Office for
Budget Responsibility

Tachwedd 2022 *Rhagolwg economaidd a chyllidol*
November 2022 *Economic and fiscal outlook*

Andy King
Pwyllgor Cyfrifoldeb Cyllidebol / Budget Responsibility Committee
Cynhadledd Drethi Llywodraeth Cymru / Welsh Government Tax Conference
23 Tachwedd 2022 / 23 November 2022

Background

The remit of the OBR

- **Five initial tasks**:
  - Medium-term economic and fiscal forecasts
  - Assessment of progress against fiscal targets
  - Scrutiny of tax and welfare measure costings
  - Long-term and balance sheet analysis
  - Evaluation of past forecast accuracy

- **Additional tasks**:
  - Forecasting devolved tax receipts (since 2012)
  - Regular report on trends in welfare spending (since 2014)
  - Regular fiscal risks report (since 2017)

- **But no policy advice**

The OBR and Welsh taxes

Forecasting devolved taxes in Wales

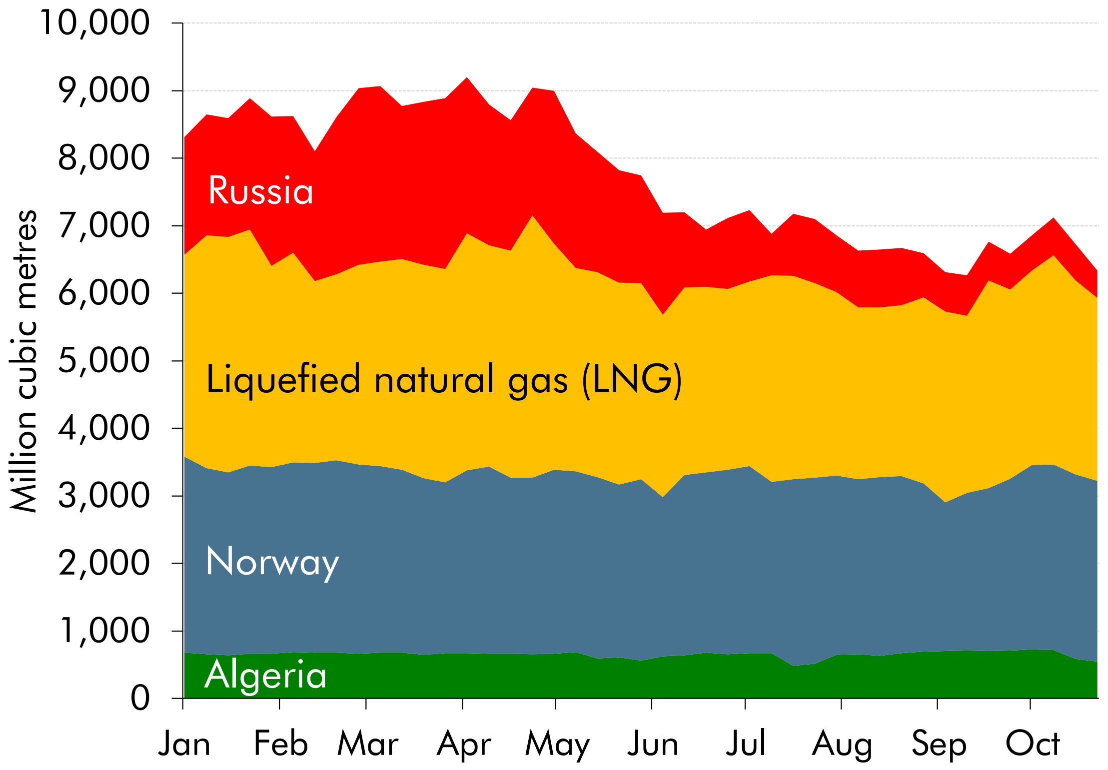
- Forecasts produced since 2014
- From 2019: official independent forecaster for Welsh Government
- Inaugural *Welsh taxes outlook* published in December 2019
- Built on previous work by Bangor University
- Transparent about judgements, uncertainty and process
- Aim to produce unbiased central forecasts, but will inevitably differ from outturn

November 2022

Economic and fiscal outlook

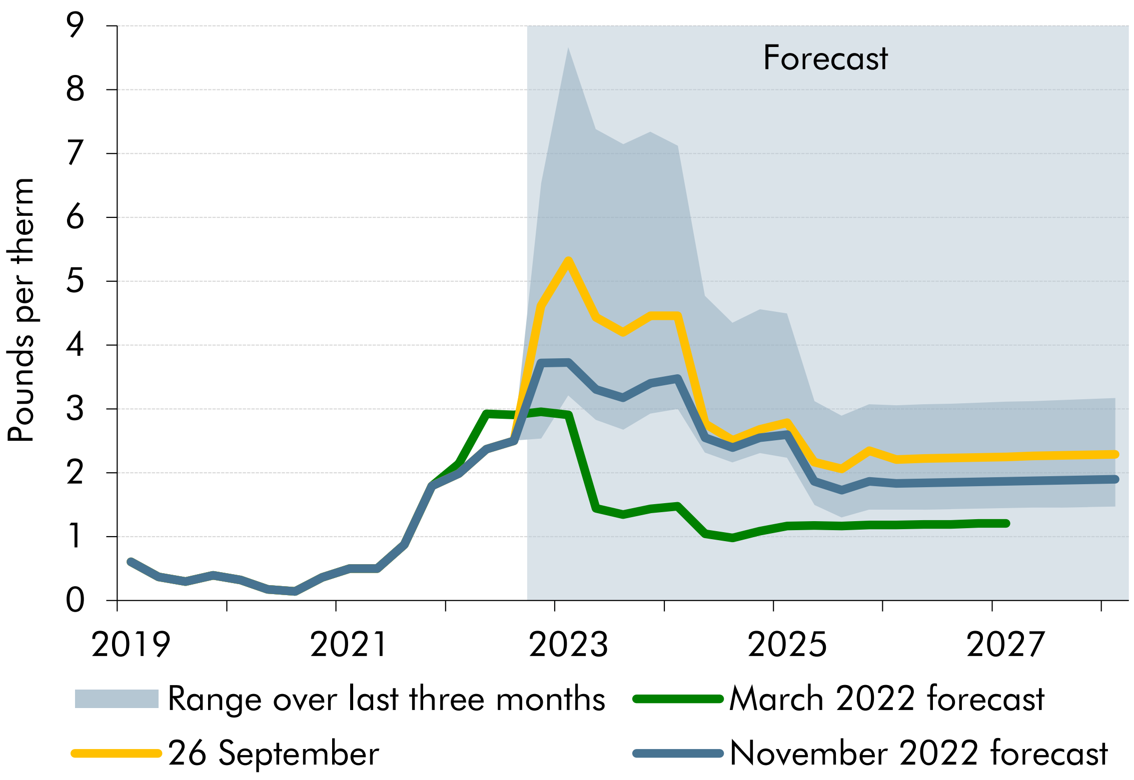
Energy market developments since March

EU and UK gas imports by source (2022)



