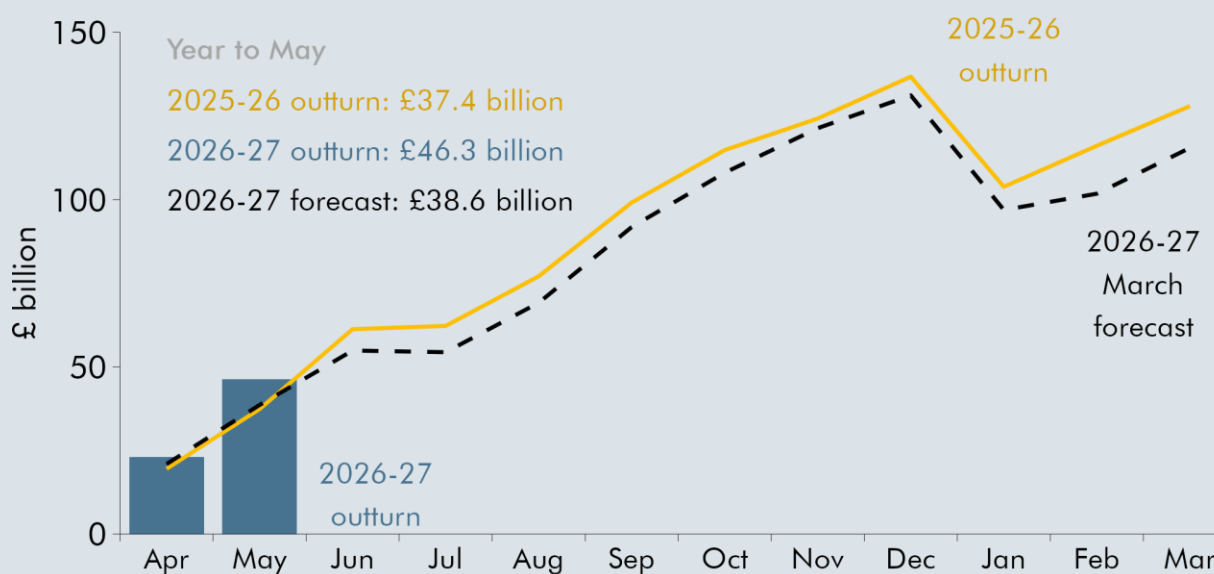


Inflation increases debt interest costs compared to forecast

This morning's ONS release estimates that borrowing in the first two months of 2026-27 totalled **£46.3 billion**. This is £8.9 billion above the same period last year and £7.7 billion above the monthly profile consistent with our March forecast. The current overshoot against the forecast is mainly driven by central government spending, which is £4 billion above profile. Of this, £2.4 billion is due to higher debt interest spending largely driven by the increase in inflation due to the conflict in the Middle East. Most of the remaining areas of spending data are highly provisional this early in the year. Central government receipts outturn data, which tends to be less subject to future revisions, is relatively close to profile in the year to date, at just £0.9 billion lower than expected.

Public sector net borrowing in the year to date: March 2026 OBR forecast vs latest ONS outturns



This release uses monthly profiles for borrowing, receipts and spending in 2026-27 consistent with our March 2026 forecast. We expect receipts to be more skewed towards the end of the financial year relative to most previous years, reducing borrowing in the final part of the year compared to previous years. This is partially driven by additional receipts from the new Temporary Repatriation Facility, which is one element of the reforms of the previous non-domiciled tax regime. As we set out when these reforms were announced, the estimated yield from this policy is highly uncertain.

It is important to underline that these data remain highly provisional at this time of year, in particular departmental spending and local authority and public corporations borrowing, which are often subject to large revisions later in the year.

Borrowing and debt

Public sector net borrowing was £46.3 billion in the first two months of 2026-27. This was £8.9 billion above the same period last year and £7.7 billion above forecast. Within this, central government net borrowing was £52.4 billion, £4.9 billion above forecast, while borrowing by local authorities was -£2.2 billion (a surplus), £1.6 billion above forecast, and borrowing by public corporations was -£3.9 billion (a surplus), £1.2 billion above forecast. Higher-than-expected local authority net borrowing partly reflects lower-than-expected central government grants to local authorities, and so partially offsets the undershoot of central government net current grants discussed below. Public corporations net borrowing is provisional as final public corporations outturn data is only available with a significant lag.

The current budget deficit was £34.5 billion in the first two months of 2026-27, £6.0 billion above forecast, while the central government net cash requirement was £40.8 billion, £3.8 billion above forecast.

Net debt in May stood at 95.1 per cent of GDP, up 0.4 per cent of GDP on a year earlier, and 0.7 per cent of GDP above forecast.

