CONSERVATIVE WAY FORWARD

WWW.CONSERVATIVEWAYFORWARD.COM

THE BANK OF ENGLAND

AN INTERNATIONAL OUTLIER

INTRODUCTION

The British public are facing two costs that have been imposed on them by the Bank of England and the decisions which it has taken since the Covid-19 pandemic.

Between 2022 and 2025 we expect the average UK household to have paid a "Bank of England Surcharge" worth at least £5,546. These are losses that have been accrued by Britain's central bank, and passed on to the taxpayer, in a set of costs unlike anything else in the Western world. There is no other major Western central bank that is imposing a similar set of costs upon its population.

This figure has two components:

1. The BofE INFLATION surcharge
2. The BofE QT LOSS surcharge

BofE Inflation Surcharge
In 2022 and 2023, the cost of the BoE's poor performance, over and above the failure of other central banks, suffered by the average UK household comes to a total of £1,185.

BofE QT Loss surcharge

As a result of the Bank of England deciding to conduct aggressive Quantitative Tightening (QT) – in unprecedented fashion and in contradiction to the policies of other central banks - between 2023-2025 the average British household will be burdened with a bill of £4,361.

For the purposes of this report we will be comparing the Bank of England with six other central banks that, since 2022, have embarked on substantial and noteworthy Quantitative Tightening projects. These central banks have been identified by academics as pursuing QT in a thorough enough manner that they pose a useful comparator to one another.[1]

The unprecedented nature of QT, and the vast unknowns that accompany it, makes this bucket of central banks the most useful comparators when looking to gauge the costs being imposed on the British public since 2022.

The six central banks, henceforth known as the 'CB comparators', that make up this bucket are:

- The US Federal Reserve
- The European Central Bank
- The Swedish Riksbank
- The Reserve Bank of Australia
- The Reserve Bank of New Zealand
- The Bank of Canada

We note that the recent review by Ben Bernanke (former head of the Federal Reserve) into Bank of England forecasting practices, which found "significant shortcomings", used a similar cohort of central banks as comparators.

The decision by CWF to exclude the Bank of Japan, despite its size, was similarly made by Bernanke owing to "recent experience and the institutional structure of the Japanese economy being quite different from the other central banks".

Bernanke tells us that he chose these six banks "because of their global importance (the Federal Reserve, the European Central Bank) or because, like the Bank of England, they are inflation-targeting central banks making policy for advanced but comparatively small open economies". This is the same for the 6 CB comparator banks selected by CWF.

The only difference between the two buckets is that, whereas Bernanke included the Norwegian Norges Bank, CWF included the Reserve Bank of Australia instead.

READ THE REVIEW HERE

PART ONE

INFLATION OVERSHOOT

The Bank of England's mandate requires it to ensure price stability by keeping inflation at 2%. Since 1998, when Labour Chancellor Gordon Brown granted the Bank independence, this function has become the best-known function of the bank and its Monetary Policy Committee (MPC).

The other CB comparators included in this study are also subject to price stability rules that require them to keep inflation at around 2%.

The Bank of England overshoots its inflation target by much more than the CB comparators

The world economy has experienced several significant shocks since 2020, and all central banks have overshot their inflation targets. However, compared to the CB comparators, the Bank of England has the worst track record on inflation.

Using data from the Bloomberg Inflation Index, we can see that **between January 2022 and February 2024 the Bank of England exceeded its inflation target by an average of 5.8%.**

UKRPCJYR 3.4% For Feb Next Release 17 Apr 07:00 Survey --
UK CPI EU Harmonized YoY NSA UK Office for National Statistics
UKRPCJYR Index Page 1/7 Historical Price Table
UK CPI EU Harmonized YoY NSA
Range 03/31/2004 - 02/29/2024 Period Monthly
Market Last Price First Revision Currency
View Price Table

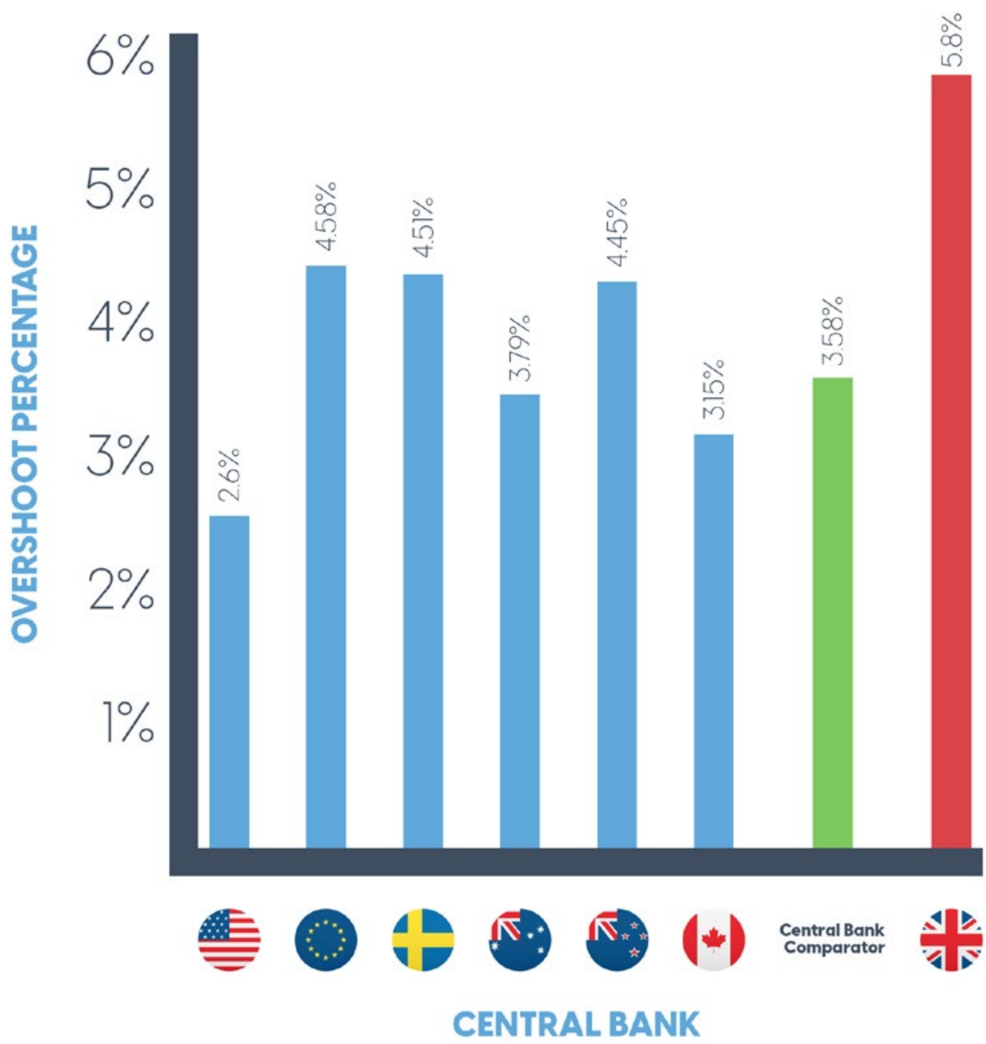
Date	Last Price	First Rev..	Date	Last Price	First Rev..	Date	Last Price	First Rev..
12/31/24			12/31/23	4.0		12/31/22	10.5	
11/30/24			11/30/23	3.9		11/30/22	10.7	
10/31/24			10/31/23	4.6		10/31/22 H	11.1	
09/30/24			09/30/23	6.7		09/30/22	10.1	
08/31/24			08/31/23	6.7		08/31/22	9.9	
07/31/24			07/31/23	6.8		07/31/22	10.1	
06/30/24			06/30/23	7.9		06/30/22	9.4	
05/31/24			05/31/23	8.7		05/31/22	9.1	
04/30/24			04/30/23	8.7		04/30/22	9.0	
03/31/24			03/31/23	10.1		03/31/22	7.0	
02/29/24	3.4		02/28/23	10.4		02/28/22	6.2	
01/31/24	4.0		01/31/23	10.1		01/31/22	5.5	

