

Office for  
**Budget  
Responsibility**

## **Economic and fiscal outlook: March 2019**

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**Robert Chote**  
Chairman

13 March 2019

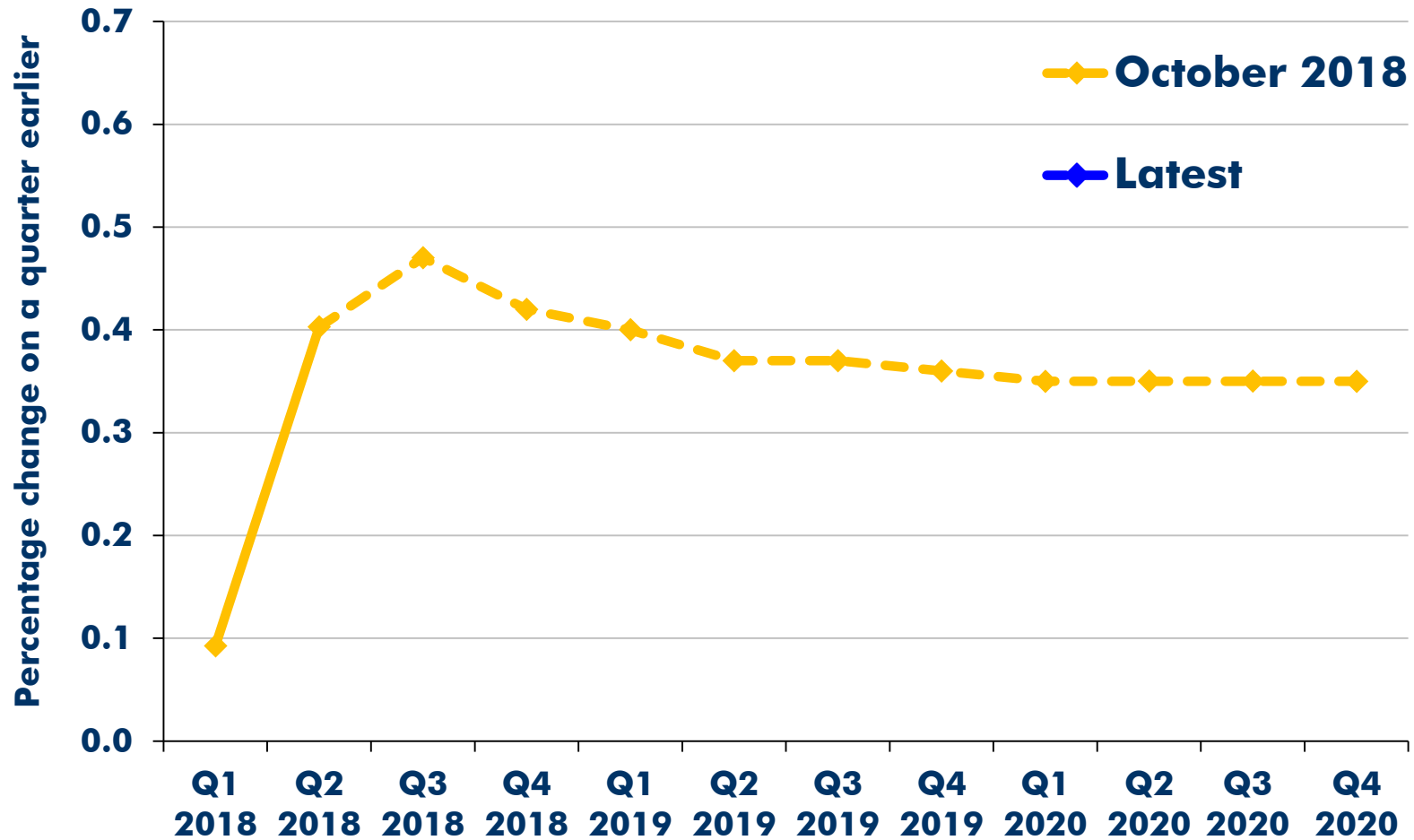
# Coverage and process

- **Five year forecasts, plus progress against targets**
- **Independent BRC responsible for conclusions**
- **Pre-measures forecast sent to Chancellor on 27 February and met him to discuss it on 5 March**
- **Forecast process less challenging than October, but**
  - Spring Statement date finalised well after 10-week deadline
  - Some outstanding queries with DWP on disability benefits

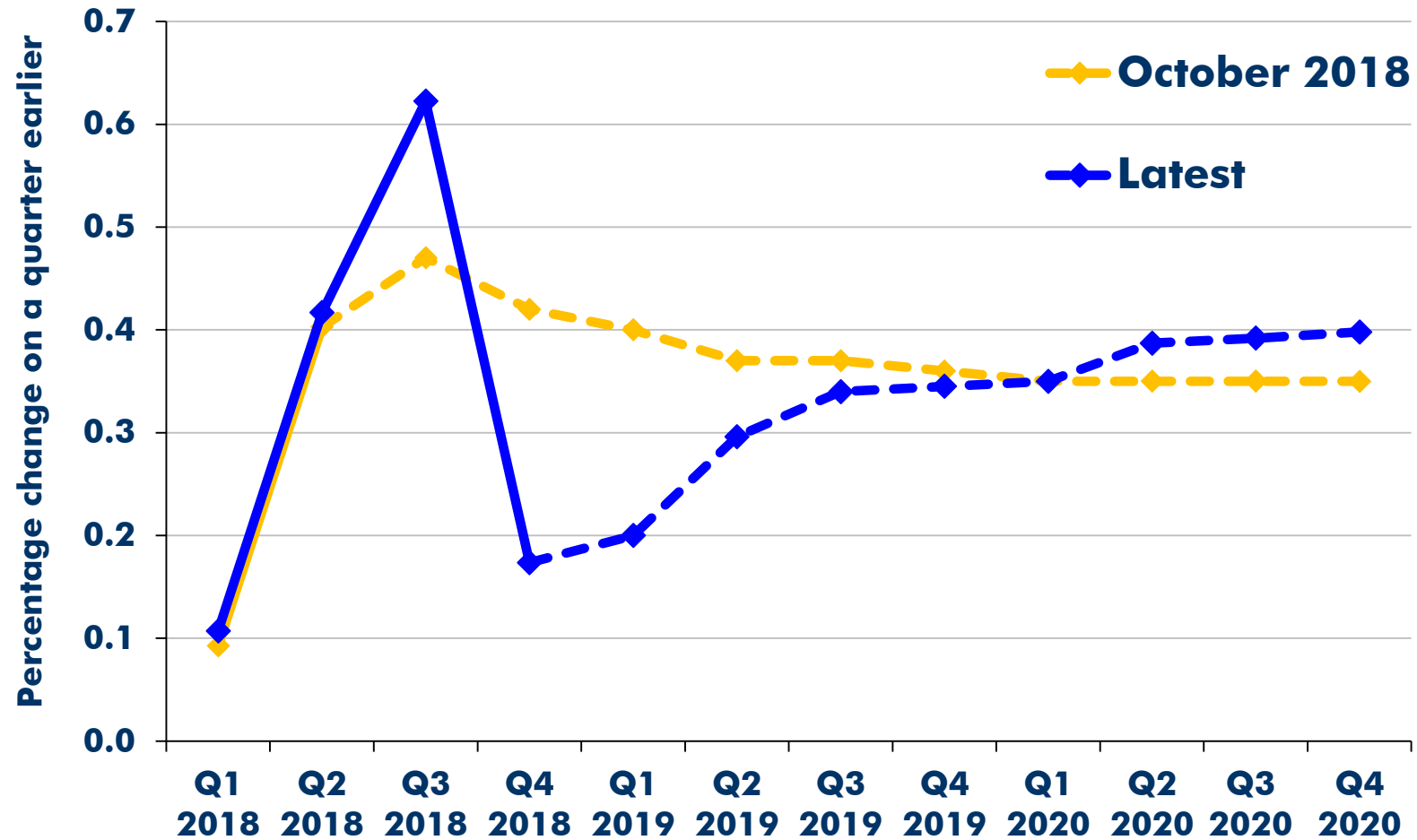
# Outline and key points

- **Underlying outlook for public finances improves**
  - GDP growth weaker in near term, but medium-term view unchanged
  - January tax receipts beat expectations, which pushes through the forecast
  - Lower market interest rates reduce debt interest spending forecast
  - Pre-measures deficit revised down £3bn this year rising to £8bn in 2023-24
- **Small fiscal giveaway, but most of the good news banked**
  - Sixth successive fiscal giveaway, but small: rises to £2.1bn by 2023-24
  - Mostly higher departmental spending limits to protect real terms plans
  - Leaves bigger margin against mandate, but budget balance still challenging
- **Forecast assumes an orderly departure from the EU**

