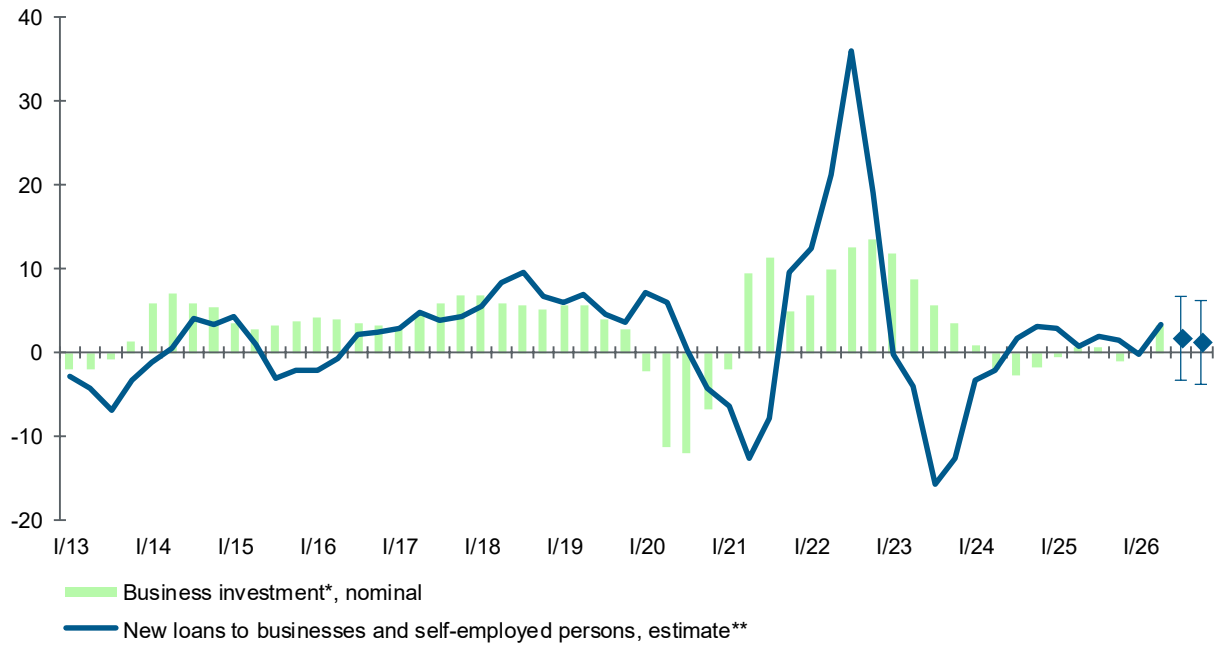
Energy costs drive the credit business – a sustained pick-up remains absent for the time being

13 October 2026 // Author: Dr Jenny Körner, phone +49 69 7431-57189, jenny.koerner@kfw.de
Press contact: Nina Luttmer, phone +49 69 7431-41336, nina.luttmer@kfw.de

- The new lending business of banks with firms and the self-employed picked up sharply in the second quarter of 2026. With an increase of 3.4% compared with the same quarter of the previous year, it recorded the strongest rise since the end of 2022. The key drivers were, above all, higher liquidity demand driven by energy prices and, presumably, pull-forward effects in anticipation of interest rates that are expected to rise.
- Even over the rest of the year, higher spending on working capital and slightly firmer investment by firms are likely to provide some support to new lending. However, higher funding costs, stricter lending standards and persistent geopolitical uncertainty are likely to work against any sustained pick-up in credit growth.
- Taken together, we expect credit growth to slow in the third and fourth quarters.

