

Office for
**Budget
Responsibility**

Economic and fiscal outlook

March 2011

Robert Chote, Chairman

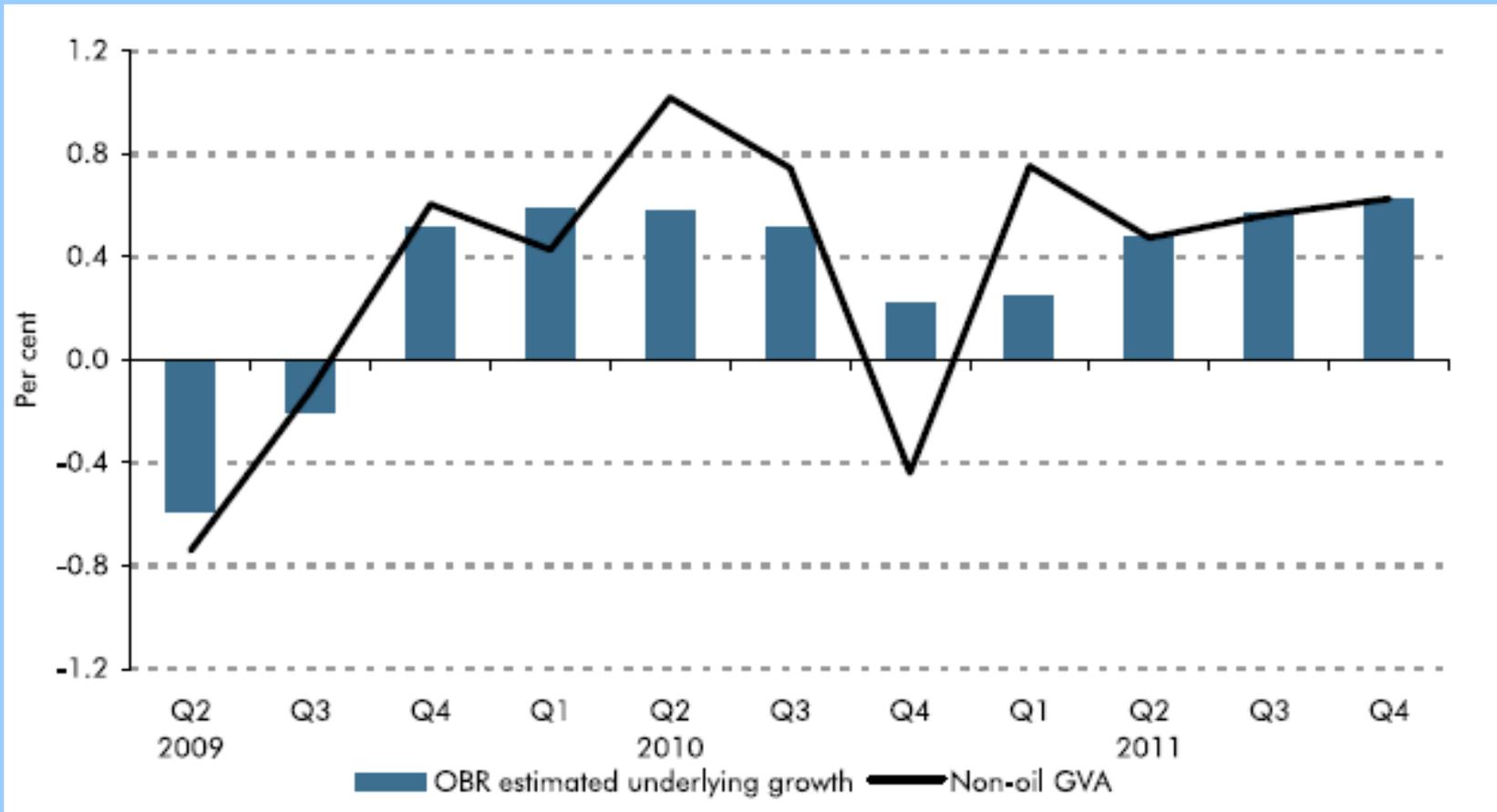
Process and independence

- Independent Budget Responsibility Committee responsible for assumptions, judgements and conclusions
- Supported by full-time OBR staff
- Drawing on data and analysis from HMRC, HMT, DWP etc
- Draft forecast first presented to Chancellor on 14 February to inform Budget policy decisions
- No political pressure to change any conclusions

