

Lending conditions for businesses are tightening in all the Eurozone countries

In the main Eurozone economies, the consequences of the increases in base interest rates since mid-2022 are now being felt in corporate loans. These increases have led to a tightening of bank lending conditions for non-financial enterprises and a fall in demand for loans, especially investment loans. French banks seem to be feeling this decline less keenly than their European counterparts: in France, the drop in demand for investment loans is considered to be less pronounced and survey data suggest there could be a slight rebound in Q3 2023, although with demand still in decline. Bank loans for corporate investment remain buoyant, but they are slowing compared to the end of 2022 (► **Banque de France, 2023**). The perception that the tightening of credit conditions is delayed in French banks could be because the characteristics of the credit market are different from other Eurozone countries: in particular, the proportion of fixed-rate and long-term loans in the liabilities of non-financial enterprises appears to be higher in France (► **Gueuder M., Ray S., 2022**). However, corporate investment slowed in France in Q3 2023, which could suggest tightening credit conditions.

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Monetary tightening in the Eurozone has repercussions on businesses' access to credit

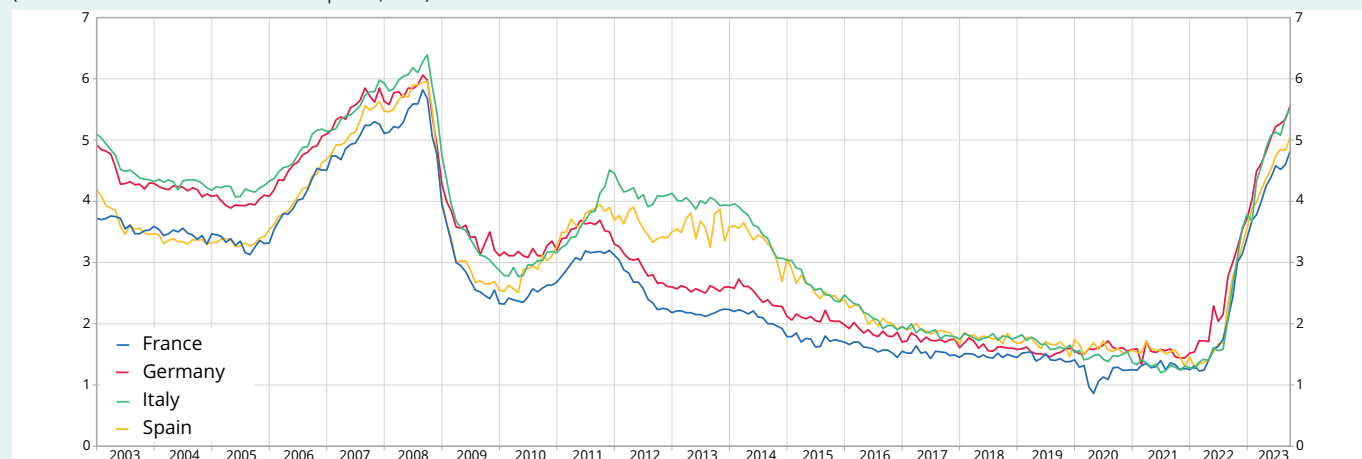
In order to curb inflation in the western economies, most of the central banks began a monetary tightening policy during 2022. Following the Federal Reserve's increase in base interest rates at the start of 2022, the European Central Bank (ECB) started to raise its rates gradually from mid-2022. The rise in base interest rates resulted in an increase in the cost of financing commercial banks by central banks, and this increase has impacted the rates at which the commercial banks can lend to non-financial enterprises. Thus the cost of corporate credit has risen substantially since summer 2022, from 1.6% in June 2022 to 4.8% in October 2023 in France (► **Figure 1**). The cost of credit was lowest in France across the entire period, although the European countries have now tended to move closer together since the ECB first put up its base

interest rate in summer 2022. Over the long term, the high point of 2023 is still below the peak reached during the 2008 crisis (4.8% in October 2023 against 5.8% in September 2008 in France).

The rise in the cost of credit was accompanied by a tightening of bank lending conditions for corporate loans, according to the outlook surveys of banks carried out in the Eurozone (► **Figure 2**). Banks are seeing a tightening of lending conditions for corporate loans in the main Eurozone economies, which they attribute mainly to the increase in their financing costs (► **ECB, 2023**). However, the rise in rates does not happen at the same speed in all countries. The higher the proportion of short term corporate debt at a variable interest rate, the faster the rise in rates is passed on. Thus Spain and Italy were exposed earlier to the tightening of access to corporate loans because in these countries the proportion of loans with variable rates and short-term maturity is

► 1. The cost of business loans has increased significantly throughout the Eurozone since mid-2022

(cost of loans for non-financial enterprises, in %)



Last point: October 2023.

How to read it: in October 2023, the cost of loans for non-financial enterprises in France was 4.8%.

Source: European Central Bank.

