Has QT pushed up gilt yields?

Yes ... and more than the BoE would admit

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- Over the past three years, the Bank of England (BoE) has steadily admitted to a bigger impact from the quantitative tightening programme on gilt yields …
- … but their latest estimate of 0.15%-0.25% still hasn't caught up with the market consensus from 2022
- We refresh our view that QT has put up yields by 0.4% (same as our 2023 estimate), roughly halfway between the BoE view and some high profile independent research
- This extra borrowing cost encourages more tax rises, worsening the growth outlook, and potentially creates a vicious circle that undermines fiscal stability

The Chanceller's job of balancing UK finances hasn't been helped by gilts. Since the election in July 2024, borrowing costs have been higher than the government would like. But one question still gets too little scrutiny: to what degree is the BoE's QT programme responsible?

As a reminder, the BoE has been selling bonds accumulated during quantitative easing. Whereas most other central banks are content to passively let their bonds mature, gilt sales have so far totalled £107 billion. Investors say this is a big part behind the rise in yields.[1]

The BoE admits some degree of impact, but disputes the magnitude. Nevertheless, their estimates of the impact of QT on gilt yields have been steadily increasing (Figure 1).

Figure 1: BoE estimates of the impact of QT have been steadily increasing

Date	BoE estimate of QT on gilt yields
July 2023	"Less than 10 basis points" [2]
August 2024	"10-20 basis points" [3]
August 2025	"15-25 basis points" [4]

Investors had long warned the central bank they were understating the impact of their actions. Back in September 2022, before QT had begun, a BoE survey revealed that investors estimated the BoE's plans to sell gilts had *already* moved 30-year gilt yields up by 15 bps, and they would go up a further 10 bps as those plans were implemented, making a 25 bps impact in total.[5]

The BoE promptly turned this question off. It has never asked market participants their view again.

As Figure 1 shows, the BoE's central view (20 bps) still hasn't caught up with the consensus from 2022.

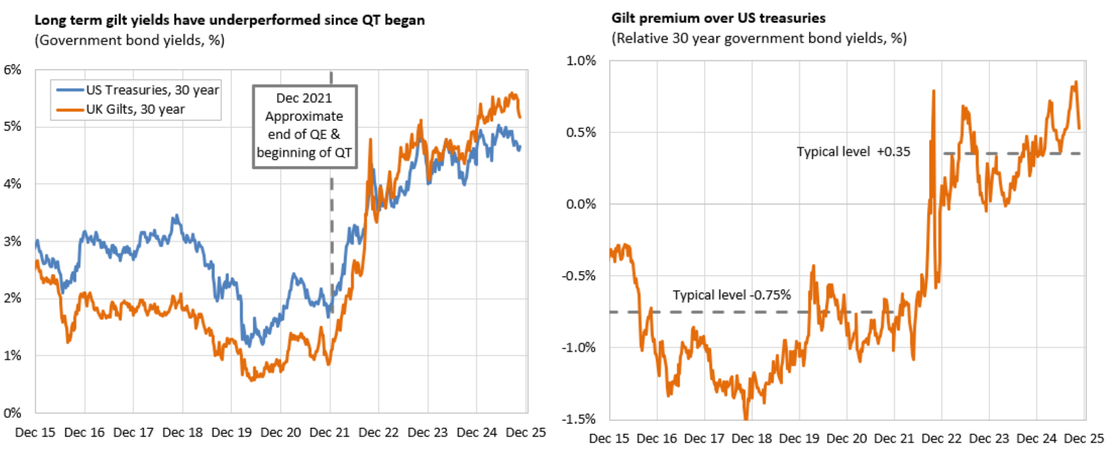
Since then, as gilt yields have moved steadily higher, more people now understand the issue. This has encouraged further debate about the role of active QT. A high profile paper from the National Bureau of Economic Research (NBER), with authors including former BoE rate-setter Kirstin Forbes, reckons the cumulative impact has been 70 bps for 30-year gilts.[6]

Back in 2023, we published our own rough estimate: that active QT was pushing yields up by around 40 bps.[7] In this note, we refresh that estimate and provide further analysis in support.

