

## Bank Pulse: Bank lending rates set to rise this year

Bank lending rates are bottoming out, and there is more than anticipated monetary policy changes pointing to increasing lending rates

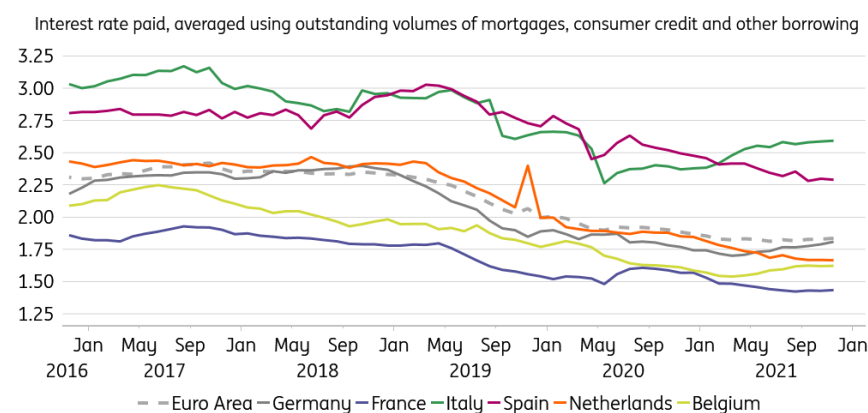


While the European Central Bank is taking its time phasing out asset purchases, and is not expected to start raising rates until next year, market rates have been inching up. The 10-year Bund and swap rates ended 2021 some 50bp higher. As a result, the eurozone is likely very close to the absolute bottom in interest rates charged by banks too. This is not yet visible in bank lending rates for businesses though. Average eurozone bank rates for businesses continued to fall in November (the latest month for which data is available) to 1.38%, 11bp lower than at the start of 2021. Yet the bottoming out of rates is more visible in rates charged to households.

The average rate charged by eurozone banks to households reached an all-time low of 1.81% back in June last year, and it has been creeping up ever so slightly since. The November reading shows an average rate of 1.84%. True, it takes two decimals to even register this increase. But digging a bit deeper, it emerges that this small eurozone-wide upward drift is driven primarily by slightly

more pronounced mortgage rate increases in Germany and Italy. Average German and Italian mortgage rates increased by 17bp and 19bp in 2021, respectively (see chart).

## Average household borrowing rates (%)



Zooming in even more, in Germany, most of the mortgage rate increase was in the over 10-year segment. In Italy, rates increased most in the 5- to 10-year segment, but not (yet) in the popular over 10-year segment. The upward trend of Belgian bank rates was as much driven by mortgage rates as by a sustained upward drift of consumer credit rates, coming after a sharp drop in May 2020. Mortgage rates in the other major eurozone economies continued to fall in 2021, although they tended to stabilise towards the end of 2021. Bank rates on consumer credit and other types of credit, while volatile, tended to move sideways in 2021 (with the noted exception of Belgium).

Looking ahead, the announced slowing of ECB asset purchases and anticipation of ECB rate hikes next year are likely to work their way into upward pressure on rates charged by banks. But upward pressure is coming from another side too. Several national supervisors have announced increases in countercyclical buffers (CCyB), primarily to cool buoyant housing markets. German Bafin [intends](#) to set a 0.75% countercyclical buffer for all domestic exposures, and a 2.0% buffer specifically for real estate-covered assets by February 2023. The French High Council for Financial Stability (HCSF) and the Irish central bank stopped short of already increasing the CCyB, but they [both indicated](#) they expect to do so this year if the economic recovery continues as envisaged. Meanwhile, the Dutch central bank has launched a [consultation](#) on its intention to increase the CCyB to 2.0% through the cycle. Any countercyclical buffer increases would put upward pressure on bank rates, mortgage rates in particular. To be clear, this would be a feature of macroprudential policy, not a bug. And while countercyclical buffer increases typically don't take effect immediately on announcement, banks can be expected to update their pricing quickly. After all, the CCyB applies to all outstanding loans, and not just on new production after the CCyB has taken effect.

While bank lending rates for business loans continued to fall in November, household mortgage rates appear to be past the bottom. Both eurozone-wide monetary policy and national macroprudential policies are likely to put increasing upward pressure on bank rates, for mortgages in particular.

## Authors

### Maureen Schuller

Head of Financials Sector Strategy

[Maureen.Schuller@ing.com](mailto:Maureen.Schuller@ing.com)

### Suvi Platerink Kosonen

Senior Sector Strategist, Financials

[suvi.platerink-kosonen@ing.com](mailto:suvi.platerink-kosonen@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.