

## Eurozone monetary developments show transmission is working

Sharp declines in private sector borrowing in December show that the ECB's sharp interest rate rises are starting to have the desired effect. In an already weak economy, this is another dampening effect for 2023 growth, but don't expect it to be enough to sway next week's ECB decision on rates. We expect another 50 basis point hike



The ECB's bank lending survey shows that tighter credit conditions are having a clear impact on borrowing

The decline in bank lending in December was seen across the board. Household borrowing growth had been trending down since early 2022 – when longer-term rates started to rise – but saw a particularly sharp monthly drop in December. The month-on-month growth was 0.1% down from 0.3% in November, indicating that household borrowing growth has now all but stagnated. This is especially important for the housing market as the majority of household borrowing is for mortgages.

The decline in non-financial corporate sector borrowing has been even more pronounced. Month-on-month growth turned further negative in December, falling from -0.1% in November to -0.3% in December. Business borrowing growth had been very strong in 2022 and even accelerated despite higher interest rates. The bank lending survey already indicated that this was mostly for working capital reasons and not for investment plans, which was actually a sign of weakness rather than

overheating. Now we see sharp declines in borrowing occurring, which is in fact more of a recessionary sign.

Given the hawkish stance that the ECB has taken recently, this release must be encouraging as it shows that monetary transmission is at work. At the same time, it comes at a time when a very weak eurozone economy is flirting heavily with recession. With a lot more rate hikes to come, the question is how well the economy can swallow substantially higher rates.

We expect that the ECB hike cycle will have a significant dampening effect on the economy over the course of 2023. With supply-side problems that caused inflation diminishing, the question is whether doves will become more vocal in coming meetings as we start to see monetary transmission at work. For next week, we don't expect much to change: another 50 basis point hike is in the making.

## Author

### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto: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>.