

Office for
**Budget
Responsibility**

Economic and fiscal outlook

Robert Chote
Chairman

13 March 2018

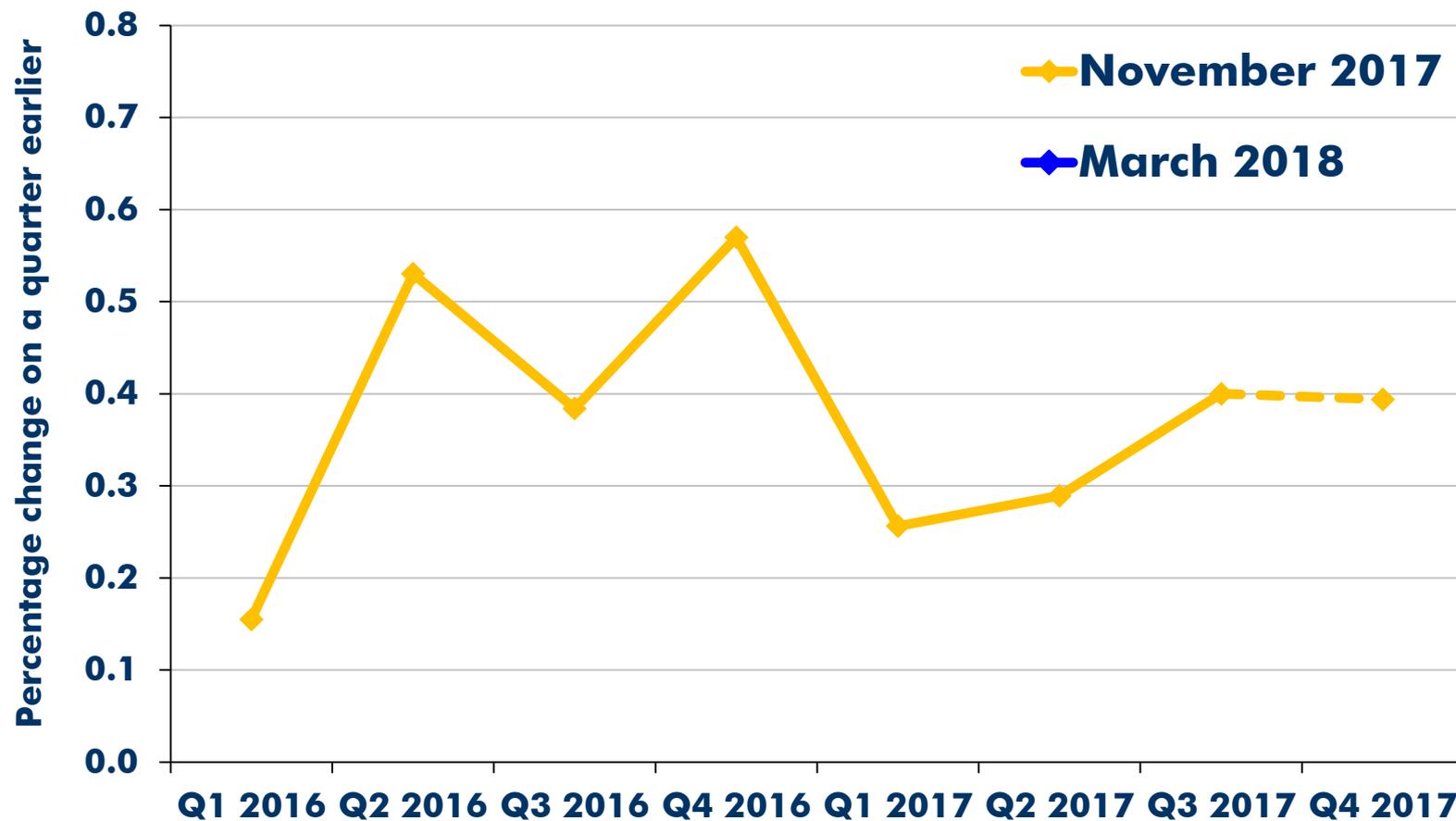
Coverage and process

- **Five year forecasts, plus assessment of targets**
- **Independent BRC responsible for conclusions**
- **Sent near-final forecast to Chancellor on 28 February**
- **Met with Chancellor and officials on the same day**
- **Draft document shared last Wednesday**
- **No pressure to change anything**

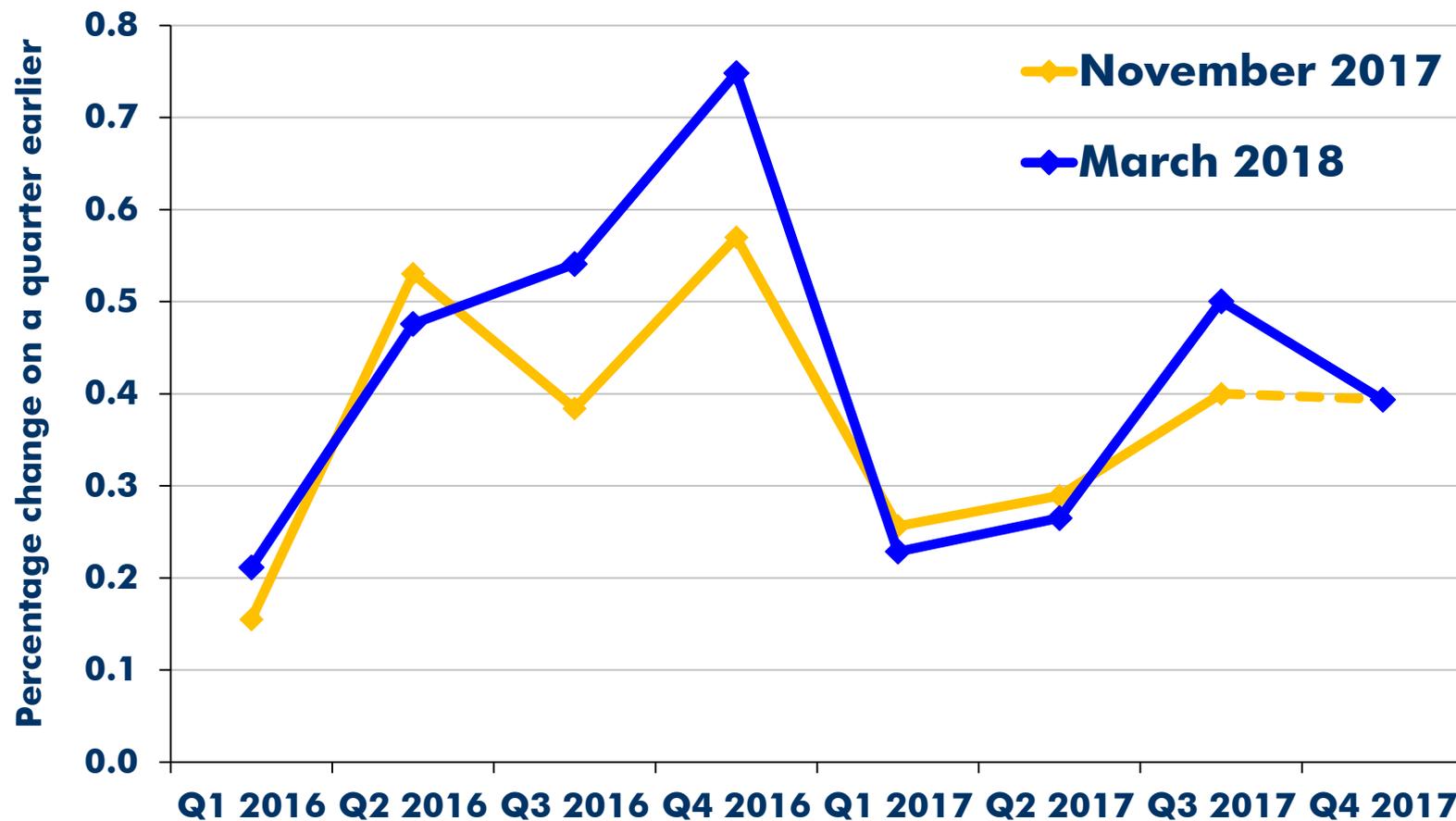
Key points

- **Outlook for economy and public finances little changed**
- **Slightly stronger GDP growth near-term, thanks to world economy**
- **But no change to medium-term growth potential**
- **Budget deficit revised down by £4.7bn this year, then by less**
- **Margin against fiscal targets virtually unchanged**
- **Balancing the budget still looks very challenging**
- **Brexit 'divorce bill' within Treasury range at £37.1bn**

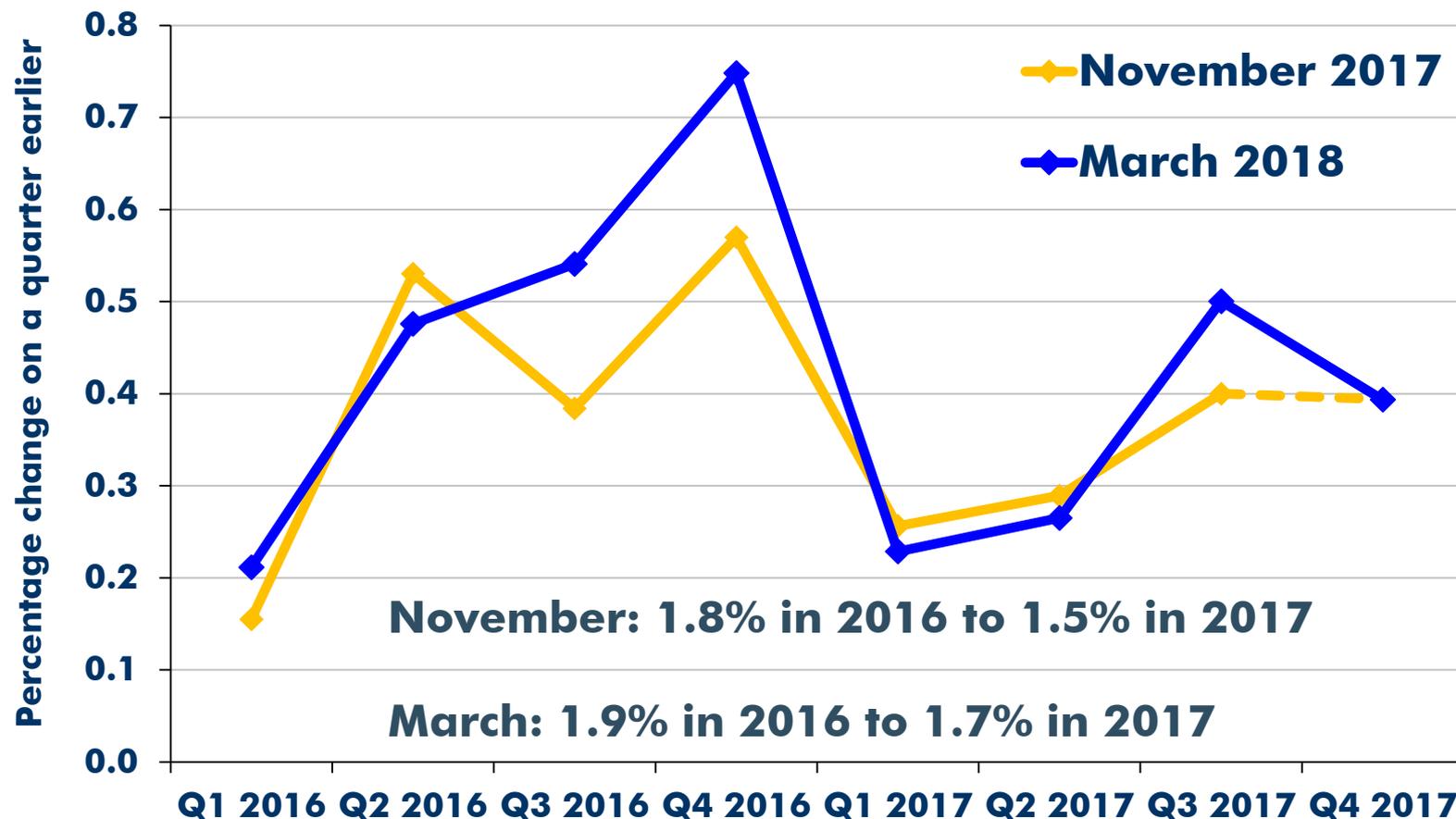
Quarterly GDP growth



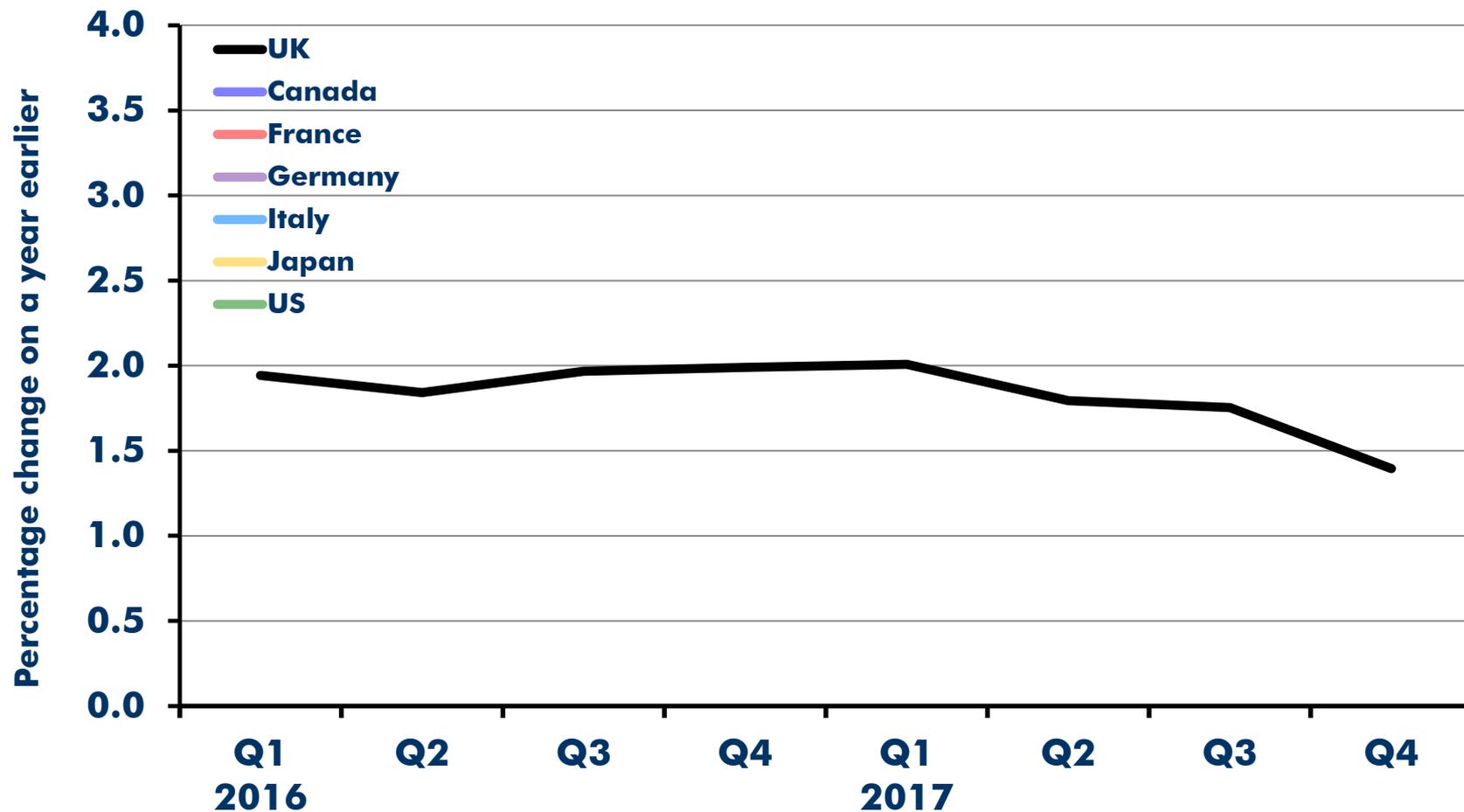
Quarterly GDP growth



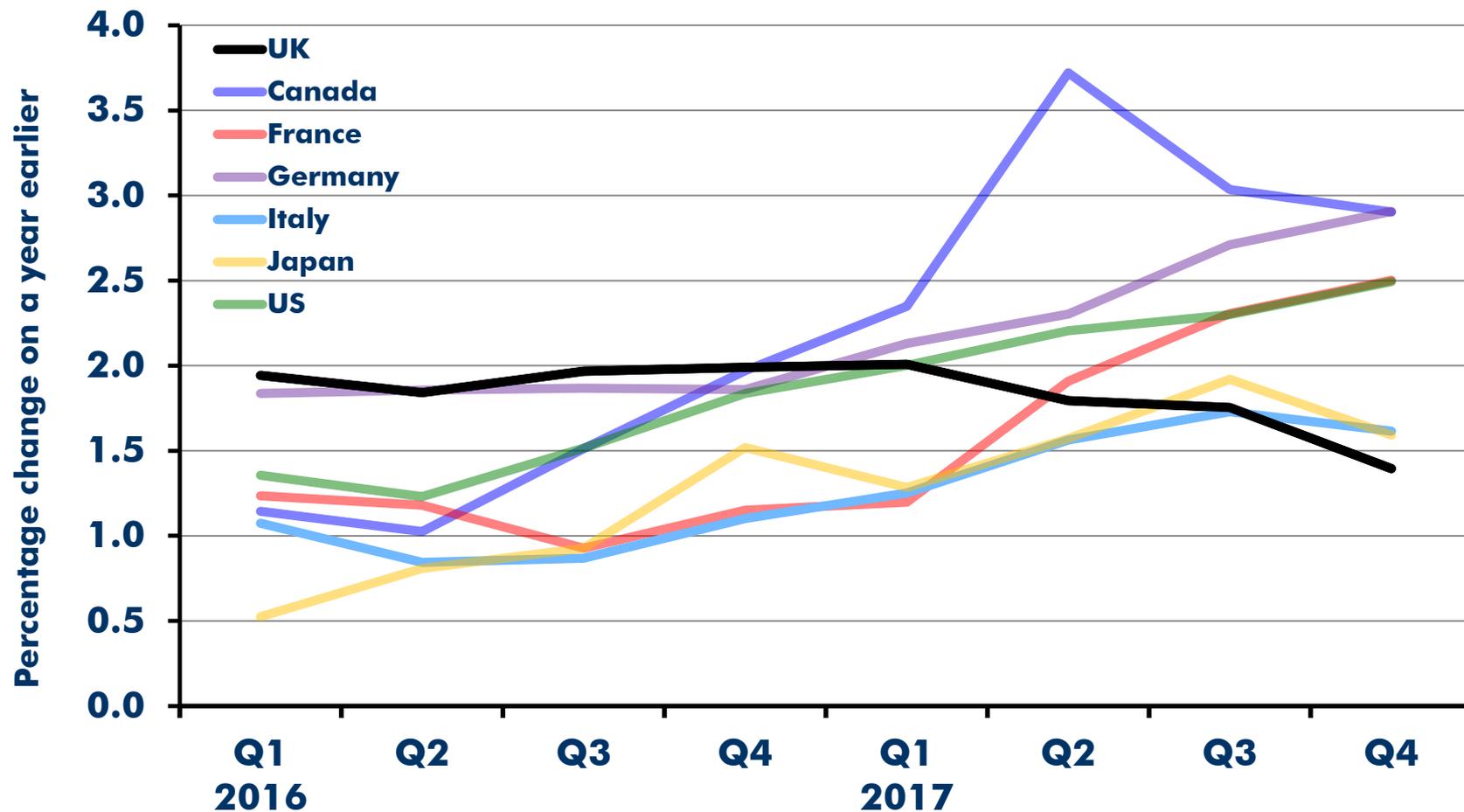
Quarterly GDP growth



GDP growth in the G7



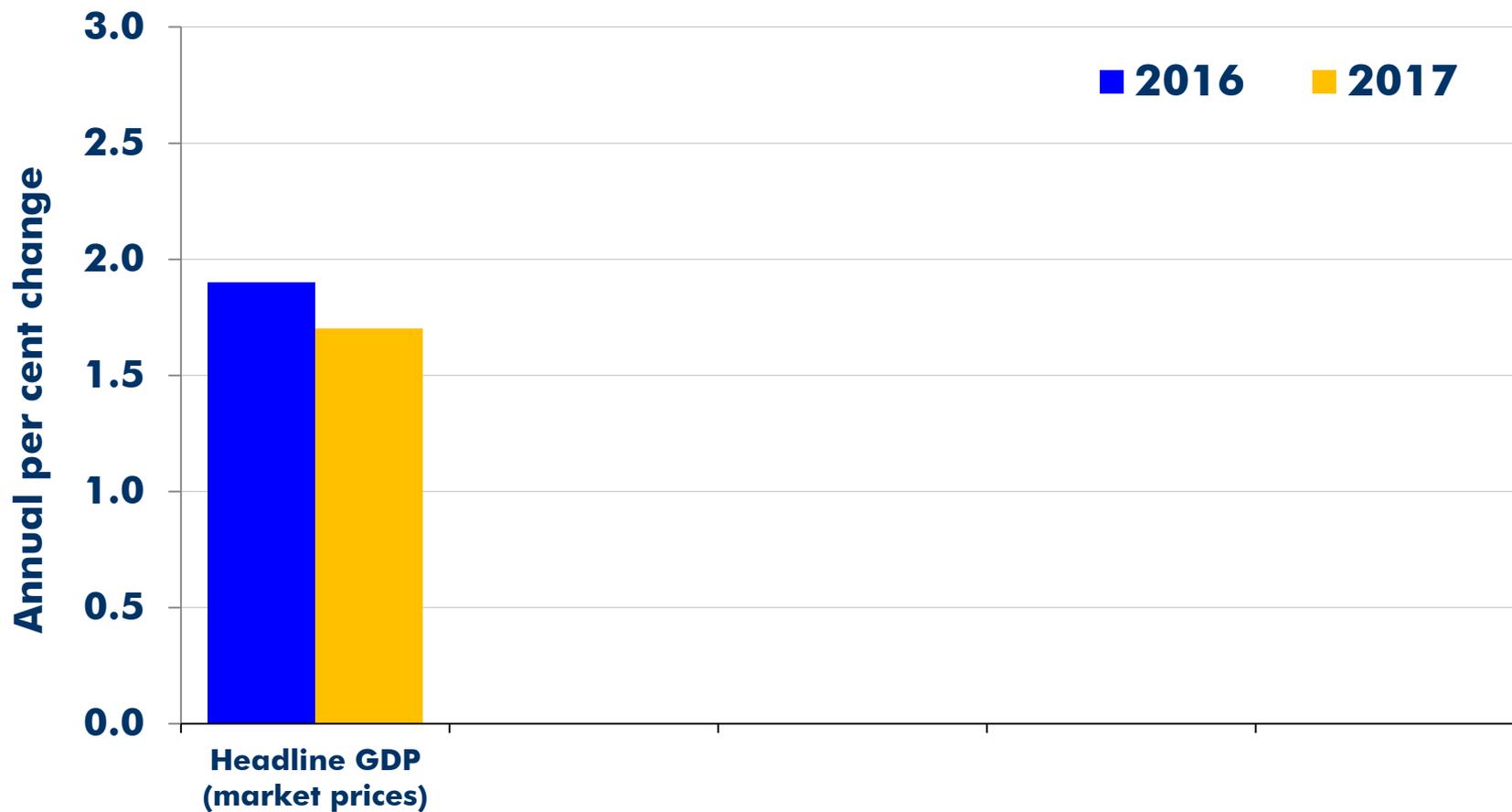
GDP growth in the G7



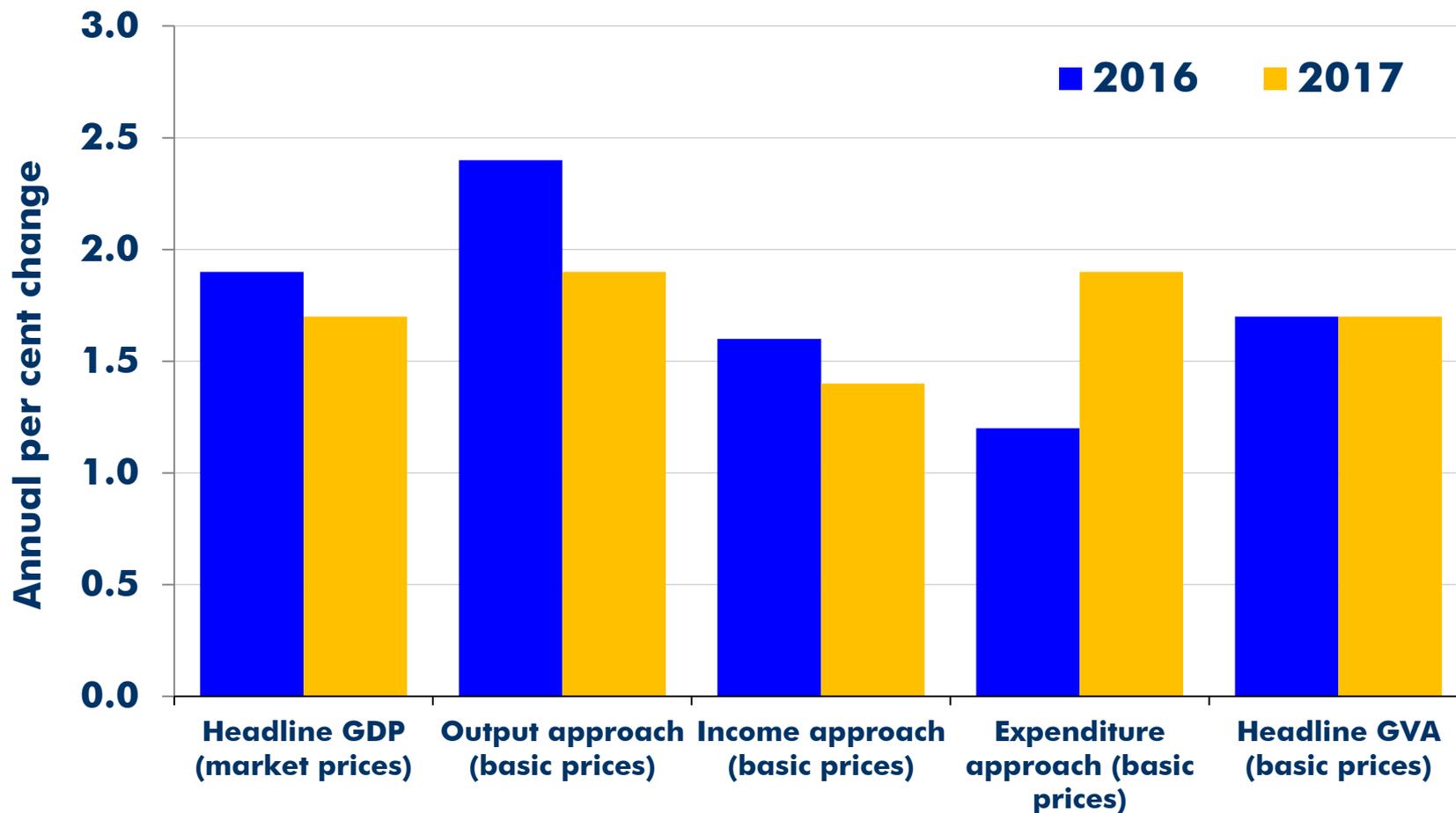
Post referendum judgements

- **Weaker net inward migration**
 - Yes, down from 336k to 244k
- **Inflation squeeze on consumers**
 - Yes, but consumers have saved less
- **Weaker business investment**
 - Yes, but not as bad as expected
- **Boost from net trade**
 - Yes, but weaker than expected

