Managing elevated debt

Carl Emmerson

13 October 2020

@TheIFS
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

Latest RPI-linked 2056 gilts: real yield to maturity of -2.0%

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