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Our refs: IRU/9/385

Email/18970/2009

22nd May 2009

Dear Angie,

ELECTRONIC MONEY

Thank you for your enquiry dated 23rd April 2009, which we received on 24th April 2009.

You asked:

- 1) *Is electronic currency legal tender in the UK?*
- 2) *When electronic money is loaned, for example in the instance of on-line loan applications, is there a creation of physical paper money to correspond with the initial e-currency lent, and a physical creation of paper money that corresponds to the interest charged on e-money loaned sufficient to pay the debt back? If so, at what point does the paper money go into circulation?*

You asked these questions under the Freedom of Information (FoI) Act 2000, however, as the Act provides a right of access to *recorded information*. The only relevant information we hold is in connection with the issue of currency and with monetary policy; we do not hold information about the theoretical basis of money.

In general, the Bank of England is better placed to address enquiries about the mechanics of the monetary system because of their executive responsibility for monetary policy and financial stability. There is a wealth of material on their website¹.

To be helpful and on the assumption that what you are seeking from us is an acknowledgment that money supply is increased by new borrowing, the closest I can offer in terms of information we hold, is a speech made by Paul Tucker from the Bank of England and included in the Bank's Quarterly Bulletin for 2008 Q1. Below is a link to the speech and the crucial excerpt.

<http://www.bankofengland.co.uk/publications/quarterlybulletin/qb080110.pdf>

Subject only but crucially to confidence in their soundness, banks extend credit by simply increasing the borrowing customer's current account, which can be paid away to wherever the borrower wants by the bank 'writing a cheque on

¹ <http://www.bankofengland.co.uk>



itself'. That is, banks extend credit by creating money. This 'money creation' process is constrained: by their need to manage the liquidity risk – from the withdrawal of deposits and the draw-down of back-up lines – to which it exposes them.

Against that background, government monetary policy is aimed at ensuring that money remains sound. It seeks to achieve this, partly by regulation of banking activity but mainly by using interest rates to indirectly control inflation. Inflation arises when too much money is chasing too few goods and services – which is a useful reminder that the value of money reflects the confidence that it can be exchanged at relatively stable values, for goods and services. Changes to the money supply do not generally take place in the abstract but are a reflection of the vigour of the economy in terms of the production of valuable goods and services: people take out loans in order to purchase goods and services; and they are granted loans on the basis of their ability to repay, frequently from hiring out their labour.

I hope this commentary and the web links provide some help to you. If you have any queries about this letter, please contact us at the email account given in the header to this letter. It would help us, if you could remember to quote the IRU reference number (also in the header) in any future communications.

Yours sincerely,

Information Rights Unit
On behalf of HM Treasury

Your right to complain under the Freedom of Information Act 2000

If you are not happy with this reply, you may request a review by writing to HM Treasury, Information Rights Unit, 2/S2, 1 Horse Guards Road, London SW1A 2HQ. Email foi.responses@hm-treasury.gov.uk. Any review request must be made within 2 months of the date of this letter.

It would assist our review if you set out which aspects of the reply concern you and why you are dissatisfied.

If you are not content with the outcome of your complaint, you may apply directly to the Information Commissioner for a decision. Generally, the ICO cannot make a decision unless you have exhausted the complaints procedure provided by the Treasury. The Information Commissioner can be contacted at: The Information Commissioner's Office, Wycliffe House, Water Lane, Wilmslow, Cheshire SK9 5AF.