



## INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

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

### Money growth update, May 2024

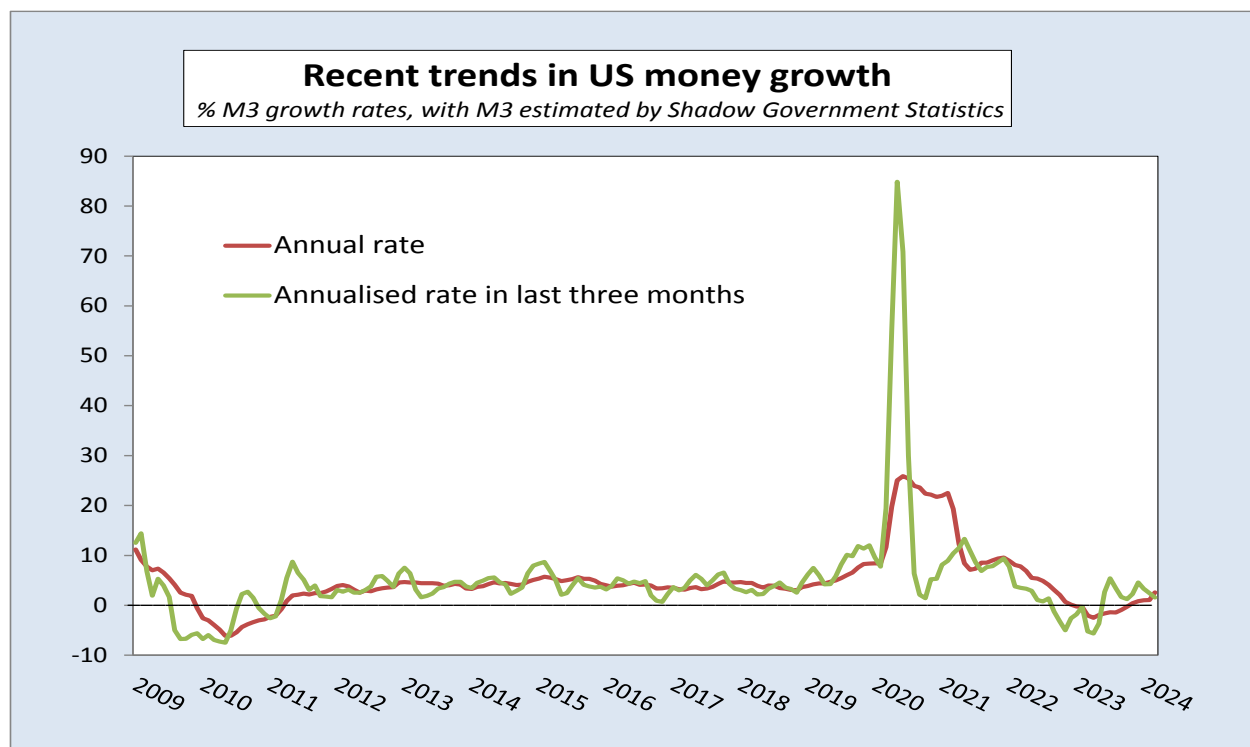
Broad money growth has touched record lows in China and remains weak in Japan. By contrast, India continues to have strong money expansion, money growth, driven by surging private sector demand for bank credit. In the UK and the Eurozone money growth is sluggish, but it has at least been positive in recent months. In the USA low money growth is dependent on monetization of the huge federal deficit. Growth in new bank credit remains weak, with banks seemingly anxious about a possible tightening of capital rules. Inflation is proving stubborn, delaying reductions in the Fed funds rate. Central banks everywhere can combat any emerging recessionary forces by cutting interest rates. *(Tim Congdon)*

