



INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

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

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Monthly e-mail from Juan Castañeda and John Petley - 23rd May, 2019

Global money round-up in spring 2019

Money does matter. In these notes we always place the emphasis on changes in the quantity of money, given the well-attested long-run relationship between changes in the quantity of money (broad money) and nominal GDP. This is why we follow very closely changes in bank regulation as well as in central bank policies when assessing monetary conditions, so we can predict likely changes in output and inflation in the medium to the long term.

The empirical evidence supporting the relation between changes in the amount of money and nominal income is ample and indeed holds for a wide diversity of economies in different time periods. This does not mean that we neglect the importance of other political or economic developments, such as the threat to central bank independence in the US, the escalating US-China 'trade war' or the outcome of the Brexit negotiations in Parliament. However, while you will find plenty of commentary on all these issues in other outlets, there is hardly a mention of monetary developments. This is where we focus our efforts at the IIMR and most particularly in our monthly notes. It is precisely this analysis what allowed us to anticipate a slowdown in output growth back in late 2017, when we highlighted a fall in the rate of growth of money; a slowdown which came to pass in the last quarter of 2018.

As shown in this note, money growth is quite moderate at the moment in most advanced economies, which suggests that quite low inflation rates can be expected in 2020, along with roughly trend (if not below trend) growth in world output. In this scenario, central banks have no need to tighten monetary policy in 2019.

Money trends in Spring 2019 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 the key numbers. For over a year now these notes have expressed concern about likely money growth slowdowns in the USA and the Eurozone. With the latest data and information available we are in a better position to say that the rate of growth of broad money in the US should reach a reasonable figure in 2019. The US Federal Reserve's so-called 'normalisation' policy has been put on hold, at least for the moment; the Fed has announced that its monthly asset run-off will be reduced to \$15b. in May and will finish in September, while no further increases in Federal Fund rates are expected in 2019. In this more benign monetary scenario, the amount of money may be able to grow at a 4-5% in 2019, very much compatible with a moderate annual GDP growth (around 2%) and inflation below the Fed's target (2%).

In the Eurozone the scenario is more puzzling. We welcome the latest monetary figures that show a significant increase in broad money growth during the three months to March 2019 (an annualised rate of 4.6%). This points to better than expected lending rates in the Eurozone, three months after the ECB put an end to its asset purchases. The US Fed's easing of regulatory pressure on US banks in the last two years has allowed banks to grow risk assets and thus expand their balance sheets (i.e. deposits, money) quite quickly and at respectable rates. In the Eurozone the regulatory pressure further to increase capital ratios seems to have subsided recently. In a recent event in London held by OMFIF, the ECB Vice-President, Sr. Luis de Guindos, raised concerns about the European banks' structurally low profitability ratios, particularly in a macro scenario with an expected slowdown in economic growth in the Eurozone, which can ultimately affect financial stability in the area. However, when asked whether greater capital ratios were needed he opted instead for cross-border bank consolidation to make banks more diversified and resilient to different economic conditions within the Eurozone.

However, the Italian economy and its fragile banks still pose threats to the stability of the financial system of the Eurozone. With virtually no economic growth since the last quarter of 2018 and a rising and very high public debt to the GDP ratio (134%), the risk of a default or a banking crisis - with contagion spreading across the area – cannot be dismissed. True, the European Banking Union has made steps forward to protect the other Member States from a failing economy (now including single supervisory and resolution authorities and a bail-in preferred policy in case of a bank failure); but the banking union has not been completed and, even more, it is difficult to believe the EU is going to let a Member State fail – especially one which was a signatory of the original 1957 Treaty of Rome.

Japan and the UK are the two economies showing the slowest broad money growth. In Japan the focus of the central bank in expanding the monetary base has proved ineffective. In the UK, it is very worrying that the steady deceleration in money growth in the last two years has hardly received any attention among policy makers, academics and the specialised media. It is remarkable to notice how nearly everyone agrees that inflation and deflation are determined by monetary growth over the medium to the long term, but we hear no mention of money in either any assessment of inflationary pressures or any public discussions of the need to tighten or loosen monetary policy - in the UK or elsewhere. Of course, a multitude of factors may well explain changes in inflation in the short term but inflation and nominal

income trends are explained by monetary developments (you can find plenty of examples in the IIMR's world money map available online, <https://mv-pt.org/2019/05/13/money-map/>).

There are many other misconceptions about the effectiveness of monetary analysis in assessing macroeconomic outcomes; I will just mention briefly the most popular: (1) the instability of the demand for money and (2) the endogeneity of money growth (i.e. money is determined by the demand for money, essentially by the state of the economy, and not the central bank).

1. The demand for real balances has been very stable for decades. True, in times of financial distress - let alone a financial crisis - the demand for money does increase sharply but this does not disprove its stability over the long term. For example, in the USA the ratio of money held by households to their net worth has remained fairly stable, around a 12% average, in the last 70 years! This allows us to use changes in the rate of growth of broad money as a useful indicator of changes in nominal spending in a year's time. Of course the analysis of changes in money growth and their effects in output and inflation should not be made in a mechanistic fashion. Indeed, it should always incorporate changes in bank regulation, expectations, political factors and so on, as well as being prudent and conservative in forecasting changes in output and inflation trends over the long term as opposed to offering point forecasts.
2. Who creates money? In a modern economy it is banks that create the bulk of the means of payments used in the economy. They do so by extending credit to their customers in the first place (and thus creating new deposits, which are money) as very well explained in McLeay, Radia and Thomas' (2014) 'Money creation in the modern economy' (*Bank of England Quarterly Bulletin*), but this doesn't mean that the central bank policies do not matter. Central banks regularly (either by themselves or in conjunction with the national regulators) set the price for reserve money and the capital and liquidity ratios by which banks must abide, which greatly affect their ability to expand their balance sheets and thus create money. In more extreme scenarios, such as in episodes of hyperinflation, the role played by the central bank in offering discretionary funding to an errant government with no access to other source of funding – that is, the monetisation of a rampant public deficit – is critical. The current example of Venezuela is a very painful example of it.

