

European Rates Watch

June's UK public sector finance data: going to plan

CGNCR: in line with projection

Today's set of UK public sector finance data for June suggested that the DMO's Remit has been going to plan in the first three months of the fiscal year 2023/24. The CGNCR came in at £20.1bn in June, slightly above the OBR's projection of £18.4bn (Exhibit 1). Cumulatively, CGNCR stands at £55.9bn after the first three months of the fiscal year, broadly in line with OBR's projection of £57.5bn.

Weak NS&I in June

The NS&I monthly flow was a negative £0.3bn in June, once again less than in the month prior (it was a positive £0.9bn in May). After the first NS&I interest rate increases in December 2022, monthly inflows increased to £3.95bn in March, but have been dropping since (Exhibit 2). While still very early into the new fiscal year, such a quarterly pace would be in line with the DMO's £7.5bn NS&I fiscal year projection.

Tentative risk of an upward Remit revision in Autumn

June's public sector finance data does not suggest meaningful deviations from the current Remit; not surprising in the still early days of the new fiscal year. Looking ahead, we see tentative risk of an upward Remit adjustment in Autumn by an additional £20bn, largely via increased debt servicing costs. Following Dave Ramsden's speech earlier this week, it seems possible that active Gilt sales from the BoE will rise also, by an additional £7bn from the BoE (assuming £10bn extra QT in original cost terms over the six months from September).

Improving tax receipts help deficit

Government borrowing is running £8bn below OBR forecast in the first three months of the fiscal year, after June borrowing was £3bn lower than expected and previous months were revised down (Exhibit 3). Improving tax receipt growth has helped the deficit undershoot, with income tax and NIC growth improving (Exhibit 4).

Challenges beyond the near-term

Lower than expected borrowing likely reflects in part stronger than expected wage growth, so it may persist. The challenge for the government finances beyond the near-term are two-fold, however. First, inflation higher for longer – driven by/signalled by wages – will put upward pressure on nominal government spending ahead through the need to support real spending totals. Second, higher interest rates will raise government debt interest payments through the forecast period, possibly by £20bn-£30bn a year. We do not see much wiggle room in the public finances.

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Abbreviations

APF: Asset Purchase Facility
BoE: Bank of England
CGNCR: Central Government Net Cash Requirement
DMO: Debt Management Office
FY: Fiscal Year
LDI: Liability Driven Investment
B&B: Bradford & Bingley
NRAM: NRAM Ltd
NIC: National Insurance contribution
CCFF: Covid Corporate Financing Facility
VAT: Value added tax
NS&I: National Savings and Investment
OBR: Office for Budget Responsibility
ONS: Office for National Statistics
QE: Quantitative Easing
QT: Quantitative Tightening

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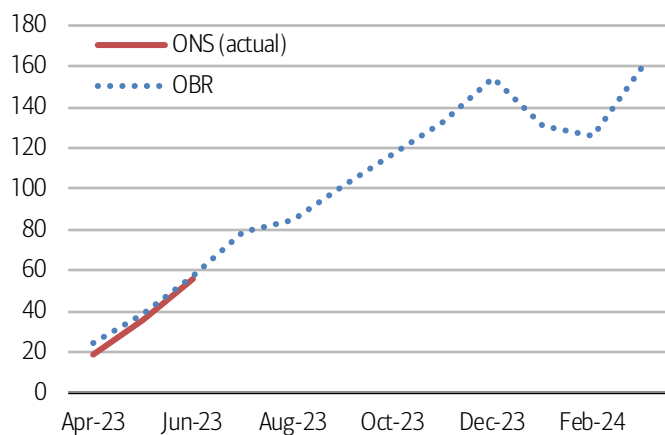
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Exhibit 1: CGNCR ex. B&B, NRAM, Network Rail and CCFF (GBPbn, cumulative)

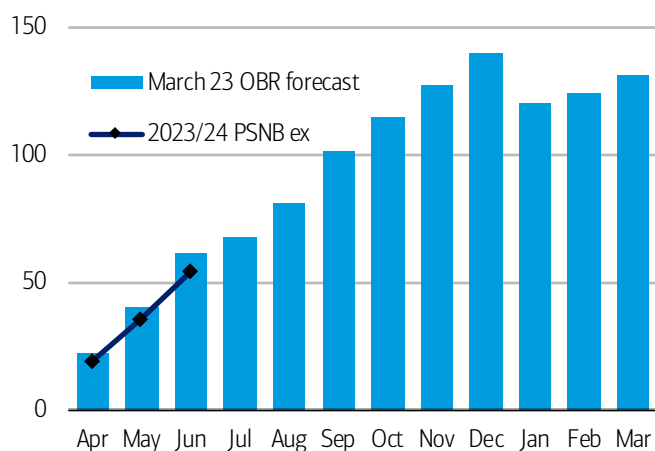
Broadly in line with projection



Source: BofA Global Research, Office for Budget Responsibility, Office for National Statistics
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Exhibit 3: Borrowing undershooting forecasts so far in 2023

Public sector net borrowing, data vs OBR forecast

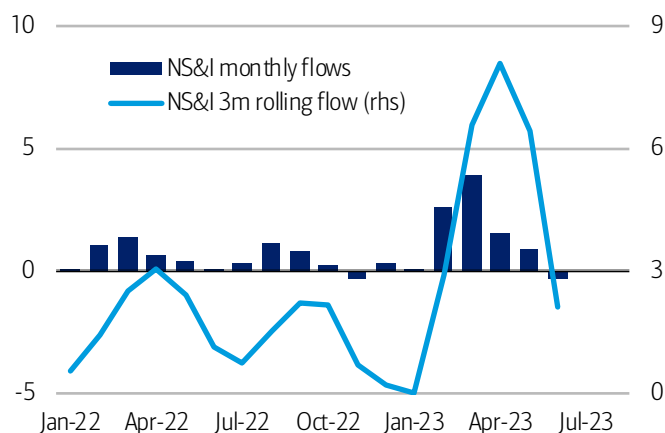


Source: BofA Global Research, ONS, OBR

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Exhibit 2: NS&I monthly and 3m. Cumulative flows, £bn

In decline lately

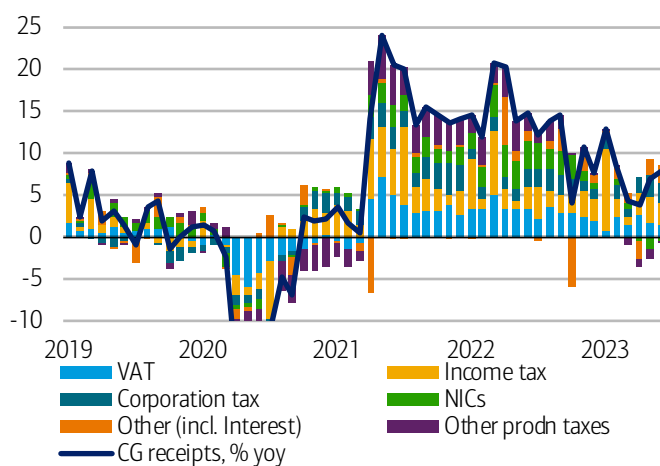


Source: Office for National Statistics, BofA Global Research

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Exhibit 4: Receipts growth boosting by income tax

Contributions to central government receipts, % yoy



Source: BofA Global Research, ONS

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