INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

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

Monthly e-mail from Tim Congdon – 24th February, 2021

Global money round-up in early 2021

Expectations of rising inflation in 2021 are now widespread. Part of the increase in annual rates of inflation will be attributed to a base effect, i.e., the disappearance of the price drops between January (or February or March) 2020 and May 2020 as the indices are prepared for the same months in 2021. A tendency to attribute rising prices to one-off and exceptional non-monetary forces is also to be predicted. Policy-makers in the main countries seem determined – for the time being, at any rate – to defend the extremely stimulatory fiscal and monetary measures taken last year, and to persist with them in 2021.

The most salient nation remains the United States of America, where Congress will accept the bulk of President Biden's $1,900b. so-called "stimulus package". The US budget deficit will stay high through 2021 and will be largely financed from the banking system, leading to further money expansion. The annual rates of money growth will decelerate in coming months as the extraordinary money injection of spring 2020 leaves the twelve-month periods. But monthly increases typically of over ½% seem plausible, while annual inflation numbers of 5% or so are on the cards.

In the Eurozone and the UK also central bankers appear determined to engineer money growth rates far in excess of the trend growth rate of output. By contrast, the Chinese authorities have dampened credit and money growth, as well as curbing Jack Ma's Ant financial business. The spring 2020 upward blip in Japan's money growth appears to have been only a blip. India's money growth has accelerated in the Covid-19 crisis, with the budget deficit far ahead of the original forecasts and – as in developed countries – a disturbing pattern for the government to rely on the banks to cover its financial needs.

Money trends in early 2021 in the main countries/jurisdictions

The Institute of International Monetary Research focuses on the relationship between trends in the growth of the quantity of money, broadly-defined, and macroeconomic outcomes. Vaccination programmes are now under way in the main countries, suggesting that by late 2021 and early 2022 the standard drivers of demand and output will again be pre-eminent in macroeconomic assessment. The main points argued in the Institute's recent research in late 2020 were that

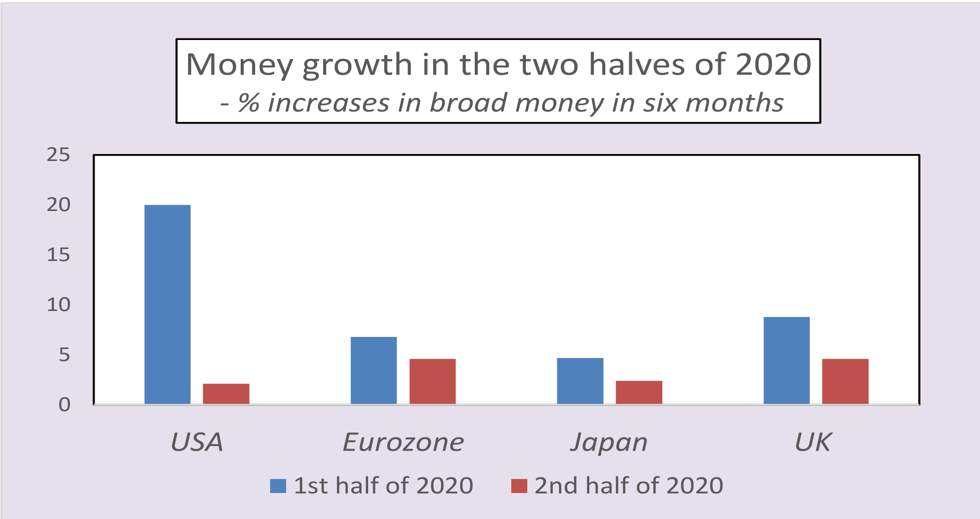
- the policy response to Covid-19 had resulted in marked accelerations in money growth in many nations, particularly in the world's leading economy, that of the USA,
- given an eventual return to normal levels of the velocity of circulation, reflecting the long-run stability of households' and companies' money-holding preferences (for which the evidence of overwhelming), the accelerations in money growth would be followed by similar accelerations in the growth of nominal national income, and
- given further that the world's underlying productive capacity had not been helped by Covid-19 (and may indeed to a minor degree have been impaired by it), much higher growth of nominal national income must lead to faster inflation than had been standard in the last 20/30 years.

Nothing that has happened so far in 2021 requires any change to this assessment. In the USA M3 increased in January by 1.2%, the highest figure since June, reflecting the $600 "stimulus checks" that were part of the $900b. final Trump fiscal "boost".

Name of country/ jurisdiction	Share of world output		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 twelve months, %	
USA	15.1	23.3	**7.8**	**22.1**	Deceleration in recent months, but imminent fiscal stimulus likely to be monetised.
China	18.7	16.1	**8.1**	**9.8**	Money growth stable, after brief early 2020 spurt due to pandemic-related stimulus measures..
Eurozone	10.6	16.4	**10.0**	**12.3**	Money growth boosted by ECB asset purchases, annual rate just into double digits.
Japan	4.2	5.9	**3.7**	**7.8**	Money growth slowing, after strongest increase of bank credit to private sector for 30 years.
India	7.7	3.3	**12.5**	**12.4**	Money growth rising at already high rates, with budget deficit hit by Covid-19 loss of revenues.
UK	2.2	3.4	**12.9**	**13.9**	Annual money growth at very high 14% and may accelerate because of £150b. more QE. .

