




# The Bank of England's response to the Independent Evaluation Office's evaluation of its approach to quantitative easing

 The Bank of England welcomes the Independent Evaluation Office's review of quantitative easing.



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### **Theme 1: Continuing to advance and apply technical understanding of QE**

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Produce a prioritised work plan for future investment in analysis to fill QE knowledge gaps

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Maintain a summary of the rationale and evidence supporting each practical QE design decision

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Provide a forum to allow regular MPC discussions on how QE (as part of the wider monetary policy toolkit) would be used in the event of a big shock

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At an appropriate horizon/frequency, update technical audience on the Bank's latest collective thinking on QE and proactively foster external engagement with that

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### **Theme 2: Ensuring that the governance and implementation of QE remain fit for the future**

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Regularly raise awareness of APF cash transfer arrangements, and their implications during unwind, to key senior stakeholders and externally

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Review internal understanding of what the principles of the MPC Concordat mean for QE design responsibilities in practice

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Consider prioritising further investment to make improvements to operational and risk management infrastructure

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Develop more accessible layered communications on QE

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Embed a structured approach to engage with the potential spillovers of any new tool

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Embed a more strategic approach to QE communications



The Bank of England (Bank) welcomes the Independent Evaluation Office's (IEO's) review of quantitative easing (QE).

The IEO's report is particularly pertinent given the recent expansion of the Bank's stock of purchased assets, which more than doubled during 2020 and is currently targeted to reach £895 billion by around the end of 2021.

Since the global financial crisis, and the Monetary Policy Committee's (MPC's) initial decision in March 2009 to purchase £75 billion of public and private assets financed by central bank reserves, QE has become a key part of the Bank's monetary policy toolkit. Over the past decade the Bank has made a number of innovations in its QE operations, including expanding the residual maturity of the gilts it purchases, reinvesting the proceeds of the gilts held by the Asset Purchase Facility (APF), changing the purchase ranges of its QE auctions, and launching a Corporate Bond Purchase Scheme. Over the same period the Bank's analysis and research on the impact and transmission channels of QE has drawn on and contributed to the large literature on QE that has emerged.

The Bank is committed to ensuring it uses QE and its other policy tools as effectively as possible, in order to meet the inflation target, drawing on the lessons from the research literature and best practice among central banks. It therefore welcomes the recommendations in the IEO report on how it can build on what has been achieved, with respect to the three themes in the review: advancing and applying its technical understanding of QE, ensuring that the governance and implementation of QE remain fit for the future and building public understanding and trust in QE.

The IEO has set out ten recommendations around these three themes in its report (Table 1). The Bank's proposed response to each of these is described below and summarised in Table 2.

Table 1: Table of recommendations

**Theme 1: Continuing to advance and apply technical understanding of QE**

- Produce a prioritised work plan for future investment in analysis to fill QE knowledge gaps.
- Maintain a summary of the rationale and evidence supporting each practical QE design decision.
- Provide a forum to allow regular MPC discussions on how QE (as part of the wider monetary policy toolkit) would be used in the event of a big shock.
- At an appropriate horizon/frequency, update technical audience on the Bank's latest collective thinking on QE and proactively foster external engagement with that.

**Theme 2: Ensuring that the governance and implementation of QE remain fit for the future**

- Regularly raise awareness of APF cash transfer arrangements, and their implications during unwind, to key senior stakeholders and externally.
- Review internal understanding of what the principles of the MPC Concordat mean for QE design responsibilities in practice.
- Consider prioritising further investment to make improvements to operational and risk management infrastructure.

**Theme 3: Building public understanding and trust in QE**

- Develop more accessible layered communications on QE.
- Embed a structured approach to engage with the potential spillovers of any new tool.
- Embed a more strategic approach to QE communications.

## Theme 1: Continuing to advance and apply technical understanding of QE

The Bank welcomes the recommendations under this theme to continue to advance and apply technical understanding of QE.

### Produce a prioritised work plan for future investment in analysis to fill QE knowledge gaps

As the report acknowledges, the Bank has advanced its technical understanding of QE over the past decade, contributing to the international evidence base, as well as learning from it. There remain many areas of uncertainty, however, concerning what is still a relatively new tool. The Bank will continue to invest in its understanding of QE and ensure it develops and maintains the necessary staff to enable it to remain at the knowledge frontier.

