Funding the Future

Glossary entry: Borrower of last resort

Published: January 13, 2026, 12:18 pm

I promised a commentator here yesterday that I would explain the term 'borrower of last resort' by writing a new glossary entry on the issue. This is that glossary entry.

The term 'borrower of last resort' describes the role of the sovereign government as the destination for surplus savings when confidence in private borrowing and investment collapses.

In a monetary economy, money does not disappear when people become fearful. Instead, it seeks safety. When households and firms lose confidence, they cut spending, reduce risk, and increase savings. Bank lending slows, private investment stalls, and large pools of money look for a safe place to go.

At that point, the government becomes the borrower of last resort.

Because a currency-issuing government cannot default in its own currency, government debt is perceived as the safest financial asset in the economy. When private confidence fails, savings flow into government liabilities, most typically bonds or other deposits backed by the state. This is not a market failure. It is a stabilising response to uncertainty.

The government's role is to then accept and use those savings.

By increasing its borrowing and spending, the state absorbs excess private saving and recycles them back into the economy through wages, public services, income support, and investment. This prevents a collapse in demand and provides confidence that incomes and institutions will be maintained.

The Covid crisis illustrates this clearly. As private spending fell and precautionary savings surged, the UK government significantly expanded its deficit. In doing so, it did not "run out of money" or displace private activity. It provided the safe asset the private sector demanded and used the funds to sustain the economy, with the institutional support of the Bank of England.

Crucially, this role is both passive and active. Governments do not force savings to flow to them in crises; they receive those funds because no other borrower is trusted. Refusing to borrow in these conditions does not create confidence; it destroys it.

The borrower-of-last-resort function, therefore, explains why government deficits rise when fear rises, and why this is economically necessary. When confidence collapses elsewhere, the state is where money goes.

Vitally, those who argue that there is some sign of government weakness or mismanagement inherent in this process miss the whole point: by accepting this role, the government guarantees the wealth, stability, and durability of an economy. That is not an indication of weakness: it is a sign of a government's strength when facing economic adversity and its capacity to manage it.

Comments