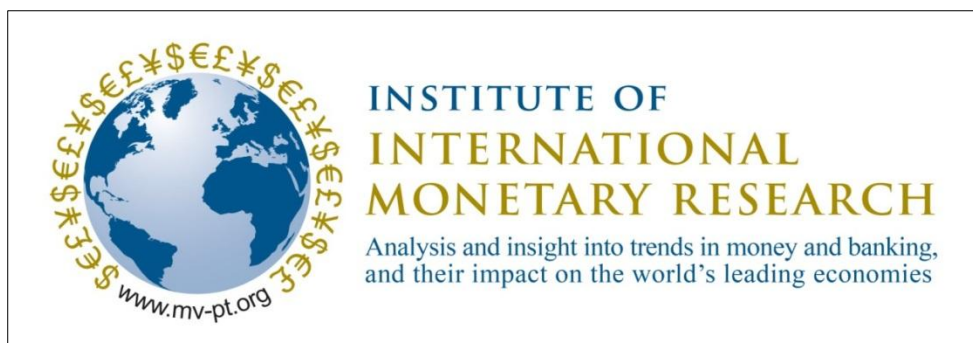




[The Institute of International Monetary Research is a research institute with charitable status. This note is being e-mailed to people and organizations interested in global money trends, and the relationships between money and banking on the one hand and macroeconomic outcomes on the other. It is not business or investment advice, and the Institute accepts no responsibility for decisions taken in the light of the analysis given.]

Monthly e-mail from Tim Congdon and John Petley – 30th November, 2020

Global money round-up in autumn 2020

Three vaccines have been announced as safe and effective against Covid-19, and one of these - the so-called “Oxford vaccine” (AZD1222) – is both easy to distribute and inexpensive. **It is assumed throughout this note that medical normality will have returned by late 2021.**

According to the analyses made here in the last few months, the key issue in macroeconomic policy-making next year will be to meet the inflationary threat posed by the overhang of excess money balances created in spring 2020. The seriousness of the threat depends to some extent on the rates of money growth seen in the main economies in late 2020 and early 2021. A fiscal package costing perhaps \$1,000b. seems likely to be implemented in the next few weeks/months by the new Biden administration in the USA and could add up to 4% to M3 broad money. Meanwhile in the UK the Bank of England reacted to the second lockdown by announcing another round of “quantitative easing”, with a value of £150b. This could cause the increase in M4x broad money to be up to 6% higher than it otherwise would have been.

Our survey of developments in the other main countries identifies nowhere in which steps are actively being taken to restrain money growth. On the contrary, the prevailing rhetoric of policy-makers is to pursue so-called “expansionary” fiscal measures (i.e., to widen budget deficits), with the intention of easing the economic pain caused by the pandemic. To the extent that large budget deficits are financed from banking systems, new money balances are created. Little concern is being expressed in official circles about the potential inflationary consequences of current policy trends. This indifference to elevated money growth is itself a reason for expecting high inflation in, say, 2022 and/or 2023.

Money trends in mid-2020 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. The Covid-19 coronavirus outbreak continues to dominate the headlines, although vaccine prospects suggest that by late 2021 and early 2022 underlying macroeconomic drivers will again be pre-eminent. The main points argued in the Institute's recent research are that

- the policy response to Covid-19 has 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 is overwhelming), the accelerations in money growth will be followed by similar accelerations in the growth of nominal national income, and
- given that the world's underlying productive capacity has 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 has been standard in the last 20/30 years.

It has to be said in qualification that, if the big leap in money balances in spring 2020 were offset by an equally large drop in the second half of the year, the message would be wrong. The last three/four months have indeed seen a slowdown in money growth, as is evident from the table below.

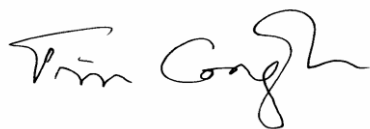
Name of country/ jurisdiction	Share of world output		Growth rate of broad money		Comment
	In purchasing-power parity terms, %	In current prices and exchange rates, %	In last three months at annualised rate, %	In last twelve months, %	
USA	15.1	23.3	3.0	22.7	Sharp recent months deceleration, but expected post-election fiscal stimulus likely to be monetised.
China	18.7	16.1	10.3	10.6	Money growth stable, after brief spurt due to pandemic-related stimulus measures..
Eurozone	10.6	16.4	8.7	10.4	Money growth slowing, but still – just into double digits – at annual levels above those in recent years.
Japan	4.2	5.9	6.2	7.5	Stronger growth of bank credit to private sector part of reason for fastest money growth for 30 years.
India	7.7	3.3	11.6	12.0	Credit and money growth steady at high rates, with budget deficit hit by Covid-19 loss of tax revenues.
UK	2.2	3.4	6.1	11.6	Annual money growth off recent peaks in teens, but to accelerate because of £150b. more QE. .

However, the same comment applies as last month. Only in the American case has the slowdown been particularly sharp. The latest three-month annualised rates in China (10.3%), the Eurozone (8.7%), Japan (6.2%), India (13.6%) and the UK (6.1%) are all somewhat above the typical annual money growth rates in the last five years. Moreover, recent or imminent announcements signal accelerations in money growth in the USA and the UK. In the USA another large fiscal package seems certain to be agreed between newly-elected President Biden and Congress, with most of the finance to come from the banking system; in the UK the second lockdown is being countered – unnecessarily – by another £150b. of Bank of England asset purchases. In early 2021 the annual rate of money growth in the USA is likely to be between 20% and 25%, and in the UK over 15%.