Given limited resources and competing demands, the Bank agrees that prioritising the key knowledge gaps is important. The Jackson Hole Speech paper presented by the Bank's Governor earlier this year ([Bailey et al \(2020\)](#)) touches on a number of areas where future investment could be useful.

To ensure future work on QE is prioritised appropriately, Bank staff will maintain a work plan of ongoing work on QE and other policy tools, which will be discussed periodically with the MPC to get its input on what should be the most important priorities.

The Bank also agrees with the report that both its policy and research teams should be used to make headway on these priority issues, and that it is important to draw on outside expertise.

The recently published [Bank of England Agenda for Research \(BEAR\)](#) includes 'The Monetary Toolkit' as one of its five themes for Bank research over the coming years. It also contains specific priority topics for 2021 relevant to QE, including the 'appropriate perimeter for central bank asset purchases', 'the transmission mechanism of unconventional monetary policy tools' and 'their interaction with other policy instruments'. The foreword by the Bank's Governor expresses the intention that publishing the BEAR will facilitate collaboration with external researchers on these matters, including bringing insights from fields outside of economics.

The Bank will also continue to organise workshops and conferences to foster debate on QE and other monetary policy tools and to learn the lessons it can from the international central banking and academic communities.

### Maintain a summary of the rationale and evidence supporting each practical QE design decision

The Bank welcomes the recommendation that it maintain a summary of the rationale and evidence supporting practical QE design decisions, to show the links between its understanding of how QE works and the decisions taken. A good starting point for this is provided by [Bailey et al \(2020\)](#), referred to above, which summarises what has been learned about QE over the past decade, including some initial thinking based on recent interventions in response to the Covid-19 (Covid) shock, while acknowledging there remain many open questions.

The Bank agrees that it may be useful to develop a framework that considers the conditions favouring specific approaches to help guide the design of any future QE programmes.

### Provide a forum to allow regular MPC discussions on how QE (as part of the wider monetary policy toolkit) would be used in the event of a big shock

The MPC and relevant teams already meet regularly to discuss QE and other policy tools, as part of the normal policy meeting cycle, but the Bank agrees that it would be useful to provide a forum on a lower frequency basis to discuss the latest thinking on QE, as part of a wider assessment of policy tools. The Bank recognises the value of taking a longer-term perspective and the importance of not confining these discussions to periods when large policy interventions are necessary.



The Bank will set up an MPC meeting to provide a stocktake on QE and its other monetary policy tools. This will allow a deep dive into particular issues that the Committee is interested in. The meetings will be timed to reflect particular pieces of new analysis relevant for the Committee's thinking on its monetary policy tools. In circumstances where the issues raised are relevant to the Financial Policy Committee (FPC), a further joint MPC/FPC meeting could be scheduled.

### **At an appropriate horizon/frequency, update technical audience on the Bank's latest collective thinking on QE and proactively foster external engagement with that**

The Bank recognises it is important to keep its technical audience updated on its thinking on QE.

The Bank has published a large number of speeches and research articles over the years concerned with the more technical aspects of QE. The Bank also organises and contributes to internal and external conferences concerned with unconventional monetary policy, which are often open to the public.

As noted in the report, the most recent substantive piece on the Bank's thinking on QE was [Bailey et al \(2020 !\[\]\(5a132f13505a6571904d622757b7a8f0\_img.jpg\)](#)), referred to above.

Given the additional questions and uncertainties about the operation of QE resulting from the present Covid crisis, the Bank believes such an update would be particularly valuable once it has been possible to assess properly the lessons of recent policy interventions. The Bank will therefore aim to publish a further update along the lines recommended in the report, once it has been able to draw on research on the impact of the latest round of asset purchases. This will also provide an opportunity to explain where the key questions and uncertainties remain in our understanding of the operation of this tool and the main priorities for further research.



## Theme 2: Ensuring that the governance and implementation of QE remain fit for the future

The Bank welcomes the recommendation to ensure that the governance and implementation of QE remain fit for the future.

