



## French banks were behind almost half of the increase in lending to euro area non-financial corporations and households in 2017

After accelerating sharply in 2014, growth in the euro area's money supply (M3) has been stable since 2015 (4.6% in 2017), fuelled mainly by an increase in overnight deposits. Since end-2016, the French component has been growing faster than the euro area M3 aggregate. Its growth reached 8.3% in January 2018, outstripping the M3 aggregate by three points.

Sustained by low interest rates and the programme of government securities purchases by the Eurosystem, credit to the private sector and credit to general government were the main sources of money creation in both France and the euro area. In the private sector, almost half of annual credit flows to non-financial corporations (NFCs) and households were provided by French monetary financial institutions (MFIs; in 2017, this amounted to EUR 139.4 billion out of a total of EUR 297.2 billion in the euro area).

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JEL codes  
D14,  
D21, E51

**4.6%**

M3 monetary aggregate annual growth rate in the euro area in December 2017

**8.3%**

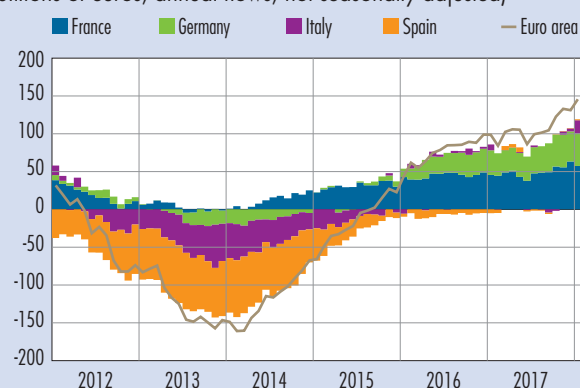
French component of M3 annual growth rate in December 2017

**48%**

Portion of the increase in lending to NFCs in the euro area attributable to French banks in 2017

### Credit to non-financial corporations in the euro area

(billions of euros; annual flows, not seasonally adjusted)



Source: European Central Bank.

Note: For example, in France, this comprises loans supplied by monetary financial institutions resident in France.



### 1 Since the beginning of 2015, money supply in the euro area and France has grown steadily, sustained by the increase in overnight deposits

Money supply in the euro area has risen on average by 5% per year since 2015

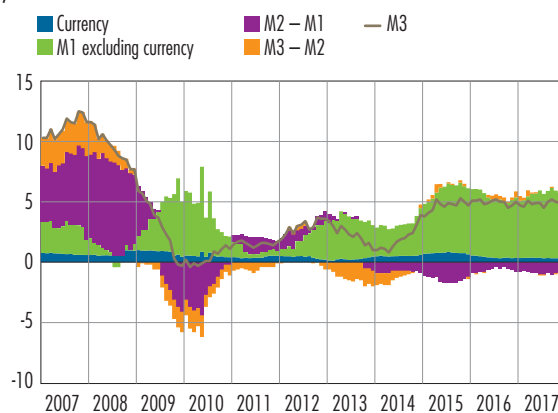
Growth in the euro area's money supply (see box) has not returned to the level recorded prior to the 2008 financial crisis. It started to pick up in 2010 and hovered around 1.7% in 2011 (see Chart 1). After a brief acceleration in 2012, money supply growth slowed again until April 2014. Then, between May 2014 and April 2015, it accelerated sharply, reaching 5.2% (see Chart 1). Since then, growth has been stable at around 5.0% (see table below).

Since the start of 2012, money supply growth has been sustained mainly by a rise in overnight deposits. The contribution of the M1 "currency" component remains stable and the other money supply components have decreased overall over the last six years. This has resulted in greater liquidity for the component's instruments. The M1 component's weight in the M3 aggregate rose from 51% in January 2012 to 65% in December 2017 (see Chart 2).

