

Commentary on the Public Sector Finances: May

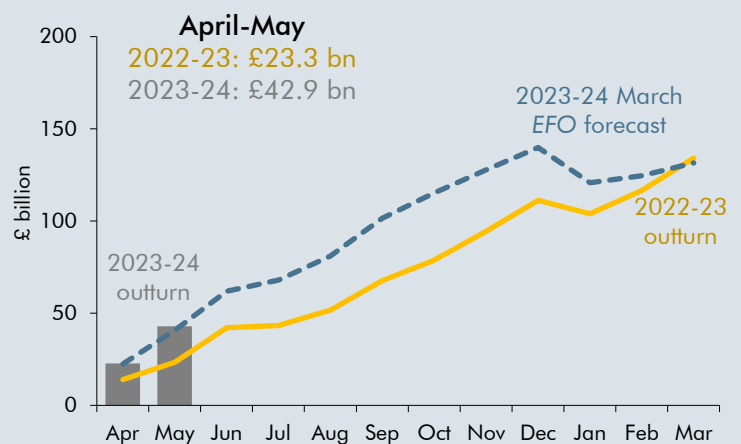
Office for
**Budget
Responsibility**

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Net debt tops 100 per cent of GDP for first time since 1960s

Public sector net debt stood at 100.1 per cent of GDP in May 2023, topping 100 per cent of GDP for the first time in 62 years. Borrowing in the first two months of 2023-24 totalled £42.9 billion, almost double the same period last year and £2.1 billion above the monthly profile consistent with our March forecast. That was more than explained by higher-than-expected spending as RPI inflation raised debt interest costs and the non-consolidated part of the NHS pay deal raised consumption spending.

Public sector net borrowing in the year to date:
March 2023 OBR forecast vs latest ONS outturns



Headlines

- **Public sector net borrowing (PSNB)** was £20.0 billion in May and £42.9 billion in the first two months of 2023-24. The latter is £19.6 billion (84.1 per cent) above the same period last year and £2.1 billion (5.1 per cent) above our March 2023 forecast profile.
- **Central government accrued receipts** (excluding PSNB-neutral transfers related to quantitative easing) were £71.3 billion in May, up £2.3 billion (3.3 per cent) on last year but £0.5 billion (0.7 per cent) below our March profile. Year-to-date accrued receipts are £0.5 billion (0.3 per cent) above profile. However, HMRC cash receipts were very strong in May potentially due in part to higher inflation and wage growth, which may signal higher accrued receipts in future months.
- **Central government accrued spending** (excluding PSNB-neutral local authority grants and transfers related to quantitative easing) was £78.5 billion in May, up £10.6 billion (15.6 per cent) on last year and £3.0 billion (4.0 per cent) above profile. Year-to-date spending is £5.8 billion (3.7 per cent) above profile thanks to higher-than-expected debt interest and consumption spending.
- **Net debt** in May stood at 100.1 per cent of GDP. This is 3.1 per cent of GDP up on a year earlier but 1.3 per cent of GDP below the monthly profile consistent with our March forecast, thanks to both lower cash debt and higher outturn GDP.
- **Revisions:** 2022-23 borrowing was revised down by £3.0 billion thanks to both higher central government receipts and lower central government spending, meaning it is now £18.3 billion lower than the estimate in our March 2023 forecast.

Detail

1. The Office for National Statistics (ONS) and HM Treasury published their Statistical Bulletin on the May 2023 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 2023 *Economic and fiscal outlook (EFO)*. We compare the latest outturns with monthly profiles consistent with this forecast that were published on 18 May.
2. Borrowing in the first two months of 2023-24 was £42.9 billion, up £19.6 billion (84.1 per cent) on last year and £2.1 billion (5.1 per cent) higher than our March forecast profile. This overshoot is more than explained by central government spending coming in £5.8 billion (3.7 per cent) above profile, partially offset by central government receipts (£0.5 billion, or 0.3 per cent, above profile) and borrowing by local authorities (£3.4 billion, or 13.0 per cent, below profile). Borrowing by public corporations was just £0.2 billion (7.7 per cent) above forecast.¹
3. Central government accrued receipts (excluding PSNB-neutral transfers related to quantitative easing) were £0.5 billion (0.3 per cent) above profile so far this year. There was a £0.9 billion shortfall in corporation tax receipts (mainly reflecting the fact that accrued receipts from the electricity generators levy will not be scored until the associated legislation receives Royal Assent) and a £0.8 billion shortfall in self-assessment receipts. These shortfalls were more than offset by upside surprises from PAYE income tax and NICs (£1.7 billion, or 2.4 per cent, above forecast) and VAT (£0.7 billion, or 2.8 per cent, above forecast) that would be consistent with higher wage growth feeding through to consumer spending and inflation.
4. HMRC cash receipts, a more timely indicator of tax performance albeit one that can be influenced by timing effects and one-offs, were £3.9 billion (7.2 per cent) above profile in May and were up £5.0 billion on last May. This strength is explained by:
 - **Cash VAT receipts** were £2.1 billion (118.0 per cent) above profile and £2.8 billion (25.6 per cent) higher than last year. Some of this strength is likely to reflect monthly volatility (VAT repayments were low) but some could reflect higher-than-expected inflation: CPI inflation was approximately 1 percentage point higher than our forecast during February to April, the months that May cash VAT receipts primarily relate to.
 - **PAYE income tax and NICs cash receipts** were £1.7 billion (5.3 per cent) above profile and £2.4 billion higher than last year. May cash receipts mainly relate to April salaries. The ONS estimates that average weekly earnings grew by 7.4 per cent in the year to April. This compares with our forecast of 6.2 per cent annual growth in wage growth in the April-to-June quarter.
 - **Onshore corporation tax cash receipts** were £0.4 billion above profile and £0.2 billion up on last year. Instalment payments this month are primarily from large companies (those with profits between £1.5 million and £20 million) and are mainly final payments in respect of 2022 profits, meaning they accrue back to 2022-23. Next month will provide a first clear indicator of how very large companies' tax payments