Updating our estimate: spoiler alert! No change in view

A first point of call is the shift in gilt yields relative to US Treasuries. Broadly speaking, since QT began long-dated gilts have underperformed US Treasuries by around 110 bps (Figure 2).

Figure 2: Comparing gilts to US Treasuries



Source: Columbia Threadneedle Investments, November 2025

It is a similar story for curve steepness (which removes the mild differences in policy rates). The long-dated gilt curve has steepened about 80-90 bps more than the US Treasury equivalent.

Potential culprits for the underperformance of UK long-dated bonds include:

(1) the worse **inflation dynamic** in the UK

(2) lingering **reputational damage** from the mini-budget era

(3) decline in **pension scheme demand** for long-dated gilts

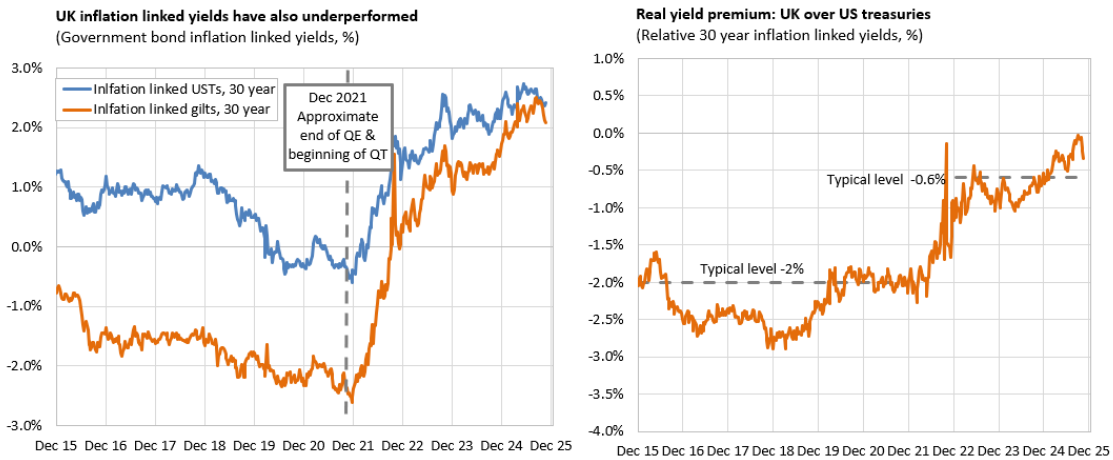
(4) the BoE's decision to implement **active QT** unlike most central banks

How much weight should we give each of these factors? A crude attempt to control for items (1) and (2) is shown in Figure 3. We then split the residual effect equally between items (3) and (4).

Controlling for the inflation effect

We can try to strip out the inflation dynamic by looking at the relative move in inflation-linked bonds. As inflation is included in the total returns of these bonds, relative inflation dynamics should not play a part in the movement in real yields.

Figure 3: Inflation expectations are not the reason – linkers have performed just as badly



Source: Columbia Threadneedle Investments, November 2025

If anything, the move in the inflation-protected market has been greater – around 140 bps of underperformance for real yields. For this reason we put little weight on differences in inflation expectations as a driver of the change in long-term nominal yields.

