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**Monthly e-mail from Tim Congdon – 29<sup>th</sup> August, 2017**

## **Global money round-up in summer 2017**

Alarmism about the global economic outlook persists in leading supranational organizations and central banks. The alarmists include, for example, the Bank for International Settlements in Basel, but also the Federal Reserve, as represented by Stanley Fischer in a recent interview in the *Financial Times*. (Fischer's comments are discussed critically in the video that accompanies this note.) However, **the International Monetary Fund – on its website, relying on its latest *World Economic Outlook* – takes a benign view. On a purchasing-power parity basis (which tends to give higher weights to low-income countries with higher trend growth rates), it expects world output to rise by 3.5% in 2017, after 3.4% in 2015 and 3.1% in 2016. It also has figures for 2018, 2019 and 2020 (of 3.6%, 3.7% and 3.7% respectively) which are somewhat better still.** (The fast-growing countries matter more over time and bump up the overall growth rate as they become more important.)

With the world's stock markets gaining ground so far in 2017, investors must be paying more attention to the IMF's positive attitude in its database than to the alarmists. **The analysis of money trends in leading nations supports an optimistic medium-term assessment, although the grounds for predicting that 2018 and 2019 will be better than 2016 and 2017 are not obvious. In general, the current pattern is for mild deceleration in broad money growth relative to the rates seen last year and on average in, say, the last five years. The mild decelerations are better-defined in China and India than in the USA, Japan and the UK. But nowhere is money growth crashing at present or likely to crash in the next few quarters.** Despite the incessant chatter about "increasing vulnerabilities" and the like, the 2018 outlook is good. If anything, money trends argue for a slowdown, not an uptick, from 2017's healthy pace of expansion. But any slowdown should not be dramatic. Neither recession nor rising inflation is to be expected next year in the world's major nations.

## Money trends in spring 2017 in the main countries/jurisdictions

What are the latest money growth trends in the main countries? And what is the message for global economic activity over the next year or so, and for inflation/deflation over the medium term thereafter? The table below summarizes key numbers. For detail, it is recommended that the reader looks at the individual country comments below. Beneath the table I make an overall assessment. It is much the same as in recent months, with the overall message being “continued stability”. However, on this occasion the qualification, “money growth in the leading countries is tending towards a mild deceleration”, might be added. Worries can legitimately be expressed that the regulatory attack on the banks (for promoting the growth of all that wicked new debt) may lead to a more serious money slowdown in the closing months of 2017 and 2018, which might have effects on demand and output in late 2018 and 2019. But monetary policy could cause another recession only if it were grossly incompetent.

Name of country/ Jurisdiction	Share of world output, in purchasing-power-parity terms, %	Growth rate of broad money, in last three months at annualised rate, %	Growth rate of broad money, in last twelve months, %	Comment:
USA	15.3	4.2	3.3	Money growth has been weak, perhaps reviving
China	18.3	9.2	9.9	Money growth slowing, in stable context.
Eurozone	11.6	2.4	5.0	Money growth has been at 5% rate ideal for recovery, but now to be slowed
India	7.5	10.5	7.0	November 2016 attack on cash ‘black economy’ fading from money data
Japan	4.3	3.4	3.4	Broad money growth slipping from rates high by Japanese standards
UK	2.3	5.4	6.0	Money growth a bit too high for comfort

In the table above I have changed the figures for the different nations’ shares of world output, reflecting the latest update from the IMF’s *World Economic Outlook* publication, which informs its website’s database. Some words of warning are needed. I have used the purchasing-power-parity basis for the shares of world output rather than a basis derived from current prices and exchange rates. The latter basis might be regarded as better for some purposes, since – arguably – it is a superior measure of a nation’s ability to pay for imports and hence to impact on the global economic prospect. A cross-check comes from information on actual imports of goods, where various sources have the data. In the table on the next page, I set out numbers on the website of the USA’s Central Intelligence Agency. The CIA admits that the data are imperfect, being drawn from national statistical agencies which often have different methods. (The import values are c.i.f., i.e., they include costs, insurance and freight, which has the well-known consequence in trade data that imports are systematically higher than exports, which are stated f.o.b., i.e., free on board. To proceed...)

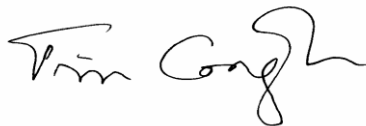
### The world's leading importers of goods in 2016

	\$b.
USA	2,205.0
China	1,587.0
Germany	987.6
Japan	629.8
UK	581.6
France	561.0
Hong Kong	509.5
Netherlands	422.3
Canada	419.0
South Korea	405.1
Mexico	387.0
India	381.0
Italy	372.2
Spain	287.9
Singapore	271.3
Belgium	251.7
United Arab Emirates	246.9
Switzerland	243.4
Taiwan	230.9
Australia	203.1
Turkey	197.8
Poland	189.5
Thailand	171.3
Russia	165.1
Vietnam	161.0

According to the table with GDP shares according to purchasing power parity, China is more important than the USA and much more important than the Eurozone. But the USA imports about 50% more than China (and has a current account deficit!), while adding up the Eurozone member states in the table arrives at a total far above China's. In fact, the Eurozone is a larger importer of goods from non-Eurozone countries than either the USA or China is from other countries. Again, the PPP method overstates the size and significance of India. It gives India's share of world output as well above Japan's and more than three times that of the UK, whereas its imports are markedly lower than imports by both Japan and the UK. India's trade regime is far more protectionist than that of Japan and the UK, but in truth its protectionism greatly reduces its role in global business and finance. (Another eyebrow-raising feature of the table is the position of Russia, an alleged "super-power" and a permanent member of the United Nations' Security Council. It is the world's 24<sup>th</sup> largest importer, buying less from abroad than any of Hong Kong, Singapore, the United Arab Emirates and Switzerland, all of which have populations less than 6% of its own.)