The big debate in the USA at present is about whether the Biden "stimulus package" will cause over-heating. Olivier Blanchard and Larry Summers, both self-described "Keynesians", seem to have changed their minds compared with last spring and are anxious that too much demand will push up the price level. Against them, Janet Yellen, the new Treasury Secretary, has urged that early and big action will be less expensive – in terms of lost output and employment – than caution and delay. This is a debate within the Keynesian camp, with a focus on the balance between aggregate demand and supply, and neither side is saying much about the importance of the financing method. The early February projections from the Congressional Budget Office were that the Federal deficit would be $2,100b. in 2021 on unchanged policies. That presumably would move out to the $3,000b. - $4,000b. area after the passage of the Biden package. If the deficit were entirely financed from the banking system, the implied addition to M3 broad money (now just above $25,000b.) would be between 12% and 16%. In practice, it would probably not be financed entirely from banks, but banks' assets might grow also because of lending to the private sector. At any rate, it is not silly to expect continued rather fast growth of broad money, with increasing dangers of excess demand and intensifying upward pressures on inflation.

In qualification, it should be noted that US money growth in the second half of 2020 was modest. The chart below shows that in H2 money growth was much faster in the Eurozone and the UK than in the USA. (The chart does not include January, when US M3 jumped by 1.2%.) The dominant reason for



the slowdown in US money growth was that the private sector repaid bank loans. As noted here last month, "loans and leases in bank credit" – which can be roughly equated with bank lending to the private sector – fell from $10,674.6b. in June 2020 to $10,377.9b. in December. Whether this will persist into the current year is unclear. The return to medical normality ought logically to be associated with both a bounce-back in the worst affected sectors of the economy and heavy inventory building in the retail sector, while the housing market – which needs bank mortgage finance – is robust at present. Bank credit to the private sector will therefore start to rise again. Given the voracious need of the Federal government for finance, even moderate growth in private sector bank credit should be accompanied by buoyant money growth. Forecasts of a post-pandemic inflationary boom still look appropriate.

Policy tensions in the Eurozone are also serious and must be discussed. France, Belgium and Italy were members of the pre-First World War Latin Currency Union, and – with other Mediterranean countries – seem to represent a financially permissive element in the 19-nation bloc. With Christine Lagarde as ECB president and able to command a majority on the Governing Council, the Latin tendency is clearly in charge. Germany's involvement in the drive for the single European currency assumed that the

Bundesbank orthodoxy (of balanced budgets, low money growth and no monetary financing of budget deficits) would also be the intellectual consensus in the Eurozone. The Latin and Teutonic positions are irreconcilable, and – for the time being – the Germans have lost. It is difficult to forecast how the debate will evolve in coming quarters. The December and January meetings of the Governing Council raised the so-called "envelope" for the Pandemic Emergency Purchase Programme (i.e., ECB asset purchases) to €1,850b., with an apparent end-date of March 2022.. With under €900b. of that figure used so far, a large residue is available to purchase the government bonds of, well, Italy, Spain and so on. Perhaps not surprisingly, the Bundesbank's credit balance in the Target2 settlement system rose to a new all-time peak (of €1,136.0b.) in December, while the combined debit balance of Italy and Spain also rose to a new all-time peak (of €1,016.0b.).

Eurozone M3 growth was 12.3% in the year to December. Apart from a couple of values in late 2007, at the tail-end of the credit boom in middle of the first decade of the single currency's existence, the 12.3% number is the highest since 1999. The trend growth rate of real output in the Eurozone has undoubtedly fallen in the last 15 years, because the demographic background has become less favourable, and is probably little more than 1% a year. The gap between a 1% trend output growth rate and a 12.3% rate of money growth is blatant, and signals serious inflation risks. But – given the Eurozone's current constitutional set-up – German policy-makers are powerless to prevent inflation. Indeed, the current tendency in even Germany's domestic policy debate is to be more easy-going about deficits. At least that way Germany can benefit to some degree from the ECB's largesse in asset buying.

In other words, the established framework of fiscal and monetary policy-making is being challenged in the Eurozone as in the USA. There is no visibility over prospective broad money growth rates, which are the key driver of changes in nominal national income and output in the medium term. (Note, by contrast, that Chinese policy-making in general appears to be becoming more unadventurous and conservative. In the monetary sphere the authorities have cracked down on Jack Ma's Ant. Money growth has returned to the sort of figures seen in 2018 and 2019 ahead of the coronavirus pandemic.)

A reasonable generalisation is that – if China is excluded – money growth in 2021 will be lower than in 2020, but above the levels normal before the pandemic. Of course, as inflation rises in 2021 and 2022, policy will shift. But – as argued here last month – policy-makers have been so mesmerized by the supposed disinflationary dangers of Covid-19 that they will tend

i. to describe rising inflation as temporary, and
ii. to ascribe it to specific cost increases deemed to be special or erratic, and so as being non-monetary in character.

But, as I said last month, "every price rise is a reaction to supply and demand developments in particular markets, just as general inflation is – in the long run and on a significant scale – only to be ascribed to excessive monetary growth. The last few months have seen buoyancy in asset markets, house prices and now commodity prices. There is a pattern here, and a common underlying cause."

