

The Positive Money Proposal

The transition process in balance sheets

Andrew Jackson

Stylised balance sheets just before the “overnight switchover”

Bank of England		Commercial Banks		Households and Firms	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<div>Loans to Commercial Banks</div> <div>Gilts</div> <div>Other Assets</div>	<div>Reserve Accounts</div> <div>Other liabilities</div> <div>Equity</div>	<div>Loans</div> <div>Central Bank Reserves</div> <div>Other Assets</div>	<div>Customer Sight Deposits</div> <div>Customer Time Deposits</div> <div>Loans from the Bank of England</div> <div>Shareholder equity</div>	<div>Bank Sight Deposits</div> <div>Bank Time Deposits</div> <div>Other Assets</div>	<div>Bank Loans</div> <div>Other liabilities</div> <div>Equity</div>

* Deposits exceed loans due to QE increasing deposits and central bank reserves 1 for 1.

Stylised balance sheets just before the “overnight switchover”

Bank of England		Commercial Banks		Households and Firms	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<div>Loans to Commercial Banks</div> <div>Gilts</div> <div>Other Assets</div>	<div>Reserve Accounts</div> <div>Other liabilities</div> <div>Equity</div>	<div>Loans</div> <div>Central Bank Reserves</div> <div>Other Assets</div>	<div>Customer Sight Deposits</div> <div>Customer Time Deposits</div> <div>Loans from the Bank of England</div> <div>Shareholder equity</div>	<div>Bank Sight Deposits</div> <div>Bank Time Deposits</div> <div>Other Assets</div>	<div>Bank Loans</div> <div>Other liabilities</div> <div>Equity</div>

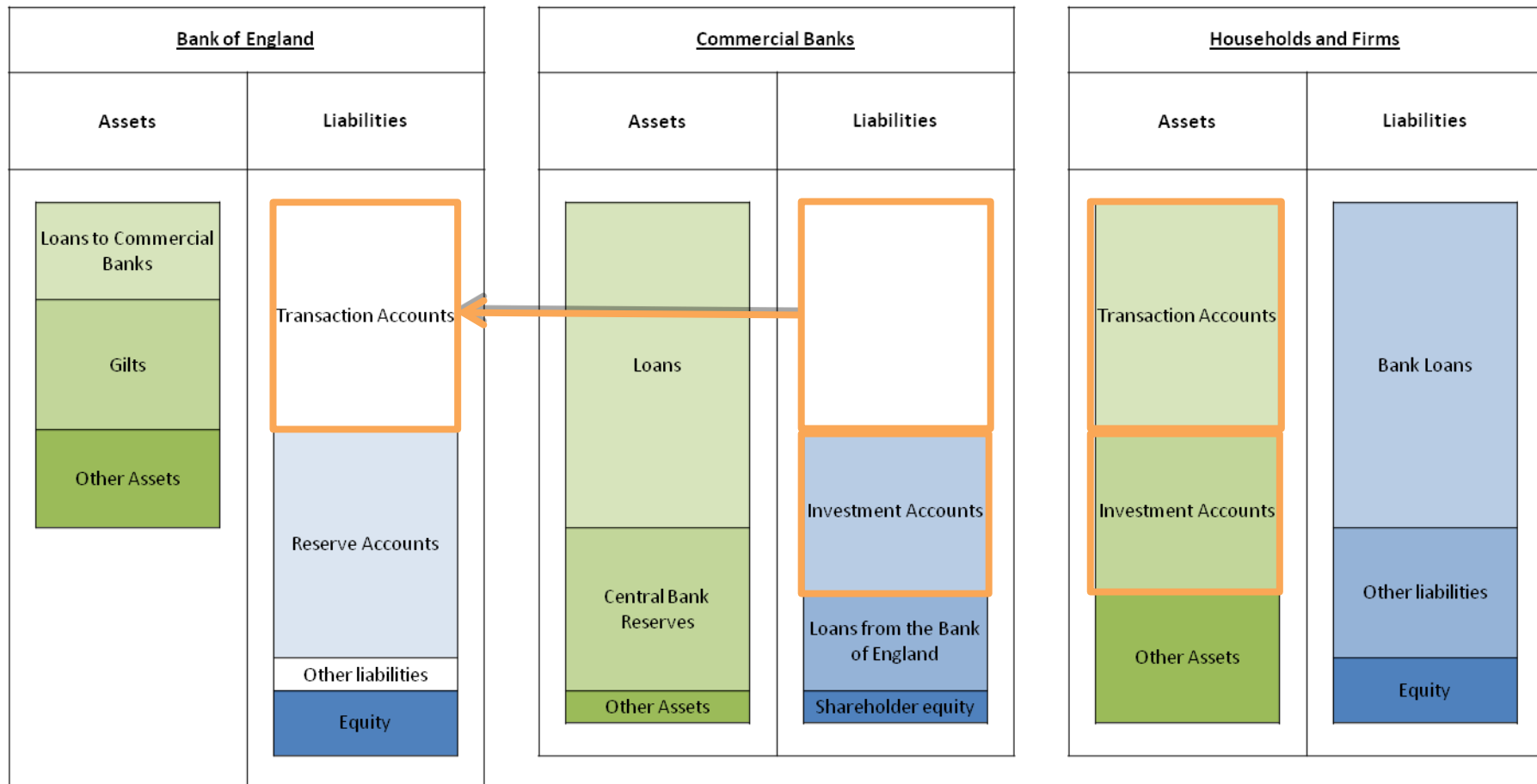
Customer Sight deposits are moved onto the Bank of England's balance sheet

* Deposits exceed loans due to QE increasing deposits and central bank reserves 1 for 1.

