Options to reduce the fiscal costs of monetary policy

Policy briefing | Jaya Sood, Simon Youel, Ellie Mclaughlin and Theo Harris | September 2026

Introduction

The Treasury is sending billions to the Bank of England each year to subsidise losses stemming from the Bank's quantitative easing (QE) programme and its reversal. These losses are directly benefiting commercial banks and private bond investors, whilst reducing fiscal space at the upcoming budget. Yet these costs can be reduced or recouped if the Bank and Treasury are willing, indeed all of the options to reduce the fiscal costs of monetary policy set out in this briefing are already standard practice in other countries and are entirely compatible with Bank independence. With next year marking the 30th anniversary of Bank independence, and the context in which the Bank operates having changed substantially, now is a good moment to reconsider Bank-Treasury interactions.[1]

Problem: the fiscal costs of monetary policy

The losses

The Bank's Asset Purchase Facility (APF) generates two related direct fiscal costs: carry losses and capital losses.

Carry losses arise from a mismatch between what the Bank earns on gilts it holds, and what it pays on the reserves created to fund those purchases. When the Bank buys a gilt, it credits the seller's bank with reserves and pays interest at Bank Rate on those reserves to that bank. This is the mechanism by which Bank Rate is transmitted through the economy, by putting a floor under the rate at which commercial banks are willing to lend. From 2009 (when the Bank began remunerating reserves at Bank Rate) until 2022, Bank Rate stayed below the APF's gilt yield, so the APF ran a profit; since then, higher Bank Rate has turned that into a carry loss.

Capital losses arise from the Bank actively selling off the APF portfolio. In February 2022, the Bank began running down its gilt holdings as they matured ('passive' quantitative tightening (QT)), and in September 2022 it began actively selling gilts ('active' QT). The Bank's rationale

[1] New Economics Foundation and Positive Money (2026). How better monetary policy can enhance macroeconomic stability. https://www.datocms-assets.com/132494/1777475799-april-26-monetary-policy-review-brief-docx-2.pdf

was to shrink its balance sheet quickly, whether this is necessary is disputed.[2] As the Bank bought gilts when prices were high (and yields low) during QE, and rates have since risen sharply, it is now having to sell those gilts for less than it paid for them. This is a capital loss, and is most acute for long dated gilts, where demand has fallen most and whose prices are more sensitive to yield increases.

Since 2022, the APF's annual cash flows have swung from profit to loss, with the Treasury now making quarterly payments to the APF to cover the shortfall. These annual losses have so far eroded the £123.9bn cumulative profit built up between 2009 and 2022 down to a much smaller £16.2bn net cumulative profit by June 2026. This will soon turn to cumulative loss, with the Bank projecting a lifetime loss of up to £120bn in Net Present Value terms once the portfolio is fully unwound.[3] In undiscounted cash terms, the Office for Budget Responsibility's (OBR) lifetime loss figure stands at £164bn.[4] This may rise further at the Autumn forecast, since interest rate expectations are now higher than when this figure was calculated in November 2025. The beneficiaries of these losses are the commercial banks receiving interest on reserves, and private bond holders in aggregate that are now buying bonds back for a low price.

The fiscal costs

Under the Memorandum of Understanding between the Treasury and the Bank, the Treasury is responsible for covering losses on the APF, just as it previously received its profits (a change introduced by George Osborne). [5] Since 2022 the Treasury has covered the APF's losses by issuing gilts, and it is set to continue doing so at an average of £18bn a year to the end of the forecast in 2031[6]– almost the total budget of the Home Office in 2025-26.[7] Costs are set to continue to 2036.

This impacts the market for UK government debt. With the Bank selling gilts at the same time as the Treasury is issuing gilts to cover the indemnity, the supply of gilts to the market increases just as demand – particularly for long dated gilts, which make up over 30% of the remaining APF portfolio[8] – shrinks.[9] However, this does not necessarily have to push up government

