

# **2007 Pre-Budget Report and Comprehensive Spending Review: the economy and public finances - supplementary charts and tables**

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October 2007



HM TREASURY





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**2007 Pre-Budget Report and  
Comprehensive Spending Review:  
the economy and public finances -  
supplementary charts and tables**

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# THE ECONOMY

The 2007 Pre-Budget Report and Comprehensive Spending Review, published by HM Treasury on 9 October 2007, 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 data to the second quarter of 2007 released by the Office for National Statistics (ONS) on 26 September 2007.

## INTRODUCTION

**Forecast ranges** **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 short-term risks are described in Annex A of the Pre-Budget Report.

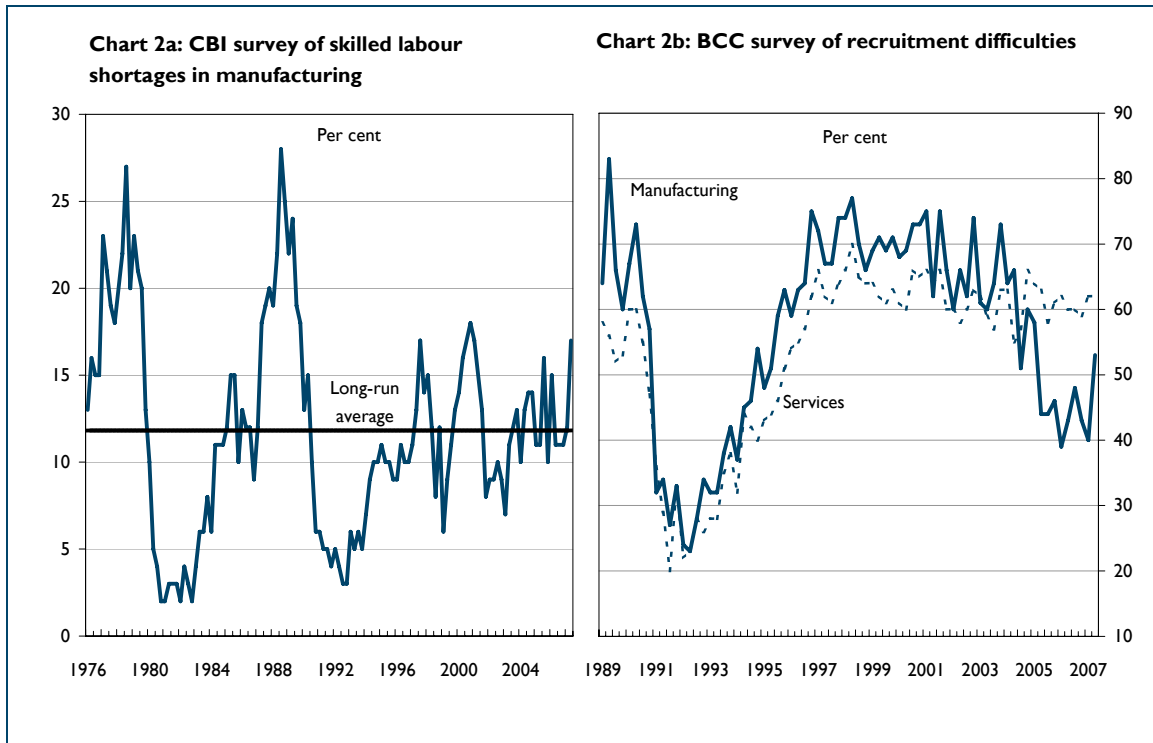
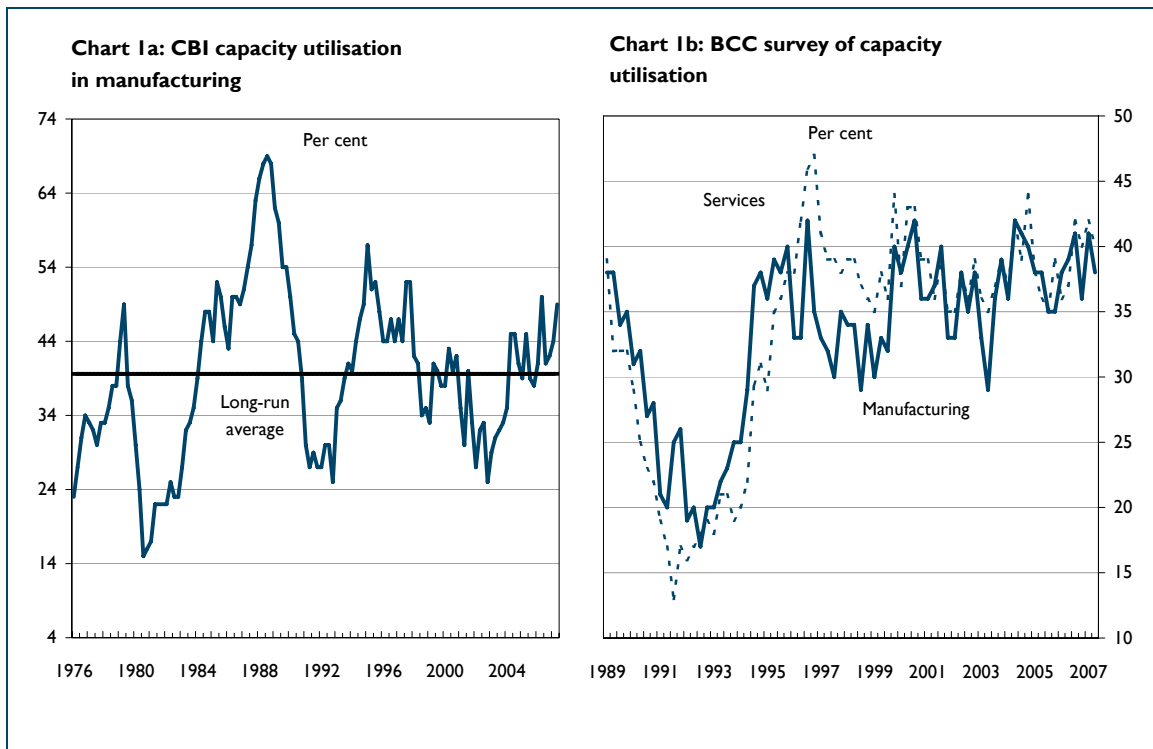
**1.2** The mid-points of the forecast ranges represent the Government's neutral case view of economic prospects, and are anchored around an assumption for trend output growth of 2¾ per cent a year. Details of this neutral assumption are set out in Table A2 of the Pre-Budget Report and the accompanying text, as well as Table 1 of this document. A paper published by the Treasury alongside Budget 2002<sup>1</sup> discussed the Treasury's trend output growth framework, while a further paper published alongside the 2006 Pre-Budget Report<sup>2</sup> provided an updated assessment and projections.

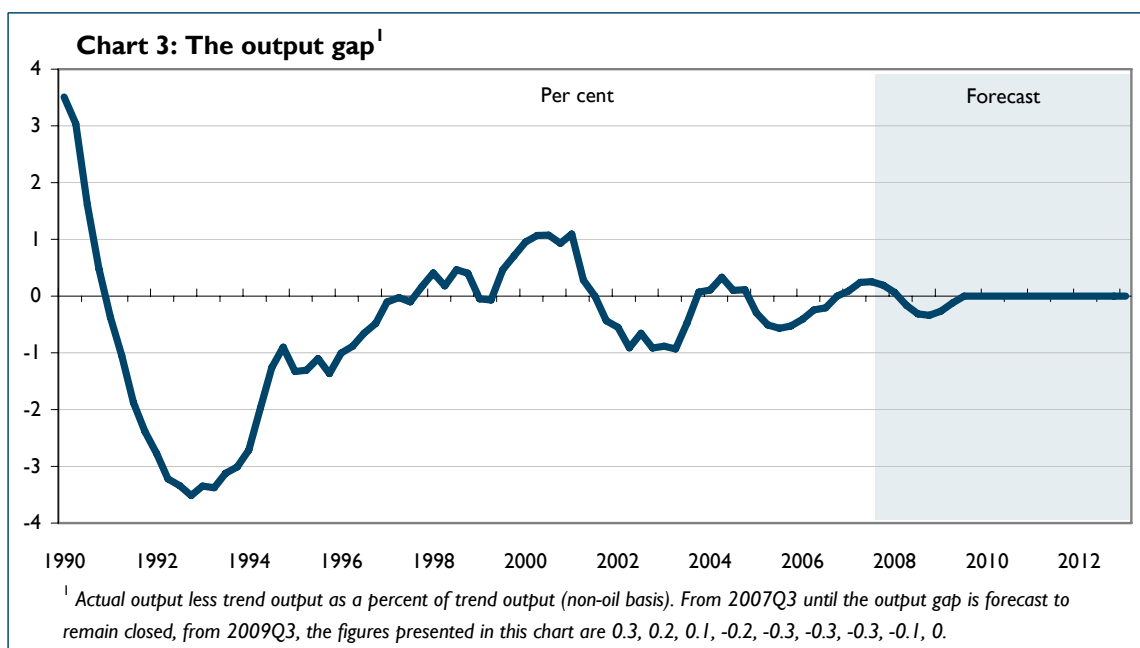
**1.3** Consistent with past practice, projections for the public finances (set out in Annex B of the Pre-Budget Report) are based on the lower end of the economic forecast ranges, which are consistent with a deliberately cautious assumption for annual trend output growth a ¼ percentage point lower than the neutral view. 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.

<sup>1</sup> *Trend growth: recent developments and prospects*, HM Treasury, April 2002.

<sup>2</sup> *Trend growth: new evidence and prospects*, HM Treasury, December 2006.

## THE DEGREE OF SPARE CAPACITY



**Table 1: Contributions to trend output growth<sup>1</sup>**

	Estimated trend rates of growth, per cent per annum					Trend output (6)
	Trend output per hour worked <sup>2, 3</sup>		Trend average hours worked <sup>3</sup>	Trend employment rate <sup>3</sup>	Population of working age <sup>4</sup>	
	Underlying (1)	Unadjusted (2)				
<b>1986Q2 to 1997H1</b>						
Budget 2007	2.10	1.92	-0.11	0.36	0.24	<b>2.43</b>
Latest data	2.13	1.95	-0.11	0.36	0.25	<b>2.46</b>
<b>Over the recent past</b>						
<b>1997H1 to 2001Q3</b>						
Budget 2002	2.14	1.96	-0.37	0.36	0.66	<b>2.63</b>
PBR 2002 and Budget 2003	2.35	2.14	-0.47	0.43	0.50	<b>2.61</b>
PBR 2003 and Budget 2004	2.65	2.44	-0.47	0.42	0.54	<b>2.94</b>
PBR 2004 and Budget 2005	2.70	2.50	-0.43	0.41	0.58	<b>3.06</b>
PBR 2005 and Budget 2006	2.79	2.59	-0.44	0.42	0.58	<b>3.15</b>
PBR 2006 and Budget 2007	2.81	2.60	-0.44	0.42	0.58	<b>3.16</b>
Latest data	2.89	2.70	-0.46	0.38	0.53	<b>3.17</b>
<b>2001Q3 to 2006Q4</b>						
Budget 2002	2.10	2.00	-0.1	0.2	0.6	<b>2¾</b>
PBR 2002 to Budget 2005	2.35	2.25	-0.1	0.2	0.5	<b>2¾</b>
PBR 2005 and Budget 2006	2.25	2.15	-0.2	0.2	0.6	<b>2¾</b>
PBR 2006 and Budget 2007	2.25	2.15	-0.2	0.2	0.7	<b>2¾</b>
Latest data <sup>5,6</sup>	2.32	2.29	-0.27	0.05	0.69	<b>2.77</b>
<b>Projection<sup>7</sup></b>						
<b>2006Q4 onwards</b>						
PBR 2004 and Budget 2005	2.35	2.25	-0.1	0.2	0.3	<b>2½</b>
PBR 2005 and Budget 2006	2.25	2.15	-0.2	0.2	0.4	<b>2½</b>
PBR 2006 and Budget 2007	2.25	2.15	-0.2	0.2	0.6	<b>2¾</b>
PBR 2007 <sup>8</sup>	2.35	2.30	-0.25	0.1	0.6	<b>2¾</b>

<sup>1</sup> Treasury analysis based on judgement that 1986Q2, 1997H1 and 2001Q3 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.

Columns (2) + (3) + (4) + (5) = (6).

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

<sup>2</sup> 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.

<sup>3</sup> 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 which 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. Hours worked and the employment rate are measured on a working-age basis.

<sup>4</sup> UK resident household basis.

<sup>5</sup> Estimates based on the assumption that the economy passed up through trend in the final quarter of 2006.

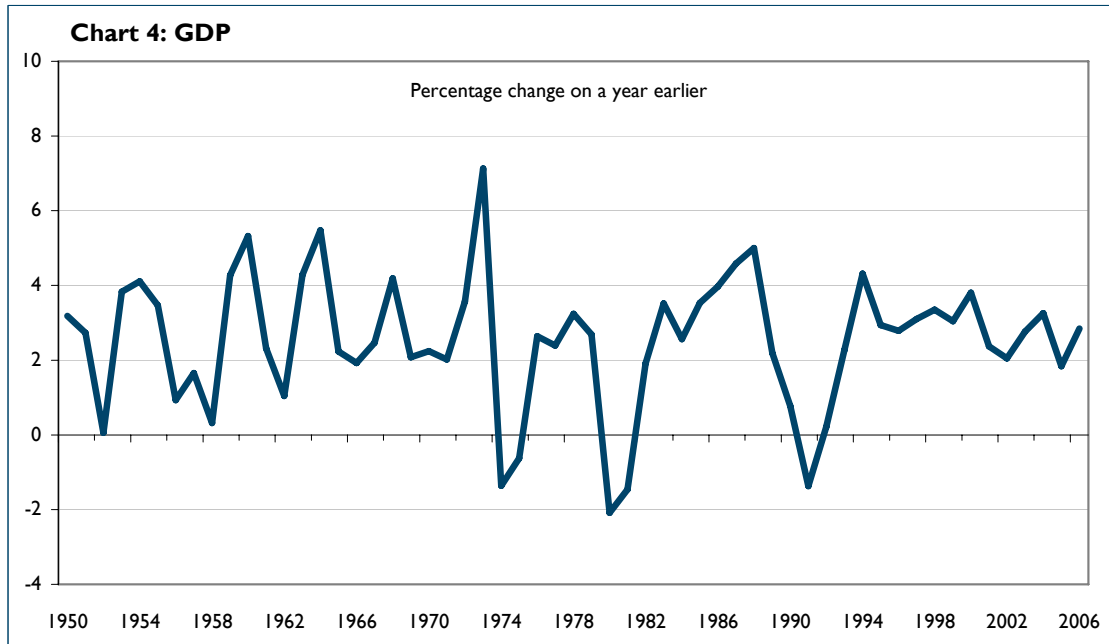
<sup>6</sup> Estimates have been adjusted in line with the mid-year population estimates published in August 2007. Labour market statistics consistent with the latest population

estimates will be published by the ONS in due course.

