

Office for  
**Budget  
Responsibility**

## **Economic and fiscal outlook: Budget 2018**

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**Robert Chote**  
Chairman

29 October 2018

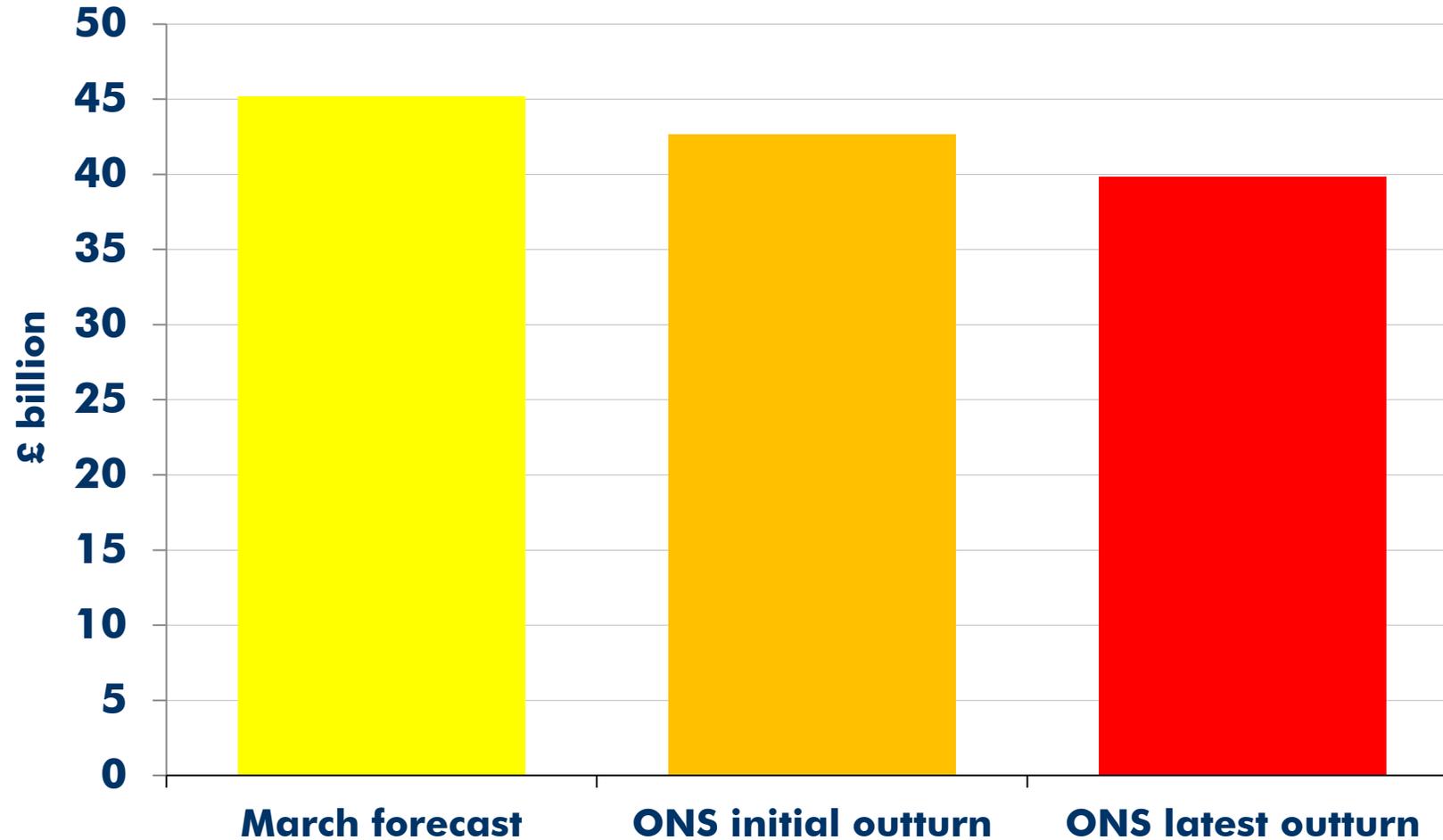
# Coverage and process

- **Five year forecasts, plus progress against targets**
- **Independent BRC responsible for conclusions**
- **Pre-scorecard forecast sent to Chancellor on 15 October**
- **No pressure, but an unusually challenging forecast process**
  - Repeated failures to stick to agreed timetable
  - Not possible to certify cost of Universal Credit package

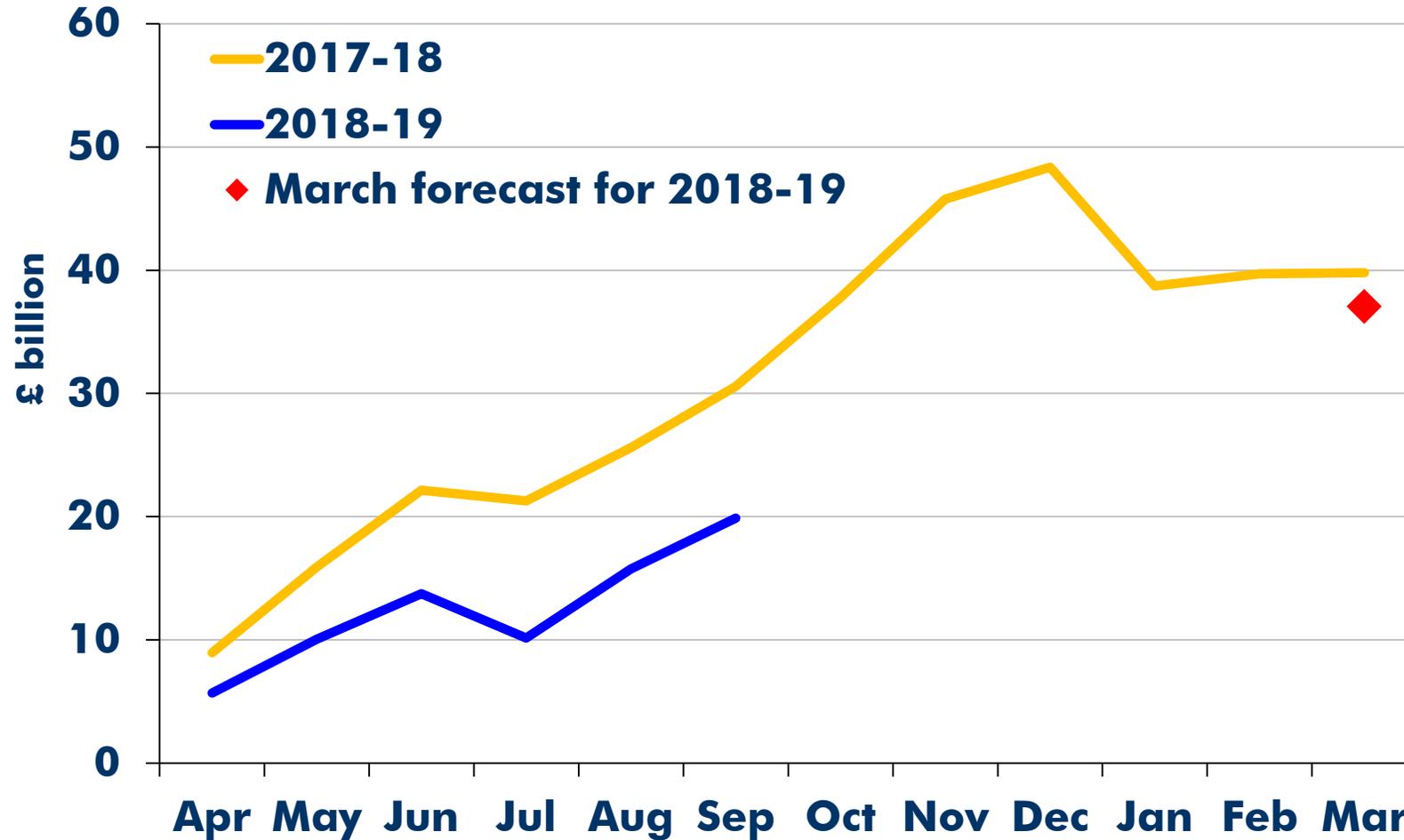
# Key points

- **Underlying outlook for public finances improved**
  - Last year's budget deficit revised down
  - Bigger improvement in H1 this year than expected
  - Real GDP growth over forecast revised higher
  - Sufficient to put Government on course for budget surplus
- **But windfall spent rather than saved**
  - Most swallowed up by June NHS settlement
  - Other Budget measures move from giveaway to tiny takeaway
  - Deficit little different from March overall by 2022-23
  - Mandate margin unchanged, but not on course for budget balance
- **We assume an orderly departure from the EU next March**

# The budget deficit: 2017-18



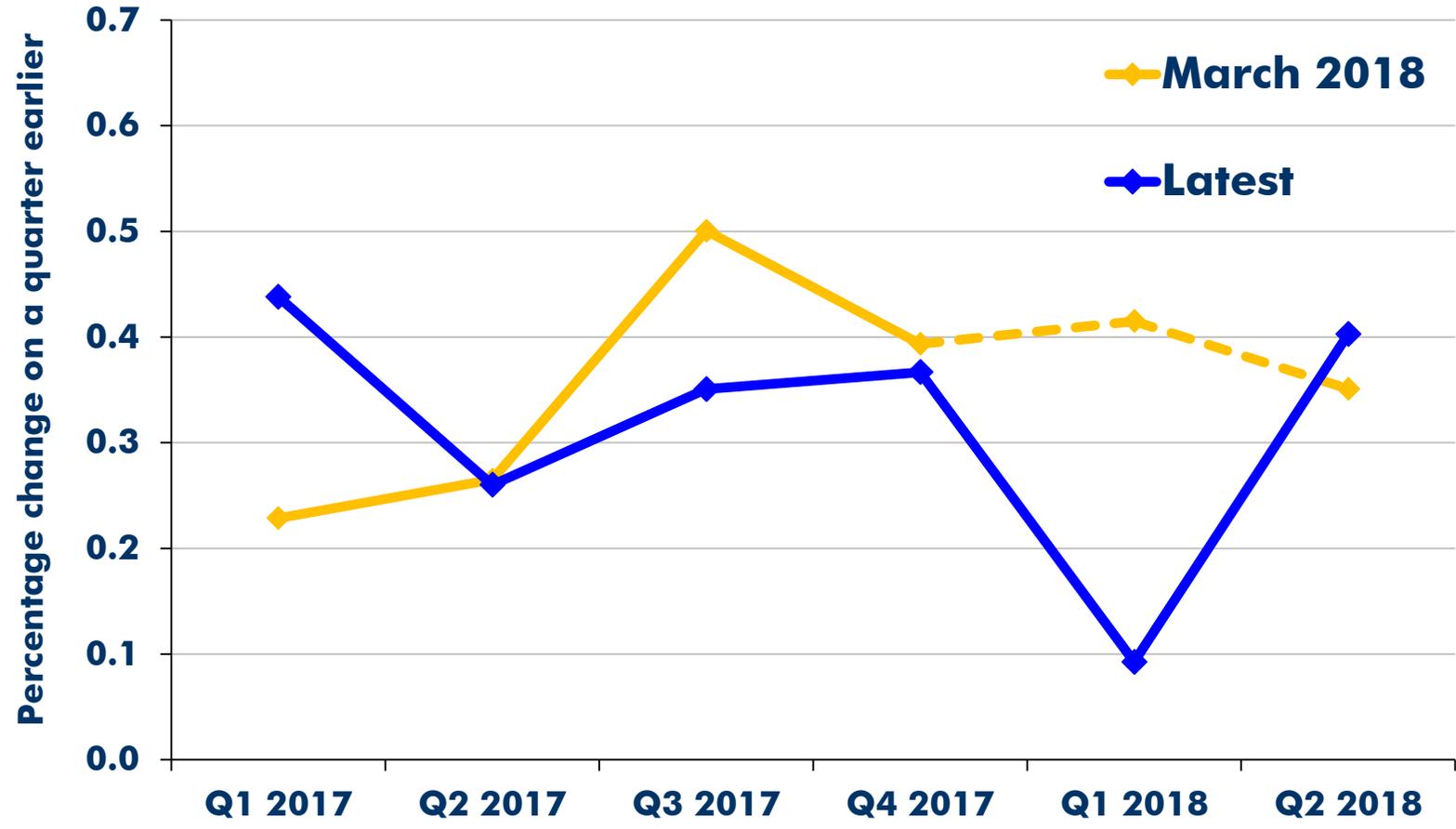
# The budget deficit: 2018-19 vs 2017-18



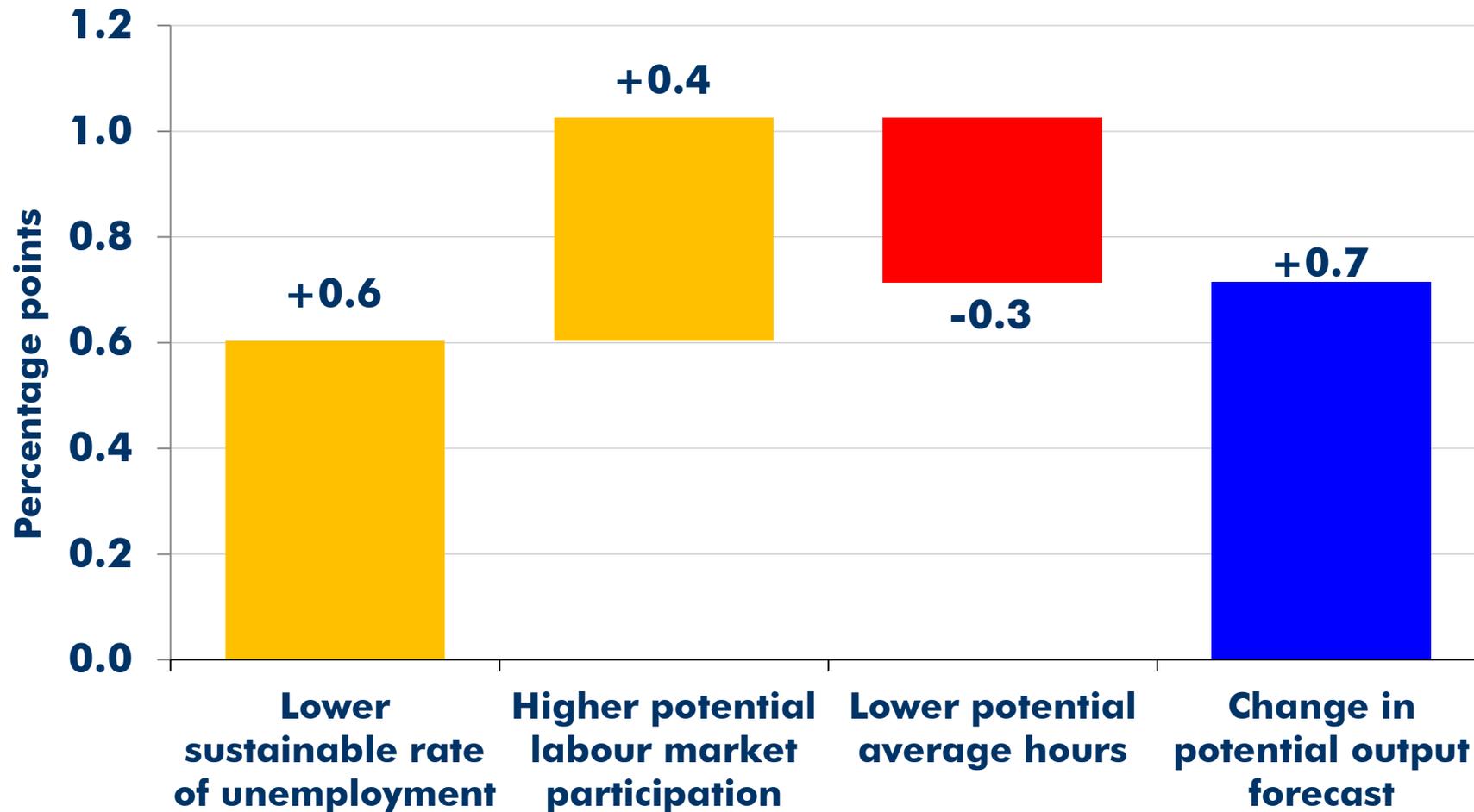
# The budget deficit: 2018-19 pre-measures

	£ billion
<b>March (restated)</b>	<b>36.2</b>
<b>October pre-measures</b>	<b>24.3</b>
<b>Change</b>	<b>-11.9</b>
<i>Of which:</i>	
Income tax and NICs	-2.2
Corporation tax	-2.7
VAT	-1.8
Other taxes	-0.8
Departmental spending	-0.2
Welfare	-1.3
Debt-interest	-1.9
Local authority current spending	-1.4
Other spending	+0.4

