

Public finances worsen as recession bites

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Public finances worsened significantly last month as net borrowing totalled £8bn compared with a surplus of £5.2bn in the same month last year.

The deterioration in the public finances, at a point in the year when they are frequently in surplus, took the total net borrowing for the fiscal year to date to £54.7bn from £20bn at the same point last year, the latest official data from the [Office of National Statistics](#) show.

Total revenues, which fluctuate on a monthly basis and include tax receipts as well as income from other sources, were £24.1bn compared with £44.1bn at the same time last year.

Much of the deterioration illustrates the severe impact the recession is having on households and businesses.

Colin Ellis, economist at Daiwa Securities, said: "While we would caution against putting too much weight on any one month's data, these gloomy figures confirm that the public finances are in a dire state.

"The authorities must be hoping that [the Bank of England's monetary stimulus, or 'quantitative easing'] starts working soon."

The government had little leeway to underpin the economy with fiscal measures because of the poor state of public finances, Mr Ellis noted, and the only extra support that was at all likely from fiscal policy over the next year was probably an extension of the VAT cut and/or the car scrappage scheme.

"But given the underlying weaknesses that are evident in today's data, if the economy remains weak then the toll on the public sector finances could end up being truly horrible," he warned.

Tax receipts from corporation tax and capital gains levied on individuals in July fell to £20.7bn from £26.6bn in July 2008, while revenues from value added tax, which was lowered at the end of last year to 15 per cent from 17.5 per cent, fell from £14.7bn to £13.3bn.

Outlays rose in July, with net social benefits rising to £14bn from £12.7bn in July 2008, in part reflecting the increased cost of payments to the unemployed. But in spite of the surge in government borrowing, interest expenditure fell to £2.7bn from £3.3bn, in line with the sharp drop in rates since last year.

In July, the public sector had a current budget deficit of £5.1bn compared with a surplus of £7.8bn in July 2008. Public sector net debt was £800.8bn, or 56.8 per cent of gross domestic product at the end of July. However, after stripping out government support for the banking sector, public sector net debt stood at £658.1bn, or 46.6 per cent of GDP.

The poor state of the public finances came as fresh data showed that British consumers flocked to the high street in July.

Overall, retail sales volumes last month rose by 0.4 per cent from June, bringing the annualised rate of growth to 3.3 per cent, according to the Office for National Statistics.

Sales at stores selling household goods, which have suffered as house prices sank, were up 3.9 per cent month on month, the largest such monthly increase since August 2006. However, sales of goods at stores that predominantly sell food were down by 1.1 per cent on the June figure – the largest such month-on-month fall since December.

Overall in the three months through July, retail sales rose 1.2 per cent when compared with the three months to June, the biggest such three-month-on-three-month rise since May 2008.

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