

Minutes of the meeting of 14 October 2025 at the Institute of Economic Affairs (IEA) (hybrid meeting)

Attendance: Juan Castaneda (online), Tim Congdon, John Greenwood (online), Andrew Lilico (online), Kent Matthews (Secretary - online), Patrick Minford (online), Trevor Williams (Chair), Peter Warburton

Apologies: Philip Booth, Julian Jessop, Graeme Leach

Chairman's comments: Trevor Williams welcomed members to the last meeting of the year and said that he would be making the presentation today.

Monetary and Economic Backdrop

Global economic outlook proving resilient

Trevor Williams said that he will begin with an examination of the global money supply data, followed by an analysis of the economic outlook for GDP growth. He noted that global economic growth is proving resilient. He will then examine the prospects for the UK economy and finally provide his vote on monetary policy. He began with an examination of the global monetary indicators and trends for the USA, China, the Eurozone, India, and Japan. The data shows that monetary growth has held up in the USA in recent months. Bank credit rules have been eased, enabling the monetisation of the federal deficit. China's money supply growth remains low as the government stimulus packages appear unable to offset the weakness in the real economy. But China is still growing significantly faster than the USA or UK, or the eurozone. So this is all relative. Japan has been contracting in the past 12 months. The inflation rate remains above target. Broad money in India is growing at around 9.5%. Inflation is falling back, borrowing costs have been reduced, and so the economy is expected to be firing on all cylinders for the foreseeable future.

Money growth in India and China supporting domestic demand

To summarise the international monetary scene, India & China exhibit strong broad money growth supporting domestic demand, but risks inflation if supply bottlenecks persist. India's GST 2.0 reforms aim to ease cost pressures. With the USA, slower M3 growth aligns with the Fed's disinflationary goals. Inflation is expected to fall back to 2.7% before the end of the year, according to the Fed's recent meeting in September. In the Euro area, monetary growth is moderate at 3.4% and the ECB sees inflation stabilising at 2%.

Trevor Williams said that the implications for economic growth are that, for India, broad money expansion supports 6.5-7.8% GDP growth, supported by fiscal incentives and tax cuts at the low-income level to boost consumption. With China, M2 growth of nearly 9% reflects the liquidity support provided by the government, amid weak exports. But economic growth remains subdued by historical standards, although solid at 5% per year, which is their new norm. With the USA, the Fed projects about 1¼% GDP growth this year. Tight money and higher interest rates may dampen some of that, but the Fed is looking to lower rates and are under political pressure to do so. In the eurozone, the ECB expects growth of 1.2% compared with the IMF projection of 0.9% in the year. Growth in the euro area is not particularly good. Germany is stagnating, and France is barely growing at all. Southern Europe and Eastern Europe are doing better. This ties into the view that the ECB would implement further monetary loosening. Trevor Williams said that Europe cannot use fiscal tools as many countries are up against their borrowing limits according to their budgetary rules.

Pressure on ECB to ease monetary policy further.

On the implications for interest rates, Trevor Williams said that with India, policy rates are stable with no reason to ease further. Bank rates of 1.45% in China suggests that monetary policy is accommodative. In the USA, Fed funds rate suggests no aggressive cuts forthcoming and with the ECB, deposit rates are 2% and no change is expected soon. But Trevor Williams said that the pressure is on

for the ECB to ease further, and he therefore thought that they would do so given the fiscal restrictions in place.

Economic uncertainty rising but global economy is not in bad shape

Trevor Williams said that he wanted to turn to the global economic prospects for the world economy. He noted that economic uncertainty is rising, and it is the advanced economies that are impacted by this. Much of this comes from tariffs and geopolitical tensions that could still disrupt energy markets and supply chains. A more protectionist trading environment could hurt competition, raise prices, and impede growth and productivity. However, looking at the global economy, things are not bad. He said that despite the worry about tariffs and global tensions, the global economy is not bad. A global pickup is underway, which supports what the monetary data shows. Looking deeper into the data, he said that both manufacturing and services are up. Globally, a positive expansion is taking place. The global economy is seeing a broad-based recovery. He said that since April, the IMF has revised up its growth forecast for the world economy. The only advanced economy that is close to stagnation is Germany.

