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EUROZONE: THE INCREASE IN THE CREDIT IMPULSE PREVENTED A CONTRACTION IN GDP IN Q4 2024

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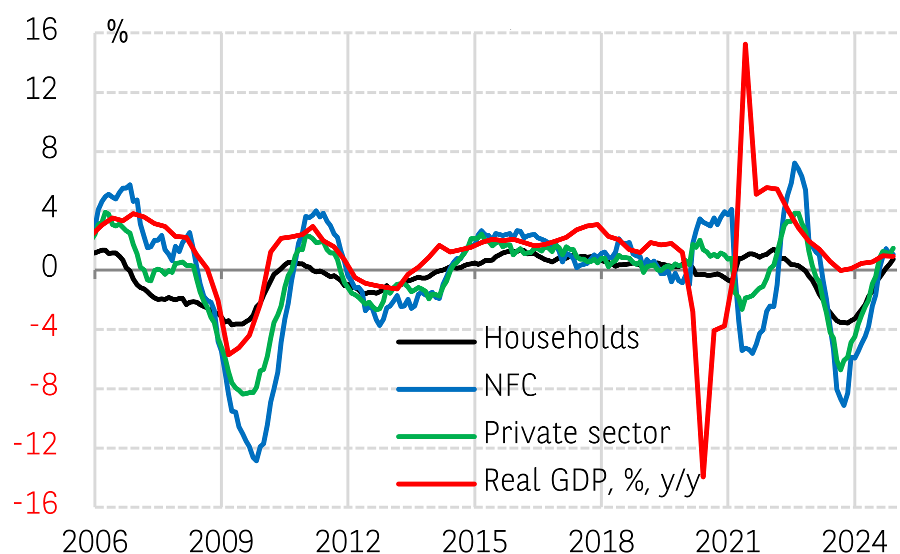
The impulse of bank lending to the private sector continued to recover in the Eurozone in Q4 2024 (1.5 after between 1.1 and 1.2 since September 2024).

It was back in positive territory since August (0.8), and in December 2024 it reached its highest level since November 2022 (2.7).

The ECB bank lending survey in the Eurozone confirms the recovery in the demand for loans in Q4 2024.

However, political uncertainties have resulted in a tightening of credit standards for lending to companies in France and Germany.

CREDIT IMPULSE*



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

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

CHART 1

The survey also offers an outlook for Q1 2025. Investment in housing could benefit from the continued recovery in home loans (subject to changes in the cost of loans in some countries). By contrast, attention should still be paid to corporate investment: this barely contributed to the increase in demand for loans in Q4 2024, while this demand, still increasing up to the end of 2024, is expected to be stable in Q1 2025, according to those banks surveyed.

At the same time, economic activity has stabilised in Q4 2024. GDP in volume stagnated, after surprising on the upside in Q3 (+0.4% q/q). This unusual gap between the credit impulse and economic activity can be explained in part by the fact that this impulse was boosted by the acceleration in outstanding loans to non-bank financial institutions (+8% y/y in December 2024), while outstanding loans to non-financial companies and households continued to show modest rates of growth.

The moderating effect of the impulse of bank lending to non-financial companies on growth

After starting their recovery from October 2023, outstanding loans to the private sector accelerated until December 2024 (+2.0%), returning to a pace of growth that had not been seen since June 2023. However, these overall developments conceal more moderate increases in outstanding loans to households (+1.1%) and to non-financial corporations (+1.5%). Outstanding loans to the private sector continued to be driven by growth in outstanding loans to non-monetary financial institutions (+8.0%).

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After peaking following a very rapid recovery from the dip in October 2023 (-9.1), the impulse of lending to non-financial corporations stabilised at a lower level (1.0) in November and December. By contrast, the impulse of lending to households, which had recovered more slowly from the dip in November 2023 (-3.6) and had returned to positive territory in October 2024, was stronger again at the end of 2024 (0.8).

Stricter credit standards in Q4 2024, with the exception of housing

The 155 banks surveyed by the ECB between 10 December 2024 and 7 January 2025 as part of its Bank Lending Survey (BLS) tightened credit standards for corporate loans in Q4. Following loan approval criteria unchanged in Q3, this tightening is the most pronounced since Q3 2023. It is also stricter than the tightening the banks had envisaged in the previous wave of the survey. The main reasons put forward by the banks to justify this tightening of credit standards for corporate loans were their increased risk perception and lower risk tolerance.

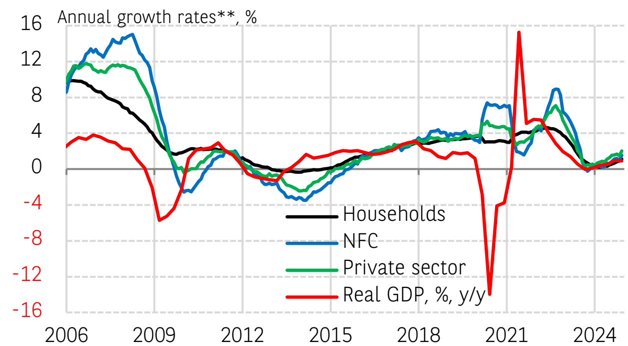
The consequences of the political uncertainties in France and Germany are palpable, as the eligibility criteria have been tightened primarily in these two countries. By undermining business and consumer confidence, political uncertainties were the common denominator of the setback for GDP in the Eurozone in Q4, hampered by developments in Germany (-0.2% q/q) and France (-0.1%). In Italy on the other hand, eligibility criteria have been relaxed.

