

»»» New lending slowly recovers

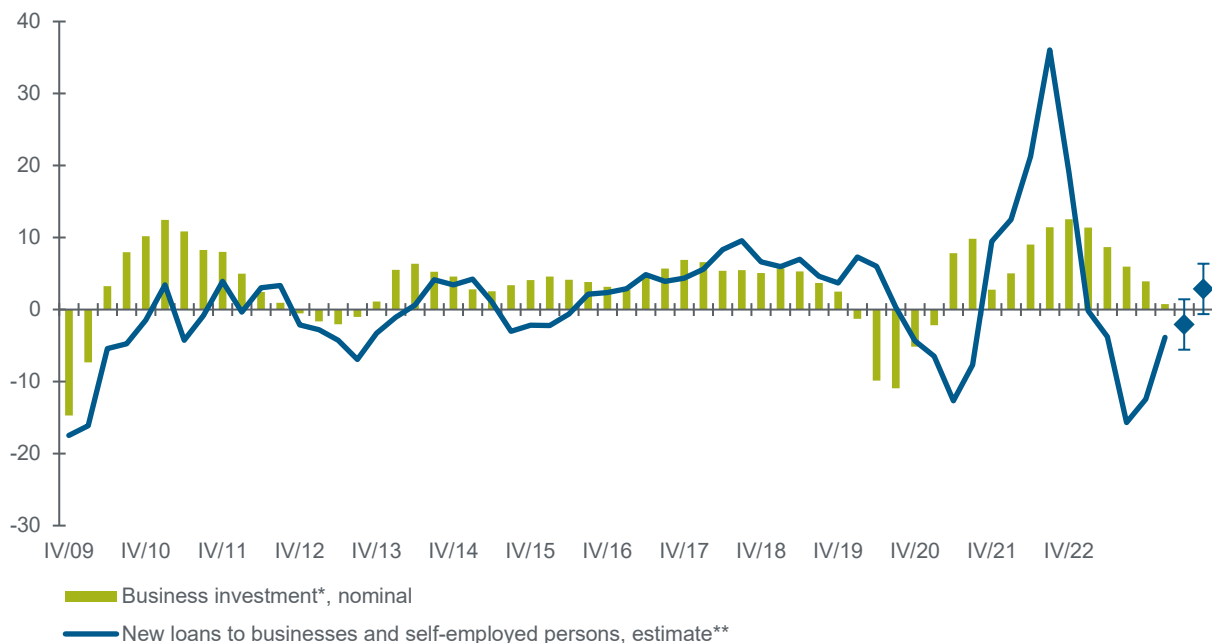
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- Demand for bank loans remained low at the start of the year. By KfW Research estimated new lending of German banks to businesses and self-employed persons remained 3.9% below the previous year's level. However, new lending recovered after contracting noticeably in the two preceding quarters.
- The weakness in demand from businesses receded and supply-side restrictions eased as the economy began to brighten at the start of the year. However, the weak development of business investment led to lower financing requirements.
- New lending is most likely to recover only slowly as a result of the weak economic recovery and stagnating interest rates. We estimate that new lending contracted by around 2% in the second quarter and anticipate slow growth in the second half of the year.

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

New lending is on a slow recovery path

According to calculations by KfW Research, new lending by German banks to businesses and self-employed people remained below the previous year's period again at the start of 2024. But it was down by only around 3.9%, which was within the range of our expectations.¹ In the two preceding quarters, new lending had dropped at double-digit rates. Lending business stabilised with the surprising growth of the German economy in the first quarter and the end of the interest

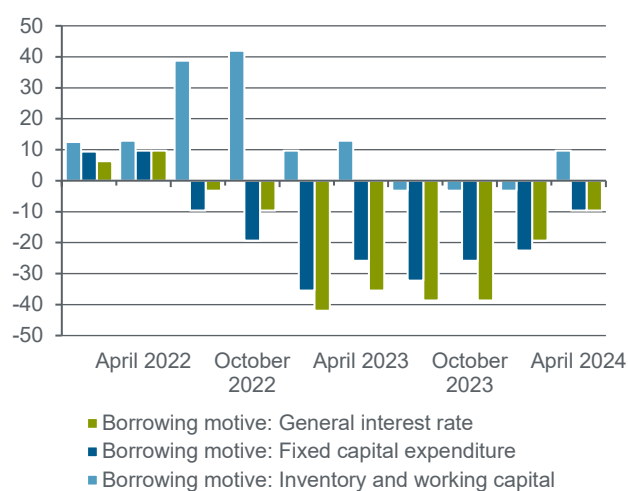
tightening cycle since autumn. However, the recovery in new lending business was made more difficult by interest rates, which remained on a high level despite stagnating, and by economic challenges for businesses from higher wages and further cost increases. In the first quarter, the volume of new loan commitments moved sideways from the previous quarter, thus steadying above the pre-crisis level. The downturn in new lending business has thus come to an end for the time being.

