



**INSTITUTE OF
INTERNATIONAL
MONETARY RESEARCH**

Analysis and insight into trends in money and banking,
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Money growth update, May 2026

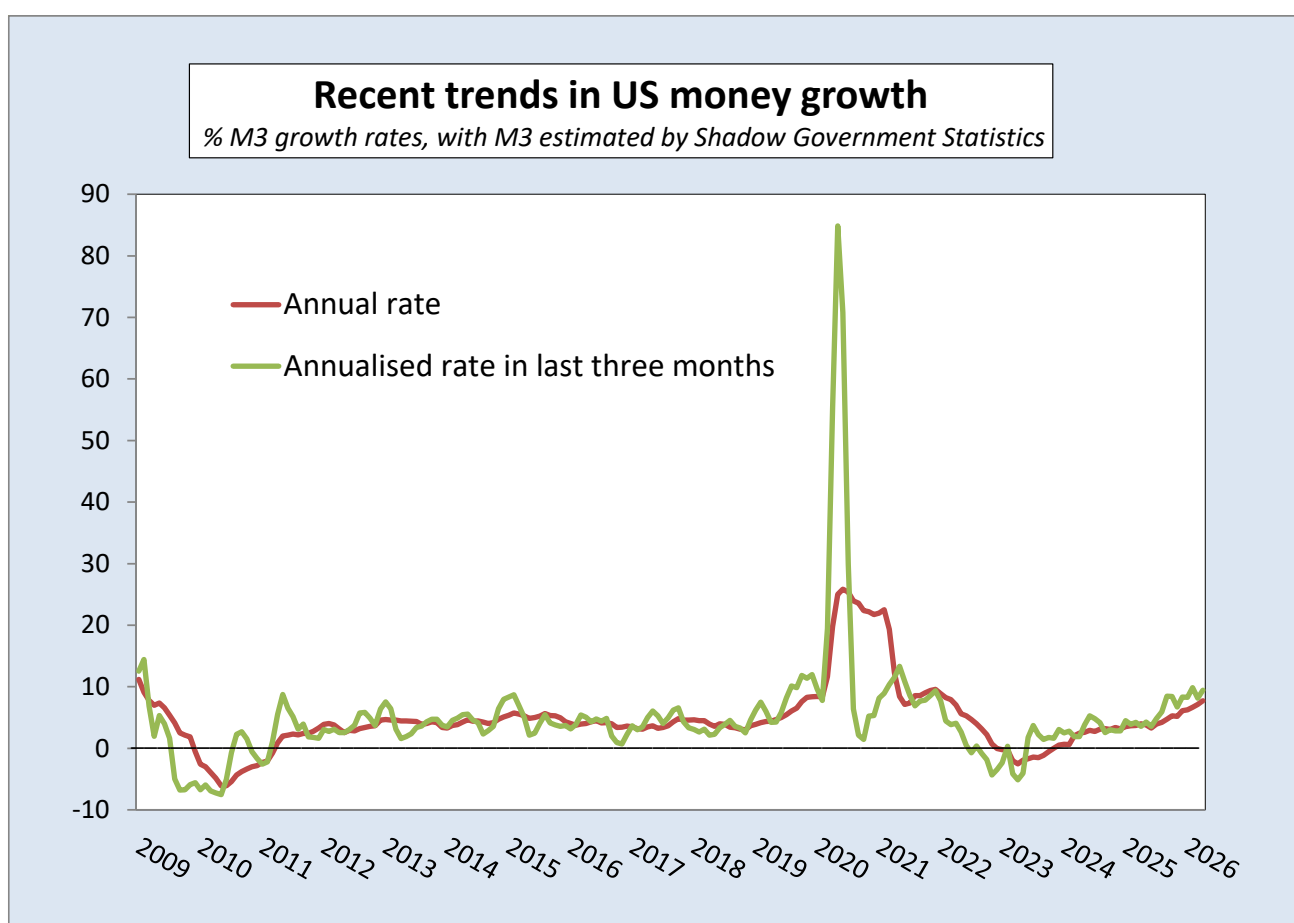
In the USA commercial banks' deposits have grown strongly in recent months, with the annualised rate of increase in the three months to April being over 10%. In qualification, 2025's boom in money market mutual funds stopped in the first quarter of 2026, even though the Trump administration continues to run an enormous budget deficit. Money growth slowed in China during April. By contrast, the Indian banking system continues to grow at annual rates in the mid-teens %. With these three economies accounting for over 40% of world output (and indeed about 50% on world output measured after adjustment for purchasing power parity), *the world economy was heading for above-trend growth in 2026 before the shock of the Iran war*. The Iran war will reduce output growth and raise the price level in 2026, but the prospect has to be that – in the medium run - international pressure will open the Strait of Hormuz and the war's economic effects will be minor. Inflation in 2028 and/or 2029 will be low, as energy prices fall back. Money growth in the Eurozone, Japan and the UK has picked up slightly but remains moderate – or even slow. *(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	8.2	7.1	Bank credit to private sector gaining momentum, while huge Federal deficit risks monetization. Money growth too high for 2% inflation.
China	18.7	16.9	7.6	8.5	Money growth rising since mid-2025. Inflation just above zero. Property market struggling, but China's industrial strength remains impressive.
Eurozone	11.2	14.8	5.7	3.2	Money growth blipped up in March, but has been weak. Inflation close to target, but affected by Iran war. Steady output growth at low trend rate.
Japan	3.7	4.0	2.2	1.9	Money growth up a little in April, but still low. New bank credit to private sector quite strong. Inflation close to target. Worries about fiscal expansionism.
India	7.6	3.4	13.8	12.1	New bank credit to private sector very strong, amid economic boom. Inflation rising, while rupee slides on foreign exchanges. Policy too loose.
UK	2.2	3.2	4.0	4.5	M4x growth moderate, consistent with on-target inflation. Strong credit growth. Inflation hit by energy price effects of Iran war.

