

The Covid-19 liquidity problem for eurozone businesses

Business funding needs and the ways these are met differ substantially across the eurozone. This further complicates monetary policy measures meant to provide liquidity to the real economy



Bank borrowing and bond issuance increased strongly in France, in contrast with the rest of the eurozone. Pictured: Paris' La Defense business district

How are eurozone businesses funding themselves amidst the Covid-19 pandemic? We've got some answers from the European Central Bank. It's just released bond issuance figures for the first three quarters of 2020. And that's also giving us some ideas on how this may develop in the months ahead.

Borrowing for liquidity, instead of for investment

It's no news that eurozone businesses strongly relied on government liquidity and bank borrowing during the spring lockdown. In addition, bond issuance picked up in the second quarter. But there are more sources and drains of liquidity. For that, we need to turn to the quarterly macroeconomic sector accounts, which are currently available until the second quarter. The chart below shows that in the eurozone as a whole, trade credit (which includes cross-border trade advances but more importantly also domestic supplier credit) dropped substantially in the second quarter. This is simply the result of lower economic activity in the lockdown months, resulting in fewer transactions and turnover. In addition, it may reflect suppliers imposing shorter payment terms on

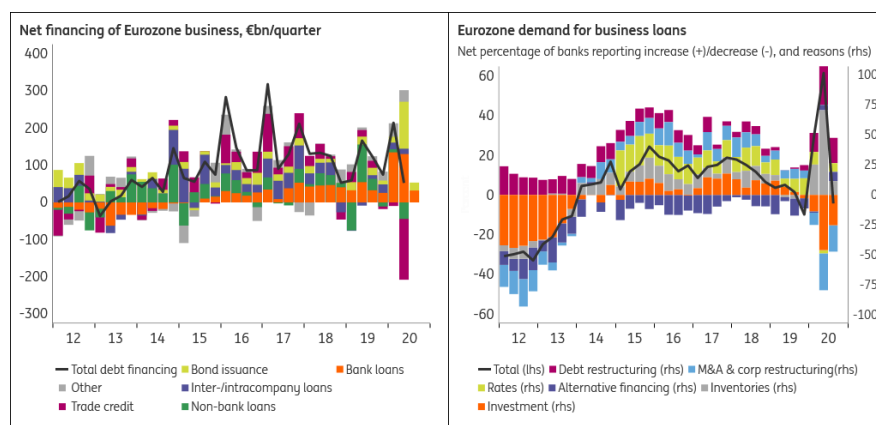
their business clients.

Any 'tax credit' has to be repaid at some point

Once trade credit is taken into account, the increase in business debt in the second quarter looks quite unremarkable. It is important to note however that several governments in Europe allowed businesses to defer their tax payments (e.g. VAT). This amounts to a “tax credit” that will have to be repaid at some point in the future, and hence adds to business debt, but is not counted in the sector accounts depicted below. Moreover, the Bank Lending Survey shows that the second quarter spike in bank loan demand was driven primarily by inventory and working capital needs, as opposed to investment plans or taking advantage of favourable rates, which were the main drivers for demand in the quarters preceding Covid-19.

As liquidity needs subsided in the third quarter, so did demand for bank loans. Meanwhile, investment plans are put on ice, and further contribute to weak bank loan demand. The survey confirms the strongest fall in demand in France and Spain in the third quarter, with demand holding up in e.g. Italy and Germany.

Eurozone business funding mix and demand for bank loans



Source: Macrobond, ING

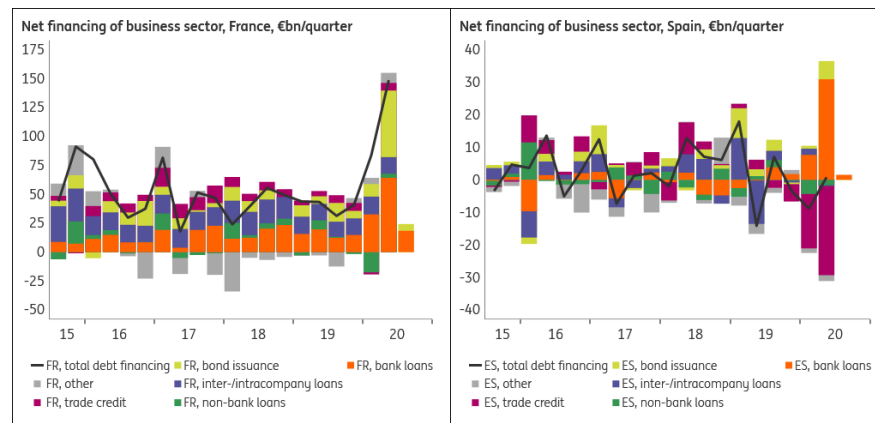
For the third quarter, we don't have the full funding picture yet. Bank loans and bond issuance are now in and show a sharp drop to more “normal” amounts. As economic activity recovered in the third quarter, we may expect trade credit to have increased again.

