

**OBR publishes its first analysis of the long-term sustainability of the public finances**

The independent Office for Budget Responsibility (OBR) has today published its first *Fiscal sustainability report*. The report is our first assessment of the long-term health and sustainability of the public finances, complementing our medium-term forecasts. The report includes analysis of measures of the public sector balance sheet, and 50 year projections for government revenue, spending, the budget deficit and public sector debt.

The projections suggest that the public finances are likely to come under pressure in the long term, primarily as a result of ageing population. Under our assumptions for unchanged policies, spending on age-related items such as state pensions and healthcare would increase as a share of national income. But the same demographic trends would leave government revenue roughly stable as a share on national income.

Our projections suggest that in absence of offsetting tax increases or spending cuts, this would eventually put public sector net debt on an unsustainable upward trajectory, with public sector debt reaching nearly 110 per cent of GDP and rising by 2060-61. This trajectory would be much higher – with debt reaching over 200 per cent of GDP – if we assumed that health sector spending needed to grow more quickly to offset weaker productivity growth in the sector.

We stress that long-term projections such those presented in the report are highly uncertain and should be seen as broad brush illustrations rather than precise forecasts.

Separate from our central projections, our report also presents evidence that non-demographic trends are likely to reduce revenue from sources such as transport taxes and North Sea oil as a share of national income over the next 30 years. Governments are likely to need some replacement sources of revenue to keep the tax burden constant, let alone to meet the costs of an ageing population.

The report also analyses the new public sector balance sheet information available in the long-awaited Whole of Government Accounts (WGA), which the Government has published in summary and unaudited form today. WGA

is a very welcome contribution to the transparency of the public finances. However, there are limitations to what balance sheet measures such as WGA can tell us about fiscal sustainability. They only consider the impact of past government activity and they exclude the government's most valuable asset – its ability to levy future taxes.

Robert Chote, the Chairman of the OBR, said:

“It is important to emphasise that the report should not be taken to imply that the substantial fiscal consolidation already in the pipeline for the next four years should be made even bigger. That said, policymakers and would-be policymakers should certainly think carefully about the long-term consequences of any policies they introduce or propose in the short term. And they should give thought too to the policy choices that will confront this and many other industrial countries once the challenge of the current crisis-driven consolidation has passed.”

#### NOTES TO EDITORS

1. The Office for Budget Responsibility is the UK's independent fiscal watchdog – responsible for producing medium-term forecasts for the public finances, assessing progress against the Government's fiscal mandate, and reporting on long-term fiscal sustainability.
2. The *Fiscal sustainability report* (including supplementary information) is available here: <http://budgetresponsibility.independent.gov.uk/>
3. Questions about the report should be sent to [OBRpress@obr.gsi.gov.uk](mailto:OBRpress@obr.gsi.gov.uk) or directed to Annalisa Baradel (0207 271 2466 and 0759 0818 157) or Tom Josephs (0207 271 2408 or 07733 034 066) in the OBR press office.