

Office for  
**Budget  
Responsibility**

# **Economic and fiscal outlook**

**16 March 2016**

**Robert Chote  
Chairman**

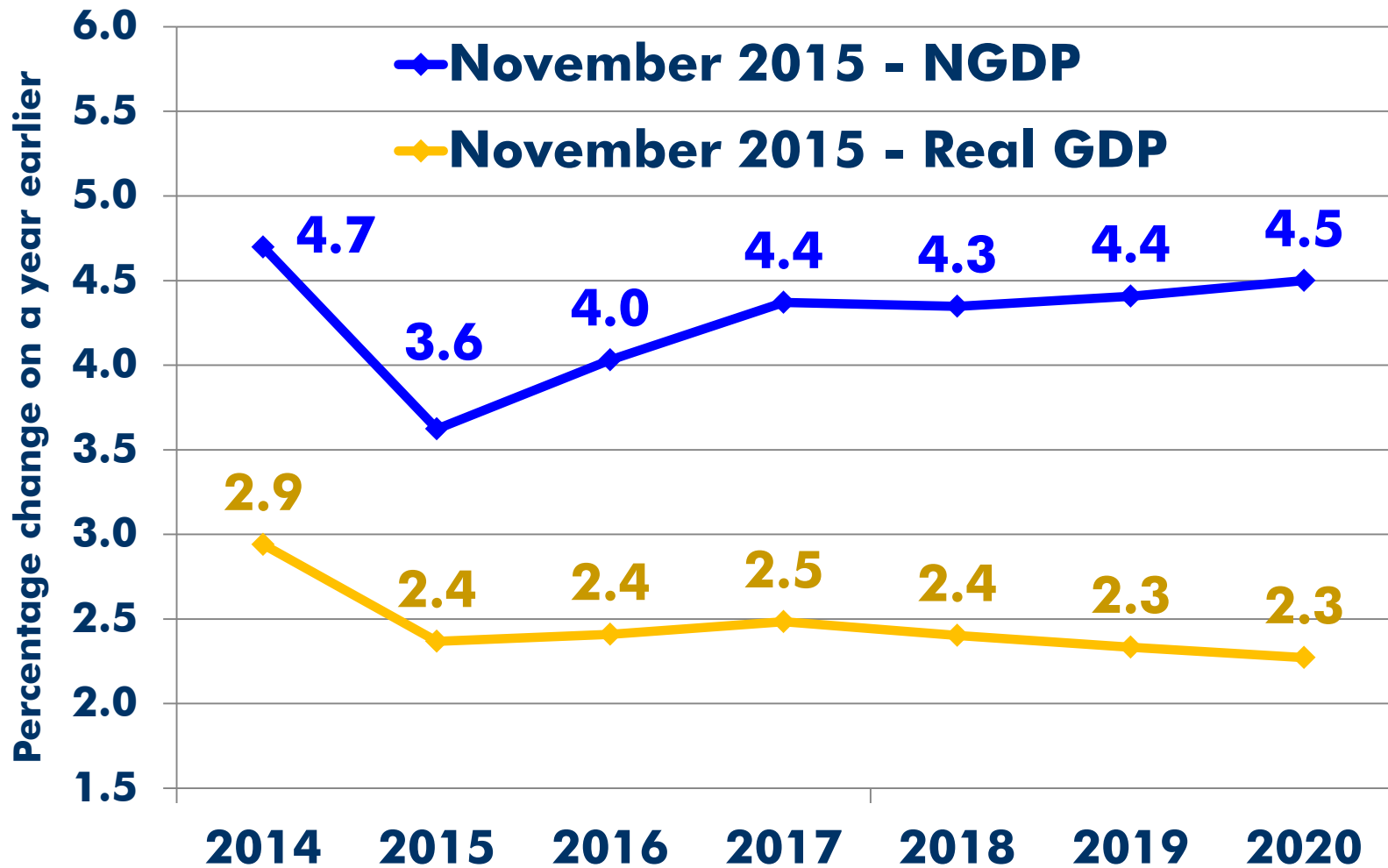
# Coverage and process

- **Five year forecasts, plus assessment of targets**
- **Independent BRC responsible for conclusions**
- **Helped by OBR staff and other officials**
- **Final pre-scorecard forecast on 4 March**
- **Met with the Chancellor on 7 March**

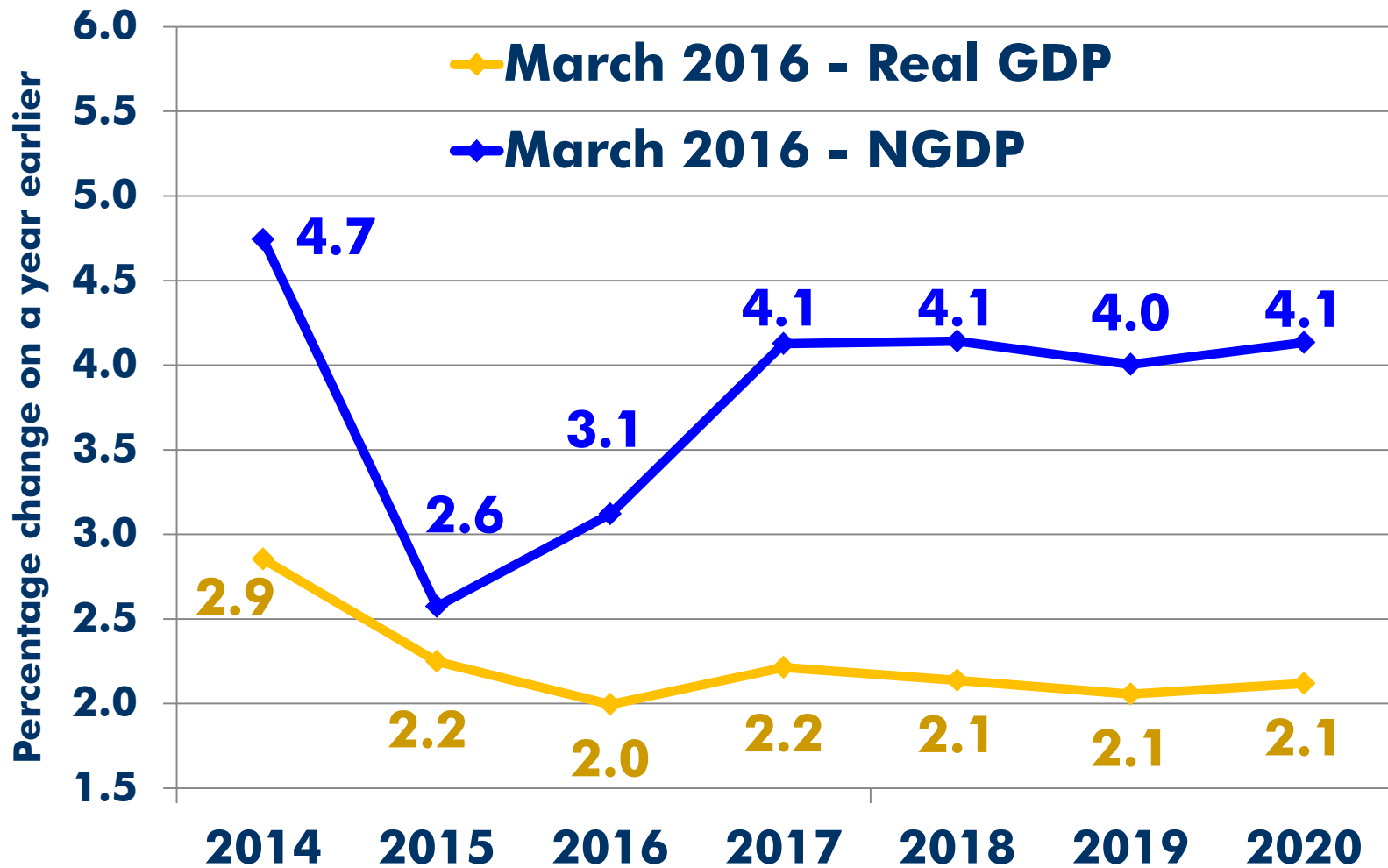
# Key points

- **Recent economic data weaker than expected**
- **Revised down trend productivity and output growth**
- **Pre-measures deficit £11bn a year higher on average**
  - Weaker tax revenues; more welfare spending
  - Partly offset by lower debt interest bills
- **But Budget measures keep £10bn surplus in 2019-20**
  - Partly due to timing effects
- **Debt rises as % GDP this year because GDP lower**
- **Welfare cap still breached: disability spending**
- **Brexit: we assume UK remains in the EU**

# Real and nominal GDP growth



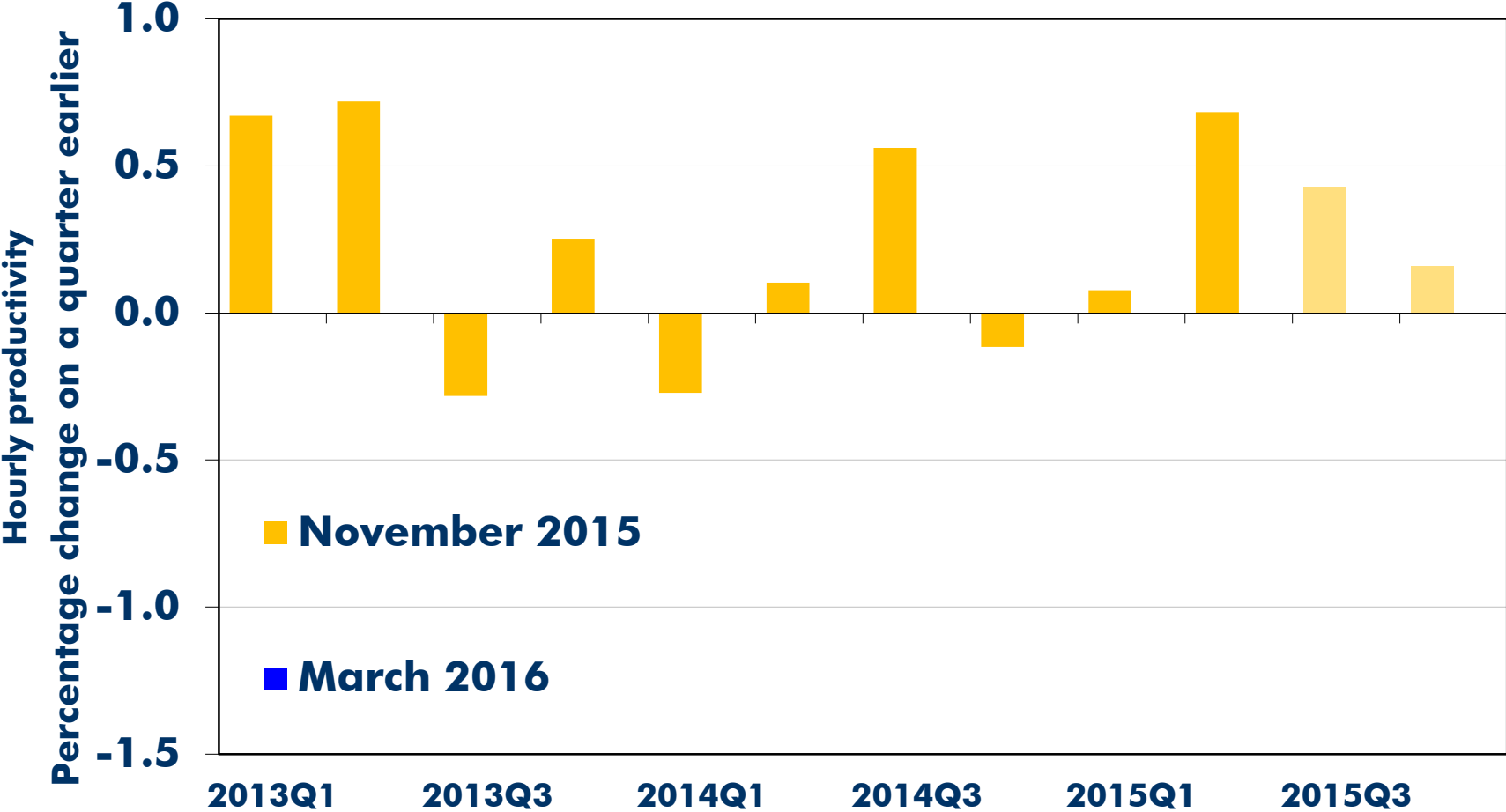
# Real and nominal GDP growth



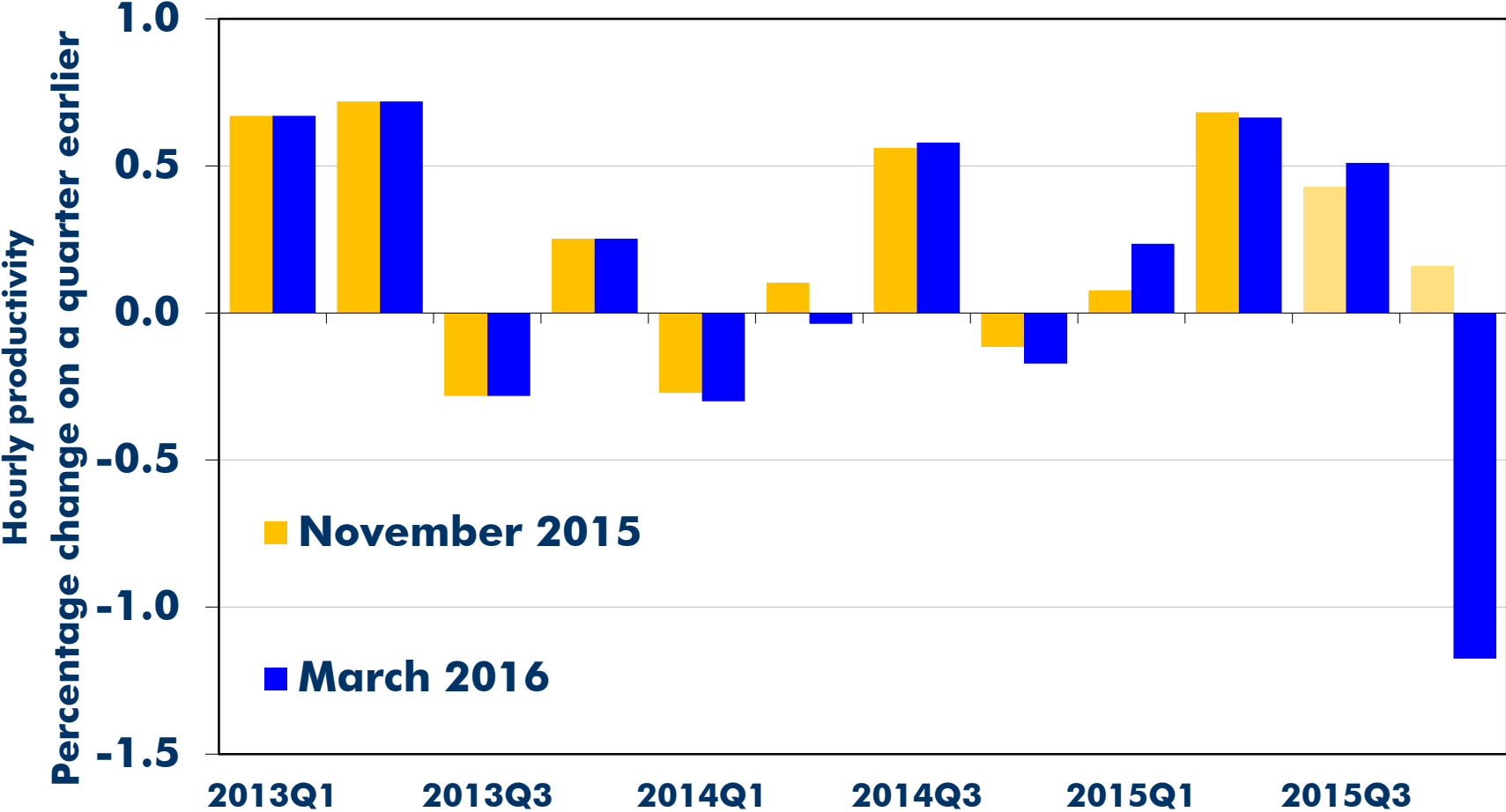
# Why more gloomy?

- **Data published since November**
  - Slowdown in real and nominal GDP growth
  - Widening trade deficit
  - Sharp fall in productivity
  - Average earnings growth weaker
- **Financial markets weaker**
- **No interest rate increase expected until 2019**
- **Other forecasters also revising growth down**

# Productivity disappoints again



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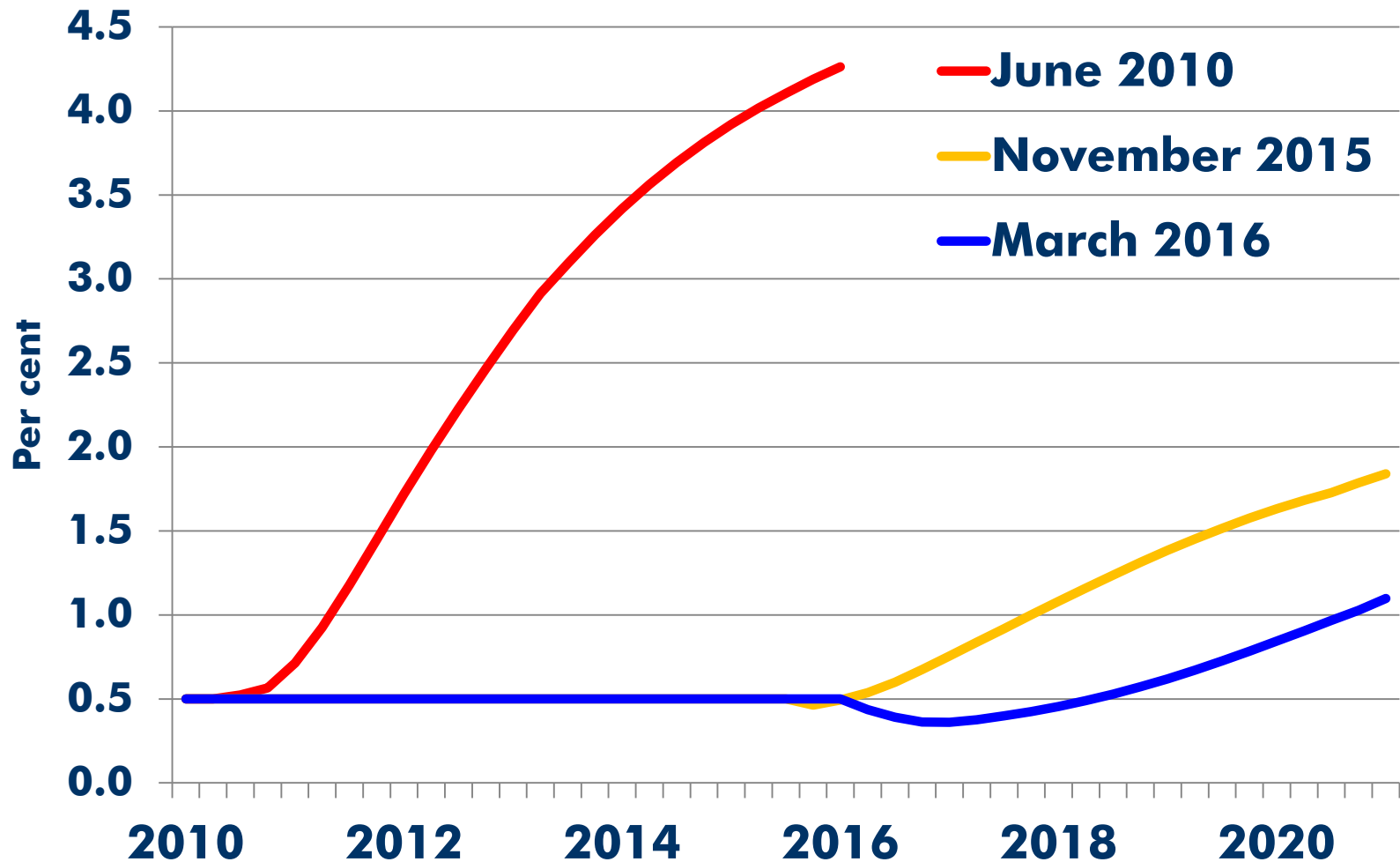




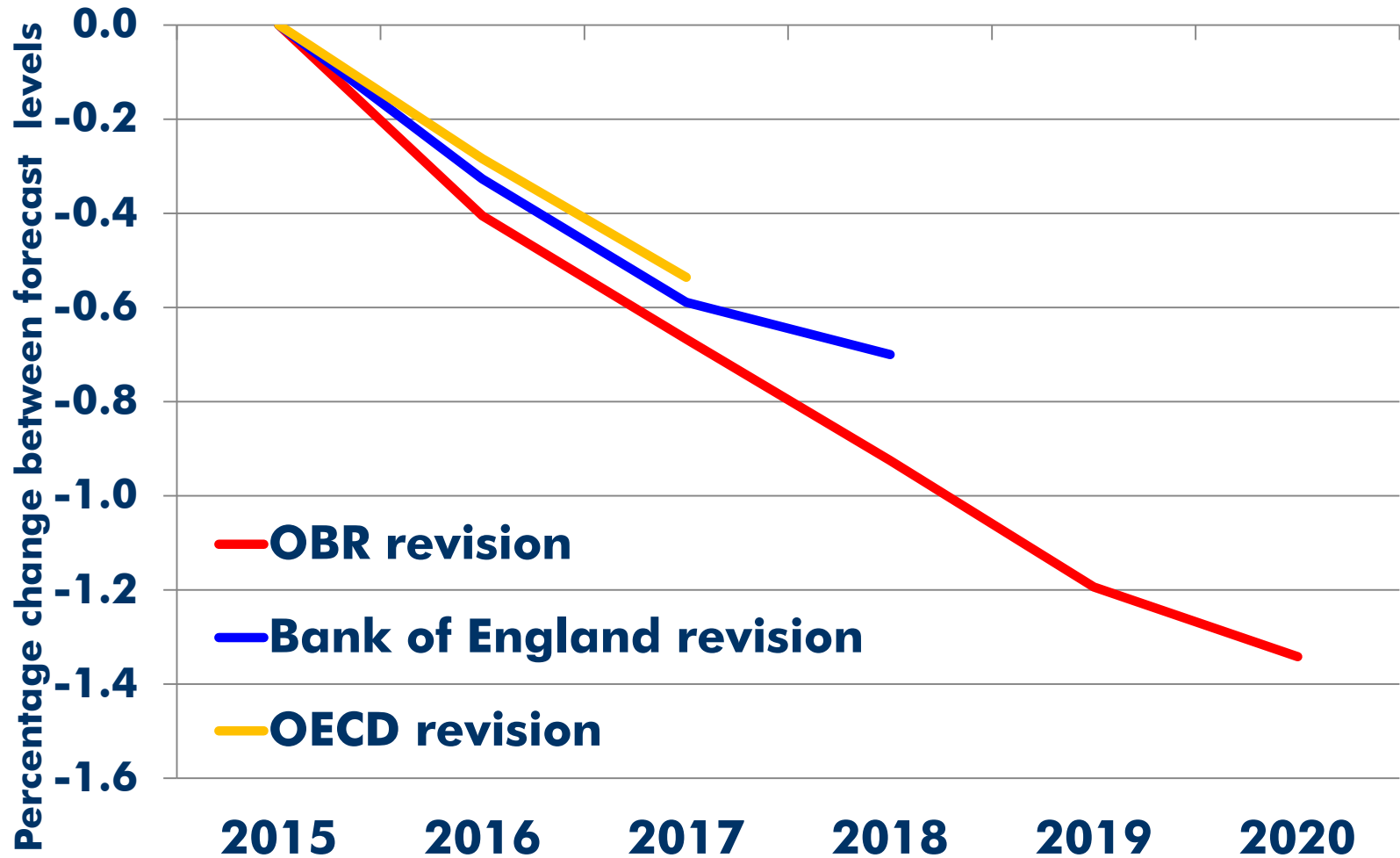
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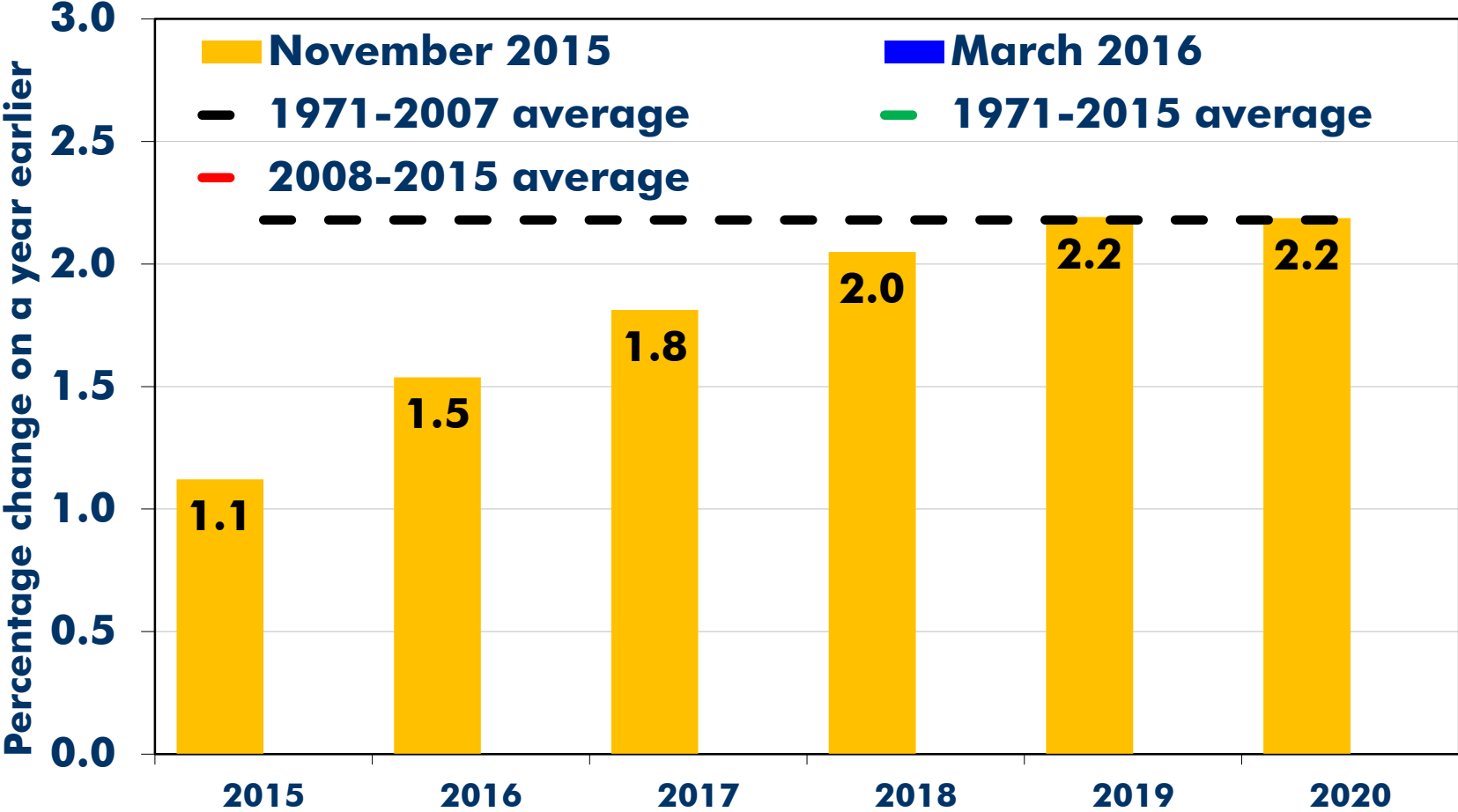
# Interest rate rise recedes