The IMF does produce forecasts of global output growth, using the current-prices-and-exchange-rates basis, not the PPP basis. They are lower – by about ¾% – than growth on the PPP method, because such slow-growing countries as Japan and the UK have a higher weight in global output on a current-prices-and-exchange-rates basis. That leaves world output growth numbers of about 2½ - 3% nowadays. Some economists complain that, since the Great Recession, the growth numbers have been so disappointing that we have entered a new era of "secular stagnation".

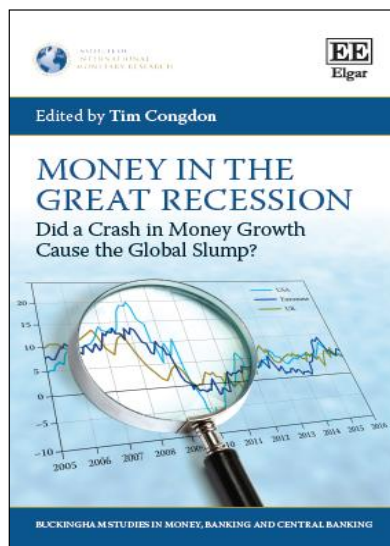
Really? If the world economy can continue to expand by 3% a year until 2117, output then will be 19.2 times higher than in 2017. Imagine a world with almost 20 times as many planes, cars, ships, office buildings, etc., as at present. Clearly, the implied rates of resource depletion and potential environmental deterioration point to the need for new technologies as well as different ways of life. Indeed, some reduction in rates of growth might be quite acceptable. When people look back from 2117, it may be that the current 3% - 3½% annual growth figures will seem unsustainably high, while the 4%-plus figures in the 25 years leading up to the Great Recession will be judged as extraordinary. In this larger context, to talk of “secular stagnation” is plain silly. (And perhaps by 2117 Russia, along with other relics of a different geopolitical framework, will – sensibly – have been kicked off the UN Security Council. Since the UN and the Bretton Woods institutions have survived 72 years, perhaps they can survive another century. It seems a sensible central assumption.)



29<sup>th</sup> August, 2017

P.S. As last month, I would like to bring to your attention to my new book.

## *Money in the Great Recession* (edited by Tim Congdon) is being published by Edward Elgar Publishing in June



- The blurb on the back cover of *Money in the Great Recession* reads as follows,

No issue is more fundamental in contemporary macroeconomics than the causes of the recent Great Recession. The standard view is that the banks were to blame because they took too much risk, “went bust” and had to be bailed out by governments. But very few banks had losses in excess of their capital. **The counter-argument presented in this volume is that the Great Recession was caused by a collapse in the rate of change of the quantity of money.** The book’s thesis echoes that made on the causes of the Great Depression by Friedman and Schwartz in their 1963 classic *A Monetary History of the United States*.



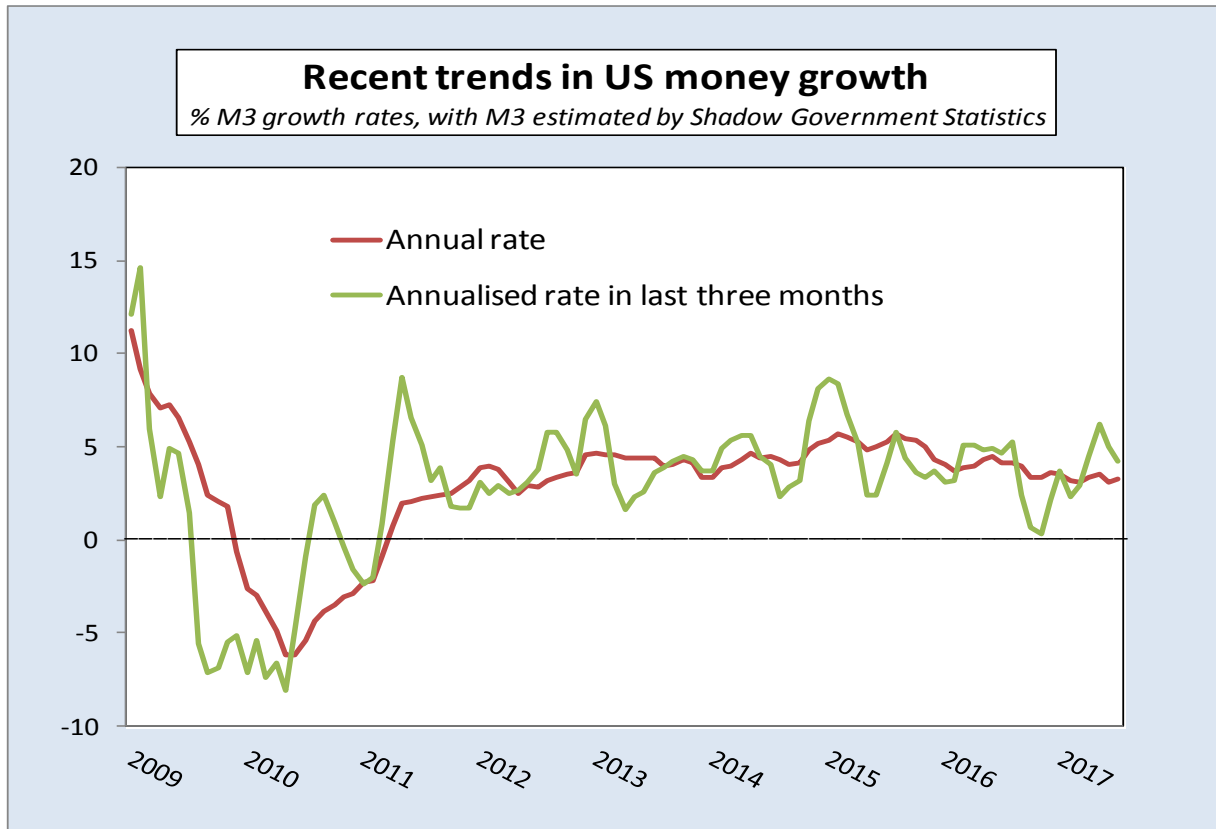
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### USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1960 – 2016	<b>7.5</b>	<b>6.5</b>
Six years to 2016	<b>4.0</b>	<b>3.7</b>
Year to July 2017	<b>3.3</b>	<b>n.a</b>
Three months to July 2017 at annualised rate	<b>4.2</b>	<b>n.a.</b>

