



Monetary update, August 2023

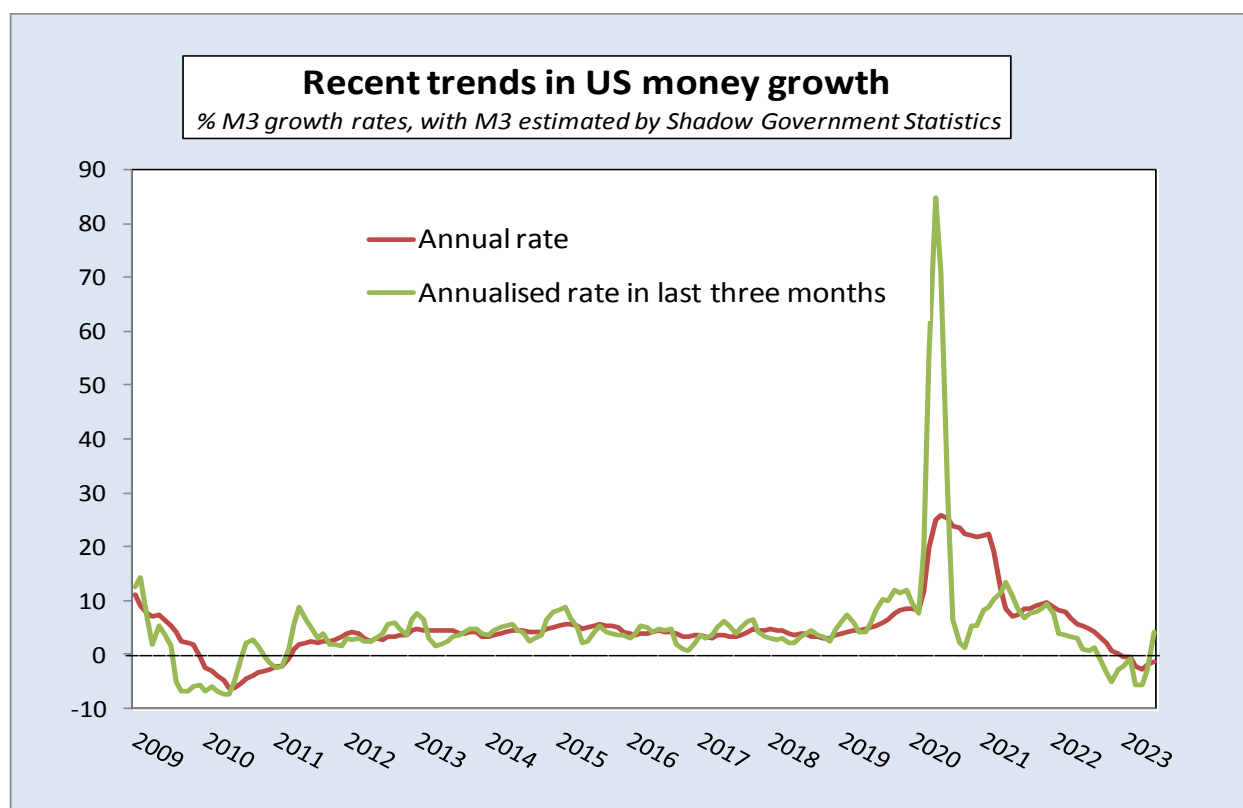
Of the countries studied in these notes, only the USA – unexpectedly – is seeing an increase in broad money growth. This has been driven not by new bank credit but by growth in money market mutual funds. The contractionary monetary policies pursued by the central banks in the UK and Eurozone have reduced broad money growth to negligible levels with recession sadly the inevitable outcome. Japan is at least seeing positive M3 growth, but it remains very weak. Broad money growth was strong in both China and India during the first half of 2023, but July's numbers were slightly weaker.