The overwhelming consensus of macroeconomic commentary and analysis - from national authorities, supranational bodies (such as the International Monetary Fund and the Organization for Economic Cooperation and Development) and mainstream media – is very different in theme and conclusion from our own. The consensus is that the output setbacks and job losses due to Covid-19 will have persisting effects over a few years, and that disinflationary forces are deeply entrenched. A debate has therefore emerged about whether the Covid-19 pandemic and the policy response to it will lead to more inflation or less. The IIMR held its annual conference on this very topic; you can access the conference presentations [here](https://www.youtube.com/playlist?list=PLudZPVEs3S82kD-A_sg_eR3AoFkFifh9K) (to hyperlink 'here' to https://www.youtube.com/playlist?list=PLudZPVEs3S82kD-A_sg_eR3AoFkFifh9K). The debate is so far very one-sided, with the vast majority of influential economists siding with the disinflationary argument.

However, four recent developments are more consistent with our view than with the disinflation consensus. First, stock markets have bounced back strongly from their March lows. The S & P 500 – which might be seen as a global bellwether – has soared over 60% from its low on 23rd March and is at new record levels. Secondly, residential house prices have increased sharply in the main countries, which implies a positive “wealth effect” on consumption in 2021 and 2022. Third, the dollar has fallen in value relative to the euro, a logical move given that in 2020 money growth has been much faster in the USA than in the Eurozone. Finally, some inflation measures are picking up. In the USA the fall in the dollar has made it easier for manufacturers to raise prices. True enough, the producer price index for finished goods did drop sharply in the three months to April, with a slide in energy prices being much of the story. But in the six months from April the finished-goods PPI has shown an increase in every month and altogether by 2.2%, annualising at 4.5%. With oil price now edging ahead again, a continuation of recent trends points towards a 5% or so increase in the PPI in 2021. This is certainly not disinflation.

If inflation shows signs of increasing in 2021 policy-makers will blame it on special factors in particular product and labour markets, and not on the extravagant response of fiscal and monetary policies to the challenges of the coronavirus pandemic. But 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.



30th November, 2020



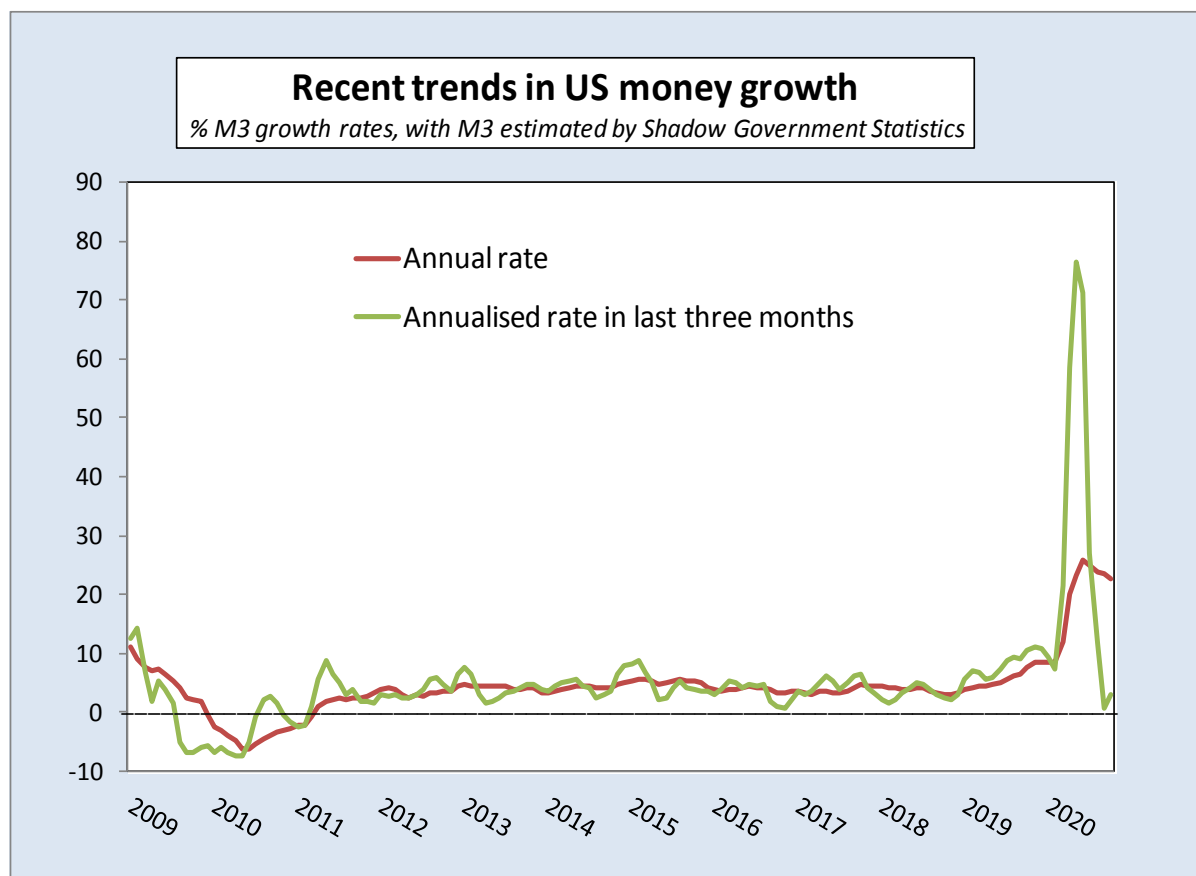
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USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1961 – 2019	7.4	6.5
Nine years to 2019	4.5	4.1
Year to October 2020	22.7	n.a
Three months to October 2020 at annualised rate	3.0	n.a.

