EUROZONE: THE SLOWDOWN IN BANK LENDING IS HAVING PALPABLE EFFECTS ON ACTIVITY AND INFLATION

The ECB's tightening of monetary policy between the summer of 2022 and September 2023 continued to have its effects on euro zone bank lending in the fourth quarter of 2023. However, in the absence of a further turn of the screw since September 2023, these effects have not intensified further. Outstanding bank loans to the private sector even accelerated slightly, year-on-year, in the fourth quarter (up 0.5% in December 2023 compared to 0.3% in September) in line with GDP (up 0.1% in the fourth quarter from 0.0% in the third). The credit impulse remains negative but increased slightly for the first time since the ECB began to increase rates in July 2022.

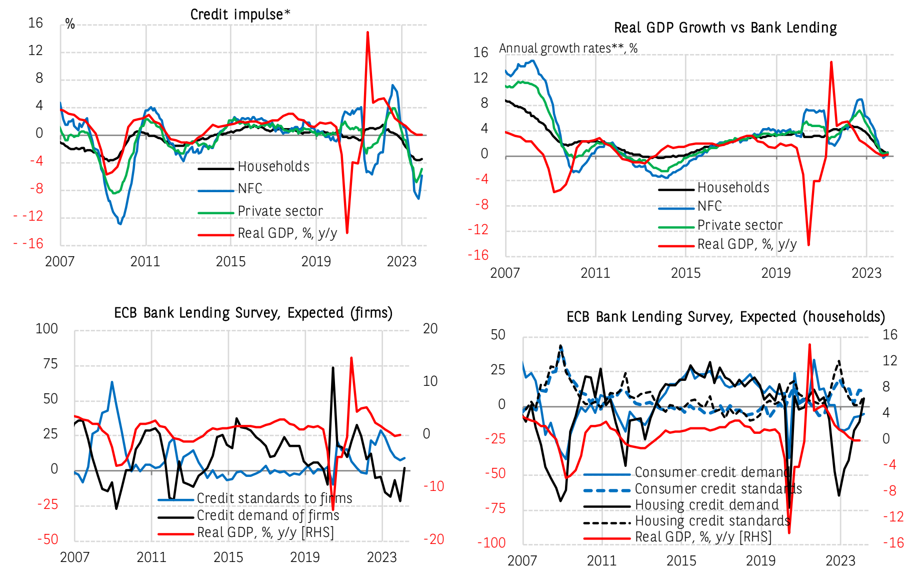
The 157 banks surveyed by the ECB between 8 December 2023 and 2 January 2024 indicated that they had slightly tightened conditions for loans to businesses. The main reasons cited were risk perceptions related to the economic outlook and the situation of firms. The deceleration in business lending outstanding (+0.33% y/y in December 2023, from +3.8% in December 2022) resulted from the delayed effects of cumulative rate rises since 2022 and a fall in demand. The latter particularly affected long-term loans and investment expenditure. Having hit bottom in October 2023, the credit impulse remained negative in December 2023, at -5.9, but showed a recovery compared to the previous months (August to November 2023), due to a largely technical improvement (favourable basis of comparison from late 2022). It is now above the level seen in 2009, in the aftermath of the financial crisis, and closing in on the levels observed in summer 2021 (-5.6 in August 2021).

The banks surveyed indicated that they had also tightened lending conditions for households in the fourth quarter of 2023, to a limited degree for mortgage loans and more significantly for consumer credit. The increase in perceived risk, irrespective of the purpose of the loan, and lower risk tolerance for consumer loans were the main reasons given. Over and above the higher cost of borrowing, weak consumer confidence and the deterioration of real estate market prospects hit demand for credit. In line with the trend that began in the summer of 2022, growth in outstanding loans to households continued to decelerate in the fourth quarter (rising 0.3% y/y in December 2023, from 0.8% in September) whilst the credit impulse for household lending has remained fairly stable since August 2023 (-3.6 in December).

The tightening of monetary policy and the heavy brake applied to outstanding loans to the private sector contributed to the sharp deceleration, beginning in the spring of 2021, and then contraction in year-on-year terms between July and December 2023 of M3 money supply. This contraction, the first since 2009, and more particularly the fact that it has been on a scale (-1.3% in August 2023) not seen since the beginning of the ECB's retropolated series (1981), has contributed to the fall in underlying inflation. According to the ECB's preliminary estimate, this measure of money supply more or less stabilised, year-on-year, in January 2024 (+0.1%). Over the same period, core inflation (excluding energy, food, alcohol and tobacco) continued to fall (+3.3%, from +3.4% in December), as did total inflation (+2.8%, from +2.9%).

For the first quarter of 2024, banks are expecting continued tightening of lending conditions for businesses. At the same time, they expect a slight strengthening of demand for business lending for the first time since the second quarter of 2022. This might, however, be only a temporary rebound. In several places in its Bank Lending Survey, the ECB highlights that business credit standard are a leading indicator of changes in outstanding loans with a horizon of five or six quarters. These credit standards, coupled with the delayed effects of past interest rate increases, suggest that in fact demand for business lending will remain very contained in the euro zone throughout 2024, despite the beginnings of a loosening of policy rates and a recovery in economic activity, both expected in the second half of the year. For households, whilst banks are expecting a continued contraction in demand for consumer credit in the first quarter of 2024, they also expect mortgage demand to recover for the first time since the first quarter of 2022. This analysis should be taken in the context of the easing of bond markets between October and December 2023, which, at the time of the survey, seemed to be pointing towards downward revision of fixed-rate matrices. The movements seen since then have wiped out part of the fall in yields observed at the time of the survey, and the perception would no doubt be less favourable today. Over the year as a whole, demand for borrowing will continue to be constrained by financing costs that are still high relative to those seen prior to 2022 and penalised by expectations of adjustments in real estate markets.

CREDIT IMPULSE IN THE EUROZONE



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

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

Laurent Quignon