

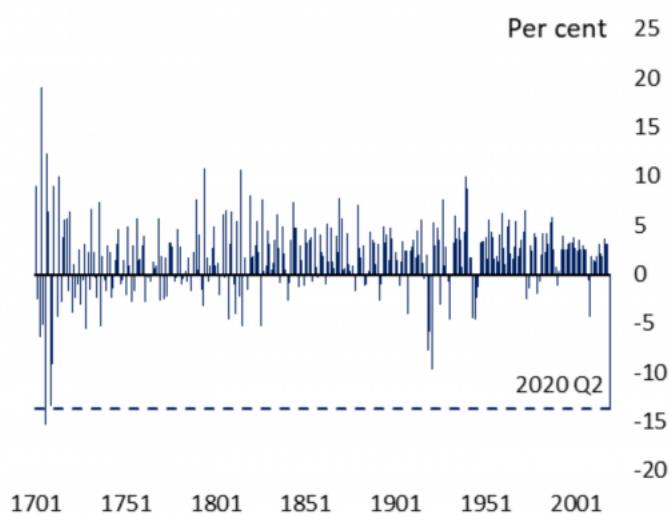
There's room for at least another Â£500 billion of qu...

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Dave Ramsden is Deputy Governor for Markets & Banking at the Bank of England. Yesterday he gave a speech with the title The Monetary Policy Toolbox in the UK.

In that speech Ramsden made clear that the crisis we have faced is exceptional in scale:

Figure 3: The UK has seen its deepest downturn in nearly 400 years
Historical UK GDP



The response has also been exceptional, at least in terms of the scale of quantitative easing (QE) activity undertaken:

Figure 4: The MPC's asset purchases in March were carried out at record pace
Weekly gilt purchases



Around £250bn of quantitative easing funding has now been injected into the economy: by Christmas this will reach £300 billion. And as Ramsden had it, quantitative easing is by far the most important tool now in the Bank's 'toolbox' given that interest rate policy is, in itself, effectively dead because rates are at the zero bound.

My interest is in what he had to say on the future of QE. As he put it:

In practice the Bank does not buy very short maturity gilts. And to avoid distorting the market it avoids specific gilts where it holds more than 70% of the free float, and attempts to buy evenly across three maturity "buckets".

He added:

But even with those constraints applied we have considerable headroom after the current programme is completed reflecting a range of considerations. And many of those considerations are within our control — while those constraints are there for good, pragmatic reasons, They are not set in stone and there would certainly be scope to re-evaluate them based on Bank advice if the MPC judged that even more monetary policy headroom was needed.

What does this mean? I suggest four things.

First, that we should expect more QE.

Second, that if necessary that policy could extend to 70% of gilts in issue. That's something like £1,740 billion right now, of which 70% is £1,218. With around £720 billion owned by the Bank right now that leaves around £500 billion of headroom, which is growing by maybe £25 billion a month given current gilt growth rates.

Third, expect this to happen soon. All the rest of the speech seemed to be preparing the ground for that.

Fourth, the 70% artificial limit will disappear at some time. The we will head for a Japanese style situation.