

# **2008 Pre-Budget Report:** the economy and public finances – supplementary material

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November 2008



HM TREASURY





HM TREASURY

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2008 Pre-Budget Report:  
the economy and public finances –  
supplementary material

November 2008

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# 1

## The economy

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The 2008 Pre-Budget Report, published by HM Treasury on 24 November 2008, 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 2008, released by the Office for National Statistics (ONS) on 30 September 2008, and the third quarter GDP Preliminary estimate, released on 24 October 2008.

### 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 trend output projection. This neutral 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. For the 2008 Pre-Budget Report, to take account of the likely negative effect of the credit shock on trend output, a phased reduction to the trend level of output has been assumed over the two years from mid-2007. 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  $\frac{1}{4}$  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.

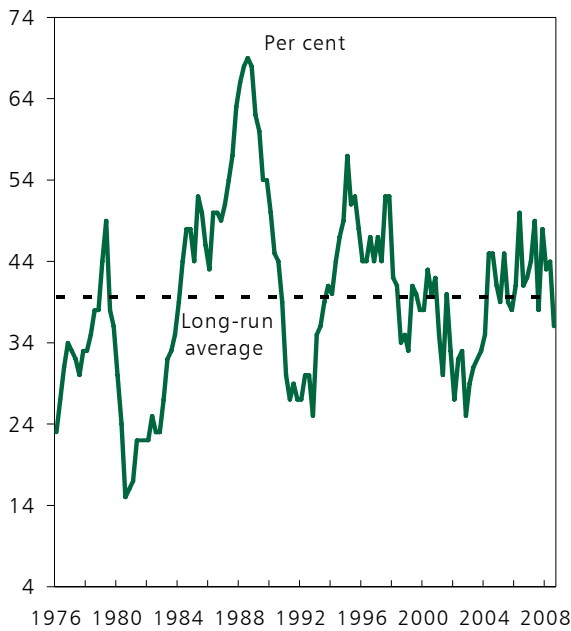
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<sup>1</sup> *Trend growth: recent developments and prospects*, HM Treasury, April 2002.

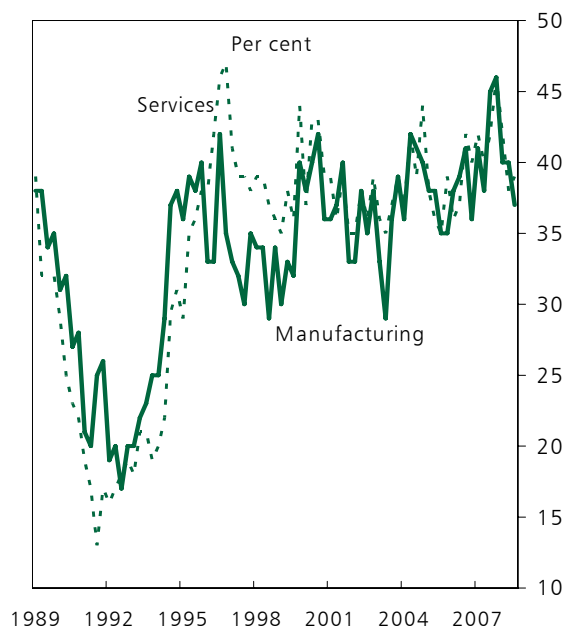
<sup>2</sup> *Trend growth: new evidence and prospects*, HM Treasury, December 2006.

# THE DEGREE OF SPARE CAPACITY

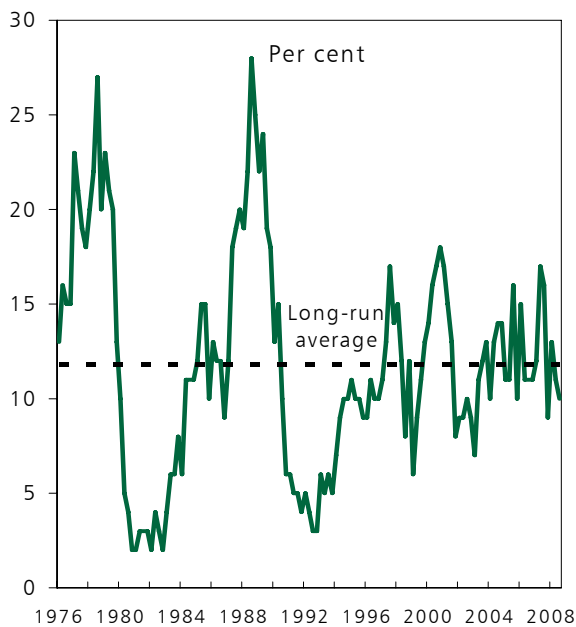
**Chart 1.1A: CBI capacity utilisation in manufacturing**



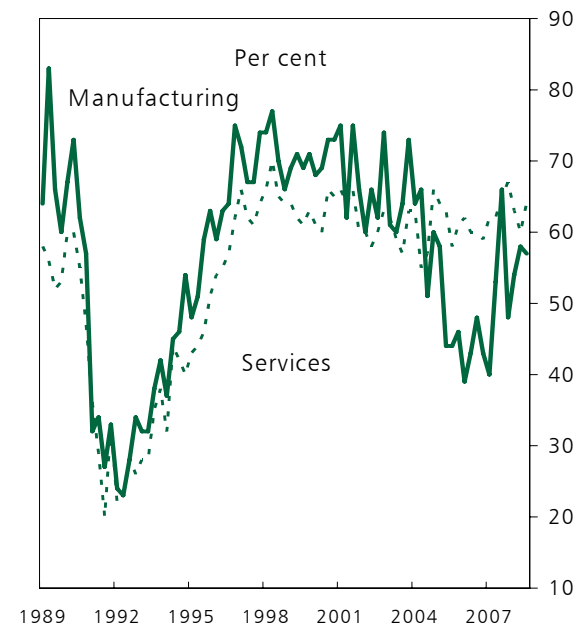
**Chart 1.1B: BCC survey of capacity utilisation**



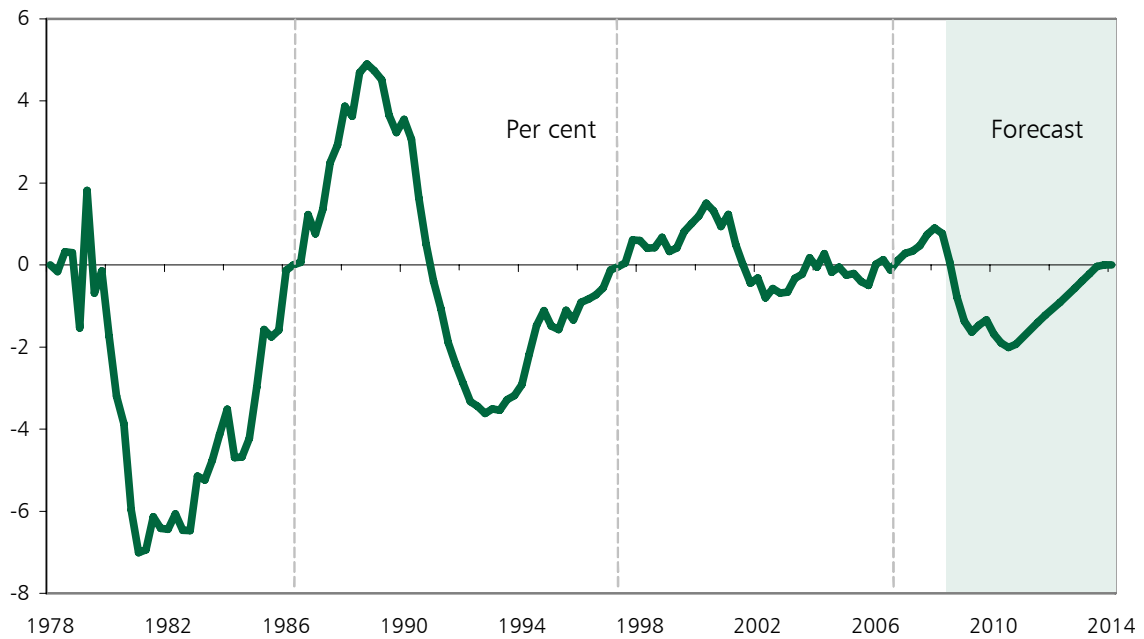
**Chart 1.2A: CBI survey of skilled labour shortages in manufacturing**



**Chart 1.2B: BCC survey of recruitment difficulties**



**Chart 1.3: The output gap**



<sup>1</sup> Actual output less trend output as a percent of trend output (non-oil basis). From 2008Q3 until the output gap is forecast to close in 2013Q4, the figures presented in this chart are 0.1, -0.8, -1.4, -1.6, -1.5, -1.3, -1.7, -1.9, -2.0, -1.9, -1.8, -1.6, -1.4, -1.2, -1.1, -0.9, -0.7, -0.6, -0.4, -0.2, 0.0, 0.0.

<sup>2</sup> Vertical lines indicate start and end cycle points as identified by HM Treasury.

**Table 1.1: Contributions to trend growth<sup>1,2</sup>**

	Estimated trend rates of growth, per cent per annum					
	Trend output per hour worked <sup>3,4</sup>		Trend average hours worked <sup>4</sup>	Trend employment rate <sup>4</sup>	Population <sup>5</sup>	Trend output
	Underlying (1)	Unadjusted (2)	(3)	(4)	(5)	(6)
<b>1986Q2 to 1997H1</b>						
Budget 2008	2.12	1.93	-0.11	0.37	0.26	<b>2.46</b>
Latest data	2.13	1.95	-0.11	0.36	0.26	<b>2.47</b>
<b>Over the recent past</b>						
<b>1997H1 to 2001Q3</b>						
Budget 2008	2.86	2.61	-0.45	0.49	0.51	<b>3.17</b>
Latest data	3.12	2.87	-0.46	0.50	0.52	<b>3.45</b>
<b>2001Q3 to 2006H2</b>						
Budget 2008	2.26	2.21	-0.31	0.09	0.75	<b>2.76</b>
Latest data	2.12	2.07	-0.26	0.11	0.75	<b>2.68</b>
<b>Projection<sup>6</sup></b>						
<b>2006H2 onwards</b>						
Budget 2008	2.25	2.30	-0.25	-0.1	0.8	<b>2¾</b>
PBR 2008 <sup>7</sup>	2.25	2.30	-0.25	-0.1	0.8	<b>2¾</b>
<i>2008 PBR level effect from</i>						
<i>2007Q3 to 2009Q3<sup>8</sup></i>	<i>-4</i>	<i>-4</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>-4</i>

<sup>1</sup> 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.

<sup>2</sup> Interim projections between Budget 2002 and PBR 2007 were provided in an expanded table in 'Budget 2008: the economy and public finances - supplementary material'.

<sup>3</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>4</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.

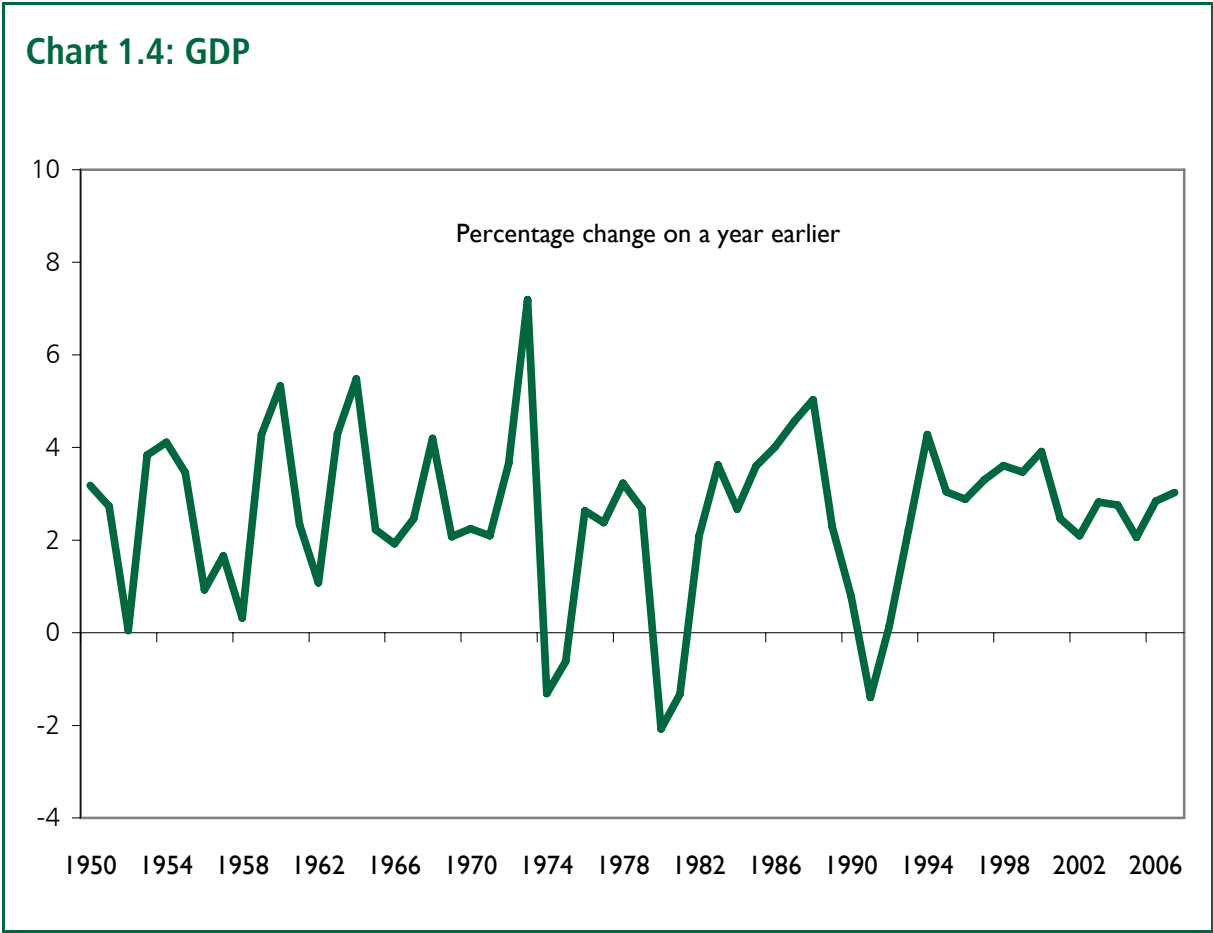
<sup>5</sup> UK resident household basis. Population aged 16 and over.

<sup>6</sup> Neutral case assumptions for trend from 2006H2.

