

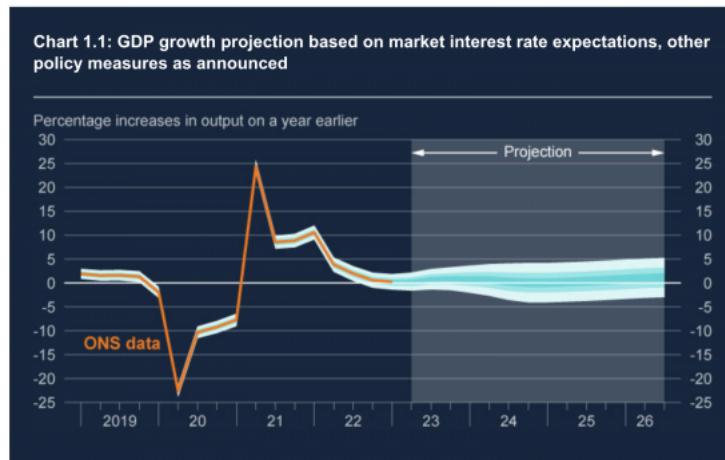
The risk of the Bank of England massively overshooting ...

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If there is one thing that I should be grateful to the Bank of England Monetary Policy Committee for it is that their incompetence provides me with seemingly endless material for this blog.

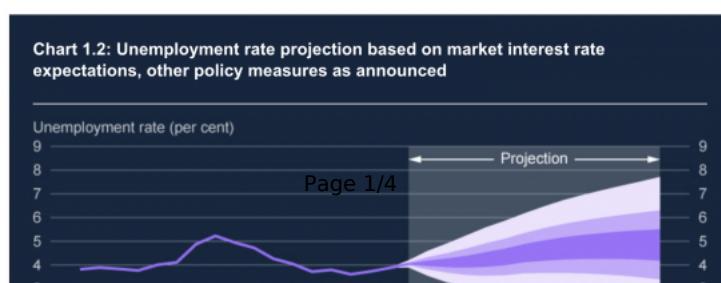
Take, as example, the [rationale that they published](#) for their decision to increase interest rates, published yesterday. Four features are worth highlighting.

The first is that the Bank of England is effectively forecasting no growth as a result of its policy to create recessionary risk:



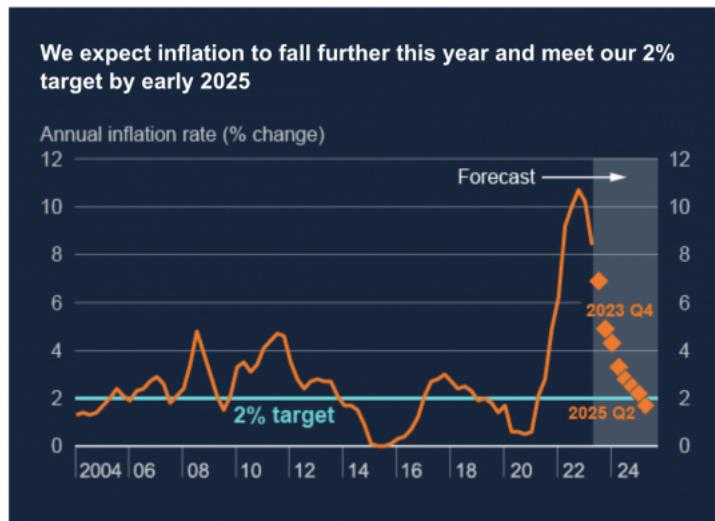
In effect, growth has disappeared in 2024 and 2025, albeit it remains possible within the margins for error within the forecast. Rishi Sunak is going to regret promising high growth and low inflation simultaneously as a result. There will be no pre-election bounce now, according to the Bank.

Second, and as a consequence, the Bank is forecasting rising unemployment:



The central forecast is for unemployment to increase by 350,000. I think that, with the previous observation, justifies many of the comments I have been making for a long time about the Bank having the goal of creating a recession.

Third, there is their forecast trajectory for deflation:



As is apparent, the Bank think inflation is going to tumble over the next eighteen months. That would appear to be the good news.

However, as they admitted yesterday, the decision they had just announced on interest rates is unlikely to have an economic impact until at least 18 months have elapsed. That will also be true for all those similar decisions made in recent months.

What that means is that when we get to early 2025 we will still be experiencing the impact of these decisions on interest rate rises on the economy. If, as the Bank claims, those decisions will result in falling rates of inflation, because as they claim they reduce demand within the economy, then come Spring 2025 there will be significant amounts of such impact still working its way through the economy when inflation rates will have already hit two per cent.

There is, of course, no reason why inflation will just stop falling when it hits 2%, as the Bank likes to imply. In fact, there is no reason why it need stop at an inflation rate of zero, as their charts suggest to be more likely. Instead, deflation is quite possible, most especially if a lot of people have taken new fixed-rate mortgages at much higher rates than they have previously been used to between now and spring 2025. The lagged consequence of that will last for some time. The risk of a serious overshoot by the Bank on inflation now looks to be very real, with recession inevitably following.

In that case, what we should have been hearing about yesterday was what measures were being taken to prevent deflation and recession, but there was no hint of policy

on those issues in their report. That is a massive omission on the Bank's part and a deeply worrying sign of their inability. I think that overshoot is likely now.

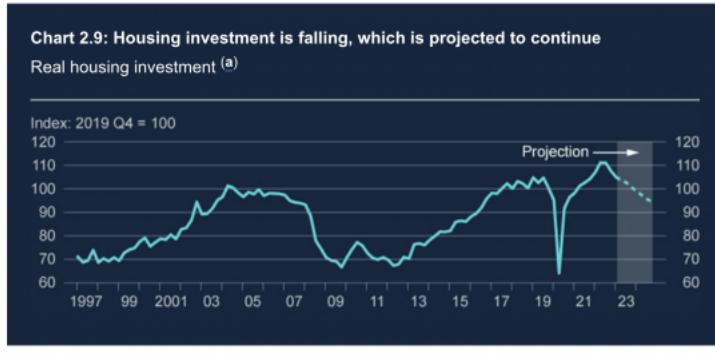
I most especially think that is the case when, fourthly, there was within the report a projection of future Bank of England base rates. These could, of course, be fabrications to suit the Bank's current narrative, but let me presume that they are instead a fair representation of what the Bank expects to happen. In that case they are shocking because the rate forecast for 2025 is for a base rate of five per cent when it is quite likely, based on the Bank's own projections, that the rate of inflation at that time will be at or near zero per cent.

In other words, what the Bank is projecting is that we have strong, positive interest rates in the future within our economy, meaning that for the first time in fifteen years those paying interest will be suffering a real net cost to do so when compared with inflation.

This will perpetuate the mortgage shock on UK households, with all the ghastly consequences we are now seeing.

It will also crush the prospect of investment by UK businesses. That will drive down employment and growth and leave the country still struggling with productivity issues.

It will also crush household spending. No wonder that they forecast this:



It will also mean raising funding for the climate transition that we need will be harder.

And it is designed to guarantee government austerity given the mindset of neoliberal governments, which is what we will have.

Add it all up, and the Bank clearly wants to perpetuate the disaster created by it raising bank rates wholly unnecessarily.

Not only will the Bank's beating of the economy not lessen in severity, but it is now their apparent desire to keep it going in perpetuity.

I despair.

And I worry about the wholly unnecessary pain that is going to flow from this utter incompetence well into the future.