

## Money growth update, February 2025

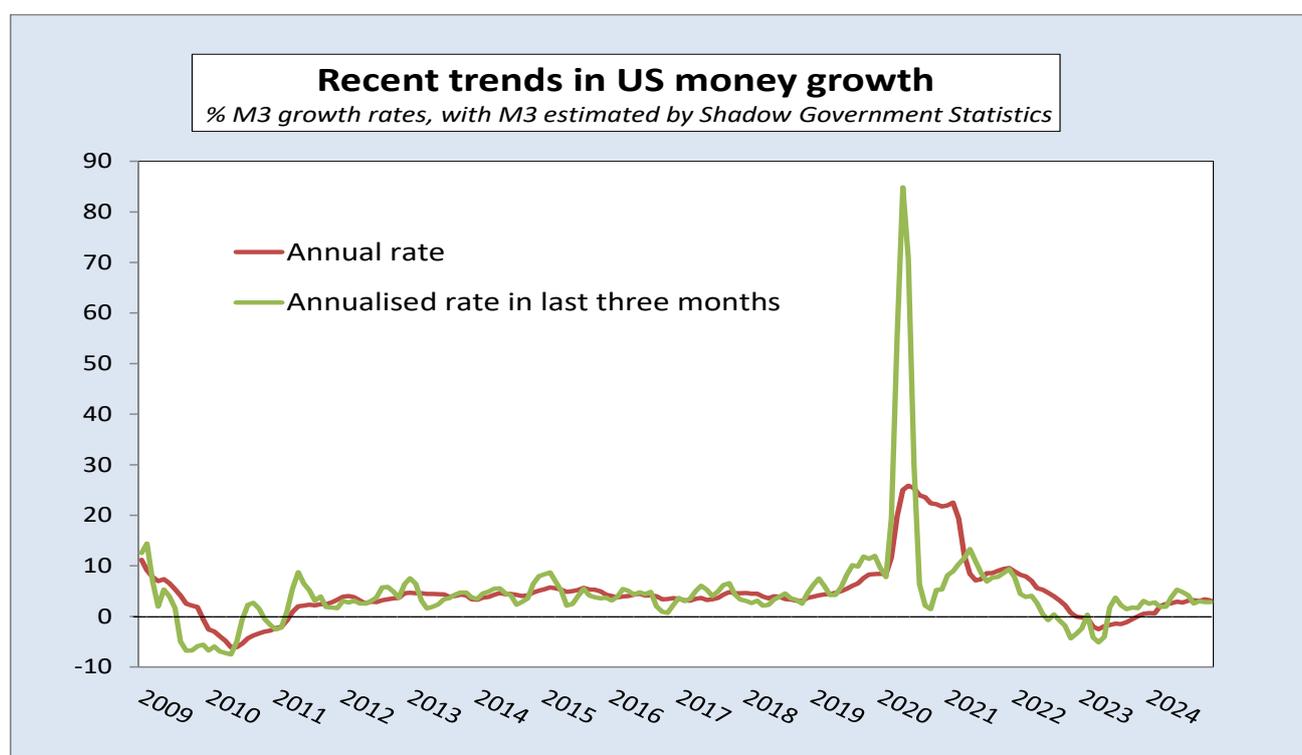
Steady and moderate growth of broad money has continued in the USA, the Eurozone and the UK. A modest increase in demand for new bank credit began in the USA in the final months of 2024 and has continued into early 2025. Until this uptick, the financing of the huge US budget deficit by money market mutual funds had been the most significant influence on US M3 growth. In both the UK and Eurozone, broad money growth is returning to levels typical of the years preceding the coronavirus pandemic, but growth in new bank credit remains weak. In all three financial jurisdictions, borrowing costs are gently being reduced, but central bank asset run-offs continue. Japan, by contrast, is seeking to tighten monetary policy, in spite of very weak growth in M3. Above-target inflation has proven far more stubborn than predicted in Japan, the UK, the USA and the Eurozone. 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 slowed in January, against the background of a still buoyant economy. Money numbers in the world’s largest economies suggest that macroeconomic conditions will be challenging in 2025. Demand growth is likely to be at trend or below, with inflation to decline. (*Tim Congdon*)

Name of country/ jurisdiction	Share of world output in 2023	Growth rate of broad money			Comment
		In current prices and exchange rates, %	In last three months at annualised rate, %	In last 12 months, %	
USA	15.6	26.1	2.8	3.1	M3 increasing steadily; inflation still a little above target. Major attack on government spending.
China	18.7	16.9	6.3	6.9	Money growth remains low in spite of central bank and government stimulus measures. Inflation positive but low.
Eurozone	11.2	14.8	4.4	3.5	Money growth now similar to pre-pandemic levels, but credit growth remains weak.
Japan	3.7	4.0	2.2	0.7	Money growth picking up slightly, but still very weak and vulnerable to increases in interest rates.
India	7.6	3.4	8.5	10	Demand for new bank credit still reasonably robust. Inflation comfortably within target range.
UK	2.2	3.2	3.8	3.1	Housing market and business lending picking up, but inflation still above target and M4x growth weak.

# USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1961 – 2022	<b>7.6</b>	<b>6.5</b>
Ten years to 2020	<b>6.2</b>	<b>3.4</b>
Year to December 2024	<b>3.1</b>	<b>n.a</b>
Three months to December 2024 at annualised rate	<b>2.8</b>	<b>n.a.</b>

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



US broad money continues to grow modestly, but steadily. In December the annualised quarterly growth rate stood at 2.8%, unchanged from November. Data in the Federal Reserve H8 release suggest that a slow pick-up in demand for bank credit is under way. “Loans and leases in bank credit grew by just above 1% in the three months to January (or at an annualised rate of 4.2%), a rate of increase somewhat stronger than had been typical in 2023 and 2024. Three cuts to the Fed funds rate have now been announced, the most recent taking place on 19<sup>th</sup> December. Whether any further easing of monetary policy takes place in the first few months of 2025 is uncertain. US inflation has been on a steady upward trend, rising from 2.4% in the year to September to 3.0% in January 2025. The Fed intends to continue with the monthly \$60b. run-off of assets purchased between 2020 and 2022, so overall, monetary policy will remain tight. US GDP grew at an annualised rate of 2.5% in Q4 and wage growth (a statistic closely watched by the Federal Open Market Committee) remains much higher than the inflation rate. The money numbers are consistent with moderate demand and output growth, as in 2024, but worries remain about the size of the US budget deficit. (Note by John Petley.)

# China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2022	<b>18.4</b>	<b>14.1</b>
2011 - 2020	<b>11.7</b>	<b>10.0</b>
Year to January 2025	<b>6.9</b>	<b>n/a</b>
Three months to January 2025 at annualised rate	<b>6.3</b>	<b>n/a</b>

