

# United Kingdom

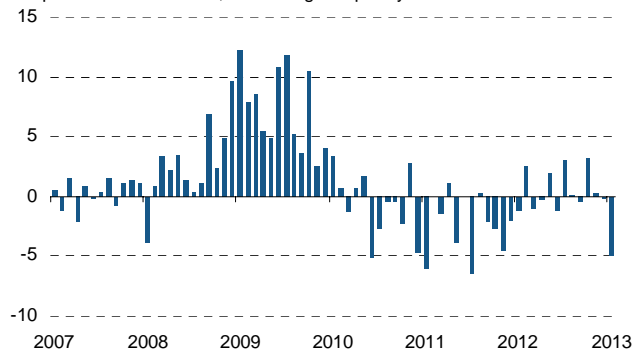
## Government borrowing still set to rise despite healthy January surplus

- **Government sees stronger than expected surplus in January**
- **Borrowing still 1.6% higher than last year in year-to-date**
- **Borrowing set to run £5-10bn above target**

Government borrowing figures were much better than expected in January but, with just two months of the tax year remaining, borrowing is still up 1.6% on last year and the government's target for the year looks likely to be missed by perhaps £5-10bn. The Chancellor will need to reassure the markets and credit rating agencies in the Budget that policies can be put in place to revive the stagnant UK economy and break the cycle of weak growth, low tax revenues and rising government borrowing.

### Public sector borrowing

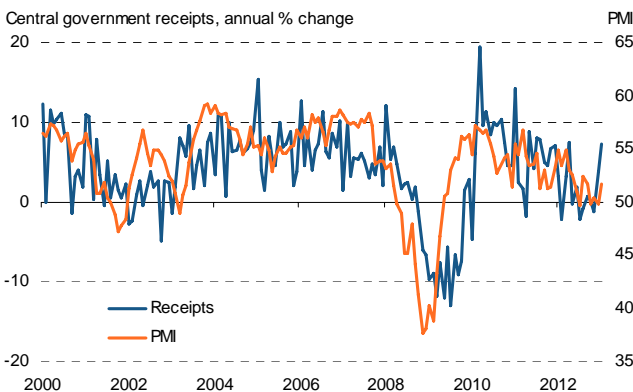
UK public sector net borrowing excluding financial interventions & Royal Mail pension fund transfer, £bn change on prior year



Source: Markit, ONS via Ecwin.

### Economic growth and tax revenues

Central government receipts, annual % change



Source: Markit, ONS via Ecwin.

January is one of the most important months of the tax year, with income and corporation tax revenues boosting the government coffers. This year the surplus in January was £11.4bn, substantially above analysts average expectations of £8.15bn and almost double the £6.4bn seen last year. However, the sum is less impressive than first glance suggests, having been buoyed by £3.8bn revenues from the Bank of England's asset purchase scheme.

Despite the January surplus, total borrowing for the year to date is £93.8bn (excluding the Royal Mail pension fund transfer), up 1.6% from £92.3bn in the same period of last year.

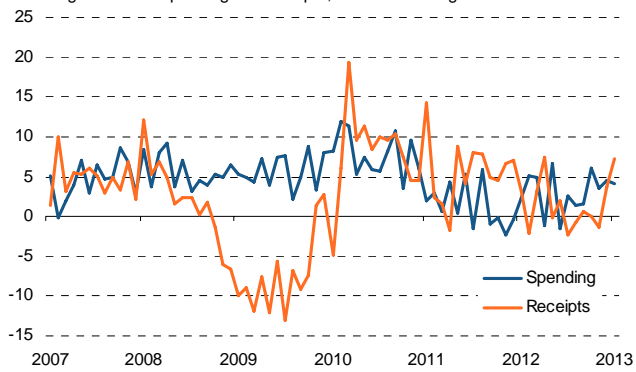
The lower than expected revenues from the 4G spectrum auctions (a shortfall of £1.2bn), as well as notification today that transfers from the Bank of England's asset purchase scheme will be lower than first thought, has exacerbated the impact of lower than anticipated tax revenues and rising benefit spending due to weaker economic growth over the past year.

The government's borrowing target for the year of £108.5bn is therefore still looking unrealistic. Borrowing for the year is now looking likely to come in around £5-10bn higher than the government was hoping, and could easily end up higher than the £120bn seen in 2011-12 if tax revenues continue to disappoint (to get some handle on the challenge ahead, in the remaining two months of the tax year the government borrowed £28.6bn last year).

With borrowing rising and the economy stagnating over the past year, the UK's AAA credit rating is looking increasingly at risk. The spring Budget will need to address the concern that more stimulus is needed besides central bank action in order to get the economy on a sustainable recovery path. The worry is that, without a credible plan from the government to break the vicious circle of a sluggish economy, low tax revenues and rising public sector borrowing, the credit rating agencies are likely to lose their patience.

### Government spending and revenues

Central government spending and receipts, annual % change



Source: Markit, ONS via EcoWin.

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