Is Britain Bust?

Research Note

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Britain is not heading towards bankruptcy. We are a wealthy nation whose long-term prosperity depends on restoring productivity growth and unlocking the strength of our private sector balance sheet.

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Executive Summary

Public debate about Britain's finances is dominated by UK government net debt, which rose from approximately £365 billion in 1997 to almost £3 trillion by the end of 2025, prompting frequent claims that the country is heading towards financial ruin.

But government borrowing viewed in isolation provides only a partial picture of national financial health. A proper assessment should consider the balance sheets of households, corporations and the wider economy as well as the public sector.

This research concludes that **Britain is not bust**. Despite government debt increasing significantly, debt-to-GDP is close to its long-term historical average and remains well below previous peaks experienced during major periods such as the aftermath of the Napoleonic and the Second World wars. More importantly, the UK's private sector remains exceptionally healthy. Household net assets exceed £10 trillion, while corporate balance sheets have strengthened materially over recent years through falling leverage and reduced pension liabilities. Together, these private sector resources substantially outweigh public sector indebtedness.

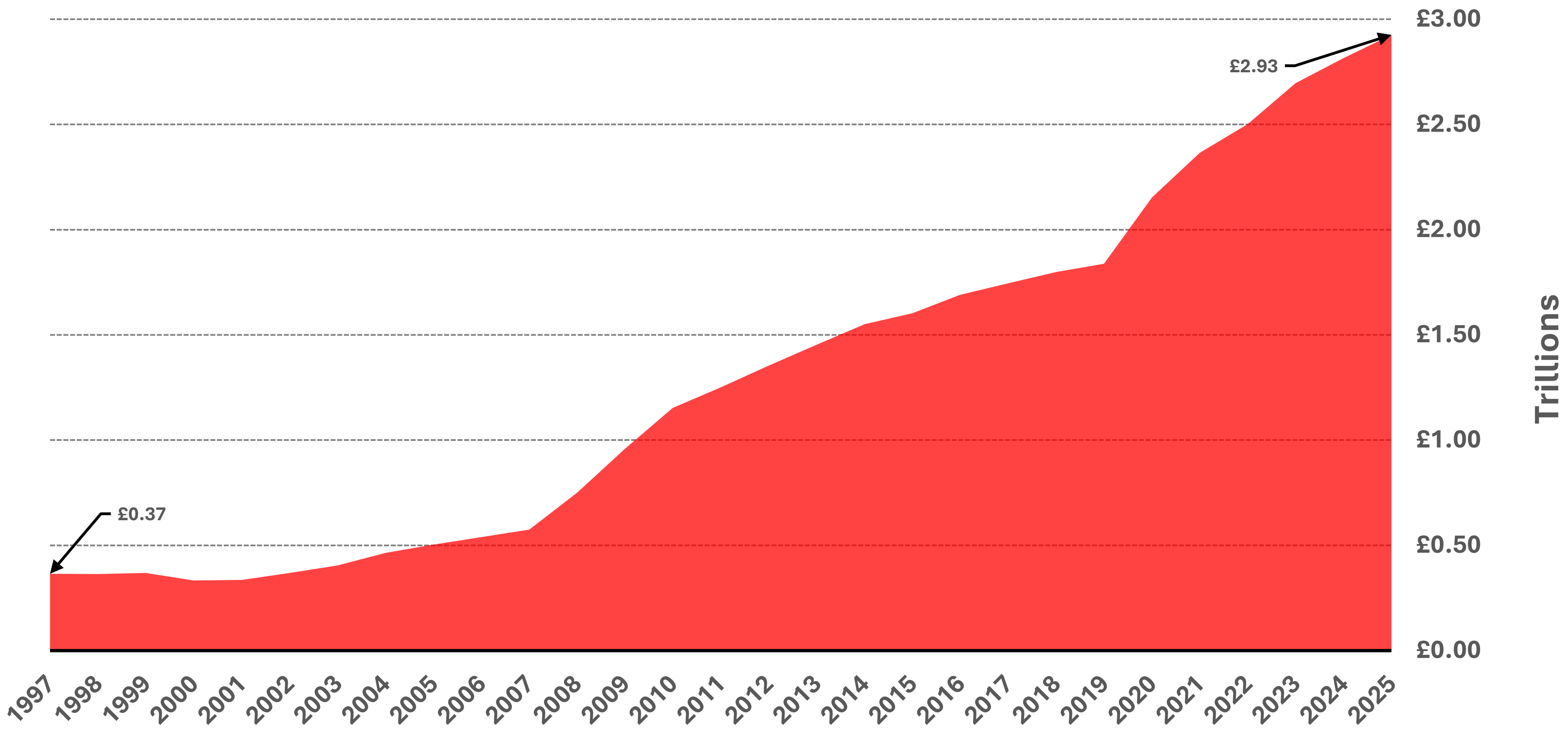
The country's principal economic challenge is not excessive debt but persistently weak productivity growth. Since the Global Financial Crisis, UK productivity growth has slowed dramatically compared with historical trends. Had pre-2008 productivity gains continued, the economy would today be much bigger, government debt relative to GDP materially lower, and tax revenues significantly higher. Weak productivity has imposed a far greater cost on national prosperity than headline borrowing figures suggest.

Britain faces a growth and productivity problem, not a solvency problem. Policies that encourage private sector investment, improve productivity and support long-term economic expansion would do more to strengthen the nation's financial position than focusing on reducing government debt.

Introduction

When Tony Blair led New Labour to victory in the 1997 general election, UK government net debt was £365 billion. By the end of 2025 this had increased by over 700% to £2.925 trillion, an eyewatering large figure equivalent to borrowing of roughly £42,000 for every man, woman and child in our country. Some claim this is unsustainable, and that the UK is facing financial ruin. Are they right?

Chart 1 – UK Government Net Debt (£Trillions)

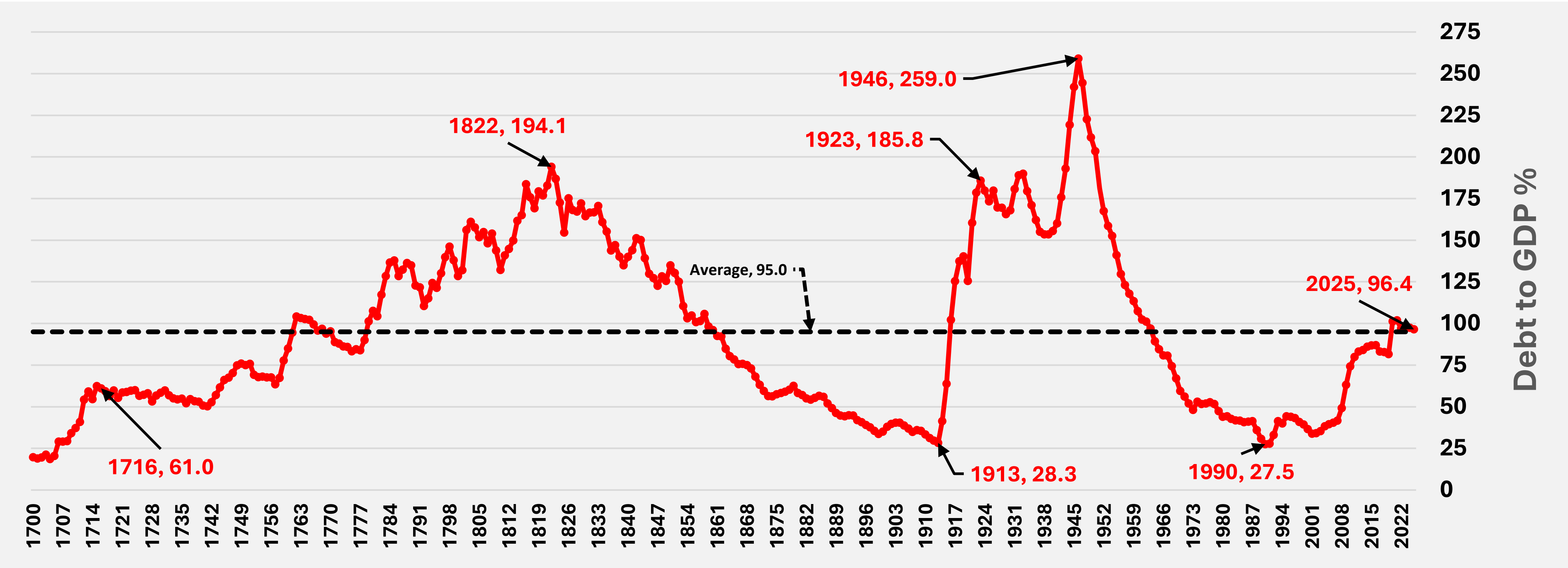


Source: ONS/Courtiers

Britain going bust has been a recurrent theme for as long as I can remember, and certainly since the 1976 sterling crisis when our then Chancellor, Denis Healy, negotiated a UK bail-out loan from the International Money Fund. The media often focuses on the monetary value of our borrowing, with sensational headlines using the type of data I included in my opening paragraph, but our country's fiscal position is more complicated than that, and the strength of our economy is based on a much wider criteria, including the financial balances of our private, as well as our public (government), sectors, and the income and spending of each of them.

The size of your income is just as important as the magnitude of your debt, and it is the relationship between the two that will generally determine whether your finances remain healthy. For a country, income is calculated as GDP (the total value of all the goods and services produced in a specific year). Thanks to the Bank of England's excellent data series, we can trace UK government debt and GDP right back to the reign of William III of Orange in 1700.

