

Office for  
**Budget  
Responsibility**

# **Economic and fiscal outlook**

**8 March 2017**

**Robert Chote  
Chairman**

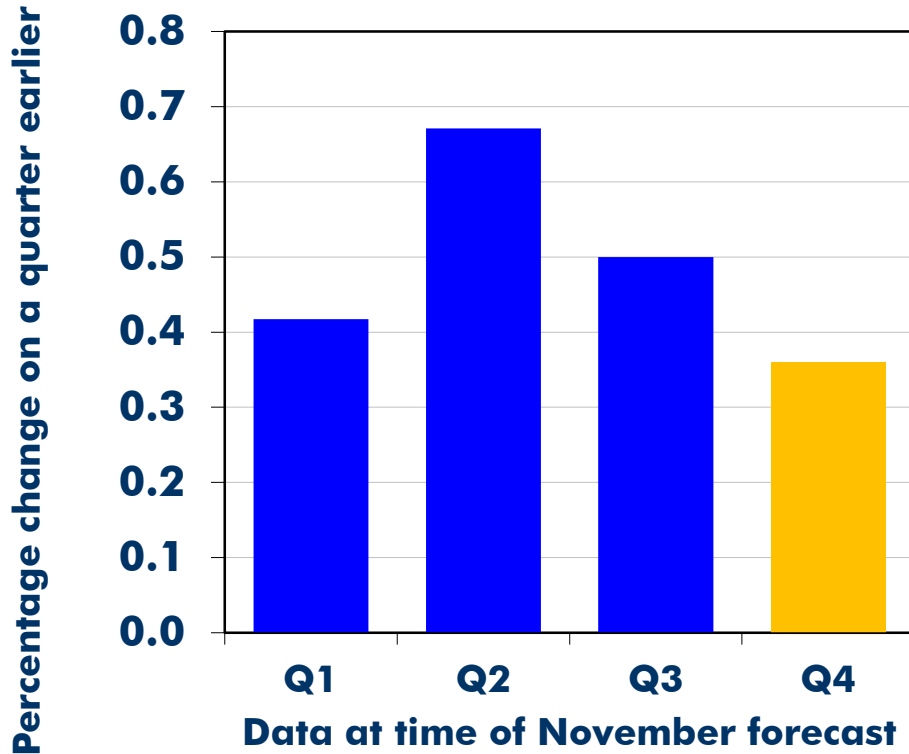
# Coverage and process

- Five year forecasts, plus assessment of targets
- Independent BRC responsible for conclusions
- Helped by OBR staff and other officials
- Final pre-scorecard forecast on 24 February
- Met with Chancellor and officials on February 28
- No pressure to change anything

# Key points

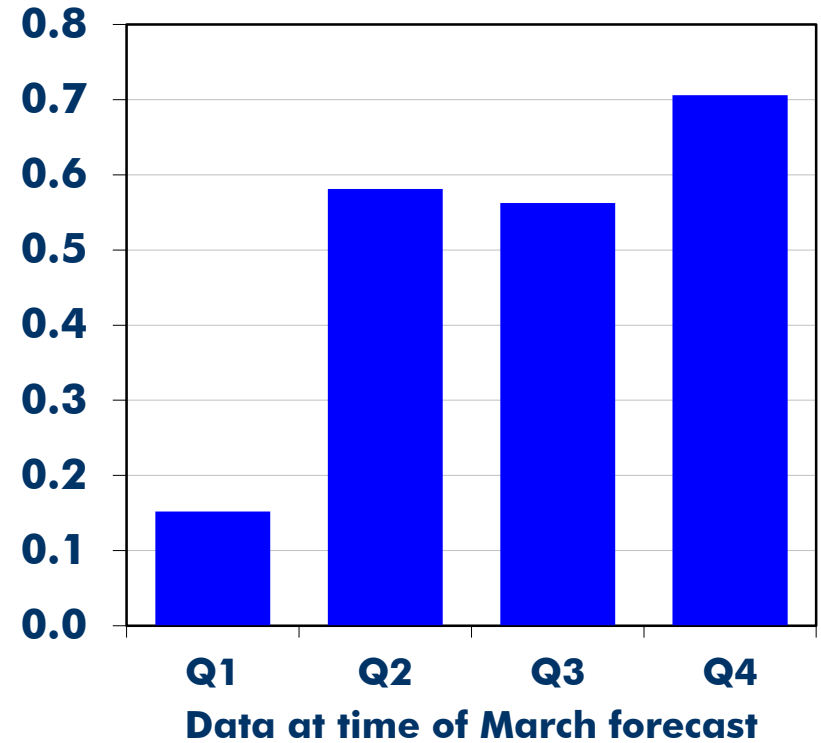
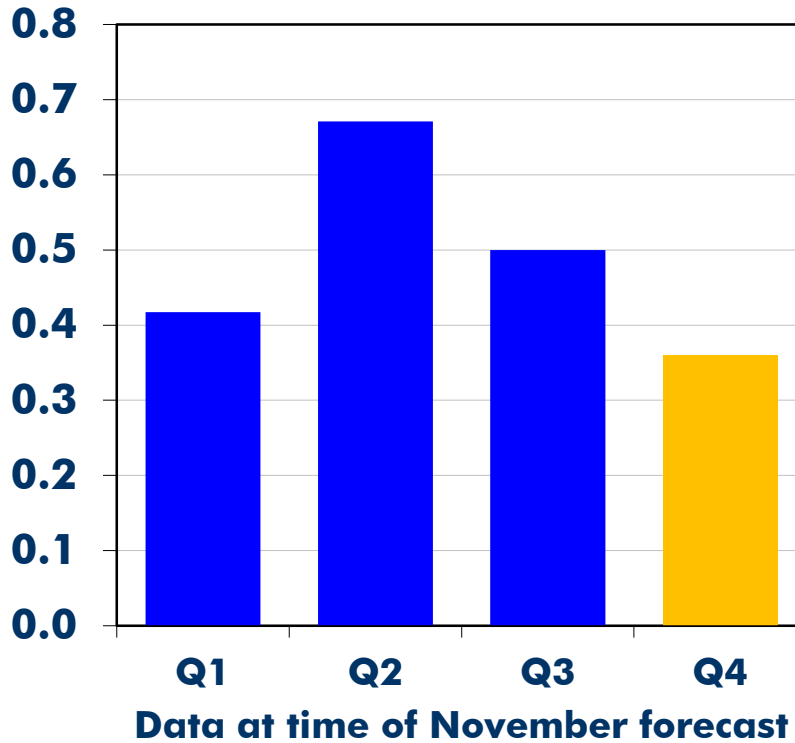
- **Modest changes to economy forecast**
  - Consumers deliver more growth momentum into 2017
  - But growth to slow later this year as inflation rises
  - Little change to cumulative growth over the forecast
- **Deficit lower than expected this year, but rises next**
  - Borrowing revised down a lot this year and a little next year
  - Deficit rises into 2017-18, but then returns to November path
  - £3bn giveaway next year; small takeaways later
- **Government on course for targets, but not a surplus**
  - Structural borrowing and debt targets met with room to spare
  - But not on course for surplus in the next Parliament
  - Deficit stable from 19-20 and ageing/health costs will mount

