

Economic and fiscal outlook

3 December 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 20 November
- Met with the Chancellor on 24 November
- No pressure to change any conclusions
- Extra spending notified to us too late for economy forecast
- New uncertainty ratings for Government policy costings

Overview

- **The economy**

- Growth slightly stronger since March than expected
- But now expect more of a slowdown through next year
- Inflation revised lower and below target until 2017
- Biggest uncertainty remains productivity and earnings
- Stable forecast, but with big change in spending composition

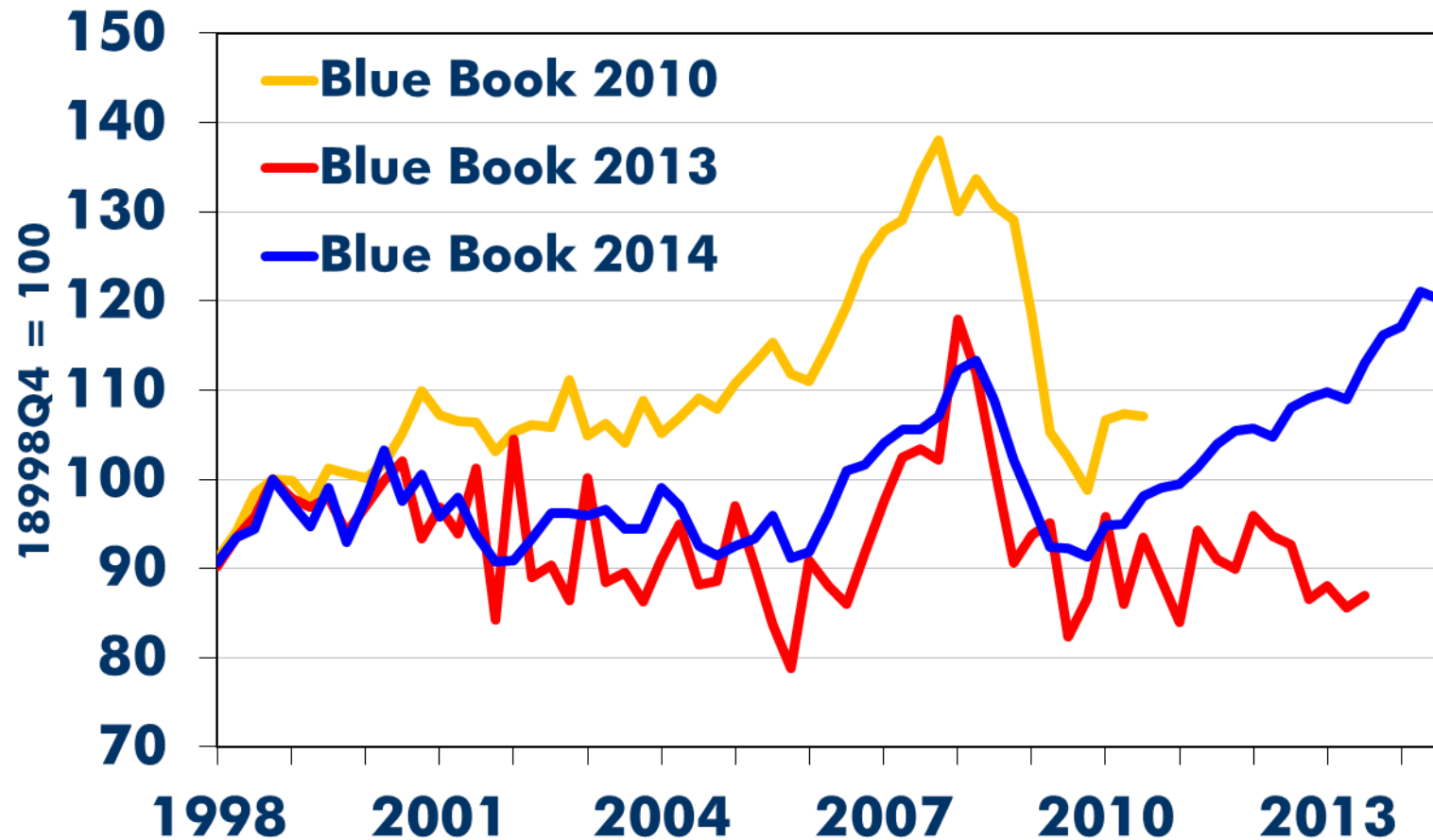
- **The public finances**

- Picture complicated by methodological revisions
- Revenue per pound of GDP weak this year, so smaller fall in deficit
- Receipts lower through the forecast, notably income tax
- Spending lower through the forecast, notably debt interest
- Treasury's list of policy measures has little fiscal impact
- But implied squeeze on departmental spending tighter again
- Mandate and welfare cap set to be met; debt target to be missed

Recent economic data

- Economy grew by 2.4% in first three quarters of the year, compared to the 1.9% we forecast in March
- Consumer spending still main driver (despite weak earnings), but government consumption contribution revised up
- Nominal GDP also grew faster than expected, but outperformed most in the areas that yield least revenue
- Inflation lower than expected: food, oil, stronger pound
- Employment stronger than expected, but earnings weaker

Business investment revised again



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The outlook for growth

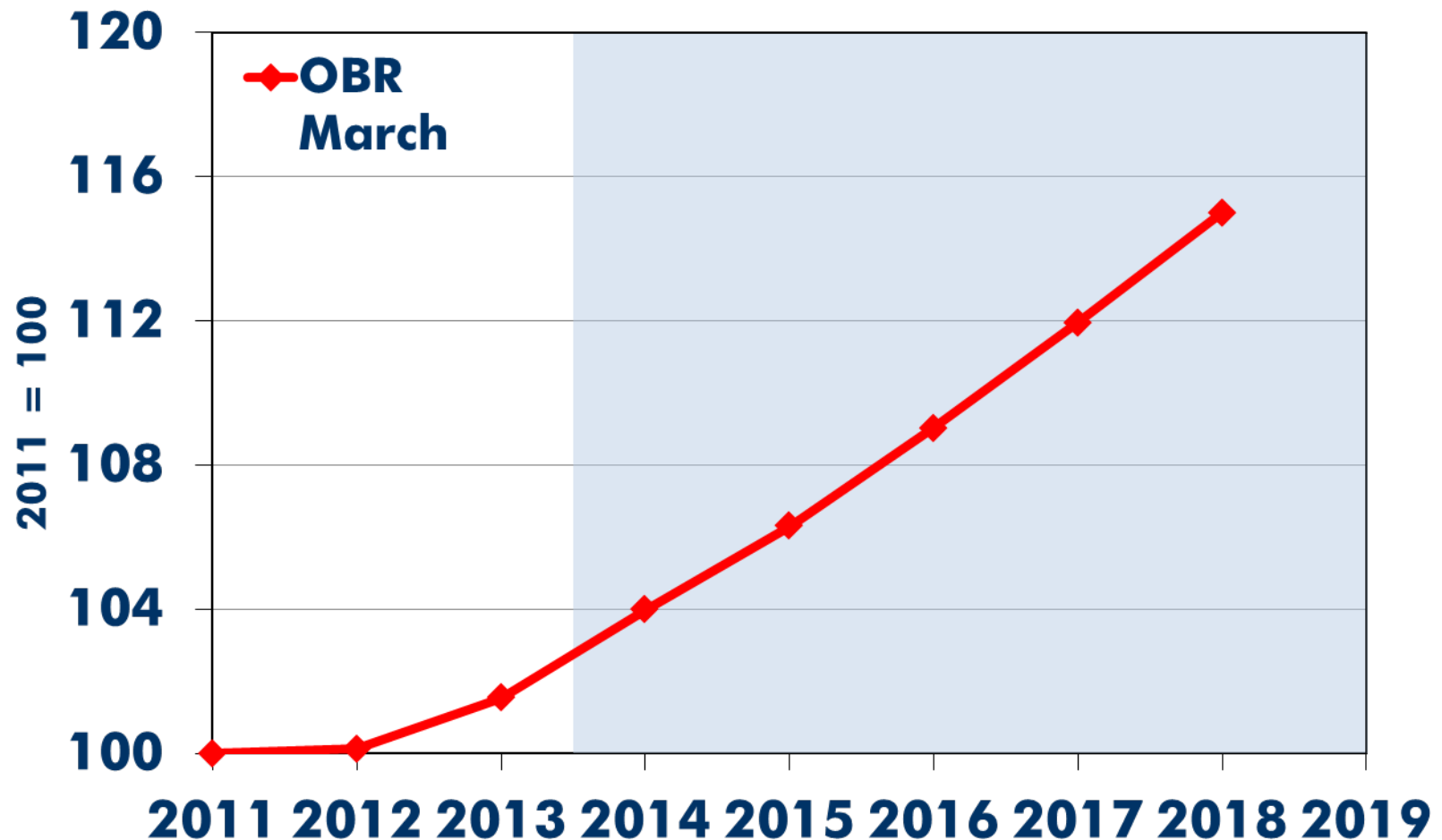
% growth p.q.	2014				2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
March EFO	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
December EFO	0.7	0.9	0.7	0.6	0.6	0.5	0.5	0.5	0.5	0.6	0.6	0.6
<i>Change</i>	<i>0.0</i>	<i>0.3</i>	<i>0.1</i>	<i>0.1</i>	<i>0.0</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-0.1</i>

- **Growth stronger than expected through 2014**
- **Now expecting sharper slowdown into 2015 and 2016**
 - Consumer spending moves more into line with income growth
 - Weaker demand for UK exports on lower global growth

