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**Re: Impact on net debt of alternative growth profiles**

As Chair of the Budget Responsibility Committee of the Office for Budget Responsibility I have been asked to reply to your recent questions,

- **To ask Mr Chancellor of the Exchequer, if he will estimate public sector net debt in 2011 if gross domestic product growth is 1.3 per cent (72766); and**
- **To ask Mr Chancellor of the Exchequer, if he will estimate public sector net borrowing in 2012 if gross domestic product growth is (a) 1.3 per cent. and (b) two per cent (72765).**

The central forecast in our March *Economic and fiscal outlook (EFO)* was for GDP growth of 1.7 per cent in 2011 and 2.5 per cent in 2012. Net debt was projected to rise to 66.1 per cent of GDP in 2011-12 and to 69.7 per cent of GDP in 2012-13.

As always, there is considerable uncertainty around such point estimates. In light of this, we undertake extensive sensitivity and scenario analysis in order to illustrate the implications for the public finances of altering some of the key parameters and judgements in the central forecast.

As set out in the *EFO* document, for these purposes we use a ready-reckoner that assumes a 1 per cent change in GDP in a given year will result in a 0.5 per cent of GDP change in public sector net borrowing (PSNB) in the first year, and a 0.7 per cent of GDP change in PSNB after two years.

This gives a broad-brush guide to the scale of the impact, by assuming that the difference in GDP is structural; the composition of GDP remains unchanged; and that, given the state of the economy, there are no errors in forecasting receipts or expenditure. In reality, there are additional uncertainties around all of these factors. We illustrate some of the general uncertainty through the use of a fan chart, which shows the probability of different borrowing outcomes based on past forecast errors.

We will update our forecasts on 29<sup>th</sup> November. The *Charter for Budget Responsibility* requires us to produce each of our fiscal and economic forecasts on a date announced to Parliament by the Chancellor. In line with this, it would not be appropriate to publish new estimates in isolation prior to the publication of the November *EFO*.

Best regards,  


Robert Chote  
**Office for Budget Responsibility**