

How do banks create money?

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We published this short video on YouTube last night:

Where does money come from? Most people think banks move it around. But the truth is: they create it. In this video, I explain how bank lending literally generates new money and why the system works purely on trust.

<https://youtube.com/shorts/bq0837vuBpI?si=C8yN6rOSb0yBUUes>

This is the transcript:

People keep on asking me, "How do banks create money?" And the answer is really very simple.

If you walk into a bank and ask for a loan - let's suppose you ask for £10,000 that you want to borrow to buy a car - they look up your credit record and decide whether you are worth it or not.

If they think you are worth the risk of lending £10,000 to, they don't go into their vaults and see if there's £10,000 of spare cash sitting there, because that's not how banks operate. Banks only really deal in electronic money these days.

So all they do is open two bank accounts for you. I'm assuming you've walked into a new bank to make this easier. One of those accounts is a current account, and they say there's £10,000 on it. The other is a loan account, and they say there's £10,000 on it.

One of those is an asset; one is a liability. It doesn't matter which way you're looking at

it, that's always going to be true.

One is a plus, in other words, and one is a minus, whoever's books you're looking at.

And the result is that, actually, if you add up £10,000 plus and £10,000 minus, they come to nothing. So, the bank literally created the money it's going to lend to you out of thin air by simply putting a plus £10,000 in one account and a minus £10,000 in the other account.

And that's it. That's how banks create money.

And you believe that the money in your bank account is good to spend, and what is more, the person you buy the car from believes that the payment you make from your bank is worth £10,000. And on the basis of that trust, the whole of the banking system works.

But money is still just made up entirely out of thin air.