

Eurozone bank lending survey encouraging for the ECB

The ECB Bank Lending Survey shows that credit standards eased significantly and demand for loans continues to grow. Given the weakness in inflation, these results should encourage the ECB that financial conditions remain accommodative



Source: Shutterstock

Credit standards eased considerably in 1Q after almost stagnating in 4Q. Both SMEs and large enterprises profited from the easing in standards and expectations are that 2Q will see continued easing in borrowing conditions. The easing was mainly driven by France and Italy and was caused by changing risk perceptions and increased competition.

Continued increases in demand for loans from enterprises and households is a positive sign. As backlogs of work increase, fixed investment is the main reason for the demand for loans, together with the low interest rate environment. As the survey was conducted between March 15 and April 3, increased trade war concerns that impacted business and consumers negatively have already been factored in. This suggests that the impact on lending decisions has not been large.

Perhaps most importantly, ahead of the ECB monetary policy meeting on Thursday, the ECB asked

its ad hoc questions on the impact of QE and the negative deposit rate again. Compared to 3Q 2017 when the questions were last asked, the impact of QE on bank profitability has turned more negative. The impact on total assets has become slightly positive and the liquidity position has improved further. Both credit standards and terms and conditions of loans have continued to ease, albeit at a slower pace. The impact of the QE programme is therefore becoming smaller as it is scaled down. The negative deposit rate is showing less of a decline in impact on firm profitability, capital position and lending conditions.

For the ECB, this survey should be encouraging. The effects of its accommodative monetary stance continue to support lending conditions and recent geopolitical tensions have not yet impacted demand for loans. With inflation still not showing any signs of getting closer to target, the ECB seems set to extend the QE programme once more, even though it is unlikely to announce that already on Thursday.

Author

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.