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	4.1	4.2	A pause in the Fed's tightening policies to allow for moderate money growth in 2019.
China	18.7	16.1	8.5	8.5	PBOC continues easing reserve requirements. Very stable monetary growth in 8.5-10% band.
Eurozone	10.6	16.4	4.6	4.5	Money growth in March better than expected with no QE. No monetary tightening by the ECB likely in 2019
Japan	4.2	5.9	2.1	2.2	The targeting of the monetary base has achieved little, with money growth moderate and inflation very low, below the BoJ's 2% target.
India	7.7	3.3	12.9	10.8	RBI continues to ease monetary policy ahead of the general election. Quite stable money growth in 9.5-11% band
UK	2.2	3.4	0.7	2.2	Money growth continues to be very weak. There was a sharp and worrying fall in money growth in March

The analysis of the monetary figures in this note suggests that inflation will remain moderate in the world economy in 2020 and output will grow modestly, roughly at trend if not below. In this scenario we do not anticipate further increases in interest rates or any other measures to tighten monetary conditions in 2019.



Dr Juan Castañeda

23rd May, 2019



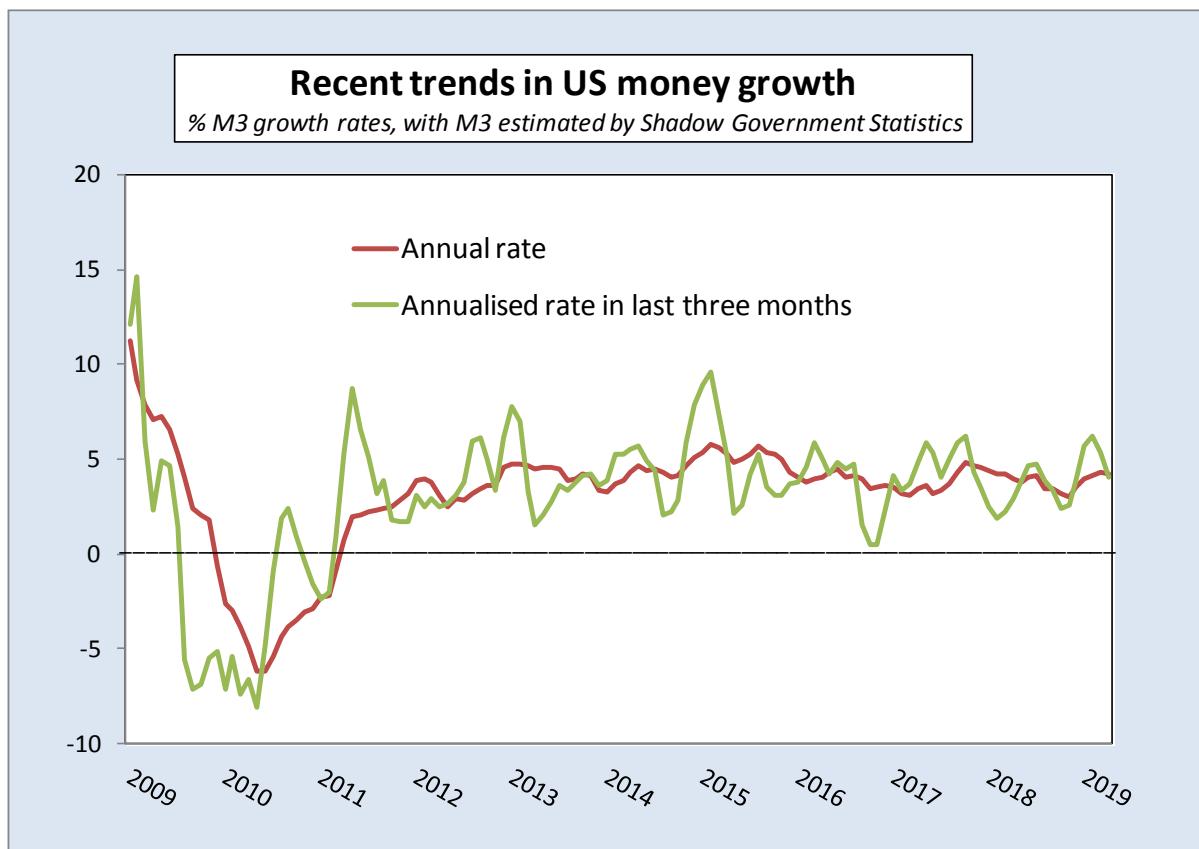
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USA

	<i>% annual/annualised growth rate:</i>	
	M3	Nominal GDP
1960 – 2017	7.4	6.5
Seven years to 2017	4.1	3.8
Year to April 2019	4.2	n.a.
Three months to April 2019 at annualised rate	4.1	n.a.