24th February, 2021

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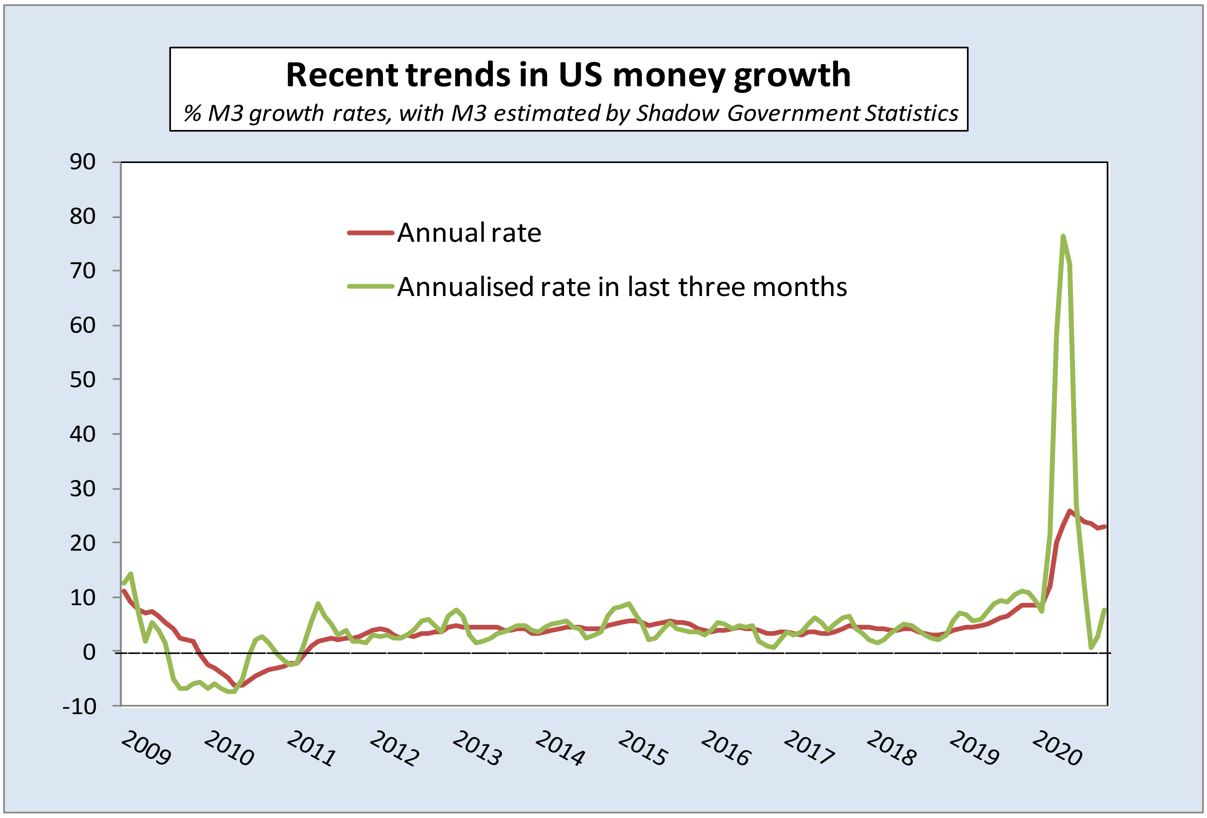
USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1961 – 2019	**7.4**	**6.5**
Nine years to 2019	**4.5**	**4.1**
Year to January 2021	**22.1**	**n.a**
Three months to December 2020 at annualised rate	**7.8**	**n.a.**

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



US broad money growth strengthens anew

***Summary:* In the three months to January 2021 the annualized rate of growth of US M3 broad money increased from December's downwardly-adjusted figure of 3.2% to 7.8%. January saw the strongest rise in M3 since June. In amount it was $301b., with the rate of increase being 1.2%. The annual growth rate currently stands at 22.1%. This was an increase on December's revised figure of 21.5%, and constitutes a reminder of the unprecedented fiscal and monetary stimuli launched by the US government and the Federal Reserve from Q2 2020 onwards. (Our M3 data come from Shadow Government Statistics.)**

It is unlikely that money growth will again reach the frantic pace of the four months to June 2020, but significant increases in US M3 look set to continue in 2021. In December a second round of "stimulus checks" worth $600 was issued, which helps to explain the quite big January jump in broad money. They are due to be followed by a third round in the first quarter of this year. Amounting to $1,400, these payments are part of a $1,900b. stimulus package announced by President Biden and now being debated in Congress. While Congress has yet to agree on precise eligibility for this third check, the broader concept of further fiscal stimulus enjoys bipartisan support.

As in most of 2021, the Federal Reserve and US banks will largely be financing these measures. With M3 standing at over $25,000b., a $1,900b. positive impact from deficit financing would add approximately 7% to broad money. This may not be the last direct payment to US citizens. Over 50 Democrat congressmen are calling for additional monthly payments for the most vulnerable until the pandemic is over, with a suggested figure of $2,000 per person. Biden's choice for Treasury Secretary, the former Fed President Janet Yellen, is fully supportive of further fiscal stimuli, urging Congress on 19th January to "act big" and worry about debt later. Although she repeated this message at February's G7 summit, no other major economy has embraced fiscal stimulus – and the concept of direct payments in particular – on anything like this scale. Apparently indifferent to the inflation risks, her successor at the Fed, Jerome Powell, has also endorsed the policy in his public statements.

At the most recent meeting of the Federal Open Markets Committee on 27th January, however, no further initiatives were announced. All the same, the FOMC affirmed that the current asset purchase scheme and other supportive measures will continue until inflation rises above 2% for a sustained period. Last month's notes mentioned a statement by Fed Vice President Richard Clarida which appeared to indicate a change in thinking from his earlier stance that the coronavirus pandemic would be deflationary.

Tim Congdon and John Petley
22nd February, 2021

	% annual growth rate:	
	M3	Nominal GDP
1961 – 2019	7.4	6.5
1961 – 1970	8.0	7.1
1971 – 1980	11.4	10.3
1981 – 1990	7.7	7.7
1991 - 2000	5.6	5.6
2001 - 2010	7.1	3.9
Nine years to 2019	4.5	4.1

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China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2019	**18.7**	**14.8**
2011 - 2019	**11.9**	**10.4**
Year to January 2021	**9.8**	**n/a**
Three months to January 2021 annualised rate	**8.1**	**n/a**

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

Broad money growth to return to moderate pre-Covid 19 levels?