<sup>7</sup> Underlying trend assumptions around which the mid-points of the GDP forecast growth ranges from 2006H2 are anchored.

<sup>8</sup> Adjustment reflecting a phased reduction to the level of trend output of around 4 per cent between mid-2007 and mid-2009.

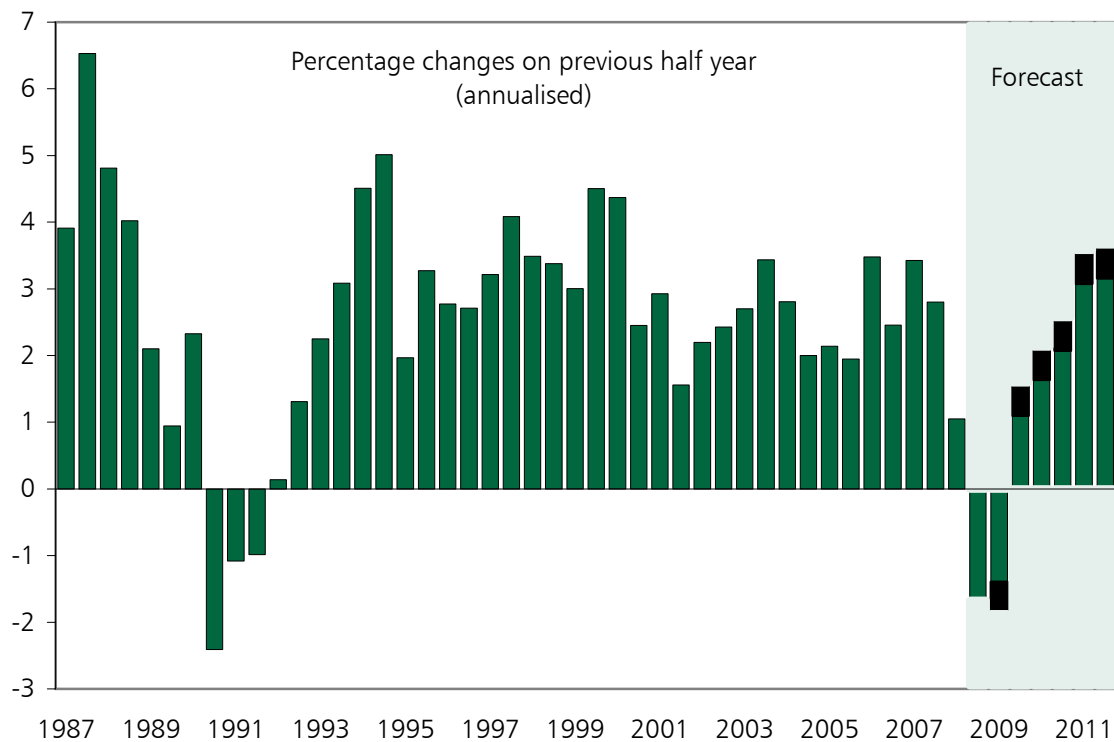
# Gross domestic product (GDP)



**Table 1.2: Quarterly GDP and non-oil GVA growth**

	Percentage change on previous quarter						
	2007				2008		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
GDP	0.9	0.8	0.8	0.5	0.3	0.0	-0.5
Non-oil GVA	0.8	0.7	0.8	0.5	0.3	0.0	-0.5

**Chart 1.5: GDP forecast <sup>1</sup>**



<sup>1</sup> Darker areas on bars represent forecast ranges.

**Table 1.3: Contributions<sup>1</sup> to GDP growth<sup>2</sup>**

	Percentage points, unless otherwise stated					
	Average 2000 to 2006	2007	Forecast			
			2008	2009	2010	2011
<b>GDP growth, per cent</b>	2¾	3	¾	-1¼ to -¾	1½ to 2	2¾ to 3¼
<b>Main contributions</b>						
Private consumption	2	2	1	-¾	1	1¾
Business investment	¼	1	0	-1	¼	¾
Dwellings investment <sup>3</sup>	¼	¼	-¼	-½	0	¼
Government <sup>4</sup>	¾	½	¾	¾	¼	0
Change in inventories	0	¼	0	-¼	0	0
Net trade	-¼	-¾	0	¾	¼	¼

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

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

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

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

## The household sector

**Table 1.4: Household sector<sup>1</sup> expenditure and income**

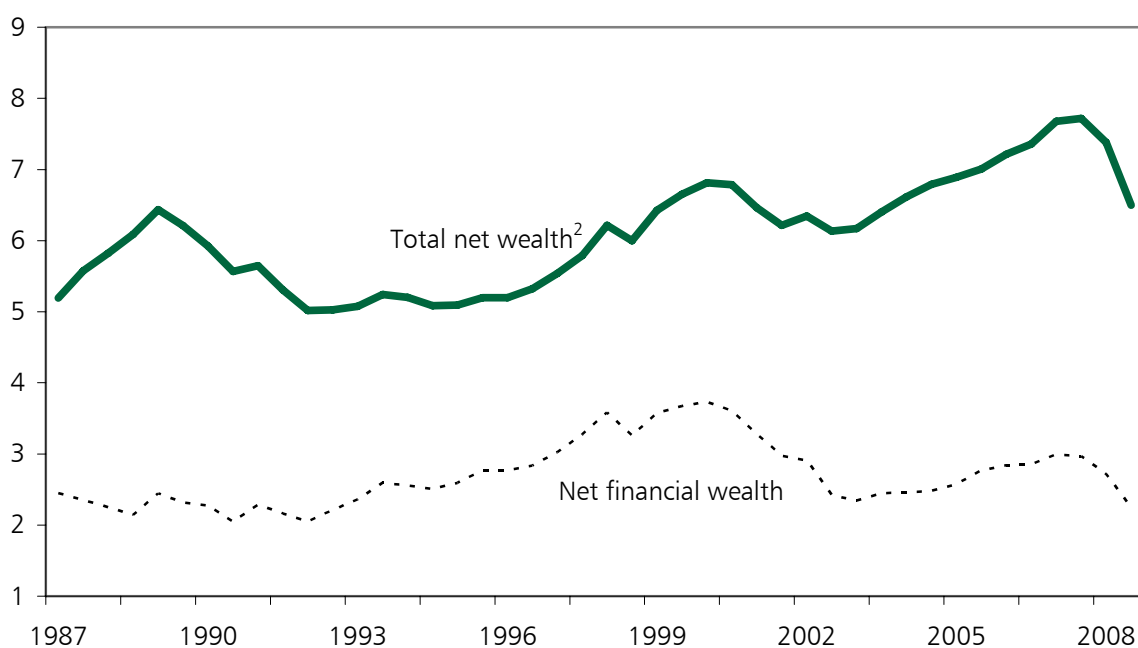
	Percentage change on a year earlier, unless otherwise stated					
	Average		Forecast			
	2000 to 2006	2007	2008	2009	2010	2011
Household consumption <sup>2</sup>	3	3	1½	-1½ to -1	1¼ to 1¾	2¼ to 2¾
Real household disposable income	2¾	0	-¼	½ to 1	1 to 1½	2¾ to 3¼
Saving ratio <sup>3</sup> (level, per cent)	4¾	2½	¾	2¾	3	3½

<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 change in their net equity in their pension funds.

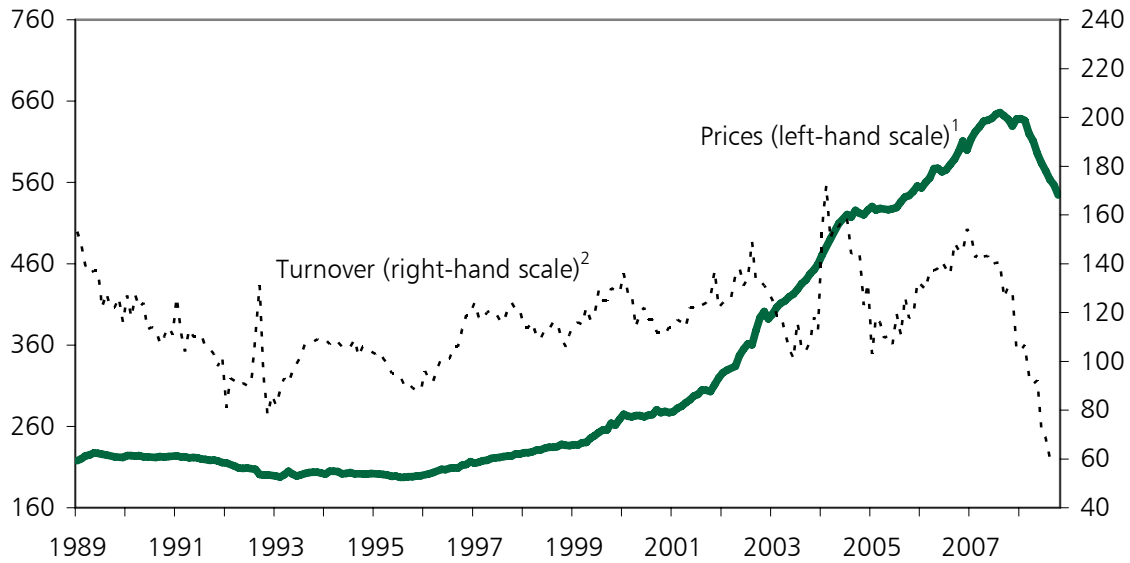
**Chart 1.6: Household sector wealth to income ratios<sup>1</sup>**



<sup>1</sup> Semi-annual.

<sup>2</sup> Includes tangible (mainly housing) wealth. 2008 is part forecast.

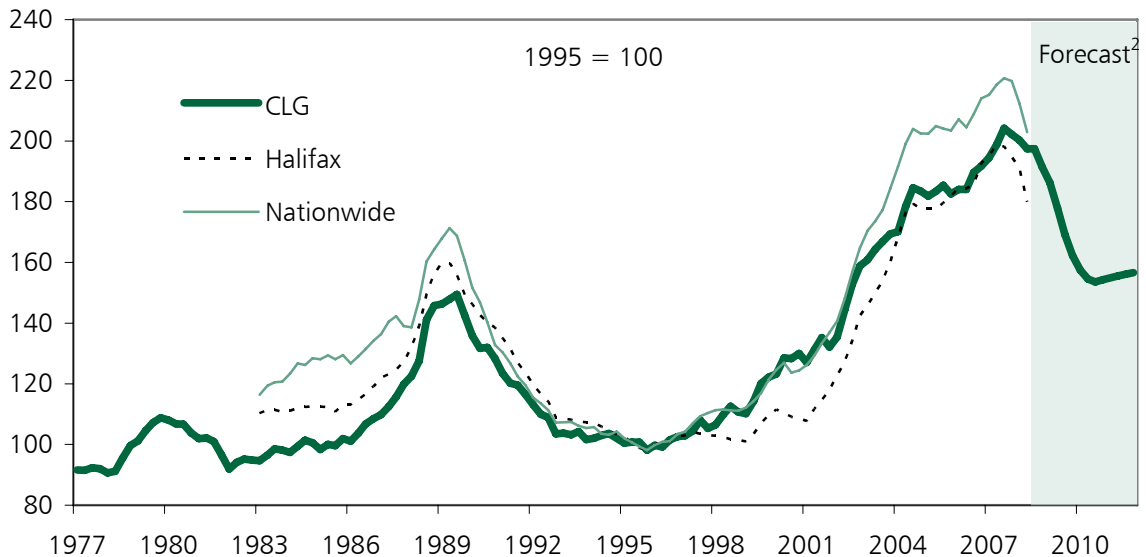
**Chart 1.7: Monthly housing turnover and prices**



<sup>1</sup> Halifax index, 1983 = 100.

<sup>2</sup> 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 over £40,000.

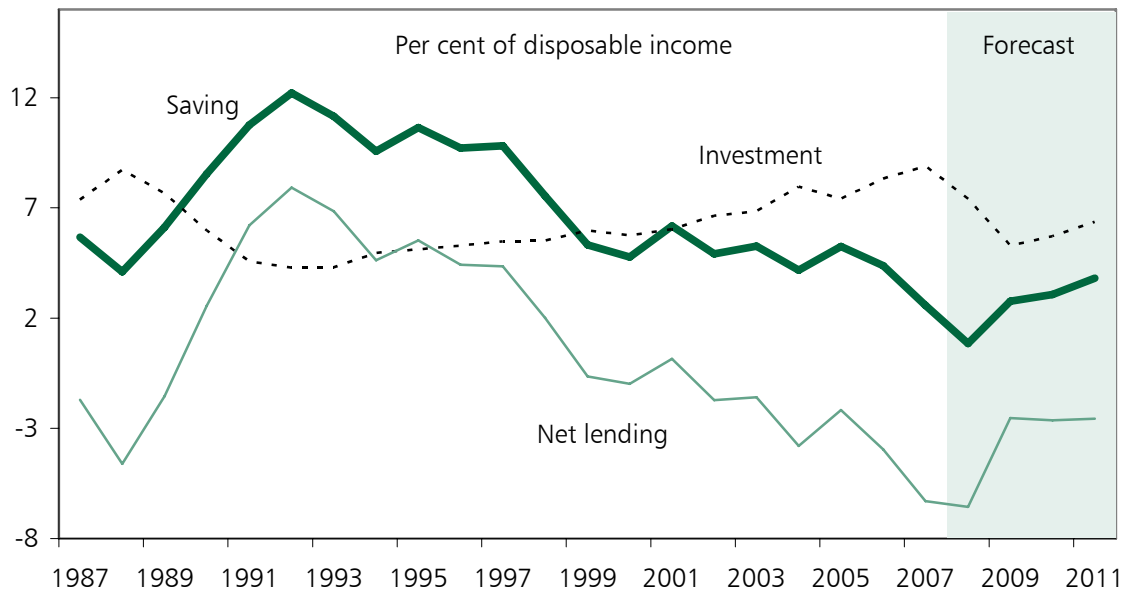
**Chart 1.8: House price-earnings ratio<sup>1</sup>**



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

<sup>2</sup> Consistent with forecasts for house price inflation as discussed in paragraph A.86 of the 2008 Pre-Budget Report, and in particular the average of independent forecasts to late 2009.

