

## Research Briefing

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# The budget deficit: a short guide

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# 1 What is the budget deficit and how much is it?

When the government spends more than it receives in tax and other revenues it borrows to cover the difference. This borrowing is known as ‘public sector net borrowing’ but is often referred to as the deficit.

In the financial year 2023/24,<sup>1</sup> government revenue – from taxes and other receipts – was £1,098 billion (£1.1 trillion) while government spending was £1,230 billion (£1.2 trillion).<sup>2</sup> The deficit was therefore £131 billion, equivalent to 4.8% of GDP.<sup>3</sup>

At 4.8% of GDP, the deficit was the UK’s seventeenth largest in the 76 years since 1948.

Borrowing of £131 billion is equivalent to around £1,920 per head of the UK’s population.

# 2 What are the trends over time?

It is not unusual for government to borrow. Since 1970/71, the government has had a surplus (spent less than it received in revenues) in only five years. The last budget surplus was in 2000/01.

Since 1970/71, the average annual budget deficit is 3.7% of GDP. It has varied significantly over this period as the chart below shows. The deficit reached a peacetime peak in 2020/21 due to the Covid-19 pandemic. Aside from the pandemic, large budget deficits occurred in the mid-1970s and early 1990s and after the 2008-2009 financial crisis.

The budget deficit was above average in 2022/23 and 2023/24. The UK faced high inflation, interest rates increased and its economy was growing relatively slowly. The Government spent a lot – particularly during 2022/23 – supporting households and businesses with high energy prices and other cost of living pressures. Meanwhile, government spending on debt interest was higher than in the recent past. The Library briefing [Rising cost of living in the UK](#) discusses the support government provided.

The deficit is forecast to fall annually to around 2% of GDP by 2029/30. Around two-thirds of the forecast fall is due to government revenues

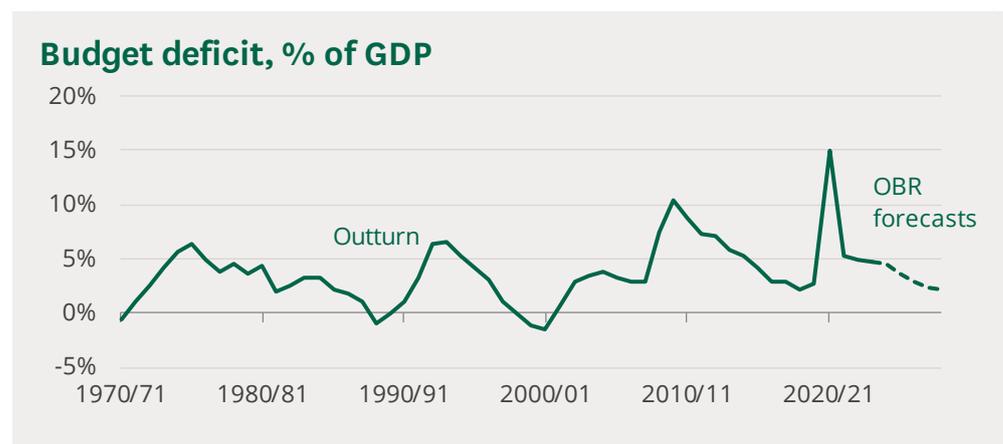
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<sup>1</sup> The financial year runs from April to March. For instance, 2023/24 covers April 2023 to March 2024.

<sup>2</sup> Unless stated otherwise all figures in this briefing exclude public sector banks (banks which the government became the major shareholder of during the financial crisis) and are from the ONS’s [public sector finances](#) or the Office for Budget Responsibility’s (OBR’s) [public finances databank](#). Figures get revised and are correct at time of publication, so are based on the ONS’s 20 December 2024 release.

<sup>3</sup> GDP ([Gross Domestic Product](#)) is a measure of the total output in the economy.

increasing, in particular NICs and income tax receipts. The remaining third is due to government spending falling in the forecast.<sup>4</sup>



Sources: ONS. [Series J51J](#); OBR. [Public finances databank – December 2024](#)

### 3

## How much did the budget deficit increase during the pandemic?

The deficit reached a peacetime record in 2020/21 of 15.1% of GDP, largely for two reasons:

1. the Government provided support to public services, households and businesses during the pandemic, which cost around £229 billion;<sup>5</sup>
2. the virus and the lockdowns aimed at slowing its spread took the economy into a severe recession. Less economic activity meant smaller tax receipts and more government spending on areas such as unemployment benefits.

