

Interest payments in Public Sector Finances First Release: May 2003

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 May 2003. This is driven by interest payments made by central government on British Government Securities (gilts). This document explains further.

Cash interest payments in May 2003 were £2.3 billion; £1.5 billion higher than in April 2003 and £1.4 billion more than in May 2002. Why was this?

In May 2003 it included £1.424 billion of “uplift” on the redemption of a Government security, 2.5% Index-Linked Treasury Stock 2003, which matured on 20 May.

What is an index-linked gilt? What is uplift, and why is it important?

An index-linked gilt is a long-term security whose nominal value increases in line with inflation (using a standard formula); it pays interest twice a year at a fixed rate on this uplifted value. Uplift is the increase in the nominal value due to inflation. It is only payable at redemption, though is implicit in the market price. It is scored in the National Accounts 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 2.5% Index-Linked Treasury Stock 2003, which was first issued in October 1982, was £2.734 billion. At redemption its value totalled £6.165 billion. Hence, there is uplift of £3.431 billion.

If the uplift is £3.431 billion why is only £1.424 billion included in the May 2003 Cash interest payments?

The maturity value of £6.165 billion, including the uplift of £3.431 billion, is calculated on the basis that the whole of the £2.734 billion nominal stock was issued at the same time (on 27 October 1982). Had that been the case all the uplift would count as interest in May 2003. However, only £250 million nominal stock was issued in October 1982, the remainder was issued in a series of 22 tranches between September 1983 and June 2002. When these tranches were issued, the price at which they were issued already included the capital uplift that had accrued to that point. This was so that all of the stock was fungible and could be traded on an equal basis. (Fungible means that the stock is seen to be the same in all respects i.e. stock from any tranche has the same value as stock from any other tranche of the same gilt.) The inclusion of the uplift in the price of each tranche at the time it is issued, known as synthetic uplift, means that it is part of the sum borrowed and thus, when repaid, cannot be part of the interest paid. So the £3.431 billion contains two components, £1.787 billion of synthetic uplift and £1.644 remainder.

This still leaves a small difference between the £1.644 billion due to uplift scored as cash interest at maturity and the £1.424 billion included in May 2003 cash interest payments.

The £1.424 billion included in May 2003 cash interest payments is the amount of uplift paid to **market holders** of 2.5% Index-Linked Treasury Stock 2003; it excludes the uplift (£0.220 billion) paid to **official holders** (the Debt Management Office and the Commissioners for the Reduction of the National Debt), who are part of central government. Intra-CG sector payments are consolidated.

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

The 4.375% Index-Linked Treasury Stock 2004 matures on 21 October 2004. This was first issued in September 1992.