Box 4

THE RECOVERY IN THE GROWTH OF SHORT-TERM MFI LOANS TO NON-FINANCIAL CORPORATIONS IN RECENT QUARTERS

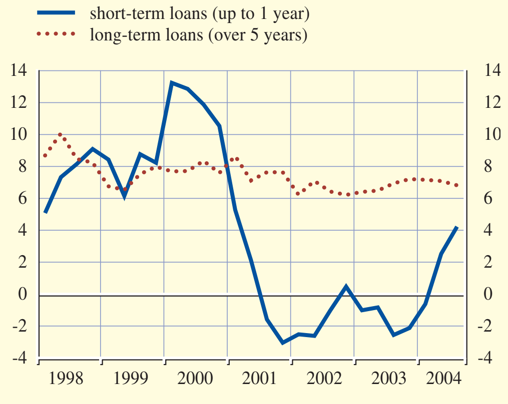
Monitoring of the different components of MFI loans to non-financial corporations according to their maturity structure could shed light on the purposes of the different financing demands of corporations. While loans with a longer maturity tend to be used to finance long-term real and financial investment plans, developments in short-term loans are usually more volatile, as they mostly serve to finance the working capital needs of corporations.

It has been argued that developments in short-term loans to non-financial corporations could offer useful insights into expected short-term economic developments and, more specifically, into detecting business cycle turning points. This argument is based on the conventional view that at the early stages of an economic pick-up corporate demand for short-term funding rises, as corporations want to increase their working capital to finance the purchase of goods. At the same time, it could also be argued that the increased demand for short-term funding could be used to finance "undesired" inventory accumulation.

In the period between 1999 and 2000 short-term credit growth was very strong in the euro area, buttressed by strong economic activity. In addition, loan demand was also supported by an increase in M&A activity, as short-term loans were used to bridge gaps in financing in periods of strong demand for funds. In the following period, however, loan growth became negative and largely declined until early 2004. Since then, there has been a marked positive turnaround in the annual growth rate of short-term loans to non-financial corporations (see Chart A). In this respect, the pick-up in short-term loans took place in a period of stronger industrial confidence and an increase in inventory changes in 2004 (see Section 4.1 of this Monthly Bulletin). More recently, however, industrial confidence has declined somewhat and inventory accumulation has decreased. The results of the April 2005 bank lending survey[1] show that two major factors behind the acceleration in short-term loans to non-financial corporations were the financing of M&A activities and the financing of inventories and working capital (see Chart B). It is, however, difficult to disentangle to what extent the recent increase in short-term loans is due to short-term financing needs related to an optimistic assessment of future demand rather than to treasury developments linked to an undesired build-up of inventories.

Chart A Short and long-term MFI loans to non-financial corporations

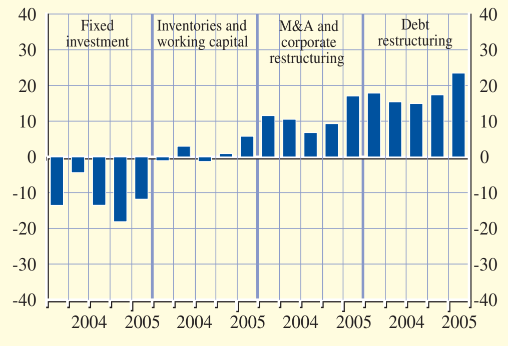
(annual growth rates)



Source: ECB.

Chart B Factors affecting demand for loans and credit lines to enterprises

(net percentages of banks reporting a positive (negative) contribution to demand)



Source: Eurosystem.

The latest European Commission survey on corporations' perceptions with regard to the level of stocks of finished goods for the manufacturing sector suggests that there has been a net increase in the perception of above normal inventory accumulation since the third quarter of 2004. In absolute terms, however, this survey finds that the level of stocks of finished goods has recently been above but close to its long-term average, tentatively suggesting that it is unlikely that excessive inventory accumulation alone has accounted for the increase in the growth of short-term loans to non-financial corporations in recent months.

1 A comprehensive assessment of the results of the April 2005 Bank Lending Survey for the euro area was released on 6 May 2005 and can be found on the ECB's website (www.ecb.int/stats/money/lend/html/index.en.html).