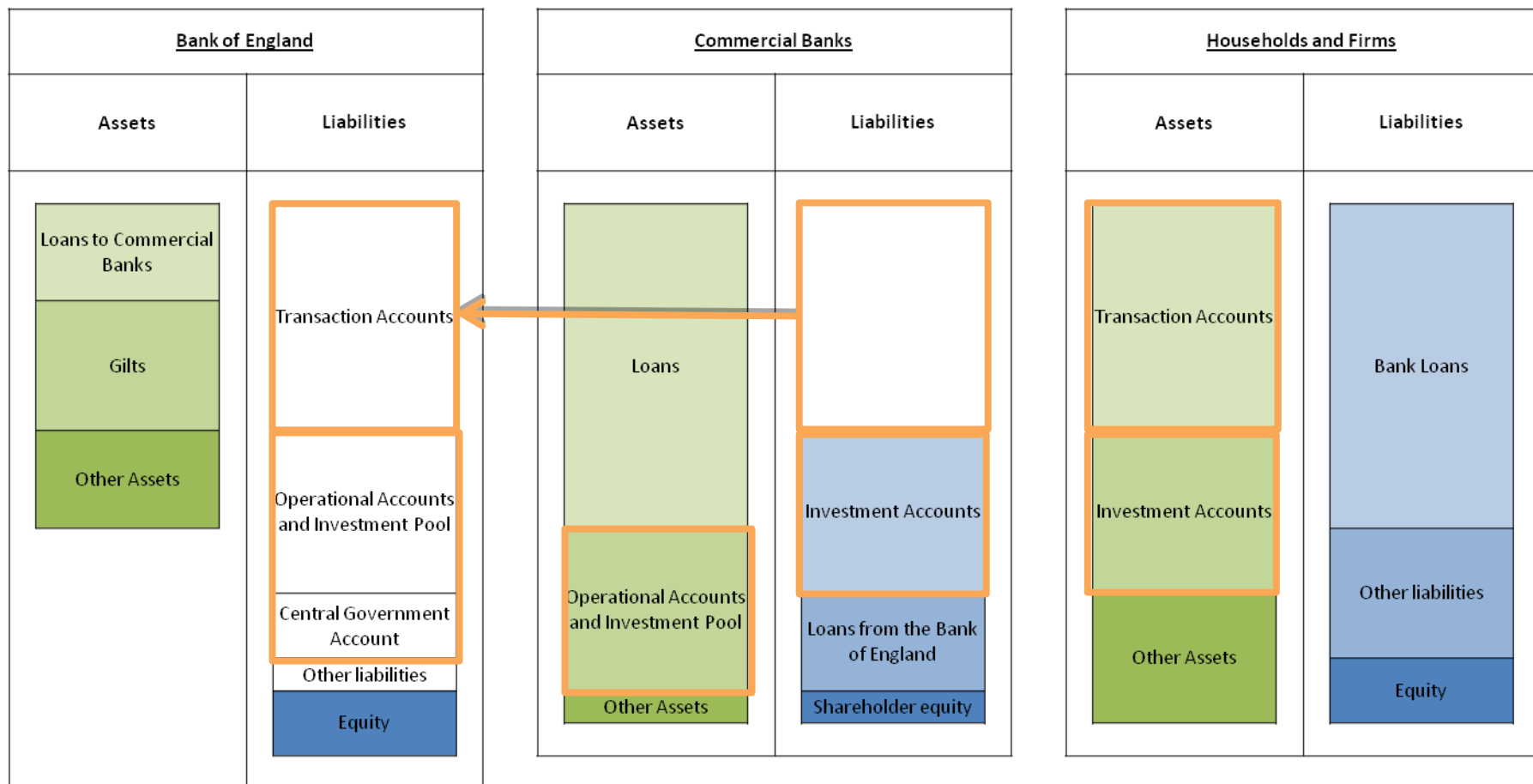
Customer Sight deposits are moved onto the Bank of England's balance sheet

<u>Bank of England</u>		<u>Commercial Banks</u>		<u>Households and Firms</u>	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Loans to Commercial Banks	Transaction Accounts	Loans		Transaction Accounts	Bank Loans
Gilts					
Other Assets					
	Reserve Accounts	Central Bank Reserves	Customer Time Deposits	Bank Time Deposits	Other liabilities
	Other liabilities	Other Assets	Loans from the Bank of England	Other Assets	Equity
	Equity		Shareholder equity		

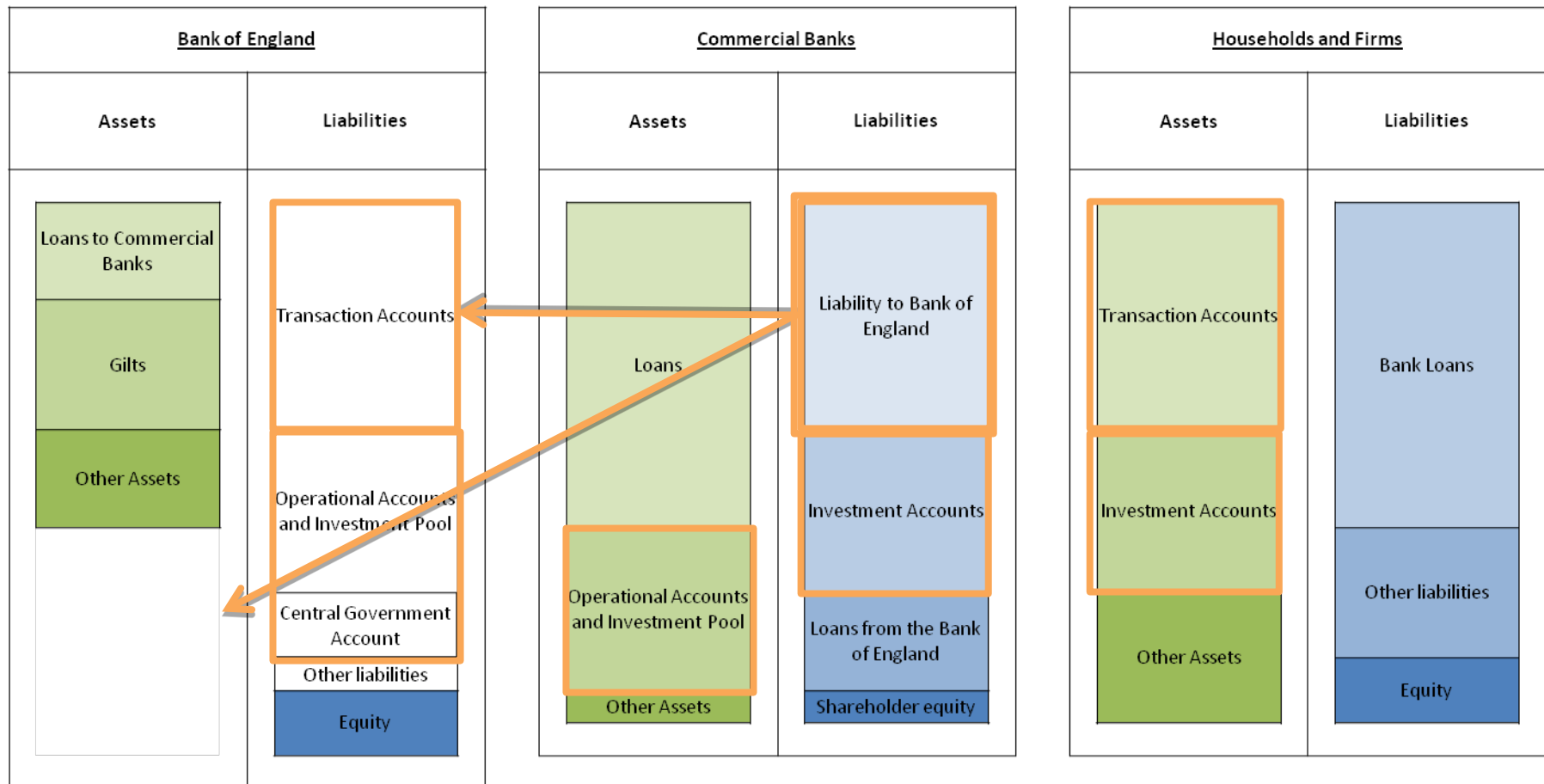
Time deposits are converted into illiquid Investment Accounts



