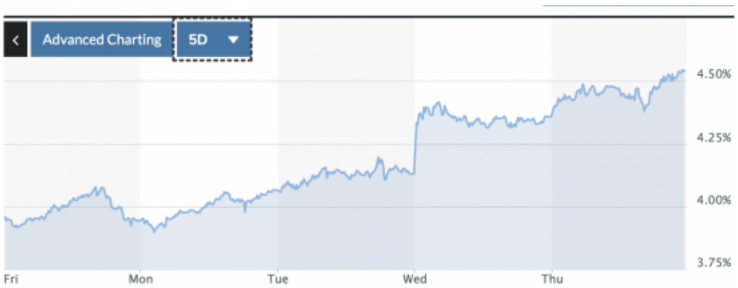
Funding the Future

Things can only get worse if the Bank of England contin...

taxresearch.org.uk/Blog/2023/05/26/things-can-only-get-worse-if-the-bank-of-england-continues-to
Published: January 12, 2026, 7:59 pm

Wednesday's inflation news has provoked a perverse reaction. Although inflation fell considerably, because a bigger fall was expected, financial markets are now speculating that Bank of England interest rates will have to increase again. As a consequence, they have been selling off their holdings of government bonds, which reduces the price of these assets, meaning that the effective rate of interest paid upon them increases.

These charts from [Market Watch] tell the story over the past few days and over the last year:

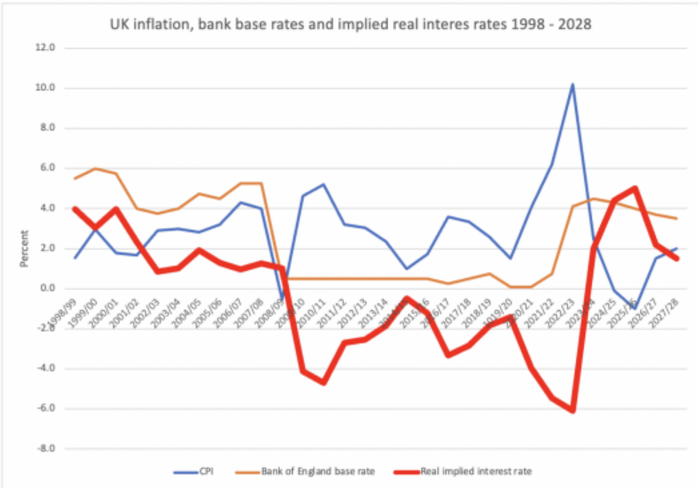


The interest rate on two-year government bonds has increased by 0.5% in less than a week. This means that interest rates are now approaching those last seen in September 2022 after Kwasi Kwarteng's disastrous outing as Chancellor of the Exchequer.

Reactions have been almost immediate. Mortgage interest rates are now approaching

5%. The dire economic outlook for those who have to refinance their mortgages this year has just worsened. Expectations are that matters will get much worse still: markets are speculating that bank base rates might now reach 5.5% by the end of this year, which will deliver an almost unprecedented (in recent history) positive interest rate as a consequence of the Bank of England base rate exceeding the inflation rate.

I hardly need reiterate my concerns about this. As Danny Blanchflower and I noted in a joint submission that we made to the Treasury Committee of the House of Commons in March 2023, this country cannot afford positive interest rates, which it has not seen since 2008:

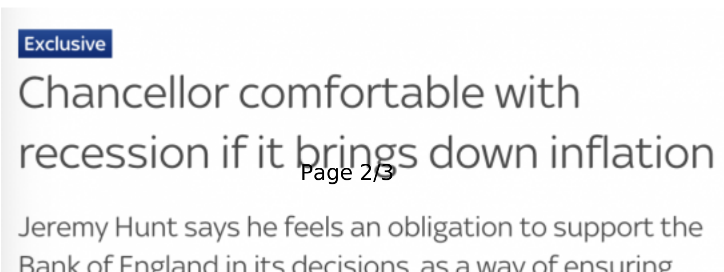


Sources as noted in text, author calculations

The UK economy has stagnated despite having negative interest rates since 2009. The chance that it might flourish with positive interest rates is close to zero. Businesses will not invest. Household incomes will be depressed. Consumer spending will fall. Inquality will rise. And sustained positive real interest rates, which are now anticipated, will, of course, have no impact upon inflation, which everyone still expects to have been curtailed by the end of 2024.

In that case, what we are actually saying is a dogmatic increase in rates, fuelled by market expectations of Bank of England reaction to inflation not falling as fast as the Bank might desire. That Bank of England reaction is driven by their desire to increase the rate of return to financial capital in this country at cost to the population at large. The consequence is what might be described as a central banker-imposed death spiral for the economy as a whole.

That is, of course, a way out of which, but that would require that politicians intervene, and as Ed Conway has reported for Sky this morning:


Exclusive

Chancellor comfortable with recession if it brings down inflation

Jeremy Hunt says he feels an obligation to support the

I think we can all be quite sure that Rachel Reese will be standing right behind Jeremy Hunt.

The consequence is that the two leading political parties in this country, acting in cahoots with the Bank of England, are choosing to impose a recession on this country with the sole goal that the wealthiest might get wealthier. We have seen anything like this since the days of Thatcher, but then North Sea oil saved us from destitution and nothing will now.

I worry, a great deal about the economy, but my sense of despair is now growing by the day.