Office for
Budget
Responsibility

# October 2021 Economic and fiscal outlook

**Richard Hughes**
Chairman

London
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# Background

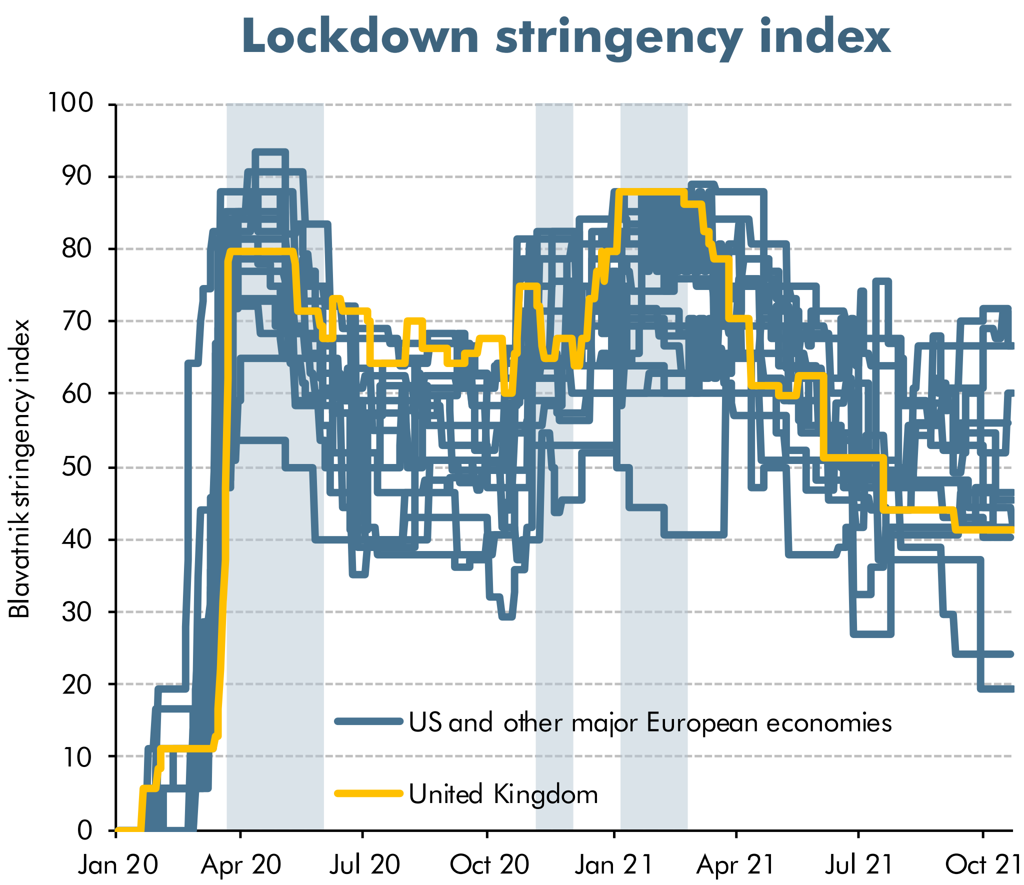
- **Thanks to Charlie, Andy, OBR staff & government analysts and scientists**

- **All assumptions, analysis & scenarios are our own**

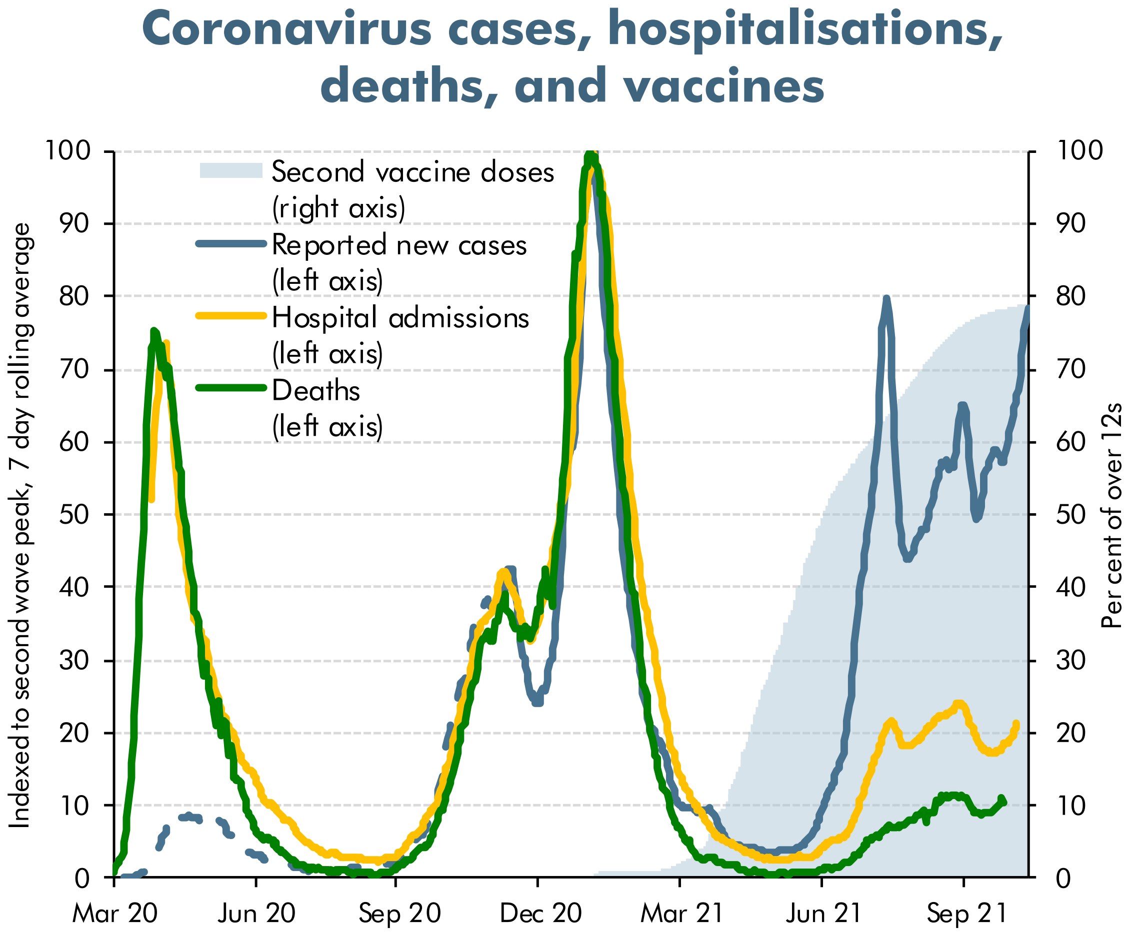
- **Pre-measures forecast closed on 24th September**
    - Earlier than usual to allow Chancellor to complete multi-year 2021 Spending Review
    - *EFO* includes estimates of the fiscal implications of the latest data (22nd October)

- **Post-measures forecast takes includes all policies up to and including the 2021 Budget and Spending Review**