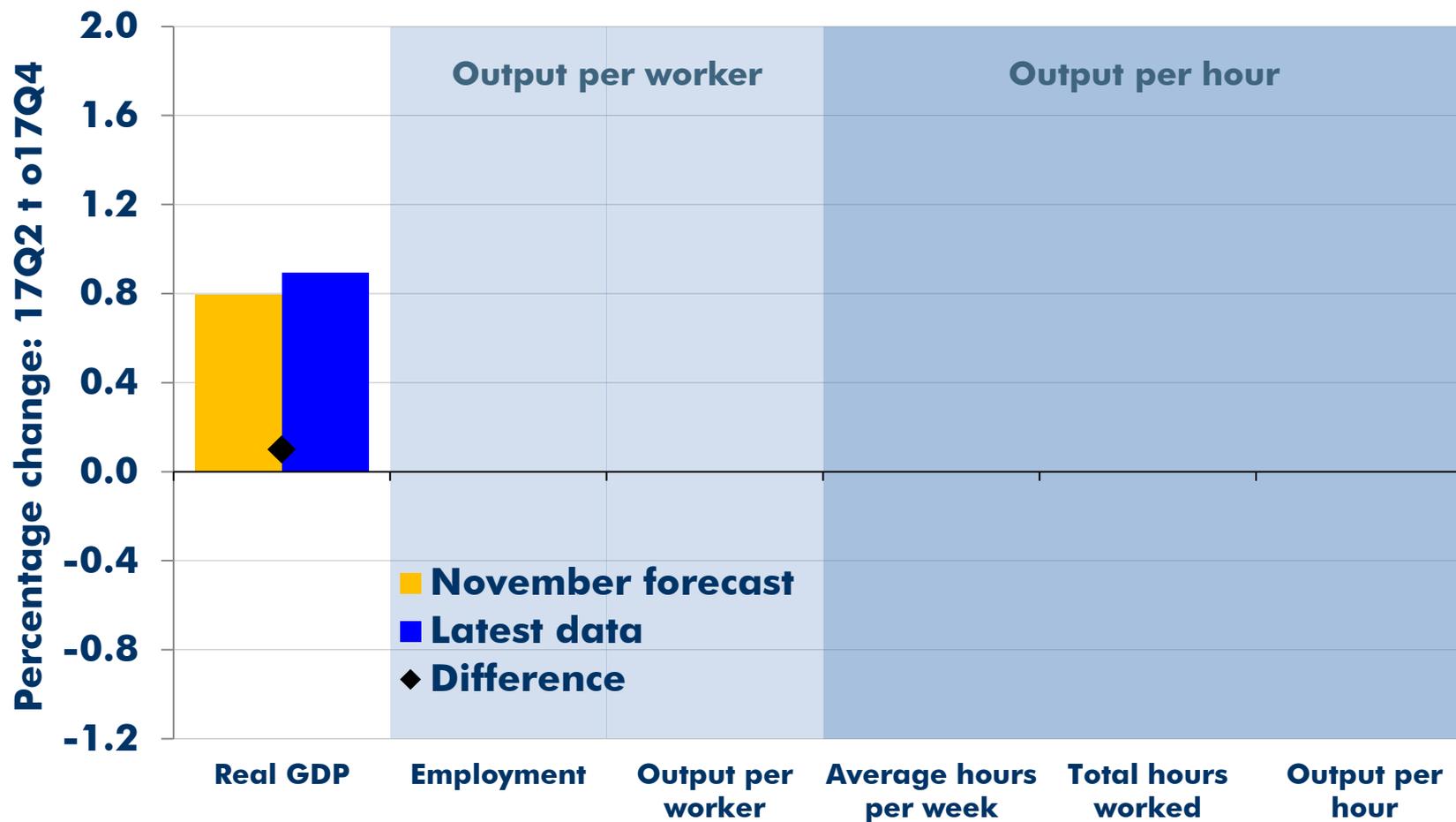
GDP growth: 5 measures



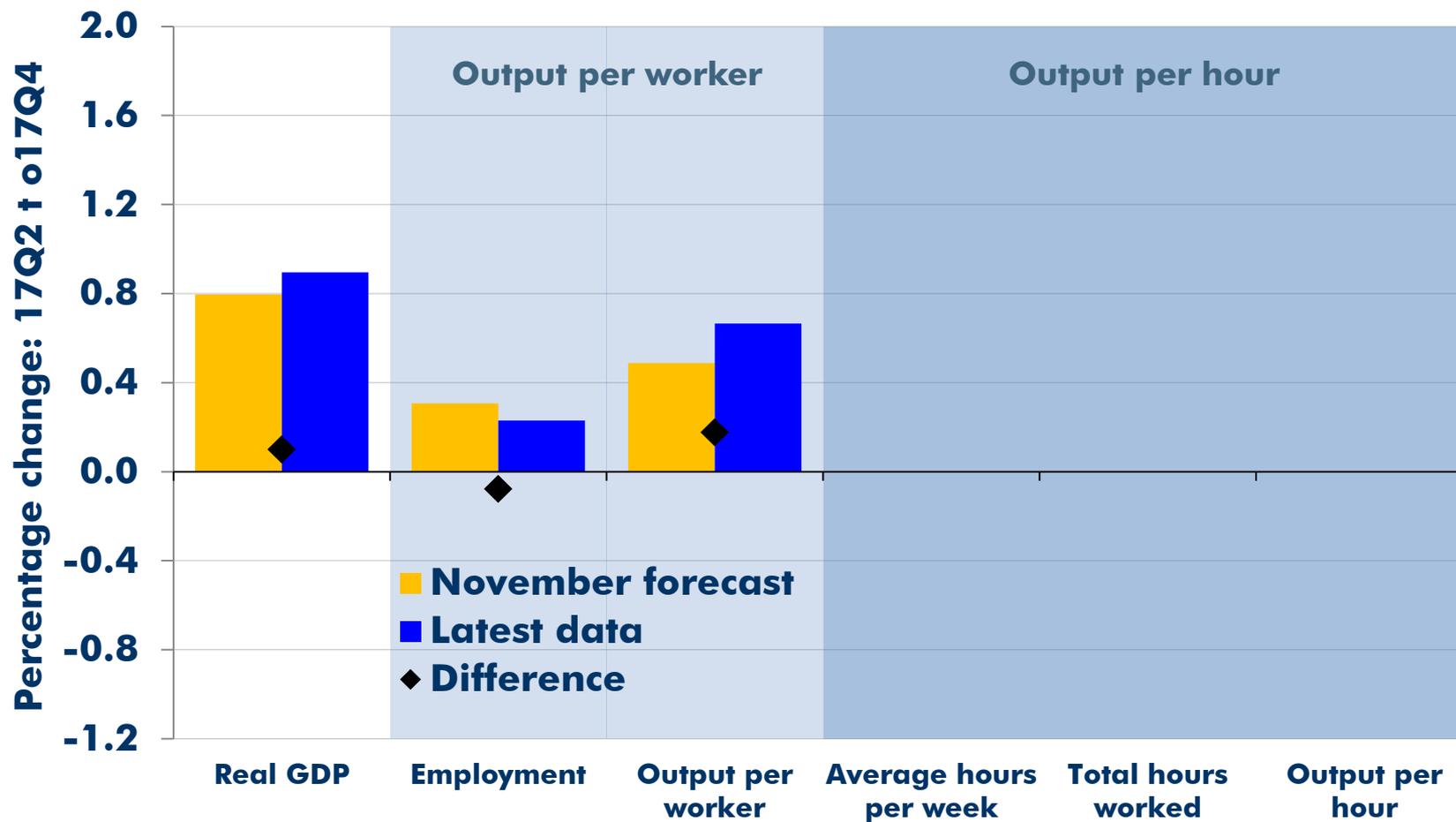
GDP growth: 5 measures



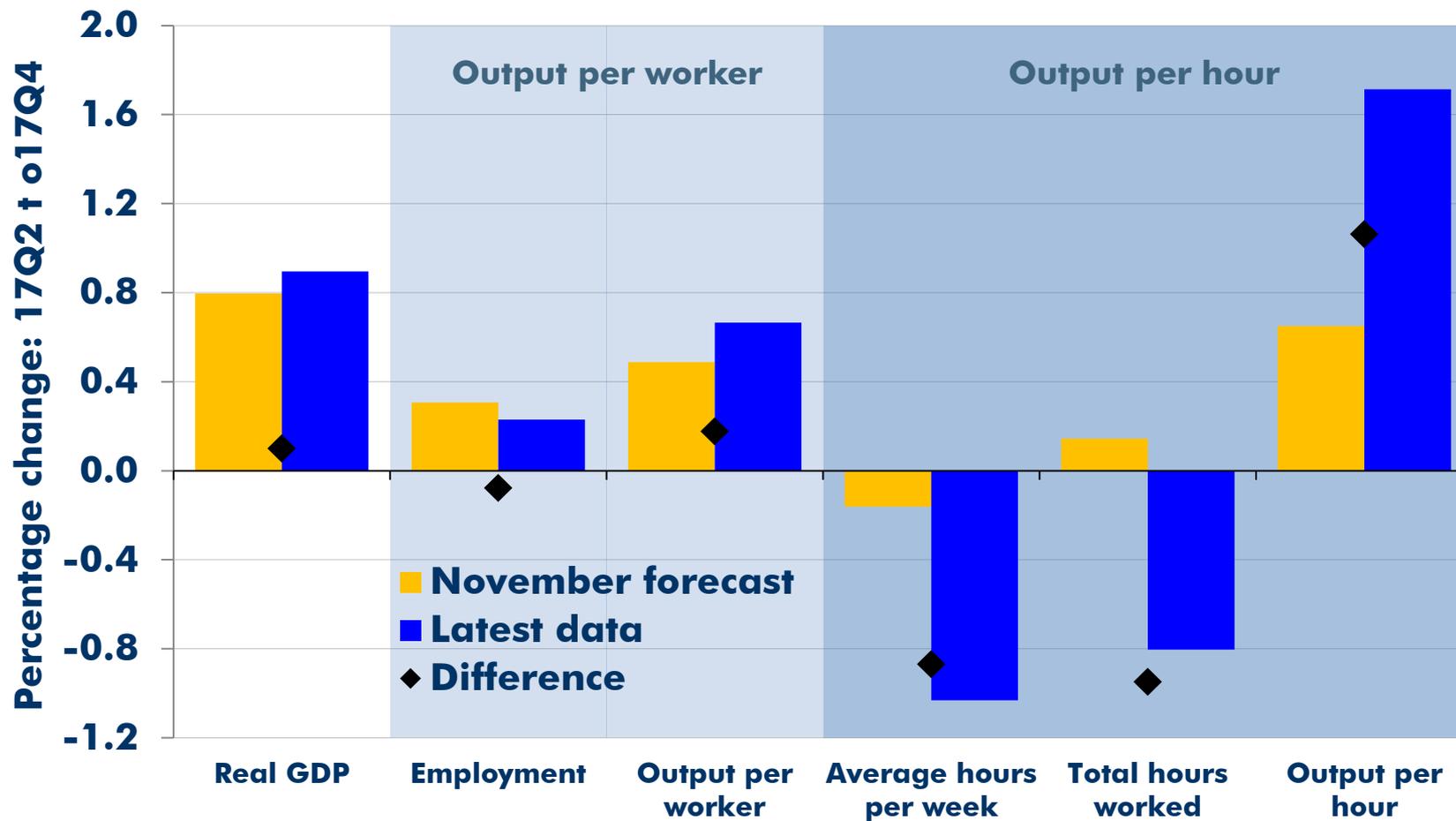
Real GDP, labour input and productivity



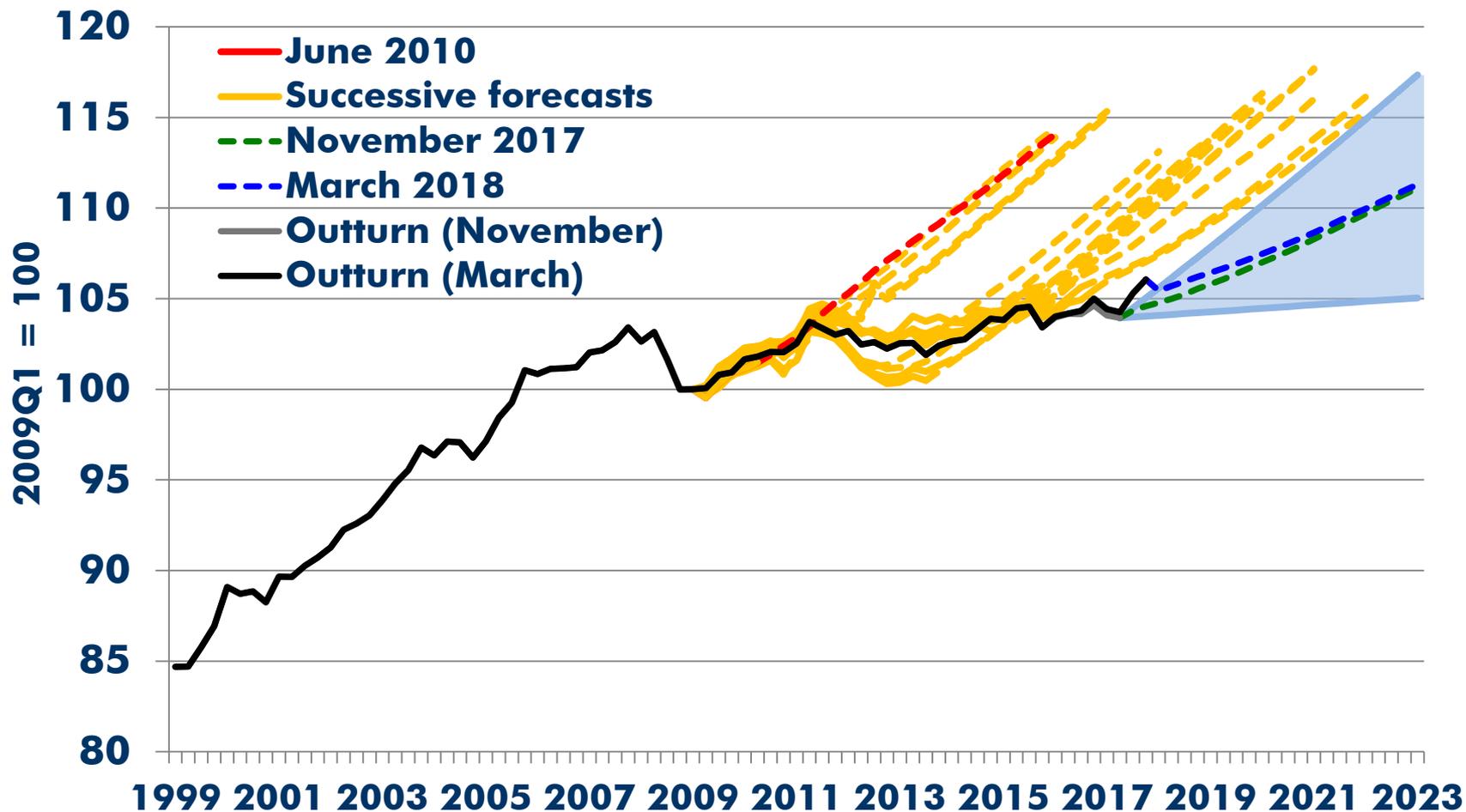
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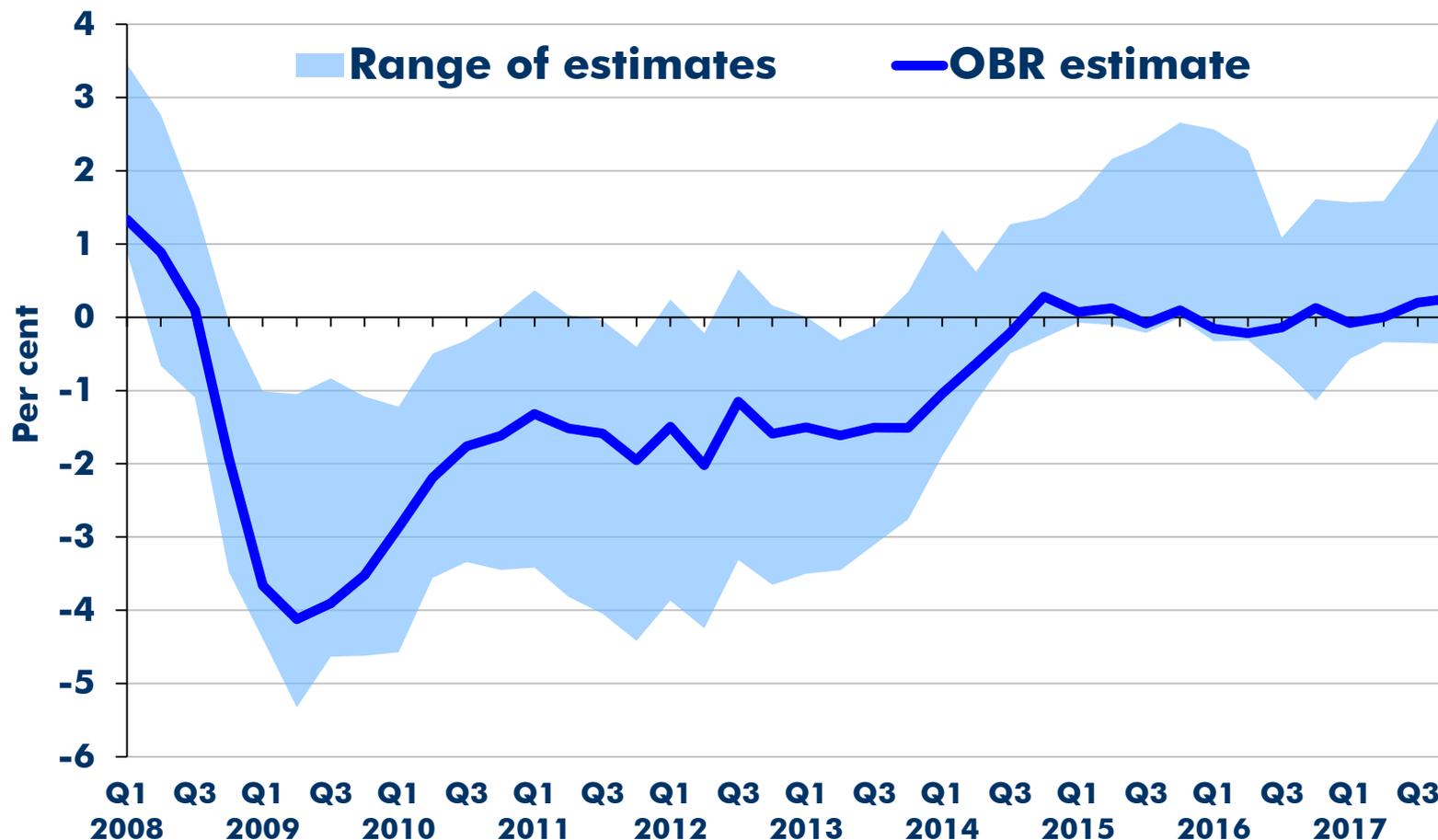
Real GDP, labour input and productivity



