

Big challenge to keep UK's debt down, Bailey warns MPs

The governor of the Bank of England said climate change and an ageing population were serious 'structural headwinds' to public finances

by Robert Miller, The Times, Thursday 30th January 2025

The governor of the Bank of England has told MPs he is “very supportive” of the government’s efforts to boost economic growth but warned that “very big decisions” will be needed to stop Britain’s public debt pile rising.

Andrew Bailey told members of the Commons Treasury select committee on Wednesday that climate change, an ageing population and an end to the “post-Cold War dividend” on defence spending were “very big structural headwinds” facing public finances that are already under pressure.

“If we had any one of those three at any one time, we would have a substantial issue on our hands,” he said in a hearing on financial stability. “Clearly very big decisions are going to have to be taken about it.” Bloomberg first reported the story.

Concerns over the sustainability of Britain’s debt levels, already close to 100% of GDP, prompted a sell-off in gilt markets this month, though it has since been reversed. Bailey’s warning was made a few hours after Rachel Reeves laid out plans to boost the UK’s sluggish growth rates.

Public finances would benefit from any sustained acceleration in the economy. The Office for Budget Responsibility, the UK government’s forecaster, warned last year that public debt would nearly triple to over 270% of GDP in 50 years without action to improve the country’s health and lift productivity growth. “It is important that we raise the growth rate in the economy. It’s important for all sorts of reasons, including financial stability,” Bailey said.

He also told MPs that that government proposals to ease limits on riskier mortgage lending could lead to more home repossessions and fail in one of its objectives to help first-time buyers.

Bailey said he was “very happy to have a very open public debate” about mortgage lending restrictions but added that this debate should take account of how the rules had helped to prevent a sharp rise in home loan defaults during recent market shocks.

“They have helped to avoid the creation of a large tail of mortgages which, when we have the inevitable cyclical downturn or shocks that hit the economy, turn out to be a real problem of the sort we have seen in the past,” he said. “So I think that has been beneficial.”

In a wide-ranging session, the governor also told MPs about plans to reduce the central bank’s vast reserves it created to buy government bonds in successive rounds of quantitative easing. Bailey said banks in Britain have told the monetary authority they would want to hold £400 billion to £500 billion with the Bank of England as it reduces the size of its balance sheet.

“We talk to the banks a lot about it, they give us numbers which are in the range of £400 billion to £500 billion – but we don’t precisely know and it can change over time,” Bailey said.

He added it was possible that reserves could fall to that level later this year, in line with earlier estimates.

In a speech last May, Bailey had said he expected what the Bank calls the “preferred minimum range of reserves” to be somewhere between £345 billion and £490 billion.