Sources: Shadow Government Statistics research service for M3 after 2006 and US Bureau of Economic Analysis for GDP



## M3 growth has returned to ideal levels, but will it last?

**Summary:** A US money slowdown – which began last summer – seems to be over for the time being. Broad money grew at an annualised rate of 4.2% over the three months to July, which is more or less ideal. (Slightly higher figures were seen in 2014 and 2015.) The quantity of money, broadly defined, grew by a very satisfactory \$69b. in July itself as opposed to \$21b. in June. The \$69b. was well above the pace of increase in late 2016 and the opening months of 2017. The benign monetary environment may not continue much longer. Next month sees the start of the deliberate run-off by the Federal Reserve of the stock of assets bought during the “quantitative easing” programmes in the six years to October 2014. A further rise in the Fed funds rate is also a very real possibility later this year. (Our M3 data come from Shadow Government Statistics.)

The Fed’s proposed asset sales – so-called “quantitative tightening” – along with a rise in interest rates constitute a definite policy shift. In autumn 2016 US money growth fell when the Fed did not sustain banks’ cash reserves by buying other securities, even as existing securities in its portfolio were redeemed. This dip can be seen in the chart above. Significantly, however, the Fed funds rate remained at 0.5% until November. A combination of more “QT” and higher interest rates would most likely effect a sharper slowdown on money growth, especially as pressure on large banks (or “global systemically important banks”) to raise their capital/asset ratios persists. The Fed takes little notice of money numbers and thus may fail to heed the warning signs until a slowdown is well under way. In determining interest rates, it places far more importance to the US employment statistics and these are very positive: 200,000 new jobs were created in July while unemployment hit a 16-year low of 4.3%.

One factor restraining policy tightening may prove to be the low inflation rate. Consumer prices rose by 1.7% in the year to July, below the Fed’s 2% target and well down on the annual rate of 2.7% peak in February. Given the general weakness of commodity prices worldwide, there is little likelihood of a sudden spike in inflation in the immediate future. The best hope of sustaining US broad money growth at the current levels lies with the proposals to reverse the Dodd-Frank Act and other banking regulations enacted in the wake of the Lehman Brothers collapse. These moves are widely opposed by some Fed officials, notably Stanley Fischer, the vice-chairman. His worries about the alleged dangers of looser regulation reflect a failure to understand that it was the plunge in money growth, not the under-capitalisation of the banks, which triggered the Great Recession. For now, however, the US economy is performing well, with the overall stock of bank lending growing by 5.9% in the year to July, although business loans only grew by a disappointing 1.3% in this period. It is uncertain, however, that the current benign macroeconomic environment will continue to the end of 2018.

*John Petley*  
18<sup>th</sup> August, 2017

	% annual growth rate:	
	M3	Nominal GDP
1960 – 2016	<b>7.5</b>	<b>6.5</b>
1960 – 1970	<b>7.7</b>	<b>6.8</b>
1971 – 1980	<b>11.4</b>	<b>10.3</b>
1981 – 1990	<b>7.7</b>	<b>7.7</b>
1991 - 2000	<b>5.6</b>	<b>5.6</b>
2001 - 2010	<b>7.1</b>	<b>3.9</b>
Six years to 2016	<b>4.0</b>	<b>3.7</b>



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### China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2016	<b>19.7</b>	<b>15.4</b>
2010 - 2016	<b>14.4</b>	<b>11.6</b>
Year to June 2017	<b>9.9</b>	<b>n/a</b>
Three months to June 2017 at annualised rate	<b>9.2</b>	<b>n/a</b>

Sources: People's Bank of China for M2 and International Monetary Research Ltd. estimates



## Modest decline in broad money growth continues

**Summary:** In the second quarter of 2017 China's M2 expanded by 2.3% or at an annualised rate of 9.2%. While this is an improvement on the 8.5% in the three months to May, annualised quarterly M2 growth has remained below 10% throughout 2017 and the annual growth rate, seasonally adjusted, dipped below 10% in June, the slowest in over a decade. As the chart above illustrates, Chinese broad money growth has not been experiencing the extreme fluctuations seen in previous years, but the slow and steady decline of the last year is continuing.

At the start of 2017 the Chinese authorities hinted that an 11% growth in broad money during 2017 would not worry them, even though the official target was set at 12%. In the last few years several influences have combined to lower output growth, but to secure a more stable and balanced economy. First, the government has encouraged a re-balancing of the economy away from investment to consumption. Second, a crackdown on the shadow banking sector and curbs on excessive debt growth have been implemented. In February, Guo Shuqing, a figure known to favour a tough line on bank loan loss provisioning, was appointed China's new bank regulator.

