PRICES · SAVINGS · BANKS · BANK OF ENGLAND

FREE GUIDE

Where Did My Money Go?

Inflation and Who Makes Our Money

Free guide · Free to share · Plain English

What £1 from 1971 is worth today: 5p

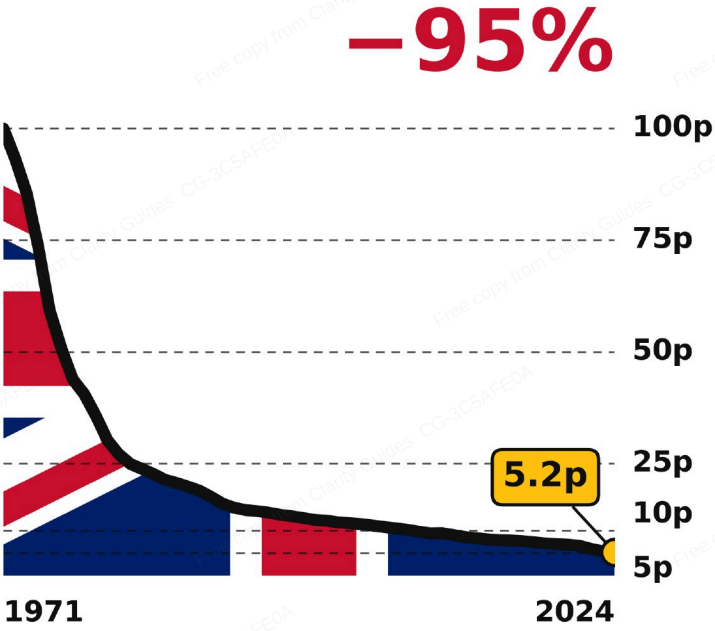

Chart: Clarity Guides, from ONS long-run Retail Prices Index (series CDKO), annual averages 1971–2024. 2024: 5.2p.

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WELCOME

About this guide

You fill the same trolley, buy the same bus pass and pay the same kind of bills, yet the total keeps creeping up. A tenner just doesn't stretch the way it used to. That slow leak has a name: **inflation**.

This free guide explains inflation in plain English, for ordinary households in Scotland and across the UK. It covers how the official figures are worked out, why prices rise and what the Bank of England does about it. Part two explains where money actually comes from: how banks create it when they lend, why Scottish banks print their own notes, and what quantitative easing was. Part three looks at what all this means for your savings, pay, pension and debts. It ends with practical, product-free ways to keep your own budget on track.

All figures were checked on **21 October 2026**, using the September 2026 inflation figures and the June to August 2026 pay figures. Check the Office for National Statistics (ONS) website for anything newer.

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How to use this guide

1. **Short on time?** Read chapter 1 (the one-page version) and chapter 7 (real and nominal), then the checklist in chapter 18.
2. **Worried about your own money?** Chapters 8 and 16 cover savings, pay, pensions, debt and your household budget.
3. **Wondering where money comes from?** Part two (chapters 10 to 14) explains how the Bank of England and ordinary banks create money, what QE was, and how it all links to inflation.
4. **Heard a claim online?** Chapter 17 checks the most common myths about inflation and money.

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IN A WORLD FULL OF DISINFORMATION, GET CLARITY

Every figure comes from an official or well-established independent source, mainly the ONS, the Bank of England, HM Treasury, MoneyHelper, the IFS and the Resolution Foundation. Each is dated and listed, with links, at the back. Where we couldn't confirm a number, we left it out.

Please note: this guide is general education, **not financial advice**, and doesn't recommend any investment, account or product. For free, impartial guidance, contact MoneyHelper (moneyhelper.org.uk); for personal advice, use a regulated financial adviser. Investments can fall as well as rise.

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01

PART ONE · CHAPTER ONE

Inflation in one page

Inflation is simply the speed at which prices are rising. Here is the whole idea in a page, plus the latest UK figures.

The Bank of England puts it simply: inflation is when prices rise, and how quickly they rise is called the **rate of inflation**.[1] If the rate is 3%, then on average something that cost £100 a year ago now costs about £103.

Four ideas unlock almost everything else in this guide:

1. It's an average

Some prices rise fast, some barely move and a few fall. The headline rate blends them all, weighted by how much households spend on each.

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2. It's a speed, not a level

When inflation "falls", prices are usually still rising, just more slowly. Prices only come down if inflation goes below zero.

3. It's about buying power

Inflation shrinks what each pound can buy. If your pay or savings grow more slowly than prices, you are worse off in **real terms**.

4. A little is normal

The UK aims for 2% a year. That is low enough to plan around, and it keeps a safe distance from falling prices, which bring their own problems (chapter 6).

The latest UK figures

MEASURE	LATEST FIGURE	WHAT IT MEANS
CPI inflation	**3.5%** in the 12 months to September 2026 (up from 3.1% in August)	The headline rate the Bank of England is asked to keep at 2%.

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MEASURE	LATEST FIGURE	WHAT IT MEANS
CPIH inflation	**3.6%** (up from 3.3%)	The ONS's lead measure. Like CPI, but it also includes owner-occupiers' housing costs and council tax.
Core CPI	**2.8%** (up from 2.6%)	CPI without energy, food, alcohol and tobacco, which tend to jump about. It gives a sense of the underlying trend.
Services / goods	**3.7% / 3.2%**	Prices of services (haircuts, meals out, rents) and of goods (things you can drop on your foot).
Food and soft drinks	**1.3%**	Food price rises have slowed right down: the rate has stayed at 1.3% for three months running.

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MEASURE	LATEST FIGURE	WHAT IT MEANS
Bank Rate	**3.75%**	Held on 17 September 2026. The next decision, on 5 November 2026, is still to come.

Source: ONS, Consumer price inflation, UK: September 2026, published 21 October 2026 (food figure on the CPIH measure). Bank Rate: Bank of England. The Bank of England's next Bank Rate decision, on 5 November 2026, was still to come when we checked.[2,4]

BANK OF ENGLAND RATE DECISION, 5 NOVEMBER 2026: TO BE ADDED

This guide will be updated with the new Bank Rate after the announcement. Current Bank Rate: **3.75%** (set 18 December 2025, held since, most recently on 17 September 2026).

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WHY IS INFLATION ABOVE 2% RIGHT NOW?

Mostly energy. The ONS says transport, and motor fuels in particular, made the largest upward contribution to the rise in September 2026: average petrol reached 169.5p a litre, the highest since August 2022, and diesel reached 192.5p, the highest since July 2022.[2] The Bank of England links this to conflict in the Middle East disrupting the supply of energy.[4] Chapter 4 explains how an energy shock spreads through prices.

02

CHAPTER TWO · MEASURING IT

The basket of goods: how inflation is measured

Every month, the ONS tracks the prices of hundreds of everyday things. Here is how that “shopping basket” works, and why your own inflation rate may be different.

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The ONS imagines a giant shopping basket of goods and services. As the prices of the items change, so does the cost of the basket. Illustration: Clarity Guides.

The ONS describes it like this: imagine a large shopping basket containing the goods and services households buy. As the prices of those items change, so does the total cost of the basket, and that change is inflation.[5] Within each year the contents stay fixed, so the figures show changes in price rather than changes in what people buy.

What goes in the basket

- In 2026 the basket holds **760 representative items**. Twenty-seven were added this year and 19 taken out.[5]

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- Around **180,000 prices** are gathered each month. Local price collectors visit about **20,000 shops in around 150 places** across the UK, collecting over 100,000 of those prices. Others are collected centrally, online or by phone.[6]
- Since the February 2026 figures, the ONS has also used **supermarket scanner data**, the till records of some large grocery retailers. It covers roughly half the grocery market.[5]
- Petrol and diesel prices are averaged over the month, and fruit and vegetables are priced on an extra day, because their prices change more often.[6]

Why does the basket change? Spending habits shift. When enough households start buying something new, leaving it out would make the index less representative, so the ONS reviews the list every year.

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In and out for 2026

ADDED	REMOVED
Houmous; alcohol-free beer; pet grooming; motorhomes; dashboard cameras; croissants and baby food	Sheets of wrapping paper (replaced by rolls); premium bottled lager bought in pubs and restaurants; separate New World and European white wines (merged into one item)

Source: ONS basket update 2026.[5] The ONS stresses that additions and removals are not a simple measure of what is popular: they keep the sample balanced and up to date.

Weights: not every item counts the same

A rise in the price of rent matters far more to the average household than a rise in the price of birthday cards, so each part of the basket is **weighted** by how much households spend on it. The weights are updated every year.[5,6]

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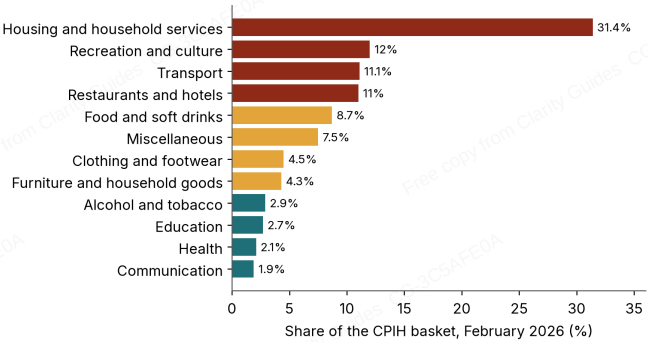
FACT BOX: WHEN ARE PRICES COLLECTED?

Most prices are collected on a single **index day**, usually the second or third Tuesday of the month. Petrol and diesel are averaged over the whole month, and fruit and vegetables are also checked on the Friday before index day, because their prices change more often. The figures are published four or five weeks later, and the ONS says publication has never been delayed or missed.[6]



Housing and household services make up almost a third of the CPIH basket. Chart: Clarity Guides, from ONS data (CPIH weights, February 2026).

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CPI, CPIH and RPI: three measures

MEASURE	WHAT IT COVERS	WHERE YOU WILL MEET IT
CPI (Consumer Prices Index)	Household spending, but not the costs of owning your own home or council tax.	The government's 2% target for the Bank of England. MoneyHelper says CPI is often used for the State Pension and benefits such as Universal Credit.
CPIH	CPI plus owner-occupiers' housing costs and council tax. The ONS's lead measure since March 2017.	ONS headlines; the most complete picture of household prices.
RPI (Retail Prices Index)	An older measure. The ONS says it doesn't meet the standard for accredited official statistics, but it is still published because it is tied to long-term contracts.	MoneyHelper says RPI is typically linked to final salary pension payments, car tax and student loan interest. It usually runs higher than CPI.