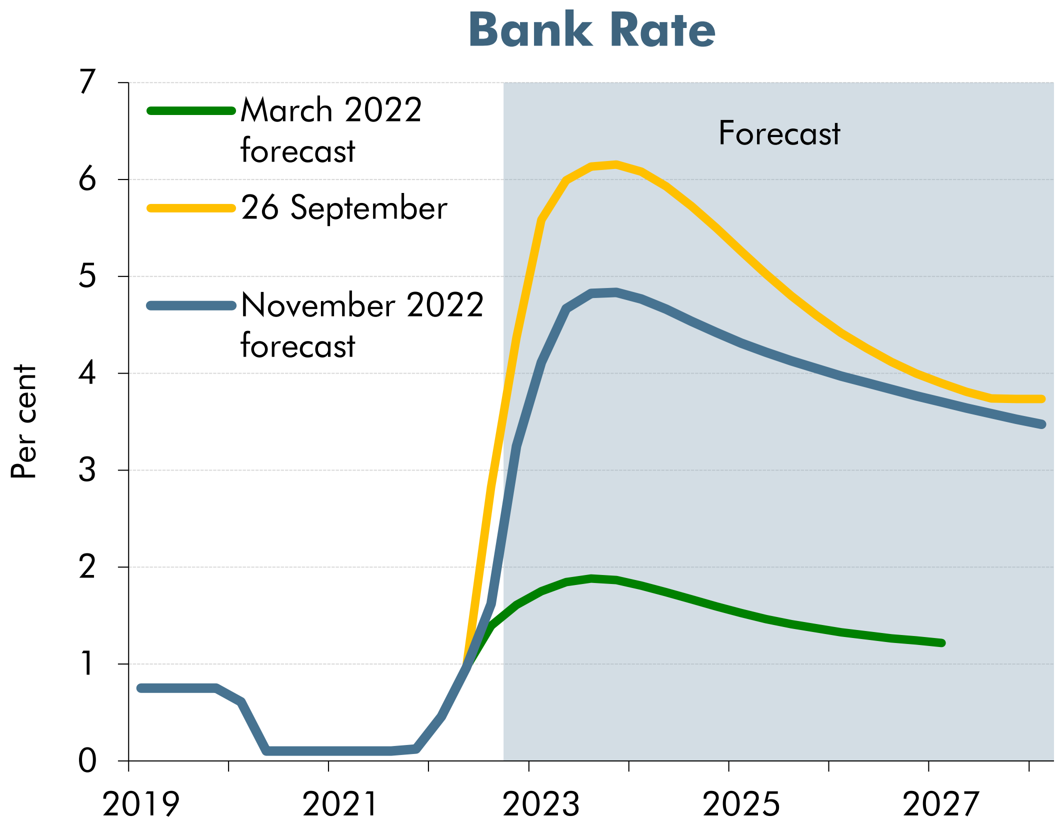
Source: Bruegel.org

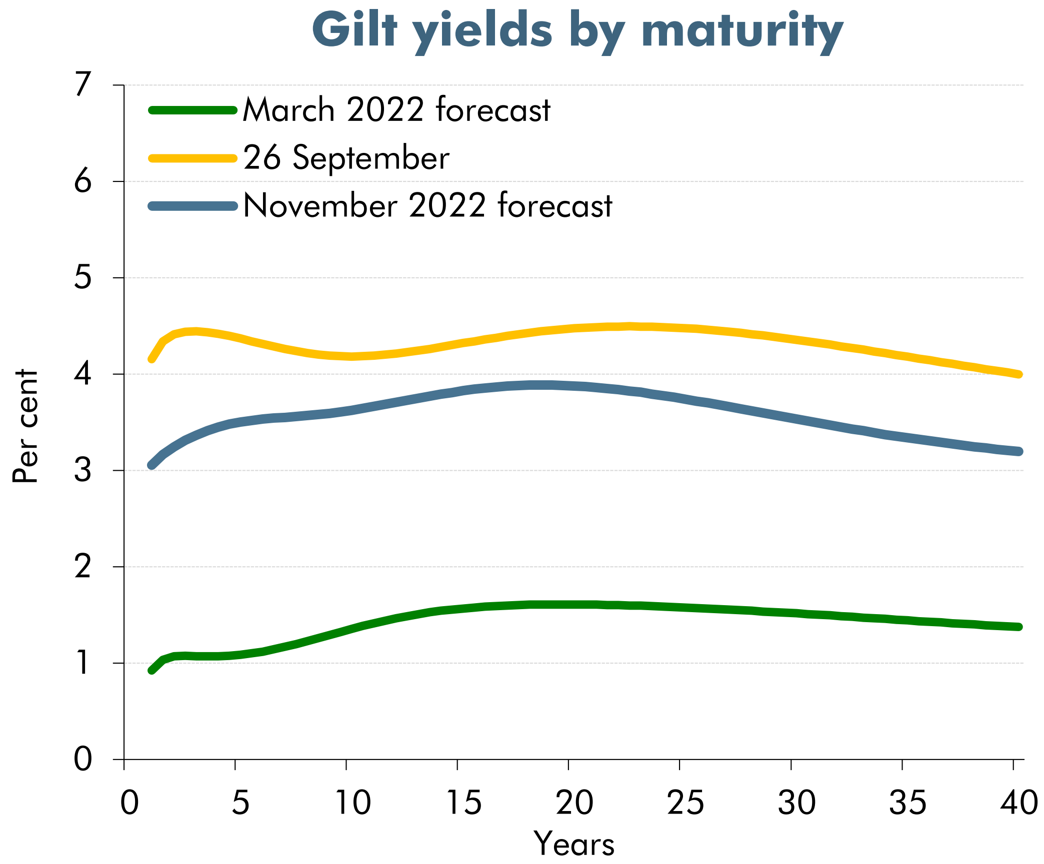
Gas prices



Source: Datastream, OBR

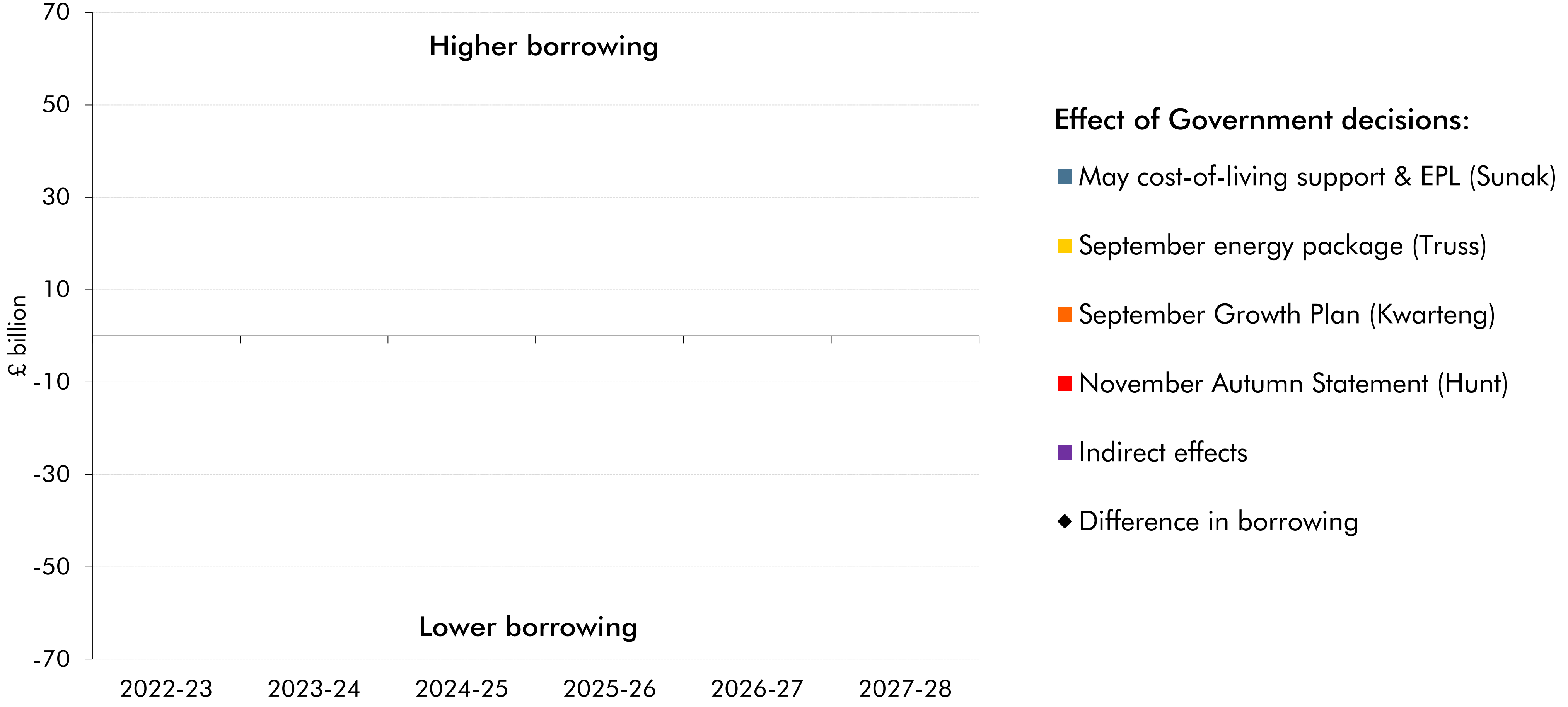
Interest rate developments since March





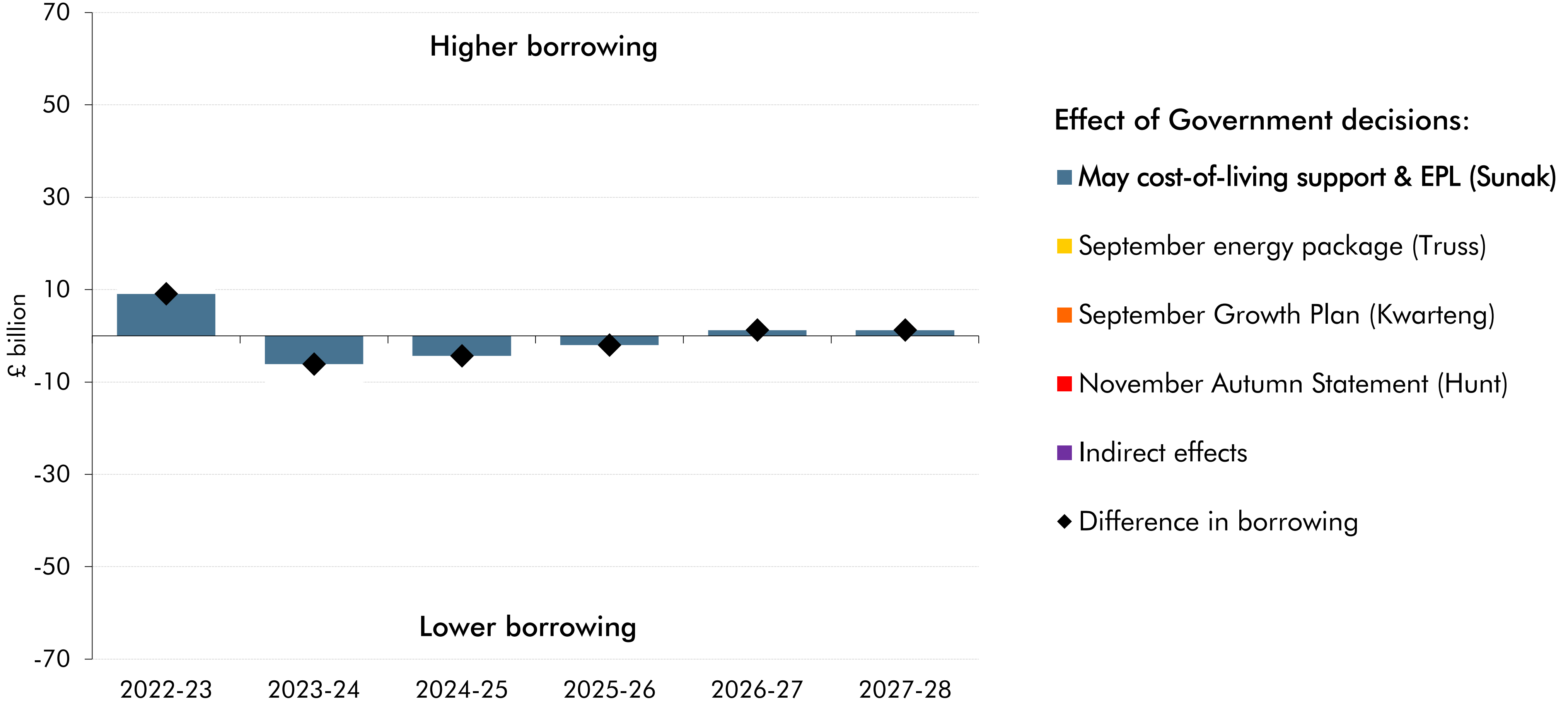