<sup>7</sup> Neutral case assumptions for trend from 2006Q4.

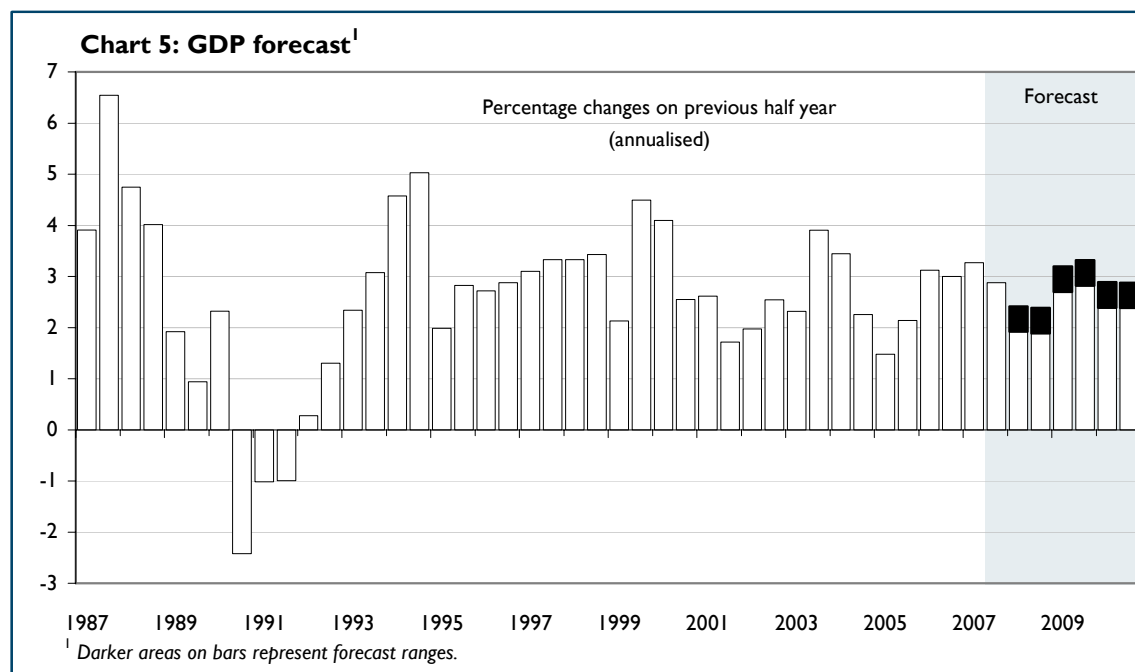
<sup>8</sup> Underlying trend assumptions around which the mid-points of the GDP forecast growth ranges from 2006Q4 are anchored.

## GROSS DOMESTIC PRODUCT (GDP)



**Table 2: Quarterly GDP and non-oil GVA growth**

	Percentage change on previous quarter					
	2006				2007	
	Q1	Q2	Q3	Q4	Q1	Q2
GDP	0.8	0.8	0.7	0.8	0.8	0.8
Non-oil GVA	0.8	0.9	0.7	0.9	0.8	0.8

**Table 3: Contributions to GDP growth<sup>1,2</sup>**

	Average		Forecast				
	2000 to 2004	2005	2006	2007	2008	2009	2010
<b>GDP growth, per cent</b>	<b>2¾</b>	<b>1¾</b>	<b>2¾</b>	<b>3</b>	<b>2 to 2½</b>	<b>2½ to 3</b>	<b>2½ to 3</b>
<b>Main contributions</b>							
Private consumption	2¼	1	1¼	2	1¼	1½	1½
Business investment <sup>3</sup>	¼	¼	¾	¾	½	½	½
Government <sup>3,4</sup>	¾	½	½	¾	¾	½	½
Change in inventories	0	0	-¼	0	0	0	0
Net trade	-½	0	-¼	-¼	0	0	0

<sup>1</sup> Components may not sum to total due to rounding and omission of private residential investment, transfer costs of land and existing buildings and the statistical discrepancy.

<sup>2</sup> Based on central case. For the purpose of projecting public finances, forecasts are based on the bottom of the GDP forecast range.

<sup>3</sup> Excludes exceptional transfer of BNFL nuclear reactors to central government in 2005Q2.

<sup>4</sup> The sum of government consumption and government investment.

## THE HOUSEHOLD SECTOR

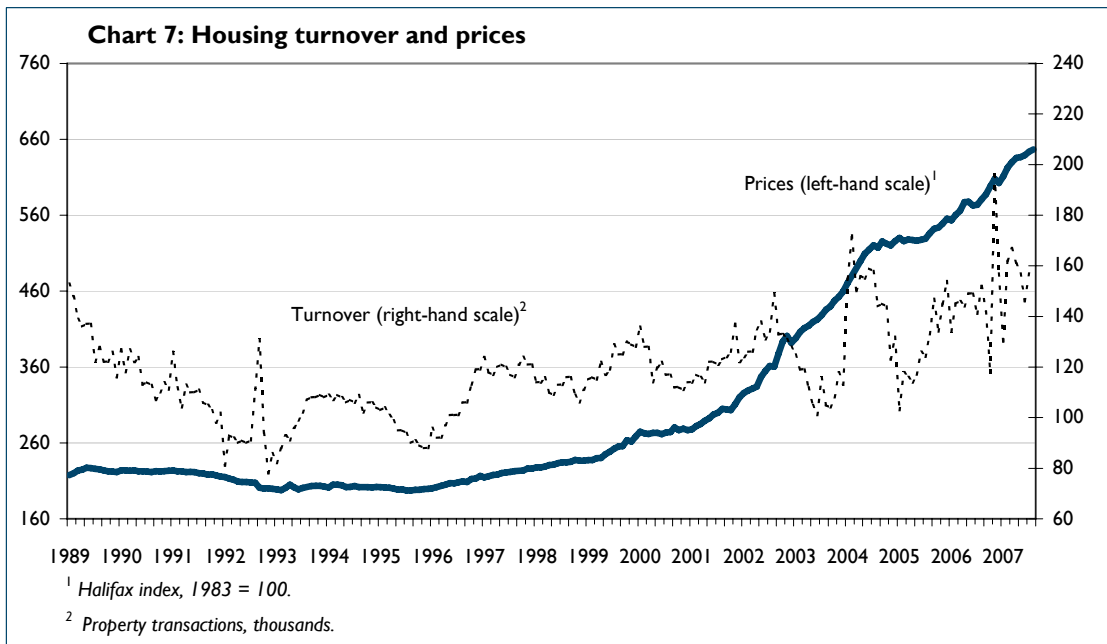
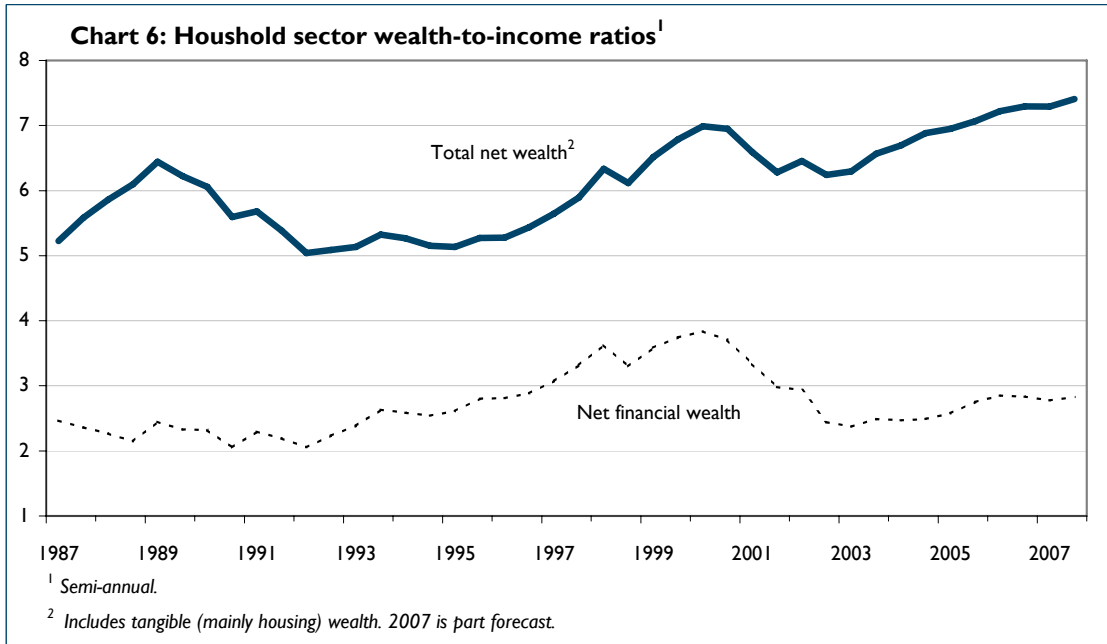
**Table 4: Household sector<sup>1</sup> expenditure and income**

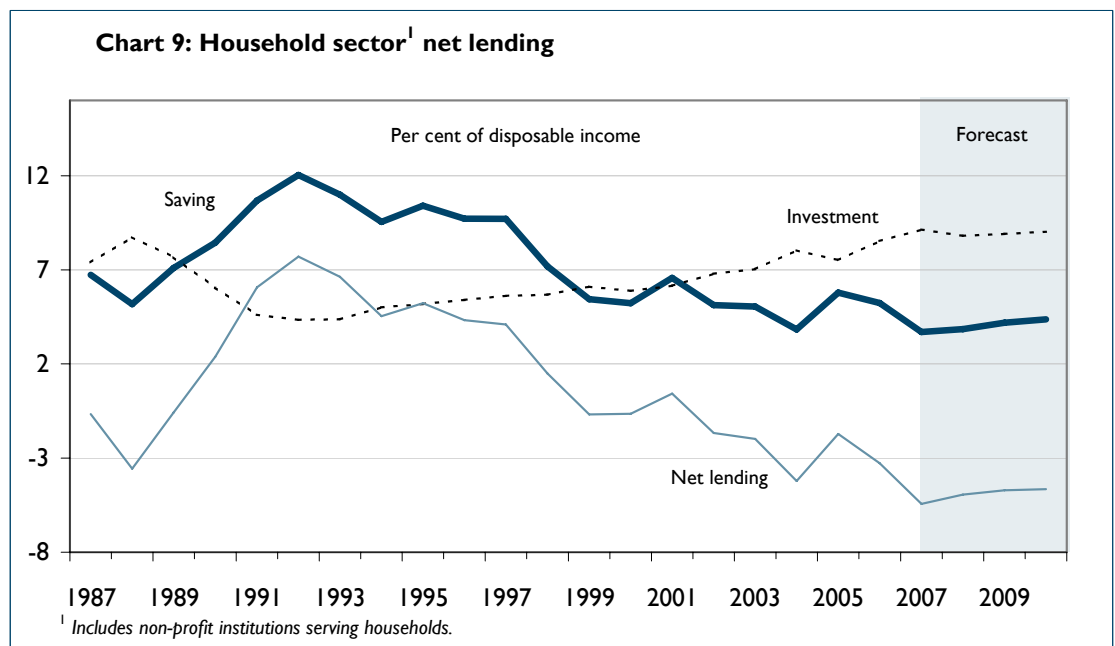
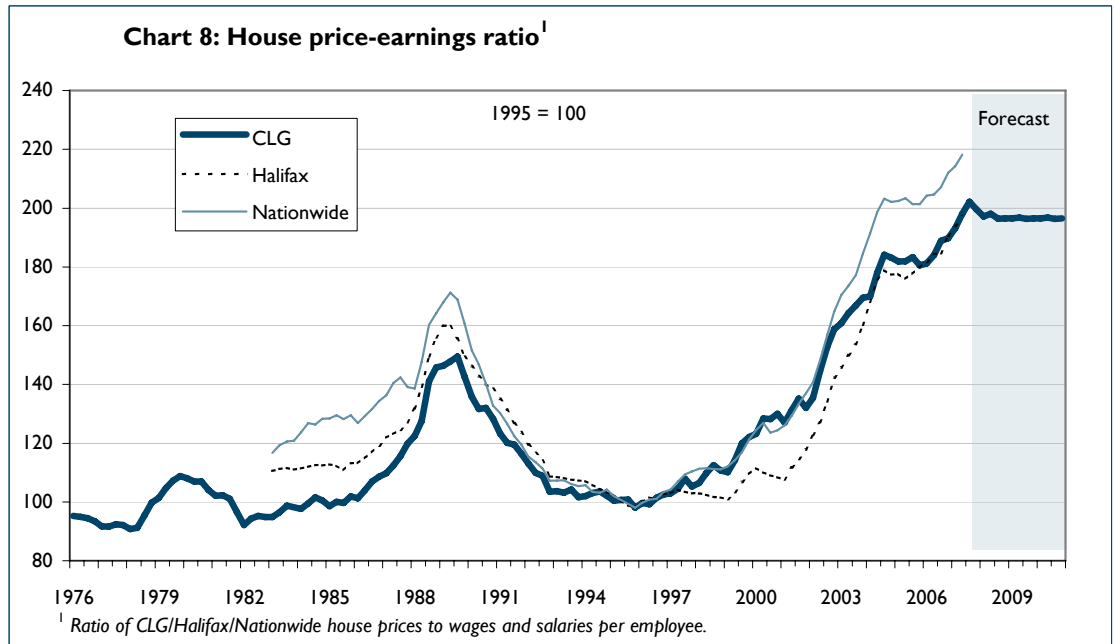
	Percentage change on a year earlier, unless otherwise stated				
	2006	2007	Forecast		
			2008	2009	2010
Household consumption <sup>2</sup>	2	3	1¾ to 2¼	2¼ to 2¾	2¼ to 2¾
Real household disposable income	1¼	1½	1¾ to 2¼	2¼ to 2¾	2¼ to 2¾
Saving ratio <sup>3</sup> (level, per cent)	5	3½	3¾	4	4¼

<sup>1</sup> Including non-profit institutions serving households.

