

## i asked Google search AI the following 10 questions

who would buy bonds if they gave zero interest?

is this the same for gilts?

would this reduce government borrowing?

can government create money without issuing bonds?

if the BoE introduced a digital £ could they then save on the seigniorage they would have paid?

what is the amount of seigniorage paid to commercial banks at present?

could this be avoided if the BoE were to introduce a digital £ directly itself?

if increased budget deficits were used to fund infrastructure renewal and repair and restore local services nationwide would this increase real government borrowing?

how would financial markets view this and what would be the effect on the value of the £ ?

but surely our increased value of restored infrastructure would then be a valuable asset on our national balance sheet?

### **1/ who would buy bonds if they gave zero interest?**

While it may seem counterintuitive to buy a bond with **0% interest**, many institutional and some individual investors do so for reasons ranging from capital preservation to legal requirements. In fact, "zero-coupon" bonds are a standard financial instrument where the profit is built into a discounted purchase price rather than periodic interest payments.

#### 1. Institutional and Mandatory Buyers

Most zero or negative-yield bonds are purchased by large institutions rather than individual "retail" investors.

- **Central Banks:** Use bond purchases (Quantitative Easing) to manage the money supply and influence broader market interest rates, even if the bonds themselves offer no return.
- **Pension Funds & Insurance Companies:** Often legally or regulatory required to hold a certain percentage of "High Quality Liquid Assets" (HQLA). They also use these bonds to match future liabilities, ensuring they have a guaranteed lump sum available when needed, regardless of current yields.
- **Commercial Banks:** Holding massive amounts of cash in digital reserves can be more expensive than buying zero-yield bonds, especially if central banks charge negative interest on those reserves.
- 

#### 2. Strategic and Economic Reasons

Investors may buy zero-interest bonds to hedge against economic risks or to speculate on market movements.

**Capital Preservation (Safe Haven):** In times of extreme market volatility or economic crisis, investors prioritize the return *of* their principal over the return *on* their principal. A government bond is often safer than a large bank deposit that exceeds insurance limits (like the **\$250,000** FDIC limit in the US).

**Deflation Hedge:** If the economy experiences deflation (falling prices), the purchasing power of the money returned at the end of the bond's term actually increases, resulting in a positive "real" return even if the "nominal" interest is zero.

**Speculation:** Bond prices move inversely to interest rates. If an investor believes interest rates will drop further (into negative territory), the market price of their 0% bond will rise, allowing them to sell it for a profit before it matures.

•

### 3. Understanding Zero-Coupon Bonds

A "zero-interest" bond is often a **Zero-Coupon Bond**. These are specifically designed to pay no periodic interest.

- **Discounted Purchase:** Instead of receiving interest, you buy the bond for significantly less than its "face value".
- **Example:** You might buy a **\$10,000** bond for **\$7,000**. Your "interest" is the **\$3,000** difference you receive when the bond matures.
- **Target Use:** These are popular for long-term goals like saving for a child's education or retirement, where a predictable lump sum is preferred over regular small payments.
- 

AI responses may include mistakes!!

### 2 /is this the same for gilts?

Yes, the logic is very similar for **gilts** (UK government bonds), though they have unique tax advantages that make "low-coupon" or zero-interest options even more attractive to UK residents.

While most conventional gilts pay regular interest (the "coupon"), the UK market also includes **Treasury Bills**, which function exactly like zero-coupon bonds.

### Why Investors Buy 0% or Low-Interest Gilts

As of early **2026**, there is significant retail interest in gilts issued during the "rock-bottom" interest rate era (2020–2021) that carry tiny coupons, such as **0.125%**.

