Funding the Future

Article URL

Published: January 12, 2026, 6:32 pm

Two reports in the FT grabbed my attention this morning. The first concerns comments made by Andrew Bailey, Governor of the Bank of England, at the International Monetary Fund meeting in Washington DC this week. The FT notes:

Inflation is fading more rapidly than central bankers expected but the UK needs to see a continued retreat in services price growth from current levels, the Bank of England governor said on Wednesday.

They added:

But he also warned that services inflation remained above levels that were consistent with the BoE's objectives. "Disinflation — and the UK is part of this — has actually taken place faster than we expected it to," Bailey said at a meeting of the Institute of International Finance in Washington. However, he added that "we've got to see services prices inflation come further down".

The last is, of course, his excuse for keeping interest rates way above the levels that the UK economy now requires. What really matters is the first of his comments, which is that inflation is coming down faster than he expected when those of us with more interest in this issue than his exorbitant salary has ever induced in him have long been able to predict this fact.

Then I note this comment:

The Bank of Canada has lowered interest rates by a bumper half a percentage point to 3.75 per cent, with rate-setters resorting to a bigger cut to boost weakening growth.

They then noted:

The widely expected cut was the fourth in a row by the G7 country's central bank. However, earlier cuts had been of a smaller quarter-point margin.

Tiff Macklem, the governor of the Bank of Canada, told reporters: "From what we saw in the recent data, there was broad agreement to take a bigger step today. If the economy continues to evolve in line with our forecast, we will be cutting rates further."

Canada’s inflation, like that of the UK, is falling fast. It hit 1.6 per cent in the year to September.

Prices are, however, falling because economic activity is slowing. The Bank of Canada has already delivered what Andrew Bailey wants in the UK, which is a marked economic downturn with the risk of recession built into it. We are heading that way.

Why did this grab my attention? Because what is readily apparent now is that there is a very real risk of dramatic overshoot from Bank of England policy - where the risk of massive further pressure on households is high because of them refixing their mortgage rates at levels that are too high - and because the cost of investing is far too high for much to happen.

Andrew Bailey has got every call on inflation wrong since 2021. What troubles me is that we may not have seen the worst of what he has had to deliver as yet: the risk that he will bring the economy down remains very high. He did for Liz Truss with his ill-thought-through announcement of quantitative tightening in September 2022, the day before Kwasi Kwarteng's first and last fiscal statement. Will he do for Reeves and Starmer as well? It really cannot be ruled out.