

## Eurozone bank lending doesn't point towards an investment recovery yet

The slight increase in bank lending to non-financial corporates in February is too small to expect a sizeable push for investment in the short-run



Source: istock

Bank lending growth to the private sector was stable at 5.1% year-on-year in February while household borrowing growth held at 3% YoY and has been falling slightly since October. A small impact of the second wave of the pandemic after the first wave caused net borrowing from households to decline.

Clearly, household concerns about the economic future remain but are much smaller than they were in the spring of last year, which bodes well for the housing market. Indeed, borrowing for house purchases remains elevated while borrowing for consumption continues to shrink on the back of accumulated savings over the course of the lockdowns.

Non-financial corporate borrowing growth increased from 6.9 to 7.1% YoY. The increase in monthly borrowing by corporates remains modest, which reflects the uncertain business environment. Underlying pressure to invest in certain sectors seems to be rising, but overall capacity utilization remains very low for now, which makes the weak investment environment logical at this point in

the cycle.

The ECB's concerns about increased interest rates seem consistent with the current lacklustre lending environment. The slow growth in borrowing by non-financial corporates at ultra-low rates implies that the appetite for increased investment remains weak at the moment.

At higher rates, the risk is that the investment recovery will happen at a much more modest pace than previously anticipated.

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