1 Executive summary

Overview

1.1 The successful vaccine rollout has allowed the economy to reopen largely on schedule, despite continuing high numbers of coronavirus cases. The vaccines' high degree of effectiveness, combined with consumers' and businesses' surprising degree of adaptability to public health restrictions, has meant that output this year has recovered faster than we expected in March, boosting tax revenues in the process. The stronger economic recovery has also helped to reduce the fiscal cost of pandemic-related support to below our March forecast. The economy is now expected to grow by 6.5 per cent in 2021 (2.4 percentage points faster than we predicted in March), and unemployment to rise only modestly to 5¼ per cent this winter (1¼ percentage points lower than March), which helps the budget deficit to almost halve to £183 billion in 2021-22 (£51 billion lower than March).

1.2 But the strength of the rebound in demand in the UK and internationally has led it to bump up against supply constraints in several markets. In the UK, these supply bottlenecks have been exacerbated by changes in the migration and trading regimes following Brexit. Energy prices have soared, labour shortages have emerged in some occupations, and there have been blockages in some supply chains. These can be expected to hold back output growth in the coming quarters, while raising prices and putting pressure on wages. We expect CPI inflation to reach 4.4 per cent next year, with the risks around that tilted to the upside. News since we closed our forecast would be consistent with inflation peaking at close to 5 per cent next year. And it could hit the highest rate seen in the UK for three decades.

1.3 Over the medium term, we have revised up real GDP as we now expect post-pandemic scarring of potential output to be 2 per cent – rather than the 3 per cent we assumed in March. Uncertainty around this judgement remains large, however, with limited evidence as yet regarding how smoothly furloughed workers will be reabsorbed into employment, whether those workers who became inactive or left the country during the pandemic will re-enter the labour force, and how fully shortfalls in capital investment, innovation, and the acquisition of skills will be made up. With inflation also higher and more persistent, we have revised up nominal GDP – the key driver of tax revenues – by 4.1 per cent in 2025-26 relative to March, boosting our pre-measures revenue forecast by 4.5 per cent in that year. While higher inflation also boosts public spending, overall our pre-measures forecast for borrowing is lower by £38 billion a year on average relative to our March forecast.

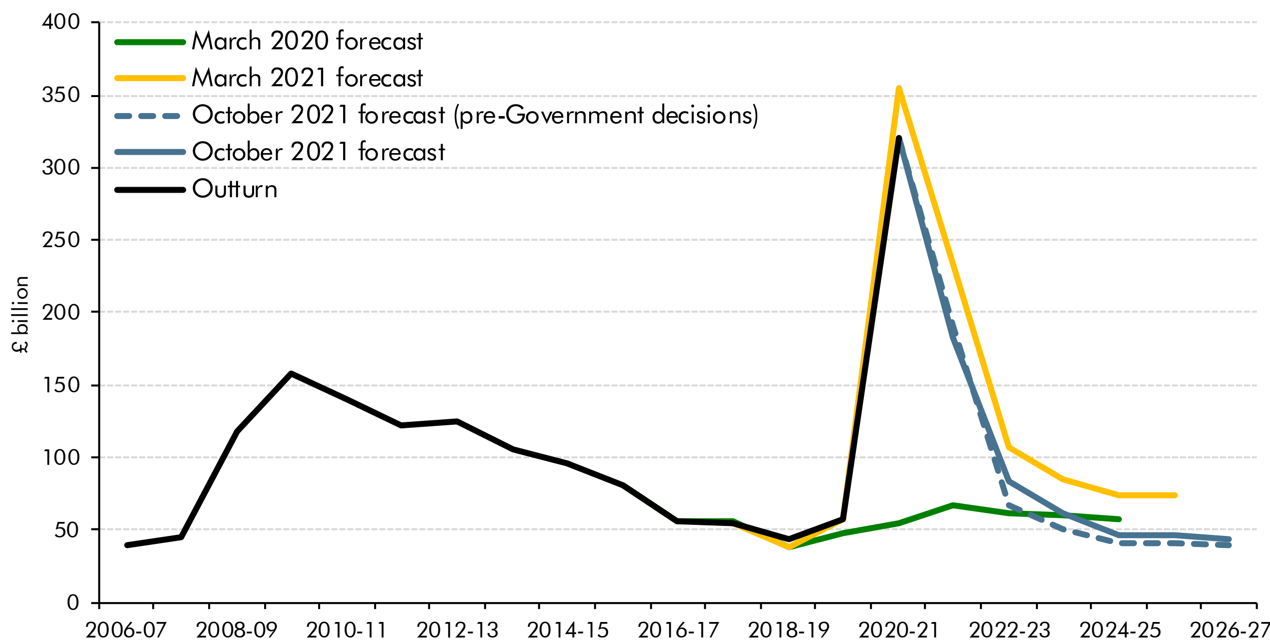
1.4 Against the backdrop of an improved underlying fiscal outlook, the Government has announced a significant discretionary increase in both the tax burden and the size of the post-pandemic state. In particular, the October 2021 Budget and Spending Review delivers:

- **A further net tax rise** amounting to £16.7 billion a year by 2026-27, more than explained by the introduction of a health and social care levy of 1.25 per cent on employees, employers and the self-employed, which raises £18.2 billion by 2026-27, and is only partly offset by tax cuts, principally the freezing of fuel duty for the twelfth year in succession at a cost of £1.6 billion a year. Together with the £31.5 billion in corporate and personal tax increases announced in the March 2021 Budget, and the improved underlying fiscal outlook, these measures raise the tax burden from 33.5 per cent of GDP before the pandemic to 36.2 per cent of GDP by 2026-27, its highest since the early 1950s. Taking his March and October Budgets together, the Chancellor has raised taxes by more this year than in any single year since Norman Lamont and Ken Clarke's two 1993 Budgets in the aftermath of Black Wednesday.

- **A large and sustained increase in public spending** amounting to £22.9 billion a year in 2026-27, comprising a £25.0 billion increase in departmental resource spending and a £3.0 billion boost to universal credit, which is only partly offset by £6.7 billion saved by the temporary move from a triple to double lock for the state pension. Of the roughly £30 billion on average added to departmental budgets in each year of the Spending Review, around half goes directly from the new levy to health and social care with the other half undoing the £18 billion of unspecified cuts to pre-pandemic spending totals made in the last two fiscal events. Together with underlying forecast changes, these discretionary increases take public spending from 39.8 per cent of GDP before the pandemic to 41.6 per cent of GDP in 2026-27, the largest sustained share of GDP since the late 1970s.