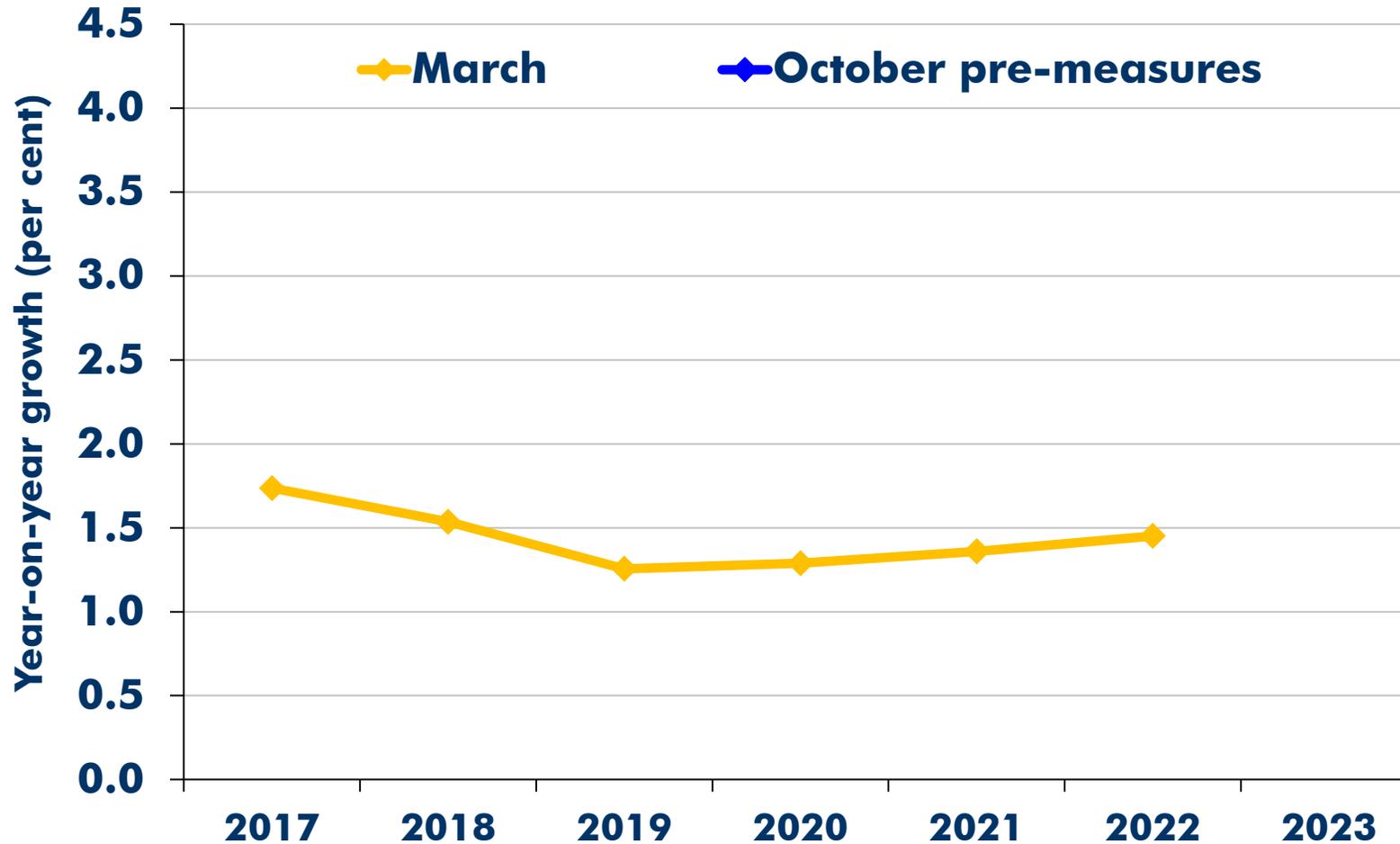
# GDP growth



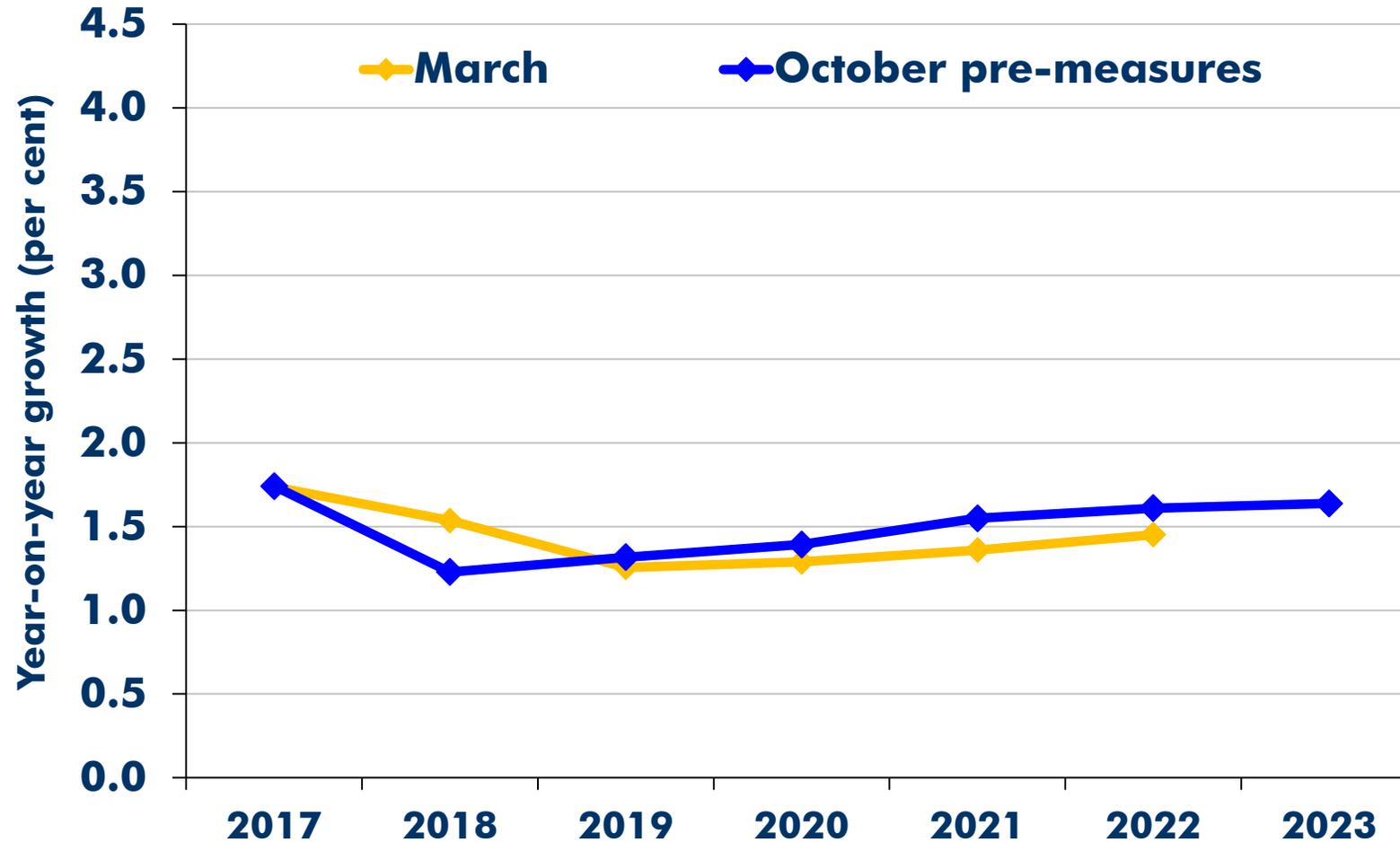
# Potential output: 2018-19 to 2022-23



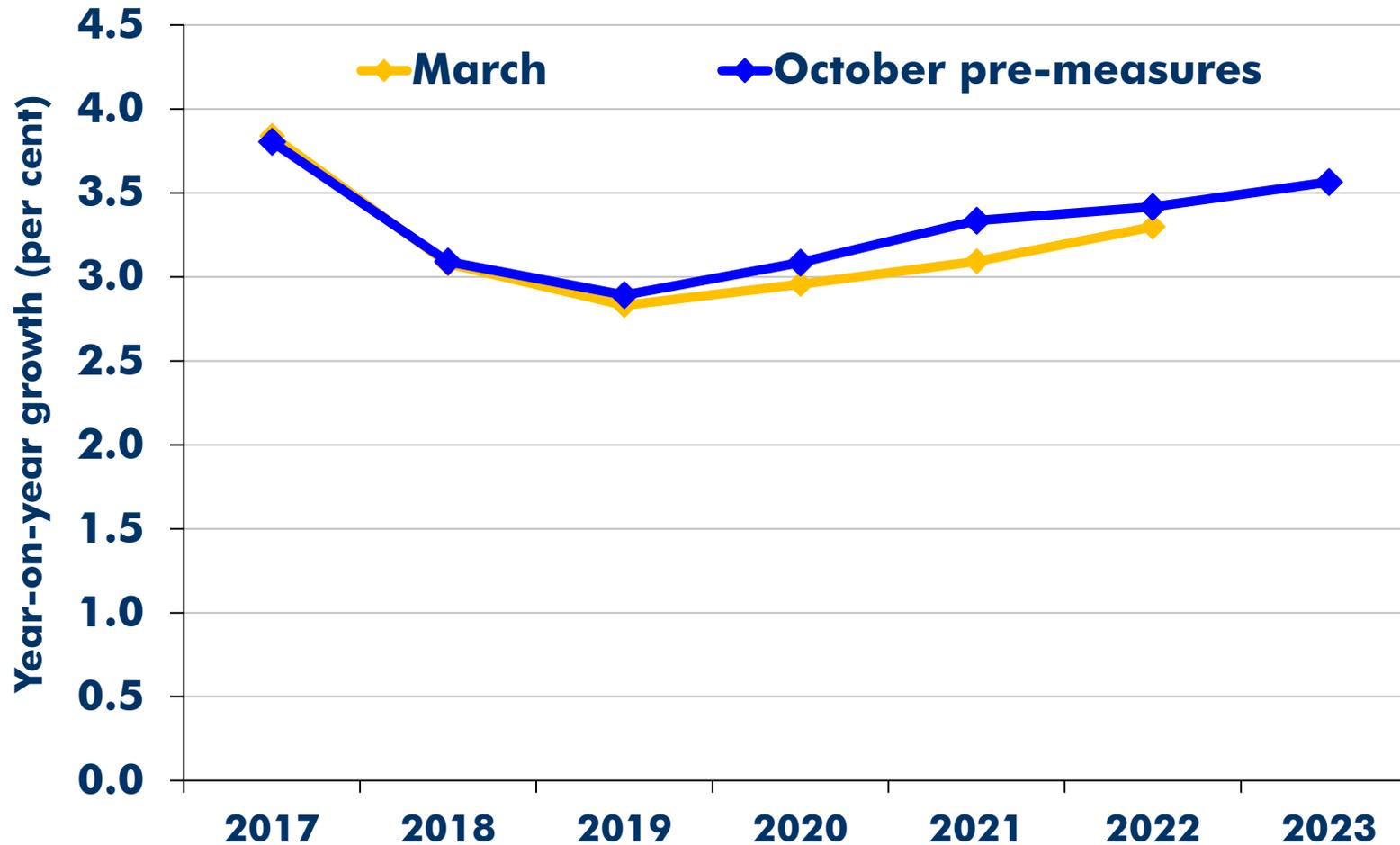
# Real GDP growth: pre-measures



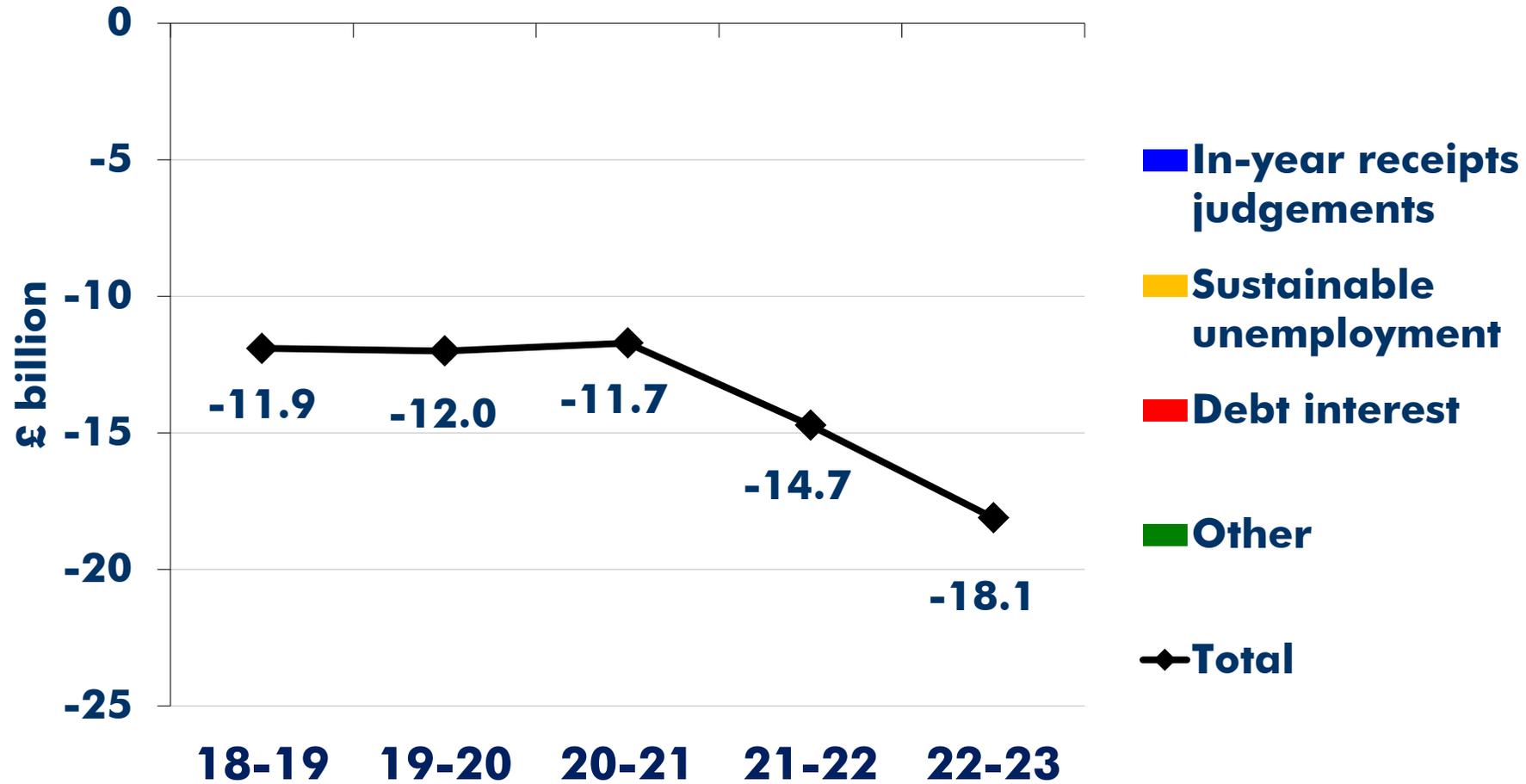
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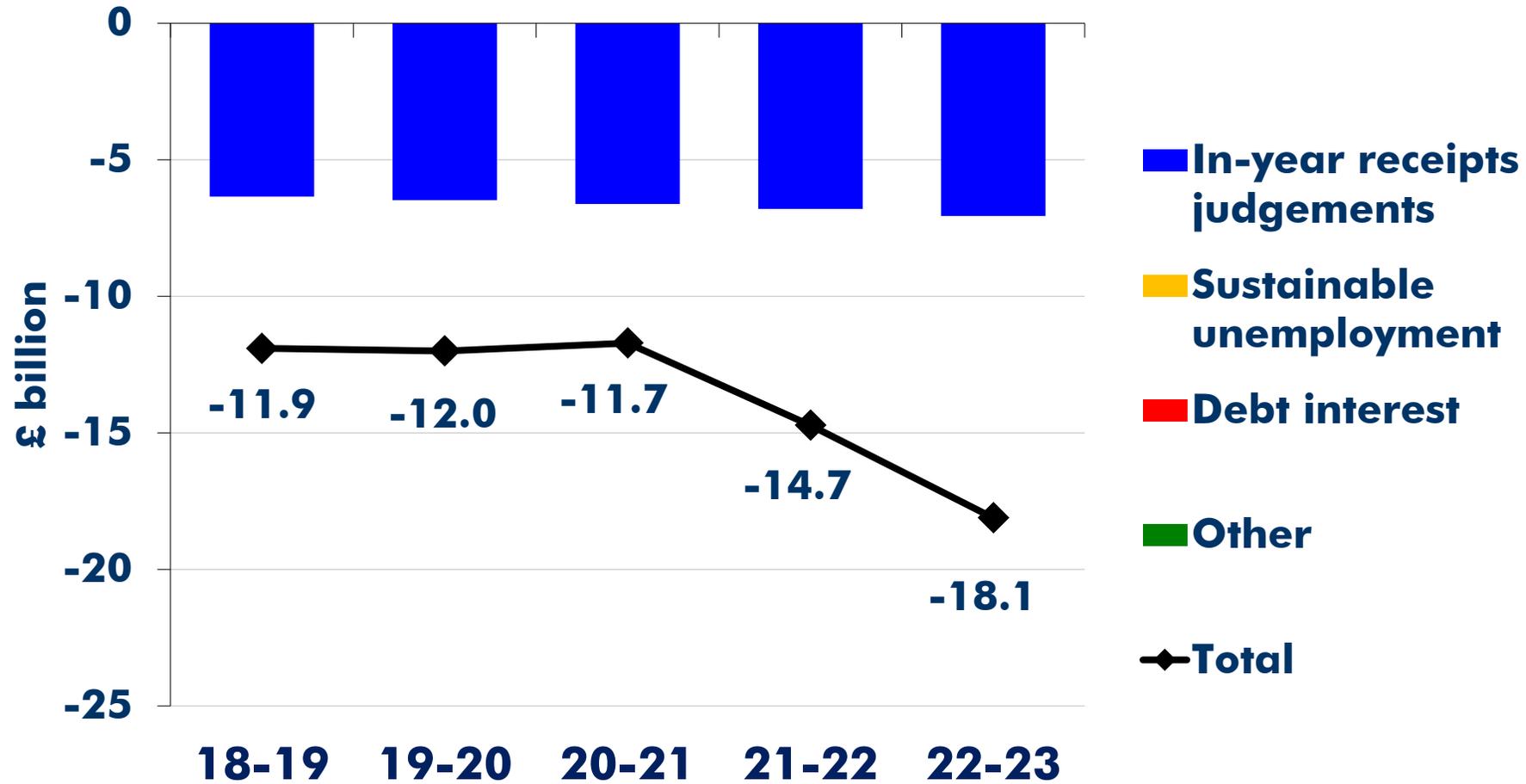
# Nominal GDP growth: pre-measures



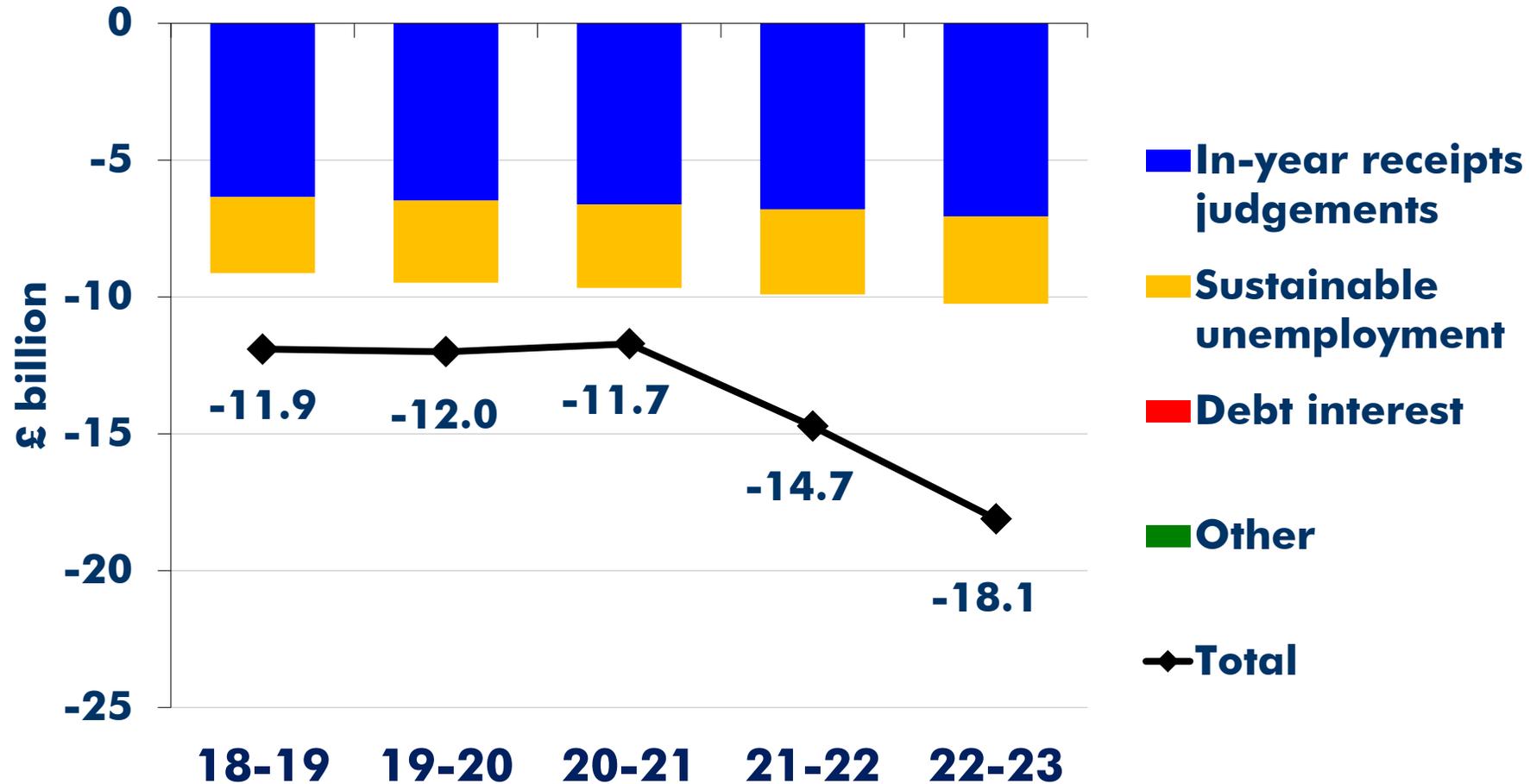
# Net borrowing: underlying forecast revisions



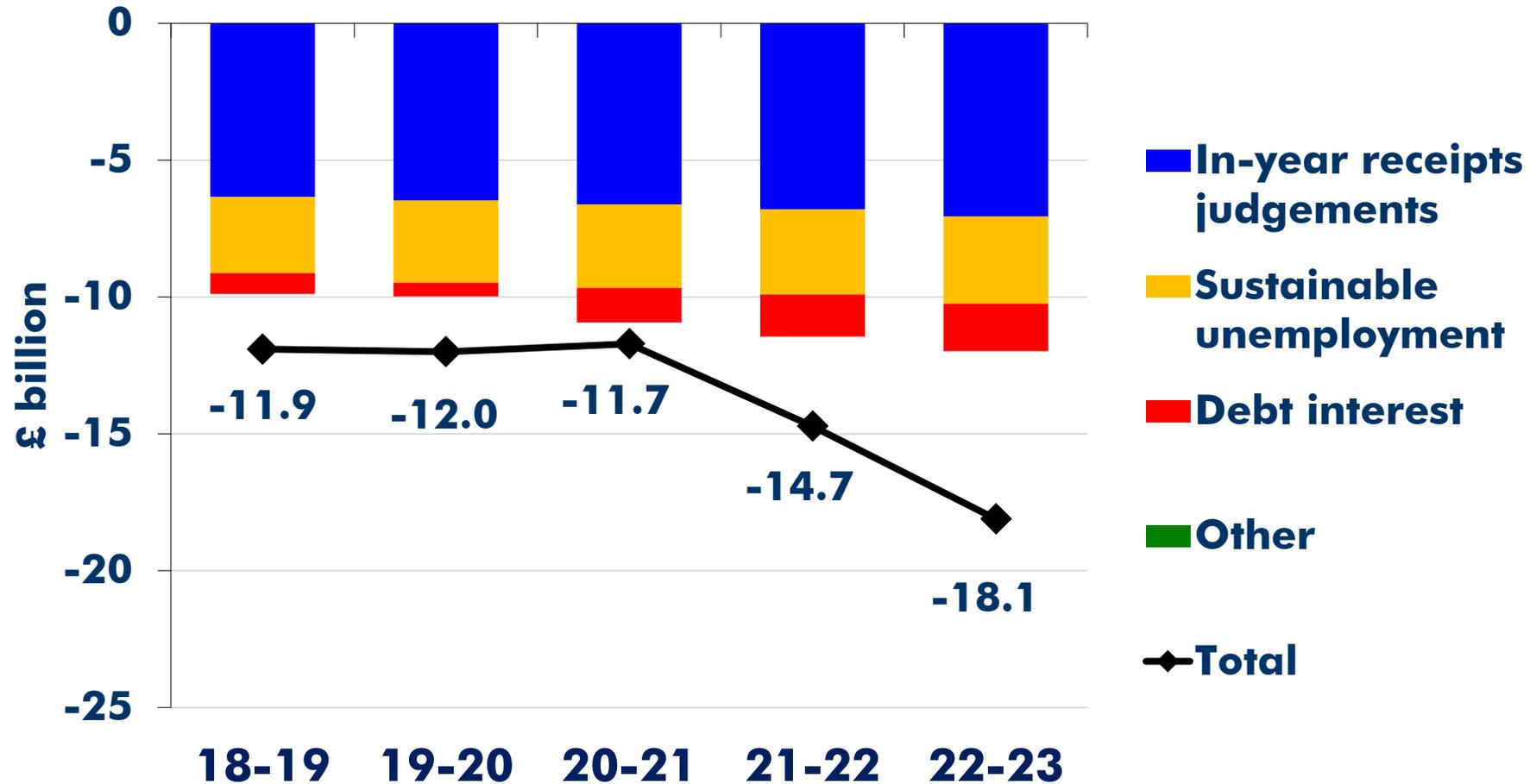
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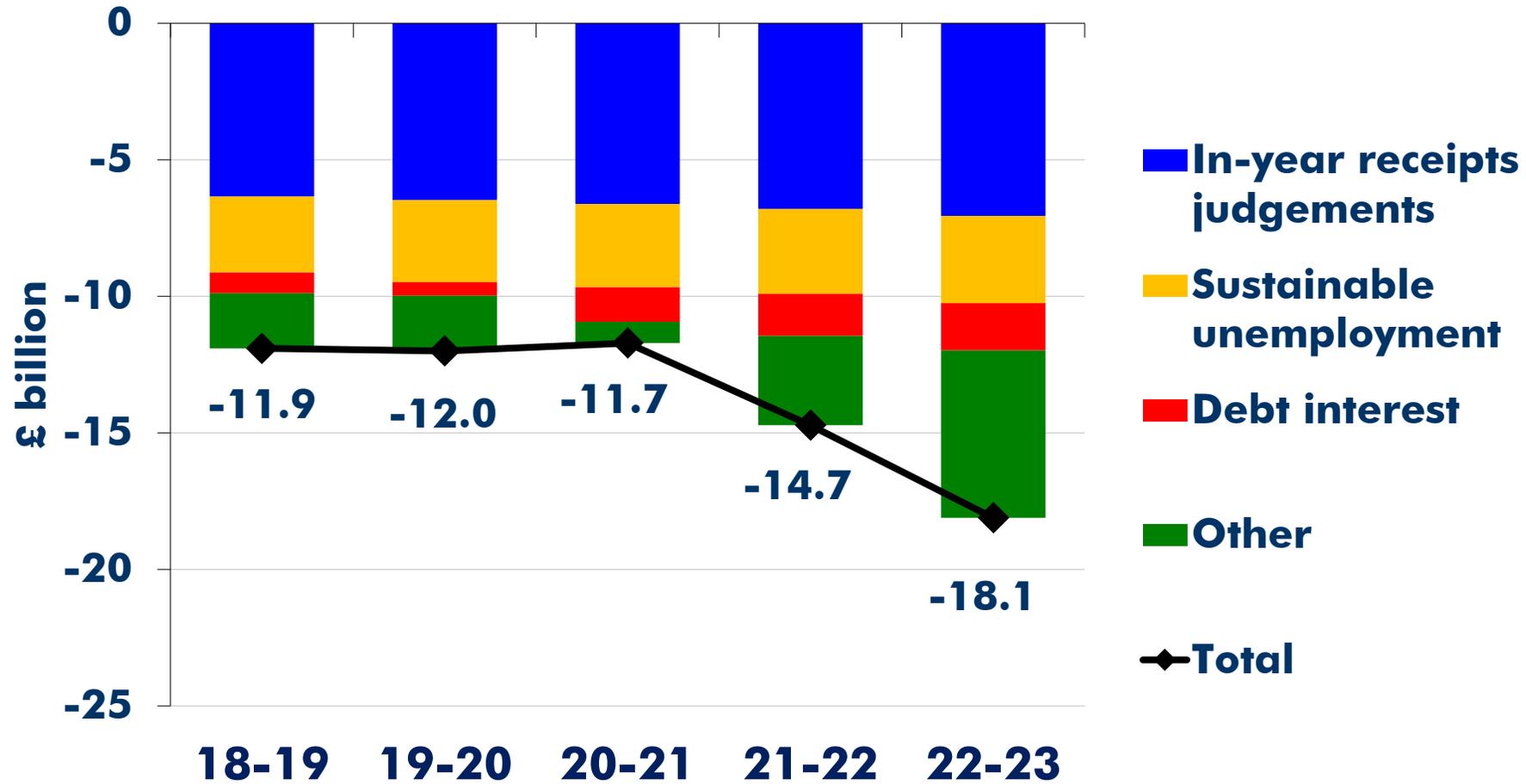
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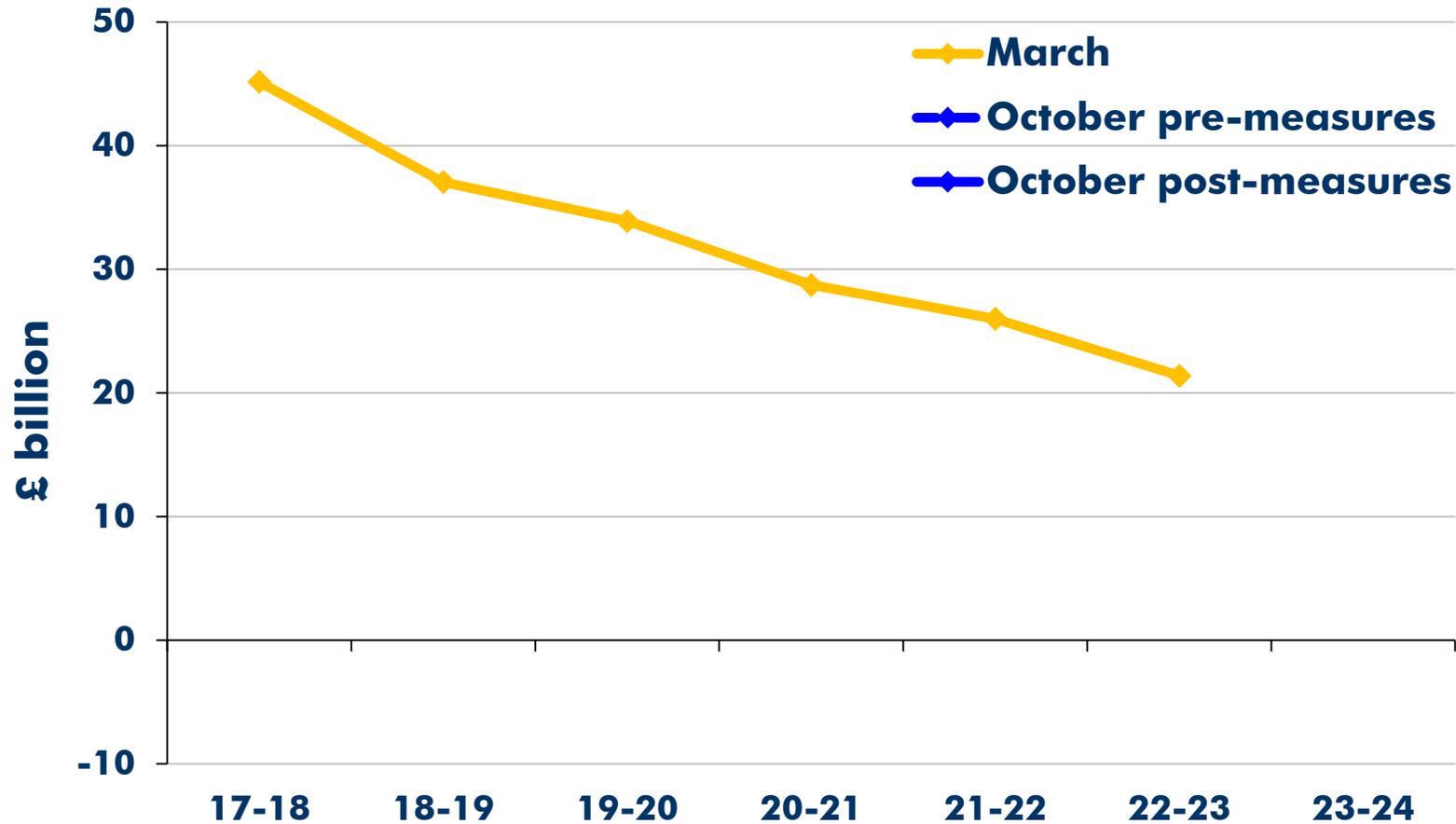
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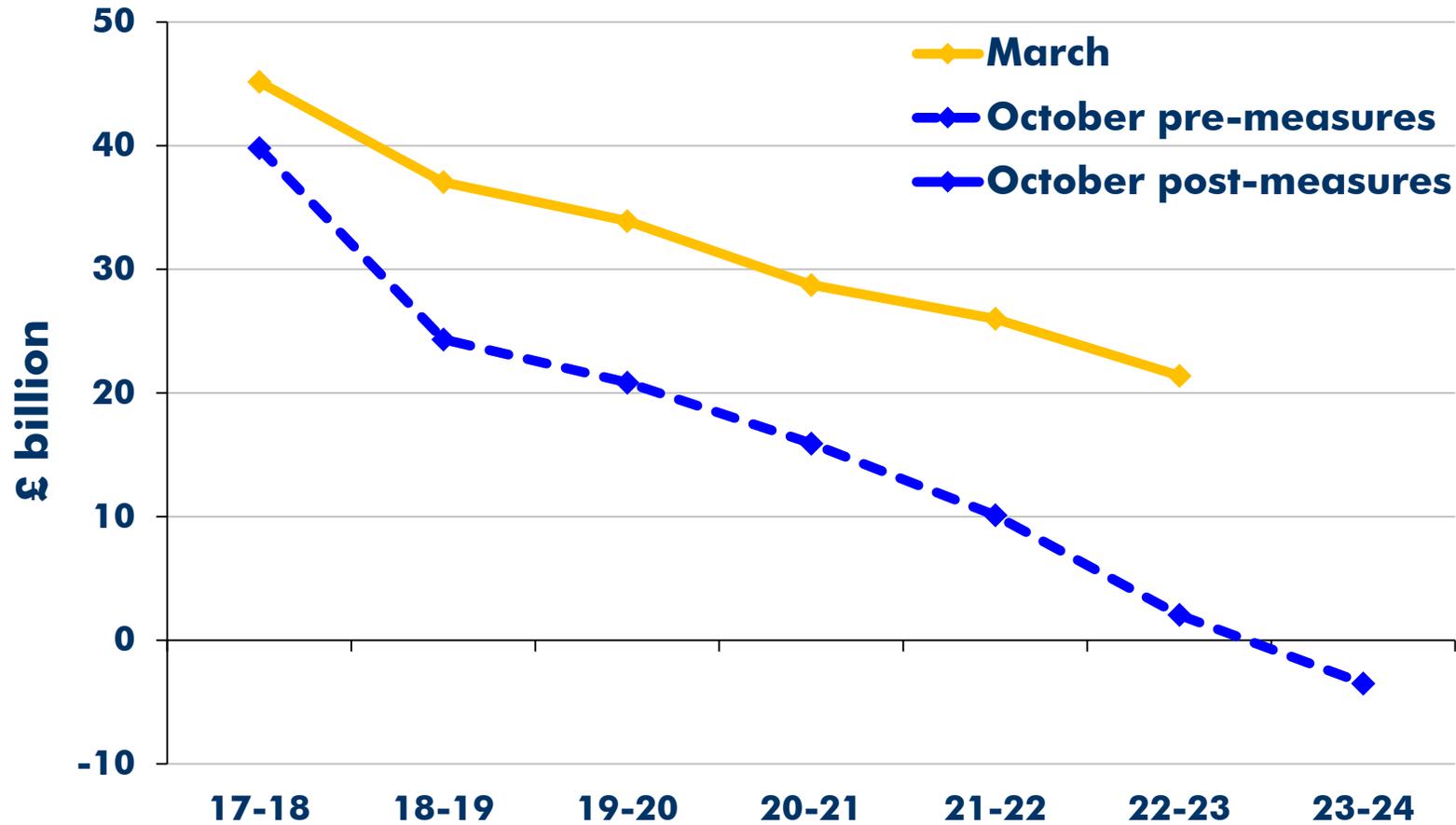
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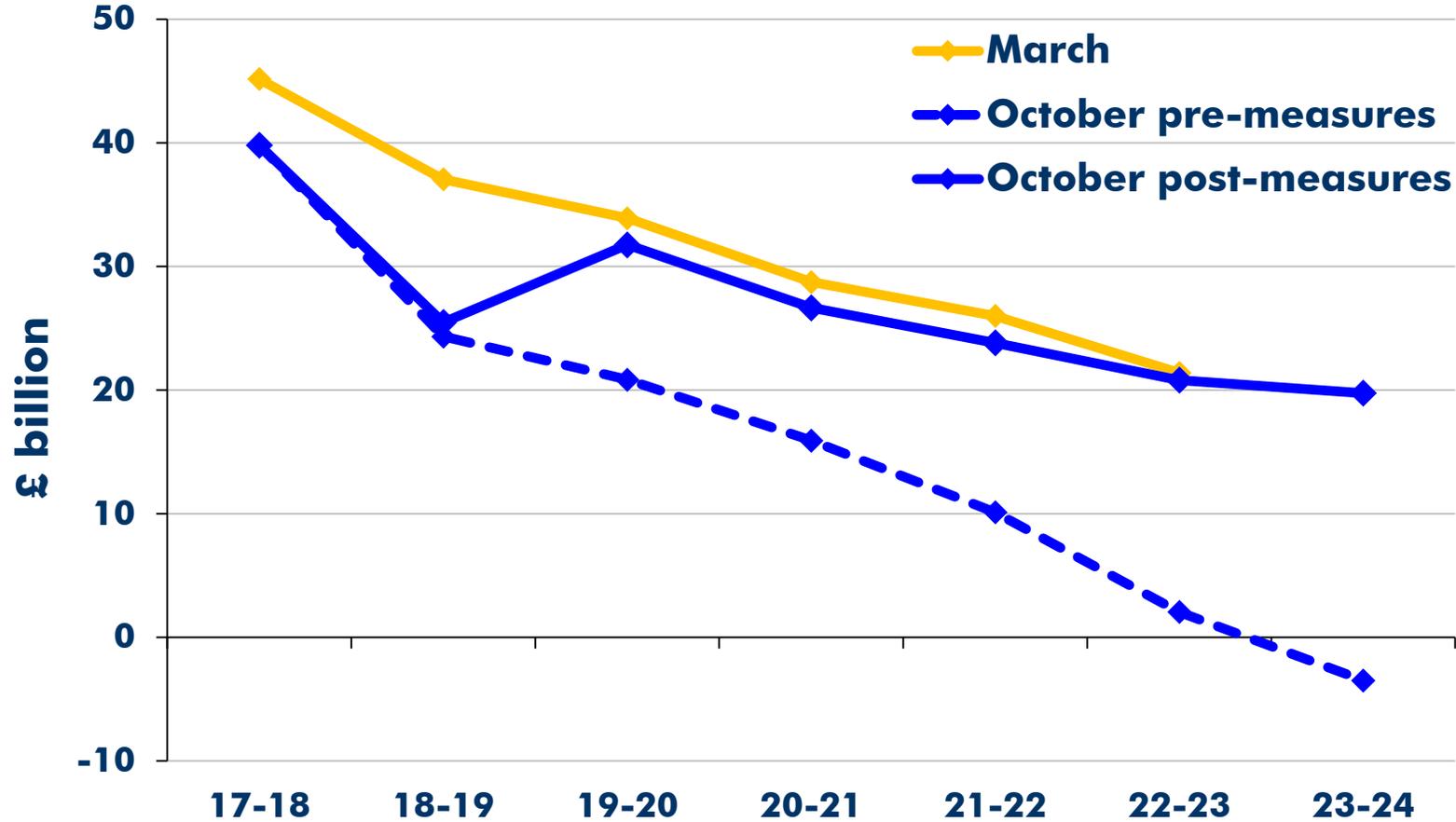
# Net borrowing: forecast plus measures



