

## Eurozone corporate bank lending remains elevated in July

Bank lending to non-financial corporates continued to be surprisingly strong at the start of summer despite higher rates and high economic uncertainty. A hawkish sign for the ECB



We expect the ECB to lower interest rates again this week

Credit to the private sector continued to grow strongly in July. This is somewhat surprising given higher interest rates, low confidence and banks indicating tighter credit standards and weaker demand for borrowing. Nevertheless, growth for non-financial corporate bank lending accelerated from 6.8% year-on-year to 7.7% YoY in July. This sounds dramatic but is mainly due to a large base effect.

Nevertheless, month-on-month bank lending to non-financial corporates was still 0.9% in July, well above recent trend growth. Household credit growth slowed from 4.6 to 4.5%. The trend in household bank lending growth is slowing at the moment, which hints at a more immediate effect of higher interest rates.

Money growth continues to slow rapidly as the ECB has stopped quantitative easing (QE) and increased interest rates. Broad money growth (M3) fell from 5.7 to 5.5% YoY in July. The narrower estimate M1, considered to be a better leading indicator of economic activity, dropped from 7.2% YoY to 6.7% YoY growth. The tightening of the monetary stance is adding to concerns about

economic growth, as signs are becoming clearer that the economy could have already started a mild recession at this point.

For the ECB, continued strong growth in corporate bank lending could be taken as a sign that the neutral rate is still a bit away. Sliding consumer borrowing points in the other direction, but overall this is a hawkish sign ahead of the September meeting. We expect the ECB to move by another 50 basis points now before signs of a recessionary economic environment become more widespread.

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