

I very much doubt that the Chief Secretary to the Treas...

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I have posted this thread to [Twitter](#):

Simon Clarke MP, who is Chief Secretary to the Treasury claimed in several broadcast interviews this morning that increasing interest rates by 1% would increase the cost of government borrowing by £23bn a year. He's wrong. A quick thread...

According to the [ONS Public Sector Net Debt](#) on 31/12/21 was £2,340 billion pounds. So to come up with his figure it's pretty clear that Simon Clarke multiplied this by 1%. That's how complicated his fag pocket calculation was. But that number is wrong.

First, according to the [Debt Management Office of HM Treasury](#) at least 33% of all UK government debt is owned by the Bank of England on behalf of HM Treasury - so the government owes this money to itself. That cancels one-third of the debt and so the interest cost.

Second, UK debt is issued with fixed interest rates. The only amount of debt with varying rates outside the Bank of England and National Savings and Investments, both of whom operate bank deposit accounts, are inflation-linked bonds. But the rate on those varies with inflation, and not interest rates.

The average repayment period over which the interest of government debt is fixed is, again according to the HM Treasury Debt Management Office, near enough 15 years.

In other words, an interest rate change now would on average take 15 years to have an impact on the cost of government borrowing as rates are fixed. That covers all the national debt excluding National Savings and Investments and Bank of England deposit accounts that they hold for UK clearing banks.

Allowing for the fact that one-third of the national debt is owned by the Bank of England that's about a net £1,200 billion (or thereabouts) where an interest rate change will

make almost no difference to government spending for a long time to come.

We're left then with changes of interest due on NS&I and on accounts held with the Bank of England. Together these come to about £1,100 billion. So at a push you could claim this will cost £11 billion in interest if the government allowed the interest rate in full to savers.

But even if they did, most of this would be paid to companies paying tax at 19% and savers maybe paying rates of tax higher than that. So, about £2 billion would be recovered in tax on this interest paid, at least.

In that case the maximum cost of a 1% increase in interest rates looks to be £9 billion.

Now, I don't know about you, but if I was an examiner looking for an answer to the question 'what would a 1% interest rate rise cost the government?' and the right answer was £9 and the answer given was £23 billion I'd say the student failed their exam.

The Chief Secretary told Kay Burley this morning that he thinks the prime minister does not lie. We all know he does. And I think Simon Clarke did not tell the truth about the cost of a change in interest rates on government finances this morning.