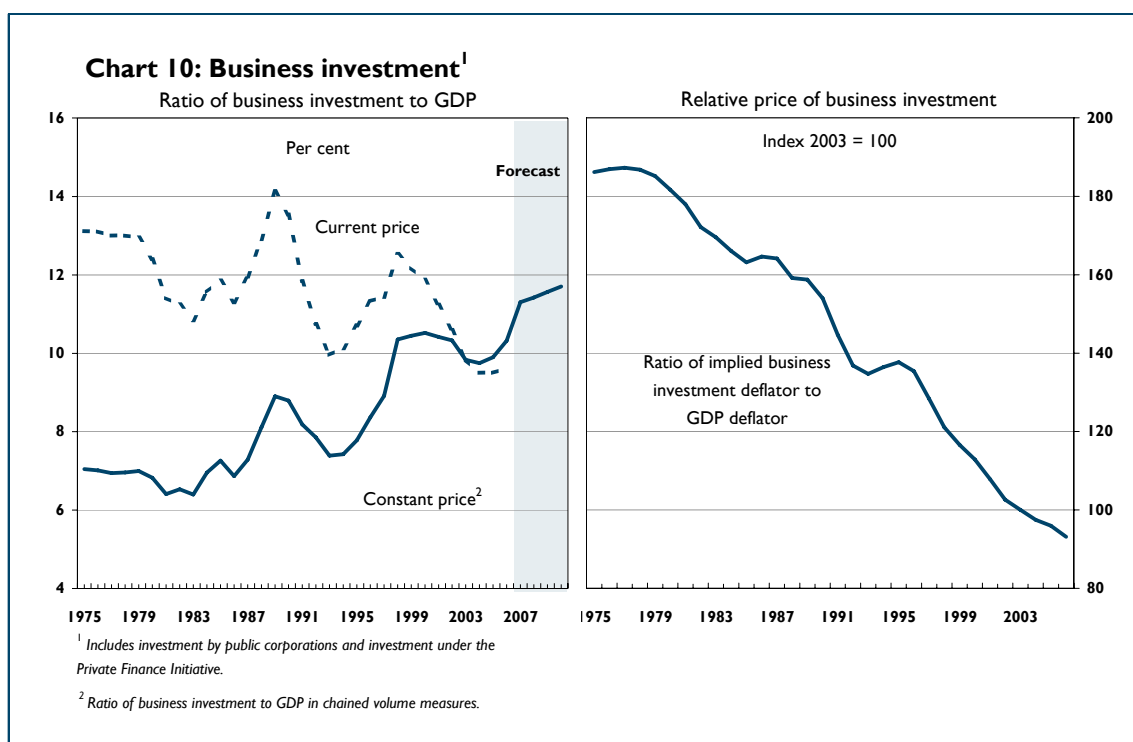
<sup>2</sup> Chained volume measures.

<sup>3</sup> Total household resources less consumption expenditure as a percent of total resources, where total resources comprise households' disposable income plus the increase in their net equity in pension funds.





## INVESTMENT



**Table 5: Gross fixed capital formation**

	Percentage change on a year earlier				
	2006	2007	Forecast		
			2008	2009	2010
Whole economy <sup>1</sup>	8½	5¾	3¼ to 3¾	3¼ to 3¾	3¼ to 3¾
of which:					
Business <sup>2,3,4</sup>	7½	6	3¼ to 3¾	3¾ to 4¼	3¾ to 4¼
Private dwellings <sup>3</sup>	8½	4¼	2¼ to 2¾	2¾ to 3¼	2¾ to 3¼
General government <sup>3,4</sup>	6	10½	7½	3	5

<sup>1</sup> Includes costs associated with the transfer of ownership of land and existing buildings.

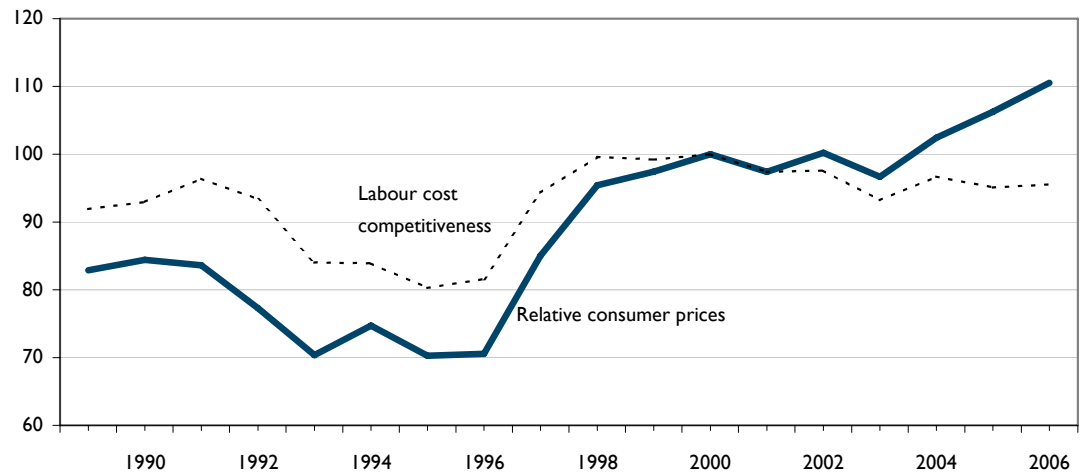
<sup>2</sup> Private sector and public corporations' non-residential investment. Includes investment under the Private Finance Initiative.

<sup>3</sup> Excludes purchases less sales of land and existing buildings.

<sup>4</sup> Excludes exceptional transfer of BNFL nuclear reactors to central government in 2005Q2.

## TRADE AND THE BALANCE OF PAYMENTS

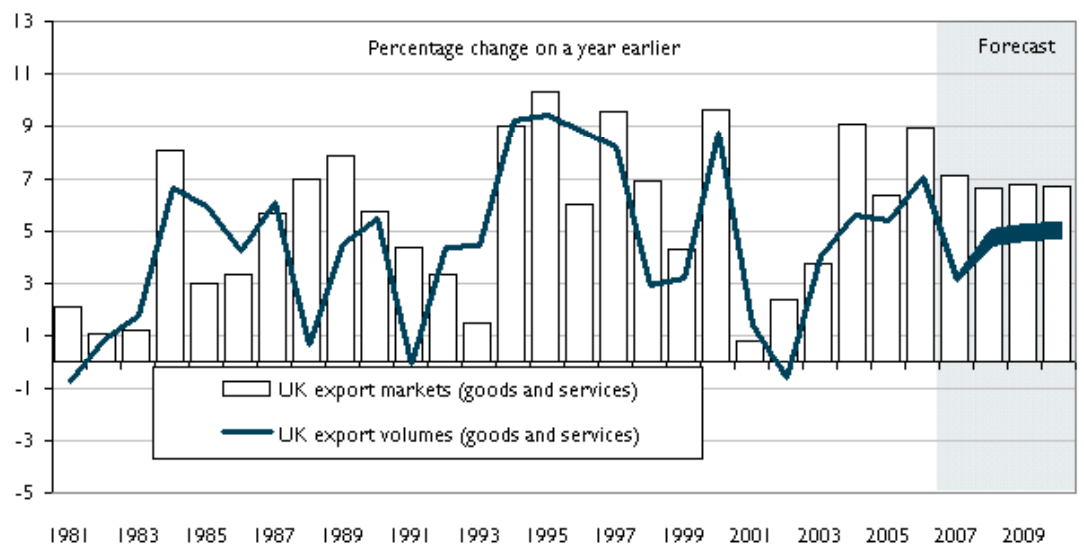
**Chart 11: Competitive positions: Relative unit labour costs<sup>1</sup> and consumer prices**



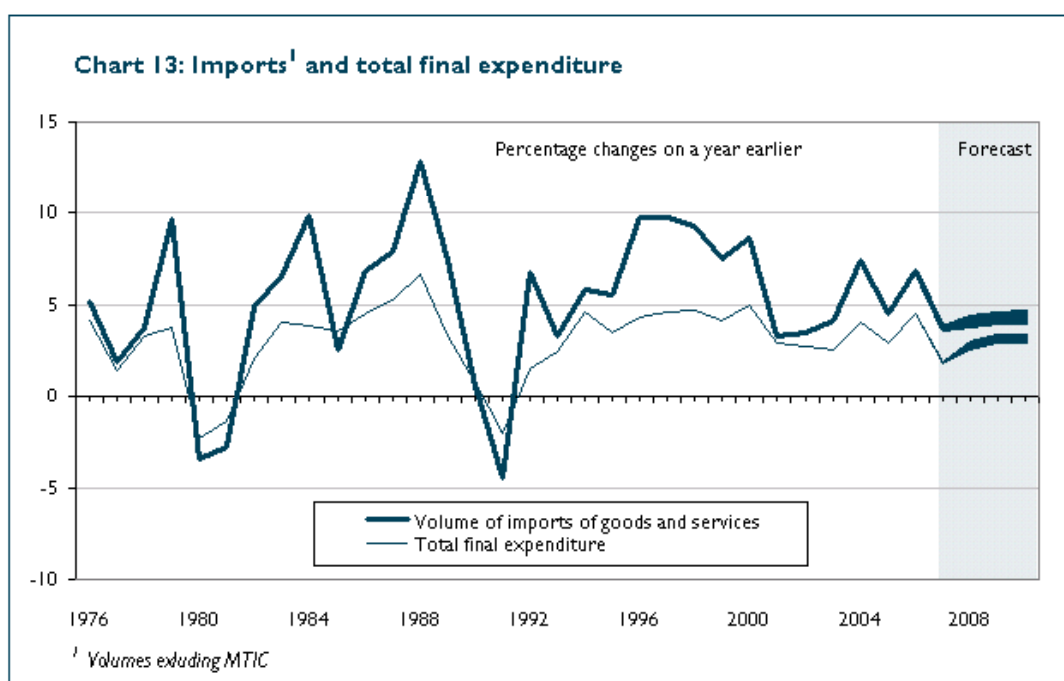
<sup>1</sup> Relating to trade in manufactures: a fall means that competitiveness has improved.

Source: OECD Economic Outlook 81, May 2007.

**Chart 12: Exports<sup>1</sup> and overseas demand**



<sup>1</sup> Volumes excluding MTIC



**Table 6: Trade in goods and services**

	Percentage change on a year earlier					£ billion
	Volumes (excluding MTIC) <sup>1</sup>		Prices <sup>2</sup>		Terms of trade <sup>3</sup>	Goods and services balance
	Exports	Imports	Exports	Imports		
2006	7	6¾	2½	2½	0	-48¼
Forecast						
2007	3¼	3¾	1½	0	1½	-45¾
2008	4½ to 5	3¾ to 4¼	½	½	0	-45¼
2009	4¾ to 5¼	4 to 4½	1¼	1½	0	-45¾
2010	4¾ to 5¼	4 to 4½	2	2¼	0	-46¾

<sup>1</sup> Table 11 contains figures including the effects of MTIC-related activity. The forecast is based on the neutral assumption that the level of MTIC-related activity stays flat at the latest quarterly estimate throughout the forecast.

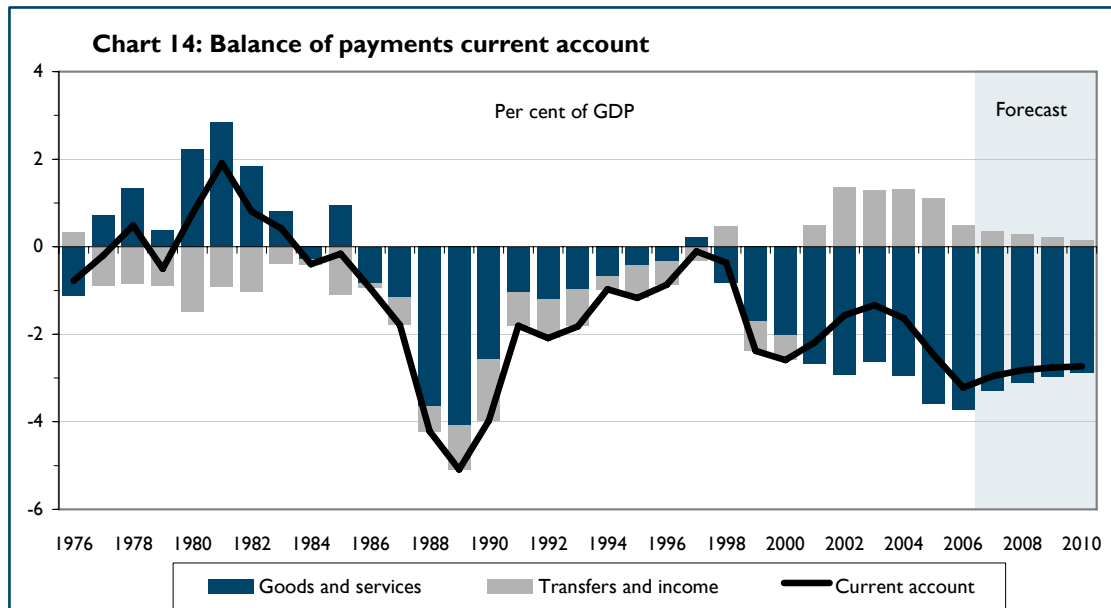
<sup>2</sup> Average value indices.

<sup>3</sup> Ratio of export to import prices.