1.5 Taking account of both forecast and policy changes announced since March, borrowing falls back below £100 billion next year, declining more slowly thereafter to stabilise at around £44 billion (1.5 per cent of GDP) in the medium term. This leaves borrowing lower in every year than we forecast in March, and down £27 billion in 2025-26 thanks to the £33 billion improvement in the pre-measures fiscal outlook being only partly offset by a net fiscal loosening that declines to £6 billion by that point (Chart 1.1).

Chart 1.1: Public sector net borrowing



Source: ONS, OBR

1.6 The improvement in the fiscal outlook is sufficient to enable the Chancellor to meet his fiscal target of getting underlying debt falling as a share of GDP by the third year of our forecast (2024-25 in this one). This new fiscal mandate is codified in a revised draft *Charter for Budget Responsibility* published alongside the Budget, which also includes supplementary targets for balancing the current budget within three years and capping public investment and welfare spending over different periods. All these new targets are set to be met too. Finally, the *Charter* identifies additional measures of debt affordability and public sector balance sheet performance that will guide the Chancellor's management of fiscal policy. In our central forecast, underlying debt falls by 0.6 per cent of GDP in 2024-25, the current budget is in surplus by 0.9 per cent of GDP, public investment averages 0.3 per cent of GDP below its cap, and welfare spending is £2.8 billion below its effective cap. These margins are all well below the historical average three-year ahead forecast error for the current balance of 2.3 per cent of GDP and for the change in debt of 3.8 per cent of GDP.

Economic outlook

Developments since March

1.7 The latest vintage of data suggests that the first wave of the pandemic led to a 25 per cent fall in GDP from January 2020 to its trough in April, followed by a strong but fitful recovery over the remainder of last year as public health restrictions were successively loosened and then tightened. In our March forecast, we expected the January 2021 lockdown to cause output to fall by 4.7 per cent in that month, before progressively recovering as the vaccine was rolled out and restrictions eased. In fact, output fell by only 2.4 per cent in January, as consumer spending and business activity proved, once again, more adaptable to the restrictions than we anticipated. From this higher starting level of output, the rollout of the

vaccines and lifting of public health restrictions unleashed a stronger than expected rebound in demand that took output to 1.1 per cent below its pre-pandemic peak in August 2021, rather than the 4.9 per cent shortfall we had expected in our March forecast.

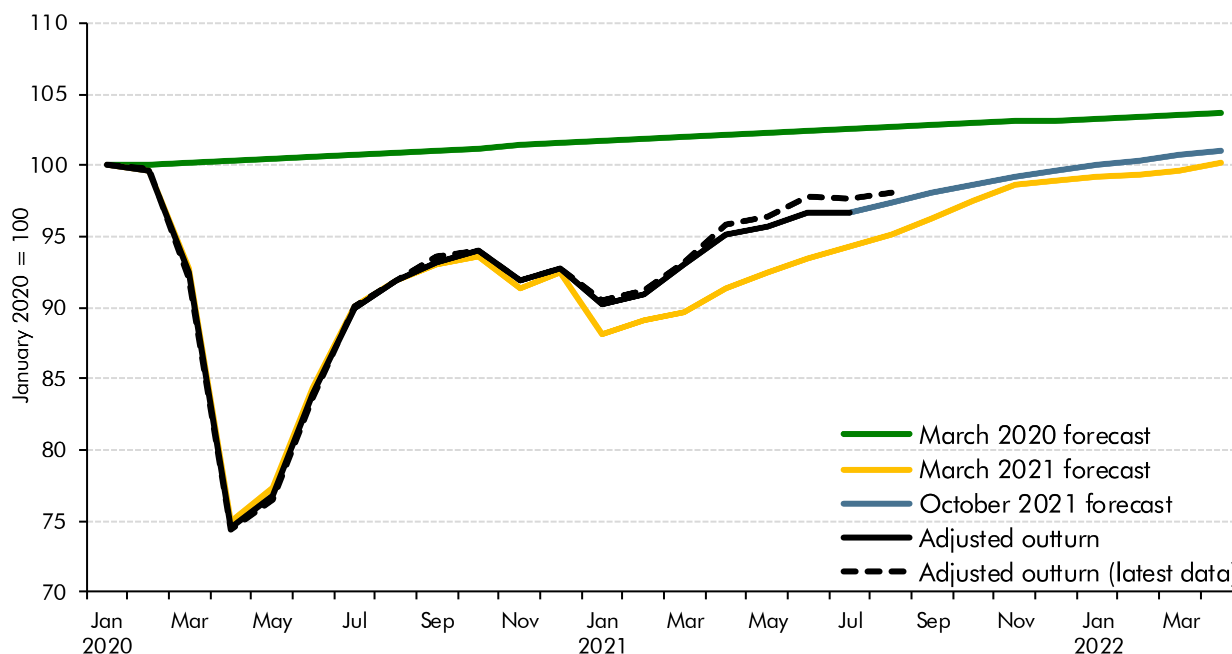
1.8 The labour market has also proved more resilient than we assumed in March. The reopening of the economy has drawn 3.2 million workers off furlough since March, leaving only 1.3 million on the coronavirus job retention scheme (CJRS) at its closure in September, 0.7 million fewer than we had expected in March. Payroll employees reached record levels at 29 million in September, while the latest estimate for the unemployment rate covering the three months to August has fallen to 4.5 per cent, well below our March forecast of 5.2 per cent for the third quarter. And the demand for labour remains buoyant, with record levels of vacancies (over 1.1 million in the three months to September). Average weekly earnings growth was 7.2 per cent in the three months to August and, while a large part of that reflects unusually depressed earnings a year earlier and compositional effects, there are signs that tightness in some parts of the labour market is boosting wage pressures.

1.9 After remaining well below target during most of the pandemic, CPI inflation has risen sharply in recent months, as the rebound in demand here and abroad has run up against supply constraints. Inflation reached 3.1 per cent in September, up from a low of 0.3 per cent in November 2020. Part of the recent increase can be attributed to the arithmetical effect on the annual comparison of unusually low prices a year ago. The rise also reflects increases in global commodity prices, which have raised fuel price inflation in particular. In addition, bottlenecks have emerged in several international product markets and there have been signs of shortages in some domestic markets too, adding to inflation pressures.

Near-term economic outlook

1.10 There are indications that the pace of recovery has begun to slow in recent months, with the three-month on three-month GDP growth rate easing from 5.5 per cent in June to 2.9 per cent in August. We expect the pace of growth to continue moderating over the remainder of the year and into next, as supply bottlenecks persist, fiscal support (including the CJRS and £20 a week uplift in universal credit) is withdrawn, and the colder weather drives up coronavirus case numbers and other seasonal infections. Moderating growth also reflects the fact the economy had largely reopened by mid-summer, so leaving fewer further opportunities for 'bounce-back' growth. Nevertheless, GDP is still expected to grow by 6.5 per cent in 2021 and to regain its pre-pandemic level around the turn of the year, some months earlier than we expected in March (Chart 1.2).

