

Interest payments in Public Sector Finances First Release: October 2004 (published on 18 November 2004)

Cash interest payments in October 2004 were £1.1 billion; £0.5 billion higher than in October 2003. Why was this?

In October 2004 it included £0.395 billion of “uplift” on the redemption of a Government security, 4.375% Index-Linked Treasury Stock 2004, which matured on 21 October.

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 4.375% Index-Linked Treasury Stock 2004, which was first issued in September 1992, was £1.338 billion. At redemption its value totalled £1.814 billion. Hence, there is uplift of £0.476 billion.

If the uplift is £0.476 billion why is only £0.395 billion included in the October 2004 Cash interest payments?

The maturity value of £1.814 billion, including the uplift of £0.476 billion, is calculated on the basis that the whole of the £1.338 billion nominal stock was issued at the same time (on 22 September 1992). Had that been the case all the uplift would count as interest in October 2004. However, only £600 million nominal stock was issued in September 1992, the remainder was issued in a series of six tranches between December 1993 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 £0.476 billion contains two components, £0.069 billion of synthetic uplift and £0.406 billion remainder.

This still leaves a small difference between the £0.406 billion due to uplift scored as cash interest at maturity and the £0.395 billion included in October 2004 cash interest payments.

The £0.395 billion included in October 2004 cash interest payments is the amount of uplift paid to **market holders** of 4.375% Index-Linked Treasury Stock 2004; it excludes the uplift (£0.012 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 2% Index-Linked Treasury Stock 2006 matures on 19 July 2006. This was first issued in July 1981.