INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

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Money growth update, January 2025

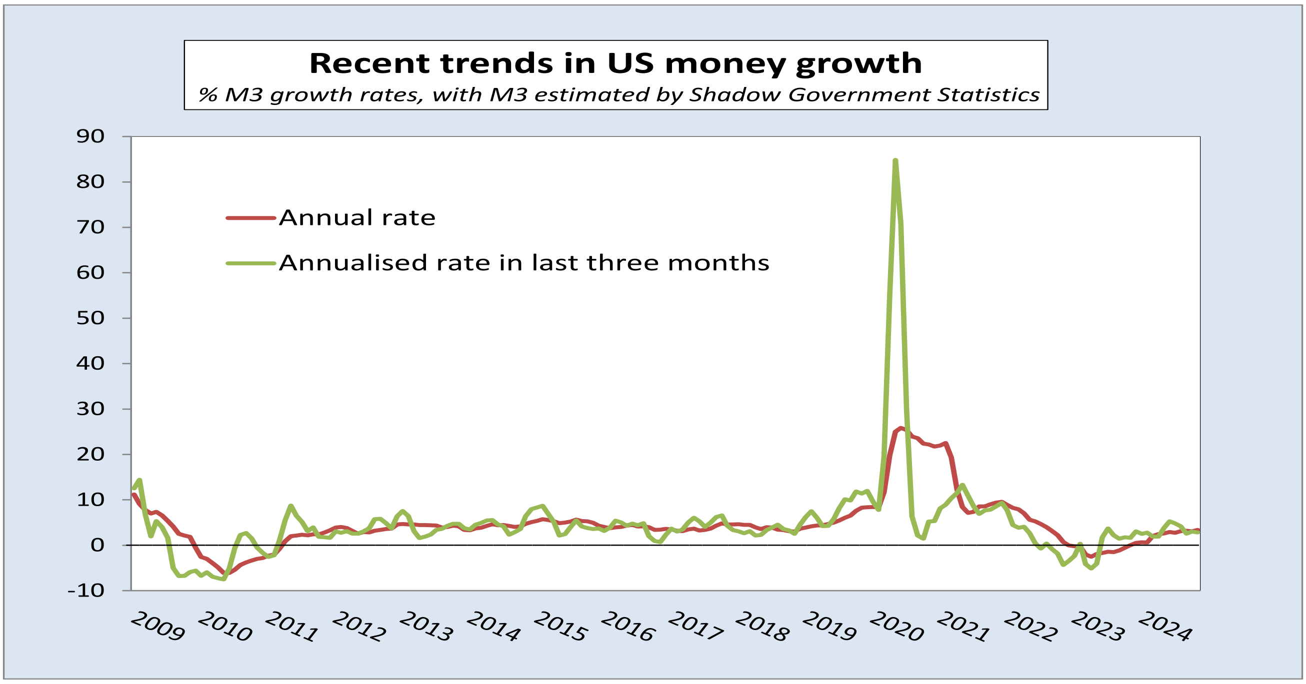
The USA has enjoyed steady and moderate growth of broad money in the last 18 months, despite all the dramas of geopolitics and domestic politics in that period. US banks took heavy losses on their securities portfolios with the rise in Fed funds rate (from almost nil in early 2022 to over 5% by May 2023), which may explain why their growth has almost stopped since spring 2022. At least money market mutual funds have been expanding rapidly, as they to help to finance the vast budget deficit of over $2,000b. and that has kept M3 growing, if only slowly. In the Eurozone money growth is now close to optimum levels for a developed economy committed to low inflation, although growth in new bank credit is still low. Broad money growth is still very weak in Japan, albeit not quite as weak as in the first half of 2024. Inflation still remains above target. UK broad money growth also remains weak, with inflation only a little above the target 2%. In China, monetary easing is doing little to stimulate demand for new bank credit, with the government now turning to so-called "fiscal measures" (with much aid for bankrupt local authority organizations) in an attempt to boost the economy. Indian M3 growth continues at a satisfactory level, although the exceptionally strong increase in new bank lending has moderated since September. Money numbers in the world's largest economies argue that macroeconomic conditions will be challenging in 2025, with demand growth at best only at trend and widespread downward pressure on inflation. *(Tim Congdon)*

