

# ECONOMIC PULSE

## CREDIT PULSE IN THE EUROZONE: NEW PEAK IN SEPTEMBER 2022, DEMAND SLOWDOWN AND TIGHTENING OF LENDING CONDITIONS EXPECTED IN Q4

After posting negative figures for most of 2021, the credit impulse returned to positive territory in early 2022 and rose to unprecedented levels (+3.8 points in August 2022 and +3.7 points in September 2022). This growth contrasts starkly with the sharp slowdown in the eurozone's GDP in Q3 2022 (+0.2% quarter-on-quarter, compared to +0.8% during Q2 2022), which it undoubtedly helped to limit.

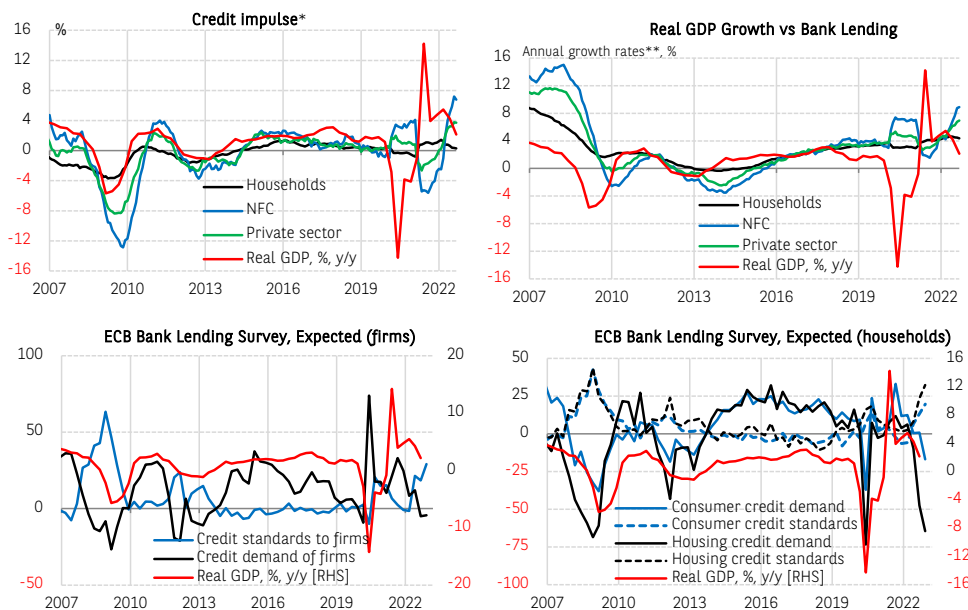
After accelerating hugely since spring, in September 2022, outstanding loans to the private sector showed their strongest increase since December 2008 (+6.9% year-on-year), with outstanding loans to non-financial corporations (NFCs) showing their largest increase since January 2009 (+8.9%). Even though outstanding loans to NFCs have increased across the board, outstanding loans with maturities of less than one year (+19.8% year-on-year) are growing far more healthily than loans with maturities of more than five years (+4.1%), in accordance with the purpose of the loan (such as cash needs or inventories). At the same time, outstanding loans to household dipped slightly (+4.4% year-on-year in September 2022, compared to +4.6% in May), but still registered record growth rates. Outstanding consumer loans registered a small rise between June 2022 and September 2022 (+3.4% and +3.7%, respectively) while outstanding housing loans were slightly down (+5.4% and +5.1%, respectively).

These trends are in line with the results of the Bank Lending Survey published by the ECB on 25 October 2022. The banks surveyed noted that the demand for corporate finance has increased, driven by rising materials and energy costs, and by stock replenishment. Against the backdrop of monetary policy normalisation, eurozone banks are, however, starting to notice the negative effects of the widespread rise in interest rates on the demand for financing. This is particularly true for the households' demand, which, in addition to the increased bank lending costs, has suffered as a result of confidence indicators being close to their lowest record levels since the summer and a decreasing appetite for durable goods.

The pronounced slowdown in economic activity and heightened fears of a recession have worsened the outlook for corporate balance sheets. As a result, banks have reduced their risk tolerance and tightened their lending conditions for NFC to an even greater extent than they had already done in Q2. For retail customers, banks even tightened housing loan terms to an extent not seen since Q4 2008. While this tightening was mainly triggered by a rise in the perceived risk, the rise in the costs of banking resources and balance sheet constraints also played a role. In Q4 2022, the banks surveyed are expecting a slight drop in the demand for corporate lending and a much greater tightening of lending conditions than in previous quarters. They are once again anticipating a sharp drop in demand for housing loans, and a less pronounced but still significant decline in demand for consumer loans. Finally, banks are also considering a widespread tightening of financing conditions for all household.

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\*L'impulsion du crédit est mesurée comme la variation annuelle du taux de croissance annuel des prêts des IFM \*\* corrigés des titrisations

SOURCE: ECB, ECB SURVEY ON DISTRIBUTION OF CRÉDIT, BLS, BNP PARIBAS CALCULATION