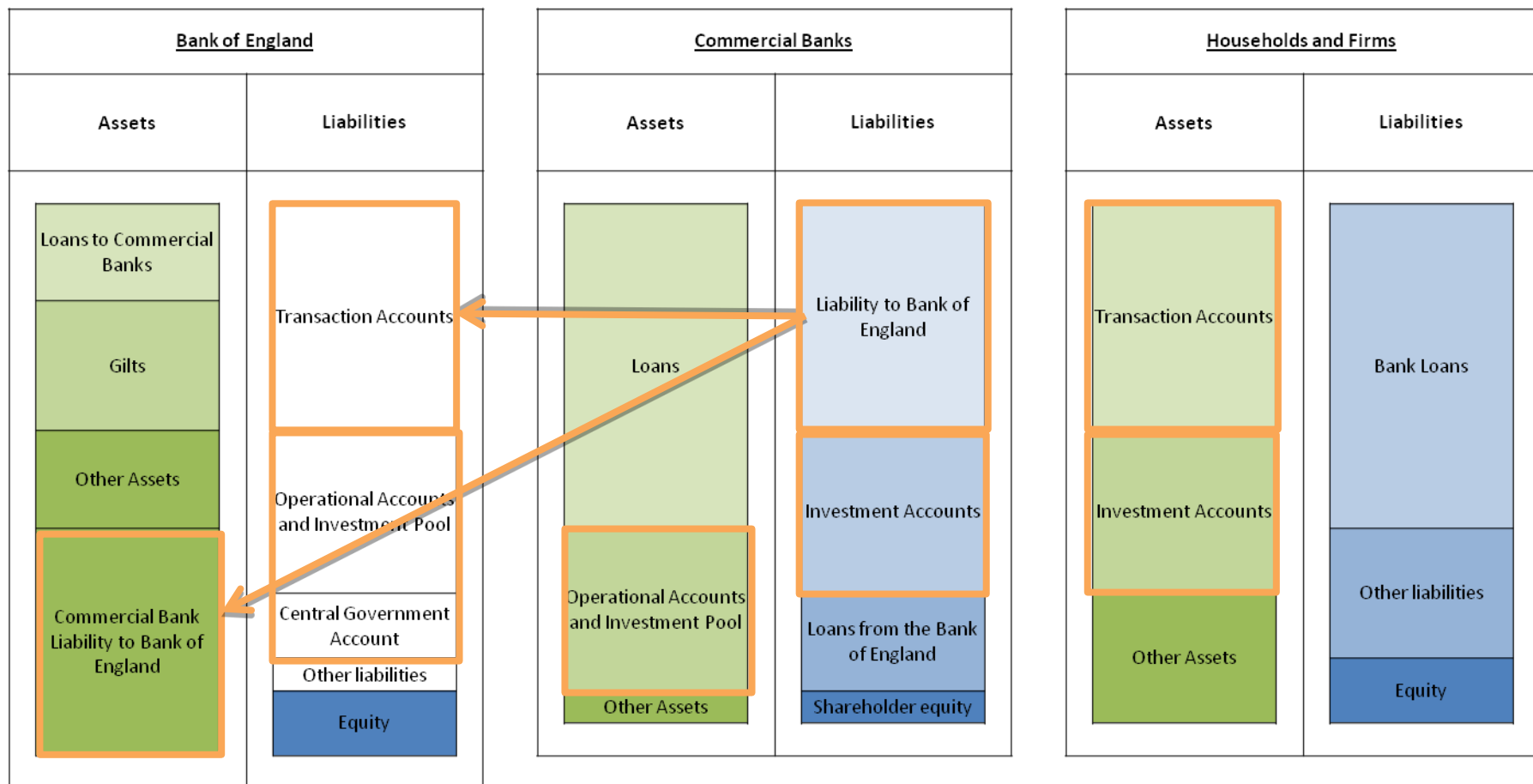
Bank and Government reserve accounts at the Bank of England are renamed



Replace customer sight deposit liability with liability to the Bank of England



Replace customer sight deposit liability with liability to the Bank of England



Balance sheets immediately after the “overnight switchover”

<u>Bank of England</u>	
Assets	Liabilities
Loans to Commercial Banks	Other liabilities
Gilts	Transaction Accounts (in equity)
Other Assets	Operational Accounts and Investment Pool (in equity)
Commercial Bank Liability to Bank of England	Central Government Account (in equity)
	Equity

<u>Commercial Banks</u>	
Assets	Liabilities
Pre Reform Loans	Liability to Bank of England
Operational Accounts and Investment Pool	Investment Accounts
Other Assets	Loans from the Bank of England
	Shareholder equity

<u>Households and Firms</u>	
Assets	Liabilities
Transaction Accounts	Bank Loans
Investment Accounts	Other liabilities
Other Assets	Equity

Step 2 – Repayment of commercial bank loans to the Bank of England

Note: , in this example repayment is undertaken now as it makes the remaining exposition easier to follow. Repayment of commercial bank loans to the Bank of England could happen at any point, or the loans could be continually rolled over.

Instead of repayment the money could instead be used to make loans to the private non-bank sector, before being repaid at some point in the future.

Balance sheets immediately before repayment

<u>Bank of England</u>	
Assets	Liabilities
Loans to Commercial Banks	Other liabilities
Gilts	Transaction Accounts (in equity)
Other Assets	Operational Accounts and Investment Pool (in equity)
Commercial Bank Liability to Bank of England	Central Government Account (in equity)
	Equity

<u>Commercial Banks</u>	
Assets	Liabilities
Pre Reform Loans	Liability to Bank of England
Operational Accounts and Investment Pool	Investment Accounts
Other Assets	Loans from the Bank of England
	Shareholder equity

<u>Households and Firms</u>	
Assets	Liabilities
Transaction Accounts	Bank Loans
Investment Accounts	Other liabilities
Other Assets	Equity

Repayment of outstanding loans by commercial banks, using money in their Operational Accounts

<u>Bank of England</u>		<u>Commercial Banks</u>		<u>Households and Firms</u>	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<div>Loans to Commercial Banks</div> <div>Gilts</div> <div>Other Assets</div> <div>Commercial Bank Liability to Bank of England</div>	<div>Other liabilities</div> <div>Transaction Accounts</div> <div>Operational Accounts and Investment Pool</div> <div>Central Government Account</div> <div>Equity</div>	<div>Pre Reform Loans</div> <div>Operational Accounts and Investment Pool</div> <div>Other Assets</div>	<div>Liability to Bank of England</div> <div>Investment Accounts</div> <div>Loans from the Bank of England</div> <div>Shareholder equity</div>	<div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div>	<div>Bank Loans</div> <div>Other liabilities</div> <div>Equity</div>

Balance sheets immediately after repayment of outstanding loans by commercial banks

<u>Bank of England</u>	
Assets	Liabilities
Gilts	Other liabilities
Other Assets	Transaction Accounts
Commercial Bank Liability to Bank of England	Operational Accounts and Investment Pool
	Central Government Account
	Equity

<u>Commercial Banks</u>	
Assets	Liabilities
Pre Reform Loans	Liability to Bank of England
Operational Accounts and Investment Pool	Investment Accounts
Other Assets	Shareholder equity

<u>Households and Firms</u>	
Assets	Liabilities
Transaction Accounts	Bank Loans
Investment Accounts	Other liabilities
Other Assets	Equity

Step 3 Repayment of part of the commercial banking sectors liability to Bank of England

Note: Again, in this example repayment is undertaken now as it makes the remaining exposition easier to follow. Repayment of part of the commercial bank liability to the Bank of England could happen at any point.

