

## Eurozone: normalisation in money growth

Stable lending to the private sector and slower growth in monetary aggregates indicate that emergency liquidity effects are waning, but also indicate that business investment is likely to remain weak amid high economic uncertainty



Broad money (M3) growth decreased from 10.1% in July to 9.5% in August and the more narrow monetary aggregate M1 fell from 13.5% to 13.2%. Money growth had been elevated since the start of the crisis, thanks to a strong surge in asset purchases by the European Central Bank and government measures aimed at providing liquidity to businesses and households. The August monthly increase in M3 was below the average increase for 2019 for the first time since the coronavirus outbreak, indicating that some normalisation in the money supply is occurring after the unprecedented demand for liquidity which started with the lockdowns.

Usually money growth – especially M1 – is a good leading indicator of economic activity, but thanks to liquidity demands related to the coronavirus crisis it is important not to take the movements in money growth at face value. Recent movements have not reflected a stronger take up of investments, but have been related to holding liquid assets to weather the storm of lockdowns.

Annual growth in loans to households and non-financial corporates was stable at 3 and 7.1% respectively, showing stabilisation in the borrowing environment. The monthly net increase in

loans was small in August, as it has been in June and July as well. This indicates that now that emergency liquidity funding has been drawn, there is no increase in investment demand noticeable in these figures. That is, of course, no surprise given the high uncertainty surrounding the economic outlook at the moment.

For sustained strong bank lending growth, business conditions need to be stable enough for investments to surge. While financial conditions remain extremely favourable for investment, the highly uncertain economic environment makes it unlikely that investment will recover quickly.

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