



KfW Research

## KfW SME Panel 2025

Steady course but headwinds loom:  
SMEs were stable in recession year,  
trade conflicts on the horizon

# Annual analysis of the structure and development of SMEs in Germany

## Imprint

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# Steady course but headwinds loom: SMEs were stable in recession year, trade conflicts on the horizon

SMEs in Germany demonstrated stability despite economic headwinds in 2024. They consistently stood their ground in the previous recession year. This is one of the findings of the KfW SME Panel 2025, which paints a detailed picture of both the present situation and the development of small and medium-sized enterprises during the past year.

## Turnover

**+1.2 per cent**

Average development of turnover

SMEs were able to record subdued **turnover growth** (in nominal terms). Total turnover grew moderately by 2% in 2024 to EUR 5,179 billion, although adjusted for prices it was down -1%. At an average turnover growth rate of 1.2%, the pace of growth of small and medium-sized enterprises (SMEs) remained weak but at least positive. Micro-businesses experienced negative growth yet again – and that means in three of the past five years. Even so, medium-term turnover expectations for the SME sector as a whole turned positive again.

## Profitability

**7.0 per cent**

Average profit margin of small and medium-sized enterprises (before taxes)

With regard to **profitability**, SMEs have not been able to return to their previous peaks. Nonetheless, **profit margins** last year showed themselves to be steady and averaged 7.0%. What is particularly pleasing is that micro-businesses successfully reversed the negative trend that has existed since 2018 and were able to lift profits again for the first time.

## Employment

**+207,000**

Variation in the number of workers employed by SMEs

The **number of workers employed in the SME sector** has reached a new high. The 33 million threshold was exceeded for the first time (+207,000 to 33.01 million). SMEs thus gained in importance as employers in Germany. Their share in aggregate employment increased slightly (71.6%). Current indicators suggest that a stagnation or decline in employment figures must be expected in the current year 2025.

## Capital structure

**30.7 per cent**

Average equity ratio in the SME sector

The **equity ratios** of SMEs continue to attest to their overall resilience and their capital structure remains solid. The average equity ratio was 30.7% (+0.1%). What is pleasing is the structural trend, as the share of SMEs with a negative equity ratio has halved. A positive trend in the distribution was also apparent. More businesses have an ample equity buffer and fewer have a very low equity base.

## Capital expenditure

# 39.0 per cent

Share of SMEs with completed investment projects

Last year there was still no sign of any emerging mood of optimism with respect to **investment activity**. The willingness of SMEs to invest remained unchanged at a low level of 39%. No segment came close to reaching the levels of past years. The familiar trifecta of obstacles, in particular, prevented businesses from investing: the price level for materials, energy and salaries, the overall economic development in Germany and legal requirements. Both the average volume per enterprise (EUR 204,000) and the total volume of new investment in the SME sector (+EUR 2 billion to EUR 221 billion) increased at a subdued rate in 2024. Adjusted for prices, however, the volume of new investment was again negative (-1.4%). But delicate green shoots of a moderate revival of investment are becoming visible. The level of revisions made in the course of the year to investments planned at the start of the year fell. And the outlook for investment in the current year has also brightened, if moderately.

## Financing environment

# 67.0 per cent

Success rates of negotiations on investment loans

The **financing environment** was more favourable to SMEs than expected in the past year. Their interest in credit finance grew and their willingness to negotiate loans increased. This was paired with good access to credit. The rate of successful loan negotiations was on a high level while the rate of denials was rather low. This mainly benefited micro-businesses. Overall, lending rates continued to be a very relevant cause for failed loan negotiations despite the monetary policy reversal.

## Investment finance

# EUR 81 billion

Borrowings to finance investments

In the realised **financing mix**, more enterprises used loans. The number of borrowers among SMEs increased to 615,000 (+100,000). The average volume of bank loans newly applied for to finance investments in 2024 decreased (2024: EUR 131,000 per enterprise), although the gradual shift to slightly higher shares of larger loan amounts continued. Overall, SMEs used some EUR 81 billion in bank loans to finance investments (+EUR 2 billion), which represented a steady share of 32% of the total financing volume.

## Debt sustainability

# 3.6 per cent

Share of companies with critical debt sustainability ratios

The **interest burden** continued to grow, if only moderately (+EUR 2 billion to EUR 38 billion) and is gradually having an impact on SMEs' **debt sustainability**. The times of falling shares of zombie enterprises appear to be over for now. The share of companies with critical debt sustainability ratios stood at 3.6% in 2024. In a historic comparison, that is still an unusually solid rate. Or phrased the other way around, more than 96% of all SMEs have sufficient debt servicing capacity.



### Germany in a phase of stagnant growth: businesses between trade shock and fiscal boost

Germany is waiting for the much longed-for upswing. The German economy has stagnated for the past five years. The long successful growth model is under pressure. Economic weakness is being compounded by structural problems and new geopolitical developments and crises.<sup>1</sup> At the moment, at least, there are no signs of a third recession year. While Germany's economic output in the first quarter of this year (adjusted for price, seasonal and calendar variations) still increased by 0.3%, gross domestic product contracted by 0.2% in the second quarter.<sup>2</sup> The raising of US tariffs in April and the end of pull-forward effects in exports, which was still a driver of GDP in Q1, had made a setback more likely. According to a preliminary estimate, the German economy stagnated in the third quarter. From then on, however, the economic growth momentum is expected to gradually increase.<sup>3</sup>

### Sentiment and economic situation were patchy in late summer but there is hope for impetus towards the end of the year

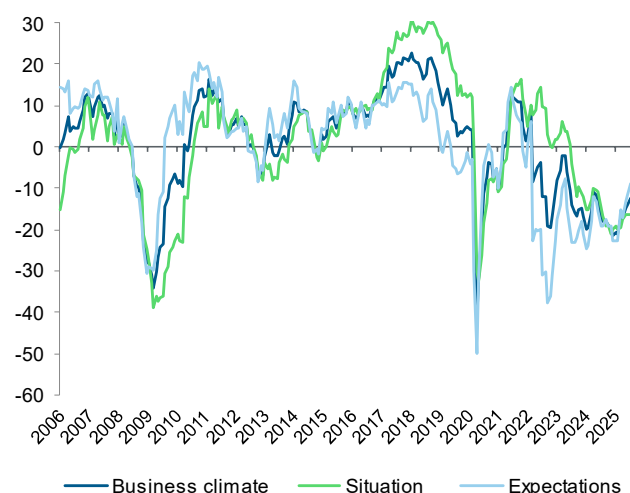
There is much to indicate that SMEs have so far navigated the uncertainties of US tariff policies well. Despite all remaining uncertainty and possible shifts, the trade deal between the EU and the US should of course be the main source of optimism for now. In addition, the significant fiscal stimulus, that is, the massive expansion of public-sector investment expenditure, is likely to provide new impetus. Sentiment among SMEs has improved accordingly. Most recently, in October, SME business sentiment continued on the recovery path which it embarked on at the start of the year, as shown by the KfW-ifo SME Barometer (Figure 1).<sup>4</sup> Expectations have improved on a sufficiently broad front, even if the sentiment upswing is still on shaky ground.

### SMEs' competitiveness is under pressure

From a long-term perspective, however, it has become very clear that small and medium-sized enterprises are far from record high sentiment levels achieved previously. The need for economic-policy action remains high. Throughout the whole spectrum of small and medium-sized enterprises – from sole traders through

small trades businesses to larger industrial enterprises – there is growing concern about Germany as a business location and the competitiveness of the domestic business landscape. Bureaucracy, skilled labour shortages, high costs, a weak order intake and high political uncertainty are weighing on businesses<sup>5</sup>

**Figure 1: KfW-ifo Business Climate Index**



Sources: KfW Research, Ifo Institute.

A multitude of problems must be solved at the same time. A sustained sentiment upturn, along with improved business and earnings prospects, would be very welcome. The ongoing phase of economic weakness is also reflected in, among other things, business insolvencies. In Germany they recently reached record numbers and were on the highest level of the past 20 years.<sup>6</sup> What is more, early indicators are also pointing to rising insolvency figures in autumn of this year.

Despite economic headwinds, SMEs showed themselves to be stable in the recession year 2024. There were only few signs of exhaustion. This is one of the findings of the 2025 KfW SME Panel. It is based on both the main survey of the year 2025 (February to June) and, in particular, on the most recent findings of two representative supplementary surveys conducted in the course of the year. It paints a comprehensive picture of the economic situation of small and medium-sized enterprises in Germany.

<sup>1</sup> KfW Research (2025), Managing the transition, strengthening growth, position paper.

<sup>2</sup> Federal Statistical Office (2025a), Gross domestic product stagnated in the 3rd quarter of 2025. Deutsche Wirtschaft tritt zu Beginn der zweiten Jahreshälfte auf der Stelle (*German economy treading water in the second half* – our title translation, in German), press release No. 388 of 30 October 2025.

<sup>3</sup> Scheuermeyer, P.; Schoenwald, S. and Körner, J. (2025), KfW Business Cycle Compass August 2025: Growth despite tariff barriers, KfW Research.

<sup>4</sup> Scheuermeyer, P. (2025), KfW-ifo SME Barometer: October 2025: Business

sentiment is on the rebound, KfW Research.

<sup>5</sup> Abel-Koch, J. and Schwartz, M. (2025) Der Mittelstand am Standort Deutschland – wo sehen Unternehmen im Jahr 2025 die größten Herausforderungen? (SMEs in Germany – where do businesses see the greatest challenges in 2025? – in German), Economics in Brief No. 250, KfW Research.

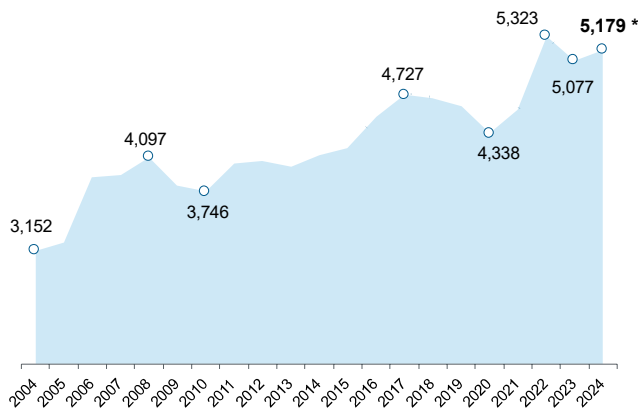
<sup>6</sup> Halle Institute for Economic Research (IWH) (2025) IWH-Insolvenztrend: Mehr Firmenpleiten im Juli (*IWH insolvency trend: more business collapses in July* – our title translation, in German) Press Release 23/2025.

### Turnover defies the economic downturn (a bit)

Last year, the total turnover of small and medium-sized enterprises increased moderately by a nominal EUR 103 billion or around 2% on the previous year (Figure 2), reaching a volume of EUR 5,179 billion (2023: EUR 5,077 billion). Adjusted for prices<sup>7</sup>, their turnover growth at the end of the year would be moderately negative, to be sure. The price-adjusted growth of absolute, aggregate turnover in the SME sector was around -1%. But even this development can definitely be regarded as a small success, given growth rates of -5% (nominal) and -10% (real) in 2023 and a phase of economic contraction. After the most recent significant downward revision by the Federal Statistical Office in early August, GDP fell slightly by 0.5% in 2024.<sup>8</sup>

**Figure 2: Total SME turnover**

EUR in billions, nominal values



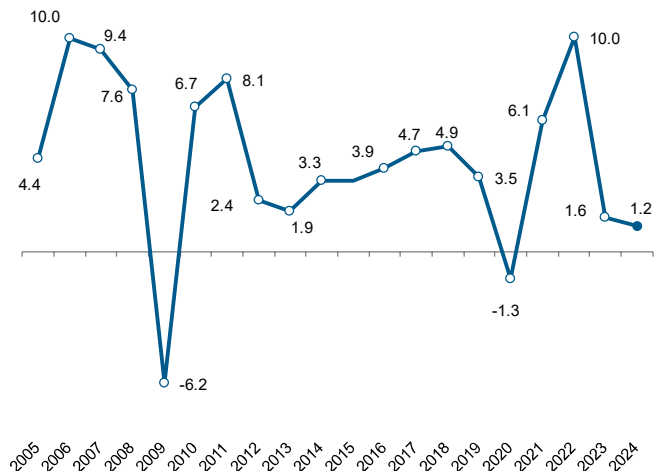
\* In prices of 2023: EUR 5,023 billion

Source: KfW SME Panel 2025.

Average (nominal) turnover growth rates painted a similarly moderate picture (Figure 3).<sup>9</sup> The growth rate remained weak but nonetheless positive. Across the overall SME sector, average turnover per enterprise grew at an average rate of 1.2%. Thus, the continued subdued growth in the second year undoubtedly reflects the existing structural problems. In the past 20 years, there were only two years in which businesses recorded weaker average growth.

**Figure 3: Average annual SME turnover growth**

In per cent



Source: KfW SME Panel 2025.

### Weak growth in the year 2024 in all SME segments; micro-businesses have stagnated for the past five years

The stubborn phase of weakness affected almost all SME segments (see Volume of tables relating to the KfW SME Panel 2025 for detailed data on each segment). Micro-businesses with fewer than five employees were again particularly affected, as their average (nominal) turnover growth rate was again negative (-0.8%). In the aggregate, this was around EUR 28 billion less turnover volume than in the previous year. Counting the COVID-19 year 2020, that means the turnover of micro-businesses has thus fallen in three of the past five years. From a turnover perspective, they are therefore again among the 'losers', generating a total turnover in 2024 equal to the (nominal) level of the pre-COVID-19 year 2019. In other words, micro-businesses achieved little more than stagnation in the past five years. The extraordinarily heavy weight of this segment makes this development particularly problematic. Micro-businesses account for 81% of all SMEs in Germany and therefore shape the overall development of the SME sector.

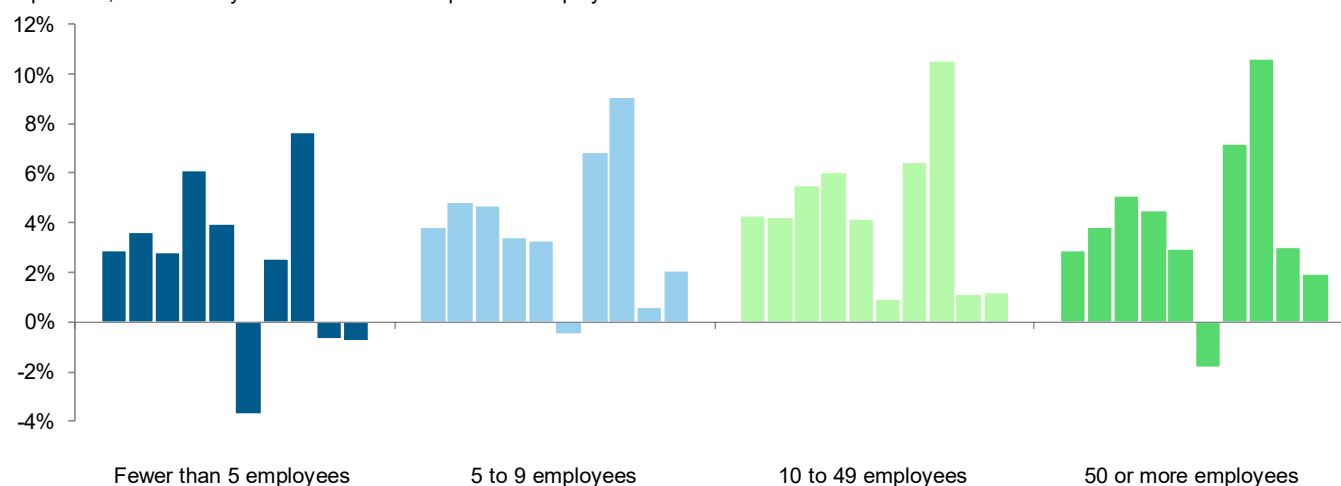
<sup>7</sup> There is no general deflator for aggregate turnover volume or a general price index that could be applied to turnover volume in the business sector. The Federal Statistical Office uses different deflators for various economic sectors or segments, and some of them are very detailed. Such a distinction can be made on the basis of the KfW SME Panel to a limited extent only. For this reason, we applied the deflator of gross domestic product to adjust SME turnover for prices.