Sources: ONS methodology; MoneyHelper.[6,7]

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Your own inflation rate

The official rate is an average across the whole country, so no single household's spending matches it exactly. If you drive a lot, rent privately or heat a draughty house, your personal rate could be higher or lower. The ONS Household Costs Indices, which are still being developed, show the gap for different groups:[8]

HOUSEHOLD GROUP (YEAR TO JUNE 2026)	ANNUAL RISE IN COSTS
All households	2.8%
Private renters	3.0%
Mortgage holders and other owner-occupiers	2.8%
Social and other renters	2.7%
Outright owners	2.6%
Non-retired households	2.9%
Retired households	2.5%

Source: ONS Household Costs Indices, April to June 2026. These are official statistics in development, so the ONS advises caution.[8]

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CLARITY TIP

The ONS website has a free **personal inflation calculator** and a **shopping prices comparison tool**, which shows how the average prices of hundreds of everyday items have changed.[9] Search "ONS personal inflation calculator".

03

CHAPTER THREE · HISTORY

A short history of UK prices

From the double-digit 1970s to the 2022 spike and the 2026 energy shock: what happened and what changed.

Older readers remember when prices seemed to change every few weeks. Younger readers met serious inflation for the first time in 2022. Here are the main turning points. For the longer story

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of money itself, from coins and gold to banknotes, see our *Money: From Shells to Scams* guide rather than repeating it here.

The 1970s: double digits

The 1970s and early 1980s were the UK's great inflation. On the RPI measure of the time, prices were rising by **26.9%** a year in August 1975, the peak of the period.[10] The Bank of England's own worked example shows the effect over a decade: goods costing £23 in 1975 would have cost about £57.68 in 1985, an average rise of 9.6% a year.[12]

Ian McCafferty, a former member of the Bank's Monetary Policy Committee, recalled in 2017 that the high and volatile inflation of the 1970s and early 1980s had "damaging effects on the livelihoods of British households and businesses".[13]

Turning points

WHEN	WHAT HAPPENED
August 1975	RPI inflation peaks at 26.9%.

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WHEN	WHAT HAPPENED
8 October 1992	Three weeks after the UK left the European Exchange Rate Mechanism, the government sets the first direct inflation target: 1% to 4% on the RPIX measure.
6 May 1997	The new Chancellor gives the Bank of England independence to set interest rates to hit a target set by the government, then 2.5% on RPIX. The Monetary Policy Committee is created.
10 December 2003	The target changes to **2% on the CPI** measure, which it still is today.
1997 to 2021	CPI inflation averages 2%, in line with the target.
2015	CPI dips to −0.1% in some months: briefly, prices were slightly lower than a year before.
October 2022	CPI hits **11.1%**, the highest in the official series that began in 1997. ONS estimates suggest it was last higher in October 1981.
2023 to 2025	Inflation falls back as energy prices ease and interest rates bite.

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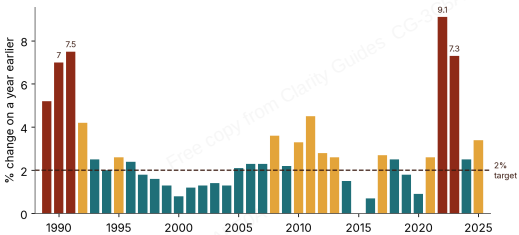
WHEN	WHAT HAPPENED
2026	Conflict in the Middle East pushes energy prices up again. CPI reaches 3.5% in September 2026.

Sources: ONS series and bulletins; Bank of England working paper, speech, letters and explainer.[10,14,13,15,1,11,16,3]



CPI inflation, calendar-year averages, 1989 to 2025. The early 1990s and 2022–23 stand out. Chart: Clarity Guides, from ONS series D7G7.

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READING THE CHART

Take a closer look at the chart above. In the 22 full years since the 2% CPI target began (2004 to 2025), average annual inflation was between 1% and 3% in 13 of them. It was above 3% in six years (2008, 2010, 2011, 2022, 2023 and 2025) and below 1% in three (2015, 2016 and 2020). Hitting 2% exactly is rare: the target is a centre point, not a promise. (Our count from ONS series D7G7, annual averages.)

The 2022–23 spike

In October 2022, food and soft drink prices were up 16.4% on a year earlier, the highest rate since September 1977.[16] The Bank of England gives three causes for the surge: shortages and then a rush of demand as Covid lockdowns ended; Russia's invasion of Ukraine, which drove up gas, energy and food prices; and a shortage of workers after the pandemic, which pushed up the cost of hiring.[17]

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What the evidence says

- **Five years, thirteen years of prices.** The Resolution Foundation calculates that since inflation was last at 2% in July 2021, the UK has had the equivalent of 13 years' worth of "normal" inflation, with prices nearly 30% higher.[18]
- **Our own check agrees.** Using the ONS CPI index, prices in September 2026 were 29% higher than in July 2021, and 43% higher than in September 2016.[11]
- **Households felt it.** The Foundation estimates that real median income for non-pensioner households fell by 1.3% (about £450) between 2020–21 and 2026–27, and that households cut their gas and electricity use by 13% across 2022 and 2023.[18]

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04

CHAPTER FOUR · CAUSES

Why prices rise

Prices don’t rise for one single reason. Economists usually sort the causes into a few big families.

Demand-pull: too much money chasing too few goods

When people and businesses want to buy more than the economy can produce, sellers can charge more. The Bank of England calls this **demand-pull** inflation: “if there is not much of something but lots of people want it, prices go up”.[17] Cheap borrowing, rising incomes, government spending or a rush of pent-up demand can all add to it.

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Cost-push: when it costs more to make things

If the cost of energy, raw materials or wages jumps, businesses often pass some of it on. The Bank calls this **cost-push** inflation, and says recent high UK inflation was driven mainly by higher costs.[17]

Energy: the cost behind every other cost

Energy matters twice over. Households buy it directly (the Bank says it made up about 8% of household spending in 2024), and almost every business uses it to make and move goods. Gas-fired power stations often set the price of electricity, so dearer gas means dearer electricity too.[17]

That is what is happening now. In its September 2026 open letter, the Bank said that of the 1.1 percentage points by which inflation exceeded the target in August, 0.7 points came directly from energy, mostly motor fuels. It also noted that household gas and electricity prices rise more slowly than pump prices, because suppliers buy energy in advance and Ofgem's price cap is set

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using past costs.[19] See our *Keep Warm for Less* guide for how the price cap works and how to cut heating bills.

Expectations and “second-round effects”

If people expect prices to keep rising, workers ask for bigger pay rises and firms put prices up in advance, which can make inflation stick. The Bank calls these knock-on rounds **second-round effects**. It says interest rates can’t stop an energy shock, but they can make it less likely that higher costs turn into a lasting spiral.[17] In September 2026 it said there was little evidence so far of significant knock-on effects on prices and wages.[4]

A simple map of the causes

TYPE	PLAIN-ENGLISH VERSION	RECENT UK EXAMPLE
Demand-pull	More buying than the economy can supply	The rush of spending as lockdowns ended in 2021

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TYPE	PLAIN-ENGLISH VERSION	RECENT UK EXAMPLE
Cost-push	It costs more to make or deliver things	Gas prices after Russia invaded Ukraine in 2022; fuel prices in 2026
Labour shortages	Firms pay more to hire, and pass it on	Workers leaving the workforce after the pandemic
Expectations	Everyone braces for rises, which makes them happen	The risk the Bank is watching in 2026

Based on Bank of England explainers and the September 2026 open letter.[17,19]

Quick test. Think of three things you bought a year ago and still buy now. Did each cost more, the same or less? That rough check is a small version of what the ONS does with thousands of prices every month.

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WHAT ABOUT "PRINTING MONEY"?

How money is created, by banks when they lend and by the Bank of England through quantitative easing, is a big subject in its own right. Economists still argue about how much it mattered in 2021–22, and chapter 5 sets out the main views. Part two of this guide (chapters 10 to 14) explains how money is created today. For the longer history of money, see our *Money: From Shells to Scams* guide.

05

CHAPTER FIVE · DIFFERENT VIEWS

How economists disagree about inflation

Economists broadly agree on how to measure inflation, but they disagree about its main causes and the best cure. Here are

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four well-known schools of thought, each described as its supporters see it, followed by the main criticism.

This is a quick tour, not a verdict. The UK's official approach, an independent central bank using interest rates to hit a 2% target (chapter 6), draws on more than one of these traditions. Each school has thoughtful supporters and serious critics.

Keynesian

Supporters say: named after the British economist John Maynard Keynes, this view holds that total demand drives output and jobs, and that wages and prices adjust slowly. So governments and central banks should lean against booms and slumps, using spending, taxes and interest rates.[21]

Critics say: in the 1970s, high inflation came alongside slow growth, which traditional Keynesian theory struggled to explain or cure. That opened the door to monetarism.[20]

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Monetarist

Supporters say: associated with Milton Friedman, monetarism holds that the amount of money in the economy is the main driver of prices over the longer term, so central banks should keep money growing at a steady, predictable rate. The IMF notes that monetarism gained influence in the 1970s, and that in the UK, Margaret Thatcher's government used it against inflation, which fell below 5% by 1983.[20]

Critics say: the link between money and spending broke down in the 1980s and 1990s, as the speed at which money changes hands (its "velocity") became unpredictable, and many economists dropped strict money targets. Still, the IMF says one monetarist idea is now widely shared: inflation can't keep going without growth in the money supply, and controlling it is a central bank's main job.[20]

Austrian

Supporters say: the Austrian school (Carl Menger, Ludwig von Mises, Friedrich Hayek) sees new money entering the economy step by step and distorting prices along the way. It warns that

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credit expansion fuels booms that end in busts, and many of its supporters favour “sound money”, such as a gold standard, and limited government.[22]

Critics say: most central banks, including the Bank of England, argue that a small, steady amount of inflation is healthier than none, because falling prices can lead to wage cuts, job losses and heavier debts.[25] Even the Mises Institute acknowledges that the school’s preference for logical reasoning over data, and its key works, were not well received by most of the economics profession.[22]

Modern Monetary Theory (MMT)

Supporters say: a government that issues its own currency can’t simply run out of money. The real limit on its spending is inflation, which appears when spending outruns what the economy can produce, and taxes can be used to manage it. Stephanie Kelton’s book *The Deficit Myth* is the best-known popular case.[24]

Critics say: the authors of a 2021 Banque de France working paper argue that MMT lacks formal modelling, underplays how markets and

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expectations react to big deficits, and wrongly treats central bank independence as a myth. In their view, MMT is closer to “a political manifesto” than “a genuine economic theory”.[23]

MMT supporters reply: Stephanie Kelton argues that MMT is “a descriptive framework”, a lens for judging fiscal and monetary policy rather than a set of policies, so it can’t be blamed for the spending choices governments made in 2020–21.[26]

SCHOOL	MAIN CAUSE OF INFLATION	MAIN CURE
Keynesian	Demand running ahead of supply; cost shocks	Manage demand with fiscal and monetary policy
Monetarist	Too much money growth	Steady, rule-based money growth
Austrian	Credit and money expansion	Sound money; less intervention
MMT	Spending beyond real capacity	Taxes and spending to manage demand

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CLARITY TIP

When someone online says inflation is “obviously” caused by one thing, ask which school they are speaking from. The honest answer is usually “several things at once”, in proportions economists still argue about.

