



Money and credit posted strong growth in 2018

In 2018, overnight deposits reached a record high in France, despite negative real interest rates (-1.7% on average in 2018 for non-financial corporations [NFCs], -1.2% for households). They concentrated 60% of all bank deposits. However, the share of broad money in households' financial wealth remained stable at around 10%.

Lending is the main source of money creation. In 2018, its growth rate in France exceeded that of the rest of the euro area (5.8% for household housing, 6.4% for NFCs, compared to 3.6% and 3.9% respectively in the euro area).

Since mid-2014, NFC and household lending and deposit rates have converged downward in France and the euro area.

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JEL codes
D14, D21,
E51

1,017 billion euros

amount of overnight deposits in France
at 31 December 2018

60%

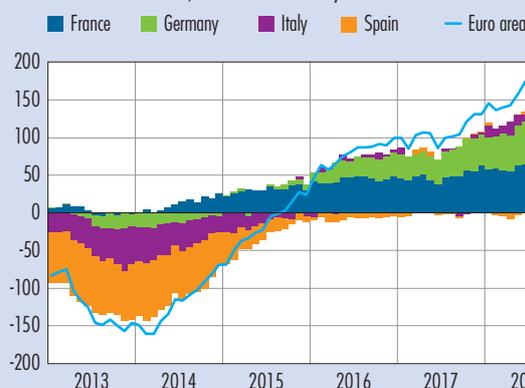
share of M3 growth driven by loans to euro area
non-financial corporations and households in 2018

40%

share of the rise in loans to euro area non-financial
corporations driven by French banks in 2018

Loans to euro area non-financial corporations

(non s.a. annual flows, in EUR billions)



Sources: Banque de France calculations and European Central Bank.



In 2018, the annual growth of money supply in the euro area (M3 aggregate: up 4.1%) was, once again, driven by the dynamism of overnight deposits (up 6.9%). This trend was even more pronounced in France, with an 8.5% growth rate in overnight deposits, slightly down on 2017.

1 Overnight deposits underpin money supply growth

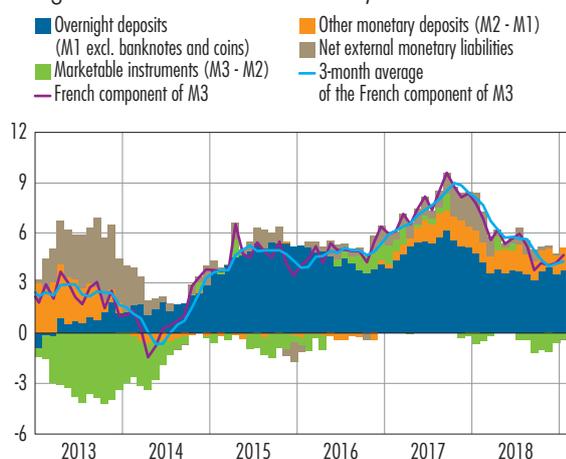
Overnight deposits reached a record high in France in December 2018

In France, outstanding overnight deposits amounted to EUR 1,017 billion at 31 December 2018 (about half of GDP in 2018). Growth in overnight deposits is the cause of the acceleration in the French component of the broad money aggregate observed since 2015 (see Chart 1). From 2015 (beginning of the European Central Bank's quantitative easing) to end-2018, the average contribution of overnight deposits to M3 growth amounted to 4.5%, almost three times the pace observed during the previous decade (1.6% on average between 2005 and 2014).

Since 2015, French non-financial corporations (NFCs) have accounted for 53% of overnight deposits, and households for 42% (see Chart 2).

C1 French component of M3 and contributions

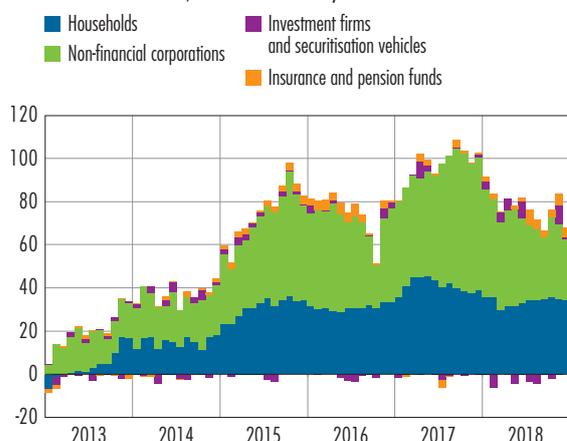
(annual growth rate and contributions in %)



Source: Banque de France.

C2 Overnight deposits in France (broken down by counterparts)

(non s.a. annual flows, in EUR billions)



Source: Banque de France.

In other euro area countries, money supply growth is also driven by overnight deposits

Since the start of 2012, euro area money supply growth has also been mainly driven by overnight deposits, included in M1. At 31 December 2018, overnight deposits amounted to EUR 7,115 billion and contributed 4.0% to M3 growth. Between 2005 and 2014, this pace averaged 2.5%.

