Funding the Future

Rachel Reeves’ figures in the Spring Statement don‘...

Published: January 13, 2026, 3:40 am

Rachel Reeves’ Spring Statement either doesn’t add up, or it reveals a deeply dangerous economic policy, and it may do both.

This is a long post and video - but stick with it. This one might be really important.

https://www.youtube.com/watch?v=kdtKbjtIp4s?si=qupmsjR1pnt1RPjQ

This is the audio version:

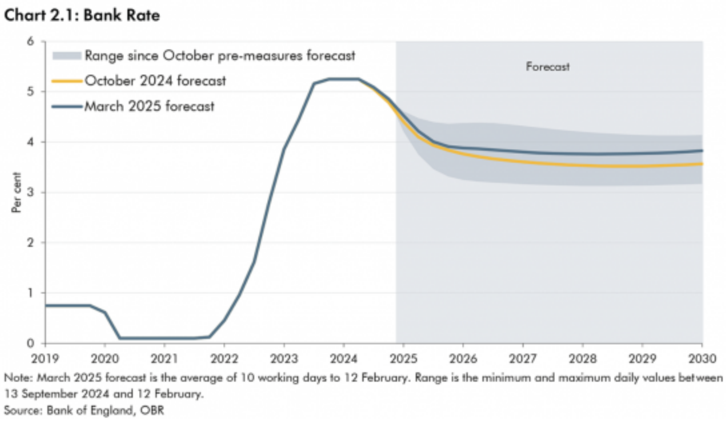
https://www.podbean.com/player-v2/?i=gxt3g-18625bb-pb&from=pb6admin&share=1&download=1&rtl=0&fonts=Arial&skin=f6f6f6&font-color=&logo_link=episode_page&btn-skin=c73a3a

This is the transcript:

Rachel Reeves isn't telling us the truth, the whole truth, and nothing but the truth about her Spring Statement and the forecasts that have been made by the Office for Budget Responsibility in particular, I've been preparing accounts for nearly 50 years and financial forecast for over 40 years and have the hair to show for it. And as a consequence, when I read a forecast, I have an innate feeling of whether the figures really add up. And the more I looked at yesterday's Office for Budget Responsibility report, the more I felt that there is something horribly wrong in this forecast, and it all comes down to what they're saying about interest rates.

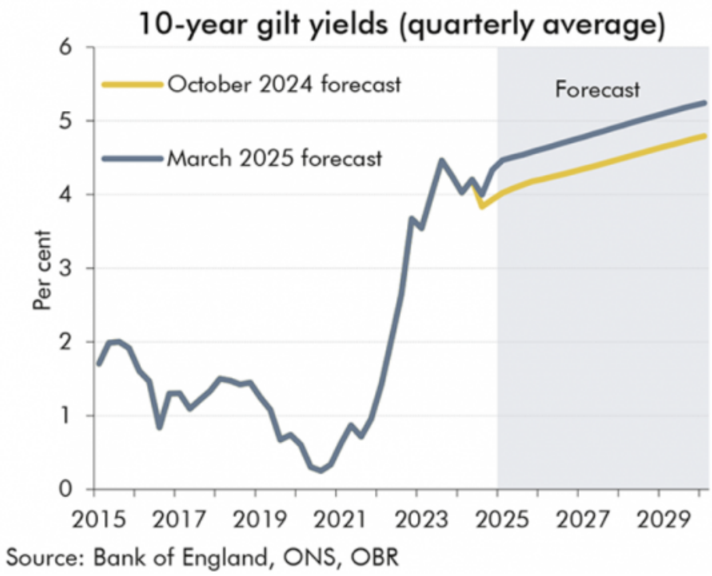
So I want to run you through the data, meaning that this video is going to be a bit more techie than average, but bear with me because this is worth noticing because the consequences of what I think is going on are really significant for the way in which the UK economy is going to be managed over the next four or five years.

Let's start with the first chart that is important here, which is the Office for Budget Responsibility’s forecast of where the Bank of England's base rate is going over the next four to five years, and this is it straight out of their report, published yesterday.



As you'll see, they are forecasting that the Bank of England's base rate is basically going to fall to 4% sometime later this year, and then flat line from then on until 2030. There will be no further cuts, therefore. That is the figure that they're forecasting that the Bank of England suggests is the appropriate rate for the cost of base borrowing inside the UK economy.

