INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

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

www.mv-pt.org

Money growth update, July 2026

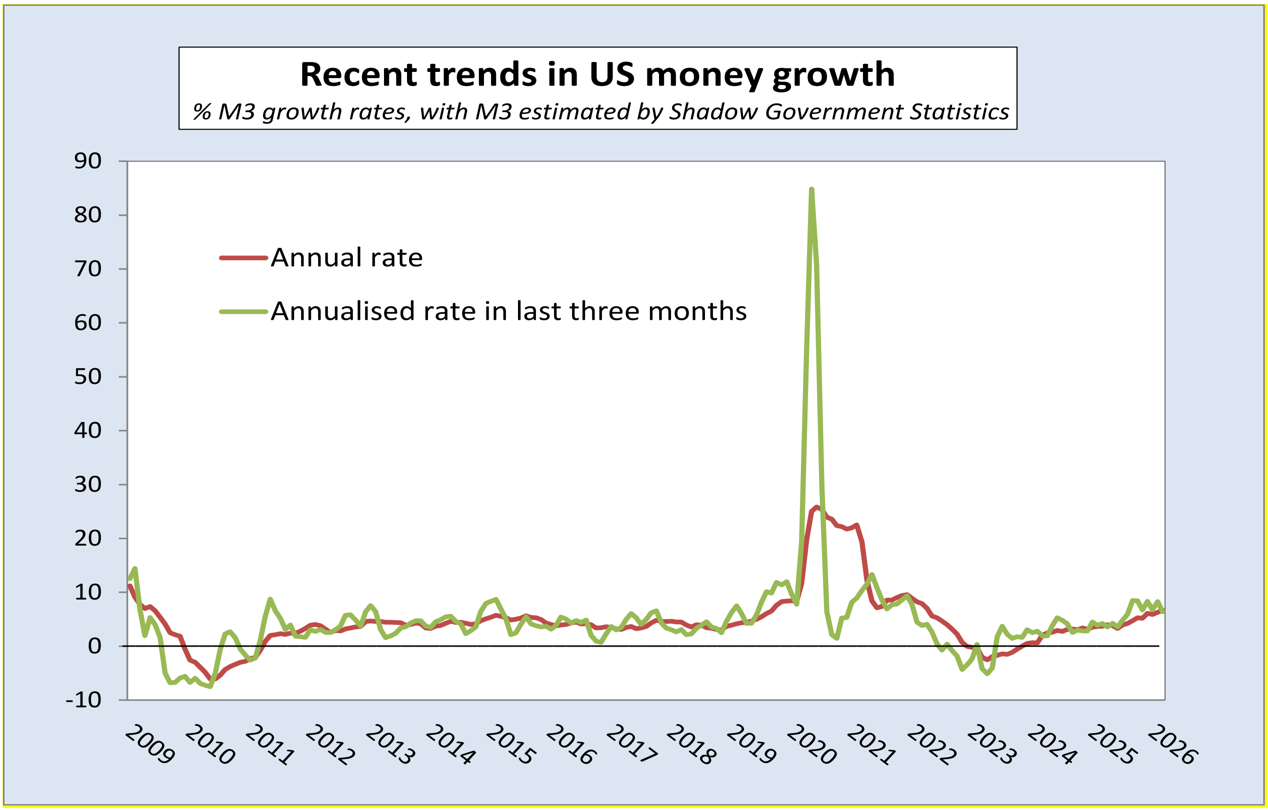
In the USA annualised rate of money growth in the first half of 2026 was in the high single digits % and in some months even threatened to rise into the double digits %. Borrowing from banks to finance the Federal deficit was part of the explanation. But the deficit has declined relative to GDP. Perhaps more important the new Fed chairman, Kevin Warsh, has made clear that he wants to reduce the size of the Fed balance sheet. Fed sales of securities to non-banks reduce the rate of money growth. Money growth has slowed in China since March. By contrast, the Indian banking system continues to grow at annual rates in the mid-teens % on the back of booming credit and vigorous supply-side dynamism. With these three economies accounting for roughly 40% of world output, *the world economy was heading for above-trend growth in 2026 before the shock of the Iran hostilities.* The resumption of these hostilities – and the intensification of the Russia-Ukraine conflict – make conjectures about the world economy in late 2026 and 2027 unusually hazardous. Giant fiscal so-called "fiscal stimulus" in Japan is another puzzle. One feature of that puzzle is that – so far – the enlarged Japanese fiscal deficit seems to have had no impact on money growth. (*Tim Congdon*)

