

Snap | 29 May 2020

Another huge month for Eurozone bank lending as inflation slows further

ECB monetary developments show a historical demand for loans in April. With inflation dropping further to 0.1%, the ECB will be comfortable about its loose monetary stance



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April data for the European central bank reveals another massive month for bank lending.

This is mainly because of non-financial corporates - as the net inflow was a whopping 70 billion euros, after the record month of March at 117 billion. The bank lending survey for this quarter suggests this is mainly for liquidity purposes as borrowing for investment has largely been postponed, which obviously makes sense.

Money supply continued to increase rapidly with the Pandemic Emergency Purchase Programme (PEPP) and the original QE programme both in full swing.

The severe economic fallout is having a deflationary effect, which means the ECB is likely to stay in a crisis-fighting mode for some

time to come. Expect the ECB to increase PEPP as soon as next week

The broad money aggregate M3 increased from 7.5 to 8.3% in April, with narrow money M1 growing to 11.9%. M1 is a better indicator of the eurozone economy in normal circumstances and its surge over recent months suggests that monetary conditions will provide significant support to the recovery in the aftermath of the recession.

Inflation dropped further to 0.1% as the decline in the oil price continued to work its way through to petrol prices in May. The decline in energy prices was -12% YoY, which far outweighs the somewhat higher unprocessed food inflation of the lockdown. Core inflation has remained surprisingly stable at 0.9%, which might have been influenced by the difficulty in gathering data gathering during the lockdown period.

Services inflation even ticked up a bit in May, despite service sector businesses indicating large drops in selling price expectations which leads us to believe that there is still some downward pressure to be expected in the months ahead as unemployment continues to increase.

Today's data leave little to argue about the strategic course for the ECB. The massive take-up of liquidity suggests that the bank lending support through TLTROs is a key part of the emergency support delivered and the large support from PEPP and PSPP are boosting the money supply to keep conditions as loose as possible.

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We expect the ECB to increase the PEPP as soon as next week.

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