

Snap | 25 July 2018

## Eurozone: Loan growth is picking up

Loan growth in the eurozone has been picking up in June, while the credit impulse to the economy stabilises at a low level. All of this suggests the ECB's monetary policy remains supportive and should keep the recovery going in the coming quarters



Former chairman of the Federal Reserve, Ben Bernanke, used to say that quantitative easing (QE) works in practice, but not in theory.

The ECB's monthly report on monetary developments is, therefore, an important release to assess whether the ECB's ultra-loose monetary policy is at least showing up in the monetary aggregates. The June data seems to suggest this is the case. The annual growth rate of M3 increased to 4.4% in June from 4.0% in May, while growth in the narrower aggregate M1 stood at 7.4% in June compared to 7.5% in May.

The annual growth rate of adjusted loans to the private sector increased to 3.5% in June from 3.3% in May. For households, loan growth amounted to 2.9% in June, unchanged from the previous month, while the annual growth rate of adjusted loans to non-financial corporations rose to 4.1% in June from 3.7% in May. This increase is supported by very favourable financing conditions and robust growth in business investment. The ECB's Bank Lending Survey showed that

eurozone banks not only relaxed credit standards in the second quarter, but also intend to ease them further in the third quarter, which should continue to support credit growth.

As for the impact on GDP growth, one has to bear in mind that credit growth affects GDP (which is a flow variable), whereas the change in credit growth, aka the credit impulse, impacts GDP growth. This credit impulse, which had been softening over the last year, is now stabilising, albeit at a low level.

All of this suggests that even though the pace of economic growth is not accelerating any longer, the ECB's monetary policy remains supportive and should keep the recovery going in the coming quarters.

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