



INSTITUTE OF
INTERNATIONAL
MONETARY RESEARCH

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

Money and inflation in the mid- and late 2020s: What do recent trends imply?

*A presentation by Professor Tim Congdon CBE,
Chair of the Institute of International Monetary Research,
in January 2025*

Broad money growth in leading developed nations in the last decade

Table shows compound % annual growth rate of broad money in the three periods of three years.



	USA	Eurozone	Japan	UK
Three years to Q3 2018	3.9	4.5	2.9	5.0
Three years to Q3 2021	12.6	7.8	4.3	7.9
Three years to Q3 2024	1.7	2.8	1.6	2.0

Broad money growth in leading developed nations in the last decade

The table in the previous slide showed that,

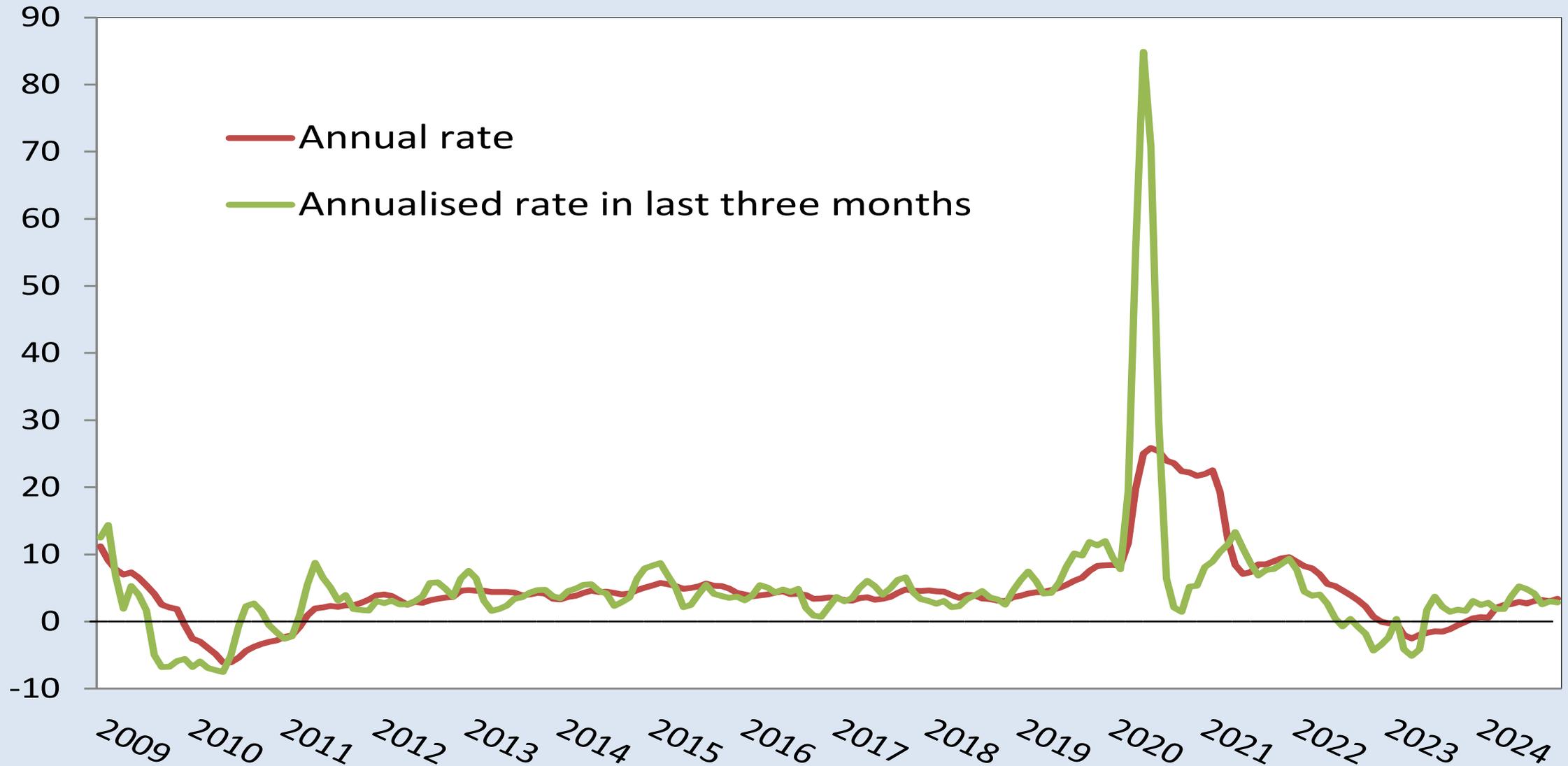
1. **Money growth was lower in the three years to Q3 2024 than in the preceding three years**, when the monetary policy response to Covid was unduly expansionary.
2. **Money growth in the three years to Q3 2024 was slower even than in the three years before Covid** (i.e., to Q3 2018 in this comparison, although the Covid pandemic began properly in Q1 2020). Those three years were accompanied by low inflation close to the 2% target rate.

Implications for inflation

- Remember that
 - **A lag between the rate of money growth and the rate of inflation, *in goods and services*, is to be expected.** A lag of two years has been widely cited (and was proposed by Friedman), and is a reasonable first approximation. (The lag between money and asset price inflation is generally a bit shorter.)
 - **Allowance needs to be made for the trend growth rate of output,** since the higher is this trend rate of output growth, the lower is the inflation to be associated with any particular rate of nominal money growth. (The trend growth rate of national output might be put at 2½% in the USA, and 1% in the Eurozone, Japan and the UK.)