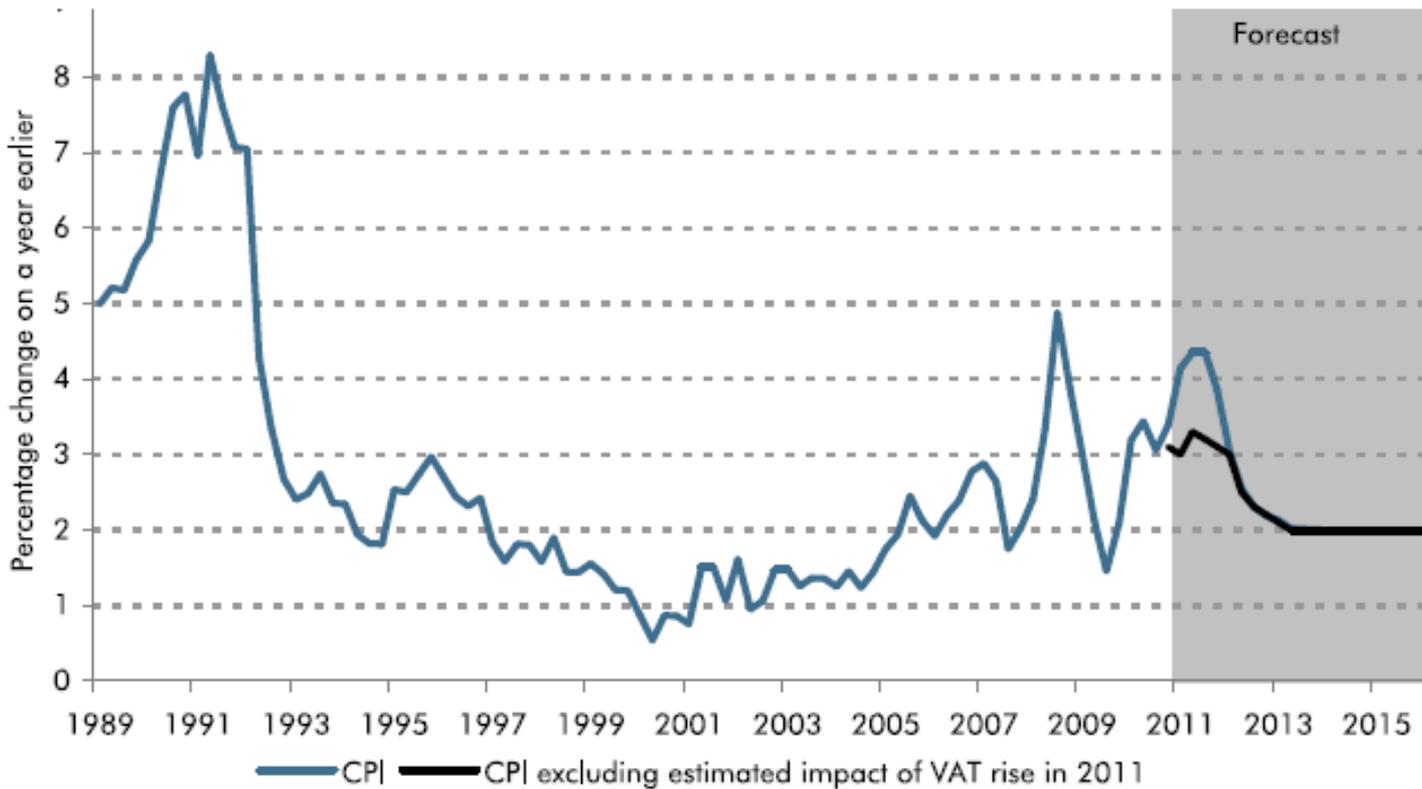
Key points: economic outlook

- Less underlying momentum in the economy than thought in November
- High inflation set to squeeze household disposable income
- GDP in 2011 revised down to 1.7% from 2.1%
- Steady recovery continues thereafter, but slower GDP growth than after previous three recessions
- Unchanged view on underlying productive potential of economy