***Summary*: In the three months to January 2021 China's M2 grew by 2.0% or at an annualised rate of 8.1%, the lowest figure on this benchmark since May 2019. Money growth appears to be back to where it was before the Covid-19 crisis. In January itself seasonally adjusted M2 grew by 1,347b. yuan. The annual rate of growth fell to 9.8%, below 10% for the first time since March 2020. This is still higher than 2018-9 levels, which were typically in the 8% - 9% band.**

January is typically the month when new credit allocations are made. This usually results in an increase in the growth in the stock of business lending and a corresponding upturn in broad money growth. (The Institute of International Monetary Research applies a seasonal adjustment factor to obtain an adjusted series, which is the subject of our commentary.) This January lending to business hit a record 5.2 trillion yuan, which implied an annual increase of 12.7%, the lowest reading since March last year. Businesses nonetheless are clearly confident enough to be taking out new loans It is several years since a money growth target has been publicly announced. In the absence of any change to interest rates or banks' cash reserve ratios for some months, it is reasonable to assume that the People's Bank of China (the central bank) is not worried by the slow decline in broad money growth.

Money growth at an annual rate at the 8% -9% level would be consistent with low inflation, given a trend growth rate of real output of 4% - 5% a year and continuing monetization of the economy. China's economy in fact grew by 2.3% in 2020. This was the lowest figure in more than four decades, but a satisfactory outcome given the coronavirus-related contractions in many other countries. The authorities are keen to keep a tight rein on informal finance, or "shadow banking", on which many smaller businesses rely for credit, even though this may act as a dampener on growth. They have curbed the activities of Ant, the financial business associated with Jack Ma, on the grounds that it evades regulations on capital and liquidity that apply, for example, to the state-owned banks.

A handful of new coronavirus cases are still being reported every day and a few localised lockdowns were imposed in January. By and large, however, the pandemic is now having relatively little effect on China's economy. The lack of new monetary or fiscal initiatives suggests that authorities do not expect any further disruption from the virus. Most businesses and consumers are able to carry on mush as normal and the figures reflect this. Industrial production was higher at the end of 2020 than a year earlier, while in December exports were less than 18.1% higher than a year earlier. Consumer spending and credit are also increasing at a healthy rate. Consumer prices actually fell in the year to January and inflation has been much lower in recent months now that the outbreak of African swine fever, which caused food prices to rise significantly and thus distort to overall inflation figure, has been contained. Factory gate prices rose on an annual basis for the first time in 12 months thanks to the surge in commodity prices and the shortage in shipping capacity. Further increases can be expected in the coming months, which will push up consumer prices. Inflation is unlikely to be as big a problem in China as elsewhere. As the chart above shows, the fiscal and monetary measures introduced to combat the virus had only a modest effect on the money supply.

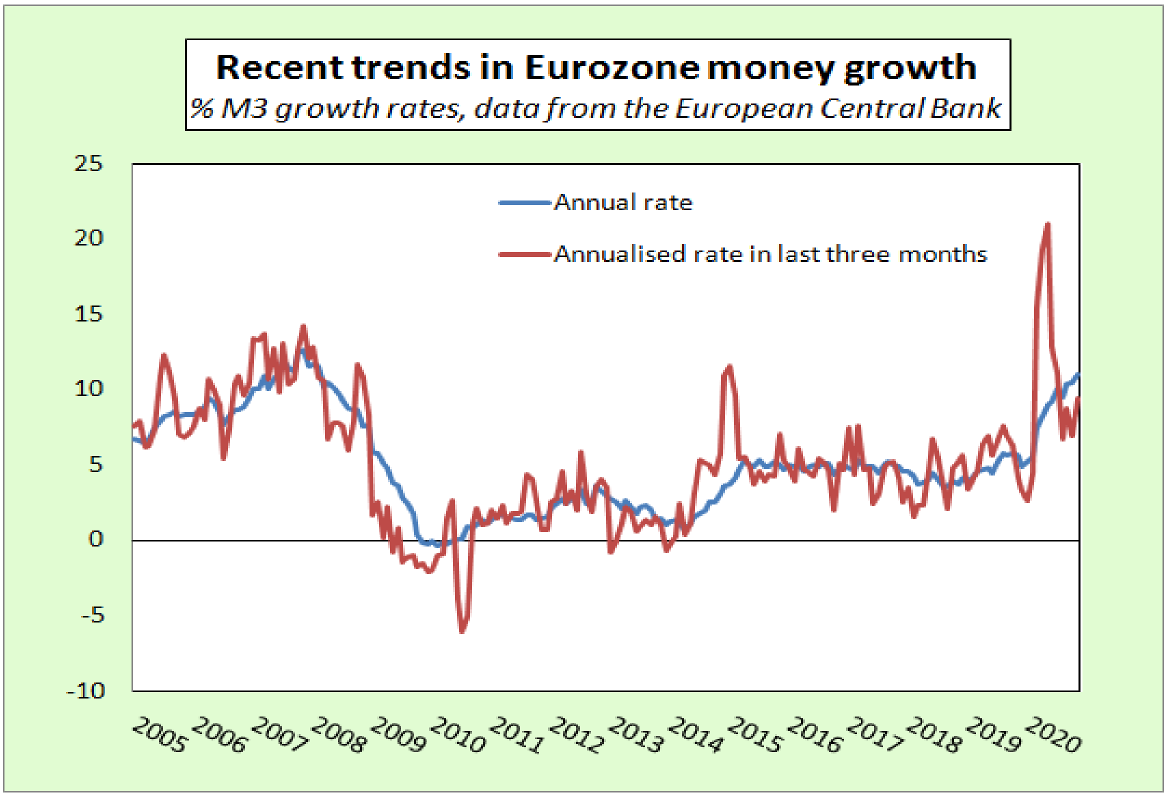
John Petley
16th February, 2021

	% annual growth rate:	
	M2	Nominal GDP
1991 - 2000	**24.5**	**18.4**
2001 - 2010	**18.5**	**15.2**
Seven years to 2017	**12.8**	**10.3**

