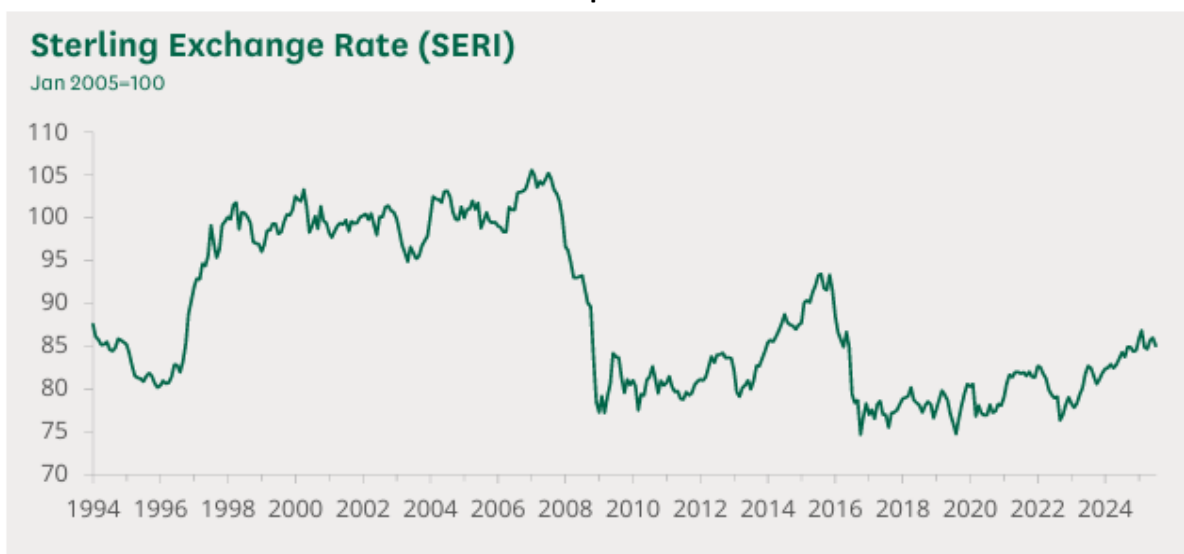


THE UK AND FRANCE: CANARIES IN THE COAL MINE?

For a few weeks the financial media have been concerned with the growing fiscal difficulties in France and the UK. These difficulties are not exceptional. They are part of the financial difficulties plaguing all the advanced economies. They are merely more acute.

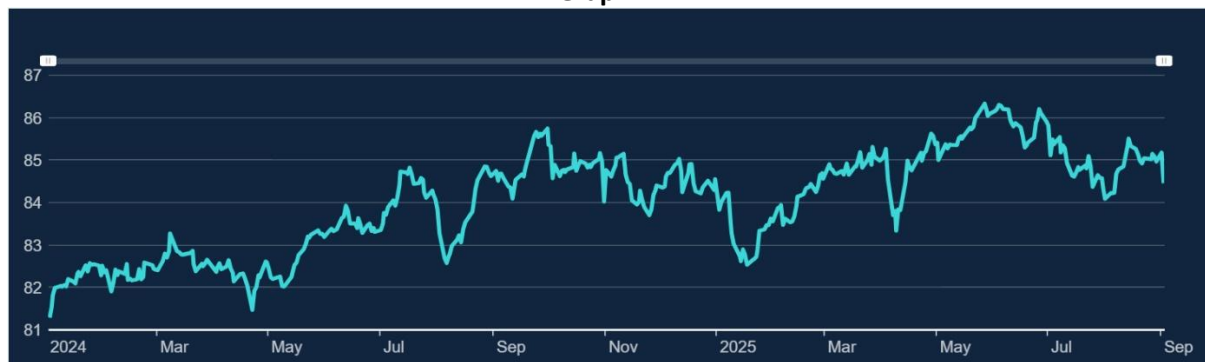
This front-page article in the [Financial Times](#) speaks to the concern in the markets about the vulnerability of the UK's fiscal position approaching a Liz Truss moment. "The pound fell sharply yesterday as long-term borrowing costs in the UK reached their highest level since 1998, with concerns over the country's public finances combining with a global move higher in bond yields." Sterling fell by up to 1.5 cents against the dollar while the 30-year yield topped out at 5.75% [the highest yield since 1998](#). A rise in yields and a fall in the exchange rate is always ominous, a vote of no-confidence in the economy. Repeating the claim first made in the Telegraph ten days ago, the F.T. quotes that the UK may have to seek an IMF bailout. The exchange rate has not reached critical levels however, as this graph prepared by the [House of Commons Library](#) and published in August covering July data, shows. This rate is the weighted exchange rate based on a basket of currencies, not only the dollar.