Economic agents show a preference for the most liquid savings

The rise in the share of M1 in the M3 aggregate (see Chart 3¹) reflects economic agents' stronger preference for liquid savings.

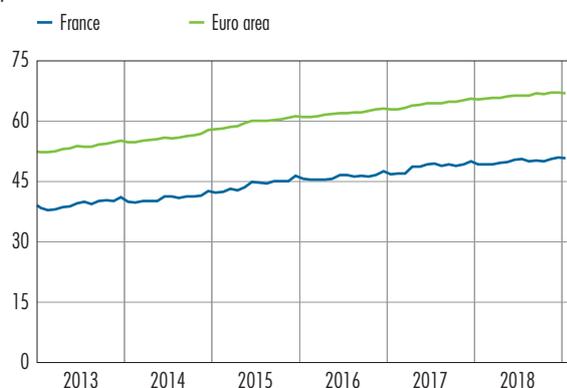
At the same time, the share of banknotes and coins in M1 decreased until 2017 and now stands at around 14% in the euro area and 17% in France (see Chart 4¹). This share reflects not only the rise in electronic payment technologies, in particular contactless payment for small purchases (introduced in France from 2014), but also the persistent use of banknotes and the high degree of user confidence in this payment instrument.

¹ In order to compare ratios for France and the euro area, the French M1 aggregate used in this chart includes the share of banknotes and coins in circulation assigned to France.



C3 Share of the M1 aggregate in M3

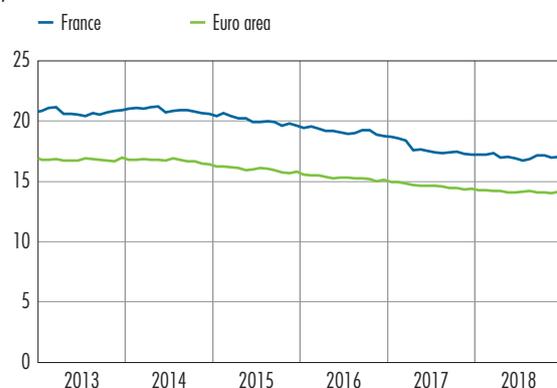
(%)



Sources: Banque de France and European Central Bank.

C4 Share of banknotes and coins in M1

(%)



Sources: Banque de France and European Central Bank.

BOX 1

Money supply and its counterparts

Money is made up of many instruments, either physical (banknotes and coins) or scriptural (i.e. in the form of entries in banks' books), such as overnight deposits and savings passbooks.

All these instruments can be traded at any time without loss of value, unlike equities and long-term bonds, for example. However, their liquidity varies because some instruments require notice before they can be used.

In the euro area, there are three interconnected monetary aggregates, M1, M2 and M3, the monitoring of which is part of the ECB's Governing Council monetary assessment.

M3 is the broadest aggregate; it is the benchmark used for monetary policy.

- Who issues money (issuing sector)?

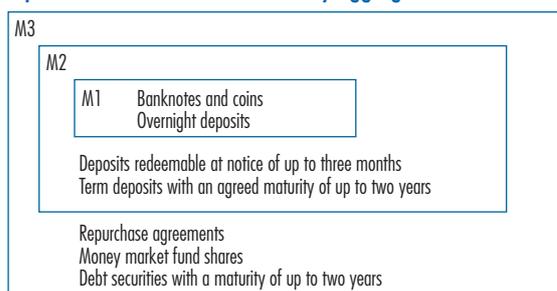
Monetary financial institutions (MFIs) resident in the euro area, i.e. the European Central Bank (ECB), national central banks, credit institutions, money market funds and a proportion of financing companies.

- Who holds money (holding sector)?

Economic agents resident in the euro area excluding MFIs and central government:¹ households, non-financial corporations, insurance companies and non-MFI financial intermediaries, for the most part.

¹ Central government includes the State and various state-controlled bodies competent at the national level.

Composition of the different monetary aggregates





The decline in other components of money partly offsets the growth in overnight deposits

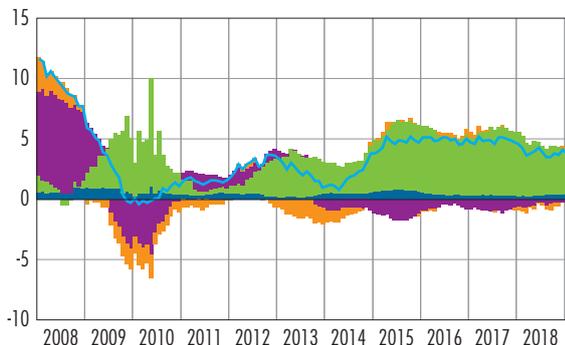
Money supply in the euro area rose on average by 4.1% in 2018, after having grown at a rate close to 5% since 2015 (see Chart 5). This rate remains below that prevailing before the 2008 financial crisis (around 7.2% between 1999 and 2007).

The dynamism of overnight deposits is partially offset by the decline in other components of money, in particular term deposits with an agreed maturity of up to two years (down 2.7%) and marketable instruments (down 3.4%).