Government spending increased from 39.6% of GDP in 2019/20 to 53.1% in 2020/21. The large increase reflects both government spending increasing in cash terms by around 25% and GDP falling by around 7%, in 2020/21.

While government revenues fell in cash terms, they became larger relative to the size of the economy. This was because GDP shrank more than revenues did. Government revenues were equivalent to 36.9% of GDP in 2019/20 and 38.0% of GDP in 2020/21.

The government continued to support public services, households and businesses during 2021/22, but to a lesser extent than in the previous year. Government's pandemic-related support cost around £78 billion in 2021/22, compared with £229 billion in 2020/21.<sup>6</sup>

<sup>4</sup> Office for Budget Responsibility, *Economic and fiscal outlook – October 2024*, [para 6.3](#)

<sup>5</sup> Office for Budget Responsibility. [Economic and fiscal outlook – March 2022](#), Table A.7

<sup>6</sup> Office for Budget Responsibility. [Economic and fiscal outlook – March 2022](#), Table A.7

The Library briefing [Coronavirus: Economic impact](#) discusses the coronavirus pandemic's effect on the budget deficit.

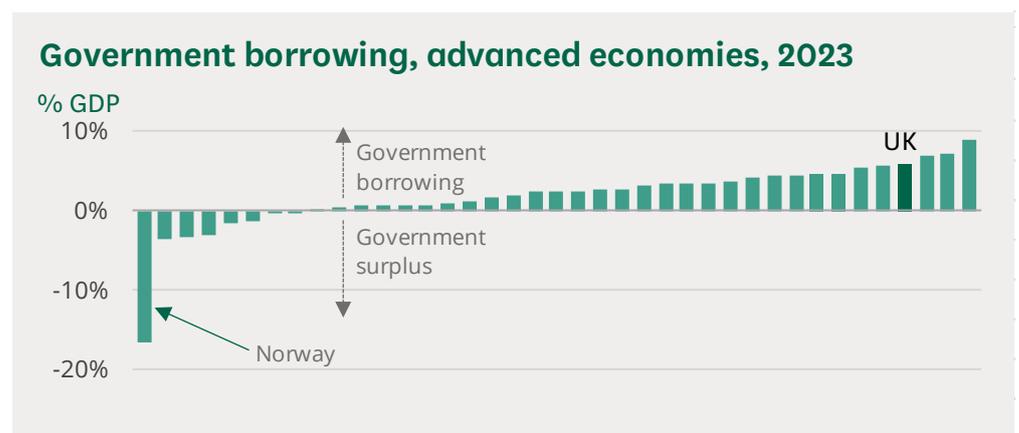


Source: Office for National Statistics (ONS). Series [KX5Q](#), [JW2Q](#), [BKTL](#)

## 4 How does the UK's budget deficit compare with other countries?

The International Monetary Fund (IMF) estimate that across advanced economies borrowing averaged 4.7% of GDP in 2023.<sup>7</sup> For the [G7 group](#) of advanced economies borrowing averaged 5.9% of GDP.<sup>8</sup>

The IMF report UK government borrowing of 6.0% of GDP in 2023. Amongst the G7 countries, Italy and the US borrowed more than the UK, relative to the size of their economies.<sup>9</sup> The IMF's data for the UK may differ from figures reported by UK organisations – such as the ONS – but the IMF's data are good for making international comparisons.



Source: IMF. [World Economic Outlook Database: October 2024](#)

<sup>7</sup> IMF. [World Economic Outlook Database](#), October 2024 For the majority of countries, these figures are based on outturns. For some others, they are forecasts.

<sup>8</sup> Advanced economies as defined by the IMF.

