

Snap | 27 February 2019

## Eurozone loan growth to businesses dropped in January

Loan growth to non-financial corporates dropped from 3.9% to just 3.3% year-on-year on an adjusted basis. Weaker lending reflects a more subdued investment environment as businesses are affected by downside risks and slow new orders



Source: Shutterstock

Lending growth has slowed as uncertainty about the eurozone economy continues to impact businesses. Growth in lending to businesses peaked in June 2018 and seems to be on a downward trend. The European Central Bank's bank lending survey had already indicated weaker loan growth ahead on the back of growth concerns. This means that the positive impact of loan growth on GDP is slowing and that investment is likely not bouncing back in the current quarter.

Some optimism could be taken from the business surveys for February, but with the manufacturing sector still struggling and many of the downside risks not having reached a positive conclusion so far, it is too early to call the nature of the slowdown temporary. While a growth recovery can be expected if risks do not materialise, the impact of weaker confidence on investment remains a concern.

Growth in the broad monetary aggregate M3 and more narrow aggregate M1 both came down in January and while the slowing trend is impacted by the end of quantitative easing, it is considered to be a leading indicator. Financial conditions are not too affected for the moment though, as long-term interest rates remain very low. Still, with demand growth for loans weakening at the moment, the ECB will remain concerned about the state of the eurozone economy ahead of the March meeting.

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