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Eurozone: moderate lending growth at start of the year

Continued modest lending growth and a falling M1 in January indicate that eurozone growth was already set for a weak recovery before coronavirus uncertainty came to the fore



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While monetary conditions are still favourable to growth, monetary aggregates have been pointing to somewhat weaker growth in the months ahead. M3 growth increased from 4.9 to 5.2% in January, but the decline in M1 from 8 to 7.9%, in combination with somewhat higher inflation, results in falling real M1 growth, which is the third consecutive month of contraction. Real M1 growth is a strong leading indicator and the slowdown is in line with modest expectations of growth recovery over the course of the year.

Loose monetary conditions seem apt at a time of economic uncertainty, especially as lending growth is not exactly picking up. While financing conditions remain favourable, businesses continue to take a wait-and-see attitude towards investment at the start of the year, despite an improving trade outlook. Growth in lending to non-financial corporations was stable at 3.2%, while lending to households increased from 3.6 to 3.7%. The trend in lending to non-financial corporates is particularly noteworthy as it has been declining from its peak of 4.4% in September 2018.

With the coronavirus developing as a significant downside risk to the economy only after January, the question is what impact the virus will have on lending. While it is too early to gauge the impact, in general, uncertainty will lead to delayed appetite for investment. That means that the declining growth rate of lending to non-financial corporates could still last a while longer.

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