

Office for
**Budget
Responsibility**

Economic and fiscal outlook

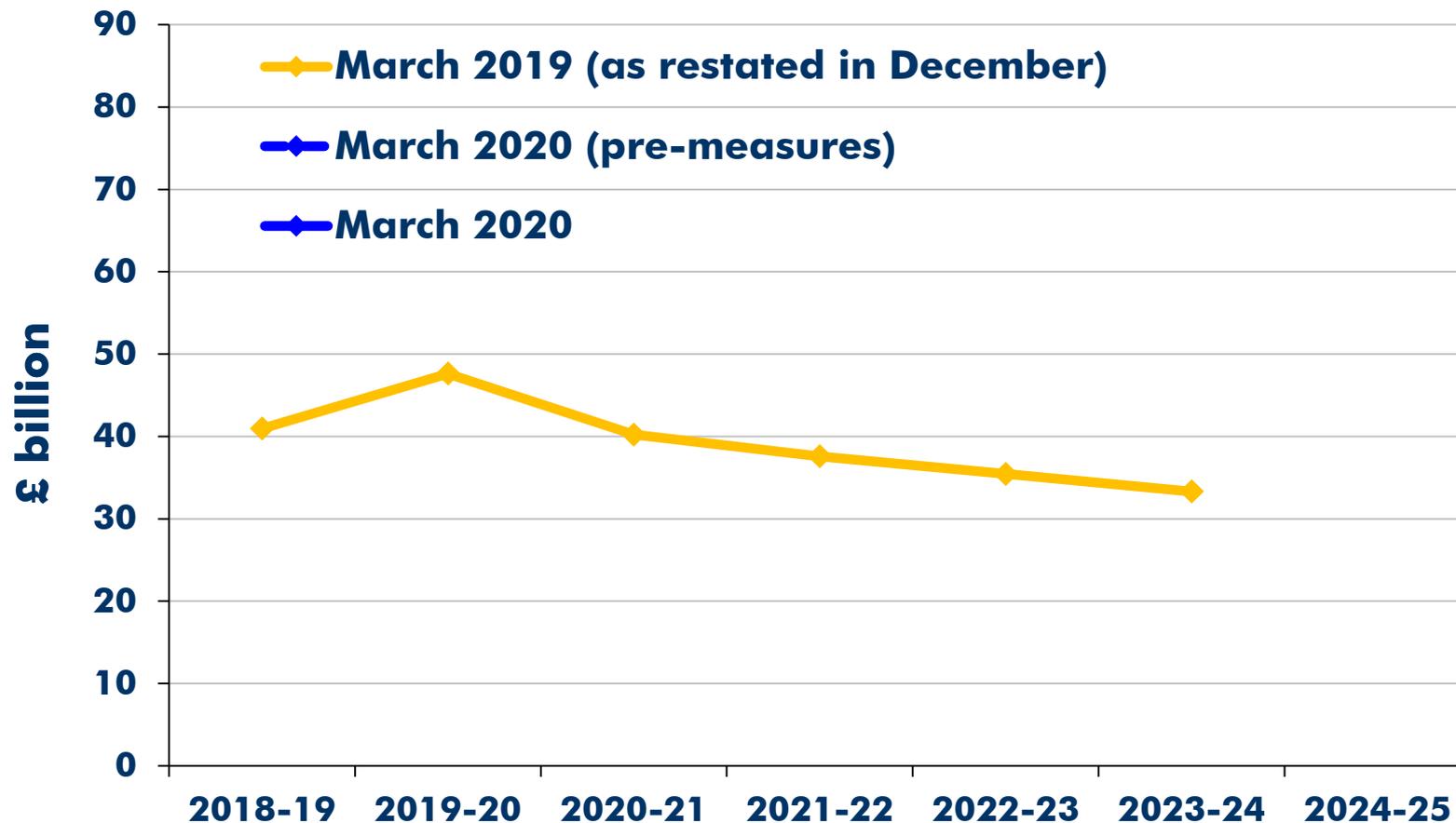
Robert Chote
Chairman

11 March 2020

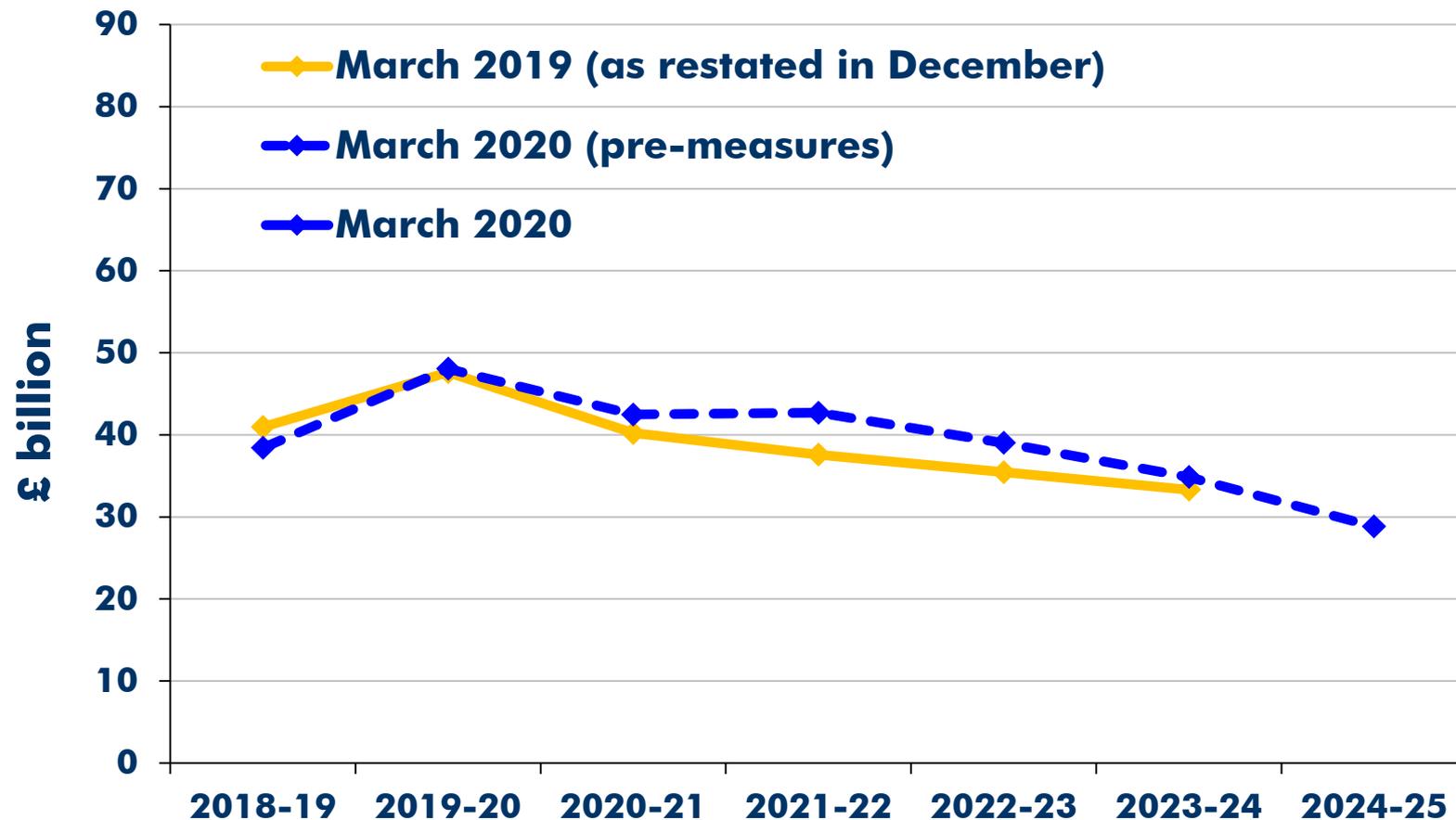
Coverage and process

- **Five year forecasts, plus progress against targets**
- **Independent BRC responsible for conclusions**
- **Pre-measures forecasts were closed on 17 February (economy) and 24 February (public finances)**
- **So impact of coronavirus on published forecasts very modest. No longer central in near term**
- **But assessment of Budget package impact still relevant**

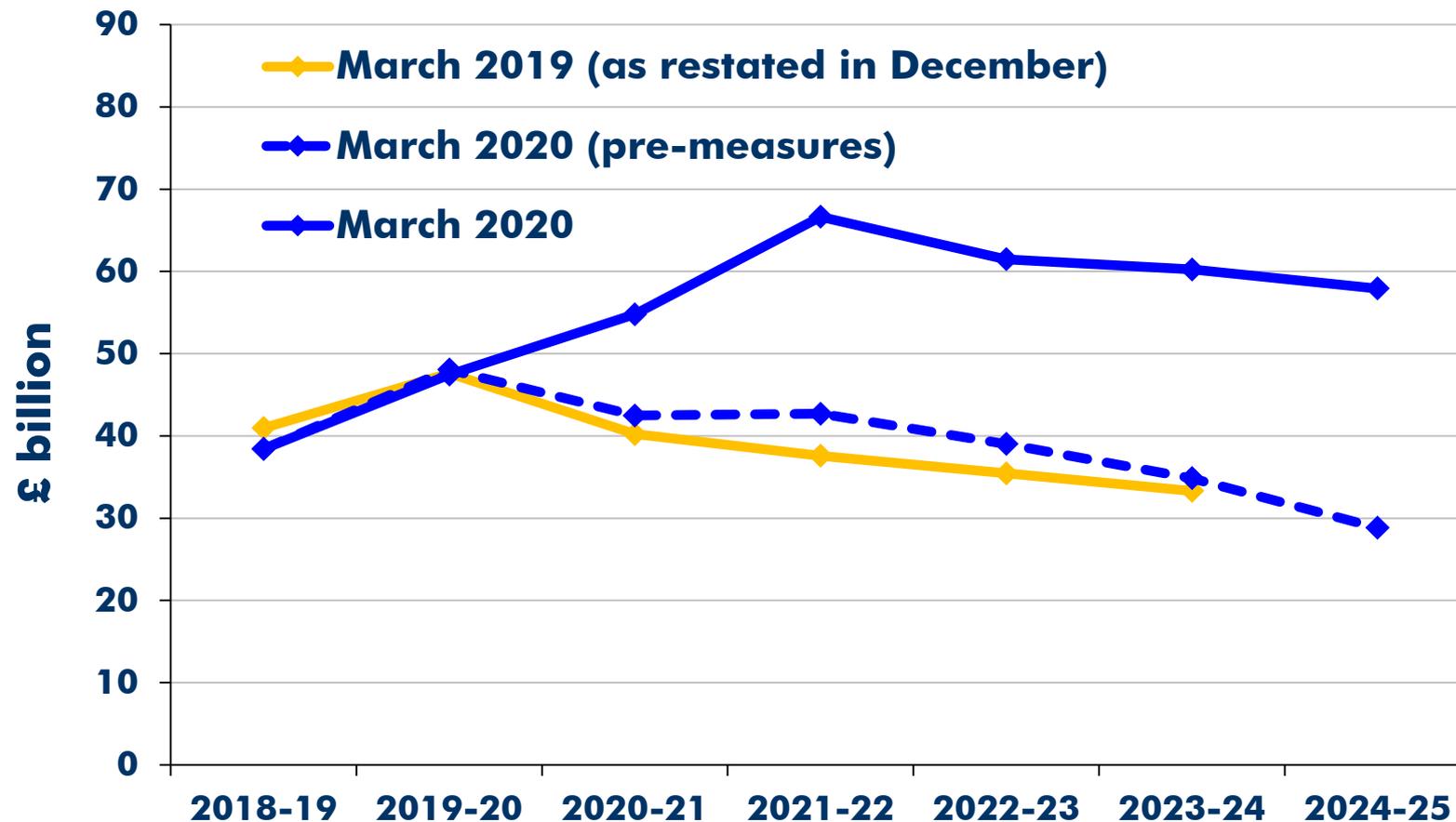
The big picture: net borrowing



The big picture: net borrowing



The big picture: net borrowing



Pre-measures forecast revisions

- **Forecast consistent with orderly move to typical FTA**
 - Economy now 2% smaller than in absence of referendum vote
 - 4% hit to productivity and potential GDP over 15 years (2/3 to come)
- **Global growth already weaker than last March pre-virus**
- **UK GDP growth outlook slightly weaker than last March**
 - Recent outturns lower 2020 calendar growth
 - Weaker outlook for potential output over the medium term, with productivity outweighing participation
- **Market interest rate expectations significantly lower**

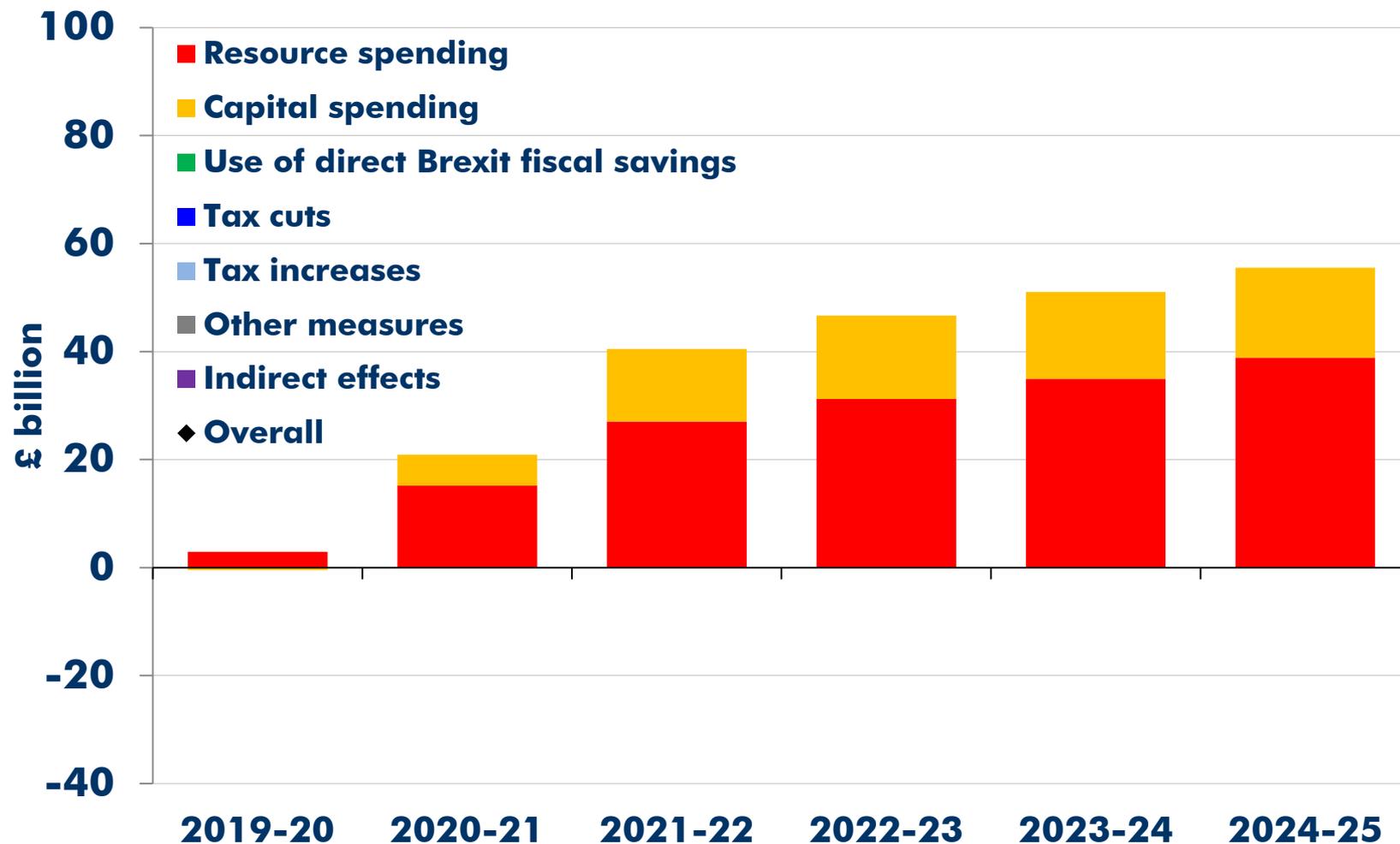
Pre-measures forecast revisions

- **Borrowing revised up £3.1bn a year on average**
 - Debt interest down £7.4bn (interest rates and RPI inflation)
 - Other current spending up £2.8bn (R&D tax credits)
 - Net investment up £4.6 billion (council capex and student loans)
 - Receipts down £3.0bn (weaker earnings and household spending)

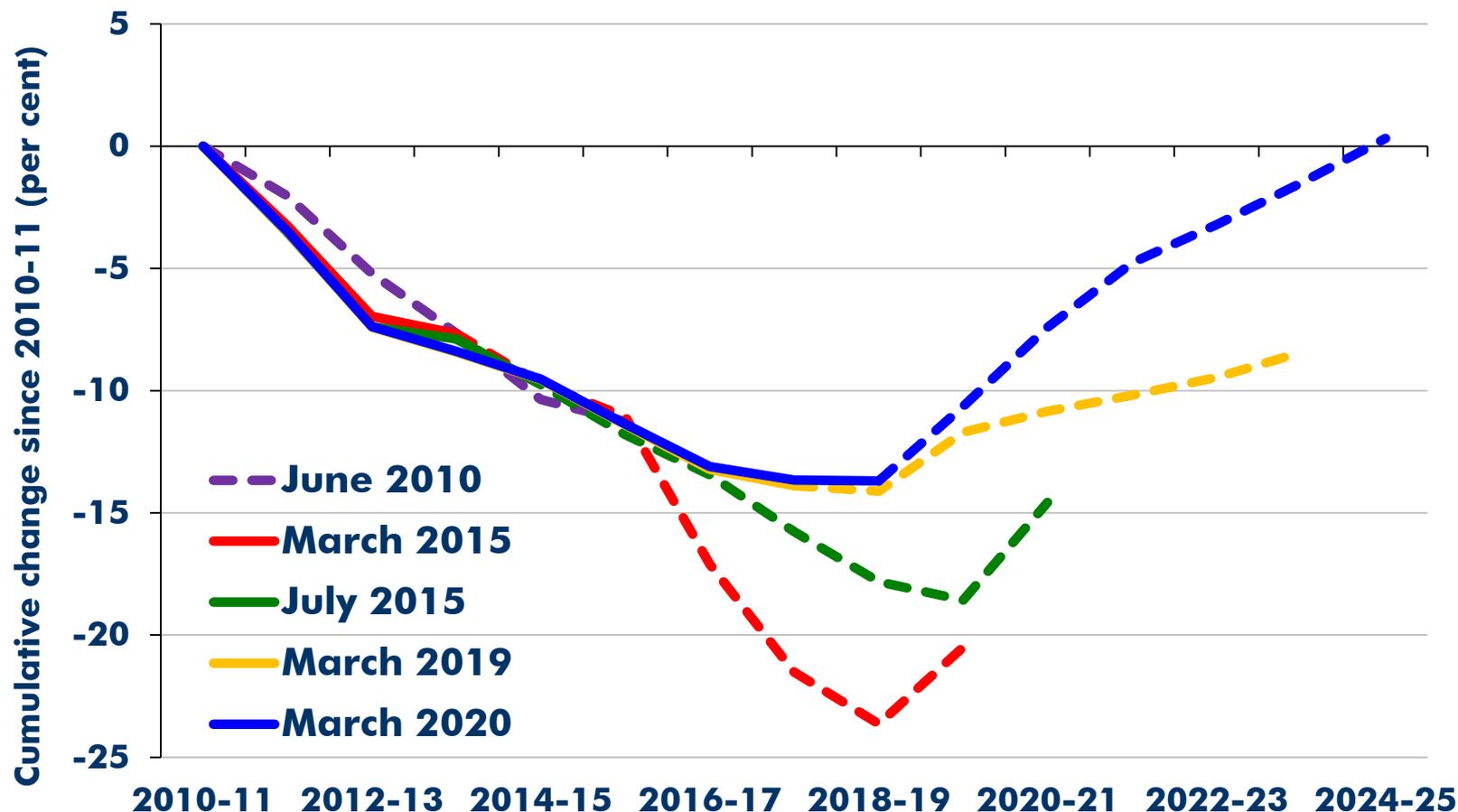
Policy changes since last March

- **Budget package – building on Spending Round 2019**
 - Big increases in current and capital spending limits
 - Partly paid for by net tax increases
 - And absorbing direct Brexit savings already in our forecasts
- **New migration regime**
 - Tighter for EU and looser for non-EU migrants
- **Planned increases in National Living Wage**
 - To two-thirds of median earnings by October 2024