# Epidemiological developments

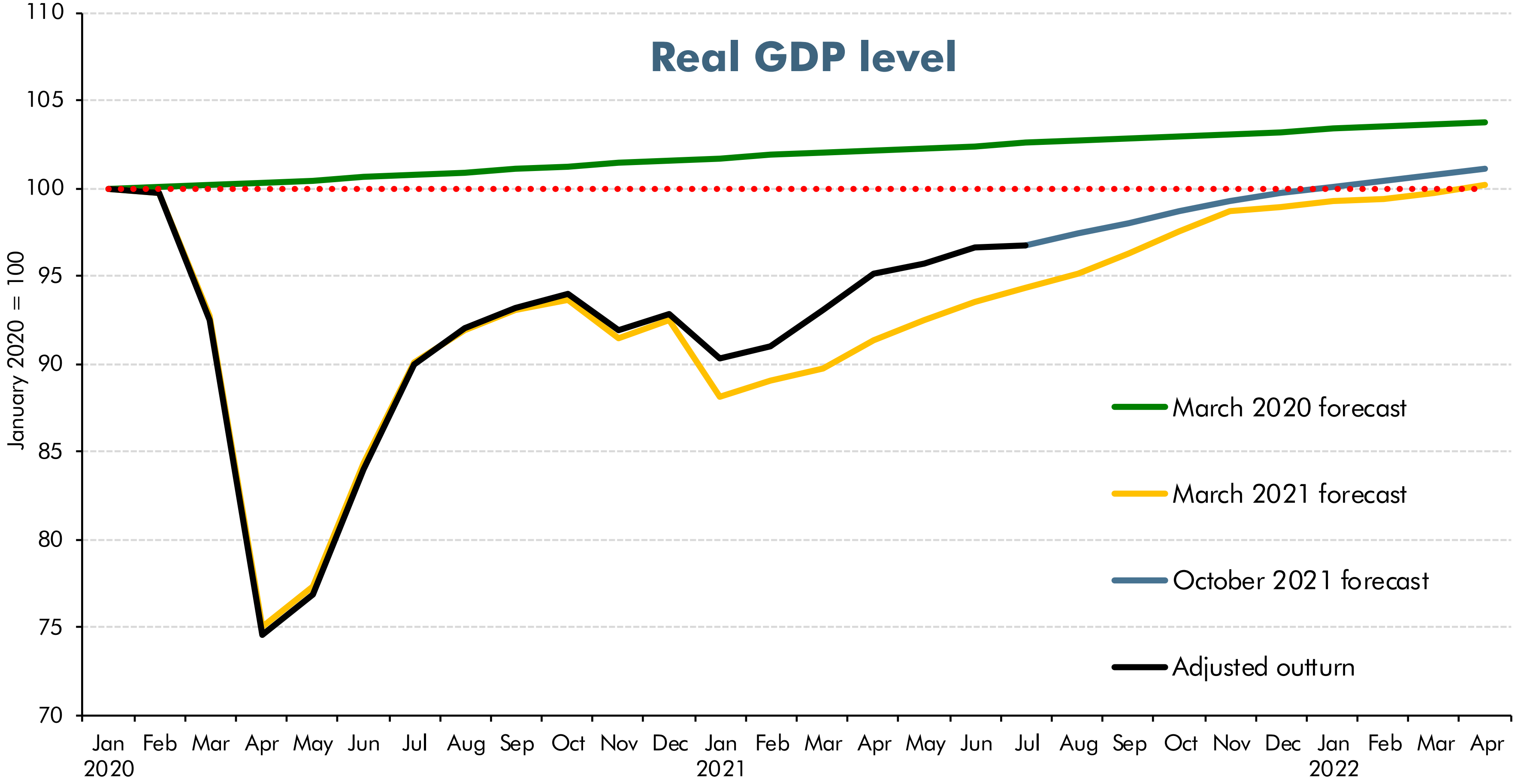



Note: Shaded areas denote periods of UK lockdowns.
Source: Blavatnik School of Government, OBR



