

# Commentary on the Public Sector Finances: February 2021

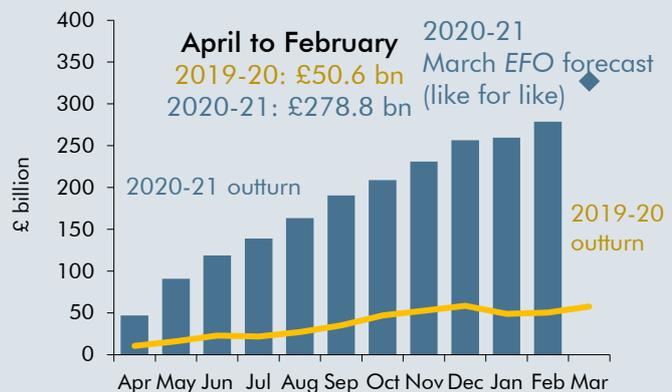


19 March 2021

## Record budget deficit could undershoot our latest forecast

Government borrowing remained high in February at £19.1 billion. With one month of the fiscal year remaining, borrowing has reached £278.8 billion. That far exceeds the previous annual record set at the height of the financial crisis in 2009-10 (£157.7 billion). But it looks set to undershoot our latest estimate for borrowing in 2020-21 (on a like-for-like basis with the published ONS data) of £327.4 billion, thanks to even greater underspending by government departments than our forecast assumes.

Public sector net borrowing



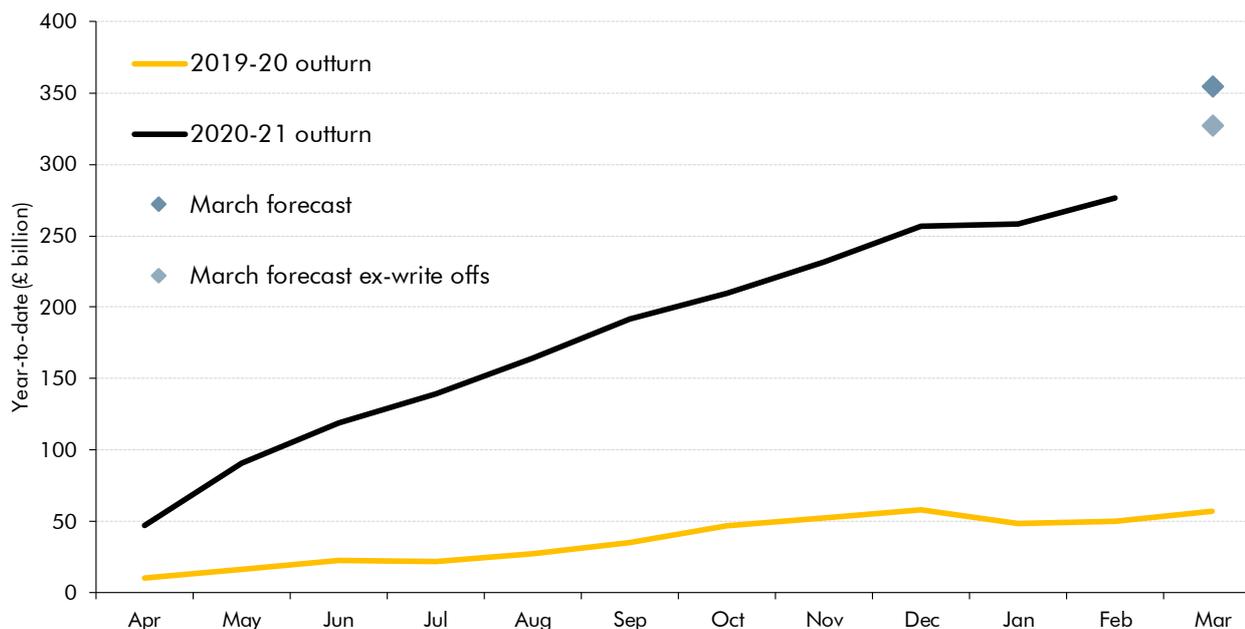
## Headlines

- **Public sector net borrowing (PSNB)** totalled £19.1 billion in February, £2.3 billion below market expectations. Borrowing over the first eleven months of the year reached £278.8 billion. With one month of the financial year remaining, this is £75.8 billion lower than our latest full-year forecast. But that forecast includes £27.2 billion of write-offs associated with pandemic loan schemes that do not yet feature in the outturn data. On a like-for-like basis, PSNB (ex-write offs) in the first eleven months of 2020-21 is £48.6 billion below our latest full-year forecast.
- **Lower than forecast borrowing** for the year to date primarily reflects further large downward revisions to central government departmental spending in this month's release. Our March EFO forecast assumed historically very large underspends by departments relative to plans, but the latest ONS estimates suggests that spending has come in even lower than our revised estimates.
- **HMRC cash receipts** in the year to date were 10.9 per cent lower than a year earlier, with VAT accounting for the bulk of the fall thanks to the Government's rate cuts and deferral scheme (which ended on 30 June) together with lower consumer spending. Income tax and NICs, and most other sources of tax receipts, were also down on last year.
- **Central government spending** so far in 2020-21 is 27.4 per cent higher than a year earlier, reflecting higher public services spending, the cost of the coronavirus job retention and self-employment income support schemes, and additional grants to local authorities.
- **Net debt** rose by 14.1 per cent of GDP on a year earlier to reach 97.5 per cent in January.