Name of country/ jurisdiction	Share of world output in 2023		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 12 months, %	
USA	15.6	26.1	2.8	3.4	M3 increasing steadily; MMMF purchases of government debt a significant factor.
China	18.7	16.9	7.8	7	Money growth remains low in spite of central bank and government stimulus measures. Inflation positive, but low.
Eurozone	11.2	14.8	6.2	3.6	Money growth has picked up in the last three months, although credit growth remains weak.
Japan	3.7	4.0	1.9	0.8	Money growth picking up slightly, but still negligible. Foreign exchange intervention one reason.
India	7.6	3.4	10.1	10.1	Demand for new bank credit still reasonably robust. Inflation now back withing target range.
UK	2.2	3.2	3.3	3.4	M3 growth weak to moderate. Excessive regulation discouraging capital from staying in banking.

USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1961 – 2022	**7.6**	**6.5**
Ten years to 2020	**6.2**	**3.4**
Year to November 2024	**3.4**	**n.a**
Three months to November 2024 at annualised rate	**2.8**	**n.a.**

Sources: Shadow Government Statistics research service for M3 after 2006 (IIMR estimate from May 2024) and US Bureau of Economic Analysis for GDP

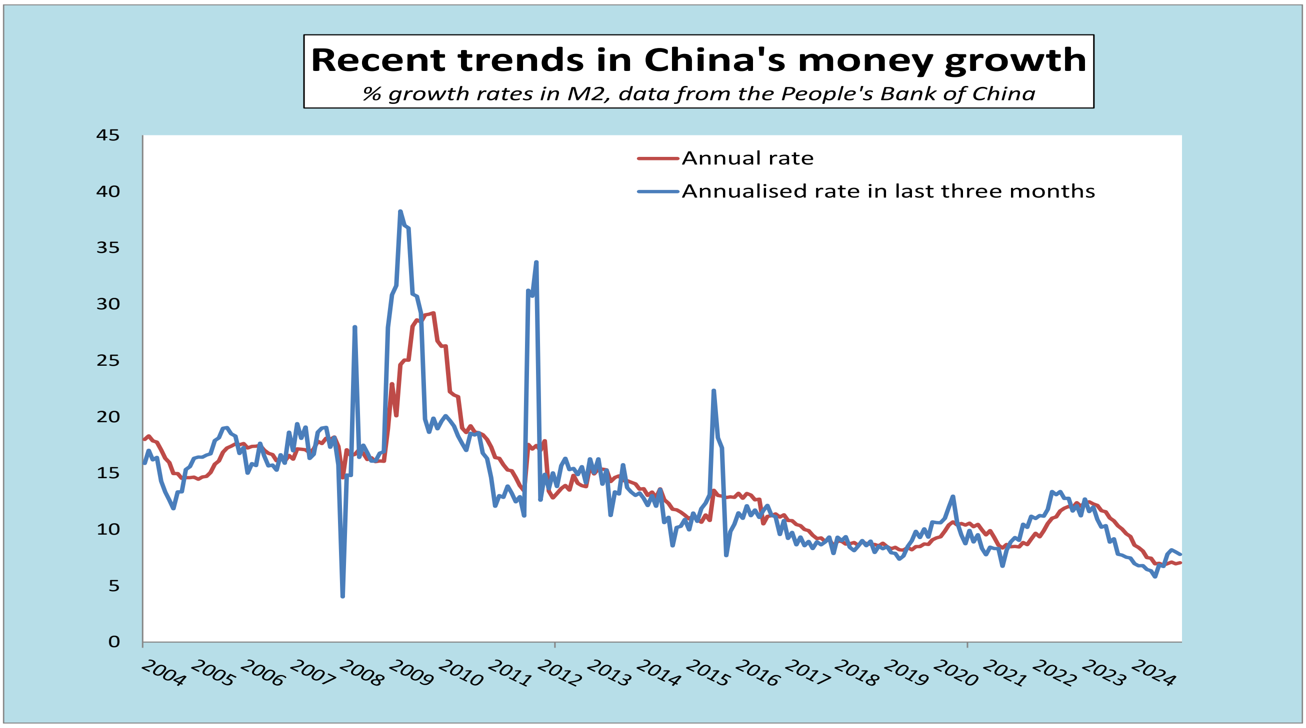