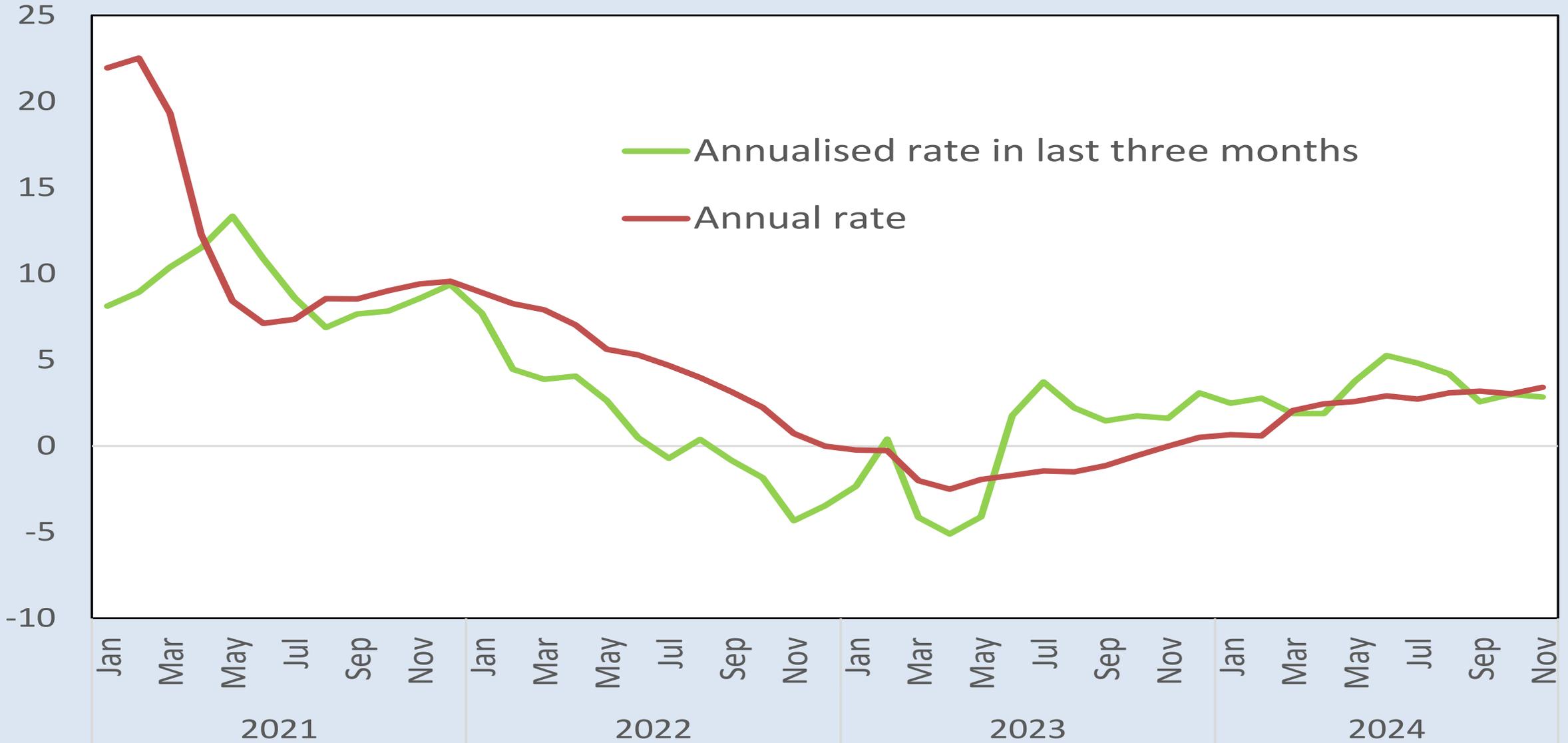
Trends in US money growth since 2009

% M3 growth rates, with M3 estimated by Shadow Government Statistics



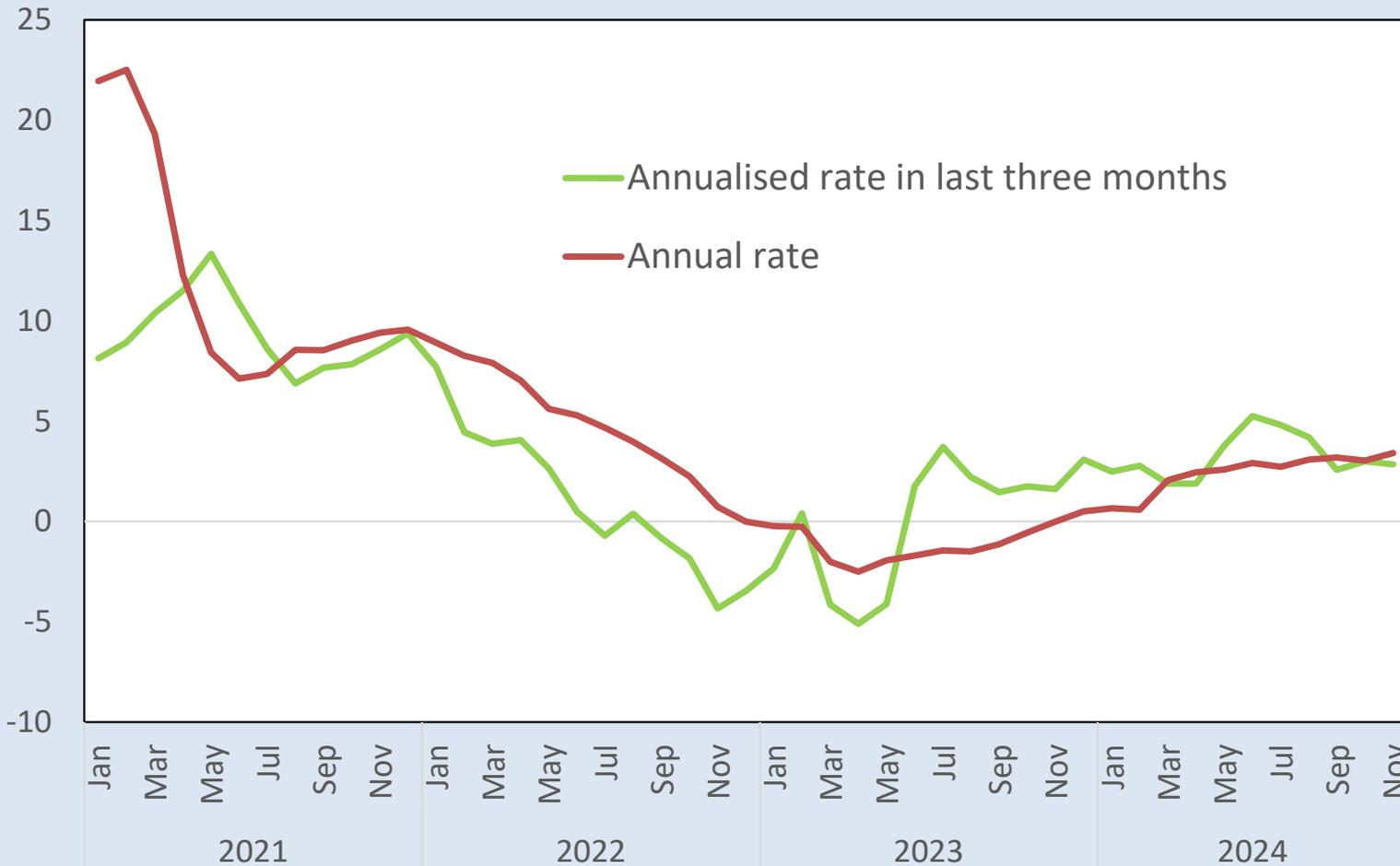
More recent trends in US money growth

% M3 growth rates, with M3 estimated by Shadow Government Statistics



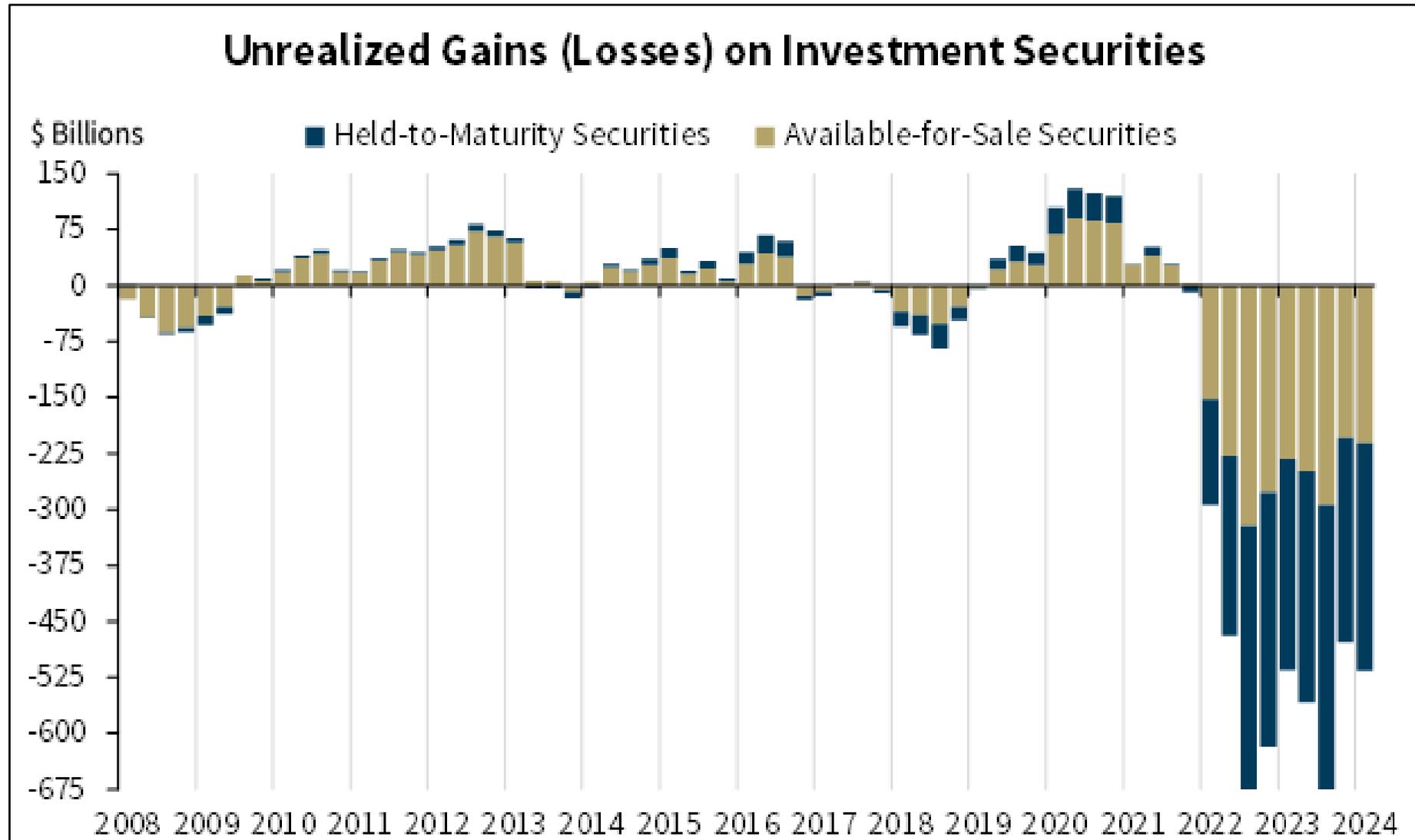
More recent trends in US money growth

% M3 growth rates, with M3 estimated by Shadow Government Statistics



Growth of the banking system has been slower than that of M3 in last two years, partly because rise in Fed funds rates and associated fall in bond prices has inflicted losses on banks' available-for-sale securities. By contrast, the growth of money market