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STATISTICS

Understanding Credit Markets for Europe

Lending to European households and non-financial corporations: Growth and trends

Key findings from the ECRI Statistical Package 2024

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SUMMARY

- In 2023, loans to EU households and non-financial corporations (NFCs) did not change significantly.
- Household loans in the EU remained stable and NFC loans decreased by 0.12 % in 2023.
- Total household loans grew the most in Bulgaria (+17.5 %), Croatia (+9.3 %), Malta (+8.2 %) and Hungary (+7.2 %). In turn, the most significant contractions were registered in Greece (-3.5 %), Cyprus (-2.8 %), Spain (-2.5 %), Austria (-1.9 %), Finland (-1.5 %) and Italy (-1.5 %).
- NFC loans grew most in the Czech Republic (+12.2 %), Romania (+9.7 %), Malta (+9.5 %), Hungary (+8.9 %) and Bulgaria (+7.3 %). In turn, the highest reductions were registered in Cyprus (-7.1 %), Luxembourg (-5.7 %), Serbia (-5.3 %), Spain (-4.7 %), and Italy (-4.5 %).

ECRI Statistical Package

The ECRI Statistical Package 2024 provides data on outstanding credit granted by monetary-financial institutions (MFIs) to households and non-financial corporations (NFCs) for the period from 1995 to 2024. Credit volumes and annual growth rates are broken down by sector and credit type to enable detailed insights into credit market developments over time and across countries. It comprises 45 countries including the EU Member States, EU candidate states, and EFTA countries as well as the US, UK, Japan, Australia, Russia, Mexico and Saudi Arabia.

To purchase the ECRI Statistical Package 2024, please contact alice.orlandini@ceps.eu

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1. Total loans to households and non-financial corporations

In 2023, the volume of outstanding loans to households and non-financial corporations (NFCs) in the EU stands at EUR 13 trillion, which is approximately 77 % of the EU's GDP. Compared to the previous year, loans did not change significantly: 2023 was the first year in which outstanding loans remained stable in nominal terms after eight consecutive years of expansion.

Comparing euro area countries to non-euro area (non-EA) countries requires a clarification regarding their compositions: from January 2023, Croatia was officially included in the euro area countries, so metrics differ from the previous year.

Overall, 86 % of EU loans originate from euro area countries[1], while the remaining 14 % come from non-euro area countries[2]. Between 2022 and 2023, the total loan growth rate in the euro area changed from +4.1 % to -0.02 % when considering the different composition of the aggregate – the EU19 in 2022 versus EU20 (including Croatia) in 2023. If we only consider the EU19, the difference is not significant, as loans from Croatia represent just 0.3 % of total loans. In non-euro area countries, the loan growth rate increased from +0.3 % to +1.1 % (see *Figure 1*) when comparing non-EA8 to non-EA7; in this case, loans from Croatia account for 2 % of the total, so the change in the aggregate definition has a significant impact.

Overall, about 66 % of the total outstanding amount of EU loans is held by the four major EU economies – Germany (24.5 %), France (22.2 %), Italy (9.9 %) and Spain (8.6 %). The same four countries held around the same amount of total loans in 2022.

Figure 1. Total loan growth and GDP growth (%)

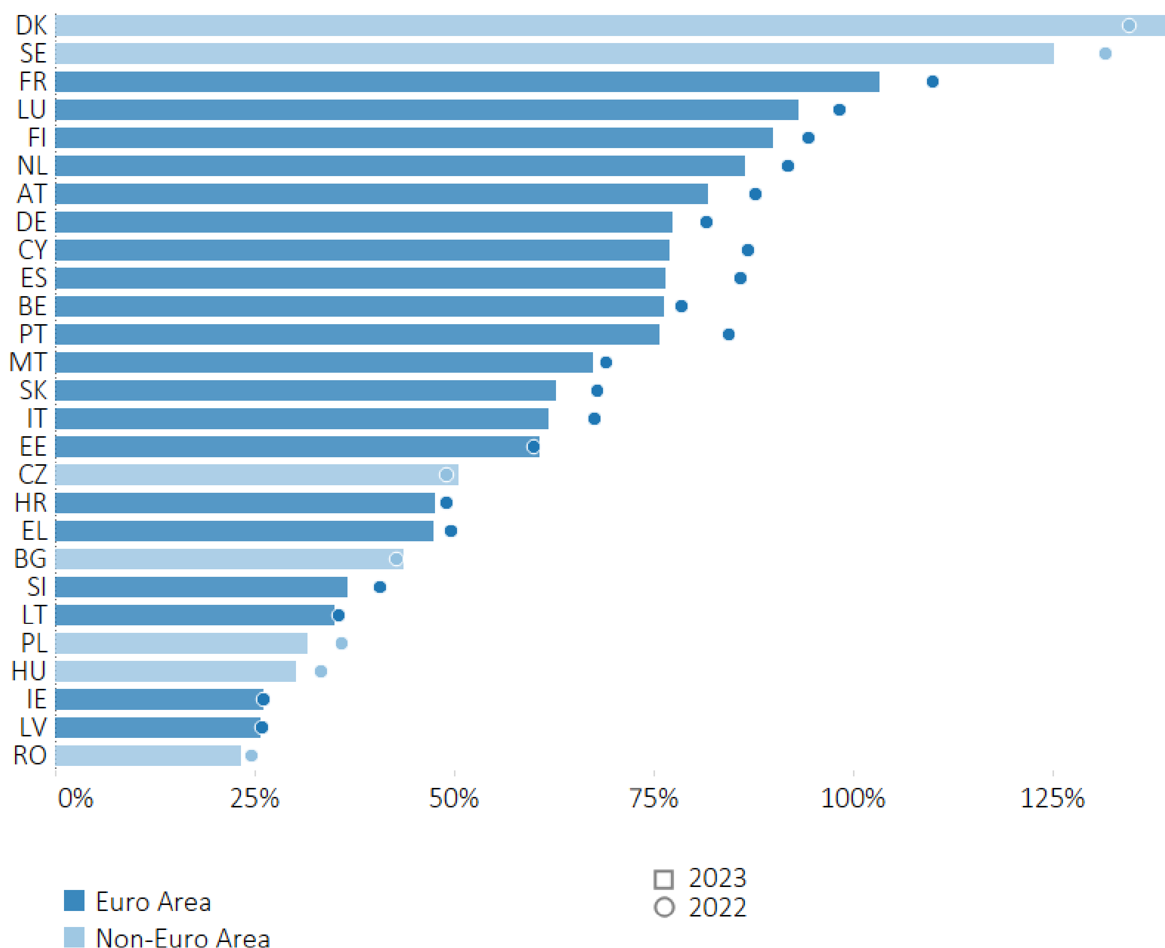
[1] The euro area covers 20 EU Member States that have adopted the euro as their official currency, namely: Austria (AT), Belgium (BE), Cyprus (CY), Croatia (HR), Estonia (EE), Finland (FI), France (FR), Germany (DE), Greece (EL), Ireland (IE), Italy (IT), Latvia (LV), Lithuania (LI), Luxembourg (LU), Malta (MT), the Netherlands (NL), Portugal (PT), Slovakia (SK), Slovenia (SI) and Spain (ES).

[2] The non-euro area covers seven EU Member States that have not adopted the euro as their official currency: Bulgaria (BG), Czechia (CZ), Denmark (DK), Hungary (HU), Poland (PL), Romania (RO), and Sweden (SE)

Source: ECRI Statistical Package 2024.

Looking across Member States, indebtedness[3] decreased in many countries in 2023. However, an increase can be seen in some of the countries with low levels of total loans as a percentage of GDP. Bulgaria (+ 1.2 %), Estonia (+ 1.1 %) and the Czech Republic (+ 0.9 %) increased their indebtedness. Denmark with an already high percentage of credit to GDP ratio, experience the highest increase of (+5.4 %). Among the countries that witnessed a decrease in their outstanding loans, the most significant declines were observed in Cyprus (-9.8 %), Spain (-9.0 %), Portugal (-8.4 %) and Serbia (-6.5 %) (see *Figure 2*). Smaller drops were also observed in Italy (-5.6 %), the Netherlands (-4.8 %) Greece (-4.7 %) and Poland (-3.9 %).

Figure 2. Total loans as a percentage of GDP, 2022-23



Source: ECRI Statistical Package 2024.

[3] Total loans as % of GDP.