Less growth momentum in economy even after accounting for effect of snow



Higher than expected inflation likely to weigh down on real incomes

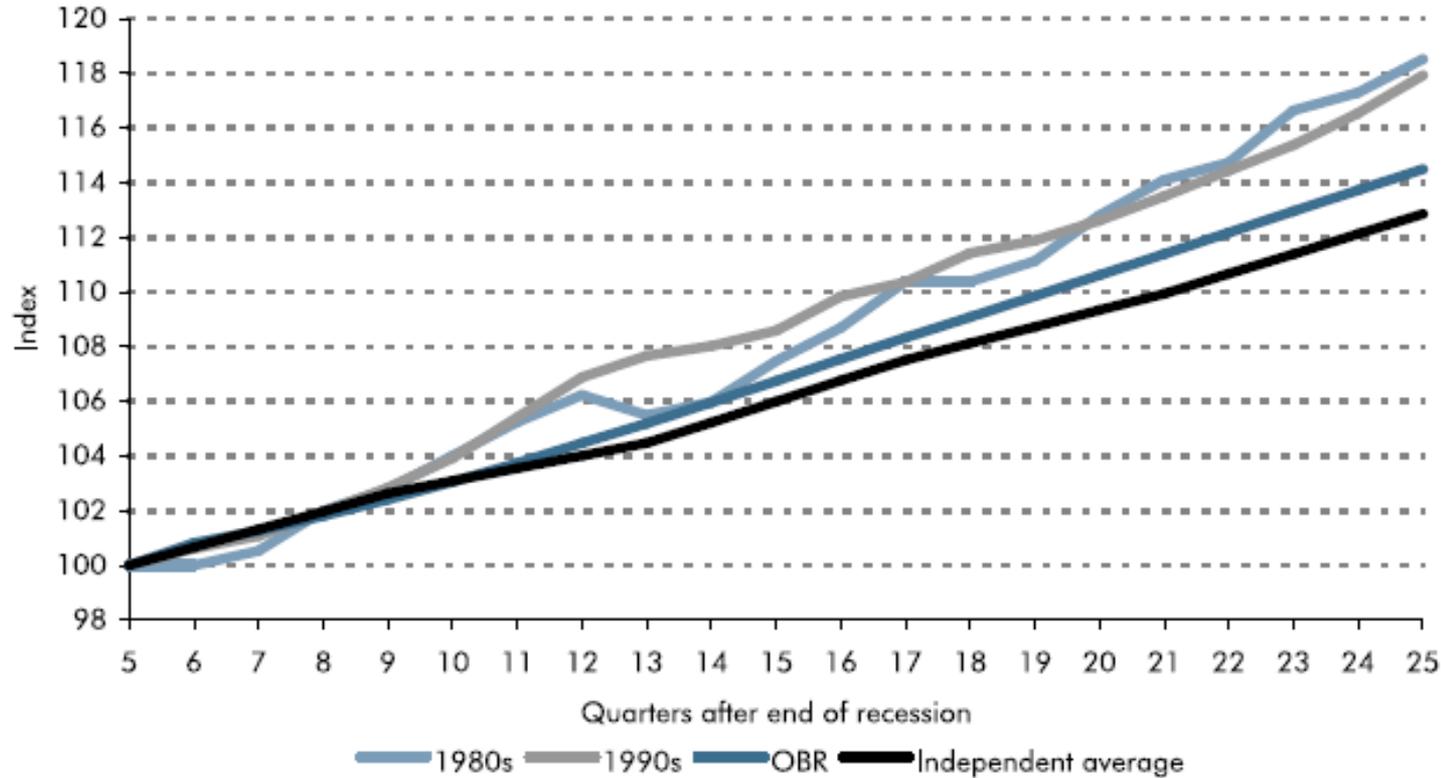


Source: ONS, OBR

GDP revised down to 1.7% in 2011 then expected to recover in medium-term