# Quarterly growth through 2016

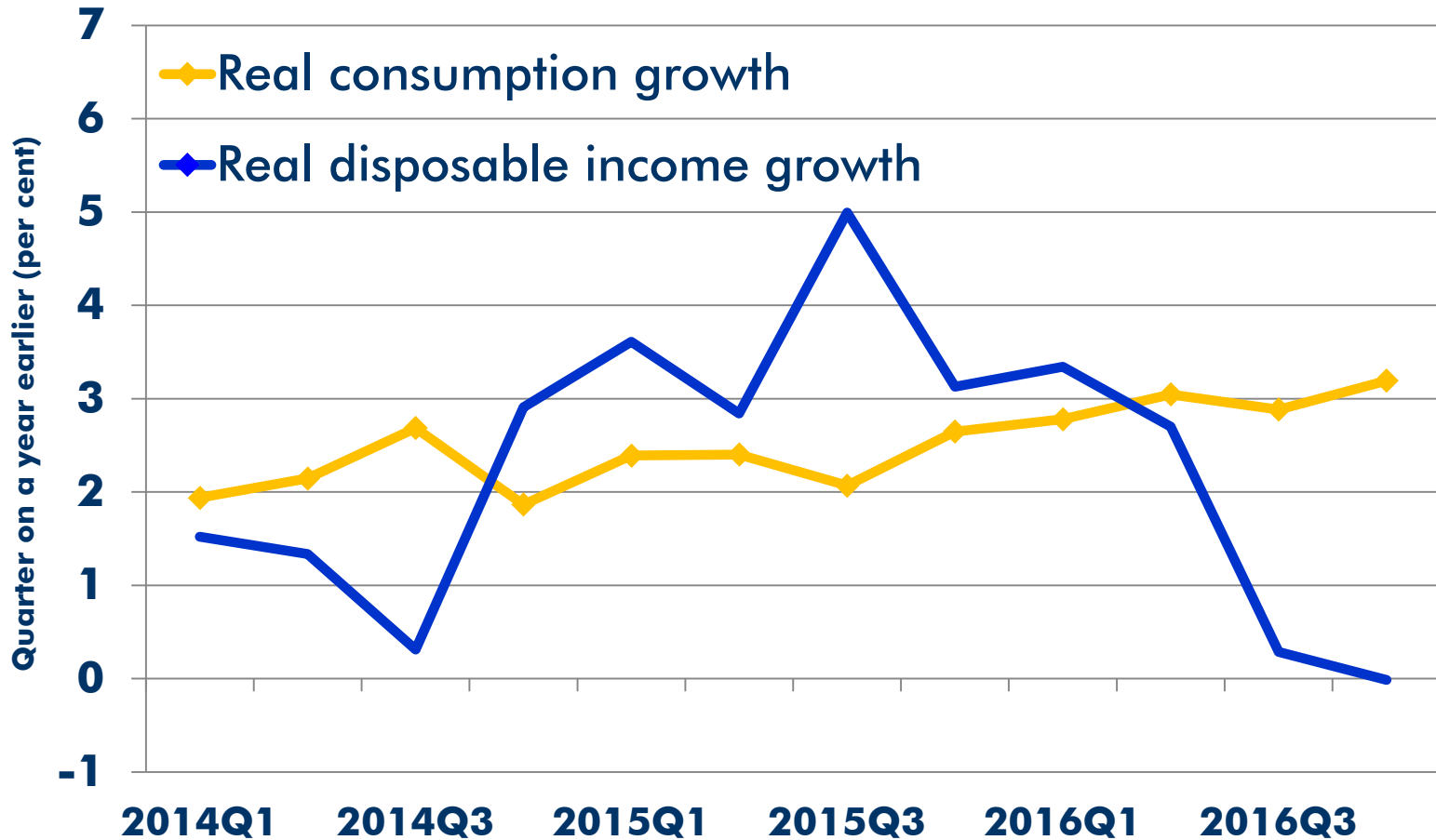


# Quarterly growth through 2016

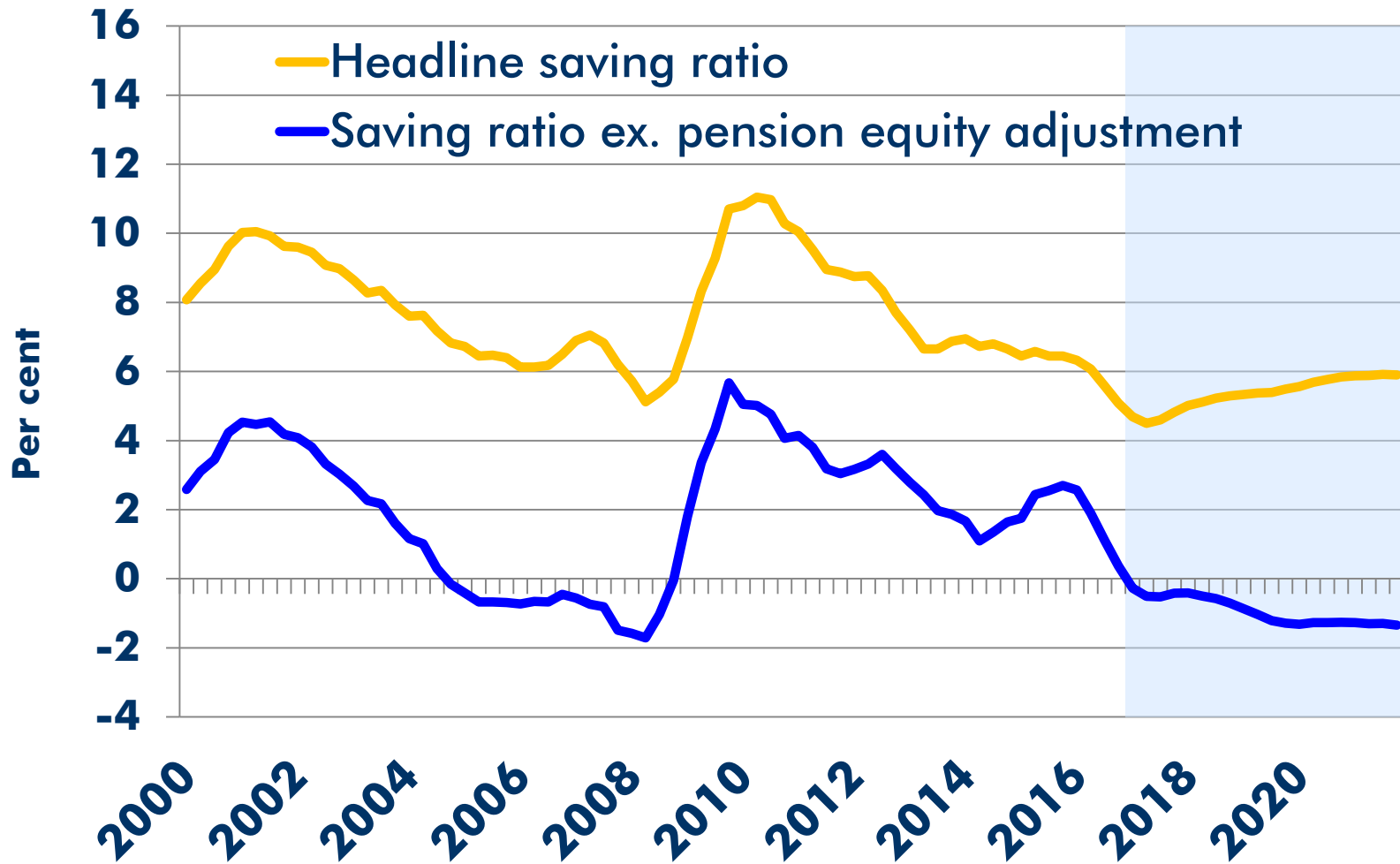
Percentage change on a quarter earlier



# Consumers deliver momentum



# Saving ratio falls sharply

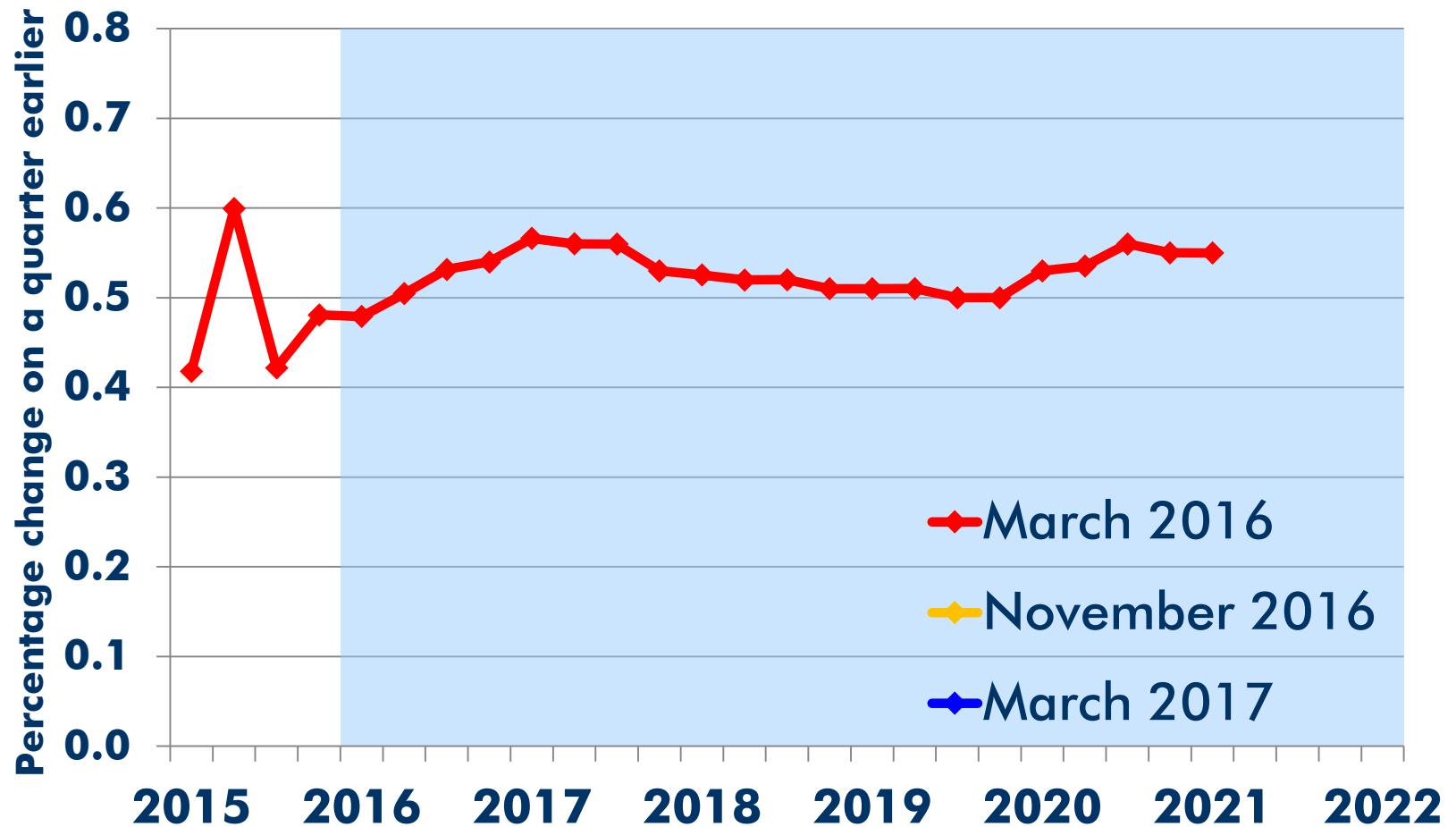


# Key growth judgements

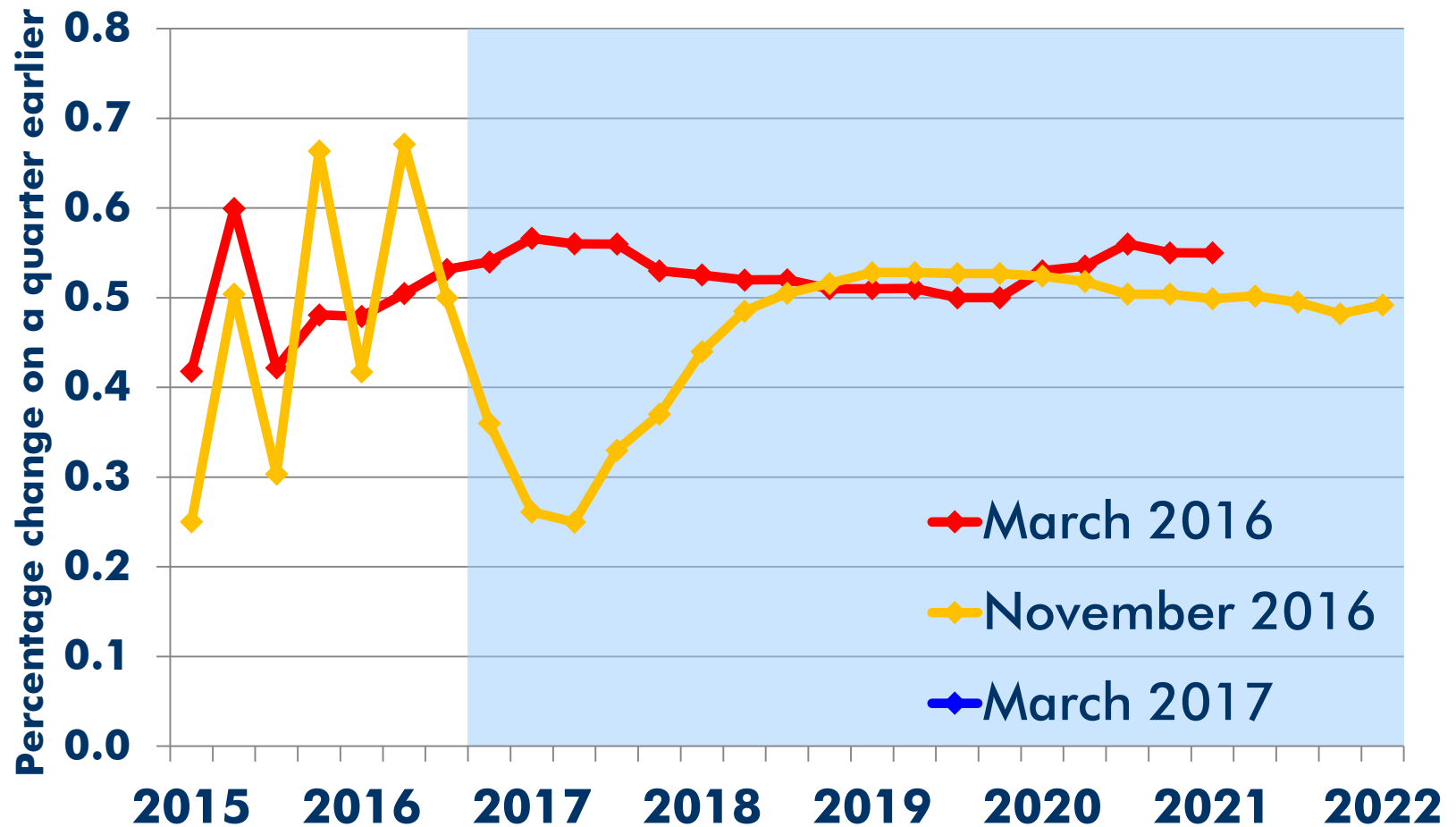
- Quarterly growth stays firm into Q1
- Then slows as higher inflation squeezes real incomes and as the saving ratio stabilises
- Picks up into 2018 as business investment recovers and inflation squeeze eases
- Net trade boosts growth in 17 and 18, then drags
- Total growth slightly weaker overall



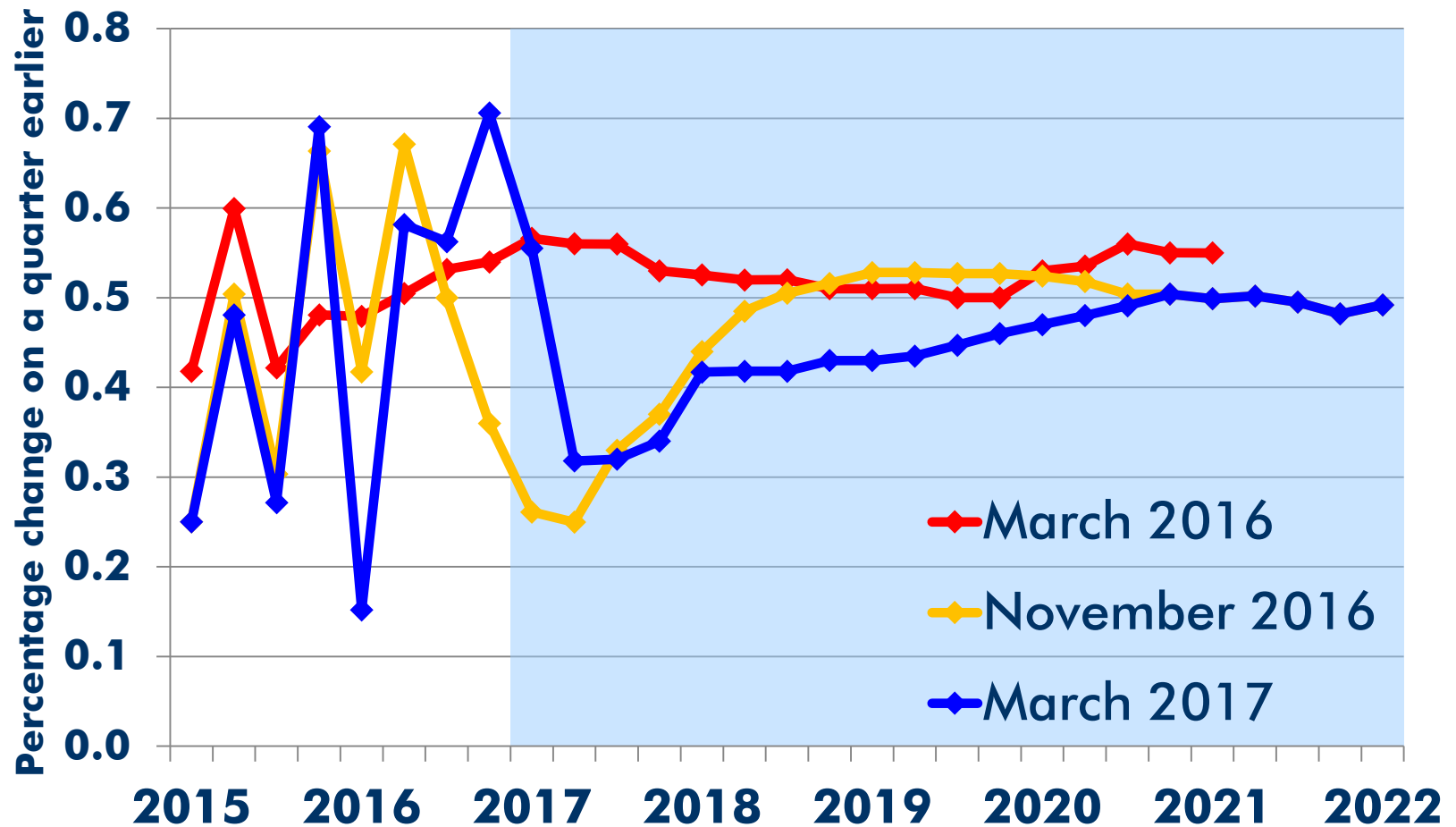
# Quarterly real GDP growth



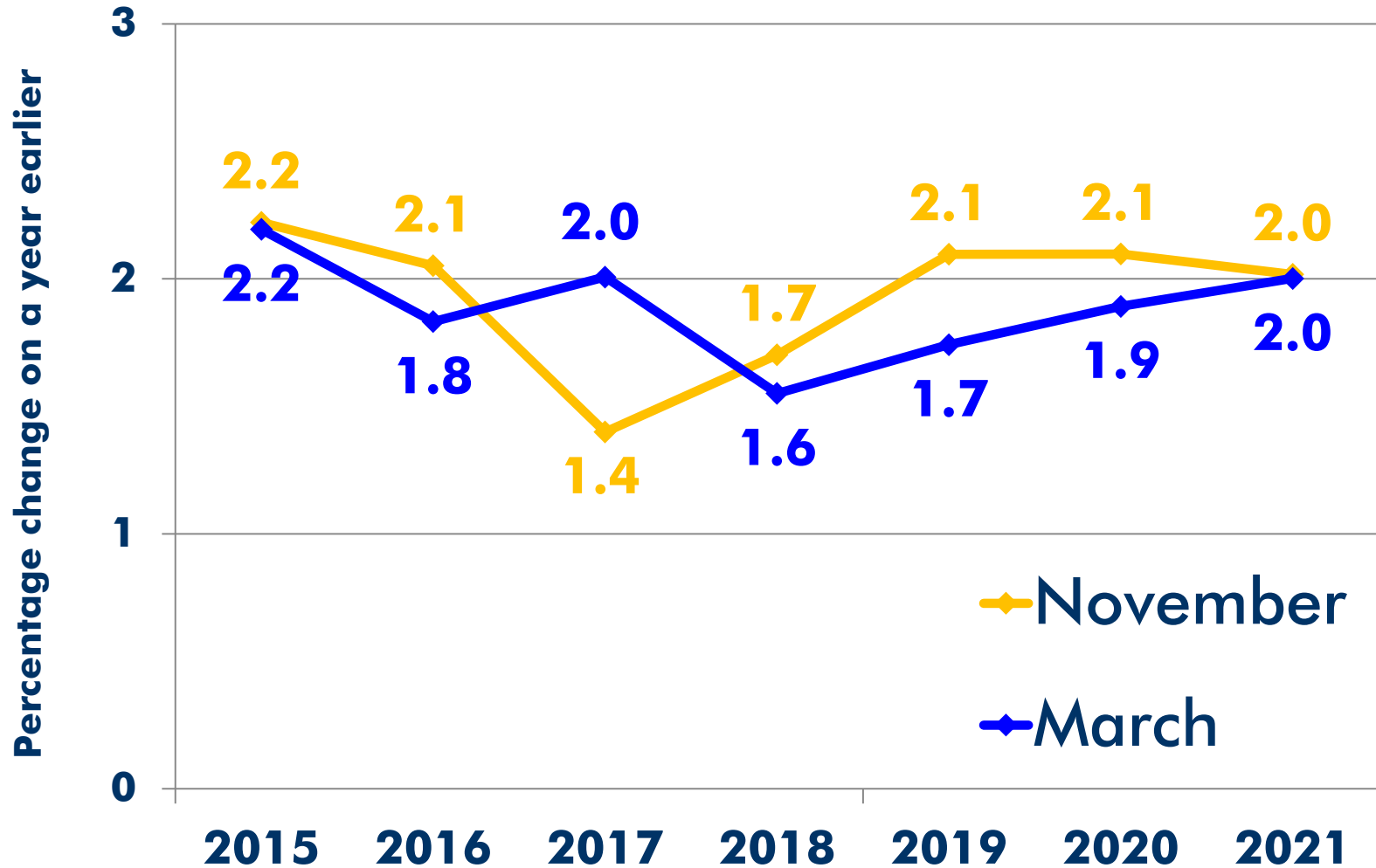
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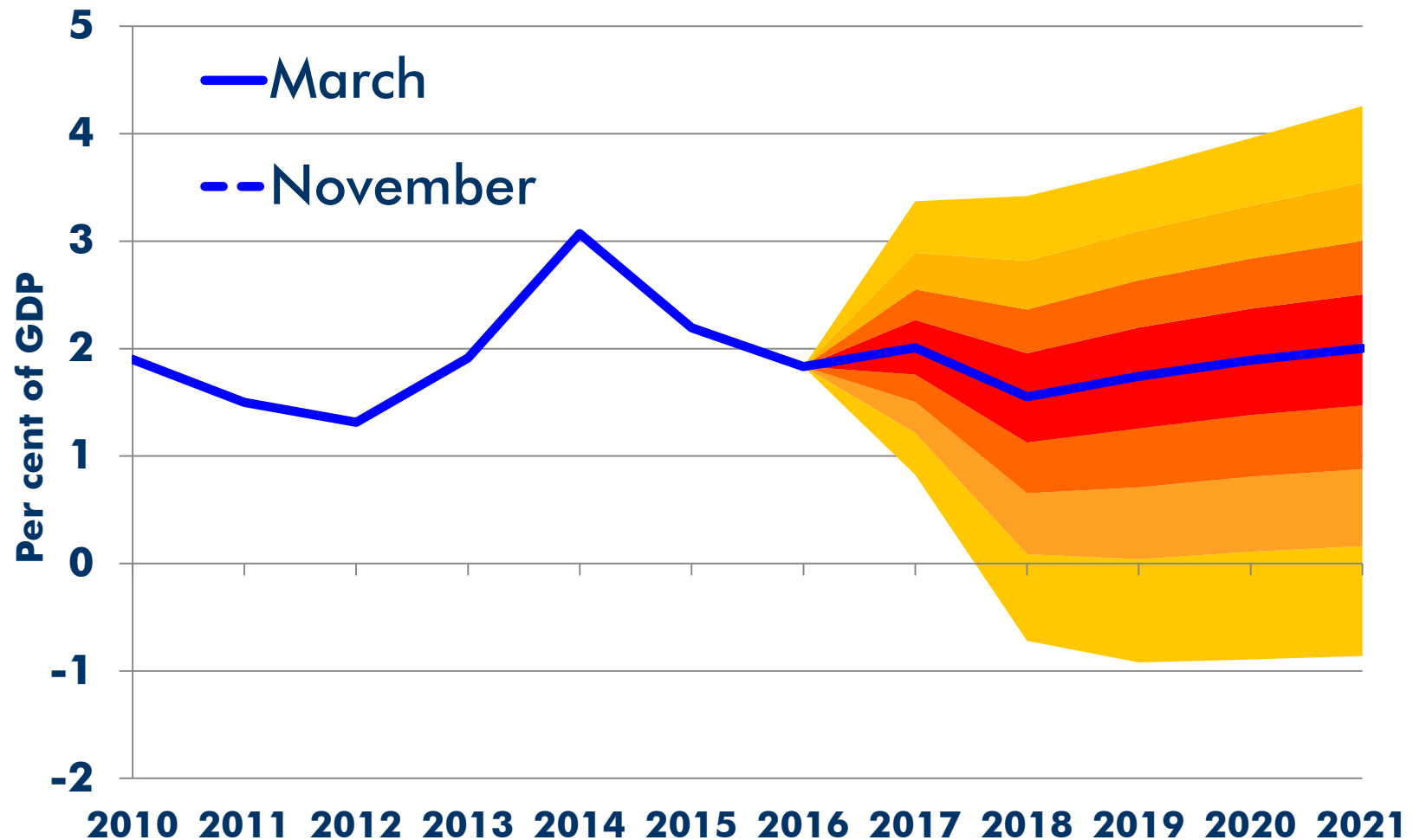
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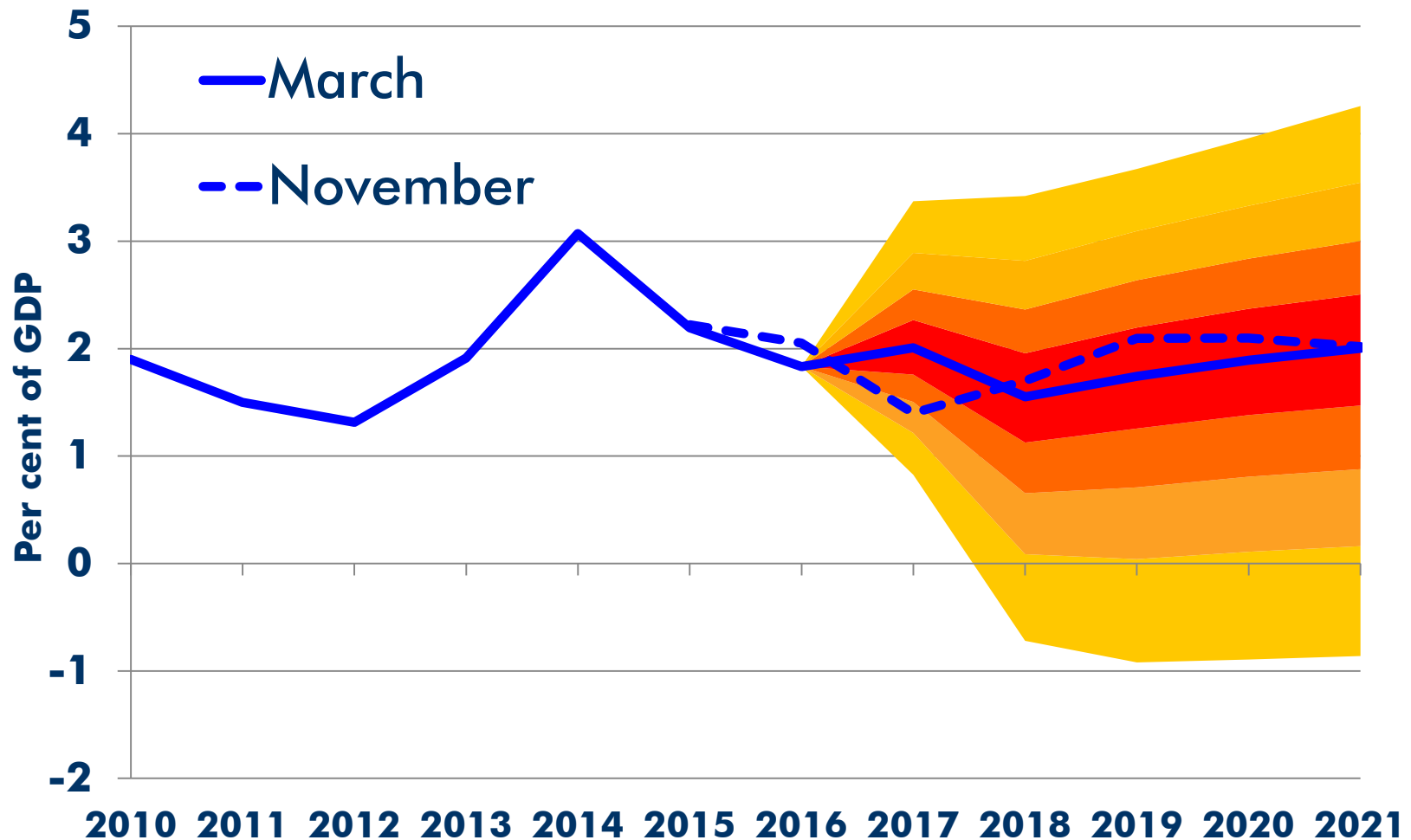
# Annual real GDP growth