Effective (legislated) tariffs at 1930s levels.

The reason is that the economy is energy dependent on Russian oil, which it is trying to wean itself off, and is facing high energy costs. The developing economies are growing at two and a half times faster than the advanced economies, while the larger emerging economies continue to grow solidly. China is expected to grow at around the 5% mark. He said that the world economy is holding up remarkably well. The factors at play that create this outcome are that there are no trade barriers being erected between countries outside the US. He said that free trade agreements have been struck between many countries. Second, many countries impacted by US tariffs are not retaliating. He said that the tariffs are creating more trade openness outside the USA. Trade diversion is taking place.

China, in particular, has reduced its trade with the USA and increased its trade with other countries. Third, effective tariffs have been lower than had been feared. President Trump has backed off from some of the extremely high tariffs that had been planned, leading to a surge in merchandise trade in anticipation of tariffs. US effective tariffs, calculated from duty revenue as a share of imports, show that they have been lower than expected. However, effective tariffs based on legislation have risen to the levels of the 1930s. In addition, the expected negative economic impact of tariffs has not fully materialised, mainly due to the strategy of front-loading. Global growth increased from Q1 to Q2 due to the anticipation of tariff hikes.

Trade diversion, benefits China

Given that the anticipation effect has worn off, trade volumes are slowing. In the US, import price inflation is rising as duties rise as a share of imports. Industrial production is slowing except in China, where the trade diversion has benefited the economy. Retail sales globally have been slowing, but no recession looks apparent. One other factor that has made the USA more competitive is the depreciation in the dollar's effective exchange rate, which is down 5.3%. Trevor Williams said that while President Trump's trade policies have damaged the US dollar, it remains the dominant currency in world trade. Its free convertibility, deep financial markets, and the lack of a credible alternative continue to allow it to retain its dominance. He said that he would pause at this point before going on to discuss the UK economy, for questions or comments.

Peter Warburton said that it is essential when ~~to~~ considering the strength of the monetary stimulus to take ~~while also taking~~ into account the extent to which commercial banks are absorbing government debt. He said that since September 2023 there has been about \$4 trillion worth of additional bank purchases of covered debt in the G7 and China. In fact, China is doing about \$200 billion a month right now. He said that we may be suffering from a sense of complacency

that things are going well. He said that from his perspective, a lot of trouble is being stored up for further down the track.

Tim Congdon said that fiscal dominance and the extent to which the banking system is effectively driving money growth to finance government deficits are significant concerns. He said that the US will find it difficult to get inflation down to 2% and that the Fed is being too complacent.

Andrew Lilico said that he had a query about productivity growth in the USA, which has grown strongly recently. There has been some dispute as to whether this is driven by immigration restrictions or the benefits of AI. Trevor Williams said he thought both were happening. But the loss of cheap labour has led firms to use technology even more as a substitute.

UK Economic Environment

Consumer
and business
confidence
improving.

Focusing on the UK, Trevor Williams said that consumer confidence is holding up by being less negative than at the beginning of the year. Business confidence has improved and is no longer as negative as before, particularly in quarter 3. That contradicts concerns about anticipated tax rises and the notion that things are going horribly wrong in the UK. Bankruptcies are down from the highs of March to May, and the stock market is rising from its lows in Q1-Q2. Looking at the growth numbers, the Q2 figures show an annualised growth of about 1.4% and barring a shock, it is expected to persist, according to most forecasters. While there is a wide range in forecasters' predictions, none are predicting a negative growth rate. He said that the GFC and the Pandemic have had structural effects, and the official trend rate of annual economic growth for the UK is now around 1¼% pa.

The UK is a net borrower from overseas. He said that our net trade detracts from GDP growth because our imports exceed our exports. Furthermore, our domestic savings are insufficient to fund our investment needs, which means we run current account deficits financed by capital account surpluses. In short, the UK's current account deficit - its domestic investment gap - is funded by borrowing from overseas. Therefore, a weaker currency or higher bond yields are required to fund the government borrowing that is not being monetised. Trevor Williams said that this is a structural issue, and it does not matter which government is in charge; the challenge is that the UK is living beyond its means and borrowing from overseas to do so.