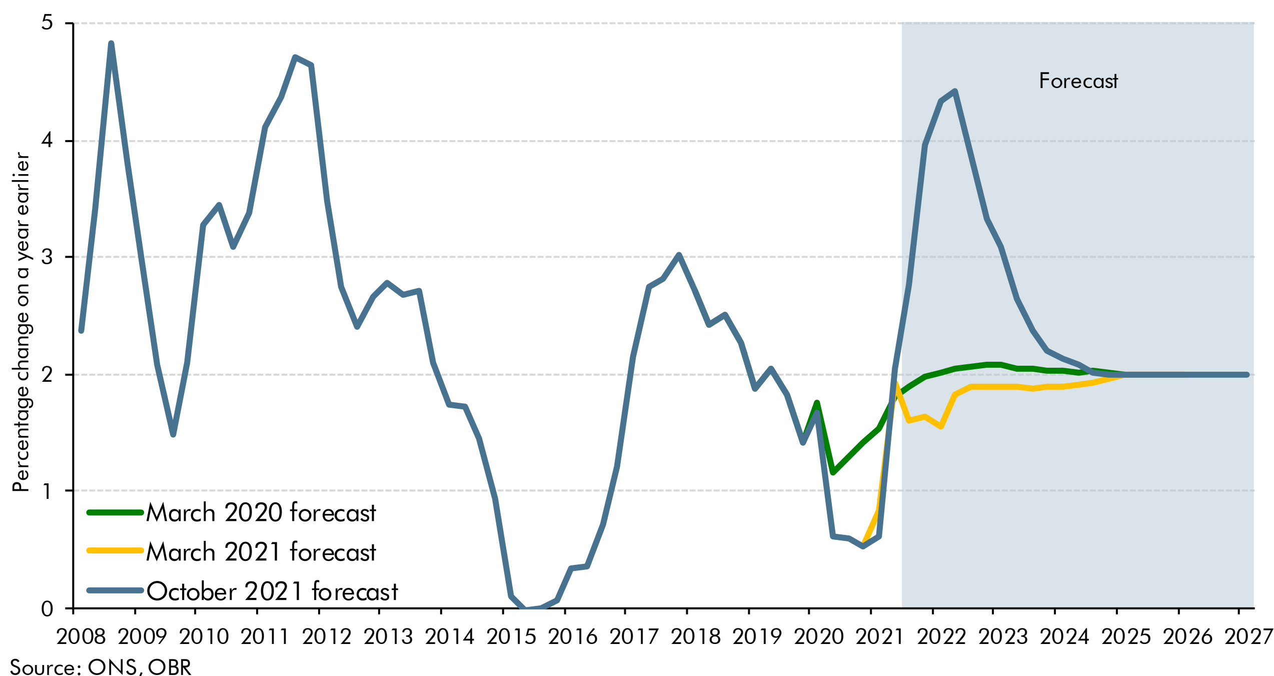
Chart 1.2: Monthly real GDP outturns and near-term forecast



Source: ONS, OBR

1.11 CPI inflation is expected to continue to rise, peaking at 4.4 per cent in the second quarter of 2022, 2.6 percentage points higher than in our March 2021 *EFO* forecast. The increase mainly reflects higher utility prices, with the Ofgem energy price cap having increased by 12 per cent in October. We assume that the sharp rise in wholesale gas prices already evident when we closed our forecast to new information will result in another increase in the price cap in April 2022. Inflation is also boosted slightly over the next couple of years by the discretionary fiscal loosening announced in the Budget and Spending Review. The near-term spike in inflation next year is expected to be relatively short lived, with inflation returning to the 2 per cent target in 2024, as energy prices stabilise, supply bottlenecks ease, and a modest tightening in monetary policy counteracts the extra stimulus from the fiscal package.

Chart 1.3: CPI inflation



Source: ONS, OBR

Medium-term economic prospects

1.12 The success of the vaccine rollout and the Government's coronavirus support schemes has significantly reduced the potential long-run damage to the UK economy from the pandemic. Government support to businesses has helped keep insolvencies around a third below their pre-pandemic average, though they have ticked up in recent months. And the CJRS and self-employment income support scheme (SEISS) have helped preserve employment in the sectors hit hardest by the pandemic. The unexpectedly strong bounce back in activity also means that the unemployment rate is now projected to peak at just 5¼ per cent, 1¼ percentage points less than we forecast in March (equivalent to nearly half a million fewer people looking for work).

1.13 Reflecting these developments, emerging research, and discussions with outside experts, we have scaled down our estimate of the long-term 'scarring' effect of the pandemic on potential output from 3 to 2 per cent. As summarised in Chart 1.4, these revisions are broadly in line with the latest estimates of other independent forecasters and reflect revisions to our judgements in three areas:

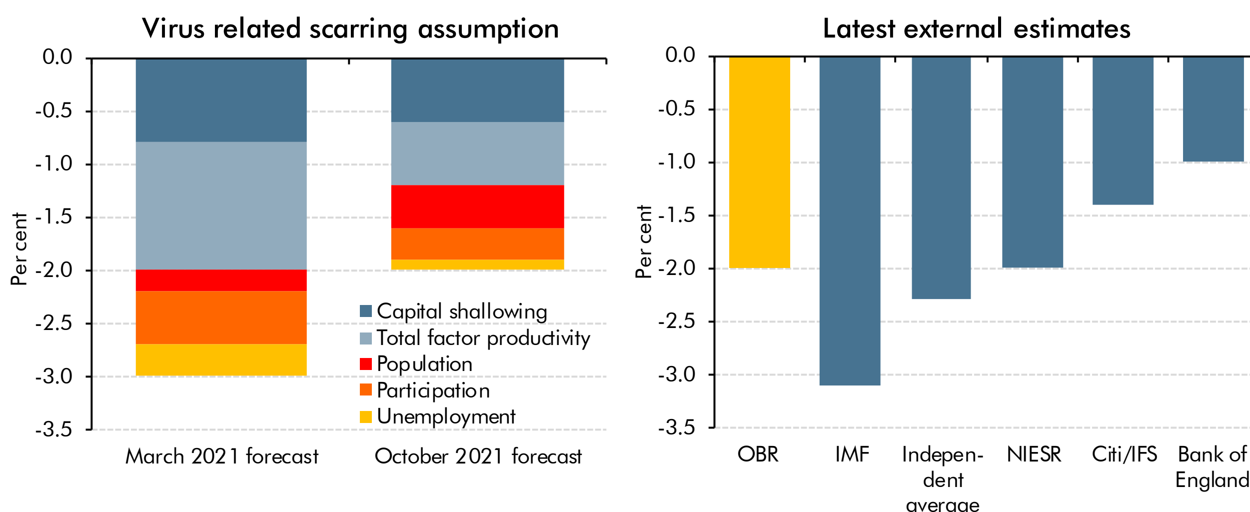
- The **labour supply** component has been revised down from 1.0 to 0.8 per cent. This reflects the net effect of an increase in the population component on the back of higher mortality and lower net inward migration, which is more than offset by reduced contributions from participation and structural unemployment that reflect the recent strong labour market outturns.