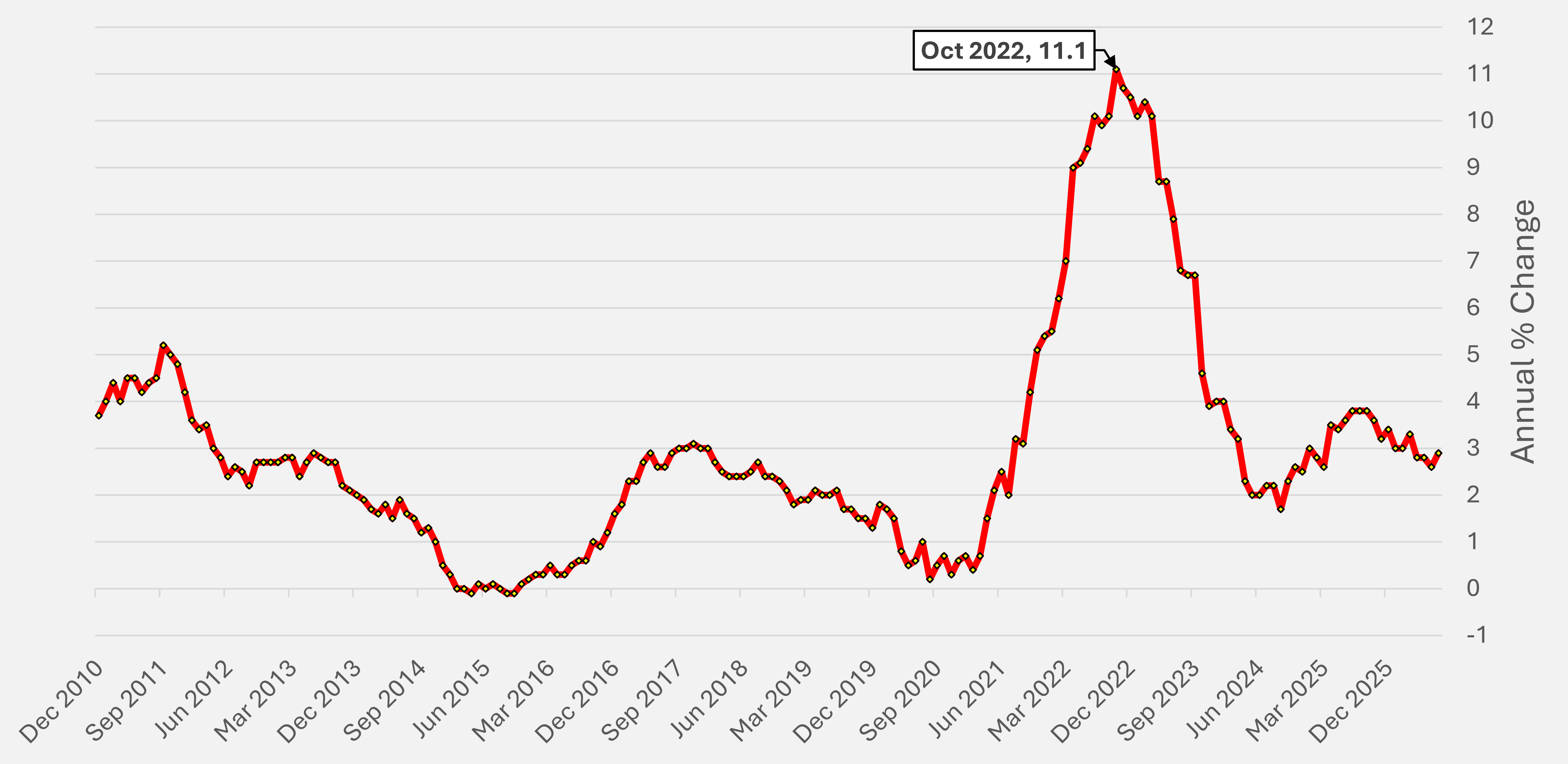
Chart 2 – UK Government Net Debt as % of GDP (from 1700)



Source: BoE, ONS & Courtiers

UK government debt to GDP stood at 96.4% at the end of 2025, a tad above its long-term average of 95%. The ratio rose steeply post the GFC (Global Financial Crisis of 2008), and again during the Covid pandemic of 2020 & 2021, when it hit a recent high of 101.82%, but it fell subsequently, mainly because inflation pushed up nominal GDP. This was a huge benefit to our government's net borrowing position because high inflation reduced the real value of the money it owed to bond (gilt) holders. US President Ronald Reagan once said, "Make no mistake about it, inflation is a tax and not by accident", he's right - governments frequently choose to let public spending run higher, at the expense of extra inflation, because its popular with voters in the short term and the inflation acts as a stealth tax that makes their fiscal policies look more credible than they are. But it's no free lunch!

Chart 3 – UK CPI Annual Inflation

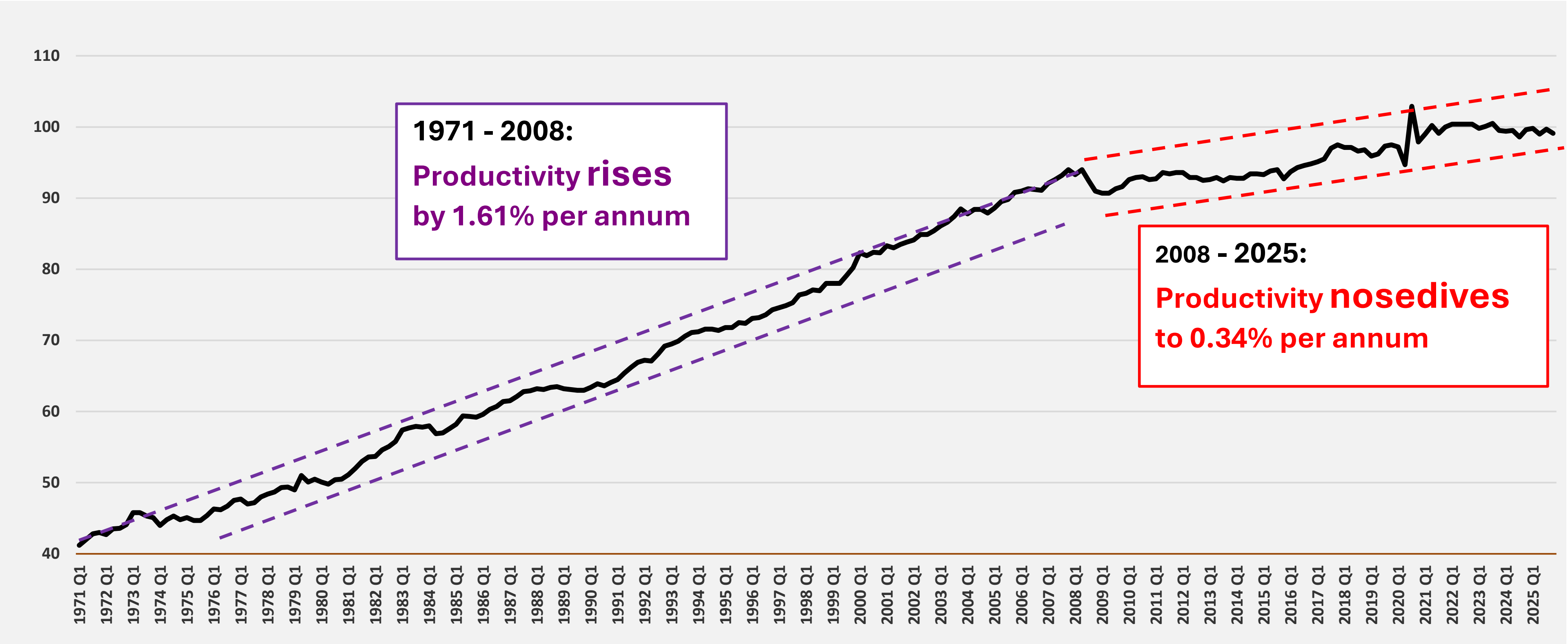


Source: ONS, Bloomberg & Courtiers

Running elevated levels of government spending at the expense of higher inflation comes at a cost, which is the transfer of more of our country's economic resources, especially labour and capital, to the state. This squeezes the private sector and generally impairs productivity improvements, stunting growth and often creating inflation. If we had maintained the growth in worker output per hour at the pre-GFC trend our economy today would be 25% bigger. That would alleviate many of our current problems.

Chart 4 – Trend in UK Productivity

Index Of UK Output Per Hour Worked



Source: ONS/Courtiers

Aside from boosting growth, higher productivity improves a country's credit rating because it generates more income. If the UK had maintained productivity growth at 1.61% p.a. post the 2008 GFC then our debt would now be just 77% of GDP, and that doesn't allow for the extra tax revenues that higher growth generates, further reducing government borrowing.

This all seems gloomy and consistent with the title of this research note, but if you've read thus far, then you've already covered the depressing stuff; from hereon it's all positive because the UK has extraordinary potential to thrive long into the future.

The Fallacy of UK Destitution

Let me put it right out there – the UK is a wealthy, innovative and productive nation that provides a relatively safe environment in which its citizens can thrive and prosper. Our capital resources are huge, but we get spooked by focusing only on government debt.

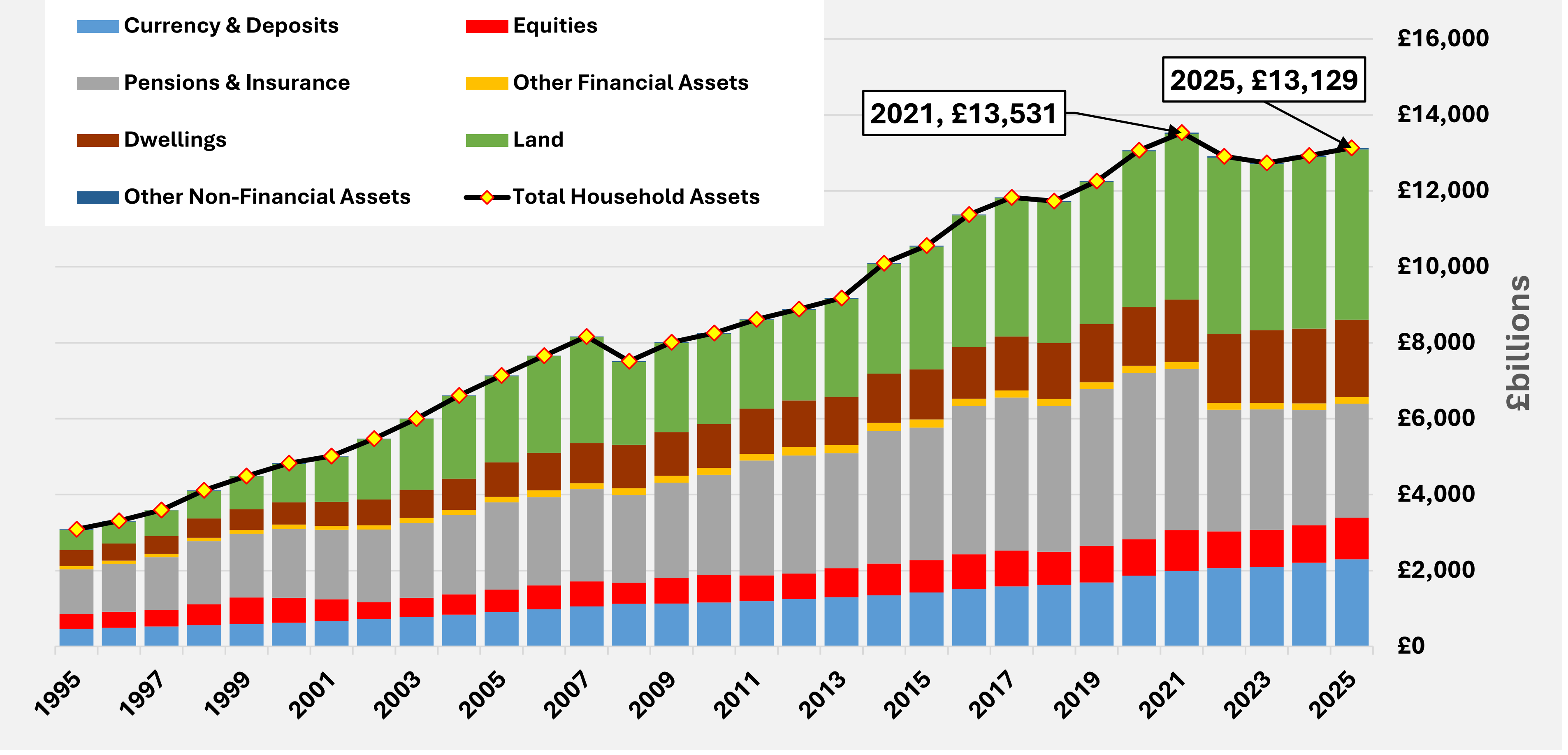
National finances are difficult to understand because a government can pay for what it consumes by creating money. Households cannot do that, at least not legally! Because of this complexity we often try to find a simple lens through which we can understand whether the UK is thriving or sinking. Commentators' favourite view of Britain's finances is government borrowing, which reached £2.93 trillion in 2025 (Chart 1). In isolation this looks horrendous but borrowing figures were never intended to be viewed in isolation, which is a bit like saying Joan Smith is better off than Peter Green because Joan has borrowings of just £100,000 whereas Peter has borrowed £500,000. Then someone tells you that Peter's debt is made up entirely of a mortgage on a £1million house, whereas Joan has ten credit cards, each maxed out at their £10k limit, and no assets. Clearly, Peter is better off.