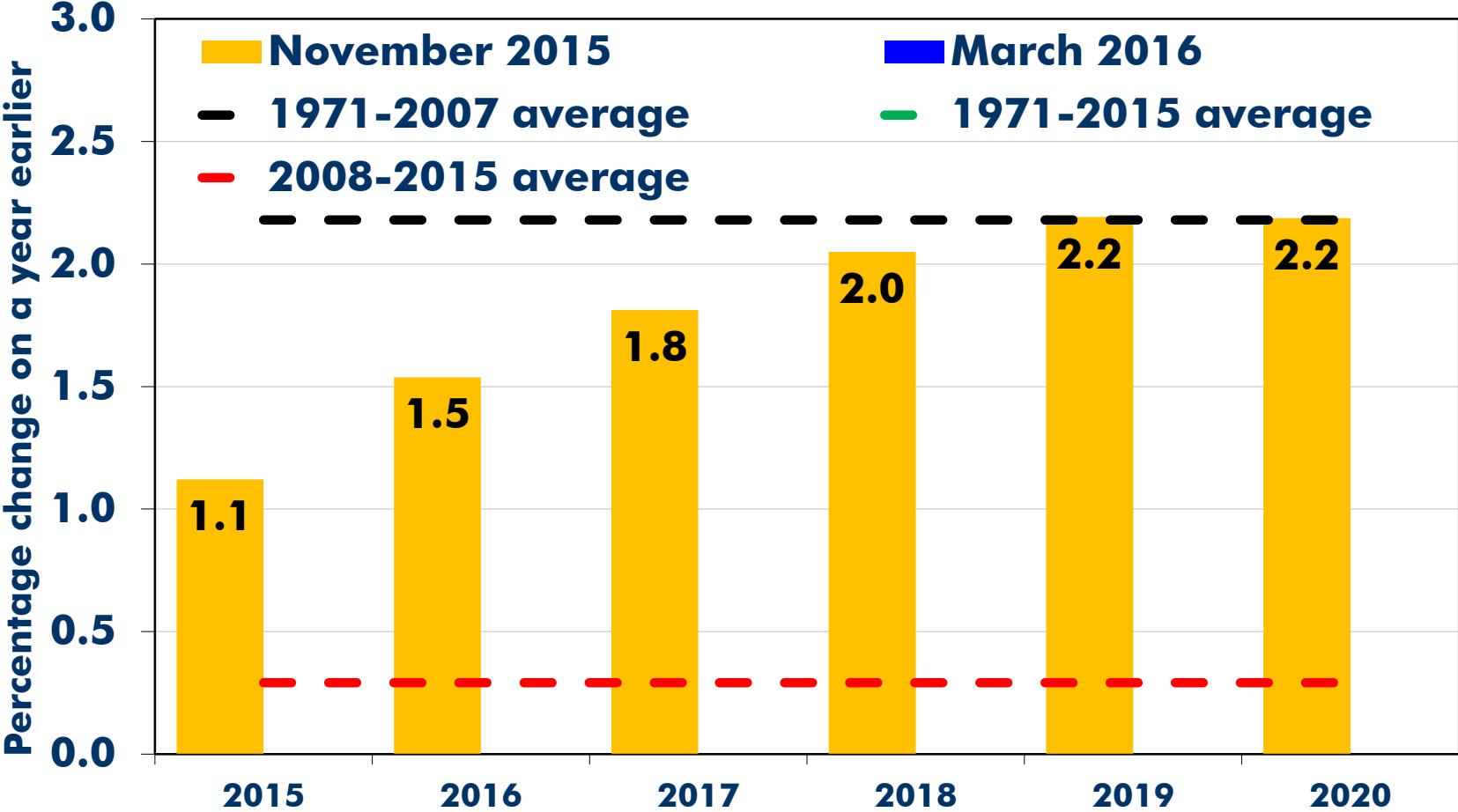
# Selected GDP forecast revisions



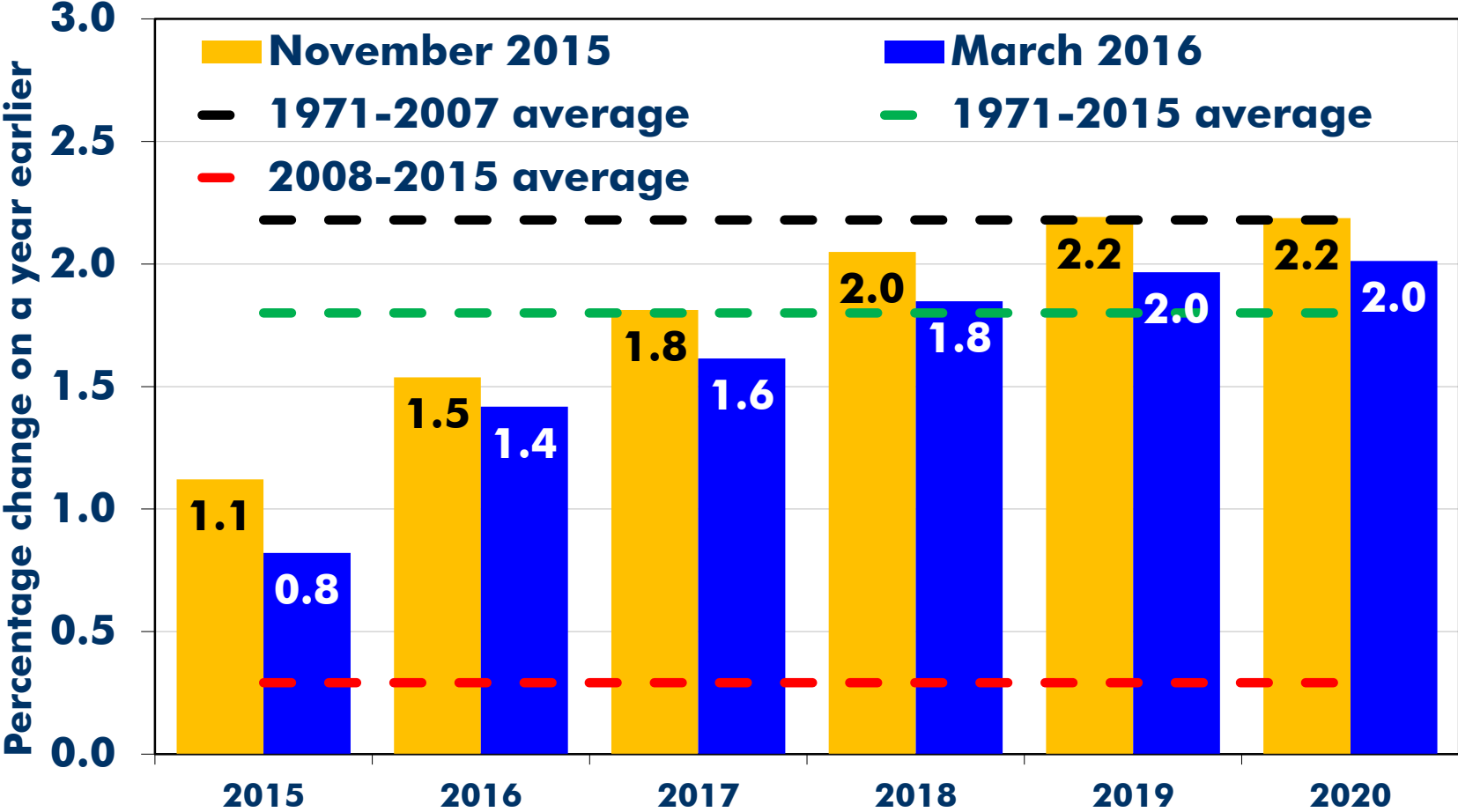
# Lower trend productivity growth



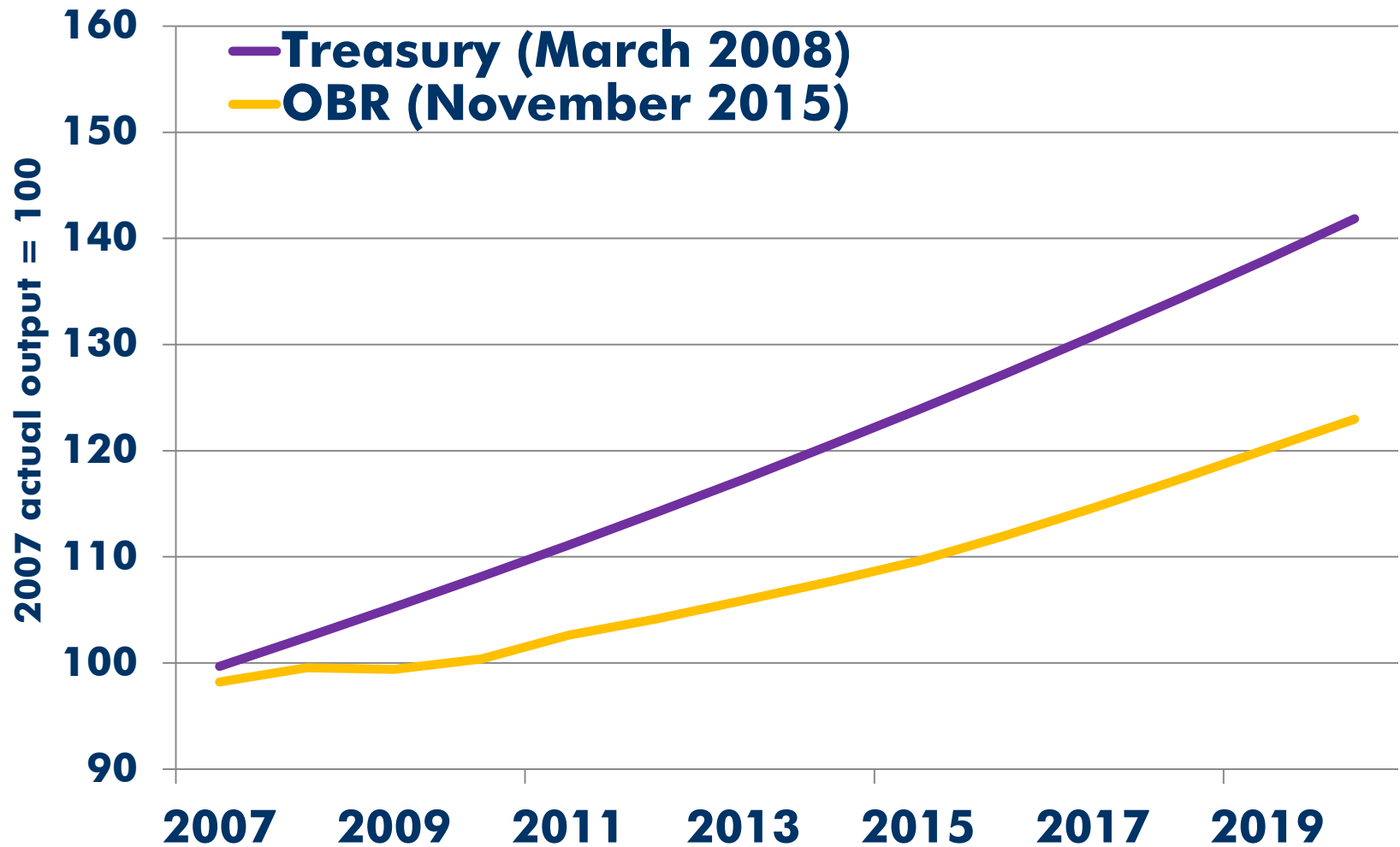
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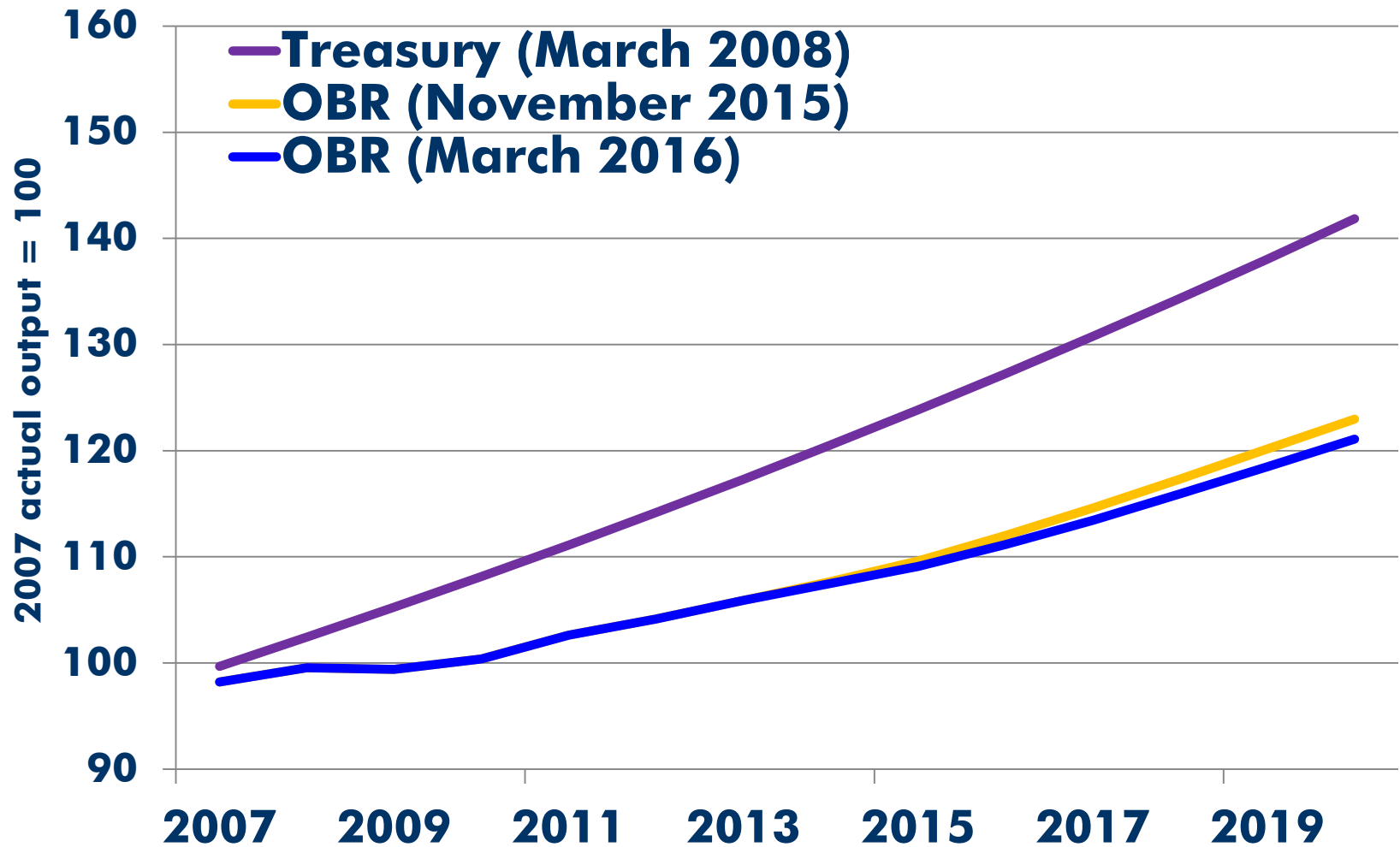
# Lower trend productivity growth



# Lower potential output growth

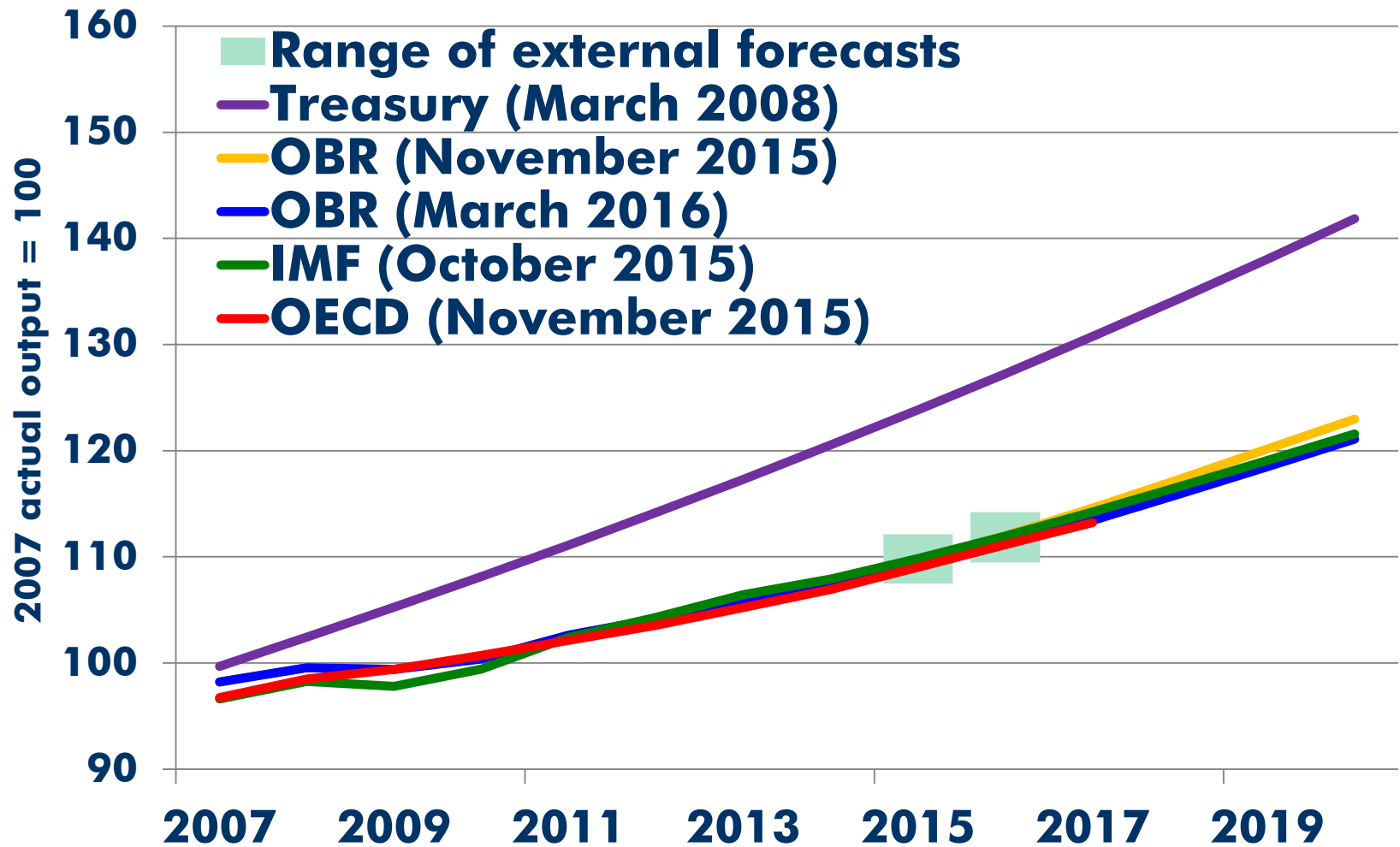


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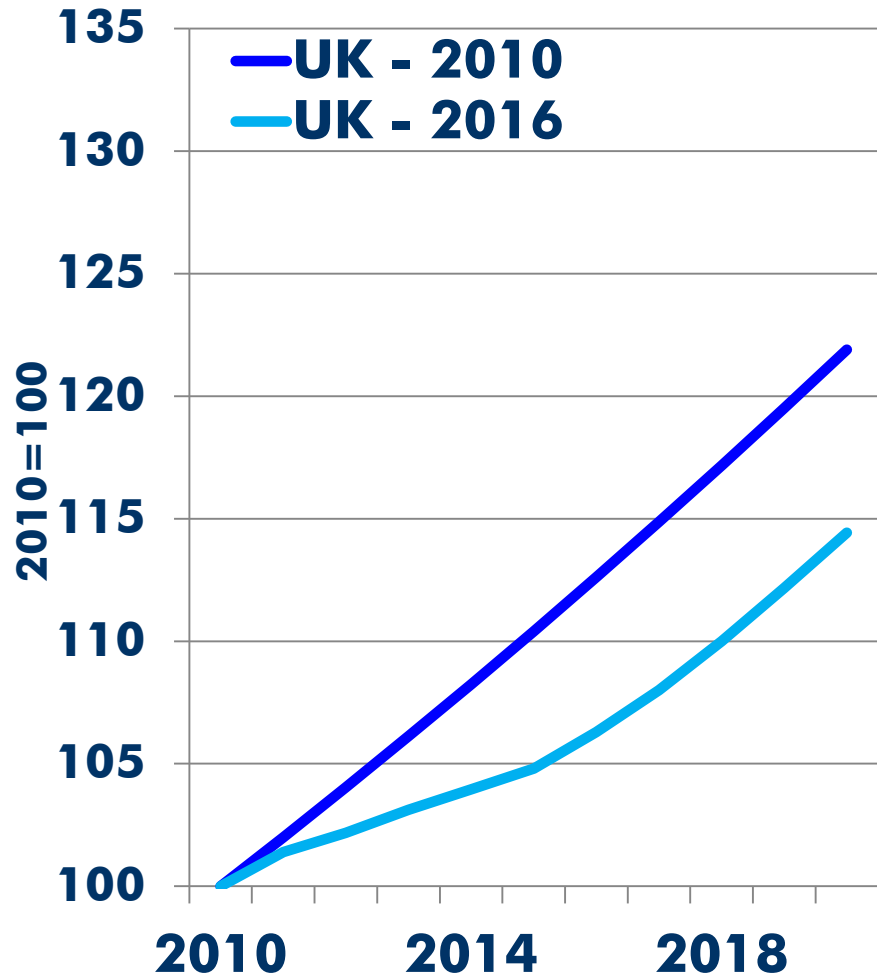