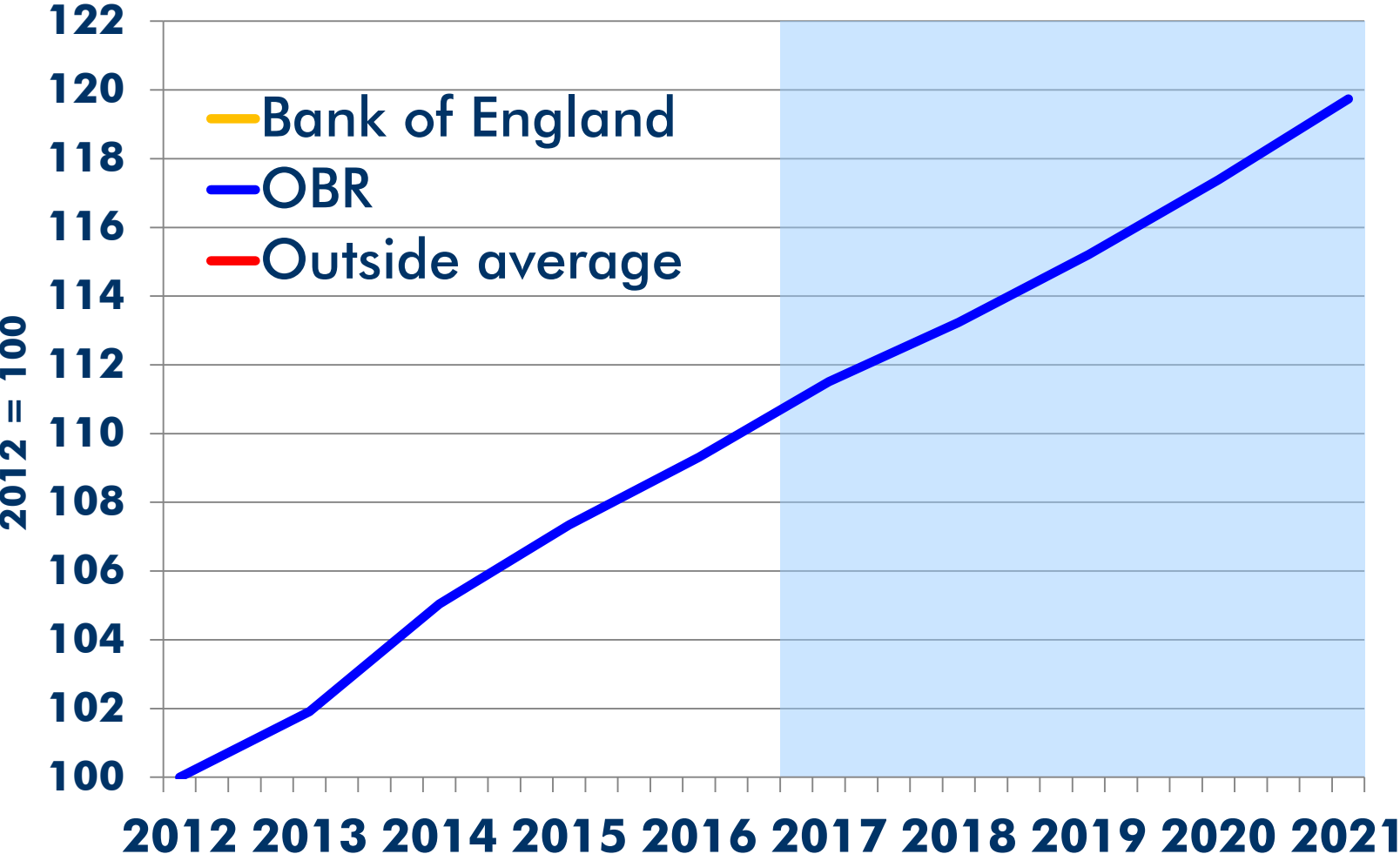
# Uncertainty around GDP growth



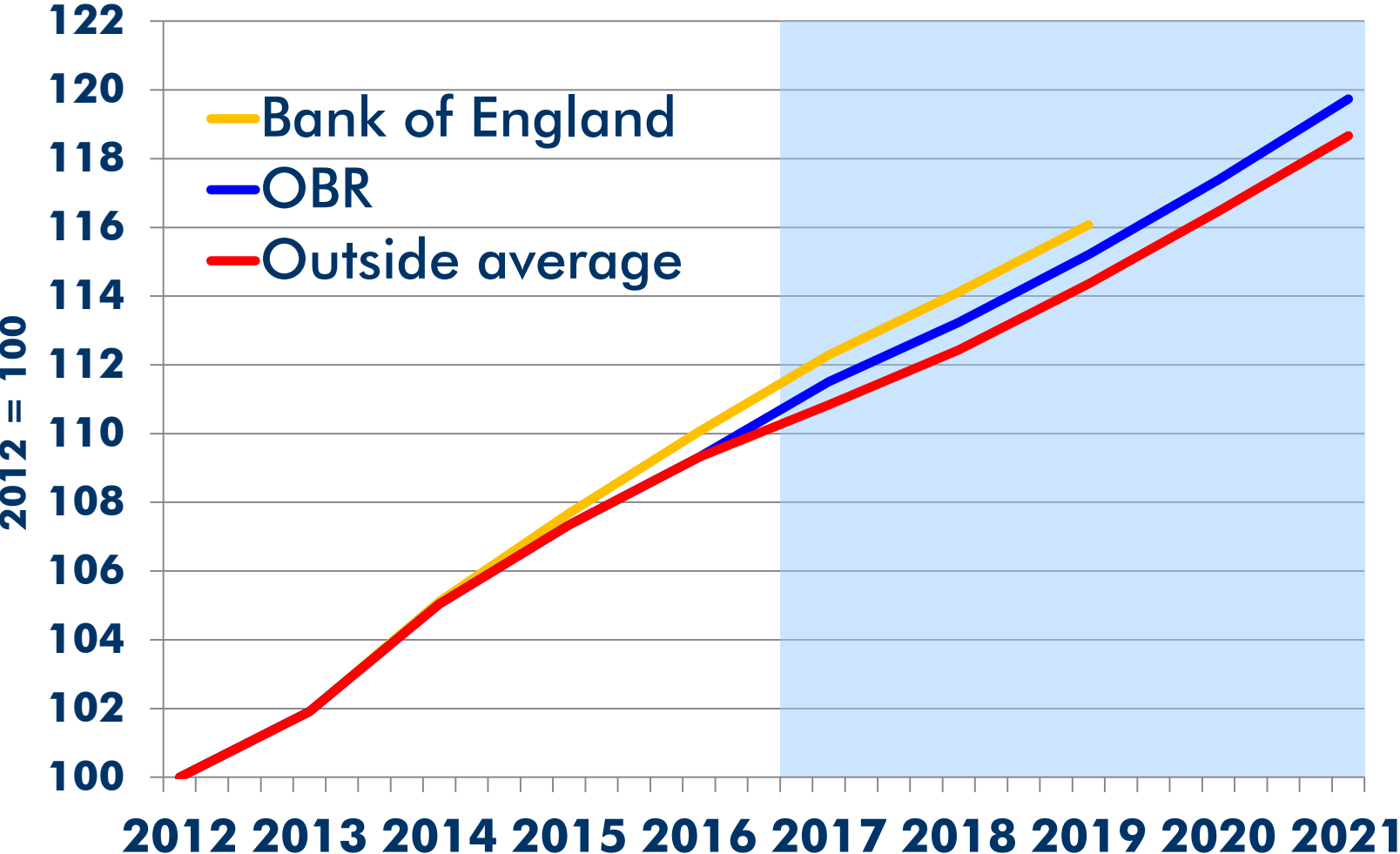
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# Real GDP: external forecasts

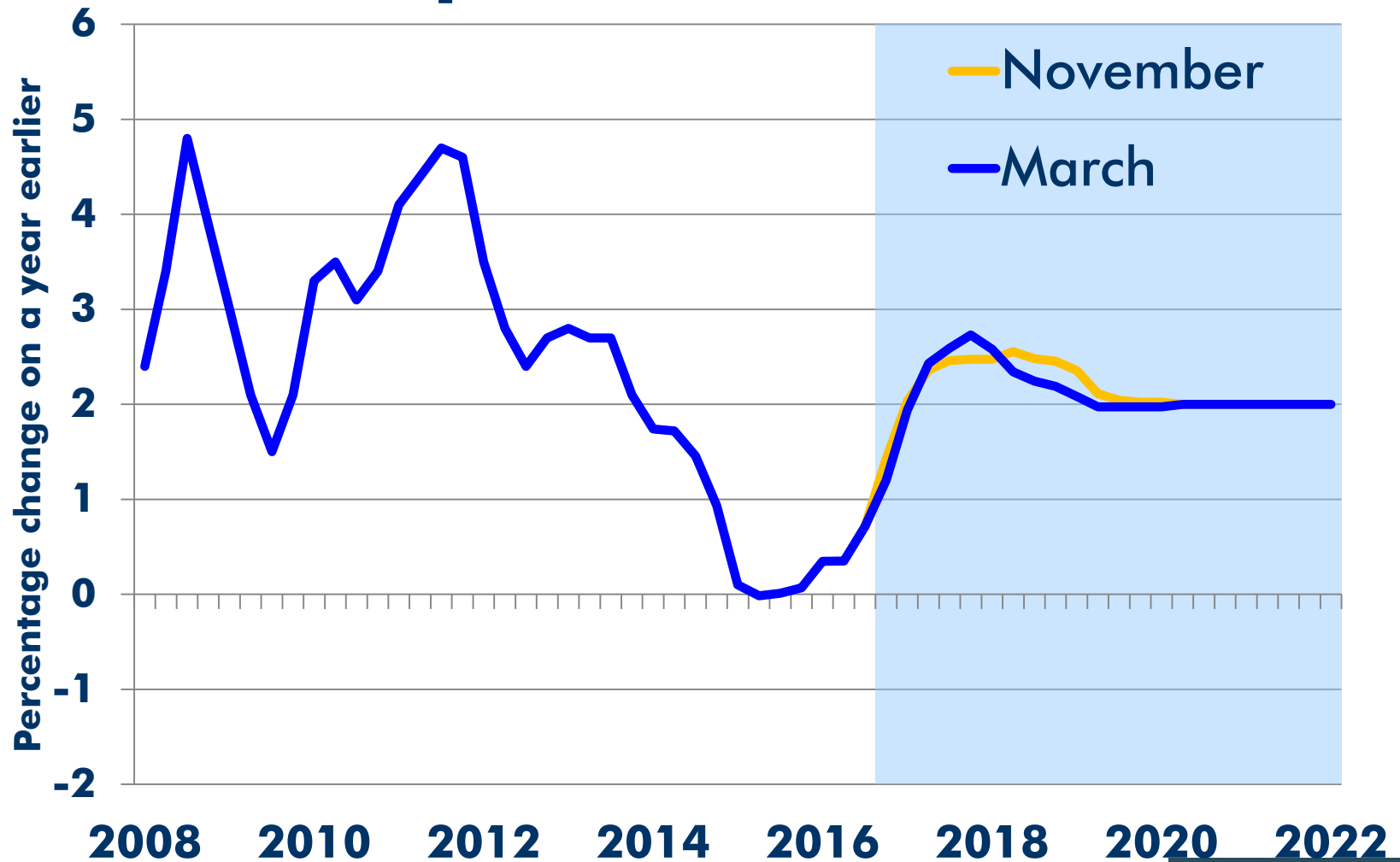


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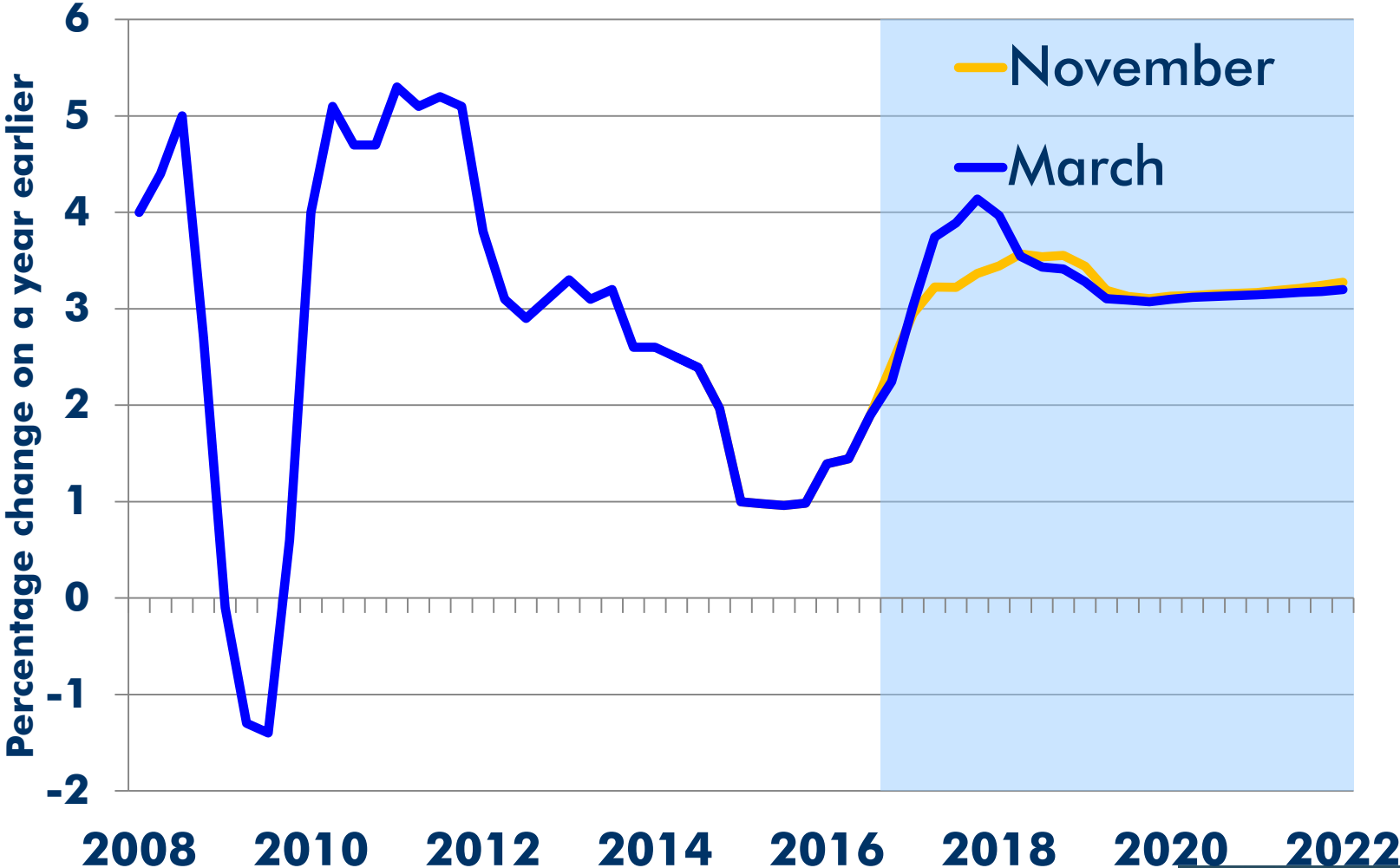




