

Office for
**Budget
Responsibility**

Economic and fiscal outlook

November 2022



Office for Budget Responsibility: Economic and fiscal outlook

Presented to Parliament by the
Exchequer Secretary to the Treasury by
Command of His Majesty

November 2022



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Foreword

Our twenty-sixth *Economic and fiscal outlook (EFO)* has been unusual in both the time it took to produce and the process leading to its publication. With the agreement of the Treasury, we started work on this forecast earlier than usual on 29 July, three weeks after Boris Johnson resigned as Prime Minister. We did this to ensure that his successor and their Chancellor would have an up-to-date picture of economic and fiscal prospects upon appointment in early September and to be in a position to publish a forecast alongside any potential fiscal event later that month. In the 16 weeks since then, we have produced seven forecast rounds under three Prime Ministers and three Chancellors, working towards three official forecast dates. And this final published forecast reflects policies announced in five major fiscal statements since March.

In this *EFO* we set out a central economic and fiscal forecast to 2027-28, taking account of recent data and government policies announced since March, up to and including the Autumn Statement. The forecasts presented here represent our collective view as the three independent members of the OBR's Budget Responsibility Committee (BRC). We take full responsibility for the judgements that underpin them and for the conclusions we have reached.

As always, we have been greatly supported by the staff of the OBR, who have once again shown their commitment, flexibility, and perseverance in a very challenging forecast. We have also drawn on, and are grateful for, the work and expertise of numerous officials across government. We have held useful discussions with the Bank of England, International Monetary Fund, Migration Advisory Committee, Institute for Fiscal Studies, National Institute for Economic and Social Research, Institute for Government and the Resolution Foundation about their recent forecasts and analysis.

Due to the evolving circumstances and changing deadlines during this forecast process, coupled with the relatively short notice of the final publication date, this *EFO* is necessarily briefer than usual. We have therefore scaled back more detailed descriptions in some areas, but all key information remains accessible on our website. And we will, as always, respond to requests for supplementary information. We have also published alongside this *EFO* a briefing paper on potential output to provide additional insights into how we analyse and forecast the supply side of the economy.

The full forecast timetable for this *EFO* has been as follows:

- On 29 July, with the agreement of the Treasury, we began the process leading up to this latest forecast. This enabled us to provide an up-to-date (Round 1) pre-policy-measures forecast for the new Chancellor (Kwasi Kwarteng) on his arrival in office on 6 September. Among other things, this reflected the rise in interest rates and inflation since our previous forecast in March and estimates of the effect of the May cost-of-living package. We also confirmed that we would be able to provide an updated forecast alongside any fiscal event in September, including the impact of any new policy announcements.

- On 7 September, the Treasury informed us that the Chancellor would not be commissioning a forecast to accompany the Growth Plan fiscal statement that was delivered on 23 September. In that statement, the Chancellor stated his intention to commission a forecast from us *“by the end of this calendar year”*.
- On 26 September, the Chancellor requested that we prepare a forecast to be published alongside his Medium-Term Fiscal Plan (MTFP) on 23 November.
- On 30 September, we met with Prime Minister Liz Truss and Chancellor Kwarteng to discuss our draft forecast and the latest economic and fiscal outlook.
- On 3 October the Chancellor announced his decision to reverse the abolition of the 45p additional rate of income tax that had been included in the Growth Plan.
- On 7 October, in response to a request from the Treasury for an expedited forecast that included the direct and indirect effects of government policy up to and including the Growth Plan, we sent the Chancellor an updated (Round 2) forecast. This economy forecast was based on financial market prices averaged over 23 and 26 September and focused on the key variables required to ‘ready-reckon’ the fiscal forecast quickly, while the individual tax and spending models that we usually use to produce our forecast were being run by departments.
- On 10 October, the Chancellor announced that the date of the MTFP would be brought forward to 31 October. The BRC also met the Chancellor on that day to discuss our Round 2 forecast. On 13 October, given the heightened interest in the forecast process, and in line with a recommendation from our non-executive members, we published a timetable for the remaining stages of the forecast process up to its planned publication on 31 October.
- Alongside the production of the Round 2 forecast we produced a fully updated economy forecast consistent with the Growth Plan and commissioned updated forecasts from departments. This provided the main opportunity to scrutinise our detailed bottom-up forecasts for individual tax and spending lines, which was much more limited than usual due to successive changes in the forecast timetable that led to greater reliance on our own ready-reckoning approaches rather than full departmental model runs.
- On 17 October, we met with the new Chancellor (Jeremy Hunt) to discuss the latest economic and fiscal outlook, the same day that he announced a reversal of the majority of the tax cuts that had been announced in the Growth Plan.
- On 18 October, we sent the Chancellor an updated fiscal forecast (Round 3) reflecting these latest government policy reversals, while working through the implications for our economy forecast for the subsequent round.
- On 25 October, we sent the Chancellor our first full post-measures forecast (Round 4) based on a draft set of new MTFP policy measures provided to us. The economy forecast was based on financial market prices averaged over the 10 working days to 12 October. The fiscal

forecast was based on that period for all but interest rates, which instead were based on the four working days to 20 October to capture the falls that followed the Growth Plan reversals.

- On 26 October, the Chancellor announced that the forecast date would be pushed back to 17 November and that it would be an Autumn Statement. We published a revised forecast timetable for a 17 November forecast on 4 November.
- On 4 November, we sent the Chancellor the next iteration of our forecast (Round 5). This included an updated economy forecast based on financial market prices averaged over the three working days from 24 to 26 October. This is the final window for financial market prices in our economy forecast. The updated fiscal forecast incorporated bottom-up modelling from departments in key areas based on Round 4 economic determinants and in-house ready-reckoning of the consequences of the changes in determinants between Rounds 4 and 5. No changes to the planned policy package were included in this round, so it largely reflects the fiscal consequences of further falls in market interest rates relative to the previous round.
- On 5 November the Treasury provided, as agreed, the final package of policy measures that we had deemed via earlier engagement would cause movements in the economy forecast.
- On 10 November, we sent a near-final economy and fiscal forecast (Round 6) to the Chancellor taking account of all measures notified to us by that point. The economy forecast was updated to account for the impact of major policy measures only, with financial market determinants and other pre-measures judgements fixed. The fiscal forecast was once again ready-reckoned using these updated economic determinants. For the fiscal forecast, we also extended the window for financial market prices to the average over the 10 working days from 24 October to 4 November. Our final economy and fiscal forecasts are therefore conditioned on slightly different market prices (both of which start on the day that Prime Minister Rishi Sunak was declared the winner of the Conservative Party leadership election). But we judge that, in the circumstances, the benefit of using the most up-to-date set of financial market prices for each forecast outweighs the cost of the slight inconsistency it introduces between them.
- On 12 November, all final policy decisions were provided by the Treasury, including confirmation of the new fiscal rules.
- On 13 November, our final forecast (Round 7) was completed and sent to the Chancellor.
- On 16 November, the Chancellor met with the OBR Chair to discuss the final forecast.

Throughout this process, we also scrutinised the costing of all tax and spending measures announced since the Spring Statement in March, including several that were subsequently dropped. As usual, the BRC requested further information and/or changes to most of the draft costings produced by departments. All announced policies were certified.

The energy price guarantee policy that we incorporated into our economy forecast is slightly different to the final policy decision. The Government informed us of the final policy after the

deadline for including it in the final economy forecast. Incorporating the final policy would have had a small impact on our inflation forecast.

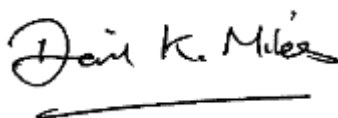
The Treasury made a written request, as provided for in the *Memorandum of Understanding (MoU)* between us, that we provide the Chancellor and an agreed list of his special advisers and officials a near-final draft of the *EFO* on 11 November. This allowed the Treasury to prepare the Chancellor's statement. We then provided 24 hours pre-release access to the final *EFO* on 16 November.

We have been provided with all the information and analysis that we requested and have come under no pressure from Ministers, advisers or officials to change any of our conclusions. A full log of our substantive contact with Ministers, their offices and special advisers can be found on our website, including the list of special advisers and officials that received the near-final draft of the *EFO* on 11 November. Our non-executive members, Sir Christopher Kelly and Bronwyn Curtis OBE, provide additional assurance over our engagement with the Treasury and other departments. Since November 2015 that has included reviewing any correspondence that OBR staff feel might breach the *MoU* requirement that it be confined to factual comments or that could be construed as doing so. That review takes place as soon as practicable after each *EFO*. Any concerns our non-executive members have will be raised with the Treasury's Permanent Secretary or the Treasury Select Committee, if they deem that appropriate.

The extended, yet fast-paced, seven-round forecast process described above was, of course, necessitated by domestic political and global economic developments. We felt it was appropriate to be ready to publish a forecast alongside any fiscal policy statement should it be requested at short notice. But this continual state of readiness has consequences both for the forecast itself, and for other work and publications that we are required to publish each year. The forecast process spanned 16 weeks, but in that time we had only two windows during which we were able to use departments' detailed models fully. We have invested considerable time and resource in improving our in-house ready-reckoning approach and believe it to be sufficiently robust to meet our statutory duties. But using full models (and associated analysts' expertise) is clearly preferable and allows us to scrutinise and report diagnostics that provide a better basis for our judgements. It would therefore be desirable to see a return to the full ten-week forecast process envisaged in the *MoU* as this summer's exceptional political circumstances pass. This would improve the confidence that the public and policymakers can have in the robustness of the forecast that underpins the Government's policy choices. That said, the uncertainty associated with external factors that surrounds our central forecast, such as prospects for energy prices or interest rates, far exceeds the scale of any errors or inconsistencies that are likely to result from the unusual forecast process.



Richard Hughes



Professor David Miles CBE



Andy King

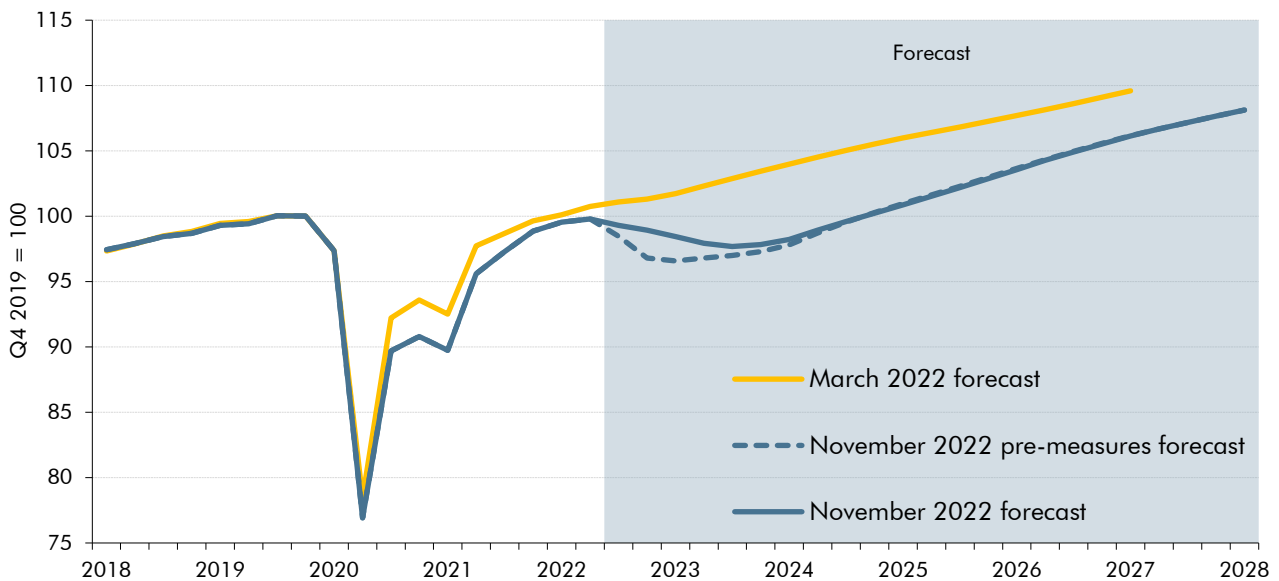
The Budget Responsibility Committee

Economic and fiscal outlook

Overview

- 1 Over the past six months, the global energy and food supply shocks emanating from Russia's invasion of Ukraine have intensified. The further curtailment of Russian imports saw European wholesale gas prices rise ten-fold from pre-pandemic levels, and markets now expect prices to remain four times higher in the medium term. Rising energy, food, and other goods prices have pushed up the interest rates set by inflation-targeting central banks to levels not seen since the 2008 financial crisis. This has taken much of the wind out of the global economic recovery from the pandemic and ratcheted up the financial pressure on governments that emerged from it with higher debt and are again being called upon to help households and businesses through this latest crisis.
- 2 In the UK, CPI inflation is set to peak at a 40-year high of 11 per cent in the current quarter, and the peak would have been a further 2½ percentage points higher without the energy price guarantee (EPG) limiting a typical household's annualised energy bill to £2,500 this winter and £3,000 next winter. Rising prices erode real wages and reduce living standards by 7 per cent in total over the two financial years to 2023-24 (wiping out the previous eight years' growth), despite over £100 billion of additional government support. The squeeze on real incomes, rise in interest rates, and fall in house prices all weigh on consumption and investment, tipping the economy into a recession lasting just over a year from the third quarter of 2022, with a peak-to-trough fall in GDP of 2 per cent. Unemployment rises by 505,000 from 3.5 per cent to peak at 4.9 per cent in the third quarter of 2024.

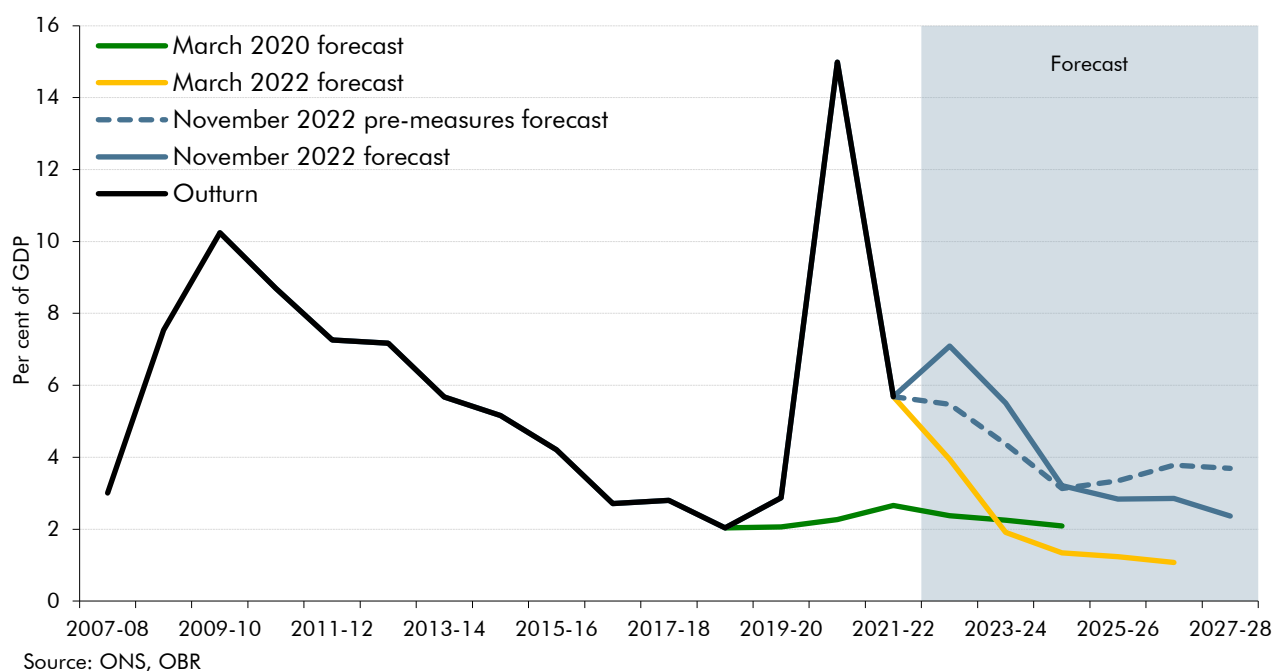
Chart 1: Real GDP



Source: ONS, OBR

- 3 Inflation drops sharply over the course of next year and is dragged below zero in the middle of the decade by falling energy and food prices before returning to its 2 per cent target in 2027. The resulting recovery in real incomes, consumption, and investment sees GDP return to growth in 2024 and output recover its pre-pandemic level in the fourth quarter of that year. As the output gap closes over the remainder of the forecast, GDP grows more rapidly than our estimate of its sustainable rate, which reaches 1¾ per cent in 2027. The rate of growth in potential output in the final year of the forecast is unchanged since March, albeit with a larger contribution from net migration offsetting slower growth in productivity.
- 4 The medium-term fiscal outlook has materially worsened since our March forecast due to a weaker economy, higher interest rates, and higher inflation (the latter largely due to global factors, so raising public spending much more than it boosts tax bases). Based on policy as it stood in March, government borrowing would have been £108 billion (3.7 per cent of GDP) in 2027-28 and underlying debt would have been rising in every year. Of the £75 billion increase in the pre-measures deficit in 2026-27 relative to March, almost two-thirds is due to higher debt interest costs from higher interest rates, with the energy-shock-driven loss of receipts and the inflation-driven rise in welfare spending the other major factors.
- 5 Fiscal policy has been characterised by a high degree of uncertainty since March, first increasing and then reducing the medium-term deficit. Across five major fiscal policy statements, three successive governments have announced:
- **near-term support** for households and businesses with their energy bills on 26 May and 8 September costing £86.4 billion in total across 2022-23 and 2023-24;
 - a **medium-term fiscal loosening** via personal and corporate tax cuts in the 23 September Growth Plan costing £48.2 billion in 2027-28, of which all but £21.1 billion was subsequently cancelled via announcements on 3 and 17 October; and
 - a **medium-term tightening** in the Autumn Statement, which raises £19.3 billion in 2024-25 and material sums thereafter, rising to £61.7 billion in 2027-28.
- 6 The net effect of these measures is to increase borrowing relative to our March forecast by £64.2 billion in 2022-23 and £39.8 billion in 2023-24, reducing the fall in output when the economy is in recession and unemployment rising. Policy decisions then reduce borrowing from 2024-25 onwards – when the economy is recovering and unemployment falling – by amounts rising to £39.4 billion in 2027-28. Taking forecast and policy changes together, the deficit rises from £133.3 billion (5.7 per cent of GDP) last year to £177.0 billion (7.1 per cent of GDP) this year. Borrowing then falls by £37.0 billion next year to £140.0 billion (5.5 per cent of GDP), thanks to previously announced tax rises and scaled-back fiscal support, and continues falling to £69.2 billion (2.4 per cent of GDP) in 2027-28. The tax burden rises from 33.1 per cent of GDP in 2019-20 to 37.1 per cent of GDP at the forecast horizon, 1.0 percentage point higher than forecast in March and its highest sustained level since the Second World War. Despite cuts in departmental budgets, total public spending also rises – from 39.3 per cent of GDP in 2019-20 to 43.4 per cent of GDP in 2027-28 – 2.9 percentage points higher than predicted in March, reflecting higher debt interest and welfare spending raising cash spending, and the energy-shock-driven smaller economy.

Chart 2: Public sector net borrowing



- 7 Higher borrowing pushes underlying debt (excluding the Bank of England) up sharply, from 84.3 per cent of GDP last year to a 63-year high of 97.6 per cent in 2025-26. Tax rises, spending cuts and a pick-up in GDP growth are then sufficient for it to fall modestly in 2026-27 and 2027-28. The Government’s two legislated fiscal targets to balance the current budget and get underlying debt falling in 2025-26 are on course to be missed by £8.7 billion and £11.4 billion respectively. Given the scale of the energy shock and the recession it has induced, the Government has announced new targets: to get borrowing below 3 per cent of GDP and underlying debt falling in five years’ time, which it achieves, respectively, with £18.6 billion and £9.2 billion to spare. But the near-tripling of interest rates since March means the share of revenues consumed by servicing that debt rises from under 5 per cent in 2019-20 to 8½ per cent in 2027-28, leaving the public finances more vulnerable to future shocks or swings in market sentiment.
- 8 Against this more challenging backdrop, global and domestic risks to the outlook remain elevated. The main positive risk would stem from a rapid end to Russia’s invasion of Ukraine that stabilised energy markets and lowered prices. That could relatively quickly feed through to reduced inflationary pressure, smaller rises in interest rates, and a stronger economic recovery – raising the prospect of meeting the legislated fiscal targets again. The main adverse risks relate to a further escalation in the war in Ukraine intensifying pressures on European energy supplies, inflation, and interest rates. Gas prices returning to their late-August peak would, all else equal, add £42 billion to borrowing next year, while a 1 percentage point rise in interest rates would add around £25 billion a year by 2027-28.

Policy measures and conditioning assumptions

9 This forecast is based on policy measures announced since the March Spring Statement. They push borrowing up in the near term due to cost-of-living and energy bills support, but down in the medium term due to the net tax rises and spending cuts announced in the Autumn Statement. Near-term support to households and businesses costs £64.2 billion this year and £39.8 billion next year (2.1 per cent of GDP on average). Net fiscal giveaways turn to takeaways from 2024-25, with the fiscal tightening reaching £39.4 billion (1.3 per cent of GDP) in 2027-28 (Table 1). In summary, in five major statements since March:

- **The 26 May cost-of-living package** included £15.2 billion of support this year, whose cost was expected to be partly offset by the introduction of the energy profits levy (EPL) (though at latest gas prices the first three years of the levy now raises more than the support payments cost). In the Autumn Statement, the Chancellor raised the rate of the levy from 25 to 35 per cent and extended it to 2027-28. It is now expected to raise an average of £8.0 billion a year over four years, up from £5.5 billion a year in the original announcement.¹ See Box 4 for uncertainty around these estimates.
- **The 8 September energy package** comprised the energy price guarantee, which lowers energy bills for households, and the energy bill relief scheme (EBRS), which does the same for eligible businesses. The EPG is in place for 18 months, with the Autumn Statement reducing its generosity from April 2023 by raising the cap on a typical annual household energy bill from £2,500 to £3,000.² The EBRS is currently due to end on 31 March 2023, with a successor scheme subject to review. The two measures cost a combined £43.2 billion this year and the EPG costs a further £12.8 billion in 2023-24. Box 4 describes uncertainties around these estimates too.
- **The 23 September Growth Plan** announced tax cuts that would have cost £48.2 billion a year by 2027-28 but the majority of these were dropped in a **statement on 17 October**.³ The cost of those that survived rises to £21.1 billion in 2027-28, largely thanks to the decision to scrap the health and social care levy before it was introduced next April. Permanently raising the generosity of the annual investment allowance to £1 million, and the cut to stamp duty (which was converted from a permanent to a temporary giveaway in the Autumn Statement), also survived.
- **The 17 November Autumn Statement** announced further support in the near term – including further cost-of-living payments to those in receipt of various benefits and cuts to business rates, as well as additional spending on health and social care, and schools (rising to £5.9 billion and £2.5 billion respectively in 2024-25).⁴ These are

¹ The EPL line in the table refers to the original May announcement. The changes made in the Autumn Statement are contained within the 'Tax measures' line of that panel. The full measure-by-measure breakdown is available in the supplementary tables on our website.

² The EPG line in the table shows just the cost of the original announcement. The changes made in the Autumn Statement are contained within the 'Other measures' line of that panel. They reduce the cost in 2023-24 by £14.0 billion and remove any cost in 2024-25.

³ The measures that were announced but then dropped by 17 October include: cuts to income tax (both the basic and additional rates); not raising corporation tax and diverted profits tax next April; cuts to dividends tax; freezing alcohol duties; the introduction of tax-free shopping for overseas visitors; and the jettisoning of the 2017 and 2021 reforms to how compliance with the IR35 tax legislation is policed. The increase in the bank surcharge associated with the corporation tax measure was reversed in the Autumn Statement.

⁴ These figures reflect the DEL settlement but do not include the Scottish AME spending.

largely financed by windfall taxes (raising the EPL rate and introducing a new tax on renewable and nuclear power not covered by contracts for difference). From 2024-25 onwards, the Autumn Statement lowers borrowing by progressively larger amounts rising to £61.7 billion (2.1 per cent of GDP) in 2027-28. Net tax rises account for half of this tightening (£31.0 billion), with £19.4 billion coming from cuts to departmental current spending and £11.8 billion from cuts to departmental capital spending.⁵

- 10 Both the large fiscal loosening in the near term announced since March, and the large tightening thereafter, have material implications for the economy. The EPG directly reduces CPI inflation and, together with other support to households and businesses, reduces the depth of the downturn in GDP this year and next. The indirect effects of these near-term interventions lower borrowing by an average of £15.4 billion in 2022-23 and 2023-24. But the indirect effects of measures switch to adding to borrowing from 2024-25 onwards, thanks to debt interest incurred on the near-term giveaways, and as the fiscal tightening weighs on the economic recovery in the final three years of the forecast (see Box 1).

Table 1: Total effect of Government decisions since March

	£ billion					
	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Total effect of Government decisions	42.8	30.5	2.6	-13.7	-26.1	-38.8
Direct effect of Government decisions	64.2	39.8	-0.6	-14.9	-26.5	-39.4
<i>of which:</i>						
Direct effect of tax decisions	-0.2	5.5	-5.0	-5.4	-6.8	-8.5
Direct effect of spending decisions	64.4	34.3	4.4	-9.5	-19.7	-31.0
Indirect effects of Government decisions	-21.4	-9.3	3.3	1.2	0.5	0.6
May cost-of-living support and EPL	9.1	-6.2	-4.3	-2.0	1.2	1.2
<i>of which:</i>						
Cost-of-living package	15.2	1.2	1.2	1.2	1.2	1.2
Energy profits levy	-6.1	-7.4	-5.5	-3.2	0.0	0.0
September energy package	43.2	26.8	3.7	0.0	0.0	0.0
<i>of which:</i>						
Energy price guarantee	24.8	26.8	3.7	0.0	0.0	0.0
Energy bill relief scheme	18.4	0.0	0.0	0.0	0.0	0.0
Growth Plan after 17 October reversals	8.1	18.8	19.3	19.6	20.4	21.1
<i>of which:</i>						
NICs/health and social care levy	7.1	16.7	16.5	16.9	17.4	18.0
Stamp duty land tax thresholds	0.7	1.1	1.0	1.2	1.4	1.6
Annual investment allowance	0.3	1.0	1.6	1.5	1.4	1.4
Other measures	0.0	0.0	0.1	0.1	0.1	0.2
Autumn Statement	3.8	0.3	-19.3	-32.5	-48.1	-61.7
<i>of which:</i>						
Tax measures	-2.2	-7.3	-20.1	-23.1	-28.5	-31.0
Resource DEL and Scottish AME	1.0	13.1	4.6	-5.1	-12.2	-19.4
Capital DEL and Scottish AME	4.9	-0.1	-0.1	-3.9	-7.3	-11.8
Other measures	0.1	-5.4	-3.7	-0.4	0.0	0.4
<i>Memo: Growth Plan as announced</i>	<i>12.6</i>	<i>39.0</i>	<i>39.4</i>	<i>44.4</i>	<i>46.5</i>	<i>48.2</i>
<i>Memo: Growth Plan reversals</i>	<i>-4.6</i>	<i>-20.2</i>	<i>-20.1</i>	<i>-24.8</i>	<i>-26.1</i>	<i>-27.1</i>

Note: This table uses the convention that a positive sign implies an increase in borrowing.