Instead of repayment the money could instead be used to make loans to the private non-bank sector, before being repaid at some point in the future.

Balance sheets immediately before repayment of part of liability to Bank of England

<u>Bank of England</u>	
Assets	Liabilities
<div> <div>Gilts</div> <div>Other Assets</div> <div>Commercial Bank Liability to Bank of England</div> </div>	Other liabilities
	Transaction Accounts
	Operational Accounts and Investment Pool
	Central Government Account
	Equity

<u>Commercial Banks</u>	
Assets	Liabilities
<div> <div>Pre Reform Loans</div> <div>Operational Accounts and Investment Pool</div> <div>Other Assets</div> </div>	Liability to Bank of England
	Investment Accounts
	Shareholder equity

<u>Households and Firms</u>	
Assets	Liabilities
<div> <div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div> </div>	Bank Loans
	Other liabilities
	Equity

Repayment of part of liability to Bank of England

<u>Bank of England</u>		<u>Commercial Banks</u>		<u>Households and Firms</u>	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<div> <div>Gilts</div> <div>Other Assets</div> <div></div> <div>Commercial Bank Liability to Bank of England</div> <div></div> </div>	<div> <div>Other liabilities</div> <div>Transaction Accounts</div> <div></div> <div>Operational Account and Investment Pool</div> <div>Central Government Account</div> <div>Equity</div> <div></div> </div>	<div> <div>Pre Reform Loans</div> <div></div> <div>Operational Accounts and Investment Pool</div> <div>Other Assets</div> <div></div> </div>	<div> <div></div> <div>Liability to Bank of England</div> <div>Investment Accounts</div> <div>Shareholder equity</div> <div></div> </div>	<div> <div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div> </div>	<div> <div>Bank Loans</div> <div>Other liabilities</div> <div>Equity</div> </div>

Money in Commercial Banks' Operational Accounts

Is used to repay this part of the liability to the Bank of England.

Repayment of part of liability to Bank of England

<u>Bank of England</u>		<u>Commercial Banks</u>		<u>Households and Firms</u>	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<div>Gilts</div> <div>Other Assets</div> <div>Commercial Bank Liability to Bank of England</div>	<div>Other liabilities</div> <div>Transaction Accounts</div> <div>Central Government Account</div> <div>Equity</div>	<div>Pre Reform Loans</div> <div>Other Assets</div>	<div>Liability to Bank of England</div> <div>Investment Accounts</div> <div>Shareholder equity</div>	<div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div>	<div>Bank Loans</div> <div>Other liabilities</div> <div>Equity</div>

* The assumption is now that all money in banks Investment and Operational Accounts will be instantly lent, spent, or invested, so the Operational Account will appear to be empty at all times. The relaxation of this assumption changes nothing. Alternatively, the money that exists in the Investment Account/Operational Pool (which largely exists as a result of the reserves created through QE) could, instead of being used for repayment, be used to increase bank lending to the non bank sector (unlike today where reserve cannot be lent).

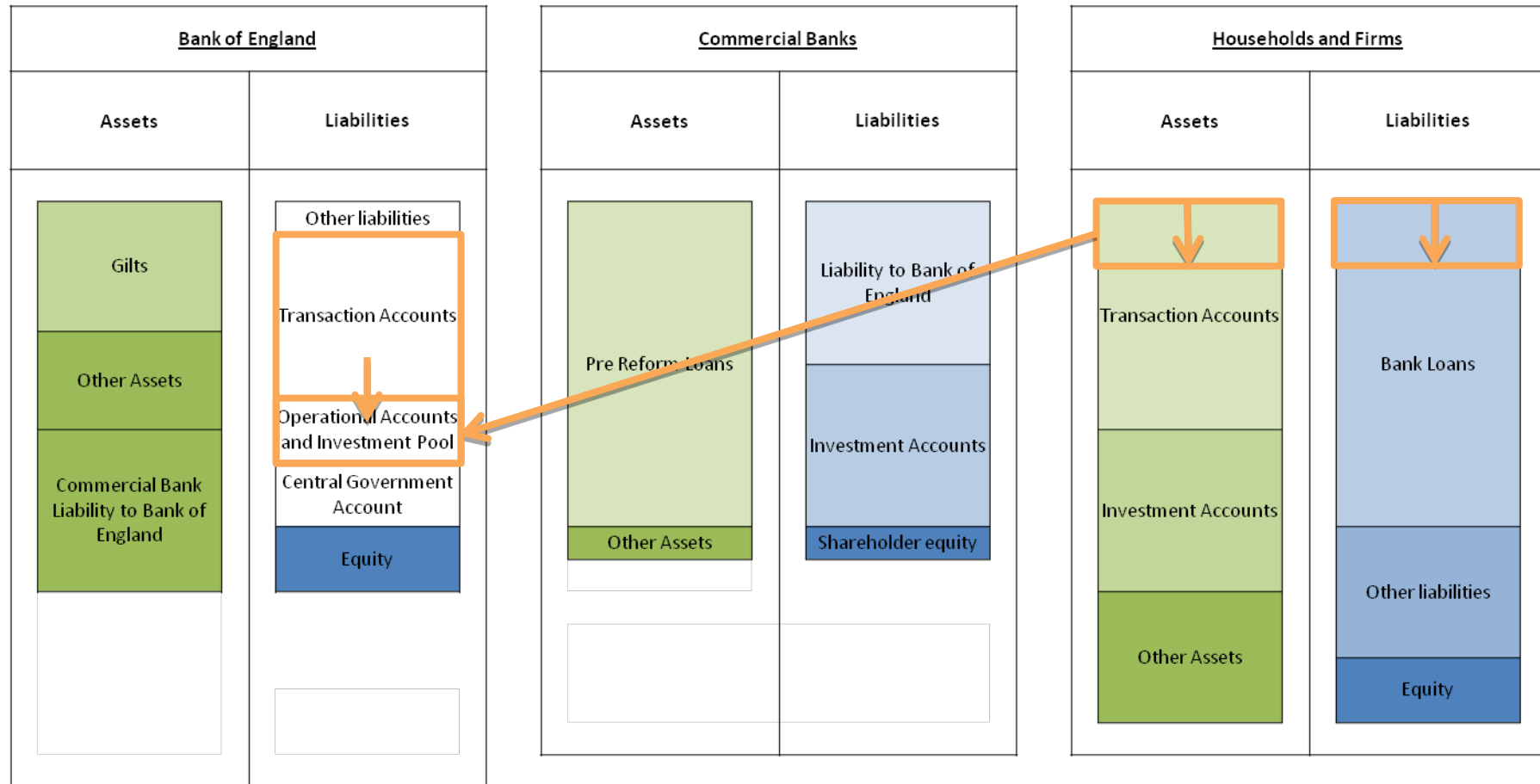
Step 4 – Repayment of the Conversion Liability and the recycling of payments to enable the repayment of private debt without corresponding reductions in the money supply