Source: Bank of England, Bloomberg, OBR

Fiscal policy developments since March



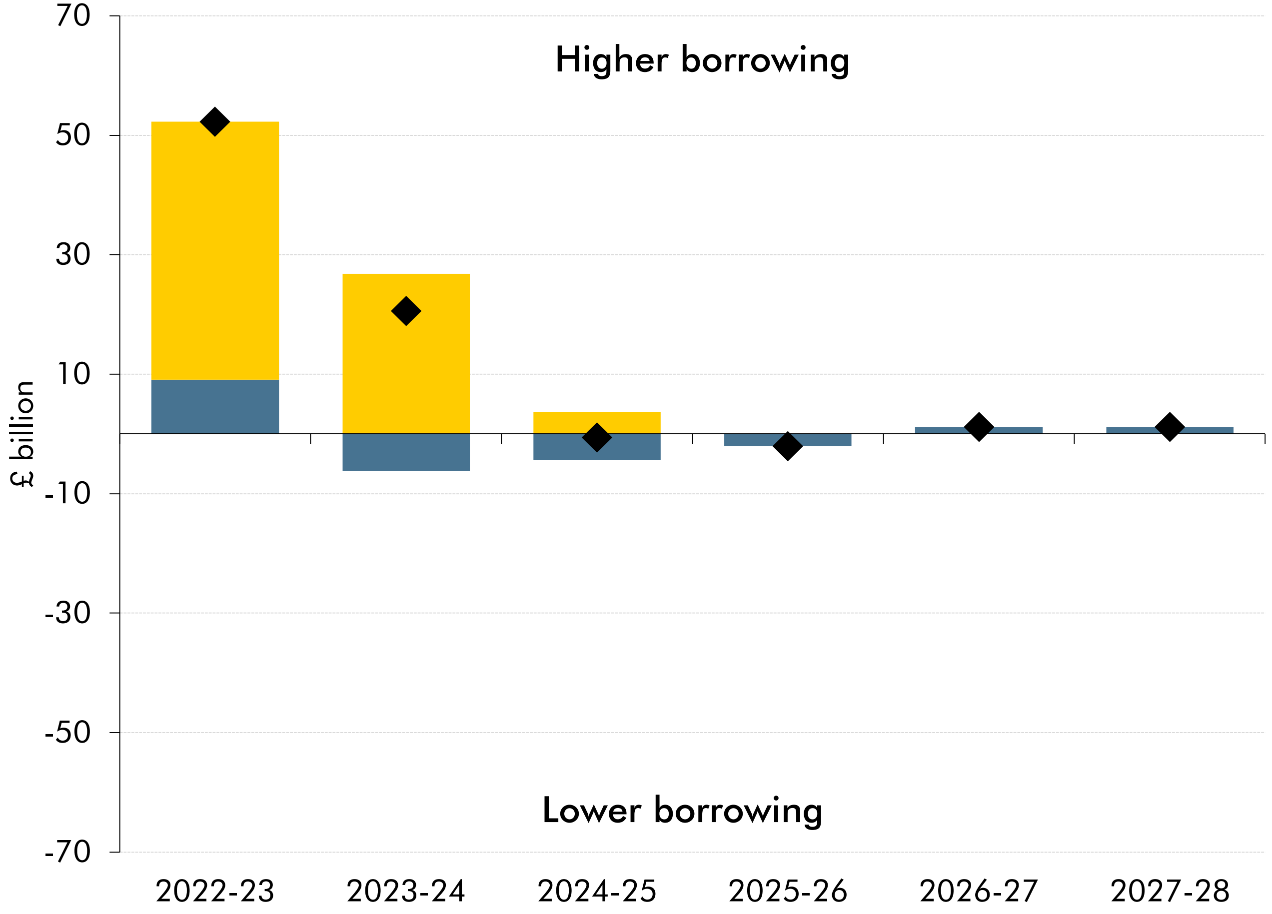
Source: ONS, OBR

Fiscal policy developments since March



Source: ONS, OBR

Fiscal policy developments since March



Source: ONS, OBR

Effect of Government decisions:

