

Funding the Future

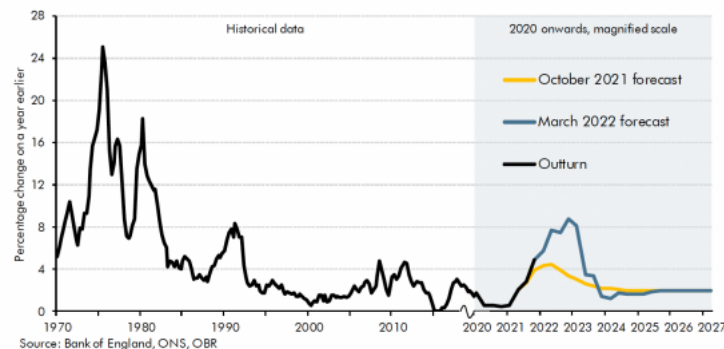
The government is forecasting a big fall in its interest...

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There was a fascinating discussion between commentators Andrew and Clive Parry [on this post yesterday](#) relating to the calculation of interest costs on index-linked gilts.

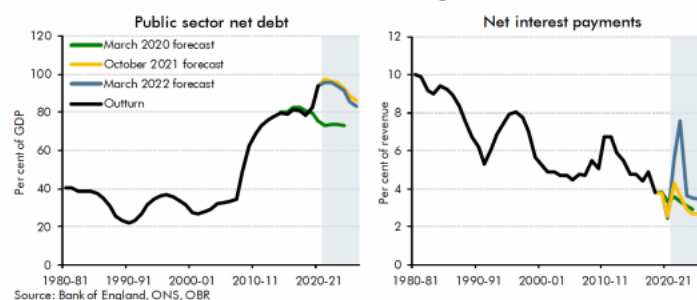
To summarise, the reason why supposed costs of interest in the government's forecasts are rising so much is because current inflation estimates are high. However, they are also forecasting that these will fall, as this [Office for Budget Responsibility chart](#) shows:

Chart 1.1: CPI inflation



By 2024 the Office for Budget Responsibility says inflation will be back on target. I admit that I have no confidence in that forecast, but it is used as the basis for the right hand of these two charts as well:

Chart 1.9: Public sector net debt and debt servicing costs



The hike in interest costs this year disappears in 2023 and a downward trend is in place from 2024. Why? Because the accounting accrual for the cost of paying back index-linked bonds is removed from the national accounts when inflation falls again, with no real cost of significance having ever been incurred.

Right now Sunak is using this cost as the reason why he cannot relieve poverty. What will he use his bonus due by 2024 for? I think you can be quite sure it will be for tax cuts.

How terribly convenient this accounting will have proved to be if it works out that way.