

Rachael Reeves could reframe the country's finances an...

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Rachael Reeves made the inevitable claim, yesterday, that she had inherited the worst financial position that any new Chancellor has faced since 1945.

Her claim [was that she had discovered this over the weekend](#), having made enquiry of Treasury officials. She has, apparently, asked them to document just how bad things are. My suggestion to her is that we did not need the hyperbole: if you have her view of the world then there is literally no one who would disagree with her on this issue, and what she said is not news.

The real question is, is she right? Are we actually in the worst financial position that any new Chancellor has faced? I am not convinced. Nor am I persuaded the Treasury officials, using Treasury data, interpreted with a conventional mindset, will help her greatly to understand the true situation that we are in.

Let me offer some basic facts. According [to the Office for Budget Responsibility](#), gross domestic product (GDP) will be about £2,827 billion this year, although we know about 10% of that is completely made up as it is the notional rents paid by owner-occupiers of properties in the UK on the right to live in their own homes, and these rents are, of course, never paid. Real income is, therefore, about £2,540 billion.

The national debt is expected to be £2,855 billion by the end of this year. This is, again, made up. [Around £728 billion](#) of this figure is at present made up of the value of government bonds owned by the Bank of England, none of which need to be sold, and all of which could be held to redemption, at which point they would cease to exist. This debt simply does not exist as a consequence. The actual national debt is, therefore, a little over £2,100 billion as a consequence.

Another £230 billion of this supposed debt is also National Savings, and no one is seeking repayment of that.

In fact, no one is seeking repayment of any of this debt, which has an average maturity of approximately 14 years hence. There is, then, no problem with this particular issue.

Nor is there a problem with debt servicing. The cost of this is now tumbling because inflation has fallen, and therefore, the cost of the UK's index-linked bonds has decreased dramatically. The exceptional costs of the last couple of years have been entirely down this issue, and there is no sign that it is going to recur at present. What is more, none of this excess interest is owed on average for more than 15 years because the average redemption period for index-linked bonds is a little longer than that for the portfolio as a whole, and the recently accrued excess costs are only paid on redemption.

In addition, as I have long noted, the cost of the central bank reserve accounts could be dramatically reduced by tiering the rates of interest paid on them. It is possible that up to £20 billion a year, at least, could be saved in this way.

So, are the national finances really in such a terrible state? The answer is, glaringly obviously, that they are not. Even if GDP is stated net of made-up numbers, and only actual bond debt is taken into account, the debt-to-GDP ratio in the UK is not more than 75%. Compare it with conventional GDP and it is well under 70%. This is not an issue of concern.

Further, debt servicing costs are under control and could be even better controlled. There is, then, a considerable margin for action by the Chancellor implicit in those figures.

And there is no repayment pressure. Cancel the Bank of England's quantitative tightening (QT) policy, as should happen, and markets will actually be looking to push interest rates on gilts down still further, as would be desirable.

Stack all this up and present these facts (which they are) as an explanation of her thought processes, and Rachel Reeves could suggest that simply by revolutionising Treasury thinking, she has taken control of an organisation that thought itself out of control and demonstrated to it that, firstly, it is not, and secondly, that she is in charge now and will view the world through her own lens.

And for those thinking she cannot impose her will on things like QT, since the Treasury is underwriting the massive losses that represent straightforward gifts of value to the private sector on this programme, she most certainly can.

That would be the radical response to the financial state we're in. All of it would simply require a statement of the facts as they actually are. That would really not be difficult.

In summary, she should talk about real GDP.

Then she should talk about the real national debt, net of the part the government owns.

And she should end the QT programme whilst making clear that National Savings, and maybe bank notes as well (another £80 billion) do not need to be included in national

debt figures.

And then, she should talk about managing actual interest costs and when they are payable.

In that case, you would have a Chancellor in charge of the narrative and not being run by it.

If that was done, then it would be clear that debt is not the issue of concern and that the Treasury is instead free to fund the programmes the country needs, not least by boosting the use of National Savings.

Unfortunately, I can't see any of this being mentioned in the report Treasury officials will give to the Chancellor. As a result, I fear this opportunity will be lost. But I thought I should mention that it exists, because it does.