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



M3 growth slows but remains adequate

Summary: In the three months to April 2019 US M3 broad money grew at an annualised rate of 4.1%, a decline from the 5.3% seen in the three months to March. In April itself, the quantity of money grew by \$59b, or just over 0.3%. This is a respectable figure but much lower than January's figure of \$117b. which has dropped out of the three-month calculations, resulting in lower annualised quarterly growth. The annual growth rate fell slightly from 4.3% to 4.2%. In spite of this slowing, these figures are satisfactory, especially given that the ongoing run-off of asset purchases by the Fed, which depresses money growth. (Our M3 data come from Shadow Government Statistics.)

It looks highly unlikely that the Fed will be tightening monetary policy in the near future. On 20th March, it announced that the monthly asset run-off will be reduced to \$15b. in May and will cease altogether in September. After raising the Fed Funds Rate four times during 2018, further rate increases seem to have been put on hold. Indeed, some analysts are expecting the next move in the Fed Funds Rate to be downwards. President Trump is known to favour a loose monetary policy, calling for a cut in interest rate and a resumption of asset purchases. On April 30th, he criticised the US Fed in a tweet, saying it was holding back the economy. Regrettably, neither the President nor Jerome Powell, the Fed's Governor, pay much attention to the money figures when assessing the economy. The most recent data do suggest a slight slowing. Lending by US banks has been robust during the last few months, offsetting the effects of so-called "Quantitative Tightening". April's figures, however, saw a significant slowing in both the real estate sector and business loans. "Loans and leases in bank credit" by US banks " (which roughly corresponds to bank credit to the private sector) grew by only 1.1% year-on-year in April, down from 5.7% in March.

April also saw a particularly sharp fall in banks' cash assets, which have declined substantially as a result of the run-off of Fed assets acquired in its QE programmes. If the asset run-off is to be trimmed in May and ended altogether later in the year, this should keep the annual rate of broad money growth above 3%, unless April's slowing in bank lending presages the start of a period of lower loan growth. The unemployment rate fell to 3.6% in April, the lowest figure since December 1969. Annual consumer price inflation ticked up to 2%, but this is in line with the Fed's official target and with global inflationary pressures weak, there is little likelihood of inflation rising much higher in the near future, in spite of recent comments by Jerome Powell that recent low inflation was caused by "transitory" factors. The imposition of further tariffs on Chinese goods and the reciprocal measures by China, are causes for concern, but the money figures do not suggest that the US economy is facing an imminent slowdown, although it may not match the 3.2% annual growth in GDP seen in the first quarter of 2019. In summary, if banks continue to lend, there are no reasons why the US should not continue to enjoy a respectable level of growth during the coming months.

John Petley
14th May, 2019

	<i>% annual growth rate:</i>	
	M3	Nominal GDP
1960 – 2017	7.4	6.5
1960 – 1970	7.7	6.8
1971 – 1980	11.4	10.3
1981 – 1990	7.7	7.7
1991 - 2000	5.6	5.6
2001 - 2010	7.1	3.9
Seven years to 2017	4.1	3.8



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China

	<i>% annual/annualised growth rate:</i>	
	M2	Nominal GDP
1991- 2018	19.2	15.1
2010 - 2018	13.6	11.2
Year to April 2019	8.5	n/a
Three months to April 2019 at annualised rate	8.5	n/a

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



Stable broad money growth continues

Summary: In the three months to April 2019 China's seasonally adjusted M2 grew by 2.1% or at an annual rate of 8.5%. This was the same as March's figure and slightly below 2018's average of 8.7%. Chinese broad money growth continues to be remarkably stable. The annual growth rate has consistently remained within the 8% - 10% band for two years now, with the annualised quarterly figure occasionally dipping below 8% but otherwise staying in the same narrow band. The Chinese authorities' monetary policy seems to be governed by a desire to maintain broad money growth at this level.

The interest rate has remained unchanged since 2016, but the Central Bank has recently made a number of reductions to the reserve ratio requirements, particularly for smaller banks. On 15th May, 1,000 rural commercial banks saw their reserve ratios cut from 11.5% to 8%. This is expected to make 280b. yuan (\$41.6b.) available for lending. This move helps these banks to fill the gap resulting from the Chinese government's crackdown on unregulated lending – the so-called "shadow banking" sector on which small businesses in particular had been reliant and follows on from cuts in the reserve ratio in both January and February of this year. Overall, Chinese banks are continuing to expand their portfolios at a healthy rate. Outstanding yuan loans grew by 13.5% in the year to April, slightly down on the 13.7% growth seen in the year to March, but still an indication of a healthy appetite for risk. The actual amount lent fluctuates month by month, as there are a number of seasonal factors, including the issuing of new credit allocations in January, which tends to result in a sharp upturn in lending at the start of the calendar year.

China's GDP grew at an annual rate of 6.4% in the first quarter of 2019, unchanged from the previous quarter which was the lowest figure in a decade. The output growth target for 2019 has been set at 6% - 6.5%. The government does not want to see growth slow further and besides the monetary measures, it has also embarked on a fiscal stimulus, cutting VAT in March and promising to cut corporate tax levels. With inflation subdued, there is scope for further monetary loosening if necessary. Consumer price inflation reversed its downward trend in March and April, but the increase has been attributed to a one-off event - an outbreak of African swine fever, which caused pork prices to rise sharply. April's figure of 2.5% is still below the government's 3% target and with prices at the factory gate rising at less than 1%, the inflation rate is likely to fall in the coming months.