Name of country/ jurisdiction	Share of world output in 2020		Growth rate of broad money		Comment
	In purchasing power parity terms, %	In current prices and exchange rates, %	In last three months at annualised rate, %	In last 12 months, %	
USA	15.7	24.2	4.2	-1.4	Upward blip in money growth since May, driven by growth in money market mutual funds.
China	18.6	12.7	11.2	10	Money growth slowing slightly, with property market more calm. Policy stable, with no official inflation concern.
Eurozone	11.4	15.1	-1.1	0.6	Money contracting, as banks shrink loan books. Sovereign bond spreads remain in a narrow band.
Japan	3.7	5.1	1.9	1.8	Credit and money growth very low, but still positive and similar to last 30 years.
India	6	3.3	11.3	10.8	Money growth slowing slightly but remains quite strong. Inflationary concerns persist.
UK	2.3	3.2	0	0.6	Money growth very low, with banks adjusting balance sheets to more capital regulation.

USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1961 – 2022	7.6	6.5
Ten years to 2020	6.2	3.4
Year to June 2023	-1.4	n.a
Three months to June 2023 at annualised rate	4.2	n.a.

Sources: Shadow Government Statistics research service for M3 after 2006 (IIMR estimate for June 2023) and US Bureau of Economic Analysis for GDP



In the USA, there has been an unexpected increase in broad money growth over the past two months, the significance of which is still uncertain. Inflation stood at 3.2% in the year to July, still above the Fed's 2% target, but strongly indicative that most of the "Monetary overhang" from 2020 has dissipated. The retail and real estate sectors are experiencing positive but modest growth. A recession still remains a possibility for 2024 given the squeeze on real money balances in the past year. Regarding new bank credit, "loans and leases in bank credit" saw only a 0.8% increase in the year leading up to July, an improvement from June's reading of -1.7% but still weak. Money growth is being driven by growth in money market mutual funds rather than new bank credit.

China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2020	18.4	14.5
2011 - 2020	11.7	10.0
Year to July 2023	11.2	n/a
Three months to July 2023 annualised rate	10.0	n/a