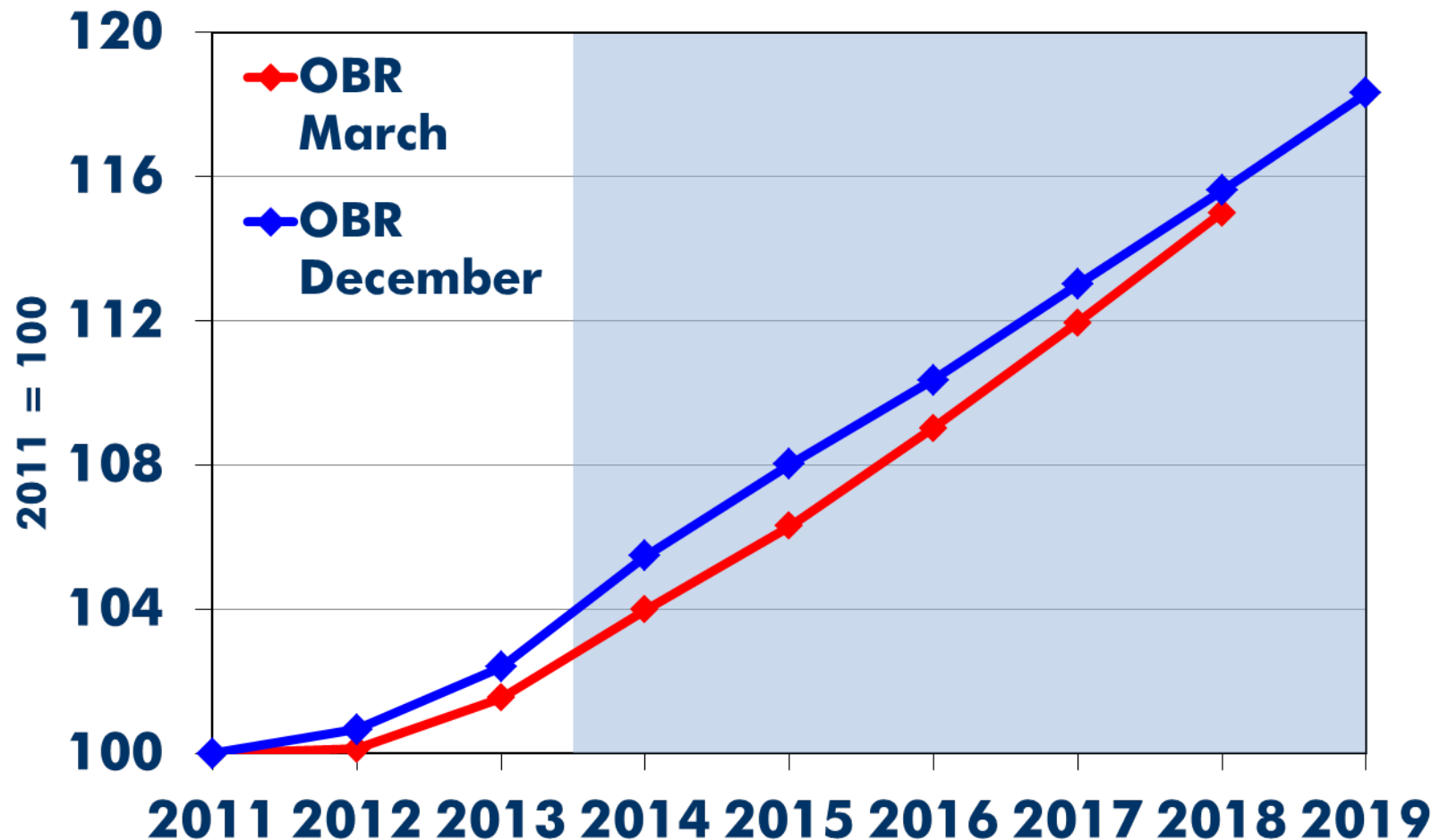
Real GDP growth: up then down

% growth p.a.	March EFO	December EFO	<i>Change (to unrounded data)</i>
2014	2.7	3.0	+0.3
2015	2.3	2.4	+0.1
2016	2.6	2.2	-0.4
2017	2.6	2.4	-0.2
2018	2.5	2.3	-0.1
2019		2.3	

