

Snap | 29 May 2024

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

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.