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

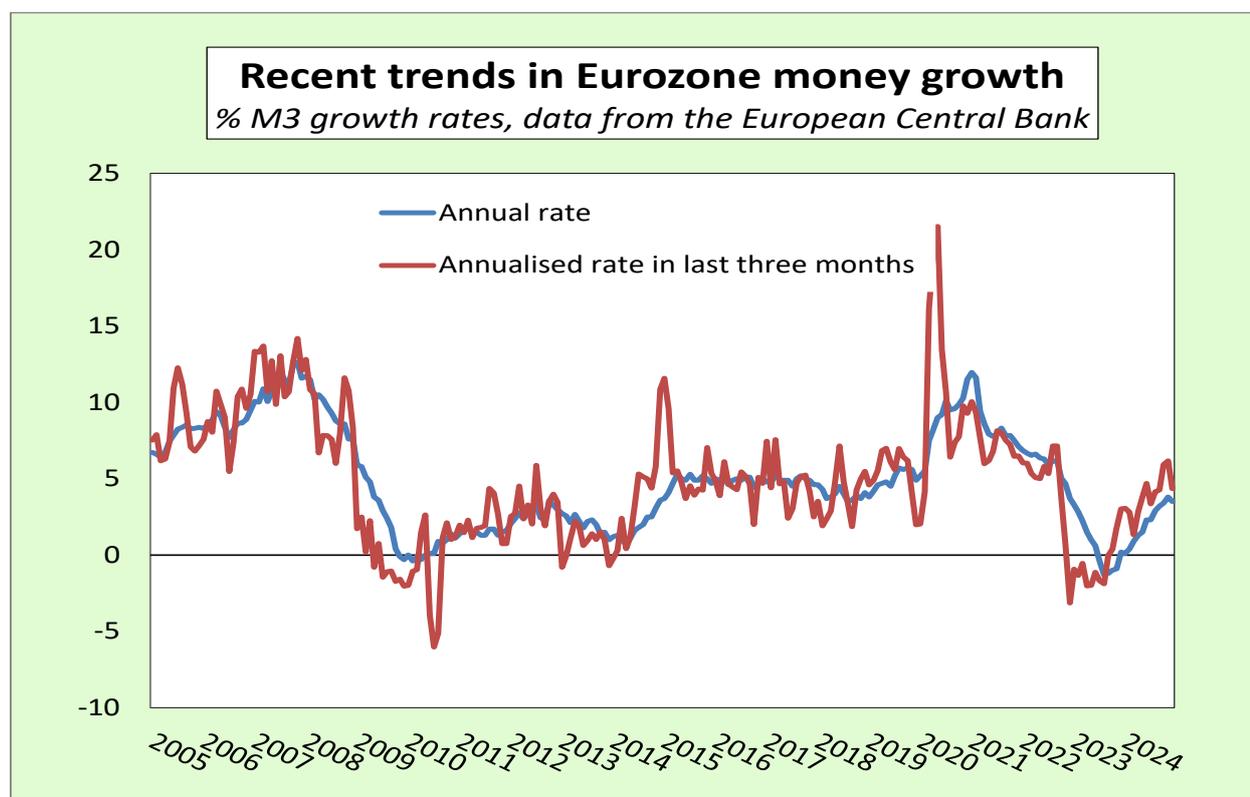


Chinese broad money growth remains weak by the standards of the last 40 years. The People's Bank of China (the central bank) has stated that in 2025, the country will pursue an "appropriately loose" monetary policy in 2025, as opposed to the recent "prudent" policy. Both the key one- and five-year loan prime rates have already been reduced to their lowest ever levels. The numbers have so far been feeble in their response. January is normally the most important month for new credit allocations, but this year's total new credit is less than the corresponding figure for January 2024. Meanwhile the annual rate of loan growth fell to 7.5%, the weakest reading since at least 1998. Fiscal stimulus measures will also continue, with central government seeking to support bankrupt local authorities and property developers. House prices in China's 70 largest cities continue to decline in spite of these support measures, falling by 5% in the year to January. Inflation remains well below the authorities' 3% target, although it did increase from 0.1% in the year to December to 0.5% a month later. The Trump government has already imposed tariffs on Chinese imports and Beijing has been quick to retaliate with tariffs on some American products. This trade war will make little difference to the Chinese economy, and will hurt both the USA and China. (Note by Tim Congdon and John Petley.)

## Eurozone

	% annual/annualised growth rate:	
	M3	Nominal GDP
1996 – 2022	<b>5.4</b>	<b>3.2</b>
Ten years to 2020	<b>4.6</b>	<b>1.6</b>
Year to December 2024	<b>3.5</b>	<b>n/a</b>
Three months to December 2024 at annualised rate	<b>4.4</b>	<b>n/a</b>

