

Office for
**Budget
Responsibility**

Economic and fiscal outlook

25 November 2015

**Robert Chote
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-scorecard forecast on 9 November**
- **Met with the Chancellor on 12 November**

Key points

- **Forecast background**

- Not much change in pre-measures economy forecast
- Housing associations reclassified to public sector
- Underlying fiscal position better mid-Parliament...
- ...but improvement smaller beyond 2018-19

- **The policy package**

- £6bn net giveaway in next two years, tapers away by 20-21
- Public services spending: lifted and smoothed again
- Capital spending: lifted and *unsmoothed*
- Tax credit cuts reversed, but other welfare cuts announced
- Net tax increase – mostly new apprenticeship levy

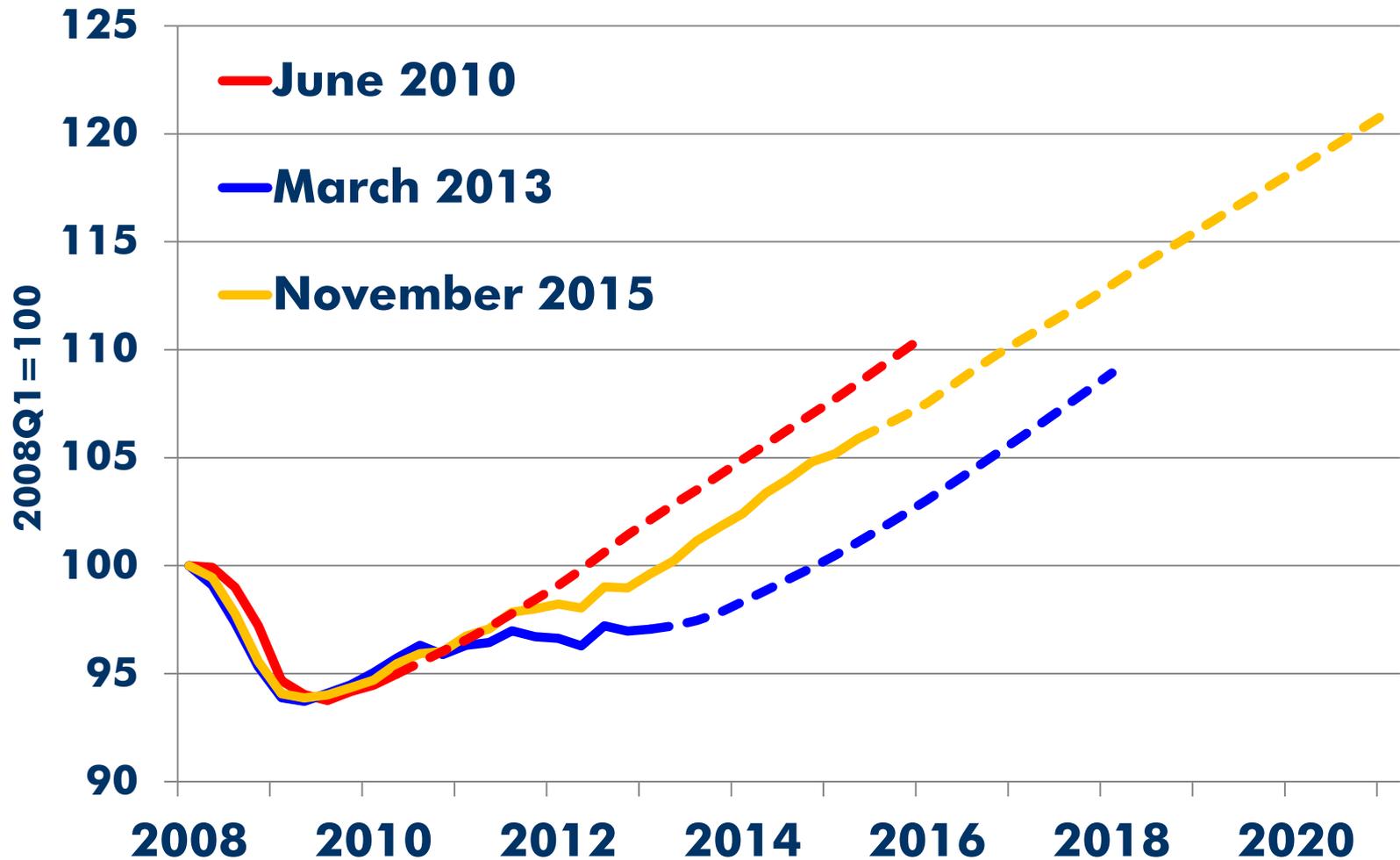
- **Impact**

- Near-term boost to growth, but earnings then weaker
- Budget balance stronger in most years like-for-like
- Fiscal rules met, but welfare cap breached

Pre-measures economy forecast

- **No big changes in growth or inflation prospects**
- **New population projections**
- **Slightly weaker potential and actual GDP growth**
- **Smaller drag from net trade, but weaker contributions from consumption and investment**
- **Inflation: lower oil prices and weaker pound offset. Slight more pressure from unit labour costs**
- **Weaker housing transactions**

Recovery stronger and smoother



Pre-measures PSNB forecast

£ billion	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
July	69.5	43.1	24.3	6.4	-10.0	-11.6
<i>Housing associations</i>	4.6	3.5	2.3	1.8	1.4	1.6
July restated	74.1	46.7	26.5	8.2	-8.5	-10.0
Change in receipts, of which:	2.5	4.1	6.3	5.4	2.8	2.8
<i>VAT and NICs modelling</i>	0.8	1.4	2.3	3.4	4.7	6.1
<i>Property and equity markets</i>	-0.2	-1.2	-1.7	-2.3	-3.0	-3.7
<i>Average earnings</i>	1.4	1.3	0.7	-0.6	-1.9	-2.8
Change in spending, of which:	2.0	1.2	-1.6	-2.6	-1.0	-1.6
<i>Welfare</i>	-0.3	1.0	1.3	1.3	1.9	2.4
<i>Local authority current expenditure</i>	1.3	0.0	0.5	0.7	1.2	1.4
<i>Debt interest</i>	0.1	-1.7	-4.1	-4.9	-5.0	-6.0
November pre-measures	73.6	43.8	18.6	0.2	-12.3	-14.4
Like-for-like change	-0.5	-2.9	-7.9	-8.0	-3.8	-4.4

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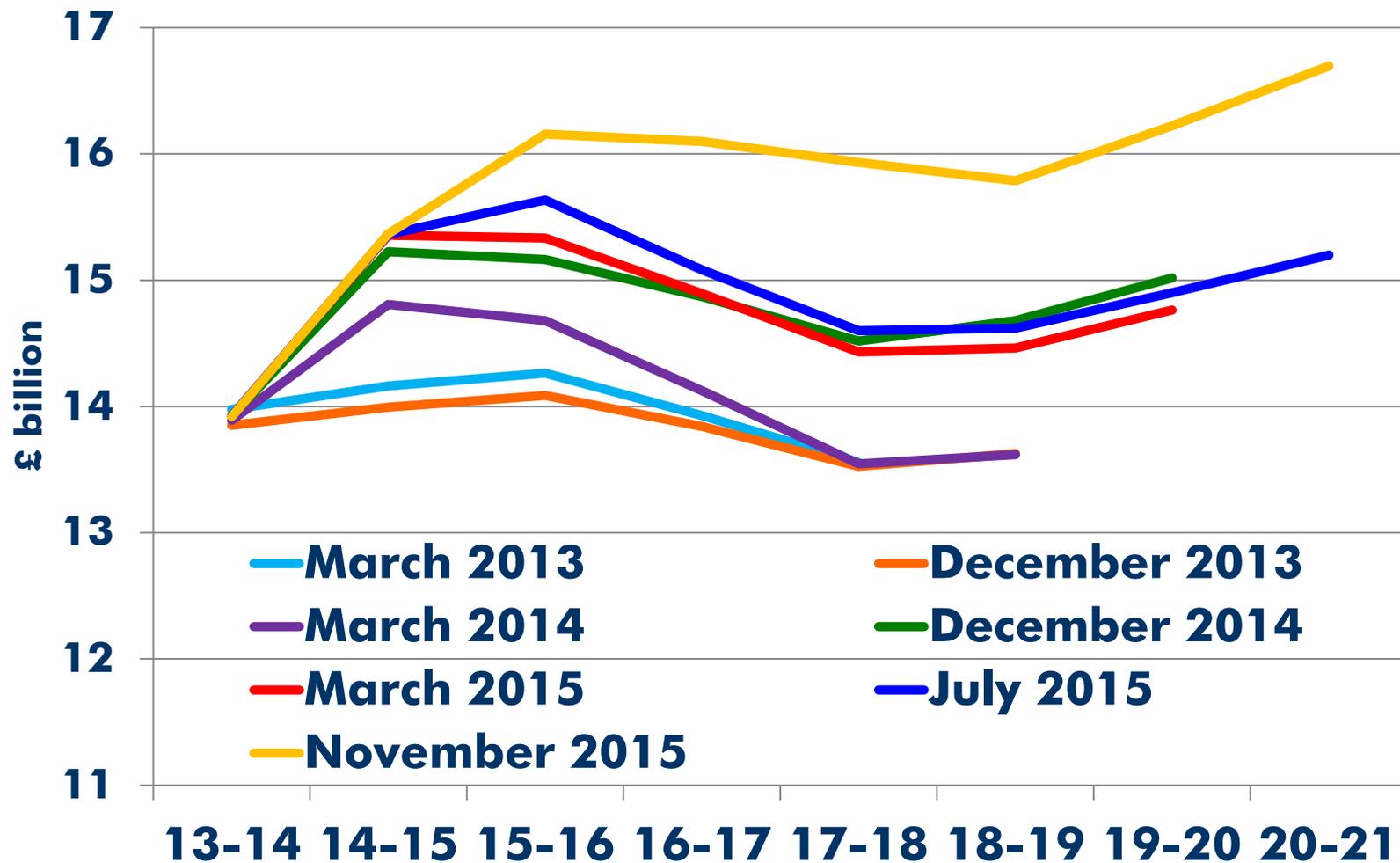
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Disability benefits



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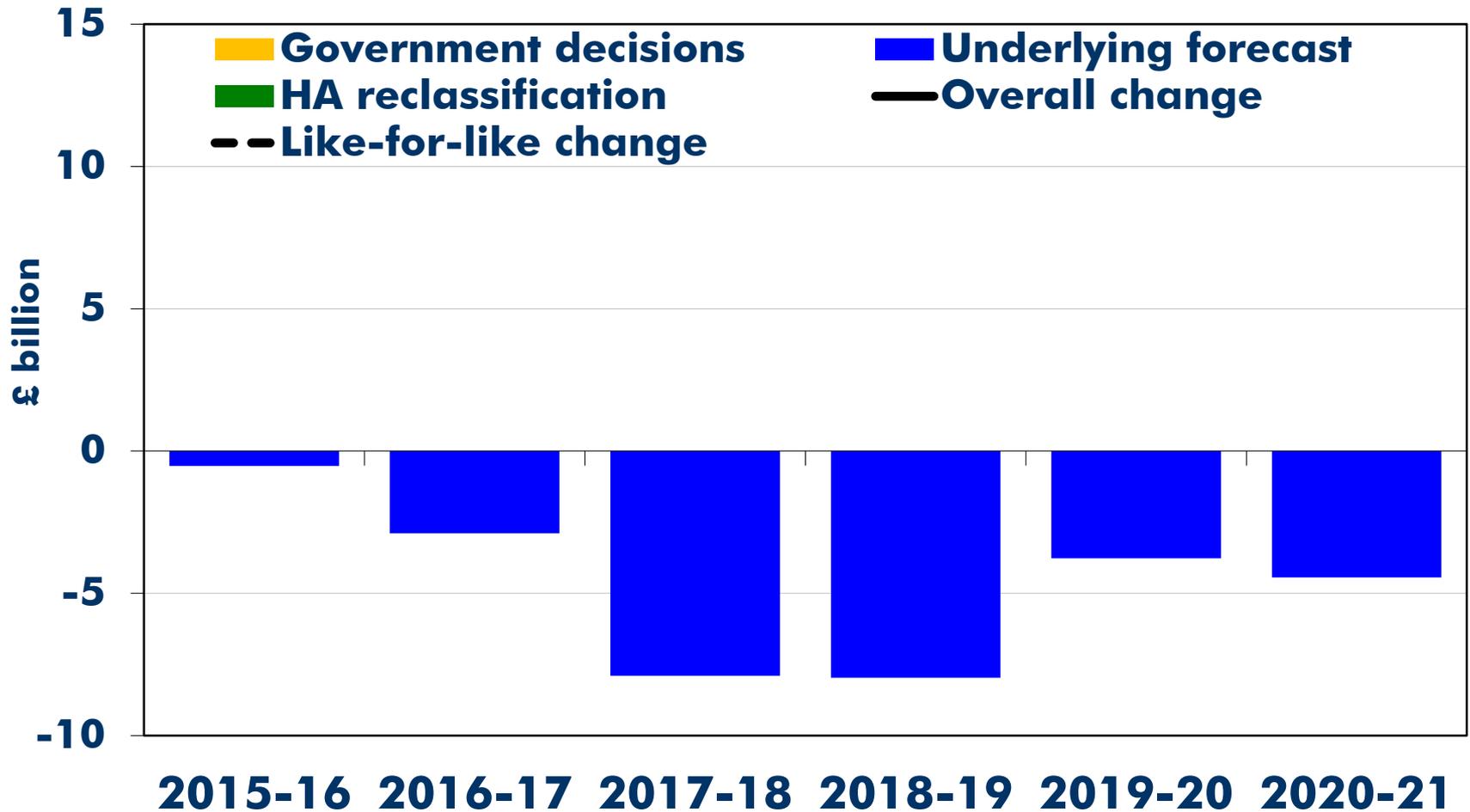
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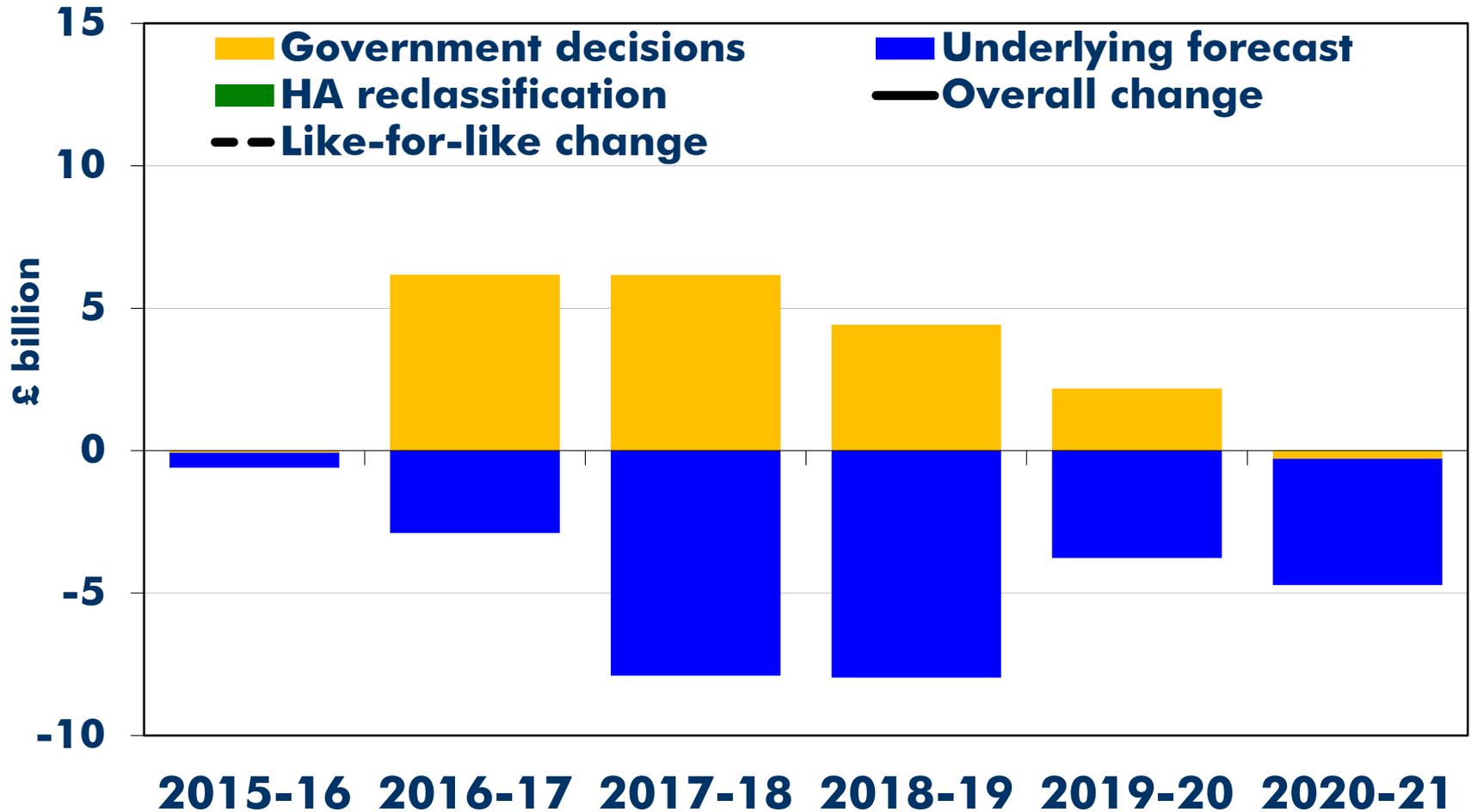
2015-16: not as bad as it looks?