¹ Throughout this commentary we exclude two PSNB-neutral intra-public sector transfers that can be large and uneven from month to month, thereby distorting the signal from the monthly path of the public finances data. These relate to: (1) the Asset Purchase Facility (APF, affecting central government receipts, central government expenditure and public corporations net borrowing); and (2) grants to local authorities (affecting central government expenditure and local authorities net borrowing).

have been affected by the higher main rate of corporation tax and the introduction of the full-expensing capital allowances measure that was announced in the Budget.

5. Year-to-date central government spending (excluding local authority grants and transfers related to quantitative easing) is £5.8 billion above profile. Spending data remain provisional at this stage of the year, but with that in mind, the largest differences to profile were driven by:
 - Higher **consumption spending** (£5.2 billion, or 8.4 per cent, above our March forecast profile), partly reflecting a £2.7 billion increase in May from the non-consolidated part of the NHS pay agreement. This agreement was announced after the Budget, so could not be incorporated in our March forecast.
 - Higher **debt interest spending** (£3.3 billion, or 24.1 per cent, above profile) reflecting higher-than-forecast RPI inflation increasing payments on index-linked gilts – these are uprated with a lag and so the surprise so far this year results primarily from RPI inflation in February and March being, respectively, 0.8 and 1.2 percentage points above our March forecast. Bank Rate has also increased by more than our March forecast assumed.
 - These upside surprises were partially offset by lower **central government net investment** (£1.8 billion, or 16.5 per cent, below profile), and lower **spending on net social benefits** (£1.4 billion, or 2.8 per cent, below profile). As regards the latter, cost-of-living payments were included in April outturn (and so represented an upside surprise relative to forecast in last month's statistics) whereas our profile assumed that these payments would be spread across April and May, meaning the year-to-date figure for these payments is now relatively close to our forecast.
6. Borrowing in April was revised down by £2.7 billion from last month's estimate, thanks to higher receipts offset by higher spending and borrowing by public corporations. The £3.5 billion upward revision to receipts reflected the fact that May cash receipts were higher than forecast. The £0.6 billion upward revision to spending reflected the NHS pay agreement, which affected spending in April as well as May.
7. Borrowing in 2022-23 has been revised down by £3.0 billion to £134.1 billion, thanks to an upward revision to central government receipts and a downward revision to central government spending, partially offset by a downward revision to borrowing by public sector pensions. This means the downside surprise relative to our March forecast has increased to £18.3 billion. The ONS has revised its estimate for the borrowing of public sector pensions in 2022-23 up by £1.8 billion, reducing the full-year surplus to £1.9 billion, a figure that remains £3.7 billion above our forecast of a £1.8 billion deficit. The early ONS estimates across the first two months of 2023-24 imply a £0.5 billion surplus, whereas in our March forecast we expected a £2.1 billion deficit for the full year. The long time-lags in the estimates of pension liabilities data mean that recent years of ONS outturn are in effect projections, and so revisions are possible for several years to come. It is worth noting that these revisions do not affect estimates of net debt, because the main accrued income and expenditure elements for these funded pension schemes are imputed rather than being associated with changes in financial assets and liabilities.

