
PRESS

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RELEASE

The Institute for Fiscal Studies

IFS analysis of today's public finance figures

This is the first in a new series of monthly IFS press releases in which we will provide on-the-day analysis of the latest public finance figures. Please let us know if you find them useful and if there are any amendments you would suggest.

For immediate release

Today, the Office for National Statistics and HM Treasury published *Public Sector Finances September 2002*. We now have details of central government receipts,

central government spending, public sector net investment, borrowing and debt for the first six months of the financial year 2002–03.

Headline Comparisons

- **Central government current receipts** are 2.1% up on the first 6 months of last year. The Budget 2002 forecast for 2002–03 implies an increase of 4.1% for the year as a whole.
- **Central government current spending** is 8.0% up on the first 6 months of last year. The Budget 2002 forecast for 2002–03 implies an increase of 5.8% for the year as a whole.
- **Public sector net investment** is 14.0% up on the first 6 months of last year. The Budget 2002 forecast for 2002–03 implies an increase of 63.1% for the year as a whole.

Further Analysis

So far this year **central government current receipts** have grown much less quickly than the Chancellor forecast for the year as a whole in his April Budget. Revenues from income tax and corporation tax were both forecast to rise this year (at a rate of 4.7% and 2.5% respectively). These revenues are higher relative to last year in the latest month, but in the six months to date revenues have actually been coming in lower than last year (0.2% and 3.9% respectively). It is sensible to be cautious about extrapolating recent growth rates over the year as a whole. For example, the move to a quarterly payment system for large corporations will change the timing of corporation tax revenues in the financial year.

Central government current spending was (13.8%) higher in September than in the same month last year, keeping the growth in current spending to date above that implied by the Budget forecast (spending grew by 6.4% for the first

four months of the year, but has since been followed by two months of significantly higher growth). Interest payments on government debt have been lower than anticipated, while net social benefit payments have grown rather more, compared with last year, than the Budget predicted. The remainder of central government current spending has grown at 11.8%, which is greater than the 8.4% implied by the Budget forecast for the year as a whole. In part this is an encouraging sign that the government's planned increases in spending on public services will be delivered, following a number of years in which it has underspent its targets.

The Chancellor's plans to bring about a sharp increase in **public sector net investment** this year are so far proving difficult to deliver. With six months of the financial year already passed, net public investment totals only £2.5bn (£2.2bn at the same time last year), compared to the Budget forecast of £14.4bn for the financial year as a whole. Net investment spending has in the past accelerated towards the end of the financial year. This year, this acceleration will have to be more marked than last year if the Chancellor is to hit his Budget forecast.

Christine Frayne, research economist at the IFS said: "Today's figures show that while government spending has been growing faster than the Chancellor's Budget forecast, tax revenues have been rather weaker and borrowing therefore somewhat higher. Whether this will necessitate higher taxes or lower spending in the future will depend on whether this deterioration persists for the rest of the financial year and whether it is a structural problem or simply down to cyclical weakness in the economy. The Chancellor's fiscal rules rightly allow for borrowing to increase when the economy is in a temporary downswing."

When interpreting today's figures, it should be noted that there is a large margin of error in forecasts of the public finances – even within a given financial year. The picture should be slightly clearer in November when the October figures are published, as October is the most important month for corporation tax revenues which are the most difficult to forecast. New HM Treasury forecasts will be published in the Pre-Budget Report. The Treasury is yet to announce when this will take place – in the past this has taken place on a Tuesday or Wednesday in November.

For further information please contact: Robert Chote, Carl Emmerson or Christine Frayne on 020 7291 4800, or send an email to rchote@ifs.org.uk, cemerson@ifs.org.uk or cfrayne@ifs.org.uk.

Relevant links:

Office for National Statistics & HM Treasury, Public Sector Finances, September 2002:

<http://www.statistics.gov.uk/pdfdir/psf1002.pdf>

HM Treasury, Budget 2002:

http://www.hm-treasury.gov.uk/Budget/bud_bud02/bud_bud02_index.cfm?

HM Treasury, Databank October 2002:

http://www.hm-treasury.gov.uk/economic_data_and_tools/pubfinance/data_pubfinance_index.cfm

Emmerson, C. and Frayne, C. (2002), The Government's Fiscal Rules, IFS briefing note No.16:

<http://www.ifs.org.uk/public/bn16.pdf>

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