<sup>8</sup> Cf. Federal Statistical Office (2025a), loc. cit.

<sup>9</sup> Unlike overall turnover, mean growth rates are influenced less by enterprises that experience very large variations in their absolute turnover. They would be reflected in aggregate volume but not in average growth rates.

**Figure 4: Annual SME turnover growth by size class (2015–2024)**

In per cent, size class by number of full-time equivalent employees



Source: KfW SME Panel 2025.

Other enterprise size classes in the SME sector also exhibited sluggish turnover in 2024 but the weakness was usually less pronounced. Enterprises in other size classes on average still achieved moderately positive turnover growth rates (Figure 4). Those that remained relatively steady were businesses offering knowledge-intensive services<sup>10</sup>, whose turnover development hardly changed compared with previous years (Figure 5). SME construction firms, as well as R&D-intensive manufacturing enterprises<sup>11</sup>, experienced significant turnover losses. Their development in 2024 could not keep pace with that of previous years.

The drop in turnover among other manufacturing enterprises<sup>12</sup> was apparently more than just an exception. The two exceptionally strong years after the COVID-19 crisis were now followed by two years of contraction. In 2024, nominal average turnover among SMEs operating in other manufacturing dropped by -0.3%. They are

of great importance for the overall development of SME manufacturing as they account for around three quarters of all businesses, the lion's share of this sector.

### Digital sales channels are on the up

Digital sales channels made a significant contribution to nominal turnover growth in the past year. Businesses generated EUR 306 billion in total with e-commerce<sup>13</sup>, which includes, for example, digital market places, online shops, procurement platforms and automated data exchange between businesses. This represented a nominal increase of 11% or EUR 30 billion in the digital sale of products and services. Thus, after two consecutive steep declines (2022: -11% / 2023: -5%), when digital sales lost ground to traditional sales channels after pandemic restrictions were lifted<sup>14</sup>, digital sales channels again became a more important building block in many SMEs' turnover.

<sup>10</sup> Knowledge-intensive services comprise service subsectors with an above-average share of university graduates in total employment and services with a strong focus on technology. These include, for example, architecture and engineering firms, law firms, tax and management consultancies, data processing and telecommunication services. The definition is based on what is known as the NIW/ISI list of research-intensive industries and services, which in turn follows the Federal Statistical Office's 'Classification of Economic Activities (WZ 2008)'.

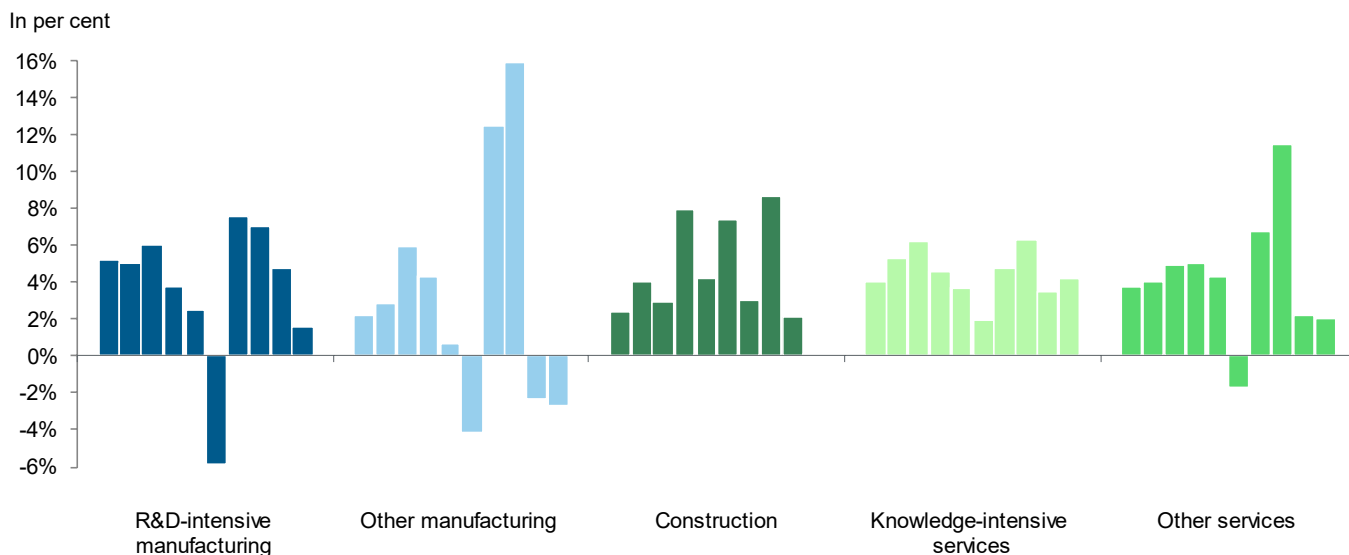
<sup>11</sup> Research- and development-intensive (R&D intensive) manufacturing is defined as those manufacturing sub-sectors whose average research and development intensity: ratio of R&D expenses to turnover) is higher than 3.5%. The definition is based on what is known as the NIW/ISI list of research-intensive industries and services, which in turn follows the Federal Statistical Office's 'Classification of Economic Activities (WZ 2008)'. Engineering, medical technology, instrumentation and control technology, vehicles, pharmaceuticals and office equipment are of particular quantitative importance.

<sup>12</sup> The subsegment of other manufacturing (non-R&D-intensive manufacturing) is mainly represented by enterprises operating in the food

industry, wood processing and the manufacture of metal products, as well as other manufacturing not further specified.

<sup>13</sup> The German Federal Statistical Office defines e-commerce as the buying and selling of products and services through electronic networks, especially via the internet or an EDI (electronic data interchange between computer systems of different enterprises). In order to count as e-commerce, the activity must involve ordering products or services using these electronic networks. Payment and delivery can be made using conventional means. A large portion of e-commerce involves automated transmission and further handling of recurring and easily predictable orders as part of business processes between enterprises.

<sup>14</sup> During the pandemic, businesses were able to prevent or offset a sharper downturn or losses in turnover (resulting from restrictions on retailers, sales forces or similar) by moving sales to digital channels or adding or expanding such channels. Schwartz, M., and Gerstenberger, J., (2021), KfW SME Panel 2021: SMEs have shown adaptability in the coronavirus crisis but cracks are appearing in the foundations of small businesses, KfW Research.

**Figure 5: Annual turnover growth in SMEs by sector (2015–2024)**

Source: KfW SME Panel 2025.

Macroeconomic data for the year 2024 also suggest that the trend is gaining momentum. Online and mail order sales reported by Destatis increased by 5.8% in nominal terms and 5.0% in real terms in 2024.<sup>15</sup> Figures from the German Retail Federation revealed a nominal increase of 3.8% for online sales.<sup>16</sup> This shows that SMEs performed much better in this area than the overall economy in 2024.

#### **Medium-term turnover expectations turned positive again in the aggregate, but ‘problem segments’ stand out here as well**

Confidence has returned to SMEs – but on a comparatively very low level. It is true that the medium-term business expectations up to the end of the year 2027 that were expressed by businesses during the survey period of the KfW SME Panel (February to June 2025) suggest that overall sentiment is unlikely to brighten noticeably. Even so, however, turnover expectations have turned positive again, if only minimally above the zero line (Figure 6).

With a share of 28%, many SMEs still expect their turnover to remain below the previous year’s level in the coming three years. Notably, however, 30% of SMEs also expect turnover to pick up in the medium term – a moderate increase of six percentage points on the

previous year. That puts the balance of positive minus negative turnover expectations back above the zero line at +2 percentage points, after falling into negative territory at -5 percentage points in the previous year for the first time since this indicator was recorded.

Irrespective of the positive trends, pessimism continues to clearly predominate in some segments of the SME business landscape. Other manufacturing enterprises (-10 percentage points on balance), micro-businesses (-1 percentage point on balance) and the traditionally rather pessimistic SME construction industry (-18 percentage points on balance) are far from showing any optimism. The two groups of businesses mentioned first have already been on a path of contraction for the past two years, and the data on medium-term turnover expectations up to 2027 provides no hope of any foreseeable improvement.

But there are segments that are significantly more optimistic. Despite the phase of economic weakness, larger businesses with 50 and more employees in particular are much more optimistic than all other segments under review (+32 percentage points on balance). Knowledge-intensive service SMEs, too, clearly have optimistic turnover expectations (+10 percentage points on balance).

<sup>15</sup> Federal Statistical Office (2025b), Retail turnover in 2024 up by 1.1% in real terms on 2023, press release No. 040 of 31 January 2025, Wiesbaden.

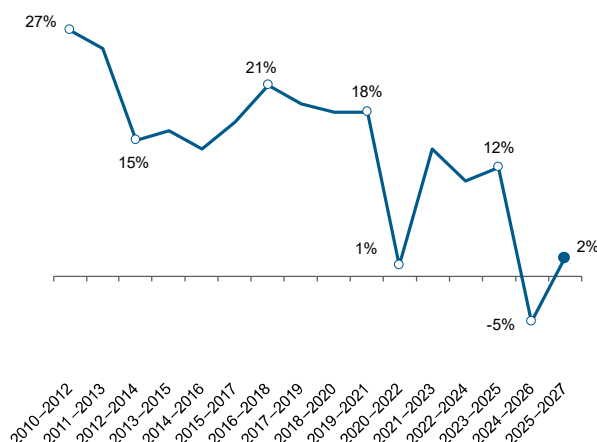
<sup>16</sup> German Retail Federation (HDE) (2025), Online Monitor 2025,

[https://einzelhandel.de/images/Konjunktur/Online\\_Monitor\\_2025\\_HDE.pdf](https://einzelhandel.de/images/Konjunktur/Online_Monitor_2025_HDE.pdf).



**Figure 6: SMEs' medium-term turnover expectations up to 2027**

In percentage points (balance between 'Increase' and 'Decrease')



Source: KfW SME Panel 2025.

### Profit margins in the SME sector are treading water

Small and medium-sized enterprises generally continue to exhibit a steady income situation. In 2024, the average profit margin in the SME sector stood at 7.0%, unchanged on the two previous years (Figure 7).<sup>17</sup> Given the generally rather weak turnover growth (see above) and a continuing high cost level, this can generally be seen as a positive development. In a historic comparison, too, the current profitability of small and medium-sized enterprises remains well above the values of the 2000s (average over the years 2005–2010: 5.3%). Nevertheless, businesses are still well below their previous record levels. Between 2015 and

2021, their average profit margins were consistently above 7% (7.5% in 2019).

The generally stable profit margins, however, mask a deterioration in certain structural areas. Slightly fewer businesses exhibited very high profitability than in the previous year. The share of businesses with a profit margin of 10% and more fell by 2 percentage points to 61% in 2024. At the same time, more businesses fell into the red again. The share of businesses with a negative profit margin rose to 12% in 2024 (after 11% in 2023 and 10% in 2022). But a comparison with historic levels shows that these shares are still moderate. In the crisis year 2009, for example, 16% of SMEs were suffering losses and in 2006 it was even 21%.

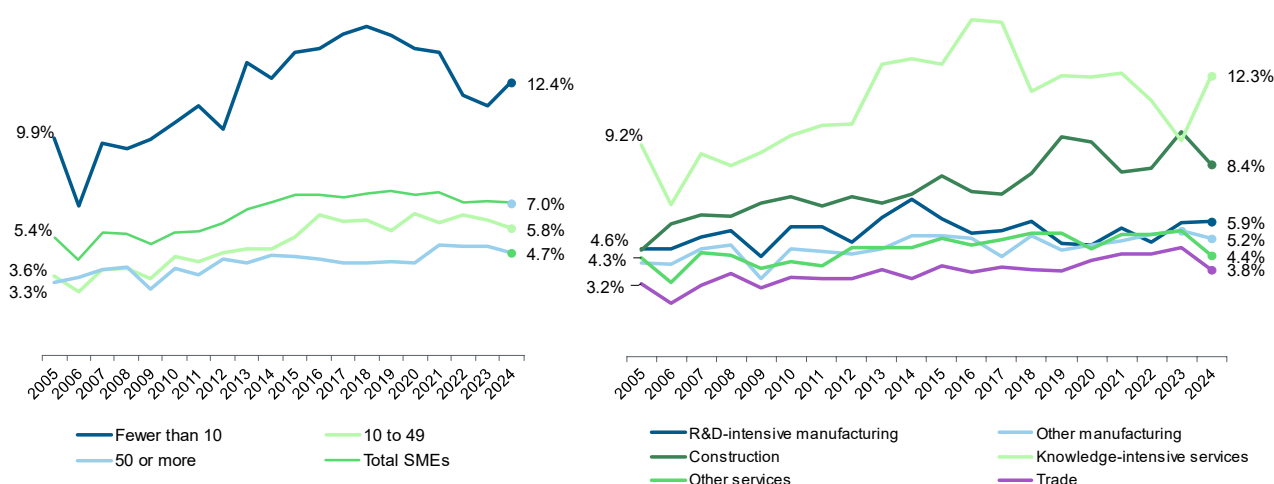
### Micro-businesses increased their profit margins for the first time in six years

The generally steady development of profit margins in 2024 was mainly driven by the segment of micro-businesses with fewer than 10 employees. For the first time in six years, SMEs in this size category were able to increase their average profitability again – by 1.1 percentage points to 12.4%. To be sure, that was still well below their peak of 15% in 2015 but they at least succeeded in halting the negative trend – despite continued weak turnover development (see above).

Small and larger SMEs, on the other hand, each suffered a 0.3 percentage-point drop in profitability last year.

**Figure 7: SME profit margins by size class (left) and sector (right)**

Size classes by number of full-time equivalent employees, figures in per cent



Source: KfW SME Panel 2025.

<sup>17</sup> Profit margin is defined as the ratio of pre-tax profit to turnover. The figure shows the mean values weighted against turnover.

In a sector comparison, the positive development in the segment of knowledge-intensive services, which include businesses such as architecture and engineering firms, law firms, tax and management consultancies, data processing and telecommunication services, merits specific mention. They again generated more profits from their turnover last year. With a noticeable increase of 2.9 percentage points to 12.3%, SMEs in this sector were back to the level before the energy crisis (12.4% in 2021). SMEs in the construction sector (-1.4 percentage points), in the segment of other services (-1.1 percentage points) and other manufacturing (-0.4 percentage points), on the other hand, experienced a decline in profitability.

### Further cost increases made it difficult for SMEs to raise their profit margins

The fact that the profit margins of SMEs continue to stagnate is also the result of continued cost pressure on businesses last year as well. Since mid-2021, a number of factors have significantly driven costs up for businesses in Germany. The consequences of the COVID-19 pandemic and Russia's attack on Ukraine have led to drastic price increases. They reached their

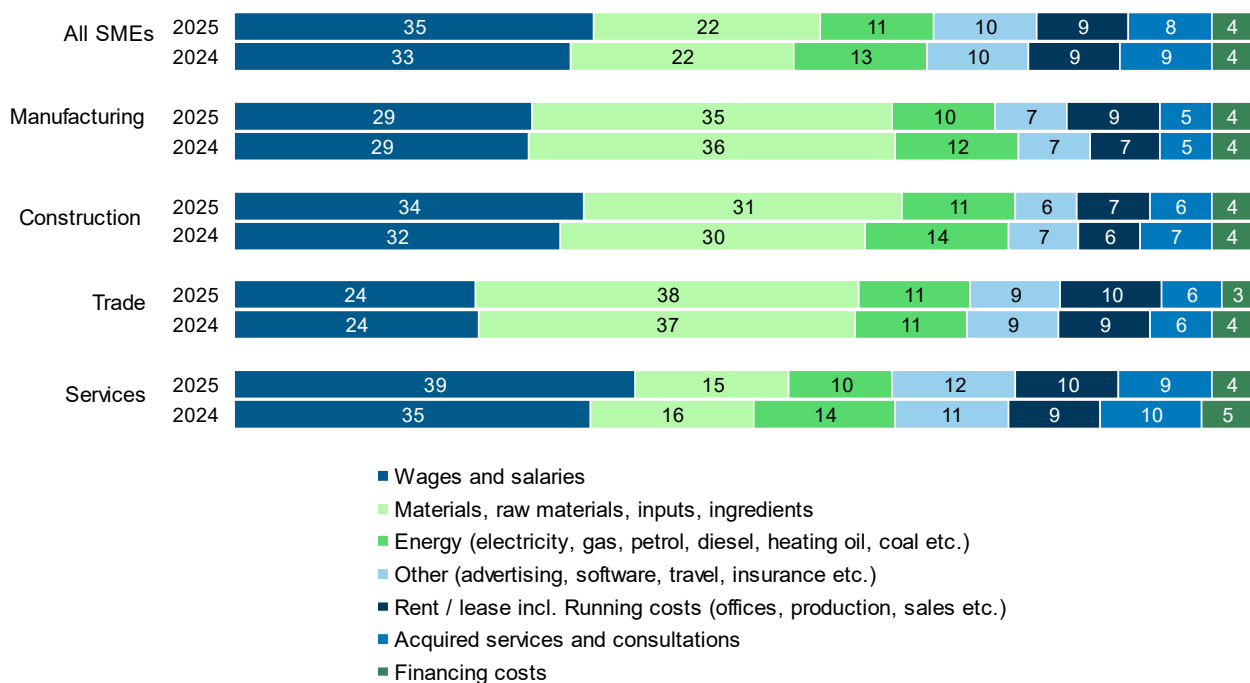
peak in 2022, when they were reflected in consumer prices (+8.7% compared with 2021) as well as producer prices for industrial products, which were more relevant for many businesses (+29.8% compared with 2021). Wage growth also picked up with a certain time-lag. In 2023, the growth of gross wages and salaries per worker increased to 6.4%, the highest level since the mid-1990s.

