

Funding the Future

The Bank of England will never unwind quantitative easing...

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I have just had this drawn to my attention. It comes from the Sunday Times this weekend. It is from an interview with Andrew Bailey, the governor of the Bank of England:



The Bank will begin to ease off on QE, when rates hit 0.5 per cent, by not reinvesting money in gilts as they mature. But Bailey suggested the full £895 billion would never truly be unwound as the Bank was likely to keep several hundreds of billions as a liquidity buffer. He said: "Before the financial crisis, the banking system operated – rather unfortunately, it turned out – on a very low stock of reserves. We were running monetary policy on a stock that was under £30 billion. Unfortunately, it didn't provide for financial stability ... The question now is, what is the steady state of the Bank's reserves? It's clearly quite a lot higher than it was pre-financial crisis because we've increased the liquidity buffer requirements ... It's some hundreds of billions, I would say, but we don't really know how many hundreds."

The message is very clear: the Bank of England clearly thinks that the central bank reserve accounts that are created as a consequence of quantitative easing, and which are held by the clearing banks with the Bank of England, are critical to the financial stability of the UK economy.

As to the question that Bailey poses as to how many hundreds of billions of liquidity are required, I suggest that there is an answer. That answer is not less than £895 billion,

which just happens to be the current target sum for quantitative easing, and may be considerably more when the need for [green quantitative easing](#) is taken into account.

Green QE is, of course, the variant on this theme that will be used to directly fund the process of change required to tackle the climate crisis.