- **Tax Efficiency (The "Gilt Edge"):** For individual UK taxpayers, gilts are highly efficient because **capital gains are tax-free**. If you buy a low-coupon gilt at a discount (e.g., for **£96**) and hold it to maturity (receiving **£100**), the **£4** profit is entirely exempt from Capital Gains Tax. This is often more profitable for high-rate taxpayers than a high-interest savings account where the interest is fully taxable.
- **Treasury Bills:** These are the UK's true "zero-coupon" government debt. They pay **0% interest** and are issued at a discount to their £100 face value for short terms (1, 3, or 6 months). The "return" is simply the difference between the discounted purchase price and the £100 repayment.
- **Guaranteed Returns:** Unlike bank deposits, which are only protected up to **£85,000** (FSCS limit), the entire value of a gilt is backed by the UK government.
- **Institutional Matching:** UK pension funds use these bonds to match their long-term inflation-linked liabilities, often through "Liability-Driven Investment" (LDI) strategies.

### Popular Low-Coupon Gilts in 2026

Investors often use these as "fixed-term savings tools" in General Investment Accounts (GIAs) to avoid income tax on interest.

Gilt Name
-----------

	Coupon	Maturity Date	Typical Use
Treasury Gilt 2026	0.125%	30 Jan 2026	Mature/Reinvesting
Treasury Gilt 2028	0.125%	31 Jan 2028	Tax-free capital growth
Treasury Gilt 2031	0.25%	31 Jan 2031	Long-term tax efficiency

## Key Insights

- **Capital vs. Income:** For a gilt bought below its face value, the "Yield to Maturity" (total return) is what matters, not just the coupon interest.
- **2026 Market Outlook:** In early **2026**, analysts expect the Bank of England to continue cutting rates, which typically pushes up the price of existing low-coupon gilts, offering potential capital gains for those who sell before maturity.
- 

AI responses may include mistakes.

## 3/ would this (zero interest bond issue) reduce government borrowing?

In general, the issuance of **zero-interest** or **low-coupon** bonds does not reduce the government's total amount of borrowing, but it can significantly reduce the **immediate cost of servicing that debt**.

### 1. Total Borrowing vs. Interest Payments

The amount a government needs to borrow is determined by its **fiscal deficit** (the gap between spending and tax revenue). Using zero-interest bonds doesn't change this gap; it only changes how the debt is structured.

- **Borrowing Amount:** The government still needs to raise the same amount of cash to fund public services or investment.
- **Debt Interest Costs:** Issuing low-coupon or zero-interest debt can lower the annual interest bill. For the UK in **2026**, debt interest is a major pressure, with payments projected to reach approximately **£92 billion**.
- 

### 2. The "Hidden" Cost of Zero-Coupon Bonds

While zero-coupon bonds (like UK Treasury Bills) don't pay interest, they are not "free" money.

- **Discounted Sale:** The government sells these bonds at a discount (e.g., selling a £100 bond for £95). The **£5 difference** is essentially the interest, but it is paid as a lump sum at the end rather than in yearly installments.

**Maturity Risk:** Relying on zero-coupon or short-term debt increases "rollover risk." If the government has to repay the full face value in a short period (e.g., 6 months), it must borrow again quickly, potentially at much higher rates if the economy has changed.

- 

### 3. Current Strategy in 2026

In early **2026**, the UK Debt Management Office (DMO) has shifted its strategy to manage high borrowing costs:

- **Shorter Maturities:** The government is issuing more short-term debt because yields on 2-year gilts are often lower than 30-year gilts.
- **Retail Demand:** There is high demand for low-coupon gilts from individual investors because the capital gain (the difference between the discounted purchase price and the final repayment) is **tax-free** in the UK. This demand helps the government find buyers without having to offer even higher interest rates.
- 

## Summary of Impact

Feature	Impact of Zero/Low-Interest Bonds
<b>Total National Debt</b>	<b>No change</b> (determined by the deficit).
<b>Annual Budget</b>	<b>Improves</b> (lower immediate cash outlays for interest).
<b>Refinancing Risk</b>	<b>Increases</b> (debt must be repaid/replaced more frequently).
<b>Investor Attraction</b>	<b>High for tax-efficiency</b> (especially for UK high-rate taxpayers).