- May cost-of-living support & EPL (Sunak)
- **September energy package (Truss)**
- September Growth Plan (Kwarteng)
- November Autumn Statement (Hunt)
- Indirect effects
- Difference in borrowing

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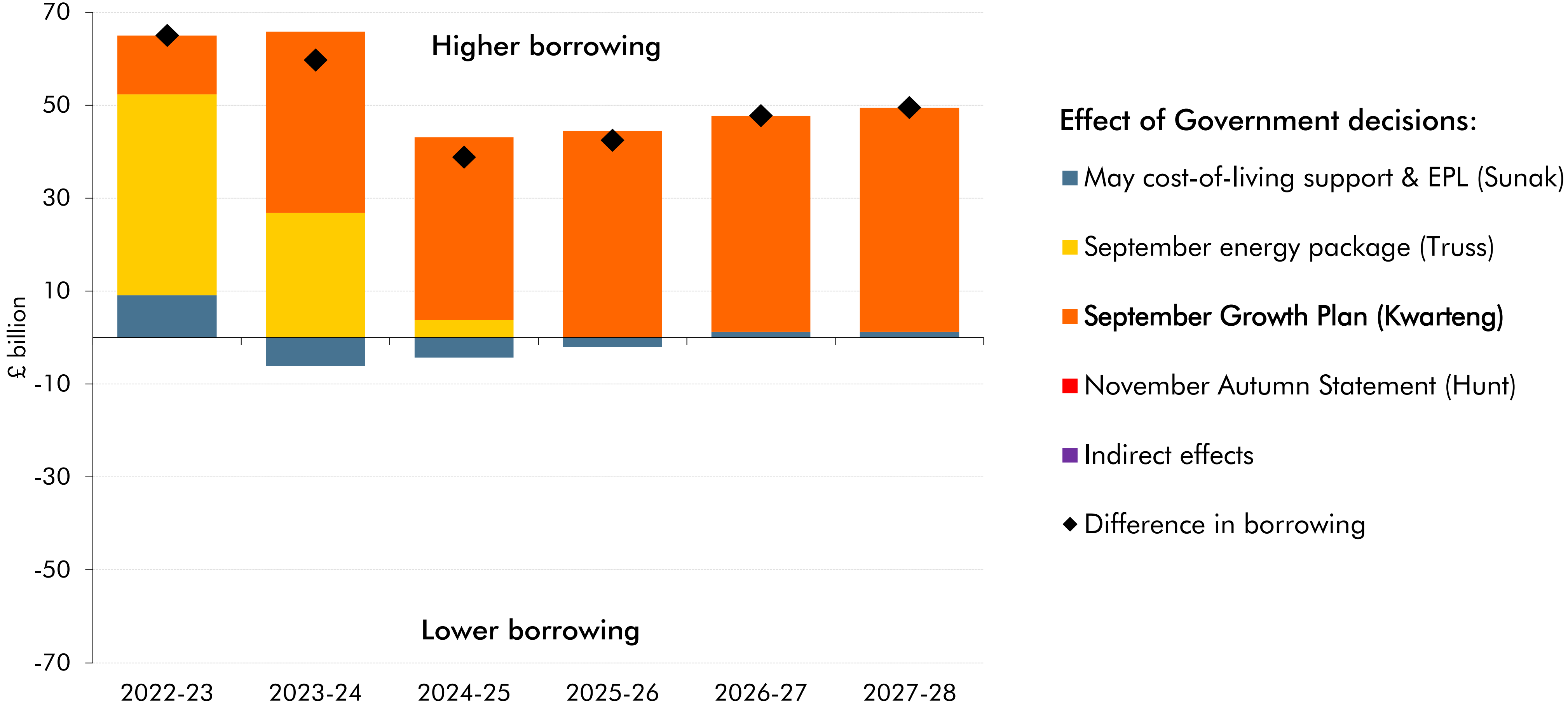
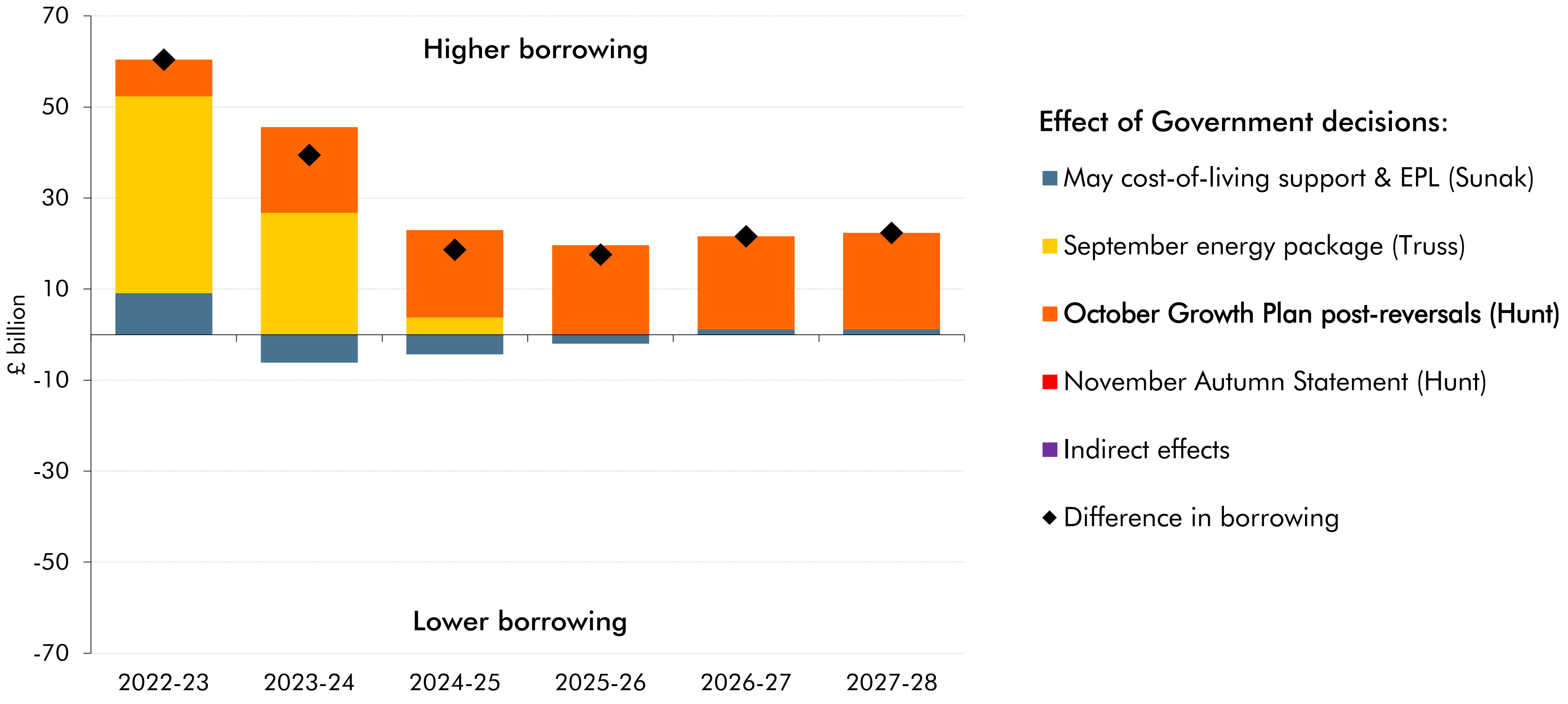
Fiscal policy developments since March



Source: ONS, OBR

Fiscal policy developments since March



Source: ONS, OBR

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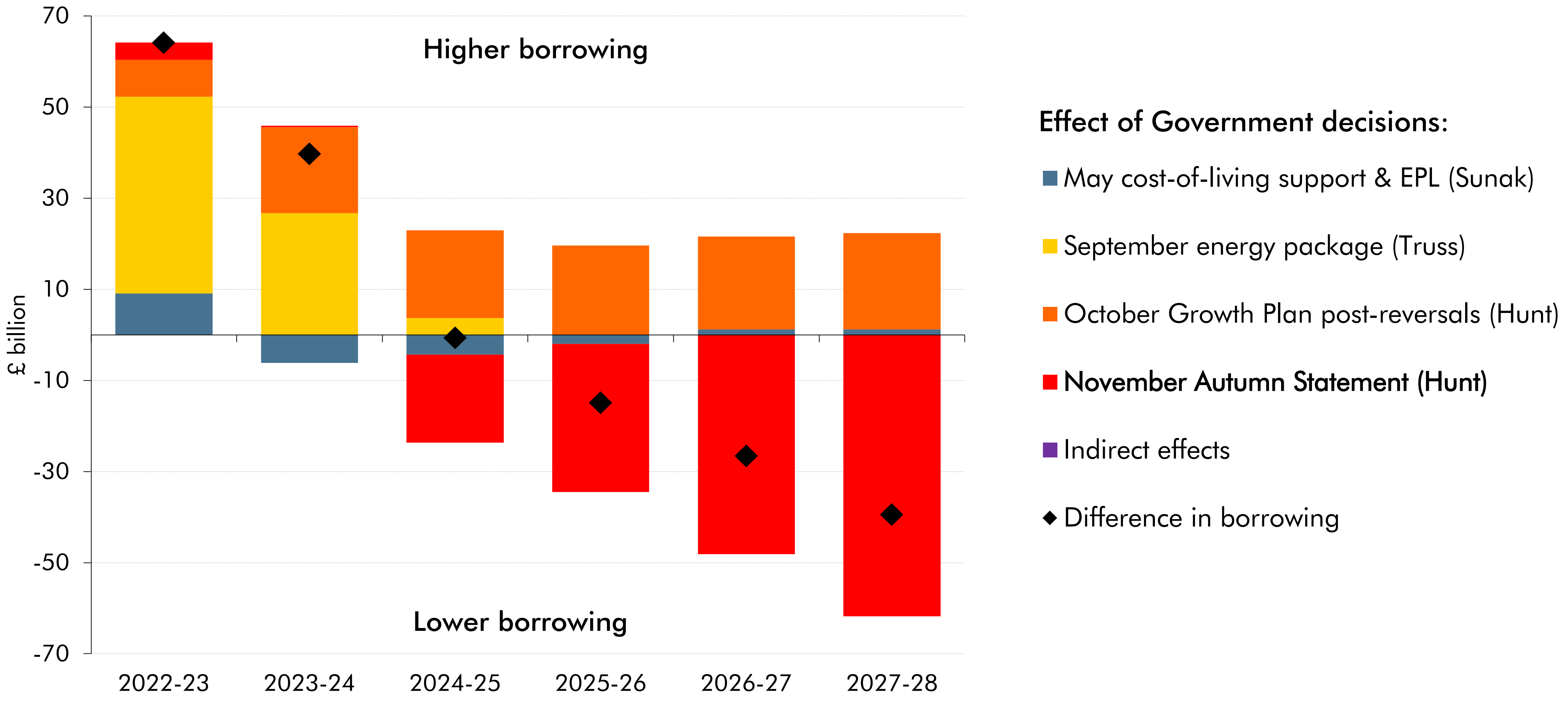