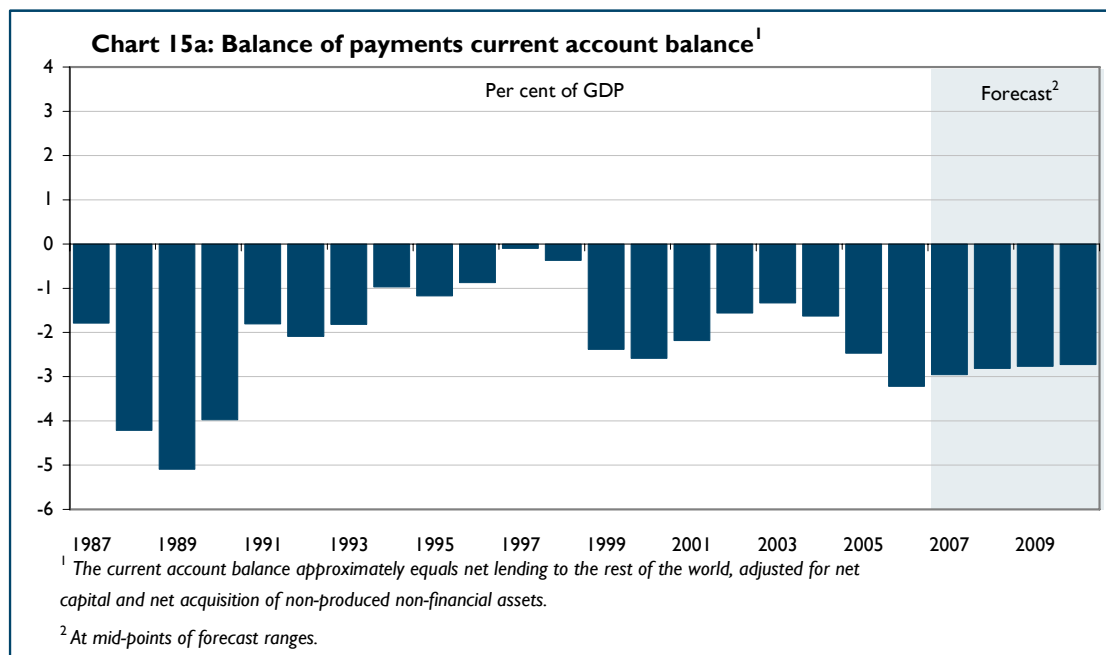
**Table 7: The current account**

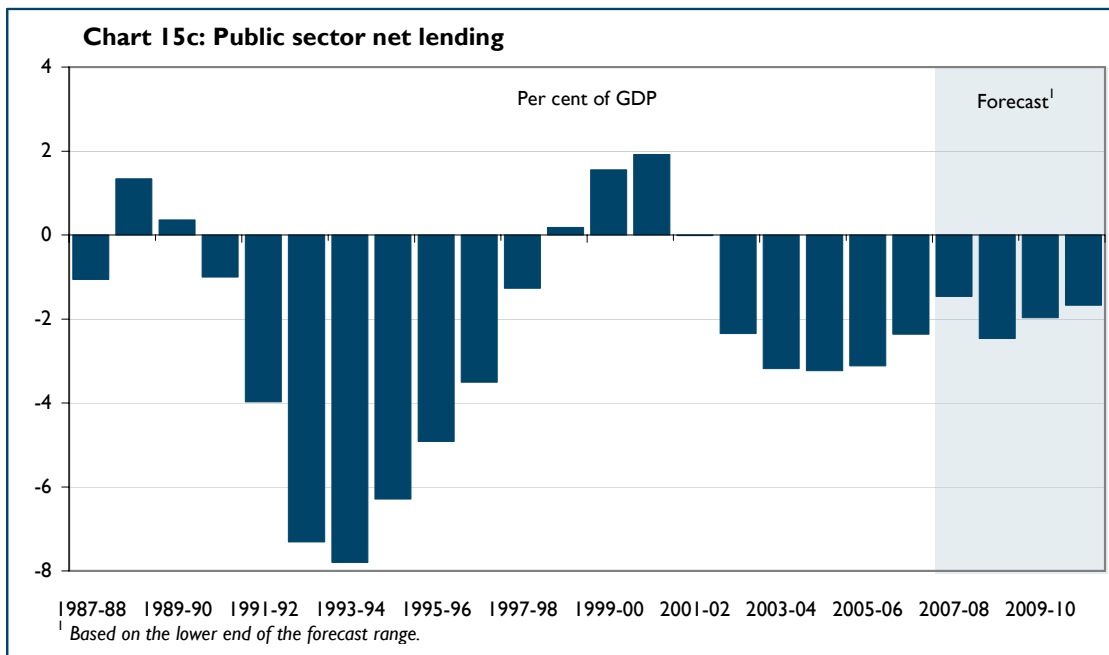
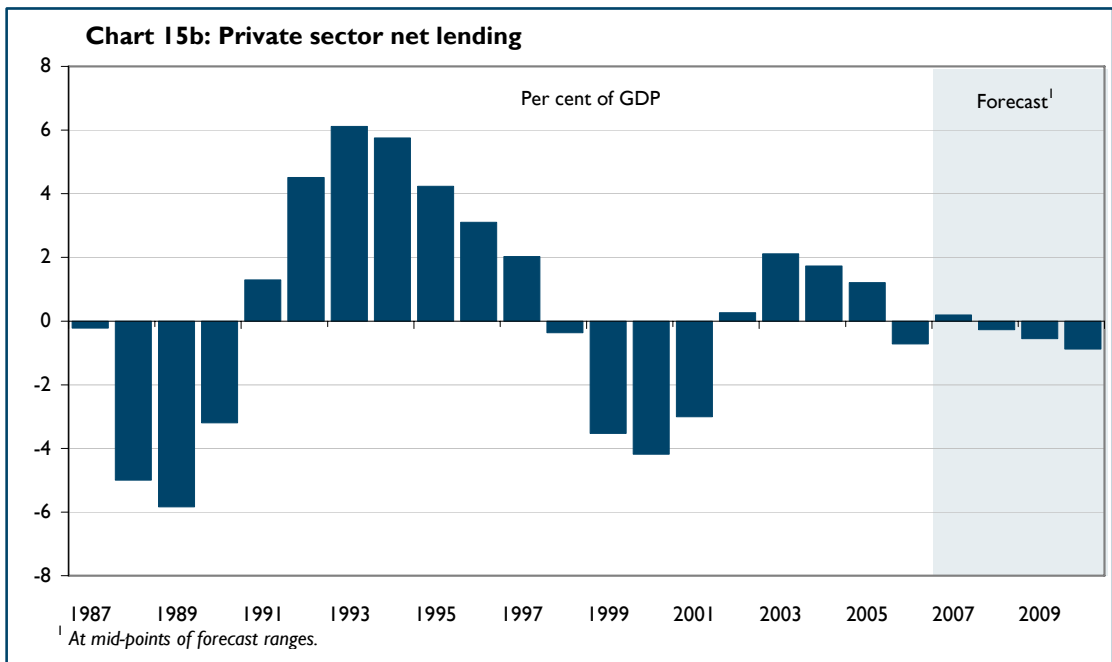
	£ billion					
	Trade in Goods and services			Transfers	Income balance <sup>1</sup>	Current balance
	Non-oil	Oil	Total			
2006	-44¾	-3½	-48¼	-12	18½	-42
Forecast						
2007	-43¾	-2	-45¾	-13½	18¼	-41
2008	-43¼	-2	-45¼	-12¾	17	-41
2009	-43	-2¾	-45¾	-13¾	17	-42½
2010	-42¼	-4¼	-46¾	-14¾	17	-44¼

<sup>1</sup> Includes investment and employee income.

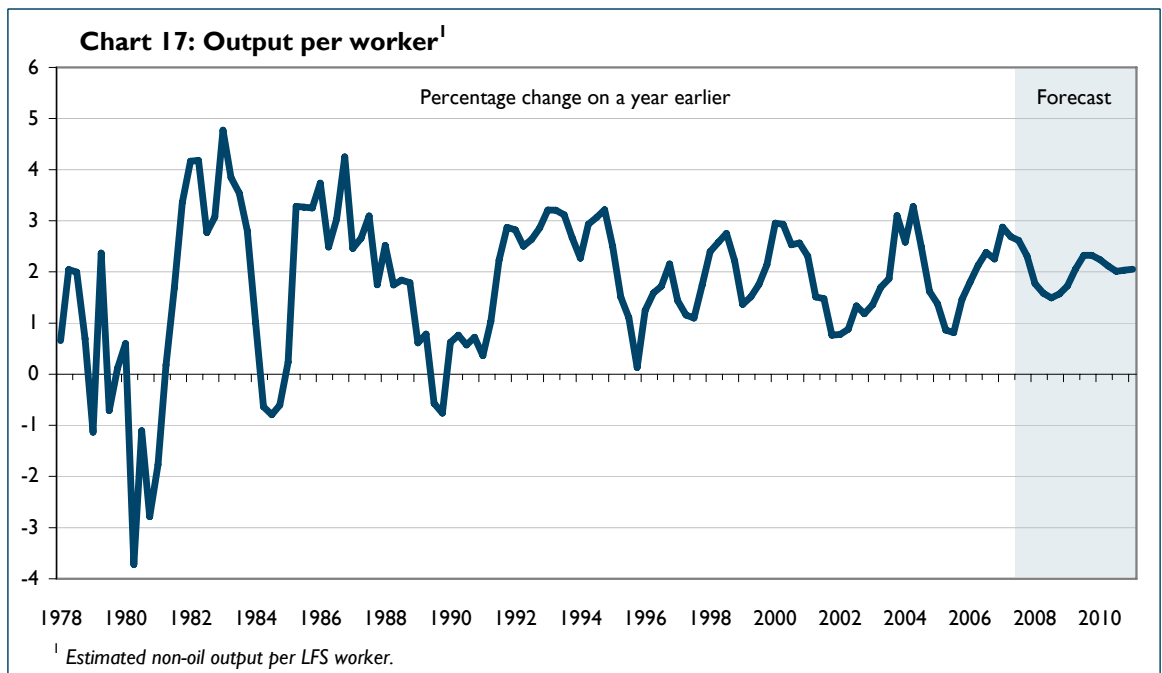
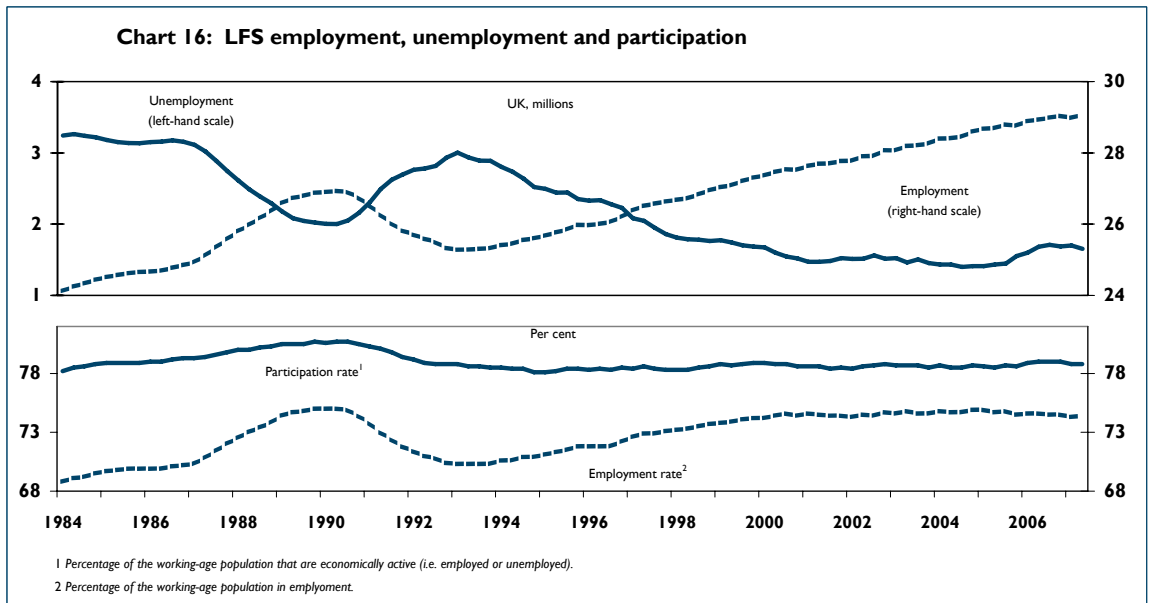


