

Economic and fiscal outlook

19 March 2014

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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-measures forecast on 7 March**
- **Met with the Chancellor on 10 March**
- **No pressure to change any conclusions**

Overview

- **The economy**

- Growth forecasts slightly higher on momentum into 2014
- Spare capacity: slightly less and used up more quickly
- Pick-up in productivity growth still the main uncertainty
- Business investment: positive news, but often revised

- **The public finances**

- Small downward revisions to net borrowing
- Economy forecast revisions boost receipts
- Neutral Budget package, but watch longer-term effects
- Day-to-day public services dominate future consolidation
- Capital tax receipts expected to grow strongly
- Improvement in deficit cyclical not structural
- Little change in performance against rules
- Big upward revisions to debt due later this year

Recent economic data

- **0.7% growth in 13Q4 in line with forecast, but growth over full year 1.8% rather than 1.4%**
- **Consumer spending still main driver (from lower saving), but business investment now revised up**
- **Lower unemployment and higher employment in 13Q4 than we expected**
- **But wages rose less than we expected and productivity growth still very weak**
- **Housing market accelerating**

The outlook for growth

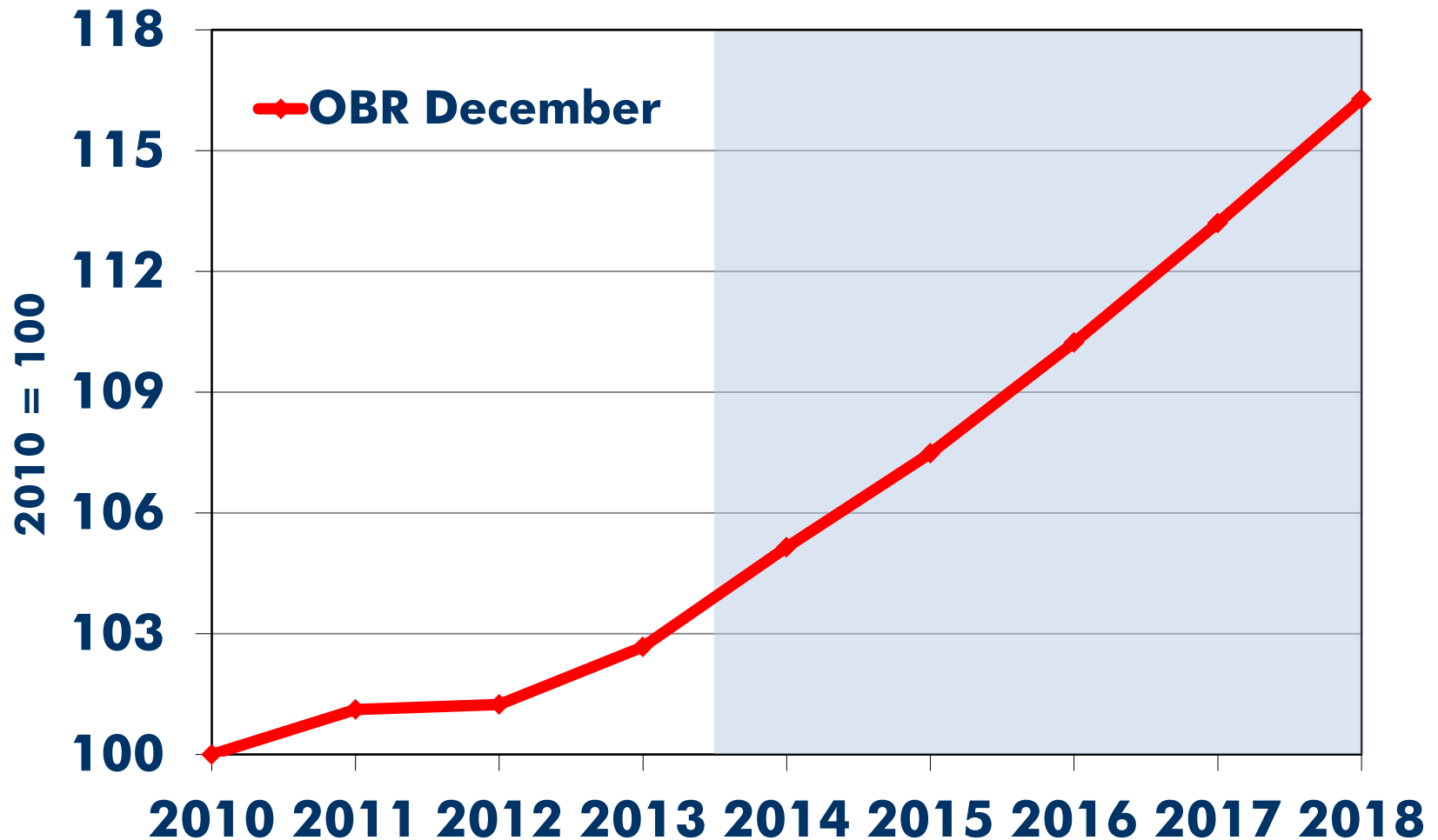
- **A little more momentum into 2014, but consumption still expected to slow**
- **So growth revised up in 2014 and 2015**
 - Business investment, private and government consumption revised higher
- **Growth slightly weaker in 2017 and 2018 as spare capacity used up a little earlier**
- **Growth over forecast driven by private consumption & investment; little from net trade; government spending drags**

Real GDP revised higher

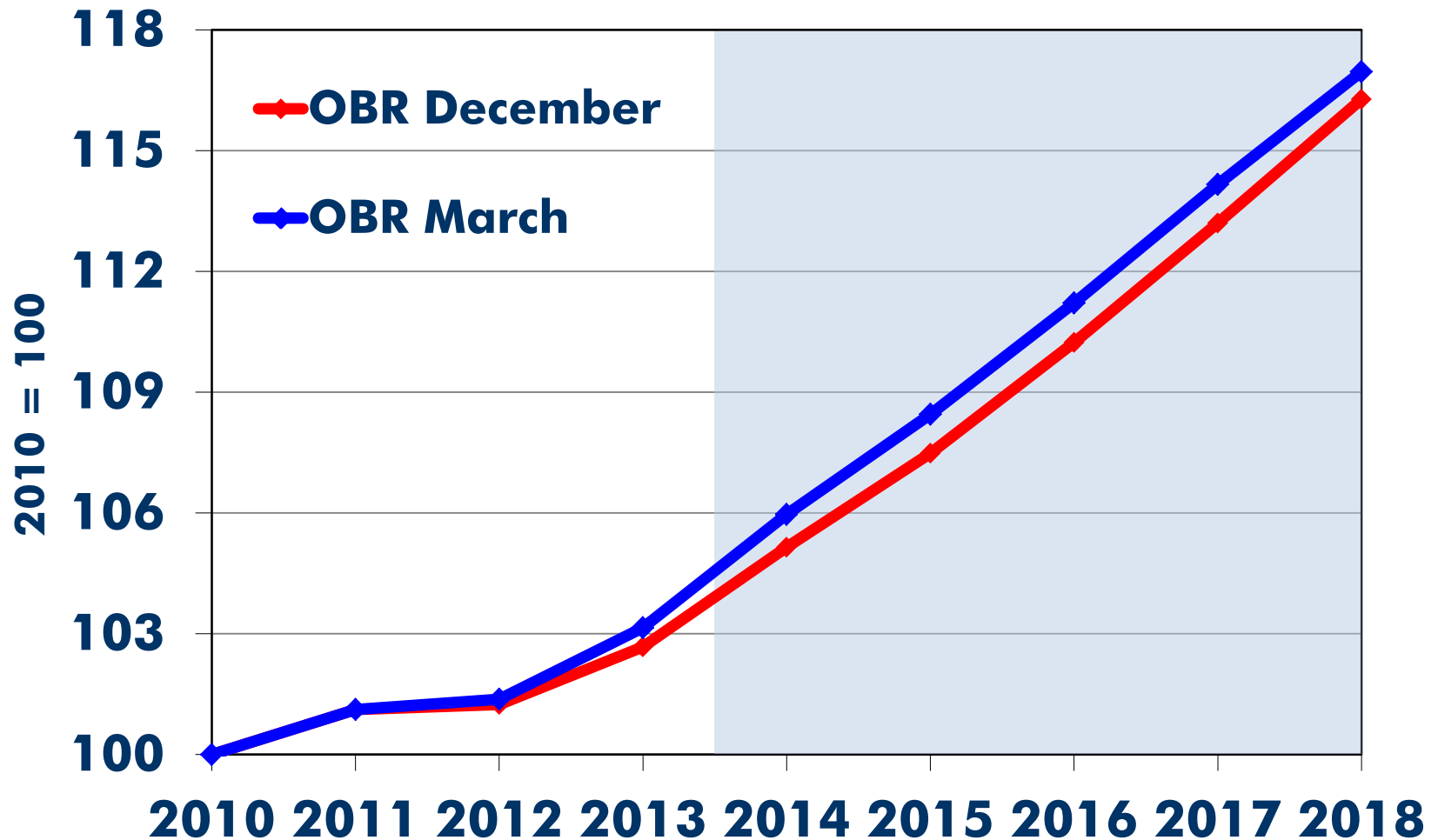
% growth p.a.	December EFO	March EFO	Change (to unrounded data)
2013	1.4	1.8	+0.3
2014	2.4	2.7	+0.3
2015	2.2	2.3	+0.1
2016	2.6	2.6	-
2017	2.7	2.6	-
2018	2.7	2.5	-0.3