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[2] Daire MacFadden, "Bank of England: QT bye?", Financial Times (Unhedged), 5 August 2026, https://www.ft.com/content/8bbcfe7e-d3a8-4ea8-ad43-a88f0a48b69e
[3] Bank of England (2026). Asset Purchase Facility Quarterly Report - 2026 Q2. https://www.bankofengland.co.uk/asset-purchase-facility/2026/2026-q2
[4] OBR (2025). Economic and fiscal outlook - November 2025. https://obr.uk/efo/economic-and-fiscal-outlook-november-2025/
[5] Letter from George Osborne to Mervyn King, 2012. https://www.bankofengland.co.uk/-/media/boe/files/letter/2012/chancellor-letter-091112.pdf
[6] OBR (2026). Economic and fiscal outlook - March 2026. Table 5.3. https://obr.uk/efo/economic-and-fiscal-outlook-march-2026/.
[7] HM Treasury (2026). Public spending statistics: July 2026. https://www.gov.uk/government/statistics/public-spending-statistics-release-july-2026/public-spending-statistics-july-2026#departmental-budgets
[8] As of 19 August 2026, gilts with a 20 year and above maturity made up £157.73bn of the APF's £489.03bn gilt holdings. https://www.bankofengland.co.uk/markets/bank-of-england-market-operations-guide/results-and-usage-data
[9] Shrinking demand for long dated gilts is explained under 'fiscal option 1'.

borrowing costs and much depends on how the Debt Management Office (DMO) manages issuance (see fiscal option 1).

Various changes could be made to lower the fiscal costs of monetary policy, some of which can be made by the Bank, and others by the government. We discuss each in turn.

Solutions: reforms to monetary policy

Monetary option one: Slow quantitative tightening

The Monetary Policy Committee (MPC) decides annually on the pace of QT, and the next decision is on 17 September 2026. Many, including bond market investors, have called for the Bank to move to passive QT to ease pressure on government borrowing costs.[10] As of July 2026, the Bank estimates the increase in borrowing costs resulting from the Bank's QT programme increasing the supply of gilts in the market to be 20-30 basis points (bps) on 10-year yields,[11] and other estimates are as high as 70bps.[12] Though the MPC slowed QT in September 2025, its rationale was maintaining gilt market functioning rather than fiscal cost,[13] yet its estimate of the impacts continued to rise since the decision to slow sales.

The APF indemnity includes a value-for-money (VfM) obligation, but when pressed to weight VfM more heavily, Andrew Bailey has responded that it applies only to APF operations, not to the fiscal impacts.[14] He further argued slowing QT mainly shifts the timing of cashflows rather than the lifetime total, trading upfront sales losses for a longer tail of interest costs.[15]

However, the timing still has fiscal implications which affects government's decision-making now. If the OBR's forecast included the impacts on yields of active QT, moving to passive QT could have a small positive impact on the binding current budget rule, (£850m), as higher interest-on-reserves spending is offset by lower gilt yields. Capital savings, which are not included in the current budget rule, are larger, opening up £5.4bn against the government's debt

[10] Lyon, A. (2026). Gilt rout sparks calls for Bank of England to slow 'unusual' bond sale programme. www.cityam.com/gilt-rout-sparks-calls-for-bank-of-england-to-slow-unusual-bond-sale-programme/
[11] Bank of England (2026). Monetary Policy Report - July 2026. https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2026/july/monetary-policy-report-july-2026.pdf
[12] Costas Milas and Christopher Mahon, "How much is QT driving up UK borrowing costs?", *Financial Times* (FT Alphaville), 18 December 2025. https://www.ft.com/content/41376e29-ea19-4d3f-b1da-5fde973e8367
[13] Bank of England, Monetary Policy Summary and Minutes of the Monetary Policy Committee Meeting Ending on 17 September 2025. https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2025/september-2025
[14] Andrew Bailey (Governor, Bank of England) letter to the Rt Hon Jeremy Hunt (Chancellor of the Exchequer), "Asset Purchase Facility," 30 April 2024, https://www.bankofengland.co.uk/-/media/boe/files/letter/2024/governor-apf-letter-april-2024.pdf
[15] Andrew Bailey (Governor, Bank of England), letter to Harriett Baldwin MP (Chair of the Treasury Committee), "Cashflows arising from quantitative easing and quantitative tightening," 18 December 2023, https://committees.parliament.uk/publications/42867/documents/213069/default/

rule (although any borrowing for capital investment incurs interest which pushes against the current budget rule).[16]

The pace of QT remains entirely the MPC's decision, even though it is the Treasury and the public that bear the consequence of its fiscal effects. Reforming the Chancellor's remit letter to the MPC could encourage more explicit consideration of fiscal impacts,[17] though it will not guarantee a different outcome, as the indemnity leaves the Bank as the decision-maker and the Treasury as risk-bearer.