⁵ The total cost of the Bulb Energy bailout has reached £6.5 billion, with £4.6 billion of that in 2022-23 included in the Autumn Statement.

11 As always, the amounts raised or spent on new policy measures is subject to varying degrees of uncertainty.⁶ The largest single measure is to reduce the medium-term growth in departmental current spending (or RDEL), the implications of which are discussed in Box 3. There are several measures whose costings are particularly uncertain, including:

- **Compliance measures from DWP and HMRC** that raise £2.8 billion a year by 2027-28 through the recruitment of more than 6,000 additional staff. This takes place in the context of cuts to growth in wider departmental spending that pose a risk to baseline compliance activity in the two departments. In order to satisfy ourselves that this would not undermine the departments' ability to achieve the performance that is reflected in our pre-measures forecast, we sought assurances from the Treasury. The Autumn Statement confirms that *"As well as announcing additional resource today to increase counter-fraud and compliance capacity within DWP, the Government remains committed to ensuring DWP and HMRC have sufficient funding to enable them to maintain their fraud, error, and debt, and compliance performance over time, while continuing to make efficiencies – both in this and future Spending Review periods."*
- The **'Pillar 2' corporate tax reforms** that yield £2.3 billion a year by 2027-28. This seeks to limit opportunities for multinationals to benefit from cross-border profit shifting and tax planning by introducing a 'top-up' tax and a domestic minimum tax. These are part of G20 and OECD initiatives to reform corporate taxation globally. The uncertainties in the costing arise from several areas: it is a new tax that will require the collecting and processing of new information, some of which will need to be obtained from overseas, with an associated compliance burden for HMRC; the yield depends on how multinational groups respond to the tax, and how lower-tax foreign jurisdictions respond to its implementation, both of which are highly uncertain; and the Pillar 2 rules are novel and complicated, making it difficult to model based on existing data.
- There is considerable uncertainty over the take-up consequences of future **cost-of-living payments to benefit recipients** and **the delay to universal credit migration for employment and support allowance claimants**. The more people who are encouraged to claim these benefits in order to receive the cost-of-living payment, the greater the ongoing cost in terms of higher future caseloads.
- The **energy profits levy** and the **electricity generators levy** (EGL). The costings of both of these new taxes are subject to very high uncertainty around prospects for energy prices (see Box 4). The EGL also includes a new investment allowance, which will encourage some companies to bring forward or increase planned investment. But that incentive is weighed against greater instability in the tax regime and the fact that these temporary high tax rates will remain in place until 2028 – factors that are likely to discourage some investment decisions. Our forecast assumes that these positive and negative effects offset each other leaving investment unchanged, but this is highly uncertain.

⁶ A full line-by-line breakdown of all costings and their associated uncertainty rankings is available in our online supplementary tables.

- 12 Our forecasts also reflect the latest ONS decisions on the statistical classification of government activities. The most important of these are that the £400 rebate on energy bills is treated as a transfer from government to households and therefore does not affect measured inflation, whereas the EPG and EBRs are subsidies that do reduce energy bills and inflation (for consumers and producers respectively).

Box 1: The demand- and supply-side effects of policy measures

Our economic and fiscal forecasts are conditioned on the latest announced Government policies. This always includes estimates of the direct fiscal costs or savings from policy measures and their near-term demand-side impacts on the economy. Where evidence suggests that measures will have a material, additional, and durable impact on potential output, we also take their supply-side impacts into account.^a This box details our estimates of the demand and supply impact of policies announced since the Spring Statement in March.

Demand impact of new policy measures

To estimate the effect of discretionary fiscal policy changes on economic activity, we normally use multipliers drawn from the empirical literature. These capture wider effects of fiscal policy measures over and above their immediate effect on demand, through changes to private incomes and spending. We review these estimates periodically.^b

In 2022-23, £40 billion is being spent to support households via May's cost-of-living measures and September's energy price guarantee. The £15 billion cost of the former supports incomes directly, while the latter's £25 billion cost in 2022-23 and its further £13 billion cost in 2023-24 supports real incomes by lowering energy prices, reducing consumer price inflation by almost 3½ percentage points at its peak impact (and by 2 percentage points in the second quarter of 2023 when the generosity of the scheme is reduced). In the medium term there will be no direct impact on the price of energy. The equivalent six-month scheme for firms (the £18 billion energy bill relief scheme in 2022-23), has a smaller, but still significant, effect on CPI inflation by limiting the need for firms to pass on the costs of higher energy bills.

The measures announced since March 2022 total £64 billion in 2022-23 and £40 billion in 2023-24 (2.6 and 1.6 per cent of GDP). This boosts real incomes, supporting household consumption, so the 2.1 per cent peak-to-trough fall in GDP is a little over 1 percentage point shallower than it would have been in the absence of these policies, and the unemployment rate is 3.6 per cent in 2022-23 and 4.3 per cent in 2023-24, around 0.2 percentage points (around 70,000) lower than it would have been otherwise. Per pound of support provided, we expect the targeted cost-of-living payments to have a modestly larger impact on spending than the untargeted EPG (since it also benefits those on higher incomes who tend to save more of any boost to real incomes). And we expect the EPG to have a larger impact again than support to businesses (as this is more likely to be saved rather than invested in the current highly uncertain economic conditions). Combined, these measures result in a less negative output gap in 2022-23, so less downward pressure on wage and price growth. As a result, the measures directly lower prices significantly in the near term, while the indirect effect from the fiscal stimulus raises them modestly in future years (when the price subsidy is no longer in effect). Box 2 discusses how the combined effect of the measures announced in 2022 (both alongside and since our March

2022 forecast) support real household disposable incomes (RHDI) on a per person basis (relative to what would otherwise have occurred).

Over the medium term, the net effect of measures announced since our March forecast is a structural tightening that builds to over 1 per cent of GDP (£39 billion) in 2027-28, driven mainly by lower departmental spending. This outweighs the smaller fiscal impulse provided by cancelling the introduction of the health and social care levy and weighs on activity from 2025-26. The effect of all these policies on the level of real GDP via the demand channel diminishes to zero by the forecast horizon. This is because, as usual, we assume that the Bank of England responds to changes in wages and price pressures by adjusting monetary policy to keep inflation at its 2 per cent target, so that output evolves in line with the economy's supply capacity.

Supply impact of new policy measures

As described in a briefing paper alongside this *Economic and fiscal outlook (EFO)*, our forecasts also reflect the supply-side impact of policy measures that we expect to affect the economy's potential to generate GDP over the longer term.⁹ The potential output of the UK economy is determined by the volume of two large stocks – the stock of labour (the number of hours that can be sustainably worked across the economy without generating inflation) and the stock of capital (the volume of infrastructure, equipment, and other past investments available to those in work) – as well as the efficiency with which these two 'productive factors' are combined, known as 'total factor productivity'.

The fact that these stocks are large relative to the annual flows of new workers, enhancements to skills, investments, and new technologies that are typically the focus of government policies (and the fact that such policies are subject to frequent modification and sometimes reversal) means that the supply-side effects of some policy measures will be too small to warrant an explicit adjustment to our potential output forecasts (outside our periodic stocktakes). We therefore explicitly adjust our forecasts only for those new measures that we judge to be of sufficient size, additionality, and duration to have material effects on these stocks, or the efficiency with which they are combined, over the medium term.

The net effect of the new measures announced since March on potential output is neutral over the forecast period, reflecting several small changes in both directions that offset over time:

- We expect the effect of policy changes on **labour supply** to be neutral over the forecast period. The scrapping of the **health and social care levy**, on its own, provides some modest support to the supply of labour. As a tax whose incidence would have fallen on real wages, we would have assumed that the substitution effects from lower marginal tax rates modestly outweighed their income effects and that its elimination would, in isolation, increase incentives to work.⁵ But we expect this positive labour supply effect to be offset by the growing disincentives to work provided by **frozen tax thresholds** in an environment of higher and more persistent inflation than assumed in our March forecast and the reversal of the cut to the **basic rate of income tax**.
- Policy measures have also resulted in no material net adjustment to our **capital stock** forecast. The extension of the £1 million **annual investment allowance** announced in the Growth Plan has a small positive effect on the level of business investment over the

forecast period, raising it by around 0.1 per cent on average.^d Numerous other measures announced since March could also have either small positive impacts on whole economy investment (the investment allowances in the energy profits levy, and the increase in generosity of the R&D expenditure credit, predominantly used by large firms) or small negative ones (the electricity generators and energy profits levies, and reduction in the generosity of the R&D scheme for smaller firms). These measures' combined effects are judged to be small and offsetting. The net effect of two other announcements would have been more material – the Growth Plan decision to simultaneously not raise the corporation tax rate from April, while increasing the bank surcharge – had they not subsequently been reversed.^e

- The reductions in **departmental capital budgets** from 2025-26 reduce public investment by 8 per cent by the final year of the forecast and the public sector capital stock by 1 per cent in 2027-28. This could eventually reduce the level of potential output by 0.1 per cent (using our March 2020 approach of an output elasticity of 0.1, drawn from a survey of the literature).^f But given the long lags between public investment projects beginning and affecting the productive capacity of the public and/or private sectors, we assume any material impacts on potential output would occur outside our five-year forecast horizon.

^a See OBR, *Briefing paper No.8: Forecasting potential output – the supply side of the economy*, November 2022.

^b Most recently in Box 2.2 of our December 2019 *Forecast evaluation report* and Box 2.1 of our November 2020 *EFO*. As explained in previous *EFOs*, we have excluded the effects of changes in spending on Official Development Assistance (assuming the spending would largely take place abroad) and on the Bulb bailout.

^c This reflects our latest assessment of the literature. For instance, Adam, S., and D. Phillips, *An ex-ante analysis of the effects of the UK Government's welfare reforms on labour supply in Wales*, 2013.

^d HMRC's tax returns data suggest that in an average year around 75 per cent of companies that could use the annual investment allowance carry out no eligible capital spending at all.

^e Recent survey evidence from the Bank of England's Decision Maker Panel suggests that uncertainty is elevated, and intelligence from the Bank's regional agents highlights it as one of the factors weighing on firms' investment intentions. See Bank of England, *Monetary Policy Report*, November 2022.

^f Bom, P., and J. Ligthart, *What have we learned from three decades of research on the productivity of public capital?*, 2014.

Economic outlook

Energy prices, interest rates and the exchange rate

13 Since our March forecast, wholesale gas prices have reached new highs, interest rate expectations have surged, and the value of sterling has dropped (Chart 3). While UK-specific factors appear to have exacerbated some of these movements around the time of the 23 September Growth Plan, by early November differences in key market determinants largely reflected global developments since March: further curtailing of Russian gas exports to Europe, rising government bond yields internationally, and a strengthening US dollar. Our economy forecast is conditioned on market expectations averaged over the three working days to 26 October, while our fiscal forecast is conditioned on the average over the 10 working days to 4 November – the first two weeks of Prime Minister Sunak's term.⁷ We discuss the effects of alternative interest rate paths in Box 4. In our economy forecast:

⁷ For both, these were the most recent dates that could be used – with our economy forecast being closed to new information earlier than our fiscal forecast. It is not our normal practice to use different assumptions in our economy and fiscal forecasts, but we felt that timeliness was more important than full consistency in this instance. It means, for example, that our debt interest forecast reflects the modest further falls in interest rates in the seven days from 27 October to 4 November.

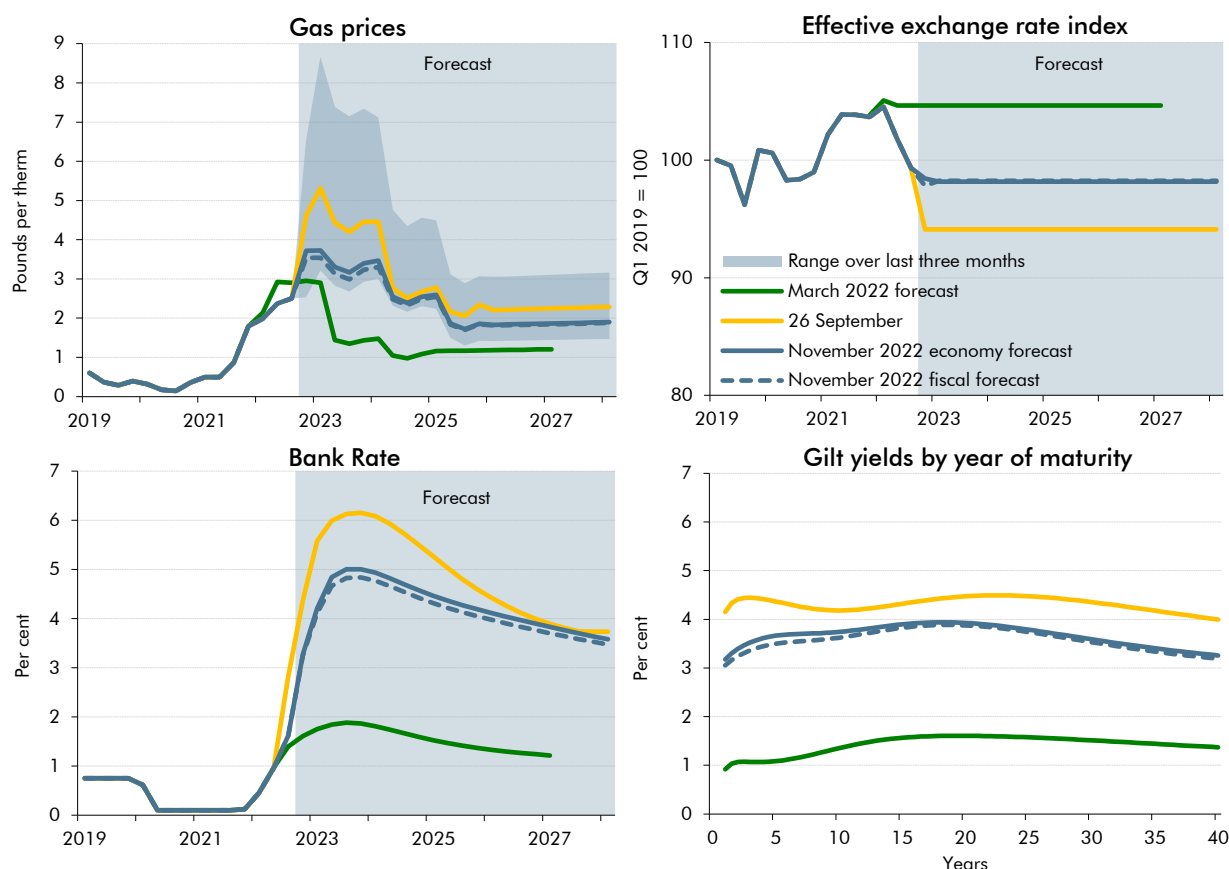
- **Gas prices** remain historically high and are expected to peak at £3.70 a therm in the first quarter of 2023, around 80p a therm higher than the peak in our March forecast. Prices then fall back sharply to settle at £1.90 a therm in the final quarter of 2025, after which we hold them constant in real terms – at around 70p a therm above our March forecast and around four times pre-pandemic norms.⁸ Market expectations for gas prices have been volatile, with prices for the first quarter of 2023 having risen as high as £8.70 a therm and fallen as low as £3.20 since the start of August. The government-funded price guarantee for households and businesses means near-term changes in gas prices primarily determine the near-term fiscal cost of freezing prices rather than changes in inflation and the wider economy, though changes beyond the end of each freeze still have economic impacts on both demand and supply.⁹ The dollar cost of oil in 2023 is little changed since March at \$85 a barrel, but the weaker pound means the cost of oil is up by 19 per cent in sterling terms.
- Since March, **sterling's** value relative to other major currencies has fallen: by 14.2 per cent against the dollar, by 4.3 per cent against the euro, and by 6.2 per cent in effective terms against major currencies weighted by trade. Following the 23 September Growth Plan, sterling's daily spot rate reached a low of 1.07 against the dollar, the lowest since 1985, before recovering to near its pre-Growth Plan value on 3 October. For our economy forecast, sterling is held at 1.15 against the dollar.
- **Bank Rate** has been raised from 0.75 per cent at the time of our March forecast to 3 per cent now, its highest level since 2008 and higher than the peak rate that markets were predicting in March. The market expectations underpinning our economy forecast point to it rising further to a short-lived peak at around 5 per cent in the second half of 2023, 3 percentage points above the March forecast peak. Bank Rate then falls back from the first quarter of 2024 but remains around 3 percentage points higher than our March forecast. The peak for Bank Rate is lower than immediately after the Growth Plan, when it rose as high as 6.2 per cent. Our forecast continues to be conditioned on market expectations for Bank Rate and not the materially lower expectations recorded in surveys of economists.¹⁰ Our assumptions regarding the pace and profile of quantitative easing are discussed from paragraph 49.
- **Gilt yields** have increased by around three times at the short end and around two times at the long end relative to our March forecast. Partly reflecting higher shorter-term interest rate expectations, 20-year nominal gilt yields have increased from 1.6 to 3.9 per cent since March. Real yields on 20-year inflation-linked gilts have also risen since our March forecast from *minus* 2.3 to *plus* 0.2 per cent. Gilt yields have fallen back from the levels following the announcement of the Growth Plan, when 20-year nominal yields reached 4.5 per cent on 26 September.

⁸ Between January 2010 and December 2019, one-month ahead forward prices for gas averaged 50p a therm.

⁹ For more on how changes in gas prices affect the public finances, see Box 4.

¹⁰ For more on the risks to our fiscal forecast from interest rate movements, see Box 4.

Chart 3: Gas prices, the exchange rate, Bank Rate and gilt yields



Note: November 2022 economy forecast is an average of the 3 working days to 26 October and the fiscal forecast is averaged over the 10 working days to 4 November. Range over last three months is up to 4 November. Effective exchange rate is comprised of the US Dollar, Euro, Canadian Dollar, and Japanese Yen, weighted by trade.
Source: Bank of England, Bloomberg, Datastream, OBR

Inflation

14 We expect inflation to peak at a 40-year high of 11.1 per cent in the fourth quarter of 2022, revised up from the peak of 8.7 per cent in our March forecast. The peak would have been even higher still at 13.6 per cent (and come one quarter later) without the reduction in utility prices that results from the EPG. The EPG continues to hold inflation down next year, though the increase from £2,500 to £3,000 in April 2023 adds 1 percentage point to quarterly CPI inflation in the second quarter of 2023. On a calendar-year basis, CPI inflation falls back from 9.1 per cent in 2022 to 7.4 per cent in 2023. Near-term fiscal support boosts demand (offsetting much of the reduction in demand that would otherwise have resulted from higher energy bills), with tighter monetary and fiscal policy then putting some downward pressure on domestic prices later in the forecast. Conditional on market expectations for Bank Rate and gas prices, inflation falls below zero for eight quarters from mid-2024 and by the end of our forecast, the price level is 0.8 per cent lower than our March forecast. The key drivers of the path of inflation are (Chart 4):

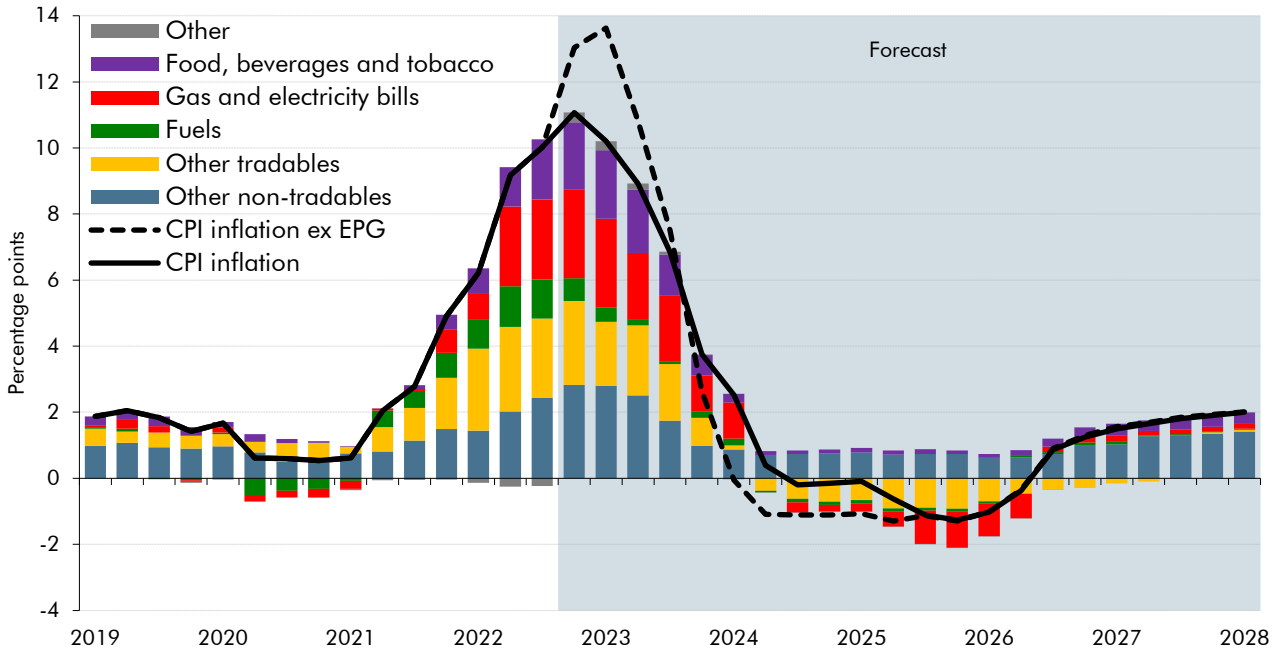
- The EPG limits the contribution of household **gas and electricity bills** to around 2 percentage points in 2022 and 2023 (so, CPI inflation is 2 percentage points lower in the final quarter of 2022 and around 1 percentage point lower on average across

2023). As wholesale gas and electricity prices surged, the Ofgem price cap rose 54 per cent from £1,277 in October 2021 to £1,971 in April 2022, and would have risen a further 80 per cent to £3,549 this October were it not for the EPG limiting the unit price of gas and electricity. As a result, the average household will pay an annualised rate of £2,500 from October – a 27 per cent rise from the April 2022 cap. The EPG then rises by 20 per cent in April 2023 to an annualised rate of £3,000 – still significantly lower than the around £4,000 Ofgem cap that would be implied in that quarter by wholesale futures prices. Those futures prices fall across 2024 and 2025, with household energy bills evolving in line with these prices after the EPG ends.

- **Food and non-alcoholic beverage** prices rose 14.5 per cent in the year to September 2022, the highest rate in more than 40 years, and we expect high food price inflation to continue in the near term. Food, beverages, and tobacco are expected to contribute 1.5 percentage points to inflation in 2023 as a whole. The weaker pound also raises food prices as the UK imports around half of its food. Food, beverages, and tobacco price inflation eases significantly at the end of 2023, with prices broadly flat through to 2025 before contributing modestly (around 0.3 percentage points) to headline inflation in the final two years of the forecast.
- **Other tradable goods and services** inflation has contributed around 2.5 percentage points to headline inflation so far this year due to global supply bottlenecks, combined with the depreciation of sterling. We expect this to fade gradually during 2023, when its contribution falls to 1.7 percentage points before turning negative in 2024, as supply bottlenecks ease, energy prices fall, and this reduced input price inflation is passed on to consumers. This contributes to falling CPI inflation in the medium term.
- **Other non-tradable goods and services** inflation has risen over the past year as a tight labour market and increases in living costs push up nominal wage growth. This adds 2.8 percentage points to overall inflation in the final quarter of 2022, before falling back by mid-2023 as energy prices fall, spare capacity in the economy builds, and wage growth moderates.
- We normally assume **CPI weights** remain constant through the forecast period, but in this forecast we have reflected how large price increases in necessities like utilities and fuel should cause their shares of consumer spending to rise significantly. This accentuates the effects of movements in energy prices after the start of 2023, when energy bills make up a particularly large share of consumption, and ensures that the subsequent sharp falls in energy bills feed through appropriately to the CPI index as it will be compiled by the ONS.¹¹

¹¹ We did not forecast changes in CPI weights in March, so the impact of falling energy prices was understated. This helps to explain why the CPI index has been revised down at the forecast horizon despite medium-term gas prices being higher in this forecast than in March.

Chart 4: Contributions to CPI inflation

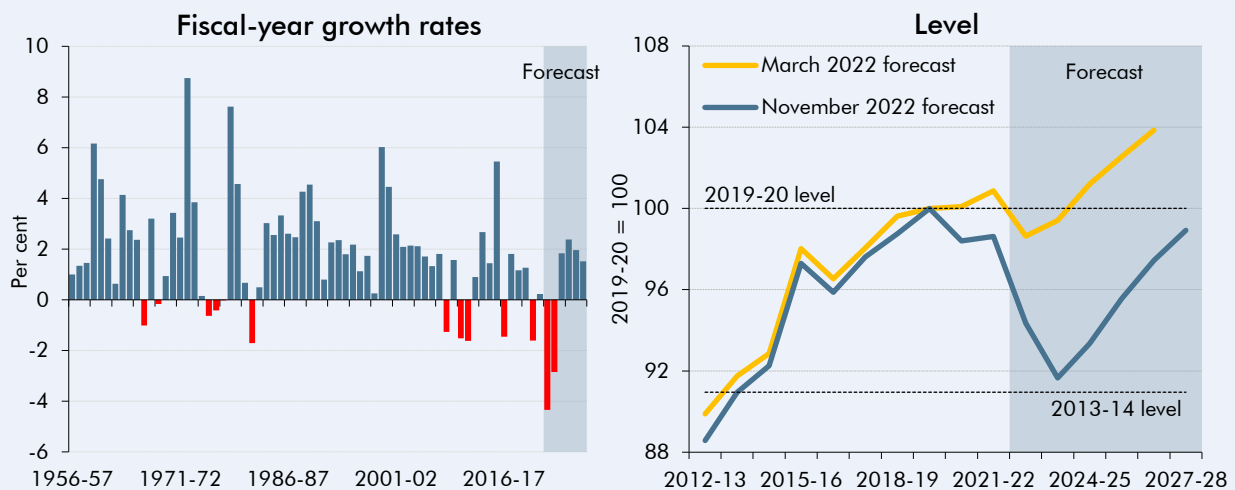


15 We also expect the near-term peak in RPI inflation to be higher than in our March forecast, at 14.1 per cent compared to 11.0 per cent. The upward revision is larger than for CPI inflation because, in the near term, higher interest rates on the stock of outstanding mortgages push up the wedge between RPI and CPI inflation to the levels last seen in the early 1980s. Mortgage rates peak 1.8 percentage points higher than in March, but it is the almost 100 per cent rise from 2.2 per cent in the third quarter of 2022 to 4.3 per cent a year later that drives the mortgage interest component of RPI inflation and causes the RPI-CPI wedge to increase significantly.