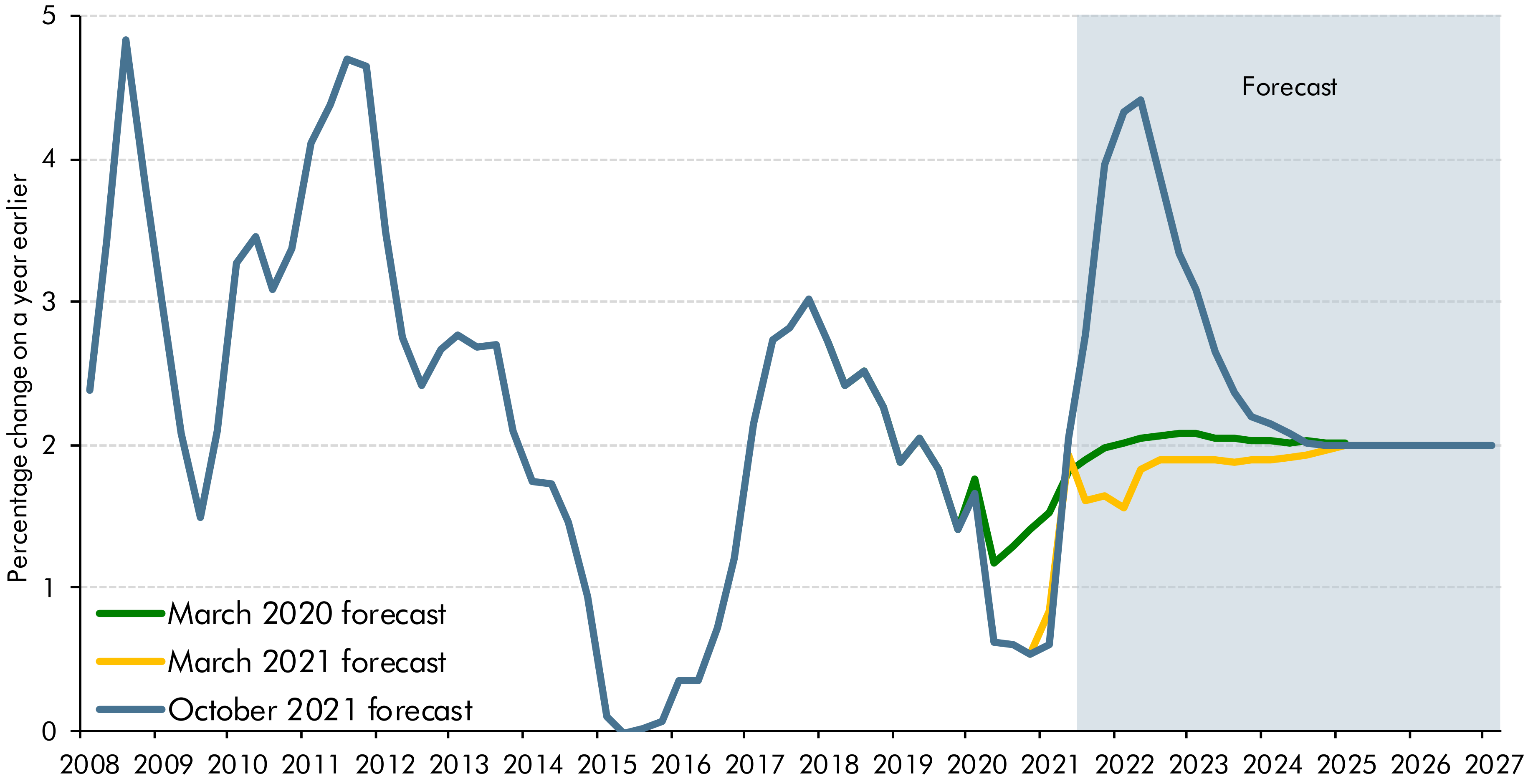

Source: GOV.UK, OBR

# Economic developments since March



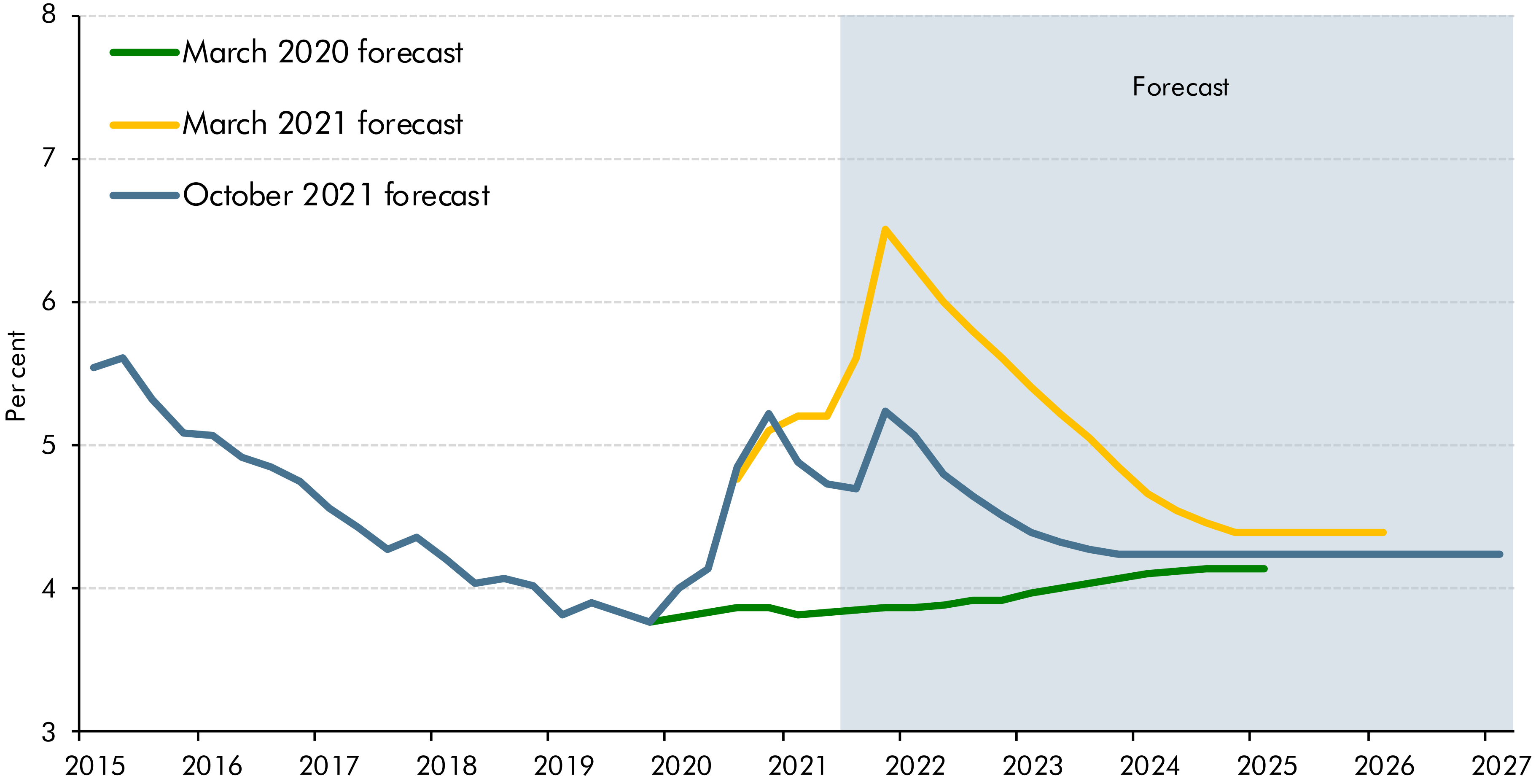

Source: ONS, OBR

# CPI Inflation




Source: ONS, OBR

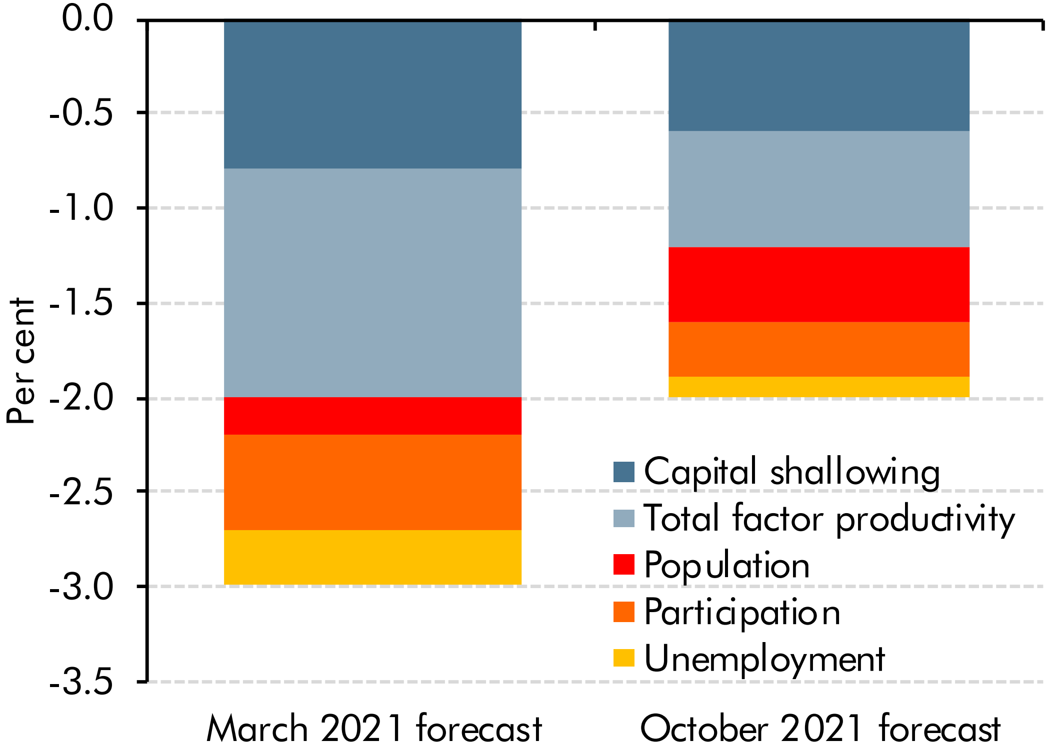
# Unemployment



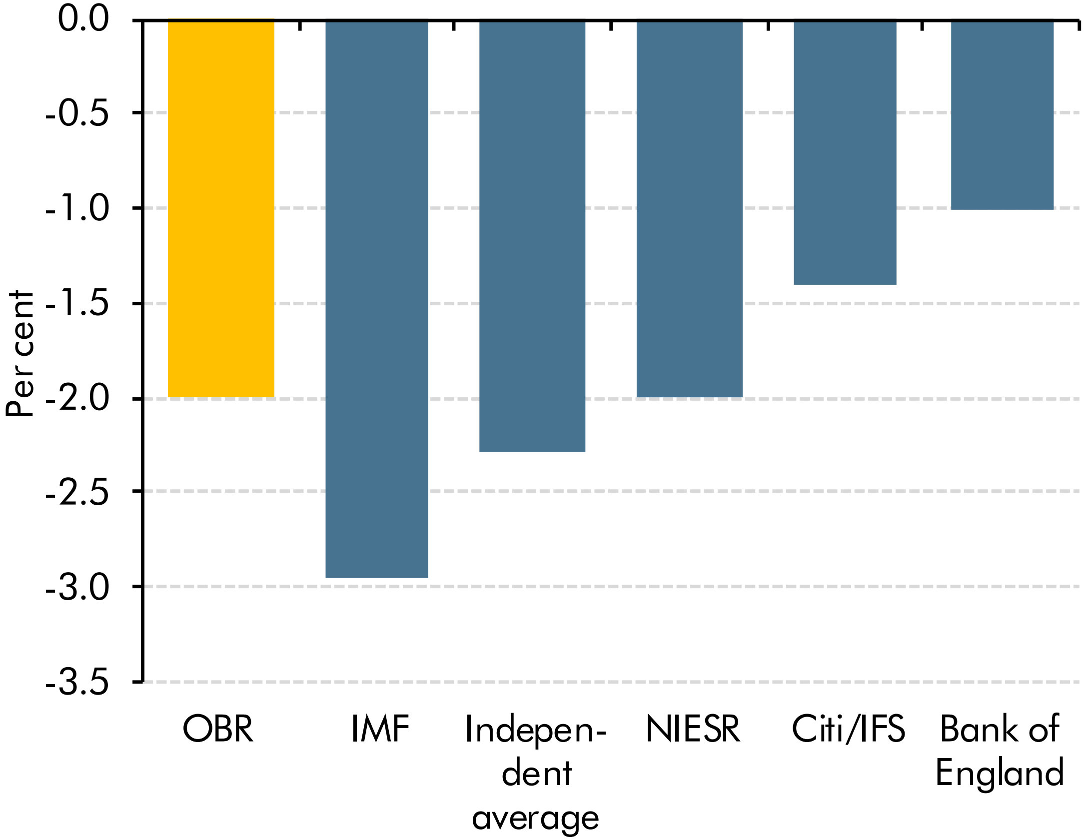

Source: ONS, OBR

# Economic scarring from the pandemic

## Virus related scarring assumption



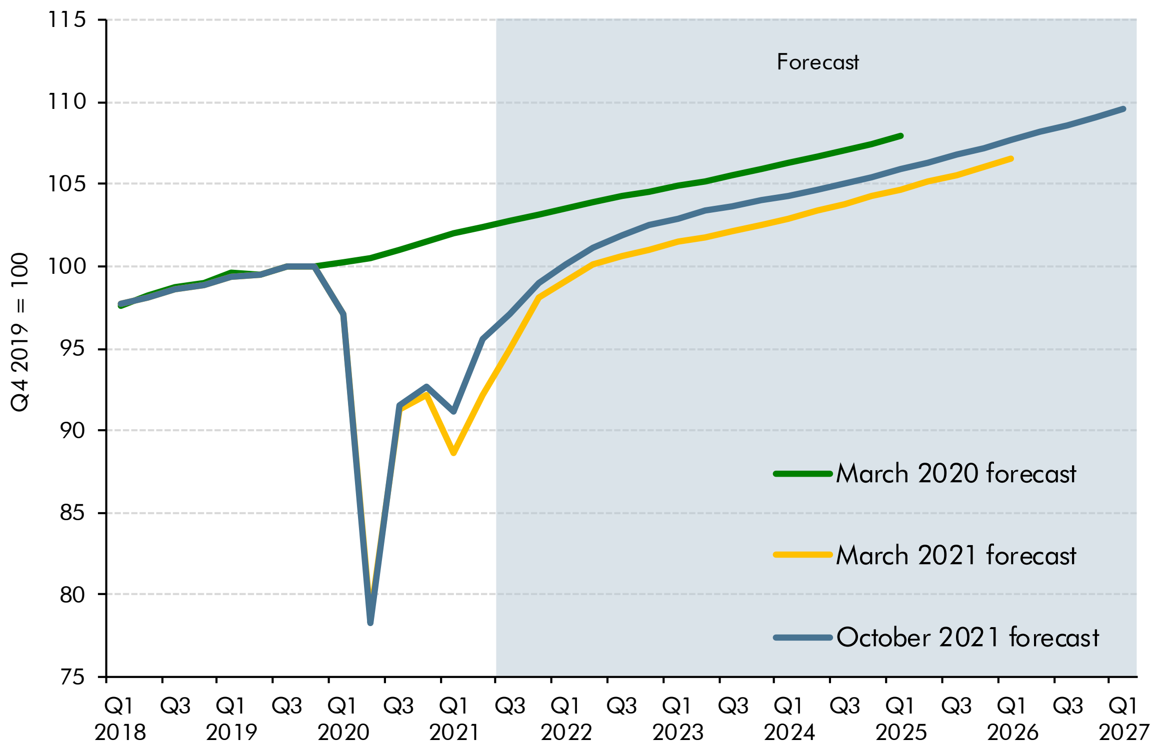

## Latest external estimates




Source: Bank of England, HM Treasury, IFS, IMF, OBR

