

Central bank reaction to the banking crisis is too litt...

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Danny Blanchflower and I have released this press release this afternoon:

Too little, too late,

Central bank reaction to the growing global banking crisis

is too timid to save us from a meltdown

Prof David Blanchflower[\[1\]](#)

Prof Richard Murphy[\[2\]](#)

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For immediate release

Professors Danny Blanchflower and Richard Murphy issued their report to the House of Commons Treasury Select Committee on the future of UK central bank monetary policy on 17 March 2023[\[3\]](#). **Events have already overtaken their recommendations.**

In the USA:

- * **Silicon Valley Bank has failed weeks after a clean audit report on its accounts.**
- * **Signature Bank has failed.**
- * **First Republic Bank has needed \$30bn of financial support. Its share prices have continued to fall and it has been downgraded by S&P.**
- * **The Federal Reserve has been forced to guarantee all deposits in banks under threat to prevent runs on banks.**

*** There are calls to guarantee all deposits in the unregulated regional banks to prevent them moving to the safer, regulated big banks.**

In Switzerland:

*** Credit Suisse (CS) has failed weeks after auditors failed to warn of the possibility.**

*** UBS has taken over Credit Suisse, wiping out the sums owed to SFr16bn of bondholders in the process.**

*** UBS has been offered guarantees of SFr10bn for unknown losses on the Credit Suisse balance sheet.**

More broadly:

*** Central banks have been forced to coordinate the provision of dollar credit lines to those banks who need them to meet their dollar obligations.**

*** Six central banks acted together as they did in October 2008.**

Professors Blanchflower and Murphy say in response that:

*** It is now apparent that there is significant downside risks in many bank balance sheets, as there was in 2008. This is because of the failure of banks to provide for losses on:**

*** Treasury and other bonds are now overvalued because of still rising interest rates.**

*** Mortgages where the mortgagee can no longer afford the debt.**

*** Non-performing car loans.**

*** Corporate loans to companies hit by economic downturns.**

*** The problem is no one knows who has that risk, and in what amount. But we do know it exists and the risks are to the downside. The fact that UBS had to be given Sfr9bn to cover risks on the Credit Suisse balance sheet proves this. This is likely repeated on other bank's balance sheets, and especially those with relationships with Credit Suisse, as many will have.**

*** The result will be a flight of cash to security. In the US small bank depositors will flee to JP Morgan Chase, Bank of America, and other big banks. In the UK there will be a rush to government savings accounts. In Europe there will be a flight to ECB backed bonds. Banks could suffer runs as**

a result.

* This problem is already being solved in the US by the Fed offering unlimited depositor guarantees. These will soon be universal. The UK, Eurozone and others will be forced to offer similar guarantees or there will be a flight into US banks if they offer bigger guarantees than those offered domestically.

* Systemic risk in banking has increased dramatically. So big is that risk that the impact of measures already seen over the last month is likely the equivalent of a 150bp to 200bp monetary tightening within financial markets.

* The point of rate rises was to tighten financial conditions. That approach has now backfired. That means that central banks have to reverse course now to prevent deep recessions developing.

Blanchflower and Murphy note that US financial markets are already pricing in three interest cuts totalling 75bp by December 2023^[4]. This is too little, too late.

It is essential that at their meetings this week the US Federal Open Market Committee and the Bank of England Monetary Policy Committee cut rates by at least 150bp to get ahead of the impending financial and economic disaster looming. They also halt their quantitative tightening programmes that withdraw liquidity from financial markets when that is now very obviously counterproductive.

Professor Danny Blanchflower said “The time for prevarication is over: central banks have to show that they can rise to the challenge of the moment now. Nothing less than a radical reappraisal of market risk can do that, and cutting rates and cancelling quantitative tightening is the way to show that they understand that.”

Professor Richard Murphy said “There is a new systemic crisis in banking and, as ever, the cause is hidden losses within bank balance sheets. We need short term market reactions from central banks, but in the long term we need systemic change. That failed after 2008. It cannot this time.”

ENDS

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[2] Richard Murphy is Professor of Accounting Practice, Sheffield University Management School, a chartered accountant and economic justice campaigner. He blogs at <http://www.taxresearch.org.uk/Blog/> and tweets @RichardJMurphy.

[3]
<https://www.taxresearch.org.uk/Blog/2023/03/19/the-bank-of-england-needs-a-n-urgent-change-of-strategy-on-interest-rates-quantitative-easing-and-quantitative-tightening-if-they-are-not-to-crash-the-economy/>

[4]
<https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>