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much greater than in France and Germany (the share of corporate debt at a fixed rate is 83% in France and 80% in Germany, compared to 47% in Italy and 62% in Spain, after ► [Gueuder M., Ray S., 2022](#)). Banks continue to expect a tightening of lending conditions for Q4 2023; however, this anticipated tightening is easing compared to early 2023. In France, the corresponding balance of opinion has caught up with the Italian and Spanish levels. For comparison, in the United States, the survey by the Federal Reserve on lending conditions shows similar results: according to the banks, lending conditions continued to become tougher in Q3 2023 but this tightening seems to be easing. In addition, the tightening of access to credit was accompanied by tougher conditions attached to granting loans: increased demands for collateral, hardening in terms of maturity period and the size of loans (► [ECB, 2023](#)).

Tighter access to credit is hampering demand for loans, especially for investment

The drop in demand for corporate loans is evident from business tendency surveys carried out in banks in the Eurozone. The balance of opinion on demand for loans for investment fell sharply from the beginning of 2022 (► [Figure 3](#)). However, it has bounced back since the start of 2023, with the turnaround being slightly stronger in France than in the other countries. In this regard, the growth rate of bank loans for investment remains dynamic in France and higher than for the period 2012-2016, but these loans are slowing down compared to the end of 2022 (► [Banque de France, 2023](#)).

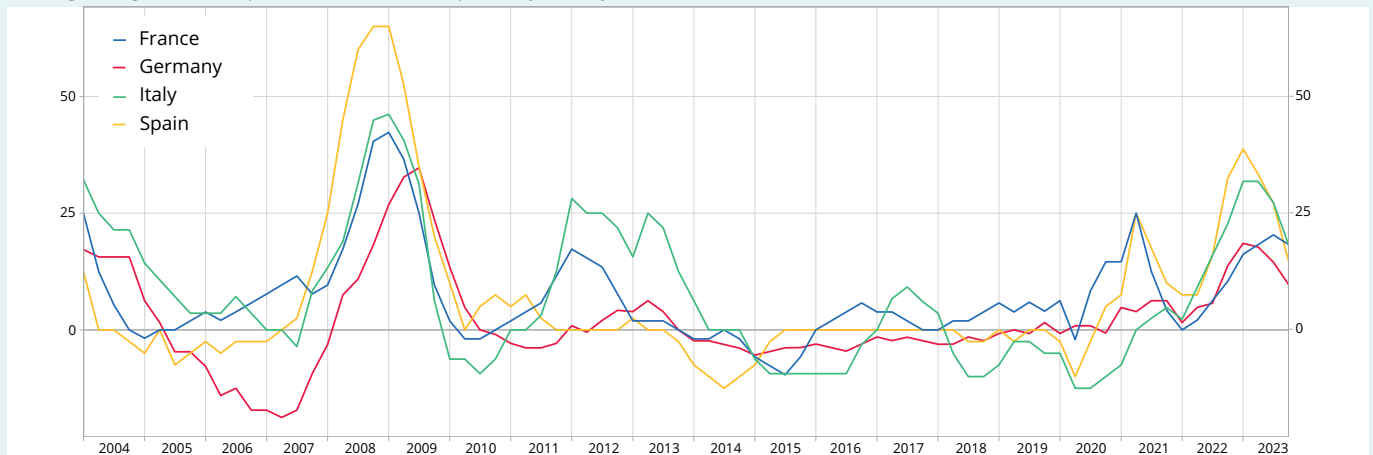
In addition, the decline in demand for loans in the Eurozone is not limited to investment loans only. According to the ECB, in Q2 2023 the balance of opinion of banks relating to overall demand for loans reached its lowest point since the survey began in 2003. The rise in interest rates is one of the main factors put forward to account for this decline, which has also been observed in the United States, according to the Federal Reserve survey on credit conditions.

The deterioration in lending conditions for businesses and the decline in the demand for loans do not appear to be perceived at this stage as major obstacles to production in France. The proportion of businesses reporting financial constraints that hamper production in industry has increased relatively little since mid-2022 (► [Figure 4](#)). This proportion remains well below the levels observed during the 2008 crisis and has remained stable since the increase began in 2022. In October 2023, France was at similar levels to the Eurozone as a whole.

Corporate investment is nevertheless showing signs of weakness. Total investment is slowing down, or even falling back, in most major western economies: despite recovery plans in Italy and Spain, it has declined in Italy since Q2 2023, and in Spain since Q3. In Germany in Q3, total investment experienced a rebound compared to the contraction in Q2. For comparison, both total investment and corporate investment contracted in the United Kingdom in Q3, while in the United States total investment slowed but remained dynamic and corporate investment experienced very modest growth compared to H1 2023. In France, corporate investment also showed signs of slowing in Q3 (+0.5% after +1.2% in Q2). ●

► 2. Banks continue to anticipate a tightening of lending conditions in Q4 2023, although this tightening is easing

(moving average over four quarters of balances of opinion by country)



Last point: Q4 2023.

