IFS analysis of today’s public finance figures

Today the Office for National Statistics and HM Treasury published Public Sector Finances May 2003. We now have details of central government receipts, central government spending, public sector net investment, borrowing and debt for the first two months of the financial year 2003–04.

Headline Comparisons

- **Central government current receipts** are 6.3% up on the first 2 months of last year. The Budget 2003 forecast for 2003–04 implies an increase of 7.0% for the year as a whole.

- **Central government current spending** is 5.4% up on the first 2 months of last year. The Budget 2003 forecast for 2003–04 implies an increase of 6.1% for the year as a whole.

- **Public sector net investment** is 175.8% up on the first 2 months of last year. The Budget 2003 forecast for 2003–04 implies an increase of 64.3% for the year as a whole.

Further Analysis

Very little can be extrapolated for the coming ten months since we only have information from two months of the current financial year. Bearing this in mind the figures for receipts and spending in May 2003 show:

**Central government current receipts** came in 5.4% higher in May 2003 than in the same month in 2002. This is below the increase for the whole of 2003–04 implied by the April 2003 Budget. Within this total, revenues from income tax for this year have come in higher than the Budget forecast for the year as a whole while receipts from VAT and social security contributions have come in lower. Corporation tax receipts are currently in line with the April 2003 Budget forecast for the year as a whole.

**Central government current spending** was 6.3% higher in May than in the same month in 2002, in line with the increase implied by the Budget forecast for the whole year. Expenditure on net social benefits grew by slightly more than the Budget forecast. Interest payments are also currently running above the Budget forecast. Other current spending by central government, including spending on the delivery of public services, was 5.7% higher in May 2003 than in May 2002. This brings the cumulative growth in this component of central government expenditure in the two months so far this year up to 5.6%, slightly lower than the 7.0% that the Budget forecast now implies.

In April 2003, **public sector net investment** was £0.6bn compared to just £0.3bn in the same month in 2002. Cumulatively, in the first two months of this financial year £2.4bn of public sector net investment has been undertaken (compared with £0.9bn in the same two months last year).
Christine Frayne, a senior research economist at the IFS, said: “Very little can be learned about the likely path of the public finances in 2003–04 from just two months’ data. Both central government receipts and central government current spending are reasonably in line with the April 2003 Budget forecasts for the whole of this year. The strong growth in public sector net investment, if continued, will be good news for the Government since it has failed to deliver its planned increases in the past.

“We remain concerned that the Chancellor’s medium-term forecasts for tax revenue may be too optimistic, even if the economy bounces back as sharply as he expects. If we are correct, further tax increases would be required to be confident of continuing to meet the government’s fiscal rules with the comfort that the Chancellor has looked for in the past, let alone to provide any extra money he might be seeking for next year’s spending review.”

Contacts
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Relevant links:
Useful links and background information on the Budget can be found at http://www.ifs.org.uk/budgetindex.shtml

This, and previous editions of this press release, can be downloaded from http://www.ifs.org.uk/press/pub_fin.shtml


HM Treasury, Budget 2003, http://www.hm-treasury.gov.uk/budget/bud_bud03/bud_bud03_index.cfm

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

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Notes:
Central government current spending includes depreciation.

Where possible we compare figures on an accruals basis with the HM Treasury forecast.