

# The Bank of England's interest rate policy is the bigge...

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*I am [posting this thread](#) on Twitter this morning:*

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We all know Truss has made a mess of her premiership, and will leave the UK in a parlous state. But what does that mean for the economy and whoever succeeds her both now and after a general election? A thread....

[Please note that this is a long thread. If it appears to stop mid-flow please click on the last Tweet you can see and the next section should appear.]

Let me ignore how we got in the mess we are in. Instead let me address the issues that we face. They are:

- Inflation
- Energy prices that remain out of control
- High and rising interest rates
- Pressure on stretched government services

You could add in other issues, like ongoing war and the UK's crisis being exceptional to that in other countries. You could also mention Brexit, quite appropriately. Whatever is in the list, the issues look to be big.

That is the correct conclusion. So too was the reaction to Truss's mini-budget correct. Major tax cuts and regulatory reform were, at this moment, wholly inappropriate. Truss got just about everything wrong.

Leave that aside though. What are the consequences of the position we are in, because these have yet to all be seen, and so need to be explained. I stress, what I am suggesting is things are nowhere near as bad as yet as they are going to be.

First, high inflation rates compared to lower wage rate increases meant that households were always going to be facing an economic crisis this winter.

Apart from well focussed energy price interventions (and the one we are getting is poorly focused) there is little the government can do about energy price increases, excepting three things.

One of those is reform to the way energy is priced in the UK. The energy price cap being introduced is a poor way to achieve that goal, but better than nothing.

The second is to impose a bigger windfall tax. Nothing has yet been said about this, which is bizarre.

Third, the quickest to deliver and cheapest forms of alternative energy supply need to be focussed on: Truss has done the exact opposite by ignoring wind and solar and focussing on nuclear and gas. This was straightforwardly wrong by her and needs to change.

There is, then, ample opportunity for an improved energy policy for opponents or a successor to Truss to exploit. Having such a policy would massively help tackle the crisis we are in.

Inflation is a harder issue to tackle. The Bank of England is suggesting interest rate rises to tackle this. Their logic is that UK households have too much to spend and so interest rates must rise to crush their spending power.

The problem with this is it is not true. Households already have too little to spend in most cases, with that likely to get worse without any help from the Bank of England. The fundamental assumption that the BoE makes is wrong in that case.

The only other excuse the BoE has for raising rates is to match the US Fed and its rate increases. This is no argument though. The Fed is intent on crashing the US economy. Why copy it? Why not say a falling pound is a price worth paying in that case?

Tackling inflation is a task not within the reach of government except by energy price controls in that case. 'That has to be admitted. In the current environment not everything can be controlled. Inflation might be the one to let go.

That makes sense when the alternative is a full blown mortgage crisis as a result of increasing interest rates when increasing those rates will have no impact on energy or food prices, which are set very largely outside the UK at present.

Let's turn to that mortgage crisis. As I have been saying for many months, and which others have now caught up with, the average likely increase is around £500 a month. Rent rises are also likely as landlords have mortgages.

This level of increase is unaffordable. Most households have nothing like that margin for error in their budgets. Whether they should have been allowed to borrow the sums they did in that case is now irrelevant. Excessive loans were permitted, and are

commonplace.

This crisis has the capacity to make the energy price crisis look like small beer. People will be unable to pay, in their millions. That spills over into a homelessness crisis if they evicted, and into a house price crisis as they sell under pressure.

There will then be the negative equity trap to deal with, as people have mortgages bigger than the values of their homes. Those who lived through the early nineties know the personal tragedies this resulted in.

And we also have the makings of a banking crisis, potentially. I know banks are better capitalised now. And I know there are stress tests. I am not, however, wholly reassured by the reassurances of those who say all will be OK.

The debt crisis to come will hit households, intolerably. It will hit banks hard. Let's not pretend there will be no victims.

The answer to this is, of course, to stop the Bank of England imposing unnecessary interest rate increases. Sure, the pound will fall and inflation will stay higher for longer. But what is more important? Inflation or 5 million bankrupt households? Does the question need asking?

If the Bank does not agree then they should be told. My problem is I cannot see any Tory doing that, and right now Labour is saying nothing about it either. We may get these interest increases as a result. Mortgage rates of 7% may happen.

What then? Three likely things matter most. The first is that households will stop spending on anything but food, energy and mortgages or rents. There will be a massive fall in demand in the rest of the economy.

Second, as a result of that fall in demand whilst facing their own increased energy and interest costs many businesses will go bust and unemployment will increase, dramatically.

Third, government revenues will fall. Fewer people in work guarantees that. Spending more on energy food and mortgages and rent with almost no VAT due on any of them also guarantees that. So tax revenues will be hit, and benefit costs will increase, substantially.

The result of this is recession, plus a big government deficit at the same time. By the time this happens the measures the government can take are limited. They will have to keep people alive: beyond that their scope for action will be small. That will be how bad things will be.

This is the wholly predictable consequence of current actions. So what should be done?

First, stop interest rate rises. They are the easiest and quickest route to calamity, so they must be stopped. Yes, we will be out of step with all but Japan by doing this, but someone has to say recession is no way out of this crisis: it will only make it worse.

Second, do QE now to cover the cost of the energy crisis. This crisis is as serious as Covid: QE has to be used. That will take the immediate pressure off interest rates.

Third, accept inflation. And allow inflationary pay rises. They're not great. They are much better than millions out of work.

Fourth, reform energy policy.

Fifth, there must be tax increases to balance QE. These must come from the wealthiest alone. I have explained such a programme many times before.

Sixth, consider price controls. We already have them on energy and in some regulated sectors. They now need to be used to squeeze price of essentials. At present they tend to be heavily inflationary. That needs to be reversed.

Seventh, reconsider Bank of England independence. It makes no sense when the result is their current plan to crash the economy.

Eighth, seek international support for low-interest rates. They are essential. They will also save most developing countries from crisis. They can't afford their debts now.

Ninth, increase energy cooperation, worldwide. Sustainability will require it anyway.

Tenth, pray. In this situation we might all need to do so.

Will that work? Possibly. But what can be said with certainty is that this programme will deliver a lot more hope than the current route to Armageddon on which this government is set and which Labour is not opposing.

We cannot afford interest rate hikes. They must not happen. Recession, homelessness and domestic devastation are prices not worth paying for an anti-inflation policy that is itself doomed to failure. This is the biggest issue in economics now.

The trouble is that the Bank of England think they can do what they want right now after the debacles of the last few weeks. Somehow they have to be stopped. I just wish I knew who was going to do it.