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

The tightening of euro-zone monetary policy, which began in July 2022 and carried on until September 2023, continued to curb demand for loans and dampen economic activity in the third quarter of 2023. The initial effects on core inflation have also been apparent since the end of the summer.

The private-sector credit impulse, which has been steadily declining since October 2022 and has been below zero since February 2023, hit its lowest level since November 2009 (-6.8). However, it is still comfortably above its July 2009 low (-8.3). Starting from a much higher base than the household credit impulse in September 2022, the non-financial company credit impulse is now settling at a lower level after falling sharply.

Outstanding loans to the private sector continued to decrease and only managed very weak positive year-on-year growth (+0.3%) in September 2023. Outstanding loans to non-financial companies, which were already very dynamic in November 2022 (+8.3% year-on-year), are now virtually unchanged in year-on-year terms (+0.2% in September 2023). After starting out more sluggishly (+4.4% in September 2022), outstanding loans to households only increased slightly, with growth of +0.8% in September 2023.

Since summer 2022, monetary tightening has resulted in lending conditions being tightened substantially. 157 eurozone banks were surveyed as part of the Bank Lending Survey (BLS) between 15 September and 2 October 2023. As a result of their perception of increased risk and lower risk tolerance, these banks have increased their margins on the riskiest loans. The lending conditions on home loans for households continued to tighten until the third quarter. As was the case with companies, banks pointed strongly to the higher perceived risk, but also highlighted the liquidity positions negatively affected by the Eurosystem securities portfolio being streamlined and TLTRO IIIs being phased out.

The slowdown in bank lending is also starting to affect core inflation. Together with rising interest rates on savings and customers shifting away from monetary deposits, it has been a contributing factor to M3 money supply declining since July 2023 (-1.2% year-on-year in September). Headline inflation, which had temporarily stopped falling during the summer (plateauing at between 5% and 5.5% from June to August 2023), started to ease once more in September (4.3%) and October 2023 (standing at an estimated 2.9%). This has brought it back down to levels not seen for more than two years (July 2021) as a result. This disinflation is mainly due to the fall in energy prices in September (-4.6%) and in October in particular (-11.1%), as well as the drop in core inflation (standing at an estimated +4.2% in October, compared to +5.5% in July), reflecting the reduced money supply and the slight contraction in euro-zone activity in the third quarter (-0.1% q/q, +0.1% y/y).

For the fourth quarter of 2023, banks plan to further tighten the conditions for business loans, albeit more moderately than during previous quarters. They are also anticipating further drops in demand for corporate financing (the balance of opinion on this issue stands at its lowest level since 2011). At the same time, they are expecting conditions for home loans to stabilise and conditions for consumer loans to tighten further. Finally, they are forecasting a less severe drop in household loans demand, irrespective of the reason for taking out a loan.

Should there be no further developments in the Israeli-Palestinian conflict, which could significantly affect energy prices and the expected base effect, we expect inflation to continue to come down, albeit at a slower rate than the trend that we have seen since this summer. As a result, the ECB is expected to stabilise its key rates, after ten consecutive hikes between July 2022 and September 2023. As it is keen to avoid second-round effects, the ECB may now wait to see how the round of wage negotiations plays out before contemplating easing off its monetary tightening, towards the end of the first half of 2024 at the earliest.

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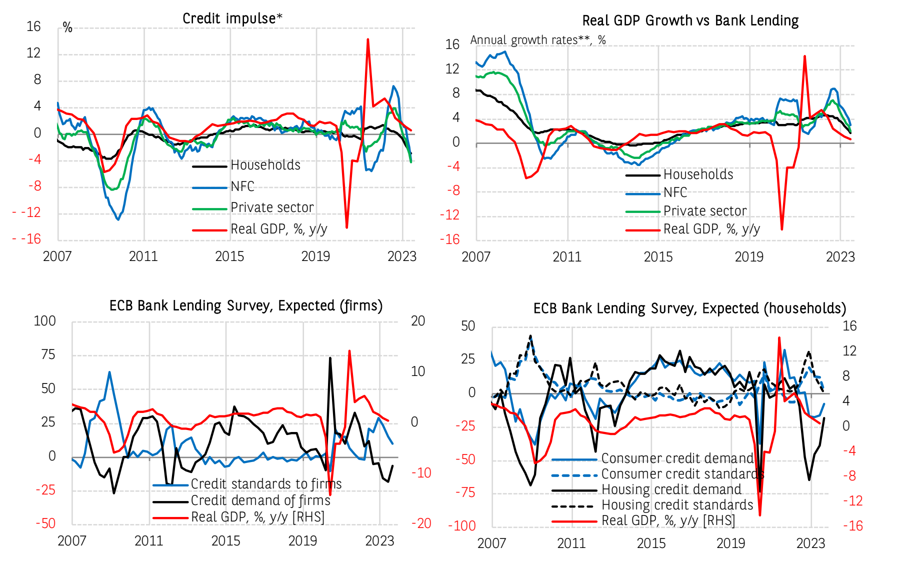
CREDIT IMPULSE IN THE EUROZONE



*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