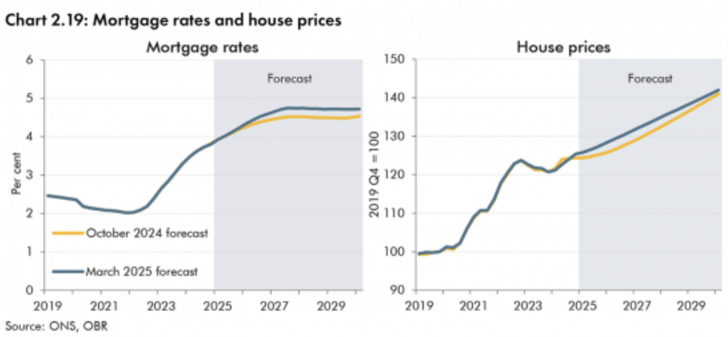
But we then move straight on to this second chart, and that shows the Office for Budget Responsibility’s forecast for the cost of government borrowing over this same period.



And the grey bit that is highlighted is the forecast zone, and the white bit is what has already happened, and as you will see over this period, they have forecast that the cost of government borrowing is going to rise significantly. In fact, right now it is, near enough, 4% on average over all forms of government borrowing, but they're suggesting that the figure might rise to well over 5% over this period, so above the base rate.

The cost of government borrowing is going to rise. And this is quite contrary to the usual pattern of correlation between the base rate, particularly when it's at this sort of level that we've got at the moment, and the cost of government borrowing. They should be broadly equal, but they're not. The base rate is flatlining. The cost of government borrowing is going to increase significantly.

So, I then went and thought, well, what other borrowing cost is most significant in the economy? And the next chart is all about mortgage rates, because obviously that is how most of the interest cost within UK society is transmitted to the people who are going to pay it - that is those people who actually are borrowing to buy their homes, and this is the forecast that the Office for Budget Responsibility have for mortgage interest rates.



Again, this is the left-hand of the two charts here. The right hand one is interesting, and I'll get to it in a moment, but the left hand one is the mortgage interest rate cost, and you will see that just as is the case with government borrowing costs, they are forecasting that mortgage interest rates are going to rise over the next five years or so from an average rate of just under 4% at present, they are forecasting that mortgage interest rates will rise to just under 5% by 2030. In other words, another increase of around 1%, and yet the bank base rate is going to fall to 4% and stay there.

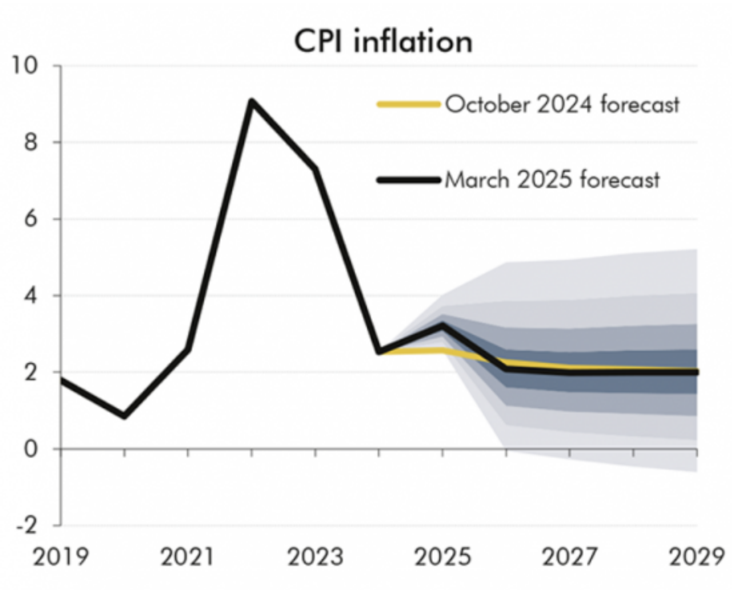
So, once more, we have this dichotomy. The Bank of England is going to set a base rate, and yet mortgage interest rates are, according to the Office for Budget Responsibility, going to rise.

And now let's just flip to the right hand of those two charts because it is interesting in this context, and that shows house prices and what the Office for Budget Responsibility is suggesting is that even though the cost of borrowing is going to increase significantly over this period - after all, an increase from 4% to 5% is actually a 25% price rise in real terms and therefore that cost is going to go up much faster than almost anything else in the economy over the next five years - there is going to be a dramatic increase in house prices.

