

Snap | 29 January 2025

Eurozone loan growth rises modestly amid tightening credit standards

Eurozone money growth (M3) decelerated to 3.5% year-on-year in December, from 3.8% in November. At the same time, loan growth to the private sector increased, though tightening credit conditions might throw a spanner in the works



Loan growth accelerates modestly

The ECB's preferred monetary aggregate M3 rose 3.5% year-on-year in December following a 3.8% increase in November. M1, the most liquid part, increased 1.8% year-on-year. Bear in mind that these numbers are influenced by savers' behaviour and the shape of the yield curve. With the yield curve now steepening, we might soon see a shift of savers' money towards maturities not included in M3. Therefore, one shouldn't derive too much from the M3 figures as regards the ECB's monetary policy. More important are the counterparts of M3.

The annual growth rate of adjusted loans to the private sector accelerated to 2% on a year-on-year basis in December, from 1.5% in November. Looking at the components, loans to non-financial companies accelerated to 1.5% year-on-year (following 1.0% in November). Adjusted loans to households increased by 1.1% year-on-year in December from 0.9% in November.

Tighter credit standards

The current data seem to be evolving favourably. However, from the banking lending survey, we know that loan demand for investment remains very weak, especially in investment-intensive sectors like manufacturing, on the back of continuing weakness in final demand conditions and external and domestic uncertainty.

What's more, banks tightened credit standards for non-financial companies in the fourth quarter of last year and expect a further net tightening in most economic sectors in the first half of 2025, except for services. That means that the expansionary impact from rate cuts might be partially offset by tighter credit conditions.

All of this will provoke an interesting discussion in the ECB's Governing Council on the degree of restrictiveness of monetary policy. From today's data, it seems that the current level of interest rates is already having some positive impact on loan demand. At the same time, the doves might argue that tightening credit conditions keeps monetary policy restrictive and might even tighten it further in the coming months. We therefore expect the ECB to continue its very gradual easing path, justifying tomorrow's rate cut as "diminishing the degree of restrictiveness"

Author

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

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