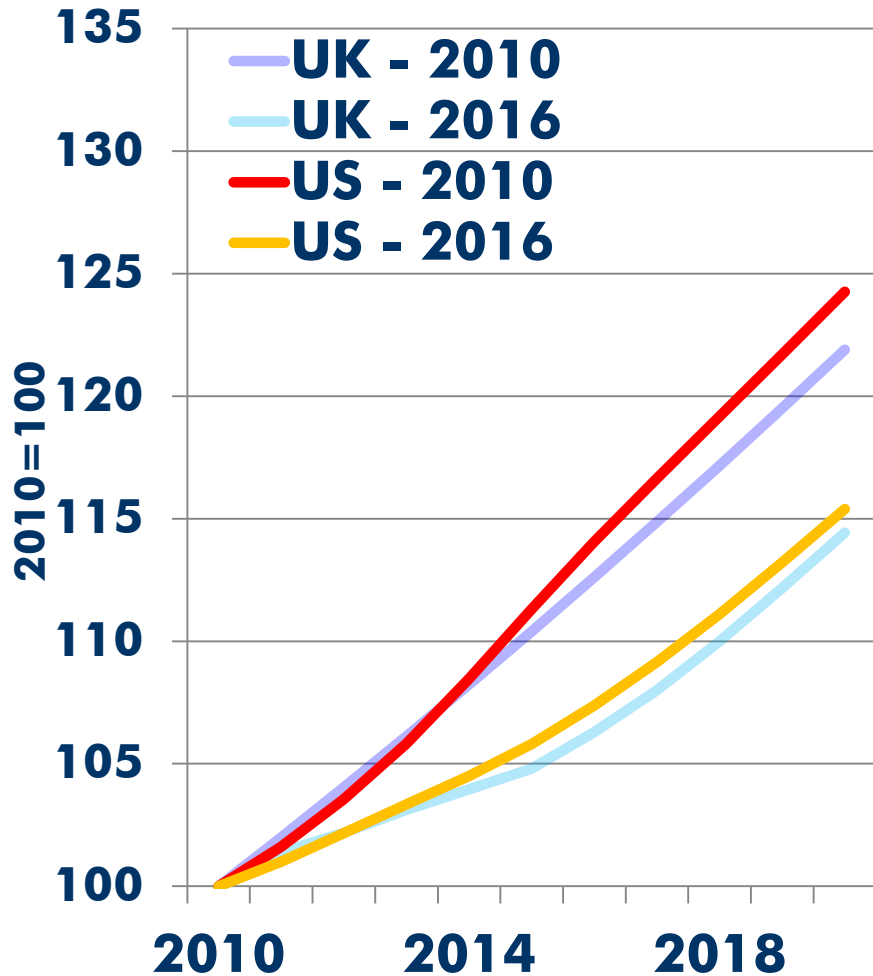
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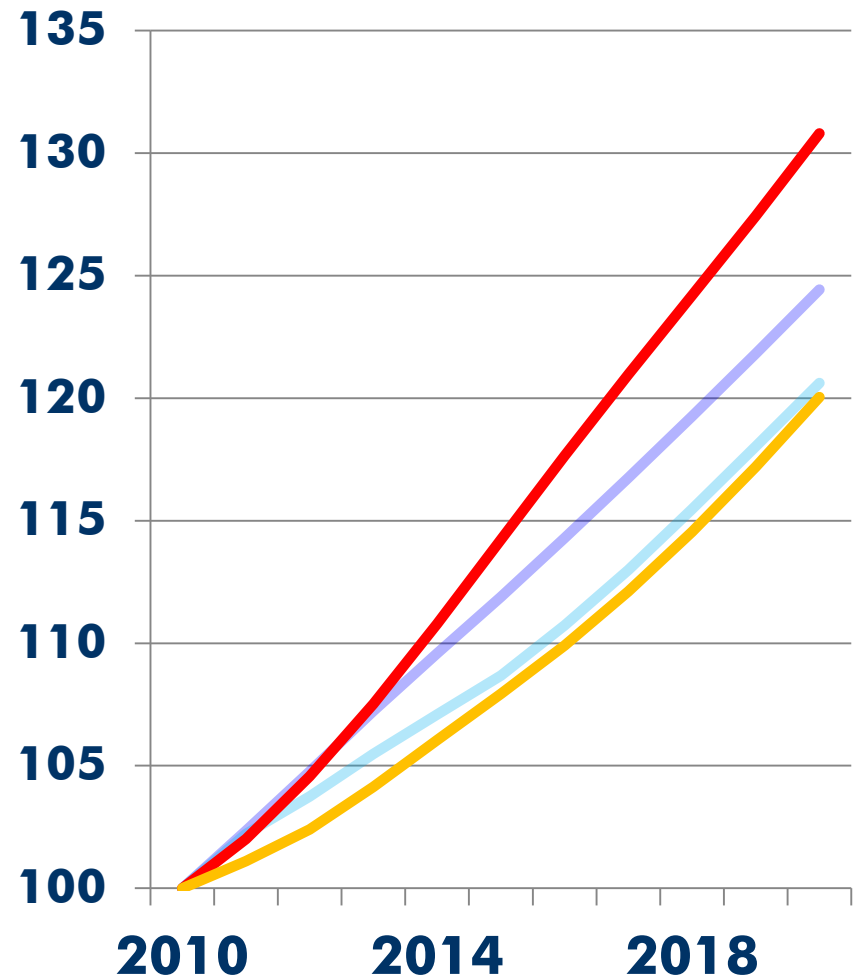
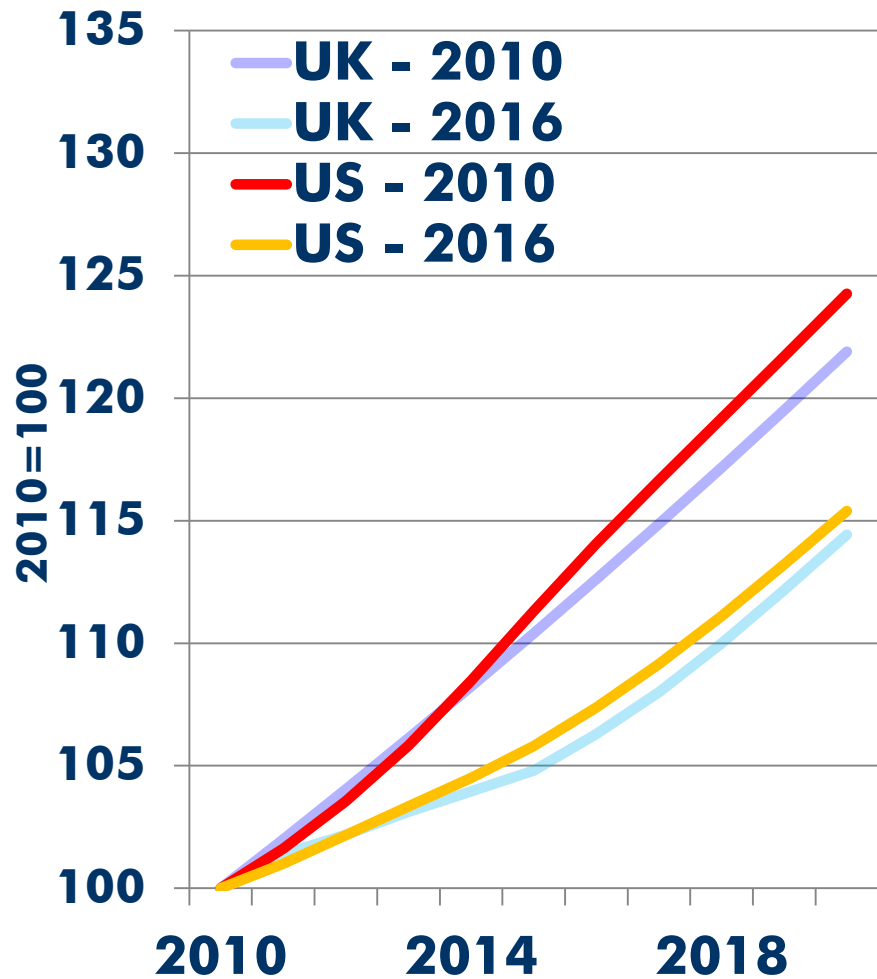
# Trend productivity and output



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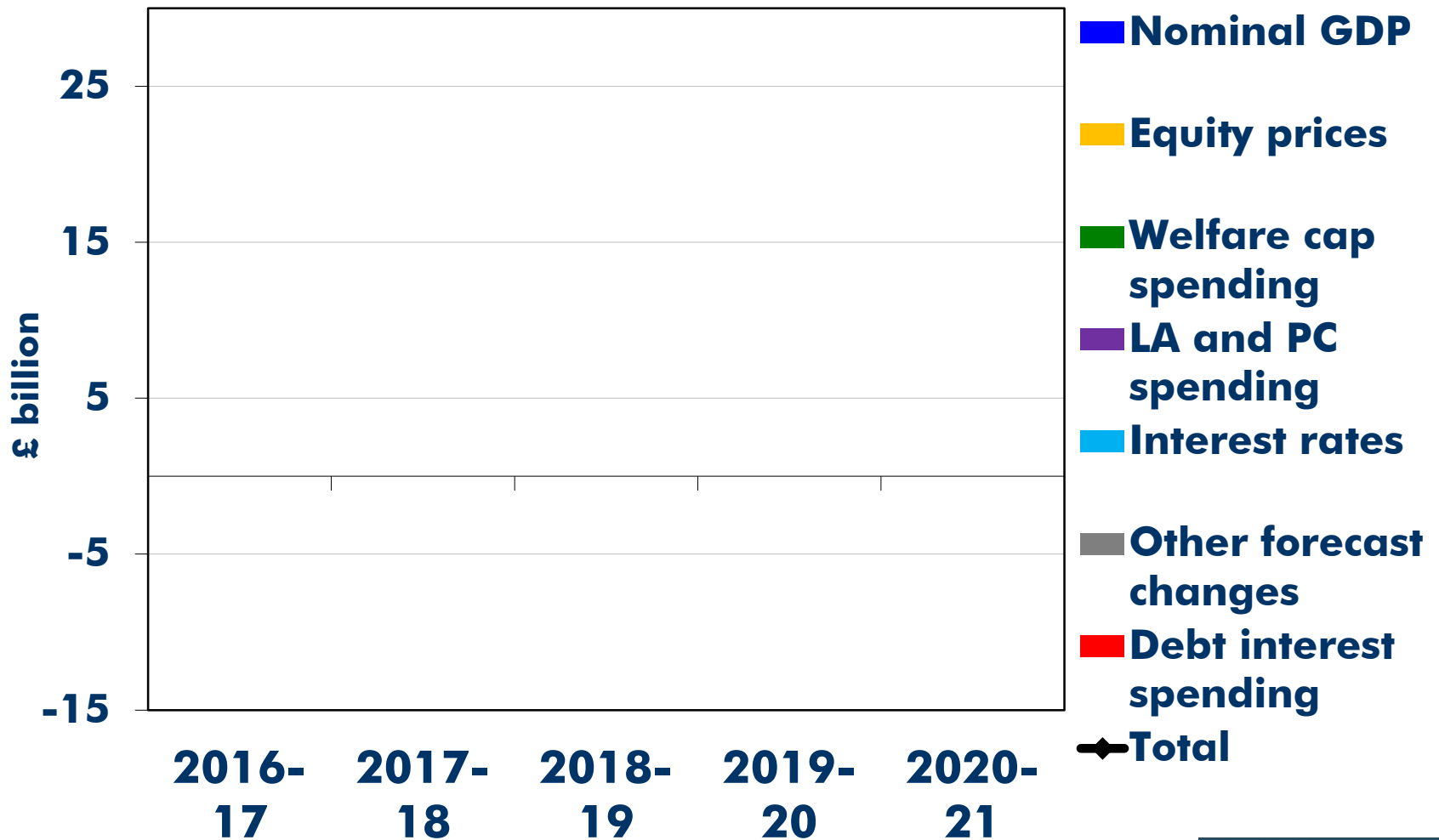
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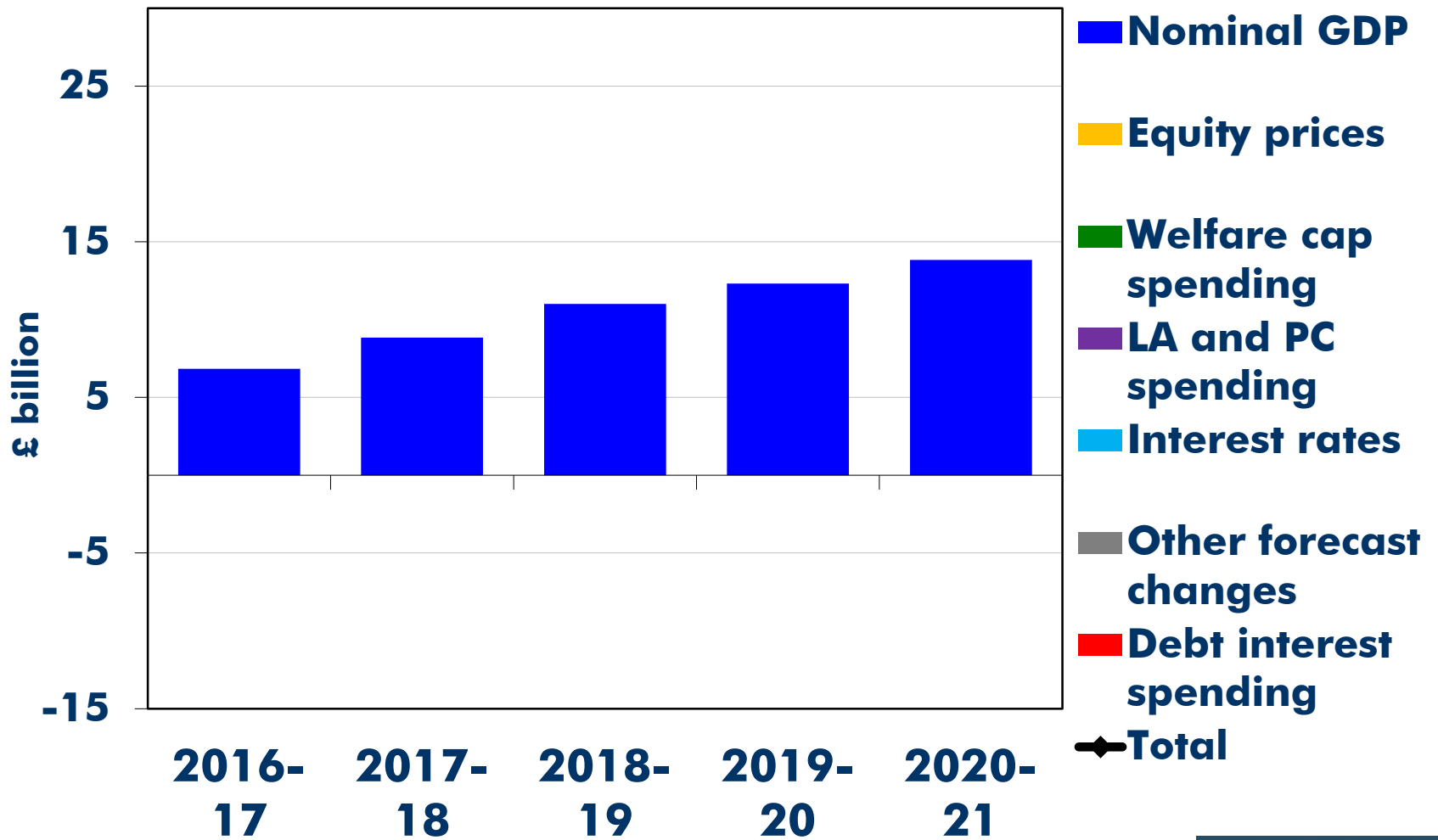
# Impact on fiscal determinants

<b>Cumulative percentage growth, 2015/16 to 2020/21</b>	<b>November</b>	<b>March</b>	<i>Difference</i>
<b>Trend output</b>	<b>12.3</b>	<b>11.1</b>	<i>-1.1</i>
<b>Real GDP</b>	<b>12.5</b>	<b>11.0</b>	<i>-1.5</i>
<b>Nominal GDP</b>	<b>23.8</b>	<b>21.7</b>	<i>-2.2</i>
<b>Wages and salaries</b>	<b>23.7</b>	<b>21.4</b>	<i>-2.3</i>
<b>Profits</b>	<b>22.3</b>	<b>19.6</b>	<i>-2.7</i>
<b>Nominal consumer spending</b>	<b>23.5</b>	<b>22.7</b>	<i>-0.8</i>
<b>Nominal business investment</b>	<b>39.5</b>	<b>31.8</b>	<i>-7.7</i>

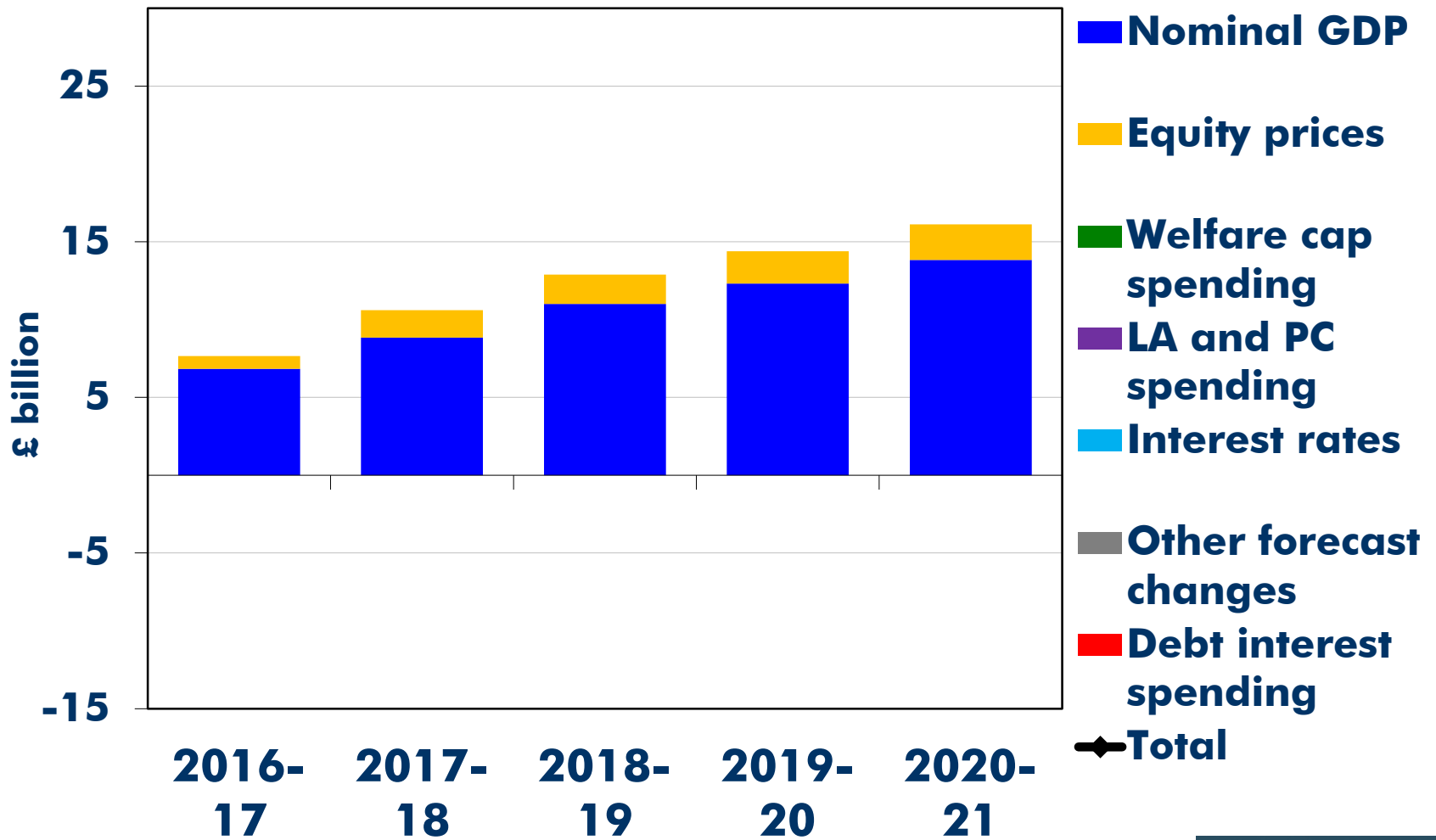
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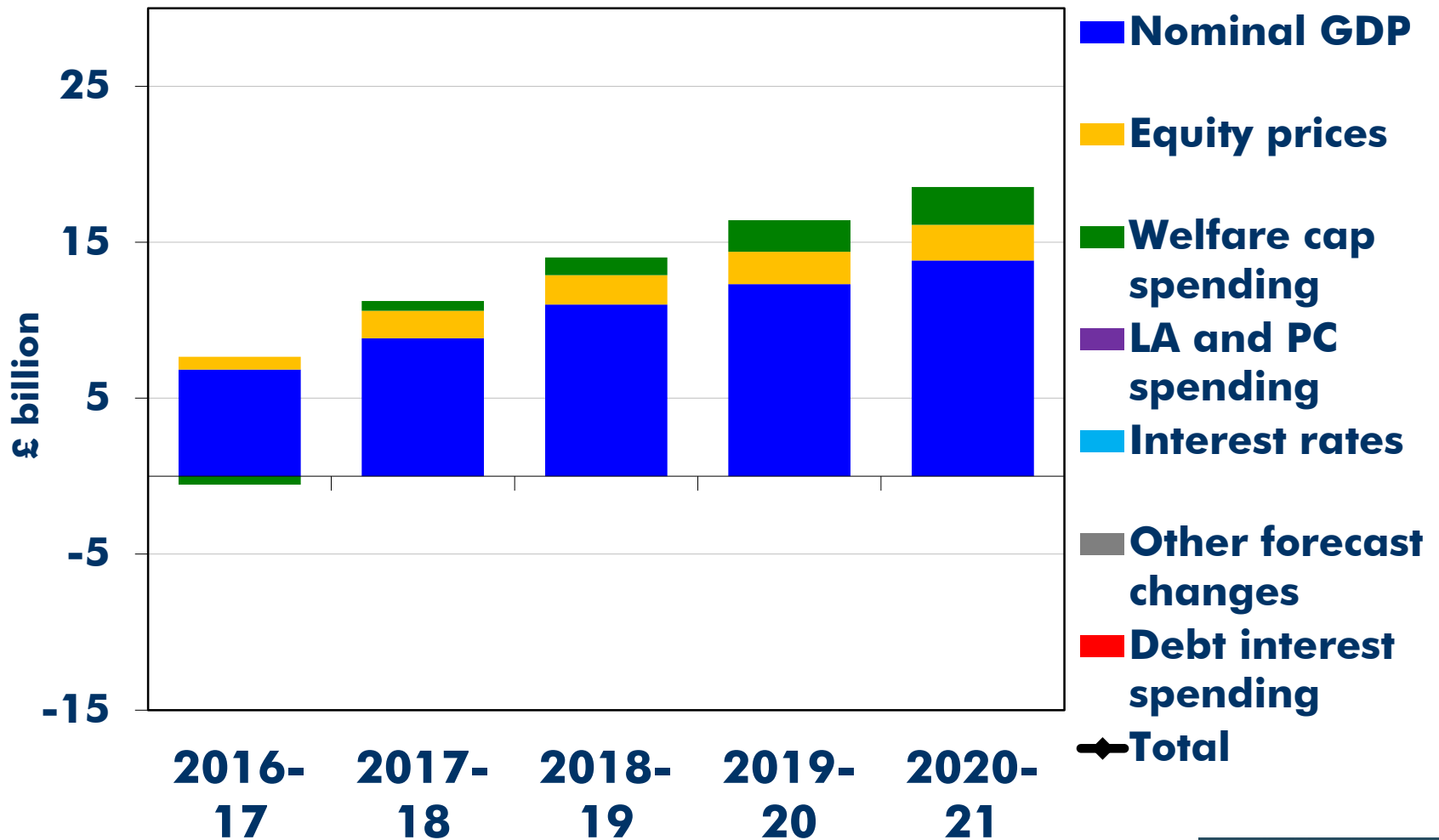