For comparison, over the same time period, the other central banks overshot their 2% inflation targets by the following rates:

United States Federal Reserve: average overshoot of **2.6%**
European Central Bank: average overshoot of **4.58%**
Swedish Riksbank: average overshoot of **4.51%**
Reserve Bank of Australia: average overshot of **3.79%**
Reserve Bank of New Zealand: average overshoot of **4.45%**
Bank of Canada: average overshoot of **3.15%**

To summarise, between the same time period of January 2022 and February 2024, the CB comparators exceeded their inflation target by a combined average of 3.85%. In this regard, the Bank of England is clearly an international outlier, with a uniquely poor track record of overshooting its inflation targets. **The Bank of England overshot its inflation target by a whole 1.95% more, on average, than the average overshoot of the CB**

What the Bank of England's failure looks like



The Bank of England failed in its central mandate by:

- **More than 2x** the extent of the failure of the US Federal Reserve
- **More than 1.84x** the extent of the failure of the Bank of Canada
- **1.28x** the extent of the failure of the Swedish Riksbank
- **More than 1.5x** the extent of the failure of the Reserve Bank of Australia and
- **More than 1.3x** the extent of the failure of the Reserve Bank of New Zealand.

Even if we take the second worst performer, the European Central Bank, the Bank of England still managed to fail by a whole 1.22% (more than 1.26x the extent of the failure).

Controlling inflation is practically the only job the Bank of England has, and its failure over the last two years has burdened British citizens with a unique surcharge.

The Bank of England's Inflation Surcharge

It's been clear to people for a long time that the Bank of England has been doing a particularly bad job at controlling inflation, and much has been made of Andrew Bailey's 2021 comments that inflation in the UK would only be "temporary".[2]

This report has found a way to take the extent of the Bank of England's overshoot compared to the CB comparators (1.95%) and translate it into real figures, and into a cost per household, using figures from the Office of National

Statistics (ONS).

Bringing 2022 and 2023 together, the cost of the BoE's poor performance, vis a vis other central banks, suffered by the average UK household comes to a total of £1,185 – the Bank of England's Inflation Surcharge. Below we explain how this figure has been reached.

2022

In 2022, UK CPI ran at an average of 9.05% across the twelve months, an overshoot of 7.05% in relation to the mandate to deliver 2%. This contrasts with the following inflation rates:

– United States Federal Reserve: 4.78
– European Central Bank: 8.35
– Swedish Riksbank: 5.8
– Reserve Bank of Australia: 6.45
– Reserve Bank of New Zealand: 7.15
– Bank of Canada: 6.3
– **CB comparators average inflation rate: 6.47**

The Bank of England's failure meant that UK inflation ran at:

– **Nearly 2x** the United States' level of inflation
– **More than 1.5x** inflation rate in Sweden
– **1.39x** the average inflation rate of all central bank comparators and
– **1.27x** the inflation rate of New Zealand

According to the ONS, average household expenditure in 2022 was £528.80 per week, covering all items including food and drink, recreation, transport, household goods, power, and internet.[3]

Given that this £528.80 includes 9.05% inflation, CWF calculates that the rate of expenditure for the average British household, excluding inflation, would have been £485 per week. This means that in 2022, each household was spending £43 every week, just on inflation.

Were the Bank of England's inflation rate to have matched the much lower average of the CB comparators (6.47%), the inflation bill per household per week would have been £31, saving an average household £14 per week. The overall household expenditure per week would have been £516.

As a result, in 2022 the Bank of England's excessive inflation overshoot (i.e. inflation over and above the failure of the CB comparators) imposed a weekly cost on households of £12 that would have been avoided if it had not been an international outlier.

Multiplying this by 52 weeks, the annual cost of the BoE's poor performance, vis a vis other central banks, cost the average UK household £665 in 2022.

