UniCredit

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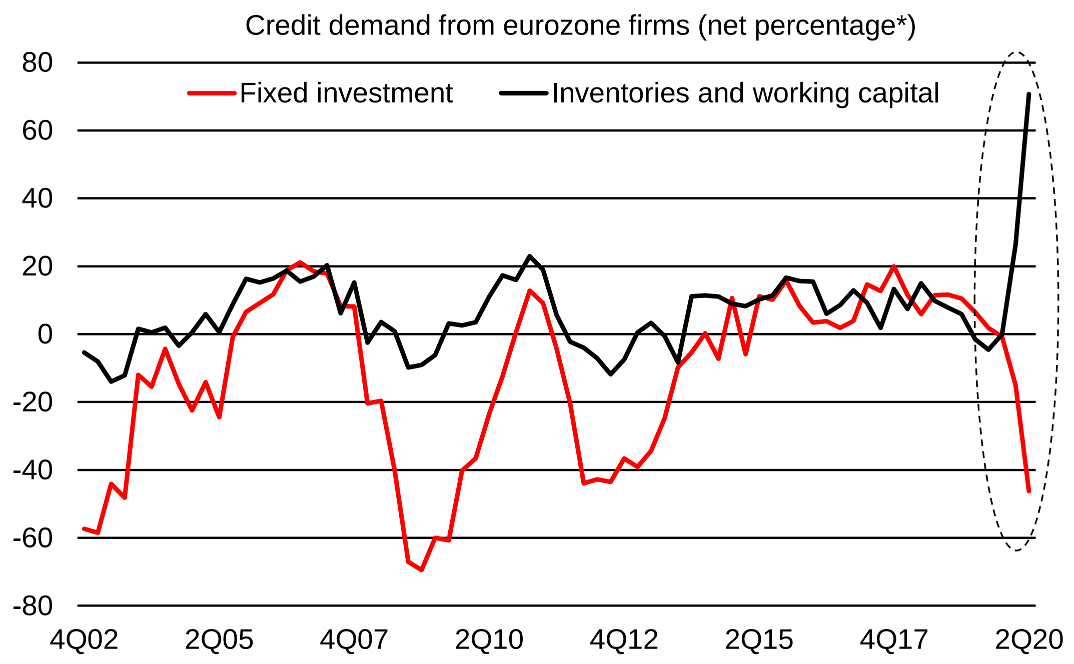
Macro Research

Chart of the Week

Credit demand from eurozone firms: The great divide



*The "net percentage" indicator for credit demand is defined as the difference between the percentage of banks reporting higher credit demand and the percentage of banks reporting a decrease in credit demand. The survey was conducted between 5 and 23 June 2020, therefore it covers the unprecedented drop in activity caused by the lockdown and the first stage of the subsequent recovery that started in May.

Source: ECB, UniCredit Research

- Our *Chart of the Week* shows an interesting development revealed by the ECB's *Bank Lending Survey* for the second quarter, which was published this morning. Banks reported a further massive increase in credit demand from firms, but there was a huge disconnection between surging financing needs for inventories and working capital, and a big drop in credit demand for fixed investment.
- The net percentage of eurozone banks reporting higher demand for liquidity to finance inventories and working capital hit a new all-time high (black line); this was clearly driven by the liquidity squeeze caused by the COVID-19 crisis and was strongly supported by state guarantees. In contrast, the net percentage for financing needs for fixed investment (red line) tumbled, indicating a marked deterioration in the investment outlook. Consistent with this picture, loan demand was higher for SMEs than for large firms (smaller firms tend to have comparatively thinner cash buffers and less ability to raise funding in financial markets) and significantly higher for short-term loans than for long-term loans. Banks also indicated that their credit standards had eased for short-term loans but tightened for long-term loans.
- At the national level, demand for corporate loans increased considerably in all the largest eurozone countries, although banks in Germany mentioned that demand for guaranteed loans overall was lower than expected.
- Eurozone banks expect corporate credit demand to continue to grow in the current quarter, but at a significantly slower pace. They also expect a considerable net tightening of credit standards for loans to enterprises, which is reported to be related to the expected end of state loan-guarantee schemes in some large euro area countries.

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