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Eurozone bank lending environment showing first hints of tightening

While September's bank lending growth data was broadly unchanged from August, the European Central Bank's latest bank lending survey indicates weaker loan demand due to higher interest rates. With the ECB expected to keep interest rates on hold on Thursday, it will be keen to see how lending evolves ahead of its December decision



Adjusted lending to eurozone non-financial corporations continued to grow by 4.2% year-on-year in September, while household lending growth held steady at 3.1%, both unchanged from August. This suggests that the recovery in bank lending that developed before the latest shift in the interest rate environment still had considerable momentum going into the autumn. But the backdrop has now become less supportive. The ECB raised its key rate by 25bp in September, taking the deposit rate to 2.5%, while markets have also repriced the expected rate path higher amid renewed inflation concerns.

While September's lending figures still look healthy, the bank lending survey suggests that eurozone credit growth could moderate. Banks reported a further tightening of credit standards for firms, while corporate loan demand fell unexpectedly in the third quarter as higher interest rates weighed on borrowing. Lending terms tightened across all loan categories, mainly because of higher rates, and a larger share of loan applications was

rejected. The survey therefore provides an early indication that tighter monetary conditions are starting to bite: higher borrowing costs are weakening loan demand.

The ECB is widely expected to pause on Thursday and wait until December to decide on a possible next hike. With the first signs of more challenging financial conditions coming through and second-round effects of higher energy costs yet to materialise, the ECB will be keen to see how these factors play out before its December meeting.

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