

Euro Area

Bank Lending Survey Confirms Supply-Side Improvement

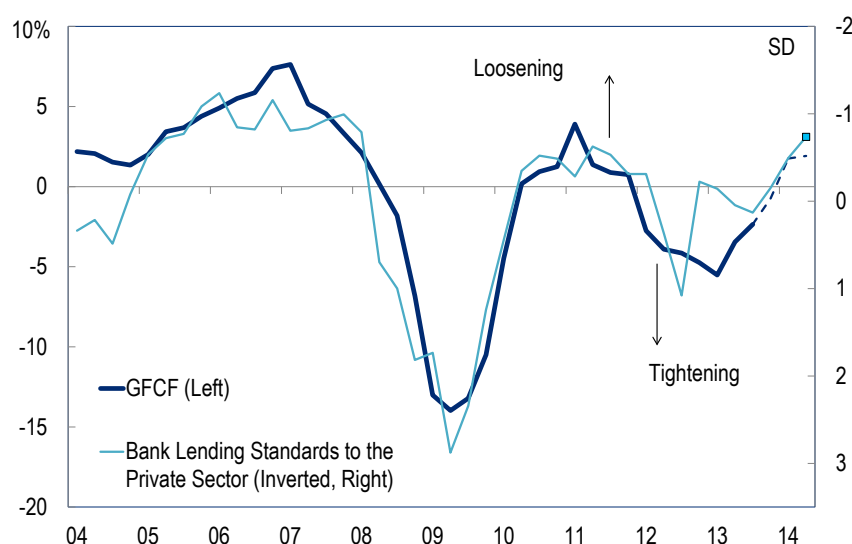
- **Second successive loosening of lending standards** — the ECB January euro area bank lending survey showed a further improvement in lending standards. Our aggregate measure indicates that, the net proportion of banks loosening lending standards rose to its highest level since Q4-06. This series is a useful leading indicator of GFCF two quarters ahead, pointing to investment spending moving into positive territory in 4Q-13. The suggested 3% run rate at the start of 2H-14 implies some slight upward risks to our base case. Although the relationship with GDP and activity has been looser recently, we would view the survey results as positive.
- **Banks still more willing to lend to households than to firms** — a net 1% of banks eased their lending standards to households for mortgages in 4Q-13 for the first time since 3Q-07, with a net 4% expecting further easing in 1Q-14. For firms, a net 2% of banks tightened lending standards. But with no net tightening expected in 1Q-14, a net 10% expect stronger demand, highest since 2Q-11.
- **Regulatory/supervisory pressures still matter** — In one of the ad hoc questions, banks responded that they expect a “*further net tightening of both credit standards and margins for loans to enterprises, due to regulatory and supervisory pressures*”, but that the expected restriction is of the same order of magnitude as in 2H-13.

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Figure 1. Euro Area – Bank Lending Standards to the Private Sector (2Q Lead) and Gross Fixed Capital Formation (YoY), 1Q-2003 to Q4-2013



Sources: European Central Bank and Citi Research

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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