<sup>9</sup> The IMF report a forecast for Japan's borrowing in 2023

## 5 How is the budget deficit funded?

The budget deficit is financed by the sale of government bonds. These are essentially interest paying “IOUs” which the government sells to investors. Purchasers of government bonds include pension funds, insurance companies, households and overseas investors. The bonds make up most government debt. Once the bonds have been bought, they can be traded by investors on so-called secondary markets.

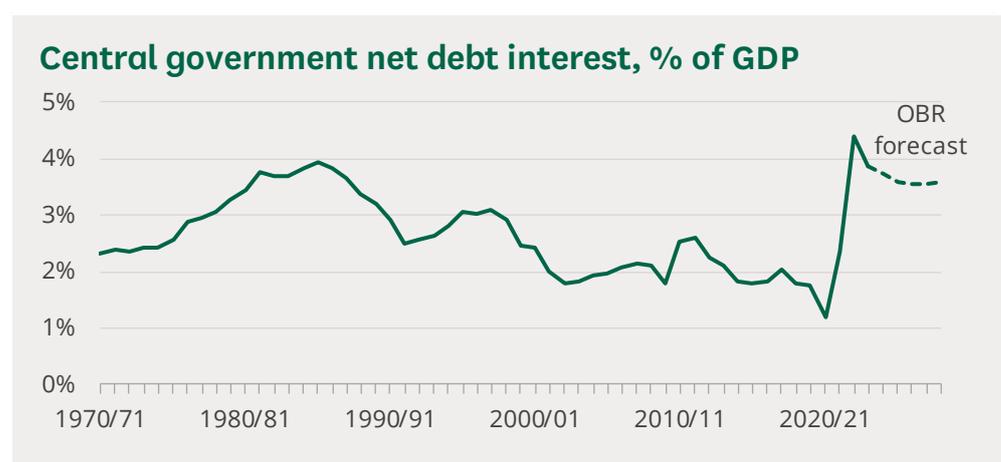
The Library Insights [Coronavirus: Government debt, an explainer](#) and [What are gilts? A simple guide](#) explains how the government borrows in more detail.

## 6 How much interest does the government pay on its borrowing?

Interest payments on government’s past borrowing are a relatively big cost for government. In 2023/24, government’s net debt interest spending was £107 billion, which is equivalent to 3.9% of GDP or 8.7% of government spending.

Government’s spending on debt interest has been relatively high since 2022. This is largely because the interest paid on around one quarter of the government’s debt is linked to inflation, which accelerated during 2022/23. Interest rates also rose, further increasing spending on debt interest.

Government was spending relatively little, by historical standards, on debt interest until 2021. The growth of spending on debt interest is explored further in section 2.5 of the Library briefing [Spring Budget 2024: Background briefing](#).



Source: ONS. Series [NMFEX](#), [MU74](#), [BKTL](#); OBR. [Public finances databank](#) (December 2024)

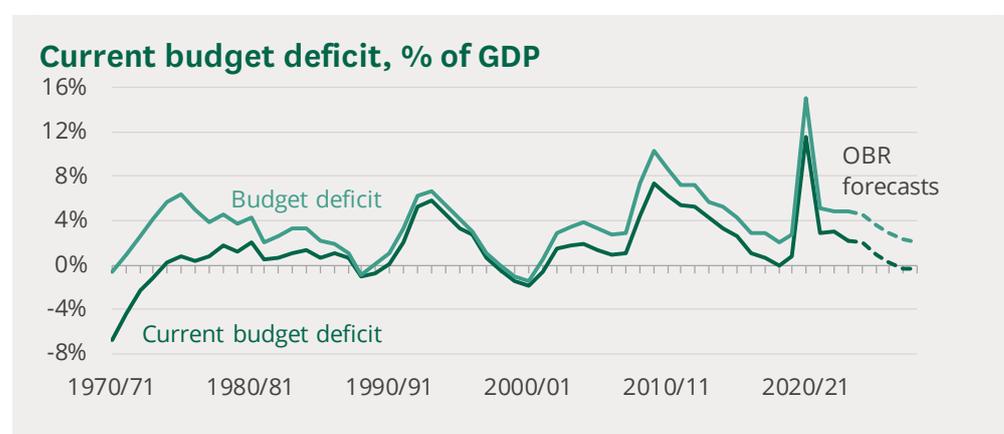
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## What is the current budget deficit?

