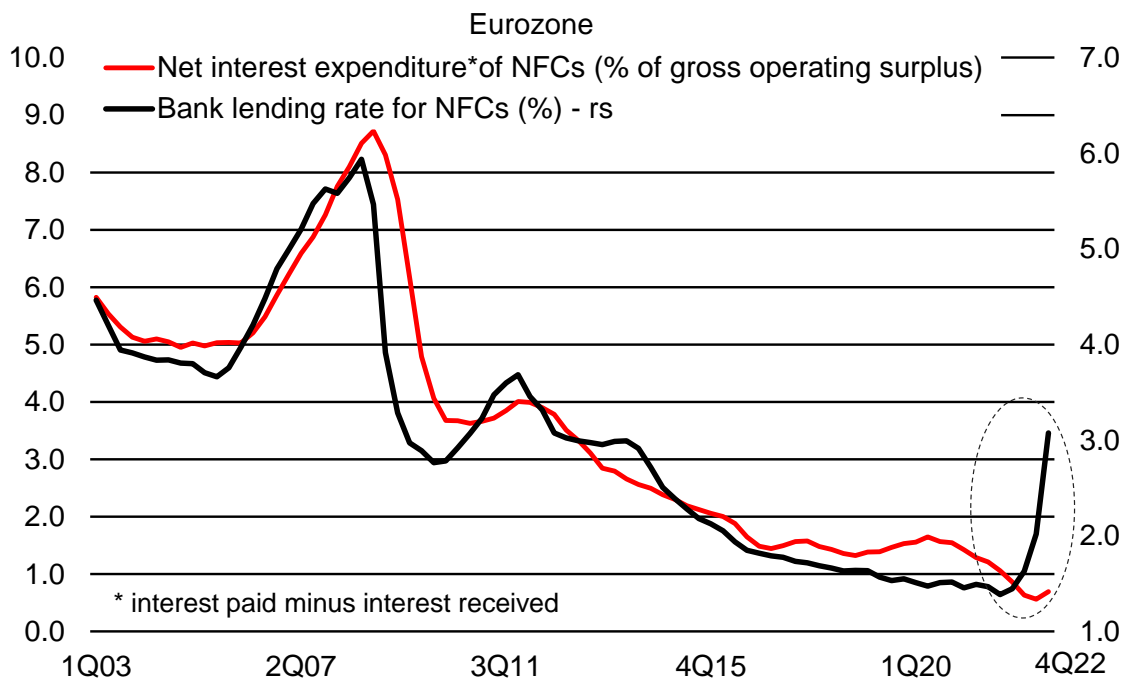


Eurozone firms yet to feel the impact of ECB tightening



Net interest expenditure and gross operating surplus are expressed as four-quarter sums. The bank lending rate is the composite cost of new borrowing for NFCs. Gross operating surplus is the national account equivalent of EBITDA.

Source: ECB, Eurostat, UniCredit Research

- Non-financial corporations (NFCs) in the eurozone have yet to feel the impact of ECB rate hikes. Our *Chart of the Week* shows that their net interest expenditure (defined as interest paid less interest received) as a share of gross operating surplus continued to hover around record low levels at the end of last year, while the interest rate on new bank loans rose significantly.
- This benign development reflects a combination of still-low interest spending, higher interest earned on interest-bearing assets and solid profitability. In turn, the sound financial position of NFCs helps explain the broader economy's resilience amid tighter financing conditions, including ongoing strength in the labor market.
- However, the transmission of monetary policy via the net-interest-expenditure channel is unlikely to have broken down. We think the bulk of this transmission is still in the pipeline and will materialize over time. Until now, NFCs have been able to contain their interest bills mainly thanks to strong cash positions and the fact that a measurable repricing of bank loans only really started last autumn, after yield curves had already shifted higher. Firms took advantage of this by replacing expensive bond issuance with comparatively cheaper loans.
- However, this will no longer be possible this year after the recent strong increase in bank lending rates, which pushed the composite cost of new borrowing for NFCs up by about 200bp in the six months to February 2023 (the latest date for which data are available). As the cost of bank loans progressively rises while firms' earnings dynamics weaken, monetary policy will start to bite more strongly.

Marco Valli, Global Head of Research, Chief European Economist (UniCredit Bank, Milan)

+39 02 8862-0537

marco.valli@unicredit.eu

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UniCredit Research*

Macro Research



Marco Valli
 Global Head of Research,
 Chief European Economist
 +39 02 8862-0537
 marco.valli@unicredit.eu



Dr. Ingo Heimig
 Head of Research Operations
 & Regulatory Controls
 +49 89 378-13952
 ingo.heimig@unicredit.de

Head of Macro Research



Marco Valli
 Global Head of Research,
 Chief European Economist
 +39 02 8862-0537
 marco.valli@unicredit.eu

European Economics Research



Dr. Andreas Rees
 Chief German Economist
 +49 69 2717-2074
 andreas.rees@unicredit.de



Dr. Loredana Federico
 Chief Italian Economist
 +39 02 8862-0534
 loreadanamaria.federico@unicredit.eu



Stefan Bruckbauer
 Chief Austrian Economist
 +43 50505-41951
 stefan.bruckbauer@unicreditgroup.at



Tullia Bucco
 Economist
 +39 02 8862-0532
 tullia.bucco@unicredit.eu



Edoardo Campanella
 Economist
 +39 02 8862-0522
 edoardo.campanella@unicredit.eu



Walter Pudschedl
 Economist
 +43 50505-41957
 walter.pudschedl@unicreditgroup.at



Chiara Silvestre
 Economist
 chiara.silvestre@unicredit.eu

International Economics Research



Daniel Vernazza, Ph.D.
 Chief International Economist
 +44 207 826-7805
 daniel.vernazza@unicredit.eu

EEMEA Economics Research



Dan Bucsa
 Chief CEE Economist
 +44 207 826-7954
 dan.bucsa@unicredit.eu



Gökçe Çelik
 Senior CEE Economist
 +44 207 826-6077
 gokce.celik@unicredit.eu



Mauro Giorgio Marrano
 Senior CEE Economist
 +43 50505-82712
 mauro.giorgiomarrano@unicredit.de



Artem Arkhipov
 Head, Macroeconomic Analysis
 and Research, Russia
 +7 495 258-7258
 artem.arkhipov@unicredit.ru



Hrvoje Dolenc
 Chief Economist, Croatia
 +385 1 6006-678
 hrvoje.dolenc@unicreditgroup.zaba.hr



Pavel Sobišek
 Chief Economist, Czech Republic
 +420 955 960-716
 pavel.sobisek@unicreditgroup.cz



Ľubomír Koršňák
 Chief Economist, Slovakia
 +421 2 4950 2427
 lubomir.korsnak@unicreditgroup.sk



Anca Maria Negrescu
 Senior Economist, Romania
 +40 21 200-1377
 anca.negrescu@unicredit.ro



Kristofor Pavlov
 Chief Economist, Bulgaria
 +359 2 923-2192
 kristofor.pavlov@unicreditgroup.bg

UniCredit Research, UniCredit Bank AG, Arabellastraße 12, D-81925 Munich, globalresearch@unicredit.de
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MR 22/3

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