

## UK: A diminishing war chest

With prime ministerial candidates promising tax cuts and a spending splurge the latest fiscal numbers offer something of a reality check to their plans

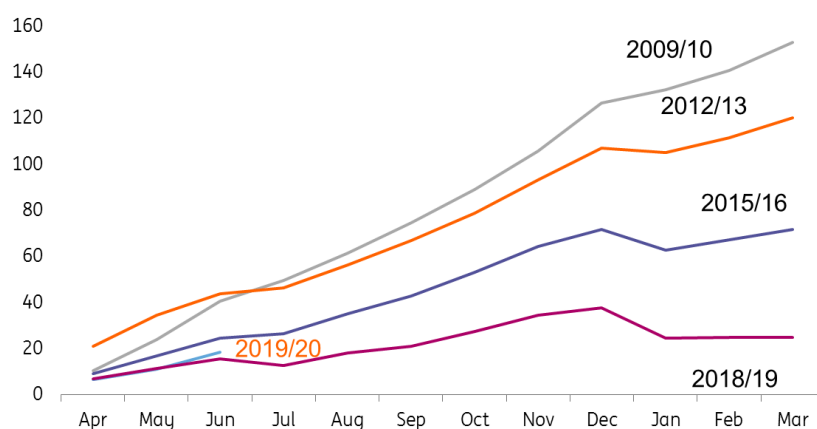


Source: Shutterstock

UK government borrowing increased more than expected in June thanks to both higher spending and weaker tax revenues. In fact, this is the largest June budget deficit for four years and is nearly twice as big as what economists expected. Excluding banking groups, public sector net borrowing came in at £7.2bn and although the May deficit was revised down, cumulative borrowing for fiscal year 2019/2020 is £17.9bn - tracking nearly one third, or £4.5bn above the same period for fiscal year 2018/19.

## Cumulative UK government borrowing by fiscal year

Cumulative monthly public sector monthly borrowing (ex banks) by fiscal year (£bn)



Source: Bloomberg, ING

The details show spending was up 7.2% year on year due to more outlays, but also higher borrowing costs. Rising retail price inflation has meant the interest paid on index-linked gilts has risen. Unfortunately, receipts rose just 1.5% YoY with corporation tax revenues actually falling, which underlines the rather weak state of the UK economy right now.

The [Office for Budget Responsibility reported yesterday](#) that under a “no-deal” Brexit on 31 October, government borrowing could jump £30bn a year in 2020/21. Given that context, today’s poor borrowing figures underlines the point that the tax and spending proposals from Boris Johnson and Jeremy Hunt will be difficult to achieve under the current fiscal framework.

[Read the OBR's report here](#)

That said, neither candidate has pledged to keep the structural budget deficit below the 2% GDP level targeted by current Chancellor Philip Hammond. Even if a “no-deal” Brexit is avoided in October, the prolonged uncertainty will likely keep the economy growing weaker than trend and tax revenues, therefore, underperforming budgeted predictions.

With Philip Hammond likely to be out of his job next week, his fiscal rule will be quietly dropped. Government borrowing looks set to climb irrespective of who becomes the next UK prime minister.

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