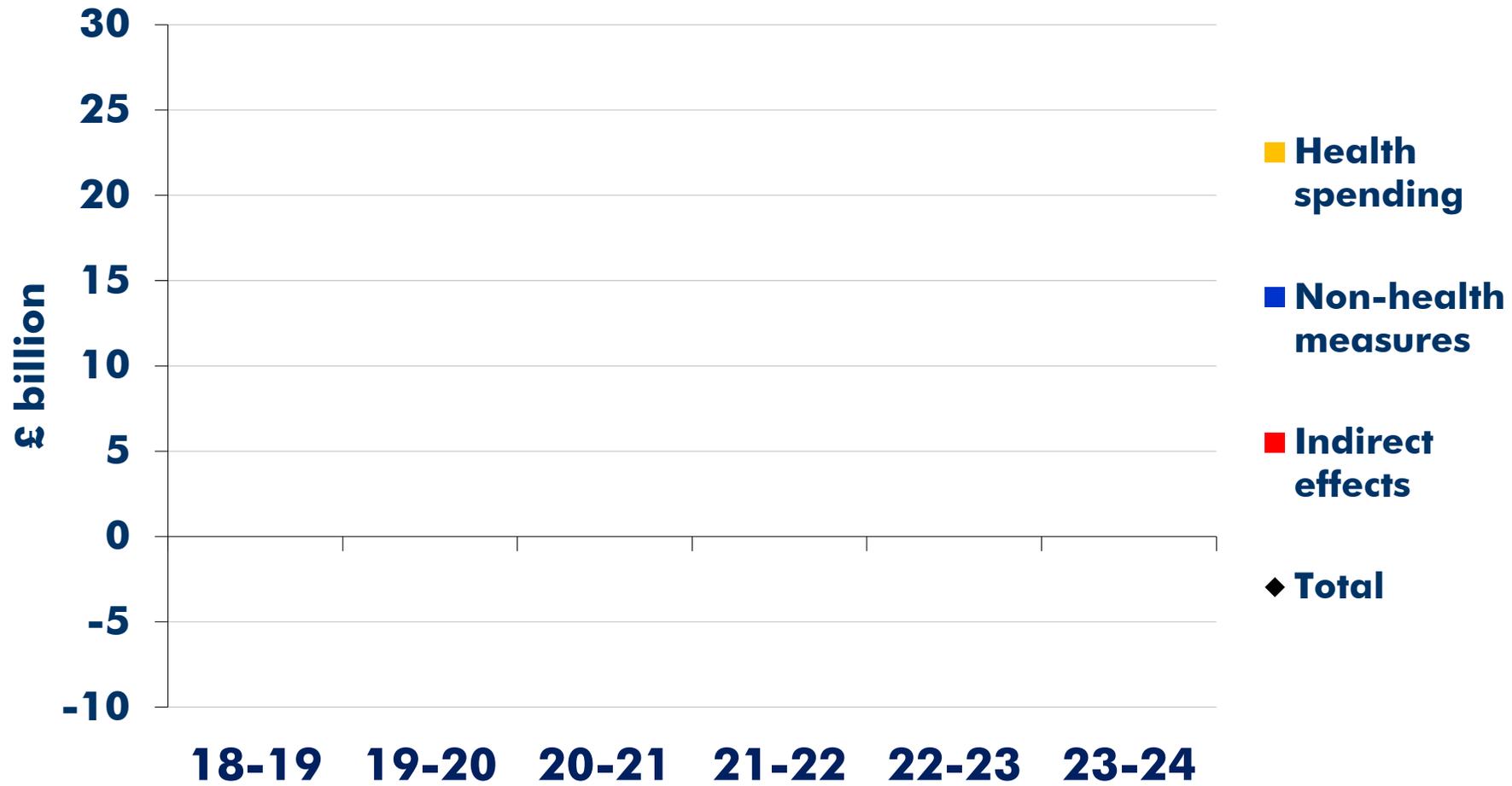
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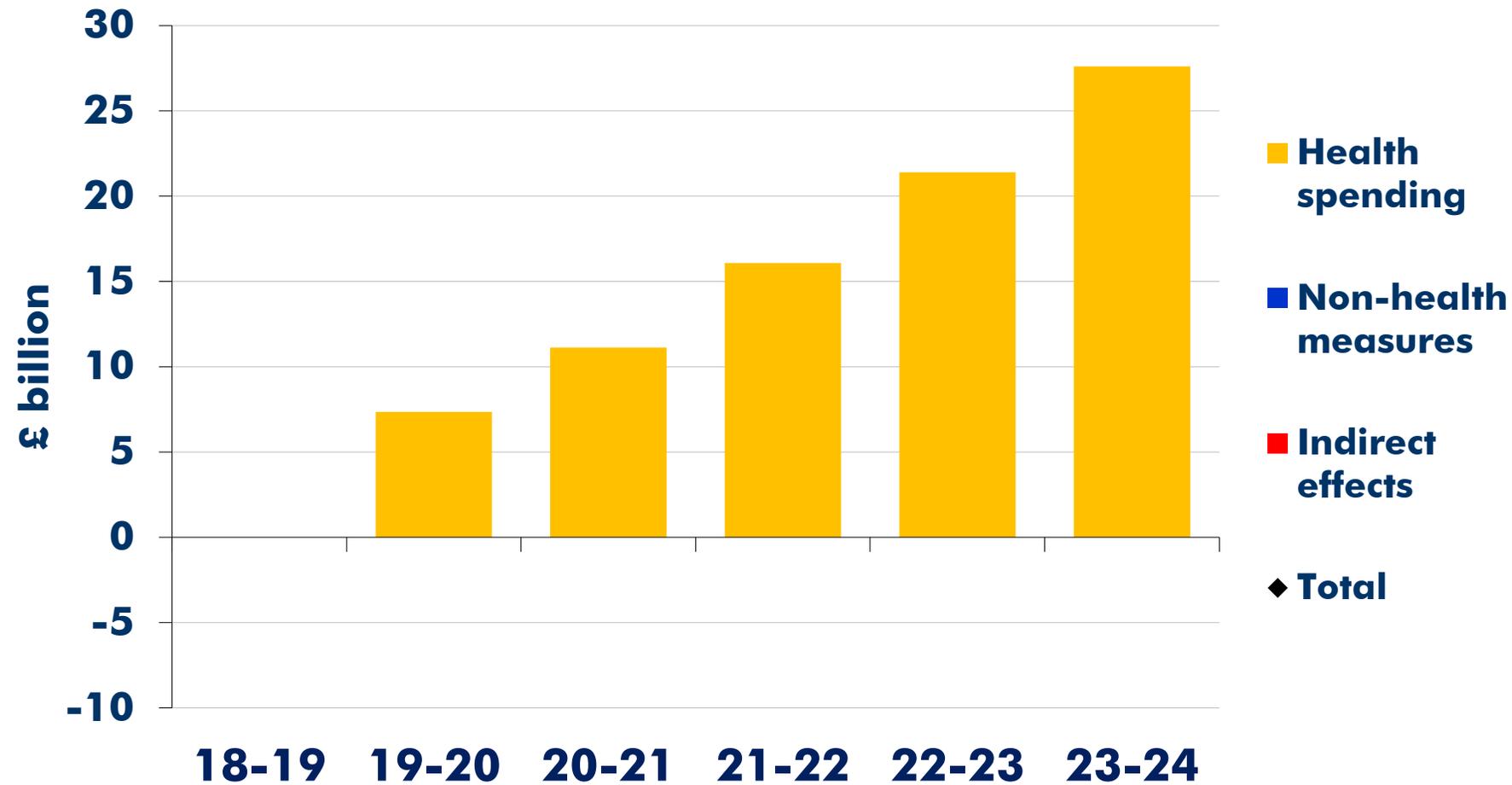
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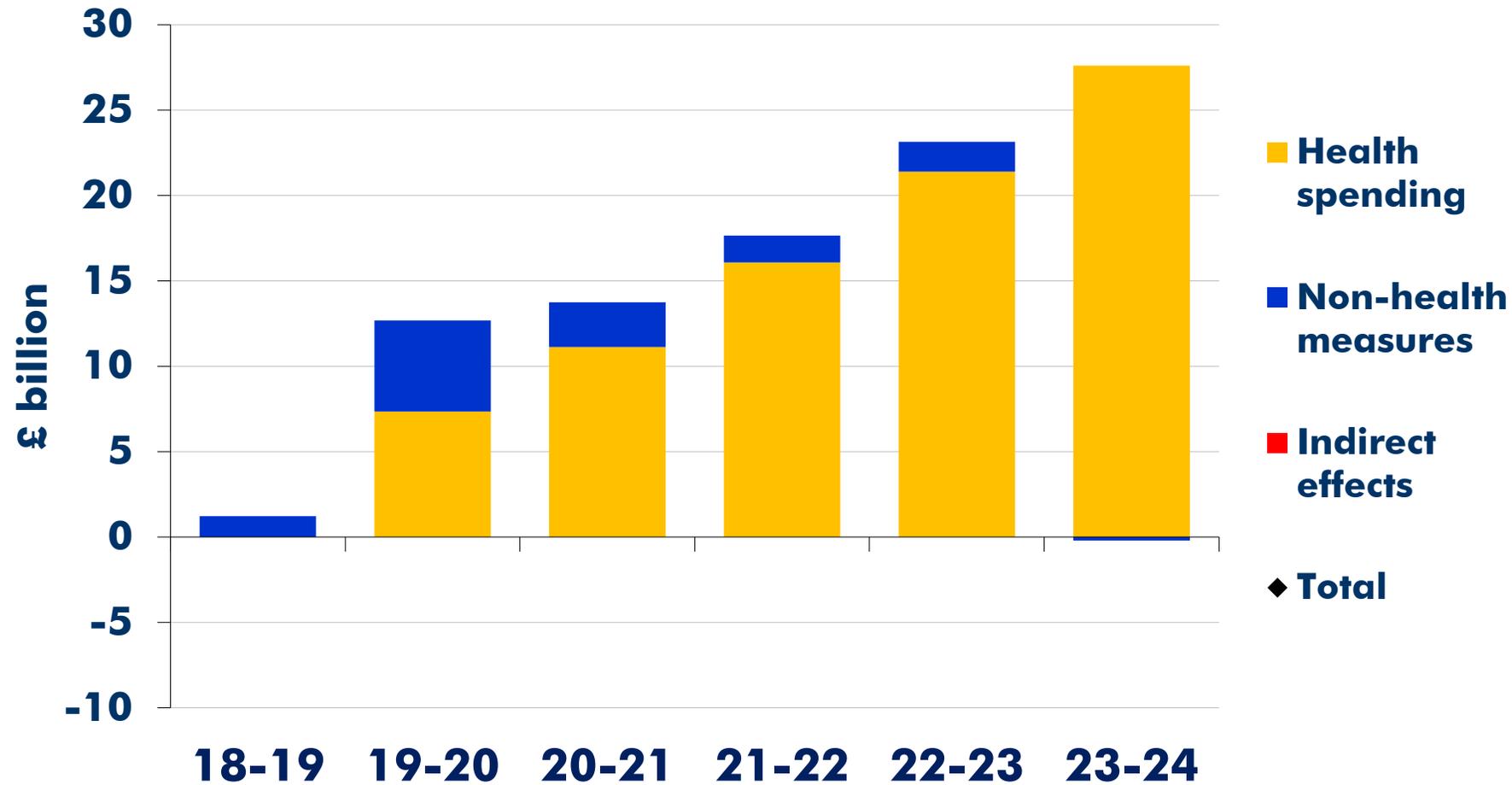
# Impact of policy measures



