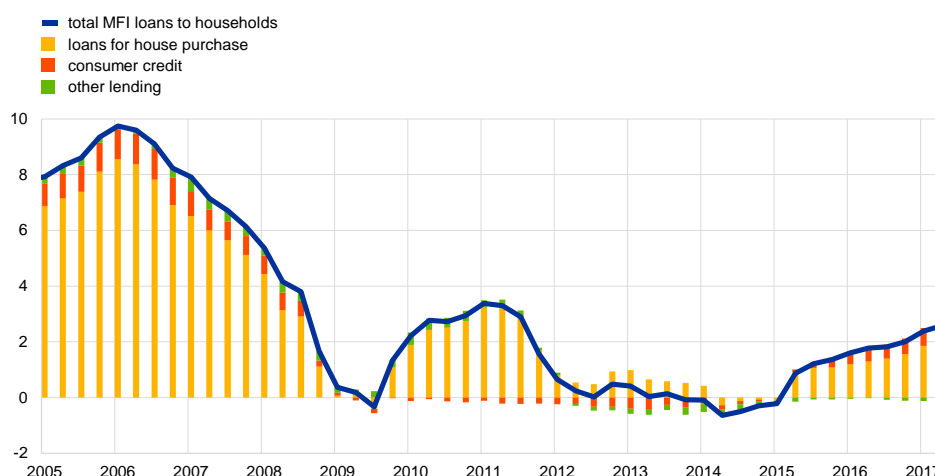


3 Recent trends in consumer credit in the euro area

Consumer credit growth is gaining momentum. The annual growth rate of total loans by monetary financial institutions (MFIs) to households has strengthened further in the euro area in recent months, thus continuing the gradual recovery observed since 2014 (see Chart A). In terms of separate loan components, loans for house purchases remain by far the most significant contributor to overall household loan growth. It can also be seen that consumer credit has increased particularly rapidly in the last two years, almost reaching the level of growth seen prior to the global financial crisis. However, the contribution that consumer credit makes to total household loan growth remains moderate, and below pre-crisis levels. This is due to two factors: (i) consumer credit is a relatively low proportion of total loans to households; and (ii) loans for house purchases – which account for 75% of total MFI loans to households – have continued to increase in recent years.

Chart A
MFI loans to households (by purpose) in the euro area

(annual percentage changes; percentage point contributions)



Source: ECB.

Notes: The latest observations are for the second quarter of 2017. The data before 2015 are unadjusted for loan sales and securitisation.

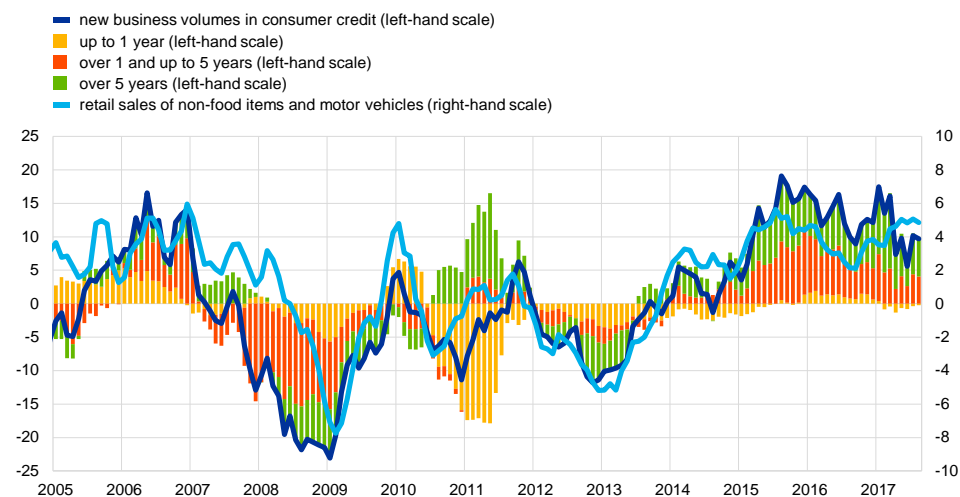
Higher volumes of consumer credit are supporting the demand by households for durable goods. The strengthening of consumer credit has been driven by increased take-up of new medium- and long-term consumer credit loans (see Chart B), which exceeds the volume of maturing consumer credit loans by a significant margin. Consumer credit is primarily used to finance purchases of big-ticket items such as furniture, household appliances and motor vehicles. The increasing demand for such items, and for consumer credit to finance them, has been supported by a return of confidence among households following the broad-based recovery in the economy and the improved labour market situation, as well as by record low bank lending rates. These developments have been buttressed by the ECB's accommodative standard and non-standard monetary policy measures. Such monetary policy measures, together with the recovery, have considerably reduced

the credit risk of borrowers, thus also contributing to an increase in credit supply and an easing of credit standards.