2023

A similar picture emerges in 2023 where again the Bank of England's inflation rate far exceeded those of the CB comparators. UK CPI ran at a 12-month average of 7.38%. In contrast, the following averages are recorded for other central banks:

- United States Federal Reserve: 4.1
- European Central Bank: 5.4
- Swedish Riksbank: 7.5
- Reserve Bank of Australia: 5.5
- Reserve Bank of New Zealand: 5.75
- Bank of Canada: 3.89
- **CB comparators: 5.35**

The Bank of England's failure meant that UK inflation ran at:

- **Nearly 2x** the level of inflation achieved by the Bank of Canada
- **1.8x** the inflation rate achieved by the US Federal Reserve; and
- **1.38x** the average inflation rate of all central bank comparators.

A lack of ONS data for household expenditure in 2023 requires that we conservatively assume that its post-inflation expenditure remained the same as 2022 (£528), rather than increasing. This is obviously an underestimate of household weekly expenditure given the huge inflation suffered by households in 2022, but as ONS data isn't available yet, we will stick to this figure.

Given that this £528 includes 7.38% inflation, CWF calculates that the rate of expenditure for the average

British household, excluding inflation, would have been £492 per week. This means that in 2023, each household was spending £36 every week, just on inflation.

Were the Bank of England's inflation rate to have matched the much lower average of the CB comparators (5.35%), the inflation bill per household per week would have been £26, saving an average household £10 per week. The overall household expenditure per week would have been £518.

As a result, in 2023 the Bank of England's excessive inflation overshoot imposed a weekly cost on households of £10 that would have been avoided if it had not been an international outlier.

Multiplying this by 52, the annual cost of the BoE's poor performance, vis a vis other central banks, cost the average UK household £520 in 2023.

Bringing 2022 and 2023 together, the cost of the BoE's poor performance, vis a vis other central banks, suffered by the average UK household comes to a total of £1,185 – the Bank of England's Inflation Surcharge.

Using ONS data to work out the bill paid by all UK households in 2022 and 2023

For completion, using ONS data, which says that there are 28.2 million UK households, the total amount spent by Brits as a result of the Bank of England's excessive inflation

overshoot was:
2022: £665 x 28.2 million = **£17.6 billion**
2023: £520 x 28.2 million = **£14.6 billion**

PART TWO

QUANTITATIVE TIGHTENING

The Bank of England has made the decision to conduct aggressive Quantitative Tightening (QT), whilst the CB comparators are opting for a passive QT strategy. Using the Bank of England and Office of National Statistics' own numbers, this report estimates that between 2023-25 every British household will be burdened with a bill of £4,361 (the BofE QT Loss surcharge) as a result of the Bank of England's unprecedented policy (described by the Treasury Select Committee in February as a 'leap in the dark').

As mentioned in the introduction of this report, recent academic work in the US has identified 6 central banks, other than the Bank of England, where Quantitative Tightening has been carried out meaningfully. These are: the Reserve Bank of New Zealand, the Swedish Riksbank, Bank of Canada, Reserve Bank of Australia, US Federal Reserve, and the European Central Bank.[4]

The Bank of England has adopted a course of action that stands in stark contrast to the other six central banks (the CB comparators) that have chosen to not impose a tax upon their populations.[5]

However, there are some nations that have a similar approach to central bank losses. A report released by the Bank of England in April 2024 shows that its approach to losses (requiring a bailout from the Treasury) is a model adopted by only a tiny number of central banks around the world. Only 8 other national governments are responsible for recapitalising their central bank if it suffers losses: Albania, Azerbaijan, Georgia, Kosovo, North Macedonia, Montenegro, Tanzania, and Uruguay.[6]

Henceforth referred to in this report as the 'Albania model', the Bank of England's decision to make the taxpayer liable for the losses it is currently suffering is unique amongst the world's advanced economies.

By the end of the Bank of England's QT project, expected around 2031, the decision to opt for an aggressive approach is projected by the Bank of England itself to cost the British taxpayer up to £191 billion, or £6,800 per household.

What is Quantitative Tightening?

Quantitative Tightening (QT) is the reverse policy of quantitative Easing (QE). It has no precedent in modern economic history and has recently been described by the Treasury Select Committee as "a leap in the dark".[7]

Indeed, the Bank of England itself admits that it does not fully understand the likely consequences of QT:

Andrew Bailey, Governor of the Bank of England, said in the August 2021 Monetary Policy Report that "there is uncertainty about the impact of reducing the stock of purchased assets", and that the Monetary Policy Committee (MPC) "has greater certainty around how changes in Bank Rate affect the economy compared with its other policy tools [such as QE/QT]."[8]

In 2022, the Chair of the US Federal Reserve, Jay Powell, issued a stark warning: "I would just stress how uncertain the effect is of shrinking the balance sheet".[9]

Since the financial crash of 2008/9, central banks around the world have pursued a policy of quantitative easing (QE). This is where a central bank buys government bonds or other financial assets in order to increase the money supply in the economy and lower interest rates, with the aim of encouraging lending and investment. Effectively, the central bank buys government bonds (lends the government money), and it does this by creating new money. As a result, the debts on the central bank's balance sheet will expand.

QT seeks to do the reverse: reduce money supply by selling those assets (mostly bonds) and raising interest rates, with the aim of disincentivising lending and investment.

On 21 September 2022, the MPC voted to begin an aggressive QT agenda and announced the result of the vote on the same day. This announcement spelt out its intention to sell £80 billion worth of bonds, beginning on 3 October 2022.[10] **This vote and announcement took place just 48 hours before Liz Truss and Kwasi Kwarteng delivered their "mini budget".**

The QT programme set out is a monumental undertaking and will require unravelling a significant proportion of £895 billion in debt holdings stored by the Bank of England in its Asset Purchase Facility (APF). This sum has been accumulated since the financial crash of 2008/09 and the Covid-19 pandemic as a result of successive rounds of QE.

There are two ways through which a central bank can conduct QT – either passively or aggressively.

