

Snap | 28 November 2018

Monetary developments won't stop ECB from ending QE soon

Broad money growth accelerated in October, while loan growth remained at cruising speed. Comfortable enough for the ECB to stop its net asset purchases in January. However, a slowdown in 2019 might put TLTROs back on the agenda



Source: iStock

M1 indicates further slowdown in 2019

Annual M3 growth in the eurozone increased to 3.9% in October from 3.6% in September. Adjusted loans to households expanded by 3.2% in October, unchanged from the previous month, while the growth pace of loans to non-financial corporations slowed to 3.9% in October from 4.3% in September. Credit growth seems to be at cruising speed, but nothing more than that.

The annual growth rate of the narrower aggregate M1, stood at 6.8% in October, unchanged from the previous month. Real M1 growth, a good leading indicator of economic activity, has now been on a downward path since July 2015. This is compatible with a further slowdown in growth momentum in 2019.

TLTROs back on the agenda?

While ECB President Mario Draghi is still putting on a brave face, the minutes of the last meeting of the Governing Council, revealed that some members had their doubts regarding the growth outlook. We believe that the staff projections, now pencilling in 1.8% GDP growth in 2019 and 1.7% in 2020 will inevitably be revised downwards at the next forecast round in December.

Today's figures don't offer many clues for immediate action. We believe that the ECB will proceed with its intention to stop net asset purchases from January onwards. A thorny question that will pop up in the course of next year is whether the ECB will be forced to launch a new TLTRO (targeted long-term refinancing operation). In Italy especially, higher funding costs for the banking sector, caused by an increase in the sovereign bond yield, might induce a tightening of credit conditions at a time when the economic recovery is petering out.

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>.