Box 2: The outlook for household income and consumption

The UK is being hit by a large terms of trade shock that is set to push inflation to its highest rate in 40 years and drive historic falls in real household disposable income. This inevitably makes households worse off. On a fiscal year basis, RHDl per person (a measure of living standards) falls by 4.3 per cent in 2022-23, which would be the largest since ONS records began in 1956-57. That is followed by the second largest fall in 2023-24 at 2.8 per cent. This would be only the third time since 1956-57 that RHDl per person has fallen for two consecutive fiscal years – the last time this happened was in the aftermath of the global financial crisis (Chart A, left panel). And the 7.1 per cent cumulative fall from 2021-22 to 2023-24 is large enough to take RHDl per person to its lowest since 2013-14. By 2027-28, RHDl per person recovers its 2021-22 level, but remains over 1 per cent below pre-pandemic levels (Chart A, right panel).

Chart A: Real household disposable income per person



Source: ONS, OBR

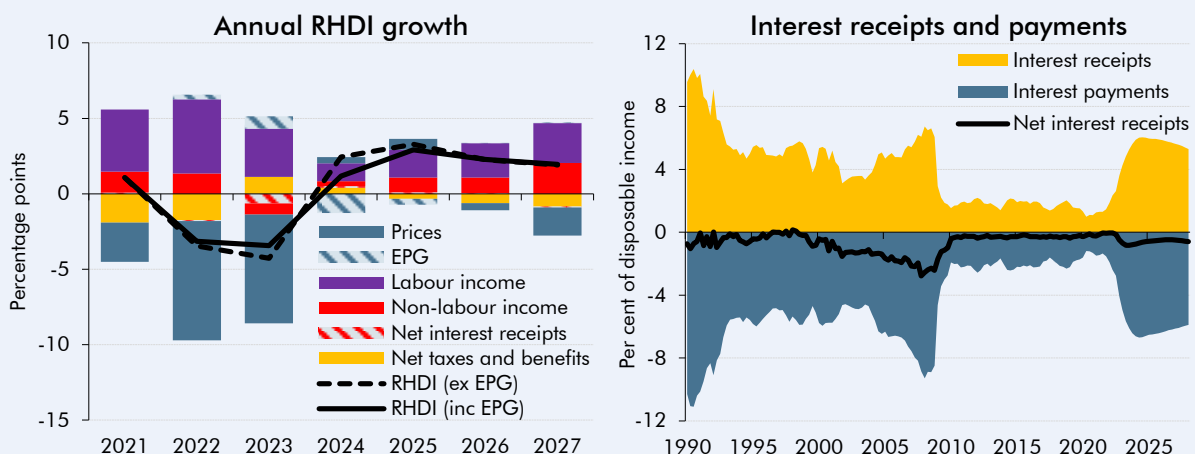
These near-term falls would have been greater still without the substantial fiscal support announced this year. Measures announced both alongside and since our March 2022 forecast – mainly via the energy price guarantee and successive tranches of cost-of-living payments – raise the level of RHDl per person by 4½ per cent in 2022-23 and 2½ per cent in 2023-24, relative to what would otherwise have occurred (a 3½ per cent average boost over the two years). Together, the two packages reduce the fall in RHDl per person in 2022-23 by half and lower the cumulative fall from 2021-22 to 2023-24 by around a quarter – to 7.1 per cent (a smaller fraction because the scale of support in 2023-24 is around half as large as it is in 2022-23).

The left panel of Chart B shows the main drivers of our forecast for aggregate RHDl on a calendar-year basis (to highlight how it influences our aggregate consumption forecast):

- **High inflation** erodes real incomes (blue bars). Higher energy prices reflecting global shocks are unambiguously bad for households as the UK is a net energy importer. And as lower-income households spend more of their income on energy, the proportionate hit to them is greater. The impact of higher energy prices is limited by the EPG (blue-striped bars), which partly offsets the effect of inflation on RHDl growth in 2022 and 2023.

- **Nominal wage growth** is also high in 2022 and 2023 (purple bars), although not high enough to prevent *real* wages from falling significantly. The contribution of labour income to annual RHDl growth then settles at an average of 2 percentage points a year over the remainder of the forecast.
- **Net taxes and benefits** reduce RHDl growth this year, despite the impact of cost-of-living payments to households on means-tested benefits and to pensioners, reflecting fiscal drag from frozen tax thresholds among other factors (yellow bars). Net taxes and benefits boost disposable incomes in 2023 (thanks to another round of cost-of-living payments) but reduce them from 2025 onwards as temporary support is withdrawn and frozen tax thresholds draw more people into tax and more taxpayers into higher bands.
- **Higher interest rates** have little net impact on aggregate RHDl (red-striped bars). Mortgage rates and other interest costs rise but higher interest rates also boost interest income on household savings, and the impacts of these changes broadly offset in aggregate as the stock of household deposits is roughly equal to the stock of debt (Chart B, right panel). However, we expect rate rises to feed through to households' payments faster than they will to their receipts, so RHDl growth is reduced by around half a percentage point next year. The impact of these changes will also be unevenly distributed across households: the median household has £8,400 in net financial wealth; whereas 28 per cent of dwellings are mortgage owned, and the median household mortgage debt is around £100,000.^a

Chart B: Real household disposable income growth and net interest receipts



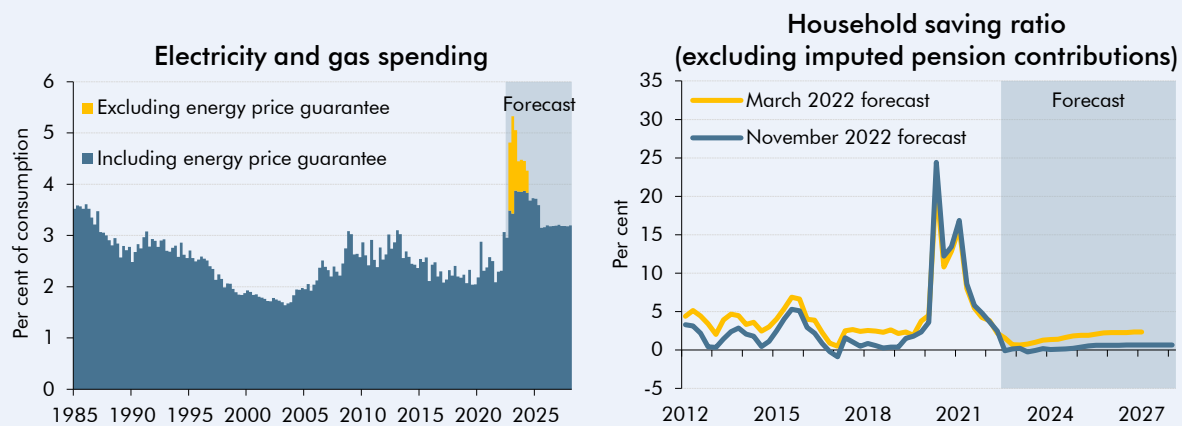
Notes: Prices exclude the energy price guarantee. Non-labour income excludes net interest receipts.
Source: ONS, OBR

How these changes affect our consumption forecast

We expect households to spend more of their income on essentials such as energy and food, as their prices have risen quickly and there is limited scope to substitute away from them (Chart C, left panel).^b But some households will also draw on their savings to cushion the impact of higher prices on their consumption, and we therefore expect the saving ratio (excluding imputed pension contributions that are less visible to households) to fall from the very high lockdown-induced peak of 24 per cent in mid-2020 to a low of zero per cent in 2023 (Chart C, right

panel). Higher interest rates and easing cost-of-living pressures (as energy prices fall) let the saving ratio settle at around half a per cent from 2025 onwards.

Chart C: Electricity and gas spending and the household saving ratio



Note: Assumes energy spending moves in line with real economy-wide consumption and the relative price of energy, with a 1 percentage point reduction in growth in real expenditure on energy assumed for each 10 per cent increase in energy prices.
Source: ONS, OBR

The rise in interest rates reduces consumption despite not having much net impact on aggregate incomes, in part because those adversely affected by higher interest rates are likely to cut spending by more than those who benefit from higher interest income.^c Falling house prices and lower equity prices will also lower real housing and financial wealth and weigh on consumption. Overall, we expect consumption to fall by 2.7 per cent from the second quarter of 2022 to the third quarter of 2023, before recovering in 2024 and 2025 and then settling at growth of around 2 per cent a year thereafter.

^a Data are for Great Britain and from the ONS Wealth and Assets Survey, April 2018 to March 2020.

^b In Chart C, we assume that households have a price elasticity of demand for electricity and gas of -0.1. This elasticity is taken from Department of Energy and Climate Change, *Gas price elasticities: the impact of gas prices on domestic consumption – a discussion of the available evidence*, June 2016.

^c See Bank of England, *The consumption response to positive and negative income changes*, February 2017.

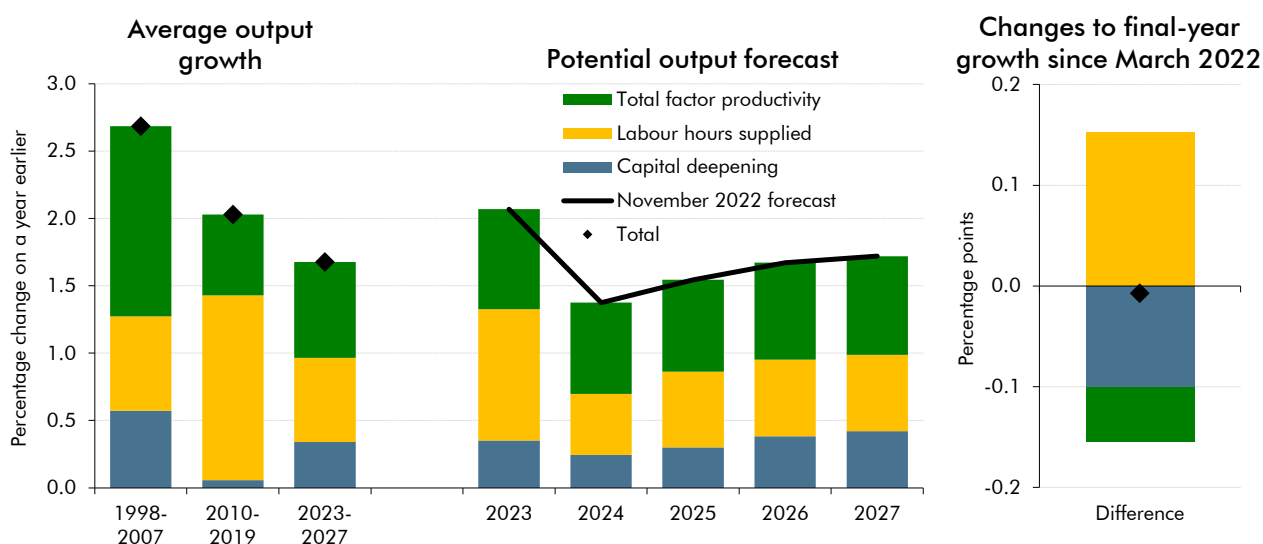
Potential output

- 16 Our forecast for annual growth in potential output at the forecast horizon in 2027 is little changed from our March forecast's horizon at around 1¾ per cent, thanks to offsetting revisions to labour supply, capital deepening and total factor productivity (TFP) described below (Chart 5).¹² This is a full percentage point lower than the average growth rate in the decade prior to the financial crisis and around a third of a percentage point below the post-financial crisis average. Our medium-term GDP growth forecast is slightly higher than the external consensus (see paragraph 34).
- 17 However, cumulative growth in potential output over the forecast period is 1.7 percentage points lower than in March. This downward revision largely reflects the impact of higher medium-term energy prices as households and businesses cannot easily substitute away

¹² For more detail on our approach to forecasting potential output, see OBR, *Briefing paper No.8: Forecasting potential output – the supply side of the economy*, November 2022.

from using energy. So higher energy prices lower the effective productivity of the economy by reducing the volume of goods and services that it is profitable for firms to supply when the price of an important, and largely imported, input rises. We estimate that in the medium term, each 10 per cent rise in energy input prices could take up to 0.2 per cent off the level of potential output.¹³ In our March forecast, we did not factor in any medium-term hit to potential from higher energy prices – in part because it was not clear at that stage how long they would persist. Since then, medium-term expectations of gas prices have risen further: in weighted-average real terms, gas and oil prices are up around 65 per cent relative to those that underpinned our October 2021 forecast.¹⁴ On its own, this would explain the majority of the downward revision to cumulative growth in potential output over the next five years relative to our March forecast.

Chart 5: Potential output growth



Note: Historical average growth rates calculated using actual GDP and labour hours outturns. The 2010 to 2019 actual labour hours supplied involved a large fall in the unemployment gap, not just growth in potential labour hours supplied.
Source: ONS, OBR

18 Our forecast for the level of **labour supply** (the equilibrium total hours worked across the economy) by 2026 is 0.1 per cent higher than we expected in March and largely reflects the offsetting impacts of two factors:

- **Higher population growth.** We now assume net migration declines from 224,000 a year in 2023 to settle at 205,000 a year from 2026 onwards (based on the ONS 2020-based interim migration projection). This compares to 136,000 and 129,000 in those years in our March forecast (based on the 2018-based ONS zero net EU migration variant). This upward revision reflects evidence of sustained strength in inward migration since the post-Brexit migration regime was introduced. According to provisional estimates, it reached 239,000 in the year to June 2022 and recent Home

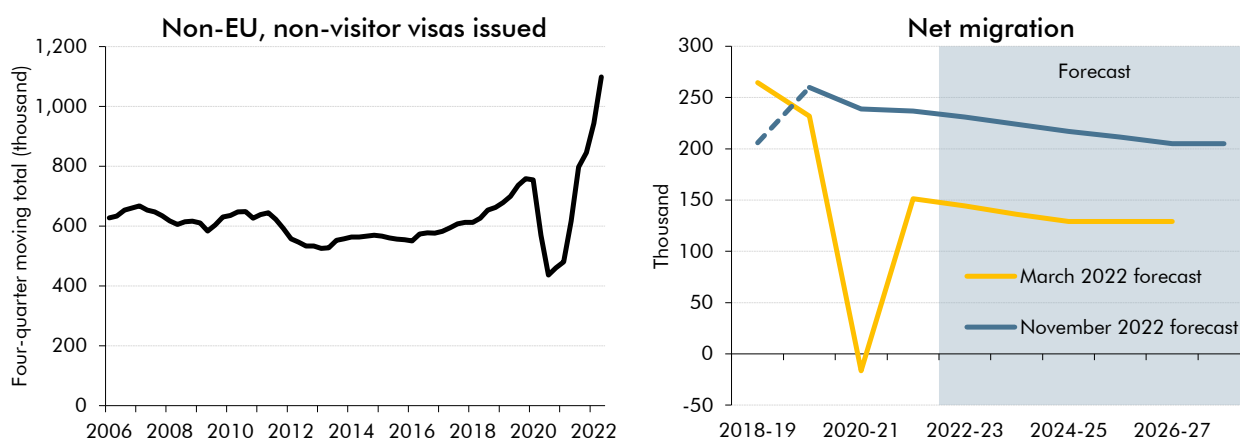
¹³ See Box 3.2 of our July 2022 *Fiscal risks and sustainability report*.

¹⁴ In nominal terms, gas prices at the forecast horizon have risen from 70p a therm to £1.90 a therm (up 170 per cent) and oil prices from £50 a barrel to £66 a barrel (up 30 per cent). Applying weights of three-quarters to oil and one-quarter to gas therefore gives a weighted average nominal rise in the price of energy of 66 per cent (the rise is similar in real terms).

Office visa data point to continued rises in the number of visas issued to non-EU migrants, which reached 1.1 million in the year to June 2022.¹⁵ It also reflects discussions with the Home Office’s Migration Advisory Committee over what levels of net migration for the next several years might be consistent with the current migration regime. Moving to this higher net migration assumption adds 0.6 per cent to the adult population at the forecast horizon.

- **Higher inactivity rates.** We have revised down the trend participation rate by 0.3 percentage points on average over the forecast so it settles at 63.0 per cent compared to 63.3 per cent in our March forecast. This is largely due to higher inactivity and came alongside a rise in long-term sickness, which jumped by 169,000 (0.3 per cent of the adult population) over the three months to August. We assume some of these people return to the labour force by the end of the forecast, but the prevalence of older workers in this group (three-quarters of all new inactive adults since the pandemic), suggests that many will never return.¹⁶ This revision has little effect on the growth of potential output in the medium term.
- Other changes to labour supply are small, with the trend rates of **unemployment** and **average hours** worked little changed relative to our March forecast.

Chart 6: Non-EU, non-visitor visas issued and net migration



Note: Net migration measured as the flow to the middle of each calendar year.
Source: Home Office, ONS, OBR

19 The path of potential productivity in the near term is affected by its rebound from the restrictions imposed during the pandemic and by the easing of supply bottlenecks that came in the pandemic’s aftermath. Therefore, in order to gauge the underlying rate of potential output growth, it is more meaningful to focus on prospects from 2024 onwards.

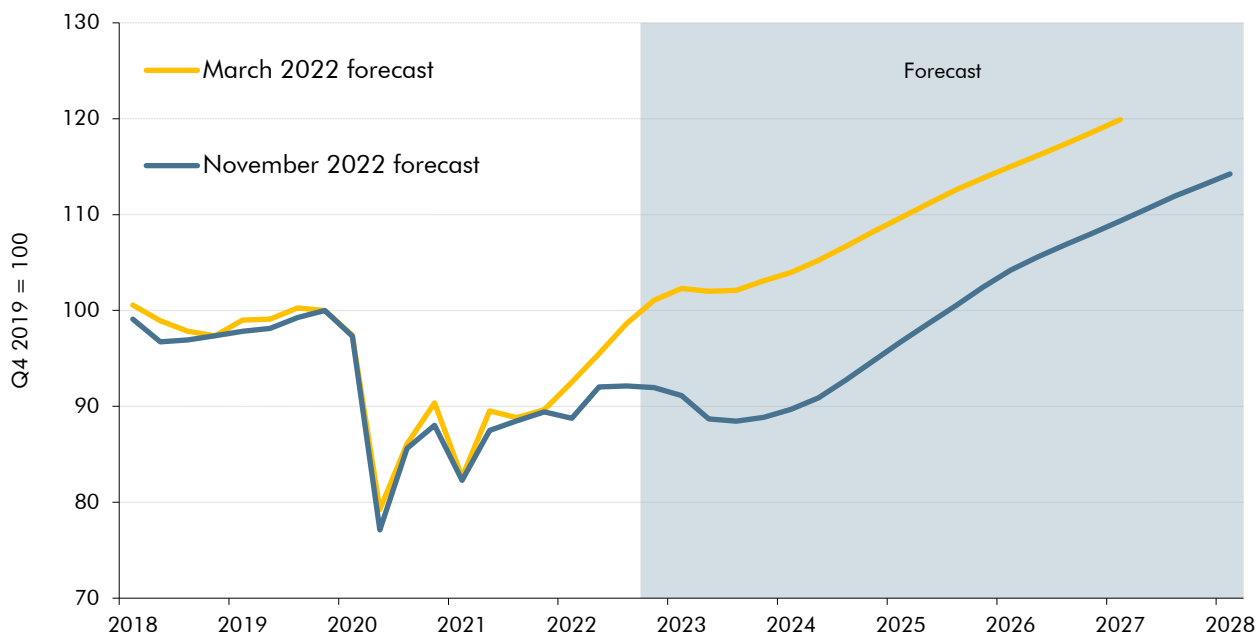
¹⁵ Health and care visas account for 39 per cent of the increase in overall work visas issued. Including dependants, this category of visas almost tripled from around 12,000 in the second quarter of 2021 to over 32,000 in the second quarter of 2022. Despite this increase in visas, in the second quarter of 2022 there were an estimated 212,000 vacancies in the human health and social work sector, a 39 per cent rise from a year earlier.

¹⁶ The rise in inactivity due to long-term sickness in the Labour Force Survey echoes the rise in new claims for disability benefits that has led us to revise up our forecast for spending on those benefits significantly (as described in paragraph 45 below).

We expect **capital deepening** to contribute 0.3 percentage points a year to potential output growth between 2024 and 2026, 0.2 percentage points less than in March. This reflects the impact of much **weaker business investment** – both seen already in outturn and expected to continue over coming years (Chart 7) – due to a number of factors:

- **Outturn data** has been very weak, with business investment in the second quarter of 2022 still 8 per cent below its pre-pandemic peak. This is much lower than our March forecast, where we assumed that business investment would recover strongly and return to its pre-pandemic level by the middle of 2022, supported by the corporation tax super-deduction that expires at the end of March 2023.
- As is typical as the economy enters a **recession**, business investment is forecast to fall by more than GDP over the next year. Investment recovers in the later years of the forecast but remains 8.8 per cent below our March forecast by the start of 2027.
- **Higher interest rates** also weigh on business investment by raising the long-run cost of capital, thereby lowering the desired capital stock. Longer-term real interest rates have been volatile this year, with the yield on 10-year index-linked gilts moving from significantly negative rates (around *minus* 3 per cent) in March to a peak of *plus* 1.5 per cent in mid-October, before settling at around zero more recently. The rise in real interest rates has increased the real cost to companies of raising finance for investment, lowering the level of potential output at the forecast horizon.
- **Higher energy prices** also weigh on investment by lowering the volume of output it is profitable for firms to produce and so reducing the desired capital stock. This is likely to outweigh the effect of firms investing more to increase their energy efficiency or to switch to alternative energy sources.
- The **corporation tax rise** that was announced in March 2021 for implementation in April 2023 has featured in our business investment forecast since it was announced. The impact of the six percentage point rise in the tax rate on business investment lowers potential output by 0.2 per cent at the forecast horizon. Its full effect once the capital stock has fully adjusted, which we assume takes longer than five years, would be around 0.3 per cent.
- **Other policy changes** have a limited net effect on whole economy investment. Raising the annual investment allowance to £1 million adds to business investment (as discussed in Box 1). Large and sustained windfall taxes on oil and gas firms and some renewable generators, plus relatively generous new investment allowances for the former, are assumed to have little impact on investment overall. And it is possible that the raft of new investment-influencing tax policies may generate uncertainty about the tax regime that weighs on investment decisions. Cutting department capital spending reduces government investment, which we would expect to weigh on productivity beyond the forecast horizon.

Chart 7: Business investment



Source: ONS, OBR

- 21 **Total factor productivity** contributes 0.7 percentage points a year to potential output growth from 2024 to 2026, 0.2 percentage points less than in March. Higher energy prices help to explain why our forecast for medium-term TFP growth is closer to the historically weak post-financial crisis rates than it is to the materially stronger growth rates achieved in the decade before the financial crisis. In March, we had also expected stronger near-term potential productivity growth driven by a faster recovery in TFP from the pandemic and subsequent supply bottlenecks in 2022 and 2023.

Real GDP

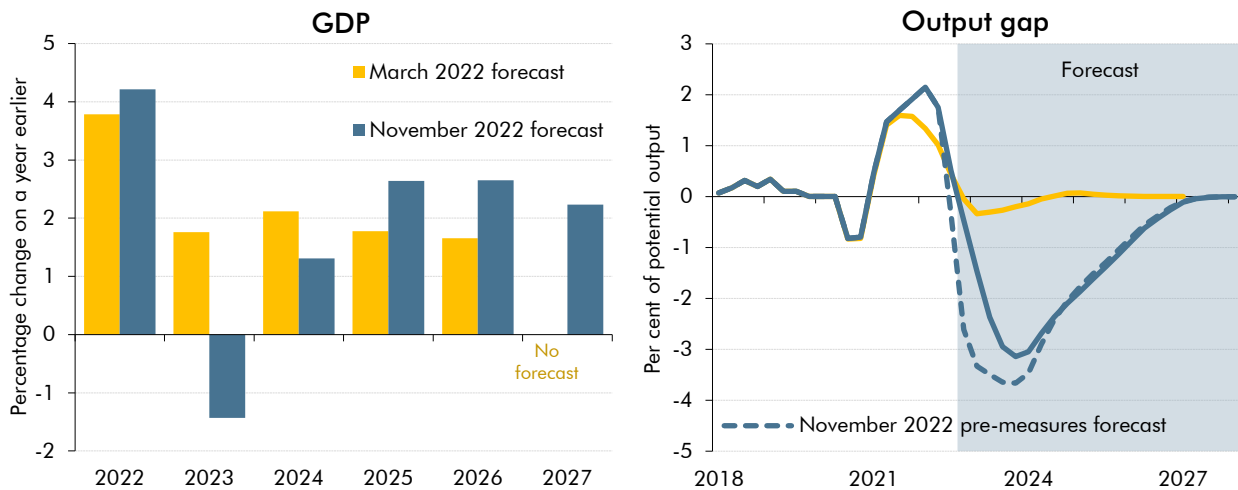
- 22 With high inflation and rising interest rates weighing on demand, we expect the economy to enter a recession lasting just over a year from the third quarter of 2022, with a peak-to-trough fall in output of 2.1 per cent. GDP data for the third quarter of 2022, released after our forecast closed, showed output declining by 0.2 per cent and we expect a further fall in the fourth quarter. But base effects from strong growth in the second half of 2021 are expected to result in annual GDP growth in 2022 as a whole of 4.2 per cent. GDP is expected to fall by 1.4 per cent in 2023, opening up spare capacity of 3.1 per cent of potential output by the end of the year.¹⁷ Without the fiscal support to households and businesses provided by the EPG and other measures announced since March, we estimate that the recession would be 1.1 percentage points deeper, with a peak-to-trough fall in GDP of 3.2 per cent, and the trough in the output gap 0.5 percentage points deeper.¹⁸
- 23 As energy prices and inflation drop, and short-term interest rates fall back from their peaks, annual GDP growth picks up to 1.3 per cent in 2024. Growth is stronger in 2025 and

¹⁷ The path of output next year will be influenced by the King's coronation bank holiday. This will be reflected in our next forecast.

¹⁸ This figure is based on an approximate, statistically driven allocation of support provided in each fiscal year across individual quarters.

2026, at 2.6 and 2.7 per cent, respectively, and the output gap closes by mid-2027, after which real GDP grows in line with potential output. The effect of the significant medium-term fiscal tightening on growth is counterbalanced by an easing in monetary policy (as implied by market expectations for Bank Rate).

Chart 8: Real GDP growth and the output gap



Source: ONS, OBR

24 By the first quarter of 2027, cumulative growth in real GDP since the fourth quarter of 2019 is 3.4 percentage points lower than in our March forecast. Of this, 1.0 percentage points is explained by the lower starting point in the second quarter of 2022, largely due to ONS revisions to GDP outturns.¹⁹ The remaining 2.4 percentage points is due to lower cumulative growth over the forecast, with 1.7 percentage points due to lower potential output growth (described above) and the remainder primarily due to a larger difference between starting and ending output gap over the same period in this forecast.

