

## Eurozone money growth remains strong, mostly driven by governments

January monetary data shows the financial stasis of the lockdown economy: bank lending to businesses remains weak, household savings accounts have risen while government spending is keeping the economy afloat



### Weaker bank lending in January, deposit inflows remain strong

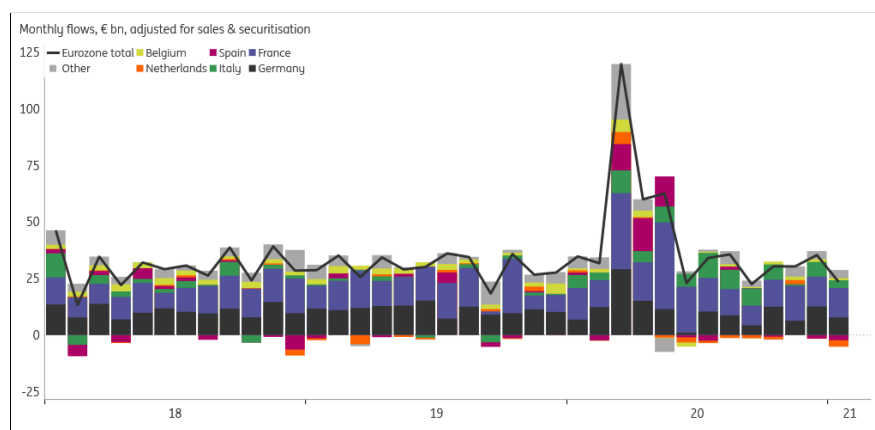
January eurozone net bank lending to households weakened on the back of weaker mortgage lending. So far, mortgage lending has remained remarkably resilient, so we will be watching mortgage demand closely in the months ahead. Spain stands out, as net lending to households there turned negative in December driven by high redemptions. Redemptions are not yet in for January, but net lending figures suggest this trend has continued. Germany, France and Italy all saw weaker but still positive net lending to households.

Net bank lending to eurozone businesses was weak too in January. France maintained positive momentum, while Germany and Belgium continue to hover around zero net lending. The positive momentum weakened in Italy, while Spain drifted further below zero. The Netherlands saw a sharp dip into negative territory in January.

*Household deposit growth is running at roughly twice the pace as before the pandemic.*

Household deposit growth remained elevated in January with a net inflow of €59bn across the eurozone -- roughly twice the pace that was common before the pandemic. Business deposits looked pretty "normal" in January, though Dutch businesses saw their aggregate deposits decline in three out of the past four months. We should not read too much into that though, as in "normal" times too, business deposits tend to fluctuate strongly on a monthly basis, in particular in the Netherlands as a result of sizeable cash pooling (a consolidated cash management technique for business groups).

## Eurozone bank lending to households and non-financial businesses



Source: ECB, ING

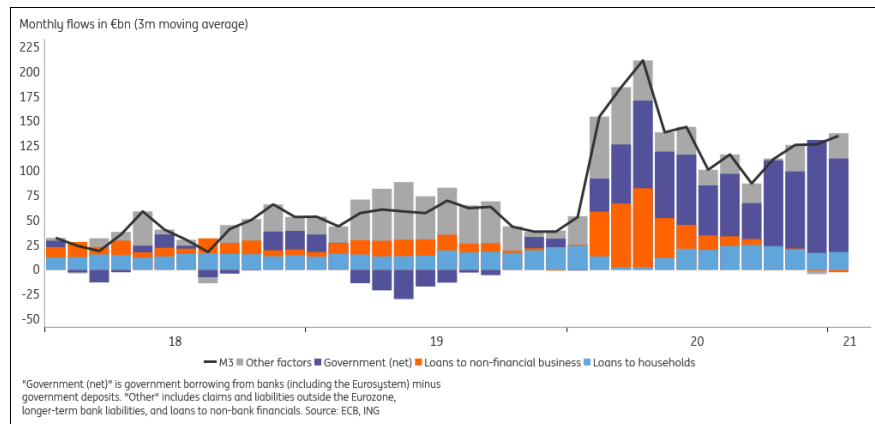
## Money growth driven by government borrowing and the ECB buying

