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Eurozone bank lending remains subdued after the peak in March

Annual comparisons for both money growth and bank lending in the Eurozone are distorted by strong base effects, but recent developments provide little guidance for the economic recovery ahead



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Declining annual growth rates for broad money growth - M3 and bank lending are driven mainly by base effects from last year.

There have been substantial drops in M3 growth from 9.2 to 8.4% in May, with bank lending growth dropping from 7.7 to 6.7%. This is all due to the large jumps in monetary support and emergency liquidity borrowing seen during the first wave of the pandemic.

Therefore, the monthly flows are much more relevant at the moment, which show modest relevance for the economic outlook.

Let's start with M3, which increased by 0.5% month-on-month in May. This is up from 0.2% in April and comparable to the pre-pandemic range seen in 2015-2019. This shows modest money growth after a year of strong expansion.

Bank lending growth has seen month-on-month increasing declines after a jump in March due to the TLTRO benchmark lending deadline. April was already weaker than March and May followed that trend with a growth of -0.2% compared to April. Bank lending to households remains very stable as it dropped from 0.4 to 0.3% month-on-month.

Overall, monetary developments remain relatively stable despite plunging headline figures due to base effects. The appetite for lending among businesses remains lukewarm at the moment, despite financial conditions remaining very loose and economic prospects dramatically improving.

This means the strong outlook for economic recovery is not getting much extra oomph from the lending side.

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