Eurozone

	% annual/annualised growth rate:	
	M3	Nominal GDP
1996 – 2019	**5.2**	**3.1**
Nine years to 2019	**3.8**	**2.5**
Year to December 2020	**12.3**	**n/a**
Three months to December 2020 at annualised rate	**10.0**	**n/a**

Sources: European Central Bank and Institute of International Monetary Research estimates



Broad money growth is exceptionally high

Summary**: In the three months to December 2020 annualised M3 broad money growth in the Eurozone was 11.1%. M3 growth was higher in November and December than earlier in the autumn, to some extent because of the European Central Bank's Pandemic Emergency Purchase Programme (PEPP). In December itself, M3 grew by €197b., the highest monthly reading since March's record €326b. The annual growth rate has continued its upward trend, rising from 11.0% in November to 12.3% in December, the peak since November 2007.**

One factor behind December's M3 jump of 1.4% was the boost to the ECB's Pandemic Emergency Purchase Programme (PEPP) by $500b. after the Governing Council meeting on 10th December. This raised the total value of assets to be purchased to €1.850b. No new monetary initiatives were announced at the meeting on 27th January. Europe's economies continue to struggle against Covid-19. Germany is not planning to lift restrictions until March, whereas France decided against a further lockdown on cost grounds. With a vaccination programme slowly under way across the entire EU, a revival in economic activity can be expected by the second quarter of this year.

ECB policy statements make no reference to the quantity of money, preferring instead to say that the ECB is concerned "to preserve favourable financing conditions" or something similar. Since last February its actions have been – deliberately and explicitly – to stimulate demand, output and employment, in the belief that Covid-19 would exert powerful disinflationary effects into the medium term. Not only have assets (mostly government bonds) been bought on a massive scale, but the ECB has also extended enormous loans (so-called "long-term refinancing operations") to banks. Between 7th February 2020 and 12th February 2021, the ECB's total assets went up €4,668.9b. to €7,079.1b. "Securities held for monetary policy purposes" rose within these assets from €2,655.3b. to €€3,809.1b, while the figure for LTROs climbed from €616.1b. to €1,792.5b. The increase in the size of the ECB's balance sheet was therefore larger than the increase in M3 in the year to December (of €1,523.0b.). Indeed, the marked acceleration in money growth could not have occurred without the ECB's operations.

Continued high growth of money is implicit in the ECB's commitment to a PEPP total of €1,850b. and the stated intention to reach that figure by March 2022. The 12.3% growth of M3 money in the year to December is altogether disproportionate to the trend growth rate of Eurozone output. In the decade to 2019 Eurozone output grew by 1.4% a year, but demographic developments are now much more adverse. The imbalance between double-digit money growth and a trend output growth rate of perhaps 1% implies a sharp upturn in inflation over the medium term. Bad news on the inflation front is already evident in Germany. The annual increase in consumer prices, a negative figure of minus 0.7 per cent in December, shot up to a positive 1.6% in January. Analysts are talking of figures well above 2% in the summer.

