

Snap | 26 July 2023

## Eurozone bank lending falls again in June as ECB hikes take effect

Bank lending to households and corporates remained on a downward trend in June, indicating that the transmission of interest higher rates is not abating. In an already weak economic environment with inflation falling, this makes the ECB debate about hikes beyond tomorrow's meeting more heated



Bank lending continued to trend down in June as higher interest rates and economic weakness weighed on business and household appetite to borrow. Annual growth in bank lending to non-financial corporates and households is trending down rapidly, for corporates down from 2.1% in May to 1.7% in June and for households down from 4% to 3%. Monthly changes are now negative for household bank borrowing, while corporate borrowing stagnated in June.

Looking ahead, the picture is bleak. The ECB's bank lending survey indicates that there is further credit standard tightening ahead and that demand for loans continues to weaken, which should translate into a continued sluggish lending environment. This will result in weaker investment in the second half of this year and early next. That comes on top of an already stagnating eurozone economy and increases the risk of recession.

Meanwhile, the money supply remains on a downward trend as well. Annual growth in broad money (M3) was down from 1% to 0.6% year-on-year, while the narrow definition of money (M1) showed a deepening contraction down from -7% to -8%.

For the ECB, this week's data about bank lending and money growth is all about the pace of monetary transmission. There are no signs of abating here, but at the same time, there is also no sign of a credit crunch emerging. For the moment, the weakening of bank lending is a gradual process. Still, this is set to have a substantial effect on economic activity and inflation down the road. This brings the peak in ECB rates closer and makes hikes beyond tomorrow's meeting – in which [we expect a 25bp rate rise](#) – more fiercely debated.

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