Since mid-2023 US broad money has grown at a moderate rate, with the three-month annualised figure consistently between 1½% and 5%. This is more or less ideal if the American authorities want a smoothly growing economy with low annual inflation near the 2% figure. The contrast between the steady money growth before mid-2019 and in the last 18 months is an obvious feature of our chart. Nevertheless, critics might point out that the Federal Reserve continues to ignore money growth in its commentary and might worry that the recent stability is a fluke. The Federal budget deficit in the first four months of the US fiscal year (which begins in September) was almost $647b., $34b. less than in the 2024 fiscal year, but still enormous. A reduction in the deficit seems not to be a priority for the re-elected President Trump. The latest Federal Reserve *H8* press release reports that commercial banks' deposits fell by 0.1% in December. However, money market mutual funds grew strongly, with another big increase in their holdings of government securities due to the deficit. There have now been three cuts to the Fed funds rate, with the most recent taking place on 19th December. These reductions have taken place despite inflation not only remaining above the Fed's 2% target, but actually increasing in recent months. *(Note by Tim Congdon and John Petley.)*

China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2022	**18.4**	**14.1**
2011 - 2020	**11.7**	**10.0**
Year to December 2024	**7.0**	**n/a**
Three months to December 2024 at annualised rate	**7.8**	**n/a**

