

Eurozone: Business lending growth continued to weaken in February

Before the coronavirus really hit the eurozone economy, loans to non-financial corporations were already on the decline



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Adjusted loan growth to the non-financial corporate sector continued its downward trajectory in February as the coronavirus caused supply chain disruptions due to lockdowns in China. It dropped from 3.2 to 3% year-on-year. The main impact on the eurozone economy is not reflected in this of course, as the situation became more severe over the course of March here. The decline in lending growth has been a trend for a while now, as it already peaked in 2018. The manufacturing slump of 2019 has caused lending growth to be subdued. Credit to households continued to pick up slightly in February – from 3.7 to 3.8% YoY – but has largely plateaued.

Generally speaking, we look at monetary developments as a leading economic indicator. The narrow monetary aggregate M1 is generally considered to be one of the better ones for the eurozone economy. That seems silly at the moment though, as the exogenous shock caused by Covid-19 has created a sudden downturn in the economy. The increase in the growth rate of M3 and M1, from 5.2 to 5.5% and 7.9 to 8.1%, respectively, is therefore not really indicative of future economic activity. Over the coming months, monetary aggregates will likely increase substantially thanks to the newly announced European Central Bank asset purchases. This will be beneficial to

the eurozone economy once the recovery from the current economic fallout starts.

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