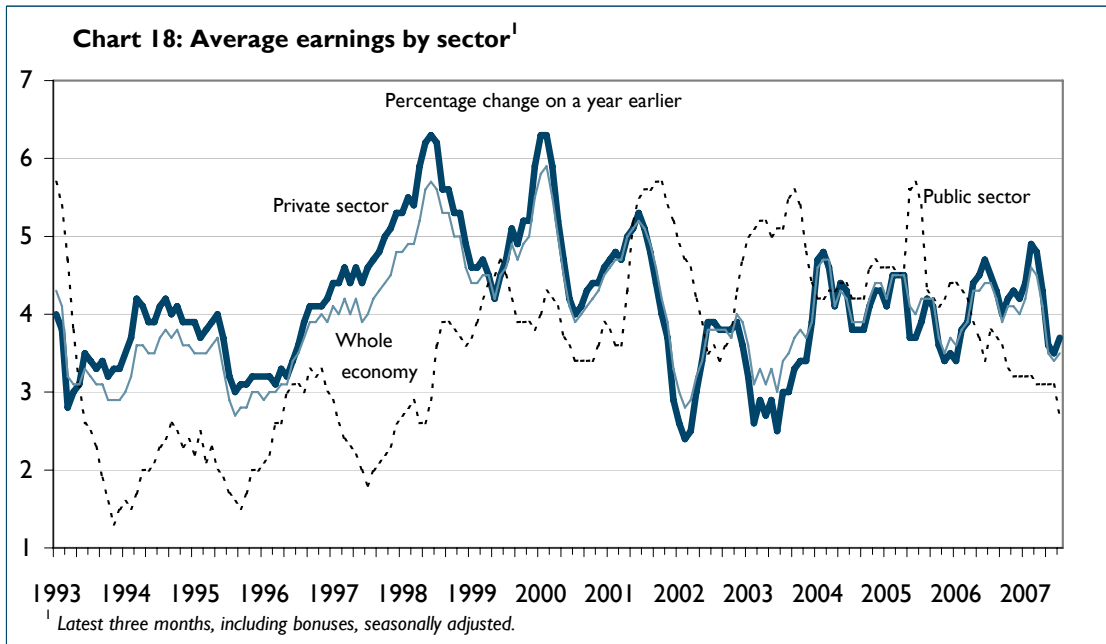
## PATTERN OF NET LENDING



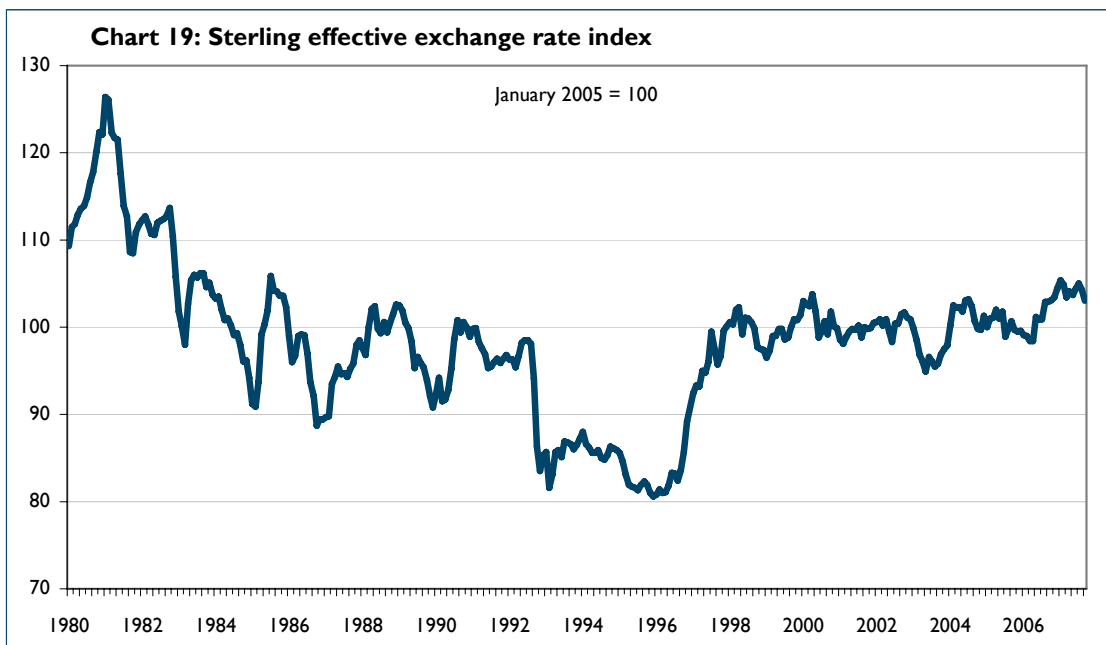


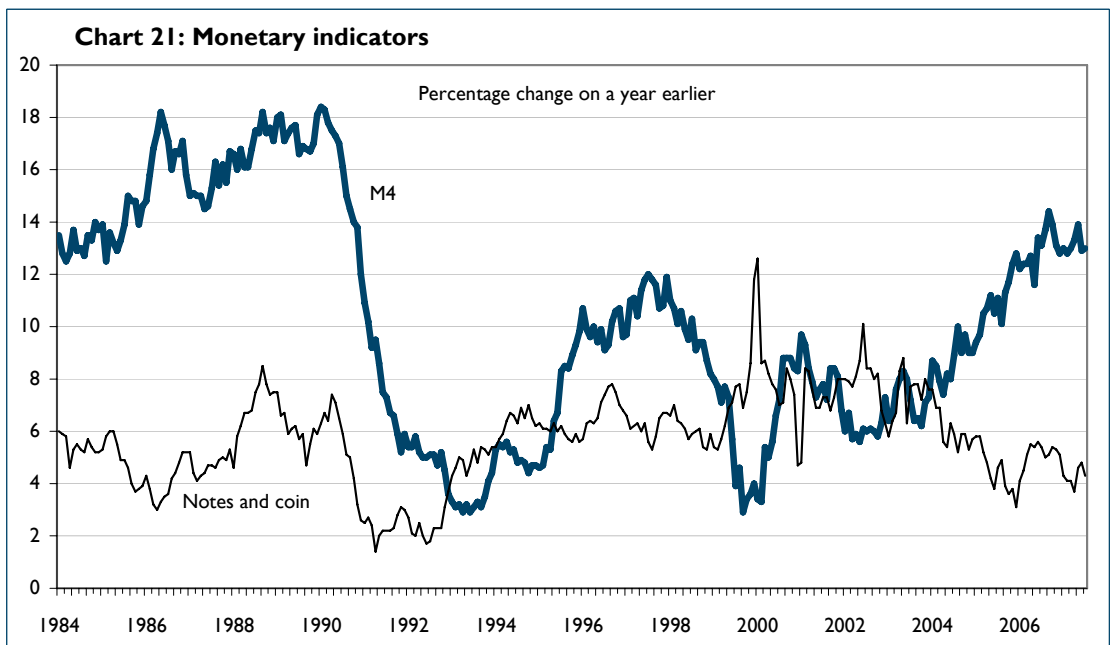
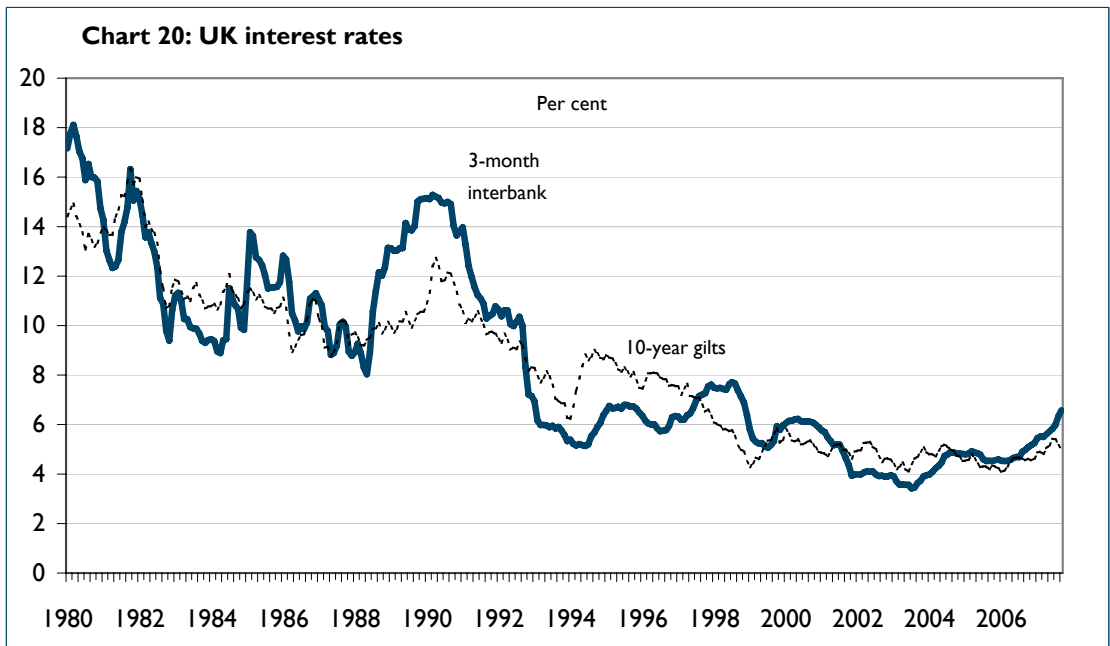
## THE LABOUR MARKET



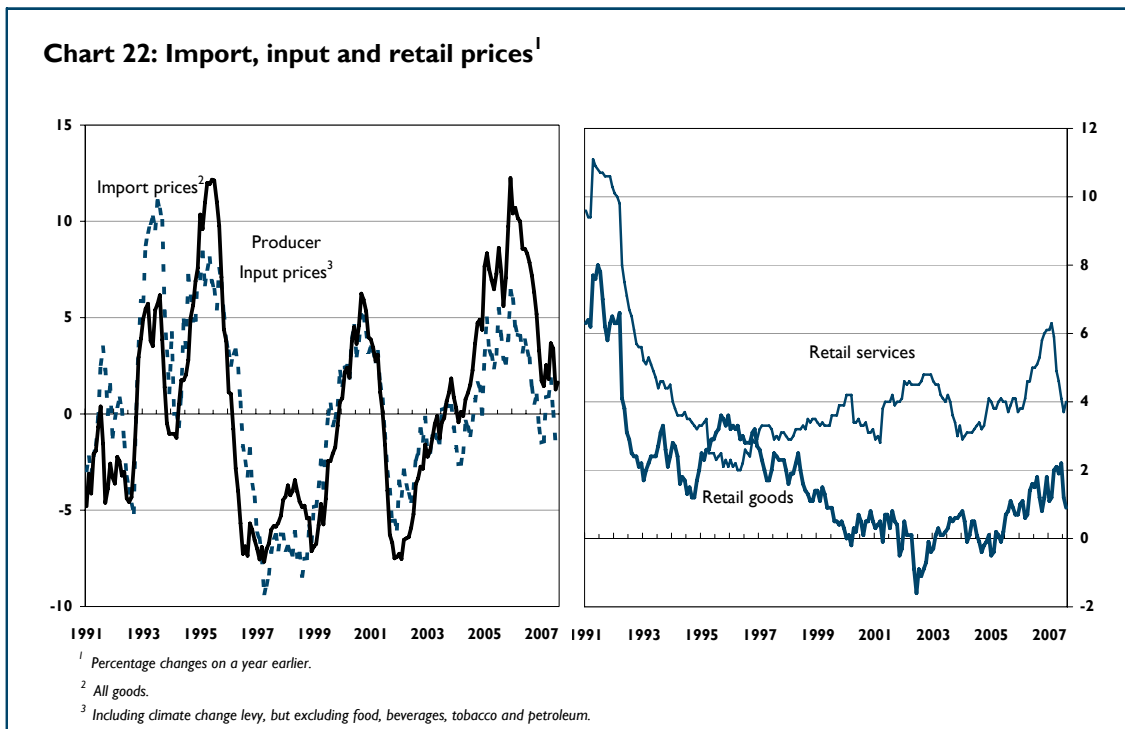


## FINANCIAL DEVELOPMENTS





## INFLATION



**Table 8a: Consumer and producer output prices**

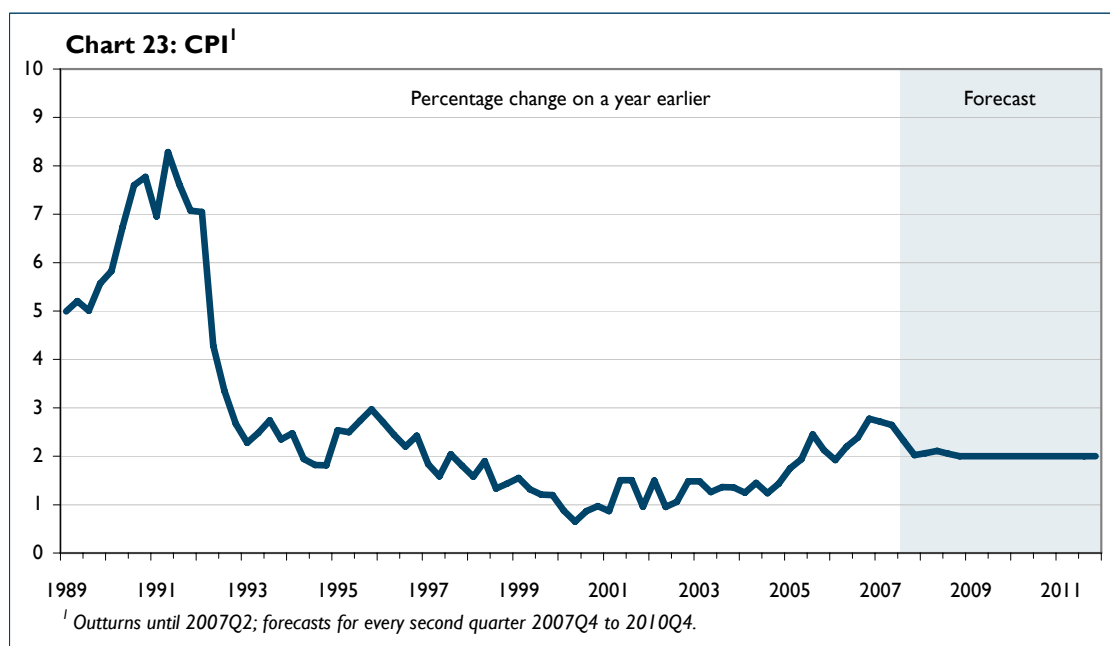
	Percentage change on a year earlier									
	2006		2007		2008		2009		2010	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
CPI	2¼	2¾	2¾	2	2	2	2	2	2	2
Producer output prices <sup>1</sup>	3¼	2	2¼	3	2½	2	2	2	2	2

<sup>1</sup> Excludes excise duties.

**Table 8b: Consumers' expenditure deflator**

	Percentage change on a year earlier, unless otherwise stated					
	2006		2007	2008	2009	2010
	Level					
CED <sup>2</sup>	107¾	2¼	2¾	2¾	2¾	2¾

<sup>2</sup> Consumers' expenditure deflator, Q4.



## COMPARISON WITH INDEPENDENT FORECASTS

**Table 9: Pre-Budget report and independent<sup>1</sup> forecasts**

	Percentage change on a year earlier, unless otherwise stated					
	2007			2008		
	October PBR	Independent		October PBR	Independent	
	Average	Range		Average	Range	
GDP growth	3	2.9	2.5 to 3.1	2 to 2½	2.0	-0.3 to 2.8
CPI (Q4)	2	2.0	1.7 to 2.4	2	2.0	1.5 to 2.5
Current account (£ billion)	-41	-43.5	-53.2 to -35.0	-41	-45.9	-59.3 to -32.0

<sup>1</sup> 'Forecasts for the UK economy: A comparison of independent forecasts', October 2007.

## COMPARISON WITH BUDGET 2007 FORECAST

**Table 10: Comparison with Budget 2007 forecast**

		Percentage change on a year earlier, unless otherwise stated	
		March 2007 Budget	October 2007 PBR
Gross domestic product	2007	2¾ to 3¼	3
	2008	2½ to 3	2 to 2½
	2009	2½ to 3	2½ to 3
CPI inflation (per cent, Q4)	2007	2	2
	2008	2	2
	2009	2	2
Current account (£ billion)	2007	-37	-41
	2008	-39¼	-41
	2009	-42¾	-42½

## SUMMARY TABLES

Table 11: Summary of economic prospects<sup>1</sup>

	Percentage change on a year earlier, unless otherwise stated					Average errors from past forecasts <sup>6</sup>
	2006	Forecast <sup>2, 3, 4</sup>				
		2007	2008	2009	2010	2008
<b>Output at constant market prices</b>						
Gross domestic product (GDP)	2¾	3	2 to 2½	2½ to 3	2½ to 3	¾
Manufacturing output	1¼	1	1½ to 2	1¾ to 2¼	1¾ to 2¼	1½
<b>Expenditure components of GDP at constant market prices<sup>6</sup></b>						
Domestic demand	3	3¼	2 to 2½	2½ to 3	2¼ to 2¾	¾
Household consumption <sup>7</sup>	2	3	1¾ to 2¼	2¼ to 2¾	2¼ to 2¾	1
General government consumption	2	2½	2½	2	2	1
Fixed investment	8¼	5¾	3¼ to 3¾	3¼ to 3¾	3¼ to 3¾	2¾
Change in inventories <sup>8</sup>	-¼	0	-¼ to 0	0 to ¼	0	¼
Exports of goods and services <sup>9</sup>	10¼	-3¼	4½ to 5	4¾ to 5¼	4¾ to 5¼	2¼
Imports of goods and services <sup>9</sup>	9¾	-2	3¾ to 4¼	4 to 4½	4 to 4½	3
Exports of goods and services (excluding MTIC)	7	3¼	4½ to 5	4¾ to 5¼	4¾ to 5¼	-
Imports of goods and services (excluding MTIC)	6¾	3¾	3¾ to 4¼	4 to 4½	4 to 4½	-
<b>Balance of payments current account</b>						
£ billion	-42	-41	-41	-42½	-44¼	10¾
per cent of GDP	-3¼	-3	-2¾	-2¾	-2¾	¾
<b>Inflation</b>						
CPI (Q4)	2¾	2	2	2	2	-
Producer output prices (Q4) <sup>10</sup>	2	3	2	2	2	1
GDP deflator at market prices	2½	3¼	2¾	2¾	2¾	½
<b>Money GDP at market prices</b>						
£ billion	1302	1386	1453 to 1461	1530 to 1546	1609 to 1634	11
percentage change	5½	6½	5 to 5½	5¼ to 5¾	5¼ to 5¾	¾

<sup>1</sup> The UK forecast is consistent with National Accounts data to the second quarter of 2007 released by the Office for National Statistics (ONS) on 26 September 2007.

