Funding the Future

Kwarteng is planning a raid on the central bank reserve…

Published: January 13, 2026, 2:08 am

The Financial Mail has reported that:

It is understood that the Treasury is weighing up a number of options to tap banks for cash. These include scrapping the interest which the Bank of England pays on some deposits held by lenders – mainly high street banks including Lloyds, NatWest and HSBC.

The amount of commercial bank reserves held at the Bank of England has soared in recent years because of its policy of quantitative easing – or electronic money printing. This involved the central bank buying government IOUs – known as gilts – from financial institutions and creating an equal amount of deposits held by commercial lenders at the Bank.

Initially this yielded little income for the banks as interest rates were at rock-bottom. But this year – as the Bank of England hiked base rates in an attempt to curb inflation – banks have enjoyed an interest rate bonanza on these deposits. Cash balances at the Bank of England currently earn the base rate of 2.25 per cent, but traders are betting that the official cost of borrowing will hit 5 per cent by early next year.

They added:

One idea under consideration is 'tiering' – where interest would no longer be paid on a set amount of cash balances.

If true, this is wholly appropriate, and something I have argued for over a long time. It is also much more useful than a windfall tax: taking 100% of the income away at source is bound to be better than that.

How much is involved? It could be up to £45 billion a year at current levels of central bank reserve account. That makes a real difference.

At long last, I have found something Kwarteng might do right.

But, of course, it was in the Mail, so let's not rely on it.