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Money growth update, August 2026

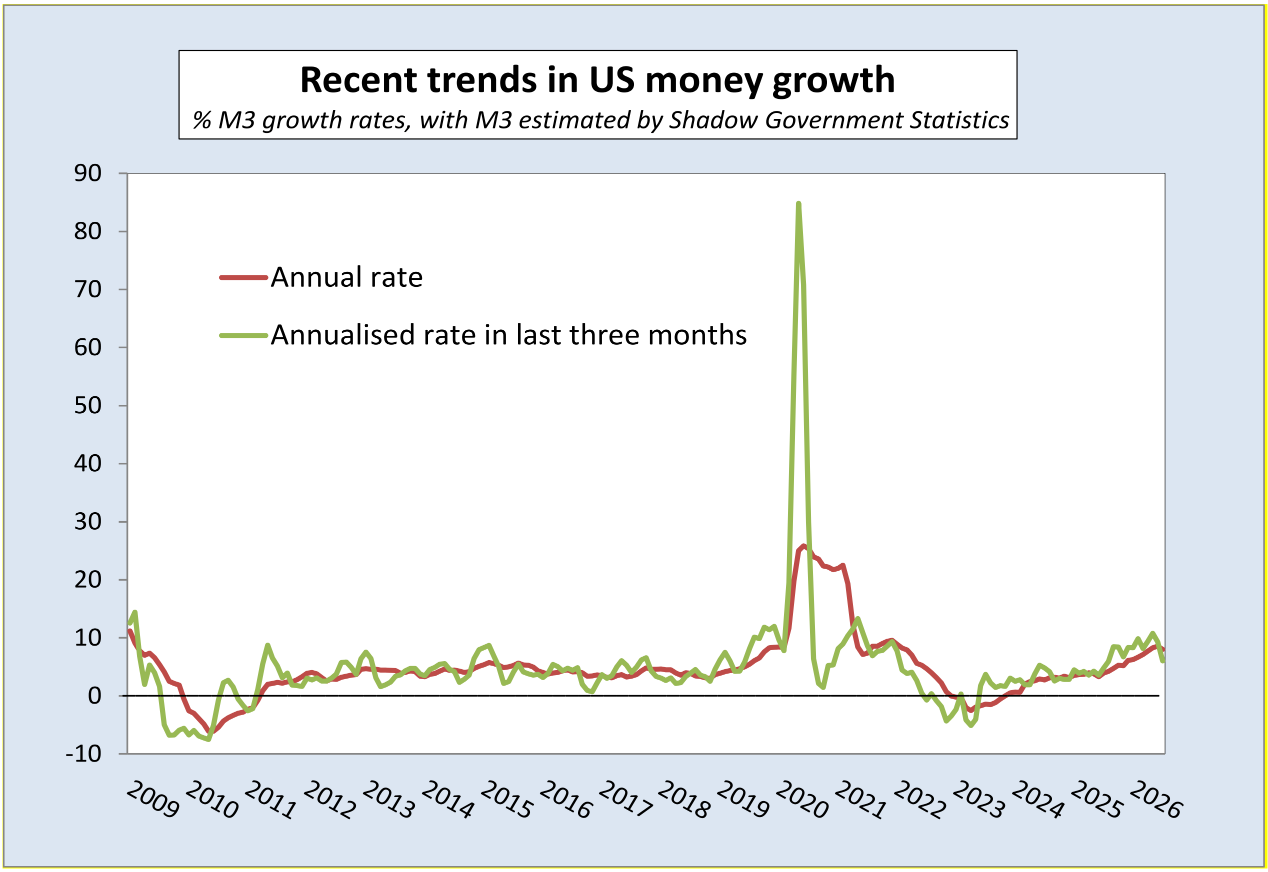
Money growth has slowed in the USA in the last three months, despite the unusually high Federal deficits in June and July. The data have to be watched to see if this is a new trend. Money growth has also slowed in China since March. By contrast, the Indian banking system continues to grow at annual rates in the mid-teens % on the back of booming credit and vigorous supply-side dynamism. We have argued in recent commentary that - with these three economies accounting for roughly 40% - 50% of world output - *the world economy would have been heading for above-trend growth in 2026 before the shock of the Iran hostilities.* This view may have to be rethought. The persistence of the Gulf hostilities – and the intensification of the Russia-Ukraine conflict – make conjectures about the world economy in late 2026 and 2027 hazardous. Broad money in the Eurozone is growing at a modest level whereas in the UK it is somewhat on the high side relative to the 2% inflation target. The giant so-called "fiscal stimulus" in Japan has not led to an upturn in money growth. Massive foreign exchange intervention to support the yen has offset buoyant bank credit. (*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	6.0	8.0	Money growth acceleration of 2026 paused in June and July, despite large Federal deficits in these months. The pause may be temporary.
China	19.9	17.6	6.9	7.8	Money growth falling back in recent months. Modest inflation. Property market struggling, but China's industrial strength remains impressive.
Eurozone	11.0	14.6	3.8	3.3	Money growth weak, despite well-capitalised banks. Inflation above target, but affected by Iran war. Steady output growth at low trend rate.
Japan	3.3	3.5	0.3	1.5	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	14.3	13.3	Bank credit to private sector dynamic, amid boom. Inflation rising, rupee sliding on foreign exchanges. Policy too loose to control inflation.
UK	2.1	3.2	4.9	5.0	M4x growth on high-ish side, barely 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 July 2026	**8.0**	**n.a**
Three months to August 2026 at annualised rate	**6.0**	**n.a.**