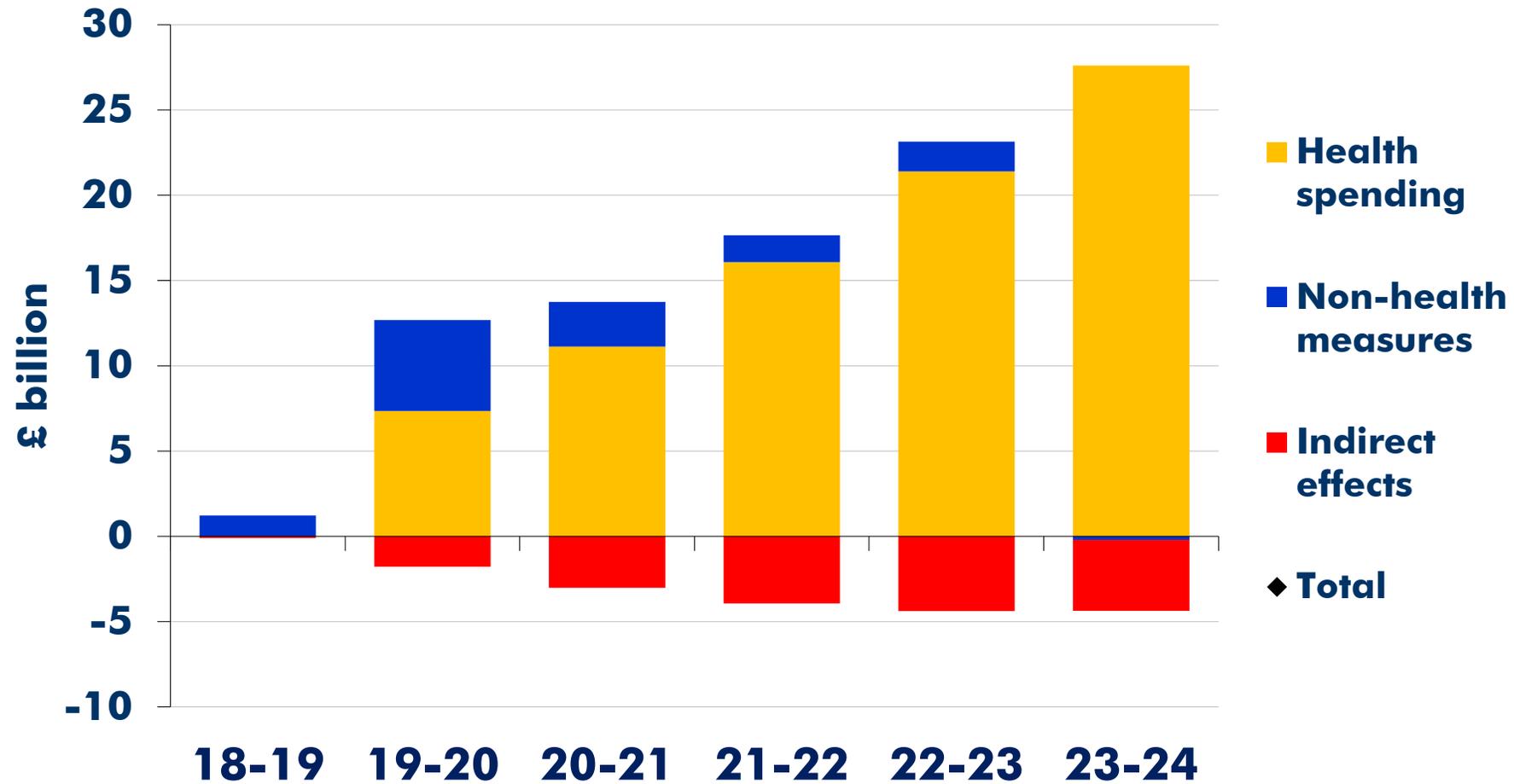
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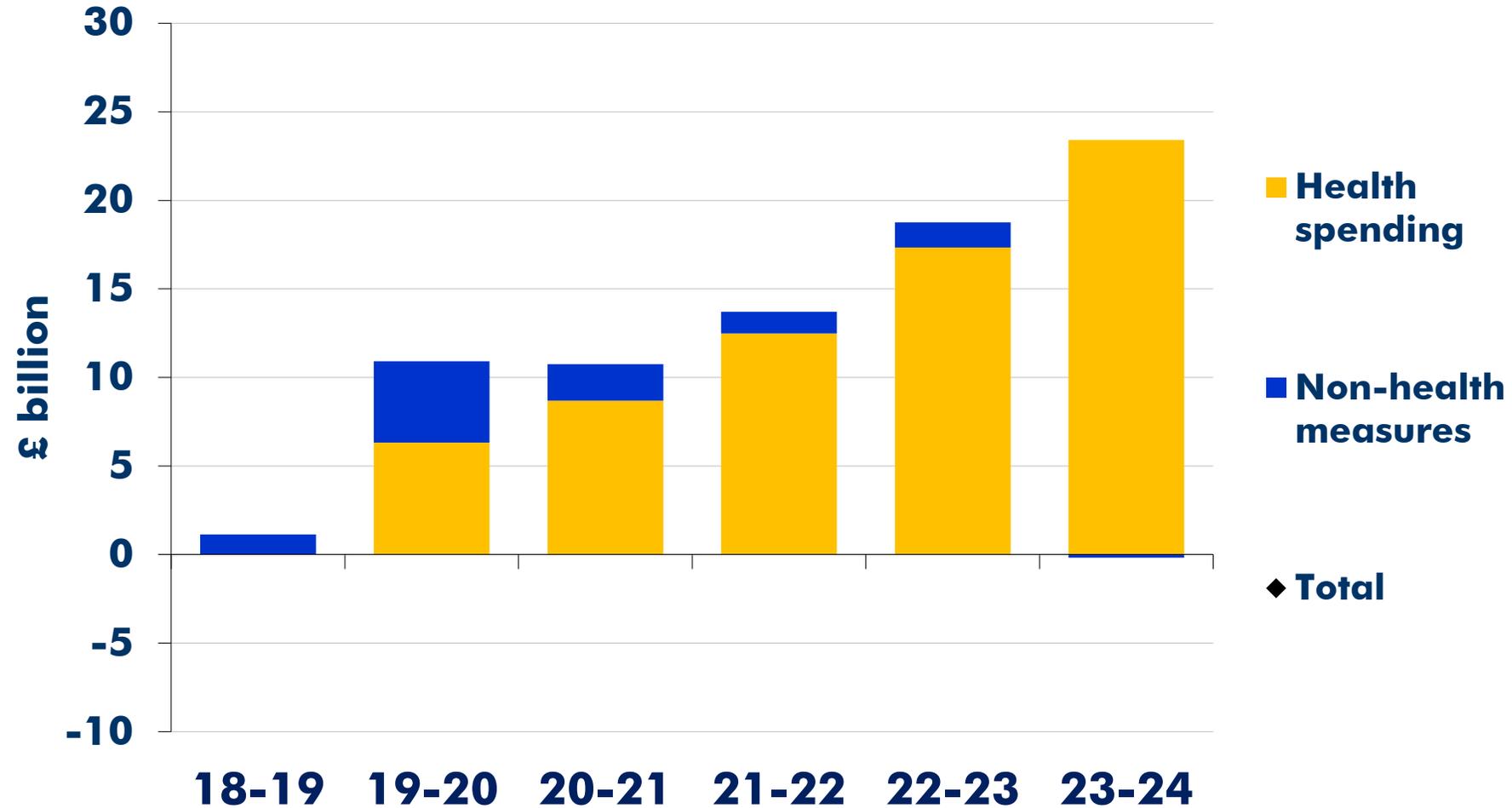
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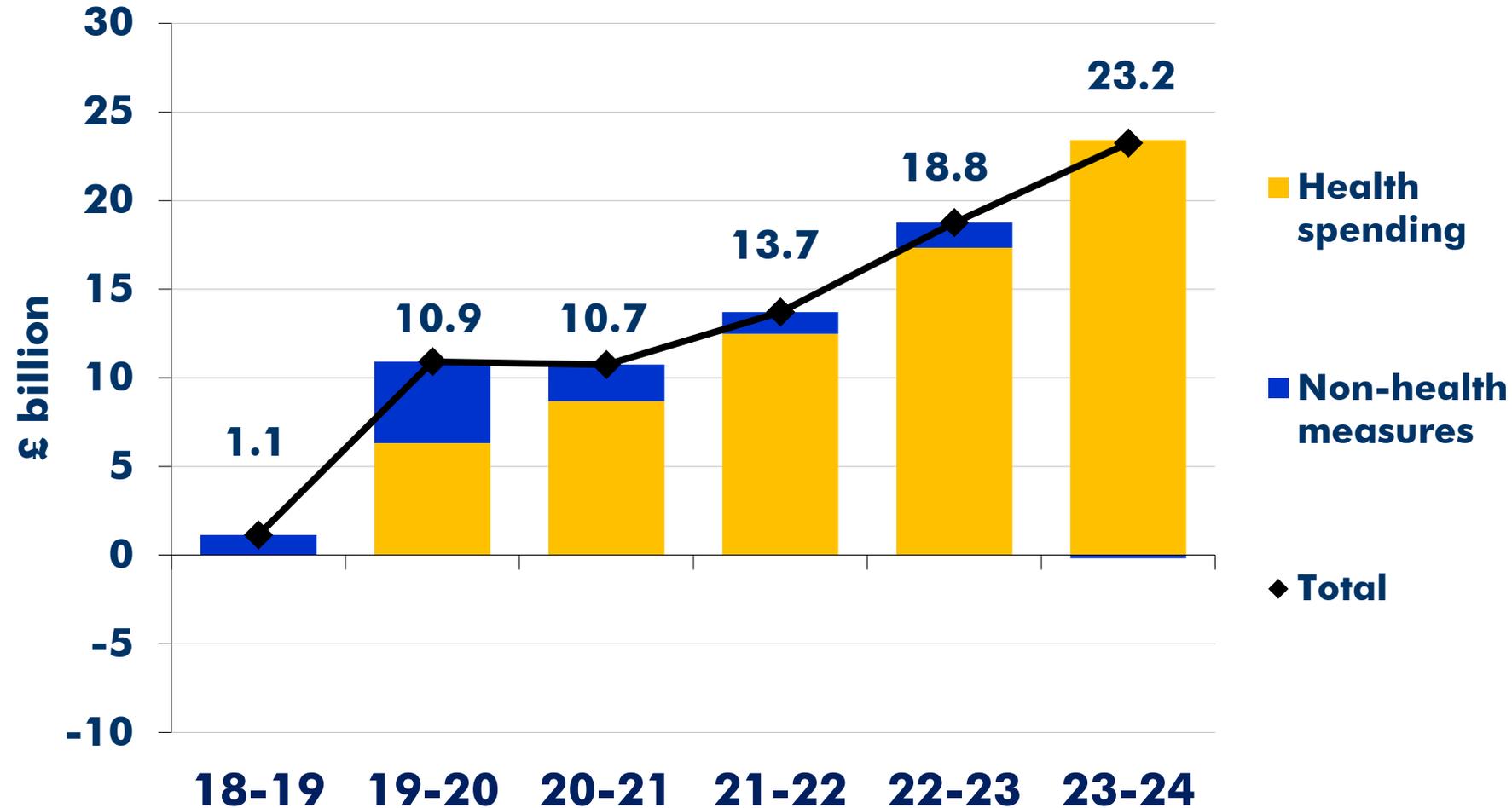
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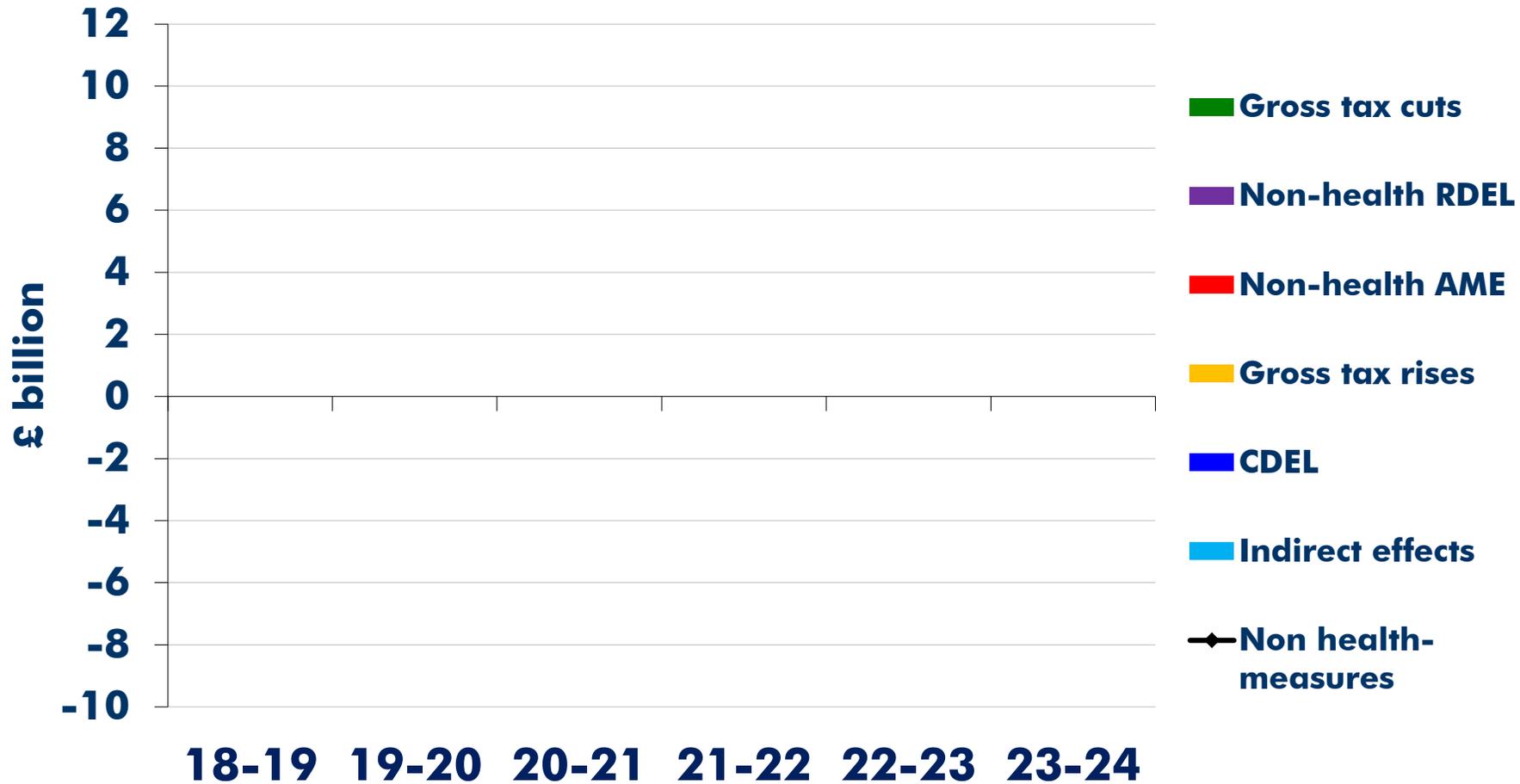
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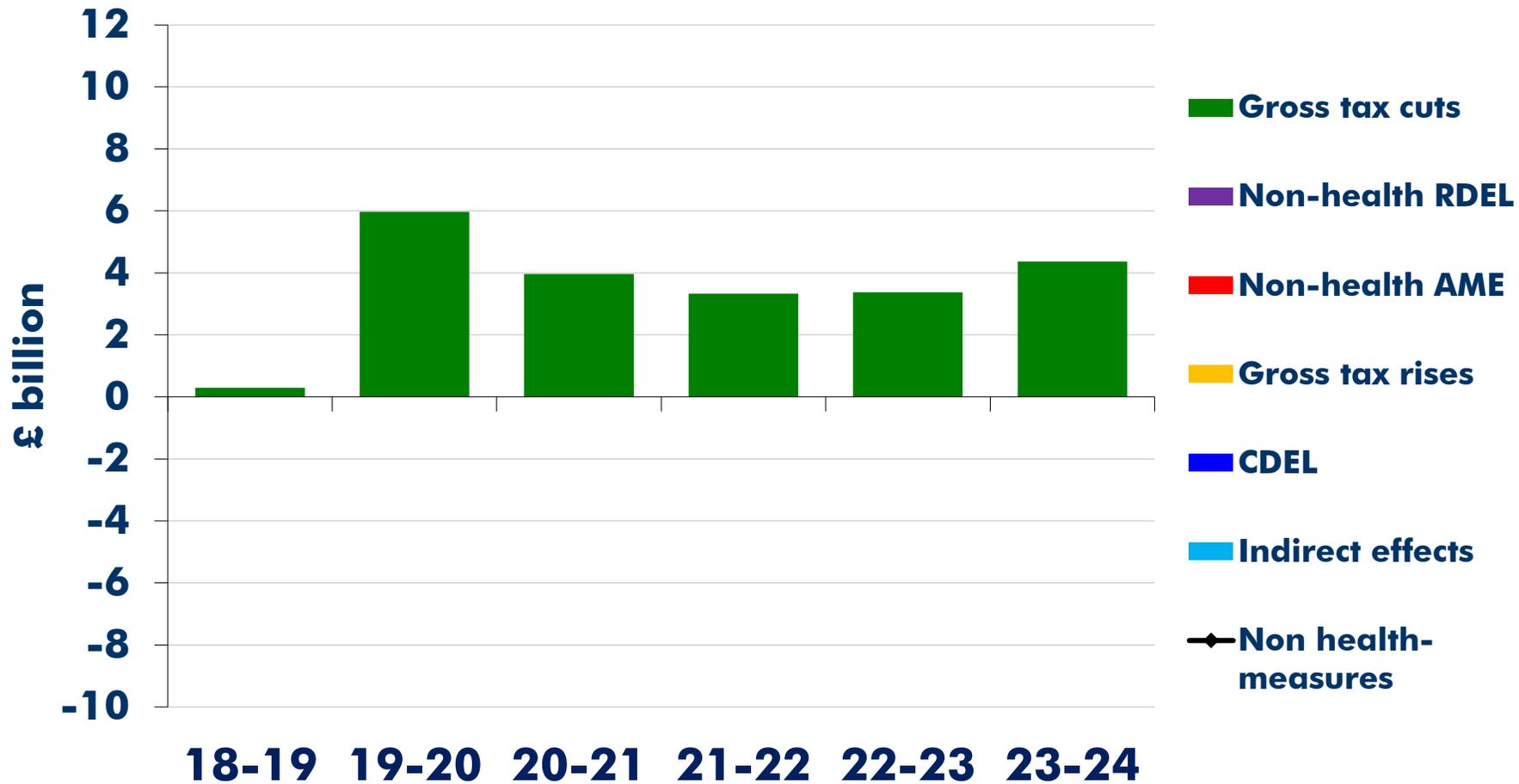
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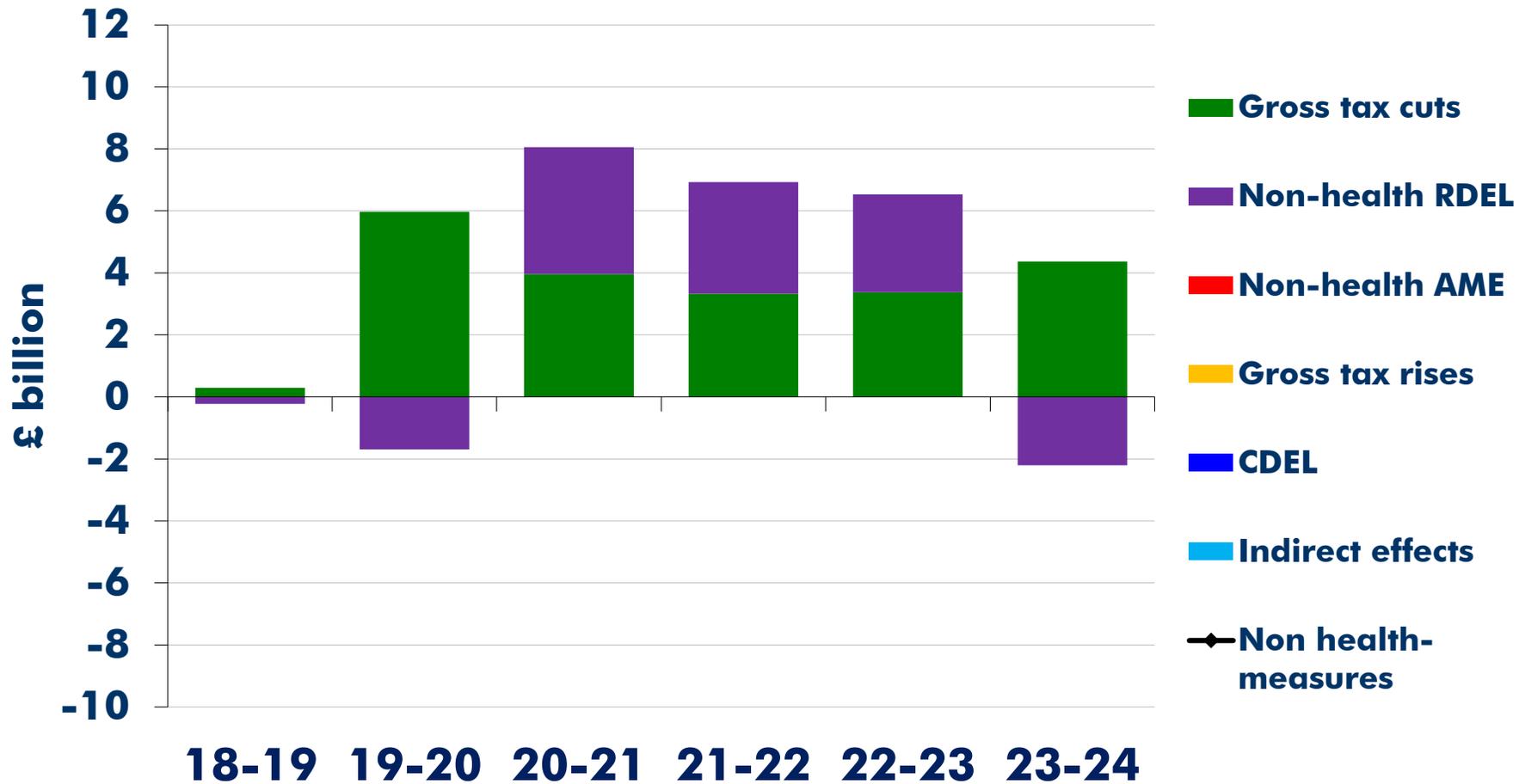
# Impact of policy measures: non-health



