



HM TREASURY

2009 Pre-Budget report:

the economy and public finances –
supplementary material

December 2009



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The economy

The 2009 Pre-Budget Report, published by HM Treasury on 9 December 2009, includes a discussion of economic developments and prospects (Annex A). The present document reproduces charts and tables contained in Annex A, and also includes additional information in the form of more detailed charts and tables. The charts and tables are consistent with National Accounts and Balance of Payments statistics to the second quarter of 2009, released by the Office for National Statistics (ONS) on 29 September 2009, and the third quarter *UK Output, Income and Expenditure Statistical Bulletin*, released on 25 November 2009.

Introduction

1.1 As in previous Budget and Pre-Budget Reports, the economic forecast is presented in terms of forecast ranges, based on alternative assumptions about the supply-side performance of the economy. The forecast ranges do not represent general forecast uncertainties; the key risks and uncertainties are described in detail in Annex A of the Pre-Budget Report.

1.2 The mid-points of the forecast ranges represent the Government's neutral case view of economic prospects, and are anchored around the Treasury's neutral trend output projection. This assumption for trend output is discussed in Annex A of the Pre-Budget Report, and details are also set out in Table 1.1 of this document. A paper published by the Treasury alongside Budget 2002¹ discussed the Treasury's trend output growth framework, while a further paper published alongside the 2006 Pre-Budget Report² provided an updated assessment and projections. For the 2009 Pre-Budget Report, to take account of the impact of the global credit shock on trend output, a phased reduction to the trend level of output of around 5 per cent has been assumed over the three years from mid-2007.

1.3 Consistent with past practice, projections for the public finances (set out in Annex B of the Pre-Budget Report) are based on the lower end of the economic forecast ranges, which are consistent with a deliberately cautious assumption for annual trend output growth a ¼ percentage point lower than the neutral case. The upper end of the forecast ranges is symmetrical, illustrating the potential for stronger growth based at least in part on the Government's policies to raise productivity growth and to increase employment opportunity.

¹ *Trend growth: recent developments and prospects*, HM Treasury, April 2002.

² *Trend growth: new evidence and prospects*, HM Treasury, December 2006.

The degree of spare capacity

Chart 1.1A: CBI capacity utilisation in manufacturing

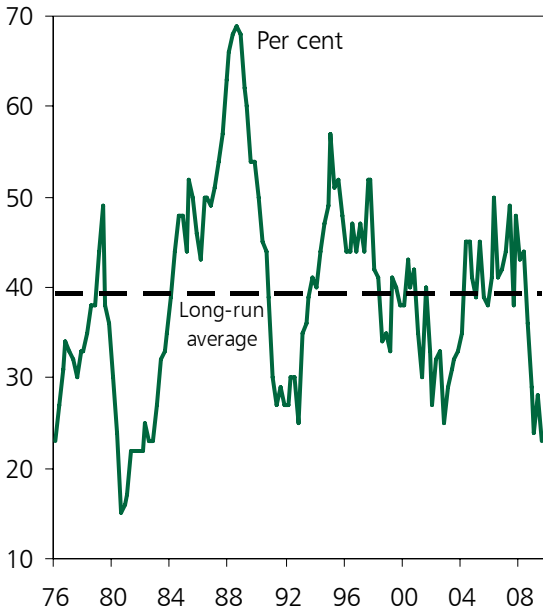


Chart 1.1B: BCC survey of capacity utilisation

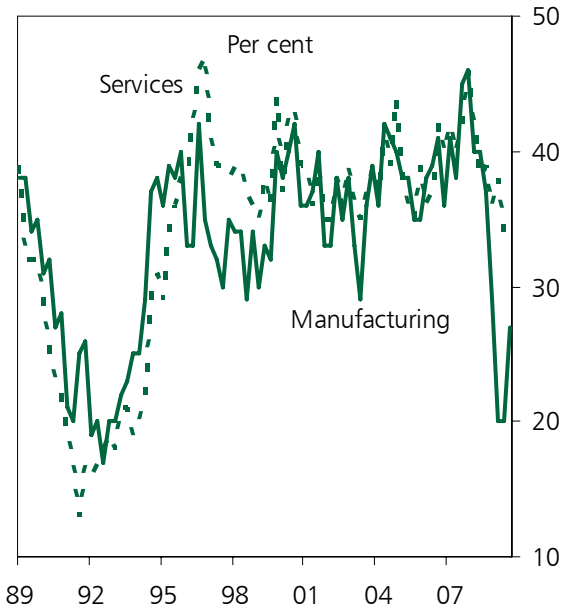


Chart 1.2A: CBI survey of skilled labour shortages in manufacturing

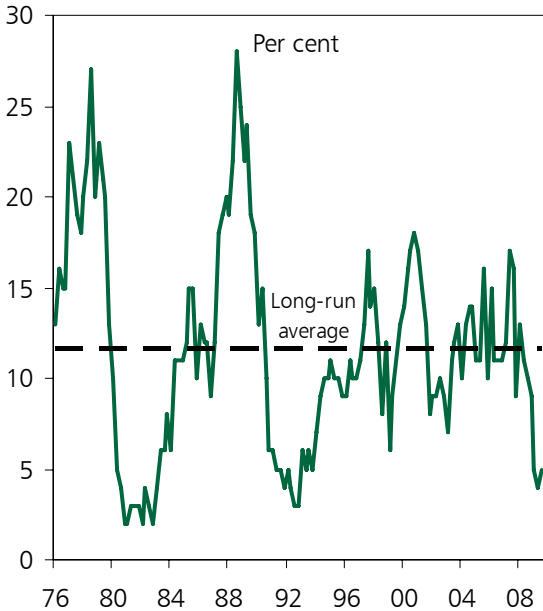


Chart 1.2B: BCC survey of recruitment difficulties

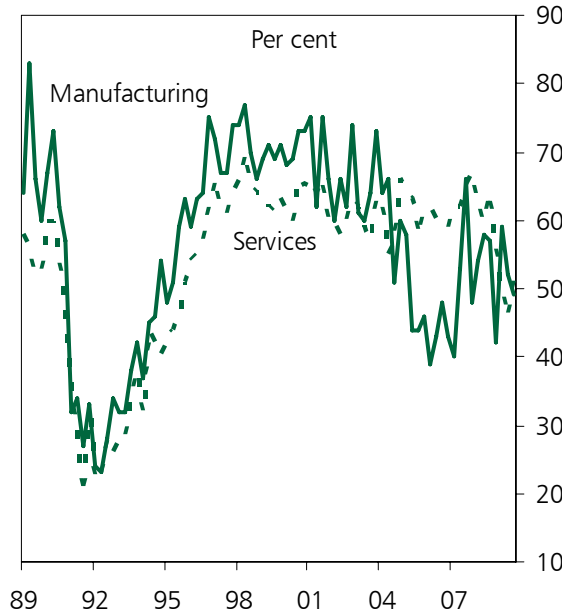
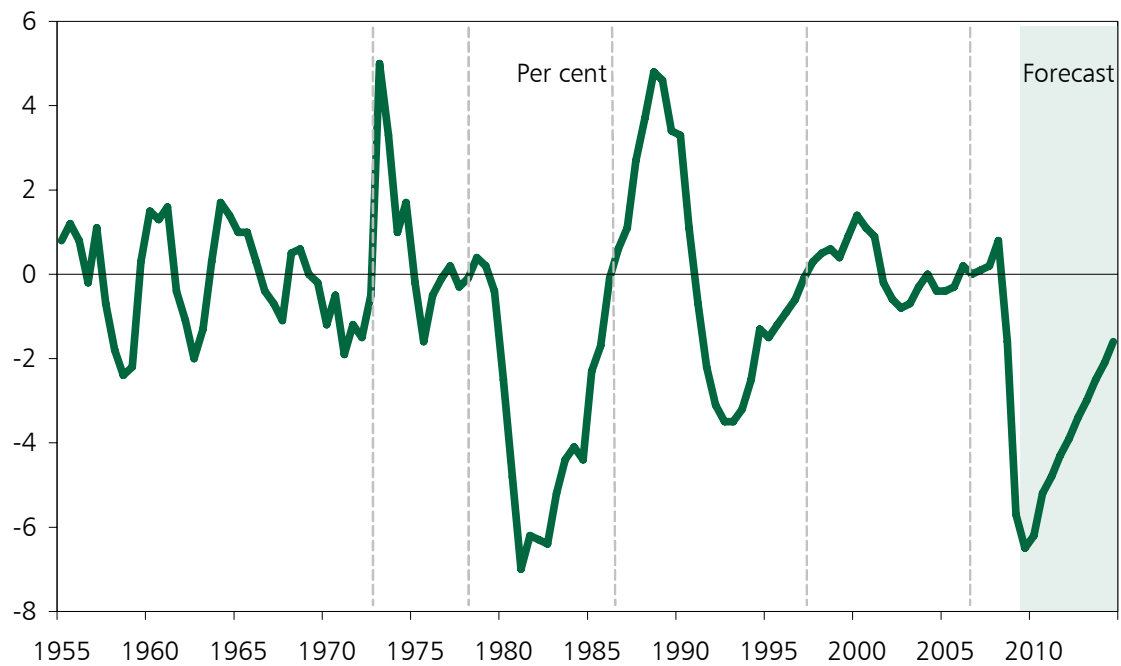


Chart 1.3: The output gap



¹ Mechanical output gap estimates on a semi-annual basis, based on the latest National Accounts data and expressed as actual output less trend output as a percent of trend output (non-oil basis). Estimates post-1972 based on Treasury's assessment of on-trend points using a broad range of economic indicators as set out in '*Evidence on the economic cycle*', published alongside the 2008 Pre-Budget Report. Estimates prior to 1972 derived using a Hodrick-Prescott filter as sufficient data from the cyclical indicators monitored by the Treasury are not available to assess on-trend points for this period.

² From the second half of 2009 the figures presented for each half-year are -6.5, -6.2, -5.2, -4.8, -4.3, -3.9, -3.4, -3.0, -2.5, -2.1, -1.6.

³ Vertical lines indicate start and end-cycle points as identified by HM Treasury.

Table 1.1: Contributions to trend growth^{1,2}

	Estimated trend rates of growth, per cent per annum, unless otherwise stated					
	Trend output per hour worked ^{3, 4}		Trend average hours worked ⁴	Trend employment rate ⁴	Population ⁵	Trend output
	Underlying (1)	Unadjusted (2)	(3)	(4)	(5)	(6)
1986Q2 to 1997H1						
Budget 2009	2.13	1.95	-0.11	0.36	0.26	2.47
Latest data	2.13	1.95	-0.11	0.36	0.26	2.47
Over the recent past						
1997H1 to 2001Q3						
Budget 2009	3.12	2.87	-0.46	0.50	0.52	3.45
Latest data	3.12	2.88	-0.46	0.50	0.52	3.45
2001Q3 to 2006H2						
Budget 2009	2.12	2.07	-0.26	0.11	0.75	2.68
Latest data	2.23	2.18	-0.26	0.11	0.75	2.80
Projection⁶						
2006H2 onwards						
Budget 2009	2.25	2.3	-0.25	-0.10	0.80	2¾
Level effect from 2007Q3 to 2010Q3 ⁷	-4½	-4½	0	0	-½	-5
PBR 2009 ^{8,9}	2.23	2.3	-0.20	-0.15	0.80	2¾
Level effect from 2007Q3 to 2010Q3 ^{7,8}	-4½	-4½	0	0	-½	-5

¹ Treasury analysis based on judgement that 1986Q2, 1997H1, 2001Q3 and 2006H2 were on-trend points of the output cycle. Figures independently rounded. Trend output growth is estimated as growth of non-oil gross value added between on-trend points for the past, and by projecting components going forward.

Full data definitions and sources are set out in Annex A of 'Trend growth: new evidence and prospects', HM Treasury, December 2006.

² Interim projections between Budget 2002 and the 2008 Pre-Budget Report are set out in 'Budget 2008: the economy and public finances - supplementary material' and the 2008 Pre-Budget Report.

³ The underlying trend rate is the unadjusted trend rate adjusted for changes in the employment rate, i.e. assuming the employment rate had remained constant. Column (1) = column (2) + (1-a).column (4), where a is the ratio of new to average worker productivity levels. The figuring is consistent with this ratio being of the order of 50 per cent, informed by econometric evidence and LFS data on relative entry wages.

⁴ The decomposition makes allowances for employment and hours worked lagging output. Employment is assumed to lag output by around three quarters, so that on-trend points for employment come three quarters after on-trend points for output, an assumption that can be supported by econometric evidence. Hours are easier to adjust than employment, and the decomposition assumes that average hours worked lag output by just one quarter, though this lag is harder to support by econometric evidence.

⁵ UK resident household basis (LFS). Population aged 16 and over.

⁶ Neutral case assumptions for trend from 2006H2.

⁷ Adjustment reflecting a phased reduction to the level of trend output of around 5 per cent between mid-2007 and mid-2010.

⁸ Underlying trend assumptions around which the mid-points of the GDP forecast growth ranges from 2006H2 are anchored.

⁹ Within the trend growth projection, small offsetting adjustments have been made to the projections of the individual components of trend growth for the 2009 Pre-Budget Report. In particular, the assumed decline in trend average hours has been adjusted up marginally from -0.25 per cent to -0.2 per cent in light of evidence pointing to a slowing in the pace of reduction in average hours prior to the downturn. An offsetting downward adjustment has been made to the trend employment rate projection from -0.1 per cent to -0.15 per cent per annum.