Sources: People's Bank of China for M2 and IMF for GDP

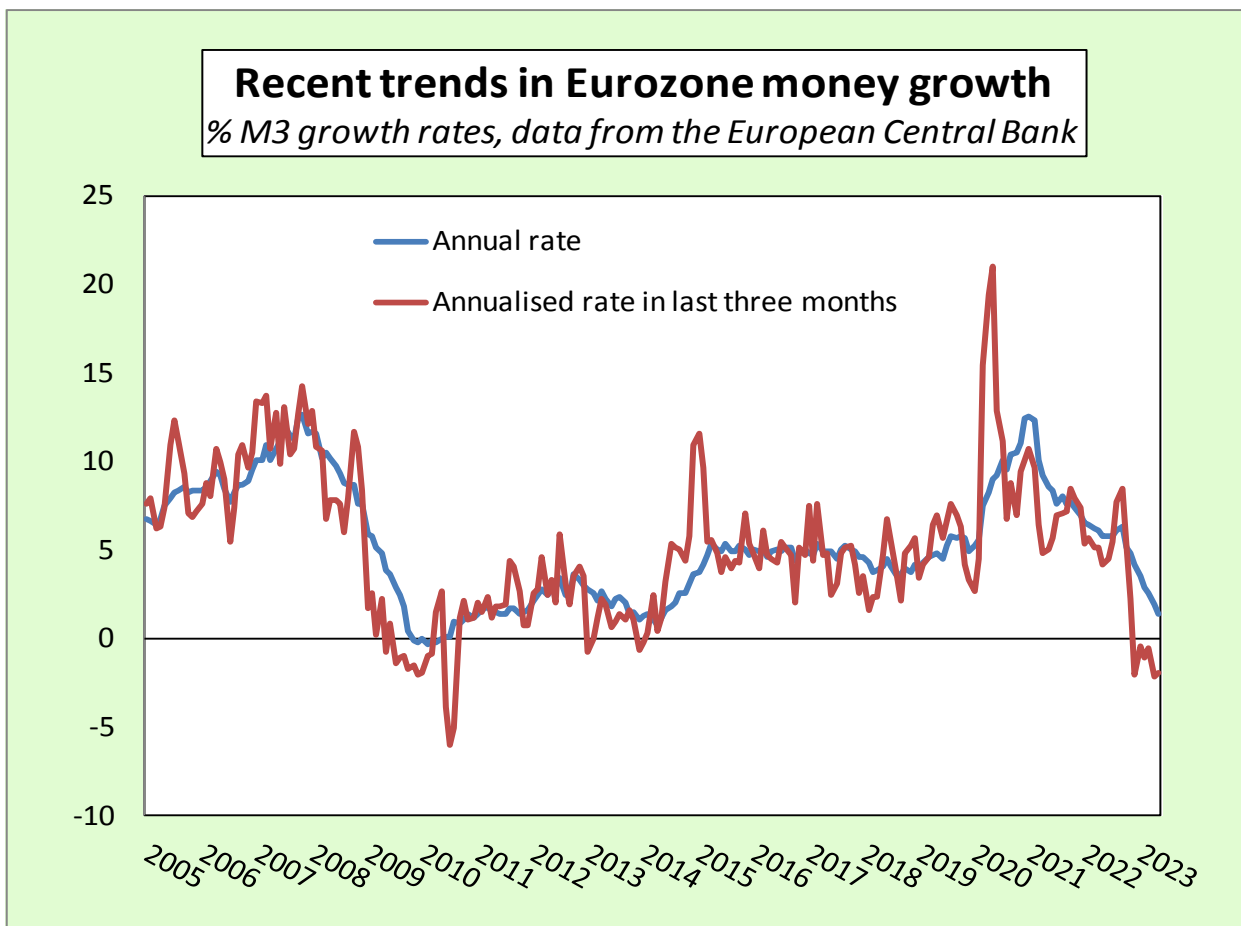


China continues to ease its monetary policy, with the People's Bank of China cutting its one-year medium-term lending facility rate by 15 bps to 2.5% on 15th August. This is the deepest cut since 2020, following a 10 bps reduction just two months prior. Broad money growth has been robust over the last year, suggesting that the current low inflation rate may not persist, although it slowed in July. The housing sector is stagnant, and retail sales growth remains modest. Since the lifting of pandemic restrictions in autumn 2022, the Chinese economy has seen only modest expansion. Growth in new bank credit stood at 11.1% in the year to July, marking the third consecutive month of decline after reaching a high of 11.8% in April.

Eurozone

	% annual/annualised growth rate:	
	M3	Nominal GDP
1996 – 2022	5.4	3.2
Ten years to 2020	4.6	1.6
Year to June 2023	0.6	n/a
Three months to June 2023 at annualised rate	-1.1	n/a