By early 2019 real GDP 0.3% higher and NGDP 0.7% higher than in December

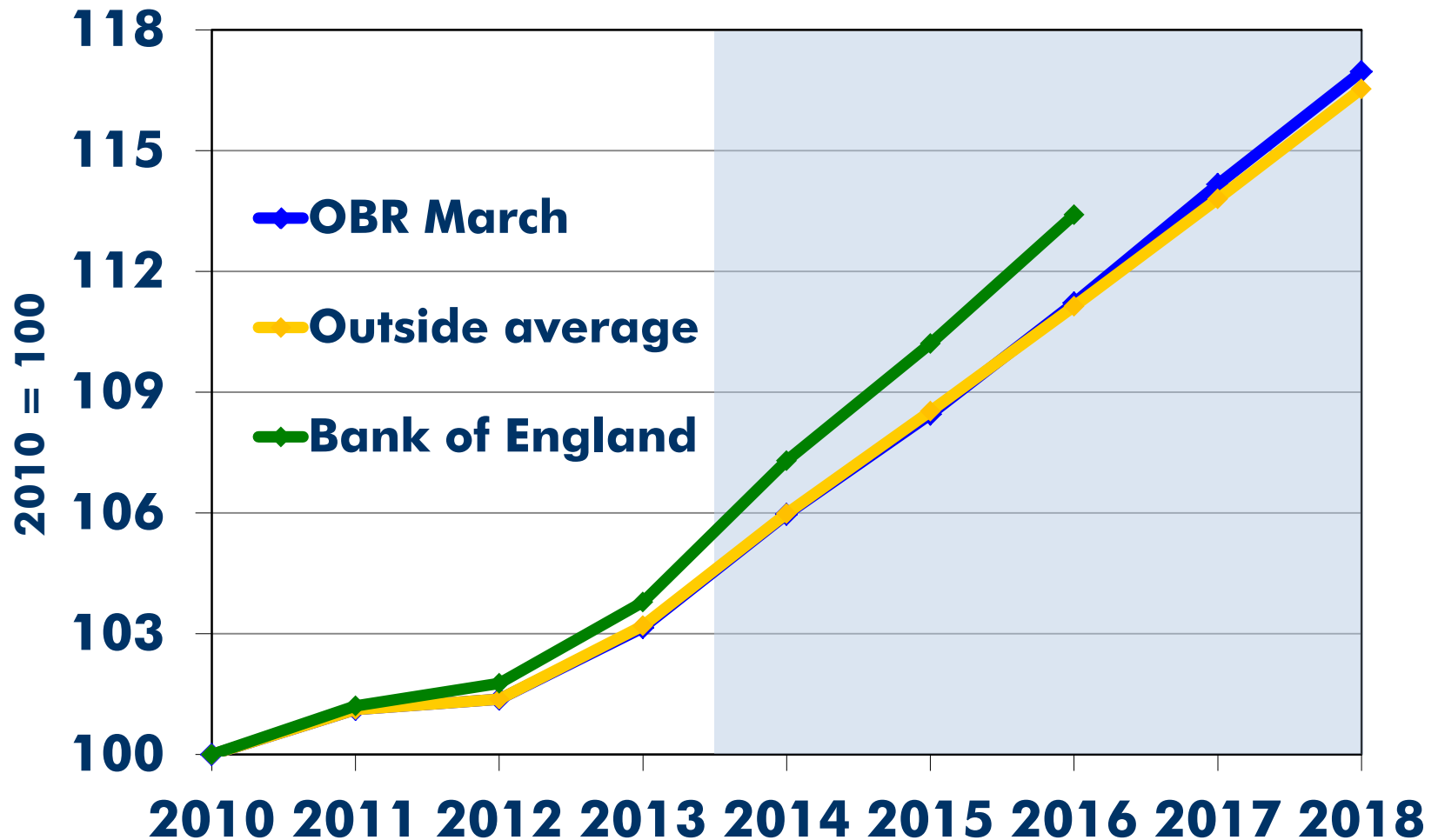
Level of GDP



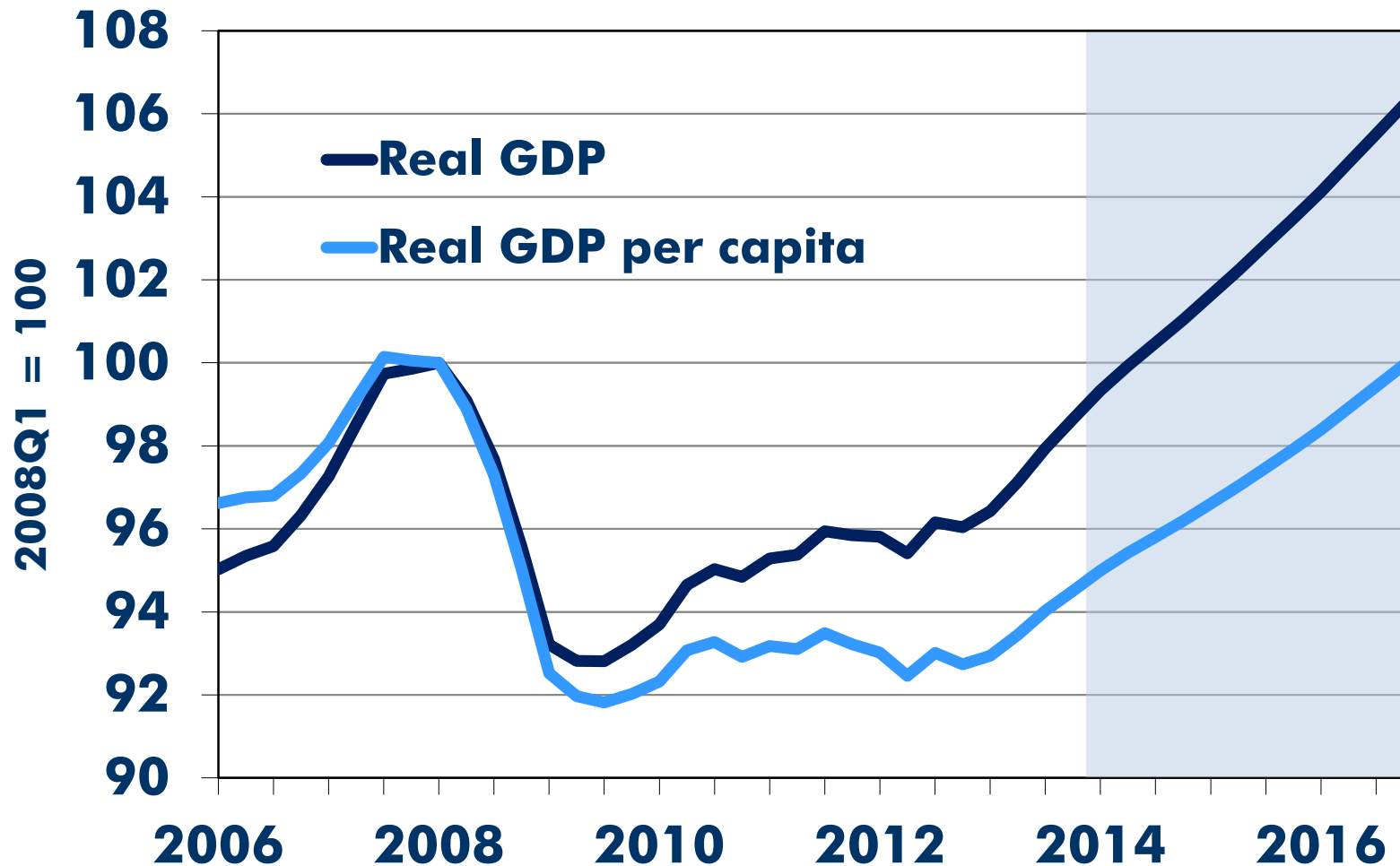
Level of GDP



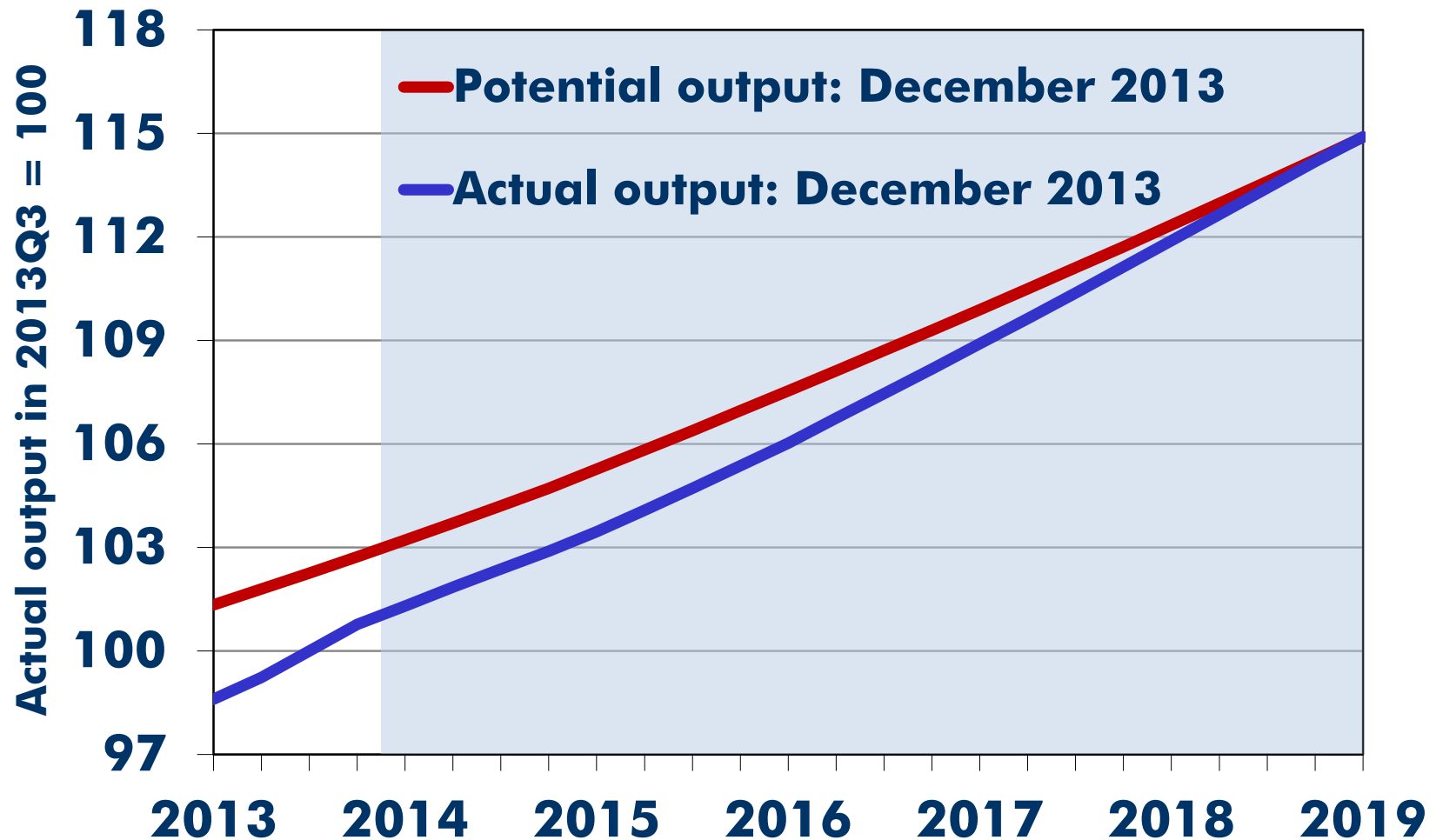
Level of GDP



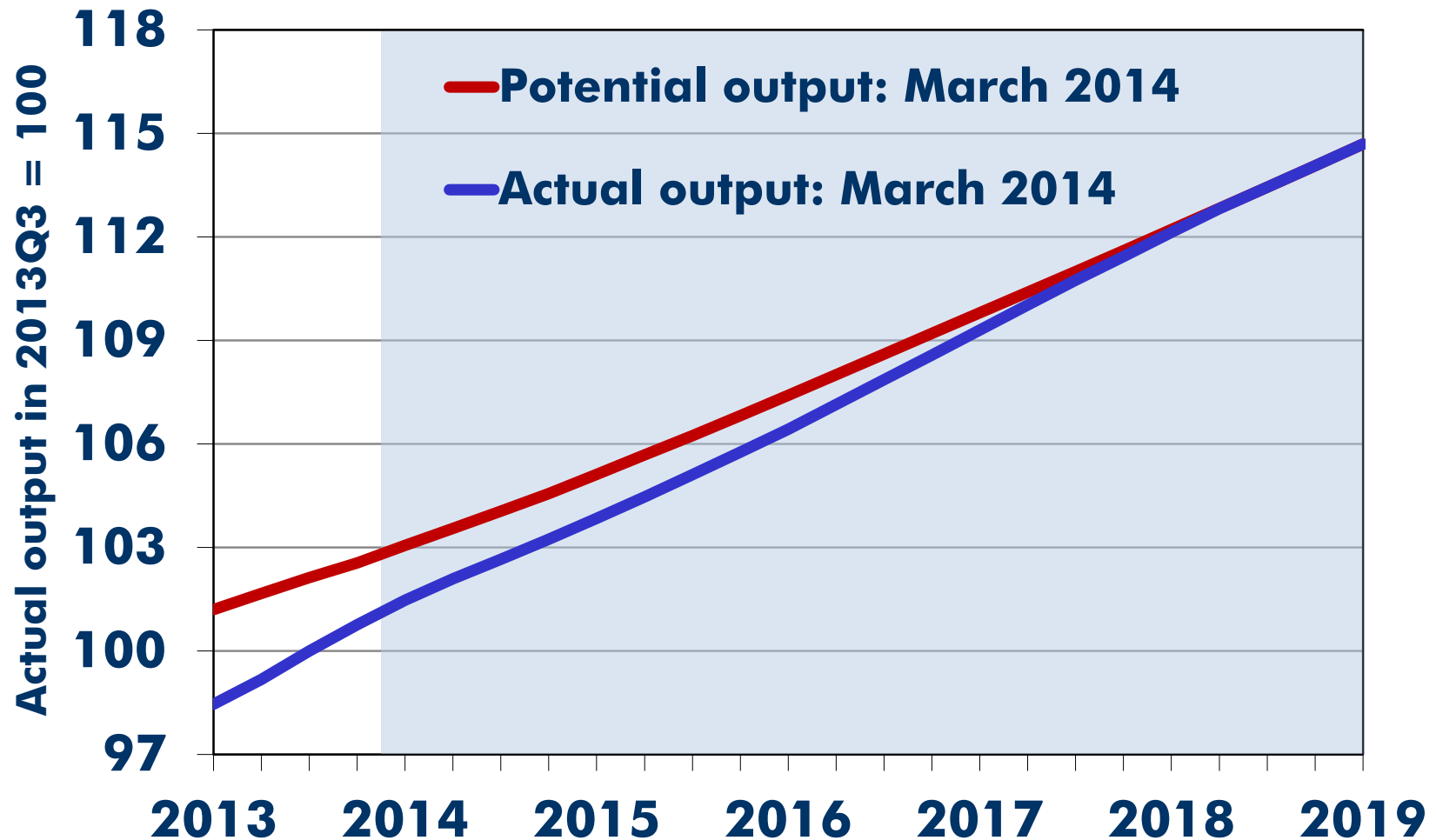
GDP and GDP per capita



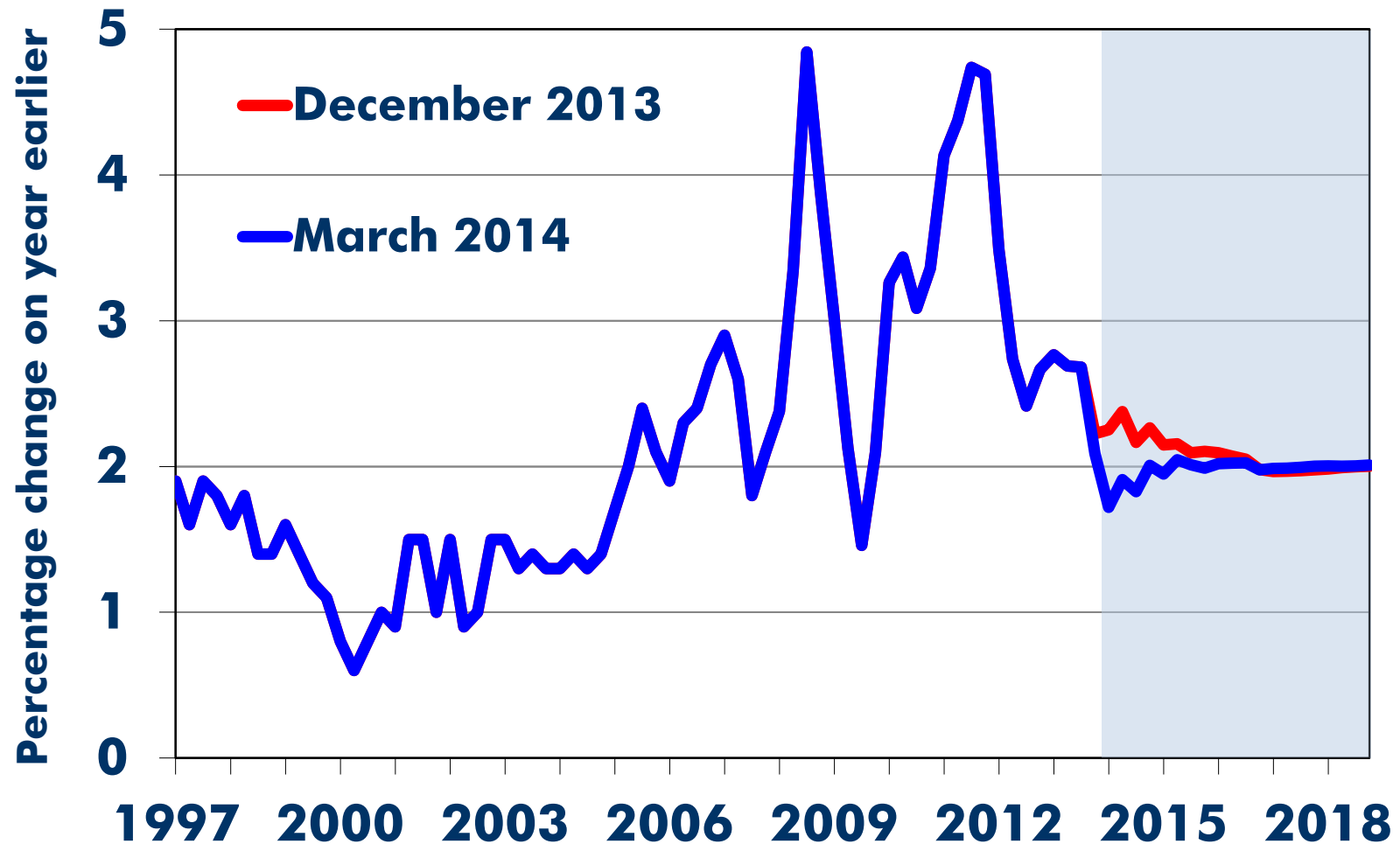
Higher growth cyclical not structural



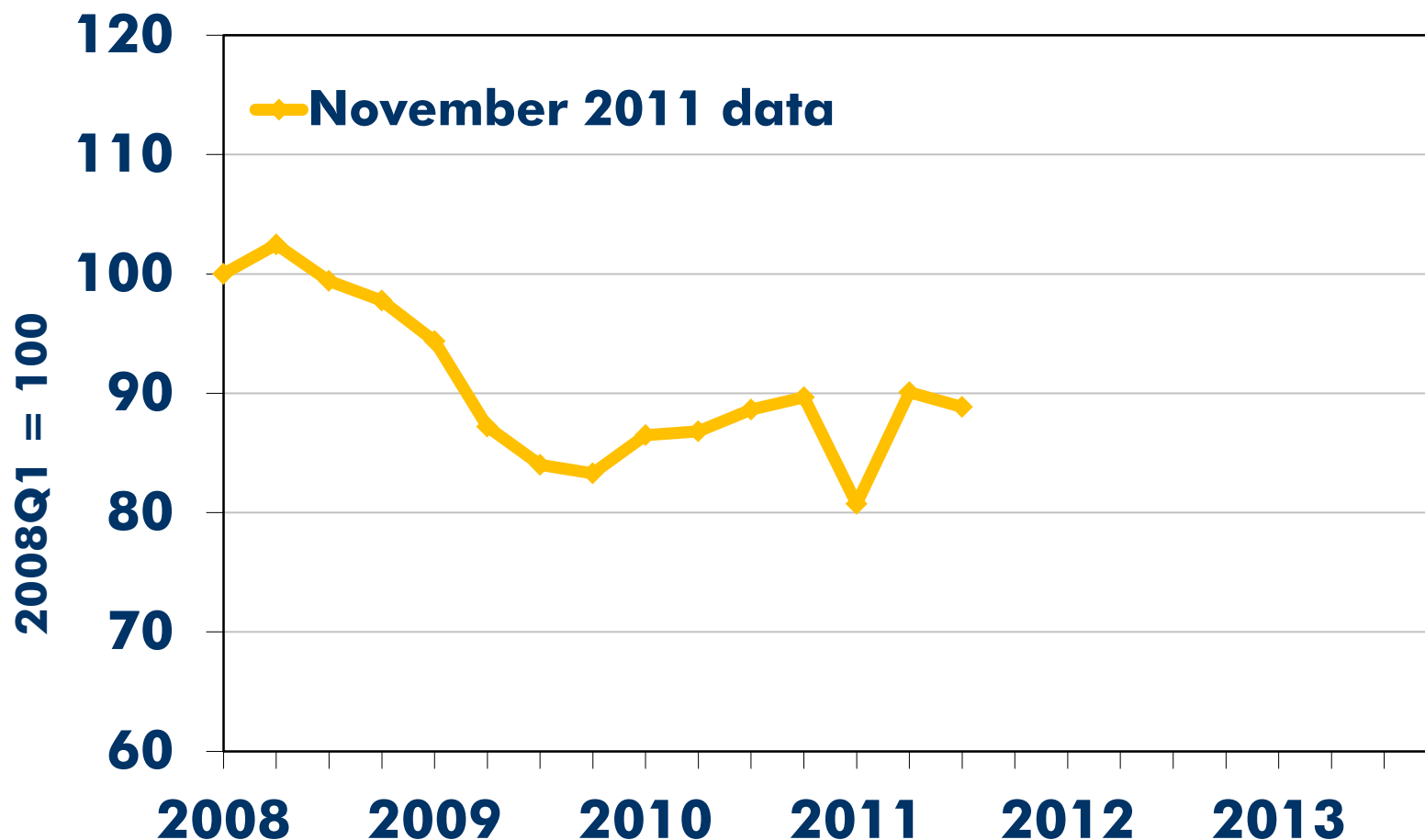
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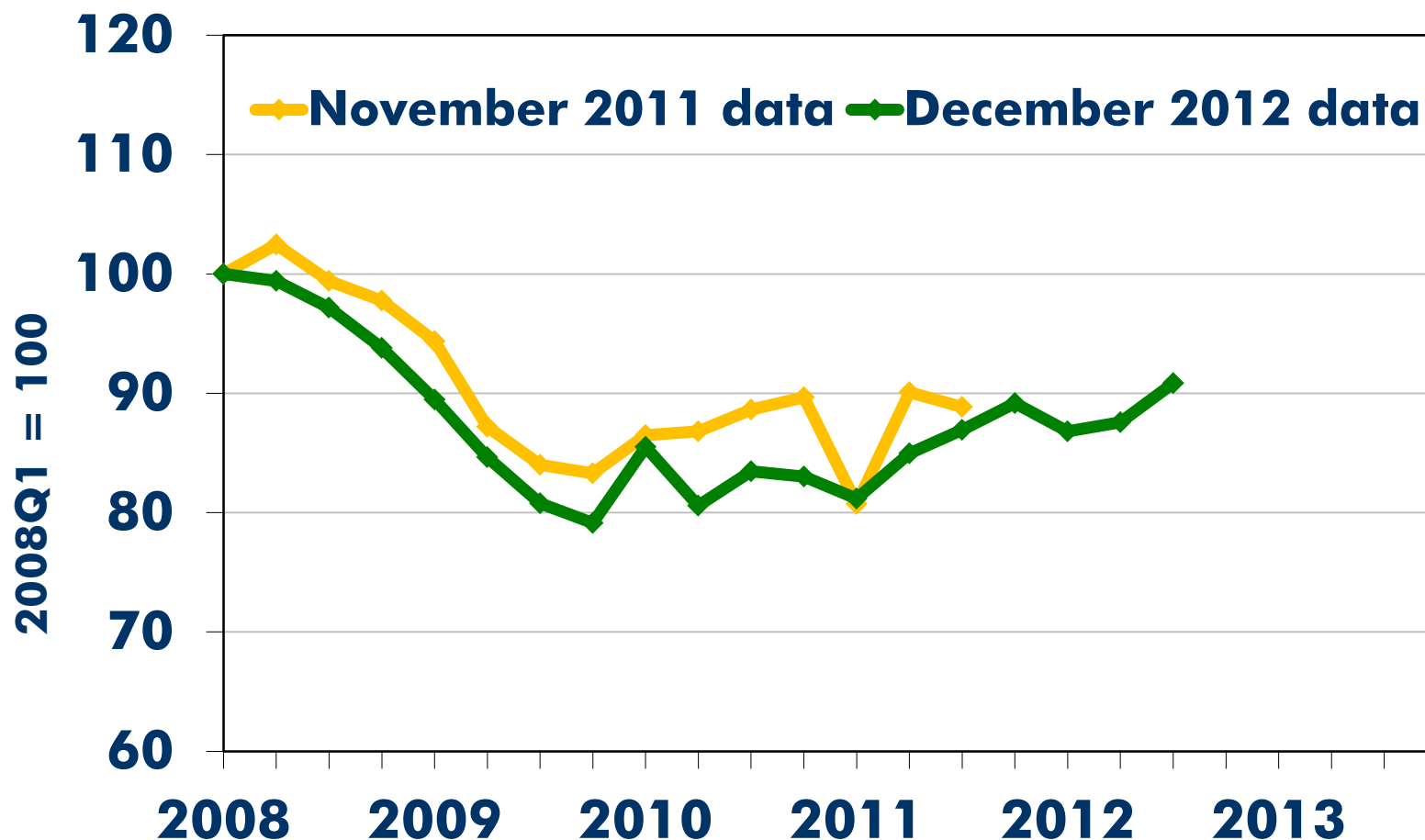
CPI inflation



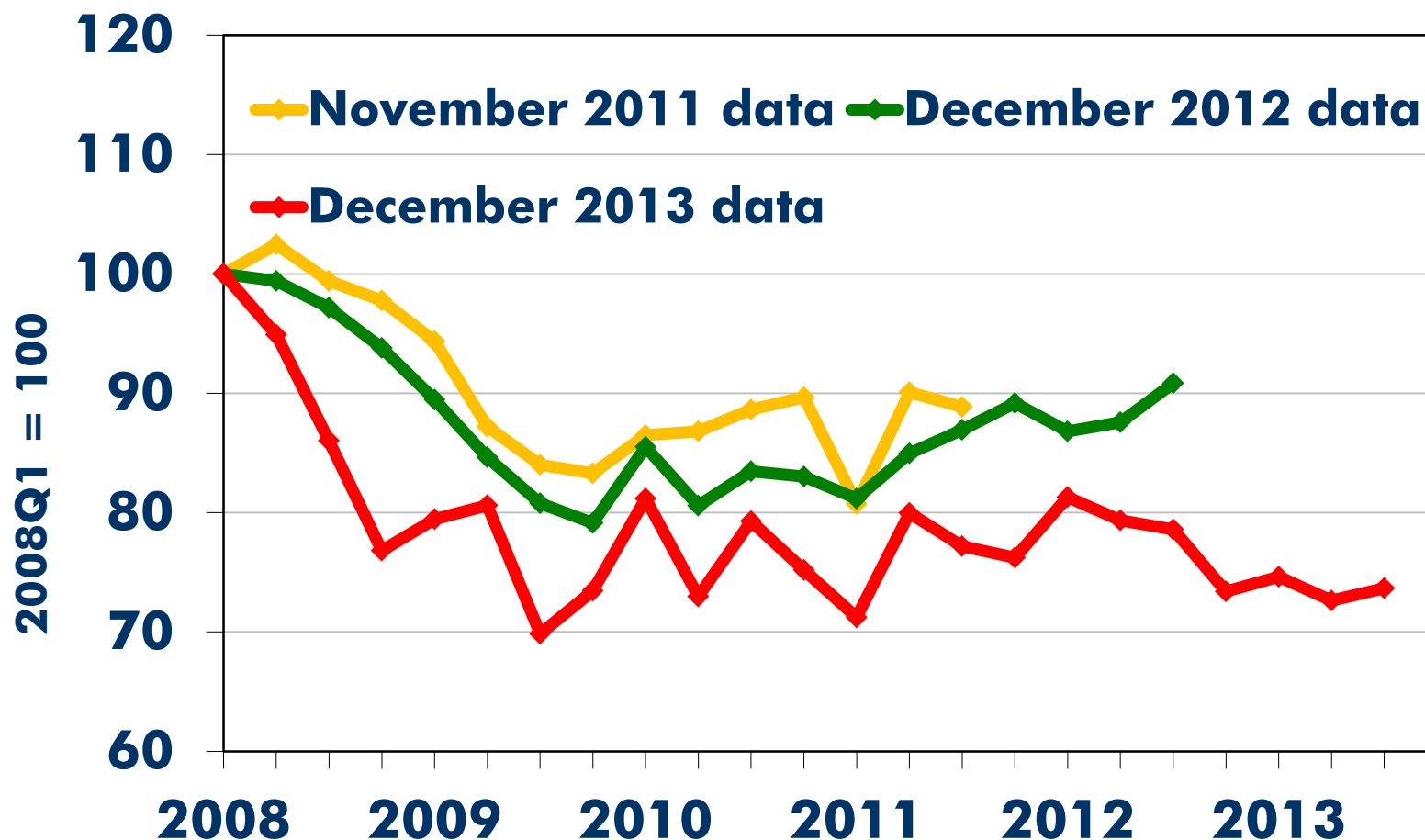