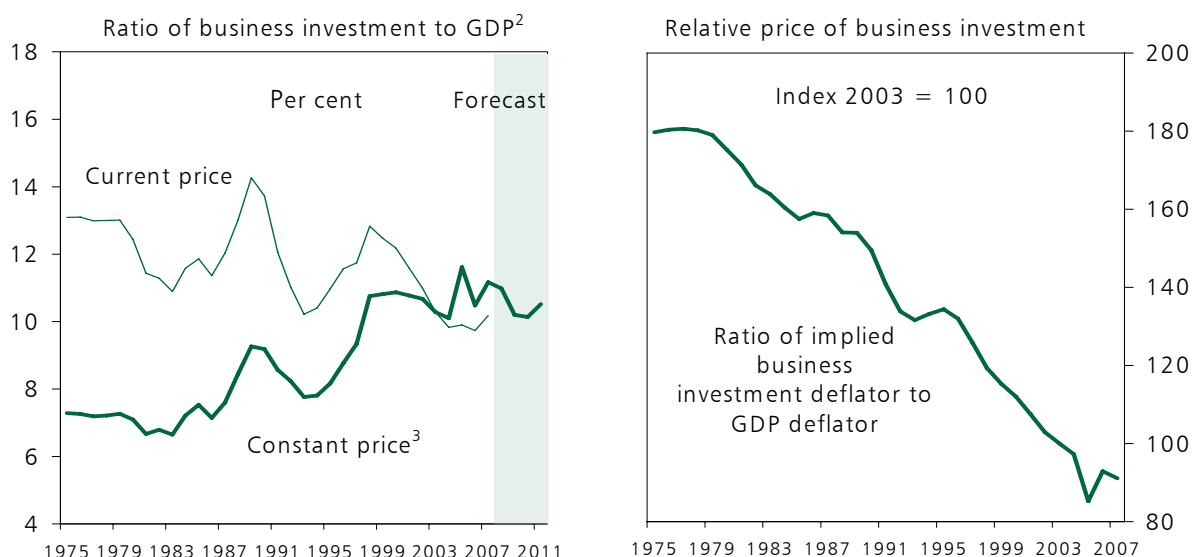
**Chart 1.9: Household sector<sup>1</sup> net lending**



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

## Investment

**Chart 1.10: Business investment<sup>1</sup>**



<sup>1</sup> Includes investment by public corporations and investment under the Private Finance Initiative.  
<sup>2</sup> Excludes exceptional transfer of BNFL liabilities to central government in 2005Q2.  
<sup>3</sup> Ratio of business investment to GDP in chained volume measures.

**Table 1.5: Gross fixed capital formation**

	Average 2000 to 2006	Percentage change on a year earlier				
		2007	Forecast			
			2008	2009	2010	2011
Whole economy <sup>1</sup>	3¼	7	-4½	-8¼ to -7¾	2¼ to 2¾	6½ to 7
<i>of which:</i>						
Business <sup>2,3</sup>	2¼	9¾	-1	-8¼ to -7¾	1 to 1½	6¾ to 7¼
Private dwellings <sup>3</sup>	4½	5	-9½	-11½ to -11	-1½ to -1	4¾ to 5¼
General government <sup>3</sup>	5	-½	9¾	10	-4¼	-2½

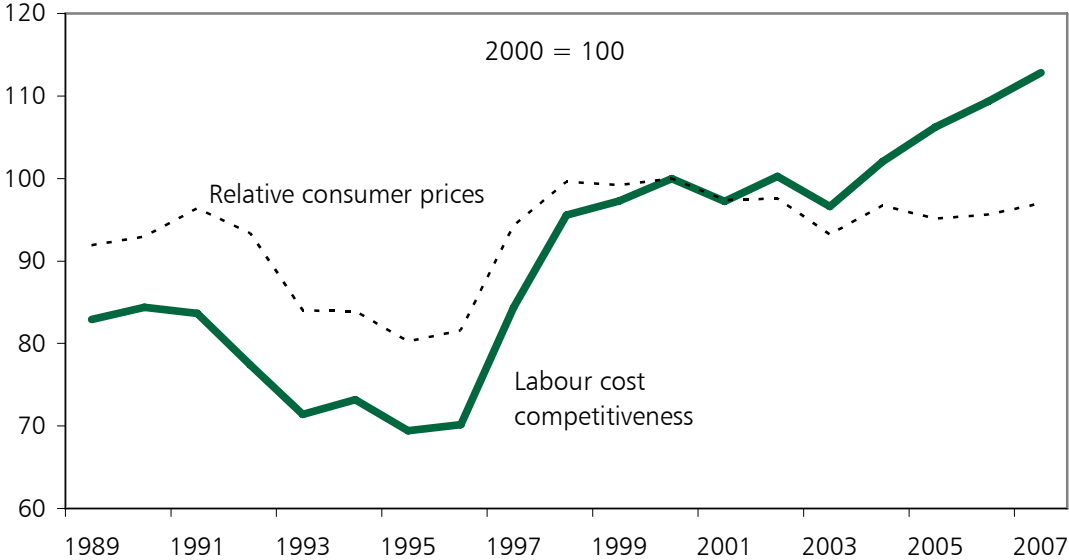
<sup>1</sup> Includes costs associated with the transfer of ownership of land and existing buildings.

<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.

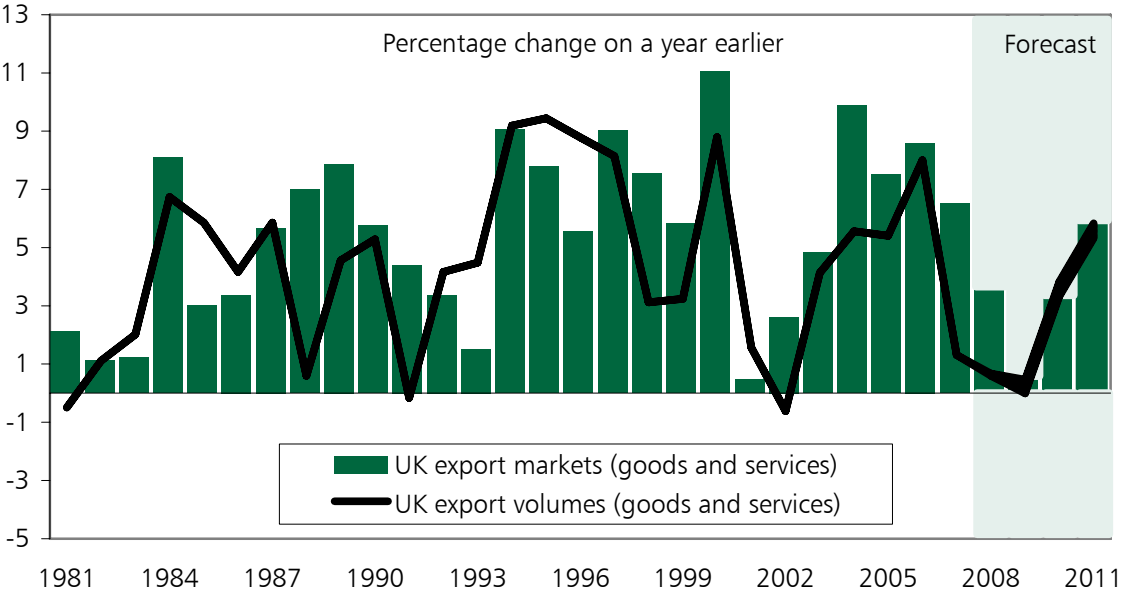
# Trade and balance of payments

**Chart 1.11: Competitive positions: relative unit labour costs<sup>1</sup> and consumer prices**



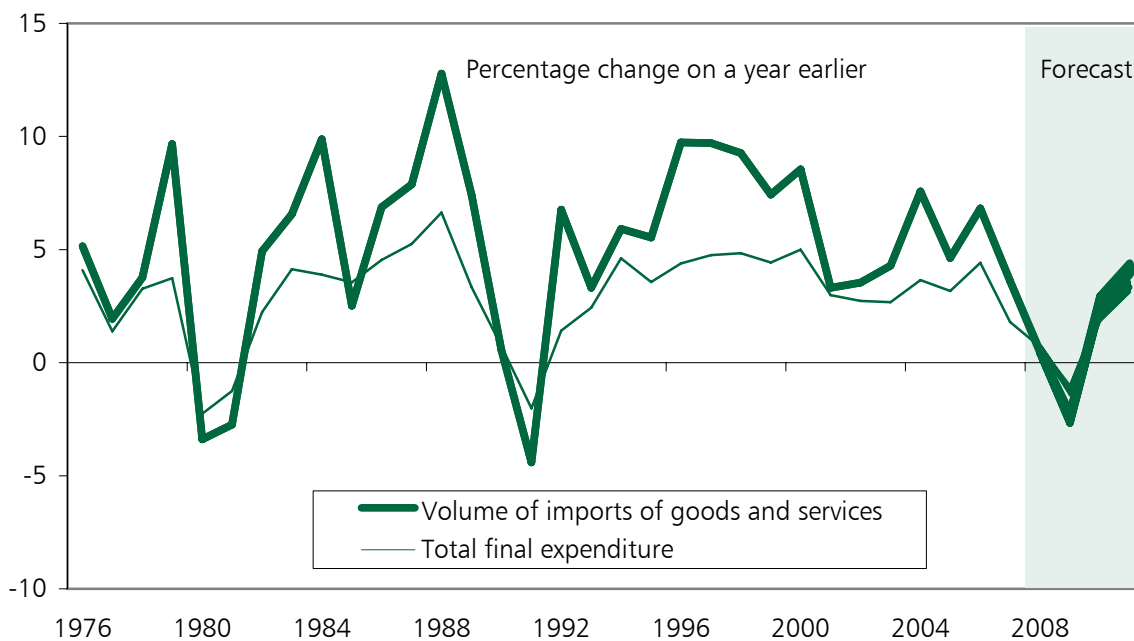
<sup>1</sup> Relating to trade in manufactures; a fall means that competitiveness has improved.  
 Source: OECD Economic Outlook 83, June 2008.

**Chart 1.12: Exports<sup>1</sup> and overseas demand**



<sup>1</sup> Volumes excluding the effects of activity relating to Missing Trader Intra-Community (MTIC) Fraud.

**Chart 1.13: Imports<sup>1</sup> and total final expenditure**



<sup>1</sup> 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 2006	2007	Forecast			
			2008	2009	2010	2011
Volumes (excluding MTIC) <sup>1</sup>						
Exports	4 <sup>3</sup> / <sub>4</sub>	1 <sup>1</sup> / <sub>4</sub>	<sup>3</sup> / <sub>4</sub>	0 to <sup>1</sup> / <sub>2</sub>	3 <sup>1</sup> / <sub>4</sub> to 3 <sup>3</sup> / <sub>4</sub>	5 <sup>1</sup> / <sub>4</sub> to 5 <sup>3</sup> / <sub>4</sub>
Imports	5 <sup>1</sup> / <sub>2</sub>	3 <sup>1</sup> / <sub>2</sub>	<sup>1</sup> / <sub>2</sub>	-2 <sup>3</sup> / <sub>4</sub> to -2 <sup>1</sup> / <sub>4</sub>	2 <sup>1</sup> / <sub>2</sub> to 3	4 to 4 <sup>1</sup> / <sub>2</sub>
Prices <sup>2</sup>						
Exports	1	2 <sup>1</sup> / <sub>2</sub>	10 <sup>1</sup> / <sub>4</sub>	2 <sup>1</sup> / <sub>4</sub>	2 <sup>3</sup> / <sub>4</sub>	1 <sup>1</sup> / <sub>4</sub>
Imports	1	1	9 <sup>1</sup> / <sub>2</sub>	4 <sup>1</sup> / <sub>4</sub>	3 <sup>3</sup> / <sub>4</sub>	2 <sup>1</sup> / <sub>4</sub>
Terms of trade <sup>3</sup>	0	1 <sup>1</sup> / <sub>2</sub>	<sup>3</sup> / <sub>4</sub>	-1 <sup>3</sup> / <sub>4</sub>	- <sup>3</sup> / <sub>4</sub>	- <sup>3</sup> / <sub>4</sub>
Goods and service balance (£ billion)	-30 <sup>3</sup> / <sub>4</sub>	-47 <sup>1</sup> / <sub>2</sub>	-48 <sup>1</sup> / <sub>2</sub>	-45 <sup>3</sup> / <sub>4</sub>	-48 <sup>1</sup> / <sub>2</sub>	-49

<sup>1</sup> 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.

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

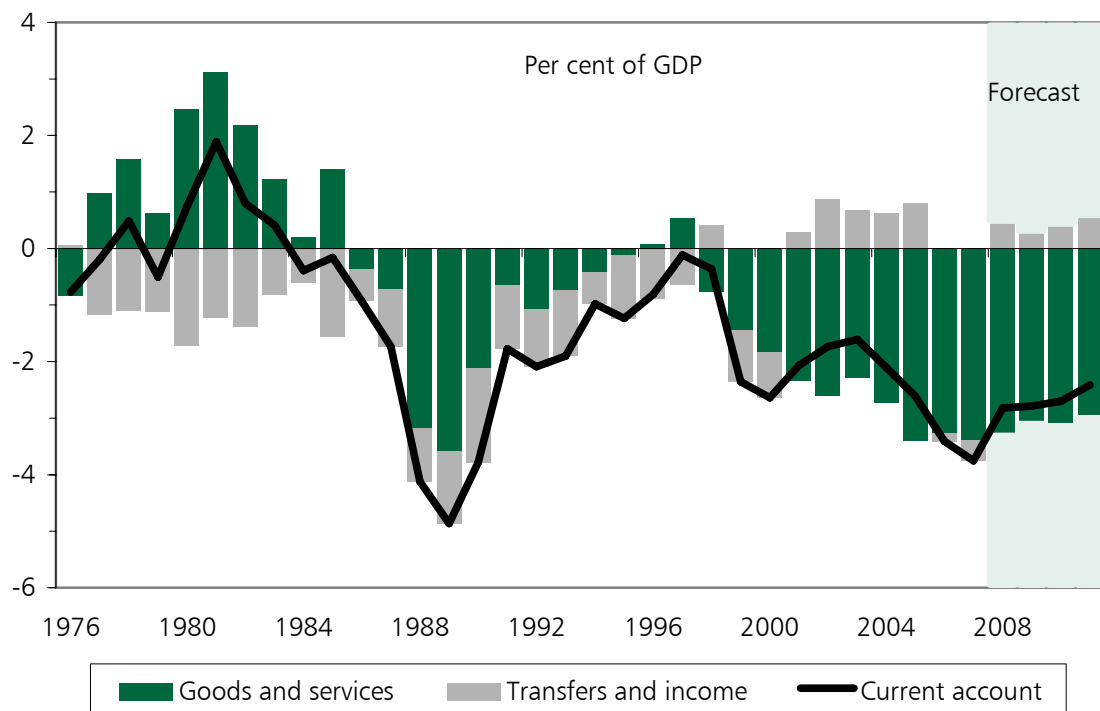
<sup>3</sup> Ratio of export to import prices.