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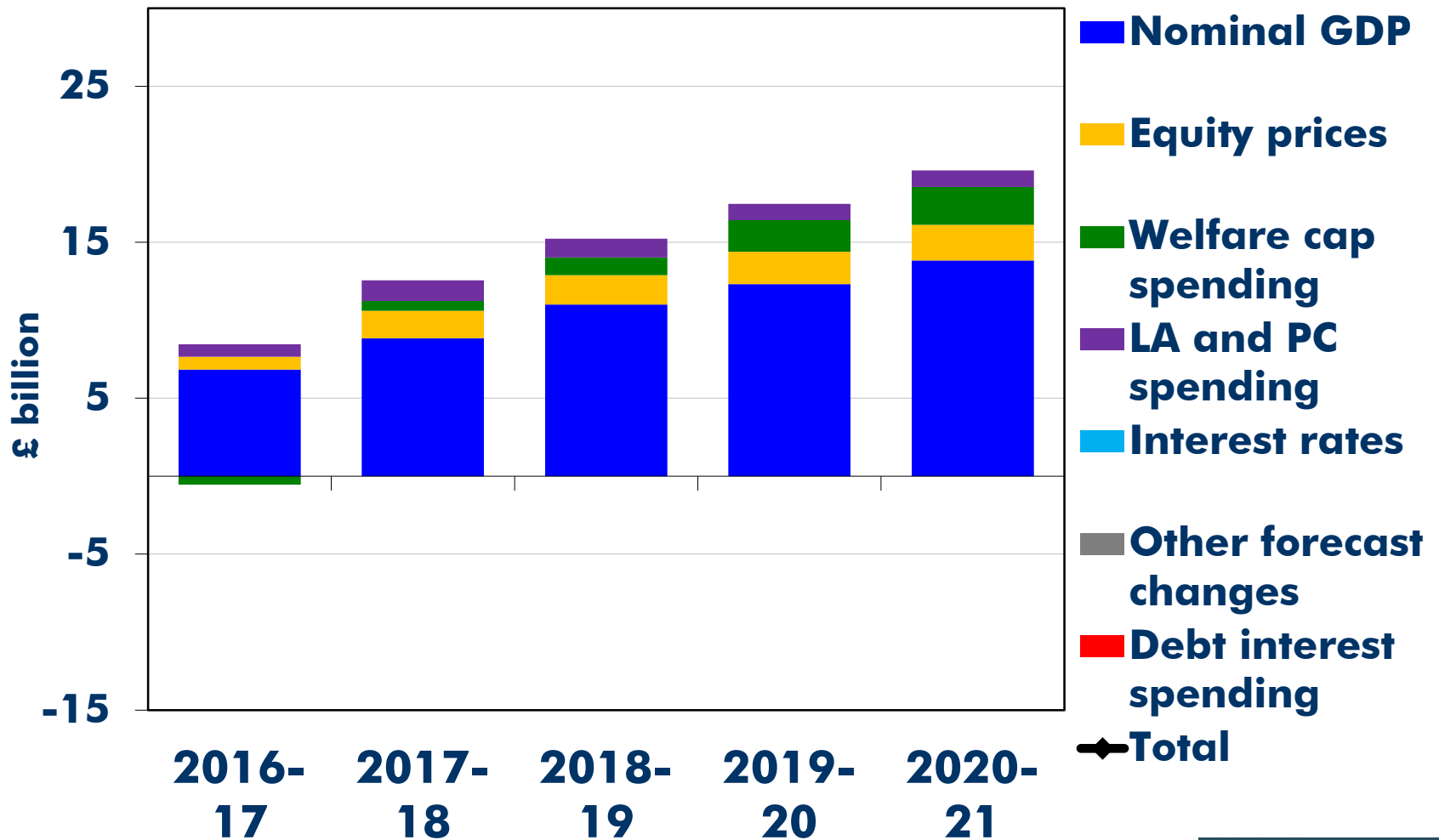




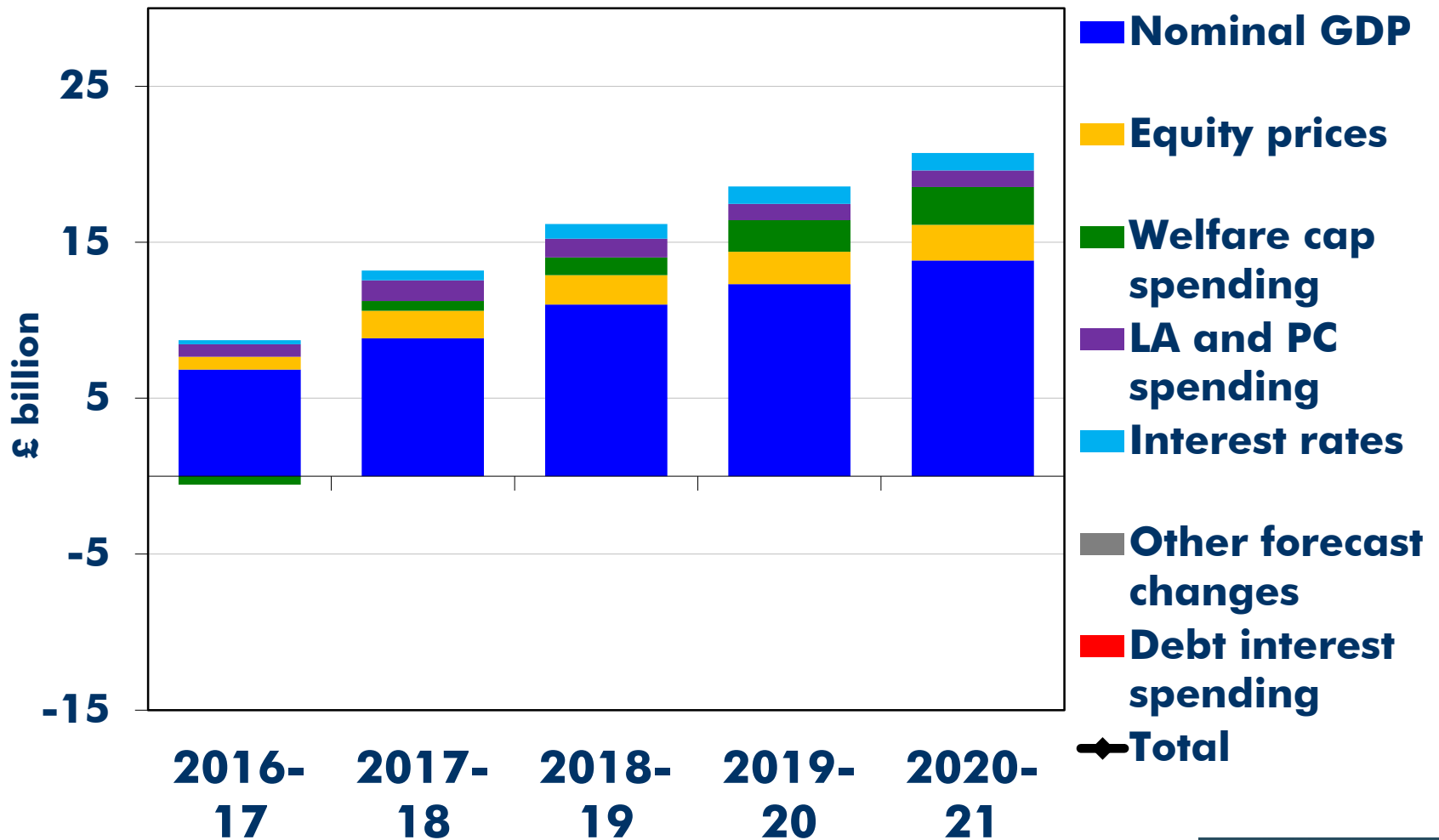
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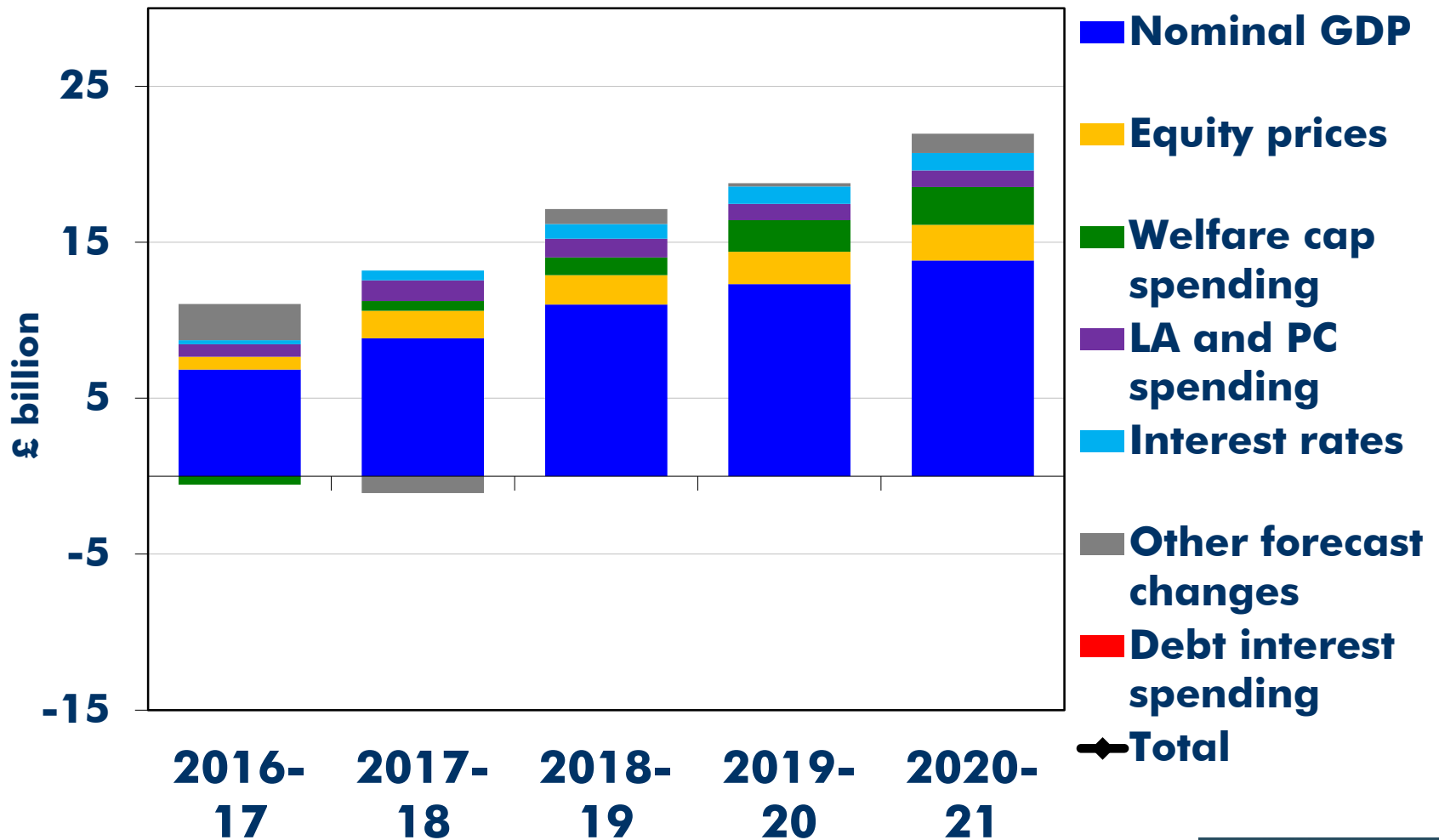
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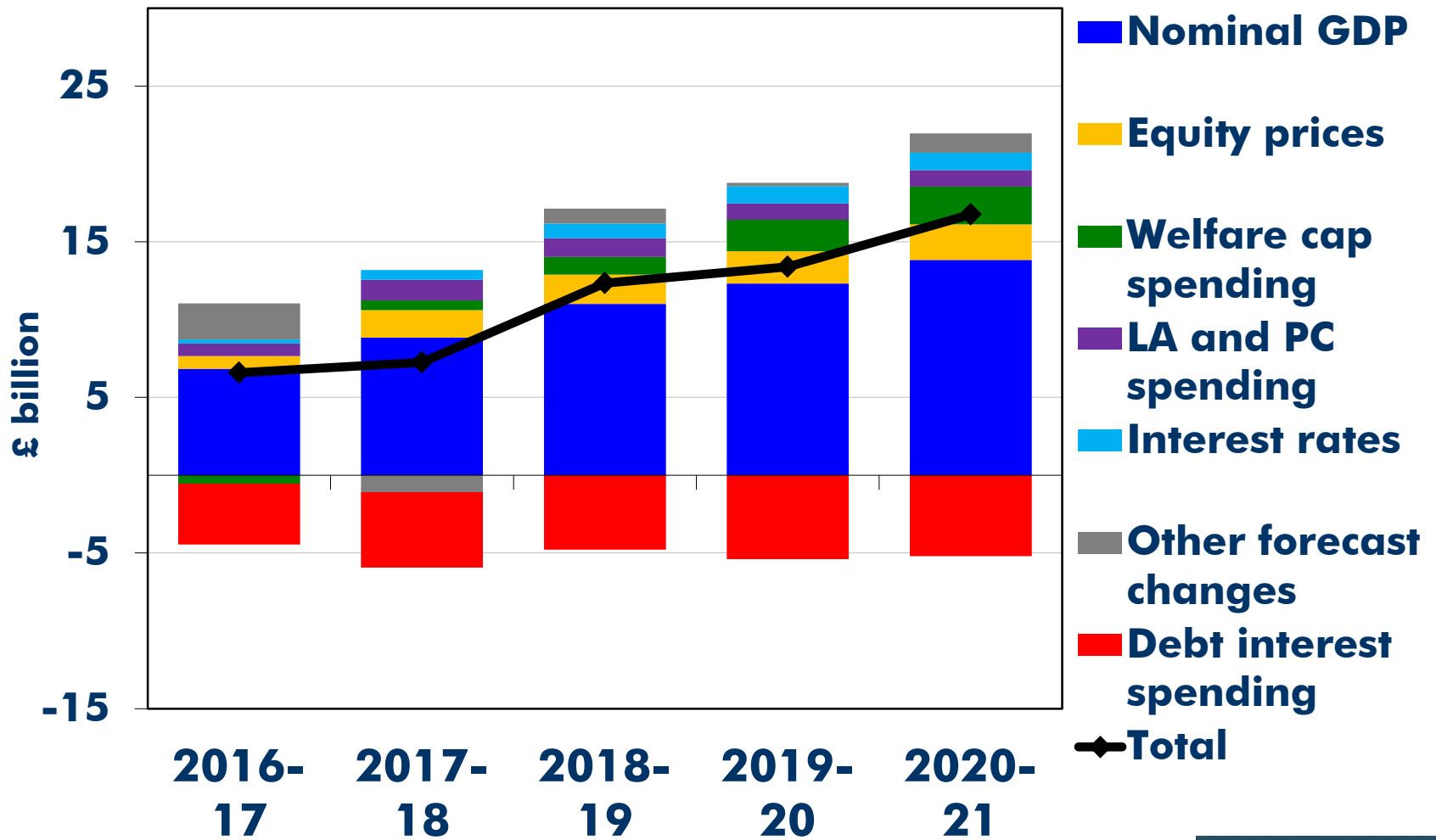
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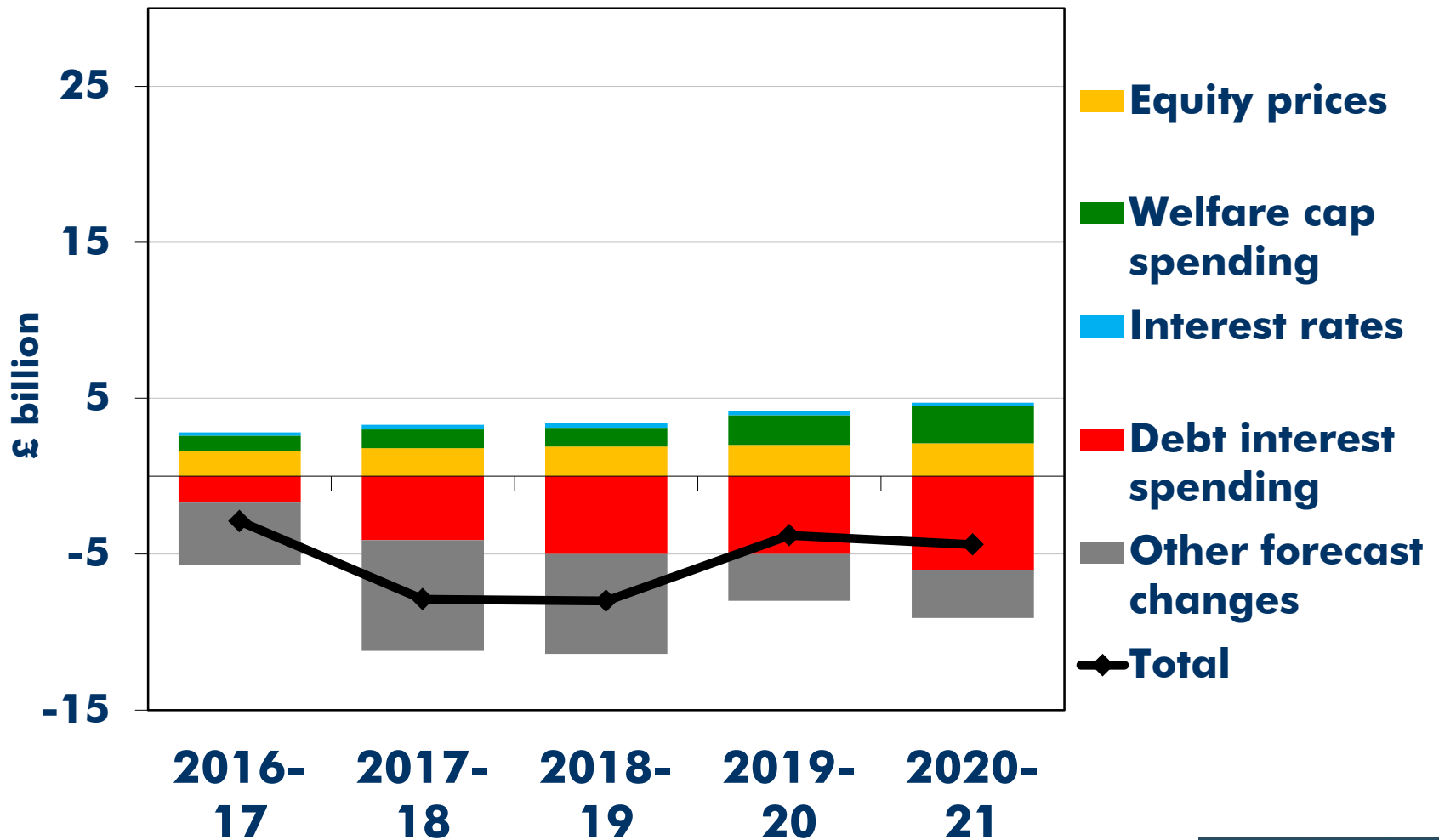
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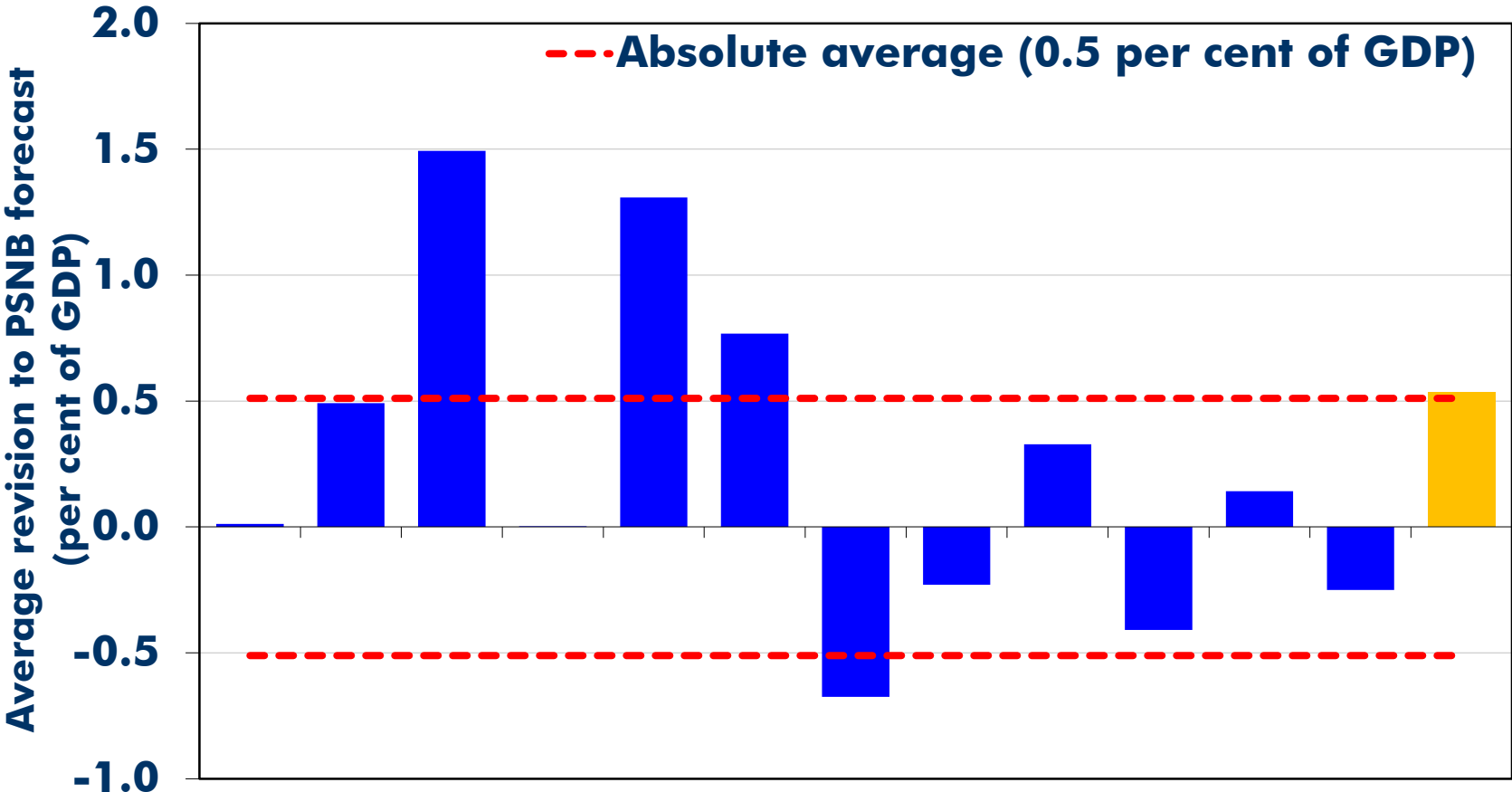
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# The pre-measures forecast (Nov)

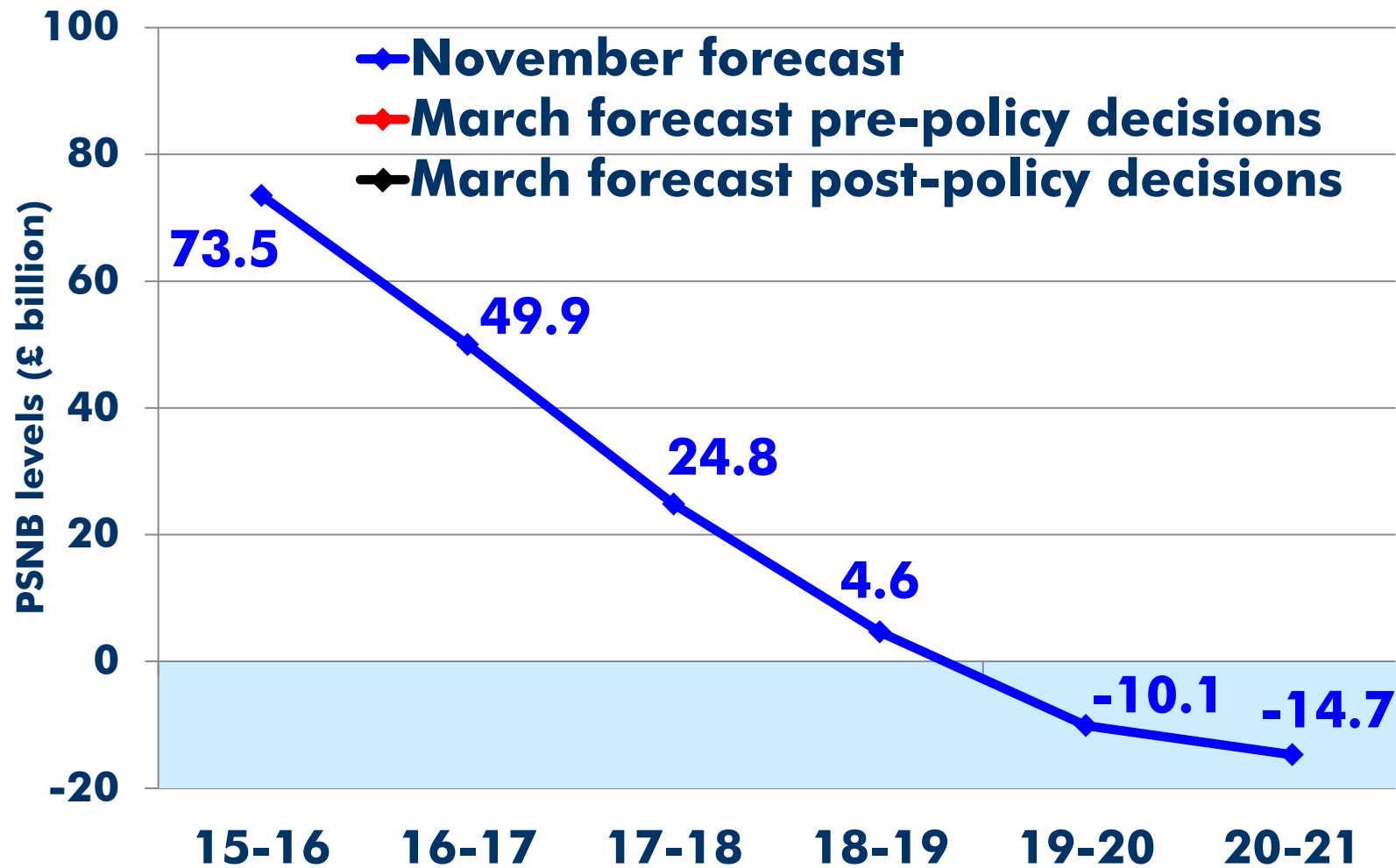


# Forecast revisions in context



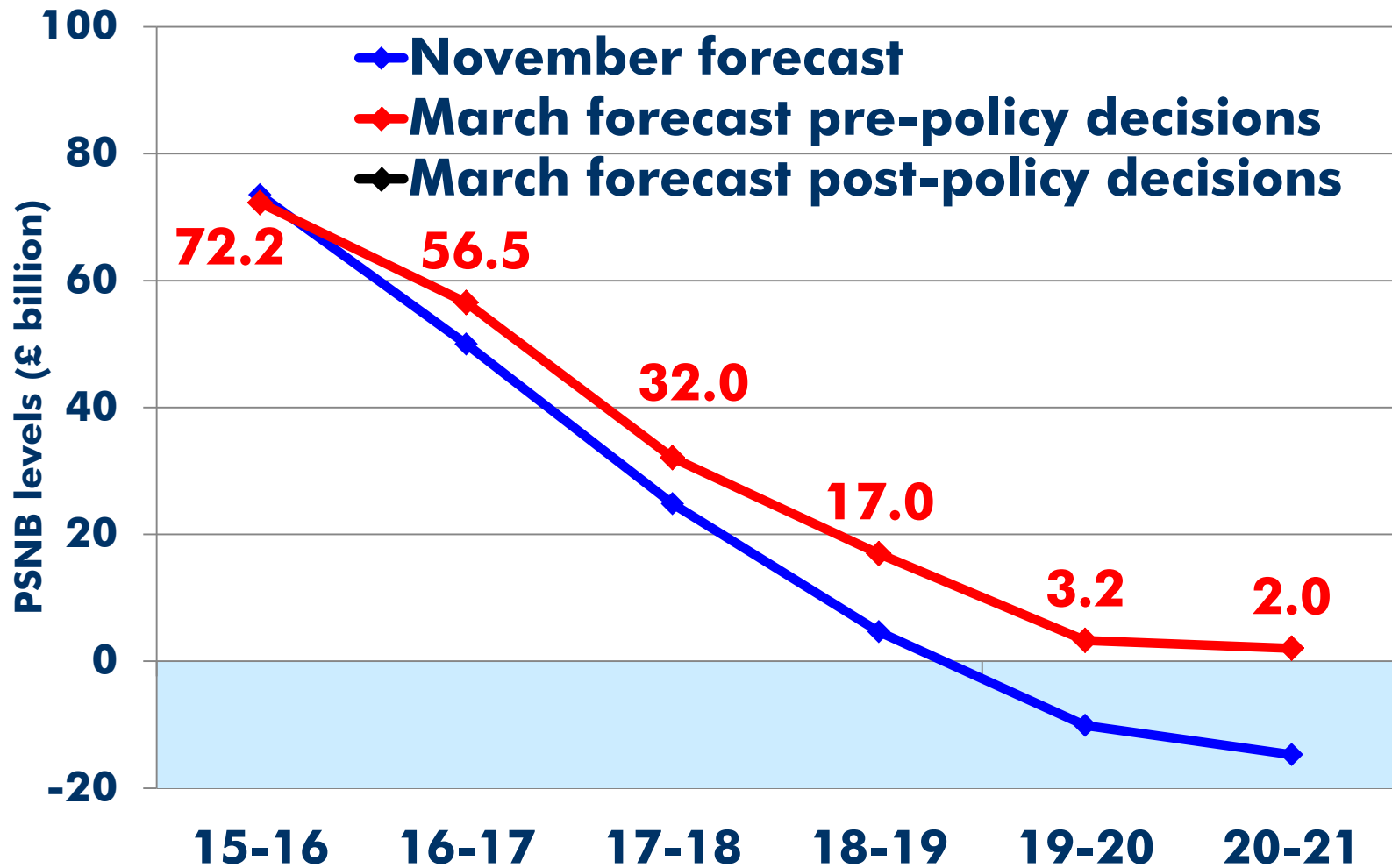
Nov 2010 March 2011 Nov 2011 March 2012 Dec 2012 March 2013 Dec 2013 March 2014 Dec 2014 March 2015 July 2015 Nov 2015 March 2016