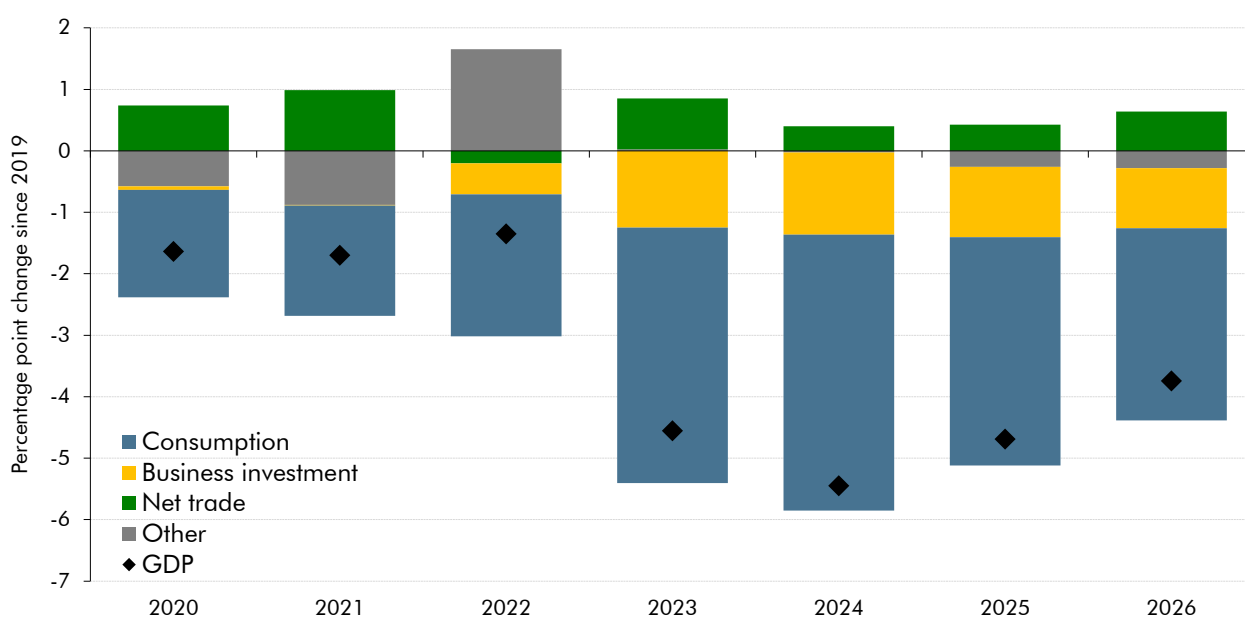
25 In terms of the expenditure composition of GDP (Chart 9):

- **Consumption** drives the fall in GDP with a peak-to-trough drop of 2.7 per cent from the second quarter of 2022 to the third quarter of 2023 as households are hit by high inflation, rising borrowing costs, falling house prices and higher unemployment. Fiscal policy, particularly the EPG and cost-of-living payments, raises real household disposable incomes by 3½ per cent on average in 2022-23 and 2023-24 (see Box 2). In 2024, consumption growth picks up to 1.1 per cent, as the squeeze on real incomes begins to ease, and averages 2.2 per cent in the final three years of the forecast.
- In the second quarter of 2022, **business investment** was still 8 per cent below pre-pandemic levels and we expect it to fall further in 2023 as it is held back by higher long-term real interest rates, higher input costs and elevated uncertainty. While investment increases from the final quarter of 2023 as the economy emerges from the recession, cumulative business investment growth over the forecast is 6.7 percentage points lower than in March.

¹⁹ Our forecast incorporates the latest ONS Quarterly National Accounts figures consistent with its annual Blue Book publication.

- Near-term growth in **exports and imports** is lower than in our March forecast as slowing global GDP growth hits exports and a weaker outlook for consumption and investment weighs on imports. Our trade forecast reflects our assumption that Brexit will result in the UK's trade intensity being 15 per cent lower in the long run than if the UK had remained in the EU. The latest evidence suggests that Brexit has had a significant adverse impact on UK trade, via reducing both overall trade volumes and the number of trading relationships between UK and EU firms.²⁰

Chart 9: Contributions to change in cumulative GDP growth since March



Note: Other is government consumption and investment, residential investment, inventories, valuables, and the statistical discrepancy.
Source: ONS, OBR

Nominal GDP, profits and the current account

- 26 Nominal GDP is the key driver of our fiscal forecast and we expect the level to be 3.9 per cent lower than our March forecast in the 2026-27 fiscal year, driven by the lower path for real GDP described above with little change in cumulative growth in the GDP deflator since the fourth quarter of 2019. Despite CPI inflation of 10 per cent in 2022-23, GDP deflator growth and nominal GDP growth are only around 5 and 6 per cent, respectively, because it is largely import prices that have pushed consumer prices higher, and the GDP deflator measures the price of goods and services produced domestically.
- 27 In terms of cumulative growth between the 2022-23 and 2026-27 fiscal years (i.e. abstracting from revisions to the starting level to focus on the key driver of our tax forecasts), nominal GDP growth is 3.7 percentage points lower than in our March forecast, reflecting 1.4 percentage points lower real GDP growth and 2.0 percentage points from slower growth in the GDP deflator. The downward revision to GDP deflator growth over this period partly reflects lower CPI inflation due to a greater effect from falls in energy prices and lower

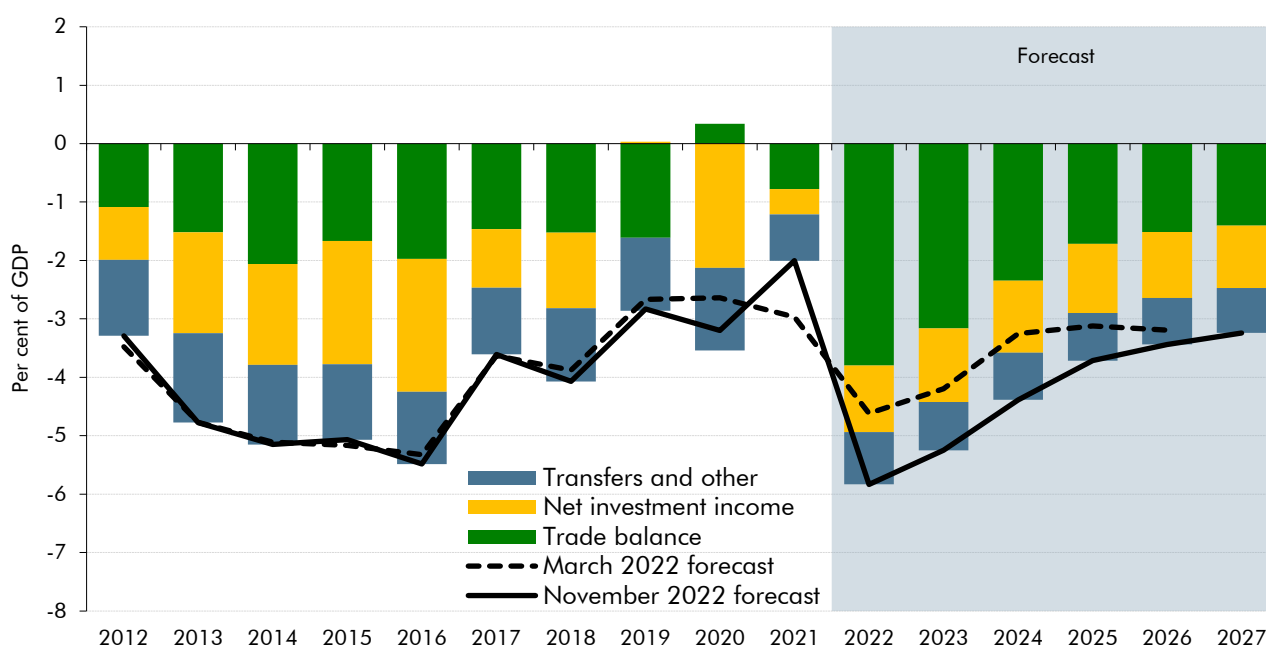
²⁰ For example, see Kren, J., and M. Lawless, *How has Brexit changed EU-UK trade flows?*, October 2022 and Freeman, R., et al., *UK trade in the wake of Brexit*, April 2022.

domestically generated inflation as a result of greater spare capacity. Cuts to the rate of growth in departmental spending from 2025-26 onwards in the Autumn Statement also lower the price of government consumption and the GDP deflator.

28 Private sector (non-oil non-financial) profits grow strongly in 2022 at 9.4 per cent due to base effects from a strong first half of 2022. Profits fall by 4.8 per cent in 2023 and rise more slowly than nominal GDP in 2024. This reflects the erosion of profits by higher input costs and wages in the face of a tight labour market, with firms unable to pass on all these cost increases during the downturn. This comes despite company finances being supported in the near term by government help with energy prices and business rates. From 2025, profits rise slightly as a share of GDP – as energy prices fall back and the opening up of some slack in the labour market lessens pressure on wage growth – to the reach the 2010 to 2019 average of around 16 per cent at the forecast horizon.

29 The current account deficit is expected to widen sharply from 2.0 per cent of GDP in 2021 to 5.8 per cent in 2022, the highest full-year deficit since ONS records began, mainly driven by a widening trade deficit (Chart 10). The widening in the trade deficit is partly caused by a deterioration in the terms of trade, as the price of energy and other goods that the UK is a net importer of have risen significantly. (Gas imports in the first eight months of 2022 reached £31 billion, more than four times higher than in the same period in 2021.) Over the forecast, we expect the trade deficit to narrow due to falling gas prices (which helps the terms of trade recover) and the fall in the value of sterling (which also contributes to the narrowing of the investment income deficit). The declining fiscal deficit also helps to bring the current account deficit down to 3.2 per cent of GDP by 2027.

Chart 10: Current account balance

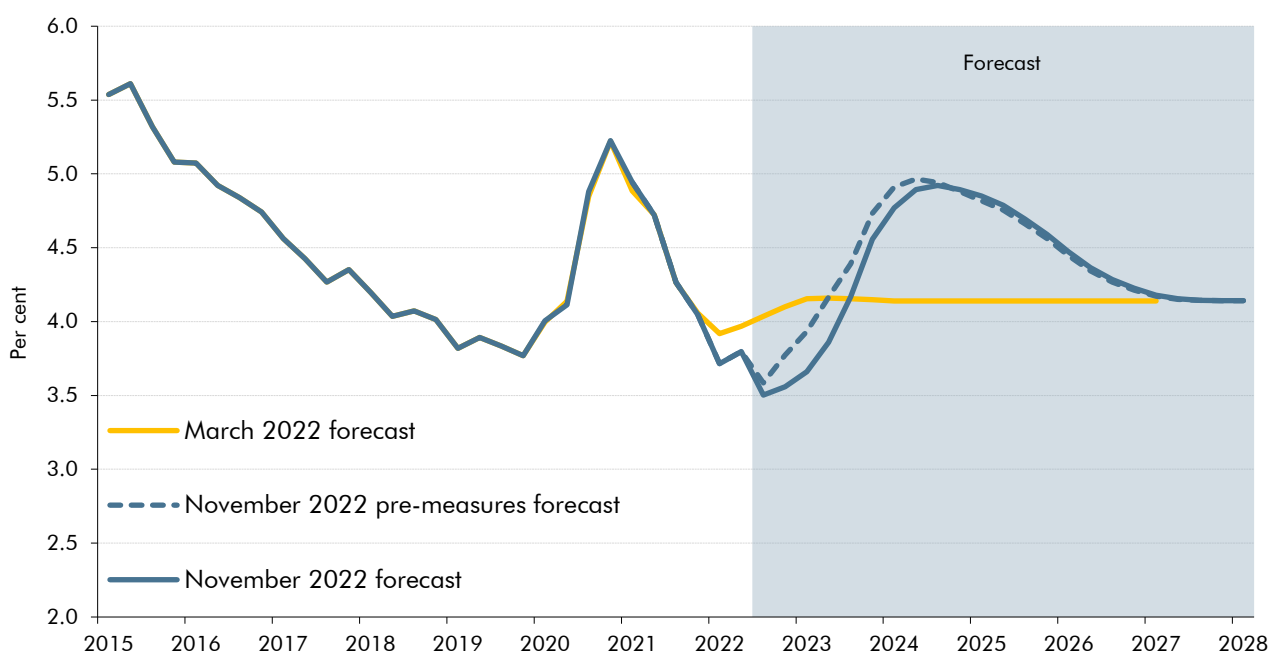


Source: ONS, OBR

Labour market

30 We expect the unemployment rate to rise to a peak of 4.9 per cent in the third quarter of 2024, 0.8 percentage points above our March forecast, as the recession takes hold (Chart 11). The latest data continue to indicate a tight labour market, with the unemployment rate dropping to 3.5 per cent in the three months to August (the lowest since January 1974), high vacancies, and surveys showing continued recruitment difficulties. We therefore expect the rise in unemployment to lag the fall in GDP as vacancies are likely to fall first before workers are laid off. By boosting near-term demand, we estimate that fiscal policy has lowered unemployment in 2023 by 0.2 percentage points (around 70,000).²¹ Overall, we expect unemployment to rise by 505,000 from 1.2 million at present to 1.7 million at its peak. By late 2027, unemployment returns to its estimated structural rate of 4.1 per cent.

Chart 11: Unemployment rate



Source: ONS, OBR

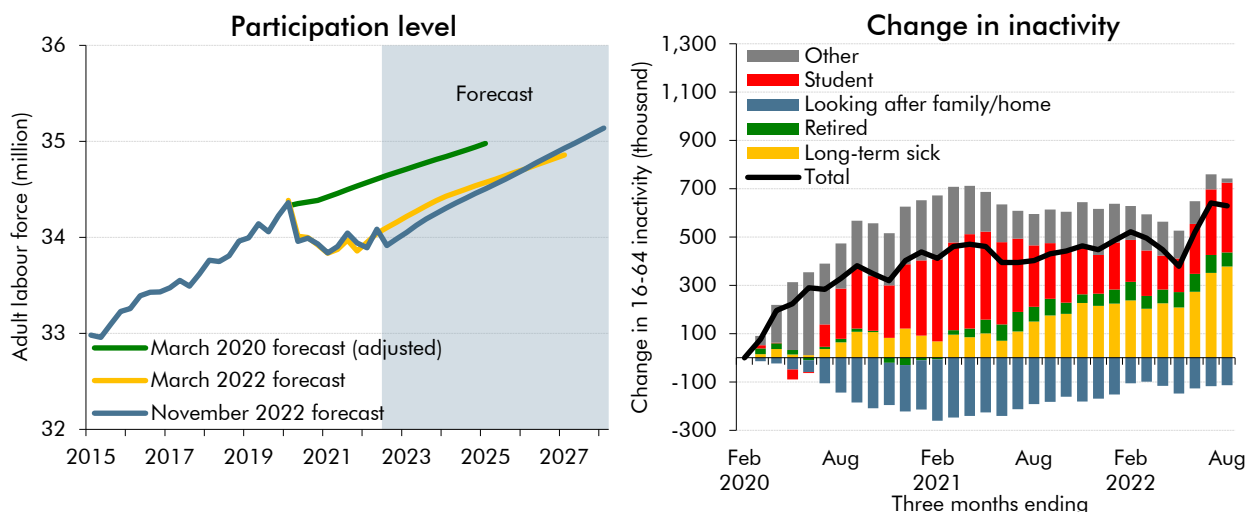
31 Having entered the coming recession 0.4 per cent (142,000 people) below its pre-pandemic level, employment is expected to fall by a further 0.4 per cent (124,000 people) by the first quarter of 2024 before recovering to its pre-pandemic peak by mid-2025. As well as the impact of the recession over the next few years, the weak outlook for employment reflects a smaller labour force than we had expected pre-pandemic (Chart 12, left panel). The number of non-participants that report long-term sickness has risen by 378,000 since before the pandemic and 169,000 in the past three months, with a particularly large increase among older age groups (Chart 12, right panel).²² These people are unlikely to re-enter the labour market, which contributes to our forecast for lower

²¹ Due to vacancies adjusting first in the face of weaker output, the effect on unemployment is smaller than we would otherwise assume.

²² The IFS has noted that this rise in ill health in older age groups appears to have been concentrated among those who were already inactive, while the flows from employment into inactivity for these groups have been driven by retirement and other non-health reasons. See Boileau, B., and J. Cribb, *Is worsening health leading to more older workers quitting work, driving up rates of economic inactivity?*, October 2022.

participation than we had expected pre-pandemic. The number of students in the inactive population has also risen (up 289,000 since before the pandemic and 149,000 in the past three months) but we expect some of this rise to unwind. Other changes, including higher net migration (described in paragraph 18), also contribute to the change in our forecast for the level of participation.

Chart 12: Participation and change in inactivity



Note: We adjusted our March 2020 participation forecast up by around 0.2 per cent to take into account the unexpected strength in participation before the pandemic hit.
Source: ONS, OBR

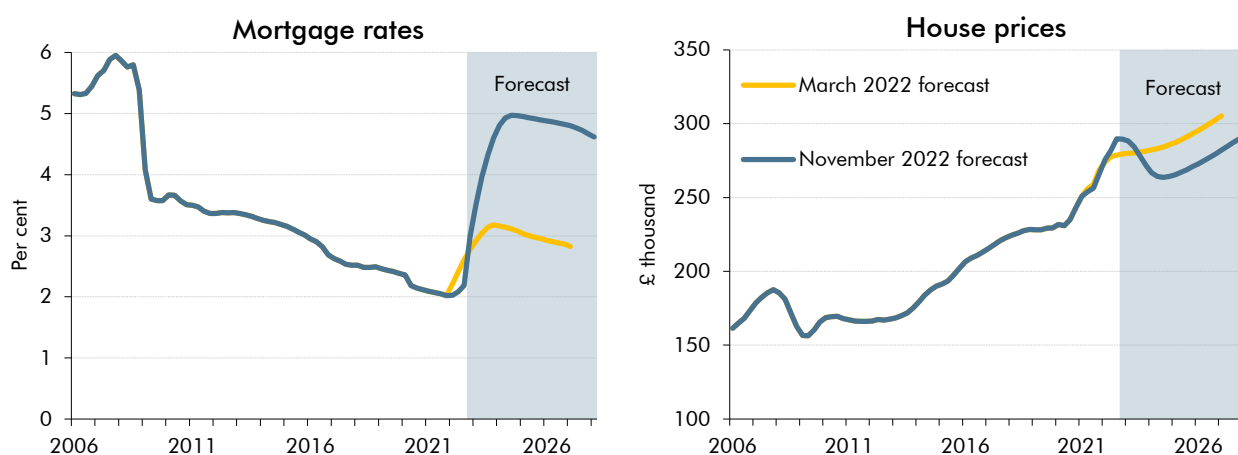
32 Nominal earnings are expected to grow by 5.9 per cent in 2022 and 4.2 per cent in 2023, rates that are, respectively, 0.6 and 1.3 percentage points higher than our March forecasts. Higher inflation continues to exert upward pressure on nominal earnings while the labour market remains tight, with earnings growth only slowing next year as unemployment rises and inflation falls. Strong near-term earnings growth boosts the labour share of national income (a key determinant of the tax-to-GDP ratio) relative to our March forecast. As these pressures dissipate, nominal earnings growth falls to an average of 2.0 per cent a year between 2024 and 2027. However, despite strong nominal earnings growth over the next couple of years, high inflation means real wages still fall sharply – by 1.8 per cent in 2022 and 2.2 per cent in 2023 – before recovering to grow by an average of 1.3 per cent a year thereafter. The last time real wages fell for two consecutive years was following the financial crisis, when real wages fell for six consecutive years from 2007 to 2013. Our forecast for real household disposable income is described in Box 2.

House prices

33 House prices are forecast to fall by 9.0 per cent between the fourth quarter of 2022 and the third quarter of 2024, largely driven by significantly higher mortgage rates as well as the wider economic downturn (Chart 13). Average interest rates on the stock of outstanding mortgages peak at 5.0 per cent in the second half of 2024, the highest since 2008 and 1.8 percentage points above the peak in our March forecast, before falling back slightly to 4.6 per cent by the forecast horizon. Due to the relatively large share of fixed-rate mortgages in

the total (around 83 per cent in the second quarter of 2022 versus 51 per cent in 2007), higher rates on new mortgages take time to feed through to higher average mortgage rates on the stock of debt. As the economy recovers, house prices rise slightly faster than nominal incomes from 2025 (at around 2.6 per cent a year) and the house-price-to-earnings ratio settles at around 7.0, somewhat lower than the ratio of 7.3 in our March forecast. There is significant uncertainty over this forecast given the sensitivity of house prices to mortgage rates and the recent volatility in the bond yields that drive pricing in the mortgage market.

Chart 13: Mortgage rates and house prices



Source: Bank of England, Datastream, OBR

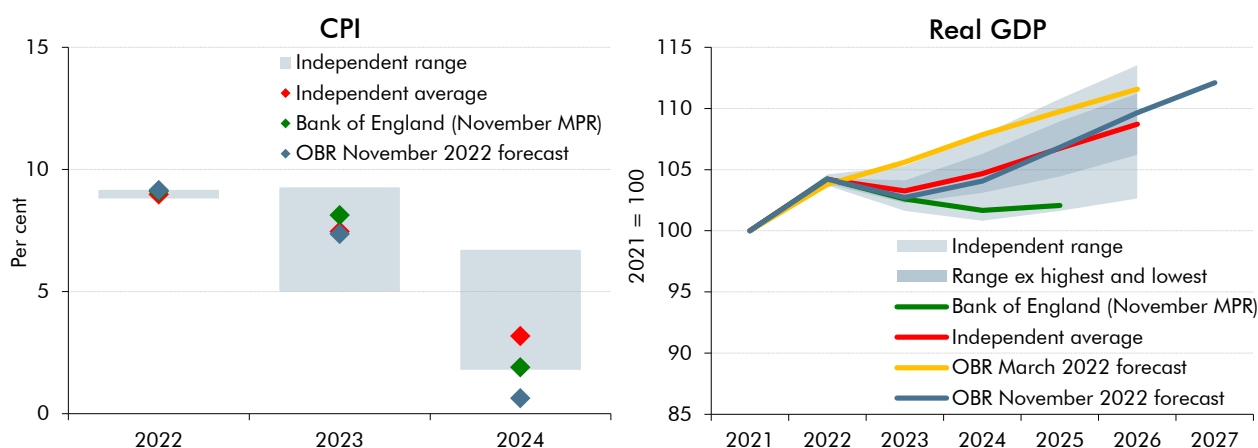
Comparison with external forecasters

34 Chart 14 compares our projections for CPI inflation and real GDP with those of outside forecasters. Given the number of recent changes in fiscal policy and the volatility in financial and energy markets, the range of external forecasts is wide and differences between our forecasts and those of external forecasters over the next couple of years will partly reflect when each forecast was produced, and thus differences in assumptions about government policy, interest rates, and energy prices. In summary:

- There is a wide range surrounding **CPI inflation** forecasts in 2023, though ours is in line with the average and a little below the Bank of England's. In 2024, our forecast is below the Bank's and consensus. This is likely to reflect differences in our assumptions around household energy bills (given our forecast is based on the precise path for the EPG announced in the Autumn Statement, which outside forecasters are unlikely to have anticipated perfectly), as well as the implications of high gas and electricity prices for their share in consumption and their resulting weights in the CPI basket (which may not feature in all forecasters' predictions).
- Our **real GDP** forecast lies just below the consensus in 2023 and 2024, partly reflecting the fact our forecast is conditioned on market expectations for Bank Rate, which are materially higher than independent forecasters' expectations. But our forecast for 1.3 per cent GDP growth in 2024 is significantly above the Bank's forecast for a further fall of 0.9 per cent. This reflects a combination of factors including the

Bank's slightly higher inflation forecast and their assumption that the household saving rate falls by less to support consumption than in our forecast. The Bank's lower productivity growth assumption and weaker forecast for participation also contribute to lower GDP growth. Beyond 2024, external forecasters expect weaker real GDP growth than in our forecast, which is likely in part to reflect their more pessimistic medium-term productivity assumptions.²³ External forecasters' average expectation for growth in 2026 is 1.8 per cent, 0.8 percentage points below our forecast of 2.7 per cent.

Chart 14: Comparison of forecasts for CPI inflation and real GDP



Note: Independent average uses the most recent average of independent forecasters' medium-term projections, published by the Treasury in November. Bank of England forecast excludes the backcast.
Source: Bank of England, HM Treasury, ONS, OBR

Fiscal outlook

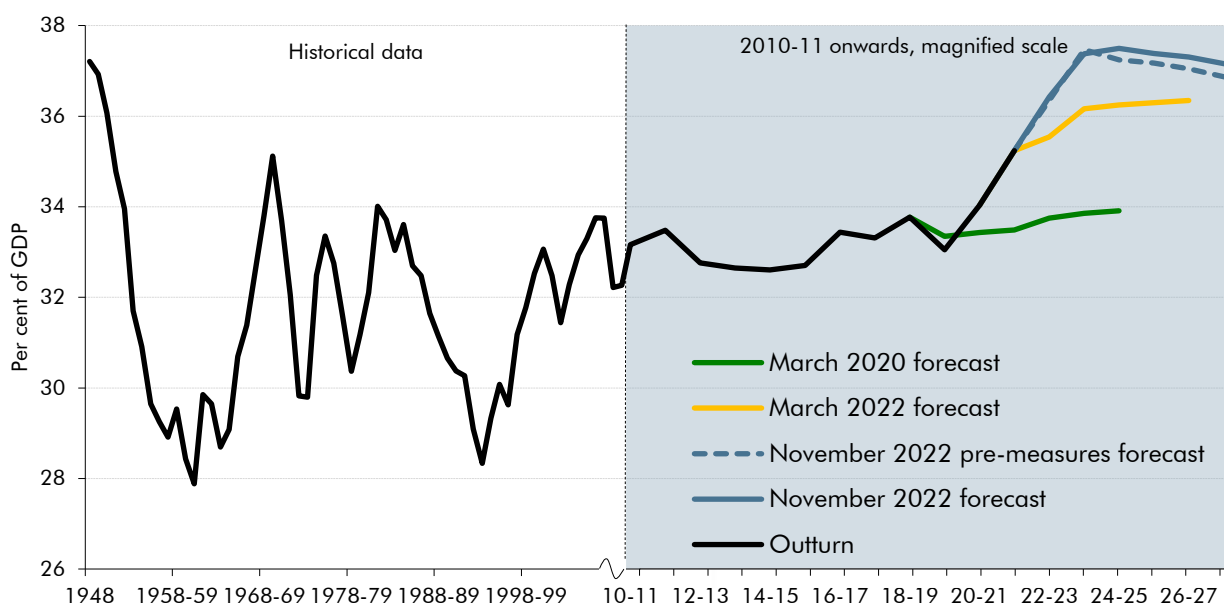
Receipts

- 35 Receipts have recovered strongly from the worst of the pandemic, rising by £120 billion (15.1 per cent) in 2021-22, and are forecast to rise by a further £90.9 billion (9.9 per cent) this year. Receipts have recovered faster than nominal GDP, which means that both receipts and National Accounts taxes (a slightly narrower measure that is more comparable over longer historical periods, shown in Chart 15) have continued rising as a share of GDP, the latter by 1.2 percentage points both last year and this year. The tax burden (i.e. the ratio of National Accounts taxes to GDP) now peaks at 37.5 per cent of GDP in 2024-25, which would be its highest level since the end of the Second World War. From there, it falls gradually to 37.1 per cent of GDP by 2027-28, but remains 4.1 percentage points above its pre-pandemic level, and at its highest sustained level for seven decades.
- 36 Relative to March, the tax-to-GDP ratio is higher in every year, and by 1.1 per cent of GDP on average. In the near term that reflects stronger outturn receipts, stronger growth in wages and nominal consumer spending, as well as the boost to private sector incomes and

²³ For example, NIESR in its *Autumn 2022 UK Economic outlook* forecasts whole economy productivity to grow at 1.0 per cent in 2026 and real GDP to grow at 1.6 per cent. These figures are 0.6 and 1.1 percentage points lower than our respective productivity per hour and real GDP forecasts. The Bank in its November *Monetary Policy Report* also forecasts lower labour productivity growth at ½ per cent in 2025, 1 percentage point lower than our forecast.

spending from the large-scale fiscal support being delivered this year and next. In the medium term, the tax-to-GDP ratio is higher despite cash receipts being lower than in March as the amounts raised via tax measures are outweighed by the hit to cash receipts and nominal GDP from the energy price shock and higher interest rates.