Sources: European Central Bank for M3 and Eurostat for GDP

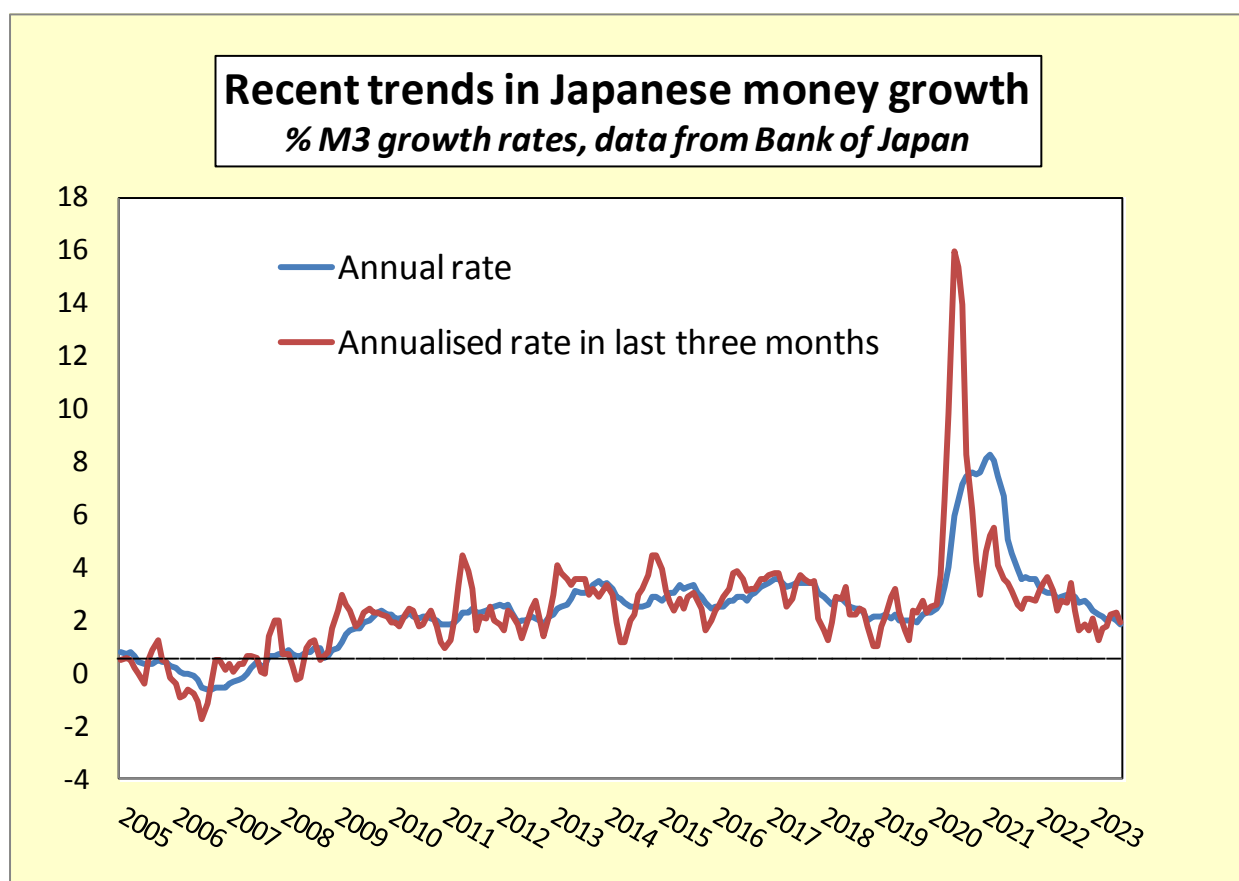


The European Central Bank plans to stop paying interest on banks' cash reserves on 20th September and is considering doubling the Eurozone banks' minimum reserve requirement from 1% to 2%. These actions will hit banks' finances, making them more cautious about extending new credit. With broad money growth already weak, these moves are expected to exacerbate the current monetary squeeze. Credit growth to the private sector declined from 2.1% in the year to May to 1.4% the following month.

Japan

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2022	3.9	1.8
Ten years to 2020	3.2	0.3
Year to July 2023	1.8	n/a
Three months to July 2023 at annualised rate	1.9	n/a