The Economist: "Passive tightening involves the central bank holding bonds it bought until maturity, and then not reinvesting the proceeds."[11]

The Financial Times: "if the central bank wishes to accelerate the process, it can do so by actively selling bonds" in a process known as active/aggressive QT.[12]

The Treasury Select Committee, in its landmark report in February 2024, makes a similar delineation and explains that QT "can take a 'passive' form of ceasing to replace maturing gilts, or an 'active' form of selling gilts in the secondary market."[13]

Mistake 1: Buying long-term bonds

In 2020 and 2021 the six CB comparators carried out a QE programme based on the purchasing of short-term bonds (with maturity rates of one to three years). This makes it easier for those central banks to adopt a passive form of QT, as they can simply wait the 1-3 years and let the bonds roll off their balance sheet naturally as they come to the end of their life.

For example, this forms the bedrock of the Reserve Bank of Australia's QT strategy, which was able to boast in 2022 that "the average maturity of the Bank's holdings is a little lower than for most other advanced economy central banks. This largely reflects the fact that the Bank did not buy bonds beyond those in the 10-year futures basket, in contrast to other central banks like the Bank of England."[14]

The BoE chose to buy long term bonds, locking the UK into a straitjacket that meant, upon the unavoidable commencement of QT – were it to be done passively – the programme would not have been completed until 2071.[15]

In October 2022, Andrew Hauser, the then Executive Director of Markets at the Bank of England, admitted that the UK and New Zealand are unique amongst other central banks as **"we have a relatively long duration stock".** [16]

The Bank of Canada has been able to embark on its QT programme by simply allowing its existing short-term bonds to mature and not reinvesting, rather than being required to make any active sales.[17]

Upon the commencement of its QT programme, the Reserve Bank of Australia recorded that it "did not buy bonds beyond those in the 10-year futures basket".[18]

As set out in the following section, this decision has now forced the Bank of England's hand and compelled it to conduct a form of aggressive QT that makes it an international outlier. In the words of Handelsbanken Plc: "the BoE became the first central bank in the world to embark on active sales of gilts"[19], **a process which it announced just hours before the then Chancellor Kwasi Kwarteng unveiled his 'mini-budget'.**

Mistake 2: Aggressive QT since 21 September 2022

Since 2022 the Bank has sought to unwind a significant chunk of £895 billion worth of debt on its balance sheet, caused by QE, and it has elected to do this through an aggressive QT strategy, selling the bonds that it holds at a large loss rather than waiting for them to mature.

The Treasury Select Committee, in the February 2024 report Quantitative Tightening, sets out clearly that the UK is going it alone with this approach:

"Other major advanced economy central banks, including the US Federal Reserve, European Central Bank and the Bank of Canada, are only proceeding with passive QT."[20] Although it is worth noting that the US Fed has undertaken some active QT, but on a much smaller scale than the BoE.

The Bank of England itself admits it is an international outlier. Deputy Governor, David Ramsden, said in a speech on 27 Feb 2024:

"Our approach to this issue differs from other central banks, notably the Federal Reserve, which aims to maintain its QE portfolio at a level that will back an 'ample' level of reserves."[21]

The Bank of England has made a conscious decision to ignore international best practice (even though, clearly, none of this practice is optimal), and go against decisions taken by the CB comparators.

There are no parallels for the UK's QT agenda. When we consider the severe uncertainties and unknowns that surround QT, the decision to chart a path acutely distinct from all CB comparators is a huge risk to the UK economy and households.

Indeed, other central banks, such as the Reserve Bank of Australia are now able to adopt a passive, less risky approach by, in their own words, "allowing its bond holdings to mature in a steady and predictable way over time"[22], whilst the ECB has set out that its "balance sheet reduction process will be of a passive nature as a part of all maturing bonds will not be reinvested."[23]

The Deputy Governor of the Bank of Canada, Tony Gravelle, set out that Canada followed a similar strategy, reducing its asset holdings by 40%, by letting "the bonds we hold roll off our balance sheet as they mature, without replacing them".[24]

The Bank of England believes that its decision aggressively to dump bonds at a significant loss is the correct one, owing to its larger set of long-term bonds.

In 2022, the Treasury Select Committee heard from Andrew Hauser, who was, at that time, the Bank of England's Executive Director of Markets, who reinforced this point: "if we were we to stay in and simply allow it {the banks stock of bonds} to mature, we would be in for the best part of 50 or 60 years"[25] – something the Bank seems to have been unprepared to countenance.

As such, the Bank of England Monetary Policy Committee voted to begin this process on 21 September 2022, **publicising its decision two days before Kwasi Kwarteng announced his first major fiscal package as Chancellor of the Exchequer.**[26]

On 28 September, the Bank of England temporarily paused its aggressive QT agenda amidst the resulting bond market panic, and its bond sales resumed in early November 2022.[27]