USA

	% annual/annualised growth rate:	
	M3	Nominal GDP
1960 – 2025	7.4	6.5
Ten years to 2025	6.2	5.0
Year to April 2026	7.1	n.a
Three months to April 2026 at annualised rate	8.2	n.a.

Sources: Shadow Government Statistics research service for M3 after 2006 (IIMR estimates for 2025) and US Bureau of Economic Analysis for GDP

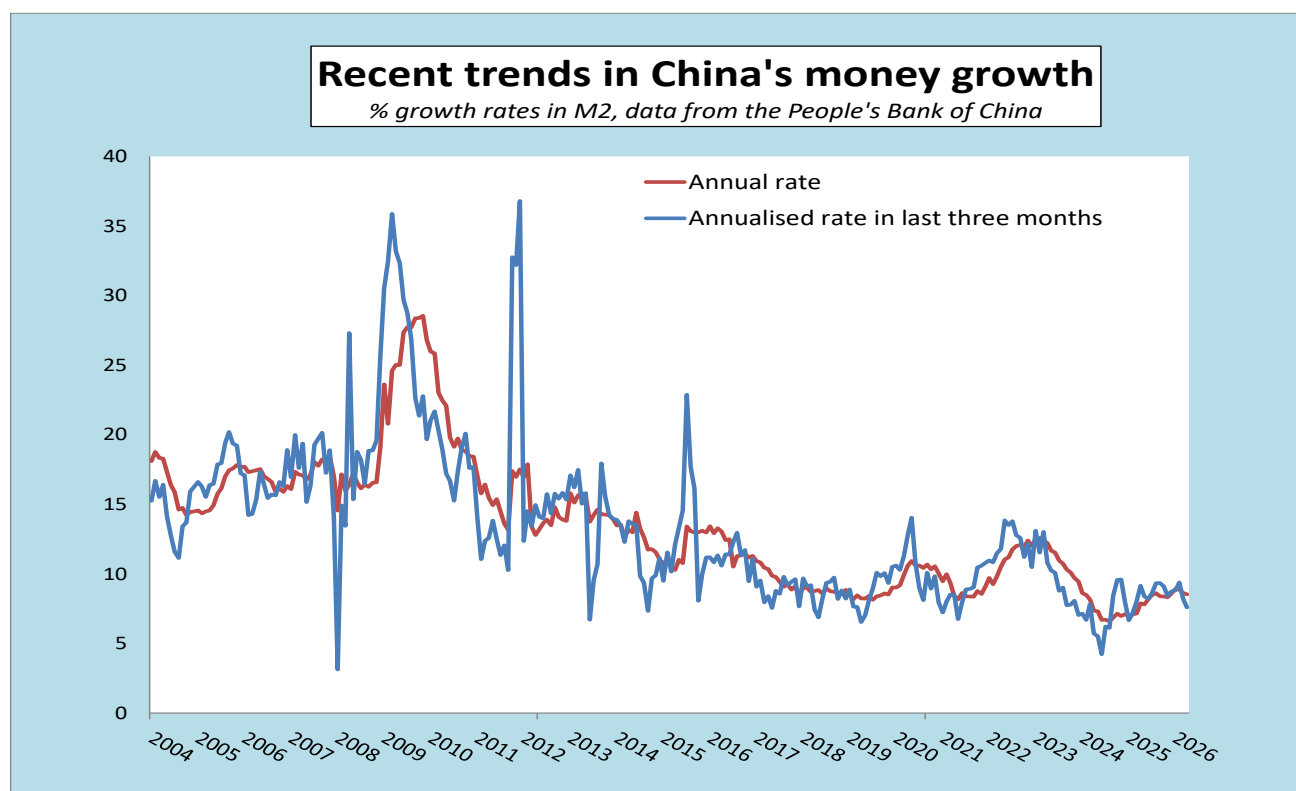


A sharp acceleration in US money growth has been evident in recent months. In the background are the easing of capital rules on US banks, enabling them to grow their loan assets more rapidly. “Loans and leases in bank credit” have grown in the six months to 6th May by 4.4%, with an implied annualised rate of 9.0%. Meanwhile the enormous Federal deficit has to be financed and it is unsurprising that, to some extent, the deficit is being financed partly from the banking system. So – in the three months to April (and May, probably, but we don’t have full data yet) – the annualised growth rate of deposits was over 10%. These numbers are well above the typical equivalent in the 2010s, when inflation averaged slightly under the Fed’s 2% target. Market commentary focuses at present on the effect of the Iran war on energy prices, but – once that war is resolved – energy prices are likely to fall sharply. Recent money trends argue that inflation will remain disappointingly high into the medium term. Remember that the Fed continues to pay no attention to these data. (Note by Tim Congdon)

China

	% annual/annualised growth rate:	
	M2	Nominal GDP
1991- 2024	17.4	13.6
Ten years to 2024	9.8	7.5
Year to April 2026	8.5	n/a
Three months to April 2026 at annualised rate	7.6	n/a

