

ECB bank lending survey shows monetary transmission persisting

Ahead of Thursday's ECB meeting, the bank lending survey provides confirmation that higher interest rates still dampen loan demand from businesses and households. This leaves the outlook for investment rather bleak, but also confirms easing prospects for the central bank later in the year



For the European Central Bank, today's data confirms that the worst impact of higher rates on bank lending and money growth seems to be over

The European Central Bank's fourth quarter survey suggests that monetary transmission continues to be forceful, but perhaps somewhat less so than in previous quarters. Banks continued to tighten their credit standards to enterprises and business demand for loans weakened once more, but again, less so than seen previously. This still makes credit standards the strictest and loan demand the weakest seen in a long time.

According to the survey, businesses indicated that high interest rates and low demand for fixed investment are the main reasons for weaker loan demand, which makes the outlook for lending and investment quite bleak.

For households, credit standards also became somewhat stricter again while terms and conditions of loans eased. Most importantly for the housing market, demand for loans continued to decrease forcefully. Main contributors maintain a downbeat view on the housing market, low consumer confidence and high interest rates.

Expectations are for loan demand to slightly improve again in the first quarter, while credit standards are still expected to become stricter. This does cautiously suggest that the eurozone is getting close to the point where the impact of monetary tightening on new loans will ease off slightly. That does not mean, however, that there will be overall easing of conditions. Average interest rate payments are still set to rise as businesses and households have to refinance at higher rates.

For the ECB, the survey provides confirmation that monetary transmission remains forceful and that economic activity will remain curbed by tight policy in the coming quarters. That further paves the way for first rate cuts over the course of the year.

Author

Bert Colijn

Senior Economist, Eurozone

bert.colijn@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>.