

Is the Bank of England engineering a financial crisis? ...

Published: January 13, 2026, 1:18 am

I am worried about the Bank of England and what it is up to. It's not the first time I have been so, of course, but I think the concern worth airing.

First, some facts. The economy is not looking good. Take the car sector, for example, [where the FT has noted](#):

Investment in the UK car industry has fallen to just £322m in the first half of 2017, in a sign that companies are delaying or cancelling spending ahead of the UK leaving the EU. Last year £1.66bn was invested in the auto sector, more than 30 per cent down from £2.5bn in 2015, as carmakers and their suppliers delayed non-essential investment following the EU referendum in June 2016.

That's pretty worrying. And we now know car purchases are falling. So [too are real wages](#). And the government is apparently [refusing to do anything about that, although it could](#). As a result personal debt is rising. And we have Brexit uncertainty on top of that. There is also inflation, I admit, but that is obviously caused by the fall in the value of the pound because declining real wages prove it is not being stoked by domestic wage demands.

Second, there's the Bank of England's response to this pretty toxic mix. What is that? First [to threaten interest rate rises](#). Second [it is threatening to reduce the availability of credit](#).

Third, now ask why it might be doing this? I really cannot say. There are four reasons this time.

First, if the Bank is trying to beat inflation then reducing demand by reducing credit or household purchasing power as a result of mortgage rate increases then this is not going to work because a) excess demand is not the cause of the inflation and b) cutting demand won't solve the inflation in that case.

Second, if it is trying to restore market 'normality' why now, when things could not be more abnormal and the risk of doing so could not be greater?

Third, if it's trying to build a margin against a future shock then it's deluded: that would require a rate increase of maybe two or more per cent rate now, and that would blow many household budgets apart and risk massive mortgage default.

Fourth, if it is to beat a credit shock then this makes no sense: credit rationing can precipitate one.

In other words, the threatened measures can only make things worse, barring on short term exchange rates, which could have a small beneficial inflation impact. That one issue apart the proposed moves do not otherwise tackle the inflation we have but do harm household incomes and so demand; do precipitate debt crises in both the secured and unsecured sectors and do create default risk for many individuals and real risk of solvency issues in banks and more peripheral parts of the finance sector.

So why is Carney doing this? Does he want a crisis, or even the threat of one? If so, why? Is it he wants to tip the economy into recession to influence Brexit? I would sincerely disapprove if he did. Or is there some other motive?

I wish I knew, because I sure as heck am perplexed about the game he's playing right now.