

The ECB's bank lending survey: The euro area's economic pulse is coming back

Introduction

The global pandemic has left severe scars on economic activity across the globe. This is no less true for the economies of the euro area, which saw widespread lockdowns after the outbreak of the pandemic in the spring of 2020 and various renewed phases of ramping down public life thereafter due to surges in pandemic infection rates. With the onset of broad vaccination campaigns, vaccination rates have been steadily increasing and the euro area economy has been on a path of recovery. A host of fiscal policies provided strong support in this respect, and monetary policy has been maintaining a very accommodative stance as well. Against this background, taking the pulse of economic activity in the euro area is a relevant proposition, not least as an input for assessing both the realised effects and the prospective merits of continued policy support measures. To do so, the October Monthly Briefing takes a closer look at the results of the most recent bank lending survey by the European Central Bank (ECB), which provides some insights into the shape of economic activity in the euro area.

Background of the ECB's bank lending survey

The euro area bank lending survey (BLS) is published quarterly by the ECB and provides information on bank lending conditions in the euro area, notably regarding the supply of and demand for loans to firms and households. This information is used as additional input by the governing council of the ECB in its monetary policy decision making process. The most recent BLS was conducted by the ECB in the second half of June 2021 and published in July 2021. It included a total of 142 banks and the response rate was 100 per cent.

Table

Results of the latest bank lending survey of the ECB

Net percentages of banks reporting a tightening of credit standards or an increase in loan demand

Country	Enterprises						House purchase						Consumer credit					
	Credit standards			Demand			Credit standards			Demand			Credit standards			Demand		
	1Q21	2Q21	Avg.	1Q21	2Q21	Avg.	1Q21	2Q21	Avg.	1Q21	2Q21	Avg.	1Q21	2Q21	Avg.	1Q21	2Q21	Avg.
Euro area	7	-1	8	-15	8	-1	-2	-1	6	-7	36	5	5	0	5	-19	11	0
Germany	6	-3	4	13	0	7	0	-7	2	0	11	9	-3	-17	0	-30	10	8
Spain	10	0	9	-70	10	-6	11	0	14	-22	44	-10	20	0	9	-20	30	-8
France	0	0	6	-34	19	-8	-7	5	3	-38	54	8	0	0	-1	-10	-8	0
Italy	10	0	12	10	0	7	0	0	1	-10	22	13	-10	0	5	-10	44	11

Source: ECB, Bank Lending Survey, July 2021

Note: The "Avg." columns refer to historical averages since the beginning of the survey, excluding the most recent edition.

negative net percentages across the large economies in the euro area.

2) Demand for housing loans is exceptionally strong

The demand for housing loans is seen as increasing by a net percentage of 36 per cent of banks, which is exceptionally high both compared to the previous quarter and the historical average. In France and Spain, the reported net percentages were particularly high, standing at 54 per cent and 44 per cent, respectively. These results tie in with the booming real estate market in many economies of the euro area, in terms of both strong demand from buyers and significantly rising prices. There is especially the delicate nexus between low interest rates and higher house prices, which leads into the emerging debate about whether and to which extent monetary policy is contributing to the creation of new risks to financial and economic stability. From this angle, it is not reassuring that the survey results indicate a concurrent slight loosening in lending standards for housing loans, as an explosion in credit together with weaker lending conditions can open the door for undesirable credit risks to seep into banks' balance sheets.

3) Credit standard tightening for enterprises has levelled off

Banks indicated a slight loosening in credit standards for firms, which is a sharp change from the previous quarter, when a net

percentage of 7 per cent of banks reported a tightening in credit standards, and the even more pronounced tightening that occurred in the second half of 2020. This levelling off of credit standard tightening is mirroring the trajectory of the euro area economies, with banks putting greater emphasis on tighter credit standards at the height of the economic crisis caused by the pandemic. Interestingly, in the current survey, large firms saw a greater degree of loosening in standards than small and medium-sized firms, illustrating the continued struggle of smaller firms with the fallout from the pandemic and giving some hint that fiscal support remains necessary for—and also has to reach—especially small firms. In addition, the levelling off in credit standard tightening can also be linked to the various forms of monetary policy support granted to the banking sector.

Conclusion

The results from the bank lending survey point to a solid recovery, even a resurgence of the euro area economy. Remarkable are, in particular, the reversals from very contractionary indications in the previous quarter to strongly expansionary ones in the most recent period. A major caveat is that the data do not speak to the actual volume of loans, for which other data sources can be used. But even with its limitations the survey provides a valuable snapshot of the current underlying trends in the euro area economy.