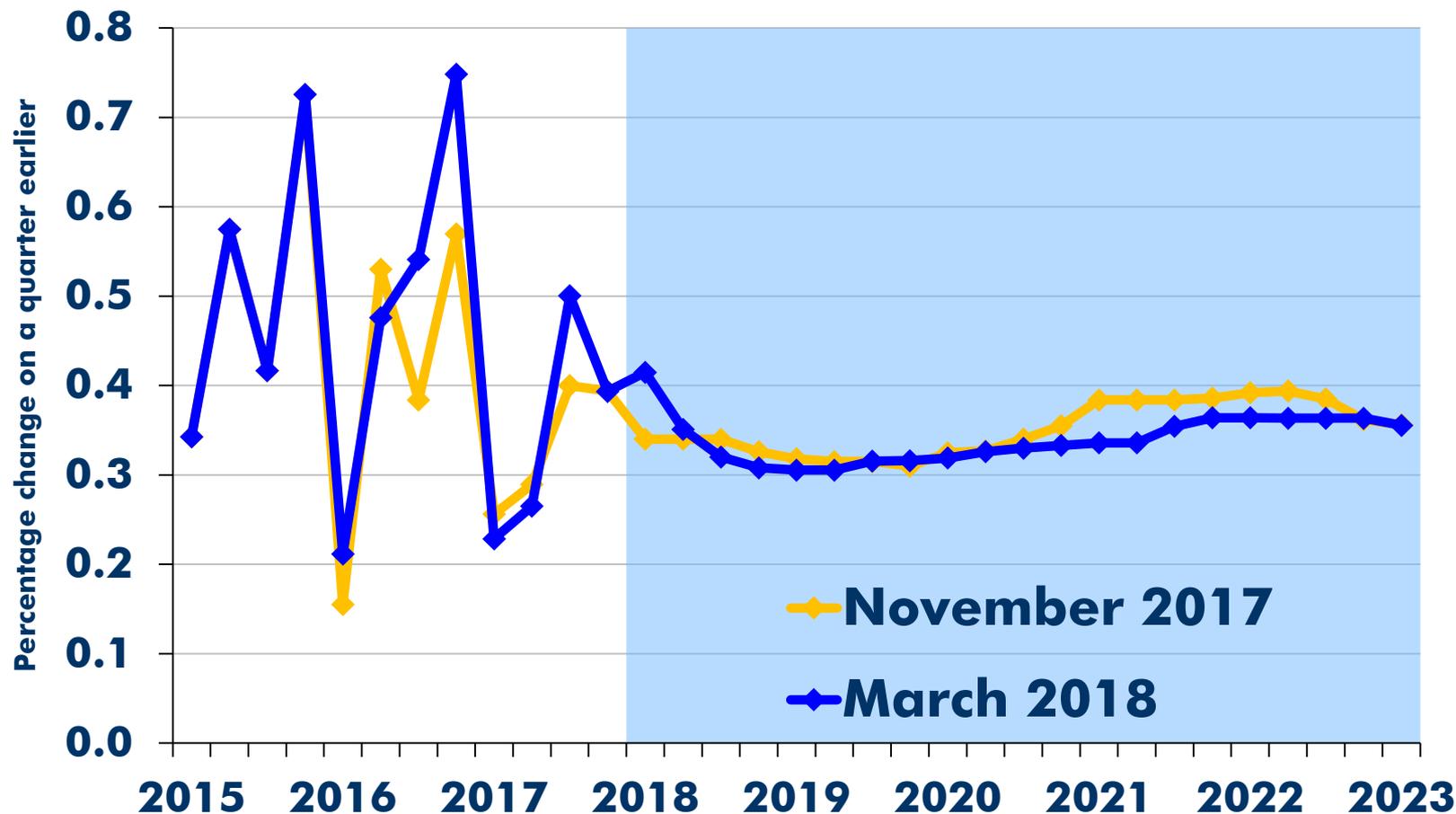
Productivity



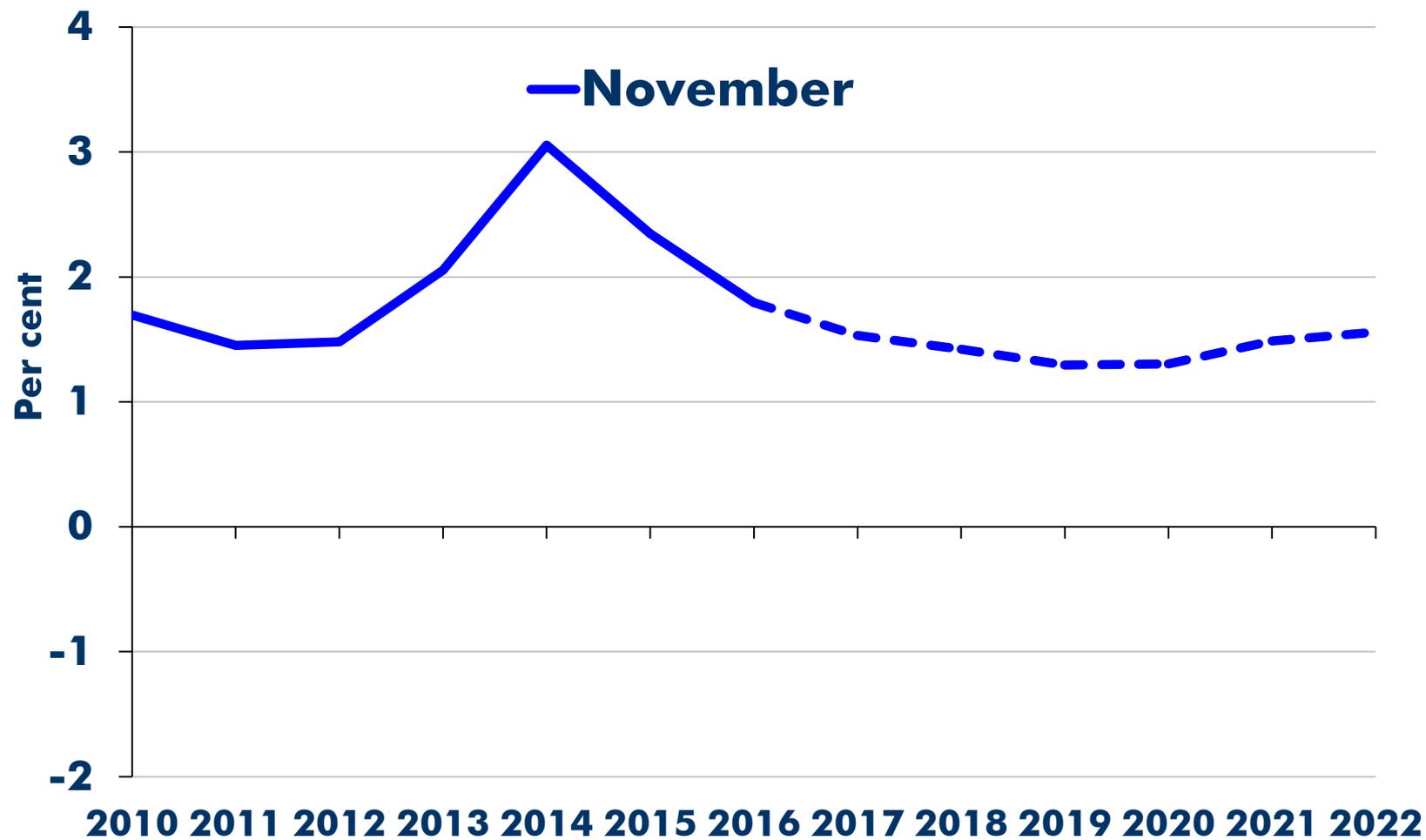
Output versus potential



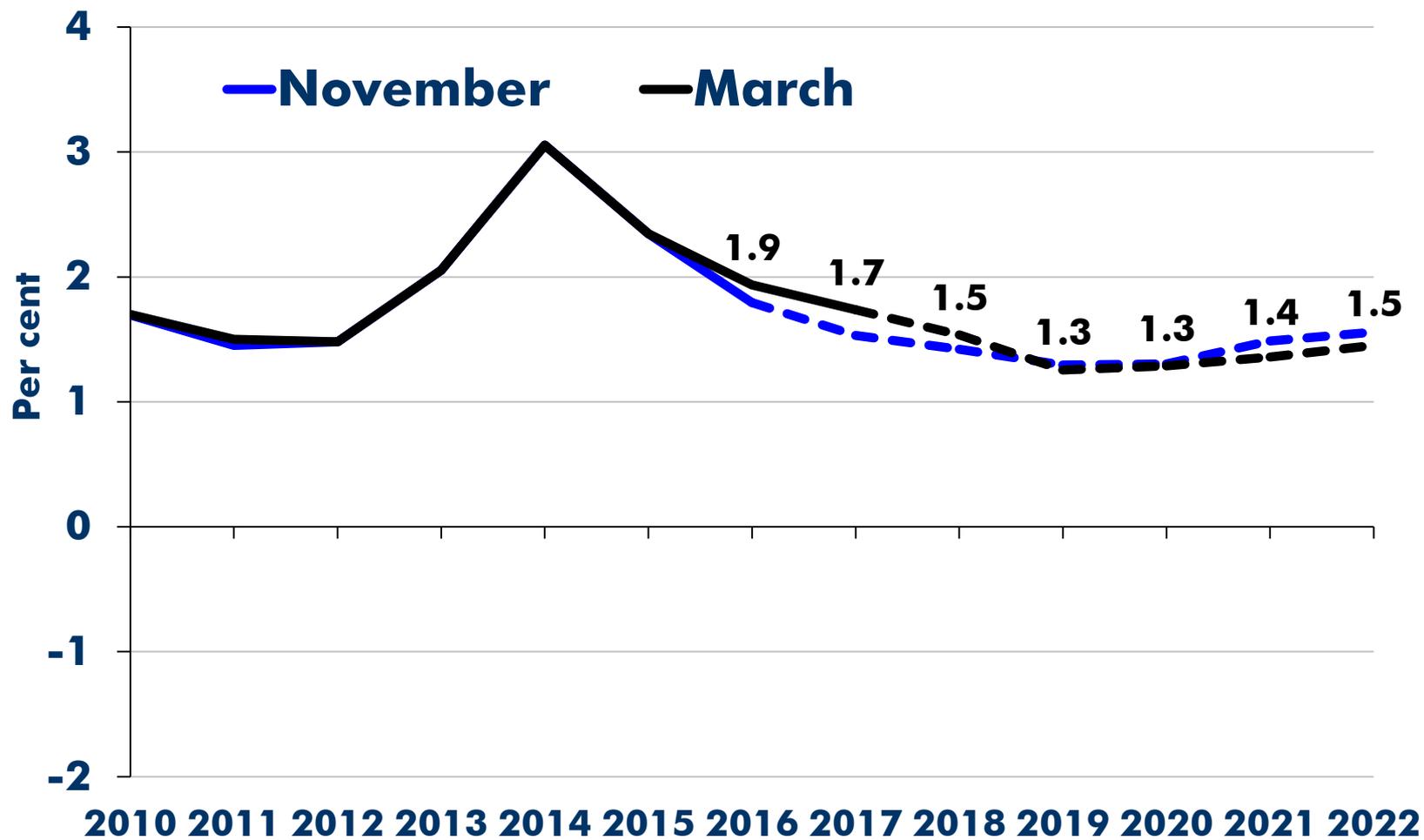
Quarterly GDP growth



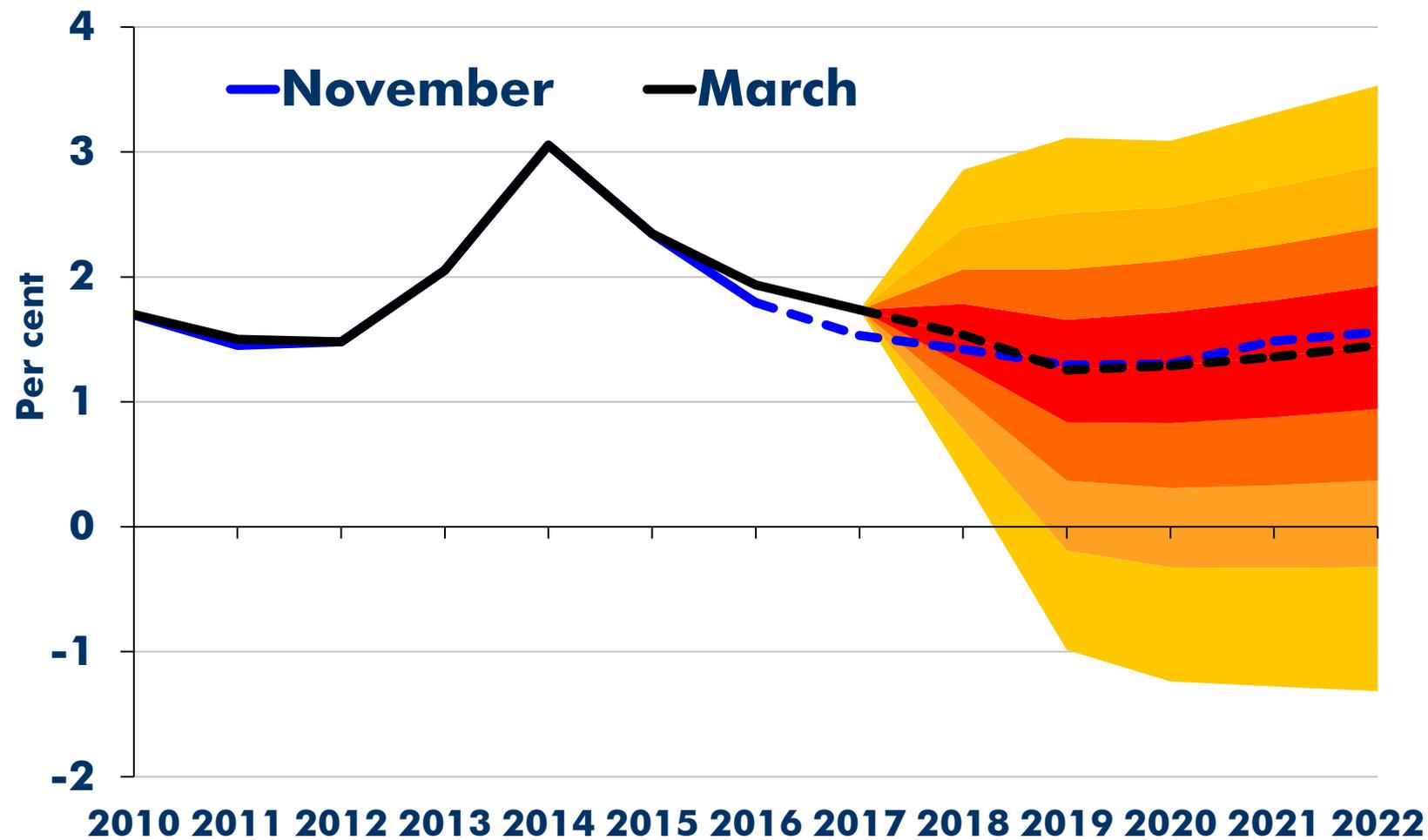
GDP growth



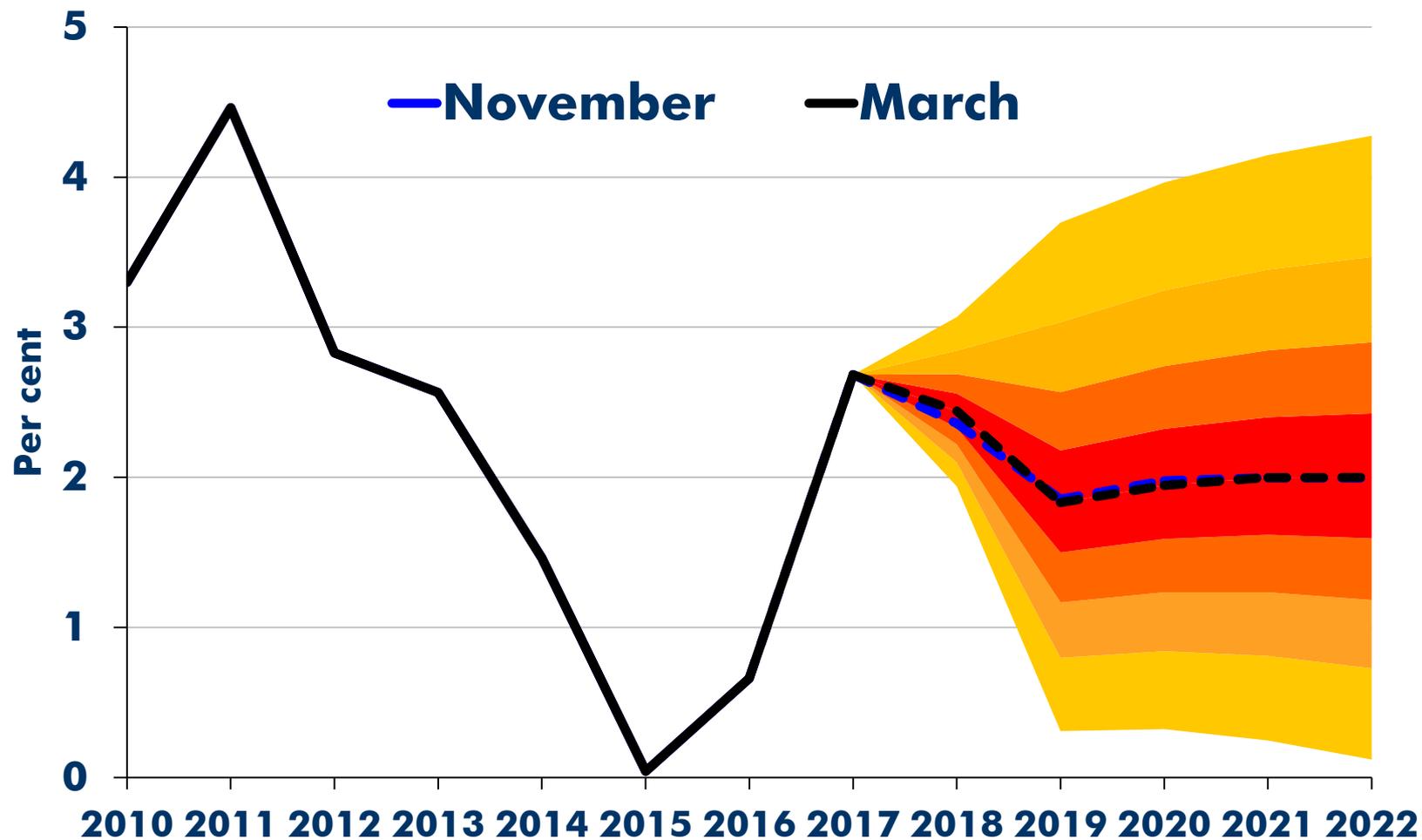
GDP growth



GDP growth



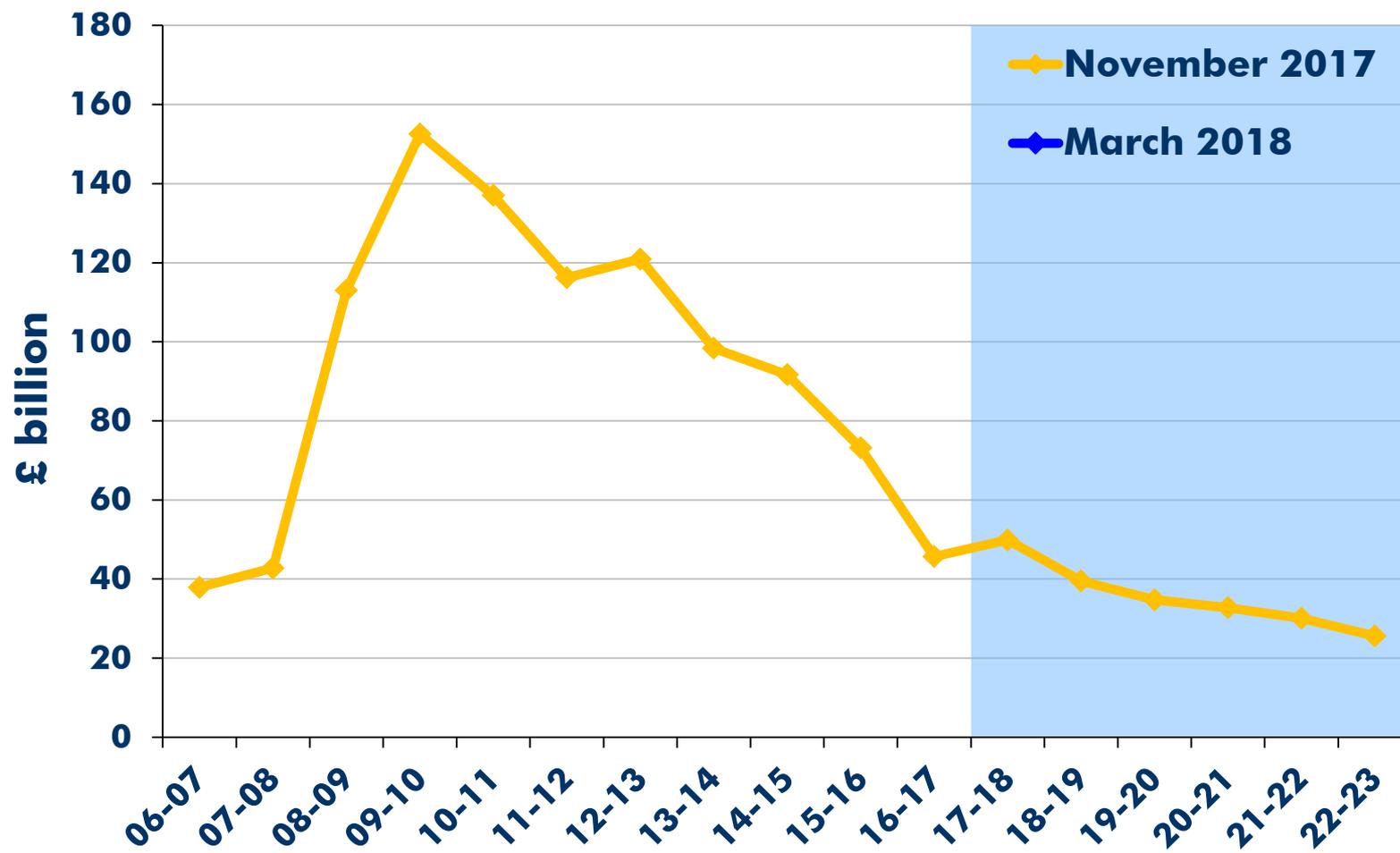
CPI inflation



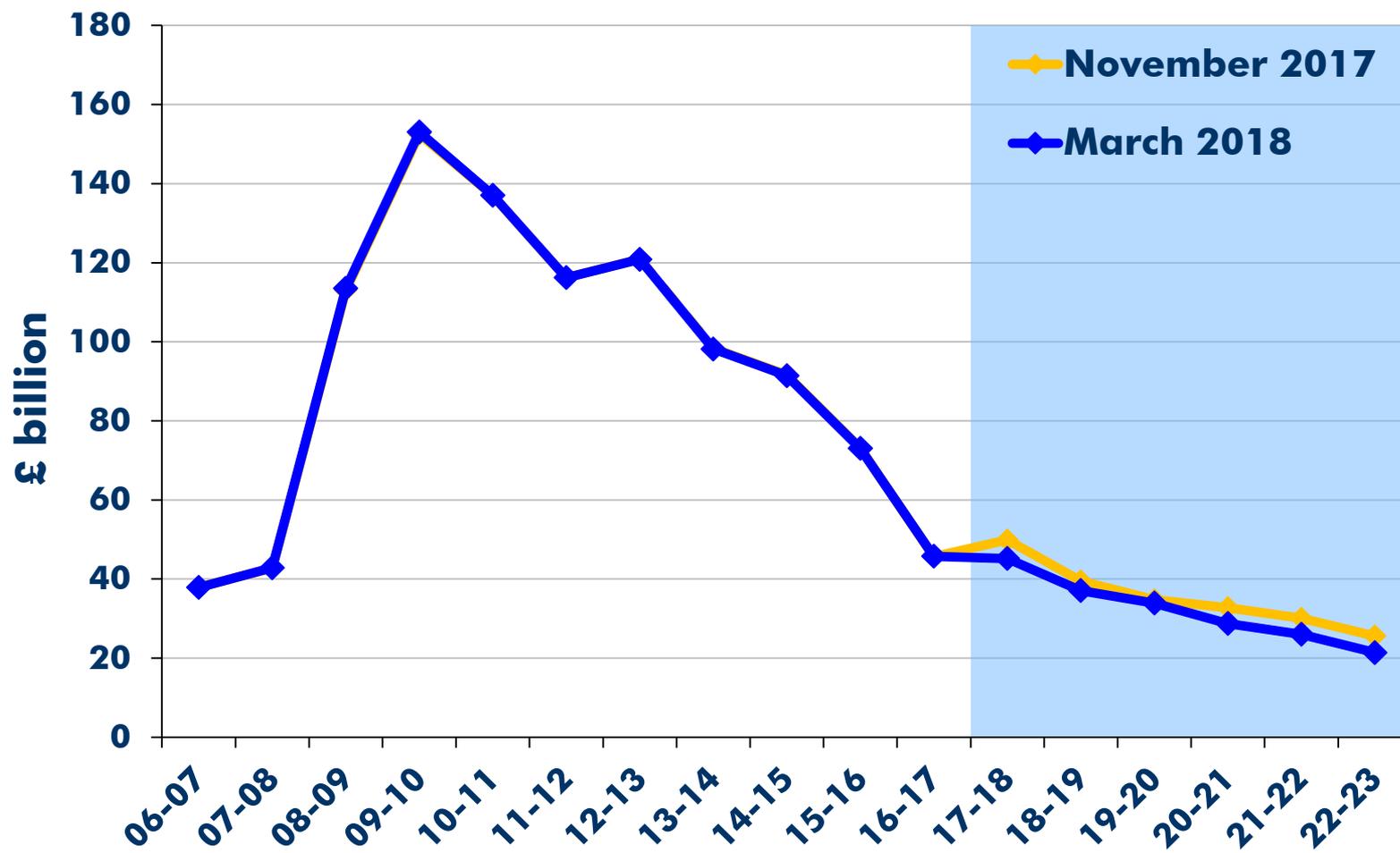
Nominal GDP growth

Cumulative percentage growth, 2017-18 to 2022-23	November	March	<i>Difference</i>
Real GDP	7.3	7.0	-0.2
Nominal GDP	16.3	16.3	-0.1
Wages and salaries	15.5	15.7	0.2
Non-North Sea profits	17.2	17.5	0.3
Nominal consumer spending	17.8	17.0	-0.8
Real business investment	12.4	11.5	-0.9

