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Managing elevated debt

13 October 2020

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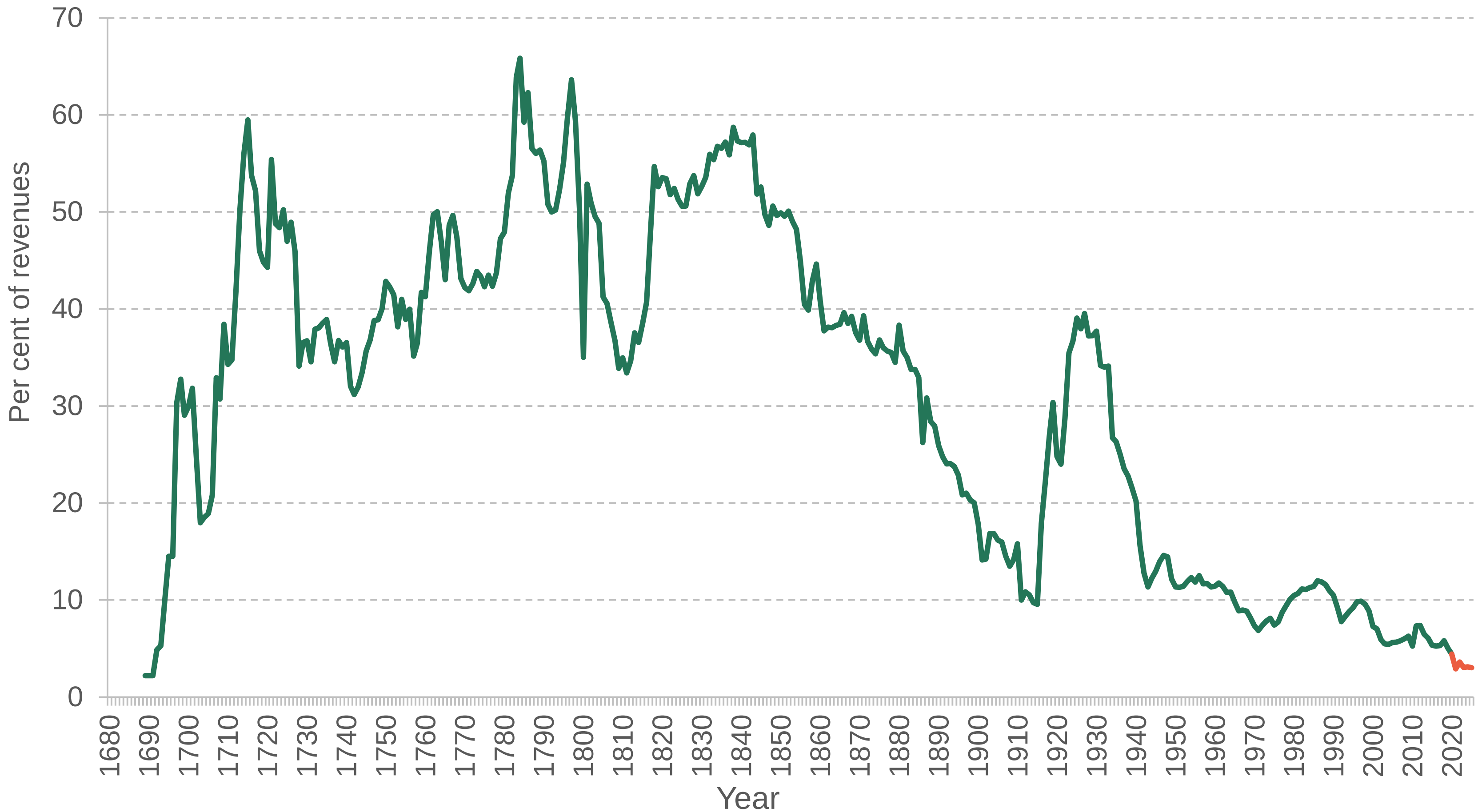
Nuffield Foundation

