

Interest payments in October 2001's Public Sector Finance Release

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There is a noticeable difference between the cash-based *Public Sector Net Cash Requirement* and the National Accounts consistent accruals-based *Public Sector Net Borrowing* in September 2001. This is driven by interest payments made by central government on British Government Securities (gilts). This document explains further.

Cash interest payments in September 2001 were £2.2 billion; £1 billion higher than in August 2001 and £1.1 billion more than in September 2000. Why was this?

In September 2001 Cash interest payments included £1.2 billion of "uplift" on the redemption of 2.5% Index-Linked Treasury Stock 2001.

What is uplift, and why is it important?

The uplift takes account of the inflationary aspect of index-linked gilts. It is accounted for at the time of redemption. It is scored as an interest payment. In the accrued-based statistics the uplift is accrued over each month of the gilt's life, in the cash-based statistics it scores at the time of redemption.

The nominal value of issued 2.5% Index-Linked Treasury Stock 2001 was £2.15 billion. At redemption its value totalled £4.7 billion. Hence, there is uplift of £2.55 billion.

What is the difference between this £2.55 billion and the £1.2 billion included in the September 2001 Cash interest payments?

The maturity value of £4.7 billion, including the uplift of £2.55 billion, is calculated on the basis that the whole of the £2.15 billion nominal was issued at the same time (on 26 August 1982) - had that been the case, the September 2001 interest would have been £2.55 billion. However, only £250 million nominal stock was issued in August 1982, the remaining £1.9 billion nominal was issued in a series of 16 tranches between September 1983 and October 1996. When these tranches were issued, the price at which they were issued included the capital uplift that had accrued to that point since August 1982. This was so that all of the stock were fungible and could be traded on an equal basis. This uplift included in the price of each tranche issued, known as synthetic uplift, is included in the price at time of issue, so is not needed for the uplift adjustment to the Cash interest payments on maturity. This synthetic uplift totalled £1.1 billion, leaving £1.4 billion of uplift to score as cash interest at maturity.

This still leaves a difference between the £1.4 billion due to uplift scored as cash interest at maturity and the £1.2 billion included in September cash interest payments.

The £1.2 billion included in September cash interest payments is the amount of uplift paid to **market holders** of 2.5% Index-Linked Treasury Stock 2001; it excludes uplift (£0.3 billion) paid to **official holders** (DMO and NILO), who are part of the public sector.

When is the next Index-Linked Gilt due to mature?

The 2.5% Index-Linked Treasury Stock 2003 matures on 20 May 2003. The nominal amount of this stock is £2.7 billion – at end-September 2001, nominal including uplift totals £5.9 billion.