

Quantitative tightening denies us the investment we need...

Published: January 13, 2026, 1:27 am

The Bank of England is selling about £100 billion a year of government bonds it bought during the Covid crisis back into City financial markets. There's no need to. It's making massive losses doing so. But worst of all, that £100 billion is preventing the government from spending on the investment in the real economy we really need. QT has to stop now.

<https://www.youtube.com/watch?v=L-DxQX80pnc?si=d72TuSo7YN23E73K>

This [is the audio version](#):

https://www.podbean.com/player-v2/?i=hpgys-16e91f5-pb&from=pb6admin&share=1&download=1&rtl=0&font=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00

The transcript is:

There is lots of debate about how Rachel Reeves can find the money that she needs to invest in the UK economy. I'm pleased about that because I know that there is an enormous need for investment in the UK economy.

In the alternative Labour Party leader speech that I offered last week, I explained how I would find this money by making changes to ISA and pension tax reliefs in the UK and redirecting the money that is currently wasted in the City of London towards productive capital investment in our economy for the benefit of everyone. I stand by the conviction

that underpinned that presentation. I think that is the way in which Rachel Reeves should go. We need to reconnect people's savings with productive capital in this country. But I'm also realistic. I don't think Rachel Reeves is going to do that, however good an idea it is.

And instead, I hear some very strange opinion being offered about how she might change fiscal rules and how she might fiddle with the way in which Bank of England debt is accounted for, and various other things to give her more leeway to perpetuate the status quo which pretends that the City of London lends money to the government so that it might invest, when in fact the money that is deposited by the City of London with the government was created by the government in the first place.

So let's talk about another way in which Rachel Reeves could solve this dilemma. She could tell the Bank of England to stop the process called quantitative tightening.

Quantitative tightening - which has far too many Ts in it for comfort when being said into a camera lens - is a process which involves the Bank of England selling the bonds that were bought during the quantitative easing process that began in 2009 and ended in 2021 back into the City financial markets.

£895 billion worth of such bonds were acquired by the Bank of England. Around £660 billion worth of them are at present still in the ownership of the Bank of England. And there is a plan that in the next year at least another £100 billion worth of those bonds should be sold back into financial markets.

What does this mean? Well, I'm not going to go through the whole QE - Quantitative Easing process - again. I did make a video on it. I explained that it was wholly unnecessary. It was a sham to disguise the fact that it was, under EU rules, illegal for the Bank of England to lend the money directly to the government that owned it, and that as a consequence the whole QE process was put in place to try and cover up, by way of a sham, that process. But reversing that process of QE, the quantitative tightening process, is not the complete inverse of the original arrangement.

The original arrangement regarding QE was actually designed to cover up the fact that the government was injecting new money into the economy to save it from destruction as a consequence of the failure of banks in 2008, and as a consequence of the failure of the economy in the face of the COVID crisis in 2020 and 2021.

That money was injected to make sure that there was a continuing money supply to deliver public services and to save the banking system from collapse because there could have been a failure of liquidity and, therefore, of those banks within our society. We couldn't afford that failure. The government created money to cover it, and that was vital.

QE was simply a sham, as I said. Bonds were issued and reacquired by the Bank of

England, but there was no need for that process at all. The £895 billion could simply have been left on overdraft between the Bank of England and the government and all might have been well. But now, under the quantitative tightening process, those bonds are being sold back into financial markets.

Why? Largely to make sure that interest rates remain high. That is the fundamental purpose of the sale.

Why do we want to keep interest rates high? You tell me, because I don't know. I don't want them high. I want them to go right down again. Because we know that low interest rates encourage investment in the economy and make it easier for households to make ends meet and to afford their mortgages, and when interest rates are low, rents go down, which makes people in the rental market sector very much more comfortable.

So, I want low interest rates. The Bank of England wants high interest rates. It's selling these bonds to keep interest rates high.

Why does that keep interest rates high? Because selling the bonds keeps the price of government bonds low.

The rate of interest paid on government bonds is actually fixed. But if their price goes down, the relative value of that interest payment goes up and therefore interest rates appear to be high, even though the actual amount paid by the government doesn't change.

So that's what the Bank of England is doing. But what I have to stress is this is not a reverse of the QE process because the QE process ended up putting more money into the economy. The quantitative tightening process is not directly taking money out of the economy, but it is reducing the capacity of the City of London to buy new government bonds because it's having to buy the ones sold by the Bank of England under the QT, quantitative tightening process.

So, the side effect of the QT process is not to directly limit the capacity of the government to spend, which would be the case if it was the reverse of the QE process, but to indirectly create that incapacity of the government to spend because the City has not got sufficient money to both buy the bonds issued under the quantitative tightening program and those that need to be issued by the government to cover its investment programme.

If we believe that the government's books do have to be balanced without a Bank of England overdraft being permitted to the government itself - therefore, within the assumed fiscal constraints that operate - quantitative tightening does actually limit the government's ability to borrow, and at the same time it also limits the amount of money available for the government to invest.

It is vital that that is understood. QT, run by the Bank of England, is directly limiting the capacity of our government to invest in the necessary process of change that climate change requires, in the hospitals that are falling down around the country because of poor concrete, in the schools that need renovation, in the energy systems that we require, and on, and on, and on. Because they're playing financial games, we can't have what we need.

So, how do we solve this problem? It's really, really straightforward. If there is capacity for the City of London to buy £100bn of government debt in the next year, to simply write down the holding of government bonds owned by the Bank of England, then there is a hundred billion pound capacity in the City of London to instead buy bonds that could be directly used to fund this essential capital investment that the country requires.

We can't do both, but if we have a choice, and we do have a choice, there is only one choice that should be made, and that is to cancel QT and invest in what this country is capable of doing.

Rachel Reeves has that choice to make, but I don't believe she has told the Bank to constrain its quantitative tightening activities.

Indeed, we know that in September 2024 they have reconfirmed they will sell that £100bn worth of bonds in the next year. And we can only presume that she gave that programme the nod.

As a consequence, she has decided to make it very hard for herself to raise the funds she needs to do what is essential for the future of this country.

At any time, a Chancellor can decide to do one of two things. They can keep people happy, or they can keep the financial markets happy. Financial markets don't vote for her, but they do offer her the chance of very highly remunerated employment when she ceases to be Chancellor. On the other hand, the country offers her the chance to continue as Chancellor, by being re-elected to office.

It appears that she's putting more value on her own prospects than those of the country by opting to let the Bank of England use QT - quantitative tightening - ignoring the fact that we need the investment.

She's making the wrong decision.

She should change her mind.

She should tell Andrew Bailey and the Bank of England to stop quantitative tightening and then there would be no problem at all in her raising the funds that are required to deliver the investment that we all need.