Graph 1.



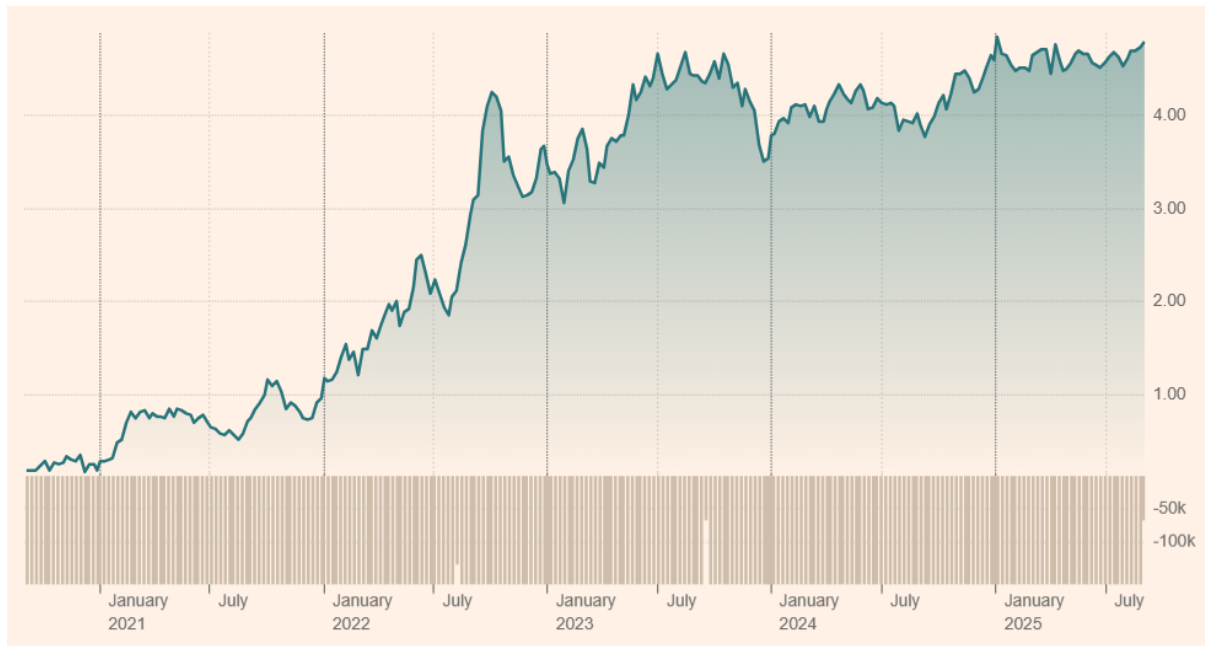
And if we look at a more recent graph from the [Bank of England](#) up to 2nd September, Sterling has not fallen out of range yet.

Graph 2.



The fiscal situation is the more worrying in. Below are two graphs plotting the 10-year Gilts yield. This is the key yield which sets most other financial rates including mortgage rates through swaps based on it. As we can see in Graph 3, yields have quadrupled since pre-pandemic times. Additionally graph 4 shows rates moving up over the course of August and early September.

Graph 3.