Ultimately, while zero-interest bonds make the debt *cheaper to manage* in the short term, they do not reduce the *total amount* the government owes.

AI responses may include mistakes.

## 4/ can government create money without issuing bonds?

In 2026, technically and legally, governments with sovereign currencies (like the UK) **can** create money without issuing bonds through a process known as **direct monetary financing**, although they rarely do so in practice due to current economic conventions.

### 1. Direct Monetary Financing (Overdrafts)

The government can bypass the bond market by directly instructing its central bank to credit its spending account with newly created money.

- **The "Ways and Means" Facility:** In the UK, the [Bank of England](#) maintains a permanent "Ways and Means" facility, which is essentially the government's overdraft.
- **Historical Use:** During the COVID-19 pandemic in 2020, the UK government briefly used this facility to fund spending directly before issuing gilts to "drain" those reserves later.
- **MMT Perspective:** Proponents of **Modern Monetary Theory (MMT)** argue that bonds are a policy choice to manage interest rates rather than a necessity for funding, as the government is the monopoly issuer of its currency.
- 

### 2. Digital Money Creation (Central Bank Reserves)

Central banks create "new" money daily without selling bonds to the public through their own operations. **Asset Purchases:** While Quantitative Easing (QE) involves buying bonds, the money used for those purchases is created **digitally** as "central bank reserves".

**Direct Loans:** Central banks can also create money by making direct loans to commercial banks, which increases the total money supply in the banking system.

### 3. Commercial Bank Lending

The vast majority of money in modern economies (**roughly 80%** in the UK) is not created by the government at all, but by **commercial banks**.

- **Loan Creation:** When a bank issues a loan (e.g., for a mortgage or business), it does not lend out other people's savings; instead, it credits the borrower's account with new digital money that did not exist before.
- **Money Destruction:** This money is "deleted" when the loan is repaid.
- 

### Why Governments Still Issue Bonds

Even though they can technically create money without them, governments in 2026 continue to issue bonds for several reasons:

- **Inflation Control:** Creating money without withdrawing it via bonds or taxes can lead to high inflation if the economy's capacity to produce goods is exceeded.
- **Market Stability:** Bonds provide the financial sector (pension funds, insurance companies) with a "safe haven" asset and a benchmark for interest rates.

**Institutional Rules:** Many international and domestic laws (like the Eurozone rules) strictly forbid direct monetary financing to ensure central bank independence.

- 

AI responses may include mistakes.

## 5/ if the BoE introduced a digital £ could they then save on the seigniorage they would have paid?

domains\_identified: Finance

Actually, the introduction of a digital pound (CBDC) is expected to **increase** the Bank of England's (BoE) seigniorage profits rather than save on costs it "pays out".

Currently, as people switch from physical cash to commercial bank transfers, the BoE is "losing" seigniorage revenue to private banks. A digital pound would allow the BoE to **recapture** this income.

### Recapturing the "Fiscal Windfall"

Seigniorage is the profit made from issuing money—the difference between the cost of production and the face value of the currency.

- **Recapturing Lost Revenue:** In recent years, seigniorage has shrunk from billions to roughly **£250 million** annually because 97% of money is now privately issued by banks.
- **Fiscal Windfall:** Estimates suggest that by 2029, a digital pound could generate between **£15 billion and £30 billion** a year in new revenue for the Treasury.
- **Non-Interest Bearing:** Like physical banknotes, the BoE plans for the digital pound to pay **0% interest**.

### Why a Digital Pound is More Profitable

The "savings" you mention actually come from a change in the Bank's liabilities and a reduction in operational costs.

- **Lower Production Costs:** Digital currency has a lower marginal issuance cost compared to printing, storing, and transporting physical polymer banknotes.
- **Replacing Interest-Bearing Liabilities:** When you hold a digital pound, you are holding a non-interest-bearing liability of the BoE.
  - If that money was previously in a bank reserve, the BoE would have had to pay interest (the Base Rate) on it.
  - By switching that money to a 0% digital pound, the BoE "saves" on the interest payments it otherwise would have paid to commercial banks.
  -

## Status of the Digital Pound (January 2026)

As of **January 2026**, the BoE and HM Treasury are still in the "design phase".

