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Eurozone credit standards ease, supporting the lending outlook

Favourable financial conditions continue to provide a tailwind for the eurozone economy according to the Bank Lending Survey, which provides some assurance to the ECB ahead of the October meeting



Source: istock

Even though downside risks to the eurozone outlook are hardly abating, bank lending standards eased again slightly in the third quarter. On average, it became slightly easier to borrow for non-financial corporates and home buyers, which should provide some relief for the investment outlook that has taken a hit because of falling new orders and weakening confidence.

The favourable standards for approving new loans was balanced somewhat by the tightening in credit conditions, meaning that especially riskier loans have seen spreads increase. That has not deterred banks from taking on loans, though demand for lending was roughly unchanged in the third quarter according to the survey.

For the fourth quarter, banks are not expecting meaningful changes to their own standards and conditions and also not to demand for lending. On top of that, banks indicate that the asset purchase programme (APP) has continued to have a positive impact on market financing conditions and liquidity positions over the past six months, despite the end to net purchases.

The restart of the programme can be expected to increase these positive contributions, although side effects continue to be reported by the banking sector, mainly around profitability concerns. Still, the ECB will likely take this on board as a confirmation that APP will support loose financial conditions as concerns about the effectiveness of the programme become broader.

Financial conditions continue to contribute to a lending outlook that supports modest investment growth, although the outlook for investment will likely be dominated by trade developments in the latter months of the year.

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