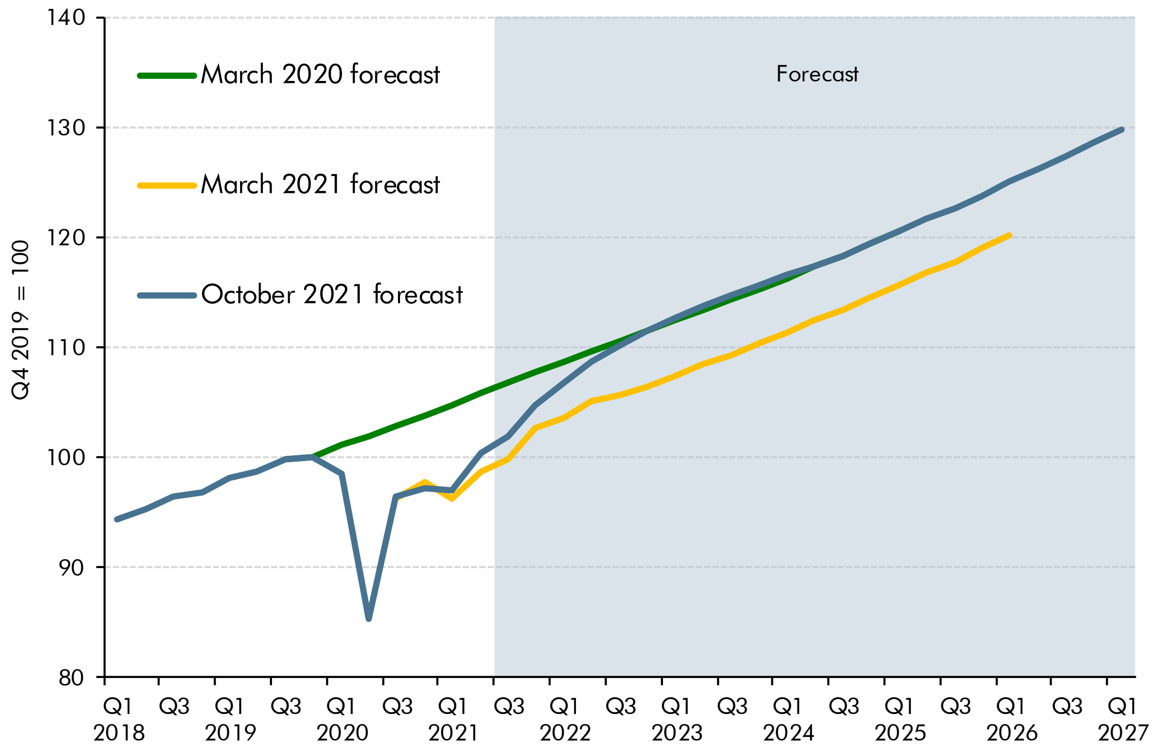
# Medium-term economic outlook

## Real GDP level



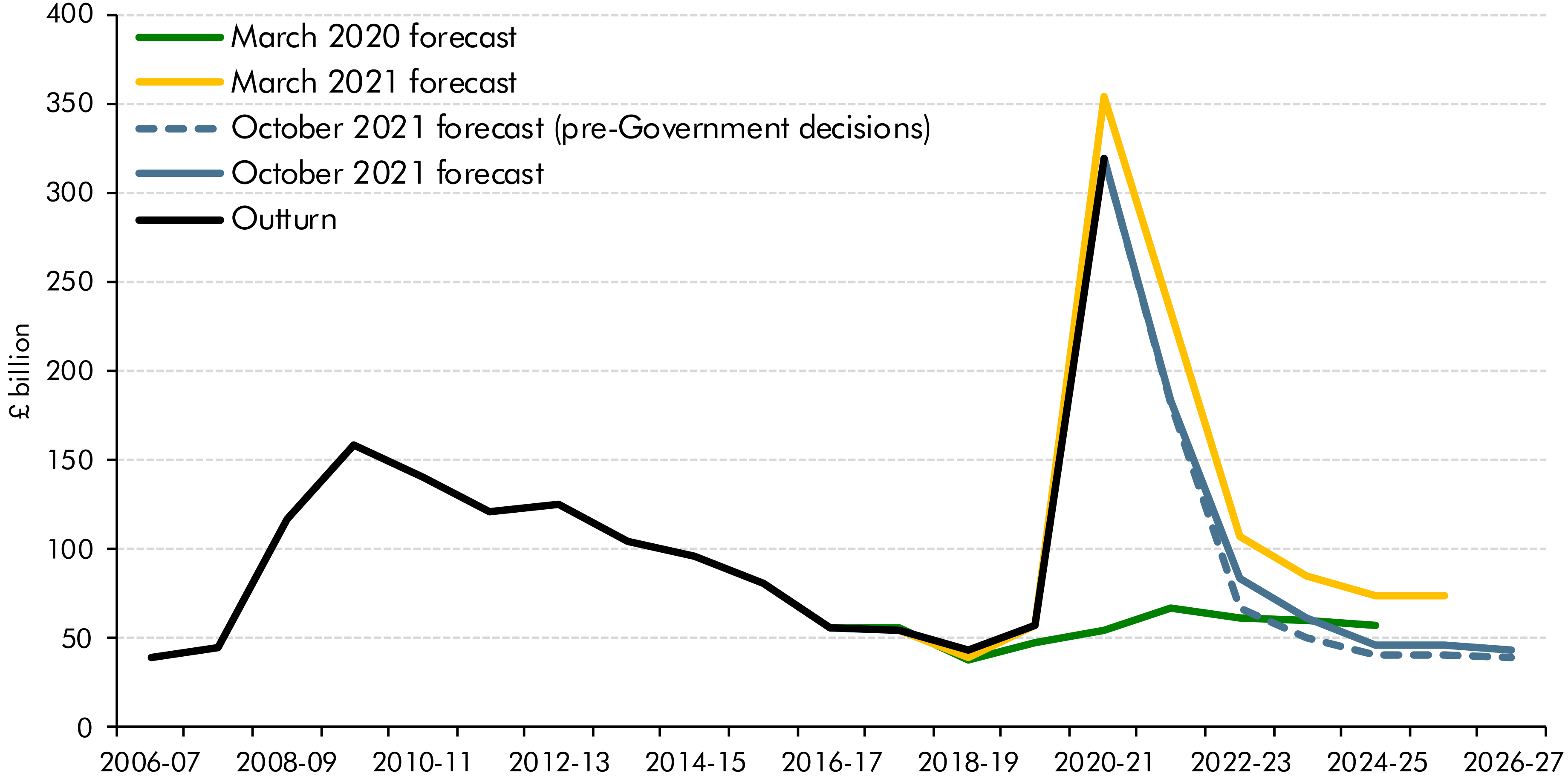

Source: ONS, OBR

## Nominal GDP level



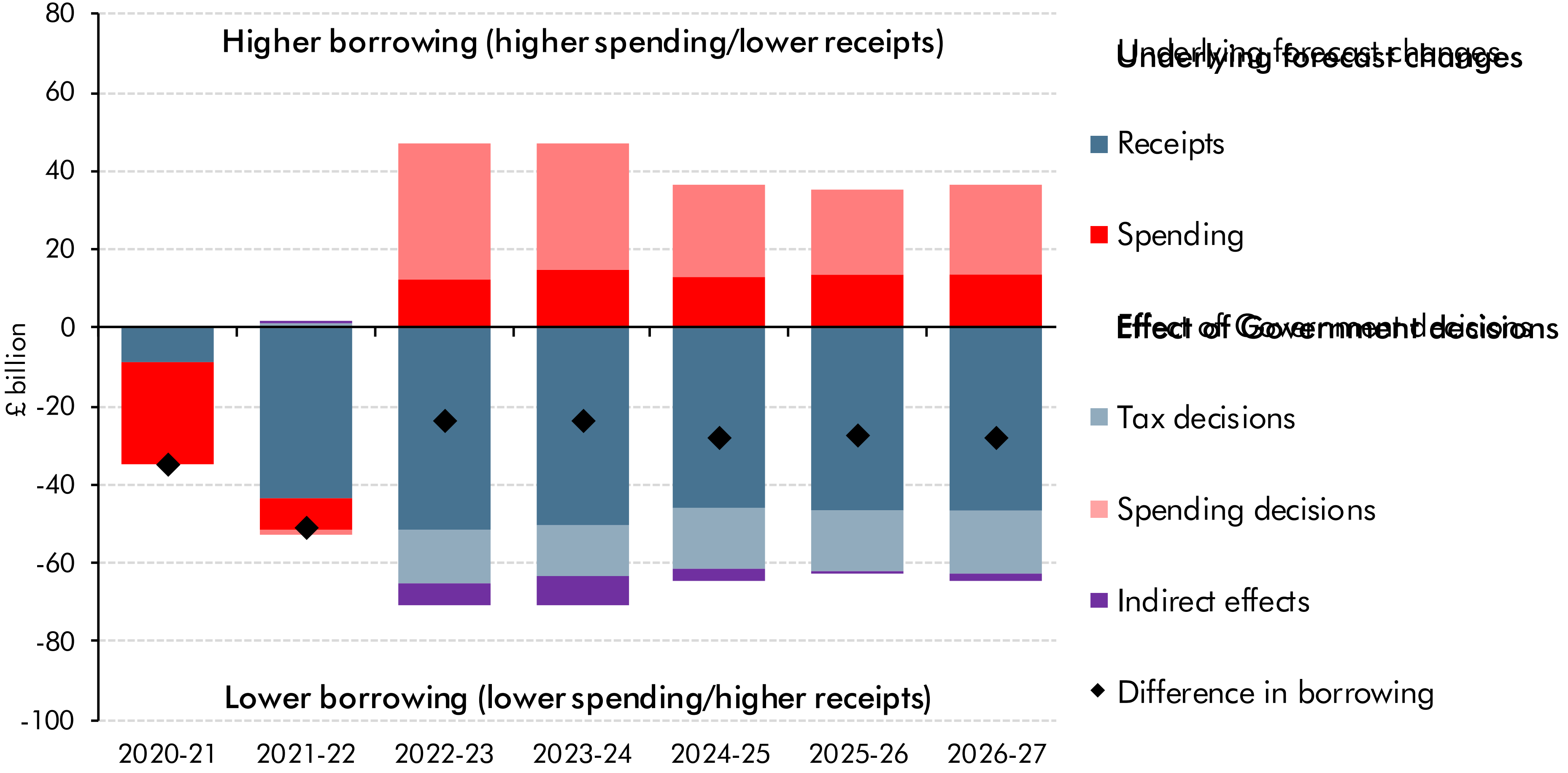

Source: ONS, OBR

# Government borrowing

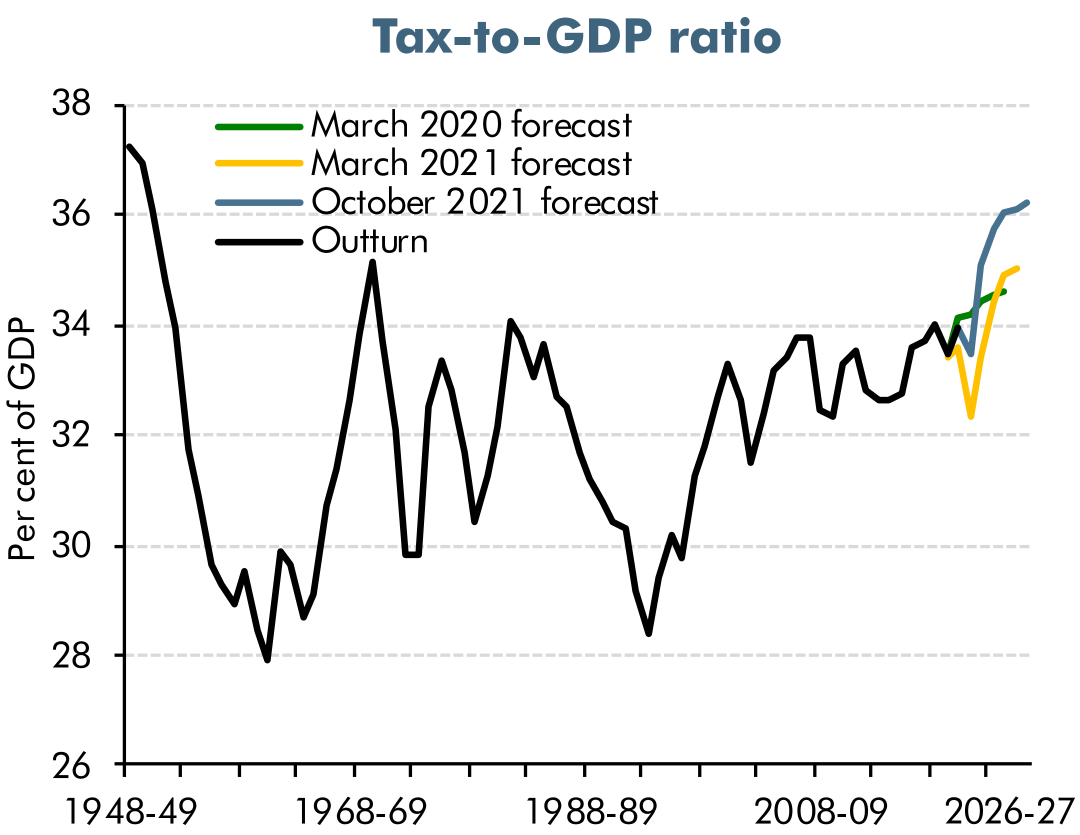


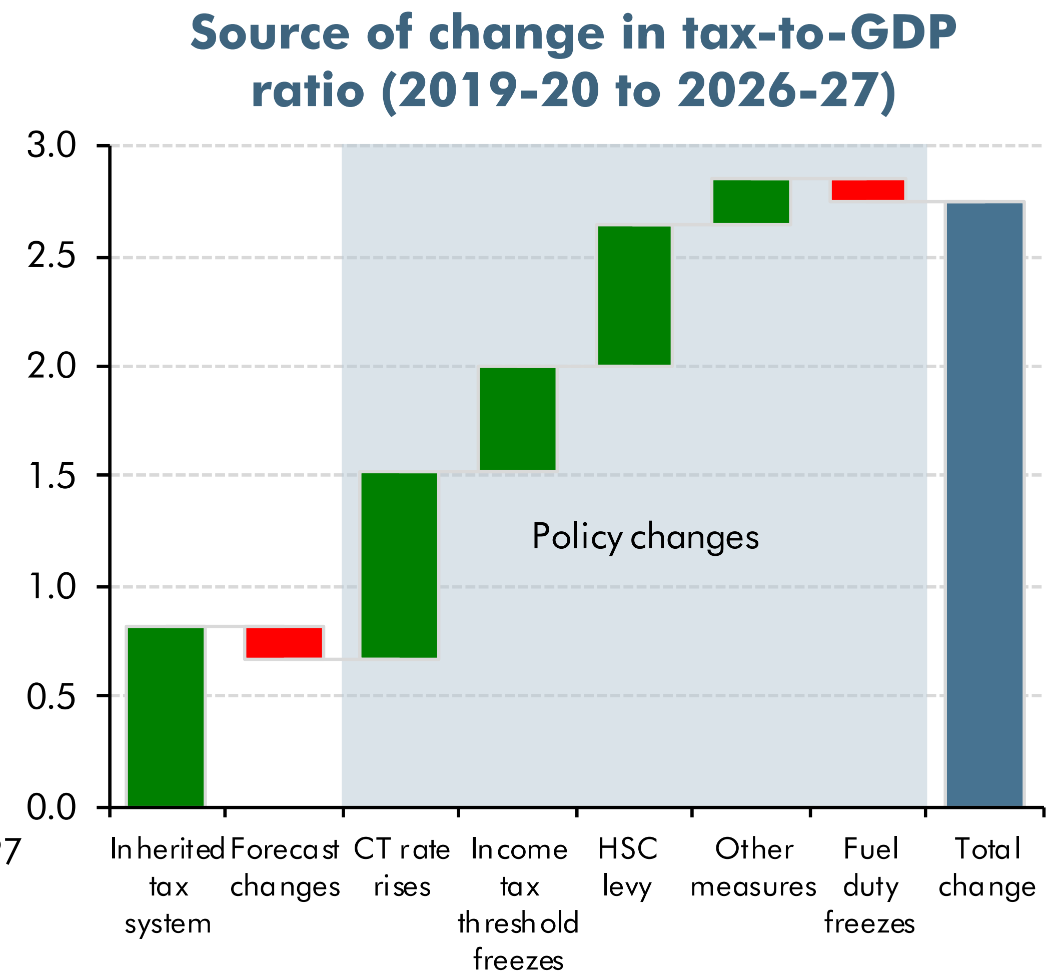
Source: ONS, OBR

# Sources of change in borrowing since March



# Tax revenues

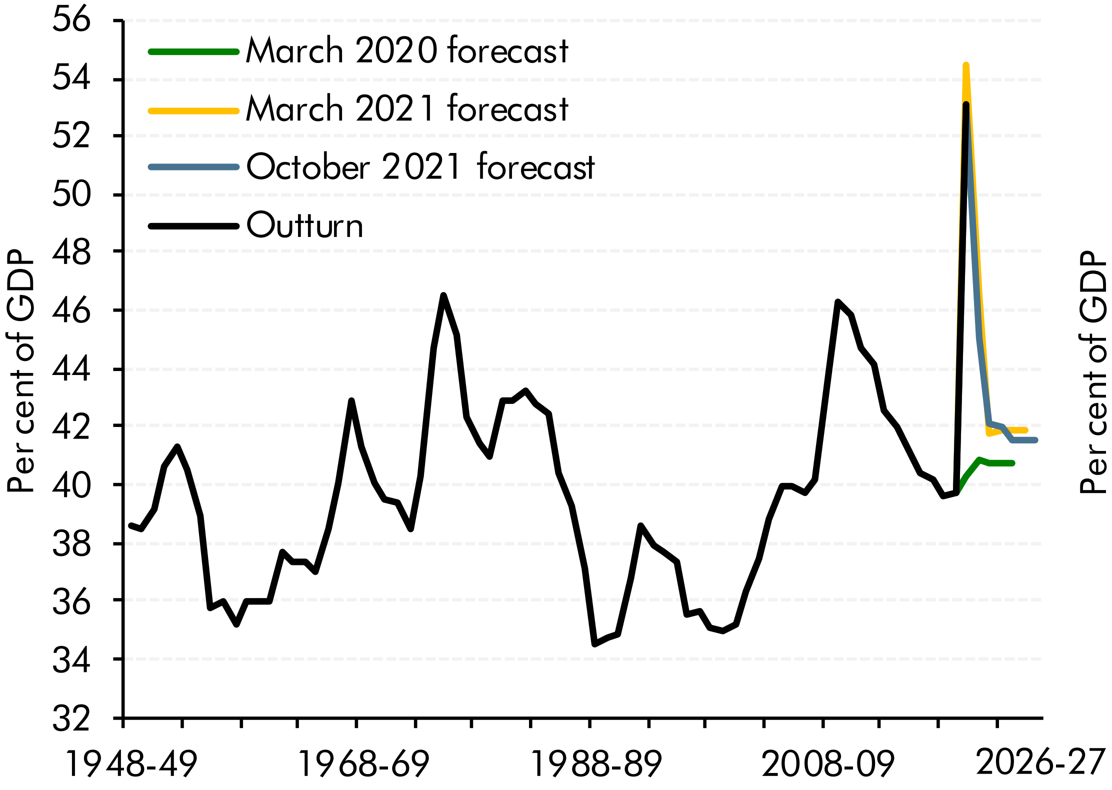


