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Eurozone bank lending survey adds to bleak growth outlook

The bank lending survey shows signs of tighter financial conditions, which are likely to add to a slowing economy in the second quarter. This adds to the ECB's concerns about how quickly to tighten policy with inflation at 7.5% and an economy slowing down



Christine Lagarde,
president of the
European Central Bank

The European Central Bank's (ECB's) bank lending survey reveals somewhat tougher credit standards for firms applied in the first quarter, driven by risks to the outlook. Banks expect standards to become even tighter for the second quarter on the back of the Ukraine war and monetary conditions tightening, adding to a cooling investment environment in the eurozone. Loan demand from firms remained strong, but not necessarily for the right reasons though. Working capital needs were the main driver of loan demand, reflecting supply chain problems and liquidity needs according to the ECB. Borrowing for investment actually moderated in the first quarter, which is further indication of a slowing economy.

For households, the survey reports a more modest tightening of financial conditions, which is also set to continue in the months ahead. The demand for borrowing from consumers continued to increase though. For mortgages, this was mainly because of low interest rate levels, which are

vulnerable to recent strong increases in market rates.

Financial conditions for banks deteriorated in the first quarter on the back of increased uncertainty and tightening monetary conditions. The monetary stance from the ECB had a positive net impact on funding access, but expect this to turn around when asset purchasing programmes draw to a close. Overall, banks reported that the ECB's monetary stance was having a less positive impact on lending volumes and funding conditions as it is winding down its asset purchase programmes.

The results from the survey are likely to give a bit of a dovish warning to the ECB. Financial conditions are broadly tightening at the moment, which is going to have a dampening impact on bank lending in the months ahead. In an economy already slowing down on the back of the war in Ukraine, this adds to the pickle that the ECB finds itself in: act on the high current inflation rate to make sure inflation expectations remain anchored, or keep policy relatively accommodative to not worsen the economic slowdown. More from the ECB on Thursday.

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