The ECB survey warning on weak eurozone private investment

The ECB Bank Lending survey, conducted in March, shows tighter credit standards and weaker loan demand from firms in the first quarter of 2025. This translates into weak investment appetite, even ahead of trade and market turmoil

We expect the ECB to lower interest rates again this week

While loan growth has continued to steadily increase on the back of easing monetary policy, the bank lending survey in the fourth quarter of last year already showed that banks were tightening credit standards for firms on the back of higher perceived risks. This continued in the first quarter of 2025, and loan demand for firms has also fallen back into negative territory. The latter was mainly due to smaller demand for drawing credit lines for firms and working capital. The good news there is that fixed investment plans did not contribute to weaker loan demand, although they didn't add positively either.

The survey has been conducted mid-March, so before "liberation day" and the current market turmoil, so we don't yet know what further effect this may have had on loan demand and banks' eagerness to lend. Overall though, private investment expectations have been weak for the months ahead and this survey confirms expectations of a sluggish recovery despite ECB easing.

The big exception remains the mortgage market. Net demand for mortgages increased strongly again in 1Q while credit standards eased. This adds more fuel to the housing market recovery and shows that housing investment is set to be a bright spot among other sluggish investment categories in the eurozone in the months to come. Lower rates are the most important driver of increased demand according to the survey.

The subdued message from the bank lending survey should encourage the ECB to lower rates further, as if they didn't have enough reasons to do so. With trade and market turmoil, a stronger euro and growth concerns, we expect the ECB to lower rates by 0.25% again on Thursday.

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