## Commentary

- 1 The Office for National Statistics and HM Treasury published their Statistical Bulletin on the February 2021 Public Sector Finances this morning. Each month the OBR provides a brief analysis of the data and a comparison with our most recent forecast – in this instance our March 2021 *Economic and fiscal outlook (EFO)*. This month's commentary is again more brief than usual and we intend to revert to a fuller commentary next month when we will be able to compare the initial ONS outturn for 2020-21 with our March *EFO* forecast. In due course, we will also publish a monthly profile for borrowing in 2021-22 that is consistent with our March *EFO* in order to facilitate monitoring of the ONS outturn data.
- 2 Public sector net borrowing (PSNB) reached £278.8 billion in the first eleven months of 2020-21, by far the highest cash deficit on record. The rise has been dominated by higher central government spending, which has risen by £201.6 billion on the same period last year, with central government receipts having fallen by a more modest £35.3 billion.
- 3 Chart 1.1 shows the year-to-date picture relative to two versions of our full-year forecast: first, the headline figure of £354.6 billion that includes £27.2 billion of spending in relation to the upfront recognition of future write-offs associated with the pandemic loan schemes (in line with an ONS decision on how they should be recorded that has not yet been reflected in the outturns); and second, a figure of £327.4 billion that excludes those write-offs, which provides a like-for-like comparison with the latest ONS monthly data.
- 4 The chart suggests that despite the material downward revision to our borrowing forecast in March, the data are still on track to undershoot even that forecast. For example, a simple extrapolation of year-to-date borrowing to the full-year would give a figure of £318 billion – £9.4 billion below our forecast on a like-for-like basis. This is in part explained by further large downward revisions to borrowing for earlier months of 2020-21 in today's data release. These revisions total £10.9 billion over the first ten months of the fiscal year, £9.8 billion of which relates to lower central government expenditure (detailed below). In turn, the spending revisions mostly relate to spending by the Department for Health and Social Care. There was also a small upward revision to receipts, as stronger than expected cash receipts in February accrued back to earlier months of the financial year (these account for £3.7 billion of the downward revision to borrowing). Revisions to local government and public corporation borrowing account for the remainder of the revisions to public sector net borrowing.

Chart 1.1: Public sector net borrowing: forecast versus year-to-date outturns



Source: ONS, OBR

5 The most notable developments in the February data release include:

- Central government expenditure** for November, December and January has been revised down significantly again (with these latest revisions coming on top of the £6.7 billion downward revision last month). This month's revisions total £9.8 billion over the first ten months of the fiscal year, with November revised down £0.9 billion, December revised down £1.2 billion and January revised down £7.4 billion. The majority of these revisions relate to health spending. Our March 2021 forecast for CG expenditure (excluding loan write-offs) for 2020-21 as a whole was £1,044 billion, against a year-to-date position of £937.3 billion. In the absence of any further revisions to prior months, total CG spending in March would need to be £106.8 billion, which would be £25.1 billion higher than the average of January and February, and would exceed all months in this fiscal year except April 2020 (which included large volumes of grants to businesses and local authorities, plus accrued spending relating to one of the highest months of CJRS usage). It is not unusual for March to be a high spending month and it is clear that the pace of virus testing has stepped up as schools have returned, but the large increase required relative to spending in January and February suggests that there is a clear downside risk to our spending and borrowing forecast. Our forecast already assumed historically very large amounts of departmental underspending relative to plans, but it seems that underspending could be even greater still. It is possible that this could affect estimates of monthly GDP too, since the downward revisions are focused on health spending, which has been a source of upside surprises in recent GDP data.
- HMRC cash receipts** were up 1.0 per cent on a year earlier in February with onshore corporation tax and PAYE income tax and NICs maintaining the strength recorded in recent months, much of which was factored into our March forecast. This helped offset some steep falls in tax streams most affected by the current lockdown. There were year-on-year drops of 31.3 per cent, 29.4 per cent and 90.3 per cent for fuel duty,

beer duty and air passenger duty respectively. In March we forecast HMRC cash receipts for 2020-21 to be £577.1 billion, against a year to date figure of £527.8 billion, to meet this receipt would now have to be £49.3 billion in March.

- **Central government net cash requirement (CGNCR)** could also undershoot our March EFO forecast for 2020-21. For the first eleven months of the financial year, CGNCR is £313.8 billion, compared with a full-year estimate of £369.7 billion. As with the accrued measure of borrowing, spending growth has been weaker than assumed, while receipts have been moderately stronger.