| Name of country/<br>jurisdiction | Share of world<br>output in 2020          |   | Growth rate of broad<br>money                 |                            | Comment  |
|----------------------------------|---|---|---|----------------------------|--|
|                                  | In purchasing<br>power parity<br>terms, % | In current prices<br>and exchange<br>rates, % | In last three months<br>at annualised rate, % | In last 12<br>months,<br>% |  |
| USA                              | 15.7                                      | 24.2  | 1.3   | 2.3                        | Low money growth driven by monetization of Federal deficit, credit to private sector weak.     |
| China                            | 18.6                                      | 12.7  | 5.9   | 7.1                        | Money growth hitting record lows, as wider economy loses dynamism. Inflation positive but low. |
| Eurozone                         | 11.4                                      | 15.1  | 2.8   | 1.3                        | Credit and money growth weak in recent months but blipped upwards in March                     |
| Japan                            | 3.7                                       | 5.1   | 1.1   | 1.7                        | Credit and money growth very low, but still positive. Negative interest rates to cease.        |
| India                            | 6   | 3.3   | 11.3  | 10.9                       | Robust demand for new bank credit is keeping money growth strong. Inflation likely to pick up. |
| UK                               | 2.3                                       | 3.2   | 3.1   | 0.3                        | Demand for new bank credit still very weak while inflation is falling back to target           |

# USA

|   | % annual/annualised growth rate: |             |
|---|----------------------------------|-------------|
|   | M3                               | Nominal GDP |
| 1961 – 2022                                   | <b>7.6</b>                       | <b>6.5</b>  |
| Ten years to 2020                             | <b>6.2</b>                       | <b>3.4</b>  |
| Year to April 2024                            | <b>2.3</b>                       | <b>n.a</b>  |
| Three months to April 2024 at annualised rate | <b>1.3</b>                       | <b>n.a.</b> |

Sources: Shadow Government Statistics research service for M3 after 2006 (IIMR estimate for January –March 2024) and US Bureau of Economic Analysis for GDP