Gross domestic product (GDP)

Chart 1.4: Annual GDP growth

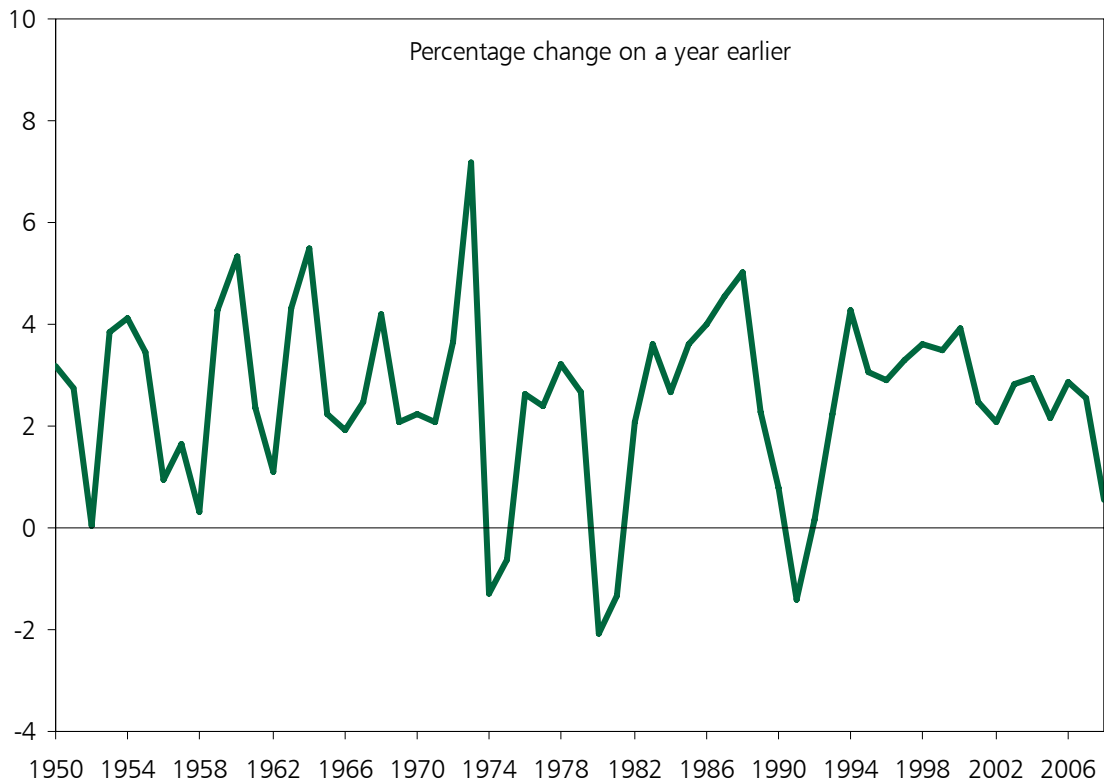
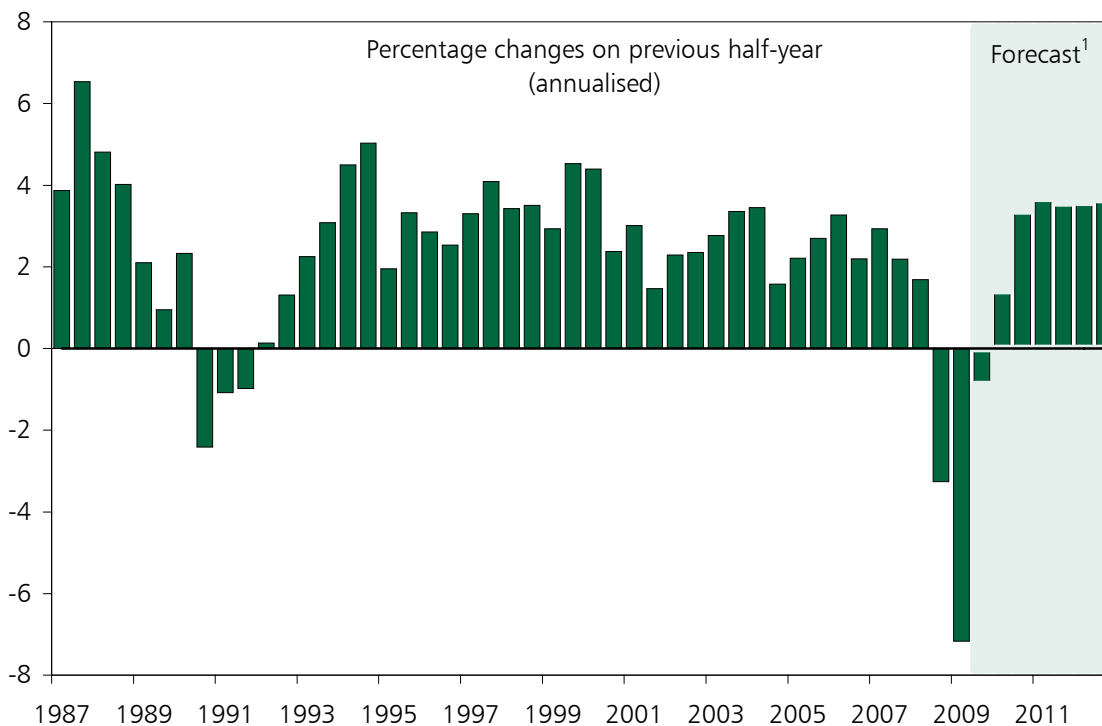


Table 1.2: Quarterly GDP and non-oil GVA growth

	Percentage change on previous quarter						
	2008				2009		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
GDP	0.6	-0.1	-0.7	-1.8	-2.5	-0.6	-0.3
Non-oil GVA	0.8	-0.1	-0.9	-1.9	-2.5	-0.6	-0.2

Chart 1.5: GDP forecast



¹ At mid-points of forecast ranges.

Table 1.3: Contributions¹ to GDP growth²

	Percentage points, unless otherwise stated					
	Average 2000 to 2007	2008	Forecast			
			2009	2010	2011	2012
GDP growth, per cent	2¾	½	-4¾	1 to 1½	¾ to 3¾	¾ to 3¾
Main contributions						
Private consumption	1¾	½	-2	¼	2	2
Business investment	¼	¼	-2	-¼	1	1¼
Dwellings investment ³	¼	-½	-¾	0	¼	¼
Government ⁴	¾	1	1	¼	-1	-¾
Change in inventories	0	-½	-1¼	¾	½	0
Net trade	-¼	½	¾	½	½	½

¹ Based on central case. For the purpose of projecting public finances, forecasts are based on the bottom of the GDP forecast range.

² Components may not sum to total due to rounding and omission of transfer costs of land and existing buildings and the statistical discrepancy.

³ The sum of public corporations and private sector investment in new dwellings and improvements to dwellings.

⁴ The sum of government consumption and general government investment.

The household sector

Table 1.4: Household sector¹ expenditure and income

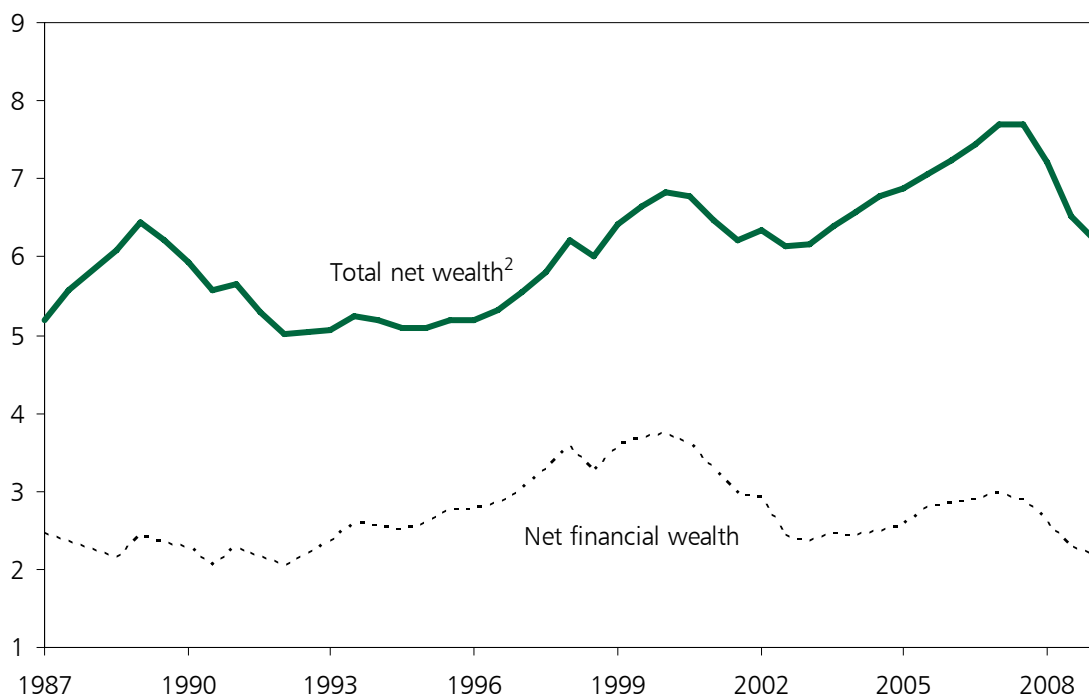
	Percentage change on a year earlier, unless otherwise stated					
	Average 2000 to 2007	2008	Forecast			
			2009	2010	2011	2012
Household consumption ²	3	1	-3	0 to ½	2¾ to 3¼	2¾ to 3¼
Real household disposable income	2¼	2	1½	3¼ to 3¾	2¼ to 2¾	1½ to 2
Saving ratio ³ (level, per cent)	4¼	1¾	5¼	8	7½	6½

¹ Including non-profit institutions serving households.

² Chained volume measure.

³ Total household resources less consumption expenditure as a per cent of total resources, where total resources comprise households' disposable income plus the change in their net equity in pension funds.

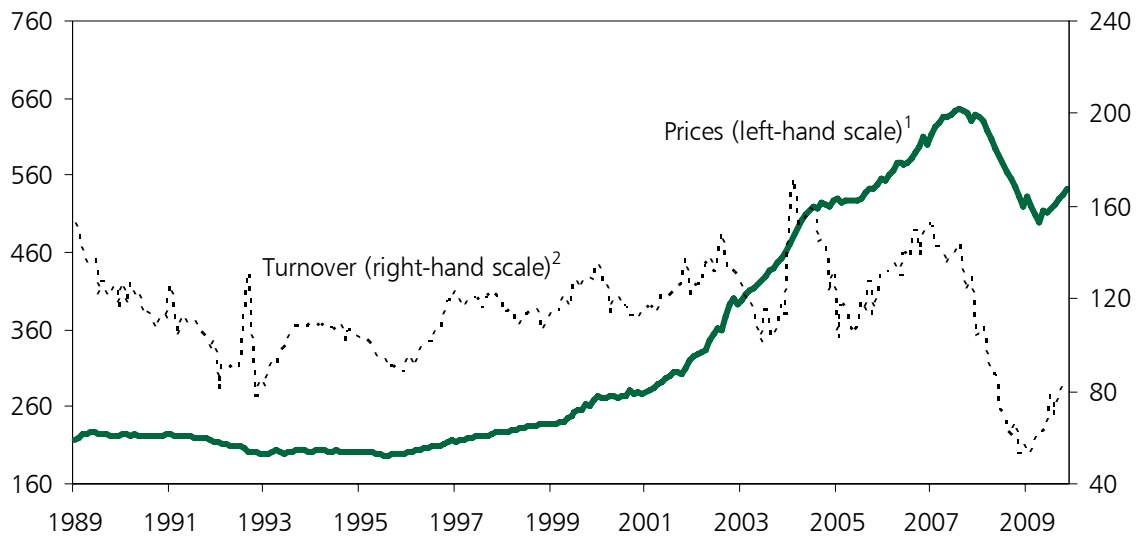
Chart 1.6: Household sector wealth to income ratios¹



¹ Semi-annual.

² Includes tangible (mainly housing) wealth.

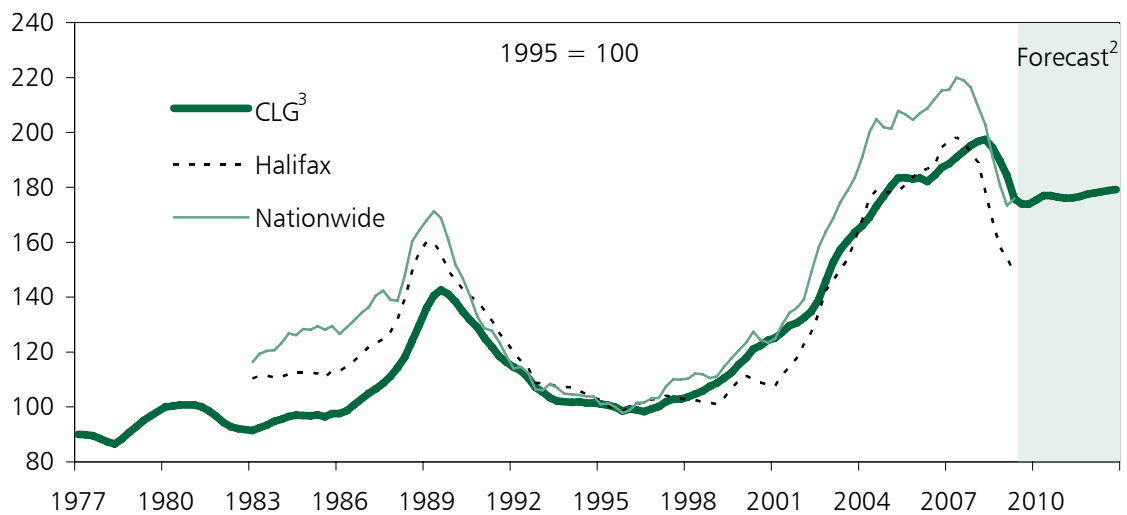
Chart 1.7: Monthly housing turnover and prices



¹ Halifax index, 1983 = 100.

