

Funding the Future

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The [Guardian](#) published this at 7.20 this morning:

Newsflash: UK government borrowing has hit its highest level since the Covid-19 pandemic in the first half of this tax year, eating into chancellor Rachel Reeves's headroom.

The Office for National Statistics has reported that the government has borrowed £99.8bn so far this financial year – which is £11.5bn more than in April-September 2024.

That's the second-highest April to September borrowing since monthly records began in 1993, after that of 2020.

The problem for Reeves is that this is £7.2bn more than the £92.6bn forecast by the Office for Budget Responsibility back in March. That shortfall creates pressure on the chancellor to raise taxes or cut spending to keep within her fiscal rules (to have debt falling in five years time).

Note the breathlessness, the air of panic and the sense of impending doom. I saw one email in my inbox this morning responding to this news, claiming that the UK government was about to be "repossessed" as a result of its supposed borrowing. And all of this is nonsense, of course.

There are three things to consider. For background, look at [my new glossary entry on bonds](#), and [my suggestion in a video this morning](#) that the last thing we need right now is a tax rise on anyone but the wealthy.

Then appreciate, firstly, that if the government "borrowed" a near record amount, it did no such thing. Financial institutions placed a near record amount on deposit with the government, lapping up all the bonds it had to offer in the process. There is no borrowing crisis in the UK. There is just a lot of saving going on as people are not spending, a fact which is confirmed by ONS data showing that the savings ratio is rising as people are worried about the future.

Secondly, there is more saving because the government is not taxing back all it spends, and for it to do so would make no sense, unless all the additional tax was to come from the wealthy, as I have argued this morning.

Thirdly, the real interest cost on bonds at present is about 1% over inflation. I would like inflation, and interest rates, to fall, but let's be clear that this means that the cost of bonds being issued is entirely manageable when, given their likely duration, a considerable part of the cost of their so-called redemption on maturity (when they will almost certainly in practice be rolled over into new bonds) will have been eroded by inflation, with minimal real funding cost when inflation is allowed for in the meantime.

So, what is the panic all about? There is no reason for any sort of panic at all.

But let's also address the claim of those who suggest the UK government is about to be "repossessed". This is just crass stupidity. Bonds are owned by banks that need them, pension funds and life assurance companies, whose business models depend on them, and foreign governments and banks that want to hold sterling, and this is the only safe way for them to do so. None of them has the slightest incentive to undermine the capacity of the UK government to issue or honour its debt, as they all want to own it.

Such talk is, then, utter drivel, unworthy of being published by anyone. But do expect it to arrive somewhere in the commentary today. Idiots are inclined to repeat nonsense, and a lot of nonsense is going to be said about birds today.