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Eurozone bank lending survey shows increased borrowing appetite

Demand for borrowing from businesses shows early indications of an investment recovery, although credit standards remain tight for now



The European Central Bank's bank lending survey showed improved demand for borrowing among businesses and households and unchanged credit standards in the second quarter. Improved demand for borrowing among businesses makes sense at this time. New orders have come roaring back in the rebound period and capacity utilisation has shot up over the past months, leading to improved demand for loans. Businesses indicate that financing needs for fixed investment contributed positively to loan demand, which is a clear early indication of an investment rebound.

Favourable financing conditions are contributing to the improved borrowing appetite, but banks continue to be cautious. Credit standards and risk perceptions remained unchanged in 2Q after a considerable tightening of standards in 2020 and 1Q 2021. For the same period, an increase in risk perceptions was reported. The fact that there was no further tightening in standards reflects the improving economic situation, but this will still limit the extent to which borrowing will increase. Banks expect to see some slight further tightening in 3Q as well.

The survey also revealed that government support through guarantees has been incredibly supportive for business borrowing needs throughout the pandemic. Credit standards eased for

businesses with government loan guarantees, while they tightened for businesses without them. Looking ahead, businesses with government guarantees are not looking to borrow for liquidity reasons anymore, but want loans for fixed investment needs.

Today's bank lending survey won't be a game changer in this week's discussion between the ECB's doves and hawks on how to interpret the current economic and financial environment. Demand for borrowing is returning, which is positive from a recovery perspective, but banks remain cautious. The latter will likely dampen the lending recovery to some degree. All in all though, the bank lending survey supports a picture of an investment recovery for the months ahead, adding to the strong household consumption recovery.

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