

Labour's going to have very big problems with the Bank ...

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Megan Greene, who is an external member of the Bank of England Monetary Policy Committee and, as such, one of the people responsible for setting UK interest rates, [has written in the FT this morning](#), saying:

The most obvious way the UK economy differs is much more constraint on the supply side. The Monetary Policy Committee (MPC) recently estimated potential growth of 1 per cent this year, rising moderately to 1.3 per cent by 2026. The Congressional Budget Office (CBO) estimates US potential growth of 2.2 per cent over the same period. This means the US can withstand more demand in the economy before it turns inflationary. While the UK has long lagged behind the US in potential growth, the difference became much starker during the pandemic.

The claim that Greene is making here is that there remains a significant risk of inflation in the UK because we do not have the productive capacity to increase the supply of goods and services in the UK to meet any additional demand, if it were to arise. As such, her argument is that the Bank of England must continue to impose austerity upon the economy through the imposition of high interest rates to prevent that chance of additional demand occurring.

This is an extraordinary, and deeply perverse, argument, with an enormous sting in the tail in it.

The perverse argument is that the Bank must not permit growth because there is some inflation risk if it happens. It cannot be sure that this is the case, but it believes it must act anyway.

On the other hand, it is knowingly and perversely imposing a policy that can only impact upon those who happen to suffer the misfortune of having their fixed rate mortgages come to term, meaning that they must be renegotiated.

In addition, and extraordinarily, the Bank is knowingly imposing a policy that has no impact whatsoever on most of the top 20% or so of income earners in society, almost all of whom have seen fair pay rises and have benefited from the additional investment

income that they have enjoyed as a consequence of the Bank's interest rate policy, which has boosted their capacity for consumption expenditure whilst everyone else is suffering.

Put together, in that case, and as the IMF is recently pointed out, the prospect of this policy working is exceedingly limited, even if it were appropriate. The nature of our fix rate mortgage system means that the transmission rate for monetary and interest rate policies into the economy is incredibly slow, meaning that the chance of there being any significant economic impact on consumption as a result of high rates is marginal, but at the same time that policy does actually increase the likelihood that those who are always inclined to spend the most will continue to do so, directly fuelling inflation as a consequence.

It is, however, the sting in the tail that is most important here. Megan Greene is typical of the current batch of external appointees to the Bank of England MPC in being particularly hawkish with regard to interest rates, meaning that she is very inclined to keep them high. Not only does this not work, it also inappropriately increases government costs, denying it the opportunity (presuming that you believe in Rachael Reeves' fiscal rule) to stimulate the economy.

In addition, it imposes additional cost on any business intending to invest, which is the hope on which Rachael Reeves has pinned her whole economic policy when she demands that the private sector must grow before she can take any action to relieve austerity. As a result, as things stand, the Bank of England is promoting policy that is bound to undermine any chance of Labour's hoped for growth, shattering all that it has to offer the country at a stroke.

Far be it from me to say that Labour is misguided in placing its hopes in City grandes. Instead, let me simply point out that at present many of them appear deeply opposed to what Labour is seeking to do. In that case, something is going to have to give. I cannot see the City grandes changing their minds. So, the question is, will Labour? If they don't, they have almost no chance of success with the policies that they have currently set out.