

Office for
**Budget
Responsibility**

March 2022 Economic and fiscal outlook

The live event will begin at 2.30 pm

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March 2022 Economic and fiscal outlook

Richard Hughes
Chair

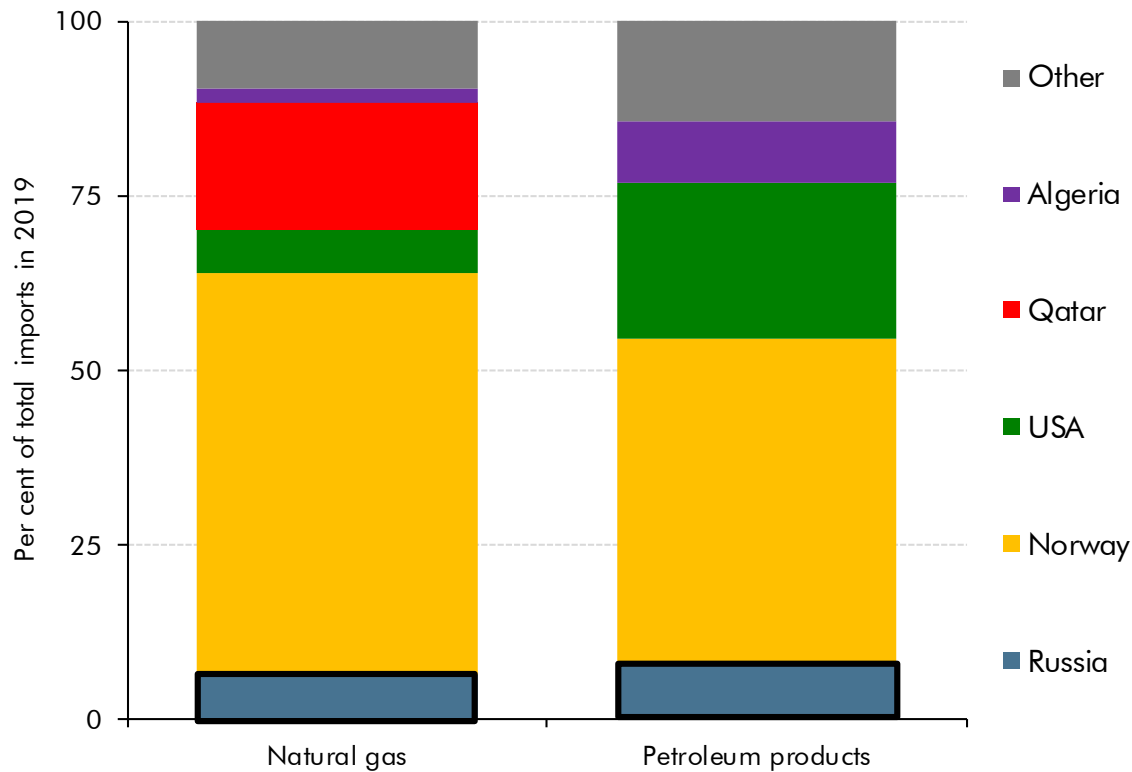
London
23 March 2022

Background

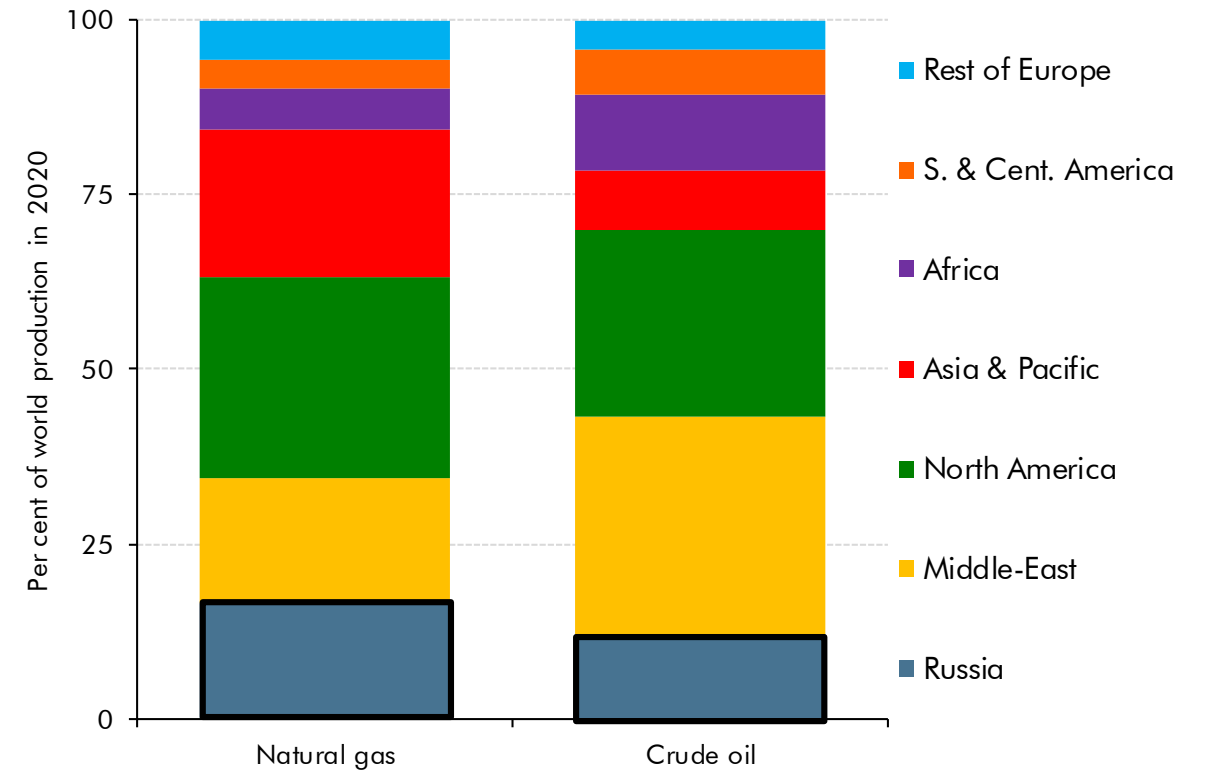
- **Thanks to staff from OBR, HMT, & across governments**
- **Prof. David Miles joined Budget Responsibility Committee in January**
- **All assumptions, analysis & scenarios are those of David, Andy, and me**
- **Russian invasion of Ukraine occurred midway through forecast process**
 - Kept economy forecast open longer than usual to capture data on market reactions
 - Took gas and oil prices on 2 March, a week after the invasion on 24 February
 - Prices have been volatile since but settled close to the levels reflected in our forecast
- **Forecast includes all policies since October, including in Spring Statement**