- **We expect the deficit to fall more sharply over the rest of the year than it has to date**
 - Policy decisions will boost self-assessment
 - Last year's stamp duty reform will stop dragging by December
 - In-year spending cuts, most of which are yet to be delivered
 - We include some receipts that ONS has yet to put in outturn

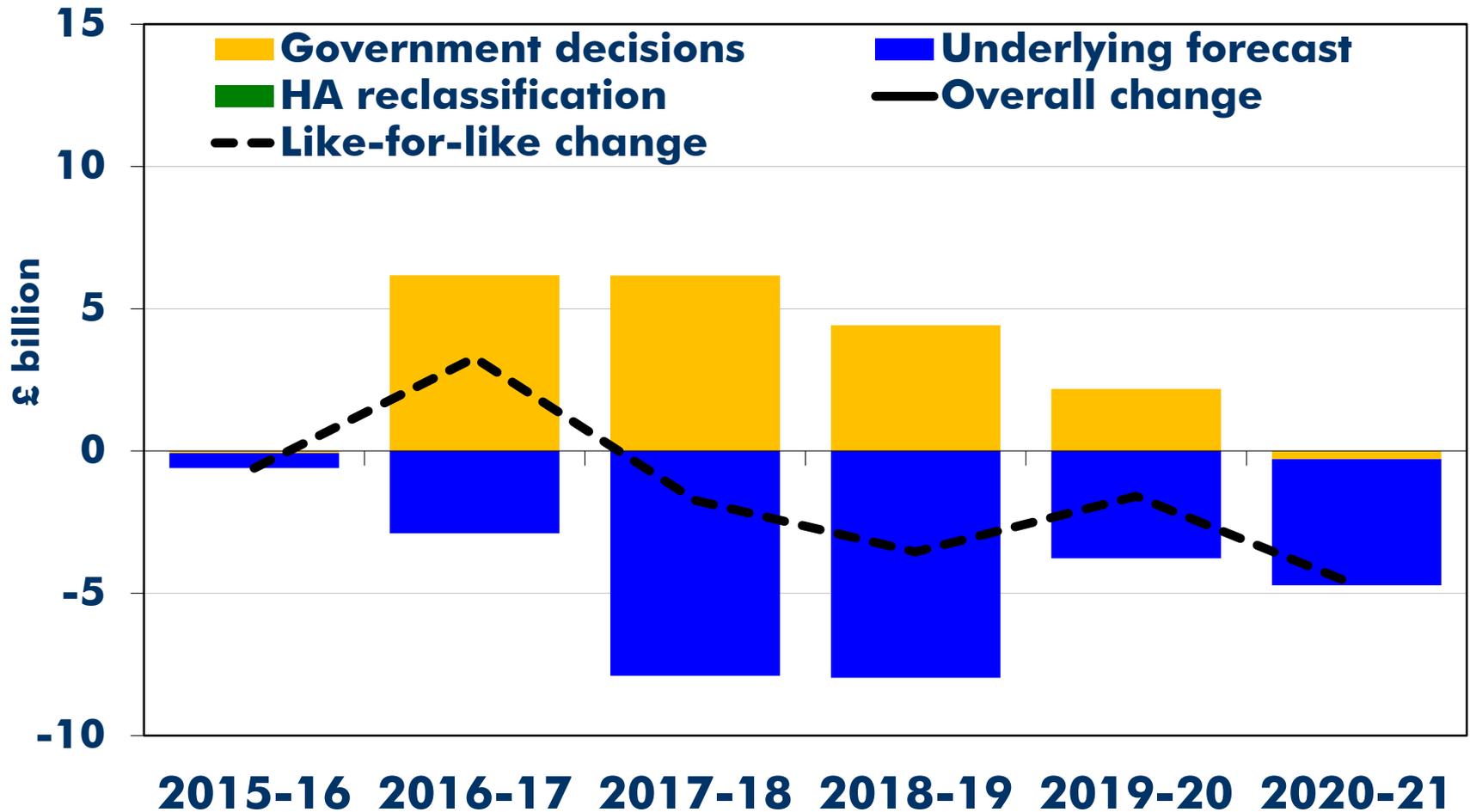
Overall change in PSNB



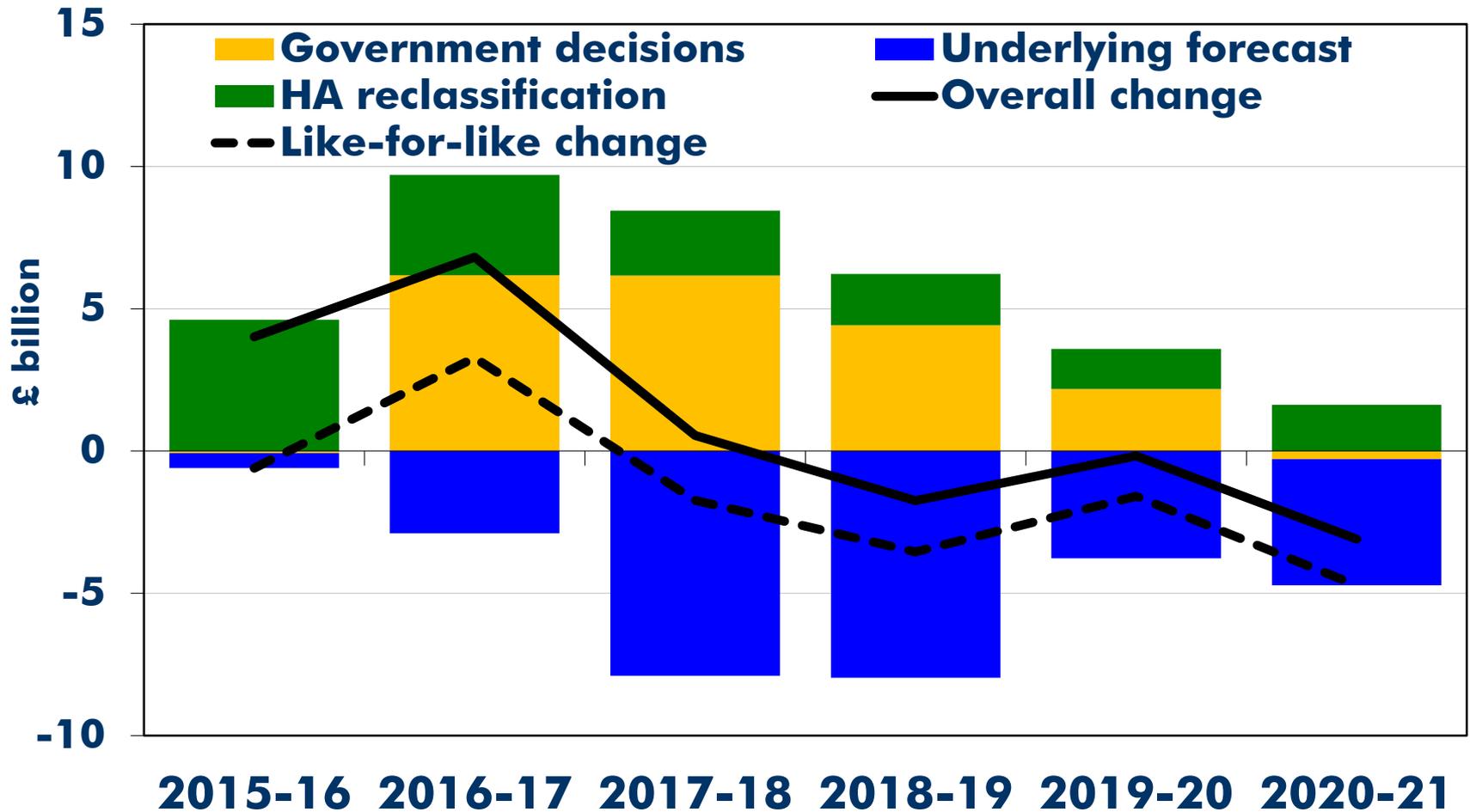
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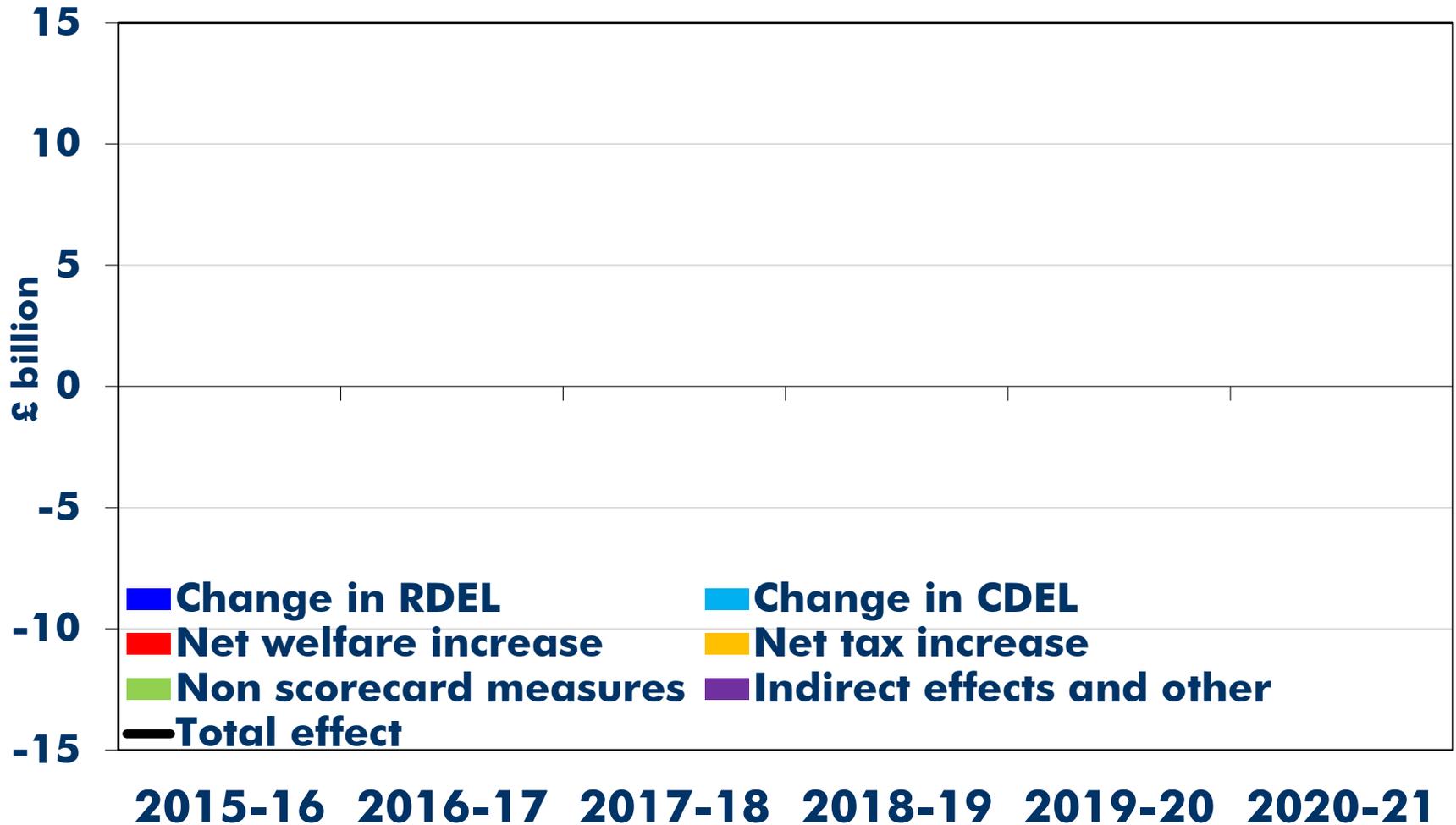
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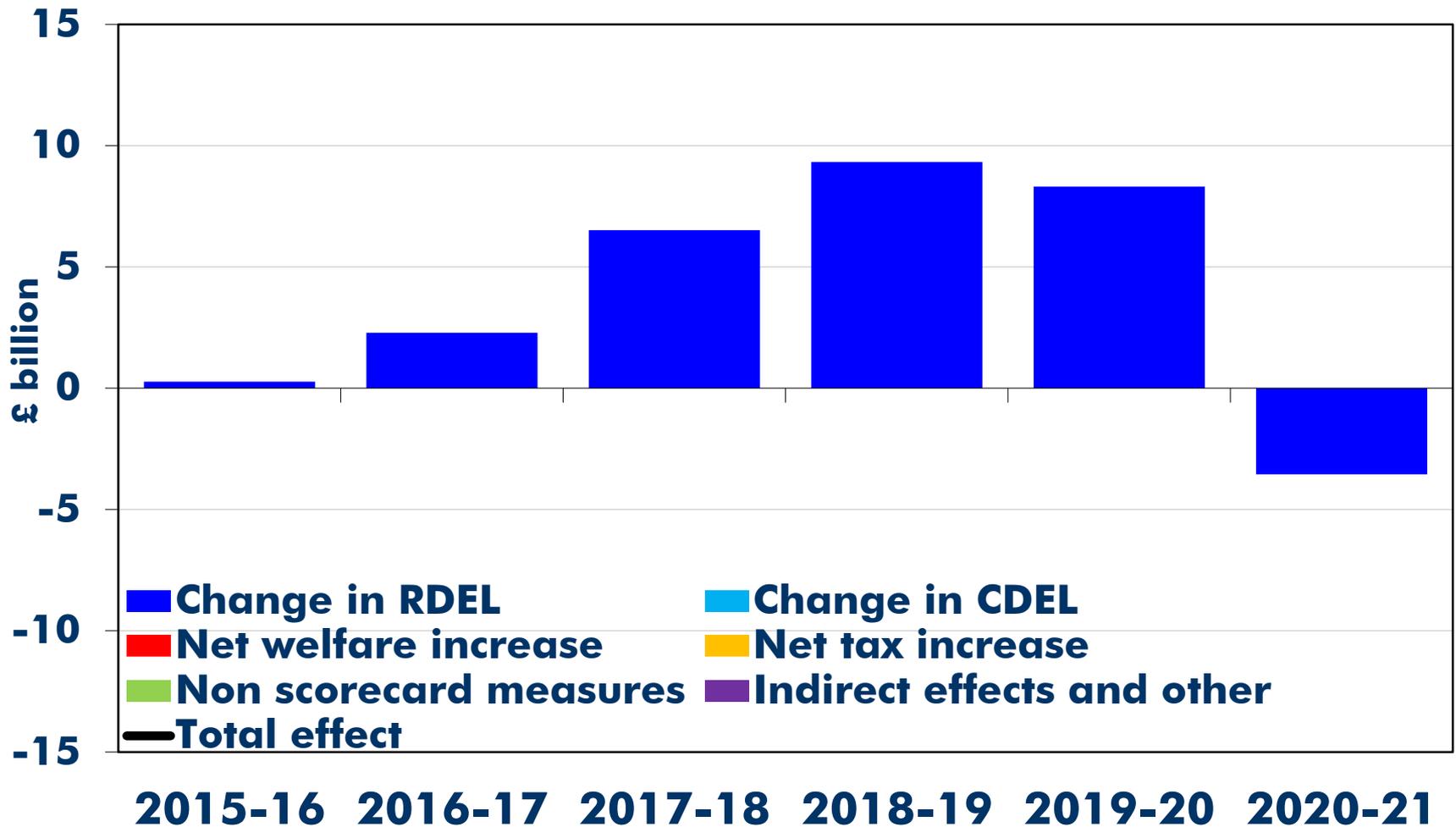
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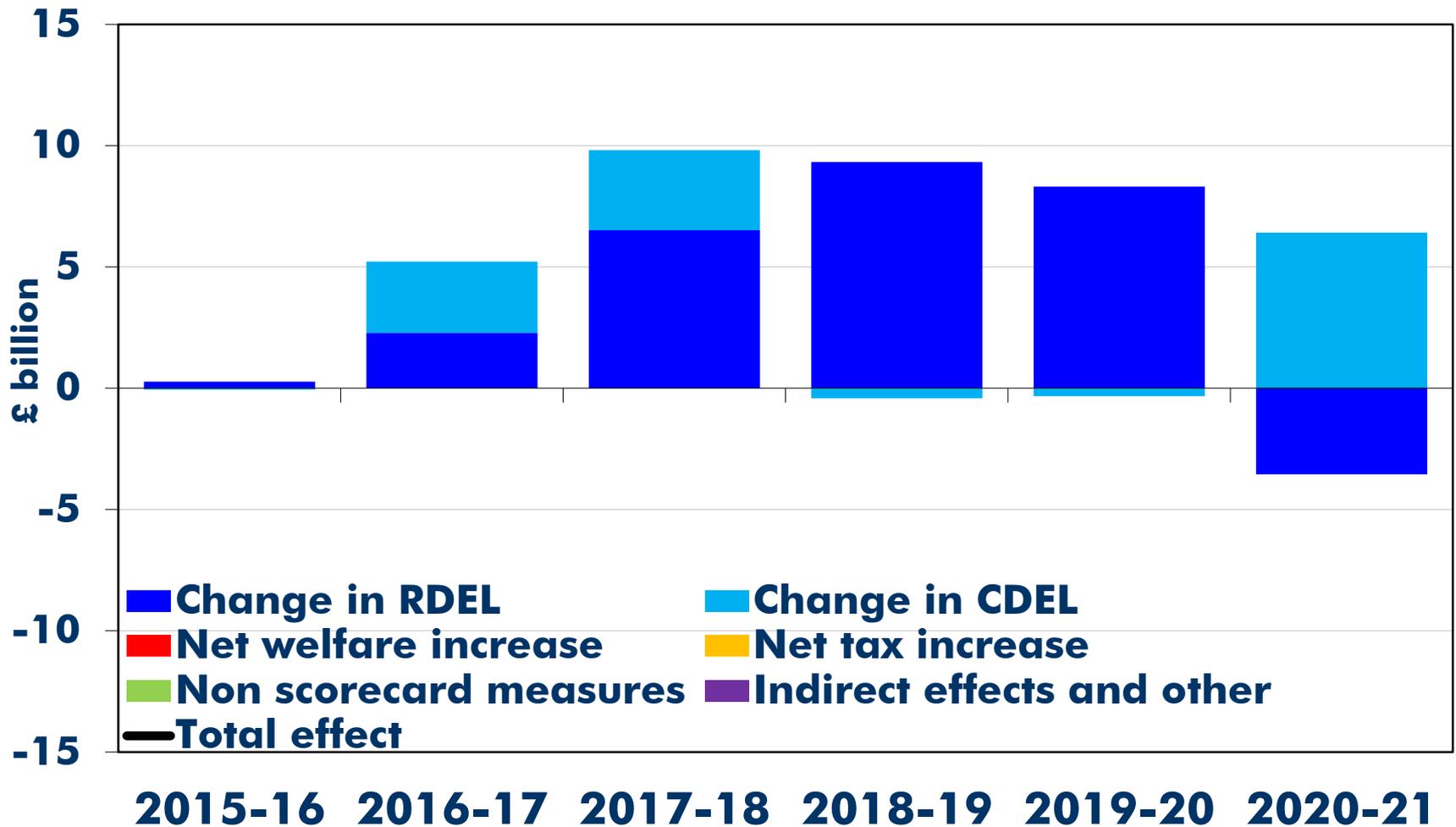
The policy package