The rates of price increases have now eased significantly and have returned to a comparatively moderate level (consumer prices in 2024: +2.5% on 2023; producer prices for industrial products: -1.8%). The high wage growth, however, continues. In 2024, the growth of gross wages and salaries was 5.3% and thus remained on a historically high level.

As a result, wages and salaries have become more relevant as the main cost factor for businesses. A supplementary survey to the KfW SME Panel conducted in January 2025 revealed that wages and salaries currently make up around 35% of total costs incurred by SMEs, after averaging around 33% in April 2024 (Figure 8).

**Figure 8: Cost structure of small and medium-sized enterprises in 2024 vs. 2025**

Share in overall costs in per cent



Source: Supplementary surveys to the KfW SME Panel in April 2024 and January 2025

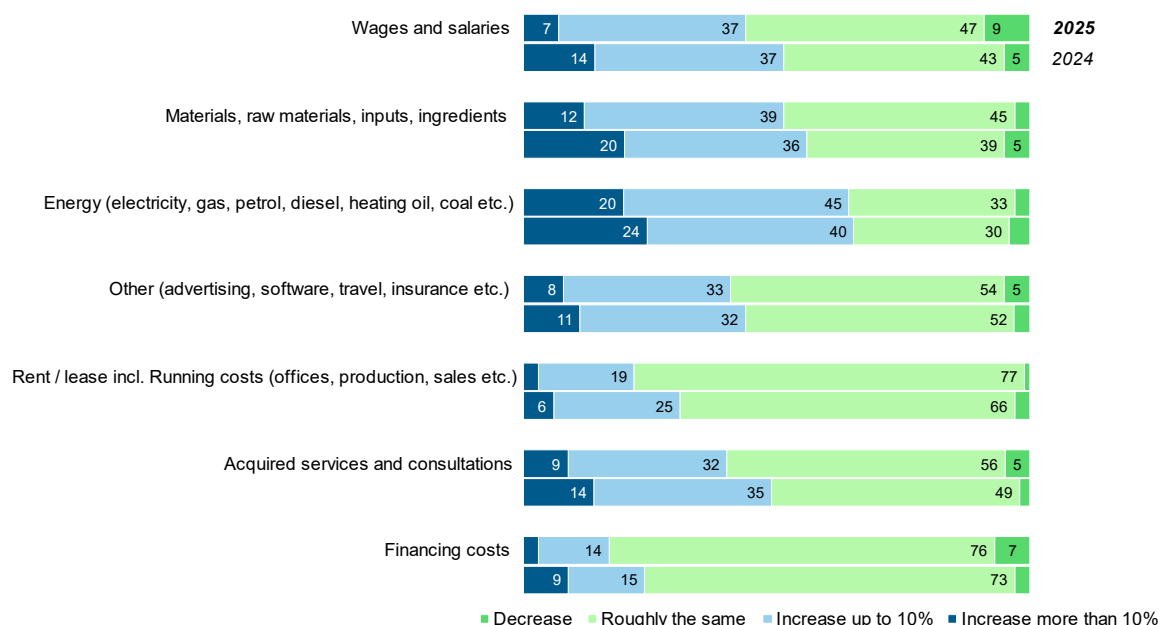
However, a large portion of small and medium-sized enterprises (58%) claim to be able to shoulder the higher costs on the level of January 2025 for an extended period. This may also have to do with the fact that businesses are able to pass on part of the increased (wage) costs to their customers.<sup>18</sup> In April 2024, however, the share of SMEs that describe the current cost level as reasonable still stood at 69%, which means the share has fallen by 11 percentage points within a year.

### SMEs expect costs to continue rising in 2025 but at a slower rate

The prospects for 2025 give little hope for a sustained recovery of profit margins. Many SMEs expect further cost increases this year as well. However, survey data from January 2025 suggest that they expect costs to rise at a slower pace (Figure 9). They show that businesses expect prices to rise in all cost blocks, although more slowly than in the previous year. Downward pressure on profit margins should therefore gradually ease, although their earnings situation is very unlikely to recover significantly in 2025 either.

**Figure 9: Expected cost increases of SMEs for all of 2025 compared with 2024**

In per cent



Source: Supplementary surveys to the KfW SME Panel in April 2024 and January 2025

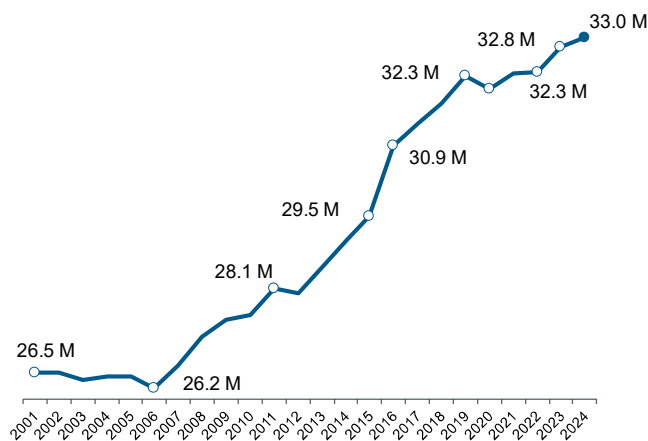
<sup>18</sup> SMEs already adopted a wide range of measures to offset the price increases in the spring of 2024. In a supplementary survey to the KfW SME Panel of April 2024, more than one third of SMEs reported having raised the prices of their products or services. Cf. Grewenig, E. and Schwartz, M. (2024), Aktuelles Kostenniveau für die meisten Unternehmen tragbar – weitere

Kostensteigerungen im Jahresablauf absehbar (Current cost level manageable for most enterprises – further cost increases foreseeable in the course of the year, in German only). Focus on Economics No. 465, KfW Research.

### Number of workers employed in the SME sector has reached a new high, exceeding 33 million for the first time

Irrespective of the difficult economic conditions they encountered in 2024, SMEs are more than living up to their reputation as the job engine of the German economy. Never before did so many people find employment in a small or medium-sized enterprise. The year 2024 saw significant employment growth of around 207,000 workers. That means a total of 33.01 million workers were employed by SMEs in 2024 (Figure 10).

**Figure 10: SME workforce**



Source: KfW SME Panel 2025.

In the past twenty years, employment in SMEs thus grew by around seven million people. In retrospect, even the COVID-19 years forced a correction on employment in the SME sector that was only minor and quickly overcome.<sup>19</sup> The nearly uninterrupted growth experienced since 2006 came to a stop as a result but subsequently continued seamlessly again. Employment numbers increased again in the past four years.

Lately, however, the momentum of employment growth was more subdued than in the previous year, when almost half a million new jobs were created in the SME sector. Thus, employment in the SME sector is moving roughly in line with employment in the overall economy. Here, too, the increase was significantly lower (+72,000 people). On average for the year 2024, around 46.1 million people were gainfully employed in Germany – more than at any time since German unification in 1990.<sup>20</sup>

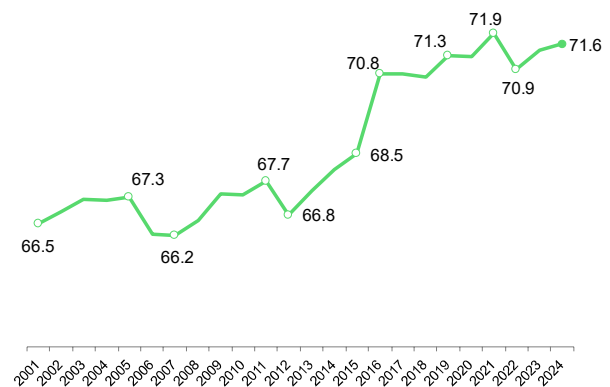
<sup>19</sup> The crisis-induced job losses ended up being moderate, and only some of the pessimistic expectations expressed by businesses at the beginning of the pandemic came true. The short-time work allowance, which gave many employers a chance to keep their workers on the payroll, was a factor that stabilised employment.

<sup>20</sup> Federal Statistical Office (2025c), Number of persons in employment reaches new high in 2024, Press release No. 001 of 2 January 2025, Wiesbaden.

With a view to total employment in Germany, it is also clear that small and medium-sized enterprises were responsible for the entire employment growth across the aggregate economy in 2024. The increase in employment, too, was higher among SMEs last year than in the aggregate economy. SMEs thus gained in importance as employers. As a consequence, the share of SMEs in overall employment increased slightly to 71.6% (Figure 11).

**Figure 11: Share of SMEs in total employment in Germany**

In per cent



Source: KfW SME Panel 2025, Destatis

### Employment has increased on a broad front with two exceptions

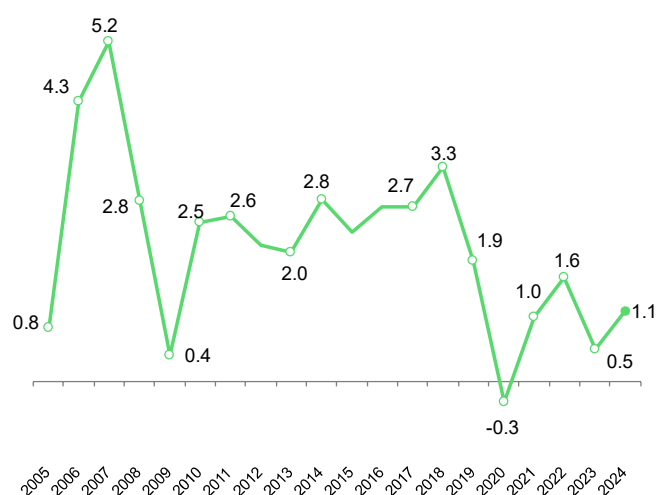
Full-time job equivalents (FTEs)<sup>21</sup> grew at an average rate of approx. 1.1% in the year 2024 (Figure 12). Even if it remained positive (and stronger than in the previous year), the trend remains muted and well below the average of the pre-crisis years (five-year average 2015–2019: 2.6%). Also noteworthy is that even during the years of the economic and financial crisis (except 2009), employment developed at a more positive rate than now. This can be taken as a clear indication of what a lasting effect the past crisis years have had on SMEs.

FTE growth was spread across many shoulders in 2024. Positive growth rates were identified in all four enterprise size classes (Figure 13). This is encouraging particularly for businesses in the smaller size classes, which were hit harder by the impact of the pandemic and lost employment in the previous year as well.

<sup>21</sup> The employment growth rate described here was determined on the basis of full-time equivalents (FTEs). As opposed to showing the number of persons in gainful employment, this concept maps actual labour demand. FTE employees are calculated from the number of full-time employees (including business owners) plus the number of part-time employees multiplied by a factor of 0.5. Apprentices are not included.

**Figure 12: Average annual SME employment growth**

In per cent, growth of full-time equivalent employees

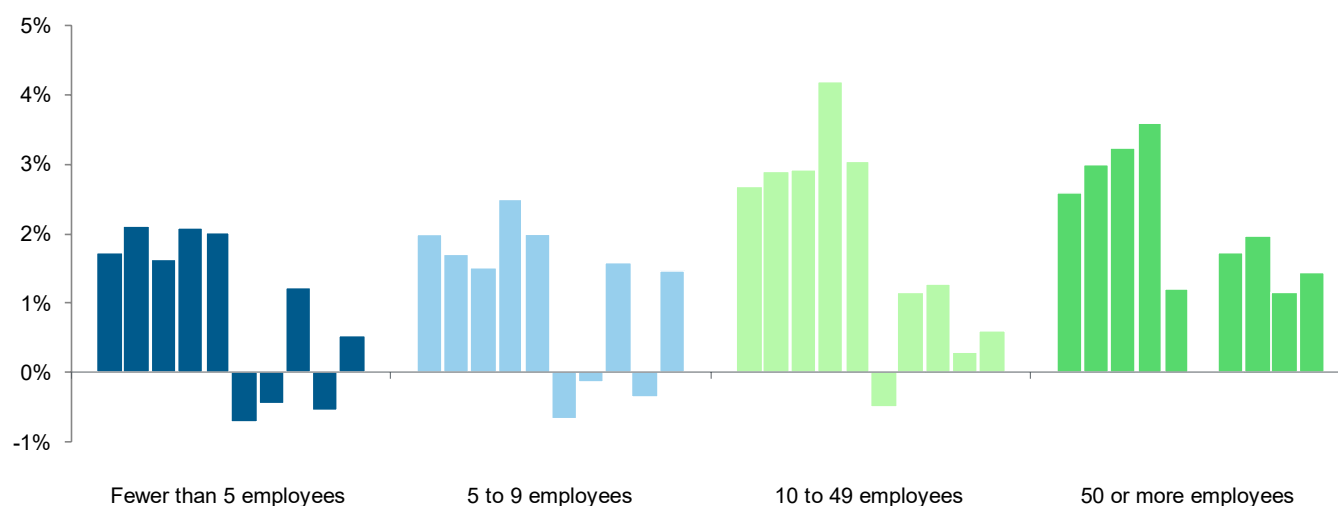


Source: KfW SME Panel 2025

A look at the different sectors reveals a much broader range in employment growth rates (Figure 14). Businesses that provide knowledge-intensive services achieved strong growth as usual, again shining as anchors of stability with respect to employment in the SME sector (+2.8%). R&D-intensive manufacturing SMEs (+0.7% on average) and businesses offering other services<sup>22</sup> (+1.0%) also reported positive growth. Other manufacturing enterprises and SME construction firms, on the other hand, were the problem children again, as they were in the previous year. Both segments recorded job cuts for the second consecutive year. Overall, other manufacturing appears to be particularly affected by the weak economic development (see also the chapter on turnover development).

