

Money creation in the modern economy

Quarterly Bulletin 2014 Q1

Published on 14 March 2014

By Michael McLeay, Amar Radia and Ryland Thomas of the Bank's Monetary Analysis Directorate.

This article explains how the majority of money in the modern economy is created by commercial banks making loans. Money creation in practice differs from some popular misconceptions — banks do not act simply as intermediaries, lending out deposits that savers place with them, and nor do they 'multiply up' central bank money to create new loans and deposits. The amount of money created in the economy ultimately depends on the monetary policy of the central bank. In normal times, this is carried out by setting interest rates. The central bank can also affect the amount of money directly through purchasing assets or 'quantitative easing'.

Money creation in the modern economy

Money creation in the modern economy: Long-run data annex

©2024 Bank of England