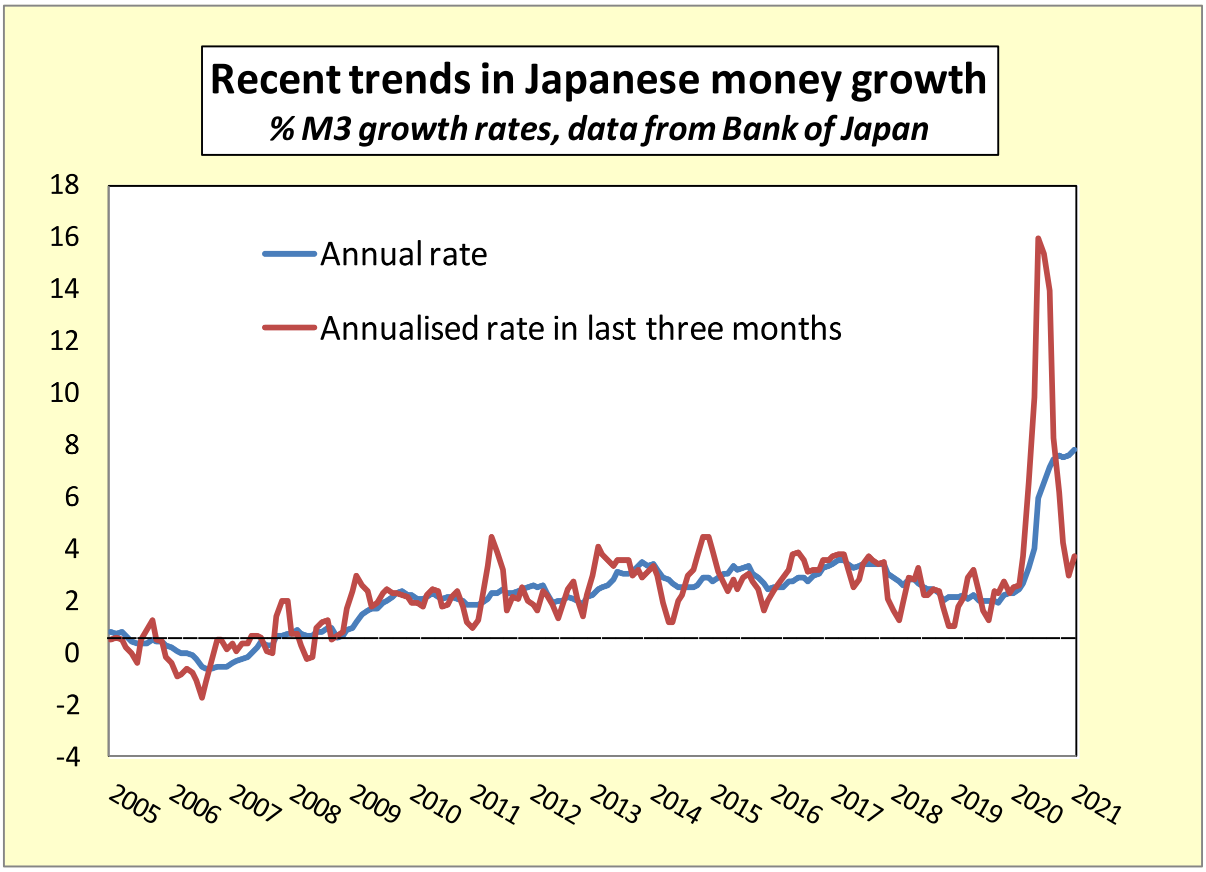
Tim Congdon
22nd February, 2021

	% annual growth rate:	
	M3	Nominal GDP
1996 – 2019	**5.2**	**3.1**
1996 – 2000	**4.6**	**4.1**
2001 – 2010	**6.8**	**3.1**
Nine years to 2019	**3.8**	**2.5**

Japan

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2019	**3.9**	**1.9**
Nine years to 2019	**2.7**	**0.9**
Year to January 2021	**7.8**	**n/a**
Three months to January 2021 at annualised rate	**3.7**	**n/a**

Sources: Bank of Japan for M3 and IMF for GDP



Broad money growth slowing to Japan's long-standing very low pace

Summary: **The three months to January 2021 saw Japanese M3 grow at an annualised rate of 3.7%. This was much the same as December's figure of 3.0%. A blip of rapid money growth – by Japan's standards – occurred in spring 2020. The blip has now faded. The annual growth rate continues to climb, reaching a 20- year record high of 7.8%. But – if the monthly increases stay at around 0.2% - 0.4% - the annual rate will soon fall back towards the 2% - 4% range typically found in Japan in the last 10 – 15 years.**

For much of 2020 Japan recorded a low infection and death rate from the coronavirus, especially given the country's demographics. Large entertainment venues were closed, but businesses and shops remained open. GDP nonetheless declined by 8.3% in the second quarter (Q2) of the year as exports plunged and consumers stayed at home. The economy rebounded by 5.3% in Q3 and 3% in Q4. Output fell in the year, but not dramatically. Winter has seen an uptick in coronavirus cases and indeed deaths. But the numbers have remained sufficiently low for the government to opt for "states of emergency" in the worst-affected prefectures. The states of emergency are considerably less restrictive than the lockdowns enforced in other nations. This still resulted in a fall in retail sales during December. With Tokyo hoping to host the postponed Olympic Games in July 2021, Japan has implemented an ambitious vaccination programme. The country aims for life to return to something like normal by the summer.

An increase in the velocity of money may occur, as consumers look to spend any excess cash balances which may have accumulated since the start of the pandemic. The increase in the rate of growth in the quantity of money has not been as dramatic in Japan as in some other countries covered discussed in these notes. The allegedly ultra-loose monetary policy, including an enhanced asset purchase programme, is currently scheduled to continue for much of 2021, but no new monetary initiatives have been announced for some months. At the start of 2021 a new fiscal package worth 73.6 trillion yen ($708b.) was unveiled. It included subsidies for "green" investment and improvements to the country's digital infrastructure. These measures will most likely be financed by Japanese banks and the resultant deposits will thus boosting the quantity of money.

Spring 2020's acceleration in broad money growth may have been part of the explanation for the strength of the Tokyo stock market. It is now close to 30-year highs, with rises of over 80% from a low point last March. Industrial production remains below 2019 levels, however, and consumer prices have yet to respond. The final three months of 2020 saw prices falling and deflation has continued into 2021, but this trend is likely to be reversed as the effects of the surge in commodity prices feeds into the wider economy. Inflation may well hit – or even exceed – the 2% target for the first time since it was set eight years ago when the BoJ first launched its "quantitative and qualitative easing" programme.

John Petley
17th February, 2021

	% annual growth rate:	
	M3	Nominal GDP
1981 – 1990	**9.2**	**4.6**
1991 - 2000	**2.4**	**1.1**
2001 - 2010	**1.0**	**0.8**
Nine years to 2019	**2.7**	**0.9**