**Table 1.7: The current account**

	£ billion				
	2007	Forecast			
		2008	2009	2010	2011
Trade in Goods and services	-47½	-48½	-45¾	-48½	-49
Non-oil	-43½	-42½	-39½	-41¼	-41
Oil	-4	-6	-6¼	-7¼	-8
Transfers	-13¾	-12¾	-10	-12½	-14¼
Income balance <sup>1</sup>	8½	19½	14¾	19½	24
Current balance	-52½	-41¾	-41	-41½	-39¼

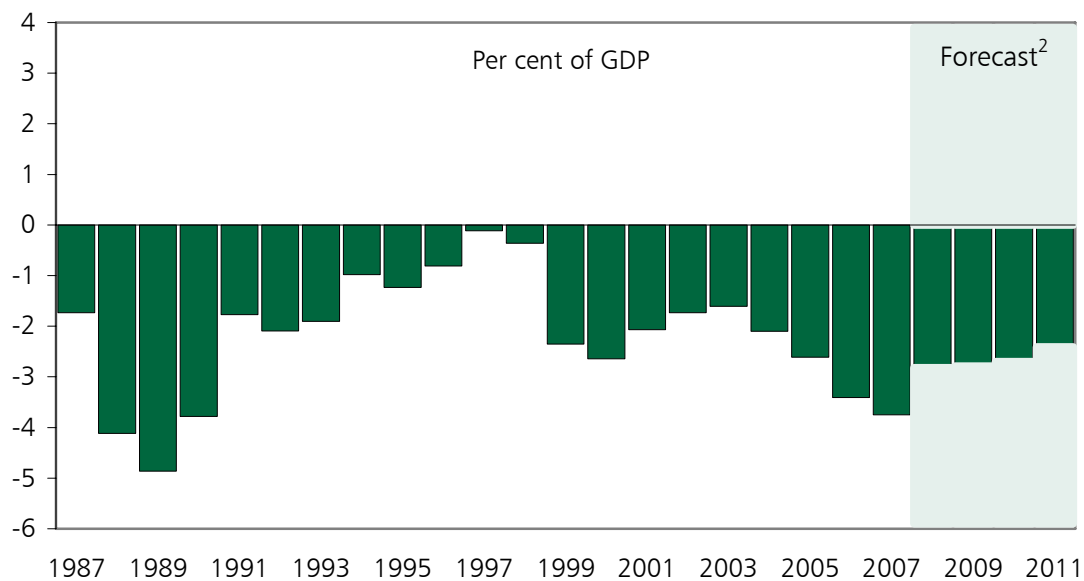
<sup>1</sup> Includes investment and employee income.

**Chart 1.14: Balance of Payments current account**



## Pattern of net lending

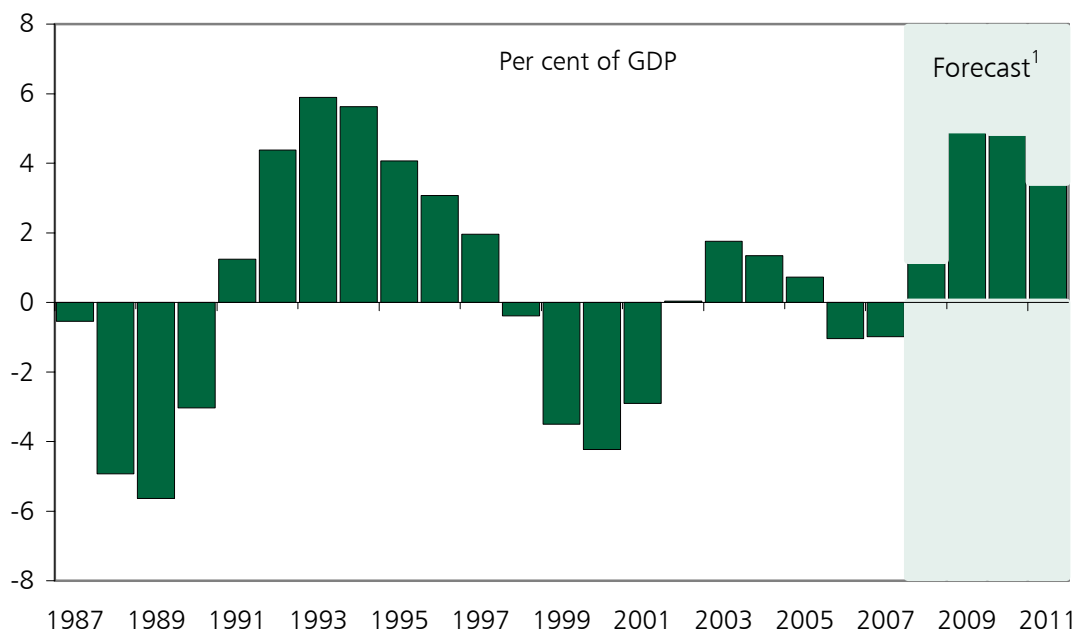
**Chart 1.15A: Balance of Payments current account balance**



<sup>1</sup> 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.

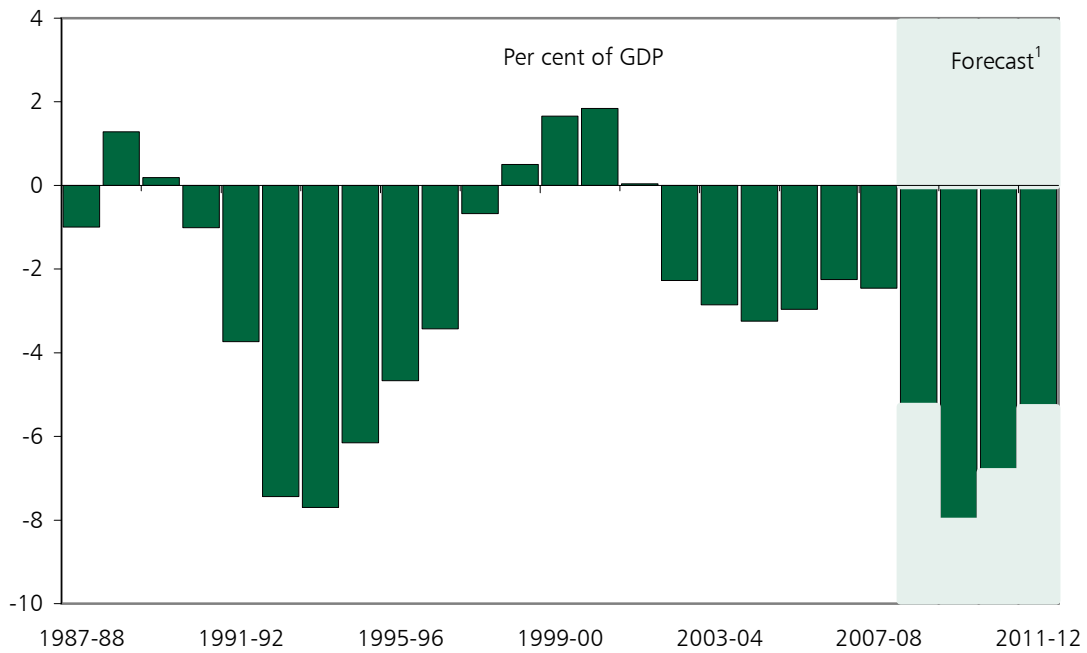
<sup>2</sup> At mid-points of forecast ranges.

**Chart 1.15B: Private sector net lending**



<sup>1</sup> At mid-points of forecast ranges.

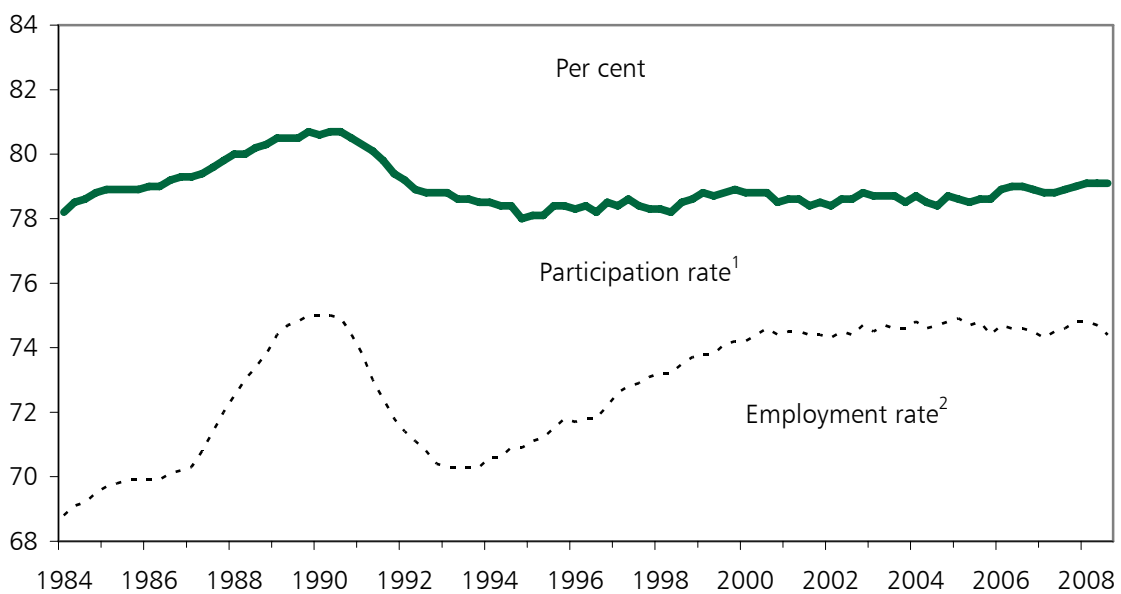
**Chart 1.15C: Public sector net lending**



<sup>1</sup> Based on the lower end of the forecast range.

## The labour market

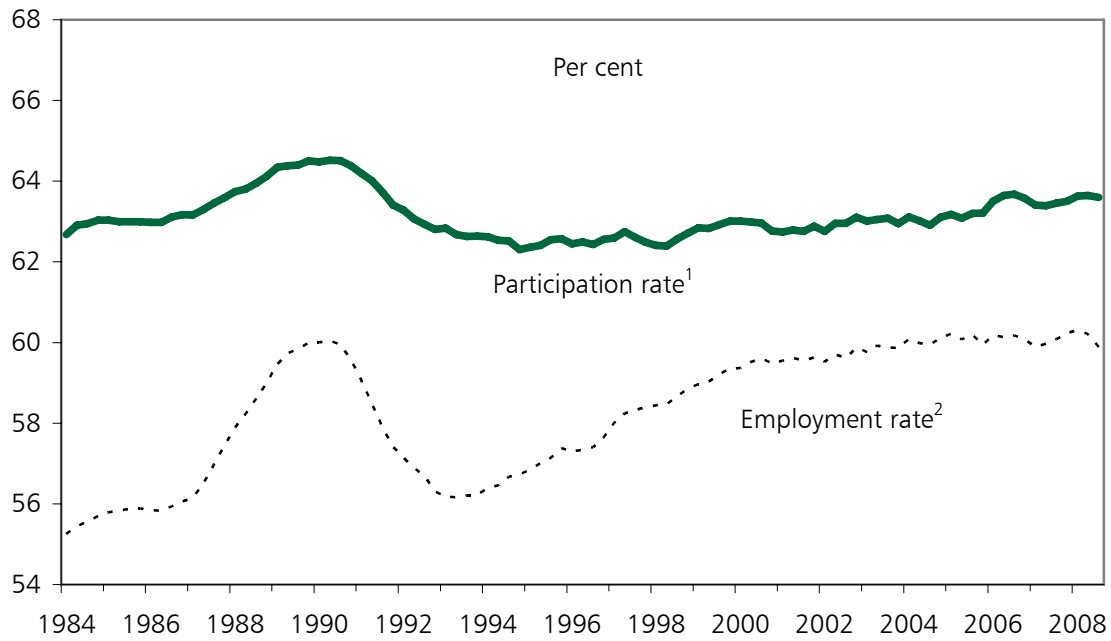
**Chart 1.16A: LFS working age participation and employment rates**



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

<sup>2</sup> Percentage of the working-age population in employment.

