



Monetary update, September 2023

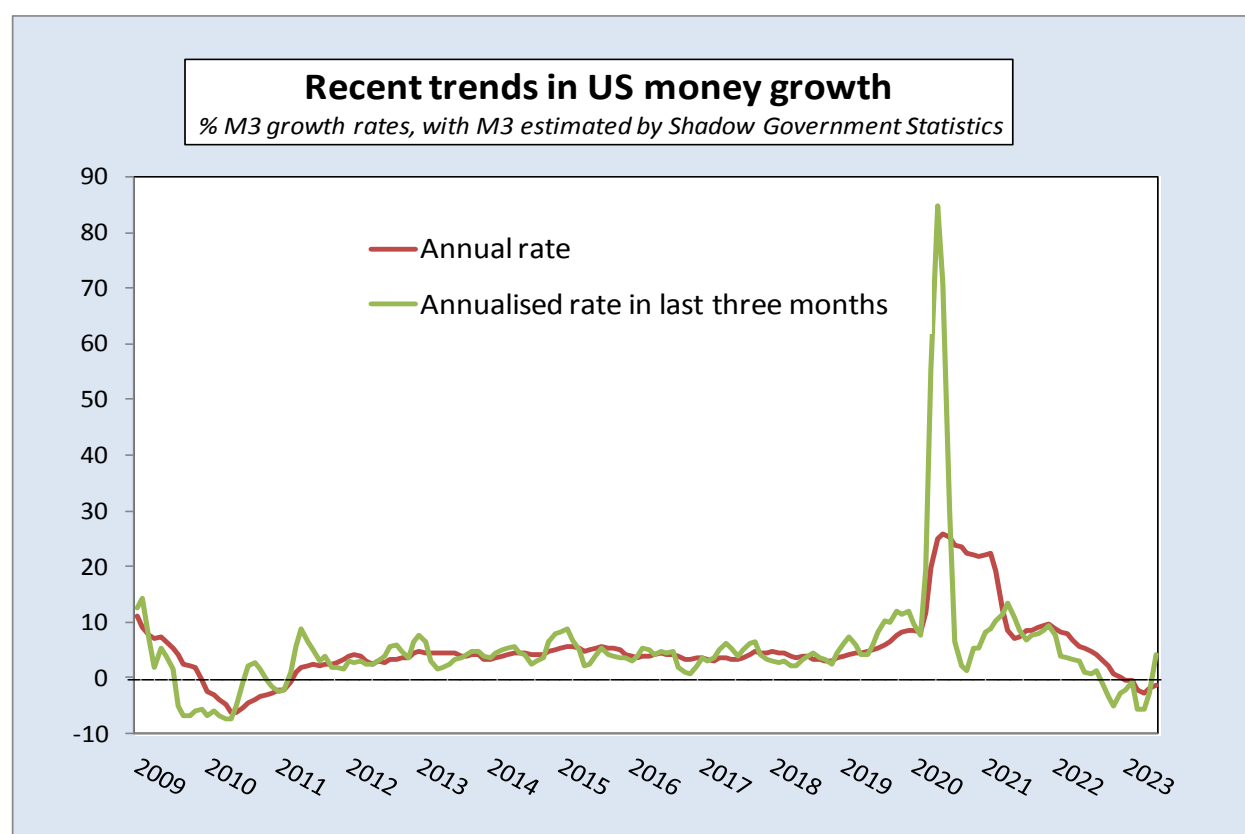
The USA continues to see an increase in broad money growth, driven by growth in money market mutual funds rather than new bank credit. The contractionary monetary policies pursued by the central banks in the UK and Eurozone in the last year have reduced broad money growth to negligible levels with recession 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 August saw a continuation of July's trend to slightly weaker growth.