# Consumer price inflation



# Retail price inflation



# Main fiscal determinants

<b>Cumulative percentage growth, 2016 Q4 to 2022 Q1</b>	<b>November</b>	<b>March</b>	<b>Change</b>
<b>Potential GDP</b>	10.4	10.4	0.0
<b>Real GDP</b>	10.3	9.8	-0.4
<b>Nominal GDP</b>	22.0	20.1	-1.9
<b>Wages and salaries</b>	20.7	19.3	-1.3
<b>Non-north sea profits</b>	22.9	18.9	-4.0
<b>Nominal consumer spending</b>	22.0	21.0	-1.0
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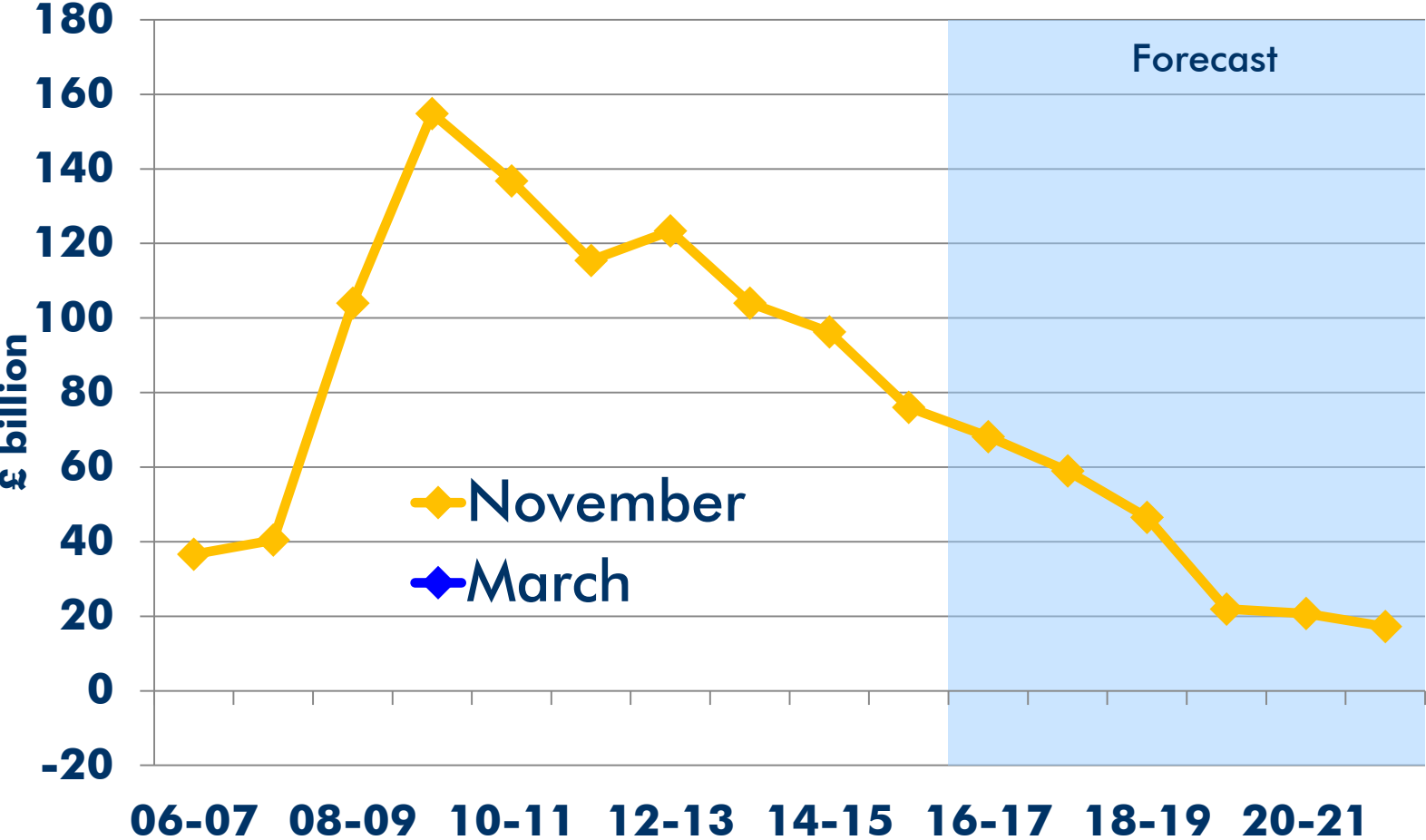
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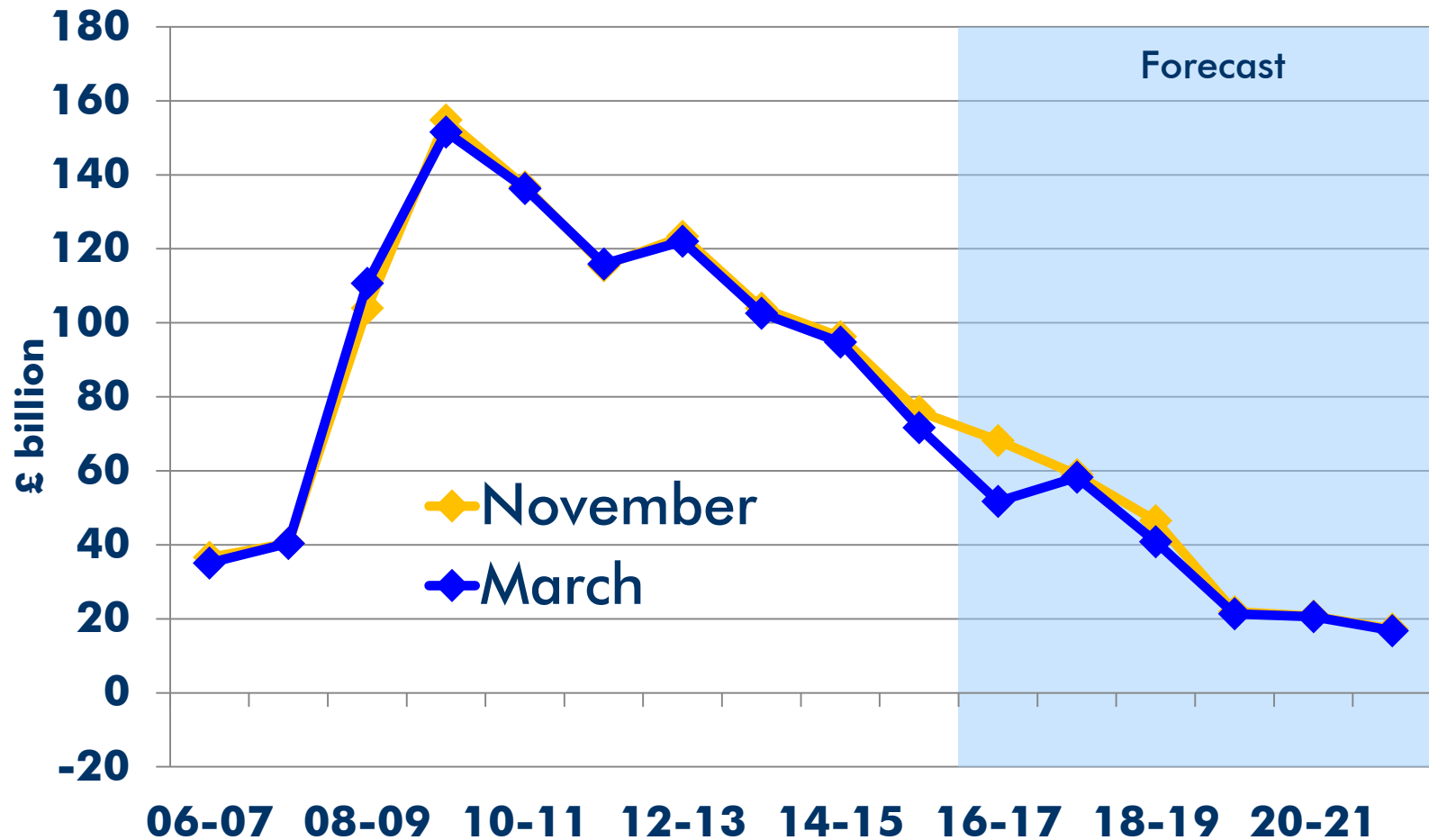
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# Public sector net borrowing

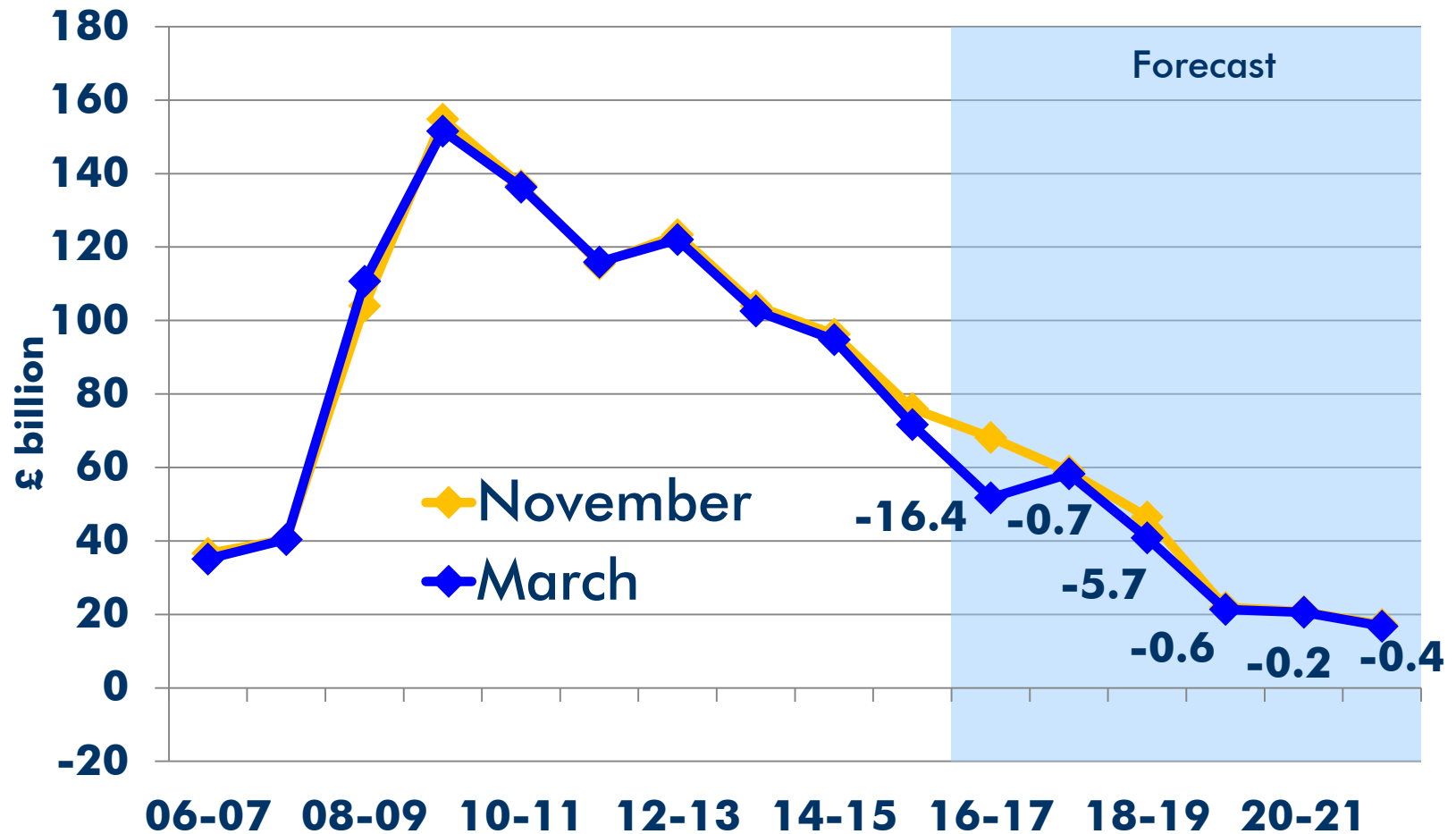


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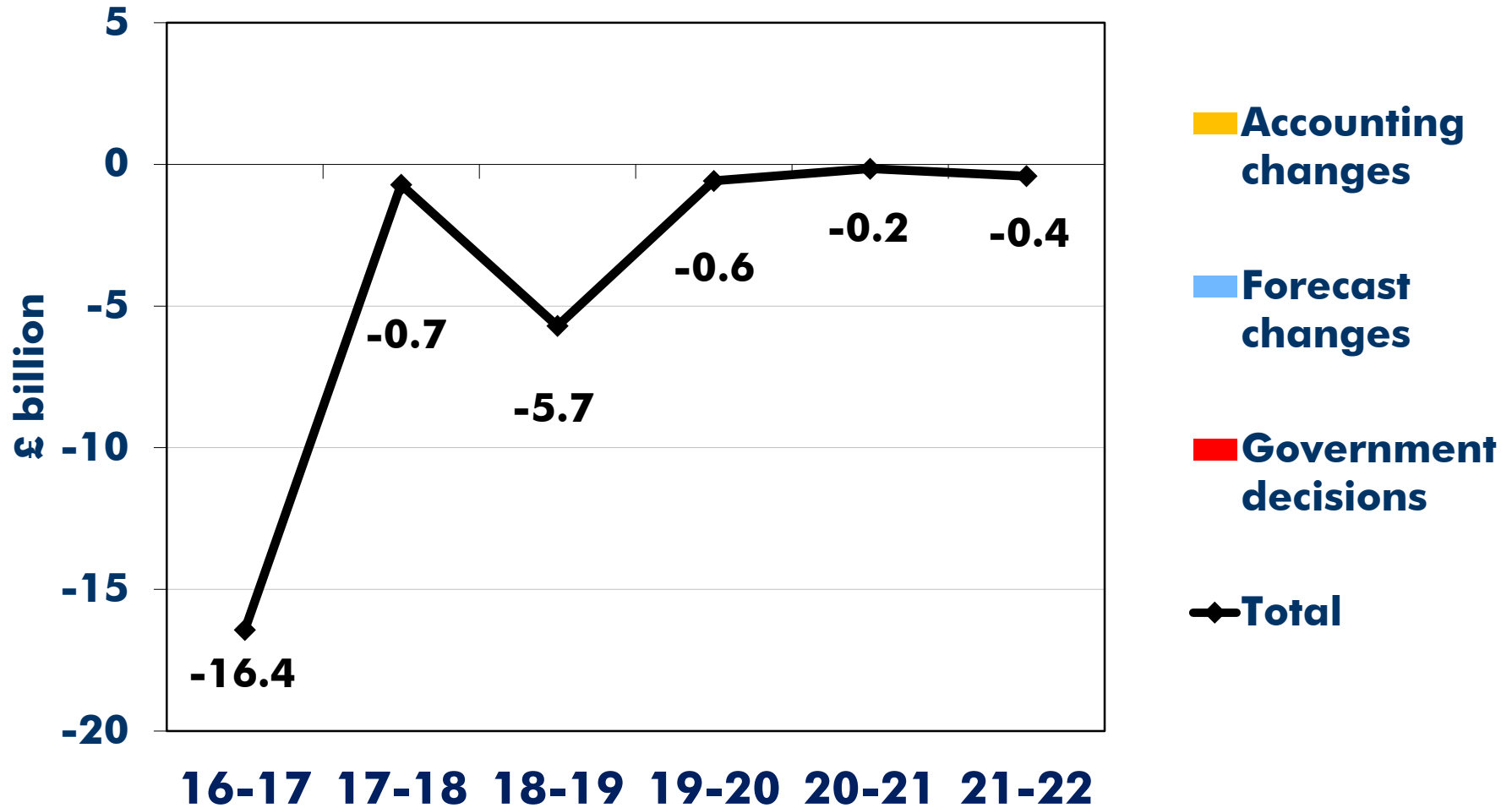