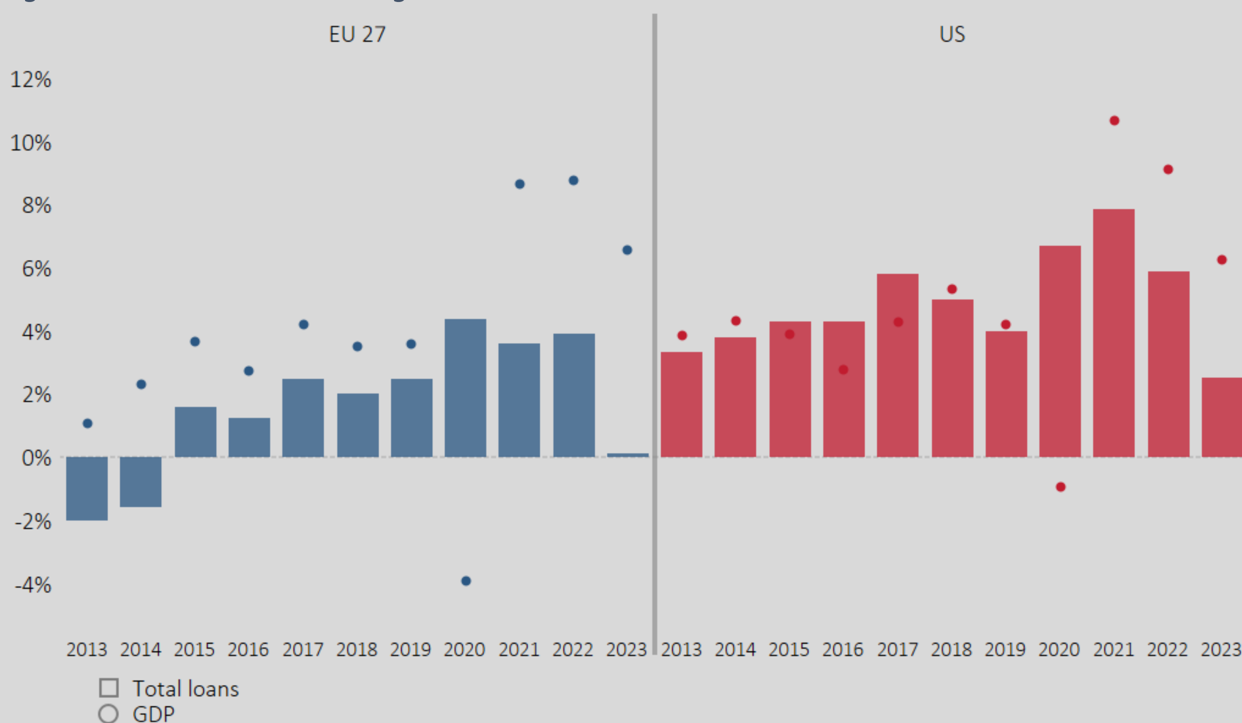
Box 1. Total outstanding loans - the EU vs the US

In 2023, total outstanding loans to households and NFCs amounted to EUR 13 trillion in the EU and EUR 38.9 trillion in the US, respectively the equivalent of 76.7 % and 153.8 % of GDP.

Between 2013 and 2023, the EU credit market was relatively volatile. It experienced years of contraction in 2013 and 2014, followed by eight years of expansion from 2015 to 2022 (see *Figure 3*), with 2023 being an exception, showing very limited expansion. Over the same period, the US credit market steadily increased, but in 2023, growth was the lowest of the last decade.

Looking at GDP growth in 2023, following the recovery from the Covid-19 pandemic, the EU experienced a third consecutive year of higher GDP growth rates, though lower than the previous two years, while the US observed a similar decline in growth rates for the same period.

Figure 3. Total loans and GDP growth



Source: ECRI Statistical Package 2024.

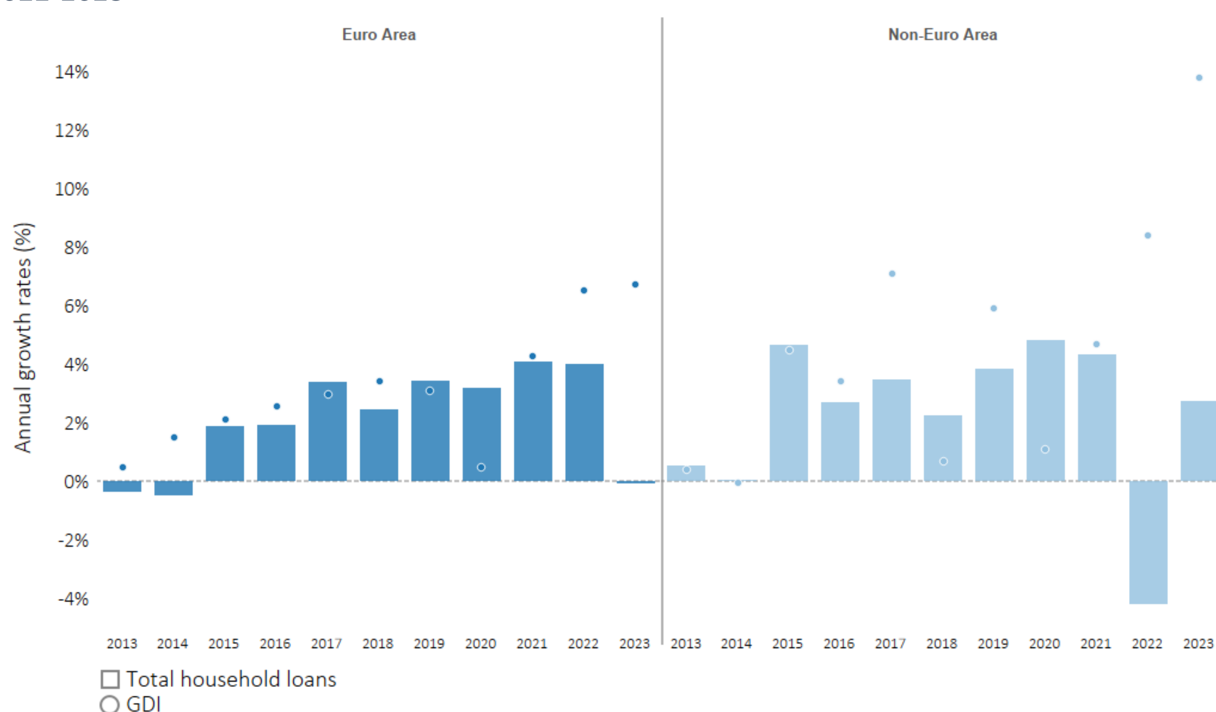
2. Total lending to households

In 2023, total lending to EU households amounted to EUR 7.7 trillion, which is equivalent to about 45 % of the EU's GDP. Compared to 2022, household loans in the EU were valued the same as in 2023.

Household loan growth in 2023 dropped from 4.0 % to -0.3 % in euro area countries, following many years of consistent growth. However, in non-euro area countries, after a significant decline in 2022 (-4 %) following years of increasing growth, the trend reversed in 2023, with an increase of 2.7 % (see ***Error! Not a valid bookmark self-reference.***).

Regarding gross disposable income (GDI), although its growth rate has always been positive, it also notably fluctuated during a window of about a decade. GDI growth rates increased in both areas but more rapidly in non-euro area countries, following the previous year's trend, from around 8.3 % in 2022 to 13.7 % in 2023.

Figure 4. Total loans to households and gross disposable income (GDI) growth, percent change, 2022-2023

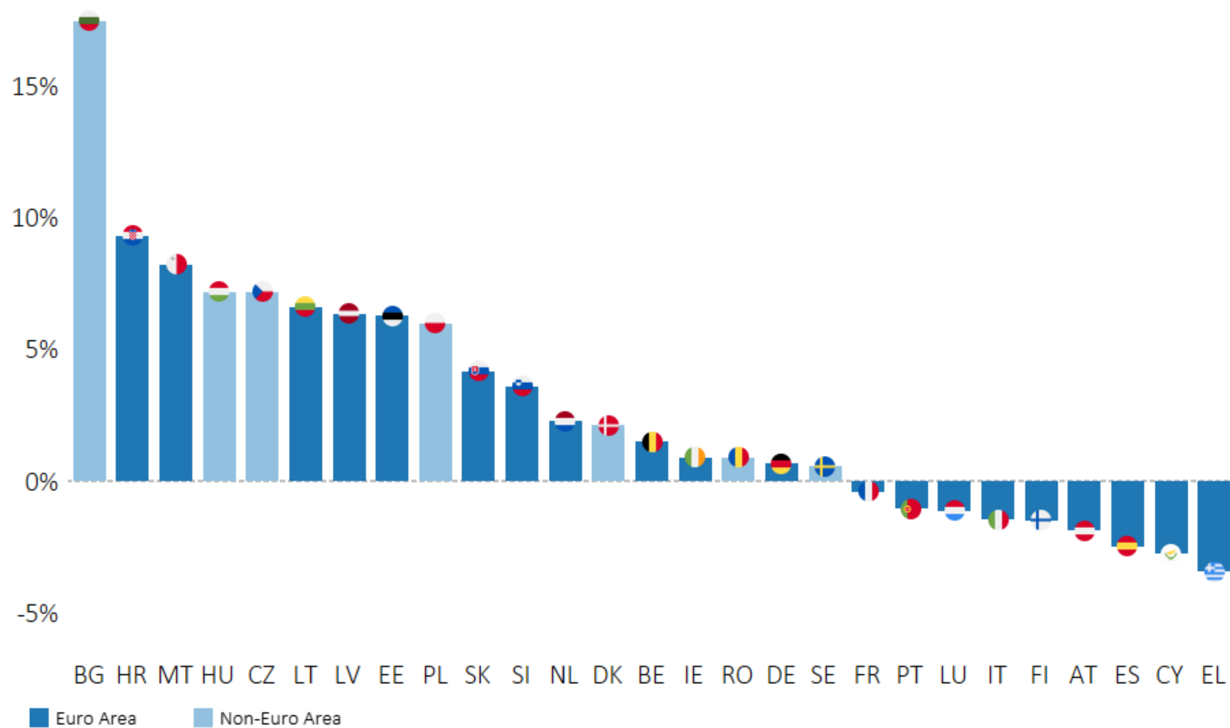


Source: ECRI Statistical Package 2024.