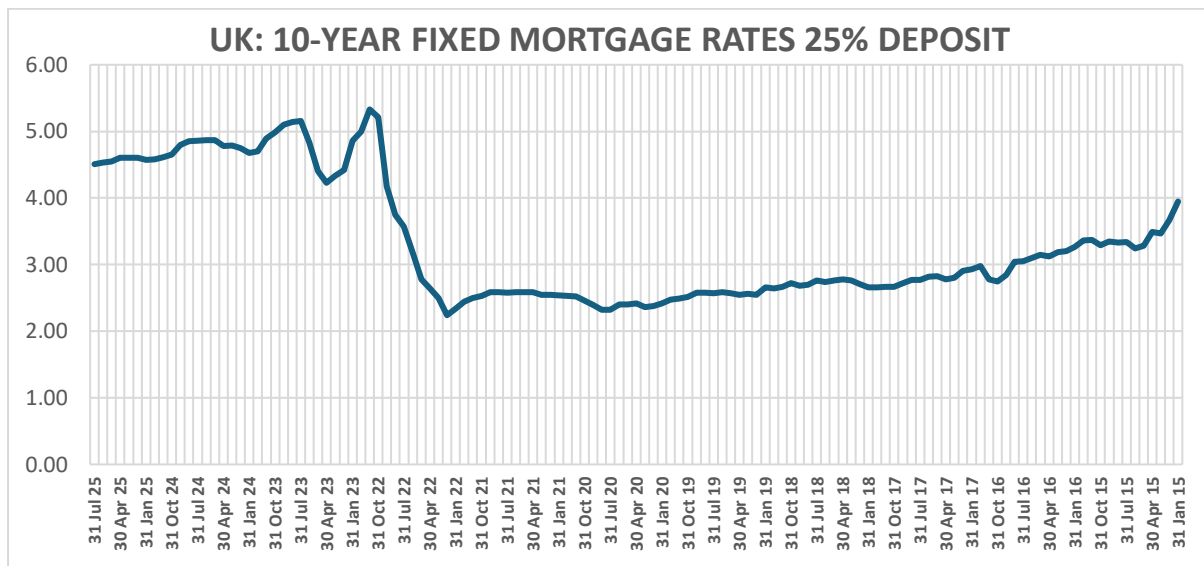


Graph 4.



The effect on mortgage rates can be seen below in Graph 5. Unfortunately, the ONS has reversed the order in which the data is presented, meaning the latest data is on the right not the left. Despite this confusion we note that mortgage rates have more than doubled since 2022. They have only fallen marginally by 0.3% from July 2024 to July 2025. In contrast the Bank of England's base rate has fallen by 1.25% over the same period, proving once again that the BOE has more control over short term interest rates than it has over long-term interest rates.

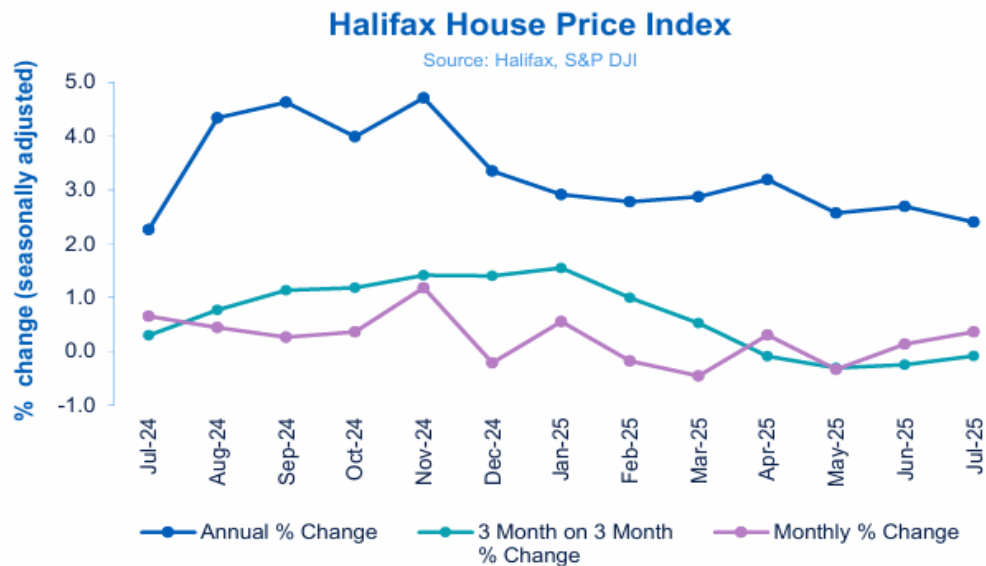
Graph 5.



Source ([Bank of England](#))

To date higher mortgage rates have had a stronger effect on house prices than on delinquencies which remain muted according to data from [Financial Conduct Authority](#). House prices, though rising modestly, are falling in real terms when adjusted for price rises.

Graph 6.



(Source: [Halifax](#))

The fiscal situation and balance of payments.

The UK has the highest borrowing costs in the G7. For the seven months ended July this year, the amount of government borrowing rose by 14.1%. Despite this rise, some economists believe Reeves will need to find an additional £20 billion to balance the books and preserve her £9 billion in fiscal headroom. But it will only take a 0.1% reduction in growth to wipe out this fiscal headroom.

Net Public debt has reverted back to its pre-pandemic levels according to the ONS. Despite this minor reduction debt remains double that of the years preceding the financial crisis and the bailout of the banks. Clearly, the brutal years of austerity was only sufficient to return debt back to 100%.

Graph 7.

**PS: Net Debt (including public sector banks) as a % of GDP:
NSA**



Source:

During the course of this year (Jan-July) tax receipts rose 6.2%. [VAT collections](#) which are more representative of spending, rose by 4.8% compared to the previous year. The [Retail Price Index](#) over the same period was 3.9% implying a volume growth of 0.9% in sales, therefore a modestly expanding economy, though much of this spending was driven by concerns over tariffs.