<sup>2</sup> All growth rates in tables throughout this document are rounded to the nearest ¼ percentage point.

<sup>3</sup> 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 the trend rate of output growth of 2¾ per cent. 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 ¼ percentage point below the neutral assumption.

<sup>4</sup> 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.

<sup>5</sup> 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 percent of GDP, with £ billion figures calculated by scaling the errors by forecast money GDP in 2008.

<sup>6</sup> Further detail on the expenditure components of GDP is given in Table 12.

<sup>7</sup> Includes households and non-profit institutions serving households.

<sup>8</sup> Contribution to GDP growth, percentage points.

<sup>9</sup> Figures up to and including 2007 are distorted by estimates of MTIC-related activity. Growth rates excluding MTIC are shown in subsequent lines of this table and in Table 6.

<sup>10</sup> Excluding excise duties.

Table 12: Gross domestic product and its components

	£ billion chained volume measures at market prices, seasonally adjusted									
	Household consumption <sup>1</sup>	General government consumption	Fixed investment	Change in inventories	Domestic dem <sup>2</sup>	Exports of goods and services <sup>3</sup>	Total final expenditure	Less imports of goods and services <sup>3</sup>	Plus statistical discrepancy <sup>4</sup>	GDP at market prices
<b>2006</b>	776.2	251.7	217.1	1.2	1246.3	357.1	1603.5	394.9	0.8	1209.4
<b>2007</b>	798.9	257.7	229.4	0.5	1287.1	345.8	1632.9	386.7	0.8	1246.9
<b>2008</b>	812.2 to 816.7	264.5	237.0 to 238.3	-1.7 to -0.2	1312.0 to 1319.2	361.1 to 363.1	1673.1 to 1682.3	401.3 to 403.5	0.8	1272.6 to 1279.6
<b>2009</b>	829.6 to 838.2	270.1	244.6 to 247.1	-0.9 to 1.9	1343.4 to 1357.4	378.0 to 382.0	1721.4 to 1739.4	417.5 to 421.9	0.8	1304.7 to 1318.3
<b>2010</b>	848.3 to 861.3	275.8	252.8 to 256.7	-1.8 to 2.4	1375.1 to 1396.2	396.0 to 402.0	1771.0 to 1798.2	434.6 to 441.3	0.8	1337.3 to 1357.8
<b>2006 1st half</b>	385.4	125.5	105.8	0.2	617.0	189.7	806.6	206.8	0.4	600.2
2nd half	390.8	126.3	111.3	1.0	629.4	167.4	796.8	188.0	0.4	609.2
<b>2007 1st half</b>	397.0	127.5	113.8	1.1	639.8	168.1	808.0	189.3	0.4	619.0
2nd half	401.9	130.3	115.6	-0.6	647.2	177.7	824.9	197.4	0.4	627.9
<b>2008 1st half</b>	404.5 to 406.2	131.8	117.3 to 117.8	-0.9 to -0.3	652.7 to 655.5	180.2 to 181.0	832.9 to 836.4	200.0 to 200.8	0.4	633.3 to 636.0
2nd half	407.7 to 410.5	132.7	119.7 to 120.5	-0.8 to 0.1	659.3 to 663.8	180.9 to 182.1	840.2 to 845.9	201.4 to 202.7	0.4	639.3 to 643.6
<b>2009 1st half</b>	412.4 to 416.2	134.3	121.5 to 122.7	-0.6 to 0.6	667.6 to 673.8	186.1 to 187.8	853.8 to 861.6	206.3 to 208.2	0.4	647.8 to 653.8
2nd half	417.2 to 422.1	135.8	123.1 to 124.5	-0.3 to 1.3	675.8 to 683.6	191.9 to 194.2	867.7 to 877.8	211.2 to 213.7	0.4	656.9 to 664.5
<b>2010 1st half</b>	421.8 to 427.8	137.1	125.2 to 127.0	-0.7 to 1.3	683.5 to 693.2	196.1 to 198.8	879.6 to 892.0	215.3 to 218.3	0.4	664.7 to 674.1
2nd half	426.4 to 433.5	138.6	127.6 to 129.7	-1.2 to 1.1	691.5 to 703.0	199.9 to 203.2	891.4 to 906.2	219.3 to 222.9	0.4	672.6 to 683.7
										Percentage changes on previous year <sup>5,6</sup>
<b>2006</b>	2	2	8½	-¼	3	10¼	4½	9¾	0	2¾
<b>2007</b>	3	2½	5¾	0	3¼	-3¼	1¾	-2	0	3
<b>2008</b>	1¾ to 2¼	2½	3¼ to 3¾	0	2 to 2½	4½ to 5	2½ to 3	3¾ to 4¼	0	2 to 2½
<b>2009</b>	2¼ to 2¾	2	3¼ to 3¾	0	2½ to 3	4¾ to 5¼	3 to 3½	4 to 4½	0	2½ to 3
<b>2010</b>	2¼ to 2¾	2	3¼ to 3¾	0	2¼ to 2¾	4¾ to 5¼	3 to 3½	4 to 4½	0	2½ to 3

<sup>1</sup> Includes households and non-profit institutions serving households.

<sup>2</sup> Also includes acquisitions less disposals of valuables.

<sup>3</sup> Figures up to and including 2007 are distorted by estimates of NITC-related activity.

<sup>4</sup> Expenditure adjustment.

<sup>5</sup> For change in inventories and the statistical discrepancy, changes are expressed as a percent of GDP.

<sup>6</sup> Growth ranges for GDP components do not necessarily sum to the ½ percentage point ranges for GDP growth because of the levels of public spending within the forecast ranges.

## THE WORLD ECONOMY

**Table 13: The world economy**

	Percentage change on a year earlier, unless otherwise stated				
	Forecast				
	2006	2007	2008	2009	2010
World GDP	5¼	5	5	4¾	4¾
Major 7 countries <sup>1</sup> :					
Real GDP	2¾	2	2	2½	2½
Consumer price inflation <sup>2</sup>	1¾	2½	2½	2½	2½
Euro area GDP	3	2½	2	2	2
World trade in goods and services	10	7¾	7¾	7¾	7¾
UK export markets <sup>3</sup>	9	7	6½	6¾	6¾

<sup>1</sup> G7: US, Japan, Germany, UK, France, Italy and Canada.

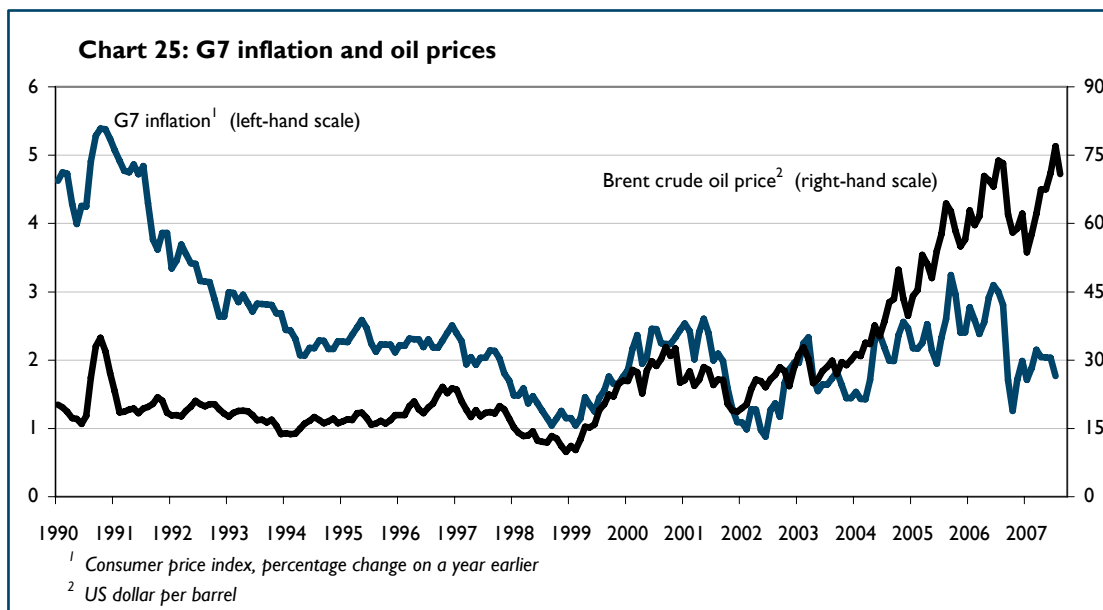
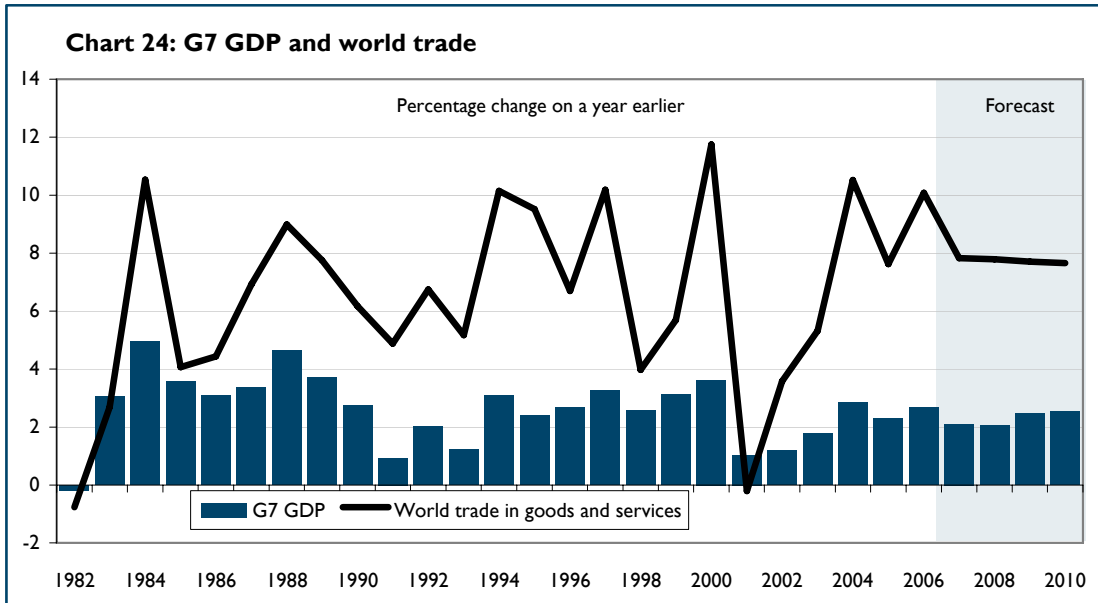
<sup>2</sup> Per cent, Q4.

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

**Table 14: Consensus forecasts for GDP growth in major economies<sup>1</sup>**

	Percentage change on a year earlier			
	March 2007		September 2007	
	2007	2008	2007	2008
USA	2.4	3.0	2.0	2.4
Euro-area	2.3	2.1	2.6	2.2
Japan	2.1	2.2	2.3	2.1

<sup>1</sup> 'Consensus forecasts', Consensus Economics Inc.



# 2

## THE PUBLIC FINANCES

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The Pre-Budget Report and Comprehensive Spending Review, published by HM Treasury on 9 October 2007, 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 August 2007 *Public sector finances First Release*, released jointly by the Office for National Statistics (ONS) and HM Treasury on 24 September 2007.

### INTRODUCTION

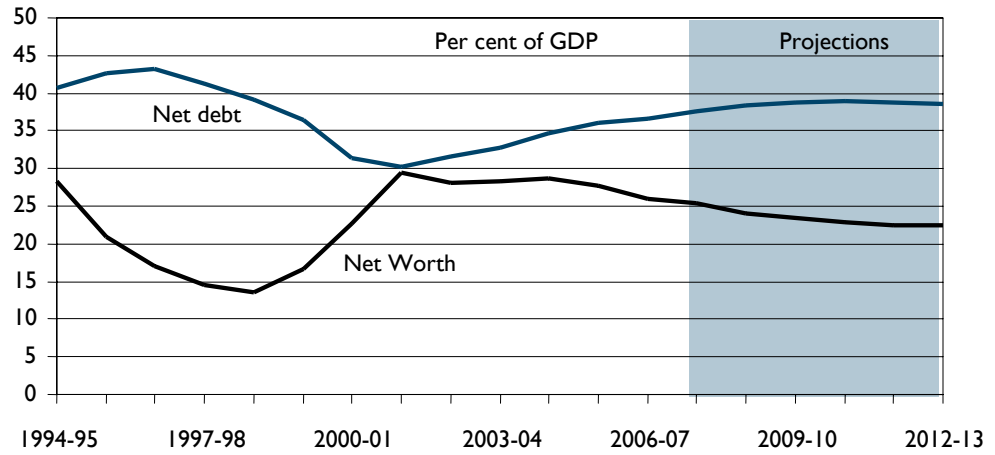
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**2.1** The 2007 Pre-Budget Report and Comprehensive Spending Review updates the projections of the public finances contained in Budget 2007, to take account of subsequent developments in both the public finances and the world and UK economies.

