# UK faces mounting economic crisis as political parties prioritise populist promises over fiscal responsibility



Labour’s reckless pursuit of spending promises and tax hikes still dominate its agenda, despite the mounting fiscal crisis looming on the horizon. Since the July 2024 general election, which saw a modest five seats gain—largely at the expense of the previous government’s reputation—there is still little sign of a concrete plan to address the UK’s spiraling debts and unsustainable borrowing. The new Prime Minister’s promises to “fix the foundations” amount to little more than smoke and mirrors, failing to acknowledge that the country’s fragile finances are on the brink of collapse. While the government indulges in superficial culture wars, the real danger lies in ignoring the deep-seated economic realities that threaten to destabilise the nation.

This growing crisis is worsened by global inflationary pressures that the UK is ill-equipped to handle—an issue exacerbated by Labour’s flirtation with further tax measures they hope will redistribute wealth without any real plan for economic growth. Instead of prioritising fiscal responsibility and encouraging enterprise, Labour is embroiled in internal divisions—half-heartedly balancing cautious tax policies against radical proposals that would chase away investors and hit the aspirational middle class. Their flirtation with wealth taxes and punitive property reforms echoes past failures, risking the very economic aspiration they claim to champion. Historical lessons are clear: punitive tax hikes and borrowing to fund social projects only deepen economic stagnation and facilitate capital flight.

Meanwhile, the Conservative opposition, now desperately trying to reclaim credibility, is grappling with the fallout of their own recent failures. Their attempts at “fiscal responsibility” are feeble—announcing token measures like subsidies for first-time buyers and token cuts in business rates—yet they refuse to confront the real issues: a debt pile that continues to grow, and the fallout from Brexit that hampers economic recovery. The idea of “fiscal discipline” remains hollow when the government cannot even curb borrowing or halt the damaging effects of quantitative easing, which undermines market stability and pinches taxpayers’ wallets. Hardworking families are footing the bill, with billions lost annually due to misguided bond strategies and erratic monetary policy.

The Bank of England’s monetary stance underpins this uncertainty. Top global investors—managing over $1.5 trillion—are warning that the Bank’s continued sell-off of gilts and its failure to address inflation decisively are fanning market instability. While the Bank intermittently hints at tapering its bond sales, they lack the resolve to tackle the structural issues driving inflation—weak productivity, rising wages, and government overspending. Divergent opinions within the Bank, from cautious rate-hikers to those advocating for patience, highlight the unpredictable path ahead. April 2025 saw 30-year gilt yields soar to levels unseen since 1998, a stark reminder of how fragile our financial stability has become.

The repercussions are clear: a volatile bond market, rising borrowing costs, and the spectre of a long-term inflation problem. Despite these warning signs, the Treasury remains deaf to the warnings of top market analysts, still relying on short-term fixes rather than implementing genuine fiscal discipline. The fallout from the 2022 mini-budget crisis serves as a stark warning of what happens when political pressure overrides sound economic management.

As the next general election looms, the UK’s economic outlook hinges on whether these political actors—Labour’s reckless tax-and-spend tactics and the Conservatives’ feeble attempts at fiscal reform—can genuinely address the root causes of our debt crisis. It’s clear that without serious reform, the nation will face prolonged economic stagnation, rising taxes, and shrinking living standards. The British people deserve leaders who prioritize financial prudence over populist promises—something neither of the current parties has demonstrated convincingly. The economy is not a game; it’s the foundation of our future. Unfortunately, for now, both sides seem more interested in scoring political points than delivering real solutions.

