

The big questions for the Bank of England today

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There are two big questions for the Bank of England when they announce their decisions on monetary policy this lunchtime.

The first is whether they will cut interest rates, as the US Fed did yesterday, by 0.25%. The truth is, no one is expecting them to, even though, as ever, I suggest that they should.

The second is what they will do about quantitative tightening (follow the link for a full explanation of what that means). On Monday, [the FT had this to say](#) on that decision:

The Bank of England is expected to sharply slow the pace at which it is shrinking its balance sheet, with some investors calling for a “shock and awe” suspension of all active bond sales in an attempt to relieve pressure on the market for UK government debt.

The Monetary Policy Committee will announce on Thursday, alongside its latest interest rate decision, whether it is dialling back the pace at which it is cutting its gilt holdings as part of its quantitative tightening programme.

That, in my opinion, is the most important question of the day.

Quantitative tightening (QT) has been sold by the Bank of England as a way of “restoring discipline” to the public finances, as if it is finally putting right the supposed “excesses” of quantitative easing. But this is a myth. What QT has actually achieved is something quite different:

- * It has pushed up long-term interest rates by forcing down the price of gilts, as UK government bonds are commonly called.
- * By selling gilts back into the market at the same time as the government is issuing record new debt, QT has fuelled instability rather than calming it.
- * It has created wholly unnecessary losses at the Bank of England. Bonds bought at higher prices during the crisis years are now being sold back at much lower prices. The

difference is met by the Treasury, meaning the government is, in effect, directly subsidising City traders.

* It has reinforced a dangerous economic myth. By pretending that the government must go cap-in-hand to the markets to raise funds, QT sustains the false idea that austerity is unavoidable. The reality is that the government, through the Bank, creates its own money. QT hides that truth.

So the real question today is not whether the Bank slows the pace of QT, but is instead whether it is willing to admit that the whole exercise has been a damaging error.

The government's need to encourage investment at present is glaringly apparent, whether that be in public services, in the climate transition, or in rebuilding an economy hollowed out by years of neglect. QT gets in the way of all that by deliberately constraining the capacity of financial markets to play a part in this process by reducing the liquidity within them.

The best decision today would be to suspend QT altogether. That would relieve pressure on the gilt markets, reduce the cost of government funding, and stop the unnecessary transfer of billions from taxpayers to bond traders. Whether, however, the Bank of England has the courage to admit its mistake is another matter altogether.

Taking further action

If you want to write a letter to your MP on the issues raised in this blog post, there is a ChatGPT prompt to assist you in doing so, with full instructions, [**here**](#).

One word of warning, though: please ensure you have the correct MP. ChatGPT can get it wrong.

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