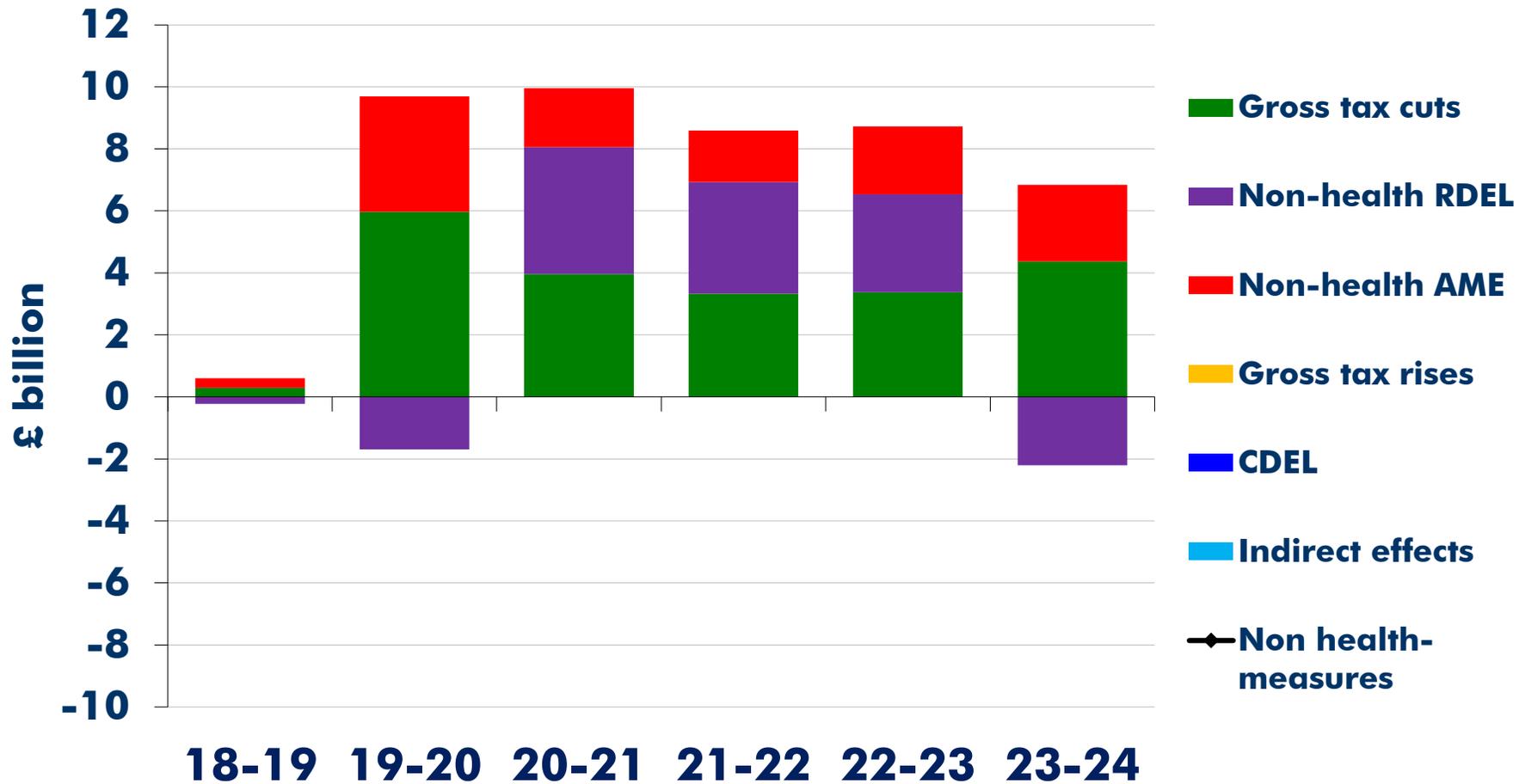
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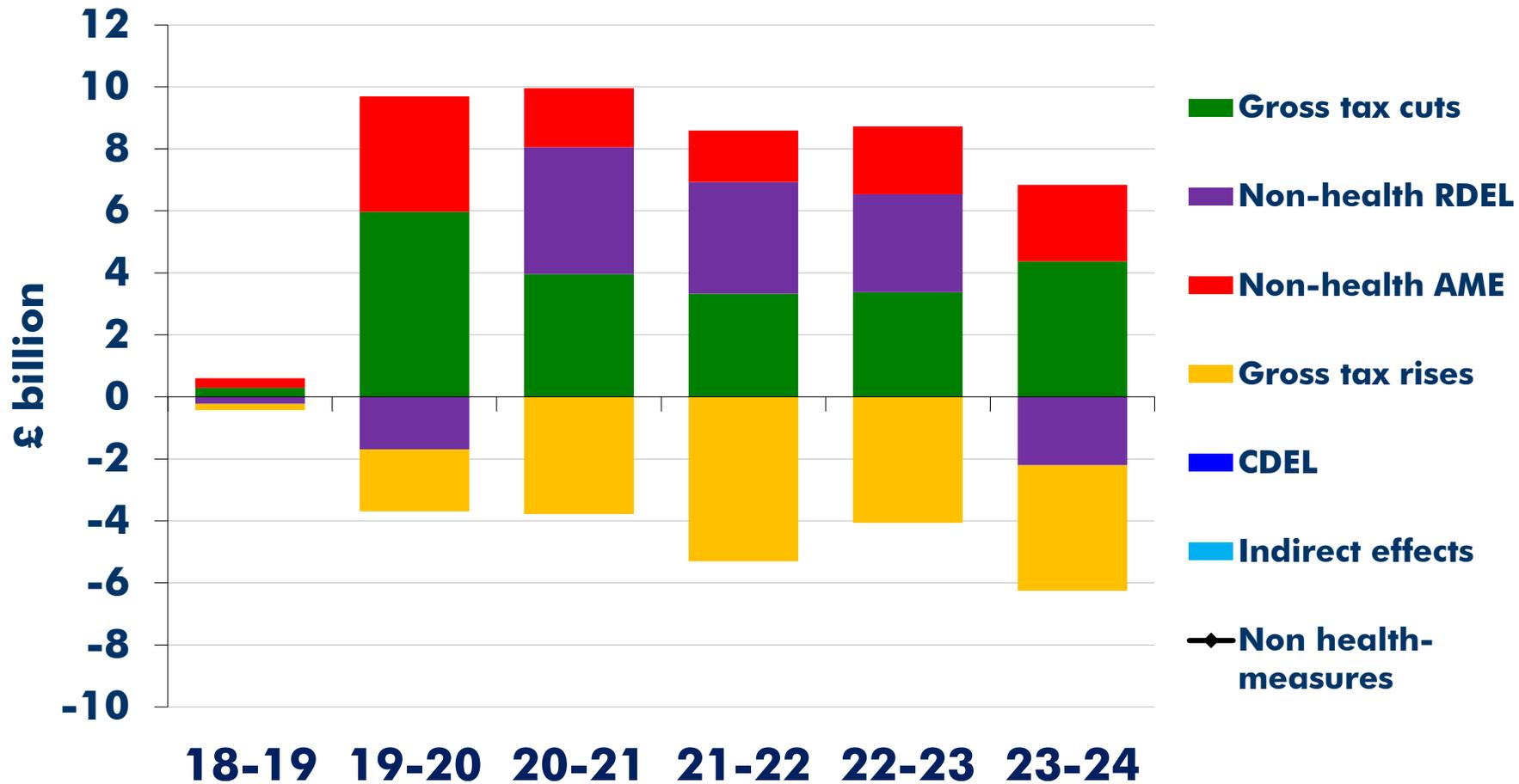
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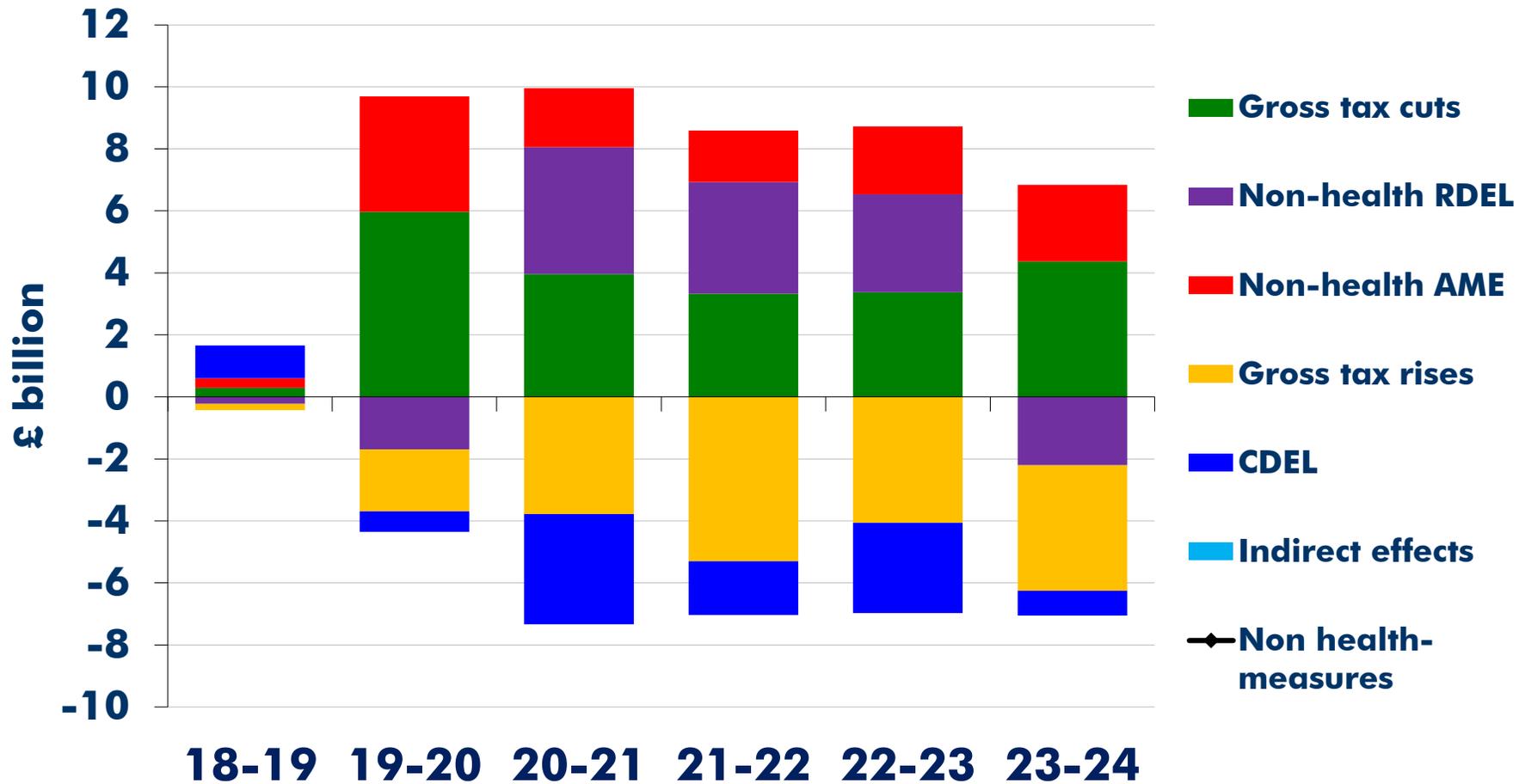
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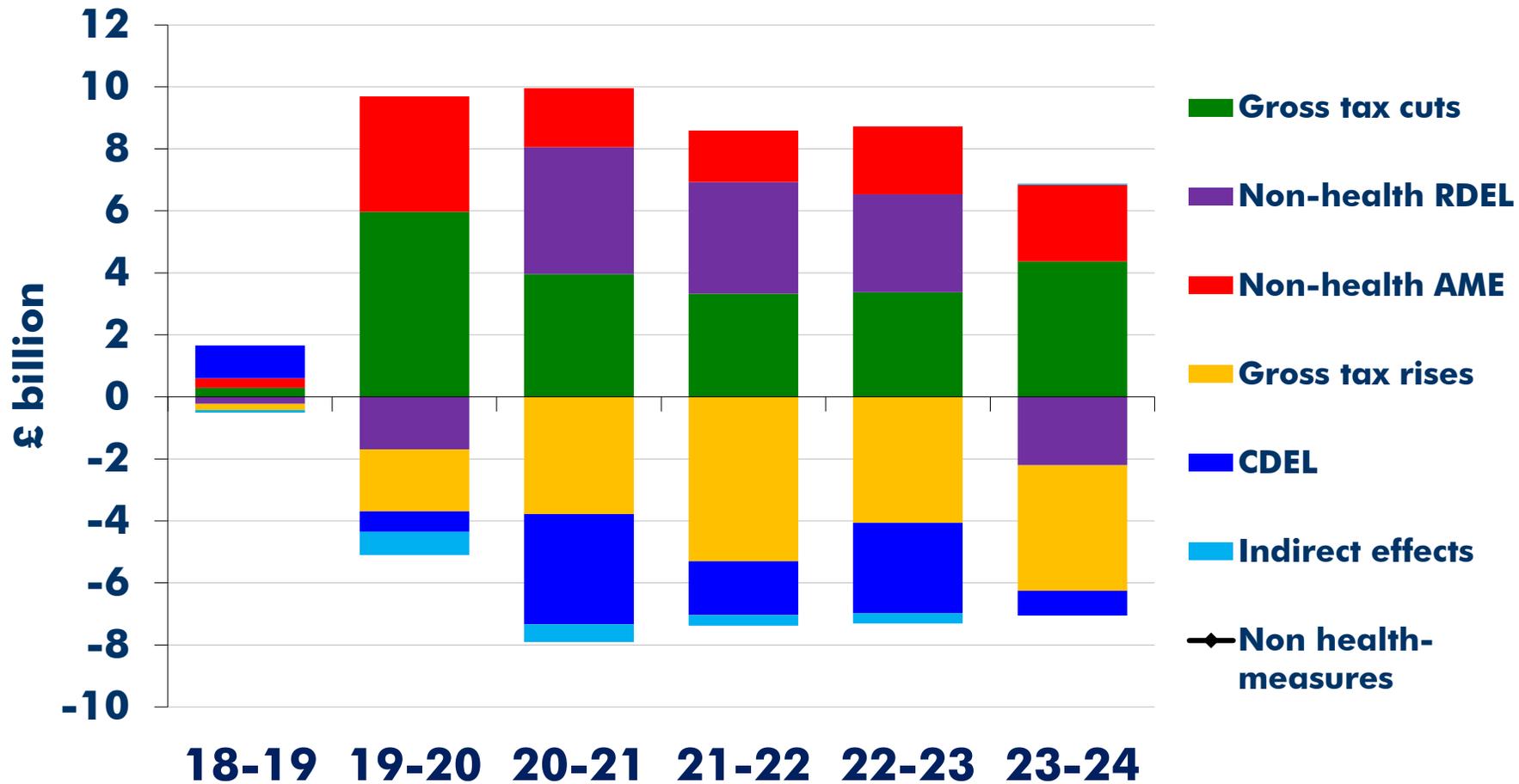
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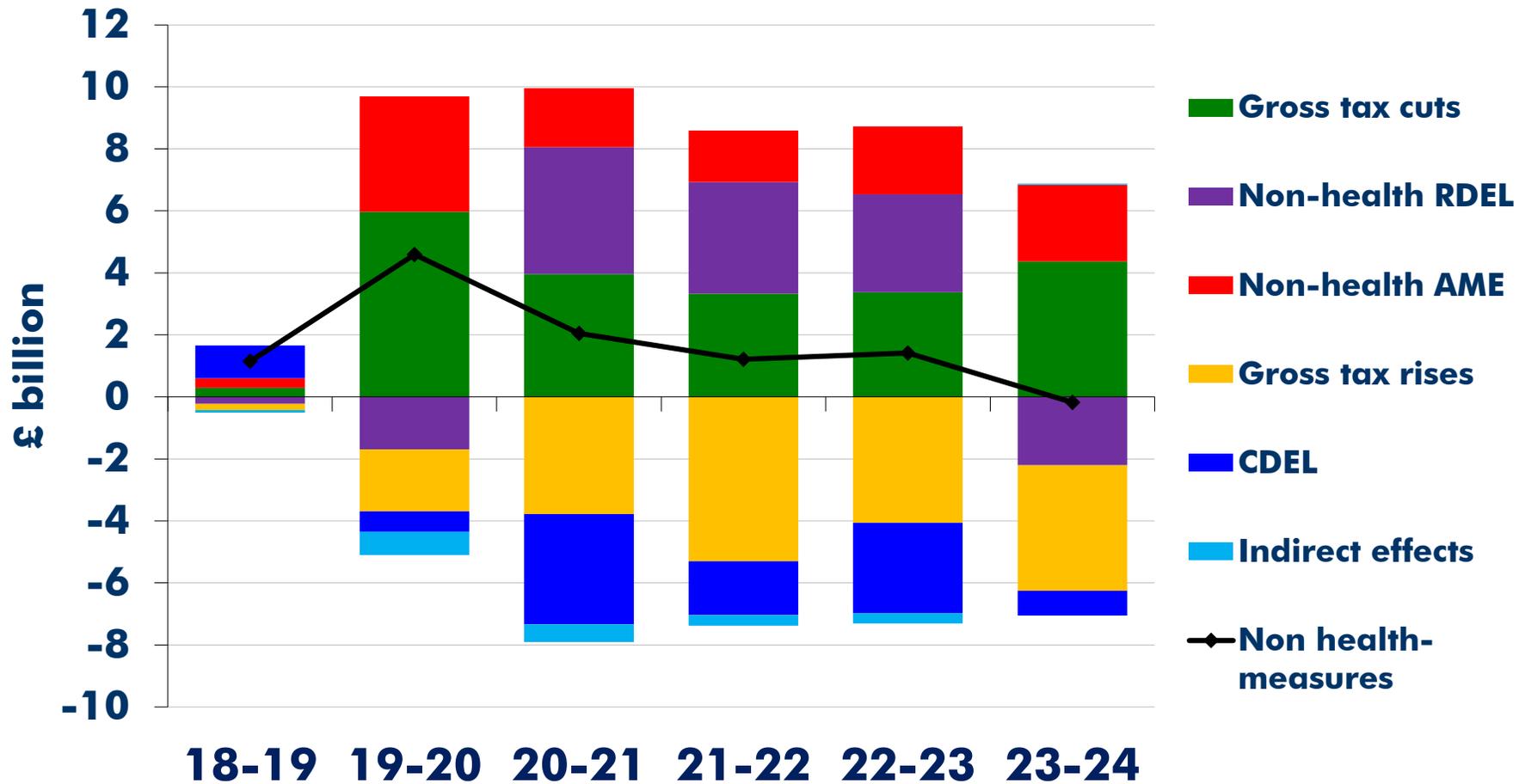
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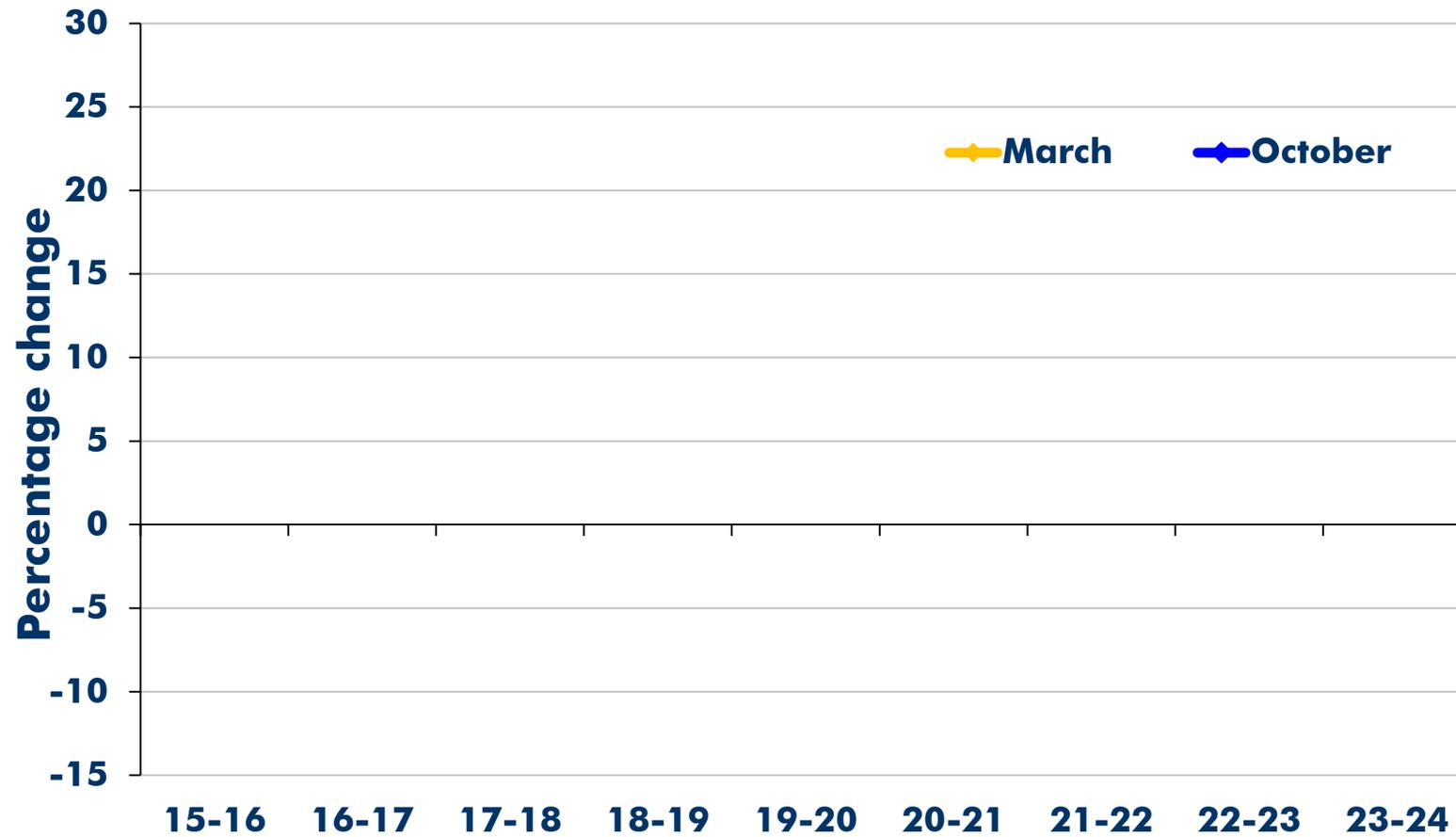
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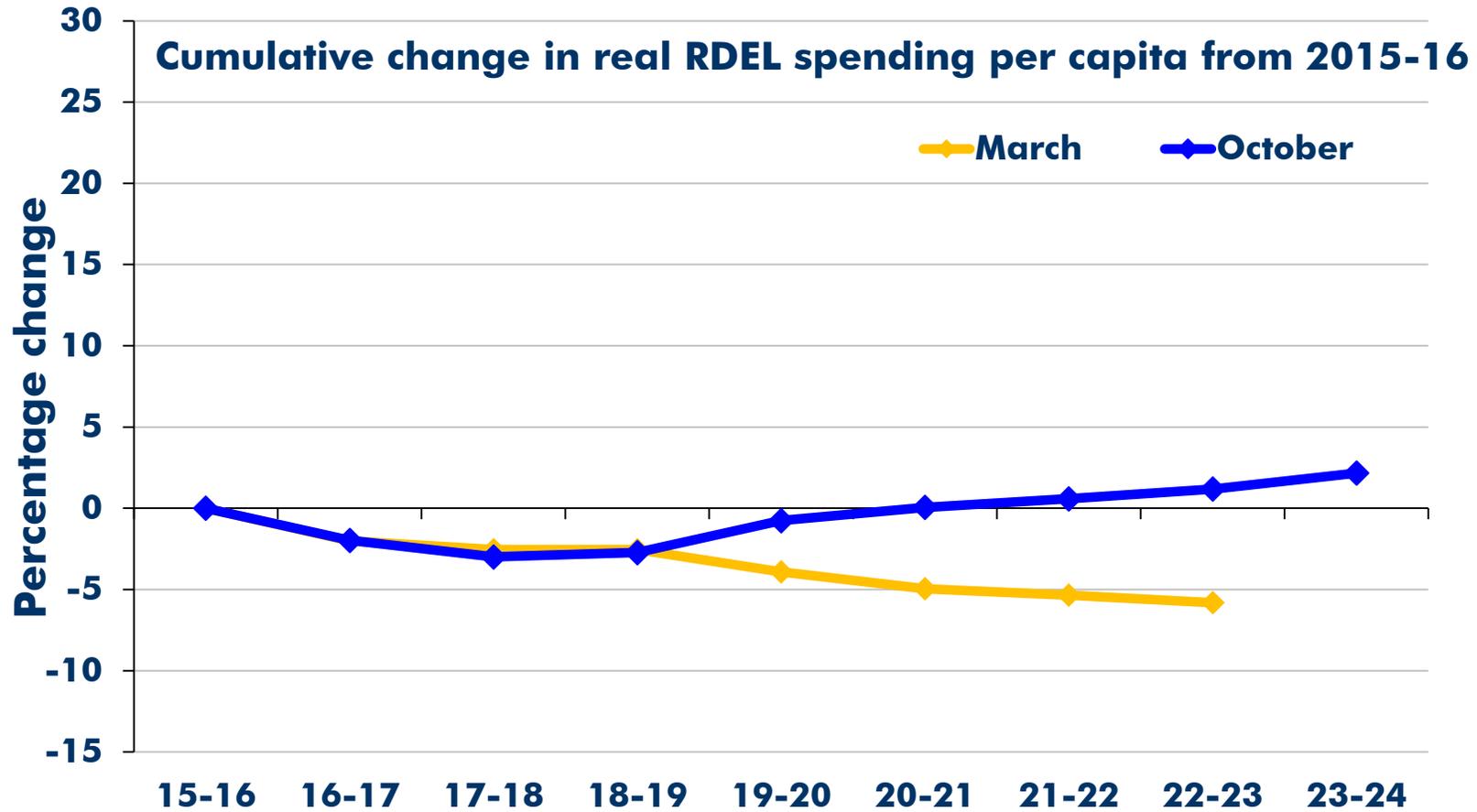
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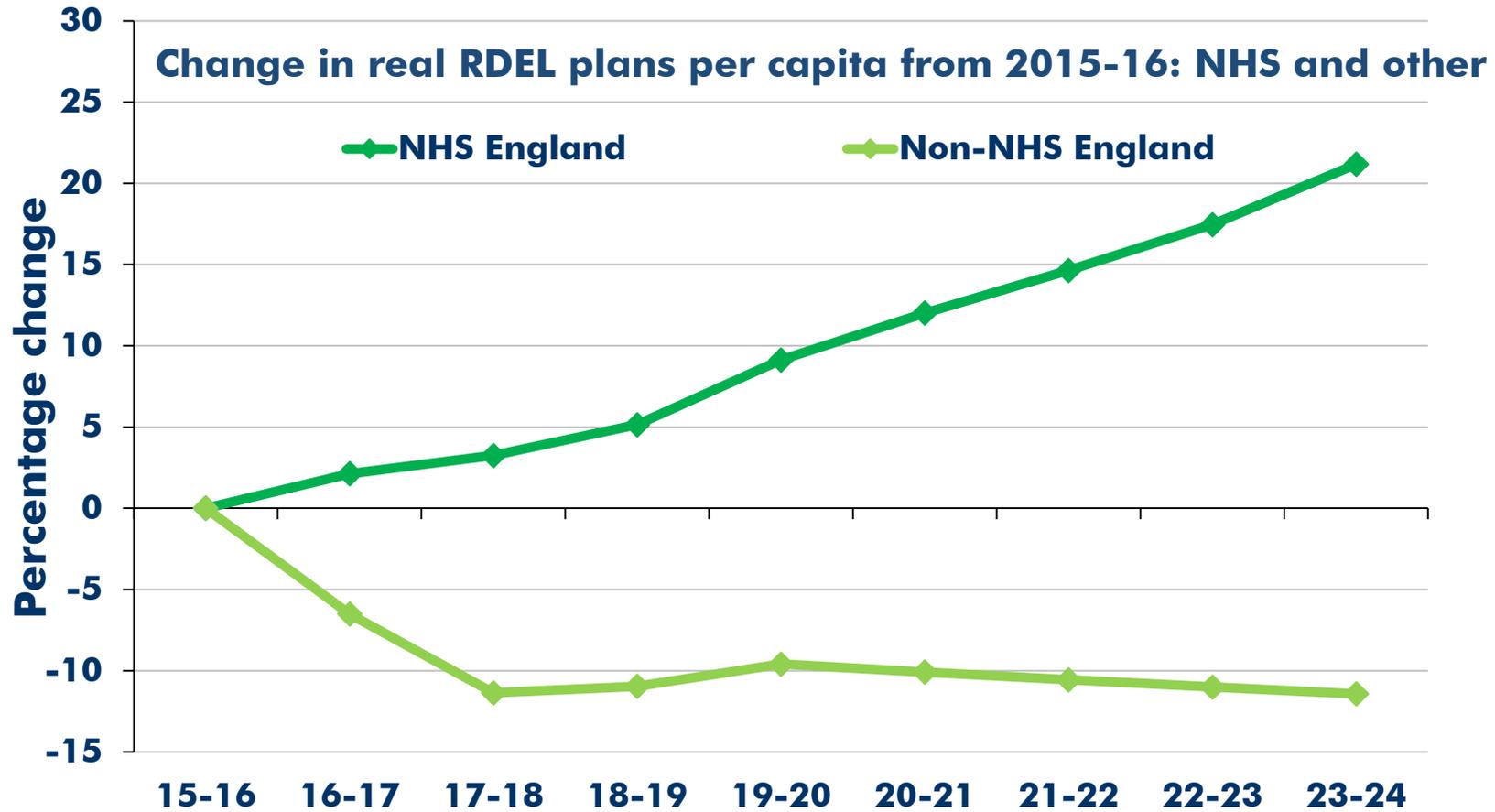
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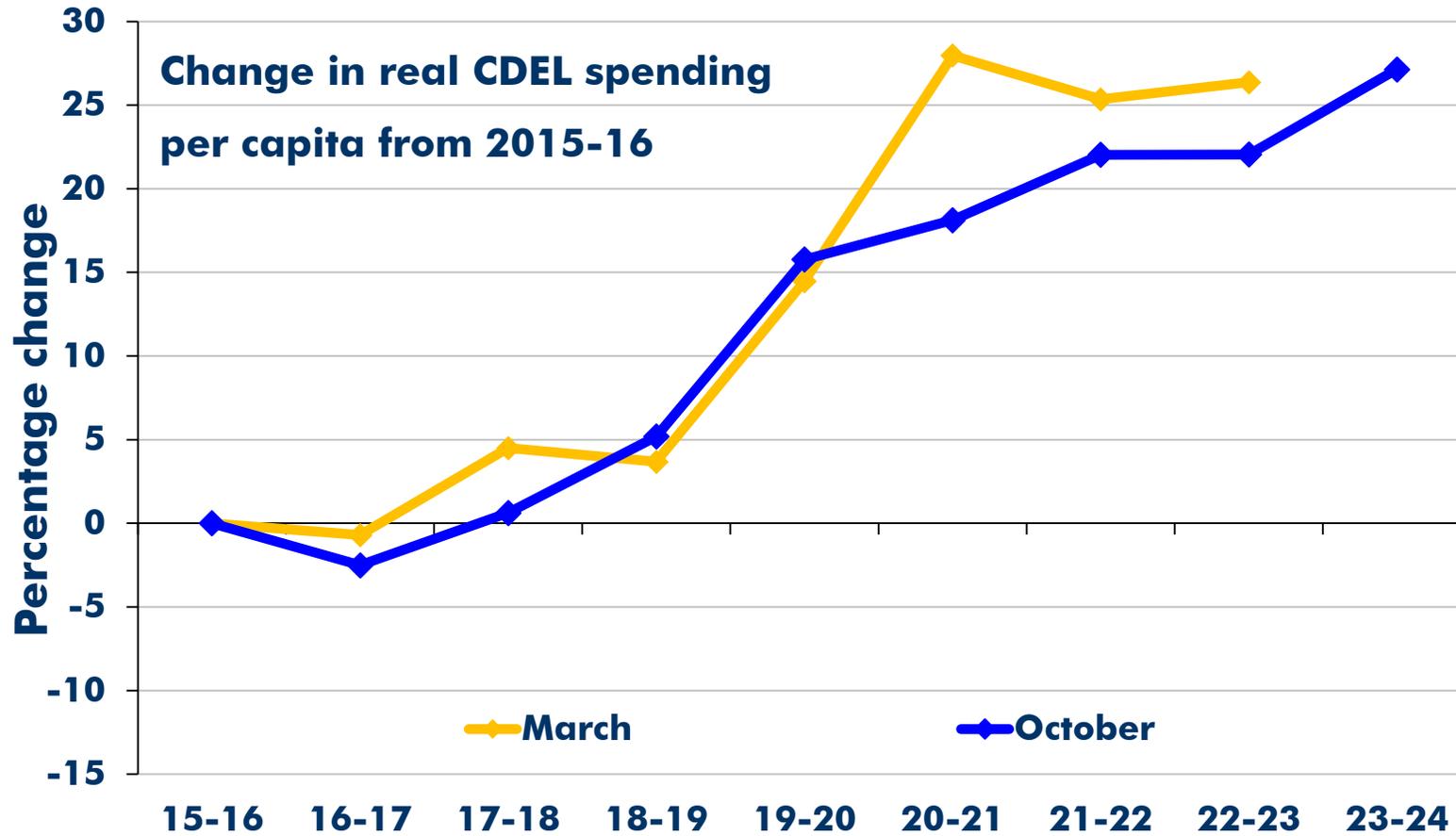
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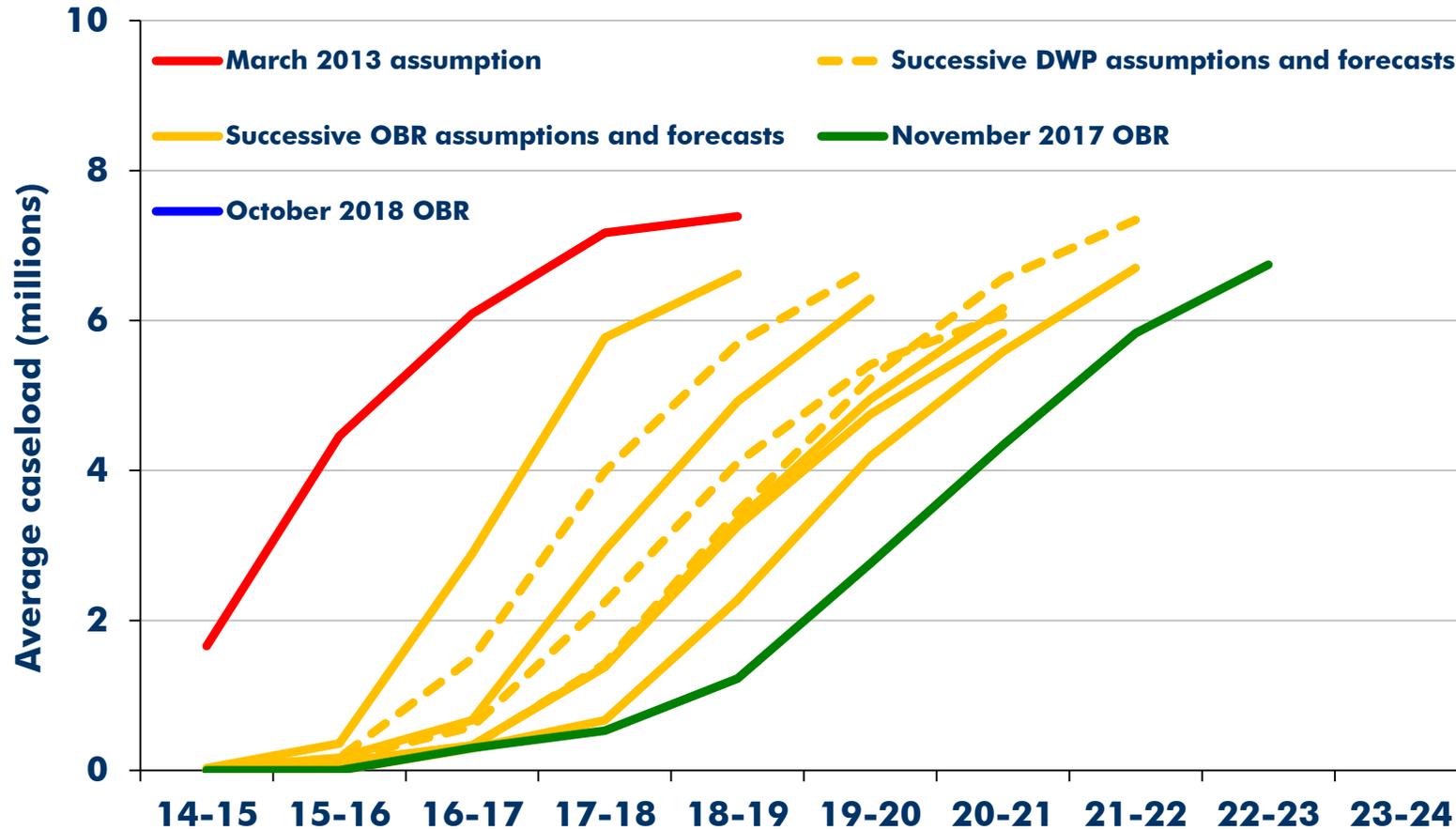
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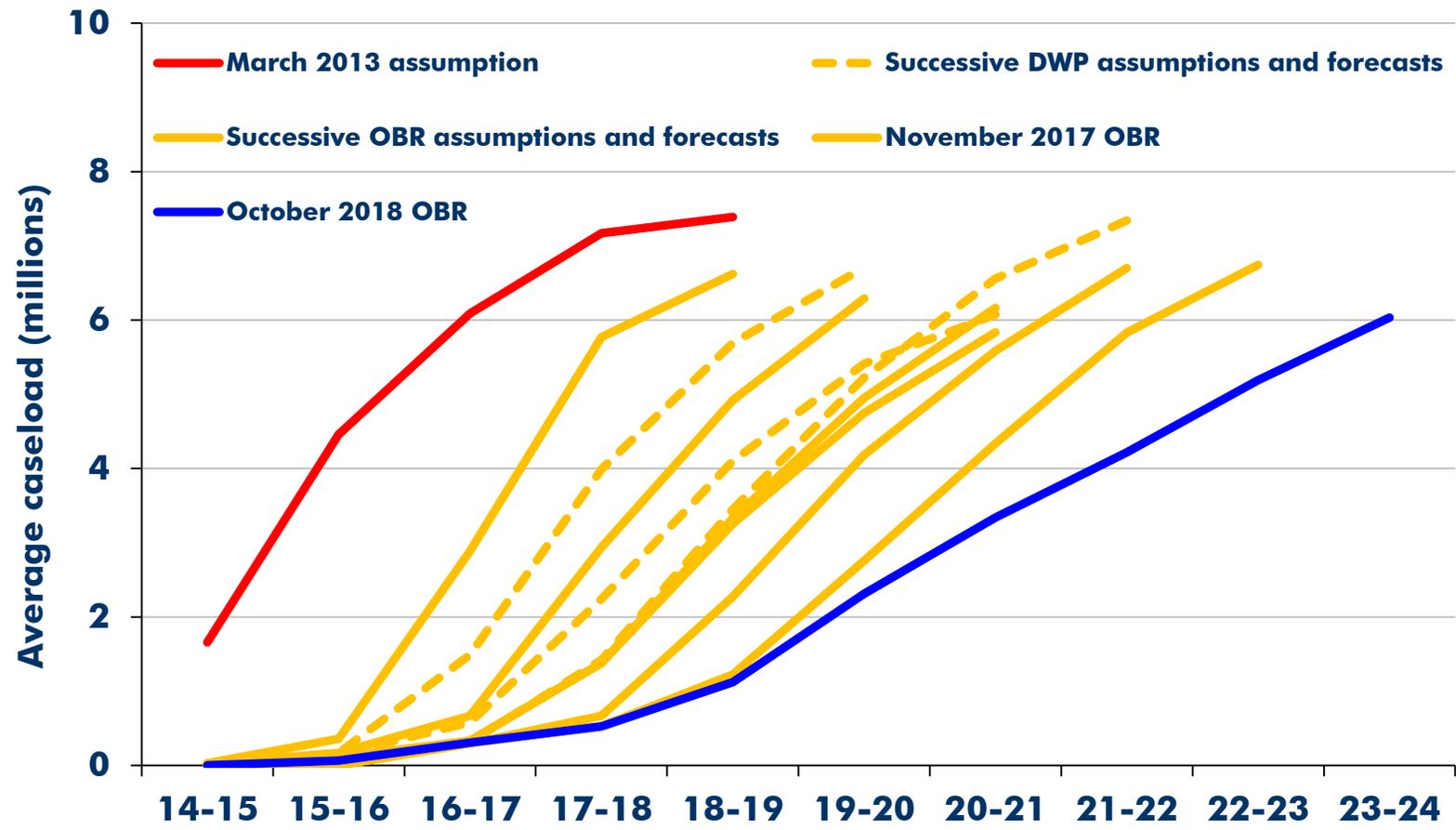
# Universal credit: Budget measures

