

## China is going to rock the boat

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I've said before, and I'll say it again (no doubt), that George Osborne's forecast that the UK is entering a period of stable growth is just nonsense. That's not just because of his own wild assumptions regarding massive increases in personal and corporate debt that are required to make his modelling work; it's also because his plan for a balanced budget was dependent upon the resumption of modest inflation, rising interest rates and the world at large buying many more goods from the UK.

And then along comes China. [It has now devalued](#) for the the third day in a row. Superficially that looks good for the UK: our imports from China will be cheaper. The reality is threefold.

First, this indicates massive problems in the Chinese economy, which has been fuelling world growth.

Second, it implies a willingness on China's part to externalise its problems: it is going to dump them on the world.

Third, in that case it is setting out to undercut wealth creation in the UK and the whole of the west. That's not driven by a dogmatic desire; it's just got itself in a mess and this is the way that it sees itself getting out of it.

But the consequences are enormous. First, our fragile recovery, dependent as it is on increased consumer borrowing (which will not happen so fast as prices fall) and, even more importantly, on a £60 billion a year forecast level of private sector business investment that will not happen if China is in meltdown and grabbing market share at the same time, is not going to happen.

Second, China is effectively exporting deflation on a massive scale. Far from rising interest rates and a return to inflation we are at risk of seeing deflation and flat interest rates for a long time to come (unless we try negative ones).

Third, the UK housing bubble may well burst soon. All that money being committed to pay for London property that currently only exists on plan way well not be available by

the time completion day arrives: the Chinese influx of money may well dry up soon. And that will have massive impact on UK personal borrowing as a knock on effect.

In other words, all George Osborne's key economic assumptions may have just flown out of the window. And he has no plan B.

People's QE, anyone?