

The Bank of England is betting on an end to lockdown ve...

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The [Bank of England Monetary Policy Committee has reported this morning](#). It has said:

The spread of Covid-19 and the measures to contain it are having a significant impact on the United Kingdom and many countries around the world. Activity has fallen sharply since the beginning of the year and unemployment has risen markedly.

Economic data have continued to be consistent with a sudden and very marked drop in global activity. Oil prices have been volatile. There have, however, been tentative signs of recovery in domestic spending in China, and this is likely to be echoed in other countries that have started to relax Covid-related restrictions on economic activity. Financial markets have recovered somewhat over recent weeks and risky asset prices have picked up from their lows in mid-March. This in part reflects the actions taken by authorities in the United Kingdom and elsewhere. Global financial conditions have, nevertheless, remained tighter than prior to the outbreak of Covid-19.

The timeliest indicators of UK demand have generally stabilised at very low levels in recent weeks, after unprecedented falls during late March and early April. Payments data point to a reduction in the level of household consumption of around 30%. Consumer confidence has declined markedly and housing market activity has practically ceased. According to the Bank's Decision Maker Panel, companies' sales are expected to be around 45% lower than normal in 2020 Q2 and business investment 50% lower. There has been widespread take-up of the Coronavirus Job Retention Scheme. Nevertheless, sharp increases in benefit claims are consistent with a pronounced rise in the unemployment rate.

CPI inflation declined to 1.5% in March and is likely to fall below 1% in the next few months, in large part reflecting developments in energy prices.

The unprecedented situation means that the outlook for the UK and global economies is unusually uncertain. It will depend critically on the evolution of the pandemic, and how governments, households and businesses respond to

it.

I have highlighted two key paragraphs, and will be looking next at the scenario plan the BoE has published, which I have not had time to do as yet.

I do, however, have three immediate reactions. One is that it is apparent that the Bank of England thinks there is going to be rapid release of lockdown and is supporting a policy that says that this will result in rapid economic recovery, despite income being 30% down this quarter. This is apparent from this further comment:

Given the assumed path for the relaxation of social distancing measures, the fall in GDP should be temporary and activity should pick up relatively rapidly.

I think the Bank knows that the government is planning to go for rapid release of lockdown for the reasons [I have speculated on this morning](#). **This is, in fact, now policy.**

But they know that, as I suggested, that the big problem with that plan is that people will not believe it, so they add:

Nonetheless, because a degree of precautionary behaviour by households and businesses is assumed to persist, the economy takes some time to recover towards its previous path.

I am sure that is true. It's also called the Bank hedging its best, and wisely so.

But the biggest indicator of the fact that this is planned is that despite the havoc within the economy the Bank has suggested that no new measures to support the economy are required, even though the latest £200 billion of quantitative easing has been spent.

What is really going on?

That's anyone's guess right now. But my suspicions are now very definitely raised.