Sources: Bank of Japan for M3 and IMF for GDP

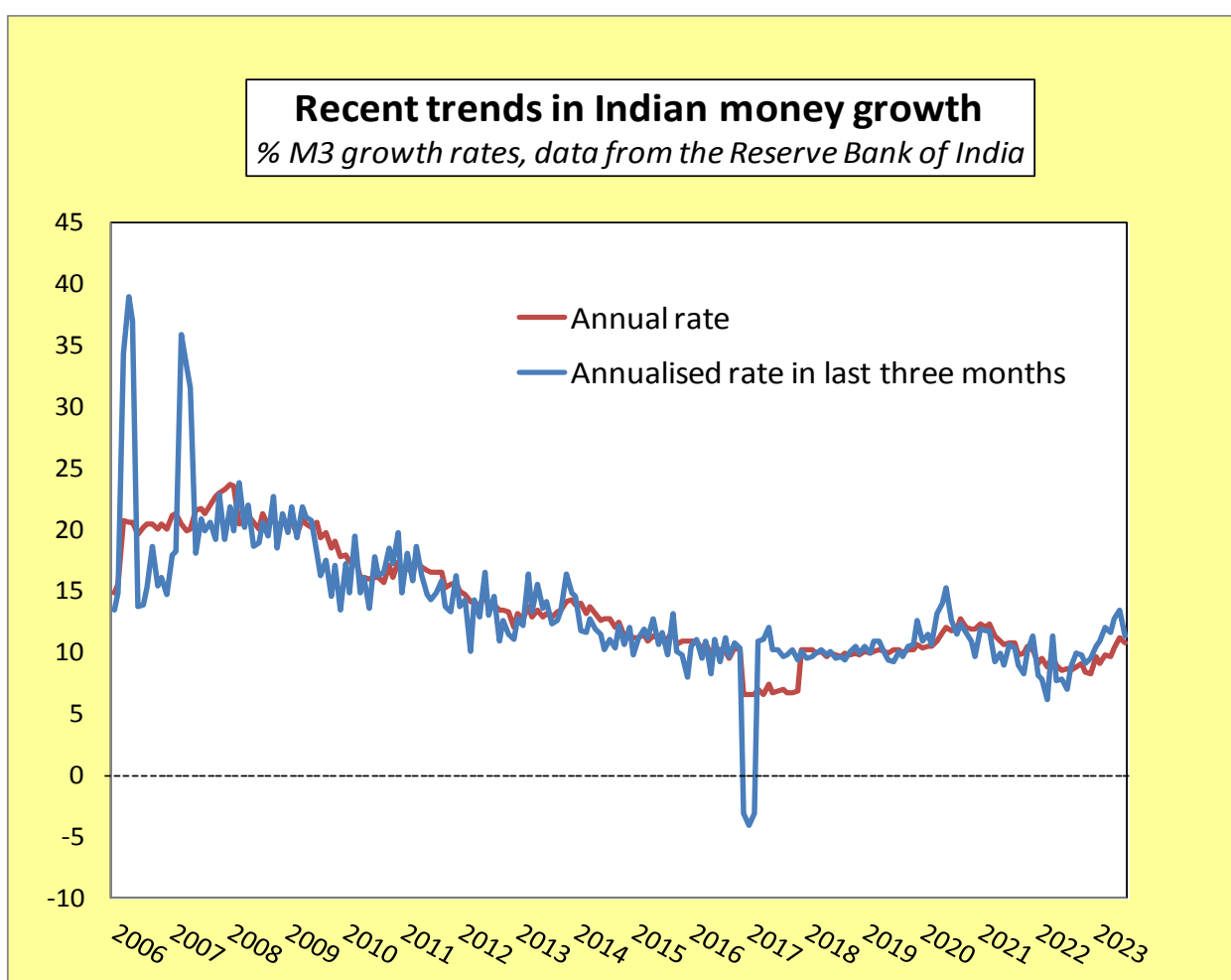


Japan continues to record positive but very small levels of broad money growth, with inflation above 3%, a residual effect of the 2020 fiscal and monetary stimuli. Otherwise, the current rates of Japanese broad money growth and overall economic expansion closely resemble those of the previous decade. The annual rate of growth of new bank credit stood at 2.9% in July.

India

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2022	15.4	13.2
Ten years to 2020	11.3	9.8
Year to July 2023	10.8	n/a
Three months to July 2023 at annualised rate	11.3	n/a