C5 Euro area M3 aggregate and contributions

(annual growth rate and contributions in %)

■ Banknotes and coins ■ M3 - M1
■ M1 excl. banknotes and coins — M3
■ M2 - M1



Sources: Banque de France calculations and European Central Bank.

Since November 2016, the French component of M3 has grown faster than the euro area M3 aggregate

As of November 2016, the French contribution grew faster than the M3 aggregate. The latter posted a growth rate close to 5.0% until 2017, then oscillated around 4.0% in 2018, while the French component accelerated sharply and reached a high point in September 2017 (9, 6%). It then decelerated to reach the growth rate of the M3 aggregate at the end of 2018.

C6 Euro area M3 aggregate and its French component

(s.a. growth rate, in %)



Sources: Banque de France and European Central Bank.

The faster growth of M3 in France is explained by the dynamism of regulated savings and the relative resistance of term deposits

The M2 - M1 aggregate of the euro area continued to decline in 2018 (falling by 0.8%, after decreasing by 2.1% in 2017 and 2.5% in 2016), whereas it grew in France, climbing at an annual rate of over 3% since 2017 (see Table 1 in the appendix).

In 2018, term deposits with an agreed maturity of up to two years decreased by 6.0% in the euro area, while in France their decline was much less pronounced (see Chart 7 and Table 1 in the appendix). In addition, deposits redeemable at notice of up to three months (which include, for France, regulated passbooks, such as Livret A²) increased more strongly in France (up 4.2%) than in the euro area (up 2.0%).

Marketable instruments³ (M3 - M2) once again posted a rise in the euro area in 2018, increasing by 0.8%, while in France their decrease became more pronounced, dropping by 3.4%, after a 0.8% decline in 2017 (see Table 1 on page 5).

Overall, the growth in overnight deposits, the slower decline in term deposits and the more pronounced acceleration in deposits redeemable at notice of up to three months explain the faster growth in the French component of the M3 aggregate.

2 The outstanding amount of A passbooks rose from EUR 255.9 billion in 2015 to EUR 283.8 billion in 2018.

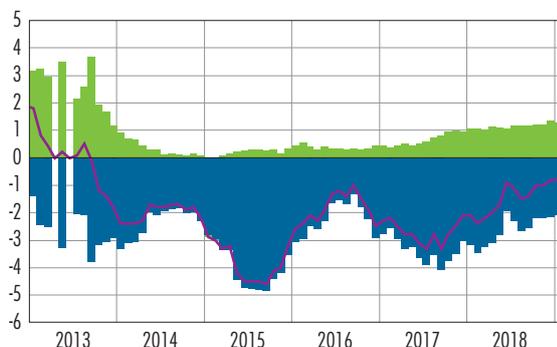


C7 M2 – M1 aggregate and contributions, in the euro area and in France

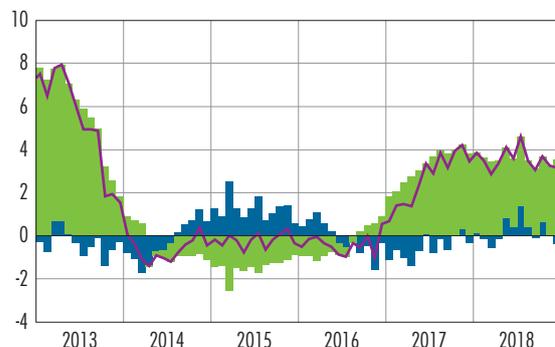
(annual growth rate and contributions in %)

■ Term deposits ≤ 2 years ■ Deposits redeemable at notice ≤ 3 months — Total deposits in M2 – M1

a) Euro area



b) France



Sources: European Central Bank and Banque de France.

T1 Monetary aggregates in the euro area and France in 2018

(outstandings in EUR billions, growth rates in %; s.a. data for monetary aggregates)

Monetary aggregates or main monetary assets ^{d)}	Euro area ^{a)}		France ^{c)}	
	Out- standing	Annual growth rate ^{b)}	Out- standing	Annual growth rate ^{b)}
Banknotes and coins in circulation	1,163	4.5		
+ Overnight deposits	7,115	6.9	1,017	8.5
= M1	8,277	6.6	1,017	8.5
+ other monetary deposits	3,426	-0.8	792	3.2
<i>Deposits redeemable at notice ≤ 3 months</i>	2,298	2.0	678	4.2
<i>Term deposits ≤ 2 years</i>	1,128	-6.0	114	-2.7
= M2	11,704	4.3	1,808	6.1
+ Marketable instruments	671	0.8	352	-3.4
<i>Money market fund shares</i>	523	2.2	266	-3.0
<i>Repurchase agreements</i>	75	-4.6	22	-19.2
<i>Debt securities ≤ 2 years</i>	73	-3.4	64	1.8
= M3	12,375	4.1	2,160	4.4
+ Gross monetary liabilities vis-à-vis the rest of the euro area			225	-2.6
- Gross monetary assets vis-à-vis the rest of the euro area			42	-15.6
= French component of the euro area M3 monetary aggregate^{d)}			2,342	4.2

a) Transactions of euro area monetary financial institutions (MFIs) with other euro area residents.

b) Changes adjusted for the impact of reclassifications and valuation effects.

c) Transactions of resident MFIs with other French residents.