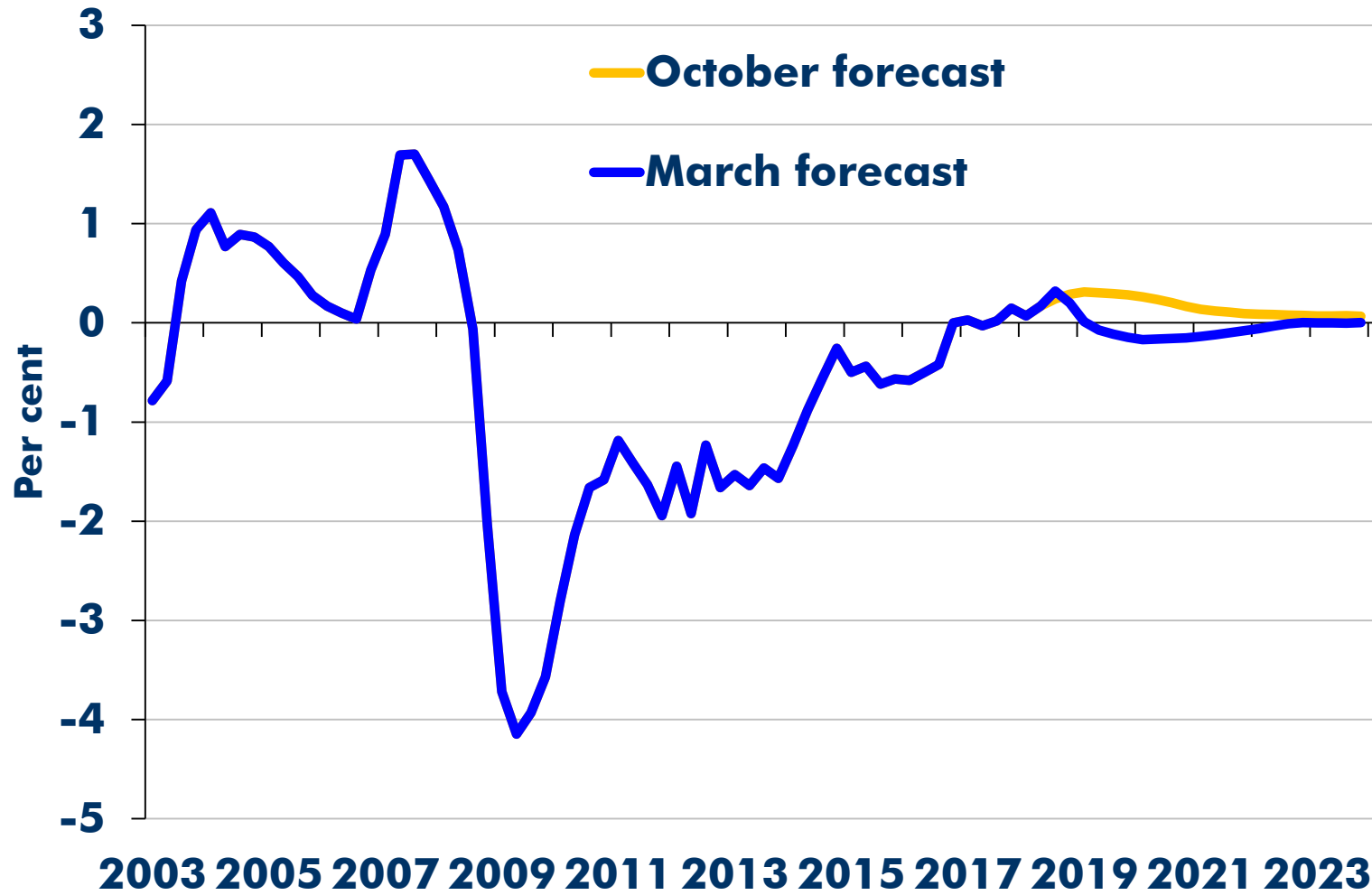
# Quarterly changes in real GDP



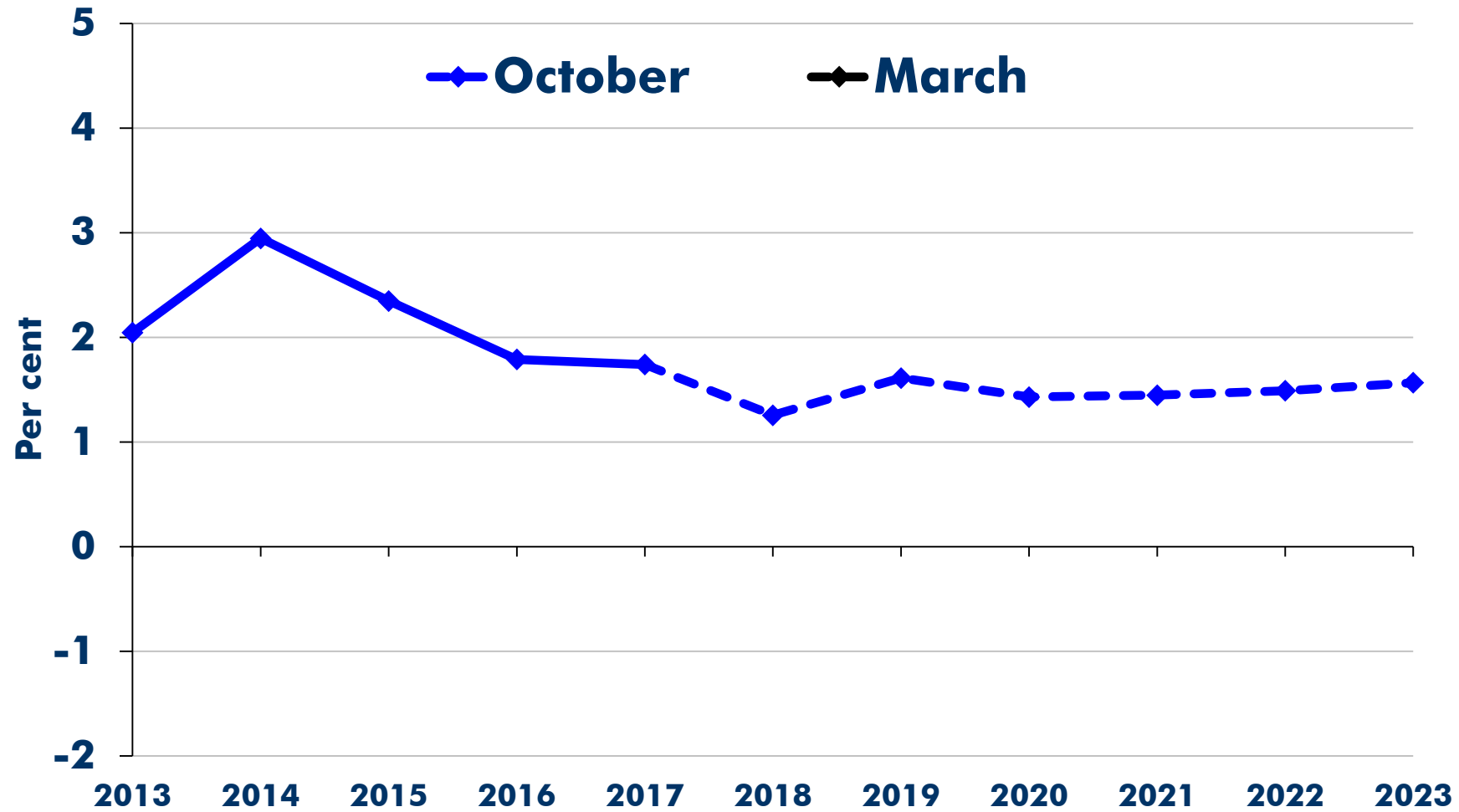
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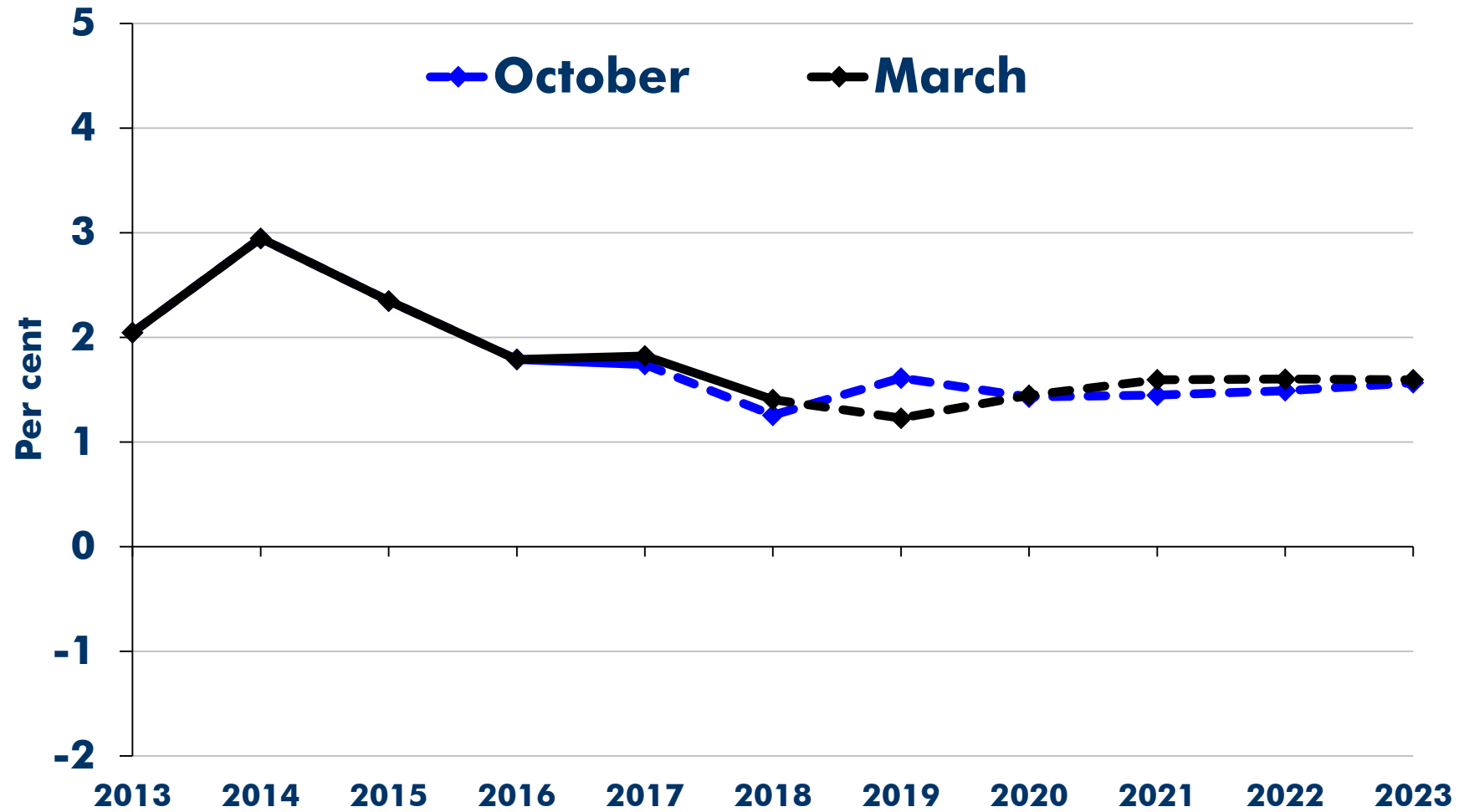
# Output gap