Good analysts always get among the weeds, and if you are going to delve deeply into a nation's finances, you must cover the private (households and companies) as well as the public (government) sectors. What follows will be a pleasant surprise for most readers.

UK Households – Rolling in it

UK households hold two types of assets: financial and non-financial. The former includes deposits at the bank, shares, pension plans and insurance policies. The latter is made up mostly of land and buildings.

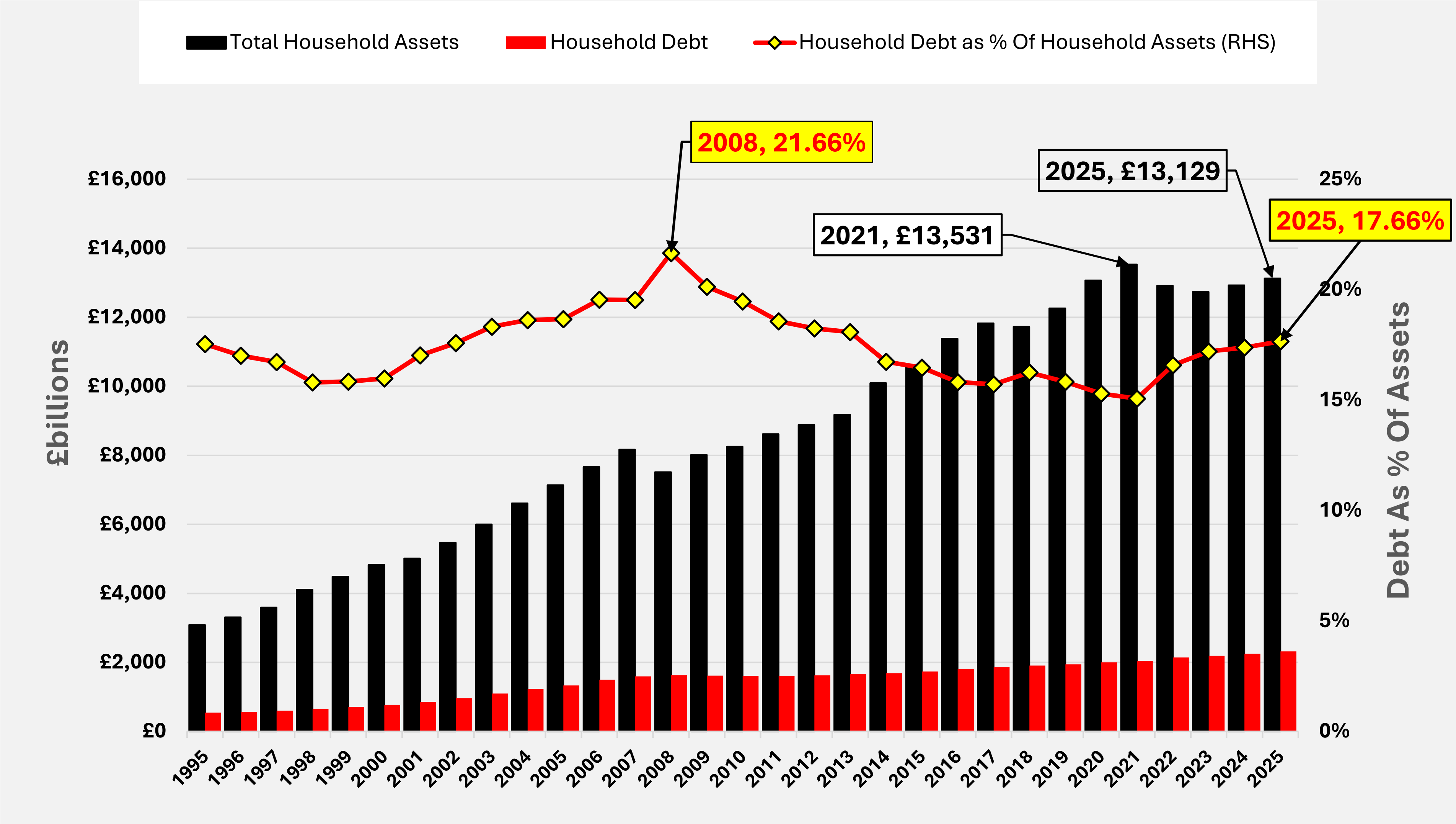
Chart 5 – UK Households Total Wealth



Source: ONS & Courtiers

At the end of 2025, the value of UK households' total assets stood at £13.129 trillion, 4.5 times the government's net debt. After deducting household borrowing, net assets still rack up an impressive £10.81 trillion, equivalent to 3.6 times government borrowing.

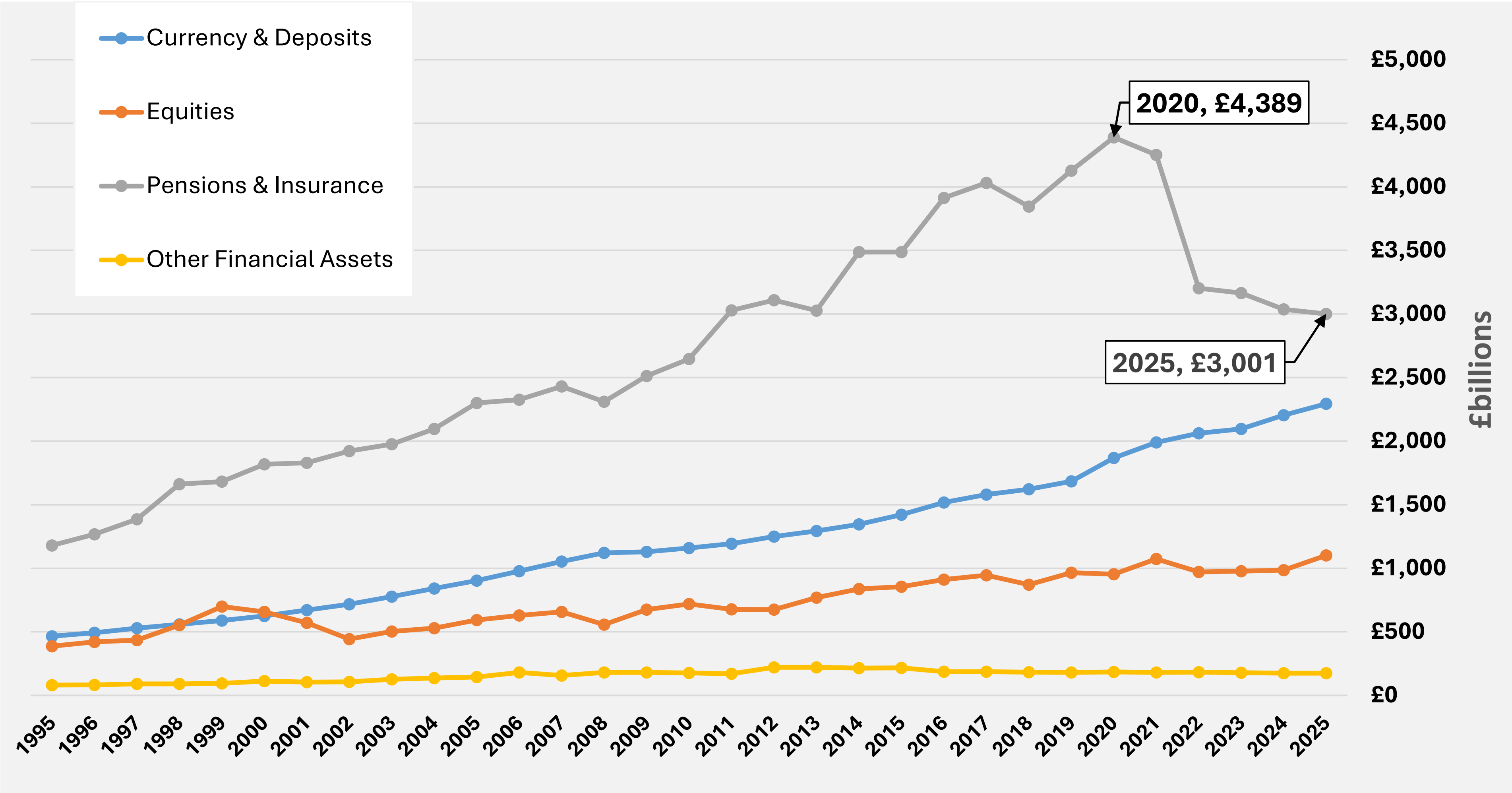
Chart 6 – UK Households Total Wealth & Borrowing



