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*Dear Mr Wright*

**Re: Effect of inflation on estimates of spending and borrowing**

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

**To ask Mr Chancellor of the Exchequer, what estimate he has made of the change in (a) the level of Government spending on benefits and pensions and (b) Government borrowing as a result of the increase in inflation announced on 18 October 2011; and if he will make a statement. 76100**

We will set out estimates of the impact of the September 2011 inflation rate on public sector spending and borrowing in our forthcoming *Economic and fiscal outlook (EFO)* on November 29<sup>th</sup>. It is not possible to estimate the impact in isolation from other changes to the forecast as the impact will depend on the overall level of spending on benefits and pensions that we forecast for 2012-13 and future years.

In the March 2011 *EFO*, we set out the impact of the change in our forecast of inflation since November 2010 on the level of social security benefit and tax credit spending in Tables 4.18 and 4.19 on page 126. We also set out in Box 4.3 on page 144 an explanation of the variety of ways in which inflation can affect the public finances, through both changes to government expenditure and changes to receipts.

Yours sincerely



**Robert Chote**  
Chairman