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



Money growth below recent records, but soon to accelerate again?

Summary: In the three months to October the annualized rate of growth of US M3 broad money was 3.0%. While this reading is notably higher than September's 0.6%, it is still much lower than the three months to June when M3 went up by almost 15% and the annualized rate of growth was an astonishing 71.3%. The annual growth rate declined from 23.4% to 22.6% (Our M3 data come from Shadow Government Statistics.)

The M3 quantity of money grew by over \$100b. (or by just above 0.4%) in both September and October after falling in July and August. In the first three weeks of November deposits at US commercial banks have grown quite briskly, and on average were 0.8% up on the October monthly average, according to the weekly statement from the Federal Reserve. If it were assumed that M3 does in fact grow by 0.8% in November, the average monthly growth rate of M3 since June would be 0.3%. On this basis, the extraordinary burst of money growth from February to June, when M3 went up in a mere four months by 18.8%, lies in the past and is to be distinguished from a much more modest pace of expansion in the second half of 2020. However, the actions taken by the Fed and the Trump administration, in its closing months, have not retracted the money growth surge.

Neither the Fed nor the incoming Biden administration pays any attention to money numbers. But their decisions affect money growth, whether they appreciate the fact or not. Congressional Democrats are in favour of a fiscal package with a \$2,000b. cost, whereas Senate Republicans want to limit the figure to \$500b. Mitch McConnell, the leader of the Senate Republicans, has said that he favours an announcement before end-2020. US media are full of speculation that stimulus checks of \$1,200 per adult, as in the spring, will be one element in the package. If it were assumed that the package will cost \$1,000b. and that it will be financed entirely from the banking system, it would add 4% to M3, probably before the end of March, i.e., with a monthly addition to M3 – of 1 1/3% above the underlying trend of, say, 0.3% – in this quarter. If so, the annualised M3 growth rate in the first quarter of 2020 would be over 21%. Further, the annual increase in M3 would stay in the 20% - 25% vicinity in early 2021.

Of course, the analysis above is conjecture. But it defines a reasonable benchmark for discussion, given official pronouncements. In a 5th November statement Jay Powell, the Fed's chairman, called for further fiscal stimulus. He also stressed that the Fed funds rate would remain at the current low rate until the labour market reaches full employment and inflation rises above the Fed's 2% target. Janet Yellen, to be President Biden's Treasury secretary, is also strongly in favour of a large fiscal demand injection. No other developed economy has embraced so-called "fiscal stimulus" on such a scale.

Tim Congdon
30th November, 2020

	% annual growth rate:	
	M3	Nominal GDP
1960 – 2018	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
Nine years to 2019	4.5	4.1



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China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2018	19.2	15.1
2010 - 2018	13.6	11.2
Year to October 2020	10.6	n/a
Three months to October 2020 annualised rate	10.3	n/a

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



Broad money growth remains above 2019 levels

Summary: In the three months to October 2020 China's M2 grew by 2.5% or at an annualised rate of 10.3%, slightly down on September's reading of 10.4%. The annual rate of growth fell slightly from 10.7% to 10.6%. Chinese M2 growth still remains above 2018-9 levels, which were typically in the 8% to 9% band.

According to China's state-controlled media, no deaths from the coronavirus have occurred since May and only a handful of new cases are reported each day. The most recent official figures indicate that the Chinese economy is no longer affected in any significant way by the virus. In the third quarter of 2020, China's GDP grew by 2.7% and the annual growth rate picked up from 3.2% to 4.9%. This is lower than the 6-7% annual growth rate of 2018-19, but still a respectable figure given the disruption caused by the pandemic. Exports are up on 2019 levels. Indeed, in October, exports grew at an annual rate of no less than 11.4%, while industrial production rose 6.9%.

Growth in the stock of lending by China's banks currently stands at 12.9%. While slightly down on September's 13.0%, this figure is higher than in the months preceding the virus and suggests that businesses are sufficiently confident to take on new loans. Given these figures, it is possible that the stimulus measures announced earlier this year may now be in abeyance. M2 rose sharply in March, but the figures for the last three months have been more in line with those of 2018-19. As no official target for M2 growth has been set since 2017, it is impossible to determine whether or not the authorities now wish to see M2 levels return to the 8%-9% of the last two years. Since April, there have been no further moves to loosen monetary policy. Consumer price inflation fell from 1.7% in the year to September to 0.5% a month later, the lowest figure in 11 years and well below the official 3% target. While there is scope for a further cut in base rates, the authorities may perhaps see no reason for so doing. Indeed, a fall in food price inflation to 2.2% in the year to October will probably be welcome news. A combination of severe flooding earlier in the year and an outbreak of African swine fever resulted in double-digit food price inflation for much of the year. Pork prices fell for the first time in 18 months, suggesting that the outbreak has finally been contained. The 2019 housing boom also appears to be over, with prices rising by only 4.6 in the year to October, the slowest rate of increase since February 2016.

The outlook seems relatively benign, both for businesses and consumers, who appear to have recovered their confidence. Retail sales have risen above 2019 levels and consumer credit hit a record high in October. The surge in the Chinese stock market, which rose by over 25% since the start of the year, and hit a two-year high on 9th July, seems to be over, but asset prices remain buoyant. The only potential concern is the health of some banks in China. The People's Bank of China injected 800b. yuan in one-year medium-term lending facilities into the market on 16th November following a debt default by a large power company. The pandemic may lead to further write-offs and China's five largest banks have all reported a drop in profitability. Looking ahead, China is unlikely to suffer from an inflationary spike when the global effects of the pandemic are over. As the graph above shows, the increase in Chinese M2 growth in 2020 has been much more modest than some earlier spikes.