In 2023, total outstanding loans to households increased in 18 Member States: Bulgaria (+17.5 %), Croatia (+9.3 %), Malta (+8.2 %) and Hungary (+7.2 %) were the Member States with the highest growth rates.

In contrast, nine Member States saw a downturn in their outstanding household loans, including Greece (-3.5 %), Cyprus (-2.8 %), Spain (-2.5 %), Austria (-1.9 %), Finland (-1.5 %), Italy (-1.5 %) and others with smaller decreases (see *Figure 5*).

Figure 5. Total loans to households, percentage change, 2023

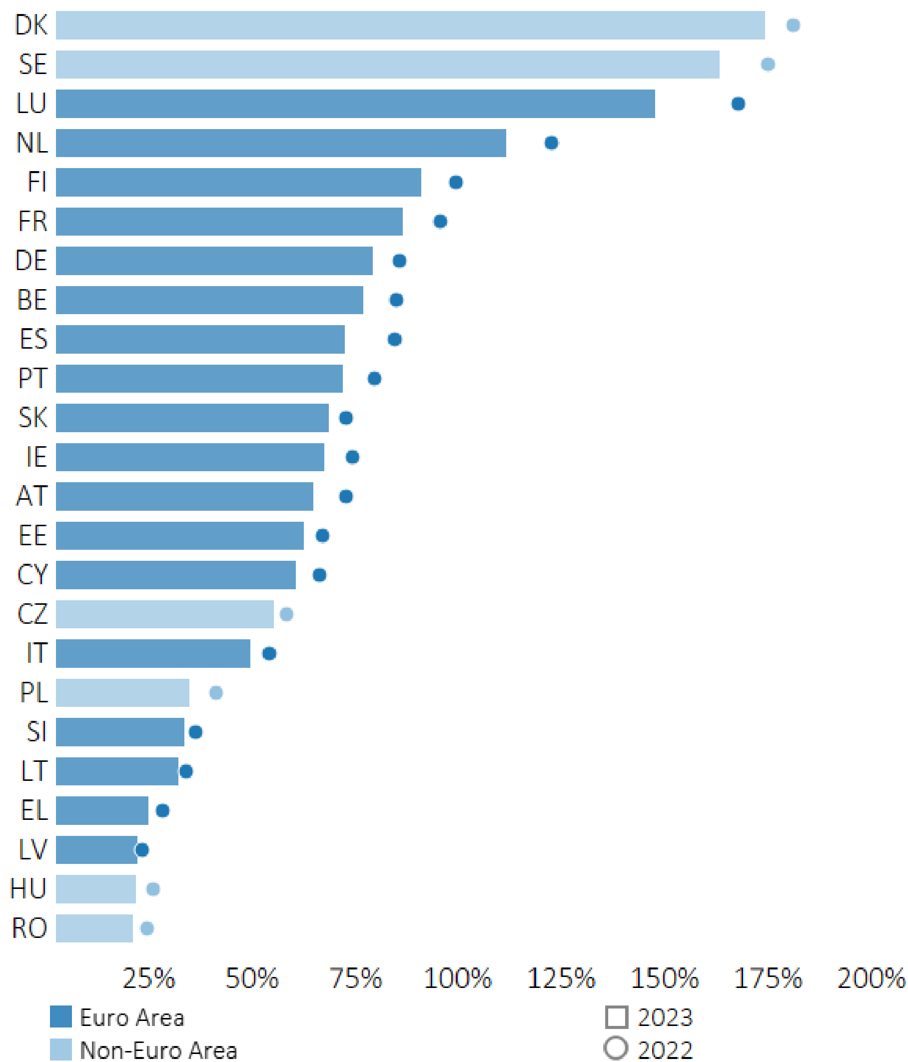


Source: ECRI Statistical Package 2024.

Turning to household indebtedness, in 2023 household loans accounted for 77 % and 80 % of their total GDI in the euro area and non-euro area countries respectively. Compared to 2022, household indebtedness dropped in both regions.

Regarding *Figure 6*, reductions in household loans as a percentage of disposable income were registered in all Member States, with particularly significant cuts in Luxembourg (-15.7 %), Spain (-9.7 %), the Netherland (-8.7 %), Sweden (-7.3 %) and France (-6.2 %).

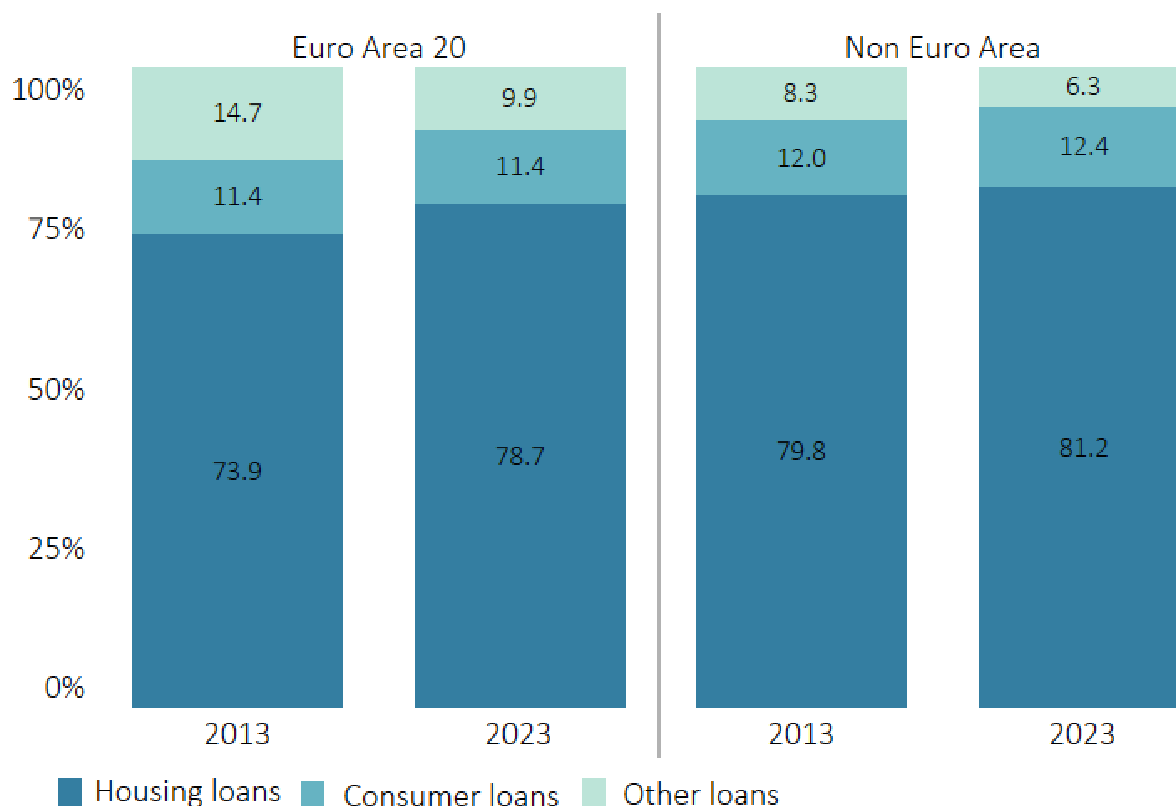
Figure 6. Total loans to households as a percentage of gross disposable income (GDI), 2022-2023



Note: For Malta and Bulgaria the figure reflects households' consumption instead of GDI.
Source: ECRI Statistical Package 2024.