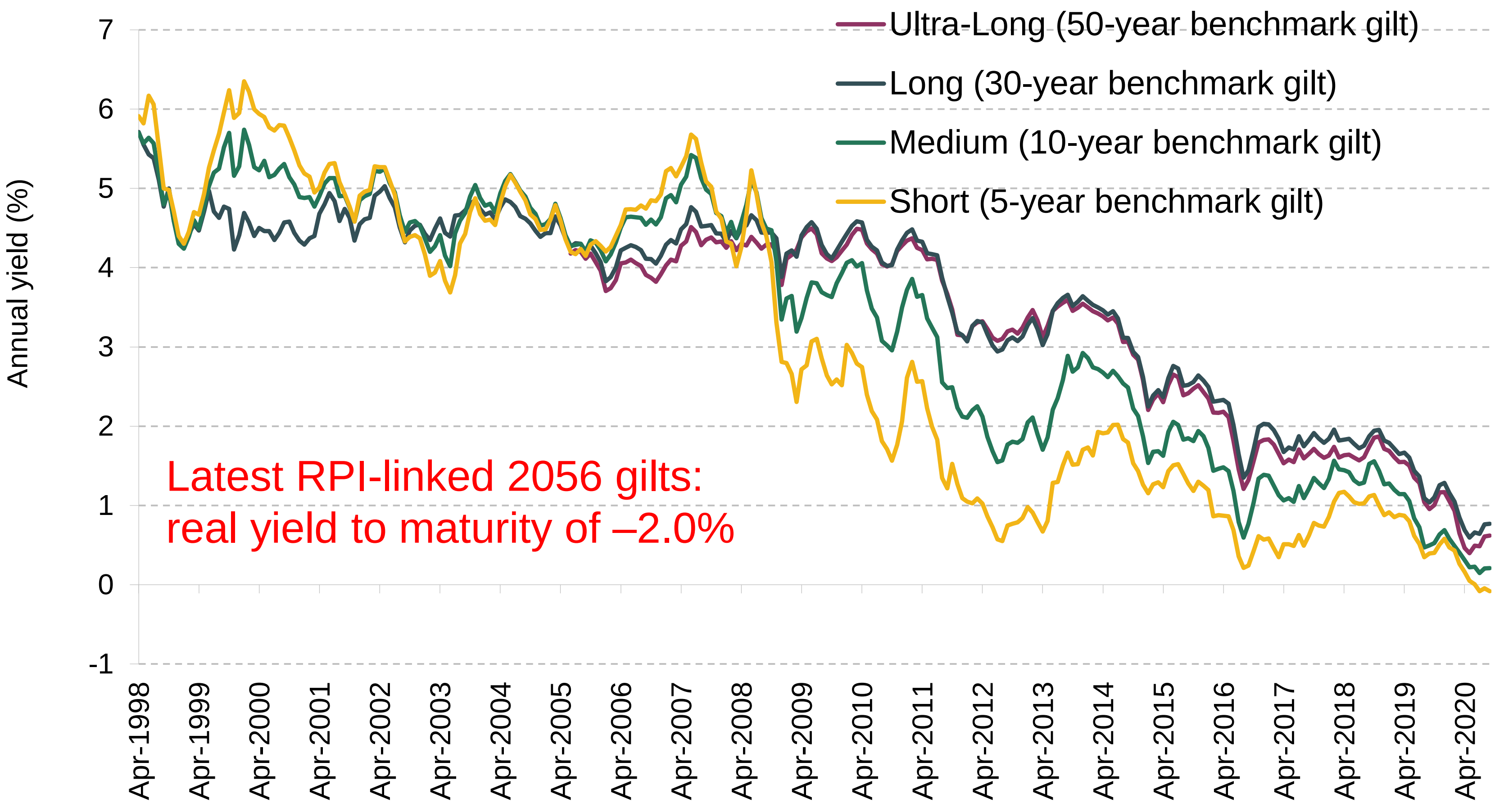
Economic and Social Research Council

Debt interest low as a share of revenues



