

Growth and the money squeeze

The Bank of England is the only one of the three big western Central Banks (EU/US/UK) to be selling lots of bonds at big losses and sending the bills to the taxpayers. The UK is the only one of the three to be reinforcing a major money squeeze with a fiscal squeeze at the same time.

The US has offset a lot of its big money squeeze with a major expansion of spending and borrowing in the year to September 2023. It would have been better to have achieved the same effect with lower taxes. Despite the increases in interest rates and bond sales with uncovered losses the US economy has been achieving a good rate of growth.

The European Central Bank refuses to sell bonds at big losses and has paused its rate rises at a lower level than the US or UK. The EU economy is performing poorly, and may well persuade the ECB to be the first of the 3 wayward Central Banks to start to lower rates again.

All 3 Central banks printed too much money and bought too many bonds well into the covid recovery period. This proved to be inflationary. The Swiss and Chinese who did not do the same did not have the rapid inflation as a result despite experiencing the high energy prices. It is a bad idea to compound the error of creating too much money and keeping rates too low by now creating too little and selling bonds at huge losses to be paid by the Treasury.

The Bank needs to think again. It needs to speed its review of its past forecasts and its inflation model. It needs a new one urgently to avoid more errors.