Source: ONS & Courtiers

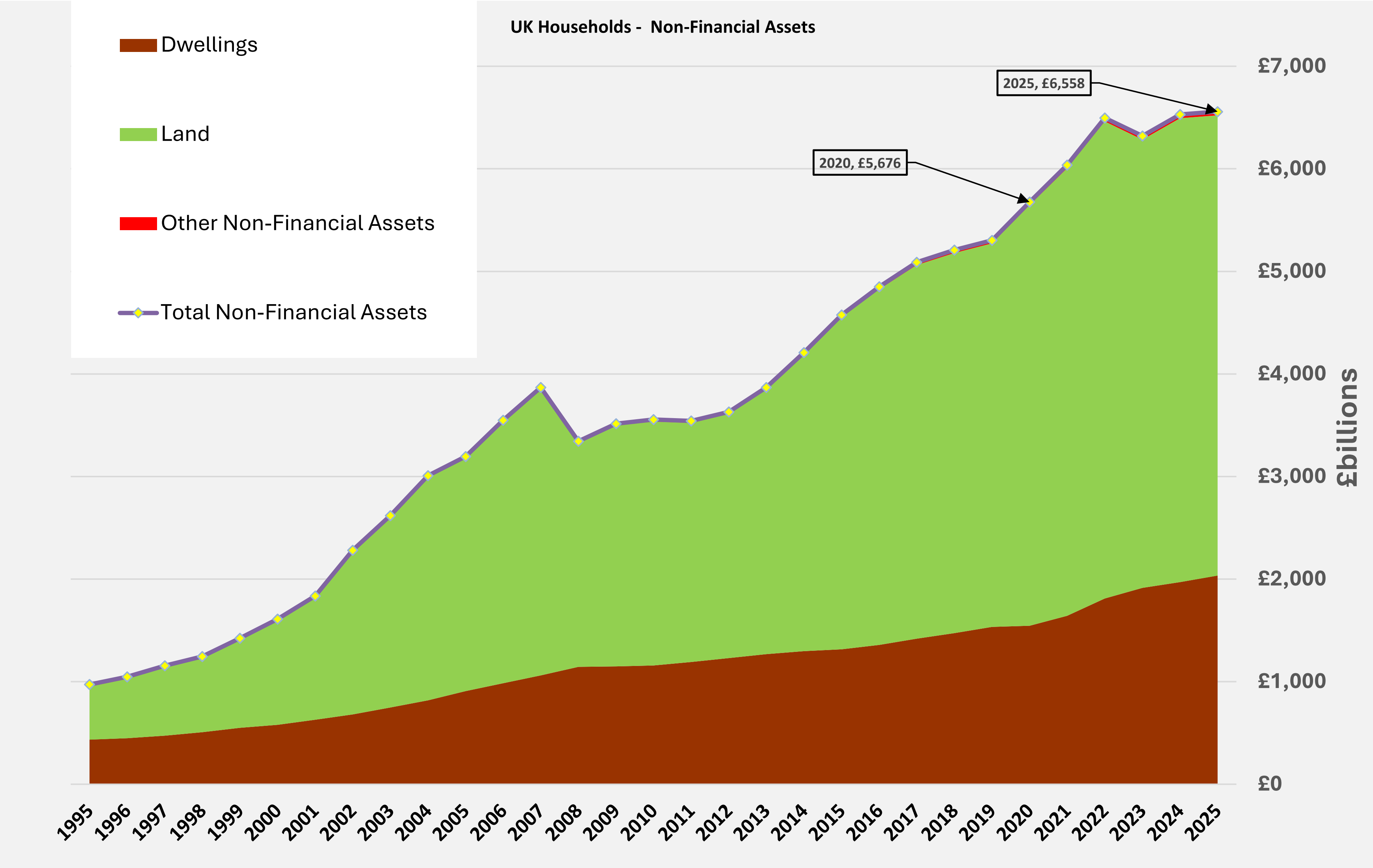
You may have noted from Chart 6 that UK households' assets have dropped a little from a record high of £13.531 trillion in 2021 to £13.129 trillion in 2025. This is because rising interest rates from 2022 onwards depleted the present value of pensions and long-term insurance policies from a high of £4.389 trillion in 2020 to £3.001 trillion in 2025, a fall of £1.388 trillion. That's a lot of money!

Chart 7 – UK Household Financial Assets



Source: ONS & Courtiers

Chart 8 – UK Household Non-Financial Assets

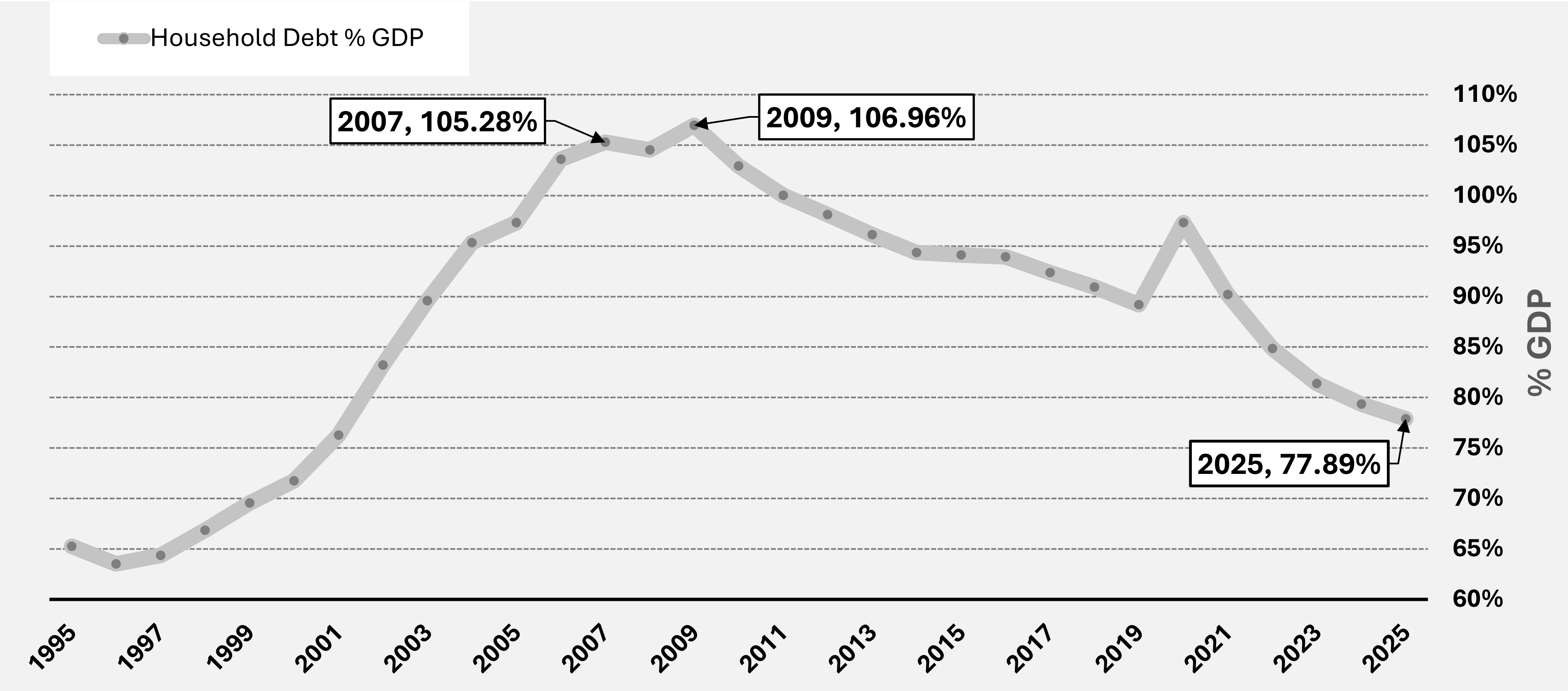


Source: ONS & Courtiers

Despite the fall in the value of pensions and insurance contracts, total assets still held up well, due mainly to the appreciation in non-financial asset values, which rose from £5.676 trillion in 2020 to £6.558 trillion in 2025 (see Chart 8), an increase of £0.882 trillion, which didn't entirely offset the falling value of pensions and insurance, but it helped.

After the global financial crisis, UK households paid down debt. They entered 2008 with borrowing equivalent to 105.28% of GDP, but by the end of 2025 that ratio had fallen to 77.89%.

Chart 9 – UK Household Debt as % of GDP



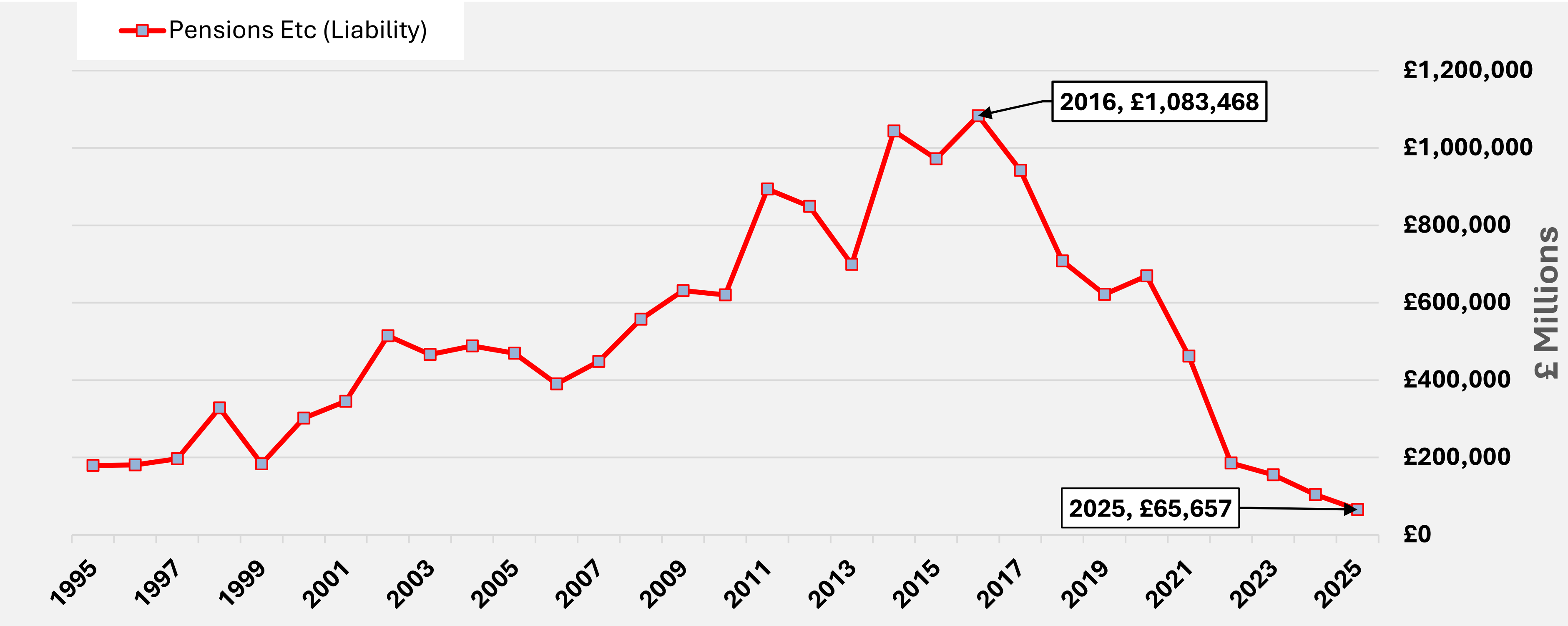
Source: ONS & Courtiers

UK Non-Financial Corporations

UK non-financial corporations are all UK firms, excluding banks, insurers and other financial service companies. In other words, these are the businesses delivering non-financial services and making things.