**Figure 13: Annual employment growth in the SME sector by size class (2015–2024)**

In per cent, size class by number of full-time equivalent employees

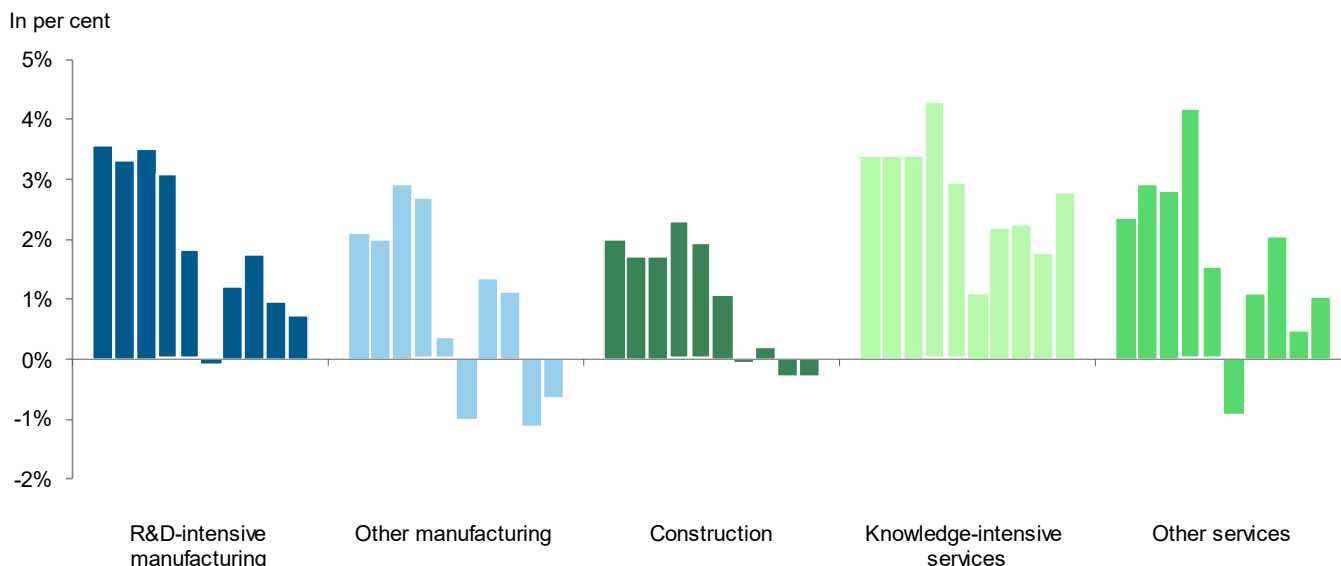


Source: KfW SME Panel 2025

<sup>22</sup> Other services include many SME retailers or wholesalers. Also among

them are businesses in the areas of nursing, training, culture and sport.



**Figure 14: Annual employment growth in SMEs by sector (2015–2024)**

Source: KfW SME Panel 2025

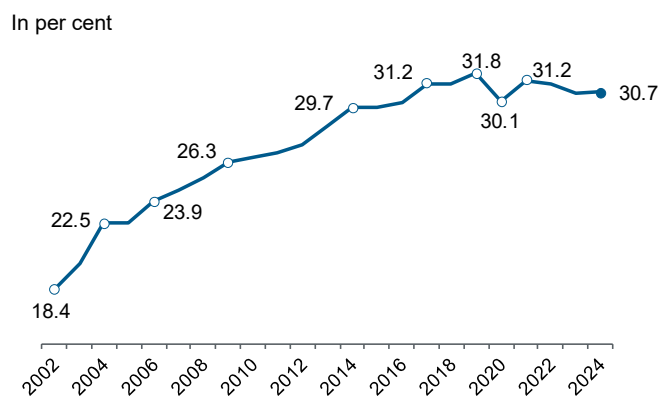
### Soaring employment growth will probably end in 2025

Current economic figures on the development of employment in Germany indicate that – despite all crises of the past years – the ongoing employment growth in the SME sector could come to an end in 2025. In May 2025, around 45.8 million people in Germany were gainfully employed.<sup>23</sup> Furthermore, moderate downward trends have been discernible in the labour market since November 2024. The KfW-ifo SME Barometer, too, has identified decreasing employment expectations of small and medium-sized enterprises for almost all of the year 2025. Expectations have at least stabilised at the current margin.<sup>24</sup> The ifo Employment Barometer has also reported cautious hiring plans that have been on the decline in 2025 among enterprises in Germany.<sup>25</sup>

### Equity ratio is up slightly

Despite the economically challenging environment, German SMEs have a solid capital structure. After moderate declines in the two previous years, small and medium-sized enterprises were able to increase their equity ratio again slightly to 30.7% in 2024 (Figure 15).<sup>26</sup> This positive development is attributable to a broad improvement in the equity situation across the SME landscape (Figure 16). The share of thinly capitalised SMEs with low equity ratios of less than 10% has fallen again noticeably – from 33.6% to

28.4%. In addition, only 6% of businesses had a negative equity ratio in 2024 – half that of the previous year (12% in 2023). At the same time, the share of SMEs with a very high equity ratio of 30% and more rose by 11 percentage points to 48.6%. As a result, the median equity ratio for the SME sector as a whole recovered and stood at 25.9% last year (22.7% in 2023). That means half of all SMEs each had an equity ratio above and below that level.

**Figure 15: Equity ratio in the SME sector**

Source: KfW SME Panel 2025

<sup>23</sup> Federal Statistical Office (2024), Employment almost unchanged in June 2025, press release No. 280 of 31 July 2025, Wiesbaden.

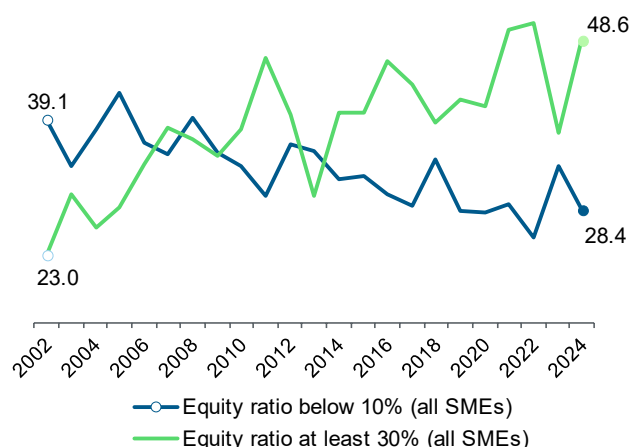
<sup>24</sup> Scheuermeyer, P. (2025): loc. cit.

<sup>25</sup> Ifo Institute (2025), ifo Beschäftigungsbarometer: Stellenabbau verlangsamt sich (ifo Employment Barometer: Job cuts are slowing – our title translation, in German) (July 2025), <https://www.ifo.de/fakten/2025-07-29/stellenabbau-verlangsamt-sich-juli-2025>

<sup>26</sup> The equity ratio is defined as the quotient of equity and the balance sheet total. The figure shows the mean values of the equity ratio weighted against the balance sheet total. The calculations apply only to enterprises required to draw up balance sheets.

**Figure 16: Enterprises with a high and low equity ratio – SMEs overall**

In per cent



Source: KfW SME Panel 2025

### Equity buffer of micro-businesses increased noticeably – larger SMEs experienced a drop

The positive development in the segment of micro-businesses with fewer than 10 employees deserves particular emphasis (Figure 17, left). For the first time since 2021, the average equity ratio in this size class has increased again tangibly, reaching a new high of 23.8% (22.3% in 2023). The profitability gains which micro-businesses were able to achieve last year (see above) likely made an important contribution to this, as those gains make it easier for them to use retained earnings to build up their equity buffers. Accordingly, the share of micro-businesses with a relatively high equity ratio also rose significantly and recently stood at 47.4%, while the share of thinly capitalised micro-businesses fell significantly (Figure 18).

An increase in the mean equity ratio could also be observed among enterprises in the medium-sized segment (SMEs with 10 to 49 employees) in 2024, after it had dropped steeply in the previous year. At 30.9% – after 29.1% in 2023 –, however, it was still well below the peak of 33.5% of the year 2018. By contrast, larger SMEs had to come to grips with significant declines in their equity base. The average equity ratio in this SME segment fell by 2.6 percentage points to 33.0%. But in structural terms, larger SMEs remain in good shape. The share of enterprises with a very high equity ratio of over 30% stands at a respectable 58.5%.

Owing to the opposing trends in the individual size segments of the SME sector, the distance between the equity ratios of small and larger SMEs of the past years narrowed again significantly in 2024. Most recently, the difference was around 9 percentage points and thus similar to the differences that were also observable in the 2002 to 2011 period. Between 2012 and 2023, the difference averaged 12.5 percentage points.

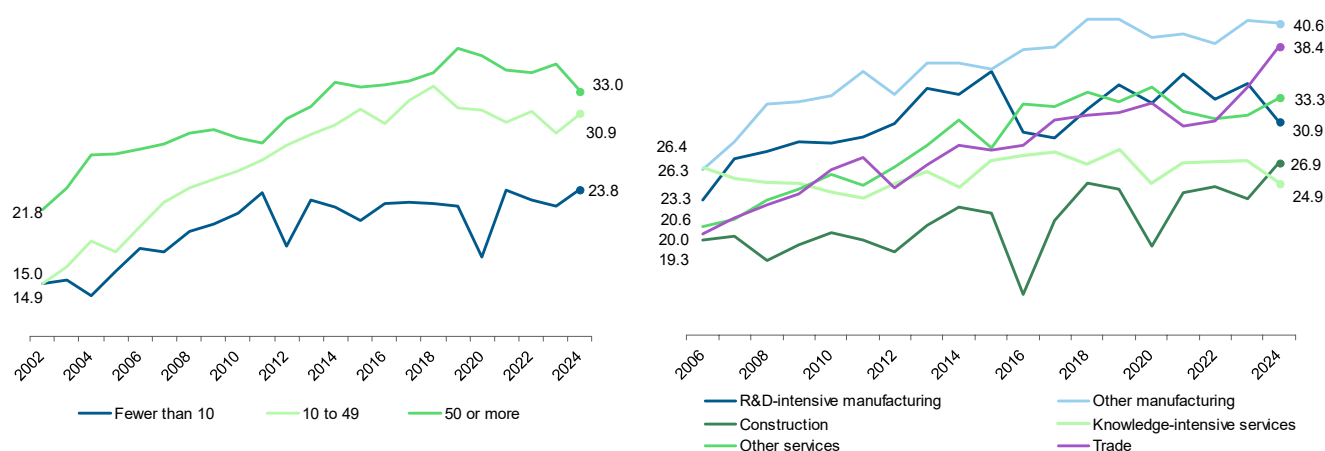
### Equity base has recovered in the construction sector but fallen in the manufacturing

A sector comparison shows that the economic challenges have had very different impacts on the capital structure of enterprises depending on what sector they belonged to (Figure 17, right).

After manufacturing enterprises improved their capital structure significantly in 2023, they had to come to terms with a significant decline in equity reserves last year. The average equity ratio in R&D-intensive manufacturing fell sharply by 3.9 percentage points to 30.9% (2023: 34.8%).

**Figure 17: SMEs' equity ratios by size class (left) and sector (right)**

Per cent of SMEs; size class by number of full-time equivalent employees



Source: KfW SME Panel 2025

In other manufacturing it decreased slightly by 0.3 percentage points to 40.6% (2023: 41%). Despite these losses, the equity base of manufacturing SMEs remains on a comparatively high level. Not so in the segment of knowledge-intensive service providers. They, too, experienced an average 2.3 percentage-point decline in average equity ratios in 2024. Unlike manufacturing enterprises, however, their equity buffer is a significantly thinner 24.9%.

Retail and construction SMEs, on the other hand, were able to strengthen their capital structure last year. Their average equity ratios rose by 4 and 3.6 percentage points, respectively, to new record highs of 38.4 and 26.9%. The equity base continued to improve in the segment of other service providers as well, with the average equity ratio increasing to 33.3 after 31.7% in 2023.

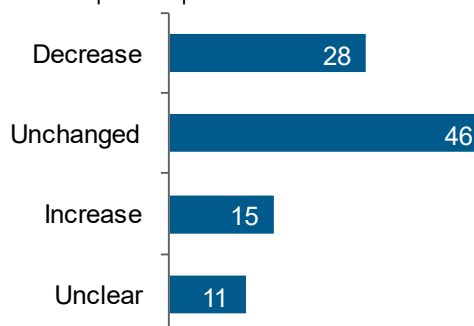
### Outlook on equity ratio for the current financial year is mixed

In the current business year, many SMEs are rather concerned about their capital structure, since a tangible increase in equity ratios across the SME sector as a whole is rather unlikely in 2025 (Figure 19). In September 2025, more than one in four enterprises (28%) expected their equity ratio to fall. Only around 15% of SMEs assume that their equity base will develop

positively, while a further 46% expect their equity ratio to remain largely stable.

**Figure 19: Expected development of equity ratio in the SME sector in 2025**

Shares of enterprises in per cent



Note: Expected development compared with the end of the year 2024

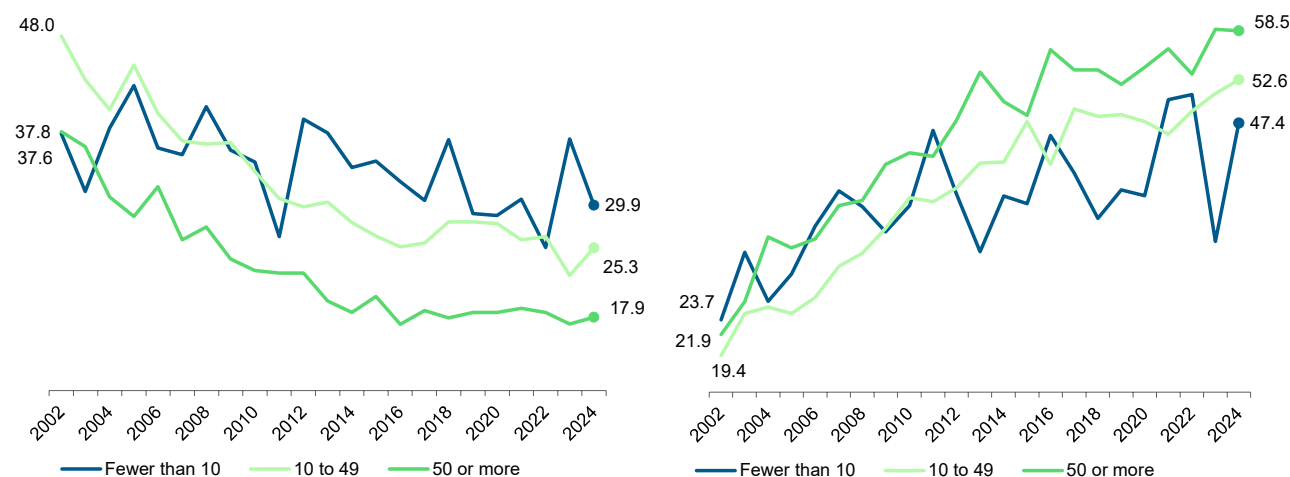
Source: Supplementary survey to the KfW SME Panel 2025, September 2025

### Investment activity showed no signs of any boom in 2024 either

Investment activity has been sluggish in Germany since the end of the 2010s. Not least, business investment here is in freefall.<sup>27</sup> Germany's businesses do not invest often enough and too little. Despite showing intermittent signs of recovery, there has still not been a lasting upward trend.

**Figure 18: Businesses with a low (left) and high equity ratio (right)**

Per cent of SMEs; size class by number of full-time equivalent employees



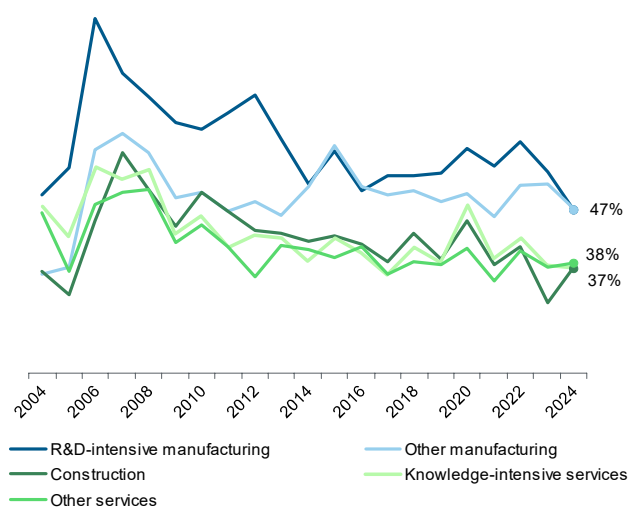
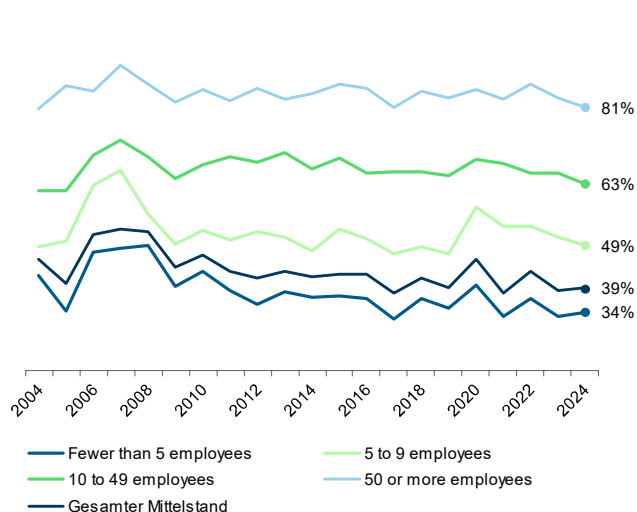
Source: KfW SME Panel 2025

<sup>27</sup> Scheuermeyer, P. (2025), Investitionsentwicklung in Deutschland – Eine Bestandsaufnahme (Development of investment in Germany – taking stock – in German only), Focus on Economics No. 485, KfW Research – Schwartz, M. and Gerstenberger, J., (2024), Alterung: unterschätztes Hemmnis von

Investitionen im Mittelstand (Ageing: underestimated barrier to investment by SMEs – in German only), Focus on Economics No. 508, KfW Research.

