

## 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.

## Author

### Bert Colijn

Chief Economist, Netherlands

[bert.colijn@ing.com](mailto:bert.colijn@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>.