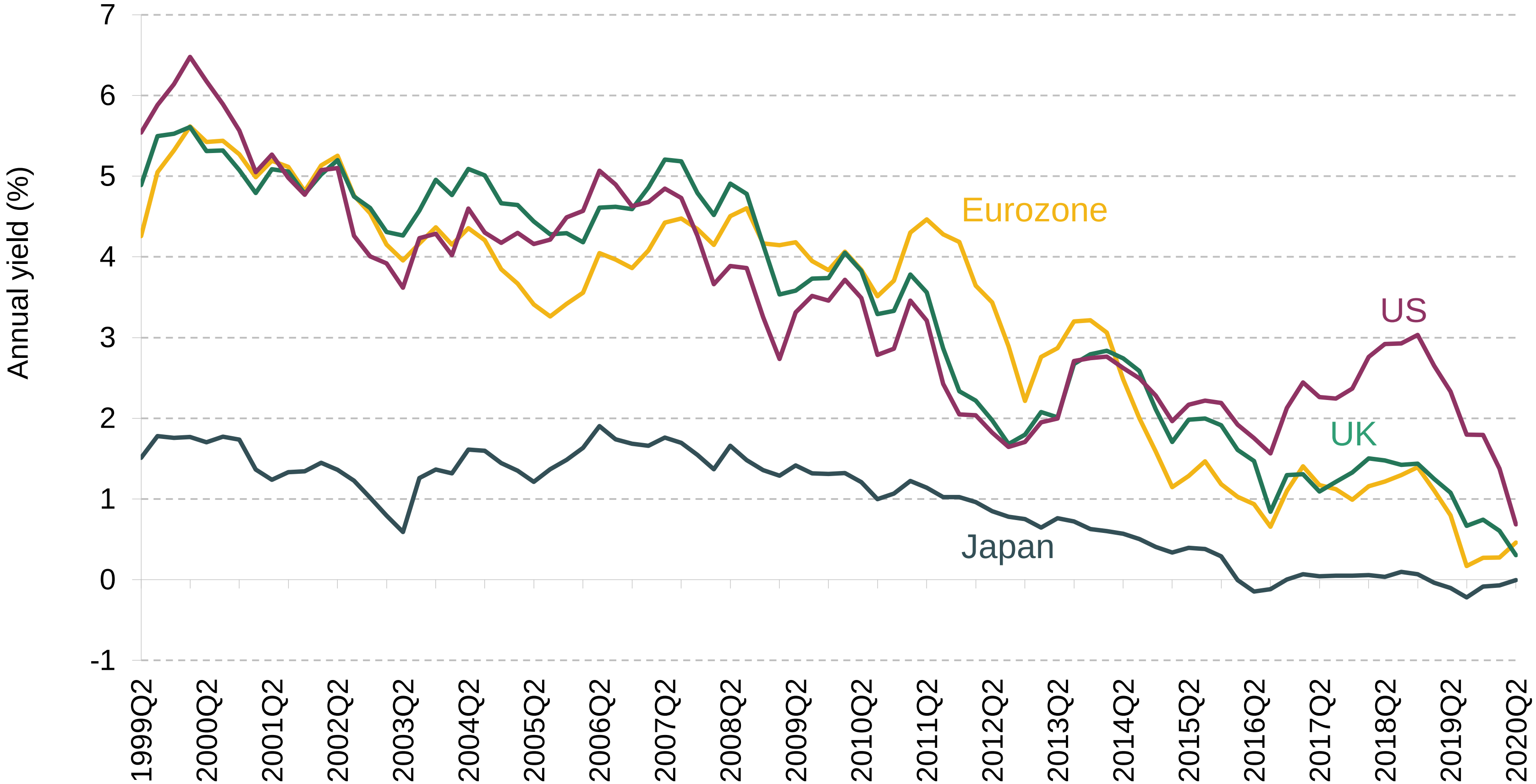
Notes and sources: see *IFS Green Budget: October 2020* Figure 4.14.

