

## Mark Carney is going to make life harder for George Osb...

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As the [FT notes this morning](#):

*Mark Carney said the Bank of England would consider making it harder for lenders to extend credit, in order to prevent a recovery fuelled by historically low interest rates from becoming dangerously unbalanced.*

This is good news: credit bubbles precede crashes.

But there is more to it than that. Note this too, [from the Guardian](#):

*House prices in the south-east and east of England will jump by more than a fifth over the next five years, as growth ripples out of London into the capital's hinterland, but will remain subdued in much of the rest of the UK, according to estate agency Savills.*

*Savills predicts that the average UK house price will rise by 5% next year, but then slip back to 2.5%-3% a year until 2020, as tighter mortgage criteria and rising interest rates hold back home buyers. Its figures suggest that the average UK home will go up in price from £205,000 today to around £240,000 in 2020.*

Then note this chart from the [Office for Budget Responsibility forecasts in July](#), relating to house price growth forecasts:

The forecast is for a steady increase in prices, rising to 6%, fuelling an increase in demand for credit, of which domestic mortgages are by far the largest part when it comes to households, as the OBT admits.

That's important because the OBR forecast that George Osborne was going to balance his budget in 2020. This they showed in their chart of sectoral balances:

I explained the significance of this chart [in depth here](#), so I will not do so again. Suffice to say now that for the government to balance its books (the red line) others have to at least borrow as much as they have done before (households, the blue line) or borrow more (green and yellow lines for overseas factors and business respectively). If any of the corporate, household or overseas assumptions do not hold true then the government does not get to balance because every saver (the government in this period) requires there to be a borrower to balance the equation as a matter of simple double entry.

Now it looks as though households don't figure much in this equation, but to just keep households at the net non-savings position shown the OBR have to make this forecast on the growth of household borrowing:

Admittedly, as is clear, they slightly downgraded their forecast in July this year, largely because of house price concerns (they think unsecured debt, mainly relating to cars, will rise rapidly). But the forecast is still that household debt will exceed pre 2008 crash levels, and as the OBT admits, that happens in large part because of its house price increase forecasts.

Now suppose those house price increase do not happen, first because Mark Carney is going to restrict credit and second because estate agents do not foresee the demand or by some combination of the two. We should celebrate both of course: reduced debt reduces risk. Reduced house price increases makes housing more affordable. But it also means that it is likely that in net terms households will save. And if they do that George Osborne cannot balance his books.

And that is what has not been pointed out about Mark Carney's comments, yesterday.

And yet it is in many ways the most important political point to make about yesterday's Bank of England announcements: they're going to make life harder for George Osborne, and rightly so, but that should be explicitly acknowledged.