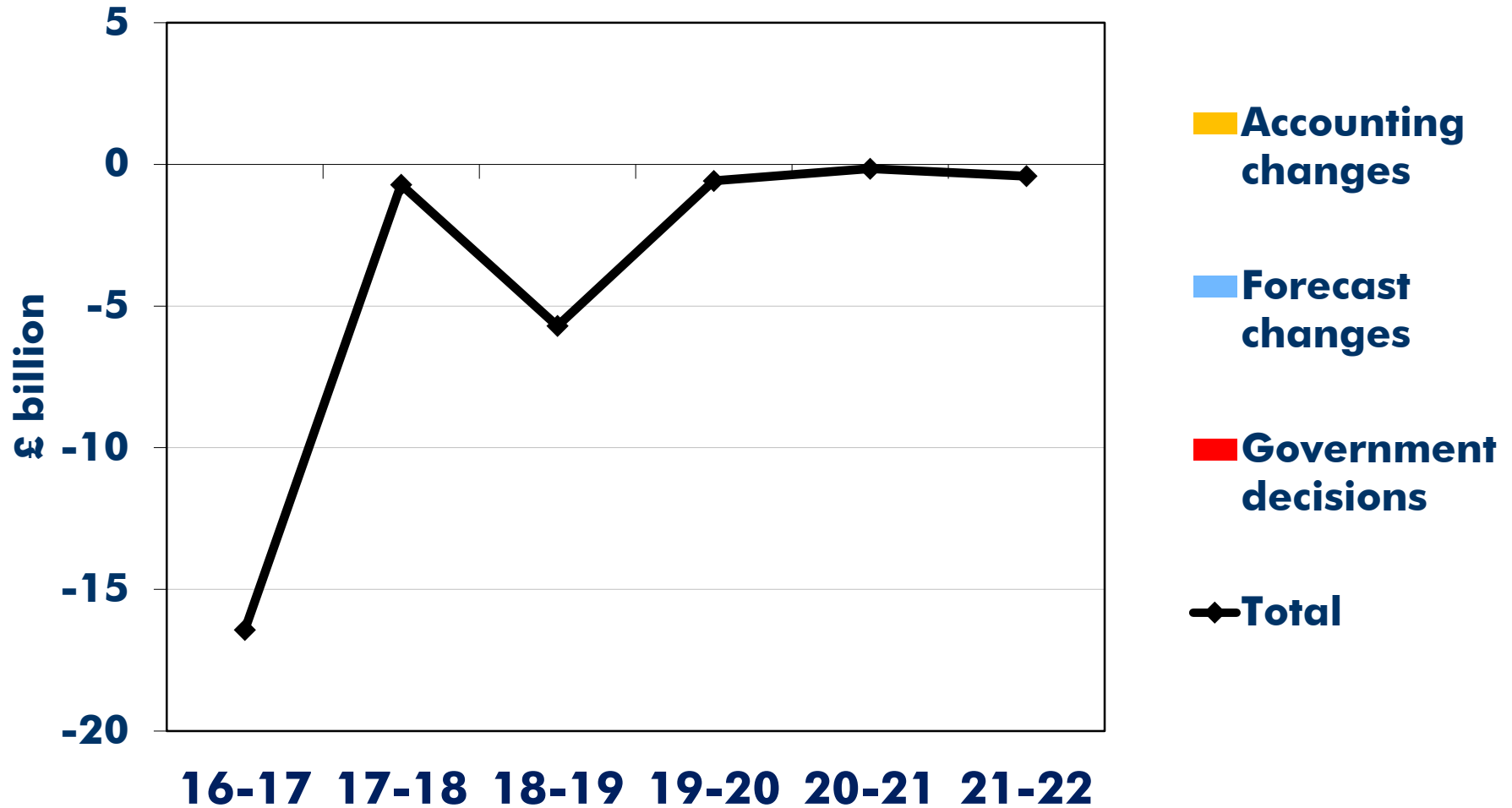
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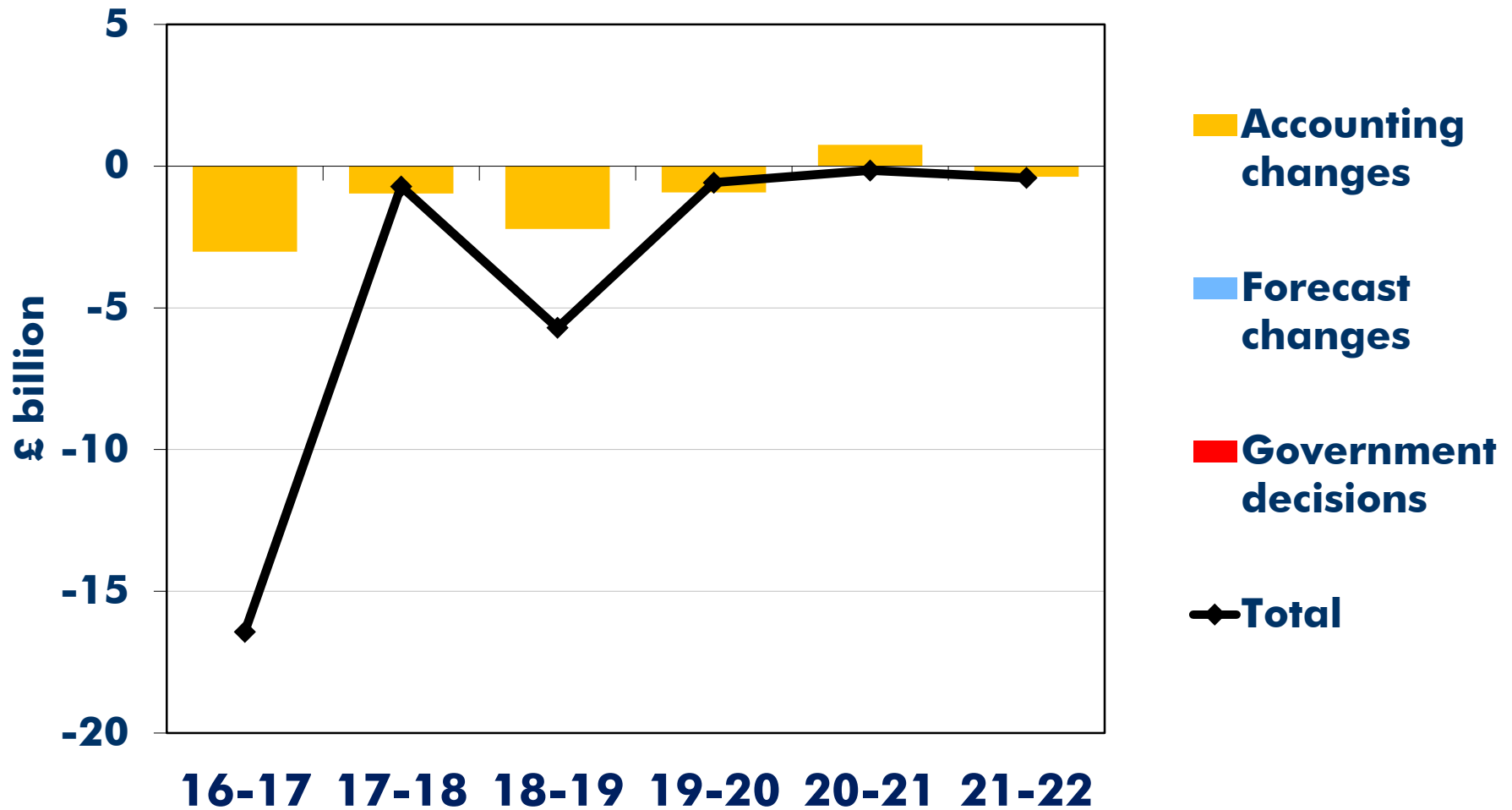
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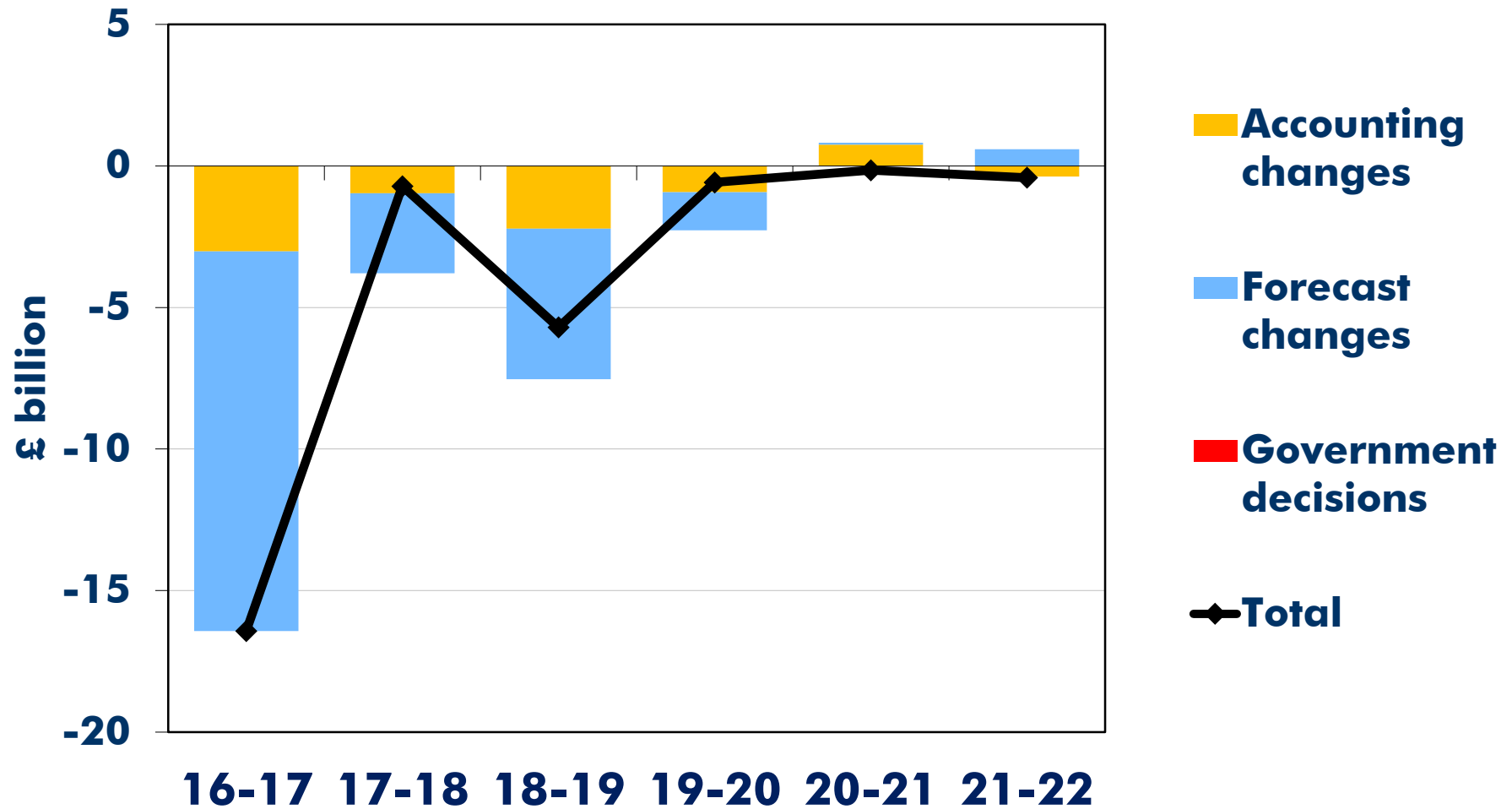
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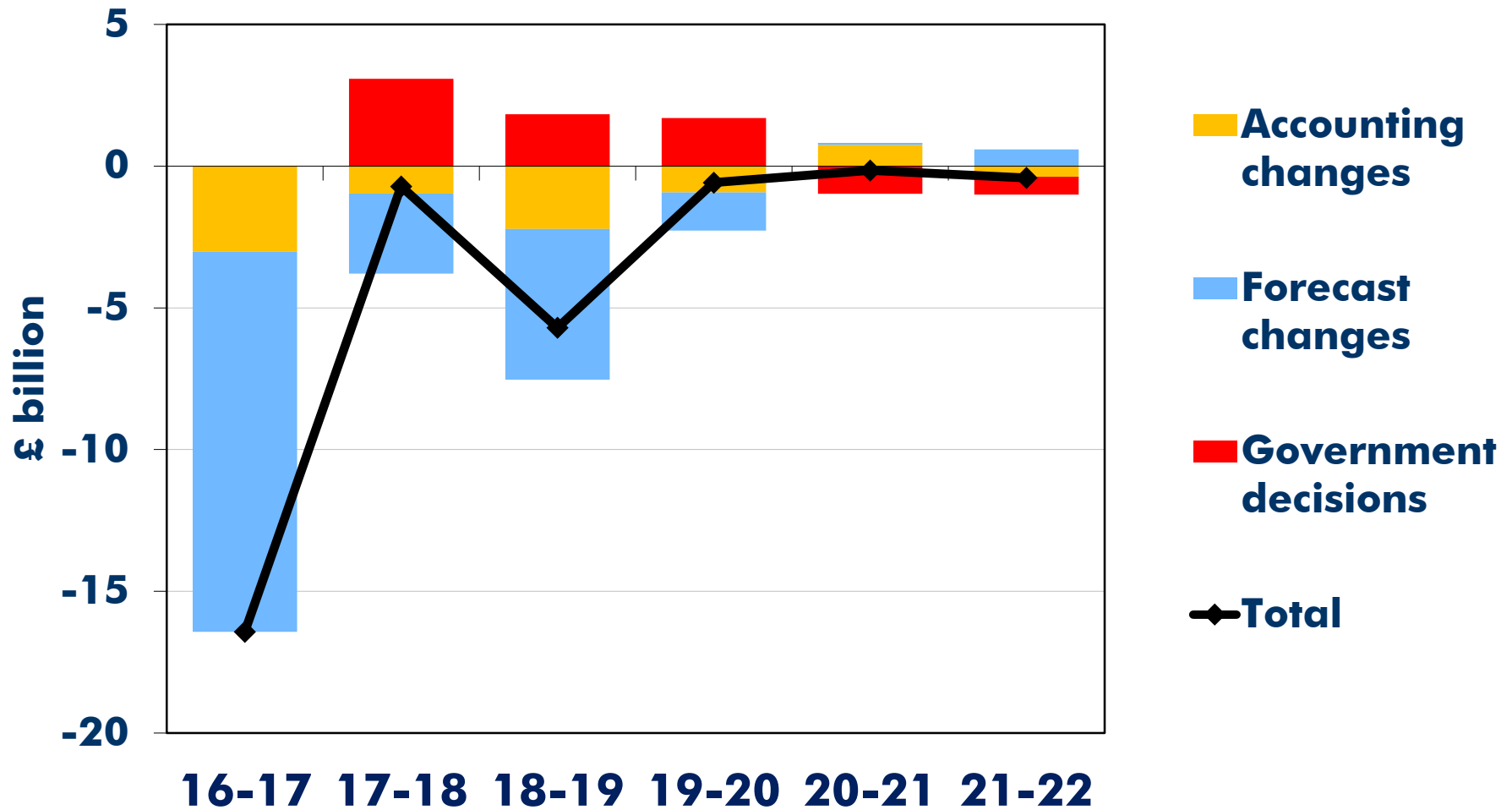
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# Forecast changes since November

	£ billion					
	16-17	17-18	18-19	19-20	20-21	21-22
<b>Like-for-like change</b>	<b>-13.4</b>	<b>-2.8</b>	<b>-5.3</b>	<b>-1.4</b>	<b>0.1</b>	<b>0.6</b>
<i>of which:</i>						
Receipts	-7.5	-4.3	-4.6	-1.5	1.5	2.4
Spending	-6.0	1.5	-0.7	0.2	-1.5	-1.8

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<b>Receipts</b>	<b>7.5</b>	<b>4.3</b>	<b>4.6</b>	<b>1.5</b>	<b>-1.5</b>	<b>-2.4</b>
<i>of which:</i>						
Onshore corporation tax	4.4	2.8	2.5	1.5	0.7	0.5
Capital gains tax	1.4	1.7	1.7	1.5	1.2	1.8
PAYE income tax and NICs	1.9	3.1	1.9	0.6	-0.7	-1.5
Self-assessment IT	0.0	-2.6	-0.3	-1.2	-0.9	-1.0
Other	-0.3	-0.8	-1.2	-0.9	-1.9	-2.2

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<i>of which:</i>						
Departmental spending	-2.3	0.0	0.0	0.6	0.1	0.2
Current LASFE	1.6	1.1	1.5	1.7	1.8	1.7
Welfare	-0.5	-0.2	-0.2	-0.5	-1.2	-1.5
Debt interest	-0.3	2.7	-0.4	0.9	1.2	1.2
EU contributions	-1.9	1.4	0.1	-0.3	-0.3	-0.2
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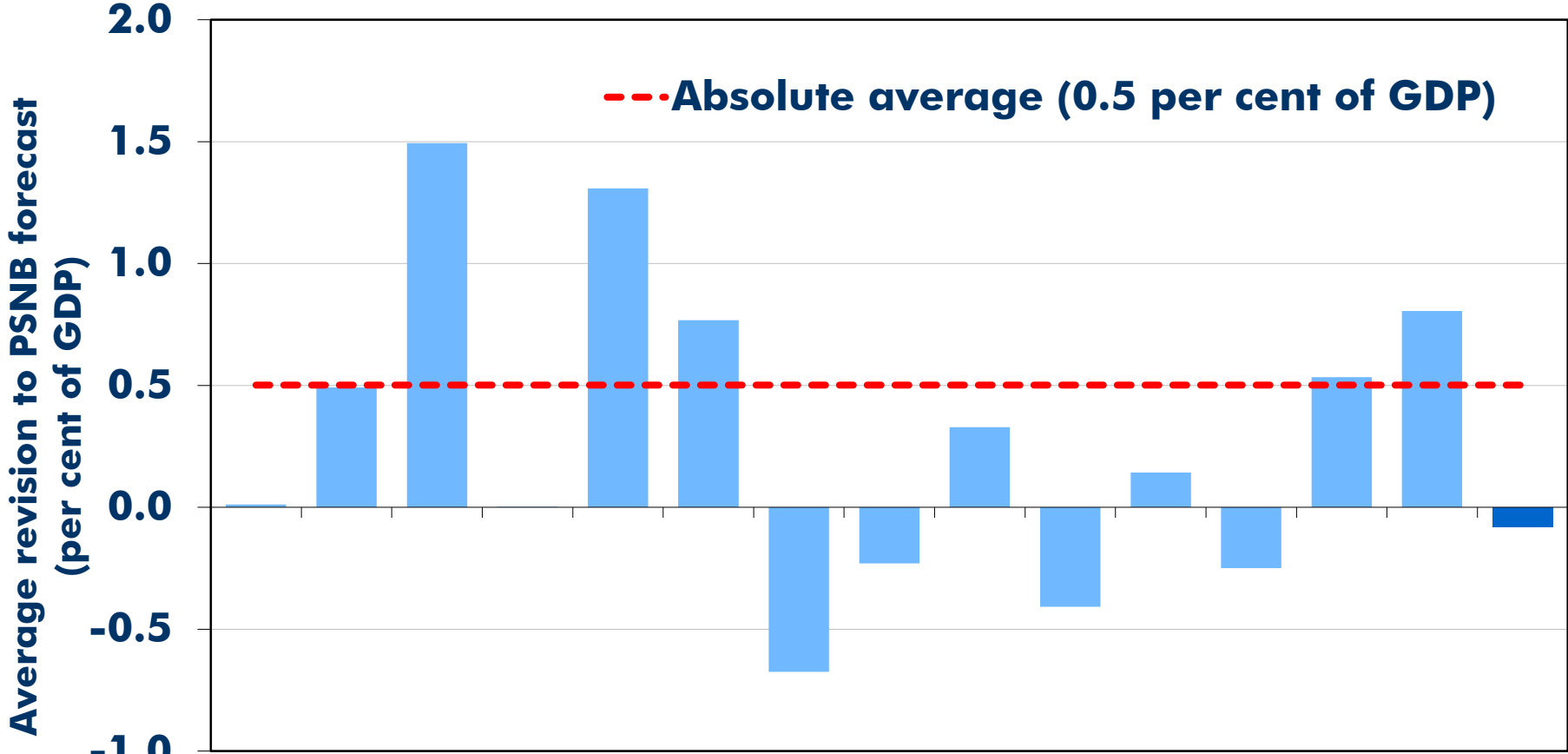
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# Forecast revisions in context