Not helping this situation is that energy costs in the UK are elevated. He said that the UK has the highest industrial energy costs compared with any other major economy in the IEA - International Energy Agency. The pricing system is also weird, with the highest gas price bidder determining the system price for electricity, which hurts production in energy-intensive industries. What is not so widely known is that it's done this way to ensure the taxes raised help fund the energy transition to net zero.

Turning to less systemic issues and more cyclical and short-term matters, the unemployment rate came out yesterday at 4.8%, lower than 3 months ago. Wage growth is robust, but it has decreased slightly to 4.7% 3m annualised from 4.8%. Job vacancies have fallen, and the tax on jobs placed by the incoming Labour government did not help. The labour market is cooling, but unemployment remains low. CPI inflation would slow if not for energy and food price inflation, and this is backed by weak broad money growth.

Matching long-term broad money growth to nominal GDP growth suggests that current UK money supply growth is consistent with modest real GDP growth. He said that the inflation target could still be met within a year, as some of the price increases from a year ago drop out of the annual comparison, without any change in the trend rate being necessary.

- to economic growth slowing as inflation remains high due to inflated energy costs and high food prices, which in turn keep interest rates high.
- But weak money supply growth and modest GDP still imply room for rate cuts. This potential for rate cuts aligns with the shrinkage of M4 due to QT. An offset is a lower Bank rate, which could further stimulate economic growth.

The MPC voted in September to pare QT to £70bn a year from £100bn. Juan Castaneda said that the August money supply figures have come out, and the figures indicate annualized M4X growth of 4.2%.

Trevor Williams said inflation has been sticky downward and that he has already discussed some of the reasons for that. With what he has presented as the backdrop for the UK economy, he concluded that the situation is not dire:

- Despite the challenges, the UK economy is proving to be more resilient than anticipated. That means a reduction in rate cut speculation.
- Yet the UK is vulnerable So, he votes for a ½% rate cut to bring the Bank rate down to 3.5%

Discussion and Vote

Andrew Lilico said that during 2025 it appears we have stumbled into a Monetarist or monetary aggregate targeting paradise, where the rate of growth of money throughout the year has been about 4%. But inflation has been persistent at just below 4%, so it means that inflation has been largely the result of supply-side factors rather than monetary factors. He asked what the right monetary policy should be when faced with persistent negative supply shocks of the sort we have recently experienced. Particularly as we have examples of increased productivity growth internationally. He said that perhaps the UK should be catching up or at least repeat some of those processes. He said he was interested in what people thought should be monetary policy when money supply growth is low and steady and inflation remains high.

Inflation
persistence in
supply shocks
raises potential
reputational
problem for Bank

Patrick Minford said that the problem is that there is quite a lot of persistence of these factors. Looking at UK inflation, it is persistently above target, and the big worry is that we don't really understand why there is this persistence. In these circumstances the Bank must be cognizant of potential damage to its reputation. There is a lot of concern that the Bank has treated inflation shocks as transitory supply shocks when they have turned out to be highly persistent.

Trevor Williams said that his presentation did point to some structural reasons such as inflated energy costs and food price inflation as to why UK inflation has been persistently high. Andrew Lilico asked why this is not a levels effect rather than an inflation effect. Patrick Minford said that he is thinking of a framework where even in a stable monetary growth environment, persistent negative supply shocks feed into inflation expectations if there is no interest rate response from the Bank. The energy shock is a level shock, but it has persistent effects on people's reactions.

John Greenwood made the comment that he did not think that Trevor Williams's suggestion that money growth of 7.3 or 7.6% in China was ample was correct. He said that it is very low, and he said that by his calculations Chinese money growth needed to be 10%. He said that if the economy grows at 5%, and there is a 3% inflation target, you need to add another 2-2½% for velocity. A broad money growth of about 7% is very tight and it explains why China has deflation. Money needs to accelerate. In 2023-2024, money growth came down from 12.8% to 6%

and has now edged back up to 8.8% year-on-year. So, it certainly hasn't been excessive. He also commented that the difference between the mandated tariff rates and the effective rates shown in the charts is largely due to exemptions. So, these tariffs have not been imposed across the board.

