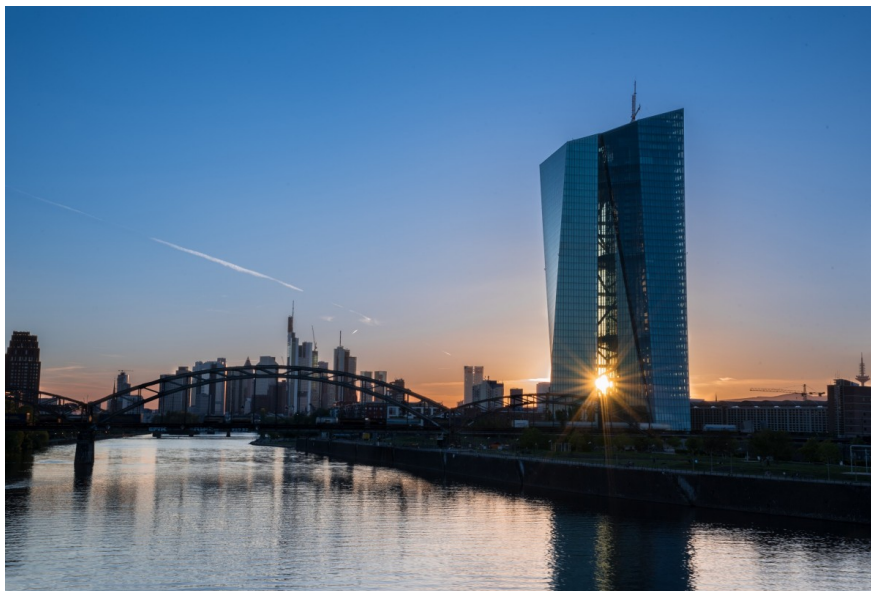


Eurozone bank lending survey confirms bleak outlook for investment

The bank lending survey shows tightening credit standards and lower demand for borrowing from both households and businesses. This confirms our view of a sluggish economy for most of 2023 and is a clear sign to the ECB that rate hikes are having a substantial impact already



European Central Bank building in Frankfurt, Germany

The quarterly bank lending survey released last October indicated weak borrowing ahead and today's January release is flashing red. For the ECB, it shows that the most important channels for monetary transmission are working (it also raises the question of whether the ECB is hiking rates too aggressively given the usual delay in monetary transmission to the economy).

The survey indicates that both credit standards from banks are tightening and demand for loans is declining. Both of these moves indicate weaker borrowing ahead and therefore investment. Banks indicated that investment plans are having a negative impact on demand for business borrowing at the moment, while working capital needs still contribute positively as supply chain problems fade.

For households, the ECB reported the sharpest decline in mortgage demand on record. The survey

suggests that this is mainly because of higher interest rates, low confidence in the economy, and weakening housing market expectations. This confirms our view that the steady decline in house prices is set to continue at the start of the year.

For the ECB, the decline in bank lending for December and the bank lending survey for January together indicate that we see transmission at work now, months ahead of its expected peak in the policy rate. For the doves on the governing council, this will be a key argument to keep further rate hikes limited from here on, while hawks will focus on stubbornly high core inflation. For Thursday [we expect](#) a 50 basis point hike.

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