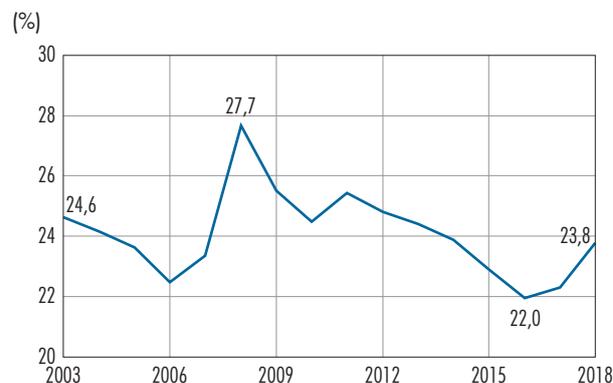
d) French resident MFI liabilities with a maturity of up to two years (excl. banknotes and coins in circulation) vis-à-vis the money-holding sector of the euro area (euro area residents excl. MFIs, central government and central counterparty clearing houses) and, by extension, this sector's deposits with central government.

Sources: European Central Bank and Banque de France.

The weight of money in the financial wealth of French households is relatively stable

Households' financial wealth is made up of their deposits, savings and financial investments. The share of this wealth held in the form of money (included in M3) is relatively stable over time (around 10 - 11% – see Chart 8), the few fluctuations observed being rather related to the growth of assets invested in securities, in particular through life insurance policies, and to changes in the value of shares.

C8 Weight of the monetary component (M3) in French households' financial wealth



Source: Banque de France.

3 In particular, money market fund shares and short-term debt securities with a maturity of up to two years.



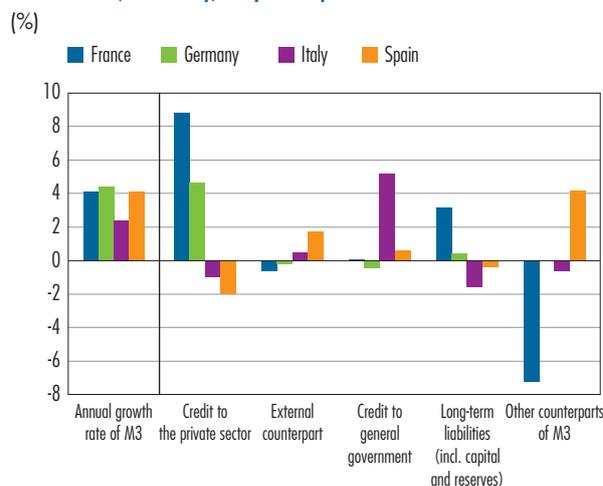
2 Bank loans to the private sector are the main source of money creation in France and Germany in 2018

In 2018, the growth of money in the euro area is underpinned by different factors across the major countries

The counterpart of money creation, reflected by the growth in monetary aggregates, is an increase in credit to the public and private sectors (see Chart 9). A comparison of the four major economies in the euro area shows that money growth is driven by credit to the private sector in France and Germany, while it is driven by credit to the public sector in Italy (see Chart 10). The external counterpart – resulting in capital inflows – plays a significant role in Spain.

The growth of credit to the public sector from 2015 largely results from the implementation of the Asset Purchase Programme (APP) announced by the ECB on 22 January 2015.⁴

C10 Contributions of the counterparts of M3 to monetary growth in France, Germany, Italy and Spain

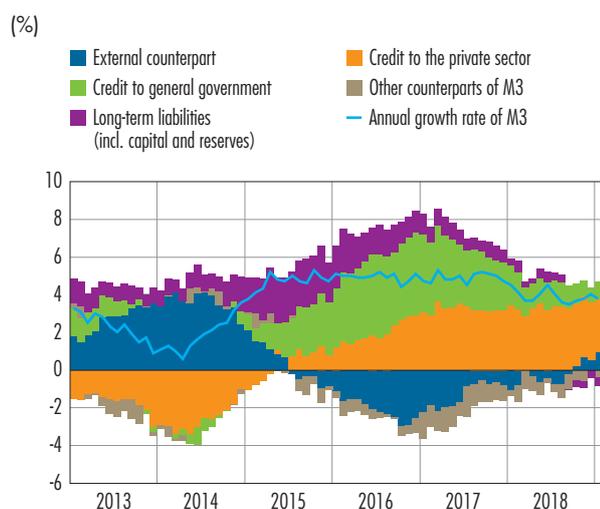


Sources: Banque de France calculations and European Central Bank.

