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Eurozone: Bank lending stable in September

Eurozone money growth jumped in September, but don't expect that to result in a much improved outlook. Bank lending shows stabilisation, indicating that demand for investment-related borrowing remains weak amidst Covid-19 uncertainty



Source: istock

Annual growth in broad money supply (M3) increased from 9.5 to 10.4% in September, mainly as a result of changes in general government credit and deposits.

Even though the more narrow monetary aggregate M1 also increased from 13.2 to 13.8%, it isn't something to get excited about. Usually, a decent leading indicator of the eurozone economy, the impact of Covid-19 and its related effects have made it a somewhat less useful indicator to gauge GDP growth in the months ahead.

More relevant is the impact of bank lending on the economy. There, we see very subdued lending to both non-financial corporates and households. While the annual growth rate of corporate lending is still high thanks to high liquidity demand in the first wave, monthly net lending was negative for the first time since September last year. Household borrowing growth ticked up

slightly, from 3% to 3.1% YoY.

With new restrictive measures put in place that are having negative income effects on certain businesses, the need for emergency liquidity will probably rise again in the fourth quarter. For now, that effect is likely to be marginal, but more restrictive measures taken later in the quarter cannot be ruled out thanks to cases rising. That could lead to another cautious rise in bank lending, although we expect this to be a far smaller effect than what we saw in March.

For the economy, it is most relevant that investment-related lending is unlikely to pick up anytime soon. Liquidity related volatility, therefore, muddies the waters, but given the huge amounts of uncertainty at the moment, it is unlikely that a sustainable pickup in investment-related business lending will happen anytime soon.

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