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

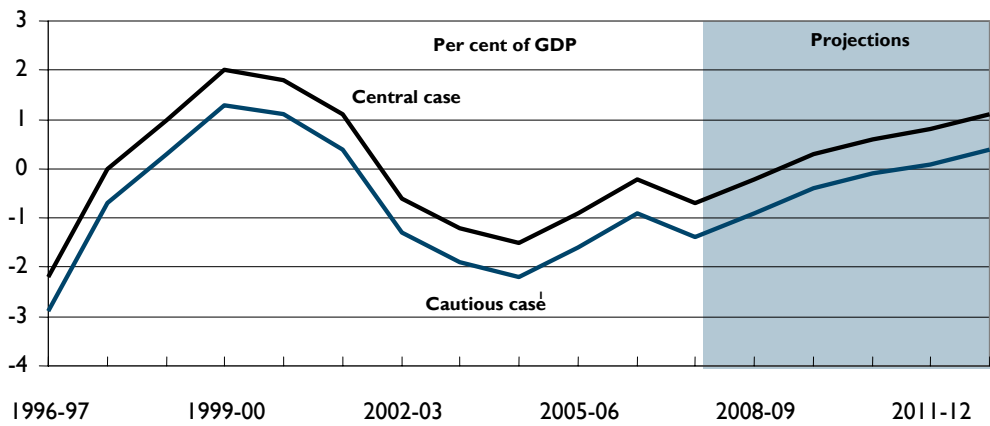
## MEETING THE FISCAL RULES

Chart 26: Public sector net debt and net worth



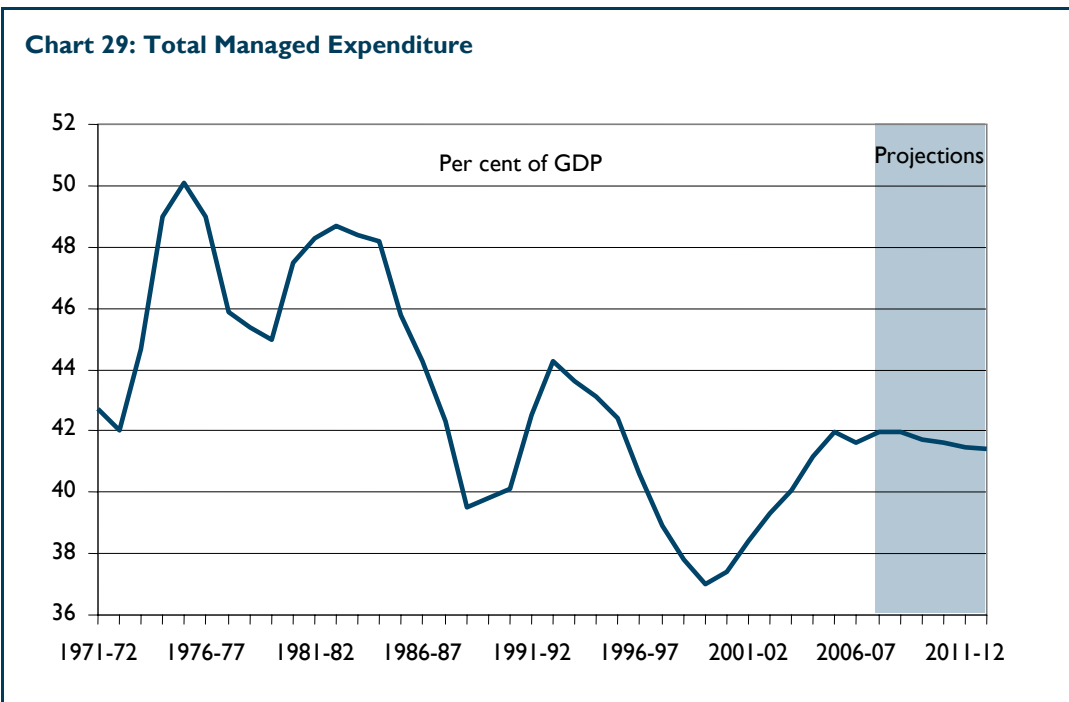
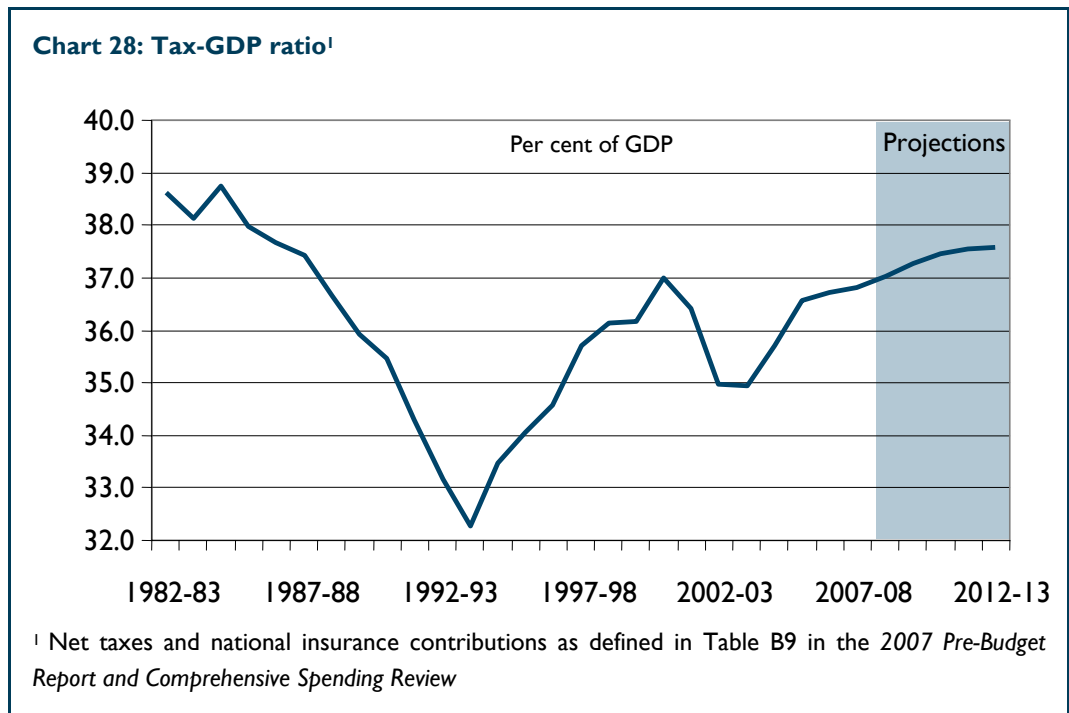
## Current projection for the cautious case

Chart 27: Cyclically adjusted surplus on current budget



<sup>1</sup> Cautious case assumes trend output 1 percentage point lower in relation to actual output than in the central case

**RECEIPTS AND EXPENDITURE AS A PERCENTAGE OF GDP**



## SUPPLEMENTARY DEL AND AME ANALYSIS

**Table 15: Accounting adjustments**

	£ billion				
	Outturn	Estimate	Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
VAT refunds	10.9	12.5	13.1	13.9	14.7
Central government non-trading capital consumption	6.1	7.0	7.3	7.7	8.1
Non-cash items in resource budgets and not in TME	-9.2	-10.1	-9.7	-10.4	-11.1
Expenditure financed by revenue receipts	0.5	0.5	0.5	0.6	0.6
Local authorities	3.5	4.8	5.5	6.2	7.0
General government consolidation	-4.8	-5.0	-5.5	-5.6	-5.7
Public corporations	0.7	0.7	0.7	0.5	0.5
Financial transactions	-0.2	-0.5	-0.3	-0.3	-0.3
Other accounting adjustments	-3.2	-1.1	0.2	0.1	-0.4
<b>Total accounting adjustments</b>	<b>4.3</b>	<b>8.8</b>	<b>11.7</b>	<b>12.8</b>	<b>13.5</b>

**Table 16: Loans and sales of assets**

	£ billion				
	Outturn	Estimate	Projections		
	2006-07	2007-08	2008-09	2009-10	2010-11
<b>Sales of fixed assets</b>					
Central government	1.6	2.2	1.4	1.2	1.0
Local authorities	2.2	2.2	2.2	2.2	2.2
Housing Revenue Account <sup>1</sup>	1.9	1.8	1.8	1.8	1.8
<b>Total sales of fixed assets</b>	<b>5.8</b>	<b>6.2</b>	<b>5.4</b>	<b>5.2</b>	<b>5.0</b>
<b>Loans and sales of financial assets<sup>2</sup></b>					
Sale of student loans portfolio <sup>3</sup>	0.0	0.0	3.4	1.3	1.6
Sale of shares in British Energy	0.0	2.3	0.0	0.0	0.0
Other loans and sales of financial assets	-0.6	-3.4	-3.3	-4.1	-4.3
<b>Total loans and sales of financial assets</b>	<b>-0.6</b>	<b>-1.1</b>	<b>0.0</b>	<b>-2.8</b>	<b>-2.7</b>
<b>Total loans and sales of assets</b>	<b>5.2</b>	<b>5.2</b>	<b>5.5</b>	<b>2.5</b>	<b>2.4</b>

<sup>1</sup> Capital transactions by local authorities' Housing Revenue Accounts are no longer classified to the local authority sub-sector and so are shown separately.

<sup>2</sup> As this table only covers general government it does not include the \$5.4 billion (£3.0 billion) sale by British Nuclear Fuels Limited (BNFL) of Westinghouse finalised in October 2006. However it does include the transfer of most of the proceeds to central government by special dividends (£1.8 billion in 2006-07 and £0.3 billion in 2007-08). The repayment of a £0.5 billion BNFL debenture in 2006-07 counted within on-lending to PCs. The remaining proceeds are expected to be transferred in 2008-09.

<sup>3</sup> The programme of sales will resume in 2008-09. The profile of actual sale proceeds will be dependent on market conditions.

## PRIVATE FINANCE INITIATIVE

**Table 17: Departmental estimate of capital spending by the private sector (signed deals)<sup>1,2,3</sup>**

	£ million	
	Projections	
	2007-08	2008-09
Defence	642	338
Business, Enterprise and Regulatory Reform	4	0
Children, Schools and Families	331	176
Communities and Local Government	195	155
Culture, Media and Sport	22	36
Environment, Food and Rural Affairs	250	261
Health	1,152	1,211
Home Office	27	12
Ministry of Justice	42	6
Northern Ireland Executive	176	130
Scottish Government	882	705
Transport	1,154	988
Welsh Assembly Government	24	18
Work and Pensions	55	55
<b>Total</b>	<b>4,956</b>	<b>4,092</b>

<sup>1</sup> Investment in assets scored on the public sector balance sheet also score as public sector net investment.

<sup>2</sup> PFI activity in local authority projects is included under the sponsoring government department.

<sup>3</sup> Figures do not include PFI projects undertaken by public corporations.

**Table 18: Estimated aggregated capital value of projects at preferred bidder stage<sup>1,2</sup>**

	£ million	
	Projections	
	2007-08	2008-09
Children, Schools and Families	312	386
Communities and Local Government	404	582
Culture, Media and Sport	30	112
Defence	0	400
Environment, Food and Rural Affairs	262	709
Health	344	2,361
Home Office	55	0
Ministry of Justice	0	189
Northern Ireland Executive	30	778
Scottish Government	382	0
Transport	3,221	867
<b>Total</b>	<b>5,039</b>	<b>6,384</b>

<sup>1</sup> Figures based on departmental returns.

<sup>2</sup> 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 19: Estimated payments under PFI contracts - September 2007 (signed deals)<sup>1</sup>**

£ million			
Projections			
2007-08	7,043	2020-21	6,686
2008-09	7,663	2021-22	6,335
2009-10	8,133	2022-23	6,430
2010-11	8,482	2023-24	6,381
2011-12	8,664	2024-25	6,399
2012-13	8,807	2025-26	6,166
2013-14	9,001	2026-27	5,981
2014-15	9,037	2027-28	5,869
2015-16	9,147	2028-29	5,530
2016-17	9,244	2029-30	5,242
2017-18	8,635	2030-31	4,617
2018-19	6,775	2031-32	3,990
2019-20	6,861	2032-33	3,621

<sup>1</sup> The figures between 2007-08 and 2017-18 include estimated payments for the LUL PPP PFI contract. These contracts contain periodic reviews every 7.5 years and therefore the service payments are not fixed after 2009-10.

**Table 20: Departmental allocation of PFI Credits<sup>1</sup>**

	£ billion		
	Allocations		
	2008-09	2009-10	2010-11
Children, Schools and Families	1,320	1,320	1,320
Communities and Local Government	710	610	610
Environment, Food and Rural Affairs	600	700	700
Health	130	130	130
Home Office	120	120	120
Transport	750	750	750
<b>Total</b>	<b>3,630</b>	<b>3,630</b>	<b>3,630</b>

<sup>1</sup> PFI Credits provide central government support for local authority PFI projects.

