

Snap | 26 August 2021

## Eurozone bank lending shows continued strength in the housing market

Consumers continue to borrow more for house purchases, while business borrowing remains underwhelming confirming the economic outlook will be mainly fuelled by consumer demand



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In July, Eurozone private sector borrowing growth was steady at 3% and mainly driven by weaker corporate sector borrowing and strengthening household borrowing.

The weakness in corporate sector borrowing reflects the ample liquidity still held by businesses but also shows some reluctance to borrow for investment. The ECB bank lending survey had indicated an increasing appetite for borrowing for investment purposes, but we're only seeing weak evidence for that at the moment despite economic activity rebounding and businesses returning to historically high levels of capacity utilisation.

Borrowing for mortgages remains the strongest contributor to private sector borrowing.

It slightly increased from last month's annual rate and at 5.7% stands at the highest rate seen since 2008. In a market with rapidly rising prices, this sounds quite dramatic but keep in mind that this is still well below growth rates for mortgage borrowing seen in the 1999-2007 period. Back

then, annual growth in mortgage borrowing averaged 9.5%, compared to which current borrowing is still modest.

For the economic outlook, higher borrowing for house purchases is a sign of continued strength in housing market activity, which relates to further consumer demand growth for the quarters ahead.

Money growth dropped from 8.3 to 7.6%, which is mainly reflecting slower year-on-year growth in asset purchases by the ECB. This makes the movements in M3 less relevant for the economic outlook at the moment as this troubles the relation with GDP growth as has been the case for quite some time already.

## Author

### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@ing.com)

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