Government borrows less than expected in December as Rishi Sunak gets room on tax rises

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HE government borrowed nearly £17 billion in December to support the economy as Omicron hit – less than expected suggesting UK finances are in better shape than feared.

However, higher inflation sent interest rate payments to £8.1 billion, up from £5.4 billion the same month a year ago.

A chunk of those payments go to the Bank of England, since it holds about a third of government debt.

Economists say the figures give Chancellor Rishi Sunak room to ease the costs of energy bills and perhaps delay rises in tax.

He said: "We are supporting the British people as we recover from the pandemic through our Plan for Jobs and business grants, loans and tax reliefs. Risks to the public finances, including from inflation, make it even more important that we avoid burdening future generations with high debt repayments. Our fiscal rules mean we will reduce our debt burden while continuing to invest in the future of the UK."

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Public sector borrowing from the end of March to December was £146.8 billion – the second highest since records began in 1993.

James Smith, Research Director at the Resolution Foundation, said: "As we await further evidence of the impact of Omicron on economic activity, today's figures suggest that the latest wave has not had a huge effect on the public finances so far, with borrowing in December broadly in line with the OBR forecast.

"Borrowing for the first nine months of the financial year is now £13 billion lower than the OBR's October forecast, mainly reflecting the stronger-than-expected post furlough scheme labour market. This fiscal room for manoeuvre makes it inevitable that the Chancellor will set out a plan to deal with the cost of living crunch.

"With soaring energy bills set to push around six over families into fuel stress, a targeted package to limit the rise in energy bills is the top priority, with the majority of gains from a delayed National Insurance increase going to the richest fifth of households."

Carl Emmerson, Deputy Director at the Institute for Fiscal Studies said: "While borrowing last month was in-line with the Budget forecast, over the first 9 months of 2021-22 it is now £13 billion below that forecast for the same period in the October Budget – £147 billion instead of the £160 billion expected in October. The latest improvement to borrowing over this period has been driven by higher-than-expected corporation tax being paid by some very large companies."

Laith Khalaf at AJ Bell said:

"Money flowing out of the public sector continues to comfortably exceed the cash coming in, to the tune of £16.8bn in December. Despite the high figure, the dials are generally heading in the right direction from the peak of the pandemic, albeit not as quickly as the Chancellor might like.

“Central government tax revenues rose by 10% year on year, boosted by low levels of unemployment, even in the aftermath of the furlough scheme. Meanwhile expenditure came in lower than last December, but only just, because interest payments on government debt trebled compared to last December, to £8.1bn, a record for the month.”