

## Euro Area

### Euro Area: NFC Net Borrowing Falling More Slowly

- **Decline in NFC net borrowing moderated in June.** Our [proxy of Non-Financial Corporate \(NFC\) net borrowing in the Eurozone](#), based on NFC borrowing from banks and NFC debt securities issuance, shows that the decline in NFC net borrowing is moderating. Along with [the latest bank lending survey](#) (Figure 3) which indicated easing lending standards and a modest pickup in credit demand, these data suggest that NFC YY credit growth in the Eurozone could soon turn positive on our proxy measure (in Q3, based on current trends). In fact, NFC credit growth may have already been positive in Q2 for the more comprehensive Flow of Funds measure (due out on October 27), which has tended to exceed our proxy in recent quarters. However, amid high real lending rates, financial fragmentation, and high levels of private sector debt in many Eurozone countries (see Figure 4), [credit growth is likely to remain subdued](#) even after the ECB's Comprehensive Assessment is concluded. Moreover, these data are unlikely to change the ECB 'wait-and-see' stance for now, and we still expect the ECB to announce a QE programme in late 2014 or early 2015 due to continued inflation undershoots.
- **Positive debt securities issuance continues, while contraction in bank credit is moderating.** NFC net borrowing (the sum of bank lending to NFCs, adjusted by securitisation and sales, and NFC net issuance of debt securities) was 'only' negative to the tune of €12bn (-0.2%YY) over the twelve months ending in June, the lowest rate of contraction since May 13, and easing from a 3.1% YY fall in Mar 14 (see Figure 1). NFC net debt securities issuance continued to be positive (€87bn in the 12 months ending in June, +8.6% YY), and slightly higher than in the two previous quarters. The increase in securities issuance was insufficient to compensate for the €99.7bn (-2.2%YY) drop in bank lending in June (12M sum), but the contraction in bank lending moderated from -€141bn (-3.1%YY) in Q1 and -€128bn (-2.7%) over 2013.
- **Periphery and soft-core countries are driving the moderation in the decline of NFC net borrowing.** Across countries, the fall in NFC net borrowing eased in Q2 in Spain (-8.7% YY vs. -9.4% in Q1), Italy (-1.2% vs. -1.9%), Cyprus (-1.8% vs. -2.8%), Greece (-5.2% vs. -5.4%), Slovenia (-6.9% vs. -7.2%), and the Netherlands (-0.2% vs. -0.4%). In France (5.2% YY in Q2 vs. 2.5%YY in Q1) and Belgium (8.1%YY vs. 8.6%YY), NFC net borrowing continued to grow robustly (Figure 2). In Germany on the other hand, NFC net borrowing fell by -1.2% YY in June (from -1.1% in Q1), its lowest YY growth rate since Q1 2010.

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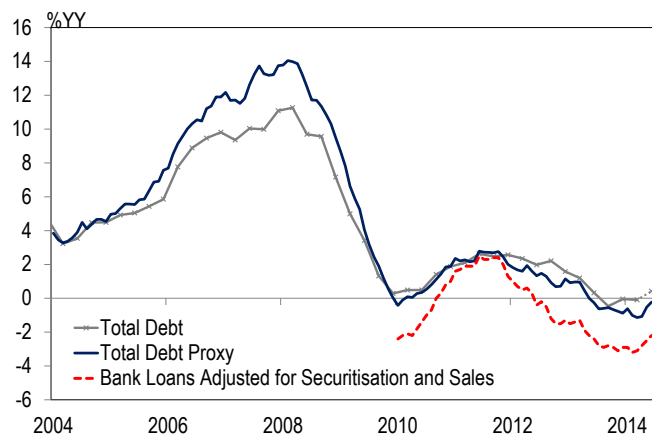
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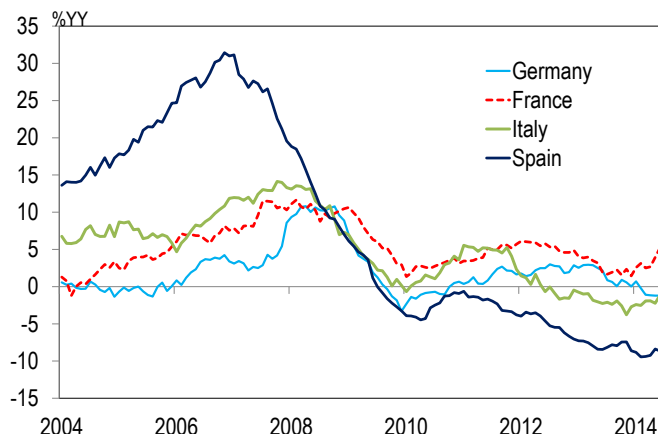
**Figure 1. EA – Non-financial Corporate Debt Growth (% YY), 2004 – June 2014**