# Impact of the policy package

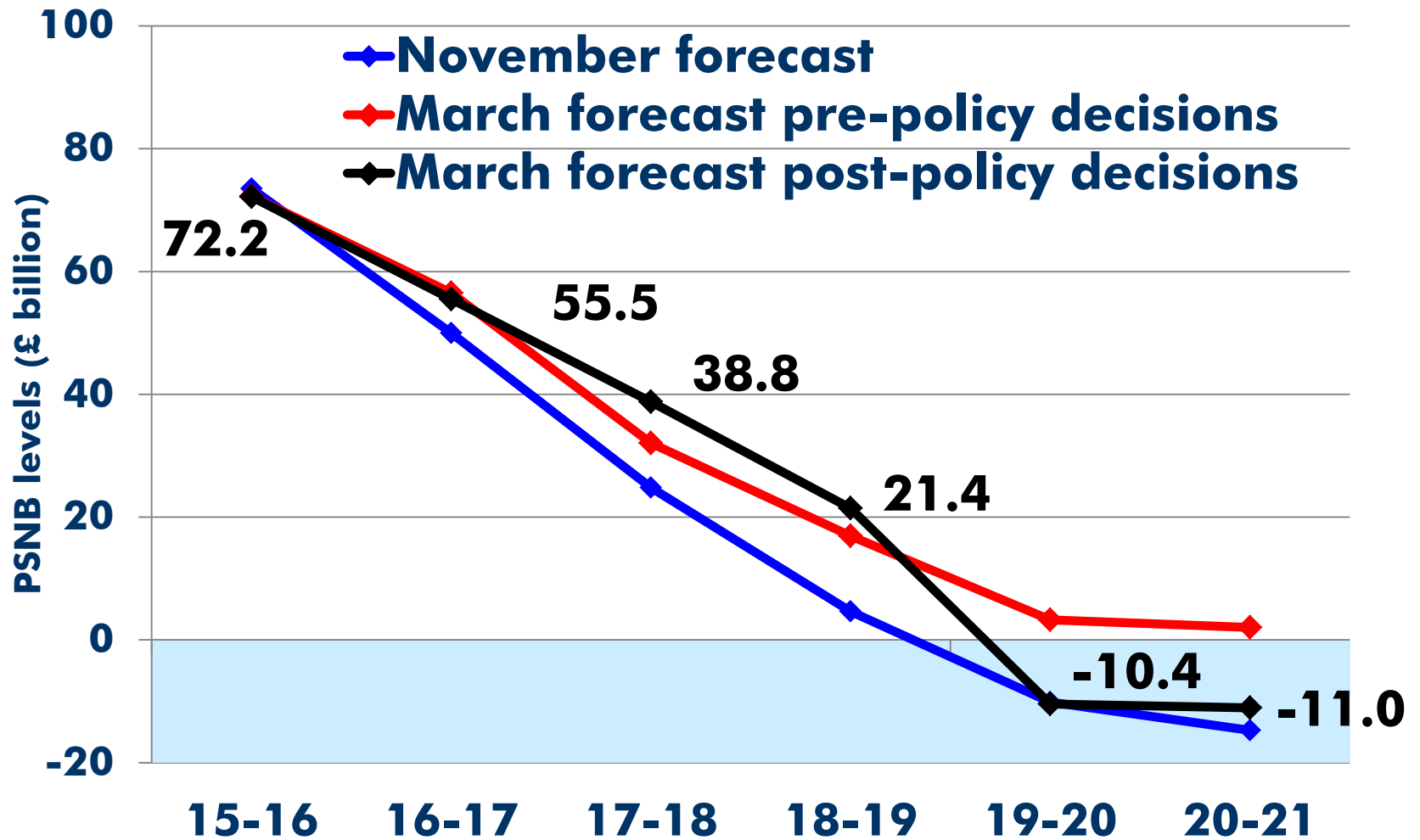




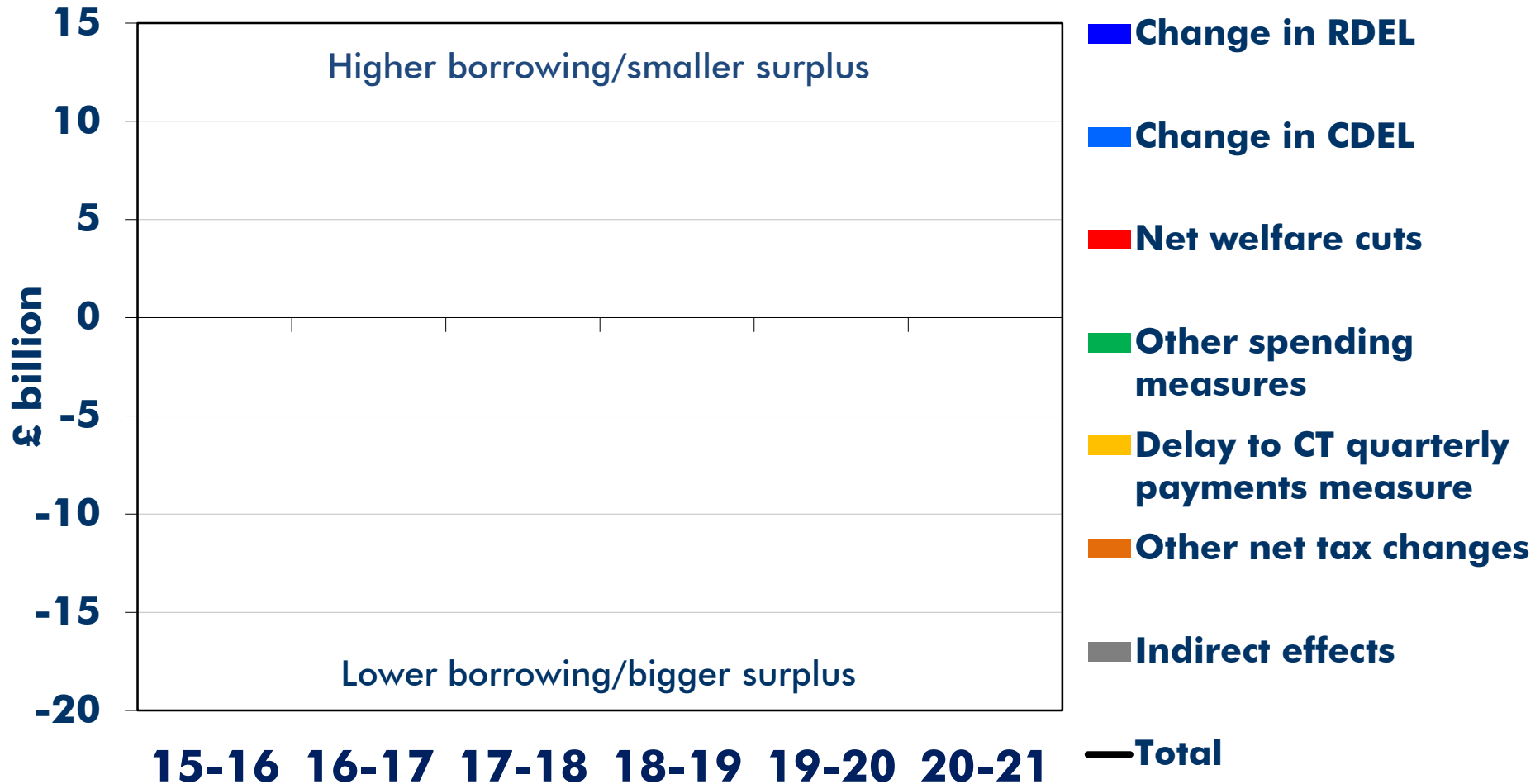
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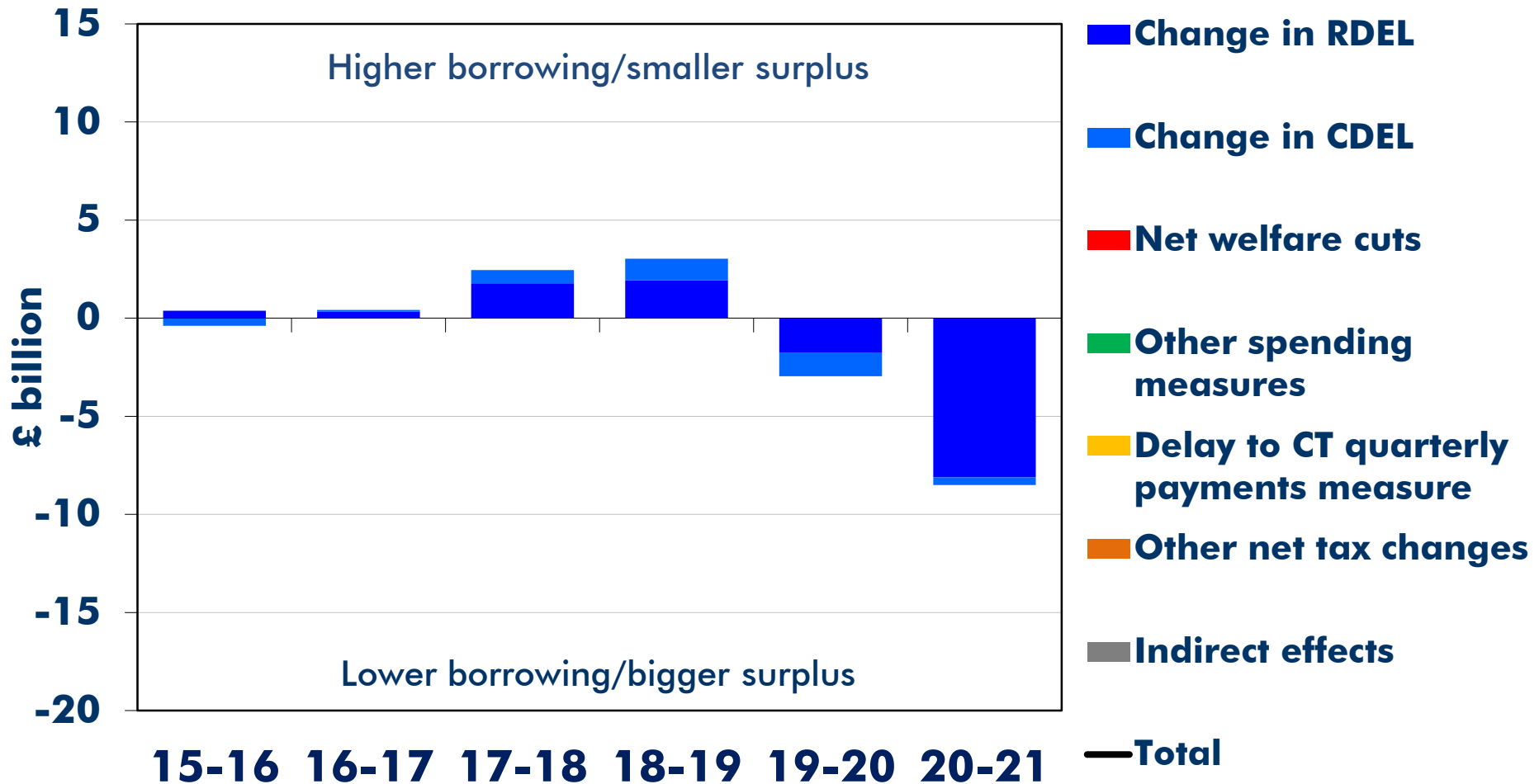
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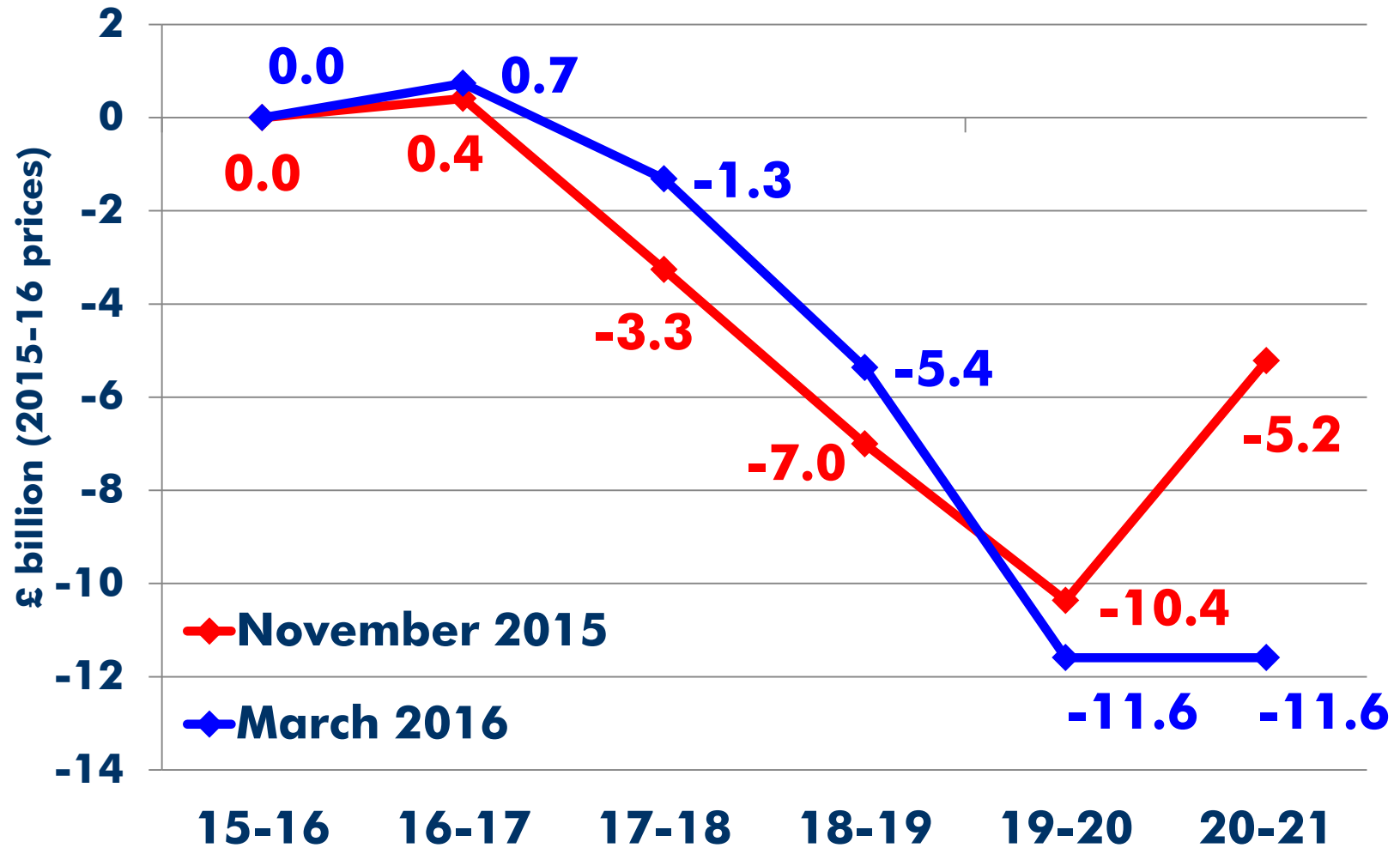
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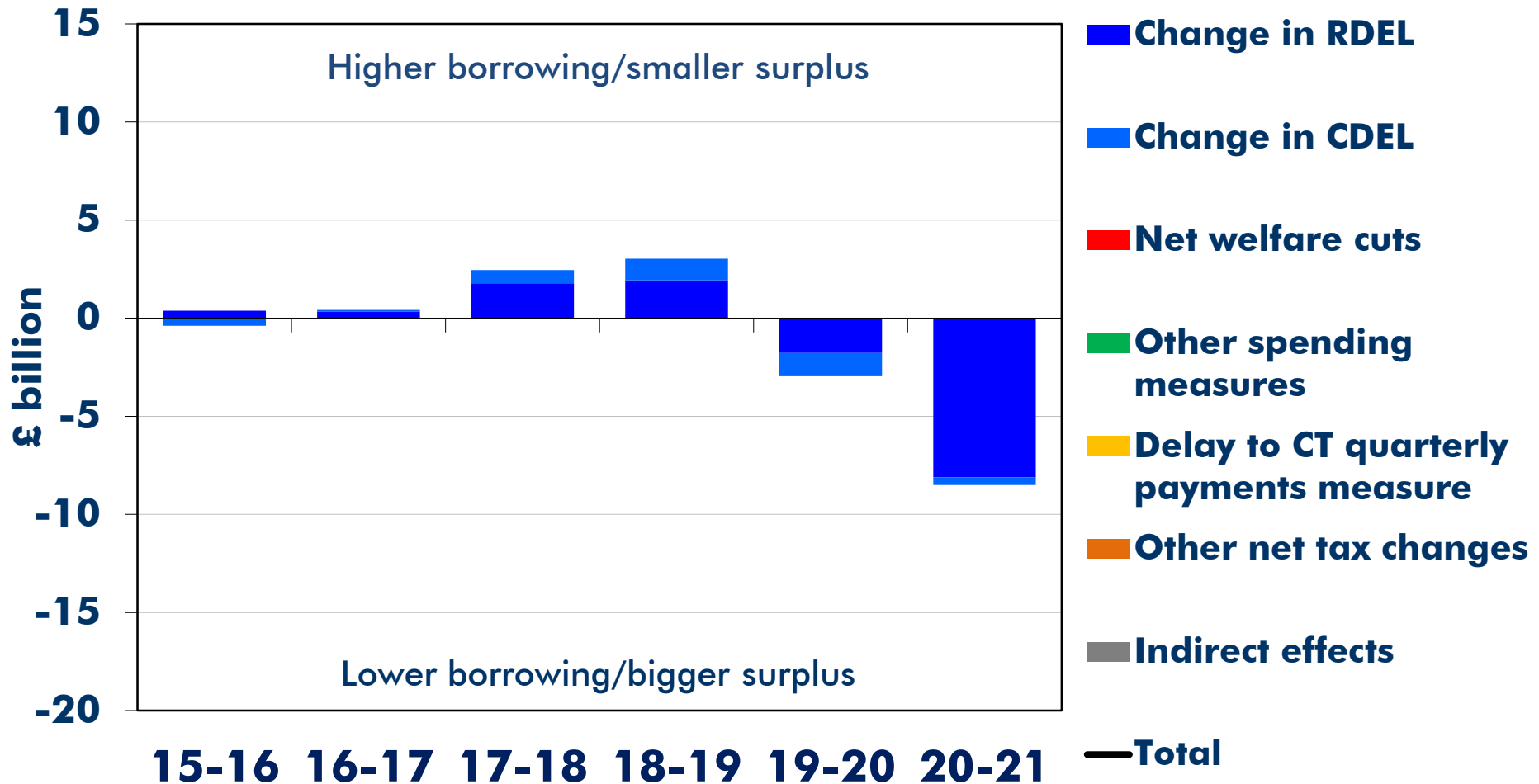
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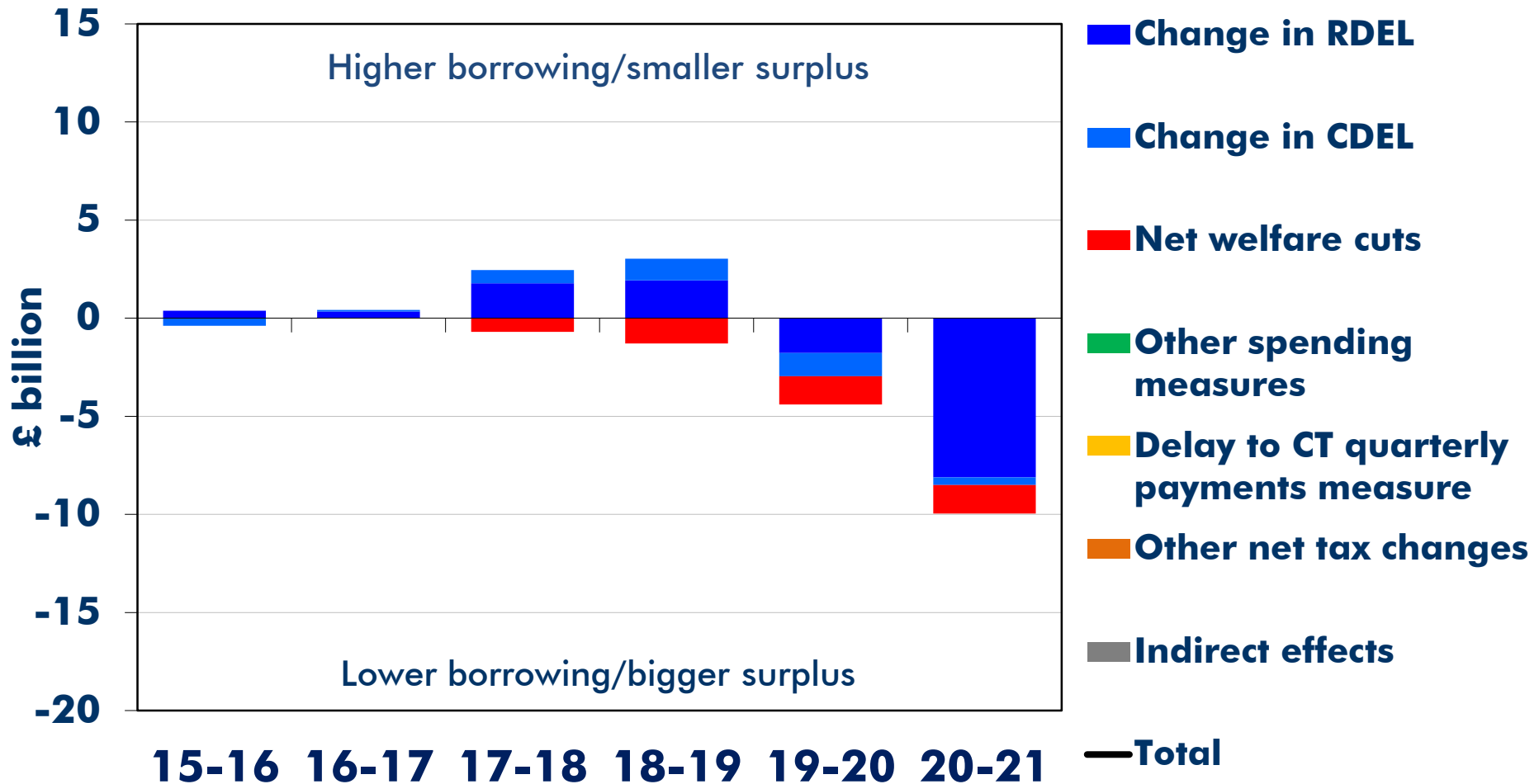
# Change in real RDEL from 2015-16