Impact of Russian invasion of Ukraine

UK energy imports by country



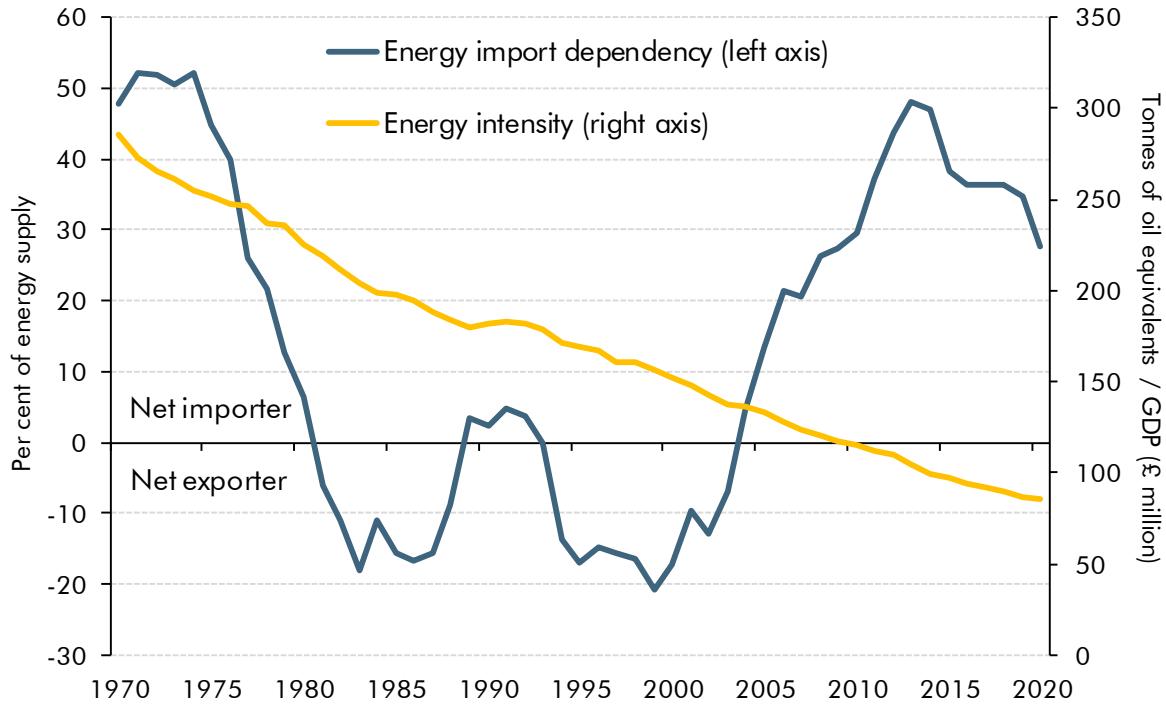
Global share of energy production



Source: BP

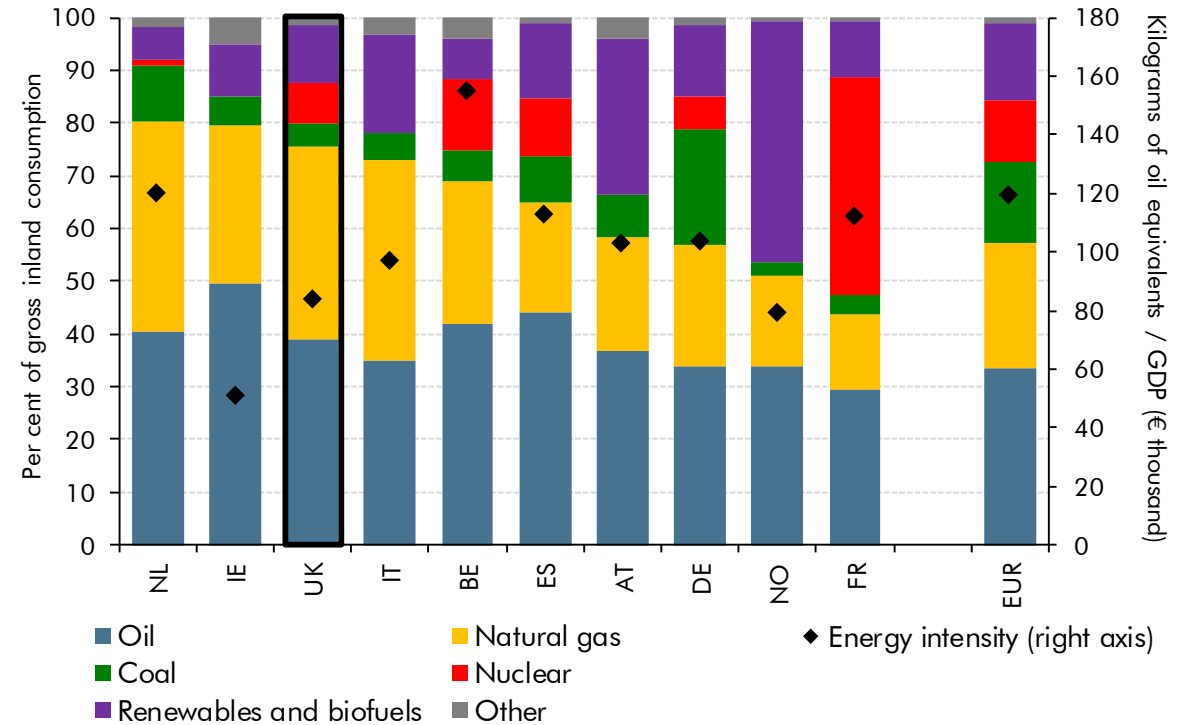
UK exposure to gas and oil shocks