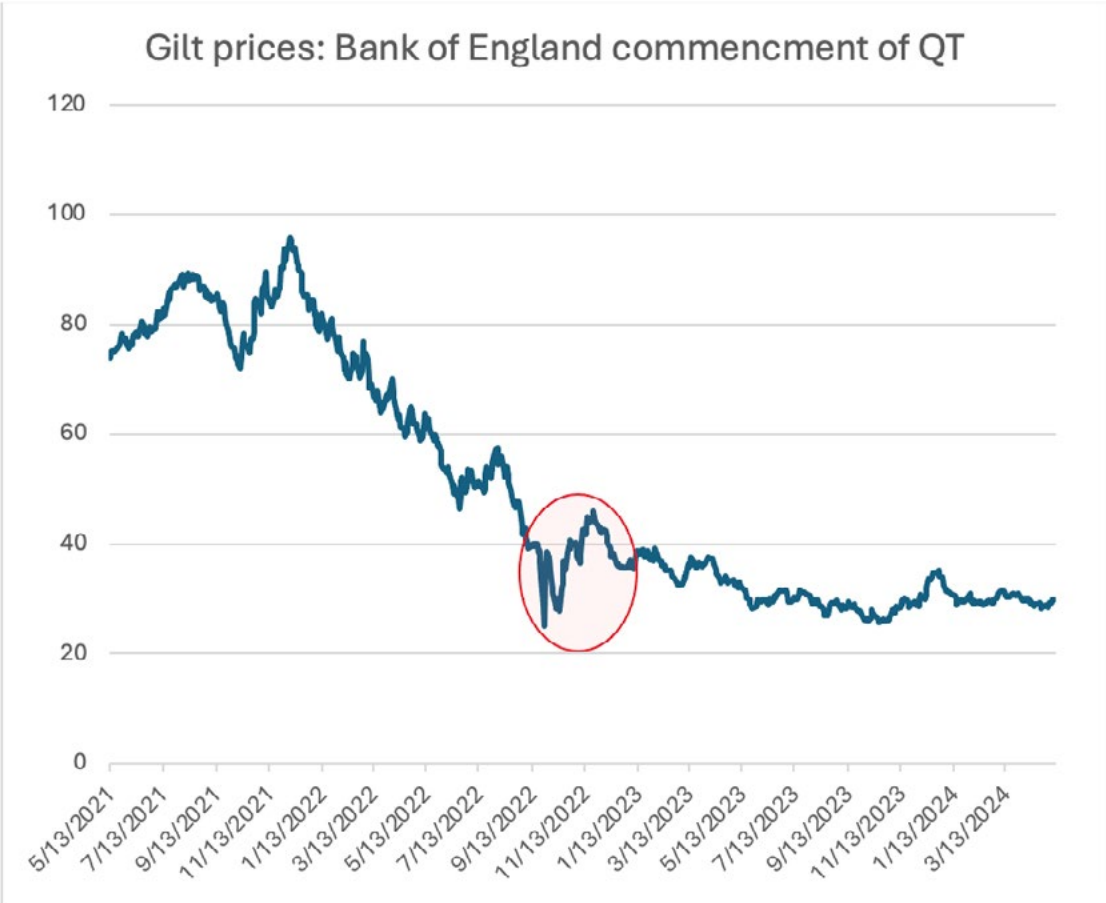
A year later, on 20 September 2023, the MPC voted to further increase the pace and depth of QT, by reducing the stock of bonds held in the APF by a further £100 billion "over the 12-month period from October 2023 to September 2024, comprising both maturing gilts and sales."[28]

Mistake 3: The 'Albania Model', crystallising losses and billing UK taxpayers for them

In October 2023, many economists warned the Bank of England that its decision to sell long-term bonds, dated 20 years or longer, was creating losses – something that is being avoided by all other CB comparators who do not follow the 'Albania model' of treasury recapitalisation.[29]

Sanjay Raja, senior economist at Deutsche Bank, said the Bank of England was crystallising losses of about 55% of the value of each long-dated bond it sells.[30]

In the third quarter of 2021, whilst still enacting QE, the BoE was buying 40-year bonds, due to expire in 2061, for 84.79p. In 2023, it sold two thirds of this stock at between 29.04p and 36.12p – at best a 57% loss.



This would be like an individual investor buying £100 worth of shares, selling them at a 55-57% loss, and claiming that when £43-45 ended up back in his or her bank account that this investment policy was all part of a cunning plan. Except this time it's worse, because it's not the investor – the Bank of England – who is footing the bill, but the UK taxpayer.

The Taxpayer Bailout ("Treasury Indemnity")

The Bank of England, however, is impervious to these losses. Its decision actively to create the losses through aggressive QT inflicts no costs upon it. This is because, in Britain, all central bank losses are covered by the taxpayer – a unique situation with no comparable arrangement in any other CB comparator economy, and akin to the arrangements in Albania or Azerbaijan.

In response to Danny Kruger MP's questioning on the Treasury Select Committee, as part of their report on QT this year,[31] Dr Ben Broadbent (Deputy Governor of Monetary Policy at the Bank of England) said:

"Any time you buy a gilt, the expected return on this transaction–it is not the reason we are doing it…"

In other words, whether these investments of taxpayers' money in government bonds are bought or sold at a reasonable price or not does not seem to concern the Bank of England.

As such, the Bank of England is the only major central bank carrying out meaningful QT that is being allowed to spend taxpayers' money as if it were a government department.

This is a significant foray into fiscal policy which exceeds the mandate of the Bank of England.

No other country following the 'Albania model' of central bank recapitalisation, such as Georgia or Kosovo, are conducting an aggressive form of QT that inflicts mass costs on their populations.

Sir John Redwood, in his excellent paper for the IEA, "The New Great Inflation",[32] notes that the Fed "do not worry if they lose a lot of money as they live with a balance sheet that simply records the losses and lets them trade with negative capital".[33]

But, in contrast, "the BoE was so worried about the likelihood of large losses trashing its balance sheet that it made taxpayers and the Treasury agree to repay every pound they lost to preserve the bank's capital."[34]

In 2012, through an exchange of letters, the Bank of England reached an agreement with the Treasury and then Chancellor George Osborne which committed UK taxpayers to bail out any future losses on the Bank's balance sheet, via its Asset Purchase Facility.[35]

Although, for a time, this agreement generated profits for the Treasury, the commencement of QT has reversed the situation and inflicted considerable losses.

