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# Eurozone: Lending Weakness Continues

## But Funding Conditions Improve

The latest (October) ECB Bank Lending Survey, which relates to actual changes during Q3 and to expectations in the current quarter, revealed that the net tightening of credit standards by Eurozone banks for loans to enterprises increased back to 15% in net terms from 10% in Q2. However, for loans to households for house purchase the net tightening was broadly stable (at 12%), while net tightening declined slightly for consumer credit (to 3% from 7%).

As for factors behind the net tightening of credit standards, the impact of banks' cost of funds and balance sheet constraints eased in the case of loans to both enterprises and households. By contrast, risk perceptions contributed to the increase in the net tightening of credit standards on loans to enterprises in the third quarter of 2012, while in the case of loans to households for house purchase the impact of the general economic outlook and housing market prospects remained broadly unchanged.

## Loan Demand Still Falling

As for loan demand developments, banks continued to report a pronounced net decline in the demand for loans to enterprises and this balance was somewhat more negative than in the previous survey. Mergers and acquisitions and inventories and working capital were the main drivers of the more pronounced net decline in demand for loans to enterprises. The ongoing net decline in demand for loans to households for house purchase accelerated somewhat, whereas the net decline in demand for consumer credit abated. *Looking ahead to the fourth quarter of 2012, banks expect a continued net decline in the demand for loans, both for enterprises and households, even if on balance less negative than in the third quarter of 2012.*

## Funding Conditions Improve

Very clearly, these survey results (conducted between September 20 and October 9) continue to suggest very weak lending, although the survey results continue to suggest that this was more a reflection in the weakness of the demand for lending. However, more optimistically, *a series of ad hoc questions in this survey do highlight an improvement in banks' access to both retail and wholesale funding, with a clear easing in sovereign debt crisis tension also very much evident.*

**DE View:** As a result, while the survey results will be welcomed by the ECB that credit supply is not being rationed any more discernibly, the Bank cannot rule out that current banking fragilities will not result in some form of credit crunch when demand for lending (eventually) picks up. Even so, *while weakness in loan demand may argue in favor of further conventional easing by the ECB, the clear and fresh improvement in funding conditions will be the more decisive factor that keeps the central bank on hold for the time being.*