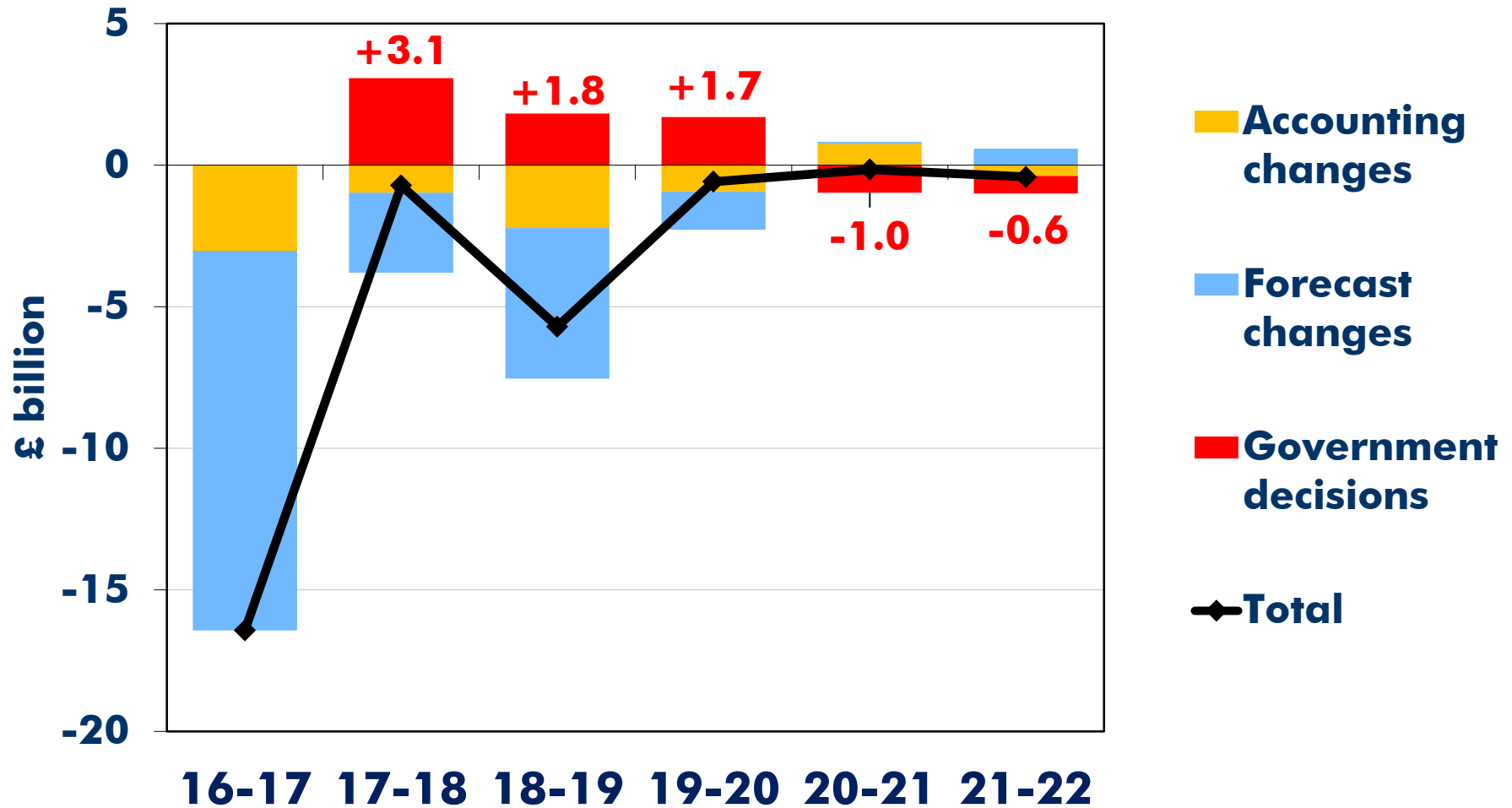


Nov 2010 March 2011 Nov 2011 March 2012 Dec 2012 March 2013 Dec 2013 March 2014 Dec 2014 March 2015 July 2015 Nov 2015 March 2016 Nov 2016 March 2017

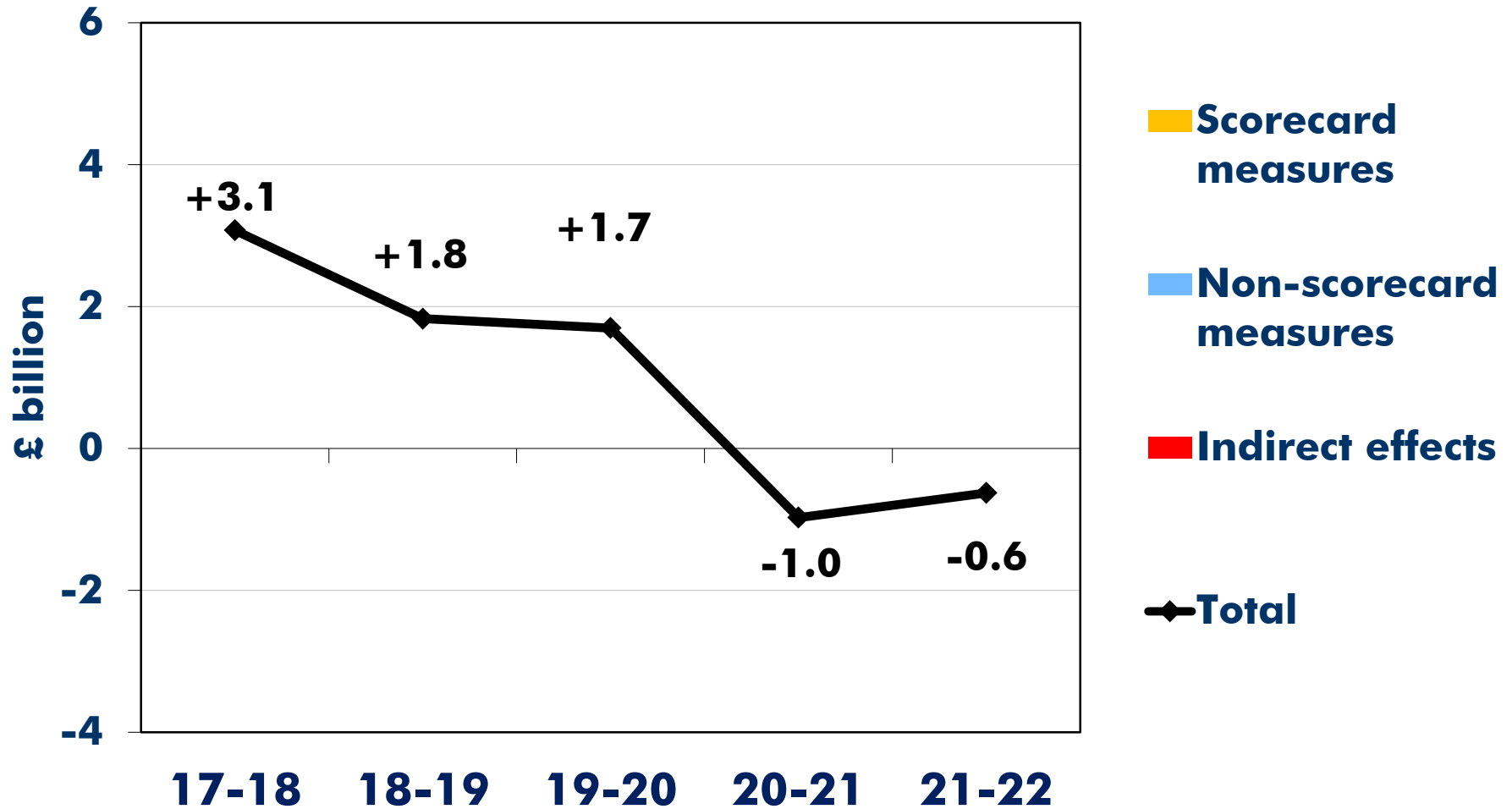
# 2016-17: why such a big change?

	£ billion
<b>November forecast</b>	<b>68.2</b>
<b>March forecast</b>	<b>51.7</b>
Change	-16.4
<i>of which:</i>	
Change to corporate tax accounting	-3.0
Stronger growth in corporation tax	-4.4
Stronger growth in PAYE and NICs	-1.9
Capital gains tax in January and February	-1.4
Evidence of lower departmental spending	-2.3
EU contribution demands less front-loaded	-1.8
Other	-1.6