² Seasonally adjusted transactions, thousands. Prior to April 2005, number of property transactions in England & Wales. Post April 2005, figures refer to the number of completed residential property transactions in the UK at over £40,000 in value.

Chart 1.8: House price-earnings ratio¹

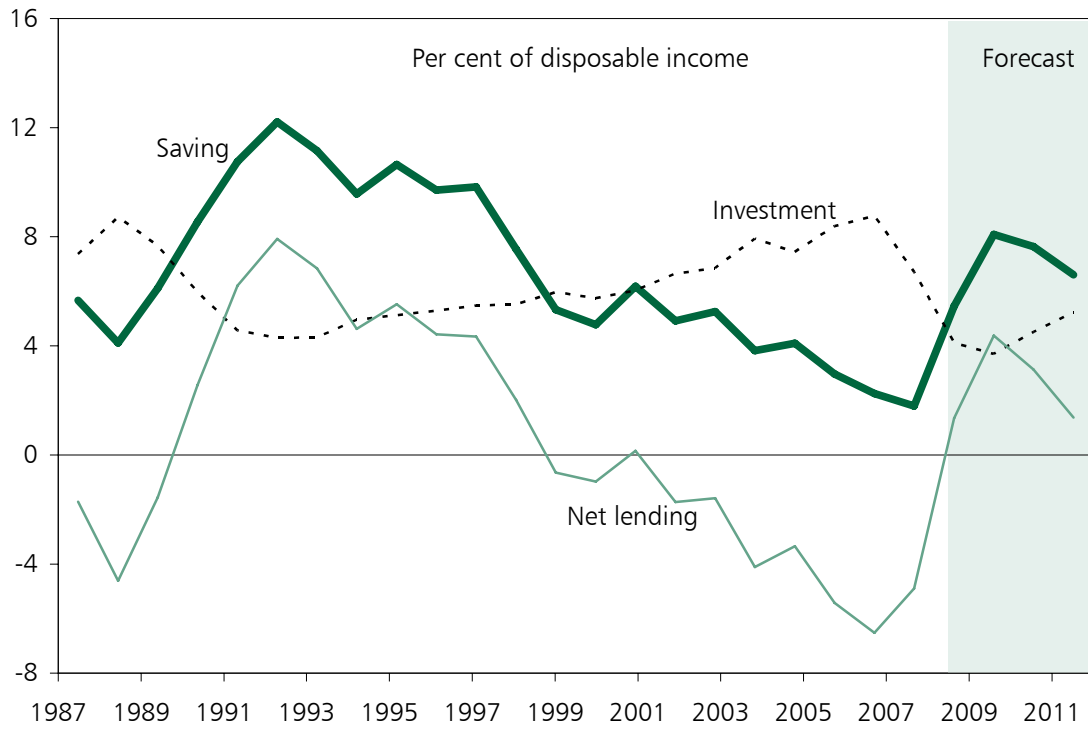


¹ Ratio of CLG / Halifax / Nationwide house prices to wages and salaries per employee.

² Consistent with forecasts for house price inflation as discussed in Annex B of the 2009 Pre-Budget Report, and in particular the average of independent forecasts to late 2010.

³ Four-quarter moving average.

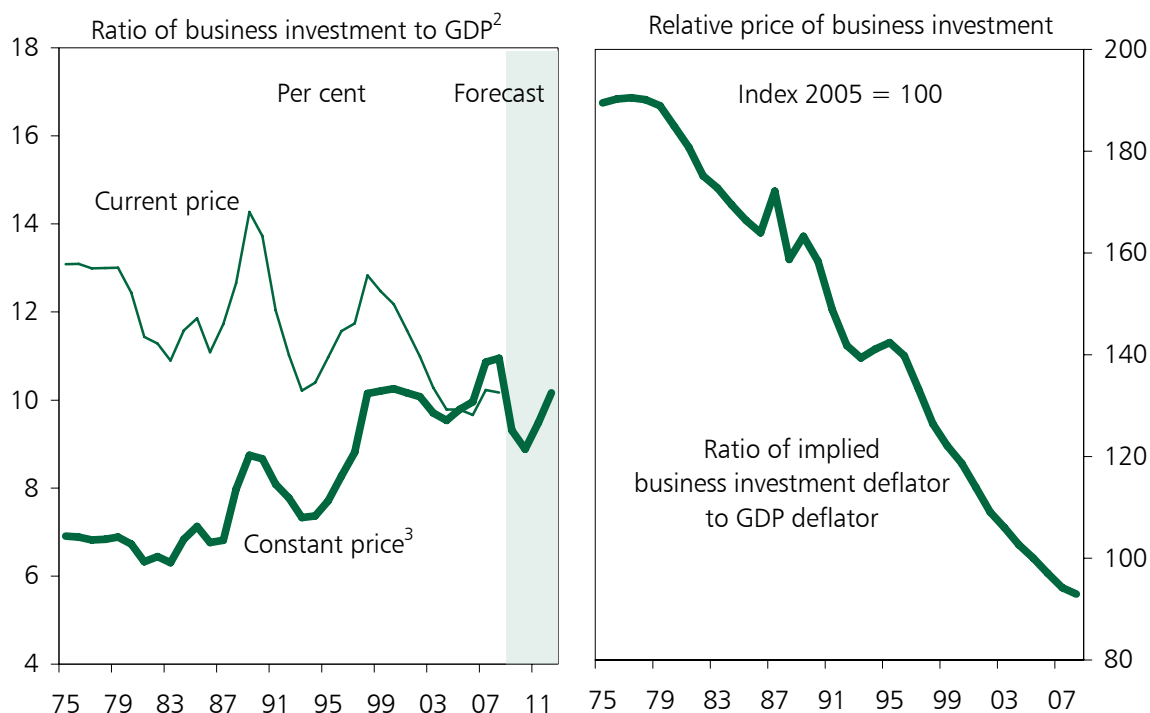
Chart 1.9: Household sector¹ net lending



¹ Includes non-profit institutions serving households.

Investment

Chart 1.10: Business investment¹



¹ Includes investment by public corporations and investment under the Private Finance Initiative.

² Excludes exceptional transfer of BNFL liabilities to central government in 2005Q2.

³ Ratio of business investment to GDP in chained volume measures.

Table 1.5: Gross fixed capital formation

	Average 2000 to 2007	Percentage change on a year earlier				
		2008	Forecast			
			2009	2010	2011	2012
Whole economy ¹	4	-3¼	-14¼	-2 to -1½	4¼ to 4¾	8½ to 9
<i>of which:</i>						
Business ^{2,3}	3½	1¼	-18¾	-3¾ to -3¼	9¾ to 10¼	11¾ to 12¼
Private dwellings ³	4¼	-11½	-24¼	-4½ to -4	7 to 7½	8¼ to 8¾
General government ³	5¼	13	25¼	1	-21¼	-10¼

¹ Includes costs associated with the transfer of ownership of land and existing buildings.

² Private sector and public corporations' non-residential investment; includes investment under the Private Finance Initiative.

³ Excludes purchases less sales of land and existing buildings.

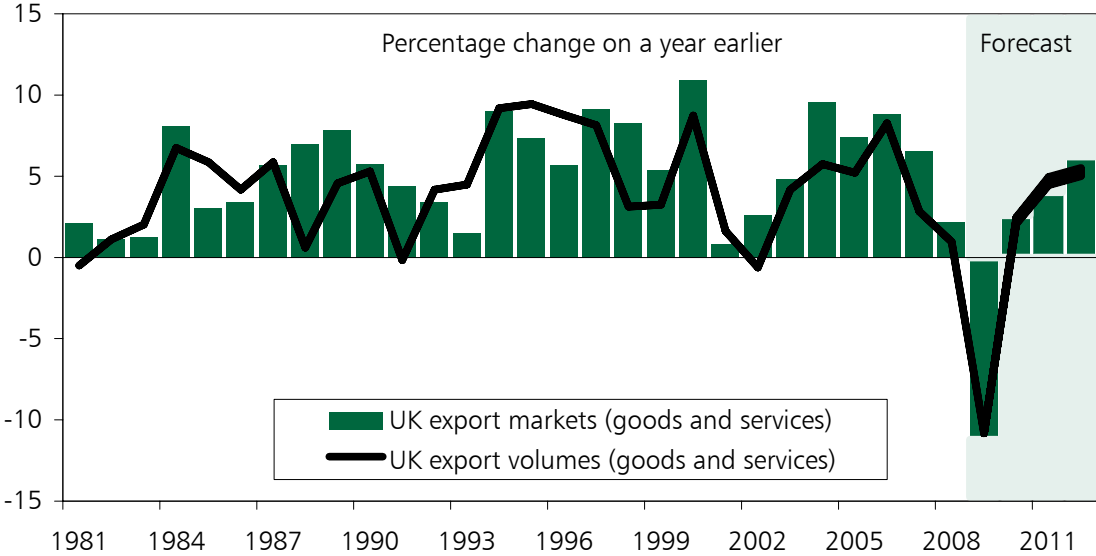
Trade and the balance of payments

Chart 1.11: Competitive positions: relative unit labour costs¹ and consumer prices



¹ Relating to trade in manufactures; a fall means that competitiveness has improved.
Source: OECD Economic Outlook 85, June 2009.

Chart 1.12: Exports¹ and overseas demand



¹ Volumes excluding the effects of activity relating to Missing Trader Intra-Community (MTIC) fraud.

Chart 1.13: Imports¹ and total final expenditure



¹ Volumes excluding the effects of activity relating to Missing Trader Intra-Community (MTIC) fraud.

Table 1.6: Trade in goods and services

	Percentage change on a year earlier, unless otherwise stated					
	Average 2000 to 2007	2008	Forecast			
			2009	2010	2011	2012
Volumes (excluding MTIC) ¹						
Exports	4½	1	-10¾	2 to 2½	4½ to 5	5 to 5½
Imports	5¼	-¾	-12½	½ to 1	1¾ to 2¼	2¾ to 3¼
Prices ²						
Exports	1	12¾	2	¼	¾	1¾
Imports	1	11¼	3½	1¾	2¼	2¼
Terms of trade ³	0	1¼	-1½	-1½	-1½	-¾
Goods and service balance (£ billion)	-32¼	-37¼	-32	-33	-30¾	-25¼

¹ Table 1.11 contains figures including the effects of MTIC-related activity. The forecast is therefore based on the neutral assumption that the level of MTIC-related activity stays flat at the latest quarterly estimate throughout the forecast.

² Average value indices.

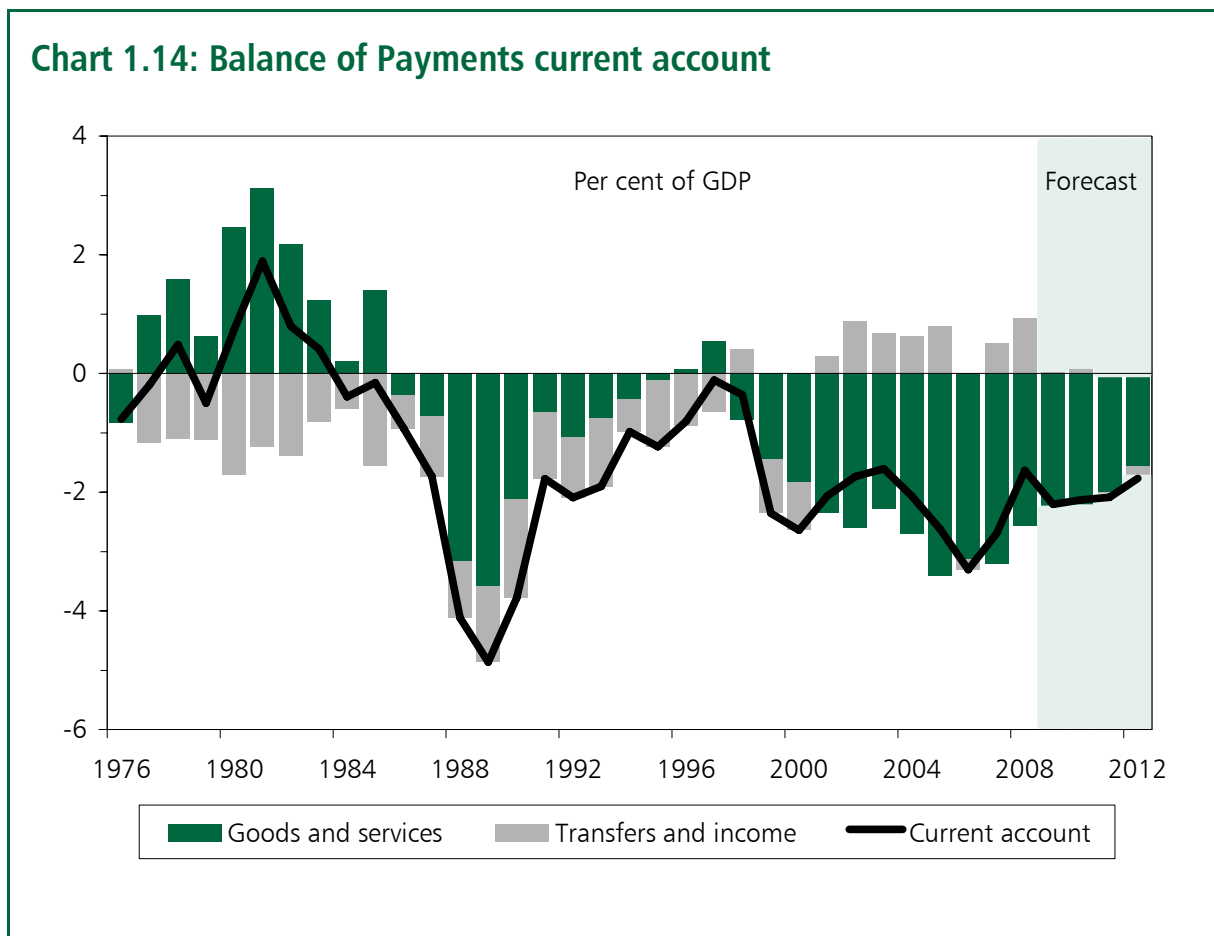
³ Ratio of export to import prices.

