Funding the Future

The Bank of England is hatching a not very cunning plan...

Published: January 13, 2026, 3:11 pm

As the FT has reported this morning, the Bank of England is not just planning interest rate rises - very soon - it is also planning to begin the unwinding of its £875 billion quantitative easing programme.https://www.ft.com/content/989527cc-f056-41bb-a10c-00095ab8ec85

Unwinding QE is relatively easy. Using QE the Bank buys gilts issued by the Treasury. All gilts are issued for fixed periods varying from only a couple of years to up to 50 years. Because technically the gilts the Bank buys aren't cancelled - because the Treasury and Bank like to play a game of make believe that suggests that the Bank of a England is independent of the government - the gilts it owns eventuality come to the end of their lives. When that happens the Treasury repays the sum borrowed, including to the Bank of England.

The reality is that the Treasury pays for the redemption of the old gilt by issuing new gilts. In effect, they ask the markets for the money they have redeemed back. And to date the Bank of England had gone along with this. It has always reinvested the proceeds of any redemption in alternative gilts that it has repurchased from the money markets. The QE process has been pretty much uninterrupted by redemptions in that case.

However, hints are being given that this is to change. Andrew Bailey, the Governor of the Bank, wants to reduce the size of its QE debt holding, and next March it so happens that £28 billion of the debt it owns will come up for redemption. That is, by chance, the biggest monthly redemption there has ever been. In the 18 months that follow there will only be £9 billion of redemptions to give some indication of the scale of the event that month. And Andrew Bailey is threatening to take the redemption money, and keep it.

This is serious. That's for four reasons.

First, by next spring it will be apparent that the UK is likely following the US into recession. Stripping money out of the economy, which this will do will, will greatly

exacerbate this.

Second, interest rate increases will by then already be exacerbating this.

Third, business will be crying out for liquidity by next spring as Covid debts begun to crush private sector balance sheets. Having to fund £28 billion of gilts may increase pressure on these companies, not least by creating very deliberate upward pressure on interest rates.

Fourth, we need investment for a green new deal, not to cut the size of the Bank of England balance sheet.

In that case what Bailey is doing is planning to strip a massive sum out of the UK economy at a time when it will be struggling. There is no reason to do that. The value of QE bond holdings could be left untouched. But rumour has it that is not what he wants. In an exercise about as blatant as is the middle-aged man purchase of a large motor cycle, he wants to prove his virility by sucking money out of the economy just because he can.

It takes effort to create a wholly unnecessary recession. The government is doing all it can to achieve this goal. But Bailey is right there beside them planning to do all he can too.

You simply cannot make up incompetence on this scale.