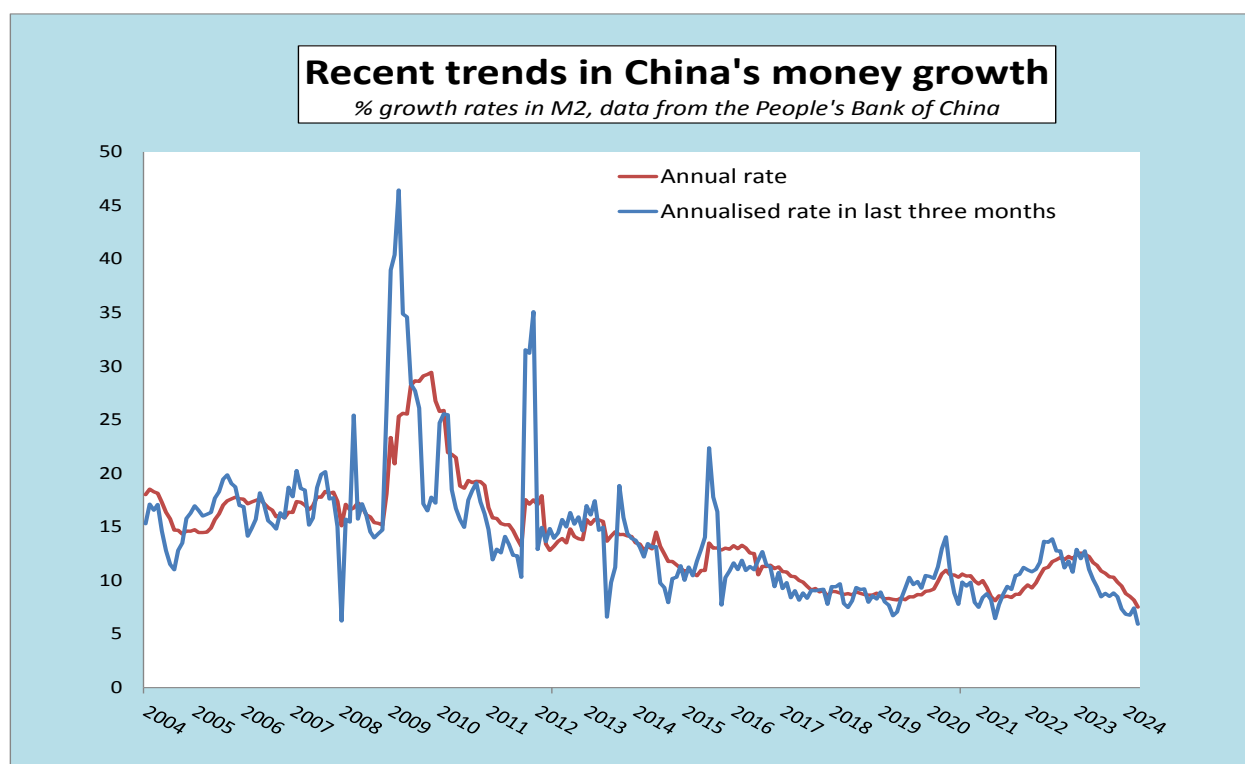


In the three months to April 2024, US M3 increased at an annual rate of 1.3%, the lowest reading since May 2023. Early indications are that money growth was negligible in May. Demand for new bank credit from the private sector has remained weak, with households deterred by the high cost of mortgage borrowing and banks nervous about the impact of new lending on their capital positions. Instead the dominant influence on money growth has been the financing of the Federal deficit. But in March and April the Federal budget, without seasonal adjustment, was in virtual balance, which may explain why money growth in the two months was so tepid. In late 2023 money market mutual funds grew strongly as they bought new government securities, but more recently banks as such have been more important. Inflation eased from 3.5% in the year to March to 3.4% in April, but still remains well above the Fed's 2% target. Real money balances are still falling, but the Fed is unlikely to reduce the Fed funds rate while inflation remains stuck above the effective target of 2%. (Tim Congdon and John Petley.)

# China

|   | % annual/annualised growth rate: |             |
|---|----------------------------------|-------------|
|   | M2                               | Nominal GDP |
| 1991 - 2020                                   | <b>18.4</b>                      | <b>14.5</b> |
| 2011 - 2020                                   | <b>11.7</b>                      | <b>10.0</b> |
| Year to April 2024                            | <b>7.1</b>                       | <b>n/a</b>  |
| Three months to April 2024 at annualised rate | <b>5.9</b>                       | <b>n/a</b>  |