UK net energy balance and intensity



Source: BEIS

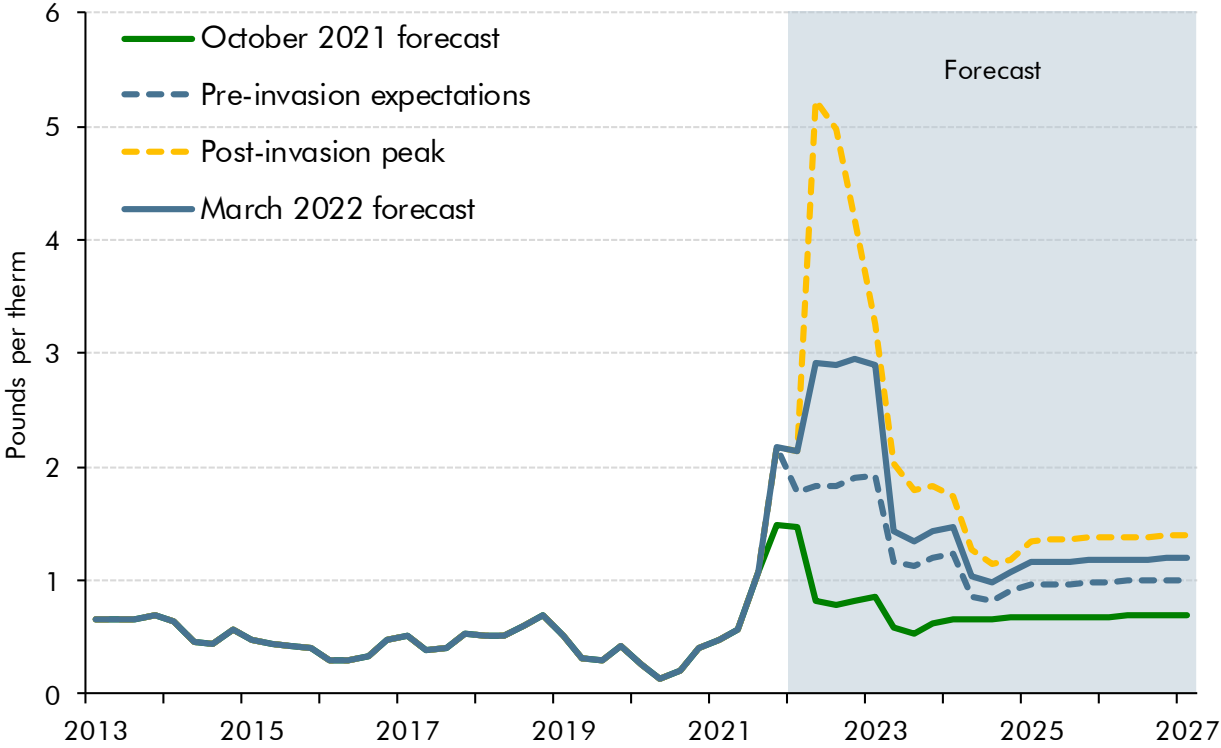
Energy consumption by fuel



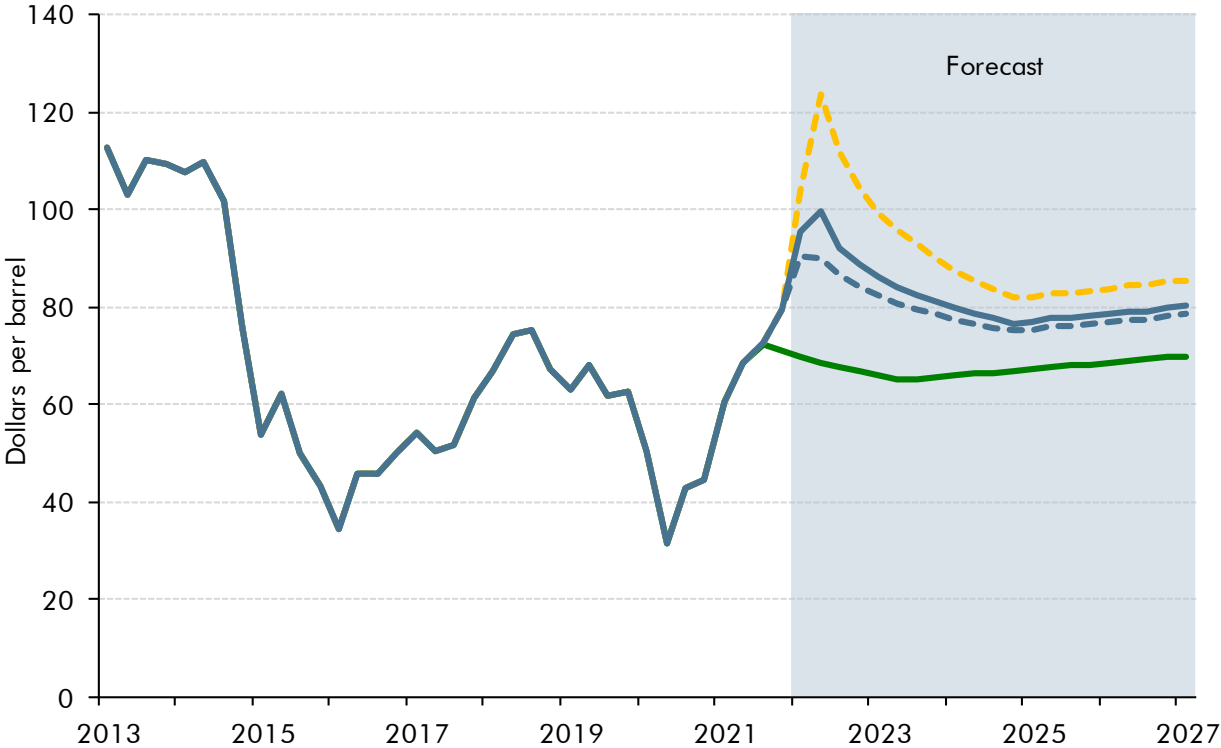
Source: Eurostat

Global energy market developments

