

## The money creation and regulation paradox

Published: January 13, 2026, 8:54 am

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I make no apology for returning to the stories of money creation that have rather dominated this blog for the last few days.

I reflected overnight on the posts by [Clive Parry](#) and [me](#) yesterday and why they present different views and realised that at its core, the conundrum can be simply summarised.

As [all central bankers agree](#), commercial banks always make loans using newly created money.

And then, as [Clive pointed out](#), banking regulation forces those banks to borrow to cover the loan that they have created as if the funds to make the loan were not newly created money.

What is obvious is that if banks can create money from nothing (and that is a universally true fact and always the funding mechanism for loans made), then banks never need to borrow to cover those loans. And yet, regulation apparently imposes that wholly unnecessary requirement.

The questions to be asked are:

- \* Why does regulation do that?
- \* How does it do that?
- \* Who benefits from it doing so?
- \* How do they benefit?
- \* What can be done to resolve this situation, which is obviously absurd?

I am not saying I have answers as yet. What I do know is that the regulatory requirement is obviously absurd.