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

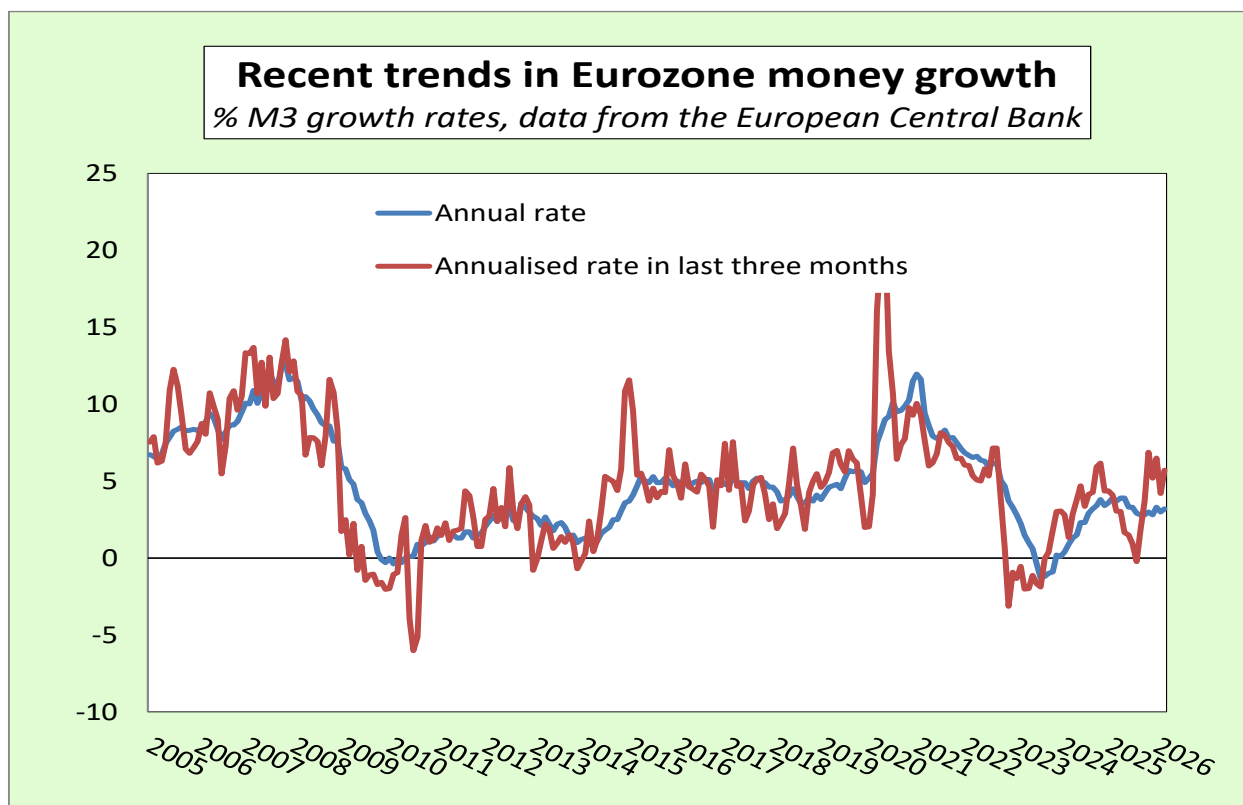


The upturn in Chinese broad money growth which began in late 2025 did not continue in April 2026, when the M2 money barely grew. The seasonally adjusted annualised quarterly growth rate fell from 8.2% in March to a 13-month low of 7.6% while the annual rate declined slightly from 8.6% to 8.5%. Monetary policy has not changed for a year now. The authorities do not seem worried that the rate of credit expansion has slowed: the annual increase of 5.6% in April was the lowest for over 28 years. (It would be nice to think that they understood the money growth trends are more important to the macroeconomic outlook.) The higher rate of money growth reflects the banks' acquisition of claims on the state, with China running a large budget deficit. According to definitions favoured by Fitch Ratings, the overall budget deficit was 8.8% of GDP in 2025, after 6.5% in 2024, although the figure in 2026 is expected to be lower, at about 7½% of GDP. Chinese exports continue to perform well and real GDP rose by a respectable 1.3% in Q1 2026. Trend output growth remains much higher than in the economies in North America or Europe, despite the retreat in house prices and the property market malaise. An increase in factory gate prices of 2.8% was recorded in the year to April, thanks to the impact of the Iran war on energy prices. (Note by Tim Congdon and John Petley)

Eurozone

	% annual/annualised growth rate:	
	M3	Nominal GDP
1996 – 2024	5.1	2.9
Ten years to 2024	4.8	2.5
Year to March 2026	3.2	n/a
Three months to March 2026 at annualised rate	5.7	n/a