Considering the scale of these objectives, it is perhaps unsurprising that money growth has slowed, but it remains at a respectable level for a country which began its economic and financial liberalization only 40 years ago. Ample scope for monetary loosening exists, if the authorities decide demand growth has slowed too much. Consumer price inflation, which fell from 1.5% in the year to June to 1.4% the month afterwards, has remained well below the government's 3% target for 2017. Given that base rates have not been reduced, the conclusion must be drawn that even money growth below the unofficial 11% comfort zone is not causing any concern in Beijing. The booming housing market, which saw prices rising at an annual rate of over 30% in Shanghai and Beijing in late 2016, is cooling thanks to the imposition of tighter conditions on housing loans in March in the big cities. House prices, including in these two cities, are now increasing at more modestly, at just over 10% in the last year.

The stock of bank lending rose by 13.2% in the year to July, up from 12.9% in June. For nine out of the last twelve months, annual loan growth has remained within a narrow band of 12.9% - 13.2%. With China recording annual GDP growth of 6.9% in both the first two quarters of 2017, there seems little evidence to support the widely-reported claims that a major slowdown is imminent. Even the alleged percentage of non-performing loans in the banking sector is a mere 1.5-2%, which is no real cause for concern. Although the money figures suggest that growth may dip slightly, the most likely scenario is that the Chinese government's determination to preserve stability should ensure that the current course of lower but steady money growth will be maintained

*John Petley*  
*8<sup>th</sup> July, 2017*

	% annual growth rate:	
	M2	Nominal GDP
1991 - 2000	<b>24.6</b>	<b>18.5</b>
2001 - 2010	<b>18.4</b>	<b>15.2</b>
Six years to 2016	<b>13.5</b>	<b>10.6</b>



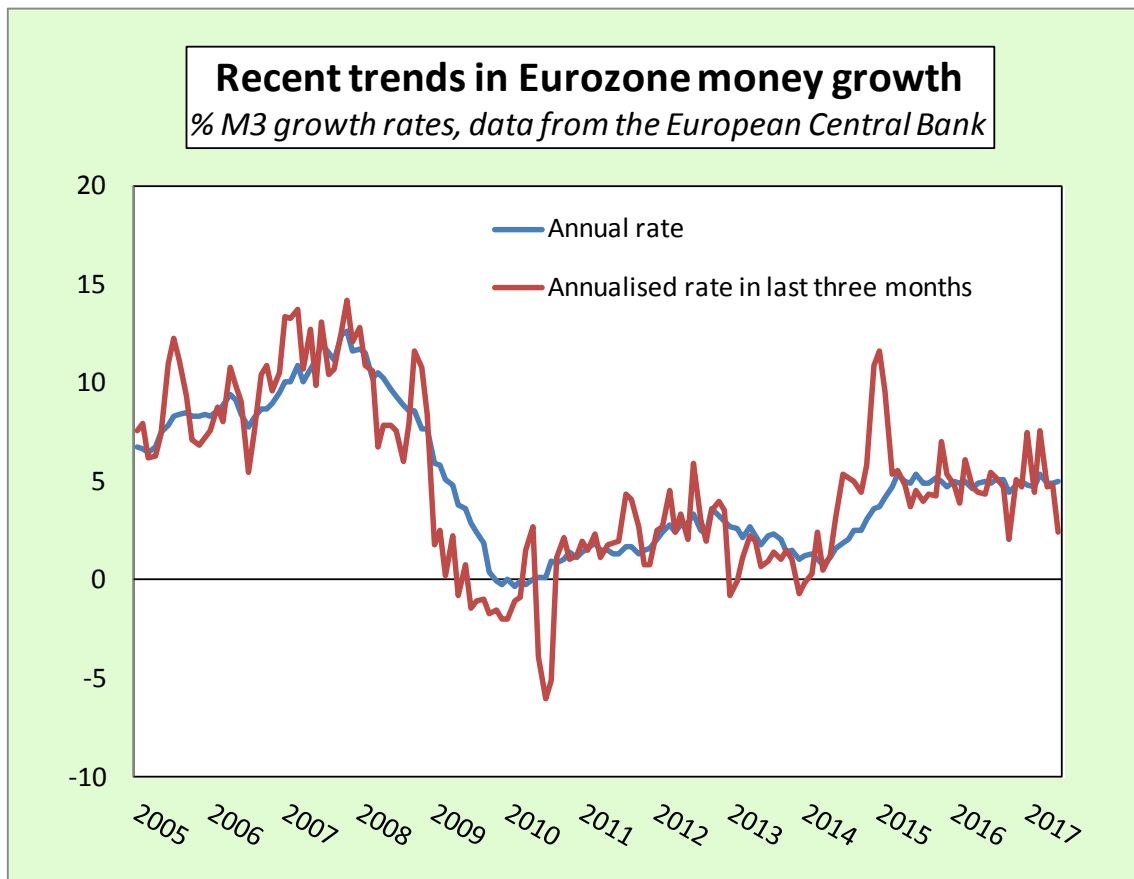
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### Eurozone/Euroland

	% annual/annualised growth rate:	
	M3	Nominal GDP
1996 – 2016	<b>5.3</b>	<b>3.0</b>
Six years to 2016	<b>3.4</b>	<b>2.0</b>
Year to June 2017	<b>5.0</b>	<b>n/a</b>
Three months to June 2017 at annualised rate	<b>2.4</b>	<b>n/a</b>

Sources: European Central Bank and International Monetary Research Ltd. estimates



## Money growth dips slightly, but remains satisfactory

**Summary:** In the second quarter of 2017 Eurozone M3 money grew at an annualised rate of 2.4%. The annualised quarterly growth figures for the two previous months were 4.8% and 4.7%, but the fall this month is not nearly as bad as it seems. The quantity of money, broadly defined, grew by €60b. during June itself, but it fell by €8b in April following growth of over €100b. in March. March's figures have dropped out of the calculations but. April's have not. July's figures are therefore likely to be better. Annual broad money growth remained virtually unchanged, inching up from 4.9% to 5.0%. In other words, broad money growth remains at the level which was probably intended when the "quantitative easing" programme began over two years ago. The QE programme has been, raising the annual rate of broad money growth from the 2% average during the disappointing 2009-2013 period to 5% now. QE has strengthened asset prices, improving balance sheets and boosting demand.