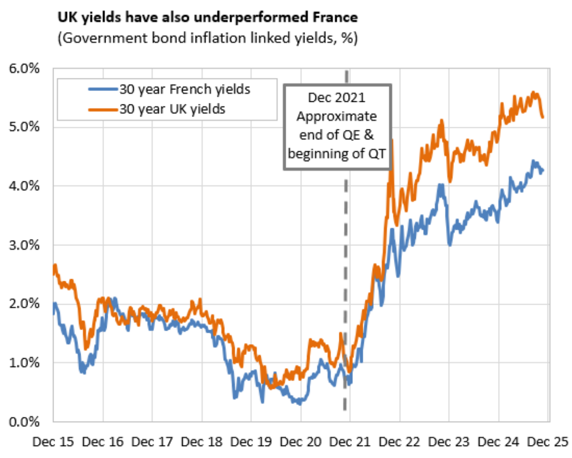
Controlling for reputational damage

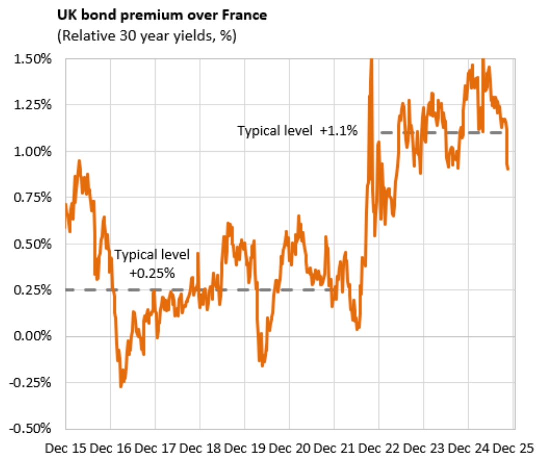
The mini-budget under Liz Truss saw the UK's reputation take a beating. While there are no identical crises in other countries, we can at least compare UK yields to a nation whose fiscal reputation has also faded over time (Figure 4).

France is an obvious candidate. Of course, these crises are different in nature. One was short but very intense and occurred some time ago; the other is less intense but has been in the headlines for longer and is still ongoing. In terms of rating agencies, the UK's negative outlook has been moved back to stable, whereas France is still seeing downgrades, with S&P rating France A+, worse than it ever scored the UK.

It is debatable which should have the bigger impact on yields today. While the French situation is an imperfect control, it at least gives a baseline control for reputational downgrade.

Figure 4: UK borrowing costs have performed worse than France too





Source: Columbia Threadneedle Investments, November 2025

Conclusion

Adjusting for inflation (to which we give little weight) and reputational impacts/budgetary dramas, there is about 0.8%-0.85% of gilt underperformance to explain.

The two remaining culprits to account for this underperformance are the shift in pension fund demand and the BoE's active QT operations. In some sense, these are two sides of a worsening (relative to other countries) supply/demand imbalance. It is unfair to consider only one side of that relationship. For that reason, we go with 50:50 for the apportionment of the 0.85% – i.e. our guess is that active QT is worsening 30-year yields by around 40 bps or so.

Our estimate represents a halfway house between the BoE view, which in our view is likely to continue to creep up, and the NBER work. We have been vocal in highlighting the knock-on taxpayer cost.[8] Refreshing our numbers shows the following:

Additional taxpayer costs from higher yields	Bank of England (Latest view)	Our view	NBER Estimate (Kristen Forbes et al)
Estimated impact on gilt yields	15-25 bps	~40 bps	65-70 bps
Additional lifetime cost on one-year's gilt issuance	£5.4bn	£10bn	£20bn
Cumulative lifetime cost from three years of QT	£16bn	£31bn	£60bn

Source: Columbia Threadneedle Investments, November 2025

Whoever you believe, these are big numbers. In the short term it means more fiscal consolidation, worsening the already poor growth outlook, and potentially creating a vicious circle. In the medium term, it means less headroom against future crisis and reduces policy flexibility.

Neither is helpful for fiscal stability – a concept the BoE is charged with promoting. In our view, the Bank of England active QT programme should be halted, and when it eventually is, gilt investors will breathe a sigh of relief.

Notes and sources

[1] FT.com, BoE urged to curb bond sales investors say could 'reignite' sell-off, 27 June 2025.

[2] Bank of England, Quantitative tightening: the story so far − speech by Dave Ramsden, 19 July 2023.

[3] Bank of England, Monetary Policy Report, August 2024.

[4] Bank of England, Monetary Policy Report, August 2025.

[5] Bank of England, Market Participants Survey – September 2022 (see questions 3b and 3c)

[6] The National Bureau of Economic Research, Quantitative Tightening Around the Globe: What Have We Learned? April 2024

[7] Columbia Threadneedle Investments, The Bank of England is rushing to sell its gilts. For investors, this could be an opportunity, 4 September 2023

8 FT.com, When a 'modest increase' costs £16bn, 12 August 2025