Simplified balance sheets before repayment

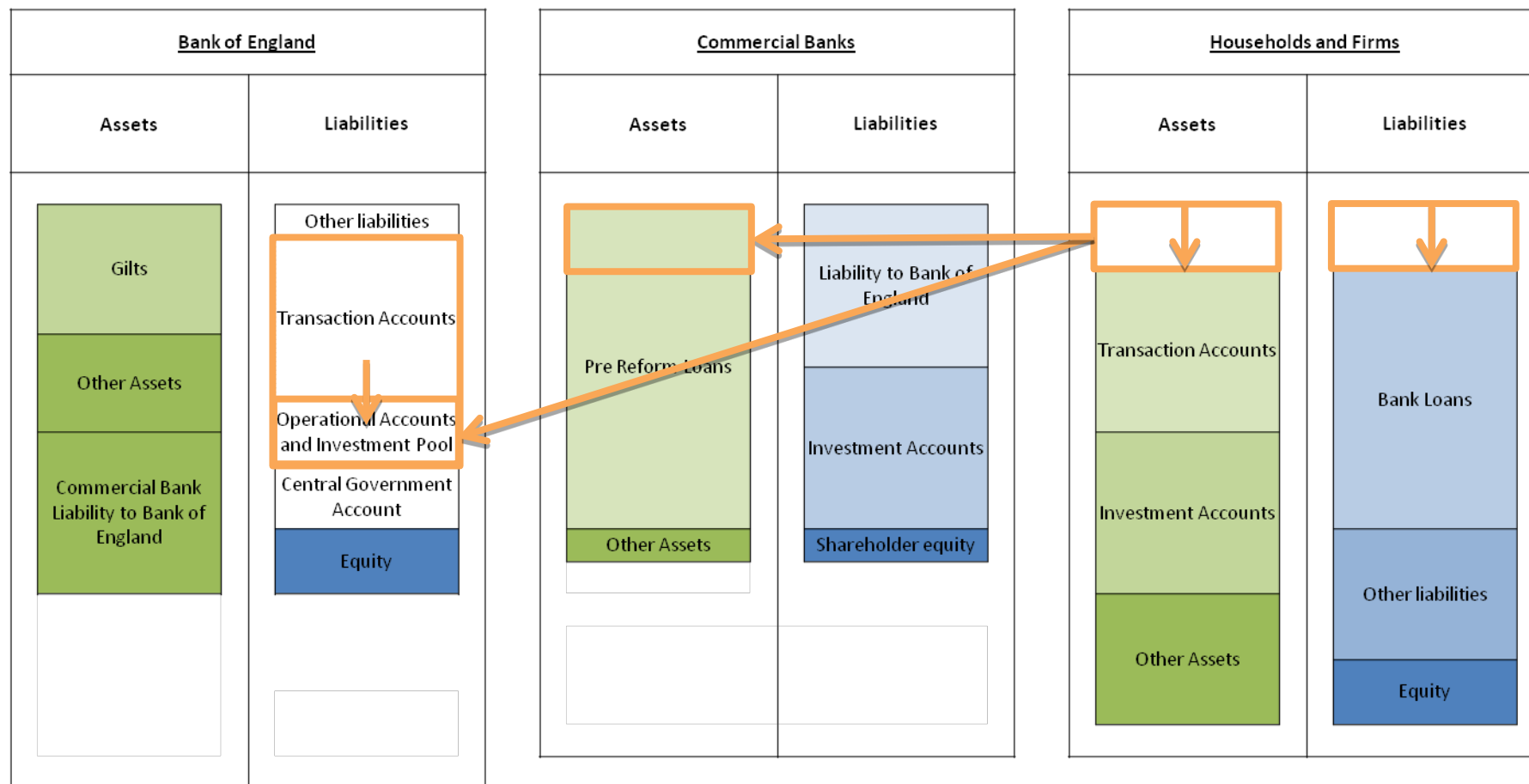
<u>Bank of England</u>		<u>Commercial Banks</u>		<u>Households and Firms</u>	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<div>Gilts</div> <div>Other Assets</div> <div>Commercial Bank Liability to Bank of England</div>	<div>Other liabilities</div> <div>Transaction Accounts</div> <div>Central Government Account</div> <div>Equity</div>	<div>Pre Reform Loans</div> <div>Other Assets</div>	<div>Liability to Bank of England</div> <div>Investment Accounts</div> <div>Shareholder equity</div>	<div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div>	<div>Bank Loans</div> <div>Other liabilities</div> <div>Equity</div>

Individuals repay their loans to the banks, by transferring money from their Transaction Accounts to the banks Investment Pool

Individuals repay their loans to the banks, by transferring money from their Transaction Accounts to the banks Investment Pool



Household's transaction accounts and bank loans decrease by the same amount



Banks use the money in their Operational Account to repay part of their liability to the Bank of England

<u>Bank of England</u>		<u>Commercial Banks</u>		<u>Households and Firms</u>	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<div>Commercial Bank</div> <div>Liability to Bank of England</div> <div>Gilts</div> <div>Other Assets</div>	<div>Operational Accounts and Investment Pool</div> <div>Transaction Accounts</div> <div>Central Government Account</div> <div>Other liabilities</div> <div>Equity</div>	<div>Operational Accounts and Investment Pool</div> <div>Pre Reform Loans</div> <div>Other Assets</div>	<div></div> <div>Liability to Bank of England</div> <div>Investment Accounts</div> <div>Shareholder equity</div>	<div></div> <div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div>	<div></div> <div>Bank Loans</div> <div>Other liabilities</div> <div>Equity</div>

Banks use the money in their Operational Account to repay part of their liability to the Bank of England

<u>Bank of England</u>	
Assets	Liabilities
<div></div> <div>Commercial Bank Liability to Bank of England</div> <div>Gilts</div> <div>Other Assets</div>	<div>Operational Accounts and Investment Pool</div> <div>Transaction Accounts</div> <div>Central Government Account</div> <div>Other liabilities</div> <div>Equity</div> <div></div>

<u>Commercial Banks</u>	
Assets	Liabilities
<div>Operational Accounts and Investment Pool</div> <div>Pre Reform Loans</div> <div>Other Assets</div> <div></div> <div></div>	<div></div> <div>Liability to Bank of England</div> <div>Investment Accounts</div> <div>Shareholder equity</div> <div></div>

<u>Households and Firms</u>	
Assets	Liabilities
<div></div> <div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div>	<div></div> <div>Bank Loans</div> <div>Other liabilities</div> <div>Equity</div>