Chart B

New business volumes in consumer credit and retail sales in the euro area

(annual percentage changes; percentage point contributions; three-month moving averages)



Sources: Eurostat, ECB and ECB calculations.

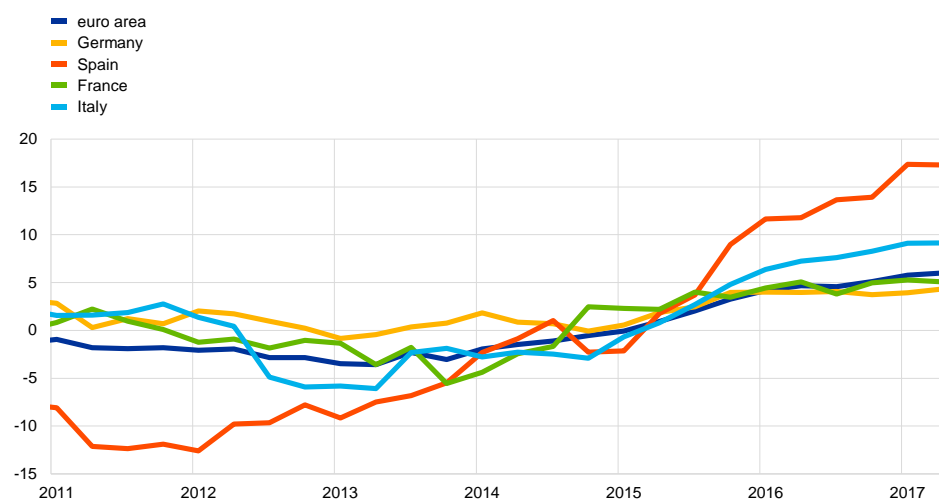
Notes: The latest observations are for August 2017. The growth rate of retail sales of non-food items and motor vehicles is a weighted average of the growth rate of nominal retail sales of non-food items (except fuel) and the growth rate of an index of motor vehicle sales based on new car registrations, adjusted by the relevant price index. The weighting is based on the relative shares of these items in private consumption.

The strengthening of consumer credit is broadly based across countries in the euro area, although the growth rates of consumer credit in individual countries show marked differences. Consumer credit has played a key role in supporting the recovery in total MFI loans to households in Spain and, to a lesser extent, in Italy, since mid-2015. In Spain, consumer credit is growing at double-digit rates (see Chart C). These robust dynamics should, however, be seen against the background of the strong and protracted decline in bank credit that took place during the euro area financial and sovereign debt crises. Consumer credit is the only private sector loan component to display a positive annual growth rate in Spain. In Italy, consumer credit accounts for half of the annual growth in total MFI loans to households. By contrast, the annual growth rates of consumer credit remain relatively moderate in Germany and France.

Chart C

Consumer credit in selected euro area countries

(annual percentage changes)



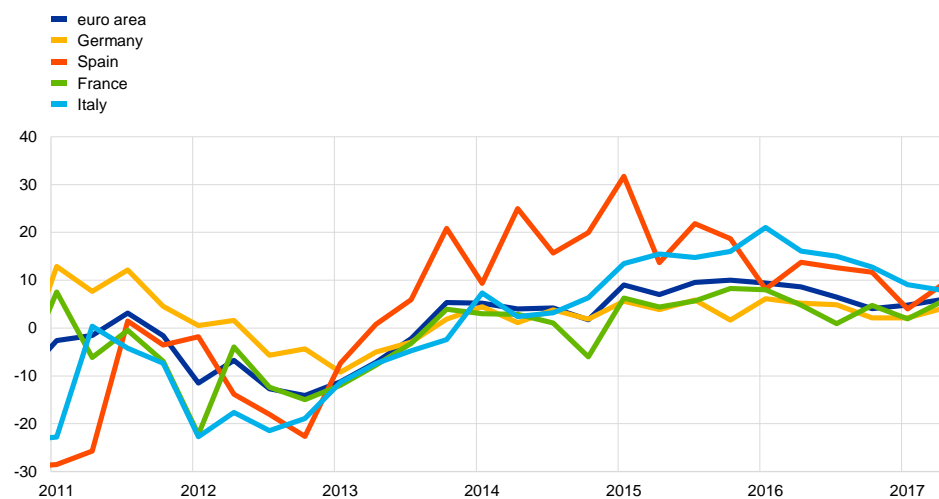
Source: ECB.