# Annual changes in real GDP

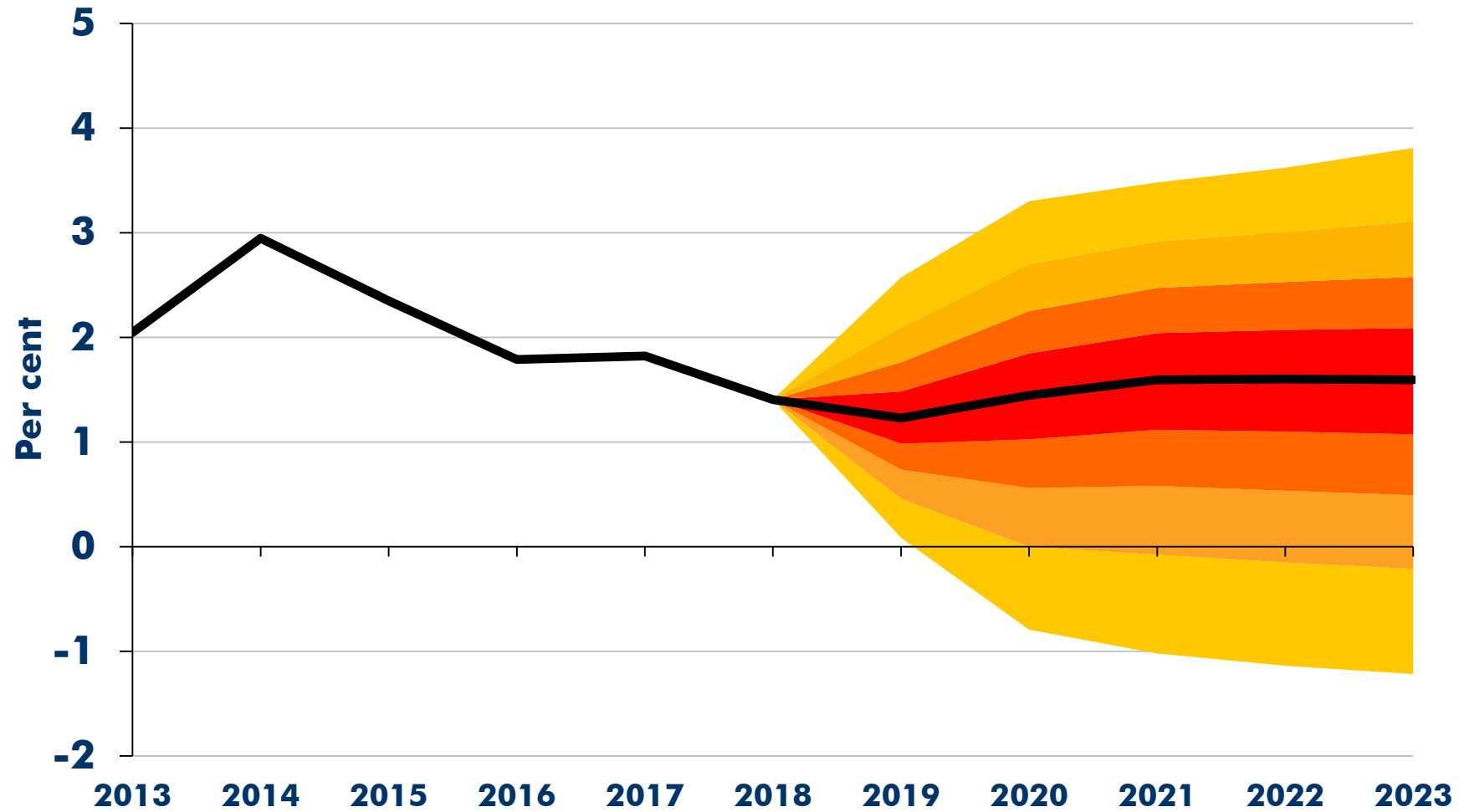


# Annual changes in real GDP

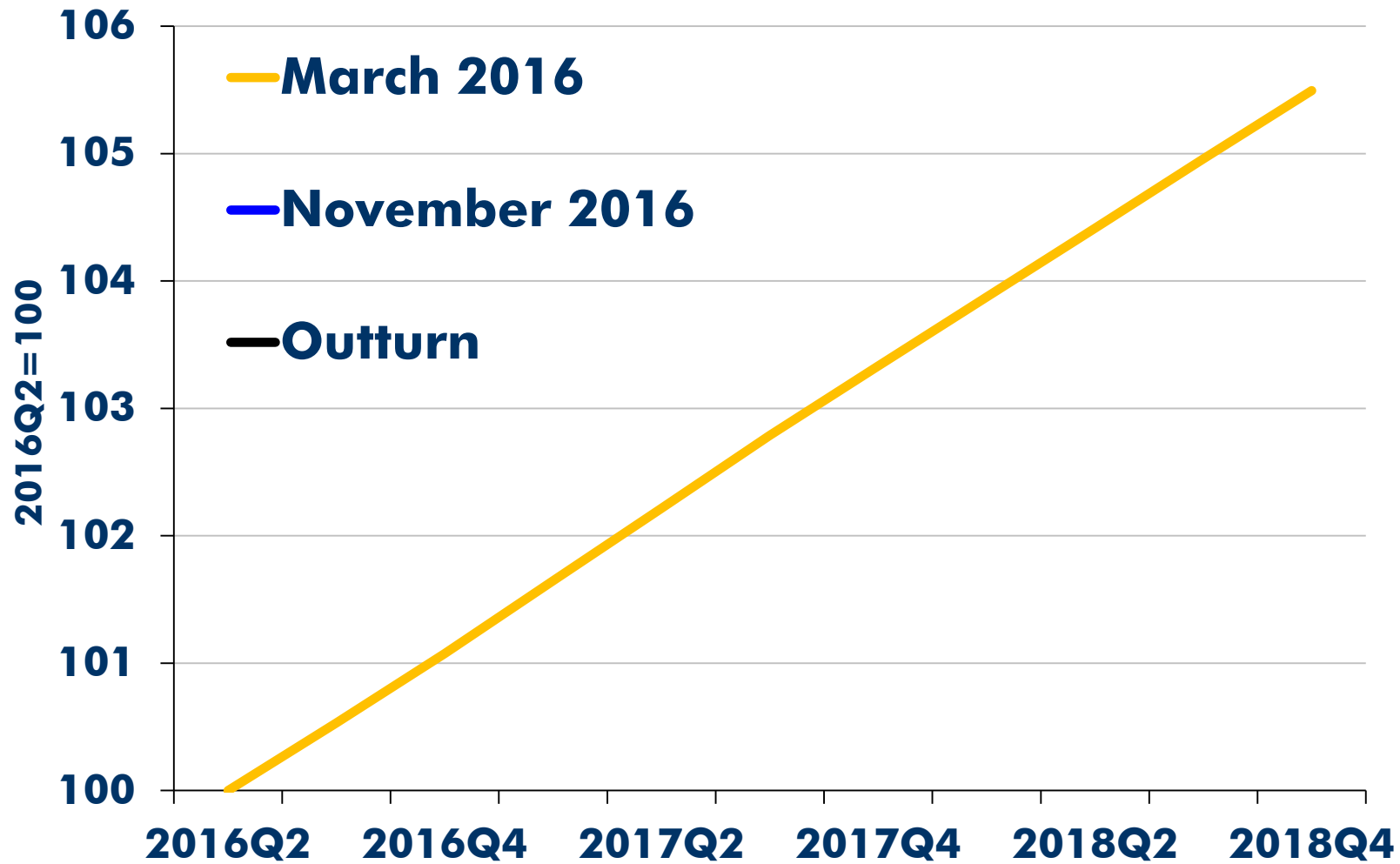