Gas prices



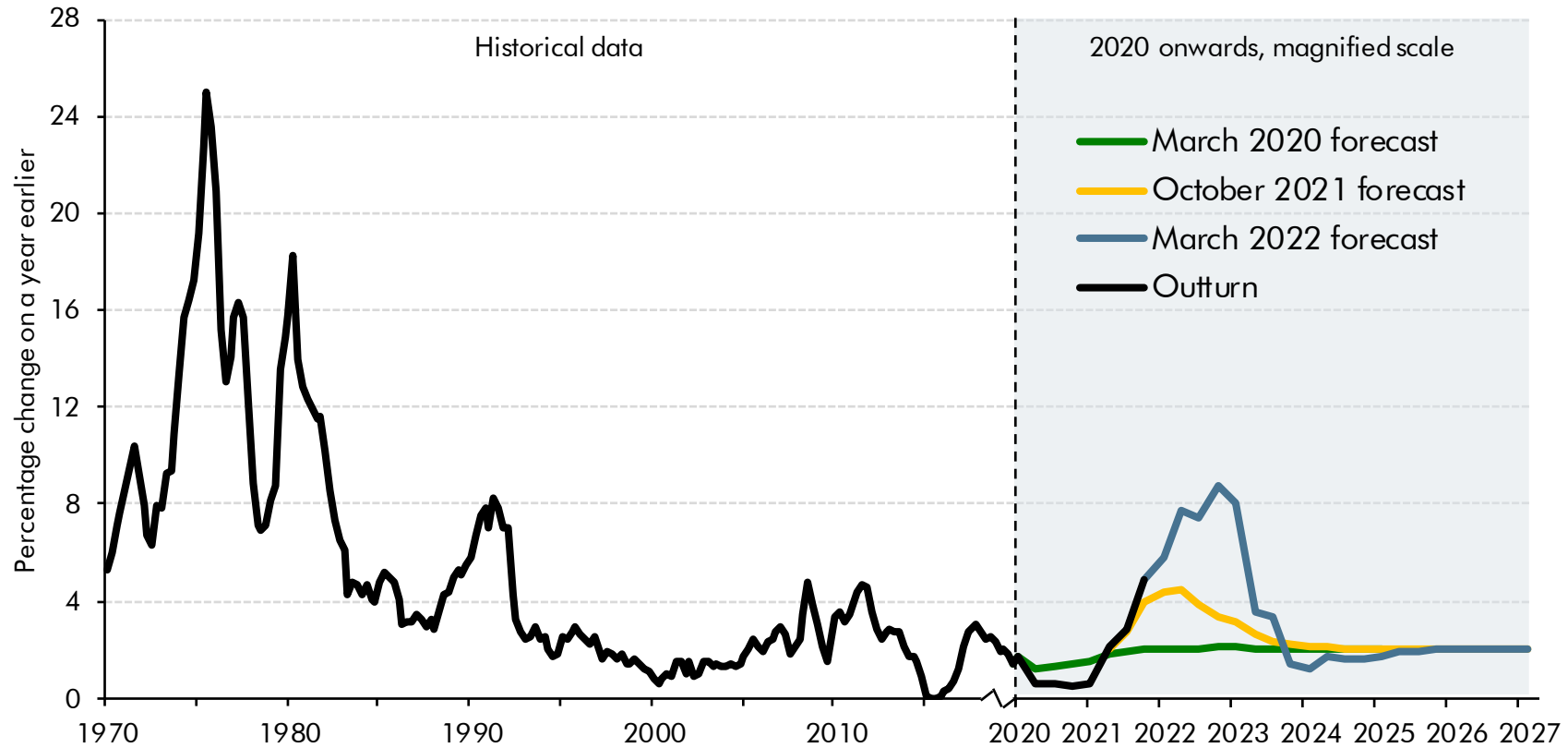
Oil prices



Source: Datastream, OBR

Inflation

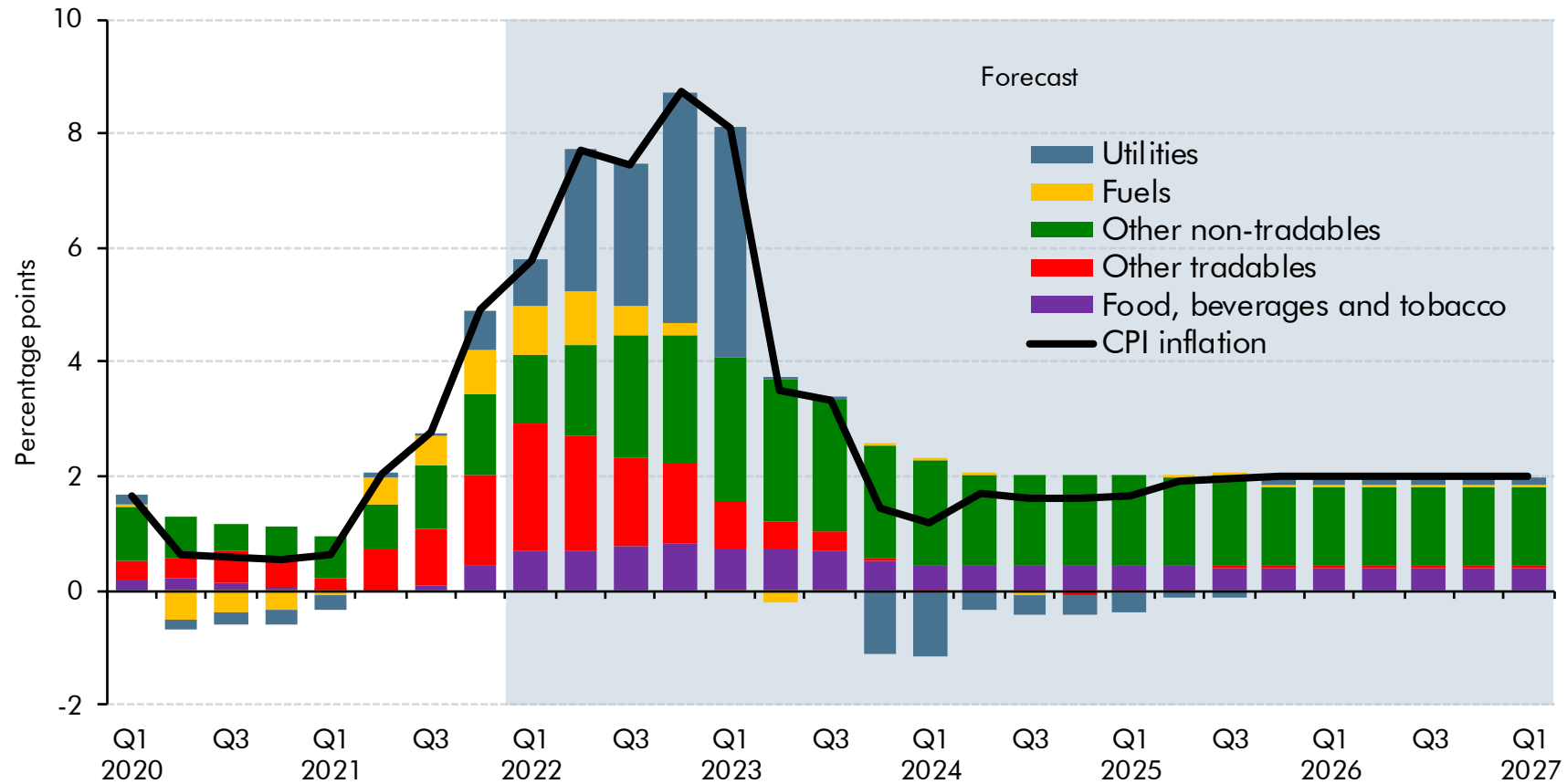
CPI inflation



Source: Bank of England, ONS, OBR

Inflation

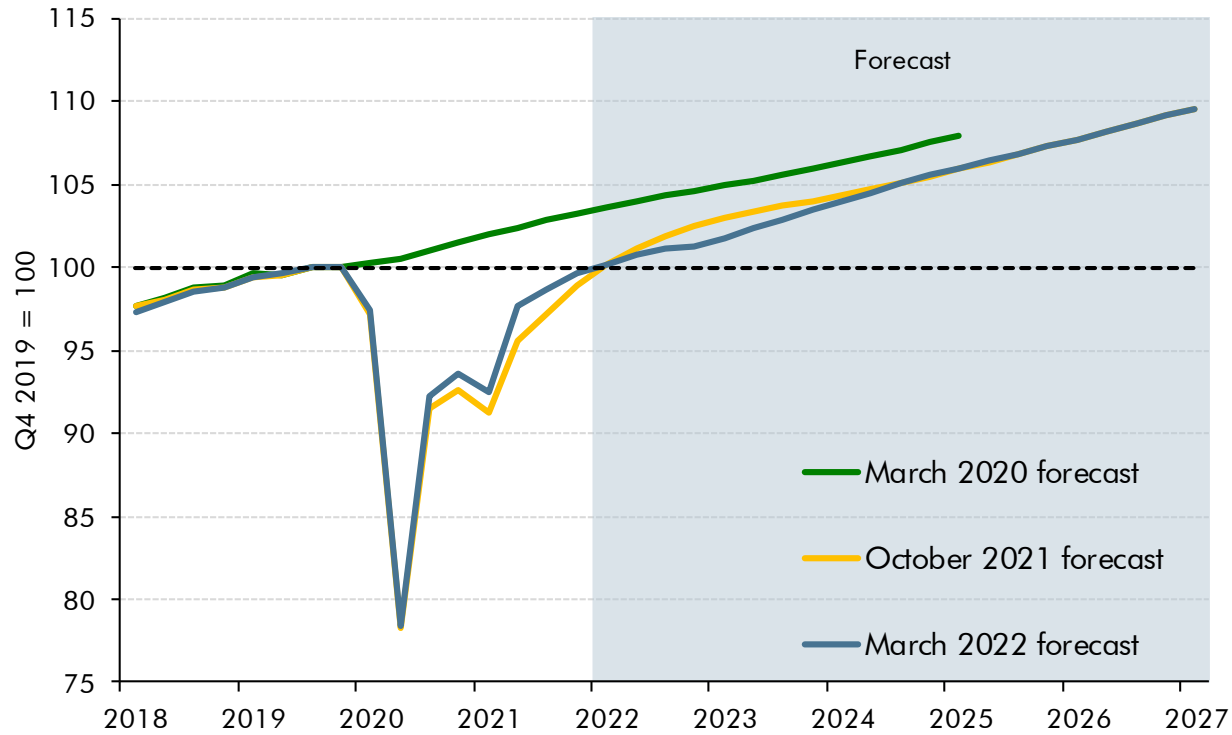
