Eurozone money growth slightly eases in June

Eurozone money growth only slightly declined in June, while credit growth to the private sector remained relatively strong

Money growth eases, while credit growth to the private sector accelerates

Eurozone broad money (M3) supply grew 5.7% year-on-year in June 2022, from 5.8% in May. The annual growth rate of the narrower aggregate M1, comprising currency in circulation and overnight deposits, declined to 7.2% in June from 7.9% in May.

The year-on-year growth rate of loans to the private sector adjusted for loan sales, securitisation and notional cash pooling accelerated to 6.1% in June from 5.6% in May. Adjusted loans to households grew 4.6% in June, unchanged from the previous month, while the annual growth rate of adjusted loans to non-financial corporations increased to 6.8% in June from 5.8% in May. The still relatively healthy credit figures suggest that the second quarter probably still saw positive GDP growth.

As for inflation, we know that the link between money growth and inflation is not that straightforward anymore, because variation in velocity disturbs the correlation. That said, money velocity has structurally declined over the last 20 years, meaning that a deceleration of money growth could still be seen as a harbinger of easing inflationary pressures further down the road. While money growth already decelerated from a peak of more than 12% at the start of 2021, today's figure shows that the downward movement continues only very gradually. This is a reason for the hawks within the ECB's Government Council to argue that the normalisation of monetary policy still has to go a bit further to get inflation back under control, notwithstanding the looming recession risk.

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