- **New measures plus those announced by DWP in June**
  - Increases work allowances
  - Reverses and relaxes other features of UC
  - Eases transition from legacy benefits to UC
  - Delays managed migration (and cost of transitional protection)
  - At net cost of £2.1 billion (uncertified) in 2023-24

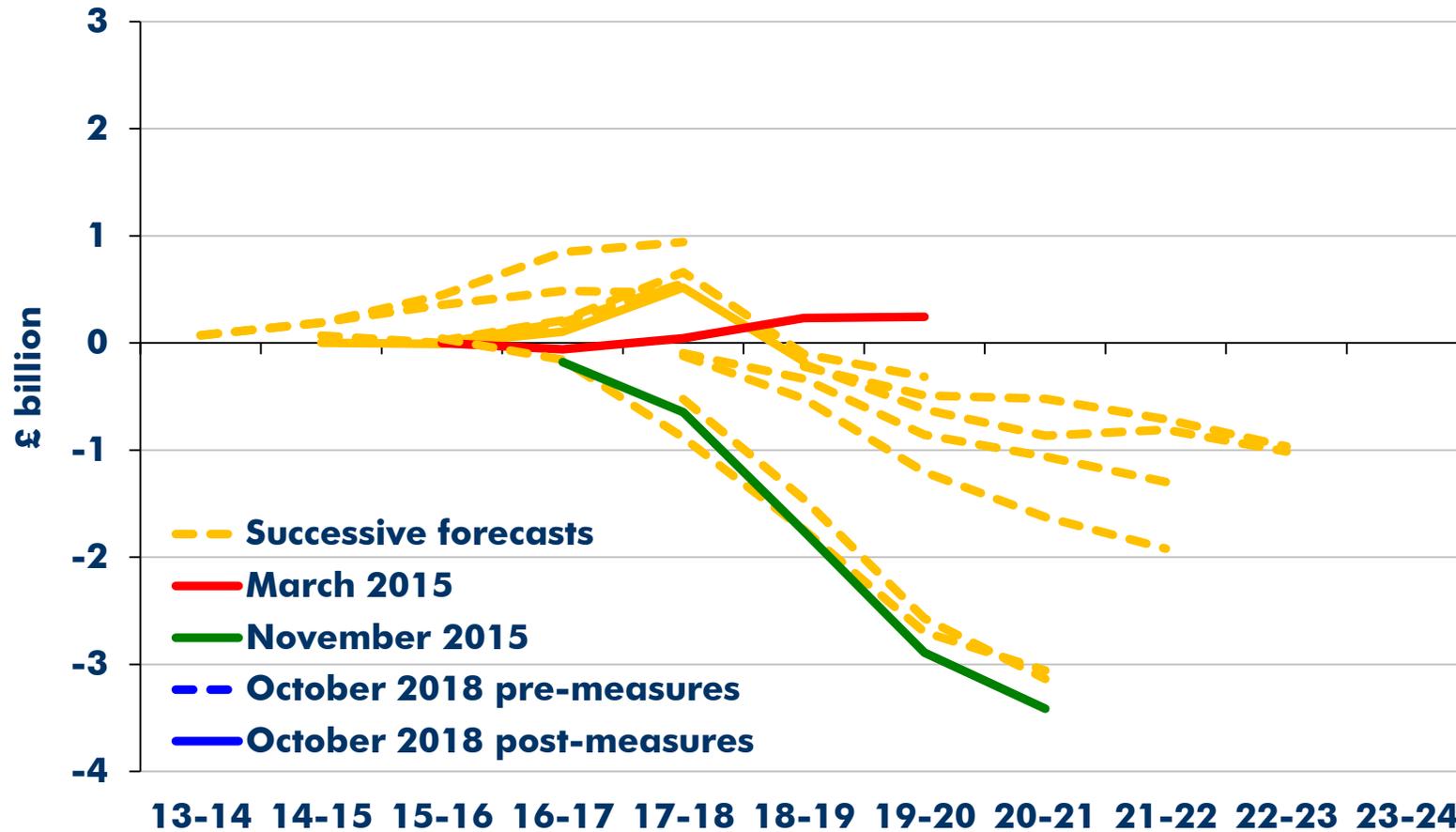
# Universal credit: roll-out schedule



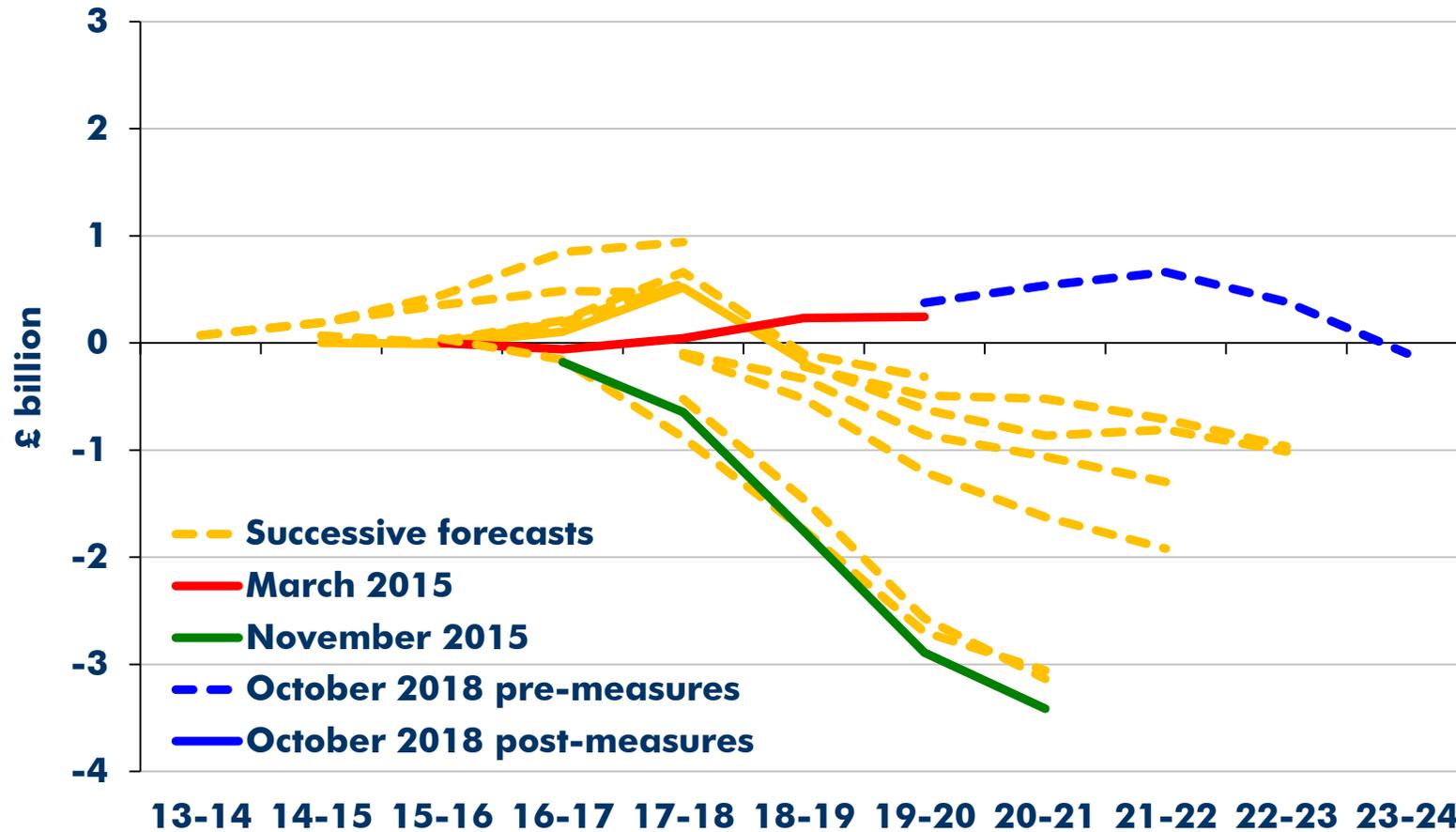
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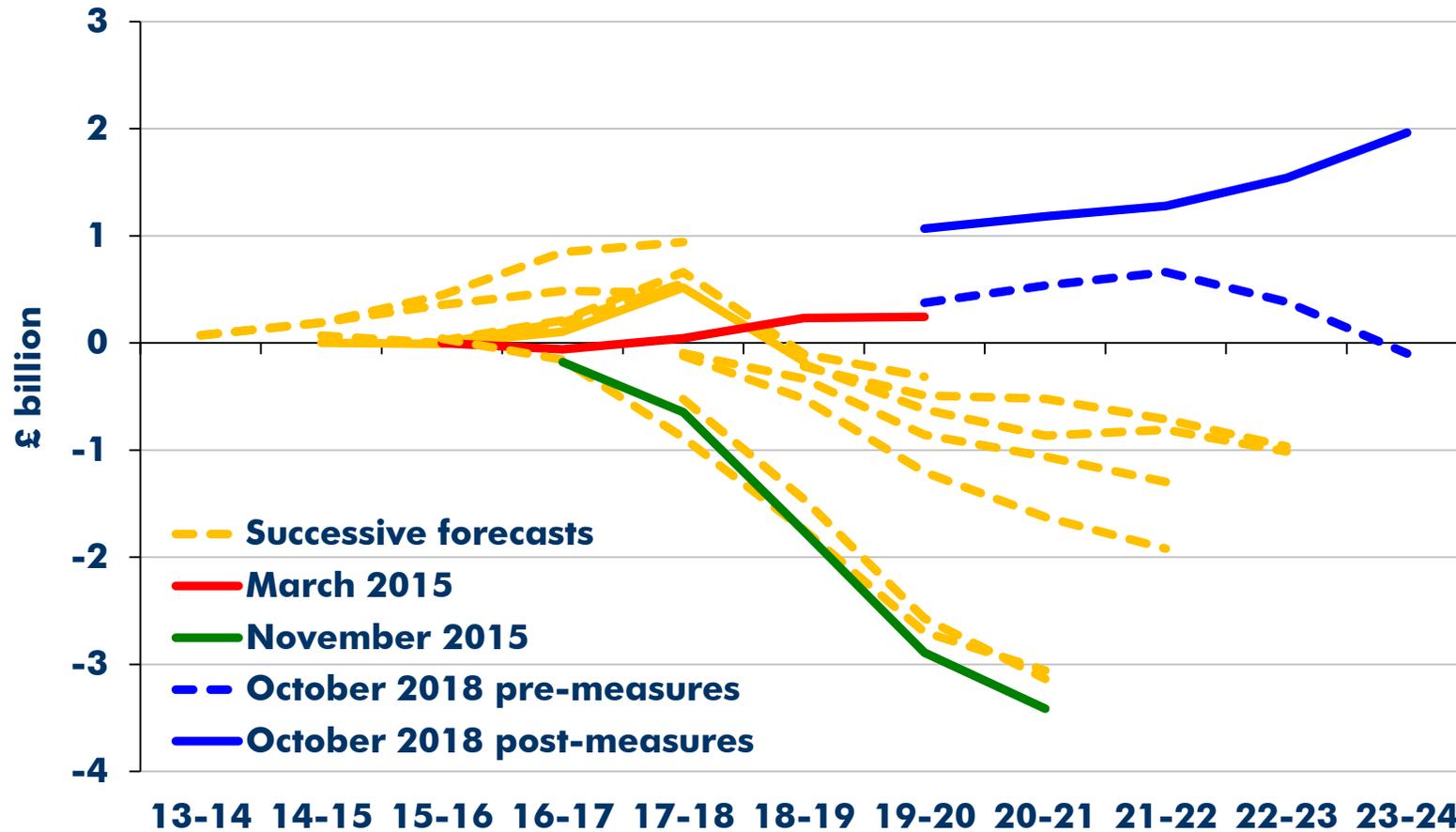
# Universal credit: cost versus legacy system



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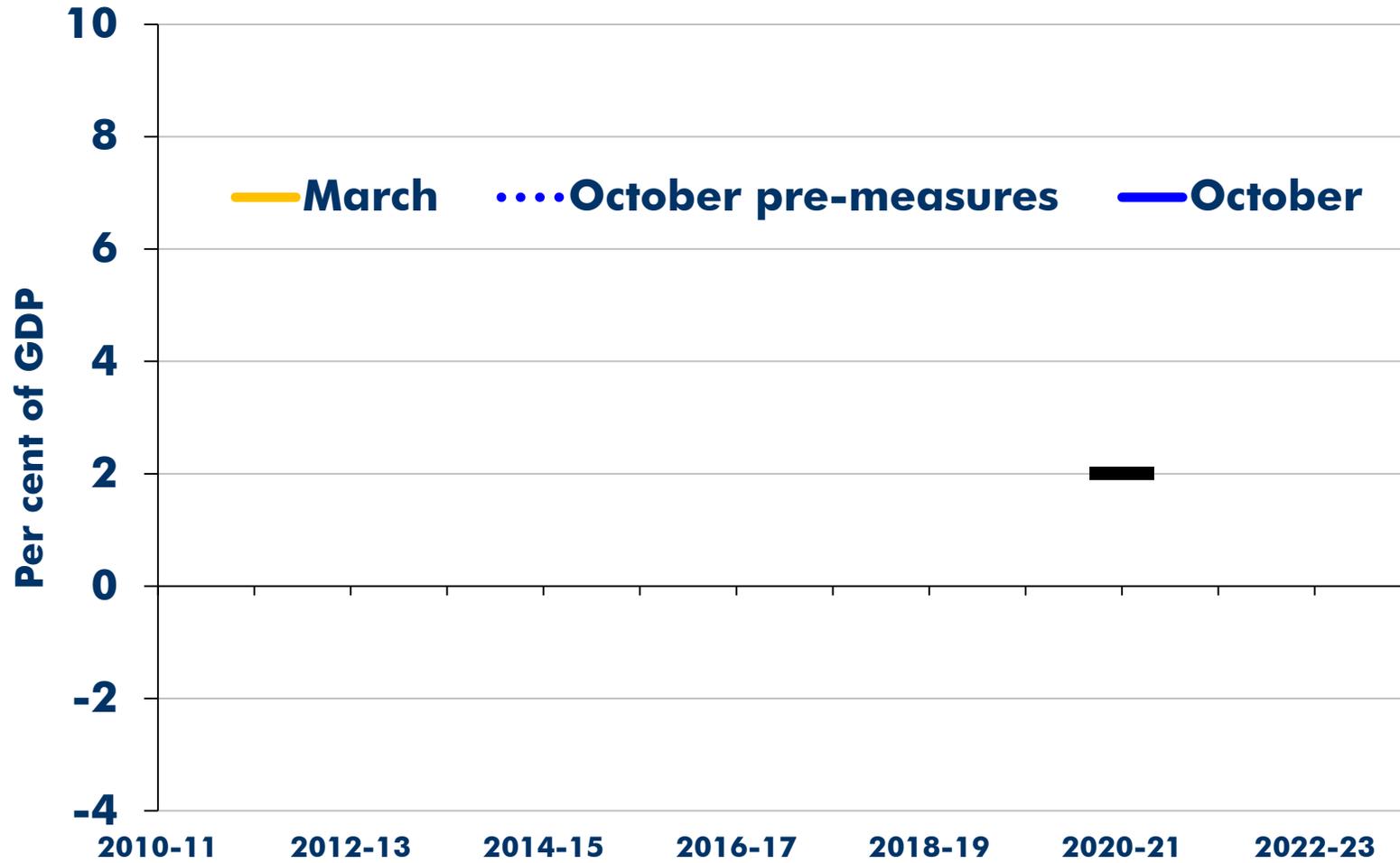
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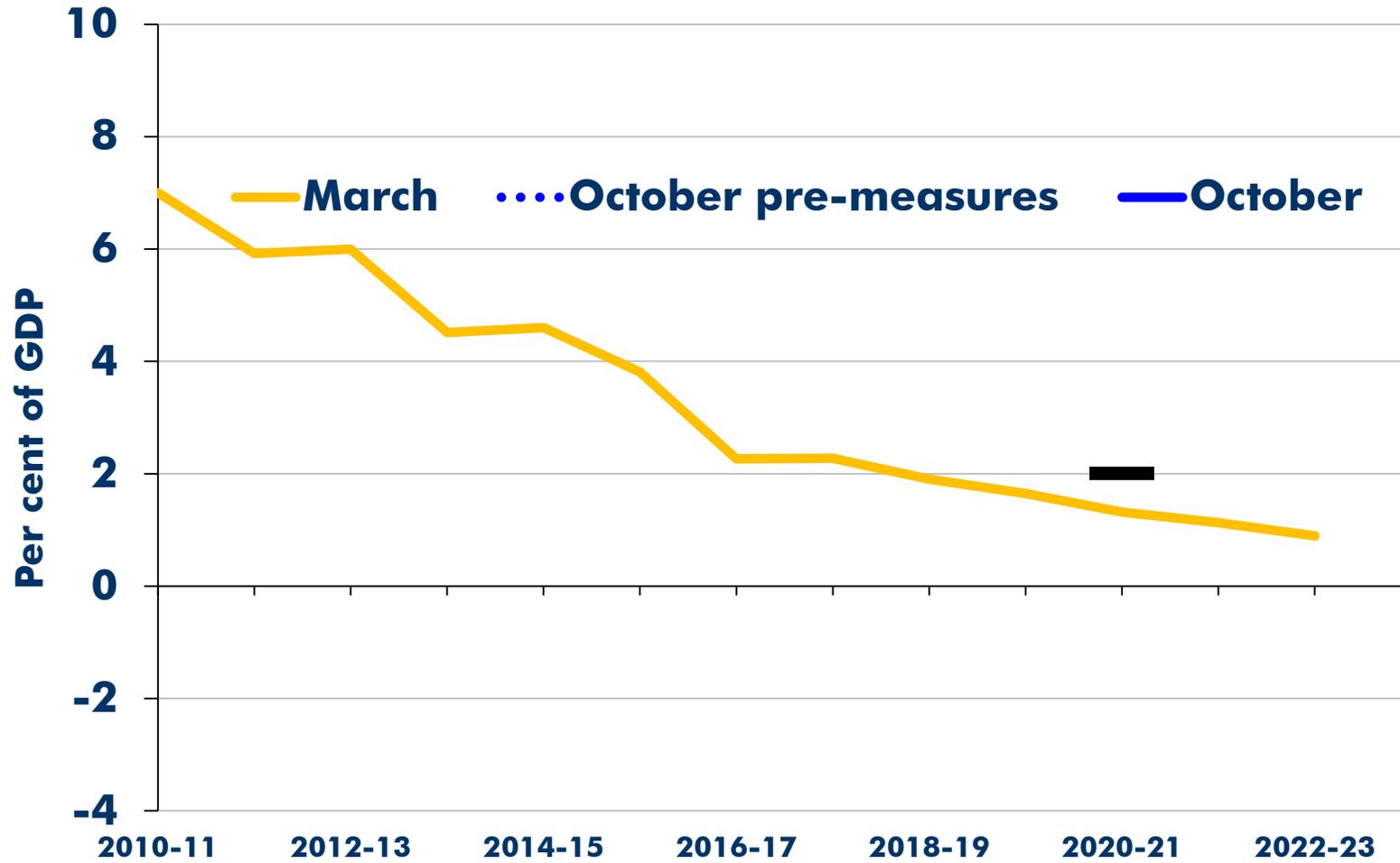
# The Government's targets

	Pre-measures	Post-measures
<b>Fiscal mandate:</b> structural deficit below 2% of GDP in 2020-21		
<b>Supplementary target:</b> debt falls as % GDP in 2020-21		
<b>Welfare cap:</b> spending below cash limit in 2022-23		
<b>Fiscal objective:</b> balance budget by middle of next decade		