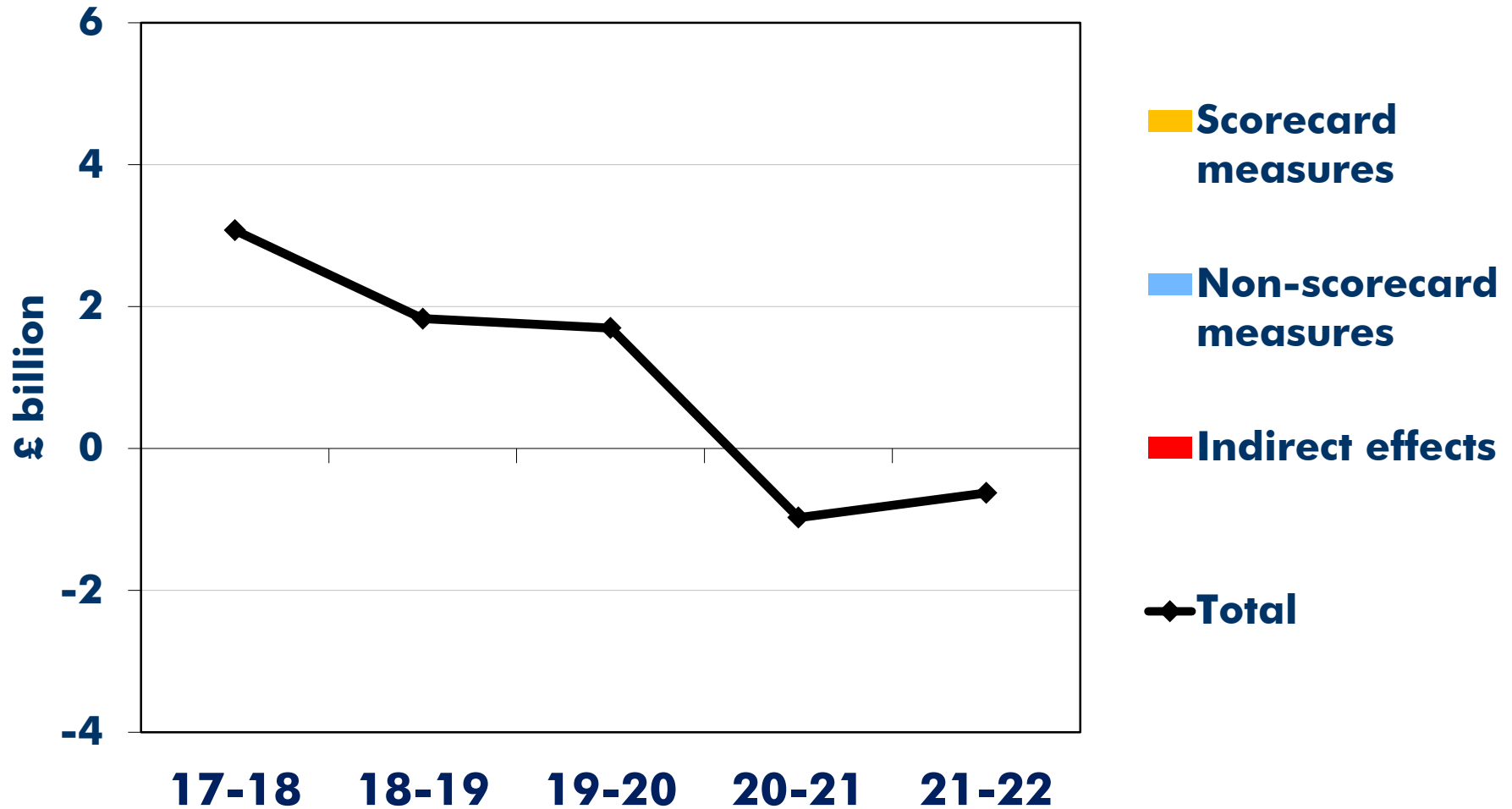
# Change in net borrowing



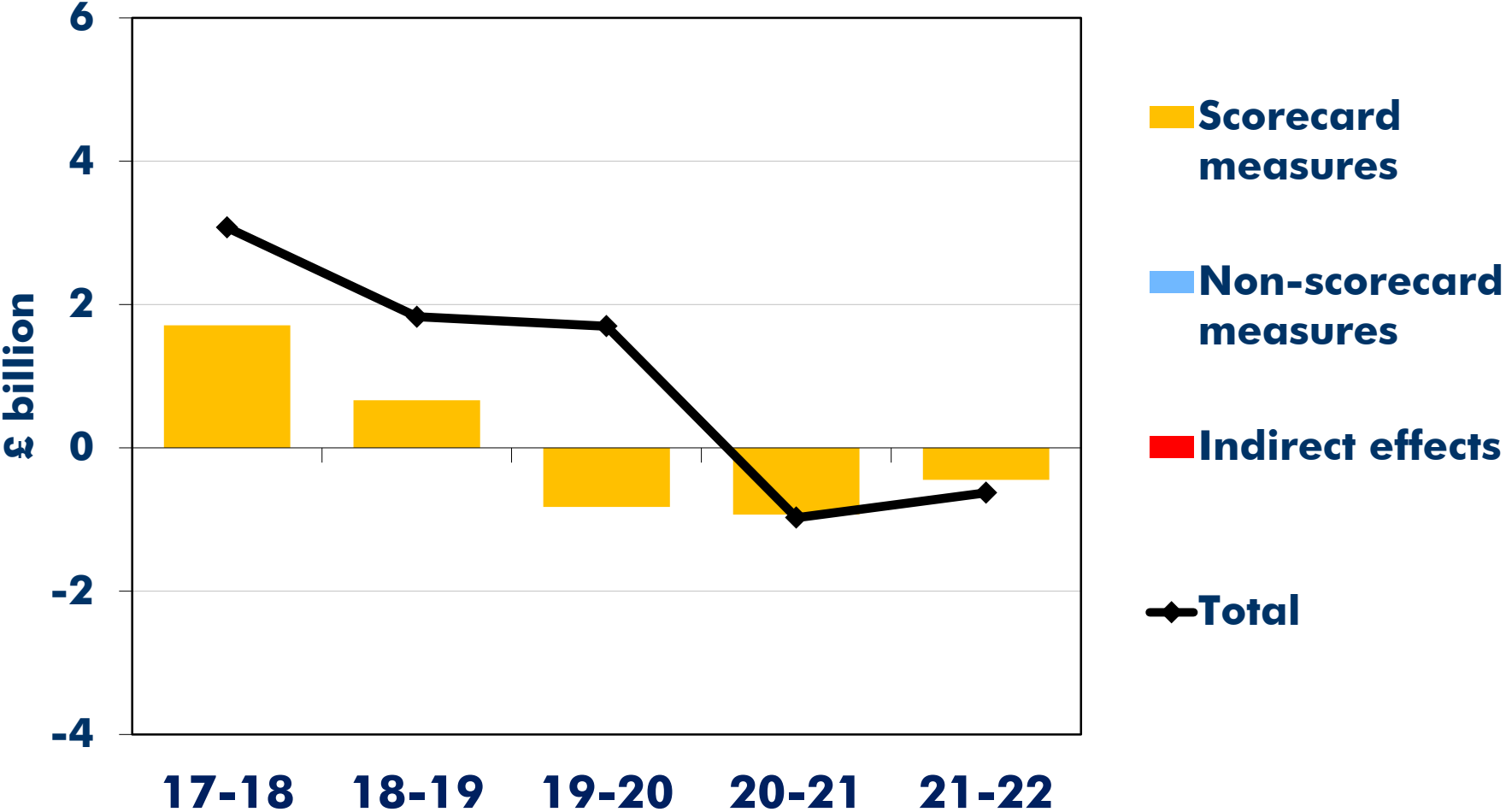
# Impact of Budget decisions



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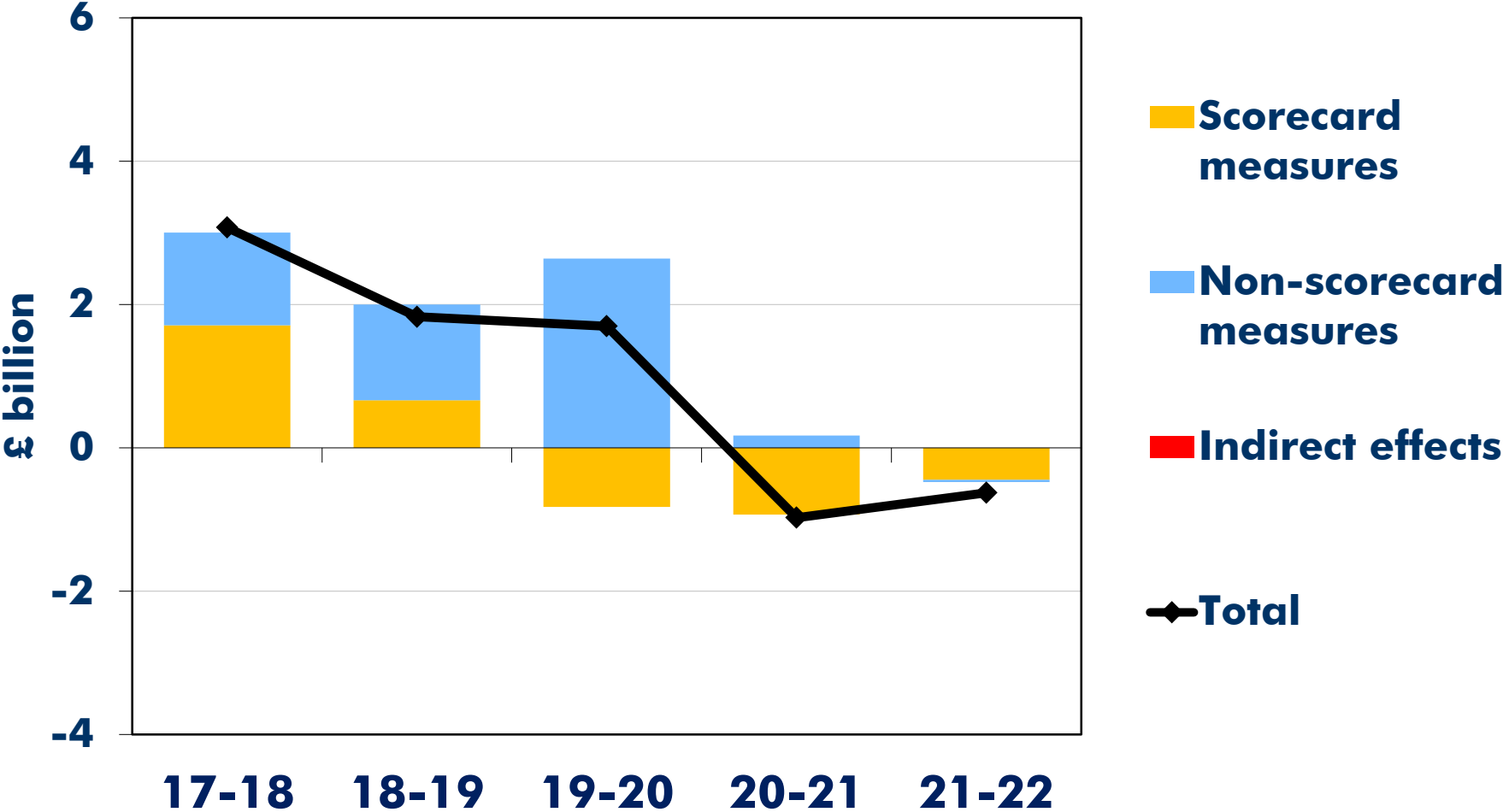


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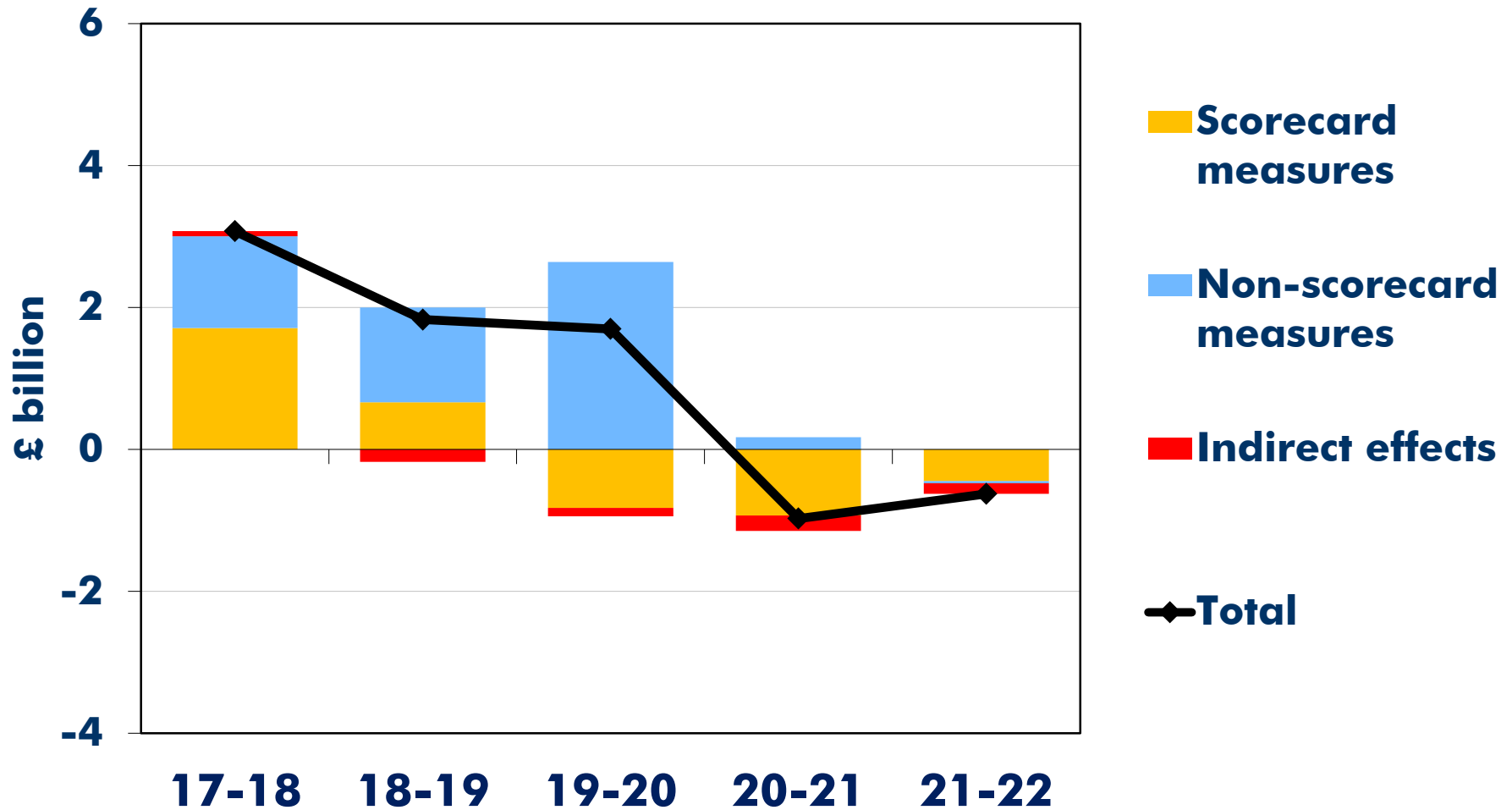




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# Impact of Budget decisions

	£ billion				
	17-18	18-19	19-20	20-21	21-22
<b>Total</b>	<b>3.1</b>	<b>1.8</b>	<b>1.7</b>	<b>-1.0</b>	<b>-0.6</b>
<i>of which:</i>					
Lower dividends tax allowance	0.0	0.0	-0.9	-0.8	-0.9
Higher NICs on self-employment	0.0	-0.3	-0.6	-0.6	-0.5
Business rates relief	0.2	0.1	0.1	0.0	0.0
Extra social care funding	1.2	0.8	0.4	0.0	0.0
Other scorecard measures	0.3	0.1	0.2	0.5	1.0
Personal injury discount rate	1.8	0.9	0.9	1.0	1.0
Probate fees (offset in DEL)	-0.2	-0.3	-0.3	-0.3	-0.4
Other non-scorecard and indirect	-0.2	0.5	1.9	-0.7	-0.8

# Impact of Budget decisions

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	17-18	18-19	19-20	20-21	21-22
<b>Total</b>	<b>3.1</b>	<b>1.8</b>	<b>1.7</b>	<b>-1.0</b>	<b>-0.6</b>
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Extra social care funding	1.2	0.8	0.4	0.0	0.0
Other scorecard measures	0.3	0.1	0.2	0.5	1.0
Personal injury discount rate	1.8	0.9	0.9	1.0	1.0
Probate fees (offset in DEL)	-0.2	-0.3	-0.3	-0.3	-0.4
Other non-scorecard and indirect	-0.2	0.5	1.9	-0.7	-0.8

# Impact of Budget decisions

	£ billion				
	17-18	18-19	19-20	20-21	21-22
<b>Total</b>	<b>3.1</b>	<b>1.8</b>	<b>1.7</b>	<b>-1.0</b>	<b>-0.6</b>
<i>of which:</i>					
Lower dividends tax allowance	0.0	0.0	-0.9	-0.8	-0.9
Higher NICs on self-employment	0.0	-0.3	-0.6	-0.6	-0.5
Business rates relief	0.2	0.1	0.1	0.0	0.0
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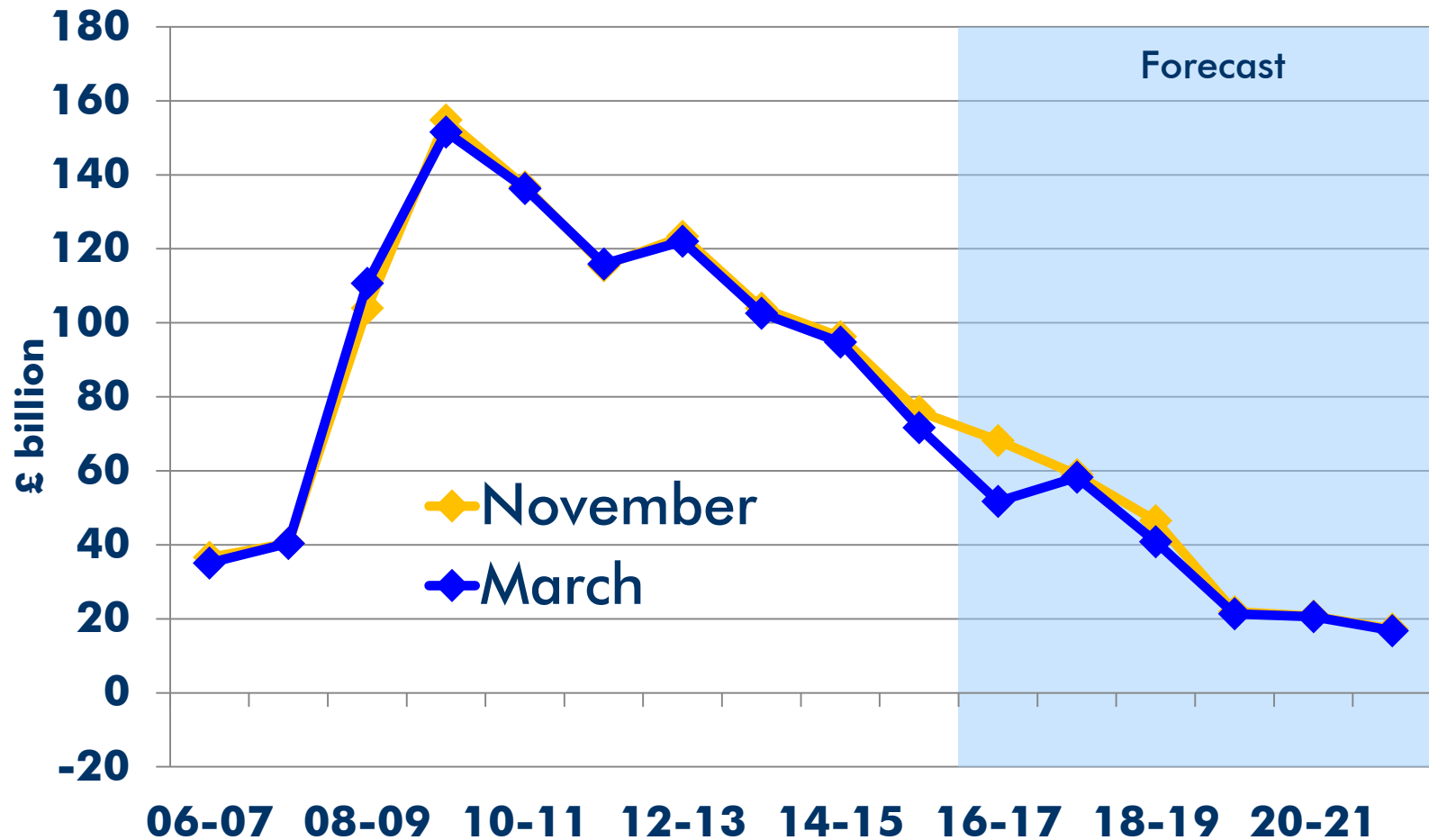
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# Public sector net borrowing





# The change in the deficit next year

	£ billion
<b>November</b>	<b>-9.2</b>
<b>March forecast</b>	<b>+6.5</b>
<b>Change</b>	<b>+15.7</b>
of which:	
Change in timing of EU contributions	+3.6
Evidence of greater dividend forestalling	+3.3
Direct effect of Budget decisions	+3.0
Higher inflation next year	+3.1
Departmental underspending this year	+2.3
Change to corporate tax accounting	+2.1
Timing of corporation tax payments	+1.9
Higher nominal GDP growth	-2.8
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# The Government's targets