Falling UK bond yields over time



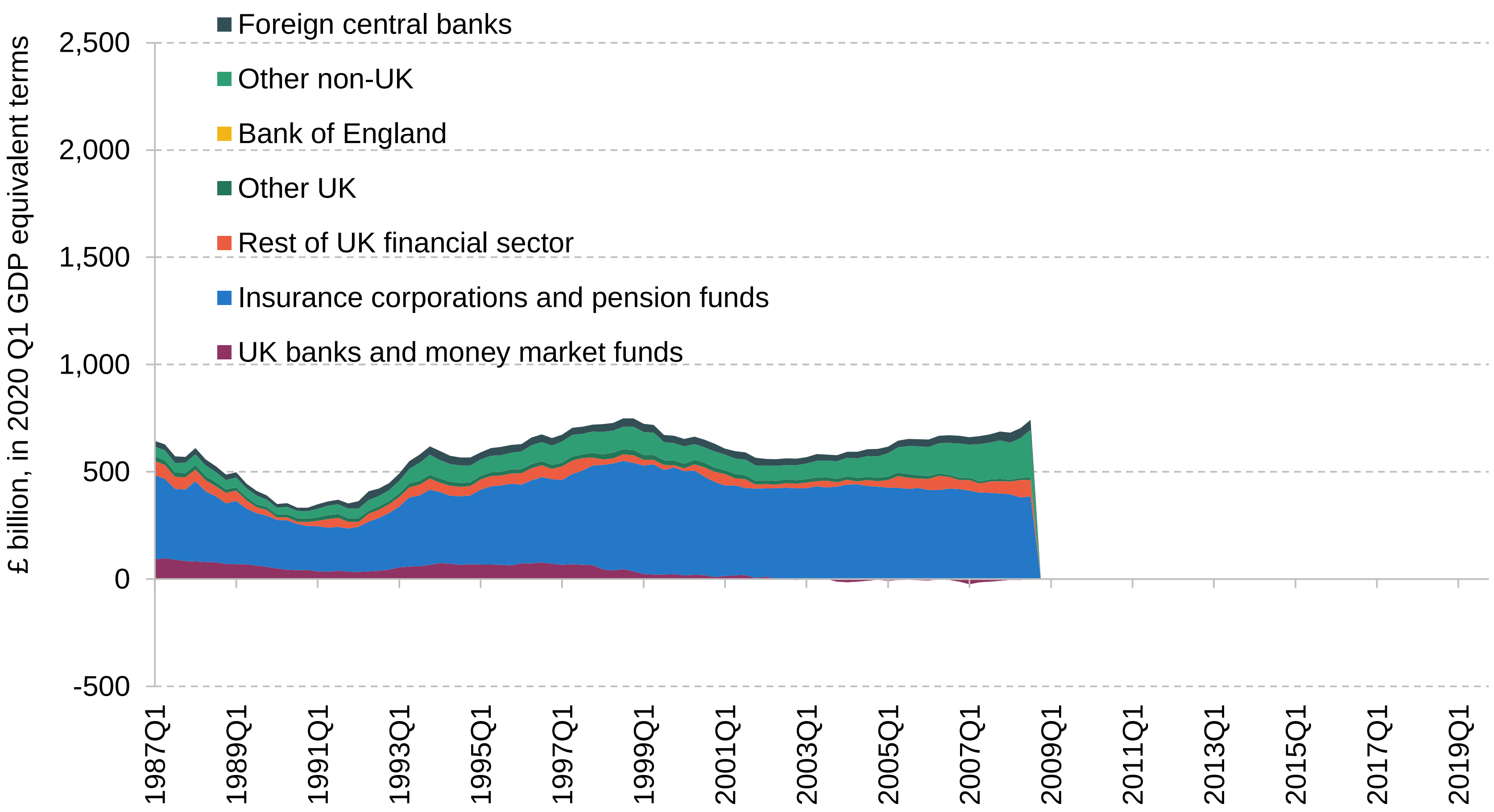
Notes and sources: see *IFS Green Budget: October 2020* Figure 5.11.