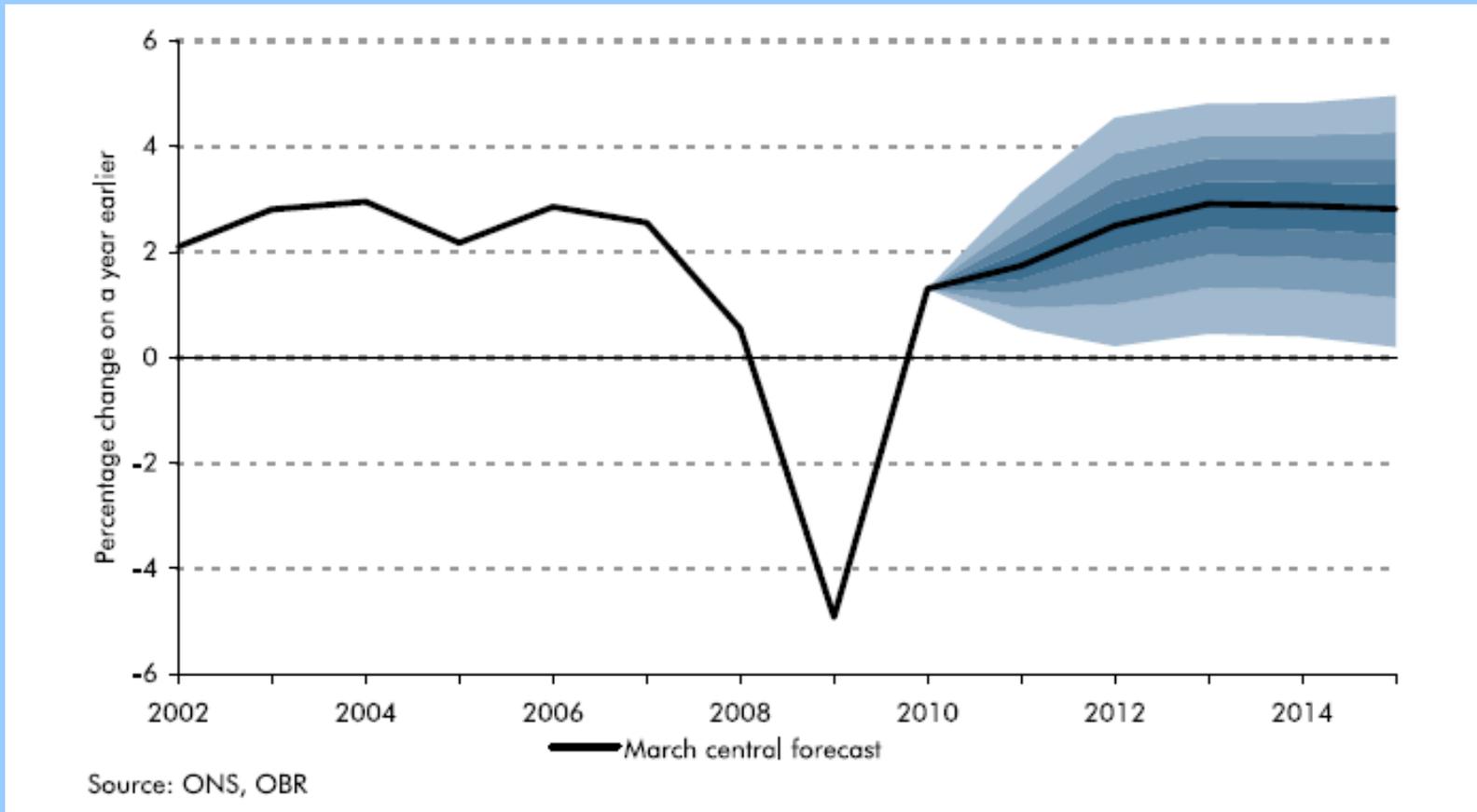
	Per cent					
	2010	2011	2012	2013	2014	2015
OBR (March 2011)						
GDP growth	1.3	1.7	2.5	2.9	2.9	2.8
CPI inflation	3.3	4.2	2.5	2.0	2.0	2.0
Output gap	-3.4	-3.9	-3.6	-3.0	-2.2	-1.4