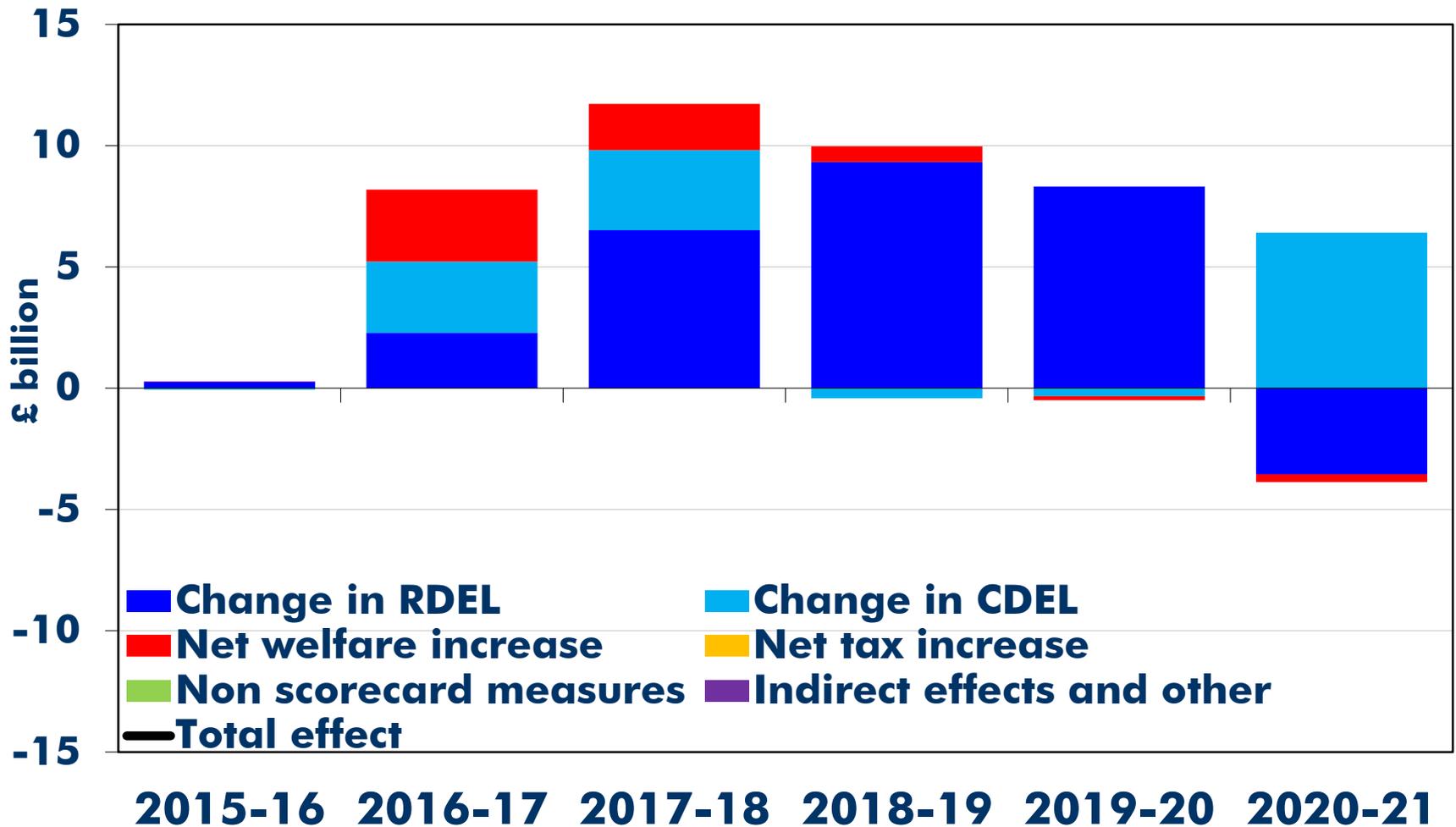
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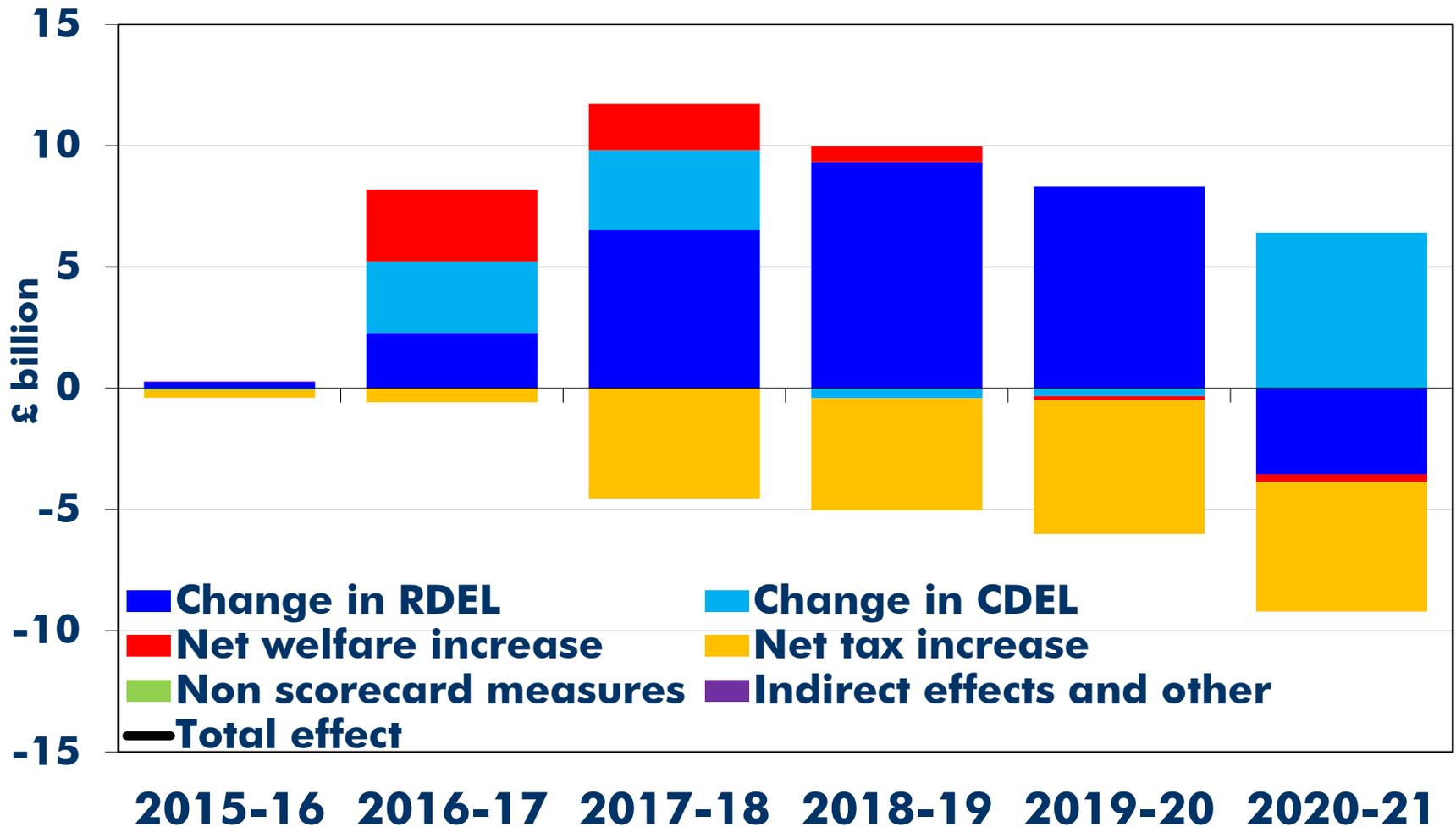
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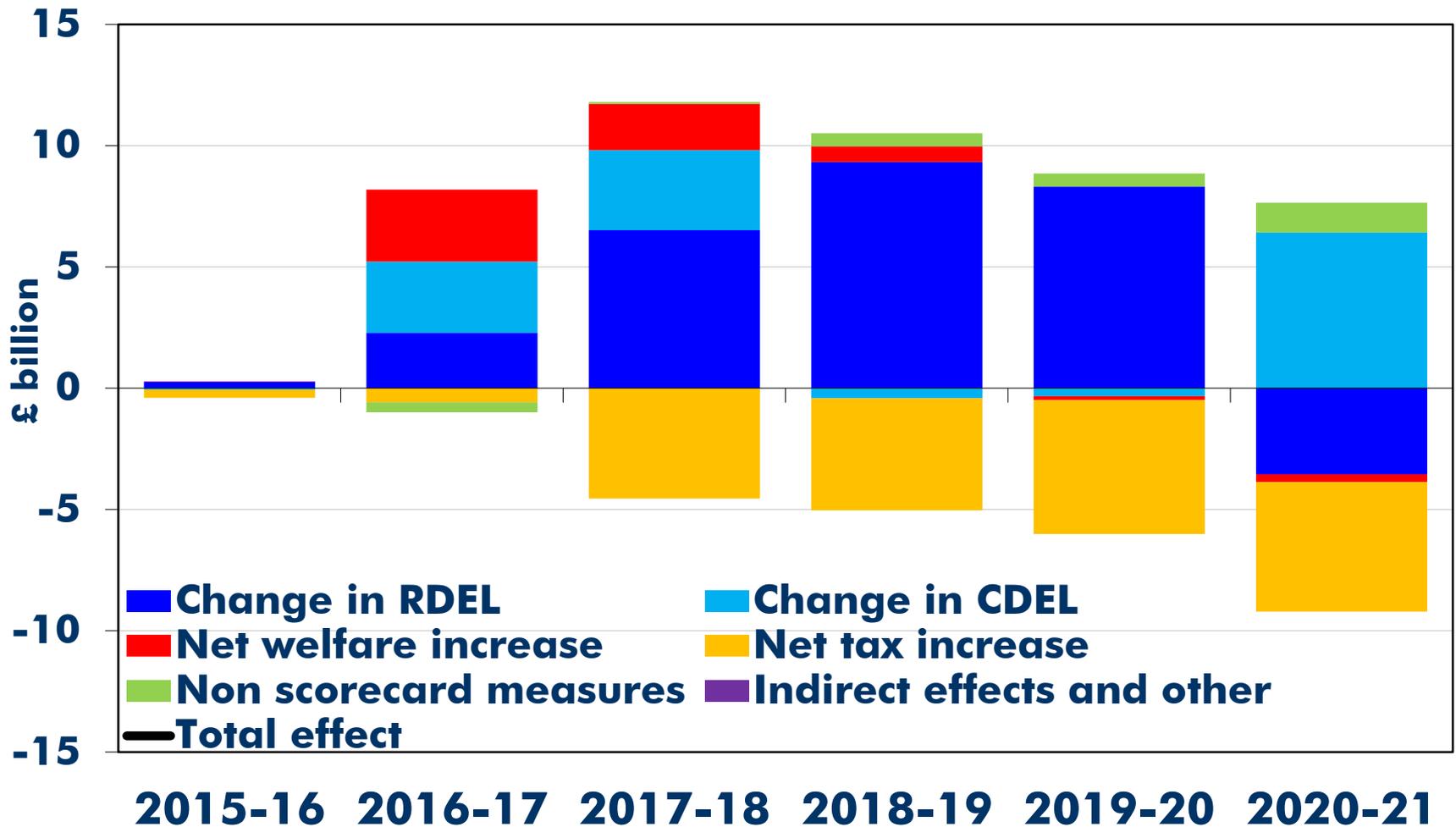
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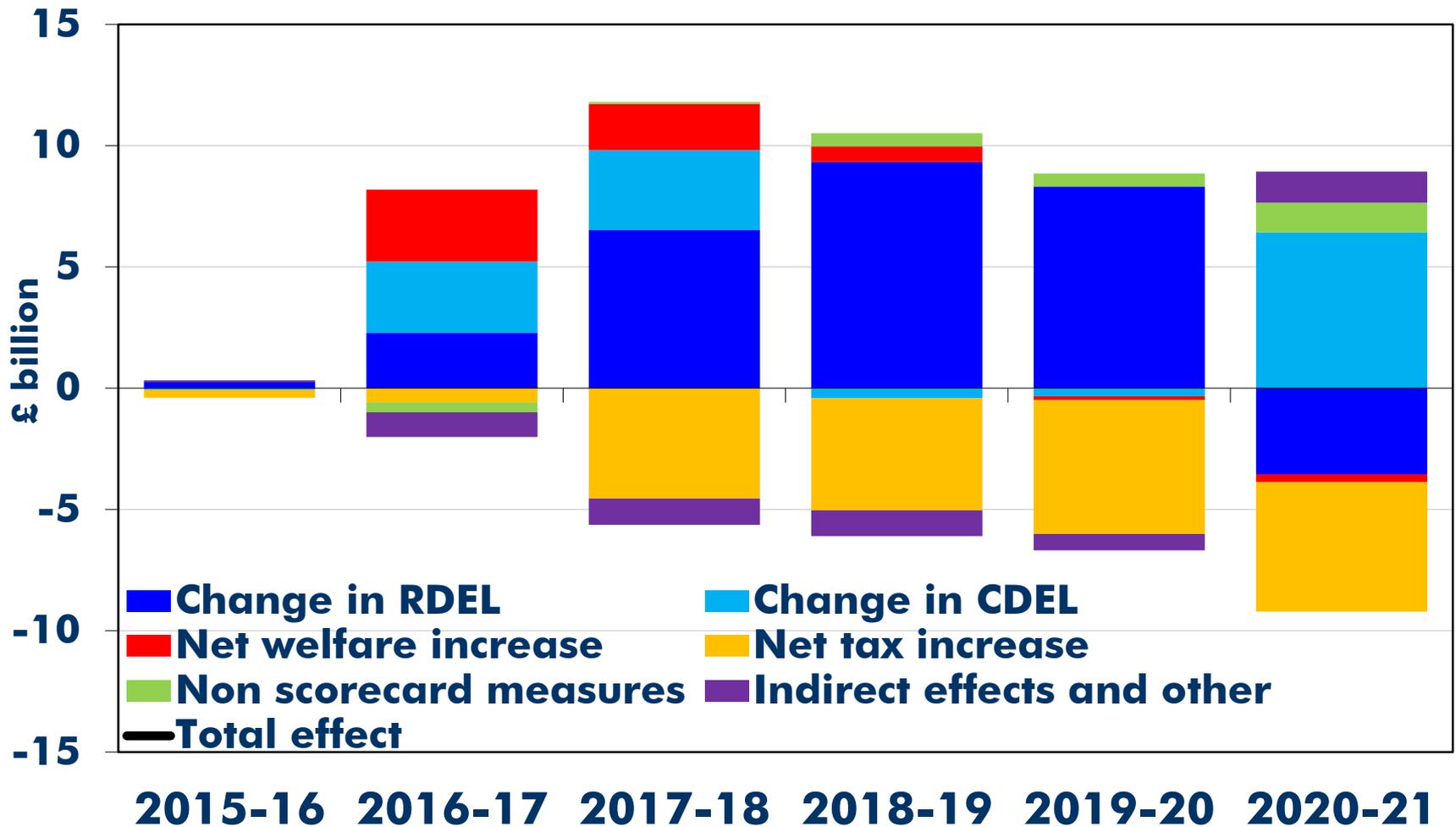
