THE SURVEY OF THE SEPARATION OF MONEY AND CREDIT

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In the current monetary system, the creation of money is closely linked to the granting of credit. The stock of money increases when commercial banks grant credit, stimulating aggregate demand and inflation, and it decreases when credit is paid back, exerting a downward pressure on prices [3].

As a matter of theory, it is challenging to model money and credit together, as assumptions adopted to make one viable often make the other untenable. Further, money is inessential even without commitment if there is perfect information (monitoring and record keeping) about actions, since then agents who renege on obligations can be punished, thus allowing credit without commitment. So any theory of essential money must have limited information as well as limited commitment.

In general, it is important to know what kinds of assumptions may or may not make credit matter [2, p. 33].

Promoting a monetary system based on one or the other conceptualisation of money, comes with particular assumptions that determine the thinking about the economy, too. Money can be understood as debt and/or credit which reflects the promise to honour an agreement of exchange [1, p. 17]. The transition from individually issuing banks to modern banks, shows how credit and debt has been established as the main means of exchange. As banks only need to keep a fraction of newly created deposits, they can use the rest of the money as asset to loan out new money, spiraling a chain of extra money created by every single loan made.

In our present-day financial system, the creation of deposits by banks is closely linked to the granting of loans. When a bank provides a loan, it credits the amount in

question to the borrower in the form of a deposit to his or her account. This leads to an increase in credits on the assets side and in customer deposits on the liabilities side of the bank's balance sheet. As a rule, borrowers will immediately use their new deposit to acquire the goods or services for which they requested and received the loan. They thereby trigger a payment that reduces their deposits while increasing the deposits on the payment recipient's account.

As a result, credit emission of money in the national economy is created necessary mass of means of payment ensuring circulation of social capital, GDP growth and national income. This means that credit fulfills the function of advancing the process of expanded reproduction. Advancement allows you to create credit relations at macro and micro levels of the economy and meet the needs of society in borrowed funds. Acceleration of the turnover of loan capital is of exceptional importance for the stability of monetary circulation, the stability of the purchasing power of the national currency and its rate in the world currency markets.

In modern interpretation, the turnover of non-cash credit money in bank accounts can be considered as the main sphere of money circulation.

References:

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