Source: ONS, OBR

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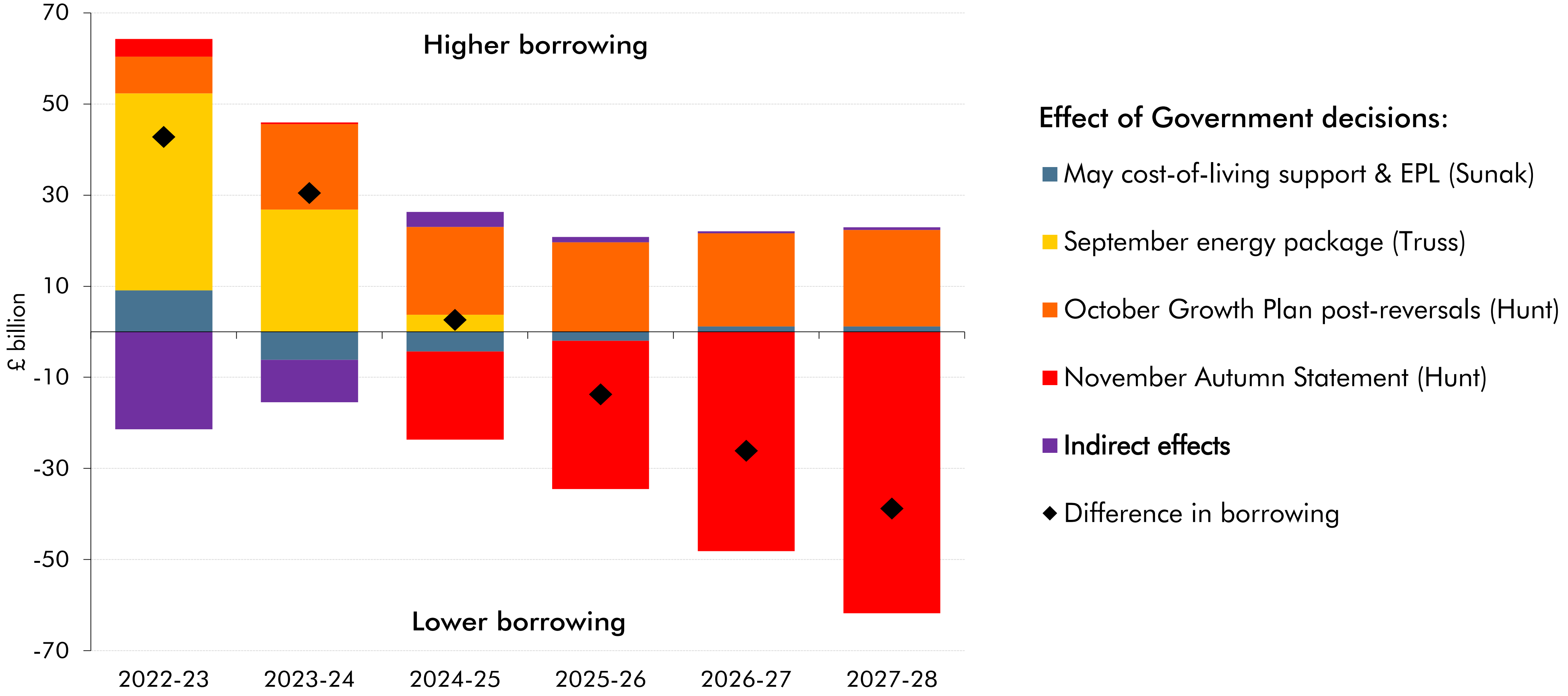
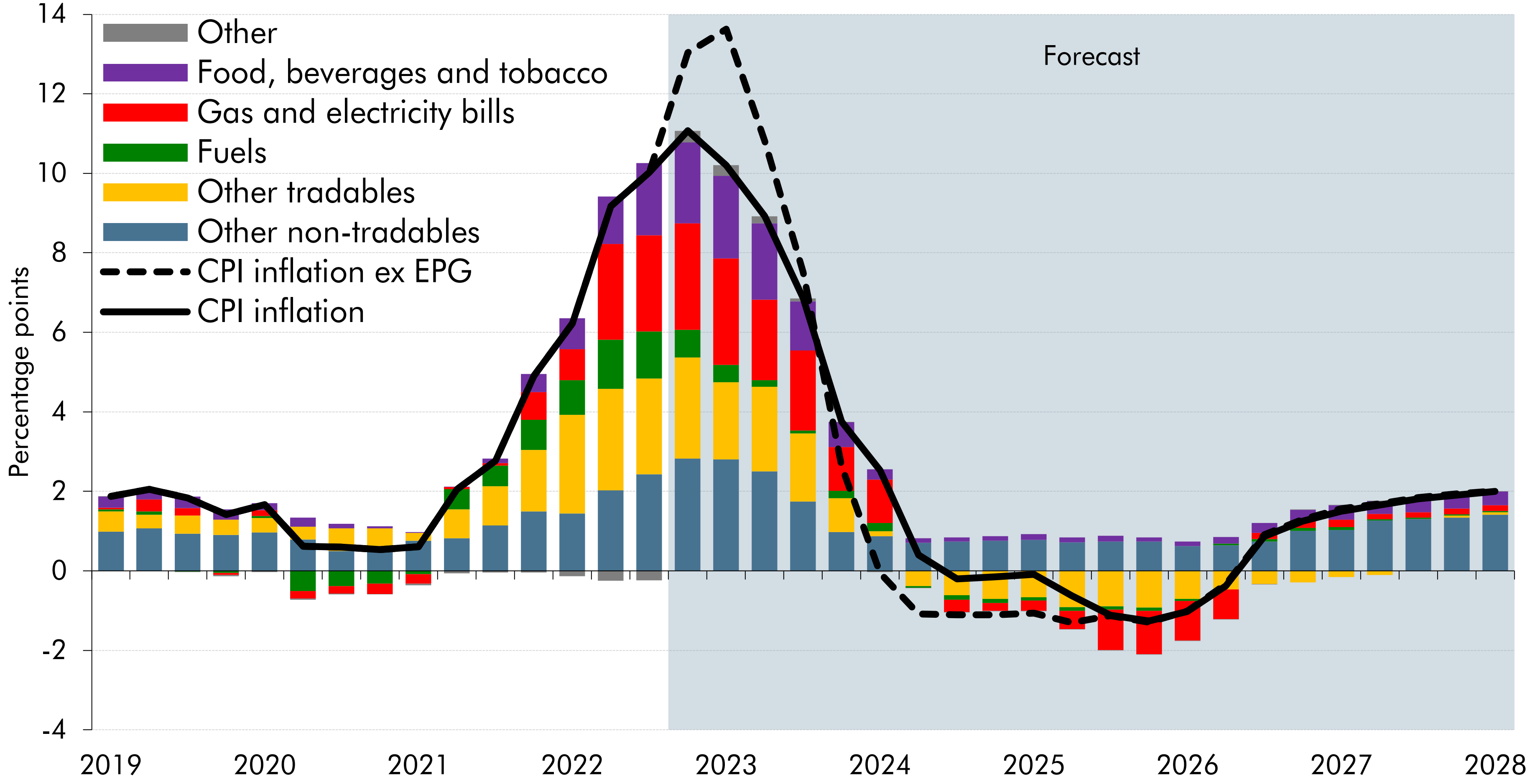
Fiscal policy developments since March



Source: ONS, OBR

Inflation

Contributions to CPI inflation



Source: ONS, OBR

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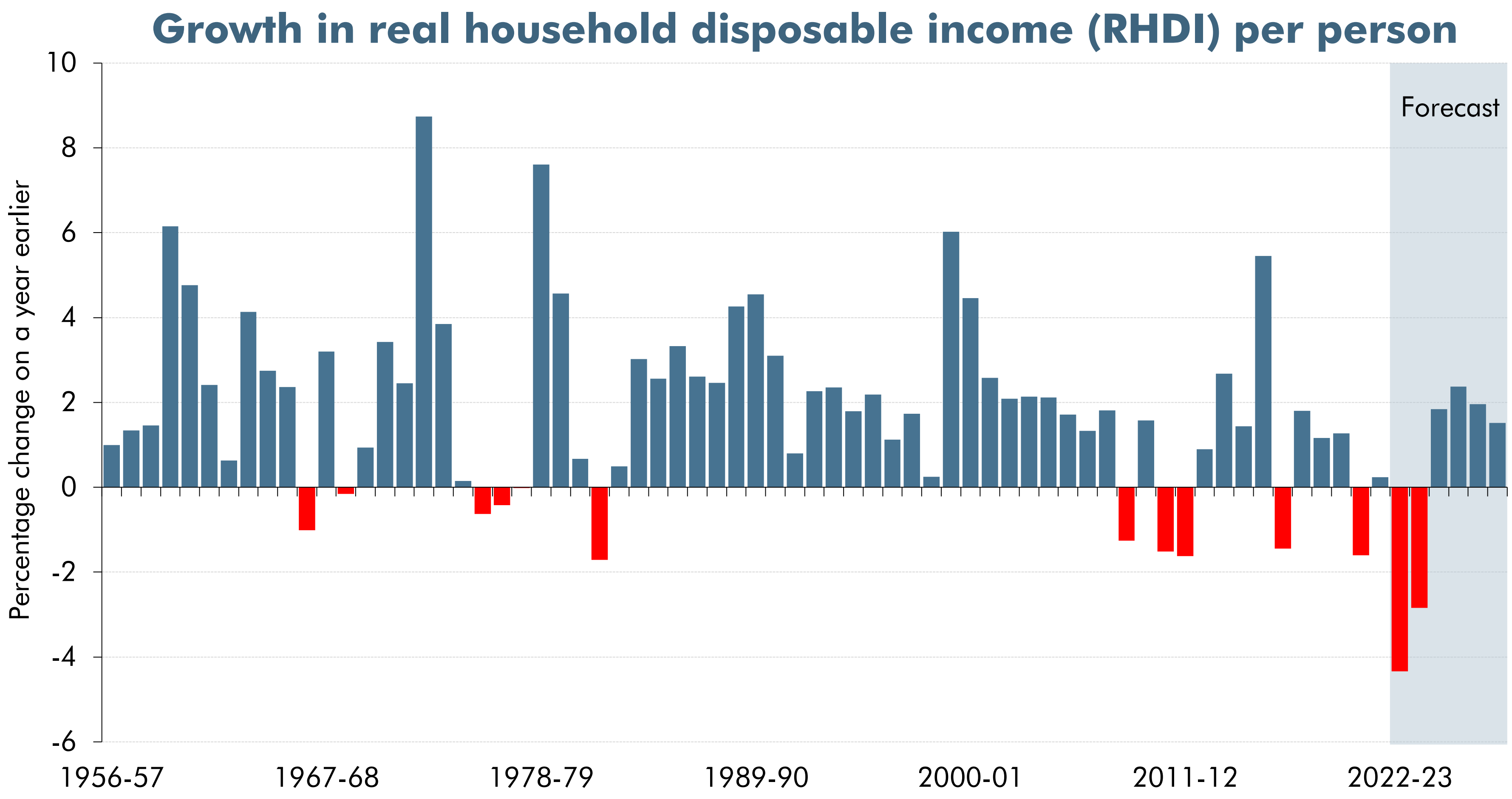
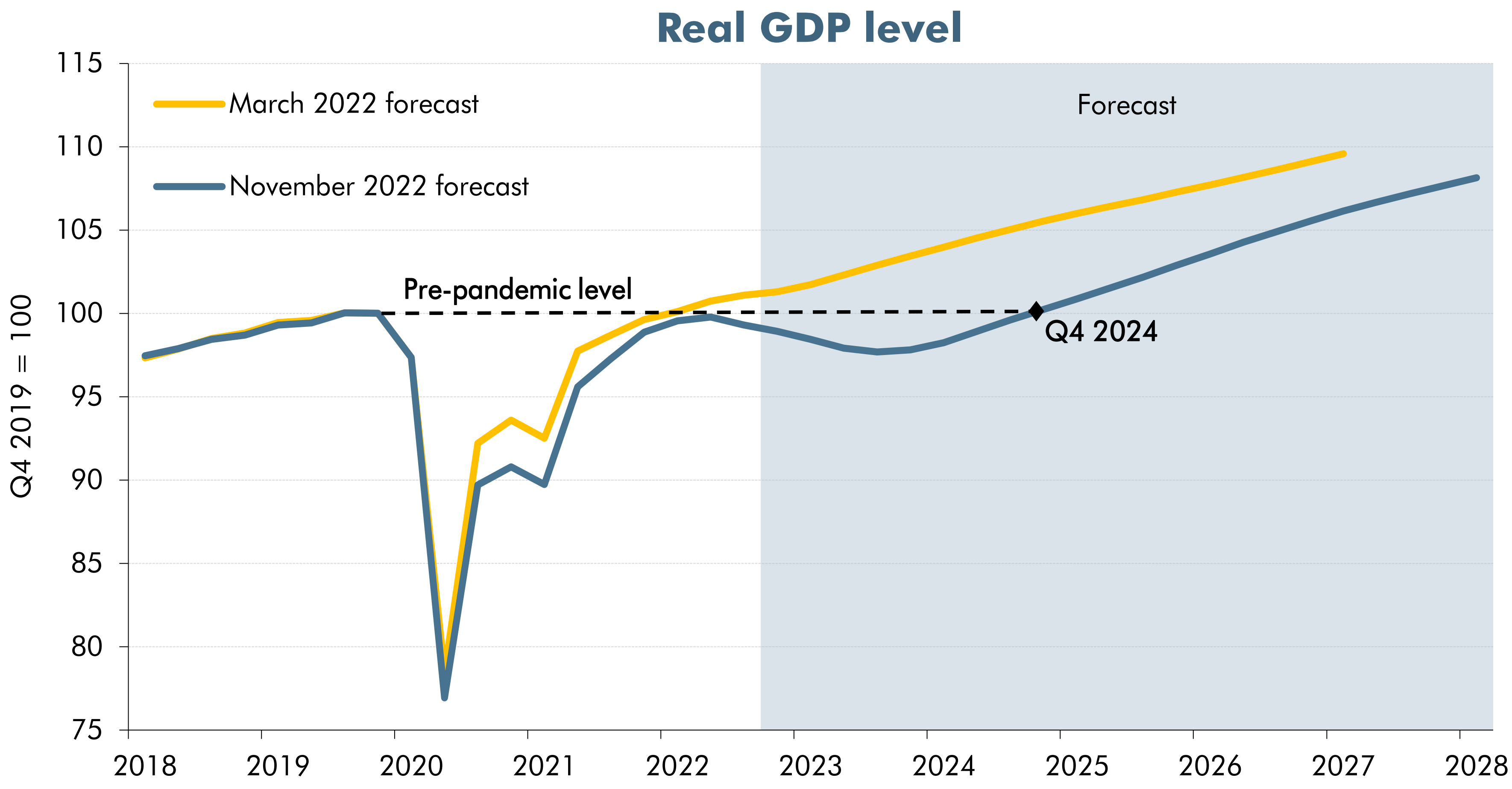
Living standards