Chart 15: National Accounts taxes as a share of GDP



Note: We have increased the GDP denominator in forecast years for our previous forecasts by the upward revision to 2020-21 nominal GDP in the Quarterly National Accounts data. This is to enable like-for-like comparisons with our subsequent forecasts.

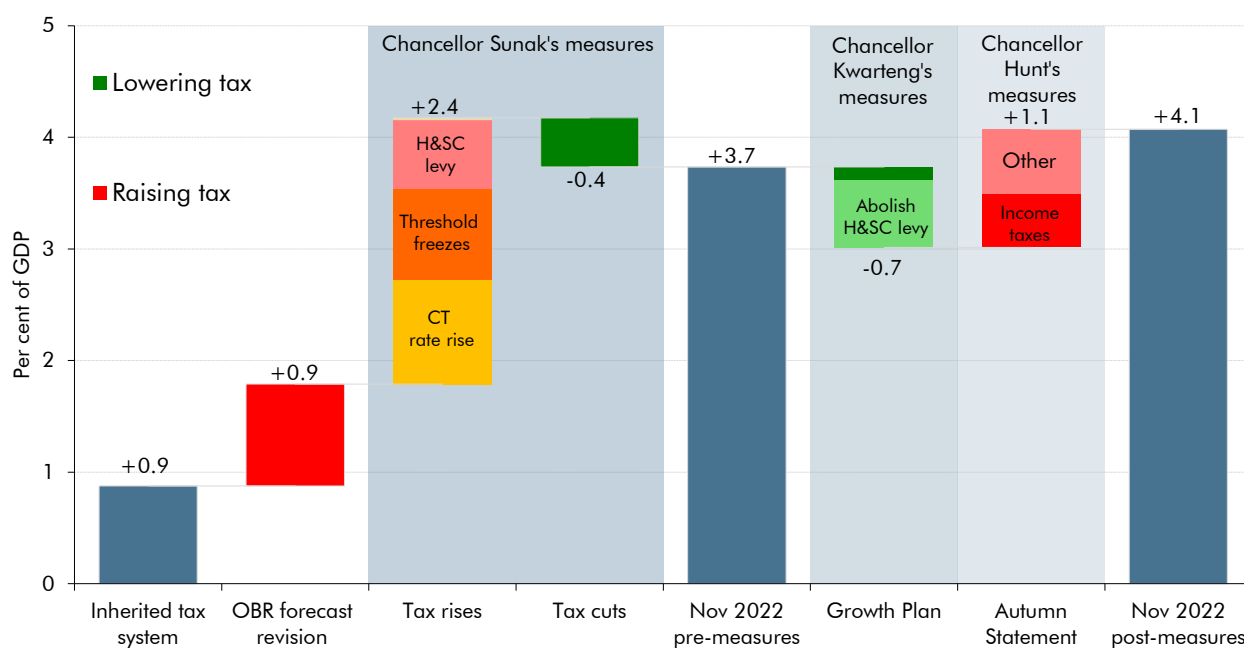
Source: ONS, OBR

37 By 2027-28, the net tax rises set out by Chancellor Hunt in the Autumn Statement more than offset the tax cuts retained from his predecessor's Growth Plan, increasing the tax-to-GDP ratio by 0.3 percentage points. Combined with underlying trends and other net tax rises announced over the past two years, the tax burden rises by 4.1 per cent of GDP between 2019-20 and 2027-28 (Chart 16). In summary:

- The tax system **inherited in March 2020 by Chancellor Sunak** would have increased the tax-to-GDP ratio by 0.9 percentage points (thanks largely to fiscal drag).
- **Underlying forecast changes** since then raise the ratio by 0.9 percentage points over the eight-year period, reflecting tax-rich changes in the composition of activity.
- **Chancellor Sunak's net tax increases**, including raising the rate of corporation tax from 19 to 25 per cent, introducing the health and social care levy, and freezing income tax thresholds, would have added 1.9 percentage points to the tax burden in 2027-28.
- **Tax cuts retained from Chancellor Kwarteng's Growth Plan**, largely not going ahead with the health and social care levy, reduce the tax burden by 0.7 percentage points.
- **Chancellor Hunt's net tax rises in the Autumn Statement** increase the tax burden by 1.1 percentage points. Modest gross tax cuts include reductions in business rates, but these

are far outweighed by larger gross tax rises. Extending various threshold freezes and introducing new ones, such as the NICs secondary threshold freeze, account for 0.3 percentage points of the rise. Reversing Chancellor Sunak's 1p cut to the basic rate of income tax adds 0.2 percentage points. Allowing local authorities to deliver larger rises in council tax adds 0.2 percentage points. And increasing and extending the EPL and introducing the EGL adds 0.2 percentage points. The remainder reflects smaller measures, including levying vehicle excise duty rates on electric vehicles and implementing the 'Pillar 2' global minimum corporate tax regime.

Chart 16: The rise in the tax-to-GDP ratio between 2019-20 and 2027-28



Source: ONS, OBR

38 Relative to our March forecast, we have revised receipts up by an average of £10.5 billion (1.0 per cent) between 2022-23 and 2024-25 and then down by an average of £11.9 billion (1.0 per cent) between 2025-26 and 2026-27. This reflects the uneven and partly offsetting consequences of: (i) higher-than-expected receipts so far this year; (ii) the near-term economic downturn and our medium-term downward revision to the level of potential output; and (iii) the effects of near-term fiscal loosening boosting tax bases, followed by medium-term net tax rises (Table 2). By individual receipts streams:

- **Receipts from income taxes** have been revised down in all years by an average £7.5 billion (1.6 per cent). This reflects not going ahead with the health and social care levy, which is partially offset by not cutting the basic rate in 2024-25, plus extending the threshold freezes to 2027-28, and the pre-measures effects of stronger outturn data and higher nominal wage growth. Our estimates of the numbers of new (3.2 million) and higher-rate (2.6 million) taxpayers created by the now six-year freeze on the personal allowance and higher-rate income tax thresholds have risen since March, largely as a consequence of higher CPI inflation. The freezes are expected to raise £26

billion a year by 2027-28 relative to thresholds being raised with CPI inflation.²⁴ They take the real value of the personal allowance in 2027-28 back to its 2013-14 level, which was mid-way through the Coalition Government's series of above-inflation increases that raised its real value by around half between 2010-11 and 2015-16.

- **Capital taxes** (capital gains tax, stamp duty land tax (SDLT), and inheritance tax) have been revised up by £0.9 billion (2.4 per cent) this year thanks to stronger-than-expected outturns, but then down by an average of £9.3 billion (20.7 per cent) a year from 2023-24 onwards. This reflects the downturn in the property market due to higher mortgage rates, as well as a weaker outlook for equity prices. The temporary rise in SDLT thresholds costs £1.1 billion a year on average while it is in force.
- **Onshore corporation tax receipts** (including the EGL, which raises £2.4 billion a year on average from 2023-24 onwards) have been revised up by £9.9 billion (17.5 per cent) in 2022-23 thanks to stronger-than-expected profits this year, and by an average of £5.6 billion (6.4 per cent) a year from 2023-24 onwards as near-term strength in profits moderates. The rise in the main rate of onshore corporation tax from 19 to 25 per cent next April raises £12.8 billion in 2023-24, rising to £20.2 billion in 2027-28. Keeping the annual investment allowance at £1 million permanently rather than reducing it to £200,000 costs £1.4 billion a year by 2027-28.
- **VAT receipts** have been revised up by £2.5 billion (1.7 per cent) in 2022-23 on stronger-than-expected outturns, but then down by an average of £2.3 billion (1.4 per cent) a year thereafter. These downward revisions reflect the near-term economic downturn, overlaid by a lower standard-rated share of spending as more is spent on lower-rated energy and zero-rated food. The downturn in the housing market also weighs on the standard-rated durables spending associated with moving home.
- **Oil and gas receipts** (including the EPL) have almost doubled relative to our March forecast in 2022-23 (to £14.9 billion) and more than quadrupled in 2023-24 (to £20.7 billion, including £10.8 billion of EPL revenues). The latter would be an all-time high for oil and gas revenues in cash terms, and the highest as a share of GDP since 1985-86. Volatility in energy prices means these revenues are particularly uncertain.
- **Interest and dividend receipts**, which include income from financial assets such as bank deposits and foreign exchange reserves, but also from student loans and returns on public sector pensions, have been revised up by an average of £7.6 billion (23 per cent) a year in 2023-24 and 2024-25 thanks largely to higher interest rates.
- **Council tax receipts** have been revised up by increasing amounts across the forecast period relative to March, reaching £3.3 billion (6.9 per cent) in 2026-27. This reflects the decision to give councils in England increased flexibility to raise council tax bills without the need for a local referendum, which is expected to result in bills rising by

²⁴ This figure relates only to freezing the personal allowance and higher-rate threshold until 2027-28. Adding the effect of freezes to the primary and secondary NICs thresholds until 2027-28 increases the amount raised to £35 billion by that year.

around 5 per cent a year over the next five years. This change is expected to yield £4.8 billion a year by 2027-28, equivalent to increasing the average Band D council tax bill in England by around £250 (11 per cent) in that year.

Table 2: Receipts (excluding environmental levies): changes since March

	£ billion						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March 2022 forecast	892	981	1,041	1,079	1,118	1,161	
November 2022 forecast	907	1,001	1,054	1,089	1,113	1,151	1,197
Difference	15.4	20.5	13.1	10.4	-4.9	-9.7	
By policy and forecast differences							
<i>of which:</i>							
Direct impact of measures		0.2	-5.5	5.0	5.4	6.8	
Indirect impact of measures		17.7	15.1	7.3	3.5	2.6	
Underlying forecast differences		2.6	3.4	-1.9	-13.8	-19.0	
By tax head							
<i>of which:</i>							
Income tax, NICs and H&SC levy		-2.3	-5.6	-5.2	-10.9	-13.7	
Capital taxes ¹		0.9	-6.9	-11.0	-10.6	-8.9	
Onshore corporation tax ²		9.9	5.1	5.6	5.0	6.8	
VAT		2.5	-1.8	-2.4	-2.0	-3.0	
Oil and gas revenues ³		7.2	15.9	12.7	8.7	7.9	
Interest and dividend receipts		0.7	6.6	8.5	3.2	0.0	
Council tax		0.1	0.6	1.2	2.2	3.3	
Other receipts		1.5	-0.9	1.1	-0.5	-2.2	

Note: This table excludes environmental levies, which are neutral for PSNB because they are treated in the statistics as a tax that finances an equal amount of public spending.

¹ Capital gains tax, stamp duty land tax, and inheritance tax.

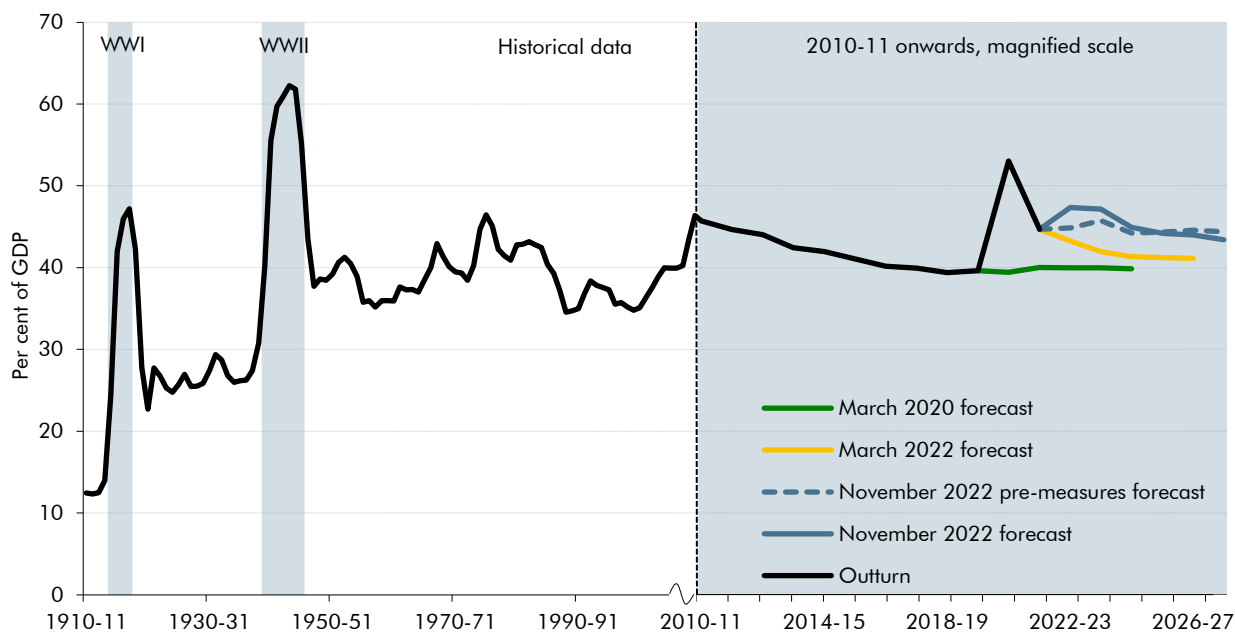
² Includes electricity generators levy and Pillar 2 taxes.

³ Offshore corporation tax, petroleum revenue tax and energy profits levy.

Spending

39 Energy support measures, higher debt interest, and a weaker outlook of nominal GDP raise spending to 47.3 per cent of GDP this year and 47.2 per cent next, 4.4 per cent of GDP (£97 billion) higher on average than in our March forecast – though still 5.8 per cent of GDP below the pandemic-induced peak in 2020-21 (Chart 17). In 2024-25 spending falls sharply as temporary support ends. Thereafter it continues to fall as a share of GDP, reaching 43.4 per cent in 2027-28. But total spending is still 2.9 per cent of GDP higher than our March 2022 forecast and at levels that have not been seen on a sustained basis (outside shocks and their aftermath) since the 1970s. In cash terms, spending is £34 billion higher due to significantly higher debt interest and welfare costs that are partially offset by the Autumn Statement cuts to departmental spending. And higher cash spending combines with a smaller economy to leave spending materially higher as a share of GDP.

Chart 17: Public spending as a share of GDP



Note: We have increased the GDP denominator in forecast years for our previous forecasts by the upward revision to 2020-21 nominal GDP in the recent Quarterly National Accounts data. This is to enable like-for-like comparisons with our subsequent forecasts.
Source: Bank of England, ONS, OBR

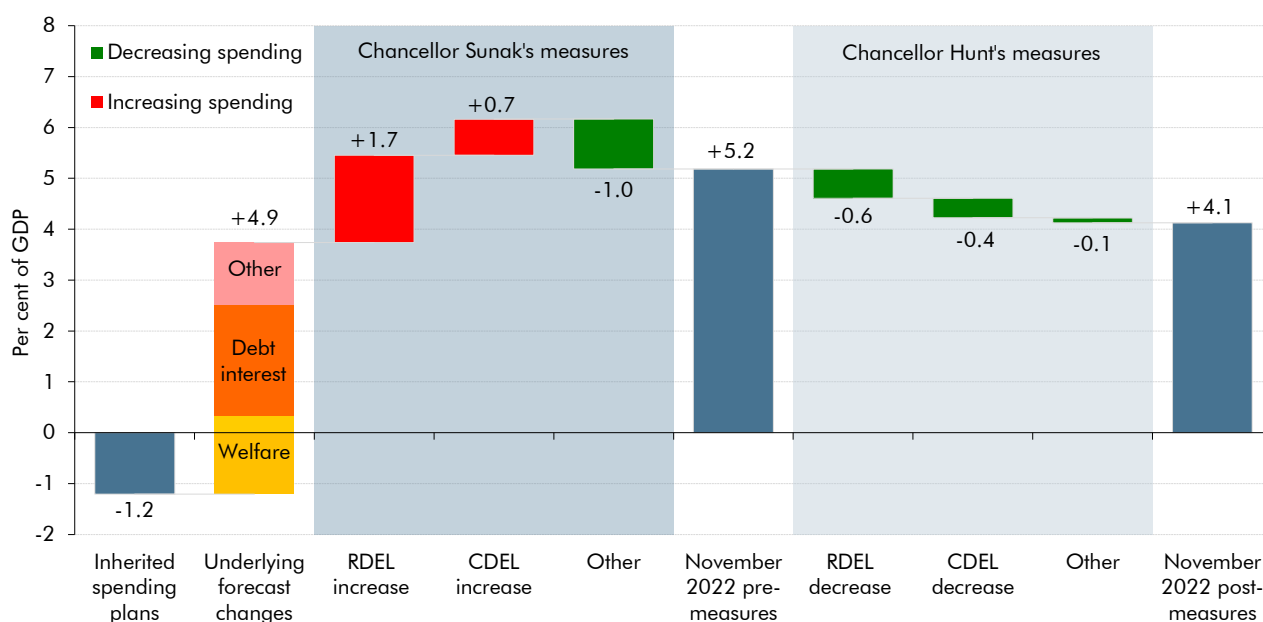
40 The size of the state (measured by the ratio of public spending to GDP) at the forecast horizon in 2027-28 is 4.1 per cent of GDP larger than it was in 2019-20, prior to the pandemic (Chart 18). That reflects both pre-existing trends and subsequent changes:

- The **spending plans inherited by Chancellor Sunak** in March 2020 would have resulted in the spending-to-GDP ratio falling by 1.2 per cent of GDP over this period.
- **Underlying forecast revisions** since then raise spending by 4.9 per cent of GDP in 2027-28. Within that: revisions to **welfare spending** raise the spending-to-GDP ratio by 1.5 percentage points, thanks largely to inflation outstripping nominal GDP growth, which feeds through to spending via benefit uprating and the triple lock; revisions to **debt interest** raise the ratio by 2.2 per cent of GDP, thanks to upward revisions to the amount of debt and the average cost of servicing it (via higher RPI inflation and higher interest rates);²⁵ and other factors add 1.2 per cent of GDP, reflecting other inflation-linked spending and items where cash amounts are relatively insensitive to economic developments, so rise as a share of GDP when it is lower.
- **Spending increases announced by Chancellor Sunak**, mainly raising departmental spending in the March 2020 Budget and the October 2021 Spending Review, would have increased the spending-to-GDP ratio by 1.4 per cent of GDP.
- But **medium-term spending cuts announced by Chancellor Hunt in the Autumn Statement** reduce spending by 1.1 per cent of GDP in 2027-28. This includes cuts to departmental resource and capital spending (amounting to 0.6 and 0.4 percentage

²⁵ This includes interest on debt issued to finance temporary support during the pandemic and for energy bills.

points respectively) that reverse a third of Chancellor Sunak’s announced rises in departmental resource spending and half of his increases to departmental capital spending. The remainder reflects smaller changes to annually managed expenditure, including increasing resources devoted to tackling fraud and error in universal credit.

Chart 18: The rise in the spending-to-GDP ratio between 2019-20 and 2027-28



Note: Debt interest changes includes interest on debt issued to finance temporary support during the pandemic and for energy bills.
Source: ONS, OBR

Departmental spending

- 41 The largest medium-term spending measures in the Autumn Statement are the lower paths for both resource and capital spending by departments (known as RDEL and CDEL) in the years beyond the 2021 Spending Review, which covered 2022-23 to 2024-25. In 2027-28, total DEL spending has been reduced by £28.0 billion (1.0 per cent of GDP) relative to the previously implied path. These cuts are similar in cash terms to the *additional* spending cuts announced by the Coalition Government in its June 2010 Budget (£32 billion a year by 2014-15), though they are smaller as a share of GDP (1.8 per cent of GDP in 2014-15). But they are much smaller than the *overall* spending consolidation that the Coalition embarked upon (£83 billion or 4.4 per cent of GDP in 2014-15), since it inherited plans for large spending cuts from the outgoing Labour Government.²⁶ Box 3 describes the implications of the latest changes in more detail and considers them in a historical context.

²⁶ The Coalition spending cuts covered all forms of spending, including annually managed expenditure like welfare spending. The cash figures come from Table 1.1 of the June 2010 Budget and the per cent of GDP figures reflect our June 2010 forecast for nominal GDP.

Box 3: The implications of the Government's departmental spending plans

Of the Autumn Statement's £61.7 billion in discretionary fiscal tightening in the final year of the forecast, £28.0 billion (45 per cent) comes from reductions in the planned path of departmental spending.^a Over the course of the next five years:

- **2021 Spending Review (SR21) plans (covering the period to 2024-25)** are little changed by policy in the Autumn Statement for capital spending (CDEL), whereas current spending (RDEL) is higher (by £2.5 billion in 2024-25). This reflects increased funding for the NHS, social care and schools, the cost of which is largely offset by reducing aid spending from 0.7 to 0.5 per cent of national income. We have also revised down assumed underspending against the departmental limits set in cash terms by the Treasury last year – by £2.5 billion in 2022-23 and £0.7 billion in 2023-24 – due to higher inflation and wage rises. Even before any other changes, higher-than-expected inflation means that real growth in total DEL would have been 2.2 per cent a year, rather than the 3.1 per cent assumed when plans were set in October 2021.
- The **capital spending envelope beyond 2024-25** is held flat in cash terms (thereby falling by 1.2 per cent a year in real terms), a material reduction from the previous assumption of growth in line with nominal GDP (a 2.5 per cent a year real-terms increase). This reduces cash spending by amounts rising to £14.1 billion by 2027-28 and lowers CDEL spending by 0.4 per cent of GDP to 3.3 per cent of GDP in 2027-28, reversing around half the March 2020 Budget increases.
- The **current spending envelope beyond 2024-25** rises by 1 per cent a year in real terms, lower than the previous assumption of growth in line with nominal GDP (again, 2.5 per cent a year in real terms). This reduces cash spending by amounts rising to £22.2 billion in 2027-28. Real growth is below the 3.4 per cent a year rise initially planned for the SR21 period (Chart D), but above the falls of 2.3 per cent a year and 0.8 per cent a year respectively that were initially planned in the 2010 and 2015 Spending Reviews.

As usual, the forecast beyond the current Spending Review period is based on overall current and capital spending totals set by the Treasury rather than detailed plans. But we can explore the implications of these cuts in the growth of public services spending by considering what existing input targets and past commitments in some areas imply for growth in spending in other areas not covered by such targets – often termed 'unprotected' spending. Specifically, we have looked at the proposed post-SR21 RDEL path based on the following assumptions:

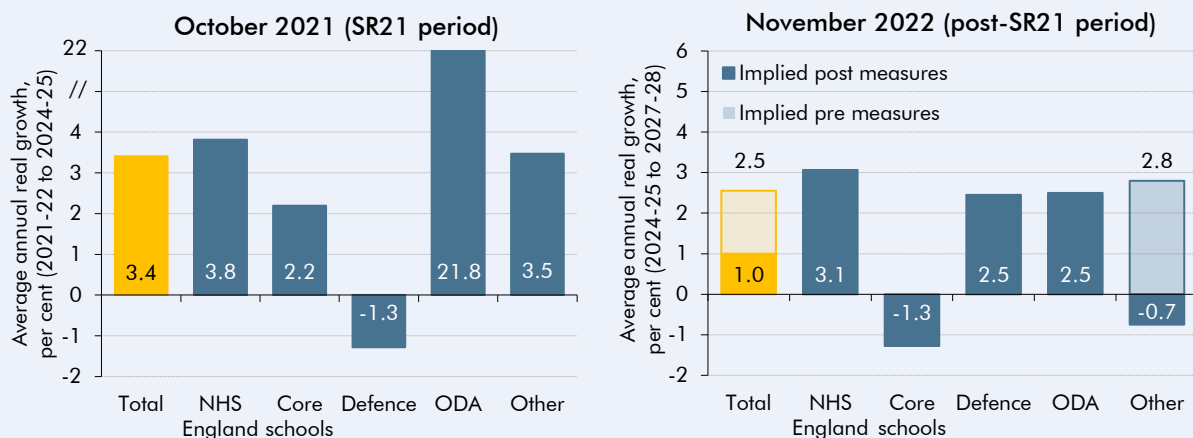
- Spending on the **NHS** in England grows in real terms by 3.1 per cent a year, which would maintain the spending growth rate originally planned in the 2021 Spending Review for the period from 2019-20 to 2024-25 (excluding temporary Covid-related spending). This is slightly less than the 3.4 per cent a year real-terms growth that resulted from Prime Minister May's June 2018 NHS settlement.
- **Core schools** spending is held flat per-pupil in real terms, reflecting then Chancellor Sunak's statement that SR21 restored per pupil spending to 2010 levels in real terms.^b
- **Defence** spending is held flat as a share of GDP, consistent with the Government's commitment to keep such spending above the NATO minimum of 2 per cent of GDP.

(Using the pledges made by the previous two Prime Ministers – of reaching 2½ or 3 per cent of GDP, respectively – would increase the squeeze on unprotected spending.)

- Spending on **Official Development Assistance (ODA)** is maintained at 0.5 per cent of gross national income (GNI) throughout the forecast, whereas in our March forecast it was expected to rise to 0.7 per cent of GNI from 2024-25 onwards.^c
- The consequences of our NHS and schools spending assumptions for **devolved administrations** are captured using the Barnett formula.

