

## We need a windfall tax on banks - now

Published: January 12, 2026, 9:25 pm

This is [from the FT](#) this morning:

*Spain became the largest eurozone country to impose a windfall tax on banks in a sign of European governments' search for funds to lessen the painful impact of price rises. The move by Socialist prime minister Pedro Sánchez — which the government said was designed to limit banks' gains from rising interest rates — triggered sharp falls in the stocks of Spanish banks.*

I wholeheartedly approve.

The reason is straightforward. As we know, the central banks of Europe created billions of pounds and euros worth of additional central bank reserve account balances during the Covid era by using quantitative easing to support government spending. These central bank reserve accounts are the depositories for government-created money. The commercial banks who hold them did nothing to generate the funds: they were simply gifted to them.

The growth can be seen in the balance sheet of the Bank of England, the most recent of which is here:

### Banking Department statement of financial position as at 28 February 2022

	Note	2022 (£mn)	2021 (£mn)
<b>Assets</b>			
Cash and balances with other central banks	7	708	1,769
Loans and advances to banks and other financial institutions	8	203,219	125,773
Other loans and advances	9	896,134	785,252
Securities held at fair value through profit or loss	13	9,969	9,869
Derivative financial instruments	21	354	134
Securities held at amortised cost	17	15,959	13,080
Securities held at fair value through other comprehensive income	18	1,420	1,381
Investments in subsidiaries	25	–	–
Inventories		2	5
Property, plant and equipment	30	456	484
Intangible assets	31	202	130
Retirement benefit assets	27	1,279	1,154
Other assets	32	654	539
<b>Total assets</b>		<b>1,130,356</b>	<b>939,550</b>
<b>Liabilities</b>			
Deposits from central banks	10	30,739	26,274

The key figure is that £971,357 million (£971.4 billion) of deposits from banks, which is further explained in Note 11:

**11: Deposits from banks and other financial institutions**

	2022 (£mn)	2021 (£mn)
Deposits repayable on demand	971,141	803,763
Repurchase agreements	216	–
	<b>971,357</b>	<b>803,763</b>

Accrued interest on deposits repayable is recognised within 'Short-term creditors and other liabilities' in note 33 'Other liabilities'.

The majority of deposits repayable on demand comprises reserves accounts held at the Bank. Reserves accounts are sterling current accounts for banks and building societies. They are the most liquid asset a bank or building society can hold and are the ultimate means of settlement between banks and building societies.

The rate paid by the Bank on reserves account balances is also the means by which the Bank keeps market interest rates in line with Bank Rate. All reserves balances are remunerated at Bank Rate.

This sum is the central bank reserve accounts, almost exclusively. They now come to a bit more than quantitative easing as there are some other funding arrangements that also helped fuel them.

The interest rate paid on these less than a year ago was 0.1%pa. It is now expected to exceed 3% sometime in the coming months if the Bank of England gets its way, as is likely. So, the cost will increase from £less than 1 billion a year to something in excess of £30 billion a year. That is pure unearned profit gifted to the banks from the public coffers.

Of course we also need a tax to recover this sum - and I would suggest at a rate in excess of 90%, payable solely on profits arising from the central bank reserve accounts.