Name of country/ jurisdiction	Share of world output in 2025		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	14.5	25.8	10.1	8.8	Bank credit to private sector gaining momentum, while huge Federal deficit risks monetization. Money growth too high for 2% inflation.
China	19.9	17.6	5.7	7.8	Money growth falling back in recent months. Modest inflation. Property market struggling, but China's industrial strength remains impressive.
Eurozone	11	14.6	4.3	3.2	Money growth weak, despite well-capitalised banks. Inflation close to target, but affected by Iran war. Steady output growth at low trend rate.
Japan	3.3	3.5	1.1	1.7	Money growth still low, mainly due to foreign exchange intervention. New bank credit to private sector strong. Worries about fiscal irresponsibility.
India	8.5	3.5	11.7	14.6	New bank credit to private sector very strong, amid economic boom. Inflation rising, while rupee slides on foreign exchanges. Policy too loose.
UK	2.1	3.2	6.0	4.8	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 June 2026	**8.8**	**n.a**
Three months to June 2026 at annualised rate	**10.1**	**n.a.**

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

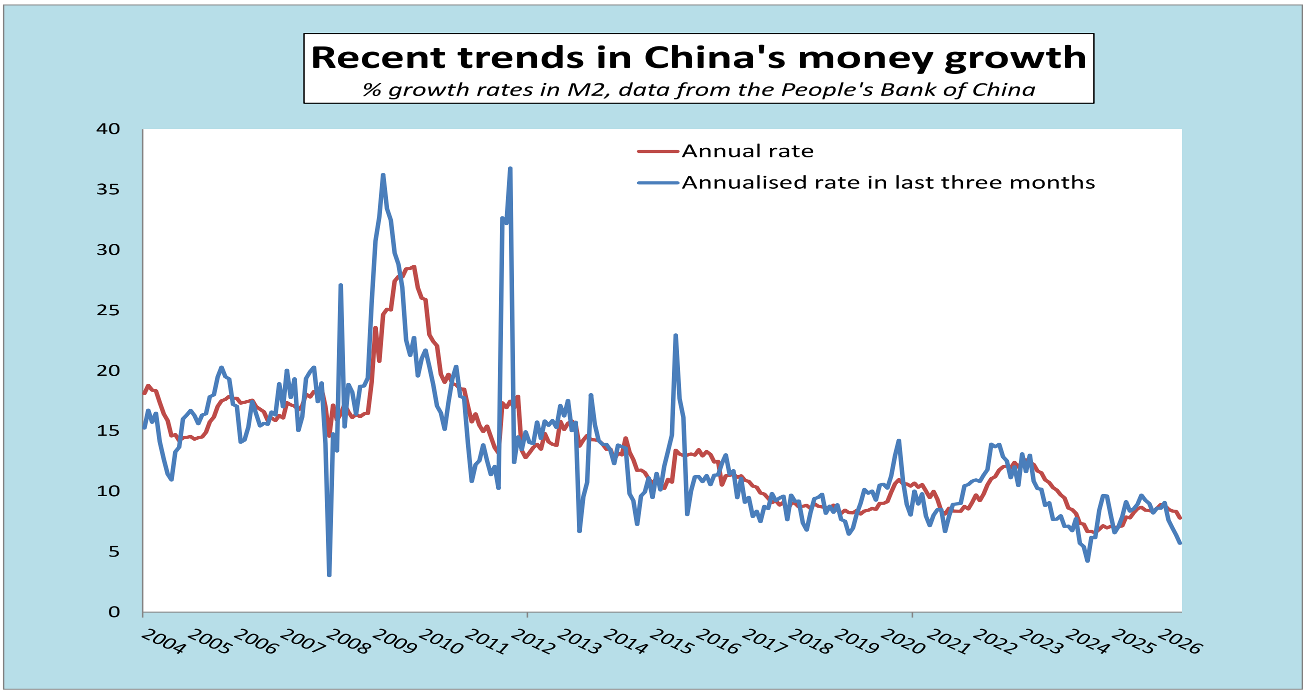


Early 2026 saw strong growth of US commercial banks' balance sheets. According to the Federal Reserve's H8 press release, their deposits – which constitute most of M3 broad money – rose in the six months to June 2026 from $18,725b. to $19,339b. or by 3.3%, implying an annualised rate of advance of 6.7%. However, the increase in June itself was less than ½% and lower than in earlier months. The American authorities continue to face the problem of the enormous Federal deficit and the need to finance it outside the banking system. But critics concede that the Federal deficit is running at lower levels in nominal terms than in 2025 and is usefully down relative to national output. Moreover, the boom in money market mutual funds has not continued into 2026. The new Fed chairman, Kevin Warsh, shows more interest in data on the quantity of money than his predecessor and indeed than the Fed's own economists, and this may prove significant in policy-making terms. Warsh has in the past said that the Fed's balance sheet is too large. If the Fed sells securities from its asset pile to non-bank entities, the quantity of money falls. At present the US consumer price index shows a rise of 3.5% in the year to June, which is well above the 2% target and implies that Fed policy-makers will be inclined to raise the Fed funds rate rather than the reverse. *(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 June 2026	**7.8**	**n/a**
Three months to June 2026 at annualised rate	**5.7**	**n/a**