They are using an index here, which starts with 2019 prices, which they have given the value of 100. They're now suggesting that house prices are at an average of about 125 i.e. they've gone up by about 25% since 2019, and they're suggesting that they're going to go up by well over 15 further percent over the next five years despite this increase in borrowing cost.

Just imagine what that message is going to be like to a young person who is now trying to buy their house. The price is going go up and the price of borrowing to buy the inflated purchase priced house that they're looking to acquire is also going to go up at the same time.

Let's look at this next chart because this is the inflation forecast.

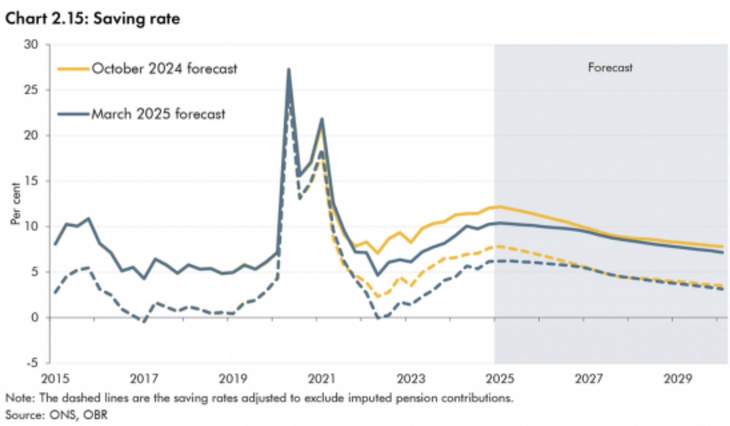


Now the critical line here is the yellow one, and it's a little hard to pick out in the middle of the range of grayness that the Office for Budget Responsibility is offering. But, basically what they are saying is that from now until 2029, the inflation rate is going to fall overall from around nearly 3% now, which is actually 2.8% in reality at this moment, to, near enough, 2% from 2026 to 2029 when nothing is going to change again.

Let me draw some comparisons. This means that the Bank of England base rate at 4% is going to be 2% above the inflation rate. That is a real interest rate of 2%, which is exceptionally high inside the UK economy and will crush growth because when money is that expensive, in real terms to businesses to borrow, they don't borrow as much of it, simply and straightforwardly, and yet - and I won't bother to put the chart up - according to Rachel Reeves, businesses are going to invest very heavily over this period. And frankly, I don't believe it when real costs of money are that high and mortgage rates are going to be even higher.

Remember, a 3% real mortgage cost, - when we have lived for a long period of time until very recently with negative real costs of borrowing to buy houses – means people who are now borrowing to acquire their homes are going to be punished over the next five years in a way that is almost unimaginable as a consequence of these changes in interest rate that are being forecast by the Office for Budget Responsibility.

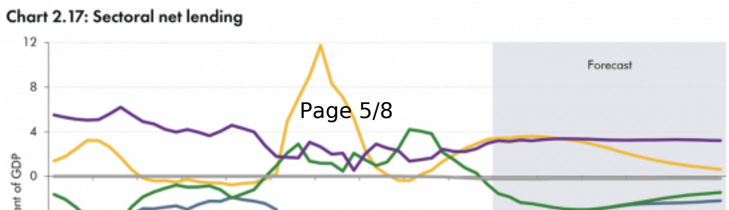
But there are more perversities coming out of this forecast. Let me move to the next chart, which is the savings rate.



Now the savings rate shows the overall part of income of people in the UK that is saved during the course of a period. And the critical figure here is actually the top blue line of the forecast. Ignore the yellow, look at the blue, although it's pretty much similar to the yellow, frankly, during most of the forecast period. But what you will note is that the savings rate is going to fall between now - when it is at around 10% of total income - to a figure that is, well, more like seven or 8% over this period. We won't get too worried about the detail, and I haven't actually managed to note the precise number before making this video. But the critical point is that despite these exceptional real interest rates, which are apparently going to be on offer, or at least are going to be charged to mortgage borrowers, people aren't going to save more.

That makes no sense because real interest rates should increase the savings rate, and yet UK households are apparently not going to do that. So, there is a complete paradox in here. This is illogical.

The previous charts do not and should not lead to the conclusion in this chart unless we go to the final chart that I want to show you, which is this one, and this is probably the most complicated chart in technical terms in the Office for Budget Responsibility report, but let me explain what it is.