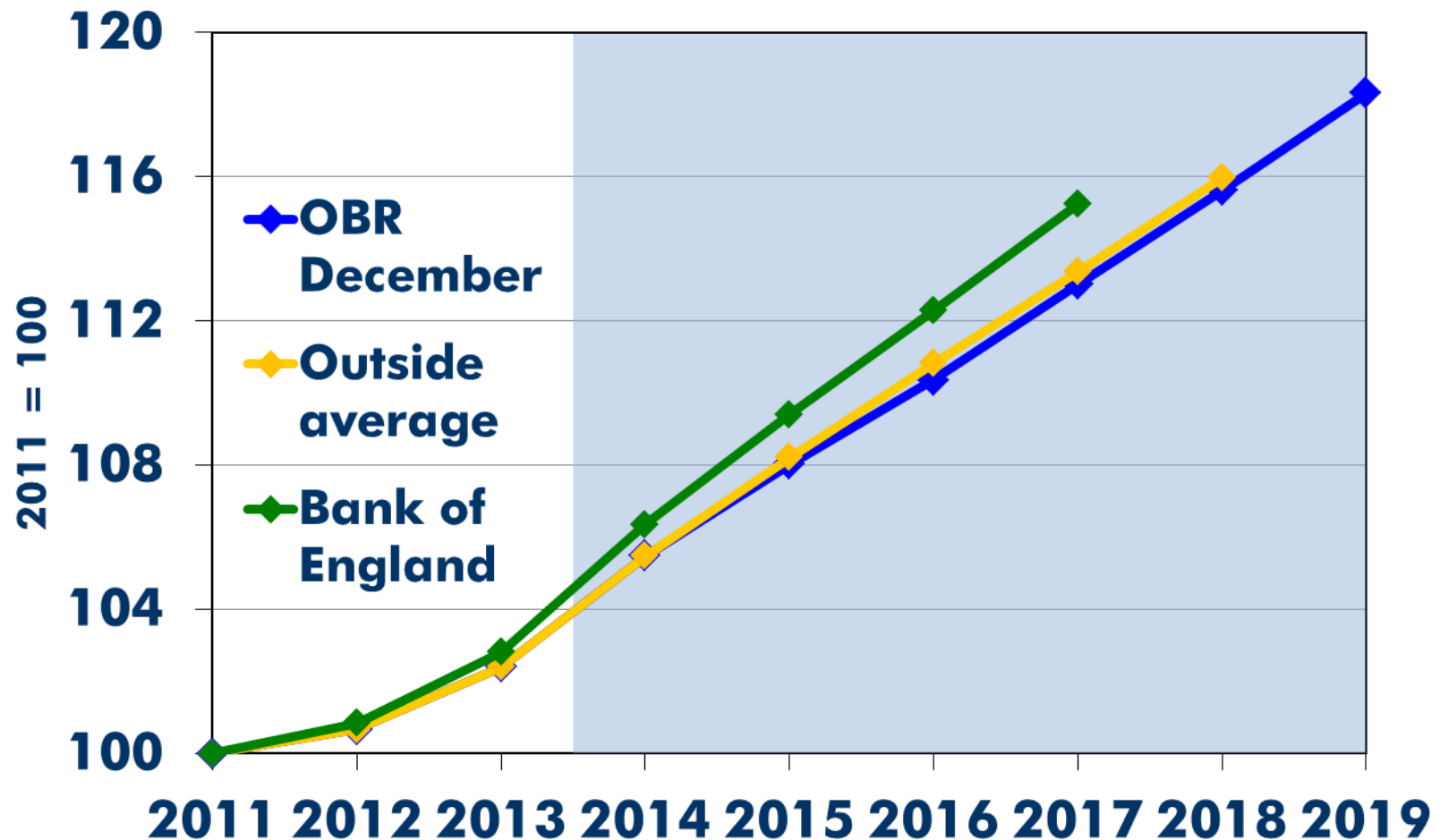
Level of GDP



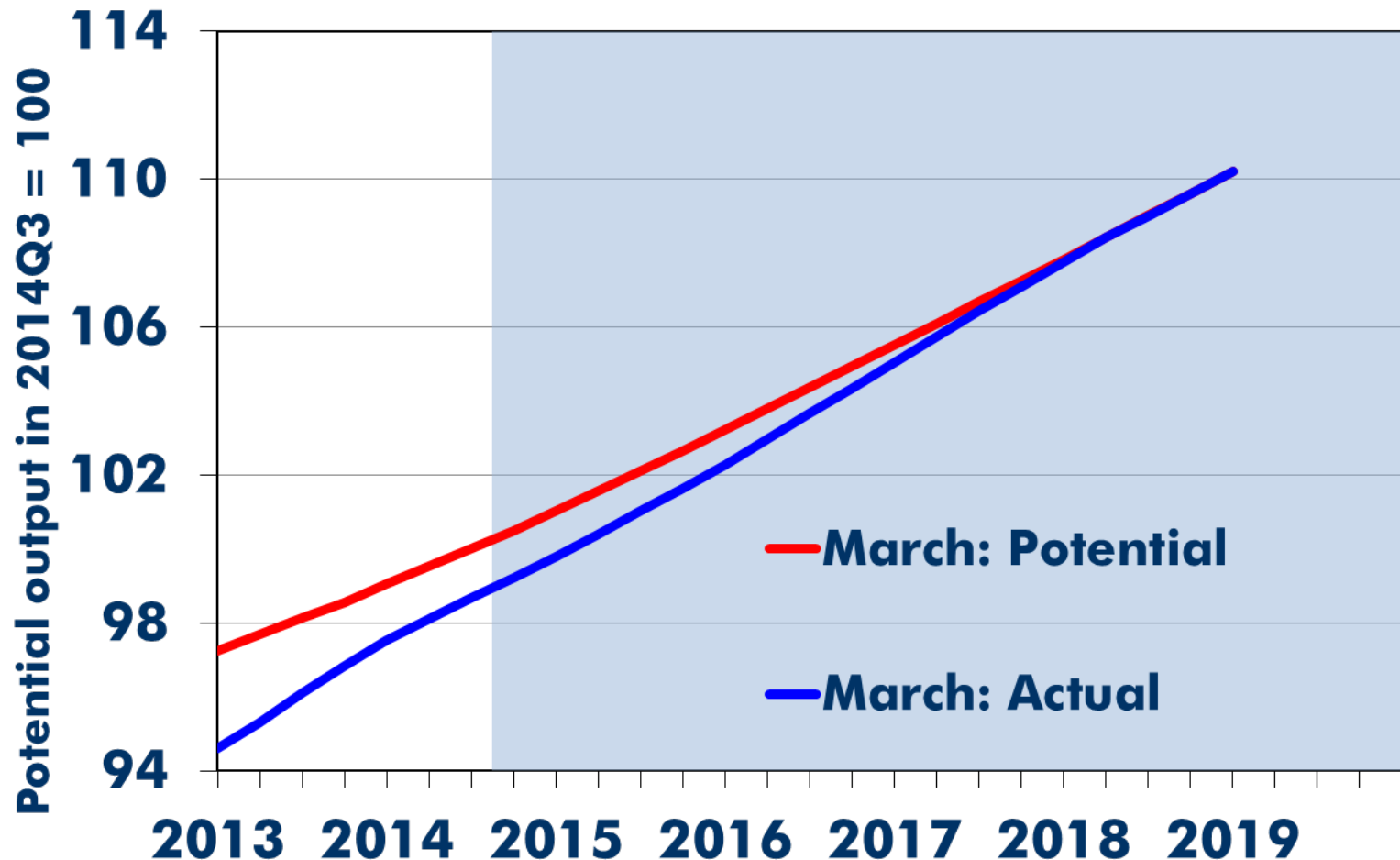
Level of GDP



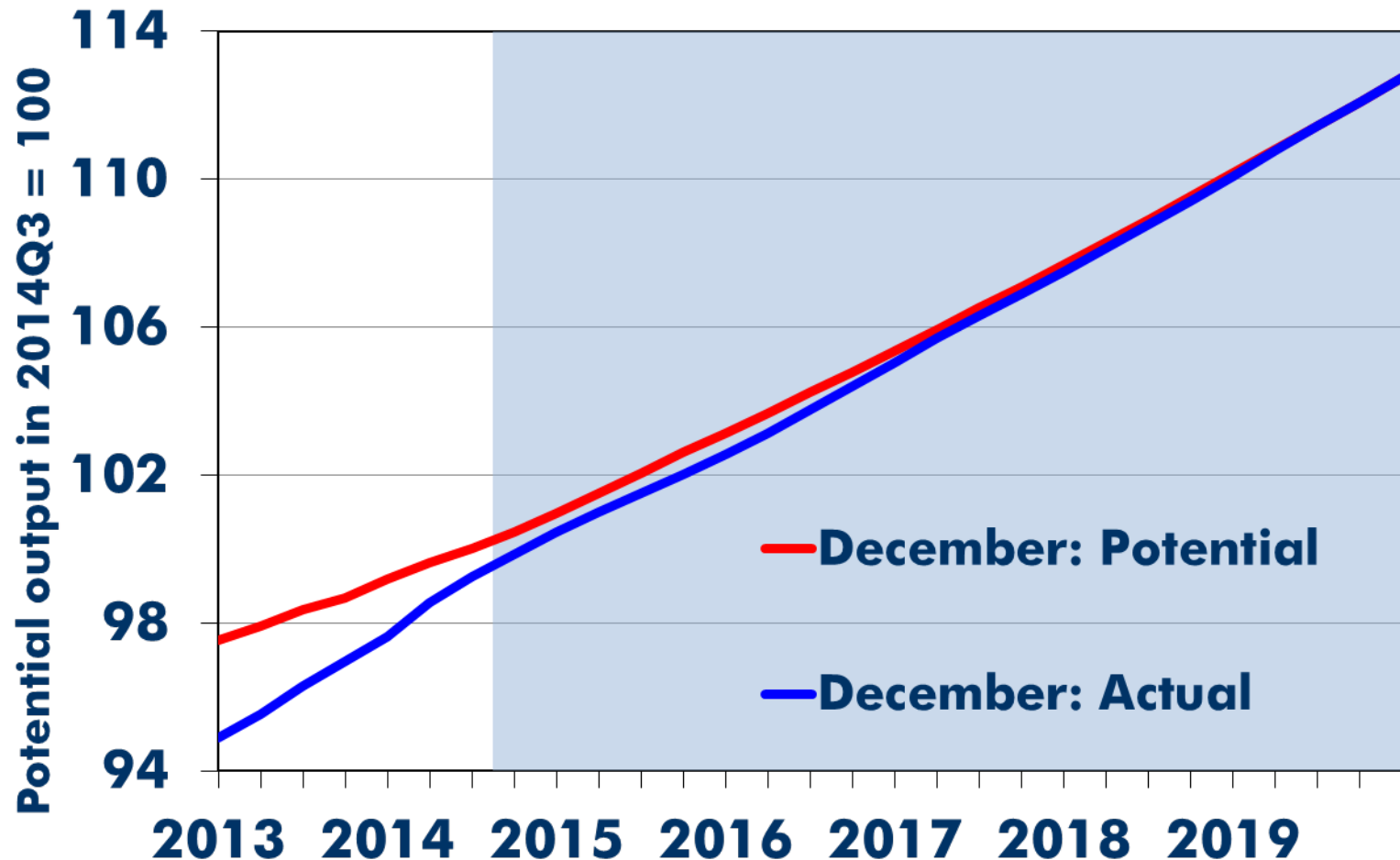
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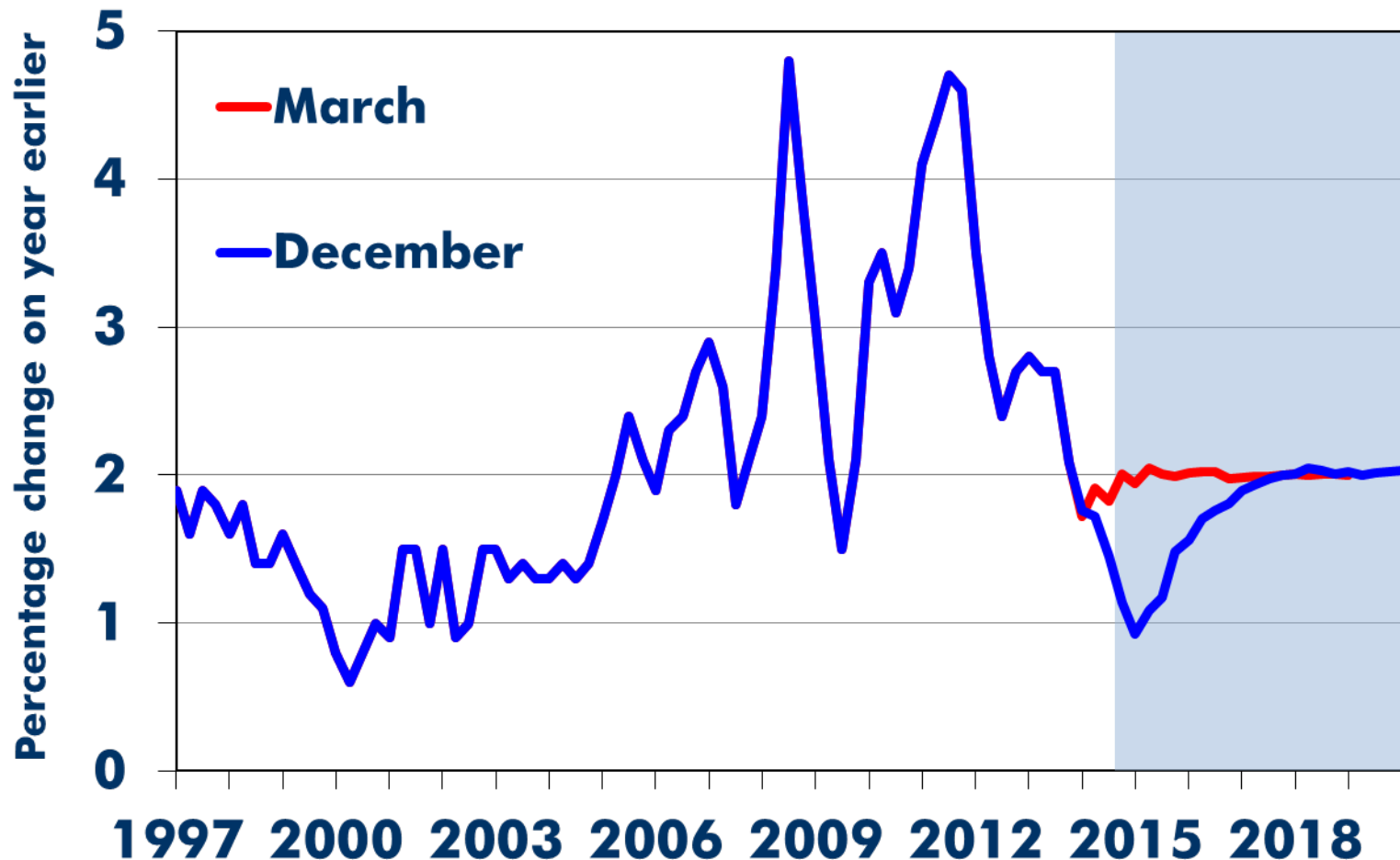
Smaller output gap closes later



