Eurozone bank lending muddles through ahead of first rate cut

A slight tick down in corporate borrowing, along with household borrowing continuing to show sluggish growth in April, all shows that the monetary environment in the eurozone continues to be restrictive

Bank lending to non-financial corporates dropped in April compared to March, which was the first decline since January. Overall, corporate borrowing remains on a roughly stable trend, well below the historical average in terms of growth. For households, bank lending growth remained slightly positive in April but also shows a very weak trend comparable to the growth rates seen around the time of the euro crisis.

ECB chief economist Philip Lane argued in the Financial Times this week that the Eurozone Central Bank is looking to lower monetary restrictiveness and today's data does seem to indicate that monetary policy indeed continues to be significantly restrictive on the economy. Next week, the ECB is widely expected to lower interest rates by 0.25% unless something outrageous happens in the meantime. Even last week's increase in wage growth did not deter it from preparing the markets for a first cut since 2019.

The question is at what pace the ECB will cut from here on. With somewhat lower rates, it will be interesting to see how fast bank lending and, in turn, investment can pick up. Still, with a strong labour market, inflation above target and the economy already cautiously recovering, it looks like the ECB has enough reasons not to cut aggressively. We expect the next meeting to be in scope for another cut in September.

Author

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com