One sector of the Chinese economy continues to boom – the housing market. In the 70 largest cities, prices rose by an average of 10.6% in the year to February, the strongest gain since April 2017. It is perhaps surprising that the authorities have not imposed tighter lending controls in some cities. A boom in 2016 saw prices in Beijing and Shanghai rising at over 25% per annum, but the measures taken dampened the boom most effectively and prices in these cities remained flat until the second half of 2018. Meanwhile, trade talks between the USA and China have hit problems and Chinese exports declined by 2.7% year-on-year in April. The money numbers do not point to a sharp deceleration in growth, but the country may struggle to meet its growth target this year.

John Petley
9th May, 2019

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



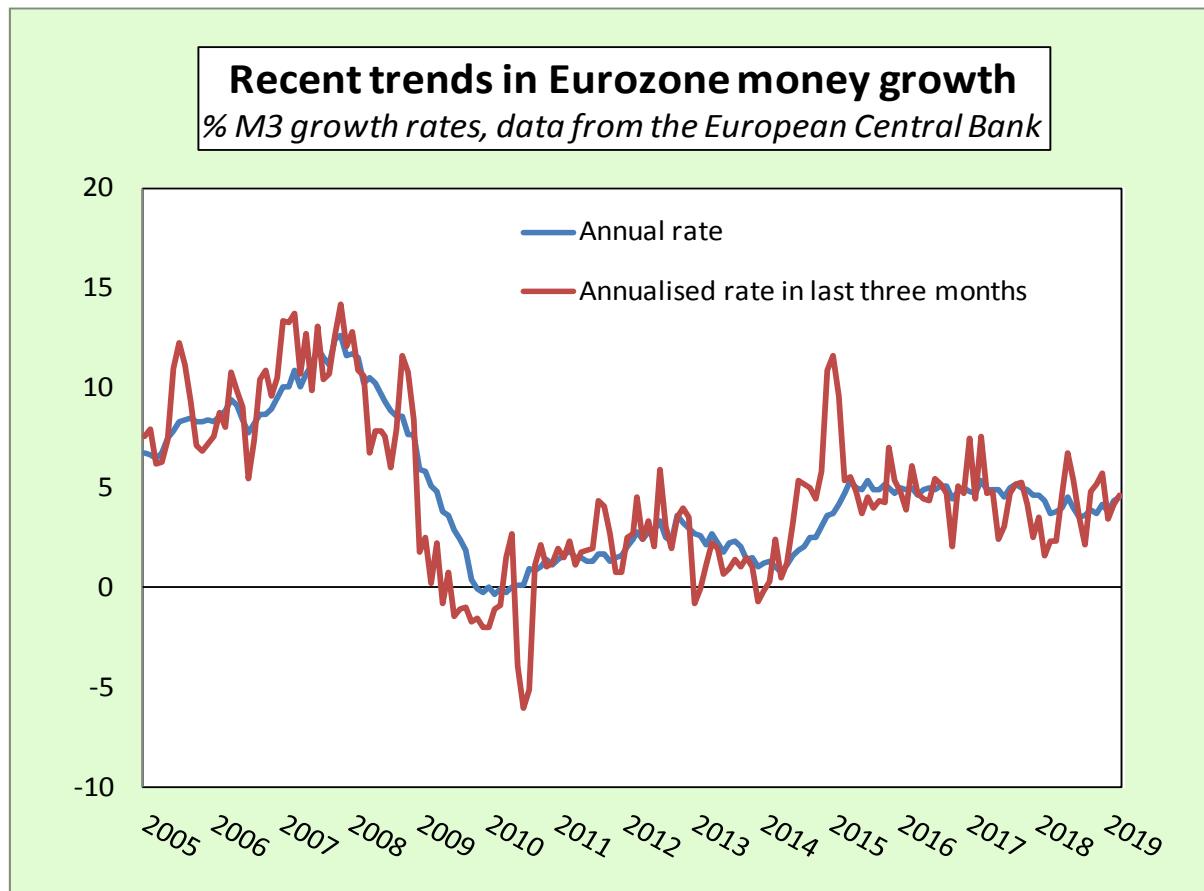
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Eurozone/Euroland

	<i>% annual/annualised growth rate:</i>	
	M3	Nominal GDP
1996 – 2017	5.2	3.1
Seven years to 2017	3.6	2.4
Year to March 2019	4.5	n/a
Three months to March 2019 at annualised rate	4.6	n/a

Sources: European Central Bank for M3 and Institute of International Monetary Research for GDP



Money growth remains adequate but concerns remain

Summary: In the first quarter of 2019 broad money growth in the Eurozone reached 4.6%. This is the best figure so far this year. (Annualised quarterly growth stood at 3.4% and 4.1% in January and February respectively.) In March itself, the quantity of money, broadly defined, grew by €63b. or approximately 0.5%, a respectable figure and similar to February's. In January, however, there was no broad money growth at all. The annual growth rate rose from 4.3% to 4.5%, somewhat above 2018's average of 4.0%. With inflation subdued, broad money growth at this level is perfectly adequate.

