The Bank of England's justifications for quantitative t...

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The House of Commons Treasury Committee published a report on quantitative tightening this morning. It's 40 pages, and whilst I have scan read it all, please read this as an initial reaction.

The Bank of England claimed to the committee that:

* They are only doing quantitative tightening to tighten their balance sheet.

* They claim that this is necessary to create headroom for more quantitative easing in the future.

* They admit that the whole quantitative easing process cannot be reversed.

* They claim that what they are doing now is not disrupting markets.

* They claim that the quantitative tightening that they are doing now is having no impact on interest rates. It was claimed to only be a technical exercise.

* They claim that quantitative tightening is not impacting the economy.

The Committee has been far too trusting of the Bank, especially in the light of evidence given that:

* Quantitative tightening has impacted interest rates, having the same effect as at least another half per cent increase in rates, which I think is an underestimate.

* Quantitative tightening has impacted markets when this year total gilt sales will be £277 billion but would be no more than £137 billion without QT. In other words, QT sales exceed those needed to fund the government deficit.

* There is evidence that this is impacting government decision-making, not least because of the impact of the supposed losses on quantitative tightening bond sales that the Bank of England appears to be so anxious to generate, which are bringing pressure to bear on the Treasury.

There is no mention in the report that I have so far seen of:

* The fact that quantitative tightening was wholly avoidable, although it is noted that the Bank of England alone is doing it in the way that it is at present.

* That the supposed losses from quantitative tightening were entirely avoidable because there was literally no reason at all for the binds in question to be sold at a time when their value was falling, entirely as a result of action by the Bank of England to increase interest rates which inevitably reduced those prices.

My reaction is:

* The Bank of England is not telling the truth.

* Quantitative tightening began in September 2022 (causing an immediate financial crisis as a result that was incorrectly blamed on Liz Truss and Kwasi Kwarteng) and had to be temporarily reversed because it was so ill-conceived.

* Active quantitative tightening, involving the sale of bonds by the Bank of England rather than a failure to reinvest the proceeds of redemptions, was begun to actively support higher interest rates and was an explicit part of the Bank of England's monetary policy programme to artificially inflate interest rates in this country.

* Quantitative tightening has had a much bigger impact on interest rates than the committee of those giving evidence to it suggest in that case because rates could not be sustained at 5.25%, or the planned continuing exceptional positive rate intended for the rest of this year and beyond but for it.

* The cost of those interest rates has, in that case, to explicitly include the losses incurred by the Bank of England in pursuit of this reckless and irresponsible policy.

* Taking £140 billion out of financial markets wholly unnecessarily in a year is not financially neutral. It has two effects. First, it clearly distorts markets. Second, it very obviously distorts government decision-making by increasing the cost of capital. The whole £28 billion green investment debacle from Labour need not have happened if the quantitative tightening programme was not being pursued, with that programme being five times bigger than the sum Labour wants to raise.

* As a result, everything that the Bank claims about this programme, except that additional reserves will need to remain in place, is not true: it is an explicitly and deeply political programme on their part to actively alter the economic environment of the UK as a whole, creating in the process a deliberately hostile market for real government investment at cost to us all.

I wish the Committee had been considerably more analytical and cynical in their approach to the evidence from the Bank of England. They are not convinced by the Bank's evidence: the Committee should have realised that they were having the wool very deliberately pulled over their eyes. The Committees conclusions are:

* The Bank and Treasury explore how value-for-money criteria and the spending power of the Treasury could be included in decisions about the ongoing pace and timing of QT;

* The Treasury clarify whether the Chancellor’s authorisation of changes to the indemnity involves a substantial decision or is only a formal endorsement of the Bank’s decision;

* The Bank and Treasury clarify the future arrangements for the steady-state level of reserves on the Bank’s balance sheet and the implications for the Bank’s profits and losses and the Treasury indemnity;

* The Treasury should examine whether it is appropriate that ongoing indemnity payments are included in the debt targeted by the fiscal rules.

They remain too trusting of the Bank. And that worries me: they are not to be trusted on this issue.