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 leap upwards

In the second quarter of 2026, German banks recorded a clear pick-up in the new lending business with non-financial corporates and the self-employed. Estimated new lending increased by 3.4% compared with the same quarter of the previous year, after declining by 0.3% in the first quarter following revisions. This is the strongest growth rate since the end of 2022. Given an inflation rate for investment goods of around 3%, new lending also increased slightly in real terms. Both short- and long-term lending rose. Short-term loans are likely to have been used primarily by firms to finance higher-priced working capital. The background is the increase in energy costs resulting from the conflict in the Middle East, which in turn pushed up upstream input and transport costs. However, the rise in longer-term loans

suggests that it was driven by increased investment expenditure. In the spring quarter, nominal investment expenditure by firms was nevertheless slightly below the level in the first quarter, when it had risen sharply by 6.2% quarter on quarter. The fact that long-term loans nevertheless increased could, first, reflect follow-on financing for investments that had initially been funded from own resources. Second, firms may have pulled forward borrowing and refinancing in anticipation of further interest rate rises. It is also conceivable that the funds raised were used for investment projects that were recorded only in the third quarter. However, whether the pick-up continues is, at least for the time being, not clear in view of the differing push and pull factors.

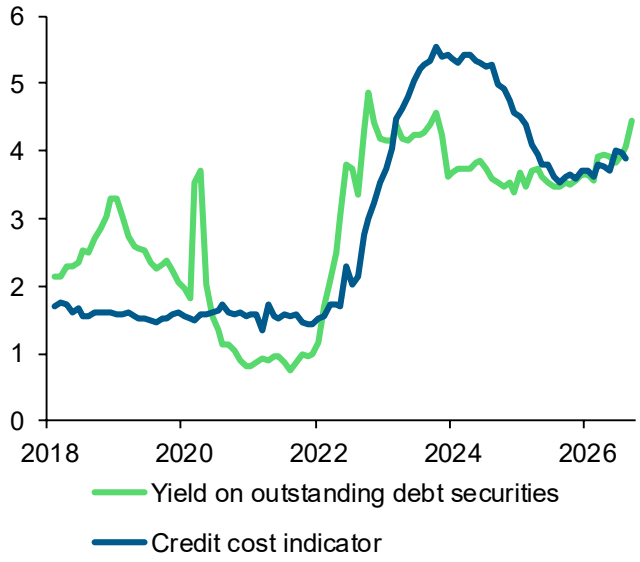
Signs of stronger credit demand interest

After Surveys of firms (SAFE, KfW-ifo Credit Constraint) and banks (Bank Lending Survey, BLS) delivered a mixed picture for the second quarter.[1] Banks surveyed in the BLS reported higher demand for loans, especially from large companies. In the SAFE survey, small and medium-sized enterprises also reported increased demand for bank lending after they had reported falling demand in the quarterly surveys over the past two years.[2] By contrast, the KfW-ifo Credit Constraint signalled a decline in loan demand among mid-sized firms and large firms.[3] In line with the strong pick-up in new lending, however, the surveys overall point to increased demand for bank loans. For the third quarter, the KfW-ifo Credit Constraint already shows that, above all, more negotiations on loans have been conducted by large firms.

A key driver of the higher interest in borrowing is likely to be liquidity demand caused by higher spending related to energy costs. According to the SAFE survey, in the second quarter net almost 80% of firms reported cost increases, up by 24 percentage points compared with the fourth quarter of 2025, when energy prices were still within a normal range. After a brief easing in July, oil and energy prices have recently risen significantly again. Even though energy transport by road across the Strait of Hormuz has improved somewhat, it is still not possible to foresee whether energy prices will fall back to lower levels. As a result, firms' financing needs for cost coverage will remain in place for the time being.

The level of interest rates is increasingly act as a drag on loan demand. The phase of falling bank loan rates over the past two years is likely to have come to an end. Since February 2026, that is, shortly before the outbreak of the war in the Middle East, the average interest rates on loans to corporates have risen by around 35 basis points to just under 4% in July. In addition, the inflation rate, currently above the ECB's two per cent target, is fuelling expectations of further interest rate hikes. In the short term, the rise in yields on corporate bonds to the level of bank lending rates provides some support. This makes bank loans relatively more attractive than capital market financing (Figure 2). However, higher lending rates are likely to dampen activity from the end of the year at the latest, at least for investment and financing decisions that can be postponed. In the medium term, the energy transition could also support loan demand. The current energy price shock is likely to strengthen firms' incentives to switch to renewable and crisis-proof sources of energy.