Recovery expected to be less strong than after previous recessions



Source: ONS, HMT 'Comparison of independent forecasts', OBR

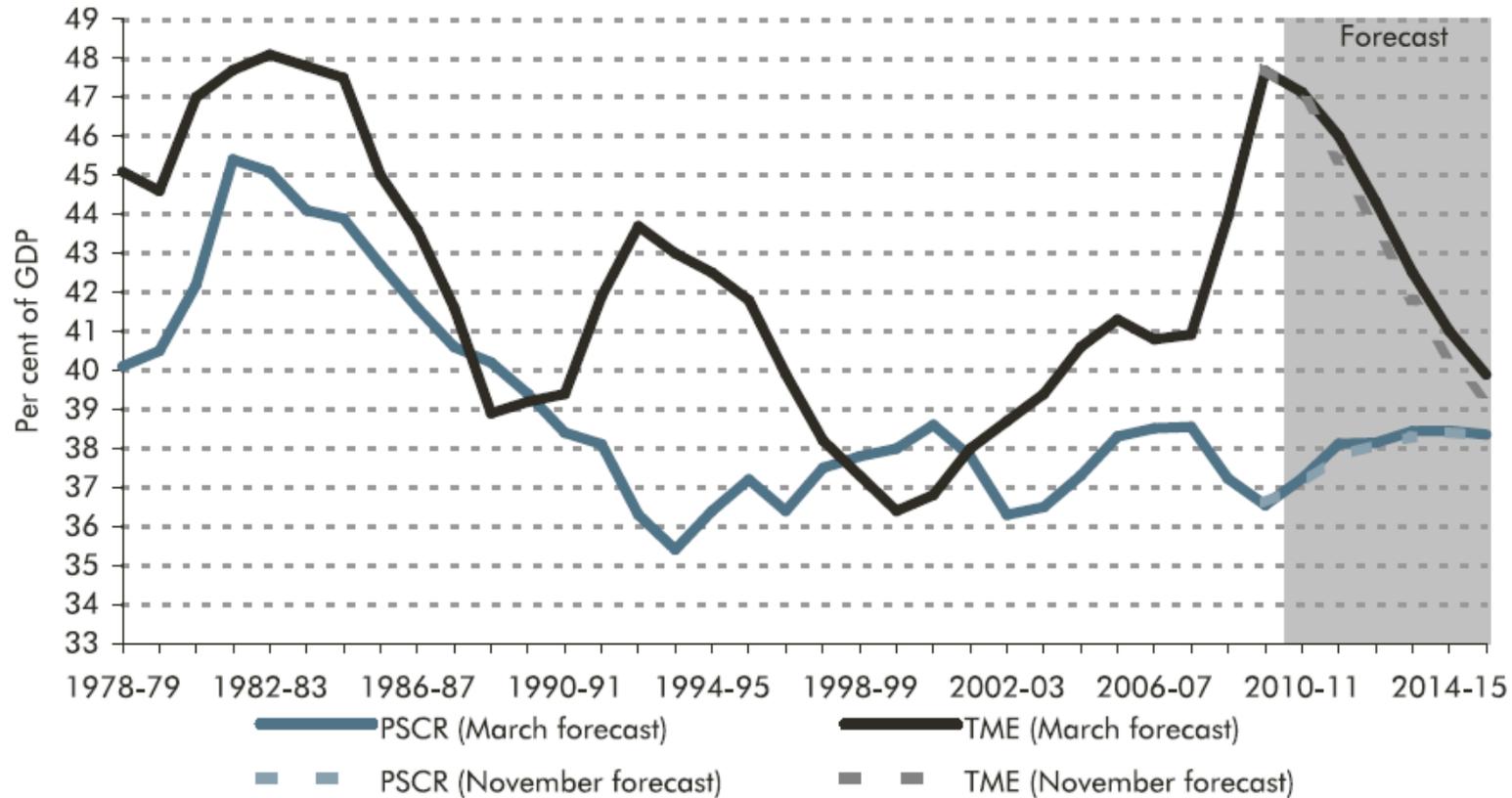
But a wide range of uncertainty around any economic forecast



