ECONOMIC PULSE

CREDIT PULSE IN THE EUROZONE: MONETARY POLICY TIGHTENING IS CAUSING AN HISTORIC DROP IN DEMAND FOR BANK LOANS

Already noticeable in Q4 2022, the effects of monetary policy tightening on the distribution of bank credit in the eurozone intensified significantly in Q1 2023.

The impulse of bank lending to the private sector has been negative since February 2023, for the first time since 2014, excluding 2021 (after-effects of Covid support measures and loans). Credit impulse to non-financial companies, albeit sharply down, remains positive for the time being, while that of household loans, negative since November 2022, is still decreasing.

The year-on-year variation in private sector loan outstandings almost halved between September 2022 (+7.1%) and March 2023 (+3.8%). Starting from a much more sustained pace (+8.9%), loans to non-financial companies maintained a rate of growth (+5.2% in March) greater than that of loans to households (+2.9% in March compared to +4.6% in May 2022, the most recent peak). These developments should contribute to the decrease of inflation from summer 2023 (+7.0% in April), at the price of a sustained slowdown in activity over the coming months (expected GDP growth of +0.6% in 2023 after +3.5% in 2022). Banks surveyed between 22 March and 6 April 2023 report a particularly pronounced tightening of the criteria for granting loans to companies in the first quarter of 2023, unprecedented since the sovereign debt crisis in 2011. The main factors put forward are the economic outlook and companies' individual situations. Banks also indicated a substantial tightening of home loan criteria, justified by the increase in perceived risk. Consumer credit stands out due to a more moderate tightening.

The sharp rise in financing costs caused by the tightening of monetary policy and the drop in investment spending led to the sharpest drop in demand for corporate financing recorded since the 2008 crisis, which was much higher than expected in Q4 2022. Demand for home loans suffered from weak consumer confidence and, above all, rising borrowing rates. Its contraction was close to that seen in Q4 2022, which was already the most significant since the start of the survey (2003). In comparison, the decline in demand for consumer loans appears limited.

For Q2 2023, banks are considering further tightening of lending criteria for businesses and housing, albeit at more moderate rates than in Q1 as we foresee the end of monetary policy tightening during the summer. Consumer loans, on the other hand, should see their criteria tighten at the same pace – rather contained – as in Q1. At the same time, banks are anticipating less pronounced declines in demand from both companies and households.

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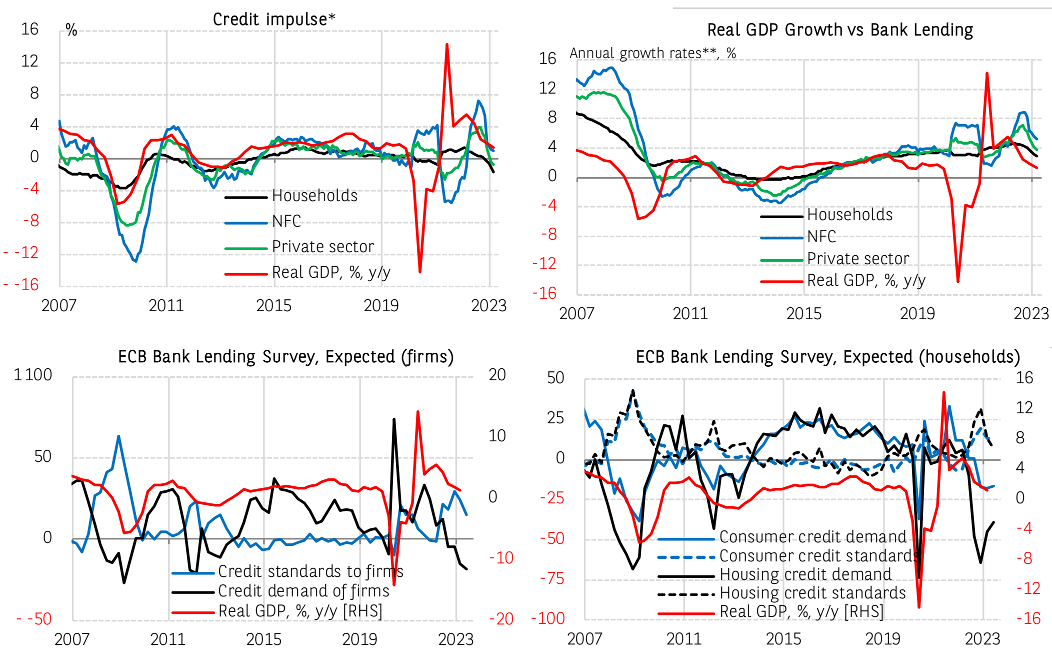
CREDIT IMPULSE IN THE EUROZONE



* Credit impulse is measured as the annual change of annual growth rate of MFI loans.

** Adjusted for securizations.

SOURCES : ECB, ECB SURVEY ON THE DISTRIBUTION OF CREDIT, BLS, BNP PARIBAS