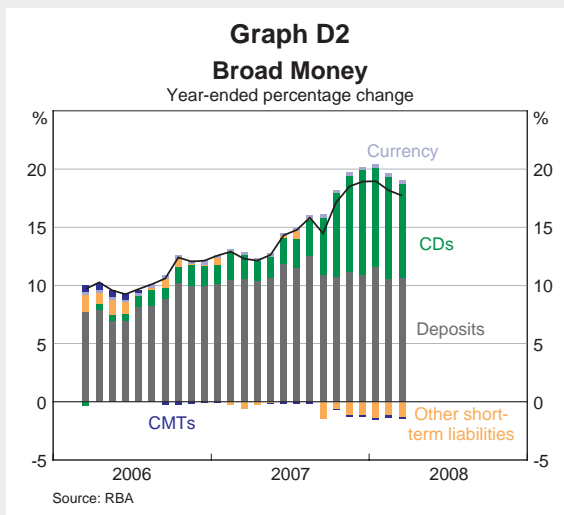
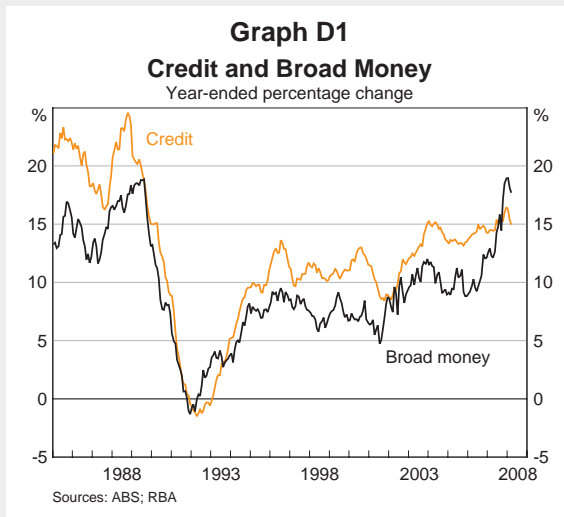


Box D: Recent Developments in Broad Money

Over the past decade credit has generally grown faster than broad money. However, since the middle of 2007 growth in broad money, which has the widest coverage of the monetary aggregates, has picked up sharply.¹ Over the year to March, broad money grew by 18 per cent, compared with an average of around 9 per cent over the past decade, surpassing the 15 per cent growth in credit over the year to March (Graph D1).



While there has been a significant increase in broad money growth, it is important to note that broad money is an incomplete measure of financial institutions' overall funding. In particular, broad money captures little of the funding sourced from capital markets, which has accounted for more than half of the total funding base of financial institutions in recent years. As a result, growth in broad money can be significantly affected by shifts in the way financial institutions fund themselves.

Following the onset of the financial turmoil in mid 2007, the increased difficulty in obtaining long-term funding from capital markets prompted financial institutions to shift towards more short-term funding, in particular by issuing certificates of deposit (CDs) to institutional investors and competing more aggressively for deposits. CDs held outside the financial sector grew by more than 50 per cent over the year to March and, given that CDs represent around one-fifth of broad money, accounted for around half of the growth in broad money over the year (Graph D2). Deposits, which

¹ Broad money is defined as currency (that is, notes and coins held by the private non-bank sector) and highly liquid assets held at financial institutions by the private sector, including deposits, cash management trusts (CMTs) and certificates of deposit (CDs).

account for most of the remaining 80 per cent of broad money, increased by 15 per cent over the year to March.

Such shifts in the composition of funding have no necessary implications for the overall growth in bank lending. Growth in credit, which measures financial institutions' lending to households and businesses, picked up more modestly over 2007 than growth in money. Since the start of 2008, the pace of growth of credit, deposits and CDs has slowed. For more details on trends in bank lending see 'Box C: Trends in Intermediation'. ↗