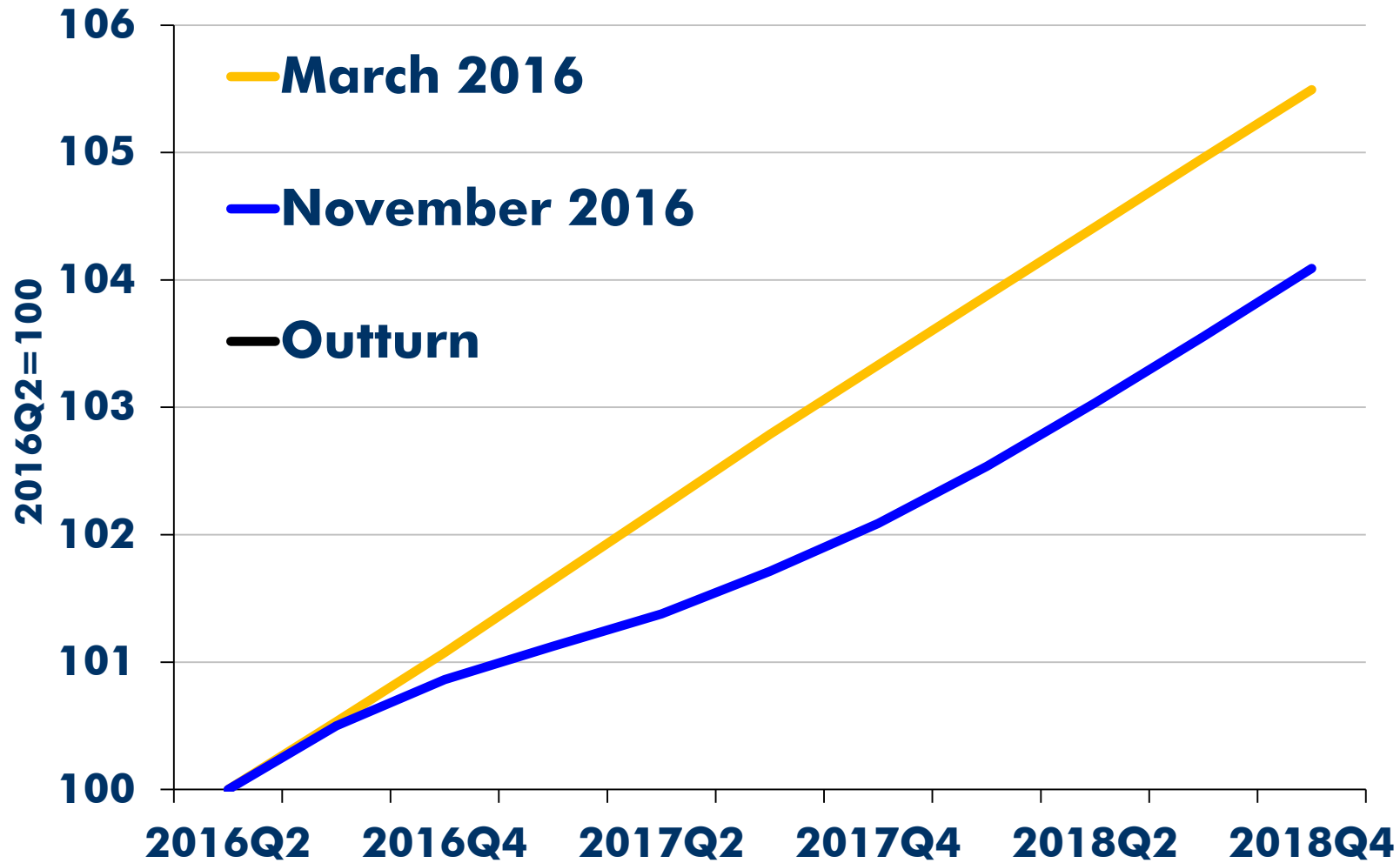
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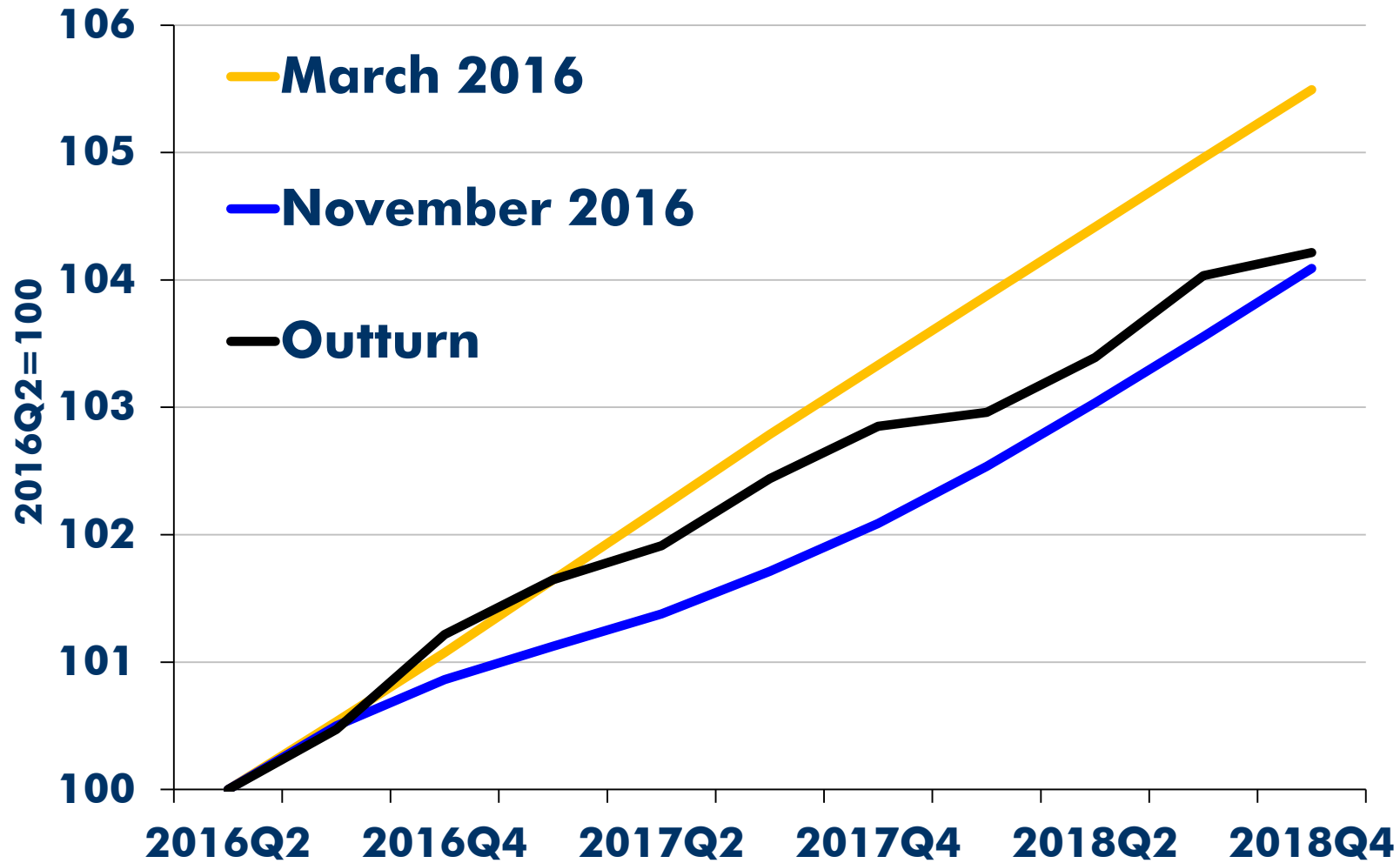
# Real GDP since Brexit vote