### Since November 2016, the French component has been growing faster than the euro area M3 aggregate

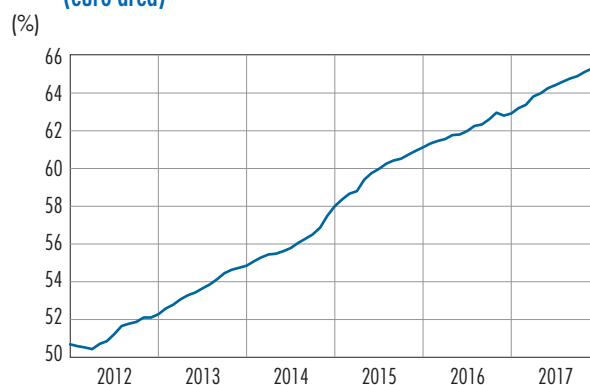
The euro area M3 aggregate and its French component followed similar trends from January 2012 to October 2016 (see Chart 3). Between February and October 2014, their trends diverged, with the French component decreasing in April and May 2014, then growing more slowly than the M3 aggregate from June to September 2014. Thereafter, the M3 aggregate and its French component converged again until October 2016. At that time, their growth rates were comparable (4.2% for the French component of M3 and 4.5% for the euro area monetary aggregate).

### C1 Contribution to growth in the M3 monetary aggregate (euro area) (%)



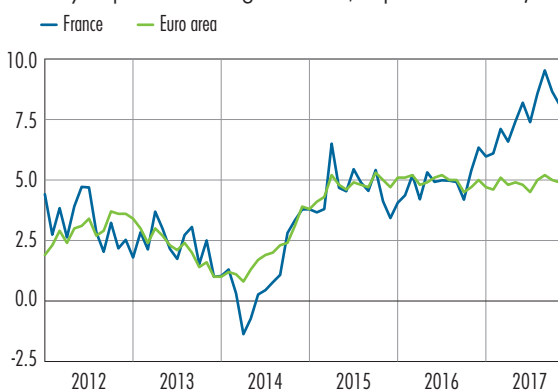
Source: European Central Bank.

### C2 Weight of the M1 component in the M3 monetary aggregate (euro area) (%)



Source: European Central Bank.

### C3 Euro area M3 aggregate and its French component (seasonally adjusted annual growth rate, expressed as a %)



Sources: Banque de France and European Central Bank.



### BOX

#### Money supply and its counterparts

- Which financial instruments make up the money supply?

Monetary instruments differ in terms of their degree of liquidity. Three intertwined monetary aggregates have been defined, known as M1, M2 and M3 (see Figure inset).

M3 is the broadest monetary aggregate, used by the ECB to define its monetary policy objective.

- Who issues money (money-issuing sector)?

Resident monetary financial institutions (MFIs), mainly made up of the European Central Bank (ECB), national central banks, credit institutions, money market undertakings for collective investment (UCI) and certain finance companies.

- Who holds money (money-holding sector)?

Non-MFIs resident in the euro area excluding central government agencies.<sup>1</sup>

Money is included in the assets of the money-holding sector and the liabilities of the money-issuing sector. There is said to be money creation when the quantity of monetary instruments held by euro area residents, excluding MFIs and central government agencies, increases.<sup>2</sup>

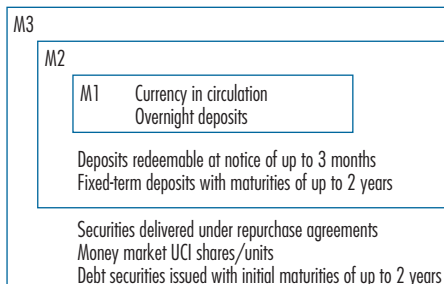
The consolidated balance sheet of the MFI sector, also known as the monetary balance sheet, provides the basis for identifying sources of money creation, or M3 counterparts, defined as:

- long-term financial liabilities (including capital and reserves);
- deposits placed by central government agencies;
- credit to the private sector;
- credit to general government;
- net external assets;
- other M3 counterparts.

<sup>1</sup> Central government agencies include the government and government-controlled bodies having jurisdiction at the national level.

