

# Funding the Future

## We have no clue as to what is going to hit us economica...

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I believe these comments are coming from an informed source:

**Nick** @nicktolhurst · 1h  
+UPDATE+

UK Treasury officials have pivoted to planning a no deal combined with higher taxation strategy post January. Previous research based on a "free trade Brexit" now seen as "unrealistic" in a post COVID global environment.

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**Nick** @nicktolhurst · 1h  
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UK Govt "highly conscious" that "significant expenditure will have to be distributed" to the "instant losers" of COVID & Brexit. No or limited deal with EU now seen as most likely outcome but in a "totally changed landscape" than imagined just last year.

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**Nick** @nicktolhurst · 1h  
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Consensus now emerging in Whitehall, that Britain will "not likely" sign "significant" trade deals with either EU or US & many other target states anytime soon. So the post Brexit economic model may have to radically change from one foreseen previously.

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**Nick** @nicktolhurst · 1h  
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There's also an awareness, and increasing acceptance, in govt that the "Gove view" that Brexit must be shown to be a success from the start means that higher taxes and/or higher borrowing are now unavoidable in order to ensure Brexit is "not tainted" by economic disaster.

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Let's be clear, all the forecasts from the likes of the Office for Budget Responsibility and Bank of England, have been based on the idea that there would be a Brexit deal and that there would be trade deals as a consequence.

It now seems very likely that those assumptions are wrong. It now seems not only that a Brexit deal is very unlikely but that any trade deals are also unlikely as well, most especially with the USA, but also with many other countries as a result of the proposed

UK approach to the EU on Northern Ireland.

Those forecasts from both the Bank and OBR also assume no upturn in Covid 19, and that upturn is now happening, with clear consequences now planned that will slow economic recovery.

In those two circumstances, there is now no reason to think any of the existing forecasts are likely to represent anything like what will happen.

What would the reasonable assumptions be for new projections be in that case?

First, there will be significant UK domestic price rises as a result of tariffs post Brexit.

Second, even if the UK foregoes tariffs (and it is not clear how) then there will still be significant additional costs on importing that will be passed on to the consumer and that will deliver price increases. This will suppress UK economic growth and destabilise the economy in a way which no domestic counter-measure can address.

Third, there will be substantial impediments put in the way of many UK exports, many of which will have significant detrimental impacts in more vulnerable communities in the UK. This is bound to have an impact on the level of business activity in the UK, which is likely to fall as a result.

And fourth, there is as a result the likelihood that the UK downturn will be much more severe than anyone previously thought likely, and I already thought it was going to be pretty grim.

This results in the very real chance that government deficits will, as a result of the automatic spending multipliers linked to unemployment, be substantially bigger than previously expected.

Will that result in increased tax? Not logically, because that will only make things worse. If Gove does not understand this, that's especially worrying. But the idea that there will be no international willing to support the UK does suggest sterling issues might arise, and that QE will be playing a massive role in funding these deficits.

But what I can say for sure is that we have no clue as to what is going to hit us as yet, but whatever we assume it will probably be worse than we can imagine. There is no win, anywhere, in the current direction of government action (which I dare not call policy, because there is no evidence that it is).