The growth of broad money in June suggests that April's "tapering" of the monthly asset purchase from €80b. to €60b. has not caused any money slowdown so far. In the autumn, the ECB's governing council will need to decide whether to extend it into 2018. The Eurozone economy has recovered significantly since the QE programme was launched, but inflation has shown some reluctance to stick consistently at the ECB's target of 2% or just below. In April, the consumer price index was up by 1.9% compared with a year earlier, but the inflation rate dropped to 1.4% in May and stood at 1.3% in both June and July. Lower oil and energy prices will keep inflation down in the summer. Consumer prices were actually lower in Ireland and Cyprus than a year ago. Even so, this may be just a blip and a return to deflation anywhere in the single currency area looks highly unlikely.

In spite of the widely-reported increase in confidence among businesses and consumers in the Eurozone, growth in the stock of loans to the (non-financial) business sector is still rather weak, standing only 1.3% higher in June than 12 months earlier, down from a growth rate of 1.6% in the 12 months to May. Although this is better than the prolonged contraction in bank lending to companies in the aftermath of the Great Recession it is still somewhat weak and shows no sign of building any momentum. Growth in the stock of mortgage lending is more robust. The annual rate of increase rose to 3.3% in the second quarter of the year, the highest figure for several years.

Interest rates will not be raised in the Eurozone any time soon. Indeed, it is uncertain that the Eurozone's banking system is sufficiently robust to maintain balance-sheet expansion without assistance from the ECB's asset purchases. An overall assessment must be that while Eurozone still looks set to enjoy stable, even positive, macroeconomic conditions, potential problems remain. Italy's banks have large borrowings from the Target 2 settlement system. Two Italian banks, Veneto Banca and Banco Popolare di Vicenza, were bailed out in June by the Italian government at a cost of €17b. and the total sum of non-performing loans on the books of Italy's banks may be as high as €313b., according to one estimate.

John Petley  
8<sup>th</sup> August, 2017

	% annual growth rate:	
	M3	Nominal GDP
1996 - 2016	<b>5.3</b>	<b>3.0</b>
1996 – 2000	<b>4.6</b>	<b>4.1</b>
2001 – 2010	<b>6.8</b>	<b>3.1</b>
Six years to 2016	<b>3.4</b>	<b>2.0</b>



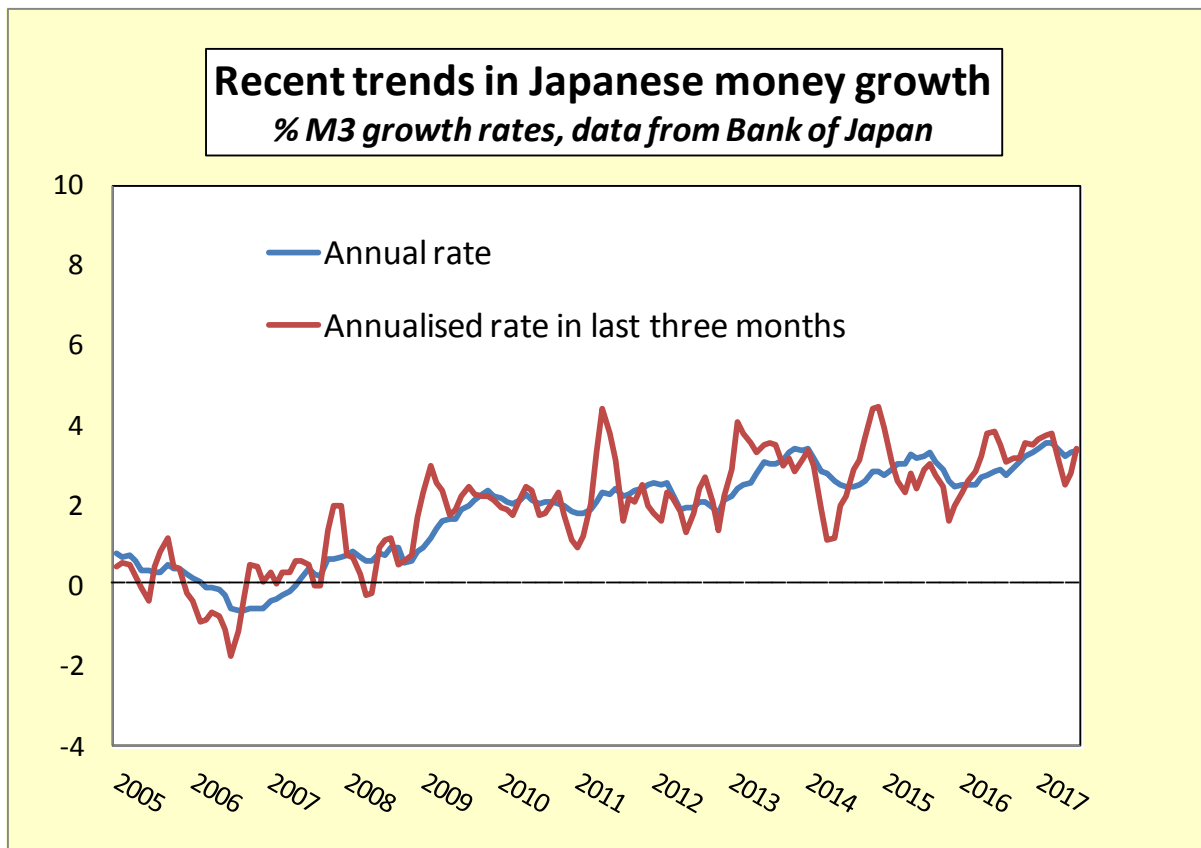
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## Japan