The acceleration of lending to NFCs and households in the euro area is driven by France and Germany

In order to finance companies, banks can extend their loans or purchase the debt securities they issue. Credit (loans and securities) to the private sector of the euro area granted by monetary financial institutions (MFIs) picked up in 2015 and has since then steadily increased (see Chart 11).

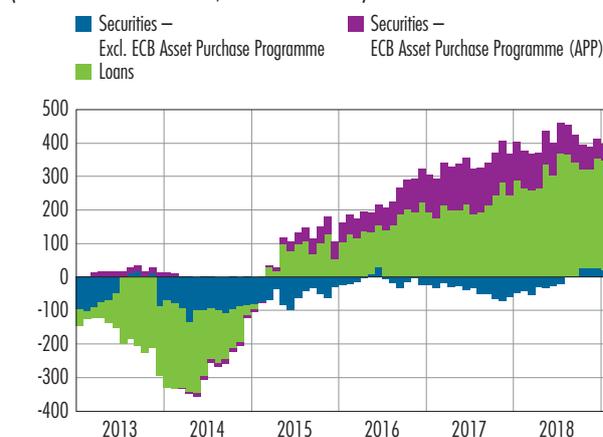
C9 Contributions of the counterparts of M3 to monetary growth in the euro area



Sources: Banque de France calculations and European Central Bank.

C11 Credit to the private sector of the euro area (broken down by type of instrument)

(non s.a. annual flows, in EUR billions)



Sources: Banque de France calculations and European Central Bank.

⁴ See the ECB press release available at https://www.ecb.europa.eu/press/pr/date/2015/html/pr150122_1.en.html.



BOX 2

Consolidated balance sheet of MFIs

For monetary financial institutions (MFIs), the components of money supply represent a liability and are therefore recorded under liabilities on the balance sheet. Conversely, for those who hold money, they are an asset. Money is created when the quantity of monetary instruments held by euro area residents, which are neither MFIs nor central government, increases.¹

The presentation of the consolidated balance sheet of MFIs, also known as the monetary balance sheet, makes it possible to identify the sources of money creation, the counterparts of M3. There are six:

- Long-term liabilities (incl. capital and reserves),
- Deposits of central government,
- Credit² to the private sector,
- Credit to general government,
- External counterpart,
- Other counterparts of M3.

Consolidated balance sheet of MFIs

Assets	Liabilities
+ Credit to general government	M3
+ Credit to the private sector	Banknotes and coins
	Overnight deposits
	M2 – M1
	M3 – M2
+ Net external counterpart	Deposits of central government with MFIs
	–
+ Other counterparts	Long-term liabilities (excl. capital)
	–
	Capital
	–
↑ Counterparts of M3	

This presentation in the form of a consolidated balance sheet of MFIs, or monetary balance sheet, shows the counterparts of money supply at the level of a country or a monetary area.

The counterpart of an increase in M3 is either a rise in the items on the assets side of the MFI balance sheet, and thus the financing of the economy, or a decrease in non-monetary liabilities on the liabilities side of the balance sheet.

¹ See in particular the Banque de France Note d'information entitled "Qui crée la monnaie?" (in French only), and available at <https://abc-economie.banque-france.fr/liste-rubrique/notes-dinformation>.

² Credit includes the loans extended by MFIs and the debt securities they hold.

While bank lending was the main component of bank credit to the private sector in the euro area, the share of securities increased between 2015 and 2017, in particular with the implementation of the Corporate Sector Purchase Programme (CSPP) in June 2016. Thus, by end-2017, the securities purchased by the European System of Central Banks (ESCB) accounted for 40% of total annual flows (net of repayments) of bank credit to

the private sector (EUR 122.9 billion, out of a total of EUR 312.7 billion). In 2018, this share decreased and represented less than 15% of total annual flows (EUR 61.1 billion, out of a total of EUR 415 billion).

From mid-2015, growth of loans to NFCs picked up and subsequently strengthened. In 2018, the annual flow of loans to euro area NFCs was driven by France



(43%) and Germany (41%), these two countries accounting for 48% of outstanding loans to NFCs at end-2018. In Spain, however, flows of loans to NFCs remained negative (see Chart 12a).

With an annual growth rate of 3.2% for the euro area in 2018, loans to households also contributed to the dynamism of credit to the private sector. In terms of annual flows, they were mainly driven by France (40%) and Germany (34%), where their growth was particularly dynamic, at 5.6% and 3.9% respectively. In Spain, growth of loans to households turned slightly positive, at 0.4%, while in Italy it was slightly below average at 2.6% (see Chart 12b).

3 Lending and deposit rates of NFCs and households in the major economies of the euro area have converged since mid-2014

The fall in real interest rates⁵ fuels the robust growth of credit to NFCs and households in the euro area, and in particular in France and Germany.