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	6.2	-1.3	Upward blip in money growth since May, driven by growth in money market mutual funds.
China	18.6	12.7	11.0	10.3	Money growth slowing slightly amid renewed concerns about property market. Inflation very low.
Eurozone	11.4	15.1	-1.7	-0.4	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	10.8	10.1	Money growth slowing slightly but remains quite strong. Inflationary concerns persist.
UK	2.3	3.2	-1.1	0.0	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 July 2023	-1.3	n.a
Three months to July 2023 at annualised rate	6.2	n.a.

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



In the US, the unexpected increase in broad money growth continues, driven by growth in money market mutual funds, which are dominated by Treasury securities. However, growth in new bank lending remains weak. “Loans and leases in bank credit” picked up from a modest 0.8% growth in the year up to July to 2% the following month. While the Federal Reserve did not increase the cost of borrowing at its September meeting, it kept open the option of a further hike in the Fed Funds Rate, especially in light of the inflationary pressures observed in July and August. Nevertheless, it appears that the peak of the tightening cycle may soon be reached. The US economy continues to grow, but the effects of higher borrowing costs are likely to see a slowdown in 2024.

China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2020	18.4	14.5
2011 - 2020	11.7	10.0
Year to August 2023	11.0	n/a
Three months to August 2023 annualised rate	10.3	n/a