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2016	<b>4.0</b>	<b>1.9</b>
Six years to 2016	<b>2.9</b>	<b>0.6</b>
Year to July 2017	<b>3.4</b>	<b>n/a</b>
Three months to July 2017 at annualised rate	<b>3.4</b>	<b>n/a</b>

Sources: Bank of Japan for M3 and IMF for GDP



## Moderate broad money growth continues

**Summary:** In the three months to July 2017 Japanese M3 broad money grew at an annualised rate of 3.4%. After dropping below 3% in May and June, the annualised three-month growth rate has picked up, although it still remains below the level seen at the beginning of the year. Early in 2017 Japanese broad money growth was running at its highest level in over a decade. The improvement in broad money growth can be attributed to the Bank of Japan's asset purchase programme, so-called "qualitative and quantitative easing". It has lifted the annual broad money growth rate from approximately 2% to 3% or higher. In spite of the recent deceleration, broad money growth remains higher than it was before the "QQE" programme started.

The full minutes of most recent meeting of the Bank of Japan's monetary policy board on 19<sup>th</sup> and 20<sup>th</sup> July have not yet appeared, although a summary has been published which confirms that the current package of stimuli, consisting of central bank monthly asset purchases of 80 trillion yen (about \$6½b.), "negative interest rates" and "yield curve control" (whereby the BOJ buys as many 10-year government bonds as necessary to keep yields at their current level of 0%) will continue..

There is no question that the Bank of Japan's actions have helped asset markets and economic activity. It has failed, however, to achieve its main objective – boosting inflation. Over four years on from its launch, annual consumer price inflation stood at a mere 0.4%, well short of the Government's 2% target. In January 2017 factory gate prices rose on an annual basis for the first time in 21 months, a trend which has continued in subsequent months, although the rate of increase has levelled off at 2.1%. This may presage higher consumer inflation in coming months, but the BOJ's latest estimate for hitting the inflation target has been put back yet again – to 2019 at the earliest.

Preliminary estimates suggest that Japan's economy grew at an annual rate of 2.6% in the second quarter of 2017, a significant increase on the 1.3% annual increase seen in the first quarter. The country has enjoyed continuous expansion for nearly four-and-a-half years, the third longest period of uninterrupted output advance since 1945. Growth in exports has been the main driver of GDP growth so far in 2017. The value of exports increased by 9.7% in the year to June. The yen is trading at a weaker level than in late 2016, which is helping. In June, wage growth fell after growing by 0.6% in the year to May while unemployment, which rose from 2.8% to 3.1% in May, fell back to 2.8% in June. The Bank of Japan is looking to the tight labour market to raise wages and thus prices. This may prove somewhat optimistic in the light of recent data. Japan's housing market remains weak and the retail sector is growing at only a modest level - 2.1% in the year to June. The stock of bank lending to the private sector fell in May and only ticked up very moderately in June. In summary, the money figures suggest that Japan is likely to continue on a path of moderate growth, but a further sustained and significant improvement looks unlikely. .

John Petley  
16<sup>th</sup> August, 2017

	% annual growth rate:	
	M3	Nominal GDP
1981 – 1990	9.2	4.6
1991 - 2000	2.5	1.1
2001 - 2010	1.1	0.8
Six years to 2016	2.9	0.6



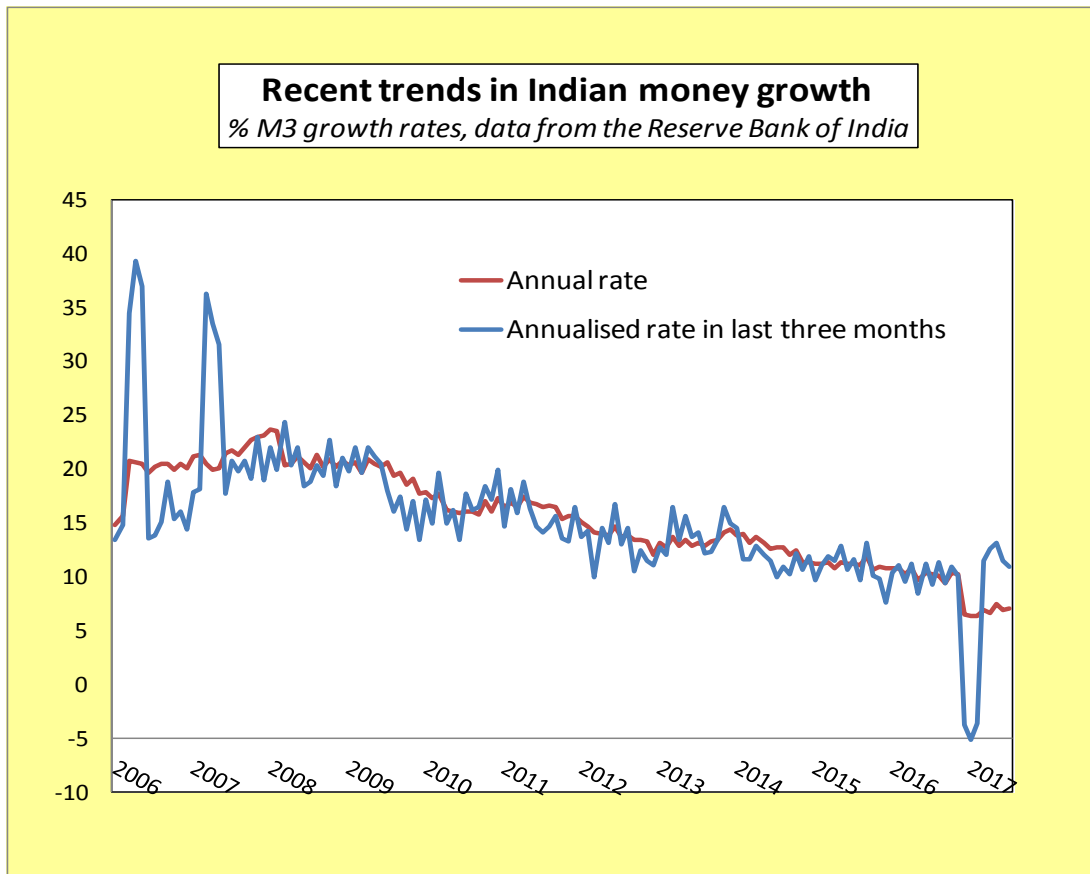
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### India