06

CHAPTER SIX · THE BANK OF ENGLAND

What the Bank of England actually does

The government sets the target; the Bank decides how to hit it. Here is how that works, and why the target is 2% rather than zero.

The target

Each year the Chancellor writes to the Governor to set the Bank’s remit. The latest letter, dated 26 November 2025, re-confirms the target as **2%**, measured by the 12-month rise in the CPI. The

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target is “symmetric and applies at all times”, so undershooting matters as much as overshooting. The letter also accepts that shocks will sometimes push inflation away from the target for a while.[27]

When inflation misses by more than 1 point

If CPI inflation moves more than 1 percentage point away from 2% in either direction, the Governor must write an open letter to the Chancellor explaining why and what the Bank will do. That happened on 17 September 2026, after CPI reached 3.1% in August. It has since risen to 3.5% in September.[28,2] The letter is public, so anyone can read the Bank’s reasoning in its own words.

Why 2%, and not zero?

The Bank says 2% is low enough to keep price rises small but high enough to avoid **deflation**, when overall prices fall, businesses earn less and cut wages and jobs. It adds that the 2% target is similar to that of many other countries.[1]

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THE RISK WITH FALLING PRICES

- People put off buying, hoping prices will fall further
- Firms earn less and cut wages or jobs
- Debts don't shrink, so they feel heavier[25]

THE CASE FOR A LITTLE INFLATION

- Price rises are small and predictable
- Room to cut interest rates in a slump
- A safety margin above zero

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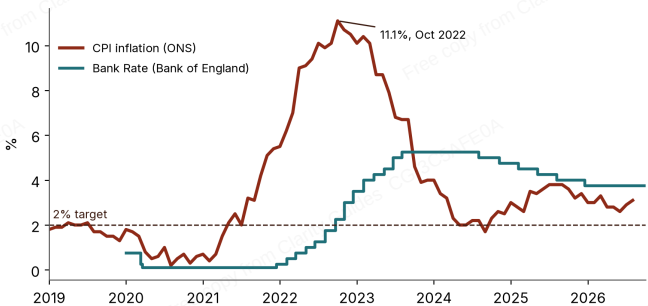
The tool: Bank Rate

The Bank's main tool is **Bank Rate**, the interest rate it pays banks that hold money with it. Changes ripple out to mortgages, loans and savings. Higher rates make borrowing dearer and saving more rewarding, so people and firms tend to spend less, and when spending slows, businesses are less able to raise prices.[4]

Bank Rate is set by the nine members of the **Monetary Policy Committee** (MPC), who meet eight times a year.[4,17,29] The Bank can also buy or sell government bonds (quantitative easing, and its reverse) to influence longer-term interest rates.[1]



CPI inflation and Bank Rate since 2019. Rates rose from 0.1% to 5.25% as inflation surged, then fell back to 3.75%. Chart: Clarity Guides, from ONS and Bank of England data.

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DATE	BANK RATE	CONTEXT
19 March 2020	0.1%	Emergency cut as Covid lockdowns began; the lowest in the Bank's history
16 December 2021	0.25%	First rise as inflation climbed
3 August 2023	5.25%	Peak, after 14 rises in a row
1 August 2024	5%	First cut
18 December 2025	3.75%	Latest change; held since, including on 17 September 2026

Source: Bank of England Bank Rate history and explainers.[30,17]

What the Bank can and can't do

Interest rates can't produce more gas or reopen a shipping lane. The Bank is open that higher rates can neither stop cost shocks from happening nor immediately prevent their effects. What they can do is cool demand, so that a jump in costs is less

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likely to become a lasting wage-and-price spiral.[17] Rate changes also take time to work through to the wider economy.[19]

LOOKING AHEAD (A PROJECTION, NOT A PROMISE)

Based on energy futures prices on 14 September 2026, Bank of England staff expected CPI inflation to rise to around 3¾% in the last three months of 2026 and slightly above 4% in early 2027, mainly because of household energy bills.[19] Projections change as events change, so check the Bank's latest Monetary Policy Report. The next decision is due on 5 November 2026.

READ THE DECISION YOURSELF

The Bank of England publishes each Bank Rate decision at 12 noon on announcement day, usually a Thursday, together with the minutes of the meeting.[29] Search "Bank of England Monetary Policy Summary" to read it in the Bank's own words.

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07

CHAPTER SEVEN · REAL VS NOMINAL

Real and nominal: the most useful idea in this guide

A pay rise or an interest rate means little on its own. What matters is how it compares with prices.

Nominal means the number on the payslip, the price tag or the bank statement. **Real** means that number adjusted for inflation: what it will actually buy.

Real change ≈ nominal change – inflation

This quick rule is close enough for everyday use when the numbers are small. A 5% pay rise with 3% inflation is roughly a 2% real rise. A 2% rise with 3% inflation is roughly a 1% real cut, even though your pay went up.

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Pay: the latest picture

In June to August 2026, employees' average regular pay (excluding bonuses) was 3.7% higher than a year before. After adjusting for inflation using CPIH, the ONS puts real regular pay growth at just **0.6%** (0.8% if you use CPI instead). Average weekly earnings were £707 for regular pay and £757 including bonuses in August 2026.[31]

PAY MEASURE, JUNE TO AUGUST 2026	NOMINAL GROWTH	REAL GROWTH (CPIH)	REAL GROWTH (CPI)
Regular pay	3.7%	0.6%	0.8%
Total pay (with bonuses)	3.7%	0.7%	0.9%

Source: ONS, Average weekly earnings in Great Britain: October 2026, published 20 October 2026. The next figures are due on 17 November 2026.[31]

Savings: worked examples

MoneyHelper gives a clear example: put £100 in an account paying 1% and you have £101 after a year, but if inflation is 5%, something that cost £100 now costs £105.[7] The table below uses the

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same idea with round numbers. The interest rates are made up for illustration; they are not real offers or a forecast.

£1,000 SAVED FOR ONE YEAR	BALANCE AFTER A YEAR	COST OF THE SAME SHOPPING	REAL RESULT
Interest 1%, inflation 3%	£1,010	£1,030	About £20 worse off
Interest 3%, inflation 3%	£1,030	£1,030	Standing still
Interest 4%, inflation 3%	£1,040	£1,030	About £10 better off, before any tax

Tax can turn a small real gain into a loss, and the rules on tax on savings interest change from April 2027. Our *Your Money in 2027* guide covers the allowances and ISA changes, so we haven't repeated them here.

The slow squeeze: steady inflation over ten years

INFLATION EACH YEAR	WHAT £10,000 BUYS AFTER 10 YEARS, IN TODAY'S MONEY
1%	About £9,050

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INFLATION EACH YEAR	WHAT £10,000 BUYS AFTER 10 YEARS, IN TODAY'S MONEY
2% (the target)	About £8,200
3%	About £7,440
5%	About £6,140

Our arithmetic: £10,000 divided by (1 + the inflation rate) ten times over, rounded to the nearest £10. It assumes the money earns nothing, so it shows the cost of leaving cash idle. It is not a prediction.

THE RULE OF 72

A handy rule of thumb: divide 72 by the inflation rate to estimate how many years it takes for prices to double. At 2% a year, prices roughly double in 36 years; at 3%, in about 24; at 6%, in about 12. It is an approximation, but a good one for rates under about 10%.

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WHY THE ONS FIGURE ISN'T A QUICK SUM

Pay grew 3.7% in June to August 2026 and CPI inflation was 3.5% in September, but the ONS puts real regular pay growth at 0.8% on CPI, not 0.2%. That's because it adjusts pay over June to August using prices over the same three months, when CPI inflation averaged about 2.9%.[31,11] When you compare figures yourself, use the same months for both.

08

CHAPTER EIGHT · WHO WINS, WHO LOSES

What inflation does to savings, pay, pensions and debt

Inflation never hits everyone equally. It depends on what you earn, what you own, what you owe and what you buy.

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Savings

Cash savings lose buying power whenever the interest is lower than inflation. MoneyHelper says there is no sure way to protect money from inflation, but that savings accounts are still the right place for money you may need soon. As a general rule, it suggests a savings account for goals within about five years, while longer-term goals mean thinking about inflation and risk.[7] This is general guidance, not financial advice; investments can fall as well as rise. Some savings are index-linked, paying interest that tracks inflation, though MoneyHelper warns that these won't always keep up with other interest rates.[7]

See our *Money Clarity* guide for building an emergency pot and deciding where to keep it.

Pay

If pay rises lag behind prices, living standards fall even when pay packets grow. The Resolution Foundation estimates that real median non-pensioner household income would have been about £2,900 higher in 2026–27 without the cost of living crisis.[18] Chapter 16 has tips for using official figures in a pay conversation.

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Pensions and benefits

Many incomes are linked to an inflation index. MoneyHelper says CPI is often used for the State Pension and benefits such as Universal Credit, while RPI is typically linked to final salary pension payments.[7] Increases to workplace pensions depend on your scheme's rules, and some are capped, so ask your scheme administrator which index applies to you and whether there is a limit.