mutual funds – holding mostly claims on US Treasury with less than a year to redemption – has been rapid, because of the enormous US Federal deficit. Fears are of a still larger budget deficit with Trump as President again.

Losses on US banks' securities holdings have been **larger – much larger – in recent years** due to the post-Covid surge in interest rates than they were in the Great Recession, when a great hullabaloo was raised about “toxic securities”.

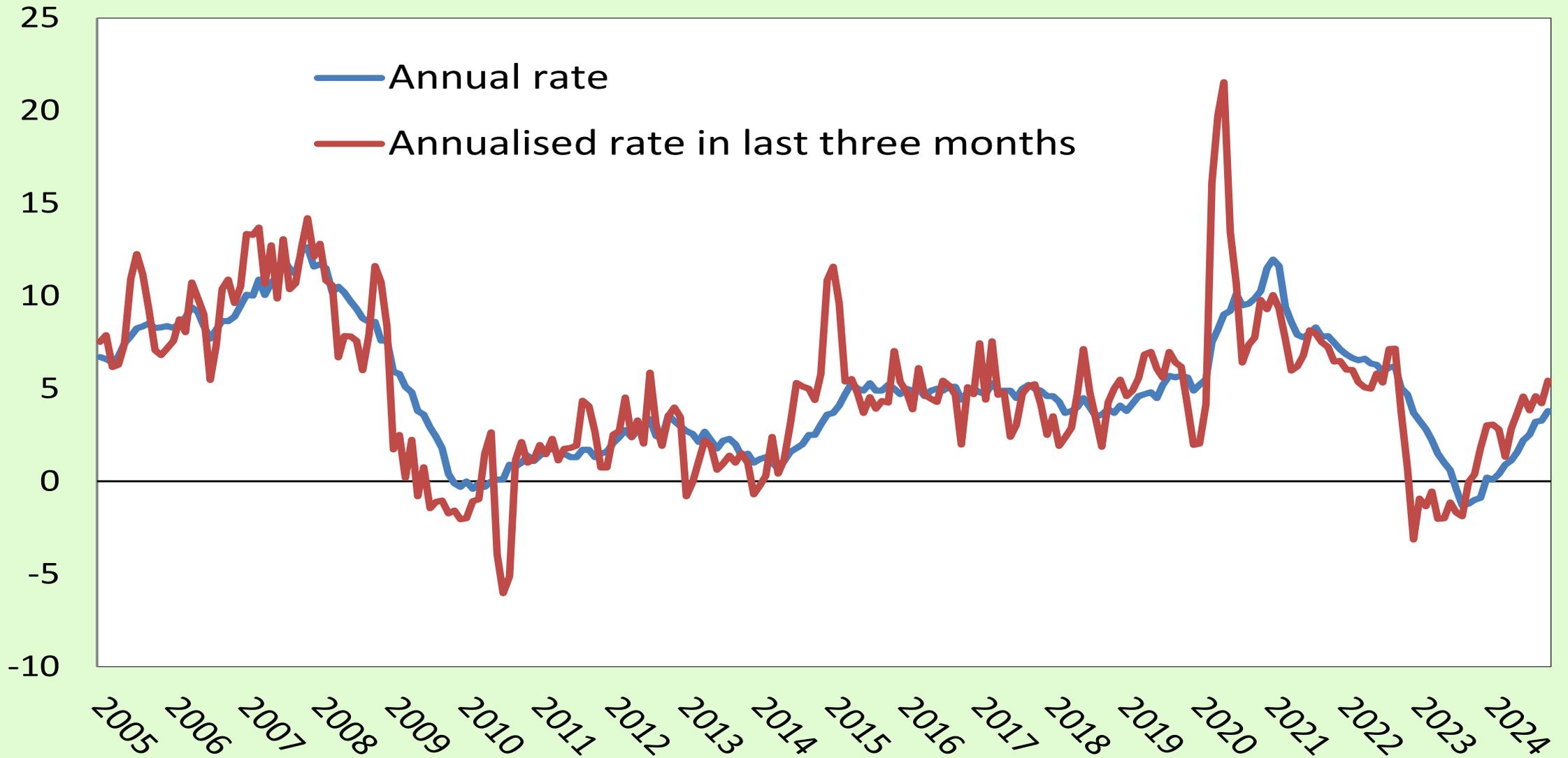


Source: FDIC.

Note: Insured Call Report filers only. Unrealized losses on securities solely reflect the difference between the market value and book value of non-equity securities as of quarter end.

