What really happens with a bank loan?

Example: 20,000 € car loan

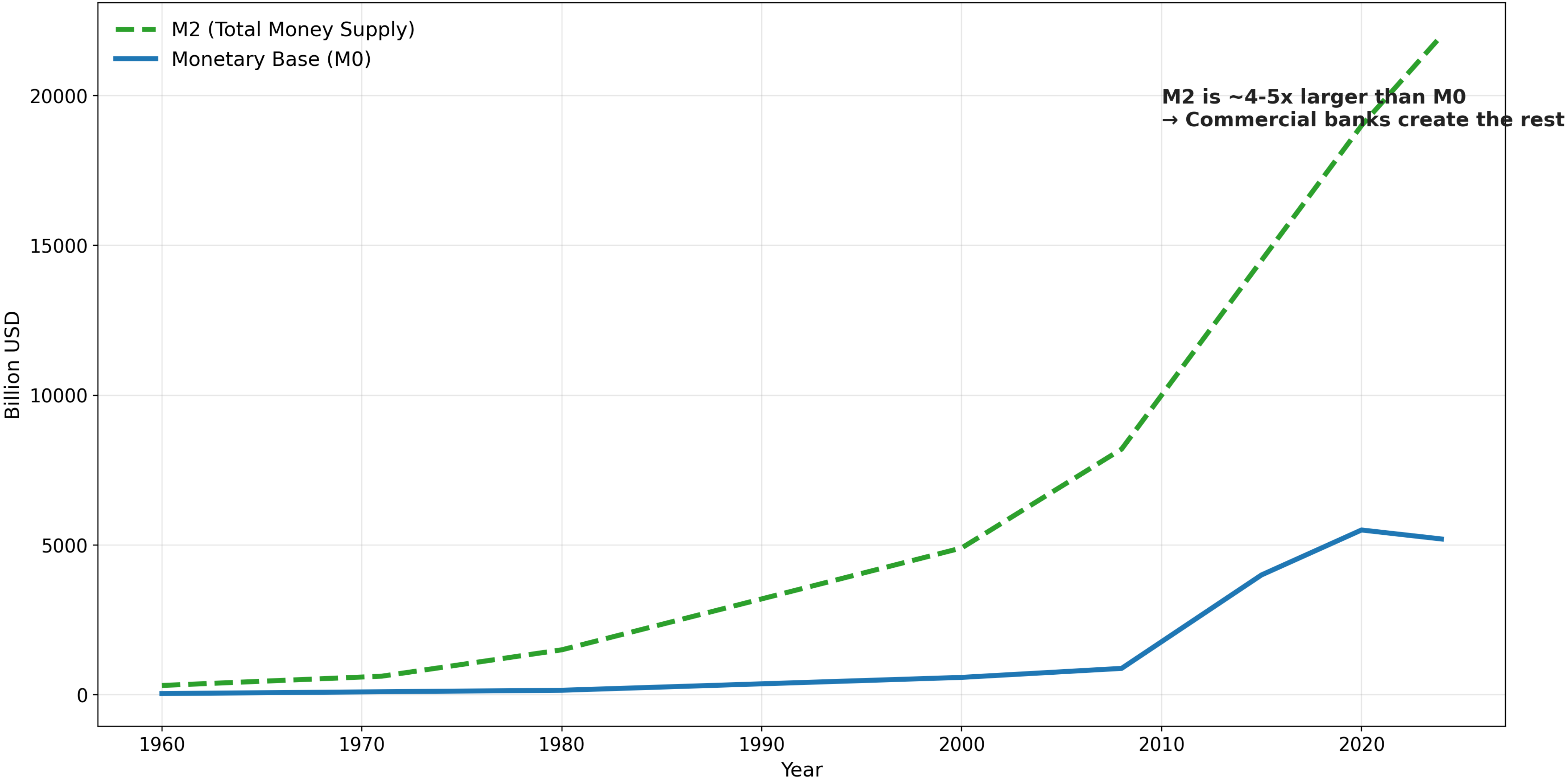
ASSETS	LIABILITIES
+ 20,000 €	**+ 20,000 €**
Loan claim on you	Demand deposit on your account
NEW OUT OF NOTHING	**NEW OUT OF NOTHING**

Both sides appear SIMULTANEOUSLY — both new.

The bank does NOT lend existing money.
It creates it via balance sheet entry.