**Figure 20: Percentages of investing SMEs by size class (left) and sector (right)**

Size classes by number of full-time equivalent employees



Source: KfW SME Panel 2025

There is little prospect of a rebound as the difficult conditions continue to weigh on investment appetite. Even so, the investment needs are more urgent than ever. Investment is not just essential for businesses to secure their competitiveness. The transition to a climate-neutral, sustainable economy requires high levels of investment.<sup>28</sup> And businesses have a lot of catching up to do in digitalisation as well.<sup>29</sup>

Still, attempts to find any sign of enthusiasm are futile. This applies all the more to the 'Mittelstand'. The investment appetite of small and medium-sized enterprises has stagnated on a low level for years. The willingness of SMEs to tackle investment projects stalled in the past year and therefore remains close to the all-time low. The share of SMEs with investment projects stood at 39%, the same as last year (Figure 20). Around 1.51 million small and medium-sized enterprises thus carried out investment projects.

It can be said without hesitation that this trend is occurring all across the SME business landscape. No segment comes close to the levels of past years. Only micro-businesses and construction SMEs invested clearly more often in 2024 than before. The largest drop in investment propensity was exhibited by SMEs in the two sub-segments of the manufacturing sector,

with -6.1 percentage points (R&D-intensive manufacturing) and -4.0 percentage points (other manufacturing).

### Familiar trifecta of barriers is preventing businesses from investing

Three major factors continue to dominate the investment barriers and it is precisely these three most important barriers that became even more relevant last year than the previous year (Figure 21). In 2025, half of all SMEs (50%) see the price levels of energy, materials and wages as a (very) constraining factor for their own investment activity. It closely follows their view of Germany's overall economic development (51%). This clearly reflects the difficult economic situation and, thus, the lack of certainty which businesses need. This year it is compounded by uncertainties around the trade policy of the US administration and the impact of German fiscal policy. Both have likely exacerbated the situation.

Businesses also consistently describe legal requirements as a relevant investment barrier (49%). A supplementary analysis to the KfW SME Panel has revealed that the SME workforce spends on average around seven per cent of their working time (that is, an average of 32 hours per month) on administrative processes.<sup>30</sup>

<sup>28</sup> Brüggemann et al. (2024), KfW Climate Barometer 2024: Weak economy slows down SMEs' climate investment – but large enterprises are achieving real growth, KfW Research.

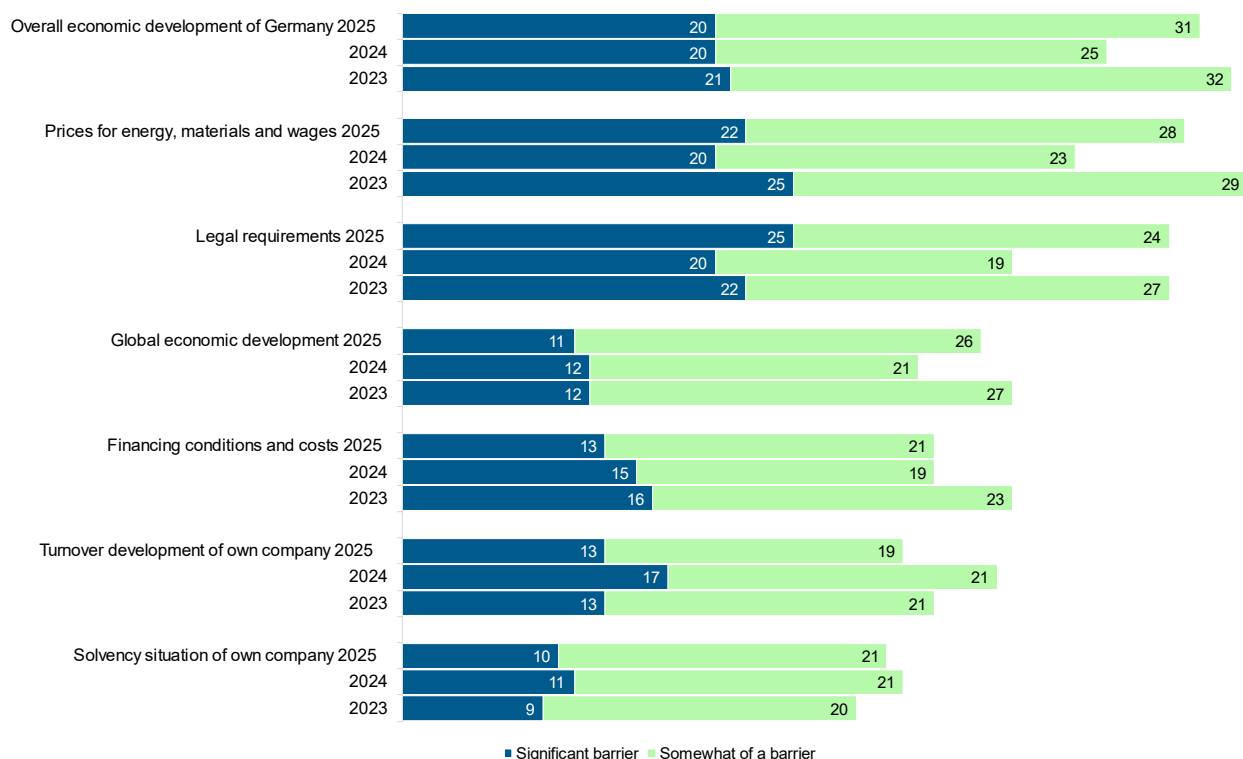
<sup>29</sup> Zimmermann, V. (2025), KfW SME Digitalisation Report 2024: Surge in digitalisation triggered by the COVID-19 pandemic continues despite weak economy, KfW Research – Zimmermann, V. (2025), KfW SME Innovation

Report 2024: Economic activity puts the brakes on innovation activity, KfW Research.

<sup>30</sup> Schwartz, M. (2025), SMEs spend seven per cent of their working time on administrative processes, Focus on Economics No. 495, KfW Research.

**Figure 21: Investment barriers**

In per cent



Source: KfW SME Panel 2025

Around 1.5 billion working hours were dedicated to compliance with legal requirements in the SME sector. Thus, work carried out to comply with legal requirements accounted for around 1.5% of the total annual costs of small and medium-sized enterprises. It is therefore unsurprising that SMEs see bureaucracy as by far the greatest risk to competitiveness at their German location<sup>31</sup> and that it tops the list of adverse factors. Surveys conducted recently – for example by Creditreform<sup>32</sup>, DIHK<sup>33</sup>, DZ Bank<sup>34</sup> or DSGVO<sup>35</sup> – revealed that SMEs regard cutting red tape as the most pressing economic policy issue today.

### On average, businesses invest little more than before

After the average (nominal) investment volume of an investing SME increased over three consecutive years – as a result of inflationary price increases and increased large-scale projects –, there was hardly any movement in the year 2024. Among those small and

medium-sized enterprises that invested, the average annual amount invested increased slightly by EUR 4,000 to EUR 204,000. The sideways movement is underscored by the findings on investment intensity (investment volume per full-time equivalent employee). In the year 2024, that figure sat nearly unchanged at around EUR 9,400 (+ EUR 100, detailed figures can be obtained from the Volume of tables).

The fact that the investment volume rather increased on a broad front and the average value was driven less than previously by a comparatively small number of very extensive projects is demonstrated by the median value. It rose relatively strongly and stood at around EUR 38,000 in 2024 (+ EUR 8,000 compared with 2023).

<sup>31</sup> Abel-Koch, J. (2024), SMEs see growing risks to their international competitiveness. Focus on Economics No. 471, KfW Research.

<sup>32</sup> [https://www.creditreform.de/fileadmin/user\\_upload/central\\_files/News/News\\_Wirtschaftsforschung/2024/Wirtschaftslage\\_Mittelstand/2024-09-30\\_AY\\_OE\\_analyse\\_MIT-herbst-2024.pdf](https://www.creditreform.de/fileadmin/user_upload/central_files/News/News_Wirtschaftsforschung/2024/Wirtschaftslage_Mittelstand/2024-09-30_AY_OE_analyse_MIT-herbst-2024.pdf)

<sup>33</sup> <https://www.dihk.de/resource/blob/123312/d6fd9a406d4de6d478388e633b5a>

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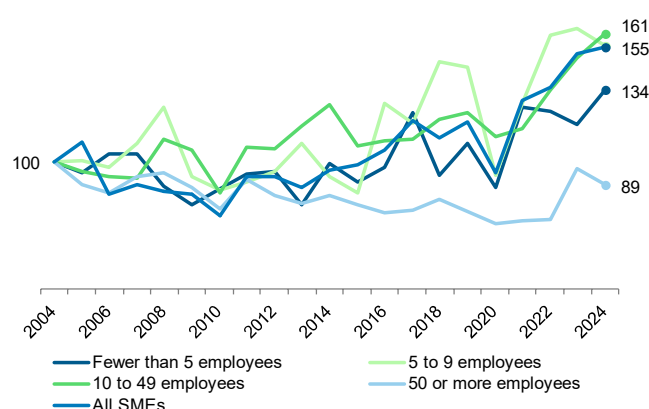
<sup>34</sup>

[https://firmenkunden.dzbank.de/content/dam/firmenkunden/volkswirtschaft/mit\\_telstandsstudie/mim-h2024/Mittelstand-im-Mittelpunkt-Herbst-2024.pdf](https://firmenkunden.dzbank.de/content/dam/firmenkunden/volkswirtschaft/mit_telstandsstudie/mim-h2024/Mittelstand-im-Mittelpunkt-Herbst-2024.pdf)

<sup>35</sup> [https://www.dsgv.de/content/dam/dsgv-de/sparkassen-finanzzgruppe/diagnose-mittelstand-2024/20241119\\_WEB\\_final\\_DM\\_24\\_DE.pdf](https://www.dsgv.de/content/dam/dsgv-de/sparkassen-finanzzgruppe/diagnose-mittelstand-2024/20241119_WEB_final_DM_24_DE.pdf)



**Figure 22: Development of the average annual investment volume per enterprise**



Only enterprises with completed investments, indexed development, 2004=100, size classes by full-time equivalent employees.

Source: KfW SME Panel 2025

The rather stagnating investment volumes are driven by the behaviour of larger SMEs with 50 and more employees (Figure 22). Their development has decoupled from the smaller size classes in the SME sector for around ten years now. Or, to put it another way: Larger SMEs have been reluctant to invest for quite some time and that has slowed investment activity in the SME sector overall (based on volume of funds invested). Their overall investment propensity is decidedly high, to be sure (Figure 20, left), but unlike in smaller size classes, the volumes they invest have trended downwards since 2004.

### New investment by SMEs has grown minimally

The consistent investment frequency coupled with only moderate growth in the average volume of funds invested has generated moderate nominal growth in **new investment** by SMEs overall. In the past year, small and medium-sized enterprises' (nominal) investment in new plant, equipment and buildings (gross fixed capital formation) increased by approx. EUR 2 billion, or 1.1%. New investment by SMEs thus amounted to approx. EUR 221 billion in 2024 (Figure 23). The segment analysis revealed that larger SMEs and those operating in service industries took the lion's share (Figure 24). On a price-adjusted basis – when applying the corresponding deflator of gross fixed capital formation – the volume of new investment was again negative (-1.4% in real terms), so that the slightly higher volume of investment was driven solely by inflation in 2024 as well.

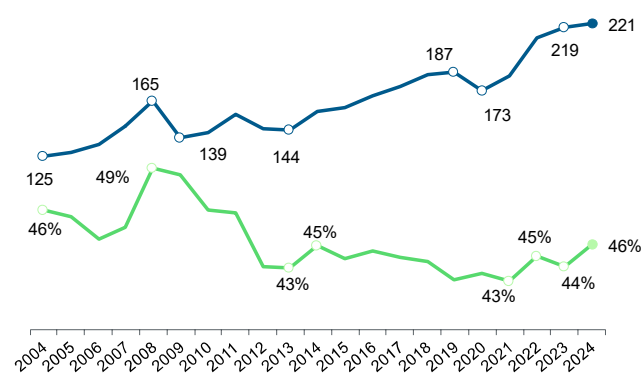
SMEs invested slightly more in **second-hand goods** than in the previous year (around EUR 35 billion in nominal terms – an increase of EUR 4 billion). In the aggregate, the **volume of total investment** in the SME sector rose by EUR 6 billion in nominal terms or approx. 2.4% (-0.2% in real terms) to EUR 256 billion.

### Large enterprises recorded a (steeper) drop in new investment

Whereas SMEs recorded a slight increase in new investment at least in nominal terms, the entire business sector in Germany recorded a decrease. After the most recent revision of the national accounts of August 2025, gross fixed capital formation across all enterprises<sup>36</sup> fell sharply by around EUR 12 billion in nominal terms to around EUR 485 billion, which would represent a 4.9% drop in price-adjusted terms. Large enterprises with an annual turnover in excess of EUR 500 million accounted for EUR 264 billion of this sum, with their new investment falling by 5%, or EUR 14 billion (-7.4% in price-adjusted terms).

In other words, last year's decline in corporate gross fixed capital formation in nominal terms was driven entirely by large enterprises. Accordingly, the share of SMEs in overall new business investment by all enterprises rose by two percentage points to currently 46% (Figure 23).

**Figure 23: New investment by SMEs**



Blue line: volume in EUR billions (nominal); green line: share of SMEs in total business investment

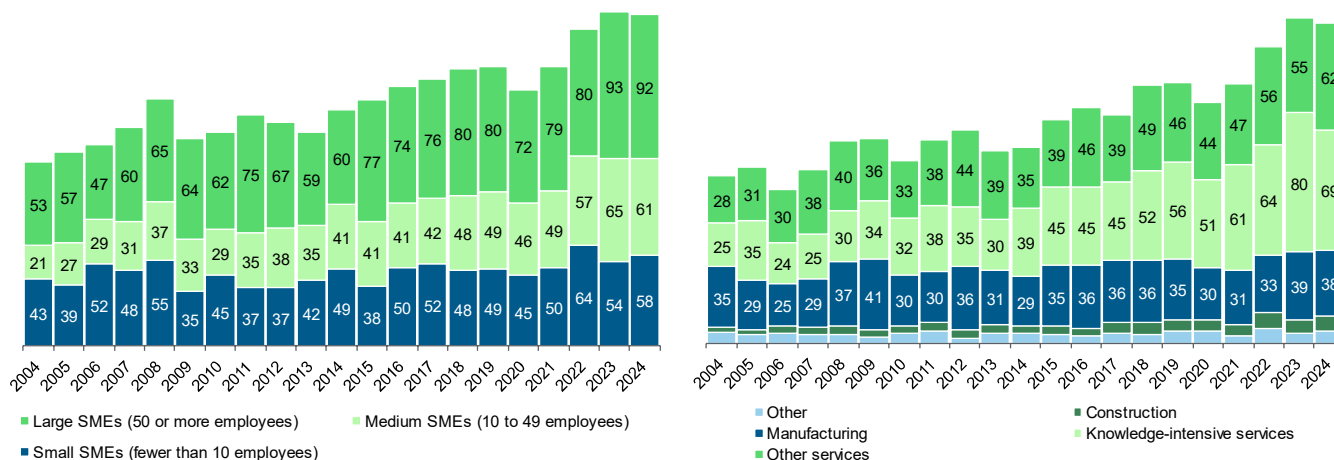
Sources: KfW SME Panel 2025, Destatis (national accounts as at August 2025)

<sup>36</sup> Gross fixed capital formation in the business sector comprises private sector investment in machinery and equipment plus construction (without

residential construction).

