

Snap | 28 November 2023

## Eurozone bank lending continues to weaken as economy adjusts to higher rates

Loans to businesses are now 0.3% lower than in October last year, the first annual decline since July 2015. This confirms that monetary tightening is having a clear effect on the economy. A divide between countries is also opening up, with Southern European countries mainly contributing negatively to the decline



The October bank lending data did not show anything particularly spectacular; this was just a continuation of the recent trend. That trend shows a clear cooling of borrowing from both corporates and households, which is in large part driven by higher interest rates. This confirms that monetary transmission is forceful when it comes to weakening borrowing appetite, especially from non-financial corporates although we shouldn't overdo it either.

After a big surge and decline in borrowing in 2022 – which was mainly related to inventory and working capital on the back of supply chain problems – borrowing has been roughly stagnant in 2023 when looking at month-on-month growth rates. This indicates that there is no dramatic

development in bank credit taking place, but just more stagnation. The European Central Bank will be keen to see that the adjustment is happening in a controlled manner for now, but much of the impact is admittedly still to come in 2024.

The differences by country are starting to stand out though. When looking at both households and corporates, we see negative lending growth in Spain, Italy and Portugal. For households, this is also the case in Greece. The main northern economies still see growth or stagnation in bank lending, which means that the investment impact on the Southern European economies is set to become bigger than in the north in the quarters ahead.

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