	% annual/annualised growth rate:	
	M3	Nominal GDP
1991- 2016	<b>16.1</b>	<b>13.5</b>
2010 - 2016	<b>12.6</b>	<b>12.8</b>
Year to July 2017	<b>7.0</b>	<b>n/a</b>
Three months to July 2017 at annualised rate	<b>10.5</b>	<b>n/a</b>

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



## Broad money growth remains below its pre-demonetisation levels

**Summary:** In the three months to July 2017, Indian M3 grew at an annualised rate of 10.5%, a further decline from the figure of 13.1% in the three months to May which was the highest broad money growth since India's de-monetisation exercise in November (a mass withdrawal of 500 and 1,000 rupee banknotes from circulation). The unadjusted quantity of money actually fell during June. As the chart above shows, annual broad money growth, currently at 7%, remains well down on the levels seen before last November.

The de-monetisation exercise is essentially complete. The amount of currency in circulation has remained fairly static over the last two months, suggesting all new banknotes to replace the old notes withdrawn in December have now been printed. The total value of all coins and banknotes is more than Rs. 3.5 trillion less than in early November when the withdrawal of the old notes was announced, but the total value of personal demand deposits have increased by a similar amount. This was quite deliberate. Apart from the withdrawal of old banknotes encouraging Indians to make greater use of banks rather than hoarding cash, India's huge black economy has been predominantly cash-based and the government was keen to rein it in.

The sharp fall in the quantity of money in November and December has now been reversed, but money growth has not recovered to its pre-November level because of a fall in the growth of the stock of bank lending. Until just before the demonetisation exercise, the annual growth rate stood at over 10%, but at the start of March, it had fallen to 4.1%. A modest improvement has seen loan growth rise to more than 6% in the year to July. After a surge at the end of 2016, the stock of bank deposits did not increase at all in the first ten weeks of the year and since March, the stock of time deposits has remained more or less constant.

In the 12 months to June, India's consumer price inflation rose by only 1.5%. This is lowest rate of increase since the items used in calculating the index were revised in 2012. A favourable monsoon suggests that food prices are unlikely to rise and given the weakness of commodity prices generally, the Reserve Bank of India decided that inflationary pressures were weak enough to justify a reduction in interest rates by 0.25% at its monthly meeting on August 2<sup>nd</sup>, the first reduction since October.

The central bank faces a difficult balancing act as the RBI is aware that growth has slowed in India, with GDP only 6.1% higher in the first quarter of 2017 than 12 months previous. Both consumer spending and business investment have been sluggish. Balanced against these concerns are the very high levels of non-performing loans within the Indian banking sector. The 21 public sector banks - i.e., those where the Government owns a majority stake - wrote off 41% more bad loans in the 2016-17 tax year compared with 2015-16. There is no doubt that proposed structural reforms aimed at reducing the complexity of regulation and taxation in India along with a more resilient banking sector will benefit the Indian economy in the longer term. For the second half of 2017, however, broad money growth is likely to remain subdued.

*John Petley*  
8<sup>th</sup> August, 2017

	% annual growth rate:	
	M3	Nominal GDP
1991 - 2000	<b>17.4</b>	<b>14.0</b>
2001 - 2010	<b>17.3</b>	<b>14.0</b>
Six years to 2016	<b>11.8</b>	<b>11.6</b>