<sup>2</sup> See in particular the Banque de France Information Note, "Qui crée la monnaie?" (who creates money): [https://publications.banque-france.fr/sites/default/files/medias/documents/note-information\\_201509\\_monnaie.pdf](https://publications.banque-france.fr/sites/default/files/medias/documents/note-information_201509_monnaie.pdf)

#### Composition of the three monetary aggregates



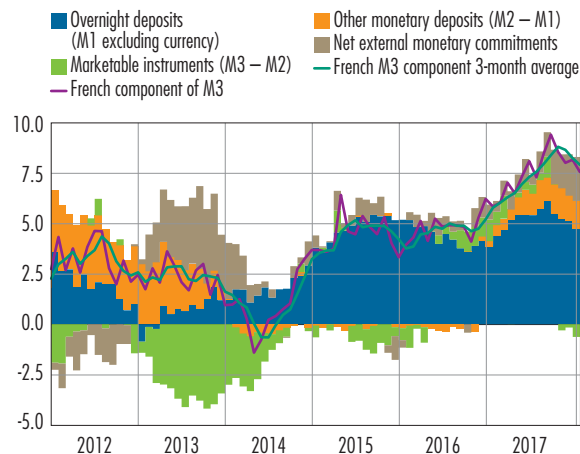


Since November 2016, the French component has grown faster than the M3 aggregate, which saw growth of around 5.0% to January 2018, while the French component surged to a high point in September 2017 (9.5%), before slowing to 7.7% in January 2018.

### Overnight deposits are fuelling growth in the euro area money supply and its French component

As in the euro area, overnight deposits have also fuelled the acceleration in the French component since July 2014 (see Chart 4). At end-2014, the respective growth rates were 8.4% for the euro area and 9.0% for France. Since then, their growth has remained consistently high, close to 10% since end-2015 (see table).

### C4 Contributions to growth in the French component of M3 (%)



Source: Banque de France.

### Change in monetary aggregates in the euro area and France, 2015-2016-2017

(outstanding amounts in billions of euros, % growth rate, seasonally adjusted data)

	Euro area <sup>a)</sup>				France <sup>c)</sup>			
	Outstanding amounts	Annual growth rate <sup>b)</sup>			Outstanding amounts	Annual growth rate <sup>b)</sup>		
	2017	2015	2016	2017	2017	2015	2016	2017
Monetary aggregates (seasonally adjusted data) or principal monetary assets <sup>d)</sup>								
+ Currency in circulation	1,112	6.8	3.6	3.4				
+ Overnight deposits	6,636	11.3	9.7	9.7	933	15.0	10.8	12.8
<b>= M1</b>	<b>7,749</b>	<b>10.6</b>	<b>8.8</b>	<b>8.7</b>	<b>933</b>	<b>15.0</b>	<b>10.8</b>	<b>12.8</b>
+ Other short-term deposits	3,454	-3.3	-2.5	-2.1	769	-0.3	0.5	3.5
<i>of which: Deposits redeemable at notice ≤ 3 months</i>	2,261	0.6	0.7	1.6	647	-1.2	1.1	4.5
<i>of which: Deposits with agreed maturity ≤ 2 years</i>	1,193	-8.5	-7.4	-8.5	123	3.8	-2.0	-1.6
<b>= M2</b>	<b>11,203</b>	<b>5.3</b>	<b>4.8</b>	<b>5.1</b>	<b>1,702</b>	<b>6.8</b>	<b>5.7</b>	<b>8.4</b>
+ Marketable instruments	661	-3.8	7.8	-4.3	355	-2.4	5.5	-0.9
<i>of which: money market UCI units/share</i>	509	11.4	7.8	-2.6	268	4.0	3.5	-0.4
<i>of which: repurchase agreements</i>	76	-38.9	-5.7	9.8	26	-30.2	-5.9	40.0
<i>of which: debt securities ≤ 2 years</i>	76	-25.4	21	-24	61	-14.0	18.0	-13.6
<b>= M3</b>	<b>11,864</b>	<b>4.7</b>	<b>5.0</b>	<b>4.6</b>	<b>2,057</b>	<b>4.9</b>	<b>5.6</b>	<b>6.7</b>
+ Gross short-term liabilities to the rest of the euro area					226	-13.8	11.9	26.2
- Gross short-term assets vis-à-vis the rest of the euro area					46	-8.1	-2.8	10.2
<b>= French component of the euro area monetary aggregate M3<sup>d)</sup></b>					<b>2,237</b>	<b>3.4</b>	<b>6.3</b>	<b>8.3</b>

Sources: Banque de France and European Central Bank.

