March 2022 Economic and fiscal outlook

The live event will begin at 2.30 pm
March 2022 Economic and fiscal outlook

Richard Hughes
Chair
London
23 March 2022
Background

- Thanks to staff from OBR, HMT, & across governments

- Prof. David Miles joined Budget Responsibility Committee in January

- All assumptions, analysis & scenarios are those of David, Andy, and me

- Russian invasion of Ukraine occurred midway through forecast process
  - Kept economy forecast open longer than usual to capture data on market reactions
  - Took gas and oil prices on 2 March, a week after the invasion on 24 February
  - Prices have been volatile since but settled close to the levels reflected in our forecast

- Forecast includes all policies since October, including in Spring Statement
Impact of Russian invasion of Ukraine

UK energy imports by country

Per cent of total imports in 2019

<table>
<thead>
<tr>
<th>Country</th>
<th>Natural gas</th>
<th>Petroleum products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td></td>
<td></td>
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<tr>
<td>Algeria</td>
<td></td>
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<tr>
<td>Qatar</td>
<td></td>
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<tr>
<td>USA</td>
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<tr>
<td>Norway</td>
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<tr>
<td>Russia</td>
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</tbody>
</table>

Global share of energy production

Per cent of world production in 2020

<table>
<thead>
<tr>
<th>Region</th>
<th>Natural gas</th>
<th>Crude oil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rest of Europe</td>
<td></td>
<td></td>
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<tr>
<td>S. &amp; Cent. America</td>
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<tr>
<td>Africa</td>
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<tr>
<td>Asia &amp; Pacific</td>
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<tr>
<td>North America</td>
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<tr>
<td>Middle-East</td>
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<tr>
<td>Russia</td>
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</tbody>
</table>

Source: BP
UK exposure to gas and oil shocks

UK net energy balance and intensity

Energy consumption by fuel

Source: BEIS

Source: Eurostat
Global energy market developments

Gas prices

- October 2021 forecast
- Pre-invasion expectations
- Post-invasion peak
- March 2022 forecast

Oil prices

- Forecast

Source: Datastream, OBR
Inflation

CPI inflation

Source: Bank of England, ONS, OBR
Inflation

Contributions to CPI inflation

Source: ONS, OBR
GDP

Real GDP level

Real GDP growth

Q4 2019 = 100

March 2020 forecast
October 2021 forecast
March 2022 forecast

Source: ONS, OBR
Labour market

Unemployment

<table>
<thead>
<tr>
<th>Year</th>
<th>Forecast</th>
<th>March 2020 forecast</th>
<th>October 2021 forecast</th>
<th>March 2022 forecast</th>
<th>Outturn</th>
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<tbody>
<tr>
<td>2015</td>
<td>3.5</td>
<td></td>
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<tr>
<td>2016</td>
<td>4.0</td>
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<td>2017</td>
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<tr>
<td>2018</td>
<td>5.0</td>
<td></td>
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<tr>
<td>2019</td>
<td>5.5</td>
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<tr>
<td>2020</td>
<td>6.0</td>
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Labour force

<table>
<thead>
<tr>
<th>Year</th>
<th>Forecast</th>
<th>Adjusted March 2020 forecast</th>
<th>October 2021 forecast</th>
<th>March 2022 forecast</th>
<th>Outturn</th>
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<tbody>
<tr>
<td>2015</td>
<td>32.0</td>
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<tr>
<td>2016</td>
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<td>2019</td>
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<td>2020</td>
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<td>2021</td>
<td>35.0</td>
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<tr>
<td>2022</td>
<td>35.5</td>
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<tr>
<td>2023</td>
<td>36.0</td>
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<tr>
<td>2024</td>
<td>36.5</td>
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<tr>
<td>2025</td>
<td>37.0</td>
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Source: ONS, OBR
Living standards

Real household disposable income per capita

Source: ONS, OBR
Forecast
Government debt

Public sector net debt

Net interest payments

Source: Bank of England, ONS, OBR
Change in borrowing since October

Source of change in public sector net borrowing

- Higher borrowing (higher spending/lower receipts)
- Lower borrowing (lower spending/higher receipts)

Effect of Government decisions
- Energy cost support
- Student loans reforms
- Personal tax cuts
- Other policies
- Indirect effects
- Difference in borrowing

Source: ONS, OBR
Tax burden

Source of change in tax-to-GDP ratio (2019-20 to 2026-27)

Factors increasing tax/GDP
- Inherited tax system
- Underlying forecast changes
- Onshore CT rate rises
- Income tax threshold freezes
- Health and social care levy
- Other measures
- Fuel duty freeze
- Income tax: 1p basic rate cut
- NICs: increase in thresholds

Factors decreasing tax/GDP
- Total rise

Factors increasing tax/GDP

Factors decreasing tax/GDP

Source: OBR

Tax-to-GDP ratio

Source: ONS, OBR
Fiscal rules

Performance against the Government’s fiscal targets

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</thead>
<tbody>
<tr>
<td>underlying debt falls as a % of GDP in 2024-25</td>
<td>✓</td>
<td>balanced current budget by 2024-25</td>
<td>✓</td>
<td>net investment no more than 3% on average</td>
<td>✓</td>
<td>spending below specified limit in 2024-25</td>
<td>✓</td>
</tr>
<tr>
<td>Mar 2022</td>
<td>Oct 2021</td>
<td>Mar 2022</td>
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<tr>
<td>£17.5bn</td>
<td>£25.1bn</td>
<td>£27.8bn</td>
<td></td>
<td>£7.3bn</td>
<td>£13.8bn</td>
<td>£2.8bn</td>
<td>£5.3bn</td>
</tr>
</tbody>
</table>
Risks to the outlook

Contextual risks
- Longer war in Ukraine
- Tougher sanctions on Russia
- Wider geopolitical risks
- Vaccine-escaping Covid variant
- Rising interest rates

Policy risks
- RPI+5 indexation of fuel duty
- Lag in uprating of welfare benefits
- Erosion of real dept’l spending
- Pressure on defence budget
- More tax cuts
Conclusion

• UK public finances emerged from pandemic stronger than expected
• Russian invasion of Ukraine to slow global GDP growth by 0.5% in 2022
• Higher energy prices push UK inflation to 8.7% & cut GDP growth from 6.0 to 3.8%
• 2.2% fall in living standards over next 12 months would be biggest in any FY
• Spring Statement offsets 1/3\textsuperscript{rd} of decline in living standards in 2022-23
• IT and NICs cuts reverse 1/6\textsuperscript{th} of rise in tax burden by mid-2020s
• Fiscal headroom up £10 bn to £30bn but global and domestic risks are legion
Thank you for listening

Slides and speaking notes are available on our website
www.obr.uk

Please email us with any further questions
OBR.Enquiries@obr.uk