

Bundesbank corrects textbook mistakes on money creation, rejects 100%-money

In the April-edition of their monthly report, the Bundesbank has belatedly joined the [Bank of England](#) in explicitly stating that the treatment of banks and money creation in most textbooks is wrong: banks are not intermediaries; they create money ex-nihilo. This helps the Bundesbank to reject criticism that central banks are currently “printing” too much money. At the same time, the Bundesbank rejects the proposal of 100%-money, i.e. bank deposits fully backed by central bank money.

So far, the Bundesbank has only published an English summary of the article “[How money is created](#)”, originally [written in German](#) (and a [French summary](#)). Once the article is available in full translation, I will write a bit more about the (mostly faulty) arguments of the Bundesbank against 100%-money.

The most important sentences regarding money creation are already there in the summary, though:

The majority of the money supply is made up of book money, which is created through transactions between banks and domestic customers. Sight deposits are an example of book money: sight deposits are created when a bank grants a credit or purchases an asset and credits the corresponding amount to the customer's bank account in return. This means that banks can create book money just by making an accounting entry. This refutes a popular misconception that banks act simply as intermediaries at the time of lending – ie that banks can only grant credit using funds placed with them previously as deposits by other customers.

[9 May 17]