Notes: The latest observations are for the second quarter of 2017. The data before 2015 are unadjusted for loan sales and securitisation.

Chart D

New passenger car registrations in selected euro area countries

(annual percentage changes)



Sources: ECB and ECB calculations.

Note: The latest observations are for the second quarter of 2017.

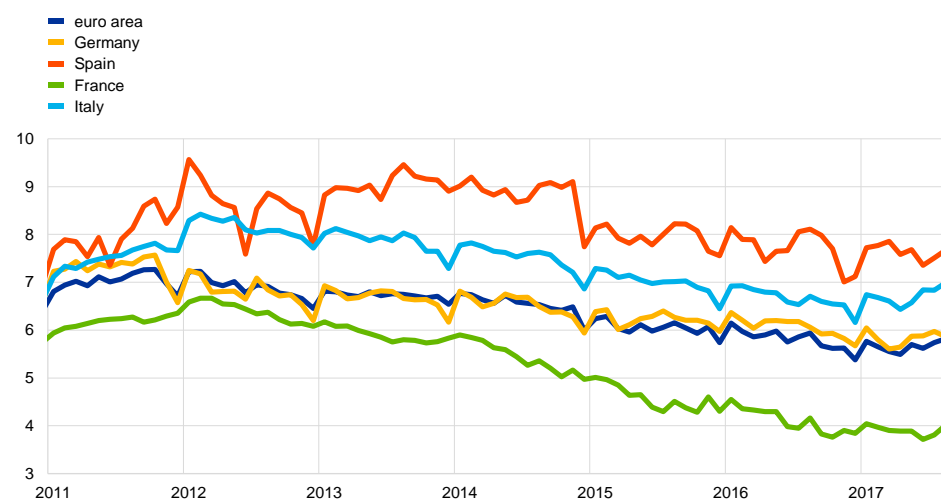
The discrepancies in consumer credit dynamics between countries are broadly consistent with recent developments in the purchases of new cars and changes in financing conditions. In Spain and Italy, new passenger car registrations have strengthened markedly in recent years (see Chart D), coinciding with growth in consumer credit turning positive in early 2015 and increasing strongly thereafter. Nominal bank lending rates on consumer credit loans have also decreased during the past three years, most significantly in France and Spain (see Chart E). Since mid-2015, credit standards applied to consumer credit loans have

been eased most in Spain and Italy (see Chart F), where they had been significantly tightened following the eruption of the financial crisis and the deterioration in the debt servicing capacity of households and in the balance sheets of banks.

Chart E

Nominal bank lending rates on consumer credit loans in selected euro area countries

(interest rate levels in percentages per annum)



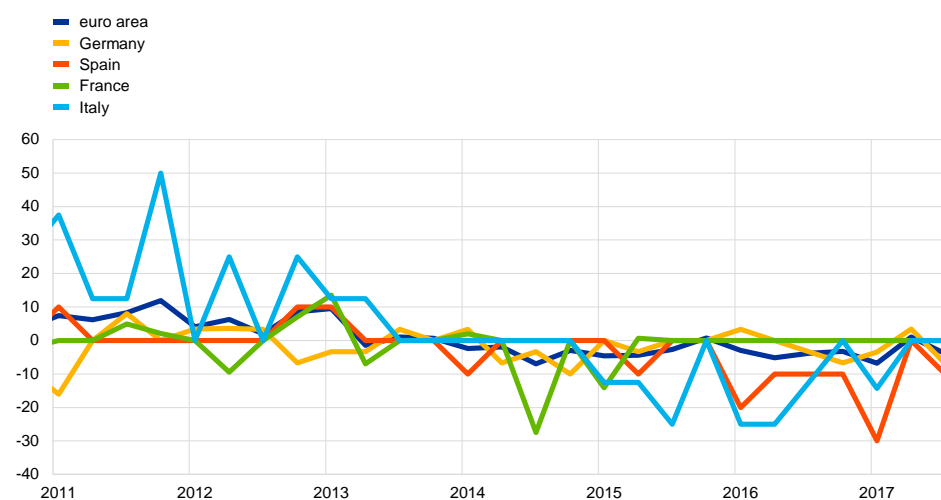
Source: ECB.

Note: The latest observations are for August 2017.

Chart F

Changes in credit standards applied to consumer credit loans in selected euro area countries

(net percentages of banks reporting tightening credit standards)



Source: ECB.

Note: The latest observations are for the third quarter of 2017 and are taken from the euro area bank lending survey (issued in October 2017).