Chart 7 showed the value of UK households' pension and insurance rights dropping precipitously between 2020 & 2025 due to rising interest rates pushing down bond prices and reducing the cost of buying pensions. But on the flip side, this cut the cost of providing employee pensions, which reduced the liabilities of UK corporations.

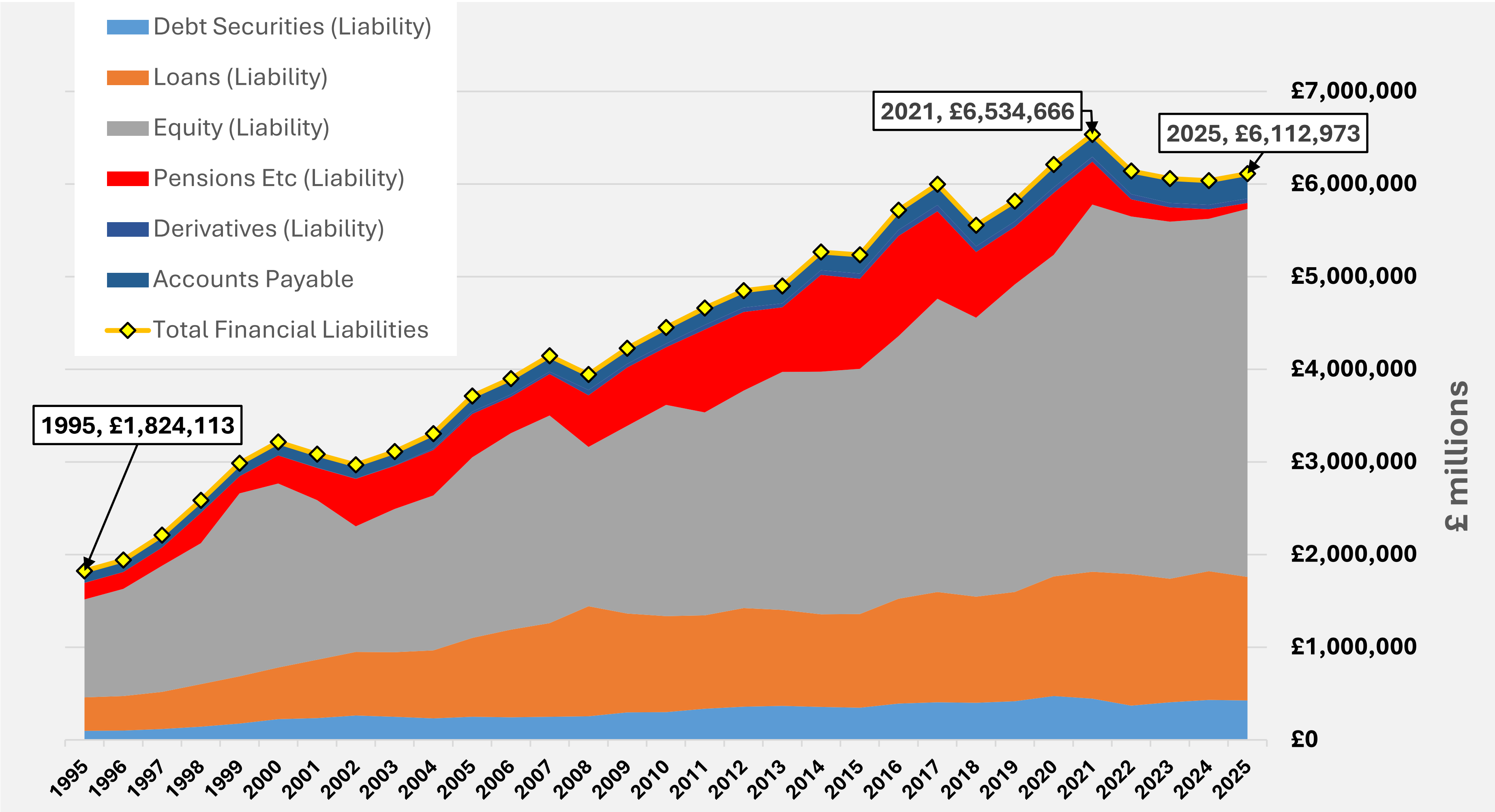
Chart 10 – UK Non-Financial Corporations (NFCs) Pensions Liabilities



Source: ONS & Courtiers

Between 2016 and 2025 the balance sheet cost to UK corporations of providing staff pension and insurance guarantees plummeted from £1.083 trillion to just £65.66 billion, a fall of 94%. The overall liabilities of UK NFCs peaked at £6.535 trillion in 2021 and dropped to £6.113 trillion by end 2025.

Chart 11 – UK Non-Financial Corporations (NFCs) Total Liabilities



Source: ONS & Courtiers

Looking at the financial position of UK NFCs (non-financial corporations) is tricky because the value of a company's equity (shareholding) is treated as a liability, along with other borrowing, such as bank loans. This is based on the accounting equation:

$$\boldsymbol{A = D + E}$$

where

A = Assets
D = Debt
E = Equity

This simple equation means that the assets of a business are either funded by shareholders' equity and/or borrowings (debt). Here is an example. Janet and John each put in £50,000 to start a new laundrette business; they then borrow £100,000 from the bank and buy a lease on a new shop for £50,000 and spend £150,000 on washing machines.

At Day 1 they have

Assets of £200,000 (a lease worth £50k plus washing machines worth £150k)

Debt of £100k (the bank loan)

Equity of £100k (the £50k each that Janet & John injected into the business)

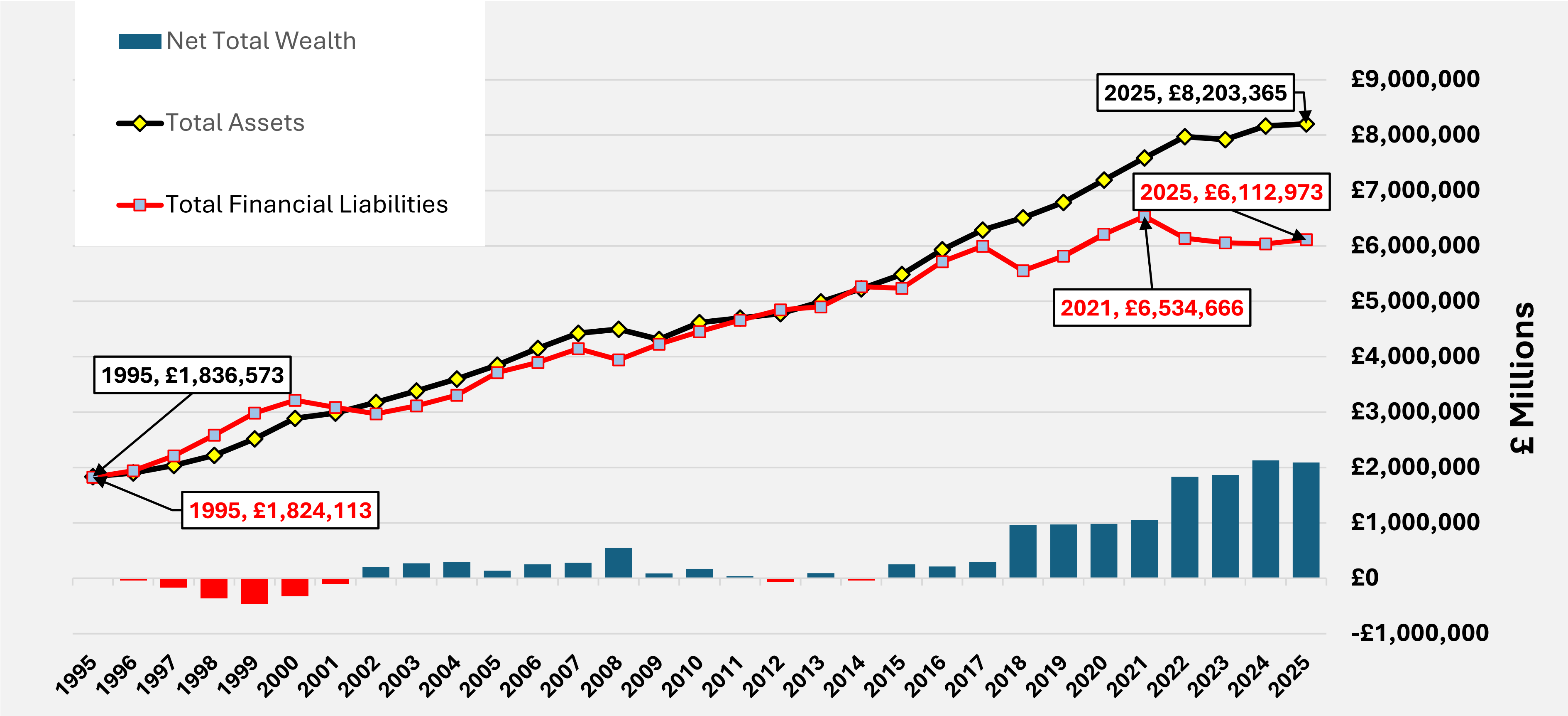
And so...

Assets *(£200,000)* ***= Debt*** *(£100,000)* ***+ Equity*** *(£100,000)*

This equation always holds good, but it means that as far as a business is concerned, equity is a liability, not an asset, because equity is owed to the shareholders. In a set of audited accounts, equity is based on the value of the capital injected by the shareholders, plus retained profits, minus losses. But in the National Accounts the government treats the market value of equity, which is different to the accounting (book) value, as the liability. Rather counterintuitively, this means that when the value of shares rises on the stock market, so does the value of NFC's liabilities, and vice versa. On the other hand, it's the reverse for Households, which see the value of their assets rise when share prices go up, and fall when they go down.