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

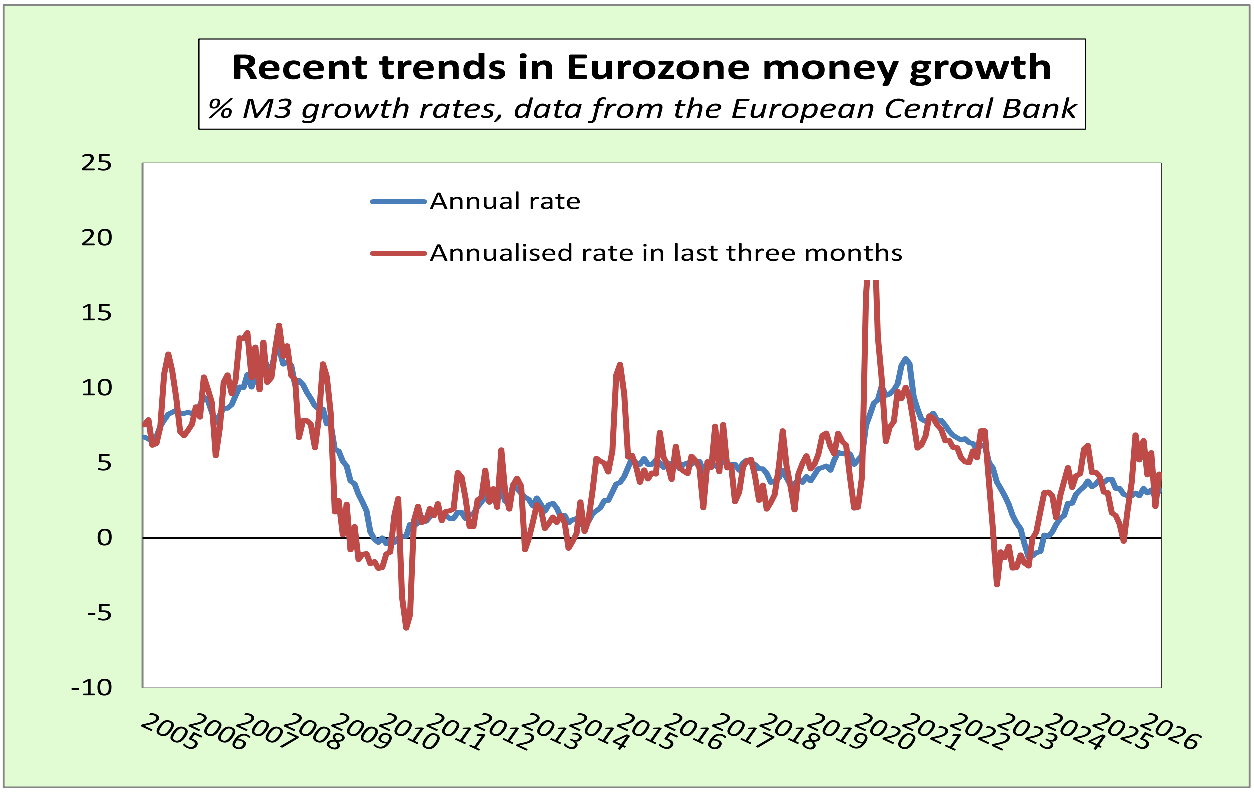


Although Chinese M2 recorded its strongest growth for three months in June, the annualised quarterly growth rate fell to a two-year low of 5.7% and the annual growth rate hit a 13-month low of 7.8%. Late 2025 saw an upturn in Chinese broad money growth, but this seems to have fizzled out. Monetary policy – in terms of interest rates – has not changed for over a year now, although the authorities have recently urged commercial banks to lower the cost of new credit. "Total Social Financing", a Chinese term which includes credit expansion by non-banks as well as banks, was 20% lower in June 2026 than a year earlier. The rate of growth of new bank loans fell to its lowest level since at least 1998. Xie Guangqi, head of the People's Bank of China's monetary policy department, stated in June that slower, but higher-quality, credit growth was to be the new norm. Chinese GDP grew at an annualised rate of 4.3% in Q2 2026. Exports, which hit a record $412.39b. in June, made a significant positive contribution, whereas domestic demand was weak. The figures for Q2 2026 are the weakest since Q4 2022 and an indication of the sluggishness of domestic demand. The housing market continues to suffer from falling prices. An important point is that lower property prices undermine the value of collateral for bank loans. An increase in factory gate prices of 4.0% in the year to June, thanks to the Iran war, suggests that China's recent run of benign inflation figures may soon come to an end. Of more concern is China's fiscal situation. According to definitions favoured by Fitch Ratings, the overall budget deficit was 8.8% of GDP in 2025, after 6.5% in 2024. The 2026 figure is expected to be lower. *(Note by John Petley)*

Eurozone

	% annual/annualised growth rate:	
	M3	Nominal GDP
1996 – 2025	**5.1**	**3.5**
Ten years to 2025	**4.6**	**4.1**
Year to May 2026	**3.2**	**n/a**
Three months to May 2026 at annualised rate	**4.3**	**n/a**

