

Public sector borrowing

In their March forecast this year the Office of Budget Responsibility stated that the UK government would borrow an additional £354.6bn in the year ending that same month. The latest government figures for what they actually borrowed was £298 bn. So the outturn was £56.6bn or 16% lower than the official OBR forecast. They underestimated revenue and overestimated spending.

The latest figures we have are for July, one third of the way through the new financial year. In March the OBR forecast £233.9bn of extra government borrowing this year. The July figures saw the actual borrowing fall by more than £10bn that month or almost a half of the July 2020 total. Once again spending was lower and revenue higher than official forecasts. If the economy records similar progress from here as over the first four months of the financial year there will be another welcome substantial undershoot of the OBR estimates for the current year.

These large changes to forecast matter, as it shows the Chancellor is called to make judgements about spending, taxing and debt based on a model of the economy which tends to pessimism on both spending and revenue outturns. The model seems to be pessimistic about the ability of the UK economy to recover, and shy of accepting that the best way to get the deficit down is faster growth. Revenues are highly sensitive to extra activity, as the huge increases in Stamp duty receipts and taxes on entrepreneurial activities demonstrate this July.

I share the OBR and Treasury wish to get the deficit down, but I want to get it down by cutting the need for special spending to offset a weak economy and lockdown costs, and seeing revenues rise thanks to more activity. Of course government also needs to manage the large public sector well and avoid waste and low productivity. That requires daily action by Ministers and senior officials over a range of activities, which I will be exploring from time to time in specialist pieces here. The message today is lifting lockdown restrictions has boosted revenues and cut public spending for the right reasons. We need more and faster growth to bring the deficit down further.