Sources: European Central Bank for M3 and Eurostat for GDP

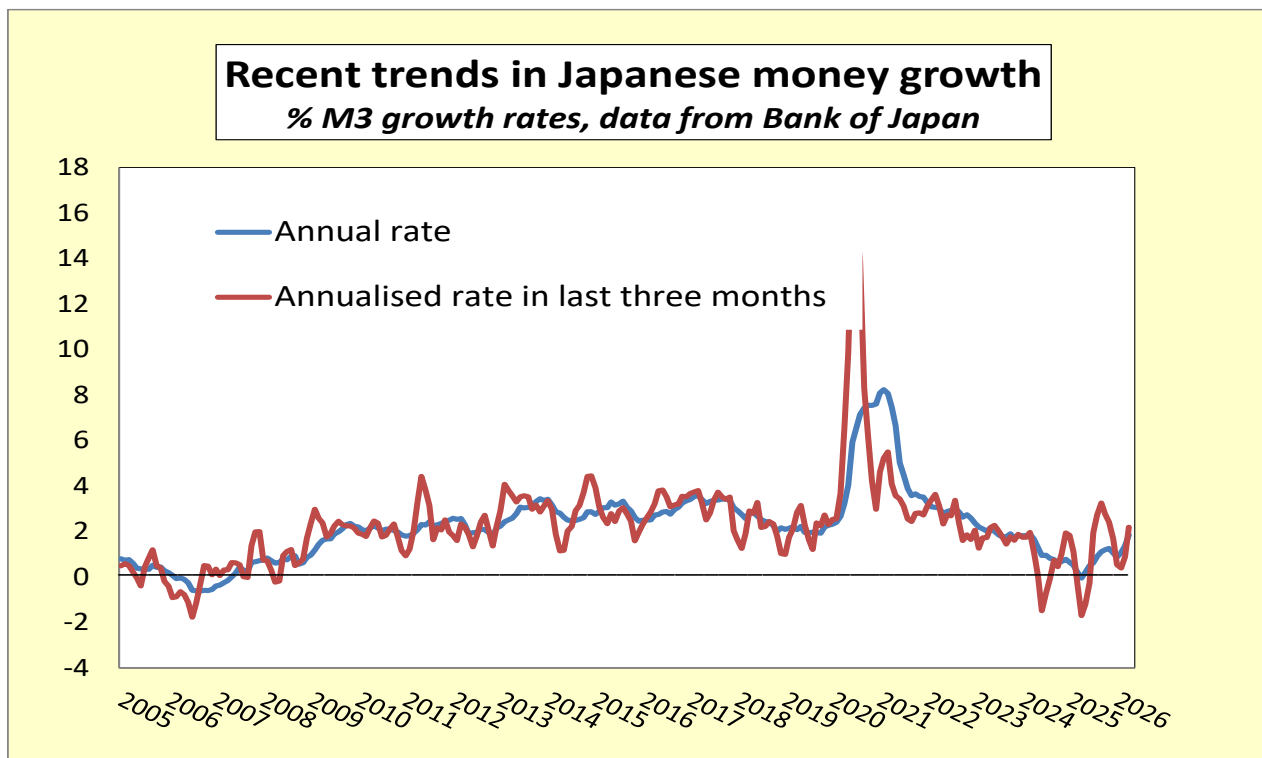


In March 2026 the annualised quarterly growth rate of Eurozone M3 stood at 5.7%, up from February's reading of 4.2%. Significant sales of government securities by the European Central Bank were one reason for the weak broad money growth in February. Such sales were not on the same scale in March, when in fact the banking system's claims on general government *increased* by €23b. Bank credit to the private sector remains feeble, even though the ECB's refinancing rate of 2.15% is well down from the recent peak of 4.5% in 2023 and early 2024. Mortgage lending would normally be seen as an interest-rate-sensitive form of credit. By implication, it ought by now to be advancing because of the drop in interest rates. But the stock of mortgage loans in March was only 3.0% up on a year earlier and a figure of around 3% has been sustained for several months now. Other kinds of credit are also subdued, despite the big gains in banks' market capitalizations in 2025. After almost a year when the inflation rate seemed to have settled down close to the ECB's 2% target, the conflict in Iran has resulted in a significant rise in energy prices, causing consumer inflation to increase to 3.0% in April. Once the disruption to oil and gas supplies is over, and its effect on energy prices has been reversed, inflation is likely to drop back to around or less than 2%. (Note by Tim Congdon and John Petley.)