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

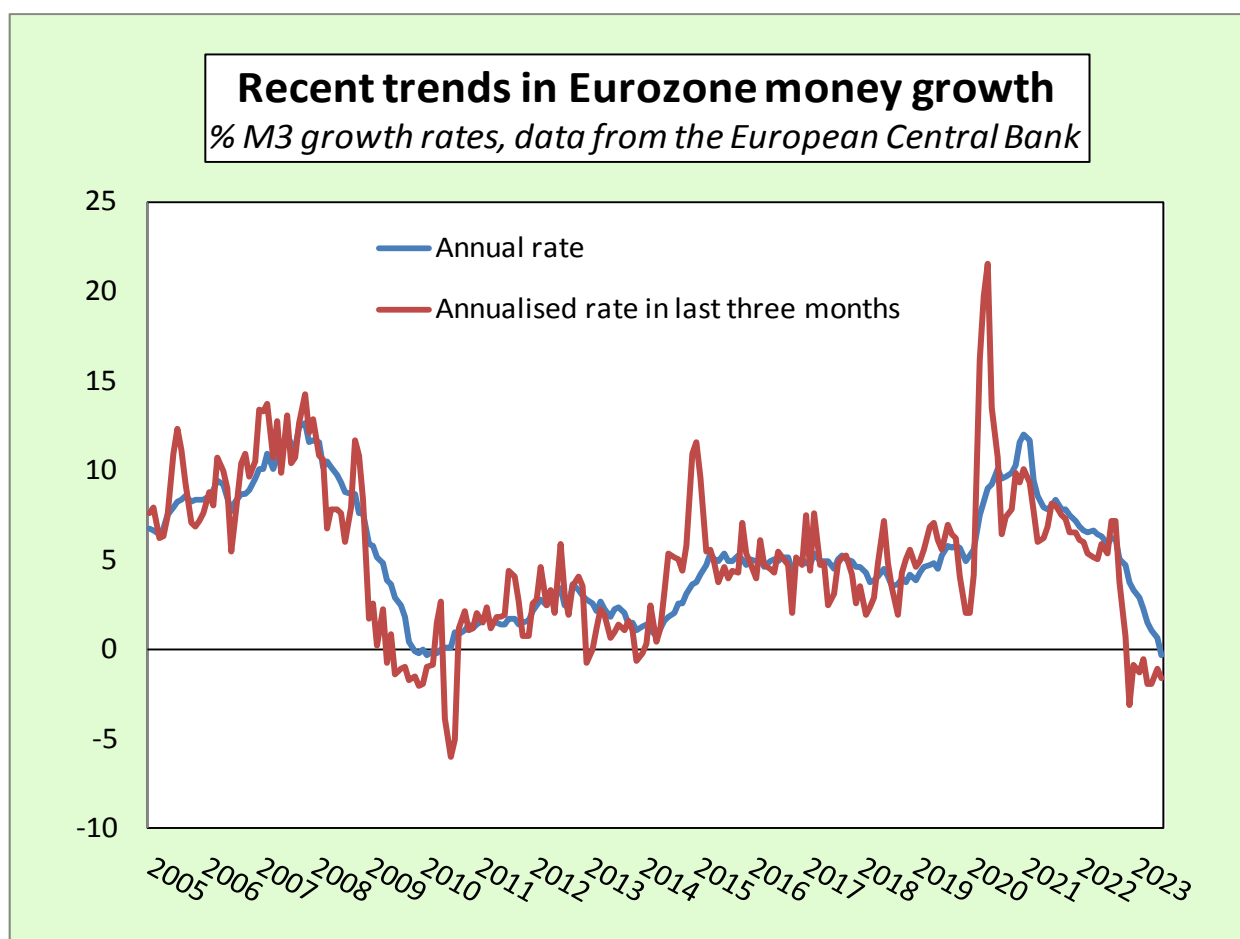


After further monetary easing measures in August, the People's Bank of China took no action at its latest meeting, hoping that the recent stimulus measures will be sufficient to boost the somewhat sluggish economy. Renewed concerns have surfaced about the housing market in the wake of the financial problems of Country Garden, the country's biggest property developer. The decision of the Chinese government to cease publishing the youth unemployment figures after they hit 21.3% in June has also raised concerns about the health of the Chinese economy. Inflation is very low, standing at 0.1% in the year to August. Growth in new bank credit stood at 11.1% in the year to August, unchanged on July's reading but still lower than the 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 July 2023	-0.4	n/a
Three months to July 2023 at annualised rate	-1.7	n/a