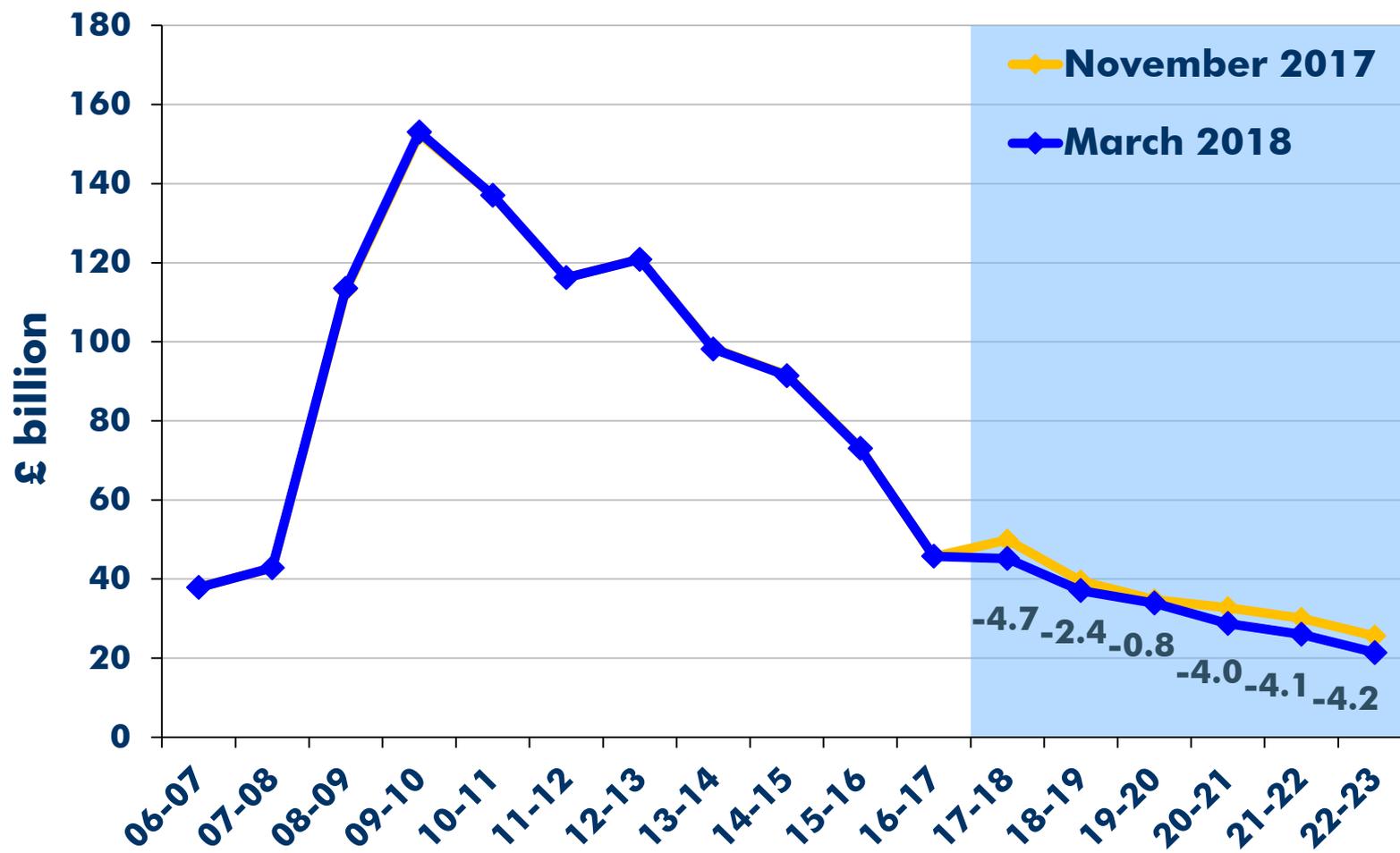
Public sector net borrowing



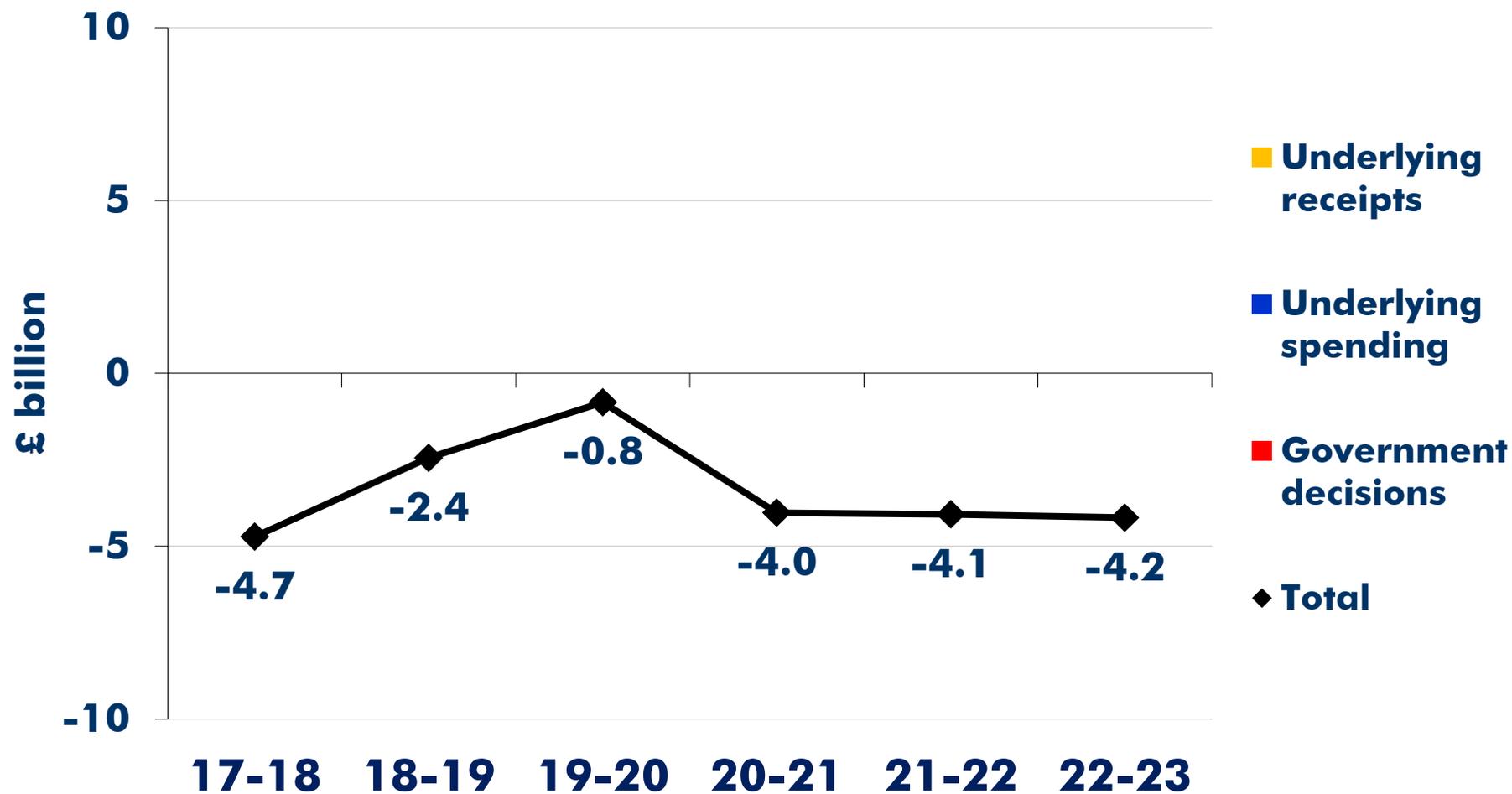
Public sector net borrowing



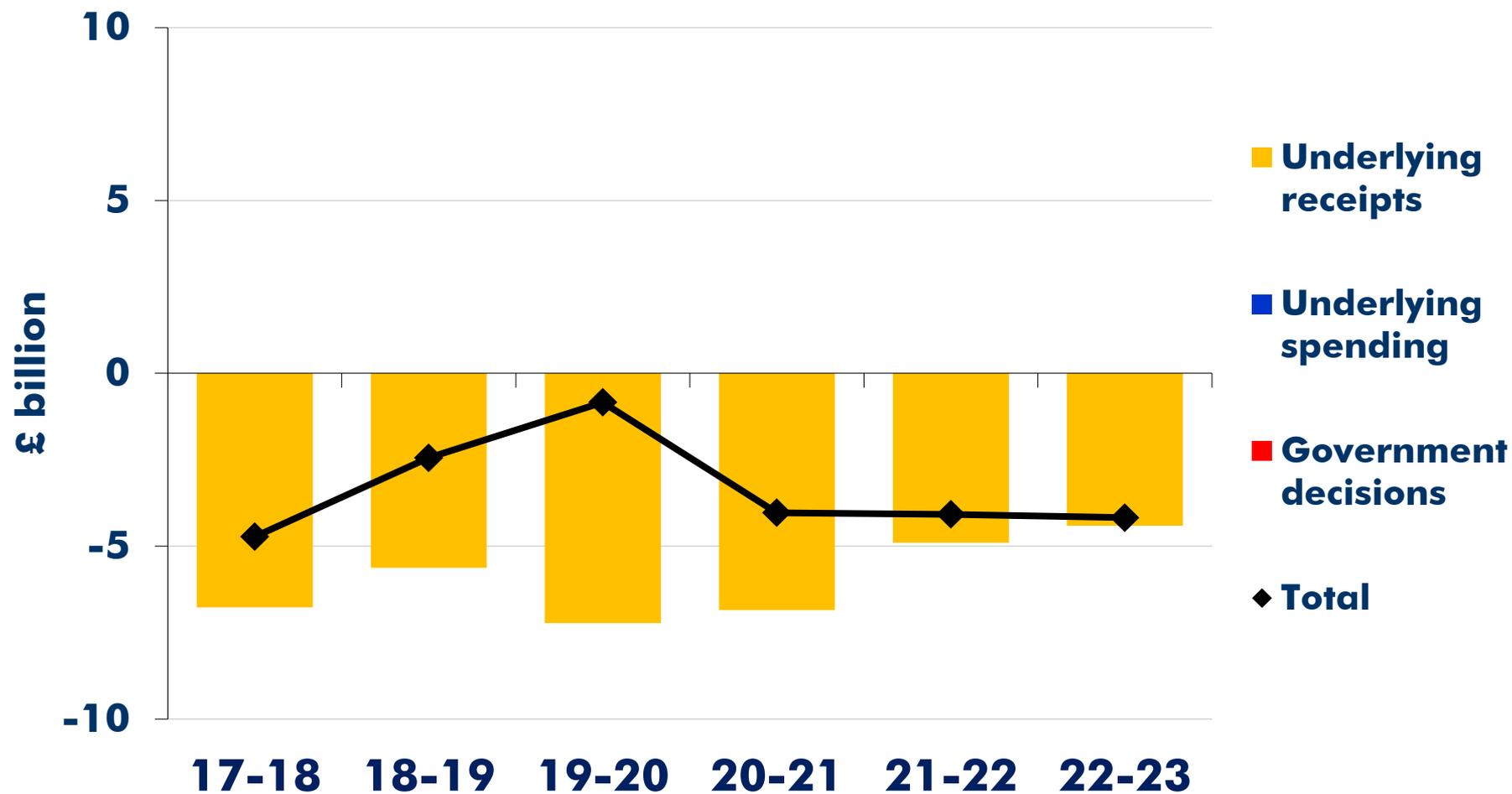
Public sector net borrowing



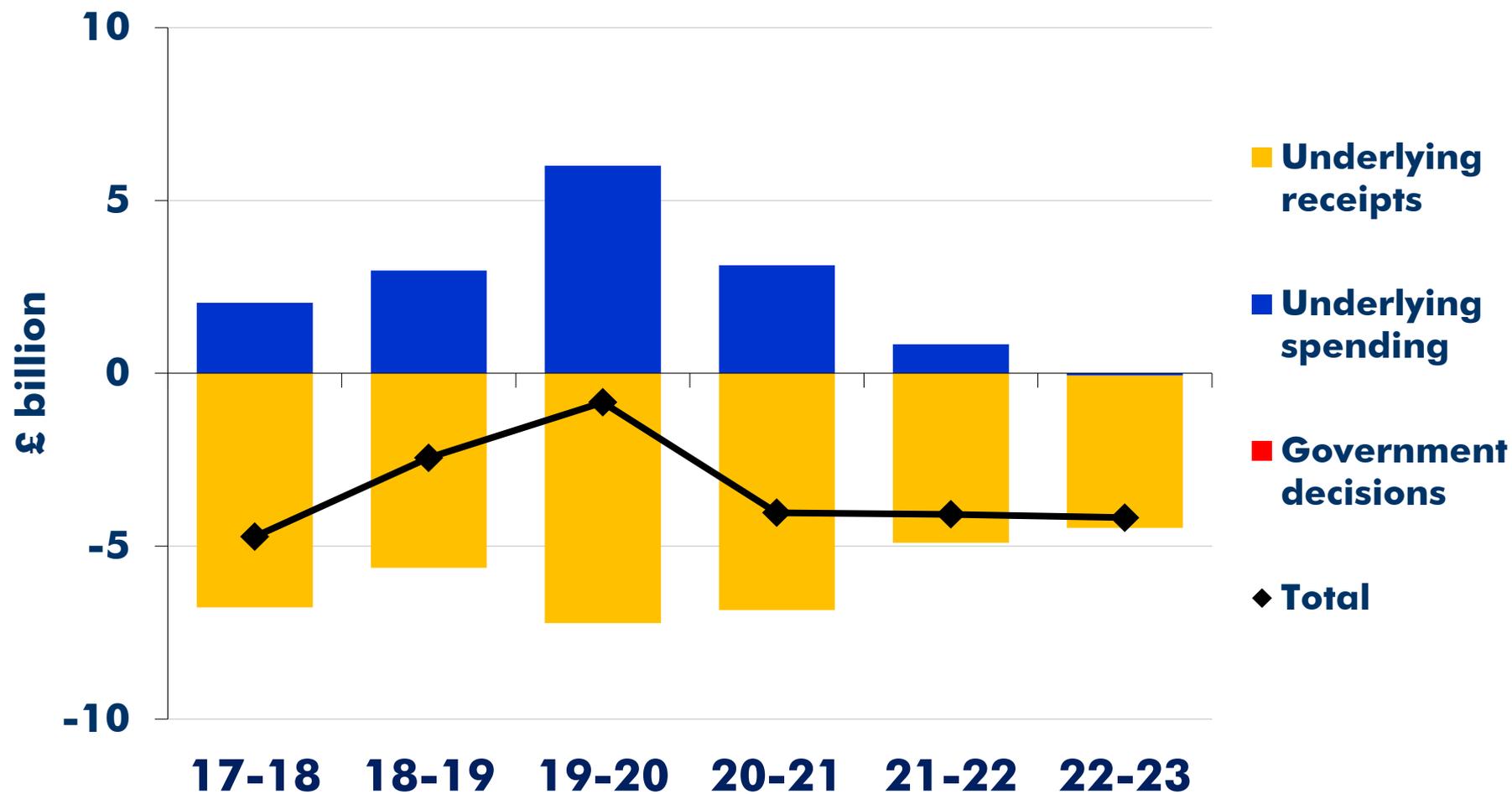
Change in PSNB



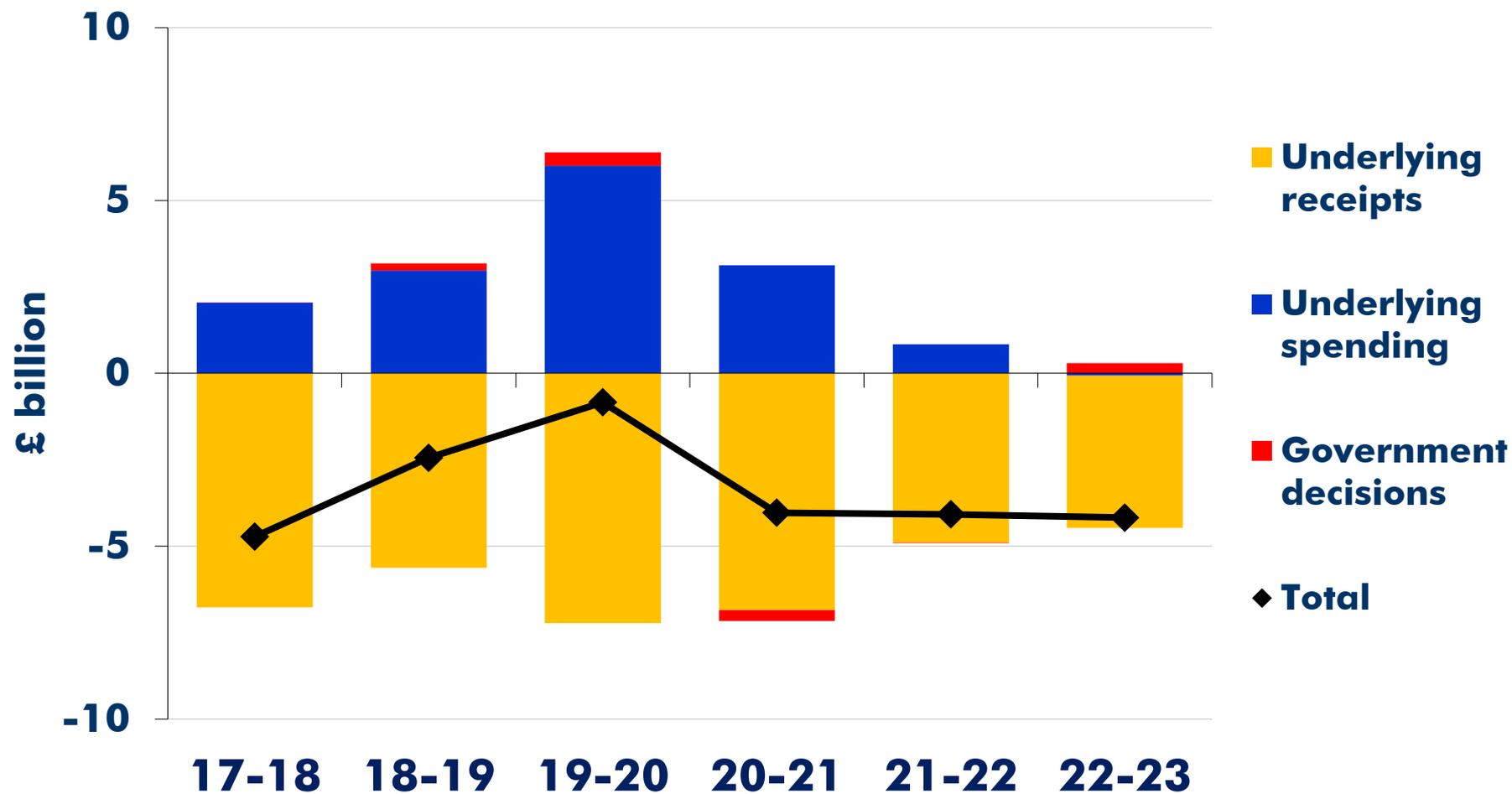
Change in PSNB



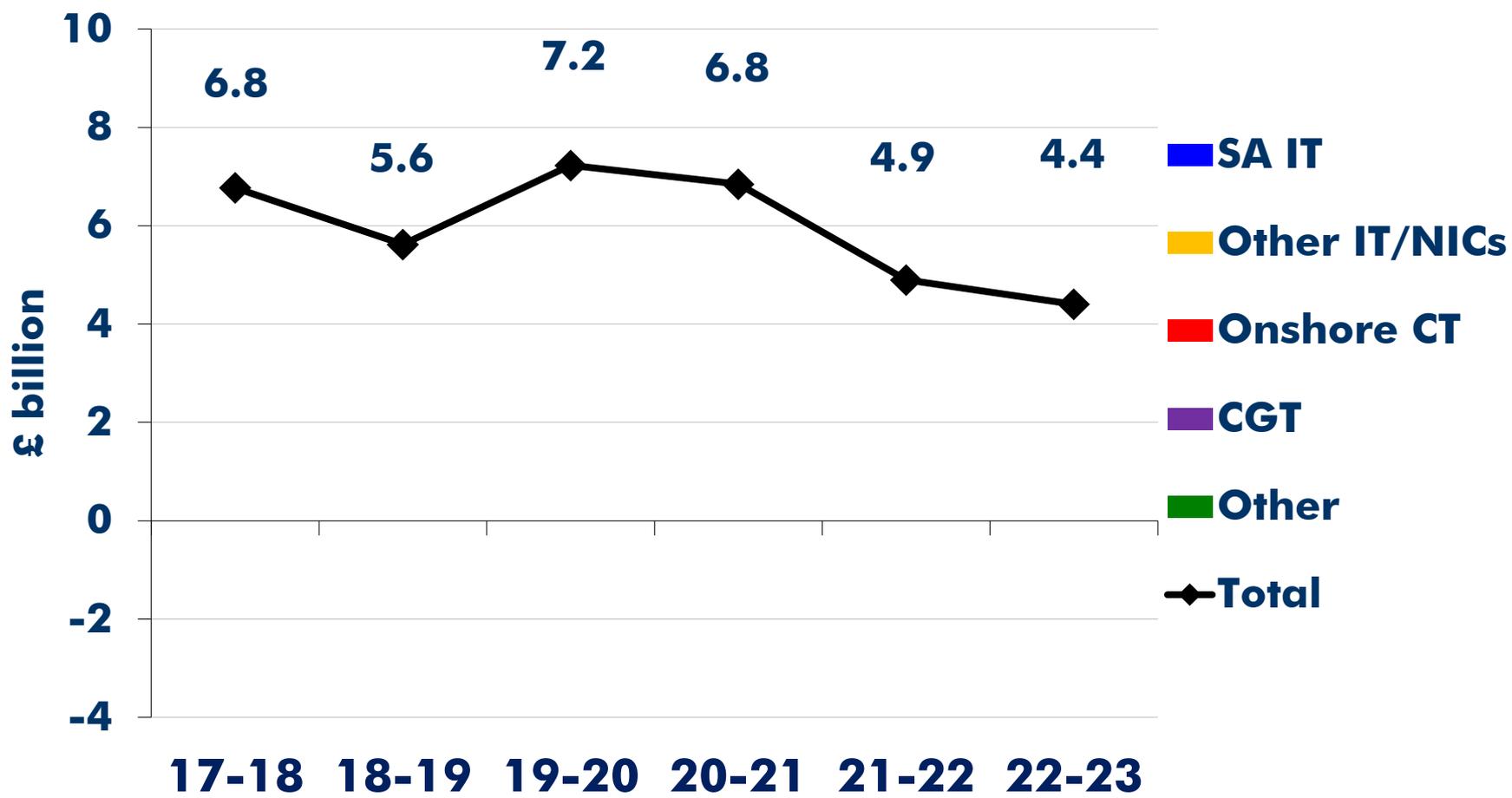
Change in PSNB



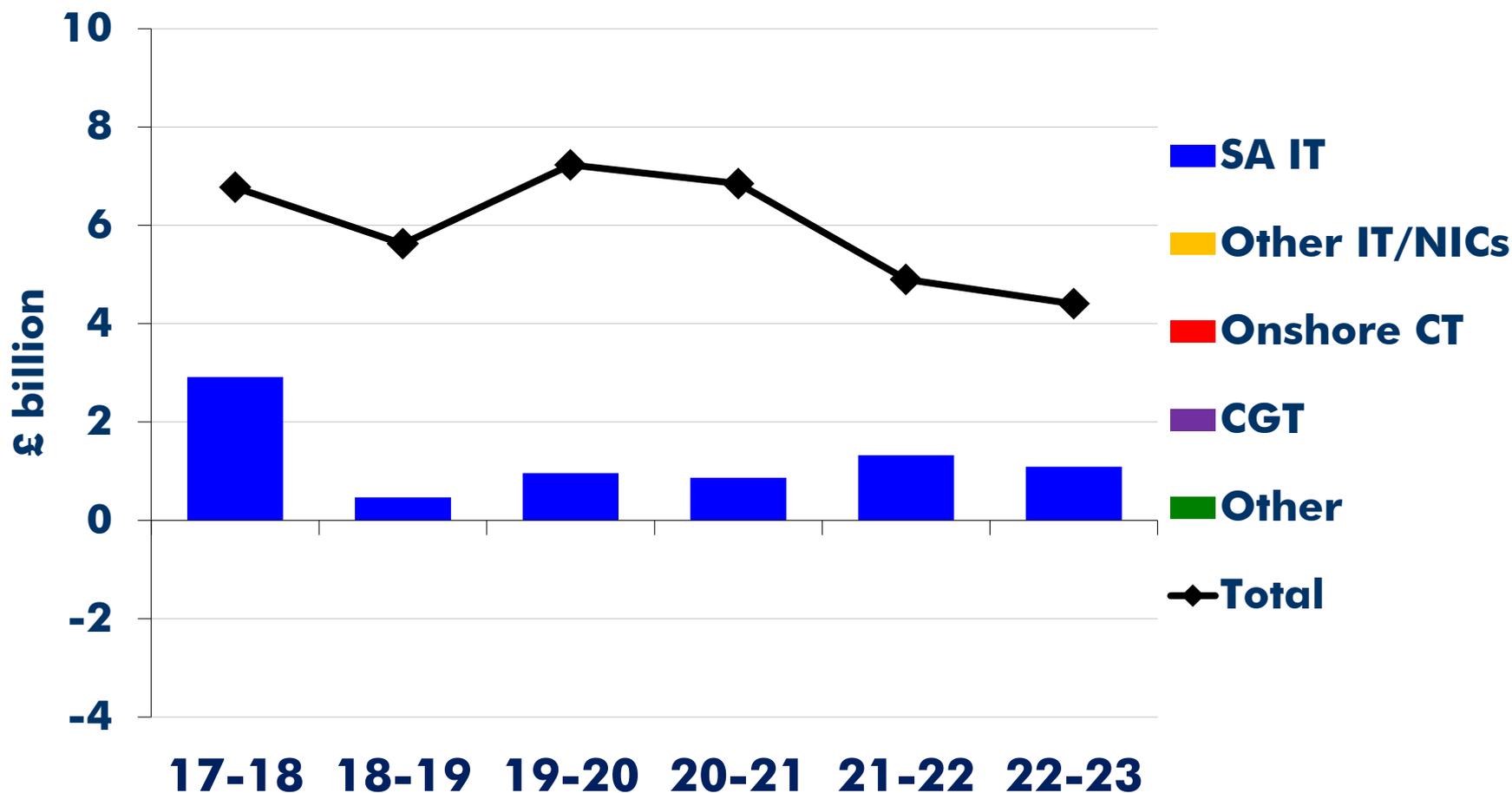
Change in PSNB