John Petley
18h November, 2020

	% annual growth rate:	
	M2	Nominal GDP
1991 - 2000	24.5	18.4
2001 - 2010	18.5	15.2
Eight years to 2018	12.8	10.3



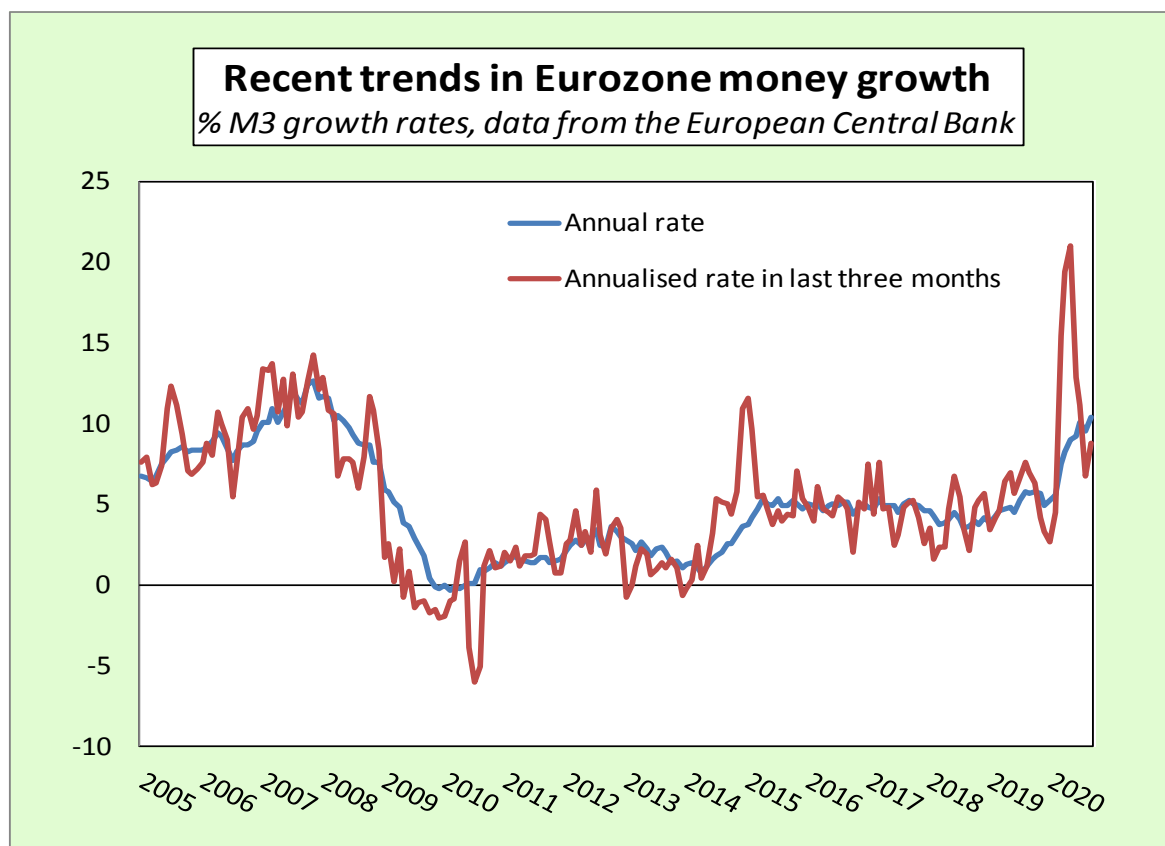
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Eurozone/Euroland

	% annual/annualised growth rate:	
	M3	Nominal GDP
1996 – 2019	5.2	3.1
Nine years to 2019	3.8	2.5
Year to September 2020	10.4	n/a
Three months to September 2020 at annualised rate	8.7	n/a

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



Broad money growth remains robust

Summary: In the three months to September 2020 annualised M3 broad money growth in the Eurozone rose to 8.7%. After hitting 21.0% in May on this measure, M3 growth has slowed. In September itself M3 grew by €156b., a considerable increase on August's figure of €24b. The annual growth rate rose from 9.5% in August to a 12-year high of 10.4%.

In the third quarter of 2020 Eurozone GDP grew by 12.7%, but this merely offset the fall of 11.8% in Q2. The level of GDP in Q3 2020 was still lower than a year earlier. Consumer sentiment was improving throughout this period, with retail sales higher in the summer than in the same period in 2019. New car registrations have climbed back to pre-pandemic levels. The housing market also picked up, with growth in mortgage lending rising to 4.5% in the year to September. This is higher than the 3% or so which was typical of the 2018-19 period. Since October a surge in coronavirus cases in several leading economies, notably France and Spain, has resulted in the re-imposition of several national lockdowns. This will inevitably hold back output for some months.

The ECB's Monetary Policy Committee did not announce any additional measures at its October meeting but confirmed that the monetary initiatives launched earlier in the year, such as the €1,350b. Pandemic Emergency Purchase Programme (PEPP), will continue in operation until at least June 2021. Further, there will be no run-off of ECB assets until at least the end of 2022. Two weeks later, Christine Lagarde, the ECB's President, indicated that the monetary stimulus could be extended. Lagarde has recently suggested that the ECB could follow the US Federal Reserve in adopting an average inflation target, which would allow inflation to rise above 2% after a period of below target inflation. The Bundesbank's Jens Weidmann has argued strongly against this. In spite of the ECB's commitment to a very loose monetary policy, in the week ending 30th October, a mere €12.6b. in assets were purchased under the PEPP scheme, substantially lower than the €18.2b. purchased the previous week and the lowest figure since the programme was launched. Total asset purchases under this scheme stood at €627b. at the end of October. Along with the large fiscal stimuli, the various monetary initiatives are likely to result in high broad money growth for the rest of the year, although not at the same level as in the spring.

