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.

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