Key points: fiscal outlook

- PSNB this year expected to be £145.9bn.
- Then forecast to fall, but higher than in November by around £10bn each year
- Upward revision mainly due to higher spending driven by inflation
- Budget policy measures broadly neutral for borrowing
- More spare capacity in economy so structural deficit is revised up less
- Government to meet fiscal targets, with similar headroom to June

Borrowing falls over forecast period mainly driven by fall in total spending



Source: ONS, OBR

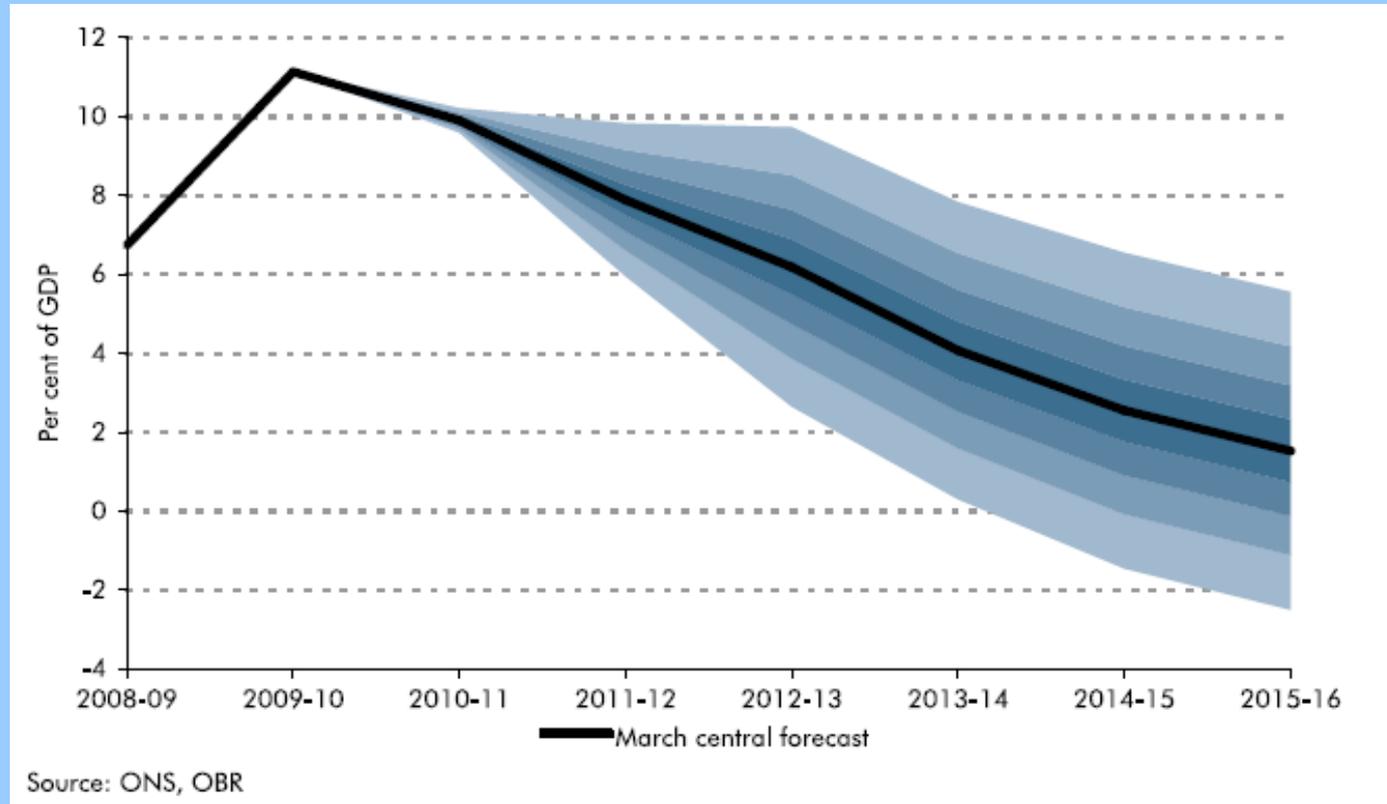
But borrowing profile higher than forecast in November

