

Weaker eurozone bank lending in August: perhaps just a summer lull

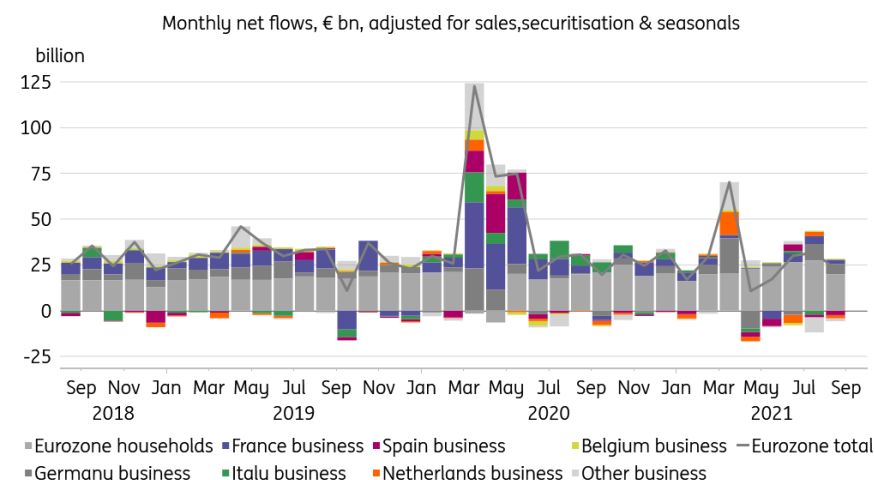
ECB August monetary data show weakening demand by eurozone businesses' for bank loans. Yet it is too early to sound the alarm



A strong start to the year has given way to a weak summer...

Eurozone net bank lending to households – over 70% made up of mortgages – decelerated somewhat in August after four very strong months (see chart below). In fact the €27.3bn of net lending in August was the highest monthly net lending since September 2007. Meanwhile, net bank lending to eurozone businesses was only €2.6bn in August. The first few months of this year showed some promising signs, even looking through the likely targeted longer-term refinancing operations (TLTRO) deadline-related lending spike in March. These promising signs included a bias towards longer duration loans, suggesting loans were used for investment purposes instead of e.g. working capital financing or cash management.

Eurozone bank lending to households and non-financial businesses



... with familiar rifts between countries widening again

Yet in recent months overall net lending to businesses has been slowing. We would prefer to explain the August weakness as a holiday-induced easing of activity, except that seasonal effects have already been filtered out of the data. That said, it is too early to draw any definite conclusions from just one weak month. In terms of business finance, we are in a transition period, coming from a situation of unprecedented government support, and moving (if all goes well) towards normalisation. We are likely to see more divergence in business borrowing demand between countries, as economies and government policies develop differently.

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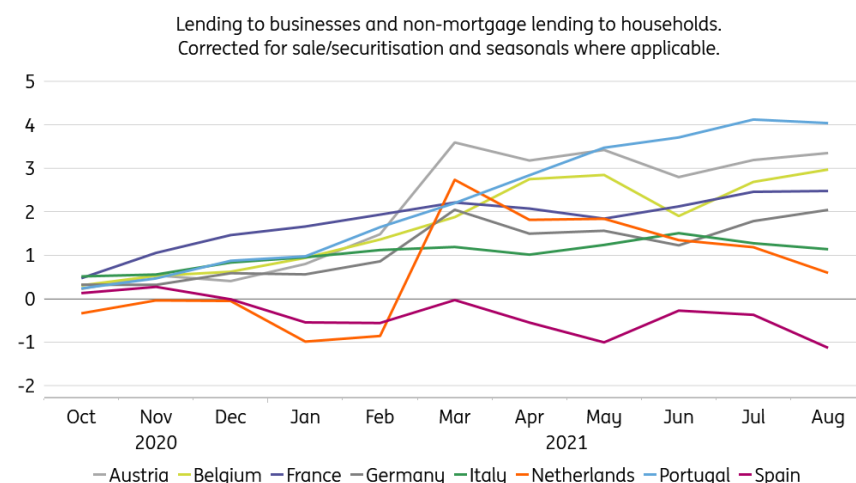
Such divergences have already become visible: Lending to Spanish businesses has been on a slightly negative trend since summer last year. While this can hardly be called good news, it is also a continuation of the pre-pandemic trend. In Italy, net business borrowing has been decelerating more gradually and is now hovering around zero – here too, little different from the pre-Covid years. In our opinion, France and Germany are the countries to watch in the months ahead. The general trend in both countries over the past year has been one of slightly below-pre-pandemic net borrowing. Whether borrowing in these countries will again reach or exceed pre-pandemic volumes, may tell us a lot about how eurozone businesses are emerging from 1.5 years of lockdown, and are dealing with today's supply chain disruption issues.

