

Snap | 27 March 2023

## Eurozone bank lending dampened by ECB's monetary tightening

Bank lending to corporates fell again in February, while growth in household borrowing is still on a downward trend. Expect weakness in lending to continue as the effects of European Central Bank hikes work their way through the system. The risk of contraction on the back of monetary tightening in the eurozone remains significant



The euro is looking soft on the crosses

The monthly bank lending data from the ECB continues to show the effects of monetary tightening on the economy as non-financial corporates saw small negative growth for borrowing for the fourth consecutive month. Month-on-month growth was just below 0%. For households, monthly growth rates continue to be positive but have also been on a downward trend for some time now. The monthly rate slowed from 0.15 to 0.1%.

We expect this trend of moderation to continue as the ECB's bank lending survey suggests that demand for borrowing is set to weaken further and credit conditions could become tighter. The latter could also be influenced by the recent global banking turmoil, as we argued in [this](#) recent piece.

The monetary data released today also show a further contraction in money in the euro system.

M1, the narrow definition of money and a solid leading indicator for economic activity ahead, fell again and is now down by 2.2% on the year. Broad money (M3) is still positive but showed a sharper decline than expected to 2.9% year-on-year growth. The reversal of monetary policy plays a key role here, especially through the decline in asset purchases.

It is becoming more apparent that the hike cycle will have a significant dampening effect on the economy over the course of this year. The full effect of recent hikes on the economy still has to come through, and recent turmoil – while very uncertain at this point – will likely hamper economic activity. For an economy already quite weak at the start of the year, this means that the risks of a contraction remain significant.

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