Monetary option two: Allow the Bank to absorb its own losses

As explained above, slowing QT slows the Bank's sales losses in the near term but prolongs interest losses; it does not stop losses altogether. But these losses do not need to sit directly with the Treasury at all – the UK is an outlier among central banks in bearing them this way. Taking them off the Treasury's books would require rewriting the APF indemnity so the Bank absorbs its own losses instead.[18]

The APF losses could instead be recorded as deferred assets, like the US Federal Reserve model, or losses carried forward, like at the European Central Bank (ECB). This would simply need agreement between the Treasury and the Bank on new indemnity terms, rather than primary legislation, and could save around £18bn a year in transfers in 2029/30 (impacts on target fiscal metrics are different – see below). Alternativelyto a deferred asset approach, the Bank could follow the examples of the Czech National Bank, Bank of Chile and Bank of Mexico in being allowed to go into negative equity up to a certain threshold.[19]

As the Bank would absorb its own losses, it could be empowered to keep the profit it makes issuing banknotes (seigniorage), currently around £4bn a year,[20] reducing the net saving to £14bn. Amending this should not require legislative change.[21]

Neither option 1 or 2 would reduce overall losses to the public sector, as the Bank is owned by the government. Instead, the savings mechanism is indirect, arising from changing the funding mechanism, easing pressure on borrowing costs. For option 2, this could improve both the

[16] We apply the midpoint of the Bank's range (25bps) to the £129bn of cumulative sales that produced it (measured, like the OBR's £32bn-a-year assumption, at initial purchase price), and convert the yield change into debt interest using the OBR's Table 5.1 ready reckoner, on its March 2026 rate path. Losses are gilt-financed and compound, with each year's borrowing locked at the rate it was issued at.
[17] Mahon, C. (2026, September 11). *How the Bank of England has wasted billions — and why Australia shows the way forward*. New Economics Foundation. https://neweconomics.org/2026/09/how-the-bank-of-england-has-wasted-billions-and-why-australia-shows-the-way-forward
[18] An alternative to rewriting the indemnity, recommended by Barclays, would be to transfer the APF onto the Bank's own banking balance sheet so that the APF indemnity no longer applies to losses. Though this would leave the Treasury facing the same dilemma the next time the APF needs to be mobilised.
[19] Archer, D., & Moser-Boehm, P. (2013). Central bank finances. Bank for International Settlements. https://www.bis.org/publ/bppdf/bispap71.pdf
[20] Bank of England. (2026). *Annual report and accounts 2026*. https://www.bankofengland.co.uk/annual-report/2026
[21] Treasury Committee. (2023). *Oral evidence: Quantitative tightening, HC 1116* [Oral evidence session with A. Bailey, B. Broadbent, & D. Ramsden]. UK Parliament. https://committees.parliament.uk/oralevidence/13163/html

current budget and public sector net financial liabilities (PSNFL) rules by around £750mn in 2029/30.[22]

Bank of England liabilities have been excluded from the debt rule before, with public sector net debt excluding the Bank of England (PSND ex BoE) targeted between 2022 and 2024. This was largely to strip out Term Funding Scheme (TFS) repayments that flattered PSND without reflecting any real improvement in the fiscal position, although the indemnity meant QE sales losses still counted.[23] PSND ex BoE was replaced only because then chancellor Rachel Reeves adopted a new debt rule (PSNFL) in October 2024 (which already nets off TFS repayments). Going back further, cash transfers from the Bank to the Treasury flattered the government's headline borrowing figures under Osborne from 2012, until a 2014 ONS reclassification (aligning with ESA10) made them net out instead.[24] The rules, and what counts against them, have shifted repeatedly.

A more direct way of dealing with Bank losses would be for the Bank to reduce them through tiering reserves, as the next section explains.

Monetary option three: Reduce losses directly through tiered reserves

Tiering reserves means splitting the interest the Bank pays on commercial banks' reserve accounts into two bands: no or lower interest below a set threshold of holdings (lower rate tier), and Bank Rate above it (policy rate tier). Currently, the Bank pays Bank Rate on the entirety of the roughly £660bn that banks hold in reserves. Tiering would not change how the Bank sets or steers Bank Rate; it would simply pay a lower rate on a portion of reserves that banks hold anyway for liquidity and regulatory purposes, lowering the interest bill.