- **Blueprint Release:** A detailed technical blueprint is expected to be published later in **2026**.
- **Decision Timeline:** A final decision on whether to proceed with a launch is expected **after 2026**.
- **Legislative Hurdles:** Any launch will require primary legislation passed by the UK Parliament to ensure privacy and control safeguards

Would you like to see a breakdown of the proposed **holding limits** for individuals that the BoE is currently considering for the 2026 blueprint?

AI responses may include mistakes

## **6/ what is the amount of seigniorage paid to commercial banks at present?**

At present, commercial banks in the UK receive seigniorage-equivalent "rents" estimated at **£23 billion per year**.

This figure represents the profit commercial banks make by creating electronic money through lending, a privilege they hold because 97% of the UK's money supply is now digital deposits rather than central bank cash.

### Interest on Reserves (The "Stealth Subsidy")

In addition to traditional seigniorage from lending, commercial banks receive direct interest payments from the Bank of England (BoE) on the reserves they hold. This has become a significant source of income for banks due to the higher interest rate environment of the mid-2020s.

- **Bank Rate in 2026:** As of **January 2026**, the BoE's benchmark interest rate is **3.75%**.
- **Total Payments:** The banking sector has been receiving substantial sums through this mechanism; some estimates suggested the sector was on track to receive over **£200 billion** in total income from BoE reserves over recent years.
- **Treasury Liability:** Because the Treasury indemnifies the BoE's asset purchase programme, these interest payments to commercial banks are ultimately funded by the taxpayer.
- 

### Comparison of Seigniorage Income

The "monopoly" on electronic money allows commercial banks to capture the lion's share of money-creation profits, dwarfing the income the state makes from physical cash.

#### Type of Seigniorage

	Estimated Annual Amount	Recipient
Commercial Bank Seigniorage	£23 Billion	Private Banks
State Seigniorage (Banknotes)	£1.2 - £1.5 Billion	HM Treasury

#### Key Policy Debate in 2026

In early **2026**, there is active political and economic debate regarding whether the BoE should stop paying interest on a portion of these commercial bank reserves—a move called "tiered reserves"—to reduce the fiscal burden on the Treasury. Proponents argue it could save the government billions, while the BoE maintains that paying interest is essential for controlling inflation and maintaining financial stability.

#### Estimated Annual Seigniorage Revenue (UK)



AI responses may include mistakes. For financial advice, consult a professional. [Learn more](#)

#### 7/ could this be avoided if the BoE were to introduce a digital £ directly itself?

domains\_identified: Finance

In theory, yes—the [Bank of England](#) (BoE) could significantly reduce the "seigniorage" profits currently captured by commercial banks by introducing a digital pound directly to the public.

As of **January 2026**, the BoE and HM Treasury are developing a "blueprint" for a digital pound that would allow the state to recapture these revenues.

Currently, commercial banks earn seigniorage because 97% of the money supply consists of their private digital deposits rather than central bank cash.

- **Public Windfall:** If a digital pound were introduced, users could move their money from private bank accounts into the BoE's digital currency. Because the digital pound would be **non-interest bearing** (like physical cash), the BoE would hold the corresponding assets and earn interest on them, transferring the profit to the Treasury.
- **Revenue Estimates:** Analysis suggest that if 20% to 30% of bank deposits switched to a digital pound, the government could gain between **£15 billion and £30 billion per year** in seigniorage.
- **Saving on Interest:** When people hold digital pounds instead of commercial bank deposits, it reduces the volume of "central bank reserves" that the BoE must pay interest on to commercial banks.
- 

### The Trade-offs: Why it isn't "Free"

While a digital pound could recapture seigniorage, the BoE is cautious due to potential risks to the wider economy

**Increased Lending Costs:** If commercial banks lose a large portion of their cheap customer deposits to the digital pound, they would have to find more expensive ways to fund their activities. This could increase the interest rates they charge on mortgages and business loans by an estimated **20 to 80 basis points**.

