

We won't be selling QE'd gilts back into the economy - ...

Published: January 14, 2026, 9:40 pm

Larry Elliott is writing about gilts this morning as he (like me) is sure there will be more quantitative easing announced this week.

Let me say straight away, that like Larry, I question the need for this: we should be stimulating the economy instead, but having made that point I also then disagree with Larry.

[As he notes:](#)

The fact that the Bank is even considering a further easing of policy is testimony to the profound weakness of the UK economy. For the past three years, bank rate has been 0.5% — comfortably the lowest level on record — and despite the pain being felt by savers there is no sign of it going up any time soon. The Bank has bought up some 20% of the gilts market already in an attempt to boost the money supply. Meanwhile, the Treasury has borrowed £500bn since the economy went into recession in early 2008.

In other words, net borrowing is not £500bn, it's £500bn less QE which may well be £350bn by the end of this week, [as I have argued](#). So we have not got the debt crisis the government argues we have. We do have a deficit: we don't have a debt crisis.

And that's why Larry is wrong to say:

at some stage the Bank will need to unwind the monetary easing of the past three and a half years, selling gilts back into the financial markets. This is going to be tricky to achieve without leading to a collapse in the price of government bonds, and the more bonds the Bank has to sell the trickier it is going to be. This matters because the price of gilts goes in inverse proportion to the yield or interest rate payable on them. When the price of gilts goes down, long-term interest rates go up, so the challenge for the Bank is to unwind QE without triggering a run on gilts that would push the economy back into recession.

We'll never sell those gilts back. The IFS says we have £280bn of new gilts to sell over the next three years to fund the deficit. There is not a hope we'll add £350 billion of

resale of gilts on top of that. The only likelihood is in fact of more QE: over that period there is no way the market can absorb £280 billion of new debt.

That means that the reality is that QE will lead to cancelled debt. Every single penny of the gilts repurchased will, I am sure, be cancelled. Nothing else is possible. It's just a matter of time before the lightbulb gets universally switched on to that fact that the debt repurchased under QE is no longer debt at all. There's just new cash, and given that the economy needs that cash we're not going to cancel it now, or in five years time. So let's get real about it.

And let's also remember there's nothing odd about cancelling gilts: it happens all the time. They're time limited loans. All we'd be doing by cancelling them is declaring time early. Let's not overstate the fact that this is completely possible, and more than that, it's desirable, and bar being early, totally normal. Then we can have a real economic debate.