UK, US and Eurozone gilt yields now at Japanese levels



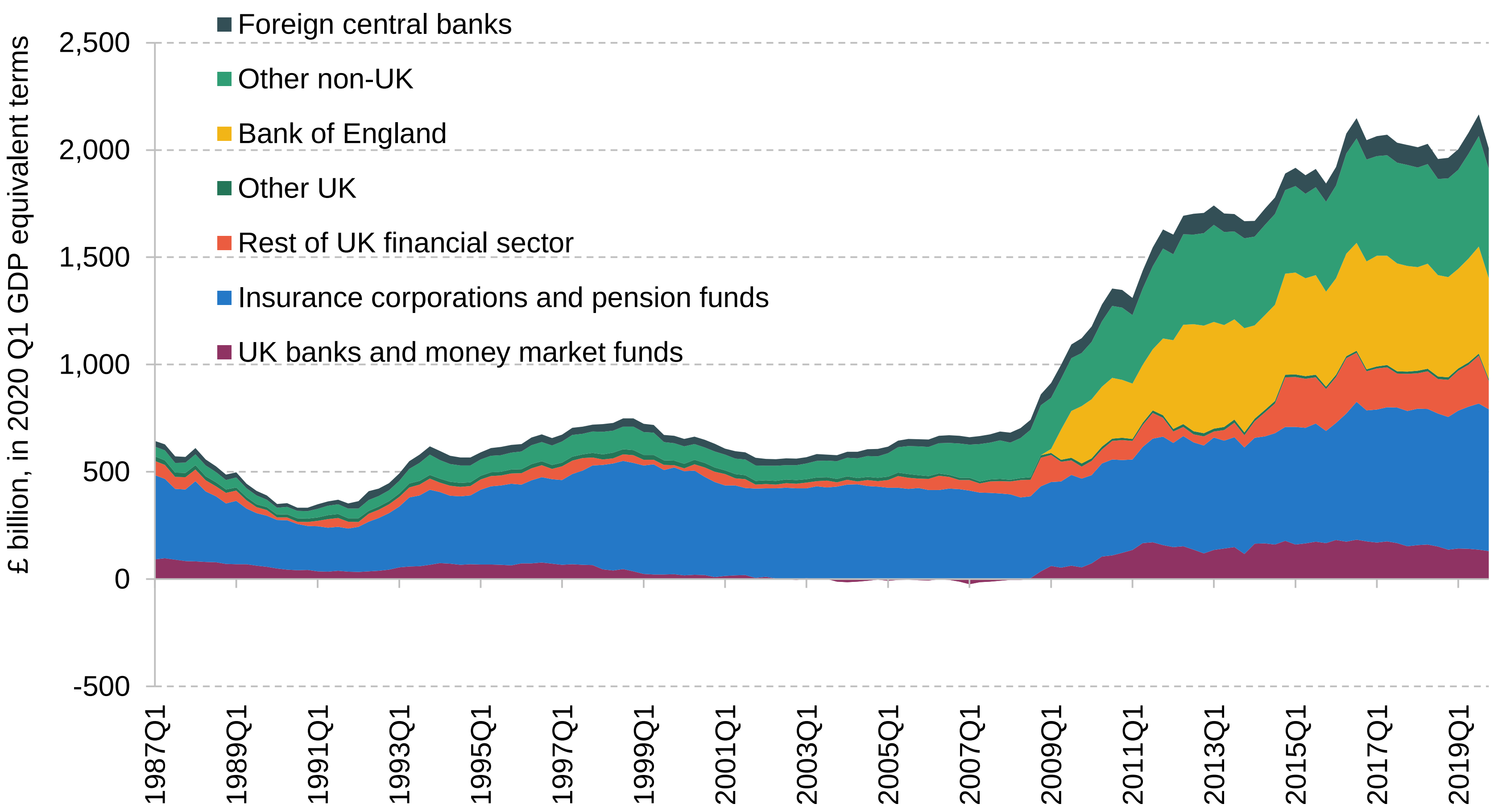
Notes and sources: see *IFS Green Budget: October 2020* Figure 5.12.

Who holds public debt?



Notes and sources: see *IFS Green Budget: October 2020* Figure 5.3.

Who holds public debt?



Notes and sources: see *IFS Green Budget: October 2020* Figure 5.3.

Cheaper and shorter debt

- Since March expansion of QE ≈ net debt issuance
- Leads to debt being effectively financed at Bank Rate
  - debt interest spending ↓ : by £16bn in the current year, compared to £10bn forecast in March
  - maturity ↓ : 1ppt on rates would add £19bn to debt interest spending, up from £11bn forecast in March 2020

Conclusions: how best to manage elevated debt?

- Risk is that gilt yields increase but revenues do not
- Chancellor should signal that he:
  - takes the long-run health of the public finances seriously
  - respects MPC independence and will not water down the inflation target to help public finances
- Tilting issuance towards long dated index-linked gilts would
  - lock in the real cost of more debt
  - signal that won't resort to inflation to try to reduce the real value of government debt