Sources: European Central Bank for M3 and Eurostat for GDP

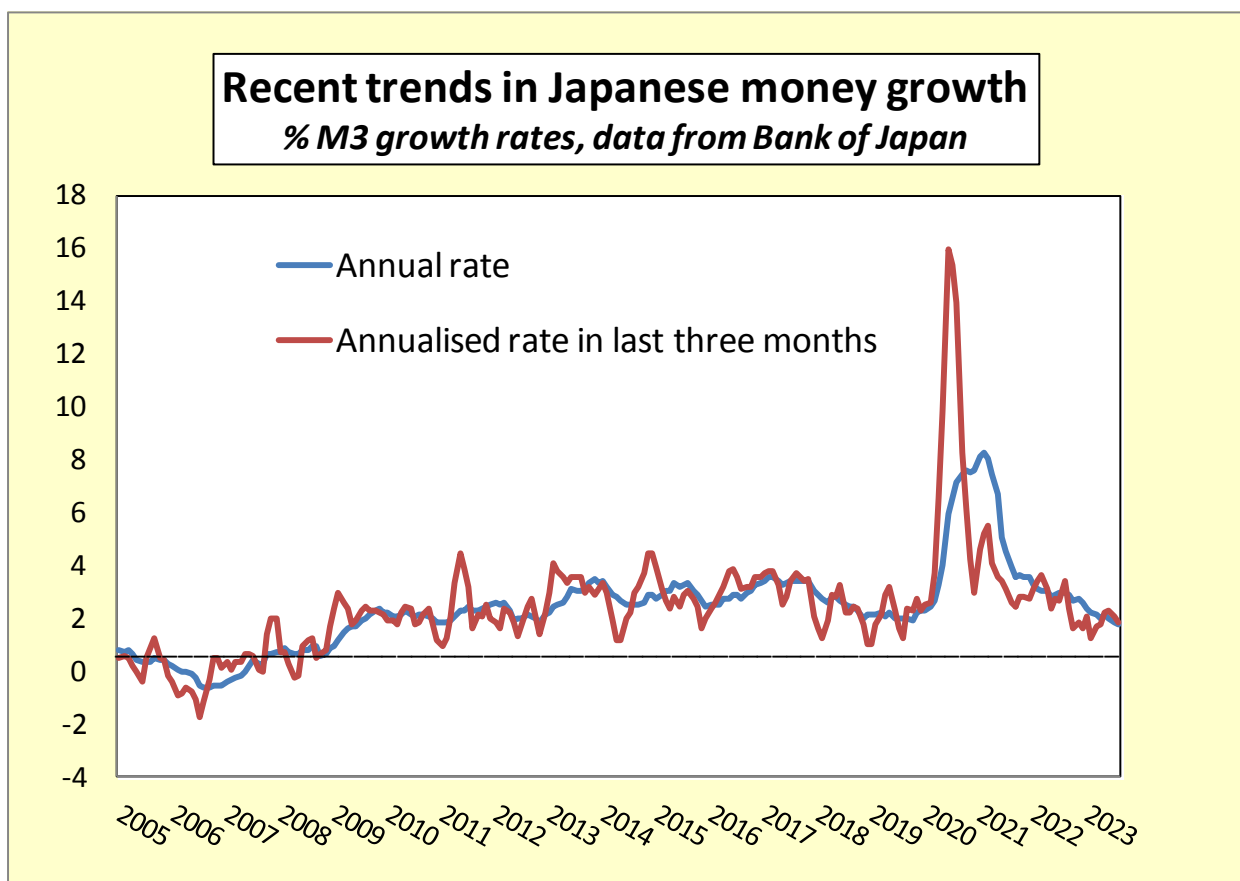


The ECB stopped stop paying interest on banks' minimum reserves on 20th September and is considering doubling the Eurozone banks' minimum reserve requirement which has stood at 1% since 18 January 2012 to 2%. Such measures are poised to strain bank's financial health, making them more cautious about extending new credit. With weak broad money growth, these decisions, coupled with a 0.25% hike in interest rates on 14th September, are likely to exacerbate the current monetary squeeze. This was evident when M3 plummeted €61b. in July. Furthermore, credit growth to the private sector declined from 1.4% in the year to June to 1.1% 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 August 2023	1.8	n/a
Three months to August 2023 at annualised rate	1.9	n/a