Real interest rates converge downwards in the euro area

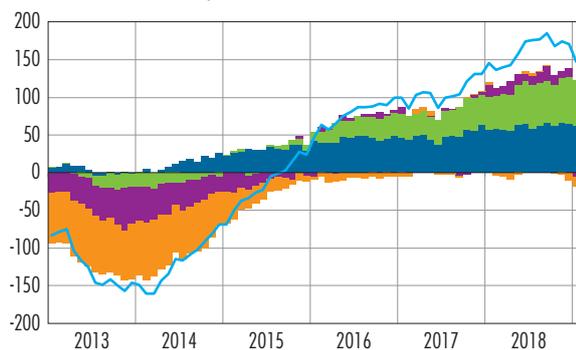
The dispersion of interest rates across euro area countries, which appeared following the sovereign debt crisis, has narrowed significantly since 2015 (see Chart 13). The ECB's monetary policy decisions contributed to this

C12 Loans to the private sector of the euro area

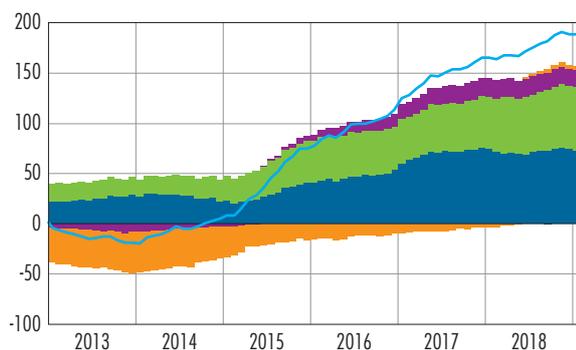
(non s.a. annual flows, in EUR billions)

■ France ■ Germany ■ Italy ■ Spain — Euro area

a) Loans to non-financial corporations



b) Loans to households

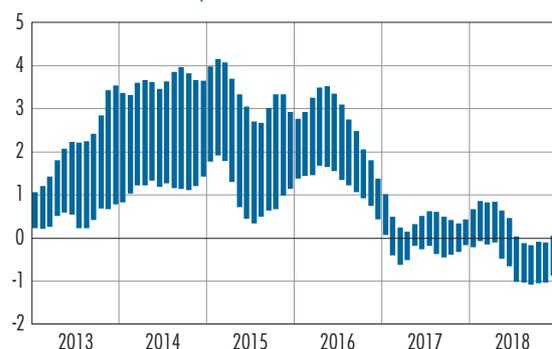


Sources: Banque de France calculations and European Central Bank.

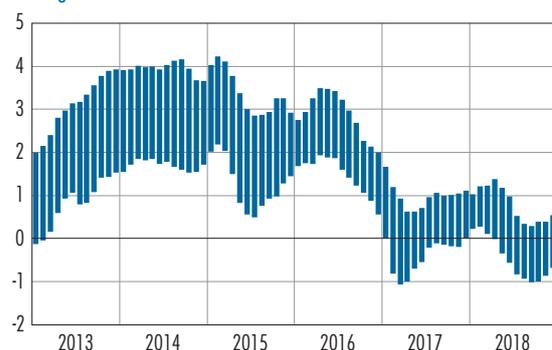
C13 Real interest rate spread between France, Germany, Spain and Italy

(in %; 3-month moving average)

a) Loans to non-financial corporations



b) Housing loans to households



Note: Representation of the minimum and maximum levels observed, and the corresponding interval.
Sources: Banque de France, European Central Bank and Eurostat.

⁵ The real interest rate is calculated from the nominal interest rate and the rate of inflation, as follows:

$$\text{Real interest rate} = \left(\frac{(1 + \text{nominal interest rate}) / 100}{(1 + \text{HICP rate}) / 100} - 1 \right) \times 100$$

Nominal interest rate: average weighted interest rate on flows of new loans observed over the month.

HICP rate: growth rate of the overall index of harmonised consumer prices compared to the same month of the previous year.



convergence towards an all-time low. These developments make it possible to reduce the proposed interest rate spread between France, Germany, Italy and Spain with an even greater effect for NFCs.

Real interest rates picked up slightly in 2018

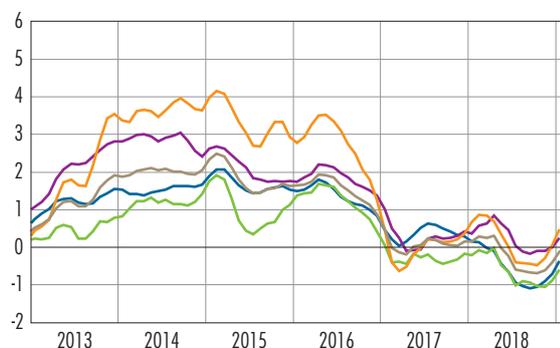
After declining in 2016 and early 2017, real interest rates on loans to NFCs in the euro area stabilised. In early 2018, as a result of a further decrease in nominal rates, real interest rates turned negative in the four major economies of the euro area (see Chart 14a). However, from October 2018, inflation slowed while nominal rates remained stable, leading to an upward movement in real interest rates.