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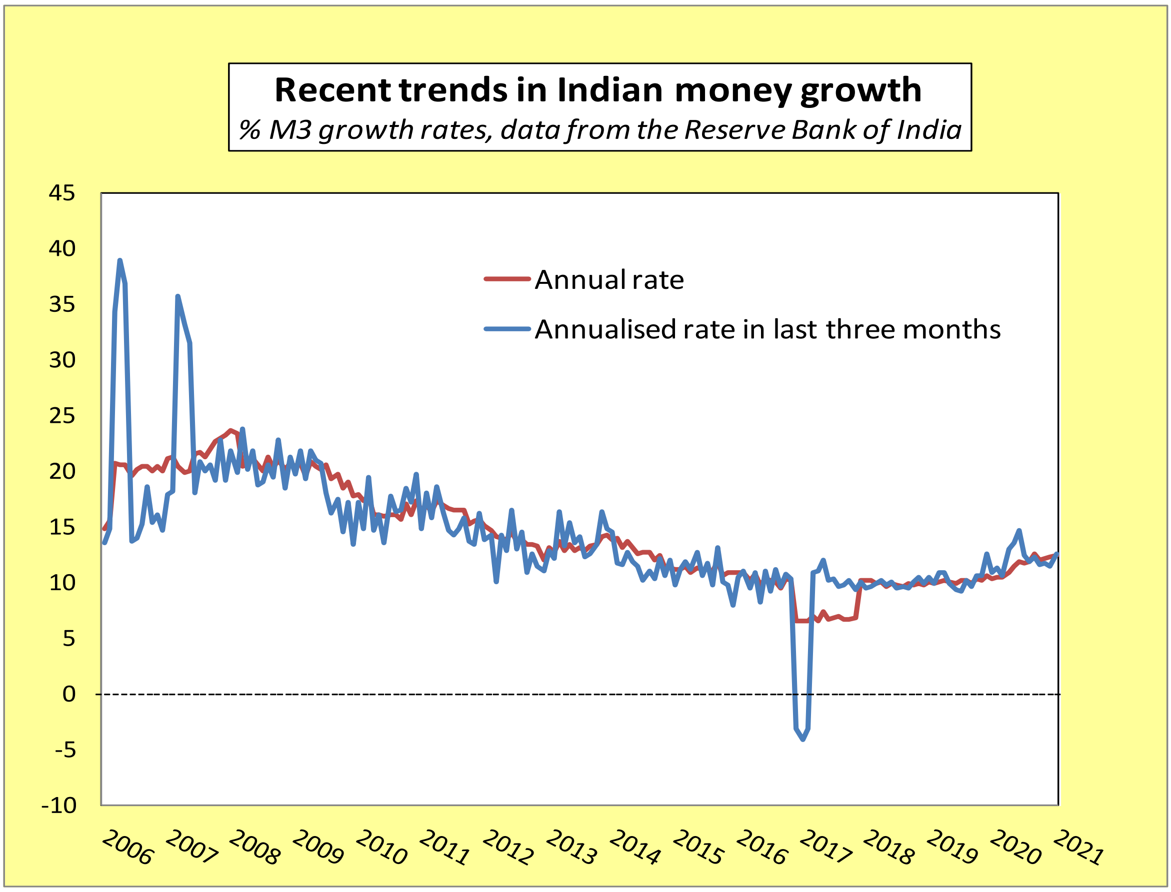
India

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2019	**15.8**	**13.4**
Nine years to 2019	**11.2**	**11.9**
Year to January 2021	**12.4**	**n/a**
Three months to January 2021 at annualised rate	**12.5**	**n/a**

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



Broad money growth picks up

Summary: **In the three months to January 2021 India's seasonally adjusted M3 grew by 3.1% (i.e., at an annualised rate of 12.5%). This is an increase on December's reading of 11.4% and the strongest reading since July. The annual rate of growth rose to 12.4%, a six-year high. Although less than April's exceptional number (caused by the programme of monetary and fiscal easing to address the coronavirus pandemic), broad money growth has been much higher in each of the last three months than in 2018 and 2019.**

The pandemic struck India when its economy was already showing signs of slowing down. Fear of the economic cost lay behind the decision of the government to abandon an initially very strict lockdown within weeks. An output contraction of 25.2% occurred in the second quarter of 2020, although this was followed by a bounce back of 21.9% in Q3. The fiscal and monetary response was also modest in scale compared with most developed economies. All the same, the government's initiatives, along with a collapse in tax revenue, are expected to increase India's government deficit to 9.5% of GDP in 2020. As with other economies, banks and the central bank have been the principal purchasers of government debt. During the course of last year the Reserve Bank of India's balance sheet expanded by over 40%. This financing of government debt has been the main driver of high money growth. Growth in the stock of lending by India's banks has been much slower in the latest quarters than in 2019. The annual growth rate stood at 5.9% at the start of February 2021, compared with over 15% 18 months ago.

Recently, concerns about government finances and inflation risks have caused causing bond yields to rise. The RBI is preparing to allow retail investors to open accounts with it in order to allow them to buy government debt. The RBI also remains concerned about the health of the commercial banking sector, especially the cooperative banks. Three banking failures in India have occurred during the last 18 months, establishing an apparent case for further regulatory reform. Also in the pipeline are plans to sell the government's holdings in several large banks. Between 1969 and 1980, approximately 80% of India's banking sector was nationalised. Under state control banks have not performed well, Indeed, the Modi government is keen to sell them off, not least because they are losing money and weaken the public finances. The RBI has also told Indian banks that they must "proactively" raise capital to cope with the long term effects of the coronavirus crisis, including business failures.

The Indian stock market, which has risen to record highs in 2021, has been a beneficiary of the high levels of broad money growth. Consumer price inflation has moderated, falling from 6.9% in the year to November to 4.1% two months later. New car registrations have recovered to pre-pandemic levels, but consumer confidence remains at a low level and consumer spending has failed to return to 2019 levels even though the economy has remained open and the unemployment rate has actually fallen below 2019 levels. In summary, India's long term economic prospects are positive, with a young and increasingly well-educated workforce, but both government debt and a fragile banking system are causes for concern in the immediate future.

John Petley
18th February, 2021

	% annual growth rate:	
	M3	Nominal GDP
1981 - 1990	**17.1**	**14.7**
1991 - 2000	**17.4**	**14.1**
2001 - 2010	**17.3**	**12.9**
Nine years to 2019	**11.2**	**11.9**