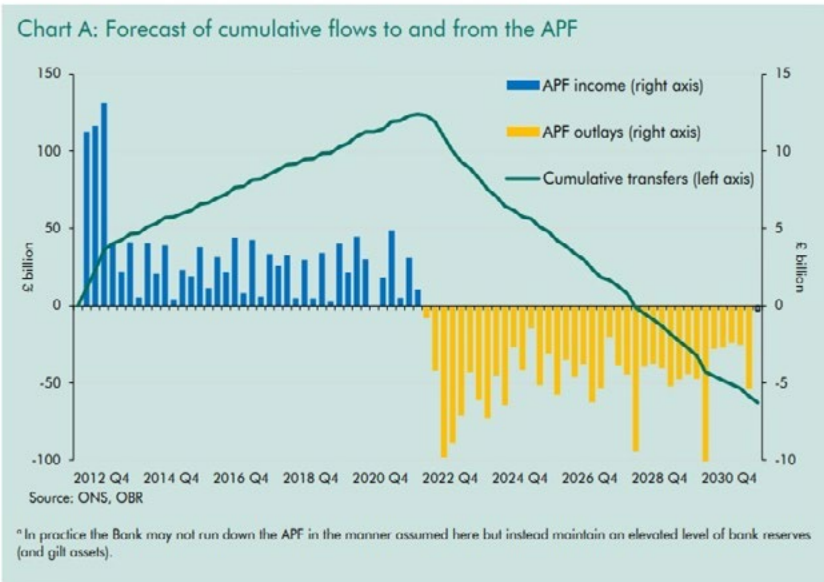
In 2011, Mervyn King, then Governor of the Bank of England, assured MPs that the effects of this settlement would be "a wash" and that it would inflict no discernible loss or profit on the Treasury, and that it was simply an issue of "accounting".[37]

In October 2022, it became apparent that this was wrong. The first quarterly bailout from the Treasury to the APF took place and cost the taxpayer £828 million.[38]

Whilst this sum was disclosed in a Written Ministerial Statement, subsequent quarterly amounts have not been so readily disclosed. Transparency and parliamentary oversight has been almost completely lacking from the process.[39]

The extent of the British taxpayer bailout of the Bank of England – using OBR figures

Since 2022, the quarterly payments demanded from the taxpayer have escalated, as shown in the OBR forecasts below:[40]



The previous chart shows that from September 2022, the Bank's APF has been forced to make outlays that are subsequently indemnified by the Treasury, and therefore taxpayers. Upon the inception of the 2012 arrangement, the Treasury initially enjoyed income from the APF, but this has inevitably reversed and, unless changes are made, taxpayers will be bailing out the Bank of England for around a decade.

Based on the OBR figures above, in the first Quarter of 2024 the British taxpayer was required to send approximately £6 billion to the Bank of England to fund its QT programme. This fee was paid in April 2024. The precise amount paid remains unpublicised.

No other central bank conducting meaningful QT is requiring their taxpayers to cover its losses:

As illustrated in the following graph, produced by Meyrick Chapman and Chris Marsh[41], the Bank of England is the only central bank that is realising losses and passing them on to taxpayers. The Bank of England's "treatment of loss" is unlike the CB comparators:

- The US Federal Reserve simply sweeps its losses into a 'deferred asset' that is owed to the Treasury but never realised.[42]
- In January 2023, Canada changed the law so that its central bank could retain and offset losses accrued during its current QE programme by holding future profits that it would have otherwise been required to remit to the Government of Canada.[43]

- The Reserve Bank of Australia is, straightforwardly, expected to absorb its losses.[44]
- The Reserve Bank of New Zealand is subject to a cap. This means that, although receiving an indemnity, it cannot claim more than NZ$5 billion (£2.37 billion) in losses from the Treasury. Moreover, the government can satisfy this indemnity via a derivative asset that the Bank is able to pay off via future profits.[45]

Summary: Portfolio profit and loss approaches by major central banks

Issue	Federal Reserve plan	Bank of England plan	Bank of Canada plan	Reserve Bank of Australia plan	Reserve Bank of New Zealand plan
Treatment of loss	'Deferred asset'	Indemnified by Treasury	Indemnified by Treasury, held as derivative on CB balance sheet	Market value	Indemnified by Treasury. Indemnity held as derivative on CB balance sheet with no discernible payment date.
If indemnity are the terms published	N/A	No	Yes	N/A	Yes
Asset sales?	Hold to maturity	Sales of holdings to private sector	Hold to maturity	Hold to maturity	Sales of holdings to NZDM (finished by mid-2027)
Loss mitigation	Resume asset purchases, financed largely by currency issuance	N/A	N/A	N/A	N/A
Balance sheet implications	Permanent large balance sheet	Sales to allow for future LSAP	N/A	N/A	Sales to allow for future LSAP
Assumptions assessment	Deviations from projections are modelled stochastically.	N/A	N/A	N/A	N/A

Governance, transparency and accountability

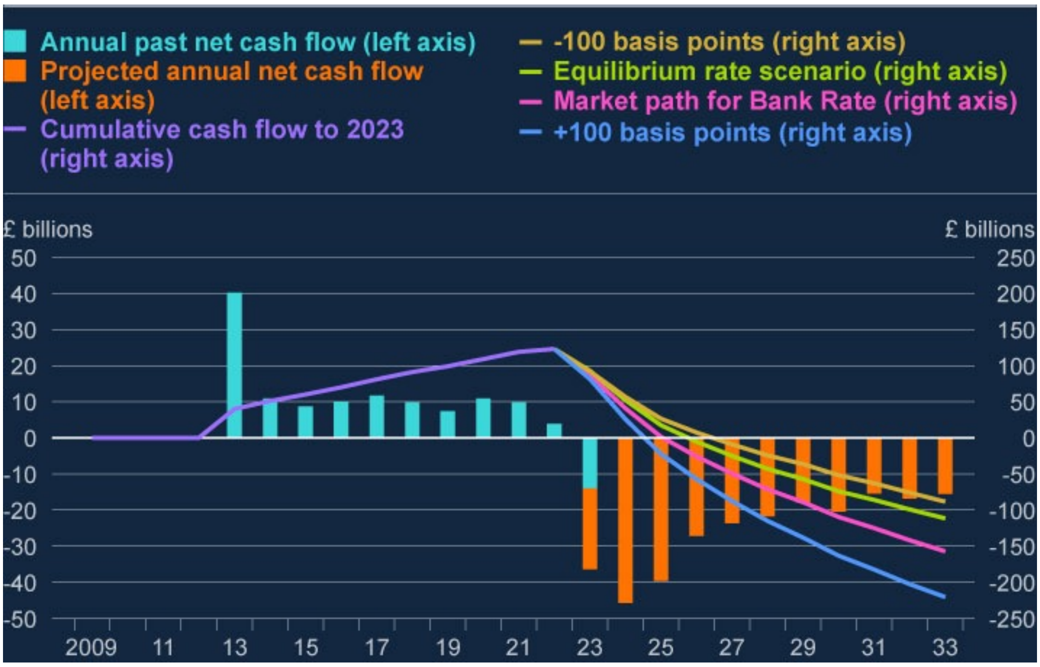
The operation of the APF, including the implementation of monetary policy decisions of the MPC, is managed through a wholly owned subsidiary of the Bank – the Bank of England Asset Purchase Facility Fund Limited. The Government indemnifies the Bank and the APF from any losses arising out of or in connection with the facility. Accountability, transparency and risk management are hence an important part of the framework of the APF.