It is called the sectoral net lending chart, and it is based upon a simple statement of fact, which is that for every lender, there must be a borrower. This is, of course, what double entry requires, and this is, of course, what the realities of money lending require.

Whenever you borrow from a bank, they lend to you; you borrow from them.

If you borrow from somebody else, they lend to you; you borrow from them.

This is what double entry in reality looks like. And this chart shows how the overall performance of lending and borrowing within the UK economy should progress over the next five years.

The lines that are below the middle zero line plus the lines above the middle zero line should always add up to zero because that is what double entry requires, and what you will see is some very strange movement here.

First of all, let's just look at that yellow line because that's the household saving rate, which actually is shown to be falling even faster here than it was in the previous chart. I can't explain why this chart is suggesting a different level of saving to the previous one. That's for the Office for Budget Responsibility to explain, but the descent in the household saving rate shown on this chart is actually more stark.

People, in other words, are going to be spending their savings to be able to afford to live. So much for Rachel Reeves' promise that we are all going to be feeling better off. Actually, that's impossible. We will have to use our savings to maintain our standards of living. Rachel Reeves is not telling you the truth about what's going to happen over the next five years, according to this chart.

And as always,s according to the charts produced by the Office for Budget Responsibility, the government is going to borrow less over this period, so that bottom blue line is heading up towards the zero line because that shows the government is going to balance its books.

We know that's a work of fantasy.

They know that's a work of fantasy.

It is not going to happen, but that's what they say to make this equation balance.

They then say that business is going to borrow heavily over the next five years. And the reason why business is going to borrow heavily is that they apparently are going to put all this money into investment to create the growth that Rachel Reeves has promised you as the basis of our future prosperity. But they're not going to do that because there isn't the profitability in the UK economy to deliver that outcome. I promise you that is not going to happen. But that is what they say is going to happen.

But the most interesting line here is the purple one. The purple one is the rest of the world. That means literally everybody who saves in pounds sterling, but isn't resident here.

There are lots of people who do that. People who use the City of London to deposit funds, people who are making a trade surplus with us who do not want to be repaid into their local currency, whatever it might be.

There's a lot of Chinese funds here. There's a lot of people who buy property in the UK. They leave their money in the UK economy. What they've earned stays here, and that is forecast, if anything, to increase and become the biggest source of savings by a long way inside the UK economy over the next five years.

Now that's weird because okay - I accept that did happen before 2019. You can see that on this same chart - but the forecast, it means that basically we are going to be dependent upon the favour of foreigners. I've got nothing against foreigners. Let me clear, but this is not a stable economic policy, but it does explain all the previous charts.

The government looks like it is hoping that there will be a high-interest-rate policy in the UK, and there are two reasons for that.

If there's a high-interest-rate policy in the UK, foreigners will bring their money here, and the government will need to run a smaller deficit as a consequence, simply because that is how the equation has to balance. But UK households will be dissaving because they won't be able to afford to make ends meet because they'll be paying such high interest costs and, therefore, we'll be paying money to foreigners at high interest rates to induce them to bring the money here and we - that is the people in the UK who borrow money in particular, those with mortgages or those who pay rents to subsidise the mortgage costs of their landlords - will be being penalised so that we can pay high interest rates to the people who want to deposit their money in sterling from outside the UK.

We are literally going to be bankrupting the poorest people in the UK economy to make rich foreigners wealthier.

We're going to see money leaving the UK economy to make these people richer as a consequence of running a high-interest-rate economy well out of line with the rest of the world.

No wonder Rachel Reeves is so keen to keep the Bank of England and the City of London happy right now, because she sees them as the source of the funding that is going to keep the UK exchange rate in control as a clear indicator of what this really means.

This is not a viable economic policy.

It is not viable for the people of the UK.

It is not viable that we should be so dependent on hot money, which is effectively what that purple line is.

It's not viable that we should be paying so much interest out of the UK at a cost to the people of the UK.

It's not viable that we must run a high-interest-rate policy to maintain the value of the pound.

Nothing about this suggests that Rachel Reeves is in control of the economy. What it does suggest is the exact opposite. It suggests that she's panicking, and the only way she can think of the economy balancing is by literally having to borrow from foreigners who are going to leave money in the UK because we're going to have such high interest charges.

That's not an economic policy. That's a way to bankrupt the UK, and she needs to change her plan or go because this is bad news for everyone in this country.