

The Bank of England's mistakes

Most MPs tell me the Bank of England is independent. They tell me its sole purpose is to keep inflation down to the 2% target Parliament has set it. Yet when inflation runs more than five times target most MPs have no wish to debate why or to venture any criticism of the Bank.

They ignore the fact that government and Parliament appoint the Governor, set the target, approve and underwrite all the bond buying the Bank has been doing which meant ultra low interest rates, and question the Governor through a Select Committee. It has been lonely criticising the Bank for printing too much money in 2021 and now for destroying too much money in 2023, though all this has been approved and indemnified by government.

It was therefore a pleasure to read the Daily Telegraph yesterday with a leader and a good article criticising the Bank for its role in creating and allowing the inflation to take hold. The paper should go on and criticise the Bank for disrupting the bond market with its large Quantitative tightening programme last autumn, having to reverse it temporarily when it saw the damage it did to the LDI/pensions market, and ask more questions about whether they have now lurched from money being far too easy to being too tight.

In future articles I will look at why the Bank has got so many of its forecasts of inflation wrong in recent years, how it could improve its track record and how it should now proceed. I will stress that in practice the Bank has three aims, not just one. It does need to consider growth as well as inflation, and above all needs to ensure financial stability in the banking system that it regulates and finances. It had a bad record in the period 2006-10 doing this.