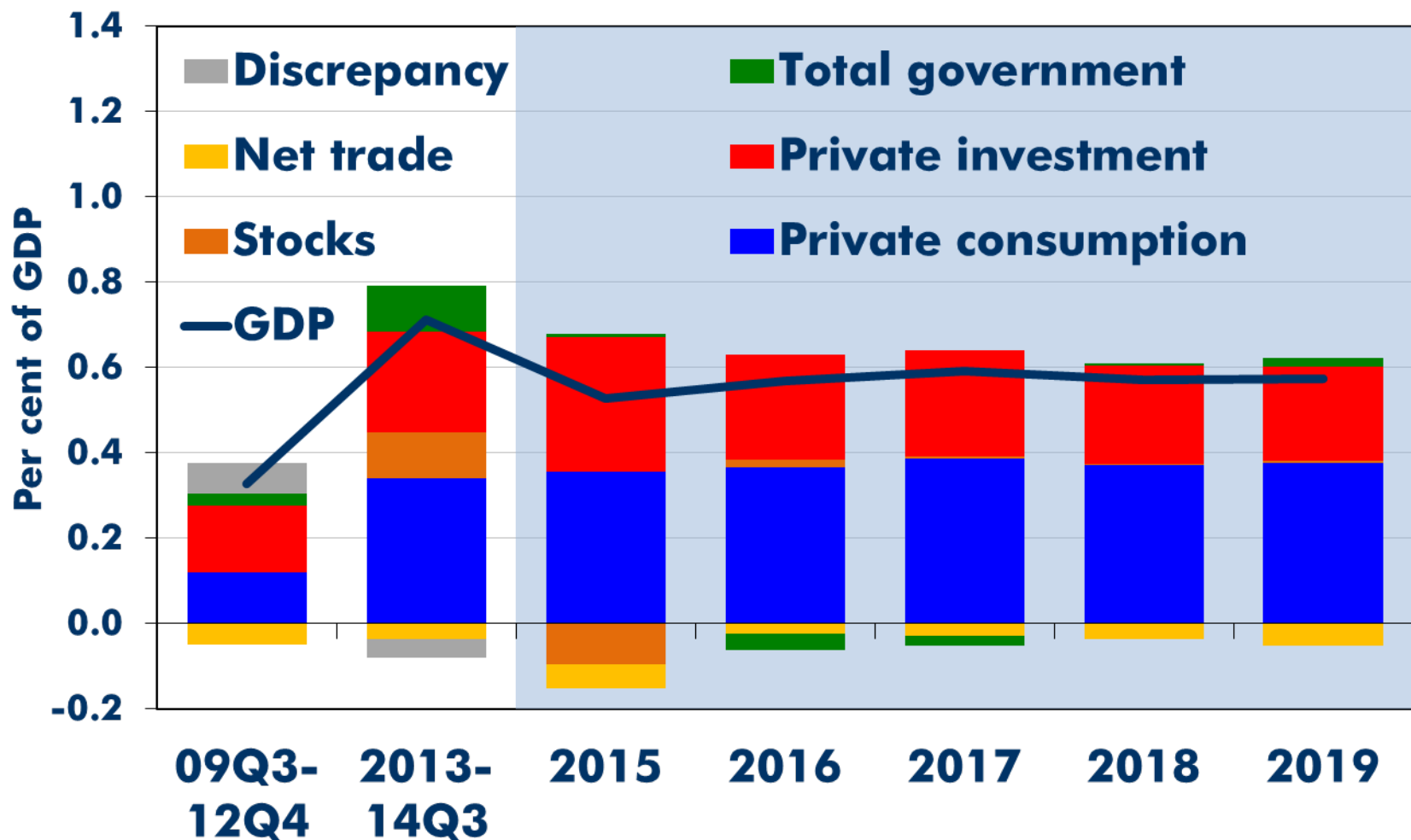
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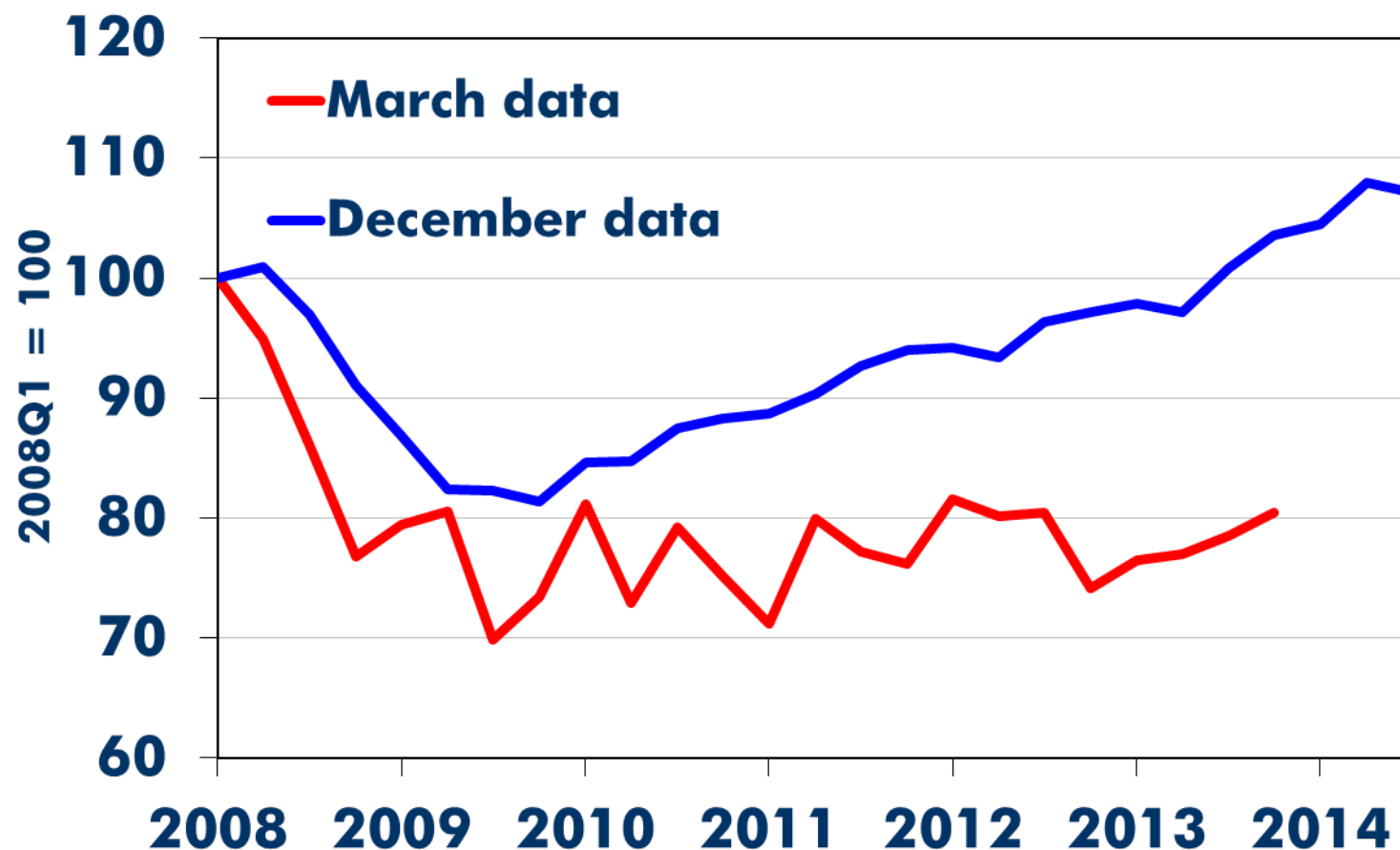
CPI inflation



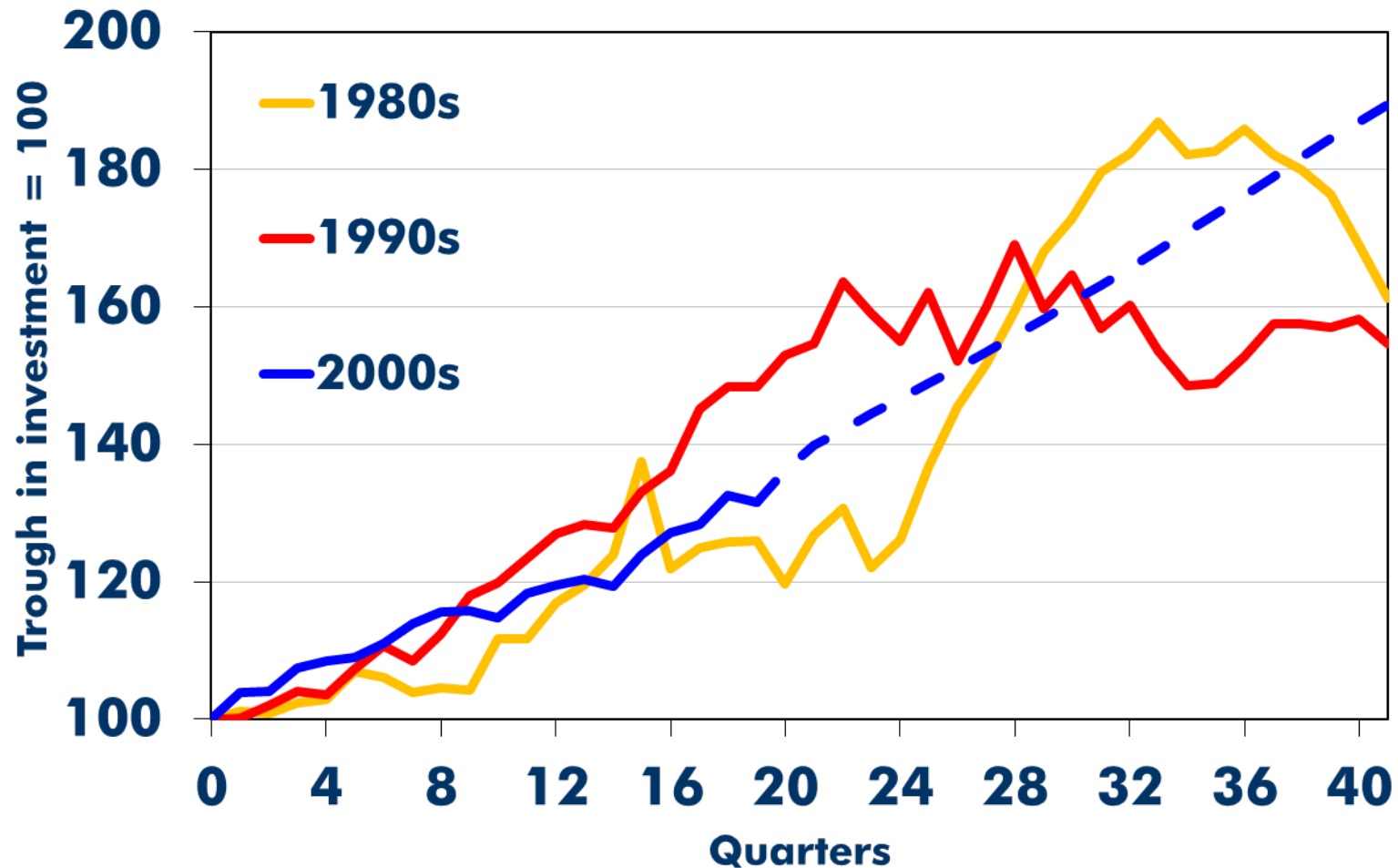
The outlook for quarterly growth



Business investment



Business investment



Risks and uncertainties

- Euro area economy and banking system
- Unloosening of global monetary policy
- Geopolitics
- Rise in household deficit and debt
- Adjustment to further fiscal tightening
- Productivity fails to recover