Source: Bank of England (2014), Money Creation in the Modern Economy

Real FRED Data: Monetary Base vs M2 (USA, 1960-2024)



Source: FRED BOGMBASE + M2SL. Difference = money created by commercial banks.

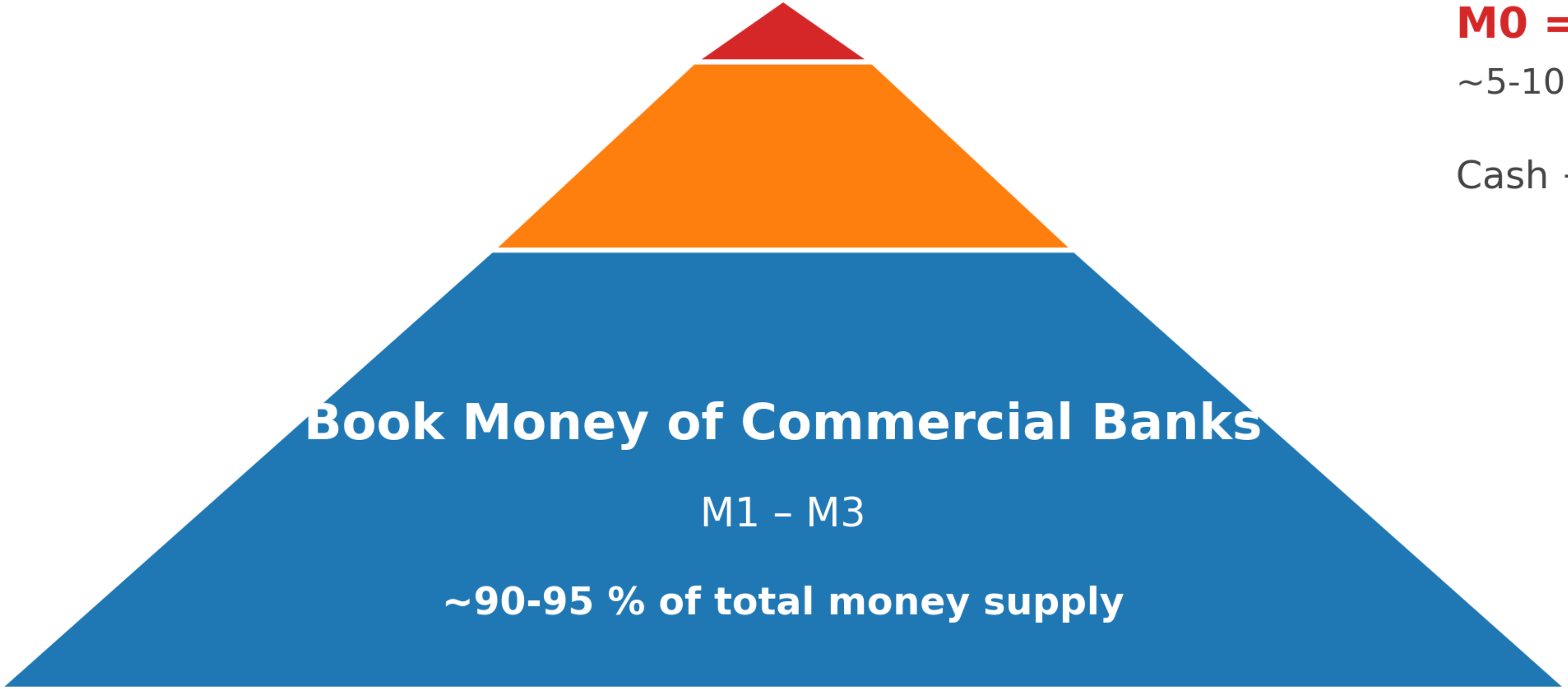
Money System Pyramid: M0 vs M2

Who actually creates the money?

M0 = Central Bank Base

~5-10 % of total money supply

Cash + CB Reserves



Money is created predominantly in the commercial banks.

Money creation != value creation. The car was built. The money was booked.

Source: BIS, ECB, FRED Monetary Aggregates

Money Creation != Value Creation

What the bank does vs. what the company does

Bank

Books Assets +20k
and Liabilities +20k

Money: + 20,000 €

Real value created: 0

Car Manufacturer

Material + Labor
+ Machines + Time

Car: 1 unit

Real value created: high

Whoever confuses this does not understand inflation.

More money + same value = each bill is worth less.