

Snap | 27 February 2024

## Eurozone bank lending on a trend of very cautious recovery

January data confirms a very cautious trend of recovery in bank lending. This suggests that declines are behind us, adding to our expectations that the ECB is in no rush to cut interest rates



For the European Central Bank, today's data confirms that the worst impact of higher rates on bank lending and money growth seems to be over

The cautious recovery of bank lending continued in January. While bank lending to non-financial corporates ticked down slightly, growth was still slightly above 0.1% month-on-month for the third month in a row. For households, the trend is also positive again. The very small increase of 0.04% month-on-month was better than in December, with August having been the last month of negative growth in bank lending to households. Broad money (M3) ticked down in January but remains well above its August 2023 trough.

The question is how quickly this will translate to stronger investment data. Here, there is less reason to be upbeat. The improvements in lending are only small and the ECB bank lending survey suggests that businesses are not yet borrowing for investment purposes. This leads us to believe that subdued investment is likely for the foreseeable future, but if the current trend in bank lending continues, there could be improvements in the second half of the year. Especially given the easier monetary policy that is expected for the second half of 2024.

For the European Central Bank, today's data confirms that the worst impact of higher rates on bank lending and money growth seems to be over. This means that there is no immediate reason to rush towards rate cuts. We therefore remain comfortable that the ECB will not cut in the coming two meetings, sticking to our call of a first cut in June.

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