

The Governor of the Bank of England clearly has not a c...

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It takes a special style of incompetence of the sort that only a Governor of the Bank of England with no experience of the real world can have to talk about reselling QE assets back into the market at this stage in the current economic cycle, but that's what Bank of England Governor Andrew Bailey did yesterday. As [Bloomberg](#) reported:

Bank of England Governor Andrew Bailey signaled a major shift in the central bank's strategy for removing emergency stimulus, stressing the need to reduce the institution's balance sheet before hiking interest rates.

Writing for Bloomberg Opinion, Bailey said such a plan would give officials more firepower in future crises. The BOE's balance sheet has swelled to almost 700 billion pounds (\$864 billion) because of its extraordinary measures during the coronavirus pandemic, and is set to grow much larger because of the central bank's bond-buying programme.

While the governor didn't say whether he favors paring back that program or its lending facilities first, asset purchases make up the bulk of the BOE's balance sheet.

And for asset purchases, read gilts (government debt) bought under the QE programme.

In case the reason why this is inept is not clear, let me explain.

The supposed purpose of QE is to inject money into the economy to encourage riskier investment and so stimulate growth, spending and more jobs. It has deeply unfortunate side effects (and a Mythbuster on this is, I know, overdue but give me time) but whatever its faults it has most definitely helped keep the economy liquid when little else has.

And what Bailey is doing is talking about selling some of these debts back into the financial markets. There are a number of consequences.

First, this takes the Bank of England out of play as a funder of the government: from

then on spending has to be financed by tax or borrowing from the markets. And at the same time that the cost-free option of the Bank funding the government is removed the government will have to compete with its own Bank for funds, because it will be seeking to sell pre-existing debt back into the market.

That then means, secondly, that the Bank of England will be working against economic recovery - which most economists think is many years away as yet - by withdrawing funds from the economy in exactly the same way as a tax charge does, and will double the impact of that by refusing to fund the government at the same time.

Whilst, thirdly, this is presumably a plan to increase interest rates to keep the banking sector happy - which will add yet more pressure to the barely managing households of the millions of people who may well be unemployed this autumn and who will be forced to stay in that state by a policy such as this.

So what does a policy plan such as this represent? It's possibly incompetence. And remember Bailey said only a few months ago that the Bank would not fund the government and within days was forced to do so.

Or it's callousness, because of the indifference it reveals about people in the real economy.

But what it also shows is that he has no clue about the realities of the balance sheet he is supposedly managing. His balance sheet is too big if there is inflation. But there is no chance of that right now. And it is too small if there is unemployment, of which there is a racing certainty. So he is offering exactly the wrong policy prescription for this moment.

Heaven help us with such incompetence in charge at our supposedly independent Bank of England.

If I seek a bright side it is that he makes a good case for removing that independent, but that's struggling to find an upside to dire situation.