C14 Real interest rates on loans to non-financial corporations and housing loans to households

(in %; 3-month moving average)

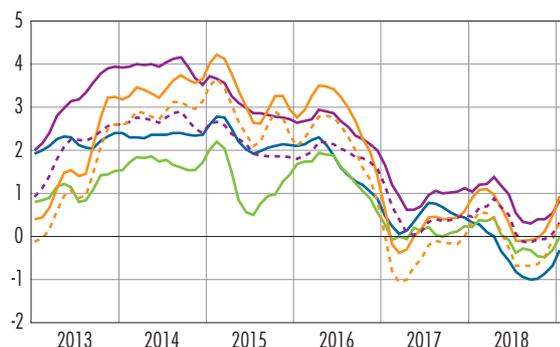
a) Loans to non-financial corporations (excl. revolving loans and credit lines)

— France — Germany — Italy — Spain — Euro area



b) Housing loans to households

— France – Fixed rate — Spain – Fixed rate
— Germany – Fixed rate — Italy – Floating rate
— Italy – Fixed rate — Spain – Floating rate



Sources: Banque de France and European Central Bank.

Real interest rates on housing loans evolved in the same way as those on loans to NFCs, albeit with a less marked convergence, but a similarly significant decrease in 2016 and the first quarter of 2017 (see Chart 14b).

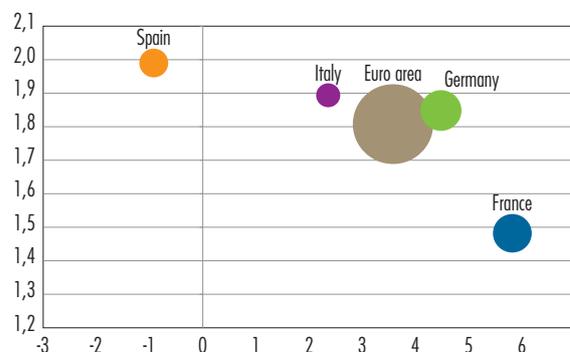
Low rates on housing loans and their dynamism mark out France

The business of housing loans to households proved particularly buoyant in France at end-2018, with an annual growth rate of 5.8%, while France accounted for almost a quarter of households' total outstanding loans in the euro area (see Chart 15a).

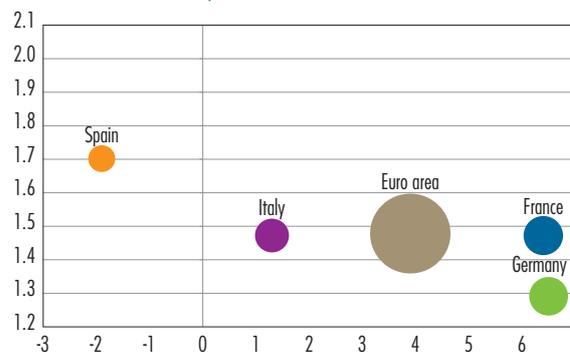
C15 Outstanding amount, interest rate and growth rate of loans to non-financial corporations and housing loans to households in December 2018

(x-axis: annual growth rate of credit, in %; y-axis: average interest rate on new loans, in %)

a) Housing loans to households



b) Loans to non-financial corporations



Note: The size of the circle is proportional to loan outstandings. Sources: Banque de France and European Central Bank.



The growth rate of loans to NFCs is also strong, above 6% in France, with Germany in a similar situation (see Chart 15b, above).

Real interest rates on overnight deposits have been negative since 2017

Average real interest rates on households' deposits with banks were relatively stable between 2015 and the first half of 2016, and then decreased significantly as a result of the pick up in inflation. The second half of 2018 was marked by a rise in interest rates (see Chart 16a).

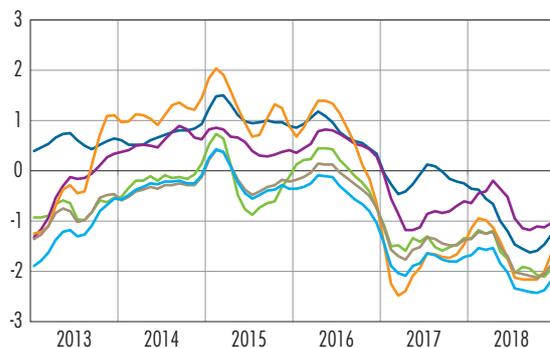
The findings are similar for NFCs. Deposit rates declined, and this movement was accompanied by convergence between European countries. In 2018, deposit rates fell below those prevailing at the beginning of 2013, even though the trend towards the end of the year was upward (see Chart 16b).

C16 Real average weighted deposit rate for households and non-financial corporations

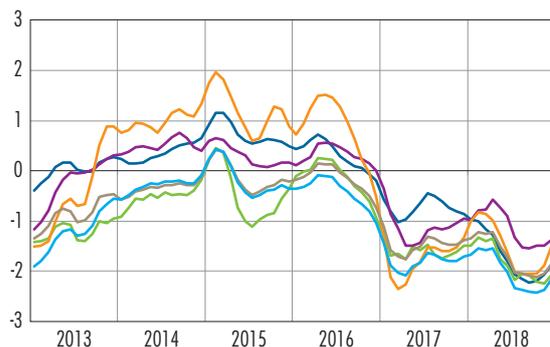
(in %; 3-month moving average)

- France
- Spain
- Germany
- Italy
- Interest rate on main refinancing operations
- 3-month Euribor

a) Household deposits



b) Deposits of non-financial corporations



Sources: Banque de France and European Central Bank.