Table 1.7: The current account

	£ billion				
	2008	Forecast			
		2009	2010	2011	2012
Trade in goods and services	-37¼	-32	-33	-30¾	-25¼
Non-oil	-31¼	-28	-26½	-22¾	-16¼
Oil	-6	-4¼	-6¾	-8	-9¼
Transfers	-13¾	-15¾	-17	-18½	-19½
Income balance ¹	27¼	17	19	17¼	16¼
Current balance	-23½	-31	-31	-32	-28¾

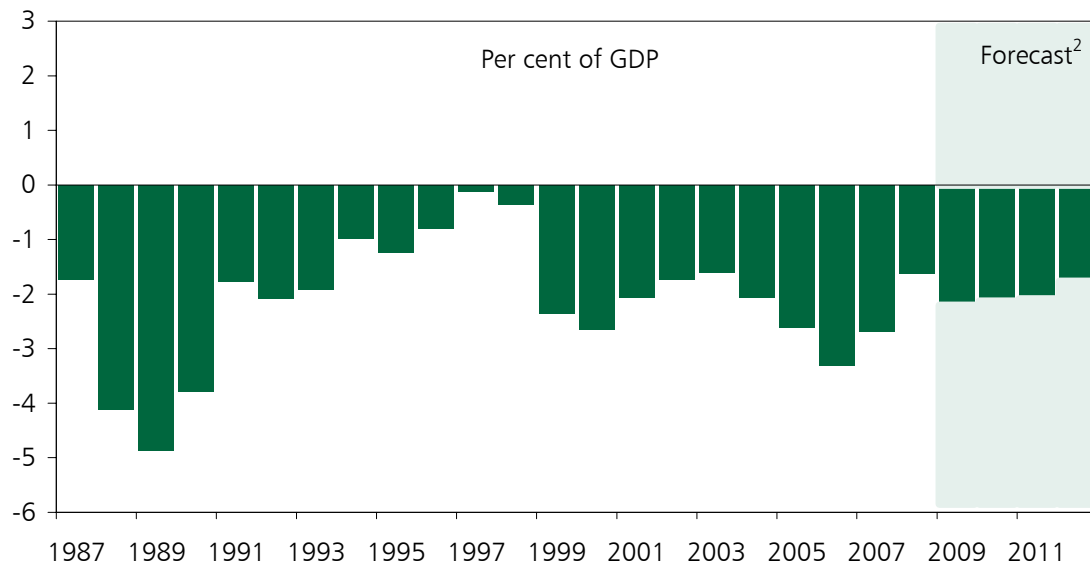
¹ Includes investment and employee income.

Chart 1.14: Balance of Payments current account



Pattern of net lending

Chart 1.15A: Balance of Payments current account balance

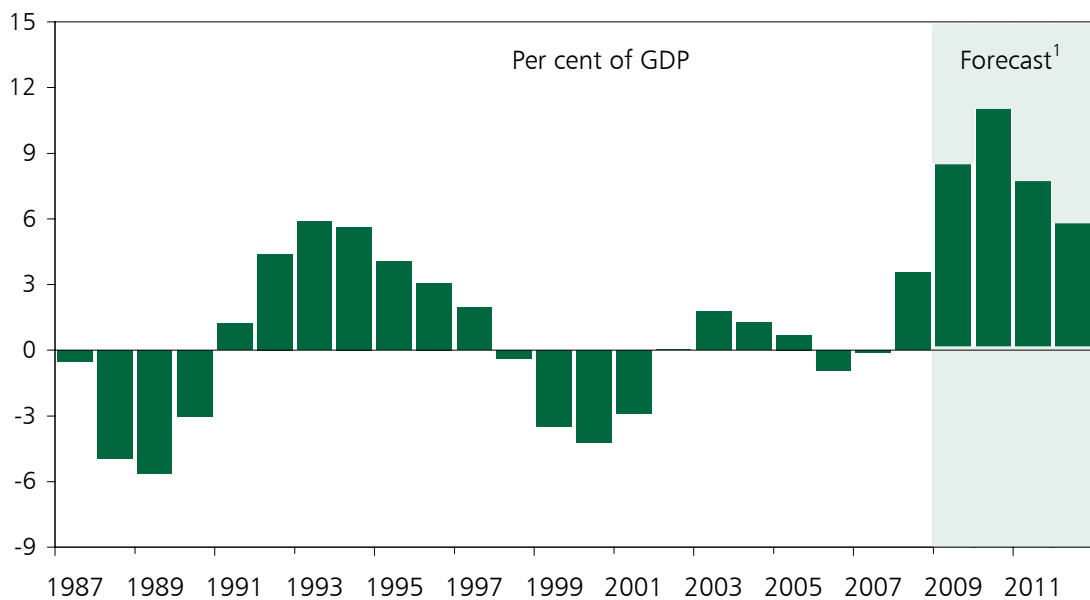


1987 1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 2011

¹ The current account balance approximately equals net lending to the rest of the world, adjusted for net capital transfers and net acquisition of non-produced non-financial assets.

² At mid-points of forecast ranges.

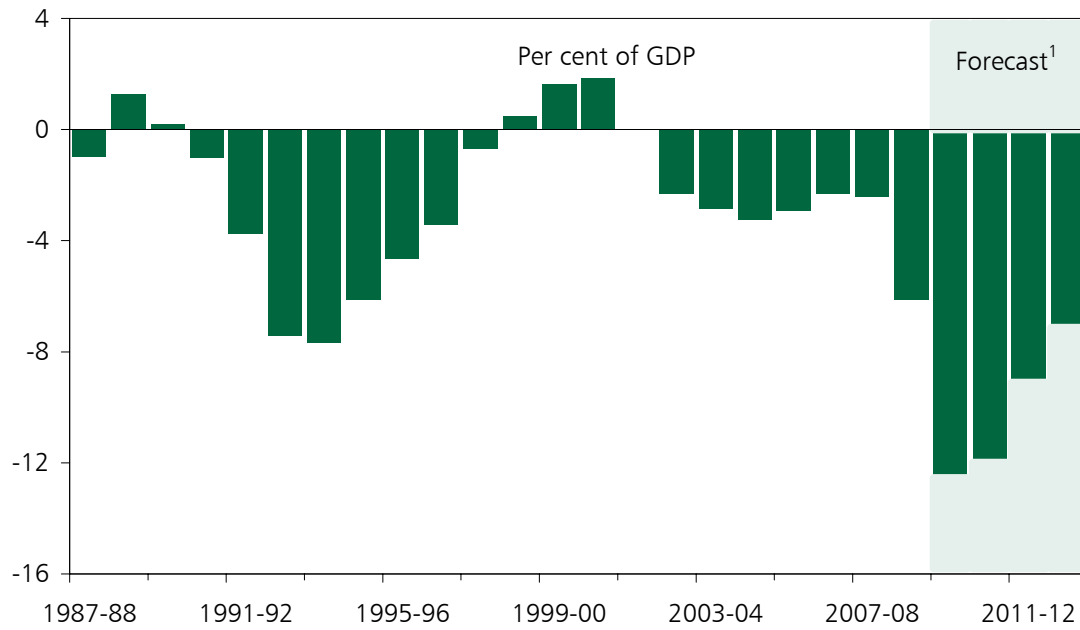
Chart 1.15B: Private sector net lending



1987 1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 2011

¹ At mid-points of forecast ranges.

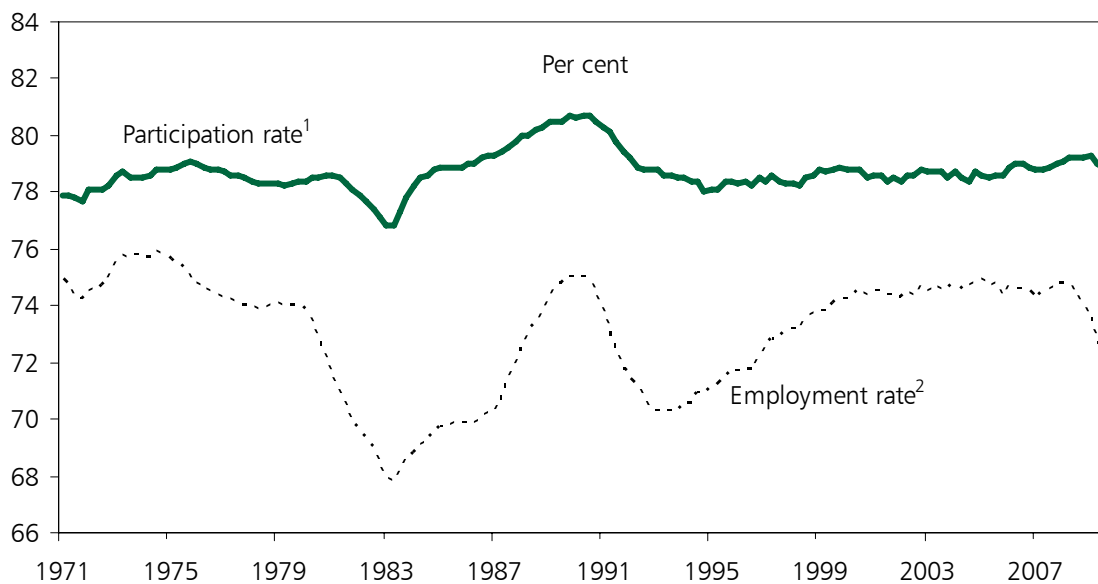
Chart 1.15C: Public sector net lending



¹ Based on the lower end of the forecast range.

The labour market

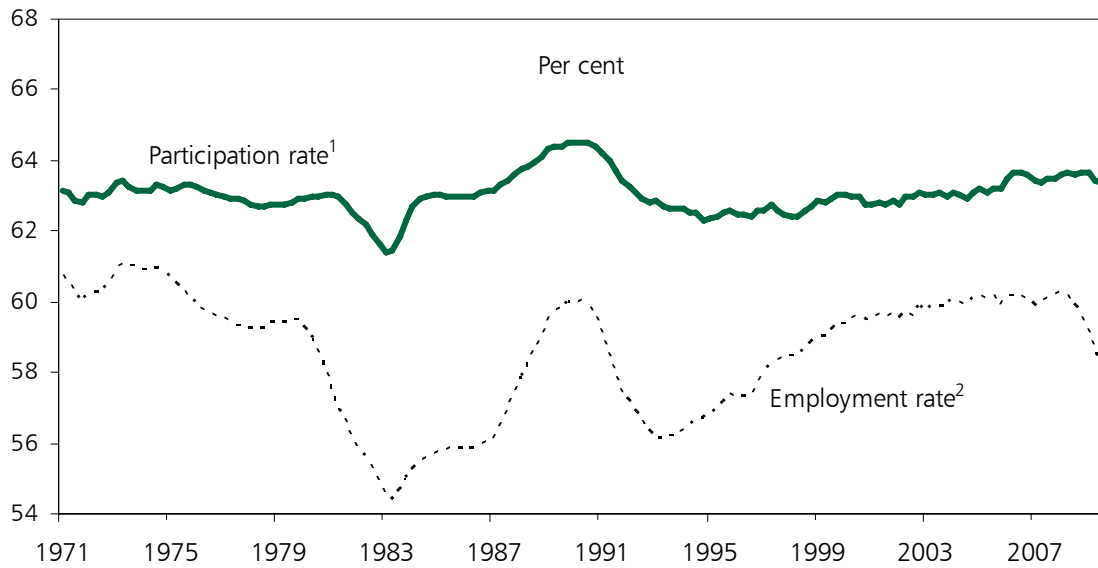
Chart 1.16A: LFS working-age participation and employment rates



¹ Percentage of the working-age population (all aged 16 to 59 (women) / 64 (men)) that are economically active (i.e. employed or unemployed).

² Percentage of the working-age population in employment.

