Business lending grows again but further development uncertain

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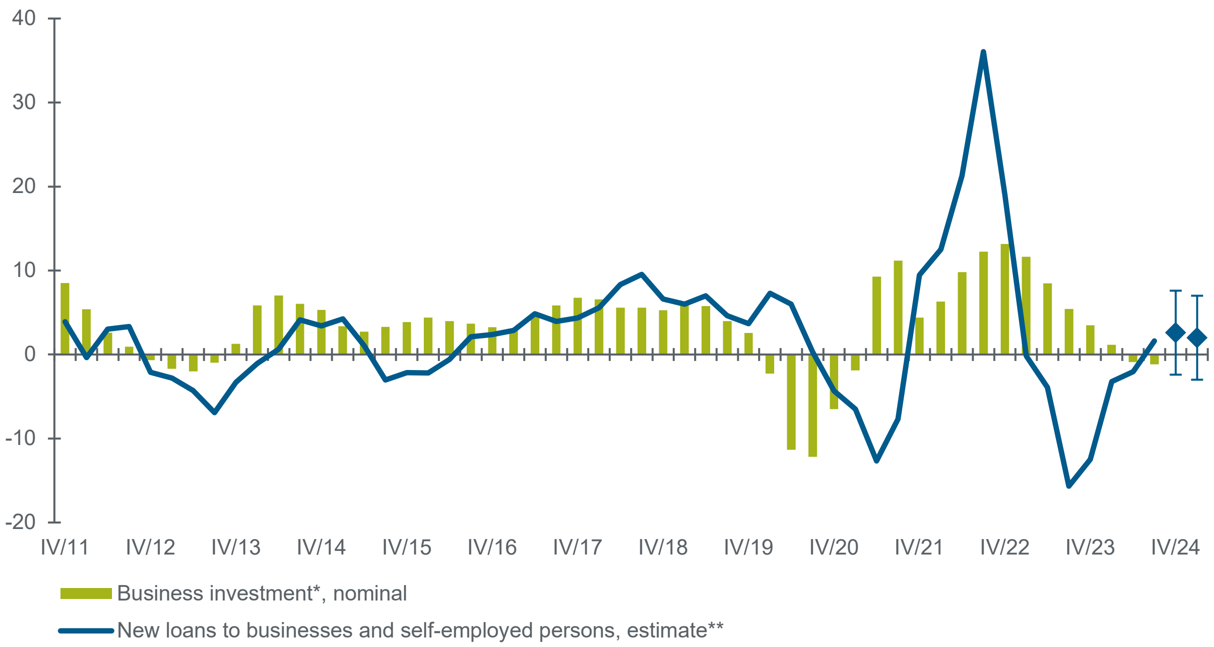
- According to KfW estimates, new lending business grew again in the third quarter of 2024 for the first time in two years. Lending increased by 1.6% compared with the same quarter of the previous year. A base effect caused by the low volume of new lending in the previous year and lower interest rates facilitated the growth.
- Credit growth will continue for now but will remain weak. The ongoing phase of economic weakness and uncertainty about trade policy are weighing on firms' investment propensity. This is slowing the recovery of new lending, while further interest rate reductions will provide some support.
- A stronger-than-anticipated tightening of trade restrictions presents a relevant downside risk for the credit market as well.

Figure 1: New lending by German banks and savings banks to domestic businesses and self-employed persons*
Variation on the previous year (moving two-quarter average), in per cent



* non-public investment in equipment, industrial buildings and other facilities
** excluding commercial housing loans and excluding loans to financing institutions and insurance industry

New lending is growing only at a slow pace

Lending to businesses continues to recover from its low in autumn of 2023. KfW Research has calculated that new lending from German banks to businesses and self-employed persons returned to positive territory in the third quarter of 2024 for the first time in round two years. The volume of new lending grew by 1.6% on the weak previous year, although the increase was partly due to a base effect. New lending in the third quarter of 2023 had fallen sharply at the same time as interest rates peaked.[1] The rise was bolstered by a sharp drop in credit interest rates. Average borrowing costs fell by around 32 basis points in September relative to June 2024. This reflects the monetary policy reversal that was initiated in early summer. In contrast, the subdued economic environment and very poor business sentiment continued to slow the growth in new lending.[2] Even so, the volume of new commitments increased for the third straight quarter, if only marginally (see Figure 2). New lending thus stabilised above the prepandemic level of 2019. In real terms, however, the value of lending is today lower as a result of price increases, particularly from the inflationary surge of the years 2022 and 2023. Given the economic environment, the supply of credit to the real economy appears appropriate.