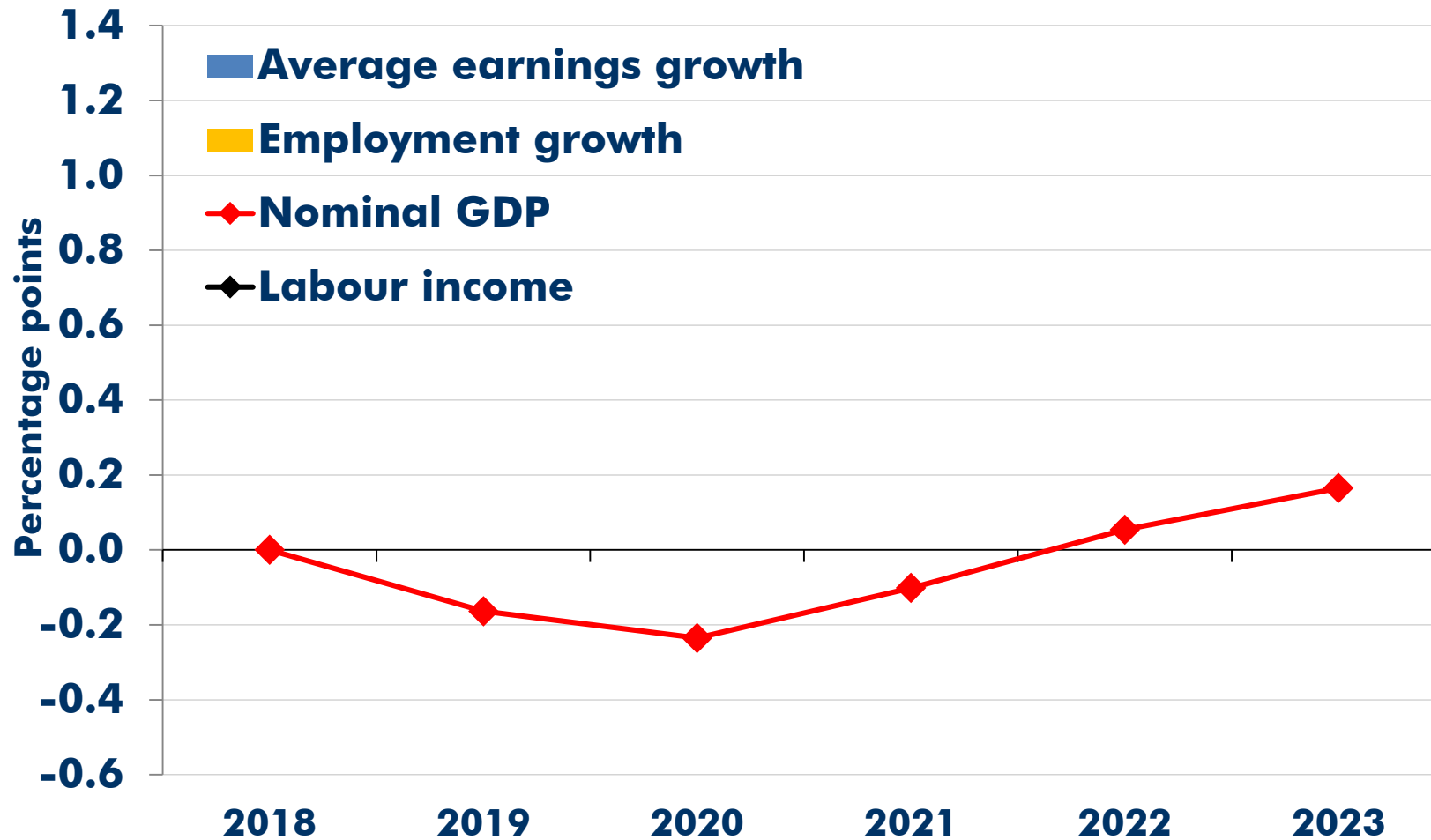
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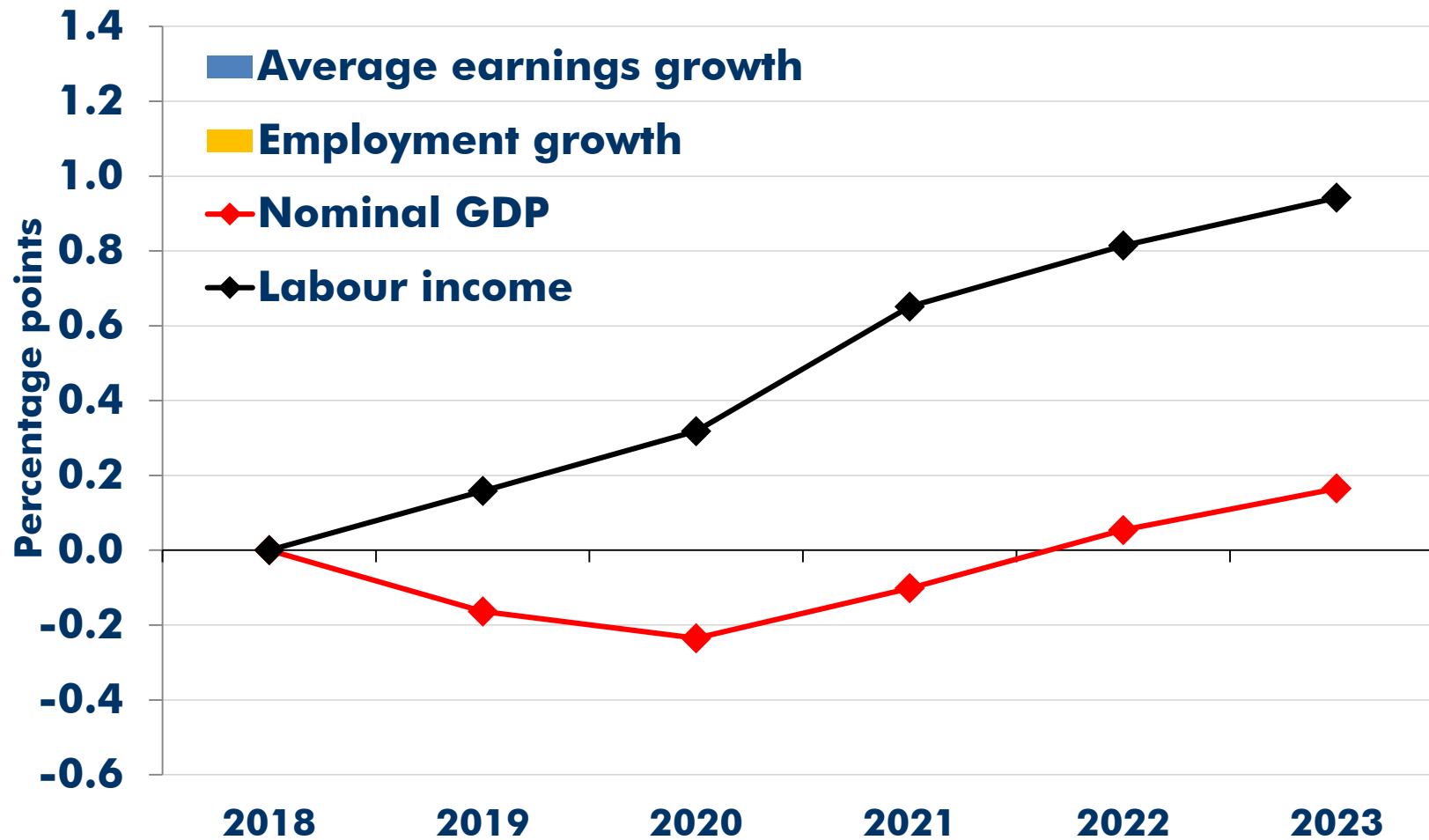
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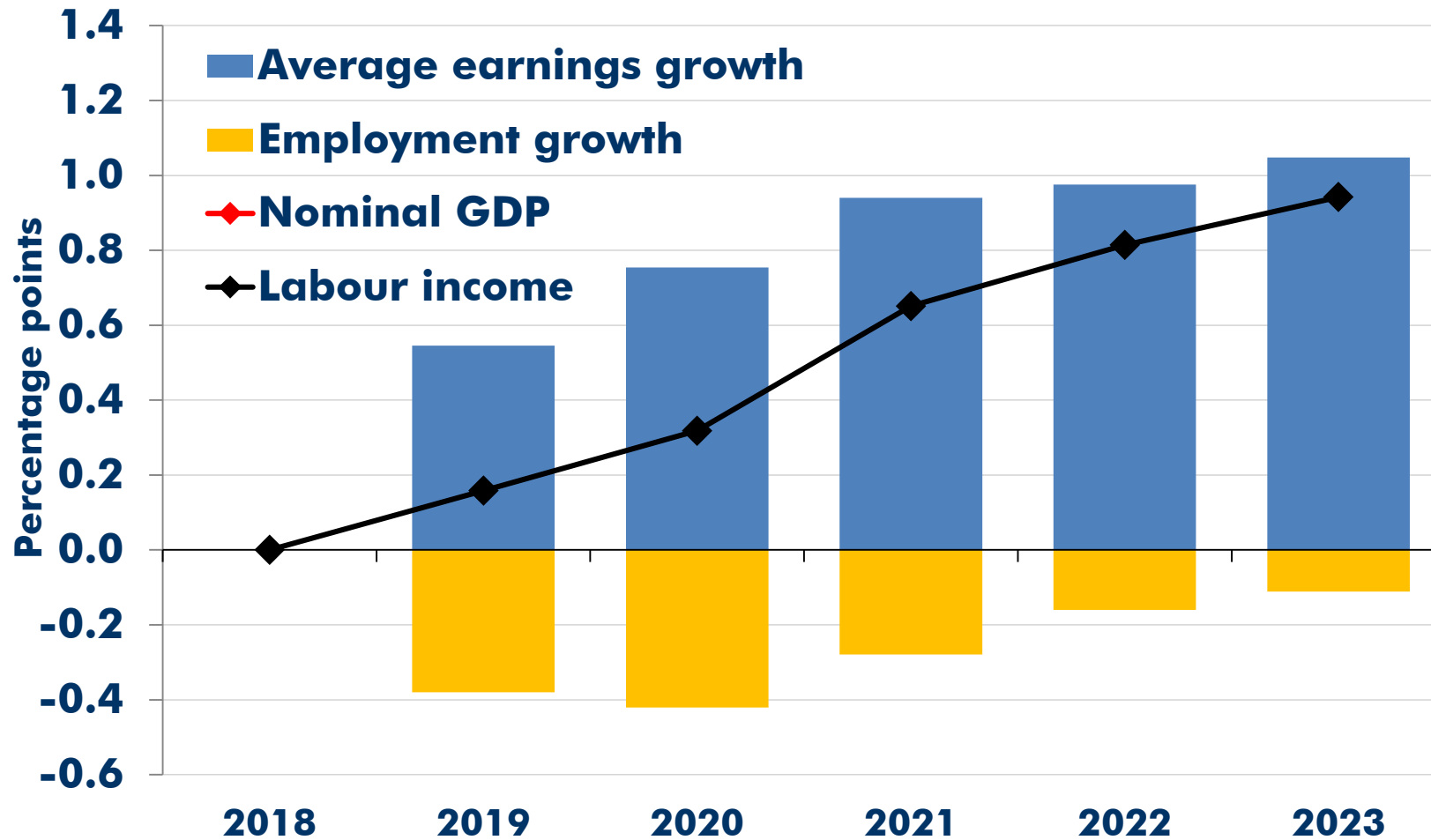
# Revisions to labour income and NGDP



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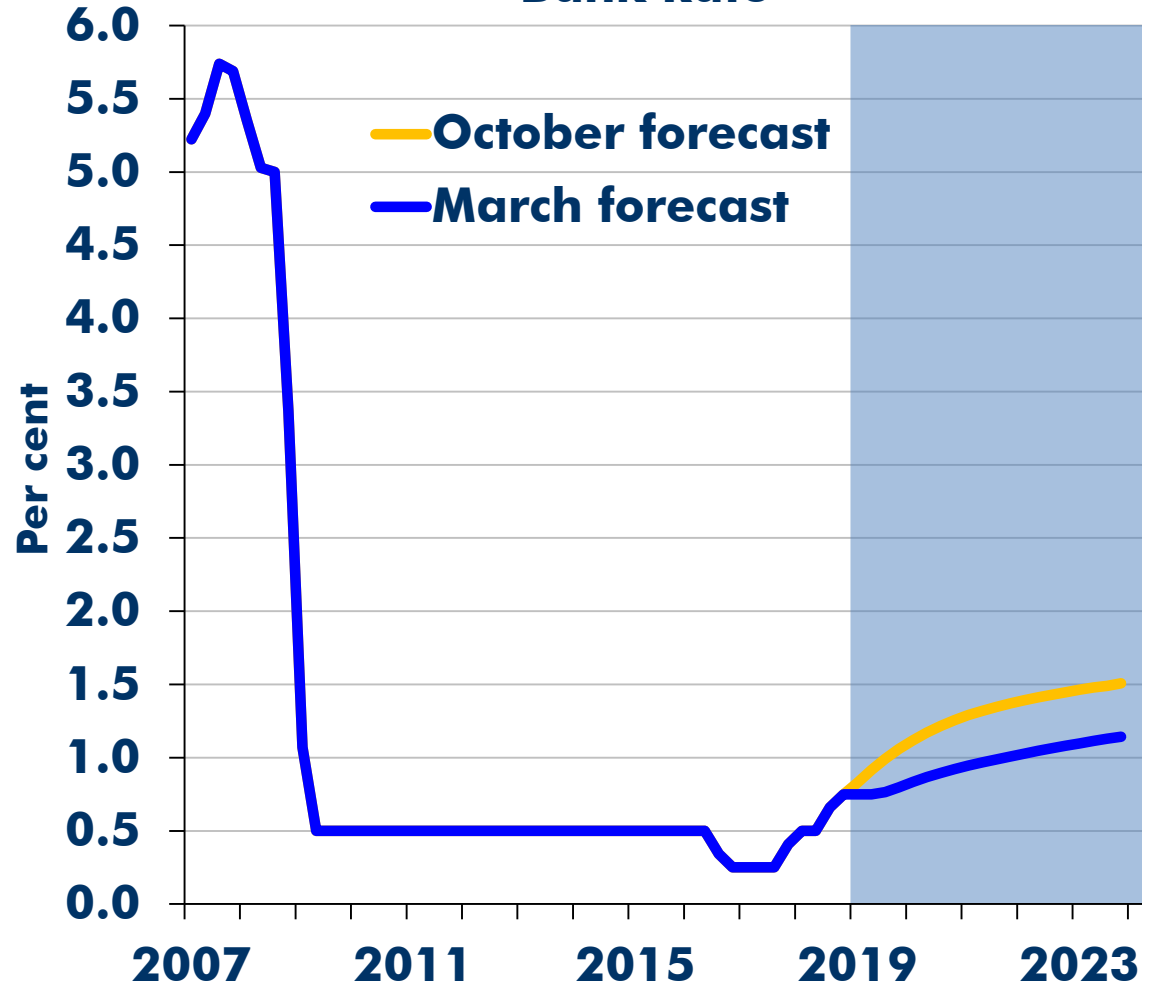


