

George Osborne's planned budget surplus requires some h...

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As I have long explained, if the government is to run a surplus within the economy somebody else has to borrow. That's basic double entry book-keeping at play at a national level. It's a fact that cannot be ignored or denied. What that also means is that if the government is to clear a big deficit somebody else has to borrow a lot more. This fact is reflected in the following chart from yesterday's [Office for Budget Responsibility forecasts](#):

The bottom, red line, is government borrowing. The grey area is the forecast. And the requirements for a government deficit are:

- 1) Households stick with much higher lending than they did from 2009 to 2013
- 2) The overseas sector borrows much more in the UK (which effectively requires a significant improvement in the balance of trade)
- 3) Business borrows heavily, which goes against a trend that has been persistent from at least 2001.

Unless those happen as a matter of fact George Osborne will not clear his deficit.

It's important to note that he has missed all his previous forecasts on deficit reduction and I have to say I think he will do so again. To illustrate the point, the apparently innocuous flat line on personal borrowing requires substantial increases in household debt, as this OBR forecast shows:

First, that implies a massive change of behaviour for which there is no evidence right now. Second, the resulting ratios imply dangerous levels of borrowing in the household economy that exceed pre-crash levels. The implications are obvious.

The assumed change in business behaviour is equally dramatic:

To get to required borrowing levels business investment will have to reach real levels substantially higher than anything seen in the UK for the last 35 years.

Someone is living in cloud cuckoo land if they think that this is going to happen.

And it's only in cloud cuckoo land that Osborne's budget will balance as a result because these assumptions are not just heroic, they are utterly implausible.