

Rachel Reeves is wrong about debt interest

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At the [Labour Party conference this morning](#), Rachel Reeves said:

“There is nothing progressive, nothing Labour, about government using one in every £10 of public money it spends on financing debt interest.”

She used this claim to justify “tough choices” and the suggestion that there is no money left. That argument is both misleading and totally unnecessary.

The reality is that of the supposed £110 billion debt interest bill for 2025-26, much is not as Reeves wants people to believe it is. In particular, the cost of interest to the government is not fixed, as it is for individuals. It is, in large part, a political choice, and Reeves has tools she could use to cut it.

Here are five things she could do:

* **Recognise that the government owns at least 23% of its own debt.** [Latest data](#) show that 23% of the government's debt is owned by the Bank of England, meaning that approximately one quarter of the payment to which Reeves referred is not a cost to the government at all. Some honesty on this issue would go a long way to enhancing her economic credibility.

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Acknowledge the truth about recycling. Reeves should acknowledge that a significant part of the interest the government pays comes back to it over time as tax receipts. The proportion is a little hard to estimate, and there may be delays, but when large parts of the interest paid eventually funds pensions or bank and corporate profits, this must be the case, with consequent multiplier effects following on. Quoting the gross figure without adjustment is a distortion.

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Stopping quantitative tightening (QT) is an option. The Bank of England is deliberately selling bonds into the market at a loss, with the aim of forcing up bond yields and so interest rates, in the process, inflating the cost of servicing government

debt. Reeves could instruct that QT end tomorrow, and the cost would fall.

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Tell the Bank of England to cut base rates. Interest rates are still being held at unnecessarily high levels, long after inflation, driven mainly by external shocks, has eased. Those high rates are now simply a subsidy to the wealthy and are themselves inflationary. Reeves could insist that the Bank align monetary policy with fiscal responsibility.

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Cut the interest on central bank reserve accounts (CBRAs). The Bank of England pays commercial banks base rate interest on the reserves created during QE, handing them billions of pounds in free income. This is corporate welfare, not sound economics. Reeves could change the rules and end it.

The conclusion is simple. When Reeves says there is “nothing progressive” about spending on debt interest, she implies she has no choice but to accept the bill as it stands. That is wrong.

She does have a choice. She could cut the bill by tens of billions without harming public services, without raising taxes on ordinary people, and without resorting to austerity.

If she refuses to use the tools available, it is not because there is no alternative. It is because she has chosen to prioritise the interests of the City of London and the banks over those of the NHS, schools, and care.

That is not progress. That is not what Labour should be about. And it is not good economics. But Reeves is choosing it. Why is that?