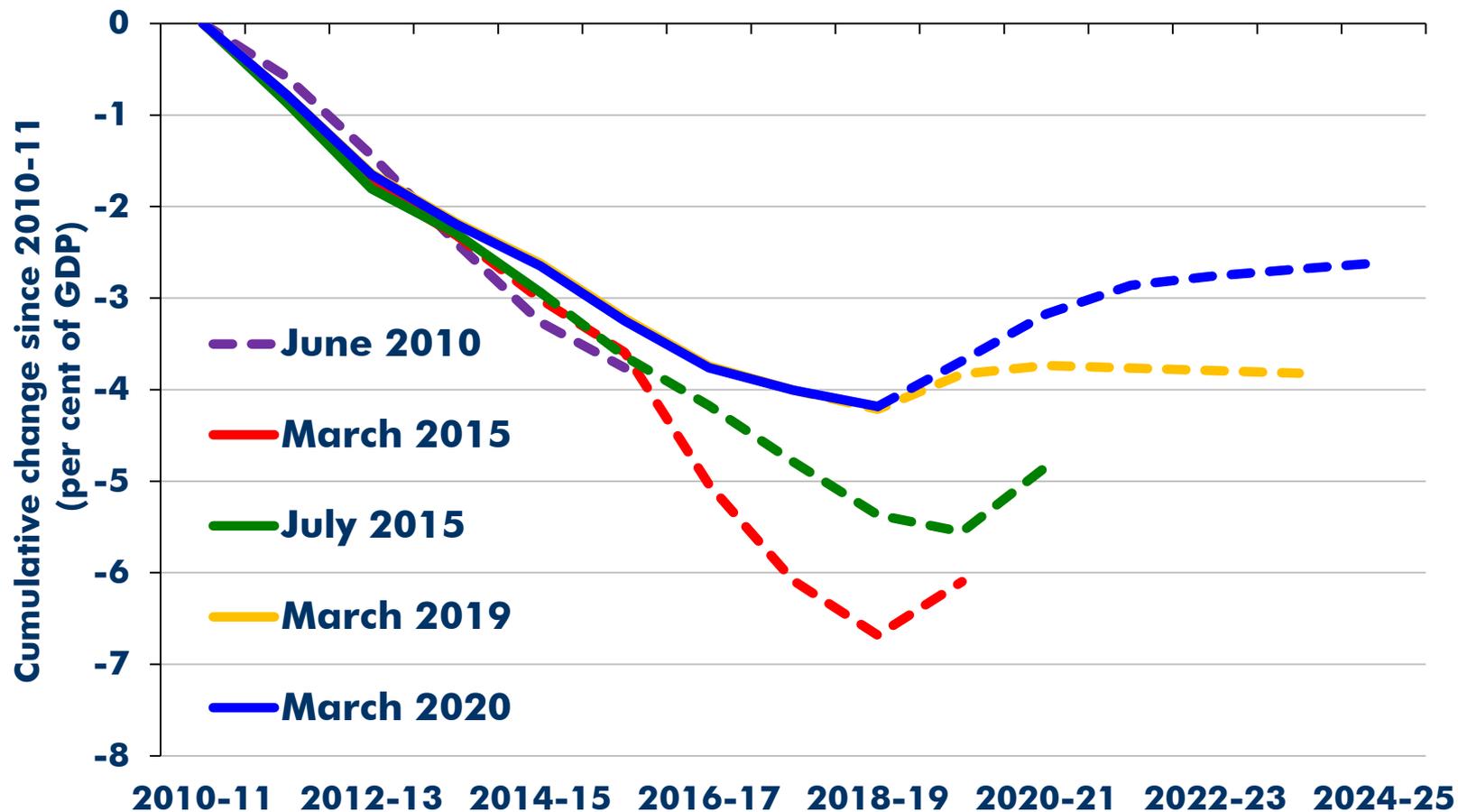
Borrowing: impact of policy decisions



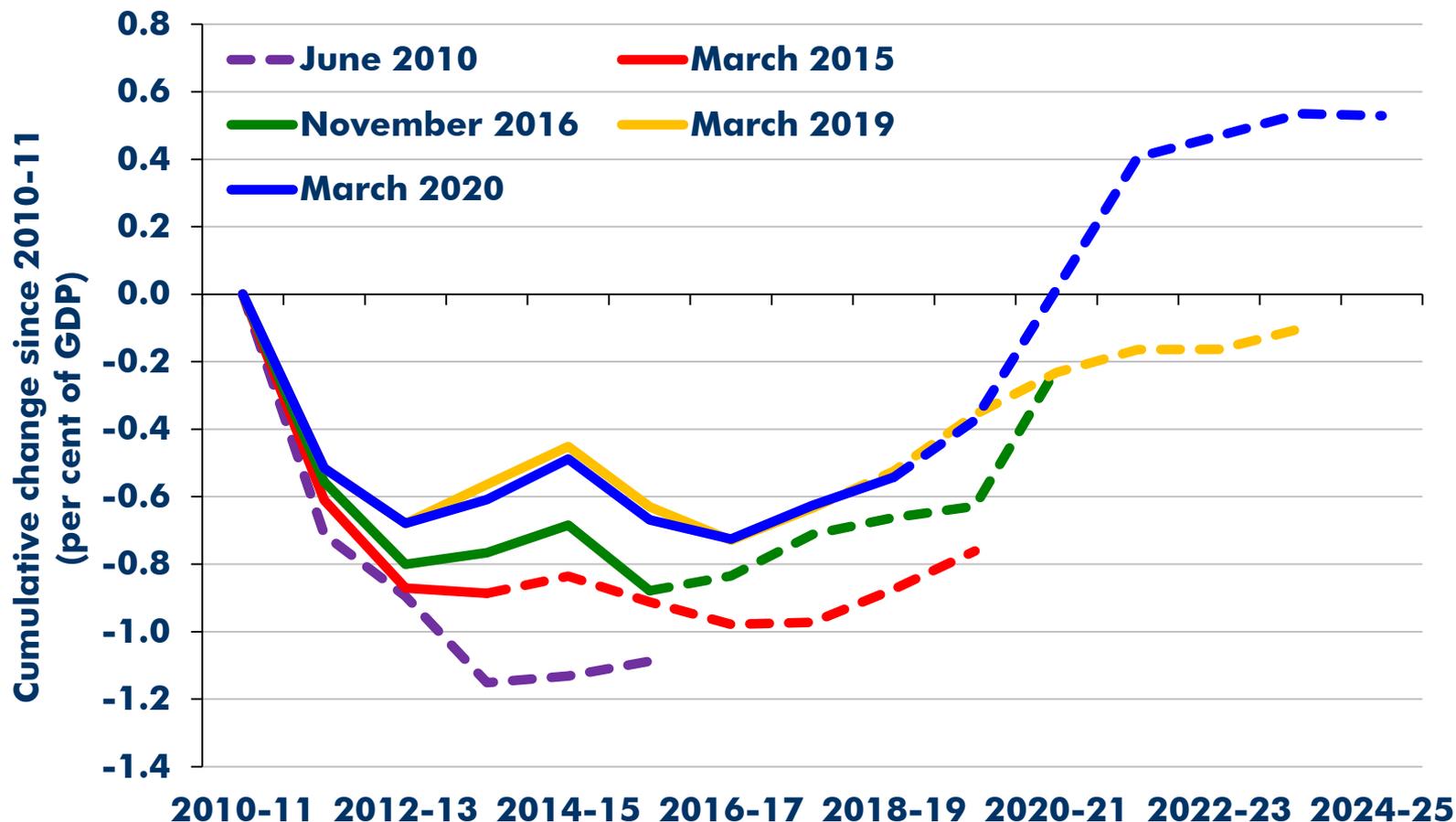
Change in real resource spending per person since 2010-11



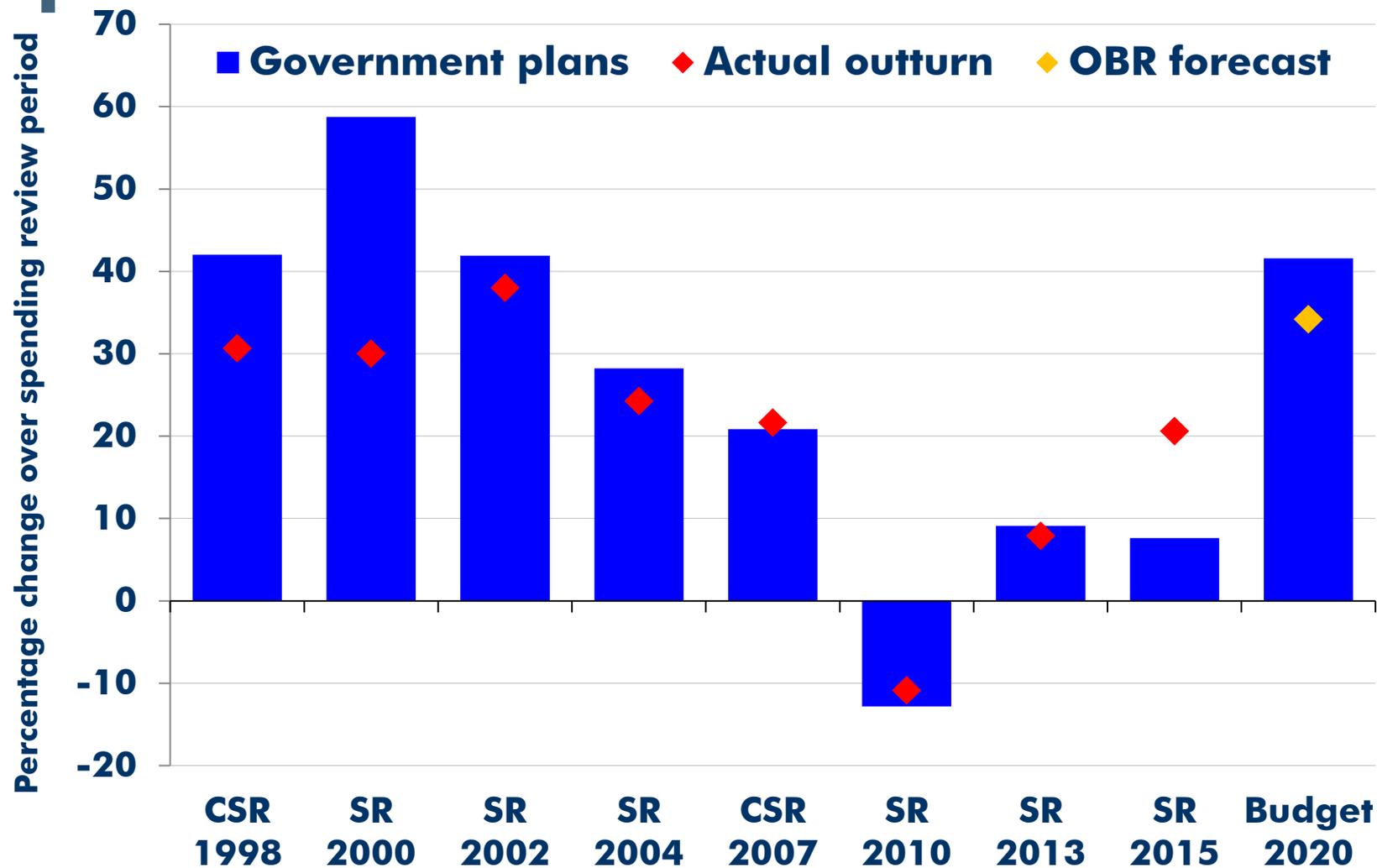
Change in resource spending since 2010-11



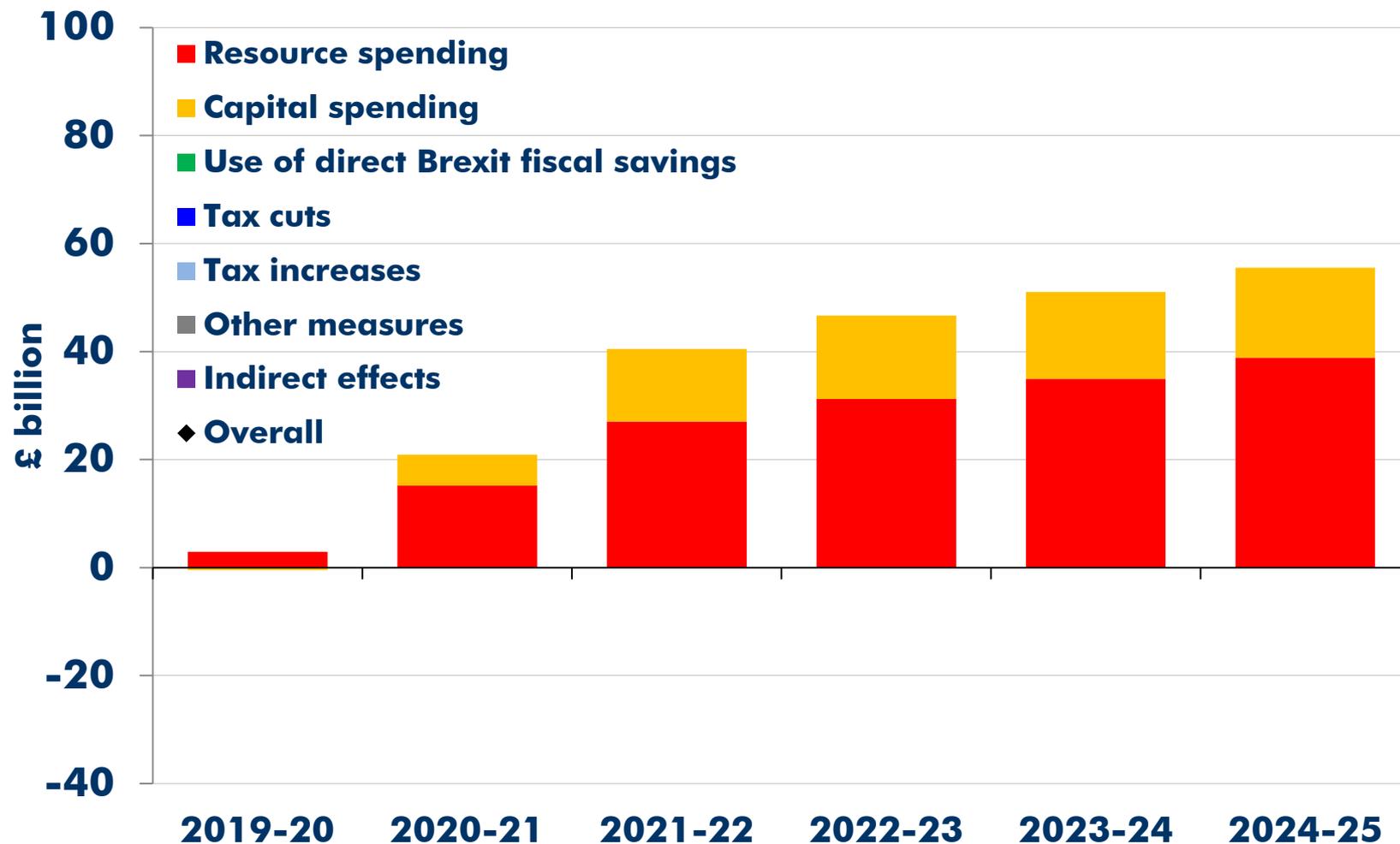
Change in capital spending since 2010-11



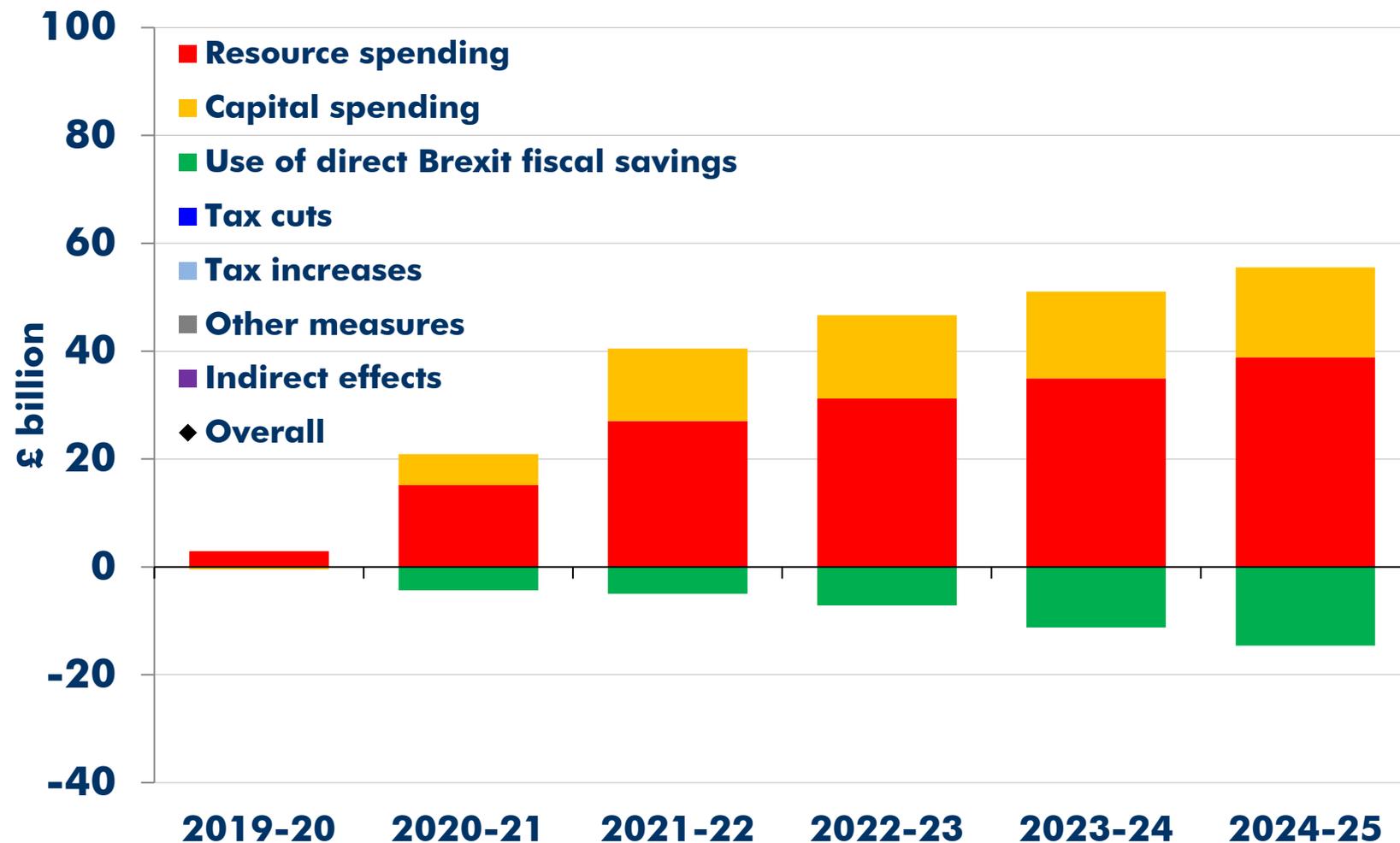
How much capital will actually be spent?



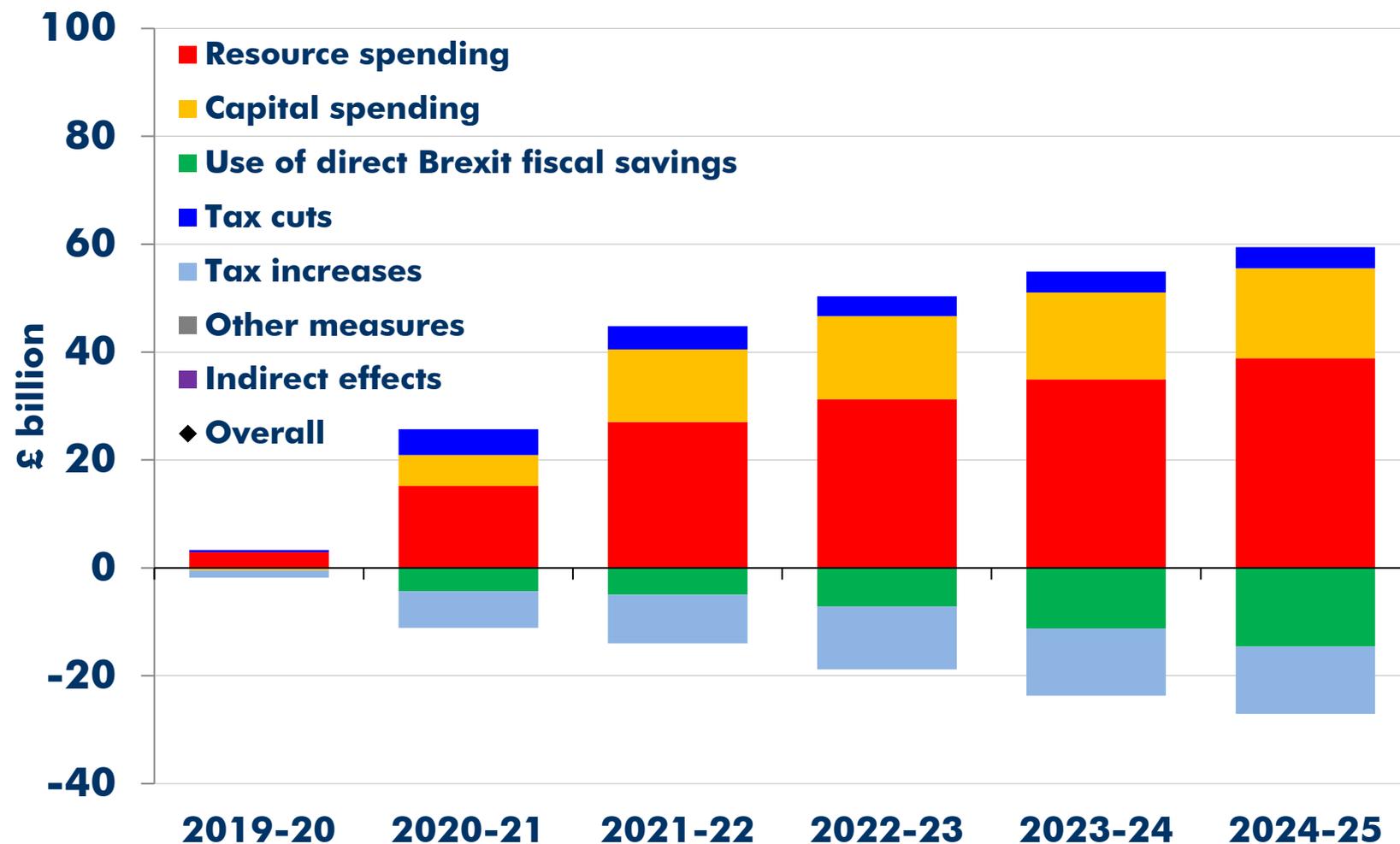
Borrowing: impact of policy decisions



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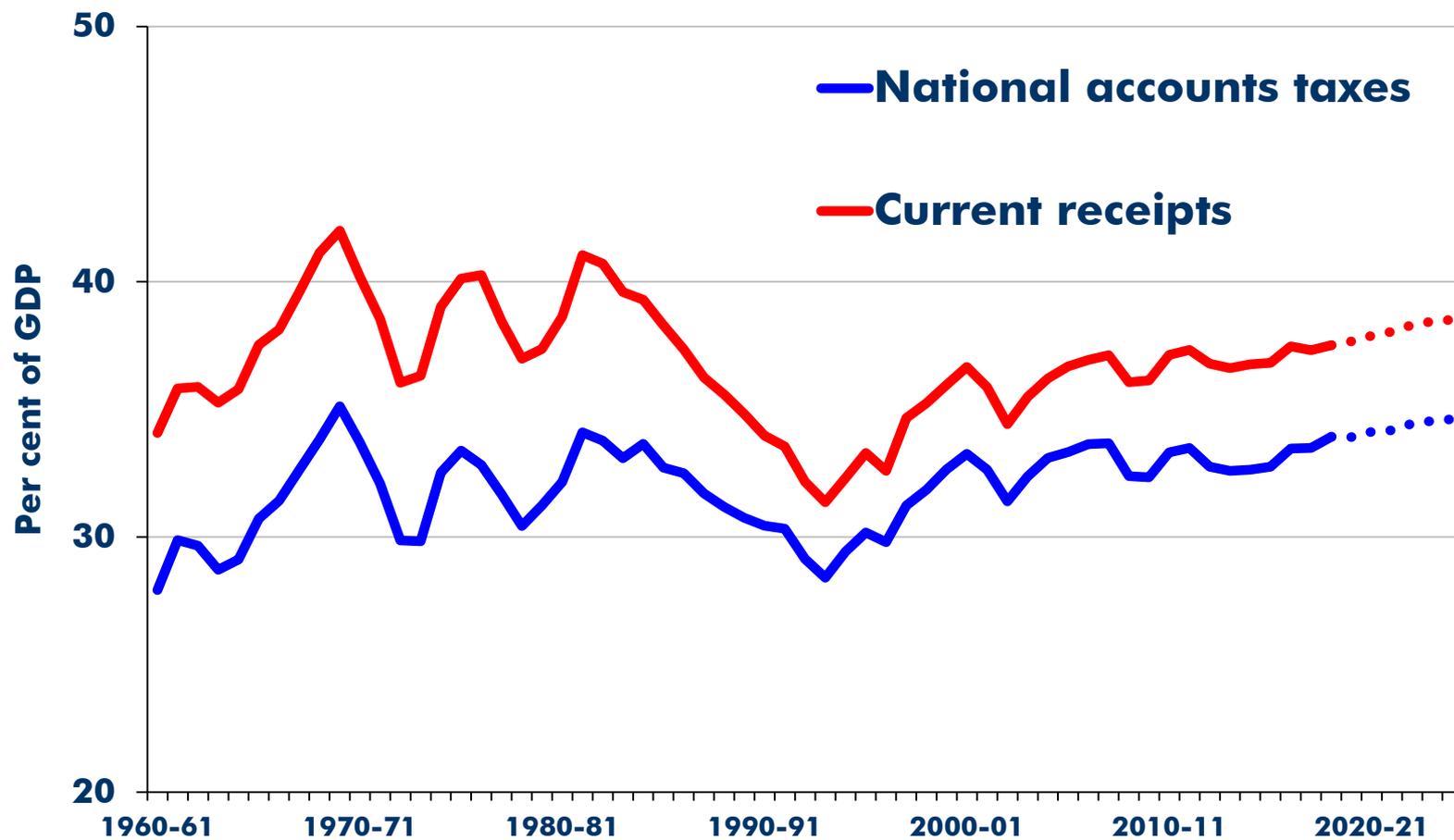
Borrowing: impact of policy decisions