See our *Your Money in 2027* guide for the State Pension triple lock, April benefit uprating and Scottish benefit rates, which we don't repeat here.

Debt

Inflation cuts both ways for borrowers. A fixed debt, such as a loan with a set balance at a fixed rate, gets lighter in real terms as prices and (hopefully) pay rise, because the amount you owe stays the same. But high inflation usually brings higher interest rates, so anyone on a variable rate, or coming off a fixed deal, can face bigger payments.

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The Bank of England makes the mirror-image point about deflation: when prices fall, the money you owe stays the same, so debts become harder to repay.[25] See our *Money Clarity* guide for borrowing traps and where to get free debt help.

Usury: is there a limit on interest?

Usury once meant charging any interest on a loan. Today it usually means charging unfairly high interest.

For centuries, many faiths frowned on it. In medieval Europe the Christian church taught that lending at interest was sinful. In 1179 the Third Lateran Council ruled that open usurers should be refused Communion and a Christian burial.[32] Islam forbids *riba* (interest). Islamic banks work around this: savers share in profits, and for homes the bank buys the property and sells it on at an agreed profit, or co-owns it with the buyer. The Bank of England even created an account that pays no interest, so that Islamic banks can use it.[33]

Both England and Scotland had usury laws. The Usury Laws Repeal Act 1854 scrapped “all existing Laws against Usury”. It named Acts of

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the old Scottish Parliament from 1587 to 1621, so it covered Scotland too. Pawnbroking laws were left alone.[34]

There is still no general legal limit on interest in the UK. The main exception is payday-style lending ("high-cost short-term credit"). Since 2 January 2015, the FCA has capped it as follows:[35,36]

- Interest and fees: no more than 0.8% a day
- Default fees: no more than £15
- Total cost: never more than the amount borrowed (100%)

Courts can also step in. Since 2007, under the Consumer Credit Act 1974 (as amended in 2006), a court can change a credit deal if the relationship between lender and borrower is unfair.[37]

Loan sharks lend illegally and often make threats. In Scotland, report them to the **Scottish Illegal Money Lending Unit** on 0800 074 0878 (24 hours) or at stopillegallending.co.uk.[38] For free debt help, try **MoneyHelper's** debt advice locator, **Citizens Advice Scotland** or **Money Advice Scotland**.[39,40,41]

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Renters and owners

In the year to June 2026, private renters had the highest rate of household cost inflation in the ONS figures (3.0%), and outright owners the lowest (2.6%).[8]

QUICK CHECK: WHERE DO YOU STAND?

Tick any that apply. The more ticks, the more closely it pays to watch inflation.

- ☐ Most of my savings are in an account paying less than inflation
- ☐ My pay or pension rises are fixed, or decided once a year
- ☐ I rent, or my mortgage deal ends within a year
- ☐ Energy, food and travel take up a large part of my budget
- ☐ I have a loan or card debt on a variable rate

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Poorer households often feel it more

What the evidence says

- **Energy takes a bigger bite.** The Resolution Foundation says households in the second-lowest income tenth spend about 11% of their income on energy, compared with about 6% for those in the ninth.[42]
- **"Cheapflation".** The Institute for Fiscal Studies found that between mid-2021 and mid-2023, the cheapest products in each grocery category rose in price by an average of 34%, compared with 18% for the priciest. The lowest-spending tenth of households faced grocery inflation 7.7 percentage points higher than the top tenth.[43]
- **It isn't always the case.** The ONS Household Costs Indices for the year to June 2026 show low- and high-income households close together, at 2.7% and 2.8%, as food inflation eased.[8] Who is hit hardest depends on which prices are rising.

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TENDS TO LOSE OUT	TENDS TO COPE BETTER OR GAIN
People with cash savings earning less than inflation	Borrowers with fixed-rate debts, while their rate lasts
Workers whose pay rises lag behind prices	People whose income is linked to inflation
Households spending a large share on energy and food	Those who can switch to cheaper alternatives
Borrowers on variable rates when interest rates rise	Savers when interest rates beat inflation

A general pattern, not a rule: your own position depends on the details.

A useful habit. When someone quotes you a savings rate, a pay rise or a pension increase, put the latest CPI figure next to it. If the first number is smaller, your money is losing buying power, however good it sounds.

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KEY POINTS

- Cash loses buying power when its interest is below inflation.
- Pay rises only help if they beat price rises.
- Check which index, if any, your pension or benefit follows.
- Fixed debts shrink in real terms; variable rates can bite.
- Poorer households often face higher inflation, but not always.

09

CHAPTER NINE · SHRINKFLATION

Shrinkflation: same price, less stuff

Sometimes the price stays the same but the packet gets smaller. Here is what the evidence shows, and how to spot it.

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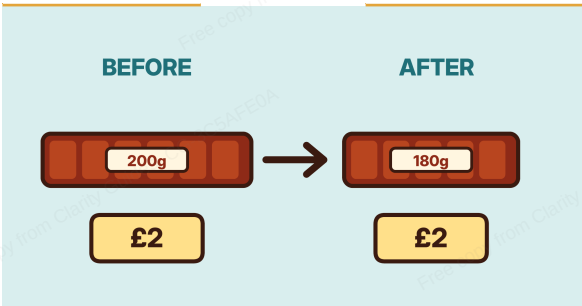

Shrinkflation: a smaller pack at the same price is a price rise in disguise. Illustration with example figures: Clarity Guides.

The ONS describes shrinkflation as a product's size being reduced while its price stays the same. In other words, you pay the same for less.[44]

What the ONS found

- Between September 2015 and June 2017, the ONS identified **206 products that shrank** and 79 that got bigger, mostly food and drink.[44]
- Prices tended not to change in the month the size changed, which fits the idea of shrinkflation.[44]
- Shrinking packs were a small minority overall. In 2016, between about 1% and 2.1% of tracked food and drink items shrank.[44]

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- In one category, sugar, jam, syrups, chocolate and confectionery, shrinking pack sizes added 1.22 percentage points to that category's inflation between the start of 2012 and mid-2017.[45]

Does the official rate count it?

Yes. The ONS adjusts its figures for changes in pack size so that it compares like with like, so a bar that shrinks at the same price counts as a price rise. When the ONS tested the effect, it found no noticeable impact on the overall CPIH rate, because food and drink are only a small part of the whole basket.[45,44]

How to spot it

- ☐ Check the **unit price** on the shelf label (per 100g, per litre or per sheet), not just the sticker price
- ☐ Compare the weight or count on the pack with what you remember
- ☐ Watch for "new look" packaging, which can coincide with a size change
- ☐ Compare own-brand and branded unit prices side by side

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- ☐ Remember that multipacks and bigger packs aren't always cheaper per unit

A COUSIN OF SHRINKFLATION

When cheaper versions of a product rise in price faster than premium versions, economists call it **cheapflation** (chapter 8). It explains why households that already buy the basic range can feel inflation more sharply than the headline figure suggests.[43]

FACT BOX

Chocolate shows how prices move for different reasons. The ONS says inflation for sugar, jam, chocolate and confectionery peaked at 11.9% in October 2025 and had fallen to 0.6% by August 2026, mainly because of changes in the price of chocolate.[3]

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PRACTISE THE UNIT PRICE SUM

Pack A: 200g for £2.00 = £1.00 per 100g.
Pack B: 180g for £2.00 = about £1.11 per 100g.

Same shelf price, but Pack B costs about 11% more for the same amount. Work it out as: price ÷ weight × 100. Most shelf labels already do this for you in small print.

KEY POINTS

- Shrinkflation is a smaller pack at the same price.
- The ONS adjusts for pack sizes, so it counts as a price rise.
- It had no noticeable effect on overall CPIH.
- The unit price on the shelf label is your best defence.

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10

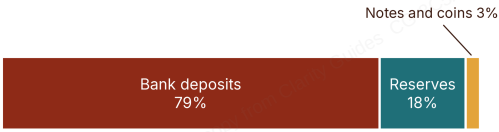
PART TWO · CHAPTER TEN

Who makes our money?

Before we look at how money is created, it helps to know what counts as money in the UK today, and who is in charge of each kind.

Most of us picture money as notes and coins. But when you get paid, pay a bill by card or move savings between accounts, no cash changes hands at all. The numbers in your bank account are money too, and they make up by far the biggest share.

Three kinds of money



The three types of money in the UK economy, as shown by the Bank of England (explainer last updated October 2019). Chart: Clarity Guides, from Bank of England figures.[47]

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TYPE OF MONEY	WHAT IT IS	WHO CREATES IT
Bank deposits	The money in current and savings accounts at banks and building societies.	Commercial banks, mainly when they lend (chapter 11).
Central bank reserves	Electronic money that banks keep in their own accounts at the Bank of England, and use to pay each other.	The Bank of England.
Notes and coins	Cash. Bank of England notes, Scottish and Northern Ireland notes, and coins.	The Bank of England (notes in England and Wales), six commercial banks (their own notes, chapter 12) and the Royal Mint (coins).

Source: Bank of England explainers and Quarterly Bulletin.[47,46] You and I can only hold two of these: deposits and cash. Reserves are only for banks and some other financial firms.

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What the Bank of England does

The Bank of England is the UK's central bank. When it comes to money, it has three big jobs. It prints and issues banknotes, it runs the system banks use to settle payments with each other in reserves, and it sets **Bank Rate** to keep inflation close to the 2% target (chapter 6).[48]

Bank Rate is the interest the Bank pays on the reserves that banks and other eligible firms leave with it overnight. Because banks can always earn that rate, it acts as a floor for what they charge and pay each other, and it feeds through to mortgage, loan and savings rates.[48,46]

FACT BOX: CASH IN NUMBERS

4.98 billion notes

That is how many Bank of England banknotes are in circulation, worth about £91.5 billion together. The Bank says growth in recent years has come mainly from £20 and £50 notes. It measures the total on the last day of February each year.[49]

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MYTH OR FACT?

“The Bank of England prints most of our money.”

Myth. The Bank’s own explainer says most money is created “not by printing presses at the central bank, but by banks when they provide loans”.[47]

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CHAPTER ELEVEN · BANKS AND LENDING

How banks create money when they lend

This is the part that surprises most people. When a bank gives you a loan, it doesn’t hand over someone else’s savings. It creates new money.