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

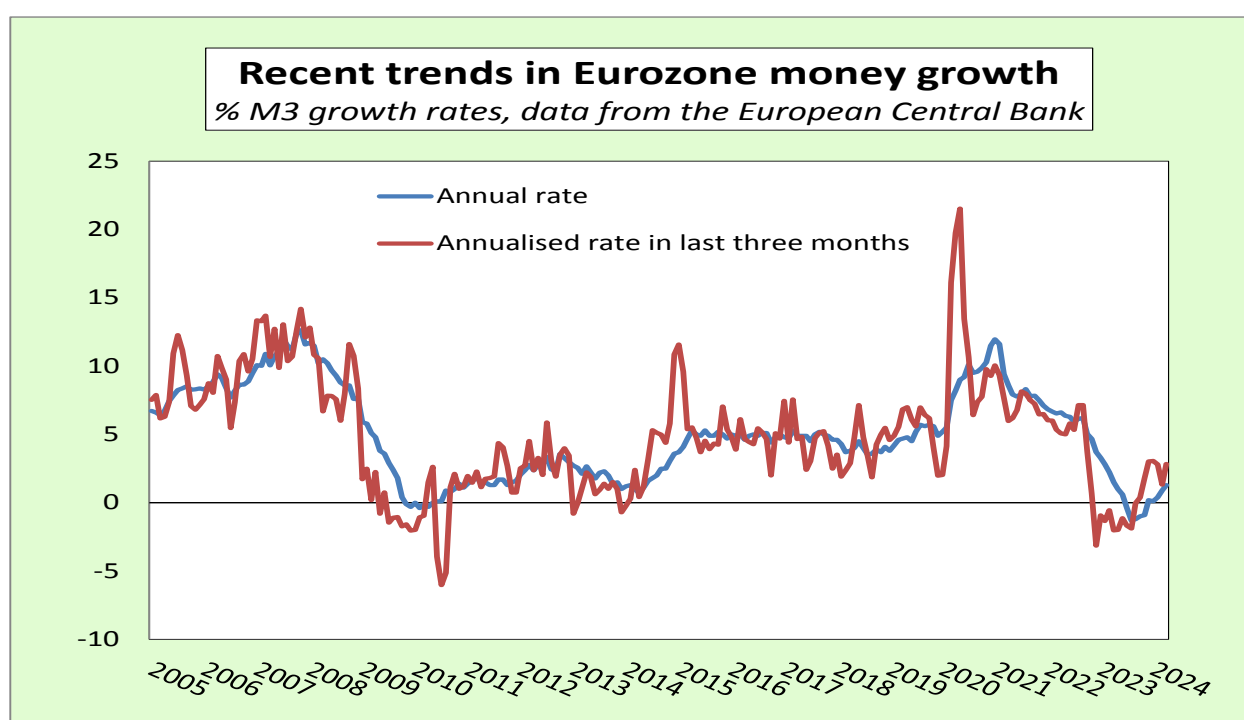


In the three months to April the annualised rate of Chinese broad money dropped from 7.4% to 5.9%. The annual rate also continues to decline, from 8.2% to 7.5%. Both these figures are the lowest in their respective series for at least 20 years. The People's Bank of China has not reduced either banks' cash reserve ratios or interest rates since February, but its previous actions anyhow did not spur stronger the growth of new bank credit. Its growth rate was unchanged at 9.6% in the year to April, the lowest reading since records began in 1998. This will result in slower growth of bank deposits and thus a continuation of sluggish broad money growth. The fading of money expansion seems to be having its impact the economy. House prices fell by 2.2% in the year to March, the weakest number since 2015. While April saw consumer inflation in positive territory for the third consecutive month, it was still only a meagre 0.3%. China's economy grew at an annualised rate of 5.3% in Q1 2024, but the money numbers are consistent with an economy losing its former dynamism. (Note by John Petley.)

# Eurozone

|   | % annual/annualised growth rate: |             |
|---|----------------------------------|-------------|
|   | M3                               | Nominal GDP |
| 1996 – 2022                                   | <b>5.4</b>                       | <b>3.2</b>  |
| Ten years to 2020                             | <b>4.6</b>                       | <b>1.6</b>  |
| Year to April 2024                            | <b>1.3</b>                       | <b>n/a</b>  |
| Three months to April 2024 at annualised rate | <b>2.8</b>                       | <b>n/a</b>  |