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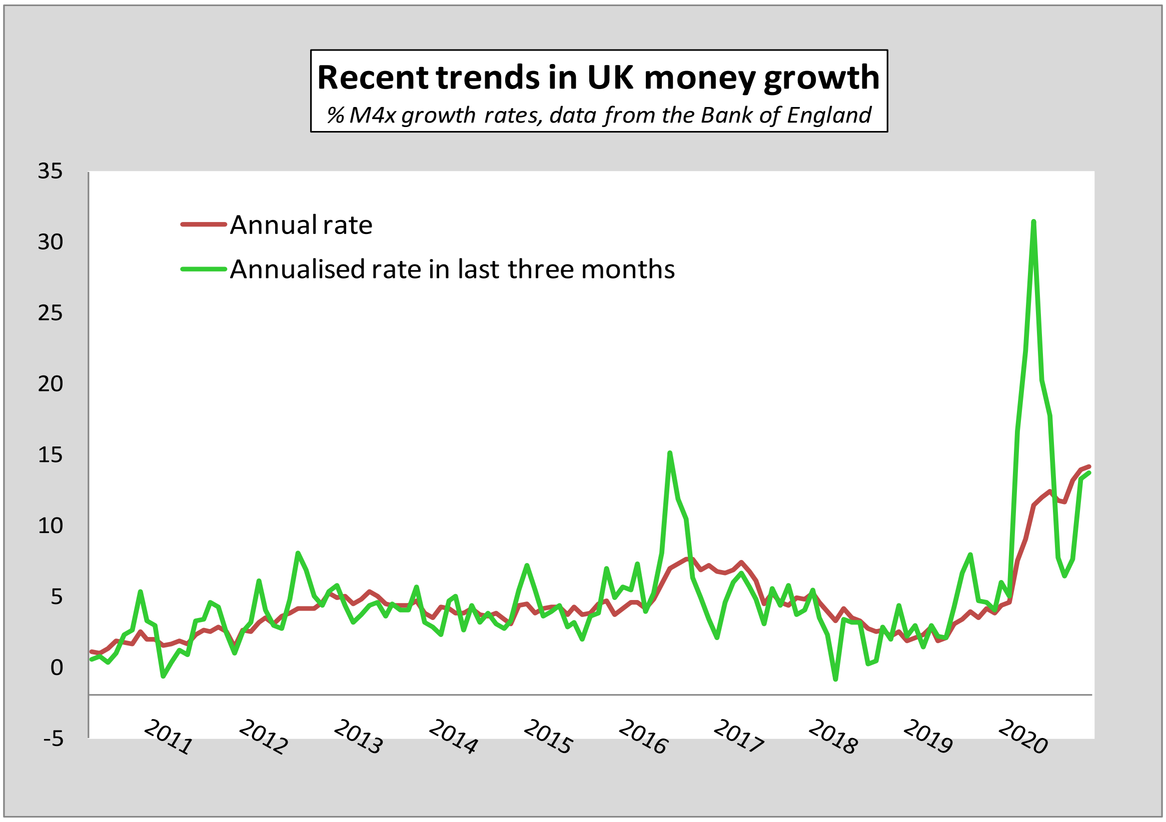
UK

	% annual/annualised growth rate:	
	M4x/M4 before 1997	Nominal GDP
1964 – 2019	**9.6**	**8.0**
Nine years to 2019	**4.0**	**3.7**
Year to December 2020	**14.1**	**n/a**
Three months to December 2020 at annualised rate	**13.7**	**n/a**

Sources: Bank of England and Office for National Statistics



Broad money growth continues on an upward trend

Summary: **In the year to December 2020 M4x grew by 14.1%, the highest reading on this metric since the Bank of England introduced M4X as a money aggregate. Broad money growth was not exceptionally strong in December itself, however. The latest three-month annualised growth rate is 13.7%.**

The imposition of another lockdown in early November led the Bank of England to announce a new programme of "quantitative easing". Another £150b. of government securities are to be purchased, on top of an existing, apparently uncompleted earlier £100b. programme. The justification for these QE exercises is far from obvious, given that they had already led to an extremely high rate of money growth by the autumn of last year.

According to the table on money growth counterparts in the Bank of England's database, the M4 increase in the ten months to December was £305.2b. This was attributed partly to bank lending to the private sector, which amounted to £94.4b., but the dominant counterpart was the so-called "public sector contribution" of £267.1b. The majority of this public sector contribution fell in April and May, when it totalled no less than £146.0b. This number reflected the massive purchases of gilts (and to some extent corporate bonds) in the initial response to the Covid-19 medical emergency. The links between the asset purchases and the public sector contribution to money growth, and then between this enormous public sector contribution and fast money growth, are obvious. (The silence on these matters in the Bank of England's public statements and much of its research do not alter the facts.) The April-May QE burst resulted in a hump in money growth, evident in the above chart. November's £150b. further QE will create a second hump. The annual rate of money growth is still rising and has now reached the peak value for the post-1992 era of inflation targeting. Given the medium-term relationship between the growth rates of money and nominal GDP, consumer inflation seems certain to exceed 5% and may do so for an extended period. Much does of course depend on the rate of money growth in coming quarters.

With vaccinations proceeding at a rapid rate compared with other countries, lockdown and social distancing restrictions may be eased from March onwards. The Bank of England's Monetary Policy Committee announced no new initiatives at its meeting on 3rd February, expressing confidence that GDP growth would pick up. The confidence seems legitimate, as the effects of the very high money growth filter around the economy. In view of the positive outlook, the decision by the MPC to instruct the Prudential Regulation Authority to prepare firms for negative interest rates is surprising. To confuse matters further, the MPC then added that this did not imply that negative interest rates will necessarily be adopted. Unlike the USA or the Eurozone, the UK has not launched any major new fiscal initiative. Chancellor Rishi Sunak has made a further £4.6b. available to help businesses through the winter lockdown. However, he also expressed a desire to curtail the furlough scheme as soon as practically possible and to reduce government borrowing.

Tim Congdon
22nd February, 2021

	% annual growth rate:	
,	M4/M4x	Nominal GDP
1964 - 2019	**9.6**	**8.0**
1991 – 2000	**6.4**	**6.0**
2001 – 2010	**6.5**	**3.9**
Nine years to 2019	**4.0**	**3.7**