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

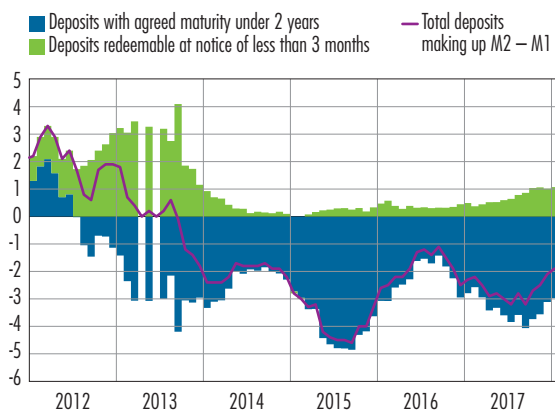
b) Data adjusted for reclassification and valuation effects.

c) Transactions of resident MFIs with other French residents.

d) Liabilities under two years of MFIs resident in France, excluding currency in circulation, vis-à-vis the euro area money-holding sector (euro area residents, excluding MFIs, central government agencies and CCP), and, by extension, this sector's deposits with central government agencies.



### C5 Contributions to growth in the M2 – M1 aggregate (euro area) (%)

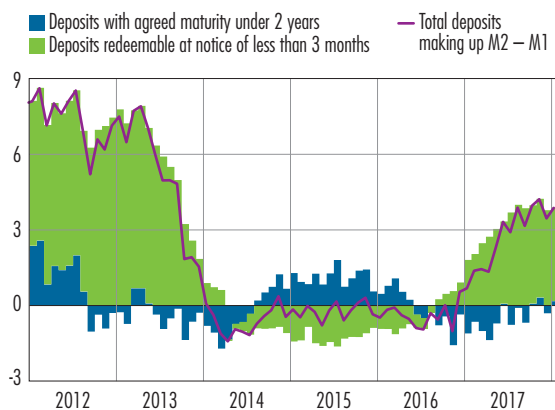


Source: European Central Bank.

Deposits with agreed maturity of under two years (M2 – M1) have decreased since 2014 (see table above) in the euro area. In France, however, they have declined to a much lesser extent and only since 2016 (see Chart 5 and table above). Moreover, deposits redeemable at notice of less than three months (which in France include regulated savings accounts such as the *livret A*)<sup>1</sup> have accelerated only slightly in the euro area and much more steeply in France.

Marketable instruments<sup>2</sup> (M3 – M2) decreased in 2017, both in the euro area and in France, after having increased in 2016 (see table above).

### C6 Contributions to growth of the M2 – M1 aggregate (France) (%)



Source: Banque de France.

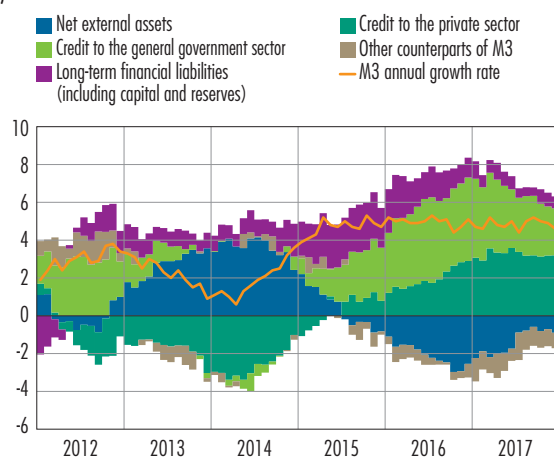
Overall, growth in overnight deposits, coupled with the gentler fall-off in fixed-term deposits and stronger acceleration in deposits redeemable at notice of less than three months, explain the higher growth in the French component of the M3 aggregate. The gross short-term liabilities of French monetary financial institutions (MFIs) to the rest of the euro area have also increased significantly over the last two years (see Chart 4 above), due, in particular, to the sharp rise in deposits placed by non-residents.

## 2 French MFIs supplied a large share of credit flows extended to euro area NFCs

### The two main sources of money creation in the euro area in 2016 and 2017 were credit to the private sector and credit to general government

Considering the counterparts of M3 in the monetary balance sheet, the monetary aggregate's strong momentum since 2015 is mainly attributable to credit to the private sector and credit to general government (see Chart 7).

### C7 Contributions of the counterparts of M3 to monetary growth in the euro area (%)



Source: European Central Bank.