Japan

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2025	3.7	1.9
Ten years to 2025	2.7	1.7
Year to April 2026	1.9	n/a
Three months to April 2026 at annualised rate	2.2	n/a

Sources: Bank of Japan for M3 and IMF for GDP

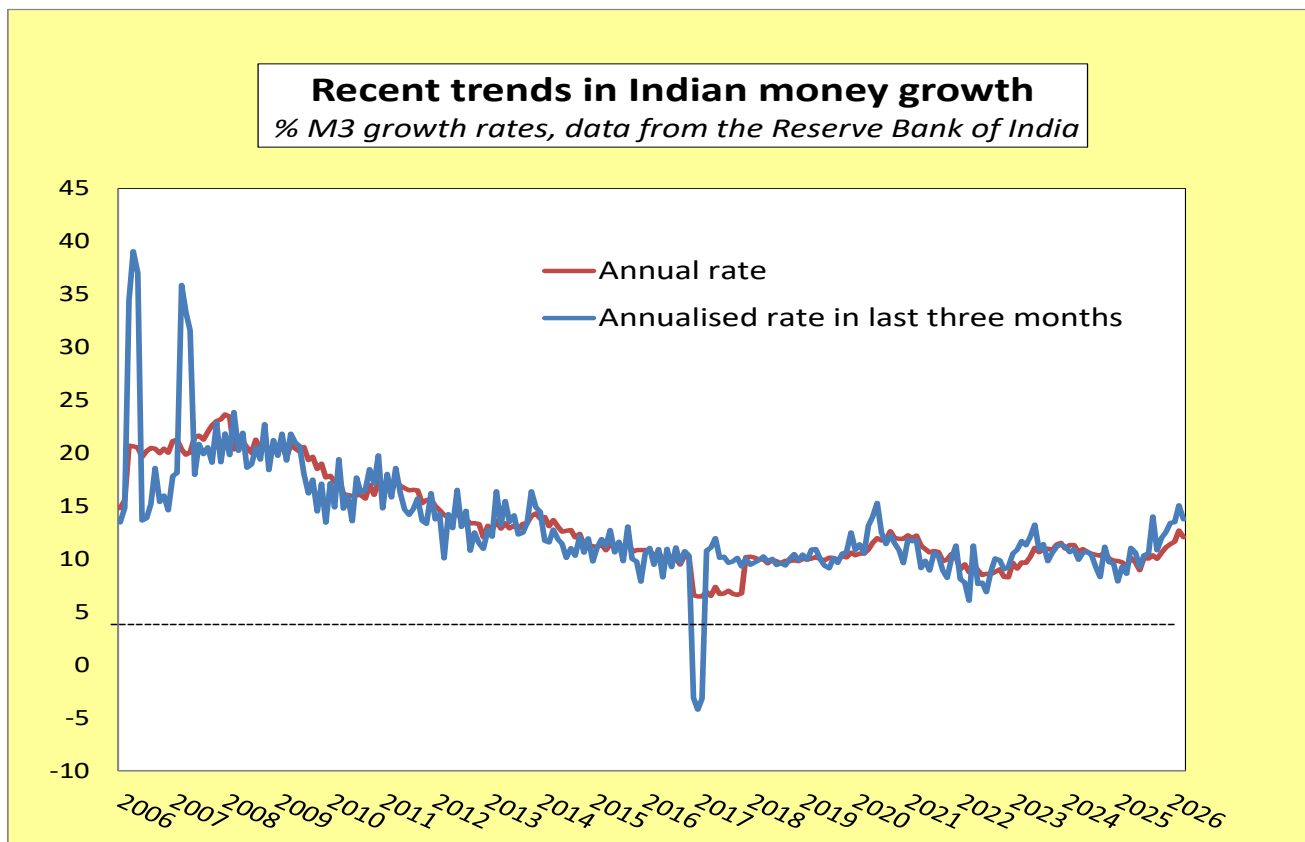


In the three months to April 2026, Japanese broad money grew at a rate of 2.2%, the highest figure in five months. The annual growth rate in April was 1.9%, the strongest advance on this yardstick for over two years. In general, money growth has been sluggish since 2024. This has undoubtedly been responsible – to a significant extent – for the decline in consumer inflation to under the Bank of Japan’s 2% target, despite the adverse effects on costs from the weakness of the yen in recent years. After the increase in the consumer price index falling to a four-year low of 1.3% in March, April’s figure rose to 1.5%. The adverse effect of the Iran conflict on energy prices was the main influence here. The feeble rate of M3 growth is evident, despite strong demand for new bank credit by Japanese companies. April’s annual growth rate in the stock of bank lending rose to 5.4%, the highest rate of gain in over five years. The yen has declined further against the US dollar since March and the government is believed to have spent 4 trillion yen in April to shore up the Japanese currency. The Bank of Japan has indicated its preparedness further to raise the cost of borrowing. Nevertheless, these plans may be put on hold while the Iran conflict lasts, given Japan’s dependence on imported energy and the recent weakness of the yen. Japan’s biggest potential problem is now a steep rise in government bond yields. Prime Minister Sanae Takaichi has embarked on a substantial fiscal stimulus. The scale of bond issuance has exacerbated long-standing concerns about Japan’s long-run fiscal solvency. (Note by John Petley)

India

	% annual/annualised growth rate:	
	M3	Nominal GDP
1981- 2025	15.0	12.9
Ten years to 2025	9.9	10.3
Year to April 2026	12.1	n/a
Three months to April 2026 at annualised rate	13.8	n/a