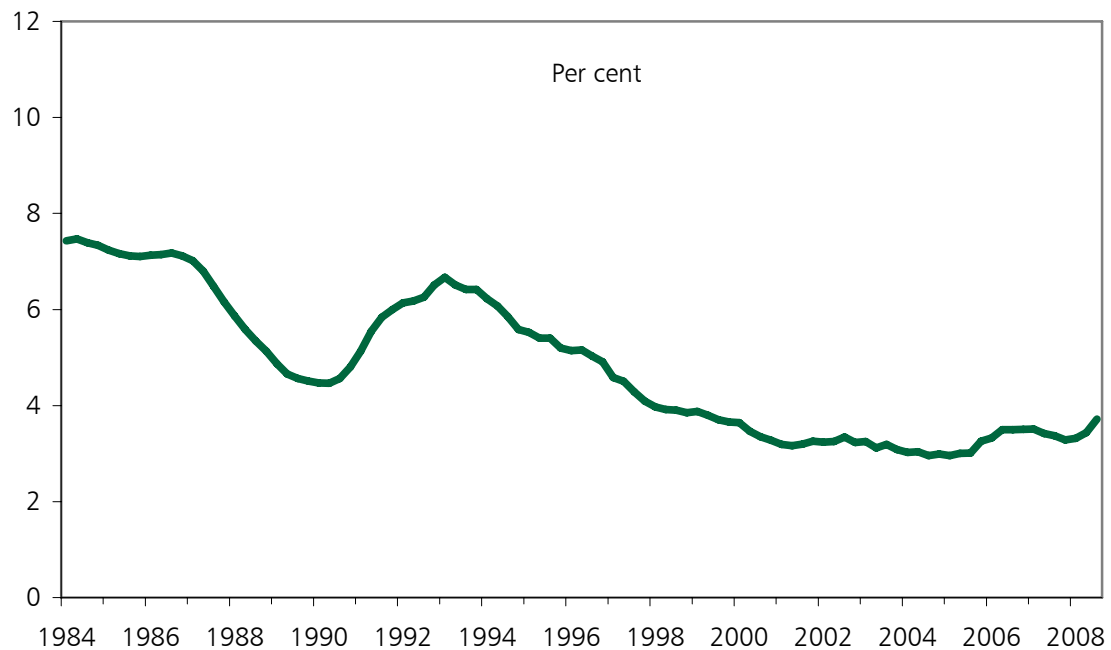
**Chart 1.16B: LFS adult population participation and employment rates**



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

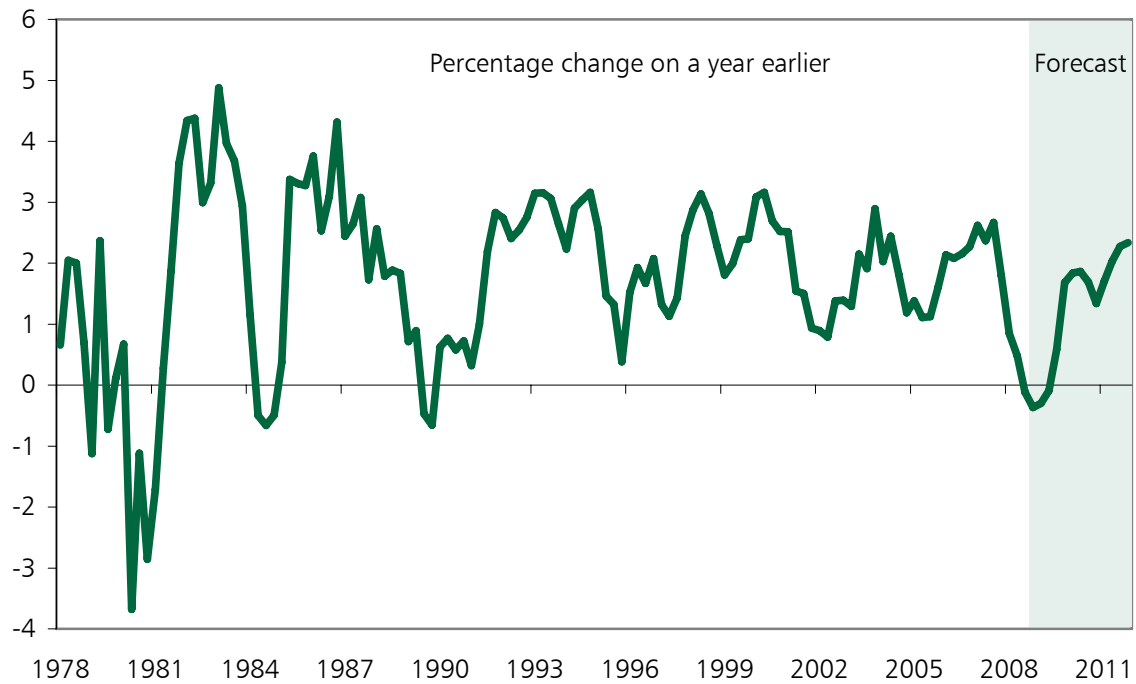
<sup>2</sup> Percentage of the population over 16 years of age in employment.

**Chart 1.16C: LFS unemployment rate**



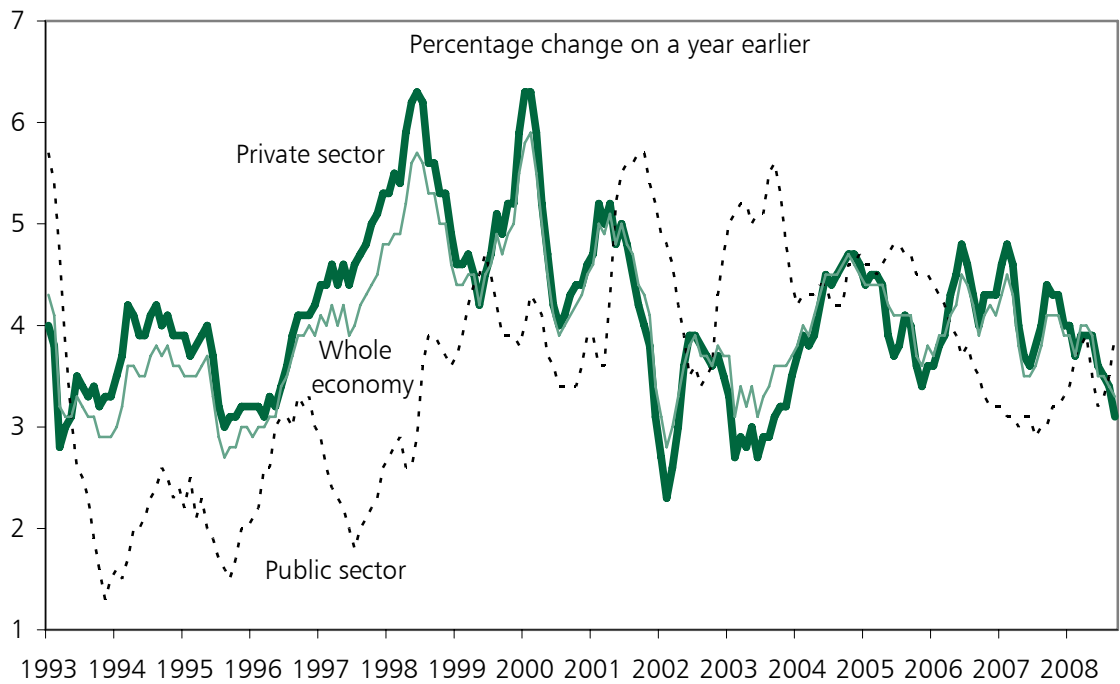
<sup>1</sup> Total unemployment as a percentage of total unemployment plus total employment.

**Chart 1.17: Output per worker<sup>1</sup>**



<sup>1</sup> Estimated non-oil output (GVA) per LFS worker.

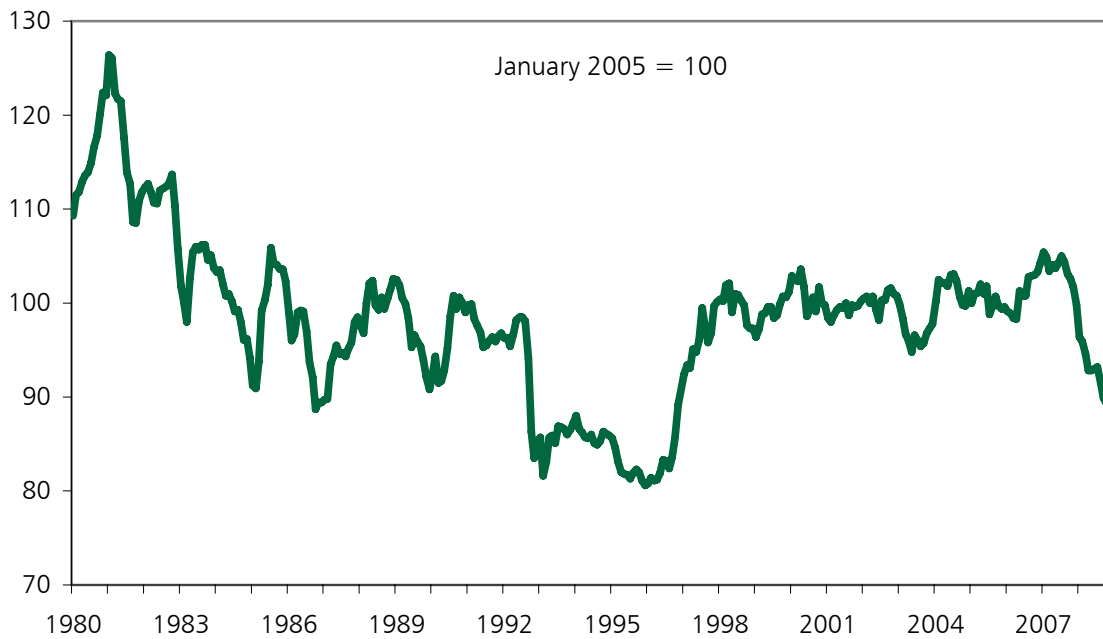
**Chart 1.18: Average earnings by sector<sup>1</sup>**



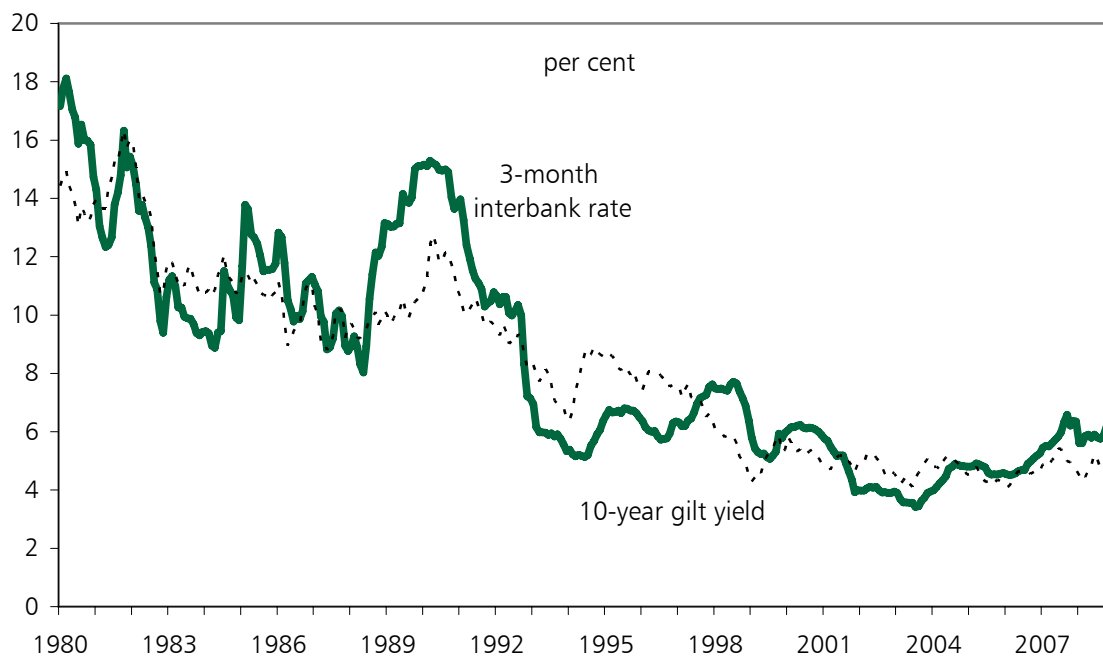
<sup>1</sup> Growth in the Average Earnings Index (AEI), latest three months, including bonuses, seasonally adjusted.

## Financial developments

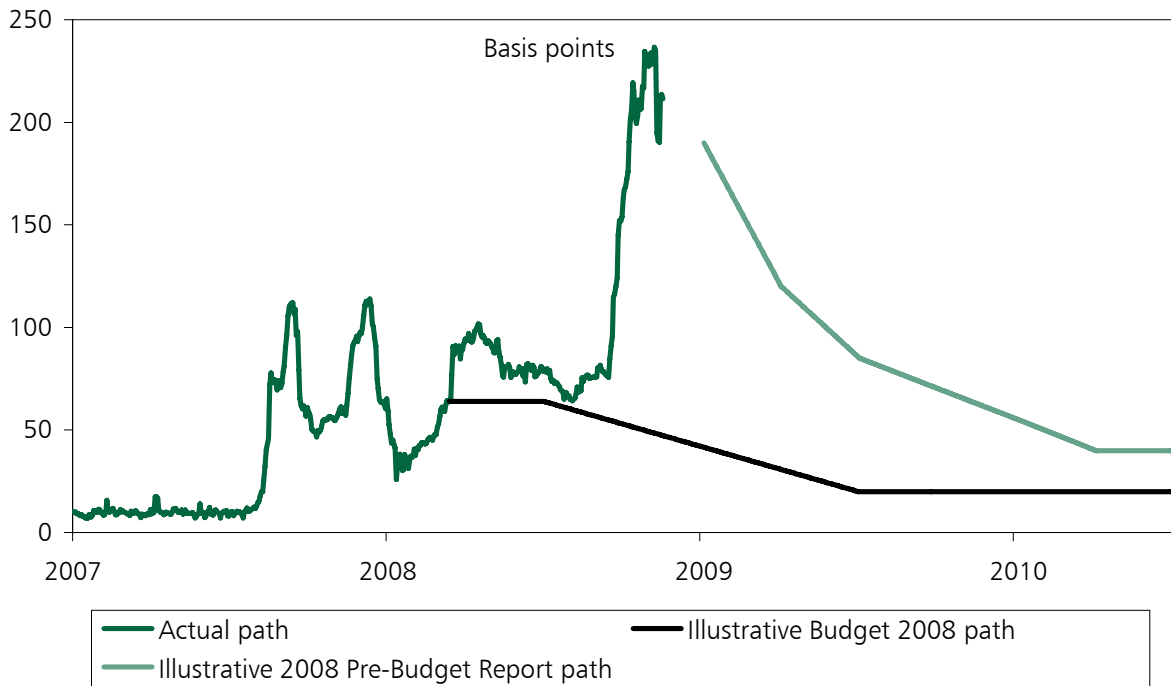
**Chart 1.19: Sterling effective exchange rate index**