Votes are recorded in the order made

Comment by Tim Congdon

(Institute of International Monetary Research, University of Buckingham)

Vote: To hold Base rate. QT to be maintained at current pace

Bias: No Bias.

Tim Congdon said that fiscal dominance, rising public debt, rising debt interest and the risk of runaway public debt has been the worst since the 1980s. He said that he was not in favour of cutting interest rates in this environment and not in favour of any further paring back of QT even though money growth in the UK is relatively modest and manageable. He said that he was concerned about the USA. What is happening to AI and cryptocurrencies is too bizarre. He said he was sceptical about AI having any productivity benefits.

Comment by Juan Castaneda

(Vinson Centre, University of Buckingham)

Vote: To hold Base Rate. Halt QT.

Bias: No bias.

Juan Castaneda said that broad monetary growth as measured by M4x is 4.2% per annum (August 2025 data). Monetary growth is still quite unstable (and modest), and a trend is not clear yet. Despite the spike in CPI inflation in recent months, if the rate of growth in the amount of money (M4x) stays around 4% on a yearly basis, this is compatible with the Bank of England achieving the 2% inflation target over the next 1-2 years, with below (or at best) trend growth.

Comment by Patrick Minford

(Cardiff Business School, Cardiff University)

Vote: To HOLD Base Rate. Maintain the pace of QT.

Bias: interest rates to fall further longer term.

Patrick Minford said that the biggest problem for the Bank is one of credibility. Having said that it is going to push inflation down to 2% and with inflation rising to 4% it has undermined expectations of future inflation quite badly. He said that he takes the point that money supply growth is quite low and therefore the inflation trend is downwards, but to cut rates now would be damaging to the Bank's credibility. By not reacting to an inflation rate that is so high above its target, the Bank risks damaging the credibility of their Taylor Rule.

Comment by John Greenwood

(International Monetary Monitor)

Vote: HOLD Base Rate. Maintain the pace of QT.

Bias: No bias.

John Greenwood said he was very much in agreement with Patrick Minford. Money growth has been stable, but it has not been stable for very long. It has

been stable for about a year. Prior to that money growth was low, and before that money growth was negative, and prior to that we had grossly excessive money growth. It is hard to tell, but some of the current inflation is due to the overhang of vastly excess money that we had during Covid, which is still working through the system. This is seen in the strong growth in wages, over the inflation rate. He said that he would not be in favour of cutting rates to accelerate money or to raising rates to decelerate money. QT at £70bn a year is well below the annual increase in the stock of money which is close to £3trillion. So, QT is not going to create much of a monetary disturbance. He said that had no bias and would decide if money growth accelerates then there is a case for raising Base rate, but this is unlikely. If money decelerates then there is a case for cutting rates.

Comment by Andrew Lilico

(Europe Economics)

Vote: HOLD Base rate.

Bias: no bias

Andrew Lilico said that he was in favour of keeping Base rate at where it is and for QT to carry on at the current pace. He said that we are going through a period of monetary stability which is by no means unwelcome, after the period of considerable monetary volatility of the previous few years. Since we have stumbled into a period of monetary stability it would be best to try and maintain it for now. Inflation is clearly above the target, and it is largely supply-side factors causing that. He said that he did not buy the idea that embedded expectations lead to significant problems for inflation. He said that it could have problems for unemployment. He said that we are already doing things that is likely to bring inflation down. We should stick with it and be patient.

Comment by Peter Warburton

(Economic Perspectives Ltd)

Vote: To HOLD Base rate. No bias on QT. Keep it at the current pace.

Bias: No bias.

Peter Warburton said that the worsening fiscal situation is providing the fuel for monetary acceleration and inflation validation. Against that we are looking at further fiscal tightening in the budget next month. He said that it would be foolish to adjust monetary policy at this stage. Fiscal tightening will take the economy into recession next year. He said that he did not think the economy was on a stable course for growth. Recession will help to take the edge off inflation during 2026. He said that he did not think there is a case to protect us from the recession. It is probably what needs to happen. He said that he had no bias on QT. It is acting only modestly on outcomes.

Comment by Kent Matthews

(Cardiff Business School, Cardiff University)

Vote: To HOLD Base rate. To pause QT.