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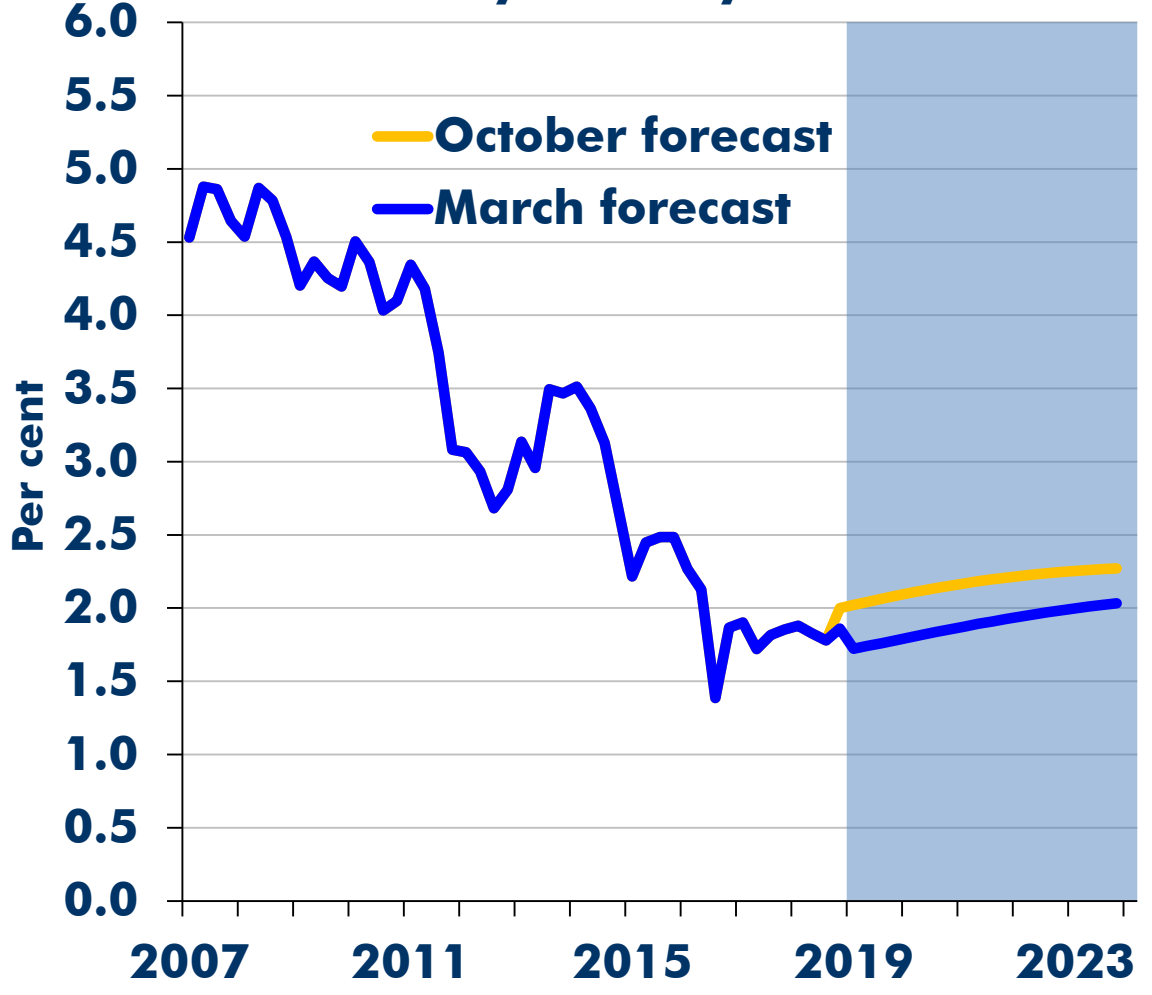


# Market-based interest rate assumptions

### Bank Rate

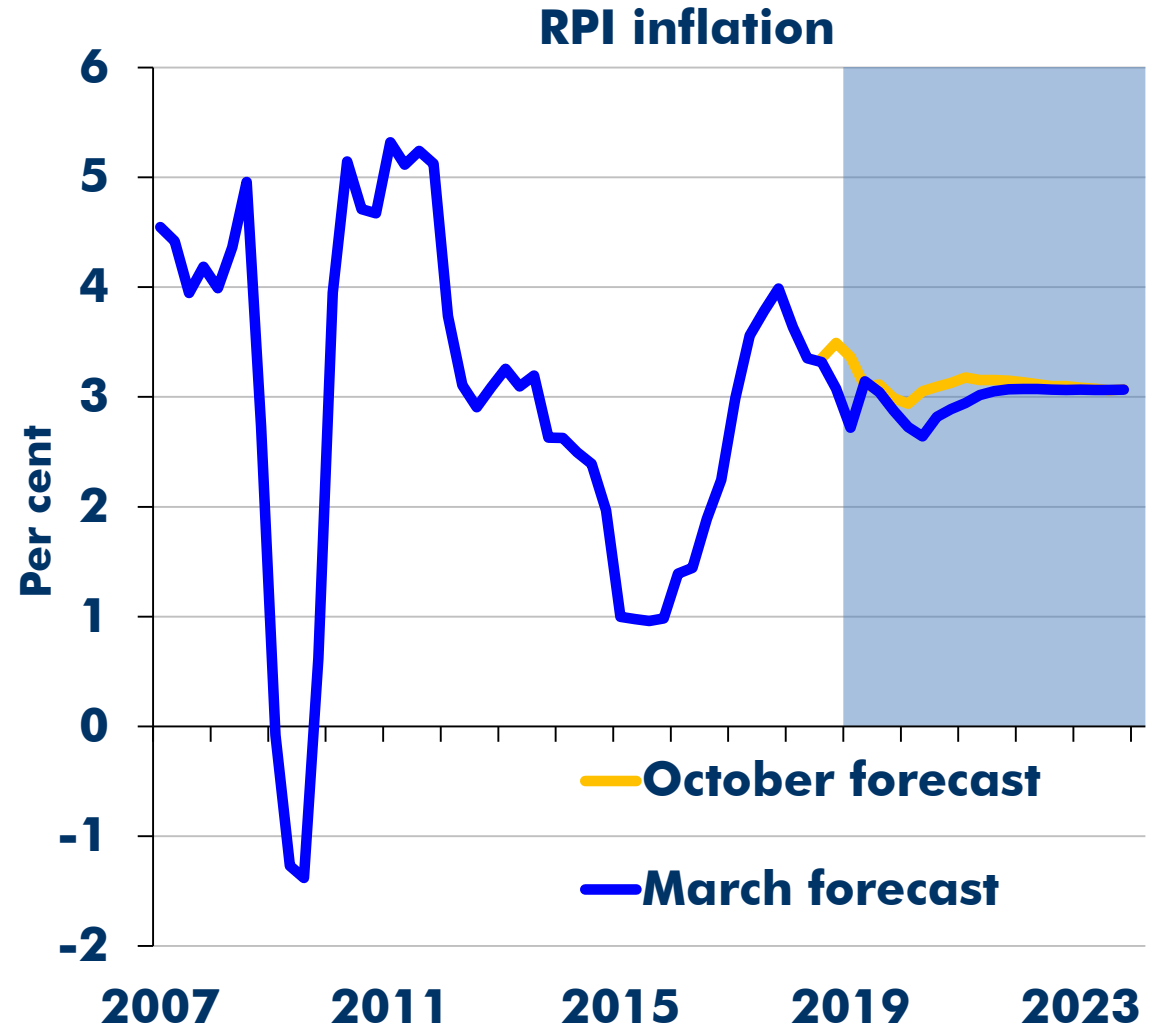
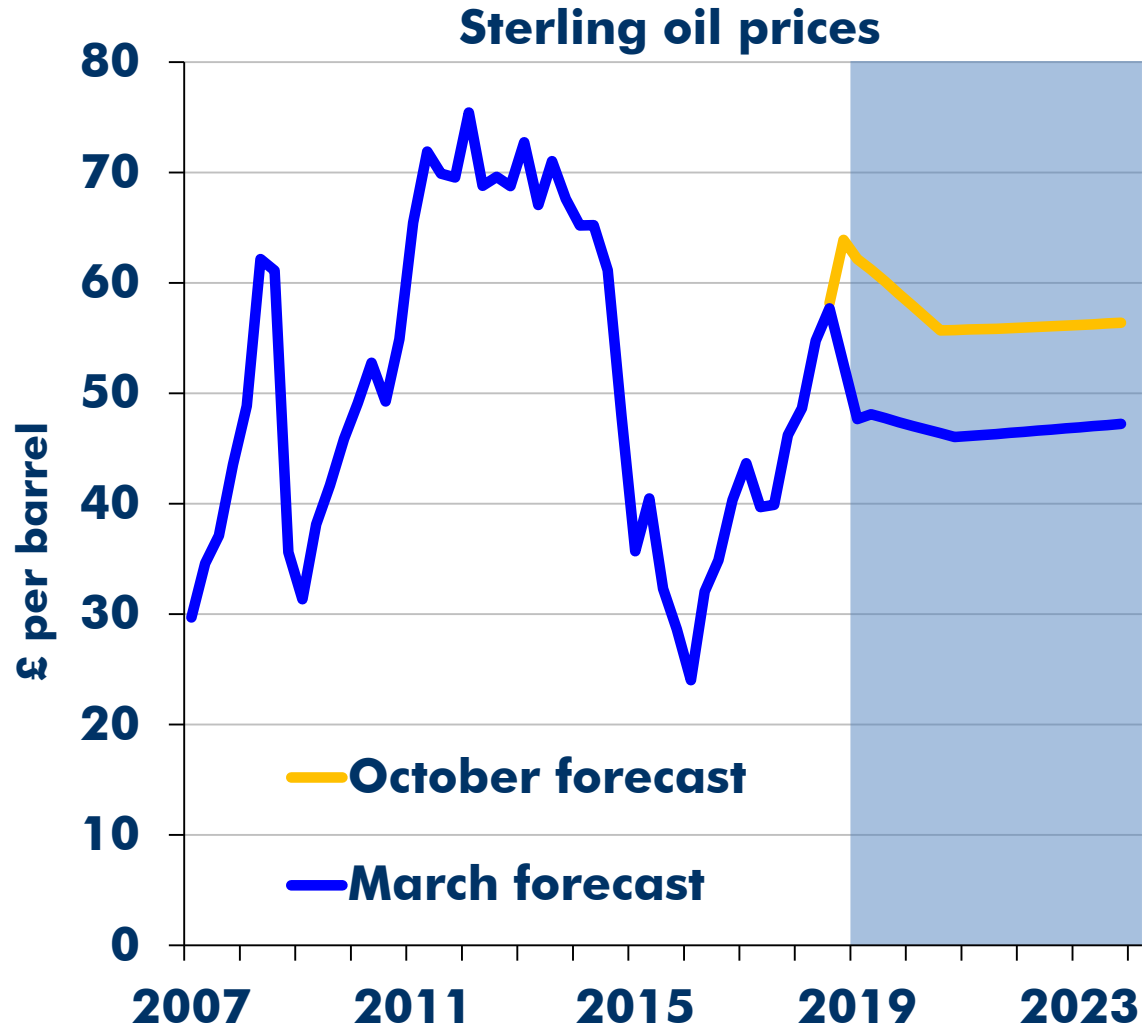


