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Eurozone bank lending stabilises

By James Wilson in Frankfurt

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Eurozone bank lending has shown signs of stabilisation after an abrupt fall, supporting the view that the European Central Bank's willingness to pump cheap money into the economy may help stave off a credit crunch.

Data on the flow of bank loans to companies, showing a fall of €1bn in January compared with a €35bn fall in December, comes before a second "long-term refinancing operation" (LTRO) being carried out by the ECB, in which eurozone banks can borrow as much money as they want for three years at cheap rates.

Mario Draghi, ECB president, has already said the eurozone averted a "major credit crunch" after the central bank's first, unprecedented offer of such loans in December. Then, more than 500 banks borrowed €489bn.

In making longer-term loans available cheaply to banks, the ECB hopes to help them meet their own refinancing needs while encouraging them to keep up the supply of loans to the wider economy. The fear has been that an economic downturn would be aggravated if banks – particularly in countries hardest hit by the sovereign debt crisis – were too worried about the weakness of their balance sheets to finance consumers and the corporate sector.

Those worries were highlighted by December's lending data, which showed the steepest decrease recorded by the ECB in bank loans to companies.

January's data, while showing that the fall in net outstanding loans had been arrested, did not show a strong rebound in lending. The 12-month growth in loans to the private sector, including households and companies, rose from 1 per cent to 1.1 per cent.

"The risk of a credit crunch still prevails," said Carsten Brzeski of ING.

At the weekend Mr Draghi admitted it was "hard to say" whether the ECB's first LTRO had made a difference to lending to the wider economy but signalled an expectation that more of the funds to be made available this week would find their way into loans.

"One can infer from the numbers that much of the LTRO has been used by the banks to repurchase bonds coming due in the first quarter of this year," Mr Draghi said. "One expectation

now is that having satisfied their funding needs for this year at least the banks will be more inclined to use the money...to expand credit to the real economy.”

More ECB data on Monday appeared to show that some banks had used the cheap central bank funding to stock up their holdings of sovereign debt.

Spanish and Italian banks' net purchases of government bonds rose by record amounts in January. Most of this is presumed to be domestic debt issued by the banks' respective governments.

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