### Regularly raise awareness of APF cash transfer arrangements, and their implications during unwind, to key senior stakeholders and externally

The Bank agrees that it is important to improve the awareness of APF cash transfer arrangements, and their implications during unwind, among key senior stakeholders within the Bank and externally. The Bank will maintain the capacity to run APF cash-flow simulations under a range of scenarios, and use that toolkit to provide periodic updates to key stakeholders in the Bank and HM Treasury via regular risk reporting.

To raise awareness externally, the Bank will publish updated analysis on the profile of cash transfers between the APF and HM Treasury on the Bank's website in 2021.

Bank staff will also encourage references to APF cash transfer arrangements to be made in Bank speeches and publications, as a way of increasing awareness.

### Review internal understanding of what the principles of the MPC Concordat mean for QE design responsibilities in practice

The Bank will review the content of the [MPC Concordat](#) <sup>↗</sup> to ensure that it remains fit for purpose. The Concordat, which was last updated in June 2018, will be reviewed at an appropriate point in 2022<sup>[1]</sup> and at a three-year cycle thereafter.

As part of the review, the principles of the MPC Concordat will be compared with recent practice in designing QE programmes, and the MPC will be consulted. As is the case currently, the updated MPC Concordat will be published on the Bank's website.

The Bank will similarly ensure that the [FPC Concordat](#) <sup>↗</sup> captures the appropriate level of information exchange with the FPC on asset purchases.

### Consider prioritising further investment to make improvements to operational and risk management infrastructure

Given the demands on public resources, any incremental investment to enhance the resilience of the Bank's operational and risk infrastructure will need to be evaluated in the context of the wider budget position and investment priorities.



## Theme 3: Building public understanding and trust in QE

The Bank welcomes the recommendations under this theme to build public understanding and trust in QE.

### Develop more accessible layered communications on QE

The Bank welcomes the report's finding that the Bank's public-facing communications on QE have improved considerably since 2009. The Bank also agrees with the report that its early efforts to explain QE could usefully be revisited, to make the descriptions more intuitive and relatable.

The Bank will also provide more accessible responses to the broader debates around QE, particularly those focusing on its distributional and environmental effects, and potential concerns around monetary financing. A published set of responses to frequently asked questions would be a useful resource for all of the Bank's public understanding work.

The Bank also agrees that it would be helpful to expand the set of accessible, layered communications on QE (to complement the existing KnowledgeBank guide and YouTube educational video), to include digital assets, such as graphics and animations, to support a range of Bank communications.

### Embed a structured approach to engage with the potential spillovers of any new tool

The Bank agrees that taking a more structured approach to explaining any new tool to stakeholders, setting out the analysis and communications to be undertaken at the outset, including analysis and communications surrounding potential spillovers, would help to demonstrate that the Bank takes concerns about side-effects extremely seriously.

It should be recognised, however, that when new policies are instituted in a crisis situation, it may not be possible to provide in advance a full discussion of how a policy is expected to work and its potential spillovers. And some spillovers may only become apparent over time. Nevertheless, by committing to producing certain key pieces of analysis and communications as proactively as possible, the Bank may be able to limit perceptions of a reactive or defensive posture in future.

A similar set of layered outputs as described in the specific case of QE above should be developed in as timely a fashion as possible in the event of the launch of any new policy tool, to provide the foundation of public communications. Distilling research and analysis into layered responses quickly would be helpful in supporting this aim.

The Bank will continue in its efforts towards greater openness, for instance by offering more staff-level engagement ahead of publication of key pieces of research and analysis.

### Embed a more strategic approach to QE communications

The Bank acknowledges the importance of consistent and repeated messages, delivered across a range of media, in building public trust and understanding. To that end, the Bank welcomes the three specific suggestions aimed at obtaining direction and co-ordination of QE communications from the top of the institution and will implement them in full.

The Bank will also continue to invest in building a constituency for its messages, which includes both direct engagement with the public, and dialogue with key stakeholders.