There are various ways of setting the threshold, as we have previously detailed.[25] The ECB has a 1% reserves requirement (which may increase to 2%)[26], with required reserves remunerated at 0%. The Swiss National Bank's requirement is 4%. Mirroring that approach in the UK, and adding in a £350bn floor as per our previous design, a 4% requirement would save around £3.2bn against the current budget rule in 2029/30. With the floor in place, a 10% requirement

[22] Savings depend on the spread between the gilt rate the Treasury finances losses at and Bank Rate, both from the OBR's March 2026 forecast (the gilt rate is the OBR's 20-year path scaled to the DMO's c.12-year issuance maturity). The loss itself is unchanged by abolition, since both rules consolidate the Bank; the only channel is funding composition: swapping gilts, which lock in their issue rate, for reserves, which reprice daily. Both stocks compound.

[23] Institute for Government, *How are different measures of public debt forecast to change?* (2024), https://www.instituteforgovernment.org.uk/explainer/how-are-different-measures-public-debt-forecast-change

[24] Office for Budget Responsibility, *Classification changes affecting the public finances data* (2014), https://obr.uk/box/classification-changes-affecting-the-public-finances-data

[25] Van Lerven, F., & Caddick, D. (2022, June 15). *Between a rock and a hard place: The case for a tiered reserve monetary policy framework*. New Economics Foundation. https://neweconomics.org/2022/06/between-a-rock-and-a-hard-place

[26] Reuters. (2026, July 23). *ECB will discuss raising banks' minimum reserves, Lagarde says*. https://www.reuters.com/business/finance/ecb-will-discuss-raising-banks-minimum-reserves-lagarde-says-2026-07-23/

yields only slightly more - £3.5bn against the current budget. Under a passive QT unwind scenario, the savings against the current budget rule are substantially larger, at around £6.1bn in 2029/30 on a 4% requirement (£5.5bn average annual saving over the forecast period), as a slower unwind leaves more reserves in the system. A 10% requirement on a slower unwind saves around £9bn annually.[27]

Some argue tiering reserves would encourage banks to pass costs through to customers by lowering interest rates on savings accounts, but most of what banks receive in reserves remuneration never reaches savers in the first place,[28] and a requirement could leave banks competing harder for deposits rather than less. That means any cost that is passed on is more likely to fall on borrowers, which is a "feature not a bug" during a hiking cycle, per the IMF.[29] While tighter credit conditions could work against rate cuts in a loosening cycle, falling rates also leave banks with less reserve income to defend, shrinking the scope for sticky passthrough. Further concerns regarding bank profitability are addressed under fiscal option 2.

Solutions: reforms to fiscal policy

Fiscal option one: Reforming debt management

Changes to the financial system have made the UK's sovereign debt market more sensitive to the impact of monetary policy than in other countries. The decline of defined benefit pension schemes, and insurers holding long dated gilts for liability matching, has reduced structural demand at the long end of the UK yield curve. In their place, more price-sensitive, leveraged buyers such as hedge funds have emerged as the marginal buyers of long dated gilts. Such buyers typically finance purchases with short-term repo borrowing (a loan where one party sells securities with an agreement to buy them back at a fixed later date) which disproportionately amplifies the impact on the UK government's borrowing costs when short-term rates rise in response to inflationary shocks.[30]

This has resulted in a higher term premium for gilts, which banks were previously well-positioned to arbitrage out (borrow cheaply at short-term rates, use the proceeds to buy higher yielding long dated gilts and pocket the spread), increasing demand for long dated gilts. Now,

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[27] We model reserve requirements as a fixed portion of M4ex, which is reduced £0.8 for every £1 of reserve money withdrawn. The £350bn floor sits just below the lower bound of banks' preferred minimum range of reserves (what they say they need for liquidity purposes), the point below which there are no 'excess' reserves in the system. It is also close to the level of reserves that were in the system pre-Brexit QE round. We use the OBR's March 2026 path so the saving and its baseline share a forecast; market expectations are now higher, so in an Autumn forecast savings will be higher. The savings figures are smaller than our 2023 analysis mainly because reserves have shrunk since that analysis was conducted. Savings on a passive QT path include savings from option 1.