**Figure 24: New investment in the SME sector by segment**

EUR in billions (nominal); size class by number of full-time equivalent employees



Note: The extrapolation by employment size class of SMEs does not include companies of the remaining sectors. Consequently, the individual data on new investments undertaken by the SME size classes does not add up to the total sum of new investment (gross fixed capital formation) shown in the text.

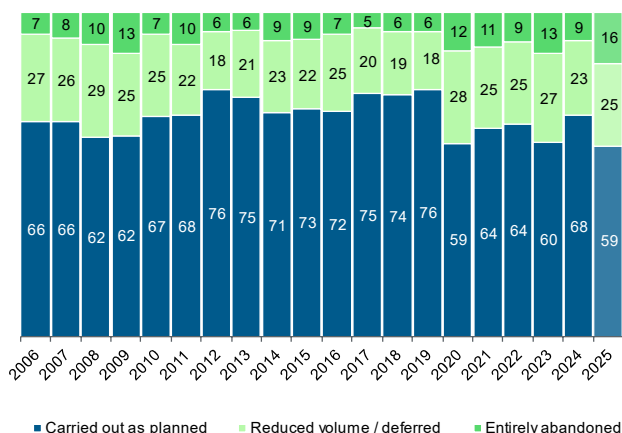
Source: KfW SME Panel 2025

### Investment projects were more often completed as planned in 2024

The data on modifications to investment plans made during the course of the year are a subtle indication that investment sentiment among SMEs turned slightly positive last year (Figure 25). The share of businesses that actually implemented investment projects they had planned at the start of 2024 stood at 68%. To be sure, that was still quite low compared with the years before the COVID-19 crisis, as 75% of all projects were actually implemented each year on average between 2012 and 2019. Compared with the past four years, however, it was a significant jump. The trend is pointing upward.

**Figure 25: Implementation of planned investment projects in the years 2024 and 2025**

Percentage of enterprises



Sources: KfW SME Panel 2025; supplementary survey to the KfW SME Panel 2025, September 2025

Accordingly, the level of plan revisions was relatively low in 2024. Roughly one quarter of enterprises that had considered investing in their business in 2024 at the start of the year scaled back or deferred those investment projects to a later date (-4 percentage points). And the share of enterprises that abandoned investment projects completely dropped at the same rate. Last year, that share was 9%.

### Cautious indications of an investment rebound in the current year

There are also very cautious signs that businesses have continued to become more optimistic and investment activity among SMEs will rebound slightly. Reflecting the expectations expressed by businesses, the investment outlook for the current year appears to be somewhat brighter than last year. Thus, 23% of SMEs reported that they wanted to invest less in 2025. Around 25%, however, are planning to invest more. The balance is positive, albeit only moderately. Last year, the balance was still slightly negative (-2 percentage points). Even so, in early September 2025 around 50% of SMEs stated that they had plans to invest in the current financial year. Thus far, a mere 59% reported having implemented them as intended, but that figure may still rise up to the end of the year. At the time of the survey, one in four businesses (25%) reported having postponed or scaled back the investment projects planned at the beginning of the year. Around 16% of SMEs stated that they completely abandoned their investment plans.

There have recently been fewer positive signs for the economy as a whole. After a still slightly positive start to the year (+0.3% in the first quarter), business

investment in Germany fell sharply at a rate of -1.4% (adjusted for price, seasonal and calendar variations) in the second quarter of 2025. Fixed capital formation in machinery, equipment and vehicles exhibited particularly strong downward momentum – -1.9%. Investment incentives were recently promised not least as part of the plans of the Federal Government. Tax relief (for example, the gradual reduction in the corporate tax rate from 1 January 2028), depreciation allowances (for example, for machinery, equipment or electric vehicles) and the Infrastructure Fund are intended to provide impetus.

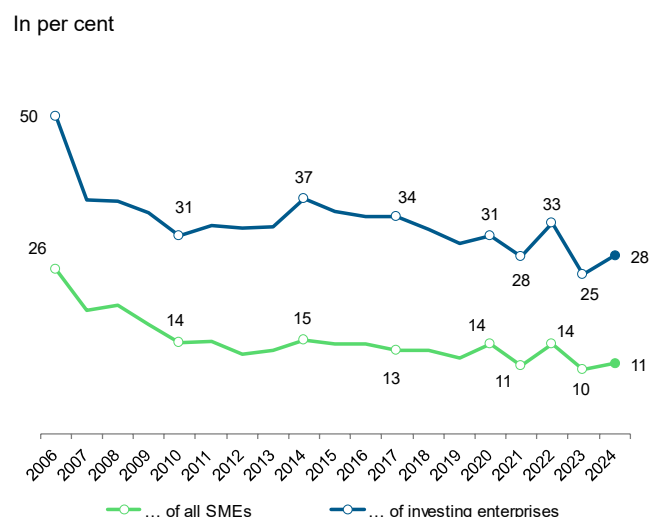
### SMEs have become slightly more interested in credit finance

The easing of monetary policy implemented by the ECB in the summer of 2024 led to a drop in interest rates for business loans. Even if the hope that this would create momentum for business investment has not really materialised<sup>37</sup>, at least SMEs have shown a growing interest in loans to finance investments. The credit market has picked up some momentum again.

The readiness or desire of SMEs to negotiate investment loans grew again slightly in 2024 after falling to a historic low (Figure 26). A total of 430,000 SMEs conducted negotiations with banks and savings banks on loans to finance their investment activities in 2024. Roughly one in ten small and medium-sized enterprises (+1 percentage points) or slightly more than one in four SMEs with investment projects (+3 percentage points) thus chose the pathway of a loan negotiation.

It is surely too early to see this as a trend reversal that points the way forward. Even if the trend remains positive in the course of the year, previous levels are likely still a long way off for SMEs. For example, around 700,000 businesses were in loan negotiations at the time of the economic and financial crisis, and more than 900,000 in the year 2006. Banks have recently set increasingly higher bars in loan negotiations with small and medium-sized enterprises.<sup>38</sup> In order for the still cautious rebound in business lending to gain momentum, the German economy would have to depart from its persistent course of stagnation or recession, trade policy uncertainty would need to ease on a sustained basis, and a noticeable economic upswing would have to occur.

**Figure 26: SMEs that were in loan negotiations**



Source: KfW SME Panel 2025

The slightly increased readiness for loan negotiations was particularly visible among micro-businesses (+3 percentage points), in R&D-intensive manufacturing (+6 percentage points) and among SMEs providing knowledge-intensive services (+5 percentage points). Larger SMEs with 50 and more employees (-1 percentage point), SME construction firms (-2 percentage points) and SMEs operating in the segment of other manufacturing (-3 percentage points), however, exercised more restraint again.

### Successful year for loan negotiations

In the end, despite all complaints from businesses about restrictive lending policies, most negotiations between SMEs and banks and savings banks about investment loans were actually quite successful last year.

The **success rate** of loan negotiations with banks or savings banks on investment loans rose by 8 percentage points (Figure 27). For 67% of SMEs that were in loan negotiations in 2024, all ended successfully. That means the indicator was back to the levels of 2021 and 2022. Even though banks adopted cautious lending policies, SMEs with fewer than five employees in particular were ultimately more successful in their loan negotiations last year than in previous years (Figure 28).

<sup>37</sup> 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), Focus on Economics No. 462 May 2024, KfW Research.

<sup>38</sup> Schoenwald, S. (2025), KfW-ifo Credit Constraint Indicator Q2 2025: Credit access is becoming harder for SMEs, KfW Research.

**Figure 27: Outcomes of SMEs' negotiations on investment loans**

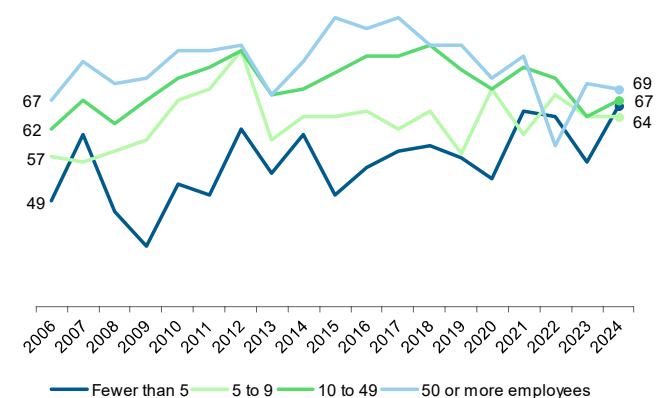
In per cent



Source: KfW SME Panel 2025

**Figure 28: Success rates in negotiations on investment loans (all negotiations successful)**

Figures in per cent, size class by number of full-time equivalent employees



Source: KfW SME Panel 2025

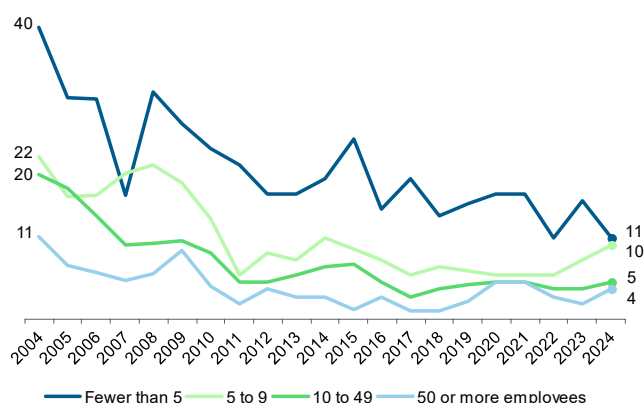
Apart from the increased success rate, the **loan rejection rate** also reflects the environment in which loan negotiations took place. It is expressed by the proportion of enterprises in which all negotiations on investment loans failed, that is, by the proportion of businesses that had no access at all to investment finance in the year 2024. The loan rejection rate fell from 12% to 10% last year (Figure 27). Here too, micro-businesses benefited the most. In this segment, the loan rejection rate fell noticeably, whereas it worsened slightly for larger SMEs (Figure 29).

Overall, credit access in 2024 thus developed more positively than (subjective) assessments of banks' lending behaviour initially suggested. What businesses perceived as a cautious or restrictive approach appears

to rarely have ended in an actual failure of negotiations with their banks. Loan negotiations have not been the most pressing problems for SMEs over the past several years, as demonstrated by the long-term data of the KfW SME Panel. By comparison, the average loan rejection rate in the 2004–2023 period was 18%. The levels of recent years were far from the previous record-high levels such as the 27% recorded in 2008.

**Figure 29: Loan rejection rate (all negotiations failed, no loan offer)**

Figures in per cent, size class by number of full-time equivalent employees



Source: KfW SME Panel 2025

Further indicators on the outcomes of loan negotiations confirm the overall picture of good credit access in 2024. Failed loan negotiations were less often due to credit institutions not presenting a loan offer (Figure 27). The corresponding percentage fell from 15 to 12% year on year. This, too, is a historically low rate. The long-term average rate of **loan rejections** from banks (2004–2023) is 23%. In addition to these loan rejections, the share of **rejections of loan offers** by interested businesses also dropped (-3 percentage points to 22%, Figure 27).

The improvement in all four indicators of credit access for micro-businesses must generally be seen as positive (see Volume of tables for detailed results on the size classes). Micro-businesses are not just the pace-makers for the aggregate trend in the SME sector overall. Rather, they are often at a structural disadvantage in obtaining capital. The asymmetrical distribution of information generally means that lenders often have great difficulty or incur high expenses in assessing the overall credit worthiness of these businesses or the likelihood of success of the projects for which they seek capital. Experience gathered and relationships that have grown between companies and lenders in the course of time and through repeated transactions can reduce these information deficits. External ratings also help lenders assess a company's credit worthiness.

Small businesses, however, and young enterprises, too, often do not have a credit history or an established relationship with the lender. And because of the associated costs for small businesses, external ratings are often not an option either. As a consequence, smaller businesses find it harder to provide lenders with credible assurances that they represent a low risk. Besides, they often apply for what financiers consider to be rather small loan volumes, so that there is an unfavourable ratio between the (largely fixed) transaction costs and the returns for the potential lender. Furthermore, small businesses have limited tangible assets that they can use to collateralise loans. Lenders may therefore add risk premiums to the interest rate and require more collateral or documentation, or generally offer less capital. The result is that small and young enterprises therefore tend to have greater difficulty accessing credit than other enterprises. That means they may be unable to make necessary investments in their own competitiveness.

### Lending rates continue to be the dominant cause of failed loan negotiations

Although interest rates for business loans fell significantly in the course of 2024 (Figure 30), they remain on a relatively high level. It is therefore not surprising that they continue to be the main reason that loan negotiations of SMEs ultimately did not succeed (Figure 31). More than half the affected enterprises attributed the failure of their negotiations to unacceptably high interest rates charged by the banks (53%), among other reasons.

The greatest jump (+11 percentage points) by far was recorded in the presentation of a more attractive loan offer to an applicant business. Therefore, this aspect does not necessarily need to be seen as a negative but merely reflects the (rational) approach of businesses obtaining multiple financing offers from different lenders. There was obviously greater scope here for businesses seeking finance in 2024.

Requirements for the disclosure of business figures appear to have become somewhat less relevant (-5 percentage points), as did the inability of businesses to provide collateral required by banks (-4 percentage points). On the other hand, insufficient equity, an inadequate financial standing (+5 percentage points) and excessively long processing and decision-making times played a slightly larger role (+3 percentage points).

**Figure 30: Interest rates on new business loans by maturity**



Source: ECB interest rate statistics

### More businesses used loans to finance investments

Small and medium-sized enterprises were more interested in entering into negotiations on investment loans in 2024. At the same time, the success rate for businesses that were in negotiations improved. This is reflected in the number of businesses that ultimately used bank loans in their funding mix. The number of borrowers among SMEs increased by around 100,000 to a total of 615,000 (Figure 32). The share of investors who used loans to finance investments thus increased to 28% last year (+5 PP).

Irrespective of the upward trend at the current margin, the share of investing SMEs that used bank loans to finance investments has decreased significantly in the past 20 years. It fell from 40% in 2004 to 28% in 2024.

This downward trend can generally be seen in all size segments of the SME sector, although the causes of these structural changes are rather attributable to a drop in (loan) demand than on a more restricted credit supply.<sup>39</sup>

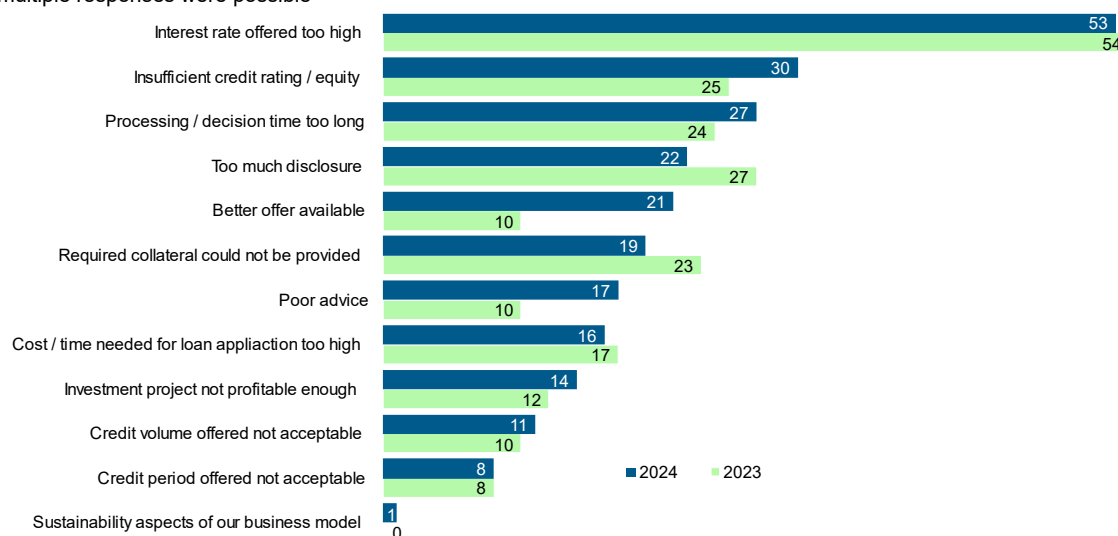
<sup>39</sup> The reasons for the lower demand for credit finance are manifold and include, among other things: (1) the desire to improve credit worthiness and increase (financial) independence, (2) improve internal financing capacity, (3) increased barriers to borrowing through regulatory changes at the beginning of the 2000s, (4) increasing ageing of business owners and, at the current margin, (5) significantly increased financing costs and economic uncertainty. –

For details see Gerstenberger, J. and Schwartz, M. (2025), *Schleichender Rückzug? Immer mehr Unternehmen im Mittelstand verzichten auf Bankkredite zur Investitionsfinanzierung* (Withdrawing gradually? More and more SMEs are refraining from taking up loans to finance investments – in German only), Focus on Economics No. 488, KfW Research.



