

## Eurozone bank lending jumps on TLTRO and economic sentiment weakens

Don't take the strong December bank lending data as the start of a credit rally, it's largely a one-off due to the targeted longer-term refinancing operations (TLTRO) deadline



The impact of the pandemic on the eurozone economy has been fading by the wave

Monetary developments showed a large jump – from 2.9% to 4.2% Year-on-Year – in bank lending to non-financial corporates in December, which was largely due to the TLTRO benchmark moment. This caused a similar jump earlier in the year, followed by a drop back to the previous trend. That's to be expected for early 2022, so we're not yet seeing ingredients for a bank lending rally to take off from here. Nevertheless, there is some quite modest impact on investment to be expected from the lending jump in December. Other than that, monetary developments showed a continued decline in year-on-year growth of the money supply, mainly reflecting declining asset purchases by the European Central Bank.

Economic sentiment moved in the same direction as the Purchasing Managers' Index (PMI) did earlier this month. Slightly down on December – from 113.8 to 112.7, but nowhere near the dip seen during the winter Covid-19 wave last year. This leaves us somewhat confident that the gross domestic product (GDP) declines seen in 2021 can be avoided this time around as the impact of the pandemic on the eurozone economy has been fading by the wave.

More importantly, key data from the survey is around inflation developments and supply chain disruptions. Industry showed some increase in the stock of finished products, indicating a slight alleviation of the input problems experienced. Then again, the backlog of work continues to increase as demand for goods remains strong for the moment, both domestic and external. Expectations for selling prices declined in December and January, but remained very elevated historically. Services saw weakened business as the Omicron variant and related restrictions dampened output, but price expectations continue to increase.

While Omicron weakens output this winter, we see no signs of a technical recession like the winter of 2021. When restrictions ease, we're expecting some catchup growth for 2Q and 3Q, which would be helped by easing supply chain disruptions. We see some signs of that already, but it's too early to tell whether this will already materially impact output in the months ahead.

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