<sup>1</sup> Outstanding amounts in *livret A* accounts rose from EUR 262.9 billion in December 2014 to EUR 270.5 billion in December 2017.

<sup>2</sup> In particular, units/shares in money market UCIs and debt securities with maturities of less than two years.



The rest of this article deals with lending to the private sector, with a particular focus on trends in credit supplied to non-financial corporations (NFCs) and households. Growth in credit to general government has largely been driven by the implementation of the expanded asset purchase programme announced by the ECB on 22 January 2015.<sup>3</sup>

### Acceleration in lending to NFCs and households in the euro area in 2017

Credit supplied (in the form of loans and securities) by monetary financial institutions to the private sector in the euro area has picked up since April 2014 (see Chart 8).

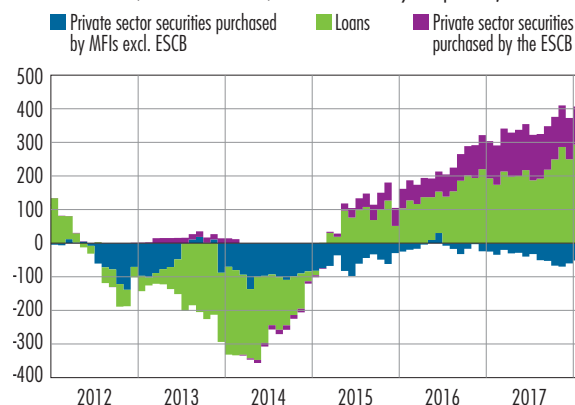
Although bank loans represent the bulk of credit to the private sector in the euro area, the weight of securities-based financing has been increasing consistently since 2015, fuelled in particular by the implementation of the CSPP (Corporate Sector Purchase Programme) in June 2016. Thus, in December 2017, securities purchased from banks by the European System of Central Banks represented 40% of total annual flows, net of repayments, of credit to the private sector (EUR 122.9 billion out of a total of EUR 312.7 billion).

In the private sector, NFCs (37% of loans to the private sector in the euro area as of 31 December 2017) and households (44%) have benefited from the surge in bank financing.<sup>4</sup> This can be seen at the levels of the euro area as a whole and each of its four main countries, although Italy is lagging behind.

The upturn in lending to NFCs began in August 2015 and steepened significantly in 2016 (2.3%) and 2017 (3.1%). Growth in loans supplied to euro area NFCs reached 3.4% in January 2018, driven by robust lending in France (6.0%) and Germany (4.5%). In Spain, lending to NFCs, which followed a downward trend since July 2009, stabilised

### C8 Credit supplied to the private sector in the euro area (broken down by type)

(billions of euros; annual flows, not seasonally adjusted)



Source: European Central Bank.

Note: ESCB stands for European System of Central Banks, which comprises the European Central Bank and the national central banks of the European Union.

from the beginning of 2017 and picked up again at the start of 2018 (0.2%). In Italy, loans to NFCs, which had remained virtually stable since January 2016, have increased since the end of 2017.

Loans to households (2.9% for the euro area as of 31 December 2017) also contributed to the robust credit to the private sector, sustained mainly by France (6.0% in 2017) and Germany (3.2% in 2017). In Spain, the trend remained negative in 2017 (-0.5%). However, the decline in loans to Spanish households has eased since the start of 2014 (-0.5% in 2017, after -1.2% in 2016 and -3.9% in 2014).

### In 2017, French MFIs supplied almost half of credit flows extended to NFCs and households in the euro area

Since May 2015, lending by French MFIs to the private sector in the euro area has accelerated sharply. The annual flow of this type of lending totalled EUR 184 billion in December 2017,

<sup>3</sup> See ECB press release: [https://www.ecb.europa.eu/press/pr/date/2015/html/pr150122\\_1.fr.html](https://www.ecb.europa.eu/press/pr/date/2015/html/pr150122_1.fr.html)

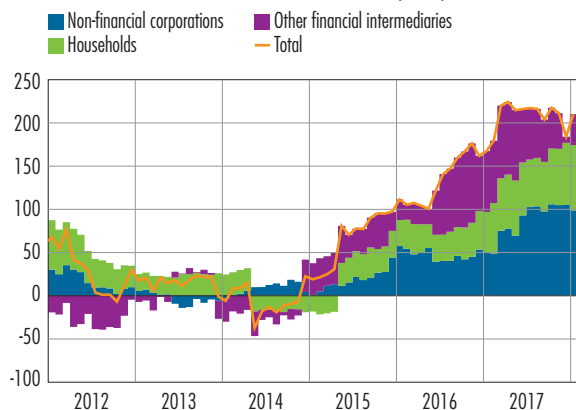
<sup>4</sup> The remaining 19% of credit to the private sector were granted to other financial institutions (such as investment companies and securitisation vehicles), insurance companies and pension funds.

