

Funding the Future

The Bank of England restarts quantitative easing

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I have just posted these tweets:



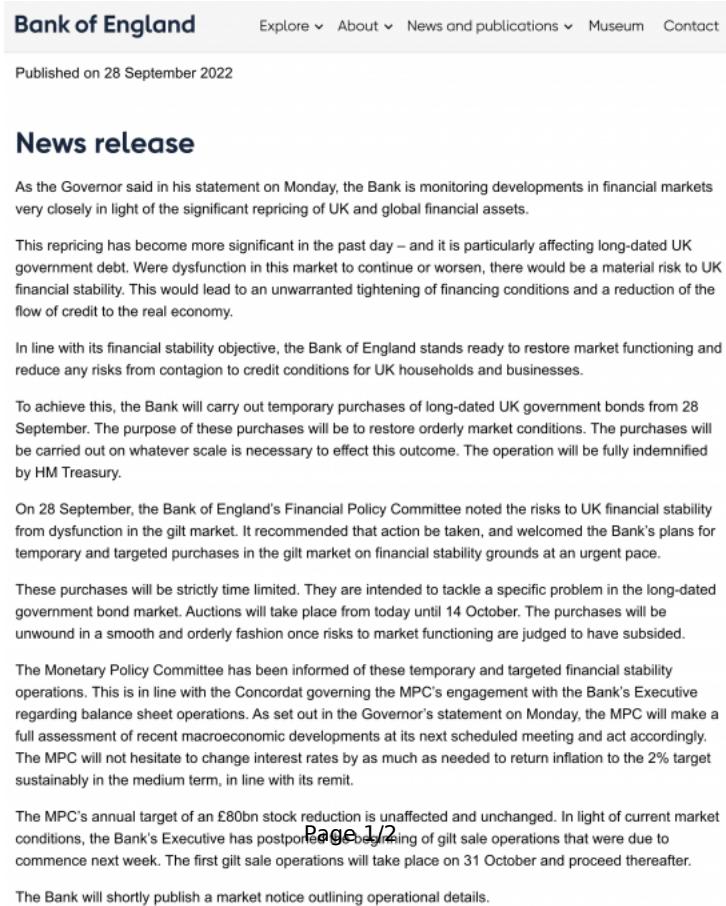
Richard Murphy @RichardJMurphy · 3m
The Bank of England has restarted QE, which is how the crises in 2008, 2020 and 2021 were managed. In effect, this means the government creates money to fund itself and sidelines the markets. This is the ONLY way it can fund itself in the next year, so this is welcome . . .

6 36 96

Richard Murphy @RichardJMurphy · 3m
The move is also welcome for another reason. This will increase bond prices, and so reduce pressure on interest rates. The result is domestic catastrophe might be avoided, but it will take £200 billion of QE in the next year to achieve this. As I argued for it, I welcome this. . .

5 9 60

They are a response to this [Bank of England announcement](#):



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News release

As the Governor said in his statement on Monday, the Bank is monitoring developments in financial markets very closely in light of the significant repricing of UK and global financial assets.

This repricing has become more significant in the past day – and it is particularly affecting long-dated UK government debt. Were dysfunction in this market to continue or worsen, there would be a material risk to UK financial stability. This would lead to an unwarranted tightening of financing conditions and a reduction of the flow of credit to the real economy.

In line with its financial stability objective, the Bank of England stands ready to restore market functioning and reduce any risks from contagion to credit conditions for UK households and businesses.

To achieve this, the Bank will carry out temporary purchases of long-dated UK government bonds from 28 September. The purpose of these purchases will be to restore orderly market conditions. The purchases will be carried out on whatever scale is necessary to effect this outcome. The operation will be fully indemnified by HM Treasury.

On 28 September, the Bank of England's Financial Policy Committee noted the risks to UK financial stability from dysfunction in the gilt market. It recommended that action be taken, and welcomed the Bank's plans for temporary and targeted purchases in the gilt market on financial stability grounds at an urgent pace.

These purchases will be strictly time limited. They are intended to tackle a specific problem in the long-dated government bond market. Auctions will take place from today until 14 October. The purchases will be unwound in a smooth and orderly fashion once risks to market functioning are judged to have subsided.

The Monetary Policy Committee has been informed of these temporary and targeted financial stability operations. This is in line with the Concordat governing the MPC's engagement with the Bank's Executive regarding balance sheet operations. As set out in the Governor's statement on Monday, the MPC will make a full assessment of recent macroeconomic developments at its next scheduled meeting and act accordingly. The MPC will not hesitate to change interest rates by as much as needed to return inflation to the 2% target sustainably in the medium term, in line with its remit.

The MPC's annual target of an £80bn stock reduction is unaffected and unchanged. In light of current market conditions, the Bank's Executive has postponed the resumption of gilt sale operations that were due to commence next week. The first gilt sale operations will take place on 31 October and proceed thereafter.

The Bank will shortly publish a market notice outlining operational details.

This policy is backed by the Treasury. It is the most staggering admission of failure by a new government of the UK, probably ever, coming as it does three weeks after it assumed power.

I suspect the interventions will be for much longer than the BoE suggests.

I also suspect, very strongly, that quantitative tightening (the Bank selling bonds) that is now scheduled for November now will not happen: they can't buy bonds one month and sell them the next without adding to market confusion, although as yet they (as incoherently as Kwarteng in this regard) do not seem to have appreciated that.

This is a staggering shift in policy in such a short period of time. But as I said this morning, only government money creation can solve this problem now. I just think that the Bank has not realised how much is required.