

# Is the Bank of England the biggest driver of inflation ...

Published: January 13, 2026, 9:31 am

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The [FT notes this morning that:](#)

The profitability of UK private non-financial companies remained stable in the final quarter of last year, according to official data released on Tuesday that supports interest rate-setters' findings that higher corporate profit margins are not pushing up inflation.

[Figures](#) from the Office for National Statistics showed that companies made a net rate of return of 9.8 per cent in the three months to December 2022, unchanged from the third quarter and below the prevailing rate before the onset of the [coronavirus](#) pandemic.

We are all, of course, aware that this is not true for all companies. Equally, it is appropriate to note that many complainers are struggling. On balance the ONS is probably suggesting as a result that, just as is true in the household economy, there is massive redistribution of wealth going on in the corporate sector with major winners and losers emerging but overall income is stagnant.

However prices charged by companies are rising. We know that. If that was not the case there would be no inflation.

Now we know that there is no increase in profit rate.

And we know wages are lagging behind inflation whilst raw material prices are stabilising.

So, given that the number of cost inputs into a corporate income statement are limited in number, what can be causing the increases?

Might it just be interest costs, as I suggested recently?

If, as companies rationally expect given Bank of England commentary, these interest

costs are going to keep rising, and most of the UK's largest companies are by far the most leveraged (i.e. they have a greater degree of borrowing than average, and so borrowing cost), are they pricing that interest rate rise into their product pricing to maintain profits, and as a result is it possible that the Bank of England itself might now be the biggest driver of inflation in the UK? I think so.

The Bank will dismiss this, saying that in competitive markets companies could not pass this interest rate cost on to consumers. That is what their theories say. But their theories ignore the fact that most larger companies in the UK, who dominate the price setting agenda, have monopolistic characteristics and so of course they can do this.

I am not saying that my hypothesis is proven. I am saying that it is plausible.