It is now three months since the European Central Bank (ECB) halted its asset purchase programme (or “quantitative easing”). January’s disappointing money data raised concerns that the ECB’s actions could lead to a serious slowdown in broad money growth. The figures for February and March provide a considerable degree of reassurance. Banks’ holdings of government securities, which fell in January, increased in February and March while the stock of bank credit to both households and businesses in the Eurozone has continued to grow at a steady rate. Mortgage lending has grown at an annual rate of 3.5% in each of the first three months of 2019 while loans to businesses have been growing at between 2.3% and 2.6% per annum. Overall loan growth has been remarkably stable in the last six months in spite of the termination of the ECB’s asset purchase programme.

The ECB’s President, Mario Draghi, has stressed that monetary policy will not be tightened in the immediate future. No run-off of the assets purchased under the QE programme is in prospect and in a speech on 27th March, he appeared to rule out any increase in interest rates during 2019. Earlier in the month, he announced a new series of targeted long-term refinancing operations (TLTRO-III) which will begin in September 2019, although the terms for lending will be less favourable than the previous round of LTROs. So far this year, the Eurozone economy has performed better than expected without the support of QE. The unemployment rate fell to 7.7% in April, the lowest since September 2008. Annual consumer price inflation ticked up to 1.7% in April, below the ECB’s target of “2% or just under”, but not by much.

Concerns still remain, however. The annual GDP growth rate for the first quarter of 2019 was a mere 1.2%. Industrial output in Germany and more particularly France has been disappointing this year. The prospect of the US tariffs on goods from the EU has dented business confidence across the 19-member bloc, although so far, the effect on actual trade has been minimal. Italy is the biggest worry. After a recession in the second half of 2018, the country’s GDP grew by 0.2% in the first quarter of 2019, which is better but still far from healthy. Bank lending in Italy has fallen sharply and is more than 25% lower than November 2011’s peak of €915b. In early May, the US fund management group Black Rock pulled out of a deal to rescue Banco Carige, one of several Italian banks to have been placed in administration in recent months. A further worry across the 19-member bloc could be the effect on business confidence in the wake of a strong showing by eurosceptic parties in European Parliamentary elections later this month. It is possible that the encouraging start to the year may continue – and it must be stressed that the money numbers have been positive in the last two months- but a note of caution is advisable.

John Petley
10th May, 2019

	<i>% annual growth rate:</i>	
	M3	Nominal GDP
1996 – 2017	5.2	3.1
1996 – 2000	4.6	4.1
2001 – 2010	6.8	3.1
Seven years to 2017	3.6	2.4



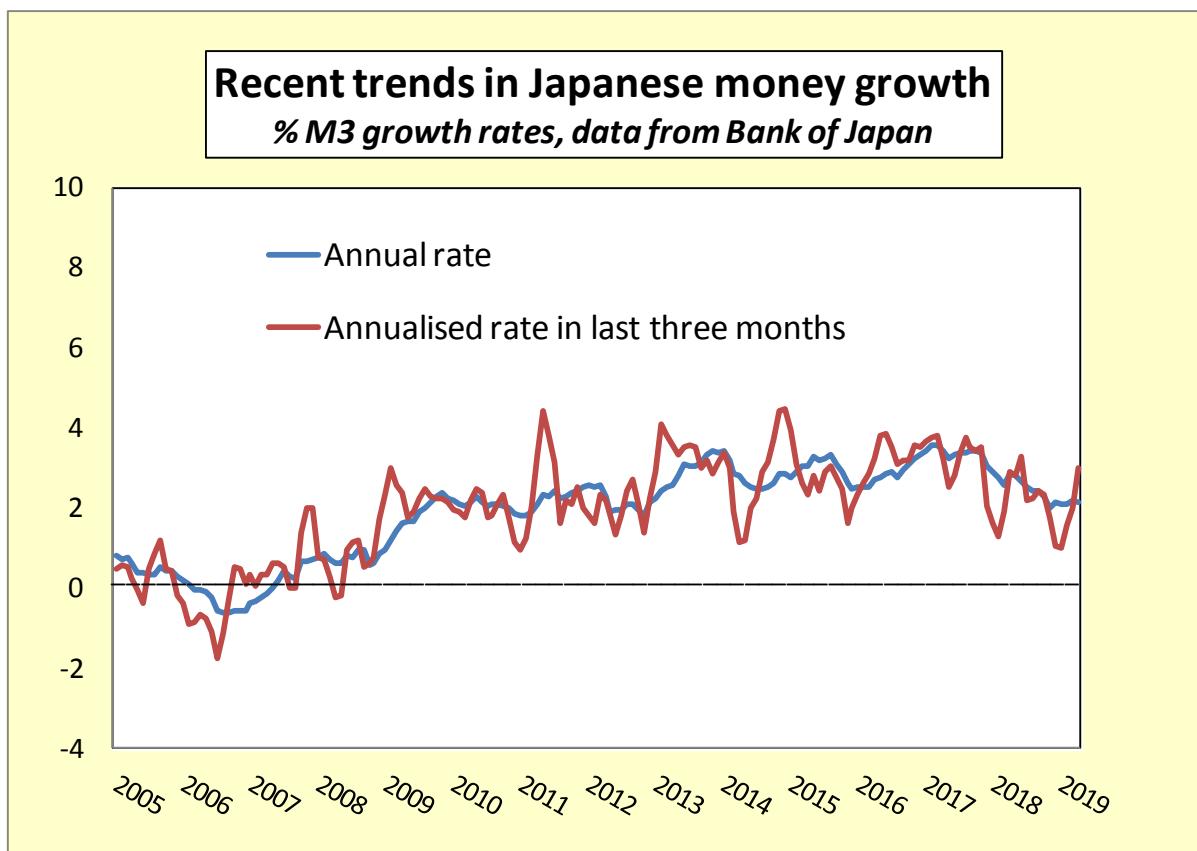
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Japan