**Holding Limits:** To prevent a massive "bank run" where everyone pulls money out of private banks at once, the BoE currently proposes a **£10,000 to £20,000 limit** on how many digital pounds an individual can hold.

**Operational Costs:** Building and maintaining a secure national digital currency infrastructure is highly expensive. Critics argue that the costs of development and the risk to financial stability might outweigh the seigniorage benefits.

- 

### 17 Current Status (2026)

As of **January 2026**, the digital pound is still in its **design phase**. A joint assessment by the BoE and HM Treasury is expected later in **2026** to decide whether to proceed to a build phase, with any launch likely requiring new primary legislation from Parliament.

AI responses may include mistakes.

## **8/ if increased budget deficits were used to fund infrastructure renewal and repair and restore local services nationwide would this increase real government borrowing?**

In 2026, the impact of increased budget deficits on **real government borrowing** (borrowing adjusted for inflation or as a share of GDP) depends heavily on the economic "multiplier" effect of the infrastructure projects.

### 1. Short-Term Increase in Real Borrowing

Initially, any increase in a budget deficit to fund infrastructure renewal or restore local services results in a direct rise in **public sector net borrowing**.

- **Borrowing Levels:** As of January 2026, UK borrowing in the 2025/26 financial year reached **£140.4 billion**.
- **Yield Pressure:** Increased borrowing can drive up government bond (gilt) yields, making the debt more expensive in real terms. Long-term yields in early 2026 remain high (10-year yields at **4.7%**), putting pressure on fiscal sustainability.
-

## 2. Potential for Long-Term Real Reduction

If the infrastructure investment successfully improves national productivity, it can eventually lead to a **reduction** in the real debt burden (the debt-to-GDP ratio).

- **GDP Multiplier:** Estimates suggest that every £1 spent on infrastructure can yield a GDP impact of up to £3.
- **Self-Financing:** Research indicates that a sustained boost to public investment (e.g., to 3% of GDP) could raise the permanent size of the economy by **0.8%**, potentially keeping the debt-to-GDP ratio flat over time despite the initial increase in borrowing.
- **Quality Matters:** Investment in **transport** and **digital energy** is seen as a key driver for 2026 growth. However, the Office for Budget Responsibility (OBR) notes that projects typically take a long time to become "self-financing"

## 3. Restoration of Local Services vs. Infrastructure

Economists draw a sharp distinction between different types of deficit spending:

- **Capital Investment (Infrastructure):** Seen as an investment that can grow the economy and pay for itself through future tax revenues.
- **Current Expenditure (Local Services):** Restoring day-to-day services (e.g., special educational needs or social care) is classed as "current budget" spending. Borrowing for these activities is generally viewed as increasing the real debt burden without providing a direct supply-side boost to the economy.
- 

### Summary of Impact in 2026

Type of Spending	Short-Term Real Borrowing	Long-Term Debt-to-GDP Ratio
Infrastructure Renewal	Increases	<b>May Decrease</b> (if productivity gains > debt cost)
Local Service Restoration	Increases	<b>Likely Increases</b> (due to lack of growth "multiplier")

For more detailed data on how the UK manages these trade-offs, you can review the latest reports from the [Office for Budget Responsibility \(OBR\)](#) or the Institute for Fiscal Studies (IFS).

AI responses may include mistakes.

## 9/ how would financial markets view this and what would be the effect on the value of the £ ?

In early 2026, financial markets generally distinguish between borrowing for **capital investment** (infrastructure) and borrowing for **current expenditure** (local services), with the latter posing a higher risk to fiscal credibility and the value of the pound (£).

### Financial Market Perception

Markets in 2026 are highly sensitive to the UK's "precarious" fiscal arithmetic, particularly following a series of high-stakes budget events in late 2025.

