IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published Public Sector Finances January 2005. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first ten months of financial year 2004–05.

Headline Comparisons

- **Central government current receipts** in January were 12.7% higher than in the same month last year. The December 2004 Pre-Budget Report forecast for 2004–05 implies an increase over last year’s levels of 7.2% for the year as a whole and of 7.4% for the period from November 2004 to March 2005. The latest figures show an increase over last year’s levels of 7.8% in the year to date, and a cumulative increase of 9.4% over last year for the three months since the Pre-Budget Report.

- **Central government current spending** in January was 4.9% higher than in the same month last year. The December 2004 Pre-Budget Report forecast for 2004–05 implies an increase over last year’s levels of 5.2% for the year as a whole and of 2.2% for the period from November 2004 to March 2005. The latest figures show an increase over last year’s levels of 6.3% for the year to date, and a cumulative increase of 3.7% over last year for the three months since the Pre-Budget Report.

- **Public sector net investment** in January was £2.6bn, or 37.9% higher than in the same month last year. The December 2004 Pre-Budget Report forecast for 2004–05 implies an increase of 56.4% for the year as a whole and an increase of 99.0% for the period from November 2004 to March 2005. The latest figures show an increase over last year’s levels of 10.0% for the year to date, and a cumulative increase of 22.6% over last year for the three months since the Pre-Budget Report.

Commenting on today’s numbers Christine Frayne, a Senior Research Economist at the IFS, said:

“Today’s receipts figures show a second month of strong growth. Despite central government current spending continuing to exceed Treasury expectations, the contribution of high growth receipts of income tax and corporation tax increase the chances of the Treasury’s forecasts for the current budget in 2004–05 being met. This is despite weak growth in VAT receipts.

Today’s figures make it more likely that the Golden Rule will be met over the current economic cycle. The path of the public finances going forward is of greater direct economic importance. Last month’s Green Budget forecast that putting the public finances on a path as strong as the Treasury aimed for in the 2004 Budget would require a tax increase of at least £11bn. This was mainly due to concerns over the Treasury’s medium-term forecasts for the growth in tax receipts, in particular corporation tax. Despite today’s favourable corporation tax figures, these doubts remain.”
Further Analysis

Information is now available for the first ten months of the current financial year. The figures for January 2005 show:

Central government current receipts

Income and Capital Gains tax receipts (net of tax credits) in January 2005 were 17.1% higher than in the same month of last year, bringing the growth over last year for the three months since the Pre-Budget Report to 15.3%. The December 2004 Pre-Budget Report forecast implies that these receipts will be 10.9% up on last year’s levels over the period from November 2004 to March 2005.

Corporation tax receipts (net of tax credits) in January 2005 were 30.6% higher than in the same month of last year, bringing the growth over last year for the three months since the Pre-Budget Report to 30.1%. The December 2004 Pre-Budget Report forecast implies that these receipts will be 21.3% up on last year’s levels over the period from November 2004 to March 2005.

VAT receipts in January 2005 were 2.9% higher than the same month last year, bringing the growth over last year for the three months since the Pre-Budget Report to 3.2%. The December 2004 Pre-Budget Report forecast implies that these receipts will be 6.8% up on last year’s levels over the period from November 2004 to March 2005.

In January 2005, social security contributions grew by 5.6% over last January’s level, bringing the growth over last year for the three months since the Pre-Budget Report to 6.8%. The December 2004 Pre-Budget Report forecast implies that these receipts will be 4.8% up on last year’s levels over the period from November 2004 to March 2005.

Central government current spending

Expenditure on net social benefits was 5.8% higher in January 2005 compared to the same month last year, bringing the growth over last year for the three months since the Pre-Budget Report to 4.5%. The December 2004 Pre-Budget Report forecast implies central government net social benefit expenditure will be 9.7% up on last year’s levels over the period from November 2004 to March 2005.

Spending on debt interest, which is relatively small as a share of spending overall, was £0.4bn higher in January 2005 than in January 2004.

Other current spending by central government, including spending on the delivery of public services, was 3.2% higher in January 2005 than in January 2004, bringing the growth over last year for the three months since the Pre-Budget Report to 2.5%. The December 2004 Pre-Budget Report forecast implies that this component of spending will be 2.0% down on last year’s levels over the period from November 2004 to March 2005.

In January 2005, public sector net investment was £2.6bn compared to £1.9bn in the same month in 2004. Cumulatively, in the first ten months of this financial year £11.7bn of public sector net investment has been undertaken, compared with £10.6bn in the same ten months last year.
Further information and contacts
For further information on today’s public finance release please contact: Carl Emmerson or Christine Frayne on 020 7291 4800, or email cemmerson@ifs.org.uk or cfrayne@ifs.org.uk

Relevant links:
This, and previous editions of this press release, can be downloaded from http://www.ifs.org.uk/press.php?view=pubfin

Useful links and background information on the Budget can be found at http://www.ifs.org.uk/budgets/index.php

Office for National Statistics & HM Treasury, Public Sector Finances, January 2005:

HM Treasury, Public Finance Statistics Index:
http://www.hm-treasury.gov.uk/economic_data_and_tools/pubfinance/data_pubfinance_index.cfm

HM Treasury, Pre-Budget Report 2004:
http://www.hm-treasury.gov.uk/pre_budget_report/prebud_pbr04/prebud_pbr04_index.cfm

HM Treasury, Budget 2004:
http://www.hm-treasury.gov.uk/budget/bud_bud04/bud_bud04_index.cfm

The IFS Green Budget, January 2005:

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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.