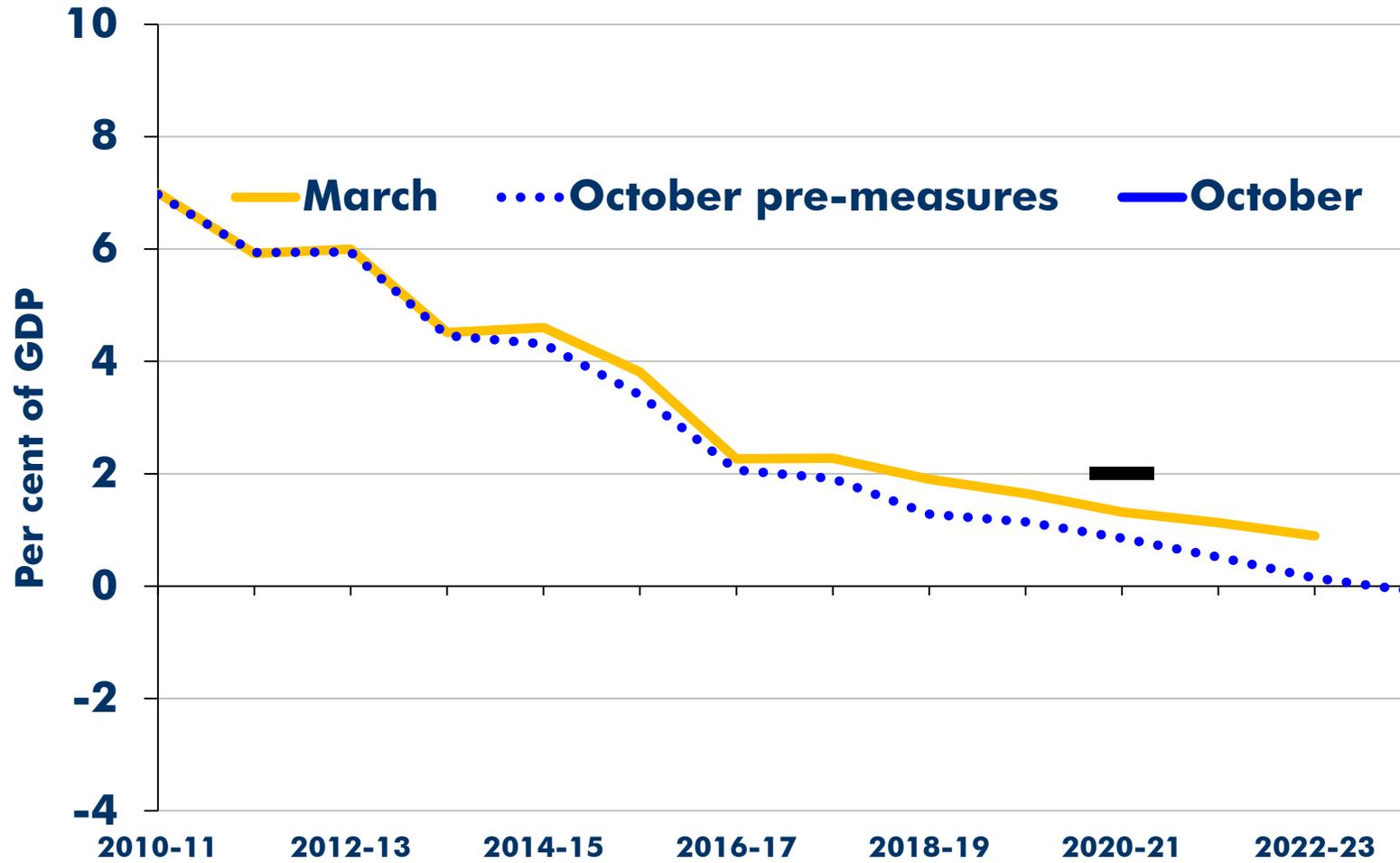
# The fiscal mandate



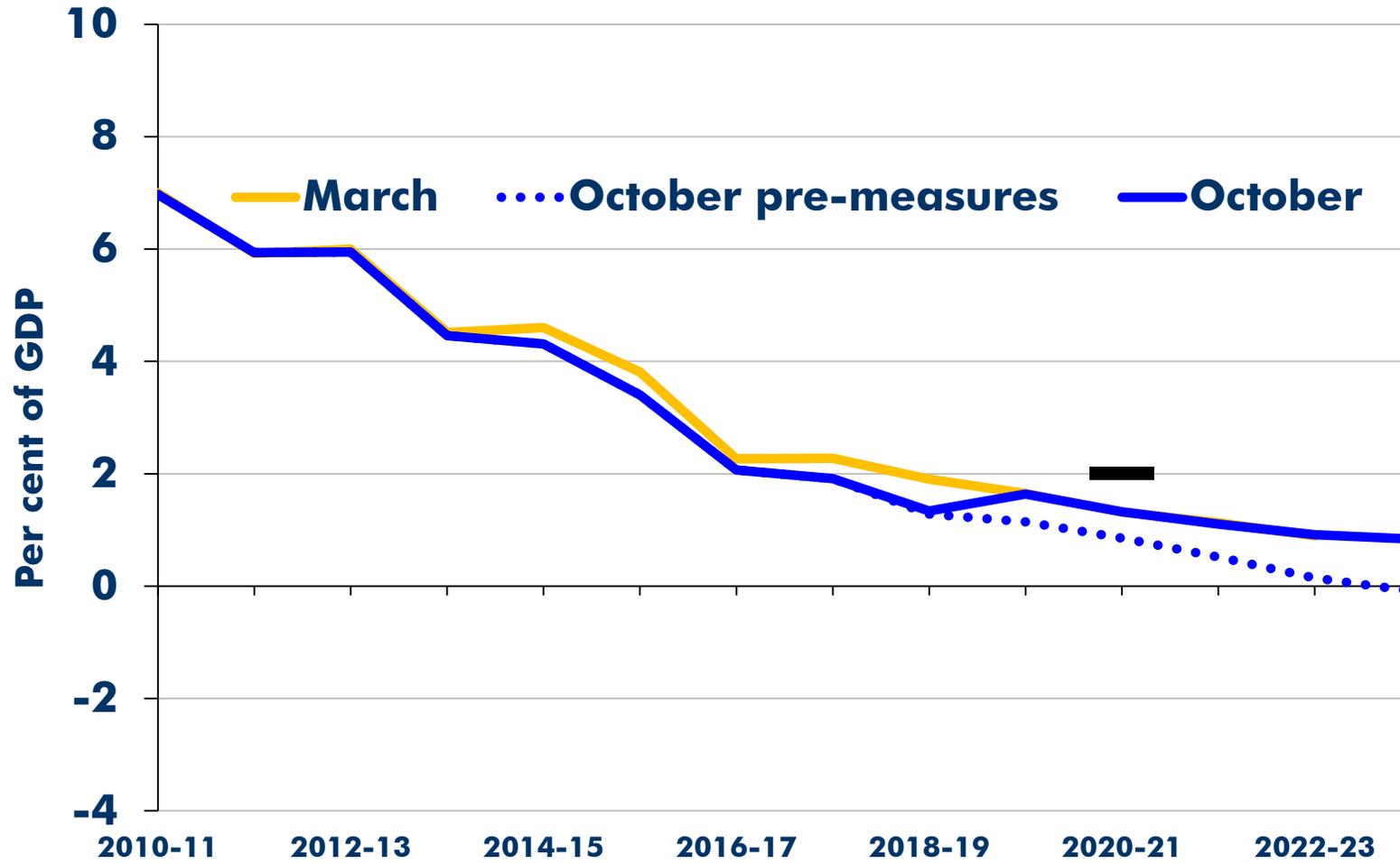
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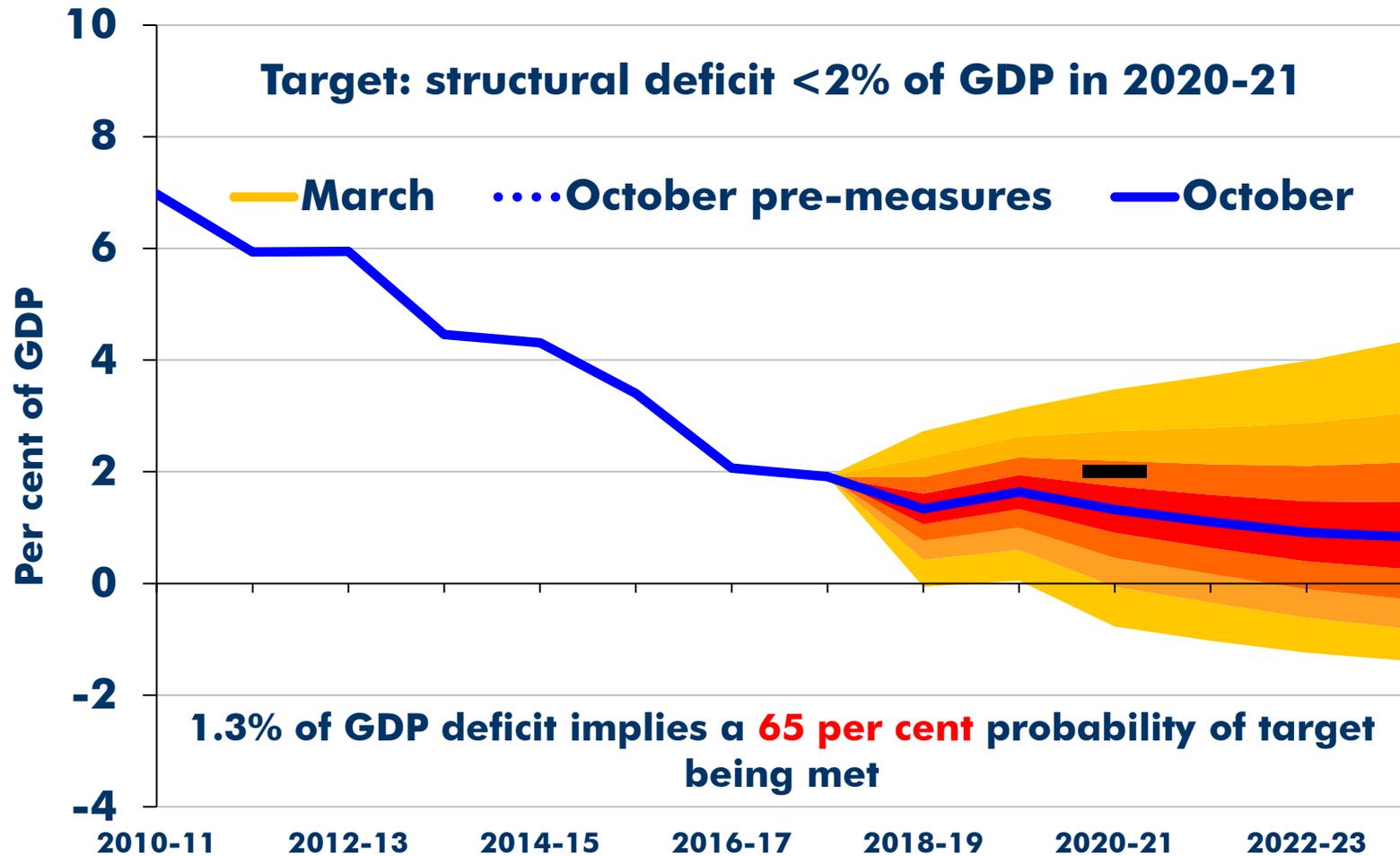
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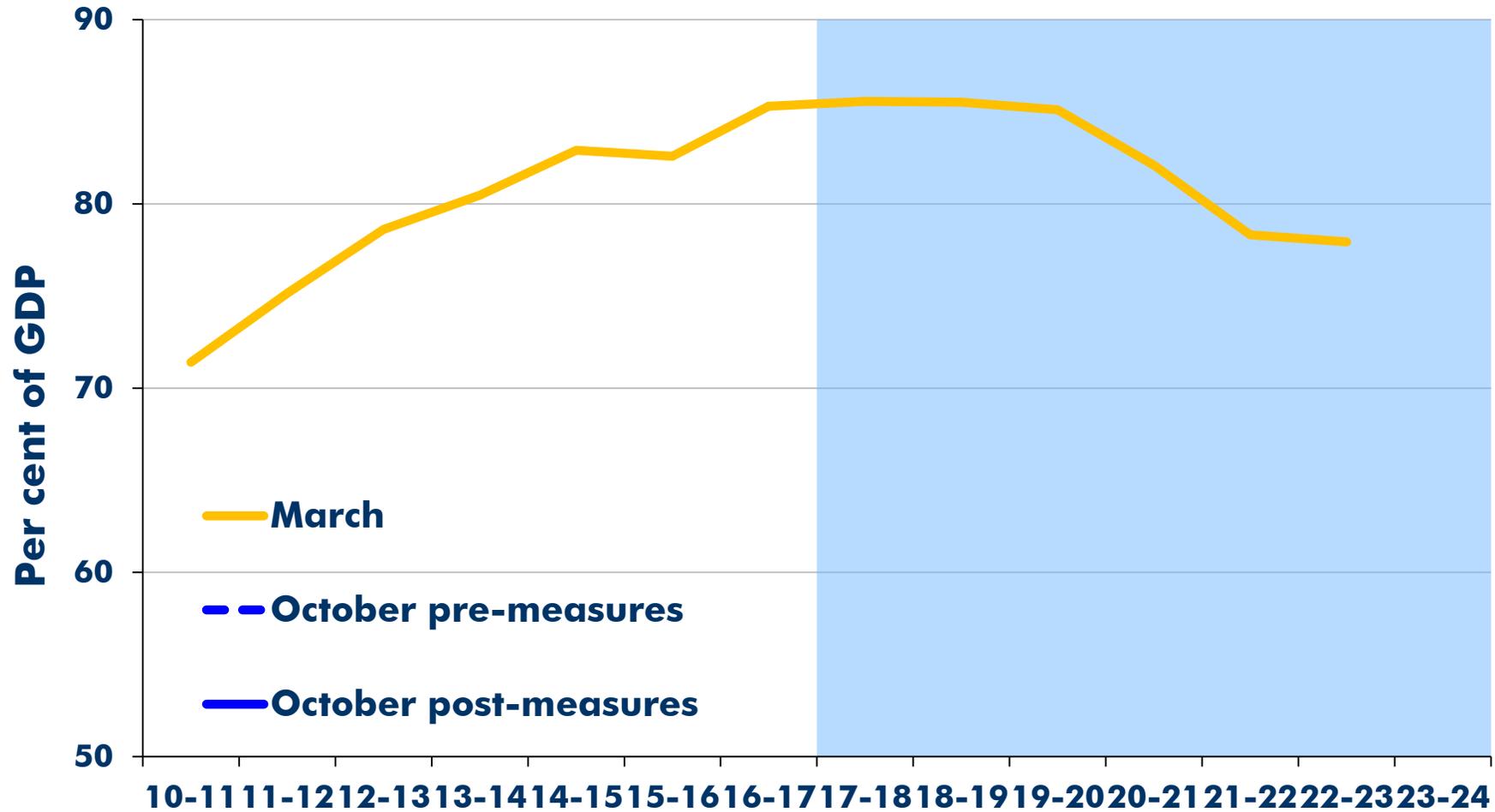
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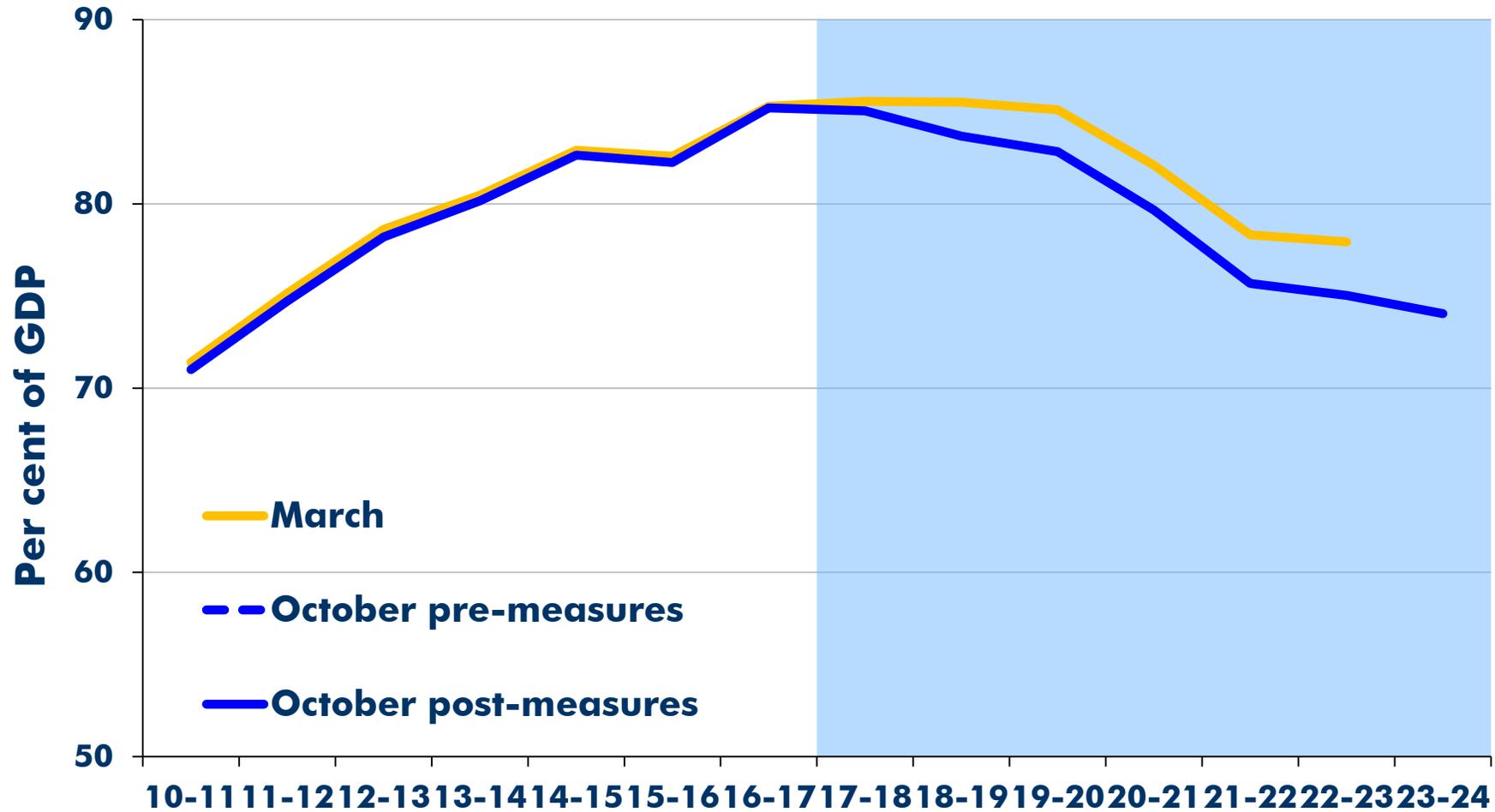
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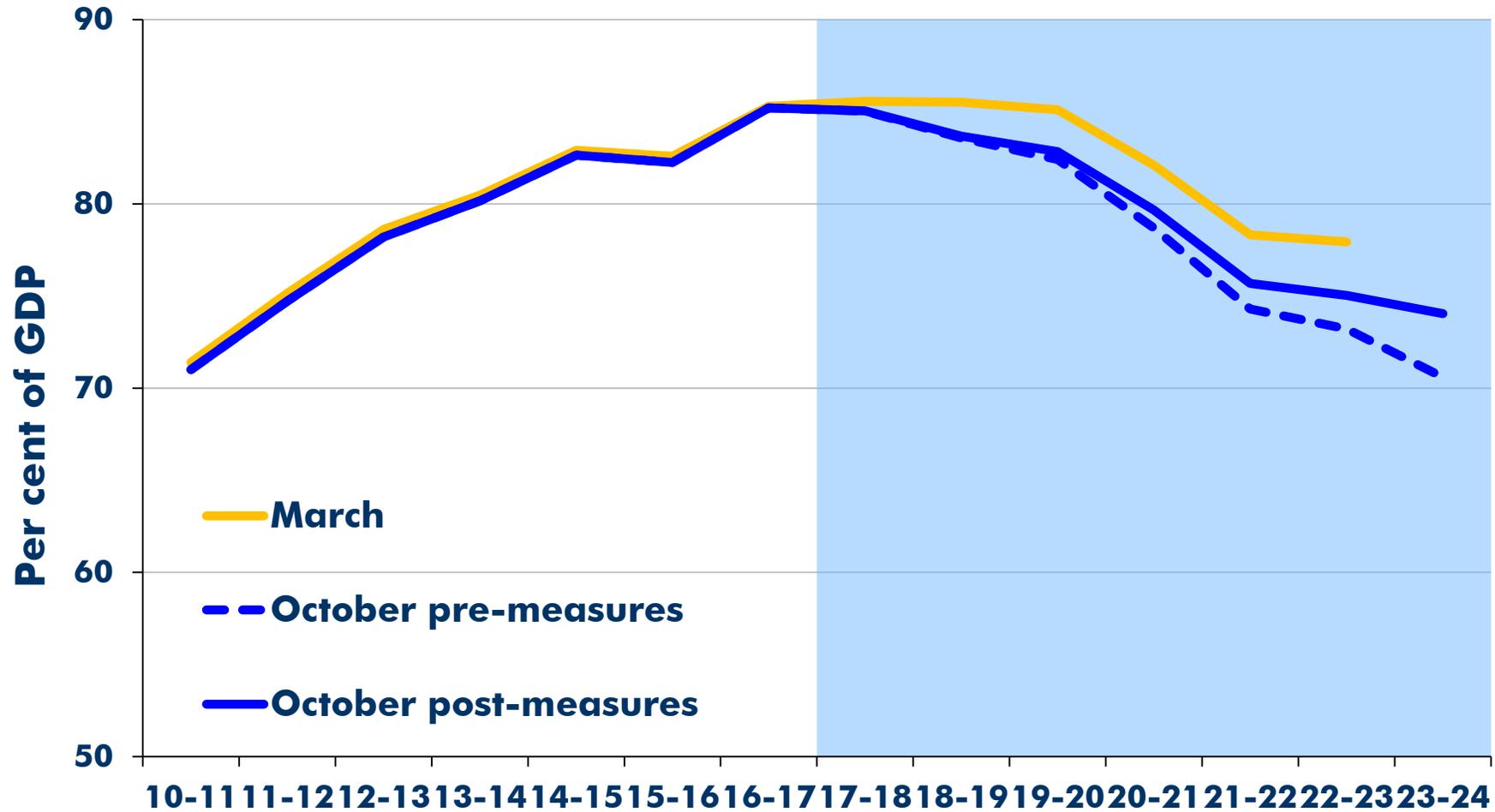
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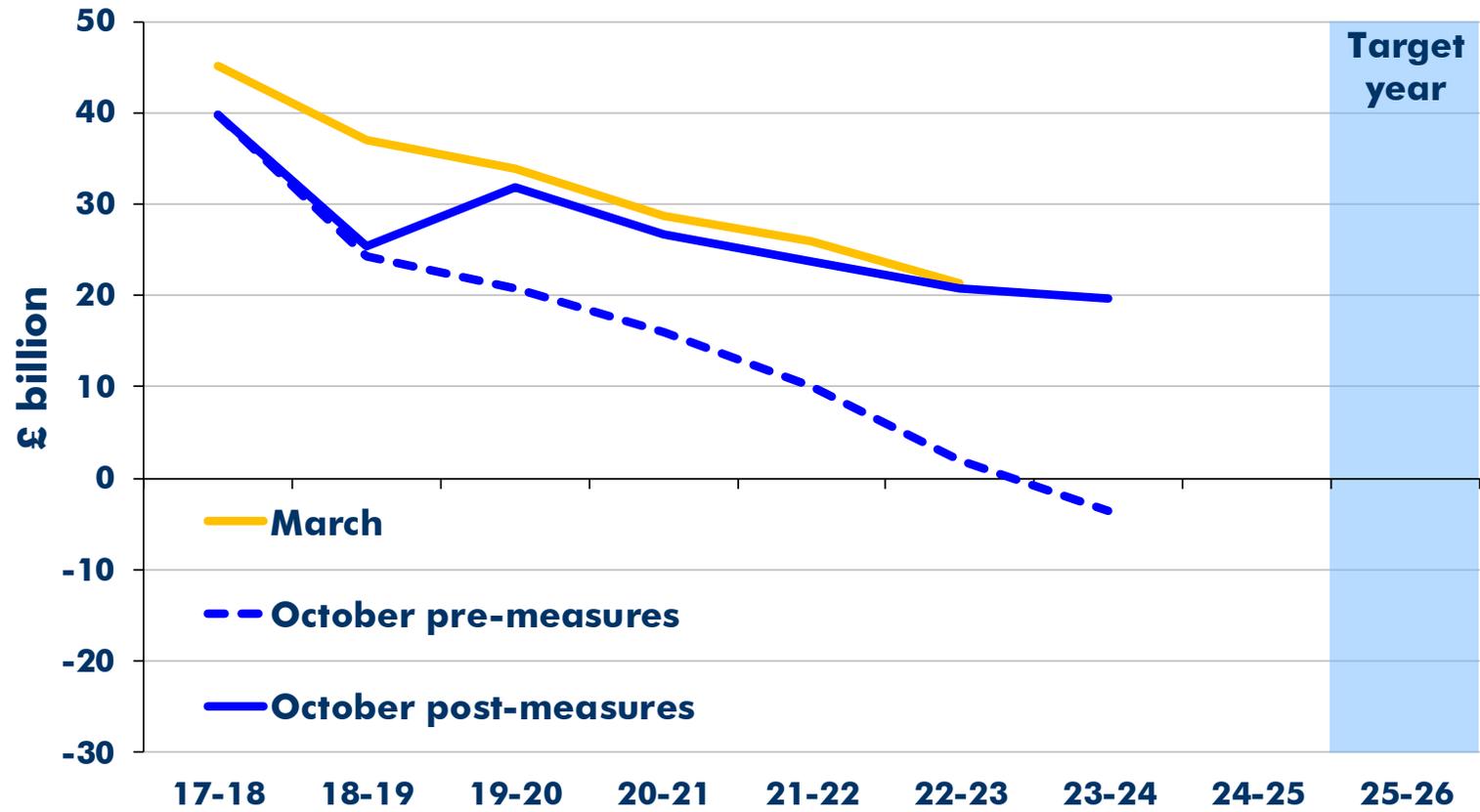
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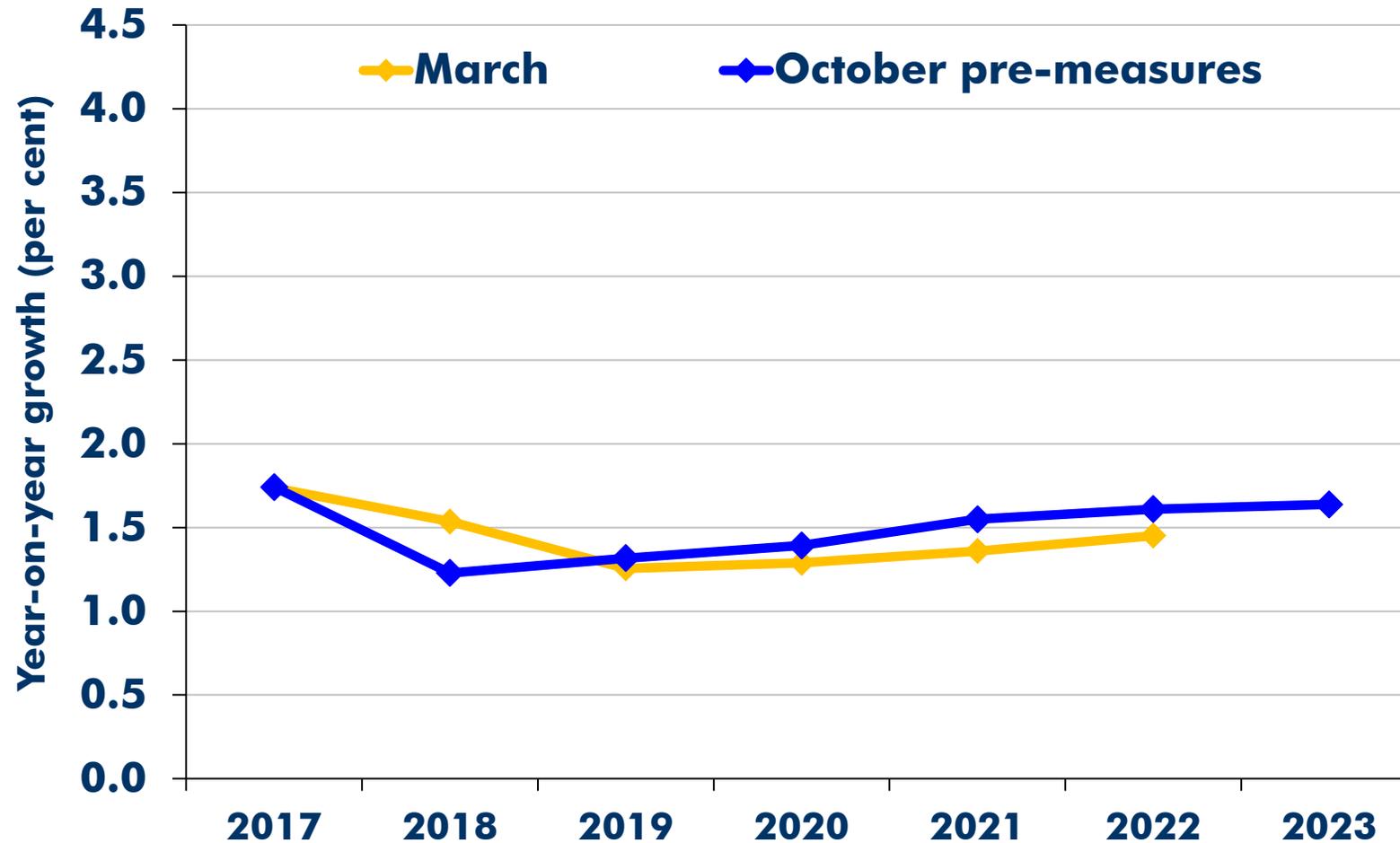
# The welfare cap

