Funding the Future

If interest rates are going to be low for twenty years ...

Published: January 13, 2026, 4:13 pm

---

As the Guardian note this morning:

The era of low interest rates will last for at least another 20 years, despite gently rising official borrowing costs in the coming years, one of the Bank of England's leading policymakers has forecast.

In a valedictory interview before leaving Threadneedle Street's monetary policy committee (MPC) at the end of the month, Ian McCafferty said structural changes in the global economy meant UK borrowers and savers should get used to interest rates being "significantly" below the 5% average in the 10 years leading up to the financial crisis.

Let me be honest, I did not rate McCafferty as an MPC member, and I do not put much wight on many of his comments now. But it's not hard to agree with his forecast. This is the long term trend in interest rates as plotted by IPPR earlier this year:

Long-run analysis suggests that the average 'risk-free' interest rate has been falling for at least five and a half centuries
International real 'risk-free' interest rates, 1314 to 2017
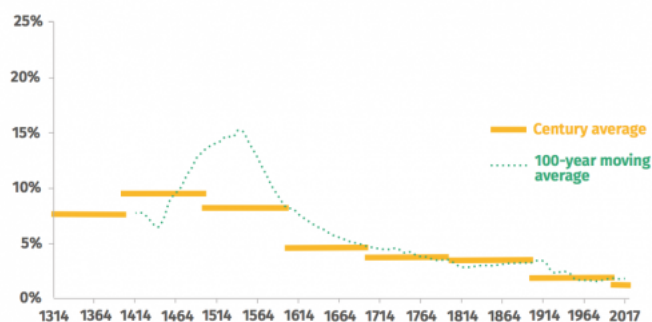
Source: Reproduced from Schmelzing 2017

Saying average bank base rates are going to be below 5% in the future looks like one of the most reliable forecasts anyone can make, based on the long term trend data.

Saying rates may not be far from zero may be almost as reliable now.

But McCafferty did not, of course, draw the obvious conclusion. The first is that in that case monetary policy has little or no roll to play in the economy.

And, second, that in that case giving any significant role in the management of the economy to a supposedly independent central bank makes no sense at all, because the only instrument they have to use is the interest rate and for all practical purposes it will have no impact on economic management in the foreseeable future.

Which also means fiscal rules embracing such thinking are also irrelevant, but that's another issue I may well get back to later.

For now, let me make the obvious point. Anyone wanting to manage the economy in the future is going to have to use fiscal measures, like it or not. That's the only economic reality we now know.

I suggest, as the saying goes, that we 'deal with it'.