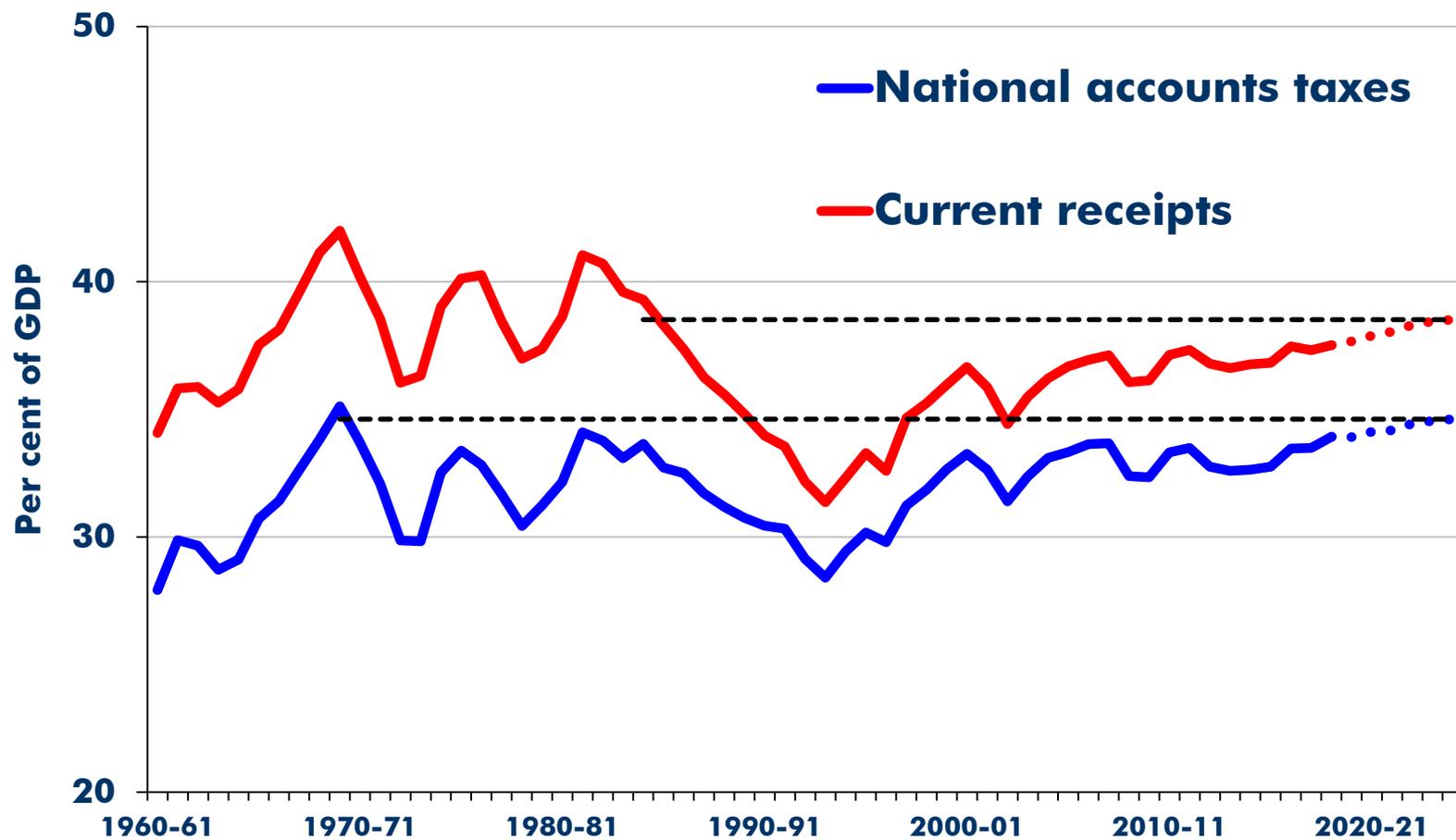
Tax policy changes

	2019-20	2020-21	2021-22	2022-23	2023-24
Net tax increase	2.0	4.6	8.0	8.6	8.5
Tax increases	6.8	9.0	11.7	12.5	12.5
Corporation tax	4.6	6.1	6.7	7.1	7.5
Entrepreneur's relief	0.2	1.1	1.5	1.7	1.8
Red diesel	0.0	0.0	1.6	1.6	1.6
Other	1.9	1.7	2.0	2.1	1.5
Tax cuts	-4.8	-4.3	-3.7	-3.9	-3.9
NICs	-2.1	-2.2	-2.4	-2.4	-2.4
Business measures	-0.9	-0.9	-1.0	-1.2	-1.3
Fuel duty	-0.5	-0.5	-0.5	-0.6	-0.6
Other	-1.3	-0.8	0.3	0.2	0.3

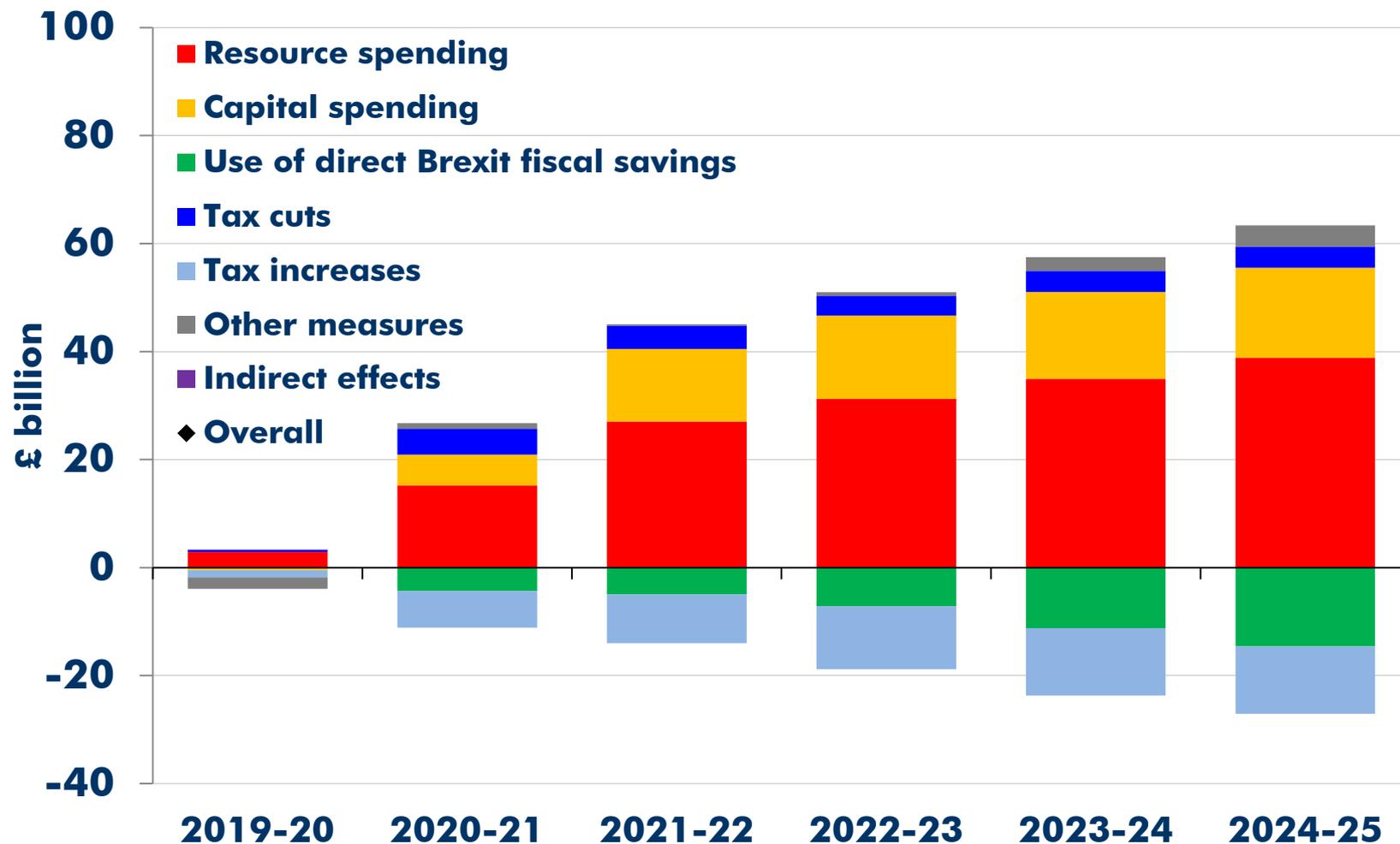
Receipts and taxes



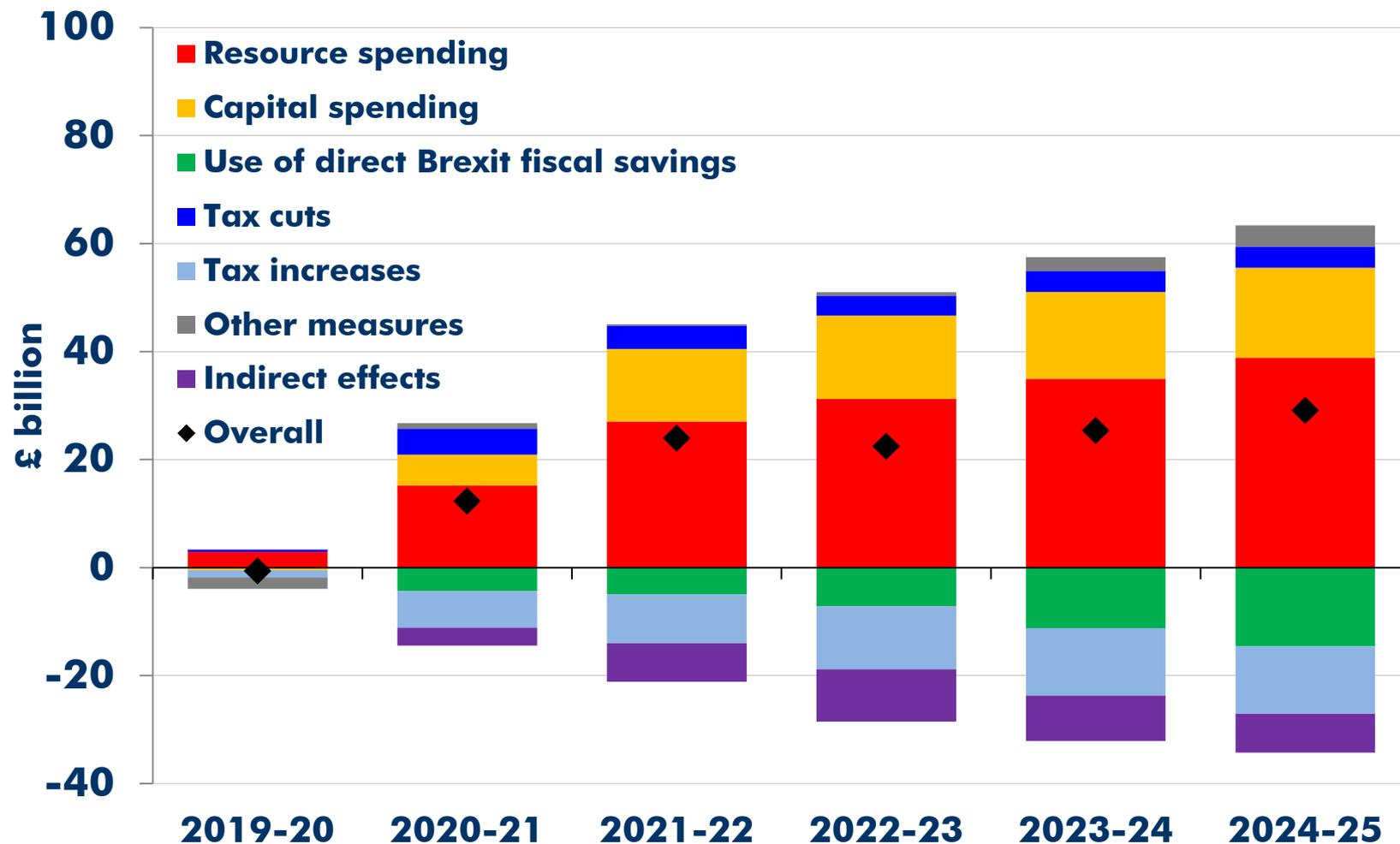
Receipts and taxes



Borrowing: impact of policy decisions



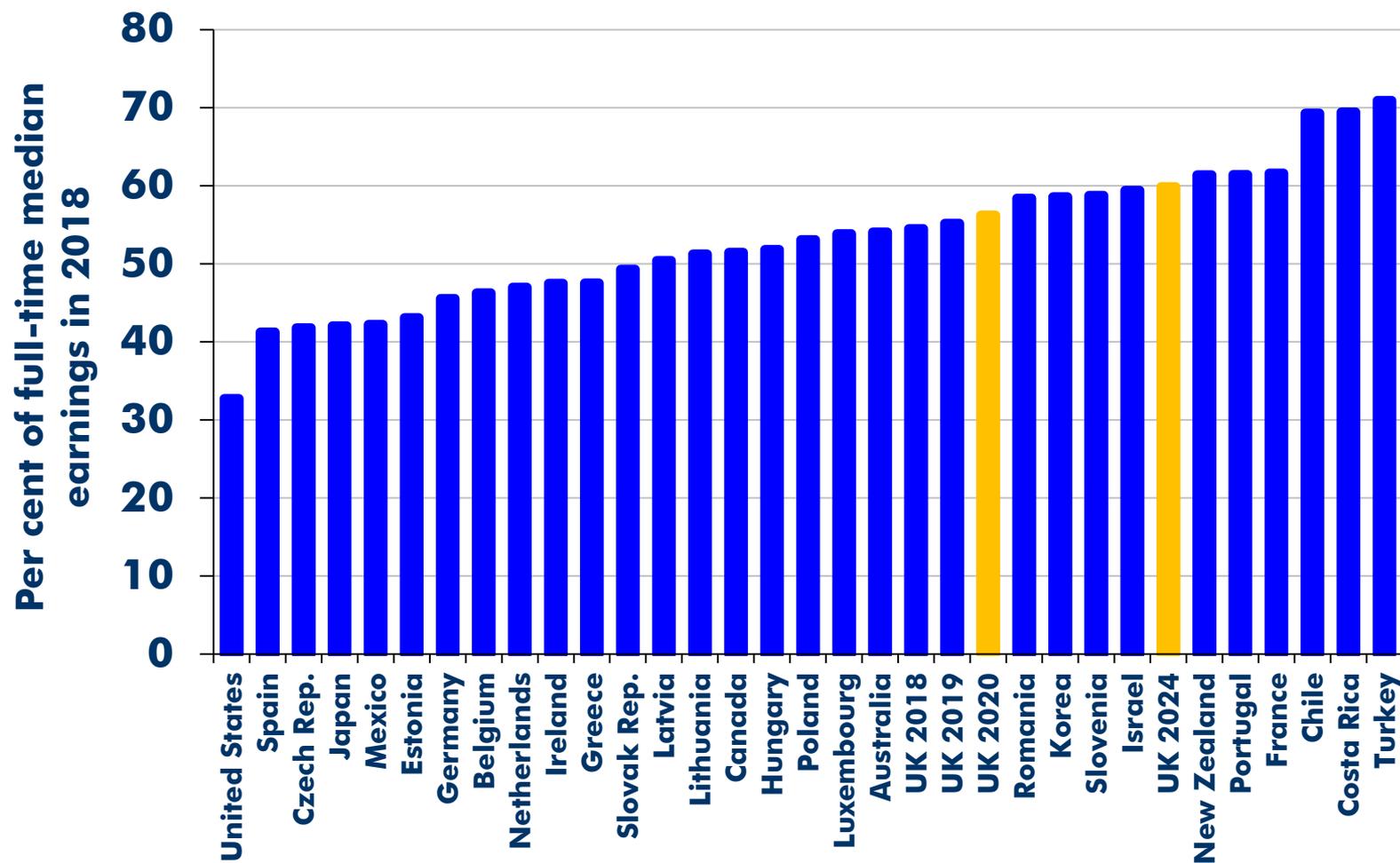
Borrowing: impact of policy decisions



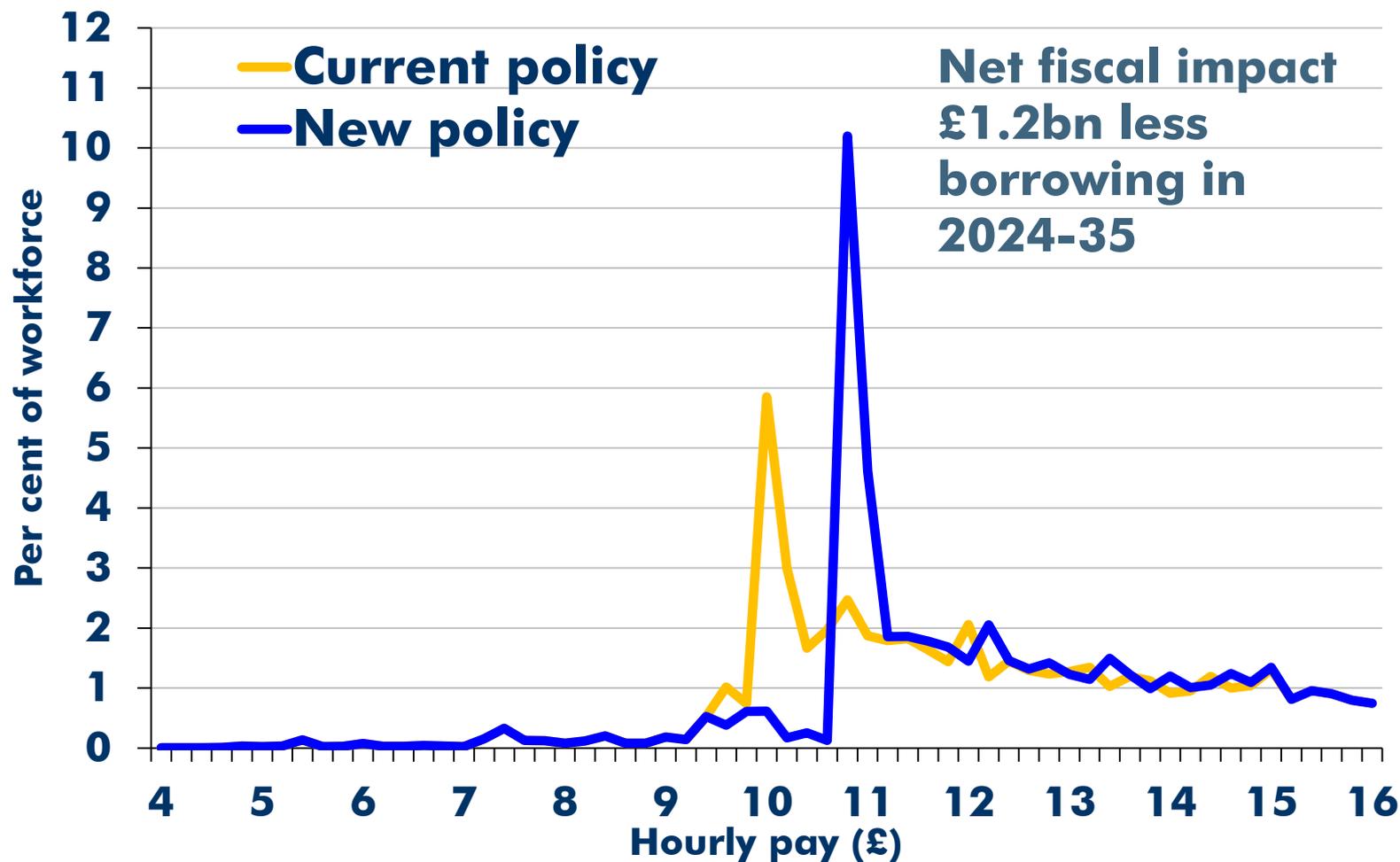
New migration regime

- **Points-based migration system from 2021**
 - More restrictive for EU migrants; marginally less so for non-EU
- **Moved from 'principal' to '0% EU migration' population projection**
 - Net inward migration in 2025 down from 190k to 129k
 - Population down 0.4%; nominal GDP down 0.3% by 2024-25
- **Very small net fiscal effect (£1bn more borrowing in 2024-25)**
 - Lower tax receipts outweigh lower welfare spending

