

1 September 1994

Mr Stan Fitchett
99 Suva Street
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Dear Mr Fitchett

Thank you for your letter of 24 August regarding the creation of money.

As you noted, banks do create money and credit, adding to broad measures of the money supply.

The percentage of the money supply which is created by banks and other financial institutions depends on the particular definition of the money supply used. Notes and coins, the narrowest definition of money, are only issued by the Reserve Bank. Commercial banks cannot print and issue currency.

However, notes and coins make up only a small proportion of broader measures of money and credit - the majority being created by banks. A commonly used definition of the broad money supply is M3, which includes currency plus deposits at most financial institutions. In June 1994 M3 was \$66 billion. Currency and primary liquidity, issued by the Reserve Bank, were around \$2 billion in June. Therefore around three percent of M3 is created by the Reserve Bank (currency and primary liquidity), with the remainder being created by commercial banks.

I hope that this has answered your queries.

Yours sincerely



Bryan Chapple
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