

The Bank of England losses stop a growth policy

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The scale of Bank losses

In the budget figures we were told the Bank of England's bond buying and selling will end up losing us £102 bn. In its early phases the Bank sent the Treasury profits of £124 bn, so on these OBR estimates there are astonishing total losses coming of £226 bn. As of March 2024 the Treasury had had to pay the Bank £49 bn to cover losses to date, so another £179 bn could become due if the OBR has got a forecast right.

These losses are huge and unacceptable. A substantial portion of the loss is avoidable. The government needs to have urgent discussions with the Bank to slash these costs. Other major Central Banks including the US are not receiving any bail outs from Treasury whilst China and Switzerland did not buy too many bonds in the first place. The ECB which made similar mistakes with bonds to the UK is now containing the losses much better with a different approach.

There are two simple changes needed.

1 Stop selling bonds in the market at low prices. The bonds repay on maturity when the Bank will get more for them than current prices, so stop selling.

2. Copy the ECB approach to payments of interest to commercial banks on their deposits at the Central Bank . The Bank of England is losing too much on the costs of remunerating the reserves placed with it by the commercial banks compared to the interest it gets on the bonds. As the rate paid to banks is a managed rate fixed by the Central Bank cut the losses.

These changes would lead to a good improvement in the public sector deficit x Bank of England, the measurement they use to control the economy, and to lower mortgage rates.