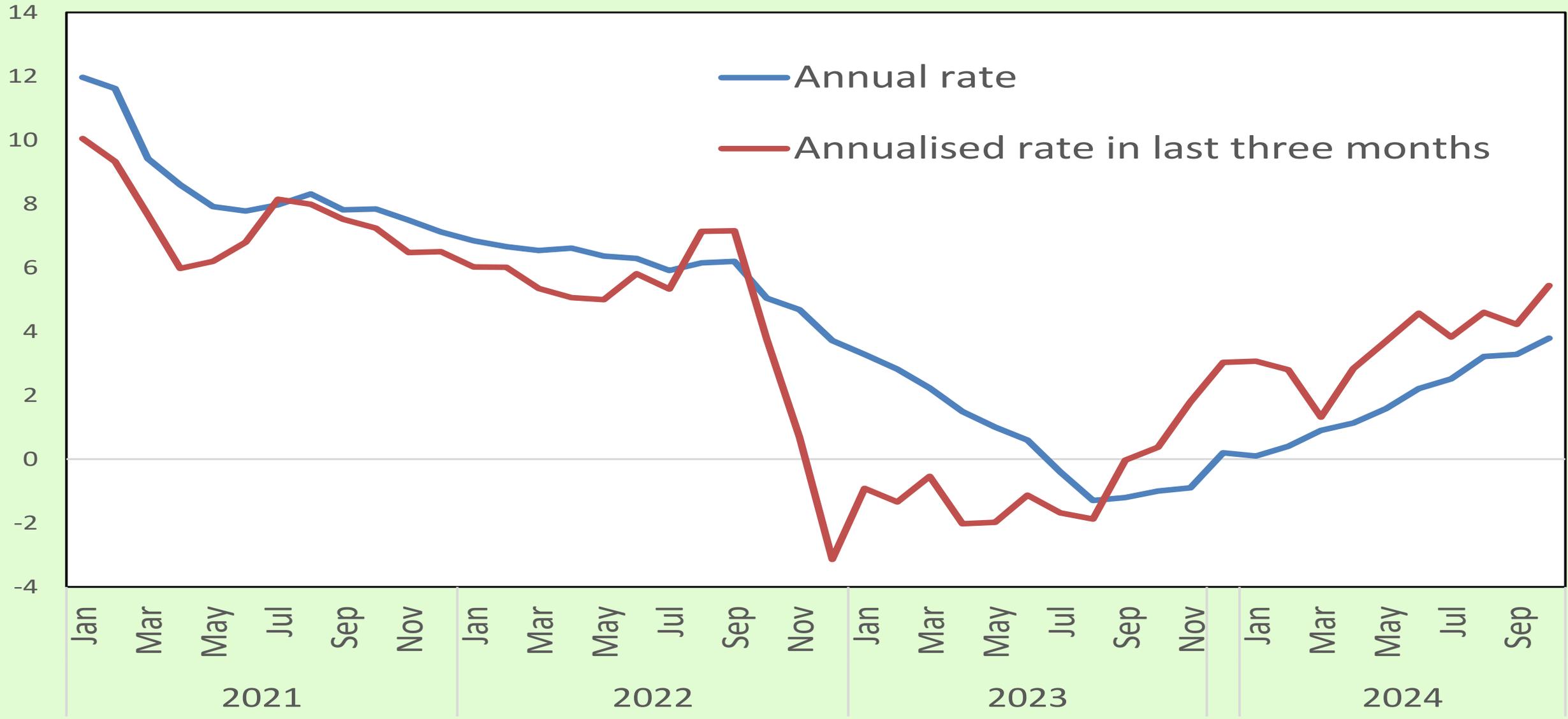
Trends in Eurozone money growth since 2005

