

## Eurozone money growth remains elevated but still well below lockdown numbers

The surge in money growth - mainly caused by increased deposits due to immediate liquidity needs during lockdown - has ended but continued uncertainty and significant stimulus continues to keep that growth elevated for now



The months of extraordinary money growth are behind us. Still, July saw an increase in M3 that was among the highest in the history of the eurozone, but at €121 billion well below the March peak of €328 billion. Monetary developments are usually portrayed in year-on-year growth rates, but since previous months have been so extraordinary in terms of monetary developments, month-on-month growth better reflects current developments.

The annual growth rate increased from 9.2 to 10.2%, but this does not capture the current trend in money growth due to the large surge in March, April and May, as June and July were already more subdued. Thanks to the past few months of increased money growth, there is more money in the system due to emergency funding than would have been the case extrapolating the pre-coronavirus trend. One would normally point to higher inflation risk, but there are factors

mitigating this. As increased borrowing has predominantly been for liquidity purposes, the money supply could see a correction once businesses start to pay back those loans, meaning that the upside risk to inflation remains limited.

This is, of course, also reflected by real economy weakness and business expectations of slower price growth. Bank lending to non-financial corporates had also seen an unprecedented surge due to liquidity demands but in July increased by €14bn, down from €122bn in March. This is nothing out of the ordinary compared to 2019 monthly increases, indicating that the record surge in borrowing in March, April and May has not continued. Even the annual growth rate in non-financial corporate borrowing ticked down from 7.1 to 7%.

Household borrowing, which was negative during the first two months of lockdown, recovered to pre-crisis levels in May and June, which continued in July as growth in household borrowing was stable at around €18.5bn. While the real money supply is usually a good leading indicator of economic growth, it isn't right now as money growth mainly jumped for emergency liquidity reasons. While we do expect the economy to recover, basing that recovery on the behaviour of money supply would be like getting to the right answer in a maths problem with mistakes in your work.

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