

How high is UK state debt? 82.9% or 95.5% of national income?

The Treasury and most commentators are mesmerized by UK state debt at 95.5% of GDP, the official figure which appears in the ONS monthly updates. They are right that by the standards of the last fifty years this is a high figure and reflects substantial increases in borrowing by government particularly over the banking crash and great recession in 2007-10 and again over covid between 2020 and today. So far this has not proved unaffordable as interest rates have remained very low and markets have been willing to lend.

By international standards the UK level of debt is middle of the pack. Japan leads the high debt league with around 250% of GDP, all financed at around zero interest and with inflation still low. Different rules seem to apply to the Japanese economy. In Europe Greece at 190%, Italy at 150% and Portugal at 127% are much higher. France is at 122% and Spain at 118%. The USA is also above the UK.

The ONS accepts that there are various ways of calculating the amount of UK debt. Indeed, it thinks a fairer or more realistic way is to take its figure for "Public sector net financial liabilities" rather than the figure for "Net Public Sector debt" given the complications created by the balance sheet of the Bank of England, a body 100% owned by the state. What should we make of the state debt owned by the Bank itself? How should we account for the Term Funding schemes the Bank runs?

On the ONS definition of net liabilities the figure runs out at 82.9% of GDP in July 2022, 12.6% of GDP lower than the usually quoted figure.

Of course the state should seek value for money in what it spends, should aim to control public spending well and should look to the private sector to invest and finance most activities outside the core services of health, law, order and defence, and schools. It would be good to see state assets rising and net liabilities falling. The state needs to control the cash cost of interest charges by avoiding excessive borrowing. It is also important not to overstate the gloom about our debt levels and to understand the range of numbers official statisticians come up with to try and capture the complexity.