

## ECONOMIC NEWS

# Cash Growth in the United States Is Already Helping the Federal Reserve Normalize Its Balance Sheet

Cash has been rising sharply in the United States. Outstanding cash has recently exceeded US\$1,500B, almost double what it was in 2007. Part of this advance is tied to the expanding economy. That said, the cash to nominal GDP ratio has also increased, especially in the last 10 years or so; it was about 5.5% of nominal GDP in 2007 versus 8.0% today. For comparison purposes, this ratio has increased very little in Canada. In Sweden, where the use of cash has clearly been declining, the ratio has dropped below 1.5%.

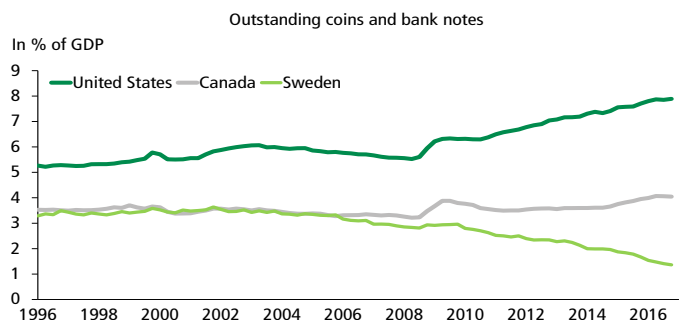
Growth in outstanding coins and bank notes in the United States is probably overestimating Americans' real use of cash. Since the U.S. dollar is a currency that is used in several countries, foreign demand weighs heavily in the quantity of cash issued. The use of the U.S. dollar in illicit trade is another substantial challenge.

### IMPLICATIONS

Regardless of the source, the rapid rise in cash is helping the Federal Reserve (Fed). Cash is one part of central banks' liabilities which costs nothing in terms of interest payment. This in turn boosts the Fed's profitability.

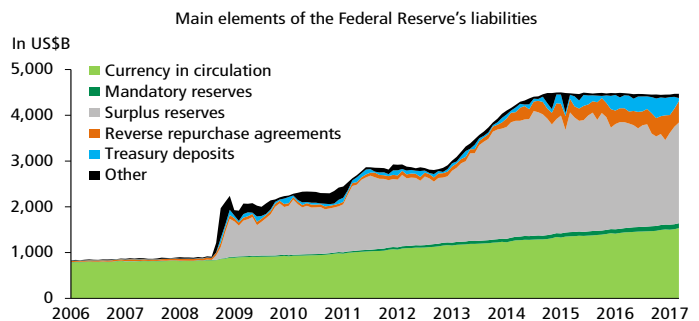
Monetary policy management is also affected. Between 2008 and 2014, the Fed expanded the size of its balance sheet by about US\$3,600B. Now that tapering is on the table, some might think that the final objective is to get back to a balance sheet similar to the one in 2008. Yet, this is not the case. Normalization will essentially be completed once the surplus reserves disappear. Here, the increase in cash ended up reducing the surplus reserves held by the Fed. Other factors could still have the reverse effect, such as the recent cuts to Treasury deposits due to the approaching legal debt ceiling in the United States. The fact remains that, over the long term, if cash continues to advance, it will facilitate the Fed's normalisation process. This could mean another US\$200B by the end of 2018.

**GRAPH 1**  
The sharp rise of cash in circulation makes the United States stand out



Sources: Datastream and Desjardins, Economic Studies

**GRAPH 2**  
Surplus reserves are already starting to shrink



Sources: Datastream and Desjardins, Economic Studies

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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