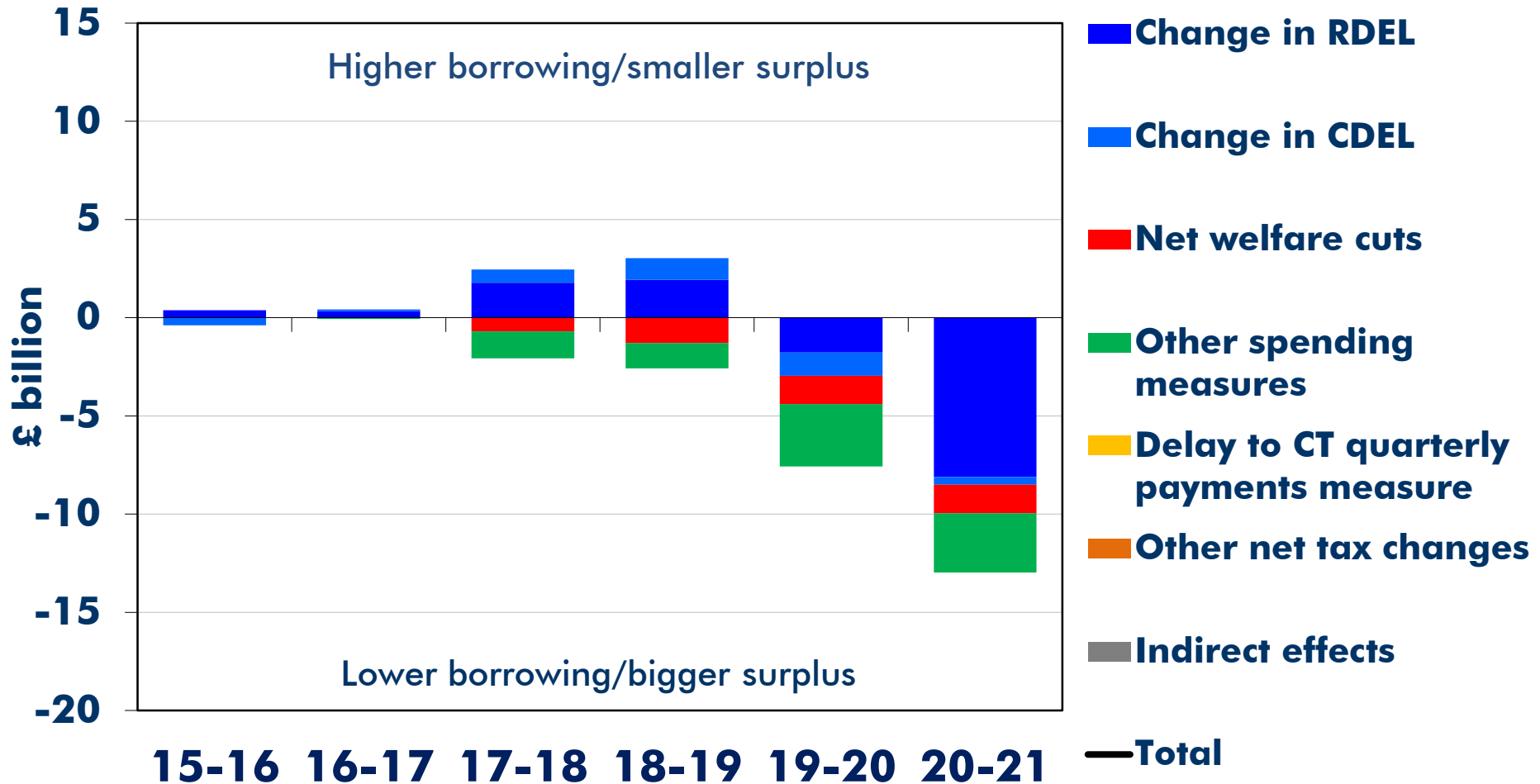
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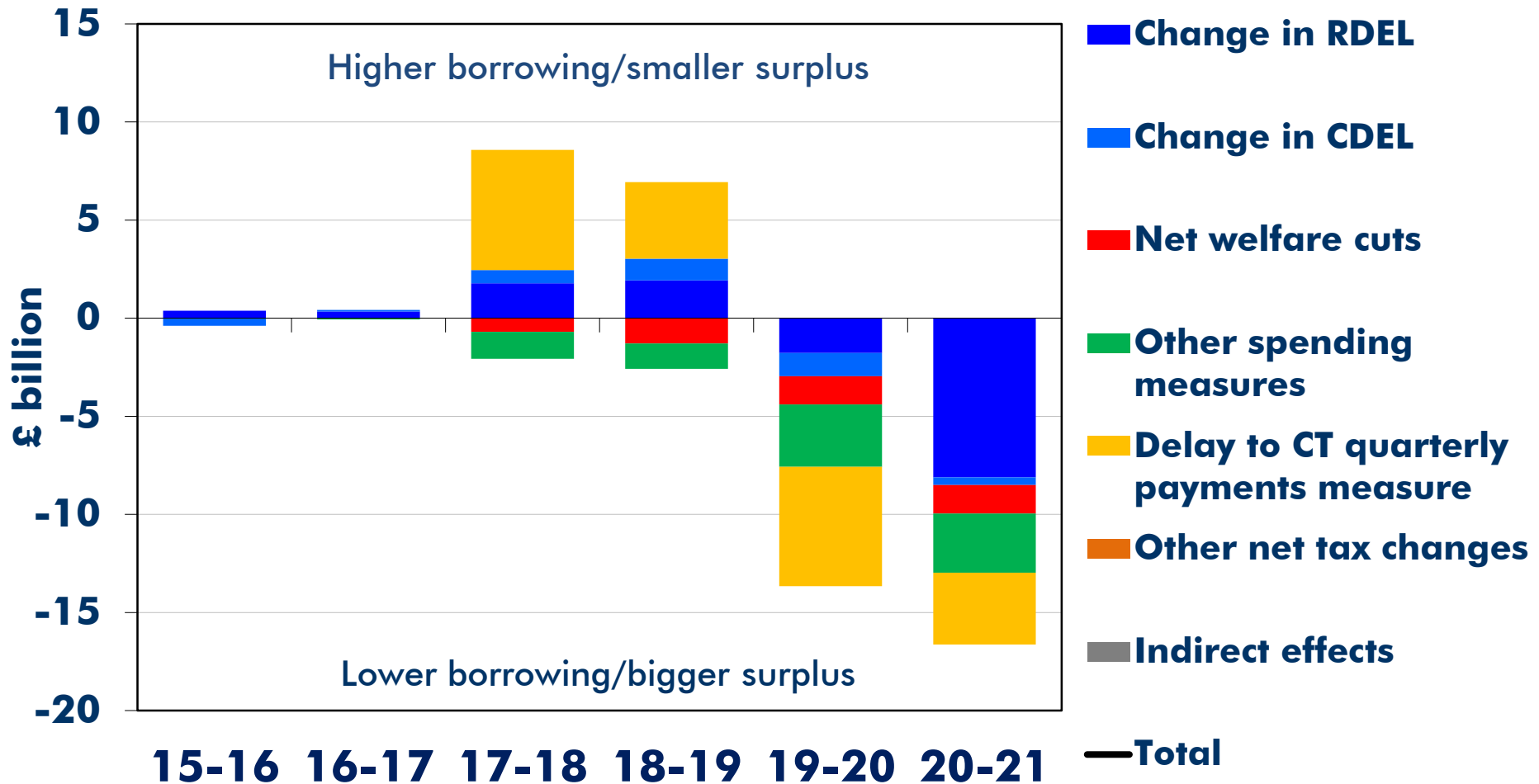


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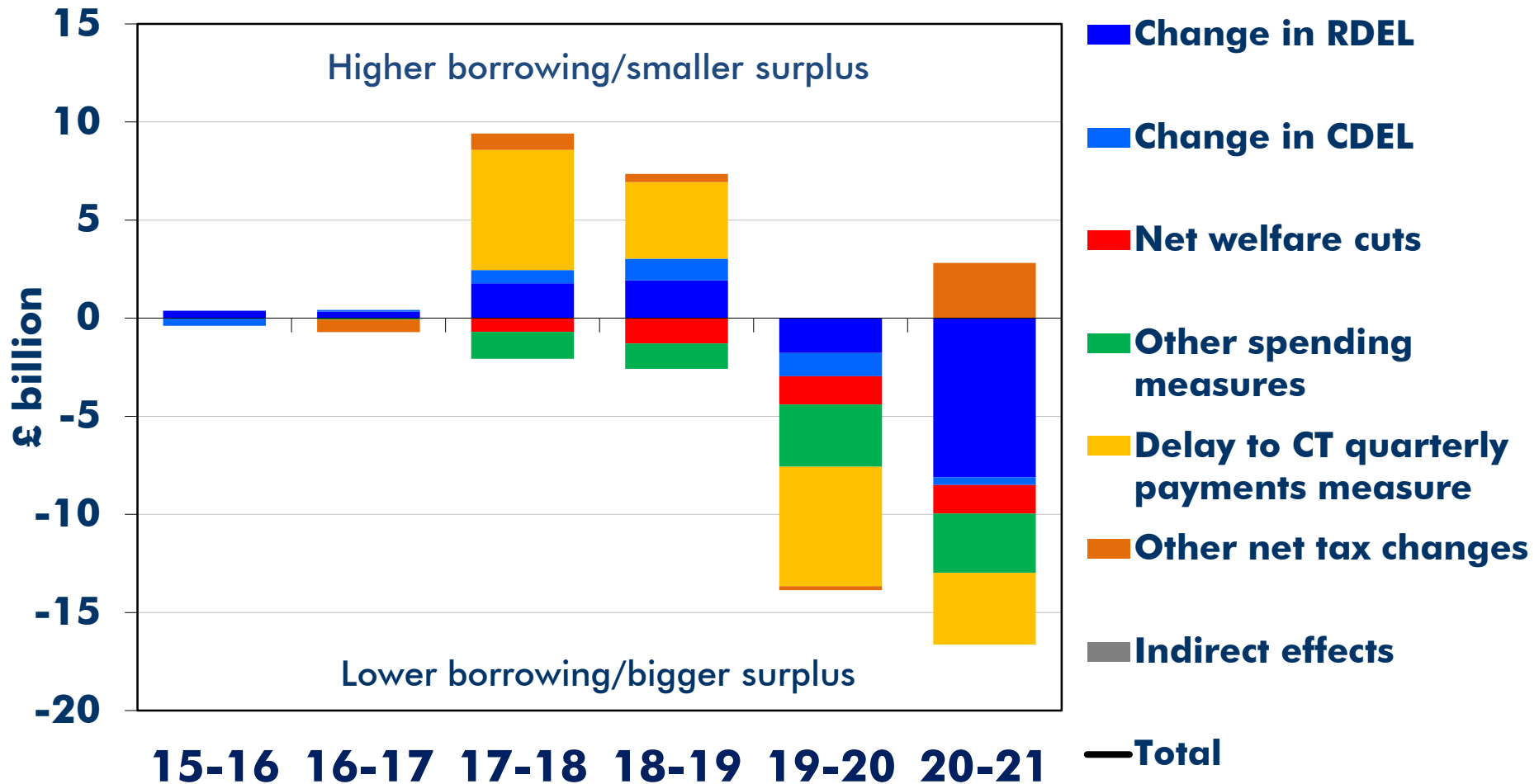




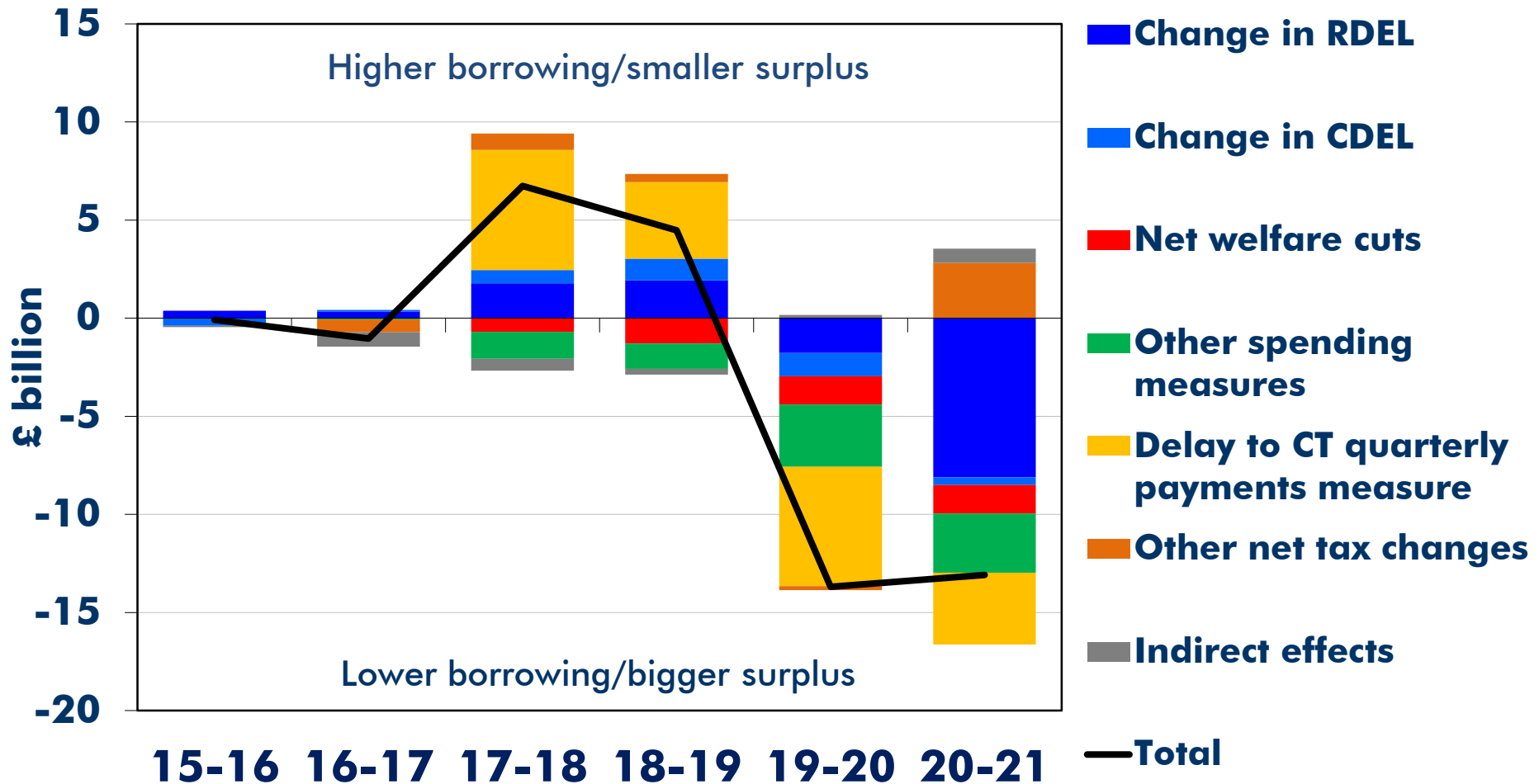
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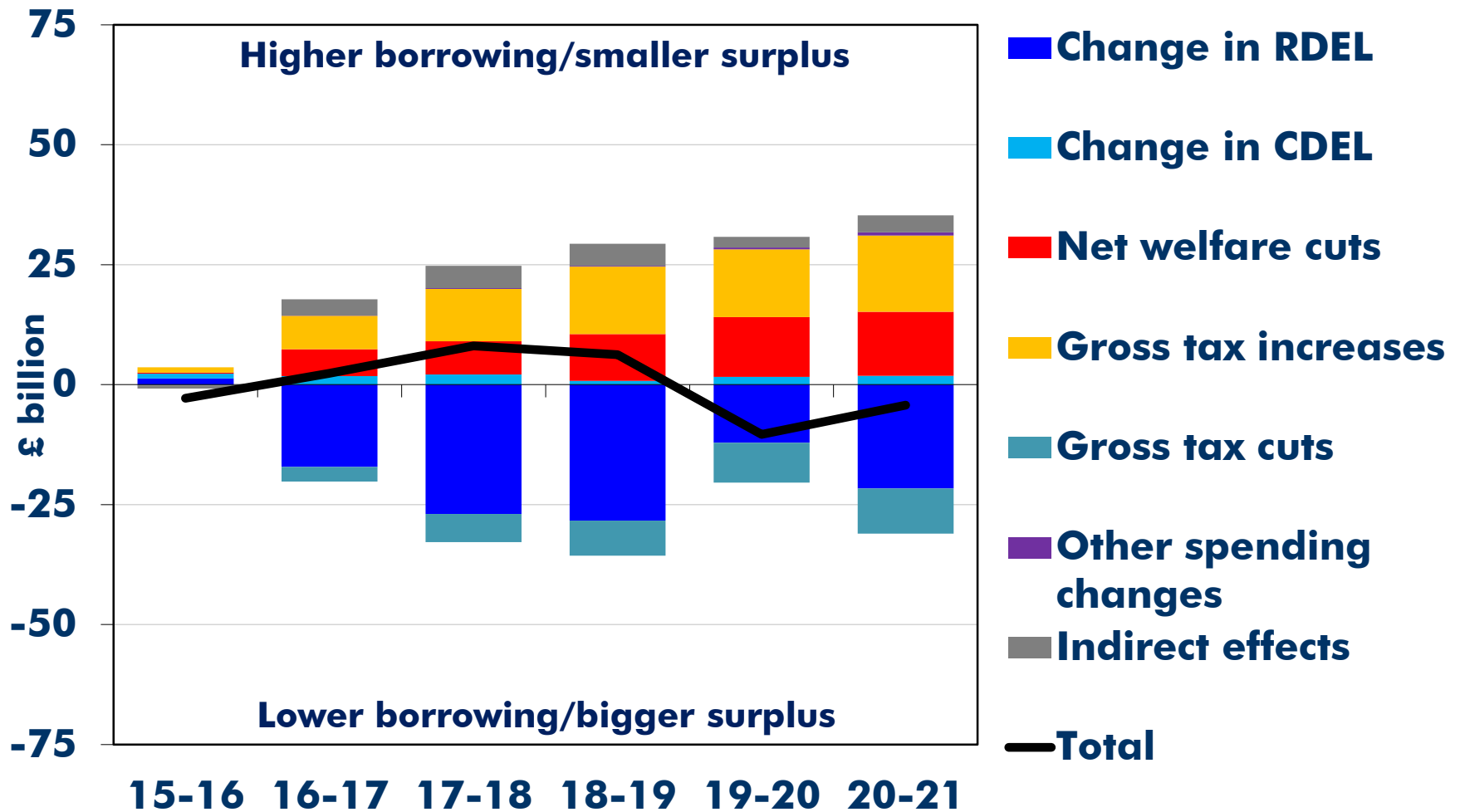
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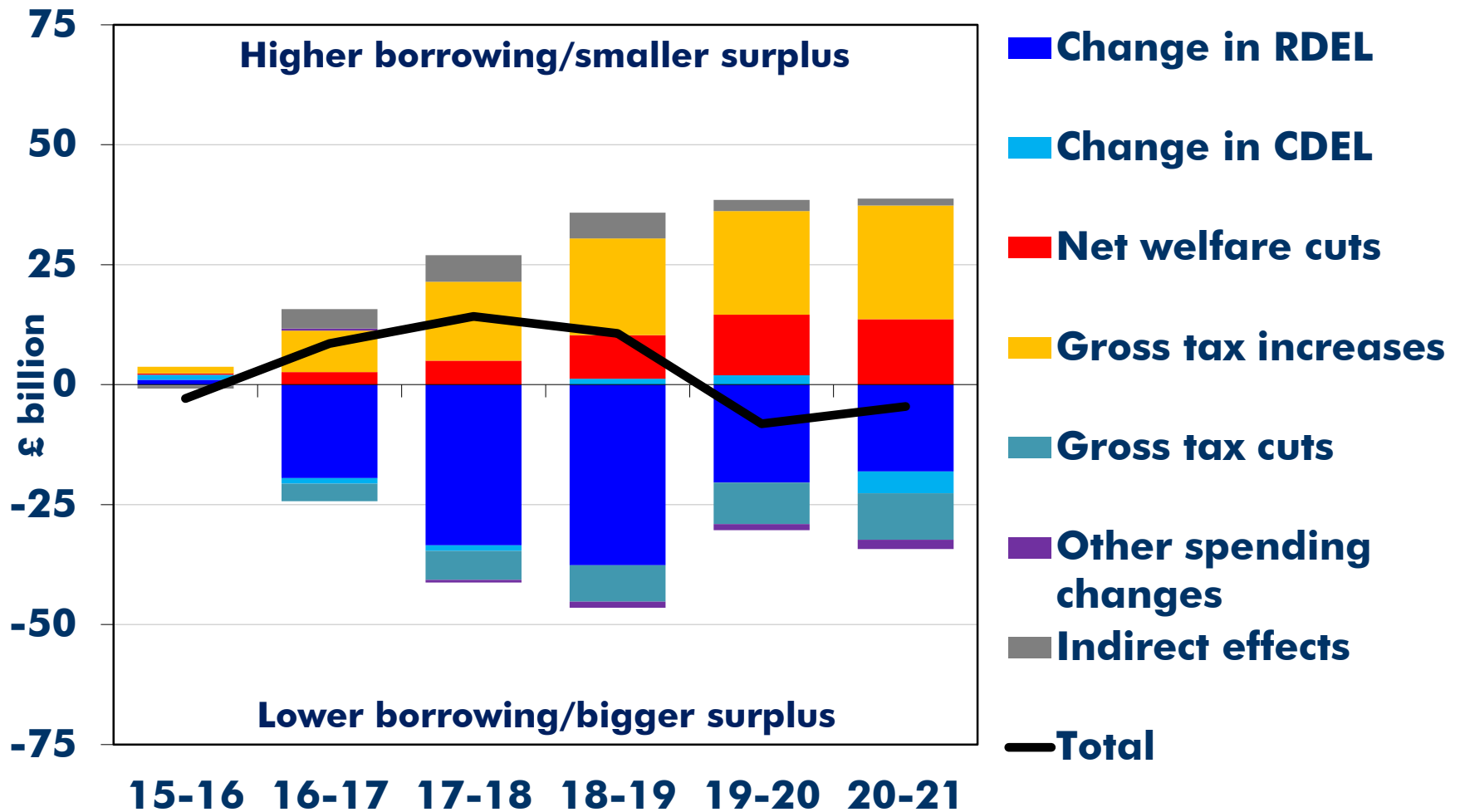
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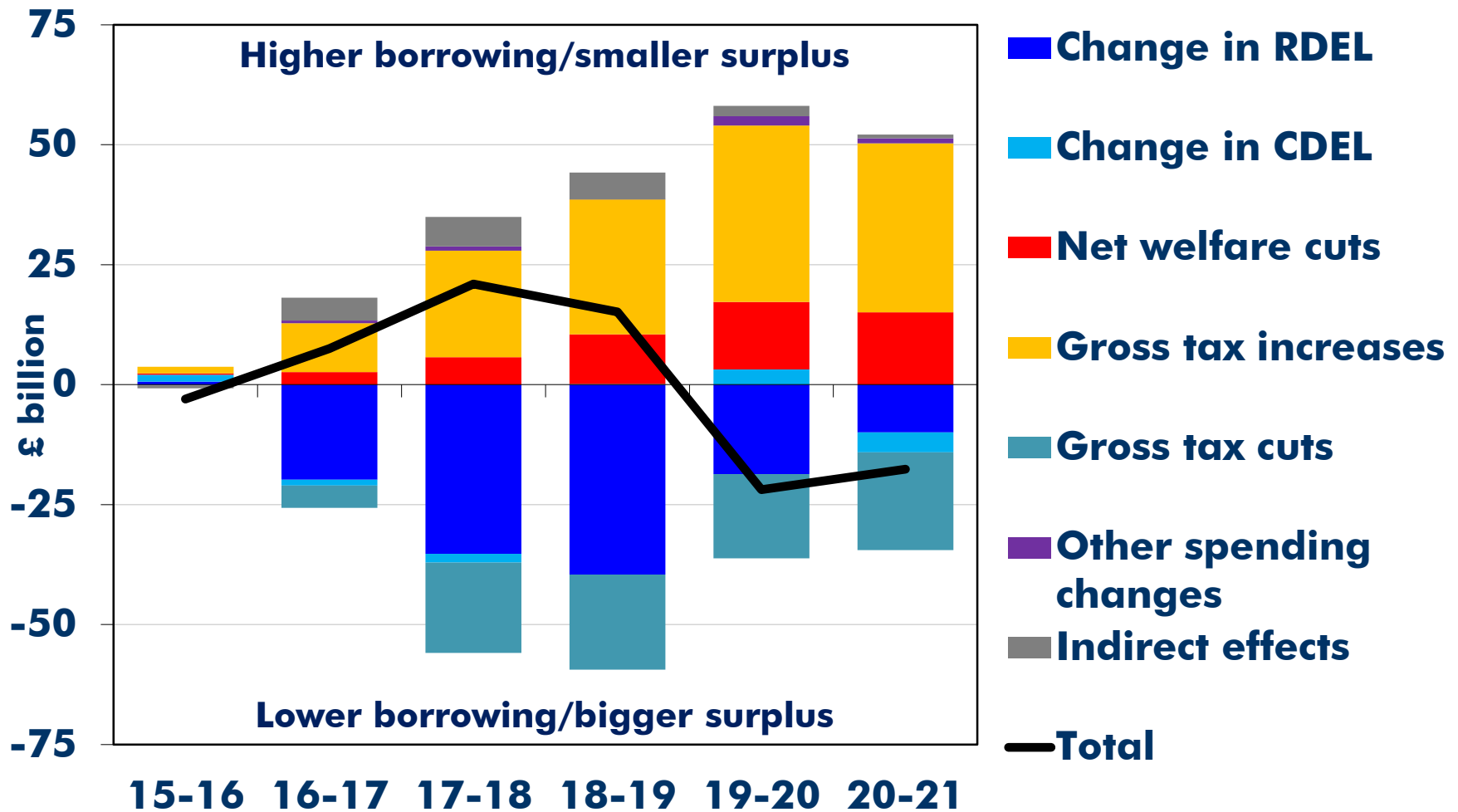
# The policy package (July)