- The **capital shallowing** component has been lowered from 0.8 to 0.6 per cent. Investment during the pandemic fell less than the ONS initially estimated and we have revised up our forecast in the medium term. However, even after the upward revision,

the gross capital stock is still 1.6 per cent lower in the medium term compared with our pre-pandemic March 2020 forecast. And permanent changes in the sectoral and spatial distribution of economic activity as a result of the pandemic may require some additional scrapping of existing capital assets.

- The **total factor productivity** component has been lowered from 1.2 to 0.6 per cent, reflecting several considerations. First, government support schemes have limited the damage to corporate balance sheets. Second, investment in intangibles appears to have held up significantly better than investment in tangible capital during the pandemic. Third, the UK's relative position in attracting foreign direct investment, an important driver of innovation, appears to have improved this year. Finally, some recent analysis of business survey data points to a potential boost to productivity from the closing of less productive firms.

Chart 1.4: Pandemic-related scarring assumptions



Note: IMF and Independent average are calculated as the differences between the pre-pandemic and latest projections of GDP up to 2024 in the *IMF's World Economic Outlooks* and the averages in the HM Treasury's *Forecasts for the UK economy* publications.
Source: Bank of England, HM Treasury, IFS, IMF, OBR

1.14 Growth this year has been largely driven by the rebound in consumer spending as restrictions were removed. As we move into next year, quarterly consumption growth drops back to historically more normal rates, although annual growth next year remains high because of the depressed level of spending in the first part of this year. But business spending then picks up the baton, in part on the back of the investment super-deduction announced in the March 2021 Budget. And the fiscal stimulus announced in this Budget provides further support to output over the next two years, adding 0.4 per cent to the level of GDP in 2022-23 and 0.3 per cent in 2023-24. Overall GDP growth next year is 6.0 per cent (though again that high figure largely reflects the weakness in output this year) but annual growth returns to more normal rates, falling to 2.1 per cent in 2023 and 1.3 per cent in 2024, as the boost to output from the fiscal loosening fades and as the super-deduction ends. It then settles at 1.7 per cent at the forecast horizon, with consumption, investment, and government spending providing steady contributions to growth.

1.15 Reduced scarring of potential output over the medium term, coupled with higher inflation in the short term, means that the level of *nominal* GDP is 4.2 per cent higher in 2025 than in our March 2021 forecast. The composition of the upward revision to nominal GDP is also relatively tax rich as:

- The largest contribution on an income basis is from higher labour income, the most important tax base. This reflects reduced scarring, higher whole economy inflation and a higher labour share, with the level of labour income revised up 5.0 per cent in 2025 compared to our March 2021 forecast.

- The largest contribution on an expenditure basis comes from consumer spending, the second most important tax base, where the level in 2025 has been revised up by 5.0 per cent.

1.16 The latest Quarterly National Accounts, released after our pre-measures forecast closed, revised up cumulative real GDP growth since the pre-pandemic peak by 1.1 percentage points (as shown in Chart 1.2 above). But other developments since our forecast closed – including higher energy prices, increased evidence of supply bottlenecks, and shortages in key occupations – are likely to weigh on the recovery over the next few months, offsetting the upward revisions to outturn data. Our judgement is that the news since our forecast was closed is likely to have had broadly offsetting consequences for near-term real GDP such that our forecast remains broadly on track. Furthermore, we judge that the news sheds no meaningful additional light in either direction on our medium-term scarring judgement.

Table 1.1: Overview of the economy forecast

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2020	2021	2022	2023	2024	2025	2026
Output at constant market prices							
Gross domestic product (GDP)	-9.8	6.5	6.0	2.1	1.3	1.6	1.7
GDP per capita	-10.2	6.3	5.6	1.7	1.0	1.3	1.4
GDP levels (2020=100)	100.0	106.5	112.8	115.2	116.7	118.6	120.6
Output gap	-0.4	0.9	0.6	0.5	0.1	0.0	0.0
Expenditure components of real GDP							
Household consumption	-10.9	4.7	9.8	1.3	1.7	1.3	1.0
General government consumption	-6.5	14.7	2.0	1.5	1.2	1.7	2.1
Business investment	-10.2	-2.4	15.7	4.7	-0.8	4.8	5.8
General government investment	3.5	14.7	-2.1	6.5	-1.0	1.1	1.8
Net trade[1]	0.8	-0.8	-2.5	0.3	0.1	-0.1	-0.2
Inflation							
CPI	0.9	2.3	4.0	2.6	2.1	2.0	2.0
Labour market							
Employment (million)	32.5	32.2	32.6	33.0	33.2	33.3	33.4
Average earnings	1.2	5.0	3.9	3.0	2.2	2.9	3.5
LFS unemployment (rate, per cent)	4.6	4.9	4.8	4.3	4.2	4.2	4.2

[1] Contribution to GDP growth.

Fiscal outlook

Developments since March

1.17 Borrowing reached a peacetime record of £320 billion (15.2 per cent of GDP) in 2020-21, but was £35 billion (1.7 per cent of GDP) lower than we estimated in March. Almost a third of that difference reflected greater underspending of departmental resource budgets by £10.5 billion (notably in respect of the NHS Test and Trace programme). The remaining two-thirds largely reflected a combination of lower expected losses on pandemic-related loan guarantees (£6.3 billion); lower costs of pandemic-related income support schemes (£1.7 billion); and upside surprises to receipts from a more resilient economy (£8.9 billion).

1.18 This stronger fiscal performance continued into this fiscal year, with borrowing expected to almost halve to £183 billion in 2021-22, £51 billion lower than we forecast in March. Four-fifths of this downward revision (£44 billion) reflects higher receipts as the economy has rebounded more strongly than we forecast, with receipts so far this year recovering faster still. Lower spending contributes the remaining £8 billion to the downward revision, which is more than explained by departments continuing to underspend by unusually large amounts relative to their resource and capital budgets (£11.7 billion), and the CJRS and SEISS again costing less than expected (£7.3 billion). Partly offsetting this underspending is the sharp rise in debt interest spending (revised up £15.0 billion since March) due to the spike in RPI inflation in the second half of the year. Taking account of the latest information, we now estimate the total cost of the Government's pandemic-related rescue measures to have been £315 billion, of which around half went to public services, 30 per cent went to households and 20 per cent went to businesses.