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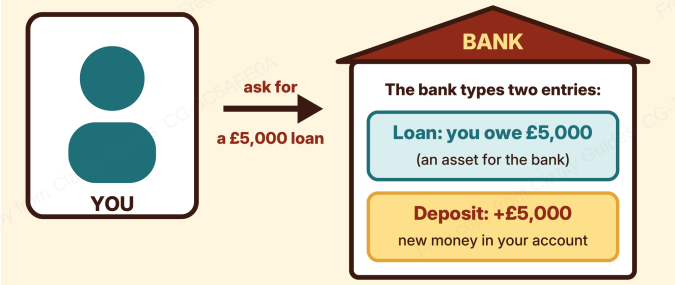

When a bank makes a loan, it creates a matching deposit: new money in the borrower's account. Illustration: Clarity Guides, based on the Bank of England's explanation.

In 2014 three Bank of England economists set out how this works in a paper called *Money creation in the modern economy*. It is still the clearest official explanation. In their words: "Whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money."[46]

A step-by-step example

1. **You borrow £5,000 for a car.** The bank checks you can afford it, then types two entries: a £5,000 loan (you owe the bank) and £5,000 in your account (the bank owes you).

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2. **New money now exists.** Nobody else's balance went down. The deposit didn't exist until the bank created it.
3. **You pay the car dealer.** The money moves to the dealer's account, perhaps at another bank. Your bank settles with the dealer's bank in reserves at the Bank of England.
4. **You repay the loan.** As you pay it off, the money is "deleted". Your balance and your debt both fall, so you are no richer or poorer.

As the Bank puts it, "banks create money, not wealth". Every new pound of deposits is matched by a pound of debt.[47]

Why this matters to you. If banks create money when they lend, then Bank Rate and lending rules affect how much new money appears in the economy, not just how much savers earn.

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Two common misunderstandings

MYTH 1: BANKS LEND OUT SAVERS' MONEY

Many textbooks describe banks as middlemen: savers deposit money, and the bank lends it out. The Bank of England paper says it works the other way round: in the modern economy, "bank lending creates deposits".[46]

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MYTH 2: THE MONEY MULTIPLIER

Another textbook idea is the “money multiplier”: the central bank fixes a pot of reserves and banks lend out a multiple of it. The paper says that, in normal times, the central bank doesn’t fix the amount of money in circulation, and reserves aren’t “multiplied up” into loans.[46]

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WHAT ABOUT FRACTIONAL RESERVE BANKING?

You may hear that the UK has a “fractional reserve” banking system. The textbook story goes like this. Banks keep a small fraction of each deposit as reserves and lend out the rest. That loan is spent and deposited at another bank, which keeps a fraction and lends the rest again. So a fixed pot of central bank reserves gets “multiplied up” into far more money. This is called the **money multiplier**.

The Bank of England says this is not how it works today. In its 2014 paper, lending comes first: a new loan creates a new deposit (see above). The paper says that in normal times “the central bank does not fix the amount of money in circulation, nor is central bank money ‘multiplied up’ into more loans and deposits”.[46] It also notes that “there are no reserve requirements in the United Kingdom”.[46]

The UK did once have a reserve rule. From 16 September 1971, banks had to keep reserve assets of at least 12½% of their eligible liabilities.[51] That ratio was cut to 10% in

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January 1981 and scrapped on 20 August 1981.[52] A small cash ratio deposit scheme replaced it, but it existed to fund the Bank of England, not to limit lending. Since 1 March 2024 a levy has replaced that too.[52,53] Today the Bank's governor says: "we do not have such minimum reserve requirements".[54]

So what does limit banks? The Bank lists:[46]

- **Capital and liquidity rules**, which make banks hold buffers against losses and cash needs
- **Profit**: loans must earn more than they cost
- **Demand**: people and firms have to want to borrow
- **Bank Rate**, which the paper calls the ultimate limit

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So can banks create as much as they like?

No. The 2014 paper and the Bank's explainer describe several limits:[46,47]

- **Profit and competition.** A bank has to lend at rates people will accept and that still cover its costs and losses. If it lends too cheaply or too riskily, it loses money.
- **Paying other banks.** Borrowers spend the money, often at other banks. A bank that lends far more than its rivals will keep having to pay them in reserves, and could run short.
- **Regulation.** Banks must hold enough capital to absorb losses if loans go bad. The Bank says these rules have become stricter since the financial crisis.
- **What we choose to do.** Households and firms can "destroy" money quickly, for example by using it to pay off existing debts.
- **Monetary policy.** The paper calls this the ultimate limit. By setting Bank Rate, the Bank of England influences how much people want to borrow, and so how much money banks create.

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Money and lending today

MEASURE (AUGUST 2026)	FIGURE
Growth in broad money (M4ex) over the past year	4.4%
Net new mortgage borrowing in the month	£4.4 billion
Net new consumer credit (cards, loans, car finance) in the month	£2.5 billion
Growth in consumer credit over the past year	9.6%
Growth in credit card borrowing over the past year	13.3%

Source: Bank of England, Money and Credit: August 2026, published 29 September 2026.[50] "Broad money" here means the deposits and cash held by households and firms (excluding some financial firms that mainly deal with each other).

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GOOD TO KNOW

Next time someone says a bank is “lending out your savings”, you can explain that, in the Bank of England’s description, lending comes first and creates the deposit. Your savings are still yours: up to the protection limit, deposits are covered by the Financial Services Compensation Scheme (FSCS) if a UK-authorised bank fails. See our *Money Clarity* guide for more on keeping savings safe.

12

CHAPTER TWELVE · SCOTLAND AND THE FUTURE

Scottish banknotes and the digital pound

Scotland has its own banknotes, issued by commercial banks rather than the Bank of England. And the Bank is weighing up a whole new kind of money.

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Why Scottish banks still issue notes

Only the Bank of England issues banknotes in England and Wales. In Scotland, three banks are authorised to issue their own: **Bank of Scotland**, **Clydesdale Bank** and **The Royal Bank of Scotland**. Three more banks issue notes in Northern Ireland.[55] For how banknotes began, from Scotland's first bank in 1695 onwards, see our *Money: From Shells to Scams* guide.

What backs a Scottish note?

By law, the issuing banks must set aside assets worth at least the value of all their notes in circulation. These backing assets can be Bank of England notes, UK coins or money held in an account at the Bank of England. If an issuing bank failed, they could be used to pay everyone holding its notes, giving similar protection to holding Bank of England notes.[55]

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FACT BOX: GIANTS AND TITANS

Some of the Bank of England notes held as backing are worth far more than any note you will see in a shop: **£1 million** notes, known as Giants, and **£100 million** notes, known as Titans.[55]

Are Scottish notes legal tender?

Strictly, no. But neither are Bank of England notes in Scotland. The Bank of England explains that in Scotland and Northern Ireland only Royal Mint coins count as legal tender, and that “legal tender” has a narrow technical meaning about settling debts in court. It doesn’t mean a shop must accept a payment, and it rarely matters in everyday life.[56]

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TRAVELLING SOUTH?

If a shop in England refuses a Scottish note, it is allowed to: shops can choose which payments they take. Most will accept them. If you are travelling, a card or Bank of England notes can save an awkward moment. Scottish notes can be paid into your own bank account as normal.

A digital pound?

A digital pound would be a form of money issued directly by the Bank of England, like a digital banknote, held in a digital wallet and used to pay in shops or online. The Bank says it would not replace cash, would not be a cryptocurrency, and would always be worth the same as a banknote: £10 in digital pounds would equal a £10 note.[57]

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What the evidence says

- **Status.** When we checked on 19 October 2026, the Bank said no decision had been made on whether to introduce a digital pound. Its design phase ends in 2026, and the Bank and HM Treasury said they would set out their decision on next steps later in the year.[57,58]
- **Privacy.** The Bank says any future law would guarantee users' privacy, and that neither it nor the government would be able to see or control how you spend your digital pounds. You would access them through a wallet run by a private company.[57]
- **Your say.** The Bank's 2023 consultation received more than 50,000 responses. The Bank says Parliament would also have a say, and there would be further public consultation, before any digital pound was launched.[57]

Supporters see a digital pound as a way to keep public money at the heart of a payments system that is moving away from cash. Critics worry

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about privacy, about deposits moving out of banks, and about whether it is needed at all. Watch for the decision, and read the Bank's own pages rather than social media claims.

SCAM ALERT

No genuine digital pound exists yet. Anyone offering to sell you "digital pounds", "Britcoin" or a Bank of England coin is running a scam. Check the FCA Warning List before dealing with any firm. See our *Money: From Shells to Scams* guide for how crypto scams work.

KEY POINTS

- Only the Bank of England issues notes in England and Wales; three banks issue their own in Scotland.
- Those banks must hold backing assets worth at least the value of their notes.
- Shops can choose whether to take a note, wherever it was issued.
- No digital pound exists yet, and no decision has been made.

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CHAPTER THIRTEEN · QE AND QT

Quantitative easing and tightening

Between 2009 and 2021 the Bank of England created hundreds of billions of pounds to buy bonds. Since 2022 it has been slowly unwinding them. Here is what that means.

What is quantitative easing?

Quantitative easing (QE) is a way of lowering longer-term interest rates when Bank Rate is already close to zero. The Bank of England creates new central bank reserves electronically and uses them to buy bonds, mostly UK government bonds (called **gilts**) from investors such as pension funds and asset managers. The Bank says this money did not come from taxes or government borrowing.[48]

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Buying lots of bonds pushes their prices up. A bond pays a fixed amount of interest, so a higher price means a lower **yield**. The Bank's own example: a £100 bond paying £5 a year yields 5%; if its price rises to £120, the same £5 is a yield of about 4.2%. Lower gilt yields feed through to cheaper mortgages and loans, encouraging spending.[48]

The investors who sold the bonds now hold new bank deposits instead. The 2014 paper explains that they then tend to buy other assets, such as shares and company bonds, pushing those prices up too.[46]

QE in numbers

DATE	WHAT HAPPENED
March 2009	First QE, during the global financial crisis, when Bank Rate couldn't usefully go any lower.
2016	More QE after the referendum on EU membership.
Spring 2020	Large purchases at the start of the Covid pandemic.
November 2020	The last time an increase in QE was announced.