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



Money growth in the USA has slowed in the last few months. In the three months to 12th August deposits at US commercial banks increased by just under 1.4%, i.e., at an annualised rate of 5.6%. By contrast, in the preceding three months (to 13th May), they went up by 2.5%, i.e., at an annualised rate of slightly less than 10.4%. Two reasons for the slowdown are an apparent weakening in the pace of banks' credit extension to the private sector and some reduction in banks' cash assets. (The reduction in cash assets is probably due to the Fed's sales of securities from its assets pile.) The slower growth of banks' deposits – which are most of broad money – has not been offset by an upturn in the growth of money market mutual funds. According to the weekly release from the Investment Companies Institute, the assets of these funds were $7,928.5b. at 19th August, compared with $7,900.1b. on 24th June, eight weeks earlier. The implied annualised rate of increase is very low, at only 2.4%. The pause in broad money growth may be a temporary blip, but the new Fed chair, Kevin Warsh, has indicated that he wants monetary policy to be increasingly about money quantities. (*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 July 2026	**7.8**	**n/a**
Three months to July 2026 at annualised rate	**6.9**	**n/a**

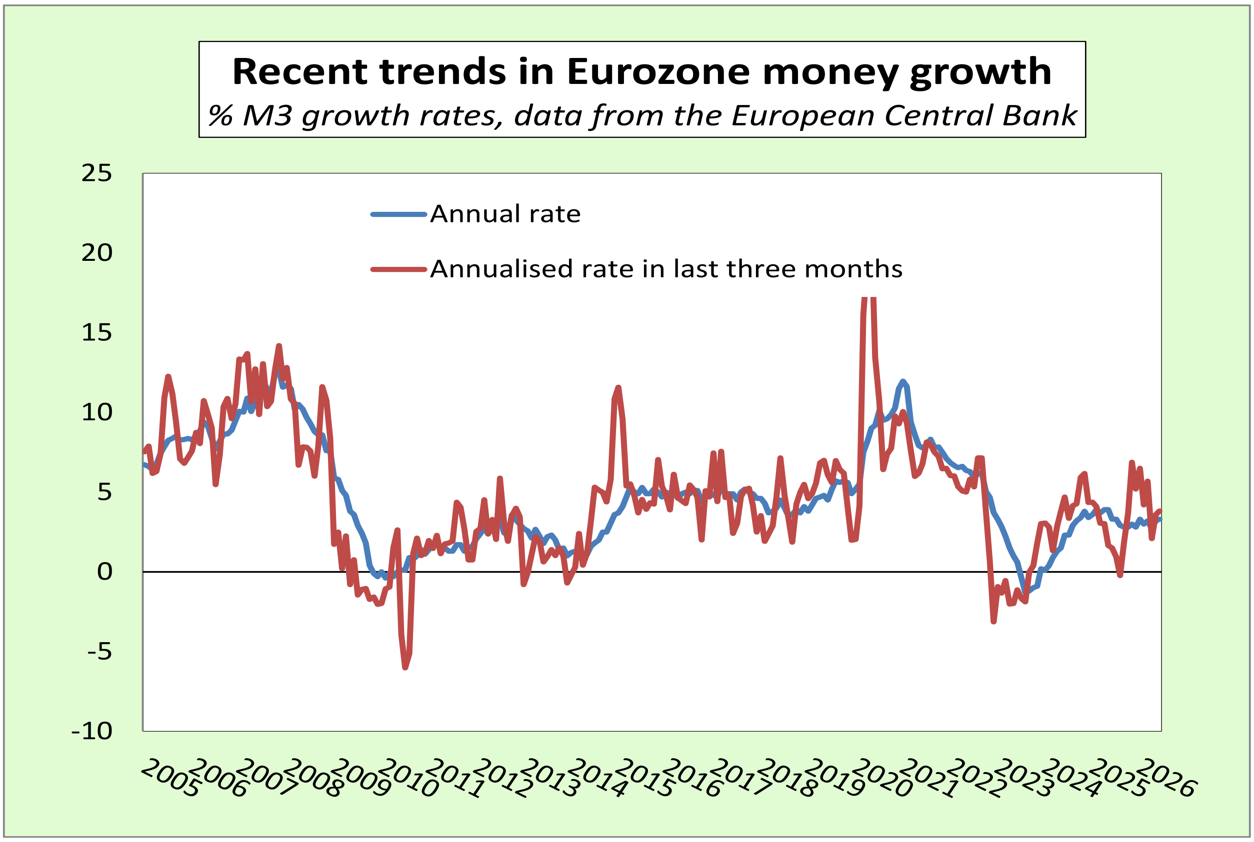
Sources: People's Bank of China for M2 and IMF for GDP