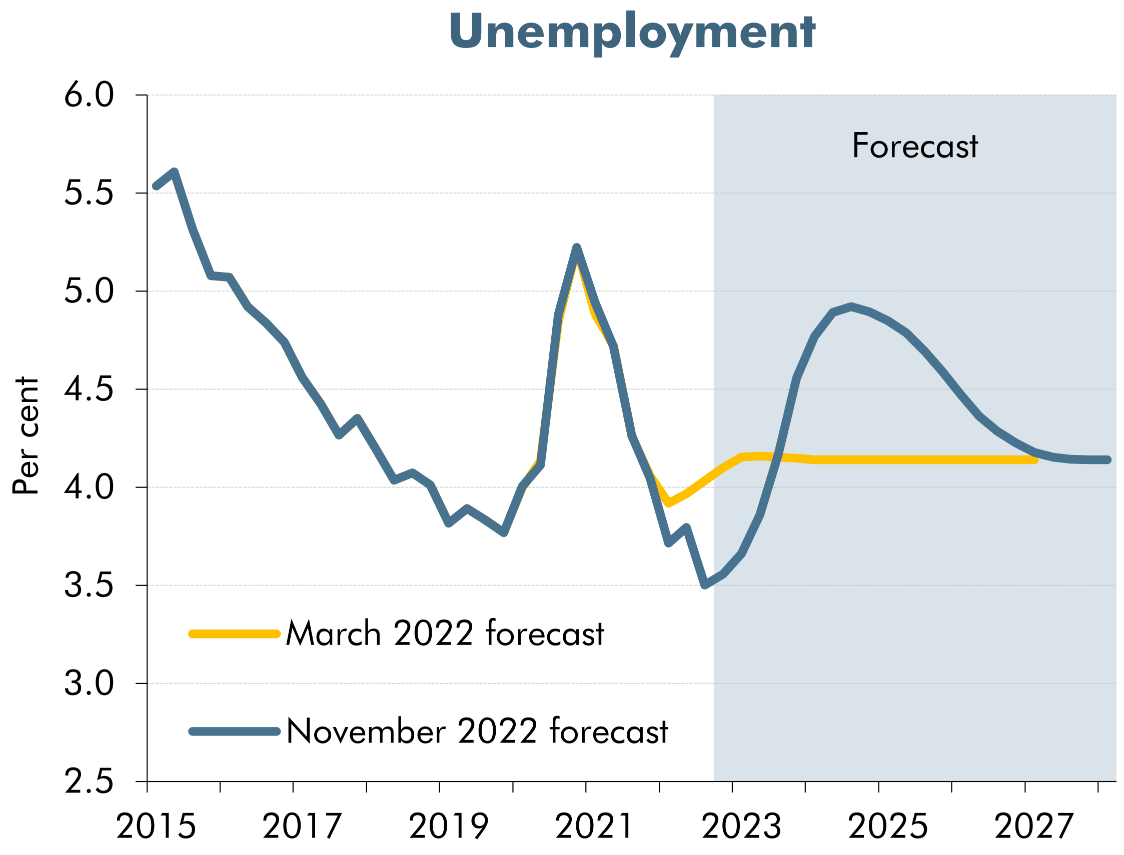
Source: ONS, OBR

GDP

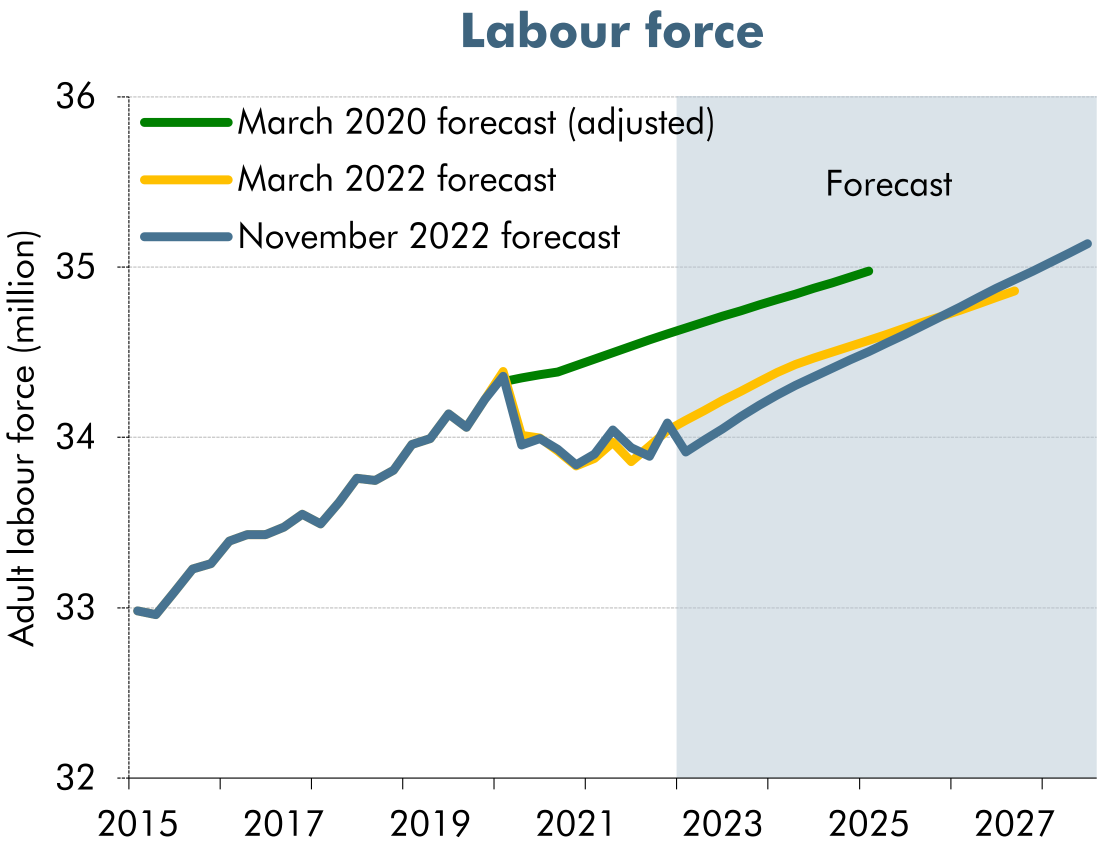


Source: ONS, OBR

Labour market

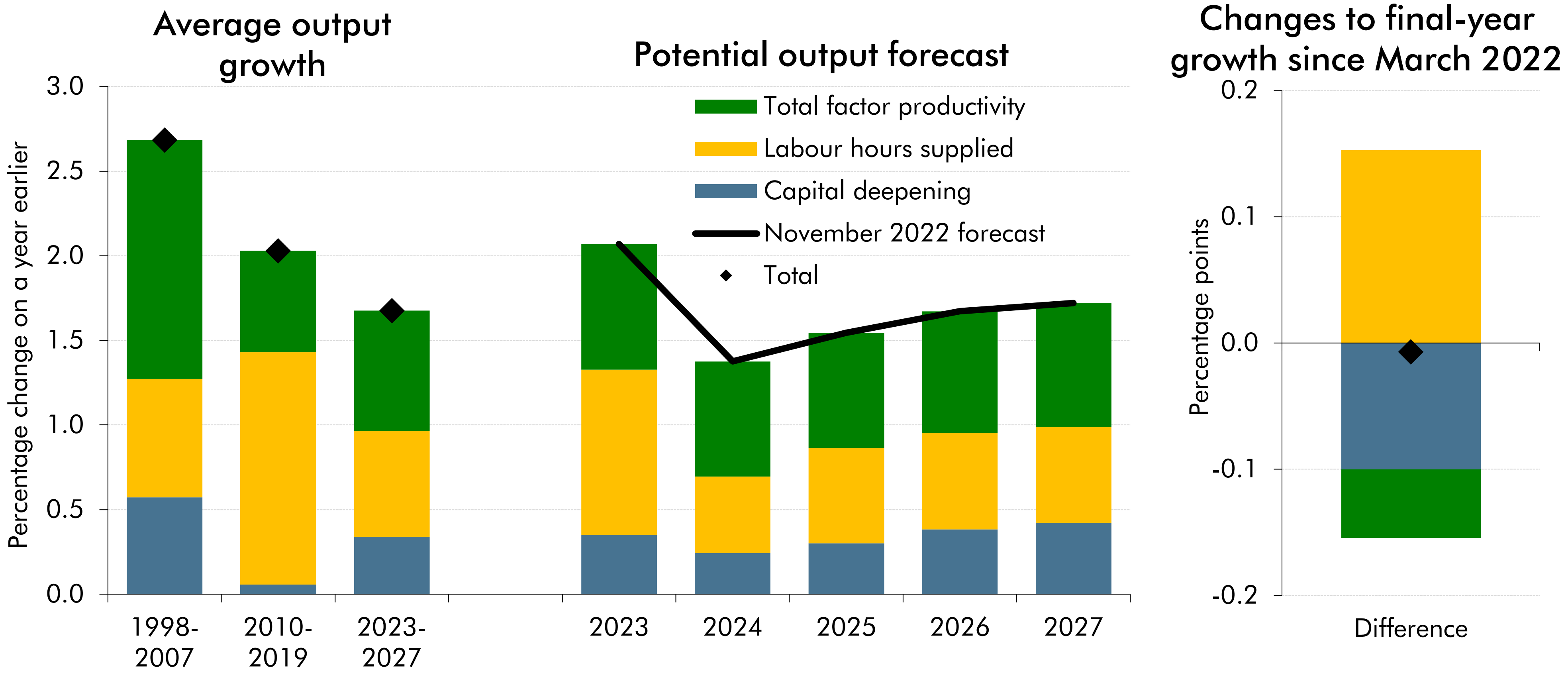


Source: ONS, OBR



Source: ONS, OBR

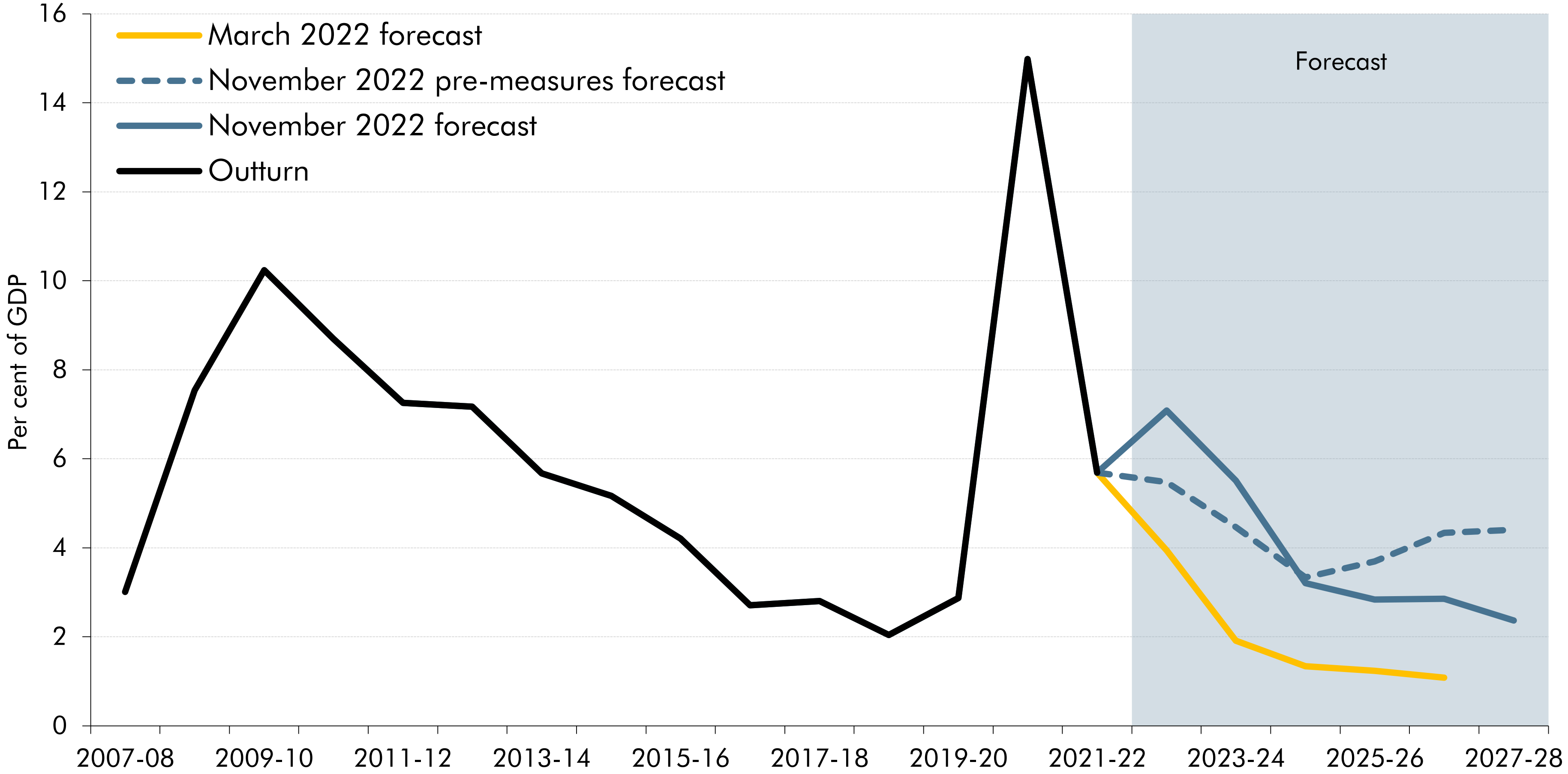
Potential output growth



Source: ONS, OBR

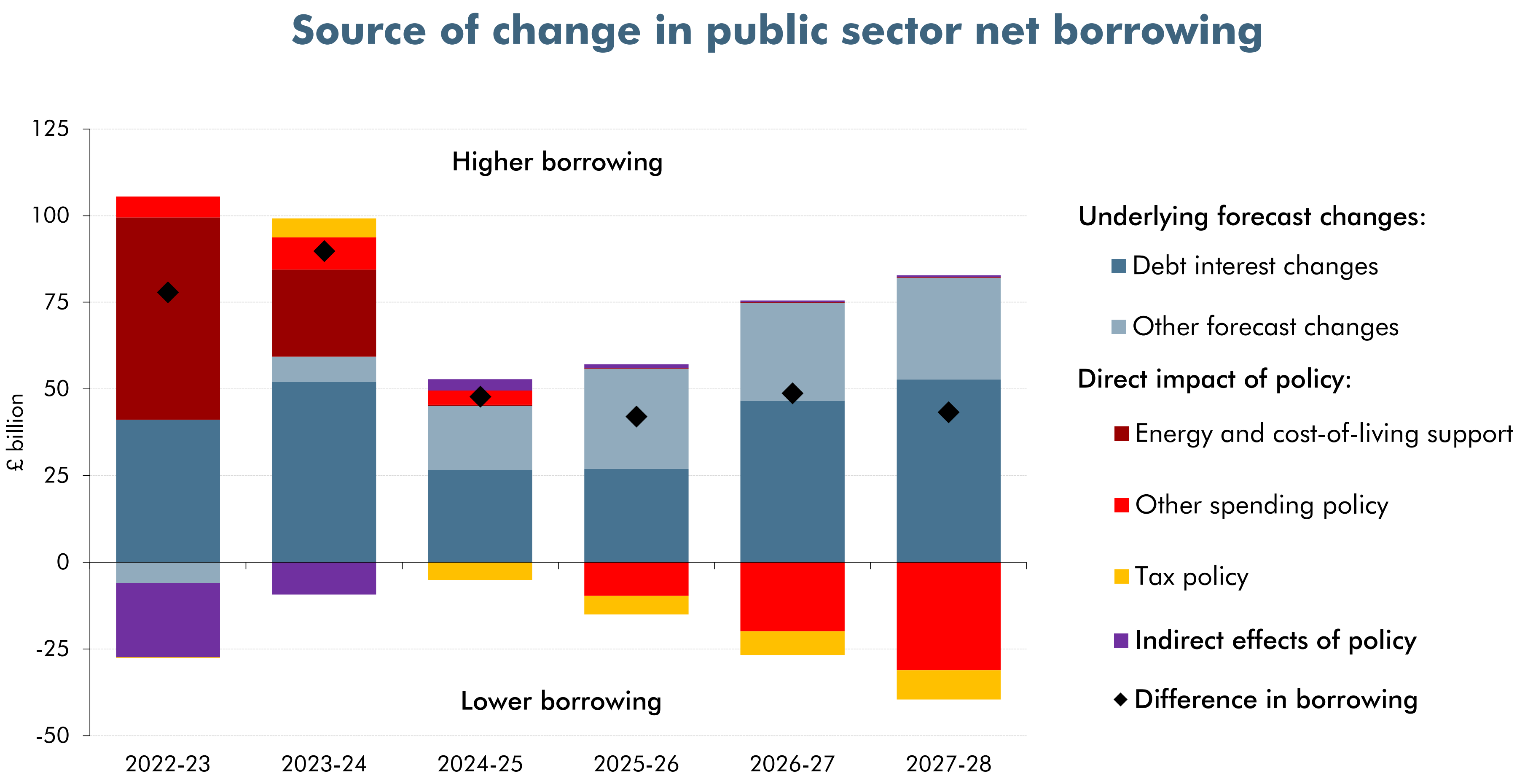
Government borrowing

