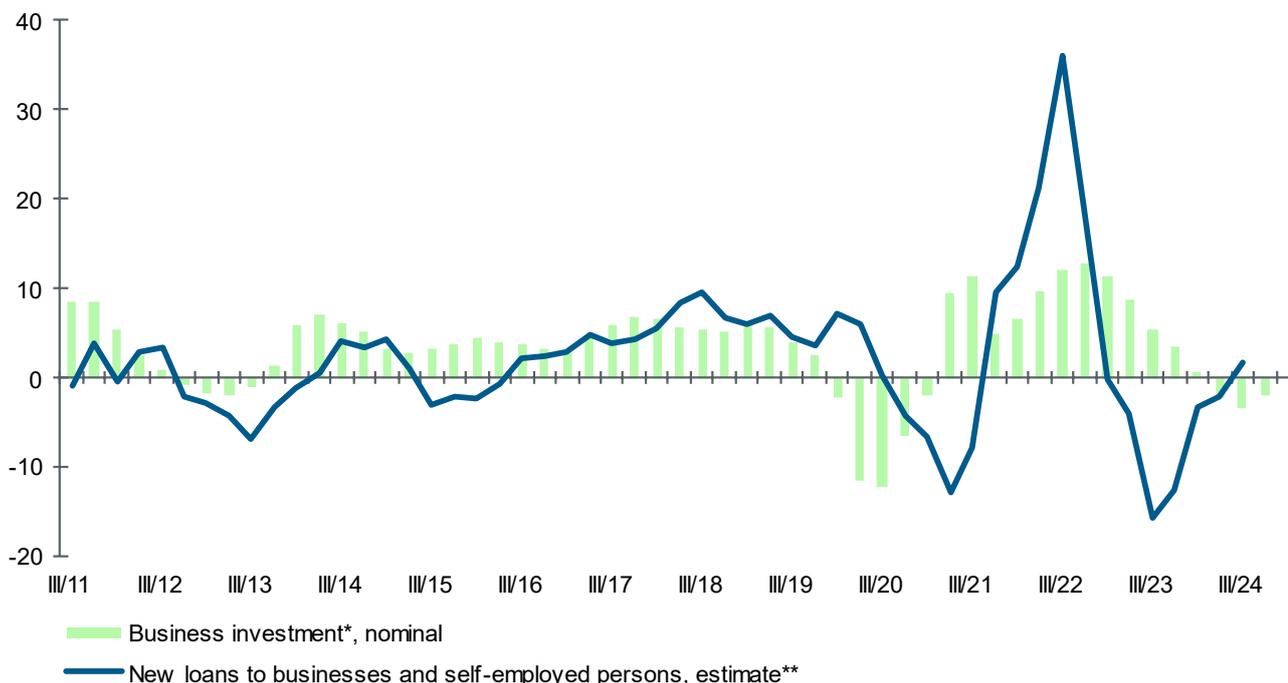


# New lending to businesses is only slowly gathering momentum

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- The weak economy and US tariffs dampened on lending from German banks to businesses in the second quarter. KfW Research estimates that new lending grew by a mere 0.8% compared with the same quarter of last year.
- The significant decrease in loan interest rates since the start of the year will likely raise demand for corporate finance slightly in spite of the weak performance of the economy. The strict lending standards being applied by banks, however, will continue to act as a dampener, so that only minor lending growth should be expected in the third quarter.
- New lending could grow more strongly if the economy brightens with the fiscal package in the fourth 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

## Tariffs have put a dampener on business lending

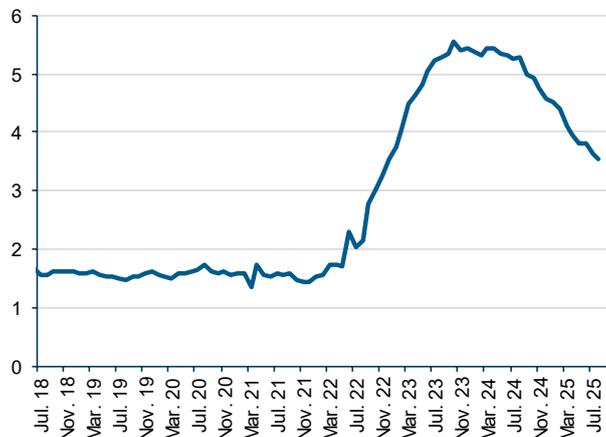
New lending to businesses slowed in the second quarter. According to estimates by KfW Research, German banks extended only 0.8% more new loans to businesses and self-employed persons than in the same quarter of last year, after 2.9% growth in the first quarter. Given the 1.9% average price increase of capital goods in the second quarter compared with

the same period of last year, lending actually decreased in real terms. As expected, the import tariffs imposed by the US in April and the weak economic environment dampened new lending to businesses.<sup>1</sup> In light of the high trade policy uncertainty, nominal investment expenditure by businesses did not increase much over the level of the previous quarter (+0.3%). Besides, the strict criteria applied by the banks made it more difficult for

businesses to access loans. It is only thanks to the low credit interest rates that lending did not decrease any further. Liquidity bottlenecks of businesses, which tend to be reflected in short-term borrowing, do not appear to have been a key driver of lending. Instead, slightly more long-term loan agreements were entered into.