Government expenditures rose more quickly reaching 7.9% (Jan-July 2025 vs 2024). Social services rose slower at 6.2% while interest paid rose by 25.6%. Thus, [the deficit between receipts and expenditures](#) amounted to 1.7% or roughly by 0.5% of GDP which means that the 4.8% deficit measured by GDP is running at 5.3%. This is a significant deficit which becomes more significant when added to the balance of payments deficit of 2.5% yielding a combined deficit approaching 8%.

Graph 8.

BoP: current account balance as per cent of GDP



(Source: [ONS](#))

I always add the following caveat. Countries harbouring giant financial centres and here we think of the City of London and Wall Street, tend to have balance of payment deficits for two reasons. Firstly, no national statistical bureau can keep track of the monumental cash flows orbiting these centres many of them hidden making the national accounts pockmarked. Secondly, these centres generate considerable demand for goods including luxury goods which can only be fulfilled by the world economy exporting to those countries.

Still, I feel that official inflation is understated when tax receipts add up to 6.2% and expenditures to 7.9%. If this is the case then the real economy, adjusted for price rises, is actually weaker than forecast.

The bond crisis is not limited to Britain and France. They are merely in vanguard. [CNBC reports a global bond sell-off](#). One of the fears in the US is that the recent legal ruling against Trump's use of emergency regulations, unless overturned by the Supreme Court, will force the Treasury to repay tens of billions of collected tariffs deepening the fiscal hole, forcing the Treasury to issue additional debt to cover the shortfall.

The fragility of the bond market, which is not yet revealed by the divergence in yields between investment grade bonds and speculative grade bonds, is revealed by the rise in the gold price. The rush into safety this time is bypassing the Dollar and heading into gold whose price has soared 50% since the end of 2023. This rise is a product of countries seeking to bolster their reserves with gold rather than dollars due to the fragmentation of the world economy under Trump's tariff hammer blows. Gold reflects the reality that the US is willing to sacrifice the global economy on the altar of US hegemony only to pull back when Trump realises that altar is missing a leg and liable to topple over.

Graph 9.



France.

Unlike Britain, where Labour commands a large majority in parliament, the French government does not. Macron's coalition government is hanging on by its fingertips. The failure to secure a budget compromise could bring the government down despite Marcon's attempts to delay this to 2027.

In addition, the French gross national debt amounting to €3.35 trillion (£2.9 trillion) at the end of the last financial year to March, is both relatively and absolutely larger than the UK's national debt. Standing at 114% of GDP it is at least 10% larger than the same UK measure against economic output. And like Britain, the French economy is stagnating.

To try and balance the books Prime Minister Francois Bayrou is seeking to impose €44 billion (£38.1 billion) in cuts. Something opposed by both the right (Le Pen's National Rally) and the left (Left Block) in the French Assembly. Once again to balance the books, its cuts for the poor not tax rises for the rich.

Conclusion.

The talk of calling on the IMF is of course nonsense. In 1976 the Bank of England aided and abetted by the Labour Government sought to provoke a sterling crisis to begin dismantling the welfare state, or what is the same thing, the policies of post-war Social Democracy. The Labour Government could not do this directly because of the resistance of the organised working class, still powerful from its 1974 victories which toppled Heath's Tory government. Instead, it hid behind the IMF to begin the shift in the balance of power that was to lead to the Thatcher government at the end of the decade via the 'winter of discontent'.

It won't be the IMF executing the cuts but the Labour Government itself. Chancellor Reeve's has delayed her next budget to November 26th motivated no doubt by Wall Street's prognosis that the world economy will be stronger by then fuelled in part by US tax cuts and military spending. She is hoping the *Office for Budgetary Responsibility* will be forecasting stronger growth giving her more fiscal wiggle room, and with that, reducing the need for savage budget cuts.

This is a huge gamble and one likely to fail. The risks to the world economy are growing not diminishing, and Britain and France remain the weak links in the chain of imperialism. I am not surprised by the fiscal difficulties facing this pathetic British government. The tax data, though slightly stronger over the last few months, always painted a picture of the British economy weaker than official figures reported. For that reason, the Chancellor is tap-dancing on fiscal ice which is thinner than she realises or is willing to admit to. The Labour Government, pledged to manage the capitalist economy, is unlikely to survive this folly.

The debt crisis is maturing. But there will be a temporary interregnum, a pause. That pause will be defined by expectations of lower interest rates as weaker economic news comes in, like the US August job numbers today. However, it is only a question of time before bad news overwhelms interest rate optimism, and when that happens, all the AI men will not be able to put the Wall Street *Humpty Dumpty* together again.

Brian Green, 5th September 2025.