Public sector net borrowing



Source: ONS, OBR

Change in borrowing since March



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

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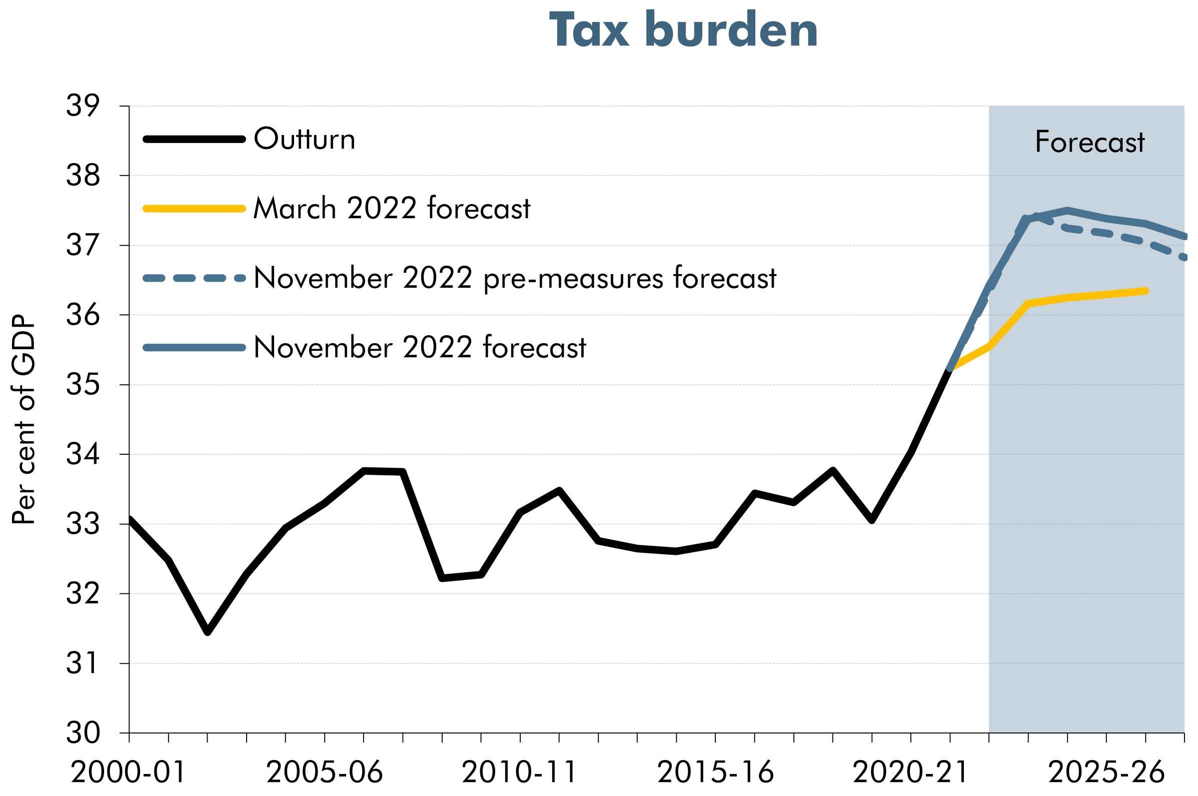
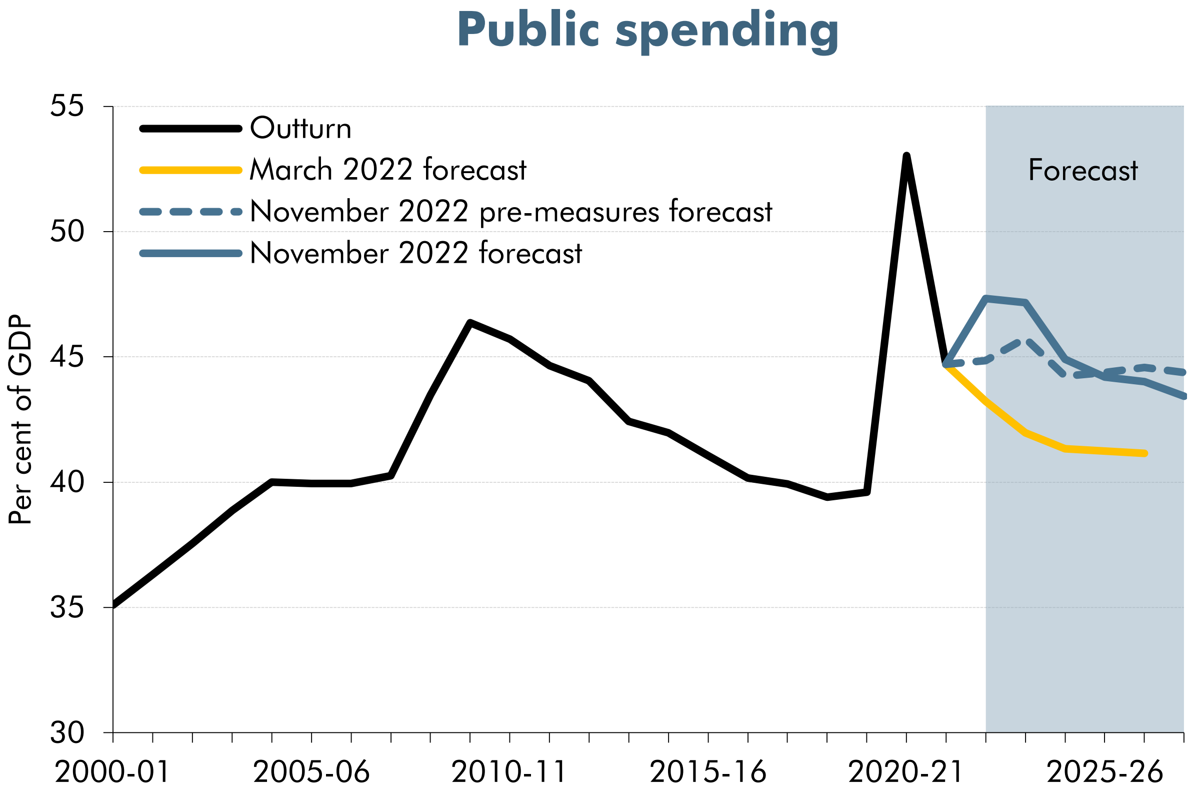
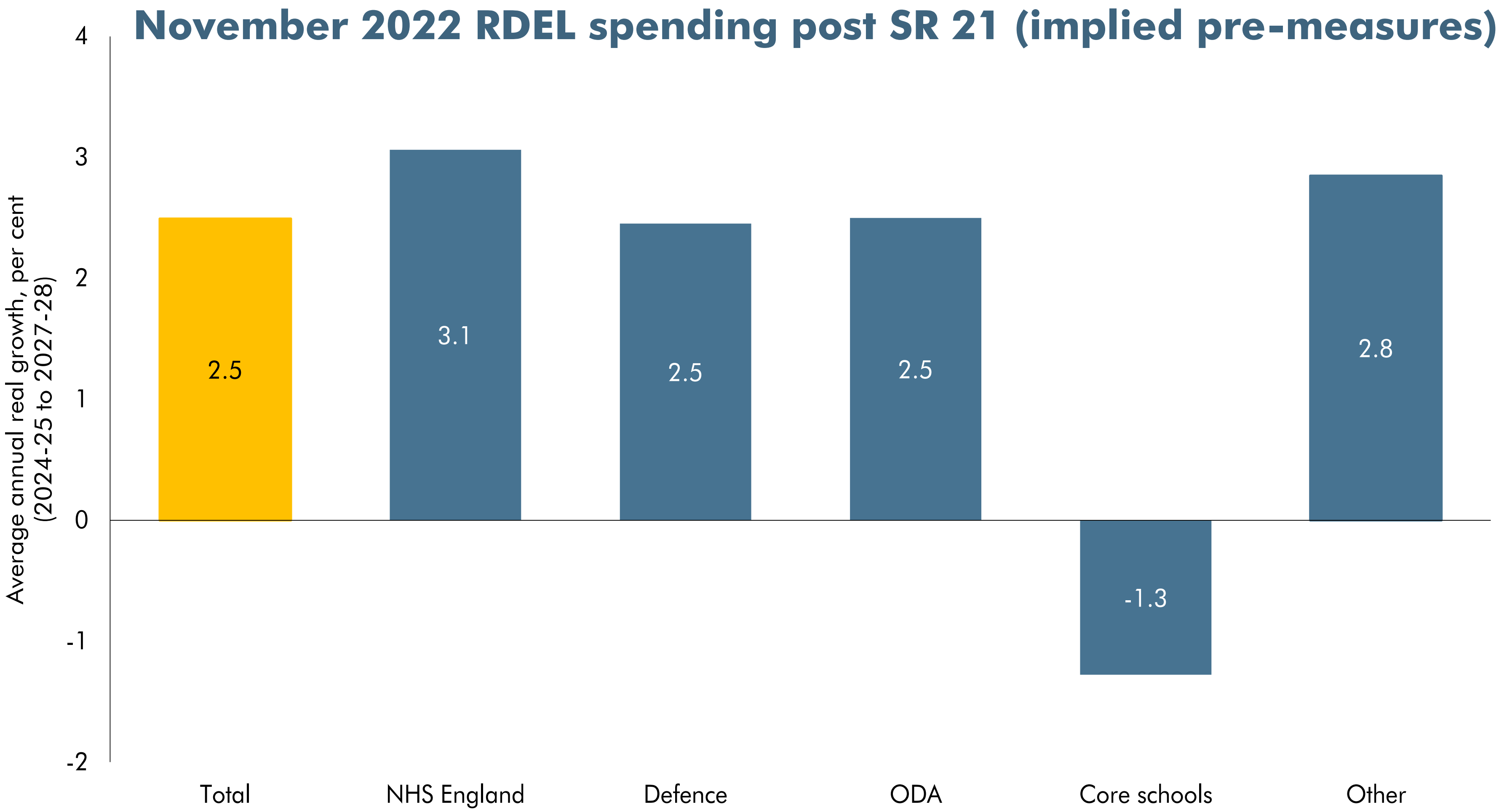
Tax and spending as a share of GDP





