

Eurozone: monetary dynamics deceptively strong

M3 growth in the eurozone increased to 8.9% year-on-year in May, backed by strong domestic credit growth. However, this figure reflects financial distress and precautionary savings rather than economic strength



Strong money and credit growth

Eurozone year-on-year money growth (M3) accelerated to 8.9% in May from 8.3% in April, with the most liquid component M1 showing a whopping 12.5% year-on-year increase. Credit to the general government increased to 9.8% in May from 6.2% in April, while the annual growth rate of adjusted loans to households remained at 3.0% in May, unchanged from the previous month. The annual growth rate of adjusted loans to non-financial corporations rose to 7.3% in May from 6.6% in April.

Liquidity hoarding

Although the easy financing conditions created by the ECB's very accommodative monetary policy certainly help to boost credit, it would be wrong to see in the current figures a sign of economic strength. On the contrary, because of the Covid-19 pandemic, firms have drawn on their

committed credit lines to avoid any liquidity shortages in the coming months. Indeed, the annual growth rate of deposits placed by non-financial corporations increased to 17.6% in May from 13.7% in April, a sign of liquidity hoarding. At the same time, the bank lending survey shows that credit demand for investment purposes is falling rapidly.

A similar story holds true for households: confronted with rising uncertainty on the labour market, they have probably increased their precautionary savings, held in liquid assets. Indeed, the annual growth rate of deposits placed by households rose to 7.0% in May from 6.7% in April.

Weakness, rather than strength

For some, the strong monetary growth figures will probably be a sign that inflation will pick up rapidly in the coming years. But don't be fooled: a big part of this increase is due to financial distress and precautionary savings. So for the time being, the information content of monetary aggregates is ambiguous to say the least and reflects weakness rather than strength.

Author

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.