

Has quantitative tightening run out of road?

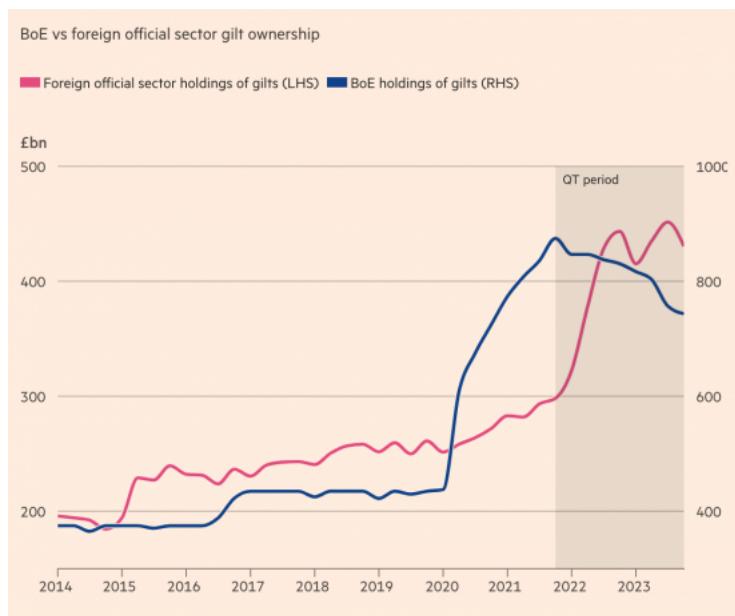
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There [is a fascinating article](#) in the FT this morning on quantitative tightening this morning. Trust me: this is not just geekery on my part.

In it, the author, Tomasz Wieladek, who is chief European economist at T Rowe Price and a CEPR Research Fellow, argues three things.

The first is that the Bank of England has underestimated the impact of quantitative tightening on keeping interest rates high. They say it is likely that the impact of the programmes is less than 0.25% when rates are being considered. I also doubt this, or I can see no policy reason why quantitative tightening has been done. Their words and their actions do not match, in my opinion, and their actions matter to me. Wieladek obviously shares that opinion.

Then, he argues that the quantitative tightening programme has only worked because there have been foreign buyers for the gilts that the Bank of England has been supposedly selling back into the market (although I prefer to think of them as new gilt sales at ridiculous prices). This chart reveals that:



The sale of gilts by the Bank of England has been almost entirely absorbed by foreign buyers. Tomasz Wieladek suggests that their desire to make further such purchases looks to have ended. In that case, the end of the line for quantitative tightening is in sight.

Third, therefore, he suggests that it is time for the Bank of England to urgently reappraise the desirability of further quantitative tightening sales of bonds because further attempts to dump more on markets might well have significant and undesirable impacts on interest rates. These, I think, will seriously harm the UK economy. The author seems to also be of that view.

In other words, the Bank of England might just have got away with quantitative tightening to date, but the chance that it will continue to do so is low. Better stop now, then.