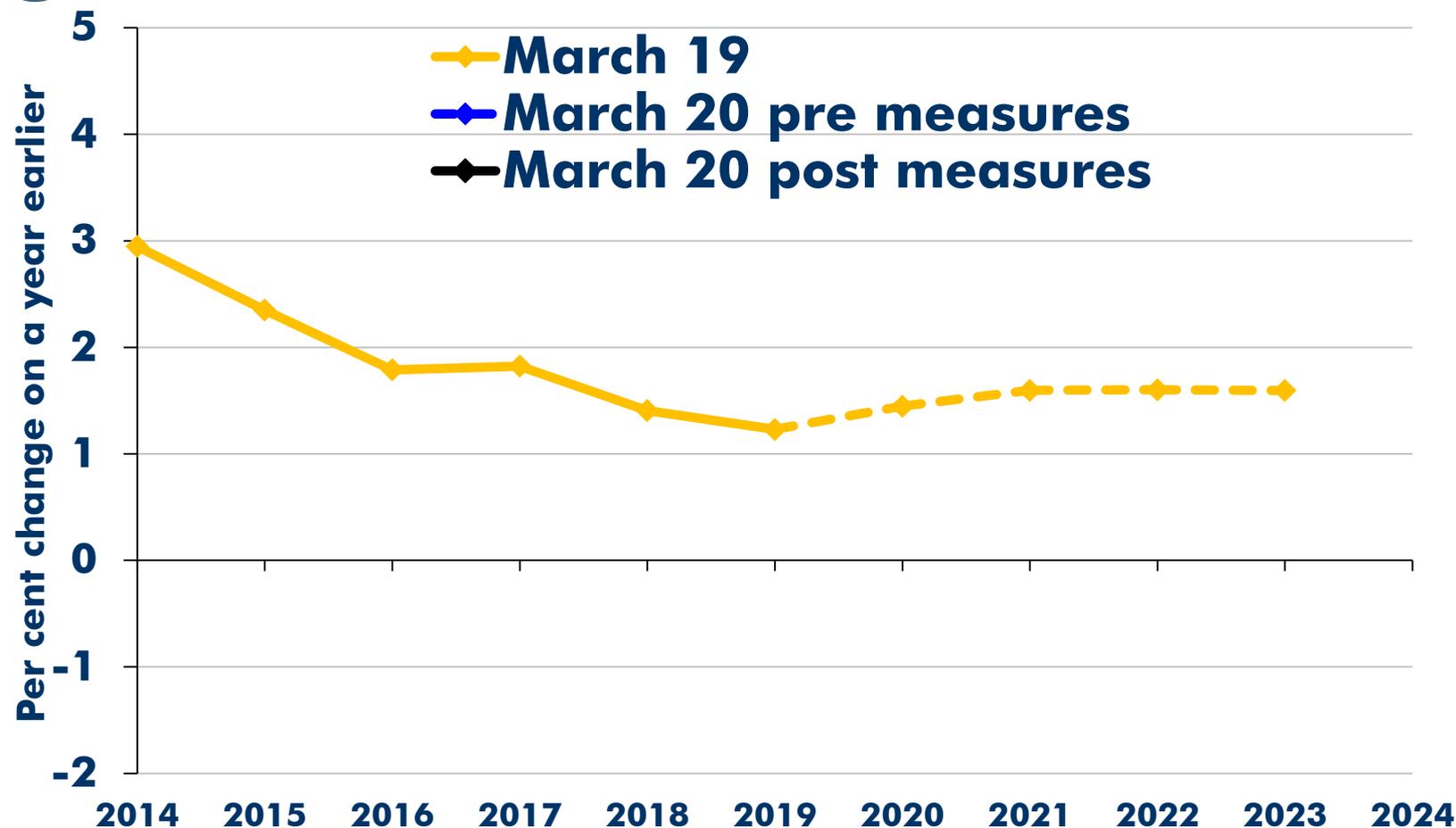
National Living Wage



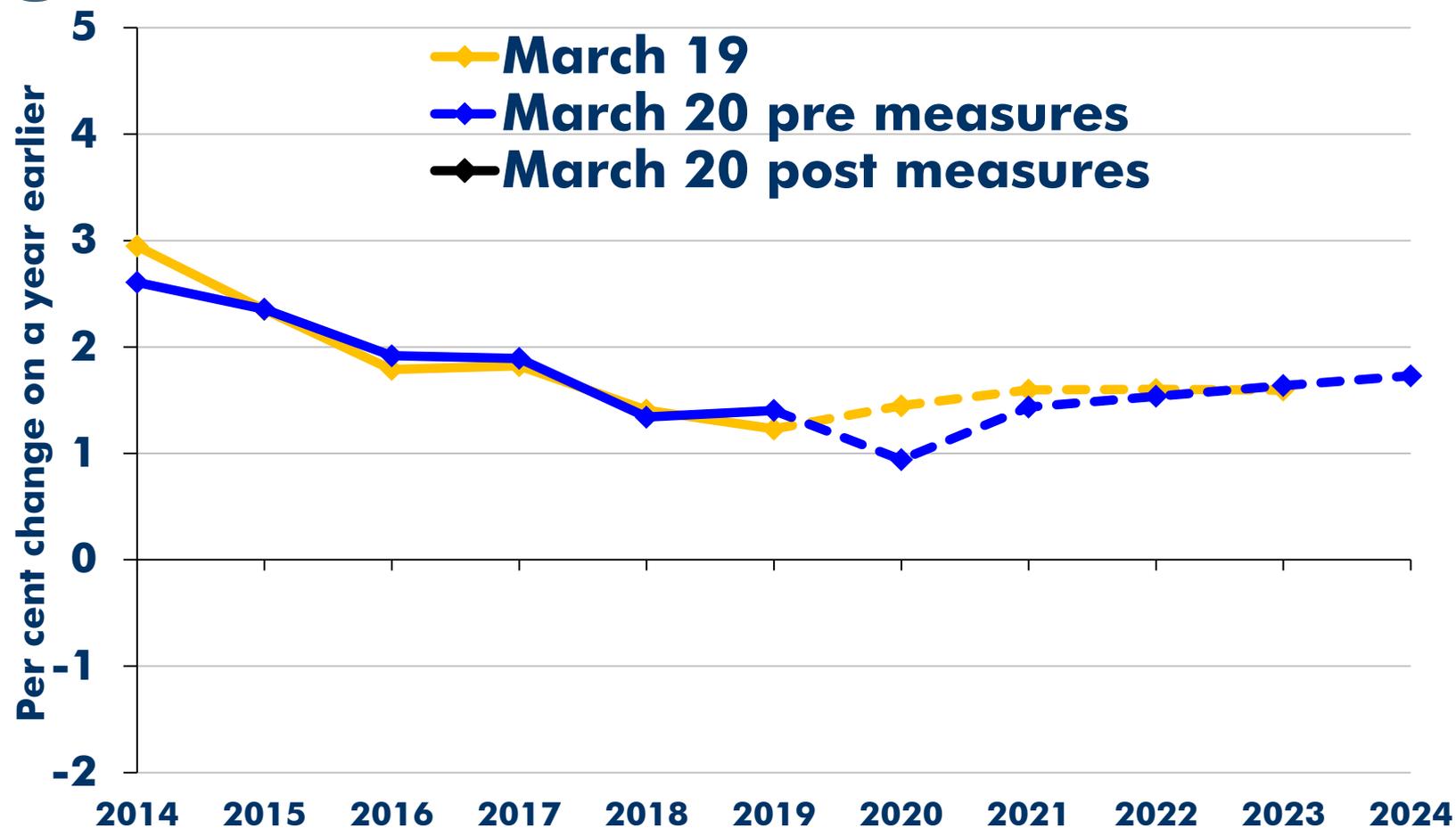
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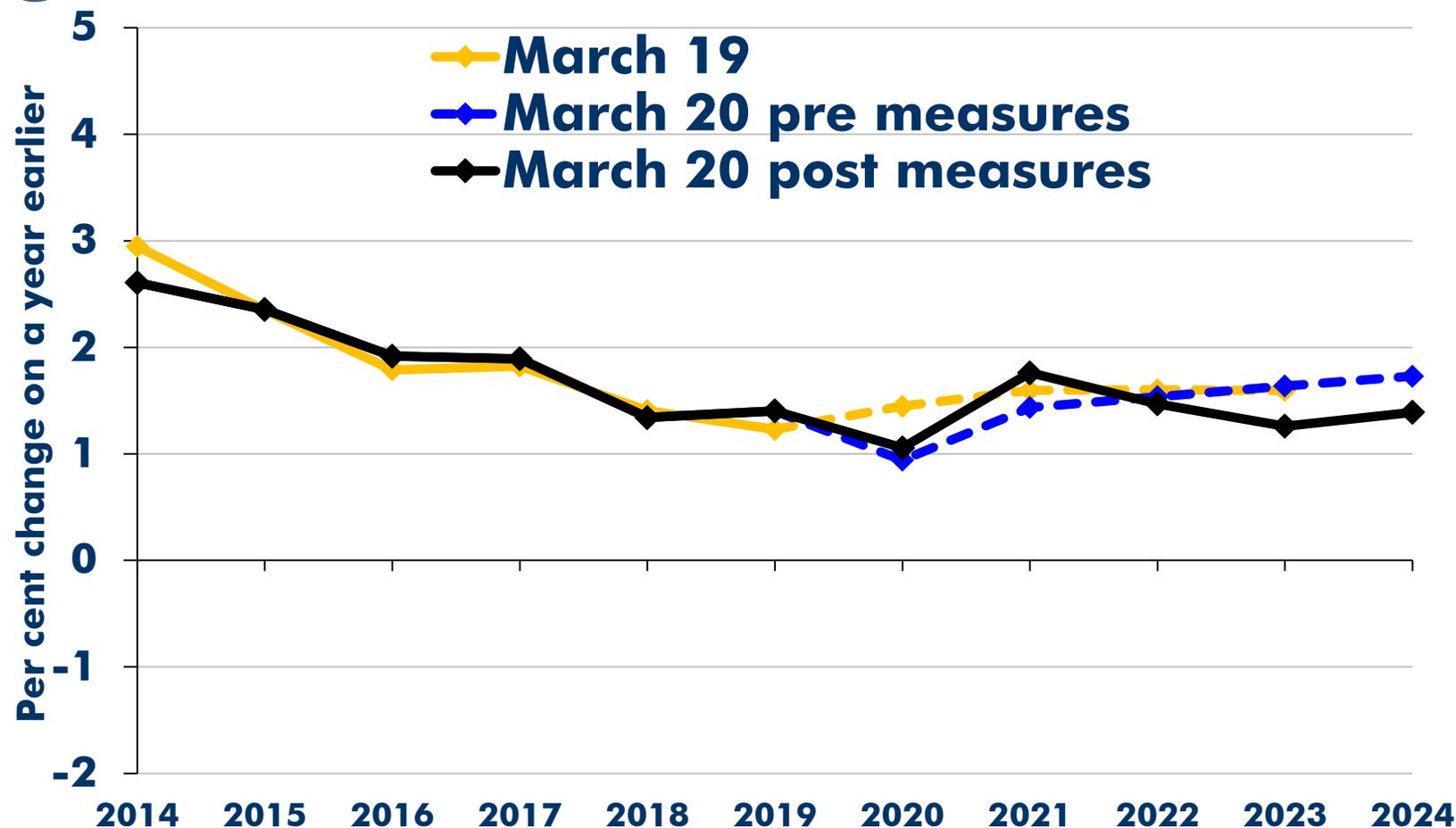
Post-measures economy forecast: growth



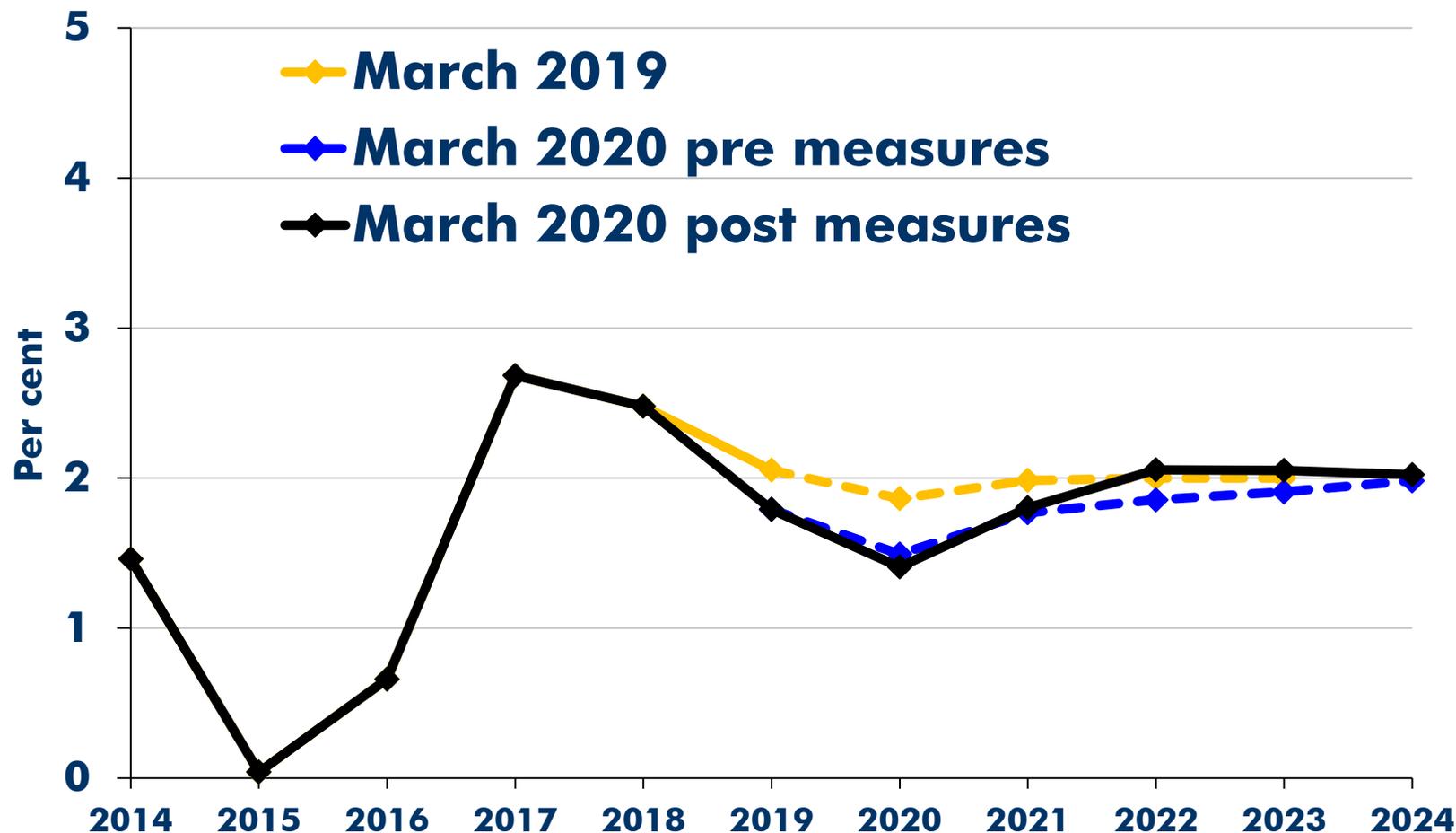
Post-measures economy forecast: growth



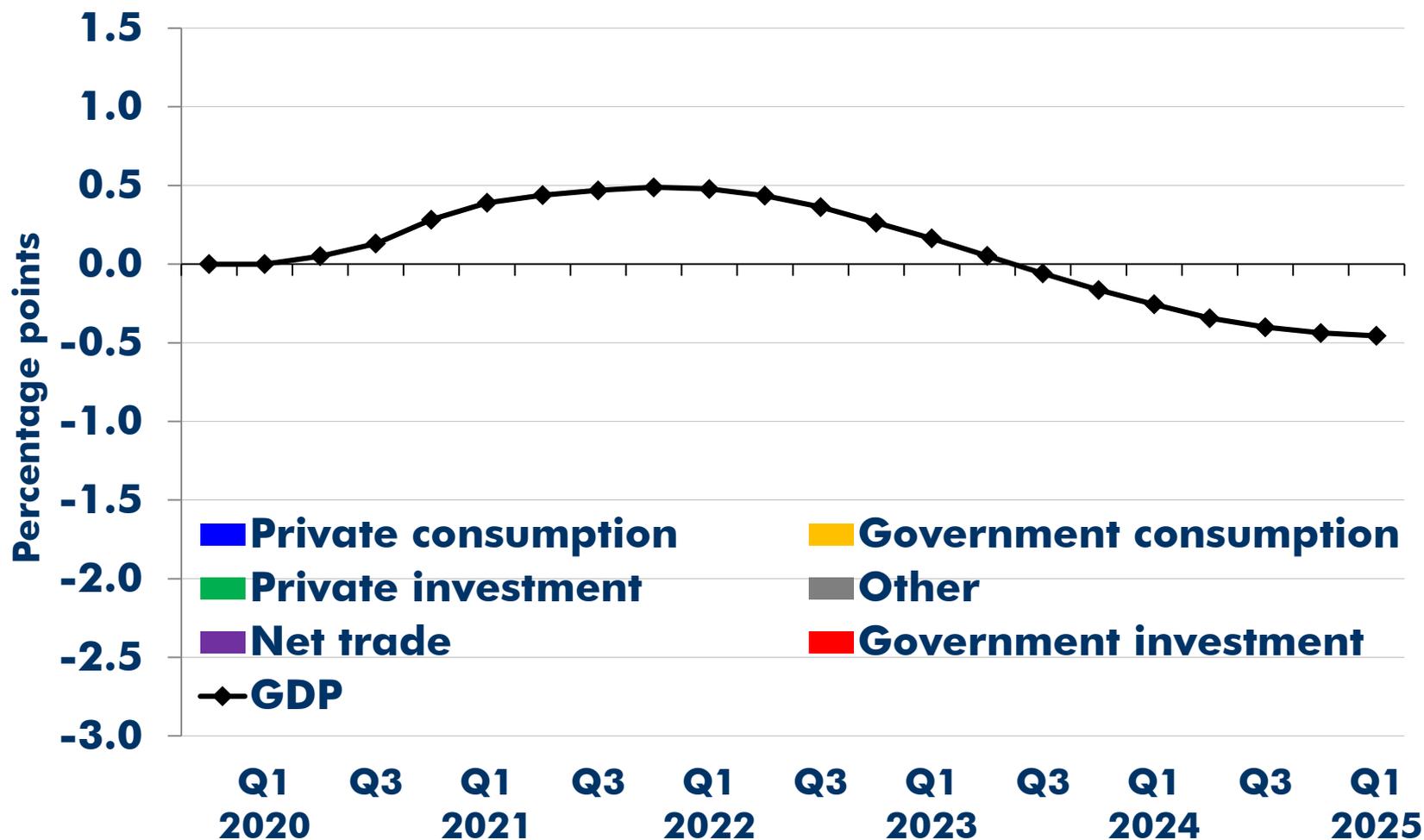
Post-measures economy forecast: growth



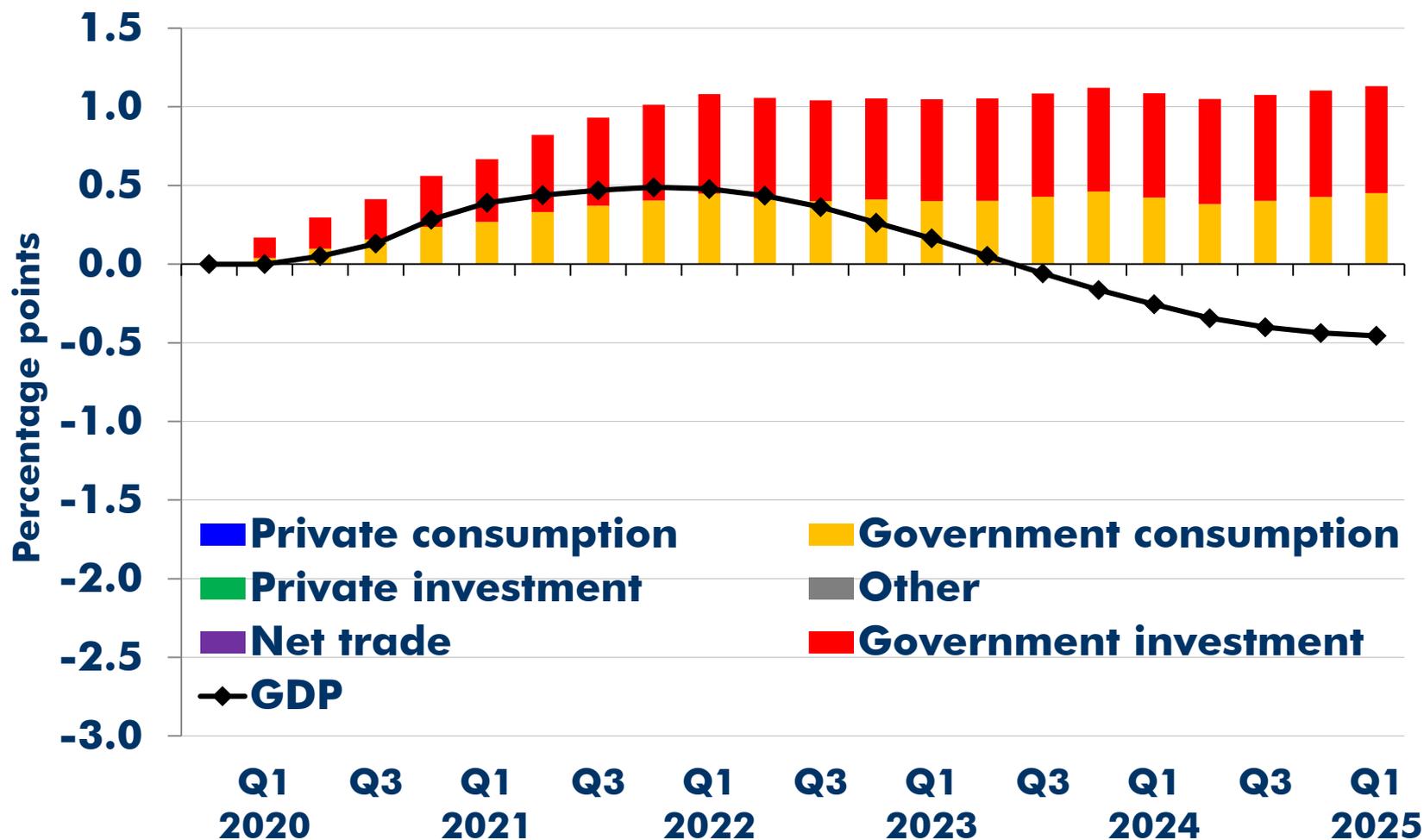
Post-measures economy forecast: inflation