- **Infrastructure (Positive/Neutral):** Markets typically view infrastructure spending more favourably as it is seen as a driver for long-term productivity and growth. If the government amends its "debt rule" to

allow for more investment while maintaining a "current budget balance," bond markets are likely to remain stable.

- **Local Services (Negative/Risk):** Borrowing to fund day-to-day services (restoring local government budgets) is viewed as more risky. The **Office for Budget Responsibility (OBR)** and **Institute for Fiscal Studies (IFS)** note that this adds to the "structural deficit," which recovery alone cannot fix.
- **The "Bond Vigilante" Risk:** While fiscal risks receded slightly in late 2025 due to a "market-friendly" budget, the market remains "very sensitive" to signs of fiscal weakness. A sudden increase in borrowing without matching tax rises could trigger a "jolt" in gilt yields.
- 

### Effect on the Value of the Pound (£)

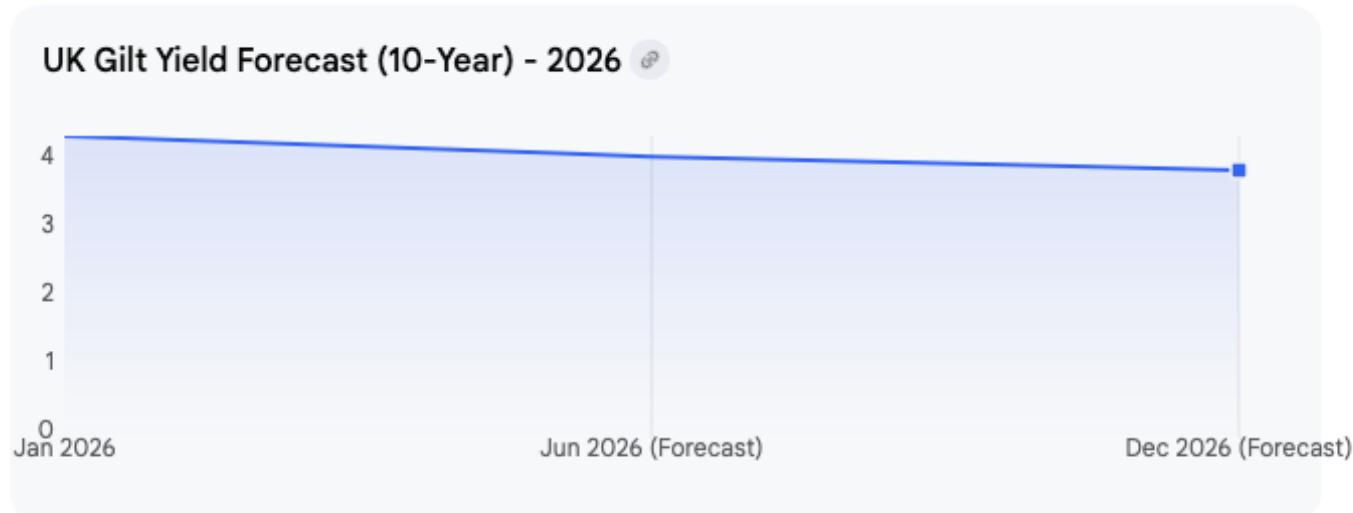
The impact on Sterling is a balance between the "stimulus" of spending and the "risk premium" of higher debt.

- **Downward Pressure (Current Outlook):** In the first half of 2026, the pound faces headwinds from weak growth and expected **Bank of England** interest rate cuts (forecast to fall to **3.25% - 3.5%** by mid-2026). Increased deficits for non-productive spending could accelerate this decline by introducing a fresh "risk premium".

**Potential Support:** If spending is strictly targeted at high-growth infrastructure, the resulting "cyclical rebound" in 2026/27 could support the pound as borrowing costs lead to a pick-up in economic activity.

