

Snap | 25 July 2023

## ECB bank lending survey shows tighter conditions and weaker demand for loans

The second-quarter bank lending survey indicates that monetary tightening is having a significant effect on the lending channel. This adds to economic weakness for an economy that is already stagnating. While it should alleviate inflation pressures down the road, it is unlikely to sway the ECB from another 25 basis point hike on Thursday



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 own bank lending survey does not provide an optimistic view of economic activity in the months ahead. With both credit standards tightening and demand for loans weakening, investment activity is set to weaken further. For the ECB, this will help to soften inflation pressures later on. The percentage of banks that are tightening credit standards is lower than in the first quarter, but overall the net percentage is still substantial at 14% compared to 27% between January and March. Risk perceptions are the main contributor to tightening standards at the moment.

Demand for borrowing is down further according to the survey and higher interest rates are an important contributor to the weakening demand for loans. This shows that the tightening effects from monetary policy are significant at the moment and will translate into weaker investment over the remainder of 2023. In this already weak economy in which growth has stagnated and recent indicators were weakening – the eurozone PMI for July indicated contraction – this has become a bigger point of debate for the ECB at the coming meetings to determine the end of the hike cycle.

Bank lending has weakened substantially since the start of ECB tightening, but it has been a gradual process so far. The bank lending survey continues to show significant tightening effects, but so far there has not been a cliff-edge effect on credit. While the ECB will take these results as a clear sign that the record hike cycle will have a substantial effect, we don't expect it to influence Thursday's rate decision too much. We expect the [ECB to hike by 25bp in July](#).

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