Since the pandemic, we have become used to strong money growth. From mid-2014 to late 2019, monthly M3-growth hovered around €50bn. It is now typically double that. Money growth is mostly the result of some form of credit being extended by either commercial or central banks. The chart below shows how money growth peaked in the spring 2020 lockdown, driven mainly by banks extending credit to businesses and the ECB extending credit to eurozone governments, by buying government bonds under its Asset and Pandemic Emergency Purchase Programmes. Note that governments are of course not allowed to borrow directly from the ECB; but with the ECB buying government bonds on the secondary market, the end result is similar, from the accounting perspective we are taking here.

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Lending to households temporarily dipped in spring last year. As we headed into the winter lockdown, money growth accelerated again, but its drivers changed. It is now mainly government borrowing from the central bank which is keeping the money printers busy. Meanwhile, lending to business hardly contributes to money growth any more. This underlines the crucial role governments, in cooperation with the ECB, now play in keeping the economy afloat.

## Drivers of eurozone M3 money growth

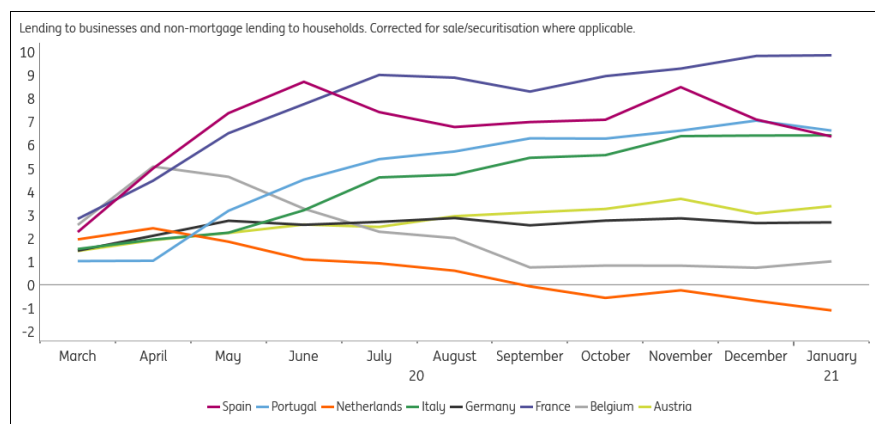


Source: ECB, ING

## The TLTRO benchmark window is closing

Banks have borrowed a massive €1792bn from the ECB under the Targeted Longer-Term Refinancing schemes. On 31 March, both the “special reference” and “second reference” [lending assessment periods](#) end. Depending on bank lending to businesses (and non-mortgage lending to households) in these periods, banks may qualify for a better rate on the TLTRO funds they borrowed from the ECB. As we showed above, it is difficult for banks to generate positive net lending to businesses during the winter lockdown. Luckily for most banks, the lending surge in spring 2020 ensures that they are likely to meet their TLTRO lending benchmarks. In most countries, consolidating the size of the loan portfolio will be enough. This is not the case though for the Netherlands, where reaching the “special” reference period benchmark is moving out of view. The situation for the “second” reference period is hardly looking better.

## Cumulative TLTRO-eligible bank net lending growth since March '20, %



Source: ECB, ING

## Bank lending likely to remain weak in the months ahead

With a full reopening of eurozone economies not expected until the second half of the year, we don't see business loan demand pick up soon. But when a relaxation of restrictions finally arrives, it should contribute to increased financing needs for working capital and inventory purposes in the business sectors concerned. Yet it is unclear to what extent businesses will also dare to borrow in order to invest, as many will focus on rebuilding their financial health. The pace at which government support measures are phased out and tax arrears are being called in, is important in that respect too, as is the pace at which the glut of household deposits will be spent.