Consumer prices rose by 0.2% in September, but the annual inflation rate remains negative at 0.3%. This may concern the ECB, but a key influence has been a 8.2% fall in energy prices. Without that fall, the annual change would be an increase of 0.6%. Unlike earlier spells of deflation, this time it is not just the Mediterranean countries which have been affected. Prices have fallen in Germany on an annual basis for three out of the last four months. Only asset prices have responded to 2020's higher money growth. The Stoxx 50 share index, for example, rose by over 33% between a low on 17th March and the end of July. It has since then advanced again. Given the vaccine-related hopes of normality, the inflation/deflation debate will intensify. The Institute of International Monetary Research has argued that the recent rapid growth in the quantity of money could prove inflationary once businesses and consumers feel confident to operate with lower ratios of money to income and wealth.

John Petley
12th November, 2020

	% annual growth rate:	
	M3	Nominal GDP
1996 – 2018	5.2	3.1
1996 – 2000	4.6	4.1
2001 – 2010	6.8	3.1
Nine years to 2019	3.8	2.5



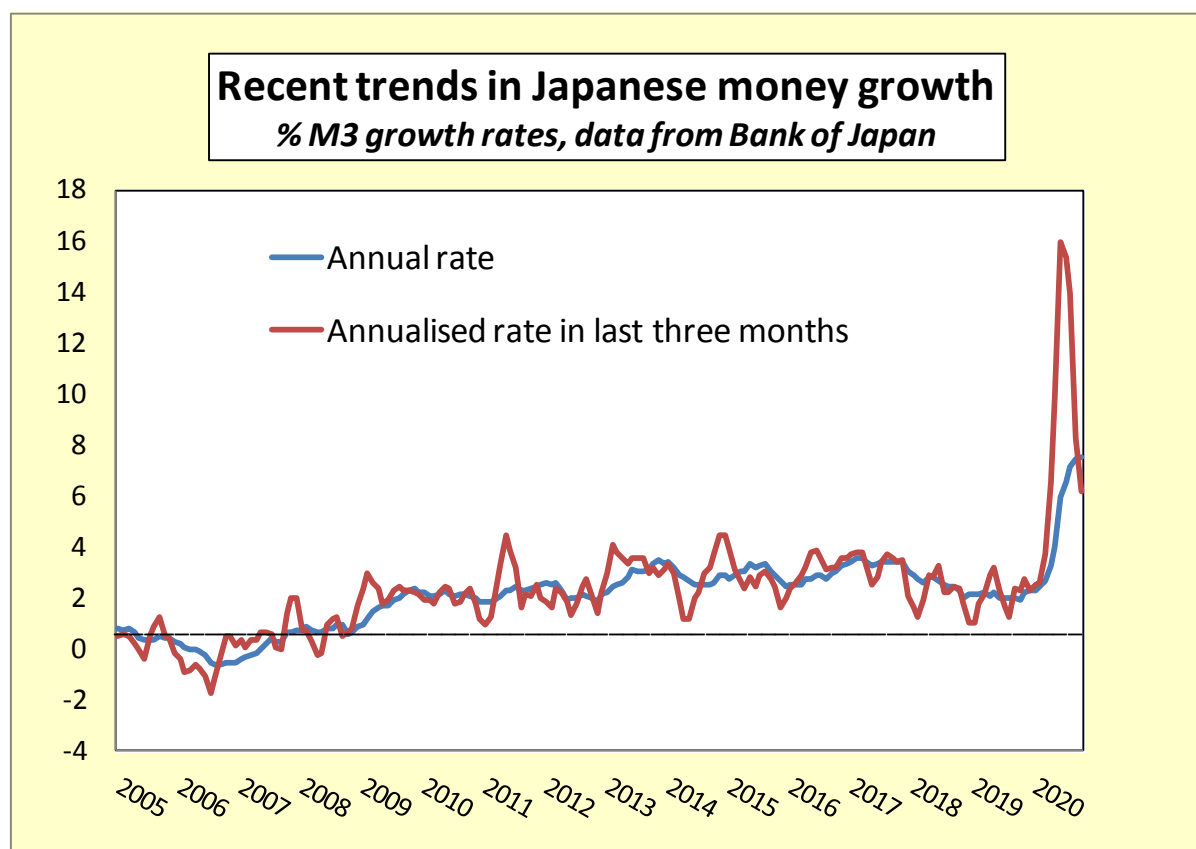
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Japan

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2019	3.9	1.9
Nine years to 2019	2.7	0.9
Year to October 2020	7.5	n/a
Three months to October 2020 at annualised rate	6.2	n/a

Sources: Bank of Japan for M3 and IMF for GDP



Broad money growth slows, but remains high

Summary: The three months to October 2020 saw Japanese M3 grow at an annualised rate of 6.2%. This is the lowest figure on the three-month annualised measure since March, although still high by Japanese standards over the last 30 years. In October itself, the quantity of money grew by 3.3 trillion yen or just above 0.2%. Such meagre figures were common before the coronavirus outbreak and suggest how much M3 growth has fallen since June's remarkable 25.2 trillion increase.