Contributions to CPI inflation



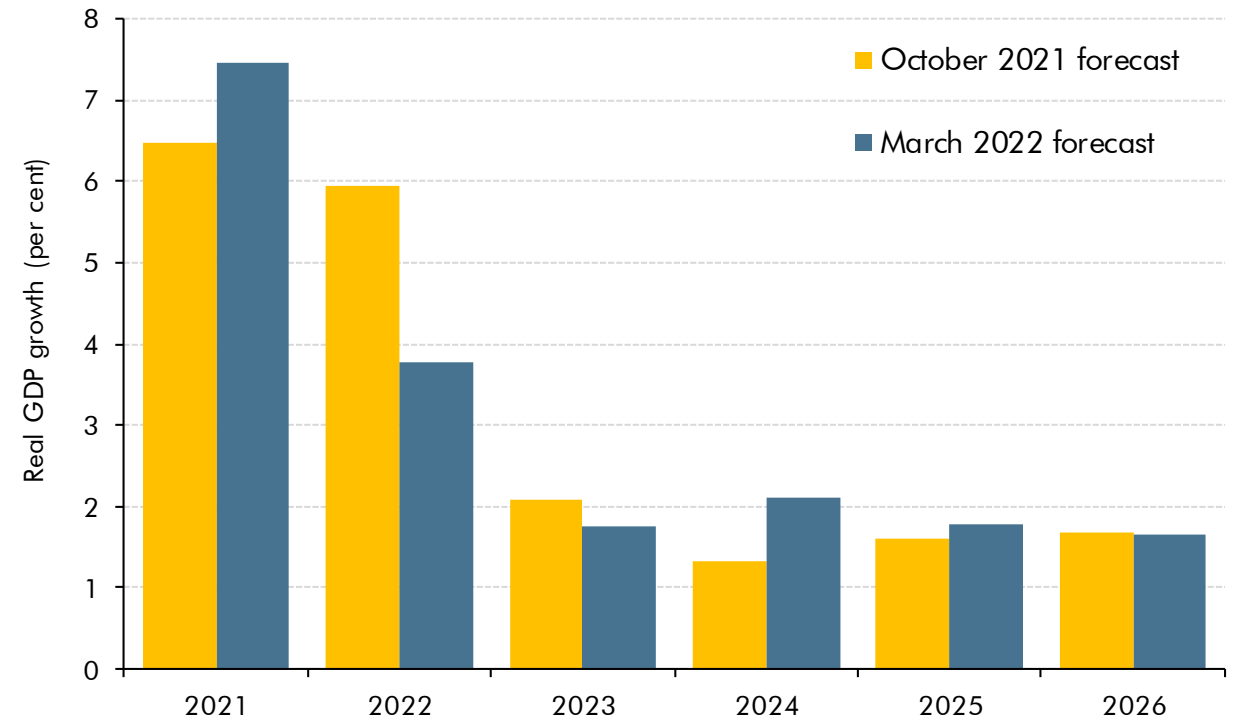
Source: ONS, OBR

GDP

Real GDP level



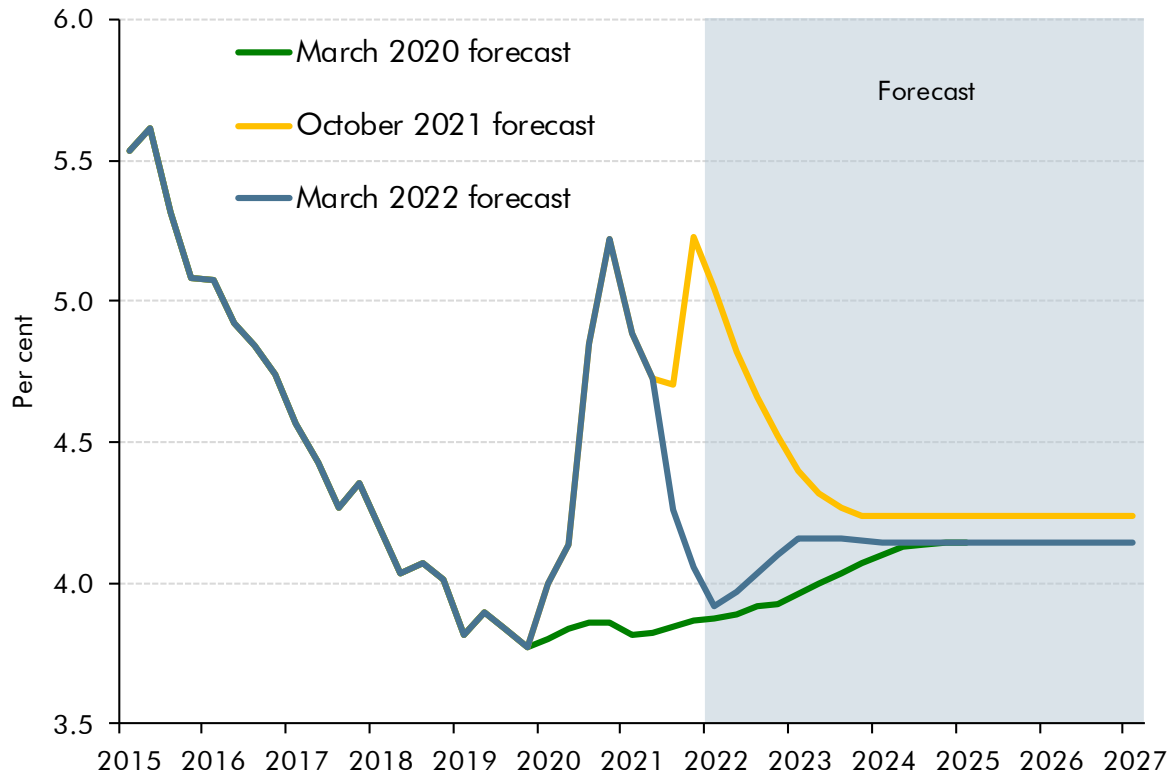
Real GDP growth



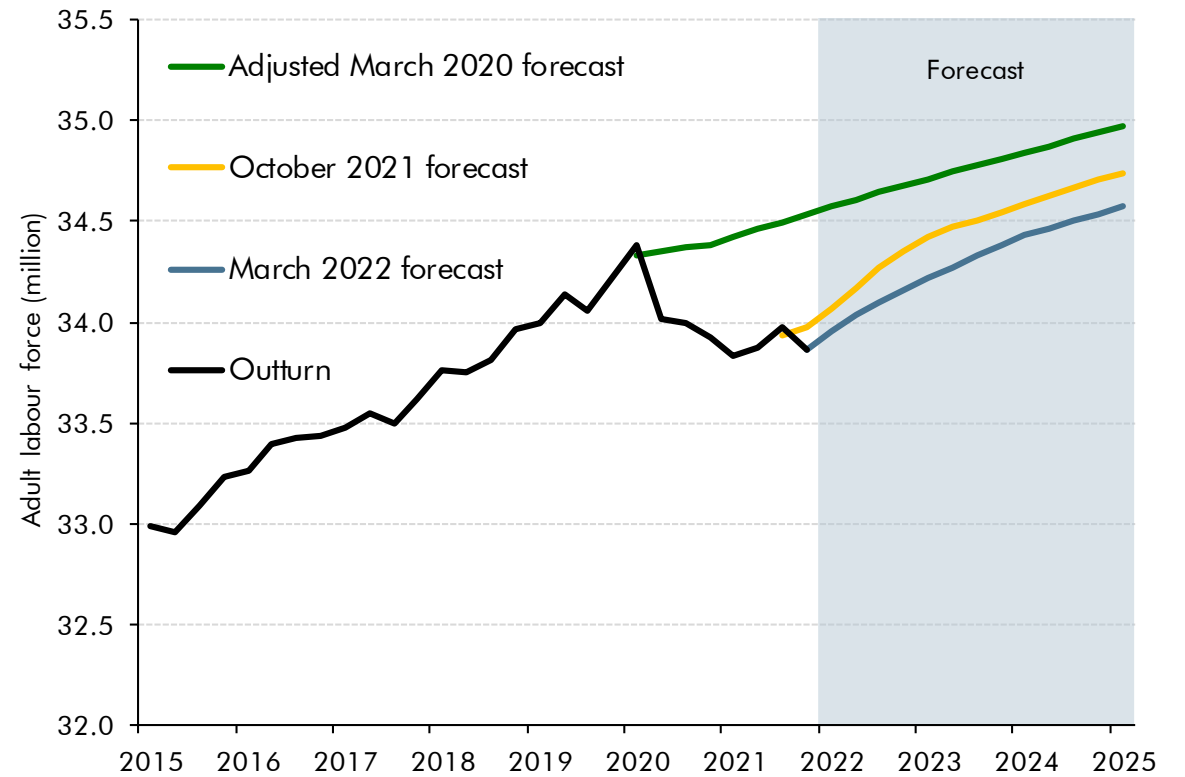
