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## ECB bank lending survey shows only modest pickup in expected loan demand

While the economy has returned to growth and interest rates are coming down, loan demand is only modestly improving as bank credit standards remain tight. For the European Central Bank, there is nothing in the data that moves the needle for coming rate cuts



Bank lending has stagnated since the ECB started its aggressive series of rate hikes

The ECB's bank lending survey shows very gradual changes at the moment, essentially confirming an environment in which bank credit standards remain rather tight and loan demand is sluggish. Bank lending has stagnated since the ECB started its aggressive series of rate hikes. Stagnation in bank lending historically does not happen all that often – think of recessions mostly – which means that the impact has been quite severe.

The bank lending survey does indicate that the impact of the general level of interest rates on loan demand is becoming smaller. Moreover, banks also see fixed investment as a smaller and smaller drag on loan demand, which means that lending for investment reasons may be slowly returning. Banks expect loan demand to grow again next quarter. This indicates small positive notes on the back of easing monetary policy and somewhat better economic activity at the start of the year.

Still, we shouldn't overdraw conclusions on the small improvements in the survey. Coming from

the quite severe grip that monetary tightness has on bank lending right now, the survey indicates only modest improvement. For the ECB, the survey should therefore indicate that there is still much room to take the foot off the brake before there is a significant pickup in lending again.

## Author

### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

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