



EUROPEAN CENTRAL BANK

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MONETARY DEVELOPMENTS IN THE EURO AREA: JANUARY 1999

In January 1999, the annual rate of growth of the monetary aggregate M3 increased to 5.7% from 4.5% in December 1998. Since monthly fluctuations in monetary data may be volatile, the Governing Council of the ECB analyses monetary developments on the basis of a three-month moving average of twelve month growth rates of M3. The latest three-month moving average of the twelve-month growth rates of M3 (covering November 1998 to January 1999) increased to 4.9%, 0.2 percentage points higher compared to the previous observation covering the three months of the fourth quarter of 1998.

Twelve-month percentage changes	NOVEMBER 1998	DECEMBER 1998	JANUARY 1999	AVERAGE NOVEMBER 1998 - JANUARY 1999
M3	4.7	4.5	5.7	4.9

The significant increase in the rate of growth of M3 in January mainly reflected the acceleration of overnight deposits, the annual increase of which reached 18.3% against 11.4% in December 1998 (see item 1.2 in the attached table). The 12-month rate of growth of currency in circulation remained subdued, at only slightly above zero. In contrast, rates of growth of other deposits included in M3 fell in January. The annual rate of growth of deposits with an agreed maturity of up to two years fell to -2.3% from -1.1% in December; the rate of growth of deposits redeemable at notice up to three months decreased to 5.7% from 6.0% in December. Finally, the 12-month rates of growth of marketable instruments moved into different directions. On the one hand, there was an increase in the annual growth rate of money market fund units/shares and money market paper (to 7.6% from 3.1% in December). On the other hand, the 12-month percentage growth in repurchase agreements and especially debt securities issued with a maturity of up to two years declined further (to -20.0% and -22.5% respectively).

Among the counterparts of M3, the deposits of the general government with the MFI sector (item 2 in the table) increased by 2.6% compared with a year earlier (after they had shown a 12-month increase of 1.3% in December 1998). The annual pace of growth of the longer-term financial liabilities of the MFI sector

against other euro area residents (item 3 in the table) accelerated to 5.1% in January from 2.4% in December.

On the asset side of the consolidated balance sheet of the MFI sector, total credit growth in the euro area (item 5 in the table) increased to 7.8% in January. Loans to the private sector accelerated significantly to a 12-month rate of growth of 9.4%, more than one percentage point higher than the figure recorded in December. The annual rate of credit growth through purchases by the MFI sector of securities issued by the private sector in the euro area also rose significantly in January. In contrast, with an annual increase of 0.8% the growth of credit to the general government remained subdued.

The external liabilities of the MFI sector increased on a non-seasonally adjusted basis by EUR 195 billion between December 1998 and January 1999 (item 4 in the table). This was to a large part compensated by an increase of EUR 165 billion in external assets over the same period (item 6 in the table). As a result, the net external asset position of the MFI sector deteriorated slightly in January. It should be noted that the figures for January reflect temporary gross balances relating to the operation of the TARGET system, of an amount of approximately EUR 75 billion. These gross balances, which have no economic significance, have been unwound in February.

Note of caution: Growth rates for months up to December 1998 are based on a comparison of end-of-month stocks. For January 1999, the growth rates are calculated on flow data which adjust the changes in the end-of-month stocks for reclassifications, exchange rate variations, other revaluations, and any other changes which do not arise from transactions.

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(non seasonally-adjusted data in EUR billions)

	DECEMBER 1998			JANUARY 1999			AVERAGE NOV-98 JAN-99
	End of month levels	Change on previous month ⁽³⁾	Annual growth rate ⁽³⁾	End of month levels	Flows on previous month ⁽³⁾	Annual growth rate ⁽³⁾	Annual growth rate ⁽³⁾
COMPONENTS OF M3 ⁽²⁾							
(1) M3 (= items 1.1 to 1.7)	4447	74	4.5	4500	30	5.7	4.9
(1.1) Currency in circulation	324	9	1.3	314	-9	1.0	0.8
(1.2) Overnight deposits	1448	72	11.4	1480	30	18.3	13.5
(1.3) Deposits with agreed maturity up to 2 years	885	13	-1.1	883	-4	-2.3	-2.2
(1.4) Deposits redeemable at notice up to 3 months	1229	31	6.0	1245	16	5.7	6.1
(1.5) Repurchase agreements	178	-20	-13.3	175	-4	-20.0	-13.8
(1.6) Money market fund shares/units and money market paper	314	-18	3.1	350	14	7.6	5.4
(1.7) Debt securities issued with maturity up to 2 years	69	-13	-3.7	53	-13	-22.5	-1.8
COUNTERPARTS OF M3 ⁽⁴⁾							
MFI liabilities:							
(2) <i>Deposits of central government</i>	156	1	1.3	138	-6	2.6	4.1
(3) <i>Longer-term financial liabilities against other euro area residents</i> (= items 3.1 to 3.4)	3236	-2	2.4	3315	75	5.1	3.6
(3.1) Deposits with agreed maturity over 2 years	1023	6	1.3	1001	4	1.4	1.4
(3.2) Deposits redeemable at notice over 3 months	215	5	-2.3	215	0	-1.2	-2.2
(3.3) Debt securities issued with maturity over 2 years	1296	-7	5.2	1339	37	8.3	6.5
(3.4) Capital and reserves	703	-6	0.6	760	34	6.6	3.5
(4) <i>External liabilities</i>	1535	-85	9.7	1714	195	19.1	14.6
MFI assets:							
(5) <i>Credit to euro area residents</i> (= items 5.1 and 5.2)	7633	32	7.0	7681	94	7.8	7.2
(5.1) Credit to general government	2035	-33	1.5	2037	-5	0.8	1.2
Of which Loans	842	1	-0.1	838	4	2.2	0.1
Of which Securities other than shares	1194	-34	2.7	1200	-9	-0.3	2.0
(5.2) Credit to other euro area residents	5598	66	9.1	5643	99	10.5	9.6
Of which Loans	5097	53	8.2	5104	59	9.4	8.7
Of which Securities other than shares	195	-6	6.0	208	15	9.9	6.9
Of which Shares and other equities	307	19	28.8	331	25	31.7	29.1
(6) <i>External assets</i>	1904	-67	1.1	2076	165	9.5	5.1
(7) <i>Other counterparts of M3 (residual)</i> (= M3 + items 2, 3 and 4 - items 5 and 6)	-164	22	211.5	-89	35	68.7	113.3

(1) Discrepancies in the table can be due to rounding. The information in this table is based on consolidated balance sheet data reported by Monetary Financial Institutions (MFIs). These include the ESCB, credit institutions and money market funds located in the euro area. Figures refer to all currencies.

(2) Liabilities of Monetary Financial Institutions (MFIs) and specific units of the central government (post offices, treasury) vis-à-vis non-MFI euro area residents, excluding central government

(3) Growth rates for December 1998 are based on a comparison of end-of month stocks. For January 1999, the growth rates are calculated on flow data which adjust the changes in the end-of-month stocks for reclassifications, exchange rate variations, other revaluations, and any other changes which do not arise from transactions.

(4) Assets and liabilities of Monetary Financial Institutions (MFIs) vis-à-vis non-MFI euro area residents, including central government.

Note: More details of the latest data, as well as estimates for earlier periods going back to September 1997 may be found on the ECB's web site (<http://www.ecb.int>).