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.independent.co.uk/voices/editorials/labour-conservative-conference-economy-trusted-b2840207.html> - Please view link - unable to able to access data
2. <https://www.reuters.com/world/uk/top-fund-managers-urge-bank-england-stop-selling-gilts-into-rocky-debt-markets-2025-10-06/> - Top fund managers managing over $1.5 trillion are urging the Bank of England (BoE) to halt its active bond (gilt) sales, arguing the policy is worsening market instability and increasing taxpayer costs. Despite the BoE’s recent decision to slow the reduction of its bond portfolio from £100 billion to £70 billion annually, investors believe this measure is insufficient. Gilt values have been depressed by high inflation and fiscal concerns, and the BoE’s actions are said to have exacerbated yield increases—rising as much as 70 basis points, far higher than equivalent U.S. and Eurozone policies. While the Treasury must cover bond-related losses costing taxpayers £22 billion annually, the BoE maintains that overall net cash flow benefits since 2012 still stand at £34 billion. However, critics like RBC BlueBay’s Mark Dowding and BNY Newton’s Paul Flood argue that active quantitative tightening (QT) harms debt sustainability and creates a damaging “fiscal feedback loop” of soaring public costs and yields. Analysts and fund managers call for a full halt to active QT, citing its destabilizing effect on UK debt markets, which have reacted more strongly than those in the U.S. and Europe.
3. <https://www.reuters.com/world/uk/keeping-interest-rates-high-too-long-is-risky-boes-breeden-says-2025-09-30/> - Bank of England Deputy Governor Sarah Breeden warned that maintaining high interest rates for too long poses risks to the UK economy, including reduced output and employment, which could ultimately pull inflation below the target. Speaking at Cardiff Business School, she countered concerns raised by fellow policymaker Catherine Mann about persistent inflation, stating that the recent rise in inflation is likely temporary and not indicative of long-term inflationary pressure. Breeden was among the majority of the Monetary Policy Committee (MPC) members who chose to hold interest rates at 4% in September, after a narrow vote in August to reduce rates. Though the BoE anticipates inflation to peak at 4% in September 2025 and decline gradually to 2% by 2027, concerns remain over sluggish economic growth. Breeden emphasized monitoring business pricing behavior, noting some signs of continued pricing power. Meanwhile, Deputy Governor Clare Lombardelli and policymaker Megan Greene expressed caution about inflation shock assumptions and the pace of rate cuts, though Governor Andrew Bailey reaffirmed rates would eventually fall.
4. <https://www.reuters.com/world/uk/bank-englands-mann-says-uk-inflation-is-high-persistence-scenario-2025-09-30/> - Bank of England policymaker Catherine Mann expressed concern that UK inflation is becoming persistently high, aligning with the inflation persistence scenario outlined in the BoE’s August Monetary Policy Report. This scenario anticipates enduring inflation pressures due to weak productivity and rapidly rising wages, contrasting with the Bank’s main forecast that sees inflation returning to target by mid-2027. Although Mann emphasizes this trend, she does not rule out further interest rate cuts due to ongoing economic uncertainty. Mann recently supported holding the BoE’s Bank Rate steady, differing from her earlier opposition to a rate cut in August. Other BoE officials also voiced caution. Deputy Governor Clare Lombardelli warned against assuming inflation shocks are temporary, and MPC member Megan Greene advised a careful approach to rate cuts. Governor Andrew Bailey acknowledged that borrowing costs may decrease but gave no timeline, while Deputy Governor Dave Ramsden signaled confidence in further rate reductions. Additionally, Mann opposed the majority decision to speed up quantitative tightening, advocating a slower reduction in government bond holdings to better manage market impacts and adjust to a leaner reserves framework.
5. <https://www.reuters.com/markets/rates-bonds/uk-30-year-gilt-yields-surge-highest-since-1998-2025-04-09/> - On April 9, 2025, British 30-year gilt yields surged to 5.507%, their highest level since 1998, marking a 16 basis point rise driven largely by an overnight increase in 30-year U.S. Treasury yields. The U.S. yield jump followed President Donald Trump's announcement of 104% tariffs on Chinese goods. This surge echoes October 2022's spike following former Prime Minister Liz Truss' failed "mini-budget." Meanwhile, UK 10-year gilt yields rose to 4.69%, while 2-year yields dropped to 3.87%, reflecting investor expectations of faster rate cuts by the Bank of England (BoE). Interest rate futures now anticipate 85 basis points of BoE rate cuts in 2025, with a quarter-point cut expected at the May 8 meeting. Before Trump’s tariff announcement, markets had only priced in a modest chance of rate cuts. Finance Minister Rachel Reeves rejected the idea of suspending fiscal rules despite limited flexibility in future budgets, noting that sustained high yields could threaten the UK’s fiscal targets and economic stability, according to analysts.
6. <https://www.goldmansachs.com/insights/articles/uk-gilt-yields-are-forecast-to-decline-in-2025-despite-recent-su> - UK government bond yields have risen amid investor concern about the government’s fiscal outlook and sticky inflation. Even so, Goldman Sachs Research projects the country’s borrowing costs will decline by the end of the year as the Bank of England cuts its policy rate. “We still think the UK data will justify more cuts than the market is pricing,” says George Cole, head of European rates strategy in Goldman Sachs Research. Our strategists project 100 basis points of cuts in 2025, compared with the 41 basis points of cuts that’s priced into the bond market. The team forecasts 10-year gilt yields will fall to about 4% by the end of 2025 from 4.9% (as of January 13), the highest since 2008. British bond yields, along with those of many governments, have been climbing since September. Cole says one simple reason for the broad increase in borrowings costs is that there’s a lot of government borrowing.
7. <https://www.sharingpensions.co.uk/gilt-yields-latest.htm> - The Bank of England reduced interest rates by -0.25% down to 4.50% in February 2025 with gilt yields ending the month slightly lower at 4.87%. Gilt yields reached a record high of 5.29% on 13 January 2025 due to fears that Donald Trump will introduce tariffs adding to inflation and central banks forecasting fewer interest rate cuts for this year. The 15-year gilt yields increased 46 basis points to the highest this year of 4.80% on 31 October 2024 due to the Budget and changes to the borrowing basis to public sector net financial liabilities. This allows the Chancellor to access a further £50 billion per year for infrastructure investments. Providers increased annuity rates in October by up to +5.8% as the Bank of England reduced interest rates by -0.25% to 4.75% on 6 November 2024 and are likely to keep interest rates higher for longer. The US Federal Reserve cut interest rates by -0.5% on 18 September 2024 to a range of 4.75% to 5.00% and this is the first move in over four years. The Bank of England cut interest rates by -0.25% to 5.0% on 1 August 2024. Interest rates reached a high of 5.25% twelve months ago and are falling after the Consumer Price Index (CPI) inflation reduced from a high of 11.1% in October 2022, down to 2.0% for May and June this year. The European Central Bank (ECB) cut interest rates by 0.25% on 6 June 2024 from an all-time high of 4.0% to 3.75%. The Bank of England is forecast to cut interest rates at the August 2024 meeting and this is likely to result in lower annuity rates. Gilt yields rise to a record high this year of 4.71% by 29 May 2024 as UK inflation reduces to 2.3% missing the forecast of 2.1%. US growth is higher than expected and poor Treasury auction demand sends government yields higher. US consumer price index (CPI) inflation for March increases to 3.5% and Federal Reserve talk of higher interest rates sends 15-year gilt yields to a record high this year of 4.70% by 25 April. Analysts are expecting no more than two interest rate cuts from the Fed this year.