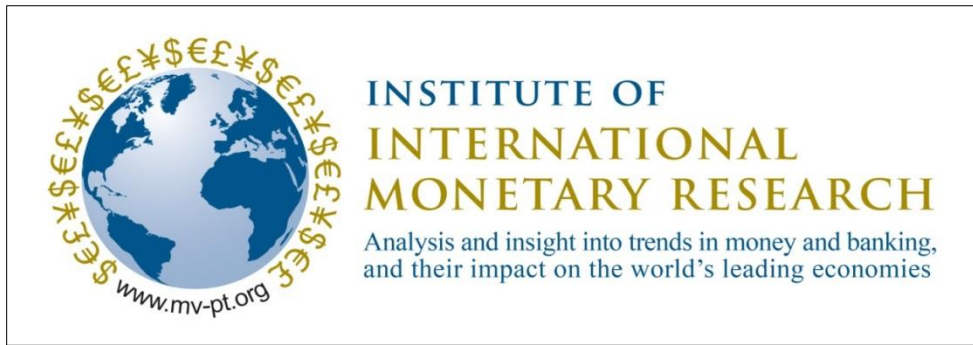
Japan has thus far experienced remarkably low infection and death rates from the coronavirus, although November saw a notable uptick in some of the larger cities. Yoshihide Suga, the new Prime Minister, has insisted that there is no need to declare a state of emergency or impose restrictions. Japan's businesses and shops have remained open throughout 2020, although the country still suffered a decline in growth of 7.9% in the second quarter (Q2) of the year. GDP rebounded by 5.0% in Q3, but this still leaves the annual growth rate below zero. Japan's recovery has been both modest and patchy. Retail sales, for example, picked up in August, only to record a slight fall in September. The number of car registrations returned to pre-Covid 19 levels in October, while the manufacturing Purchasing Manager Index (PMI) stood at its highest level in 11 months. Indeed, Japanese exports and industrial production have continued to decline on an annual basis. Cash strains are said by some commentators to be behind a significant rise in the stock of lending by Japanese banks. Loans are allegedly being taken out by businesses to tide them over, rather than to finance growth. Wages are continuing to fall, although the rise in unemployment – up from 2.4% in March to 3% in August – seems to have levelled off.

The higher level of money growth of recent months has made little impact on consumer price inflation, which is hardly surprising, as this is not the sort of relationship between money and the price level to be expected anywhere. However, the unusually strong money growth of 2020 has been associated with a buoyant stock market. The Nikkei 225 reached a 28-year high on 17th November, an increase of over 50% on the low point of 19th March. Given the scale of the stimulus measures earlier this year, it is likely that inflation will rise as the economy recovers and consumers feel confident to spend their excess money balances. Indeed, inflation may well reach the government's 2% target for the first time in many years. Even so Japan's stimulus measures have been modest compared with the actions of the US government and the Federal Reserve.

As the increase in money growth has thus been less extreme than in the USA, inflation is unlikely to rise to the same level. Government debt, already high before the pandemic, has risen still further as a result of the fiscal stimuli, with the recently issued debt having largely been bought by the Bank of Japan and Japan's commercial banks. In summary, Japan's recovery is likely to remain subdued until the pandemic eases, but the country may then see a rise in inflation.

John Petley
14th November, 2020

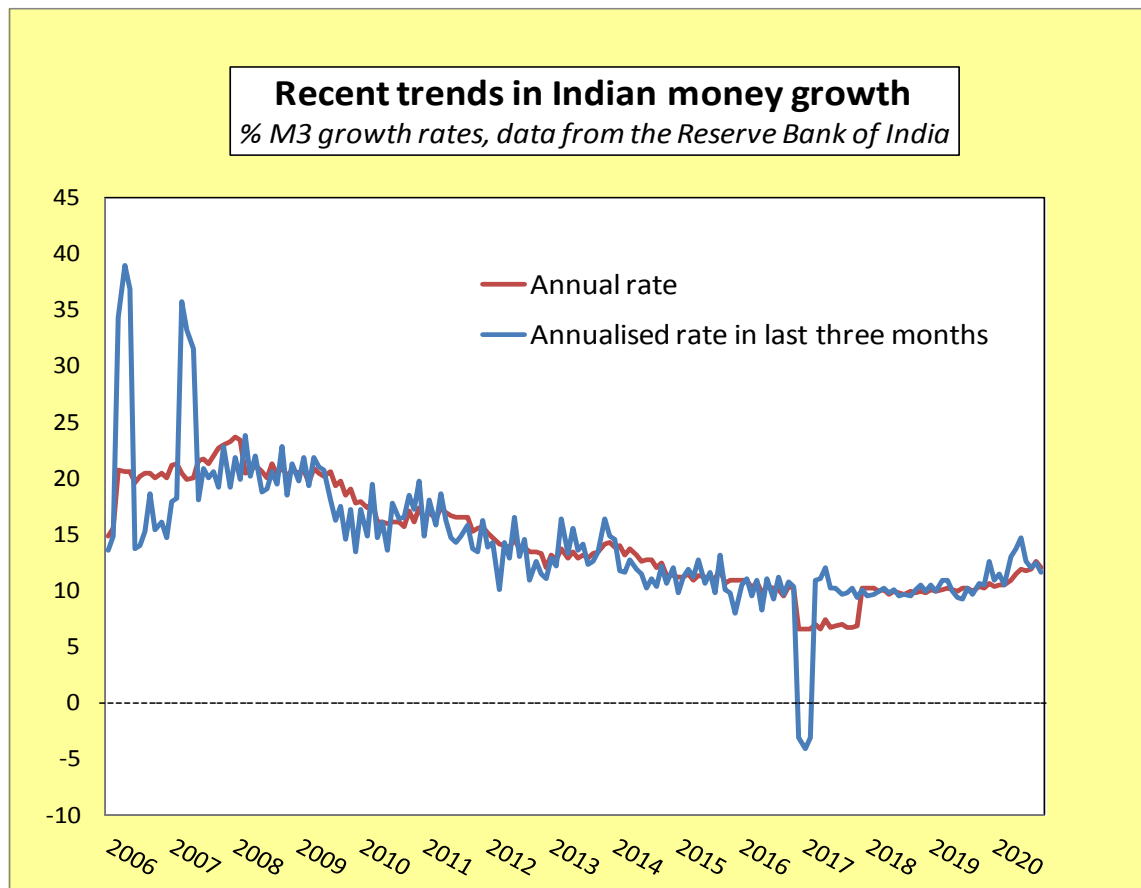
	% annual growth rate:	
	M3	Nominal GDP
1981 – 1990	9.2	4.6
1991 - 2000	2.5	1.1
2001 - 2010	1.1	0.8
Nine years to 2019	2.7	0.9