Source: ONS, OBR

Labour market

Unemployment



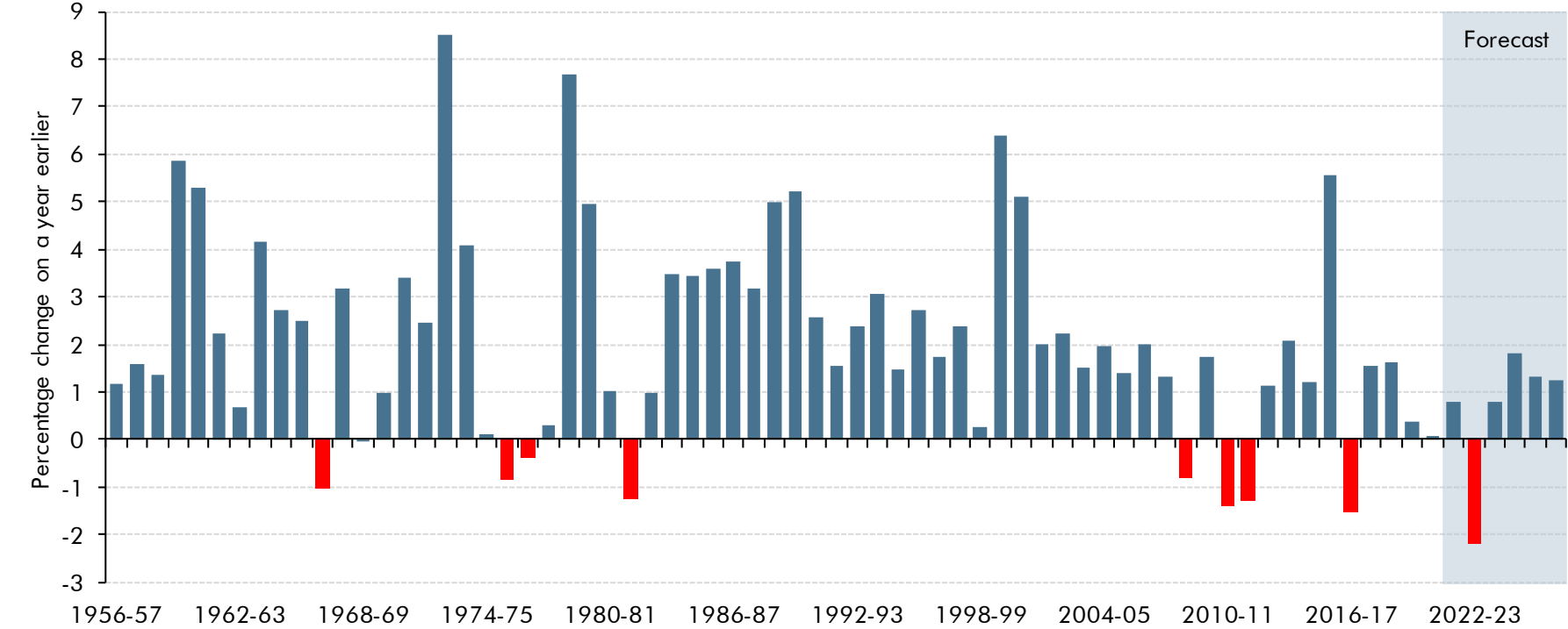
Labour force



Source: ONS, OBR

Living standards

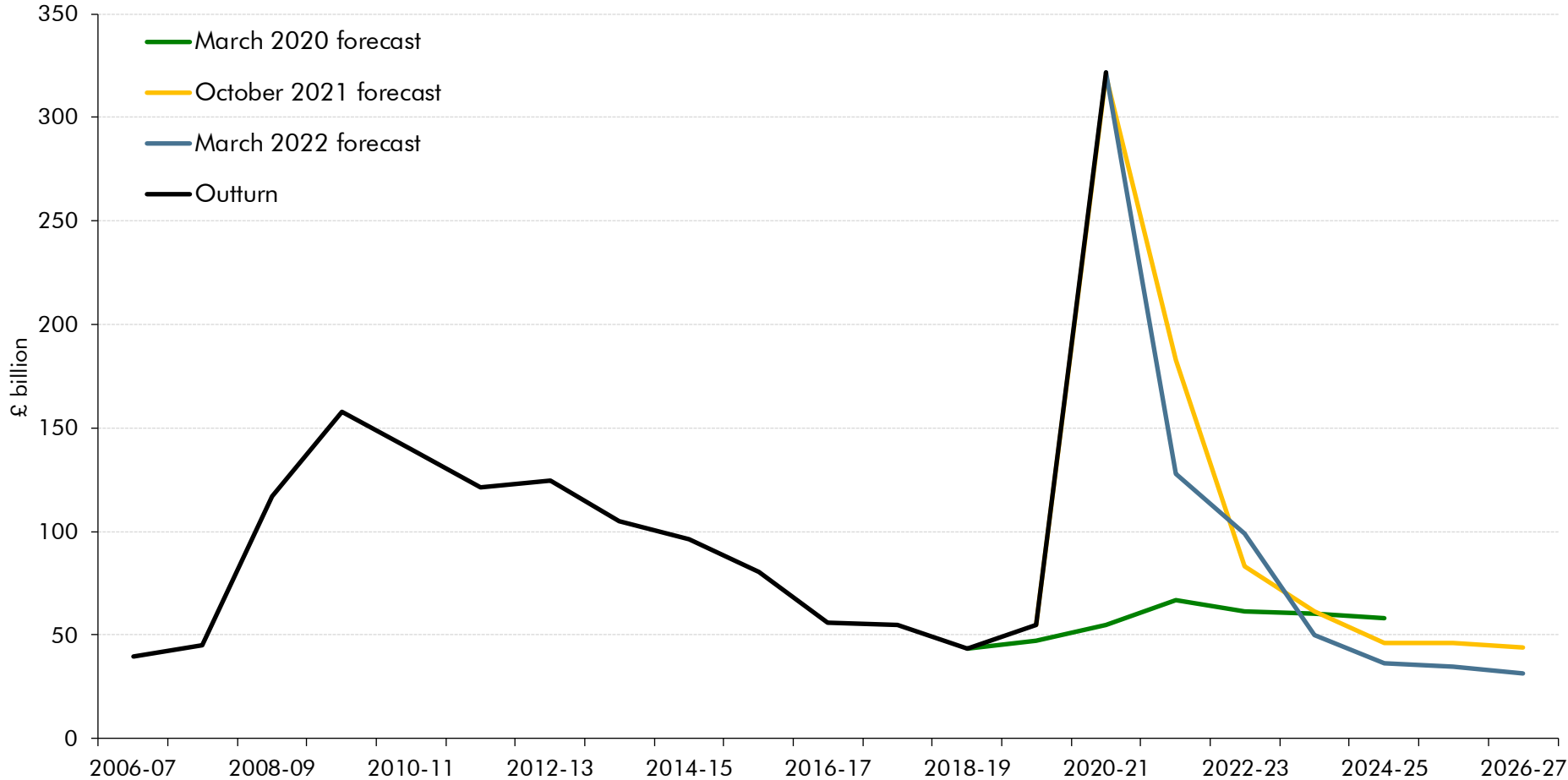
Real household disposable income per capita



