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Eurozone bank lending continues to weaken as money growth turns negative

Higher interest rates and a stagnant economy keep bank lending on a weakening trend. Annual growth in broad money growth is now negative. This adds to expectations of a weak eurozone economy in the quarters ahead, but as the effects remain gradual this should not be a game-changer for the ECB ahead of its September meeting



Annual growth in bank lending continues to trend down rapidly. Bank lending to the private sector grew by 7.1% year-on-year in September last year but fell back to just 1.6% in July. This has been driven by strong declines in business sector borrowing and a steady downward trend in household borrowing – which is mainly for mortgages. Non-financial corporate borrowing growth was 2.2% year-on-year in July, while household borrowing growth was just 1.3%.

Money growth has been plummeting in recent months, as demand for borrowing weakens and the ECB starts quantitative tightening. This has resulted in the first negative reading of broad money growth (M3) in July, falling from growth of 0.6% to -0.4% year-on-year. Narrow money growth (M1) fell by -9.2% in July.

Overall, monetary developments show that there is continued weakening of lending happening at

the moment and that the money supply is shrinking. The trend remains rather gradual though. This means that the impact of higher rates on the economy continues to happen gradually and without any shocks. Still, there are no guarantees how this will develop further and weaker lending will result in lower investment down the line. With economic activity already in stagnation mode at the moment, monetary policy is set to contribute to a weak economic environment for the quarters ahead.

The next ECB rate decision is in two-and-a-half weeks' time and there are not too many key data points out in the interim that can sway the governing council's decision. Today's data show the continued significant impact of monetary policy, but the impact remains gradual. This means that they are unlikely to be game-changers for the no doubt heated debate among the governing council about whether another hike is necessary next month.

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