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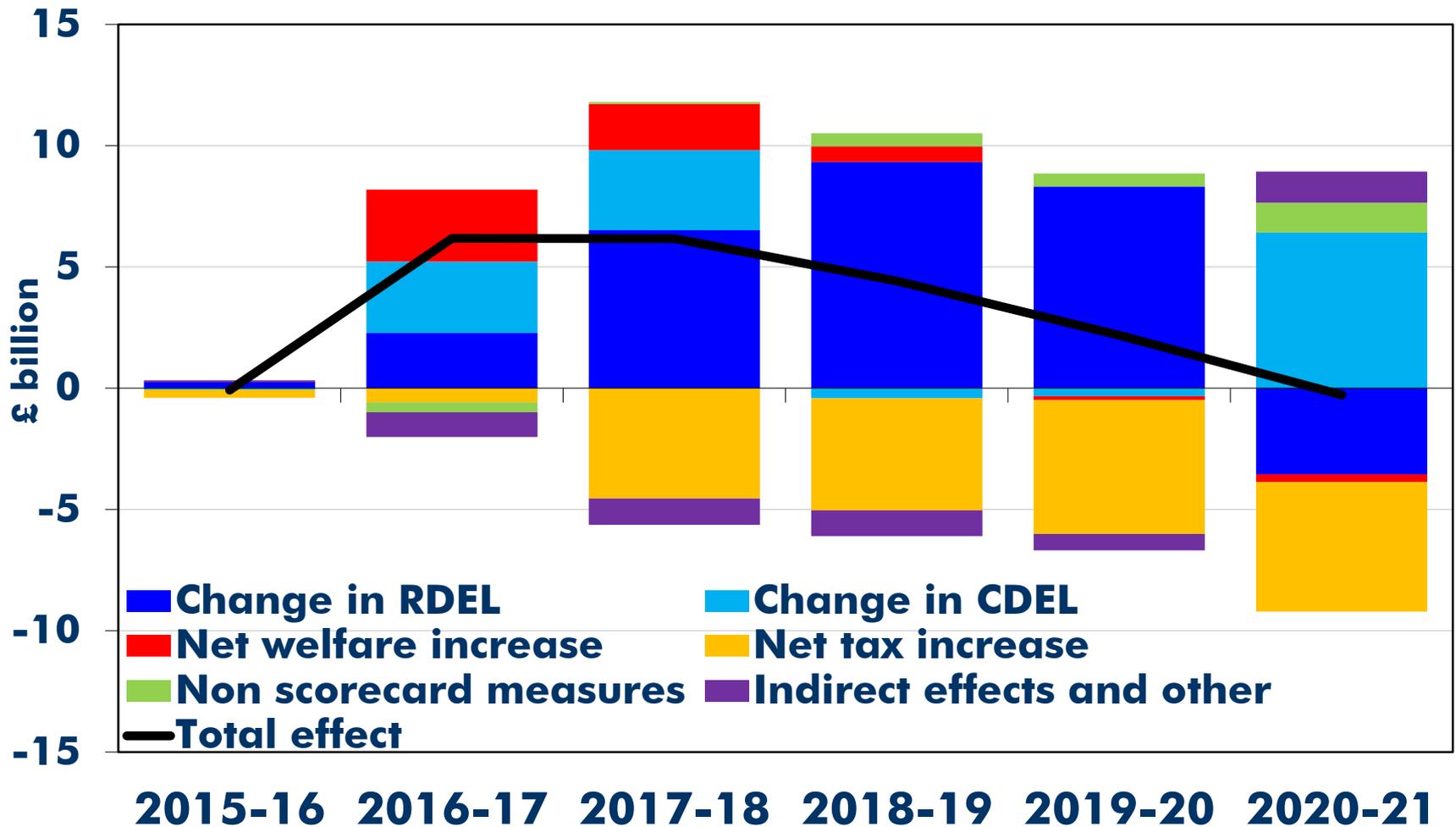
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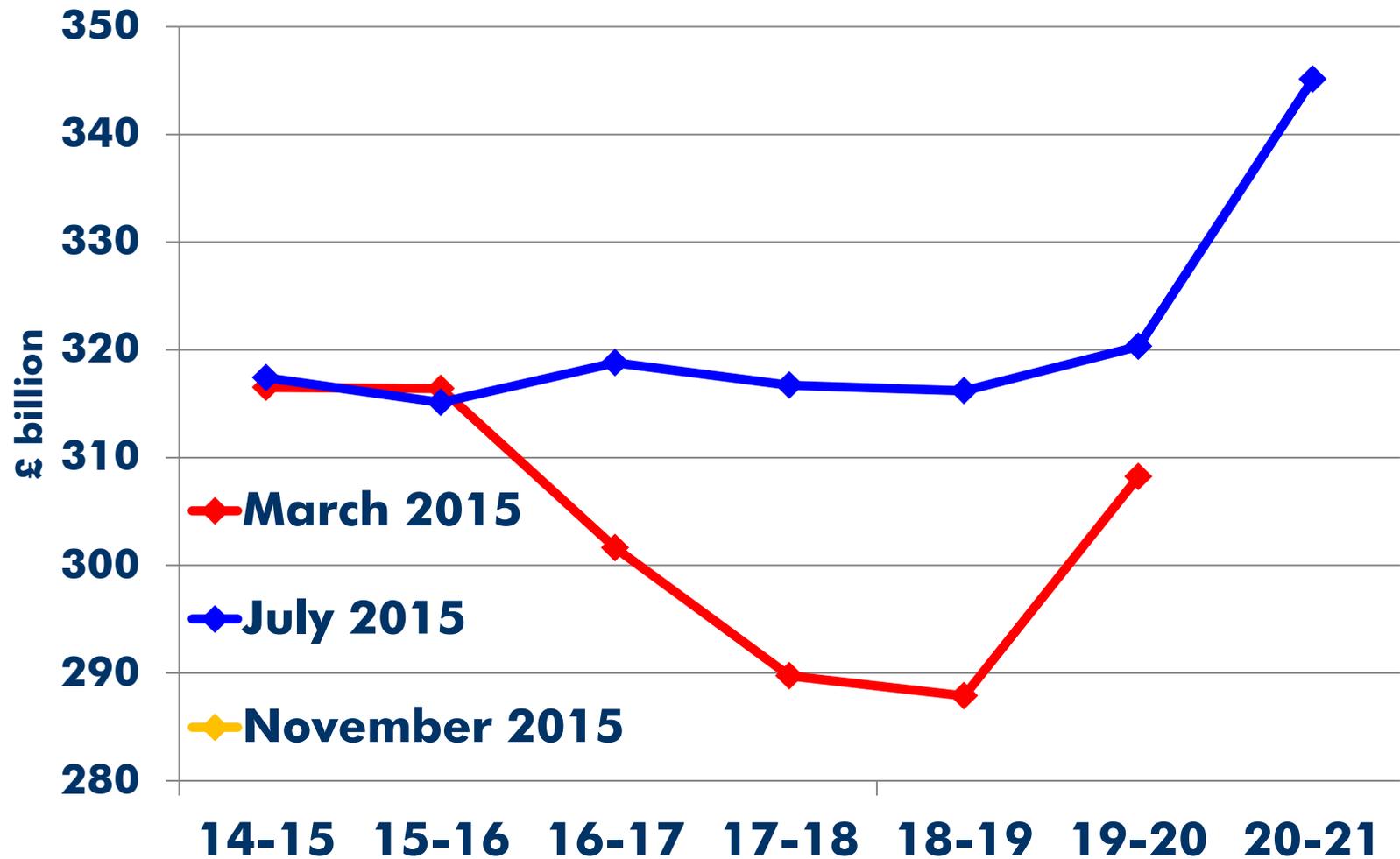
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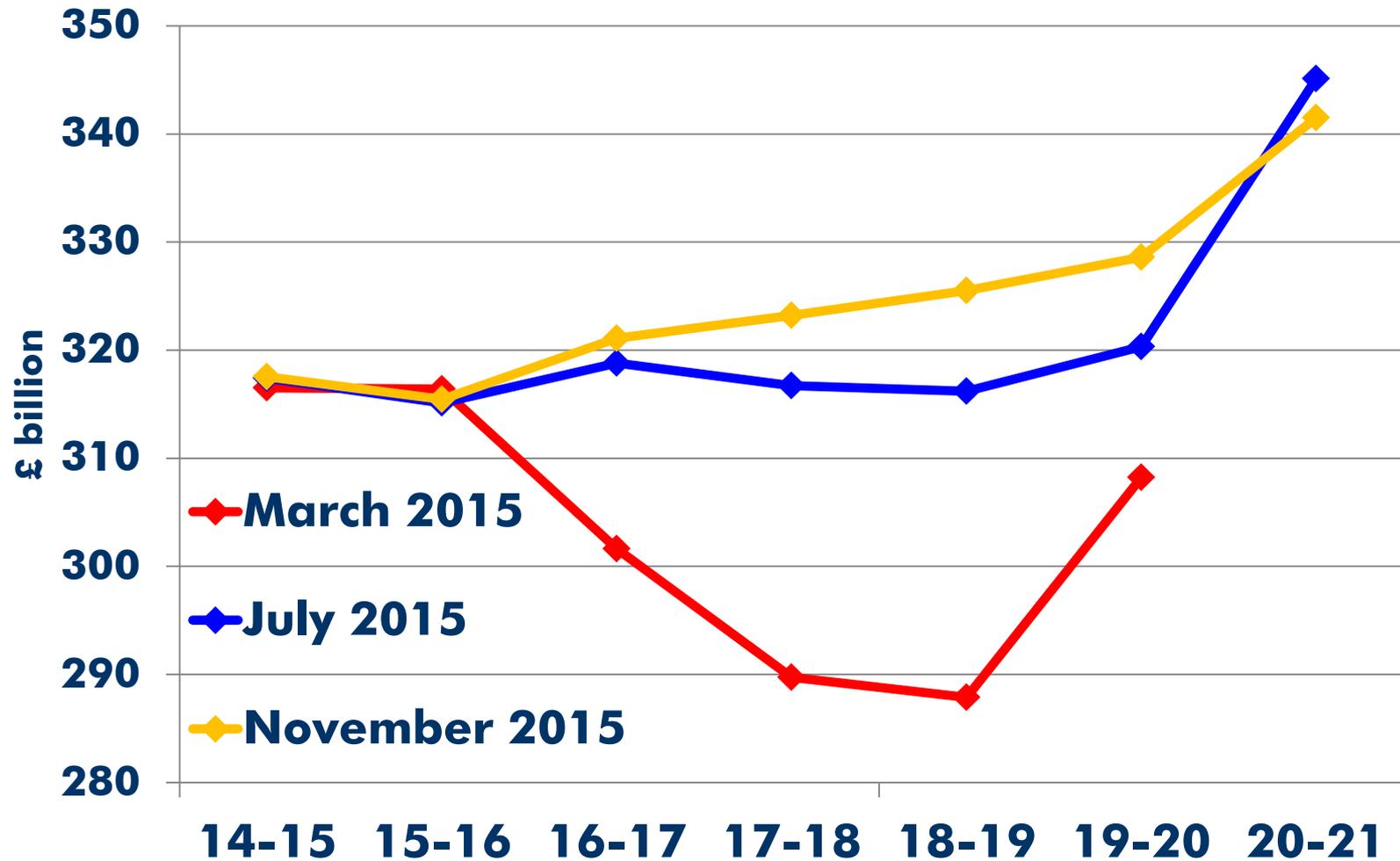
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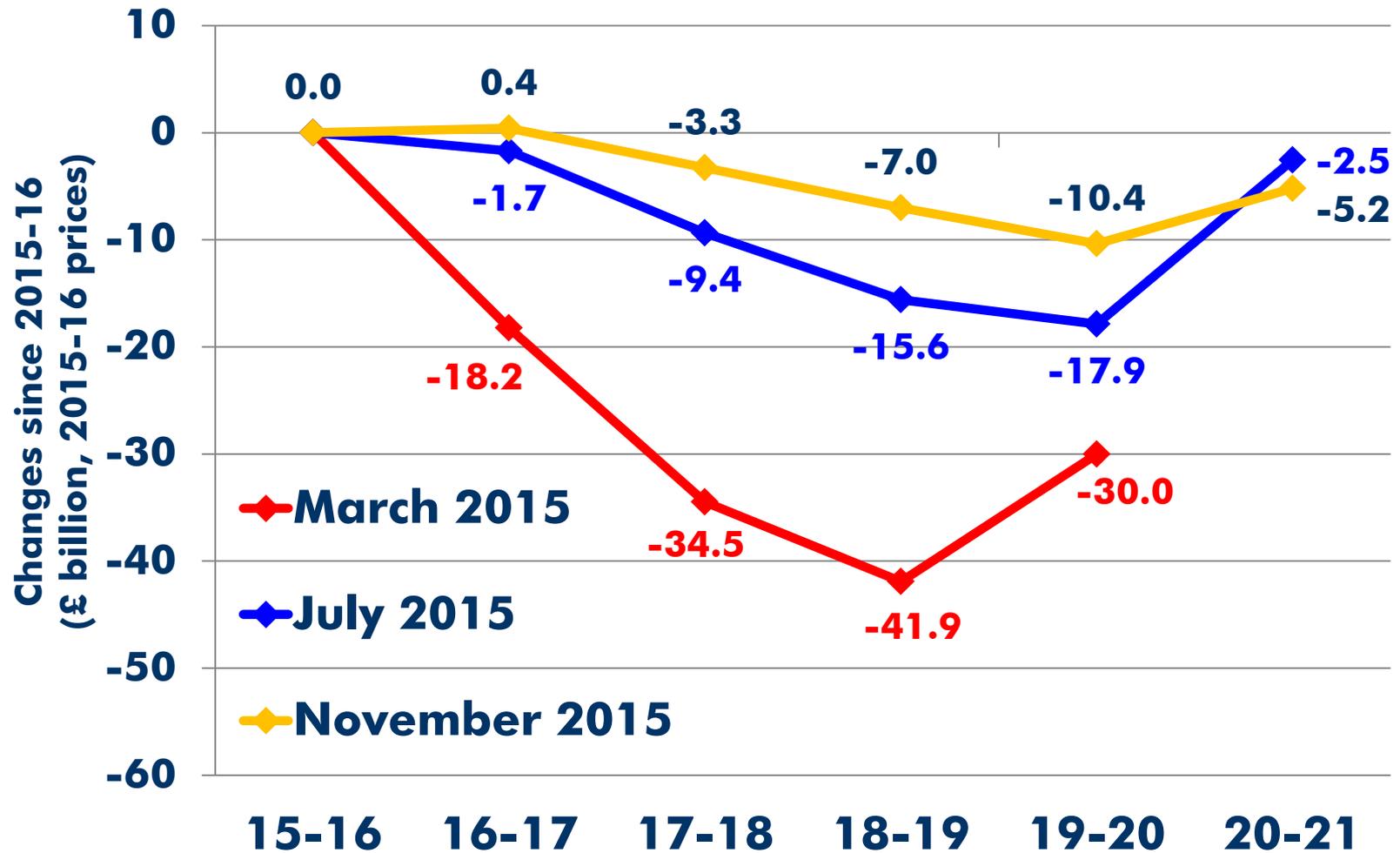
Public services spending



