Funny numbers paint a bad picture and constrain the Chancellor

In the long run up to the March budget we have had a stream of bad numbers from the Treasury and Bank and a leak of a bad forecast from the OBR.

The dreadful December borrowing figures were designed to alarm, showing a massive £27.4 bn borrowing figure for the month. It had two main components. The first was £17.3 bn of so called debt interest, up by £8.7bn. This was the result of insisting on including the extra costs of the indexed debt where no cash payments are made so no actual increased borrowing took place for that purpose in December. It is true the government owes more devalued pounds to the holders of indexed debt. They will be repaid in full by rolling over the debt in due course, often many years away, when it falls due. Why is this muddled up with genuine bills paying cash for actual interest on debt?

The second was £7bn on subsidies, another large rise, reflecting the temporary energy payments. As the government is rightly phasing most of those out this spring it is not a serious worry.

The figures also reveal that the Bank of England which had been sending cash to the government when it was making running profits on printing cash and buying bonds will create a painful negative £8.7bn turn round this year as it starts losing money on bonds. Unlike other leading Central Banks the Bank of England will add to the government's misery by selling bonds at a loss which it does not have to do, and requiring payment for the losses from the government. In the USA the Fed is also selling bonds but does not charge the taxpayers for the losses, taking the hit on its own balance sheet. In Euroland the Bank is not so far selling bonds to avoid this problem. The ONS says that end December the Bank was sitting on £106bn of unrealised losses on its bond portfolio.

To cap all the red ink this puts into the figures we read the OBR may lower the long term growth assumptions to give us more debt and deficits in future years. it is important this does not become self validating. Force the Chancellor to impose high taxes and then you will get a lower growth rate and worse debt and deficit figures.