The share of housing loans in the euro area gradually increased in the period between 2013 and 2023, at the cost of consumer loans and other loans (see *Figure 7*). In 2023, approximately 79 % of household loans in the EU were housing loans, while the remaining loans were divided almost equally between consumer loans and other loans. In relation to the euro area, the share of housing loans was slightly higher in non-euro area countries (81 %), while consumer loans accounted for about twice the share of other loans.

Figure 7. The composition of household loans in 2013 and 2023 as a share of the total amount of loans

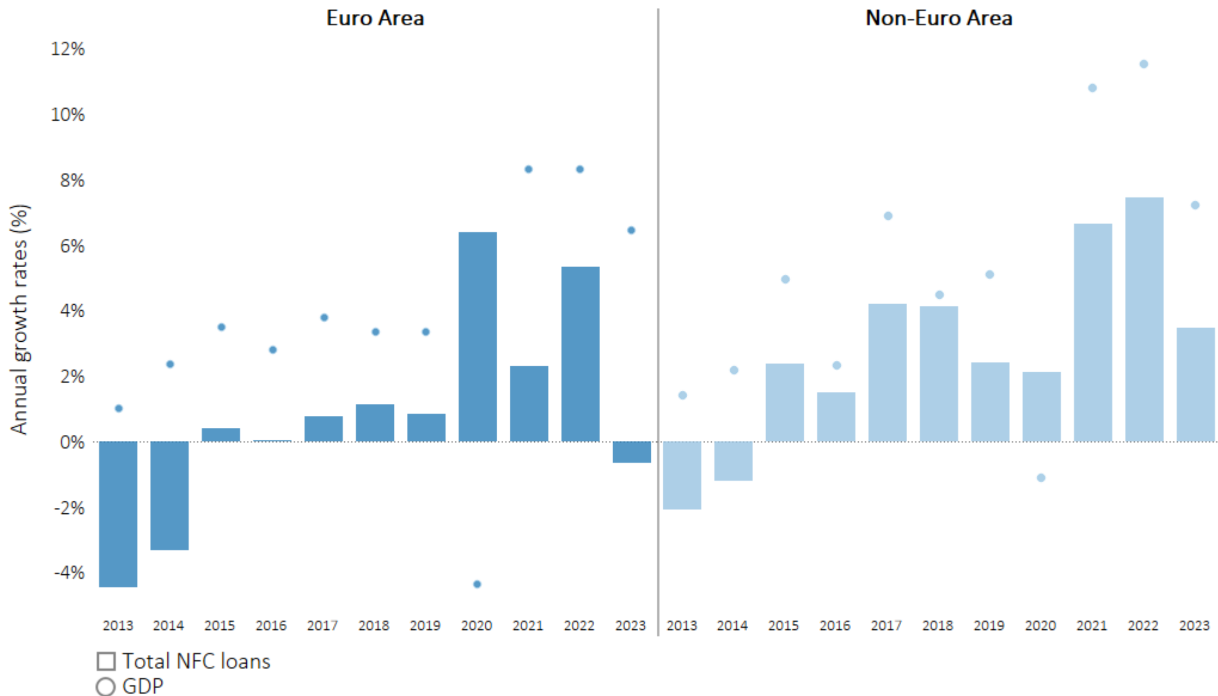


Source: ECRI Statistical Package 2024.

3. Total lending to non-financial corporations (NFCs)

In 2023, total lending to NFCs in the EU amounted to EUR 5.3 trillion, accounting for 41 % of total loans and equivalent to 31 % of the EU's GDP. Loans to NFCs in the EU have expanded since 2016, with a growth rate ranging between 0.1 % and 6.4 % in most years. In 2023, NFC loans remained almost stable compared to the previous year, with a slight decrease of 0.65 %. NFC loans in non-euro area countries have grown more than in the euro area in every single year between 2013 and 2023, excluding 2020 (see *Figure 8*). In 2023, there was growth of 3.45 %.

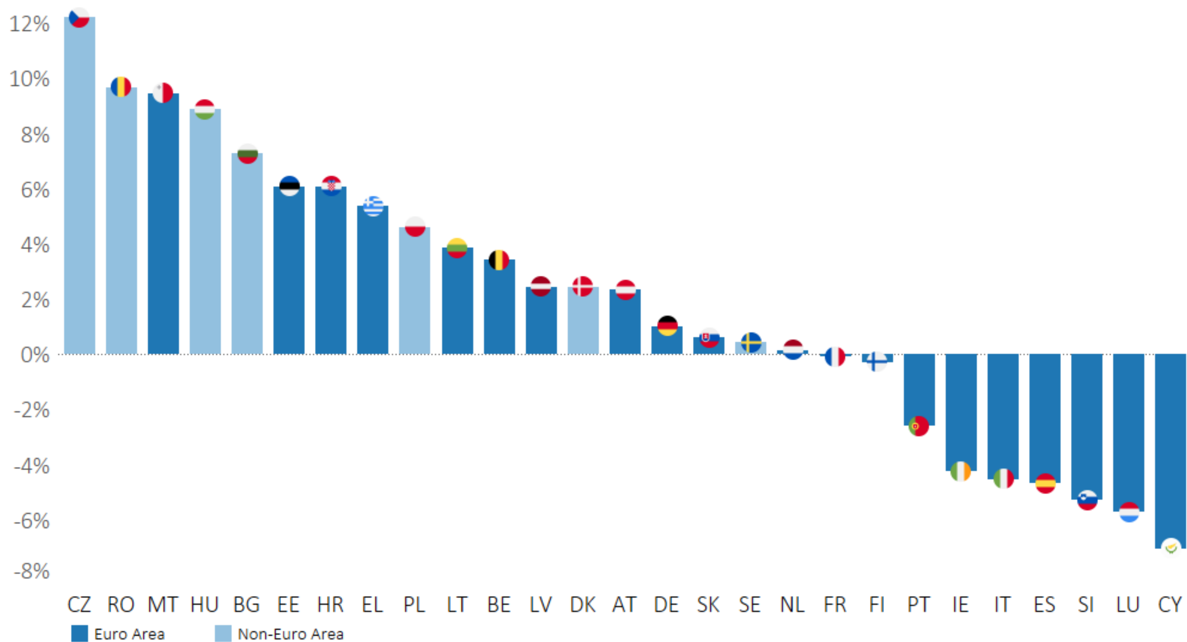
Figure 8. Loans to NFCs as a percentage of GDP



Source: ECRI Statistical Package 2024.

Between 2022 and 2023, NFC loans increased in 18 Member States and decreased in nine Member States (see *Figure 9*). The highest growth rates were registered in the Czech Republic (+12.2 %), Romania (+9.7 %), Malta (+9.5 %), Hungary (+8.9 %) and Bulgaria (+7.3 %). In turn, the highest decreases were registered in Cyprus (-7.1 %), Luxembourg (-5.7 %), Serbia (-5.3 %), Spain (-4.7 %) and Italy (-4.5 %).

Figure 9. Total loans to NFCs, percentage change in 2023



Source: ECRI Statistical Package 2024.

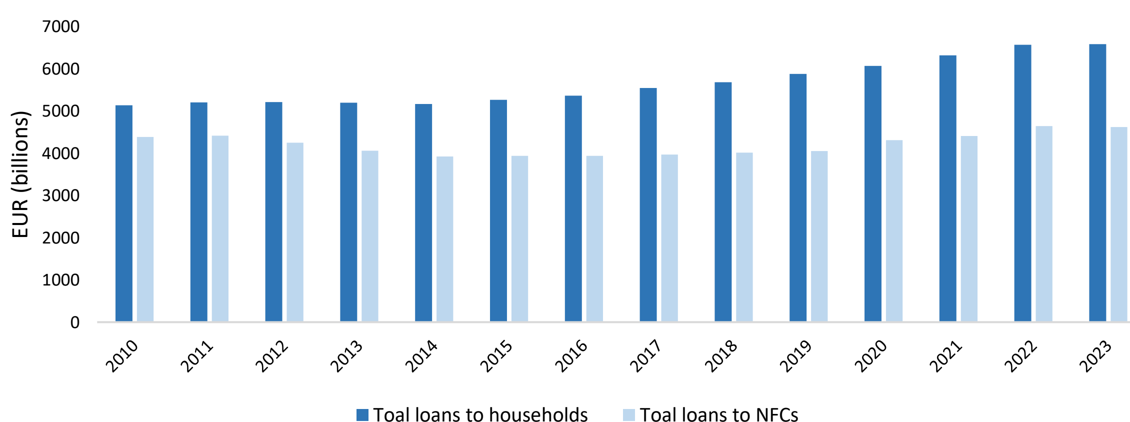
4. The impact of a high inflation Europe

Although inflation has been following a downward trend, thanks to lower energy prices and contractionary monetary policies, inflation continues to be a key topic in the EU, following the Covid-19 pandemic and Russia's invasion of Ukraine. It is therefore key to understand how loans to households and non-financial corporations (NFCs) in the EU have reacted to the worst inflationary episode in decades.

