Bank Pulse: Lending rates are in the last stages of descent before the long climb

Eurozone bank lending rates to households and businesses fell in December, partly driven by TLTRO considerations. 2022 is likely to see rate increases

Business rates: a TLTRO story

The average eurozone bank lending rate to businesses dropped to 1.36% in December, 3bp below November and reaching the lowest level on record. This rate drop should be seen in the context of the ECB's Targeted Longer-term Refinancing Operations (TLTROs). December was the benchmark month for banks to reach a certain volume of lending to businesses (and non-mortgage lending to households), and some banks apparently needed a final sprint to make sure they'd reach their benchmark. The reward for doing so is an attractive -100bp rate on TLTRO-funds borrowed from the ECB in the period June 2021-June 2022. This "TLTRO-effect" is evidenced by lending volumes jumping in December, as we discussed here. Attractive loan pricing is an obvious way to realise a lending target.

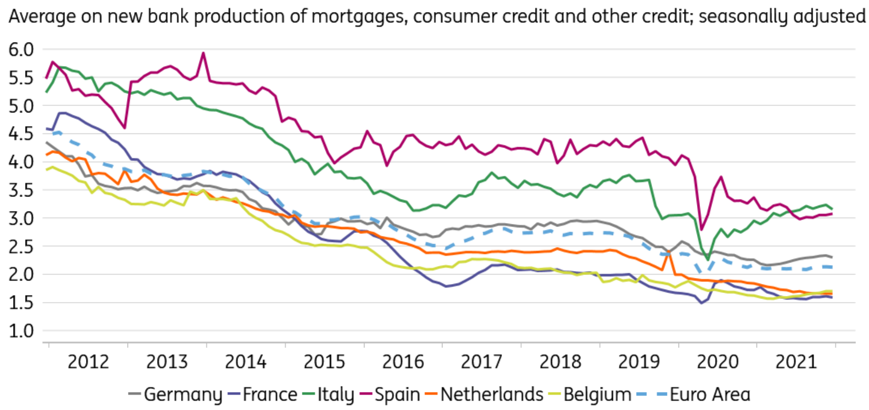
Spanish banks had the biggest challenge in terms of reaching their TLTRO-benchmark in December. Indeed last week's ECB Bank Lending Survey had Spanish banks reporting weakening business borrowing demand in the last quarter. This necessitated strong repricing, and indeed

Spanish bank lending rates show by far the sharpest drop (27bp since October) among Eurozone countries. Rates also fell in the Netherlands and Belgium. Rates moved sideways in Germany, and in fact increased slightly in Italy and France, where loan demand was already picking up in the second half of the year and banks (on average) had few worries about meeting their TLTRO benchmark. In fact, Italian and French banks queried in the Bank Lending Survey reported an increased business borrowing demand in 4Q 2021, chiefly for working capital needs but also to finance investments.

Household rates down – or not?

Bank lending rates to households are a nuanced story. The combined average rate on all types of lending to Eurozone households (mortgages, consumer loans and other types), dipped 18bp to 1.97%, matching the record low set in March 2020. And just like back then, rates in Spain and Italy were the main drivers. Yet, when we account for the fact that household rates always tend to dip in December, almost all of the action disappears from the data. In other words: apart from expected seasonal gyrations, December household rates barely budged. This leaves us with the following seasonally adjusted picture in a 10-year context.

Average household borrowing rates (%)



Source: ECB, ING-calculations

The chart shows that bank household lending rates were fairly stable between 2016 and 2019. After a further decline in 2019, Eurozone average rates again stabilised during the pandemic. Today, household rates are bottoming out. This should also apply to business rates, assuming that quite a bit of their repricing in the last months of 2021 can be traced back to TLTRO considerations.

On the back of the gradual ECB exit of unconventional monetary measures announced in December, and the acceleration of this exit that markets took away from last week's ECB Governing Council meeting (see our roadmap to normalisation), bank lending rates look set to start their climb back up now. Mind you, this climb will not be short and steep (think Monte Zoncolan in the Giro d'Italia). Rather, it is going to be long and gently sloping, like the Tour's Col du Galibier. Nonetheless, we are at a remarkable turning point, slowly but surely turning the page on a decade of falling bank lending rates.

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