KnowledgeBank

What is quantitative easing?

We can purchase assets to stimulate the economy. This is often known as quantitative easing.

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Quantitative easing is a tool that central banks, like us, can use to inject money directly into the economy.

Money is either physical, like banknotes, or digital, like the money in your bank account. Quantitative easing involves us creating digital money. We then use it to buy things like government debt in the form of bonds. You may also hear it called 'QE' or 'asset purchase' – these are the same thing.

The aim of QE is simple: by creating this 'new' money, we aim to boost spending and investment in the economy.

Why do we need quantitative easing?

We are tasked with keeping inflation – rises in the prices of goods and services – low and stable.

The normal way we meet our inflation target is by changing Bank Rate, a key interest rate in the economy.

When the global recession took hold in late 2008, we quickly lowered Bank Rate from 5% to 0.5% to support the UK's economic recovery. Lower interest rates mean it's cheaper for households and businesses to borrow money – which encourages them to spend and invest, whether that's a family buying a new car or a company wanting to build a new factory.

But there's a limit to how low interest rates can go. So when we needed to act to boost the economy, we turned to another method of doing so: we introduced quantitative easing.

How does quantitative easing work?

Large-scale purchases of government bonds lower the interest rates or 'yields' on those bonds (the investopedia website explains more about bond yields). This pushes down on the interest rates offered on loans (eg mortgages or business loans) because rates on government bonds tend to affect other interest rates in the economy.

So QE works by making it cheaper for households and businesses to borrow money – encouraging spending.

In addition, QE can stimulate the economy by boosting a wide range of financial asset prices.

Suppose we buy £1 million of government bonds from a pension fund. In place of the bonds, the pension fund now has £1 million in money. Rather than hold on to this money, it might invest it in financial assets, such as shares, that give it a higher return. And when demand for financial assets is high, with more people wanting to buy them, the value of these assets increases. This makes businesses and households holding shares wealthier – making them more likely to spend more, boosting economic activity.

How much quantitative easing have we done in the UK?

Following the programme of QE announced in March 2020, our purchases of government bonds will total £645 billion.

Rounds of QE have been announced in response to the economic conditions at the time. This graphic shows how bond purchases have built up over the years:

November 2009

July 2012

£200

billion

£375

billion

August 2016
£435

billion

March 2020
£645

billion

Find out more

- Quantitative easing FAQs
- Quantitative easing - How it works
- What are interest rates?
- How have prices changed?