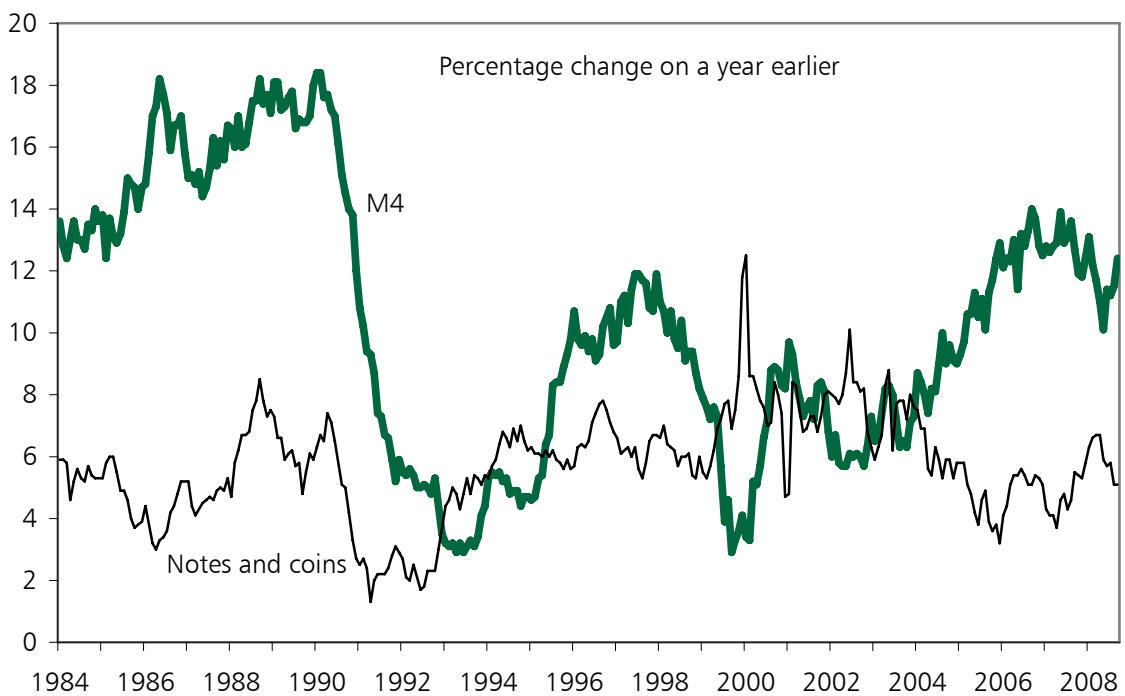
**Chart 1.20: UK interest rates**



**Chart 1.21: Spread of 3-month sterling interbank lending rate over expected policy rates**

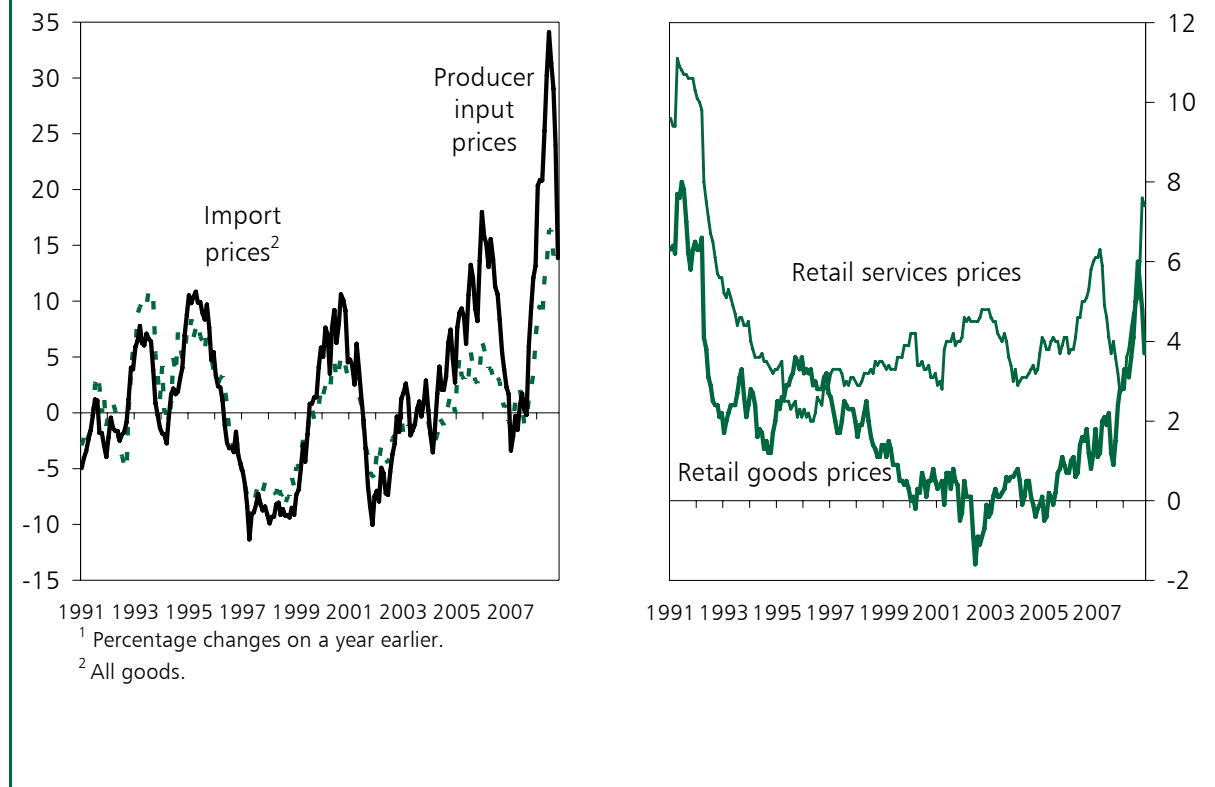


**Chart 1.22: Monetary indicators**



## Inflation

**Chart 1.23: Import, input and retail prices<sup>1</sup>**



**Table 1.8A: Consumer and producer output prices**

	Percentage change on a year earlier									
	2007		2008		2009		2010		2011	
	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4	Q2	Q4
CPI	2¾	2	3¼	3¾	2	½	1½	2¼	2¼	2
Producer output prices <sup>1</sup>	1¾	4	8¾	6	1	2	2	2½	2	2

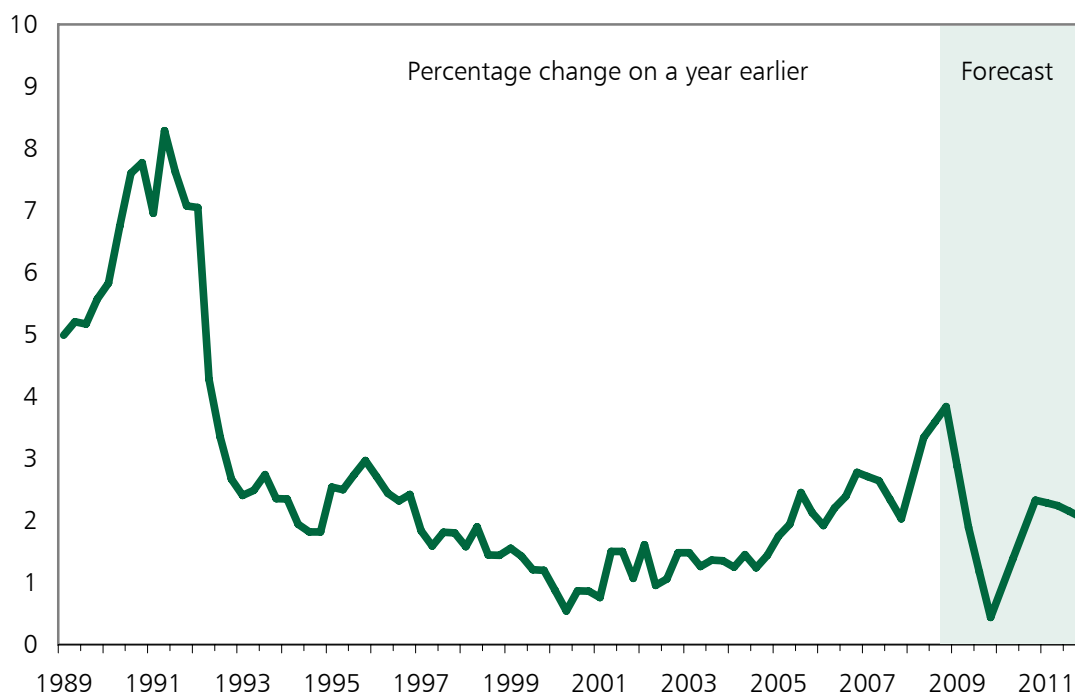
<sup>1</sup> Excludes excise duties.

**Table 1.8B: Consumers' expenditure deflator**

	Percentage change on a year earlier, unless otherwise stated									
	2007		2008		2009		2010		2011	
	Level									
CED <sup>2</sup>	109¾	2	4¼	1¾	3	2¾				

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

**Chart 1.24: CPI**



<sup>1</sup> Outturns until 2008Q3; forecasts for every second quarter from 2008Q4 to 2011Q4.

## Comparison of Budget 2008 forecast

**Table 1.9: Comparison with Budget 2008 forecast**

		Percentage change on a year earlier, unless otherwise stated	
		March 2008 Budget	November 2008 PBR
Gross domestic product	2008	1¾ to 2¼	¾
	2009	2¼ to 2¾	-1¼ to -¾
	2010	2½ to 3	1½ to 2
CPI inflation (per cent, Q4)	2008	2½	3¾
	2009	2	½
	2010	2	2¼
Current account (£ billion)	2008	-72½	-41¾
	2009	-71	-41
	2010	-66¼	-41½

## Comparison with independent forecasts

**Table 1.10: Pre-Budget Report and independent forecasts<sup>1</sup>**

		Percentage change on a year earlier, unless otherwise stated			
		2008	2009	2010	2011
<b>GDP</b>	2008 Pre-Budget Report	$\frac{3}{4}$	-1 $\frac{1}{4}$ to - $\frac{3}{4}$	1 $\frac{1}{2}$ to 2	2 $\frac{3}{4}$ to 3 $\frac{1}{4}$
	<b>Independent: average<sup>2</sup></b>	<b>0.9</b>	<b>-0.9</b>	<b>1.2</b>	<b>2.4</b>
	range	0.7 to 1.1	0.7 to 1.1	0.7 to 1.1	0.7 to 1.1
	Selected external forecasters <sup>3</sup>				
	Citigroup	0.8	-1.6	0.3	2.0
	Goldman Sachs	0.8	-0.4	1.8	2.8
	HSBC	0.8	-1.7	0.5	1.0
	Morgan Stanley <sup>4</sup>	0.8	-0.3	1.9	-
	IMF <sup>5</sup>	0.8	-1.3	1.1	-
	OECD <sup>6</sup>	0.8	-1.1	0.9	-
EC <sup>7</sup>	0.9	-1.0	0.4	-	
NIESR <sup>8</sup>	0.8	-1.5	0.8	2.6	
<b>CPI (Q4)</b>	2008 Pre-Budget Report	3 $\frac{3}{4}$	$\frac{1}{2}$	2 $\frac{1}{4}$	2
	<b>Independent: average<sup>2</sup></b>	<b>4.5</b>	<b>1.7</b>	<b>1.8<sup>9</sup></b>	<b>2.0<sup>9</sup></b>
	range	3.7 to 5.0	0.7 to 2.6	1.2 to 2.6	1.5 to 2.4

<sup>1</sup> Published in 'Forecasts for the UK economy: A comparison of independent forecasts', HM Treasury, November 2008, unless otherwise stated.

<sup>2</sup> Independent forecasts for 2010 and 2011 are based on the medium-term projections containing a smaller pool of contributors.

<sup>3</sup> No significance should be attached to the inclusion or exclusion of any particular forecasting organisation.

<sup>4</sup> Morgan Stanley forecasts published 10 November 2008 in 'UK Economics - Forecast Update'.

<sup>5</sup> IMF (International Monetary Fund) forecasts consistent with the 'World Economic Outlook Update', published 6 November 2008.

<sup>6</sup> OECD (Organisation for Economic Co-operation and Development) forecast published 6 November 2008 in 'EO84 Projections'.

<sup>7</sup> EC (European Commission) forecast published 3 November 2008 in 'Economic Forecast - Autumn 2008'.

<sup>8</sup> NIESR (National Institute of Economic & Social Research) forecast published 24 November 2008 in 'Prospects for the UK economy'.

<sup>9</sup> Independent CPI forecasts for 2010 & 2011 refer to annual average rather than Q4.

## Summary tables

**Table 1.11: Summary of economic prospects<sup>1</sup>**

	Percentage change on a year earlier, unless otherwise stated					Average errors from past forecasts <sup>5</sup>
	2007	2008	Forecast <sup>2, 3, 4</sup>		2011	
			2009	2010		
<b>Output at constant market prices</b>						
Gross domestic product (GDP)	3	¾	-1¼ to -¾	1½ to 2	2¾ to 3¼	¾
Manufacturing output	¾	-1¼	-3¼ to -2¾	1 to 1½	1¾ to 2¼	1¼
<b>Expenditure components of GDP at constant market prices<sup>6</sup></b>						
Domestic demand	3¾	¾	-2 to -1½	1½ to 2	2½ to 3	1
Household consumption <sup>7</sup>	3	1½	-1½ to -1	1¼ to 1¾	2¼ to 2¾	1
General government consumption	1¾	2¾	2¾	1	0	1
Fixed investment	7	-4½	-8¼ to -7¾	2¼ to 2¾	6½ to 7	2¾
Change in inventories <sup>8</sup>	¼	0	-¼ to 0	0	0	¼
Exports of goods and services <sup>9</sup>	-4½	¾	¼ to ¾	3¼ to 3¾	5¼ to 5¾	3
Imports of goods and services <sup>9</sup>	-1¾	½	-2½ to -2	2½ to 3	4 to 4½	2¾
<i>Exports of goods and services (excl. MTIC)</i>	1¼	¾	0 to ½	3¼ to 3¾	5¼ to 5¾	-
<i>Imports of goods and services (excl. MTIC)</i>	3½	½	-2¾ to -2¼	2½ to 3	4 to 4½	-
<b>Balance of payments current account</b>						
£ billion	-52½	-41¾	-41	-41½	-39¼	12¼
Per cent of GDP	-3¾	-2¾	-2¾	-2¾	-2½	¾
<b>Inflation</b>						
CPI (Q4)	2	¾	½	2¼	2	-
Producer output prices (Q4) <sup>10</sup>	4	6	2	2½	2	1¼
GDP deflator at market prices	2¾	3½	1¾	2½	2¾	½
<b>Money GDP at market prices</b>						
£ billion	1401	1461	1469 to 1477	1529 to 1545	1615 to 1640	12
Percentage change	6	4¼	½ to 1	4 to 4½	5½ to 6	¾

<sup>1</sup> The forecast is consistent with National Accounts and Balance of Payments statistics to the second quarter of 2008, released by the Office for National Statistics on 30 September, and the third quarter GDP Preliminary estimate, released on 24 October 2008.

<sup>2</sup> All growth rates in this table 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 a 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 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 2009.

<sup>6</sup> Further detail on the expenditure components of GDP is given in Table 1.12.

<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 2008 are distorted by MTIC.