% M3 growth rates, data from the European Central Bank



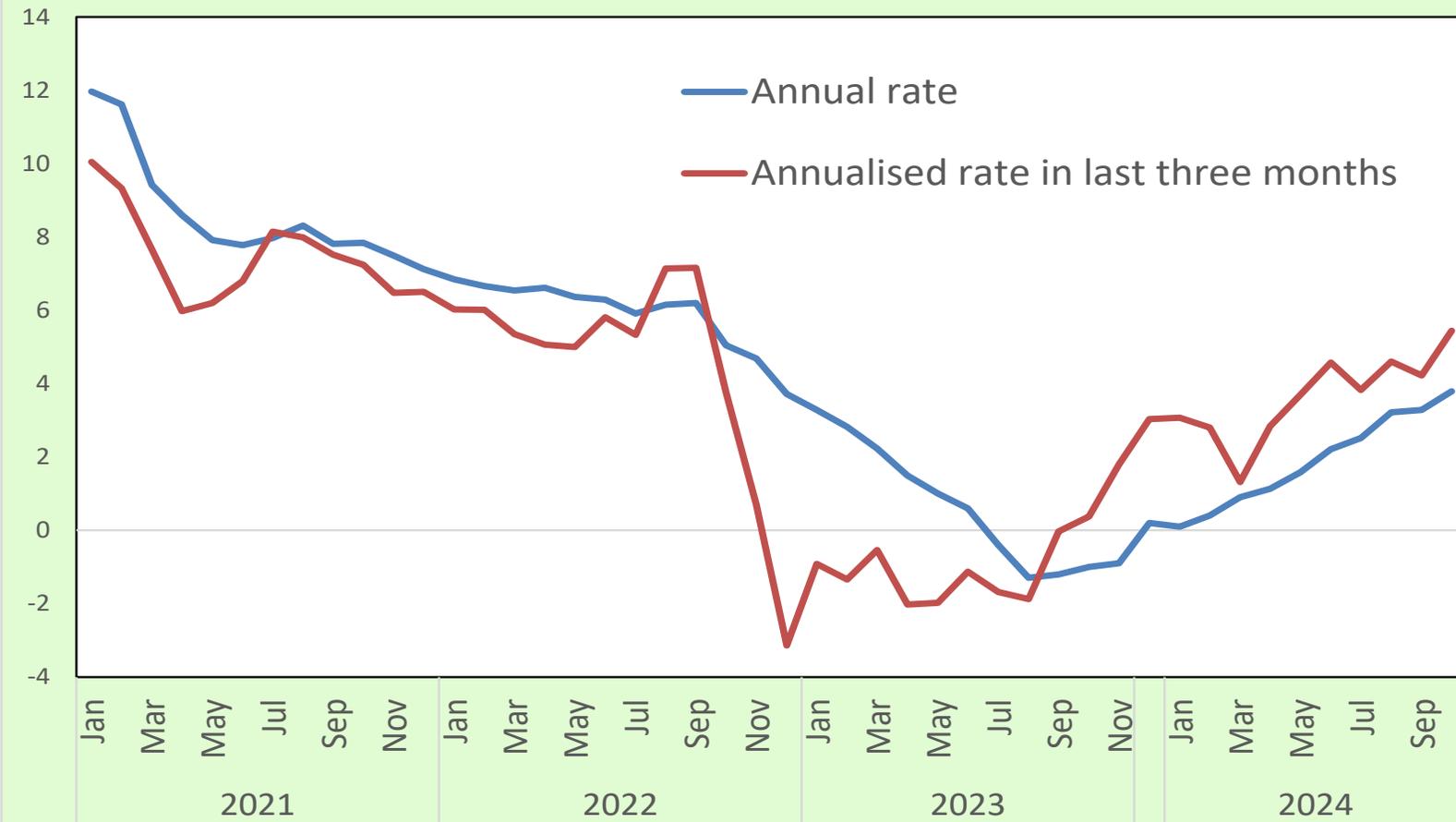
Recent trends in Eurozone money growth

% M3 growth rates, data from European Central Bank



Recent trends in Eurozone money growth

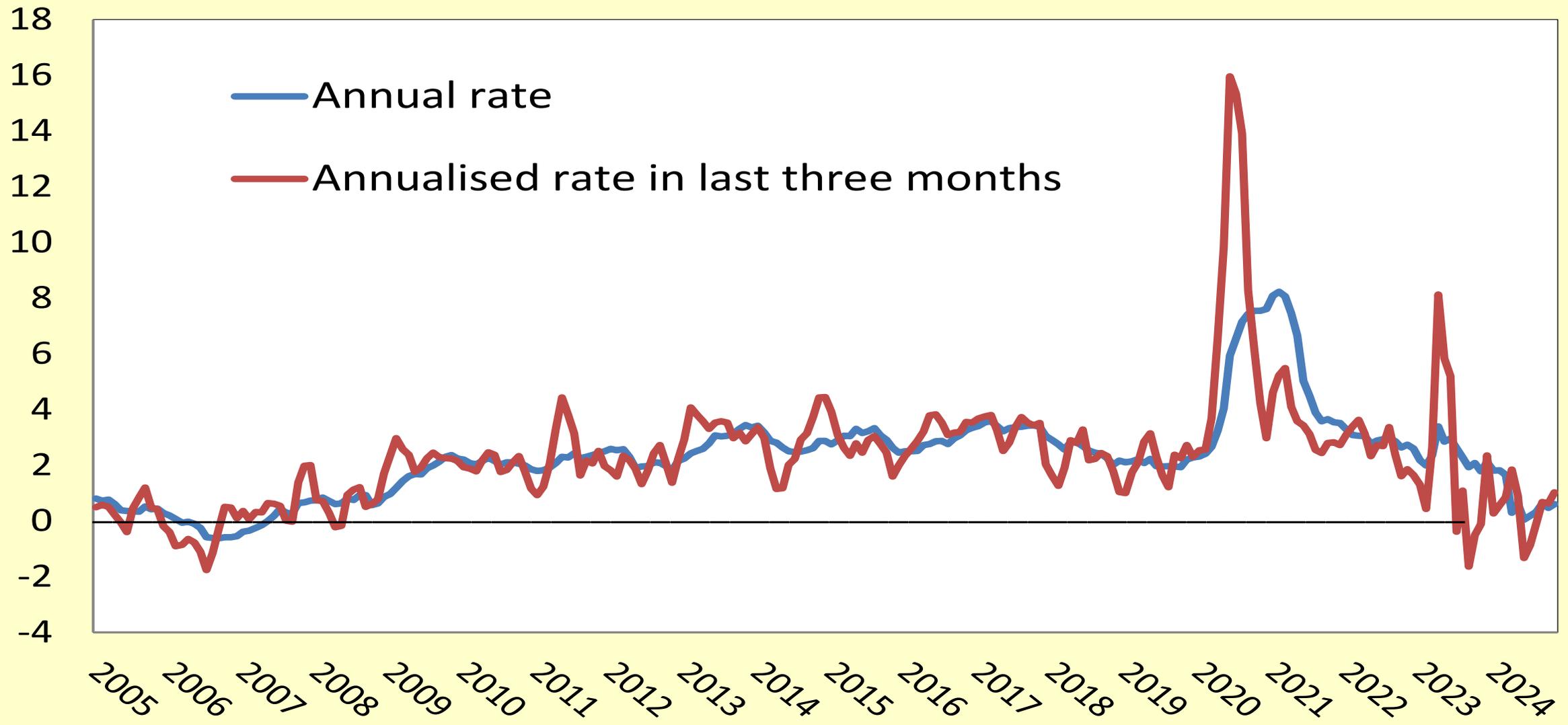
% M3 growth rates, data from European Central Bank



Note that the three-month annualised rate of increase has been rising since summer 2023, despite the higher level of interest rates now prevailing compared with the Covid period and earlier. Official data suggest that Eurozone banks are profitable; they seem not to have suffered the kind of losses seen on securities in the USA. But recent money growth has been partly because of external inflows. The stock of bank credit to the private sector was up by only 1.2% in the year to October.

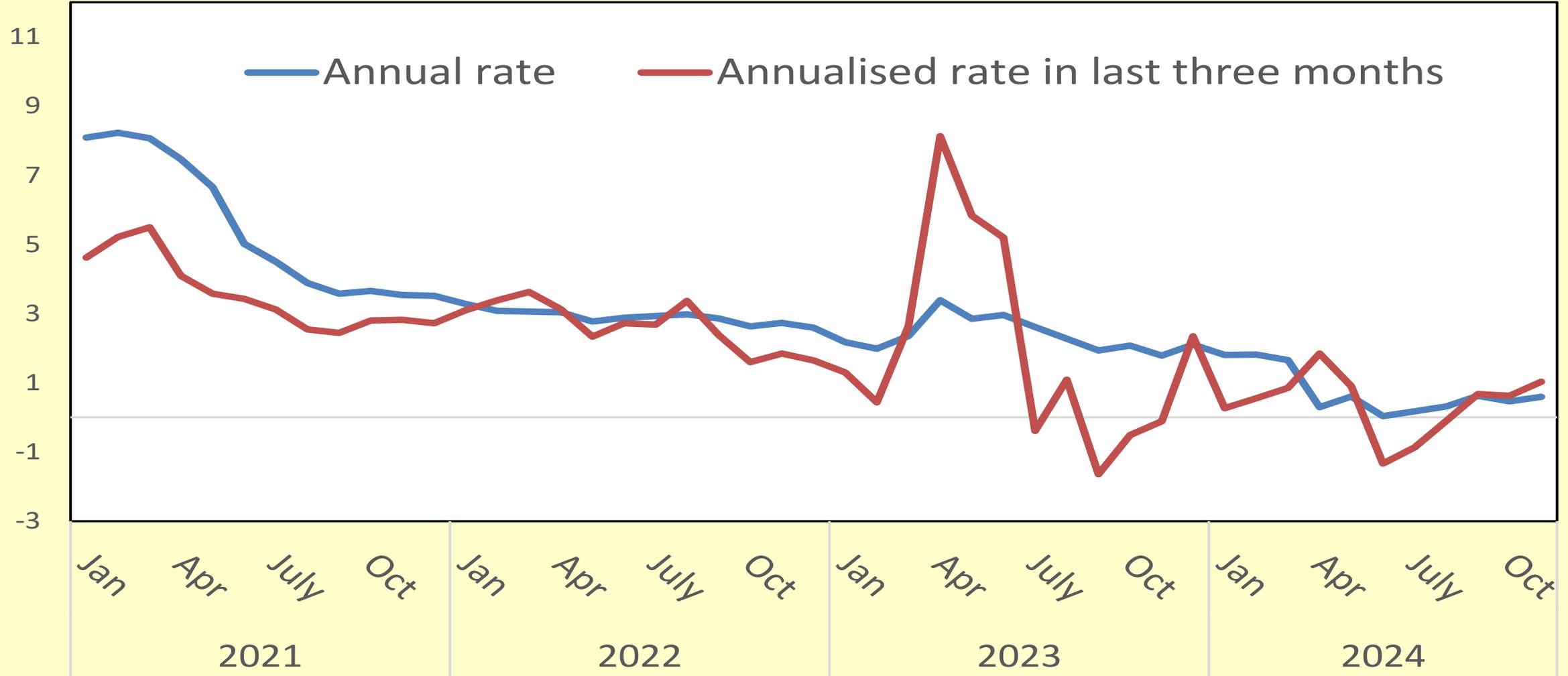
Trends in Japanese money growth since 2005