Households take out a loan for two main purposes, typically a mortgage to purchase a home or credit for consumption. NFCs instead primarily borrow for operational, investment or production purposes. As the purpose for credit differs between household and NFCs, so does their structure. Household loans are typically smaller in size with longer repayment periods at lower interest rates. NFCs would instead take out loans that are more flexible in terms of the reimbursement period. This increased flexibility is considered a risk for creditors and they would as a response increase their interest rates.

Figure 10 below provides an overview of the loan stock in the euro area, split between total loans to households and total loans to NFCs for the period 2010 to 2023. The stock of loans for households exceeds that for NFCs, with the difference increasing annually. This is probably a reflection of the various types of funding that NFCs have access to. In fact, NFC also rely on equity or bonds when households mainly rely on credit loans. Indeed, while the stock of outstanding loans for households has seen an almost constant increase over the last decade, the stock of NFC loans decreased between 2012 and 2016. Banks faced tightened lending conditions following the 2008 financial crisis, which could explain the significant downward trend in lending volumes. With stricter conditions, NFCs were more reluctant to take out a loan and used other funding sources for their activities. Easing measures were introduced in 2014 but have never been directly transferred into bank loans' credit standards[4]. Still, the stock of loans to households and NFCs has stabilised since 2022, reflecting the increase in the cost of loans as a response to contractionary monetary policies.

Figure 10: Stock of loans in the euro area (in billions of euros)



Source: ECRI Statistical Package 2024.

To further dive into the lending practices of households and NFCs, this analysis compares the evolution of loan volumes using the deposit facility rate (DFR). The DFR, the interest rate banks are subject to when they deposit excess funds with the central bank overnight, is a critical tool for the ECB to counter inflation.

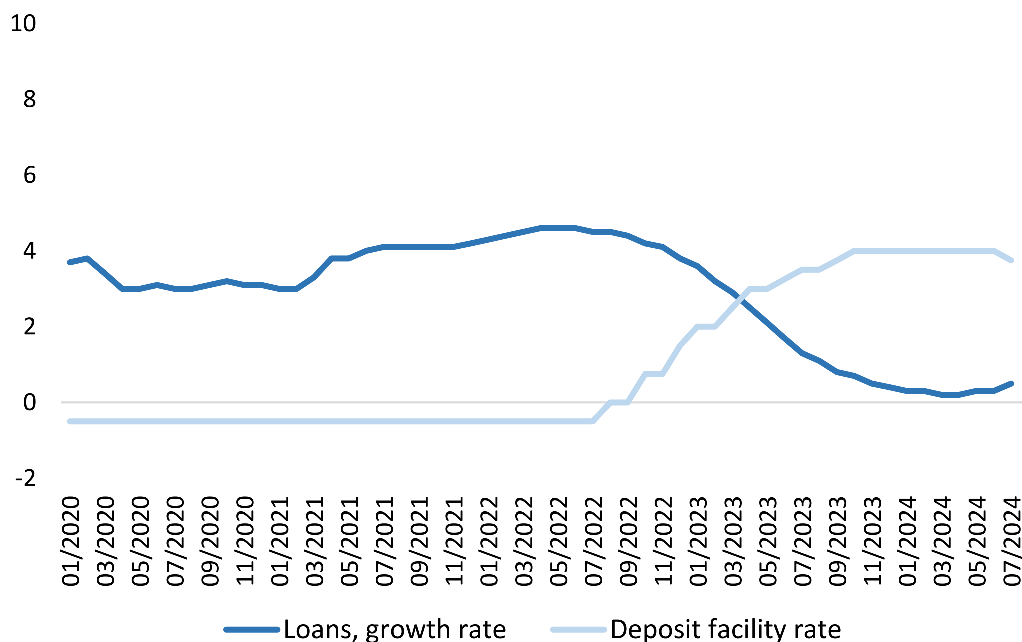
[4] EBC (2019), What does the bank lending survey tell us about credit conditions for euro area firms? https://www.ecb.europa.eu/press/economic-bulletin/articles/2019/html/ecb.ebart201908_01~a70ce07676.en.html

As it sets the lower bound for interest rates in the interbank market, the DFR directly influences liquidity and bank lending behaviour. Since 2015, and up until its review in the first half of 2024, the Eurosystem's operational framework was a '*de facto*' floor system, implying that market rates were anchored to the DFR, rather than to the main refinancing operation rate. With a higher DFR, banks are more likely to deposit their excess reserves with the ECB, thus reducing the money supply, increasing lending costs and, consequently, exerting a downward pressure on inflation.

The two graphs below highlight the relationship between the loan growth rates of households and NFCs and the DFR from January 2020 to July 2024.

Figure 11 focuses on the evolution of the loan stock for households in the euro area and compares it with the DFR from January 2020 to July 2024. The stock grew of approximately 4 % between 2020 and the first half of 2022. Household behaviour then quickly shifted as interest rates started to increase in the summer of 2022. In fact, the ECB increased the DFR from -0.5 back to 0.0 in July 2022. Throughout the rest of the year, the ECB made back-to-back DFR increases – in October it went up to 0.75, in December 1.5 and in January 2023 to 2.0. The increases continued throughout 2023 until reaching 4.0 in October. This interest rate was kept until June 2024, when inflation had dropped and stabilised sufficiently for the ECB to justify a decrease. The reduced growth rate of household credit stocks reflects the decrease in loan requests, caused by the higher costs of credit, as well as an increase in early repayment of loans in countries with variable rate loans where holding credit became significantly more expensive. This trend shows the successful transmission of monetary policy into the credit area.

Figure 11: Households loan stock growth (percentage change) and the ECB's Deposit Facility Rate

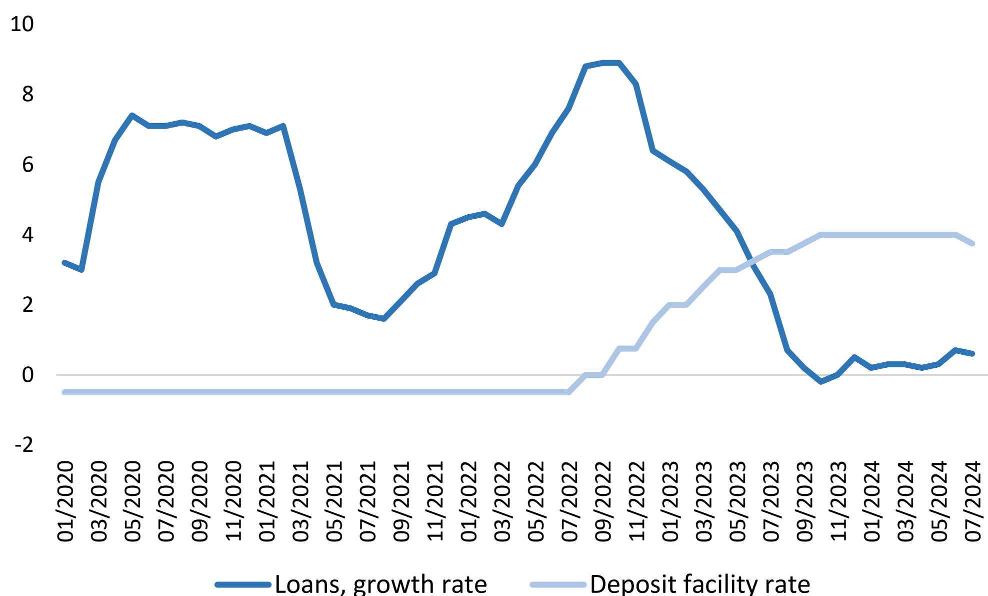


Source: ECRI Statistical Package 2024 and ECB (for Deposit facility rate).

Figure 12 focuses on the lending behaviour of NFCs, which also reacted to changes in the DFR. Indeed, the stock of NFCs loans fluctuated much more in the same period, namely 2020-2024. 2020 saw a sharp rise in stock growth, rising from 3 % in February to 7.4 % in June, remaining at similar levels for the rest of the year. The increase is likely associated with the onset of the Covid-19 pandemic, during which many businesses boosted borrowing to secure liquidity in response to economic uncertainty. The first half of

2021 faced a decline in the growth of loan stock, falling to 1.6 % in August 2021. This dip in growth was then followed by a year of consistent increase in stock growth for NFCs. It was only shortly after the ECB increased the DFR in August 2022 that loan stock growth rates started decelerating again and this trend continued until October 2023. At this point, a contraction of credit volumes could be observed for approximately a month. Since then, the growth rate has remained moderate, establishing itself between 0.3 % and 0.6 % in the first half of 2024.

Figure 12: NFCs loan stock growth (percentage change) and the ECB's Deposit Facility rate



Source: ECRI Statistical Package 2024 and ECB.