Bias: No bias.

Kent Matthews said that it was not so long ago, the committee was told that inflation would come crashing down because of negative broad money growth and that we were to expect a recession. The message he is receiving from the presentation today is that the economy is resilient and doing ok. There doesn't appear to be a huge amount of capacity in the economy. He said that he takes the point made by Patrick Minford that lowering Base rate now would damage the Bank's credibility and persistence effects have kept inflation high. Whether it is one large supply shock or a continuum of small supply shocks that have hit the

economy, the cumulative effects from a long memory series is a persistence effect that we don't really understand. As to whether it damages inflation expectations, we can surmise that if $1\frac{1}{4}\%$ is the new capacity growth rate then an equilibrium real interest rate of $1\frac{1}{2}\%$ is not unreasonable to meet the government debt solvency condition. Given that 5-year gilt yields are about 4%, the medium term implied inflation expectation is a little above the 2% target, which is worrying. He said for this reason he votes for a hold to Base rate. He said that he has no strong view on QT and would prefer to hold everything including pausing QT to see what happens. On the question of the benefits of AI to productivity, he said that he was reminded of the quip attributed to Bob Solow that, 'we see the computer age everywhere except in the productivity figures'. The same could be said about AI and therefore we can expect a low growth, low productivity growth period for some time to come.

Comment by Trevor Williams

(TW consultancy, ATFX Connect, University of Derby)

(Vote: Cut Base rate by 50 bps)

Bias: No bias at 3.5%, continue QT

Trevor Williams voted for a 50bps cut to bring Base rate down to 3.5%. He said that weak money supply growth and modest GDP growth leaves room for an interest rate cut without damaging the downward trend in consumer price inflation. He voted to maintain QT at the current pace.

Comment by Graeme Leach (in absentia)

(Macronomics)

Vote: To cut Base Rate by 25bps. Stop QT

Bias: No bias.

Graeme Leach said that in justification, despite headline inflation remaining at 3.8% (yr-on-yr) in September and being almost double the target rate, there is a case for easing based on; (1) Headline unemployment rising slightly to 4.8% in the three months to August, with wage growth down slightly at 4.7% in the latest quarter. (2) Annualised growth of M4X money supply at just 3.4% in the latest three-month period. The broad money supply figures suggest that above target inflation will gradually disappear. In addition, it appears that the labour market is slackening not tightening. However, with headline inflation almost double the target rate, any more than a 25bps reduction in rates risks unnerving financial markets.

Any other business

There was no other business, and the Chairman called the meeting to a close.

Policy response

1. There was a majority agreement that Base rate should remain at 4%.
2. One member voted for an immediate cut to Base rate by 50 bps to 3.5%. And another for $\frac{1}{4}\%$.
3. A majority voted to maintain QT at the current pace
4. A majority expressed no bias to further cuts in Base rate

Date of next meeting

13 January 2026

Note to Editors.

What is the SMPC?

The Shadow Monetary Policy Committee (SMPC) is a group of independent economists drawn from academia, the City and elsewhere, which meets physically for two hours once a quarter at the Institute for Economic Affairs (IEA) in Westminster, to discuss the state of the international and British economies, monitor the Bank of England's interest rate decisions, and to make rate recommendations of its own. The inaugural meeting of the SMPC was held in July 1997, and the Committee has met regularly since then. The present note summarises the results of the latest quarterly meeting held by the SMPC.

Current SMPC membership

The Secretary of the SMPC is Kent Matthews of Cardiff Business School, Cardiff University, and its Rotating Chairman is Andrew Lilico (Europe Economics) and Trevor Williams (TW Consultancy, University of Derby). Other members of the Committee include: Philip Booth (St Mary's University, Twickenham), Roger Bootle (Capital Economics Ltd), Tim Congdon (Institute of International Monetary Research), Jamie Dannhauser (Ruffer LLP), John Greenwood (International Monetary Monitor), Julian Jessop (Independent Economist), Graeme Leach (Macronomics), Patrick Minford (Cardiff Business School, Cardiff University), Peter Warburton (Economic Perspectives Ltd), Juan Castaneda (Vinson Centre, University of Buckingham).