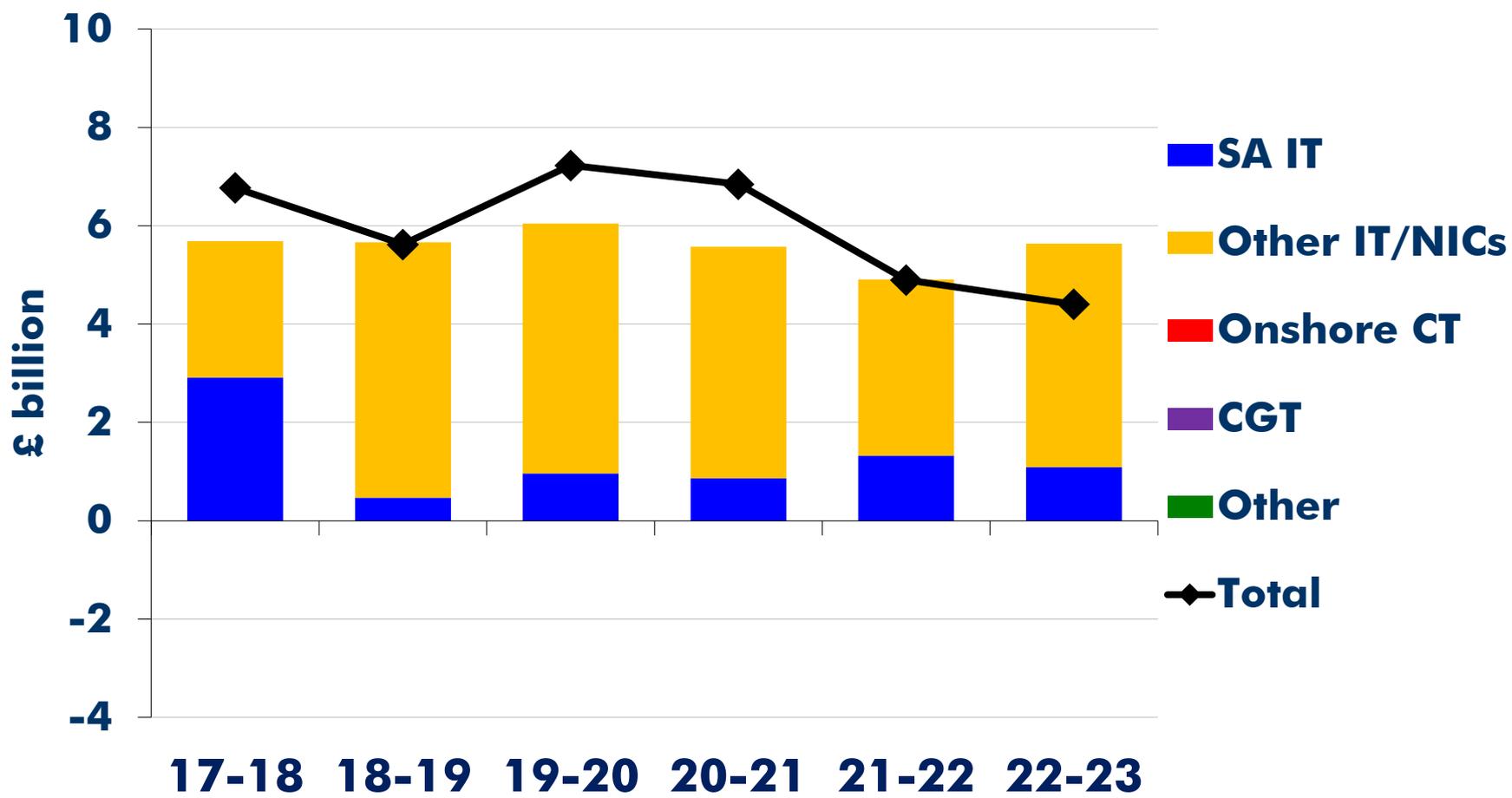
Underlying receipts revisions



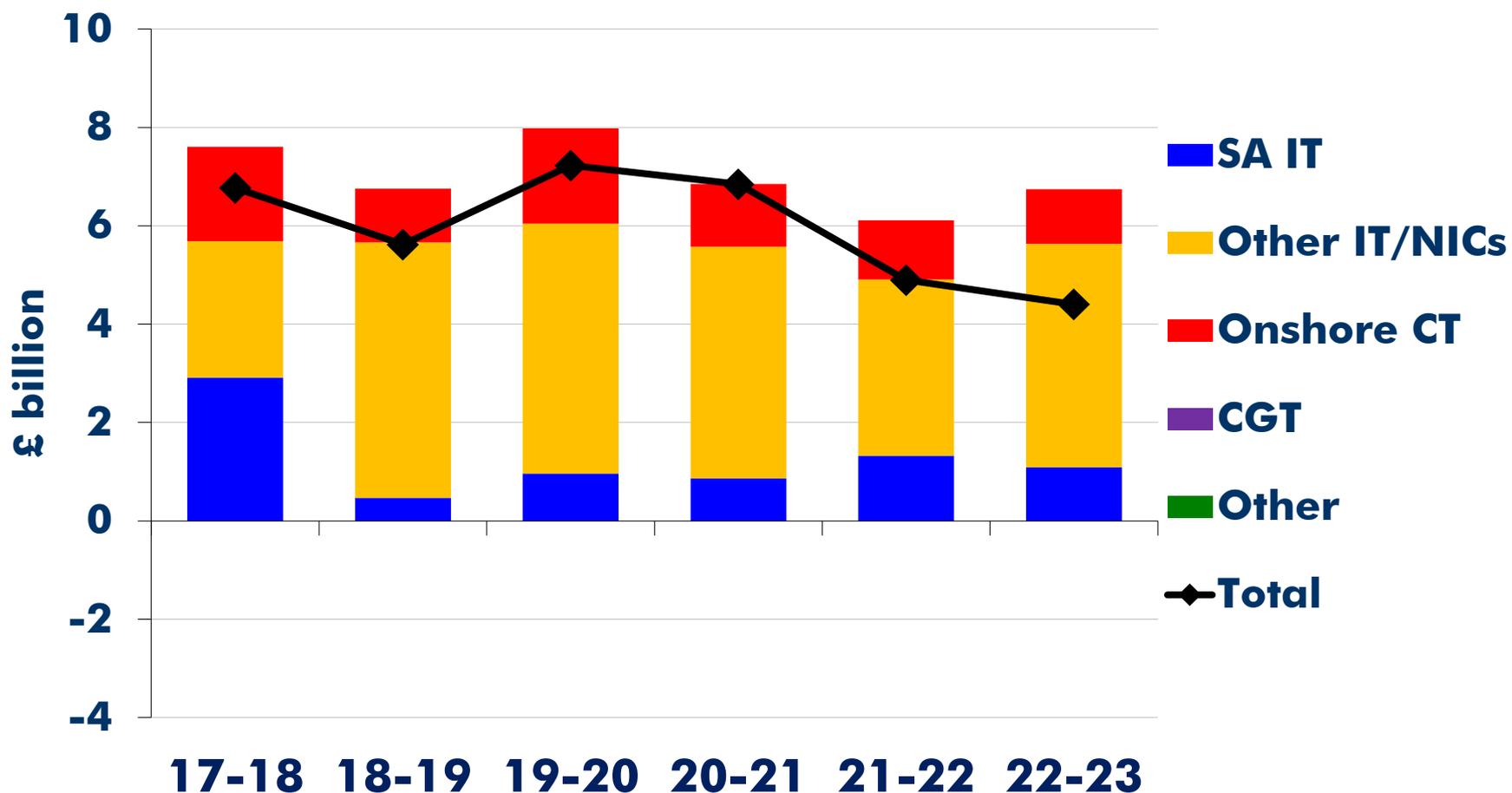
Underlying receipts revisions



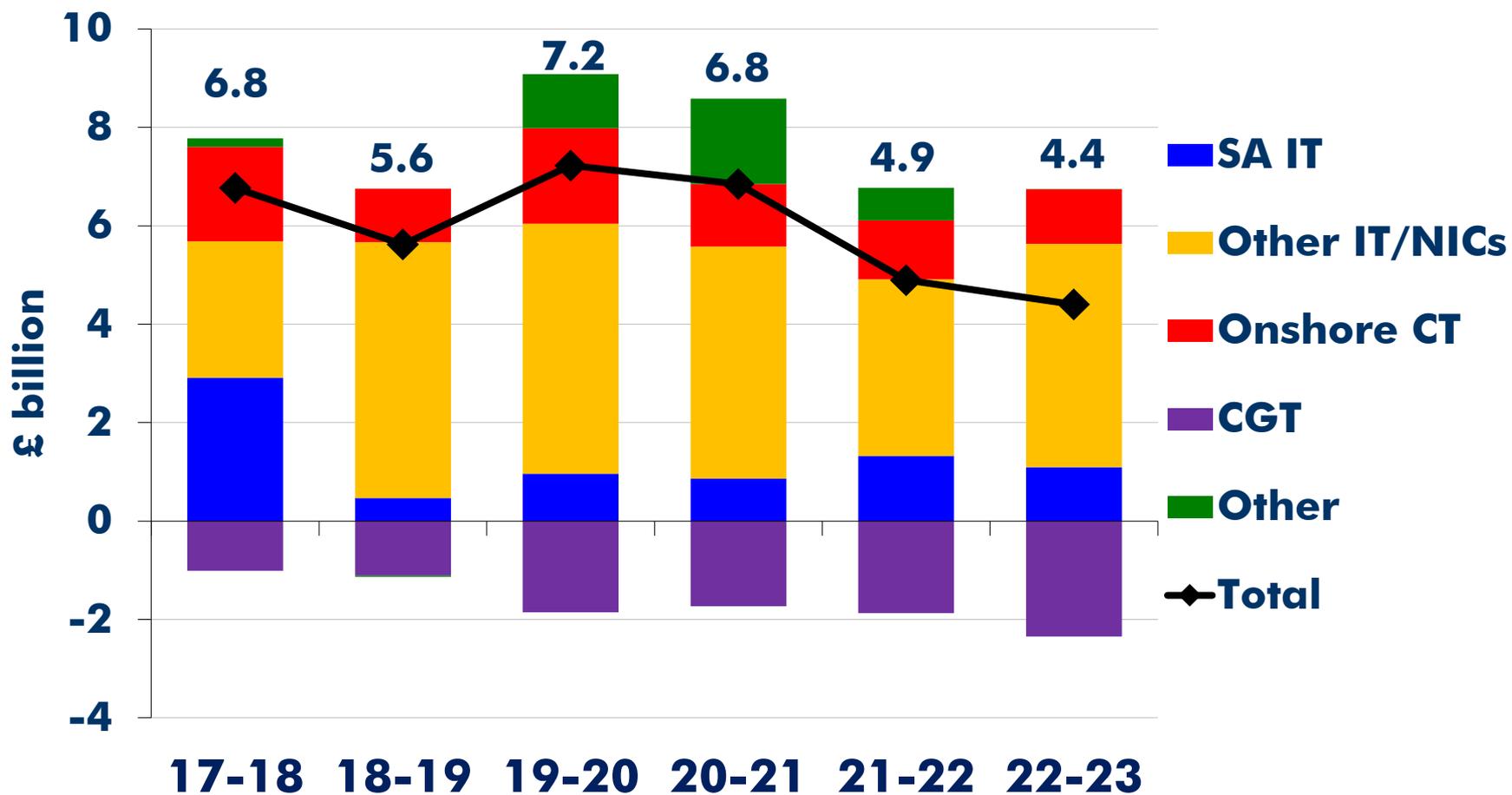
Underlying receipts revisions



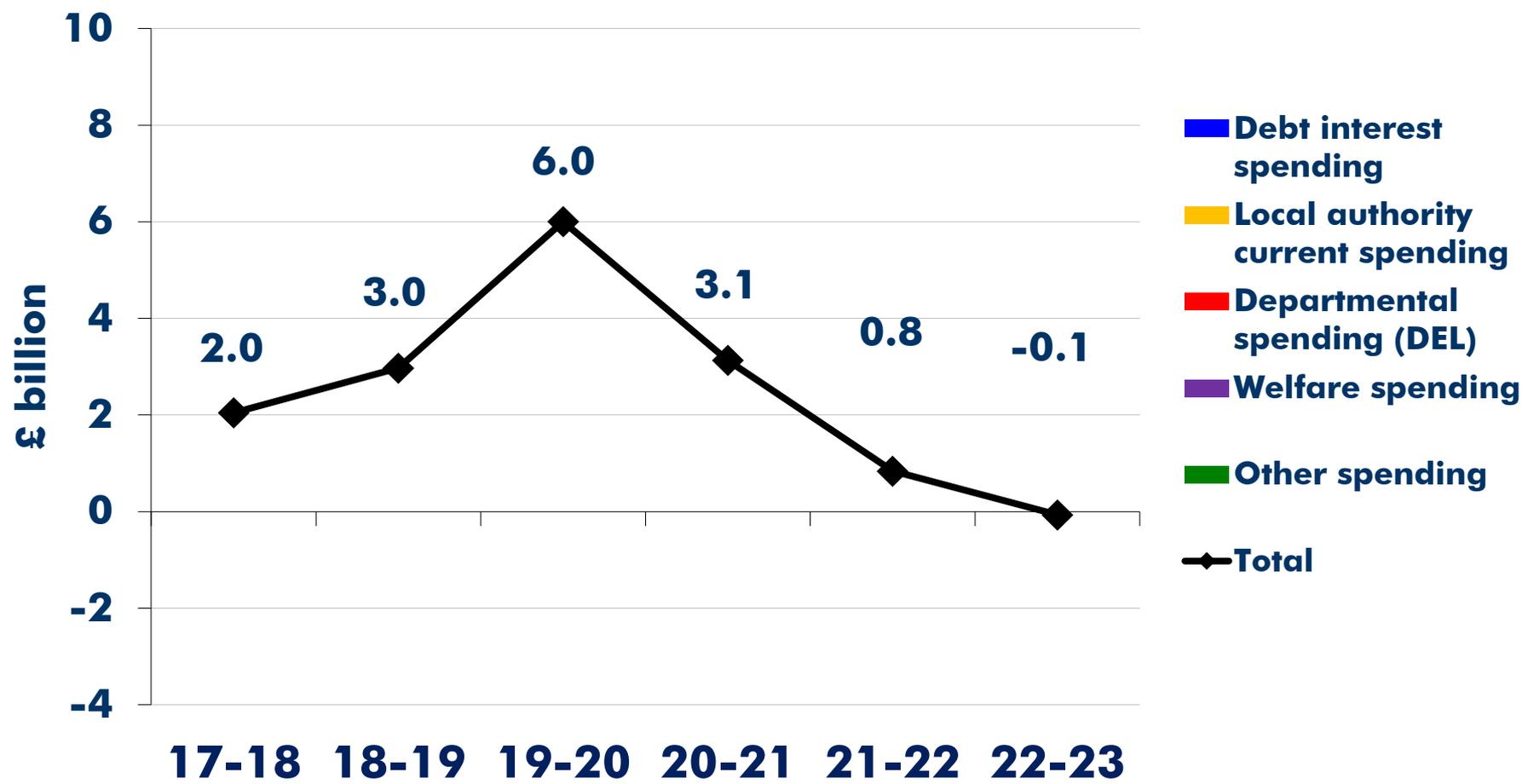
Underlying receipts revisions



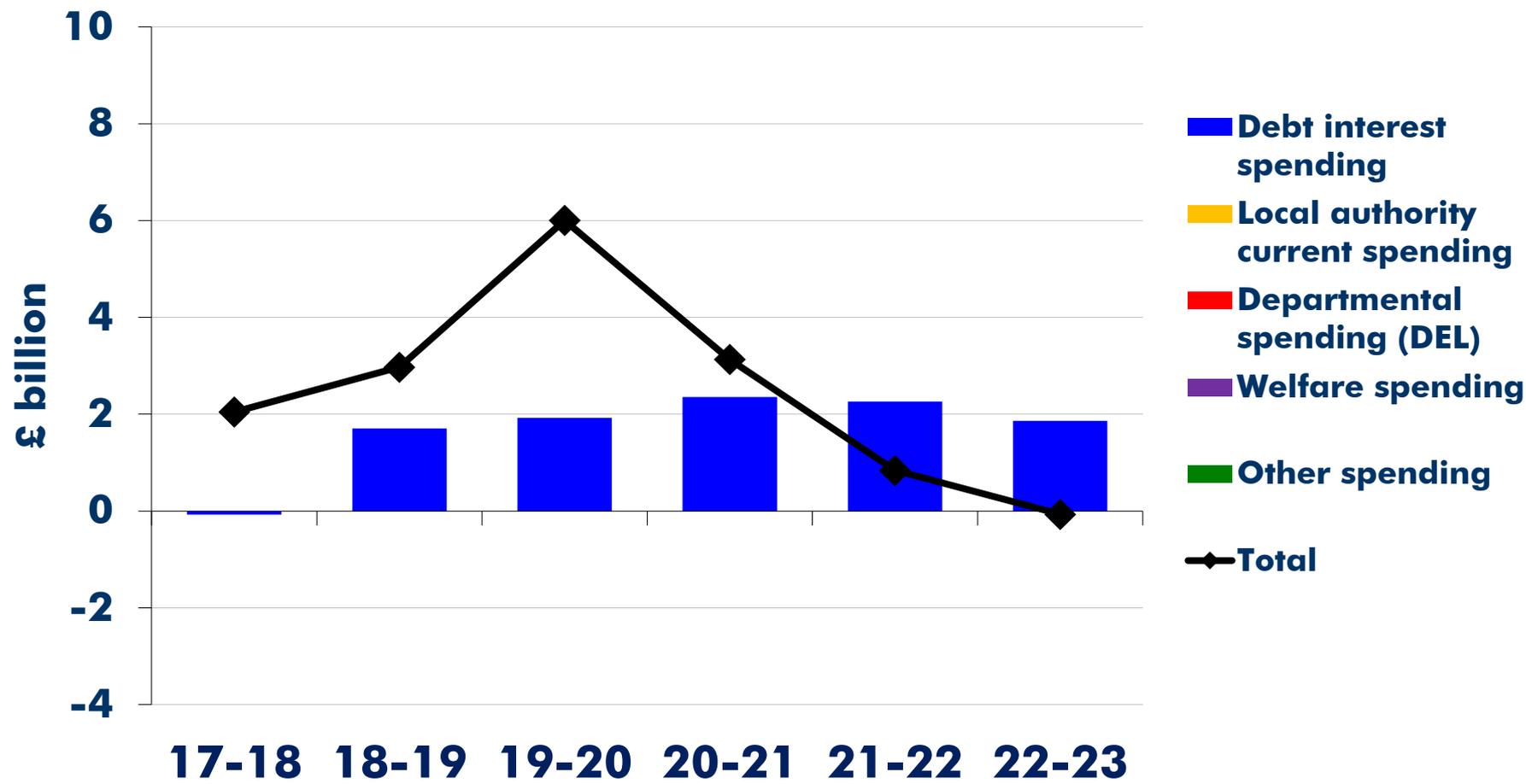
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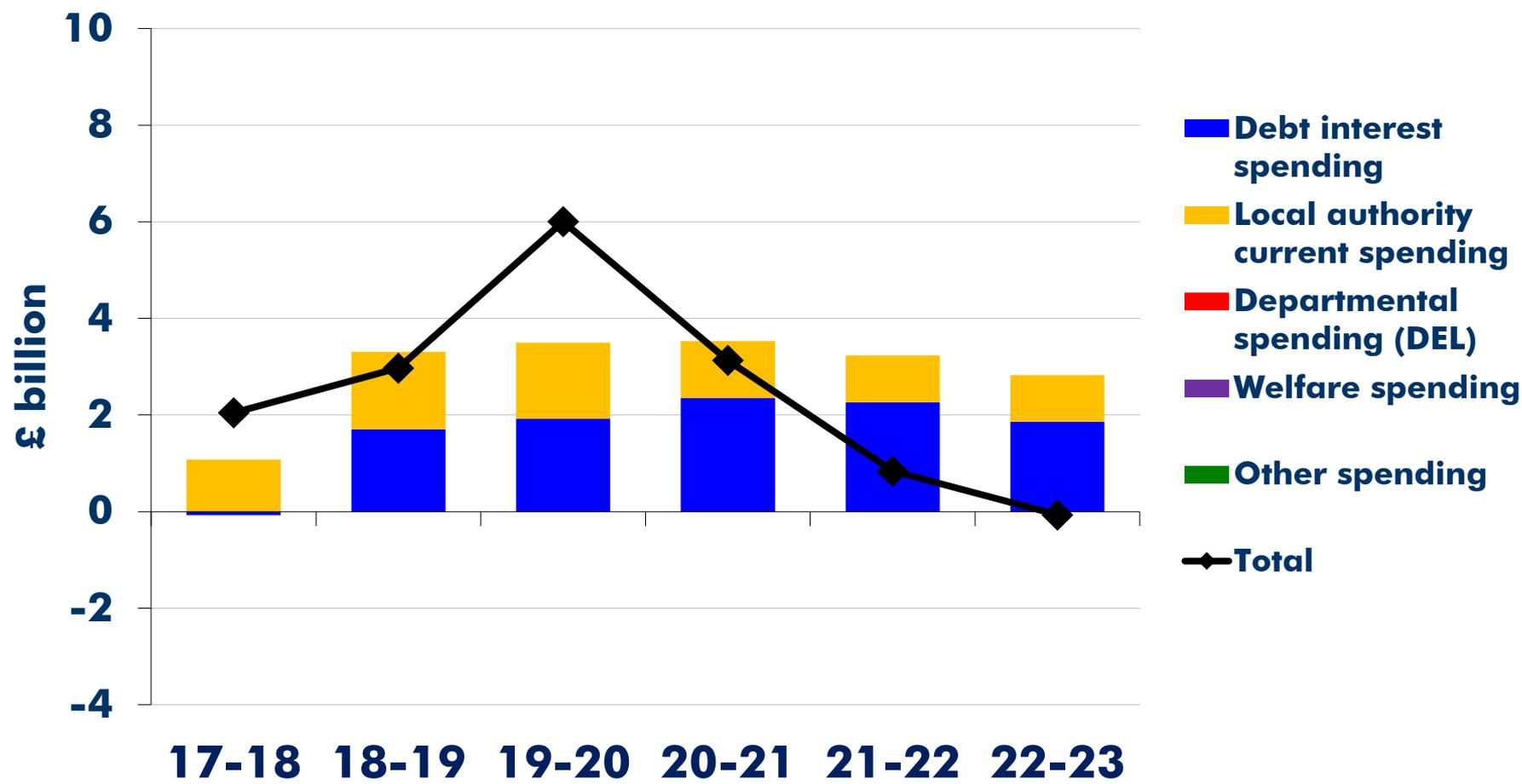
Underlying spending revisions



