

Interest payments on government borrowing to hit £100 billion City warns

Tomorrow sees the [Office for National Statistics](#) release the latest [government](#) borrowing figures. The [City](#) expectation is that the [Treasury](#) borrowed £20 billion in April to make ends meet, higher than official forecasts.

That will take [total](#) government borrowing to £2.3 trillion.

The interest payments on the stock of government debt will be about £7.5 billion, which takes the total for the year to April to £71.5 billion.

It is rising due to increases in RPI inflation, to which index-linked gilts are pegged.

That sounds bad.

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Plainly it is not good. It will be a record high figure. And only getting higher. Capital Economics thinks debt interest

will hit £100 billion next year, far more than the £83 billion OBR forecast.

What does this mean?

In the short-term, not much unless you are a politician. It's not like Rishi Sunak has to write a cheque for £100 billion. It gets paid in dribs and drabs, over years.

It is classed as a cost now (accountants, tsch) but isn't cash that leaves the reserve fund.

There's a good look at it here from Julian Jessop at the Institute of Economic Affairs:
<https://iea.org.uk/media/higher-inflation-can-still-be-good-for-the-public-finances-says-iea-economist/>

It is a headache for the Chancellor though, as he tries to get the nation's finances under control and ease the cost-of-living crisis.

GDP falling hardly helps. Capital says: "With the Chancellor constrained by both the public finances and a desire not to make inflationary pressures worse, any further fiscal loosening may be targeted and small."

To where do these interest payments go?

That's a good question, seldom asked. It goes to holders of UK government bonds. UK insurance/pension funds own about 30% of all gilts, the Bank of England owns about 30%, foreigners own about 25% and the rest are held by other UK finance businesses and UK households.

So, wait, 60% of this at least just comes back to us?

Yes, either as a dividend to our pensions or just back to the Bank of England. The payments to foreign institutions might be annoying, but why do they hold the debt? Because they trust us. They know for sure they will get paid. That in turn makes

it easier and cheaper for us to borrow in the longer term.

This is sounding like something I shouldn't worry about.

I wouldn't say that, but there are worse things. The economy crashing into a recession for example, which is beginning to look increasingly likely.

But it is a transfer of money from the public sector to the private sector, which means the government can't control what gets done with it.

Is the UK going bust?

It can't really. If we were borrowing money in someone else's currency then that would be possible, but we are not. If we need more pounds, we just invent them.

This is not to say we should, the effects of so doing are inflationary. But we can.

So we should just keep chucking money about?

Depends what we are spending it on. Tax breaks to Ferrari drivers are bad. Money to stop old folk freezing to death in their homes is good.