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Eurozone: Decreasing appetite for borrowing in 1Q

Eurozone bank lending survey suggests a decreased demand for borrowing and tightening credit standards for businesses. This implies a subdued start to the economic recovery from an investment perspective and is in line with the ECB's low tolerance of rising yields



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Eurozone's bank lending survey showed that demand for borrowing among eurozone firms has decreased in the first quarter.

Banks indicated the weakness among firms' demand was mainly related to delayed fixed investment plans due to protracted lockdowns. This suggests that the start of the economic recovery, once economies reopen, will mostly rely on a boost of household spending as businesses are still playing the waiting game for funding large investment projects.

Banks also tightened credit standards for businesses and plan to do so again in 2Q, which means that investment recovery could take a while to pick up even when businesses indicate interest in borrowing once economies reopen.

Households continued to see easing measures for house purchase borrowing, which also worked to ease terms and conditions. This continues to help the already well-performing housing market on the back of favourable financing conditions.

Today's bank lending survey results will make it to Christine Lagarde's desk ahead of Thursday's ECB meeting and add to the picture of an accommodative ECB for now.

Tightened credit standards for businesses make for a slightly more modest rebound outlook for now, which puts the eurozone further away from a quick recovery to pre-pandemic output levels. That is in line with the ECB's low tolerance of increasing bond yields until growth prospects recover.

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