

Snap | 30 May 2023

Eurozone bank lending weakened further in April on monetary tightening

Monetary tightening is well underway and the effects on the lending and money channels are clear. April's weak monetary data adds to a sluggish economic outlook for the rest of 2023 and provides an argument for the doves at the European Central Bank's coming meetings



Bank lending broadly stagnated in April. New loans to households grew at a snail's pace (0.02%) and loans to non-financial businesses dropped slightly compared to March (-0.03%), which was the fifth outright decline in six months. Money growth also fell more than expected as year-on-year growth in broad money (M3) dropped to 1.9% in April with the more narrow indicator, M1, falling as much as 5.2%, the fastest decline on record.

Today's data incorporates the first full month after the start of the banking turmoil, which may add to weaker borrowing ahead but for now, there is no real break from trend visible in the lending data. The weakening has been gradual and seems affected by higher interest rates and weak investment prospects, but also by the change in trend around working capital from 2022. Last year, borrowing for working capital and inventory reasons was up, in part, to supply chain disruptions and economic uncertainty. But with supply chain problems fading and working capital costs higher as interest rates spiked, there seems to be a reversal. While that may be a temporary

effect, the overall trend in borrowing is clearly down.

At the last ECB press conference, President Christine Lagarde indicated that monetary transmission is currently strong. The ECB's own bank lending survey had already indicated a quick weakening of demand for borrowing amid the current higher interest rates and tightening of credit conditions by banks. The April monetary developments data confirms this strong monetary transmission and dampens the economic outlook for the months ahead, as weak borrowing is set to weaken economic activity from here on. For the ECB, this provides more proof that its tightening policy is working and could give the doves a stronger argument to call for an end to rate hikes this summer.

Author

Bert Colijn

Senior Economist, Eurozone

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 <http://www.ing.com>.