Investment restraint is reducing new lending

Businesses' financing requirements for investments declined at the start of the year. In the first quarter, businesses' (nominal) investment expenditure fell by 0.9% on the previous quarter. The downward trend in investments thus continued and has likely passed its trough. While financing costs played a rather minor role, it was mostly the uncertain economic outlook and price increases that weighed on companies' investment activity.² Companies' demand for loans from businesses fell again in the first quarter, partly because of lower funding requirements. In surveys, banks³ and enterprises⁴ reported that their appetite for loans remained below average, although the weakness in demand eased, as it did in the previous quarter.

Figure 2: Development of selected motives for borrowing

Net balance in per cent



Source: Bank Lending Survey (Bundesbank), April 2024.

To what extent will investments bolster credit demand in the near future?

The development of selected borrowing motives from the Bank Lending Survey (BLS) of April (see Figure 2) already demonstrated that the negative influence of fixed capital expenditure and the general interest rate level reduced demand for loans across the previous quarters. For the first time in a year, enterprises were now also applying for more loans for inventory and working capital. The signs of a recovery in credit demand from enterprises are likely to continue as economic sentiment brightens. After the weak first quarter, business investment will now for certain decrease for the year as a whole compared with the previous year, but for the second quarter we anticipate growing investment expenditure driven by rising sales expectations as international demand recovers and the business environment improves.⁵ Business investment will therefore likely support new lending more strongly again.

Interest rate reversal is providing little impetus for credit demand

Loan interest rates for businesses have been moving sideways since October 2023. As it was the case in the previous quarter, interest rates on long-term loans to businesses remained significantly below those for short- and medium-term loans (<5 years), which is likely to have bolstered demand for loans from that segment. By contrast, businesses clearly avoided medium-term loans with comparatively high interest payments. In June, the ECB lowered key interest rates for the first time since 2019. The market has already priced in the interest rate turnaround. Further interest rate reductions from September are currently up in the air because of the stubborn inflation rate and continuing high wage growth. We therefore expect hardly any impetus to loan demand in the second quarter as interest rates look to remain more or less the same. In the second half of the year, loan interest rates are likely to ease with the gradually falling inflation rate. Improved financing conditions will bolster new business going into the future.

Banks have almost stopped tightening supply

In the BLS of April, banks reported that they hardly tightened their lending criteria anymore in the first quarter. The tightening cycle which they started in 2022 thus appears to be slowly coming to an end. The rejection rate for loan applications from businesses also remained nearly unchanged on the previous quarter. Banks see Germany's weak economic performance and businesses' credit standing in particular as factors hampering lending business. An economic upturn in Germany would likely encourage banks to rethink their strict criteria. At the same time, the increased business insolvencies in some sectors reflect the consequences of the economic challenges of the past years.⁶ They may, however, soon have plateaued. But if the stress factors such as high energy prices for energy-intensive enterprises and growing trade restrictions in export-oriented sectors continue, banks could tighten their standards again significantly as a matter of precaution.

Outlook: Lending is moving sideways

The prospects for a sustained recovery in new lending business have improved. However, a key requirement for lending to remain on a path of recovery is a sustained revival of the economy across all economic sectors. KfW Research anticipates a sideways movement in new lending business in the second quarter. With supply restrictions and the weakness in demand easing, new lending is now likely to contract by only 2% on the previous year's level. Positive new lending growth rates can most likely be expected in the third quarter when the economic rebound has firmed up and financing costs are likely to decrease further. Ongoing trade conflicts and the upcoming US elections, however, are contributing to heightened economic uncertainty. A reluctance by businesses to proceed with investment projects for these reasons could hamper new lending more than expected.

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 performed on the basis of the 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 Körner, J. (2024): Credit market has passed its trough, [KfW Credit Market Outlook March 2024](#), KfW Research.

² Schwartz, M. and Gerstenberger, J. (2024), Zinswende mit überschaubarem Zusatzeffekt auf die Investitionen im Mittelstand (Interest reversal with moderate additional effect on SME investment – in German only), [KfW Research Focus on Economics May 2024](#), KfW Research.

³ Deutsche Bundesbank (2024), April results of the Bank Lending Survey in Germany, [press release of 9 April 2024](#).

⁴ Körner, J. (2024), Credit access for SMEs improved slightly but remains restrictive, [KfW ifo Credit Constraint Indicator May 2024](#), KfW Research

⁵ Borger, K. (2024), SMEs are slightly more confident as optimism rises, [KfW-ifo SME Barometer June 2024](#), KfW Research.

⁶ Federal Statistical Office (2024), Beantragte Regelinsolvenzen in Mai 2024: +25,8% zum Vorjahresmonat (*Applications for ordinary insolvencies in May 2024: +25.8 points on the same month in the previous year – our title translation, in German*), [press release No. 230 of 14 June 2024](#).