Sources: People's Bank of China for M2 and IMF for GDP

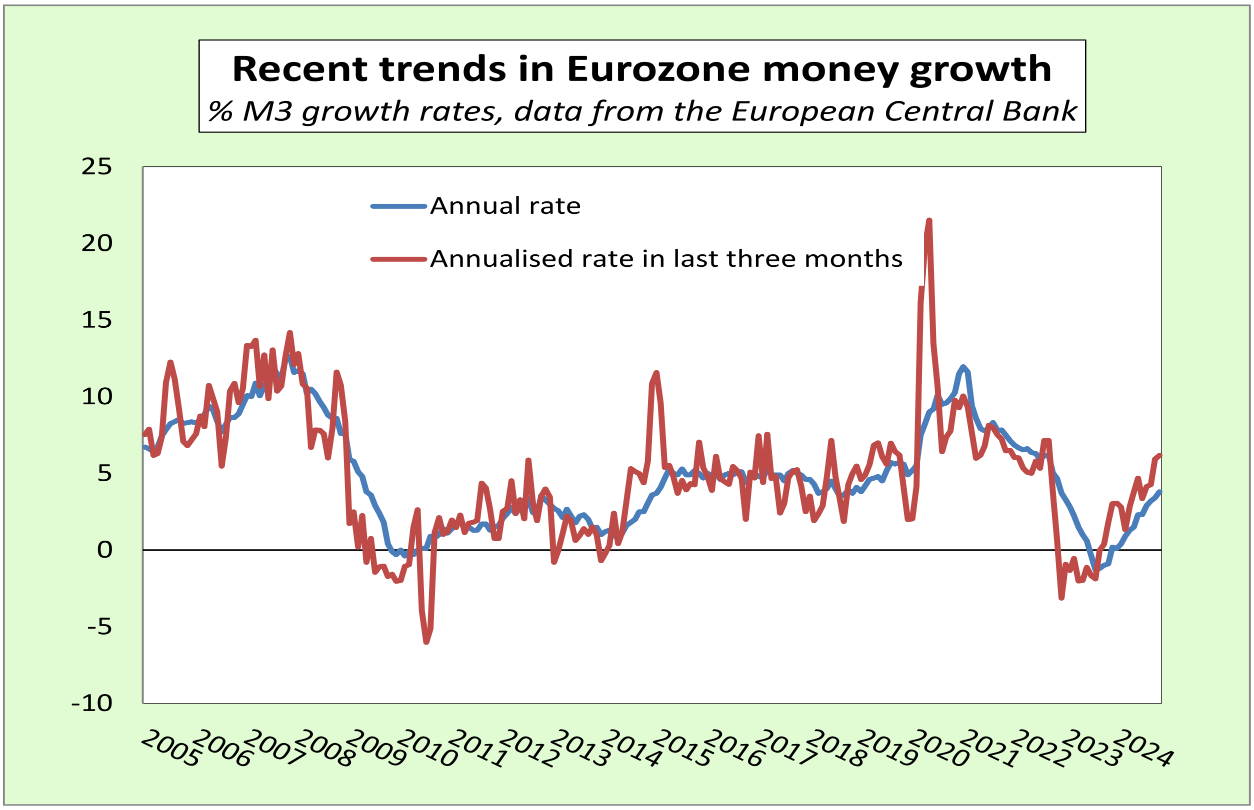


Chinese broad money growth remains very weak. The annualised quarterly growth rate stood at 7.8% in the three months to December, up on the figures from the first half of 2024, but still well down on values in 2022 and 2023, and during the long Chinese boom from the late 1970s. The annual growth rate has been stuck at around 7% for six months. In spite of efforts by the People's Bank of China (the central bank) to stimulate demand for new bank credit by reducing the one- and five-year loan prime rates to their lowest ever levels, the annual rate of loan growth stood at a mere 7.6% in December, the weakest outcome in modern times. The authorities have announced that China will pursue an "appropriately loose" monetary policy in 2025, as opposed to the recent "prudent" policy. So-called "fiscal stimulus" will continue, but to a large extent this consists in central government support struggling for financially-challenged local authorities and property developers. House prices in China's 70 largest cities continue to decline, falling by 5.7% in the year to November, following on from October's 5.9% drop, the steepest decline since 2015. Meanwhile, inflation fell for a fourth successive month, dropping to 0.1% in the year to December, well below the authorities' 3% target. (*Note by Tim Congdon and John Petley.*)

Eurozone

	% annual/annualised growth rate:	
	M3	Nominal GDP
1996 – 2022	**5.4**	**3.2**
Ten years to 2020	**4.6**	**1.6**
Year to November 2025	**3.8**	**n/a**
Three months to November 2024 at annualised rate	**6.2**	**n/a**