These assumptions leave other ‘unprotected’ spending falling by 0.7 per cent a year in real terms from 2025-26 onwards. This would be considerably tighter than the 3.5 per cent a year real growth originally planned for these departments over the SR21 period (Chart D), but much smaller than the real-terms cuts planned in the 2010 and 2015 Spending Reviews (average annual real-terms falls of 5.0 per cent and 3.3 per cent, respectively).

Chart D: Planned SR21 and implied post-SR21 breakdown of RDEL spending



Note: Chart shows RDEL excluding depreciation. 'Other' also excludes the Barnett consequential of NHS and core schools spending, which are not presented separately because their small size leads to large growth rates.
Source: HMT, OBR

While the reduction in day-to-day spending is less than in previous periods of consolidation, it still presents challenges and risks to our forecast. Various performance indicators for public services continue to show signs of strain, not least the record 7.1 million waiting list for NHS elective treatments in England, which has risen by 2.8 million since the pandemic.^d And recent history shows that governments tend to top up spending envelopes as the difficult moment of allocating them out in Spending Reviews approaches. Between December 2014 and SR day in November 2015, cash RDEL totals across the 2015 Spending Review period were raised by £37 billion (13.0 per cent) a year on average. The same happened between March 2021 and SR day in October 2021, when cash RDEL totals were raised by £32 billion (7.7 per cent) a year on average over the 2021 Spending Review period.

^a Most of the remaining calculations in this box are based on RDEL excluding depreciation and allowance for shortfall (Afs) and CDEL excluding Afs (rather than PSCE in RDEL and PSGI in CDEL, as used in our forecast and presented elsewhere in this EFO).

^b Autumn Budget and Spending Review 2021 speech.

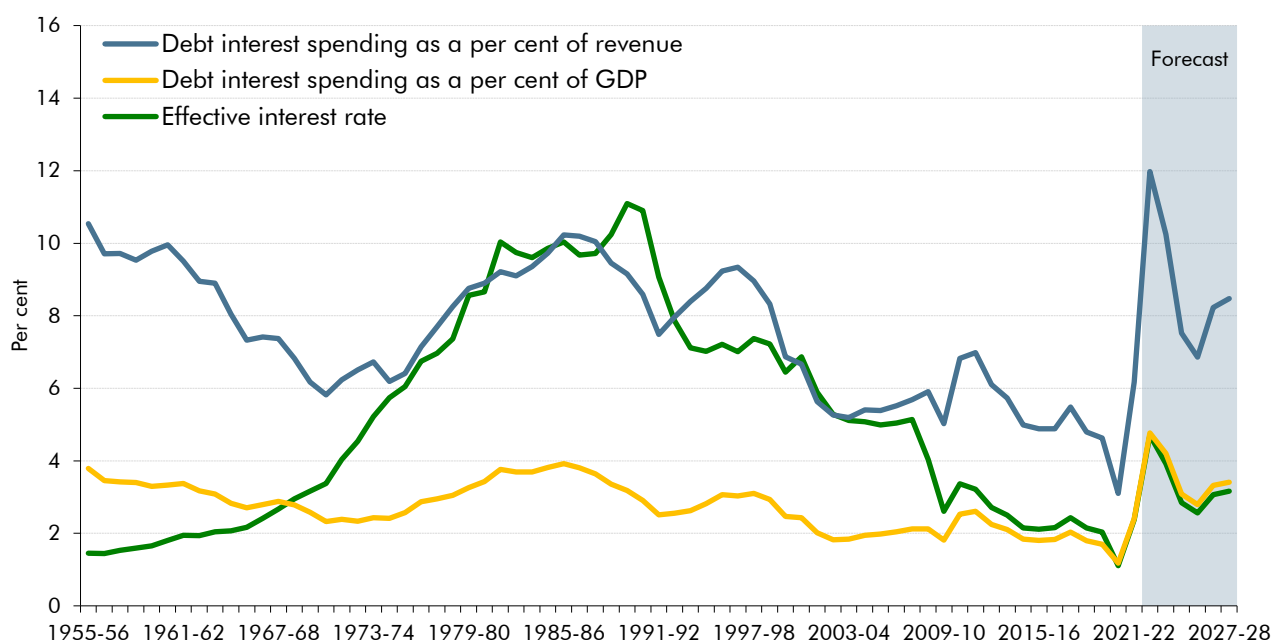
^c In July 2021, the then Chancellor stated that the return of ODA spending to 0.7 per cent of GNI would occur when a sustainable current budget surplus was achieved and underlying debt was falling, and that this target would be reviewed each year for the following financial year. The Treasury does not expect these conditions to be met over the forecast period.

^d More broadly, see Hoddinott, S., M. Fright, and T. Pope, 'Austerity' in public services: lessons from the 2010s, October 2022.

Debt interest spending

- 42 Debt interest spending (net of Asset Purchase Facility, or APF, flows) more than doubles in cash terms from £56.4 billion (2.4 per cent of GDP) last year to peak at £120.4 billion this year (4.8 per cent of GDP), the highest since immediately following the Second World War both as a share of GDP and as a share of revenue (12.0 per cent) (Chart 19). It then averages £93.0 billion (3.4 per cent of GDP) across the five years from 2023-24 to 2027-28. Relative to the size of the economy and revenues, debt interest settles at levels similar to those in the early 1980s when interest rates were more than twice as high (5.5 percentage points higher) but debt was less than half its forecast level (68 per cent of GDP lower). As a result, the debt interest burden over the next five years is projected to be almost twice as large as UK governments have become accustomed to over the past two decades.

Chart 19: Debt interest spending relative to GDP and revenues



Source: ONS, OBR

- 43 Relative to our March forecast (Table 3), debt interest spending has been revised up by £37.4 billion (just under a half) this year and up by an average of £43.0 billion a year (nearly doubling) between 2023-24 and 2026-27. These revisions are dominated by higher Bank Rate and higher gilt yields (acting respectively on short-dated and floating-rate instruments such as the APF reserves, Treasury bills and NS&I products, and on conventional bonds). Together they add £36.0 billion a year on average over the period (over six-sevenths of the total). Higher RPI inflation adds £1 billion a year on average to the cost of index-linked debt, but with a very uneven path from year to year caused by the interaction between higher energy prices and the EPG on the profile of RPI inflation. A higher debt stock due to the additional financing associated with higher deficits also raises spending.

Table 3: Debt interest spending: changes since March

	£ billion						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March 2022 forecast	53.5	83.0	50.6	46.7	46.9	47.3	
November 2022 forecast	56.4	120.4	108.5	82.4	77.0	95.4	101.9
Difference	2.8	37.4	57.8	35.7	30.1	48.1	
<i>of which:</i>							
Interest rates on central government debt		4.6	14.6	19.2	23.7	28.6	
RPI inflation on index-linked debt		21.0	15.9	-10.4	-18.0	-3.0	
APF reserves		8.9	22.4	19.6	16.3	13.7	
<i>of which:</i>							
Interest rates and other		9.1	24.2	21.9	18.4	15.9	
Active sales programme		-0.2	-1.8	-2.2	-2.0	-2.2	
Financing and other		2.9	4.8	7.3	8.0	8.8	

44 The increases in debt interest spending relative to March are not just large but also take hold quickly, reflecting a significant increase in the sensitivity of the debt stock to changes in interest rates and inflation since the start of the century. This reflects three factors highlighted in past *Fiscal risks and sustainability* reports:

- First, a far **larger overall debt stock**, which has almost quadrupled from 28 per cent of GDP in 2000-01 to 102 per cent in 2022-23. That means a 1 percentage point rise in the effective interest rate paid across all debt adds £26 billion to spending, whereas it would add only £7 billion if debt were still at its 2000-01 share of GDP.
- Second, **the debt stock that is inflation-linked has risen in step** – also almost quadrupling from 6 per cent of GDP in 2000-01 to 22 per cent today. This means that every percentage point increase in RPI inflation raises spending by £6 billion, rather than £2 billion if index-linked debt were still at its 2000-01 share of GDP.
- Third, **the overall maturity of the debt stock has shortened** over time (largely as a result of the quantitative easing operations of the Bank of England that in effect swap long-dated gilts for floating rate reserves). This reduced the median maturity of public sector debt from seven years before quantitative easing began in 2008 to less than two years today. That means nearly half the effect of a rise in interest rates is felt within a year today, rather than only a quarter if the maturity structure of debt in 2000-01 still prevailed. And the combination of the higher debt stock and shorter maturity means that every percentage point increase in short-term interest rates adds £13 billion to spending over the following year, rather than just £2 billion if the stock of debt sensitive to such rates were still at its 2000-01 share of GDP.

Welfare and other spending

45 Welfare spending is £19.0 billion (6.5 per cent) a year higher on average between 2023-24 and 2026-27 relative to our March forecast. In 2026-27 alone, welfare spending is up £14.0 billion (6.5 per cent):

- £8.4 billion of that is due to the effects of **higher inflation**, which raises spending via uprating. Three-quarters of this upward revision is the result of the 10.1 per cent rise in most pensioner and working-age benefits in 2023-24 thanks to outturn CPI inflation in September 2022 being much higher than we forecast in March.
- £7.5 billion of the upward revision is caused by progressively larger upward revisions to spending on **health-related and disability benefits** due to both increased inflows and longer claim durations. This raises the caseloads for these benefits by 1.1 million (13.4 per cent) in 2026-27 relative to our March forecast. This revision echoes the rise in health-related labour market inactivity, suggesting they may share a common cause.²⁷
- The partly offsetting £1.9 billion remainder of the revision since March reflects several **smaller factors**, in particular the £1.5 billion yield from the additional resources announced in the Autumn Statement to tackle fraud and error in universal credit.

46 Other changes to our spending forecast are small and largely offsetting. These include an upward revision to locally financed spending averaging £1.1 billion a year between 2022-23 and 2026-27, more than explained by larger rises in council tax, and downward revisions to spending on student loans and company and other tax credits.

Table 4: Spending (excluding environmental levies): changes since March

	£ billion						
	Outturn			Forecast			
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March 2022 forecast	1,019	1,079	1,090	1,114	1,152	1,191	
November 2022 forecast	1,039	1,177	1,193	1,172	1,189	1,230	1,265
Difference	20.0	98.4	102.9	58.3	37.4	39.3	
By policy and forecast differences							
<i>of which:</i>							
Direct impact of measures		64.4	34.3	4.4	-9.5	-19.7	-31.0
Indirect impact of spending measures		0.0	0.0	1.8	1.5	1.9	
Indirect impact of debt interest		-3.7	1.0	11.6	3.2	2.0	
Underlying forecast differences		37.7	68.6	52.2	45.3	57.1	
By spending category							
<i>of which:</i>							
RDEL spending		8.5	11.7	2.9	-5.1	-11.6	
CDEL spending		2.8	-0.2	-0.1	-3.7	-6.9	
Debt interest		37.4	57.8	35.7	30.1	48.1	
Welfare spending		10.6	21.5	21.4	18.8	14.0	
Local authorities (self-financed)		0.8	-1.7	0.6	2.5	3.2	
Other spending		38.3	13.7	-2.2	-5.4	-7.5	
<i>of which:</i>							
Energy support measures		43.2	12.8	0.0	0.0	0.0	

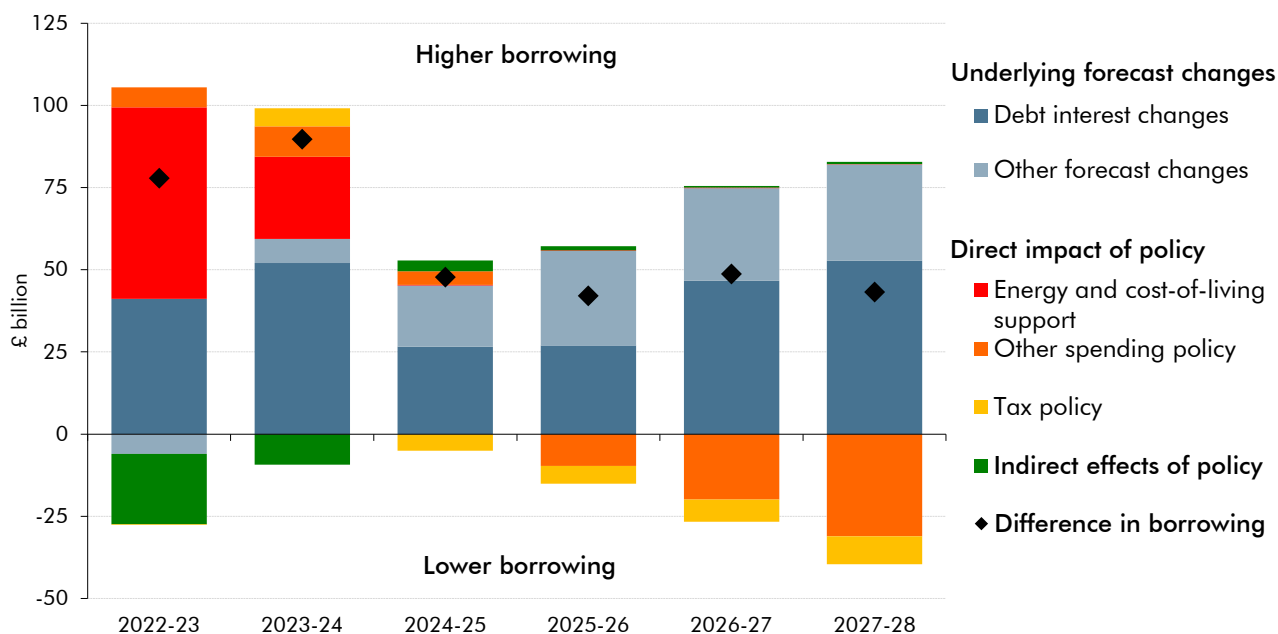
Note: This table excludes environmental levies, which are neutral for PSNB because they are treated in the statistics as a tax that finances an equal amount of public spending.

²⁷ This is an issue that we intend to explore ahead of our next forecast, looking at the possibility of causal links between successive waves of Covid infections, the prevalence of long Covid, and the implications of the rising NHS waiting list, for the labour market and benefits.

Borrowing

- 47 Public sector net borrowing (PSNB) rises sharply from £133.3 billion (5.7 per cent of GDP) last year to £177.0 billion (7.1 per cent of GDP) in 2022-23. This is mainly due to higher debt interest spending and the cost of energy and other cost-of-living support to households and businesses. As a share of GDP, this represents the seventh year of the past 15 where the budget deficit has been above 7 per cent of GDP (though it is a third lower than its 10.2 per cent of GDP peak during the financial crisis and just under half the pandemic-induced peak of 15.0 per cent of GDP in 2020-21). Borrowing will have averaged 6.3 per cent of GDP over that period, helping to explain why debt has risen from 36 per cent of GDP in 2007-08 to 102 per cent of GDP today. Borrowing then falls back, albeit unevenly, to reach £69.2 billion (2.4 per cent of GDP) by 2027-28, first due to energy support measures coming to an end, and then due to the recovery of the economy and the net tax rises and spending cuts announced in the Autumn Statement.
- 48 Relative to our March forecast, borrowing is an average of £61.3 billion (2.4 per cent of GDP) a year higher between 2022-23 and 2026-27. By way of comparison, the initial pandemic-induced revisions to borrowing between our March 2020 and November 2020 EFOs averaged £112.3 billion (5.3 per cent of GDP), with borrowing settling at 3.9 per cent of GDP at the forecast horizon. Table 5 and Chart 20 break down the changes in borrowing relative to our March forecast and show that:
- **Underlying forecast revisions** raise borrowing by an average of £54.0 billion a year. Almost three-quarters of this is due to higher debt interest spending (dark blue in the chart), with lower receipts and higher welfare spending the most significant factors among the other forecast changes (light blue).
 - The **direct impact of policy measures announced since March** (detailed in Table 1 above) raises borrowing by £64.2 billion in 2022-23 and £39.8 billion in 2023-24, mainly due to the Government's cost-of-living and energy bills measures (red). From 2024-25 onwards, the tax rises (yellow) and spending cuts (orange) announced in the Autumn Statement outweigh the surviving tax cuts from the Growth Plan. They lower borrowing by an average of £26.9 billion a year in the final three years of the forecast.
 - The **indirect effects of policy measures** (green) lower borrowing materially in the near term (by an average of £15.4 billion in 2022-23 and 2023-24) as the Government's support schemes reduce the severity of the economic downturn. The debt interest incurred on these near-term support measures, and the economic impact of the fiscal tightening in the Autumn Statement, increase borrowing more modestly thereafter.

Chart 20: Public sector net borrowing: changes since March



Note: The 2027-28 bar extrapolates our March forecast by growth in nominal GDP from 2026-27 to 2027-28.

Table 5: Public sector net borrowing: changes since March

	£ billion						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March 2022 forecast	127.8	99.1	50.2	36.5	34.8	31.6	
November 2022 forecast	133.3	177.0	140.0	84.3	76.9	80.3	69.2
Difference	5.4	77.9	89.8	47.8	42.1	48.8	
of which:							
Underlying differences¹		35.1	59.4	45.2	55.8	74.8	
of which:							
Debt interest spending		41.1	52.1	26.6	27.0	46.6	
Receipts		0.5	1.0	6.7	17.4	24.6	
Welfare spending		2.2	10.3	19.7	18.1	14.0	
Other spending		-8.7	-3.9	-7.9	-6.7	-10.4	
Direct effect of policy decisions		64.2	39.8	-0.6	-14.9	-26.5	-39.4
of which:							
Energy and cost-of-living support ²		58.4	25.0	0.2	0.2	0.2	0.2
Other spending measures		6.0	9.3	4.2	-9.7	-19.9	-31.1
Tax measures		-0.2	5.5	-5.0	-5.4	-6.8	-8.5
Indirect effects of decisions		-21.4	-9.3	3.3	1.2	0.5	0.6

Note: This table uses the convention that a negative figure means a reduction in PSNB i.e. an increase in receipts or a reduction in spending will have a negative effect on PSNB.

¹ Includes classification changes.

² Includes the energy price guarantee, the energy bill relief scheme and cost-of-living support measures.

Financial transactions (including the Asset Purchase Facility)

- 49 In addition to borrowing, financial transactions in assets and liabilities also raise or lower the stock of debt. Over the forecast period, these transactions are dominated by the Bank of England's APF and the unwinding of quantitative easing.
- 50 From its start in March 2009 to March 2022, the APF paid lower interest on its liabilities (Bank Rate paid on reserves) than it received on its assets (coupons paid on gilts), making cash profits and remitting a total of £120 billion to the Treasury, reducing the central government net cash requirement. Bank Rate has now risen above the average interest rate earned on the APF's gilt holdings. This raises debt interest spending net of the APF and, when added to losses that are crystallised as gilts redeem or are sold, will mean cash starts flowing from the Treasury to the APF.²⁸ Across the forecast, the Treasury pays £133 billion to cover these losses,²⁹ more than reversing the previous 13 years' gains. The impact on measured debt is somewhat less than this because the losses associated with the redemption of gilts that were purchased at a premium has already been recorded in PSND. Netting off these and other smaller effects, flows related to the APF raise debt by £61 billion (2.1 per cent of GDP) between March 2022 and March 2028.³⁰
- 51 Relative to our March forecast, that £61 billion contribution of APF-related flows to debt has been revised up by £90 billion (3.0 per cent of GDP). In March the contribution was still negative due largely to Bank Rate remaining below the average interest rate earned on gilts in the APF. The upward revision since March reflects:
- **Higher Bank Rate**, which is on average 2.4 percentage points higher than in March and is higher than the average coupon received on the gilts in the APF in every year of the forecast. Net interest costs add £81 billion relative to our March assumptions.
 - **Realised losses on gilts sold** add £39 billion relative to March, when our forecast only assumed passive reductions in the size of the APF when gilts redeemed. The Bank started active sales of gilts on 1 November. In the first year it has indicated that active sales plus redemptions will reach £80 billion – a pace that we assume continues in subsequent years. Faster rundown of gilt holdings realises sales losses faster too, although it also reduces the losses associated with the negative net interest margin on the APF's gilt holdings. The Bank also purchased £19.3 billion of long-dated conventional and index-linked gilts in September and October 2022 for financial stability purposes. We assume these gilts are also sold over the next 12 months.
 - These effects are partly offset by lower **valuation impacts** of £30 billion. These represent the difference between the price paid for the gilts and their redemption value. This gap declines as the APF reduces in size, which it does more quickly in this

²⁸ The Treasury has indemnified the APF against losses since quantitative easing began, so the potential for this reversal of cashflows was always known about. Indeed, we noted the risks around this back in 2012 when APF profits started to be transferred to the Treasury.

²⁹ This figure is sensitive to changes in both Bank Rate and gilt prices, meaning transfers could be materially higher or lower than this.

³⁰ A full account of the impact of the APF on our forecast is available in the supplementary fiscal tables on our website.

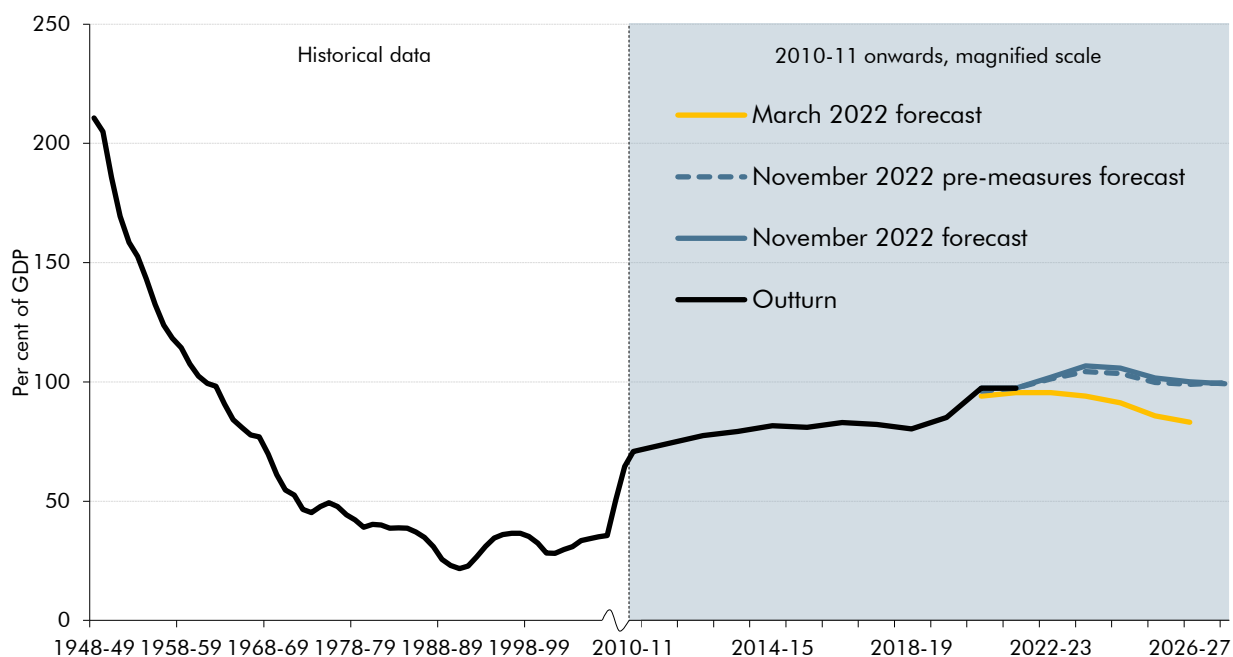
forecast. It also partly reflects the fact that the gilts purchased recently for financial stability purposes were on average purchased at a discount to redemption value.

52 Outside the large changes to APF-related cashflows, there have been few notable changes to our financial transactions forecasts since March. Most significantly, higher gilt yields mean that the large premia recorded on gilt issuance in recent years will no longer reduce measured debt – across the forecast this adds £65 billion to debt relative to March. Cash payments under the EPG and EBRS will lag the accrual of liabilities slightly, which means, for example, that £5.5 billion of spending accrued in 2022-23 will be paid in 2023-24.

Debt and other balance sheet aggregates

53 Public sector net debt (PSND) on the headline measure that includes the Bank of England rises from 101.9 per cent of GDP this year to a 64-year peak of 106.7 per cent next year. It follows a declining path thereafter to reach 99.3 per cent of GDP by 2027-28, but the fall in the middle years of the forecast is due to the repayment of £150 billion in Term Funding Scheme loans up to 2025-26, which outweighs the effect of large cash deficits in those years. By 2026-27, debt is 16.9 per cent of GDP higher than in our March forecast. The impact of policy measures announced since March raises debt in the near term, thanks largely to the cost of the energy support measures, adding 2.4 per cent of GDP to debt by 2023-24. As the net tax rises and spending cuts over the second half of the forecast period take effect, the impact of policy measures on debt falls back to close to zero by 2027-28.

Chart 21: Public sector net debt



Source: ONS, OBR

54 Public sector net debt excluding the Bank of England (PSND ex BoE) – the underlying measure that is targeted by the fiscal mandate and whose yearly path is not distorted by the Term Funding Scheme – rises to a peak of 97.6 per cent of GDP in 2025-26, stabilises in

2026-27, then falls by 0.3 per cent of GDP in 2027-28. As shown in Table 6, underlying debt is 17.7 per cent of GDP (£420 billion) higher in 2026-27 than forecast in March. The largest contributor to that rise (accounting for 14.6 per cent of GDP) is higher cash debt, around half of which is explained by higher cumulative debt interest spending (and the higher interest rates that have driven that upward revision). A lower level of nominal GDP thanks both to lower outturns and to the impact of the energy crisis on cumulative growth accounts for the remaining 3.1 per cent of GDP.