India

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2019	15.8	13.4
Nine years to 2019	11.2	11.9
Year to October 2020	12.0	n/a
Three months to October 2020 at annualised rate	11.6	n/a

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



Broad money growth slows, as India's economy faces headwinds

Summary: In the three months to October 2020 India's seasonally adjusted M3 grew by 2.8% (i.e., at an annualised rate of 11.6%). This was lower than September's reading of 12.4% and the lowest since March. Broad money growth remains above the levels of 2018 and 2019, and the annual rate of growth is 12.0%, the second highest reading since May 2014. Higher money growth reflects an increase in the budget deficit and its financing from the banking system.

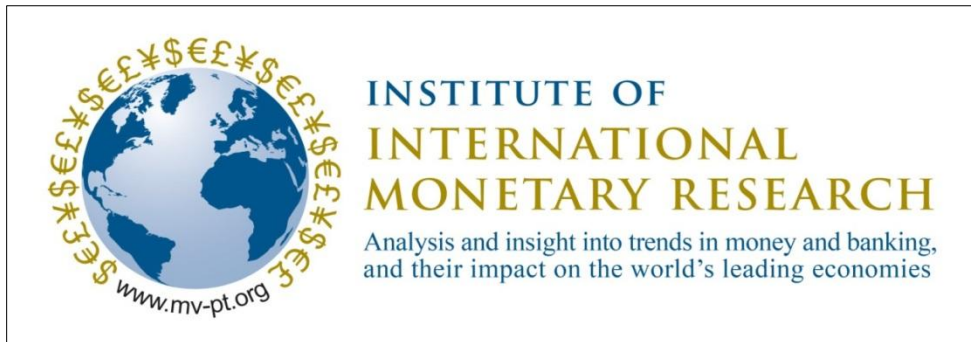
During the past month, both infection and death rates from the coronavirus pandemic have slowed in India. Even though the numbers have been high in absolute terms, they have been relatively low per head of population, perhaps reflecting the relative youth of the population. A very tight lockdown, introduced in late March, was abandoned within weeks due to concerns about the economic consequences. GDP nevertheless contracted by over 25% in the second quarter of 2020. This collapse followed adverse developments that predated the onset of Covid-19, notably rising inflation and a manufacturing slowdown. While the unemployment rate and the level of production in India's important motor industry have returned to pre-Covid 19 levels, some other macroeconomic indicators give cause for concern. Consumer price inflation rose to 7.6% in the year to October, the highest reading in over six years. Heavy monsoon rainfall, which damaged standing crops, has pushed up food inflation to 11%.

Growth in the stock of loans by Indian banks remains well below 2019 levels. The annual growth rate in early November was a mere 5.1%, compared to 8.9% a year ago. In spite of no fewer than eight cuts to base rates in late 2019 and early 2020, growth in bank lending has been on a downward trajectory for almost two years. A special cheap loans scheme included in a government stimulus package earlier this year has failed to arrest the decline. One factor behind the slowdown in the growth in lending has been the reluctance of banks to pass on cuts in base rates to borrowers. The banks have chosen instead to bolster their profits and capital, in order to boost their defences against non-performing loans. On 17th November, another struggling regional bank, the Lakshmi Vilas Bank, collapsed. The RBI intervened and sold the entire concern to DBS, Singapore's biggest bank. This is India's third major banking failure in 15 months. Concerns remain about the viability of loans to India's small companies, as many businesses have been badly hit by the effects of the pandemic and their loans may never be repaid. The non-banking sector has been hit by funding problems, thanks to the RBI's decision in March to grant a moratorium on loan repayment.

Government debt as a percentage of GDP has been rising over the past decade and reached its highest level in Q2 2020 thanks to plummeting tax revenue. As a result, the fiscal deficit is projected to be 7.6% in the 2020-21 financial year, more than double the 3.5% target. This will largely be financed by India's banks. Given all these concerns, it is likely that India's economy will continue to face significant headwinds for the rest of 2020.