A new TLTRO deadline has appeared on the horizon

As we are slowly moving towards the end of the year, banks will be looking at their TLTRO-relevant

lending as well. To qualify for a favourable -100bp rate on TLTRO loans in the June 2021-June 2022 period, outstanding bank loans to businesses and non-mortgage lending to households on 31 December 2021 have to at least meet the volume on 1 October 2020. As the chart below shows, Spanish banks are in a challenging situation. Weak loan demand in Spain has caused their loan volumes to shrink 1% below the threshold. Other large economies remain above the threshold for now, though TLTRO-relevant lending in the Netherlands is trending down. That all said, we anticipate more action in bank lending towards the end of the year, given that companies will increasingly have to do without government support, which likely affects their borrowing decisions – positively or negatively.

Cumulative TLTRO-eligible bank net lending growth since October 2020 (%)



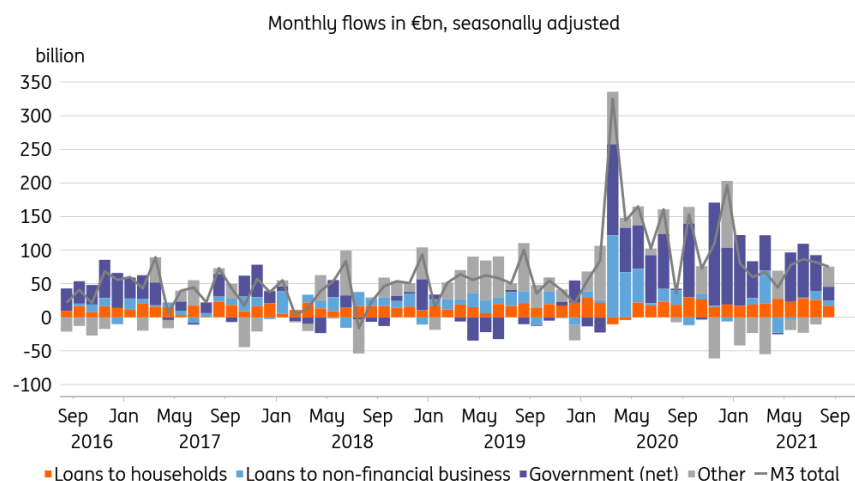
Source: Macrobond, ING-calculations

Decelerating money growth as governments hoard cash

ECB data showed slightly decelerating M3 money growth in August. Weaker bank lending to households and businesses, as described above, plays a role in this. Yet the times when money growth was primarily driven by household and business borrowing, are long gone. The Eurosystem’s purchases of government bonds have been the main driver for years, and even more so during the pandemic. Eurosystem purchases decelerated in August, reducing money growth. What’s more, governments parked an additional €40bn of cash at the Eurosystem in August. From a bookkeeping perspective, these government deposits form a drain on money creation.

In any case, money growth will not be the primary place to look for clues about consumer price inflation in the months ahead. Yet elevated money growth will likely continue to contribute to inflation of asset prices.

Drivers of Eurozone M3 money growth



Source: ECB, ING-calculations

August's monetary data are best interpreted as a signal to be alert: the relative strength of bank credit in the first half of the year, appears to have faded. The months ahead will have to make clear whether this is a temporary dip, or a more sustained break caused by phase-out of government support and supply chain disruptions. With over €10bn of favourable TLTRO rate revenues at stake, banks have a strong incentive to counter any weakness in lending demand.

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

Senior 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

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