

Funding the Future

The good news this Christmas is that £1 trillion of th...

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It has been [some time](#) since I last presented an estimate of the national debt here. Yesterday afternoon, for reasons that were not even completely obvious to me (but which I now realise may have been [Covid fuelled](#)), I decided to revisit this issue, sensing that it was appropriate to do so.

As a consequence of my calculations, I would like to offer the UK a Christmas present. It is a reduction in the UK's national debt of £1,023 billion, or just over £1 trillion.

To put this in proportion, that is 38.3 per cent of the total sum that the UK government claims that it knows, which cannot be due to anyone or is miscalculated, and which cannot, therefore, be considered to be debt.

As I have long suggested on this blog, working out just what makes up the UK national debt demands that a person have a perverse [knowledge of the spreadsheets published by that office each month](#) when they announce this figure. They themselves never provide a clear supporting calculation. Since, over the years, I have acquired that knowledge and know how to link together the necessary spreadsheets to achieve the total that they claim, let me summarise their figure for the supposed national debt, which is calculated as follows:

The UK's supposed national debt		£'m	£'m
British government bonds in issue		2,278,666	
Sterling Treasury Bills		83,418	
National Savings		228,970	
Tax instruments		145	
Other sterling debt and foreign currency debt		71,667	
Network Rail		<u>29,622</u>	
 Gross government debt		2692488	
 Add:	Local government debt	122,732	
	Less, local gov't debt owed to central government	<u>-106,544</u>	
		16,188	
 Debt including local authorities		2,708,676	
 Adjustment for public corporations debt and their pension funds		-28,456	
Offset of government liquid assets	Page 1/5	-240,401	
Liquid assets of public corporations		<u>-21,213</u>	

The figure of £2,671,364 million (or £2.67 trillion) is the sum that the Office for National Statistics says is the UK's national debt.

This, however, is not true. The following data comes from HM Treasury's Debt Management Office and [shows who owns UK government bonds \(or gilts\) in issue](#). I have used the latest data available. That for November is not available as yet.

Ownership of government bonds, latest Debt Management Office data:

	Value	£'m
Insurance companies and pension funds	24.60%	560,552
Overseas	28.20%	642,584
Bank of England	32.50%	740,566
Other financial and non-financial institutions	9.70%	221,031
Monetary financial institutions	4.80%	109,376
Households	0.20%	4,557
	100.00%	2,278,666

Source: <https://www.dmo.gov.uk/media/j0rbjyto/apr-jun-2023.pdf>

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You will know that I have not only shown percentages but have also attributed values based on the figure for total government bonds in issue in November 2023, as noted above. As is apparent, £740,566 million of bonds (£741 billion) of supposed bonds in issue, according to the Office for National Statistics, are owned by the UK Treasury via a Bank of England subsidiary company that the Treasury, rather than the Bank, controls. And, since you cannot be definition owe yourself money, to claim that these sums are outstanding as part of the national debt makes literally no sense at all. That sum had been cancelled. So, the debt has to be reduced by this sum.

Let me then suggest that there are some other adjustments to make:

The actual national debt		
Debt as claimed by the UK government		£'m 2,671,364
Less: Bonds that are owned by the Bank of England for HM Treasury		740,566
Less: Bank of England contribution because it is completely solvent		252,758
Less: Network Rail because its assets are not accounted for		29,622
		1,648,418
Overstatement of the UK national debt		1,022,946
Percentage overstatement		38.3%
GDP		£'m 2,650,000

Source: <https://obr.uk/download/public-finances-databank-november-2023/?tmstv=1703406993> Page 2/5

Debt as a percentage of GDP per official figures **100.8%**

Of these two further adjustments, one is easy to explain. Including the debt of Network Rail whilst ignoring the assets it owns is utterly illogical. You could call it spurious accounting if you like. So, I do not count it. Single-entry accounting of this sort, which the Office for National Statistics is proud to do, does it no credit at all.

Then, there is the Bank of England's supposed contribution to the national debt.

As is apparent, the Office for National Statistics claims that the Bank of England contributes over £250 billion to the U.K.'s national debt. There is only one logical response to this suggestion, which is to say that this is complete nonsense.

As a matter of fact, the Bank of England is a completely solvent company. That means it is not in net debt to anyone. What is more, there is no debt on its balance sheet that looks even vaguely like the figure that the Office for National Statistics claims is its contribution to the national debt. That is unsurprising. The ONS have fabricated this number.