Fiscal prospects

1.19 The stronger underlying fiscal position this year, coupled with higher nominal GDP over the medium term, provided the Chancellor with significantly more fiscal room for manoeuvre going into his first three-year Spending Review – which he increased further through net tax rises. Chart 1.5 shows that over the Spending Review period (2022-23 to 2024-25):

- **Forecast changes** reduce borrowing relative to our March forecast by around £35 billion a year over the Spending Review period, with growth and inflation increasing receipts by around £50 billion a year but also pushing up spending on welfare, debt interest, and other items by around £15 billion a year.

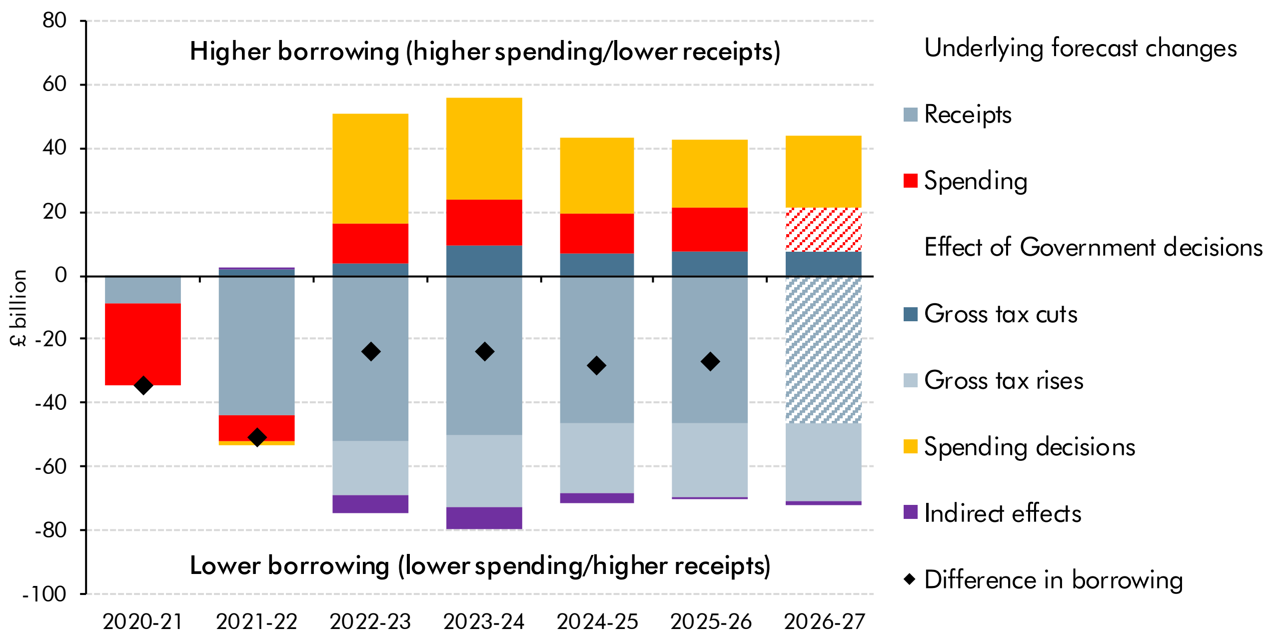
- On top of this pre-measures windfall, the Chancellor has **announced net tax rises** from next year that raise a further £15 billion a year relative to our March forecast, most notably in the form of the new health and social care levy announced in September.

- With an extra £50 billion a year of additional resources to deploy in this Budget and Spending Review, the Chancellor has **increased spending** by around £30 billion a year – with about half going directly from the new levy into the NHS and social care

budgets and half undoing the £18 billion of cuts to pre-pandemic departmental spending totals pencilled in at the March 2021 Budget.

- **Other measures** largely offset, with over £2 billion increasing the generosity of universal credit and £2 billion freezing fuel and other duties, while switching to inflation uprating of state pensions for a year saves around £6 billion.
- The Chancellor keeps the remaining £20 billion a year in extra revenue to **reduce borrowing** (which is given an added boost of £5 billion a year by the stimulative effect of the fiscal easing).

Chart 1.5: Changes to public sector net borrowing since March 2021



Note: Since 2026-27 was beyond the forecast horizon in March 2021, the hashed bars are indicative of underlying forecast changes for that year and equate to 2025-26 forecast changes.
Source: ONS, OBR

1.20 Overall, borrowing falls sharply next year as pandemic support rolls off, more than halving again to £83.0 billion (3.3 per cent of GDP), before declining more gradually to reach £44.0 billion (1.5 per cent of GDP) in 2026-27. This leaves borrowing at the forecast horizon 1.0 per cent of GDP lower than it was before the pandemic in 2019-20, and at a level that would be the lowest for 25 years. Relative to our pre-pandemic March 2020 forecast, borrowing is £116.4 billion higher this year, but the upward revision declines quickly to take borrowing £11.6 billion *below* our pre-pandemic forecast in 2024-25. This reflects the £46.6 billion effect of the Government's subsequent policy decisions (and their indirect effects) by 2024-25 more than offsetting pandemic-related scarring and other effects that add £35.0 billion to borrowing in that year (Table 1.2).

Table 1.2: Changes to public sector net borrowing

	£ billion						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
March 2020 forecast	54.8	66.6	61.5	60.2	57.9		
March 2021 forecast	354.6	233.9	106.9	85.3	74.4	73.7	
October 2021 forecast	319.9	183.0	83.0	61.6	46.3	46.4	44.0
Difference since March 2020	**265.2**	**116.4**	**21.5**	**1.4**	**-11.6**		
of which:							
Underlying differences[1]	95.6	57.9	21.1	28.6	35.0		
Direct effect of Government decisions[2]	220.2	86.1	11.2	-17.3	-40.8		
Indirect effect of Government decisions	-50.6	-27.7	-10.8	-10.0	-5.7		
Difference since March 2021	**-34.7**	**-50.9**	**-23.9**	**-23.8**	**-28.1**	**-27.3**	
of which:							
Underlying differences[1]		-51.6	-39.4	-35.2	-33.6	-32.7	
Direct effect of Government decisions		-0.2	21.1	18.6	8.4	6.0	6.1
Indirect effect of Government decisions		0.9	-5.5	-7.1	-3.0	-0.6	-1.3

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] The cost of policy decisions announced up to and including at SB21 has been adjusted to include signficant updates to estimates via the usual recosting process.

