Strange numbers and wrong forecasts

The ONS published revised figures for the debt and deficit in the year to March 2022. Compared to the figures released as recently as the Spring Statement they now think borrowing last year was £20bn higher than they thought in March, though still massively down on the budget 2021 forecast. They also warn us that the figures will be subject to future revision and that could be material. As the cash requirement figures they published are so much lower than the deficit figures it seems likely the deficit will be revised down again before we are finalised with the history.

Revenues were well up on the original 2021 forecasts and were even up on the recent Spring Statement forecasts. it leads me to ask again how can the Treasury be so sure they needed an extra £12bn from a National Insurance rise when the revenues increased last year by several times that amount over their forecast? And how come they can afford to withgo a portion of the £12bn now they have raised the threshold for paying National Insurance?

The latest figures tell us that there has been a large rise in debt interest, to £69.9bn. This figure combines genuine cash payments of interest on borrowings, with more complex non cash items relating to index linked borrowings repayable often in many years time.

Debt interest remains low relative to GDP and spending thanks to low interest rates . Much of the borrowing is long term, locking in these favourable low interest rates for the full term of the loans.

The fact that the Bank of England owns a large portion of the bonds is also helpful as a 100% owned servant of the state. The Treasury pays interest to the Bank on these loans, but can get a dividend back from the extra money the Bank receives as a result.

The Treasury now adds the increase in repayment value of indexed gilts each time inflation numbers emerge to the debt interest figure. This is not a bill the state has to pay month by month as inflation rises. As they confess it is a non cash item.

The extra cost of the debt is only passed on to the bond owner on maturity of the bond. At this point the state will simply refinance it, so there is never an immediate cash cost that needs financing out of tax revenue. Some of these bonds are not repayable for many years.

Normal bonds do incur cash costs with the payment of interest and these are properly considered a running cost to the state.

Last year out of the total cost of debt interest attributed by the Treasury of £69.9bn, £34.7bn was indexation. The true cash cost of the debt was £35.2bn, around half the stated figure.