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DATE	WHAT HAPPENED
Turn of 2022	Holdings peak at £895 billion: £875 billion of gilts and £20 billion of company bonds.
February 2022	The MPC decides to start shrinking the stock: quantitative tightening (QT).
16 September 2026	Gilts held for monetary policy: £488 billion.

Sources: Bank of England, Quantitative easing; Governor's letter and speech by Dave Ramsden, September 2026.[48,60,61] The figures are measured in what the Bank originally paid ("initial purchase proceeds").

Did QE work, and who gained?

The Bank says research suggests QE supported its aim of low and stable inflation, with the biggest effects when markets were under stress: in 2009, after the 2016 referendum and in spring 2020.[48] It also accepts that QE raised the value of shares and other assets, which mostly benefited older people who own more of them. But it argues that QE also supported jobs and wages, which helped younger people most, and that overall it did not increase inequality.[48] Critics,

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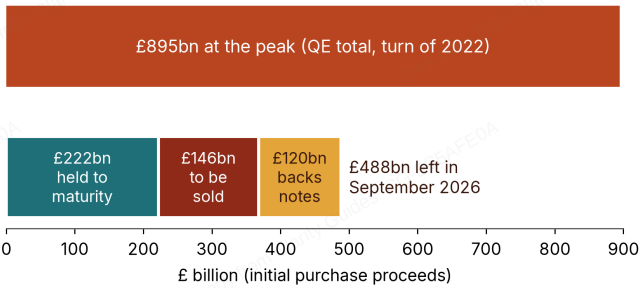
especially those in the Austrian and monetarist traditions (chapter 5), argue that QE inflated asset prices, rewarded those who already owned wealth, and stored up inflation for later (chapter 14).

Quantitative tightening: the unwind

QT is QE in reverse. The Bank lets bonds mature without replacing them, and sells some back to investors. When that happens, the money it created to buy them disappears. The Bank says the aim of QT is not to change interest rates or inflation, but to make room to use QE again in future if needed.[48]



From the £895 billion peak to £488 billion, and the September 2026 plan for what is left. Chart: Clarity Guides, from Bank of England figures.

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In September 2026 the MPC agreed a multi-year plan for the remaining £488 billion of gilts:[59,60,61]

- **£222 billion** of gilts maturing before 2035 will be held until they mature.
- **£146 billion** of gilts maturing between 2035 and 2049 will be sold at about £20 billion a year, possibly to the government's Debt Management Office rather than to the market. Details are due by April 2027, and the Bank's own sales auctions are paused meanwhile.
- **£120 billion** of the longest-dated gilts will stay with the Bank to back banknotes indirectly.
- Overall, the stock held for monetary policy is due to shrink by an average of **£46 billion a year** and reach zero by the end of 2034. That compares with an average of £87.5 billion a year over the first four years of QT.

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THE LATEST FIGURE

£488.1 billion

The Bank of England's stock of gilts at the close of 14 October 2026, after sales and maturities. It was £521.8 billion on 30 June 2026. The next gilt in the portfolio, the 0⅜% Treasury Gilt 2026, matures on 22 October 2026, and the Bank's next quarterly report is due on 10 November 2026.[62,63,61,64]

There is a cost to the public purse too. The Bank pays Bank Rate on the reserves created by QE, and it often sells gilts for less than it paid. Losses and gains on the scheme pass to HM Treasury under an agreement called the APF indemnity.[63,62] We haven't quoted an overall figure, because estimates depend on future interest rates.

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CHAPTER FOURTEEN · JOINING THE DOTS

How money creation links to inflation

If banks and the Bank of England create money, does more money always mean higher prices? Economists have argued about this for a century. Here is the evidence, fairly.

The basic idea

Picture all the spending in the economy in a year. It equals the amount of money there is, multiplied by how many times each pound is spent. Economists call that second number the **velocity** of money. All that spending also equals the quantity of goods and services produced, multiplied by their average price.

So if the amount of money grows much faster than the economy can produce, and people keep spending it at the usual pace, prices are likely to rise. That is the core of the monetarist view

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(chapter 5). The big question is whether velocity stays steady. If people sit on their extra money instead of spending it, prices needn't rise.

A SIMPLE EXAMPLE

Imagine an island with £1,000 of money, where each pound is spent four times a year: total spending is £4,000. Double the money to £2,000, keep spending each pound four times, and with the same goods to buy, prices would roughly double. But if people save the extra and spend each pound only twice, spending stays at £4,000 and prices needn't rise. Our made-up numbers, for illustration only.

Reading the next chart. Money growth and inflation are measured in different ways, so compare when each line peaks rather than how high it goes.

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The 2020–21 test

Broad money grew fastest in early 2021; CPI inflation peaked in late 2022. Chart: Clarity Guides, from Bank of England series RPMB56Q and ONS series D7G7, 2010 to August 2026.[67,11]

In 2020 the UK saw the fastest money growth in decades. Broad money (M4ex) grew by 15.2% in the year to February 2021, compared with an average of about 4¼% a year from 2012 to 2019 (our calculation from Bank of England data). About 20 months later, in October 2022, CPI inflation hit 11.1%. Money then shrank: by September 2023, broad money was 4.3% lower than a year earlier.[67,16]

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CHECK IT YOURSELF

The Bank of England publishes money and lending figures every month in its **Money and Credit** release. The August 2026 figures came out on 29 September 2026. Search “Bank of England Money and Credit” to see the latest.[50]

Below are two views from people who have studied this closely. Read both before deciding which you find more convincing: the evidence is still being argued over, and both sides accept that money is only one part of the story. Energy prices, supply problems and wage rises all played a part too. Each view is summarised in its supporters’ own terms.

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THE MONETARIST CASE

John Greenwood, a monetary economist, argued in 2023 that “excessive money creation during the Covid pandemic” caused “Britain’s worst episode of inflation since 1990–91” (ONS estimates put the October 2022 peak as the highest since 1981; see chapter 3). He said the Bank neglected broad money, and that QE and lending pushed money growth to almost 15% a year. He wants policy to aim for steady money growth instead.[65]

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THE BANK OF ENGLAND'S VIEW

Ben Broadbent, then a Deputy Governor, argued in 2023 that money matters but "needs interpretation". He pointed out that money growth has often not followed QE, and that spending after lockdown was weaker than a money-based forecast predicted. He said the pattern of price rises (goods, then energy and food) fits supply shocks better than money alone.[66]

Both sides agree that money creation and inflation are linked in some way, and that the energy shock after Russia's invasion of Ukraine played a part. They disagree about how much weight to put on each. Today, money growth

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(4.4% in August 2026) is close to its pre-pandemic pace, while inflation is above target mainly because of energy prices (chapter 1).

What it means for you

- Inflation isn't caused by one thing. Money, supply shocks, energy, wages and expectations all play a part, and economists weigh them differently.
- Claims that "they are printing money, so hyperinflation is coming" usually skip the evidence. QE ran for years without high inflation, but supporters of monetarism argue the 2020–21 surge shows the risk is real.
- Watch Bank Rate, CPI and wage growth for your own decisions. Money growth is one more signal, and the Bank of England publishes it every month.

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IN ONE PARAGRAPH

The Bank of England sets the price of money (Bank Rate) and issues notes. Commercial banks create most of our money by lending, within limits set by profit, regulation and the Bank's interest rate. QE added money directly; QT is slowly taking it away. Whether all that money caused the recent inflation is still debated by serious economists, so be wary of anyone who says the answer is simple.

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PART THREE · CHAPTER FIFTEEN

Using the Bank of England inflation calculator

A free online tool shows what a sum of money from almost any year would cost today. Here is how to use it and how to read the answers.

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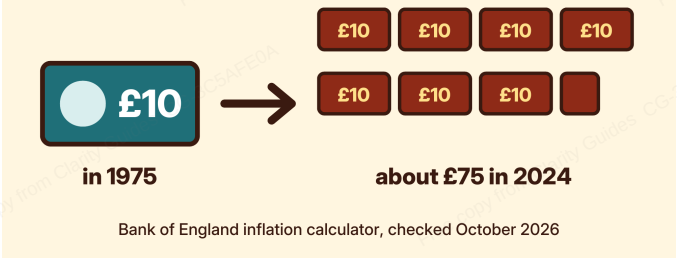

What £10 of 1975 shopping would cost in 2024. Illustration: Clarity Guides, using Bank of England calculator figures.

How it works

1. **Find it.** Search “Bank of England inflation calculator”, or go to bankofengland.co.uk and look under Monetary policy, then Inflation.
2. **Enter an amount.** Any sum from £1 up to £1 trillion.
3. **Pick two years.** A start year and an end year. Shortcuts give you 10, 50 or 100 years ago.
4. **Read the result.** You get the equivalent cost in the end year, plus the average yearly inflation rate between the two.

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The calculator uses ONS CPI figures from 1988, modelled estimates before that, and older price indices going back centuries. Past years use calendar-year averages, while the current year uses the latest monthly figure.[12]

Worked examples

IF SOMETHING COST...	IN...	IT WOULD COST ABOUT...	IN...	AVERAGE INFLATION A YEAR
£10	1975	£75.26	2024	4.2%
£1	1990	£2.40	2024	2.6%
£100	1997	£191.02	2024	2.4%
£100	2000	£184.15	2024	2.6%
£50	2014	£66.95	2024	3.0%
£100	2020	£123.10	2024	5.3%
£100	2010	£121.60	2020	2.0%
£100	1970	£319.65	1980	12.3%

Source: our calculations using the price index published in the Bank of England inflation calculator, checked on 19 October 2026; our examples end at 2024. Your results may differ slightly if the Bank updates its data.[12]

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Reading the results

- **Compare decades.** £100 in 2010 bought about as much as £121.60 did in 2020, an average of 2% a year, right on target. The same £100 in 1970 needed £319.65 by 1980.
- **See the spike.** Prices rose by an average of 5.3% a year between 2020 and 2024, more than double the target.
- **The formula is simple.** The cost in the later year equals the earlier cost multiplied by the later price index and divided by the earlier one. The Bank's own example: £23 in 1975 × 44.6 ÷ 17.78 = £57.68 in 1985.[12]

HANDLE WITH CARE

The Bank says the calculator is for illustration only. Its results are approximate, and comparisons over very long periods are less accurate, because the things people buy have changed so much. It suggests a measure based on average earnings may suit better if you want to compare wages or wealth.[12]

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The price of a loaf

MoneyHelper shows the same idea with bread. £1 bought about 10 loaves in 1970, three in 1980, two in 1990 and one in 2020. With the average loaf at about £1.40 in 2024, £1 bought only 0.7 of a loaf.[7]

TRY THIS

Try it with something from your own life: your first wage, the price of your first car or flat, or the cost of a wedding or holiday. It is a good way to start a conversation about money with older or younger relatives.