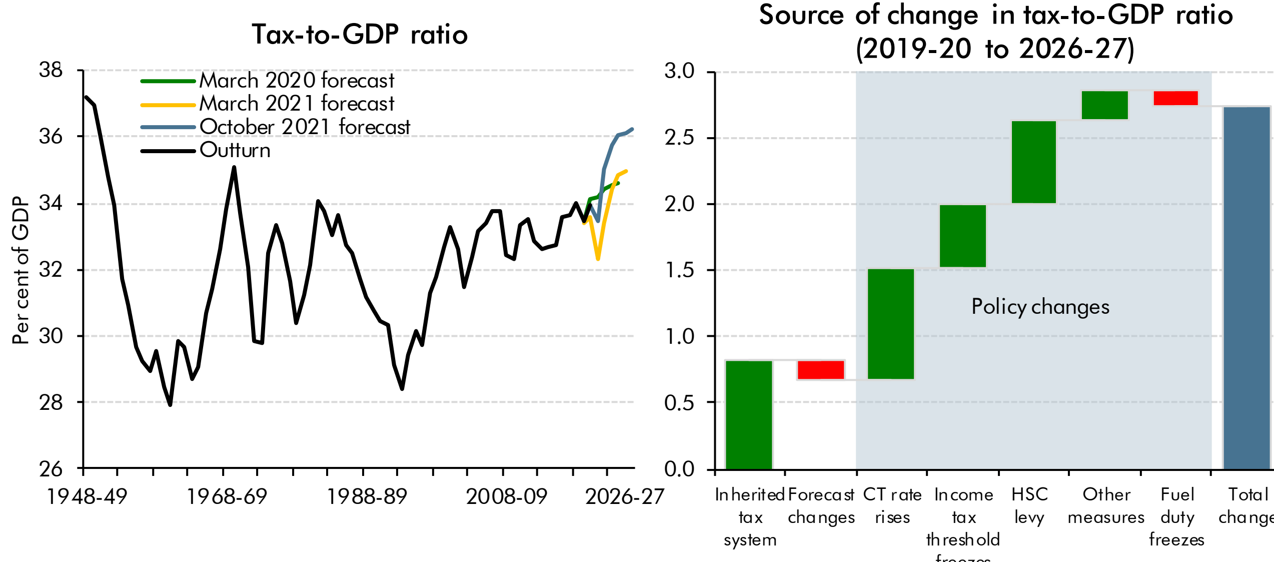
The tax burden

1.21 Stronger and more tax-rich growth, coupled with the tax rises announced over the last two Budgets, raise the tax burden from 33.5 per cent of GDP recorded before the pandemic in 2019-20 to 36.2 per cent of GDP by 2026-27 – its highest level since late in Clement Attlee's post-war Labour Government in the early 1950s.[1] Alongside a modest increase reflected in the plans the Chancellor inherited in March 2020, this 2.7 percentage point increase in the tax take is largely thanks to the combined effects of three tax rises announced by this Chancellor:

- **Increases in the main rate of corporation tax** to 25 per cent from April 2023 onwards, as a result of the cancelling of the cut from 19 to 17 per cent at the March 2020 Budget and then raising the rate from 19 to 25 per cent at the March 2021 Budget. These together raise £25.7 billion (0.9 per cent of GDP) a year by 2026-27.
- The five-year **income tax personal allowance and higher rate threshold freeze** from the March 2021 Budget, which raises £13.9 billion (0.5 per cent of GDP) by 2026-27.
- September's announcement of a new **health and social care levy** of 1.25 per cent on employees, employers and the self-employed directly raises £18.2 billion (0.6 per cent of GDP) by 2026-27 (although net of its effect on wages it raises £15.0 billion).

[1] This refers to the National Accounts measure of taxes and National Insurance contributions.

Chart 1.6: Taxes as a share of GDP and sources of change since March 2020

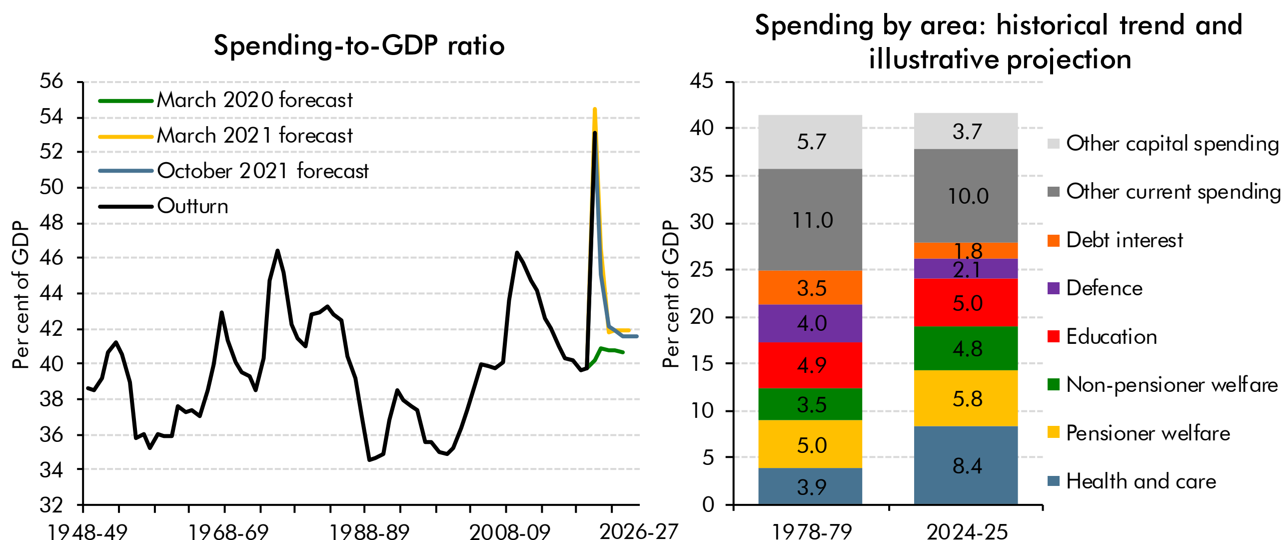


Note: Both outturn and forecast are based on the vintage of nominal GDP data that was available when we closed the pre-measures forecast, so do not reflect upward revisions in the latest Quarterly National Accounts. All else equal, applying the upward revision to 2020-21 nominal GDP of 2.3 per cent to all years of the forecast would reduce the National Accounts tax-to-GDP ratio by 0.8 per cent of GDP across the forecast. This would still leave the tax-to-GDP ratio at its highest since 1951.
Source: ONS, OBR

The size and shape of the state

1.22 The Chancellor uses around half of the improved underlying picture and increase in tax revenue relative to our March forecast to permanently increase the size of the post-pandemic state. Public spending falls back sharply from its peacetime high of 53.1 per cent of GDP in 2020-21 to 45.1 per cent this year and to 42.1 per cent next year as pandemic-related support comes to end. However, spending stabilises at 41.6 per cent of GDP from 2024-25 onwards, 0.9 per cent of GDP higher than in our March 2020 forecast, and the highest sustained level since the late 1970s. The composition of the post-pandemic state in the final year of the Spending Review reflects how our society and our world have changed in the intervening half a century. Spending on health, social care and pensioner welfare has grown by two-thirds as a share of GDP since the late 1970s, from 8.9 to 14.2 per cent of GDP, as society ages. Spending on debt interest and defence has almost halved as a share of GDP in that time reflecting falling interest rates and the end of the Cold War. By contrast, capital spending on housing, transport, and other infrastructure is lower than in the late 70s, although gross public investment (including that on health and other areas) reaches 5.0 per cent of GDP, its highest sustained level for 40 years.