Funding mix differences across countries magnified in crisis times

Looking at aggregated eurozone data misleadingly suggests that funding patterns are similar across its member states. Yet business funding shows some sizeable country differences. First, France stands out. In the second quarter, both bank borrowing and bond issuance increased strongly, while there was no trade credit contraction – a stark contrast to the rest of the eurozone, and one we struggle to explain.

All this resulted in additional French business financing surpassing €150bn in the 2nd quarter, triple the “normal” quarterly amount. If it weren’t for France, net eurozone-wide business financing (clocking in at €52bn) would have been negative. And again, this does not include government liquidity support (neither credit nor grants).

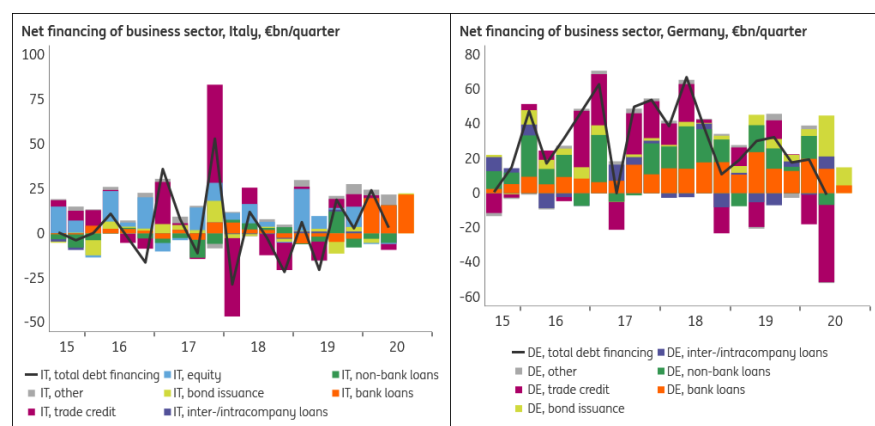
Net financing of the business sector in France and Spain, € bn per quarter



Source: Macrobond, ING

Spanish businesses did see a strong contraction in trade credit, and relied mostly on bank borrowing in the second quarter, with relatively little bond issuance. Net demand for bank loans dropped to zero in the third quarter. Note that Spain experienced a relatively deep recession, with GDP now back to about 90% of pre-Covid-output, compared to about 95% for the other major eurozone countries. Italian businesses, in contrast, faced only a very small trade-credit contraction. Reliance on bank borrowing was strong too, but much more evenly spread in time, with strong demand continuing into September. Net bond issuance was virtually zero throughout 2020.

Net financing of the business sector in Italy and Germany, € bn per quarter



Source: Macrobond, ING

Net financing of German businesses fell to zero in the second quarter, with negative trade-credit balancing out bank borrowing and bond issuance. Demand for bank loans eased in the third quarter, even turning net negative in September. Similar patterns can be observed in the Netherlands and Belgium. Stronger bond issuance by "northern" corporates suggests that they have access to bond markets on better terms than their southern counterparts, a pattern all too familiar in the eurozone. All this makes clear that in crisis times, even more than normal ones, the demand for funding - and the way this demand is met - differ substantially across the eurozone.

? This is old news... what about funding in the months ahead?

In a way, the data above provides a glimpse into the distant past, as by now we have moved into a new lockdown phase. Based on the patterns we saw earlier this year, we may expect a new drop in trade and supplier credit, though given that governments try to minimise the economic impact, and businesses have adapted too, that drop will be less severe.

We expect any increase in demand for bank loans and bond issuance to be much more muted than in Spring. Businesses are likely to have been better prepared this time, not least in financial terms. Some businesses may no longer be in a position to run up any more debt. Looking towards 2021, the recessionary environment will continue to weigh on funding demand, while borrowing rates have little room to fall further, [as we wrote earlier](#).

Despite the establishment of a Banking Union and continuing efforts to build a Capital Markets Union, business demand for funding, and the way this demand is met, differs substantially across the Eurozone. This is nothing new, but differences get magnified in crisis circumstances. This complicates the use of eurozone-wide policies, such as monetary policy: their [transmission](#) to the real economy will diverge between countries.

Author

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Senior Editor and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Oleksiy Soroka, CFA
Senior High Yield Credit Strategist
oleksiy.soroka@ing.com

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporates Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist

raoul.leering@ing.com

Maarten Leen

Head of Global IFRS9 ME Scenarios

maarten.leen@ing.com

Maureen Schuller

Head of Financials Sector Strategy

Maureen.Schuller@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

Rafal Benecki

Chief Economist, Poland

rafal.benecki@ing.pl

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Dimitry Fleming

Senior Data Analyst, Netherlands

Dimitry.Fleming@ing.com

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801
martin.van.vliet@ing.com

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroeder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com