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Eurozone bank lending continues to recover slowly

Money growth and bank lending both picked up somewhat in August. But the pace of lending generally remains sluggish as interest rates and economic uncertainty are both high. With growth slowing and inflation back close to target, this will fuel further debate on the pace of European Central Bank rate cuts



The pickup in bank lending in August was too small to be considered encouraging. It does mean that the largest impact of the rate hikes of the past years is now behind us. But with the economy underperforming, growth concerns are quickly becoming top of mind after a period of inflation fighting. In that light, the growth pace of 0.8% and 0.6% year-on-year for non-financial businesses and households is weak. This is the lowest rate since 2015 for both, which generally translates into weak investment growth ahead.

The eurozone economy is currently weakening from an already slow growth pace. Lacklustre lending growth does not help there as it generally translates into weak investment growth in the quarters ahead. With interest rates still restrictive and inflation close to target, the discussion within the ECB about the pace of rate cuts will heat up in the months ahead.

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