The public finances

- Fiscal forecast not consistent with economy forecast: late notification of extra spending
- Comparisons complicated by ONS public finances review and ESA10 implementation
- Much depends on what you assume about public spending beyond 2015-16

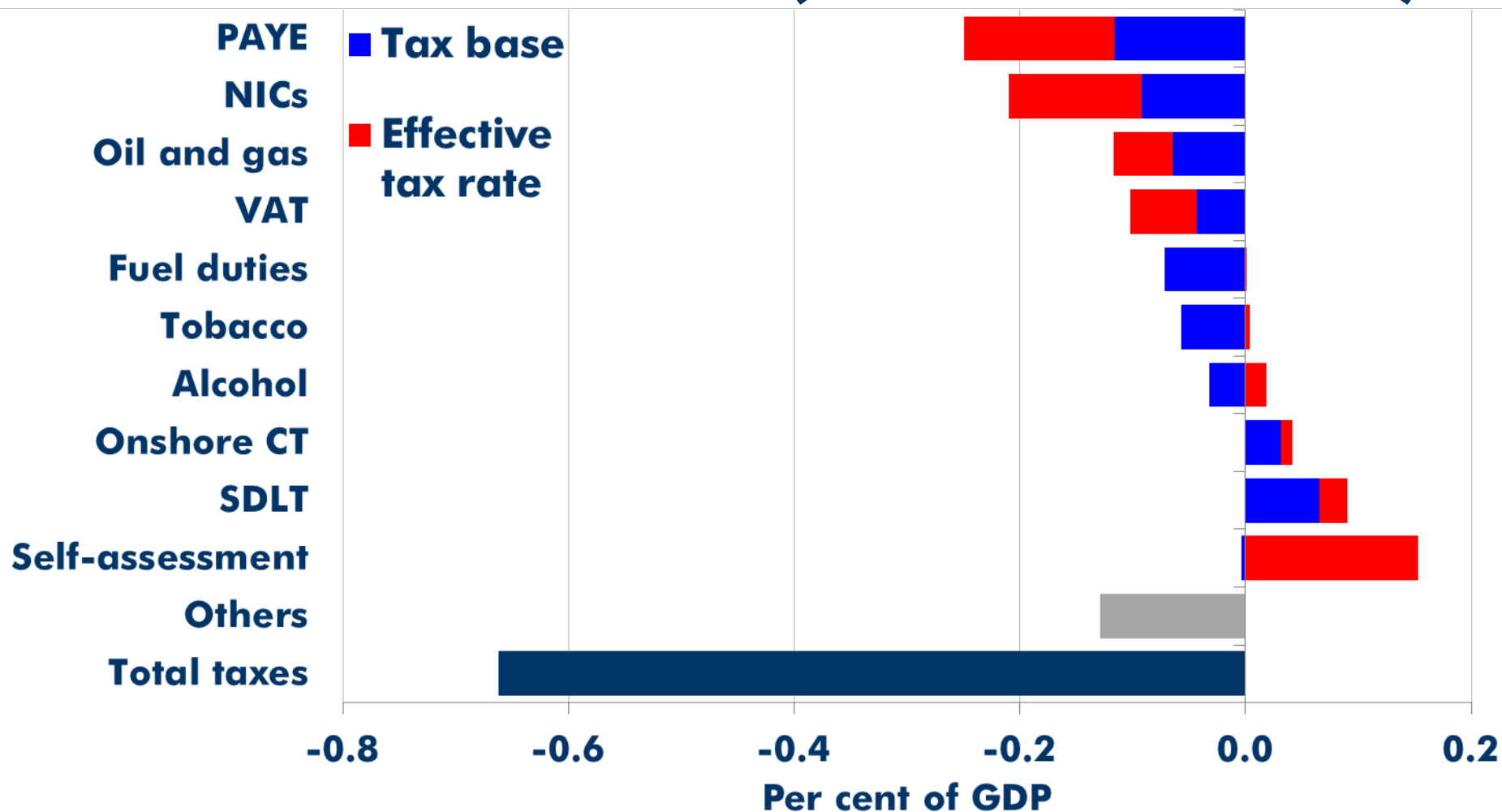
The deficit: the effect of ESA10 etc

PSNB, £ billion	2014-15	2015-16	2016-17	2017-18	2018-19
March (ESA95 underlying)	95.5	75.2	44.5	16.5	-4.8
Asset Purchase Facility flows	-11.6	-6.9	-2.9	1.3	3.7
March (ESA95, headline)	83.9	68.3	41.5	17.8	-1.1
Receipts revisions	-4.7	-9.8	-13.9	-15.9	-16.8
AME spending revisions	+7.3	+9.8	+13.8	+13.9	+14.2
March (ESA10, headline)	86.4	68.3	41.5	15.8	-3.7

Borrowing up a bit in 2014-15

£ billion	PSNB
March forecast (ESA10 basis)	86.4
Forecast changes, of which:	+5.8
Income tax / NICs	+4.5
Stamp duty land tax	+0.8
North Sea	+0.9
Interest and dividend receipts	+0.7
Other receipts	+0.9
Debt interest	-5.0
Departmental spending	-0.7
Welfare spending	+1.1
Other spending	+2.6
Policy measures, of which:	-0.9
Forex fines	-1.1
Stamp duty reform	+0.4
December forecast	91.3

Tax-to-GDP ratio (13-14 to 14-15)



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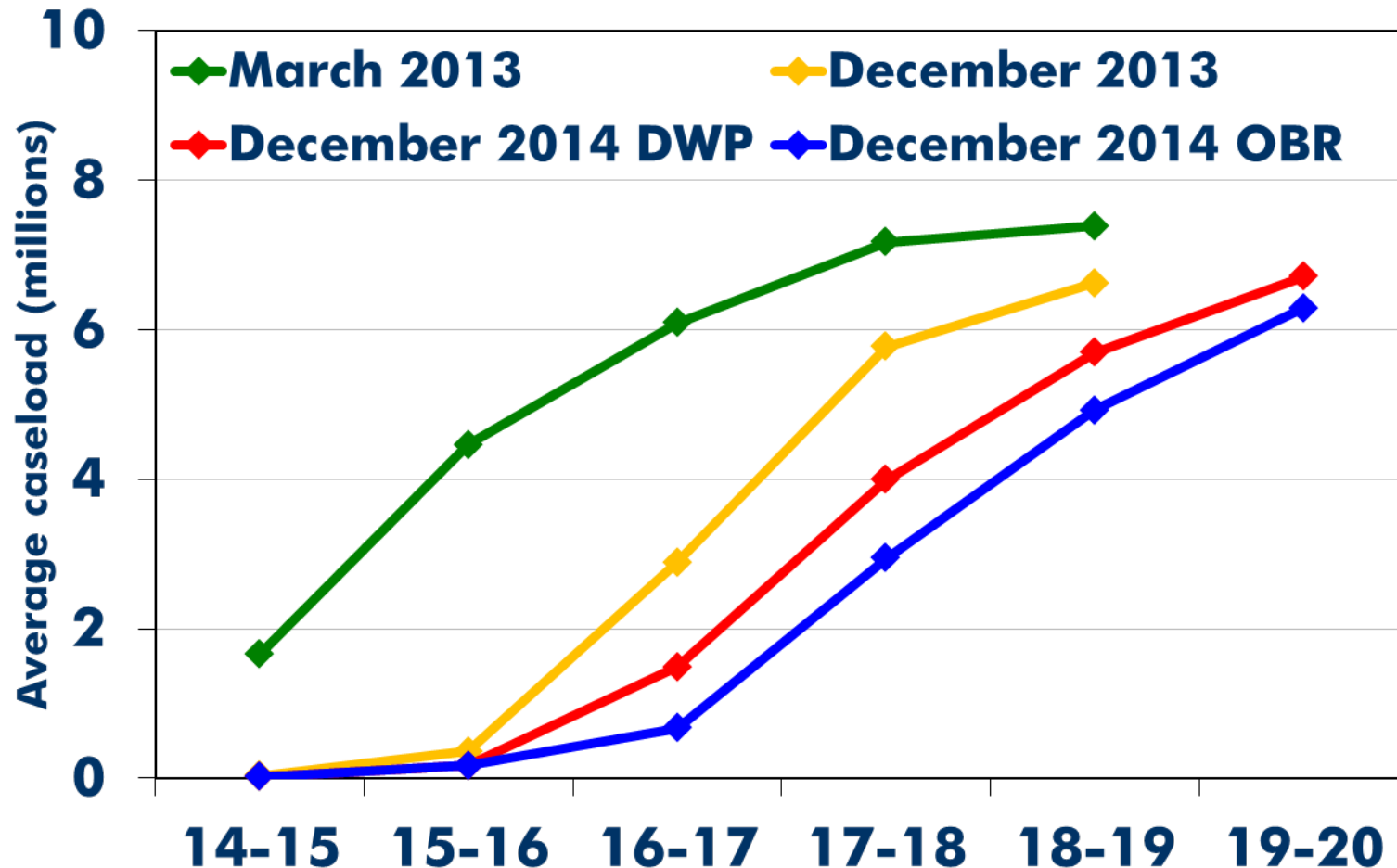
Public sector net borrowing

£ billion	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
March (new basis)	86.4	68.3	41.5	15.8	-3.7	
Receipts forecast	7.8	14.3	18.9	22.7	25.3	
Spending forecast	-2.0	-7.7	-11.9	-15.9	-19.2	
March spending rule			-7.0	-6.0	-4.3	
Pre-measures	92.1	74.9	41.3	16.6	-1.9	-6.5
Measures table						
New spending rule						
December						
<i>Memo: change</i>						