For UK NFCs this accounting rule, and the way the ONS treats equity as a liability, means that assets tend to equal liabilities. You can see this from Chart 12 below where the lines represent NFC assets and liabilities and the bars at the bottom show NFCs' net financial worth.

Chart 12 – UK Non-Financial Corporations (NFCs) Assets & Liabilities



Source: ONS & Courtiers

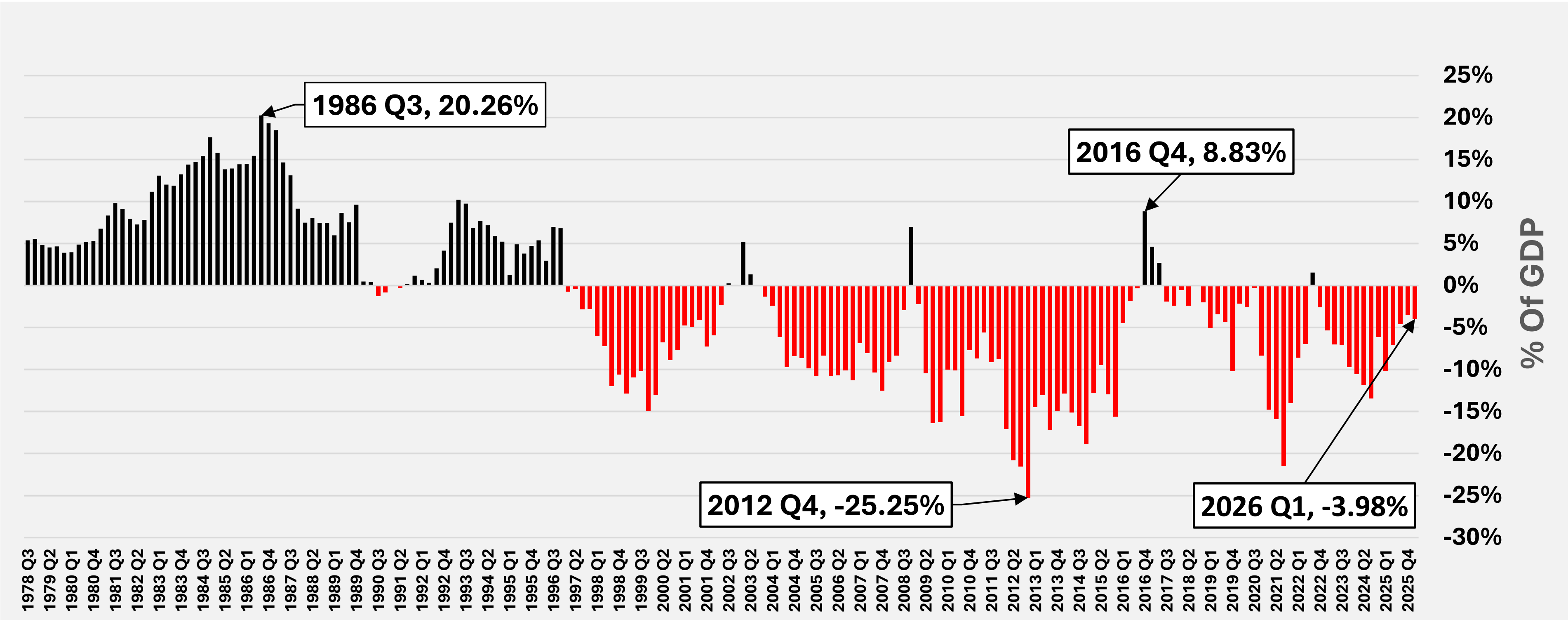
Whilst assets & liabilities continued to rise post 2016, liabilities rose at a slower pace and then declined after 2021. This was for two main reasons: firstly, the value of non-financial assets rose; secondly, the fall in the cost of providing pensions reduced NFCs liabilities for their occupational superannuation schemes. The net effect was to boost the net worth of NFCs by just over £1 trillion between 2021 and 2025, substantially increasing their ability to borrow and grow.

International Balances

An assessment of the state of our nation's balance sheet would not be complete without a look at our international position, which means considering the value of overseas assets & loans owned & made by Britain, and the value of British assets and loans owned and made by other countries.

Net wealth is the difference between what someone owes compared to what someone owns. Chart 13 shows the UK's NIIP (net international investment position - the difference between overseas assets and liabilities) as a % of GDP. In Q3 1986 the UK had a net positive balance (more international assets than liabilities) equivalent to +20.26% of GDP, but by Q4 2012 this had declined to a deficit of -25.25%.

Chart 13 – UK Net International Investment Position (NIIP) as % GDP

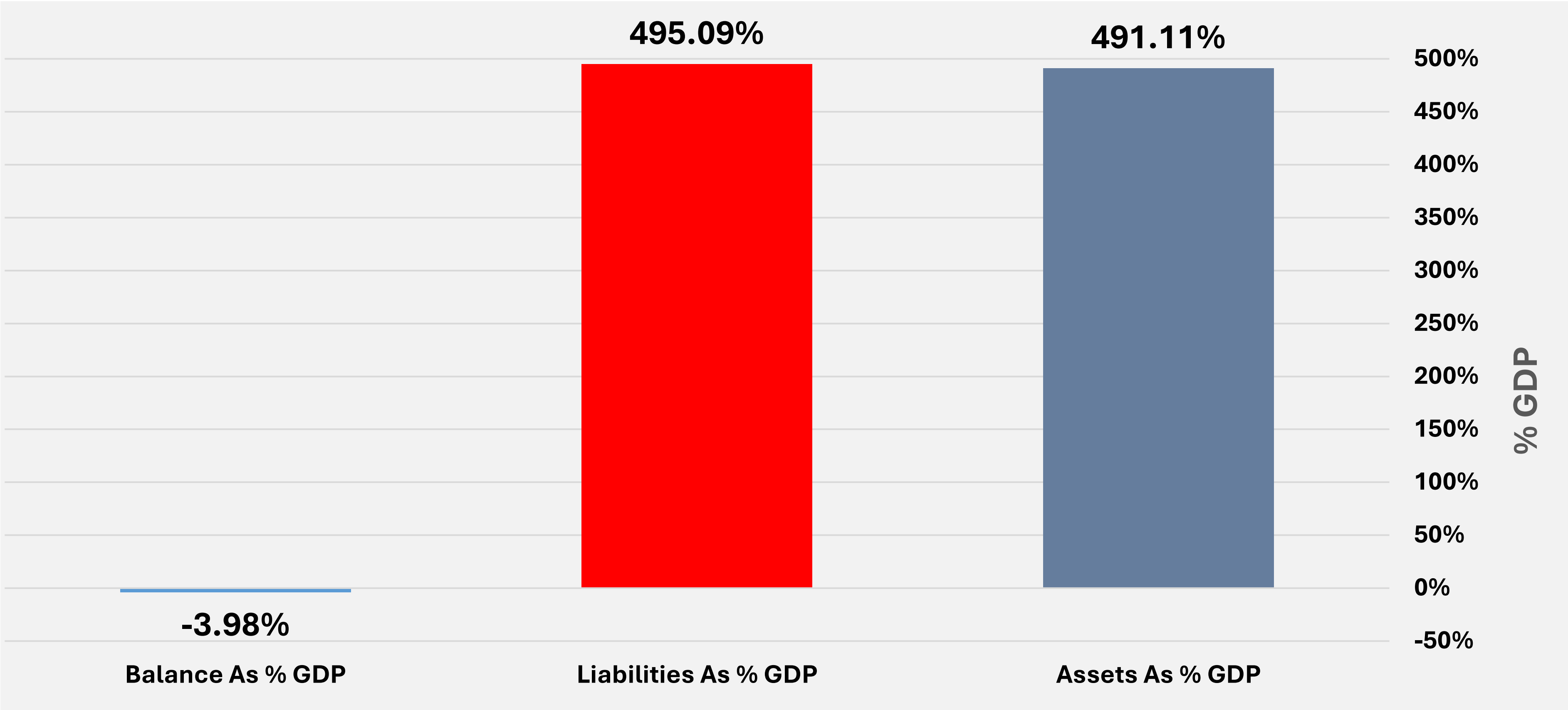


Source: ONS & Courtiers

Differences between two figures like assets and liabilities can tell you a lot about an entity or individual that owns or owes them, but it is always worth unpacking what sits behind the balance, and this is especially true regarding the UK's net international investment position.

The UK is a major participant in international financial markets. It holds a huge stock of overseas assets, while overseas investors hold a huge stock of UK assets. At the beginning of this year, the UK owned foreign assets equivalent to 491.11% of GDP, while foreign investors owned UK assets equivalent to 495.09% of GDP.

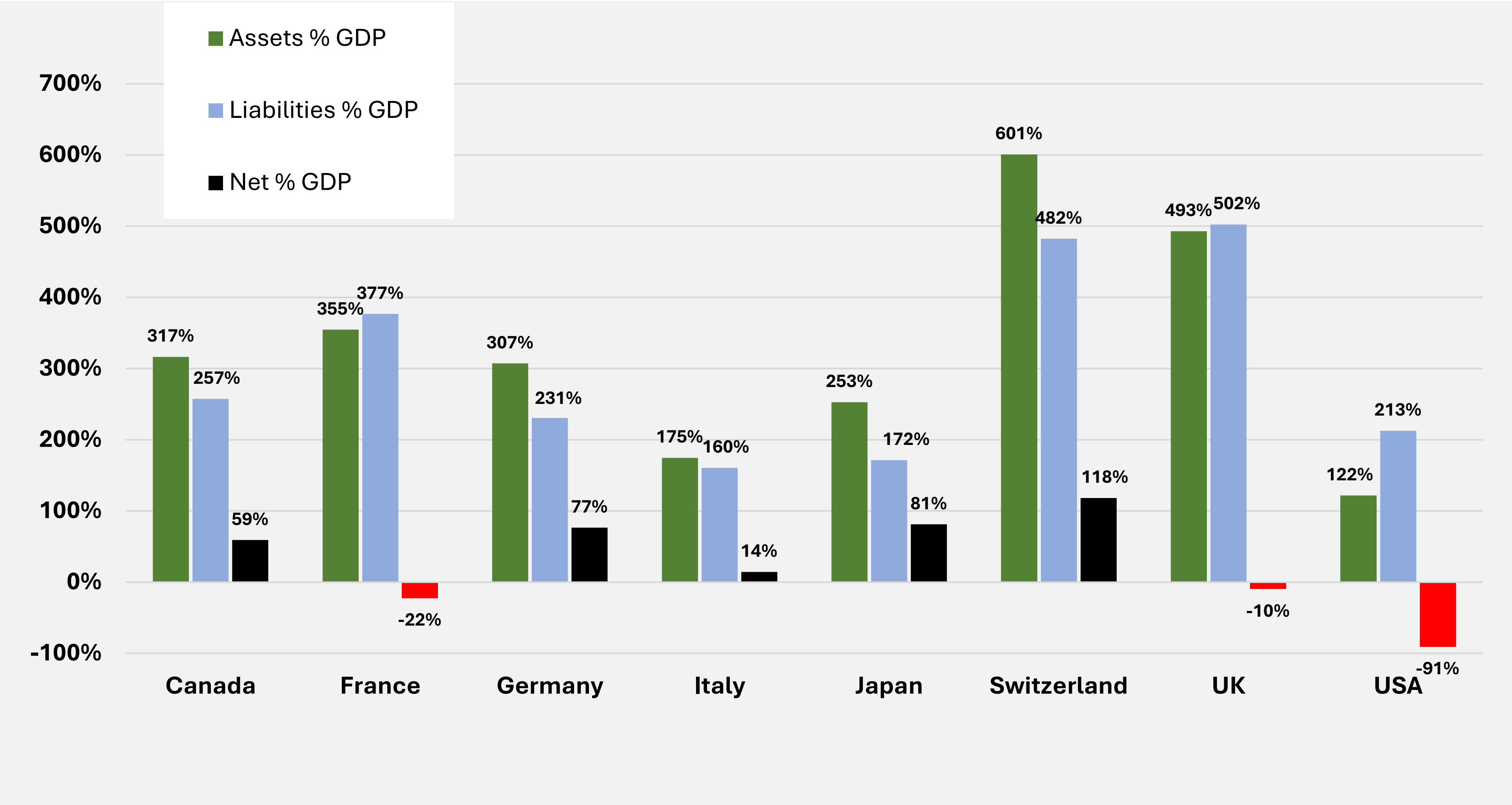
Chart 14 – UK International Assets & Liabilities as % GDP (Q1 2026)