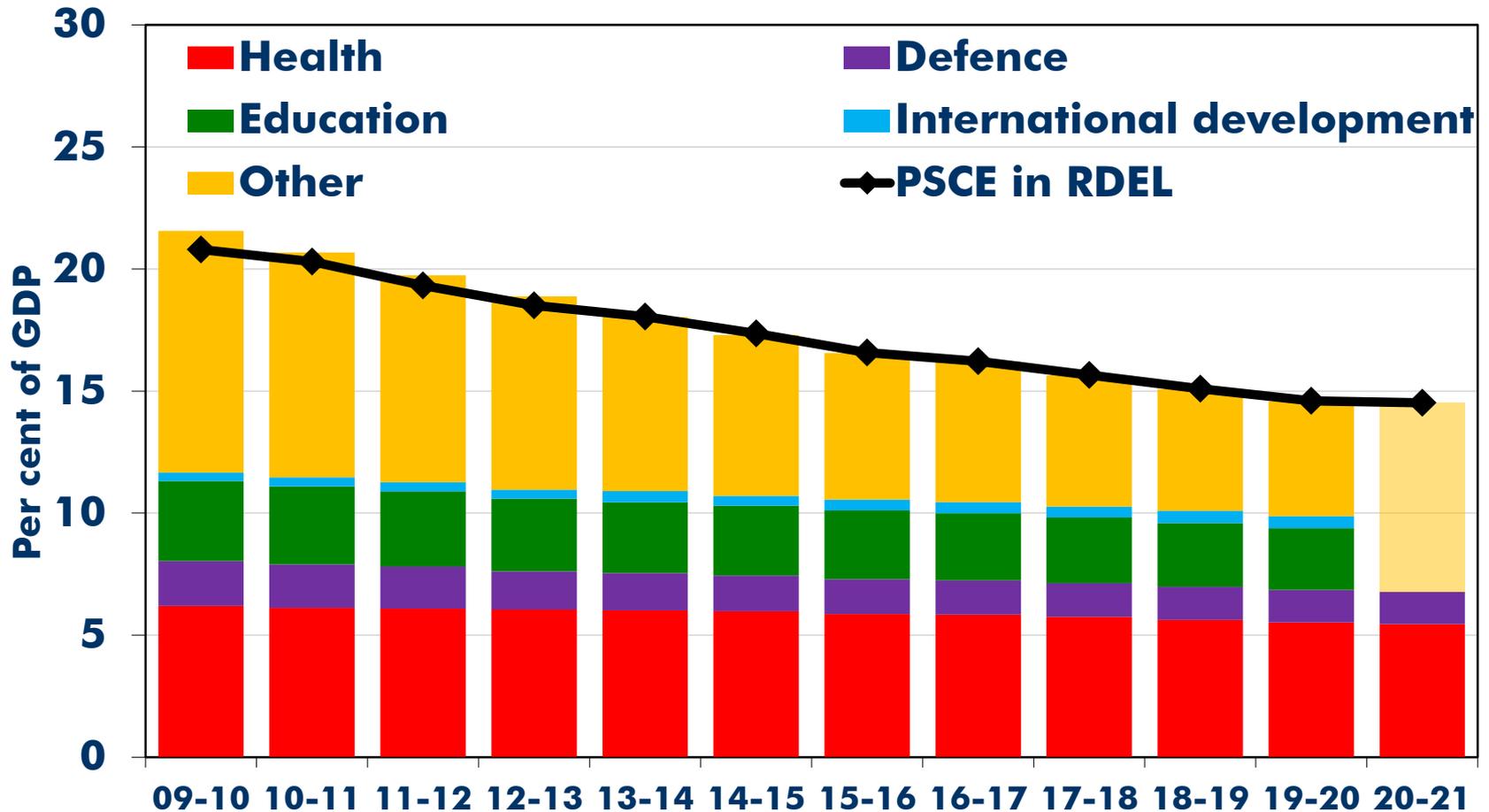
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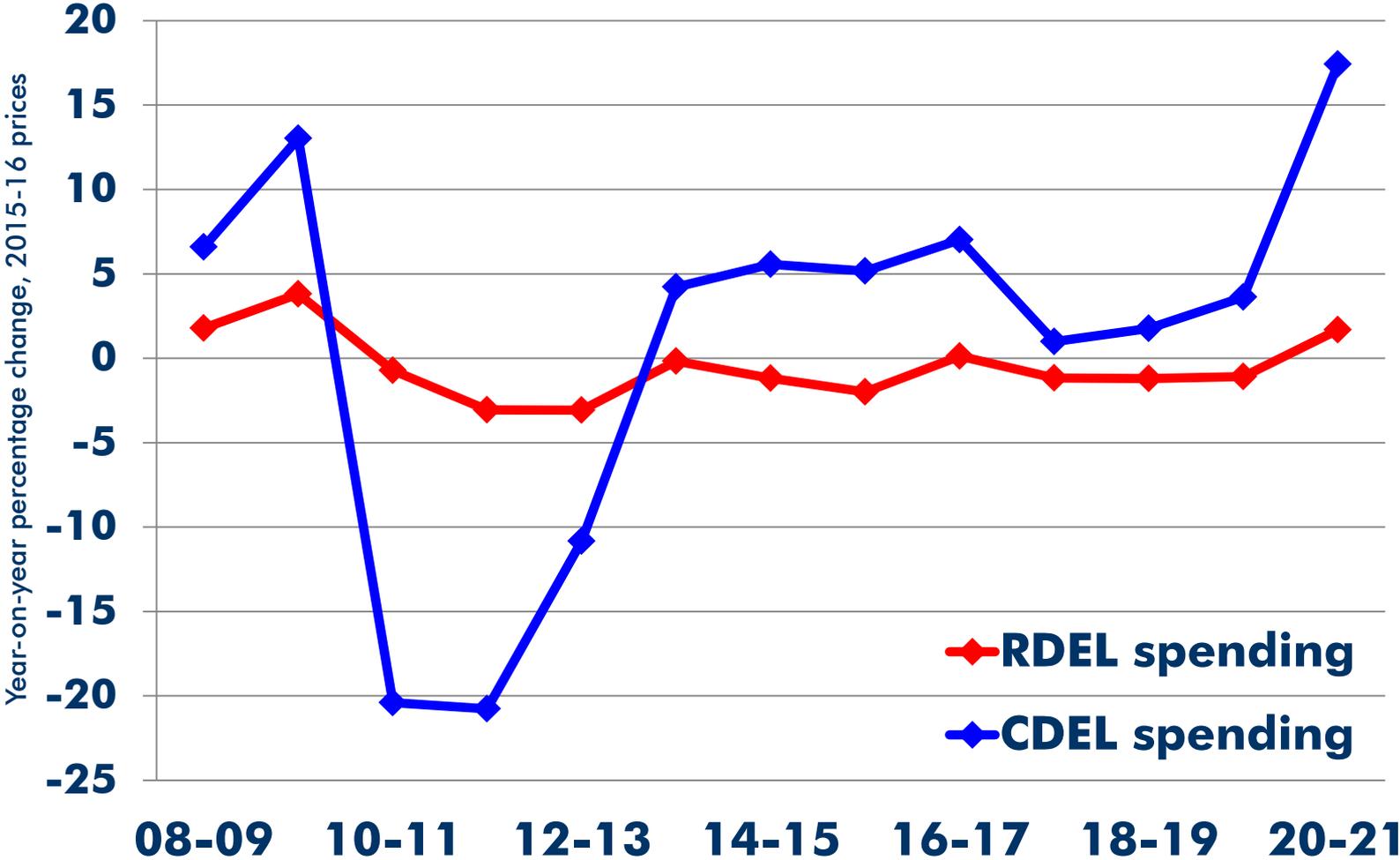
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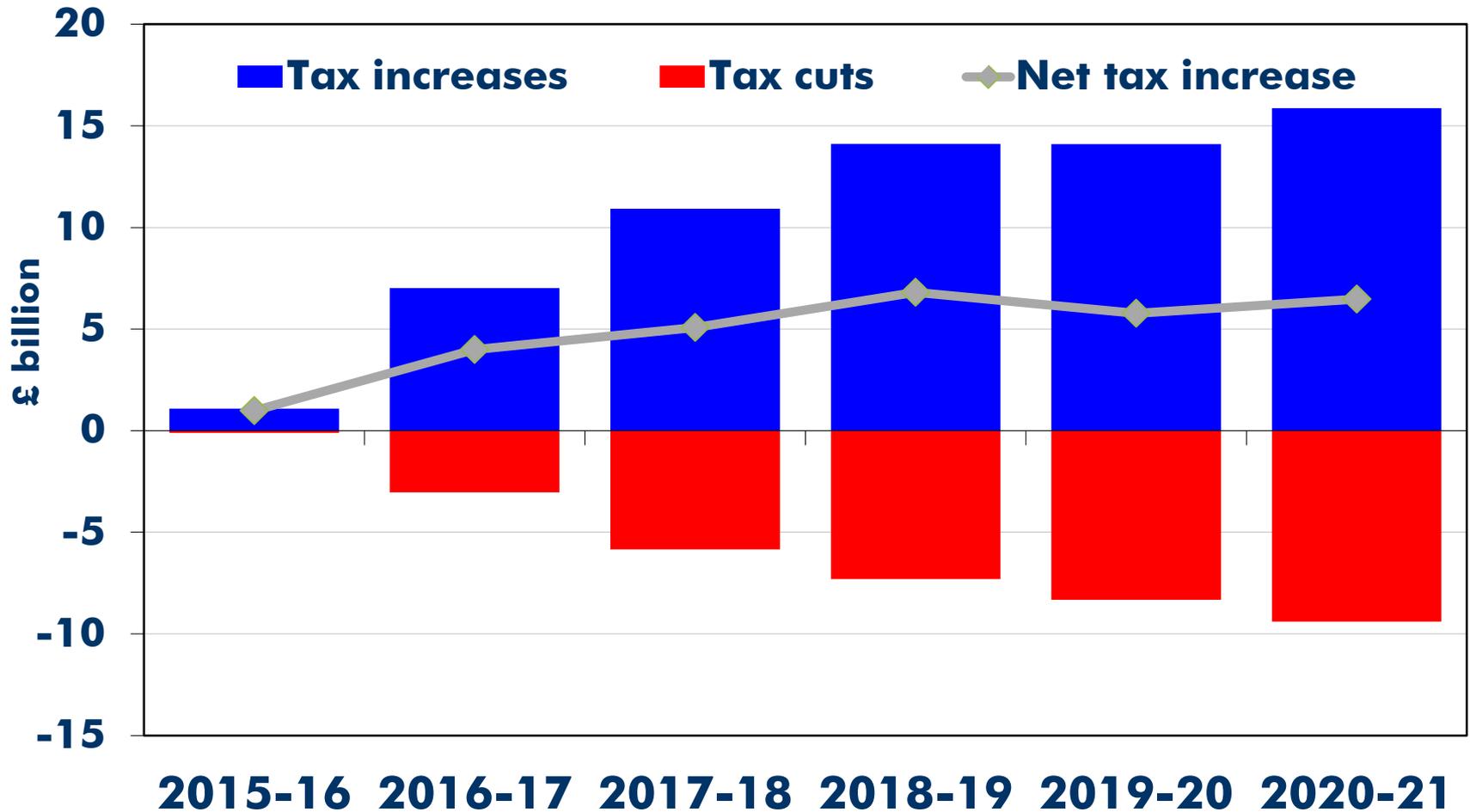