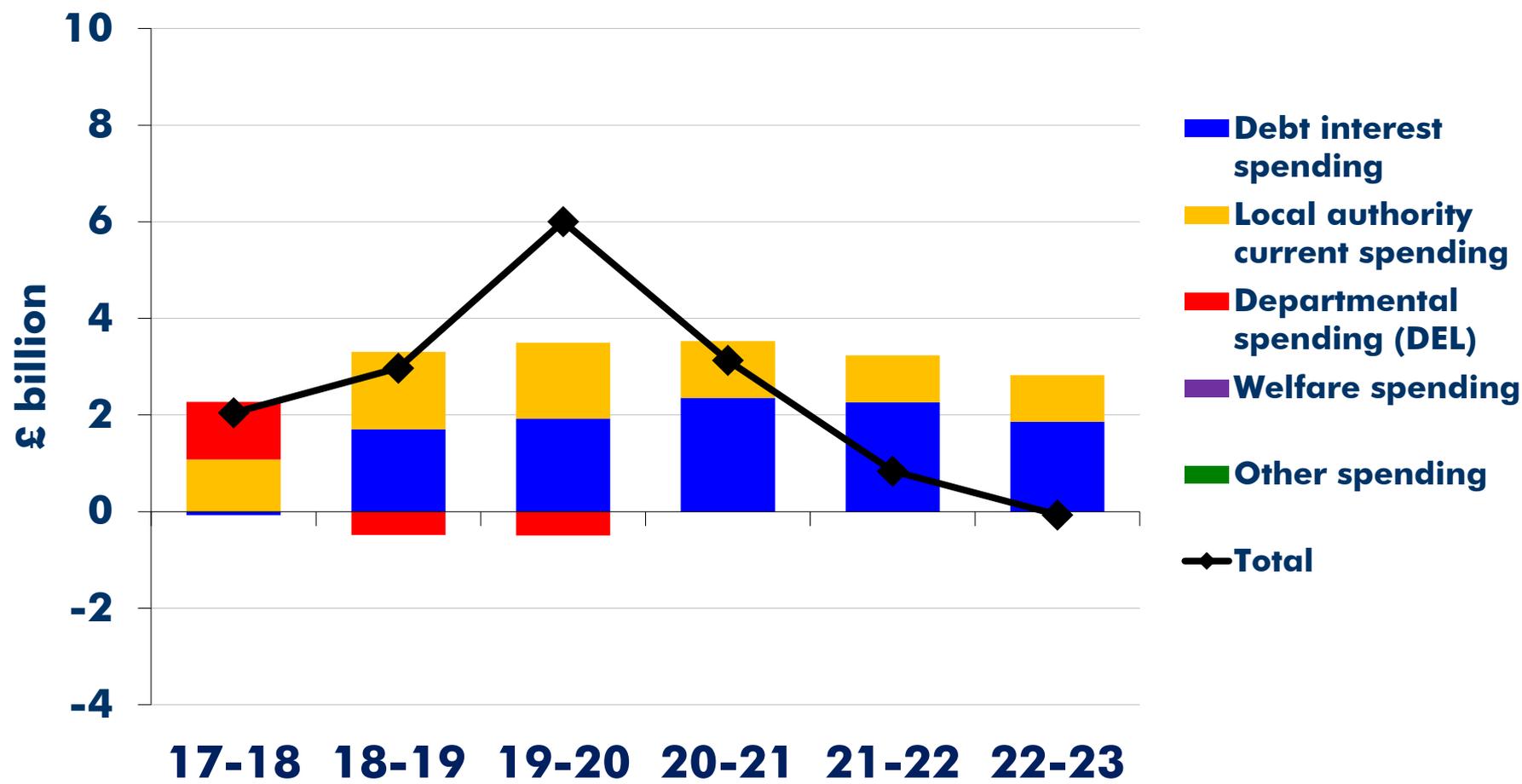
Underlying spending revisions



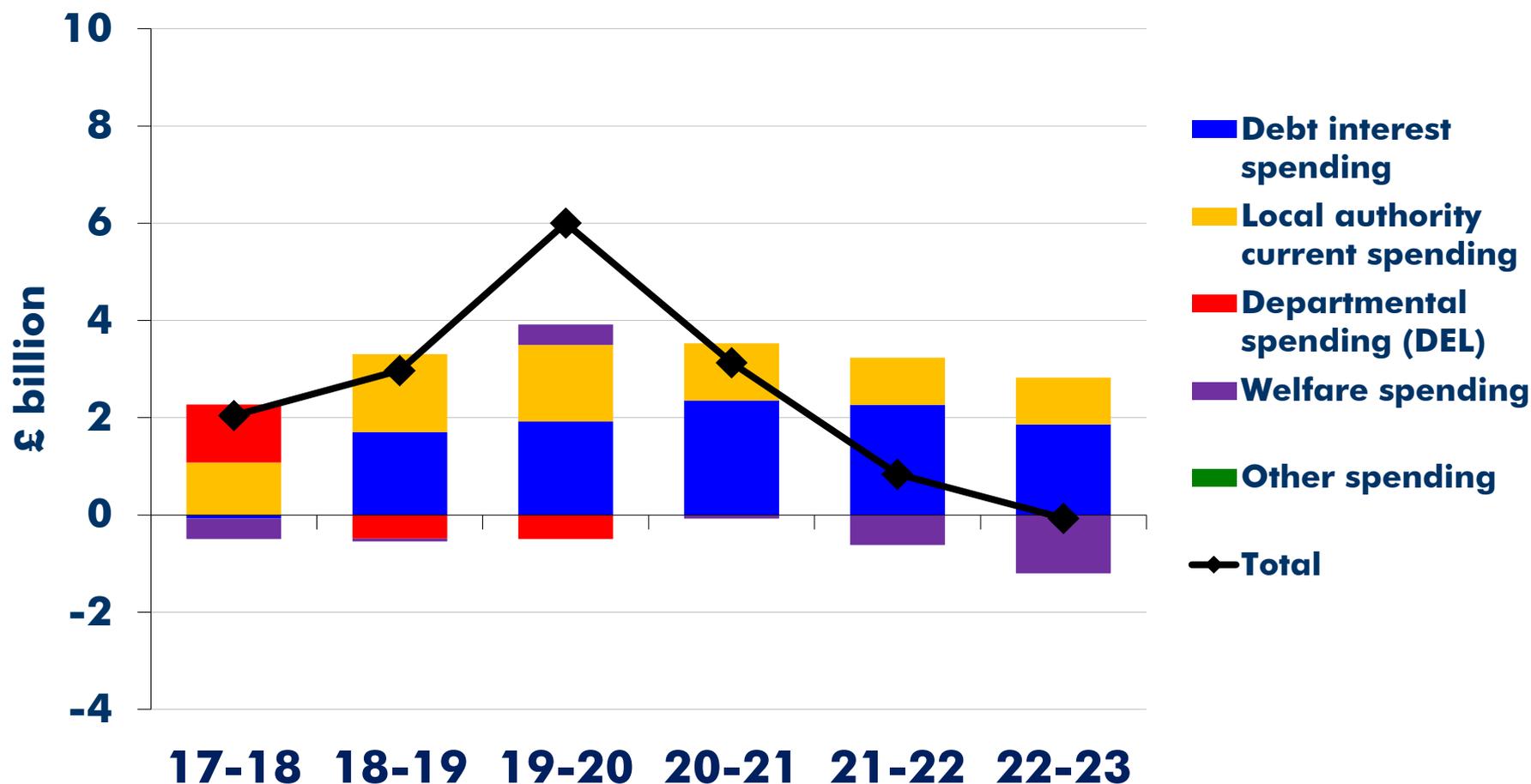
Underlying spending revisions



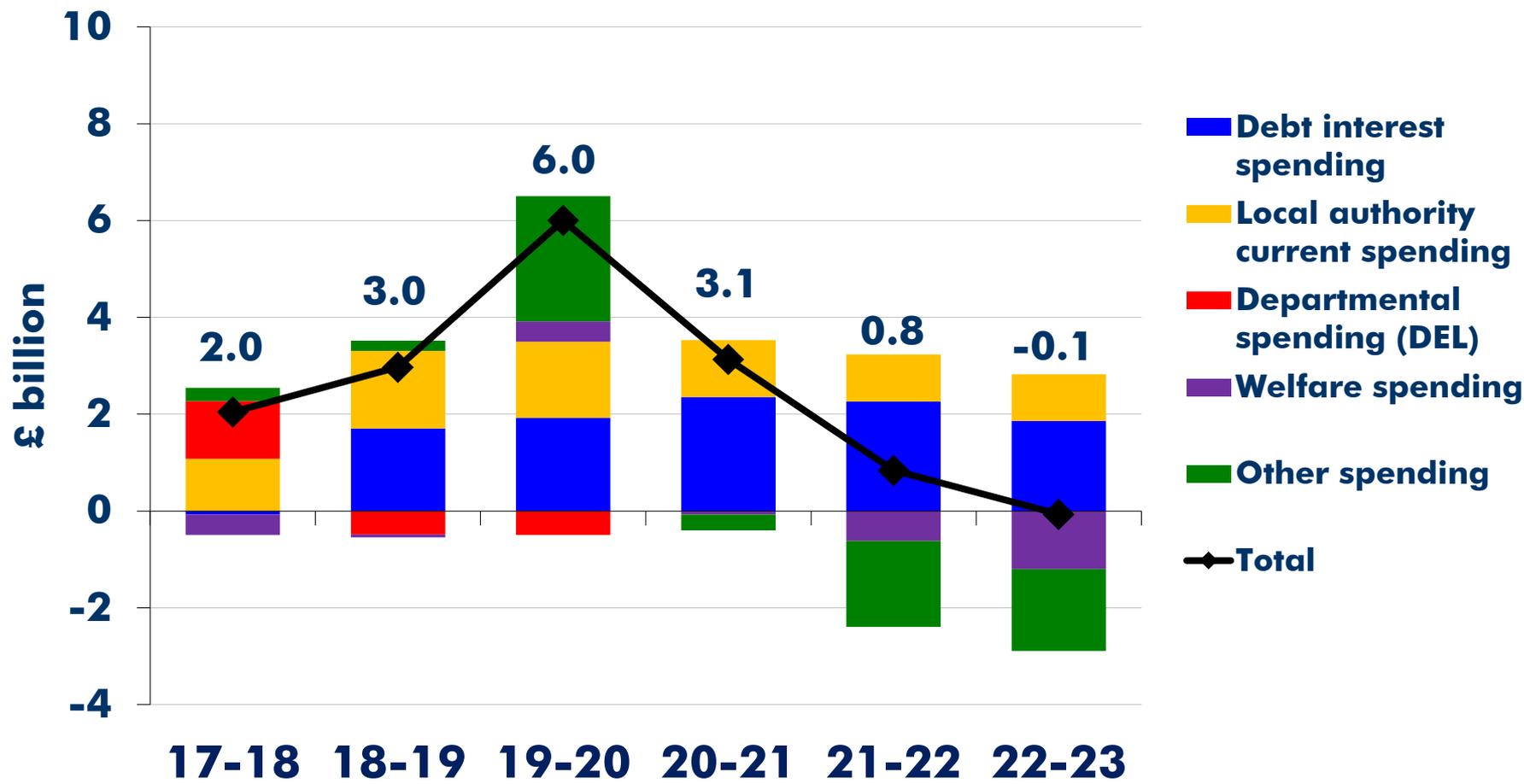
Underlying spending revisions



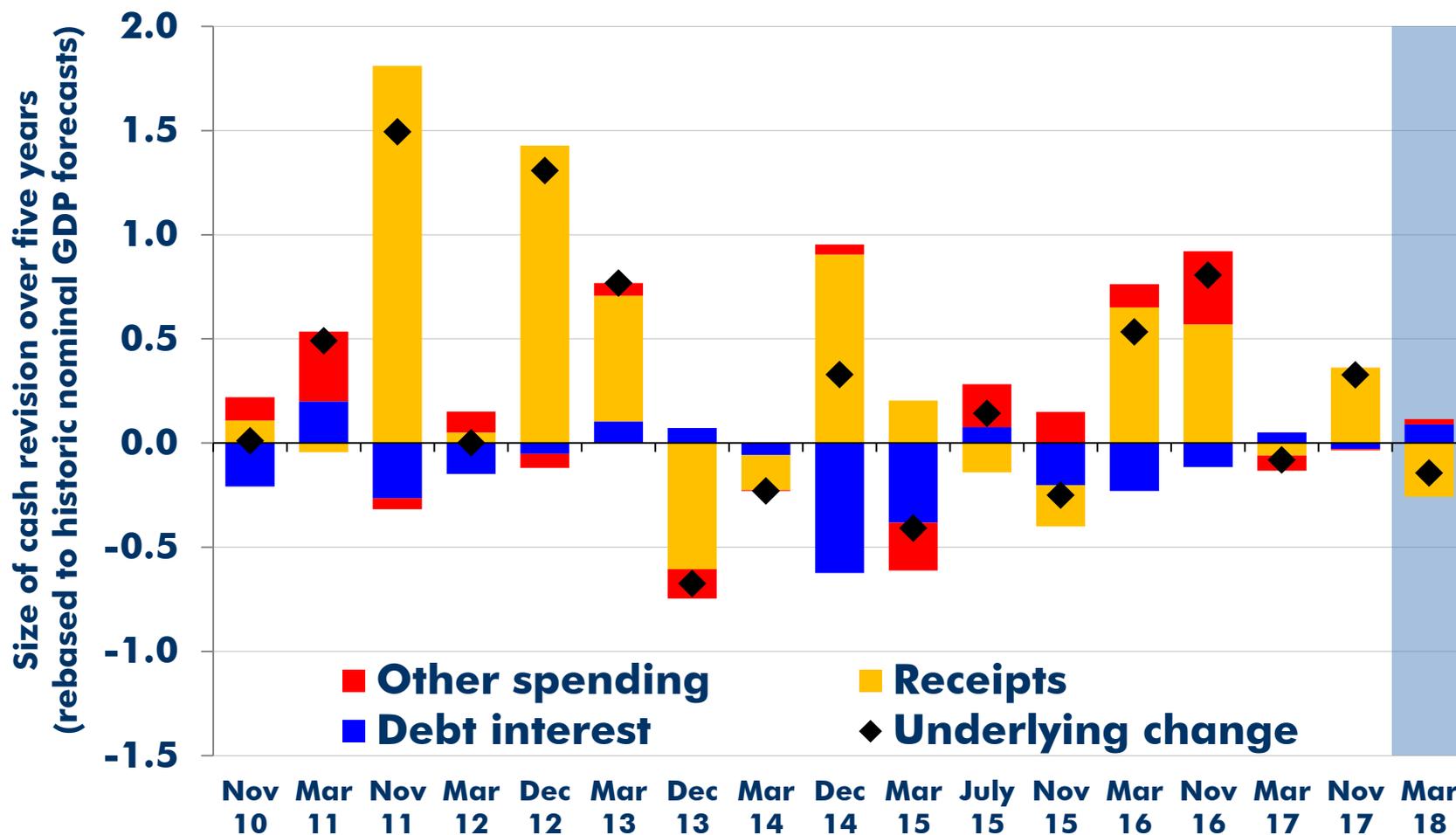
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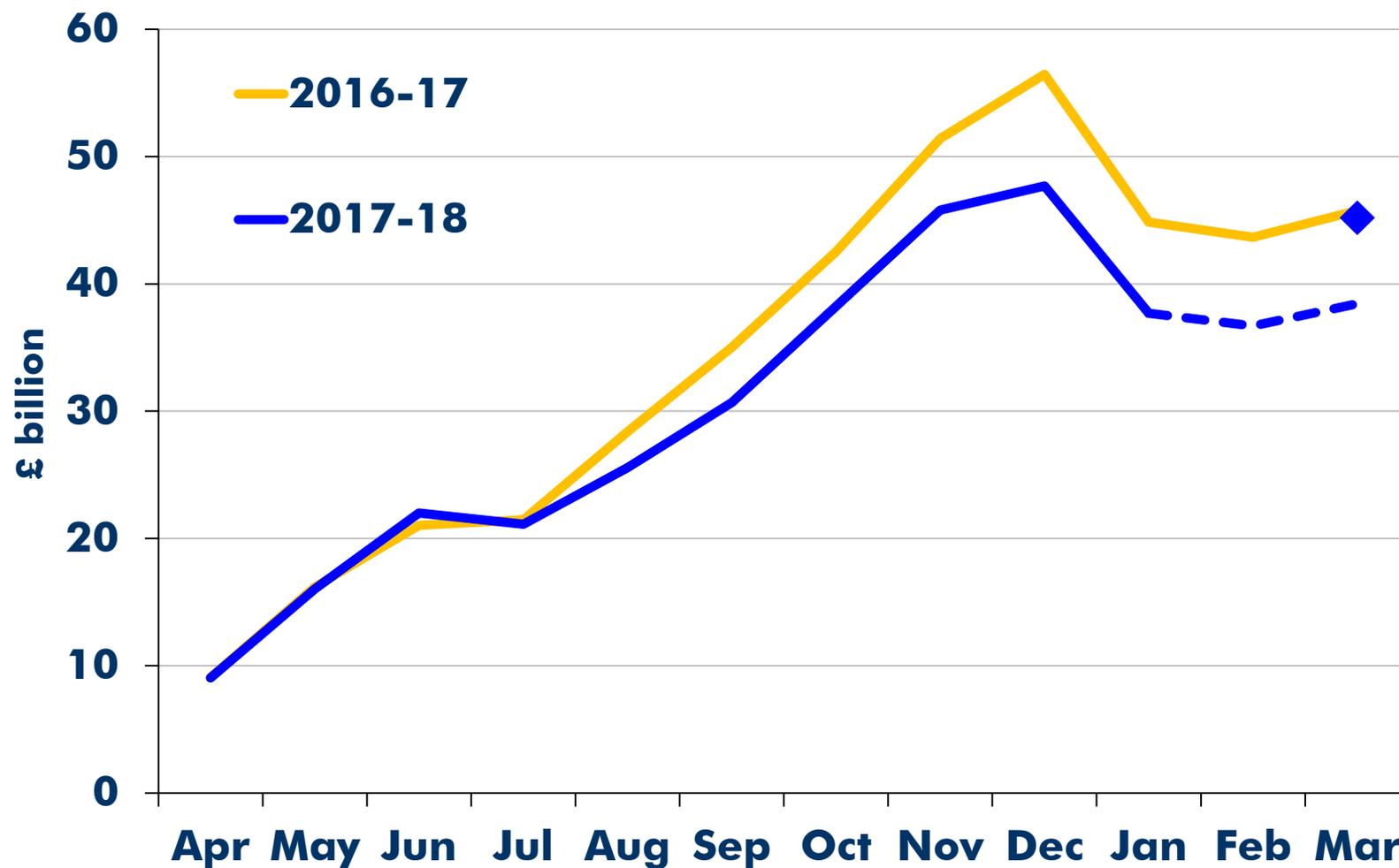
Underlying spending revisions



Forecast revision in context



Borrowing through the year



The Government's 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

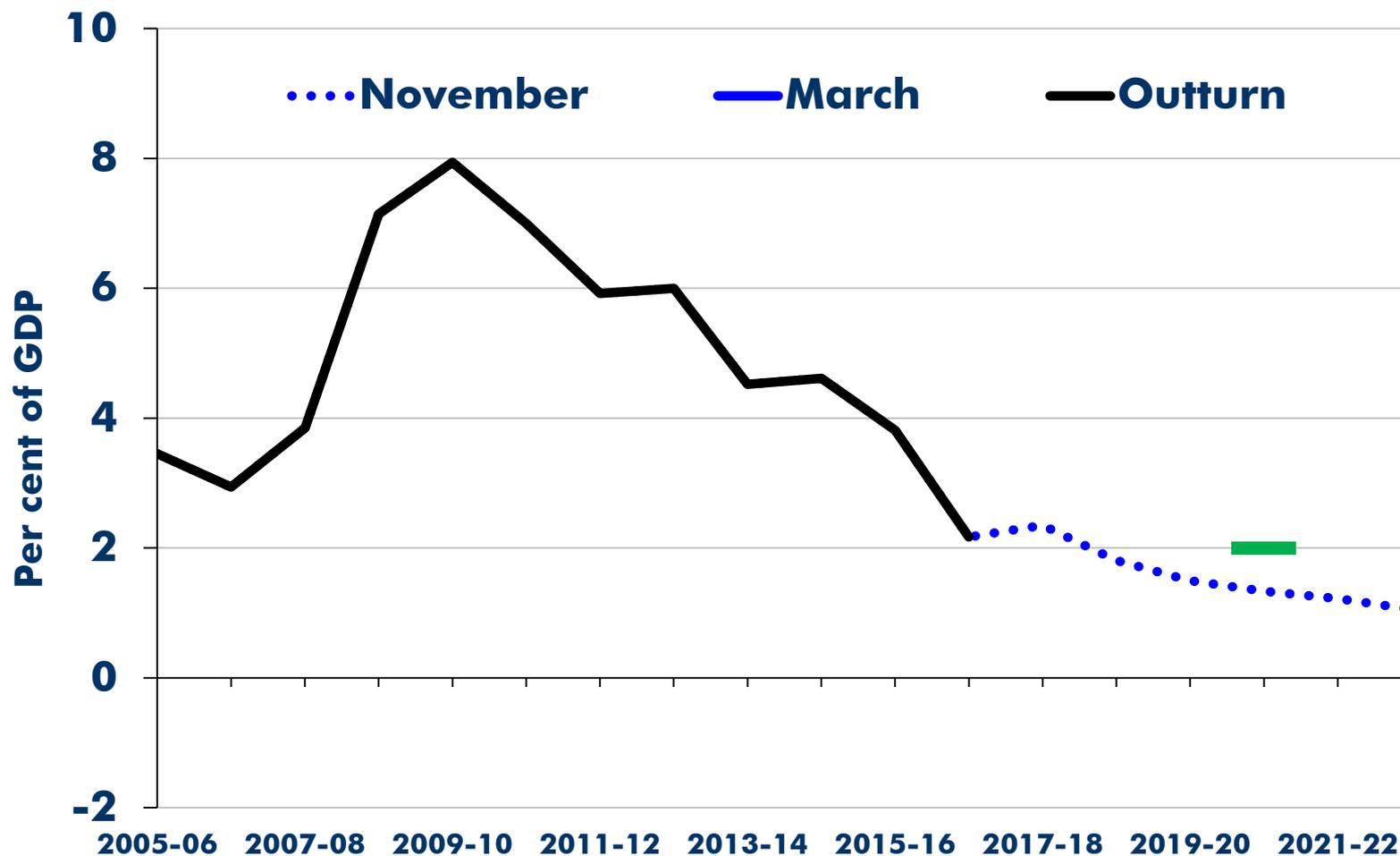


Fiscal objective:

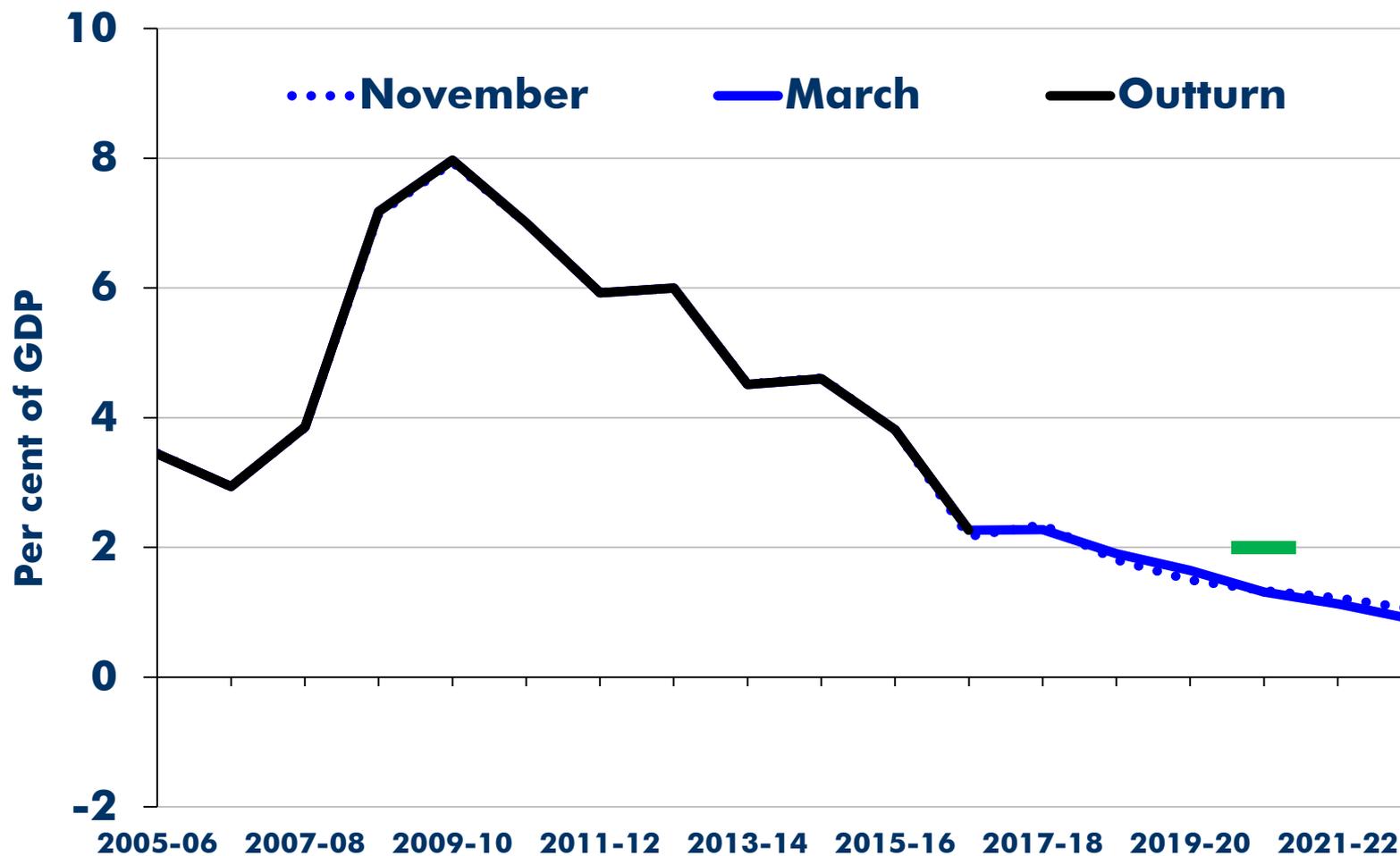
balance budget by middle of next decade



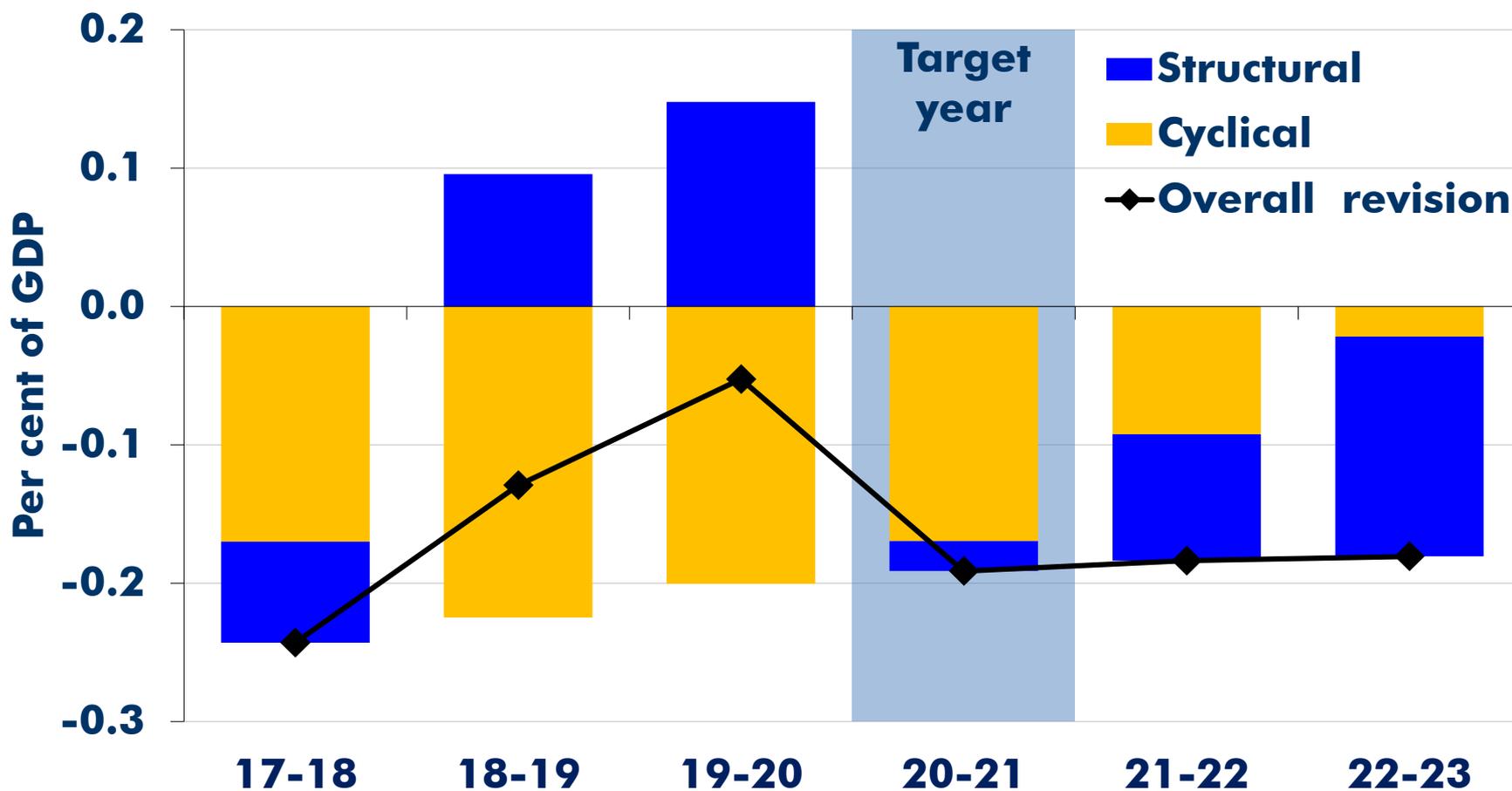
Structural borrowing



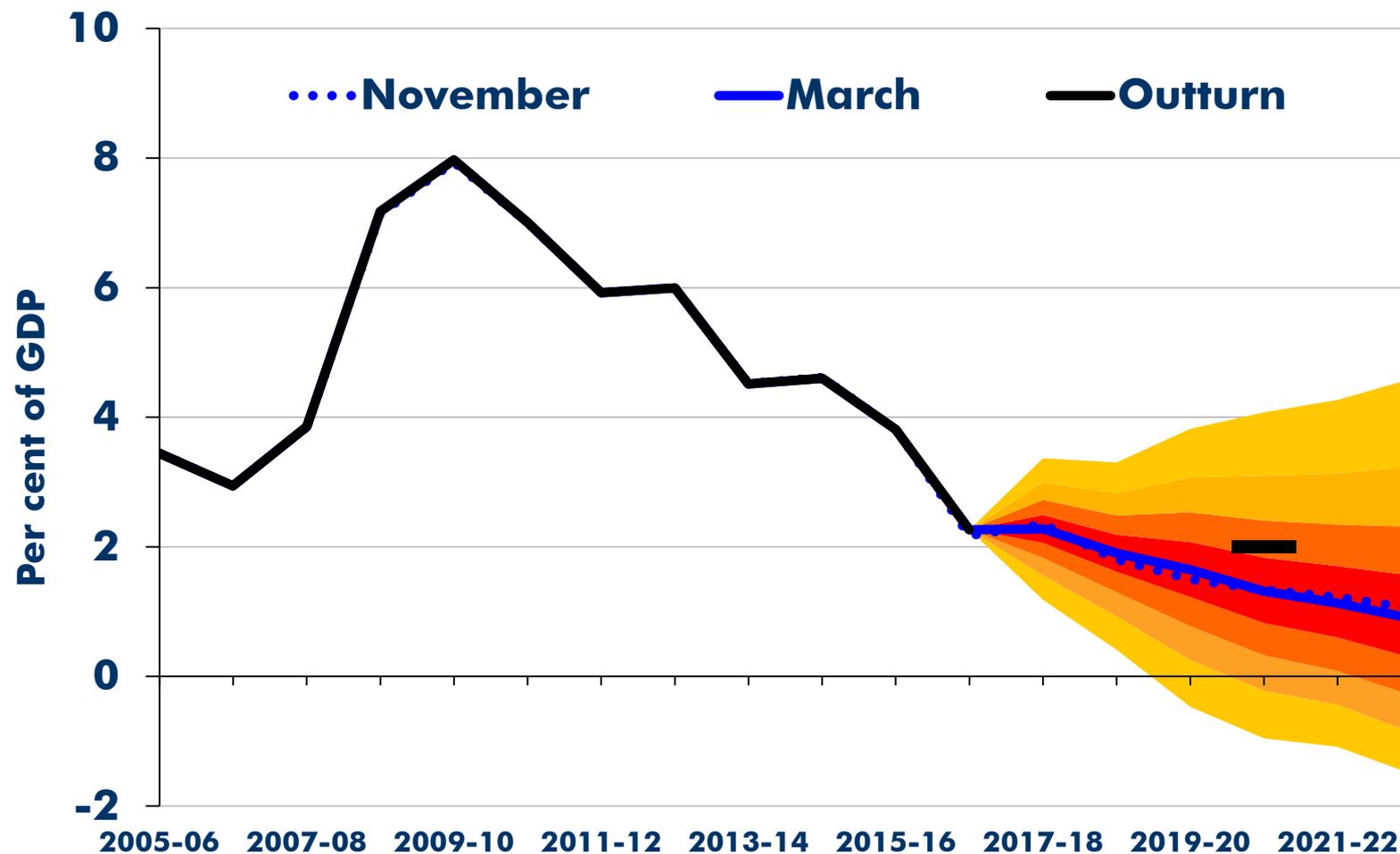
Structural borrowing



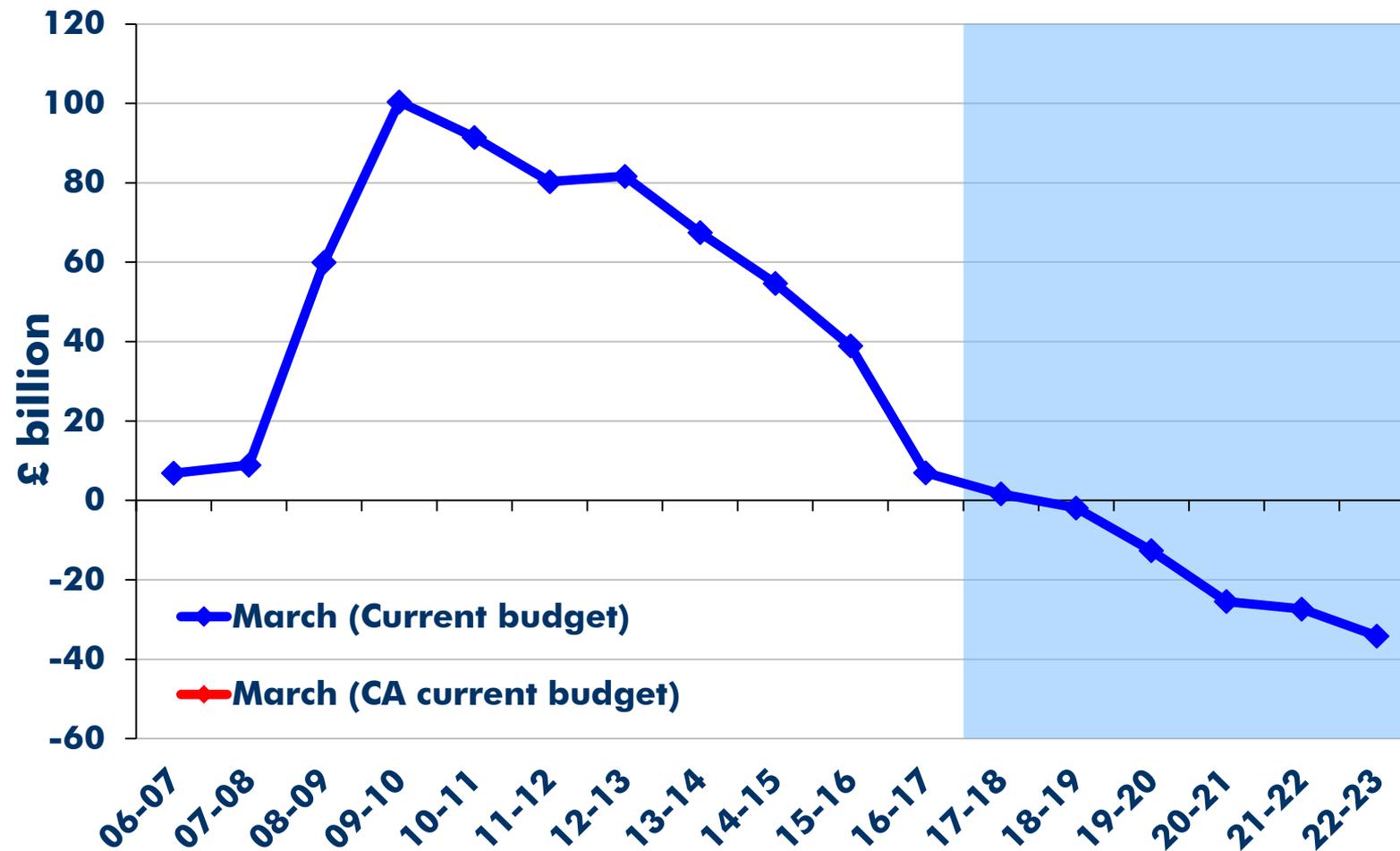
Structural and cyclical revisions to borrowing