## ANALYSIS BY SUB-SECTOR AND ECONOMIC ACTIVITY

**Table 21: General government transactions by economic category**

	£ billion				
	Outturn 2006-07	Estimate 2007-08	2008-09	Projections 2009-10	2010-11
<b>Current receipts</b>					
Taxes on income and wealth	194.2	205.5	217.3	232.8	248.6
Taxes on production and imports	169.9	179.7	189.6	199.1	208.1
Other current taxes	30.3	31.9	33.6	35.4	37.3
Taxes on capital	3.6	3.9	3.3	3.3	3.3
Compulsory social contributions	90.9	95.8	101.7	108.2	114.3
Gross operating surplus	12.6	14.0	14.8	15.7	16.6
Rent and other current transfers	1.8	2.1	2.1	2.3	2.5
Interest and dividends from private sector and abroad	5.6	6.8	6.5	6.4	6.5
Interest and dividends from public sector	1.5	2.3	1.6	1.1	1.1
<b>Total current receipts</b>	<b>510.4</b>	<b>542.0</b>	<b>570.5</b>	<b>604.3</b>	<b>638.3</b>
<b>Current expenditure</b>					
Current expenditure on goods and services	287.1	306.3	320.7	335.5	352.4
Subsidies	8.7	9.3	10.0	10.4	10.1
Net social benefits	148.4	157.1	165.9	172.8	179.2
Net current grants abroad	-0.1	0.2	-0.5	-0.5	-0.1
Other current grants	34.0	37.0	38.7	40.3	42.1
Interest and dividends paid	28.1	30.7	29.8	31.8	33.5
AME margin	0.0	0.1	0.9	1.8	2.7
<b>Total current expenditure</b>	<b>506.1</b>	<b>540.7</b>	<b>565.6</b>	<b>592.1</b>	<b>619.9</b>
Depreciation	12.6	14.0	14.8	15.7	16.6
<b>Surplus on current budget</b>	<b>-8.4</b>	<b>-12.8</b>	<b>-9.8</b>	<b>-3.5</b>	<b>1.8</b>
<b>Capital expenditure</b>					
Gross domestic fixed capital formation	23.7	27.1	30.6	32.2	35.0
Less depreciation	-12.6	-14.0	-14.8	-15.7	-16.6
Increase in inventories	0.0	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	1.4	0.6	0.5	0.5	0.5
Capital grants to private sector	14.8	15.1	16.1	17.2	17.8
Capital grants from private sector	-1.4	-1.1	-1.2	-1.3	-1.1
AME margin	0.0	0.9	0.1	0.2	0.3
<b>Net investment</b>	<b>25.8</b>	<b>28.6</b>	<b>31.3</b>	<b>33.1</b>	<b>35.8</b>
<b>Net borrowing<sup>1</sup></b>	<b>34.2</b>	<b>41.4</b>	<b>41.1</b>	<b>36.6</b>	<b>34.0</b>
of which:					
Central government net borrowing	32.5	38.6	37.5	32.2	29.8
Local authority net borrowing	1.7	2.7	3.6	4.4	4.3
<b>Gross debt (Maastricht basis)</b>					
Central government	511.7	553.8	595.5	634.5	671.9
Local government	62.7	62.0	63.0	64.6	66.2

<sup>1</sup> Although 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 22: Public sector transactions by sub-sector and economic category**

	£ billion			
	2006-07			
	General government		Public corporations	Public sector
Central government	Local authorities			
<b>Current receipts</b>				
Taxes on income and wealth	194.2	0.0	-0.3	193.9
Taxes on production and imports	169.7	0.2	0.0	169.9
Other current taxes	8.9	21.4	0.0	30.3
Taxes on capital	3.6	0.0	0.0	3.6
Compulsory social contributions	90.9	0.0	0.0	90.9
Gross operating surplus	6.1	6.5	9.8	22.4
Rent and other current transfers	1.8	0.0	0.0	1.8
Interest and dividends from private sector and abroad	4.3	1.3	0.7	6.3
Interest and dividends from public sector	3.8	-2.3	-1.5	0.0
<b>Total current receipts</b>	<b>483.3</b>	<b>27.1</b>	<b>8.7</b>	<b>519.1</b>
<b>Current expenditure</b>				
Current expenditure on goods and services	174.6	112.5	0.0	287.1
Subsidies	5.2	3.5	0.0	8.7
Net social benefits	132.3	16.1	0.0	148.4
Net current grants abroad	0.1	-0.2	0.0	-0.1
Current grants (net) within public sector	109.2	-109.2	0.0	0.0
Other current grants	33.9	0.0	0.0	34.0
Interest and dividends paid	27.6	0.5	0.5	28.6
AME margin	0.0	0.0	0.0	0.0
<b>Total current expenditure</b>	<b>482.8</b>	<b>23.3</b>	<b>0.5</b>	<b>506.6</b>
Depreciation	6.1	6.5	4.6	17.2
<b>Surplus on current budget</b>	<b>-5.7</b>	<b>-2.7</b>	<b>3.6</b>	<b>-4.7</b>
<b>Capital expenditure</b>				
Gross domestic fixed capital formation	10.8	12.9	6.4	30.1
Less depreciation	-6.1	-6.5	-4.6	-17.2
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	9.1	-7.6	-1.4	0.0
Capital grants to private sector	13.7	1.1	0.0	14.8
Capital grants from private sector	-0.6	-0.8	0.0	-1.4
AME margin	0.0	0.0	0.0	0.0
<b>Net investment</b>	<b>26.8</b>	<b>-0.9</b>	<b>0.4</b>	<b>26.3</b>
<b>Net borrowing</b>	<b>32.5</b>	<b>1.7</b>	<b>-3.2</b>	<b>31.0</b>

**Table 22: Public sector transactions by sub-sector and economic category**

	£ billion			
	2007-08			
	General government		Public corporations	Public sector
Central government	Local authorities			
<b>Current receipts</b>				
Taxes on income and wealth	205.5	0.0	-0.2	205.3
Taxes on production and imports	179.4	0.2	0.0	179.7
Other current taxes	9.1	22.8	0.0	31.9
Taxes on capital	3.9	0.0	0.0	3.9
Compulsory social contributions	95.8	0.0	0.0	95.8
Gross operating surplus	7.0	7.1	10.8	24.9
Rent and other current transfers	2.1	0.0	0.0	2.1
Interest and dividends from private sector and abroad	5.3	1.4	0.9	7.6
Interest and dividends from public sector	4.3	-2.0	-2.3	0.0
<b>Total current receipts</b>	<b>512.4</b>	<b>29.5</b>	<b>9.2</b>	<b>551.2</b>
<b>Current expenditure</b>				
Current expenditure on goods and services	185.7	120.6	0.0	306.3
Subsidies	5.2	4.2	0.0	9.3
Net social benefits	140.0	17.1	0.0	157.1
Net current grants abroad	0.2	0.0	0.0	0.2
Current grants (net) within public sector	115.6	-115.6	0.0	0.0
Other current grants	36.9	0.0	0.0	37.0
Interest and dividends paid	30.0	0.7	0.4	31.2
AME margin	0.1	0.0	0.0	0.1
<b>Total current expenditure</b>	<b>513.7</b>	<b>27.0</b>	<b>0.4</b>	<b>541.2</b>
Depreciation	7.0	7.1	4.3	18.3
<b>Surplus on current budget</b>	<b>-8.3</b>	<b>-4.5</b>	<b>4.4</b>	<b>-8.3</b>
<b>Capital expenditure</b>				
Gross domestic fixed capital formation	12.2	14.9	6.0	33.1
Less depreciation	-7.0	-7.1	-4.3	-18.3
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	11.4	-10.8	-0.6	0.0
Capital grants to private sector	13.1	2.0	0.0	15.1
Capital grants from private sector	-0.3	-0.9	0.0	-1.1
AME margin	0.9	0.0	0.0	0.9
<b>Net investment</b>	<b>30.4</b>	<b>-1.8</b>	<b>1.1</b>	<b>29.7</b>
<b>Net borrowing</b>	<b>38.6</b>	<b>2.7</b>	<b>-3.3</b>	<b>38.0</b>

## HISTORICAL PUBLIC FINANCES

**Table 23: Historical series of public sector balances, receipts and debt**

	Per cent of GDP								
	Public sector current budget	Cyclically adjusted surplus on current budget	Public sector net borrowing	Cyclically adjusted public sector net borrowing	Public sector net cash requirement	Net taxes and national insurance contributions	Public sector current receipts	Public sector net debt <sup>1</sup>	Public sector net worth <sup>2</sup>
1970-71	6.9		-0.6		1.2	36.4	43.4		
1971-72	4.2		1.1		1.4	35.1	41.6		
1972-73	2.0		2.8		3.6	32.7	39.2		
1973-74	0.4	-0.5	4.9	5.8	5.8	32.1	39.8		
1974-75	-0.9	-2.5	6.6	8.1	8.9	34.8	42.4	52.1	
1975-76	-1.4	-1.6	7.0	7.2	9.2	35.5	43.0	53.8	
1976-77	-1.1	-0.6	5.5	5.1	6.3	35.4	43.4	52.3	
1977-78	-1.3	-1.2	4.3	4.2	3.7	34.4	41.7	49.0	
1978-79	-2.5	-2.3	5.1	4.9	5.2	33.4	40.4	47.1	
1979-80	-1.8	-1.7	4.1	4.0	4.7	33.8	40.9	43.9	
1980-81	-3.0	-1.5	4.9	3.4	5.2	35.8	42.6	46.0	
1981-82	-1.3	2.5	2.3	-1.5	3.3	38.5	46.0	46.2	
1982-83	-1.4	2.9	3.0	-1.3	3.2	38.6	45.7	44.8	
1983-84	-1.9	1.8	3.8	0.1	3.2	38.1	44.6	45.1	
1984-85	-2.1	0.9	3.7	0.7	3.1	38.7	44.5	45.3	
1985-86	-1.2	0.6	2.4	0.6	1.6	38.0	43.4	43.5	
1986-87	-1.4	-1.2	2.1	1.9	0.9	37.7	42.2	41.0	
1987-88	-0.4	-1.7	1.0	2.3	-0.7	37.4	41.3	36.8	73.5
1988-89	1.7	-1.0	-1.3	1.3	-3.0	36.7	40.8	30.5	78.6
1989-90	1.4	-1.4	-0.2	2.6	-1.3	35.9	40.0	27.7	70.5
1990-91	0.3	-1.2	1.0	2.6	-0.1	35.5	39.1	26.2	59.9
1991-92	-2.0	-1.5	3.8	3.3	2.3	34.3	38.7	27.4	52.5
1992-93	-5.7	-3.7	7.5	5.6	5.9	33.2	36.7	31.9	39.8
1993-94	-6.3	-4.1	7.8	5.5	7.0	32.3	35.8	37.0	29.1
1994-95	-4.8	-3.4	6.2	4.8	5.3	33.5	36.9	40.7	28.3
1995-96	-3.3	-2.5	4.7	3.8	4.3	34.0	37.7	42.6	21.0
1996-97	-2.8	-2.2	3.5	2.9	2.9	34.6	37.1	43.3	17.1
1997-98	-0.1	0.0	0.7	0.6	0.2	35.7	38.1	41.3	14.5
1998-99	1.2	1.0	-0.4	-0.3	-0.7	36.1	38.3	39.2	13.6
1999-00	2.3	2.0	-1.7	-1.4	-0.9	36.2	38.7	36.4	16.7
2000-01	2.4	1.8	-1.9	-1.3	-3.7	37.0	39.4	31.4	22.7
2001-02	1.2	1.1	-0.1	0.1	0.4	36.4	38.4	30.3	29.5
2002-03	-1.0	-0.6	2.3	1.9	2.3	35.0	37.0	31.5	28.1
2003-04	-1.5	-1.2	2.9	2.6	3.5	34.9	37.2	32.8	28.4
2004-05	-1.6	-1.5	3.3	3.2	3.2	35.7	37.9	34.7	28.7
2005-06	-1.1	-0.9	3.0	2.8	3.2	36.6	39.0	36.1	27.7
2006-07	-0.4	-0.2	2.3	2.2	2.7	36.7	39.2	36.7	26.0

<sup>1</sup> At end-March; GDP centred on end-March.

<sup>2</sup> At end-December; GDP centred on end-December.

Table 24: Historical series of government expenditure

	£ billion (2006-07 prices)				Per cent of GDP			
	Public sector current expenditure	Public sector net investment	Public sector gross investment <sup>1</sup>	Total Managed Expenditure	Public sector current expenditure	Public sector net investment	Public sector gross investment <sup>1</sup>	Total Managed Expenditure
1970-71	186.0	35.4	56.8	242.7	32.8	6.3	10.0	42.8
1971-72	195.0	30.9	53.3	248.3	33.5	5.3	9.2	42.7
1972-73	203.6	29.8	53.2	256.8	33.3	4.9	8.7	42.0
1973-74	223.5	33.4	59.6	283.1	35.3	5.3	9.4	44.7
1974-75	246.9	35.9	63.6	310.5	39.0	5.7	10.0	49.0
1975-76	252.5	35.3	63.1	315.5	40.1	5.6	10.0	50.1
1976-77	259.1	28.9	57.7	316.8	40.1	4.5	8.9	49.0
1977-78	255.5	19.8	48.8	304.3	38.6	3.0	7.4	45.9
1978-79	263.0	17.2	46.9	309.8	38.6	2.5	6.9	45.4
1979-80	269.4	16.0	46.1	315.6	38.4	2.3	6.6	45.0
1980-81	277.7	12.9	43.5	321.2	41.0	1.9	6.4	47.5
1981-82	290.0	6.9	37.3	327.3	42.8	1.0	5.5	48.3
1982-83	296.4	10.9	40.4	336.8	42.8	1.6	5.8	48.7
1983-84	305.7	13.3	42.6	348.3	42.5	1.8	5.9	48.4
1984-85	313.8	11.7	39.6	353.4	42.8	1.6	5.4	48.2
1985-86	314.5	9.1	34.7	349.2	41.2	1.2	4.6	45.8
1986-87	319.4	5.5	31.3	350.7	40.4	0.7	4.0	44.3
1987-88	323.0	4.9	29.3	352.3	38.8	0.6	3.5	42.3
1988-89	315.3	3.0	27.3	342.7	36.4	0.3	3.2	39.5
1989-90	317.2	11.1	35.1	352.2	35.8	1.3	4.0	39.8
1990-91	319.6	12.1	34.0	353.6	36.2	1.4	3.9	40.1
1991-92	338.2	15.8	34.2	372.4	38.6	1.8	3.9	42.5
1992-93	354.6	16.4	34.4	389.1	40.3	1.9	3.9	44.3
1993-94	365.2	13.0	30.9	396.1	40.2	1.4	3.4	43.6
1994-95	376.5	13.3	31.2	407.7	39.8	1.4	3.3	43.1
1995-96	381.0	13.4	30.7	411.8	39.2	1.4	3.2	42.4
1996-97	381.2	7.0	22.8	404.0	38.3	0.7	2.3	40.6
1997-98	379.3	6.3	21.4	400.7	36.8	0.6	2.1	38.9
1998-99	379.3	7.8	22.4	401.7	35.7	0.7	2.1	37.8
1999-00	386.2	6.7	21.3	407.5	35.1	0.6	1.9	37.0
2000-01	405.5	5.8	20.5	426.1	35.6	0.5	1.8	37.4
2001-02	416.5	13.5	28.4	444.9	35.9	1.2	2.5	38.4
2002-03	436.4	15.2	30.7	467.1	36.7	1.3	2.6	39.3
2003-04	458.6	16.7	32.4	491.1	37.4	1.4	2.6	40.1
2004-05	479.0	21.5	37.5	516.5	38.2	1.7	3.0	41.2
2005-06	498.0	24.1	40.8	538.7	38.8	1.9	3.2	42.0
2006-07	506.6	26.3	43.5	550.1	38.3	2.0	3.3	41.6

<sup>1</sup> Net of sales of fixed assets.









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