Sources: European Central Bank for M3 and Eurostat for GDP

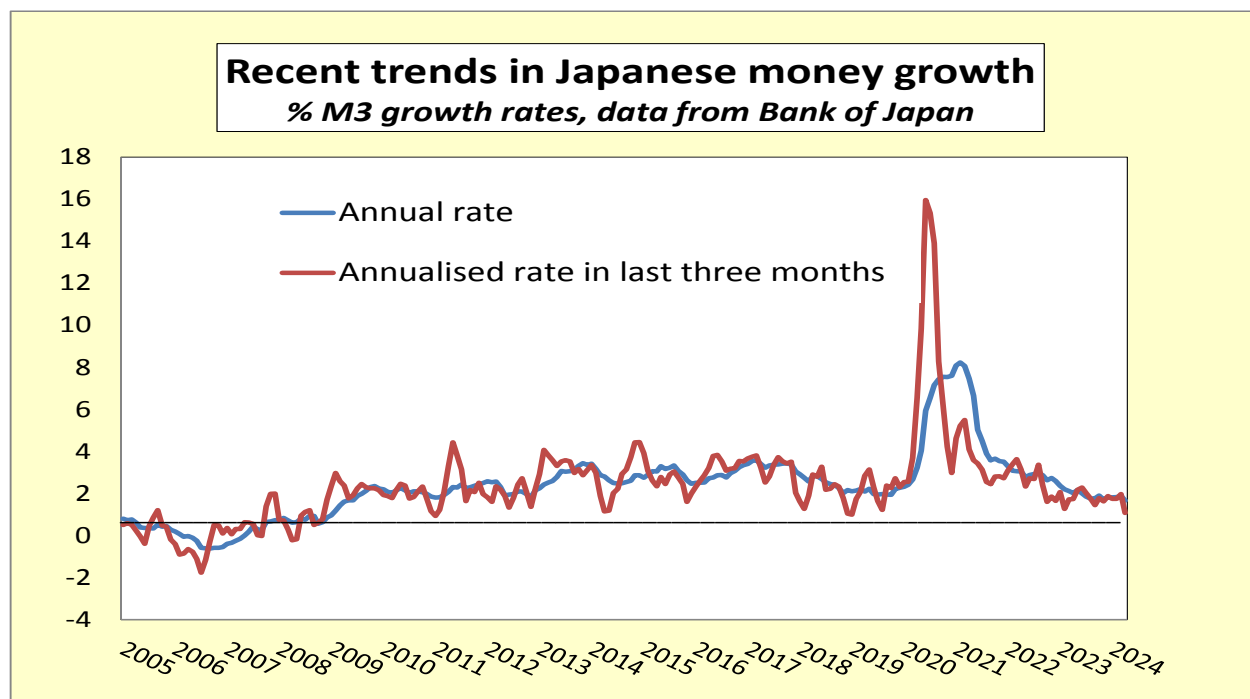


Eurozone M3 grew at an annual rate of 2.8% in the three months to April 2024. In April itself the quantity of money, broadly defined, increased by a modest €17b following March's more respectable reading of €68b. The ECB has given strong hints that the next meeting of the Governing Council, on 6<sup>th</sup> June, will see a rate cut. On this basis the Eurozone will move rates earlier than the USA, regardless of possible euro weakness on the foreign exchanges. Geopolitical tensions and concerns that inflation, which stood at 2.4% in the year to April, might prove stickier than expected have been the main reasons for the ECB's caution until now. Growth in bank credit was a touch stronger in March and April than recently, but remains sluggish. An increase in external assets, such as foreign exchange reserves, appears to be one factor in the improving broad money numbers. Given that the run-off of assets purchased under the Pandemic Emergency Purchase Programme is scheduled to start in the second half of the year at the rate of €7.5b. per month on average, monetary policy may be contractionary for much of 2024. (Note by Tim Congdon and John Petley.)

# Japan

|   | % annual/annualised growth rate: |             |
|---|----------------------------------|-------------|
|   | M3                               | Nominal GDP |
| 1981- 2022                                    | <b>3.9</b>                       | <b>1.8</b>  |
| Ten years to 2020                             | <b>3.2</b>                       | <b>0.3</b>  |
| Year to March 2024                            | <b>1.7</b>                       | <b>n/a</b>  |
| Three months to March 2024 at annualised rate | <b>1.1</b>                       | <b>n/a</b>  |