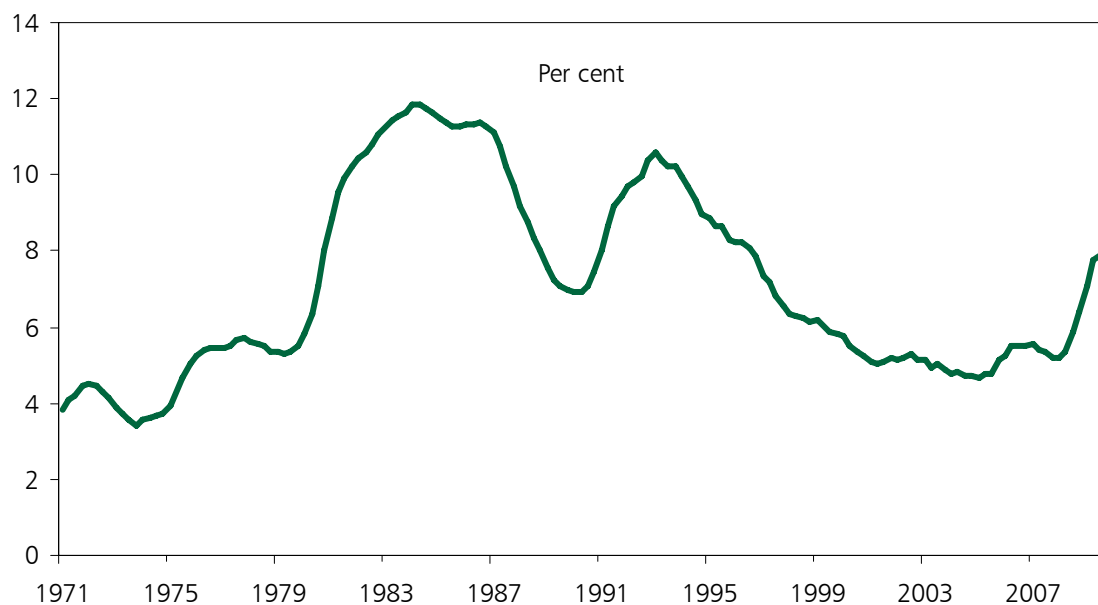
Chart 1.16B: LFS adult population participation and employment rates



¹ Percentage of the population over 16 years of age that are economically active (i.e. employed or unemployed).

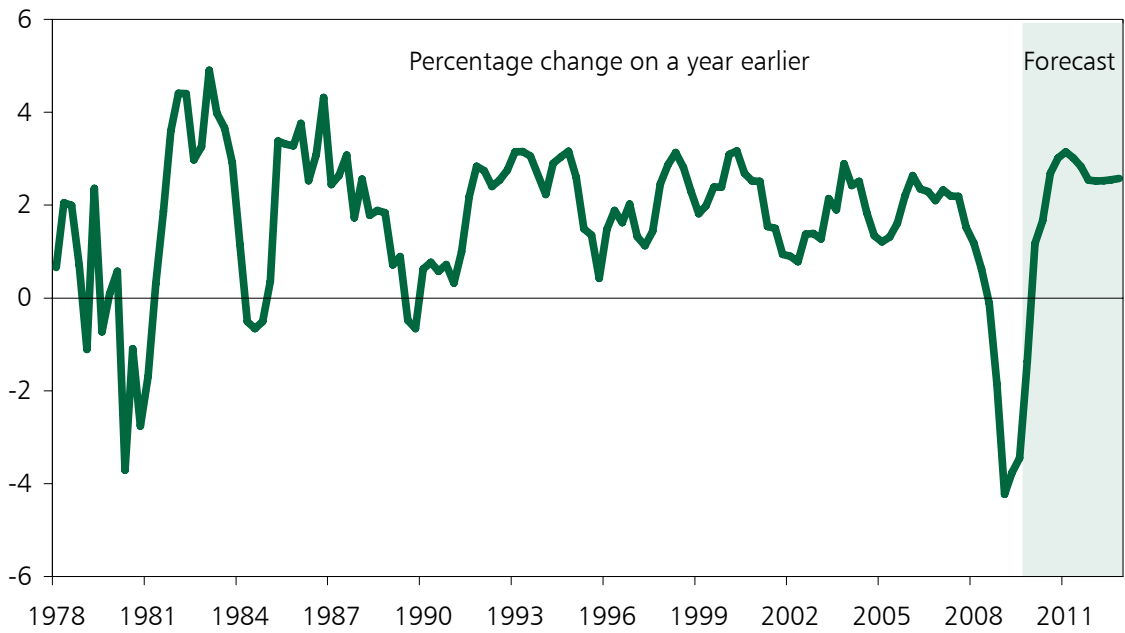
² Percentage of the population over 16 years of age in employment.

Chart 1.16C: LFS unemployment rate¹



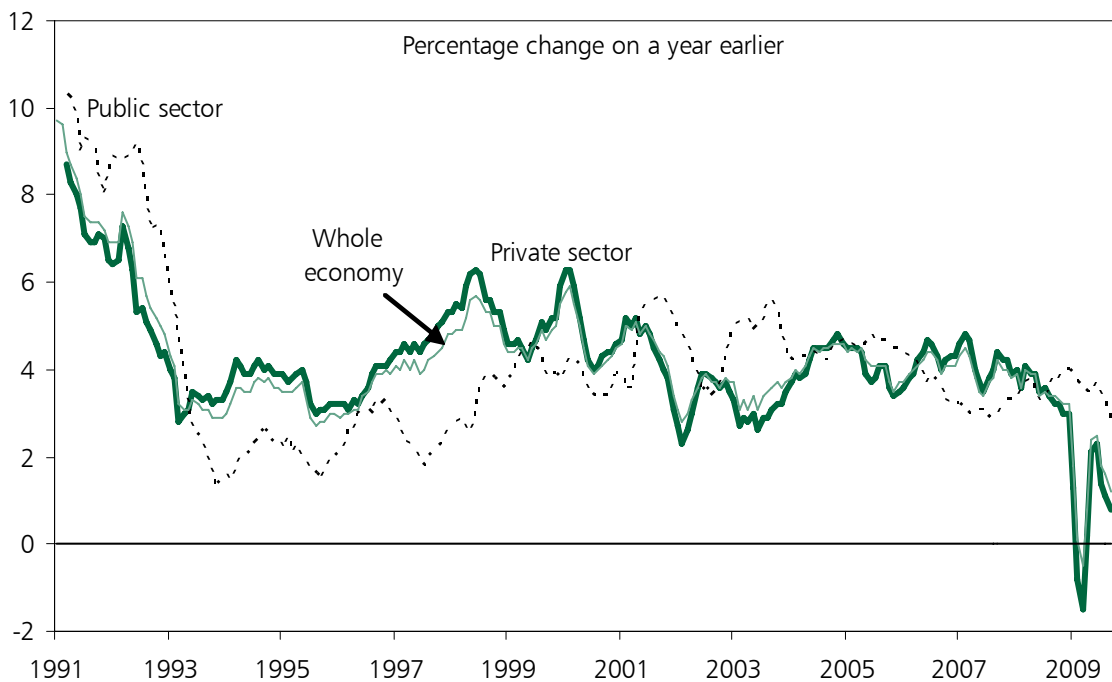
¹ Total unemployment as a percentage of total unemployment plus total employment.

Chart 1.17: Output per worker¹



¹ Estimated non-oil output (GVA) per LFS worker.

Chart 1.18: Average earnings by sector¹



¹ Growth in the Average Earnings Index (AEI), latest three months, including bonuses, seasonally adjusted.

Financial developments

Chart 1.19: Sterling effective exchange rate index

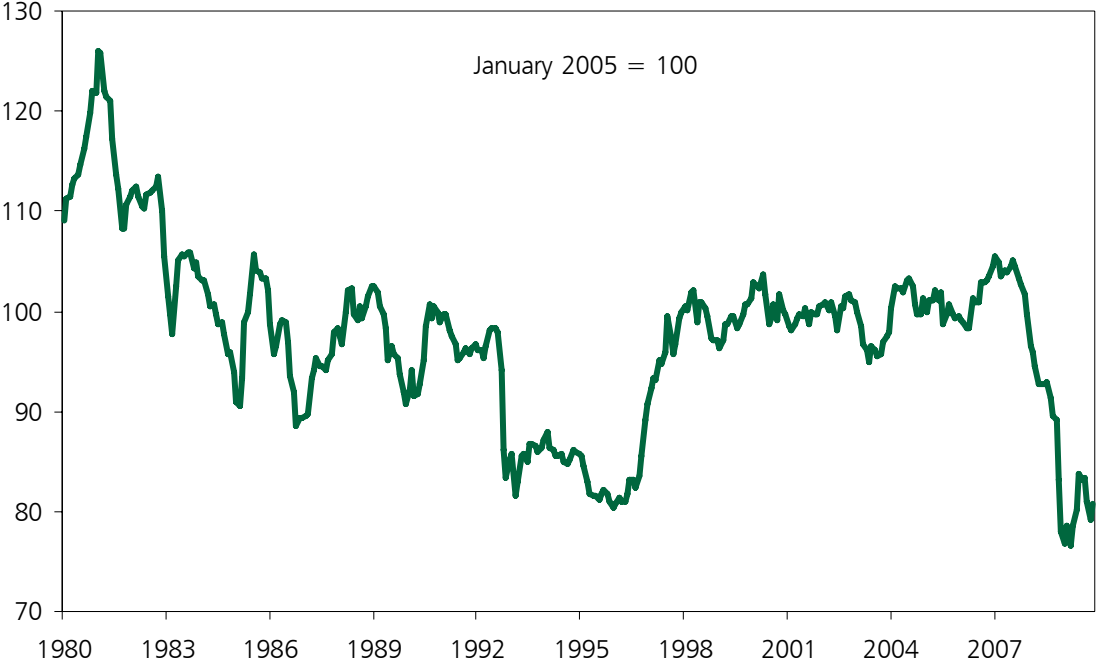
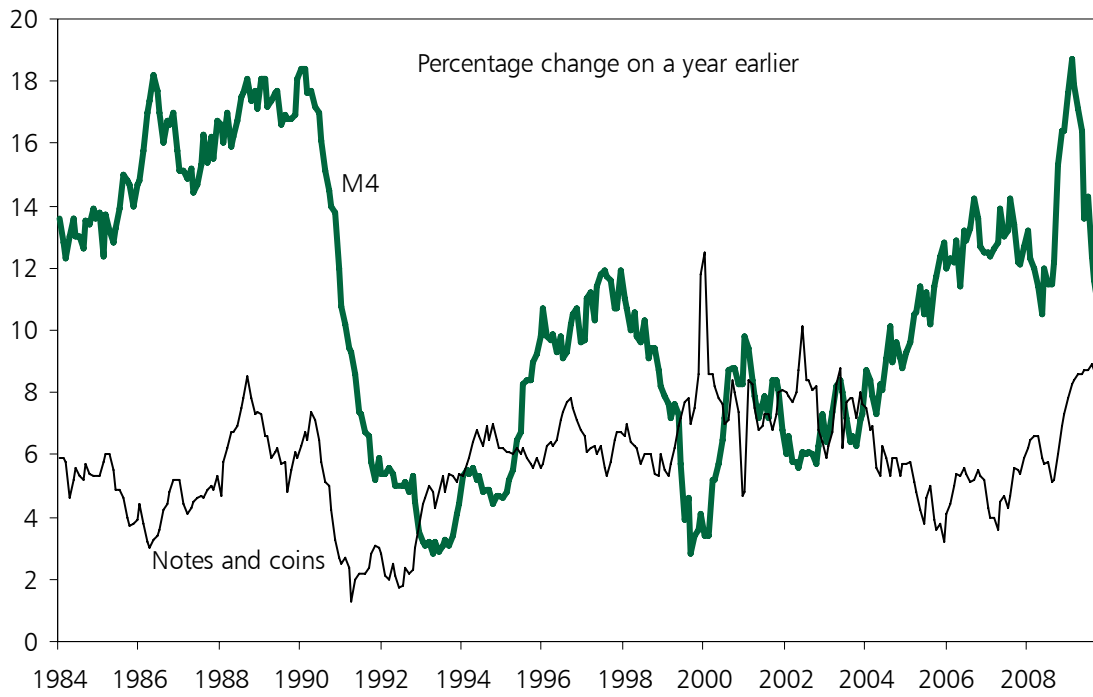


Chart 1.20: UK interest rates

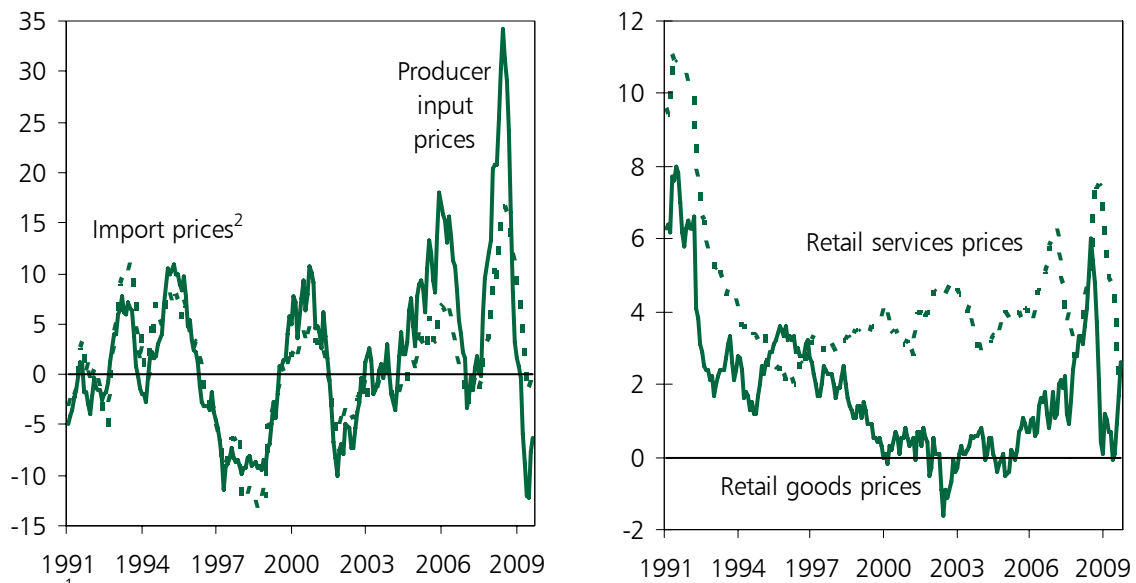


Chart 1.21: Monetary indicators



Inflation

Chart 1.22: Import, input and retail prices¹



¹ Percentage changes on a year earlier.

