

# BRITAIN BORROWS MORE, THREATENING NEW BUDGET TARGET

by

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<http://uk.news.yahoo.com/december-public-borrowing-rises-spending-grows-faster-income-093221701--business.html>

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*Reuters/Reuters - A general view shows the Bank of England in the city of London November 26, 2012.  
REUTERS/Olivia Harris*

LONDON (Reuters) - Britain's government borrowed slightly more than expected in December as the economy continued to struggle, thwarting efforts to erase a large budget deficit and adding to pressure on the country's top credit rating.

Just over a month after official borrowing forecasts for 2012-13 were revised, economists said the figures showed the Chancellor, George Osborne, was almost certain to miss his new annual target, further endangering a deficit-cutting drive that is already running two years behind.

The government's preferred measure of public sector borrowing rose to 15.419 billion pounds in the month from 14.848 billion pounds a year earlier, just above a forecast of 15.2 billion pounds.

It was mainly due to a poor growth in revenues, which will bolster criticism that the government has cut too hard and too fast in the public sector to allow the economy to grow.

But there were also worrying signs that, with unemployment rising, spending is growing faster than expected, by 5.4 percent on the year compared with a 3.6 percent rise in revenues.

There are a number of windfalls likely to flow into state coffers before the financial year ends in early April, but the most-used measure of borrowing is already 2 billion pounds short of the 2012-13 target set in December.

"We're still trying to work out how the government believes they're going to meet their borrowing requirement this year," said Tom Vosa from National Australia Bank in London.

"They still seem to be some way off from the target announced in (December)."

The Office of Budget Responsibility, a budget watchdog, said after the data it was still hopeful that the target it set in early December could be met.

It hopes for 3.5 billion pounds from the sale of 4G mobile phone frequencies and another 11.5 billion pounds from the transfer of coupon payments on gilts (bonds) bought by the Bank back to the finance ministry.

But while tax receipts in coming months will be bolstered by income tax returns, the OBR's hopes of a faster rise in revenues than seen so far are set against growing speculation that the economy may be slipping back into recession.

Deutsche Bank economist George Buckley said his calculations showed the deficit would overshoot by 22.5 billion pounds to reach 131 billion pounds if fiscal performance did not improve in the final three months.

## **FEEBLE**

Excluding another one-off effect -- the absorption of Royal Mail employees' pension savings -- the target most economists are using for borrowing stands at 106.5 billion pounds, up 7.3 percent this year.

Osborne, the chancellor of the Exchequer, had imposed tough spending cuts and tax rises in a bid to eliminate Britain's structural budget deficit -- the shortfall that would remain if the economy were operating at full steam -- by the next election in 2015.

But feeble economic growth has derailed that plan and pushed back the deadline to 2017. There is widespread speculation among financial market analysts that Britain in the meantime could lose its triple-A credit rating after the budget announcement in late March.

That would risk raising the cost of servicing debt, which now amounts to 70 percent of Gross Domestic Product and as much as twice that taking account of banking bailouts.

"The question is how long the UK can hold onto its AAA status," said James Knightley, economist at Dutch bank ING.

"With the United States and France having been downgraded by one ratings agency, another disappointing borrowing number and a widely expected contraction in fourth-quarter GDP on Friday will intensify the threat of the UK suffering the same fate."

While there remains a strong consensus in favour of cuts to the public sector -- and indeed on the right for deeper cuts -- a raft of economists believe that Osborne should have held off with some of the austerity until other sources of growth for the economy had more time to recover.

"I think the Chancellor is overly aggressive in his plans on austerity at present," Adam Posen, a policymaker at the Bank until his departure in August, told a parliamentary committee.

"But you have to take the lesson from Japan that when times get good again...you have to consolidate. You have to pay attention to the (economic) cycle, which cuts both ways."

(Additional reporting by David Milliken and Li-mei Hoang. Editing by Jeremy Gaunt.)

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[UK] Public sector net borrowing rose to £15.4bn in December - £600m higher than in the same month in 2011.

The Office for National Statistics (ONS) data, which excludes financial interventions like bank bailouts, were slightly higher than the £15.2bn expected by economists.

It comes after an unexpected increase in November, when borrowing rose to £17.5bn - up £1.2bn from in 2011 - as a result of falling energy company profits.

The figures take total borrowing so far this financial year (excluding a one-off transfer of Royal Mail pension assets) to £106.5bn - £7.2bn higher than in the same period in 2011.

The tax and spending watchdog, the Office for Budget Responsibility (OBR), said it expects borrowing to hit £108.5bn in 2012/13, but some economists are unconvinced.

National Australia Bank's Tom Vosa said he was unsure how the Government planned to meet its borrowing requirement this year.

"The good news is that it suggests the public sector essentially has supported the economy in the fourth quarter and ahead of GDP data on Friday," he said.

"But overall, without further downward revision to borrowing data or a significant increase in income in January, it's difficult to see how the Government will meet its borrowing targets."

Martin Beck, economist at Capital Economics, added that the figures confirmed the Government's fiscal consolidation plans were still off track.

He expects borrowing for the financial year to come in above the OBR's forecast at £113bn.

However, a Treasury spokesman said the figures underlined that the recovery in the Government's finances was taking time but the economy was healing.

On Friday the ONS is expected to reveal that output contracted in the final quarter of 2012, which - combined with the borrowing figures - would put further pressure on the UK's AAA credit rating.

Currently, all three of the major credit ratings agencies now have the UK on negative outlook.

ING economist James Knightley said: "The question is how long the UK can hold on to its AAA status.

"With the US and France having been downgraded by one ratings agency in the past couple of years, another disappointing UK borrowing number and a widely expected contraction in GDP on Friday will intensify the threat of the UK suffering the same fate."

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