At the same time, banks have left virtually unchanged credit standards for home loans to households. This stabilisation comes after three consecutive quarters of easing in 2024 and while the banks surveyed in Q3 were expecting very significant easing. As a reminder, credit standards had been tightened in 2022 and 2023, against the backdrop of the rise in loan rates following the rise in bond yields (fixed rates) and the hike in key rates (variable rates). And lastly, following on from the trend that began in Q2 2024, banks further tightened credit standards for consumer loans and, for the third time in a row, more markedly than they had envisaged in the previous survey.

Widespread increase in demand for bank lending, with housing leading the way

Demand for corporate loans has experienced its second consecutive quarter of recovery, although it remains weak. These developments are in line with bank expectations in Q3 and bring an end to the decline in demand seen since the end of 2022. Nonetheless, the increase in outstanding loans to non-financial companies remains modest. Incidentally, while demand increased in Germany, Spain and Italy, it fell in France. Demand was supported by lower interest rates and the financing of working capital requirement. Conversely, investment was only a marginal reason for demand for loans, and was also down compared to the previous quarter, which is a rather worrying sign. As in Q3, demand for home loans increased sharply, supporting the argument of a recovery, after the restart observed in Q2. In particular, the strengthening of demand (balance of responses of 42%) is the highest since Q2 2015 (+44%) and concerns a large number of Eurozone countries. Demand was driven firstly, by lower loan rates and secondly, by improved outlooks on the property markets.

REAL GDP GROWTH VS BANK LENDING

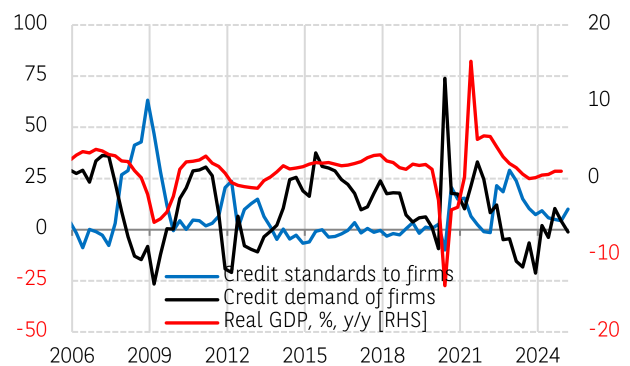


** Adjusted for securitizations

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

CHART 2

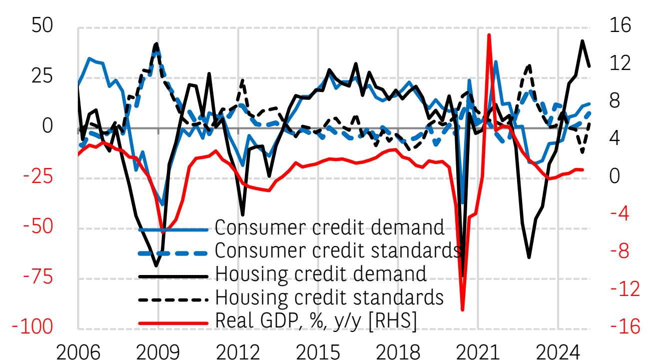
ECB BANK LENDING SURVEY, EXPECTED (FIRMS)



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

CHART 3

ECB BANK LENDING SURVEY, EXPECTED (HOUSEHOLDS)



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

CHART 4

It should be noted however, that the latter factor played a less important role than in the previous quarter, which shows that some uncertainties remain. And lastly, demand for consumer credit saw slight growth, less than banks had expected in the previous quarter. National developments appear to be mixed: demand has increased in Spain and, to a lesser extent, in Germany and Italy and, on the contrary, has fallen in France. The primary supporting factor was lower loan costs. Conversely, spending on consumer durables and consumer confidence had a negative impact.

Q1 2025: demand for loans expected to be stable for companies, and to increase for households

For Q1 2025, the banks surveyed predict a tightening of credit standards for loans to companies (balance of 10%, slightly above the historical average). For the same period, they expected demand for loans from this customer base to be stable. Credit institutions are also considering a tightening of criteria for households, on a modest basis for home loans, and on a more sensitive basis for consumer loans. And lastly, they anticipated a continued increase in demand for household loans, at a significant pace for home loans, and at a moderate pace for consumer loans.

Overall, the elements of the survey providing an insight into the start of 2025 argue in favour of a very moderate recovery in activity. These elements appear to be consistent with our real GDP forecast for Q1 (+0.1% q/q). While the recovery in demand for home loans is good news for the construction sector, it could be tempered by the end of the decline in loan costs (fixed rates) linked to recent bond yield trends. Conversely, attention should still be paid to the persistent weakness of corporate investment, which is not only a reason for demand for loans but also and above all a component of GDP of which the contribution to growth is essential in the recovery phase.

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