

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.

Author

Bert Colijn

Senior Economist, Eurozone

bert.colijn@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.