Public services and capital spending

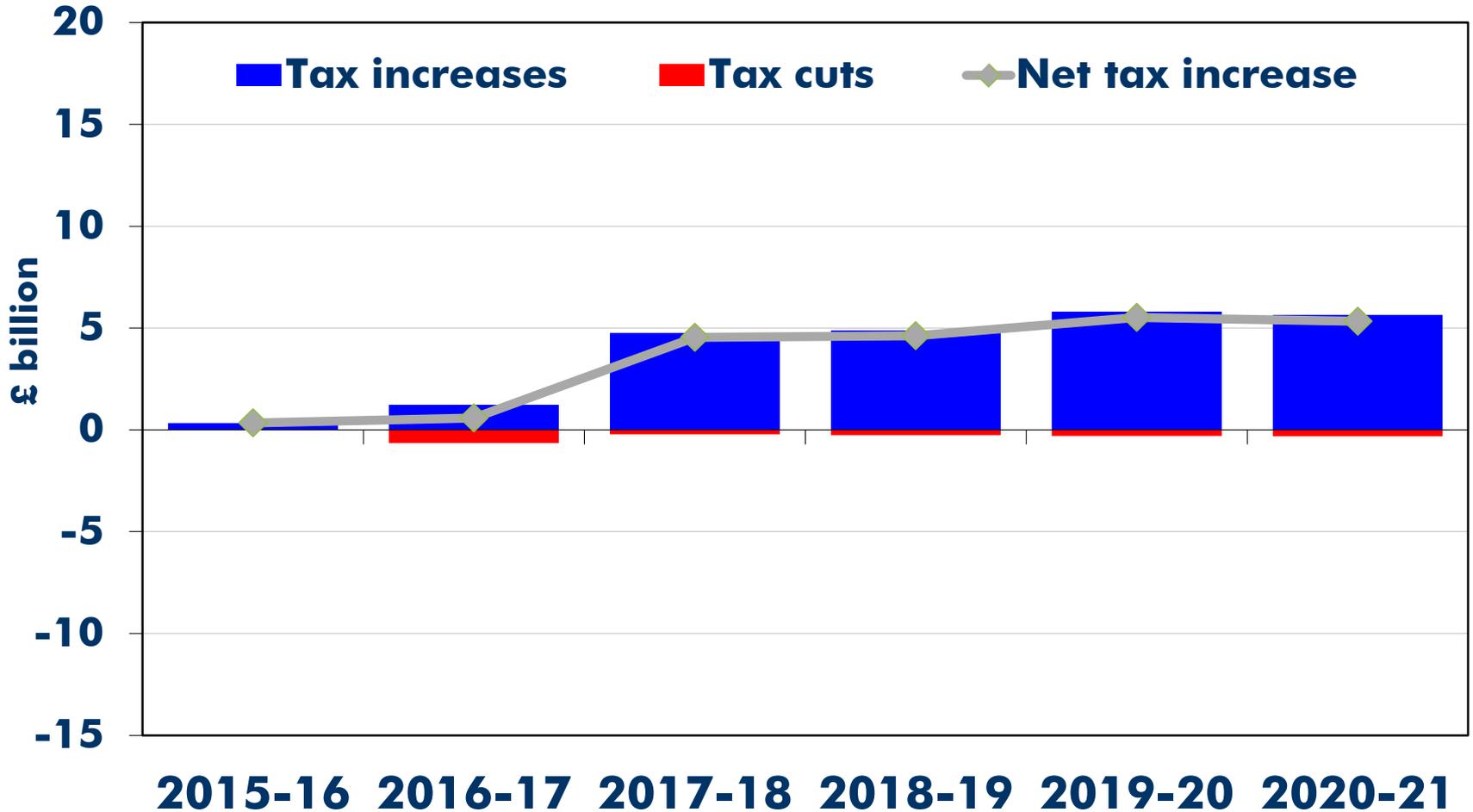


Note: Adjusted for discontinuities

Tax measures (July)



Scorecard tax measures (Nov)



Scorecard tax measures

£ billion	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total	0.3	0.6	4.5	4.6	5.5	5.3
<i>Of which:</i>						
Apprenticeship Levy: (funding employer apprenticeship scheme)	0.0	0.0	2.7	2.8	3.0	3.1
Stamp Duty Land Tax: higher rates on additional properties	0.0	0.6	0.7	0.8	0.8	0.9
Capital Gains Tax: reduce payment window for residential property	0.0	0.0	0.0	0.0	0.9	0.2
Stamp Duty Land Tax: bringing forward payments	0.0	0.0	0.1	0.0	0.0	0.0

Welfare measures

£ billion	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Total	0.0	3.0	1.9	0.7	-0.1	-0.3
<i>Of which:</i>						
Tax credits: maintain taper and income threshold	0.0	3.4	2.9	1.7	0.9	0.5
Temporary accommodation: impact of new funding mechanism	0.0	0.0	-0.2	-0.2	-0.2	-0.3
Housing Benefit: limit social sector rates to the equivalent private sector rate	0.0	0.0	0.0	-0.1	-0.2	-0.2
Universal Credit: updated delivery schedule	0.0	-0.1	-0.3	-0.2	-0.1	0.2

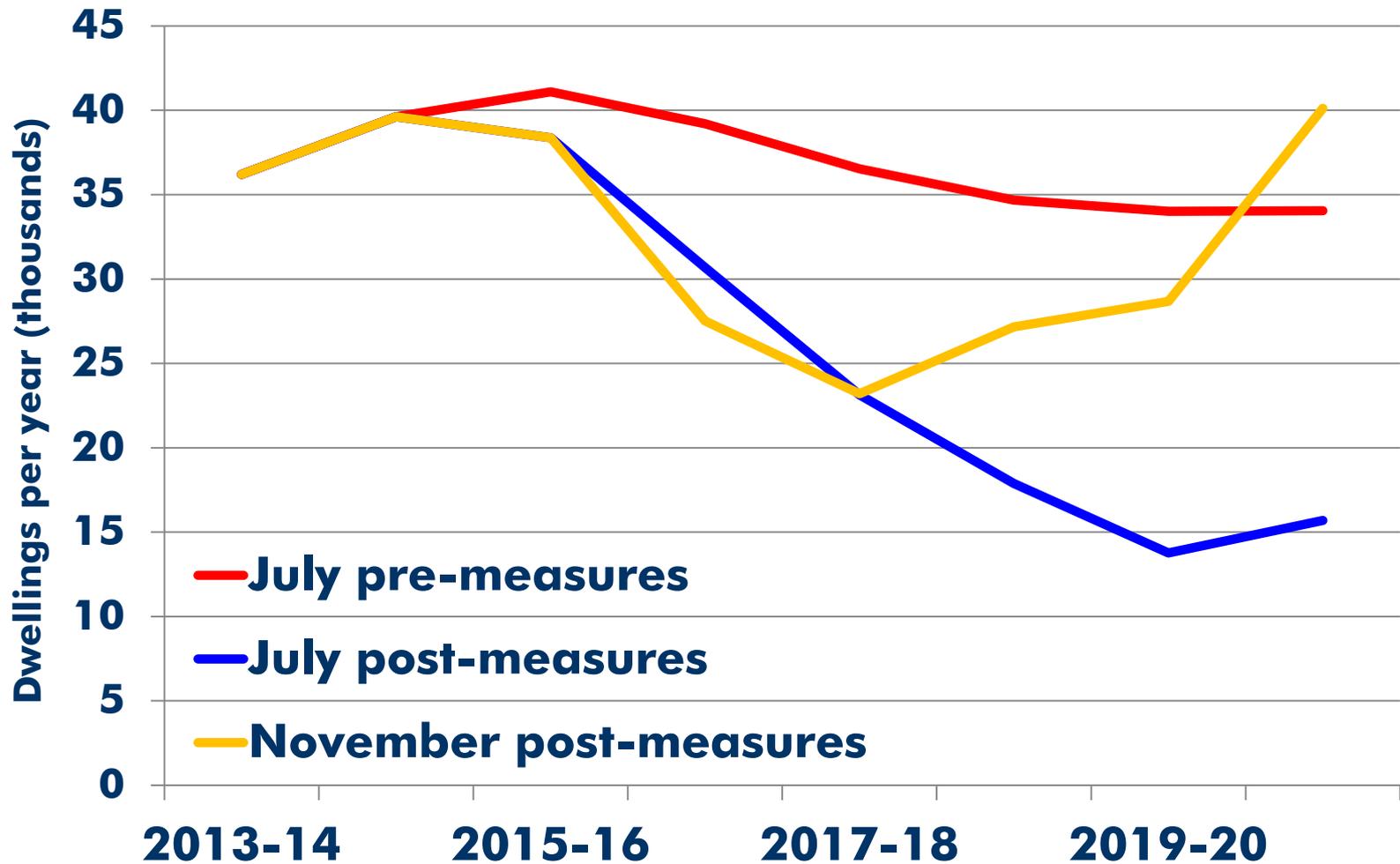
Impact of HAs into public sector

- **Brought into public sector with effect from 2008**
- **Baseline forecast adjusted**
 - Increases net borrowing and net debt
 - And would increase public sector net worth
- **July measures**
 - Force HAs to cut social rents 1% a year for four years
 - Require HAs to charge market rents to higher earners
- **November measures**
 - Back-loaded grant increase
 - Shift from social renting to shared ownership
 - Potential deregulation in Housing Bill