Sources: Reserve Bank of India for M3 and IMF for GDP

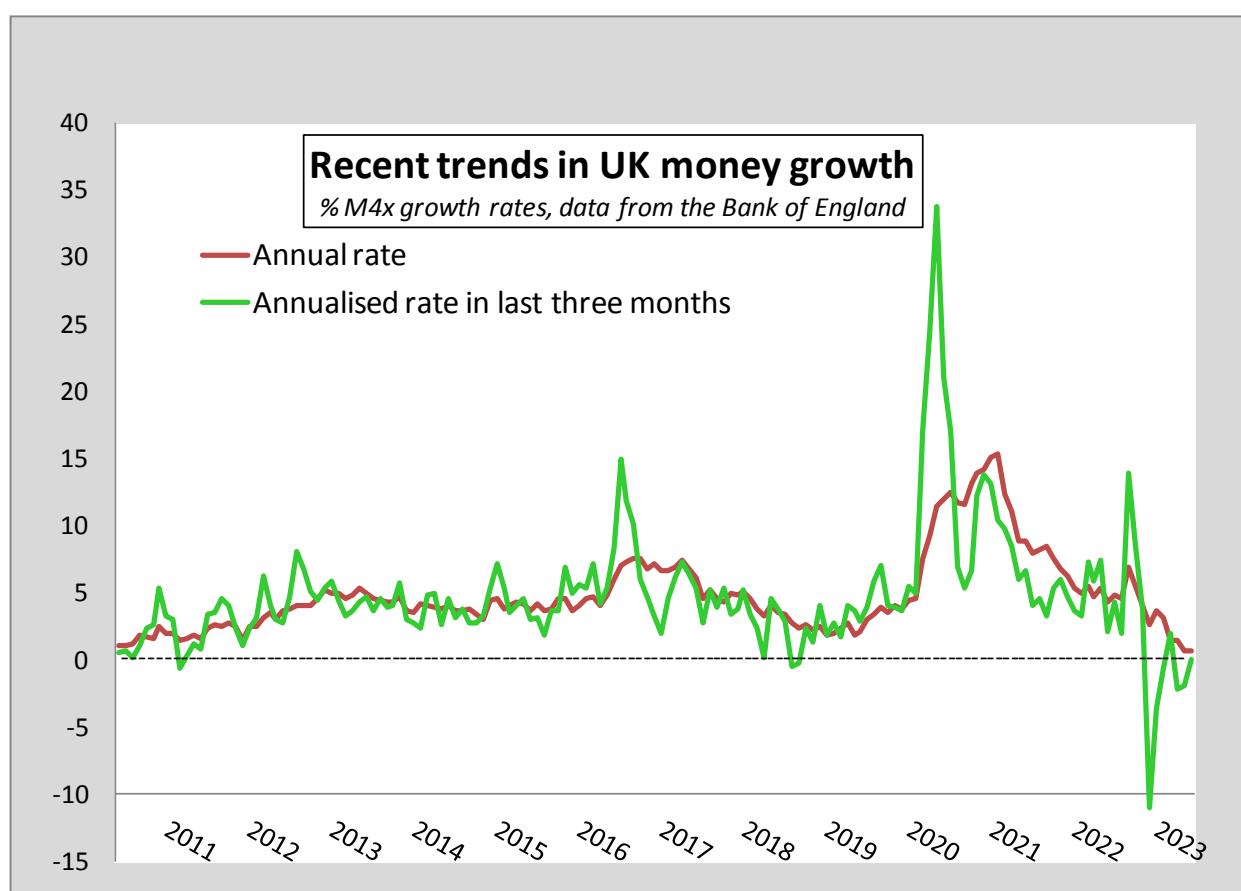


India has seen strong broad money growth since the beginning of the year, though it moderated slightly in July. A spike in inflation, driven by a surge in food prices from an erratic monsoon, may encourage the Reserve Bank of India to resume monetary tightening after a five-month pause. Meanwhile, the growth in new credit to the private sector remains strong, reaching an annual rate of over 20% in July.

UK

	% annual/annualised growth rate:	
	M4x/M4 before 1997	Nominal GDP
1981 – 2022	8.3	5.5
Ten years to 2020	5.2	2.3
Year to June 2023	0.6	n/a
Three months to June 2023 at annualised rate	0.0	n/a

Sources: Bank of England for M4X and Office for National Statistics for GDP



The **UK** has so far just about managed to stave off a recession, but high levels of wage settlements along with inflation well above target are major concerns to the Bank of England’s Monetary Policy Committee. With borrowing costs at a 15-year high and signs pointing to a record 15th consecutive increase in Bank Rate next month, broad money growth has all but stalled. The bank of England’s contractionary monetary policy is likely to exacerbate the situation. Aggregate credit to the private sector declined by 1.5% in the year to June, falling by £0.4 billion during the month.