John Petley
19th November, 2020

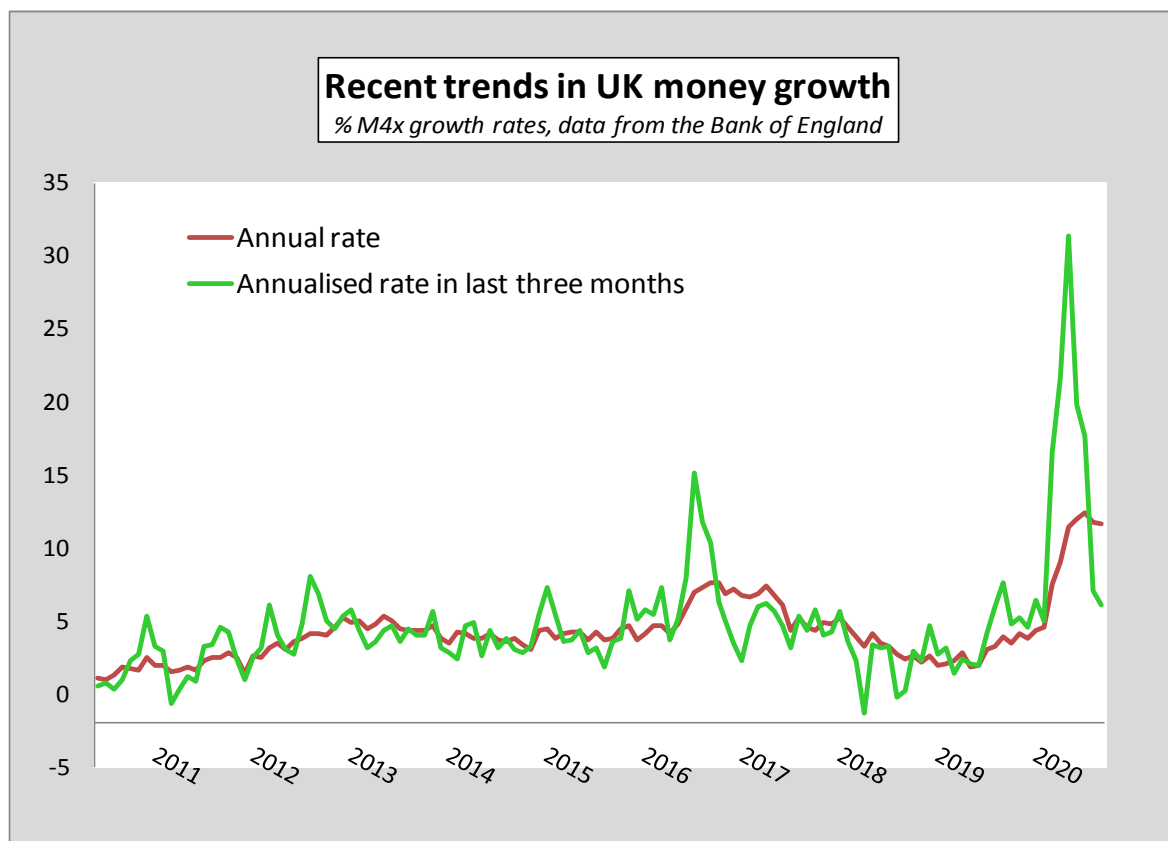
	% annual growth rate:	
	M3	Nominal GDP
1981 - 1990	17.1	15.5
1991 - 2000	17.4	14.0
2001 - 2010	17.3	14.8
Eight years to 2019	11.2	11.9



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 September 2020	11.6	n/a
Three months to September 2020 at annualised rate	6.1	n/a

Sources: Bank of England and Office for National Statistics



Broad money growth dips, but soon to rise because of £150b. extra QE

Summary: In the three months to September 2020 M4x grew at an annualised rate of 6.1%. This is fairly high by the standards of the last decade, but a marked slowdown from the pace of expansion in spring 2020. (In the three months to May M4x rose at an annualised rate of 31.4%, a record for this aggregate.) In September itself the quantity of money rose by £10.8b. after August's fall of £2.3b. The annual M4x growth rate declined slightly from 11.7% to 11.6%, after hitting a 20-year peak of 12.4% in July. A second round of coronavirus-related QE, of £150b., has been announced and is now being implemented. The annual growth rate of M4x may exceed 15% in the next few months.

On 5th November, the Bank of England announced an expansion of its asset purchase programme, by £150b. The vote was unanimous. It took place on the same day that England began a four-week lockdown, following a spike in reported cases of coronavirus. Until this point the UK economy had been showing signs of recovery. UK GDP grew by 15.5% in the third quarter of 2019 following the 19.9% contraction in Q2. The housing market was recovering strongly, with over 91,000 mortgages approved in September, the highest total since September 2007. Retail sales recorded a third consecutive annual increase in September and new car registrations also returned to 2019 levels.

While unemployment continues to edge up, rising to 4.8% in September, from 4.5% in August and 3.8% in July. Chancellor Rishi Sunak's extension of the furlough scheme (whereby the state paid 80% of the wages of employees who have been laid off) until March 2021 should slow down any strong rise in the level of unemployment for another four months. Credit to the SME sector remains buoyant, thanks in no small measure to the government's Bounce Back loan scheme. (The scheme effectively gives a long-term semi-interest-free loan to any business that has suffered from the coronavirus pandemic.)

The generosity of the fiscal measures and the reduction of tax revenue has pushed public debt above £2,000b. As long as bond yields stay at low levels, this will be manageable. Inflation, however, may be a problem. The £150b. increase in the asset purchase programme will add at most another 6% to M4x, but could push consumer price inflation up to 5% when the worst of the pandemic is over. The surge in broad money has as yet primarily affected asset prices, but consumer prices are already on an upward trend, rising from 0.5% in the year to September and 0.7% in the year to October. Indeed, it could be argued that there was no reason for further instalment of QE. The principal function of central bank asset purchases is to increase the quantity of money. While some companies are struggling, much of the corporate sector already has a strong cash and balance sheet position. Further boosting their money holdings will only make higher inflation more likely in the longer term, while doing little to increase economic activity in the short term.

Tim Congdon and John Petley
30th November, 2020

	% annual growth rate:	
	M4/M4x	Nominal GDP
1964- 2017	9.8	8.2
1991 – 2000	6.4	5.0
2001 – 2010	6.5	3.9
Nine years to 2019	4.0	3.7