Sources: Bank of Japan for M3 and IMF for GDP

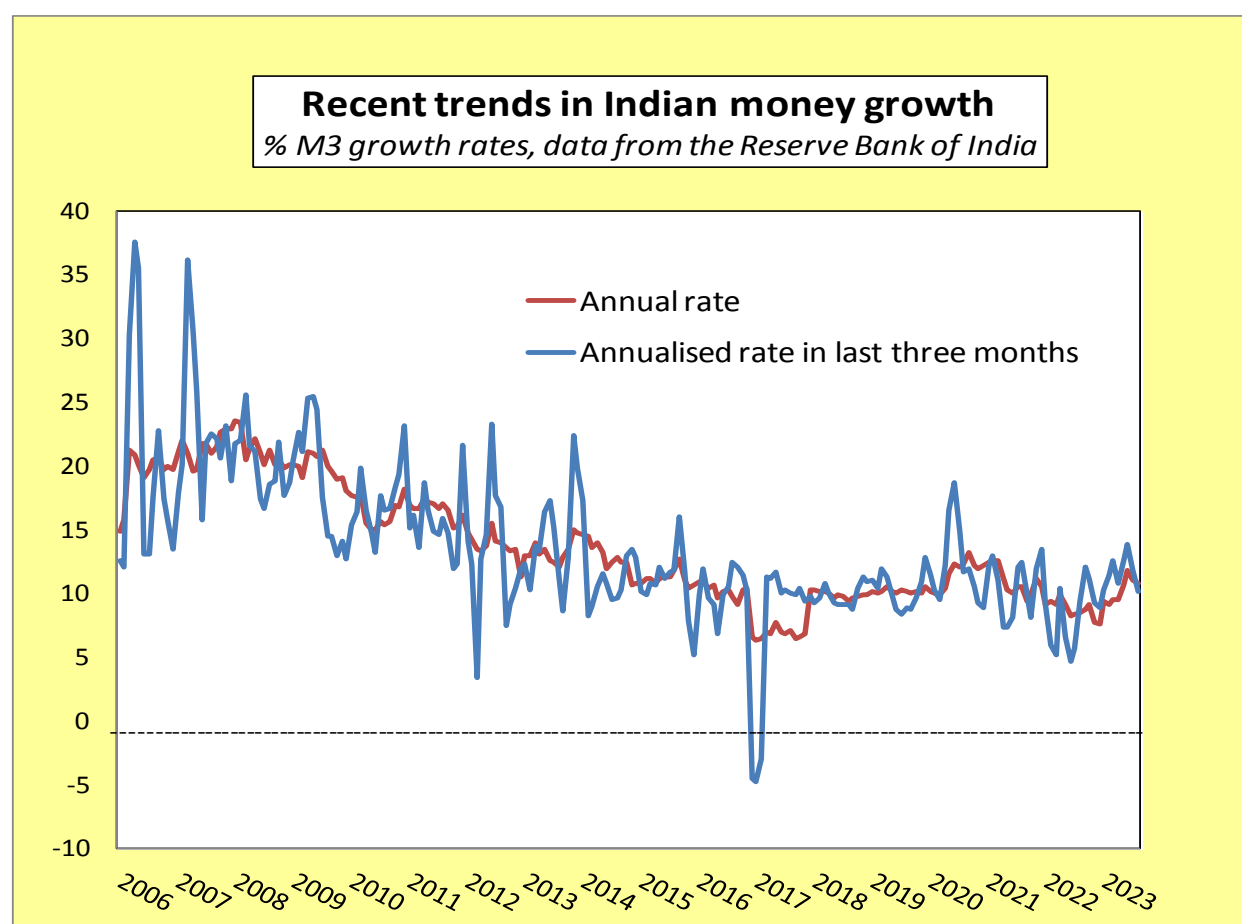


Japan continues to record positive but very small levels of broad money growth, with inflation still above 3%, a residual effect of the 2020 fiscal and monetary stimuli. Otherwise, the current rates of Japanese broad money growth and overall economic expansion closely resemble those of the previous decade. At its most recent meeting on 22nd September, the Bank of Japan voted to continue with its ultra-loose monetary policy, ignoring concerns about the weakness of the yen and persistent high inflation. The annual rate of growth of new bank credit stood at 3.1% in August, an increase on July's reading of 2.9%.

India

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2022	15.4	13.2
Ten years to 2020	11.3	9.8
Year to August 2023	10.8	n/a
Three months to August 2023 at annualised rate	10.1	n/a