Sources: European Central Bank for M3 and Eurostat for GDP

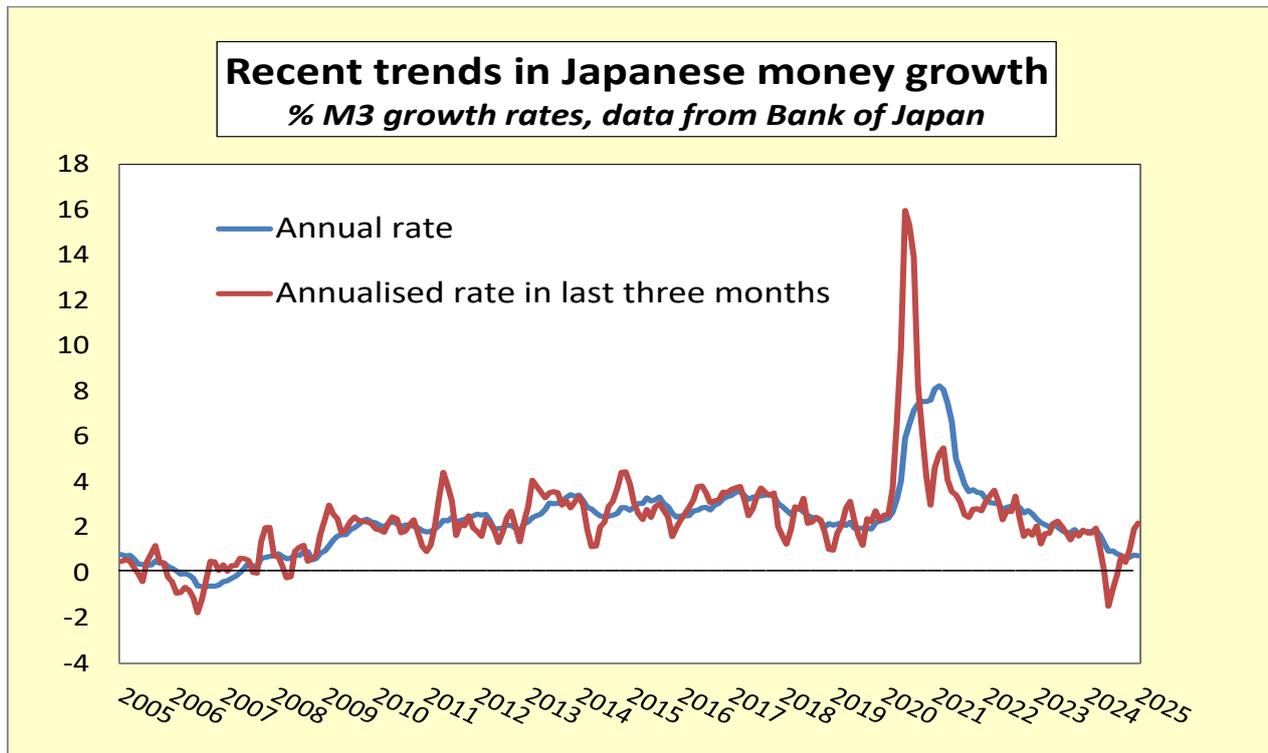


Both the annual and annualised quarterly growth rates of Eurozone M3 declined during December. The annual rate fell for the first time since January, down from 3.8% to 3.5%. The annualised quarterly rate dropped from a two-year high of 6.2% to 4.4%. The long run of weak broad money growth in 2023 and 2024 should ensure that inflation remains low this year. But January's 2.5% annual increase in consumer prices was the fourth month of accelerating price rises. The Eurozone economy's output grew by a mere 0.7% in 2024. Although above 2023's figure of 0.4%, this was a feeble performance, although roughly in line with the underlying trend. Bank credit to the private sector went up by almost 0.8% in the three months to December, with the implied annualised rate of increase being just above 3%. This was a little stronger than earlier in 2024 and in 2023. Given the contribution of the Eurozone's strong trading surplus to recent broad money growth, the imposition of tariffs by the Trump government might appear likely to slow M3 growth, but this raises the question of whether the USA's trade deficit arises more fundamentally from its vast budget deficit. (Note by John Petley.)

# Japan

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2022	<b>3.9</b>	<b>1.8</b>
Ten years to 2020	<b>3.2</b>	<b>0.3</b>
Year to January 2025	<b>0.7</b>	<b>n/a</b>
Three months to January 2025 at annualised rate	<b>2.2</b>	<b>n/a</b>