	<i>% annual/annualised growth rate:</i>	
	M3	Nominal GDP
1981- 2017	4.0	1.9
Six years to 2017	2.9	0.5
Year to April 2019	2.2	n/a
Three months to April 2019 at annualised rate	2.1	n/a

Sources: Bank of Japan for M3 and IMF for nominal GDP



Broad money growth picks up further

Summary: In the three months to April 2019 Japanese M3 broad money grew at an annualised rate of 3.0%. This is the highest reading since November 2017 although still below the 2017 average of 3.3%. In April itself, M3 grew by 4.7 trillion yen, a monthly figure only surpassed three times in the last eight years. After three months of very sluggish broad money growth between November 2018 and January 2019, the last three months have seen an improvement, although the annual M3 growth rate actually fell – from 2.2% in March to 2.1%.

April's figure may be an indicator of a general improvement in Japanese money growth, but at this stage, it is too early to be confident about this. All too often in recent years there have been false dawns where money growth picks up for a few months only to fizzle out a few months later, as the graph above shows. The ultra- loose monetary policy of recent years has definitely had an effect, but it has done no more than maintain a modest level of money growth and keep deflation at bay. The most recent inflation data shows consumer prices rising at a mere 0.5% in the year to March, an improvement on February's figure of 0.2% but still a long way off the 2% target set by the Bank of Japan (BoJ) when its programme of "Quantitative and Qualitative Easing" (QQE) was introduced in 2011. The statistics for bank lending provides another reason for a cautious approach to the money figures. In the year to April, the stock of loans by Japanese banks grew by 2.4% year on year. For the last five months, the figure has been either 2.3% or 2.4% and while this is an improvement on the figures for a year ago, where loan growth was often less than 2%, in 2017, the figure reached 3.3%. Retail sales growth remains modest while annual wage growth, which briefly rose as high as 3.3% in June 2018, has turned negative since the start of 2019, in spite of the tight labour market. In both February and March, Japanese exports recorded a year-on-year decline while the Nikkei index, after four months of steady gains, has fallen sharply since the start of May. The Tankan indicator of business confidence fell to a two-year low in the first quarter of the year and consumer confidence has hit its lowest point since February 2016. Indeed, the only sector of Japan's economy to have picked up in recent months is the housing market.

The BoJ has been targeting the monetary base rather than broad money in its attempts to raise inflation and revive the country's stagnant economy. The simple fact that the monetary base has quadrupled since 2011 while macroeconomic growth has been pretty feeble throughout this period illustrates clearly the lack of correlation between the monetary base and nominal GDP. On 25th April, the BoJ reaffirmed its commitment to "powerful" monetary easing – in other words, "QQE", negative interest rates and "yield curve control" until at least the spring of 2020. It also stated that it will introduce some extra measures, including the expansion of eligible collateral for the BoJ's provision of credit. The April 27th statement struck an all-too familiar optimistic note that is hardly justified by the figures. At least the money figures point to a continuation of the modest growth which the Japanese economy has enjoyed in recent years, but a sustained upturn looks highly unlikely, especially given the recent slowdown in exports on which the country has been so dependent.

John Petley
15th May, 2019

	<i>% annual growth rate:</i>	
	M3	Nominal GDP
1981 – 1990	9.2	4.6
1991 - 2000	2.5	1.1
2001 - 2010	1.1	0.8
Seven years to 2017	2.9	0.5



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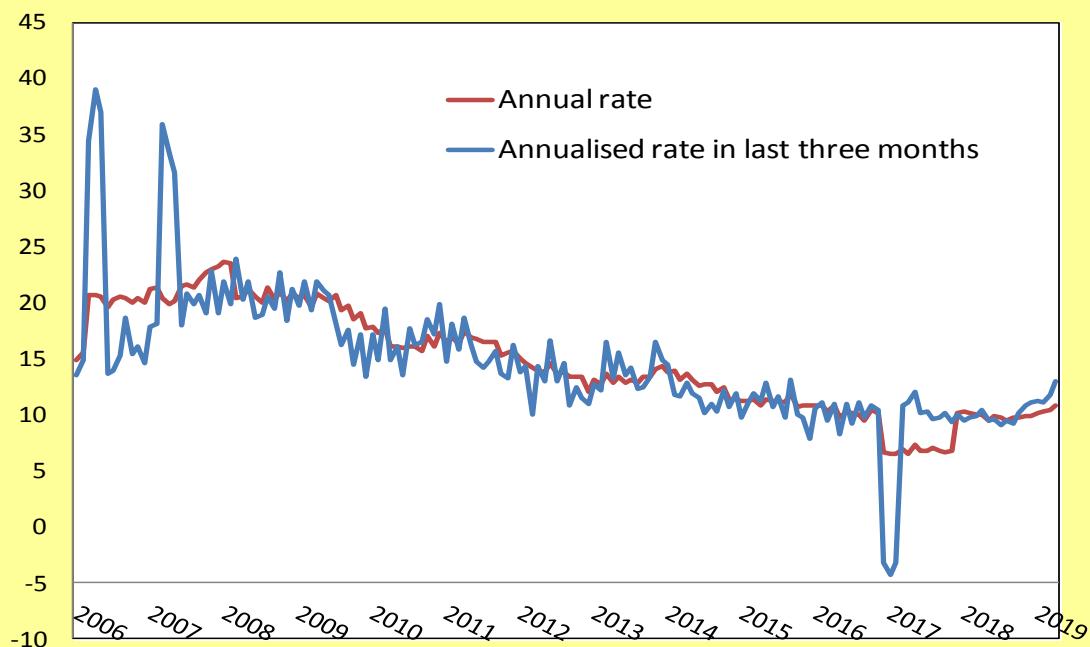
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India