Sources: European Central Bank for M3 and Eurostat for GDP

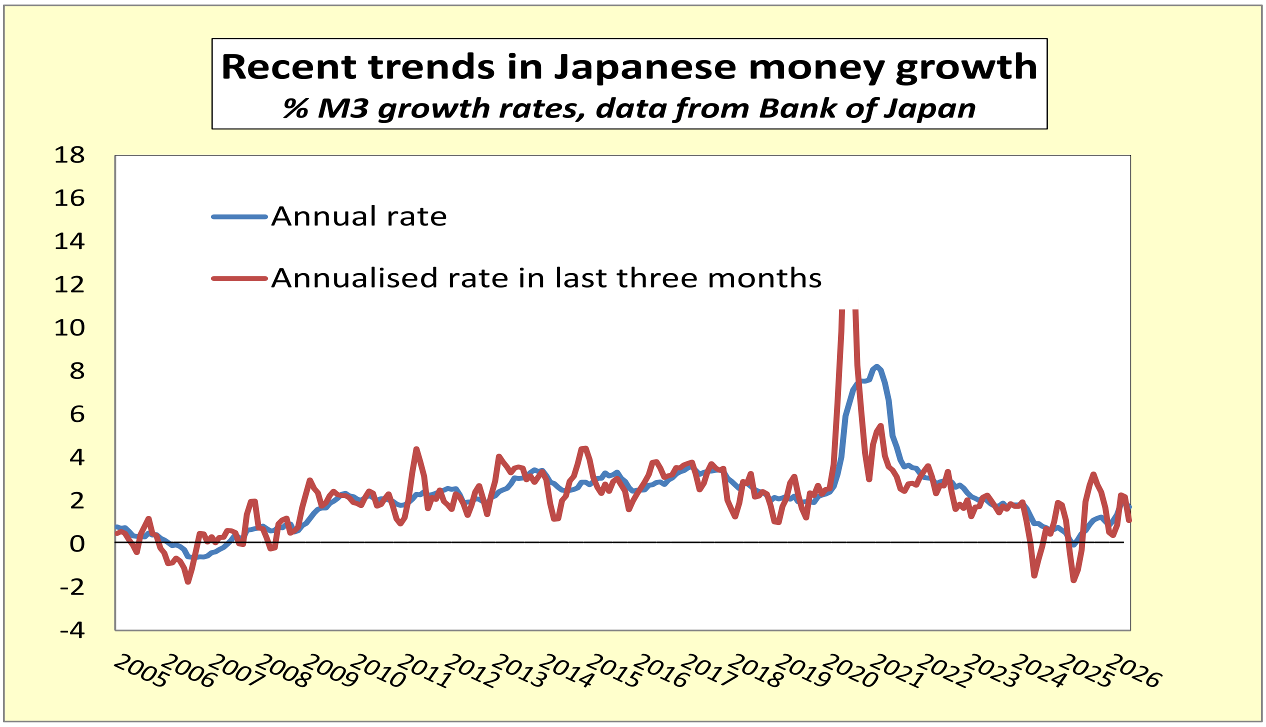


After declining by €20b. in April, Eurozone M3 bounced back in May, increasing by €117b.. The annualised quarterly growth rate of Eurozone M3 went up to 4.3%, from 2.1% in April. The annual growth rate also rose from 2.7% to 3.2%. Demand for domestic credit is positive, but hardly booming. In the year to Maythe stock of bank credit to businesses rose to 4.0%, the highest reading so far this year. The stock of mortgage lending has been growing steadily at around 3% per year for more than six months now. The annual inflation rate rose to 3.2% in May due to the spike in energy prices triggered by the conflict in Iran. It fell back to 2.8% in June in the aftermath of the European Central Bank's decision to raise its three policy rates by 25 basis points, the first rate rise in three years. Given that changes in the quantity of money are the prime determinant of inflation over the medium term, the weakness of M3 growth since 2023 suggests that inflation is likely to drop back to around 2% once the conflict is over. Further increases in the cost of borrowing do not look likely at this stage. Eurozone GDP barely grew at all in Q1 2026. The money numbers remain sufficiently positive to suggest that, overall, demand and output will increase moderately during 2026. The three major Eurozone economies – France, Germany and Italy – are currently among the weaker performers in the bloc. (*Note by 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 June 2026	**1.7**	**n/a**
Three months to June 2026 at annualised rate	**1.1**	**n/a**