When comparing households and NFCs' loan behaviour, the two sectors display different responses to crises. While both initially increased borrowing during the pandemic to secure liquidity, the subsequent reactions to tightening monetary policy diverged. Households showed a gradual decline in loan stock growth whereas NFCs experienced a much sharper decline. The different reactions could be the fruit of the very large number of household borrowers, in contrast with NFCs. Furthermore, the main credit purpose for households is housing that is reimbursed over an fixed period of time. This contrast highlights households' respective unique financial dynamics and liquidity needs.

Figure 13 illustrates the distribution of loans to households as a share of Gross Disposable Income[5] (GDI) categorised by purpose from 2018 to 2023.

Until 2022, households in non-euro countries tended to be much more indebted compared to euro area countries, driven especially by high levels of housing credit. The tightening of the European economy in 2022 and 2023, however, seems to have changed this, bringing down non-euro countries to level much more similar to those found in euro countries. EU households outside the euro area reached their highest credit-to-income ratio in 2020 and 2021. During these two years, households had accumulated credit that was equal to more than 98 % of their disposable income. At the same time, in the eurozone, households credit ratio, in comparison to their income, was 83 %. For the year 2023, this difference has narrowed,

[5] GDI measures the monetary income available to households for consumption and saving.

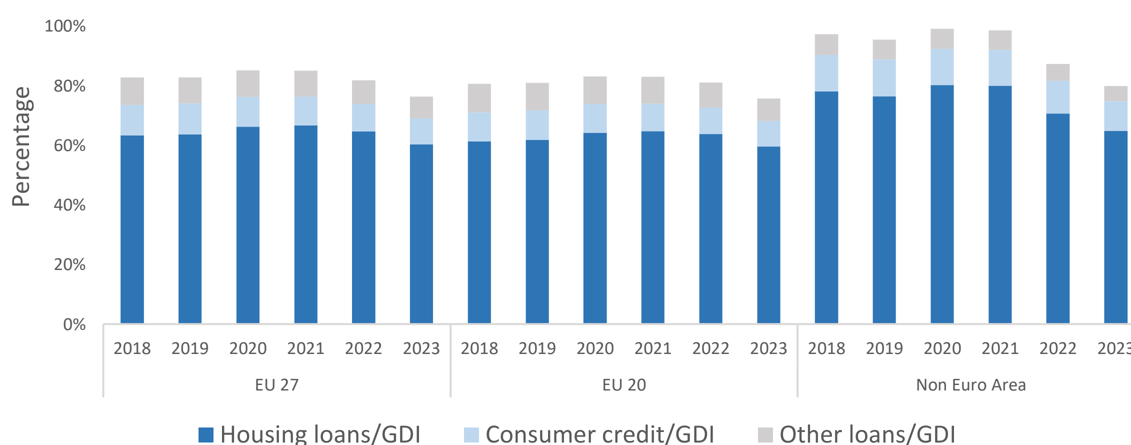
with non-eurozone households holding credit equal to 80 % of their income and in the eurozone equal to 76 %.

While historically there have been significant differences in the loan-to-income ratio, the composition of households' indebtedness has always been similar. Housing loans have always comprised the grand majority of the credit-to-income ratio. It was equal to 60 % of households' total income in the eurozone, compared to 64.9 % for non-euro countries in 2023.

The second largest share is credit for consumption. The EU average was 8.8 % of income in 2023, with 8.6 % of household income in the euro area and 9.9 % for non-euro countries. Other types of loans represented the smallest share but were significantly more common in the eurozone than outside it. It was 7.5 % of in the eurozone and 5.1 % in non-euro countries, setting the EU average for other forms of credit as a share of GDI to 7.2 %.

When comparing credit as a share of households' GDI, the general trend has been negative for the last three years. The main contributor to this downward trend is the decrease in housing loans as a share of disposable income, from 65 % to 60 %. This could be due to consumers becoming more reluctant in taking out new loans and/or increasing their repayment of ones they already held, especially for those with a fluctuating interest rate.

Figure 13: Loans category as share of Gross Disposable Income (percentage)



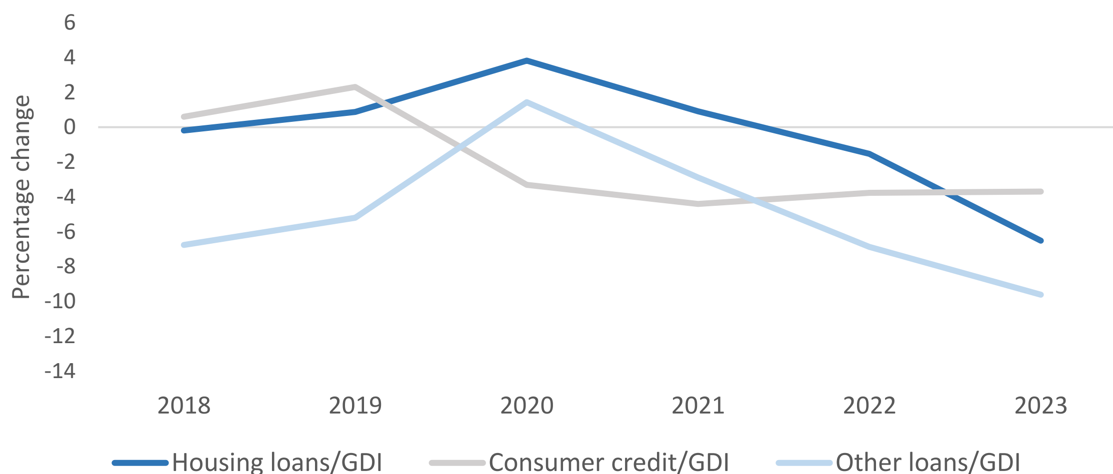
Source: ECRI Statistical Package 2024.

The percentage change of the three main categories of household credit (housing loans, consumer loans and other loans), allows for a better understanding of households' priorities after the rise in interest rates. These changes, observed in *Figure 14*, seem to indicate that a very significant change in housing loans as a share of GDI. Housing credit increased consistently until it reached 4 % in 2020. The following year, housing loans as a share of income grew by two percent and in 2022 they started decreasing at a rate of -1.5 %. In 2023, they dropped further to -6.5 %.

Other purposed loans have followed a similar trend, peaking in 2020 with an positive rate of 1.4 %, followed by three years of negative developments, reaching -9.6 % in 2023. This marks the largest proportional decrease among the three aggregates. Consumer credit as a share of GDI was mainly impacted by the Covid crisis rather than the increase in inflation. It evolved at rates above zero in 2018

and 2019 but then dropped to -3.3 % in 2020, to -4.4 % in 2021, remaining very close to -4 % for 2022 and 2023.

Figure 14: Loan category as share of Gross Disposable Income, percentage change (euro area)

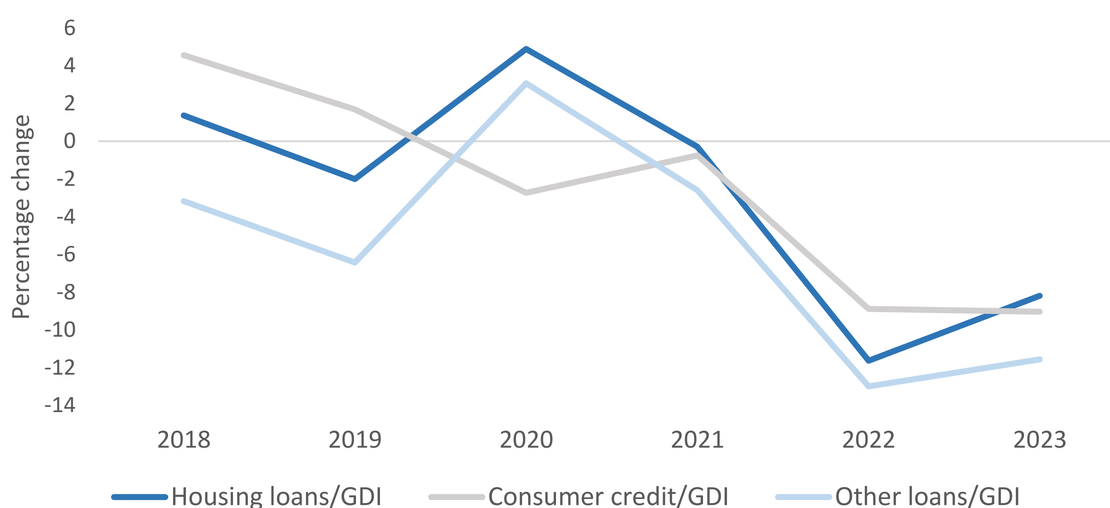


Source: ECRI Statistical Package 2024.