**Figure 31: Reasons for the failure of loan negotiations**

In per cent, multiple responses were possible



Note: Only enterprises with negotiations on investment loans for which not all loan negotiations ended successfully. No distinction as to whether the failure of a loan negotiation was caused by a rejection on the part of the credit institution or on the part of the applicant business.

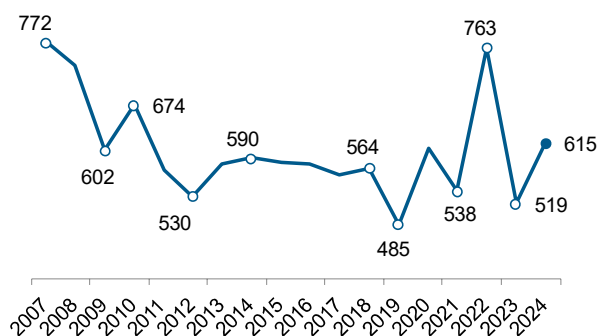
Source: KfW SME Panel 2025

**Average loan volumes have decreased slightly**

EUR 131,000 – this is the average amount SMEs borrowed from banks to finance investments in 2024 (Figure 33). The average amount fell by around EUR 21,000 or approx. 14% year-on-year, thus trending towards the long-term average (2007–2023: EUR 110,000).

**Figure 32: SMEs that borrowed (for investment purposes)**

In thousands of businesses



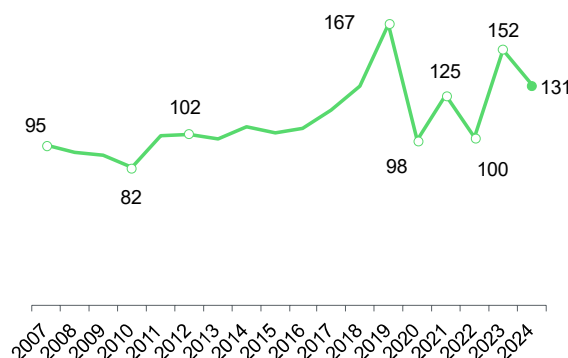
Source: KfW SME Panel 2025

In relative terms, the rate of decline slows with the size of the enterprise. Micro-businesses exhibited a 13% drop to an average volume of around EUR 32,000 (2007–2023: EUR 39,000). The decline was slightly less pronounced for small SMEs with 5 to 9 employees (-11%) and for medium-sized SMEs with 10 to 49

employees (-6%). By contrast, the average loan volume for large SMEs even increased slightly (+5%). In other words, without the increase among larger SMEs – whose volumes were so high as to affect the average for all businesses – the decline in loan volumes in 2024 would have turned out greater.<sup>40</sup>

**Figure 33: Average loan amount (for investment purposes)**

In EUR thousands; per business



Source: KfW SME Panel 2025

In general, the gradual shift to slightly larger loan amounts continued in the year 2024 (Figure 34). Thus, the share of investment loans from EUR 50,000 stood at 32%, matching the rates before the COVID-19 crisis. At the same time, the share of micro-loans continued to drop. Purely in terms of their share in the total number

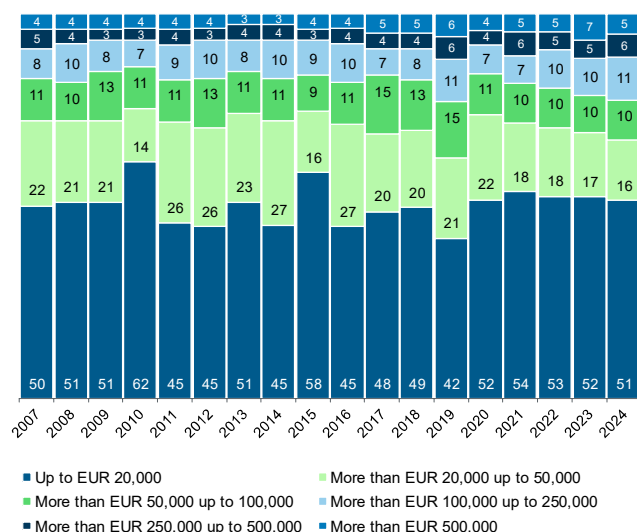
<sup>40</sup>The general rule is that smaller businesses are less likely to use bank loans but use them to finance a larger share of their investments. For details see Gerstenberger, J. and Schwartz, M. (2025), Kleine Unternehmen greifen seltener zum Bankkredit – finanzieren damit aber größeren Anteil ihrer

Investitionen (Small businesses are less likely to take up bank loans but use them to finance a larger share of their investments – in German only), Focus on Economics No. 500, KfW Research.

of loans realised, micro-loans nonetheless continued to dominate, with 67% of all investment loans taken up in 2024 not exceeding EUR 50,000, and 77% of all loans amounting to a maximum of EUR 100,000.

**Figure 34: Bank loan amounts applied for by SMEs**

Share of enterprises with bank loans exceeding a specified volume in per cent



Source: KfW SME Panel 2025

### Volume of loan finance grew slightly – bank loans steady at around one third of total funding mix

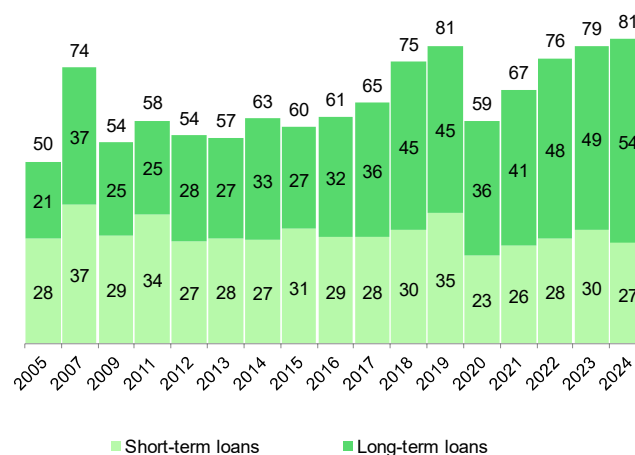
The slightly higher demand for bank loans is reflected in aggregate loan volume despite decreasing average volume. The volume of loans from banks and savings banks actually used by SMEs to finance investments grew moderately once again (Figure 35). In 2024, SMEs borrowed a total of EUR 81 billion from banks and savings banks to finance their capital expenditure – around EUR 2 billion or +2% more than in the previous year. This includes only investment loans and excludes working capital loans.

Demand for long-term financing solutions was slightly higher. The volume of loans with long maturities of five or more years grew by EUR 5 billion to EUR 54 billion. Short-term borrowing became slightly less attractive (-EUR 3 billion to EUR 27 billion). The respective shares in total volume of debt capital taken up for SMEs' investments changed only minimally on the previous year and stood at 21% for short-term and 11% for long-term bank loans.

The share of loans in the funding mix for overall investment activity in the SME sector thus remained unchanged at 32% for the third straight year, remaining slightly above the long-term average. Among micro-businesses, in construction and other manufacturing, however, the share of bank loans in investment finance trended sharply downward on the previous year, falling by -5 percentage points each (Figure 38).

**Figure 35: Loan volume used for investment finance in the SME sector – total and by maturity**

EUR in billions

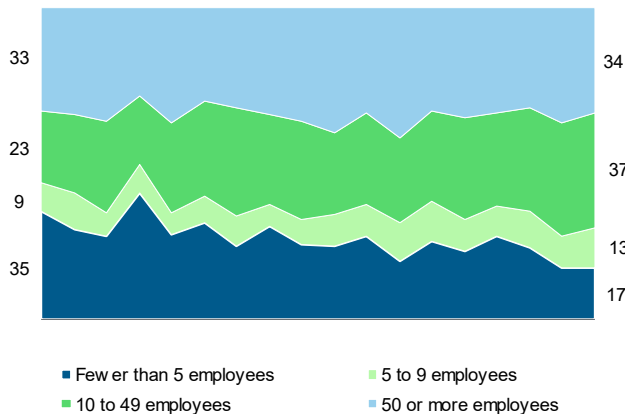


Source: KfW SME Panel 2025

Regardless of the fact that bank loans have recently played less of role in the financing mix of micro-businesses, smaller enterprises have been reluctant to borrow for some time now, as illustrated by the breakdown between the different enterprise sizes (Figure 36). A look at the long-term trend reveals that the share of the two smaller size classes in the total lending volume in the SME sector has trended downward over the past 17 years. Taken together, SMEs with fewer than ten employees contributed significantly less to annual credit volume in 2024 than in 2007 (from formerly 44 to now 30% in 2024).

**Figure 36: Distribution of total investment loan volume by size class**

Figures in per cent, size class by number of full-time equivalent employees



Source: KfW SME Panel 2025

### Interest burden has risen moderately, but more businesses face challenges

After interest expenses for SMEs had fallen to a record low in the years 2021 and 2022, the sharp increase in credit interest rates in the year 2023 left a distinctive imprint on the balance sheets of businesses last year, with annual interest expenses rising by 40%. The interest burden also continued to grow in 2024, if only moderately by EUR 2 billion to EUR 38 billion (Figure 37, left). The continuing increase in the interest burden is gradually affecting businesses' debt sustainability. The proportion of what are referred to as zombie enterprises is an indicator of this.<sup>41</sup>

These are generally defined as businesses whose low profitability prevents them from meeting their interest obligations. Debt sustainability remains high across a broad front, to be sure, but the times of falling shares of zombie enterprises appear to be over for now. The share of companies with such critical debt sustainability ratios stood at approx. 3.6% in 2024 (Figure 37, right). In a historic comparison, that is still an unusually solid rate. Or phrased the other way around, more than 96% of all SMEs have sufficient debt servicing capacity.

### Promotional funds and use of own funds reached a record level

In addition to investment loans from banks and savings banks, the use of public promotional funds represented the second major building block of external funding for SMEs' investment projects. In 2024, the volume of promotional funds used by SMEs for investment purposes amounted to EUR 34 billion, an increase of EUR 3 billion on the previous year. The share of promotional funds in the financing of the total investment volume remained steady at 13%. In the aggregate, debt capital continued to play a very important role in investment finance, accounting for 45% (EUR 115 billion in total).

Other sources of funding (such as equity or mezzanine capital) were used slightly more often to finance investments. They accounted for around EUR 11 billion of the total financing volume in 2024. That was a share of 5% of the funding mix. Although they played a slightly larger role, the relevance of other sources of funding remains moderate, especially compared with the mid-2000s, when they sometimes reached shares of well over ten per cent.

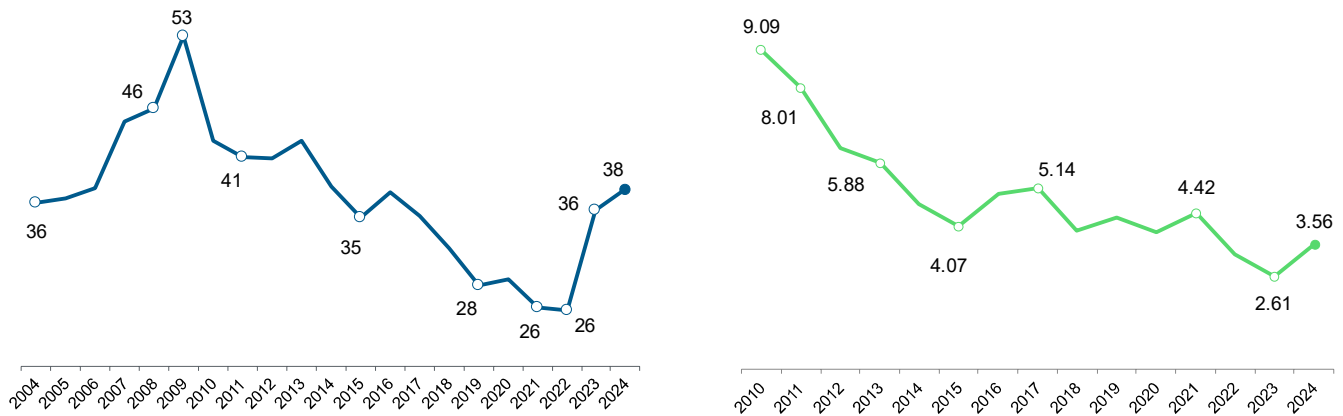
Small and medium-sized enterprises continue to finance their investments primarily from internal sources – especially cash flow, reserves or retained earnings. Own funds make up the lion's share of investment finance – in 2024 as well. The total volume of own funds employed by SMEs amounted to EUR 130 billion last year (+ EUR 1 billion), yet another record high. The share of own funds in total funding remains at 51%. The high importance of own funds can be largely explained by the typically low amount SMEs tend to invest (median of EUR 38,000). Debt capital is often simply not needed to finance these volumes, or the effort and cost of borrowing is too high.

<sup>41</sup> The debate around zombie companies is not new. They are generally associated with weak growth, reluctance to invest or productivity deficits. A few years ago, the low interest rate environment was seen as a potential driver. It was expected to act as a lever to incentivise more investment. The

concern was that continuing to inject capital would enable even financially weak businesses to remain in the market with support. But there was nothing to suggest that the share of financially weak enterprises may have grown.

