Middle East conflict tightens access to credit

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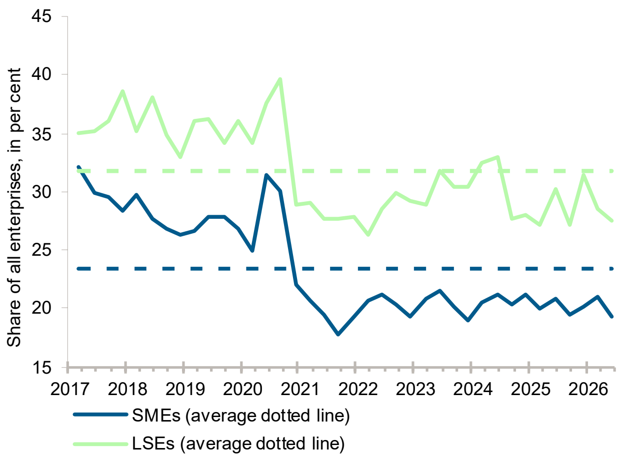
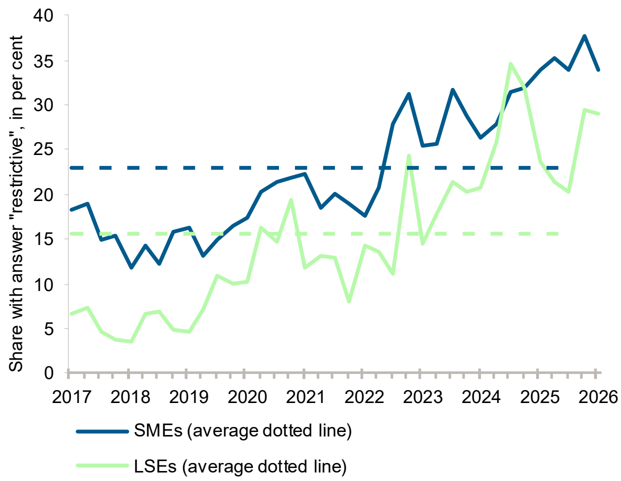
- The cyclical downturn triggered by the Middle East conflict dampened loan demand from large companies and SMEs in the second quarter. The decline in demand indicates that, despite higher energy prices, no additional liquidity needs have arisen in enterprises. Instead, in view of the prevailing uncertainty, firms avoided bridging looming shortages with external debt capital.
- Access to credit for firms with an interest in borrowing continues to tighten. Credit constraints for the SME sector have reached a new all-time high. Already four out of ten SMEs are confronted with banks' restrictive lending standards.

Share of enterprises in loan negotiations



KfW-ifo Credit Constraint Indicator: How did banks behave in loan negotiations?



Source: KfW Research, ifo Institute.

Borrowing again in significant decline

Loan demand from enterprises fell noticeably in the second quarter. The survey results suggest that enterprises did not require any additional liquidity to cover the extra costs caused by higher energy prices as a result of the Middle East conflict.[1] The expected surge in loan demand simply failed to materialise. The proportion of small and medium-sized enterprises (SMEs) that were engaged in loan negotiations with banks declined by 1.7 percentage points to 19.3%. This pushed borrowing demand down to its lowest level since the fourth quarter of 2023, when tight monetary policy dampened loan demand from SMEs. Credit demand among large-scale enterprises (LSEs) was also again comparatively weak: only 27.5% (-1.1 percentage points) of LSEs discussed a loan with their bank. The renewed decline in demand is likely to be primarily attributable to the deterioration in the business climate caused by the energy price shock and disruptions to supply chains.[2] Moreover, the increase in uncertainty regarding future profitability further restrained enterprises' already long-standing weak propensity to invest and reinforced their efforts to avoid taking on new debt.[3] By contrast, the policy rate hike already priced in for June is likely to have played only a minor role in the decline in demand. As the energy price shock is gradually easing, at least no further weakening in demand is expected for the current quarter.

Access to credit for SMEs historically restrictive

The sequence of negative records for the KfW-ifo Credit Constraint Indicator for SMEs is now continuing. Following the record high in the fourth quarter of 2025 and the subsequently only slight easing, 40.5% of medium-sized enterprises reported restrictive lending behaviour by banks in the second quarter of 2026. This increase of 6.5 percentage points compared with the previous quarter marked a new record level since the start of the survey in 2017. Among larger enterprises with an interest in borrowing, 32.9% (+3.8 pp) complained of banks' restrictive standards. For LSEs this is the second highest share ever recorded since data collection began. The fact that an increasing number of firms are affected by strict lending practices can be traced back to the growing impact of cyclical weakness on balance sheets. As the results of the 2026 enterprise survey[4] show, the equity position and ratings of enterprises, according to their own statements, have deteriorated over the past year. Banks generally respond to this with higher risk premiums and tougher financing conditions.