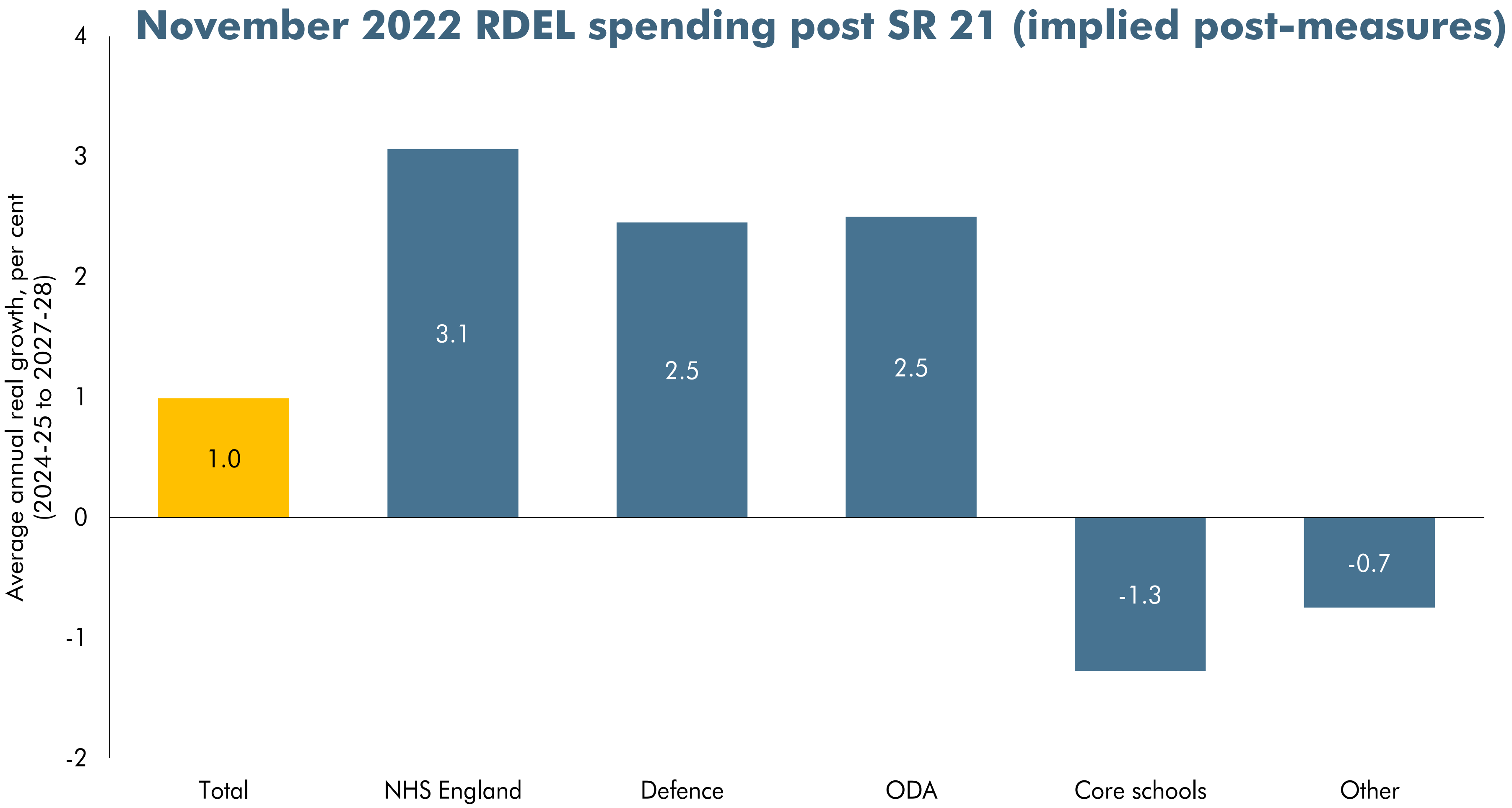
Source: ONS, OBR

Departmental resource DEL spending



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

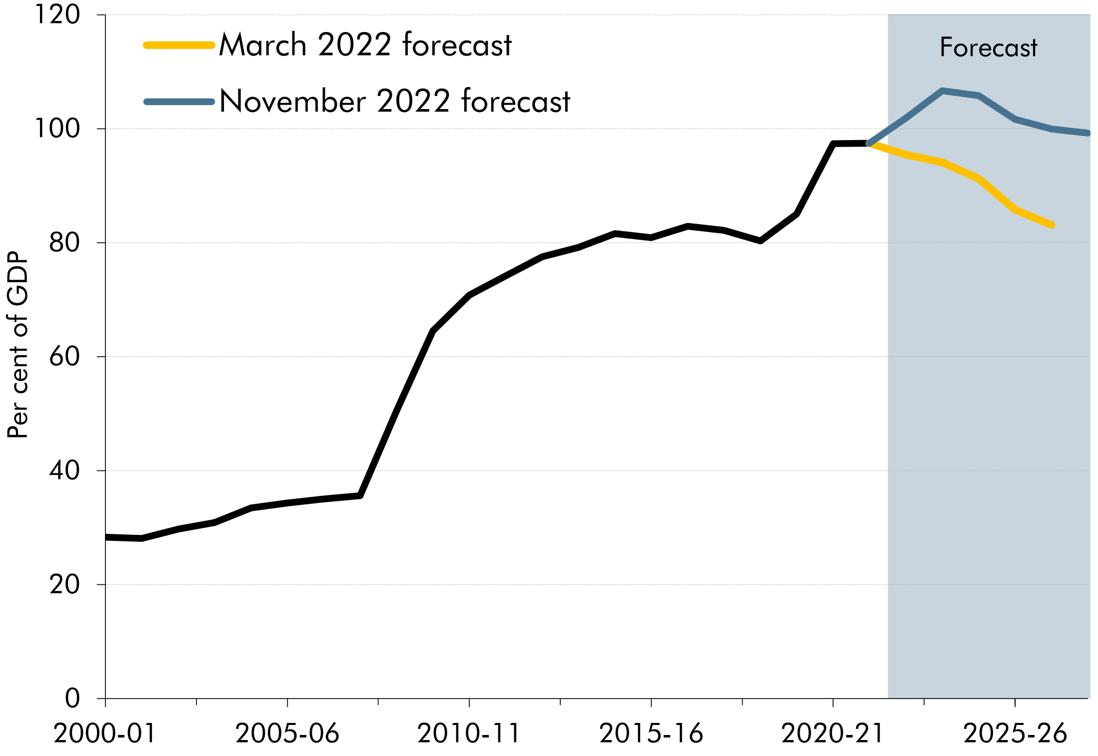
Departmental resource DEL spending



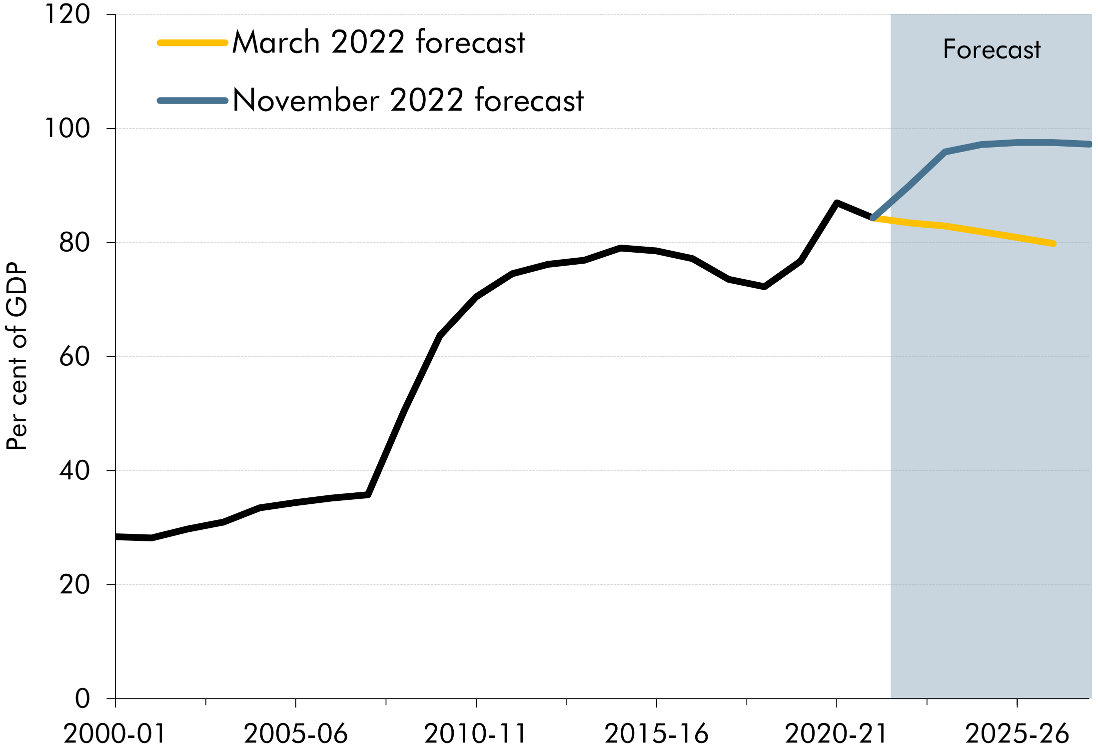
Note: Chart shows RDEL excluding depreciation. 'Other' also excludes the Barnett consequentials of NHS and core schools spending, which are not presented separately because their small size leads to large growth rates.
Source: HMT, OBR

Government debt

Public sector net debt

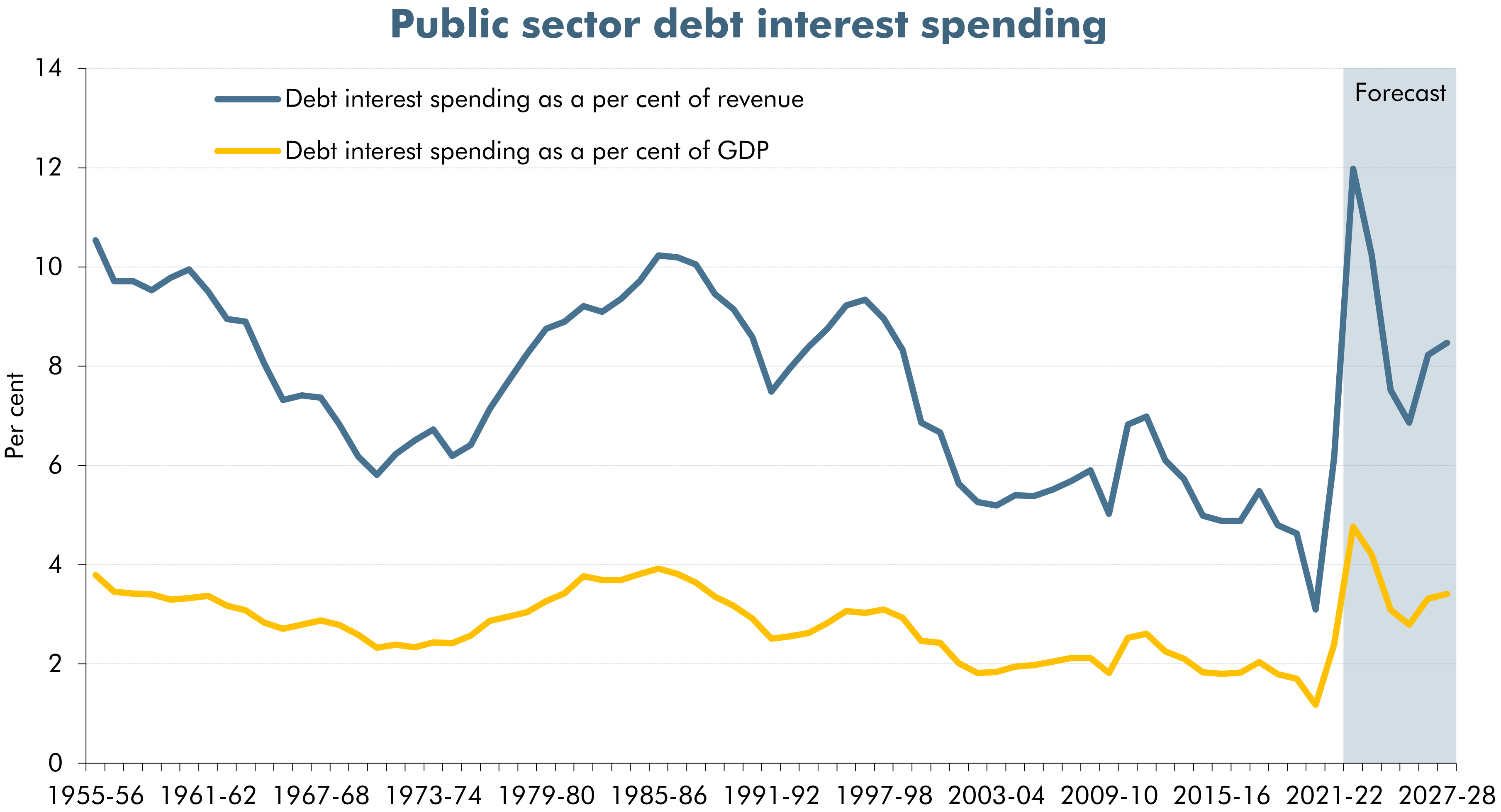


Public sector net debt excluding BoE



Source: ONS, OBR

Debt interest



Source: ONS, OBR

Fiscal rules

Performance against the Government's fiscal targets

Legislated targets	Mar 2022	Nov 2022
Fiscal mandate: underlying debt falls as a % of GDP in 2025-26	Met by £28.1bn	Missed by £11.4bn
Supplementary target: balanced current budget by 2025-26	Met by £36.2bn	Missed by £8.7bn
Proposed targets		
Fiscal mandate: underlying debt falls as a % of GDP in 2027-28		Met by £9.2bn
Supplementary target: borrowing below 3% of GDP in 2027-28		Met by £18.6bn

Data available on our website

Risks to the outlook

Upside risks

- Faster end to Ukraine war
- Bigger fall in energy prices
- Smaller rise in inflation
- Smaller rise in interest rates
- Faster recovery in productivity

Downside risks

- Longer war in Ukraine
- Cliff-edges in energy support
- More repeats to ‘one-off’ support
- Inflation pressures on departments
- April super-indexation of fuel duty

Implications for our Welsh revenue forecasts

Welsh tax forecast summary

Latest forecast and changes since March

	£ million						
	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Welsh rates of income tax							
November forecast	2401	2604	2795	2927	3027	3162	3348
Change since March		**-40**	**-9**	**-34**	**-107**	**-129**	
Land transaction tax							
November forecast	402	389	310	297	337	399	449
Change since March		**-22**	**-121**	**-156**	**-145**	**-115**	
Landfill disposals tax							
November forecast	45	44	41	41	40	39	39
Change since March		**9**	**6**	**6**	**5**	**4**	

Conclusion

Conclusion

- Rising inflation & interest rates to tip economy into recession lasting just over a year
- Inflation set to peak at 11% later this year, 2½% lower thanks to EPG
- Despite £100bn in govt support, living standards to fall 7% over the next two years
- £60bn in tax rises and spending cuts to arrest rise in debt by mid-2020s
- But still leaves debt stock £400bn higher than at the end of our March forecast
- And doubling of interest rates pushes debt interest burden to an all-time high
- Leaving public finances more vulnerable to shocks and shifts in market sentiment

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Diolch / Thank you