In *Figure 15* the percentage change of the three loan categories in non-euro countries are highlighted. These countries experienced a sharper decline of credit as a share of income. Housing loans as a share of GDI increased by nearly 5 % in 2020. This peak was followed by a rapid decline. First, in 2021, a negative evolution was observed of -0.29 %. In 2022, this decrease was significantly amplified, up to -11.6 %. In 2023, housing loans as a share of income continued to decrease, at -8.2 %.

Other loans once again followed the same trend as housing loans. Peaking in 2020, there was a year-on-year decline, reaching -13 % in 2022. The following year, credit for other loans as a share of GDI decreased by -11.6 %. Consumer credit has followed a somewhat different evolution. Already before the Covid-19 pandemic households started spending less of their income on consumption credit. This trend was then amplified when interest rates started increasing, going from -7.6 % in 2021 to -8.9 % in 2022. In 2023 it remained at -9 %. This trends highlights the increased carefulness of households during periods of high interest rates as they reduce their credit-to-income ratio in the face of uncertain economic developments.

Figure 15: Loan category as share of Gross Disposable Income, percentage change (non-euro area)



Source: ECRI Statistical Package 2024.

When comparing *Figure 14* andFigure 15, households in the euro area seem to have been less impacted by recent crises. The declines in loans as a share of disposable income in the euro area have been more limited.

In the tail end of the inflation crisis, it is relevant to look back at the effects of inflation across the EU and highlights the influence of changes in energy and commodity prices between Member States.

In Figure *16* it is possible to see inflation levels in four euro area countries – Germany, Estonia, France and Spain, as well as the average for the period 2010-2023. The countries have been selected to highlight the developments in some of the largest economies in the EU, together with Estonia, as it helps to explain the higher average inflation rate, as well as showcasing the effects of spiked energy prices in the Baltics.

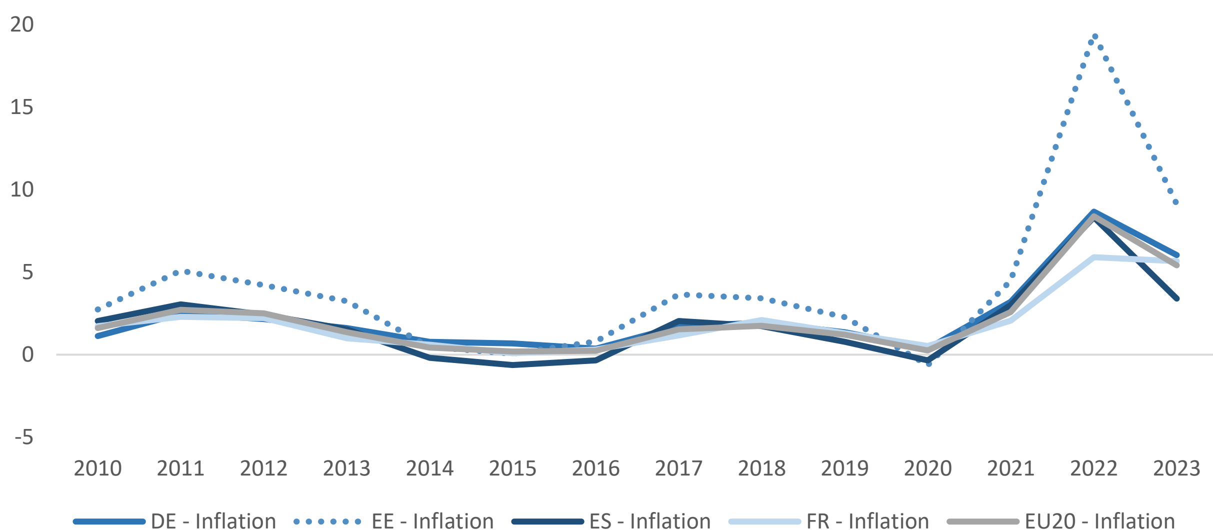
Estonia, shown as the dotted line, endured a significantly more acute inflationary episode following the Russian invasion of Ukraine than any other highlighted country. At its peak, in 2022, Estonia faced inflation of 19.4 %, more than ten percent above the EU average. While inflation rates remain above EU averages in Estonia, they significantly decreased down to 9.1 % in 2023. This evolution is in line with the trend observed in the other Baltic economies, which because of their geographic location, had more proximity to Russia in terms of their direct energy supply.

Another striking development in recent years is the relatively low inflation rate in France. While all other countries experienced an inflationary peak in 2022, France's increase was more limited. The French government introduced a cap on energy prices, blocking the increased energy costs from reaching consumers. Set up to support households and firms when paying their energy bills, it helped to reduce inflationary pressures. This measure nevertheless put pressure on the public accounts as the cost of the price shock was absorbed by national finances. The impact on the public accounts is nevertheless not so straightforward, as by controlling inflation, other prices could have been kept under control, thus reducing public expenditure.

Spain is another interesting case as inflation followed the EU average closely until a significant shift in 2023. When comparing Spain with similar Member States, inflation first increased but then dropped faster than in most other Member States. This can be explained by the former design of its retail regulated tariff

of electricity (the Voluntary Price for Small Consumers tariff, PVPC). Before its reform, the PVPC was directly linked to the evolution of electricity prices in the wholesale market, meaning that there was an almost immediate pass-through from the wholesale market to retail prices, and hence, to inflation. When energy prices spiked, this was immediately transmitted to households and SMEs in Spain through their electricity bills. And similarly, when energy priced decreased, there was a pass-through in the opposite direction. Still, when it was proven that the PVPC's design did not shield retail consumers from volatile episodes in wholesale markets, the Spanish government decided to reform the tariff.

Figure 16: Annual inflation rate for selected Member States and the eurozone average (EU20)



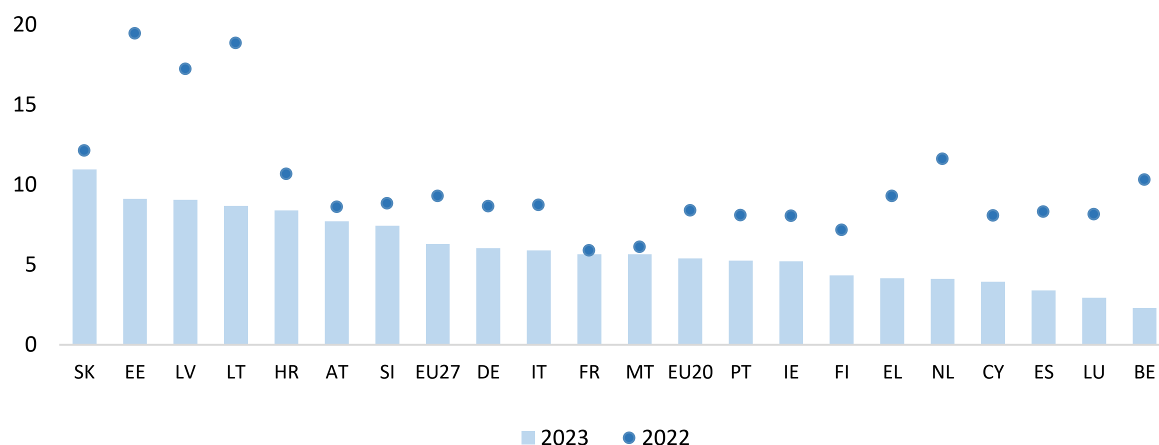
Source: ECRI Statistical Package 2024 and ECB.

Annual inflation rates were more pronounced across the eurozone in 2022 compared to 2023. As can be seen in *Figure 17*, nearly all countries experienced a sharp surge in inflation in 2022, driven by factors such as the energy crisis, supply chain disruptions and the economic recovery from the Covid-19 pandemic. The inflationary pressures then started to ease in 2023, reducing inflation rates in almost all countries.

While a general decrease in inflation can be observed between 2022 and 2023, the data reveals substantial differences between eurozone Member States. Slovakia experienced the highest inflation rate of the eurozone in 2023 at 11 %, followed by Estonia (9.1 %), Latvia (9.1 %) and Lithuania (8.7 %). Simultaneously, the countries with the lowest inflation rates in 2023 were Belgium and Luxembourg. Inflation was in fact just 2.3% in Belgium and 2.9% in Luxembourg. Belgium saw the rate fall almost fivefold, as inflation peaked at 10.3 % in 2022, while Luxembourg's fell threefold. It is the degree of energy market liberalisation, together with a high share of variable cost energy prices that is likely the main cause for the comparably strong decline of energy inflation in Belgium[6]. France was the country that observed the smallest decrease between the year 2022 and 2023, as inflation went from a high of 5.9 % to 5.7%.