The figure is made up of two components, in essence, although the way in which they publish the data does not make any of this clear. One part is the loss that the ONS claims could arise to the Bank of England if it holds the gilts that it bought under the QE programme from now until their maturity. That loss arose because those gilts were notionally bought by it from more than their face value. That is undoubtedly true. There are, however, good reasons for dismissing this as part of the national debt.

Firstly, those gilts are effectively owned by the Treasury and not by the Bank of England. That is because in exchanges of letters between the two, the fact that the Bank acts as a mere nominee for the Treasury in these transactions is made clear. So, this debt, if there was one, could not belong to the Bank of England. To claim it does is just factually wrong.

Second, because the gilts acquired were actually bought by the Treasury that issued them they have, effectively, been cancelled. The idea that they can be held until maturity is, therefore, fanciful. If there was a loss on acquisition it has already happened, but there can be no debt owing as a result. After all, who would it be payable to? At best the Treasury would be paying itself, so we are back into fantasy accounting, again.

The reality is that the Treasury suffered a loss when undertaking QE. That is what should be accounted for. But what never happened was that a debt was created: that was impossible given the agreements in place, which the ONS is ignoring.

The other reason why the National statistics claim that the Bank of England contributes to debt is that it says that whilst it can take all potential sums owing by the government into account when working out this sum at their maximum possible amount, it cannot recognise any sum owing to the government as an asset if it is payable more than one

year after the date when the national debt is calculated. As a matter of fact, UK commercial banks still owe the Bank of England around £100 billion in respect of loans given to them prior to and during the Covid crisis. In its wisdom, the Office for National Statistics has decided that it cannot recognise these sums as owing to the Bank of England in the national debt calculation.

As a result of these two absurd, and wholly false, claims the ONS claims that the Bank of England contributes to the national debt, which can only be true if facts regarding the relationship between the Bank and the Treasury are ignored and if the Office National Statistics has decided that all our commercial banks are going to go bust, in which case, we have a much bigger problem to worry about.

In summary, there is no Bank of England contribution to the National debt. The figure used can be described as make-believe accounting.

Now let me deal with the issue that will be raised in response, which is that in lieu of the noted balances, the sums supposedly owing by the Bank of England to the UK's commercial banks on their central bank reserve accounts should be taken into account.

Let me, first of all, make clear that these amounts are taken into consideration when I say that the Bank of England is completely solvent. In other words, allowing for them, the Bank does at present make no contribution to the national debt.

Then let me add another point. That is that these sums cannot be debt. A thought experiment proves that. If every UK commercial bank and financial institution that has a central bank reserve account simultaneously asked the Bank of England to make payment to them of the money owing on their central bank reserve account then, first of all, the Bank of England could always make payment of it, because it would simply create the additional currency required to ensure that payment could be settled, and then the banks and financial institutions in question would then be required to deposit those sums back in their central bank reserve accounts, therefore, reinstating them at the value that they had before the repayment took place. That is because the payment would be of base money and that can only exist in those accounts, and nowhere else in the economy.

It is, therefore, impossible to describe the central bank reserve account balances as a debt, because they aren't debt: they are money put into circulation by the government for use in the banking and finance system to ensure that it has the liquidity that is necessary to operate in the interest of the overall UK economy.

What I would suggest is that the Office for National Statistics knows this. They do not want to recognise the existence of central bank reserve accounts because they know that, technically, it is impossible to describe them as debt. As a result, they pretend that they do not exist, when they do, and instead claims that gilts are in existence when they are not. Yet again, this is make-believe accounting.<

Adjust for these items, and as you will see, just over £1 trillion of debt, representing £1,023 billion, or £1,022,946 million of the supposed UK national debt simply does not exist. It is either not owing to anyone, or it cannot be paid to them because it represents base money. However, and despite this, we are told that the UK has debt almost equivalent to its GDP, when in practice it has supposed debt that is no more than 61% of GDP. What is more, those people who own that actual debt really are very keen to maintain their ownership because it is a valuable asset that they wish to have in their savings portfolios.

If politicians understood this then three things would follow.

First, there would be no need for austerity.

Second, we could release funds for the necessary investment that is essential if we had to deal with the social problems in the UK and to tackle the problems that the climate transition creates.

Third, we could manage the economy without having to resort to lies, which would totally transform the relationship between the people of this country and their elected politicians.

This, then, is my Christmas present. I offer a simple reworking of the calculation of the national debt based on truth rather than lies, which shows that we have no problem to worry about.

Peace on earth, I say.

Please note that I wrote this whilst suffering from Covid. Please forgive any typos. I will add more references soon.