² All goods.

Table 1.8A: Consumer and producer output prices

	Percentage change on a year earlier									
	2008		Forecast							
	Q2	Q4	2009		2010		2011		2012	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
CPI	3¼	4	2	2	2½	1¾	1¼	1½	1¾	2
Producer output prices ¹	8¾	5½	-½	1½	1¾	1	1¼	1¼	1¾	2

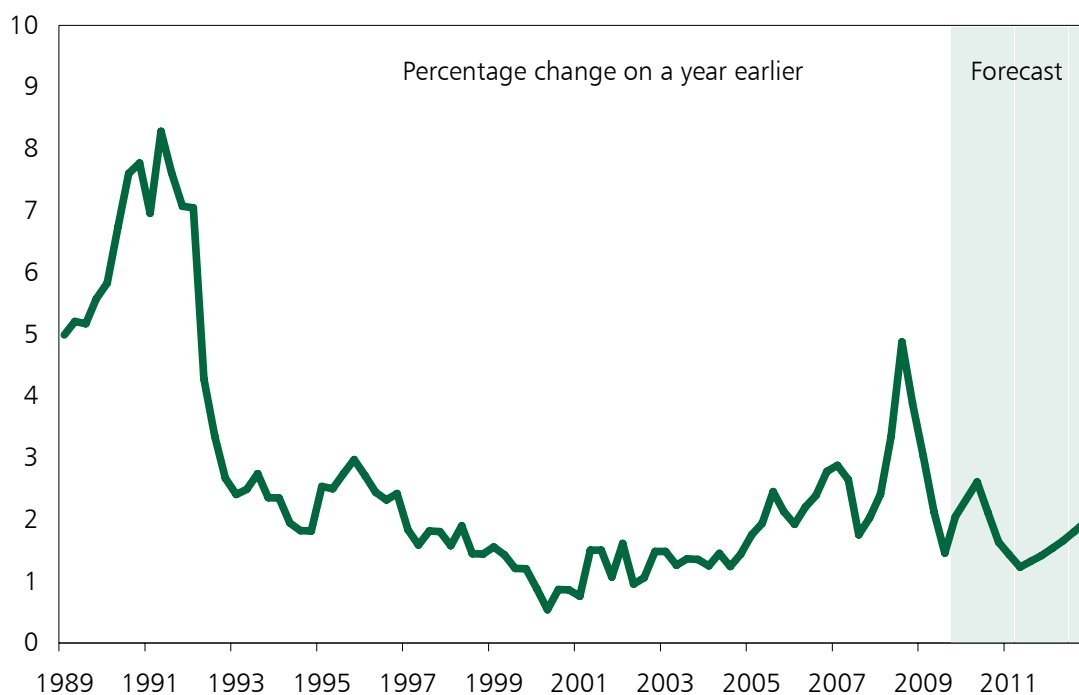
¹ Excludes excise duties.

Table 1.8B: Consumers' expenditure deflator

	Percentage change on a year earlier, unless otherwise stated						
	2008		Forecast				
	Level	Q4	2009	2010	2011	2012	
CED ²	109½	2¾	1¾	2	2	2½	

² Consumers' expenditure deflator, Q4.

Chart 1.23: CPI



¹ Outturns until 2009Q3; forecasts for every second quarter from 2009Q4 to 2011Q4.

Comparison with Budget 2009 forecast

Table 1.9: Comparison with Budget 2009 forecast

		Percentage change on a year earlier, unless otherwise stated	
		December 2009	April 2009
		PBR	Budget
Gross domestic product	2009	-4¾	-3¾ to -3¼
	2010	1 to 1½	1 to 1½
	2011	¾ to 3¾	¾ to 3¾
CPI inflation (per cent, Q4)	2009	2	1
	2010	1¾	1
	2011	1½	2¼
Current account (£ billion)	2009	-31	-48½
	2010	-31	-51
	2011	-32	-48¾

Comparison with independent forecasts

Table 1.10: Pre-Budget Report and independent forecasts¹

	Percentage change on a year earlier, unless otherwise stated					
	2009			2010		
	PBR 2009	Independent		PBR 2009	Independent	
		Average	Range		Average	Range
GDP growth	-4¾	-4.5	-4.7 to -4.1	1 to 1½	1.3	-0.5 to 2.0
CPI (Q4)	2	1.8	1.2 to 2.2	1¾	1.8	1.1 to 3.7
Current account (£ billion)	-31	-27.9	-38.9 to -15	-31	-23.6	-50.8 to -8.0

¹ 'Forecasts for the UK economy: A comparison of independent forecasts', December 2009.

Summary tables

Table 1.11: Summary of economic prospects¹

	Percentage change on a year earlier, unless otherwise stated					Average errors from past forecasts ⁵
	2008	Forecast ^{2, 3, 4}				
		2009	2010	2011	2012	
Output at constant market prices						
Gross domestic product (GDP)	1/2	-4¾	1 to 1½	3¼ to 3¾	3¼ to 3¾	¾
Manufacturing output	-2¾	-10¾	1½ to 2	3½ to 4	3½ to 4	1¾
Expenditure components of GDP at constant market prices⁶						
Domestic demand	¼	-5¼	¾ to 1¼	2¾ to 3¼	2¾ to 3¼	¾
Household consumption ⁷	1	-3	0 to ½	2¾ to 3¼	2¾ to 3¼	1¼
General government consumption	2½	2	1¼	-1½	-2	¾
Fixed investment	-3¼	-14¼	-2 to -1½	4¼ to 4¾	8½ to 9	2¾
Change in inventories ⁸	-½	-1¼	¾	½	0	¼
Exports of goods and services ⁹	1	-10¾	2 to 2½	4½ to 5	5 to 5½	3
Imports of goods and services ⁹	-¾	-12½	½ to 1	1¾ to 2¼	2¾ to 3¼	3
<i>Exports of goods and services (ex. MTIC)</i>	1	-10¾	2 to 2½	4½ to 5	5 to 5½	-
<i>Imports of goods and services (ex. MTIC)</i>	-¾	-12½	½ to 1	1¾ to 2¼	2¾ to 3¼	-
Balance of payments current account						
£ billion	-23½	-31	-31	-32	-28¾	11½
Per cent of GDP	-1¾	-2¼	-2¼	-2	-1¾	¾
Inflation						
CPI (Q4)	4	2	1¾	1½	2	¾
Producer output prices (Q4) ¹⁰	5½	1½	1	1¼	2	1¼
GDP deflator at market prices	3	1½	2¾	1½	2¼	½
Money GDP at market prices						
£ billion	1448	1400	1454 to 1460	1525 to 1539	1611 to 1633	13
Percentage change	3½	-3¼	3¾ to 4¼	5 to 5½	5½ to 6	1

¹ The forecast is consistent with output, income and expenditure data for the third quarter of 2009, released by the Office for National Statistics on 25 November 2009.

² All growth rates in this table are rounded to the nearest ¼ percentage point.

³ As in previous Budget and Pre-Budget Reports, the economic forecast is presented in terms of forecast ranges, based on alternative assumptions about the supply-side performance of the economy. The mid-points of the forecast ranges are anchored around the neutral assumption for trend output. The figures at the lower end of the ranges are consistent with the deliberately cautious assumption of trend growth used as the basis for projecting the public finances, which is a ¼ percentage point below the neutral assumption.

⁴ The size of the growth ranges for GDP components may differ from those for total GDP growth because of rounding and the assumed invariance of the levels of public spending within the forecast ranges.

⁵ Average absolute errors for current year and year-ahead projections made in autumn forecasts over the past 10 years. The average errors for the current account are calculated as a per cent of GDP, with £ billion figures calculated by scaling the errors by forecast money GDP in 2010. The CPI average has been derived from only five years of data.

⁶ Further detail on the expenditure components of GDP is given in Table 1.12.

⁷ Includes households and non-profit institutions serving households.

⁸ Contribution to GDP growth, percentage points.

⁹ Figures up to and including 2009 are distorted by MTIC.

¹⁰ Excluding excise duties.

Table 1.12: Gross domestic product and its components

£ billion chained volume measures at market prices, seasonally adjusted										
	Household consumption ¹	General government consumption	Fixed investment	Change in inventories	Domestic demand ²	Exports of goods and services	Total final expenditure	Less imports of goods and services	Plus statistical discrepancy ³	GDP at market prices
2008	853.3	282.3	232.7	0.9	1370.4	361.1	1731.6	400.0	-1.4	1330.1
2009	827.1	287.9	199.3	-16.9	1298.2	321.9	1620.1	349.9	-2.2	1268.1
2010	828.0 to 831.5	291.4	195.5 to 196.3	-7.4 to -6.2	1307.5 to 1313.0	328.6 to 330.0	1636.0 to 1643.0	351.7 to 353.2	-2.3	1282.1 to 1287.6
2011	851.7 to 859.5	287.3	203.7 to 205.6	-0.7 to 1.9	1342.1 to 1354.4	343.1 to 346.2	1685.2 to 1700.6	358.2 to 361.5	-2.3	1324.7 to 1336.9
2012	876.2 to 888.5	281.3	221.1 to 224.2	0.3 to 4.2	1378.8 to 1398.2	360.1 to 365.2	1738.9 to 1763.4	367.6 to 372.8	-2.3	1369.0 to 1388.3
2008 1st half	428.8	140.2	119.0	4.1	692.7	183.0	875.7	204.5	-0.6	670.6
2nd half	424.5	142.1	113.7	-3.2	677.7	178.2	855.9	195.5	-0.9	659.5
2009 1st half	414.1	143.4	101.5	-9.3	650.2	161.0	811.2	174.7	-1.1	635.4
2nd half	413.0	144.6	97.8	-7.6	648.0	160.9	808.9	175.1	-1.1	632.6
2010 1st half	412.1 to 413.4	145.7	97.2 to 97.5	-5.3 to -4.9	649.7 to 651.7	162.7 to 163.2	812.5 to 814.9	175.2 to 175.7	-1.1	636.1 to 638.1
2nd half	415.9 to 418.2	145.7	98.2 to 98.8	-2.1 to -1.3	657.7 to 661.3	165.8 to 166.8	823.6 to 828.1	176.5 to 177.4	-1.1	646.0 to 649.5
2011 1st half	422.6 to 426.0	144.5	100.1 to 100.9	-0.6 to 0.6	666.6 to 671.9	169.6 to 170.9	836.2 to 842.8	178.1 to 179.5	-1.1	657.0 to 662.2
2nd half	429.1 to 433.5	142.8	103.6 to 104.7	-0.1 to 1.4	675.4 to 682.4	173.5 to 175.3	849.0 to 857.8	180.1 to 181.9	-1.1	667.8 to 674.7
2012 1st half	435.1 to 440.7	141.2	108.1 to 109.5	0.1 to 1.9	684.5 to 693.3	177.8 to 180.1	862.3 to 873.4	182.4 to 184.8	-1.1	678.8 to 687.5
2nd half	441.1 to 447.8	140.1	112.9 to 114.6	0.2 to 2.3	694.2 to 704.9	182.3 to 185.1	876.6 to 890.0	185.2 to 188.1	-1.1	690.2 to 700.8
2008	1	2½	-¾	-½	¼	1	¼	-¾	0	½
2009	-3	2	-14¼	-1¼	-5¼	-10¾	-6½	-12½	0	-4¾
2010	0 to ½	1¼	-2 to -1½	¾	¾ to 1¼	2 to 2½	1 to 1½	½ to 1	0	1 to 1½
2011	2¾ to 3¼	-1½	4¼ to 4¾	½	2¾ to 3¼	4½ to 5	3 to 3½	1¾ to 2¼	0	3¼ to 3¾
2012	2¾ to 3¼	-2	8½ to 9	0	2¾ to 3¼	5 to 5½	3¼ to 3¾	2¾ to 3¼	0	3¼ to 3¾

¹ Includes households and non-profit institutions serving households.

² Also includes acquisitions less disposals of valuables.

³ Expenditure adjustment.

⁴ For change in inventories and the statistical discrepancy, changes are expressed as a percent of GDP.

⁵ Growth ranges for GDP components do not necessarily sum to the ½ percentage point ranges for GDP growth because of rounding and the assumed invariance of the levels of public spending within the forecast ranges.

The world economy

Table 1.13: The world economy

	Percentage change on a year earlier, unless otherwise stated				
	2008	2009	Forecast		
			2010	2011	2012
World GDP at purchasing power parity	3¼	-1	3¼	4¼	4¼
<i>Major 7 countries</i> ¹ :					
Real GDP	¼	-3½	1¾	3	3¼
Consumer price inflation ²	1¾	¼	1¼	1½	1¾
Euro area GDP	½	-4	1¼	2¼	2½
World trade in goods and services	3	-12¼	2½	5½	7¼
UK export markets ³	2¼	-11¼	2½	4	6¼

¹ G7: US, Japan, Germany, UK, France, Italy and Canada.