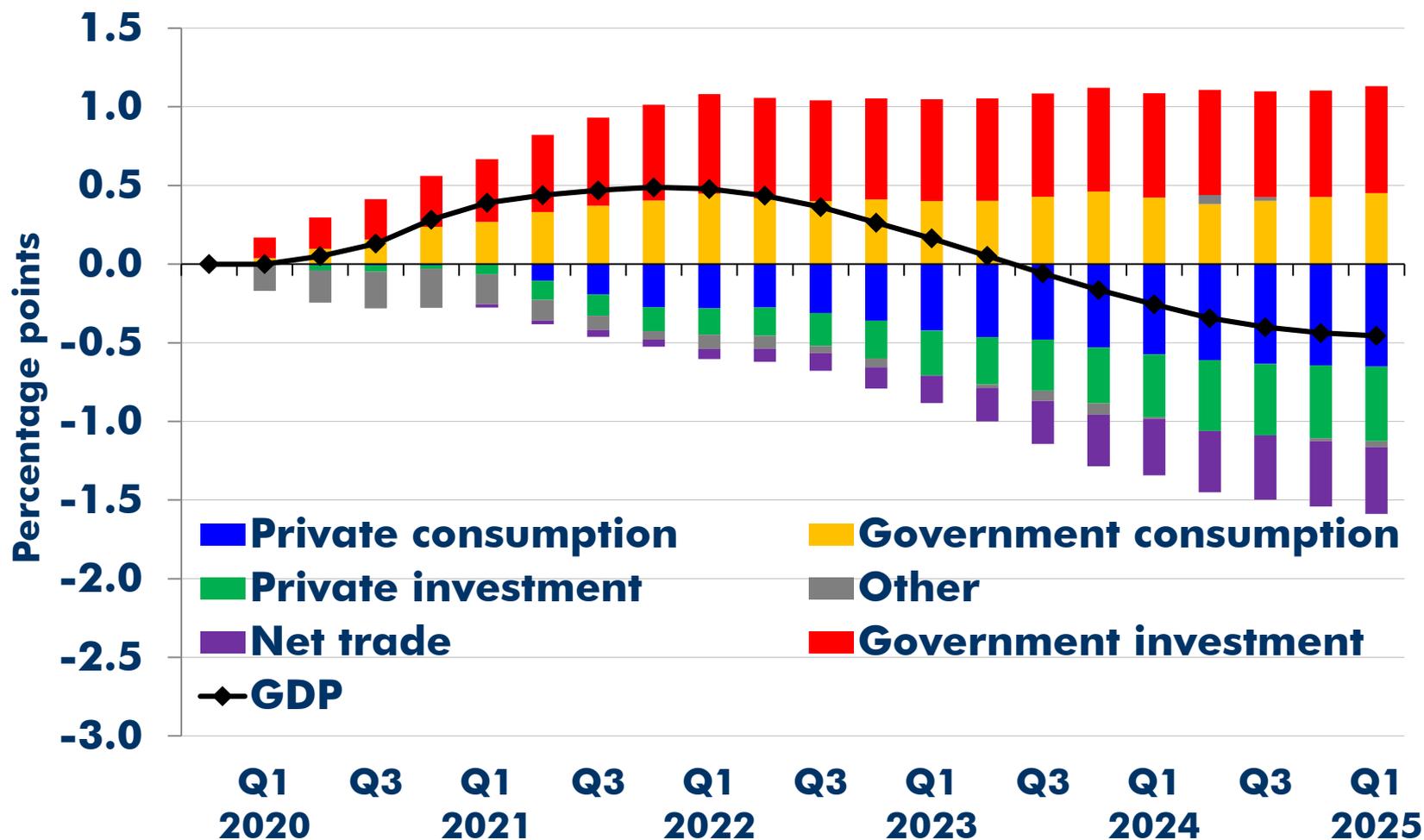
Impact of measures on real GDP



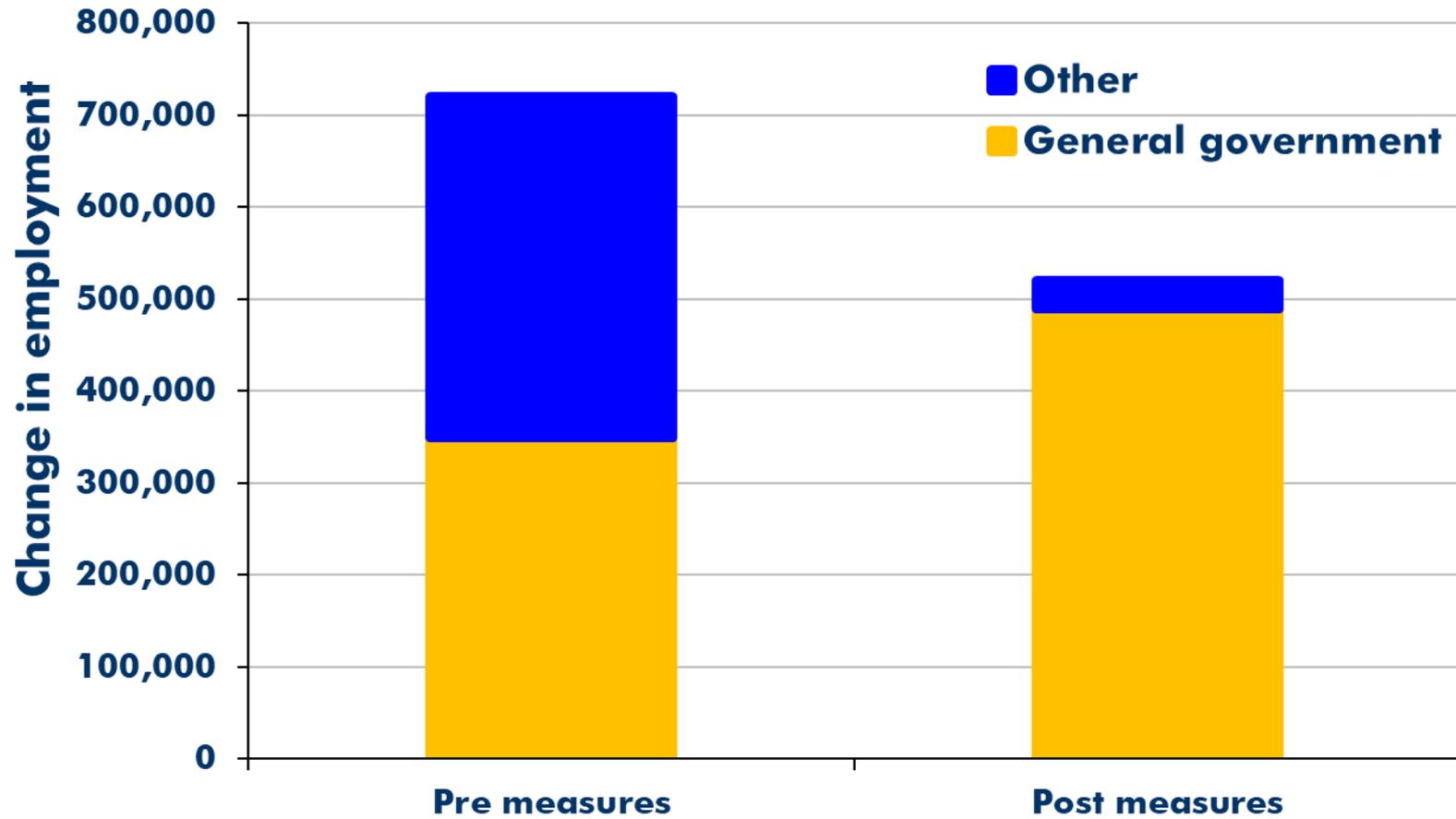
Impact of measures on real GDP



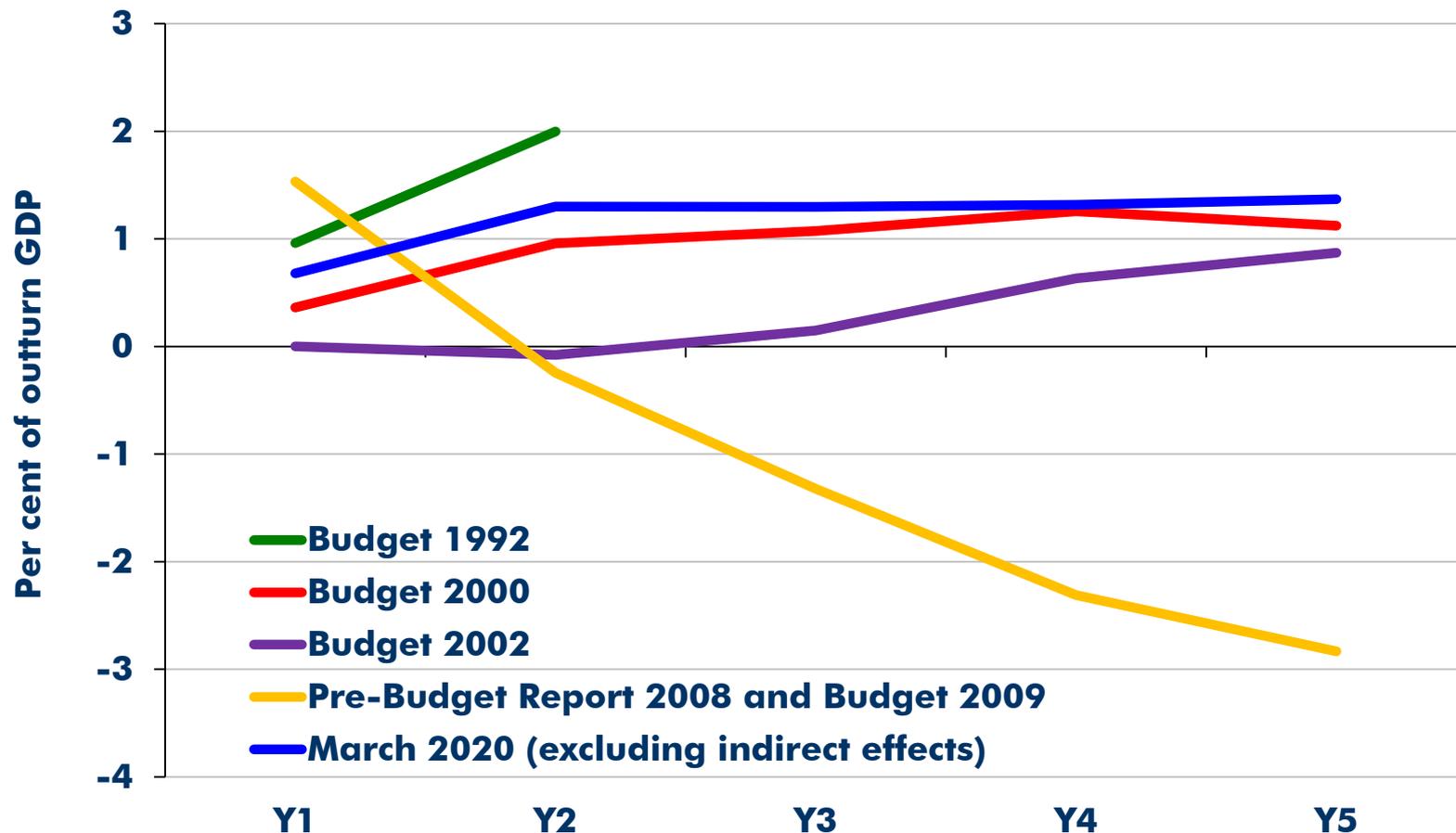
Impact of measures on real GDP



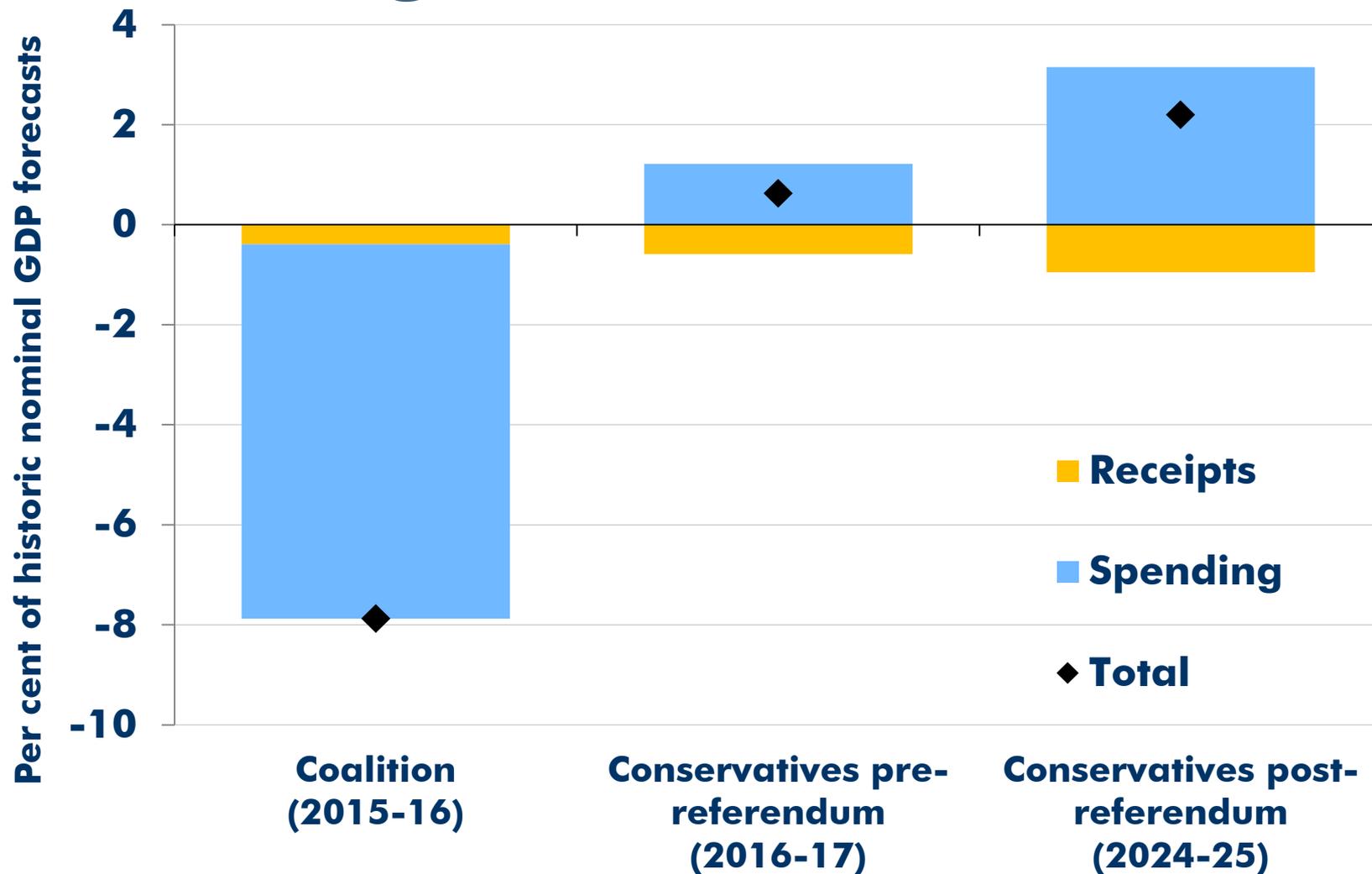
Change in employment over forecast



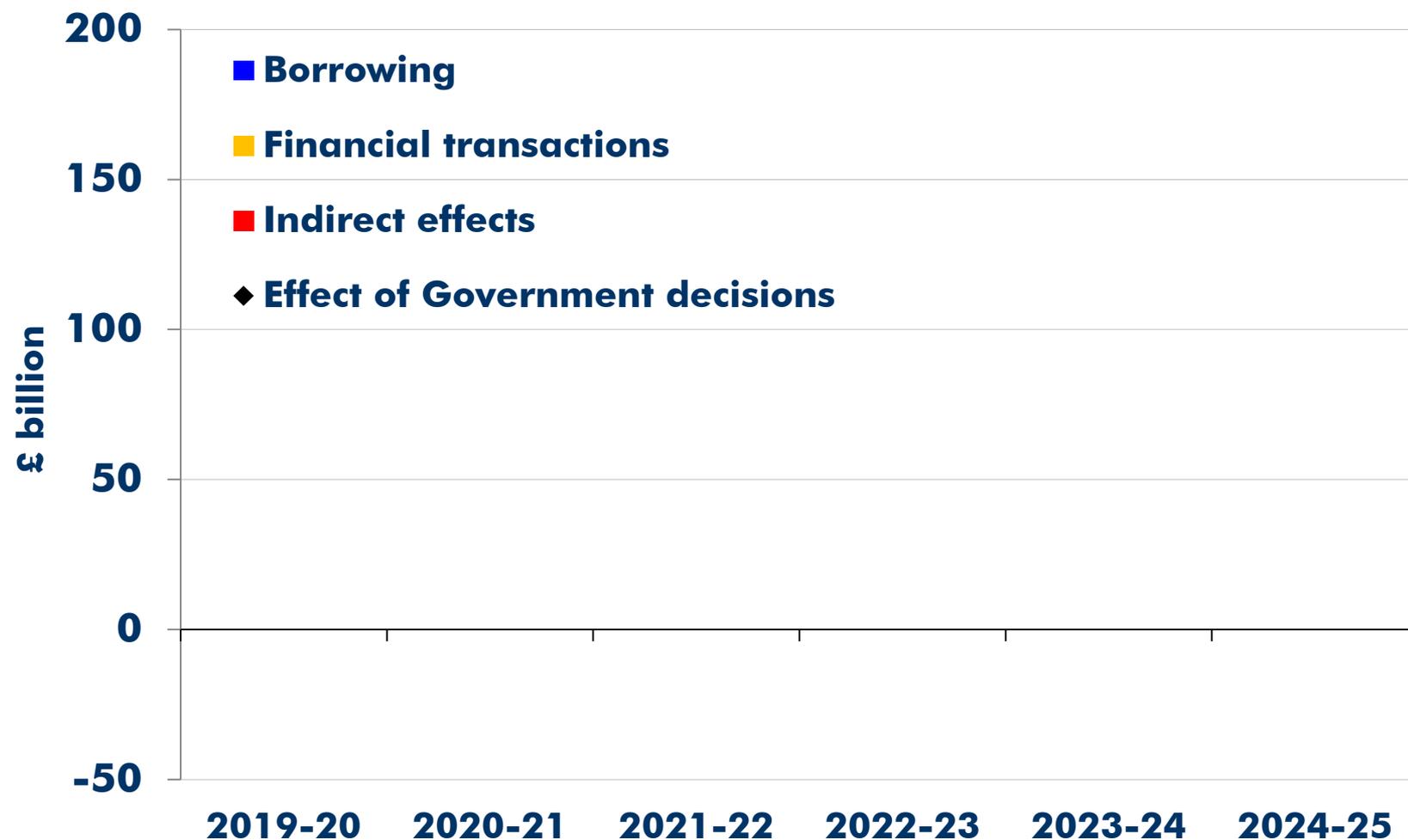
Major fiscal giveaways and takeaways



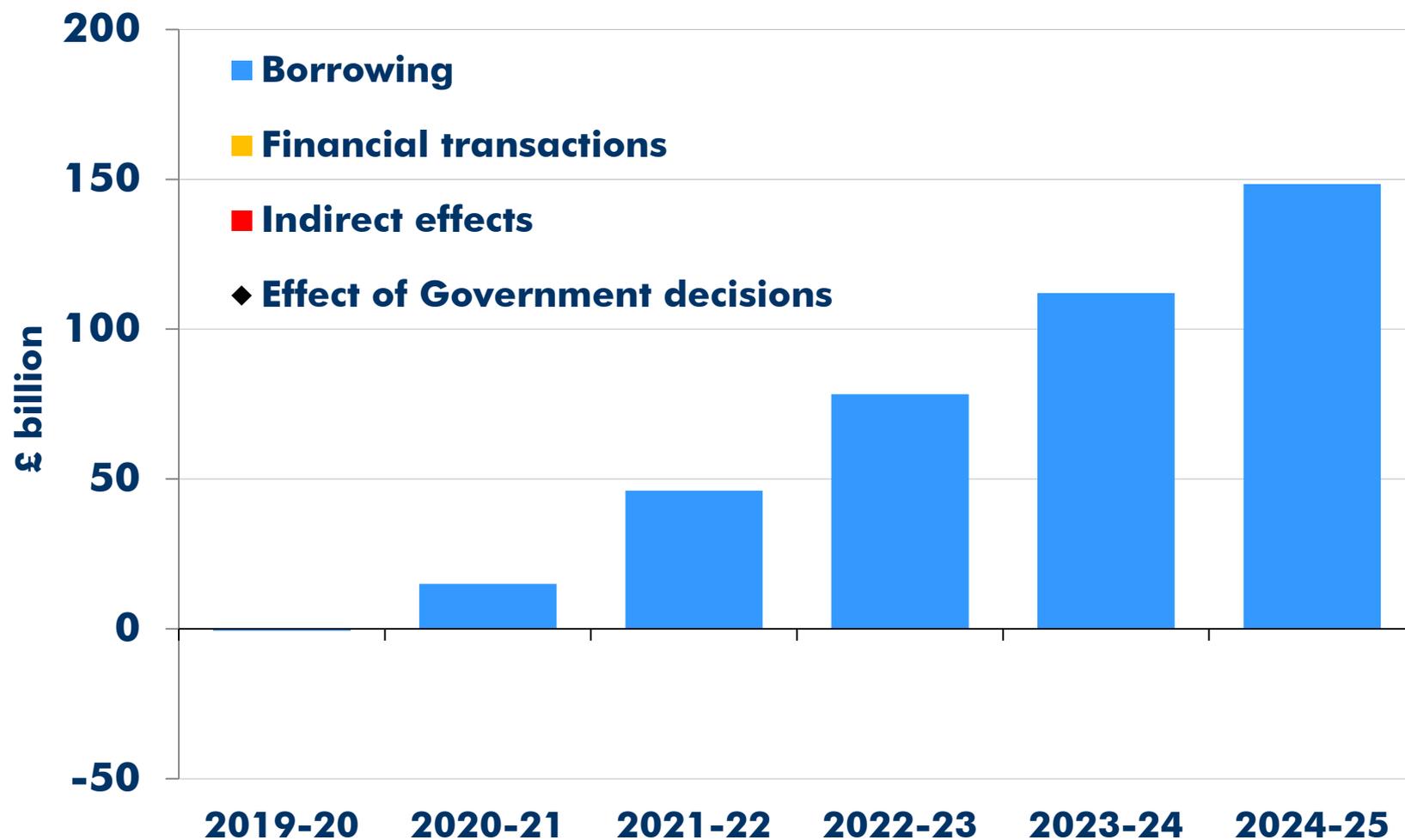
Cumulative policy impact on borrowing



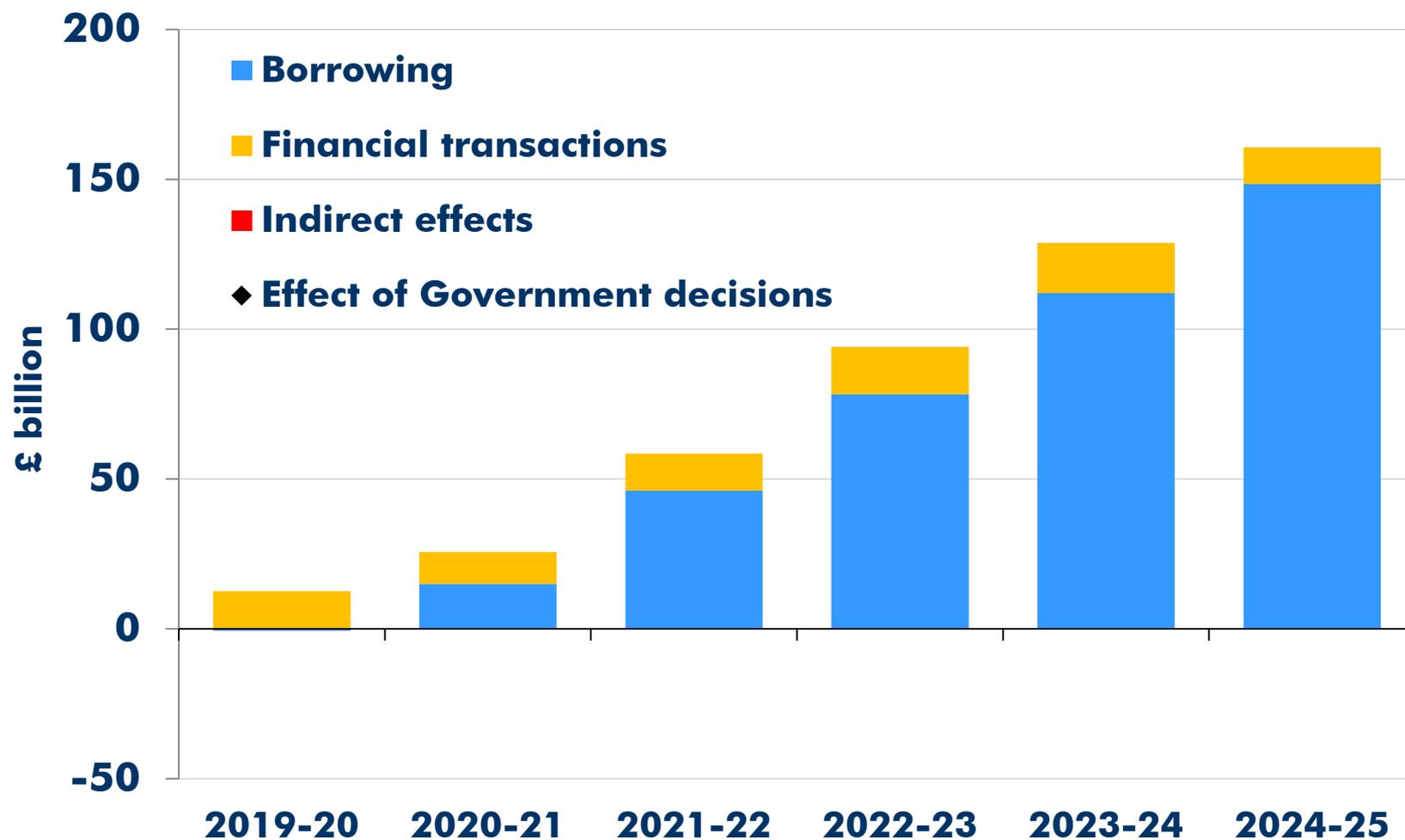
Policy impact on net debt



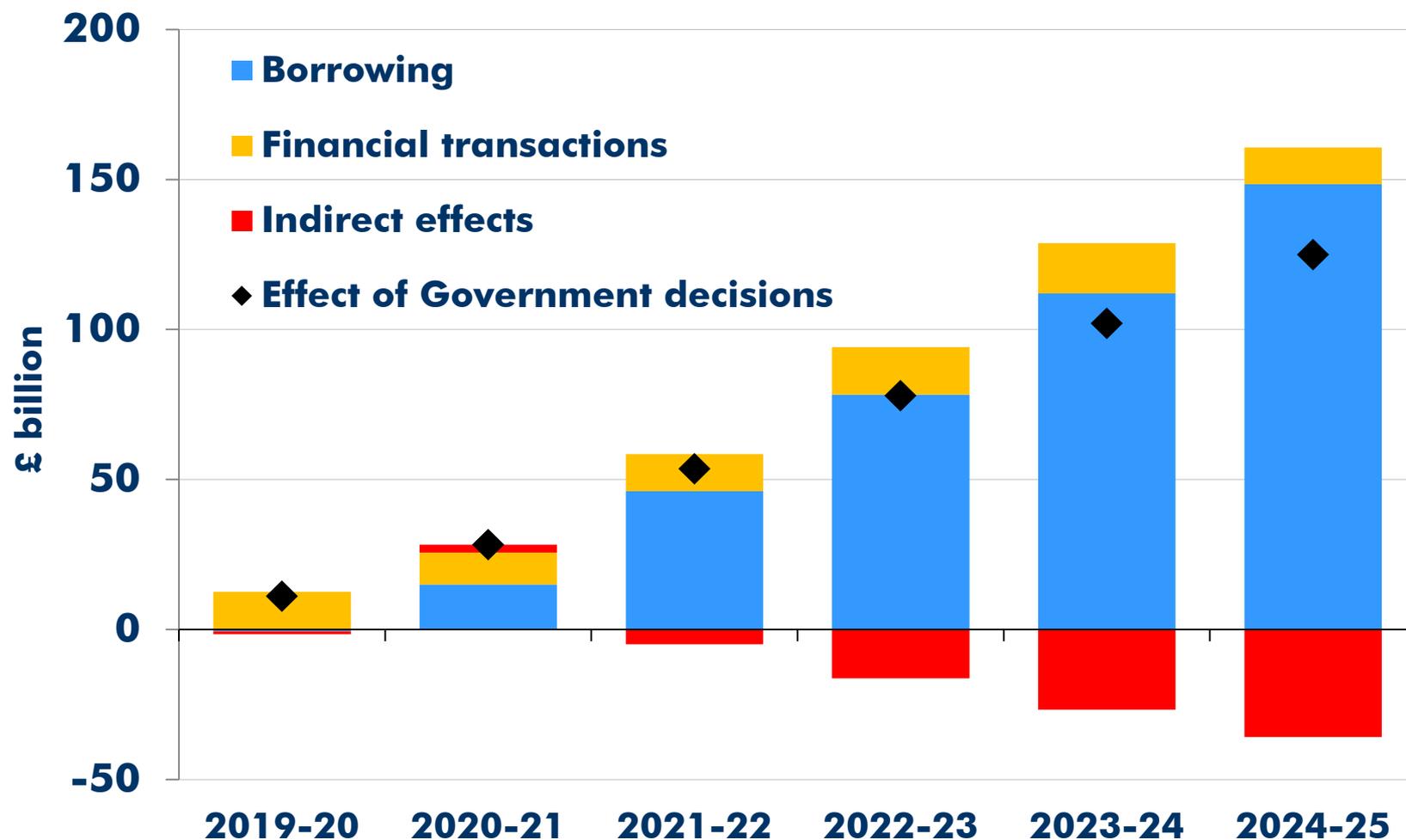
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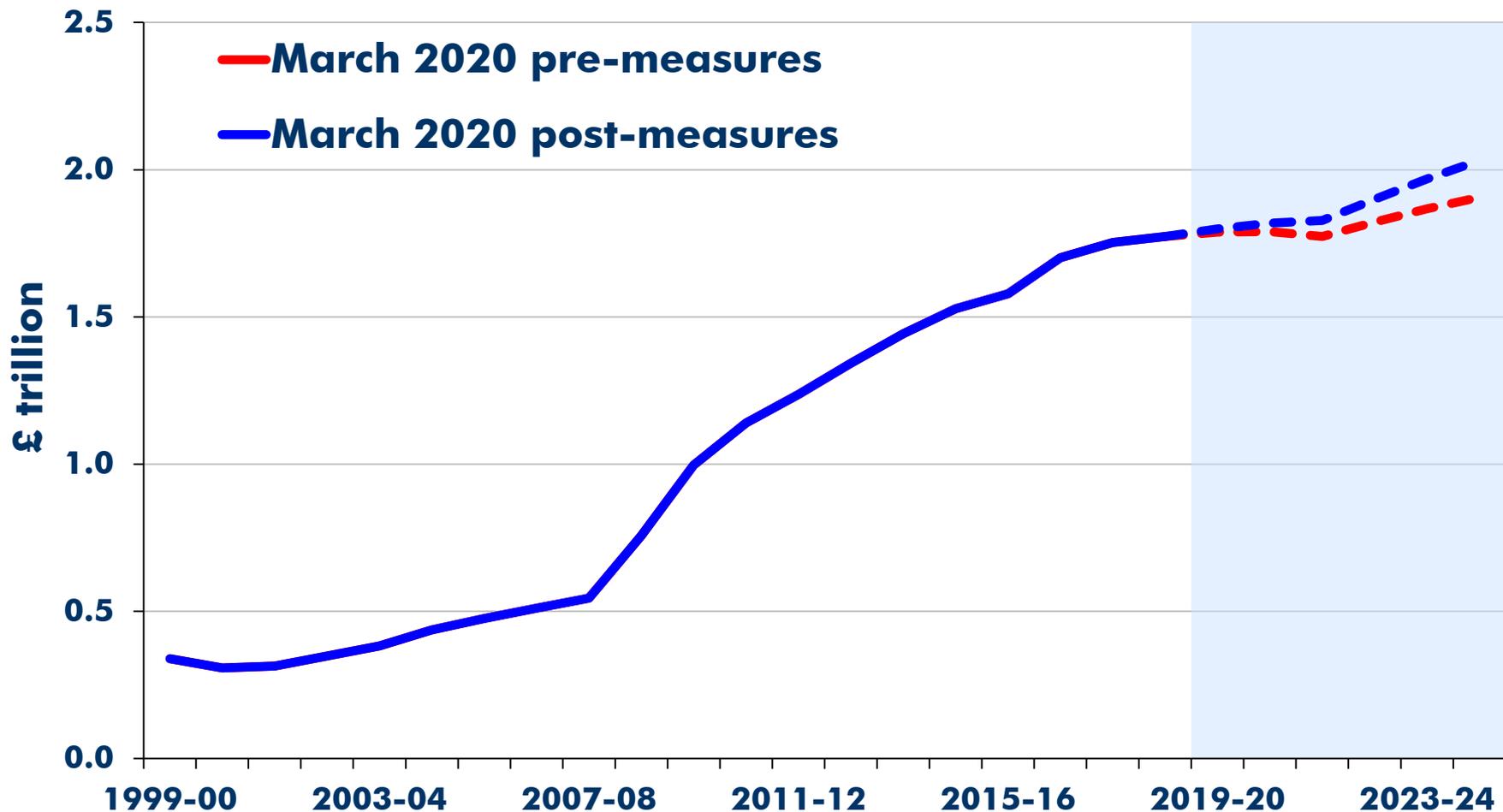
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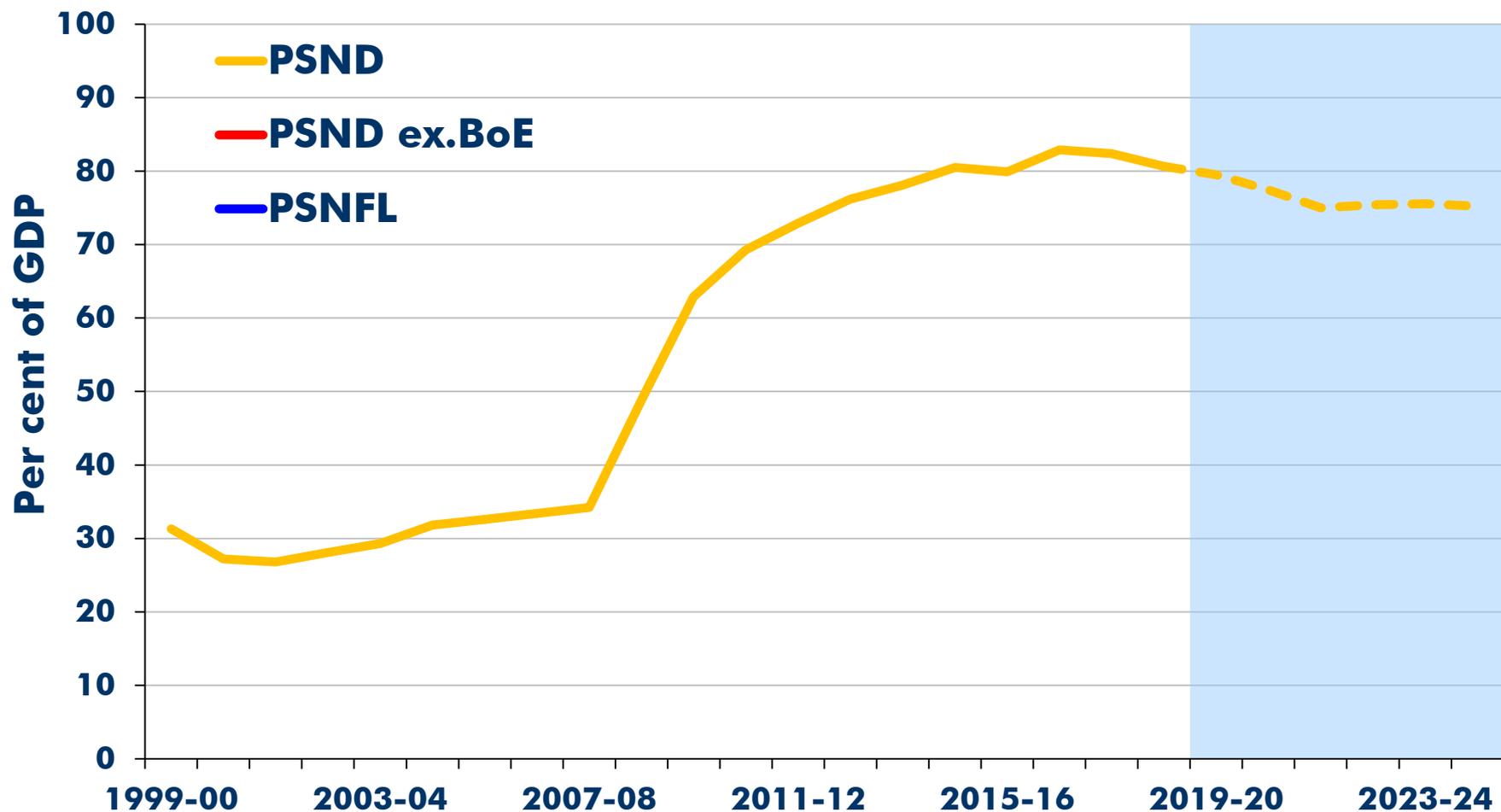
Policy impact on net debt



