The new funding structure for the Bank of England sugge...

Published: January 13, 2026, 2:42 am

Philip Hammond sprung a surprise by announcing a new era in the relationship between the government and the Bank of England last night. The details are here. The Guardian, and many others, comment on the story in a way that is not apparently related to the documentation published, saying:

The Bank of England will be allowed to provide more than £500bn in lending to the economy without seeking the Treasury’s permission, in a move that reinforces the strength of the UK financial system as Britain prepares to leave the EU.

Announcing the plan at the annual Mansion House dinner for bankers in the City of London on Thursday, Philip Hammond, the chancellor, said the changes would help to improve the resilience of the central bank. It would also help with its “ability to meet its monetary and financial policy objectives in the future”, he said.

Hammond said the government would give the Bank £1.2bn, a sum that would underwrite the £500bn lending pot, but the move would not impact public borrowing because the money would remain in the public sector.

I have scanned all three documents published by the government and Philip Hammond's speech, and the source for this story is not apparent, so it must have come from an independent briefing. The new arrangements that the documents refer to are also less than transparent in some respects, and so anything I say here is, I stress, provisional. Some initial thoughts do, however, emerge.

First, the supposed aim of these reforms is to make the Bank of England more like a bank. It has an enhanced capital base, can retain more of its profits, and has more operational freedom. That said, this appears to be a charade almost certainly designed to get around government accounting requirements. It would seem to me as if the increase in risk that the Bank is meant to bear and the supposed right it has to retain profit within certain boundaries is all an attempt to shift the Bank of England's operations off the central government balance sheet post-Brexit. That may just be the cynic at play, but I doubt it.

Second, no bank should be running a £500 billion loan book with any risk within on a capital base of £1.2 billion, meaning that the chance that this money is going to be released into the productive seems very low indeed. I think the intention is instead to bolster the balance sheets of commercial banks if they suffer significant risk post-Brexit. No other interpretation appears possible to me.

Third, there are signs that the Treasury and the Bank of England think that things will be extremely difficult post-Brexit. There are provisions in the new arrangements for 'collateral haircuts'. In other words, if this new lending is asset-backed, as is likely, then the Bank is anticipating falls in asset prices.

Fourth, it would seem as if the Bank is being given more opportunity to decide when, and if, quantitative easing will be unwound. The interest rate at which it may consider beginning this process has been reduced from 2% to 1.5%. In my opinion that suggests it is very unlikely that this will happen any time soon.

Fifth, the coincidence between £435 billion of QE funding and a new £500 billion lending pot backed by £1.2 billion of new capital suggest to me that the new lending is almost entirely dependent upon realisation of QE bonds now held by the Bank. In other words, all that is being said is that if there is substantial demand for bonds post Brexit as the saving community head for safety during the course of an economic crisis then the Bank will be allowed to sell its bonds held under the QE programme to meet that demand and will then be allowed to lend back the proceeds into the commercial banking system to make good the liquidity crisis that would otherwise arise.

I stress, this is a first reaction to a quite complex set of new measures which superficially, and as reported on all the media, make no sense at all. Unpacked as I present the above they do, however, have a coherent logic, albeit that the logic in question very clearly suggests that the Treasury and Bank of England are in practice planning for a hard Brexit and a consequent credit crisis for which they are creating the possibility of emergency liquidity funding for commercial banks.

If I am right then I also offer three other ideas. The first is that the Treasury so lacks confidence in the government that it is outsourcing the saving of the economy. Second, this is dangerous: the Bank will, no doubt, deliver another emergency package that will favour the City and those who are associated with it. Thirdly, democracy is imperilled once again.

My summary is you should worry: the Treasury clearly is. And they may be right to do so, even if it looks to me as if they are delivering the wrong solution.