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Addition of remaining public banks raises public sector net debt by £1,300 billion

Date: 25 January 2011

Coverage: United Kingdom **Theme:** The Economy

The Office for National Statistics and HM Treasury jointly publish monthly estimates of the Public Sector Finances (PSF). The release published on 25 January 2011 includes, for the first time, data for the Lloyds Banking Group (LBG) and the Royal Bank of Scotland (RBS).

In the period up to September 2007, before the classification of Northern Rock to the public sector, the level of public sector net debt (PSND) largely reflected central government's net debt. By the end of December 2008, the classification to the public sector of, first, Northern Rock and subsequently Bradford & Bingley added around £130 billion to PSND. Including the Lloyds Banking Group and RBS in the public sector finances, adds around a further £1,300 billion to PSND

The classification of RBS and LBG to the public sector has a significant impact on public sector finance statistics. Provisional estimates show that the public sector had in December 2010:

- current budget deficit of £11.8 billion including interventions
- current budget deficit of £13.5 billion excluding interventions
- net borrowing of £15.5 billion including interventions
- net borrowing of £16.8 billion excluding interventions

and at the end of December 2010:

- net debt of £2,322.7 billion including interventions, equivalent to 154.9 per cent of gross domestic product
- net debt of £889.1 billion excluding interventions, equivalent to 59.3 per cent of gross domestic product

The estimates are published both including and excluding any temporary effects of the financial interventions (see O'Donoghue, 2010). The measures excluding temporary effects of the financial interventions are used by HM Treasury for the purpose of fiscal policy and are the measures that

are forecast by the Office for Budget Responsibility. These effects are considered temporary as the Government has made clear its intention to return these banks to the private sector, so in the long run the impact on PSND is unlikely to be permanent. These measures are not materially affected by the full inclusion of data for LBG and RBS.

Particular care should be taken when interpreting the revised figures for PSND. This series is calculated as financial liabilities less liquid assets; it includes most liabilities but excludes illiquid assets for instance, in the form of lending to businesses; for mortgages and holdings of corporate bonds. The latter exclusion is important because the public sector banking groups have considerable amounts of illiquid assets. What PSND shows is the extent to which the public sector's liabilities are matched by assets which can be realised quickly. For a fuller description of the wider Public Sector balance sheets see Hobbs 2010.

An article accompanies this release that summarises the information needed to incorporate the public sector banks into the PSF dataset, see O'Donoghue J, 2011. Explanatory notes describe in more detail how the information has been put together and contain important qualifications of which users need to be aware when analysing and interpreting the results.

Background Notes

1. O'Donoghue J, 2010, Public Sector Finances excluding Financial Sector Interventions;
<http://www.statistics.gov.uk/articles/nojournal/excluding-financial-interventions.pdf>
 2. O'Donoghue J, 2011, Inclusion of Royal Bank of Scotland and Lloyds Banking Group in the
Public Sector Finances; [http:// www.statistics.gov.uk
/StatBase/Product.asp?vlnk=805&Pos=&ColRank=1&Rank=422](http://www.statistics.gov.uk/StatBase/Product.asp?vlnk=805&Pos=&ColRank=1&Rank=422)
 3. Hobbs D, 2011, Wider measures of Public Sector debt;
<http://www.statistics.gov.uk/cci/article.asp?ID=2463>
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