FEATURE · THEN VS NOW

Then vs now: what a 1990s pay packet bought

Ask anyone who started work in the 1990s and you'll often hear the same thing: "I earned far less, but I felt better off." Is that just rose-tinted memory, or do the official figures back it up? Here is a fair check.

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A MADE-UP EXAMPLE

Picture an 18-year-old apprentice in 1996 taking home a round **£100 a week**. (This is our own illustrative figure, not a real person or payslip.) Some goes to Mum and Dad for board, a little goes into savings, and the rest runs an old banger and pays for nights out and a summer holiday. Lots of people remember a wage like that feeling like plenty.

To buy the same overall mix of goods and services, £100 in 1996 would have needed about **£201 in 2025**, because prices roughly doubled (the ONS CPI index rose from 68.8 to 138.4).[68] There was no legal minimum wage at all in 1996: it began on 1 April 1999 at £3.60 an hour, and apprentices and under-18s were left out.[69] Today a first-year apprentice must be paid at least **£8.00 an hour** (from April 2026).[70]

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The prices, side by side

WHAT	1996	2025	HOW MANY TIMES HIGHER
Average home, UK	£53,415	£267,169	5.0×
Average home, Scotland	£42,202	£189,221	4.5×
Pint of draught lager (UK average)	£1.73	£4.83*	2.8×
Litre of premium unleaded petrol	56.5p	135.1p	2.4×
All prices (CPI index)	68.8	138.4	2.0×

Yearly averages. Homes: UK House Price Index.[71] Pint: ONS average price; *the latest the ONS publishes is January 2025.[72] Petrol: DESNZ.[73] All prices: ONS.[68] We have left out rent, because there is no official like-for-like rent series going back to 1996.

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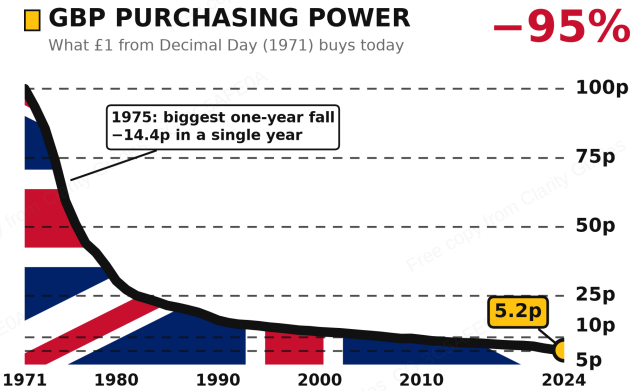

Source: ONS long-run Retail Prices Index (series CDKO), annual averages 1971–2024. Chart: Clarity Guides.

By 2024, £1 from Decimal Day (1971) bought what 5.2p did then, about 95% less. The biggest one-year fall came in 1975. This chart uses the RPI, the ONS's long-run measure, so its figures differ from the CPI used elsewhere in this guide. Source: ONS (CDKO).

Why money seemed to go further

- **Housing took a much smaller bite.** In 1997 a typical home in England and Wales cost about 3.6 times a typical full-time worker's yearly pay.[74] By 2025 it was 7.6 times in England and 6.0 times in Wales.[75] UK house prices rose about five-fold between 1996 and 2025, while prices in general only doubled.[71]

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- **Insurance and holidays outpaced everything.** The ONS index for transport insurance rose about six-fold, and package holidays about three-fold, against a doubling for prices overall.[76]
- **Not everything got dearer.** The ONS price index for buying a vehicle rose only about 11% in nearly 30 years. Because it adjusts for quality, a like-for-like car is much cheaper in real terms than in 1996.[76] A pint and a litre of petrol rose a bit faster than prices overall, but not wildly so.
- **Fewer bills every month.** In 1996 there was no home broadband, few people had a mobile phone contract and streaming services did not exist. Today many households pay for all three, and each one is another regular payment.
- **We compare different stages of life.** A teenager living at home and paying board has far fewer costs than an adult paying rent or a mortgage, then or now. Part of the “I felt richer” feeling is simply that.

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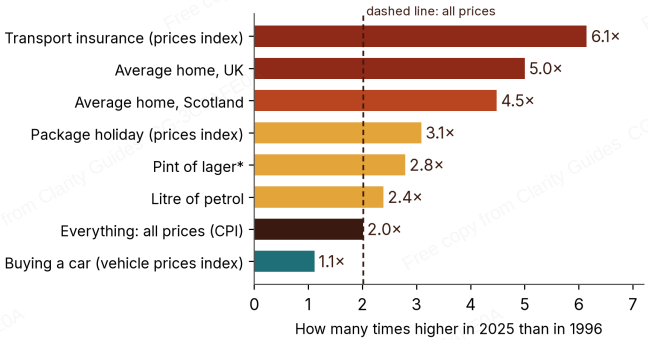

How many times dearer, 1996 to 2025. Anything to the right of the dashed line rose faster than prices in general. Cars, holidays and insurance are ONS price indices, which compare like with like. ∗Pint: January 2025. Chart: Clarity Guides, from ONS, UK HPI and DESNZ data.

What you can take from this today

1. **Check your own "then vs now".** Put your first wage, first car or first flat into the Bank of England calculator (earlier in this chapter). It shows whether you really are worse off, or just paying more pounds.

2. **List every monthly payment.** Go through a bank statement and write down every direct debit and subscription. Cancel anything you don't use; small monthly costs add up over a year.

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3. **Don’t just auto-renew insurance.** Since 1 January 2022, home and motor insurers can’t charge you more to renew than they would charge a new customer with the same details, but shopping around or asking your insurer can still save money.[77]

4. **Pay yourself first.** Like our apprentice, put a set amount aside on payday before you spend anything, even if it is small. It is a habit, not a product.

This page is general education, not financial advice. The apprentice is a made-up example; every other figure comes from the official sources listed at the back.

KEY POINTS

- Homes and insurance rose far faster than other prices.
- Like-for-like cars got cheaper in real terms.
- Check the official figures, not memory.

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CHAPTER SIXTEEN · YOUR HOUSEHOLD

Protecting your household budget from inflation

You can’t control national inflation, but you can understand how it hits your household and respond calmly. None of this involves buying a product.

Other Clarity guides already cover the nuts and bolts of budgeting, bills and food. This chapter sticks to the habits that are specific to inflation, and points you to those guides for the rest.

1. Work out your own inflation rate

Your personal rate depends on what you buy. Use the ONS personal inflation calculator, or keep a simple price diary (chapter 18) of ten things you buy often. The prices that hit you hardest are the ones worth tackling first.[9]

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2. Think in real terms

When you look at a pay offer, a savings rate or a pension increase, compare it with the latest inflation figure. A “rise” below inflation is a real-terms cut. A savings rate above inflation, after any tax, is a real gain.

3. Know which of your bills are linked to inflation

Some payments rise each year in line with an inflation index. MoneyHelper notes, for example, that RPI is used for student loan interest and CPI for many benefits.[7] Check your phone, broadband and other contracts for annual price-rise terms before you sign or renew.

4. Use the figures in a pay conversation

If you are negotiating pay, official figures help keep it factual. Note the latest CPI rate and the ONS figure for pay growth in your sector. In June to August 2026, for example, regular pay grew by 3.0% a year in the private sector and 6.3% in the

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public sector, though the ONS says the public sector figure was affected by the timing of pay awards.[31]

Keep your guard up. A genuine firm will not rush you or ask you to keep an offer secret. Take your time, and talk it through with someone you trust before you hand over any money.

5. Watch for inflation-themed scams

SCAM ALERT

When prices are rising, cold calls and social media adverts push gold, "inflation-proof" schemes and guaranteed returns. Treat any unsolicited offer with great caution, check firms on the FCA register, and never decide under pressure. The FCA warns that if you buy high-risk investments such as cryptoassets, you should be prepared to lose all your money. This guide is not financial advice. See our *Money: From Shells to Scams* guide for how these scams work and how to check a firm.

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6. Get free, impartial help

MoneyHelper is free and backed by the government. It offers guidance on savings, pensions and debt, and its Pension Wise service gives free, impartial guidance to people aged 50 and over with a defined contribution pension.[78] For personal recommendations, use a financial adviser regulated by the FCA, and ask how they are paid before you start.

Where to go for the rest

IF YOU WANT TO...	SEE OUR GUIDE
Build a monthly budget, track spending and cut regular bills	*Money Clarity*
Cut heating costs and understand the energy price cap	*Keep Warm for Less*
Cook cheaply for the family	*Cooking on a Budget*
Check 2027 changes to tax, ISAs, pensions and benefits	*Your Money in 2027*
Spot investment and gold scams	*Money: From Shells to Scams*
Use everyday AI tools like Grok to compare prices or explain a bill	*Everyday AI Tools*

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CLARITY TIP

Everyday AI tools like Grok can help you understand a confusing letter or work out a unit price. Always check the answer against the official source: the ONS, the Bank of England, MoneyHelper or your provider.

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CHAPTER SEVENTEEN · MYTHS, CHECKED

Inflation myths, checked

Inflation attracts strong opinions and half-truths. Here are some you might hear at the bus stop or online, checked against the evidence.

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MYTH OR FACT?

“Inflation is falling, so prices are coming down.”

Myth. Falling inflation means prices are rising more slowly. In September 2026, CPI prices were 3.5% higher than a year before.[2] Prices only fall overall when inflation drops below zero, as it briefly did in 2015.[11]

MYTH OR FACT?

“The Bank of England wants zero inflation.”

Myth. The target is 2%. The Bank says that is low enough to keep rises small but high enough to avoid the harms of deflation.[1,27]

MYTH OR FACT?

“The Bank of England sets its own target.”

Myth. The Chancellor sets the target in an annual remit letter; the Bank decides how to meet it.[27]

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MYTH OR FACT?

“The official figures are made up or fiddled.”