Sources: European Central Bank for M3 and Eurostat for GDP

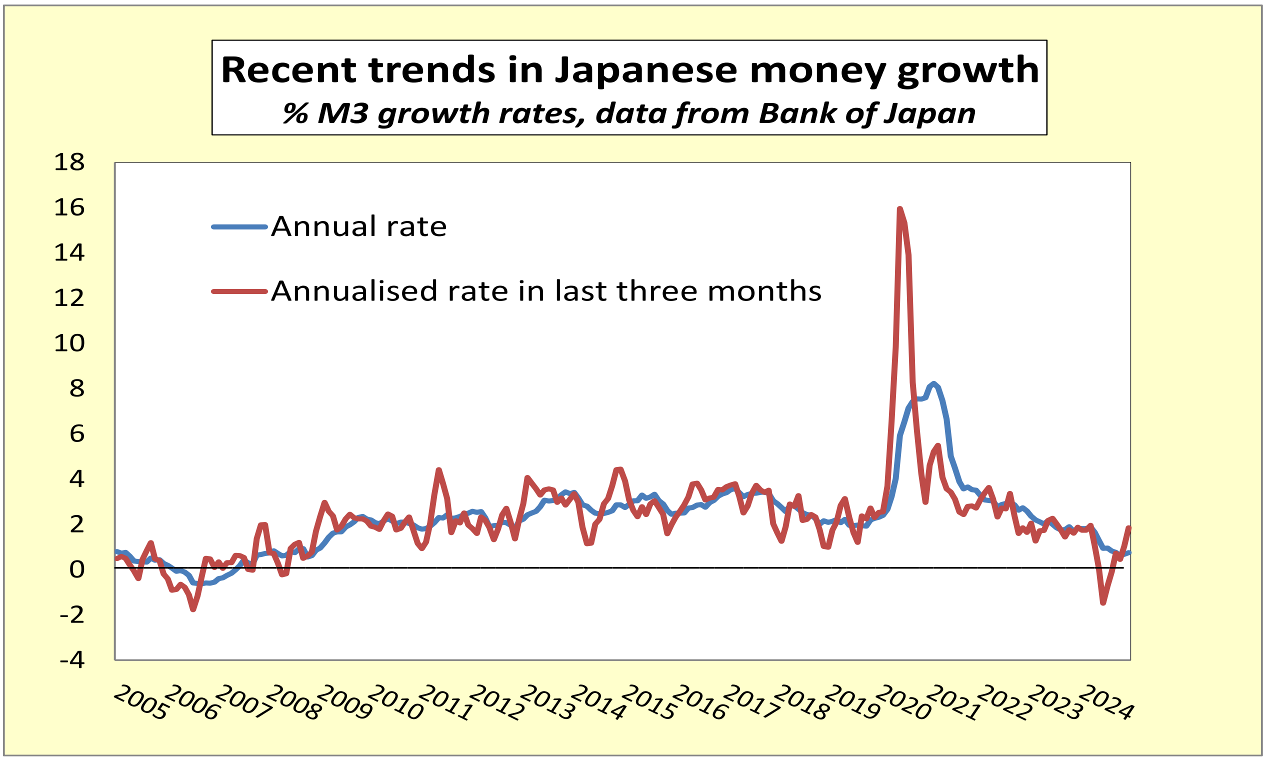


Strong broad money growth in November lifted the annualised quarterly growth rate of Eurozone M3 to 6.2%, the highest reading in over two years. The annual growth rate also rose to a two-year high of 3.8%. The ECB has now cut the cost of borrowing on four occasions since 31st May, a total reduction of 1.35% in total. These rate reductions have taken place in spite of rising inflation which, at 2.4% in the year to December, is now again above the ECB's target. The ECB's Governing Council believes that inflation will fall back in 2025. Its monetary loosening has so far done little to boost demand for new bank credit, but the process would anyhow be expected to take time. The uptick in broad money growth has arisen because of the Eurozone's current account surplus and capital inflows. In the three months to November the current account surplus was €118b., while the banking system's net external assets grew by a similar figure (€116b.). In this context the strength of the dollar since Donald Trump's re-election to the US Presidency is a bit anomalous, but financial markets may be anxious about political uncertainties in both France and Germany. (*Note by Tim Congdon and John Petley.*)

Japan

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2022	**3.9**	**1.8**
Ten years to 2020	**3.2**	**0.3**
Year to December 2024	**0.8**	**n/a**
Three months to December 2024 at annualised rate	**1.9**	**n/a**