Chart 1.7: Spending as a share of GDP and change in the composition of spending



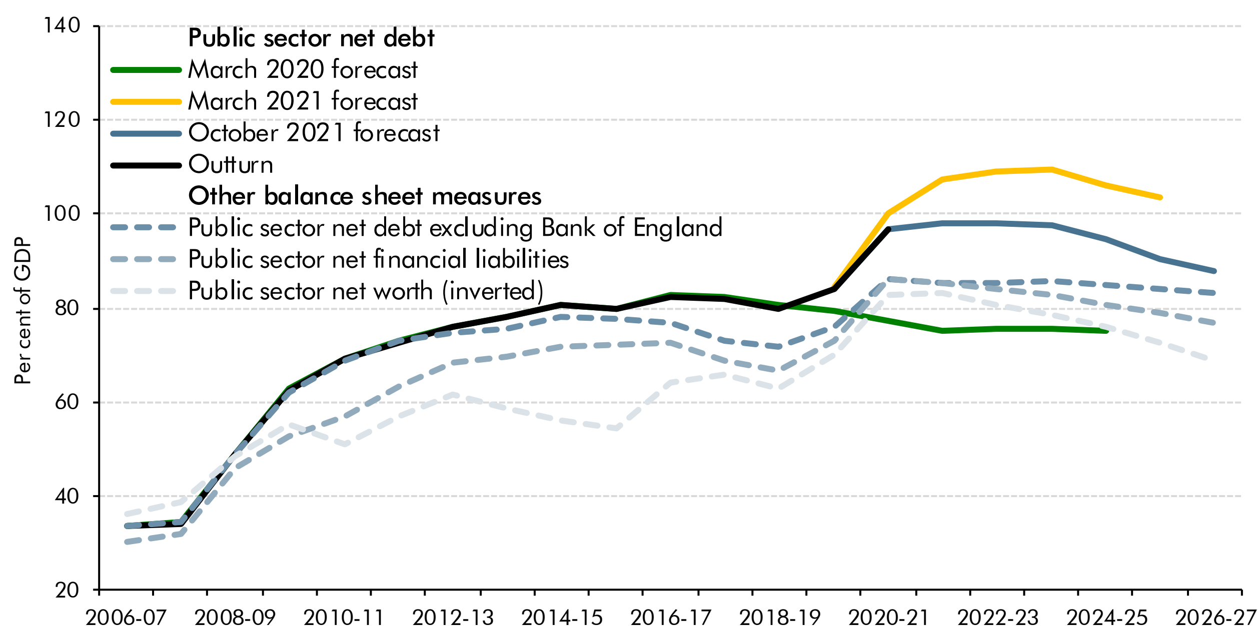
Note: Both outturn and forecast are based on the vintage of nominal GDP data that was available when we closed the pre-measures forecast, so do not reflect upward revisions in the latest Quarterly National Accounts. All else equal, applying the upward revision to 2020-21 nominal GDP of 2.3 per cent to all years of the forecast would reduce the spending-to-GDP ratio by 1.0 per cent of GDP across the forecast.
Source: Bank of England, DHSC, DWP, HMT, IFS, ONS, OBR

The public sector balance sheet

1.23 Lower borrowing over the forecast period means that public sector net debt is now forecast to peak below 100 per cent of GDP at 98.2 per cent this year. It remains broadly stable in 2022-23 and 2023-24, before falling by larger amounts thereafter to reach 88.0 per cent of GDP in 2026-27. By 2024-25 debt is still over 19 per cent of GDP above its pre-pandemic level but 11.5 per cent of GDP lower than we forecast in March, thanks largely to the improved borrowing outlook. The pace at which debt falls towards the end of the forecast is flattered by the winding down of the Bank of England's Term Funding Scheme. On an underlying basis, excluding the Bank, debt peaked at 86.1 per cent of GDP last year and is expected to fall slightly this year thanks to the strong rebound in nominal GDP. But it rises again in 2022-23 and 2023-24, when it peaks again at 85.7 per cent of GDP, before falling more gradually from 2024-25 onwards.

1.24 Broader measures of the public balance sheet follow a lower path than narrow measures of public debt and they fall more quickly over the forecast period. This reflects the fact that some debt accumulation during that period finances the acquisition of public sector assets and that the value of some assets is forecast to rise. This is the case for public sector net financial liabilities, which covers all liabilities and all financial assets (so reflects the assets associated with student loans, for example). It is even more so for public sector net worth (which includes non-financial assets too), which we forecast for the first time in this *EFO*.

Chart 1.8: Public sector net debt and other balance sheet measures



Source: ONS, OBR

Table 1.3: Overview of the fiscal forecast

	Per cent of GDP, unless otherwise stated						
	Outturn	Forecast					
	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Revenue and spending							
Public sector current receipts	37.9	37.2	38.8	39.6	39.8	39.9	40.0
Total managed expenditure	53.1	45.1	42.1	41.9	41.6	41.6	41.6
Deficit: Current supplementary targets and previous fiscal mandate measures							
Current budget deficit	11.8	5.3	0.6	-0.5	-0.9	-1.0	-1.1
Public sector net investment	3.5	2.6	2.7	2.9	2.7	2.7	2.7
Public sector net borrowing	15.2	7.9	3.3	2.4	1.7	1.7	1.5
Cyclically adjusted net borrowing	15.1	8.3	3.9	2.7	1.8	1.7	1.5
Debt: Current fiscal mandate and previous supplementary target measure							
Public sector net debt ex BoE	86.1	85.2	85.4	85.7	85.1	84.2	83.3
Public sector net debt	96.6	98.2	97.9	97.8	94.7	90.5	88.0
	£ billion						
Revenue and spending							
Public sector current receipts	795.3	862.0	962.4	1,020	1,061	1,102	1,148
Total managed expenditure	1,115	1,045	1,045	1,081	1,108	1,148	1,192
Deficit: Current supplementary targets and previous fiscal mandate measures							
Current budget deficit	247.3	122.9	15.8	-12.5	-25.1	-28.1	-32.9
Public sector net investment	72.7	60.1	67.2	74.1	71.4	74.5	76.9
Public sector net borrowing	319.9	183.0	83.0	61.6	46.3	46.4	44.0
Cyclically adjusted net borrowing	316.7	191.2	96.1	69.7	48.4	46.5	44.0
Debt: Current fiscal mandate and previous supplementary target measure							
Public sector net debt ex BoE	1,905	2,055	2,164	2,245	2,307	2,368	2,430
Public sector net debt	2,136	2,369	2,479	2,561	2,567	2,546	2,567