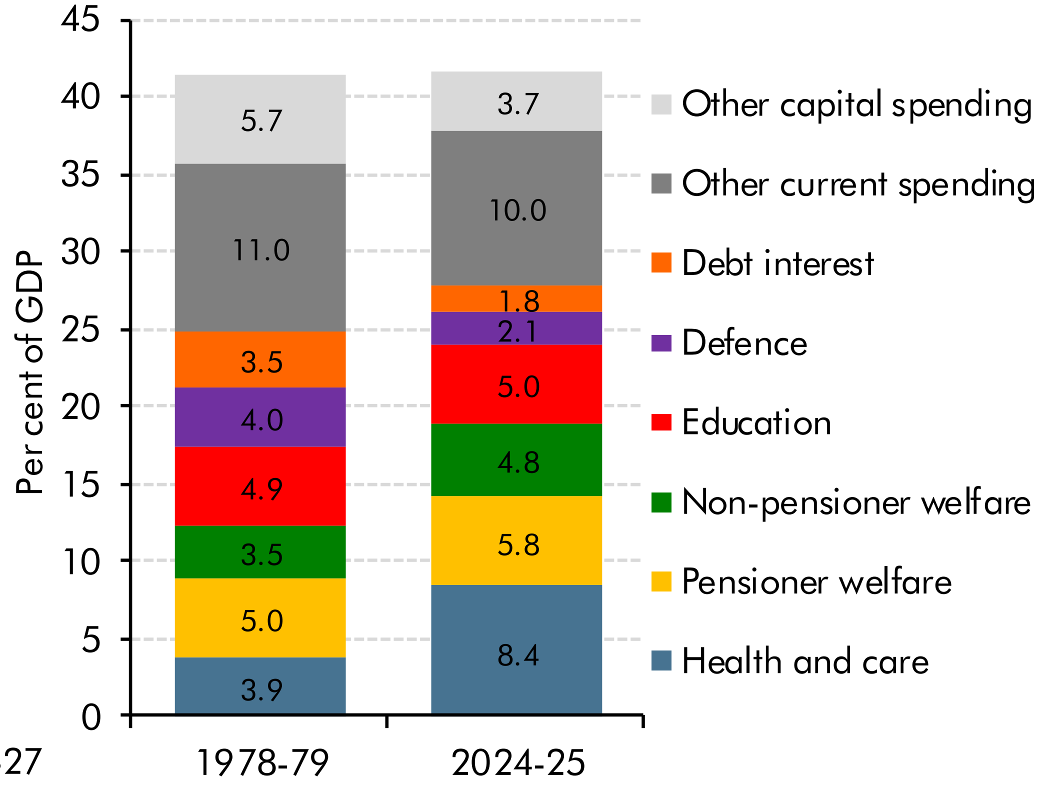




Source ONS, OBR

# Public spending

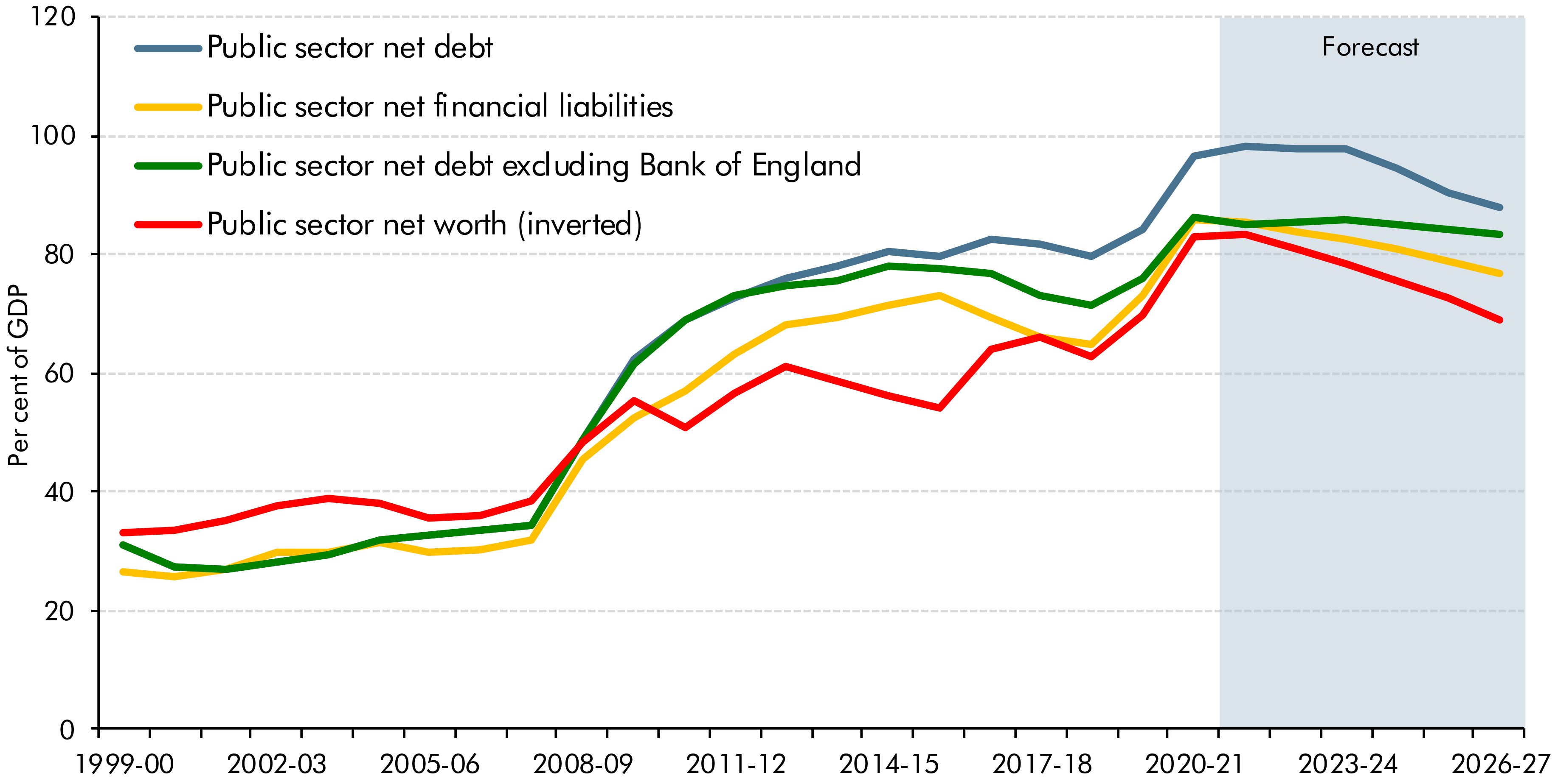
## Spending-to-GDP ratio



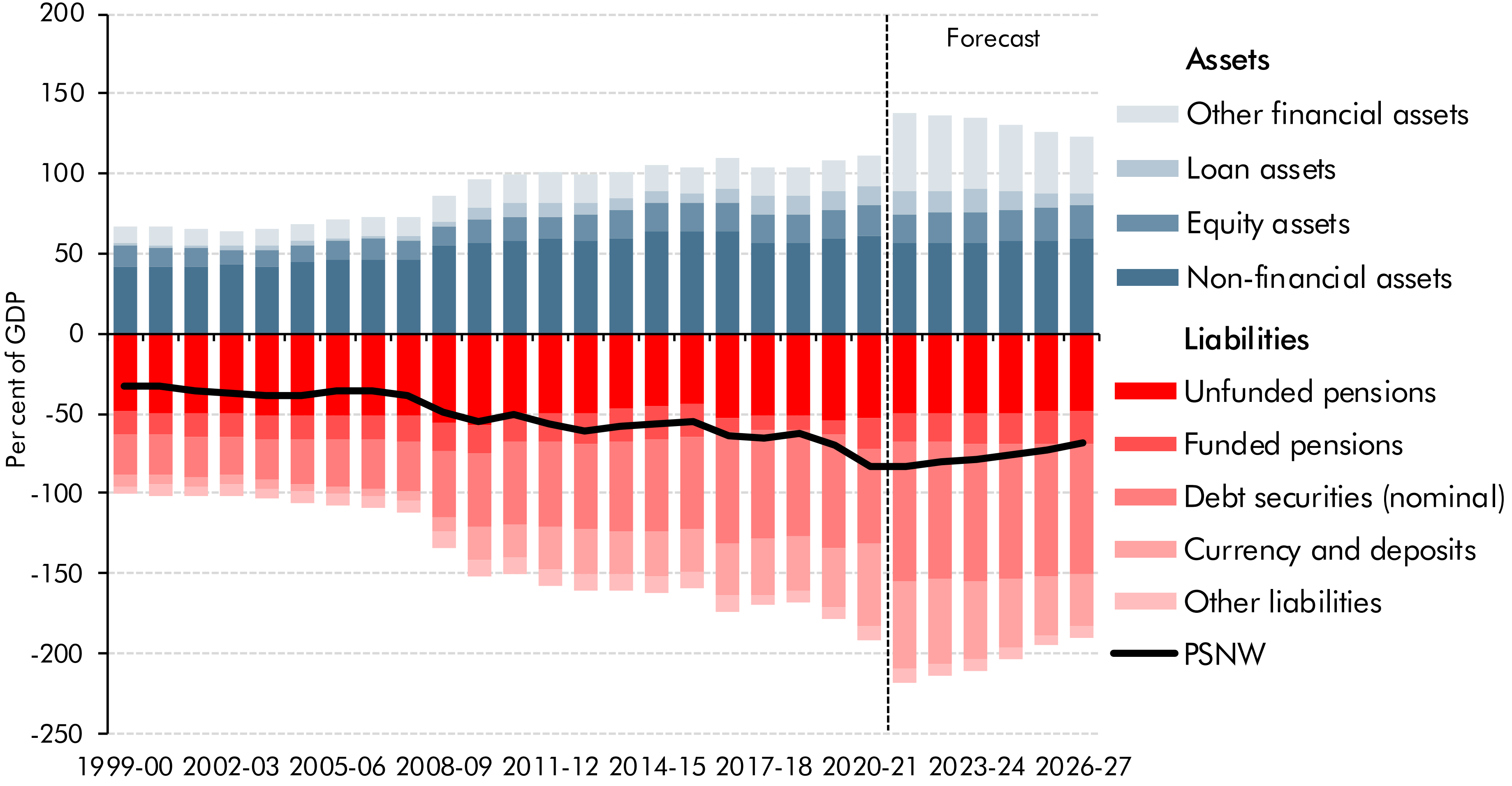

Source: Bank of England, DHSC, DWP, HMT, IFS, ONS, OBR

# Public sector balance sheet




Source: ONS, OBR

# Public sector net worth

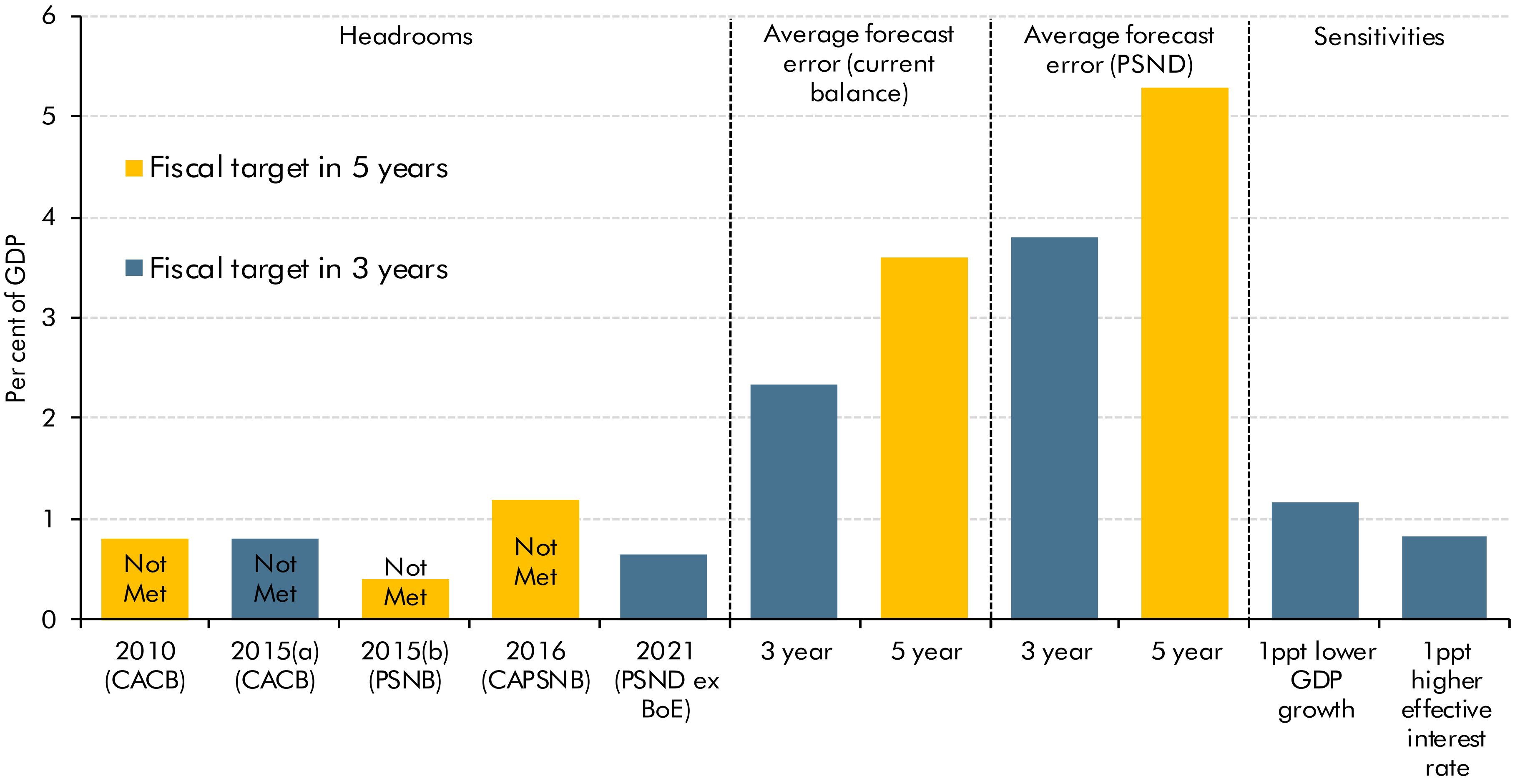



Source: OBR

# Fiscal rules

| New fiscal rules | October 2021 | Headroom |
|---|---|---|