% M3 growth rates, data from Bank of Japan



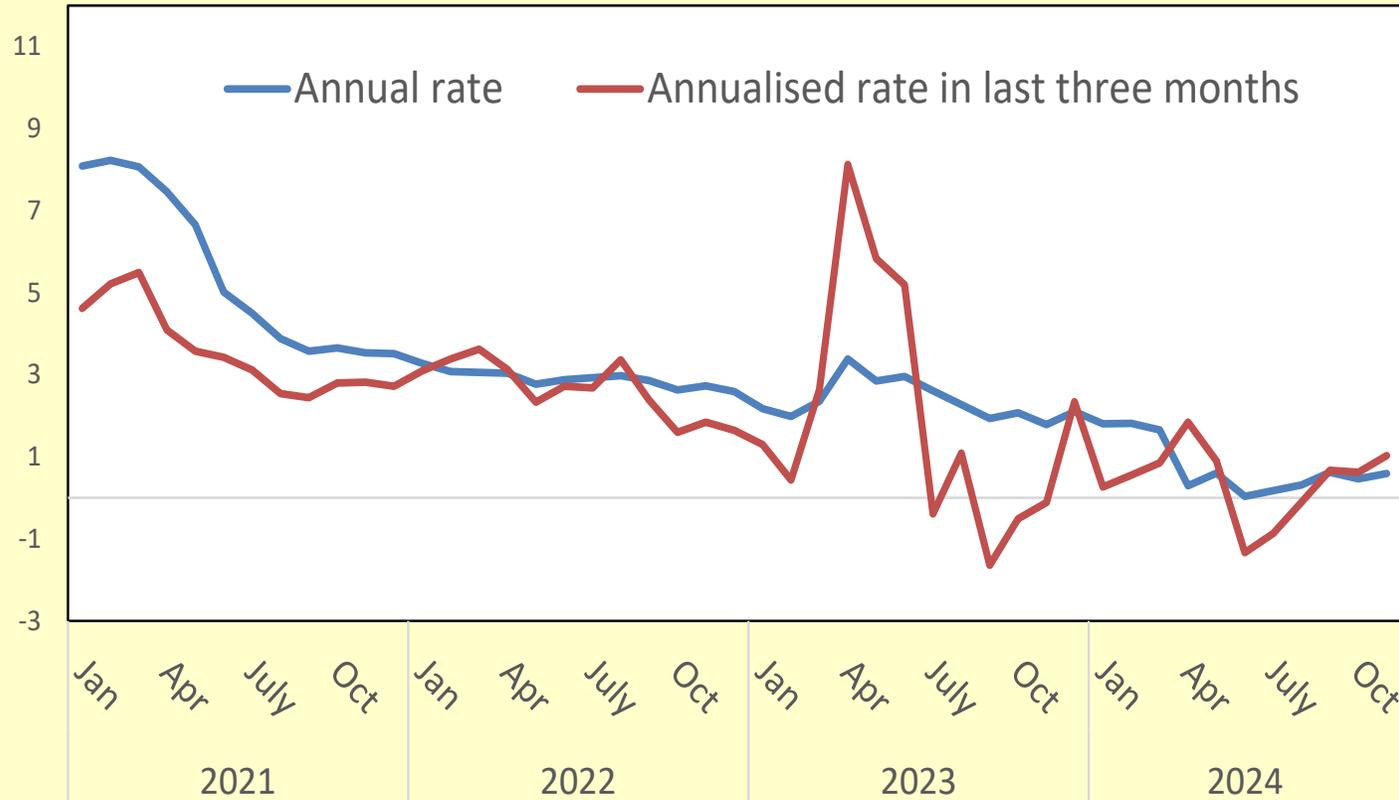
Recent trends in Japan's money growth

% M3 growth rates, data from Bank of Japan



Recent trends in Japan's money growth

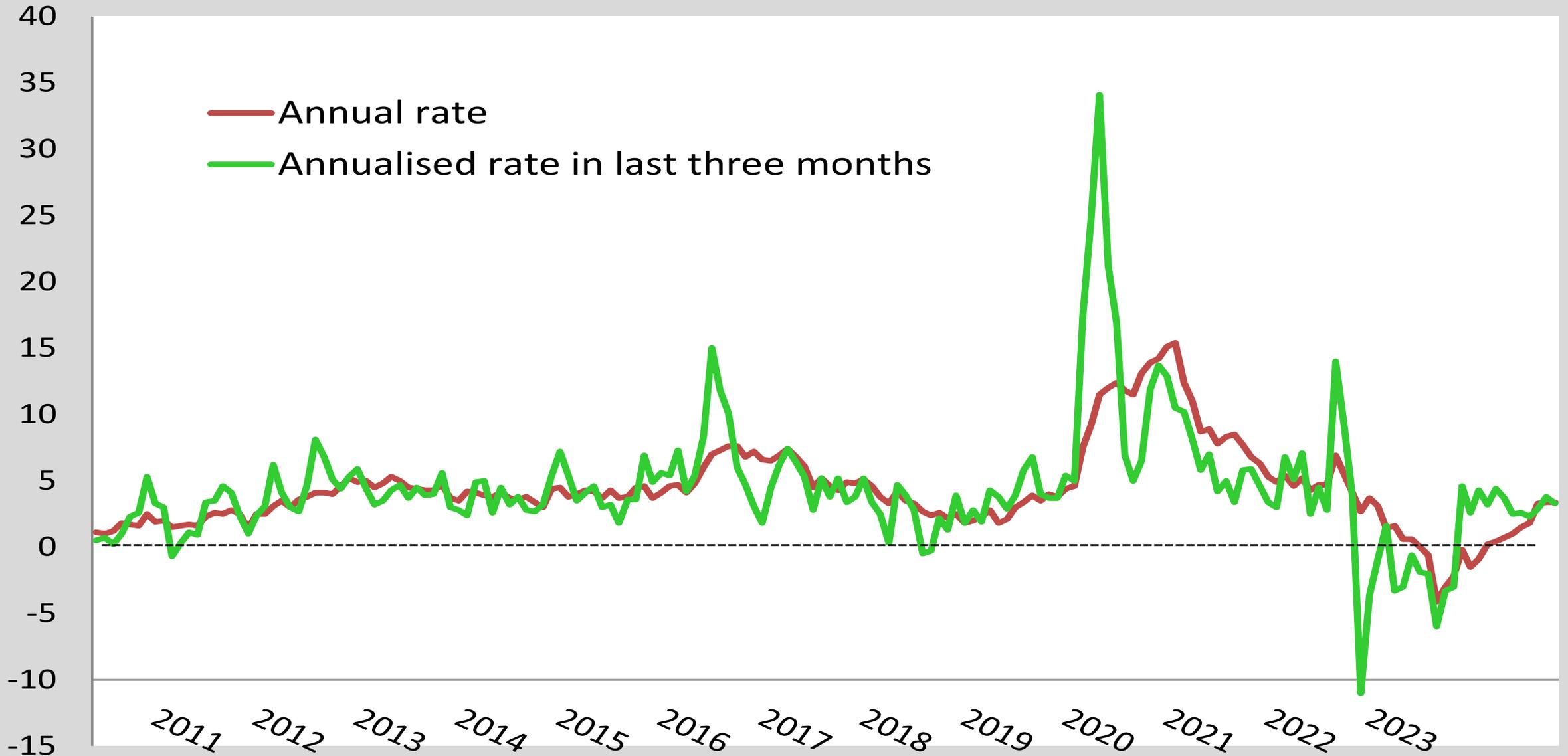
% M3 growth rates, data from Bank of Japan