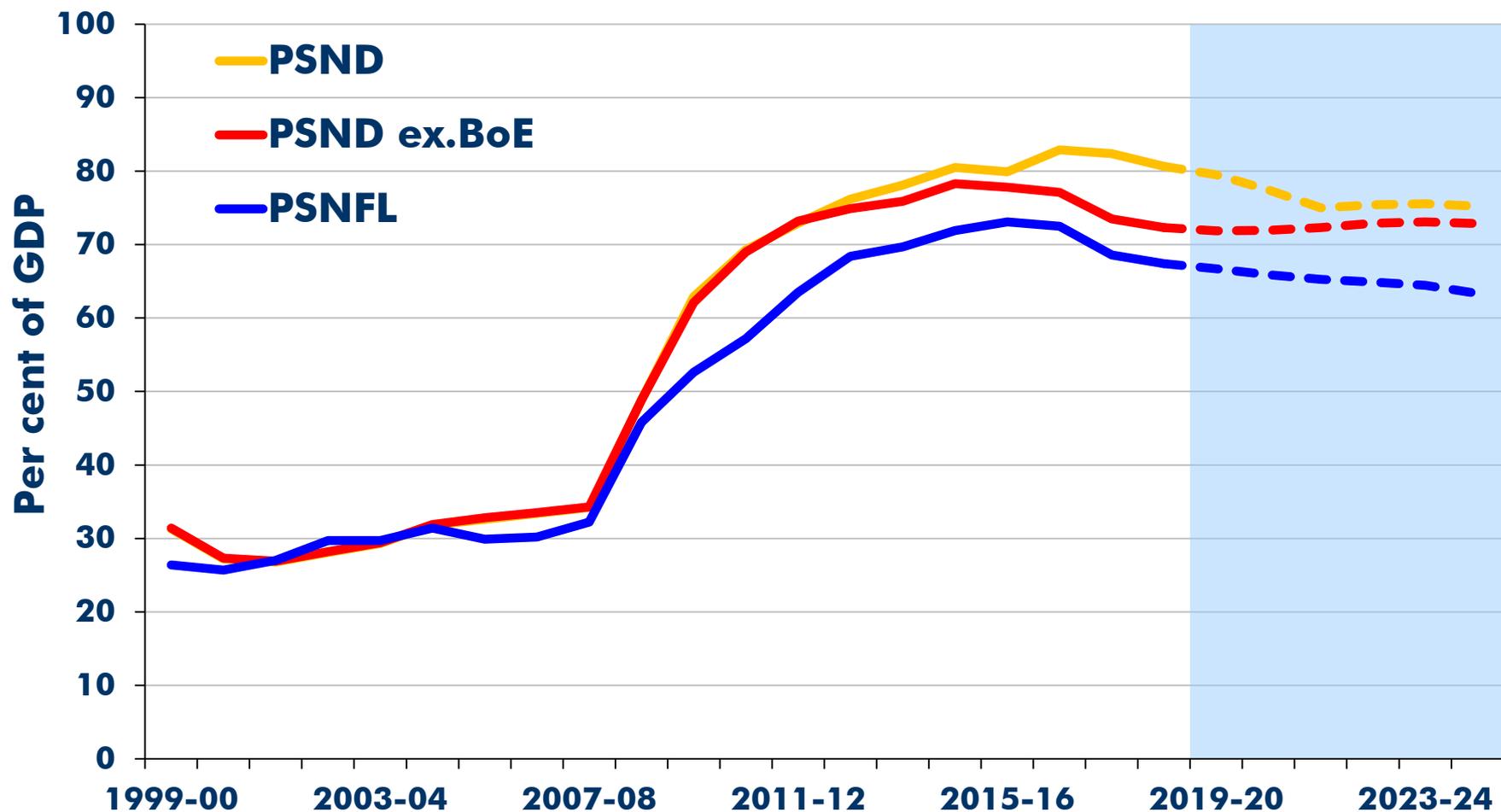
Policy impact on net debt



Alternative balance sheet metrics



Alternative balance sheet metrics



Fiscal targets

- **Current formal targets are those in *Charter* since January 2017**
- **But Budget decisions guided by new, looser rules set out in the *Conservative manifesto* and confirmed in the *Queen's Speech***
- **These will be reviewed again ahead of the *Autumn Budget***

The Government's legislated targets

Performance against the Government's fiscal targets

Fiscal mandate:
structural deficit below 2% of GDP in 2020-21



Supplementary target:
debt falls as % GDP in 2020-21



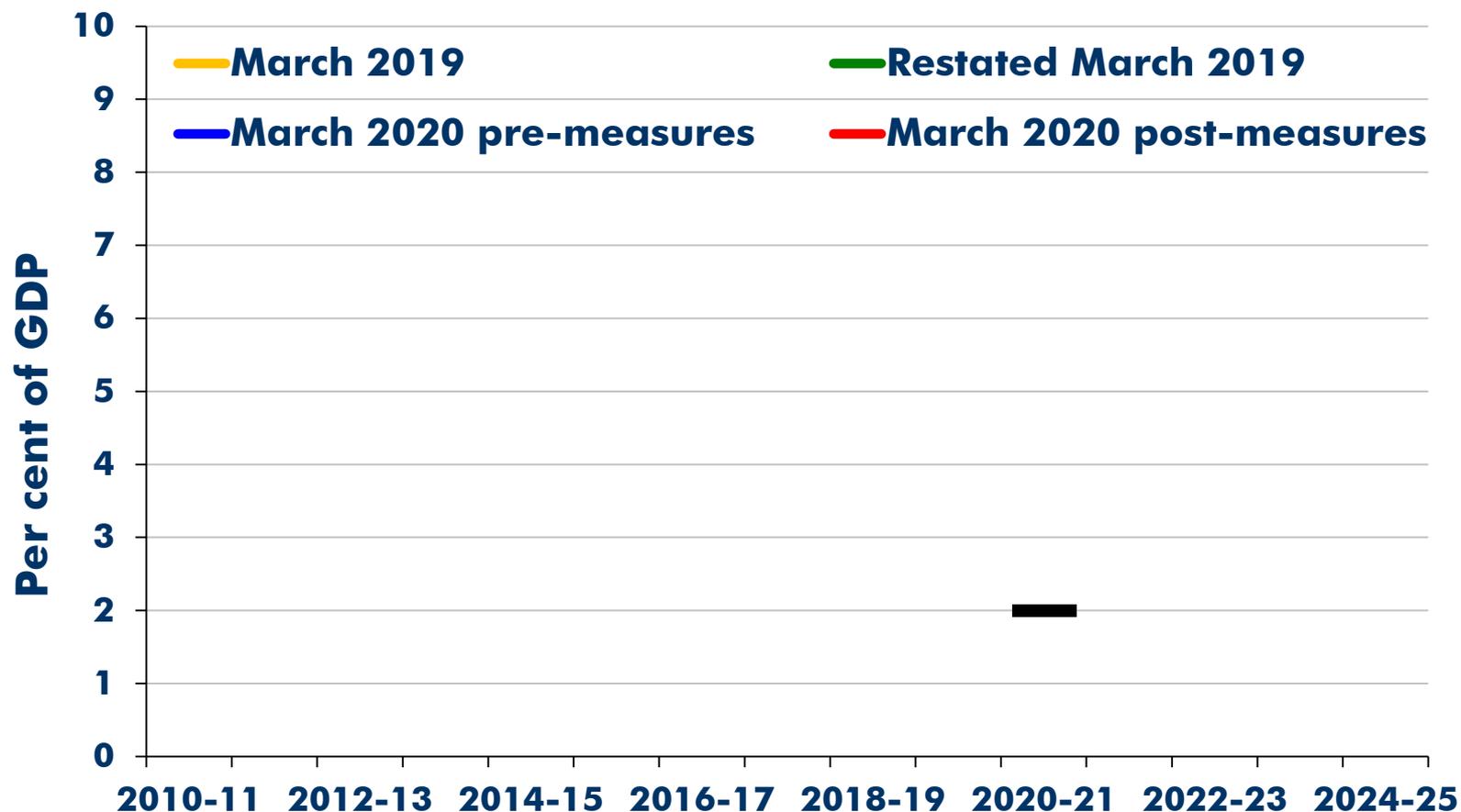
Welfare cap:
spending below cash limit in 2022-23



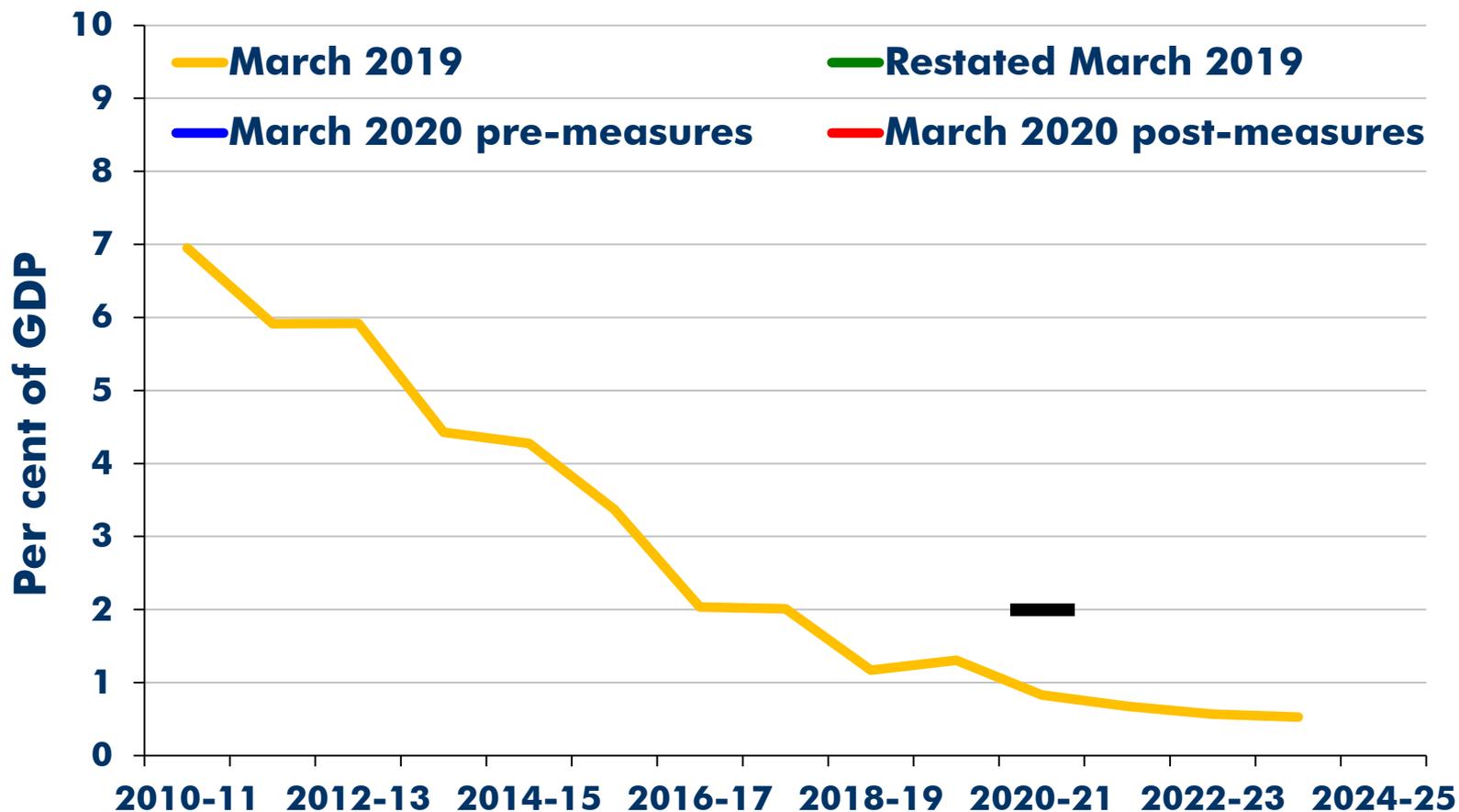
Fiscal objective:
balance budget by middle of the decade



