

## Is Farage right on the central bank reserve accounts?

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The Institute for Fiscal Studies, [in its commentary](#) on the so-called Reform Party manifesto for this election, says of that party's plan to save £35 billion by cutting the payment of interest on central bank reserve accounts:

*The cost-saving measures would save less than set out. There is a respectable argument for changing the extent to which the Bank of England pays interest to commercial banks, and indeed some other central banks don't pay interest on all the reserves they hold. But whether a good idea or not, it would raise a lot less than £35 billion per year.*

I note the phrase:

*There is a respectable argument for changing the extent to which the Bank of England pays interest to commercial banks.*

It is an argument [that I have made here](#), often. It is welcome that the issue is now out in the open, on the national agenda, even if it is a great shame that it took Reform to put it there.

Would it raise £35 billion? Let me split that into two parts.

The first is, will it? The answer is no. That's because I am persuaded that maybe one-quarter of the reserves might need interest paid on them to support monetary policy. That means roughly £9 billion must be paid. Then the rest, or £26 billion, will have tax paid at 28% on them, or roughly £7 billion. That tax will not be paid if the interest is not. So, the net saving might be around £19 billion, which is a better estimate than I suggest just about anyone else is coming up with.

The second is whether the savings should be £19 billion. The answer is that, of course, it should not be. Bank base interest rates should be much lower than 5.25%, meaning that the interest cost should be nothing like £35 billion.

This glaringly obvious point seems to have been missed by almost everyone. But, of

course if interest rates were cut - as is essential - the cost to government of its whole debt would fall by much more than £19 billion.

Why did no one talk about that, I wonder? What is this taboo that debate on interest rates is not for discussion in this election all about? It is deeply dangerous and an abandonment of democratic control of the economy that it is not.