Household and commercial bank debt has fallen, as has the quantity of money

<u>Bank of England</u>	
Assets	Liabilities
<div></div> <div>Commercial Bank Liability to Bank of England</div> <div>Gilts</div> <div>Other Assets</div>	<div></div> <div>Transaction Accounts</div> <div>Central Government Account</div> <div>Other liabilities</div> <div>Equity</div> <div></div>

<u>Commercial Banks</u>	
Assets	Liabilities
<div></div> <div>Pre Reform Loans</div> <div>Other Assets</div> <div></div>	<div></div> <div>Liability to Bank of England</div> <div>Investment Accounts</div> <div>Shareholder equity</div> <div></div>

<u>Households and Firms</u>	
Assets	Liabilities
<div></div> <div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div>	<div></div> <div>Bank Loans</div> <div>Other liabilities</div> <div>Equity</div>

Balance sheets immediately after repayment

<u>Bank of England</u>	
Assets	Liabilities
<div>Commercial Bank Liability to Bank of England</div> <div>Gilts</div> <div>Other Assets</div>	<div>Transaction Accounts</div> <div>Central Government Account</div> <div>Other liabilities</div> <div>Equity</div>

<u>Commercial Banks</u>	
Assets	Liabilities
<div>Pre Reform Loans</div> <div>Other Assets</div>	<div>Liability to Bank of England</div> <div>Investment Accounts</div> <div>Shareholder equity</div>

<u>Households and Firms</u>	
Assets	Liabilities
<div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div>	<div>Bank Loans</div> <div>Other liabilities</div> <div>Equity</div>

Recycling the repaid money to maintain
quantity of money (i.e. creating new money)

Balance sheets before Bank of England starts creating money

<u>Bank of England</u>	
Assets	Liabilities
Commercial Bank Liability to Bank of England	Central Government Account
Gilts	Transaction Accounts
Other Assets	Other liabilities
	Equity

<u>Commercial Banks</u>	
Assets	Liabilities
Pre Reform Loans	Liability to Bank of England
Other Assets	Investment Accounts
	Shareholder equity

<u>Households and Firms</u>	
Assets	Liabilities
Transaction Accounts	Bank Loans
Investment Accounts	Other liabilities
Other Assets	Equity

Bank of England creates money and credits the Central Government Account

<u>Bank of England</u>		<u>Commercial Banks</u>		<u>Households and Firms</u>	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<div>Balancing Asset*</div> <div>Commercial Bank Liability to Bank of England</div> <div>Gilts</div> <div>Other Assets</div>	<div>Central Government Account</div> <div>Transaction Accounts</div> <div>Other liabilities</div> <div>Equity</div>	<div>Pre Reform Loans</div> <div>Other Assets</div>	<div>Liability to Bank of England</div> <div>Investment Accounts</div> <div>Shareholder equity</div>	<div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div>	<div>Bank Loans</div> <div>Other liabilities</div> <div>Equity</div>

* The balancing asset can be either 1. Consols (i.e. Overt Monetary Finance) 2. Negative Equity 3. PP of the Nation. Alternatively, money can be created as a token, and neither require a balancing asset or appear as a liability of the issuing organisation (this possibility is not represented here). See Jackson, Dyson and Hodgson (2012), "The Positive Money Proposal", for more detail on how money can be created in these ways.

Government spends money – money is transferred to the recipients Transaction Accounts

<u>Bank of England</u>		<u>Commercial Banks</u>		<u>Households and Firms</u>	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<div>Balancing Asset</div> <div>Commercial Bank Liability to Bank of England</div> <div>Gilts</div> <div>Other Assets</div>	<div>Central Government Account</div> <div>Transaction Accounts (New money)</div> <div>Transaction Accounts</div> <div>Other liabilities</div> <div>Equity</div>	<div>Pre Reform Loans</div> <div>Other Assets</div>	<div>Liability to Bank of England</div> <div>Investment Accounts</div> <div>Shareholder equity</div>	<div>Transaction Accounts (New money)</div> <div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div>	<div>Equity</div> <div>Bank Loans</div> <div>Other liabilities</div>

The money supply returns to its previous level, household debt is lower, as is the banking sector's balance sheet

Bank of England		Commercial Banks		Households and Firms	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<div>Balancing Asset</div> <div>Commercial Bank Liability to Bank of England</div> <div>Gilts</div> <div>Other Assets</div>	<div>Central Government Account</div> <div>Transaction Accounts (New money)</div> <div>Transaction Accounts</div> <div>Other liabilities</div> <div>Equity</div>	<div></div> <div>Pre Reform Loans</div> <div>Other Assets</div> <div></div>	<div></div> <div>Liability to Bank of England</div> <div>Investment Accounts</div> <div>Shareholder equity</div>	<div>Transaction Accounts (New money)</div> <div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div>	<div>Equity</div> <div>Bank Loans</div> <div>Other liabilities</div>

Over 20 – 30 years private debts can
be significantly reduced

As the commercial banks repay their liability to the Bank of England, the same recycling process occurs and private debts can be paid down.

<u>Bank of England</u>		<u>Commercial Banks</u>		<u>Households and Firms</u>	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<div>Balancing Asset</div> <div>Commercial Bank Liability to Bank of England</div> <div>Gilts</div> <div>Other Assets</div>	<div>Central Government Account</div> <div>Transaction Accounts - New money</div> <div>Transaction Accounts</div> <div>Other liabilities</div> <div>Equity</div>	<div></div> <div>Post Reform Loans</div> <div>Other Assets</div> <div></div>	<div>Liability to Bank of England</div> <div>Investment Accounts</div> <div>Shareholder equity</div> <div></div>	<div>Transaction Accounts - New money</div> <div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div>	<div>Equity</div> <div></div> <div>Bank Loans</div> <div>Other liabilities</div>

Upon repayment of the conversion liability new, “debt-free” money enters circulation through Government spending

<u>Bank of England</u>		<u>Commercial Banks</u>		<u>Households and Firms</u>	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<div>Balancing Asset</div> <div>Gilts</div> <div>Other Assets</div>	<div>Transaction Accounts - New money</div> <div>Transaction Accounts</div> <div>Central Government Account</div> <div>Other liabilities</div> <div>Equity</div> <div></div>	<div></div> <div>Post Reform Loans</div> <div>Other Assets</div> <div></div>	<div></div> <div>Investment Accounts</div> <div>Shareholder equity</div> <div></div>	<div>Transaction Accounts - New money</div> <div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div>	<div>Equity</div> <div></div> <div>Bank Loans</div> <div>Other liabilities</div>

New money can be continued to be
created debt free after repayment of
conversion liability

<u>Bank of England</u>	
Assets	Liabilities
<div></div> <div>Balancing Asset</div> <div>Gilts</div> <div>Other Assets</div>	<div> <div>Transaction Accounts (New money)</div> <div>Transaction Accounts</div> <div>Central Government Account</div> <div>Other liabilities</div> <div>Equity</div> </div> <div></div>

<u>Commercial Banks</u>	
Assets	Liabilities
<div>Post Reform Loans</div> <div>Other Assets</div> <div></div> <div></div>	<div>Investment Accounts</div> <div>Shareholder equity</div> <div></div> <div></div>