The current budget deficit is the difference between government's day-to-day spending and its revenues, or more formally its current spending and current receipts.<sup>10</sup> Unlike the overall budget deficit, the current budget deficit doesn't include investment spending and therefore is said to measure the degree to which taxpayers meet the cost of paying for the services provided to them.

The current budget deficit was £61 billion in 2023/24, equivalent to 2.2% of GDP.

The government has targets for the public finances – often know as 'fiscal rules' or 'fiscal targets'. The Chancellor has proposed revising one of the rules, so it focuses on the current budget deficit. The Library briefing [The UK's fiscal targets](#) has further information about the rules.

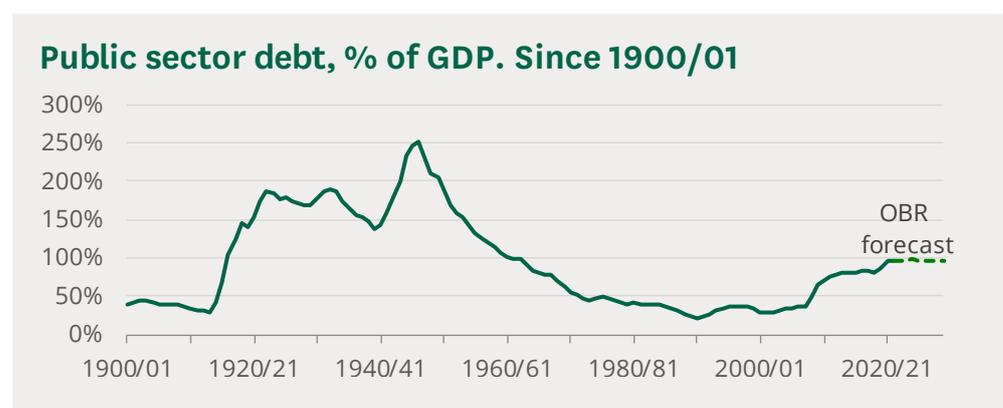


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## What is the difference between the deficit and government debt?

The deficit is the difference between government revenue and spending, usually measured over a single financial year. Debt is the total amount owed by the government which has accumulated over the years. Debt is therefore a much larger sum of money. At the end of 2023/24 public sector net debt was £2,686 billion (i.e. £2.7 trillion), or 96% of GDP.<sup>11</sup> This is equivalent to around £39,300 per person in the UK.

As the chart below shows, since the beginning of the 21<sup>st</sup> century, government debt has increased from around 33% of GDP to around 100% of GDP today. There were large increases due to the financial crisis (2008-2010) and the Covid-19 pandemic and energy price shock (2019-2023).<sup>12</sup> Debt is at a level last seen in the early 1960s. In the 1960s, government debt was still falling after reaching over 250% of GDP during World War II.



Source: ONS. [Series HF6X](#). OBR. [Public finances databank](#) (December 2024)

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## Where can I find more information?

The Office for Budget Responsibility (OBR) has produced [a brief guide to the public finances](#), which provides a brief introduction to the UK public finances and to the terms used to describe them in the official statistics.

In March 2016, the ONS produced [a data driven explanation](#) of the deficit and debt.

Those wishing to delve further into technical areas should look at the Office for National Statistics' (ONS') Public Sector Finances [methodological guide](#). The ONS has also produced a [public sector finances glossary](#).

Data on the deficit, debt, spending and receipts are available from the OBR's [public finances databank](#). Some of the series begin in 1900/01, and the data

<sup>11</sup> These measures exclude public sector banks

<sup>12</sup> OBR. Economic and fiscal outlook - March 2024, [Box: 5.1](#)

includes the latest forecasts. The OBR's [historical public finances database](#) contains 300 years of tax, spending, borrowing and debt data.

The Library has published the following relevant briefings:

- [Public finances](#)
- [Coronavirus: Government debt, an explainer](#)
- [What are gilts? A simple guide](#)
- [Coronavirus: Economic impact](#)

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