

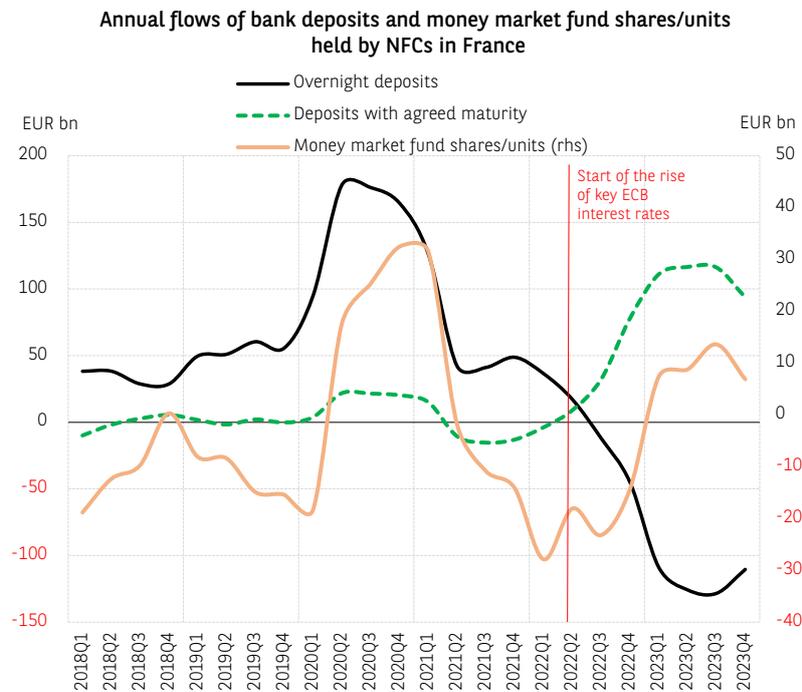
CHART OF THE WEEK

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FRANCE: CORPORATIONS SHOW RENEWED INTEREST IN MONEY MARKET FUNDS AND TERM DEPOSITS

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Source: ECB, Banque de France, BNP Paribas

Annual flows of money market fund shares/units held by non-financial corporations (NFCs) in France were positive throughout 2023, having been negative from the second quarter of 2021 to the fourth quarter of 2022. This trend reversal was due most notably to the increase in key ECB interest rates on 27 July 2022, which pushed up money market returns. The annual performance of money market funds thus hit 3.38% in December 2023 (rising to 3.7% in February 2024¹), a level not seen since January 2009 – from 0.04% in December 2022 and a negative rate from February 2017 to November 2022.

Renewed corporation interest in money market funds, which had not been completely abandoned thanks to their limited risk and strong liquidity, came mainly at the expense of sight deposits². Due to the opportunity costs of holding the latter, their annual flows have been negative since the third quarter of 2022; in February 2024 they were down by EUR88.4 billion. Although a substantial share of withdrawals from sight deposits was reallocated to money market funds, the holding of which remains largely the prerogative of larger corporations, a bigger slice was transferred to bank deposits with agreed maturity, where annual flows have been positive since the second quarter of 2022. Such flows stood at EUR76.2 billion in February 2024, encouraged by average interest rate on new deposits of 3.95% and the capital guarantee that comes with bank deposits. This said, there has been a slight dip in transfers from sight deposits to deposits with agreed maturity and money market funds since the fourth quarter of 2023, suggesting that the process may be nearing its end. The expected cut to the ECB's rates is likely to reduce the spread between returns and thus the opportunity cost of holding sight deposits.

¹ Performance of investment funds 2024 Feb | Banque de France (banque-france.fr)

² These deposits have only partially been removed from bank balance sheets because in Q4 2023 money market funds were 71% invested in debt securities and investment fund shares issued by banks, or in deposits (and other assets) with banks.

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