

## Bank of England tapers QE amid recovery optimism

The Bank of England has tapered its QE pace, and the next step will be to offer up clues on how it might reduce its bond holdings alongside future rate hikes. But despite growing optimism about the recovery, we think a more benign inflation story next year is likely to see the Bank hold off on tightening until 2023



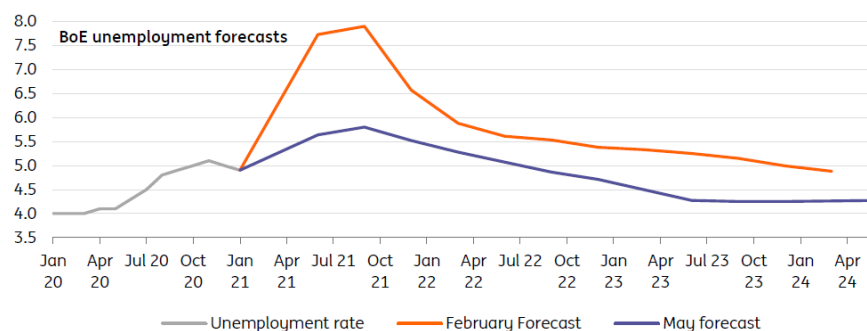
### Growing optimism in the recovery

Amid rising vaccination rates and receding Covid-19 transmission, the Bank of England has upgraded its assessment for the coming months. The Bank was arguably already towards the more optimistic end of the spectrum when it came to forecasts, but the positive news since the February update has given the committee confidence to make some further upgrades.

The Bank of England now expects the economy to meet and possibly exceed its pre-virus level later this year, while the unemployment rate is now expected to rise considerably less than previously thought this year. Like us, the Bank clearly feels that the extension of the furlough scheme until a few months after the formal reopening process is expected to have been completed, should give firms enough time to get back on their feet and bring most employees

back to work. We currently expect the jobless rate to peak around 6%.

## The BoE has significantly reduced its unemployment forecast for this year



Source: Bank of England

## From tapering to tightening

Importantly, this growing confidence in the recovery has enabled the Bank to cut the weekly pace of its asset purchases. This shouldn't come as a huge surprise – the BoE expects its gilt holdings to reach £875bn by year-end and at the recent £4.4bn/week pace, they'd have reached this target months too early. The new £3.4bn/week pace, while a little higher than we'd expected, is more consistent with purchases continuing until later in the year.

With tapering out of the way, the next question is how – and when – the Bank of England will enter a formal tightening cycle. There was a bit of excitement today with Chief Economist Andy Haldane's vote to reduce the asset purchase target, effectively meaning gilt purchases would end in August. It's worth remembering though that Haldane is easily the most hawkish committee member, and he has also recently announced his forthcoming departure from the Bank.

For now, the Bank is taking a leaf out of the Federal Reserve's book, offering a fairly vague signal that tightening won't come until the recovery has made "significant progress". However in the not-too-distant-future, we expect the Bank will offer further details on how it might reduce its gilt holdings alongside future rate hikes.

Governor Andrew Bailey has hinted in the past that this would help to increase space to 'go bold' again in future if a rapid pace of purchases was necessary. As we explained in [more detail this week](#), we think this might initially involve stopping/reducing reinvestments of proceeds from maturing bonds, perhaps by setting an annual 'unwind' target. That approach could enable the Bank to reduce its bold holdings by say £30-40bn per year.

When might this – and rate hikes – come? We doubt it will happen before 2023, partly because we think the inflation story will be less exciting in 2022, once some of the reopening-related price spikes have faded.

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.