

## Press Release

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# IFS analysis of the February 2009 public finance figures

Today the Office for National Statistics and HM Treasury published *Public Sector Finances February 2009*. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first eleven months of financial year 2008–09.

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

“Today’s figures, the last before Mr Darling finalises his 2009 Budget, suggest that the Government is on course to have to borrow £95 billion in 2008–09, around £17 billion more than the Treasury expected in November’s Pre-Budget Report. As a share of national income, this would be the highest level of public sector net borrowing for 15 years.

The deterioration in the outlook for borrowing since the PBR is mainly down to weaker-than-anticipated tax receipts, in particular VAT. Receipts of corporation tax have also been weaker than implied by the Pre-Budget Report. Investment spending has also been growing more quickly so far this year than implied by the Pre-Budget Report for the year as a whole. If this continues it will result in higher than anticipated borrowing, but the extra investment will presumably also provide additional benefits to the public.”

### Headline Comparisons

- **Central government current receipts** in February were 9.8% lower than in the same month last year. The Pre-Budget Report forecast for 2008–09 published in November implies a fall relative to last year’s levels of 0.6% for the year as a whole and a fall of 2.6% for the period from November 2008 to March 2009. The latest figures show a fall relative to last year’s levels of 3.1% for the year to date, with a 9.3% fall between November 2008 and February 2009 compared to the same four months last year.
- **Central government current spending** in February was 6.5% higher than in the same month last year. The Pre-Budget Report forecast for 2008–09 published in November implies an increase over last year’s levels of 5.8% for the year as a whole and of 6.1% for the period from November 2008 to March 2009. The latest figures show an increase over last year’s levels of 5.7% for the year to date, and a 5.9% increase between November 2008 and February 2009 compared to the same four months last year.
- **Public sector net investment** in February was £7.1bn, compared to £5.7bn in February 2008. So far in 2008–09, a total amount of £31.4bn has been spent on public sector net investment, which is 50% higher than had been spent by the same point in 2007–08. The Pre-Budget Report forecast for 2008–09 published in November predicted that net investment in 2008–09 as a whole would be

### Embargo

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£36.5bn, which is 25% above last year's level and implies an increase of 9% for the period from November 2008 to March 2009.

### What would happen if these trends continued?

- Under the assumption that receipts for March grow at the same rate as seen over the last eleven months, receipts for the whole of financial year 2008–09 will be about £12bn lower than was forecast in November's Pre-Budget Report.
- If current and investment spending continue to grow at the same rate seen over the last eleven months, spending for the whole of financial year 2008–09 will be about £4bn higher than was forecast in November's Pre-Budget Report.
- If these extrapolations for receipts and spending prove correct, public sector net borrowing for the whole of 2008–09 would be £95bn, compared to the £77.6bn forecast in the PBR and the £84.3bn forecast in the February 2009 IFS Green Budget. Borrowing of £95bn equates to 6.5% of national income. This level of borrowing was last seen in 1993–94.

### Financial sector interventions and public sector net debt

The ONS has now included the liabilities (net of the short-term financial assets) of Northern Rock and Bradford and Bingley in its measure of public sector net debt. This has the effect of increasing public sector net debt by around £140bn, raising total public sector net debt to 49.0% of national income. The ONS continues to publish figures for underlying net debt which exclude the impact of these organisations – this underlying public sector net debt currently stands at 40.7% of national income.

The ONS has announced that the Royal Bank of Scotland and the Lloyds Banking Group (comprising Lloyds TSB and HBOS) will be classified as part of the public sector (from 13<sup>th</sup> October 2008). The ONS is still assessing the assets and liabilities of these institutions and has yet to incorporate them into the official figures. The ONS's indicative analysis, published last month, suggests that the impact of including these institutions will be to increase public sector net debt by somewhere between £1 trillion and £1.5 trillion – or about 70–100% of national income. This figure will dwarf the existing stock of net debt.

These figures are large because national accounting rules require that all liabilities are included in net debt but only short-term financial assets can be netted off. All of the institutions now classified as public corporations have substantial long-term financial assets which do not, therefore, appear as assets in the national accounts measure of public sector net debt. The important thing for the sustainability of the public finances is what the long-term impact on the public finances of the Government's various interventions in the financial sector is once the taxpayers' exposure has been unwound. This long-term impact will be substantially less than the short-term impact mentioned above, but could still be significant. The IMF estimates that the direct cost will be 9.1% of national income (around £130bn).