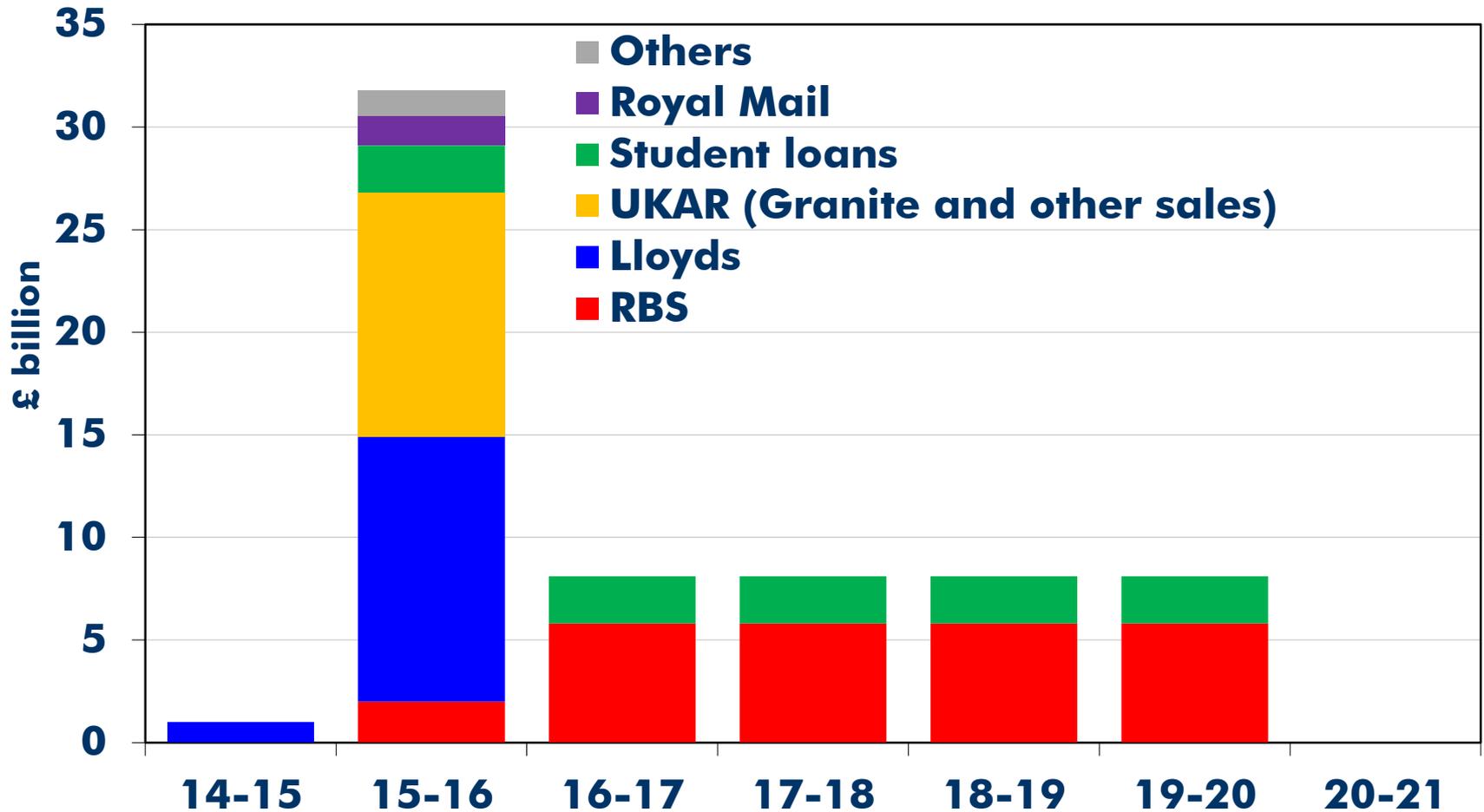
Impact of HAs in public sector

	Borrowing in 2020-21 (£bn)	Net debt in 2020-21 (% GDP)	HA housebuilding 2015-16 to 2020-21
Pre July measures	+4.8	+3.7	220,000
Post July measures	+1.6	+3.1	140,000
Post November measures	+2.9	+3.2	185,000

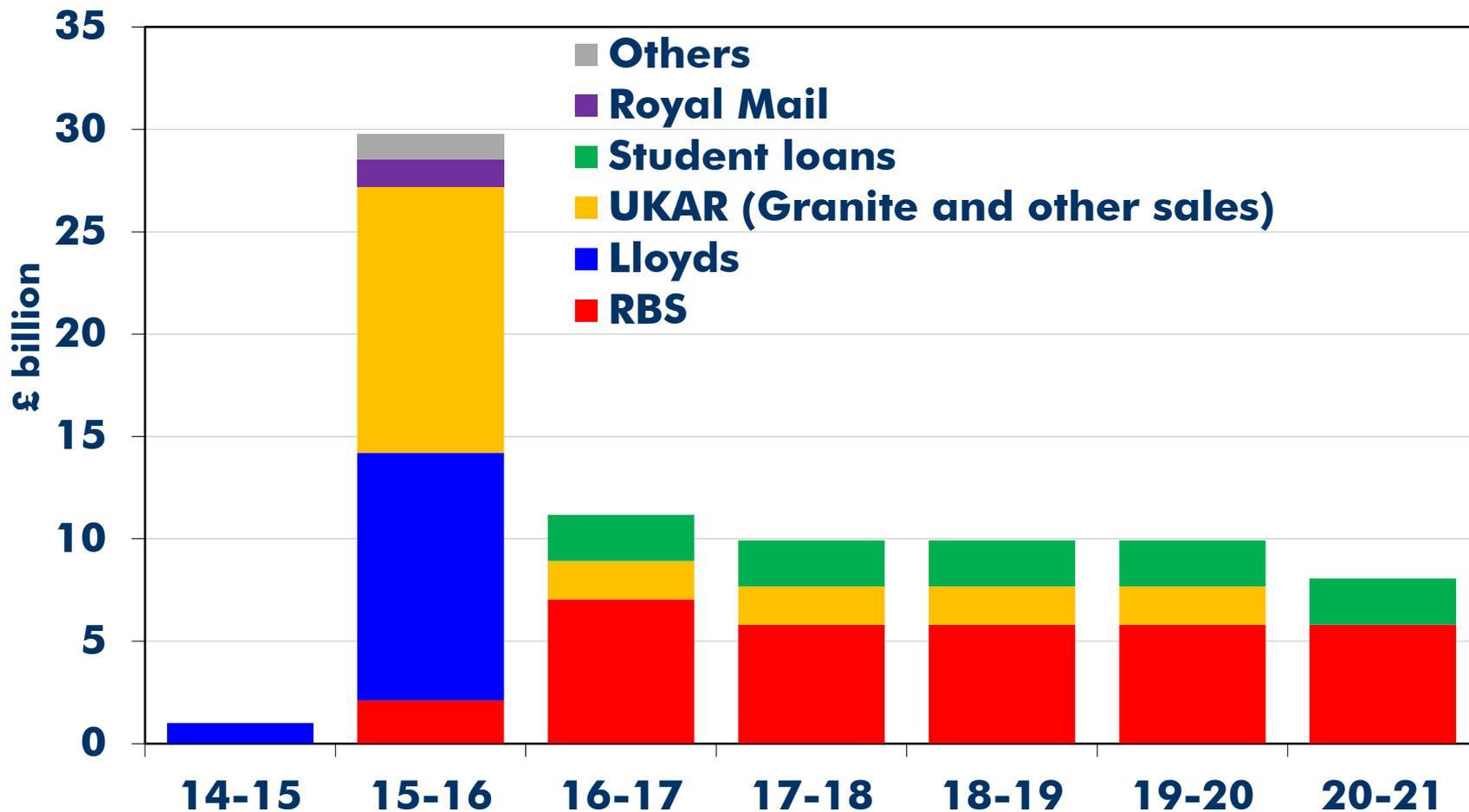
HA House building



Major asset sales (July)



Major asset sales (November)



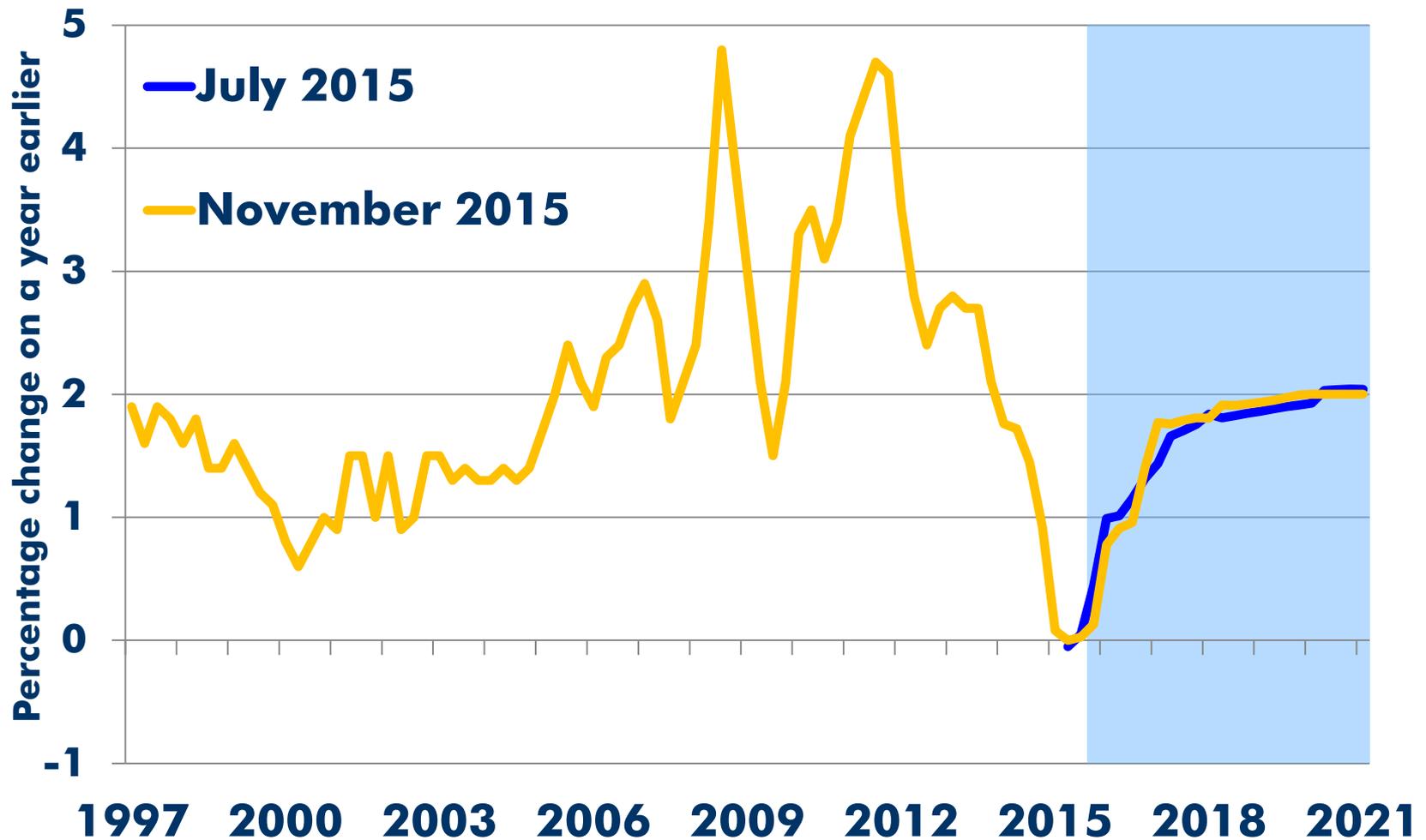
Economic impact of policy measures

- **Near-term fiscal loosening**
 - Boosts growth by 0.2ppts in 2016-17
 - Reduces growth by 0.1ppts in 2017-18 and 2018-19
- **Apprenticeship levy**
 - Costs passed on to lower profits and lower wages
 - Average earnings 0.3% lower by 2020-21
- **SDLT surcharge**
 - Reduces transactions 3% in 2016-17 and 2% thereafter
- **Energy and council tax**
 - Small effects on inflation

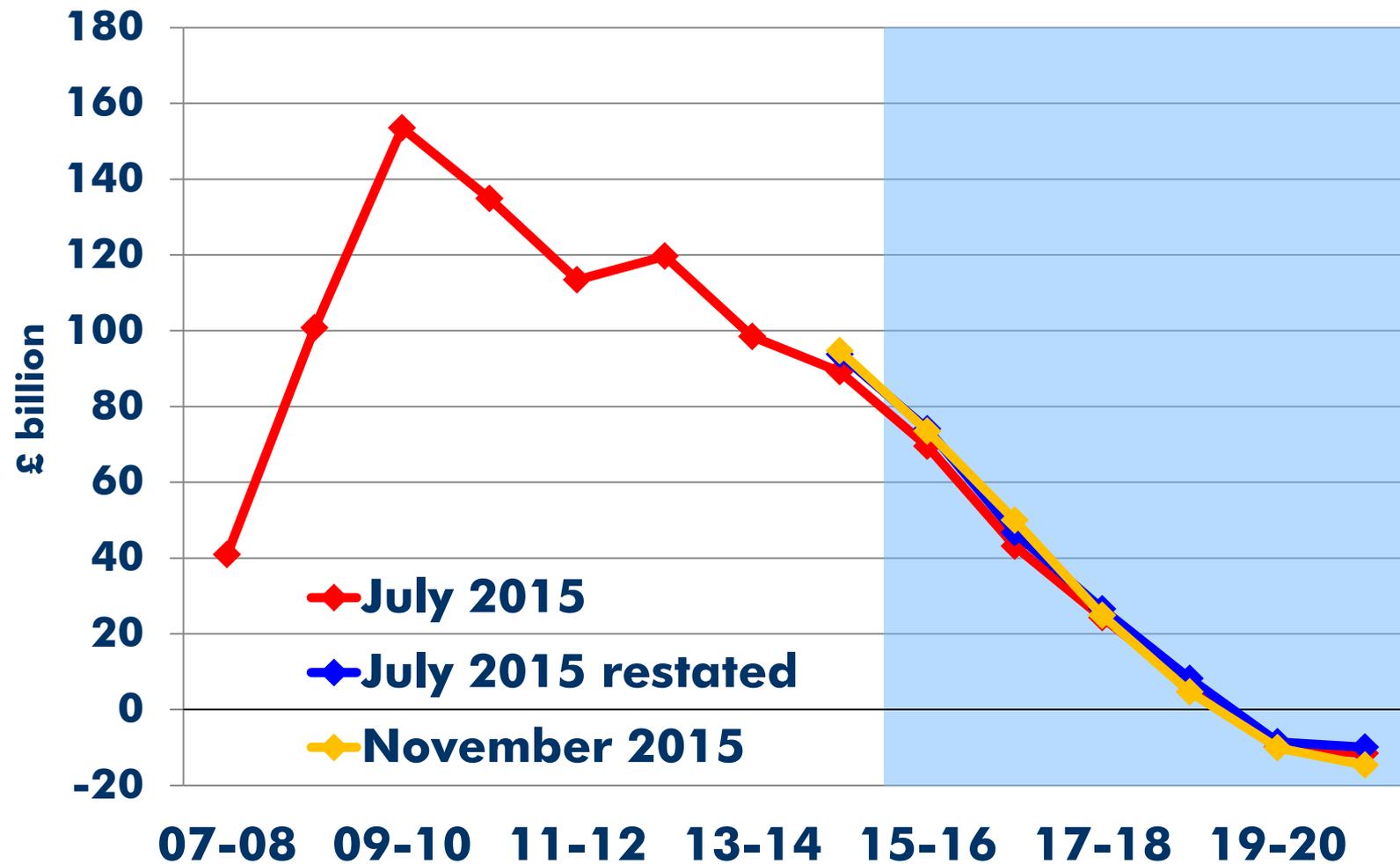
Real GDP growth

% growth p.a.	July EFO	November EFO	Change (to unrounded data)
2015	2.4	2.4	-0.1
2016	2.3	2.4	0.1
2017	2.4	2.5	0.1
2018	2.4	2.4	0.0
2019	2.4	2.3	0.0
2020	2.4	2.3	-0.1