	<i>% annual/annualised growth rate:</i>	
	M3	Nominal GDP
1991- 2017	15.8	12.5
2010 - 2017	12.1	7.3
Year to April 2019	10.8	n/a
Three months to April 2019 at annualised rate	12.9	n/a

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

Recent trends in Indian money growth
% M3 growth rates, data from the Reserve Bank of India



Broad money growth accelerates

Summary: In the three months to April 2019 India's seasonally adjusted M3 grew by 3.2% or at an annualised rate of 12.9%, the highest reading since September 2015, which was well before the de-monetisation exercise of November 2017. The annual M3 growth rate also ticked up from 10.4% to 10.8%, the fastest growth since April 2016. Until this month's figures, broad money growth has been very stable. Both the annual and annualised quarterly growth rates have shown little deviation from the 9.5% - 11% band since the end of 2017.

The Reserve Bank of India (RBI) cut interest rates for a second time this year, reducing rates by a further 0.25% to 6.0% on 4th April. Since the start of April, there has been a slight slowing in the growth rate of lending by India's banks. It stood at 15.1% year-on-year at the end of 2018, but in early March, the figure had fallen to 14.6. By the beginning of May, it had fallen further – to 13%. Even so, this is still a respectable figure, higher than the corresponding rate for 12 months ago, (The RBI reports bank lending figures on a bi-monthly basis.) There has been an increase in inflation since the start of the year, driven by rising food prices, but prices still only rose by 2.9% in the year to April – well below the RBI's 4% target – thus enabling the RBI to cut base rates last month without fuelling inflation in the near term. Inflation may well not remain at such a subdued level for much longer as new credit creates extra money balances and excessive money growth causes inflation. There has been a surge in lending to individuals in the last year, with consumer spending rising by over 6.5% in the final quarter of 2018. In spite of this, real GDP growth of 6.6% year-on-year in the final quarter of 2018 was disappointing, being the lowest reading since June 2017. (Indeed, Raghuram Rajan, the former governor of the RBI, has suggested that the true GDP growth figure may be lower. Rajan quoted an anonymous government minister who claimed that the low level of job creation in the Indian economy was incompatible with the official GDP growth level.)

Besides concern about GDP growth, another possible reason for the interest rate cut is India's general election, due to be held in seven phases from 11th April to 19th May. The ruling BJP Party has been keen to ensure that it does not have to conduct its campaign against a backdrop of falling investment and sluggish growth. The outcome of the election will be known shortly after the appearance of these notes, but whoever wins, it is likely that the new government will continue the modernisation of India's infrastructure and seek to ensure the country maintains its status as the world's fastest growing major economy. India's banks remain a cause for concern, with two major corporate bankruptcies being reported in recent months - Infrastructure Leasing and Financial Services and Jet Airlines. The State Bank of India has taken responsibility for the loss-making airline but has been struggling to find a buyer. The RBI has long been seeking to tidy up the loan portfolios of India's banks, introducing a series of tough rules on rescheduling non-performing loans (NPLs), in 2018. Several Indian businesses took the RBI to court and the judgment delivered on 2nd April was that the RBI's actions were unlawful. This has been a disappointment to the RBI as official action had succeeded in reducing the percentage of NPLs, following a sustained period where the percentage was rising. In spite of these problems, however, India's macroeconomic prospects remain positive.

*John Petley
16th May, 2019*

	<i>% annual growth rate:</i>	
	M3	Nominal GDP
1991 - 2000	17.2	14.0
2001 - 2010	17.3	14.9
Seven years to 2017	11.3	6.8