Source: ONS, OBR

Government borrowing

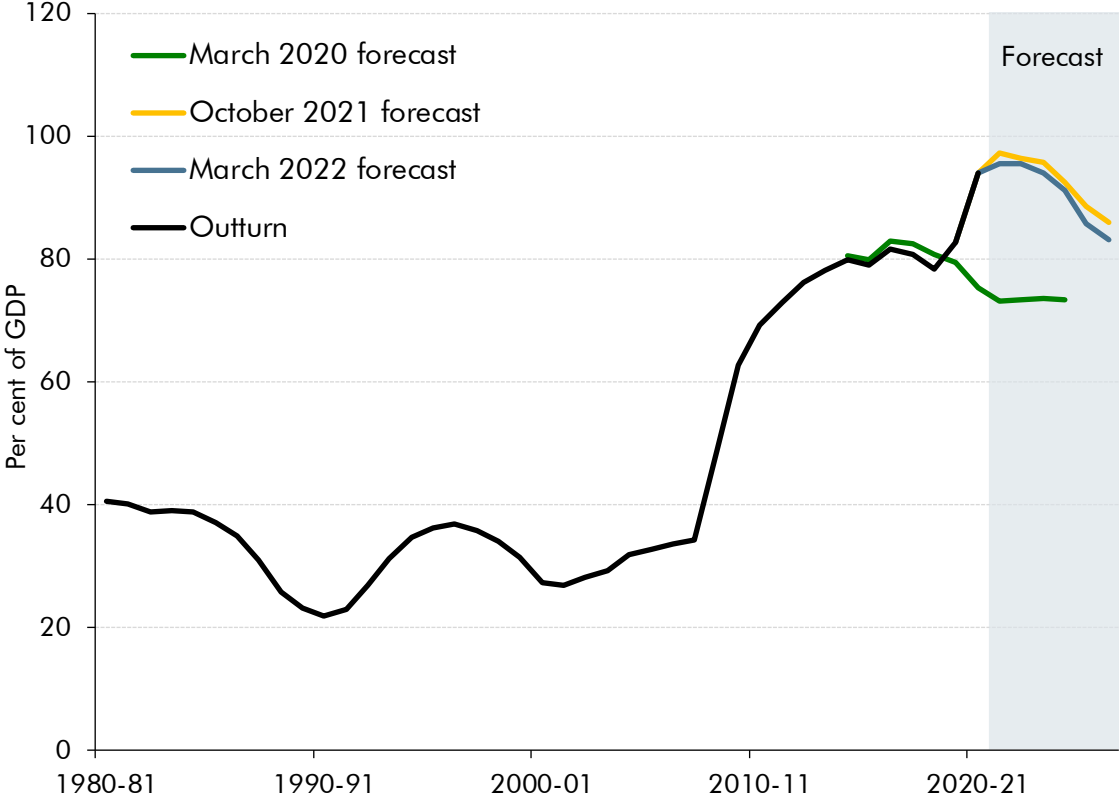
Public sector net borrowing



Source: ONS, OBR

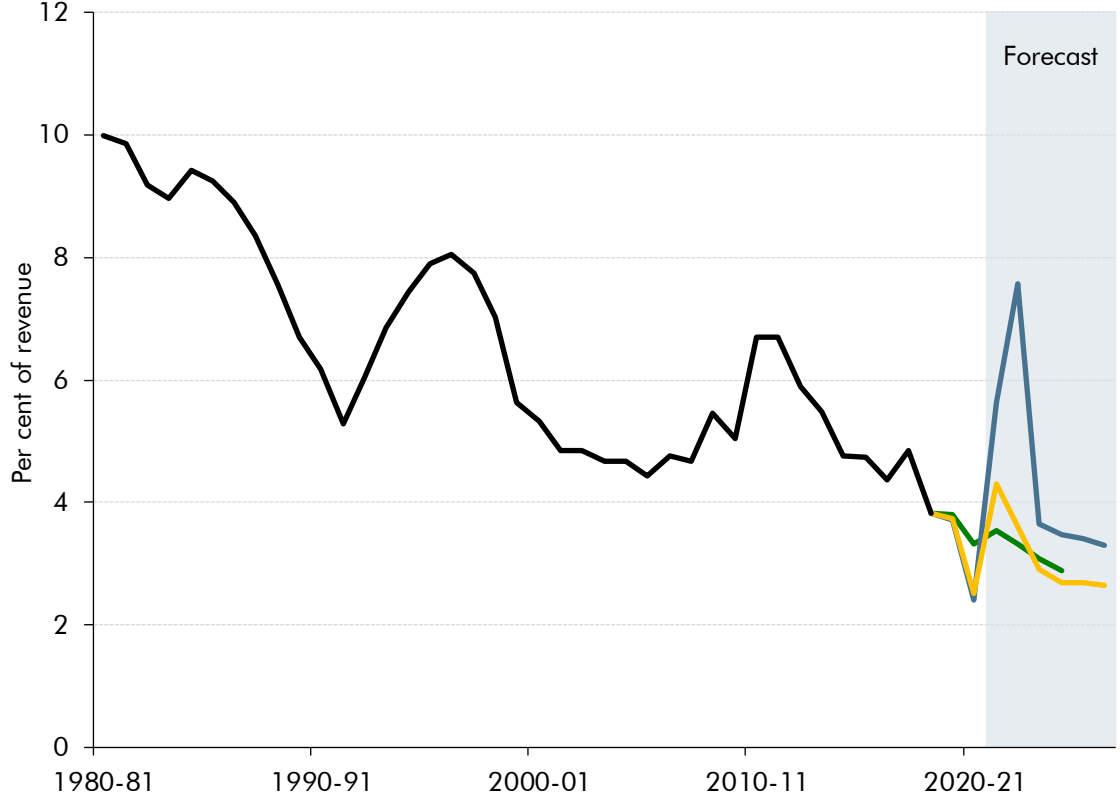
Government debt

Public sector net debt



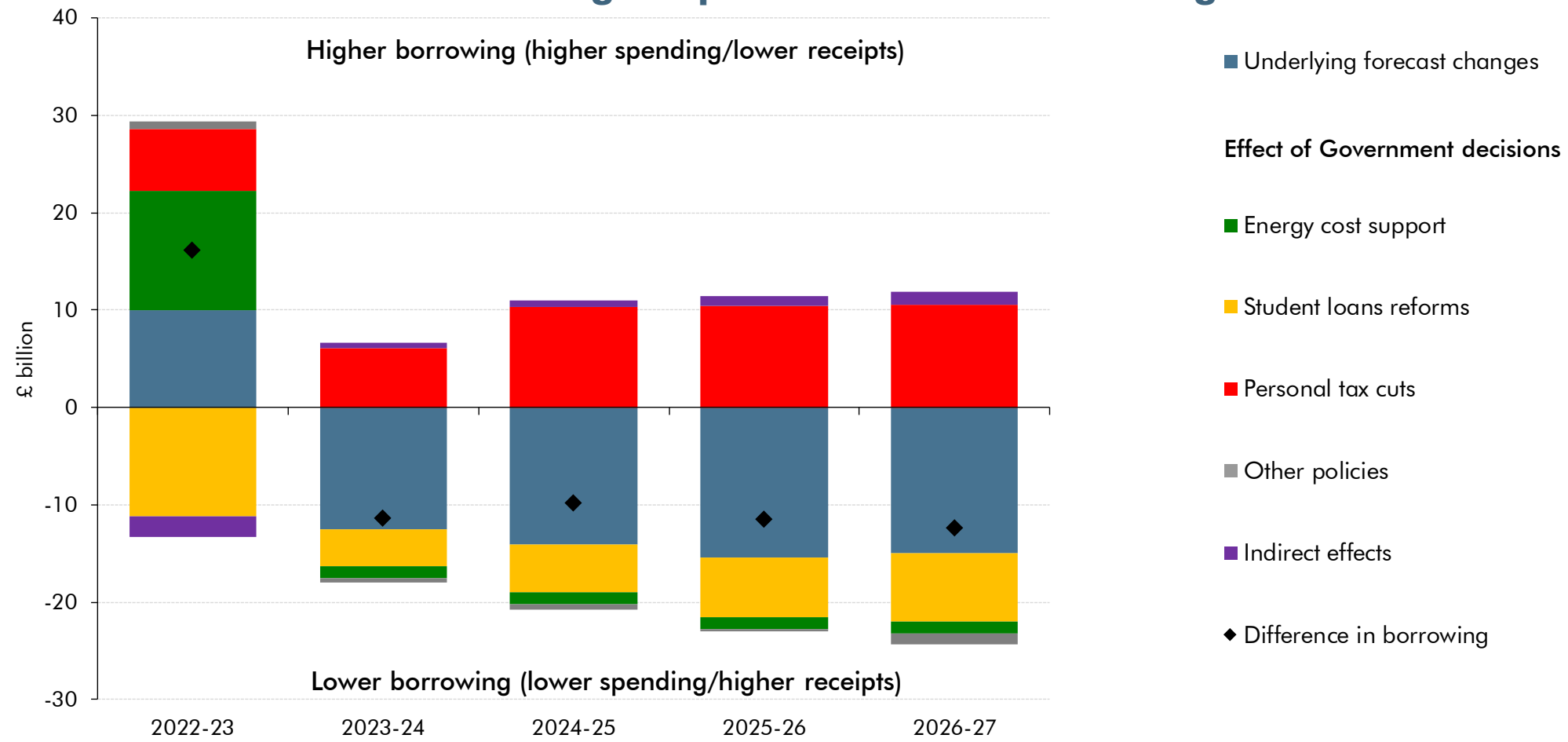
Source: Bank of England, ONS, OBR

Net interest payments



Change in borrowing since October

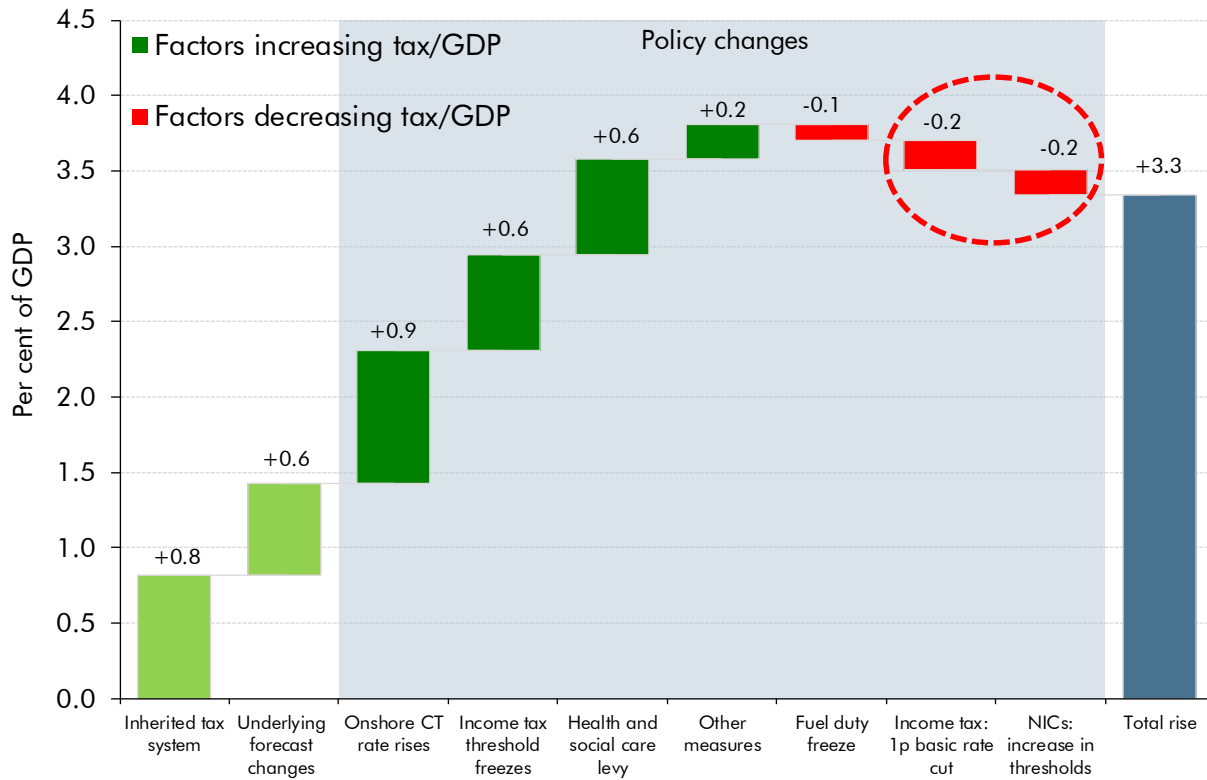
Source of change in public sector net borrowing



Source: ONS, OBR

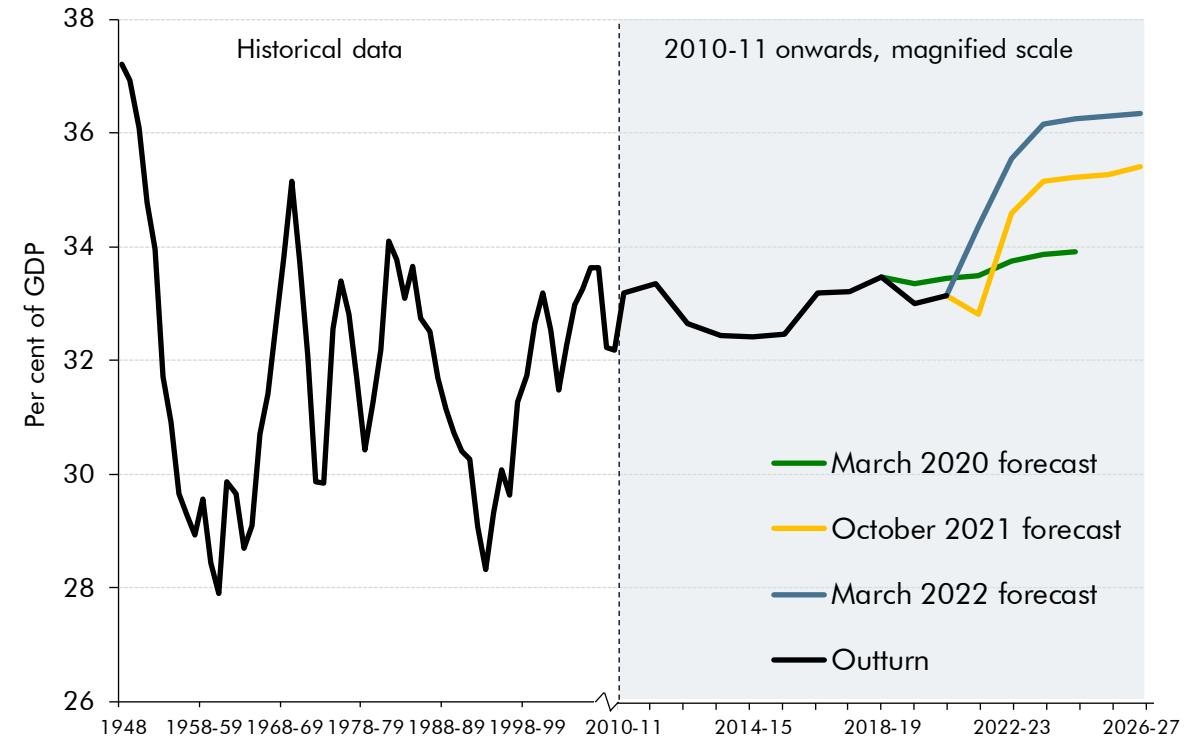
Tax burden

Source of change in tax-to-GDP ratio (2019-20 to 2026-27)



Source: OBR

Tax-to-GDP ratio



Source: ONS, OBR

Fiscal rules

Performance against the Government's fiscal targets

		Headroom	
	Mar 2022	Oct 2021	Mar 2022
Fiscal mandate: underlying debt falls as a % of GDP in 2024-25	✓	£17.5bn	£27.8bn
Supplementary target: balanced current budget by 2024-25	✓	£25.1bn	£31.6bn
Investment cap: net investment no more than 3% on average	✓	£7.3bn	£13.8bn
Welfare cap: spending below specified limit in 2024-25	✓	£2.8bn	£5.3bn

Risks to the outlook

Contextual risks

- Longer war in Ukraine
- Tougher sanctions on Russia
- Wider geopolitical risks
- Vaccine-escaping Covid variant
- Rising interest rates

Policy risks

- RPI+5 indexation of fuel duty
- Lag in uprating of welfare benefits
- Erosion of real dept'l spending
- Pressure on defence budget
- More tax cuts

Conclusion

- UK public finances emerged from pandemic stronger than expected
- Russian invasion of Ukraine to slow global GDP growth by 0.5% in 2022
- Higher energy prices push UK inflation to 8.7% & cut GDP growth from 6.0 to 3.8%
- 2.2% fall in living standards over next 12 months would be biggest in any FY
- Spring Statement offsets 1/3rd of decline in living standards in 2022-23
- IT and NICs cuts reverse 1/6th of rise in tax burden by mid-2020s
- Fiscal headroom up £10 bn to £30bn but global and domestic risks are legion

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Thank you for listening

**Slides and speaking notes are available on our website
www.obr.uk**

**Please email us with any further questions
OBR.Enquiries@obr.uk**