Sources: Bank of Japan for M3 and IMF for GDP

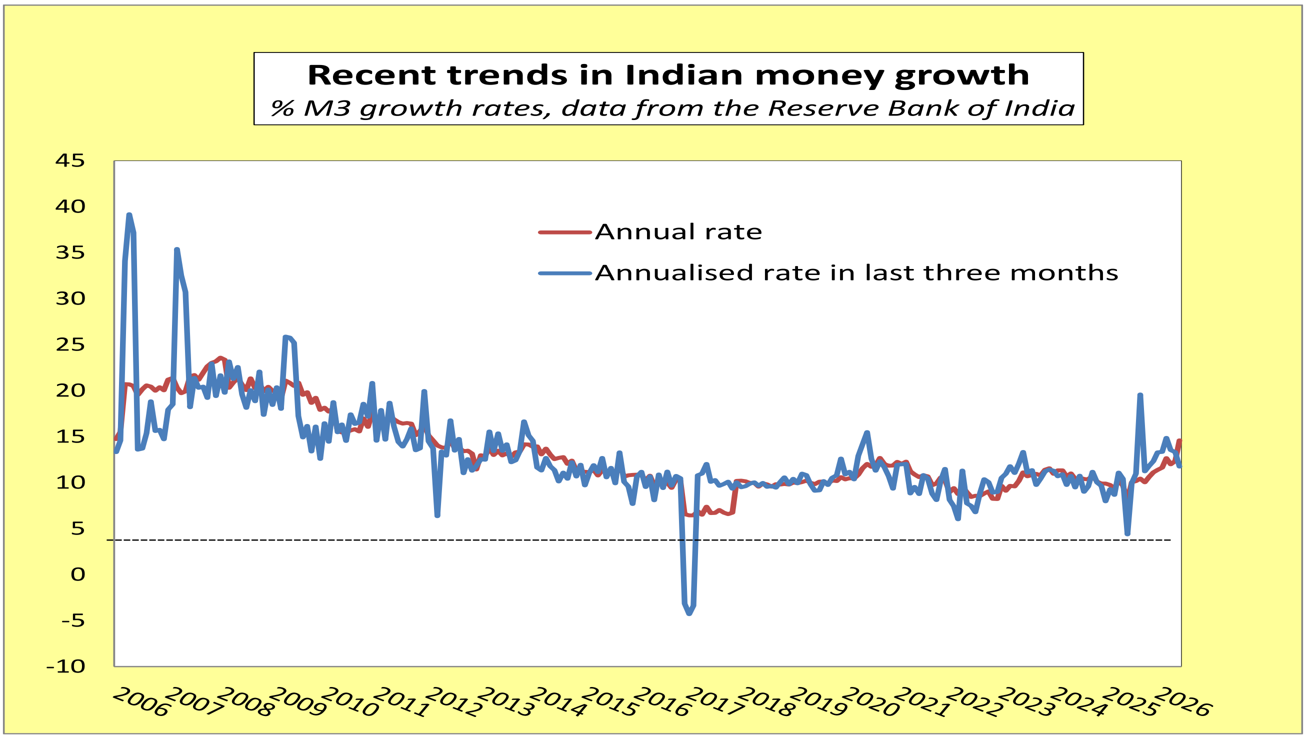


In June M3 broad money declined by 0.1%, causing the annualised quarterly growth rate to fall from 2.2% to 1.1%. The annual growth rate also dipped from its two-year high of 1.9% to 1.7%. Despite the weakness of the yen, domestic inflationary pressures in Japan remain feeble. This demonstrates the importance of very low money growth in restraining price increases. Inflation has dropped below the Bank of Japan's 2% target this year, despite *both* the increase in energy costs resulting from the Iran conflict *and* the weakness of the yen. Indeed, in mid-July, Japan's currency was trading at a four-decade low against the US dollar. The yen's retreat has continued despite almost 12 trillion yen (over $70b.) being spent by the Bank of Japan in foreign exchange intervention during April and May. Satsuki Katayama, Japan's Finance Minister, indicated on 23rd June that further interventions may be considered if the yen continues to slide. The Bank of Japan raised the cost of borrowing to a 31-year high of 1% on 16th June. Japanese businesses have not been deterred by increased borrowing costs. The stock of new bank loans increased by 5.7% year-on-year in June, unchanged on May's reading which was the fastest rate of growth in five years. The BoJ has stated that it intends to tighten monetary policy further. The money numbers suggest that Japanese inflation is likely to remain low to moderate, while output is likely to grow at a rate similar to its modest expansion in the 2010s. The big difference between now and then is the huge fiscal stimulus plans of Prime Minister Sanae Takaichi, which have highlighted 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 June 2026	14.6	n/a
Three months to June 2026 at annualised rate	11.7	n/a