Sources: Bank of Japan for M3 and IMF for GDP

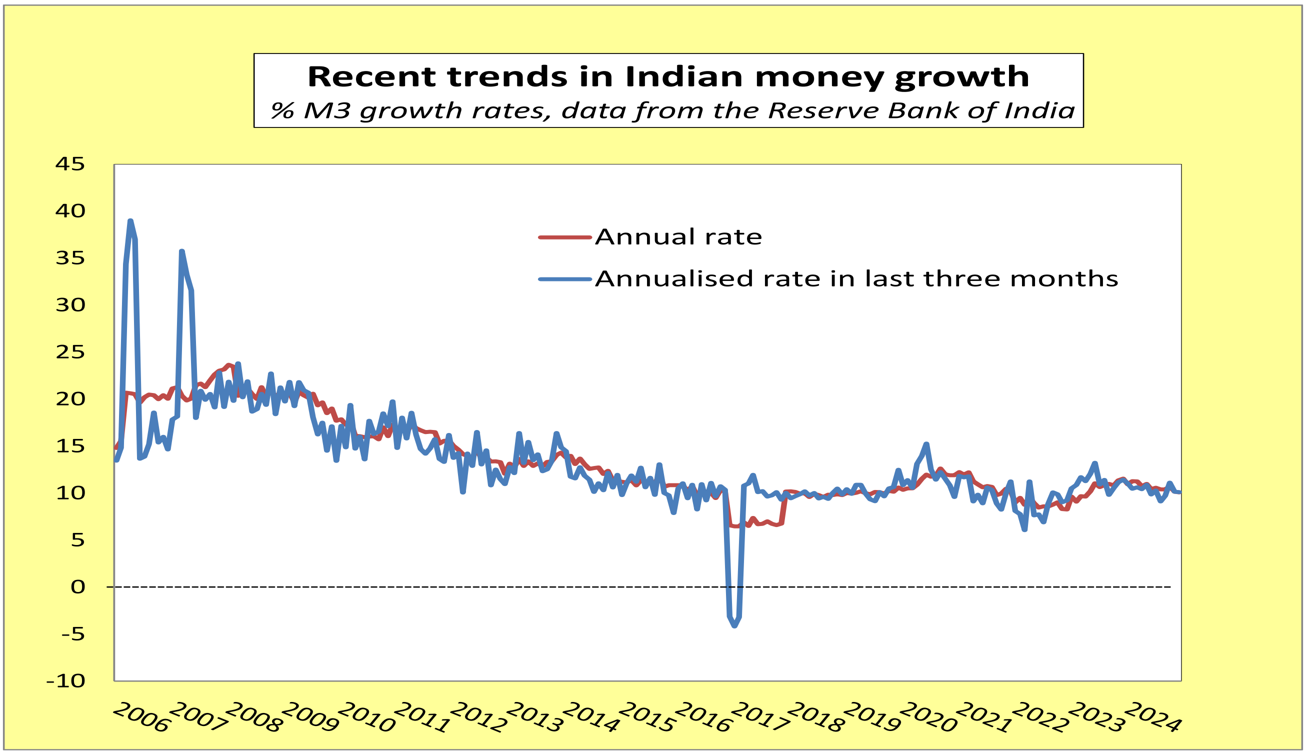


Broad money growth in Japan has resumed in the very latest months, after a period of contraction in the summer. But it remains very weak Three months of positive M3 growth resulted in the annualised quarterly M3 growth rate hitting a nine-month high of 1.9% in December, while the annual growth rate ticked up from 0.7% in November to 0.8%. Growth in new bank credit picked up to 3.1%, a reasonably strong figure by recent Japanese standards. The yen has recovered from its recent low (of 161, recorded in June) against the US dollar, but at current levels (just above 150) is widely perceived as remaining vulnerable. The Bank of Japan is keen to “normalise” monetary policy and raise interest rates from their current level of 0.25%, especially as inflation is still above its 2% target. (The figure for the year to December was 2.9%.) This might deter demand for new bank credit, which would slow broad money growth. The weak yen has been a significant factor in above-target inflation because of its effect on the price of imports, including energy. The Bank of Japan intervened on the foreign exchanges often in 2024 to defend the yen. Foreign exchange reserves dropped by almost $64b. in the year, to $1,230.7b. at end-December. Recent low money growth argues that inflation will moderate in coming quarters. (*Note by Tim Congdon and John Petley.*)

India

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2022	**15.4**	**13.2**
Ten years to 2020	**11.3**	**9.8**
Year to December 2024	**10.1**	**n/a**
Three months to December 2024 at annualised rate	**10.1**	**n/a**