² Per cent, Q4.

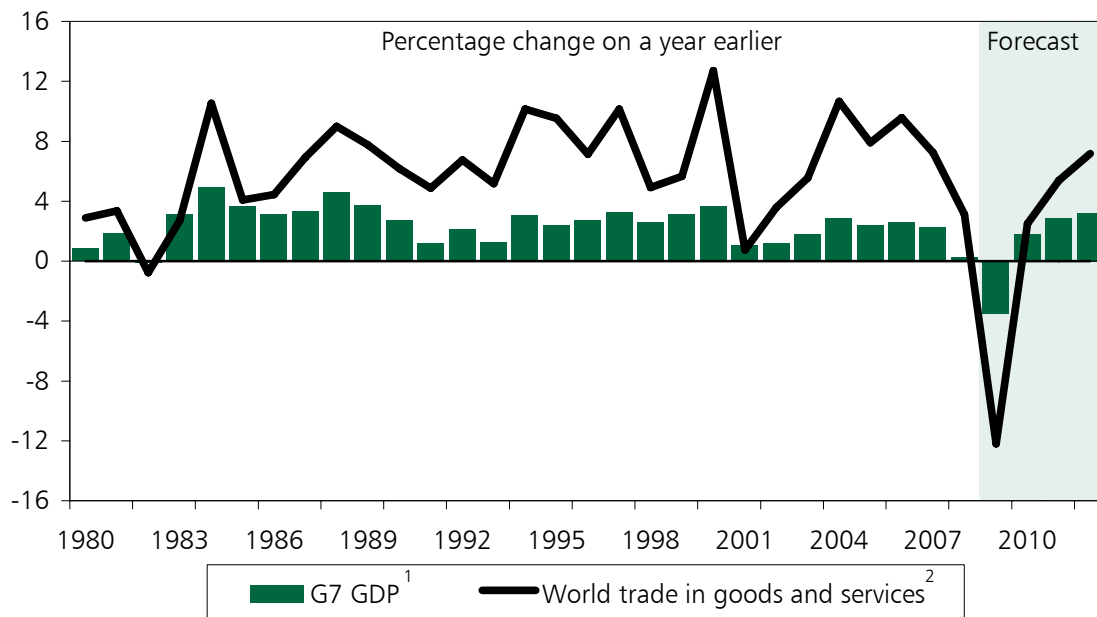
³ Other countries' imports of goods and services weighted according to the importance of imports from the UK in those countries' total imports.

Table 1.14: Consensus forecasts for GDP growth in major economies¹

	Percentage change on a year earlier			
	April 2009		November 2009	
	2009	2010	2009	2010
USA	-2.7	1.8	-2.4	2.7
Euro-area	-3.4	0.3	-3.8	1.2
Japan	-6.3	0.8	-5.7	1.4

¹ 'Consensus forecasts', Consensus Economics Inc.

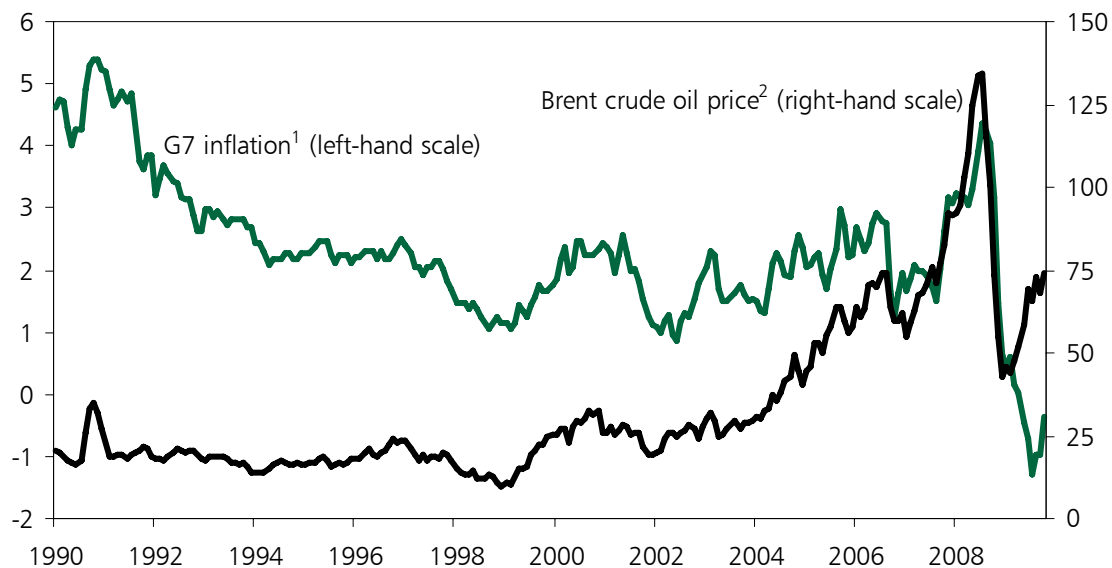
Chart 1.24: G7 GDP and world trade



¹ Real GDP (major 7 countries) at constant prices.

² HM Treasury estimates based on OECD data.

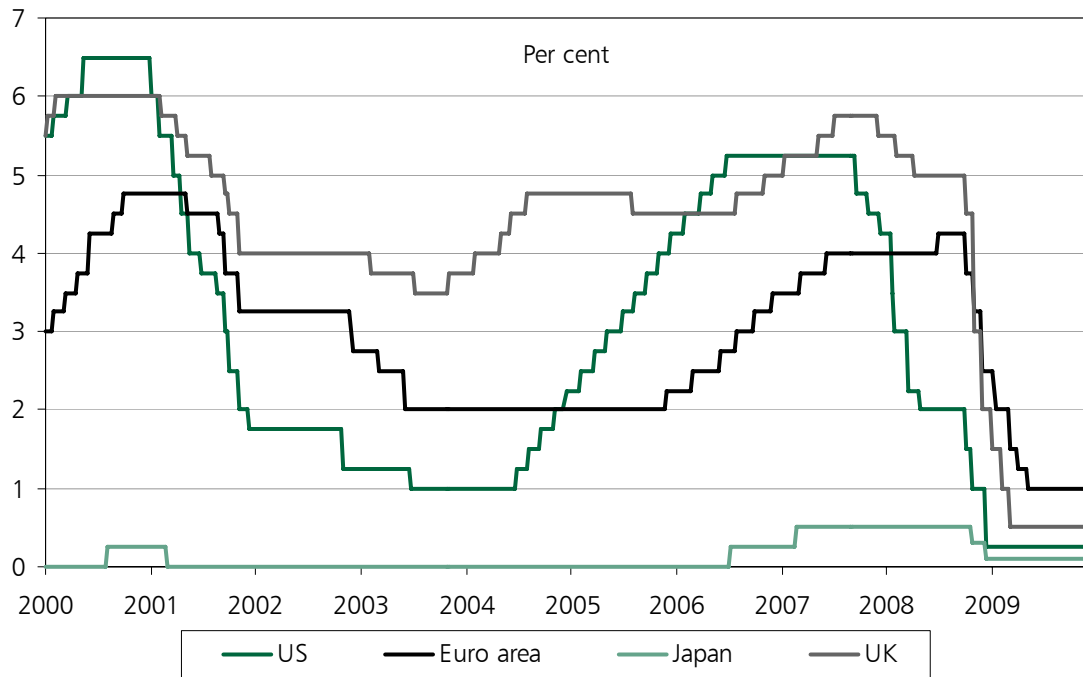
Chart 1.25: G7 inflation and oil prices



¹ Consumer price indices, percentage change on a year earlier, weighted by GDP at market exchange rates.

² US dollars per barrel.

Chart 1.26: Official interest rates in the major advanced economies



2

The public finances

The 2009 Pre-Budget Report, published by HM Treasury on 9 December 2009, includes a discussion of fiscal developments and prospects (Annex B). The present document contains additional information to Annex B, in the form of more detailed charts and tables. The charts and tables are consistent with data in the October 2009 *Public sector finances Statistical Bulletin*, released jointly by the Office for National Statistics (ONS) and HM Treasury on 19 November 2009.

Introduction

2.1 The 2009 Pre-Budget Report updates the projections of the public finances contained in Budget 2009, to take account of subsequent developments in both the public finances and the world and UK economies.

2.2 The fiscal projections continue to be based on deliberately cautious key assumptions audited by the National Audit Office (NAO).

Supplementary DEL and AME analysis

Table 2.1: Accounting adjustments¹

	£ billion		
	Outturn	Estimate	Projections
	2008-09	2009-10	2010-11
Resource accounting adjustments			
VAT refunds	10.0	10.3	12.6
Central government capital consumption	6.3	6.6	6.9
Non-cash items not in TME	-19.8	-23.0	-23.9
Expenditure financed by revenue receipts	0.7	0.7	0.6
Resource items ²	-0.5	-0.6	-0.7
Capital budget items ³	5.7	6.0	7.5
Local authorities	6.4	8.8	8.9
General government consolidation	-5.4	-5.1	-5.3
Public corporations	0.7	0.8	0.9
Financial transactions	-0.1	0.0	-0.1
Other accounting adjustments	0.0	1.0	0.8
Total resource accounting adjustments	4.0	5.4	8.1
Capital accounting adjustments			
VAT refunds	1.9	2.0	2.1
Resource items ²	0.5	0.6	0.7
Capital budget items ³	-5.7	-6.0	-7.5
Local authorities	-4.9	-1.6	-1.6
Financial transactions	0.1	-0.6	-1.1
Other accounting adjustments	-0.4	-0.6	-0.1
Total capital accounting adjustments	-8.4	-6.2	-7.5

¹ This table is the break down of accounting adjustments found in Table B15 of the 2009 Pre-Budget Report.

² Treated as capital in the National Accounts.

³ Treated as current in the National Accounts.

Table 2.2: Public sector capital expenditure

	£ billion		
	Outturn	Estimate	Projection
	2008-09	2009-10	2010-11
Capital Budget DEL	48.1	56.6	52.7
Locally-financed expenditure	7.4	5.8	4.7
National Lottery	0.5	1.0	0.9
Public corporations' own-financed capital expenditure	6.8	7.1	7.4
Other capital spending in AME	9.5	4.5	1.4
AME margin	0.0	0.0	0.0
Accounting adjustments	-8.4	-6.2	-7.5
Public sector gross investment¹	64.0	68.7	59.5
Less depreciation	18.7	19.2	20.1
Public sector net investment	45.3	49.5	39.5
Proceeds from the sale of fixed assets ²	2.5	2.7	3.3

Note: All measures excluding financial interventions

¹ This and previous lines are all net of sales of fixed assets.

² Projections of total receipts from the sale of fixed assets by public sector.

Table 2.3: Loans and sales of assets

	£ billion		
	Outturn	Estimate	Projection
	2008-09	2009-10	2010-11
Sales of fixed assets			
Sale of Chelsea Barracks ¹	0.0	0.0	0.0
Other Central government	1.0	1.2	1.1
Local authorities	1.0	1.0	1.5
Housing Revenue Account ²	0.5	0.4	0.7
Total sales of fixed assets	2.5	2.7	3.3
Loans and sales of financial assets			
Sale of shares in British Energy	4.4	0.0	0.0
Sale of shares in QinetiQ	0.3	0.0	0.0
Sale of shares in UKAEA	0.0	-0.1	0.0
Other loans and transactions in financial assets ³	-5.2	-5.9	-6.8
Total loans and sales of financial assets	-0.5	-6.0	-6.8
Total loans and sales of assets	2.0	-3.3	-3.5

¹ Sale completed January 2008, though some of the cash receipts will be deferred to the following three years.

² Capital transactions by local authorities' Housing Revenue Accounts are no longer classified to the local authority sub-sector and so are shown separately.

³ Excluding purchases of RBS and Lloyds shares.

Private finance initiative

Table 2.4: Departmental estimate of capital spending by the private sector (signed deals)^{1, 2, 3, 4}

	£ million	
	Projections	
	2009-10	2010-11
Communities and Local Government	300	208
Culture, Media and Sport	5	27
Children, Schools and Families	517	320
Environment, Food and Rural Affairs	330	325
Transport	794	698
Health	1037	511
Work and Pensions	56	56
HM Treasury	2	3
Home Office	0	0
Defence	839	702
Northern Ireland Executive	178	242
Scotland	429	156
Wales	9	0
Other Departments ⁵	10	7
Total	4505	3256

¹ Figures based on departmental returns.

² Investment in assets scored on the public sector balance sheet also score as public sector net investment.

³ PFI activity in local authority projects is included under the sponsoring government department.

⁴ Figures do not include PFI projects undertaken by public corporations.

⁵ Other departments include BIS, CPS, FCO, GCHQ, HMRC, MOJ and NSG.

Table 2.5: Estimated aggregated capital value of projects reaching preferred bidder stage^{1, 2}

	£ million	
	Projections	
	2009-10	2010-11
Communities and Local Government	798	242
Culture, Media and Sport	92	0
Children, Schools and Families	1146	620
Environment, Food and Rural Affairs	864	1666
Transport	1213	1065
Health	418	0
Home Office	0	53
Defence	400	0
Northern Ireland Executive	0	530
Ministry of Justice	201	0
Total	5132	4176

¹ Figures based on departmental returns.