Source: ONS & Courtiers

Among our major competitors only Switzerland, another country with a relatively huge financial sector, has assets and liabilities of a similar proportion of GDP as the UK, as highlighted by Chart 15, which shows balances in 2024.

Chart 15 – Major Developed Economies' International Assets & Liabilities as % of GDP (2024)



Source: IMF & Courtiers

Does it matter that foreigners have bought UK assets and granted the UK loans to the sum of 5 times the size of our income? The answer is that it would matter if we had taken loans in a foreign currency, but not when the loans are issued in pounds sterling because in the UK it is only our government that is a net debtor (UK households and UK corporations have positive net balances), and our government controls its own currency and so can always issue more pounds to repay its borrowers. Of course, if it does that in large quantities it will increase the supply of pounds sterling and cause inflation, which will diminish the purchasing power of capital when it is eventually repaid to lenders and likely cause the pound to fall against foreign lenders' domestic currencies. The prospect of being repaid in a currency that is diminishing in value is a risk for the foreign lender/investor, which explains why UK government bonds generally carry a higher rate of interest than our major competitors, and why UK assets, like shares in British companies, trade more cheaply than similar types of companies quoted on overseas markets. In other words, overseas investors require a premium to buy the UK's bonds and assets.

Control of our own currency is a major benefit that Britain should never lightly trade away, especially as we have a relatively large financial sector, which at least partly explains why the UK's foreign assets and liabilities are both so large relative to GDP.

Conclusion

The finances of a nation are complicated and cannot be explained by simple comparison to a family budget, which means it is dishonest of politicians to seek votes by scaremongering on the simple metric of government debt & spending relative to GDP.

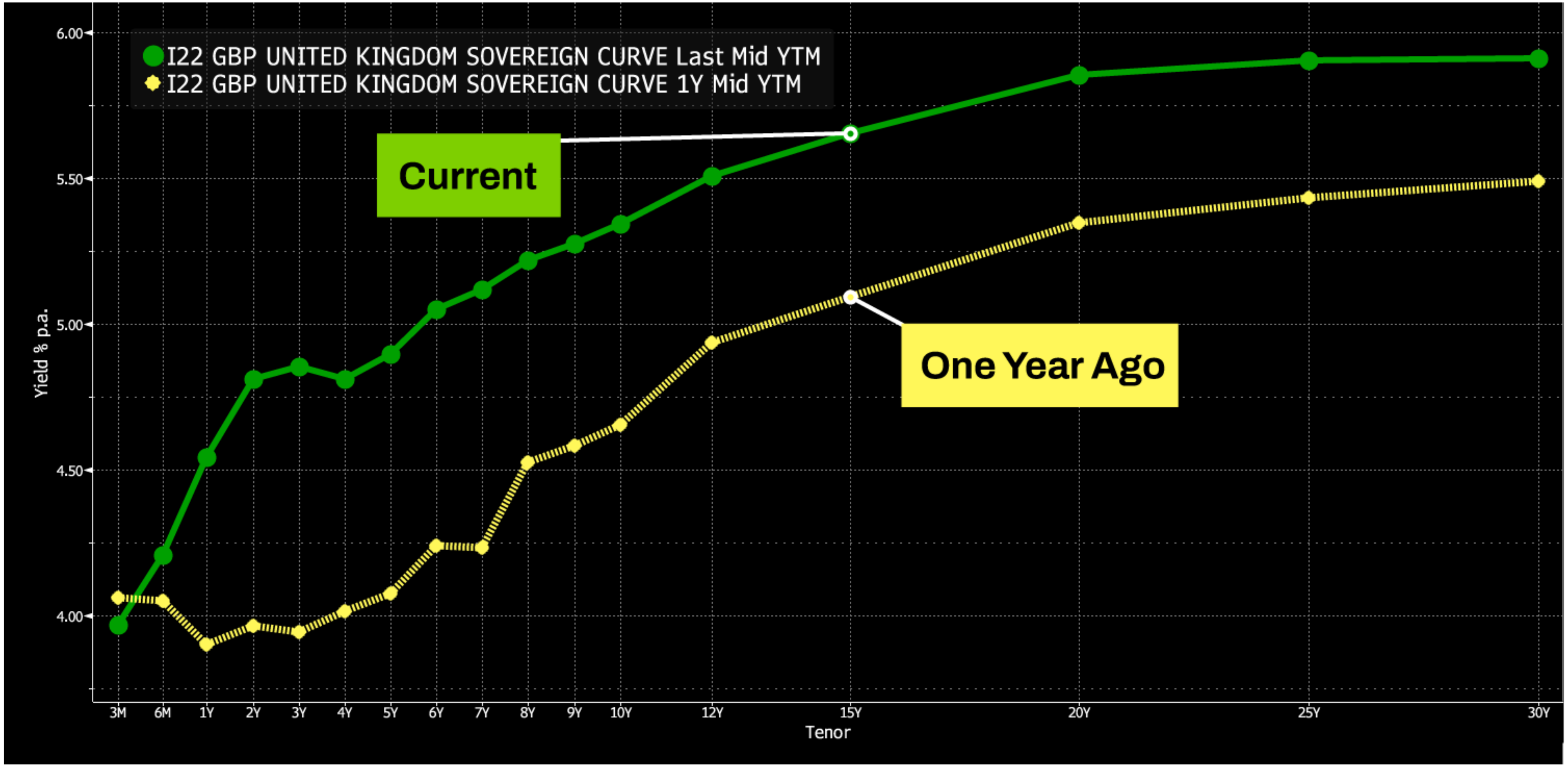
Britain has vast financial resources and a healthy private sector that has deleveraged post the GFC. Our government has run a deficit, but the net assets of our own household and corporate sectors cover this many times over.

The main problem for the UK is not our finances – there really is no "black hole" that we are about to fall into, which is a fallacy created by politicians attempting to get elected. The real problem is productivity and where government borrowing hurts is when it results in rising interest rates and taxes, which is what has happened to the UK over the last few years, depressing private sector activity at the expense of economic growth and productivity.

A simple solution to this problem is to lower public spending, reduce taxes and cut interest rates. That would put more resource into the private sector, stimulate demand and encourage productivity improvements. Private sector leverage will likely rise if the cost of borrowing falls, but as I've shown previously, UK companies and families have huge scope to borrow, which is a resource that has been untapped by successive governments for the last 15 years.

Against this background, long-term UK gilt yields look attractive having shifted upwards over the last year (see Chart 16 below).

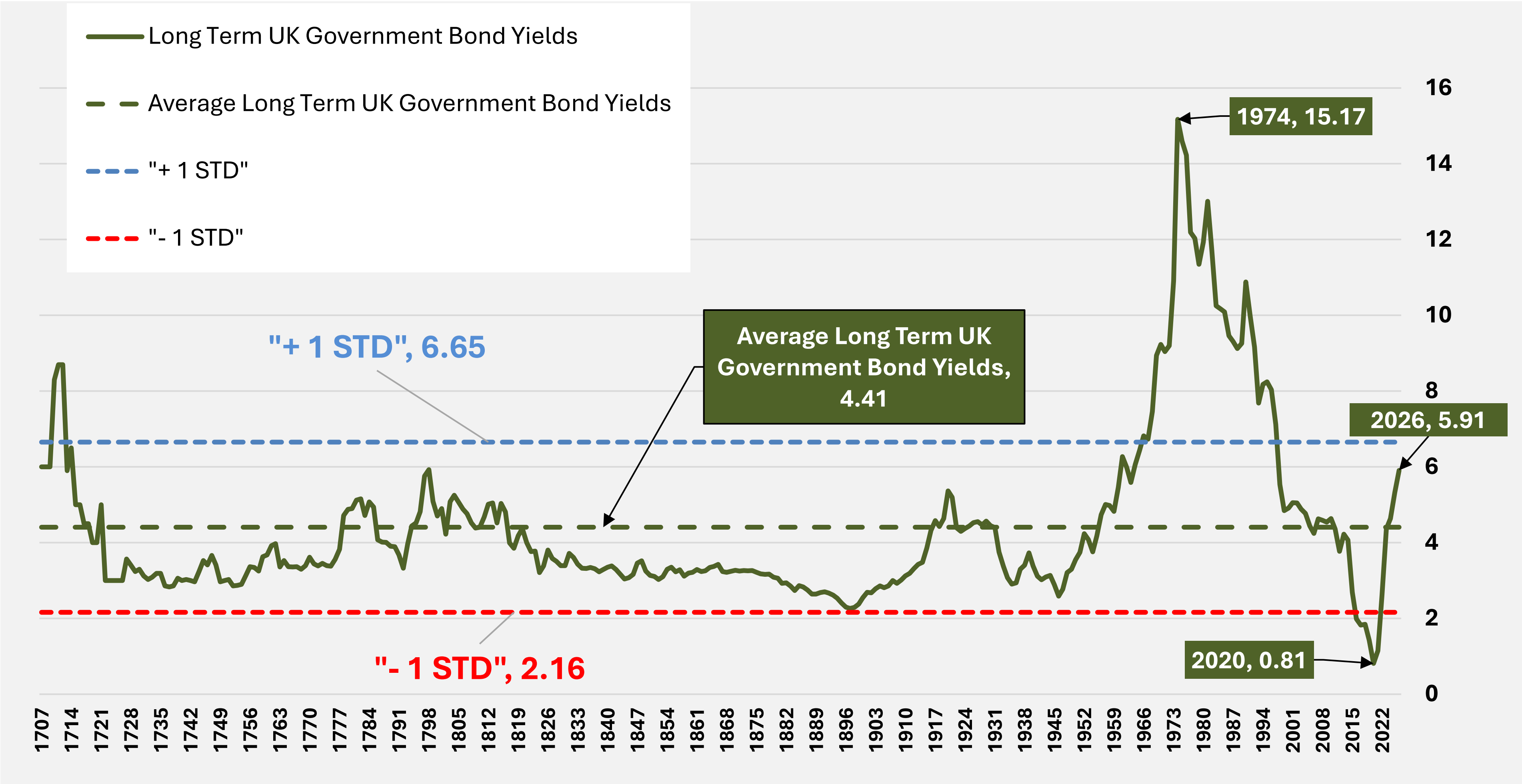
Chart 16 – UK Government Bonds Yield Curve