Chinese broad money growth continues to be feeble. In July the annualised quarterly growth rate fell to a 17-month low of 6.9%, while the annual growth rate hit a 15-month low of 7.8%. Late 2025 saw an upturn in Chinese broad money growth, but this seems to have fizzled out. The rate of growth of new bank loans continues its downward trend, with July's reading of 5.1% being the weakest since at least 1998. However, Chinese banks have been acquiring new claims on the state and the provinces, which have been running deficits. Officialdom does not seem worried. In June Xie Guangqi, head of the People's Bank of China's monetary policy department, stated that slower, but higher-quality, credit growth was to be the new norm. 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. Concerns remain focused on the housing market, and property more generally, because of the interaction between real estate prices on the one hand, and loan collateral and bank solvency on the other. House prices fell for a 37th consecutive month in July. Inflation remains subdued, although a rise in factory gate prices of 3.5% in the year to July hints that the recent run of benign inflation figures may be coming to an end. Exports from China were 23.9% higher in July compared with a year earlier. With domestic demand remaining weak, these exports are making a significant contribution to Chinese GDP, which grew at an annualised rate of 4.3% in Q2 2026. *(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 June 2026	**3.3**	**n/a**
Three months to June 2026 at annualised rate	**3.8**	**n/a**

Sources: European Central Bank for M3 and Eurostat for GDP

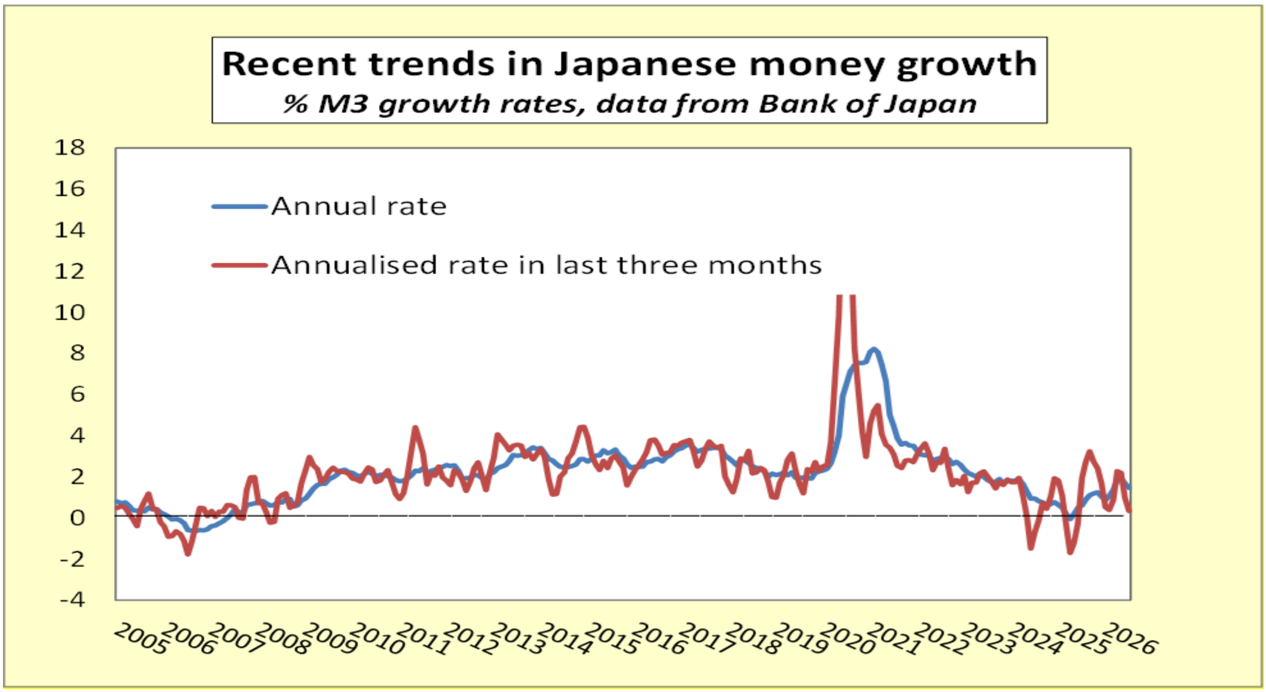


Two relatively strong months of broad money growth have lifted the annualised quarterly growth rate from 2.1% in April to 3.8% in June. The annual growth rate also rose from 2.7% to 3.3% in the same period. Banks are expanding their claims on the private sector, although not rapidly. In the year to June the stock of bank credit to businesses increased by 4.0%, unchanged on May's reading. The stock of mortgage lending has grown at an annual rate of around 3% for at least eight months now. The annual inflation rate ticked up to 2.9% in July due to a renewed spike in energy prices triggered by the conflict in Iran. The European Central Bank decided to raise its three policy rates by 25 basis points in June, concerned that inflation was consistently above its 2% target. 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 grew by 0.4% in Q2 2026, an improvement on Q1 when it barely grew at all. The three major Eurozone economies – France, Germany and Italy – only grew by 0.2%. The money numbers remain sufficiently positive to suggest that, overall, demand and output will increase moderately during 2026. (*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 July 2026	**1.5**	**n/a**
Three months to July 2026 at annualised rate	**0.3**	**n/a**

