

Funding the Future

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HM Treasury and the Bank of England issued a [Memorandum of Understanding](#) between them yesterday. This relates to the supposed independent funding of the Bank and how that arrangement will be managed.

Let me be candid about this document. It is a complete joke. The Bank of England is entirely owned and controlled by HM Treasury.

The Bank's job is to act as banker to the government, working under the direction and control of parliament through the Treasury. What it might do is very strongly controlled by statute.

As a regulator, the Bank is just another government agency.

As a purchaser of the government's own debt, [of which it still owns](#) more than £650 billion worth, the Bank of England is complicit in the pretence that is called quantitative easing. This arrangement pretends that the Bank independently buys government bonds in financial markets when everyone knows that the government was simultaneously issuing similar amounts of debt into those markets, meaning that, in effect, the Bank was directly funding the government as a result of a direction from the government that it should do so. To pretend in that case there needs to be an understanding between the parties is farcical.

If the government chose to say jump to the Bank of England, then it would jump.

If it told the Bank to stop quantitative tightening, which is entirely within its power, then that is exactly what the Bank of England would do.

And, if the Treasury told the Bank to cut interest rates, it would.

In that case, to cut through all the crap in this document, what it says is that arrangement is that if the Bank of England makes a profit, it will return that profit to the Treasury, and if it makes a loss, then the Treasury will make good the bank's deficit. In a narrow band between these two possibilities, a game is played which suggests that the Bank will fund itself from charges made, but the bottom line is a simple one: what is the Bank's is the Treasury's, and if the Bank loses money then the Treasury coughs up.

If that's what independence means to them, then they're taking us to be fools.

Taken as a whole, the document is as opaque, and as deliberately obscure as have been most tax haven structures that I have ever read, and I have read a lot. Throughout it what is apparent is that the economic substance of this relationship is nothing like the legal form that the parties are pretending exists, and I find that exceedingly annoying, and disingenuous.

I expect honesty from a government, and I expect honesty from those who hold very well remunerated positions in what is in reality a senior civil service post, which is what those signing this on behalf of the Bank enjoy. In my opinion, this is not an honest document. It is time that we stopped playing games by issuing pretences such as this.

The Bank of England is not independent.

The Bank of England should not be independent.

There is absolutely no excuse whatsoever for separating the two supposed branches of macroeconomics, namely fiscal policy and monetary policy, with them supposedly being managed by separate entities even though in reality it is very obvious that both are in practice under the control of the Treasury, with the Bank of England then being used as a supposed constraint on what can be done. Such constraints do not exist. The charade has to end.

When will we ever get grown-up economic policy, and grown-up government in this country? All this document proves is that we are a very long way from both right now.