<u>Households and Firms</u>	
Assets	Liabilities
<div>Transaction Accounts (New money)</div> <div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div>	<div></div> <div>Equity</div> <div>Bank Loans</div> <div>Other liabilities</div>

New money is created, and spent into circulation, increasing the quantity of money in circulation without increasing private debt

<u>Bank of England</u>	
Assets	Liabilities
<div></div>	<div></div>
Balancing Asset	Transaction Accounts (New money)
Gilts	Central Government Account
Other Assets	Transaction Accounts
	Other liabilities
	Equity
	<div></div>

<u>Commercial Banks</u>	
Assets	Liabilities
Post Reform Loans	Investment Accounts
Other Assets	Shareholder equity
<div></div>	
<div></div>	<div></div>

<u>Households and Firms</u>	
Assets	Liabilities
<div></div>	<div></div>
Transaction Accounts (New money)	Equity
Transaction Accounts	
Investment Accounts	Bank Loans
Other Assets	Other liabilities

Debts can be repaid without shrinking
the money supply in the hand of the
public

Households and Firms may choose to start paying down debts
on aggregate (i.e. borrowing less)

<u>Bank of England</u>	
Assets	Liabilities
Balancing Asset	Transaction Accounts
Gilts	Central Government Account
Other Assets	Other liabilities
	Equity

<u>Commercial Banks</u>	
Assets	Liabilities
Post Reform Loans	Investment Accounts
Other Assets	Shareholder equity

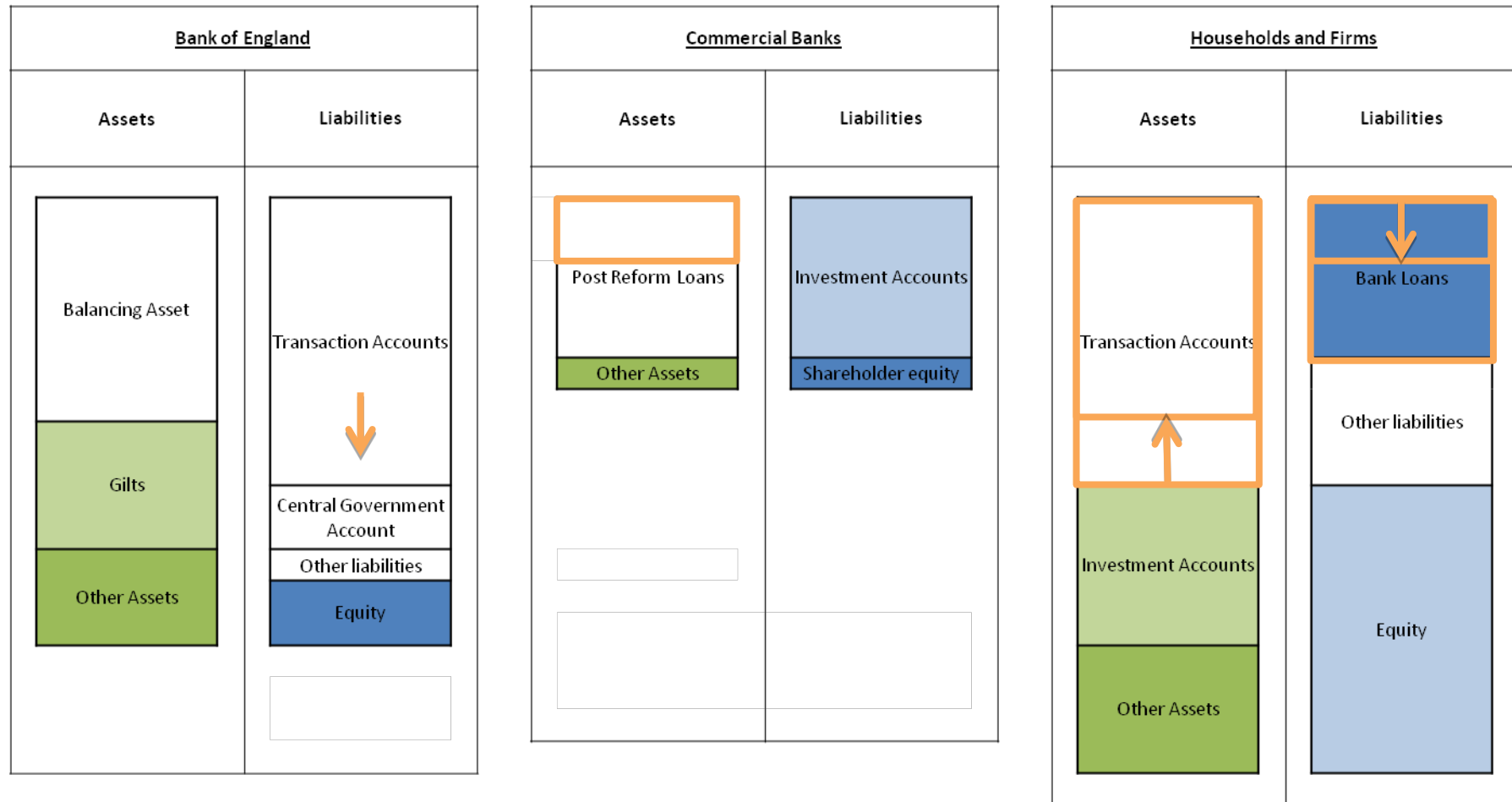
<u>Households and Firms</u>	
Assets	Liabilities
Transaction Accounts	Bank Loans
	Other liabilities
Investment Accounts	Equity
Other Assets	

<u>Bank of England</u>	
Assets	Liabilities
<div>Balancing Asset</div> <div>Gilts</div> <div>Other Assets</div>	<div>Transaction Accounts</div> <div>Central Government Account</div> <div>Other liabilities</div> <div>Equity</div> <div></div>

<u>Commercial Banks</u>	
Assets	Liabilities
<div>Post Reform Loans</div> <div>Other Assets</div> <div></div> <div></div>	<div>Investment Accounts</div> <div>Shareholder equity</div> <div></div> <div></div>

<u>Households and Firms</u>	
Assets	Liabilities
<div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div>	<div>Bank Loans</div> <div>Other liabilities</div> <div>Equity</div>

Loan repayment involves a transfer of money from the individuals Transaction Account to the Banks Investment Pool, and a subsequent reduction in bank loans outstanding.