BOX 3

Recent trends in money and credit (1st quarter 2019)

1) In 2019 the dynamism of overnight deposits continues to drive money supply growth

At the start of 2019, growth in the M3 monetary aggregate picked up in the euro area, reaching 4.6% in March. This increase is the result of the observed rebound in the growth of overnight deposits since January 2019, following a slight slowdown in the second half of 2018. In France, overnight deposits posted a similar trend.

2) The rise in loans to non-financial corporations (NFCs) is confirmed in France

The main counterpart of the acceleration of M3 growth is still credit to the private sector. In 2019, the flow of credit extended to NFCs by monetary financial institutions (MFIs) continues to grow in France, while that in the euro zone is on a downward trend that began in September 2018. In March 2019, France accounted for 44% of loans to euro area NFCs (in annual flows). Italian and Spanish MFIs cut back the amount of loans granted.

3) Real interest rates are up

In the last quarter of 2018, real interest rates on loans to NFCs increased due to lower inflation, and continued to rise slightly in 2019. In March 2019, the average real interest rate on loans to NFCs was again positive in France and the euro area.

The trajectory of interest rates on housing loans to households is similar, and the recovery that began in September 2018 was confirmed in the first quarter of 2019. French real interest rates were again positive after being negative for one year.



Appendix

Monetary aggregates and counterparts

TA.1 Monetary aggregates in the euro area and in France between 2016 and 2018

(outstandings in EUR billions, growth rates in %; s.a. data)

Monetary aggregates or main monetary assets ^{d)}	Euro area ^{a)}				France ^{c)}			
	Out- standing	Annual growth rate ^{b)}			Out- standing	Annual growth rate ^{b)}		
		2018	2016	2017		2018	2016	2017
Banknotes and coins in circulation	1,163	3.7	3.4	4.5				
+ Overnight deposits	7,115	9.7	9.8	6.9	1,017	10.7	12.8	8.5
= M1	8,277	8.8	8.8	6.6	1,017	10.7	12.8	8.5
+ Other monetary deposits	3,426	-2.5	-2.1	-0.8	792	0.6	3.5	3.2
<i>Deposits redeemable at notice ≤ 3 months</i>	2,298	0.7	1.5	2.0	678	1.1	4.5	4.2
<i>Term deposits ≤ 2 years</i>	1,128	-7.4	-8.4	-6.0	114	-2.1	-1.9	-2.7
= M2	11,704	4.8	5.2	4.3	1,808	5.7	8.4	6.1
+ Marketable instruments	671	7.6	-3.3	0.8	352	5.6	-0.8	-3.4
<i>Money market fund shares</i>	523	7.0	-2.1	2.2	266	3.6	-0.3	-3.0
<i>Repurchase agreements</i>	75	-5.8	9.5	-4.6	22	-5.0	38.0	-19.2
<i>Debt securities ≤ 2 years</i>	73	26.1	-21.4	-3.4	64	17.7	-13.7	1.8
= M3	12,375	5.0	4.7	4.1	2,160	5.7	6.6	4.4
+ Gross monetary liabilities vis-à-vis the rest of the euro area					225	11.7	26.0	-2.6
- Gross monetary assets vis-à-vis the rest of the euro area					42	-1.9	8.5	-15.6
= French component of the euro area M3 monetary aggregate ^{d)}					2,342	6.3	8.3	4.2

a) Transactions of euro area monetary financial institutions (MFIs) with other euro area residents.

b) Changes adjusted for the impact of reclassifications and valuation effects.

c) Transactions of resident MFIs with other French residents.

d) French resident MFI liabilities with a maturity of up to two years (excl. banknotes and coins in circulation) vis-à-vis the money-holding sector of the euro area (euro area residents excl. MFIs, central government and central counterparty clearing houses) and, by extension, this sector's deposits with central government.

Sources: European Central Bank and Banque de France.

TA.2 Monetary balance of the euro area at end-December 2018: money supply and its counterparts

(outstandings in EUR billions; s.a. data)

Assets		Liabilities	
Credit to general government	4,687	M3	12,375
Loans	1,010	Banknotes and coins	1,163
Securities	3,677	Overnight deposits	7,115
Credit to the private sector	13,418	M2 – M1	3,426
Loans (after reintegration of sales and securitisations)	11,485	M3 – M2	671
Effect of sales and securitisations	-358	Deposits of central government with MFIs	379
Equities	771	Long-term liabilities (excl. capital)	4,088
Net external counterpart	1,029	Capital	2,720
Other counterparts	428		
Total	19,562	Total	19,562

Note: MFIs, monetary financial institutions.

Source: European Central Bank.



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