[6] SPF Economie (2024) Important ralentissement de l'inflation en Belgique https://news.economie.fgov.be/234506-important-ralentissement-de-l-inflation-en-belgique-en-2023

Figure 17: Annual Inflation rate in the eurozone, year-on-year comparison

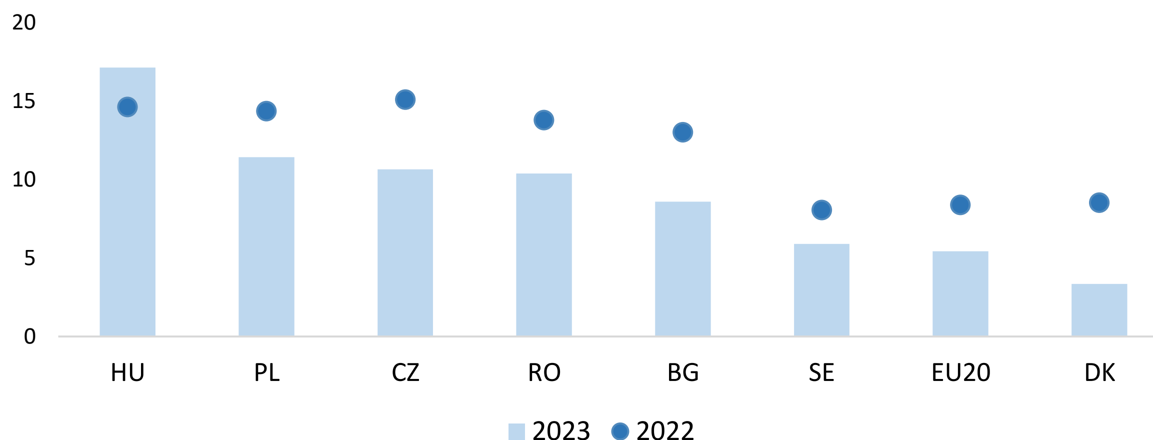


Source: ECRI Statistical Package 2024 and ECB.

Countries outside the eurozone experienced the same trends as those using the single currency but rates varied significantly more between countries, and with those experiencing generally higher levels of inflation. *Figure 18* highlights the annual inflation rate in seven countries, namely Bulgaria, the Czech Republic, Denmark, Hungary, Poland, Romania and Sweden.

On the lower side of the spectrum were the two Scandinavian countries, Denmark and Sweden. In fact, in 2023, the inflation rate in Denmark was 3.4 %, while Sweden saw 5.9 %. This was a decrease of several percentage points compared to their 2022 rate, at 8.5 % and 8.1 % respectively. Nevertheless, when compared to the EU average, Denmark was the only country in 2023 that has curbed inflation below the EU average of 5.4 %. While inflation started to significantly decrease in 2023 in some countries, multiple Member States continued to face high levels of inflation. Hungary was, in 2023, the only EU country that faced a higher annual inflation rate compared with the previous year. Inflation in Hungary reached a level of 14.6 % in 2022 which then increased to 17.1 % in 2023. The Hungarian government has maintained its energy supply contracts with Russia and this could be the reason why their inflation experience has not evolved in line with all other European economies. The Hungarian government has argued that contracts with Russia have been maintained to ensure energy prices remain reasonable in the country. Almost all countries that faced high inflation in 2022 managed reduce it in 2023. This is, for example, the case for Poland (13.4 %), the Czech Republic (15.1 %) and Romania (13.8 %) in 2022, as inflation went down to 11.4 %, 10.7 % and 10.4 % in 2023.

Figure 18: Change in annual inflation rates in non-euro area, year-on-year comparison



Source: ECRI Statistical Package 2024 and ECB.

Shortly after Russia launched its full-scale invasion of Ukraine, inflation rapidly rose in the EU, driven by increased energy prices.

As a reaction to Russia invading Ukraine, the EU imposed sanctions on Russian gas. Consequently, Member States were required to look elsewhere to procure consistent energy supplies for their citizens. Uncertainty over the future supply of gas triggered countries in the EU to fill up their energy reserves, increasing the demand and spiking the price. The increase in energy costs sent shockwaves through the entire economy, increasing the cost of goods and pushing EU average inflation above 10 %. Following the spike, inflation rates in the EU have returned to significantly lower levels and are no longer driven by high energy prices but of services.

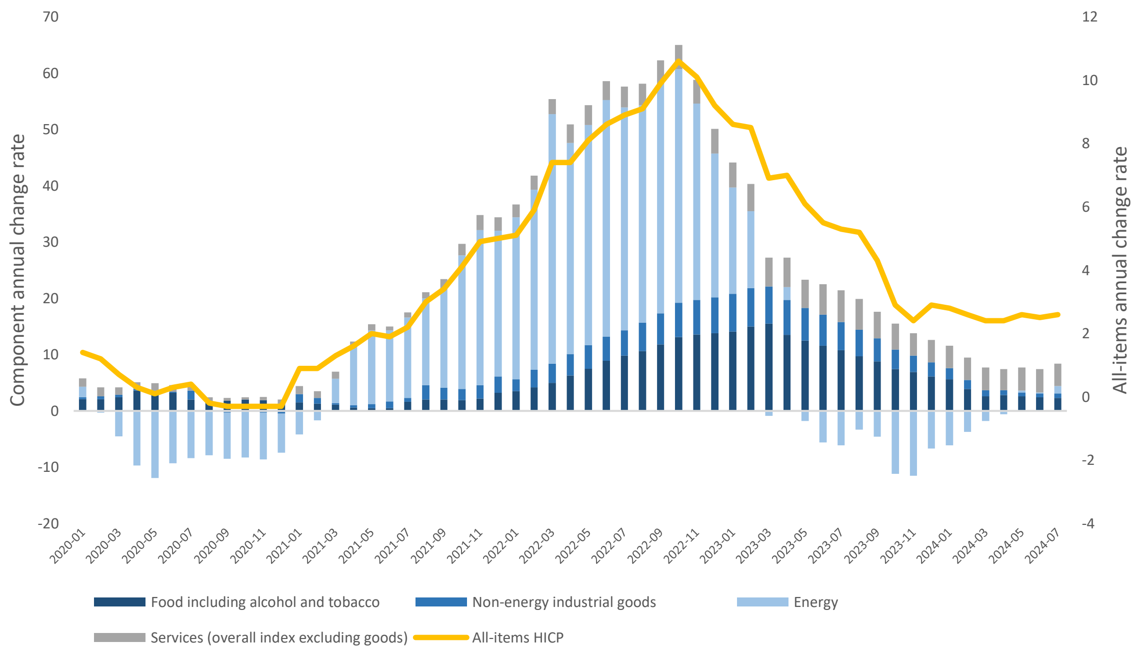
The ECB uses the Harmonised Index of Consumer Prices (HICP) to explain the drivers of inflation. The index can be broken down into four key indicators, namely food, energy, non-energy industrial goods and services. These factors were selected to encompass most price-related goods that are comparable across different countries.

From *Figure 19* below, we can evaluate how these different components affected inflation between the beginning of 2020 and July 2024. The changes are compared with the annual inflation rate change.

Very much aligned with the data visible in the graph above, the data in *Figure 19* shows how energy prices had started to increase in 2021, approximately one year before the price surge, already beginning to impact inflation rates. Following Russia's invasion of Ukraine, the cost of energy increased rapidly. Energy prices spiked and hit a year-on-year increase of 44 % in March 2022. Just a few months later, the effects of the high energy prices had trickled down into the cost of goods. This meant that in October 2022, the highest overall year-on-year increase could be observed. At this point, energy prices stood at 42 %, food prices at 13 % and industrial goods at almost 20 %.

In fact, when we look at what contributed to the inflationary spike, the main factor was definitely energy but the increased cost of food and goods also contributed. Indeed, from October 2022 energy prices started to lower. Nevertheless, inflation has remained higher, mainly driven by high food prices up until the end of 2023. Since the start of 2024, inflation in the EU has stabilised and the main inflationary driving force has become services, which in July 2024 showed a 4 % year-on-year increase.

Figure 19: Evolution of the Inflation rate by component (HICP)



Source: Eurostat.

To conclude, in recent years, interest rates reached new heights that had not been seen in decades as a response to high inflation. This trend changed loan patterns, as it reduced households and NFCs' willingness to take on credit. Households' loans for housing purposes were the most affected, especially in areas where fluctuating interest rates have been standard. This seems to have the side effect that loan patterns have converged at EU level, as countries with higher loan rates have been more drastic in reducing their credit uptake.

Inflation rates across Member States have been varied, with very different levels within the eurozone, controlled by the same monetary policy institution, namely the ECB. This variation in inflation rates underscores the complexity of the economic landscape, where differences in fiscal policies, energy dependencies and economic structures have led to divergent inflationary trends that need to be considered in Frankfurt.

It appears that the effects of the surge in prices and the resulting contractionary monetary policy are now starting show desired the effects as inflation rates have been coming back down to manageable levels.

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