

Spending overshoots in the first month of the financial year

May 2023

The Chancellor ended the 2022/23 financial year with net borrowing £15 billion lower than expected in the Office for Budget Responsibility forecast. This leaves the Treasury with additional breathing space to meet their fiscal rules after the expansionary fiscal policies announced at the Spring Budget, but the debt burden will remain a persistent issue over the medium term.

The OBR released their Economic and Fiscal Outlook alongside the Spring Budget in March of this year. This release forecasts output, inflation, and public sector finances to the 2027/28 financial year (FY). In terms of public sector finances, the OBR forecasts a worsening in the short-term before significant improvements are made with cumulative public sector net borrowing to reach £132 billion this FY before falling to £49 billion in 2027.

Public sector debt is also predicted to follow a similar pattern, peaking at 103.1% this FY before steadily falling to 96.9% by 2027/28. However, despite the large fiscal stimuli announced at the Spring Budget, the tightening introduced in Autumn will still raise the overall tax burden and is estimated to reach a post-war high by the end of the 2027/28 FY including the highest ratio of corporation tax receipts to GDP since the tax was introduced.

The very high debt levels are going to put a strain on public finances through the interest payable. The recent rapid growth in interest rates are going to amplify the payments made and was one of the core costs faced by the Government in April. These levels of debt to GDP ratios haven't been seen in the UK since the 1960's and will remain a significant concern for the Chancellor moving forward.

Overall, the OBR's forecast of public finances put the state of borrowing this FY in similar terms to the previous two. Net borrowing will remain largely similar to both 2021/22 and 2022/23 – well below that of the pandemic year, but still over double the volume of net borrowing seen in 2019/20. It's not until 2025/26 that the OBR predicts overall net borrowing will return to pre-pandemic volumes. The OBR does recognise risks to their forecasts where government has made aspirations but not formally committed to policies such as whether fuel duty stays frozen, if full expensing is made permanent and commitments to increased military spending.

Although the still UK faces many challenges with tackling inflation, growing the economy and productivity, it is among its peers when it comes to the relative gross debt to GDP the public sector holds. OECD data shows that Canada, the US, Italy, and Japan all have rates above the UK while the UK sits at roughly the OECD average.

Public Sector Borrowing

Public sector net borrowing in April came to £25.6 billion, almost double that of April last year and the second highest April on record after 2020 (£49.1 billion). In the first month of the fiscal year, net borrowing is already £3.1 billion ahead of the forecast. The OBR's latest medium-term forecast predicts just a £6.5 billion fiscal headroom by 2027/28 – the narrowest margin since the Financial Crisis.

- Between March and April, public sector borrowing increased by £4.7 billion driven in part by a significant decrease in receipts from £81.2 billion to £69.7 billion. Although April typically sees a fall in receipts relative to March, it's usually of the magnitude of £5 billion rather than the £12 billion seen here.
- April 2023's total current expenditure was £10.3 billion larger than in 2022, reaching £91.3 billion. This is also the third highest expenditure month on record behind April 2020 and December 2022. This is largely driven by the additional costs of the energy support schemes and interest payable on public sector debt.
- Across the 2023/24 financial year, the OBR forecasts public sector net borrowing to be £5.5 billion less than the previous financial year's outturn.
- The budget deficit excluding public sector banks sits at £19.4 billion as of April 2023, up from £6.5 billion in March.

Public Sector Debt

Net debt, excluding public sector banks, as a percentage of UK GDP has grown consistently since the turn of the century. In the 1997/98 FY, net debt to GDP stood at 36.6%, by 2010/11 it had doubled to 70.8% and as of April this FY, it stands at 99.2%. The OBR predicts it to peak this year at 103.1% before beginning a gradual decline to just 96.9% by the end of 2027/28.

- Net debt grew £6.7 billion between March and April of this year to a stock of £2.5 trillion. This is up £153 billion from April of last year and is a new high on record - £384 billion more than March 2021 at the height of the pandemic.
- The growing debt levels alongside a rapid rise in interest rates suggests that a greater share of public finances will be spent on servicing this debt creating a tighter fiscal environment for the Chancellor.
- Central government debt interest payable was £9.8 billion in April 2023, £3.1 billion more than last April and the highest April figure on record. Balancing expansionary fiscal policy to grow the economy with bringing the debt burden down will be crucial.
- Net investment remains largely unchanged for what's expected in April of the FY coming in at £6.2 billion, £2 billion more than last year and £0.1 billion less than in 2021.
- Although a somewhat gloomy picture, the UK's gross debt as a percentage of GDP has fallen sharply between 2021 and 2022 from 143% to 104% bringing it back in line with the OECD average of 109%.
- Japan topped the list with a ratio of 256% in 2021 followed by Italy at 173% and the UK at 143%.