Selected scorecard policy measures

£ million	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Big 'giveaways'						
Stamp duty reform	-395	-760	-840	-850	-815	-785
Higher personal allowance	0	-530	-635	-640	-655	-655
More money for GP services	0	-295	-295	-295	-295	-295
Small business rates relief	0	-500	+70	+5	0	0
Big 'takeaways'						
Bank losses restriction	0	+695	+765	+705	+695	+625
Diverted profits tax	0	+25	+270	+360	+345	+355
Public service pensions	0	+335	+365	+375	+385	+390
Other selected						
Forex fines	+1115	0	0	0	0	0
Universal credit delay	0	+55	+425	+915	-110	-395
Total scorecard	+865	-1030	+75	+410	+450	+425

Universal credit rollout schedule



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Measures table	-0.9	1.0	-0.1	-0.4	-0.5	-0.4
New spending rule						
December						
<i>Memo: change</i>						

The post 2015 spending assumption

- **For 2016-17 and 2017-18:** TME should fall in real terms at the same rate as over the 2010-11 to 2014-15 period covered by Spending Review 2010. For 2010-11, the relevant measure of TME should exclude underspending against plans and the in-year spending reductions announced in the June 2010 Budget, but include the retrospective effect of our decision to show spending gross of the negative tax element of tax credits, consistent with the prospective treatment under ESA10. For 2014-15, the measure of TME should exclude our allowance for shortfall. It should also be excluded for the measure of TME in 2015-16 from which the real growth rates are applied. The effect of the policy measures should also be taken into account, while the effect of the historic adjustment to the UK's GNI-based contributions to the EU in 2014-15 and associated rebate in 2015-16 should be excluded. Within TME, PSGI should be held flat in real terms from a level in 2015-16 that includes our allowance for shortfall; and
- **For 2018-19 and 2019-20:** TME should be held flat in real terms from a baseline that continues to include the effect of Budget measures. Within TME, PSGI should grow in line with nominal GDP.

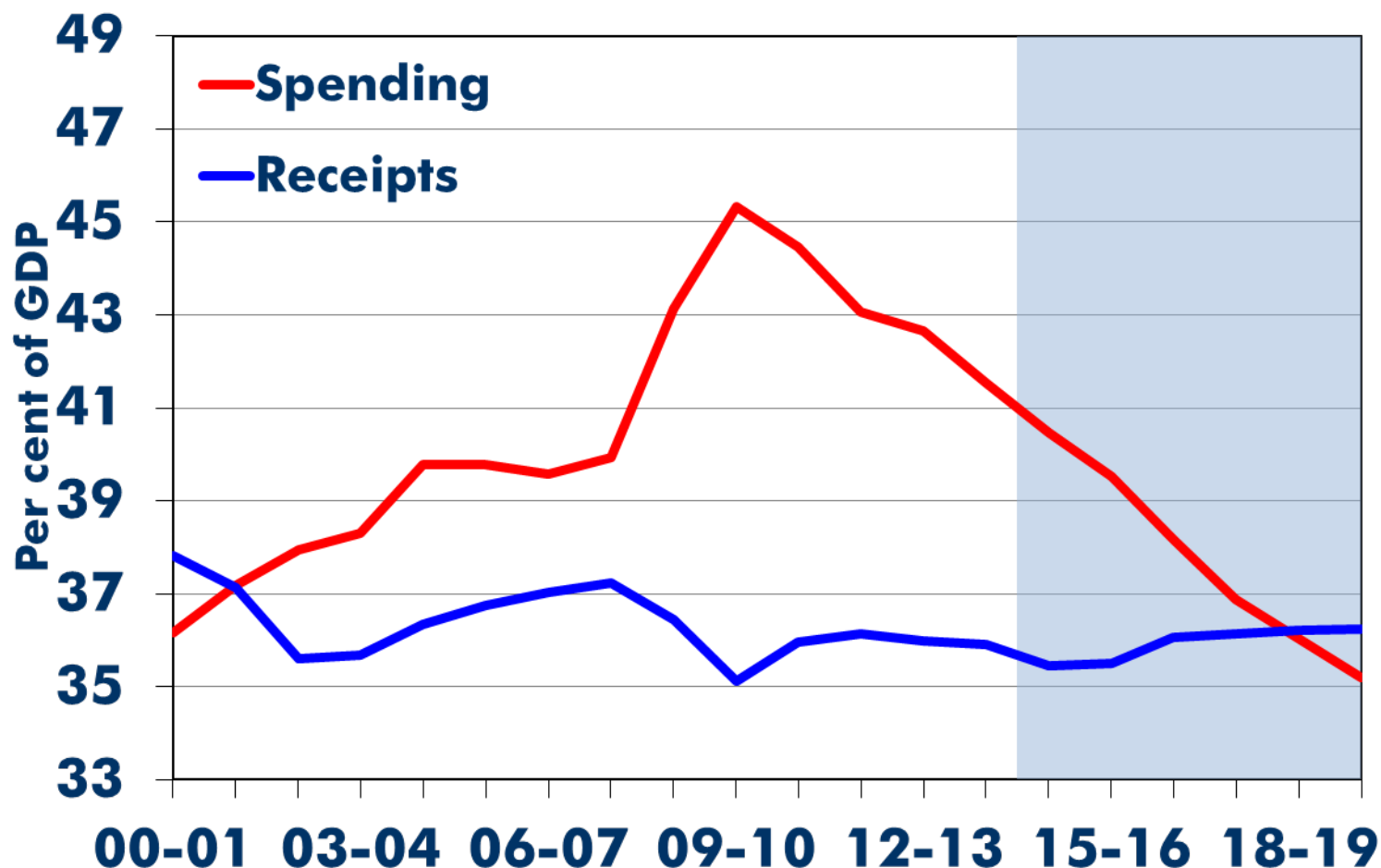
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December						
<i>Memo: change</i>						

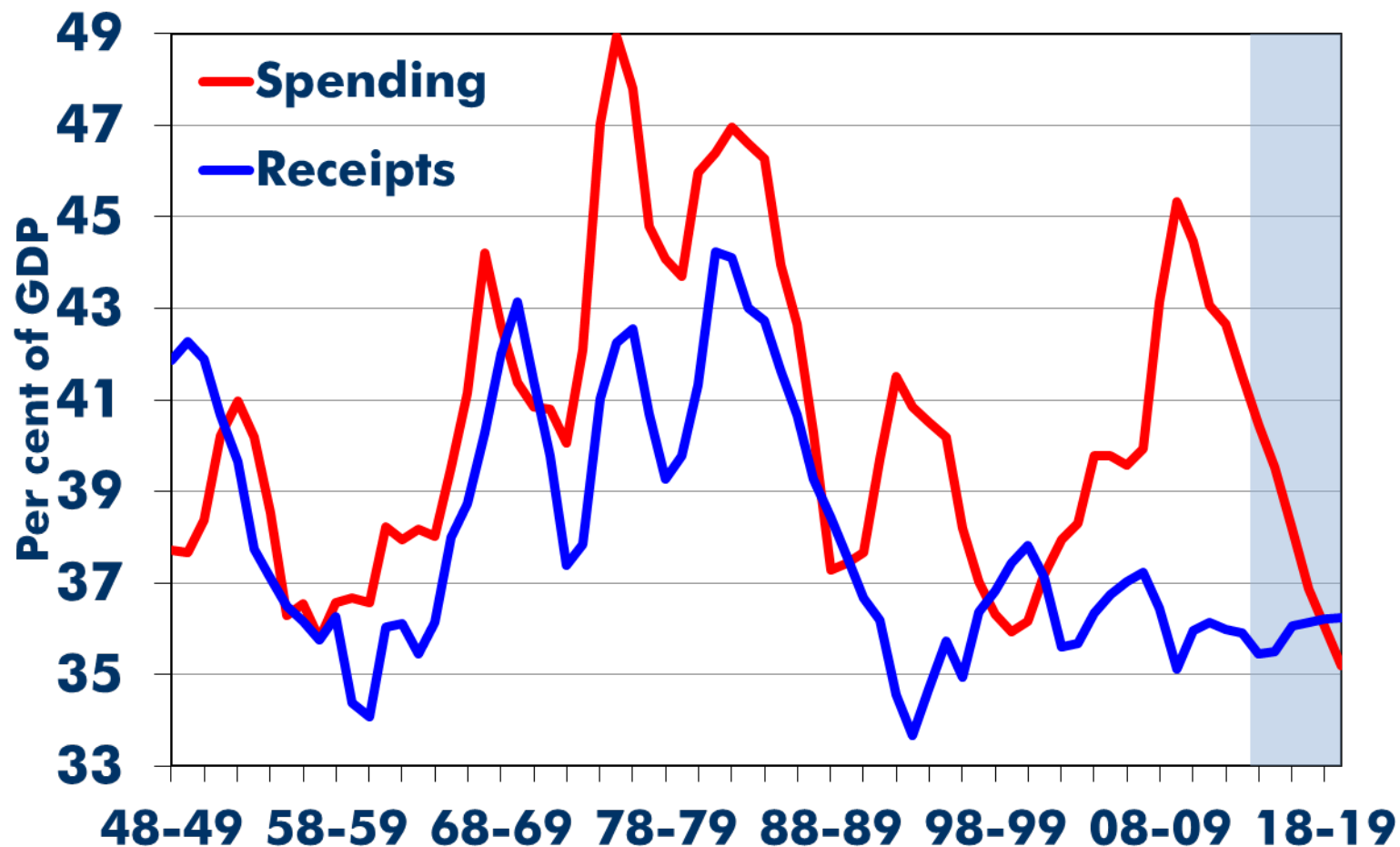
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New spending rule			-0.4	-1.6	-1.7	-16.2
December	91.3	75.9	40.9	14.5	-4.0	-23.1
<i>Memo: change</i>	4.9	7.7	-0.6	-1.3	-0.3	