Central government receipts

Central government accrued receipts in the first two months of 2026-27 were £0.9 billion (0.5 per cent) below forecast. Monthly HMRC cash receipts, a more timely indicator of tax performance albeit one that can be influenced by timing effects and one-offs, were £0.3 billion (0.5 per cent) above forecast and £3.5 billion (5.5 per cent) above last year in May. Within this:

- **PAYE income tax and NICs** cash receipts were £40.0 billion in May, £1.2 billion (3.1 per cent) above forecast, and £2.8 billion (7.7 per cent) above last year. The rise in receipts compared to last year chiefly relates to the interaction of earnings growth with frozen tax thresholds. For the year to date, PAYE income tax and NICs receipts are £1.0 billion (1.1 per cent) above forecast.
- **Cash VAT receipts** were £14.6 billion in May, £1.2 billion (7.8 per cent) below forecast, and £0.4 billion (2.4 per cent) below last year. This followed strong April cash VAT receipts. For the year to date, cash VAT receipts are £0.5 billion (1.3 per cent) above forecast.
- **Corporation tax** cash receipts were £3.3 billion in May, £0.6 billion (21.2 per cent) above forecast, and £0.3 billion (11.7 per cent) above last year. For the year to date, corporation tax receipts are £0.4 billion (5.6 per cent) above forecast. June will be a more important month for corporation tax, with very large non-oil companies paying their first or second instalment payment on 2026 profits.
- **Fuel duty** receipts were £2.0 billion in May, £0.1 billion (4.6 per cent) below forecast, and £0.1 billion (4.2 per cent) below last year. Fuel duty is charged on a pence-per-litre basis, so we would expect the jump in pump prices since the start of the Iran conflict to reduce the demand for fuel. The May data for fuel duty suggests that this is happening and is consistent with retail sales data, which shows a drop in the volume of fuel sales after an initial rise in demand in March.

Central government accrued spending

Central government accrued spending was £4.0 billion (1.8 per cent) above forecast over the first two months of 2026-27. Monthly figures for government consumption and net investment can be volatile, so the year-to-date position provides a better indicator of progress against the forecast.

Within this:

- **Debt interest** spending was £2.4 billion (12.4 per cent) above forecast. This reflects higher-than-forecast RPI inflation in March, largely due to the energy price increases caused by the conflict in the Middle East, the two-month-lagged effect of which drives index-linked debt interest spending in May.
- **Net social benefits** spending was £1.1 billion (2.0 per cent) above forecast over the first two months of 2026-27. Compared to the April 2026 initial data release, net social benefit spending is now closer to our March 2026 forecast.
- **Consumption expenditure on goods and services** was £1.2 billion (1.6 per cent) above forecast over the first two months of 2026-27. Consumption is highly provisional because it contains figures sourced from departmental plans, and so is likely to be revised in future months.
- **Net current grants** were £1.3 billion (3.7 per cent) below forecast and **central government net investment (CGNI)** was £0.8 billion (4.0 per cent) above forecast. In both cases, the timing of payment of central government grants to local authorities within the year varies, so we expect the discrepancies from the forecast profile to unwind in future months. Compared to the April 2026 data, net current grants spending is now below rather than above our March 2026 forecast.
- **Subsidies** were close to profile.

Revisions

Borrowing over the current and previous fiscal years has been revised.

- In the year to April, borrowing has been revised down by £1.3 billion.
- Borrowing over 2025-26 has been revised down by £1.0 billion.

Table 1.1 Public sector receipts, expenditure and net borrowing

	May					April to May				
	2026 outturn	2025 outturn	Change	2026 forecast	Outturn vs forecast	2026-27 outturn	2025-26 outturn	Change	2026-27 forecast	Outturn vs forecast
Public sector net borrowing	23.3	17.9	5.4	17.7	5.6	46.3	37.4	8.9	38.6	7.7
<i>of which:</i>										
Central government net borrowing	20.9	15.7	5.2	17.3	3.6	52.4	42.6	9.7	47.5	4.9
Local authorities net borrowing	1.8	1.2	0.6	0.3	1.5	-2.2	-3.3	1.1	-3.8	1.6
Public corporations net borrowing	0.6	1.0	-0.4	0.0	0.6	-3.9	-2.0	-1.9	-5.1	1.2
Central government current receipts	85.5	82.1	3.4	86.7	-1.1	172.2	165.4	6.9	173.1	-0.9
<i>of which:</i>										
Income tax	21.6	20.6	1.0	21.7	-0.1	44.2	41.6	2.5	43.9	0.3
National Insurance contributions	15.8	15.6	0.3	15.8	0.0	31.6	30.6	1.0	31.1	0.5
VAT ²	15.6	14.5	1.1	15.6	0.0	30.6	29.5	1.0	31.0	-0.4
Onshore corporation tax ³	7.9	7.5	0.5	7.8	0.1	16.0	15.0	1.0	15.7	0.3
Other taxes and receipts	24.6	24.1	0.5	25.7	-1.1	49.9	48.6	1.2	51.3	-1.5
Central government expenditure	106.4	97.8	8.6	104.0	2.4	224.6	208.0	16.6	220.5	4.0
<i>of which:</i>										
Interest payments	11.7	7.6	4.1	8.4	3.3	21.5	16.9	4.7	19.1	2.4
Net social benefits	28.4	27.2	1.2	28.7	-0.2	57.9	53.9	4.0	56.8	1.1
Net current grants	13.1	14.6	-1.5	14.9	-1.8	32.4	33.9	-1.5	33.7	-1.3
Consumption expenditure on goods and services	39.6	37.4	2.2	39.2	0.5	78.6	74.6	4.1	77.4	1.2
Subsidies	2.7	2.4	0.3	2.8	-0.1	5.4	4.8	0.7	5.7	-0.2
Central government depreciation	3.9	3.6	0.3	3.9	0.0	7.7	7.2	0.5	7.7	0.0
Central government net investment	6.9	5.0	2.0	6.2	0.8	20.9	16.8	4.1	20.1	0.8

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/may2026>

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 2026: <https://obr.uk/efo/economic-and-fiscal-outlook-march-2026>

² Excluding VAT refunds.

³ Less bank surcharge, residential property developer tax, electricity generators levy and Pillar 2.