#### Exchange Rate Forecasts (2026):

- **GBP/USD:** Analysts suggest the pound could actually strengthen against the dollar (rising to **\$1.37**) if the US Federal Reserve cuts rates more aggressively than the BoE.
- **GBP/EUR:** Likely to trend lower (falling to **€1.19** or below) as the Eurozone benefits from fiscal expansion and monetary policy divergence.



#### Summary Table: Market Sensitivity

Factor	Effect of Infrastructure Spending	Effect of Local Service Restoration
Gilt Yields	Stable to slightly higher (growth-linked)	Likely sharp increase (risk premium)
GBP Value	Supported by growth prospects	Pressured by fiscal credibility concerns
Policy Credibility	High (if tied to 10-year strategy)	Low (viewed as "unfunded" spending)

## **10/ but surely our increased value of restored infrastructure would then be a valuable asset on our national balance sheet?**

domains\_identified: Finance

Restored infrastructure is indeed a valuable asset, but its impact on the "national balance sheet" depends on whether you look at its **economic value or its accounting value**.

In the UK, as of **January 2026**, there is a significant push to recognize infrastructure more effectively in national planning, though technical accounting rules still present challenges in making these assets "balance" the debt used to fund them.

### The "Wealth" vs. "Debt" Conflict

While infrastructure adds to **Public Sector Net Worth**, it does not always reduce **Public Sector Net Debt**, which is the metric financial markets watch most closely.

- **Public Sector Net Worth:** This is the most comprehensive measure of the UK's balance sheet. It includes all assets (roads, hospitals, schools) minus all liabilities. Restoring infrastructure increases this figure, making the country "wealthier" in a broad sense.
- **The Accounting Gap:** A major issue in 2026 is that local and central governments often value infrastructure differently. For example, the **Whole of Government Accounts (WGA)** has been "qualified" (flagged by auditors) because local authority assets are estimated to be undervalued by roughly **£100 billion** compared to central government standards.
- **Non-Liquid Assets:** Unlike a gold reserve, a restored road or bridge is "inalienable"—it cannot be sold to pay off debt. Therefore, while it is a valuable asset for society, accountants and bond investors do not view it as a "financial" asset that can offset borrowing.

### Strategic Shifts in 2026

To address the "borrowing for growth" argument, the government has introduced several new measures this year:

- **10-Year Infrastructure Strategy:** Launched in **June 2025**, this strategy commits at least **£725 billion** to economic and social infrastructure over the next decade.
- **NISTA (National Infrastructure and Service Transformation Authority):** Established in 2025/26 to oversee delivery and ensure that infrastructure spending actually results in the promised "productive assets" rather than becoming "sunk costs".
- **Reformed Fiscal Rules:** There is ongoing debate in early **2026** about whether to formally move to a "Net Worth" target for the budget. This would allow the government to borrow more freely for projects that demonstrably increase the value of national assets, as the "asset" side of the balance sheet would grow alongside the "debt" side.
- 

### Infrastructure as a Competitive Asset

In the global market of 2026, high-quality infrastructure is seen as a "defensive" asset that attracts private capital.

- **Crowding in Investment:** Modern infrastructure (especially in energy and digital sectors) acts as a magnet for private "megafunds". In 2026, the **National Wealth Fund** is actively using public money to "crowd in" private investment for battery storage and grid upgrades.
- **Nature as Infrastructure:** For the first time, 2026 reporting is starting to recognize "natural infrastructure" (like restored flood defenses) as a productive asset with measurable balance-sheet consequences.
-

## Summary of Impact on National Accounts

### Metric

	<b>Effect of Restored Infrastructure</b>	<b>Why it Matters</b>
<b>Public Sector Net Worth</b>	<b>Increases</b>	This is the cash the government owes; it rises when you borrow to build.
<b>Public Sector Net Worth</b>	<b>Increases</b>	Reflects the total value of the UK; makes the nation "stronger" long-term.
<b>Productivity (GDP)</b>	<b>Improves</b>	Better roads/rails/broadband allow the economy to grow faster, making the debt easier to pay off.