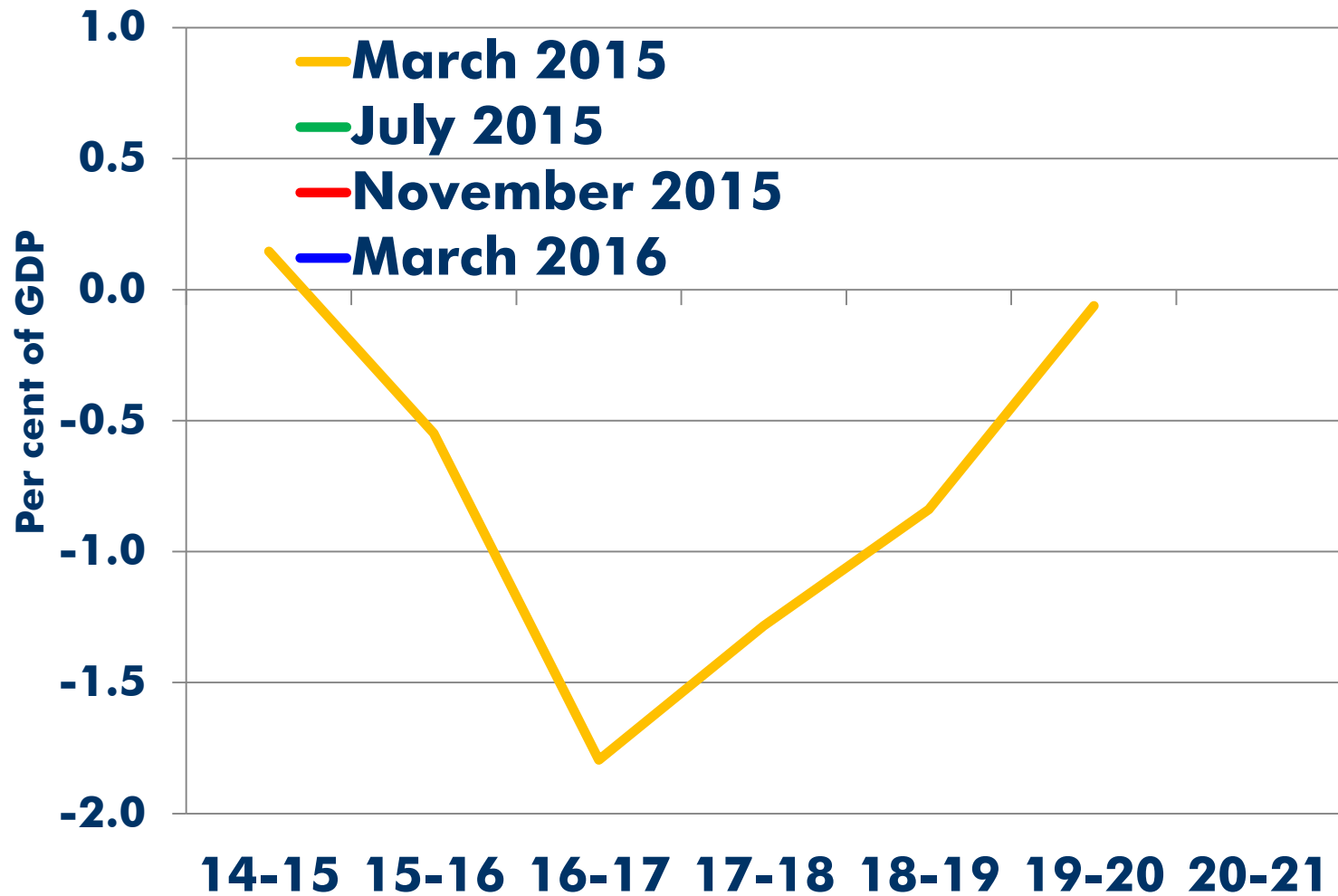
# The policy package (July, Nov)



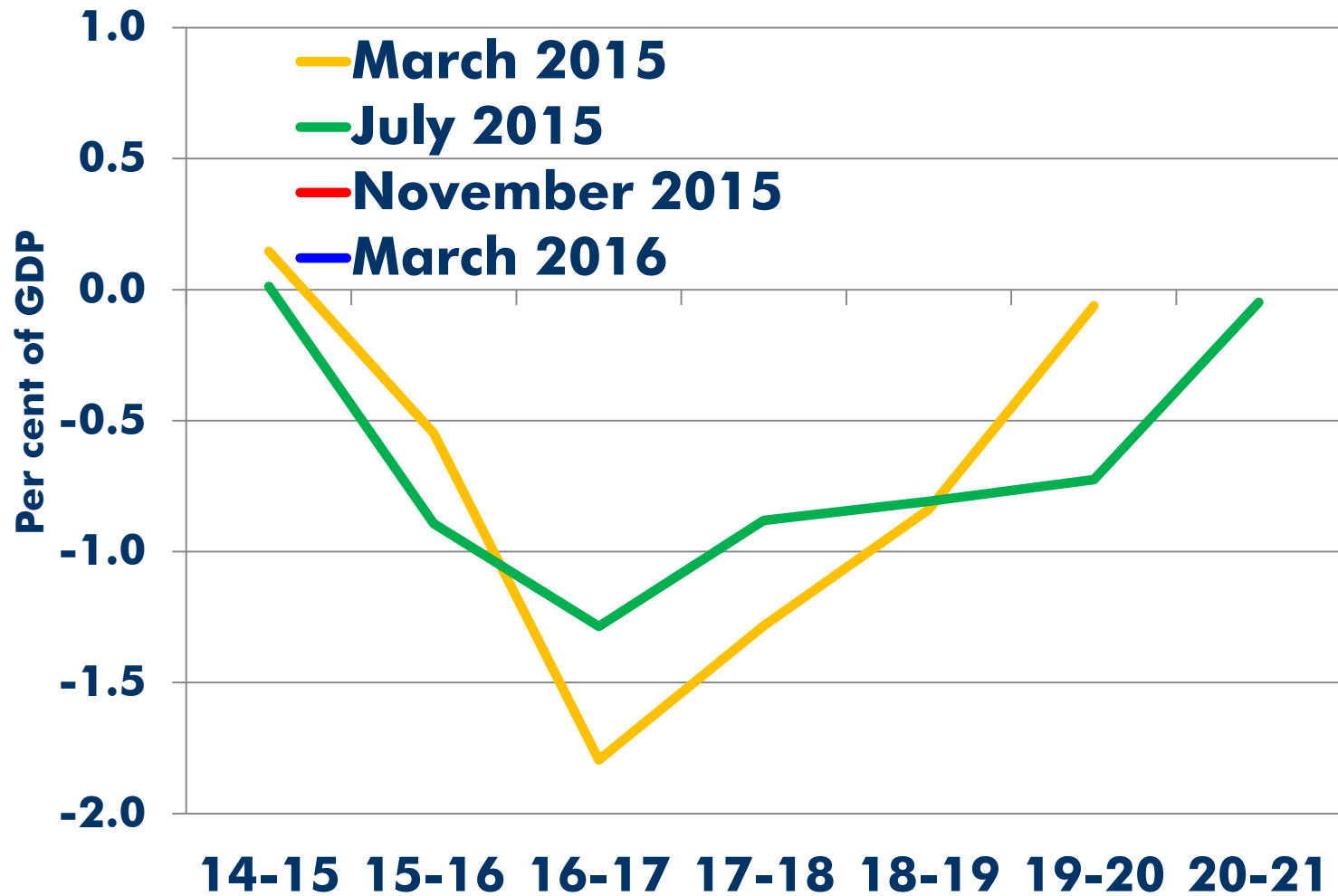
# The policy package (July, Nov, Mar)



# The pace of fiscal tightening

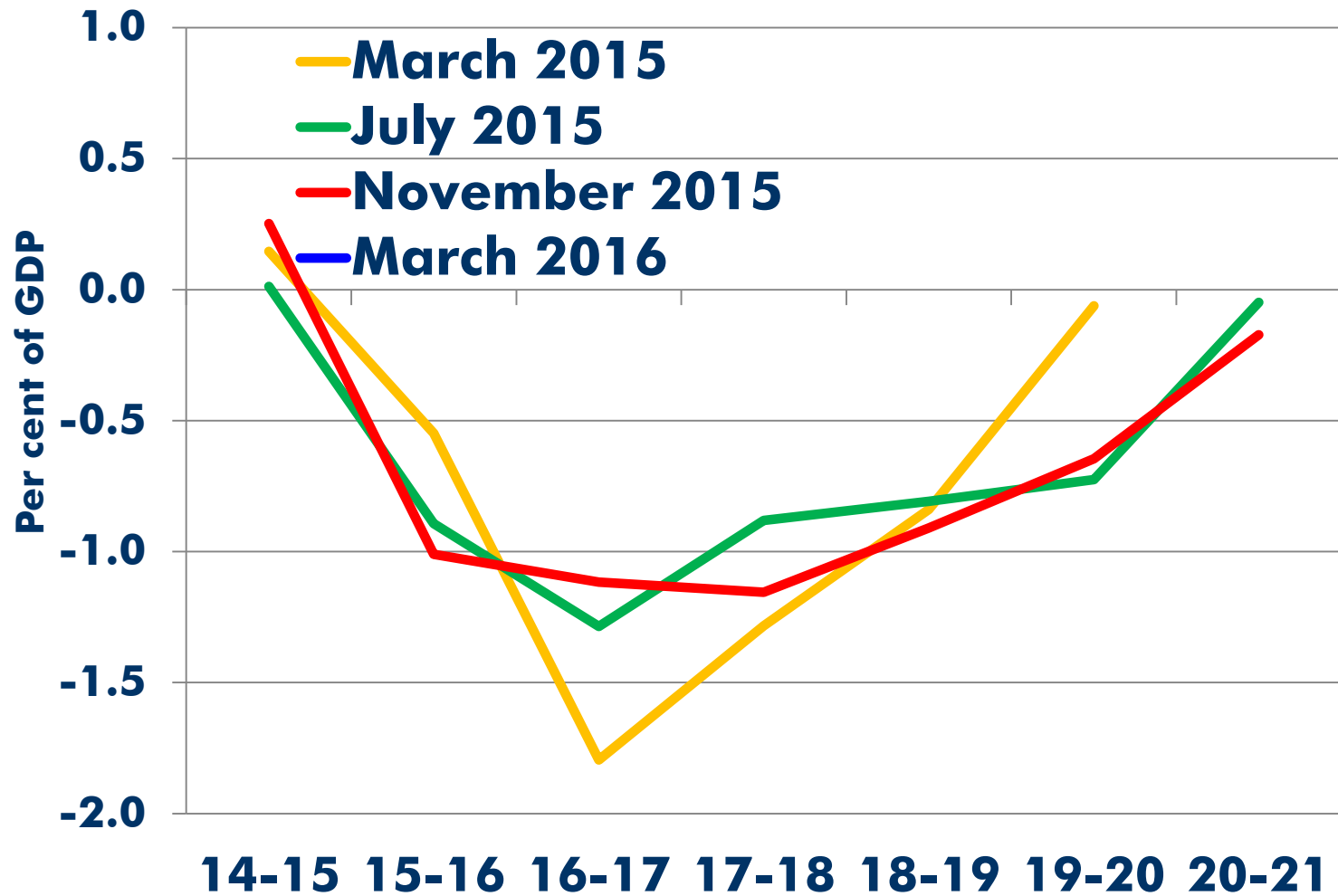


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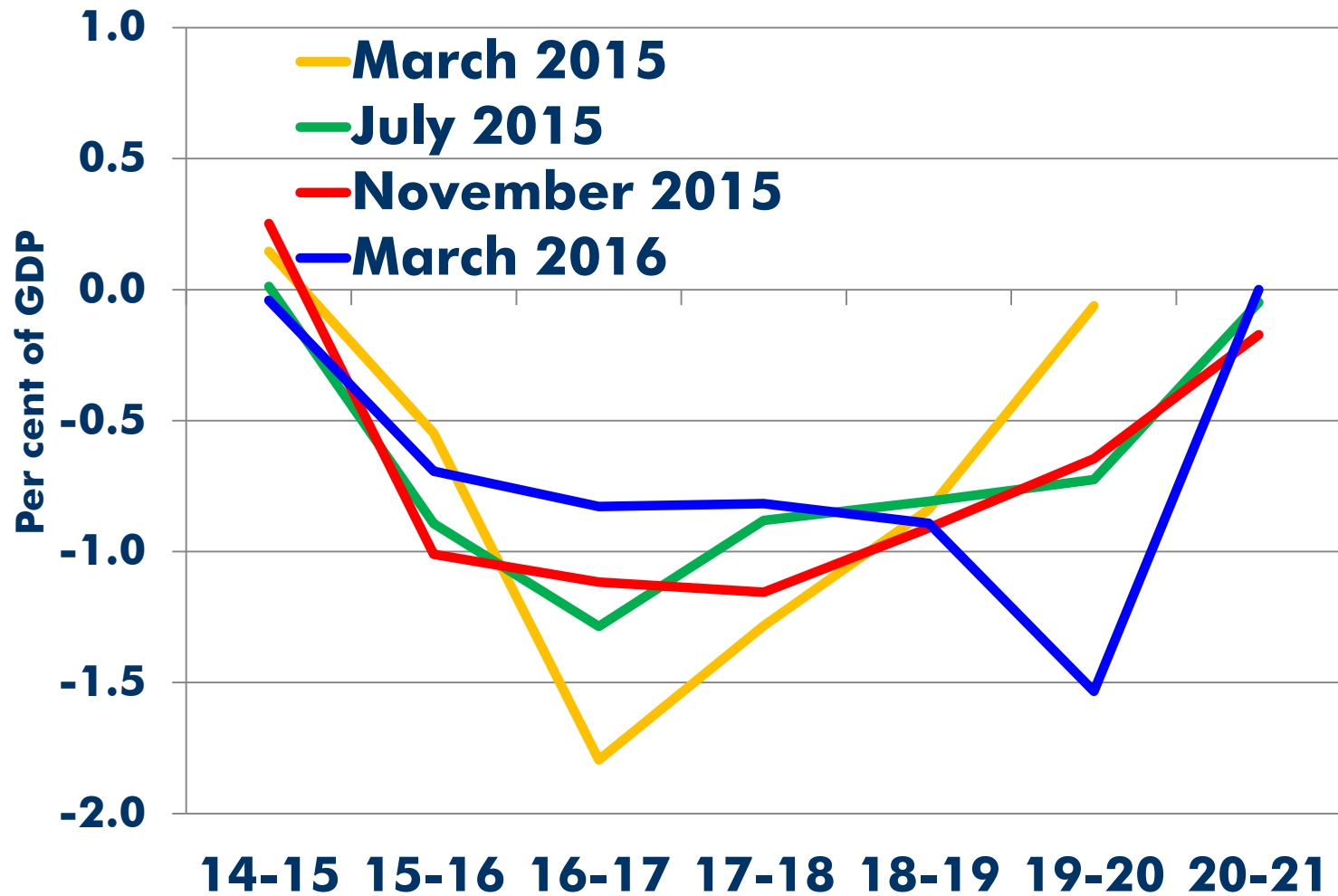




# The pace of fiscal tightening



# The pace of fiscal tightening



# 2015-16: not as bad as it looks?

- **We expect the deficit to fall more sharply over the rest of the year than it has to date**
  - Stronger income tax and NICs
  - Higher stamp duty on property and shares
  - Higher VAT
  - Lower housing association borrowing
  - Lower EU contributions

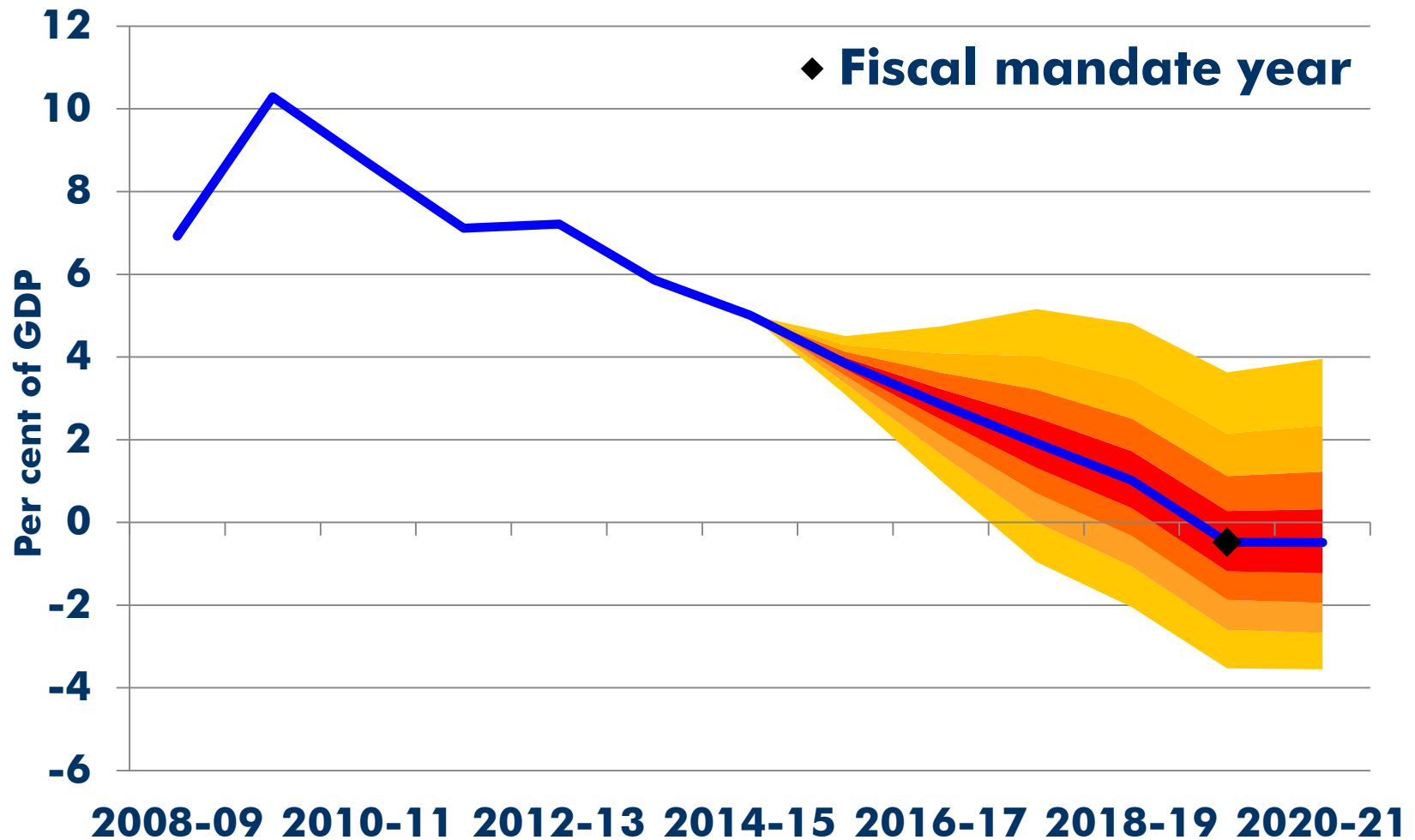
# Impact on the economy

- **Fiscal loosening then tightening**
  - GDP growth up 0.1ppt in 17-18, down 0.1ppt in 18-19 & 19-20
- **Measures affecting cost of capital**
  - A dropped measure boosts business investment 0.5% by 20-21
- **NICs on termination payments**
  - 0.1% reduction in wages and salaries by 2020-21
- **Lifetime ISA for under 40s**
  - 0.3% increase on house prices by 2020-21
- **Soft drinks industry levy**
  - Increases inflation by  $\frac{1}{4}$  ppt in 2018-19

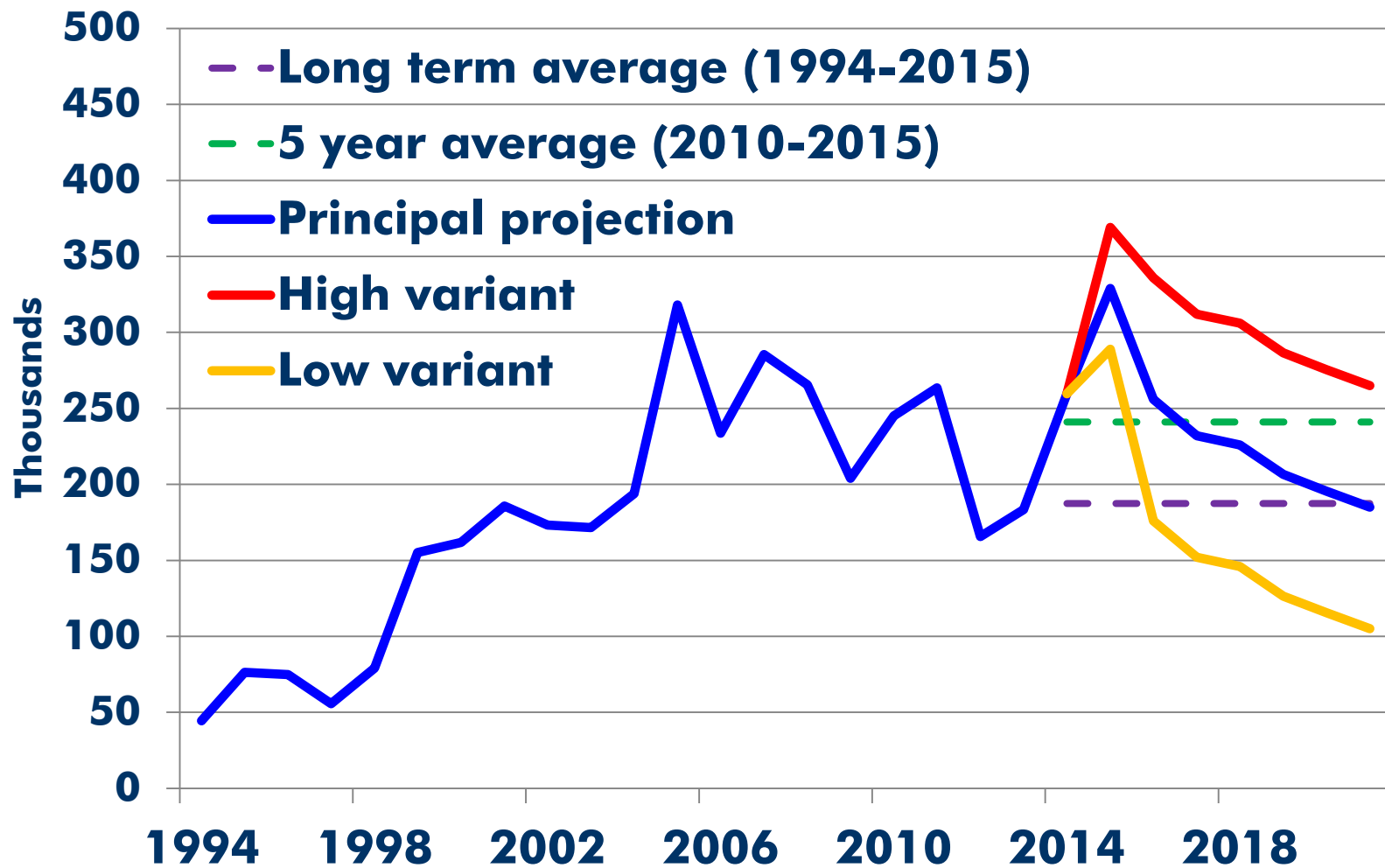
# The fiscal rules

- **Fiscal mandate**
  - Requires a surplus on public sector net borrowing by the end of 2019-20 and each subsequent year
- **Supplementary target**
  - For public sector net debt to fall as a percentage of GDP in each year to 2019-20 (after which it would continue if mandate met)
- **These targets apply unless ‘negative shock’**

