

Interest payable on government debt remains persistently high

June 2023

For the second month of the fiscal year, government net borrowing has overshoot the OBR forecast. The net debt stock has reached a new 21st century high and as interest rates continue to rise, the relative burden of this debt will continue to grow.

The 2023/24 financial year has begun with significant net borrowing reaching a cumulative £42.9 billion in May – £19.6 billion more than the same point in 2022/23. This is only outstripped by the 2020/21 financial year where cumulative net borrowing reached £100.5 billion by the same point. Compared to 2019/20, net borrowing is £26.5 billion ahead this year highlighting the unprecedented scale of borrowing by the government.

The COVID-19 pandemic and the energy crisis have driven net debt to level not seen since the 1960s, reaching 100.1% of GDP in May. The OBR predicts that it will continue to grow to 103.1% by the end of the 2024/25 financial year before falling. Our latest CBI public sector finance forecast is more optimistic, suggesting that net debt will end this financial year at 99.9% of GDP before falling each year thereon.

The growing concern around this scale of borrowing and debt stock is how the uprating of interest rates are increasing the burden of servicing the debt. Cumulatively, £2.6 billion more has been spent this financial year on interest payments than over the same period in 2022/23. The 2022/23 financial year saw a total of £107.0 billion spent on servicing the debt – approximately 10% of total government expenditure for the financial year – which reduces fiscal space, while drawing expenditure away from more pressing areas.

Public Sector Borrowing

Public sector net borrowing in May fell to £20.0 billion from April, over double the £9.4 billion in May of last year. Much like last month, this is the second highest May borrowing rate, only behind 2020 (£51.4 billion) – this has been the trend since February.

- Between April and May, net borrowing fell by £2.8 billion but remained £1.7 billion ahead of the OBR monthly forecast, meaning total net borrowing this financial year is now £2.1 billion above of projections.
- Cumulatively, the government has borrowed £42.9 billion this financial year, £19.6 billion more than by the same point the previous year.
- Total government expenditure in May fell to £95.1 billion, from £111.1 billion in April. This, however, is still a £13.1 billion increase on May 2022 and just £7 billion shy of May 2020. Growth in staff costs and benefit payments are partly attributable to this increase.

- The combined energy support schemes cost £3.6 billion in May, £1.4 billion more than the previous year.
- The budget deficit excluding public sector banks remains largely unchanged from April at £16.8 billion.

Public Sector Debt

For the first time since 1961 the provisional net debt to GDP ratio has broken the 100% mark, reaching 100.1% in May – a value of £2.6 trillion (excluding public sector banks). Where the OBR forecast it peaking this year at 103.1%, our own forecast shows it falling from this point out, ending the year with a ratio of 99.9%. Our slightly more optimistic view is driven by a combination of expectations of greater public sector receipts and uprated GDP growth.

- Net debt grew £30.2 billion between April and May of this year to a stock of £2.6 trillion. This is up £165 billion from May of last year and is a new high on record.
- The very high levels of debt together with the rising interest rates are creating a situation where servicing the debt is becoming more expensive, creating a tighter fiscal environment for the Chancellor.
- Interest payable on debt in May came to £7.7 billion – 9% of total government expenditure that month. Across April and May 2023, interest paid by government is up £2.6 billion than the previous year.
- Net investment fell to £3.3 billion in May from April's £6.2 billion. However, this is almost double the typical levels seen for May in previous years.