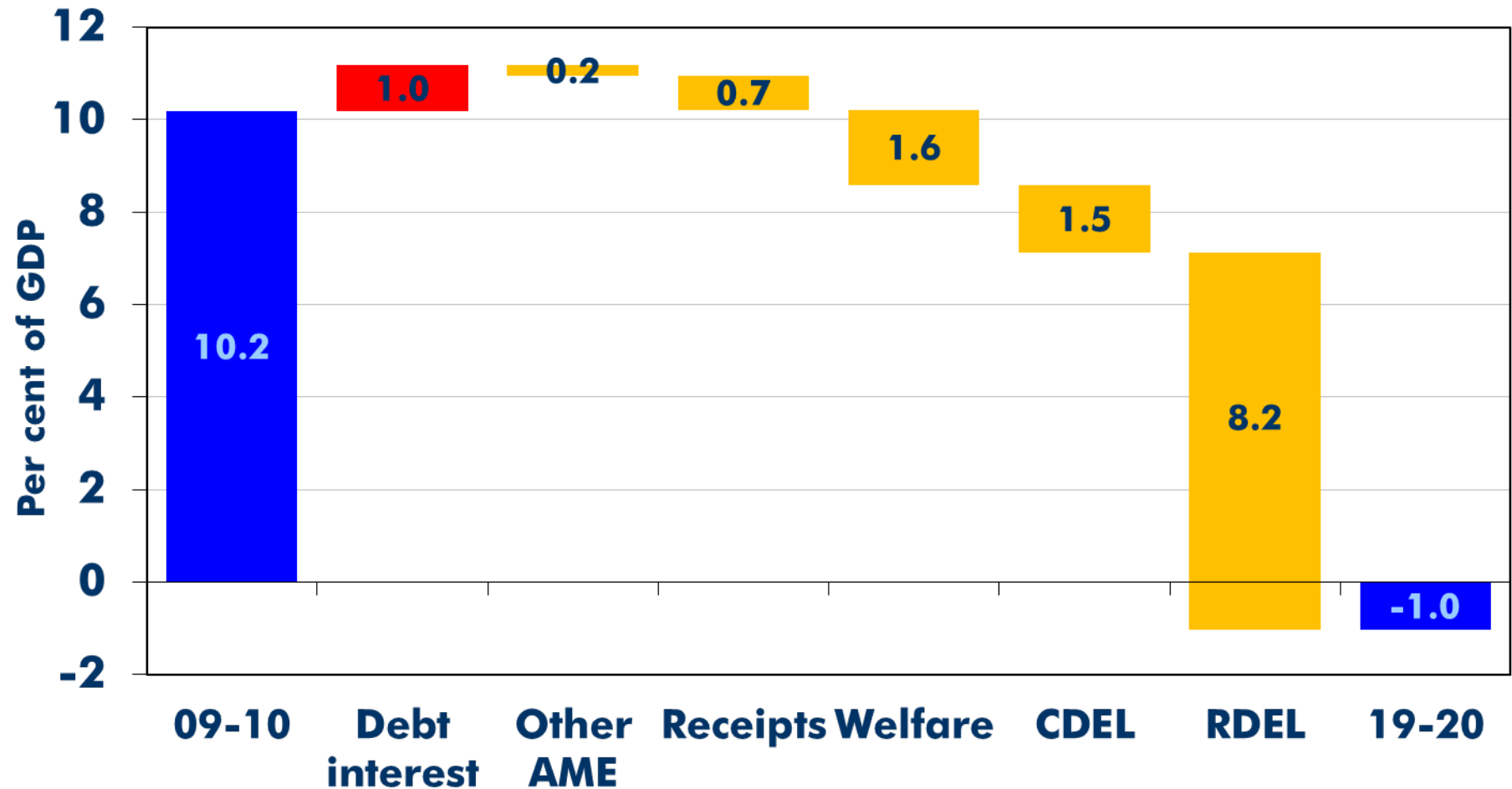
Receipts and spending



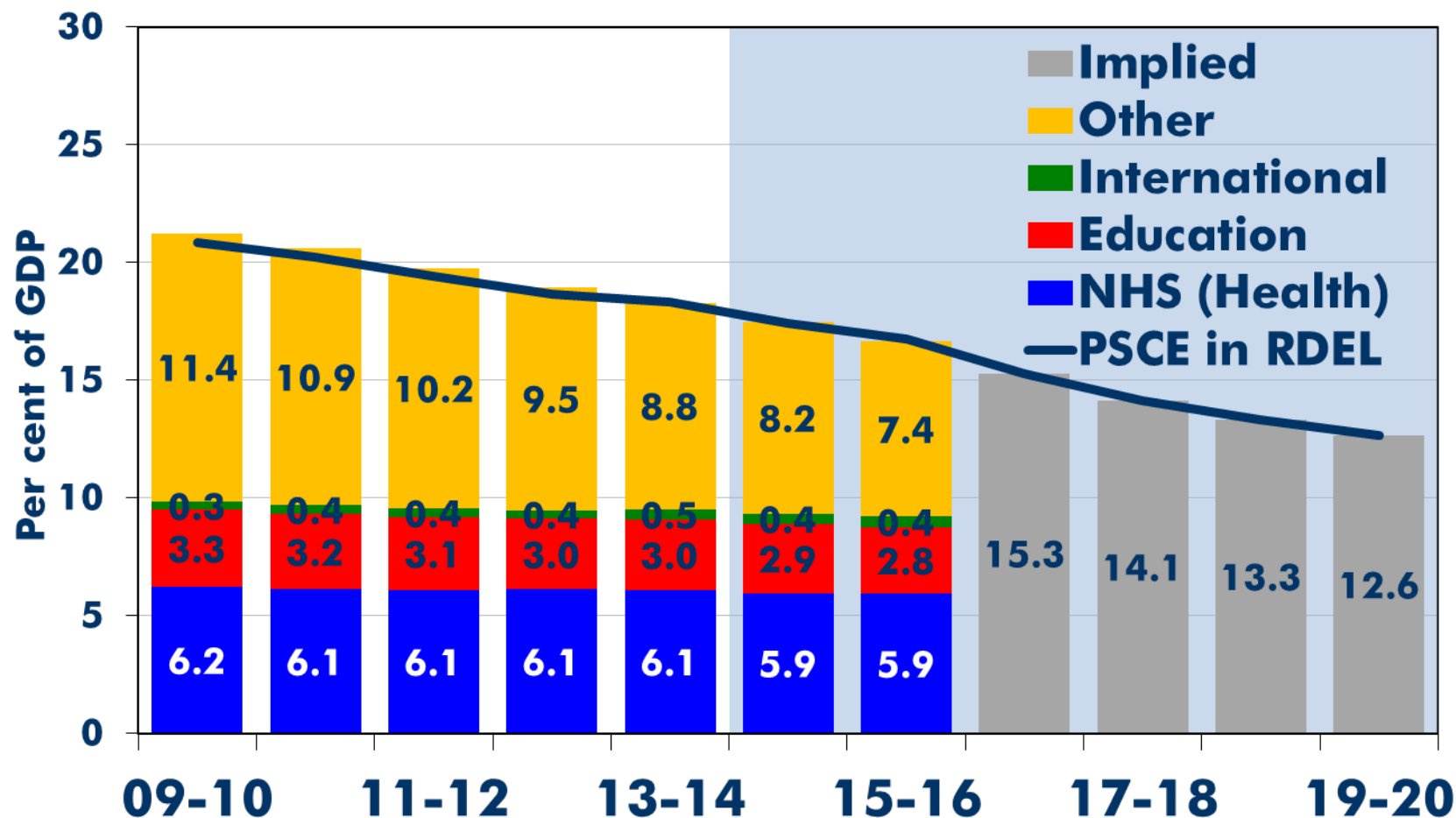
Receipts and spending



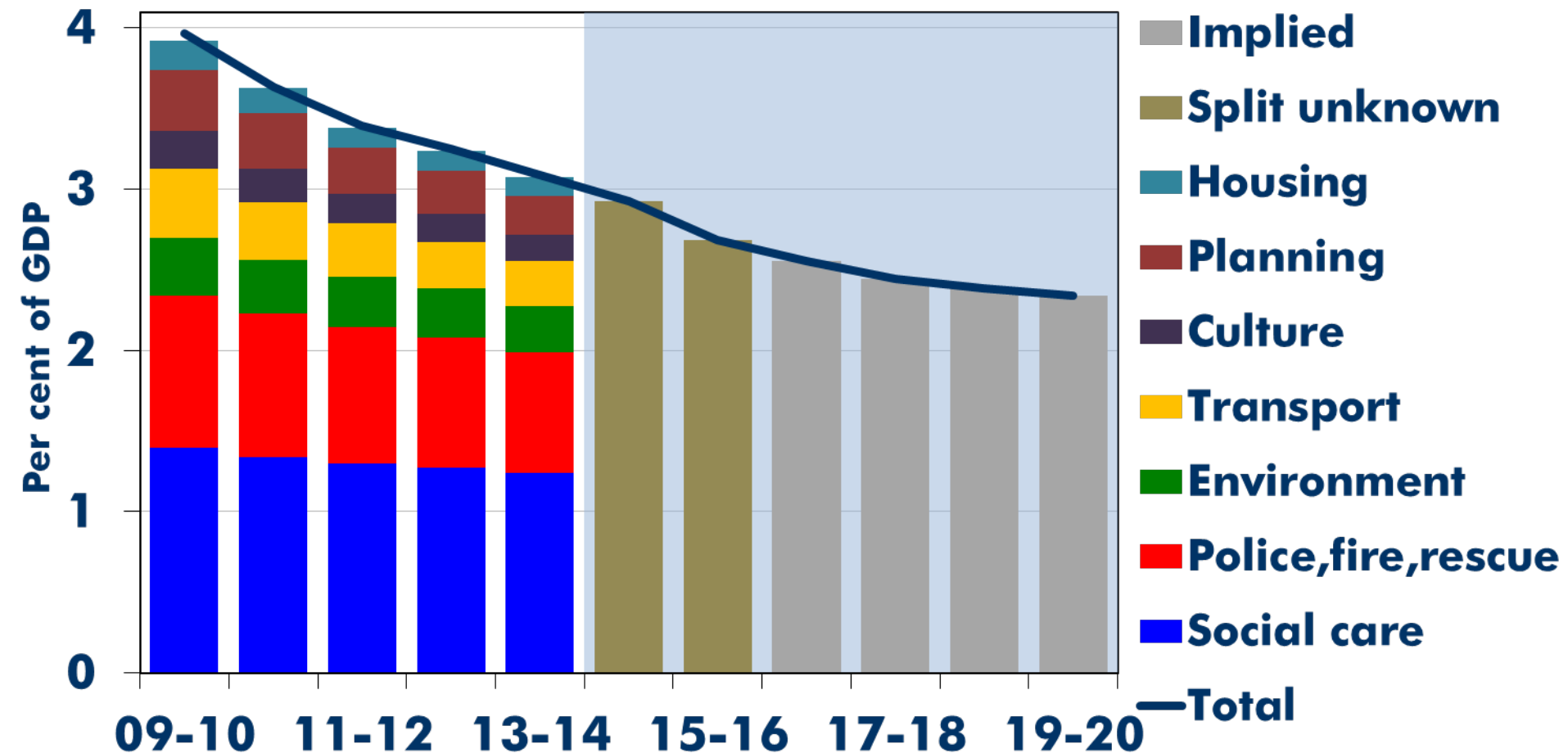
How PSNB returns to balance



Public services spending



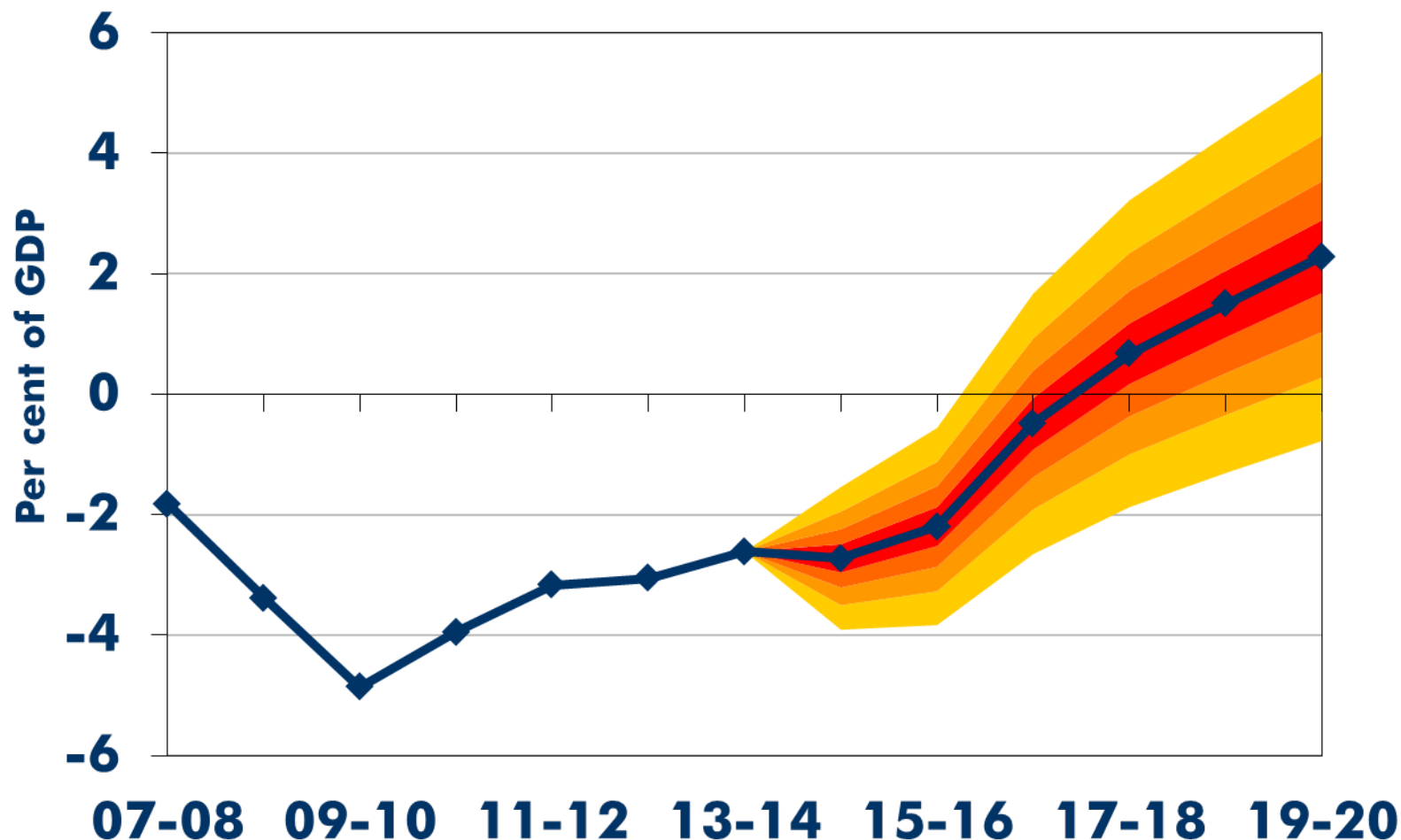
Local authorities' spending



The fiscal mandate

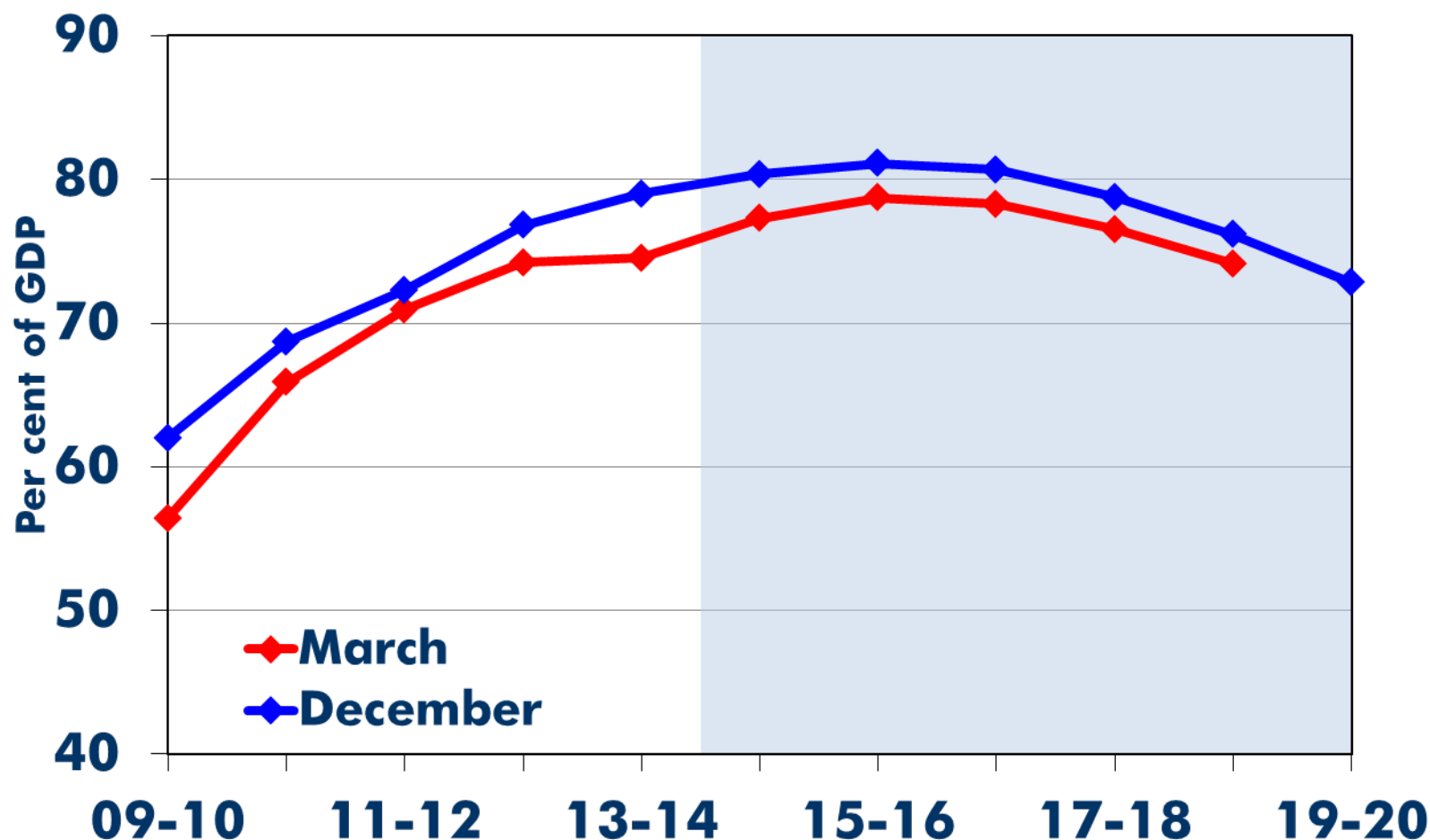
Cyclically adjusted current budget balance as % of GDP	2018-19	2019-20
March	+1.5	+1.5
GDP/ESA10/PSF revisions	-0.1	-0.2
Underlying receipts	-0.7	-0.7
Underlying spending	+0.4	+0.6
Scorecard measures	-	-
New post 2015-16 spending assumption	+0.3	+1.0
December	+1.5	+2.3

Uncertainty and the mandate



Implies 80% chance of success

Public sector net debt



Change in net debt on previous year

% of GDP	2015-16	2016-17
March	+1.5	-0.5
Nominal GDP revisions	+0.3	+0.6
ESA10/PSF review	-0.1	-0.2
Autumn Statement measures	+0.1	-
Gilt premia	-0.8	-0.3
Other	-0.2	-0.1
December	+0.8	-0.5

Welfare cap spending within limits

£ billion	2015-16	2016-17	2017-18	2018-19
Welfare cap	119.7	122.3	124.8	127.0
<i>Forecasting changes, of which:</i>	<i>+1.1</i>	<i>+0.6</i>	<i>+0.1</i>	<i>-0.3</i>
Incapacity benefits	+0.8	+1.1	+0.9	+0.6
DLA/PIP	+0.5	+0.9	+1.2	+1.3
Lower inflation	-0.1	-1.1	-1.4	-1.5
Other	-0.1	-0.3	-0.5	-0.7
<i>Policy measures</i>	<i>+0.2</i>	<i>-0.6</i>	<i>-1.0</i>	<i>+0.2</i>
December forecast	120.7	122.4	124.0	126.8
<i>Memo: difference from cap</i>	+0.9	+0.1	-0.8	-0.1
<i>Permitted forecast margin</i>	+2.4	+2.4	+2.5	+2.5