

## Eurozone bank lending remained weak in September

Bank lending maintained its trend of stagnation in September, confirming the view that the impact of higher rates on the economy has been significant. For the ECB, this is a sign that policy is working. On the back of weak economic and lending data, tomorrow's meeting will likely see more dovish impulses



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 year-on-year growth rates for bank lending in the eurozone looked dismal for September, with a decline from 0.7% to 0.2% for non-financial corporates and from 1.0% to 0.8% for households. A lot of this results from base effects though, as borrowing was still quite strong in September 2022. Month-on-month numbers have shown a roughly stagnant picture since the fourth quarter of last year, and September 2023 was no exception here.

There are no signs of a fast downturn in borrowing like we saw in 2008 for example, but the current borrowing environment has already driven down housing investments and is slowing other investments too at the moment. This is a clear sign that monetary policy is having its desired effect.

The European Central Bank (ECB) bank lending survey for the third quarter that was released yesterday showed that loan demand was weaker than expected and credit standards were tighter than expected. Expectations for the current quarter are showing that loan demand continues to weaken, which means that we can expect the current downward trend in loans to continue for the coming months.

For the ECB, this all but confirms that it is an excellent time to pause. The biggest impact from higher interest rates is expected – by the ECB itself – only to occur early next year and the economy has already slowed markedly. A recession is a clear risk at this point and inflation is moving in the right direction. There is no certainty around where inflation will land, but after more than a year of continuous rate hikes, it looks like it's time for the ECB to take a breather and see how recent hikes will affect an economy already weakening significantly.

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