A particularly drastic increase in credit obstacles was recorded in the retail sector. More than half of enterprises in both size classes were exposed to restrictions on access to credit. This sector thus reached new record levels. The main reason for this development is likely to be the inflation-induced slump in consumption, from which the retail sector is currently suffering to an exceptional extent. Among SMEs in manufacturing and services, historically high shares of 40.8 and 42.4%, respectively, also complained of restrictions on access to credit. The more restrictive risk assessment by banks very probably reflects the profound structural and cyclical challenges facing the manufacturing sector. Service providers, for their part, which structurally often lack hard collateral for loans, are particularly burdened by the persistent weakness in demand from private households.

The KfW-ifo Credit Constraint Indicator in figures

Share in per cent		Q2/25	Q3/25	Q4/25	Q1/26	Q2/26	Vq.	Vj.
		Quarter/Year						
Credit constraint								
Manufacturing	SME	35.7	34.5	35.1	34.3	40.8	6.5	5.1
	LSE	19.6	15.5	28.3	30.3	30.1	-0.2	10.5
Construction	SME	26.8	27.6	29.6	31.0	27.1	-3.9	0.3
	LSE	20.2	37.0	31.3	31.7	45.2	13.5	25.0
Wholesale trade	SME	41.0	37.9	35.6	42.6	42.0	-0.6	1.0
	LSE	24.5	21.1	41.7	20.9	28.3	7.4	3.8
Retail trade	SME	35.3	45.6	45.2	41.9	52.2	10.3	16.9
	LSE	31.5	32.7	49.7	44.7	55.4	10.7	23.9
Services	SME	36.2	33.3	41.4	32.6	42.4	9.8	6.2
	LSE	20.2	21.6	20.3	23.8	29.3	5.5	9.1
Germany	**SME**	**35.2**	**33.9**	**37.8**	**34.0**	**40.5**	**6.5**	**5.3**
	LSE	**21.5**	**20.4**	**29.4**	**29.1**	**32.9**	**3.8**	**11.4**
Share of enterprises	SME	20.9	19.5	20.2	21.0	19.3	-1.7	-1.6
in loan negotiations	LSE	30.3	27.2	31.5	28.6	27.5	-1.1	-2.8

Source: KfW Research, ifo Institute

Explanations and abbreviations:
S(mall and) M(edium-sized) E(nterprises).
L(arge-)S(cale) E(nterprises).
Change in percentage points q(uarter)-o(ver)-q(uarter).
Change in percentage points on prior-year quarter.

On the construction and interpretation of the KfW-ifo Credit Constraint Indicator

The Credit Constraint Indicator has been surveyed on a quarterly basis since 2017 as part of the ifo economic surveys following a methodological revision. Credit constraint shows the percentage of enterprises that describe banks' position in loan negotiations as 'restrictive'. In order to ensure that estimates of banks' lending propensity are based on enterprises' original experiences, only those enterprises are surveyed that previously reported having conducted loan negotiations with banks in the preceding three months. The development of this percentage can then be interpreted as an indicator of changes in demand for bank loans.

The evaluation of the survey findings for the KfW-ifo Credit Constraint Indicator is broken down by size classes and sectors. Each month about 9,000 enterprises from trade and industry, construction, wholesale, retail and services (without the banking and insurance sectors or the state) are polled on their business situation, among them some 7,500 SMEs. Enterprises are generally classed as small to medium-sized if they employ a workforce of not more than 500 and record an annual turnover not exceeding EUR 50 million. For a more accurate analysis, however, these quantitative distinctions have to be drawn more narrowly for retail trade (maximum annual turnover of EUR 12.5 million), the building and the construction industry (up to 200 employees) and services (maximum annual turnover of EUR 25 million). All enterprises that exceed at least one of these thresholds are classed as large-scale enterprises.

[1] Körner, J. (2026) Uncertainty and the energy price shock are slow, KfW Credit Market Outlook: April 2026, KfW Research.
[2] Scheuermeyer, P. (2026) Stabilisation with pitfalls, KfW-ifo SME Barometer: May 2026, KfW Research.
[3] Gerstenberger, J. and Bauer, A. (2026) Business Survey 2026 – Summary, Financing climate clouded – investment activity subdued, KfW-Research.
[4] Gerstenberger, J. and Bauer, A. (2026) Business Survey 2026 – Summary, Financing climate clouded – investment activity subdued, KfW-Research.