

Liz Truss has proved she can make unpopular decisions

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I think we can all agree that Liz Truss has proved she can make unpopular decisions. Crashing the pound isn't going down well with anyone, and will increase inflation. Fuel prices will already probably increase by 5% or so, which will be 8p or more a litre. Food will also see seriously rising prices, soon.

But what else can Truss do to make herself unpopular to add to the already long list of tax crimes she has committed? My suggestion is that today the reality of rising interest rates will become clear. The interest rate on 10 year government bonds is now over 4.5%, a rate last seen at the time of the 2008 crash, and I suspect no one in the City thinks it will stop rising at that point. The decade or more long era of cheap money had gone, although it is worth noting that with inflation at more than 10% this is still a seriously negative rate of return.

That fact might be some comfort to the Treasury as the currency issuer. It will be none at all to the UK mortgage holder. Millions of people will be coming off their fixed-rate mortgage deals in the next year. Many of them will have been paying less than 2% on those deals. Five per cent or more may be the best offer they can get now: it looks as though the 4% mortgage disappeared yesterday. Within days I think the going rate will be 6% and it could easily exceed that for a while.

As I keep saying, this matters. For those who recall the 80s and 90s and the wildly fluctuating mortgage rates of that era, which we survived, this is not the same. That is because most mortgages then were for multiples of 3 or so times income. Now they are for multiples of six or more times income. The leveraged impact of mortgage rate increases on household disposable spending power is much greater as a result. And so too in consequence are the absolute rate increases that are going to be demanded.

I have kept playing with the data on this. If I use a £200,000 mortgage, and they are commonplace, then depending on mortgage term and type of mortgage the increases vary, but it's easy to come up with mortgage payments increasing by £500 to £600 a month, or between £6,000 and over £7,000 a year.

The point here is fourfold. Many who now have mortgages have never suffered a significant mortgage rate increase. They do not understand what is about to hit them, and have never budgeted for it.

Second, this means margins for error in these households' finances are minimal.

Third, these increases are going to make the energy price increases look insignificant in the grand scheme of things. Households will simply not be able to pay. Even moving to interest-only options will not save many, and will only defer the pain.

Fourth, rents move in line with mortgage rates as many smaller landlords have heavily mortgaged properties. This pain is going to be transmitted into the rental market very soon.

In that case there is nothing to be relaxed about today. There is only the risk of massive recession coupled with high unemployment as businesses fail, serious homelessness and social chaos to be looked at in all this.

Truss has got almost everything about her economics spectacularly wrong, but that is no reason to gloat. The cost of this will be very uncomfortably high. I wish it were otherwise.

And I wish Labour began talking about the crisis we're in instead of carrying on as if nothing has changed when so much has.

We deserve politicians who understand the scale of the issues we are facing. So far we are not getting them.