Business investment



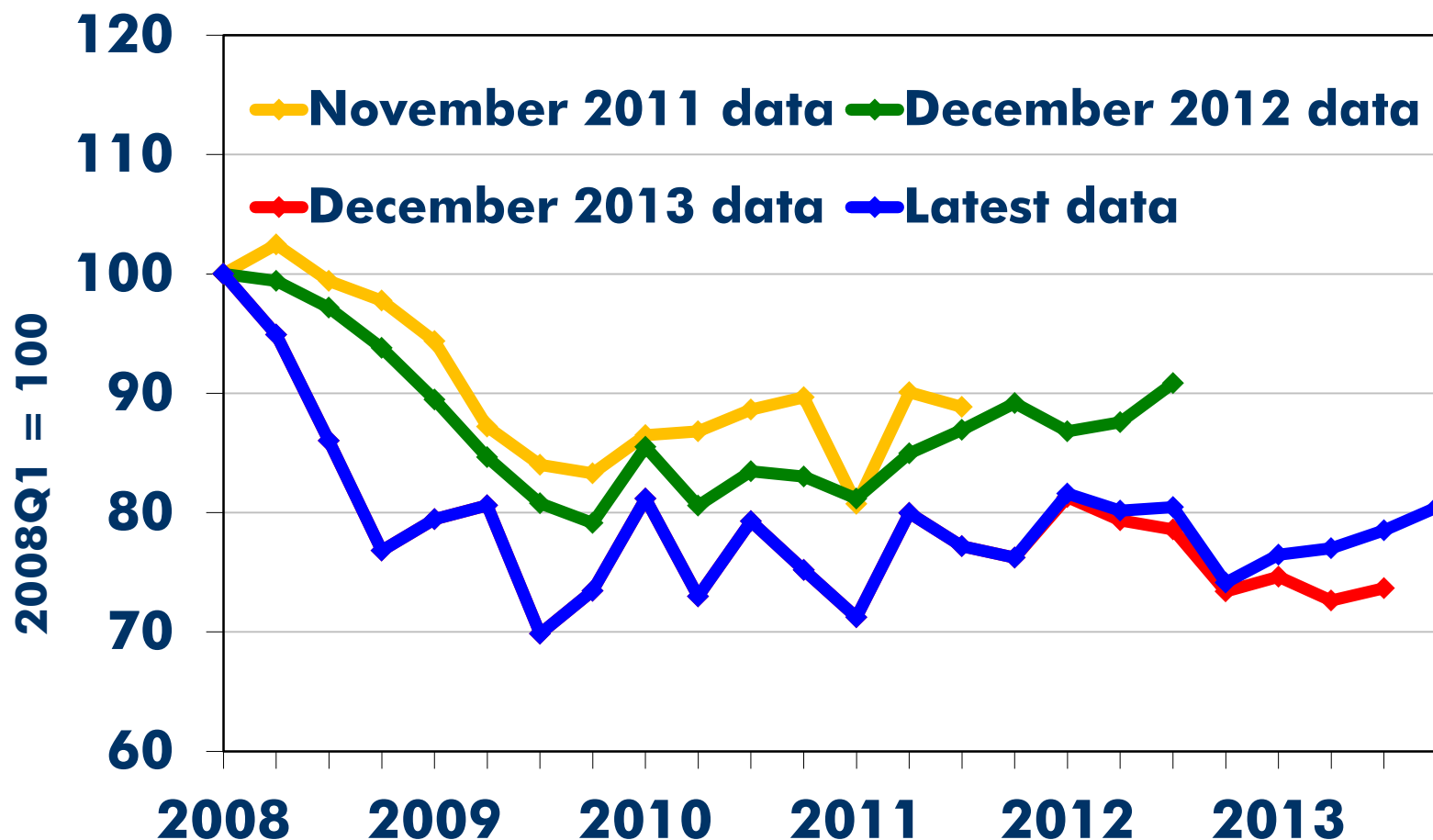
Business investment



Business investment



Business investment



The public finances

- **Once again comparisons complicated by:**
 - Government's decision to transfer Royal Mail pension fund assets to public sector in 2012-13
 - Government's decision to transfer money from Asset Purchase Facility (APF) to the Treasury now and back again when QE reverses
- **Focus here on Public Sector Net Borrowing excluding Royal Mail and APF transfers**
- **Methodological revisions to come**