Sources: Bank of Japan for M3 and IMF for GDP

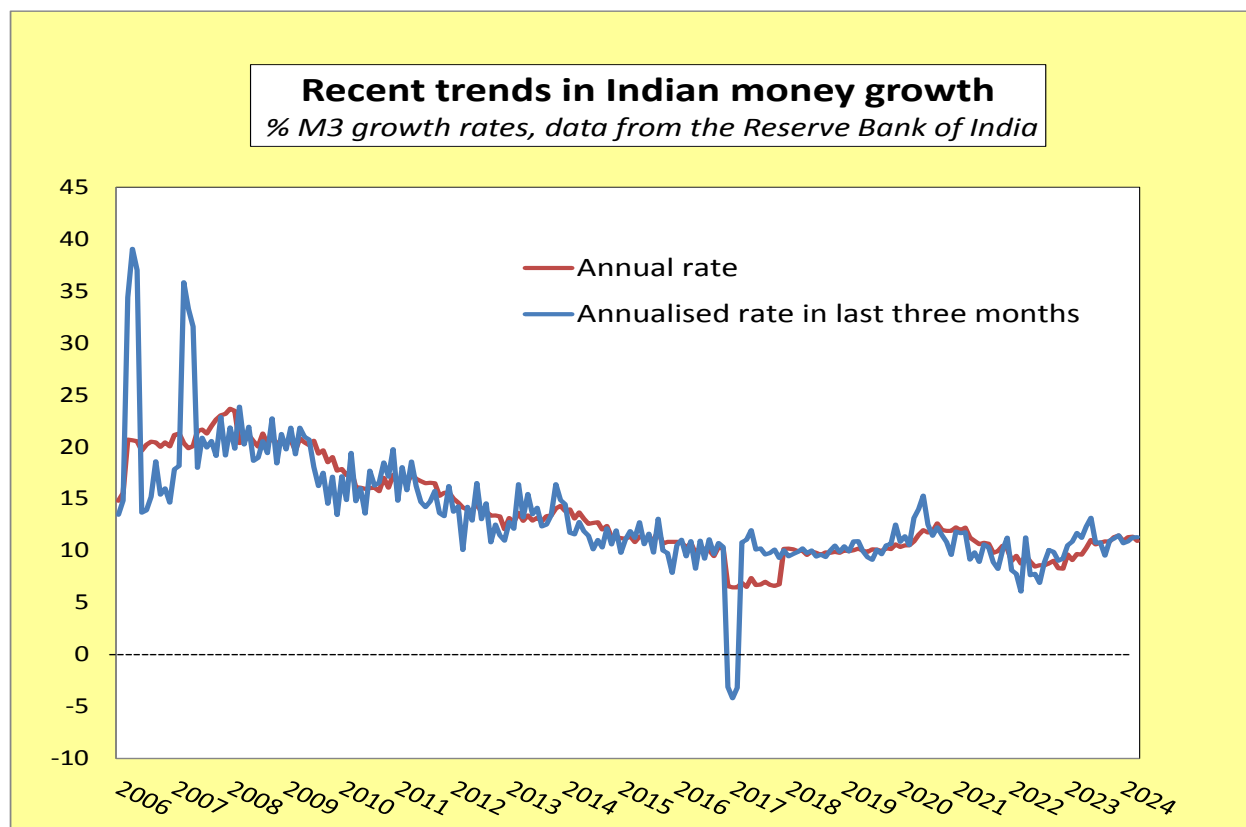


March 2024 was the first month since December 2017 in which Japanese M3 declined. Weak broad money growth in January also contributed to the annualised quarterly growth rate falling to a five year low of 1.1% while the annual growth rate fell back from 1.9% to 1.7%. This slowdown in M3 growth cannot be blamed on the decision by the Bank of Japan in February to raise the cost of borrowing for the first time in 17 years. The annual rate of growth in new bank credit stood at 3.1% in April, only slightly down from March's ten-month high of 3.2%, suggesting that businesses and households are still keen to take out new loans. Japan's foreign currency reserves have declined since the start of the year and the yen is undergoing a renewed spell of weakness, with strong indications that the authorities have intervened in the foreign exchange markets as they did in 2022. If so, broad money growth is likely to remain sluggish at best. At 2.7% in the year to March, inflation remains above target but the money numbers suggest that it will soon be back below 2%. Japan narrowly escaped recession in the first quarter of 2024. The latest M3 data imply that Japanese nominal national income will enjoy only a modest level of growth. (Note by John Petley.)

# India

|   | % annual/annualised growth rate: |             |
|---|----------------------------------|-------------|
|   | M3                               | Nominal GDP |
| 1981- 2022                                    | <b>15.4</b>                      | <b>13.2</b> |
| Ten years to 2020                             | <b>11.3</b>                      | <b>9.8</b>  |
| Year to April 2024                            | <b>10.9</b>                      | <b>n/a</b>  |
| Three months to April 2024 at annualised rate | <b>11.3</b>                      | <b>n/a</b>  |