**Table 2: Themes and recommendations — actions proposed**

Recommendations	Actions proposed
<b>Theme 1: Continuing to advance and apply technical understanding of QE</b>	
Produce a prioritised work plan for future investment in analysis to fill QE knowledge gaps	<ul style="list-style-type: none"> <li>● Bank staff will maintain a long-term work plan of ongoing work on QE and other policy tools, which will be discussed with the MPC on a periodic basis to get its views on what should be the most important priorities.</li> <li>● The Bank will use the ‘The Monetary Toolkit’ theme of its Bank of England Agenda for Research to encourage internal and external research on important QE knowledge gaps.</li> </ul>
Maintain a summary of the rationale and evidence supporting each practical QE design decision	<ul style="list-style-type: none"> <li>● The Bank will maintain a summary of the rationale and evidence supporting practical QE design decisions, drawing on and extending existing analysis.</li> </ul>
Provide a forum to allow regular MPC discussions on how QE (as part of the wider monetary policy toolkit) would be used in the event of a big shock	<ul style="list-style-type: none"> <li>● The Bank will set up an additional MPC meeting to discuss the latest findings on QE and other monetary policy tools. The meetings will be timed to reflect particular pieces of new analysis relevant for the Committee’s thinking on its monetary policy tools.</li> </ul>
At an appropriate horizon/frequency, update technical audience on the Bank’s latest collective thinking on QE and proactively foster external engagement with that	<ul style="list-style-type: none"> <li>● The Bank will publish a document updating the technical external audience on its latest thinking on QE, after it has properly assessed the impact of the latest round of asset purchases in response to Covid.</li> </ul>
<b>Theme 2: Ensuring that the governance and implementation of QE remain fit for the future</b>	
Regularly raise awareness of APF cash transfer arrangements, and their implications during unwind, to key senior stakeholders and externally	<ul style="list-style-type: none"> <li>● The Bank will maintain the capacity to run APF cash-flow simulations under a range of scenarios, and use that toolkit to provide periodic updates to key stakeholders in the Bank and HM Treasury via regular risk reporting.</li> <li>● The Bank will publish updated analysis on the profile of APF cash flows on the Bank’s website in 2021.</li> <li>● Bank staff will encourage references to APF cash transfer arrangements to be made in Bank speeches and publications, as a way of increasing awareness.</li> </ul>
Review internal understanding of what the principles of the MPC Concordat mean for QE design responsibilities in practice	<ul style="list-style-type: none"> <li>● The Bank will review the content of the MPC Concordat at an appropriate point in 2022 [1] and at a three-year cycle thereafter to ensure that it remains fit for purpose. As part of the review, the principles of the Concordat will be compared with recent practice in designing QE programmes, and the MPC will be consulted. As currently, the updated MPC Concordat will be published on the Bank’s website.</li> <li>● The Bank will similarly ensure that the FPC Concordat captures the appropriate level of information exchange with the FPC on asset purchases.</li> </ul>

Recommendations	Actions proposed
Consider prioritising further investment to make improvements to operational and risk management infrastructure	<ul style="list-style-type: none"><li>● Given the demands on public resources, any incremental investment to enhance the resilience of the Bank's operational and risk infrastructure will need to be evaluated in the context of the wider budget position and investment priorities.</li></ul>
<b>Theme 3: Building public understanding and trust in QE</b>	
Develop more accessible layered communications on QE	<ul style="list-style-type: none"><li>● The Bank will revisit its explanations of QE to make the descriptions more intuitive and relatable.</li><li>● The Bank will publish a set of responses to frequently asked questions on QE to support the Bank's public understanding work.</li><li>● The Bank will also expand the set of layered communications on QE.</li></ul>
Embed a structured approach to engage with the potential spillovers of any new tool	<ul style="list-style-type: none"><li>● The Bank will take a more structured approach to explaining any new tool to stakeholders, setting out the analysis and communications to be undertaken at the outset.</li><li>● The Bank will produce layered communications to support the launch of any new tool. Distilling research and analysis into layered responses quickly would support this aim.</li><li>● The Bank will continue in its efforts towards greater openness and will consider offering staff engagement ahead of publication of key pieces of research and analysis.</li></ul>
Embed a more strategic approach to QE communications	<ul style="list-style-type: none"><li>● The Bank welcomes the three specific suggestions in the report and will implement them in full.</li><li>● The Bank will also continue to invest in building a constituency for its messages.</li></ul>

1. The original intention was to conduct this review in 2021, but the Bank has decided to defer this until 2022, to reflect the ongoing resource demands of the Covid response and the sequencing of the Bank's overall response to the IEO QE review.