Ultimately, while restored infrastructure is a valuable asset, its primary value to the government in 2026 is its ability to **generate future tax revenue** through economic growth, rather than its value as a line item on an accounting spreadsheet.

AI responses may include mistakes.

- 

=====

Conclusions and standout quotes

In general, the issuance of **zero-interest** or **low-coupon** bonds does not reduce the government's total amount of borrowing, but it can significantly reduce the **immediate cost of servicing that debt**.

Ultimately, while zero-interest bonds make the debt *cheaper to manage* in the short term, they do not reduce the *total amount* the government owes.

In 2026, technically and legally, governments with sovereign currencies (like the UK) **can** create money without issuing bonds through a process known as **direct monetary financing**, although they rarely do so in practice due to current economic conventions.

Central banks create "new" money daily without selling bonds to the public through their own operations.

The vast majority of money in modern economies (**roughly 80%** in the UK) is not created by the government at all, but by **commercial banks**.

Actually, the introduction of a digital pound (CBDC) is expected to **increase** the Bank of England's (BoE) seigniorage profits rather than save on costs it "pays out".

Currently, as people switch from physical cash to commercial bank transfers, the BoE is "losing" seigniorage revenue to private banks. A digital pound would allow the BoE to **recapture** this income.

**Fiscal Windfall:** Estimates suggest that by 2029, a digital pound could generate between **£15 billion and £30 billion** a year in new revenue for the Treasury.

At present, commercial banks in the UK receive seigniorage-equivalent "rents" estimated at **£23 billion per year**.

This figure represents the profit commercial banks make by creating electronic money through lending, a privilege they hold because 97% of the UK's money supply is now digital deposits rather than central bank cash.

the [Bank of England](#) (BoE) could significantly reduce the "seigniorage" profits currently captured by commercial banks by introducing a digital pound directly to the public.

In early 2026, financial markets generally distinguish between borrowing for **capital investment** (infrastructure) and borrowing for **current expenditure** (local services), with the latter posing a higher risk to fiscal credibility and the value of the pound (£).

**Infrastructure (Positive/Neutral):** Markets typically view infrastructure spending more favourably as it is seen as a driver for long-term productivity and growth. If the government amends its "debt rule" to allow for more investment while maintaining a "current budget balance," bond markets are likely to remain stable.

comment

*both infrastructure spending and local services provide jobs or maintain jobs and increase a Country's true wealth not just by increased tax take, but also by increasing the country's assets which aren't currently properly assessed in accounting terms on the balance sheet*

The impact on Sterling is a balance between the "stimulus" of spending and the "risk premium" of higher debt.

Restored infrastructure is indeed a valuable asset, but its impact on the "national balance sheet" depends on whether you look at its **economic value** or its **accounting value**.

In the UK, as of **January 2026**, there is a significant push to recognize infrastructure more effectively in national planning, though technical accounting rules still present challenges in making these assets "balance" the debt used to fund them.

**Reformed Fiscal Rules:** There is ongoing debate in early **2026** about whether to formally move to a "Net Worth" target for the budget. This would allow the government to borrow more freely for projects that demonstrably increase the value of national assets, as the "asset" side of the balance sheet would grow alongside the "debt" side.

In the global market of 2026, high-quality infrastructure is seen as a "defensive" asset that attracts private capital.

- **Crowding in Investment:** Modern infrastructure (especially in energy and digital sectors) acts as a magnet for private "megafunds". In 2026, the **National Wealth Fund** is actively using public money to "crowd in" private investment for battery storage and grid upgrades.
- **Nature as Infrastructure:** For the first time, 2026 reporting is starting to recognize "natural infrastructure" (like restored flood defenses) as a productive asset with measurable balance-sheet consequences

Ultimately, while restored infrastructure is a valuable asset, its primary value to the government in 2026 is its ability to **generate future tax revenue** through economic growth, rather than its value as a line item on an accounting spreadsheet.