### Further Analysis

Information is now available for the first eleven months of financial year 2008–09. Figures for receipts and spending in February 2009 show:

#### Central government current receipts

Receipts of Income Tax, Capital Gains Tax and (net cash) National Insurance Contributions in February 2009 were 0.3% lower than in the same month last year. The Pre-Budget Report forecast published in November implies that the receipts from these taxes will be 0.3% up on last year's levels over the whole year, and 2.1% down over the period from November 2008 to March 2009. Together, the receipts for these taxes during the first eleven months of 2008–09 were 0.3% higher than those for the same months of 2007–08, while receipts for November 2008 to February 2009 were 2.6% lower than the same four months last year.

Cash receipts of VAT in February 2009 were 8.3% lower than the same month last year. The Pre-Budget Report forecast published in November implies that these receipts will be 2.5% up on last year's levels over the whole year, and 0.4% down over the period from November 2008 to March 2009. VAT receipts for the first eleven months of 2008–09 were 1.8% lower than those for the same months of 2007–08, while receipts for November 2008 to February 2009 were 13.1% lower than in the same four months last year.

Corporation Tax receipts in February 2009 were 11.0% lower than in the same month last year. The Pre-Budget Report forecast published in November implies that these receipts will be 3.2% lower than last year's levels over the whole year and 12.9% lower over the period from November 2008 to March 2009. Corporation Tax receipts for the first eleven months of 2008–09 were 5.9% lower than those for the same months last year, while receipts for November 2008 to February 2009 were 22.3% lower than the same four months last year.

### **Central government current spending**

Expenditure on net social benefits was 8.5% higher in February 2009 than in February 2008. The Pre-Budget Report forecast published in November implies that this spending will be 7.2% up on last year's levels over the whole year, and 7.3% up over the period from November 2008 to March 2009. Expenditure during the first eleven months of 2008–09 was 7.7% higher than in the same months of 2007–08, while spending between November 2008 and February 2009 was 8.7% higher than the same four months last year.

Spending on debt interest (which is relatively small as a share of spending overall) was £2.4bn in February 2009 compared to £3.0bn in February 2008.

Other current spending by central government, including spending on the delivery of public services, was 8.8% higher in February 2009 than in February 2008. The Pre-Budget Report forecast published in November implies that this spending will be 5.5% up on last year's levels over the whole year, and 7.3% up over the period from November 2008 to March 2009. Comparing the first eleven months of 2008–09 with the same months in 2007–08, the figure is 5.0% while spending between November 2008 and February 2009 was 6.4% higher than the same four months last year.

In February 2009 public sector net investment was £7.1bn, compared to £5.7bn in February 2008. So far in 2008–09, a total amount of £31.4bn has been spent on public sector net investment, which is 50% higher than had been spent by the same point in 2007–08. The Pre-Budget Report forecast published in November predicted that net investment in 2008–09 as a whole would be £36.5bn, which is 25% above last year's level and implies an increase of 9% for the period from November 2008 to March 2009.

### **Further information and contacts**

For further information on today's public finance release please contact:  
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Next month's public finances release will be published on Wednesday 22<sup>nd</sup>  
April, the same day the Chancellor will make his Budget statement. IFS will  
publish a short press release analysing the public finance numbers on the  
morning of 22<sup>nd</sup> April and will hold a briefing the following day to present our  
analysis of the Budget. This briefing will be held at 1pm on Thursday 23<sup>rd</sup>  
April. The briefing is free of charge. If you would like to attend this event,  
please contact our conference organiser Bonnie Brimstone  
([bbrimstone@ifs.org.uk](mailto:bbrimstone@ifs.org.uk)). Slides and Robert Chote's opening remarks will be  
available after the event from the IFS website.

Relevant links:

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

IMF analysis of the long-term net cost of financial sector interventions can be  
found in Table 4, page 17 of "Companion Paper – The State of Public Finances:  
Outlook and Medium-term Policies after the 2008 Crisis", 6 March 2009:  
<http://www.imf.org/external/np/pp/eng/2009/030609a.pdf>

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

Useful links and background information on Pre-Budget Report 2008 can be  
found at: <http://www.ifs.org.uk/budgets/pbr2008/index.php>

Office for National Statistics & HM Treasury, Public Sector Finances, February  
2009: <http://www.statistics.gov.uk/pdfdir/psf0309.pdf>

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

HM Treasury, Pre-Budget Report 2008:  
[http://www.hm-treasury.gov.uk/prebud\\_pbr08\\_index.htm](http://www.hm-treasury.gov.uk/prebud_pbr08_index.htm)

HM Treasury, Public Finance Statistics Index:  
[http://www.hm-treasury.gov.uk/economic\\_data\\_and\\_tools/pubfinance/data\\_pubfinance\\_index.cfm](http://www.hm-treasury.gov.uk/economic_data_and_tools/pubfinance/data_pubfinance_index.cfm)

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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.