Table 6: Public sector net debt (excluding Bank of England): changes since March

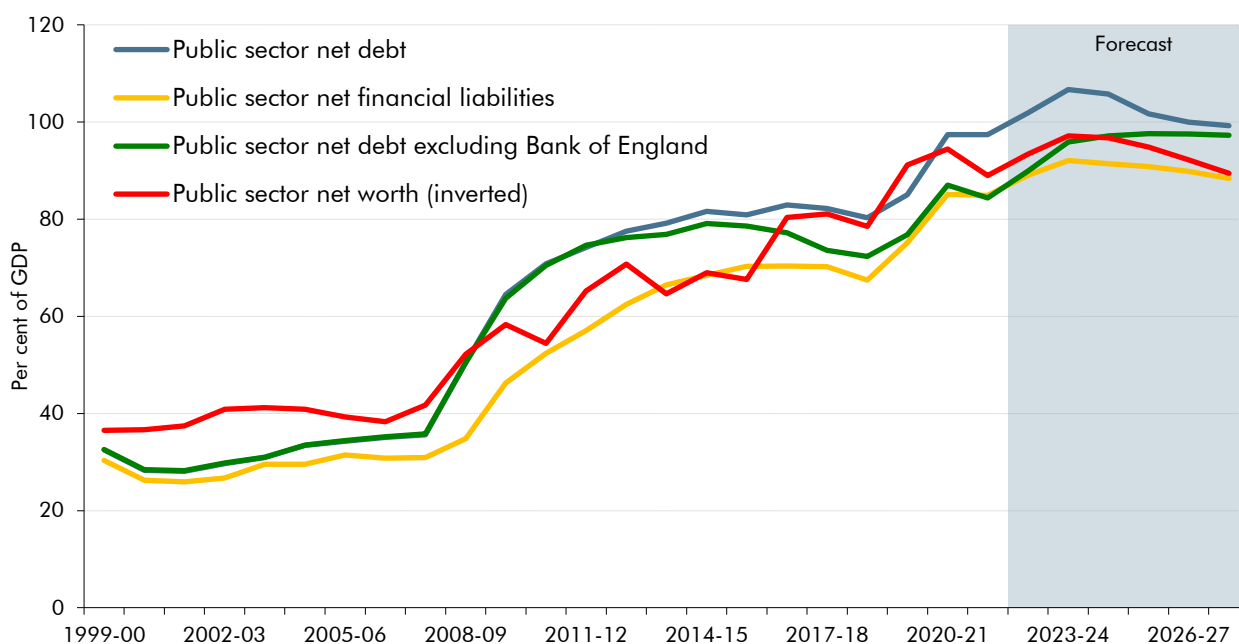
	Per cent of GDP						
	Outturn		Forecast				
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
March 2022 forecast	82.5	83.5	82.9	81.9	80.9	79.8	
November 2022 forecast	84.3	89.9	95.9	97.2	97.6	97.6	97.3
Difference	1.9	6.4	13.0	15.3	16.6	17.7	
<i>of which:</i>							
Difference in nominal GDP ¹	0.1	1.5	3.1	3.2	3.4	3.1	
Difference in cash level of net debt	1.8	4.9	9.9	12.0	13.3	14.6	
<i>Memo: PSND including Bank of England</i>	97.4	101.9	106.7	105.8	101.7	100.0	99.3
	£ billion						
March 2022 forecast	2,011	2,145	2,218	2,274	2,329	2,382	
November 2022 forecast	2,054	2,270	2,473	2,595	2,695	2,802	2,903
Difference	43.3	124.6	255.4	321.2	366.3	420.1	
<i>of which:</i>							
Direct PSNB effect of policy measures		64.2	104.0	103.4	88.5	62.0	
Other receipts differences		-17.2	-31.3	-31.9	-18.0	4.0	
Debt interest differences		37.4	95.2	130.9	161.1	209.2	
Other spending differences		-6.5	-0.2	13.1	26.0	31.2	
APF-related flows		2.9	22.3	31.9	29.6	38.0	
Financial transactions and valuation effects		0.5	22.1	30.5	35.8	32.5	
Outturn		43.3	43.3	43.3	43.3	43.3	
<i>Memo: PSND including Bank of England</i>	2,373	2,571	2,752	2,825	2,809	2,872	2,963

¹ Non-seasonally-adjusted GDP centred end-March.

55 Alongside PSND and PSND ex BoE, we also produce forecasts for public sector net financial liabilities (PSNFL) and public sector net worth (PSNW) – broader measures shown in Chart 22.³¹ These provide a more comprehensive picture of the public sector balance sheet than PSND. PSNFL and PSNW both peak sooner and fall faster than PSND ex BoE reflecting the build-up of financial assets (in both measures) and non-financial assets (in PSNW only). Cuts to departmental capital spending plans announced in the Autumn Statement reduce PSNW relative to PSND by 0.8 per cent of GDP in 2027-28.

³¹ Public sector net worth is a measure of net assets rather than net liabilities, so has been inverted in the chart for ease of comparison.

Chart 22: Four measures of the public sector balance sheet



Source: ONS, OBR

Performance against the Government's fiscal targets

56 The Government's **currently legislated fiscal targets** for balancing the current budget and for debt to be falling by 2025-26 are both set to be missed by moderate margins (Table 7):

- The **fiscal mandate** to have **underlying debt (excluding the Bank of England)** as a per cent of GDP falling in the third year of the rolling forecast period is missed by a margin of £11.4 billion – a £39.5 billion deterioration from the £28.1 billion of headroom predicted in March 2022. This is largely due to a faster rise in the cash level of debt as a result of higher debt interest and welfare spending. The fiscal mandate would have been missed by £20.4 billion before accounting for new policy measures announced since March. This modest difference reflects the fact that new policy measures since March switch from near-term loosening to support the economy to medium-term tightening to stabilise debt, with a modest net impact in 2025-26.
- The **current balance target** is missed by £8.7 billion in 2025-26 – a £44.9 billion deterioration from our March 2022 forecast, which showed £36.2 billion of headroom in that year. Higher current spending (principally on debt interest and welfare spending) accounts for four-fifths of the deterioration, while lower receipts account for the remaining one-fifth. The current balance target would have been missed by £26.3 billion before accounting for policy measures announced since March.
- The expenditure cap requiring **public sector net investment** not to exceed 3 per cent of GDP on average over the rolling five-year forecast is met by a margin of 0.5 per cent of GDP, unchanged from March. That reflects lower cash spending – cuts to departmental capital spending in the Autumn Statement add 0.2 per cent of GDP to the margin – being offset by downward revisions to nominal GDP.

- The **welfare cap** in 2024-25 is on course to be met by £0.6 billion, a smaller margin than in March when it was on course to be met by £5.3 billion. Spending subject to the welfare cap has been revised up by £13.7 billion relative to our March forecast, but £9.4 billion of that revision is due to higher CPI inflation uprating, which is stripped out when assessing performance against the cap.³²

57 The Government's fiscal policy decisions in the Autumn Statement have been guided by two new fiscal targets: to have **underlying debt falling as a share of GDP in 2027-28** (two years later than the legislated target) and to have **PSNB not exceed 3 per cent of GDP** in that same year. The **existing welfare cap** also remains in place. In our central forecast, underlying debt would have risen by 1.0 per cent of GDP before accounting for new policy measures (missing the target by £28.9 billion) but the medium-term tax rises and spending cuts announced in the Autumn Statement mean it falls by 0.3 per cent of GDP (meeting it by a margin of £9.2 billion). PSNB is £18.6 billion (0.6 per cent of GDP) below the 3 per cent of GDP limit once policy measures are included, but would have been £20.4 billion (0.7 per cent of GDP) above that limit in the absence of those measures.

Table 7: Performance against the Government's legislated and proposed targets

		Per cent of GDP		£ billion	
		Forecast	Margin	Forecast	Margin
Current legislated targets					
Change in public sector net debt (excluding the Bank of England) in 2025-26					
March 2022 forecast	Met	-1.0	1.0		28.1
November 2022 pre-measures forecast	Not Met	0.7	-0.7		-20.4
November 2022 forecast	Not Met	0.4	-0.4		-11.4
Current budget surplus in 2025-26					
March 2022 forecast	Met	1.3	1.3	36.2	36.2
November 2022 pre-measures forecast	Not Met	-1.0	-1.0	-26.3	-26.3
November 2022 forecast	Not Met	-0.3	-0.3	-8.7	-8.7
Public sector net investment average over the five-year forecast					
March 2022 forecast	Met	2.5	0.5		13.8
November 2022 pre-measures forecast	Met	2.4	0.6		17.2
November 2022 forecast	Met	2.5	0.5		12.9
Welfare cap: specified welfare spending in 2024-25¹					
March 2022 forecast	Met			137.4	5.3
November 2022 forecast	Met			148.8	0.6
November 2022 Autumn Statement proposed targets					
Change in public sector net debt (excluding the Bank of England) in 2027-28					
March 2022 forecast ²	Met	-1.1	1.1		33.4
November 2022 pre-measures forecast	Not Met	1.0	-1.0		-28.9
November 2022 forecast	Met	-0.3	0.3		9.2
Public sector net borrowing less than 3 per cent of GDP in 2027-28					
March 2022 forecast ²	Met	1.1	1.9		56.4
November 2022 pre-measures forecast	Not Met	3.7	-0.7		-20.4
November 2022 forecast	Met	2.4	0.6		18.6

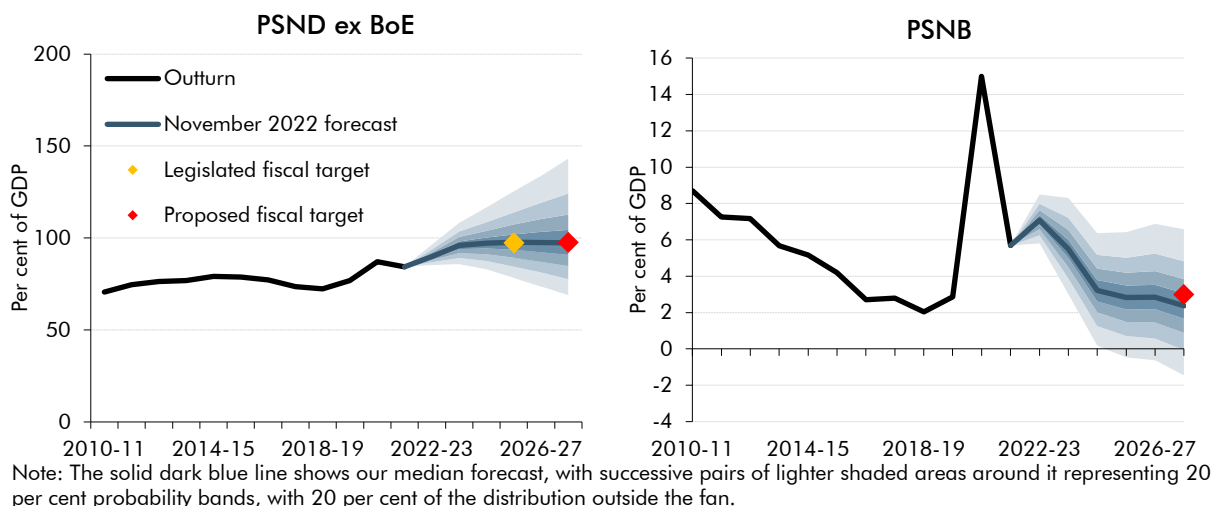
¹ The currently legislated welfare cap also appears in the new set of proposed fiscal targets introduced at this Autumn Statement.

² Our March 2022 forecast and margin numbers are for the fiscal year 2026-27 as our forecast had not extended to 2027-28.

³² The remaining difference relative to March is explained by a higher Scottish Government welfare spending block grant adjustment.

58 Chart 23 shows the probability distribution around our forecast of PSND excluding the Bank of England and PSNB. It shows a 53 per cent chance of underlying debt falling in 2027-28, and a 59 per cent chance of PSNB being less than 3 per cent in 2027-28. In terms of the legislated targets, there is a 48 per cent chance of underlying debt falling in 2025-26 and a 45 per cent chance of the current budget being in surplus in 2025-26. These are down from 58 and 66 per cent respectively in our March forecast (in 2024-25).

Chart 23: Fan charts for PSND (excluding Bank of England) and PSNB



Risks and uncertainties

59 This Chancellor has left himself comparatively little headroom against his proposed new fiscal targets relative to previous Chancellors, with that on the proposed fiscal mandate being £15.3 billion lower than the average headroom against previous fiscal mandates of £24.5 billion since our inception.³³ The risks surrounding this forecast – in both directions – are elevated at present. Gas prices in 2023 have almost doubled and peak short-term interest rates are 2½ times higher since the Spring Statement in March, and the public finances have become more sensitive to both thanks to energy support for households and businesses and the higher stock of debt. To illustrate this, Box 4 sets out the implications of higher or lower interest rates and higher energy prices for key aspects of our fiscal forecast.

Box 4: The sensitivity of our central forecast to gas prices and interest rates

The two most important drivers of changes to the economic outlook since our March forecast have been higher energy prices and higher interest rates. Prospects for both remain key sources of risk to the economic and fiscal outlook in the near and medium term.

The limits placed on energy costs by the EPG (for households over eighteen months) and EBRS (for businesses over six months) mean that near-term volatility in **energy prices** principally affects

³³ For comparability, this is the average of past headrooms as a share of GDP at the time multiplied by our latest forecast for nominal GDP in 2027-28. In *nominal* terms, the average of past headrooms is £17.9 billion.

the fiscal outlook directly via its implications for spending. To illustrate this risk, Table A shows how the late-August peak in gas prices (shown at the top of the blue swathe in the top-left panel of Chart 3) would affect the direct fiscal cost of these energy support schemes, while also accounting for the partially offsetting effects on taxes levied on oil and gas producers and energy generators. (Given the gas prices on which our fiscal forecast is conditioned are close to their lowest over the past three months, we present a higher gas price scenario only.) Borrowing would be higher by £12.6 billion this year and £41.5 billion next year on those peak gas prices (of around £8 a therm this winter and £7 a therm over 2023-24). In 2022-23, a third of the higher cost of support measures is offset by higher tax receipts, rising to two-fifths in 2023-24.

Beyond the life of these energy support schemes, movements in energy prices in a net-energy-importing economy like the UK also affect the fiscal outlook indirectly via higher or lower inflation, which would in turn weaken or strengthen GDP growth. And in the medium term they affect potential output, with each 10 per cent rise in gas prices (with oil prices unchanged) reducing the level of potential output by up to 0.1 per cent.^a

Table A: Implications of higher gas prices for near-term borrowing

	£ billion					
	2022-23			2023-24		
	Central	High ¹	Difference	Central	High ¹	Difference
Public sector net borrowing	177.0	189.6	12.6	140.0	181.5	41.5
<i>of which:</i>						
Energy price guarantee	24.8	30.0	5.3	12.8	83.9	71.1
Energy bill relief scheme	18.4	32.1	13.7			
Energy profits levy	-7.2	-9.9	-2.7	-10.8	-23.1	-12.3
Electricity generators levy	-1.0	-1.8	-0.7	-4.1	-7.3	-3.3
Oil and gas receipts	-7.7	-10.8	-3.0	-9.9	-24.0	-14.0

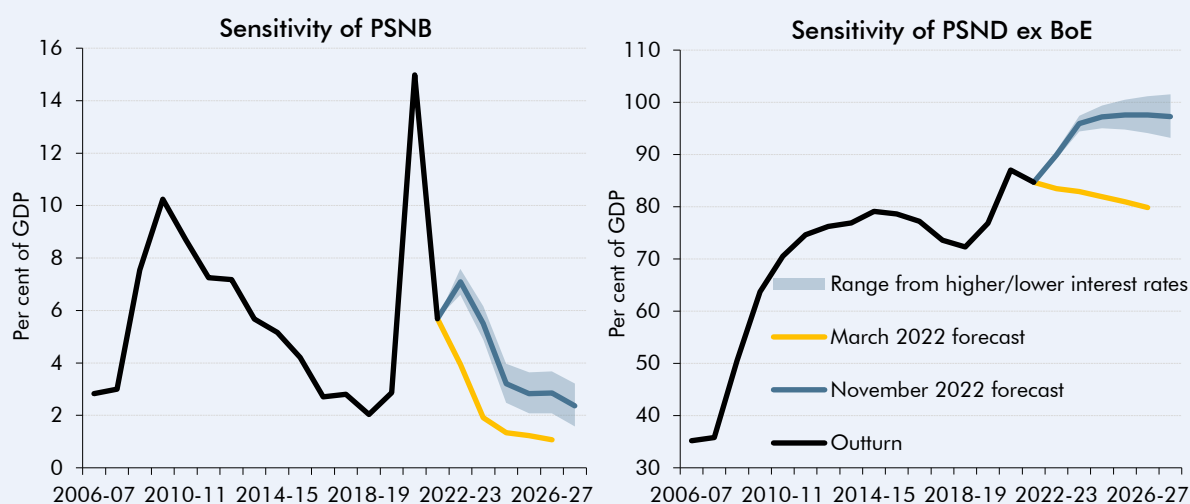
Note: This captures only the direct fiscal effects of higher gas prices. We do not account for the fact that higher gas prices would modestly raise inflation in 2023-24 (via higher costs for businesses after the EBRIS has closed), which would in turn raise welfare and debt interest spending. This table uses the convention that a negative figure means a reduction in PSNB, i.e. an increase in receipts or a reduction in spending will have a negative effect on PSNB.

¹ High scenario is based on gas prices on 26 August.

To illustrate the fiscal risks from changes in **interest rates** over the medium term, Chart E summarises the borrowing and debt impacts of a stylised 1 percentage point increase or decrease in interest rates at all maturities.^b In addition to their direct impact on the cost of servicing the public debt (which is set to exceed 100 per cent of GDP) higher or lower rates feed through to mortgage rates, house prices, consumption and investment, lowering or raising GDP by 0.4 per cent at the forecast horizon. This feeds through to tax revenues via the housing market and the wider economy, and more directly through interest and dividend receipts, and income tax on savings income. This results in borrowing being around £25 billion higher or lower and underlying debt around 4 per cent of GDP higher or lower in 2027-28.

Relative to our central forecast, this stylised scenario suggests that interest rates would need to be just 0.4 percentage points higher to wipe out the £9.2 billion margin by which underlying debt is falling in the final year of the forecast. But equally, a fall of just 0.4 percentage points would double the Chancellor's headroom relative to our central forecast.

Chart E: Sensitivity of PSNB and underlying debt to interest rates



Source: ONS, OBR

^a This is based on the production function analysis presented in Box 3.2 of our 2022 *Fiscal risks and sustainability report*.

^b In other words, a 1 percentage point increase in nominal and real rates across the yield curve – including Bank Rate.

60 In broad terms, the main **positive economic and fiscal risks** to our forecast relate to the outlook for global energy markets and our (partly associated) expectations for the level and growth rate of potential output. A rapid end to Russia’s war in Ukraine that stabilised European energy markets and lowered prices could relatively quickly feed through to reduced inflationary pressure and smaller rises in interest rates. Beyond their direct near-term fiscal consequences set out in Box 4, higher energy prices are the key factor explaining the weaker outlook for potential output growth in this forecast than in our March one. They explain why **growth in total factor productivity** over the next five years is only slightly higher than the very weak post-financial crisis average and much weaker than the pre-financial crisis average. For every 1 percentage point rise in cumulative growth in TFP over five years, receipts at the forecast horizon would be around £13 billion higher. Indeed, if TFP growth were to average 1.0 per a year over the forecast rather than 0.7 per cent – halfway between the pre- and post-financial crisis rates, for example due to greater benefits than we currently anticipate from alternative ways for businesses to organise production discovered during the pandemic – receipts in 2027-28 could be £21 billion higher.

61 The main **adverse economic and fiscal risks** similarly relate to the European energy supply squeeze and domestic inflationary pressures. Particular risks to this forecast include:

- **Current cliff-edges in energy-related support.** The capped price of household energy within the EPG is due to rise by £500 for a typical user in April 2023, the middle of the recession in our central forecast. This saves £14.0 billion relative to it continuing at the same level as during its first six months, although much of this is in effect handed back via cost-of-living payments to benefit recipients. Our forecast also does not include any cost for extending support to businesses with their energy bills beyond the £18.4 billion budgeted for up until April as the terms have not yet been set, but the Government has said that vulnerable businesses will continue to be helped.

- The planned **23 per cent increase in the fuel duty rate** in late-March 2023, which adds £5.7 billion to receipts next year. This would be a record cash increase, and the first time any Government has raised fuel duty rates in cash terms since 1 January 2011. It is expected to raise the price of petrol and diesel by around 12 pence a litre.
- Other **repeated one-off support measures** would add to borrowing if they were repeated again. This includes, for example, business rates relief for retail, hospitality and leisure sectors, and the Household Support Fund, both introduced in 2020-21 as temporary pandemic measures and both extended into their fourth year in 2023-24. The combined cost of those two measures in 2023-24 is £3.3 billion.
- **Inflationary pressures on departmental budgets** set in the current Spending Review years. The Autumn Statement adds £8.5 billion to health, social care and schools budgets in 2024-25, but leaves other departments to absorb the effects of higher inflation within budgets that are unchanged in cash terms. The squeeze on their real-terms budgets for day-to-day spending by 2024-25 is between £5.3 billion and £15.3 billion depending on which measure of inflation is used.³⁴

62 In addition to these economy-driven risks, several adverse developments in our forecasts since March can be traced back to health-related issues. Labour market inactivity has risen, as have health- and disability-related benefit caseloads. With the UK having suffered a fourth wave of infections and hospitalisations in 2022, self-reported prevalence of long Covid remaining high, and the NHS waiting list for elective treatments continuing to rise, economic and fiscal risks from health developments appear to have risen since March.

63 More generally, the UK economy and public finances are suffering the consequences of the third global shock of the past 15 years. Over that time, borrowing has averaged over 6 per cent of GDP and the underlying stock of debt has risen from 34 per cent of GDP on the eve of the financial crisis to around 70 per cent in its wake, and then to above 80 per cent of GDP as a result of the pandemic. Now the Russian invasion of Ukraine and the energy crisis it has precipitated are set to push underlying debt up close to 100 per cent of GDP. Even with the tax rises and spending cuts set out in the Autumn Statement, debt has been revised up 17.7 per cent of GDP (£420 billion) at the forecast horizon. So while we cannot be certain where the next shock might come from or how costly it might be, it is clear that our historically high debt stock and interest burden, alongside its historically short average maturity, leave the public finances more exposed than has been the case for many decades.

³⁴ This range reflects the implications of revisions to GDP deflator growth and CPI inflation relative to our October 2021 forecast. The true impact of higher-than-expected inflation on departmental budgets is likely to lie somewhere between these two figures and will depend on the composition of spending, as discussed in paragraphs 3.90 to 3.92 of our March 2022 EFO.

A Detailed tables

Table A.1: Economy forecast

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2021	2022	2023	2024	2025	2026	2027
UK economy							
Gross domestic product (GDP)	7.5	4.2	-1.4	1.3	2.6	2.7	2.2
GDP per capita	6.9	4.0	-1.8	1.0	2.3	2.3	2.0
GDP level (Q4 2019=100)	95.4	99.4	98.0	99.2	101.9	104.6	106.9
Nominal GDP	7.9	8.8	2.0	3.0	3.4	3.6	4.0
Output gap (per cent of potential output)	1.4	1.0	-2.5	-2.5	-1.5	-0.5	0.0
Expenditure components of GDP							
Domestic demand	8.6	5.9	-2.3	1.2	2.5	2.5	2.1
Household consumption ²	6.2	4.7	-1.9	1.1	2.5	2.2	1.9
General government consumption	12.6	2.1	4.8	1.6	0.8	1.6	1.6
Fixed investment of which:	5.6	4.5	-1.4	1.2	4.7	4.9	3.4
Business	-0.1	4.9	-2.1	3.1	8.2	6.6	4.8
General government	7.2	3.8	10.7	-0.8	-2.2	-1.4	-1.6
Private dwellings ³	15.7	3.9	-7.3	-0.9	2.9	5.6	3.7
Change in inventories ⁴	0.9	1.7	-1.6	0.0	0.0	0.0	0.0
Exports of goods and services	-0.3	5.1	-2.8	0.1	1.1	0.5	0.2
Imports of goods and services	2.8	11.2	-5.5	-0.2	0.9	0.2	0.0
Balance of payments current account							
Per cent of GDP	-2.0	-5.8	-5.2	-4.4	-3.7	-3.4	-3.2
Inflation							
CPI	2.6	9.1	7.4	0.6	-0.8	0.2	1.7
RPI	4.0	11.6	10.7	1.5	-0.4	1.0	2.6
GDP deflator at market prices	0.1	4.4	3.5	1.7	0.8	0.9	1.7
Labour market							
Employment (million)	32.4	32.7	32.8	32.7	32.9	33.3	33.6
Productivity per hour	0.9	0.3	-0.8	0.9	1.5	1.6	1.4
Wages and salaries	6.2	7.2	4.3	1.4	2.1	2.7	3.2
Average earnings ⁵	5.3	5.9	4.2	1.7	1.7	1.9	2.7
LFS unemployment (per cent)	4.5	3.6	4.1	4.9	4.7	4.3	4.2
Unemployment (million)	1.5	1.2	1.4	1.7	1.6	1.5	1.5
Household sector							
Real household disposable income ²	1.1	-3.1	-3.4	1.2	2.9	2.3	2.0
Saving ratio (level, per cent) ²	12.5	6.4	4.7	4.8	5.3	5.4	5.4
House prices	9.2	10.7	-1.2	-5.7	1.2	3.0	3.5
World economy							
World GDP at purchasing power parity	5.6	3.1	2.7	4.6	4.4	3.7	3.3

Note: See Table A.2 for references.

Table A.2: Economy forecast: changes since March

	Percentage point difference, unless otherwise stated					
	Outturn	Forecast				
	2021	2022	2023	2024	2025	2026
UK economy						
Gross domestic product (GDP)	0.1	0.4	-3.2	-0.8	0.9	1.0
GDP per capita	-0.5	0.5	-3.3	-0.9	0.7	0.9
GDP level (Q4 2019=100) ¹	-1.8	-1.4	-4.5	-5.3	-4.5	-3.5
Nominal GDP	0.3	2.1	-2.9	-1.0	-0.3	-0.1
Output gap (per cent of potential output)	0.1	0.3	-2.2	-2.5	-1.5	-0.5
Expenditure components of GDP						
Domestic demand	0.2	1.6	-4.1	-0.4	0.8	0.8
Household consumption ²	0.1	-0.7	-2.9	-0.4	1.3	1.0
General government consumption	-1.9	-0.5	3.6	0.1	-0.8	-0.4
Fixed investment of which:	0.3	-1.5	-6.6	-0.6	1.1	1.7
Business	0.6	-5.6	-7.7	-0.5	2.8	2.2
General government	-4.6	4.9	2.8	1.2	-3.3	-3.1
Private dwellings ³	3.0	1.3	-10.1	-1.7	1.4	4.1
Change in inventories ⁴	0.3	2.0	-1.6	0.0	0.0	0.0
Exports of goods and services	0.8	-1.7	-5.6	-0.6	1.4	0.9
Imports of goods and services	-0.2	2.6	-8.5	0.8	1.3	0.2
Balance of payments current account						
Per cent of GDP	1.0	-1.2	-1.1	-1.1	-0.6	-0.2
Inflation						
CPI	0.0	1.7	3.3	-0.9	-2.7	-1.8
RPI	0.0	1.8	5.2	-0.8	-2.9	-1.7
GDP deflator at market prices	0.2	1.6	0.4	-0.2	-1.1	-1.1
Labour market						
Employment (million)	0.0	0.0	-0.1	-0.3	-0.2	0.0
Productivity per hour	-0.4	0.5	-1.8	-0.6	0.2	0.3
Wages and salaries	-0.7	0.6	1.1	-1.5	-0.9	-0.6
Average earnings ⁵	-0.9	0.6	1.3	-0.9	-1.3	-1.3
LFS unemployment (per cent)	0.0	-0.4	-0.1	0.7	0.6	0.2
Unemployment (million)	0.0	-0.1	0.0	0.2	0.2	0.1
Household sector						
Real household disposable income ²	-0.6	-1.7	-3.3	-1.0	1.3	0.8
Saving ratio (level, per cent) ²	1.7	1.9	1.5	1.0	1.1	0.9
House prices	-0.8	3.3	-2.6	-7.1	-1.2	0.0
World economy						
World GDP at purchasing power parity	-0.3	-0.7	-1.1	0.7	0.8	0.4

¹ Per cent change since March 2022.