Figure 2: Companies: Yield on outstanding debt securities and credit cost indicator



Source: ECB, Bundesbank.

That a financing need exists in this area is demonstrated by a special survey carried out as part of the BLS in July.[4] According to it, climate change over the past twelve months has increased loan demand among firms in transition and among emission-intensive firms. Over the coming twelve months, banks in all firm categories expect demand for loans for climate-related investment in fixed assets and restructuring to rise.

Investment provides little stimulus

German economy is increasingly picking up, and the renewed rise in the business climate for mid-sized firms provides hope that this trend will continue.[5] Despite geopolitical uncertainty, which dampens investment intentions, firms' investment could still rise slightly over the rest of the year. For the ongoing year, we expect real growth of around 2%. On the one hand, the investment booster is likely to continue to unfold its impact. On the other hand, improved sentiment indicators among investment goods producers and higher capacity utilisation in industry point to a pick-up.[6] By contrast, for the time being there are hardly any signs that the spreading of artificial intelligence will provide significant impulses for the credit business. One in five mid-sized firms is already using AI; in most cases, however, this involves easy-to-use applications such as text generation, which do not require larger investments and are usually funded internally.[7,8] Larger investment volumes arise above all from the construction of data centres. These are, however, driven by large corporates and financial investors with a wide range of financing options and are therefore likely to feed into credit business only in isolated cases. Overall, firms' investment is therefore likely to stabilise the credit business only slightly, without being a key driver.

High restrictions in credit provision

On the supply side, credit provision remains very restrictive. According to the KfW-ifo Credit Constraint, in the second quarter 40.5% of mid-sized firms in credit negotiations reported restrictive behaviour by banks – the highest figure since the survey began in 2017.[9] The banks' reluctance is understandable in view of deteriorating balance sheets and ratings for many firms. For example, the share of Stage 2 loans, that is, loans with a significantly elevated risk of default, is particularly high for German banks in comparison with other European banks.[10] In addition, the share of non-performing corporate loans at German banks is 3.8%, which is above the euro area average – especially pronounced for smaller institutions that mainly finance the SME sector.[11] As long as the economic upturn does not spread and become established, little is likely to change in very restrictive credit provision.

New lending cannot sustain the momentum

The sharp increase in the second quarter mainly reflects energy-price-driven liquidity demand and provides only weak signs of a sustained, investment-driven upturn in new lending. We therefore expect growth to slow to around one and a half per cent in the third and fourth quarters. Admittedly, ongoing financing needs to cover higher energy costs and slightly firmer investment are likely to support new lending for the time being. However, rising loan interest rates, banks' continuing restrictive credit provision and persistent geopolitical uncertainty are increasingly acting as a brake. The outlook remains difficult to gauge. In the long run, energy prices higher than expected could raise liquidity demand in the short term, but would also further weigh on investment willingness. By contrast, a rapid easing would reduce cost pressure and, if the upswing becomes established, could also increase investment and credit demand over the medium term.

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] Bundesbank (2026), Bank Lending Survey for Germany, July 2026.

[2] European Central Bank (2026) Survey on the access to finance of enterprises (SAFE), 20 July 2026.

[3] Körner, J. (2026), Middle East conflict tightens access to credit, KfW-ifo Credit Constraint Q2 2026.

[4] Bundesbank (2026), Bank Lending Survey for Germany, July 2026.

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[9] Körner, J. (2026), Middle East conflict tightens access to credit, KfW-ifo Credit Constraint Q2 2026.

[10] European Banking Authority (2026) EBA Risk Dashboard Q2 2026.

[11] BaFin (2026) Risks in Bafin's Focus 2026, Risks Arising from Corporate Loan Defaults, 28 January 2026.