Snap | 29 April 2020

Eurozone monetary conditions loosened significantly in March

More is becoming known about the economy under lockdown. The ECB monetary aggregates show that business lending has shot up to remain liquid and the narrow money aggregate is increasing to support the recovery

European Central Bank HQ, Frankfurt

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Growth in broad money - M3 - has shot up from 5.4% to 7.5% YoY in March as ECB bond purchases surged to fight the economic fallout from the coronavirus. Monetary conditions have loosened significantly because of the ECB measures, which should help fend off the crisis although it is unlikely to result in more economic activity in the immediate lockdown phase. Looking through the lockdowns, these very loose monetary conditions will provide some tailwind for the recovery phase. Growth in the narrow monetary base M1 has increased from 8.1% to 10.3% YoY and as inflation is dropping on the back of lower energy prices; real M1 is surging. As one of the better leading indicators, real M1, therefore, provides some signs of hope in otherwise bleak economic times.

Growth in lending to non-financial businesses shot up to 5.4% YoY in March, from 3% in February. This is the highest reading since April 2009. This improvement usually indicates more investment needs but is currently mainly linked to increased liquidity requirements as the ECB's Bank Lending Survey suggested yesterday. The survey indicated that demand for loans related to fixed investments actually dropped significantly, which makes perfect sense given the current economic turmoil. Lending to households declined in March, from 3.7% to 3.4% YoY as demand for consumption-credit fell markedly due to the corona uncertainty.

Monetary developments show that March already saw a surge in liquidity needs from corporations as the lockdowns across the eurozone developed. The ECB response has caused monetary conditions to loosen markedly, which will help during the recovery phase. The question now is whether the permanent damage can be contained with the monetary response in place. Tomorrow's ECB meeting will be closely watched to see whether more is to come.

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