On 18 April, the Treasury Select Committee published a recent communication that it received from the Bank of England in relation to its Treasury indemnity. Shockingly, the BoE has insisted that it should not be required to make "value-for-money" considerations when selling bonds: "The MPC explicitly do not take account of the profit and loss of the portfolio of assets purchased when making decisions on monetary policy. The indemnity from HMT allows monetary policymakers to focus how they set the stance of monetary policy to best achieve their mandate of price stability."

It also dismisses the approach of other CB comparators when it claims that alternative accounting techniques, that would not require cash bailouts, "would not be feasible". This is significant, as it shows that the BoE intends to pursue its unilateral course come what may and that it will refuse to engage with or consider adopting the practice of other central banks.

READ THE REPORT HERE

for any and all losses that it records through the sale of bonds as set out in a 2020 letter by the Bank of England Governor, Andrew Bailey.[46]



The extent of the British taxpayer bailout of the Bank of
The extent of the British taxpayer bailout of the Bank of
England – using Bank of England figures

The above graph was produced by the Bank of England using data from Bloomberg and released in its 2023 Q2 report. It shows the annual cash flows between the Treasury and APF since 2012 as well as the cumulative total of profit/loss.[48]

In 2023, there was a negative cash flow of £37 billon, which taxpayers were required to pay.

In 2024 and 2025, there is expected to be negative cash

Producing a per household bailout figure using Office of National Statistics data – the BofE QT Loss Surcharge

The CWF has made use of ONS data which says that there are 28.2 million households in the United Kingdom.[49]

Dividing the Bank's losses, as set out by the BoE itself, (covered and soon to be covered by the Treasury) by 28.2 million allows us to see that the average household will be required to pay the following amounts as a result of aggressive QT:

2023: £1,312
2024: £1,631
2025: £1,418

Therefore, as a result of the Bank of England deciding to conduct aggressive Quantitative Tightening (QT) – in unprecedented fashion and in contradiction to the policies of the CB comparators - between 2023-2025 every British household will be burdened with a bill of £4,361 (the BofE QT Loss Surcharge).

The taxpayer bailout bill in total

Across the entirety of its QE/QT programme, the Bank of England's APF Q2 2023 report anticipated that the overall losses will amount to up to £150 billon.[50] Its Q4 2023 report significantly downgraded the expected losses to a maximum of £110 billon.[51]

However, evidence from the APF's Companies House filings suggest that the amount set to be due under the indemnity is actually £191 billion[52].

8: Due to/(from) HM Treasury under Indemnity

	2023 (£mn)	2022 (£mn)
Net due to/(from) HM Treasury under Indemnity 1 March	(22,829)	15,269
Change in fair value of Indemnity	(169,130)	(30,880)
Cash paid (to)/from HM Treasury	846	(7,218)
Net due to/(from) HM Treasury under Indemnity 28 February	**(191,113)**	**(22,829)**

To summarise, by the end of the Bank of England's QT project, expected around 2031, the decision to opt for an aggressive approach is projected by the Bank of England itself to cost the British taxpayer up to £191 billion, or £6,800 per household.

Putting the projected 2024 taxpayer Bank of England bailout of £46bn in context

The decision of the MPC to embark on aggressive QT means that it is now acting as a fiscal agent and spending taxpayers' money as if it were a government department. Indeed, the £46 billion it is anticipated to spend this year, exceeds the 2022/23 Departmental Expenditure Limits outturn of:

- The Ministry of Defence: **£32.5 billion**
- The Scotland Office: **£35.8 billion**
- The combined DEL budgets of the Home Office, Ministry of Justice, FCDO, DCMS, and Department of Transport **(£43.5 billion)**

Incidentally, if you take the view that tax cuts only cost something (as many media commentators do), £46 billion would have provided adequate funding for the tax cuts set out in the September 2022 mini budget of Liz Truss and Kwasi Kwarteng.[53] Obviously Conservatives know that tax cuts can also generate something and lead to increased tax revenues because they inspire growth, entrepreneurialism, job creation and investment.

It has also previously been estimated by Number 10 that the NHS waiting list backlog could be properly addressed with investment of £40 billion.[54]

Fixing NHS waiting times could cost £40bn, leaked No 10 estimates show

KEY FINDINGS & RECOMMENDATIONS

The central finding of this report is that, by 2025, the average British household will be at least £5,546 worse off (the BofE Surcharge) than they would otherwise have been if the Bank of England had followed the best practice of other CB comparators.

Rather than inflation being "transitory", under Andrew Bailey the Bank of England has overshot its inflation target on a scale unseen by the CB comparators. In 2022 the UK had an average inflation rate of 9.05% compared to an average of 6.38% across the other six economies. Had Britain enjoyed a rate similar to the other six, the average household would have paid £665 less on essentials during the year.

In 2023, the UK's inflation rate, of 7.38% dwarfed the 5.35% average in CB comparators, and cost the average British household £520.

This resulted in a BofE Inflation Surcharge per household of £1,185.

The second failure of the Bank of England is far more egregious. Its decision to pursue aggressive Quantitative

Tightening was made possible by an exchange of letters with the Chancellor Rishi Sunak in March 2020, in which the Treasury committed to provide a blank cheque for future losses by the Bank.