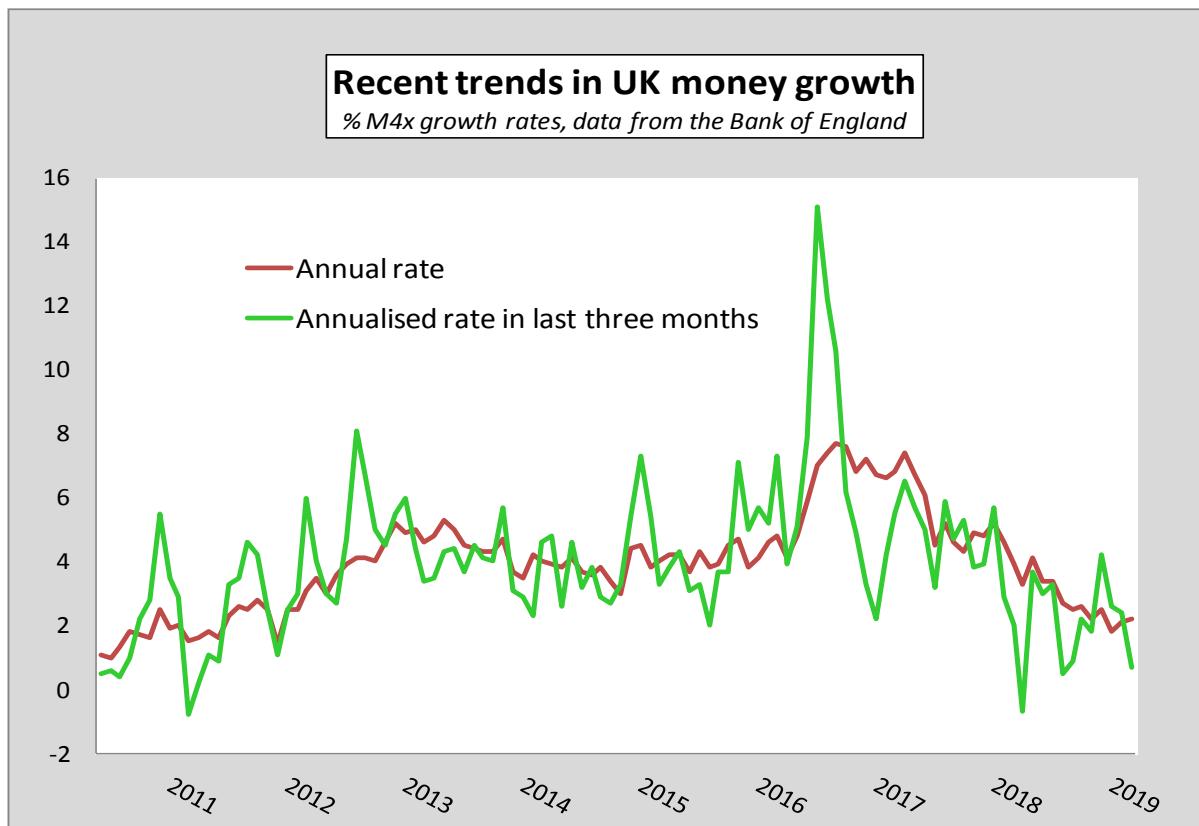
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UK

	<i>% annual/annualised growth rate:</i>	
	M4x/M4 before 1997	Nominal GDP
1964 – 2017	9.8	8.2
Seven years to 2017	3.8	3.6
Year to March 2019	2.2	n/a
Three months to March 2019 at annualised rate	0.7	n/a

Sources: Bank of England and Office for National Statistics



Broad money growth weakens further

Summary: In the first three months of 2019 UK M4x grew at an annualised rate of only 0.7%, down sharply from February's figure of 2.4%. After falling in January, the M4x quantity of money grew in both February and March, but only by £2.9b. and £1.5b, respectively (By contrast, in 2017 M4X grew at a monthly average of £8.3b.) With December's relatively strong growth falling out of the calculations, March's figure was inevitably going to be lower, given the weak money growth so far this year. The annual growth rate crept up from 2.1% to 2.2% as growth in March 2018 (which no longer features in the calculations) saw weaker money growth than March 2019.

Late 2016 and 2017 saw rather high growth rates of broad money, on the favoured measure of M4x, after the surprise Brexit referendum result in June 2016 stirred recession fears. Part of the explanation was that, just after June 2016, the Bank of England engaged in expansionary asset purchases. In the closing months of 2016 M4x was 8% up on a year earlier; even in January 2018 the backward-looking twelve-month increase in M4x was 5.2%. The recession fears were unjustified, and growth in the two years after the referendum proceeded as if nothing much had changed.

A move in base rates is unlikely until the Brexit issue is resolved. On 2nd May, Mark Carney, the Governor of the Bank of England, claimed that Brexit uncertainties had "driven a wedge between optimistic households and pessimistic businesses." The figures bear this out, with retail sales up by 6.7% year-on-year in March and consumer spending hitting a record high in the first quarter of 2019. The general public remain indifferent to forecasters' pessimism about the economic consequences of Brexit, although the number of mortgage approvals was 3,000 lower compared with February and consumer confidence remains firmly in negative territory. Business pessimism was reflected in weaker lending in March, with less money being lent both to large companies and SMEs compared to February. Overall growth in the stock of business lending fell from 3.6% in the 12 months to February to 2.5% in March. Given the disappointing money growth recently, these figures are unsurprising. In the 14 months from February 2018 to March 2019 inclusive, M4x has fallen in five months and increased by £5b. or more in only four. The sluggishness in money growth may be attributable to the withdrawal of artificial official schemes to help bank lending and also to an increase in banks' cyclical capital buffer, but the fundamental consideration – as has been true since the Great Recession – is that banks are under greater official pressure to maintain ample capital against the risks in their balance sheets. The first quarter of 2019 saw UK GDP grow by 0.5%, higher than may have been expected from the money data. One cause may be a build-up of stocks in anticipation of the original Brexit date of March 29th. Asset prices rose by around 10% in the first four months of 2019, although they have fallen back in May. In spite of stock market buoyancy, the money balances of mainstream non-bank financial institutions (i.e., financial institutions excluding intermediate "other financial corporations" or quasi-banks) fell by almost 5% in the year to February. The disappointing money figures suggest that the UK will see only modest macroeconomic growth in the coming months.

John Petley
13th May, 2019

	<i>% annual growth rate:</i>	
,	M4/M4x	Nominal GDP
1964- 2017	9.8	8.2
1991 – 2000	6.7	5.3
2001 – 2010	7.1	4.1
Seven years to 2017	3.8	3.6