

Snap | 25 July 2024

## Eurozone loan growth shows signs of bottoming out

M3 growth accelerated to 2.2% in June in the eurozone. Loan growth to the private sector seems to be bottoming out, though the pace of growth remains a weak spot



### Tiny improvement in loan growth

Broad money (M3) growth in the eurozone accelerated to 2.2% year-on-year in June 2024, from 1.5% in May. This reflected a stable annual growth rate of adjusted loans to households of 0.3%, while the annual growth rate of adjusted loans to non-financial corporations increased to 0.7% in June from 0.3% in May.

Overall, this still reflects rather tight credit conditions. According to the European Central Bank's latest bank lending survey, standards for lending to firms tightened slightly in the second quarter, while standards for mortgages eased moderately. In this context, banks are expecting a slight pick-up of loan demand in the second half of the year. So it seems that loan growth is now bottoming out. That said, we're still far from normality; before the ECB started its monetary tightening, loan growth hovered around 5%.

## Monetary policy transmission is working

Over the last year, the ECB has emphasised numerous times that interest rate decisions will be based on the assessment of the inflation outlook, the dynamics of underlying inflation and the strength of monetary policy transmission. As for the latter, today's figures indicate that even though there are some glimmers of improvement, credit dynamics remain weak, suggesting that monetary transmission has been working. In combination with the recent weak sentiment data, this seems to keep hopes for a rate cut in September alive.

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