

# The prime task of Central banks is to support commercial banks

Keeping inflation to 2% is a crucial role of the Bank of England, ECB and Fed. As events in the USA have just shown, it is however less important that avoiding banking collapse. Since Silicon Valley Bank got into trouble the Fed has made a huge change to its money policy, flipping from ultra tight with plenty of money withdrawal by selling bonds, to a large easing with \$300 bn of loans to commercial banks. It had to make the switch as it is the first duty of a Central Bank to provide cash to commercial banks so they can honour their deposits if a lot of people all want to withdraw at the same time.

The decision to shift to a much easier money policy in the short term was screened by still continuing with a 25 bp or 0.25% interest rate hike. The Fed wished to reassure some that it is still battling inflation, whilst reassuring others that their deposits are safe. Silicon Valley Bank had got into trouble because the Fed has raised rates so much, losing SVB money on the bonds it held. It is a reminder that shifting money policy to too tough brings different kinds of problems.

All the Central banks need to review where they are in money tightening and in bringing down inflation. There are always lags – it takes time to get inflation down by raising rates and throttling credit. It is important not to overdo the tightening as that can undermine banks as it hits the affordability of credit and the value of bank investment holdings in bonds. They will all need to make sure plenty of cash is available to any bank that comes under unwelcome pressure to repay deposits, as that is the way to make sure there is no such run.