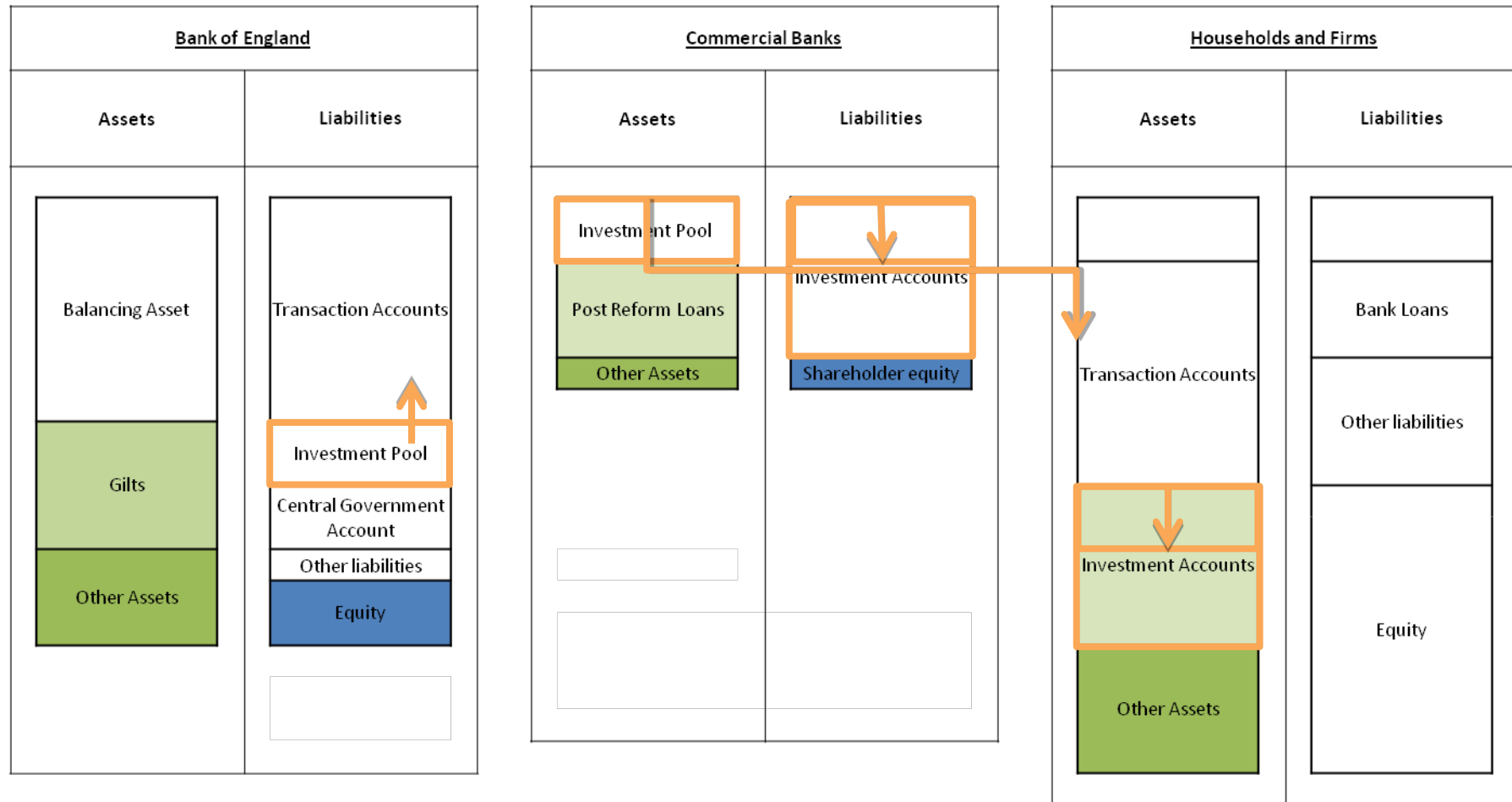
<u>Bank of England</u>	
Assets	Liabilities
Balancing Asset	Transaction Accounts
Gilts	Investment Pool
Other Assets	Central Government Account
	Other liabilities
	Equity

<u>Commercial Banks</u>	
Assets	Liabilities
Investment Pool	Investment Accounts
Post Reform Loans	Shareholder equity
Other Assets	

<u>Households and Firms</u>	
Assets	Liabilities
	Bank Loans
Transaction Accounts	Other liabilities
Investment Accounts	Equity
Other Assets	



Banks could relend the money, however, if there are no good lending opportunities or if households and firms wish to redeem their investment accounts then the money in the Investment Pool can be used for this purpose as well.



Money is transferred from the Commercial Banks' Investment Pool to customers' Transaction Accounts

Private debt has been paid down, without shrinking the quantity of money in circulation

<u>Bank of England</u>	
Assets	Liabilities
<div>Balancing Asset</div> <div>Gilts</div> <div>Other Assets</div>	<div>Transaction Accounts</div> <div>Central Government Account</div> <div>Other liabilities</div> <div>Equity</div> <div></div>

<u>Commercial Banks</u>	
Assets	Liabilities
<div></div> <div>Post Reform Loans</div> <div>Other Assets</div> <div></div> <div></div>	<div></div> <div>Investment Accounts</div> <div>Shareholder equity</div> <div></div> <div></div>

<u>Households and Firms</u>	
Assets	Liabilities
<div></div> <div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div>	<div></div> <div>Bank Loans</div> <div>Other liabilities</div> <div>Equity</div>

The Bank of England can provide credit
to banks to on lend into the real
economy

The Bank of England may wish to provide credit facilities for banks to on lend to businesses

<u>Bank of England</u>	
Assets	Liabilities
Balancing Assets	Central Government Account
Gilts	Transaction Accounts
Other Assets	Other liabilities
	Equity

<u>Commercial Banks</u>	
Assets	Liabilities
Post Reform Loans	Investment Accounts
Other Assets	Shareholder equity

<u>Households and Firms</u>	
Assets	Liabilities
Transaction Accounts	Equity
Investment Accounts	Bank Loans
Other Assets	Other liabilities

The Bank of England makes a loan to the commercial banks in the normal way, or via overdraft facilities.

Bank of England		Commercial Banks		Households and Firms	
Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Balancing Assets	Commercial Bank Investment Pool	Post Reform Loans	Investment Accounts	Transaction Accounts	Equity
	Central Government Account	Other Assets	Shareholder equity		Bank Loans
Loan to banks	Transaction Accounts	Commercial Bank Investment Pool	Loan from central bank		Other liabilities
Gilts				Investment Accounts	
Other Assets	Other liabilities			Other Assets	
	Equity				

Banks then on-lend this money into the economy

<u>Bank of England</u>	
Assets	Liabilities
<div>Balancing Asset</div>	<div>Commercial Bank Investment Pool</div> <div>Central Government Account</div>
<div>Loan to banks</div>	<div>Transaction Accounts</div>
<div>Gilts</div>	<div>Other liabilities</div>
<div>Other Assets</div>	<div>Equity</div>

<u>Commercial Banks</u>	
Assets	Liabilities
<div>Post Reform Loans</div> <div>Other Assets</div> <div>New Loans</div>	<div>Investment Accounts</div> <div>Shareholder equity</div> <div>Loan from central bank</div>
<div></div>	
<div></div>	

<u>Households and Firms</u>	
Assets	Liabilities
<div>Transaction accounts (borrowed money)</div> <div>Transaction Accounts</div> <div>Investment Accounts</div> <div>Other Assets</div>	<div>New Bank Loans</div> <div>Bank Loans</div> <div>Other liabilities</div> <div>Equity</div>