

New glossary item: open market operations

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I have added a new glossary item on open market operations as I needed to define the term for some work I am doing. The entry is as follows:

Open market operations are a tool used by a Treasury or central bank that seeks to influence interest rates by controlling the money supply.

To achieve this goal the agency undertaking the activity buys or sells the bonds (or, in the case of the UK, the gilts) issued by the government of the jurisdiction in the open market. As such, open market operations are trades in bonds already in issue, rather than in newly issued bonds or gilts.

The aim of these trades is to influence the money supply and, therefore, the interest rate on central bank reserve accounts by either increasing that supply (which reduces interest rates and stimulates economic activity) or reducing it (which does the opposite).

The sums involved are quite considerable. From 2010 to 2021, the UK's Debt Management Office, on average, owned more than £115 billion of gilts so that it could engage in open market operations. The range of balances held was, however, smaller than this implies, with a maximum of £127 billion in 2010 and a low of £107 billion in 2020.

Although these gilts are owned by a UK government agency that is under the direct control of HM Treasury, it would seem that they are included in the UK national debt by the Office for National Statistics, which makes little accounting sense.