Sources: Bank of Japan for M3 and IMF for GDP

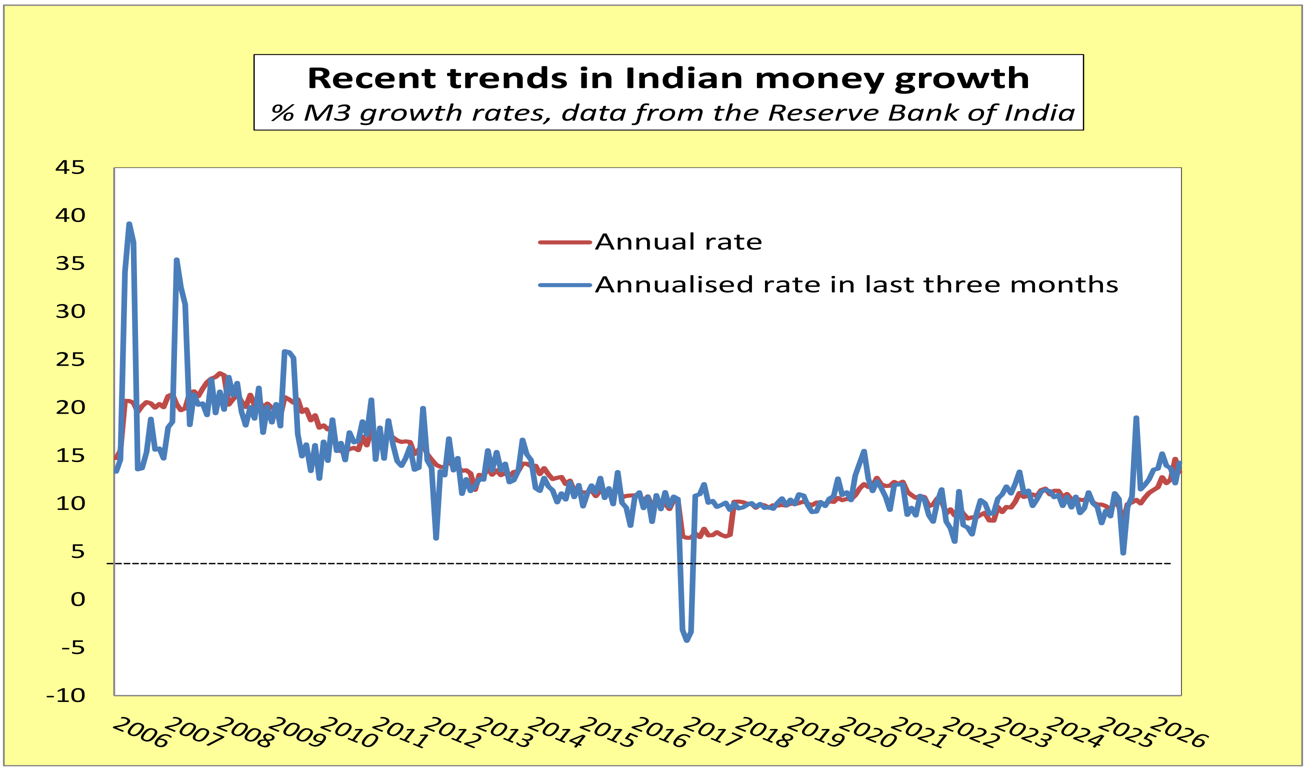


Following June's 0.1% decline in Japanese M3, July recorded only weak broad money growth, resulting in the annualised quarterly growth rate to falling from 1.0% to a 12-month low of 0.3% . The annual growth rate also fell back from 1.7% to 1.5%. Very low money growth still restrains price increases. Inflation has remained below the Bank of Japan's 2% target in 2026 so far, despite *both* the increase in energy costs resulting from the Iran conflict *and* a very weak yen. In mid-July Japan's currency was trading at a four-decade low against the US dollar. Despite co-ordinated intervention amounting to over $95b. in July alone by the Bank of Japan and the US Treasury to support the yen, it remains very weak by historic standards. (Note that Japan's foreign exchange reserves fell from April to July by almost $170b.) The BoJ raised the cost of borrowing to 1% on 16th June in an additional attempt to stabilise the yen. Although borrowing costs are at a 31-year high, Japanese businesses have not been deterred. The stock of new bank loans increased by 5.4% year-on-year in July, a slight slowing compared with June's reading of 5.7%, but very strong by recent Japanese standards. The weakness in broad money growth reflects the decline in Japan's foreign currency reserves, as the BoJ tries to shore up the yen. The money numbers suggest that Japanese inflation is likely to remain low to moderate, with output 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 so-called "stimulus" plans of Prime Minister Sanae Takaichi. This has boosted domestic credit expansion, but will result in a worsening of Japan's already very high debt to GDP ratio and intensify concerns about Japan's fiscal sustainability. (*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 July 2026	**13.3**	**n/a**
Three months to July 2026 at annualised rate	**14.3**	**n/a**

