ECB bank lending survey signals that tighter policy is working

Another dovish sign for the European Central Bank ahead of Thursday's governing council meeting as bank lending comes under further pressure from weaker demand and tighter credit conditions

The ECB's bank lending survey shows that tighter credit conditions are having a clear impact on borrowing

The bank lending survey by the ECB shows that weaker economic conditions and higher interest rates are having a clear impact on borrowing. This is a sign that monetary transmission is working rather forcefully at the moment and will be taken by the ECB as a reason not to hike further, especially given the fact that the ECB itself only expects the biggest impact of higher rates in early 2024.

Banks indicate that credit standards became tighter for both households and enterprises in the third quarter, more so than initially expected. For the fourth quarter, banks continue to expect a further tightening of credit standards. Demand for borrowing has also weakened substantially in 3Q, mainly driven by the level of interest rates at the moment. Fixed investment as a reason for borrowing also remained a strong negative contributor to borrowing, indicating that expectations for investment in the eurozone economy remain weak for the quarters ahead.

Today's data releases for the eurozone have been dovish ahead of the ECB governing council meeting. Rates are expected to remain on hold, which will not be changed by today's data, but the outlook is turning on the back of the ECB bank lending survey and the PMI. Further weakening in economic activity, slowing inflation and declining bank lending all point to easing pressure on the ECB as policy is clearly having the desired effect. The risk of doing too much therefore will feature more prominently in the ECB debate in the months ahead.

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