

Why have we tolerated the Bank of England's dismal fa...

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Chris Giles [had an article in the Financial Times](#) this week asking whether the quantitative easing (QE) programme run by the Bank of England had been worth its cost, particularly in the context that in relative terms the UK QE programme has proved to be much more costly than that of the US Federal Reserve and the European Central Bank.

To summarise what Chris Giles said, he suggested that the cost of this programme cannot be fully known as yet. That is because the impact is continuing. However, he concluded that whatever the cost was it must have been worthwhile because it prevented massive further economic breakdown in 2020/21. To that extent, Chris got his commentary right.

He was also right to conclude that the Bank of England will, eventually, have to be held to account for the reason why their programme is proving to be so much more expensive than that of other, similar, institutions.

The disappointing aspect of this was that Chris failed throughout the article to give any hint of understanding as to why this might be the case.

Firstly, he did not discuss the wholly unnecessary quantitative tightening (QT) programme that the Bank of England is undertaking at present to shrink its balance sheet when there is no proven need for shrinkage to take place. That is because the size of that balance sheet has had no obvious impact of any sort on the economy, excepting interest costs on central bank reserve accounts (CBRAs). It has most certainly not had any impact upon inflation.

Chris also failed to discuss, in this context, why it is that the UK QE programme has involved extraordinarily high levels of payment of interest on central bank reserve accounts in the UK. He did, however, acknowledge that these payments have amounted to what are, in effect, free gifts of cash to the banks when institutions, such as the European Central Bank, have mitigated such costs.

In addition, Chris failed to note the exceptional impact of the excessive use of index linked bonds in the UK on costs in recent times.

But, perhaps most damning, is the fact that Chris Giles has not recognised that there was never any need at all to undertake the QE programme. It has been from start to finish an expensive sham.

This claim can be briefly explained. As we know, from April 2020 onwards, the UK government ran substantial deficits to cover the cost of its various Covid programs. The total cost exceeded £400 billion. No third party funding was required for this deficit spending programme. In reality, all that happened was that new Bank of England created money was injected into the economy, inflating the CBRAs in the process. Nothing much has changed with regard to this situation, except as a consequence of the current QT programme, which has partially (but only very partially) reduced those balances.

No bond issues or acquisitions were required to inflate the central bank reserve accounts, the inflation of which were the only transactions with true economic substance that took place as a consequence of the government incurring deficits on the scale it did.

Despite the fact that no bond issues or repurchases were necessary in association with the creation of this deficit funding, the Bank of England, with government approval, undertook both QE and then QT programmes. As a consequence it did a number of things.

Firstly, it issued new government bonds of almost exactly equal value to the amount of deficit created, with such sums rising in close lockstep throughout the period when deficits were run.

Then, having issued such bonds to create the impression that deficits were being funded by the bond markets, the Bank of England repurchased bonds of equivalent value to those that had just been issued from those very same bond market participants. The bonds the Bank then acquired were not necessarily those just issued, and as a consequence, the opportunity for profit making by the banks on arbitrage trading was created.

In reality, these issues and repurchases did, for all practical purposes, cancel each other out in value terms at the time. As such they had no net impact on the value of the CBRAs created by deficit spending. In other words, as I noted, they were just a sham.

Now, however, QT is happening. In reality the bonds sold under the QT programme are, in effect, new bonds, but because of the absurd charade of issues and repurchases that QE involved it is claimed that old bonds are being sold back into the markets, but often at a considerable loss. When the purchase of those bonds was never necessary this

only adds to the cost and grief of the QE programme and suggests that it has been managed with gross incompetence by the government, the Treasury, the Debt Management Office and the Bank of England. The cost cannot be known, but overall the cost of this incompetence might exceed £100 billion.

Chris Giles misses all these points because he still does not understand that there was literally no need to do QE. If the government had openly declared that it was going to run an overdraft with the Bank of England, and that interest to be paid on the CBRAs was to be limited, then vast amounts of cost, and the whole loss on bond dealing arising from QE could have been entirely avoided.

Why is that not being said by Chris? That is a question for him to answer. But unless those issues are not addressed then no analysis of the QE era will be complete.