

The Chancellor may overstate necessary government inter...

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There will be much talk of unaffordable debt burdens from Sunak today, none of which is true.

The reality is that there are about £1,500 billion of conventional gilts or bonds in issue, but since the government owns more than half of these there are only about £675 bn owned by the public. The annual cost, net of the debt owned by the government using quantitative easing is about £15 billion a year. Around £20 billion of interest paid on the rest of these bonds goes straight bank to the government.

£500bn of index linked stock is in issue. The cost a year ago was around £5bn pa, and will now be around £40bn because of the increase in inflation.

The only other so-called debt to worry about is balances held by clearing banks on deposits with the Bank of England on their central bank reserve accounts. These are around £900 billion so the cost was less than £1 bn until recently and now maybe £8 bn

So, index linked stock is the problem.

But then note that there is no obligation at all on the Bank of England to pay interest on central bank reserves and almost all the index linked cost is an accrual i.e. an estimate of a cost that may, or may not be paid one day, and as a result is subject to change. There is no current cash cost to most of this.

In other words, this issue is being massively overplayed, not least by using gross debt figures that ignore quantitative easing. It is likely that the Chancellor may overstate the necessary interest cost by up to £30 billion today to provide reason why he cannot spend, and that makes me very angry when millions will suffer as a result.