4 December 2015

Supplementary forecast information release: Year-by-year changes in the cyclically-adjusted current budget

The OBR is releasing the information below following a request for further detail underlying the November 2015 *Economic and fiscal outlook (EFO)*. The OBR will where possible meet requests to release supplementary forecast information, where this will improve the quality of public debate on the public finances. Our full release policy can be found on our website.

We have been asked to reproduce the equivalent of Chart 5.1 from our July *Economic and fiscal outlook (EFO)*, which plotted the year-by-year changes in the cyclically adjusted current budget (CACB) balance, the measure that was targeted under the Government's previous fiscal mandate. Chart 1 presents that analysis consistent with our November 2015 fiscal forecast. If the previous mandate had still been in operation in our November forecast, the mandate year would have been 2018-19.

Our central forecast is for the CACB to be in surplus by 1.2 per cent of GDP in 2018-19. The surplus rises further in 2019-20 and reaches 2.4 per cent of GDP in 2020-21. The pace at which the CACB improves over the next four years is very similar to the pace we expected in July (0.9 per cent of GDP a year over on average), but the improvement in 2020-21 is 0.4 per cent of GDP greater than in our July forecast. The change in 2020-21 reflects the Government's decision to shift the balance of departmental spending in that year away from current spending (RDEL) – which is included in the CACB – towards capital spending (CDEL) – which is excluded from the CACB measure of borrowing. These changes were set out in Table 4.20 and the accompanying discussion in our November *EFO*.

Chart 1 uses cyclical-adjustment coefficients for different types of receipts and spending[1] to show how about the CACB is expected to move from deficit in 2014-15 to a large surplus in 2020-21:

- the CACB is expected to improve by 3.6 per cent of GDP between 2014-15 and 2018-19 (which would have been the fiscal mandate year). Lower spending contributes 2.7 per cent of GDP to the improvement and higher receipts 0.9 per cent of GDP. Relative to our July forecast, the contribution from receipts is a little greater and that from spending a little smaller, reflecting both underlying forecast changes and the Government's decisions to raise taxes and increase RDEL and welfare spending in the Spending Review and Autumn Statement;

- in the current year (2015-16), the CACB deficit falls by 0.7 per cent of GDP. Cuts in spending, in particular a structural reduction in day-to-day departmental spending (RDEL in the chart), explain all of the change;

[1] Further details can be found in Helgadottir *et al* (2012), *Working Paper No.4: Cyclically adjusting the public finances*.

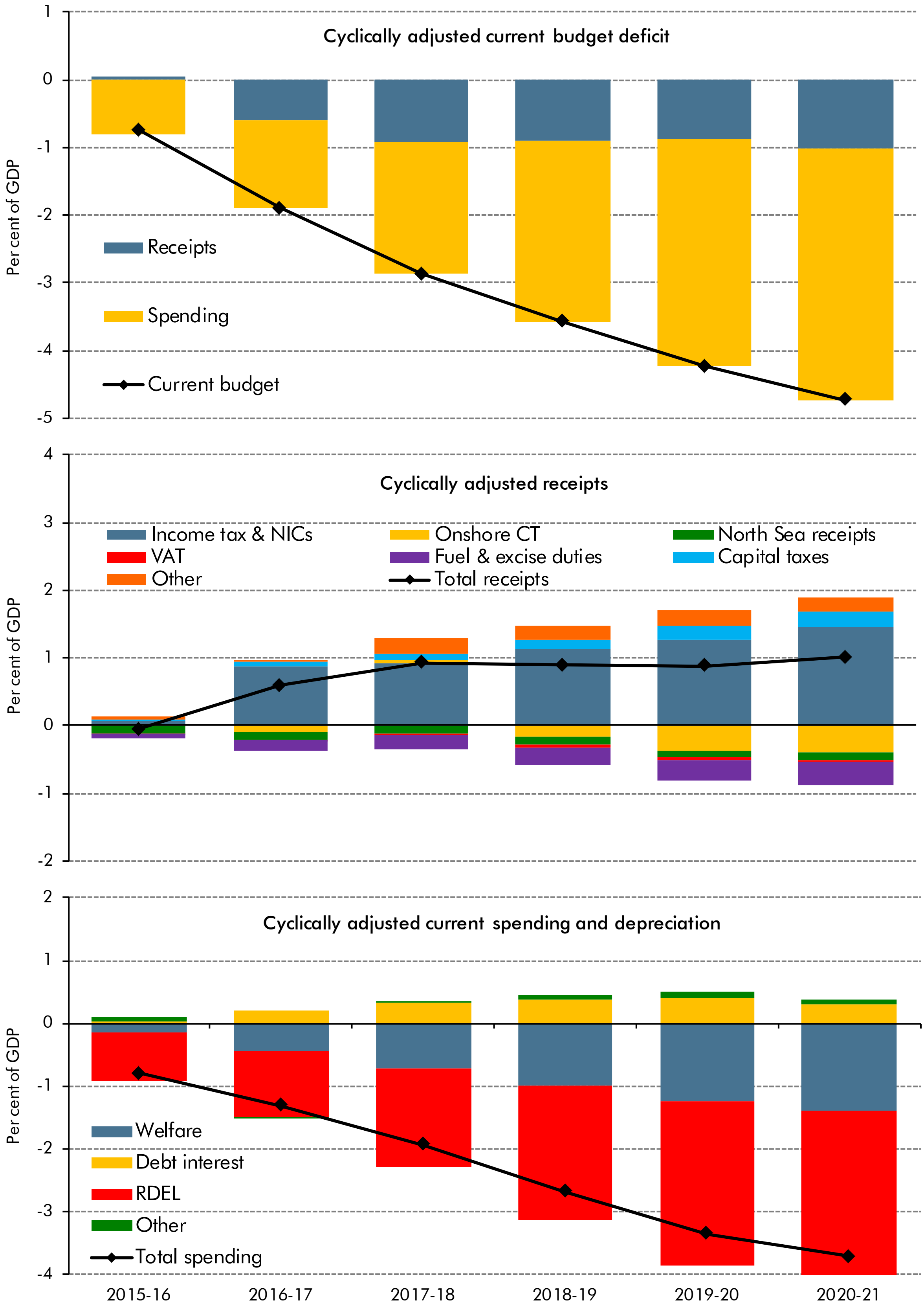
- as in July, the CACB is forecast to improve most in 2016-17 – by 1.2 per cent of GDP. The structural rise in receipts from income tax and NICs – which includes the effects of a number of policy measures announced in past Budgets and Autumn Statements – accounts for the majority of that improvement. Cuts in public services spending and welfare spending (despite the reversal of the tax credit cuts that were announced in July) also contribute to the improvement. These factors more than offset the negative contribution from some other taxes;

- in 2017-18, the CACB improves by around 1.0 per cent of GDP. This improvement is almost entirely driven by the combination of cuts in public services spending and welfare spending. Fiscal drag lifts income tax and NICs receipts, but that effect is offset by structural falls in other taxes;

- in 2018-19 and 2019-20, the CACB improves by around 0.7 per cent of GDP a year. These improvements are also driven almost entirely by the combination of cuts in public services spending and welfare spending. Again, the structural effect of fiscal drag on income tax and NICs receipts is offset by structural falls in other taxes; and

- in 2020-21, the CACB improves by around 0.5 per cent of GDP. That reflects a combination of public services spending and welfare spending falling as a share of GDP, while the structural effect of fiscal drag on income tax and NICs is less than fully offset by changes in other taxes.

Chart 1: Year-on-year changes to the cyclically adjusted current budget



Source: OBR