<sup>5</sup> As well as loans, this type of credit includes securities, equities and securities held by the Banque de France.



### C9 French lending to the private sector in the euro area (by counterparty)

(billions of euros; annual flows, not seasonally adjusted)



Source: European Central Bank.

including EUR 104.8 billion for NFCs and EUR 72 billion for households (see Chart 9).

In 2017, annual credit flows extended to euro area NFCs alone by euro area MFIs totalled EUR 131.3 billion. MFIs resident in France delivered 48.4% of these loans (EUR 63.5 billion, see Chart 10).

The percentage is 45.7% for loans to households in the euro area (EUR 75.9 billion out of a total of EUR 165.9 billion, see Chart 11).

### 3 Lending and deposit rates for NFCs and households in the main euro area economies have been converging since mid-2014

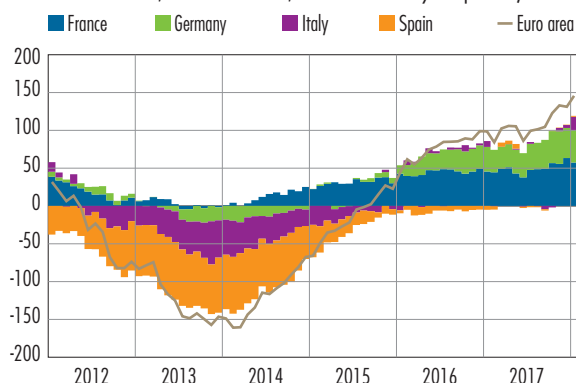
#### Convergence of nominal interest rates in the euro area

The divergence between the interest rates of euro area countries from 2012, following the sovereign debt crisis, narrowed significantly from mid-2014. Monetary policy decisions by the ECB were key factors behind this trend.

The sharp downturn in Italy's interest rates brought them into line with those in France and Germany. Lending rates granted to Spain's NFCs showed more limited convergence, remaining significantly above the euro area average (see Chart 12).

### C10 Loans to non-financial corporations in the euro area

(in billions of euros; annual flows, not seasonally adjusted)

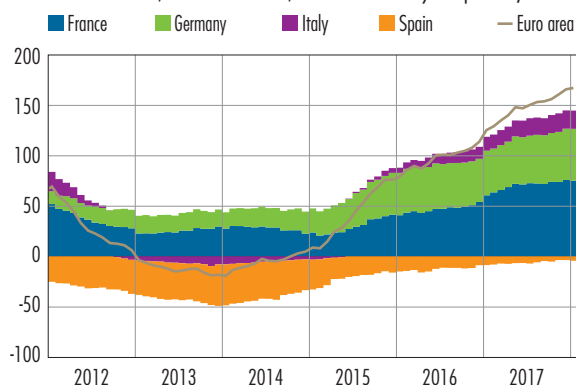


Source: European Central Bank.

Note: For example, for France, loans granted by monetary financial institutions resident in France.

### C11 Loans to households in the euro area

(in billions of euros; annual flows, not seasonally adjusted)

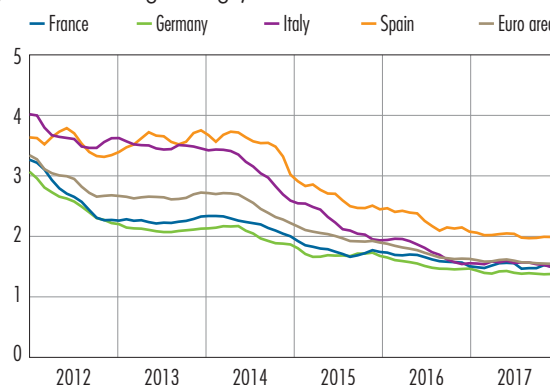


Source: European Central Bank.