### 20- year Gilt yields

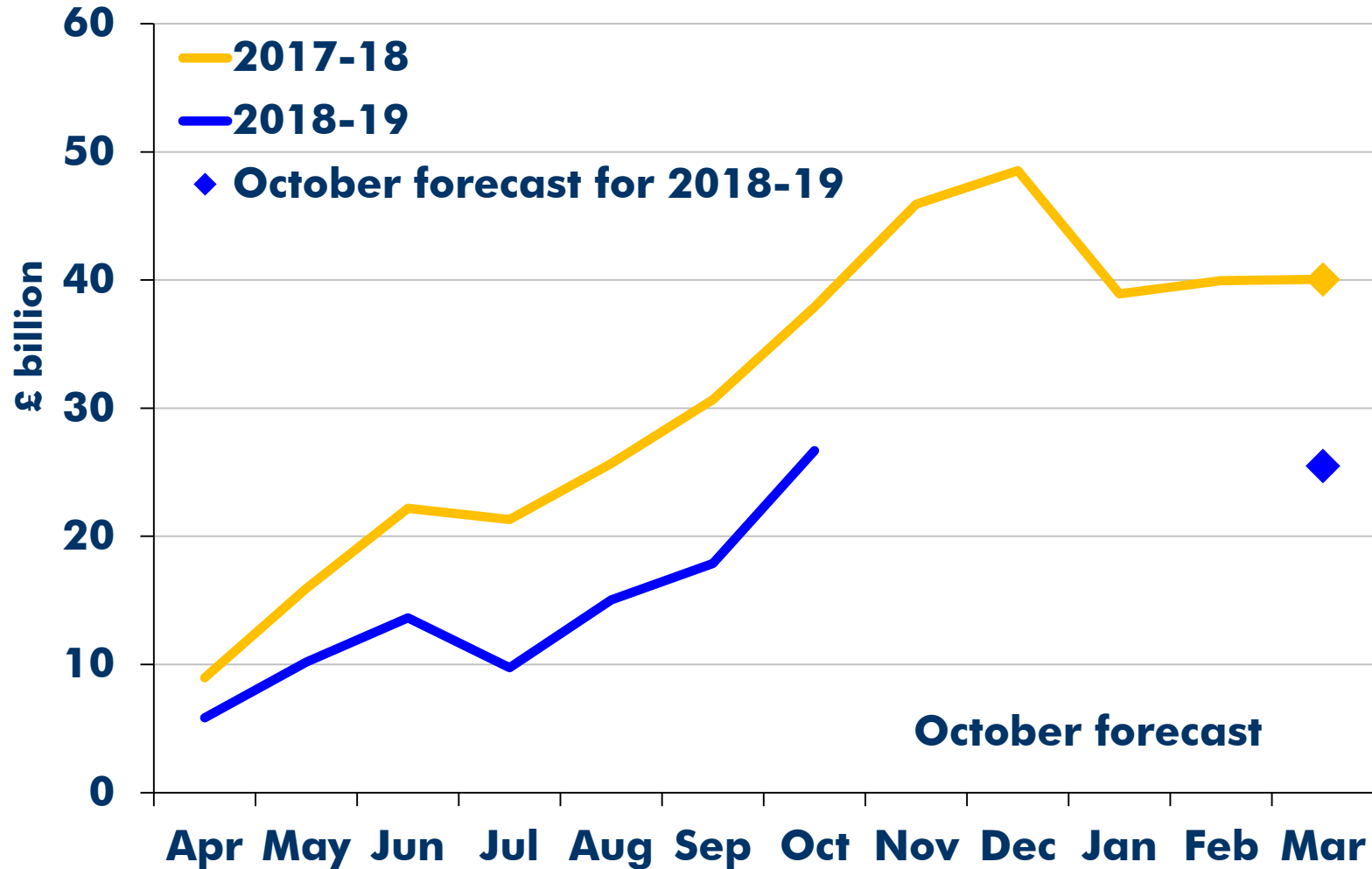




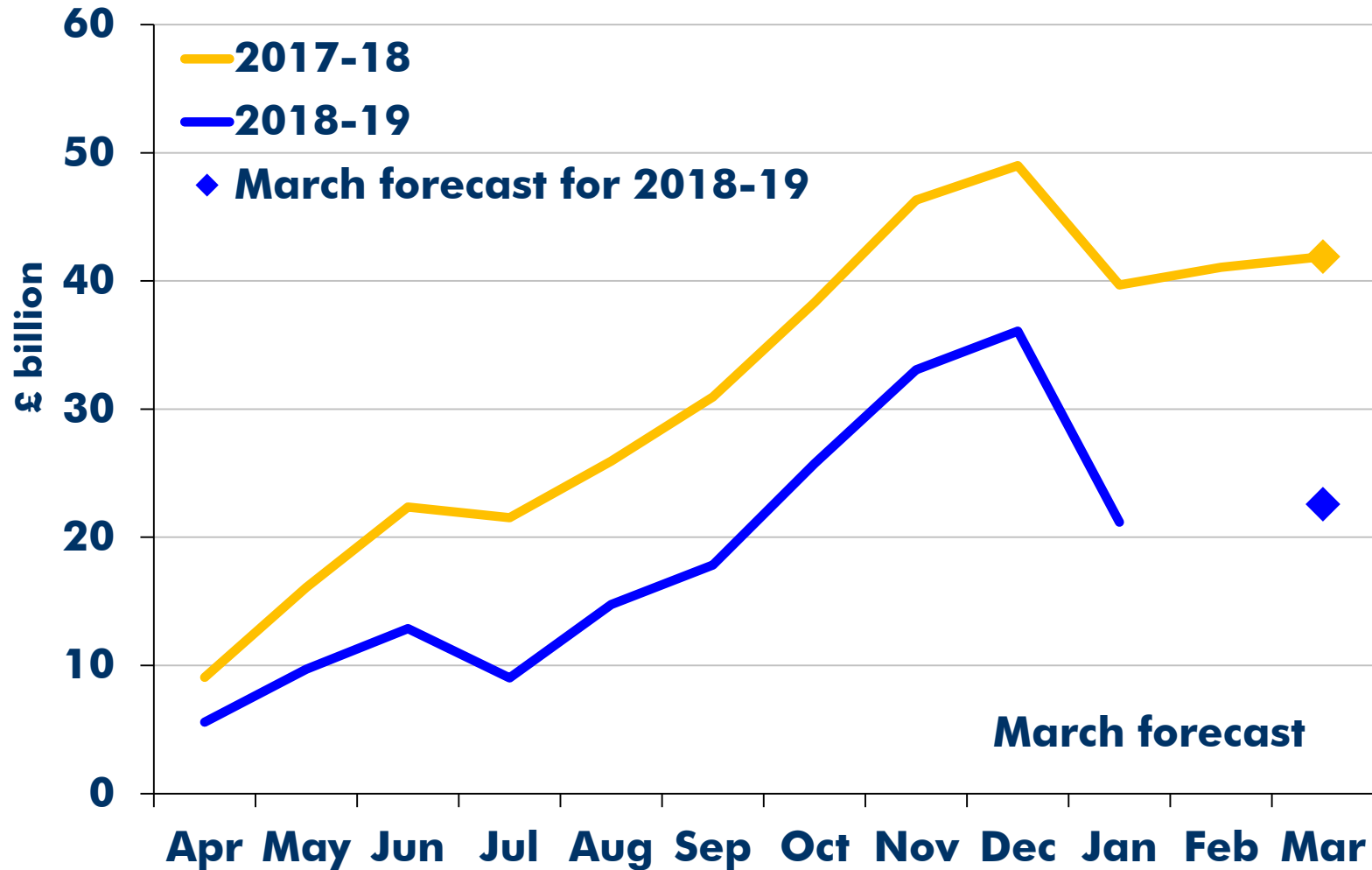
# Oil prices and inflation



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



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# The budget deficit: 2018-19 pre-measures

	£ billion
<b>October</b>	<b>25.5</b>
<b>March</b>	<b>22.6</b>
<b>Change</b>	<b>-2.9</b>
<i>Of which:</i>	
Income tax and NICs	-3.0
Capital taxes	-0.6
Onshore corporation tax	+1.2
Other taxes	+0.8
Debt interest	-2.7
Departmental spending	-0.8
Local authority spending	0.8
Other spending	1.4