## Fiscal mandate:

structural deficit below 2% of GDP in 2020-21

## Supplementary target:

debt falls as % GDP in 2020-21

## Welfare cap:

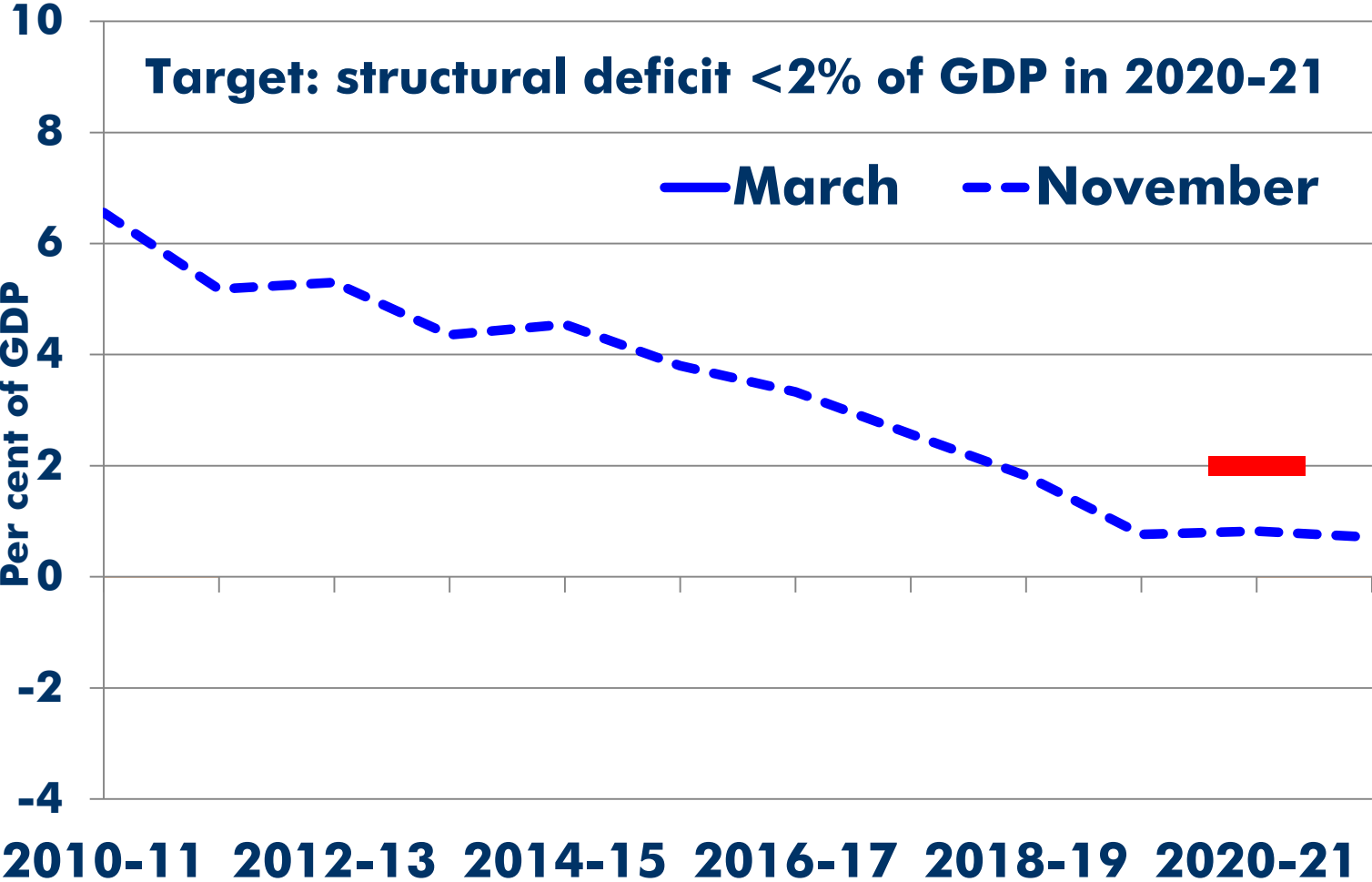
spending below cash limit in 2021-22

## Fiscal objective:

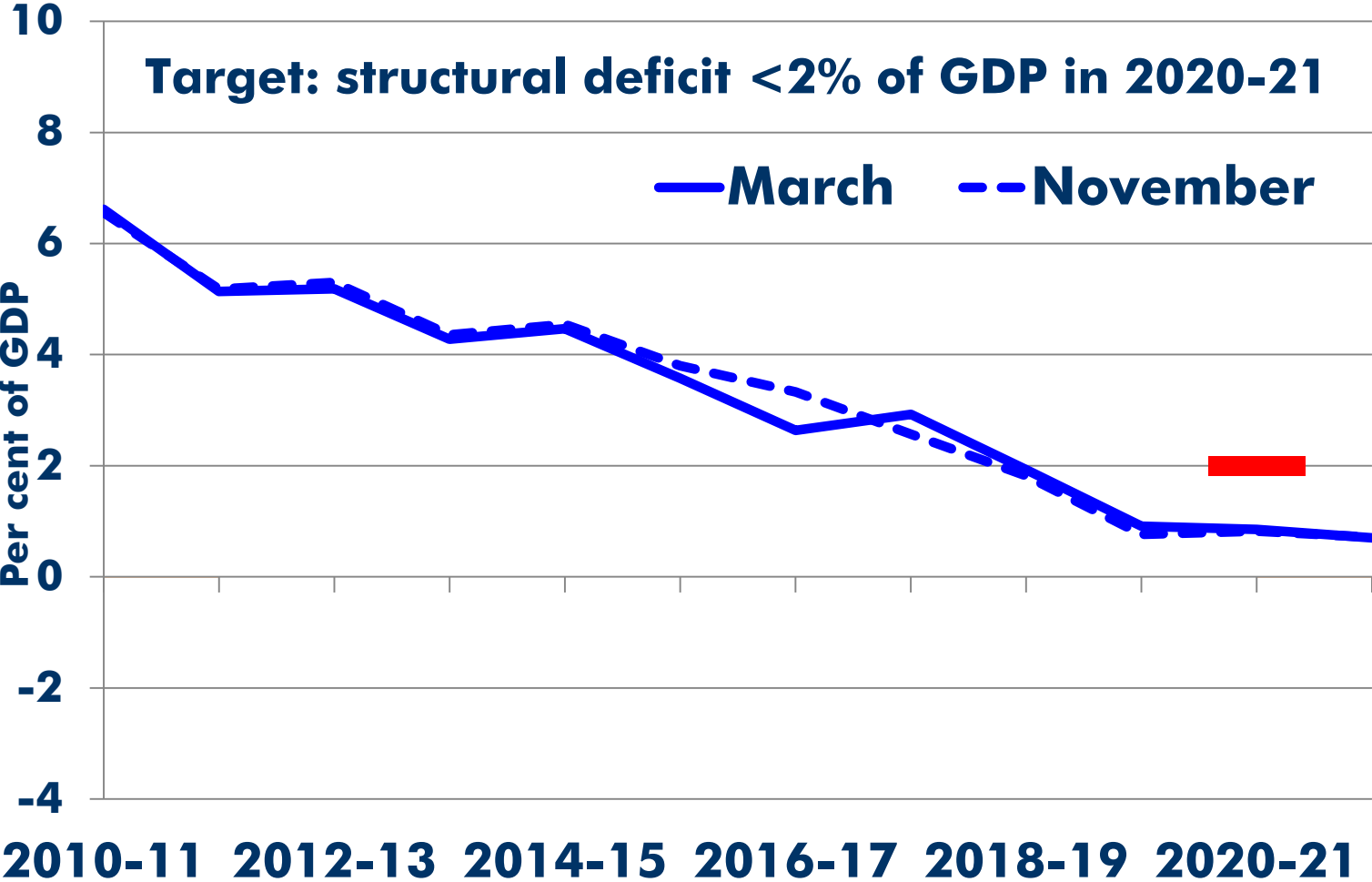
balance asap in next Parliament



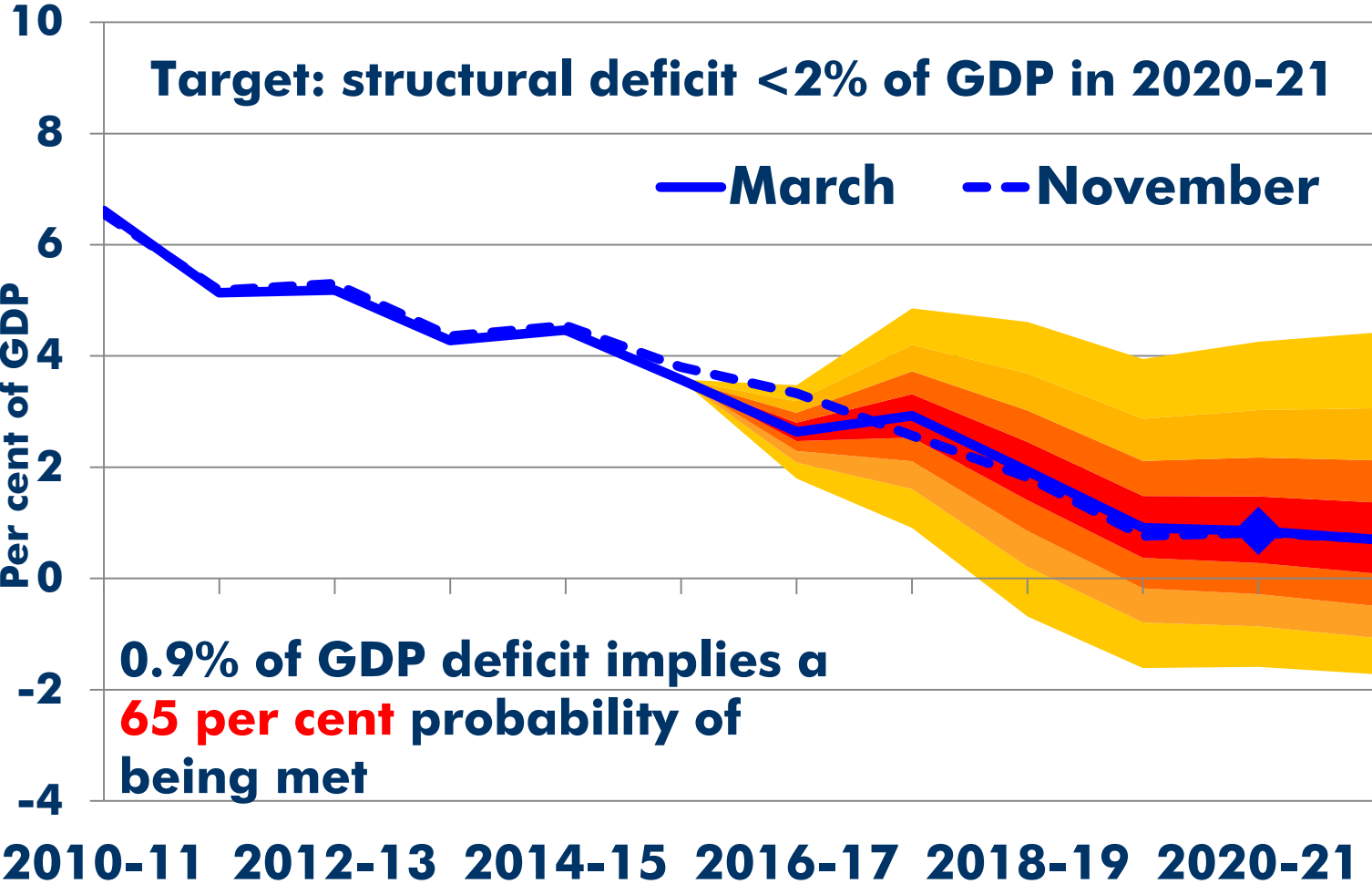
# Fiscal mandate



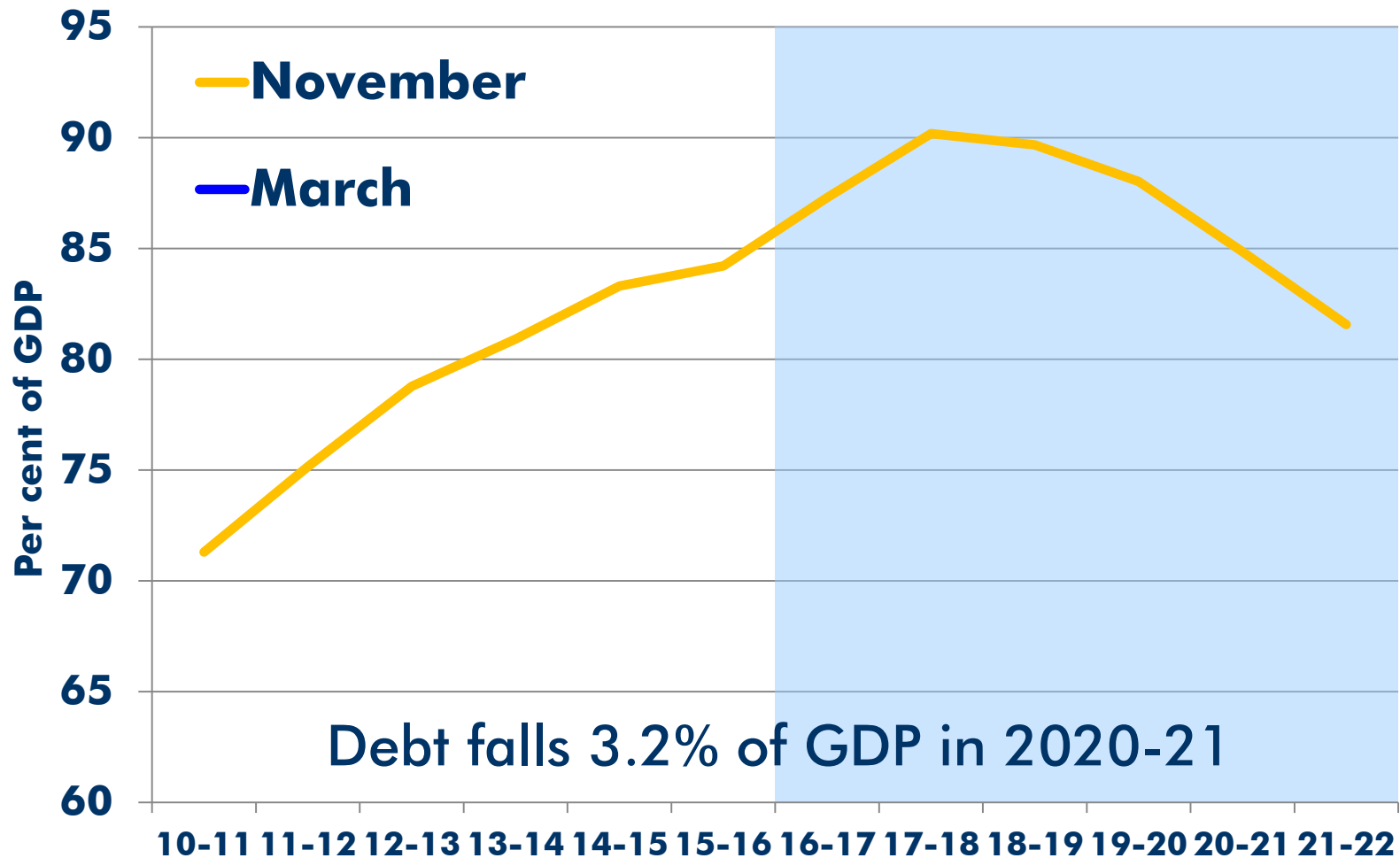
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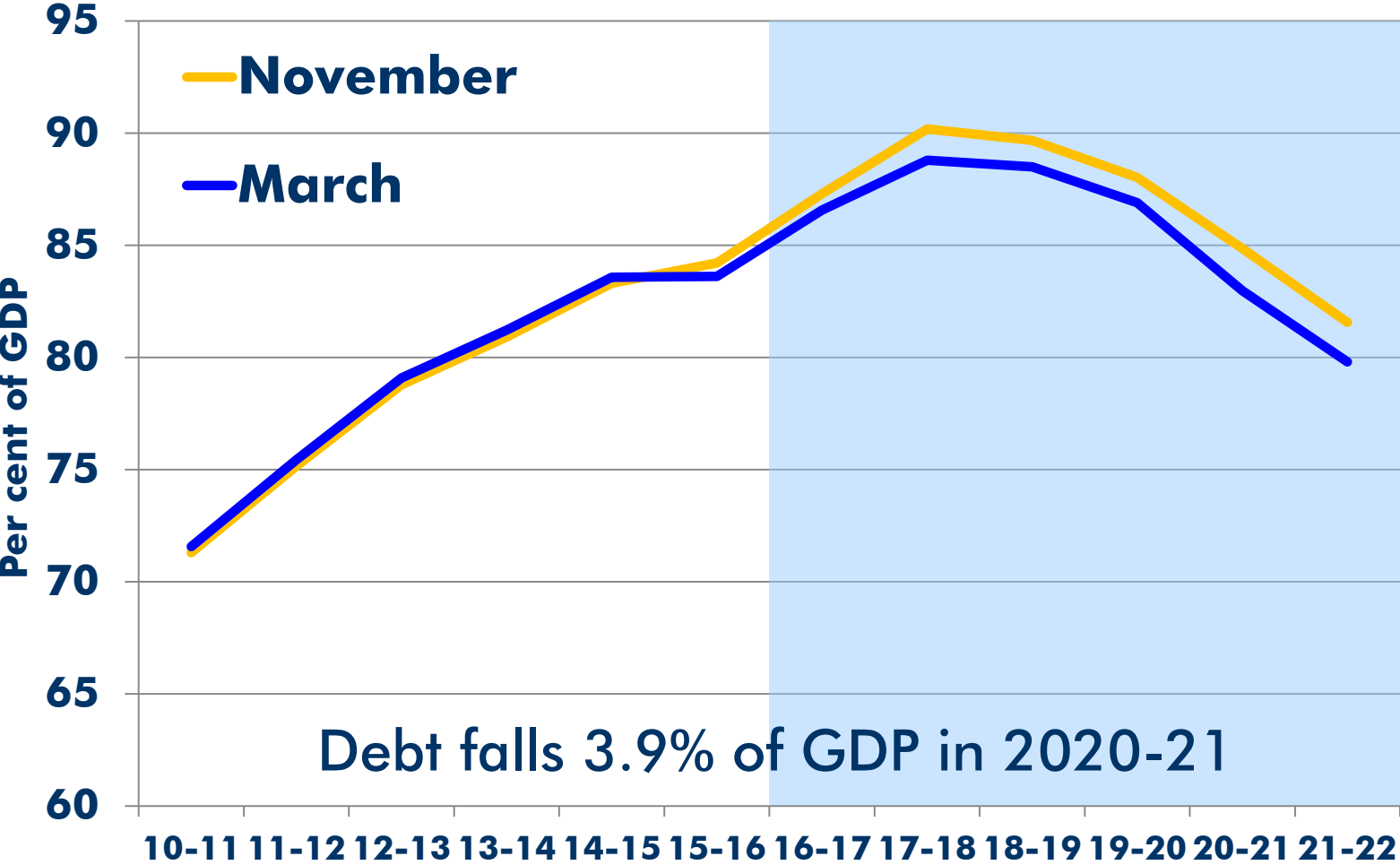


# Public sector net debt





# Public sector net debt



# The welfare cap

	£ billion					
	16-17	17-18	18-19	19-20	20-21	21-22
<b>Welfare cap and pathway plus margin</b>	<b>120.4</b>	<b>120.8</b>	<b>121.9</b>	<b>122.9</b>	<b>126.3</b>	<b>129.7</b>
<b>November forecast</b>	<b>119.8</b>	<b>119.6</b>	<b>120.1</b>	<b>120.5</b>	<b>123.2</b>	<b>126.0</b>
<i>Headroom (November)</i>	<i>-0.6</i>	<i>-1.2</i>	<i>-1.8</i>	<i>-2.4</i>	<i>-3.1</i>	<i>-3.8</i>
<b>March forecast adjusted for inflation</b>	<b>119.3</b>	<b>119.6</b>	<b>120.0</b>	<b>120.0</b>	<b>122.5</b>	<b>125.2</b>
<i>Headroom (March)</i>	<i>-1.2</i>	<i>-1.2</i>	<i>-1.9</i>	<i>-2.8</i>	<i>-3.7</i>	<i>-4.5</i>

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# The 'fiscal objective'

- **The Charter commits the Government to**
  - *“return the public finances to balance at the earliest possible date in the next Parliament”*
- **Not straightforward**
  - Deficit only falls from 1.0% to 0.7% of GDP between 2019-20 and 2021-22
  - Inflation-uprating could cut deficit by c.1% of GDP between 21-22 and 25-26
  - But ageing and other spending pressures in health could increase it by roughly the same amount

# Conclusion

- **Modest changes to economy forecast**
  - Consumers give greater short-term momentum
  - But medium-term outlook little changed
- **Fiscal outlook looks more uneven**
  - Borrowing revised down a lot this year
  - But medium-term deficit path little changed
  - Small policy loosening then tightening
  - 'Interim' fiscal targets set to be met
  - But not yet on course for budget balance