Borrowing down a bit in 2013-14

	PSNB ex Royal Mail and APF
December forecast	£111.2bn
Lower debt interest payments	–£1.1bn
Lower capex by public corporations (including local authority housing)	–£1.0bn
Higher onshore corporation tax, stamp duty land tax and income tax / NICs	–£2.0bn
Lower capital gains tax and North Sea	+£1.4bn
Other revisions (mainly to other receipts)	–£0.8bn
March forecast	£107.8bn

Public sector net borrowing

£bn, excluding RM and APF	2013- 14	2014- 15	2015- 16	2016- 17	2017- 18	2018- 19
December	111	96	79	51	23	-2
Receipts forecast						
Spending forecast						
Pre-measures						
Receipts measures						
Spending measures						
March	108	95	75	44	17	-5
<i>Memo: change</i>	<i>-3</i>	<i>-1</i>	<i>-4</i>	<i>-7</i>	<i>-7</i>	<i>-3</i>

Public sector net borrowing

£bn, excluding RM and APF	2013- 14	2014- 15	2015- 16	2016- 17	2017- 18	2018- 19
December	111	96	79	51	23	-2
Receipts forecast	-1	-2	-3	-5	-4	-3
Spending forecast	-2	+1	-1	-2	-2	-
Pre-measures	108	95	75	45	17	-4
Receipts measures						
Spending measures						
March	108	95	75	44	17	-5
<i>Memo: change</i>	-3	-1	-4	-7	-7	-3

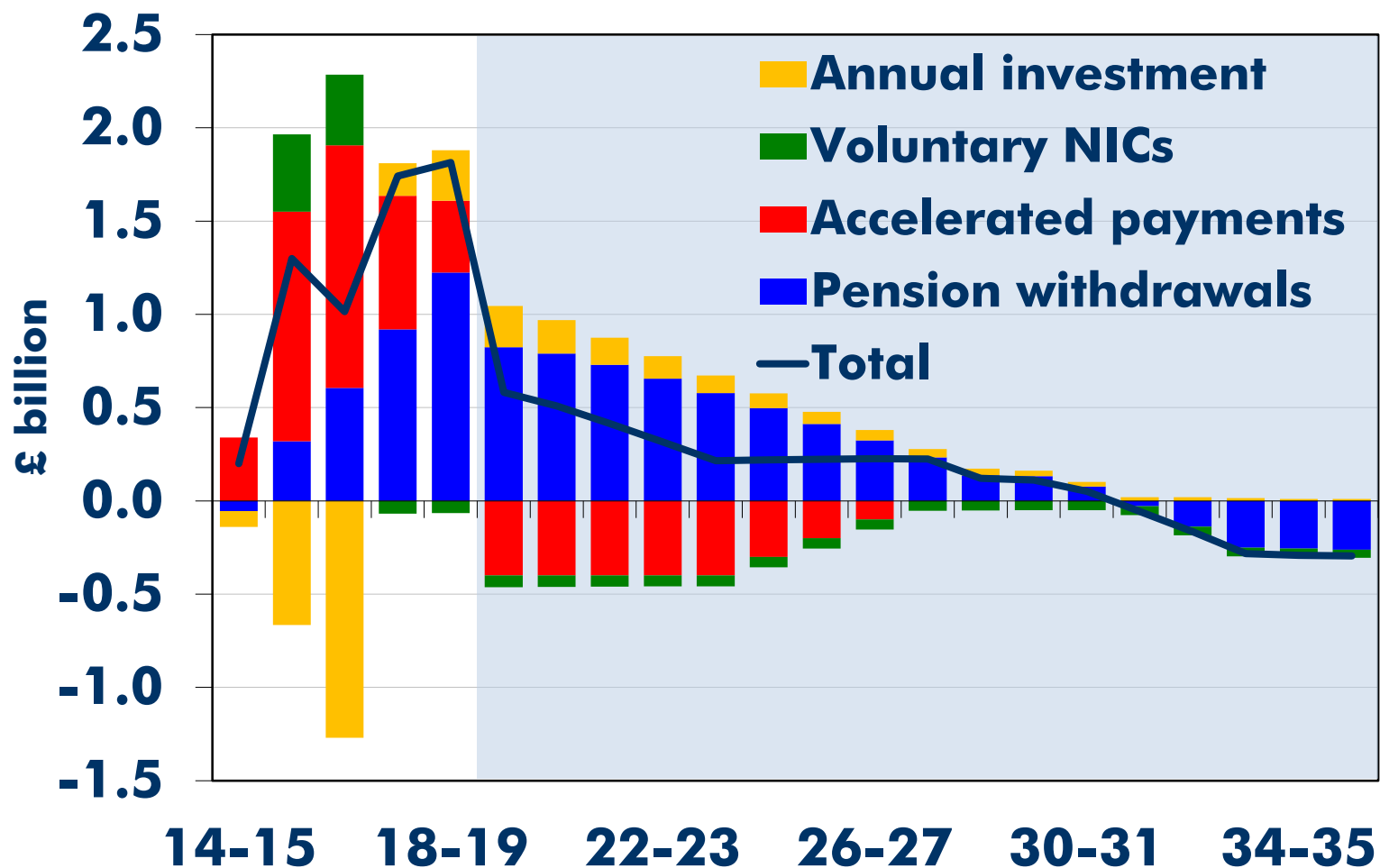
Public sector net borrowing

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Receipts forecast	-1	-2	-3	-5	-4	-3
Spending forecast	-2	+1	-1	-2	-2	-
Pre-measures	108	95	75	45	17	-4
Receipts measures	-	-	+1	+2	+1	+2
Spending measures	-	+1	-	-2	-2	-2
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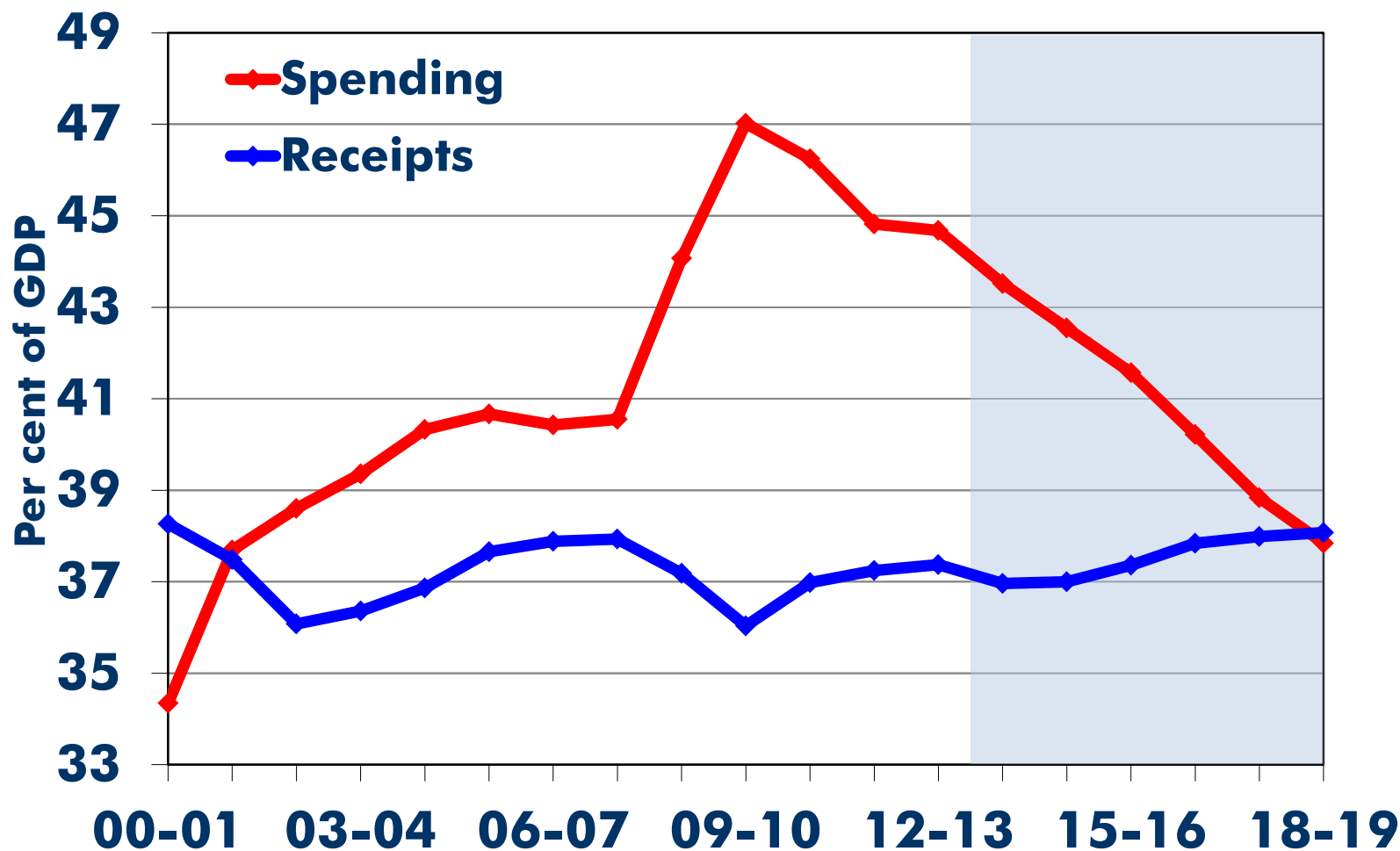
Decisions with long-term impact

- **Pensions withdrawal: brings receipts forwards but small net cost in long term**
- **Voluntary NICs: raises receipts in near term, but raises state pension spending later**
- **Extending annual investment allowance: increases tax relief, then reduces it**
- **Acceleration of anti-avoidance tax payments: brings forward receipts**