Source: Bloomberg

30-year gilts presently yield 5.91% p.a. which is very attractive compared to the long-term average yield of 4.41% p.a.

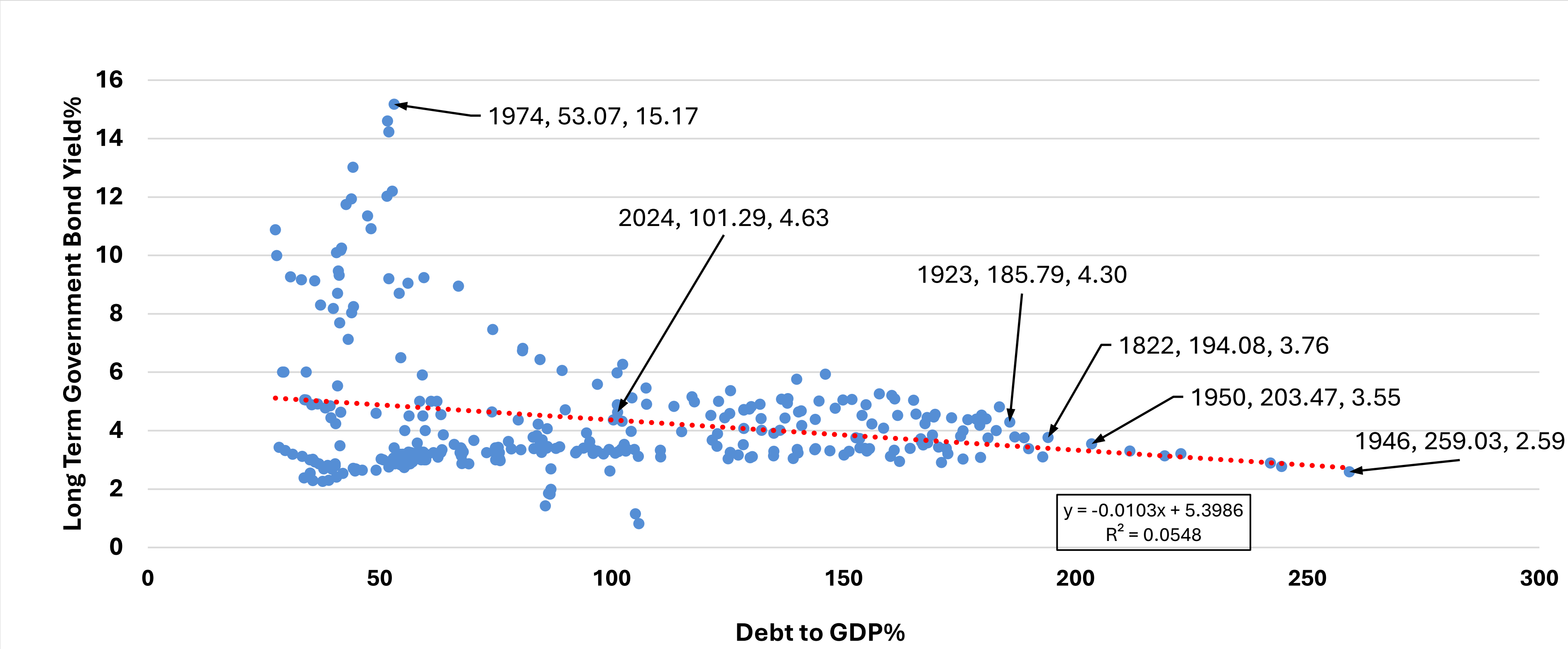
Chart 17 – UK Long-Dated Bond Yields (%) from 1707



Source Bank Of England, Bloomberg & Courtiers

Finally, for those who think high government debt to GDP automatically means higher interest rates, think again!

Chart 18 – UK Long-Dated Bond Yields (%) & Debt to GDP Ratio from 1707



The scatter chart above plots UK interest rates against the ratio of UK government debt to GDP over 325 years and shows no statistical evidence of high government debt to GDP resulting in higher interest rates. In fact, the highest recorded long-term interest rate in the UK was 15.17% in 1974, when debt was just 53.07% of GDP, way lower than the long-term average of 95%. Contrast this with 1946 when debt hit an all-time high of 259.03% of GDP and long-term interest rates were just 2.59%, way lower than their historic average of 4.41%. The trend line on the chart slopes downwards from left to right and that means that the correlation between long-term interest rates and debt to GDP is negative, meaning interest rates have tended to be lower when debt to GDP is high and higher when debt to GDP is low.

The UK has plenty of fire power at hand to return to a faster growing, more productive economy. One simple way to achieve this is to reduce interest rates to the private sector. That would be good for bond prices and good for the economy overall. It may mean cutting back on government expenditure in the first place, especially our propensity for giving people like me, pensioners, continuous real increases to our income through the triple-lock, but it will pay-off handsomely in the medium term. All it needs is a UK politician smart enough and brave enough to grasp the nettle.

Based on the evidence above, long-term gilt yields look elevated by historic standards, but it is likely these higher yields are due to:

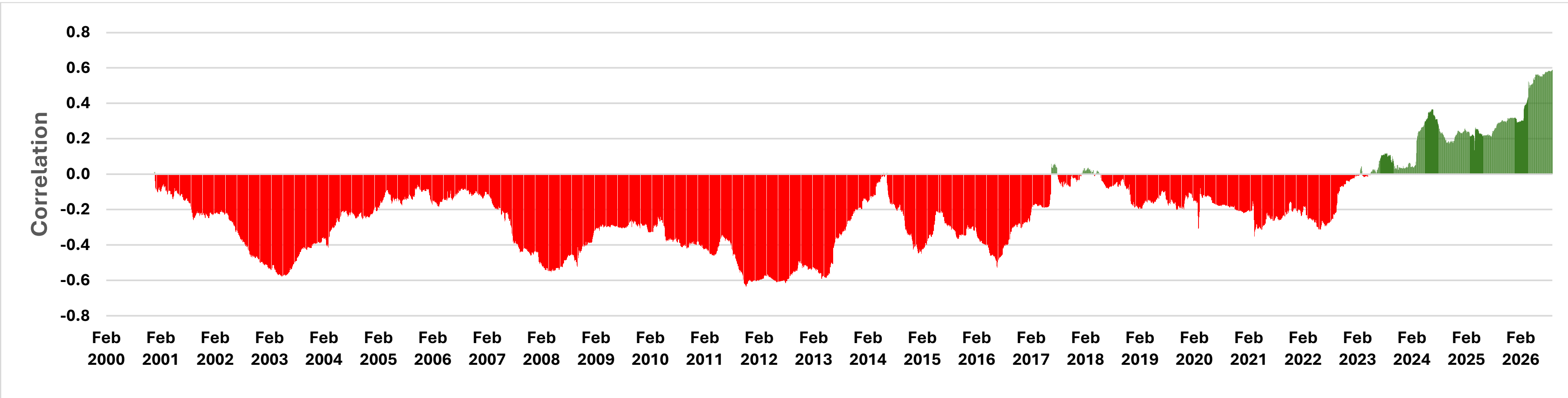
a) Overseas buyers demanding a higher yield to compensate for the currency risk arising from political uncertainty (the pound lost -18% in the aftermath of Brexit)

b) The correlation of gilt & equity returns turning positive, which ended the premium that UK share owners derived from holding long-dated gilts as a hedge against equity risk (see chart 19 below)

c) The demise of the purchase of long-dated gilts by UK institutions, especially defined-benefit pensions, needing to match liability duration at any price

The occurrence of any one of the above would have driven down bond prices and caused yields to rise, but all three happening concurrently created one of the most dramatic changes in history with the yield from 30-year gilts rocketing from just 0.05% p.a. in March 2020 to 5.911% p.a. today.

Chart 19 – Rolling 260-Day Correlation of Equity & Long-Dated Gilt Returns



Source: Bloomberg & Courtiers

We dodged the huge correction in long-term bond prices by staying short duration pre the 2022 correction, but 30-year gilt yields at 5.911% p.a. look like a gift, especially when they are 150 bps above their long-term average. Further, who is to say that the 260-day correlation of gilt & equity returns will stay positive? Notwithstanding that the correlation of annual returns over the last 125 years has been positive (0.46 based on our Equity Gilt Study 2026), the short-term correlation could easily return to negative in the event that, say, disappointing earnings growth from AI companies triggers a collapse in Mag7 prices and a wider fall in equities generally. The huge investment in AI infrastructure has kept the US economy running hot, which has been inflationary as the expansion demands resources and labour. But if that ended, price pressures would drop and with the economy cooling down central banks will have scope to cut interest rates and boost bond prices.

Long-dated gilt yields are attractive on both a real (i.e. they are higher than current inflation) and nominal (they exceed their long-term average) basis. If equity prices drop, gilts are likely to prove an attractive hedge.

I don’t think for one minute that we are going to return to the heady times of the early 2020s for gilts when prices hit their peak and long-dated yields dropped below 1% p.a., but it’s easy to see gilts being a good hedge against equity wobbles and either delivering a relatively safe real return long into the future, or something more spectacular if yields revert to mean.

Gary Reynolds CFA
Chief Investment Officer

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