### Average credit costs of non-financial enterprises

Volume-weighted average of effective interest rates on different maturities, in per cent



Sources: ECB, KfW Research.

### Downward trend in loan interest rates stimulated lending

The average credit costs for businesses dropped noticeably by around 1 percentage point to 3.5% between January and August. As the funding costs of banks have fallen, loan interest rates could continue to drop moderately, even if the ECB has likely reached the end of its key interest rate reduction cycle. But loan interest rates for businesses may soon bottom out since a return to the low interest level before the energy crisis is not to be expected. The more favourable interest rates will continue to support new lending for the time being.

### Borrowing appetite may potentially increase – data situation remains ambiguous

The survey findings on the development of loan demand from businesses currently do not paint a clear picture. In the Bank Lending Survey (BLS) of July, banks reported that loan demand from businesses increased significantly in the second quarter.<sup>ii</sup> Credit institutions expect a further increase in loan demand in the third quarter. The survey findings among businesses for the same period, on the other hand, suggest a continuing reluctance to borrow. We expect to see businesses develop a growing appetite for loans in the autumn months on the back of significantly lower interest rates.

### Weak economic growth is (still) hampering investment

Business investment expenditure also contributes to enterprises' growing interest in finance. To be sure, the weak economic growth caused by the burden of US tariffs is still hampering investment, but that picture could soon brighten somewhat.

The uncertainty from trade policy as an investment barrier has likely reduced already based on the details laid out in the tariff agreement between the EU and the US. In addition, the favourable depreciation rules for business investments introduced in July that will apply up to the end of 2027 are stimulating near-term investments.<sup>iii</sup> According to a study by the Cologne Institute of Economic Research, the measure could increase fixed capital expenditure, which includes business investments, by around 0.16% annually.<sup>a</sup> Besides, we expect the economy to improve in the fourth quarter on the back of the fiscal package. The implementation of the planned infrastructure and defence expenditure could strengthen businesses' confidence that growth rates will be sustainably higher and thus have a positive effect on the investment climate. We therefore expect moderately increasing business investment expenditure for the second half compared with the first half of 2025, although still on a low level. Business investments will thus further stabilise new lending in the coming months.

### Banks' restrictive approach will continue

Banks continue to have very strict lending policies.<sup>iv</sup> According to the current BLS of July, the key factor is the increased credit risk caused by the continuing uncertain economic situation.<sup>v</sup> Since the number of business insolvencies continues to rise, this is understandable. The share of non-performing business loans in the banks' loan portfolios also increased again in the second quarter. What is positive is that banks still do not see their ability to extend loans compromised by pressure on their capitalisation. German banks are in a strong position to face the current risk environment – an important factor for the reliable supply of loans to the business community. The main thing that is required to ease lending standards is more economic momentum. Banks' lending standards can be expected to remain elevated for the time being.

### Confidence in a sustained economic upturn is key

In summary, the weak economy and the strict criteria being applied by banks continue to act as a dampener on lending to businesses. Despite the more favourable credit costs, new lending growth in the third quarter is likely to remain in the same range as in the spring. In the fourth quarter, new lending could pick up further on positive impetus from the fiscal package. For this to happen, however, it is crucial that the Federal Government follows through with its economic-policy plan to tackle the structural challenges and make use of the additional fiscal scope for a swift implementation of defence and infrastructure investments. Greater confidence of businesses in a sustained economic upturn could boost lending to businesses more strongly than expected.

<sup>a</sup> According to the study, the planned public sector investment programmes will increase fixed capital expenditure by 0.3% annually, with around 60% of the total tax relief attributable to the 'investment booster'.

## 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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<sup>i</sup> Körner, J. (2025) New lending to businesses continues to grow moderately after tariff hit, KfW Research Credit Market Outlook, KfW Research

<sup>ii</sup> Deutsche Bundesbank (2025) Bank Lending Survey in Germany.

<sup>iii</sup> Hentze, T. (2025) Wirtschaftliche Impulse durch das Steuerpaket der Bundesregierung (*Economic impetus from the Federal Government's tax package – our title translation, in German*), IW-Kurzbericht 60/2025.

<sup>iv</sup> Schoenwald, S. (2025) Credit access is becoming harder for SMEs, KfW-ifo Credit Constraint Indicator, KfW Research.

<sup>v</sup> Deutsche Bundesbank (2025) Bank Lending Survey in Germany.