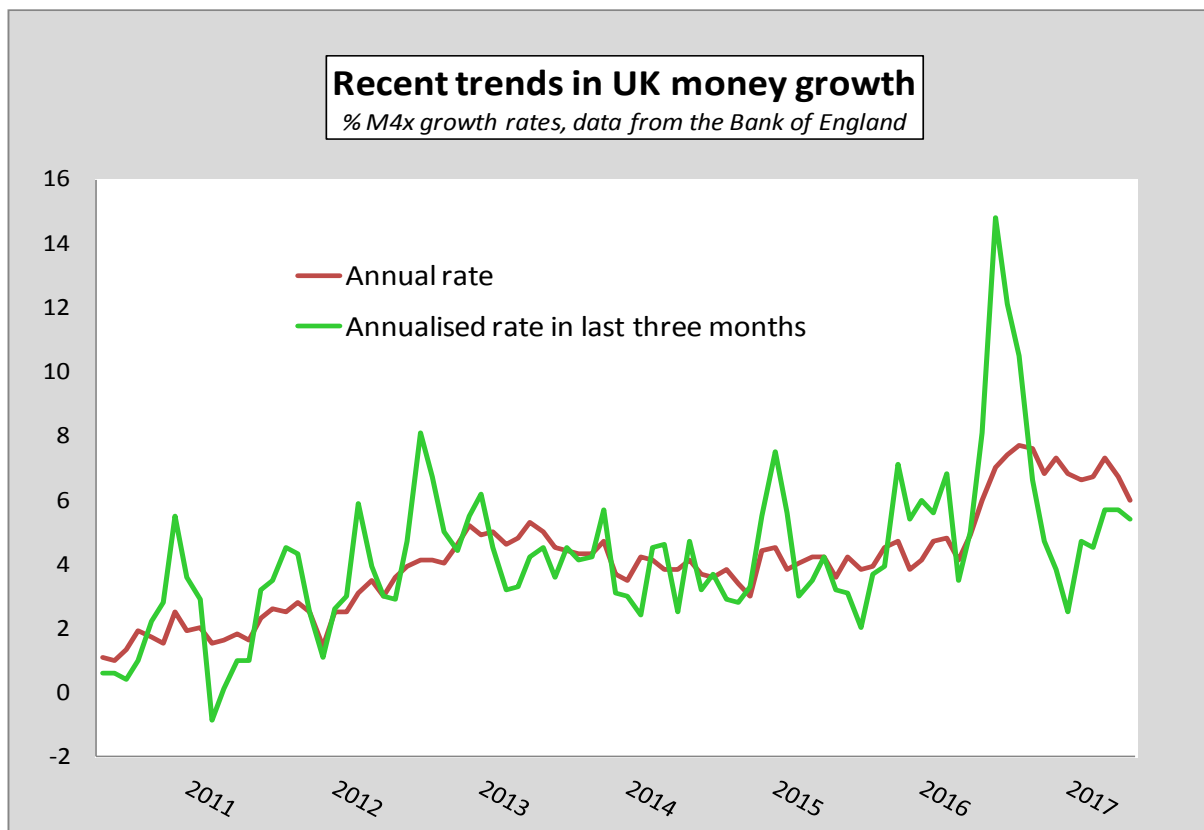
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### UK

	% annual/annualised growth rate:	
	M4x/M4 before 1997	Nominal GDP
1964 – 2016	<b>10.0</b>	<b>8.3</b>
Six years to 2016	<b>4.0</b>	<b>3.6</b>
Year to June 2017	<b>6.0</b>	<b>n/a</b>
Three months to June 2017 at annualised rate	<b>5.4</b>	<b>n/a</b>

Sources: Bank of England and Office for National Statistics



## M4x growth slowing, but rather high

**Summary:** In the second quarter of 2017, UK M4x grew at an annualised rate of 5.4%. During June, the quantity of money, broadly defined, grew by £8.7b. This is higher than the £8.2b. in May, but lower than the figures for March and April. More importantly, it is much lower than it was during the rapid money expansion between April and June last year. As these figures will all have dropped out of the calculations by next month, annual broad money growth, which fell to 6% in June (the lowest level for a year), is likely to fall further and return to the more typical levels (3% - 5%) seen in the last four years.

UK consumer inflation stood at 2.6% in the year to July, unchanged on June's figure and down on the 2.9% in the year to May, which was the highest in almost four years. Global inflationary pressures are not particularly strong, as commodity prices remain subdued. However, the pound's fall following the Brexit vote has caused UK inflation to move ahead of that in comparable nations. Although sterling has recovered to around \$1.30 recently (from levels just above \$1.20 earlier this year), it remains down compared with a year ago and off significantly from the \$1.60 - \$1.70 level of mid-2014. The pound's weakness – partly explicable by money growth being higher in the UK than in other leading countries – will continue to generate inflation concerns. July's inflation figure was lower than expected, while number of members of the Bank of England's Monetary Policy Committee favouring an immediate rise in interest rates has dropped from three to two. Inflation is more likely to rise than fall in coming months, however, implying that an increase in base rates later this year remains possible. The MPC pays far more attention to current inflation cost pressures, particularly those that are evident in the labour market, than to the rate of money growth. The emphasis is disappointing, given that money growth is the ultimate driver of increases in nominal GDP and the price level.

The upturn in the stock of business lending which began in April has continued throughout May and June, with annual growth rates of 3.0% and 2.9% respectively, compared with 2.4% in the year to March. The total number of new mortgage approvals fell slightly during the month, but the value of the loans increased. All in all, bank lending is growing at a reasonable level, despite new regulations acting as a dampener on balance sheet growth.

The media continues to claim that the UK economy is slowing. Neither the money figures nor other data point to a major downturn. The healthy growth in factory orders continues, although July was not as strong as the exceptional growth seen in June. The retail sector is enjoying continued albeit modest growth, while consumer more generally is holding up well. Uncertainties continue to be voiced about the effects of Brexit, but the UK economy has thus far confounded the pessimists. Broad money growth may be higher than in other developed economies, due to the unnecessary boost to QE last year, but a drop to lower levels seems likely. The current trend (or slightly beneath-trend) growth in the UK economy therefore looks set to continue into the second half of 2017 and early 2018.

John Petley  
17<sup>th</sup> August, 2017

	% annual growth rate:	
	M4/M4x	Nominal GDP
1964- 2016	<b>10.0</b>	<b>8.3</b>
1991 – 2000	<b>7.1</b>	<b>5.0</b>
2001 – 2010	<b>6.7</b>	<b>3.9</b>
Six years to 2016	<b>4.0</b>	<b>3.6</b>