Performance against the Government's fiscal targets

1.25 The Government has published a draft update to the *Charter for Budget Responsibility* proposing a new set of fiscal targets. These include a revised fiscal mandate and three supplementary targets. Once approved by Parliament, they will replace those in the existing *Charter*, in which the near-term targets expired in 2020-21. In our central forecast, all four of the new targets are more likely to be met than missed, but by relatively modest margins.

1.26 The new fiscal mandate is:

- To have **public sector net debt (excluding the Bank of England)** as a share of GDP falling by the third year of the rolling forecast period. In the current target year of 2024-25 the rule is met by a margin of 0.6 per cent of GDP (£17.5 billion).

1.27 The three supplementary targets are:

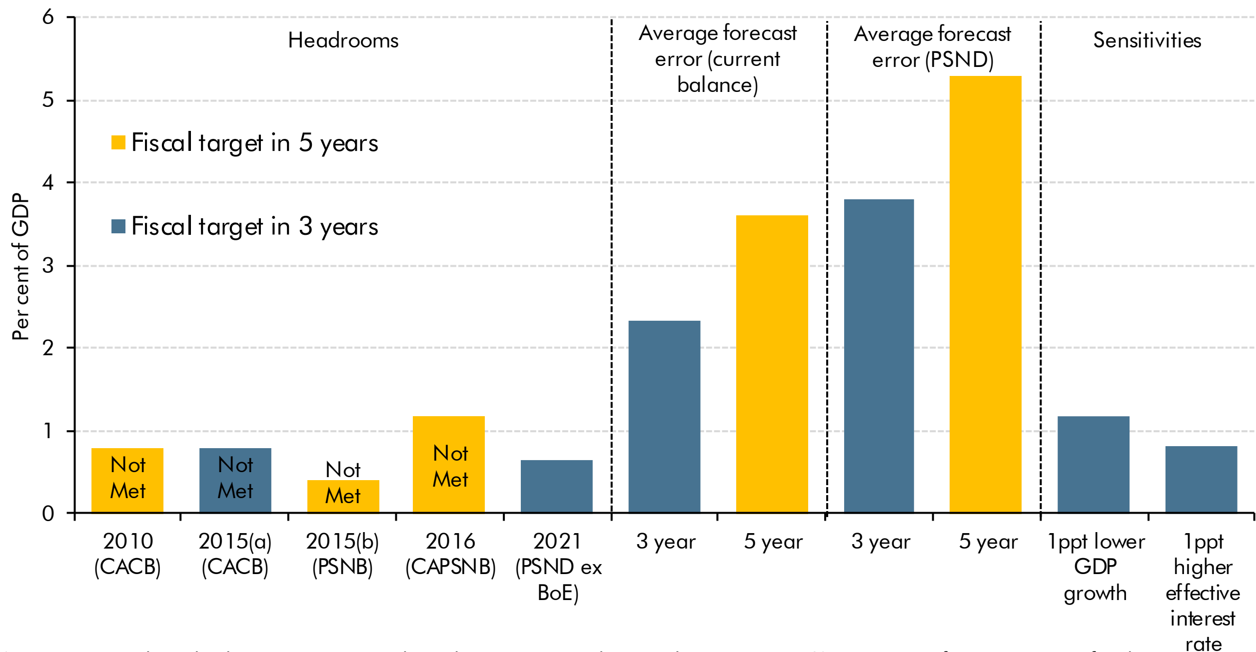
- To balance the **current budget** by the third year of the rolling forecast period. The target is met by a margin of 0.9 per cent of GDP (£25.1 billion) in 2024-25.
- To ensure that **public sector net investment** does not exceed 3 per cent of GDP on average over the rolling five-year forecast period. In our forecast, it averages 2.7 per cent of GDP, and remains below the cap by 0.3 per cent of GDP (£7.3 billion a year) on average.
- To ensure that a subset of **expenditure on welfare** is contained within a predetermined cap and margin set by the Treasury (the 'welfare cap'). The welfare cap has been reset in line with our central forecast, so is met by £2.8 billion due to the 2 per cent headroom that the cap affords.

1.28 Although the Chancellor is expected to meet his mandate and supplementary targets in our central forecast, the headroom he has left himself (Chart 1.9) is small relative to:

- **The headroom sought by previous Chancellors.** The Chancellor's headroom against debt falling in 2024-25 is smaller than the headroom George Osborne gave himself when setting his first fiscal mandate in 2010 and smaller than Philip Hammond gave himself in 2016, but is larger than George Osborne gave himself when setting his second fiscal mandate in 2015. None of these previous mandates were met.
- **Typical forecast errors.** Headroom of 0.6 per cent of GDP in three years' time is only a sixth of the size of the average three-year-ahead forecast error in respect of the year-on-year change in the debt-to-GDP ratio over the past 23 years of official Treasury and OBR fiscal forecasts.
- **Sensitivities to individual determinants of the public finances**. With both tax and spending totalling around 40 per cent of GDP, modest changes in either could easily wipe out the Chancellor's headroom. For every 1 percentage point shortfall in GDP,

1.2 per cent of GDP would be subtracted from headroom. And for every 1 percentage point rise in interest rates at all maturities, 0.8 per cent of GDP would be lost. The salience of the latter sensitivity is brought home by the rise in market expectations for Bank Rate on average across 2024-25 since we closed our forecast, which has taken them to 0.3 percentage points above our forecast. Combined with news about inflation and energy prices since we closed the forecast, we estimate that the Chancellor's headroom has already been reduced by £1.9 billion.

Chart 1.9: Headroom against fiscal targets at introduction relative to typical forecast errors and fiscal sensitivities



Note: Targets described as met or not met based on outturn in the initial target year. PSND average forecast error is for the year-on-year change as a percentage of GDP. Sensitivities show the change in the proposed fiscal mandate headroom in 2024-25.
Source: OBR