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

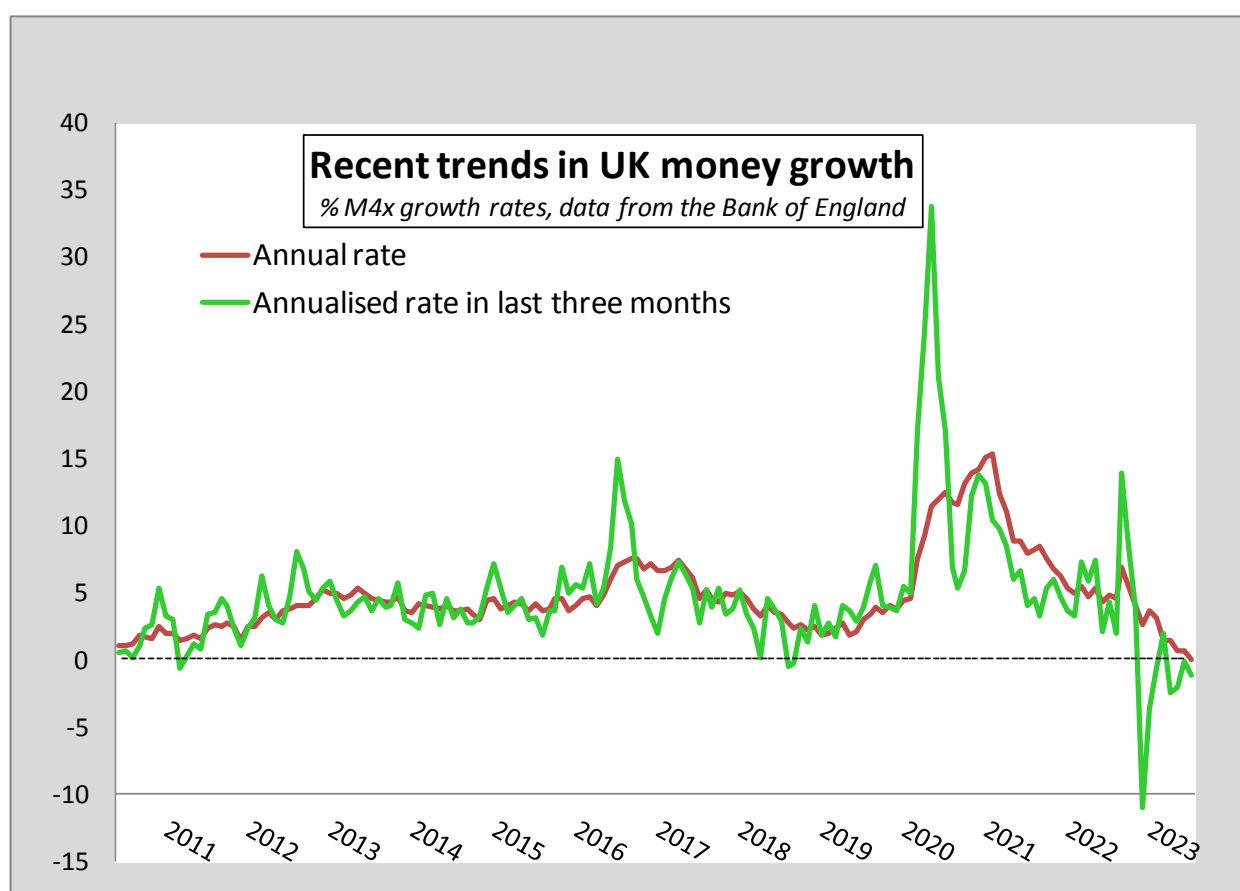


India's strong broad money growth of recent months has slowed in July and August. Thus far, the Reserve Bank of India has held back from further monetary tightening, even though inflation remains above target, thanks to a surge in food prices following an erratic monsoon. Growth in new credit to the private sector remains strong, reaching an annual rate of over 20% in July and continuing at 19.7% in August. The slowdown in broad money growth may be due in part to renewed selling of foreign exchange reserves to shore up the rupee, which is once again coming under pressure.

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 July 2023	0.0	n/a
Three months to July 2023 at annualised rate	-1.1	n/a

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



Broad money growth in the **UK** remains very weak, with the annual rate of growth falling to zero in July- the lowest such reading since the Bank of England adopted M4x as its preferred broad money measure in September 2009. While inflation continues to fall, it remains well above the Bank's 2% target, and wage settlements are running at over 8%. Despite this, the Bank of England's Monetary Policy Committee narrowly voted 5-4 to keep Bank Rate unchanged at its 21st September meeting. On the business front, aggregate credit saw a decrease of 0.8% in the year to July, with a reduction of £0.4 billion in that month alone. Conversely, new credit to households increased by 2.2% in the same period. However, there are clear indications of a slowdown in the housing market, underscored by the decline in new mortgage approvals to a five-month low.