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

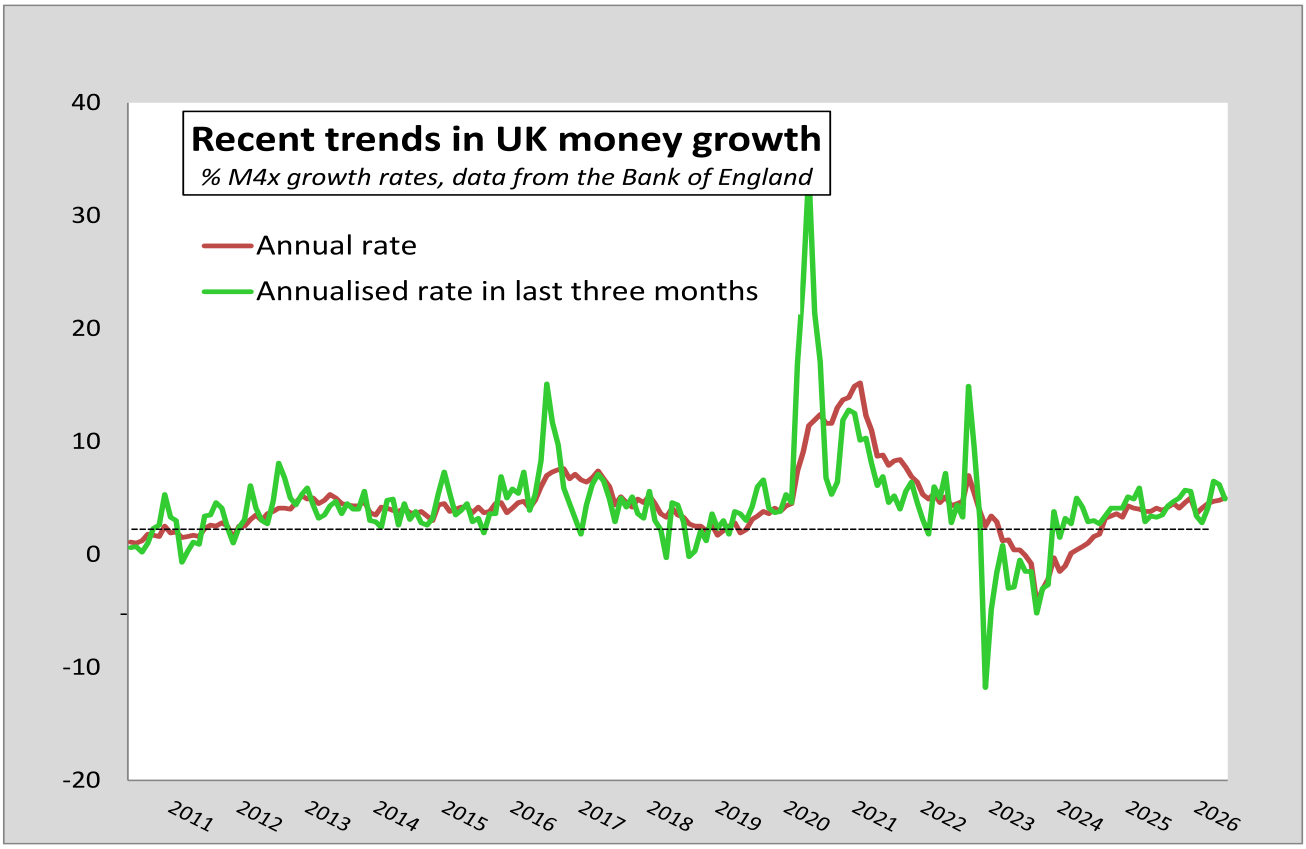


Indian M3 continues to grow strongly, at double-digit annual rates somewhat above those in recent years. The annualised quarterly growth rate rose from a seven-month low of 12.1% in June to 14.3% in July. At the end of July the stock of bank credit to the private sector was – egregiously – over 19% higher than a year earlier. The pace of growth is still seemingly upwards and may soon surpass December 2023's recent local peak of 20.3%. India's banks have improved significantly in the last decade. Bank failures have been fewer and the level of non-performing loans has declined substantially. With the Reserve Bank of India (the central bank) easing monetary policy in late 2025, India's businesses and investors were keen to take advantage of lower borrowing costs. India's economy grew by 1.9%, or at an annualised rate of 7.9%, in Q1 2026, a reflection of the economy's underlying dynamism. But the speed of monetary expansion is excessive relative to the sustainable growth rates of demand and output. Rupee depreciation on the foreign exchanges and rising inflation are related, and both can be interpreted as due to excessive growth of credit and money. The annual rate of consumer inflation rose to a 19-month high of 4.5% in July. This is still comfortably within the RBI's tolerance limits, but suggests that the next move in interest rates is likely to be upwards. The rupee has lost 10% of its international value in the last year. (*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 June 2026	5.0	n/a
Three months to June 2026 at annualised rate	4.9	n/a

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



UK broad money grew at an annualised rate of 4.9% in the second quarter of 2026., somewhat down on May's reading of 6.2%. The annual rate rose to a six-month high of 5.0%. The main reason for the upturn in money growth is that late 2025 and early 2026 saw a burst of bank credit to financial institutions, which was the consequence of some easing of bank regulations. In the year to June bank lending *to non-intermediate, non-bank financial institutions* increased by no less than 13.4%, in spite of a slowing in demand for new bank credit since May. By contrast, lending to *households* – which is mostly for house purchase – was barely affected by the change in regulations. Indeed, the housing market has slowed slightly since April. 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. In Q2, gilt sales amounting to just over £6b. took place, in line with the BoE's decision to reduce its stock of gilts by £70b. between October 2025 and September 2026. Even so, the rate of broad money growth in recent months raises some concerns as to whether inflation will fall back to its 2% target, even if the effects of the conflict in Iran do not affect energy prices for last much longer. *(Note by John Petley)*