| **Fiscal mandate:**<br>underlying debt falls as a % of GDP in 2024-25 | ✓ | £17.5bn |
| **Supplementary target:**<br>balanced budget by 2024-25 | ✓ | £25.1bn |
| **Investment cap:**<br>net investment no more than 3% on average | ✓ | £7.3bn |
| **Welfare cap** | ✓ | £2.8bn |

# Headroom against fiscal rules

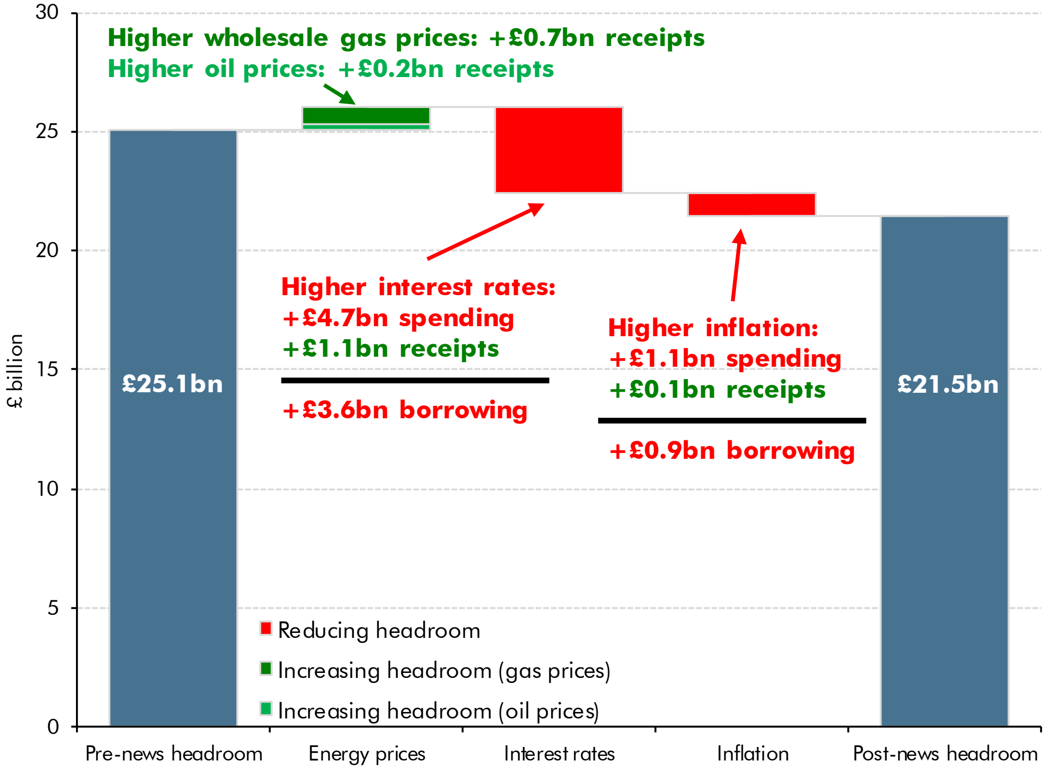



Source: OBR

# News since closing our forecast

| News since 24 Sept (As of 22 October) | | Likely forecast impact: Economy | Likely forecast impact: Fiscal |
|---|---|---|---|
| Nominal GDP | Level 1.6ppts higher pre-pandemic | ↑ | ↑ ↓ |
| | Growth 1.2ppts higher since pandemic | | |
| Energy prices | Oil prices $6 per barrel higher | ↓ | ↑ |
| | Gas prices 24 pence per therm higher | | |
| Inflation | CPI & RPI inflation 0.4ppts higher | ↓ | ↓ |
| Interest rates | 0.2ppts higher | ↓ | ↓ |
| Likely net impact | | Neutral | Slightly negative |

## Impact on current budget headroom




Source: OBR

# Conclusion

- Economy has emerged from worst of the pandemic with lighter scars than we initially feared
- On top of £35 bn in extra revenue from stronger economy, Budget added £15 bn in tax rises – taking the tax burden to highest level since early 1950
- Spending Review used £30 bn of additional revenue to pay for larger post-pandemic state – the largest since the late 1970s
- Remaining c£20 bn enough to balance the current budget and getting debt falling in 3 years – but by very narrow of margins