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

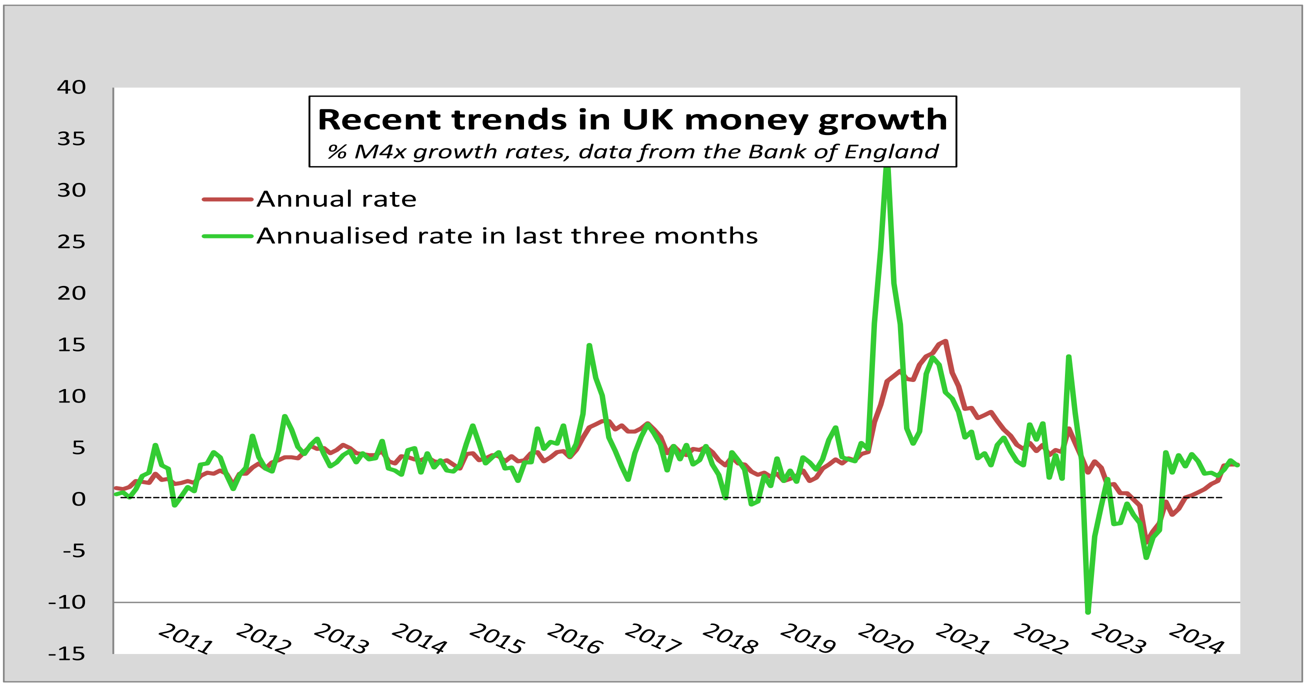


Indian M3 grew by 10.1% in the final quarter of 2024, little changed from November's figures. The annual growth rate also stood at 10.1%. For much of 2024, broad money has been increasing at an annualised rate of around 10%, In the first half of the year, bank credit was increasing at an annual rate of 20% or just under, but since September credit growth has declined to around 11%-13%. Since hitting a record high at the end of September, India's foreign currency reserves have declined due to action by the Reserve Bank of India (the central bank) to shore up the rupee, which has further weakened against the US dollar since November. The RBI reduced the reserve ratios for banks by 0.5% in December, the first change in monetary policy in almost two years. This loosening appears to be primarily a response to disappointing macroeconomic data, which showed that India's economy grew at an annual rate of only 5.4% in Q3 2024. The RBI's move was helped by falling inflation, which rose to 6.2% in the year to October, but fell back to 5.2% two months later, comfortably within the RBI's target range of 4% with a 2% margin in both directions. In summary, the latest money numbers do not suggest there are any major concerns with the Indian economy. (*John Petley.*)

UK

	% annual/annualised growth rate:	
	M4x/M4 before 1997	Nominal GDP
1981 – 2022	**8.3**	**5.5**
Ten years to 2020	**5.2**	**2.3**
Year to November 2024	**3.4**	**n/a**
Three months to November 2024 at annualised rate	**3.3**	**n/a**

Sources: Bank of England for M4X and Office for National Statistics for GDP



UK M4x grew at an annualised rate of 2.9% in the three months to November. Broad money declined by £2.3b, during the month, but this followed an increase of over £17b. in October. These erratic movements in broad money from month to month have often arisen in recent years because of large ups and downs in bank credit to the financial sector, which turn out not to be part of a significant trend. In the year to November so-called M4xL – bank lending to the private sector, excluding the awkward “intermediate other financial corporations” (or quasi-banks) – rose by a mere 1.9%. (M4xL increased by £26.9b. in September and October combined, but then dropped by £2.1b. in November.) Wider discussion is needed about reports that Santander, the Spanish bank which has become one of the largest players in UK housing finance, wants to leave the UK. The trouble seems to be that excessive regulation has lowered the return on capital, while growth prospects are regarded as mediocre. Presumably Santander would like to redeploy shareholders’ funds in another country. When this sort of concern is relevant to bank management decisions, a big mortgage boom seems unlikely. The Bank of England is reducing the cost of borrowing more cautiously than some other central banks and is pursuing its plan to run off, from its assets pile, a further £100b. of gilts by September 2025. Monetary policy remains tight. (*Tim Congdon and John Petley*.)