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

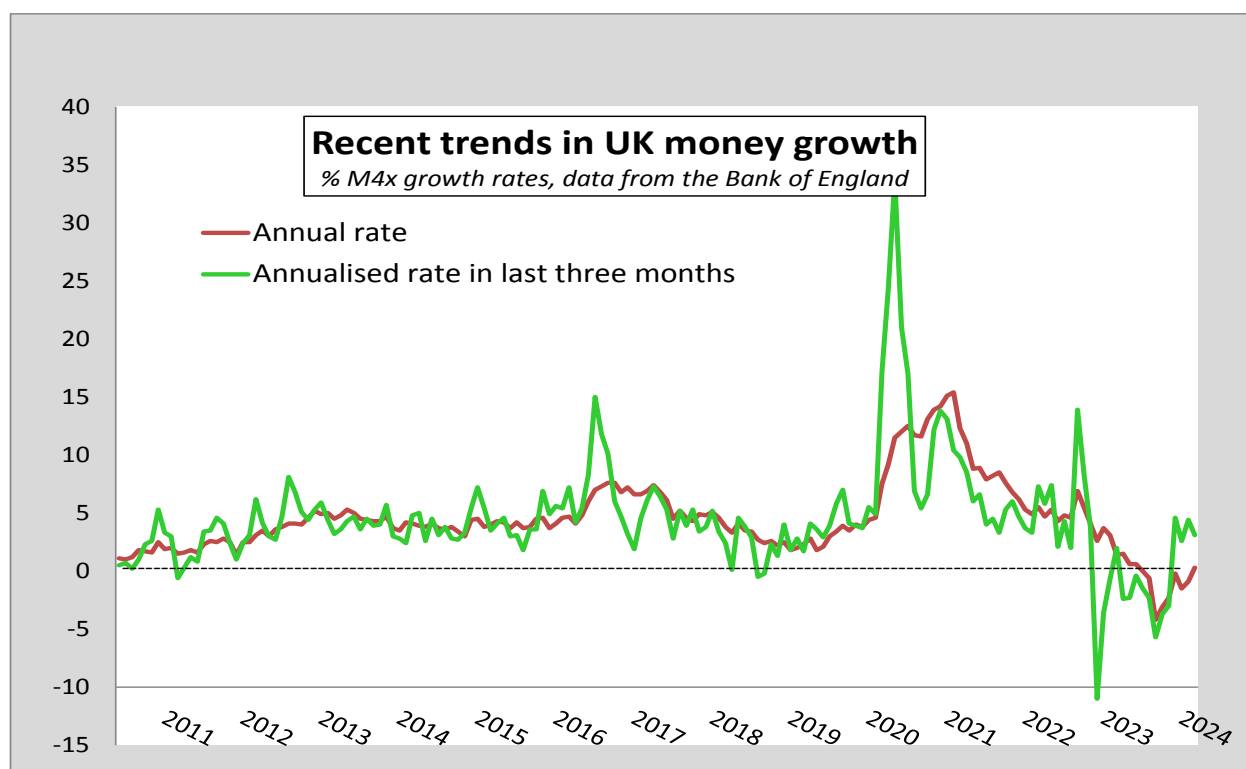


Indian M3 grew at an annualised rate of 11.3% in the three months to April. Strong demand for new loans has been the principal driver of M3 growth over the past year. Since peaking at 20.8% in December, growth in new bank credit has tailed off slightly, but it still remains very strong. (The most recent reading, covering the fortnight up to May 3<sup>rd</sup>, was 19.5 %.) Inflation, which dropped to an 11-month low of 4.8% in the year to April, has now remained within the Reserve Bank of India's target range of 4% - with a 2% permitted band in either direction – for eight consecutive months. The rupee has stabilised against the US dollar since March, so no RBI foreign exchange interventions, which could reduce broad money growth, are likely in the near future. The money numbers suggest that India's economy will continue to enjoy strong growth in coming quarters, but possibly higher inflation. (John Petley.)

# UK

|   | <i>% annual/annualised growth rate:</i> |             |
|---|---|-------------|
|   | M4x/M4 before 1997                      | Nominal GDP |
| 1981 – 2022                                   | <b>8.3</b>                              | <b>5.5</b>  |
| Ten years to 2020                             | <b>5.2</b>                              | <b>2.3</b>  |
| Year to March 2024                            | <b>0.3</b>                              | <b>n/a</b>  |
| Three months to March 2024 at annualised rate | <b>3.1</b>                              | <b>n/a</b>  |

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



UK M4x increased by £12b. in March. Thanks to three months of positive broad money growth, the annualised quarterly growth rate now stands at 3.1% while the annual rate has turned positive for the first time since June 2023. Demand for new bank credit from both businesses and households remains subdued. The total value of new credit to businesses declined by £1.1b. in March, with the SME sector in particular seeing a significant contraction in new credit allocations. Homeowners borrowed only £0.5b. more than they repaid in March although the number of new mortgage approvals rose to an 18-month high of 61,325, although this is still a modest figure by recent standards. Much of M4X growth was driven by new bond issuance by Private Non-Financial Corporations. UK inflation fell sharply to 2.3% in the year to April, having stood at 3.2% a month earlier. Given that it is now only slightly above the Bank of England's 2% target, it is possible that the MPC could consider a reduction in the Bank Rate at its next meeting on 20<sup>th</sup> June. The UK has exited its shallow recession, but the long spell of tight monetary policy suggests that only modest growth is likely during the rest of 2024. (*John Petley.*)