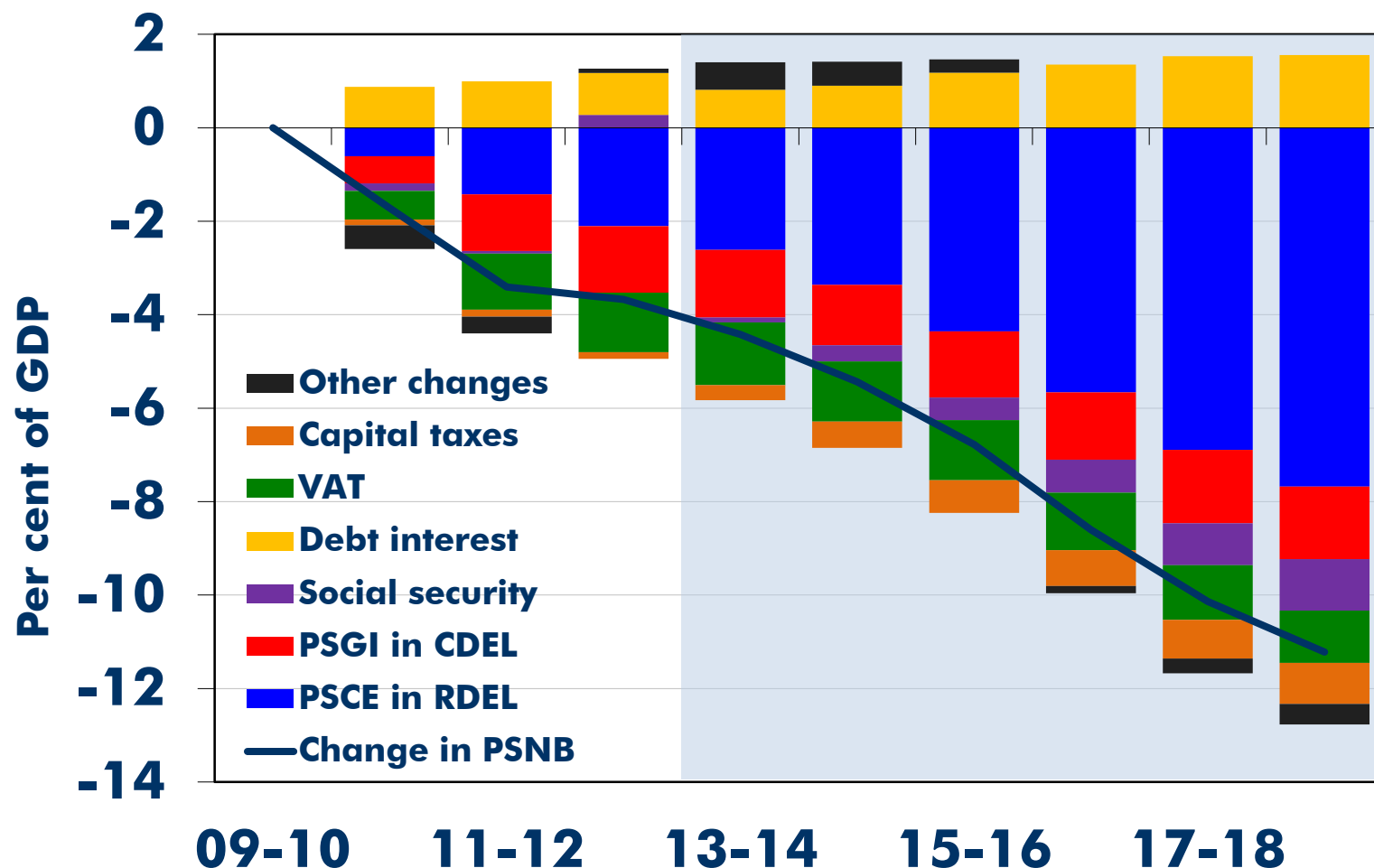
Measures raise less in long term



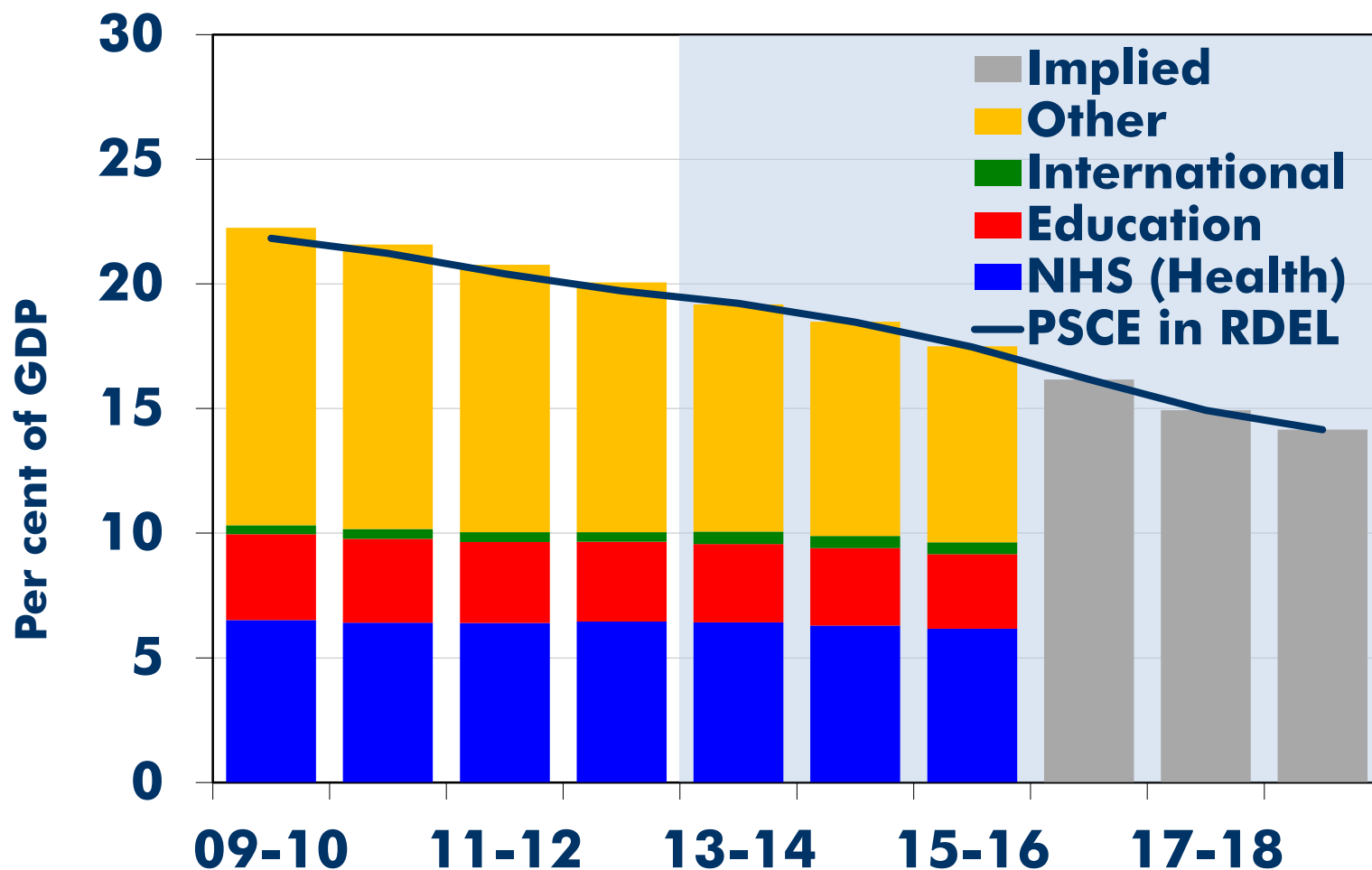
Receipts and spending



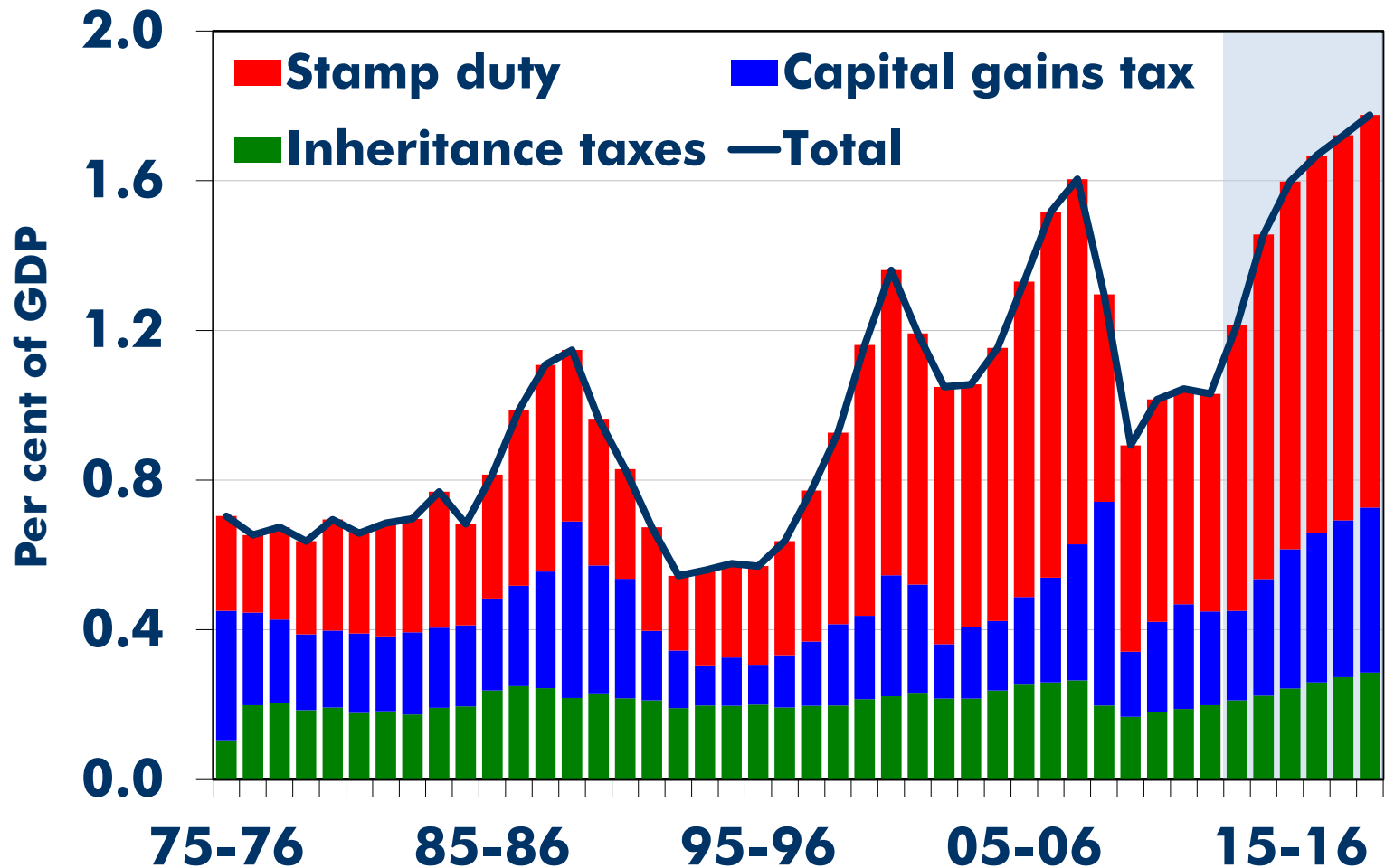
How PSNB returns to balance



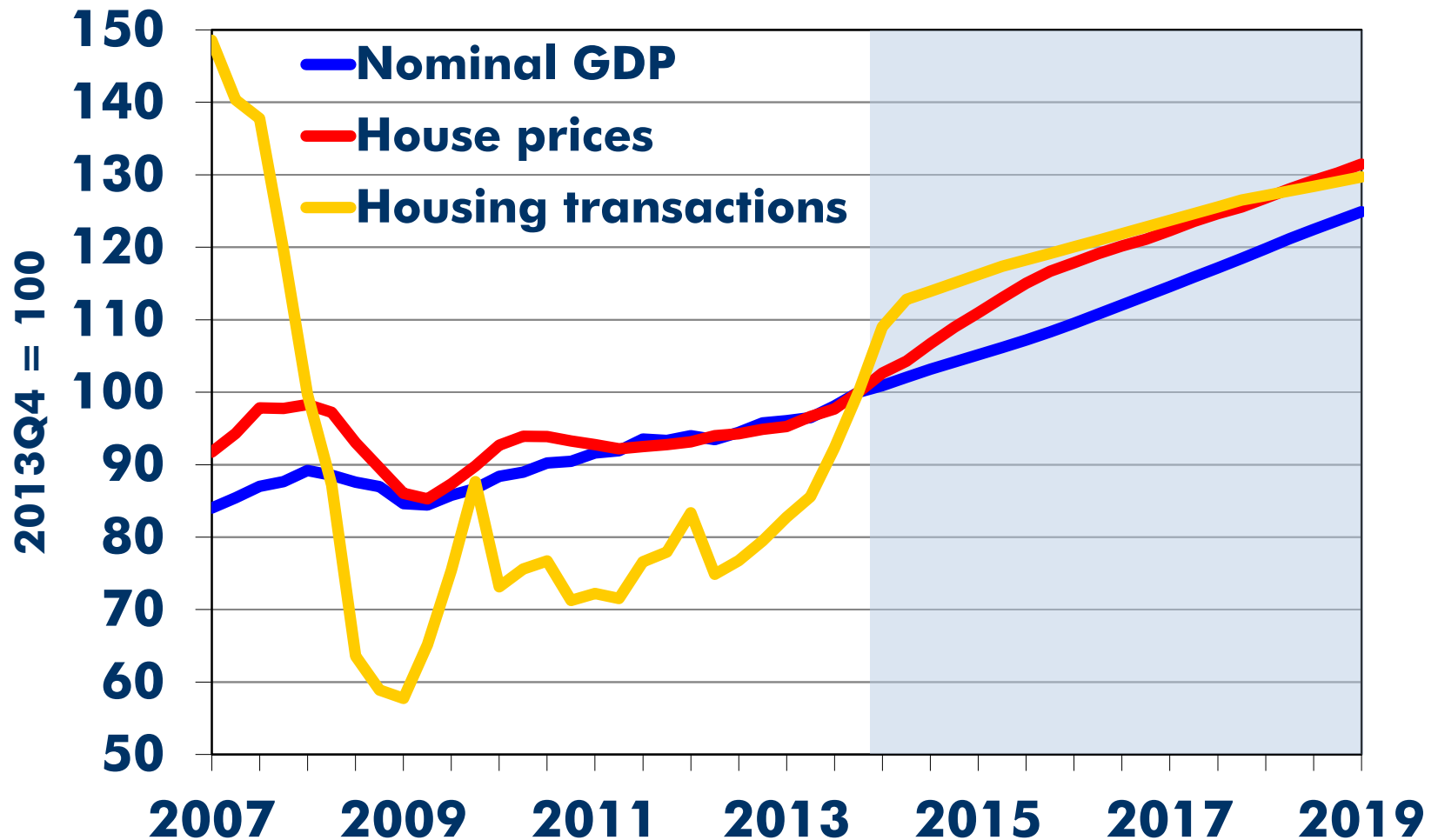
Public services/admin squeeze



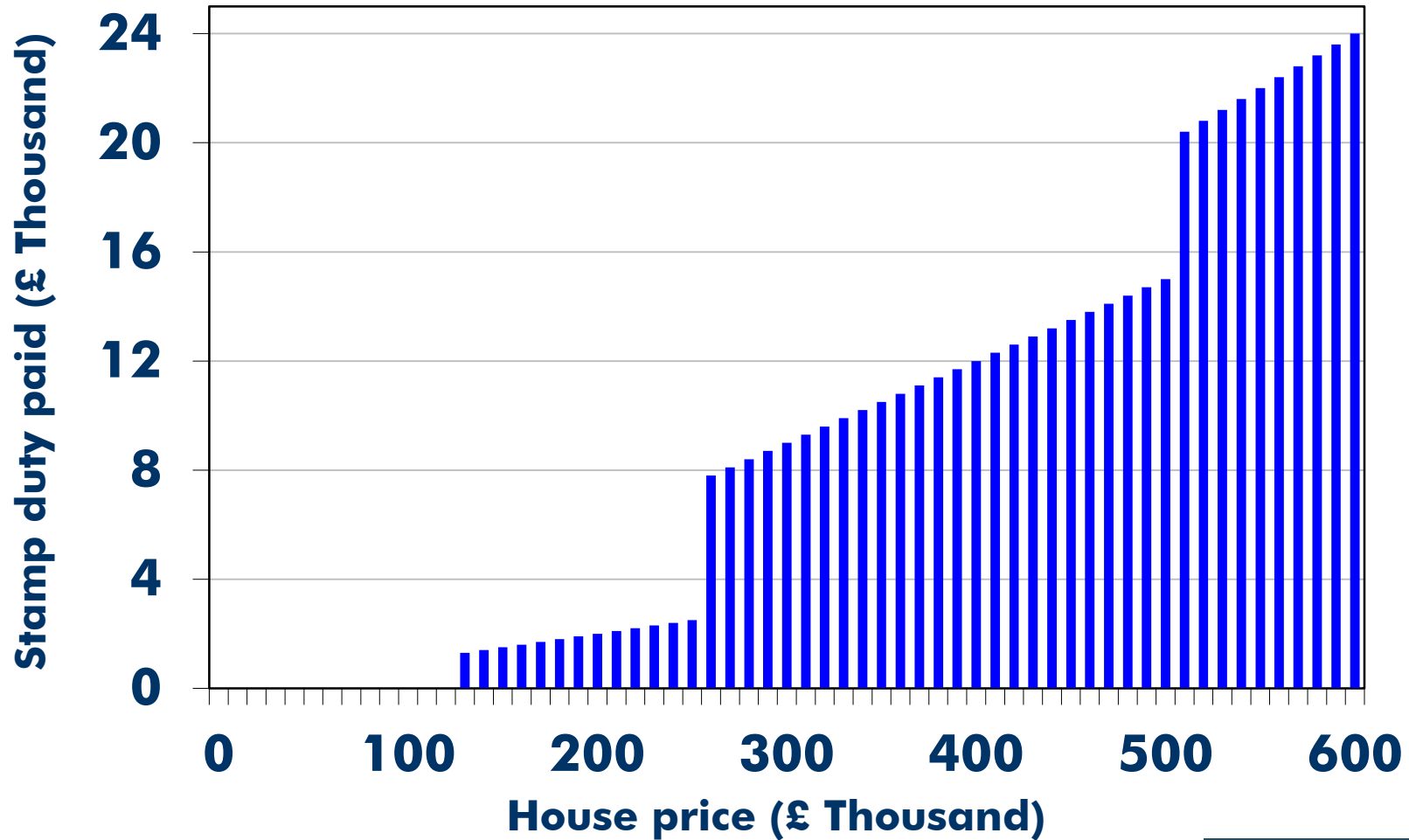
Capital tax receipts



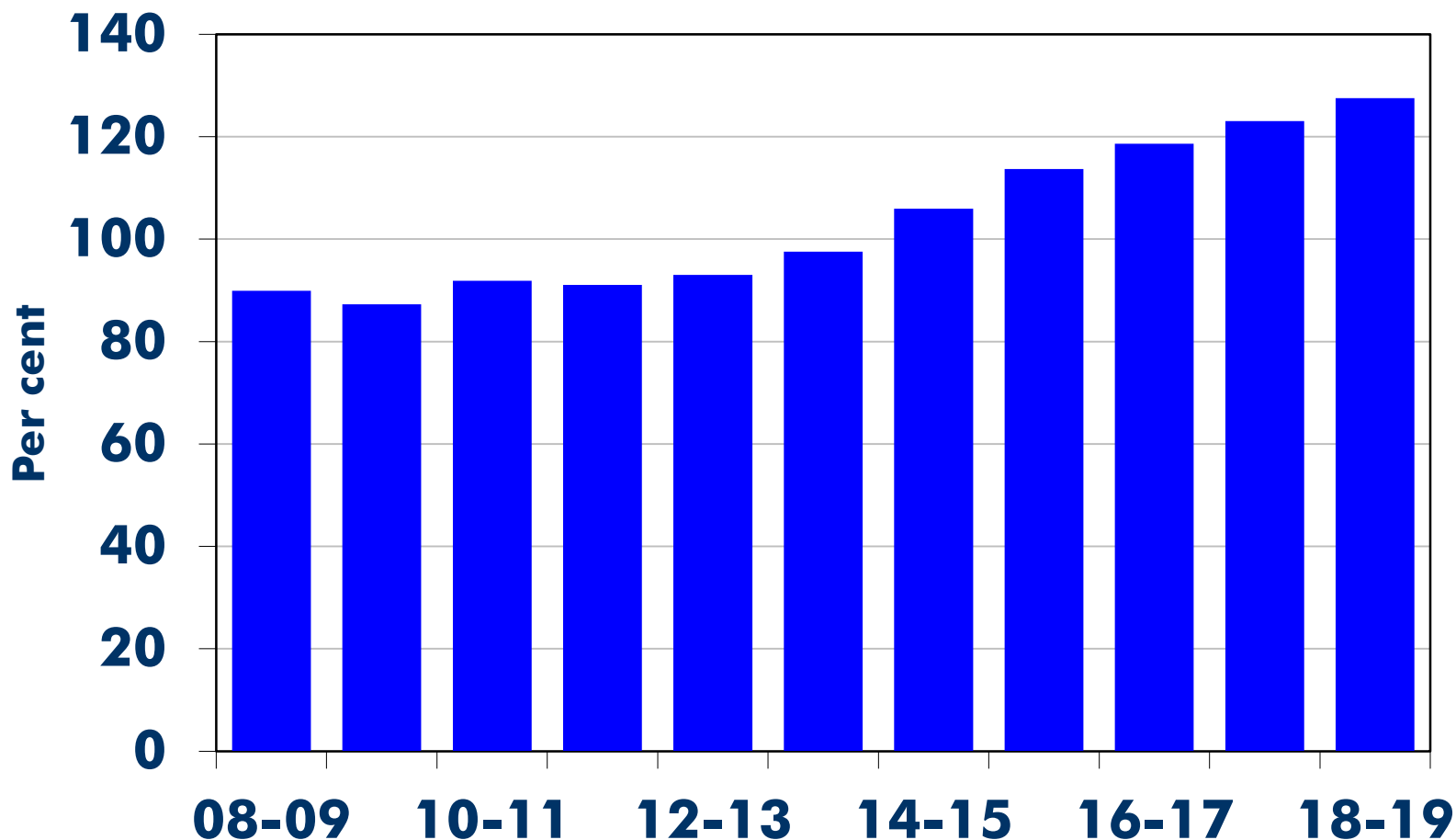
Housing market indicators



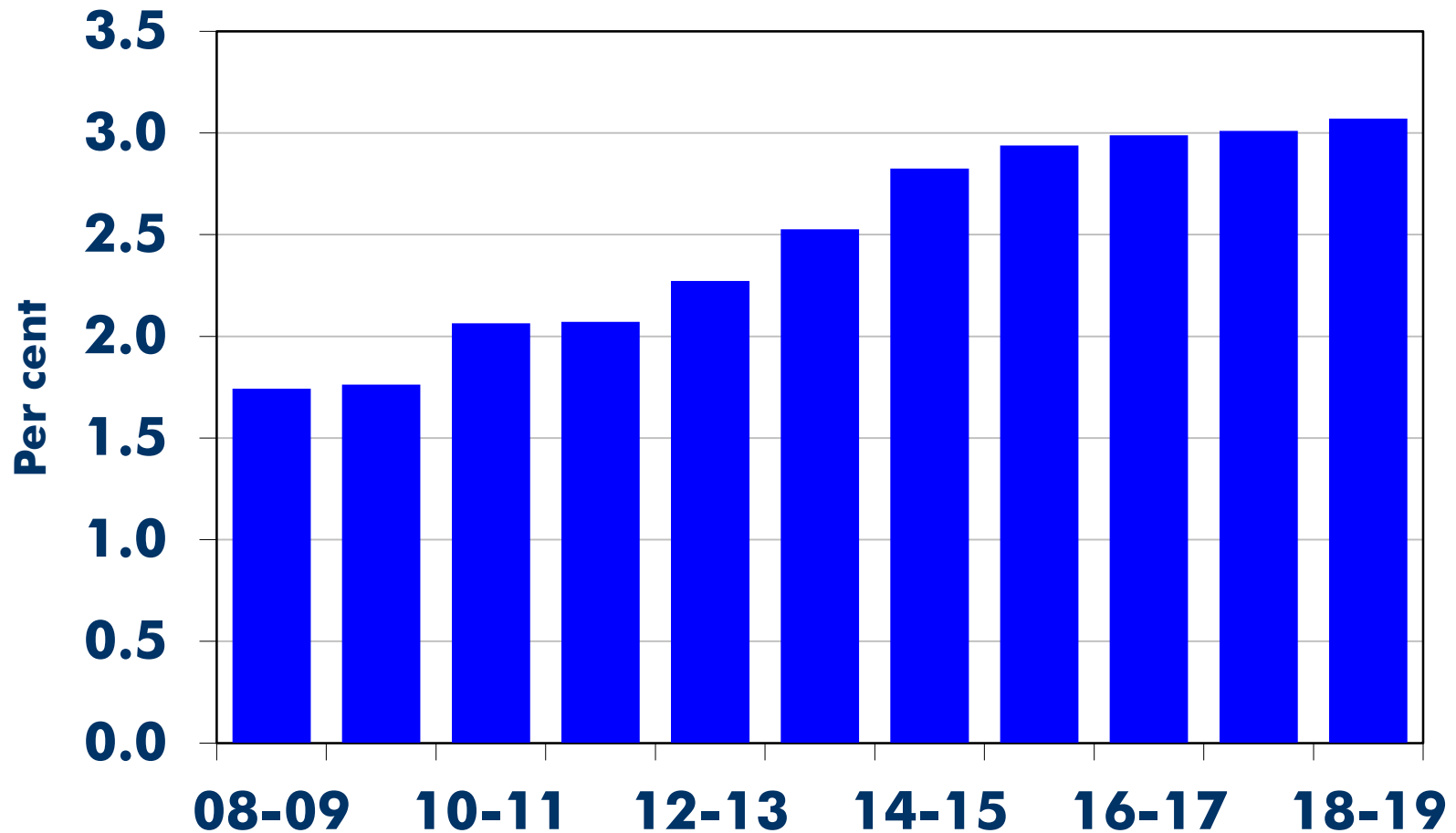
Stamp duty land tax schedule



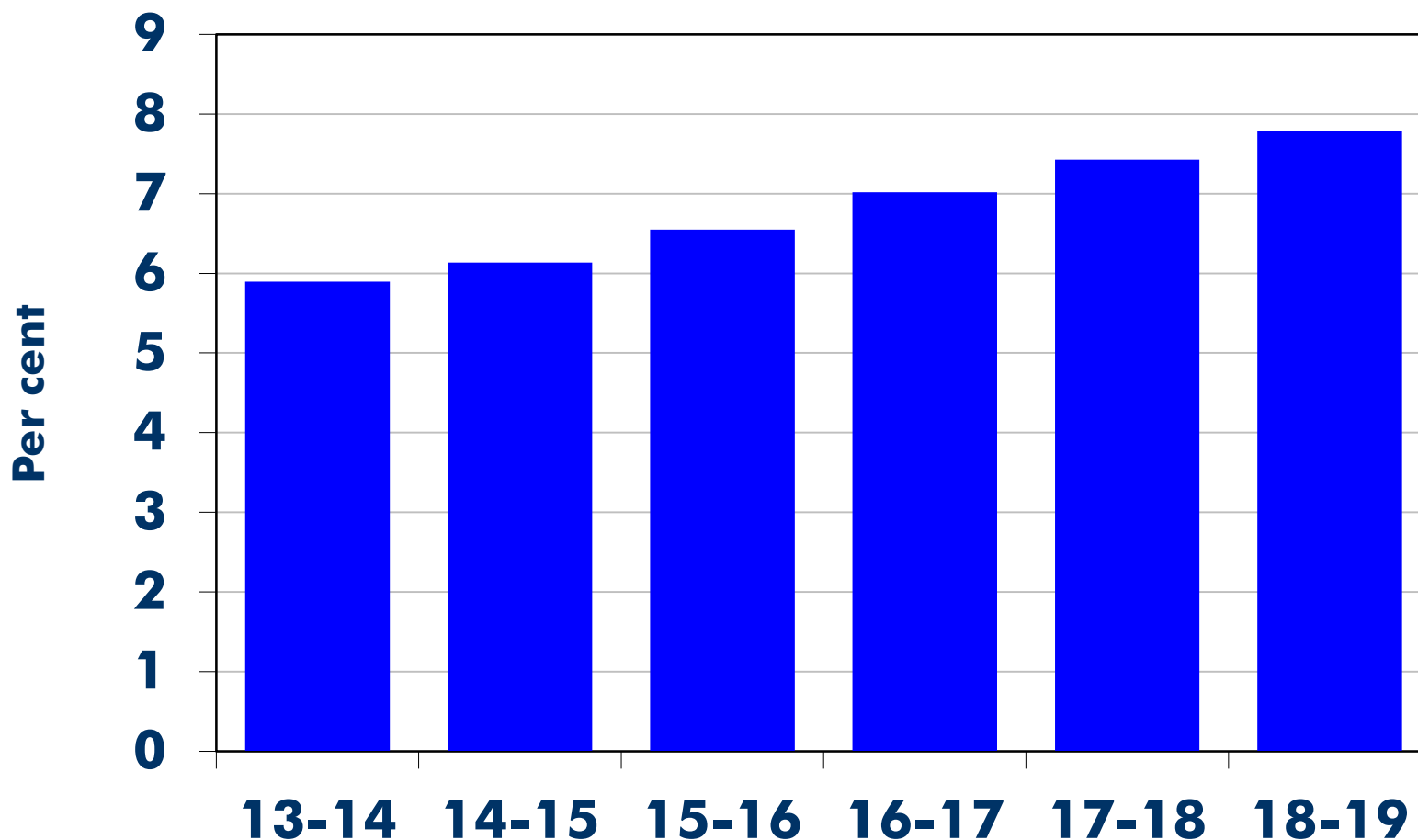