[28] Bloomberg. (2023, July 31). *Biggest UK banks under fire for not passing on interest rate rises*. Gulf Times. https://www.gulf-times.com/article/665562/business/biggest-uk-banks-under-fire-for-not-passing-on-interest-rate-rises

[29] Buetzer, S. (2022), *Advancing the Monetary Policy Toolkit through Outright Transfers*. IMF Working Paper No. 2022/087. https://www.imf.org/en/publications/wp/issues/2022/05/06/advancing-the-monetary-policy-toolkit-through-outright-transfers-517641

[30] Beamish, forthcoming

banks can theoretically use the Bank of England's repo facilities to borrow at Bank rate to buy gilts and flatten yields, but the inclusion of gilts in the leverage ratio that was introduced as part of post Global Financial Crisis regulation limits their ability to do so. Barclays has proposed removing a portion of gilts ('unincumbered' gilts, meaning those that are not used as collateral in trades) from the leverage ratio, arguing that this will reduce government borrowing costs.[31] While this would free up banks' balance sheet space, it is unclear why banks would necessarily increase their holdings of public debt as a result, rather than simply using this increased capacity to lend elsewhere. If gilts were exempt from the leverage ratio, this may reduce the amount of reserves that banks' need to hold for liquidity purposes (they can hold gilts instead), and thus QT can keep going without banks running low on "safe assets" overall.

Demand-driven debt management

Due to the changes to structural demand for gilts outlined above, demand is now less aligned with the profile of issuance, resulting in increased term premia as higher yields are required to induce buyers to hold duration. The DMO could mitigate the impact of this on the public finances by adopting a more flexible approach to debt management which is more responsive to demand. This could mean responding to weaker demand for duration with a controlled shortening of the maturity profile of government debt being supplied to the market.[32]

The DMO does currently have some flexibility, but the bulk of its issuance is set out in annual reports and therefore relatively insensitive to demand. The DMO has begun to reduce its long dated gilt issuance in recent years, but its 2026/27 report is still committed to selling at least £23bn of long dated gilts - 9.1% of planned issuance.[33] The DMO's issuance plans also shouldn't be considered in isolation from the existing stock. The UK is already an international outlier in terms of the maturity of its debt stock, with an average maturity of over 13 years. Future debt issuance should therefore consider the total duration the financial system is being asked to absorb, and whether this is appropriate given structurally weaker demand for duration.

The DMO could coordinate more meaningfully with the Bank, adjusting new gilt issuance in response to QT sales, targeting a reduction in the consolidated public sector's supply of duration to shorten the UK's unusually long maturity profile and reduce its borrowing premium. Practically, this could mean the DMO avoiding issuing maturities being sold to the market via QT, and instead issuing shorter-term debt until the maturity profile of the consolidated supply of public debt shortens sufficiently and/or demand for duration recovers. The DMO could also more actively reduce government borrowing costs by issuing lower-yielding Treasury bills (very short duration bonds) to purchase higher-yielding long-term debt through reverse auctions or via switch auctions.[34] Demand for bills remains high in the UK, and while the DMO has recently

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[31] Arnold, M. (2026, April 23). *UK could save £2.5bn by helping banks to buy gilts, says Barclays*. Financial Times. https://www.ft.com/content/e351c513-ef18-4fbe-8406-c297efbad8e2
[32] Beamish, forthcoming.
[33] UK Debt Management Office. (2026, April 23). *Revision to the DMO financing remit 2026-27*. HM Treasury. https://www.dmo.gov.uk/media/ajmifgdv/pr230426_2.pdf
[34] The DMO currently has no plans for reverse or switch auctions, but is piloting a switch auction on 24 September 2026 to prepare market participants https://www.dmo.gov.uk/media/qpeksrc0/pr280826.pdf

taken welcome steps towards increasing bill issuance, supply is currently lower than in other advanced economies, with bills making up 3.3% of tradable government debt in the UK, compared with the G10 average of 10%. Issuing bills until the UK reaches the G10 average to finance the purchase of long dated gilts could be expected to reduce the headline national debt by £171bn and save £1.2bn a year in debt servicing costs.[35] The DMO could even effectively take over the very funding position the Bank is attempting to exit by purchasing APF gilts with the issuance of bills.[36] Doing so would allow the DMO to take responsibility for the fiscal impacts of QT, minimising term premium and managing the sale of APF gilts in line with their objective to maximise VfM for the public finances.

Beyond this, the Treasury should commission a review of the monetary policy framework, which considers the changing structure of the UK's sovereign debt ecosystem.[37]

Fiscal option two: Reclaim losses through a windfall tax on banks

The chief beneficiaries of tighter monetary policy have been banks, who have reported record profits since rates began rising. These profits have been paid for by the public, both directly via higher interest rates on borrowing, and indirectly through the Treasury footing the bill for the Bank's losses (see above).