Note: For example, for France, loans granted by monetary financial institutions resident in France.

### C12 Nominal interest rates on loans to non-financial corporations

(%, 3-month moving average)



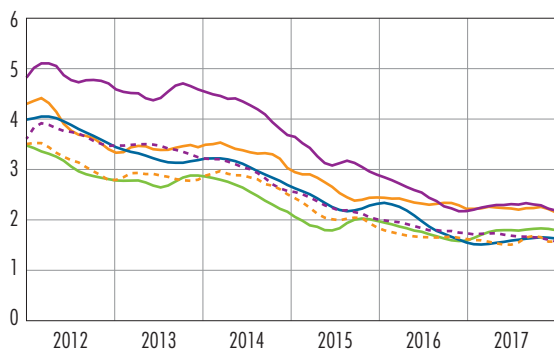
Source: European Central Bank.



### C13 Nominal interest rates on housing loans

(%, 3-month moving average)

— France – Fixed rate    — Italy – Fixed rate    - - Italy – Variable rate  
— Germany – Fixed rate    — Spain – Fixed rate    - - Spain – Variable rate

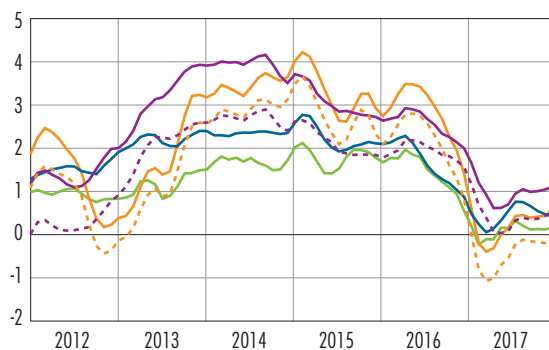


Source: European Central Bank.

### C15 Real interest rates on home loans

(%, 3-month moving average)

— France – Fixed rate    — Italy – Fixed rate    - - Italy – Variable rate  
— Germany – Fixed rate    — Spain – Fixed rate    - - Spain – Variable rate



Source: European Central Bank.

Convergence is also evident at the level of new housing loans, for which fixed rates in France and Germany, as well as variable rates in Spain and Italy, are all trending downward and have been converging since 2016 (see Chart 13).

### Stabilisation of real interest rates on loans to NFCs and households in 2017

The real cost of loans fell significantly for euro area NFCs in 2016 and the first quarter of 2017, before stabilising (see Chart 14).

Real interest rates on housing loans have performed in line with rates on loans to NFCs, albeit with lesser convergence. However, the downturn in 2016 and the first quarter of 2017 was just as steep (see Chart 15).

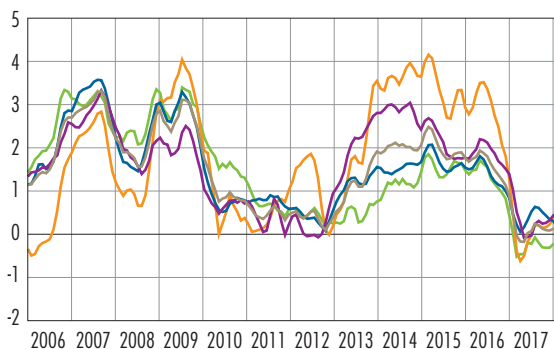
### Downturn in deposit rates as overnight deposits become more prevalent

The average nominal interest rate on households' deposits placed with banks continues to follow the downward trend that began in 2013, with a steeper decline in Spain (see Chart 16). In real terms, rates remained

### C14 Real interest rates on loans to non-financial corporations

(%; 3-month moving average, excluding revolving credit and credit lines)

— France    — Germany    — Italy    — Spain    — Euro area

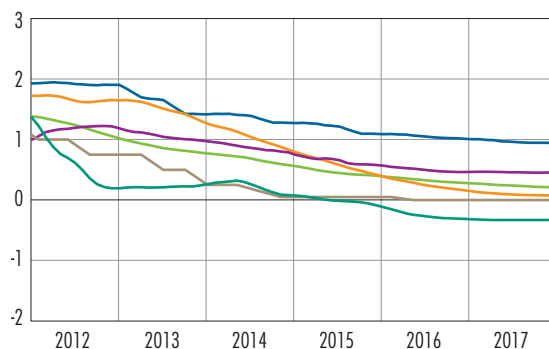


Source: European Central Bank.