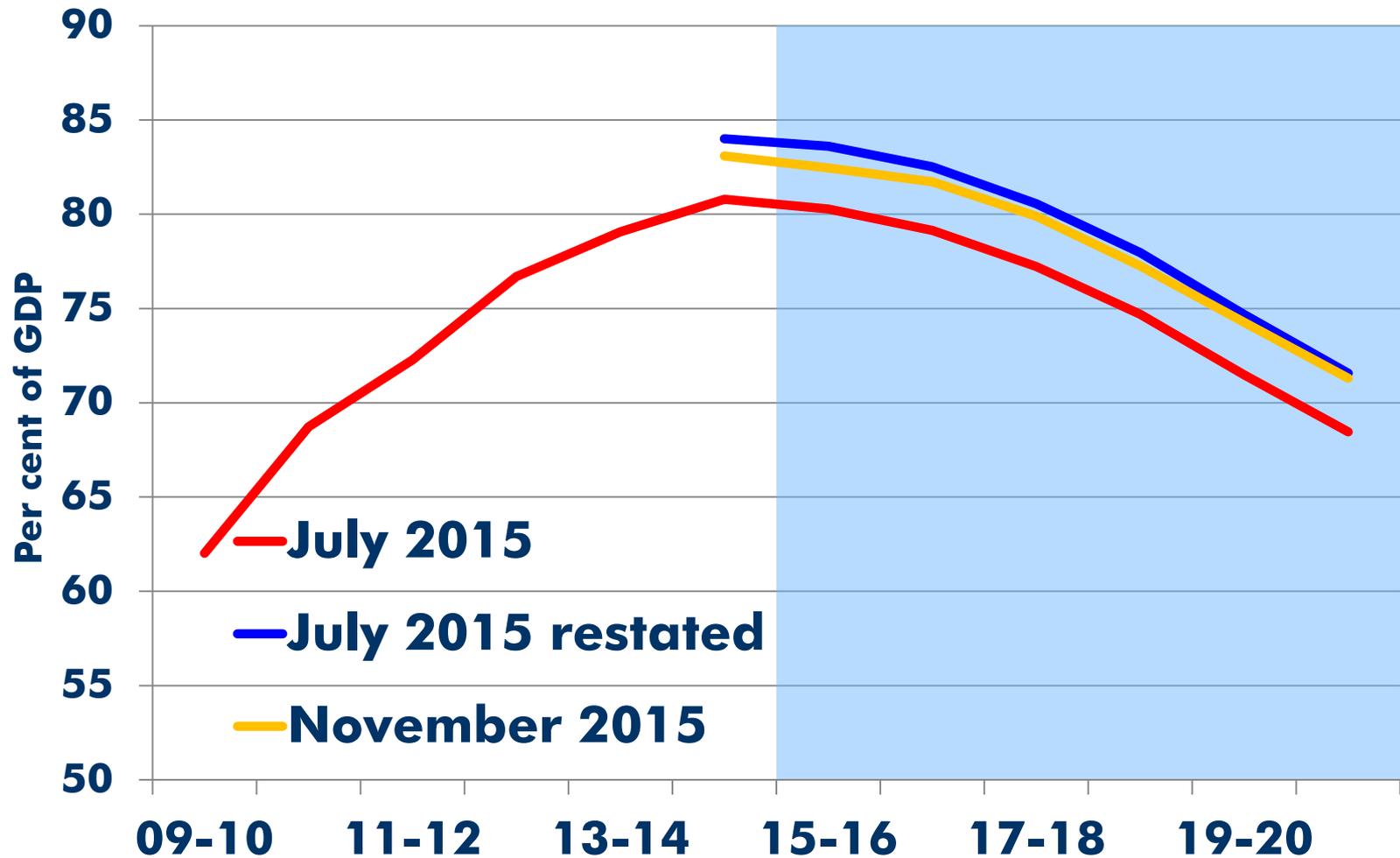
CPI inflation



Public sector net borrowing



Public sector net debt



The fiscal rules

	Margin by which rule on course to be met
Public sector net borrowing in surplus in 2019-20	0.5% of GDP
Net debt falling each year to 2019-20 as % GDP	0.6% to 3.0% of GDP

The welfare cap

£ billion	2016-17	2017-18	2018-19	2019-20	2020-21
July welfare cap	115.2	114.6	114.0	113.5	114.9
July forecast	115.2	114.6	114.0	113.5	114.9
<i>Pre-measures changes</i>	<i>1.0</i>	<i>1.2</i>	<i>1.3</i>	<i>1.9</i>	<i>2.4</i>
<i>Tax credit reversal</i>	<i>3.4</i>	<i>2.9</i>	<i>1.7</i>	<i>0.9</i>	<i>0.5</i>
<i>Other policy measures</i>	<i>-0.4</i>	<i>-1.0</i>	<i>-1.1</i>	<i>-1.0</i>	<i>-0.8</i>
November forecast	119.2	117.7	115.9	115.3	117.1
Difference from cap	+4.0	+3.1	+1.9	+1.8	+2.1
Forecast margin	2.3	2.3	2.3	2.3	2.3

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July forecast	115.2	114.6	114.0	113.5	114.9
<i>Pre-measures changes</i>	<i>1.0</i>	<i>1.2</i>	<i>1.3</i>	<i>1.9</i>	<i>2.4</i>
<i>Tax credit reversal</i>	<i>3.4</i>	<i>2.9</i>	<i>1.7</i>	<i>0.9</i>	<i>0.5</i>
<i>Other policy measures</i>	<i>-0.4</i>	<i>-1.0</i>	<i>-1.1</i>	<i>-1.0</i>	<i>-0.8</i>
November forecast	119.2	117.7	115.9	115.3	117.1
Difference from cap	+4.0	+3.1	+1.9	+1.8	+2.1
Forecast margin	2.3	2.3	2.3	2.3	2.3

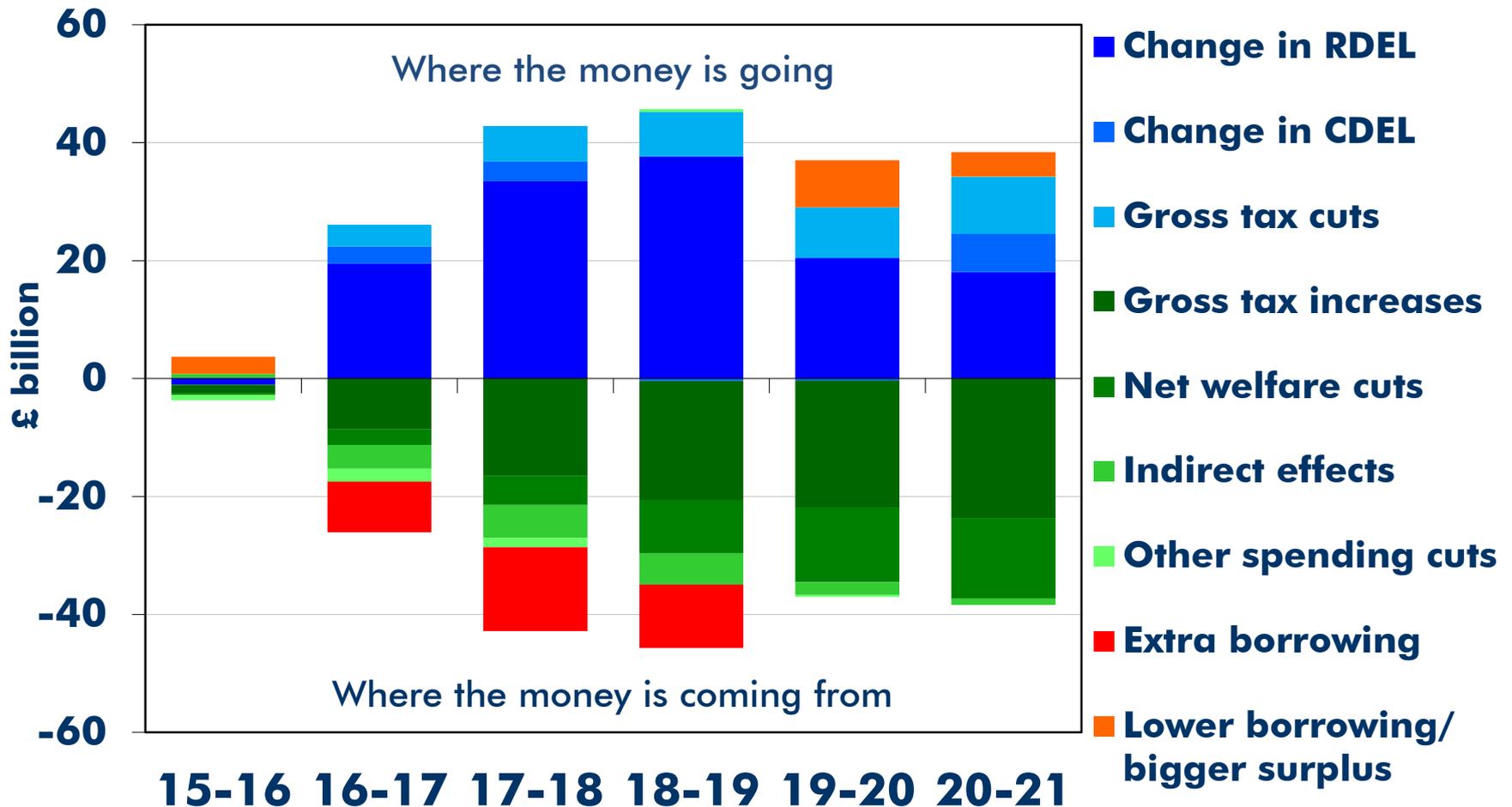
The welfare cap

£ billion	2016-17	2017-18	2018-19	2019-20	2020-21
July welfare cap	115.2	114.6	114.0	113.5	114.9
July forecast	115.2	114.6	114.0	113.5	114.9
<i>Pre-measures changes</i>	<i>1.0</i>	<i>1.2</i>	<i>1.3</i>	<i>1.9</i>	<i>2.4</i>
<i>Tax credit reversal</i>	<i>3.4</i>	<i>2.9</i>	<i>1.7</i>	<i>0.9</i>	<i>0.5</i>
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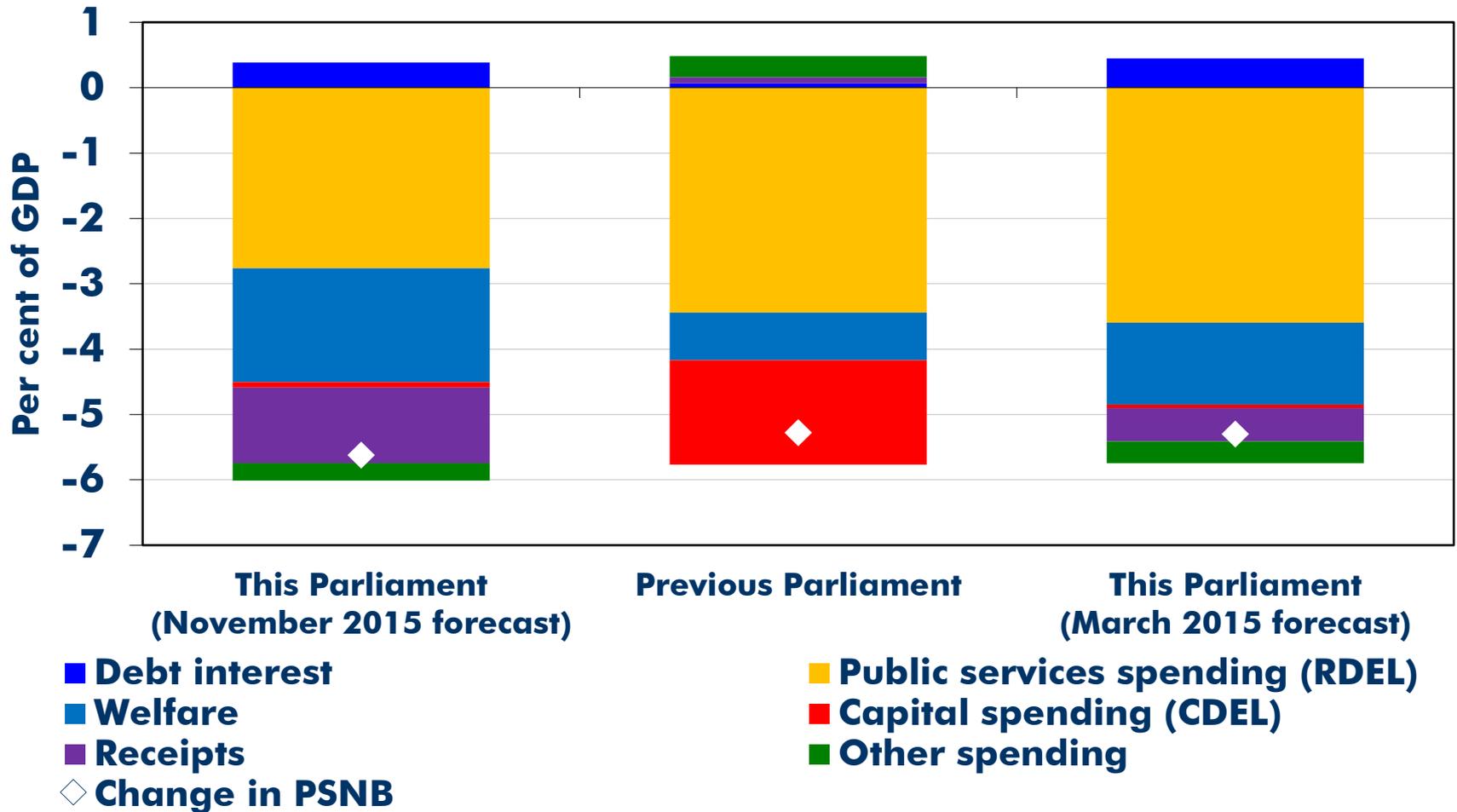
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Forecast margin	2.3	2.3	2.3	2.3	2.3

Game of two halves



The changing consolidation



Conclusion

- **Stronger underlying receipts**
- **Lower debt interest spending**
- **Higher disability benefits spending**
- **Main tax credit cuts reversal**
- **Departmental spending lifted and (un)smoothed**
- **Net tax increases**
- **Surplus in 2019-20 unchanged**