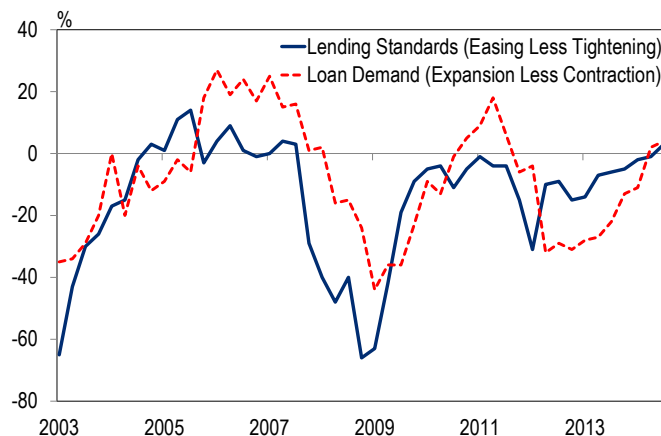
Note: Total debt proxy is based on bank loans (adjusted for sales and securitisation) and debt securities issuance. YY change calculated as 12-month sum of flows divided by previous year stock (except for change in stocks). Data for EA total debt in Q2 corresponds to Citi Research forecasts.

Sources: ECB and Citi Research

**Figure 2. Selected Countries – Proxy of Non-financial Corporate Debt Growth (% YY), 2004 – June 2014**

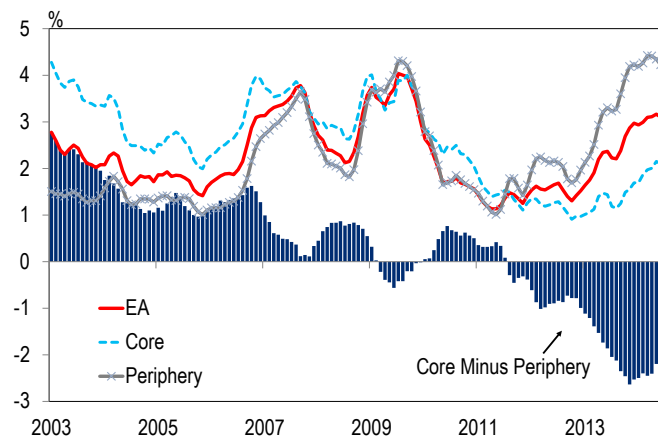


**Figure 3. EA – Bank Lending Survey to Enterprises (% Balance), 2003 – Q3 14**



Note: % Balance is the net balance of banks reporting an increase vs a decrease.  
Sources: ECB and Citi Research

**Figure 4. Selected Countries – Real Interest Rates on Loans < €1m to Non-financial Corporations (%), 2003 – June 2014**



Note: 3-month average deflated by CPI inflation. GDP weighted average of Germany, France, Netherlands, Belgium, Austria, and Finland (Core), and Italy, Spain, Portugal and Ireland (periphery). Sources: ECB and Citi Research

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