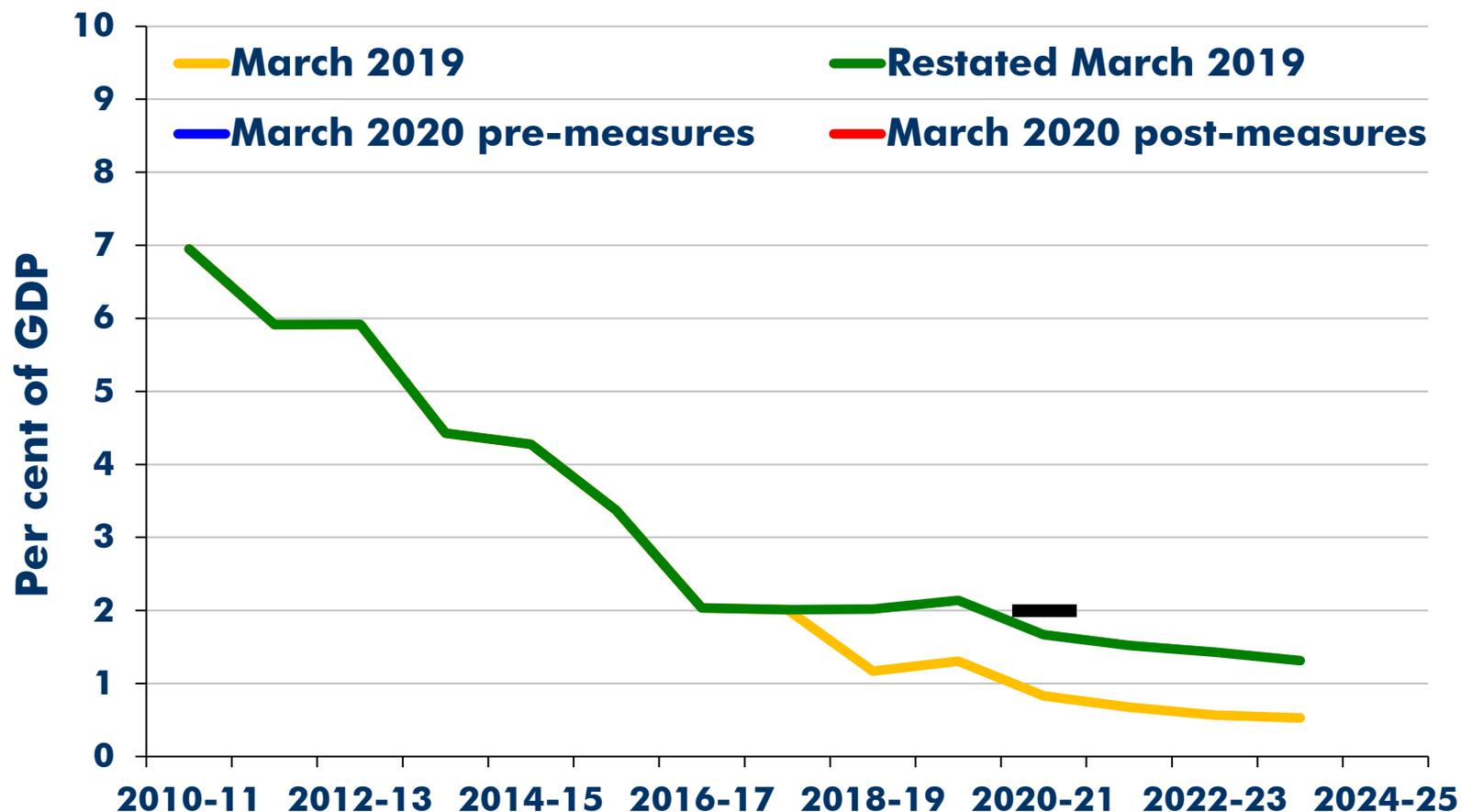
The fiscal mandate



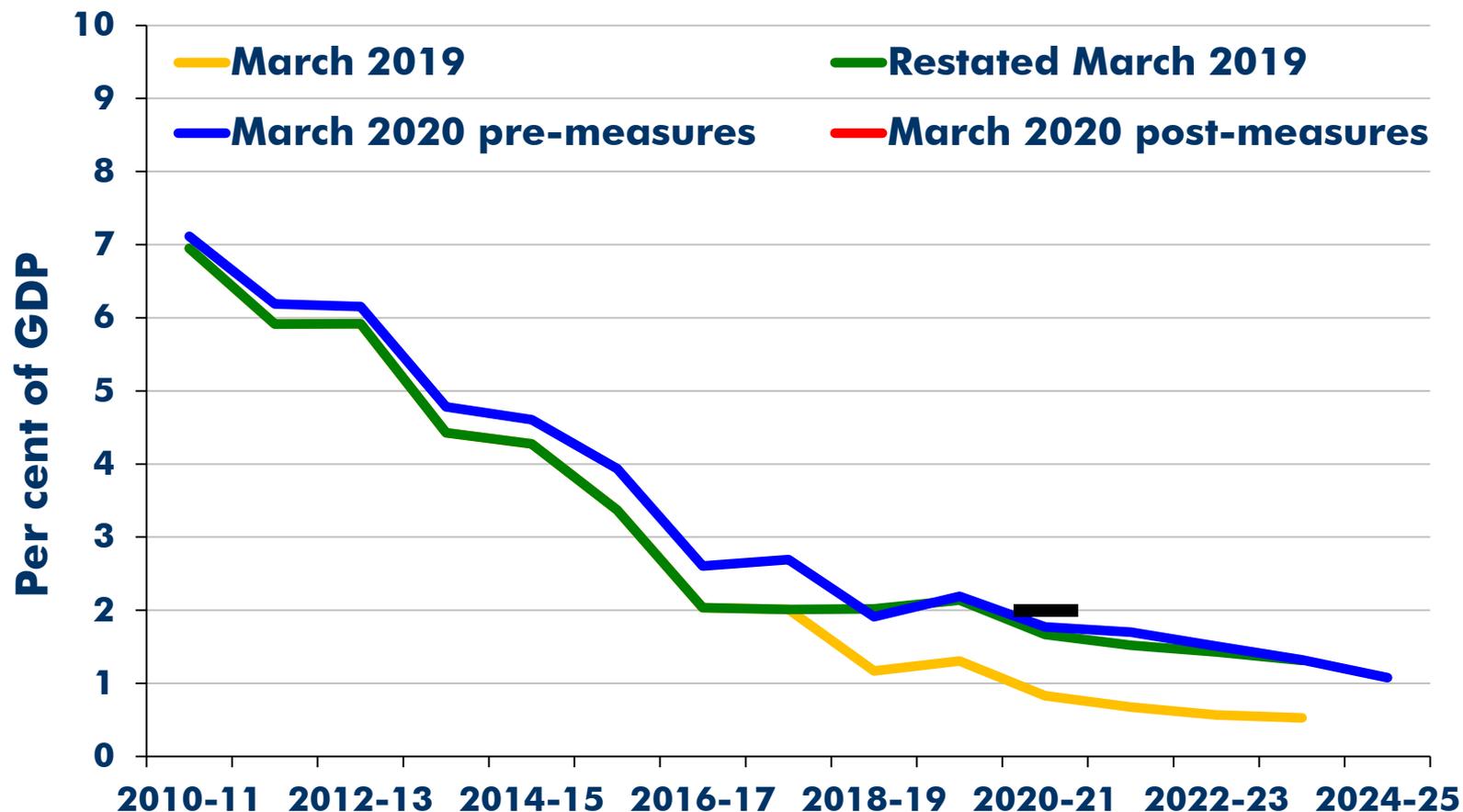
The fiscal mandate



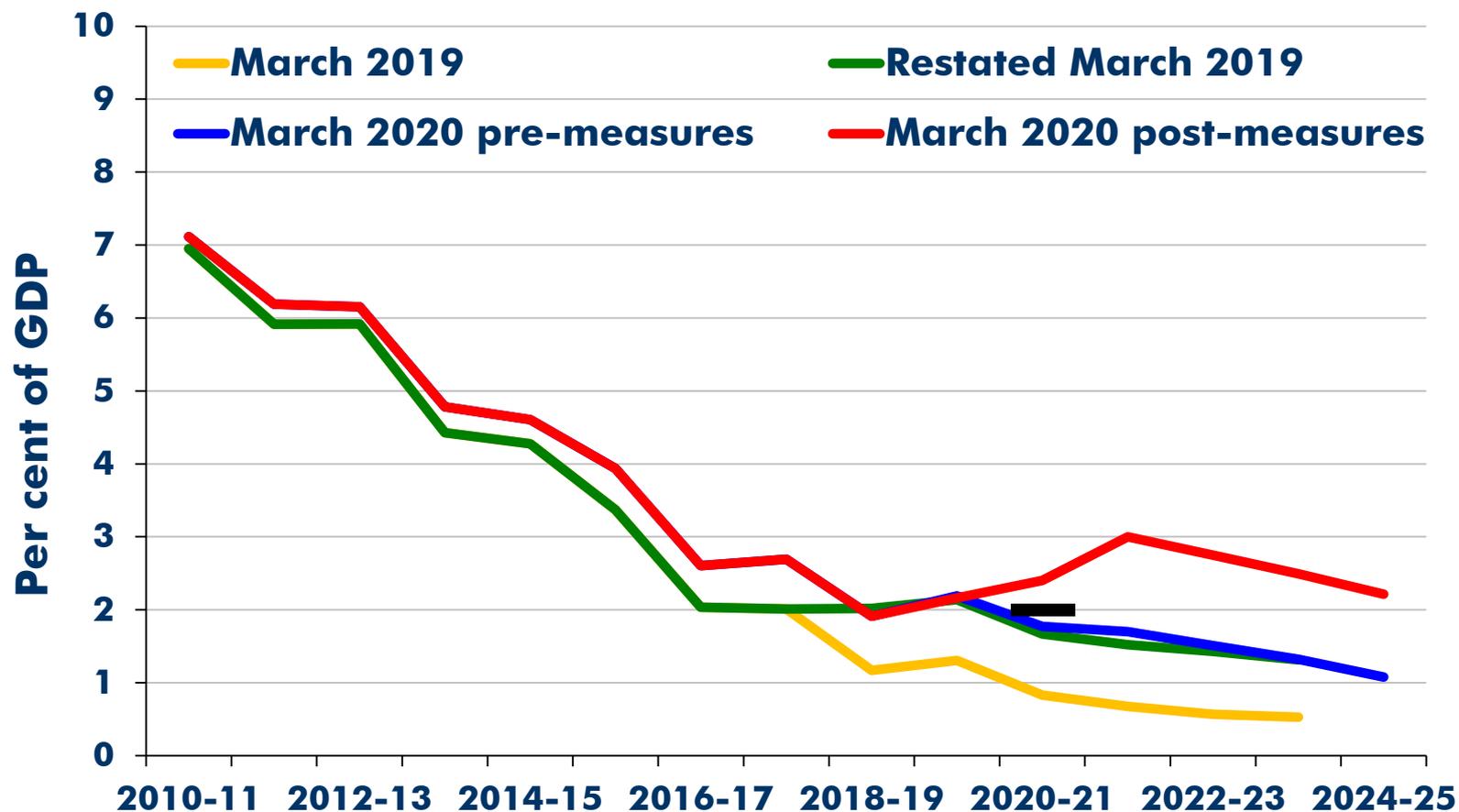
The fiscal mandate



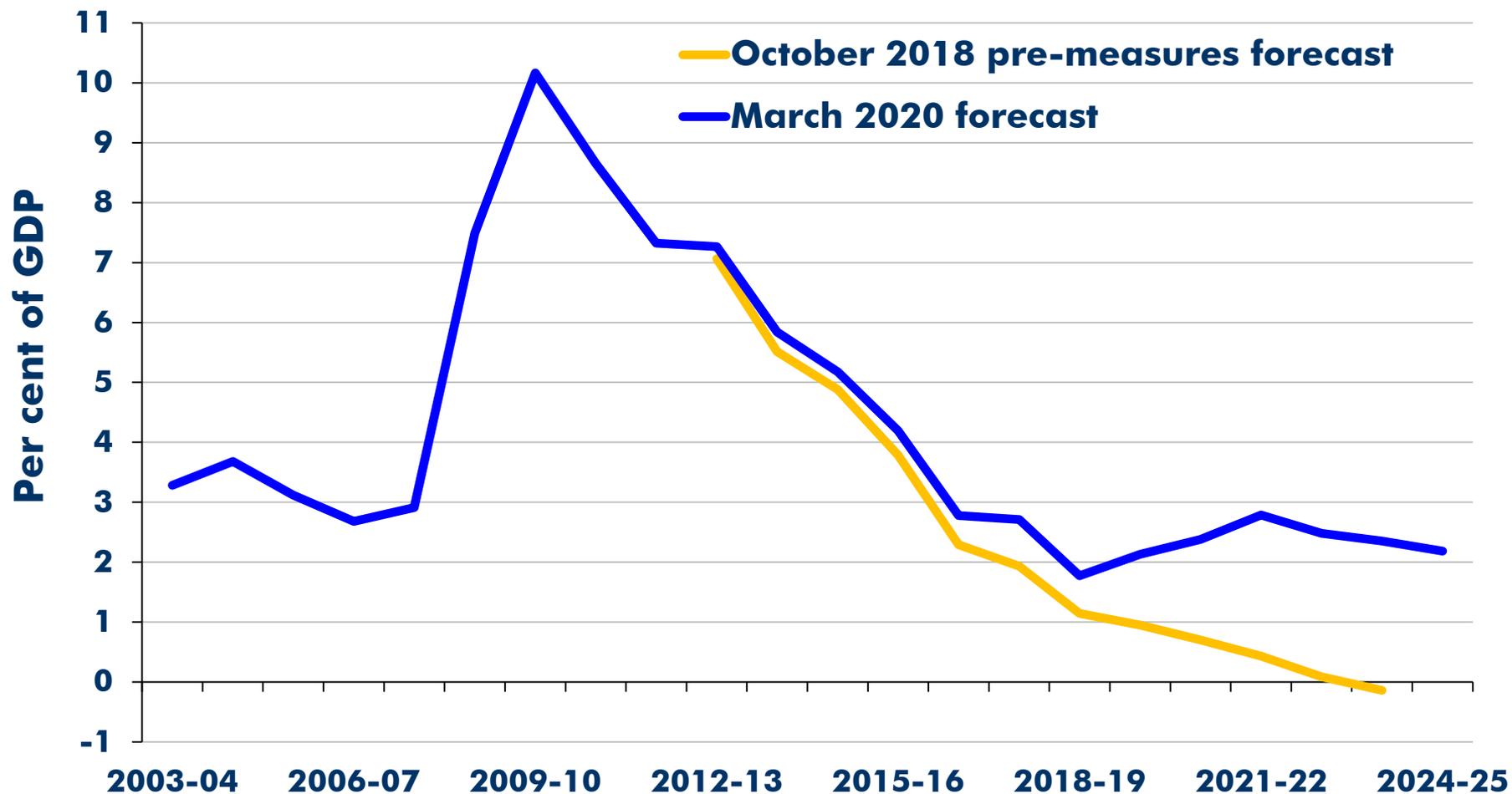
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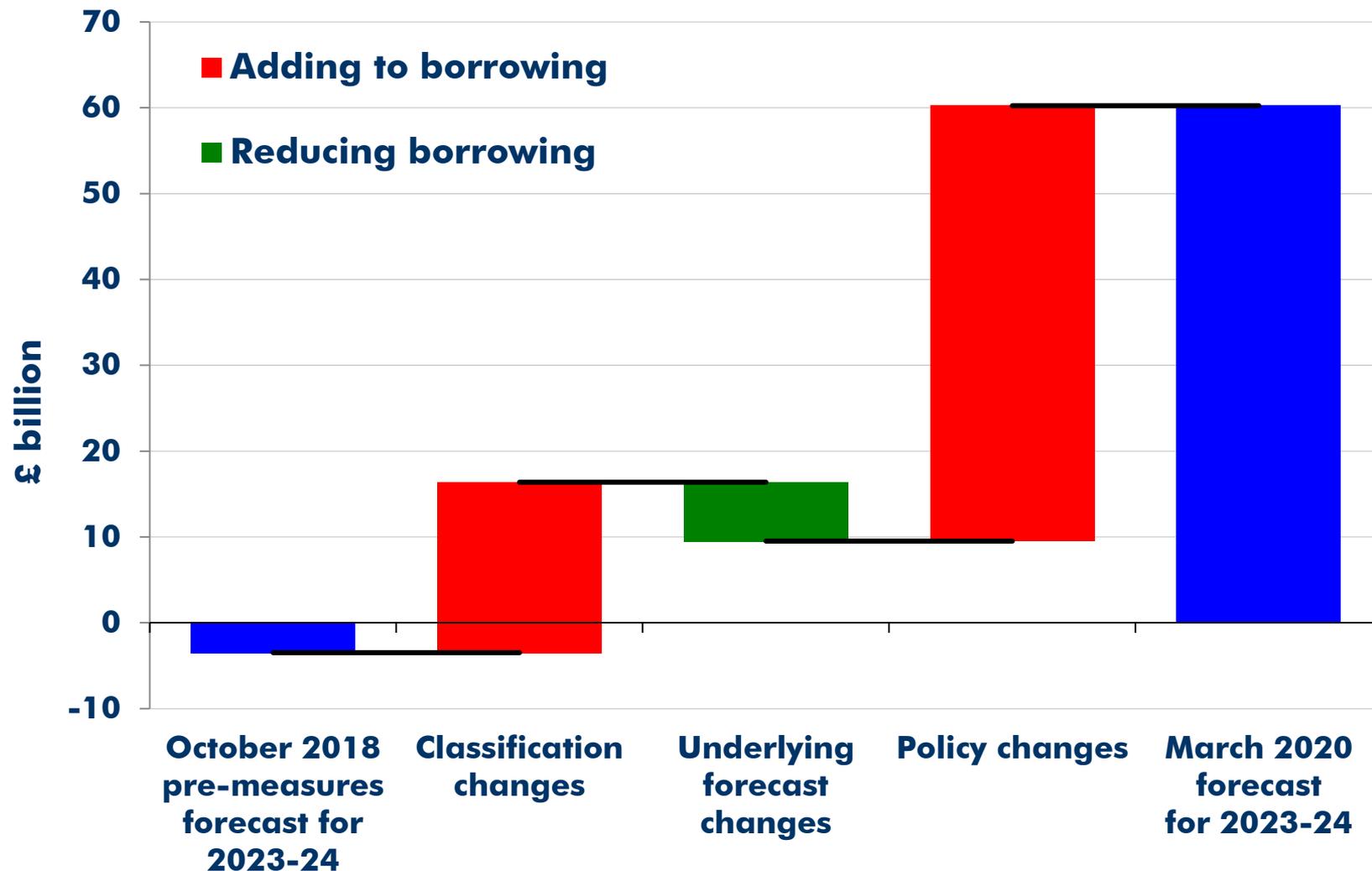
The fiscal mandate



The fiscal objective



The fiscal objective



The Budget 2020 targets

Performance against the Government's fiscal targets

Current budget rule:
balanced by 2022-23

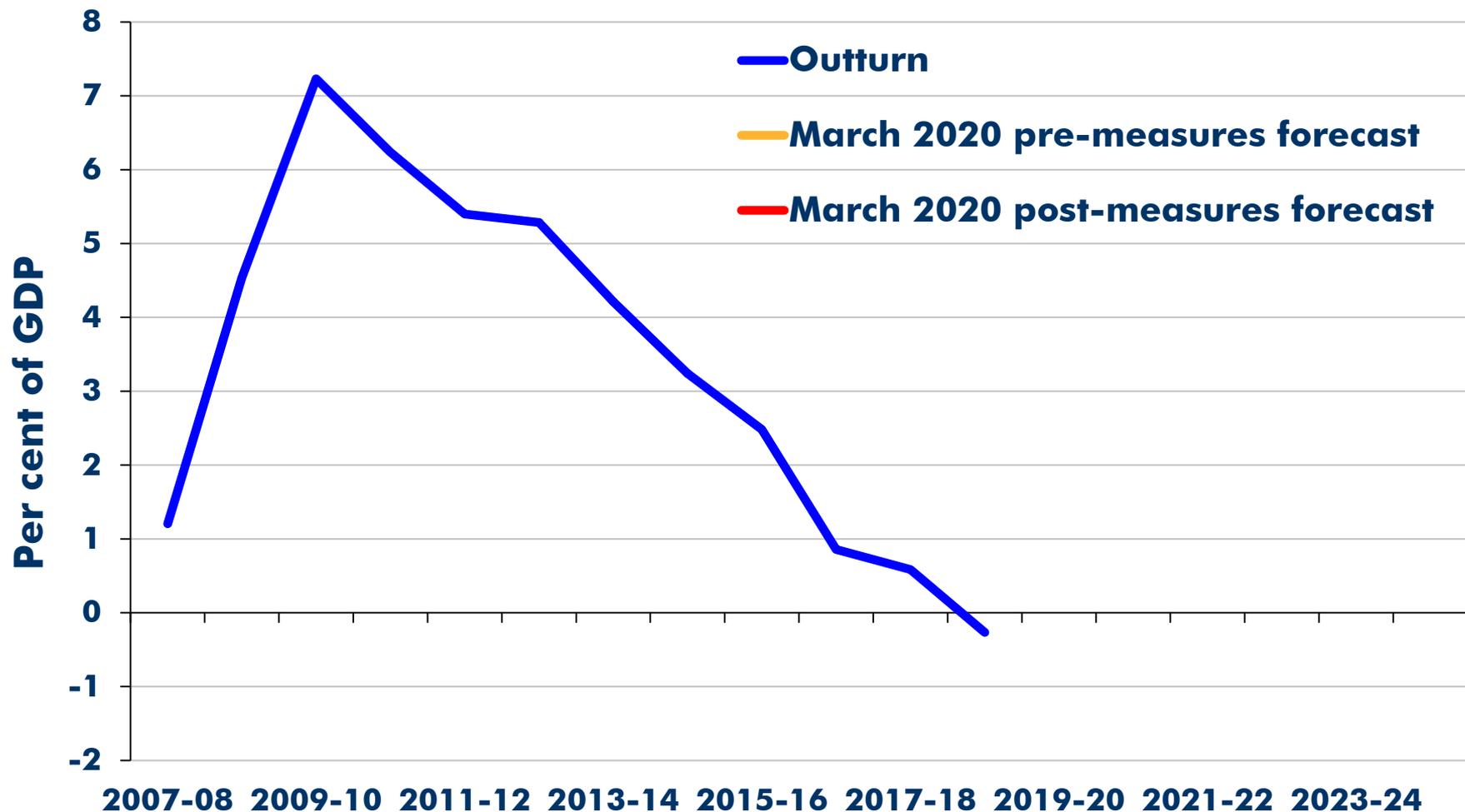
Investment rule:
net investment no more than 3% on average

Welfare cap:
spending below cash limit in 2024-25

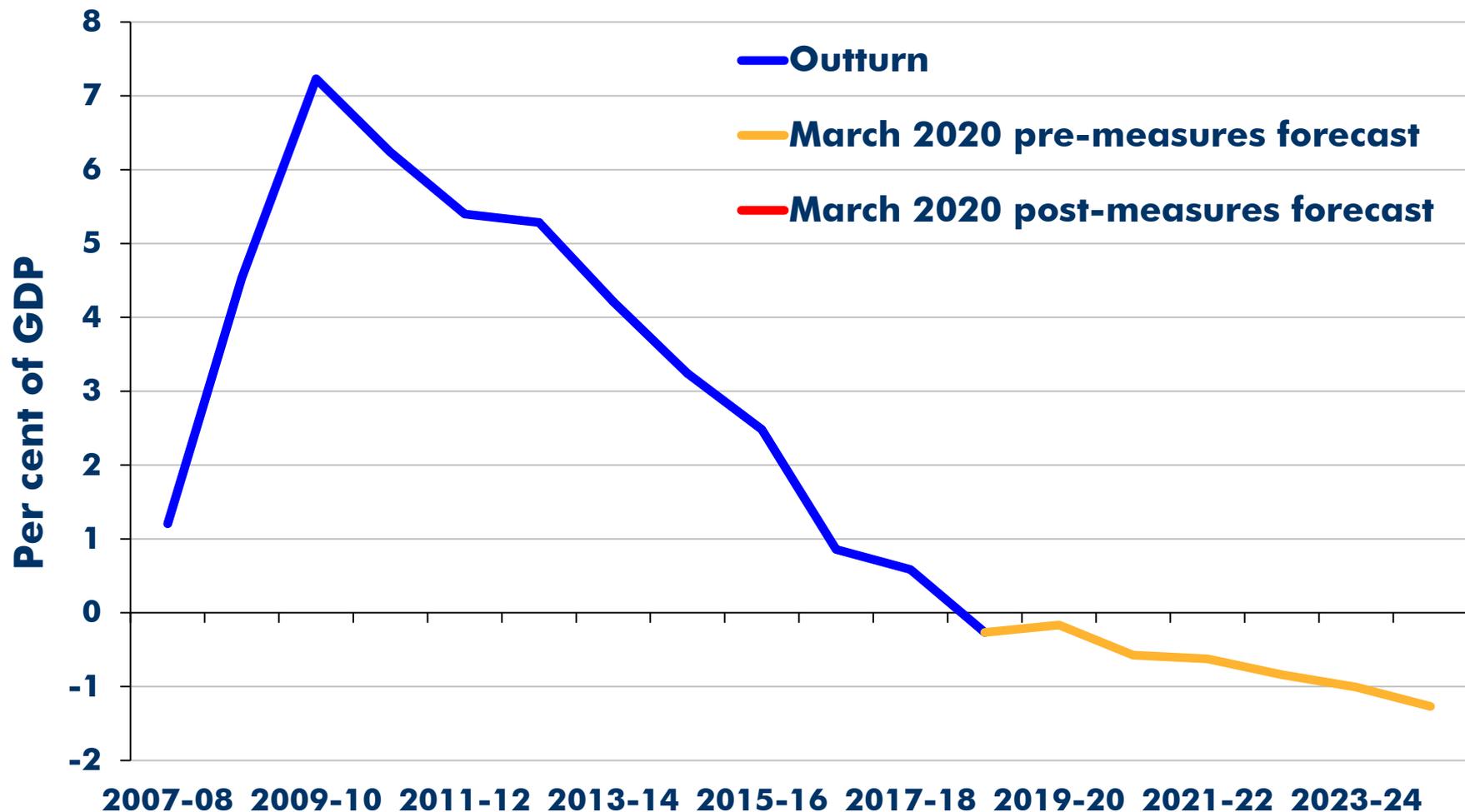
Debt-interest-to-revenue ratio:
interest costs no more than 6% of revenue