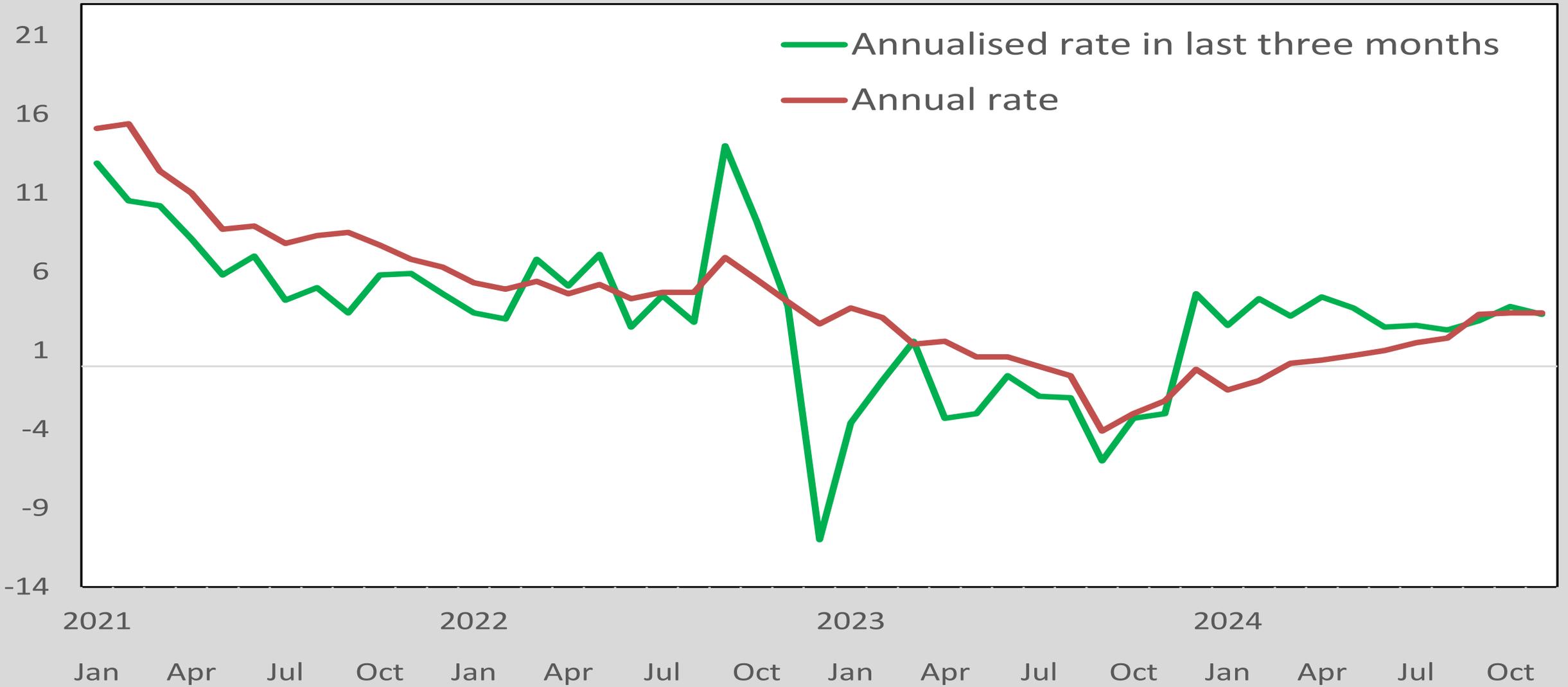
Japan's upward blip in broad money growth in the Covid period was less than elsewhere. The peak rate of annual M3 growth was just under 9% in early 2021. Since then money growth has decelerated. The weakness of the yen against other currencies has made the Bank of Japan concerned about inflationary consequences. In 2024 it used its foreign exchange reserves several times, to boost the exchange rate. FX reserves dropped from \$1,294.6b. to \$1,230.7b. in the year to December 2024. FX intervention is one reason for negligible money growth for most of 2024.

UK money growth since 2010

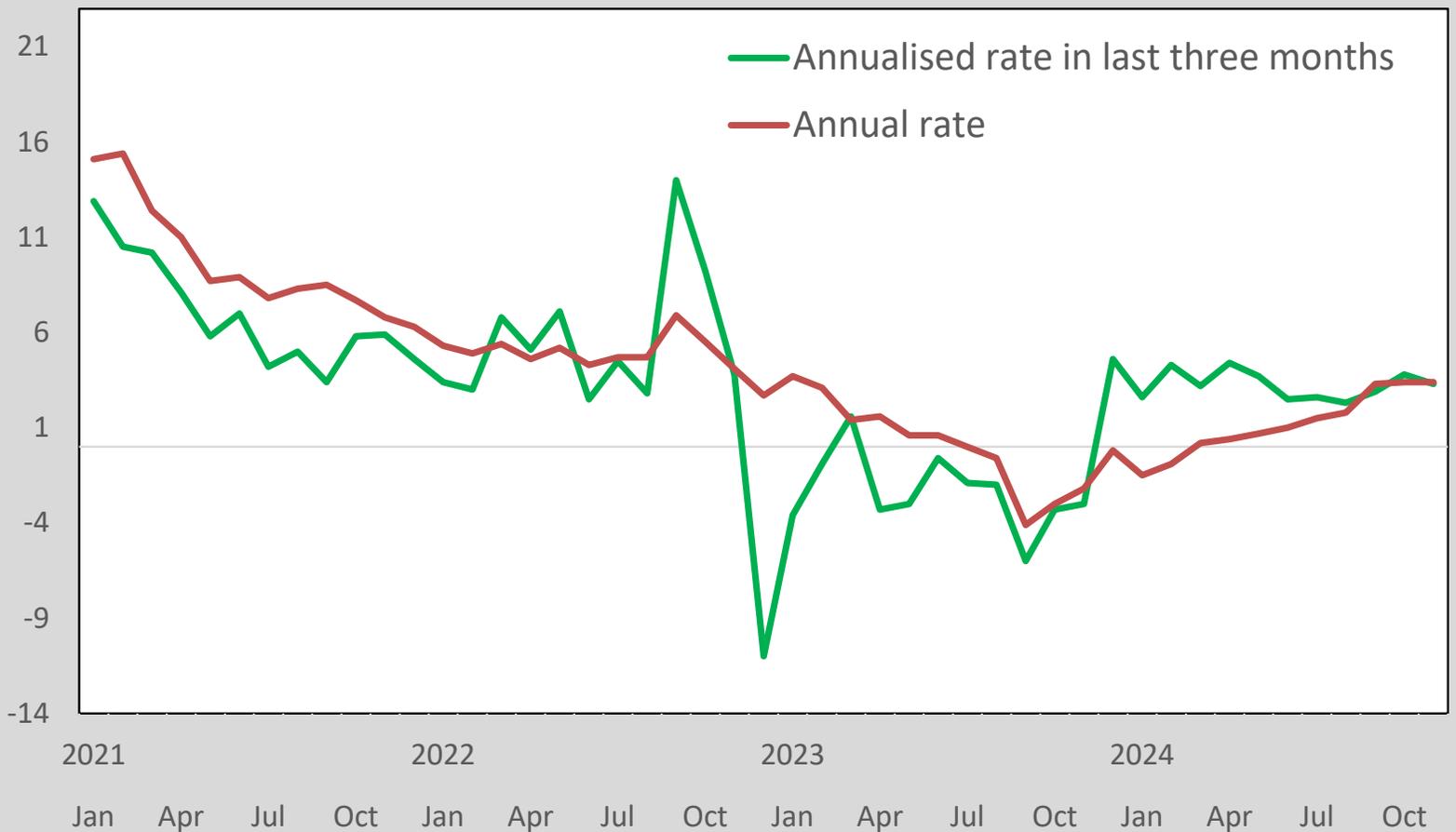
% M4x growth rates, data from the Bank of England



