

## Shouldn't bankers know how banking works?

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I have already [noted one absurd comment](#) by Sir Howard Davies, the Chair of NatWest Bank on Radio 4 this morning. But, it was not the only one. He also revealed that he has no understanding of how banks, markets and central banking work in the UK, or else he was disguising that he actually does so but would rather not refer to reality. I explained this in a Twitter thread:



**Richard Murphy** @RichardJMurphy

Sir Howard Davies, chair of NatWest, claimed on Radio 4 today that UK interest rates were low for a decade because there was a glut of savings and a shortage of investors to lend that money to. Should a man who doesn't know how banking works be in charge of a bank? A thread...

9:32 AM · Jan 5, 2024 · 4,349 Views



**Richard Murphy** @RichardJMurphy · 13m

Since 2014 the Bank of England has acknowledged that when a bank makes a loan it does not use saver's funds. Instead, new money is created by the exchange of promises to pay between the bank and the borrower. As it noted, that is how all commercial bank money is created.

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**Richard Murphy** @RichardJMurphy · 13m

Sir Howard Davies clearly either a) does not know this or b) thinks that he can ignore reality when offering economic arguments on Radio 4. Either way, he obviously presumes his ignorance will not be spotted, except I did.

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**Richard Murphy** @RichardJMurphy · 13m

What is more, even if Davies was right, his argument was absolutely wrong. Savings have gone up since 2020 and investment down. The savings glut has grown. So there was no case for banks to raise rates, using his argument, which should be a little embarrassing for him.

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**Richard Murphy** @RichardJMurphy · 13m

The reality is that rates paid on savings have nothing to do with the market. They are set by central bankers. To pretend otherwise, as Davies has done, is as absurd as suggesting that the Soviet Union was a free-market economy, where market prices ruled.

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**Richard Murphy** @RichardJMurphy · 13m

Davies has been chair of NatWest, Director of the London School of Economics and Director of the Financial Services Authority but he either does not know how banking, markets and central banking work, or pretends he does not when making his comments. I don't know which.

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