### C16 Weighted average nominal interest rate on households' deposits

(%, 3-month moving average)

— France    — Italy    — Main refinancing rate  
— Germany    — Spain    — 3-month Euribor



Sources: Banque de France and European Central Bank.

6 Real interest rates are calculated using the nominal interest rate and inflation rate as follows: Real interest rate =  $\left(\frac{1 + \text{nominal interest rate}/100}{1 + \text{HICP}/100}\right) - 1 \times 100$



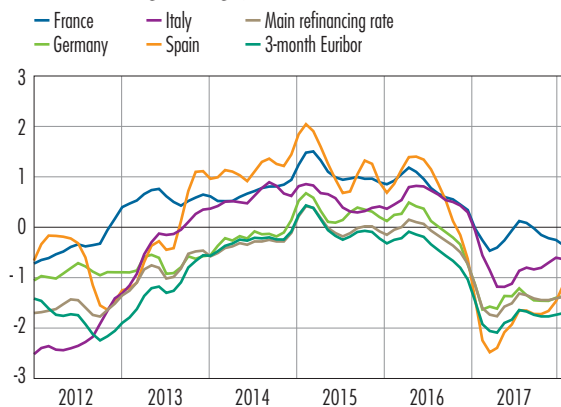


relatively stable in 2014 and the first half of 2016, then fell sharply as price growth resumed (see Chart 17).

The trend for NFCs is similar. Nominal interest rates paid on deposits are also falling and at the same time rates in European countries are converging (see Chart 18). Real interest rates are returning to levels close to those recorded in 2012 (see Chart 19).

### C17 Weighted average real interest rate on households' deposits

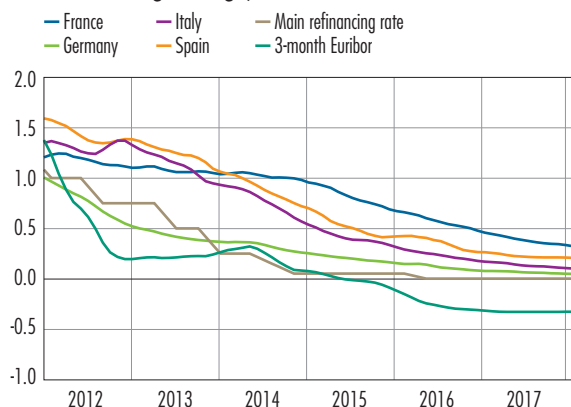
(%, 3-month moving average)



Sources: Banque de France and European Central Bank.

### C18 Weighted average nominal interest rate on non-financial corporations' deposits

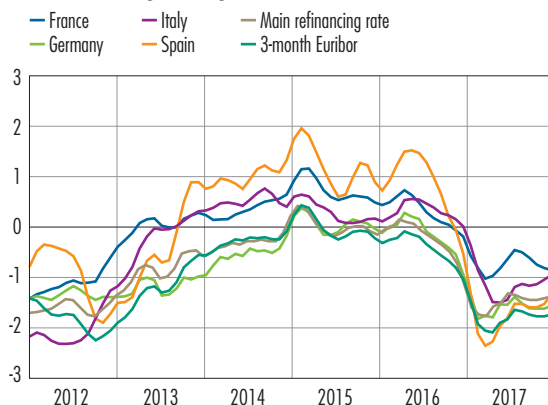
(%, 3-month moving average)



Sources: Banque de France and European Central Bank.

### C19 Weighted average real interest rate on non-financial corporations' deposits

(%, 3-month moving average)



Sources: Banque de France and European Central Bank

Over the last three years, the French component of M3 has grown faster than the euro area monetary aggregate, fuelled by an acceleration in overnight deposits held, in particular, by resident non-financial agents. At the same time, the distribution of loans to households and NFCs has accelerated much faster in France than in the euro area. The difference in the speed of credit growth reflects, among other factors, more favourable lending conditions in France.



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