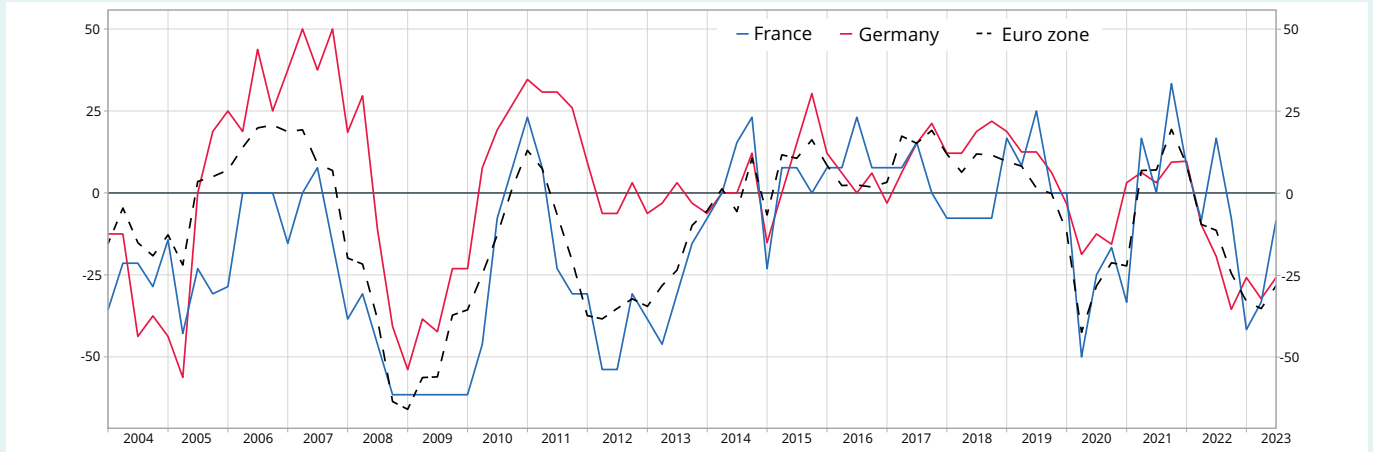
Note: a positive balance means an expected tightening of bank lending conditions (a negative balance means a relaxation of these criteria).

How to read it: in Germany, banks still anticipate a tightening of credit criteria in Q4 2023; nevertheless, slightly fewer banks anticipate this tightening than in Q3.

Source: European Central Bank, Euro Area Bank Lending Survey.

► 3. Demand for investment loans has been falling since the beginning of 2022, but the decline is easing, especially in France since the beginning of 2023

(balances of opinion by country)



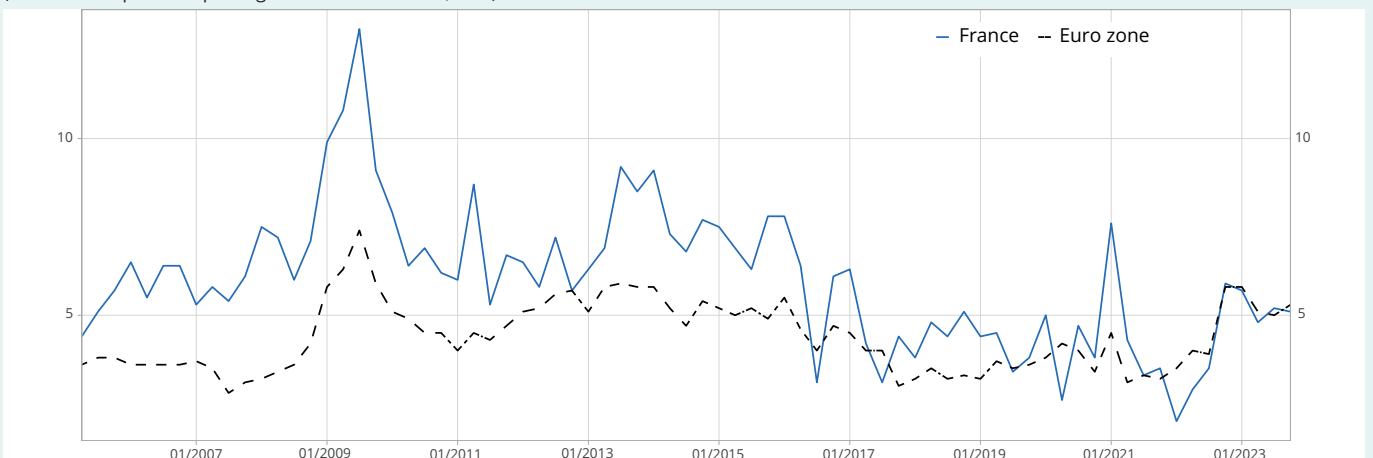
Last point: Q3 2023.

Note: a positive balance means that the demand for investment loans is increasing (a negative balance means a decline in demand).

Source: European Central Bank, Euro Area Bank Lending Survey.

► 4. Financial constraints hampering production in industry

(share of companies reporting financial constraints, in %)



Last point: Q4 2023.

How to read: in Q4 2023, 5% of companies report financial constraints that could hamper production in industry in France.

Source: European Central Bank, Euro Area Bank Lending Survey.

Bibliography

Gueuder M., Ray S. (2022), "Rise in interest rates: European companies will not be affected at the same pace", Banque de France Bulletin n° 243, 22 December 2022, Banque de France.

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