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

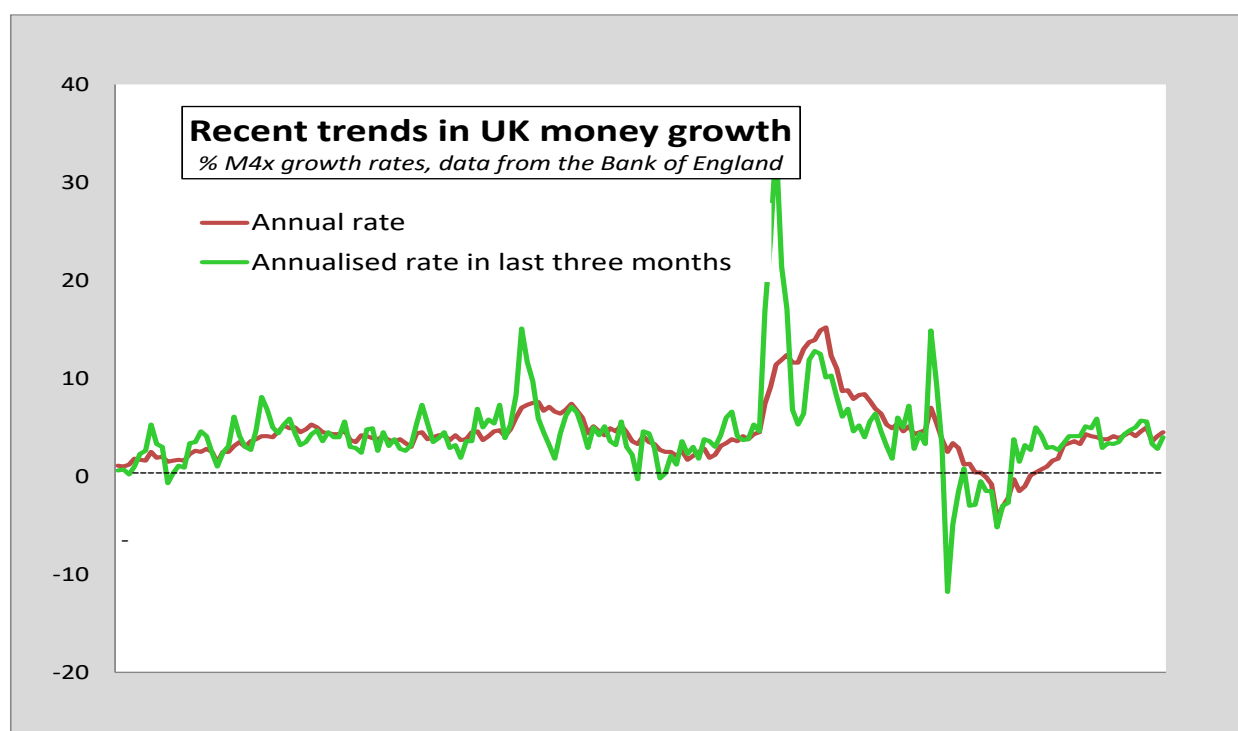


The pace of growth of Indian M3 slowed slightly in April, but remains strong and much in line with the numbers seen in 2023 and 2024. The annualised quarterly growth dipped from 15.1% to 13.8%, while the annual growth rate declined from 12.7% to 12.1%. The significant recent increase in broad money growth has been driven by strong demand for new bank credit. At the end of April the stock of bank credit to the private sector was over 16% higher than a year earlier. The Reserve Bank of India (the central bank) eased monetary policy in late 2025, reducing banks' reserve ratio requirements by 1% in four ¼% instalments between August and November, while also cutting the cost of borrowing fractionally. The buoyancy of bank credit reflects, above all, the dynamism of the economy and the wide range of high-return investments available. In late 2025 inflation fell to its lowest level in over a decade, which might be thought to give the RBI scope to cut the cost of borrowing. Inflation has picked up since the start of the year, rising to 3.5% in the year to April, although this is still comfortably within the RBI's tolerance limits. But credit and money growth at recent rates, far above the trend increase in supply potential, must ultimately lead to excess demand and rising inflation. The weakness of the rupee, which reached a record low against the US\$ in early May, confirms this diagnosis. (Note by John Petley.)

UK

	% annual/annualised growth rate:	
	M4x/M4 before 1997	Nominal GDP
1981 – 2025	5.6	5.8
Ten years to 2025	4.9	4.8
Year to March 2026	4.5	n/a
