

Do Banks Really Create Money?

According to Bank of England figures, just 3% of money in the economy nowadays is the paper money create by the Bank of England themselves. The other 97% is digital money created by commercial (high-street) banks, out of nothing, and held in their computer systems. Commercial banks create money through the accounting process they use when they make loans - when you borrow from a bank, the numbers are typed into your account, but are not removed from anybody else's account, effectively duplicating the money, or creating brand new money out of nothing.

Martin Wolf, chief economics editor of the Financial Times and a member of the government's Independent Commission on Banking, describes it like this:

"The essence of the contemporary monetary system is **creation of money, out of nothing, by private banks**' often foolish lending..." [Martin Wolf, Financial Times, 9th November 2010](#)

Here's further confirmation from a Bank of England paper. Note that the term 'bank deposits' refers to the numbers in your bank account.

"When banks make loans, they create additional [bank] deposits for those that have borrowed the money" - Bank of England [2007 Q3 Quarterly Bulletin](#), p 377

Paul Tucker, Deputy Governor of the Bank of England and Member of the Monetary Policy Committee describes the process:

"...banks extend credit [i.e. make loans] **by simply increasing the borrowing customer's current account...**That is, **banks extend credit [i.e. make loans] by creating money.**" - Paul Tucker, Deputy Governor of the Bank of England, [Speech on 13th December 2007](#), p9.

Or this, also from the Bank of England:

"The **money-creating sector** in the United Kingdom consists of resident **banks** (including the Bank of England) **and building societies**" - Bank of England [Quarterly Bulletin 2007 Q3](#), p405

There's more:

"... changes in the money stock [i.e. the total amount of money in the economy] primarily reflect developments in bank lending as new deposits are created." - Bank of England [Quarterly Bulletin 2007 Q3](#), p378

It is stated more bluntly below in a letter written by the Bank of England to a correspondent of ours. He asked them:

"When a commercial bank makes a loan to a borrower, does the commercial bank in effect create new money? In other words, when a bank makes a loan to a borrower, is that 'money' just created out of thin air?"

To which they replied:

"When banks make loans, commercial banks do indeed create much of the money in the economy." See the original letter [here](#).