

The Bank of England is furiously treading water

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The Bank of England's Monetary Policy Committee kept interest rates and quantitative easing policy on a steady path yesterday, but did nonetheless respond to suggestions that there may be short term inflation within the UK economy.

Their newly expressed sentiment appears to suggest that interest rate rises may happen sooner than expected. Before anyone gets too excited though that means rates may rise to 0.25% by the end of 2022 and to 0.5% by 2024. This is change at very modest rate, and largely symbolic in that case.

Perhaps as significant was a hint of unwinding QE. The suggestion was made that when rates reach 0.5% the Bank of England will no longer reinvest the proceeds of the £875bn of government bonds it holds once they mature. The next effect may be unwinding of QE by maybe £60bn a year, on average. It has until now suggested that they would not start this process until rates reached 1.5 per cent.

What does this mean? I suggest four things. First, there is a lot of posturing going on here. There is a pretence that this forward indication is of significance, but all this actually does is satisfy the egos at the Bank, of which there are many. They wish to be seen to be doing something, and these words come pretty cheap.

Second, the reality is that the can has been kicked down the road: this is all talk about what might happen a long time hence in economic terms. For example, the Bank is still assuming the economic impact of Delta variant Covid is small, and that will then be it for the pandemic: few epidemiologists share their confidence. I rather suspect that by the time the end of 2022, let alone 2024, comes around the economy may be very different, and not as strong as the current Bank outlook suggests likely.

Third, the Bank thinks it is acceptable for it to suggest tightening the economy by withdrawing significant funds from it just when the Chancellor is indicating that a new round of austerity is on the cards. Is it that they both want to bring on a recession? Or is it that they do not talk to each other? Or do they just think that hardship is good for the country? Whatever the reason, suggesting tightening fiscal and monetary policy over

the next couple of years when recovery is already proving to be hard is economic foolhardiness, to be polite.

Fourth, I suggest that what is really being said is that the Bank has no clue what is happening, so noise alone will do for now. I take nothing said as being cast in stone, or even likely to happen. Events are likely to prove these musings by the Bank to be of little consequence.

The rocky ride is not over yet. It would help if the Bank recognised that. But in the meantime their inaction should be taken as tacit acknowledgement that they do.