House prices and the 3% threshold



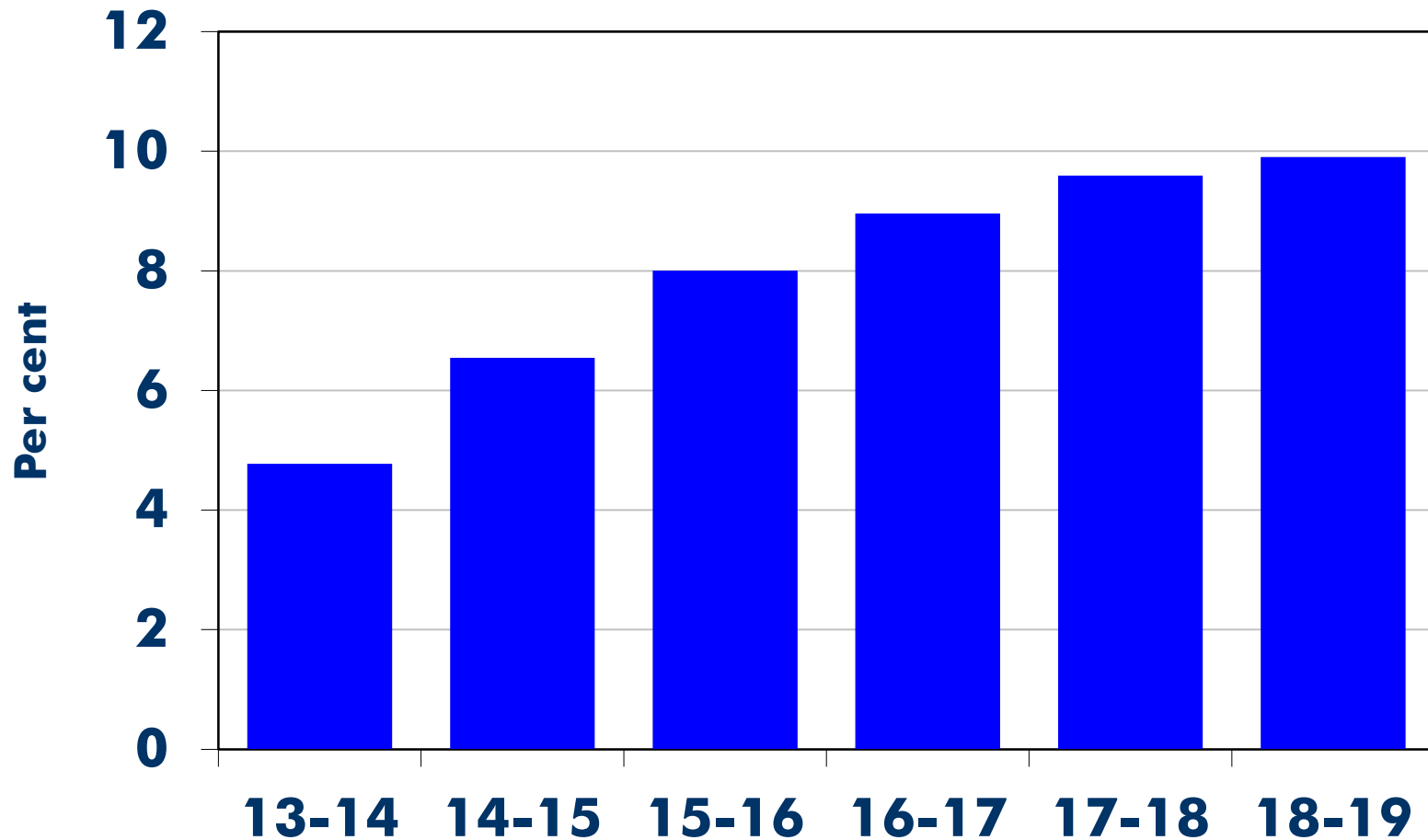
Stamp duty: effective tax rate



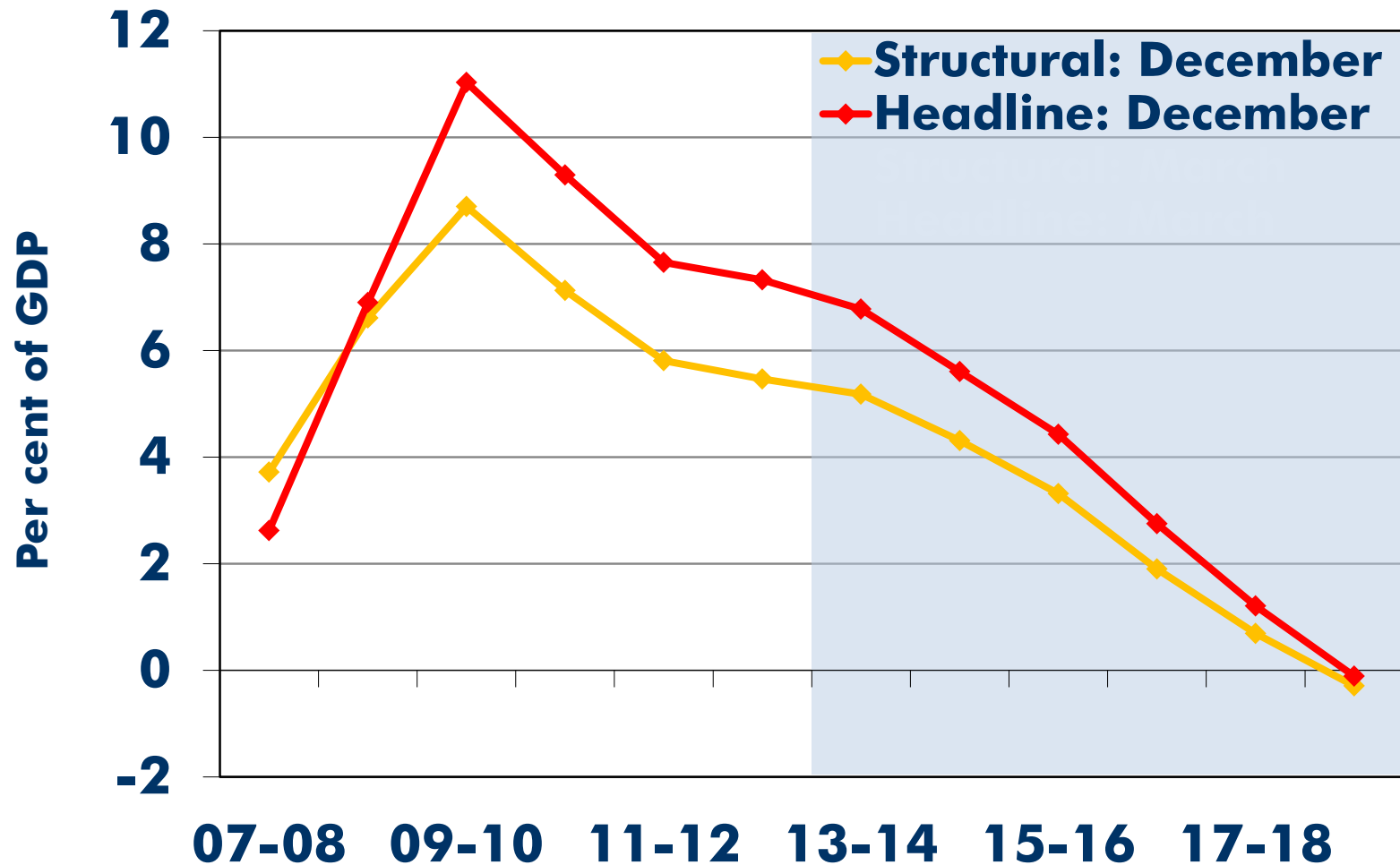
Inheritance tax: effective tax rate



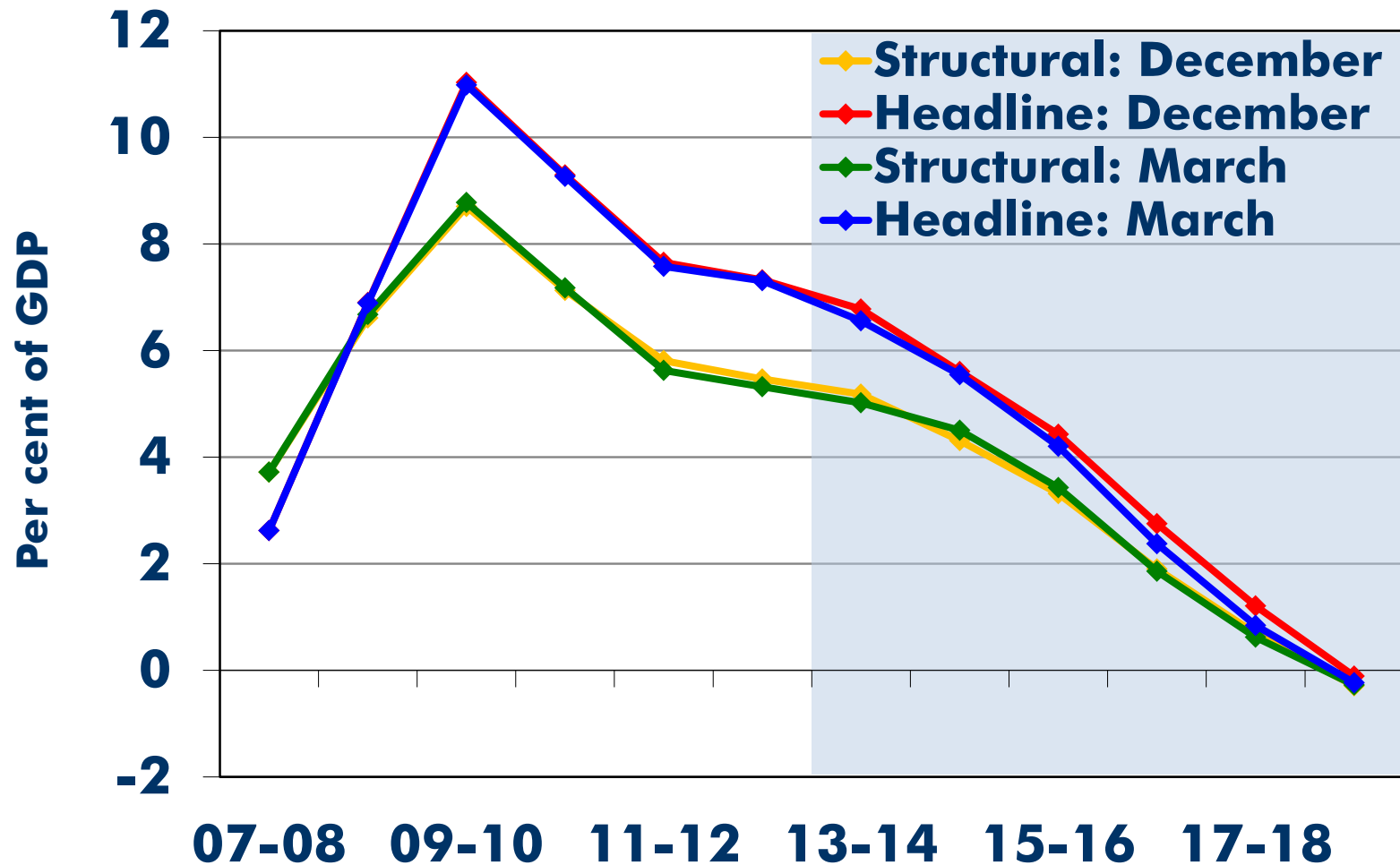
Inheritance tax: deaths liable



Total and structural PSNB



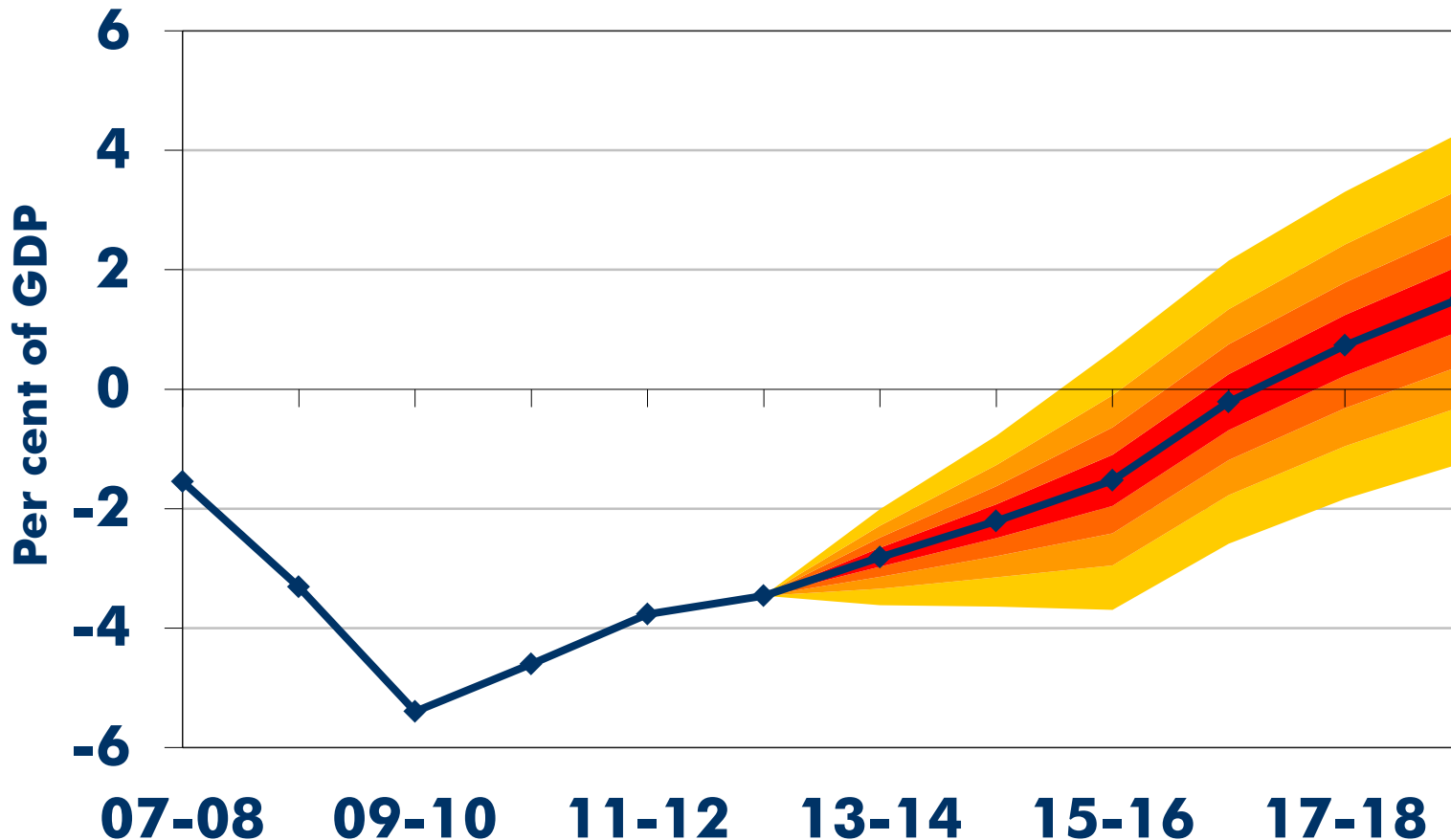
Total and structural PSNB



The fiscal mandate

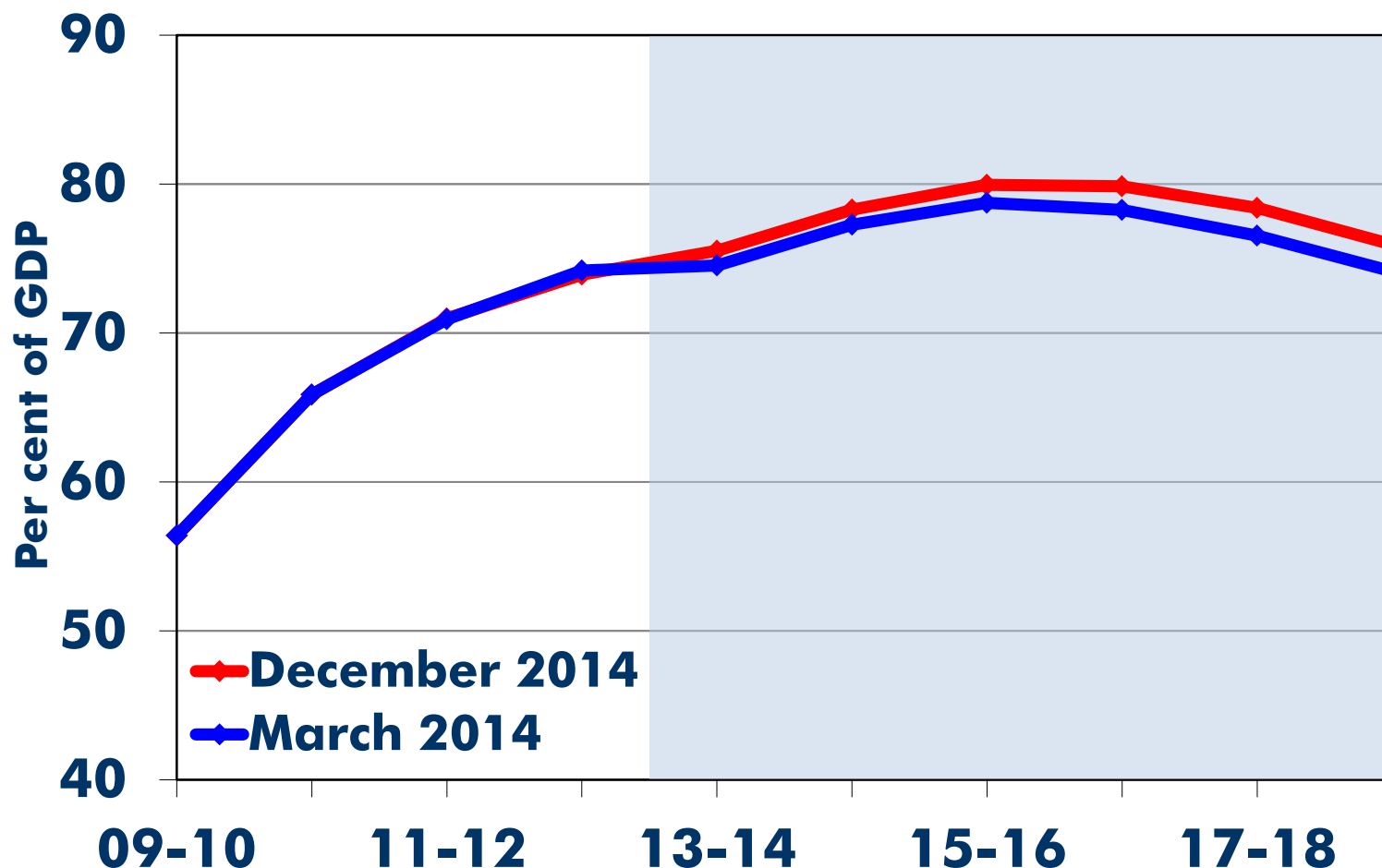
CACB as % of GDP	2017-18	2018-19
December	+0.7	+1.6
