

Eurozone bank lending still under pressure from higher rates

Bank lending to businesses in the eurozone dropped sharply in August while household borrowing ticked up slightly. Overall, higher rates and weak economic activity will dampen investment in the quarters ahead, keeping economic activity sluggish at best



After months of declining bank lending to corporates at the end of last year, things broadly stabilised between January and July. August, however, saw a sharp drop in bank lending with growth of -0.4% on a month-on-month seasonally adjusted basis. That introduces an element of uncertainty around the pace of monetary transmission for the European Central Bank, which will be relieved to have another month of bank lending data a day before its October rate-setting meeting. If this trend continues, then monetary transmission has picked up considerably again.

Overall, it looks like the weak economic outlook and higher rates will put a lid on business investment in the coming quarters.

Household borrowing actually ticked up in August, with growth of 0.1% month-on-month after three months of small declines. Overall though, household borrowing – which is predominantly for mortgages – remains more or less stable at the moment, which is a significant slowdown when compared to the months before the rate hikes started.

This is not good news for the eurozone economy, which is already stagnating and showing increasing signs of weakness. We expect broad sluggishness to continue as a result of the impact of restrictive monetary policy on the economy. We expect this to happen over the coming quarters, adding to a very weak economic outlook through early 2024.

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