



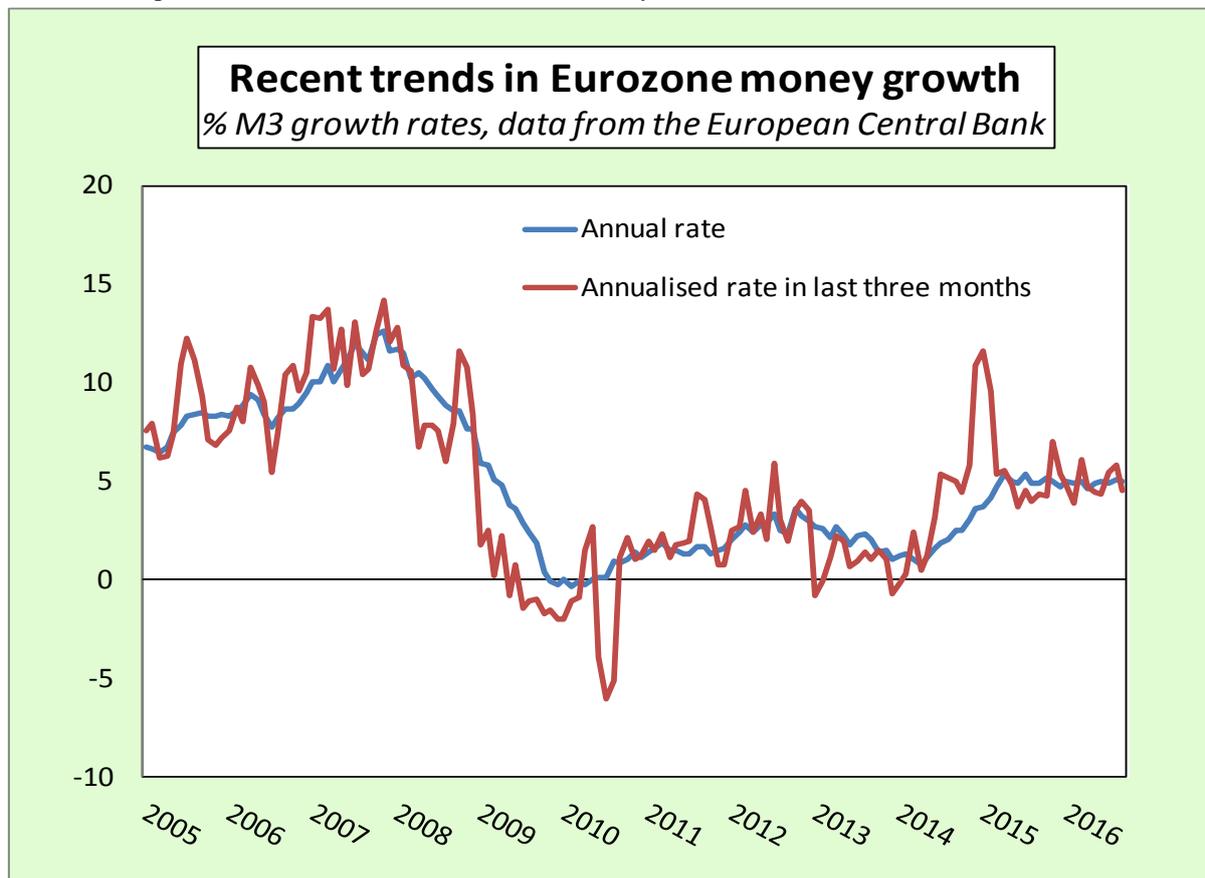
INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

Analysis and insight into trends in money and banking, and their impact on the world's leading economies

Eurozone/Euroland

	% annual/annualised growth rate:	
	M3	Nominal GDP
1995 – 2015	5.3	3.1
Five years to 2015	3.0	1.6
Year to September 2016	5.0	n/a
Three months to September 2016 at annualised rate	4.5	n/a

Sources: European Central Bank and International Monetary Research Ltd. estimates



Money growth lower, but still satisfactory

Summary: In the third quarter of 2016 the Eurozone's M3 quantity of money grew at an annualised rate of 4.5%. This is lower than the 5.8% recorded in the three months to August, but still satisfactory. The annual rate of broad money growth remains close to 5% - a more or less ideal number in view of nagging deflation fears – just as it has done since spring 2015. The ECB's "quantitative easing" programme has been successful. Annual broad money growth has risen from its 2009 – 2013 average (of a mere 2% or so), helping the Eurozone to achieve a clear cyclical rebound. The German economy, in particular, has seen robust domestic demand in 2016.

The ECB's QE programme was launched early in 2015 to combat weak demand growth and the associated deflation in some Eurozone member states. The annual consumer price inflation rate stood at 0.4% in September 2016, the fourth consecutive month with a positive number. Although this is still well below the figure of 2% which is the top of the ECB's notion of "price stability", deflation risks seem to be fading in most member states. Italy, Spain, France and Portugal all now record higher prices than a year ago. Greece, Cyprus and Slovakia are still suffering deflation, but, by contrast, Belgium has recently seen consumer prices rising at more than the ECB's preferred 2% rate.

As far as money growth is concerned, the ECB's QE programme has worked almost to perfection. It has raised the annual growth rate of M3 up to 5% and has kept it there, as the graph above shows. The monthly bond purchases, amounting to €80b., are currently scheduled to continue until March 2017. Mario Draghi, the ECB governor, will soon need to decide whether to extend the programme beyond this date. So far he has not given away much detail. He merely stated at the monthly press conference on October 21st that, while QE would not "last forever", an "abrupt" end to bond buying looks "unlikely". German opposition to any extension of the QE programme has already been made clear. However, with inflation still below target and the growth in the stock of bank lending at modest levels, Mr Draghi seems likely to be as good as his word. An extension to QE in some form looks very probable, to maintain steady growth of broad money. In September M3 grew by only €11b, compared with €48b. in August and €63b. in July. The ECB's credit counterparts data show a slowdown in bank credit to general government and business lending, although mortgage lending remains robust. The drop in credit to government may be due to the ECB's difficulties in finding appropriate high-quality government securities to buy, an issue which has caused some recent discussion, as it is approaching its self-imposed limit for German debt purchases. .

Otmar Lissing, one of the architects of the euro, recently expressed doubts about its long-term future, saying that "one day, the house of cards will collapse." Political uncertainties lie ahead with Italy's forthcoming referendum on constitutional reform and Greece's economic woes both having the potential to cause problems for the Eurozone in the not-too distant future. Nevertheless, for now the money figures suggest that its economy should continue its slow recovery through to the start of 2017.

John Petley

27th October, 2016

	% annual growth rate:	
	M3	Nominal GDP
1995- 2015	5.3	3.1
1995 – 2000	4.5	4.0
2001 – 2010	6.7	3.4
Five years to 2015	3.0	1.6