Three months to March 2026 at annualised rate	4.0	n/a

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



UK broad money grew at an annualised rate of 4.0% in the three months to March 2026. This increase on February's figure of 2.8% was driven by quite strong M4x growth - £22.1b. in total – during March. The UK banking system has seen some remarkable developments in the last two years. In the year to March 2025 so-called “M4 lending” (i.e., lending by banks and building societies to all entities apart from the awkward “intermediate other financial corporations”) was £54.8b.; in the following year it was more than three times higher at £177.2b. Why did money growth remain moderate? The answer is complex, but crucial is that banks financed their new assets to an unusual extent by capital issues rather than from deposits. The increase in banks' non-deposit liabilities (largely bond issues and equity capital retention) in the year to March 2026 was £91.1b., up from £48.7b. in the previous year. Loans were – to an unusual extent – to private equity and credit funds, and banks may have felt that long-term funding of such assets was more appropriate than deposits. The Bank of England persists with quantitative tightening (i.e., sales of assets to reduce the quantity of money), and in the year to March the public sector contribution to money growth was negative by just under £22.0b. The annual inflation rate (up from 3.0% in February to 3.3% in March and likely to rise higher still) remains well above target, now because of the Iran war. No further cuts to the cost of borrowing can be expected in the next few months. (Note by Tim Congdon)