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

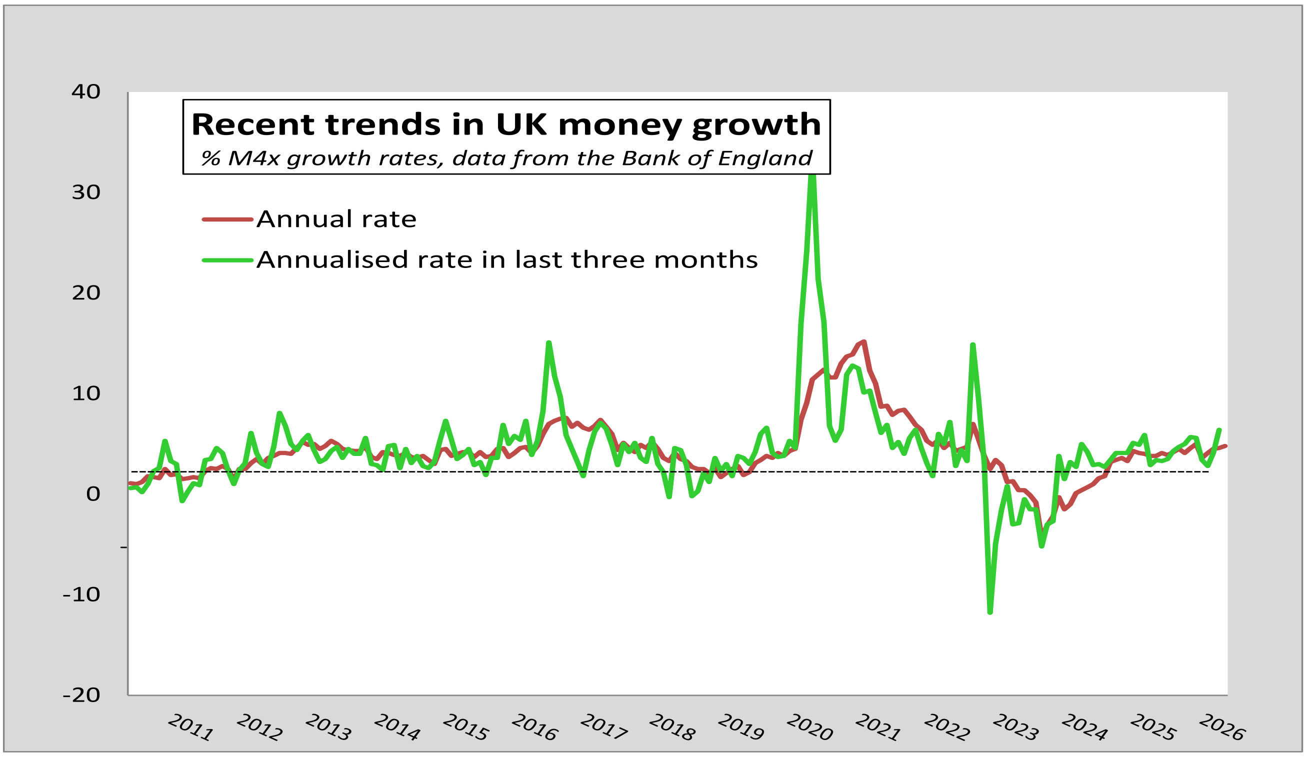


The pace of growth of Indian M3 has slowed slightly since March, but remains strong and much in line with the numbers seen in 2023 and 2024. The annualised quarterly growth rate declined in June from 13.3% to an eight-month low of 11.7%. By contrast, the annual growth rate rose to a post-pandemic high of 14.6%, although June's number was inflated by broad money recording a rare decline in June 2025. At the end of June, the stock of bank credit to the private sector was over 18% higher than a year earlier, with the pace of growth still seemingly upwards. The Reserve Bank of India (the central bank) eased monetary policy in late 2025, helping India's businesses and investors take advantage of lower borrowing costs. The buoyancy of bank credit reflects, above all, the dynamism of the economy and the wide range of high-return investments available. In addition, the performance of India's banks has improved, with far fewer non-performing loans on their books. Inflation rose to an 18-month high of 4.4% in the year to June. This is still comfortably within the RBI's tolerance limits. All the same, it marks the eighth consecutive month when the inflation rate has gone up. The RBI is unlikely to favour further rate cuts. With credit growth at recent rates, monetary policy ought to be tightened. Indeed, the strength of recent broad money growth must ultimately lead to excess demand and rising inflation. The rupee, which reached a record low against the US$ in early May, has since strengthened slightly in recent weeks. But still remains weak and may fall further. (*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 May 2026	**4.8**	**n/a**
Three months to May 2026 at annualised rate	**6.0**	**n/a**

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



UK broad money grew at an annualised rate of 6.0% in the three months to May 2026. This was a decline on April's 6.4%, but was still high by recent standards. The annual rate rose to 4.8%, the highest number so far this year. The main reason for the upturn in money growth is that late 2025 and early 2026 saw a burst of bank credit to companies and financial institutions, which was the consequence of some easing of bank regulations. In the year to April bank lending *to companies* climbed by 9.5% and *to non-intermediate, non-bank financial institutions* by no less than 17.2%. The credit mini-boom seems to have paused in May. By contrast, lending to *households* – which is mostly for house purchase – was barely affected by the change in regulations. Money growth has been held back by so-called "quantitative tightening", i.e., by sales of government debt outside the banks in excess of the budget deficit. The effect of the public sector's financial transactions in the year to May was to reduce M4x broad money by £24.7b. Most Bank of England officials and members of the Monetary Policy Committee do not believe in a monetary theory of inflation, and the absence of comment on the credit mini-boom and the (admittedly small) recent increase in money growth does not give confidence that money growth will return to the 2% - 5% annual band needed to deliver 2% target inflation. *(Note by Tim Congdon)*