² These figures are the total capital value of projects; the actual annual capital spending figures will be lower, as capital spending on large projects is typically spread over several years.

Table 2.6: Estimated payments under PFI contracts - October 2009 (signed deals)^{1, 2}

£ million			
Projections			
2009-10	7396	2022-23	8938
2010-11	7838	2023-24	8987
2011-12	8097	2024-25	9139
2012-13	8290	2025-26	9016
2013-14	8650	2026-27	8764
2014-15	8733	2027-28	8579
2015-16	8925	2028-29	8270
2016-17	8943	2029-30	7972
2017-18	9115	2030-31	7393
2018-19	9329	2031-32	6862
2019-20	9465	2032-33	6412
2020-21	9307	2033-34	5168
2021-22	8964	2034-35	4759

¹ The figures between 2009-10 and 2017-18 include estimated payments for the LUL PPP PFI contracts. These contracts contain periodic reviews every 7.5 years and therefore the service payments are not fixed after 2017-18.

² Figures based on departmental returns.

Analysis by sub-sector and economic category

Table 2.7: General government transactions by economic category

	£ billion		
	Outturn	Estimate	Projections
	2008-09	2009-10	2010-11
Current receipts			
Taxes on income and wealth	200.8	170.8	184.8
Taxes on production and imports	167.7	166.0	180.0
Other current taxes	33.3	34.0	35.4
Taxes on capital	2.9	2.3	2.3
Compulsory social contributions	96.9	95.7	97.2
Gross operating surplus	13.5	14.1	14.8
Rent and other current transfers	1.6	2.0	2.0
Interest and dividends from private sector and abroad	6.5	3.5	3.6
Interest and dividends from public sector	1.8	1.6	1.5
Total current receipts	525.1	489.9	521.6
Current expenditure			
Current expenditure on goods and services	315.5	335.0	351.3
Subsidies	9.1	10.5	9.4
Net social benefits	172.1	186.9	194.0
Net current grants abroad	-1.4	-0.2	0.5
Other current grants	37.1	42.5	44.6
Interest and dividends paid	31.0	30.8	44.7
AME margin	0.0	0.9	1.8
Total current expenditure	563.3	606.3	646.4
Depreciation	13.5	14.1	14.8
Surplus on current budget	-51.7	-130.5	-139.6
Capital expenditure			
Gross domestic fixed capital formation	33.5	39.3	36.0
Less depreciation	-13.5	-14.1	-14.8
Increase in inventories	0.0	0.0	0.0
Capital grants (net) within public sector	-6.2	0.5	0.3
Capital grants to private sector	40.1	22.4	16.6
Capital grants from private sector	-7.8	-1.2	-1.1
AME margin	0.0	0.0	0.0
Net investment	46.1	47.0	37.1
Net borrowing¹	97.8	177.5	176.7
<i>of which:</i>			
Central government net borrowing	93.4	170.7	171.7
Local authority net borrowing	4.4	6.9	5.0
Gross debt (Maastricht basis)			
Central government	734.2	956.5	1136.2
Local government	62.7	70.5	72.9

¹Although this is based on the ESA95 definition of general government net borrowing (GGNB), the projections are identical to GGNB calculated on a Maastricht definition.

Table 2.8: Public sector transactions by sub-sector and economic category

	£ billion			
	2008-09			
	General government		Public corporations	Public sector
	Central government	Local authorities		
Current receipts				
Taxes on income and wealth	200.8	0.0	-0.2	200.6
Taxes on production and imports	167.5	0.3	0.0	167.7
Other current taxes	9.7	23.6	0.0	33.3
Taxes on capital	2.9	0.0	0.0	2.9
Compulsory social contributions	96.9	0.0	0.0	96.9
Gross operating surplus	6.3	7.2	9.7	23.2
Rent and other current transfers	1.6	0.0	0.0	1.6
Interest and dividends from private sector and abroad	5.2	1.2	0.5	7.0
Interest and dividends from public sector	4.3	-2.5	-1.8	0.0
Total current receipts	495.3	29.8	8.1	533.2
Current expenditure				
Current expenditure on goods and services	190.9	124.6	0.0	315.5
Subsidies	5.3	3.8	0.0	9.1
Net social benefits	153.6	18.5	0.0	172.1
Net current grants abroad	-1.3	-0.1	0.0	-1.4
Current grants (net) within public sector	120.3	-120.3	0.0	0.0
Other current grants	37.1	0.0	0.0	37.1
Interest and dividends paid	30.5	0.5	0.5	31.6
AME margin	0.0	0.0	0.0	0.0
Total current expenditure	536.3	27.0	0.5	563.8
Depreciation	6.3	7.2	5.2	18.7
Surplus on current budget	-47.3	-4.3	2.4	-49.3
Capital expenditure				
Gross domestic fixed capital formation	16.0	17.5	7.5	41.0
Less depreciation	-6.3	-7.2	-5.2	-18.7
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	4.5	-10.7	6.2	0.0
Capital grants to private sector	39.0	1.1	0.0	40.1
Capital grants from private sector	-7.1	-0.7	-19.2	-27.0
AME margin	0.0	0.0	0.0	0.0
Net investment	46.0	0.1	-10.7	35.4
PSNB including temporary effects of financial interventions	93.4	4.4	-13.1	84.7

Table 2.8: Public sector transactions by sub-sector and economic category

	£ billion			
	2009-10			
	General government		Public corporations	Public sector
Central government	Local authorities			
Current receipts				
Taxes on income and wealth	170.8	0.0	-0.2	170.6
Taxes on production and imports	165.7	0.3	0.0	166.0
Other current taxes	9.9	24.1	0.0	34.0
Taxes on capital	2.3	0.0	0.0	2.3
Compulsory social contributions	95.7	0.0	0.0	95.7
Gross operating surplus	6.6	7.5	9.2	23.2
Rent and other current transfers	2.0	0.0	0.0	2.0
Interest and dividends from private sector and abroad	3.0	0.5	0.9	4.4
Interest and dividends from public sector	3.6	-2.0	-1.6	0.0
Total current receipts	459.6	30.3	8.3	498.1
Current expenditure				
Current expenditure on goods and services	201.9	133.1	0.0	335.0
Subsidies	6.5	4.0	0.0	10.5
Net social benefits	167.0	19.9	0.0	186.9
Net current grants abroad	0.0	-0.1	0.0	-0.2
Current grants (net) within public sector	127.5	-127.5	0.0	0.0
Other current grants	42.4	0.0	0.0	42.5
Interest and dividends paid	30.7	0.1	0.6	31.5
AME margin	0.9	0.0	0.0	0.9
Total current expenditure	576.9	29.5	0.6	607.0
Depreciation	6.6	7.5	5.2	19.2
Surplus on current budget	-123.9	-6.7	2.5	-128.1
Capital expenditure				
Gross domestic fixed capital formation	18.2	21.1	8.1	47.5
Less depreciation	-6.6	-7.5	-5.2	-19.2
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	14.8	-14.3	-0.5	0.0
Capital grants to private sector	20.5	1.9	0.0	22.4
Capital grants from private sector	-0.1	-1.0	0.0	-1.2
AME margin	0.0	0.0	0.0	0.0
Net investment	46.8	0.2	2.5	49.5
PSNB excluding temporary effects of financial interventions	170.7	6.9	0.0	177.6

Table 2.8: Public sector transactions by sub-sector and economic category

	£ billion			
	2010-11			
	General government		Public corporations	Public sector
	Central government	Local authorities		
Current receipts				
Taxes on income and wealth	184.8	0.0	-0.2	184.5
Taxes on production and imports	179.5	0.5	0.0	180.0
Other current taxes	10.4	25.0	0.0	35.4
Taxes on capital	2.3	0.0	0.0	2.3
Compulsory social contributions	97.2	0.0	0.0	97.2
Gross operating surplus	6.9	7.9	9.3	24.1
Rent and other current transfers	2.0	0.0	0.0	2.0
Interest and dividends from private sector and abroad	2.9	0.6	1.1	4.7
Interest and dividends from public sector	3.8	-2.3	-1.5	0.0
Total current receipts	489.9	31.7	8.7	530.3
Current expenditure				
Current expenditure on goods and services	211.6	139.7	0.0	351.3
Subsidies	5.5	3.9	0.0	9.4
Net social benefits	172.5	21.4	0.0	194.0
Net current grants abroad	0.6	-0.1	0.0	0.5
Current grants (net) within public sector	134.4	-134.4	0.0	0.0
Other current grants	44.6	0.0	0.0	44.6
Interest and dividends paid	44.4	0.3	0.7	45.4
AME margin	1.8	0.0	0.0	1.8
Total current expenditure	615.5	30.8	0.7	647.1
Depreciation	6.9	7.9	5.3	20.1
Surplus on current budget	-132.6	-7.0	2.8	-136.8
Capital expenditure				
Gross domestic fixed capital formation	16.5	19.5	8.0	44.0
Less depreciation	-6.9	-7.9	-5.3	-20.1
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	14.7	-14.4	-0.3	0.0
Capital grants to private sector	14.9	1.7	0.0	16.6
Capital grants from private sector	0.0	-1.0	0.0	-1.1
AME margin	0.0	0.0	0.0	0.0
Net investment	39.1	-2.0	2.3	39.5
PSNB excluding temporary effects of financial interventions	171.7	5.0	-0.4	176.3

Table 2.9: Current receipts

	£ billion						
	Outturn	Estimate	Projections				
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
HM Revenue and Customs							
Income tax (gross of tax credits)	153.5	140.4	144.7	157.3	173.4	187.4	202.0
Income tax credits	-5.6	-6.2	-6.5	-6.7	-6.9	-7.2	-7.6
National insurance contributions ¹	96.9	94.8	98.1	106.4	113.0	121.9	129.3
Value added tax	78.4	67.2	74.2	81.5	84.9	88.2	92.4
Corporation tax ²	43.7	34.1	40.9	44.9	48.4	49.8	51.9
Corporation tax credits ³	-0.6	-0.7	-0.8	-0.8	-0.8	-0.8	-0.8
Petroleum revenue tax	2.6	1.2	1.6	1.5	1.5	1.3	1.1
Fuel duties	24.6	26.4	28.0	29.5	31.1	32.7	34.0
Capital gains tax	7.8	2.5	2.6	2.9	3.3	3.9	4.3
Inheritance tax	2.8	2.2	2.3	2.4	2.6	2.7	2.9
Stamp duties	8.0	7.4	9.3	11.0	13.4	15.3	17.1
Tobacco duties	8.2	8.8	8.9	8.9	9.0	9.0	9.1
Alcohol duties	8.5	9.0	9.1	9.6	10.1	10.5	11.1
Betting and gaming duties	1.5	1.4	1.4	1.4	1.4	1.4	1.4
Air passenger duty	1.9	1.9	2.3	2.9	3.1	3.4	3.7
Insurance premium tax	2.3	2.3	2.3	2.3	2.3	2.4	2.4
Landfill tax	1.0	0.9	1.2	1.3	1.4	1.5	1.5
Climate change levy	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Aggregates levy	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Customs duties and levies	2.7	2.6	2.5	2.5	2.6	2.7	2.8
Total HMRC	439.1	397.0	423.1	460.1	494.8	527.3	559.6
Vehicle excise duties	5.6	5.7	6.1	6.3	6.5	6.6	6.7
Business rates	22.9	23.7	24.6	25.4	25.8	26.9	28.3
Council tax ⁴	24.4	24.8	25.8	27.0	28.3	29.6	31.1
Other taxes and royalties ⁵	15.7	16.4	19.2	20.3	21.2	22.9	24.1
Net taxes and NICs⁶	507.7	467.6	498.8	539.0	576.5	613.3	649.8
Accruals adjustments on taxes	-4.2	1.3	1.7	3.5	5.0	3.1	3.6
Less own resources contribution to EC	-5.1	-3.7	-4.6	-4.8	-5.0	-5.2	-5.4
Less PC corporation tax payments	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Tax credits adjustment ⁷	0.6	0.7	0.8	0.8	0.8	0.8	0.8
Interest and dividends	7.0	4.4	4.7	7.4	7.6	10.4	10.7
Other receipts ⁸	26.7	28.1	29.2	30.6	32.0	33.6	34.9
Current receipts	532.4	498.1	530.3	576.3	616.7	655.8	694.1
<i>Memo:</i>							
North Sea revenues ⁹	12.9	7.0	8.4	8.6	9.3	8.7	8.0

¹ Includes Bank Payroll Tax

² National Accounts measure, gross of enhanced and payable tax credits.

³ Includes enhanced company tax credits.

⁴ Council tax increases are determined annually by local authorities, not by the Government. As in previous years, council tax figures are projections based on assumptions and are not Government forecasts.

⁵ Includes VAT refunds and money paid into the National Lottery Distribution Fund.

⁶ Includes VAT and 'traditional own resources' contributions to EC budget.

⁷ Tax credits which are scored as negative tax in the calculation of NTNIC but expenditure in the National Accounts.

⁸ Includes gross operating surplus, rent and business rate payments by local authorities.

⁹ Consists of North Sea corporation tax and petroleum revenue tax.

HM Treasury contacts

This document can be found in full on our website at:

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If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence and Enquiry Unit

HM Treasury

1 Horse Guards Road

London

SW1A 2HQ

Tel: 020 7270 4558

Fax: 020 7270 4861

E-mail: public.enquiries@hmtreasury.gov.uk

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