

Economics

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UK – Fiscal Deficit Undershoots Again

- The public sector recorded a £3.7bn surplus in January, the biggest monthly surplus since mid-08 and well above both our forecast (£0.7bn surplus) and the consensus (£0.1bn surplus). The split shows that central government revenues remain buoyant, rising 12.4% YoY in January and up 8.4% in April-January as a whole), led in particular by strong gains in receipts of income tax and capital gains tax (up 18% YoY in January) and corporation tax (up 13% YoY in January). Revenues fell more sharply than nominal GDP in the recession as the financial sector nose-dived. This year, revenues are being propelled by the rebound in nominal GDP growth and also the reversal of that previous undershoot versus nominal GDP. Revenue growth is about 1% above the OBR's forecast.
- At the same time, spending growth remains weak, consistent with the Budget plans. The sum of central government current spending (excluding debt interest) and net public investment is up just 1.9% YoY in April-January, similar to the Budget plans.
- In addition, the ONS continued its recent habit of revising down the monthly deficit figures for previous months, with borrowing for April-December revised down by £1.6bn. Downward revisions to deficit figures have been a regular habit for the ONS over the last few years, with the monthly deficit figures revised down in 44 of the last 56 months. Such revisions often occur a few months after the numbers are first released, with the result that the underlying trend in the fiscal position has generally been a bit better than the latest month's headline alone would imply.
- In all, these figures leave borrowing in April-January down by £14.2bn from a year ago, a markedly faster pace of improvement than expected by the OBR, whose forecasts imply that the deficit will fall by about £8bn over the whole fiscal year. Before these data, we had been expecting the deficit to undershoot the OBR's forecast by about £4bn. Now, that appears a bit too cautious, and it seems likely that the deficit will undershoot the OBR's forecast by about £8bn, ending up at about £140bn excluding financial intervention costs versus the OBR's £148bn forecast and well below consensus.

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