8. Public sector net debt (PSND) in May 2023 was 100.1 per cent of GDP, up 3.1 per cent of GDP on a year earlier, but 1.3 per cent of GDP below the monthly profile consistent with our March forecast, thanks to both lower cash debt and higher outturn GDP.
9. At the OBR, we regularly examine how our forecasts compare to outturn data, explain any discrepancies, and draw lessons for future forecasts. We do this both in our monthly commentary on the Public Sector Finances statistics and in our annual *Forecast evaluation reports*. In August we will be extending this analysis with a more comprehensive evaluation of our forecasting record since our establishment in 2010. The paper will examine how our first 25 economic and fiscal forecasts produced over the past 13 years have performed against outturn, as well as comparing our forecasts with those produced by the Treasury (prior to 2010), by other UK forecasters, and by our international counterparts.

Table 1.1: Public sector receipts, expenditure and net borrowing (£ billion)¹

	May					April to May				
	2023 outturn	2022 outturn	Change	2023 forecast	Outturn vs forecast	2023-24 outturn	2022-23 outturn	Change	2023-24 forecast	Outturn vs forecast
Central government current receipts	71.3	69.1	2.3	71.8	-0.5	144.5	141.4	3.2	144.0	0.5
<i>of which:</i>										
Income tax	17.4	15.5	1.9	17.2	0.1	36.0	32.2	3.7	36.0	-0.1
National Insurance contributions	13.4	14.6	-1.2	13.3	0.1	27.3	28.8	-1.5	26.1	1.2
VAT	12.9	13.0	0.0	12.9	0.0	26.0	25.2	0.8	25.3	0.7
Corporation tax ²	6.1	5.8	0.2	6.2	-0.1	11.8	11.7	0.1	12.1	-0.4
Other taxes and receipts	21.6	20.1	1.4	22.1	-0.6	43.4	43.4	0.0	44.4	-1.0
Central government expenditure	92.2	79.2	13.0	88.6	3.6	201.1	166.2	34.9	194.8	6.3
<i>of which:</i>										
Interest payments	7.7	7.9	-0.2	7.0	0.7	17.2	14.6	2.6	13.9	3.3
Net social benefits	22.9	20.0	2.9	25.0	-2.1	47.9	40.8	7.1	49.3	-1.4
Net current grants	14.5	12.9	1.5	13.6	0.9	32.9	33.1	-0.2	31.4	1.5
Consumption expenditure on goods and services	35.0	30.1	4.9	30.9	4.0	66.8	59.1	7.7	61.6	5.2
Subsidies	3.6	2.2	1.4	3.6	0.0	7.5	4.2	3.3	7.7	-0.3
Central government depreciation	3.0	2.8	0.2	2.9	0.2	6.1	5.6	0.5	5.8	0.3
Central government net investment	5.5	3.3	2.2	5.6	-0.1	22.7	8.8	13.9	25.1	-2.4
<i>Memo: CGNI ex APF and LA capital grants</i>	<i>3.2</i>	<i>2.0</i>	<i>1.2</i>	<i>3.2</i>	<i>0.0</i>	<i>9.3</i>	<i>6.5</i>	<i>2.8</i>	<i>11.1</i>	<i>-1.8</i>
Public sector net borrowing	20.0	9.4	10.7	18.3	1.7	42.9	23.3	19.6	40.8	2.1
<i>of which:</i>										
Central government net borrowing	20.9	10.1	10.7	16.8	4.1	56.6	24.8	31.7	50.7	5.9
Local authorities net borrowing	-2.3	0.2	-2.5	0.2	-2.5	-6.7	-2.6	-4.1	-3.0	-3.7
Public corporations net borrowing	1.5	-0.9	2.4	1.4	0.1	-7.0	1.0	-8.0	-7.0	0.0
Central government current receipts ex Asset Purchase Facility ³	71.3	69.1	2.3	71.8	-0.5	144.5	138.2	6.3	144.0	0.5
Central government expenditure ex local authority grants and APF ³	78.5	67.9	10.6	75.5	3.0	161.7	140.6	21.0	155.9	5.8
Local authorities net borrowing ex local authority grants ³	11.4	11.5	0.0	13.3	-1.9	22.9	22.9	-0.1	26.3	-3.4
Public corporations net borrowing ex Asset Purchase Facility ³	1.5	-0.9	2.4	1.4	0.1	2.8	-2.1	4.9	2.6	0.2

¹ Data and forecasts contained in this table can be found from the following sources:

ONS public sector finances: <https://www.ons.gov.uk/economy/governmentpublicsectorandtaxes/publicsectorfinance/bulletins/publicsectorfinances/may2023>

HMRC tax receipts and national insurance contributions: <https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk>

OBR Economic and fiscal outlook March 2023 <https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/>

² Less bank surcharge and energy profits levy.

³ Excluding PSNB-neutral intra-public sector flows (the Asset Purchase Facility and local authority grants) to aid monthly monitoring.