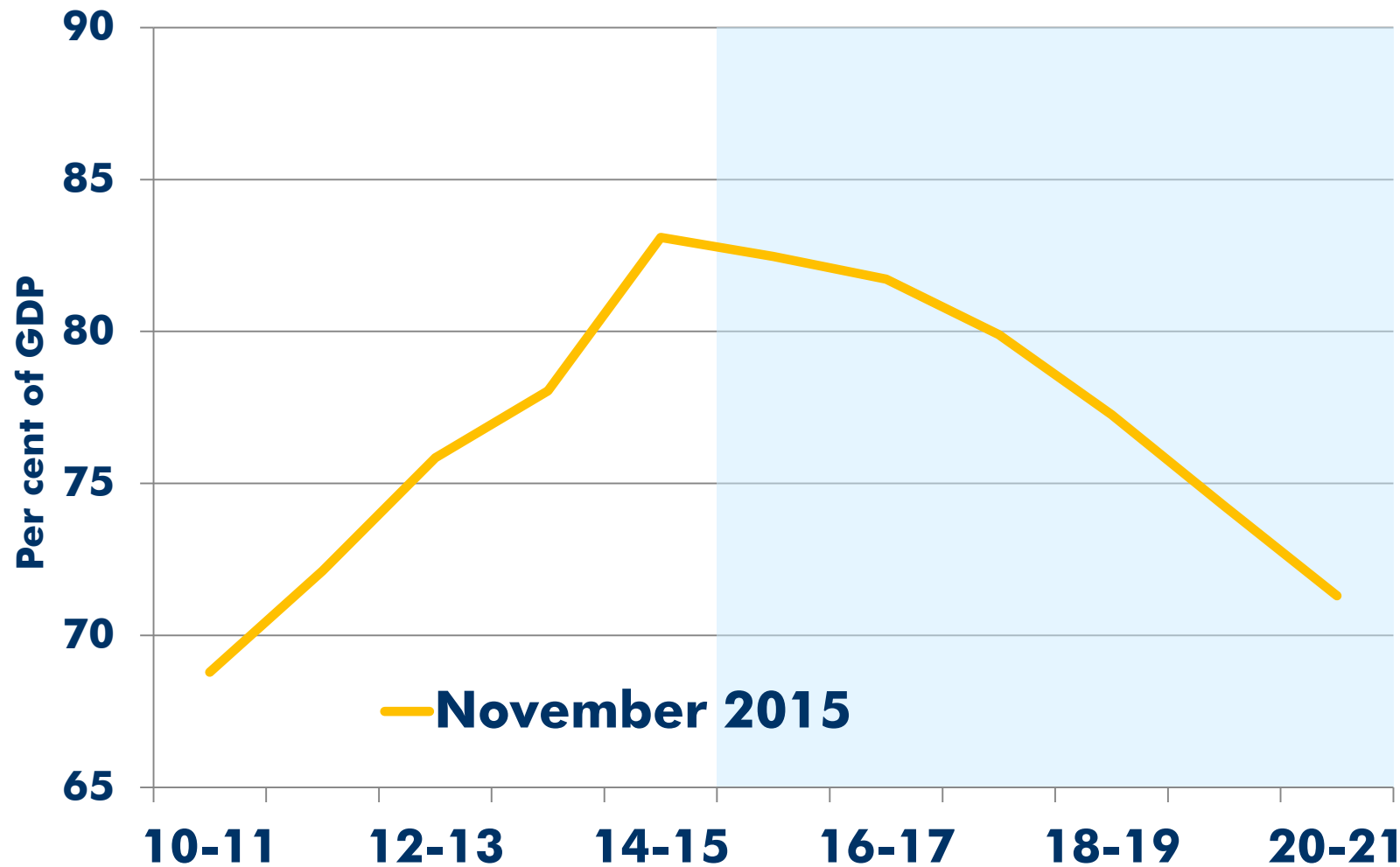
# Public sector net borrowing



# Net migration scenarios

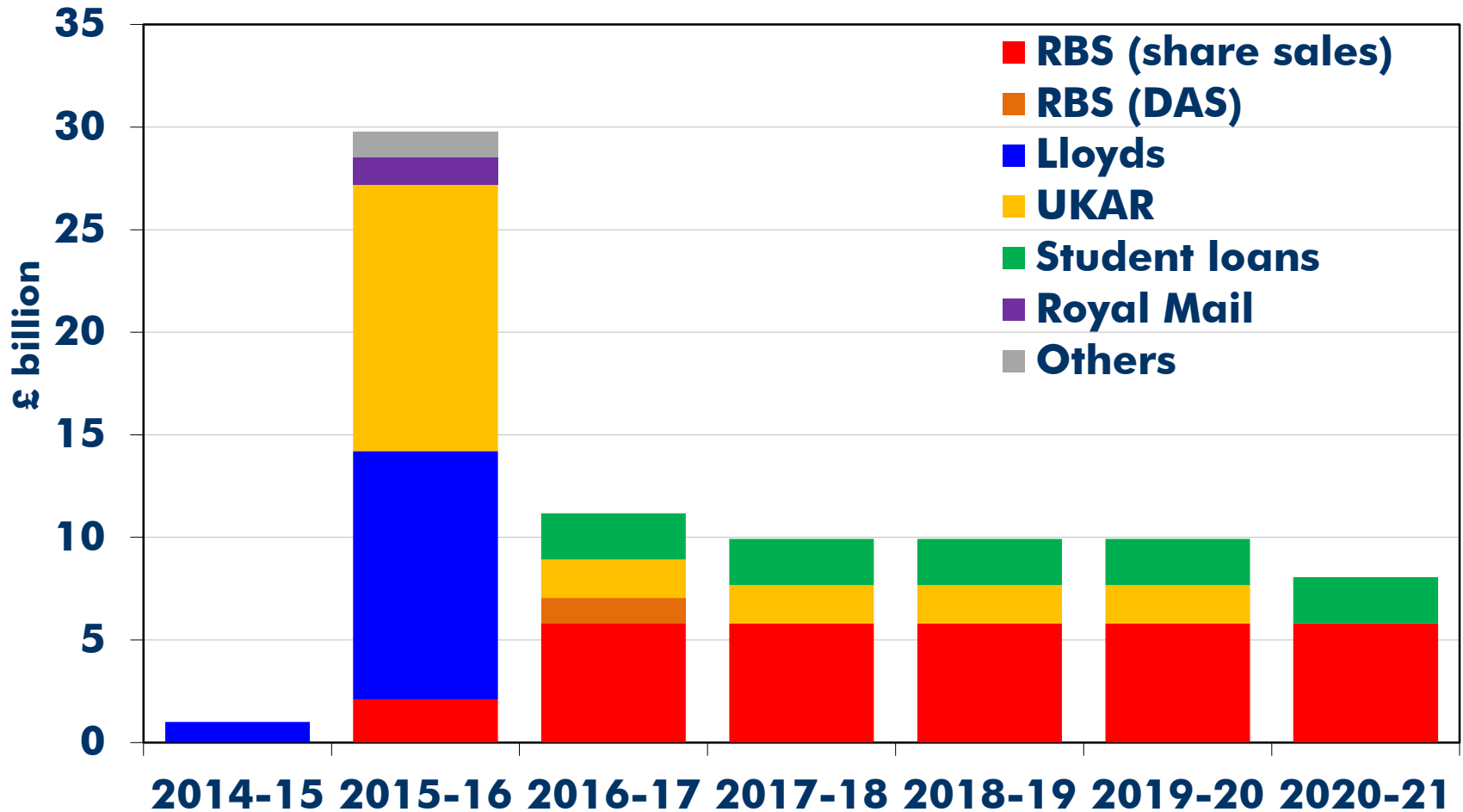


# Public sector net debt

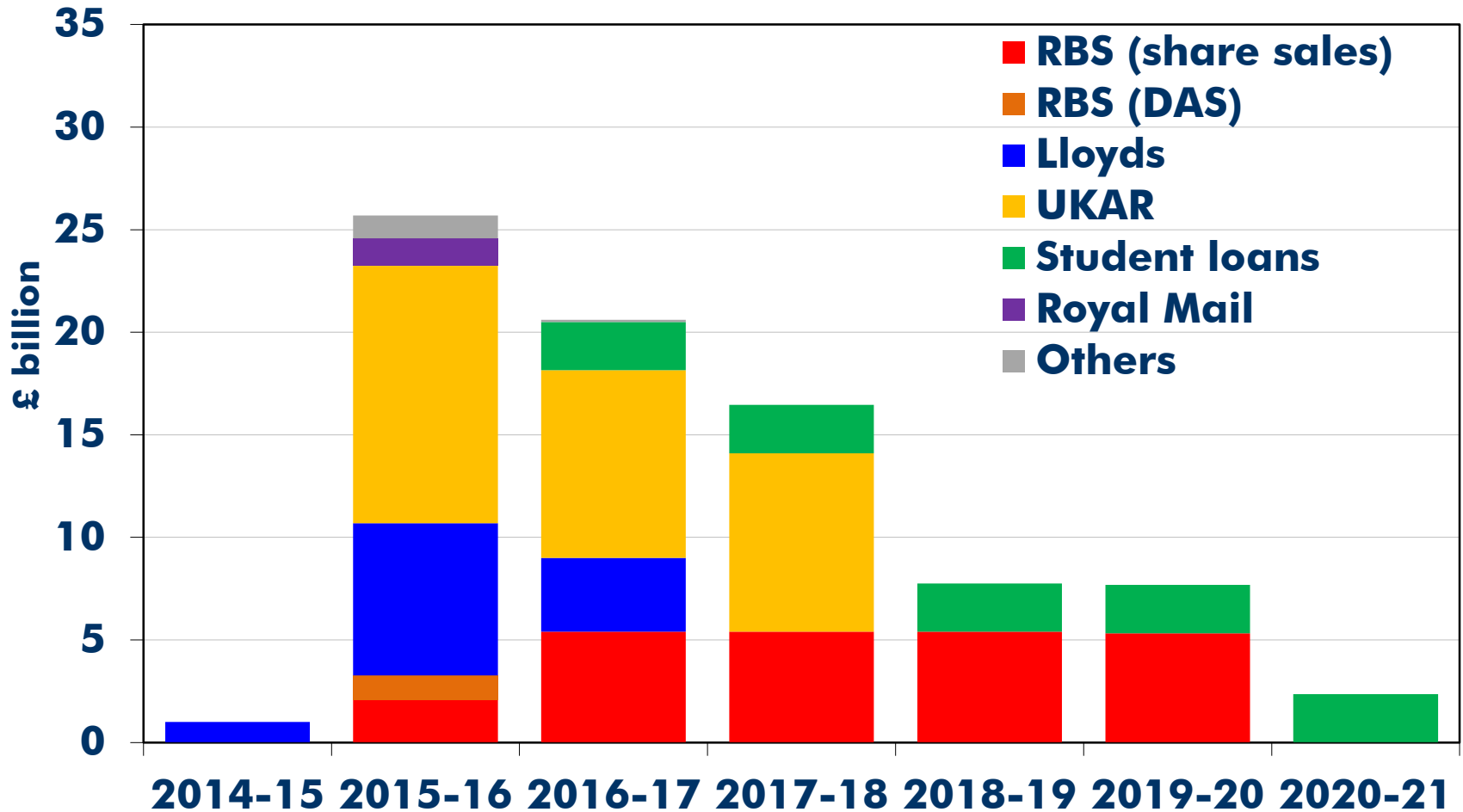




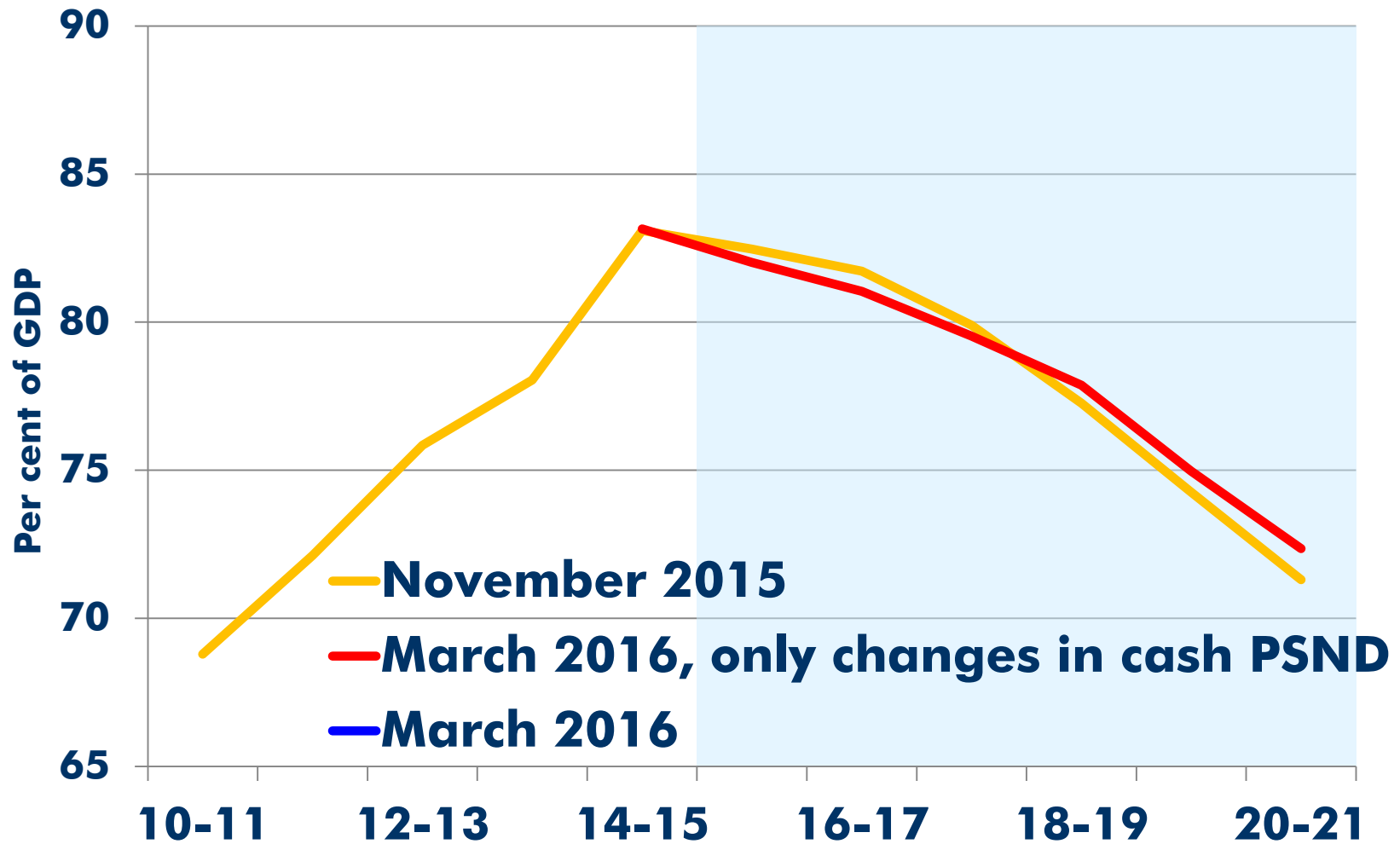
# Major asset sales (November)



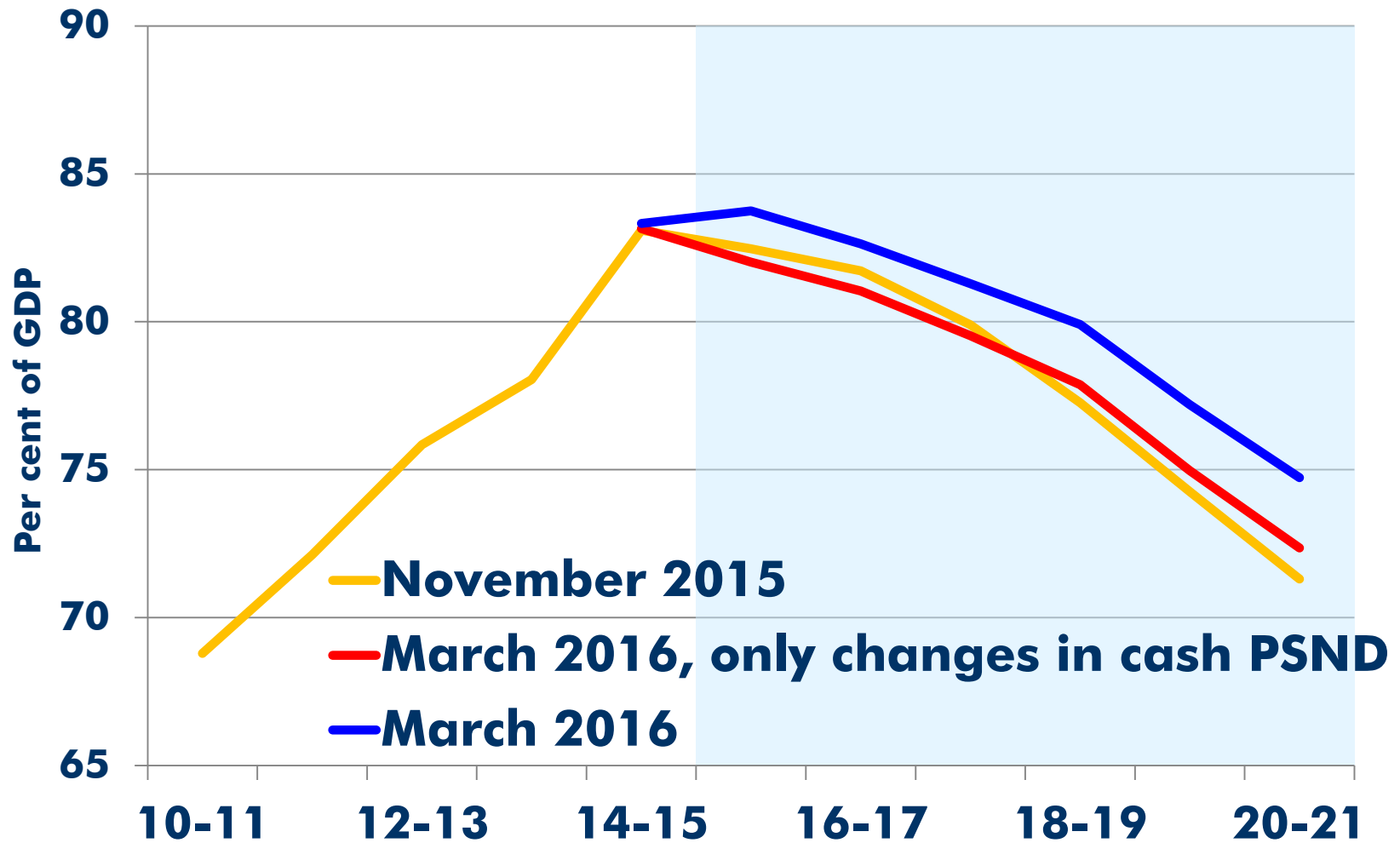
# Major asset sales (March)



# Public sector net debt



# Public sector net debt



# The welfare cap

£ billion	2016-17	2017-18	2018-19	2019-20	2020-21
<b>July welfare cap</b>	<b>115.2</b>	<b>114.6</b>	<b>114.0</b>	<b>113.5</b>	<b>114.9</b>
<b>November forecast</b>	<b>119.2</b>	<b>117.7</b>	<b>115.9</b>	<b>115.3</b>	<b>117.1</b>
<i>Pre-measures changes</i>	0.6	1.0	1.9	2.4	2.5
<i>'Aids and appliances'</i>	0.0	-0.6	-1.2	-1.3	-1.3
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<b>Difference from cap</b>	<b>+4.6</b>	<b>+3.4</b>	<b>+2.5</b>	<b>+2.7</b>	<b>+3.2</b>
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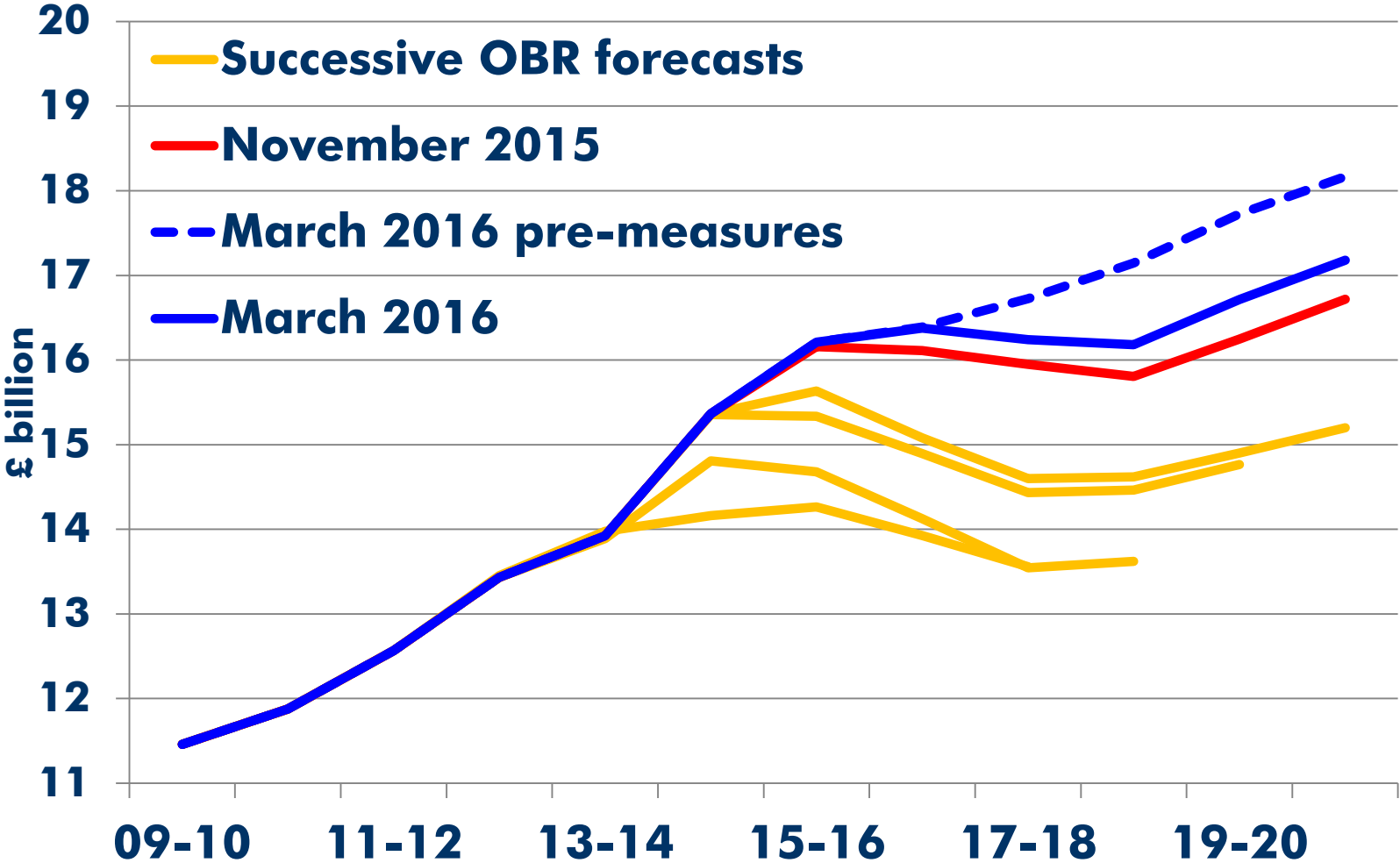
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# Disability benefits



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<i>'Aids and appliances'</i>	0.0	-0.6	-1.2	-1.3	-1.3
<i>Other policy measures</i>	0.0	-0.1	-0.2	-0.2	-0.2
<b>March forecast</b>	<b>119.8</b>	<b>118.0</b>	<b>116.4</b>	<b>116.2</b>	<b>118.1</b>
<b>Difference from cap</b>	<b>+4.6</b>	<b>+3.4</b>	<b>+2.5</b>	<b>+2.7</b>	<b>+3.2</b>
<b>Difference from cap plus forecast margin</b>	<b>+2.3</b>	<b>+1.1</b>	<b>+0.2</b>	<b>+0.4</b>	<b>+0.9</b>

# Conclusion

- **An eventful Budget**
  - Revised pre-measures forecast and 77 measures
- **Underlying budget deficit forecast revised up**
- **But new tax cuts and spending commitments**
- **£10bn surplus maintained in 2019-20 thanks to**
  - Other tax increases
  - Unspecified cuts in future spending
  - Shuffling spending and receipts