New post 15-16 spending assumption	+0.2	+0.2
Other forecasting changes (weaker receipts than CA would suggest)	-0.2	-0.3
Budget measures	-	-
March	+0.7	+1.5

Uncertainty and the mandate



Implies 75% chance of success

Public sector net debt



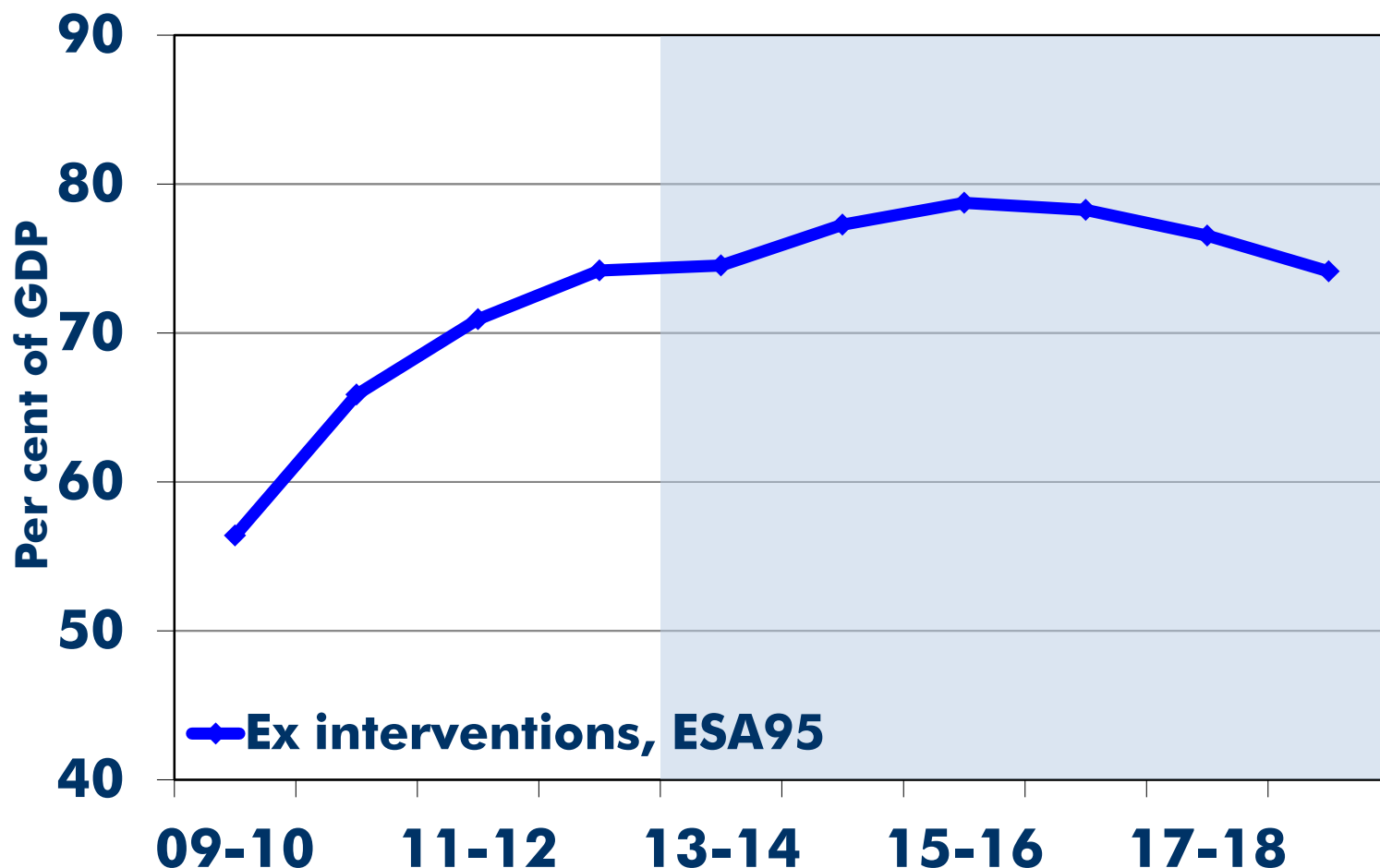
Change in net debt on previous year

% of GDP	2015-16	2016-17
December	+1.7	-0.1
Nominal GDP revised up	-0.1	-0.1
Borrowing falling more quickly	-0.2	-0.3
Budget measures	-	+0.1
Other	-	-0.1
March	+1.5	-0.5

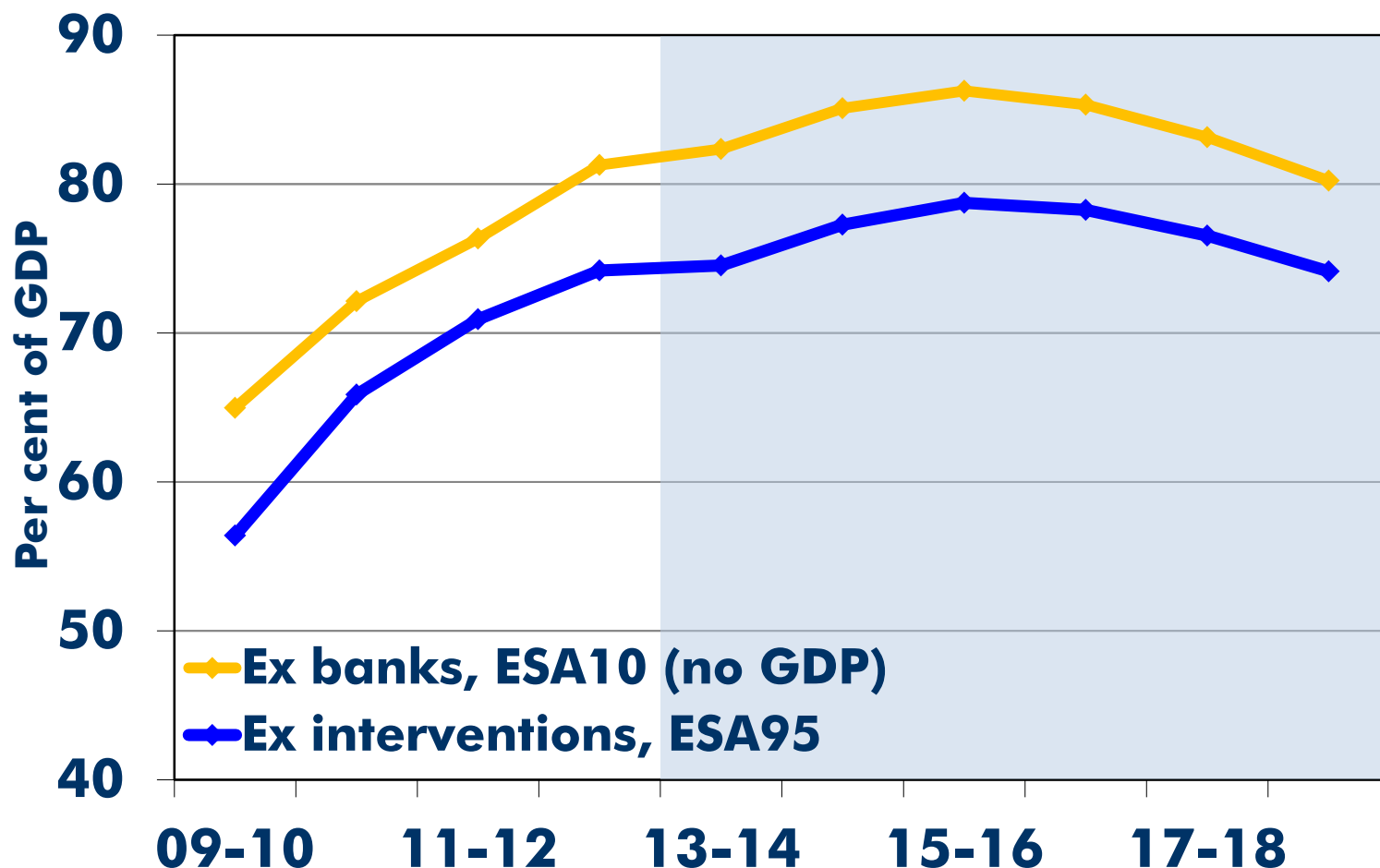
Revisions coming later this year

- **To reflect review of public finance statistics and new ESA10 rules for National Accounts**
- **Will raise measured net debt by c.£140bn in 2014-15, falling to c.£125bn by 2018-19**
 - Bank shares no longer liquid assets
 - APF being brought into PSND boundary
 - Network Rail brought into public sector
- **Will worsen PSNB ex APF by c.£3.6bn in 2014-15, falling to c.£1.9bn by 2018-19**

Potential net debt revisions



Potential net debt revisions



Potential net debt revisions