Commercial banks have argued that a windfall tax could leave them with less capital to reinvest. The UK does need banks that are profitable and thus well-capitalised. Yet rather than reinvesting windfalls to increase lending to the UK economy, banks have increasingly distributed gains to shareholders, and UK banks' lending to real economy sectors has remained poor.

Windfall taxes would aim to recoup transfers to shareholders, rather than eroding banks' capital base. They may reverse some of the dramatic gains in bank share prices of recent years, but there is little reason this should impact their ability to lend - the Bank of England maintains that banks are well-capitalised, and there is no indication that banks will need to issue more shares to raise equity capital. If UK banks cannot survive without considerable public subsidy, this raises bigger questions over their long-term sustainability (especially if or when interest rates resume their longer-term decline) and whether they are fit for purpose.

A windfall tax on banks could be expected to raise as much as £20bn a year, depending on how it is designed.

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[35] Nangle, T. (2026, May 29). *If Alphaville was running the UK's Debt Management Office . . .* Financial Times. https://www.ft.com/content/c2de38f5-324a-4897-b556-bf7abc9e83a0

[36] Allen, W. (2026, February 5). *Treasury bill supply and central bank policy implementation.* NIESR. https://niesr.ac.uk/blog/treasury-bill-supply-and-central-bank-policy-implementation

[37] New Economics Foundation and Positive Money (2026). How better monetary policy can enhance macroeconomic stability. https://www.datocms-assets.com/132494/1777475799-april-26-monetary-policy-review-brief-docx-2.pdf

Design options for a windfall tax

The Thatcher government model

In 1981, Margaret Thatcher's government introduced a 2.5% windfall tax on banks' non-interest bearing deposits. With more than £450bn of non-interest bearing deposits in the UK, taxing these at 2.5% would therefore be expected to raise more than £11bn this year.

Targeting reserve interest

A windfall tax could specifically target profits from QE-related reserves. The Institute for Public Policy Research propose a levy on large banks' interest revenue above 2% from reserves in excess of a core liquidity allowance, which they estimate could cumulatively raise £34-41bn from 2025/26 to 2029/30.

Spanish-style tax

Spain successfully levied a windfall tax on banks' net income above €800m. The UK could introduce an equivalent levy on income above £800m from domestic retail banking only. In practice, this could mean the levy being applied only to large subsidiaries within the ring-fence. This would capture windfalls from higher interest rates without increasing taxes on banks' wider business, eliminating incentives for moving global operations abroad in response, and mitigating concerns about impacting the City of London's competitiveness.

Based on banks' 2026 H1 results and latest guidance, a 38% levy (in line with the Energy Profits Levy) on net interest and fee income above £800m could raise around £19bn this year from the UK banking operations of Barclays, HSBC, Lloyds and NatWest, or more than £20bn including Santander UK.

Increasing the existing bank surcharge

An 8% surcharge on bank profits was introduced in 2015 in recognition of the need for banks to contribute to offsetting the risks they pose to the wider economy.[38] The Conservative government subsequently cut the surcharge to 3% in 2023, whilst the bank levy (a tax on balance sheets) has also been steadily cut since 2015.

The government could simply reverse these cuts, raising £9bn over four years.[39] If the surcharge was raised an additional 35% in line with the 38% Energy Profits Levy, this could be expected to raise £14bn in 2026/27, providing more than £16bn headroom against the current spending rule if continued into 2029/30, based on the OBR's forecast. It may be more appropriate to apply a higher surcharge only to large UK retail banks within the ring-fence. Increasing the surcharge by 35% on the ring-fenced subsidiaries of the UK's big five banks (Barclays Bank UK, HSBC UK

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[38] HM Treasury (2011). Government introduces bank levy. https://www.gov.uk/government/news/government-introduces-bank-levy

[39] TUC (2026), Big four banks make £29bn in first half of year as TUC calls for increase in tax on bank profits to cut bills. https://www.tuc.org.uk/news/big-four-banks-make-ps29bn-first-half-year-tuc-calls-increase-tax-bank-profits-cut-bills

Bank, Lloyds Bank, NatWest Bank and Santander UK) would have raised £7.6bn in 2025. With profits up for the first half of 2026, this could raise around £8.3bn for 2026/27.

Conclusion

Taken together, these options could relieve several billion pounds of pressure on the fiscal rules in 2029-30 without compromising the Bank's operational independence. With the MPC's next QT decision on 17 September and a Budget to follow, the question is not whether the tools exist, but whether the Treasury and the Bank are willing to use them.

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