- **Restated again at this forecast**
- **Spending remains below cap and pathway in every year**
- **So cap adhered to with or without margin**
- **Despite the rise in the expected cost of universal credit**

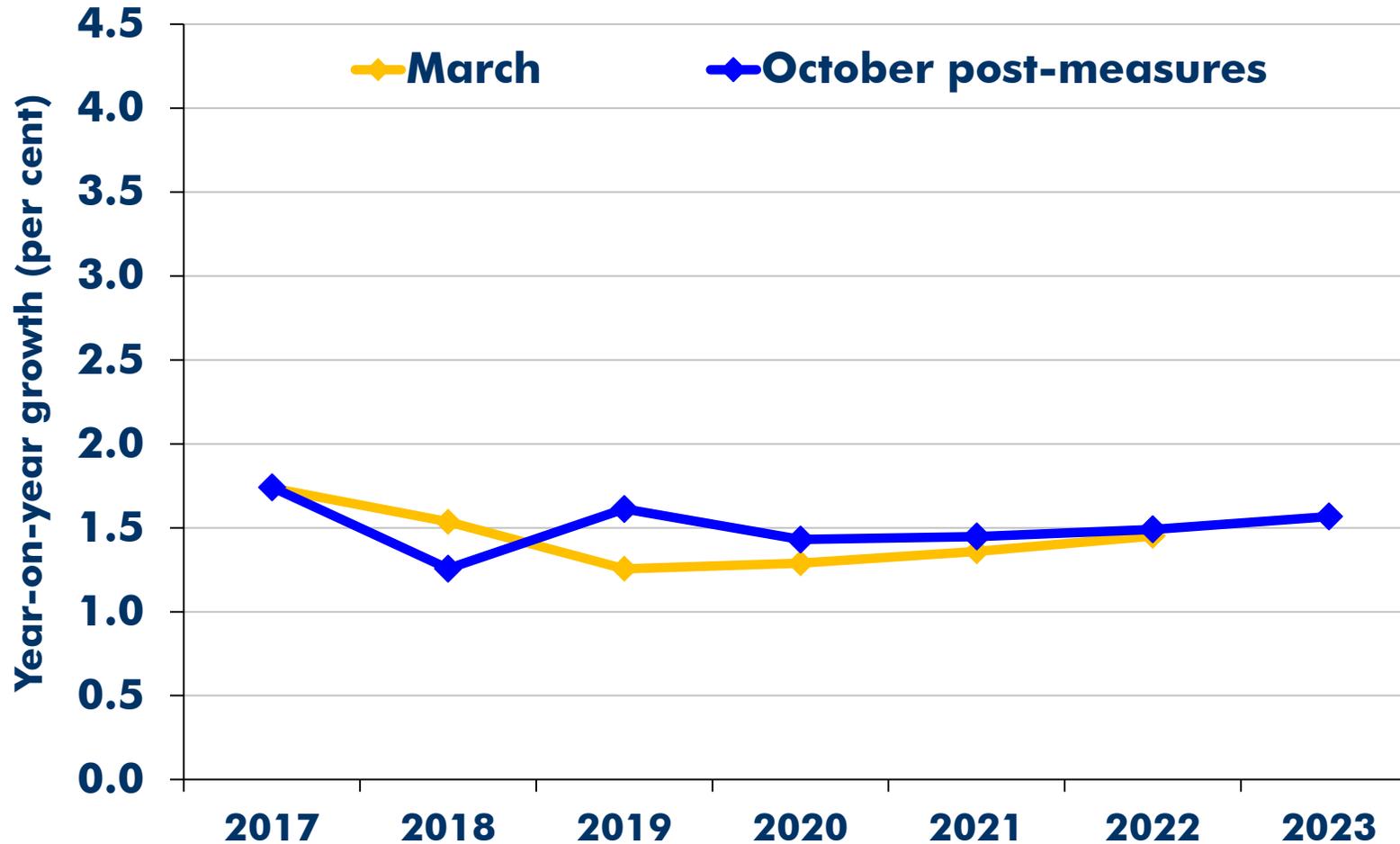
# The fiscal objective



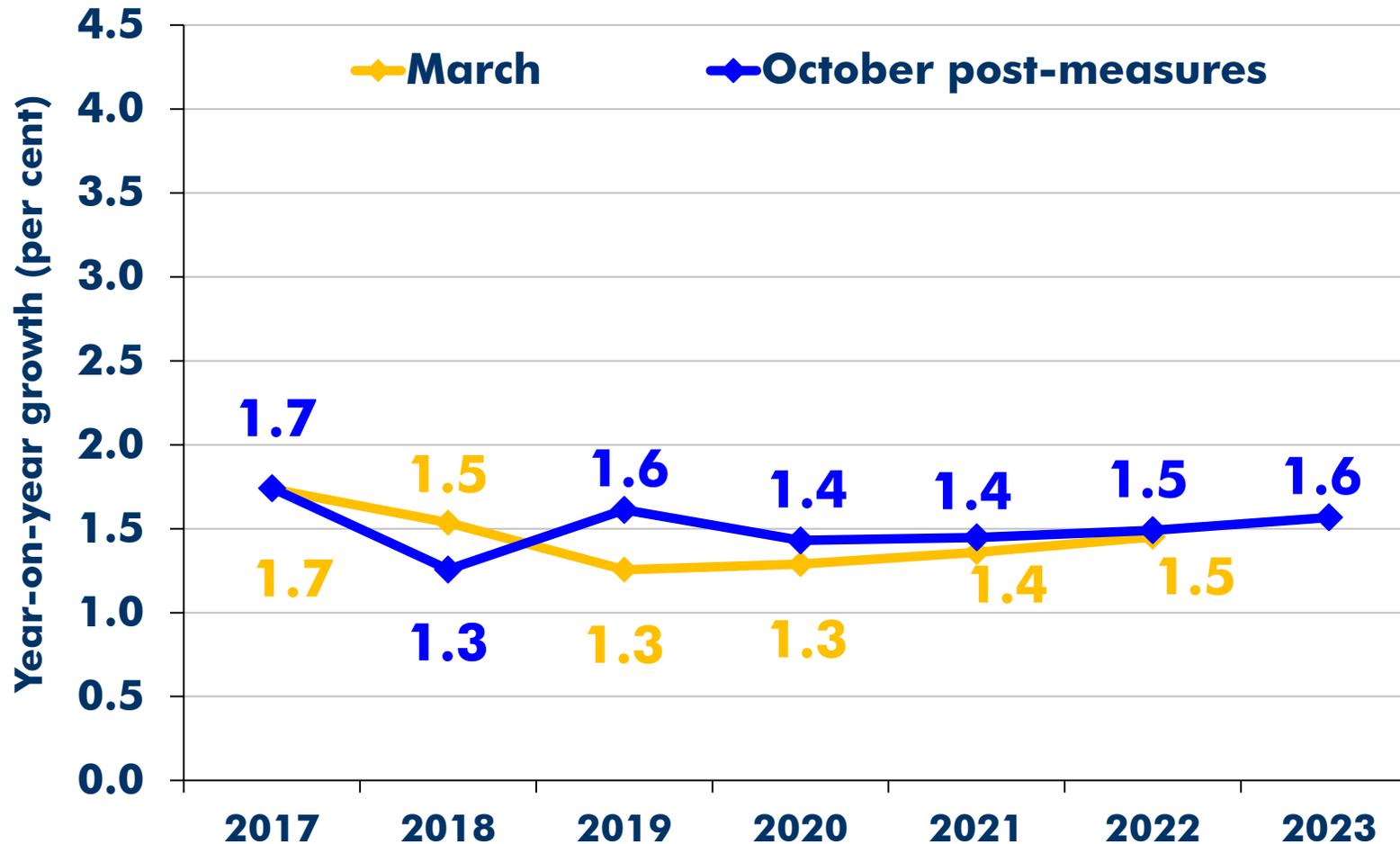
# Final economy forecast: real GDP growth



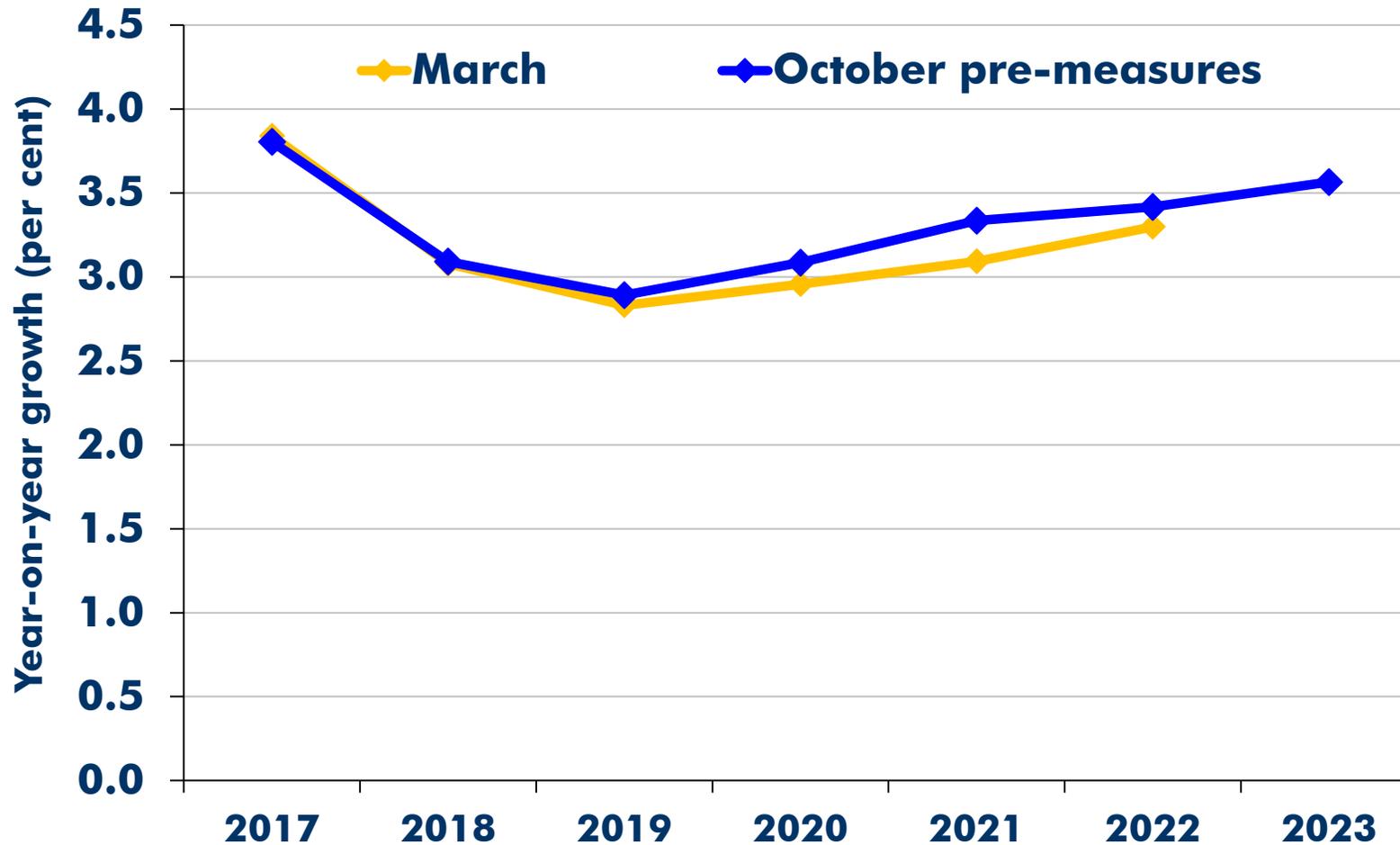
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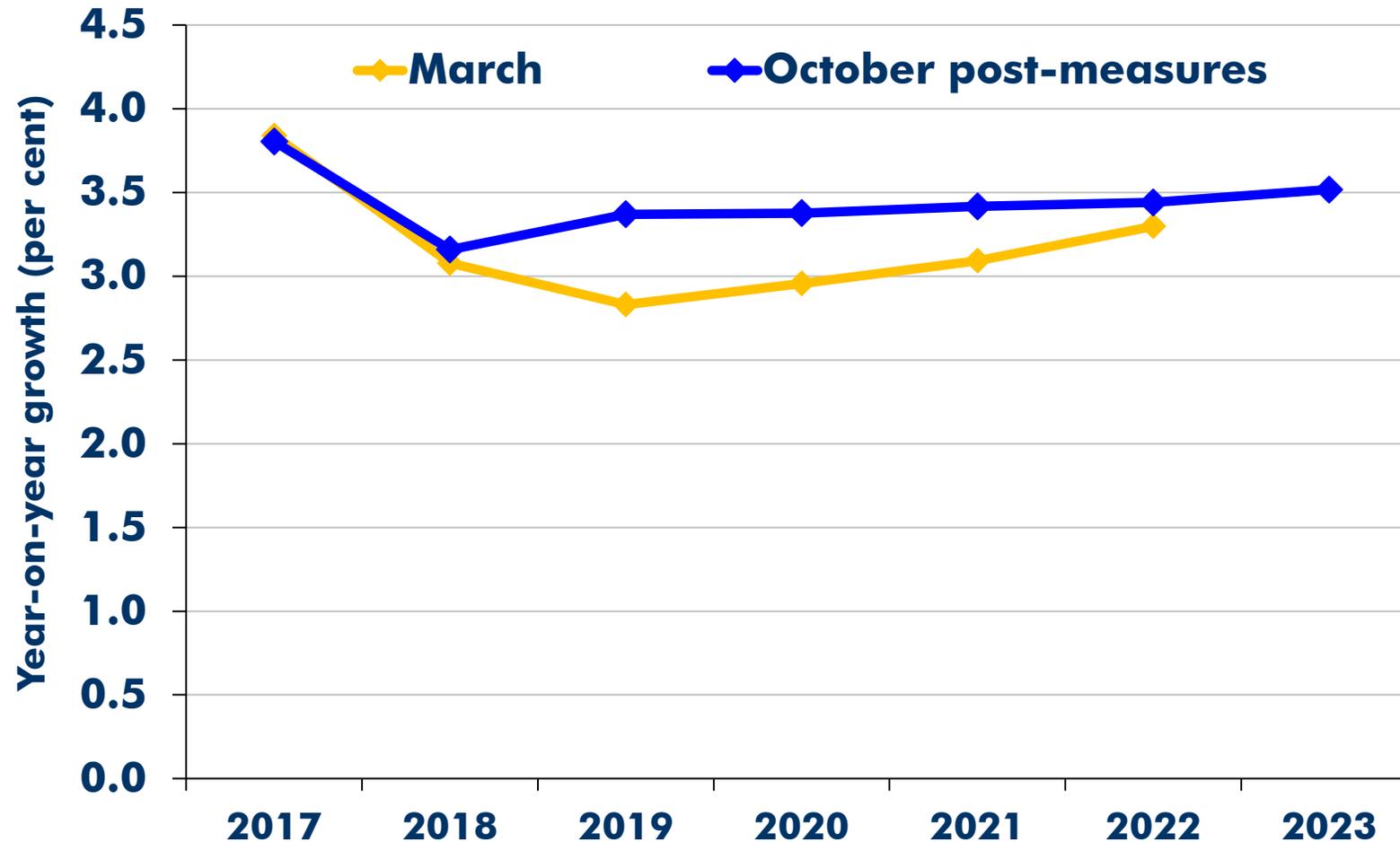
# Final economy forecast: real GDP growth



# Final economy forecast: nominal GDP growth



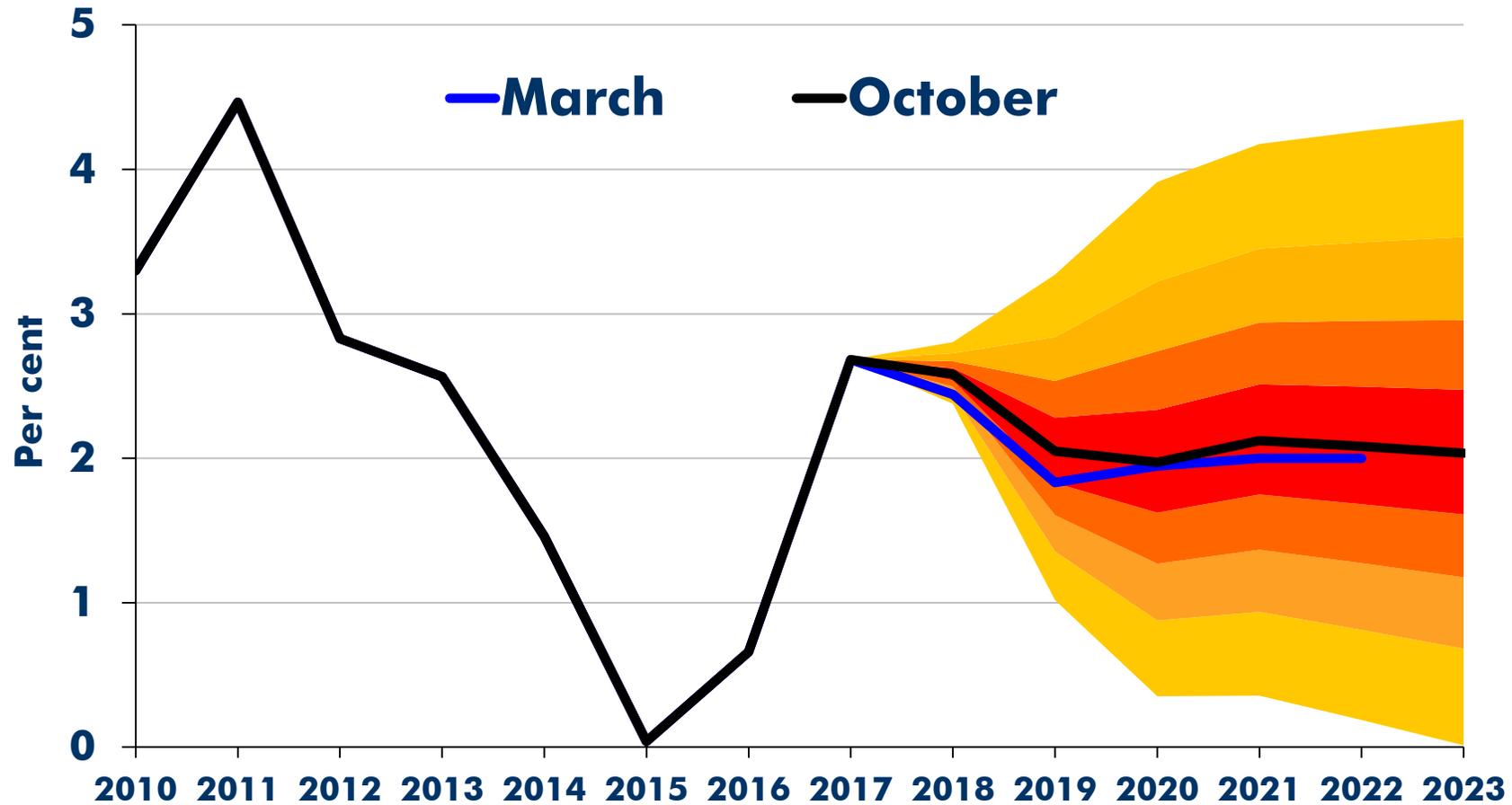
# Final economy forecast: nominal GDP growth



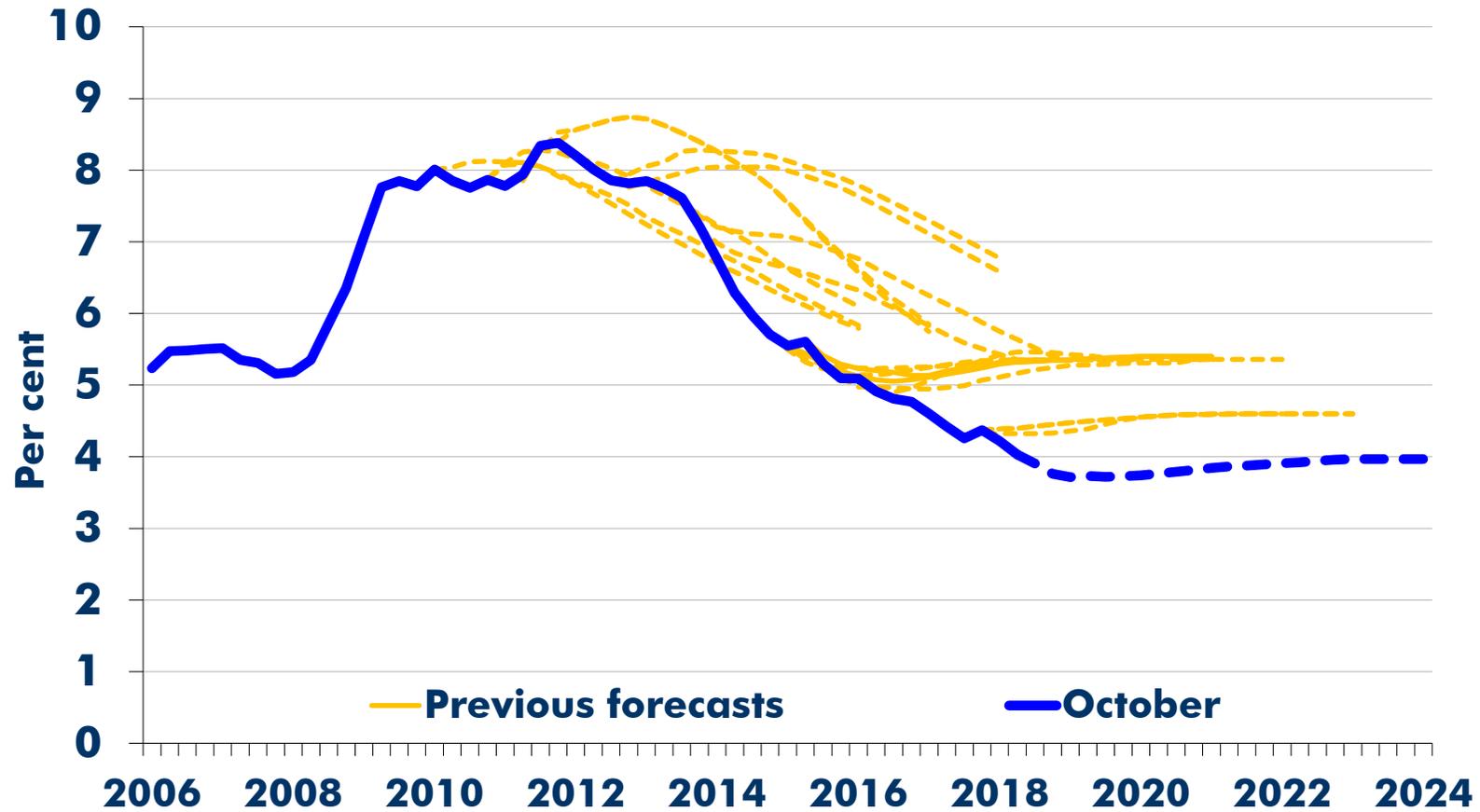
# The composition of growth

- **Budget measures affect composition of GDP**
- **Nominal government consumption rises over the forecast**
- **Business investment holding up less well in recent data**
- **Household consumption stronger in the near term**
- **Saving ratio negative and unsecured debt rising, but this does not imply an unsustainable consumer boom**

# Final economy forecast: CPI inflation



# Final economy forecast unemployment



# The National Living Wage

- **Current policy has NLW rising 60% of median earnings**
- **Government has hinted at moving to two-thirds**
- **Impact on employment could be greater than seen to date**
- **140k off employment and the same from average hours?**
- **Government to consult before setting new target**

# Conclusion

- **The outlook for the public finances has improved**
- **And the Government has spent the proceeds**
- **The Government meets its near-term targets**
- **But makes no further progress to balancing the budget**
- **All this assumes no disorderly Brexit**