Sources: Bank of Japan for M3 and IMF for GDP

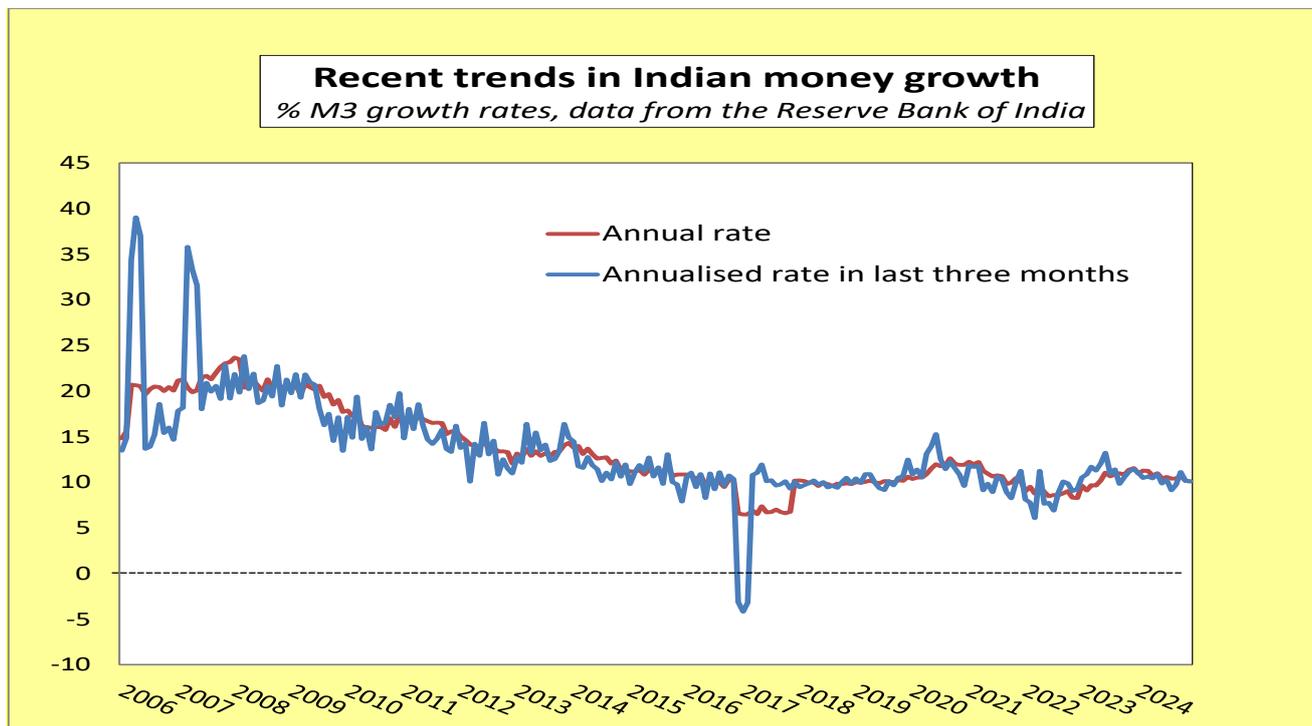


In the three months to January 2025, Japanese M3 grew at an annualised rate of 2.2%. This is the highest reading in over 18 months, but this could be seen as indicating how weak Japanese broad money growth has been since late 2023. The Bank of Japan is keen to “normalise” monetary policy after over a decade of ultra-low or negative interest rates. Having been an outlier in not raising the cost of borrowing in 2022, it is now again an outlier in tightening monetary policy. A particular concern is inflation. Not only has the consumer price index stubbornly remained above the BoJ’s 2% target for almost three years, but December 2024’s reading of 3.6% was the highest since January 2023. The weakness of the yen in 2024 resulted in higher import prices, but the currency has stabilised since the start of last year. The BoJ has not made any interventions in the currency markets for some time. Growth in new bank credit stood at 3.0% in the year to January, a modest figure but still reasonable by recent Japanese standards. While inflation has proven more stubborn than expected, the very weak broad money growth of 2024 should help dampen inflation over the medium term. If the BoJ does tighten monetary policy, Japan may struggle in 2025 to improve even on 2024’s expected modest 0.3% growth in GDP, but the IMF envisages a 2025 GDP gain of just above 1%. (Note by John Petley.)

# India

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2022	<b>15.4</b>	<b>13.2</b>
Ten years to 2020	<b>11.3</b>	<b>9.8</b>
Year to January 2025	<b>10.0</b>	<b>n/a</b>
Three months to January 2025 at annualised rate	<b>8.5</b>	<b>n/a</b>

