

Press Release

IFS analysis of today's public finance figures

Today the Office for National Statistics and HM Treasury published *Public Sector Finances May 2009*. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first two months of financial year 2009–10.

Gemma Tetlow, a Senior Research Economist at the IFS, said:

“Government borrowing has increased more sharply over the past two months than the Budget predicted for the financial year as whole. Receipts from taxes on incomes, profits and spending have all fallen faster than projected for the year as a whole, which means that we will need to see receipts perform more strongly in coming months if the Chancellor is to avoid another set of downgrades to his public finance forecasts. Public sector borrowing in March and April was almost 50 per cent higher than in the same months last year, compared to the Budget forecast of a 21 per cent increase over the year as a whole. The outlook depends not just on the timing and strength of any economic recovery, but also on how much revenue the Treasury can extract from every pound of income or spending.”

Headline Comparisons

- **Central government current receipts** in May were 10.8% lower than in the same month last year. Receipts in April and May 2009 were 11.2% lower than in the same months of 2008. The 2009 Budget implied that central government current receipts for the whole of 2009–10 would be 7.4% below 2008–09 levels.
- **Central government current spending** in May was 7.4% higher than in the same month last year. Spending in April and May 2009 was 7.3% higher than in the same months of 2008. The 2009 Budget implied that central government current spending for the whole of 2009–10 would be 7.3% above 2008–09 levels.
- **Public sector net investment** in May was £2.3bn compared to £1.7bn in the same month last year. Together, public sector net investment during April and May 2008 has been £4.0bn, which is 46% higher than in the same two months of 2008. The Budget predicted that net investment in 2009–10 would be £43.8bn, which is 21.0% above last year's level.

Further Analysis

Little can be inferred or extrapolated about the public finances in 2009–10 from information about only the first two months of the financial year. Bearing this in mind, the figures for receipts and spending in May 2009 show:

Central government current receipts

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Receipts from Income Tax, Capital Gains Tax and National Insurance Contributions for May 2009 were 6.8% lower than in the same month last year. Together, the receipts for these taxes during the first two months of 2009–10 were 8.6% lower than those for the first two months of 2008–09. The Budget forecasts imply that these taxes' receipts will fall by 7.2% over the whole of 2009–10.

VAT receipts in May 2009 were 19.0% lower than the same month last year. Together, the VAT receipts during the first two months of 2009–10 were 21.1% lower than those for the first two months of 2008–09. The Budget forecast implies that VAT receipts will fall by 18.8% over the whole of 2009–10. Given that the temporary cut in the main rate of VAT is scheduled to end on the 31st December 2009, growth in VAT receipts is likely to be stronger in the last three months of 2009–10 than in the first nine months. However, the impact of this will be mitigated by some purchases having been brought forward into 2009 to take advantage of the VAT window.

Corporation Tax receipts for May 2009 were 26.9% lower than the same month last year. Corporation Tax receipts for April and May 2009 were 26.7% lower than in the same months of 2008. The Budget forecast implies that Corporation Tax receipts will fall by 20.5% over the whole of 2009–10.

Central government current spending

Expenditure on net social benefits was 7.9% higher in May 2009 than in May 2008. Expenditure during April and May 2009 was 8.2% higher than in the same months of 2008. The Budget forecast implies that central government net social benefit expenditure will grow by 8.1% over 2009–10.

Spending on debt interest (which is relatively small as a share of spending overall) was £3.3bn in May 2009, £0.4bn higher than in May 2008.

Other current spending by central government, including spending on the delivery of public services, was 6.7% higher in May 2009 than in May 2008. Comparing the first two months of 2009–10 with the first two months of 2008–09, the figure is 7.2%. The Budget forecast implies that this component of spending will grow by 8.4% over the year as a whole.

In May 2009, public sector net investment was £2.3bn compared to £1.7bn in the same month in 2008. So far in 2009–10, a total of £4.0bn has been spent on public sector net investment, compared to the £2.7bn that had been spent by the same point in 2008–09. The Budget predicted that net investment in 2009–10 would be £43.8bn, which is 21.0% above last year's level.

Further information and contacts

For further information on today's public finance release please contact: Robert Chote, Rowena Crawford, Carl Emmerson or Gemma Tetlow on 020 7291 4800, or email rchote@ifs.org.uk, rowena_c@ifs.org.uk, cemerson@ifs.org.uk or gtetlow@ifs.org.uk.

Next month's public finances release is due to be published on Tuesday 21st July.

Relevant links:

This, and previous editions of this press release, can be downloaded from <http://www.ifs.org.uk/publications/browse?type=pf>

Useful links and analysis of Budget 2009 can be found at:

<http://www.ifs.org.uk/projects/304>

Office for National Statistics & HM Treasury, Public Sector Finances, June 2009: <http://www.statistics.gov.uk/pfdir/psf0609.pdf>

Office for National Statistics press release on the classification of RBS and Lloyds Banking Group: <http://www.statistics.gov.uk/pfdir/crbslbg0209.pdf>

HM Treasury, Budget 2009:
http://www.hm-treasury.gov.uk/bud_bud09_index.htm

HM Treasury, Public Finance Statistics Index:
http://www.hm-treasury.gov.uk/psf_statistics.htm

IFS Green Budget, January 2009, containing in-depth public finance analysis, can be found at:
<http://www.ifs.org.uk/publications/4417>

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Notes to Editors:

1. Central government current spending includes depreciation.
2. Where possible we compare figures on an accruals basis with the HM Treasury forecast.