	£ billion						
	Outturn			Forecast			
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Public sector net borrowing							
November forecast	156.0	148.5	117	91	60	35	18
March forecast	156.4	145.9	122	101	70	46	29
Change	0.4	-2.6	4	10	10	11	11

Impact of Budget measures is overall broadly neutral for borrowing

	£ billion				
	2011-12	2012-13	2013-14	2014-15	2015-16
Effect of receipts measures	0.7	0.1	0.3	0.1	0.3
of which: Onshore corporation tax	-0.4	-1.2	-1.6	-2.0	-2.2
Offshore corporation tax	1.8	2.2	2.1	2.1	1.9
Fuel duties	-1.9	-1.6	-1.7	-2.1	-2.1
Income tax and NICs	0.8	0.6	0.7	1.0	1.4
Effect of expenditure measures	-0.7	-0.4	-0.3	-0.2	0.0
Total effect of policy decisions on PSNB	0.0	-0.3	0.0	-0.1	0.3
Memo: Effect on CGNCR of Ireland package	1.2	1.6	0.4	0.0	0.0
Effect on CGNCR of Green Investment Bank	0.0	0.8	0.0	0.0	0.0

Again wide range of uncertainty around fiscal forecast



But on our central forecast the Government is meeting its fiscal targets

	Per cent of GDP							
	Outturn				Forecast			
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Public sector net borrowing	6.7	11.1	9.9	7.9	6.2	4.1	2.5	1.5
Cyclically-adjusted net borrowing	6.4	8.9	7.4	5.3	3.7	2.0	1.0	0.5
Surplus on current budget	-3.5	-7.6	-7.1	-5.8	-4.5	-2.7	-1.2	-0.2
Fiscal mandate and supplementary target								
Cyclically-adjusted surplus on current budget	-3.1	-5.3	-4.6	-3.2	-2.0	-0.6	0.4	0.8
Public sector net debt ¹	43.3	52.7	60.3	66.1	69.7	70.9	70.5	69.1
Changes since November forecast								
Public sector net borrowing	0.0	0.0	-0.1	0.3	0.6	0.6	0.6	0.6
Cyclically-adjusted net borrowing	0.0	0.0	-0.2	0.0	0.2	0.1	0.2	0.2
Surplus on current budget	0.0	0.0	0.1	-0.2	-0.6	-0.5	-0.6	-0.6
Cyclically-adjusted surplus on current budget	0.0	0.0	0.2	0.1	-0.1	-0.1	-0.1	-0.2
Public sector net debt ¹	-0.8	-0.8	-0.5	-0.2	0.6	1.2	1.7	1.8

¹ Debt at end March; GDP centred on end March.