Not supported by the evidence. The ONS publishes its methods, its basket and its weights, and its main measures are assessed against the Code of Practice for Statistics. When it gets something wrong, it publishes a correction, as it did in its October 2022 bulletin.[6,16] You can still feel a different rate yourself, because your basket differs from the average (chapter 2).

MYTH OR FACT?

“Shrinkflation is hidden from the official figures.”

Myth. The ONS adjusts for pack size changes, so a smaller pack at the same price counts as a price rise.[45]

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MYTH OR FACT?

“Raising interest rates makes inflation worse because it raises costs.”

Mostly a myth. Higher rates do raise borrowing costs, but the Bank says their main effect is to reduce spending, which makes it harder for firms to keep putting prices up.[17]

MYTH OR FACT?

“Inflation only matters to savers.”

Myth. It affects anyone whose income, bills or debts are fixed in pounds: workers, pensioners, renters, borrowers and businesses (chapter 8).

MYTH OR FACT?

“Higher wages always cause inflation.”

It depends. Pay rises can feed into prices, especially in services. But the Bank said in September 2026 that wage growth had been easing, and that spare capacity in the jobs market may limit pay pressures.[19]

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MYTH OR FACT?

“Rich and poor households always face the same inflation.”

Myth. The IFS found a 7.7 percentage point gap in grocery inflation between the lowest- and highest-spending households in 2021–23.[43] In mid-2026 the gap was small.[8]

MYTH OR FACT?

“Banks lend out the money savers deposit.”

Not how it works today. The Bank of England says that when a bank makes a loan it creates a new deposit; lending comes first (chapter 11).[46]

MYTH OR FACT?

“UK banks must keep a fixed fraction of deposits as reserves.”

Myth. The Bank of England says “there are no reserve requirements in the United Kingdom”. The old reserve ratio was scrapped in 1981 (chapter 11).[46,52]

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MYTH OR FACT?

“There is a legal limit on how much interest any lender can charge.”

Myth. There is no general cap on interest in the UK. The main exception is payday-style lending, which the FCA has capped since 2 January 2015 (chapter 8).[35]

MYTH OR FACT?

“QE means the government printed money to pay for its spending.”

Not quite. Under QE the Bank of England, not the government, created reserves and bought gilts mainly from investors such as pension funds, not directly from the government. The Bank says the money did not come from taxes or government borrowing. Critics argue that, in practice, QE made it easier for governments to borrow (chapter 13).[48]

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MYTH OR FACT?

"A little inflation every year is harmless."

Partly true. Steady 2% inflation is easy to plan around. But even 2% halves what idle cash will buy in about 36 years (chapter 7), so it matters for long-term savings.

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CHAPTER EIGHTEEN · YOUR TOOLKIT

Your inflation checklist and worksheets

Print these pages or keep them on your phone. Ten minutes every few months is enough.

Every few months

- ☐ Look up the latest CPI figure (ONS, usually mid-month)
- ☐ Check your savings rates against inflation, after any tax

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- ☐ Note any letters about price rises on contracts or subscriptions
- ☐ Update your price diary below
- ☐ Check the end date of any fixed-rate deal due in the next six months

Once a year

- ☐ Compare your pay rise (or pension increase) with inflation over the same year
- ☐ Check which index your workplace pension uses, and whether there is a cap
- ☐ Use the Bank of England calculator to see how a past sum compares today
- ☐ Review your budget with our *Money Clarity* guide
- ☐ Read your pension and savings statements in real terms

My price diary

Pick ten things you buy regularly. Write down today's price and pack size, then check again in six and twelve months. Work out the percentage

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change: (new price − old price) ÷ old price × 100. If the pack size changes, compare the unit price instead.

ITEM	PACK SIZE	PRICE NOW	IN 6 MONTHS	IN 12 MONTHS	% CHANGE

My real-terms check

MONEY IN OR SAVED	RISE THIS YEAR (%)	INFLATION (CPI %)	REAL CHANGE (%)
Take-home pay			

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MONEY IN OR SAVED	RISE THIS YEAR (%)	INFLATION (CPI %)	REAL CHANGE (%)
Pension or benefit			
Main savings account			
Other			

Real change ≈ rise this year minus inflation. A minus figure means a real-terms cut.

REFERENCE

Glossary

APF (Asset Purchase Facility)

The Bank of England fund that holds the bonds bought through QE.

Backing assets

The Bank of England notes, coins and deposits that Scottish and Northern Ireland note-issuing banks must hold to cover their notes.

Bank Rate

The interest rate set by the Bank of England's Monetary Policy Committee. It influences most other UK interest rates.

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Basket of goods

The ONS's list of around 760 representative goods and services whose prices are tracked to measure inflation.

Broad money (M4ex)

The deposits and cash held by households and firms, excluding some financial firms that mainly deal with each other.

Cheapflation

Faster price rises for cheaper, basic versions of products than for premium ones.

Core inflation

Inflation excluding energy, food, alcohol and tobacco, whose prices can swing sharply.

Cost-push inflation

Price rises caused by higher costs, such as energy, materials or wages.

CPI

Consumer Prices Index. The measure used for the 2% target.

CPIH

CPI including owner-occupiers' housing costs and council tax. The ONS's lead measure.

Deflation

When the overall level of prices falls.

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Demand-pull inflation

Price rises caused by demand outstripping what the economy can supply.

Digital pound

A possible future digital form of cash issued by the Bank of England. No decision has been made.

Disinflation

Inflation falling but still above zero: prices are still rising, just more slowly.

Fractional reserve banking

The textbook idea that banks lend out deposits while keeping a fixed fraction as reserves; the UK has had no minimum reserve requirement since 1981 (chapter 11).

Gilt

A bond issued by the UK government: an IOU that pays fixed interest.

Index-linked

A payment or account that rises in line with an inflation index.

Legal tender

A narrow legal term about settling debts. It does not mean shops must accept a payment.

MPC

Monetary Policy Committee. The nine people at the Bank of England who set Bank Rate.

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Nominal
Measured in pounds, without adjusting for inflation.

Purchasing power
How much a sum of money can buy.

Quantitative easing (QE)
The Bank of England buying bonds to influence longer-term interest rates.

Quantitative tightening (QT)
Shrinking the stock of bonds bought through QE, by letting them mature or selling them.

Real terms
Adjusted for inflation: what money will actually buy.

Reserves
Electronic money that banks hold in their accounts at the Bank of England.

RPI
Retail Prices Index. An older measure, still used for some contracts and student loans.

Second-round effects
Knock-on rises in wages and prices after an initial price shock.

Shrinkflation
A smaller product sold at the same price.

Unit price
The price per 100g, litre or item. The fairest way to compare packs.

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Usury

Lending money at interest, today usually meaning excessive interest; the UK has no general interest cap, but payday-style loans are capped by the FCA (chapter 8).

Velocity

How many times, on average, each pound is spent in a year.

Yield

The return on a bond as a percentage of its price. When bond prices rise, yields fall.

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Further reading and free tools

Free official tools

ONS inflation figures	ons.gov.uk: search “consumer price inflation”. New figures usually come out mid-month.
ONS personal inflation calculator	ons.gov.uk: search “personal inflation calculator”

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ONS shopping prices comparison tool	ons.gov.uk: search “shopping prices comparison tool”
Bank of England inflation calculator	bankofengland.co.uk/monetary-policy/inflation/inflation-calculator
Bank of England explainers	bankofengland.co.uk/explainers: short, plain-English pages on inflation and interest rates
MoneyHelper	moneyhelper.org.uk: free, impartial money guidance backed by the government
Money creation in the modern economy	Bank of England Quarterly Bulletin 2014 Q1: free to read. The key official explanation behind Part two.

Independent analysis

- **Institute for Fiscal Studies** (ifs.org.uk): independent research on prices, incomes and tax.
- **Resolution Foundation** (resolutionfoundation.org): research on living standards, especially for people on low and middle incomes.

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Books from different viewpoints

Each book below argues from a particular school of thought (chapter 5). Reading more than one is the best way to make up your own mind.

BOOK	VIEWPOINT
CORE Econ, *The Economy 2.0* (free online textbook, core-econ.org)	Mainstream economics; a free, modern introduction
Milton and Rose Friedman, *Free to Choose* (1980)	Monetarist and free-market
Stephanie Kelton, *The Deficit Myth* (2020)	Modern Monetary Theory
Richard J. Maybury, *Whatever Happened to Penny Candy?* (Bluestocking Press, 7th edition 2015)	One author's viewpoint: libertarian, drawing on Austrian and monetarist economics. Written as letters to a young reader, with a US focus.

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ABOUT THE PENNY CANDY BOOK

Richard Maybury's "Uncle Eric" books are popular introductions to money and inflation from a libertarian, Austrian-leaning perspective. We list one here as further reading only, as one viewpoint among several. This guide is our own original writing, based on the official and independent sources listed at the back, and it doesn't follow that book's argument.

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Useful contacts

MoneyHelper	moneyhelper.org.uk · free, impartial guidance on money and pensions
Pension Wise	Free pension guidance from MoneyHelper for people aged 50 and over with a defined contribution pension
Financial Conduct Authority (FCA)	fca.org.uk · check the FCA register before dealing with any firm

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Office for National Statistics	ons.gov.uk · official inflation and earnings figures
Bank of England	bankofengland.co.uk · Bank Rate decisions, explainers and the inflation calculator
Citizens Advice Scotland	cas.org.uk · free, impartial and confidential advice, including money and debt

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Checking for yourself. Most of these sources are updated regularly. If a figure here has changed, the source's own page will show the newest number and the date it was published, so you can always see how things stand today.

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Image credits

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FIVE THINGS TO REMEMBER

1. Falling inflation means prices are rising more slowly, not falling.
2. The official rate is an average; your own rate depends on what you buy.
3. Always compare pay, pensions and savings rates with inflation: that is the real change.
4. The Bank of England uses Bank Rate to steer inflation towards the 2% target set by the government.
5. Economists disagree about causes and cures, so look at the evidence from more than one viewpoint.

How this guide was made. Figures checked on 21 October 2026 against the original ONS, Bank of England, HM Treasury, FCA, legislation.gov.uk, MoneyHelper, IFS and Resolution Foundation publications. Proofread twice on 19 October 2026.

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Where Did My Money Go?

Making the confusing clear.

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