Figure 2: Loans to enterprises and self-employed persons

Indexed development of new loan commitments (moving 2-quarter average)

Sources: KfW Research, Deutsche Bundesbank

New loans face headwinds from the real economy

Businesses are already struggling with a weak economy and structural challenges such as bureaucracy, energy prices and the competitive environment, among others. Now they face added uncertainties from the announcements of the new US administration on trade policy and early elections in Germany.[3] Reduced opportunities to sell products abroad as a result of increased tariffs and, in case of trade policy countermeasures, higher production costs from imports could put additional pressure on businesses' earnings situation. Pull-forward effects likely still occurred in international trade in the fourth quarter as businesses sought to pre-empt a potential imposition of tariffs once the new US administration took office. This likely increased the relevant financing needs of businesses. But it is foreseeable that this effect will decrease depending on political developments in the ongoing quarter.

The uncertain outlook on the future development of the market given the structural challenges and tensions around trade policy is making businesses hesitant about investment decisions. As a consequence, financing requirements are decreasing.[4] The true extent of future trade restrictions, however, is still difficult to predict. Assuming gradual and rather mild tariff increases without retaliatory measures, KfW Research expects price-adjusted business investments to roughly stagnate in the year 2025. The falling interest rates should then prevent business investment from decreasing in a year-on-year comparison – unlike in 2024. For the year as a whole, this will result in an increase in investment expenditure at current prices by just under 2%, so that investment loans will moderately support new lending business.[a]

Easing financing costs are facilitating lending activity

The downward trend in credit interest rates accelerated across all maturities in October and November 2024. The ECB reduced its key interest rates again in December and the market is already anticipating further rate cuts in the first half of the year. What is decisive for lending activity is how much weight businesses give to interest rate reductions relative to economic impediments with respect to their demand for loans. On balance, we see falling credit interest rates as the main driver of new lending growth this year.

Banks are becoming more restrictive in their lending practices

The end of the tightening cycle for lending criteria appeared to be within reach, according to the Deutsche Bundesbank's Bank Lending Survey (BLS) of October 2024.[5] The analyses of the KfW-ifo Credit Constraint Indicator for the fourth quarter, however, point in a different direction. A very high share of surveyed businesses, especially small and medium-sized enterprises, complained about strict standards imposed by banks.[6] Given the weak economic environment, it is plausible that banks are taking a closer look at businesses' credit risk and exercising restraint.

Conclusion: new lending is likely to grow at a slow pace but under high uncertainty

The recovery in new lending activity will flatten out because of the difficult economic environment and uncertainty around trade policy. The easing of monetary policy and the resulting lower credit interest rates, on the other hand, will encourage borrowing. The base effect created by the low credit volume in the previous year will continue to support the growth rate in the forecast period as well, if with decreasing intensity. The pull-forward effects driven by concerns over tariffs are likely to have generated slightly stronger new lending growth in the fourth quarter which will then level off again in the present quarter. KfW Research therefore expects new lending to businesses and self-employed people to grow by just under 2.6% in the fourth quarter compared with the same quarter last year. After that, the growth rate will presumably settle down at around 2%. The uncertainty around the direction of US trade policy and associated countermeasures presents a downside risk for this forecast. In contrast, swift measures by the new German Federal Government to address the structural problems and greater planning certainty for businesses could not only lift business sentiment but also generate more interest in loans. However, the effects would not be felt until after our forecast interval – in the second half of 2025.

[a] In the long term, the impact of protectionism could also turn out to be positive for credit demand if enterprises require capital to adapt their business models to the changed market conditions.

The structure of the KfW Credit Market Outlook

New lending business is determined by adding to the quarterly variation of existing loans (data from the Deutsche Bundesbank on loans extended by German banks to domestic enterprises and self-employed professionals without housing construction loans and without loans to financial institutions and the insurance industry) a simulated on-schedule repayment behaviour (per quarter). The publication is presented in the form of the thus determined new lending business variation rate against the prior-year quarter, with the variation rate expressed as the moving two-quarter average. The forecast of new lending business is performed on the basis of the VAR model in which GDP, the twelve-month money market rate and business investments are taken into account as the most important explanatory variables. Business investments comprise all non-public investment in equipment, industrial buildings and other facilities. They are calculated by KfW quarterly on the basis of the national accounts data from the Federal Statistical Office and, using leading financial and economic indicators, are projected into the future with the aid of a vector autoregressive model.

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[1] Körner, J. (2024): Credit market has passed its trough, KfW Credit Market Outlook March 2024, KfW Research.

[2] Scheuermeyer, P. (2024), SME sentiment as bleak as the autumn weather, KfW-ifo SME Barometer November 2024, KfW Research.

[3] Scheuermeyer, P. (2024), SMEs look to the new year with no confidence, KfW-ifo SME Barometer December 2024, KfW Research.

[4] Schwartz, M., and Gerstenberger, J. (2024), German SMEs are not immune to the economic slowdown , KfW SME Panel 2024, KfW Research.

[5] Deutsche Bundesbank (2024), October results of the Bank Lending Survey in Germany, press release Bank Lending Survey for Germany, Deutsche Bundesbank.

[6] Körner, J. (2025), Record share of SMEs unhappy with restrictions on lending, KfW ifo Credit Constraint Indicator January 2025, KfW Research.