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

**Table 1.12: 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 demand <sup>2</sup>	Exports of goods and services	Total final expenditure	Less imports of goods and services	plus statistical discrepancy <sup>3</sup>	GDP at market prices
<b>2007</b>	818.4	253.2	227.2	6.8	1306.2	349.3	1655.5	389.7	0.6	1266.4
<b>2008</b>	831.6	260.3	216.9	6.5	1315.9	351.8	1667.8	392.1	0.8	1276.4
<b>2009</b>	819.7 to 824.2	267.7	198.8 to 199.9	4.1 to 5.6	1290.3 to 1297.4	352.3 to 354.3	1642.6 to 1651.7	382.0 to 384.1	0.8	1261.4 to 1268.3
<b>2010</b>	830.8 to 839.4	270.7	203.1 to 205.2	3.7 to 6.6	1308.2 to 1321.9	364.0 to 367.8	1672.2 to 1689.6	391.3 to 395.4	0.8	1281.7 to 1295.1
<b>2011</b>	850.3 to 863.3	270.9	216.3 to 219.6	3.2 to 7.4	1340.7 to 1361.2	383.2 to 389.1	1723.9 to 1750.3	406.5 to 412.7	0.8	1318.2 to 1338.4
<b>2007 1st half</b>	405.4	126.1	112.7	2.1	646.6	172.9	819.5	191.0	0.3	628.8
<b>2nd half</b>	413.1	127.1	114.5	4.8	659.6	176.4	836.0	198.7	0.4	637.6
<b>2008 1st half</b>	418.0	128.8	111.6	1.6	660.7	177.0	837.7	197.2	0.4	640.9
<b>2nd half</b>	413.7	131.5	105.3	4.9	655.3	174.8	830.1	194.9	0.4	635.5
<b>2009 1st half</b>	408.8 to 410.6	133.3	100.2 to 100.6	2.3 to 2.8	644.5 to 647.3	175.3 to 176.1	819.9 to 823.4	191.3 to 192.1	0.4	629.0 to 631.7
<b>2nd half</b>	410.9 to 413.7	134.4	98.7 to 99.3	1.8 to 2.7	645.8 to 650.1	177.0 to 178.2	822.8 to 828.3	190.8 to 192.0	0.4	632.4 to 636.7
<b>2010 1st half</b>	413.5 to 417.3	135.1	100.3 to 101.2	1.8 to 3.1	650.7 to 656.7	179.9 to 181.5	830.6 to 838.2	193.5 to 195.2	0.4	637.6 to 643.4
<b>2nd half</b>	417.3 to 422.1	135.6	102.8 to 104.0	1.9 to 3.5	657.5 to 665.2	184.1 to 186.2	841.6 to 851.4	197.9 to 200.2	0.4	644.1 to 651.6
<b>2011 1st half</b>	422.6 to 428.5	135.7	106.3 to 107.8	1.6 to 3.6	666.1 to 675.5	189.0 to 191.7	855.1 to 867.2	201.5 to 204.4	0.4	654.0 to 663.2
<b>2nd half</b>	427.7 to 434.8	135.2	110.0 to 111.8	1.6 to 3.8	674.5 to 685.7	194.2 to 197.4	868.7 to 883.1	204.9 to 208.3	0.4	664.2 to 675.2
Percentage change on a year earlier <sup>4,5</sup>										
<b>2007</b>	3	1¾	7	¼	3¾	-4½	1¾	-1¾	0	3
<b>2008</b>	1½	2¾	-4½	0	¾	¾	¾	½	0	¾
<b>2009</b>	-1½ to -1	2¾	-8¼ to -7¾	-¼	-2 to -1½	¼ to ¾	-1½ to -1	-2½ to -2	0	-1¼ to -¾
<b>2010</b>	1¼ to 1¾	1	2¼ to 2¾	0	1½ to 2	¾ to 3¾	1¾ to 2¼	2½ to 3	0	1½ to 2
<b>2011</b>	2¼ to 2¾	0	6½ to 7	0	2½ to 3	5¼ to 5¾	3 to 3½	4 to 4½	0	2¾ to 3¼

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

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

<sup>3</sup> Expenditure adjustment.

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

<sup>5</sup> 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				
	2007	Forecast			
		2008	2009	2010	2011
World GDP at purchasing power parity	4¾	3½	2	3¾	4½
<i>Major 7 countries</i> <sup>1</sup> :					
Real GDP	2¼	1	-¾	1½	2½
Consumer price inflation <sup>2</sup>	3	2¾	1¼	2	2
Euro area GDP	2¾	1	-1	1	1¾
World trade in goods and services	7	5¼	2	4¼	7
UK export markets <sup>3</sup>	6½	3¾	½	3¼	6

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

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

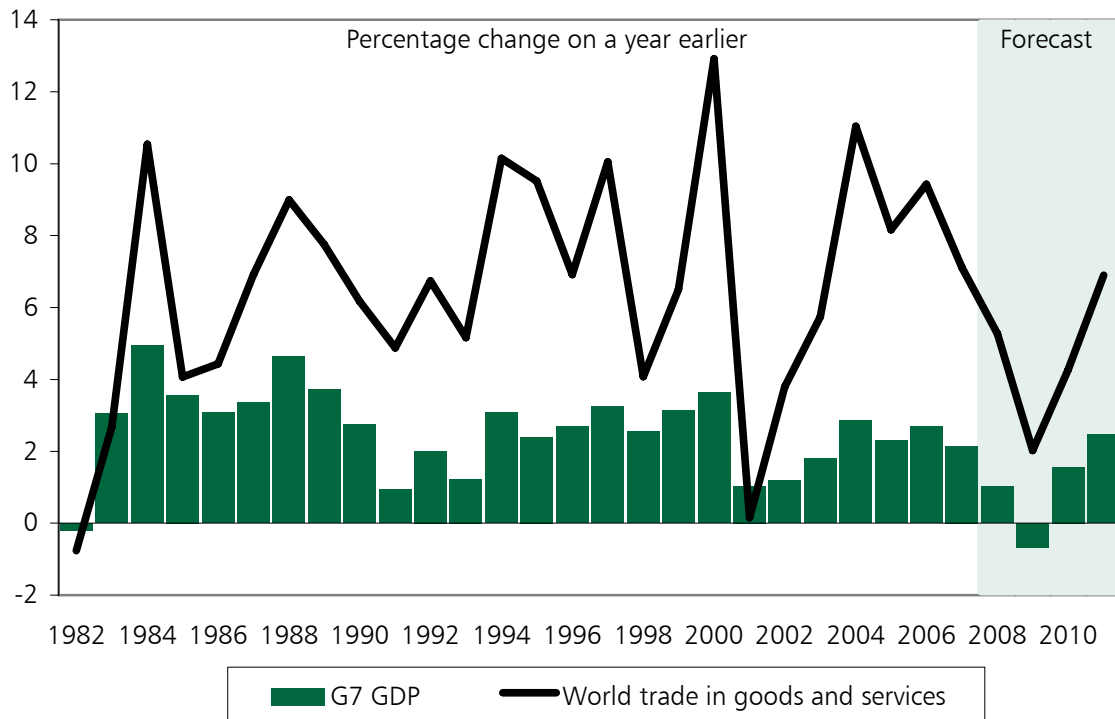
<sup>3</sup> Other countries' imports of goods and services weighted according to the importance of imports from the UK in those countries' total imports.

**Table 1.14: Consensus forecasts for GDP growth in major economies<sup>1</sup>**

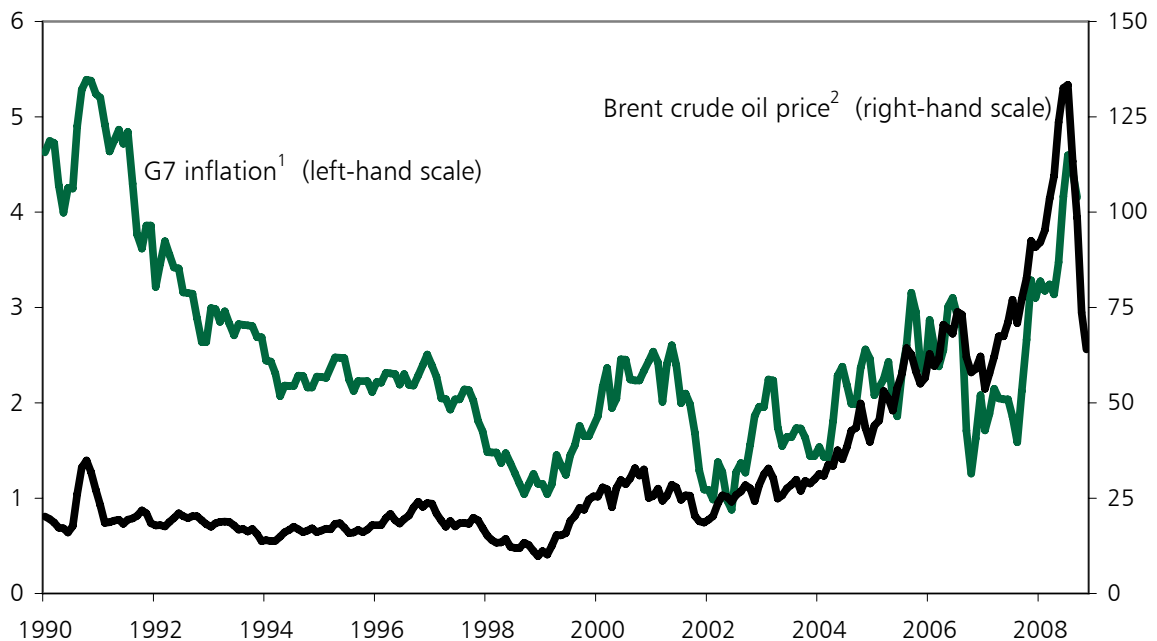
	Percentage change on a year earlier			
	Feb-08		Nov-08	
	2008	2009	2008	2009
USA	1.6	2.6	1.4	-0.6
Euro-area	1.6	1.9	1.0	-0.2
Japan	1.4	1.9	0.6	-0.1

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

**Chart 1.25: G7 GDP and world trade**



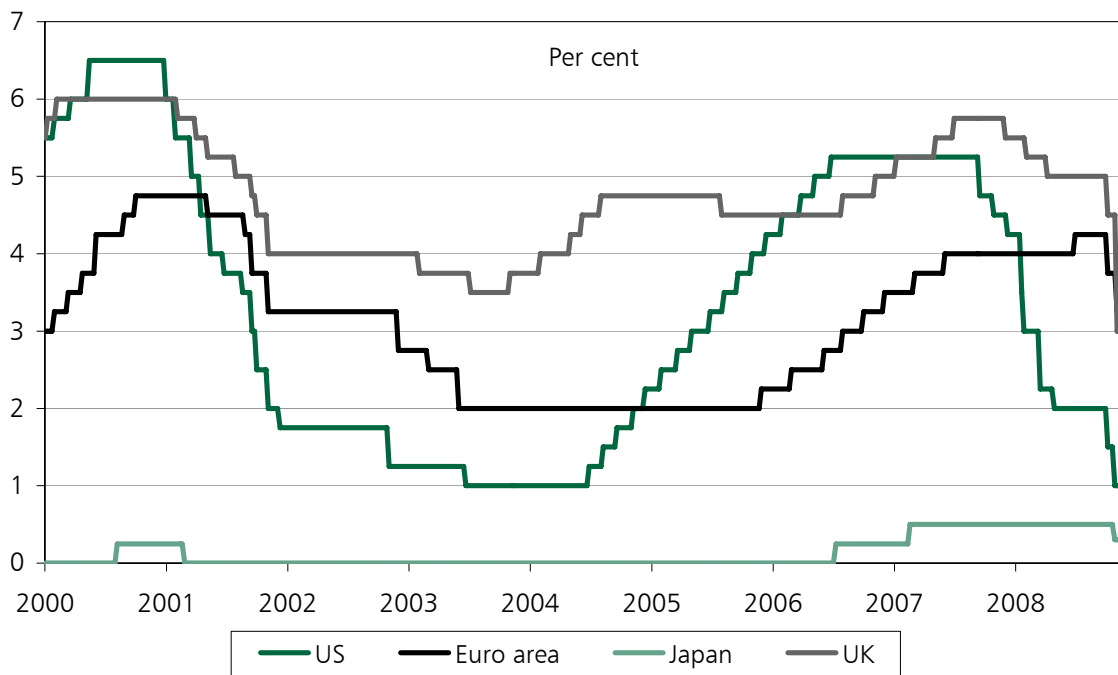
**Chart 1.26: G7 inflation and oil prices**



<sup>1</sup> Consumer price index, percentage change on a year earlier, weighted by GDP at market exchange rates

<sup>2</sup> US dollar per barrel

**Chart 1.27: Official interest rates in the major advanced economies**





# 2

## The public finances

The 2008 Pre-Budget Report, published by HM Treasury on 24 November 2008, 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 2008 *Public sector finances First Release*, released jointly by the Office for National Statistics (ONS) and HM Treasury on 20 November 2008.

### Introduction

**2.1** The 2008 Pre-Budget Report updates the projections of the public finances contained in Budget 2008, 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 adjustments<sup>1</sup>**

	£ billion			
	Outturn 2007-08	Estimate 2008-09	Projections	
			2009-10	2010-11
<b>Resource accounting adjustments</b>				
VAT refunds	9.7	10.6	10.7	12.6
Central government capital consumption	6.1	6.5	6.9	7.4
Non-cash items not in TME	-21.6	-21.2	-22.1	-23.8
Expenditure financed by revenue receipts	0.6	0.6	0.6	0.7
Resource items <sup>2</sup>	-1.1	-1.0	-1.1	-0.9
Capital budget items <sup>3</sup>	5.1	5.6	5.7	6.4
Local authorities	6.7	8.4	9.3	9.7
General government consolidation	-5.2	-5.5	-5.5	-5.8
Public corporations	0.7	0.8	0.7	0.7
Financial transactions	-0.1	0.0	0.0	0.0
Other accounting adjustments	0.7	-1.1	-0.7	-0.6
<b>Total resource accounting adjustments</b>	<b>1.6</b>	<b>3.8</b>	<b>4.4</b>	<b>6.4</b>
<b>Capital accounting adjustments</b>				
VAT refunds	1.9	2.0	1.9	2.1
Resource items <sup>2</sup>	1.1	1.0	1.1	0.9
Capital budget items <sup>3</sup>	-5.1	-5.6	-5.7	-6.4
Local authorities	-3.9	-3.2	-3.2	-3.3
Financial transactions	-0.4	-0.7	-0.6	-0.8
Other accounting adjustments	1.1	0.9	-0.3	-0.1
<b>Total capital accounting adjustments</b>	<b>-5.4</b>	<b>-5.6</b>	<b>-6.8</b>	<b>-7.6</b>

<sup>1</sup> This table is the break down of accounting adjustments found in Table B16 of the *2008 Pre-Budget Report*.

