

## Weak eurozone bank lending suggests uncertainty is hampering monetary easing

Monetary easing is filtering through the lending channel more slowly, with borrowing growth among businesses and households showing signs of levelling off. Uncertainty in the economy seems to have reduced the impact of ECB rate cuts. If that persists, it adds a dovish tone to the September debate about a possible next cut



Italy's financial district in Milan

While the European Central Bank reports year-on-year growth in bank lending in its press release, we like to compare slightly shorter time frames to better capture developments in recent months. We notice some weakening effects of monetary transmission in the numbers.

In May, bank lending to non-financial corporates declined compared to April - the first decline since July last year. While volatile, the three-month average growth rate has been dropping steadily, indicating that bank lending to corporates is not seeing many positive effects from the ECB moving its interest rates to neutral at this point.

Meanwhile, there is a break from the trend with bank lending growth to households, which

accelerated over the course of 2024 but seems to have plateaued at just over 0.2% month-on-month this year. May saw a small tick down in the growth pace, which is now at the weakest level since November. Overall, we're seeing a levelling off effect, which suggests that monetary easing conditions are not translating as forcefully through the lending channel anymore.

Uncertainty has prompted businesses to become more reluctant to borrow for investment purposes, as the bank lending survey from April showed. Since then, uncertainty has only increased, which makes a downturn for borrowing in May understandable. The big question is how long this uncertainty will continue to suppress borrowing appetite among businesses, as this suppresses investment in the eurozone economy.

The ECB is widely expected to pause its rate cuts in July. This is not necessarily to see how its policies are playing out, but mainly to see how the economic environment is shaping up in times of huge uncertainty. If economic uncertainty has become so large that it starts to weaken lending and investment substantially, that could provide another dovish argument for a further rate cut in September.

## Author

### Bert Colijn

Chief Economist, Netherlands

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

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