

The Bank of England is crashing the UK economy

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The Bank of England is crashing the UK economy. And apparently, our politicians want to do nothing about that. We really are living in an economy that is out of control.

<https://www.youtube.com/watch?v=JxHbSmSkIzA?si=m8rp0FVjG9-mtDdO>

This is the audio version:

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This is the transcript:

The Bank of England is crashing the UK economy, and it's doing it deliberately. That's something that we need to explore.

As has been widely announced over the last day or two, the cost of UK government borrowing has, in the last few days, increased to the point where it is now over 5 per cent per annum, and this is the highest that it has supposedly been for 30 years. So, what is going on when very little has actually happened in the UK economy to apparently justify this change?

We have to look below the surface to find the reasons. And when we do so, the real reason why interest rates that the government is having to pay are rising is obvious.

The government, as we all know, is in deficit. There's nothing new about that. The UK government has been in deficit for the last three centuries or more. And therefore, let's not get surprised or upset about the fact that it's running a deficit this year, because it needs to, to create the money that a growing economy requires.

But there's something else that's going on as well in the background, and that is that the Bank of England has been quietly, and almost unnoticed by most people, pursuing a policy called quantitative tightening. Now, quantitative tightening is an absurd process of selling back to the financial markets the bonds that were supposedly acquired by the Bank of England from those financial markets during the financial crisis of 2008 and during the financial crisis surrounding COVID in 2020.

At that time, in reality, the government borrowed straight from the Bank of England. Let's cut the crap on this issue. That's what actually happened. The Bank of England created new money, and it provided it to the government so that it could carry on spending without interruption because that was essential to keep the UK economy going during both those periods.

Let's not beat about the bush, that worked. There were side issues like the upward redistribution of wealth, but let's leave those aside for the moment and just talk about that fact, that that is what really happened.

However, as we all know, this plain straightforward lending from the Bank of England to the government is something that neither of them wants to admit that they can do. They want to pretend that that is either not possible or illegal, neither of which is true, and they therefore went through the charade of quantitative easing.

Under the QE process, what happened was that the government issued bonds to supposedly fund its spending, and then the Bank of England bought those bonds. That was how the process of the Bank of England effectively lending money to the government was disguised. They went through this charade of an issue of bonds into the private sector, with the private sector knowing that almost instantly, the same value of bonds would be bought back by the Bank of England, and therefore, they were at no risk from buying them.

Now, the Bank of England insists it has to sell those bonds back into the private sector again. There is no economic or political justification for this. What happened in the past happened. And the Bank of England does not need to offload those bonds that it acquired at that time into the private sector to balance its books, the government's books, or anything else, bar one thing.

The Bank of England is obsessed with keeping interest rates in the UK above the inflation rate. Now that it has achieved this goal, and it has, because the inflation rate is around, or just above, two per cent at present, and the bank base rate is just below five per cent, and the rate of interest that the government is paying is just over five per

cent, they have achieved their goal of what are called real net positive interest rates. In other words, take the inflation rate off the interest rate, and we get a positive number, which at present is going to be around 3 per cent, which is almost unprecedented in current UK economic history. And the Bank of England wants to maintain that because that, as far as they're concerned, is great for bankers, and the Bank of England is run by bankers, for bankers.

So, to keep that interest rate high, they, first of all, set an interest rate which they try to impose upon the economy through the bank base rate system at too high a level.

And secondly, they reinforce that by selling those bonds that they bought during the quantitative easing process through this process called quantitative tightening.

In the current year, they're going to sell over £100 billion worth of bonds in this way.

The proceeds will not be used to fund government spending.

That money will be sucked out of the private sector economy, though. And because this will increase the total value of bonds that will be issued overall by the government or its agent, the Bank of England, during the course of the current year to in excess of £250 billion, the pressure on the interest rate is upward because the market doesn't really want to acquire that many bonds unless they have incentive to do so. And the incentive is the high interest rate that they're going to get paid.

Worse, though, because that rate is going to be high, the price of the individual bonds that will be sold will be low. Bond prices and interest rates work as an inverse of each other. When interest rates are low, bond prices are high. When interest rates are high, bond prices are low. So what is actually happening is that not only is the Bank of England selling £100 billion worth of bonds to force interest rates up and to squeeze the private sector so that it has too little money to invest for other purposes, it is also actually making real losses for the government on these sales, which is completely absurd.

What's the net outcome of this? Well, it's that the private sector has less money to invest than it would do, because the Bank of England is demanding it. Therefore, there is downward pressure on growth, even though growth is what Labour wants.

What is happening to interest rates? They are higher than Labour would want because that keeps the government's cost of borrowing up, and if the government's cost of borrowing is kept up, there is less for Labour to spend on other things. And that makes their problem of having to balance the books - which we all know they don't need to do, but which they claim is necessary - much harder to achieve.

What is the consequence, therefore, of the Bank of England's policy? It is enormous pressure on Rachel Reeves to impose a policy of austerity.

And what happens when we have a policy of austerity? We have cuts in government spending.

What happens when we have cuts in government spending? We get less growth.

When we get less growth, we get less tax revenue. It, therefore, becomes harder for the government to balance its books.

So, what does it then do? It cuts government spending.

And what happens next? There's less tax revenue.

And what happens?

Look, you follow my gist by now. What the Bank of England is doing is quite deliberately putting the UK economy into a downward spiral as a consequence of its quantitative tightening programme.

So, the first thing that Rachel Reeves needs to do now, if she wants to end the crisis in UK government funding, and the cost of borrowing, is to quite simply tell the Bank of England, 'Stop selling bonds.' It is as simple and as straightforward as that, and she has the power to do it.

Under the terms of the Bank of England Act 1998, she can, at any time, overrule the policy of the Bank of England if she thinks it is in the national interest to do so. I think saving the UK economy from recession is in the UK's national interest. She should be stopping the Bank of England from making these sales of bonds, which are deliberately creating a lack of growth and a high interest rate policy in the UK, which is going to result in austerity. But she won't because she lives in fear of the Bank of England.

And there we have the UK economic problem in a nutshell. She either doesn't understand the powers she's got, or she's not willing to use them. And if she's not willing to use them, it is because she is living in fear of banks.

Once upon a time, people dominated the interests of UK politicians. Now, banks and the wealthy do. This economy is being run for the interests of banks, whatever the consequence for everyone else. And the consequences of this Bank of England approach are dire. We are going to see less spent on the NHS. We already know education has no real increase in spending available to it. We know that social care needs money, and it isn't going to get it. And on and on.

The Bank of England is crashing the UK economy. And apparently, our politicians want to do nothing about that. We really are living in an economy that is out of control.