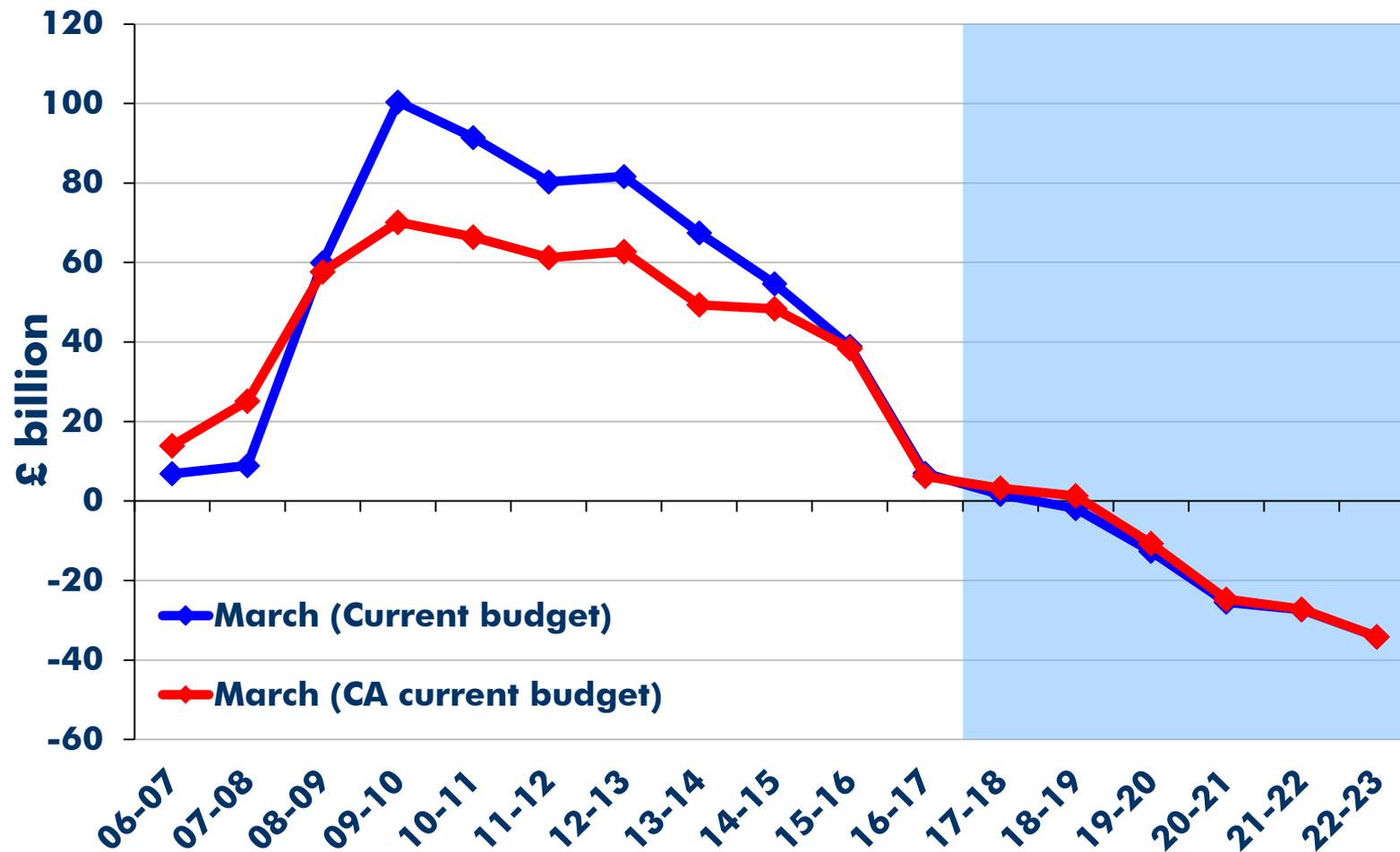
Structural borrowing



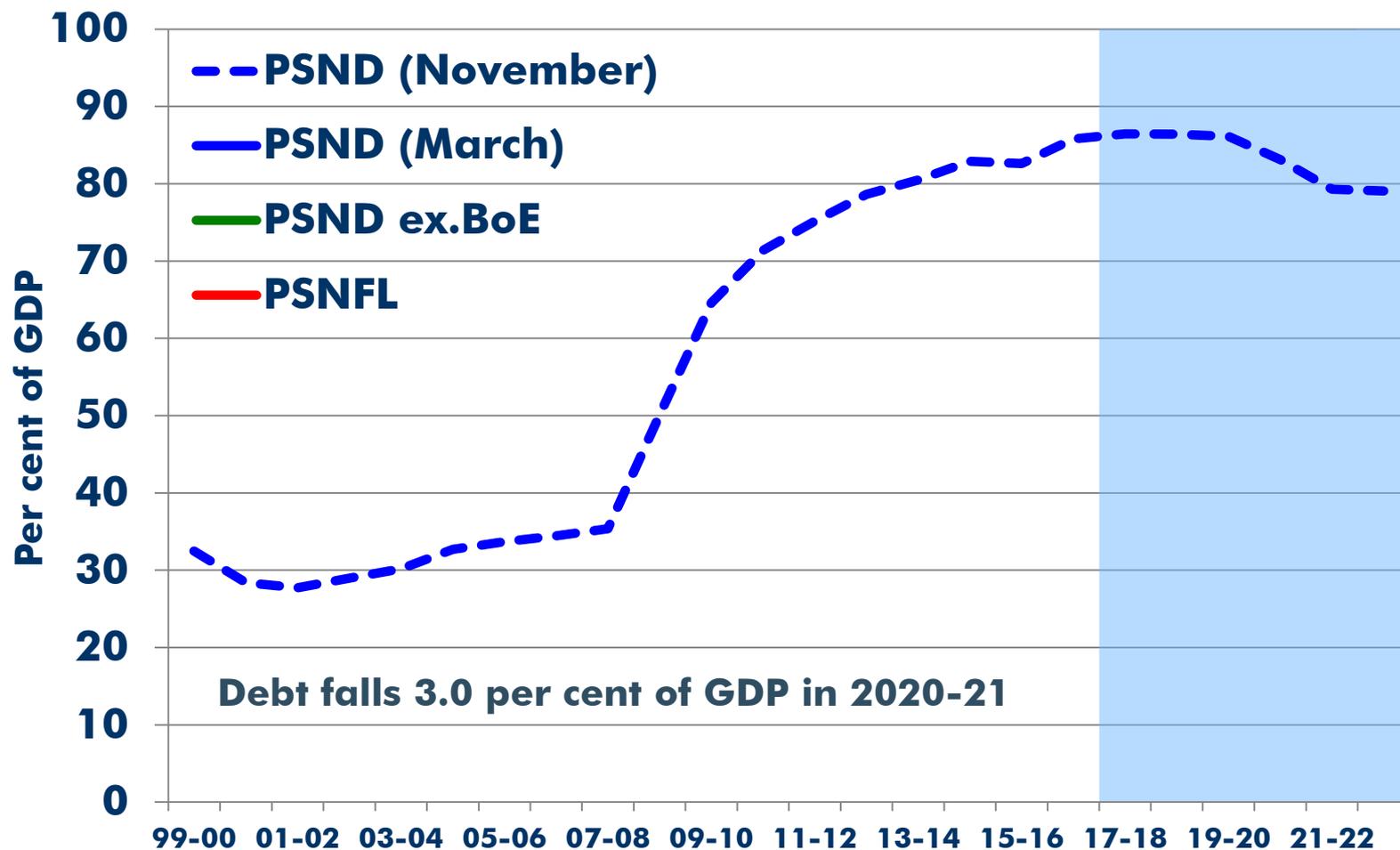
Current budget balance



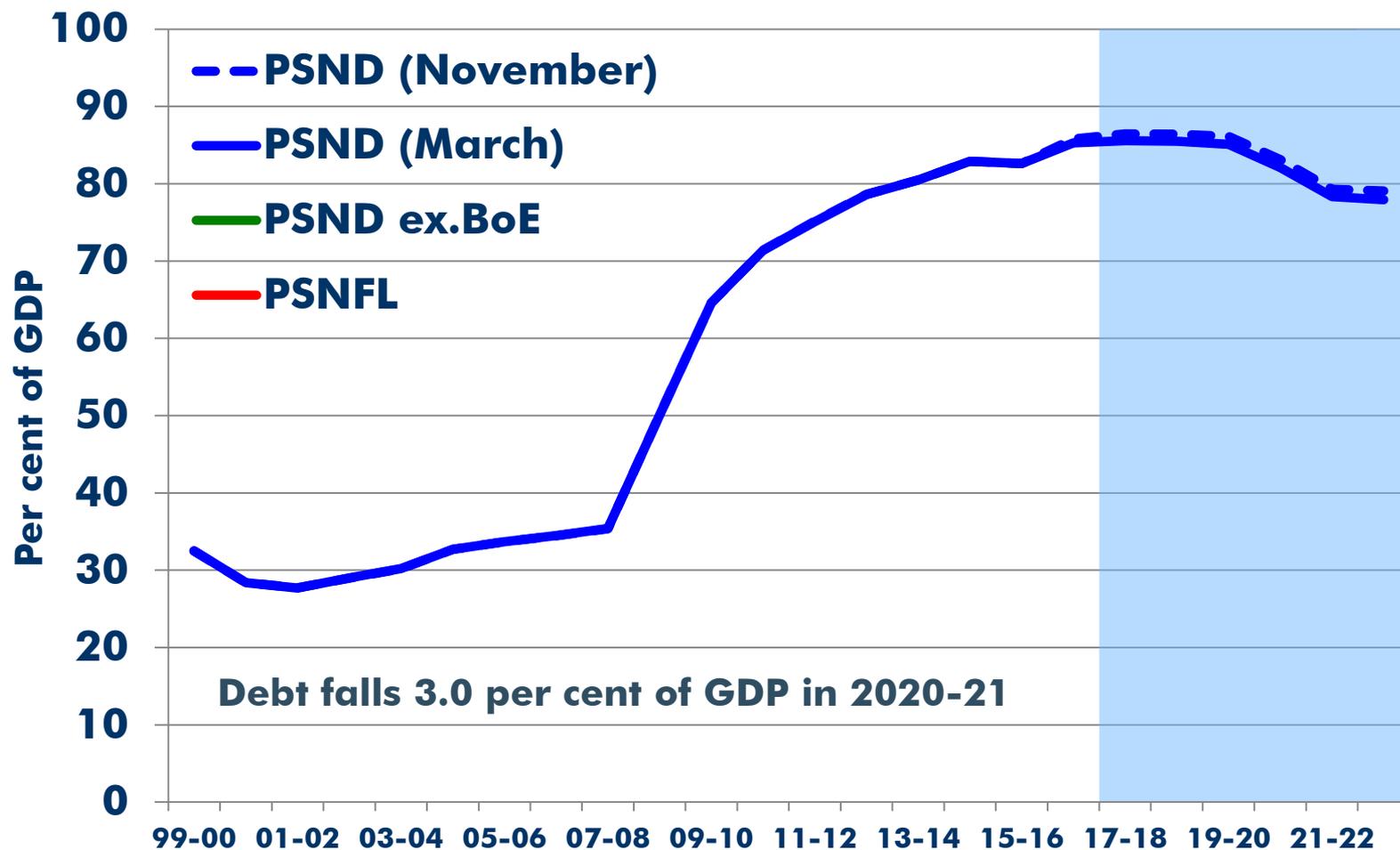
Current budget balance



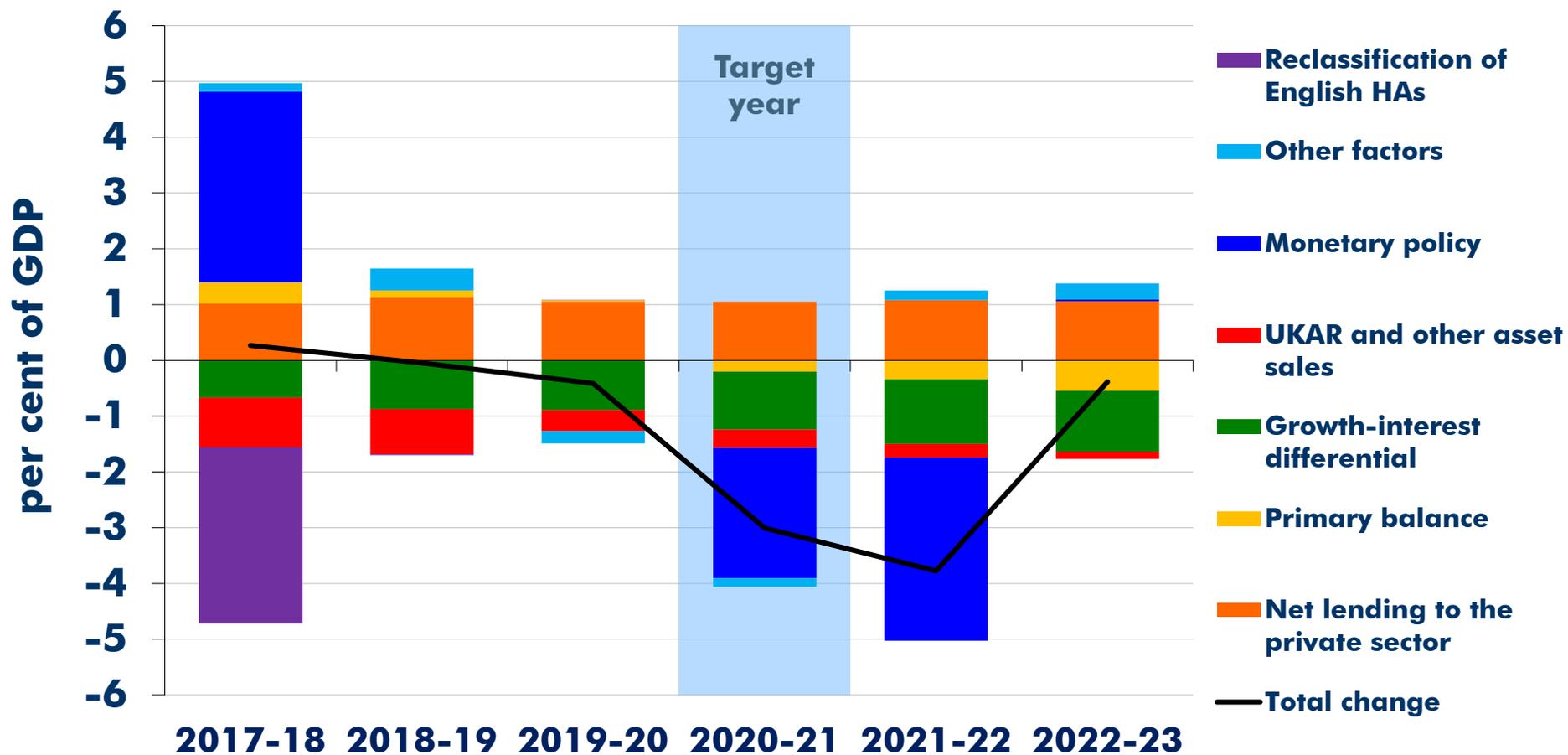
Public sector balance sheet



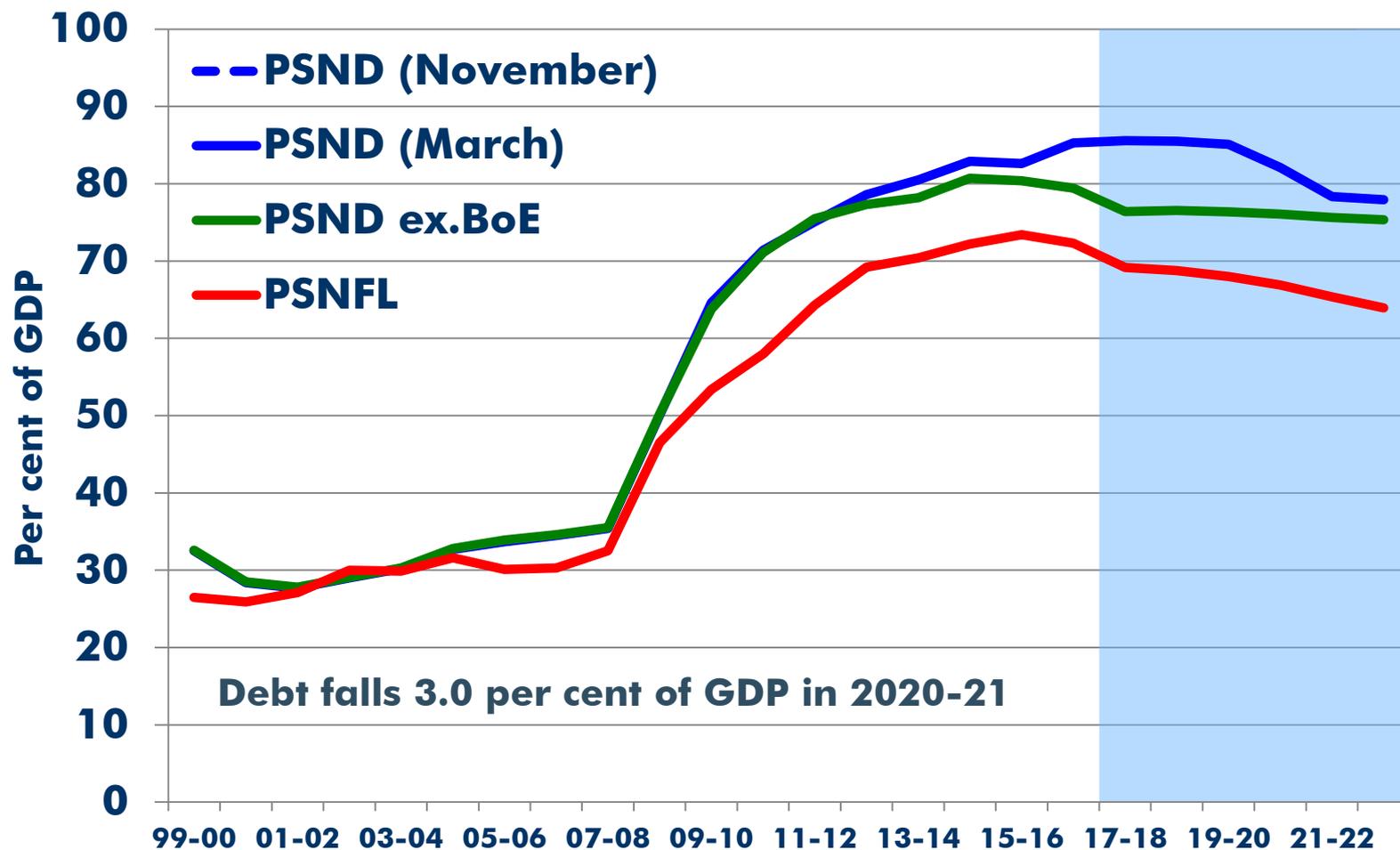
Public sector balance sheet



Year-on-year changes in the debt-to-GDP ratio



Public sector balance sheet



The welfare cap

	£ billion					
	17-18	18-19	19-20	20-21	21-22	22-23
November 2017 Welfare cap (restated)						
Welfare cap and pathway plus margin	119.9	122.1	123.8	126.4	130.2	134.1
November forecast adjusted for inflation	118.6	120.7	121.8	123.1	125.8	128.7
<i>Forecast revisions since November</i>	<i>-0.7</i>	<i>-0.2</i>	<i>-0.2</i>	<i>-0.7</i>	<i>-1.3</i>	<i>-1.5</i>
<i>Headroom (March)</i>	<i>-1.3</i>	<i>-1.4</i>	<i>-2.0</i>	<i>-3.3</i>	<i>-4.4</i>	<i>-5.4</i>

The 'fiscal objective'

The Charter commits the Government to

- "return the public finances to balance at the earliest possible date in the next Parliament"

Still challenging

- Deficit still 0.9% of GDP in 2022-23, down from 1.1% in November
- If deficit were to continue falling at post Spending Review rate it would not balance until 2027-28 (2030-31 in November)
- And ageing and other spending pressures in health

The Brexit withdrawal settlement

Our forecast incorporates 'fiscally neutral' assumption

- Savings from EU contributions assumed spent elsewhere
- Could include divorce bill, replacement or other spending

Enough detail now to set out size and timing of divorce bill

- But still uncertainties around this

Components of the divorce bill

Continue present contributions to 2020

- €8.1bn in 2019 and €10.4bn in 2020

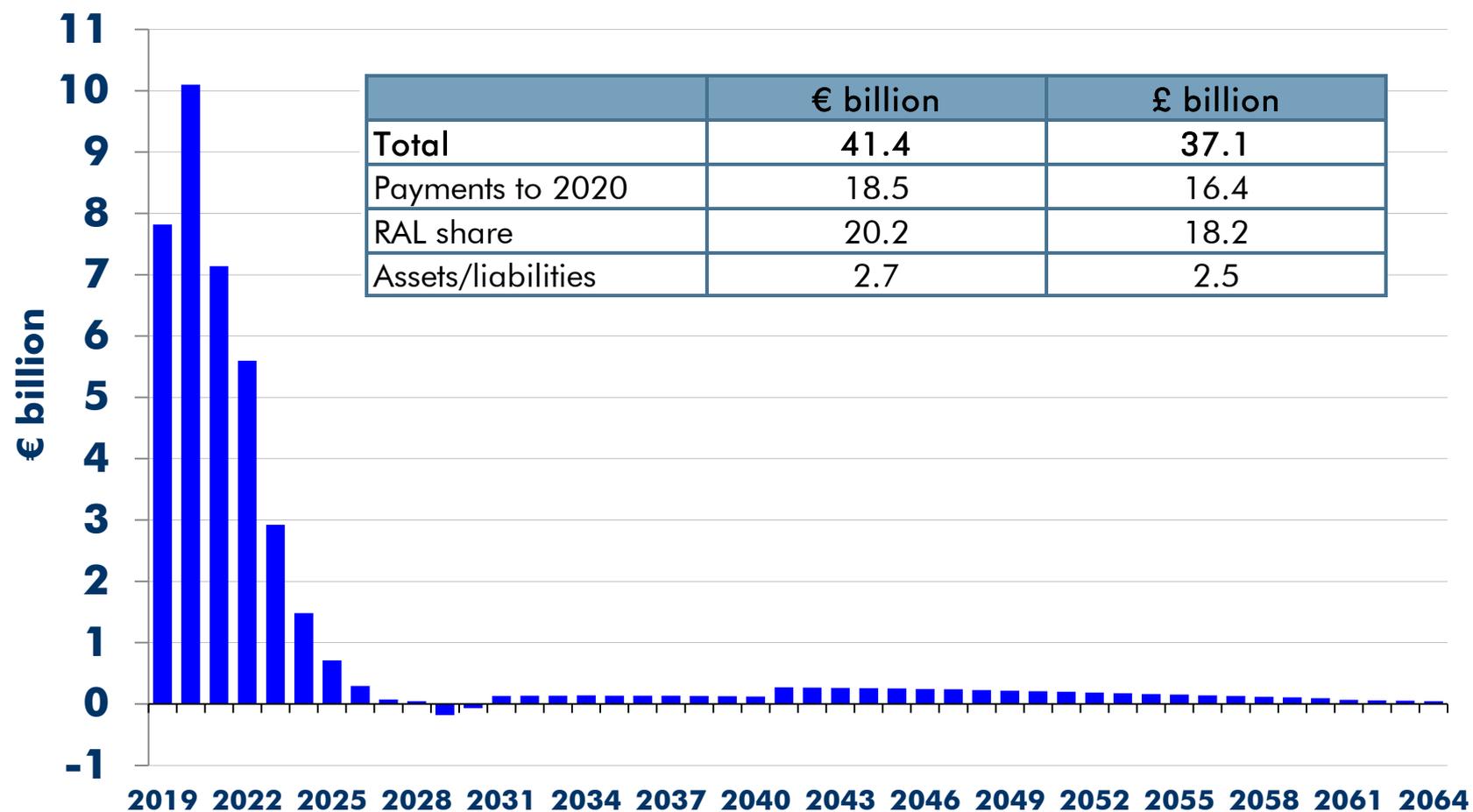
Share of outstanding commitments at 2020

- Total 'reste a liquider' of €256.4bn
- UK share estimated at 12.4 per cent
- Payment net of receipts €20.2bn over 8 years

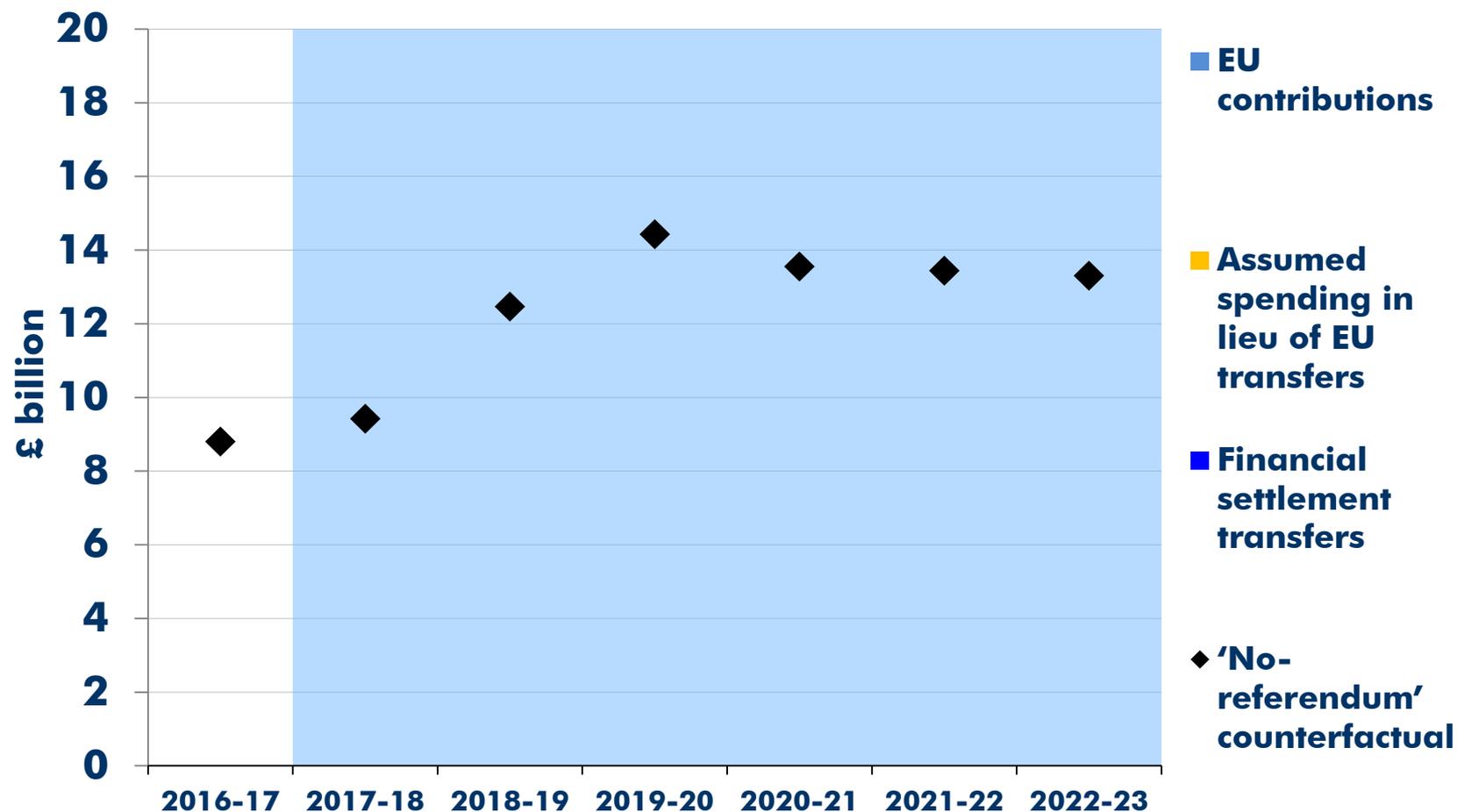
UK share of assets and liabilities

- €2.7bn over many decades

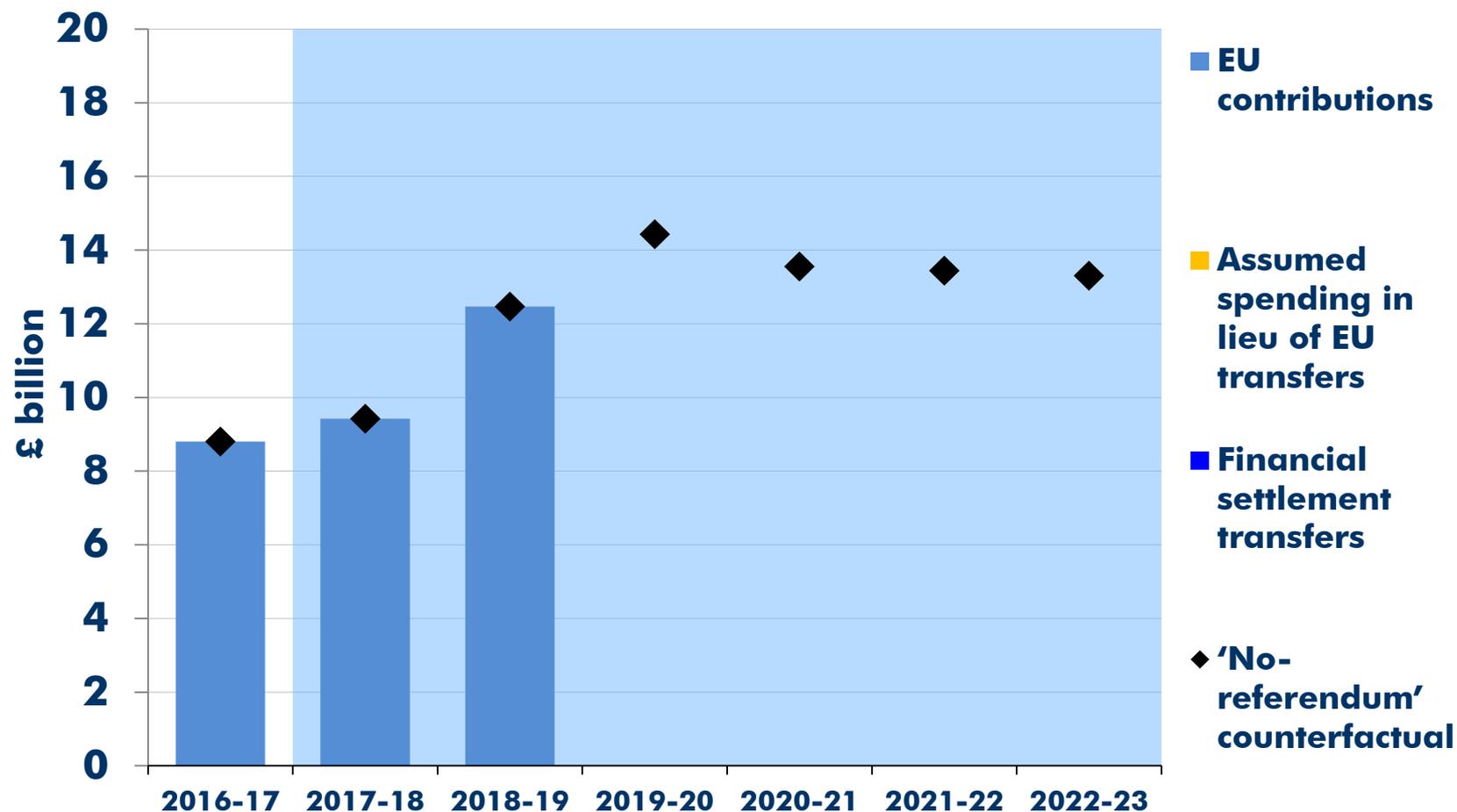
Annual path of financial settlement payments



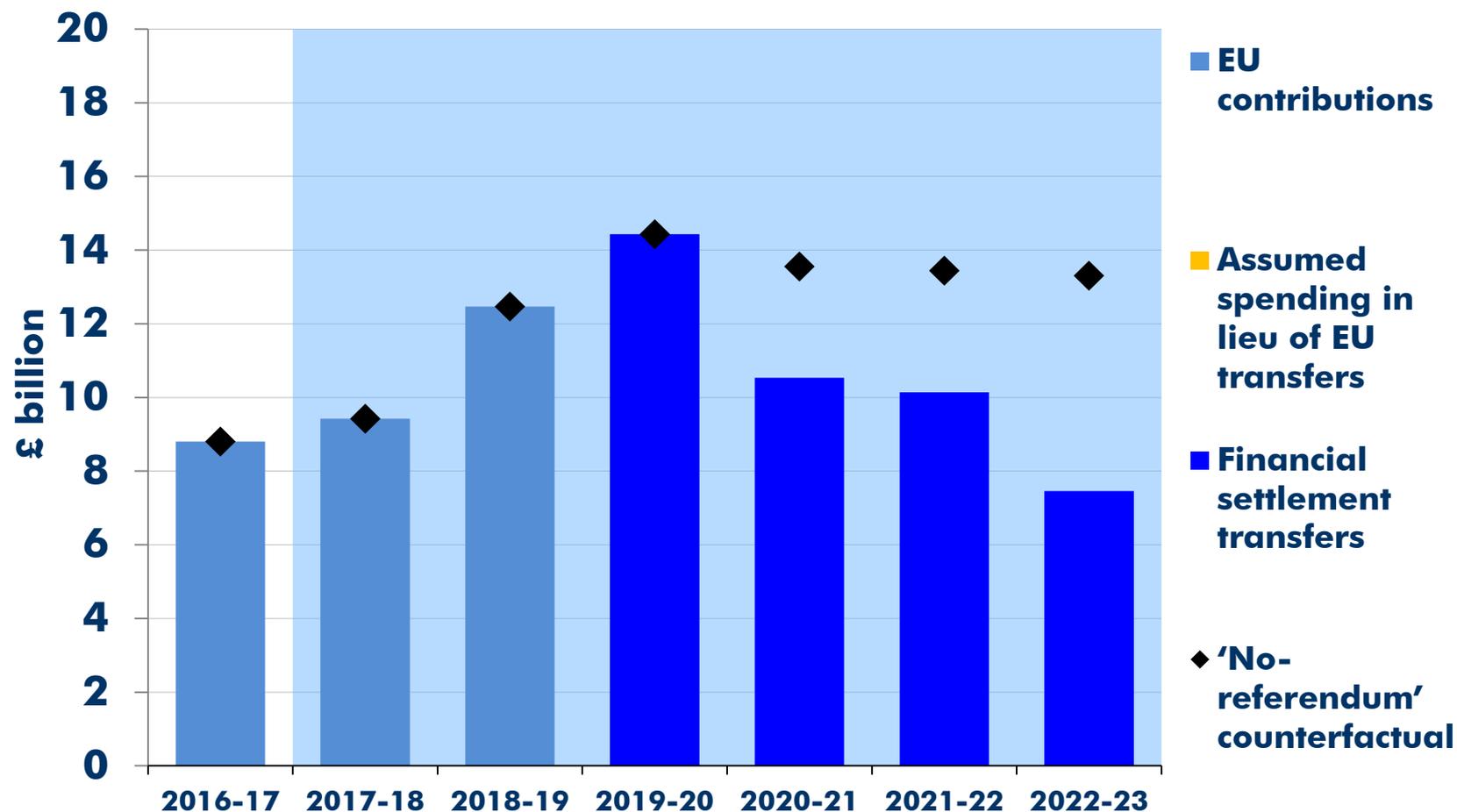
EU transfers, financial settlement and other assumed spending



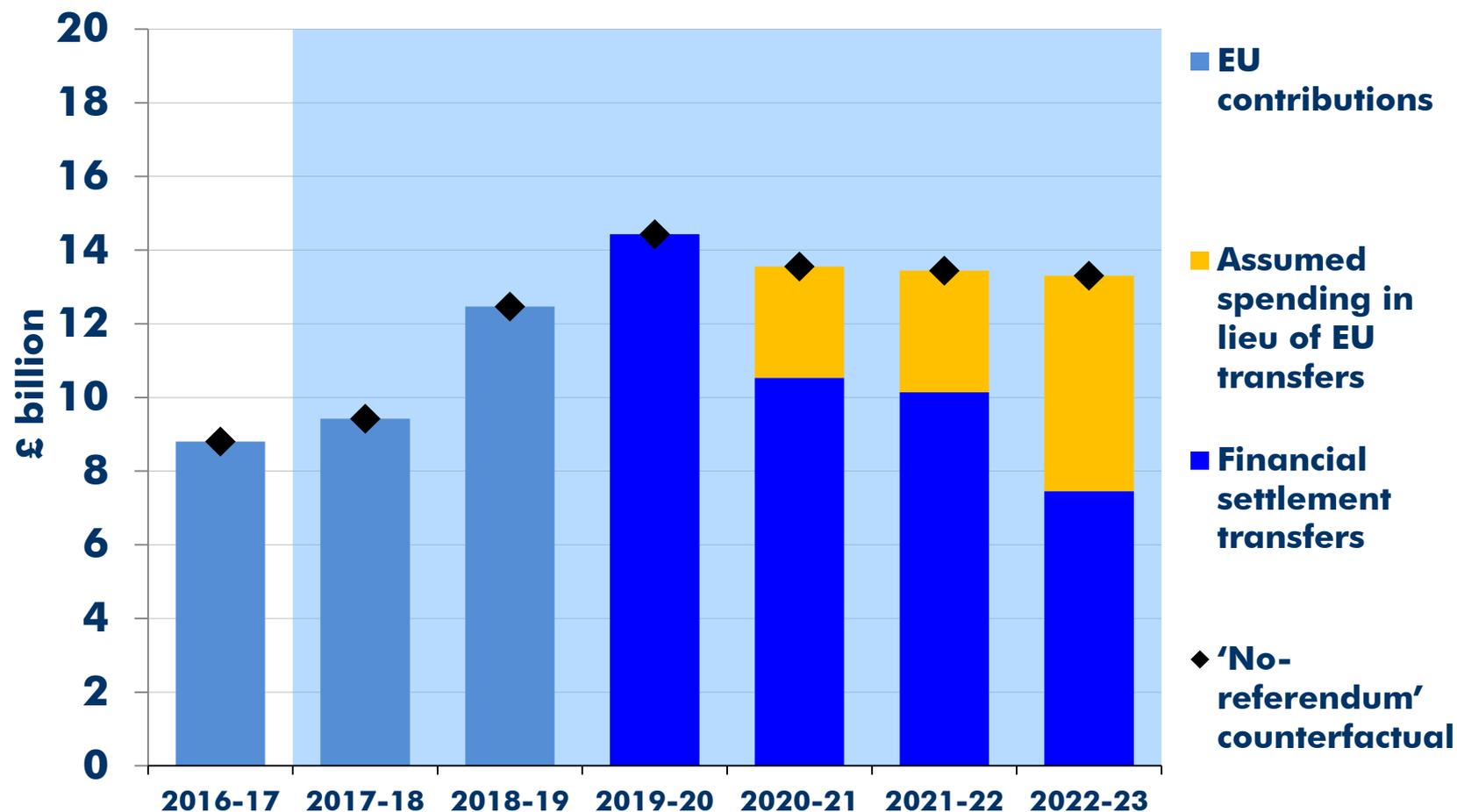
EU transfers, financial settlement and other assumed spending



EU transfers, financial settlement and other assumed spending



EU transfers, financial settlement and other assumed spending



Conclusion

- Economy and public finances have done slightly better than forecast in November
- But medium-term outlook broadly the same
- And margin against targets virtually unchanged
- Deficit well down from crisis and some debt measures turning
- But many risks and uncertainties