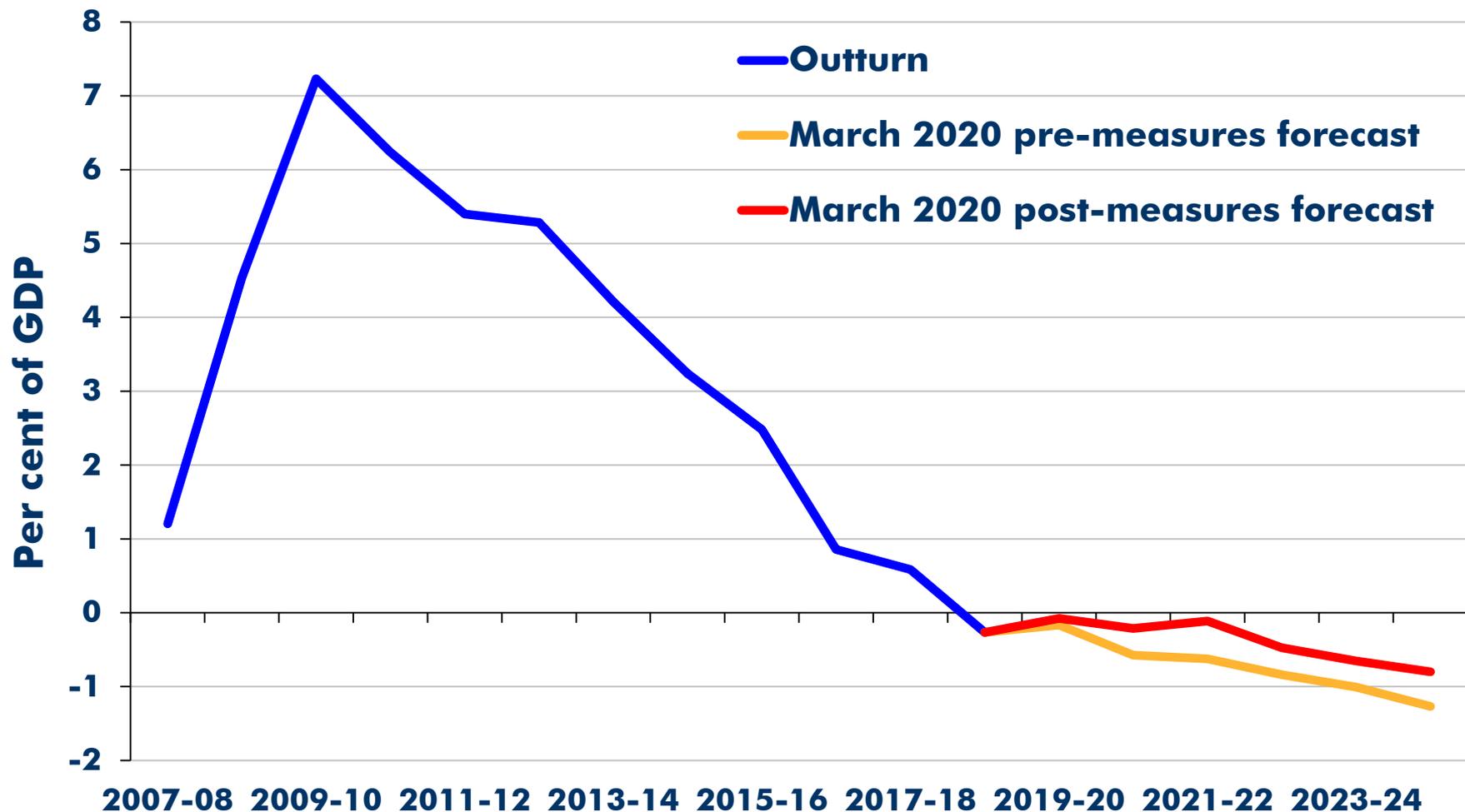
The current budget target



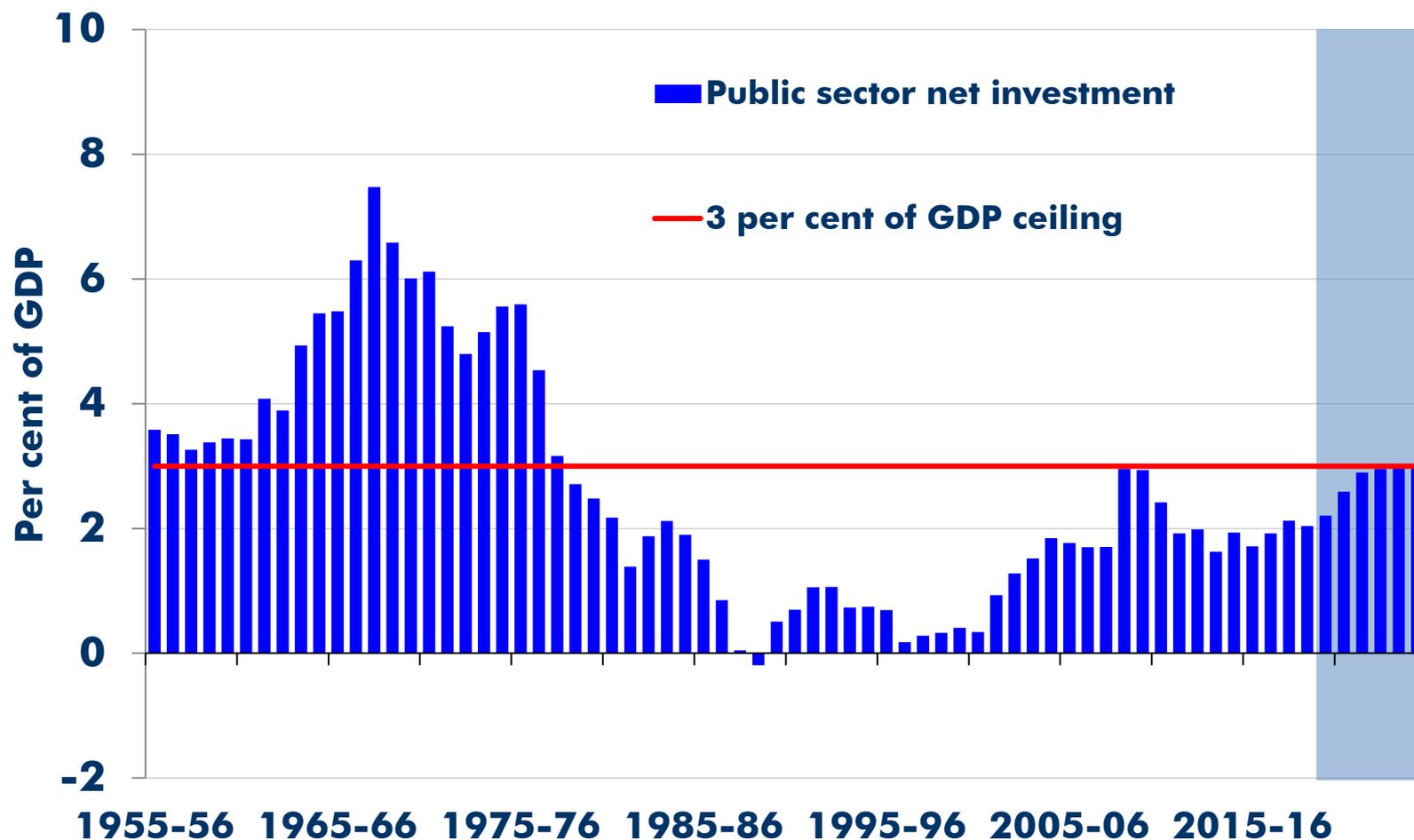
The current budget target



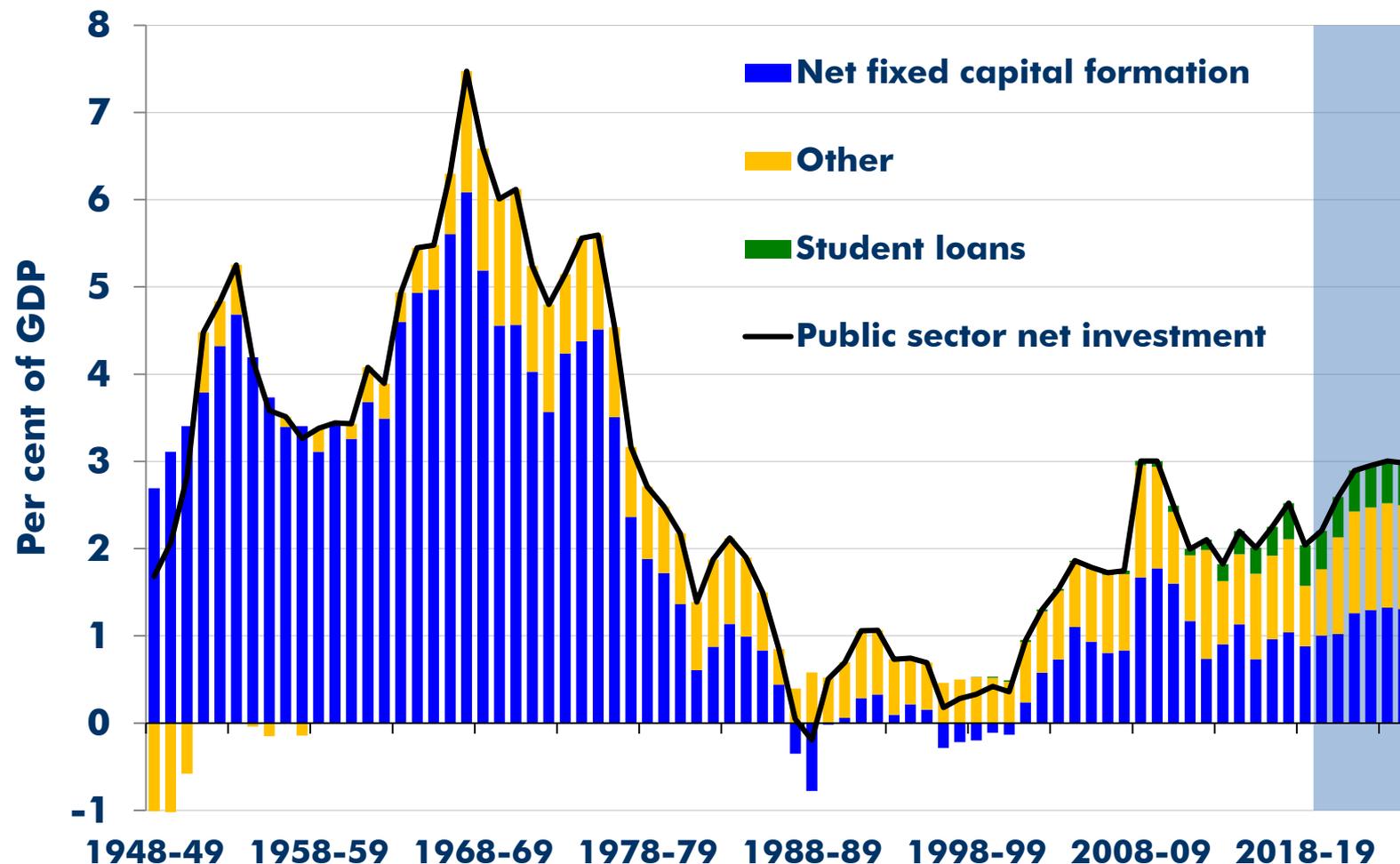
The current budget target



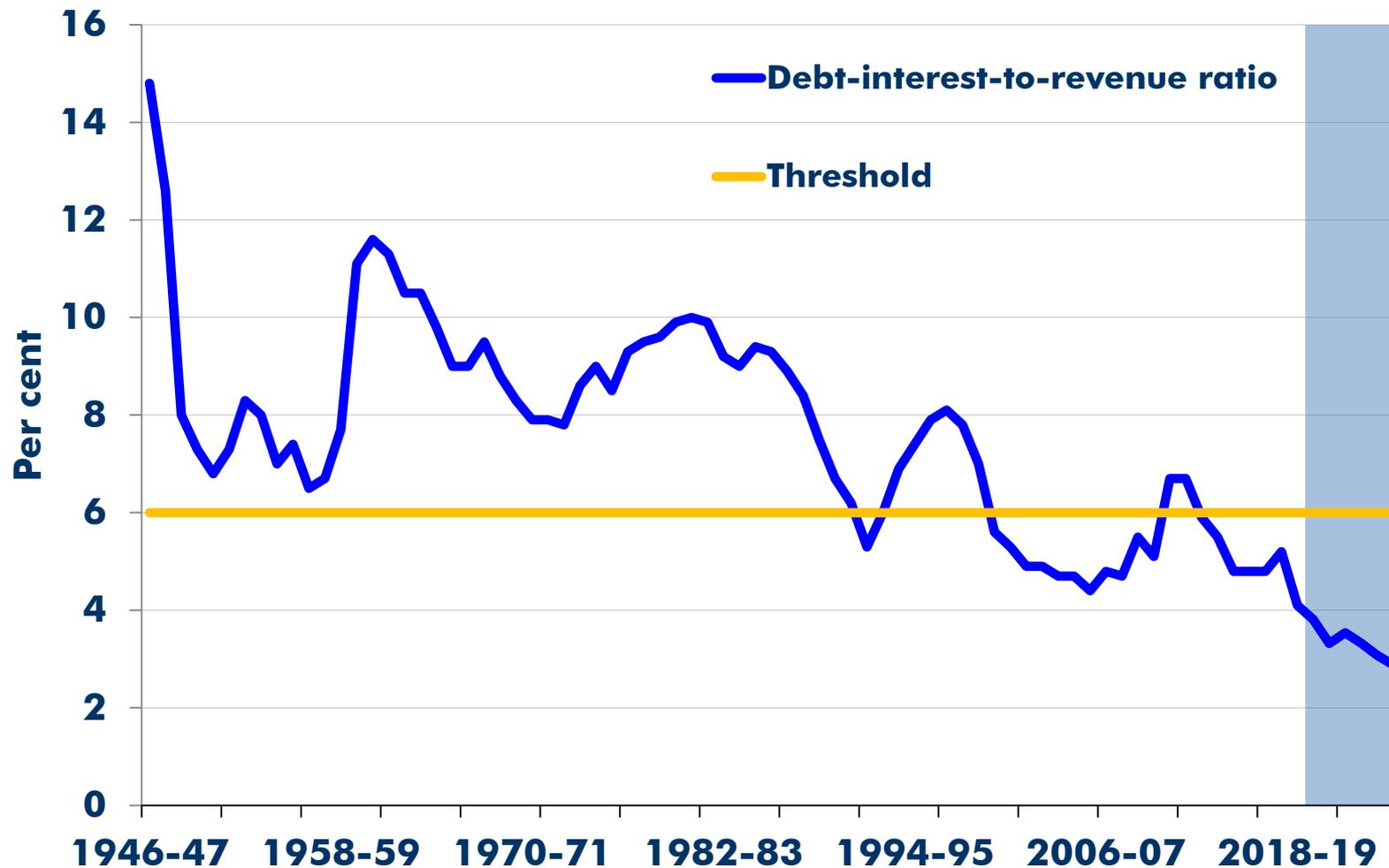
The maximum investment rule



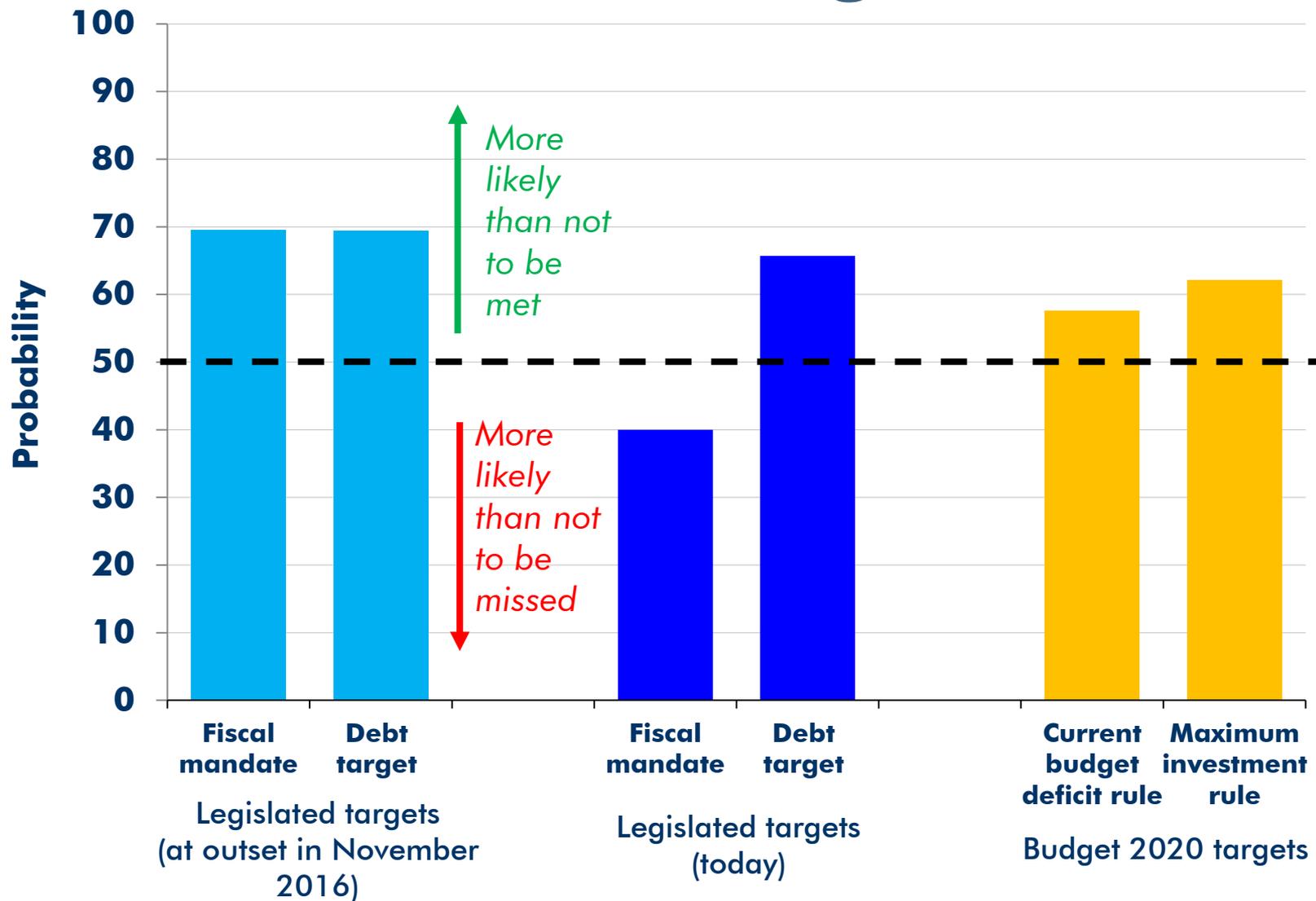
Public sector net investment



Debt interest to revenue ratio



Likelihood of meeting the rules



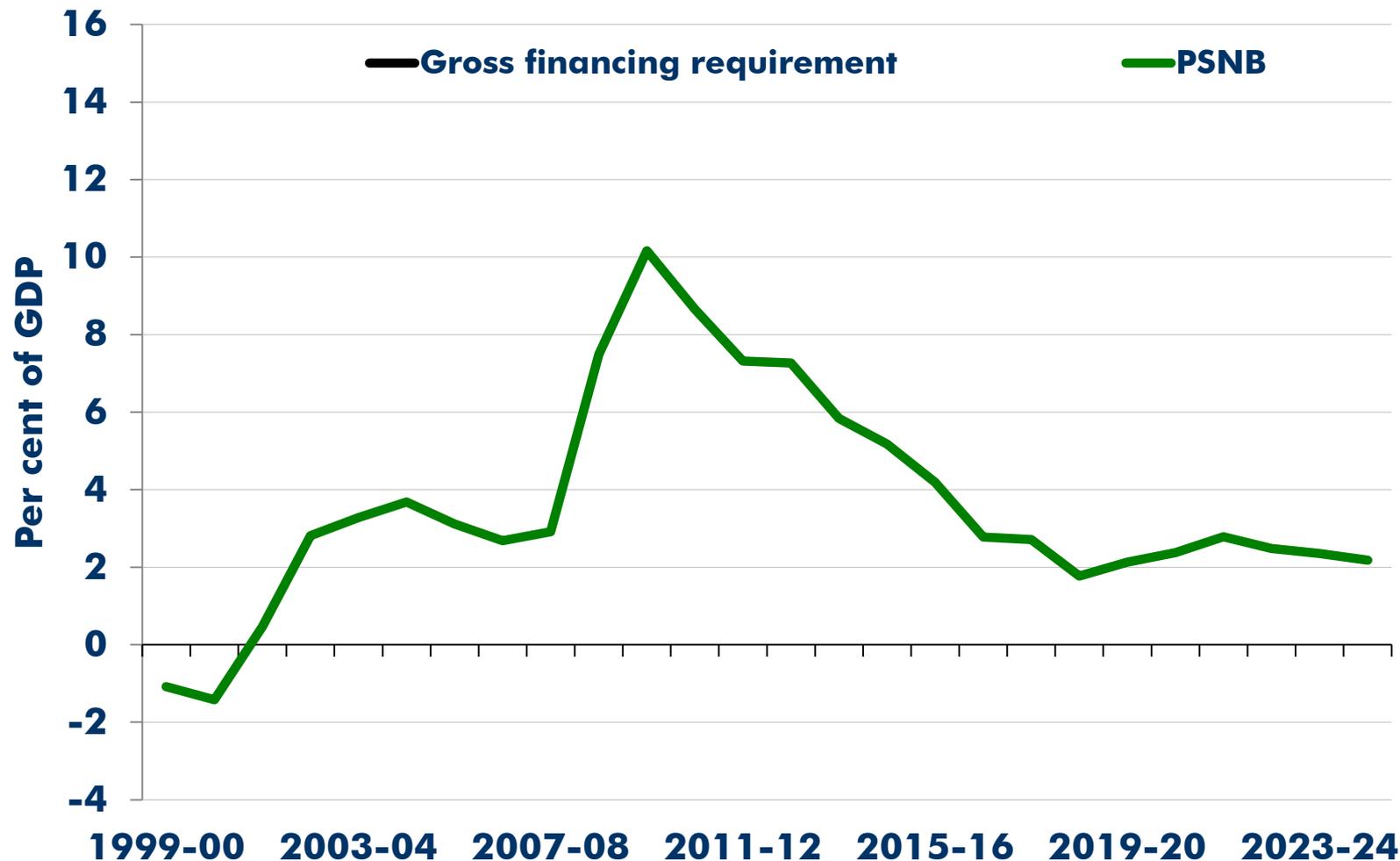
Risks and uncertainties

- **EFO discusses many risks and uncertainties**
- **But coronavirus obviously the most immediate**
 - A simultaneous demand and supply shock
 - Lower receipts, more government spending, but investment?
 - Impossible to predict scale of impact with confidence
 - But more likely near-term impact than long-term
 - Not in official data yet, but already moving market prices

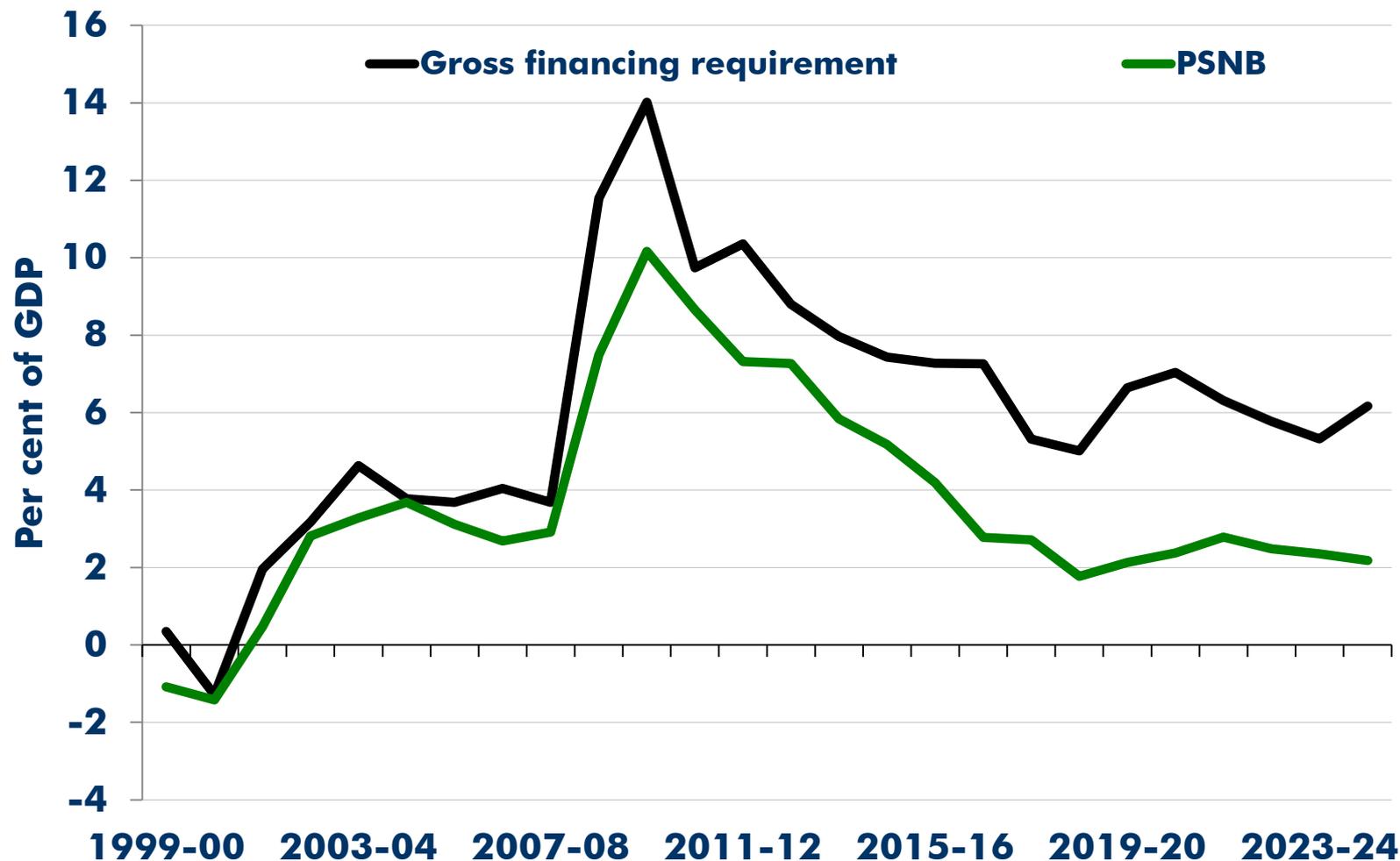
Conclusion: the big judgement

- **Hammond aimed for budget surplus and falling debt ratio**
- **New government more like Labour pre-crisis**
 - Balance current budget and sustain higher investment
 - Happy to borrow; content to stabilise debt-to-GDP ratio
- **Sustainable on current growth and interest rate forecasts**
 - Lots of calls to spend more while borrowing costs low
 - But financing conditions could become less favourable
- **But more vulnerable to interest rate / inflation surprises**
 - Debt burden higher, more index-linked and shorter maturity

Conclusion: the big judgement



Conclusion: the big judgement



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