² Includes households and non-profit institutions serving households.

³ Includes transfer costs of non-produced assets.

⁴ Contribution to GDP growth, percentage points.

⁵ Wages and salaries divided by employees.

Table A.3: Determinants of the fiscal forecast

	Percentage change on previous year, unless otherwise specified							Growth over forecast
	Outturn	Forecast						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	
GDP and its components								
Real GDP	12.7	1.3	-1.2	2.0	2.6	2.6	2.1	9.8
Nominal GDP ¹	12.3	6.6	1.8	3.4	3.2	3.8	3.9	25.0
Nominal GDP (£ billion) ^{1,2}	2,343	2,497	2,542	2,628	2,713	2,817	2,927	585
Nominal GDP (centred end-March £bn) ^{1,3}	2,435	2,524	2,579	2,671	2,762	2,872	2,985	550
Wages and salaries ⁴	8.0	6.3	3.3	1.5	2.3	2.9	3.2	21.0
Non-oil PNFC profits ^{4,5}	5.0	9.4	-4.8	1.0	4.3	5.0	4.7	20.6
Consumer spending ^{4,5}	9.0	13.0	4.5	1.9	2.1	2.6	3.8	30.9
Prices and earnings								
GDP deflator	-0.5	4.9	3.2	1.3	0.5	1.2	1.8	13.6
RPI	5.8	13.0	8.3	0.5	-0.5	1.6	2.7	27.8
CPI	4.0	10.1	5.5	0.0	-1.0	0.8	1.8	18.0
Average earnings ⁶	6.5	5.4	3.5	1.6	1.7	2.1	2.7	18.3
'Triple-lock' guarantee (September) ⁷	3.1	10.1	6.9	2.5	2.5	2.5	2.8	30.3
Key fiscal determinants								
Employment (million)	32.5	32.8	32.7	32.7	33.0	33.4	33.6	1.1
Output gap (per cent of potential output)	1.8	0.1	-2.9	-2.3	-1.2	-0.4	0.0	-1.8
Financial and property sectors								
Equity prices (FTSE All-Share index)	4,092	3,964	3,920	4,052	4,181	4,343	4,513	421
HMRC financial sector profits ^{1,5,8}	25.0	5.3	-2.0	1.9	1.7	-0.4	2.0	8.7
Residential property prices ⁹	9.6	9.2	-4.2	-4.0	2.1	3.2	3.6	9.7
Residential property transactions (000s) ¹⁰	1,373	1,197	1,024	1,067	1,075	1,283	1,394	20
Commercial property prices ¹⁰	12.4	-0.6	-3.2	2.2	0.9	1.5	1.9	2.6
Commercial property transactions ¹⁰	22.8	-3.0	-5.1	0.9	6.2	6.4	2.0	7.1
Oil and gas								
Oil prices (\$ per barrel) ⁵	70.8	100.5	87.3	80.0	75.7	75.4	76.7	5.9
Oil prices (£ per barrel) ⁵	51.5	81.9	75.9	69.5	65.8	65.5	66.7	15.2
Gas prices (£ per therm) ⁵	0.91	2.60	3.22	2.65	1.98	1.82	1.86	0.94
Oil production (million tonnes) ⁵	38.2	36.9	35.4	33.4	31.3	29.4	27.6	-10.6
Gas production (billion therms) ⁵	11.0	12.3	11.2	10.2	9.2	8.2	7.4	-3.6
Interest rates and exchange rates								
Bank Rate (per cent)	0.19	2.48	4.77	4.48	4.09	3.80	3.55	3.36
Market gilt rates (per cent) ¹¹	0.96	3.03	3.66	3.70	3.72	3.73	3.74	2.78
Euro/Sterling exchange rate (€/£)	1.18	1.16	1.15	1.15	1.15	1.15	1.15	-0.03
¹ Non-seasonally adjusted.	⁶ Wages and salaries divided by employees.							
² Denominator for receipts, spending and deficit forecasts as a per cent of GDP.	⁷ Adjusted for suspension of 2021-22 'triple-lock'.							
³ Denominator for net debt as a per cent of GDP.	⁸ HMRC Gross Case 1 trading profits.							
⁴ Nominal.	⁹ Outturn data from ONS House Price Index.							
⁵ Calendar year.	¹⁰ Outturn data from HMRC information on stamp duty land tax.							
	¹¹ Weighted average interest rate on conventional gilts.							

Table A.4: Determinants of the fiscal forecast: changes since March

	Percentage point difference, unless otherwise specified					
	Outturn	Forecast				
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
GDP and its components						
Real GDP	1.7	-0.9	-3.1	0.0	0.9	0.9
Nominal GDP ¹	1.9	0.3	-2.5	-0.6	-0.4	0.1
Nominal GDP (£ billion) ^{1,2}	-21.8	-16.1	-79.5	-98.2	-112.9	-114.6
Nominal GDP (centred end-March £bn) ^{1,3}	-2.8	-45.5	-95.8	-105.3	-115.4	-112.0
Wages and salaries ⁴	0.6	0.3	0.6	-1.5	-0.9	-0.5
Non-oil PNFC profits ^{4,5}	-0.8	10.7	-9.7	-3.9	0.4	1.2
Consumer spending ^{4,5}	0.5	1.8	-0.4	-1.2	-0.9	-0.6
Prices and earnings						
GDP deflator	0.6	0.8	0.8	-0.5	-1.4	-0.8
RPI	0.1	2.7	4.7	-1.9	-3.1	-1.1
CPI	0.1	2.1	3.1	-1.7	-3.0	-1.2
Average earnings ⁶	0.3	0.3	1.1	-1.1	-1.3	-1.1
'Triple-lock' guarantee (September) ⁷	0.0	2.6	3.5	-0.1	-0.4	-0.7
Key fiscal determinants						
Employment (million)	0.0	0.0	-0.2	-0.3	-0.2	0.0
Output gap (per cent of potential output)	0.3	-0.2	-2.6	-2.3	-1.3	-0.4
Financial and property sectors						
Equity prices (FTSE All-Share index)	-3.3	-223.2	-449.8	-489.5	-527.8	-542.1
HMRC financial sector profits ^{1,5,8}	0.0	9.3	-4.0	0.1	0.0	-0.3
Residential property prices ⁹	-0.6	3.6	-5.1	-5.7	-0.6	0.0
Residential property transactions (000s) ¹⁰	11.0	-108.4	-320.1	-303.4	-311.4	-120.2
Commercial property prices ¹⁰	1.1	0.1	-5.6	0.3	-1.0	-0.5
Commercial property transactions ¹⁰	2.5	-1.9	-7.1	-0.8	4.6	4.7
Oil and gas						
Oil prices (\$ per barrel) ⁵	0.4	6.5	3.9	1.8	-2.0	-4.0
Oil prices (£ per barrel) ⁵	0.3	11.9	13.7	11.2	7.8	6.3
Gas prices (£ per therm) ⁵	-0.17	-0.20	1.44	1.51	0.81	0.63
Oil production (million tonnes) ⁵	0.0	-0.5	-0.4	-0.4	-0.4	-0.4
Gas production (billion therms) ⁵	0.0	0.5	0.0	0.0	0.0	0.0
Interest rates and exchange rates						
Bank Rate (per cent)	0.00	1.05	2.92	2.85	2.70	2.55
Market gilt rates (per cent) ¹¹	0.02	1.67	2.25	2.24	2.21	2.15
Euro/Sterling exchange rate (€/£)	0.00	-0.03	-0.04	-0.04	-0.04	-0.04

¹ Non-seasonally adjusted.

² Denominator for receipts, spending and deficit forecasts as a per cent of GDP.

³ Denominator for net debt as a per cent of GDP.

⁴ Nominal.

⁵ Calendar year.

⁶ Wages and salaries divided by employees.

⁷ Adjusted for suspension of 2021-22 'triple-lock'.

⁸ HMRC Gross Case 1 trading profits.

⁹ Outturn data from ONS House Price Index.

¹⁰ Outturn data from HMRC information on stamp duty land tax.

¹¹ Weighted average interest rate on conventional gilts.

Table A.5: Fiscal aggregates

	Per cent GDP						
	Outturn	Forecast					
		2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Receipts and expenditure							
Public sector current receipts (a)	39.0	40.2	41.6	41.7	41.4	41.2	41.1
National Accounts taxes	35.2	36.4	37.4	37.5	37.4	37.3	37.1
Total managed expenditure (b)	44.7	47.3	47.2	44.9	44.2	44.0	43.4
Public sector current expenditure (c)	40.0	42.5	41.8	39.9	39.3	39.3	38.9
Public sector net investment (d)	2.4	2.5	3.0	2.7	2.5	2.3	2.2
Depreciation (e)	2.3	2.3	2.3	2.4	2.4	2.3	2.3
Legislated and proposed fiscal mandate and supplementary targets							
Public sector net debt ex Bank of England ^{1,2,3}	84.3	89.9	95.9	97.2	97.6	97.6	97.3
Current budget deficit (c+e-a) ²	3.3	4.6	2.5	0.5	0.3	0.5	0.2
Public sector net borrowing (b-a) ³	5.7	7.1	5.5	3.2	2.8	2.9	2.4
Other deficit measures							
Cyclically adjusted net borrowing	6.5	7.5	4.1	1.5	1.8	2.4	2.3
Cyclically adjusted current budget deficit	4.2	5.0	1.1	-1.2	-0.8	0.1	0.1
Primary deficit	3.6	2.7	2.1	0.8	0.5	-0.2	-0.7
Cyclically adjusted primary deficit	4.4	3.1	0.6	-0.9	-0.6	-0.6	-0.7
Financing							
Central government net cash requirement	5.5	5.5	7.4	5.4	4.2	3.5	3.5
Public sector net cash requirement	7.4	5.4	6.6	3.8	-0.1	2.1	3.3
Alternative balance sheet metrics							
Public sector net debt ¹	97.4	101.9	106.7	105.8	101.7	100.0	99.3
Public sector net worth	-88.6	-93.4	-97.2	-96.8	-94.8	-92.2	-89.4
Public sector net financial liabilities	84.9	89.0	92.1	91.4	90.8	89.8	88.4
International comparisons							
General government net borrowing (GGNB)	6.4	7.1	6.4	3.7	3.0	3.3	2.8
Cyclically adjusted GGNB	7.3	7.5	5.0	2.0	1.9	2.8	2.8
General government gross debt	105.6	102.0	108.1	110.7	111.2	111.4	110.8
£ billion							
Current budget deficit	78.2	114.4	64.5	13.4	8.7	14.4	5.6
Public sector net investment	55.1	62.7	75.6	70.9	68.2	65.9	63.6
Public sector net borrowing	133.3	177.0	140.0	84.3	76.9	80.3	69.2
Cyclically adjusted net borrowing	153.0	187.0	103.8	39.6	47.7	68.3	66.9
Cyclically adjusted current budget deficit	98.0	124.3	28.3	-31.3	-20.5	2.4	3.3
Public sector net debt	2,373	2,571	2,752	2,825	2,809	2,872	2,963
Public sector net debt ex Bank of England	2,054	2,270	2,473	2,595	2,695	2,802	2,903
Net debt interest	49.1	108.8	87.8	63.7	64.1	85.2	88.8
Non-interest receipts	889.9	972.9	1,017	1,055	1,086	1,125	1,164
<i>Memo: Output gap (per cent of GDP)</i>	1.8	0.1	-2.9	-2.3	-1.2	-0.4	0.0

¹ Debt at end March; GDP centred on end March.

² Currently legislated fiscal mandate or supplementary target.

³ Autumn Statement 2022 proposed fiscal mandate or supplementary target.

Table A.6: Current receipts

	£ billion						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Income tax ¹	225.0	247.5	263.0	277.8	288.5	302.9	319.2
of which: Pay as you earn	192.6	211.6	224.9	232.1	240.1	251.3	264.2
Self assessment	37.0	40.8	43.4	51.2	53.9	57.0	60.8
Other income tax	-4.6	-4.9	-5.4	-5.5	-5.4	-5.4	-5.8
National insurance contributions	159.7	174.6	168.5	171.1	175.7	181.7	188.4
Health and social care levy			0.0	0.0	0.0	0.0	0.0
Value added tax	142.6	156.7	158.1	162.2	167.4	171.4	177.7
Corporation tax ²	65.8	73.9	88.8	97.7	100.5	103.8	105.4
of which: Onshore	62.7	65.7	78.6	90.0	95.0	99.0	101.4
Offshore	3.1	8.2	10.3	7.7	5.5	4.9	4.0
Petroleum revenue tax	-0.6	-0.4	-0.3	-0.3	-0.2	-0.2	-0.1
Fuel duties	25.9	25.0	30.2	30.2	29.5	29.1	27.9
Business rates	25.4	28.5	30.3	35.2	35.4	35.6	35.9
Council tax	40.0	42.0	44.2	46.5	48.9	51.4	54.1
VAT refunds	22.4	23.0	24.2	24.3	25.1	26.3	27.3
Capital gains tax	15.3	15.9	14.5	13.3	14.2	15.8	17.9
Inheritance tax	6.1	6.7	6.8	6.7	6.8	7.3	7.8
Property transaction taxes ³	15.4	17.1	12.6	12.4	14.7	17.9	20.2
Stamp taxes on shares	4.4	4.0	4.0	4.1	4.2	4.4	4.5
Tobacco duties	10.2	10.7	11.4	11.2	10.7	10.4	10.3
Alcohol duties	13.2	12.6	13.7	14.2	14.7	15.3	16.0
Air passenger duty	1.2	3.5	3.8	4.3	4.5	4.7	5.0
Insurance premium tax	6.8	7.4	7.7	7.8	7.7	7.8	7.9
Climate change levy	1.9	2.1	2.1	2.1	2.2	2.3	2.3
Bank levy	1.3	1.3	1.3	1.2	1.2	1.2	1.2
Bank surcharge	2.3	2.3	1.2	0.9	0.9	0.9	1.0
Apprenticeship levy	3.3	3.5	3.6	3.7	3.8	3.9	4.1
Digital services tax	0.6	0.7	0.7	0.7	0.8	0.9	0.9
Other HMRC taxes ⁴	9.7	10.2	9.9	10.0	10.1	10.4	10.7
Vehicle excise duties	7.1	7.2	7.9	7.8	8.0	8.2	8.8
Licence fee receipts	3.8	3.8	3.8	3.8	3.8	3.9	3.9
Environmental levies	6.6	3.7	5.2	7.1	9.0	8.5	5.4
Emissions Trading Scheme	1.0	6.1	6.1	5.9	5.8	5.6	5.5
Energy profits levy	0.0	7.2	10.8	8.0	6.0	5.5	4.1
Electricity generators levy	0.0	1.0	4.1	3.4	2.2	1.9	1.5
Other taxes	9.1	11.6	12.2	12.1	11.9	11.8	12.0
National Accounts taxes	825.5	909.6	950.1	985.5	1,014	1,051	1,087
Interest and dividends	24.1	32.0	41.9	40.8	35.9	34.1	37.9
Gross operating surplus	61.8	61.7	64.7	67.7	69.8	72.2	74.8
Other receipts	2.6	1.6	2.0	2.0	2.2	2.3	2.4
Current receipts	914.0	1,005	1,059	1,096	1,122	1,159	1,202
<i>Memo: UK oil and gas revenues⁵</i>	<i>2.6</i>	<i>14.9</i>	<i>20.7</i>	<i>15.4</i>	<i>11.3</i>	<i>10.2</i>	<i>8.0</i>

¹ Includes PAYE, self assessment, tax on savings income and other minor components, such as income tax repayments.

² National Accounts measure, includes Pillar 2 taxes.

³ Includes stamp duty land tax (SDLT), devolved property transaction taxes and the annual tax on enveloped dwellings (ATED).

⁴ Consists of landfill tax (excluding Scotland and Wales), aggregates levy, betting and gaming duties, customs duties, diverted profits tax and soft drinks industry levy.

⁵ Consists of offshore corporation tax, petroleum revenue tax and energy profits levy.

Table A.7: Current receipts: changes since March

	£ billion					
	Outturn	Forecast				
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Income tax ¹	0.1	2.0	6.3	9.2	5.6	4.5
of which: Pay as you earn	2.0	2.7	4.9	5.6	0.9	0.1
Self assessment	0.0	1.3	3.8	6.2	7.4	7.1
Other income tax	-1.9	-2.0	-2.4	-2.6	-2.6	-2.7
National insurance contributions	1.6	-4.4	6.5	4.5	3.1	2.2
Health and social care levy			-18.4	-19.0	-19.7	-20.4
Value added tax	3.9	2.5	-1.8	-2.4	-2.0	-3.0
Corporation tax ²	4.4	9.0	6.2	6.9	5.6	7.3
of which: Onshore	4.9	8.9	1.1	2.2	2.8	4.9
Offshore	-0.5	0.1	5.2	4.7	2.8	2.5
Petroleum revenue tax	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Fuel duties	-0.2	-1.2	0.3	0.1	-0.5	-1.0
Business rates	2.9	-1.0	-4.7	-0.9	-1.1	-1.9
Council tax	0.0	0.1	0.6	1.2	2.2	3.3
VAT refunds	0.8	-0.5	0.5	0.2	0.2	0.1
Capital gains tax	1.0	0.9	-1.5	-4.1	-4.8	-5.0
Inheritance tax	0.0	0.0	-0.1	-0.6	-1.0	-1.0
Property transaction taxes ³	-0.2	0.0	-5.3	-6.2	-4.9	-2.9
Stamp taxes on shares	0.2	0.4	0.2	0.2	0.2	0.2
Tobacco duties	-0.1	-0.2	0.4	0.3	0.0	-0.2
Alcohol duties	0.1	-0.2	0.3	0.3	0.2	0.3
Air passenger duty	-0.1	0.6	0.2	-0.1	-0.1	-0.1
Insurance premium tax	-0.2	0.0	0.1	0.0	-0.1	-0.2
Climate change levy	0.1	0.3	0.3	0.3	0.3	0.3
Bank levy	0.0	0.0	0.0	0.0	0.0	0.0
Bank surcharge	0.0	0.6	0.3	0.2	0.2	0.2
Apprenticeship levy	0.1	0.2	0.2	0.1	0.1	0.1
Digital services tax	0.0	0.0	-0.1	-0.1	-0.2	-0.2
Other HMRC taxes ⁴	0.2	0.2	-0.4	-0.4	-0.3	-0.3
Vehicle excise duties	0.1	0.1	0.6	0.5	0.7	0.9
Licence fee receipts	0.0	0.0	0.0	-0.2	-0.3	-0.3
Environmental levies	-0.9	-3.1	-4.4	-4.8	-3.6	-5.5
Emissions Trading Scheme receipts	0.1	0.3	0.4	0.5	0.5	0.5
Energy profits levy	0.0	7.2	10.8	8.0	6.0	5.5
Electricity generators levy	0.0	1.0	4.1	3.4	2.2	1.9
Other taxes	-0.9	1.3	0.4	0.3	0.2	0.1
National Accounts taxes	13.1	16.3	2.1	-2.7	-11.5	-14.6
Interest and dividends	-0.1	0.7	6.6	8.5	3.2	0.0
Gross operating surplus	3.1	2.0	1.4	1.4	1.3	0.9
Other receipts	-1.5	-1.6	-1.4	-1.5	-1.5	-1.5
Current receipts	14.5	17.4	8.7	5.6	-8.5	-15.2
Memo: UK oil and gas revenues ⁵	-0.5	7.2	15.9	12.7	8.7	7.9

¹ Includes PAYE, self assessment, tax on savings income and other minor components, such as income tax repayments.

² National Accounts measure, includes Pillar 2 taxes.

³ Includes stamp duty land tax (SDLT), devolved property transaction taxes and the annual tax on enveloped dwellings (ATED).

⁴ Consists of landfill tax (excluding Scotland and Wales), aggregates levy, betting and gaming duties, customs duties, soft drinks industry levy and diverted profits tax.

⁵ Consists of offshore corporation tax, petroleum revenue tax and energy profits levy.

Table A.8: Total managed expenditure

	£ billion						
	Outturn	Forecast					
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Public sector current expenditure (PSCE)							
PSCE in RDEL	413.8	415.5	419.7	422.0	430.3	439.9	452.7
PSCE in AME	523.9	646.7	643.9	625.6	636.8	667.9	686.6
<i>of which:</i>							
Welfare spending	245.2	260.8	292.3	306.0	314.8	320.7	327.5
Locally financed current expenditure	45.6	58.7	59.7	64.2	65.3	68.0	70.3
Central government debt interest, net of APF ¹	56.4	120.4	108.5	82.4	77.0	95.4	101.9
Scottish Government's current spending	41.2	38.6	40.3	40.5	41.3	42.2	43.4
EU financial settlement	8.3	8.8	6.4	1.1	1.4	0.8	0.4
Net public service pension payments	3.3	3.3	6.2	8.3	8.8	8.2	8.2
Company and other tax credits	8.0	9.6	10.2	10.2	10.5	11.2	11.9
BBC current expenditure	3.9	4.2	4.1	4.4	4.3	4.4	4.7
National Lottery current grants	1.4	1.5	1.4	1.4	1.3	1.2	1.2
General government imputed pensions	1.1	0.8	0.8	0.9	0.9	0.9	0.9
Public corporations' debt interest	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Funded public sector pension schemes	19.2	20.1	21.1	21.9	22.8	23.7	24.6
General government depreciation	48.0	50.2	52.4	54.6	56.6	58.7	61.1
Current VAT refunds	19.4	20.2	21.4	21.6	22.3	23.5	24.4
Environmental levies	8.4	4.8	6.2	8.0	9.9	9.4	6.4
Other PSCE items in AME	2.0	47.4	14.1	1.8	1.5	1.5	1.6
Other National Accounts adjustments	-2.2	-2.8	-1.3	-1.8	-2.0	-2.1	-2.0
Total public sector current expenditure	937.6	1,062	1,064	1,048	1,067	1,108	1,139
Public sector gross investment (PSGI)							
PSGI in CDEL	77.0	88.8	94.4	94.7	95.6	96.0	96.2
PSGI in AME	32.6	30.9	40.7	38.0	36.5	35.9	35.7
<i>of which:</i>							
Locally financed capital expenditure	11.4	10.9	10.8	9.6	9.6	9.6	9.8
Public corporations' capital expenditure	11.1	10.1	11.2	11.3	11.3	11.3	11.5
Student loans	12.7	2.5	10.6	9.4	8.2	7.7	7.9
Funded public sector pension schemes	1.1	1.3	1.6	1.3	1.1	1.1	0.6
Scottish Government's capital spending	4.5	5.4	5.3	5.3	5.1	5.1	5.1
Tax litigation	0.0	0.9	1.0	1.0	0.8	0.8	0.8
Other PSGI items in AME	-5.4	0.6	0.7	0.7	0.7	0.6	0.5
Other National Accounts adjustments	-2.8	-0.8	-0.5	-0.6	-0.5	-0.5	-0.5
Total public sector gross investment	109.6	119.8	135.1	132.8	132.1	131.9	131.9
Less public sector depreciation	-54.5	-57.1	-59.6	-61.9	-63.9	-66.0	-68.3
<i>Public sector net investment</i>	<i>55.1</i>	<i>62.7</i>	<i>75.6</i>	<i>70.9</i>	<i>68.2</i>	<i>65.9</i>	<i>63.6</i>
Total managed expenditure	1,047	1,182	1,199	1,180	1,199	1,240	1,271

¹ Includes increases in debt interest payments due to the APF.

Table A.9: Total managed expenditure: changes since March

	£ billion					
	Outturn	Forecast				
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Public sector current expenditure (PSCE)						
PSCE in RDEL	8.7	8.5	11.7	2.9	-5.1	-11.6
PSCE in AME	-4.9	80.7	83.2	47.5	41.3	51.8
<i>of which:</i>						
Welfare spending	0.5	10.6	21.5	21.4	18.8	14.0
Locally financed current expenditure	1.8	0.8	-1.7	0.6	2.5	3.2
Central government debt interest, net of APF ¹	2.8	37.4	57.8	35.7	30.1	48.1
Scottish Government's current spending	-1.0	0.0	1.1	0.6	-1.0	-1.5
EU financial settlement	-0.1	-0.6	1.7	-0.8	0.4	0.3
Net public service pension payments	-0.3	0.7	1.4	3.0	3.6	3.2
Company and other tax credits	-1.2	-0.9	-2.2	-3.5	-4.3	-4.4
BBC current expenditure	-0.2	0.0	0.0	0.2	0.2	0.2
National Lottery current grants	0.0	0.2	0.1	0.1	0.2	0.2
General government imputed pensions	0.0	0.0	0.0	0.0	0.0	0.0
Public corporations' debt interest	-0.3	-0.3	-0.3	-0.3	-0.4	-0.4
Funded public sector pension schemes	0.0	0.0	0.0	0.0	0.0	0.0
General government depreciation	-0.6	-0.1	0.1	0.3	0.2	-0.1
Current VAT refunds	0.6	-0.3	0.6	0.3	0.3	0.3
Environmental levies	0.0	-3.1	-4.4	-4.9	-3.8	-5.8
Other PSCE items in AME	-17.0	42.2	11.5	-0.8	-1.2	-1.3
Other National Accounts adjustments	-4.6	-5.9	-4.1	-4.5	-4.5	-4.5
Total public sector current expenditure	3.8	89.2	94.9	50.4	36.3	40.1
Public sector gross investment (PSGI)						
PSGI in CDEL	7.8	2.8	-0.2	-0.1	-3.7	-6.9
PSGI in AME	8.3	3.3	3.8	3.1	0.9	0.4
<i>of which:</i>						
Locally financed capital expenditure	4.6	3.2	2.5	1.7	1.5	1.4
Public corporations' capital spending	0.5	-0.1	0.5	1.1	2.7	-0.6
Student loans	2.2	-0.4	-0.4	-0.6	-0.9	-1.2
Funded public sector pension schemes	0.0	0.0	0.0	0.0	0.0	0.0
Scottish Government's capital spending	-0.6	0.2	0.2	0.3	0.0	0.0
Tax litigation	0.0	-0.2	0.3	0.7	-0.6	-0.6
Other PSGI items in AME	-0.3	-0.3	-0.7	-1.3	-3.0	0.0
Other National Accounts adjustments	2.0	1.0	1.5	1.4	1.4	1.3
Total public sector gross investment	16.1	6.1	3.6	3.0	-2.7	-6.5
Less public sector depreciation	0.7	0.1	-0.1	-0.2	-0.1	0.3
Public sector net investment	16.8	6.3	3.5	2.8	-2.8	-6.3
Total managed expenditure	20.0	95.3	98.5	53.4	33.5	33.6

¹ Includes increases in debt interest payments due to the APF.