<sup>2</sup> Treated as capital in the National Accounts.

<sup>3</sup> Treated as current in the National Accounts.

**Table 2.2: Public sector capital expenditure**

	£ billion			
	Outturn	Estimate	Projection	
	2007-08	2008-09	2009-10	2010-11
Capital Budget DEL	44.1	48.8	53.8	50.1
Locally-financed expenditure	3.6	5.3	4.6	3.5
National Lottery	0.8	0.7	0.9	0.8
Public corporations' own-financed capital expenditure	5.9	6.4	7.1	6.0
Other capital spending in AME	-1.2	-0.4	0.5	0.6
AME margin	0.0	0.0	0.1	0.2
Accounting adjustments	-5.4	-5.6	-6.8	-7.6
<b>Public sector gross investment<sup>1</sup></b>	<b>47.7</b>	<b>55.1</b>	<b>60.1</b>	<b>53.6</b>
<i>Less depreciation</i>	17.8	18.7	19.7	20.9
<b>Public sector net investment</b>	<b>29.9</b>	<b>36.5</b>	<b>40.4</b>	<b>32.7</b>
Proceeds from the sale of fixed assets <sup>2</sup>	6.5	3.5	3.2	4.2

<sup>1</sup> This and previous lines are all net of sales of fixed assets.

<sup>2</sup> Projections of total receipts from the sale of fixed assets by public sector.

**Table 2.3: Loans and sales of assets**

	£ billion			
	Outturn 2007-08	Estimate 2008-09	Projections	
			2009-10	2010-11
<b>Sales of fixed assets</b>				
Sale of Chelsea Barracks <sup>1</sup>	1.0	0.0	0.0	0.0
Other central government	1.2	1.0	1.0	1.0
Local authorities	2.4	1.5	1.4	1.6
Housing Revenue Account <sup>2</sup>	2.0	0.9	0.9	1.6
<b>Total sales of fixed assets</b>	<b>6.5</b>	<b>3.5</b>	<b>3.2</b>	<b>4.2</b>
<b>Loans and sales of financial assets<sup>3</sup></b>				
Sale of student loans portfolio <sup>4</sup>	0.0	0.0	0.5	1.0
Sale of shares in British Energy	2.3	4.4	0.0	0.0
Sale of shares in QinetiQ	0.0	0.3	0.0	0.0
Other loans and sales of financial assets <sup>5</sup>	-4.5	-42.1	-5.2	-4.9
<b>Total loans and sales of financial assets</b>	<b>-2.2</b>	<b>-37.4</b>	<b>-4.7</b>	<b>-3.9</b>
<b>Total loans and sales of assets</b>	<b>4.3</b>	<b>-34.0</b>	<b>-1.4</b>	<b>0.3</b>

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

<sup>2</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>3</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>4</sup> The profile of actual sale proceeds will be dependent on market conditions.

<sup>5</sup> Includes purchase of shares, both ordinary and preference, under the BRF.

## Private finance initiative

**Table 2.4: Departmental estimate of capital spending by the private sector (signed deals)<sup>1, 2, 3</sup>**

	£ million	
	Projections	
	2008-09	2009-10
Defence	453	782
Children, Schools and Families	357	119
Communities and Local Government	262	201
Culture, Media and Sport	36	5
Environment, Food and Rural Affairs	224	160
Health	1,467	1,276
Home Office	12	0
Northern Ireland Executive	191	117
Scotland	5	12
Transport	865	371
Wales	1,025	1,375
Work and Pensions	13	15
Other Departments	56	56
<b>Total</b>	<b>4,966</b>	<b>4,489</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 2.5: Estimated aggregated capital value of projects reaching preferred bidder stage<sup>1, 2</sup>**

	£ million	
	Projections	
	2008-09	2009-10
Children, Schools and Families	712	1,266
Communities and Local Government	422	733
Culture, Media and Sport	63	42
Defence	0	400
Environment, Food and Rural Affairs	385	901
Health	475	0
Home Office	55	56
Ministry of Justice	196	0
Northern Ireland Executive	763	190
Scotland	168	152
Transport	1,505	562
<b>Total</b>	<b>4,743</b>	<b>4,302</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 2.6: Estimated payments under PFI contracts - October 2008  
(signed deals)<sup>1</sup>**

£ million			
Projections			
2008-09	8,176	2021-22	8,123
2009-10	8,951	2022-23	8,119
2010-11	9,348	2023-24	8,125
2011-12	9,624	2024-25	8,234
2012-13	9,812	2025-26	7,914
2013-14	10,167	2026-27	7,637
2014-15	10,312	2027-28	7,560
2015-16	10,536	2028-29	7,394
2016-17	10,591	2029-30	7,042
2017-18	10,824	2030-31	6,549
2018-19	8,401	2031-32	6,043
2019-20	8,516	2032-33	5,677
2020-21	8,383	2033-34	4,463

<sup>1</sup> The figures between 2008-09 and 2032-33 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.

## Analysis by sub-sector and economic category

**Table 2.7: General government transactions by economic category**

	£ billion			
	Outturn	Estimate	Projections	
	2007-08	2008-09	2009-10	2010-11
<b>Current receipts</b>				
Taxes on income and wealth	207.7	203.0	192.4	206.8
Taxes on production and imports	176.0	174.8	170.4	188.4
Other current taxes	31.9	33.3	34.7	36.5
Taxes on capital	3.9	3.1	2.4	2.0
Compulsory social contributions	95.5	98.4	101.0	106.0
Gross operating surplus	12.9	13.6	14.5	15.5
Rent and other current transfers	1.6	2.0	2.0	2.1
Interest and dividends from private sector and abroad	7.4	6.8	7.0	7.5
Interest and dividends from public sector	1.9	1.5	1.4	1.4
<b>Total current receipts</b>	<b>539.0</b>	<b>536.5</b>	<b>525.7</b>	<b>566.3</b>
<b>Current expenditure</b>				
Current expenditure on goods and services	300.7	320.4	334.3	346.4
Subsidies	9.8	11.5	11.8	11.2
Net social benefits	157.3	168.9	179.9	185.3
Net current grants abroad	-0.3	-3.7	-3.2	-1.3
Other current grants	37.7	38.9	42.2	43.6
Interest and dividends paid	30.6	31.4	27.0	40.6
AME margin	0.0	0.0	0.9	1.8
<b>Total current expenditure</b>	<b>535.8</b>	<b>567.3</b>	<b>593.0</b>	<b>627.5</b>
Depreciation	12.9	13.6	14.5	15.5
<b>Surplus on current budget</b>	<b>-9.7</b>	<b>-44.5</b>	<b>-81.8</b>	<b>-76.7</b>
<b>Capital expenditure</b>				
Gross domestic fixed capital formation	27.9	32.5	35.2	33.6
Less depreciation	-12.9	-13.6	-14.5	-15.5
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	2.4	0.5	0.4	0.5
Capital grants to private sector	13.8	16.8	18.5	14.4
Capital grants from private sector	-1.3	-1.2	-1.3	-1.1
AME margin	0.0	0.0	0.1	0.2
<b>Net investment</b>	<b>29.9</b>	<b>34.9</b>	<b>38.4</b>	<b>32.1</b>
<b>Net borrowing<sup>1</sup></b>	<b>39.7</b>	<b>79.5</b>	<b>120.2</b>	<b>108.8</b>
<i>of which:</i>				
Central government net borrowing	39.2	75.3	116.4	106.5
Local authority net borrowing	0.5	4.2	3.8	2.2
<b>Gross debt (Maastricht basis)</b>				
Central government	555.3	713.3	834.3	947.5
Local government	59.1	60.5	61.5	60.2

<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 2.8: 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	207.7	0.0	-0.3	207.4
Taxes on production and imports	175.8	0.2	0.0	176.0
Other current taxes	9.4	22.5	0.0	31.9
Taxes on capital	3.9	0.0	0.0	3.9
Compulsory social contributions	95.5	0.0	0.0	95.5
Gross operating surplus	6.1	6.8	9.8	22.8
Rent and other current transfers	1.6	0.0	0.0	1.6
Interest and dividends from private sector and abroad	5.8	1.7	0.8	8.3
Interest and dividends from public sector	4.4	-2.5	-1.9	0.0
<b>Total current receipts</b>	<b>510.2</b>	<b>28.8</b>	<b>8.5</b>	<b>547.5</b>
<b>Current expenditure</b>				
Current expenditure on goods and services	182.2	118.5	0.0	300.7
Subsidies	6.1	3.6	0.0	9.8
Net social benefits	140.2	17.1	0.0	157.3
Net current grants abroad	-0.1	-0.2	0.0	-0.3
Current grants (net) within public sector	115.0	-115.0	0.0	0.0
Other current grants	37.7	0.0	0.0	37.7
Interest and dividends paid	29.9	0.7	0.5	31.2
AME margin	0.0	0.0	0.0	0.0
<b>Total current expenditure</b>	<b>511.0</b>	<b>24.8</b>	<b>0.5</b>	<b>536.4</b>
Depreciation	6.1	6.8	4.9	17.8
<b>Surplus on current budget</b>	<b>-6.9</b>	<b>-2.8</b>	<b>3.0</b>	<b>-6.7</b>
<b>Capital expenditure</b>				
Gross domestic fixed capital formation	12.9	15.0	7.5	35.3
Less depreciation	-6.1	-6.8	-4.9	-17.8
Increase in inventories	0.0	0.0	-0.1	-0.1
Capital grants (net) within public sector	13.6	-11.1	-2.4	0.0
Capital grants to private sector	12.5	1.4	0.0	13.8
Capital grants from private sector	-0.5	-0.7	0.0	-1.3
AME margin	0.0	0.0	0.0	0.0
<b>Net investment</b>	<b>32.2</b>	<b>-2.3</b>	<b>-0.1</b>	<b>29.9</b>
<b>Net borrowing</b>	<b>39.2</b>	<b>0.5</b>	<b>-3.1</b>	<b>36.6</b>

**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		
<b>Current receipts</b>				
Taxes on income and wealth	203.0	0.0	-0.2	202.9
Taxes on production and imports	174.5	0.2	0.0	174.8
Other current taxes	9.9	23.4	0.0	33.3
Taxes on capital	3.1	0.0	0.0	3.1
Compulsory social contributions	98.4	0.0	0.0	98.4
Gross operating surplus	6.5	7.1	9.8	23.4
Rent and other current transfers	2.0	0.0	0.0	2.0
Interest and dividends from private sector and abroad	5.5	1.3	0.9	7.7
Interest and dividends from public sector	4.1	-2.6	-1.5	0.0
<b>Total current receipts</b>	<b>507.0</b>	<b>29.4</b>	<b>9.0</b>	<b>545.5</b>
<b>Current expenditure</b>				
Current expenditure on goods and services	194.8	125.6	0.0	320.4
Subsidies	7.4	4.1	0.0	11.5
Net social benefits	150.9	18.0	0.0	168.9
Net current grants abroad	-3.6	-0.2	0.0	-3.7
Current grants (net) within public sector	120.4	-120.4	0.0	0.0
Other current grants	38.8	0.0	0.0	38.9
Interest and dividends paid	30.8	0.6	0.6	32.1
AME margin	0.0	0.0	0.0	0.0
<b>Total current expenditure</b>	<b>539.6</b>	<b>27.8</b>	<b>0.6</b>	<b>568.0</b>
Depreciation	6.5	7.1	5.0	18.7
<b>Surplus on current budget</b>	<b>-39.0</b>	<b>-5.5</b>	<b>3.3</b>	<b>-41.2</b>
<b>Capital expenditure</b>				
Gross domestic fixed capital formation	16.6	16.0	7.1	39.6
Less depreciation	-6.5	-7.1	-5.0	-18.7
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	12.2	-11.7	-0.5	0.0
Capital grants to private sector	14.3	2.5	0.0	16.8
Capital grants from private sector	-0.3	-1.0	0.0	-1.2
AME margin	0.0	0.0	0.0	0.0
<b>Net investment</b>	<b>36.2</b>	<b>-1.3</b>	<b>1.5</b>	<b>36.5</b>
<b>Net borrowing</b>	<b>75.3</b>	<b>4.2</b>	<b>-1.8</b>	<b>77.6</b>

**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		
<b>Current receipts</b>				
Taxes on income and wealth	192.4	0.0	-0.2	192.2
Taxes on production and imports	170.2	0.3	0.0	170.4
Other current taxes	10.3	24.4	0.0	34.7
Taxes on capital	2.4	0.0	0.0	2.4
Compulsory social contributions	101.0	0.0	0.0	101.0
Gross operating surplus	6.9	7.6	10.2	24.7
Rent and other current transfers	2.0	0.0	0.0	2.0
Interest and dividends from private sector and abroad	6.0	1.0	1.1	8.1
Interest and dividends from public sector	3.8	-2.4	-1.4	0.0
<b>Total current receipts</b>	<b>495.0</b>	<b>30.8</b>	<b>9.7</b>	<b>535.5</b>
<b>Current expenditure</b>				
Current expenditure on goods and services	201.6	132.7	0.0	334.3
Subsidies	7.1	4.7	0.0	11.8
Net social benefits	160.6	19.3	0.0	179.9
Net current grants abroad	-3.1	-0.1	0.0	-3.2
Current grants (net) within public sector	127.6	-127.6	0.0	0.0
Other current grants	42.2	0.0	0.0	42.2
Interest and dividends paid	26.6	0.5	0.7	27.8
AME margin	0.9	0.0	0.0	0.9
<b>Total current expenditure</b>	<b>563.5</b>	<b>29.5</b>	<b>0.7</b>	<b>593.7</b>
Depreciation	6.9	7.6	5.2	19.7
<b>Surplus on current budget</b>	<b>-75.5</b>	<b>-6.3</b>	<b>3.9</b>	<b>-77.9</b>
<b>Capital expenditure</b>				
Gross domestic fixed capital formation	18.1	17.0	7.6	42.7
Less depreciation	-6.9	-7.6	-5.2	-19.7
Increase in inventories	0.0	0.0	0.0	0.0
Capital grants (net) within public sector	14.0	-13.6	-0.4	0.0
Capital grants to private sector	16.0	2.6	0.0	18.5
Capital grants from private sector	-0.3	-1.0	0.0	-1.3
AME margin	0.1	0.0	0.0	0.1
<b>Net investment</b>	<b>40.9</b>	<b>-2.6</b>	<b>2.0</b>	<b>40.4</b>
<b>Net borrowing</b>	<b>116.4</b>	<b>3.8</b>	<b>-1.9</b>	<b>118.3</b>

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