**Figure 37: Interest expenditure and share of SMEs with critical debt sustainability ratios**

Interest expenditure in EUR billions, right section of chart in per cent

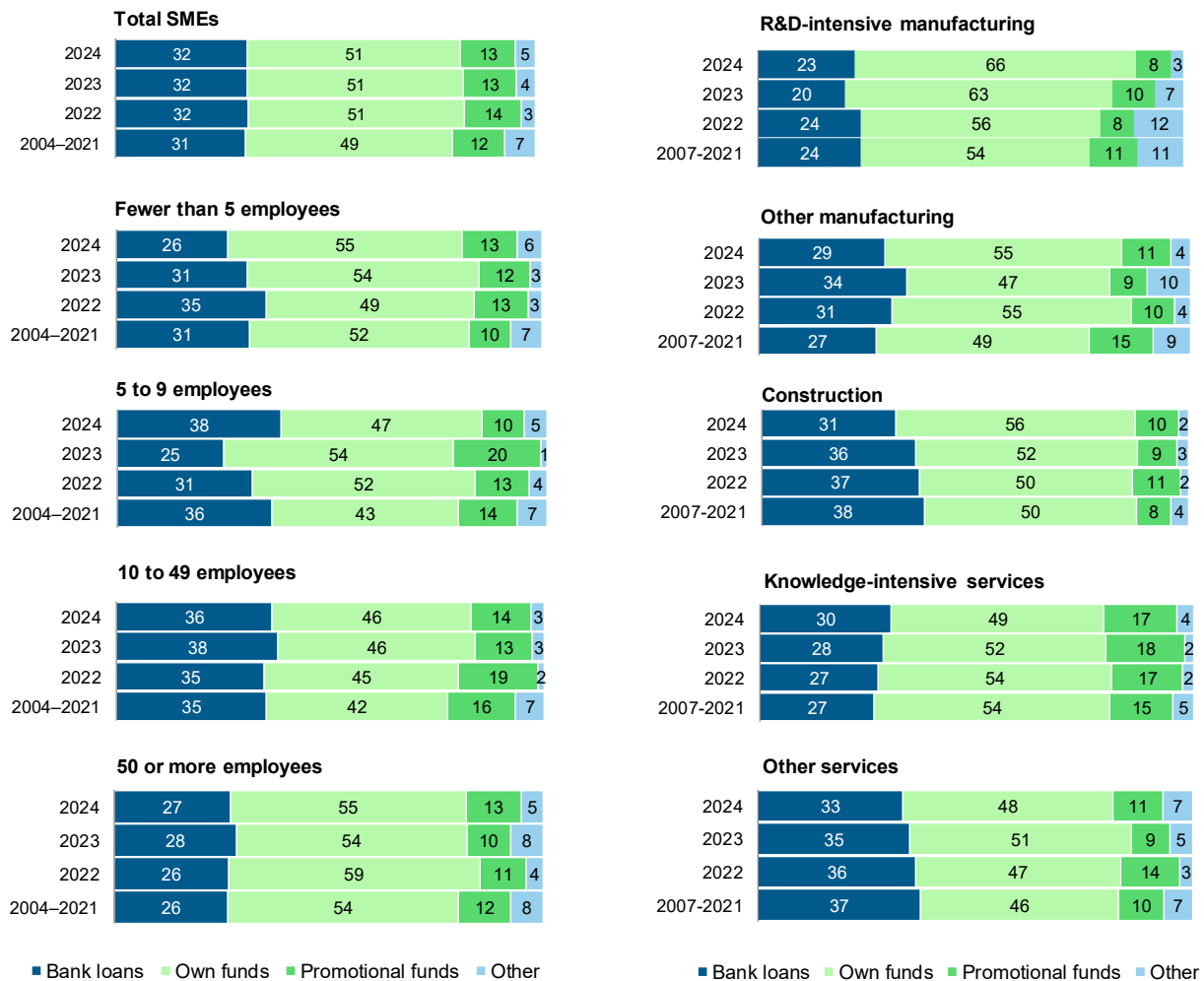


Notes: For the purpose of operationalising critical debt sustainability ratios, interest obligations were compared with income from operational activity (i.e. earnings before interest, taxes and depreciation (EBIT)). If the quotient of operating profit and interest expenses (interest coverage ratio) is less than 1, an enterprise is classified as having a critical debt sustainability ratio ('zombie'). The classification is also based on a minimum age of ten years in order to avoid overrating the more frequent income fluctuations experienced by young businesses.

Source: KfW SME Panel 2025

**Figure 38: SME investment finance by segment**

Percentages of investment volume, size classes by full-time equivalent employees



Note: The category 'Other' comprises, among others, mezzanine capital and private equity.

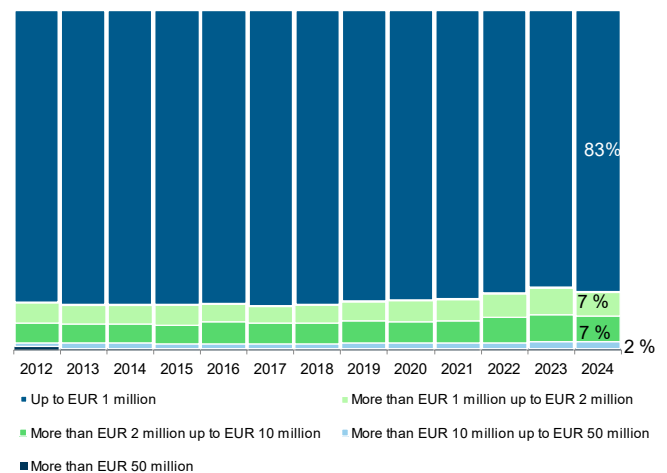
Source: KfW SME Panel 2025

**The structure of SMEs in 2025**

Under the definition used here, the SME sector covers all enterprises in Germany with an annual turnover of not more than EUR 500 million. That means there were around 3.87 million SMEs in Germany in the year 2024. The SME sector thus accounts for 99.95% of all enterprises in the country. Around 3.18 million SMEs are domiciled in the western German states (82%), while 692,000 (18%) are domiciled in eastern Germany.

**SMEs are very small on average**

The vast majority of SMEs in Germany is small (Figure 39). A share of 83% (3.13 million businesses) generate annual sales turnover of less than EUR 1 million. Fewer than 0.5% (or approx. 20,000) SMEs generate annual sales turnover of more than EUR 50 million. The share of businesses with higher turnover grew in the past two years as a result of inflation.

**Figure 39: SMEs by annual turnover**

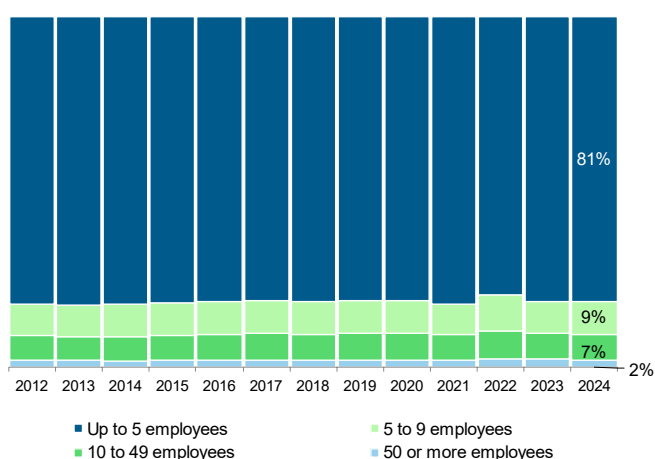
Source: KfW SME Panel 2025



The fragmented nature of the SME sector is also reflected in the numbers of employees (Figure 40). Eighty-one per cent of SMEs have fewer than five employees (micro-businesses, 3.1 million). That share has grown by around 2–3 percentage points since the turn of the millennium. Nine per cent of SMEs have five to nine employees (small firms), 8% have 10 to 49 employees and 2% have a workforce of 50 or more.

In 2024, the average SME size in Germany was 8.6 full-time equivalent employees (median is 2.5), or roughly 10.6 workers (median value: 3). The SME sector has become more fragmented in the past years, mostly as a result of ongoing tertiarisation.

**Figure 40: SMEs by number of employees in 2024**



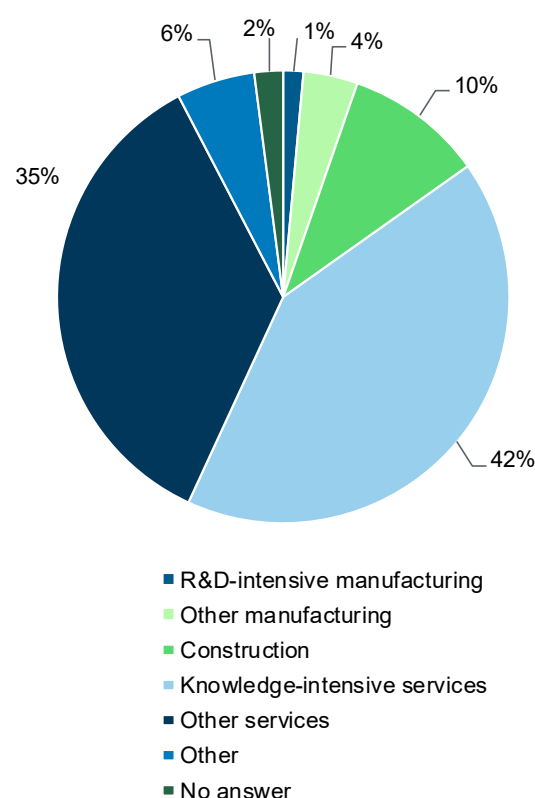
Source: KfW SME Panel 2025

### Growing focus on services

Service industries continue to increasingly dominate economic activity. The majority of German SMEs are service providers (Figure 41), of which around 3 million – or 77.4% of all SMEs – operate in service industries, with some 1.4 million of them providing knowledge-intensive services, a trend that continues to rise.

There are many different causes for the shift towards services. One of them is the outsourcing or contracting of what were previously in-company services to third-party companies (for example, IT maintenance, data storage, personnel recruitment, legal affairs and tax matters). These decisions are based on considerations relating to costs, specialisation and division of tasks. Another factor is that structural developments have created more demand for services for some time now (driven by demographic change and the growing proportion of small households, for example). Among knowledge-intensive services, the subsegment of business-related services accounts for the largest and growing share (Figure 42).

**Figure 41: SMEs by sector in 2024**

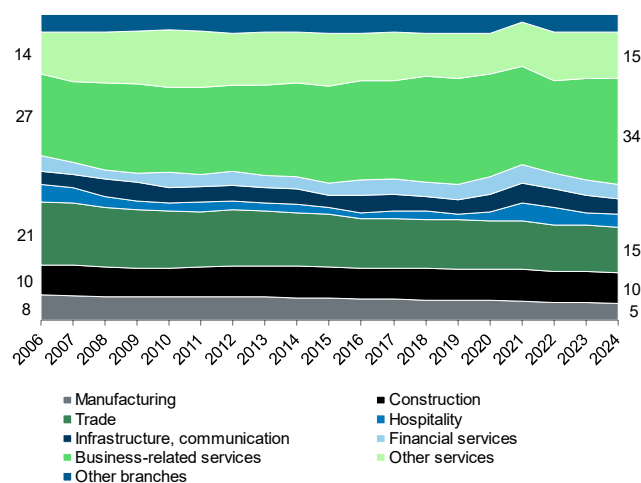


Source: KfW SME Panel 2025

In 2024, around 1.4% of all SMEs were R&D-intensive manufacturers (around 56,000 enterprises). Manufacturing generally accounts for a low share of approx. 5.5% of all small and medium-sized enterprises but employs approx. 15% of the entire workforce. On average, they have around 24 employees, a very high number.

**Figure 42: Shifts in the sectoral structure of SMEs from 2006 to 2024**

Shares of the largest sectors in per cent each year



Source: KfW SME Panel 2025

## SMEs at a glance

– In per cent, unless otherwise specified –

	2018	2019	2020	2021	2022	2023	2024
<b>Investments</b>							
Total share of investors	42	39	46	38	43	39	39
Share of investors <5 full-time equivalent employees	37	34	40	32	37	33	34
Share of investors ≥ 50 full-time-equivalent employees	85	83	85	83	86	83	81
Total investment volume (EUR in billions)	220	222	204	215	240	250	256
Investment volume <5 FTE employees (EUR in billions)	42	49	44	44	46	41	48
Investment volume ≥50 FTE employees (EUR in billions)	94	91	79	83	87	97	94
Volume of investment in new machinery, equipment and buildings (EUR in billions)	184	187	173	183	211	219	221
Average investment volume per company (in EUR thousands)	148	158	126	171	179	200	204
<b>Investment finance</b>							
Borrowings to finance investments (EUR billion)	75	81	59	67	76	79	81
Rate of loan denials	11	12	14	12	9	12	10
Share of loans in investment finance mix	34	36	29	31	32	32	32
Enterprises with loan finance (in thousand)	574	485	605	538	763	519	615
Average loan volume for investment purposes (in EUR thousands)	130	167	98	125	100	152	131
<b>Net profit ratio<sup>a</sup></b>							
Average return on sales	7.4	7.5	7.3	7.4	7.0	7.0	7.0
Average return on sales <10 FTE employees	15.0	14.6	14.0	13.8	11.8	11.3	12.4
Average return on sales ≥50 FTE employees	4.2	4.3	4.2	5.1	5.0	5.0	4.7
Proportion of SMEs with losses	9	9	12	8	10	11	12
<b>Equity base<sup>b</sup></b>							
Average equity ratio	31.2	31.8	30.1	31.4	31.2	30.6	30.7
Average equity ratio <10 FTE employees	22.4	22.2	17.4	23.7	22.8	22.3	23.8
Average equity ratio ≥50 FTE employees	34.8	37.0	36.4	35.0	34.7	35.6	33.0
Proportion of SMEs with negative equity ratio	8	4	4	5	6	12	6
<b>Employment trends<sup>c</sup></b>							
Total employment growth rate	3.3	1.9	-0.3	1.0	1.6	0.5	1.1
FTE growth rate <5 FTE employees	2.1	2.0	-0.7	-0.4	1.2	-0.5	0.5
Share of SME sector in total employment	70.7	71.3	71.3	71.9	70.9	71.5	71.6
<b>Development of turnover<sup>c</sup></b>							
Total turnover growth rate	4.9	3.5	-1.3	6.1	10.0	1.6	1.2
Turnover growth rate <5 FTE employees	6.1	3.9	-3.7	2.5	7.7	-0.7	-0.8
Total turnover volume of SMEs (in EUR billion)	4,695	4,616	4,338	4,580	5,323	5,077	5,179

\* Note: <sup>a</sup> Mean values weighted with turnover. <sup>b</sup> Mean values weighted with total assets, projections only for enterprises with accounting obligations and excluding individual enterprises / sole traders. <sup>c</sup> Missing information on full-time equivalent employees (FTEs) and turnover was not imputed, calculations not including growth rates below the 1% and above the 99% quantile.

## KfW SME Panel

The KfW SME Panel (KfW-Mittelstandspanel) has been conducted since 2003 as a recurring postal survey of small and medium-sized enterprises in Germany with annual turnover of up to EUR 500 million. Thus far, 23 waves have been completed.

With a database of up to 15,000 companies a year, the KfW SME Panel is the only representative survey of the German SME sector, making it the most important source of data on issues relevant to SMEs. As it is representative of all SMEs of all sizes and across all industries in Germany, the KfW SME Panel offers the possibility to conduct projections for micro-businesses with fewer than five employees as well. A total of 13,079 SMEs took part in the current wave.

The KfW SME Panel is used as the basis for analyses of long-term structural developments in the SME sector. It provides a representative picture of the current situation and the needs and plans of SMEs in Germany. It focuses on annually recurring information about companies' performance, investment activity, financing structure, and innovation and digitalisation activity. This tool offers a unique opportunity to determine quantitative key figures for SMEs such as investment spending, borrowing and equity ratios.

The basic population used for the KfW SME Panel comprises all SMEs in Germany. These include private-sector companies from all sectors of the economy with annual turnover of not more than EUR 500 million. The population does not include the public sector, banks or non-profit organisations. Currently there are no official statistics providing adequate information on the number of SMEs or the number of people they employ. In order to determine the population of SMEs for 2024 and the population of employees at SMEs in 2024, the German Company Register (Unternehmensregister) and the official employment statistics (Erwerbstätigenrechnung) were used as a basis for the 2024 survey.

The KfW SME Panel sample is designed in such a way that it can generate representative and reliable data. The sample is split into four groups: type of promotion, industry to which the enterprise belongs, firm size as measured by the number of employees, and region. In order to draw conclusions on the basic population based on the sample, the results of the survey are weighted/extrapolated. The four main group characteristics are used to determine the extrapolation factors. These factors look at the distribution in the net sample (in line with the four group characteristics) in relation to their distribution in the population as a whole. Overall, two extrapolation factors are determined: an unlinked factor for extrapolating qualitative parameters to the number of SMEs in Germany, and a linked factor for extrapolating quantitative parameters to the number of employees in SMEs in Germany. Details on the population, sample and responses can be obtained from the Volume of tables relating to the KfW SME Panel (in German).

The survey is conducted by GfK GmbH on behalf of KfW Group. The project received expert advice from the Centre for European Economic Research (ZEW) in Mannheim. The main survey of the 23rd wave of the KfW SME Panel was conducted in the period from 10 February to 20 June 2025.

### Supplementary survey to the KfW SME Panel 2025

The analyses on the situation of enterprises in autumn of 2025 were based on an additional supplementary survey to the KfW SME Panel 2025 conducted in early September 2025. All enterprises that had already participated in an earlier wave of the KfW SME Panel and had provided a valid email address were surveyed. Responses from a total of 2,749 enterprises were evaluated. As the supplementary survey was linked to the main database of the KfW SME Panel, its results also provided a representative picture.

Further information can be obtained at [www.kfw-mittelstandspanel.de](http://www.kfw-mittelstandspanel.de).