Fresh hope for economy as government borrowing tumbles

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RESH hope that the UK economy might escape the worst ravages of the pandemic at a lower cost than previously thought emerged today when government borrowing again tumbled.

THE UK government borrowed £24.3 billion to make ends meet in May, much lower than official forecasts or the best guesses of City economists.

And while that takes the national debt pile to £2.2 trillion – or more than 99% of GDP – it was taken as a sign that the economy is recovering much more quickly than thought, as lockdown ends and tax receipts rise.

The Conservative Party has been discussing how to pay for the pandemic, with talk of income rax rises and a possible raid on pension funds.

The City is increasingly optimistic that huge rises in taxes and spending cuts may not be necessary.

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Capital Economics said: “The strong economic recovery is starting to feed through into lower government borrowing. This reinforces our view that the tax hikes and spending cuts that most fear may be avoided.”

The May figure, while the second highest for that month on record, was £19.4 billion lower than for May last year and well beneath the £28.5 billion predicted by the Office for Budget Responsibility. There was a similar outcome in April.

Chancellor Rishi Sunak noted that “it is important over the medium term to get the public finances on a sustainable footing”. Observers took the phrase “medium term” as an indication that Sunak isn’t planning any radical moves in the short term.

Tax receipts jumped from fuel and VAT as consumer spending recovered.

Furlough cost £7.5 billion less in May as more workers returned to jobs that have been saved.

The economy and the recovery are still “fragile” some warn.

Alison Ring, ICAEW Public Sector Director, said:

“With numbers for the second month of the financial year now in, we can see tax receipts are starting to approach pre-pandemic levels, while borrowing continues to increase despite Covid-19 spending starting to decrease.

“The public finances remain in a fragile state, and ongoing debates about education spending, adult social care and the pensions triple-lock highlight the difficult decisions facing Rishi Sunak as he seeks to balance pressures on our public services with still-growing levels of public debt. The prospects of the Chancellor raising taxes in the Autumn Budget appear to be increasing.”

Michal Stelmach, senior economist at KPMG UK, said: “Spending should continue to recover in the coming months as the economy absorbs more furloughed workers during the reopening phase. The furlough scheme, which the OBR expected to cost nearly £50bn less this financial year, is likely to undershoot that forecast thanks to stronger demand for staff and some companies returning unused cash to the Exchequer.”