Aggressive QT has transformed the Bank of England well beyond the role granted to it under the 1998 Bank of England Act. Andrew Bailey and the Monetary Policy Committee have moved beyond taking price stability decisions and are now conducting elements of fiscal policy, making huge spending commitments on behalf of the British public.

The licence granted to the Bank to carry out this expenditure, and the aggressive way with which it is pursuing QT, will cost the British taxpayer £4,361 by the end of 2025 (BofE QT Loss Surcharge). As it stands, there is no parliamentary oversight of this huge transference of funds, and the transparency surrounding the Bank of England's Asset Purchase Facility is minimal. We therefore make the following proposals to the Chancellor of the Exchequer:

- That the Treasury immediately publishes the amount that it trasnferred to the APF in April 2024, and that it retrospectively publishes the amounts that have been transferred since Q3 2022.
- That the Treasury launch a comprehensive cost-benefit analysis and review of the fiscal costs associated with Bank of England independence, its aggressive QT agenda, the 2012 indemnity agreement, and the reiteration of this agreement in March 2020 – during

the onset of the Covid-19 pandemic.

- That the Treasury begin explorative talks as to how the UK can shift towards a model akin to that in New Zealand, or Canada, which simply holds losses accrued by the central banks as a derivative that can be paid off by future profits.

References

1. USMPF 2024 Paper - Clark Center | Chicago Booth
2. https://www.bbc.co.uk/news/business-58098118
3. Family spending in the UK - Office for National Statistics (ons.gov.uk)
4. USMPF 2024 Paper - Clark Center | Chicago Booth
5. Bank of England Staff Working Paper No. 1,069
6. Bank of England Staff Working Paper No. 1,069
7. default.pdf
8. Opening Remarks by Andrew Bailey, Governor (bankofengland.co.uk)
9. The data is in: how QT impacts markets (ft.com)
10. Asset Purchase Facility: Gilt Sales – Market Notice 22 September 2022 | Bank of England
11. What is quantitative tightening? (economist.com)
12. How quantitative tightening *really* works (ft.com)
13. Quantitative Tightening (parliament.uk)
14. Christopher Kent: From QE to QT – The next phase in the Reserve Bank's Bond Purchase Program (bis.org)
15. committees.parliament.uk/writtenevidence/119391/html/
16. committees.parliament.uk/oralevidence/11373/html/
17. Speculation mounts that Bank of Canada could accelerate end of QT - The Globe and Mail
18. From QE to QT – The next phase in the Reserve Bank's Bond Purchase Program | Speeches | RBA
19. committees.parliament.uk/writtenevidence/119391/html/
20. Quantitative Tightening (parliament.uk)
21. Bond trading, innovation and evolution: a Bank of England Perspective - speech by Dave Ramsden | Bank of England
22. From QE to QT – The next phase in the Reserve Bank's Bond Purchase Program | Speeches | RBA
23. Title of Study (europa.eu)
24. Going back to normal: The Bank of Canada's balance sheet after quantitative tightening - Bank of Canada
25. committees.parliament.uk/oralevidence/11373/html/
26. Asset Purchase Facility: Gilt Sales – Market Notice 22 September 2022 | Bank of England
27. Bank of England confirms APF gilts sales for Q4 2022 | Bank of England
28. Asset Purchase Facility Quarterly Report - 2023 Q4 | Bank of England
29. USMPF 2024 Paper - Clark Center | Chicago Booth
30. Economists Urge BOE to Rejig Bond Sales After Market Rates Spike - Bloomberg
31. https://committees.parliament.uk/committee/158/treasury-committee/news/199797/bank-of-england-has-taken-a-leap-in-the-dark-on-quantitative-tightening-treasury-committee-concludes/
32. https://iea.org.uk/publications/the-new-great-inflation-how-western-central-banks-got-it-wrong-and-what-they-should-do-about-it/
33. IEA_SPecial-Editions_1_The-new-great-inflation_web.pdf
34. IEA_SPecial-Editions_1_The-new-great-inflation_web.pdf

35. Governor's letter to the Chancellor (bankofengland.co.uk)
36. Asset Purchase Facility Quarterly Report - 2023 Q4 | Bank of England
37. House of Commons - Treasury - Minutes of Evidence (parliament.uk)
38. Asset Purchase Facility Quarterly Report - 2022 Q4 | Bank of England
39. Written statements - Written questions, answers and statements - UK Parliament
40. Chart 4E: Forecast of cumulative flows to and from the APF - Office for Budget Responsibility (obr.uk)
41. committees.parliament.uk/writtenevidence/119227/html/#_ftn1
42. Does it matter that central banks are losing squillions? (ft.com)
43. Bank of Canada's Q3 loss spurs government to fix central bank equity problem | Reuters
44. Review of the Bond Purchase Program | Speeches | RBA
45. mof_rbnz-signed---letter-of-indemnity.pdf
46. Governor letter to Chancellor on APF March 2020.pdf (bankofengland.co.uk)
47. Asset Purchase Facility Quarterly Report - 2023 Q2 | Bank of England
48. Asset Purchase Facility Quarterly Report - 2023 Q2 | Bank of England
49. Families and households in the UK - Office for National Statistics (ons.gov.uk)
50. Asset Purchase Facility Quarterly Report - 2023 Q2 | Bank of England
51. Asset Purchase Facility Quarterly Report - 2023 Q4 | Bank of England
52. BANK OF ENGLAND ASSET PURCHASE FACILITY FUND LIMITED filing history - Find and update company information - GOV.UK (company-information.service.gov.uk)
53. Chancellor Kwasi Kwarteng hails 'new era' as he unveils tax cuts - BBC News
54. Fixing NHS waiting times could cost £40bn, leaked No 10 estimates show | NHS | The Guardian

CONSERVATIVE WAY FORWARD

WWW.CONSERVATIVEWAYFORWARD.COM