

# Without falling interest rates the hopes for the UK eco...

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As if evidence was required that the government has chosen that the UK's people should suffer for Covid whilst landlords and banks ([as noted in my previous blog post this morning](#)), I see that [The Observer has noted](#) this morning that:

*The number of UK households struggling with heavy debt has increased by two thirds since 2017, according to new analysis. Debt Justice, a charity that campaigns against unjust debt, has found that about 12.8 million adults in the UK are falling behind on bills or finding repayments a heavy burden. It is calling for urgent action to prevent people being “trapped in poverty”.*

I am entirely unsurprised by this finding. Let me go back to [something else I wrote](#) on 4 March 2020 when I discussed what might happen as a consequence of Covid:

*Ignoring, for a moment, the health risks that this epidemic brings to us all, the economic risks should be fairly apparent. For many that risk comes from a simple lack an income: that there is a widespread risk to many people resulting from inadequate sick pay has already been highlighted on this blog, and elsewhere. In some ways this is the greatest risk of all because unless it is tackled the actual epidemic will be worse.*

*The fact that this risk exists does, however, also indicate the crisis that we face because of cuts in our social safety net, and the economic risk that arises from the massive [inequality](#) in the distribution of wealth in this country. When more than half the households in the UK have savings of less than a few hundred pounds their resilience in a crisis of the type that we are facing is marginal, at best. They simply do not have the means to weather this storm. And, more particularly, many of those households will have considerable outstanding debt which has to be serviced, and they will be unable to do that. The risk that there will be considerable financial stress for those in this situation, both now and in the future as a consequence of failed credit ratings, is enormous, with staggering social consequences.*

It should also be recognised that for generation rent, the risks from non-payment are very high, and the chance that rent defaults over this period will increase is significant.

Again, the vulnerability of our social model will be cruelly exposed, with the word cruel being used in a very particular and literal way.

And the risk of debt failure does not end with those in the most marginal situations. Many apparently more resilient households, based at least upon income, are actually dependent upon regular cash flow to meet their obligations. Mortgage rates may be low, but for many households mortgage obligations are proportionately high, as are the obligations to make payment on other loans, including the staggering number of car leases in this country. Again, the risks of default are very high with very long term social consequences unless systems are adapted to allow for the stresses that are going to arise, inevitably. In a country built on debt, where credit status is key to financial viability, a very large number of people are going to see their well-being severely damaged by this epidemic unless action is taken to help them now.

What might that action be? The obvious actions are that:

- a) The government will need to declare rent holidays;
- b) Mortgage payments must be permitted to be deferred without penalty, simply by extending terms;
- c) Lease and other loan obligations must again be subject to loan repayment holidays by the extension of terms;
- d) Credit ratings agencies must not be permitted to consider defaults in this period in their future credit ratings.

It is important to note that the only real cost within this is to landlords: I am afraid to say that they are going to have to take a hit as a consequence of this epidemic, and that they above all others can afford to do so.

The answer to these issues did, of course, come in the temporary form of furlough.

But furlough came and went. What did not were the underlying issues.

We still have inequality.

We still have far too many people on low pay.

We still have a totally inadequate social safety net.

And we are still a country built on debt and obligations to landlords and banks.

We learned nothing from Covid. All we applied was a sticking plaster in the form of QE-funded furlough that it is now said we will never be able to afford again.

And, far from easing the crisis, the government has gone out of its way to make it worse.

I cannot see how long this can last. At a corporate level, the impending failure of some water companies is evidence that this crisis is going to break. At a personal level, it is

only by beginning to cut interest rates very rapidly that the instability that the Bank of England has created can now be contained, managed and possibly survived. They, however, are intent on raising them.

The alternative reaction is now being seen in France.

At some time, those in power are going to appreciate that you cannot devastate the lives of most of the population and have them quietly acquiesce. The claims of bankers and landlords cannot always have priority. The problem is, we seem a very long way from that appreciation dawning on anyone with influence, including in the Labour Party.

I fear that this could become very ugly economically and may be worse than that. That is why I hope for some economic sense that might relieve this tension now.