Recent trends in UK money growth
% M4x growth rates, data from Bank of England



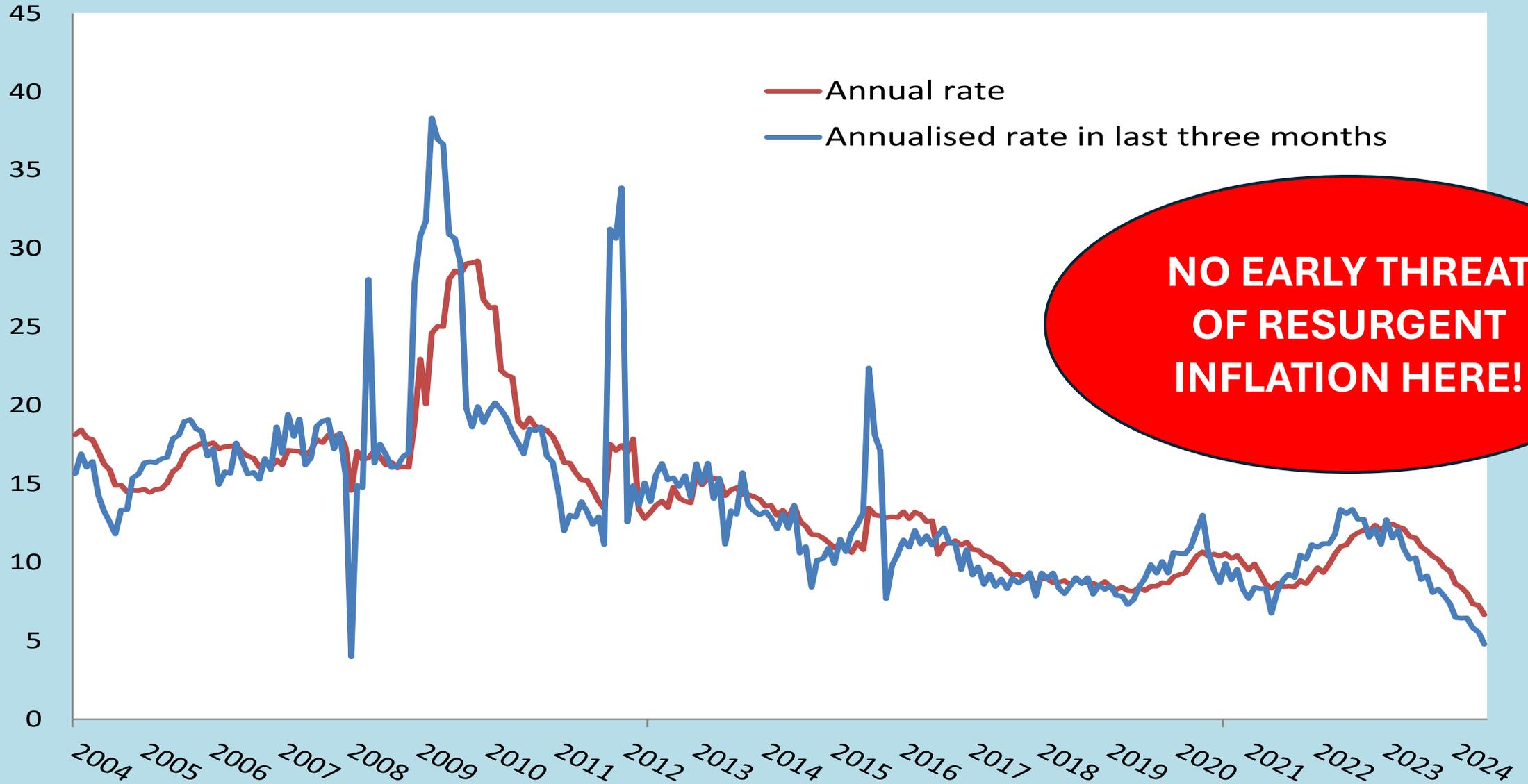
Recent trends in UK money growth
% M4x growth rates, data from Bank of England



In the year to March 2021 the UK public sector borrowed £290.4b. from the UK banking system, partly because of “quantitative easing” and partly because of the need to finance the enormous Covid-related budget deficit. By contrast, in the year to September 2024 it repaid £31.5b. This huge swing was the main reason for fall in money growth (over 15% at an annual rate in Q1 2020) to 3% in Q3 2024. Continued slow growth is to be expected in 2025.

Trends in China's money growth since 2003

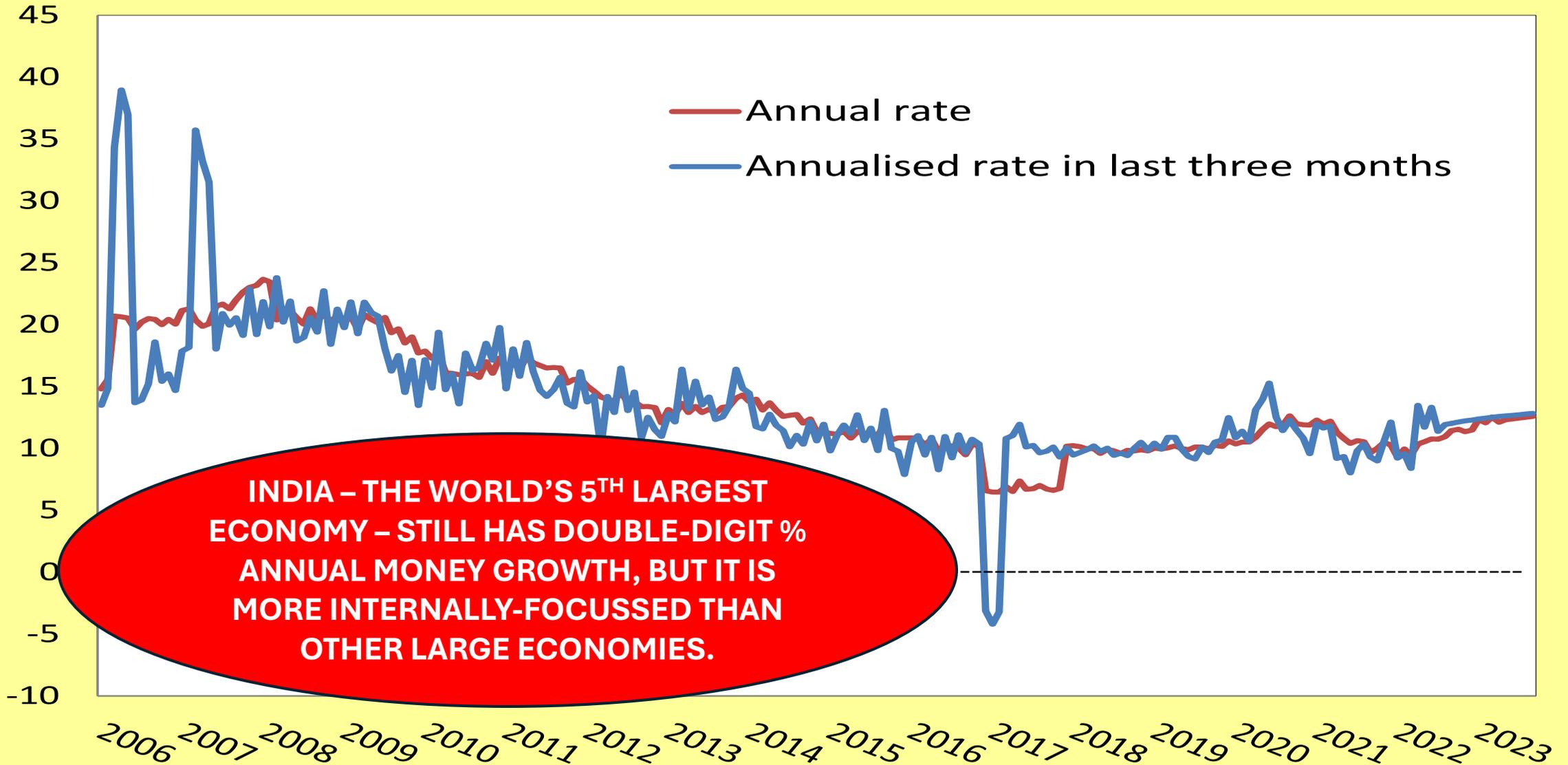
% growth rates in M2, data from the People's Bank of China



**NO EARLY THREAT
OF RESURGENT
INFLATION HERE!**

Recent trends in Indian money growth

% M3 growth rates, data from the Reserve Bank of India



Broad money growth patterns relevant to the global inflation outlook in the mid- and late 2020s

Table shows compound % annual (or annualised) growth rate of broad money in the three periods of three years.



	USA	Eurozone	Japan	UK
Three years to Q3 2021	12.6	7.8	4.3	7.9
Three years to Q3 2024	1.7	2.8	1.6	2.0
Latest three-month annualised rate of increase	2.8	5.4	1.0	3.5