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

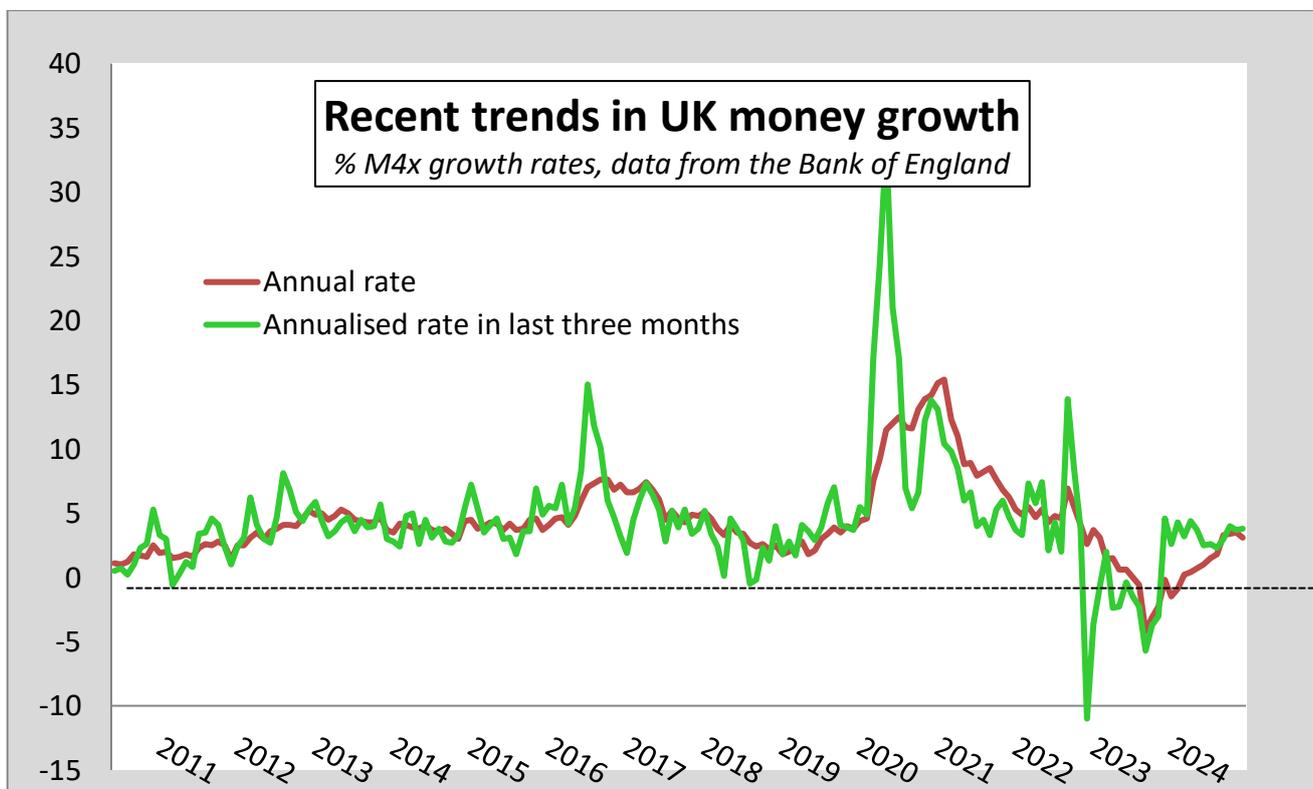


Indian M3 grew by 8.5% in the three months to January 2025, a decline from December's reading of 9.9%. The annual growth was unchanged at 10.0%. For much of 2024, broad money increased at an annualised rate of around 10%, with strong growth in new bank credit contributing significantly to this figure. Since September the annual rate of credit growth has declined from around 20% to around 11% - 13%. Another factor in January's slower M3 growth has been a further bout in early 2025 of currency market weakness in the rupee, which touched an all-time low against the US dollar on 7<sup>th</sup> February. The Reserve Bank of India (the central bank) has been forced to intervene in the foreign exchange market, which has had a negative effect on broad money growth. The RBI has nevertheless been loosening monetary policy. After reducing banks' reserve ratios by 0.5% in December, it cut the cost of borrowing by 0.25% in February, the first reduction in over two years. This loosening is in response to a slowdown in the country's economy, which grew at an annual rate of only 5.4% in Q3 2024. Inflation, which rose to 6.2% in the year to October, has fallen back since, standing at 4.3% three months later. The money numbers indicate that India's economy may be slowing slightly, but it retains the reputation of the most dynamic of the world's large economies. (John Petley.)

# UK

	% annual/annualised growth rate:	
	M4x/M4 before 1997	Nominal GDP
1981 – 2022	<b>8.3</b>	<b>5.5</b>
Ten years to 2020	<b>5.2</b>	<b>2.3</b>
Year to December 2024	<b>3.1</b>	<b>n/a</b>
Three months to December 2024 at annualised rate	<b>3.8</b>	<b>n/a</b>

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



UK M4x grew at an annualised rate of 3.8% in the three months to December 2024, much the same as in the previous three months. Demand for new bank credit remains stable, but modest. The reduction in the cost of borrowing has resulted in an increase in mortgage approvals. The Bank of England made a third reduction to Bank rate on 7<sup>th</sup> February, bringing it down to 4.5%. The Monetary Policy Committee continues with the run-off of its assets (mainly gilts), which aims to reduce the BoE's balance sheet by £100 billion in the 12 months to September 2025. Monetary policy cannot be regarded as loose despite lower borrowing costs. Wages are rising faster than inflation. This remains a concern for the MPC, particularly as inflation remains above target, with consumer prices rising by 3.0% in the year to January. On the other hand, the very modest growth in GDP - a mere 0.1% in the final quarter of 2024 - is also a worry. With both business sentiment and consumer confidence declining since Q3 2024, the increase in bank lending to the private sector - normally the principal contributor to broad money growth - may weaken. (John Petley.)