

Today's rate rise from the Bank of England will be call...

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I posted this thread on Twitter this morning:

The Bank of England will increase its base interest rate today. It may do so by 0.5%. It could do so by 0.75%. Whichever it is, the move is wholly destructive and will cause misery in the UK economy. A thread....

The Bank of England base rate is used to signal to other banks the rates that they might wish to use on their lending within the UK economy. The biggest part of that lending is for mortgages.

The result of this increase, when it feeds through into mortgage rates, will be cost increases for the average mortgage of more than £1,000 a year in payments due.

As part of a series of increases that might raise the base rate to 4% (in the market's expectation), this increase could increase costs for average households by around £7,000 a year, in my estimate, based on a start point when base rate was 0.1%.

Clearly, this is unsustainable for most households. They will not be able to pay that increase, which will represent an increase much bigger than any energy bill. So far we have heard nothing about any support for those impacted.

And it is not just be households that will suffer. Many landlords borrow to fund their property purchases. They, broadly speaking, try to increase rents in line with their mortgage costs. So tenants are going to have a bad time too with many rent increases likely.

Small business will be in the same boat of course: they will see interest costs rise rapidly. This cost increase will come after news of the weak energy support package announced yesterday.

Many of the vulnerable sectors of society will, then, be challenged by this interest rate increase. So why is the Bank of England doing it?

The first thing to say is that this increase will not stop inflation. UK inflation is largely being driven by energy prices and they are set on international markets and nothing the Bank of England will do will change them.

Nor will this increase have any significant domestic impact on inflation. The majority of UK households will already have nothing extra left to spend this winter and so will not cut their spending further because the Bank of England has increased interest rates, because they can't.

This is not what the Bank of England think though. When they raise interest rates it is because they think there are consumers who have excess money to spend who must have that spending power removed by interest rate increases. That's how they think these rate rises work.

The reality is that few people are in that situation right now. It is, I suspect no more than 20% of households who are. They are the top income earners of all. But many of them will not have mortgages because they're also the wealthiest, and older, people in the economy, and borrow less on average.

Their spending patterns are also not greatly impacted by such things as interest rates: since they are savers and not borrowers in the main (which is why they're wealthy) few will be pushed to the limits of their available funds by this move and so cut their consumption spending.

This move will then have almost no impact on the excess spending that the BoE thinks drives inflation barring one thing which is that the US Federal Reserve raised rates by 0.75% yesterday, and so unless we do the same the BoE thinks the value of the pound will fall still further.

This matters because oil and gas are priced in dollars. So, if the pound falls then the price of UK oil and gas rise. As a result the Bank of England says it has no choice but raise our rates.

Because the Fed are trying to drive the US economy into deep recession to beat inflation by massively increasing unemployment the BoE says we must too. Collective madness prevails here, and we are all going to be victims of it.

That's why @D_Blanchflower and I have called for changes in the selection of candidates for appointment to the Monetary Policy Committee of the Bank that sets these rates.

Why else might the Bank raise rates? It has to be said that it's because doing so favours the City very nicely, of course.

First, commercial banks will be increasing their lending rates but not their deposit rates by anything like as much. Big profits follow.

Then there is the fact that these commercial banks have big deposits with the Bank of England as a result of quantitative easing. They are around £900 billion right now. If rates increase 0.75% today that is £6.75 billion they will earn on these funds in the next year.

That cost will, of course, be charged straight to the government. The banks are looking to have a great time. No wonder they want an end to the cap on bonuses! Inequality is, as with everything the Truss regime does, set to increase.

But, let's look at the problems in all this. First, this increase will not address any of the real issues creating inflation.

Second, it will force millions of households, whether with mortgages or who rent, into increasing debt and many might also lose their homes.

Third, if households are insolvent and have to hand their properties to their bankers, or if landlords try to sell properties they can no longer make pay, then there will be a property crash. These are bad news: property prices are way too high, but crashes always create victims.

Fourth, banks will then in turn be in trouble. The 2008 crash began in the US mortgage market: the next crash in the UK could start in the UK housing market because of families stressed beyond limits by debt.

And in the meantime, government finances will have been stressed by excessive and unnecessary interest rates.

So what should the Bank of England be doing? First, they should look at their own forecasts, which show that they expect inflation to be gone within two years. This is entirely rational: energy prices simply cannot keep inflating for that long.

I stress, that this does not mean energy prices will necessarily fall, but it does mean that it is very likely that they will stop fuelling inflation within two years. The inflation rate could as a result be back below 2% by then.

But, what we do know is that price increases before that happens will have been massively damaging for the economy as a whole. That is obvious now.

We are going to have recession, household stress, massive private sector debt increases, increasing unemployment and homelessness before inflation goes.

All rate increases can do is make this situation much worse, and possibly very much worse. So they are the wrong policy, even if the Fed does insist on increasing rates.

The right policy is to anticipate what is going to happen in the economy, which is a task the Bank of England should be capable of doing, most especially as it knows that all interest rate changes take time to work through before they have real-world impact.

Looking forward the threat in our economy now is not inflation: that will pass without intervention from the Bank because energy prices will stabilise, or most likely fall (as they are on world markets now). Instead the threat is recession, and a debt crisis.

What is the right response to a forecast of a recession and a debt crisis? It is to cut interest rates. And that is exactly what the Bank should be doing today.

An economy heading for recession needs the lowest interest rates it can have. Instead the Bank of England is going to increase them, guaranteeing that the economy of the UK will be very much worse off than it needs to be.

Today's rate rise from the Bank of England will be callous, misguided and wholly unnecessary. It will consign millions to misery, and it will have not impact of any significance on inflation, which supposedly motivates it.

There are moments in history when you can say economists get things very badly wrong. Today will be one of those days, and the economists at the Bank of England will be responsible. I suspect they will be rewarded with a big bonus. The rest of us will suffer.