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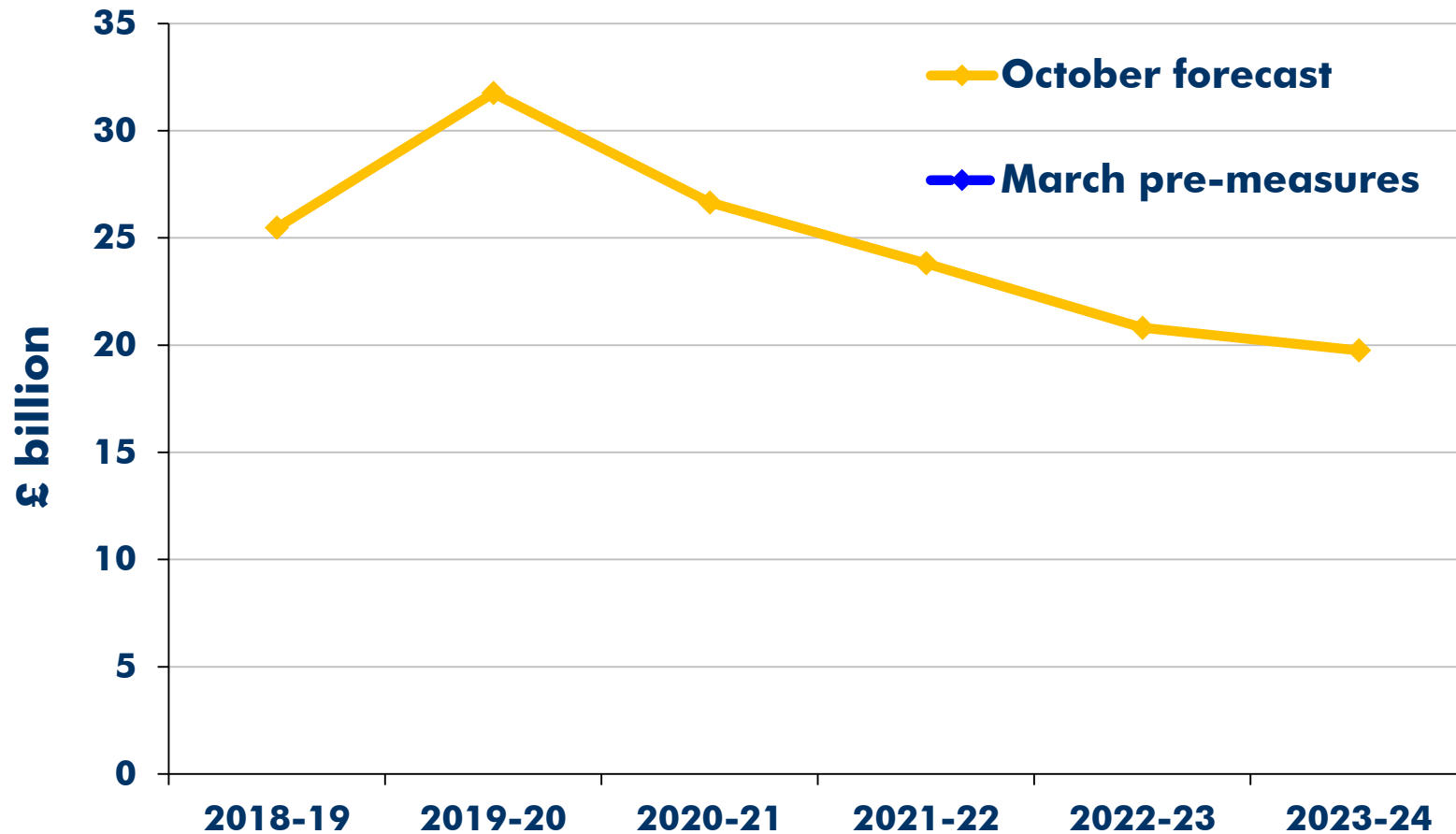
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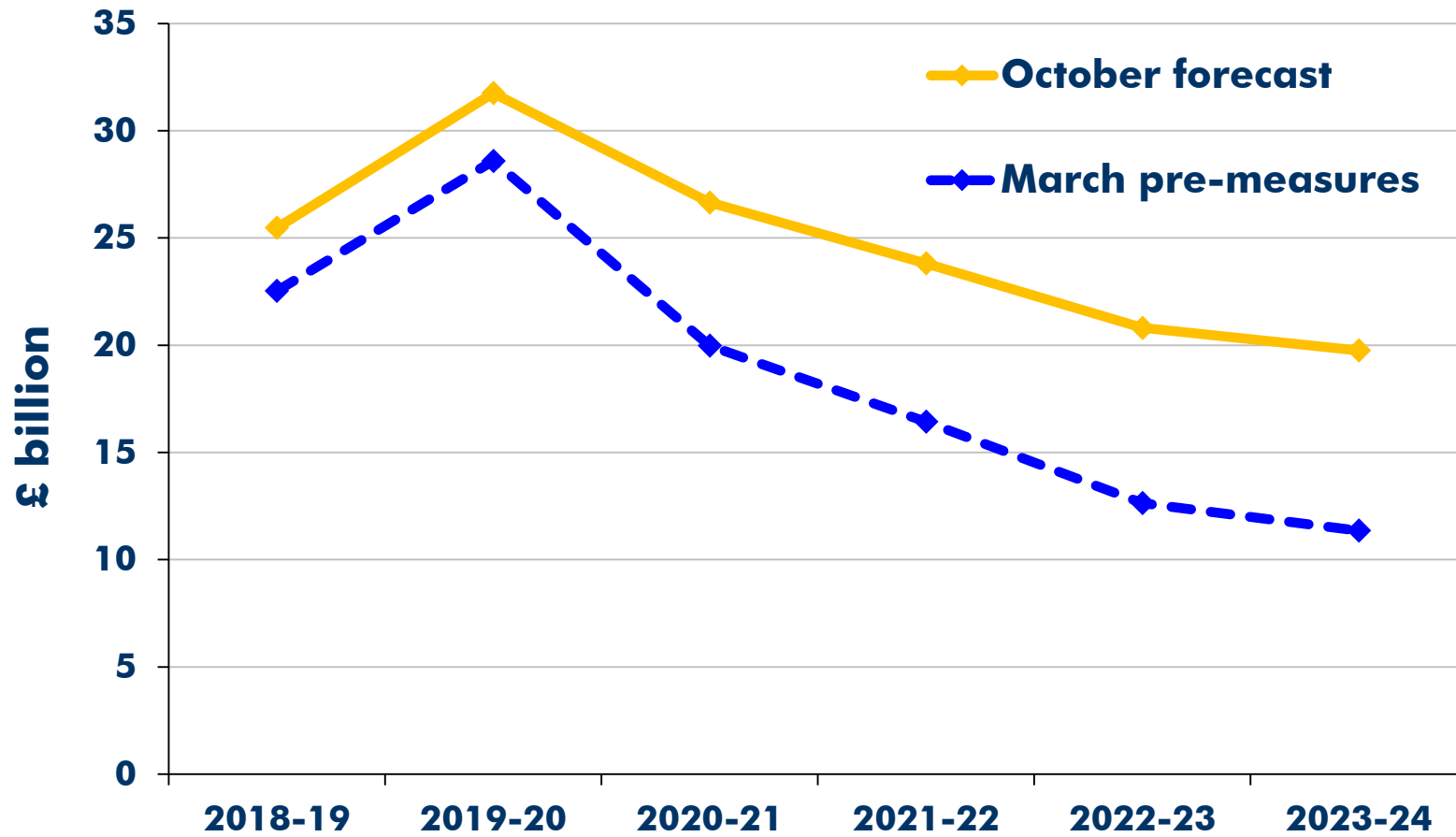
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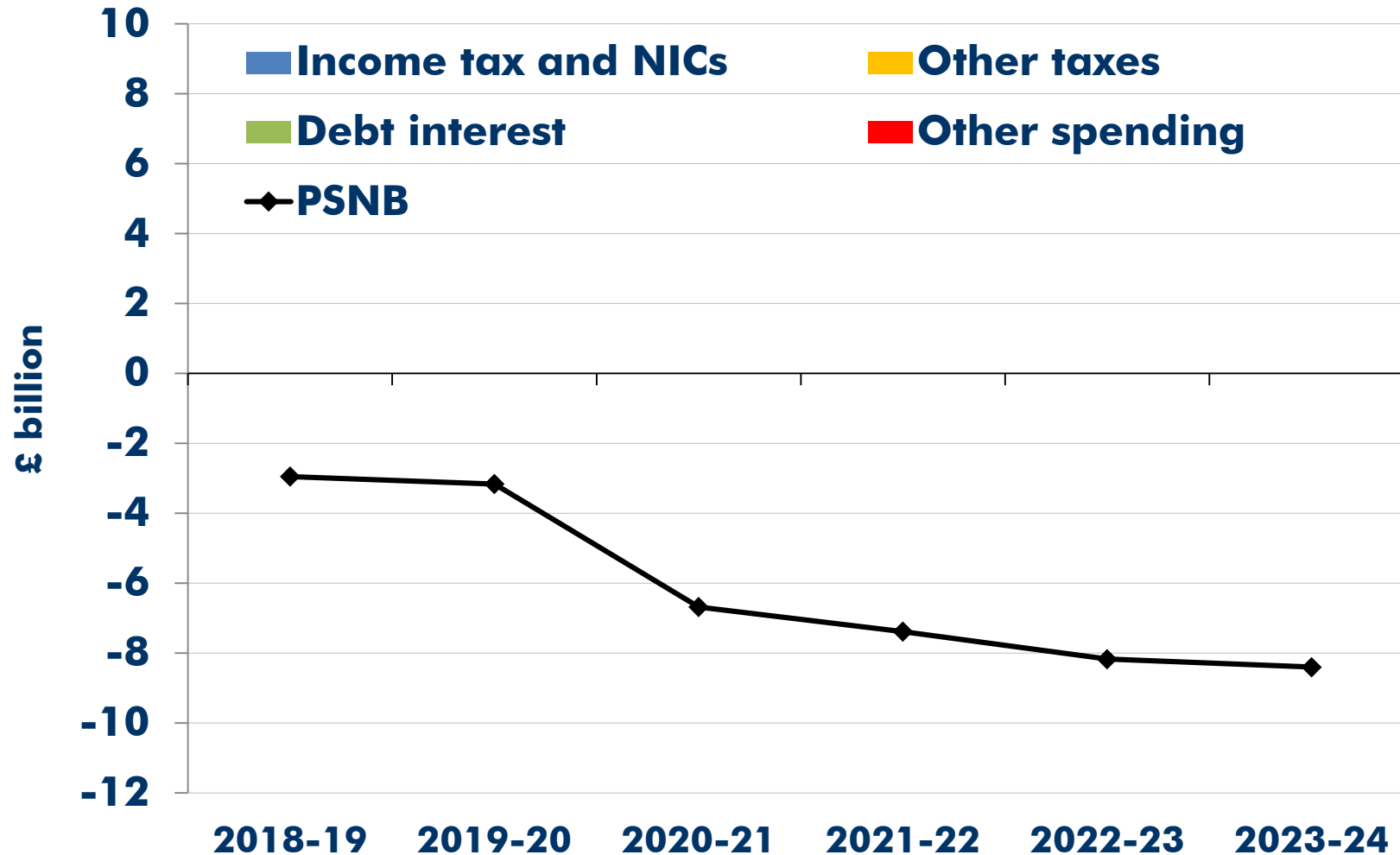




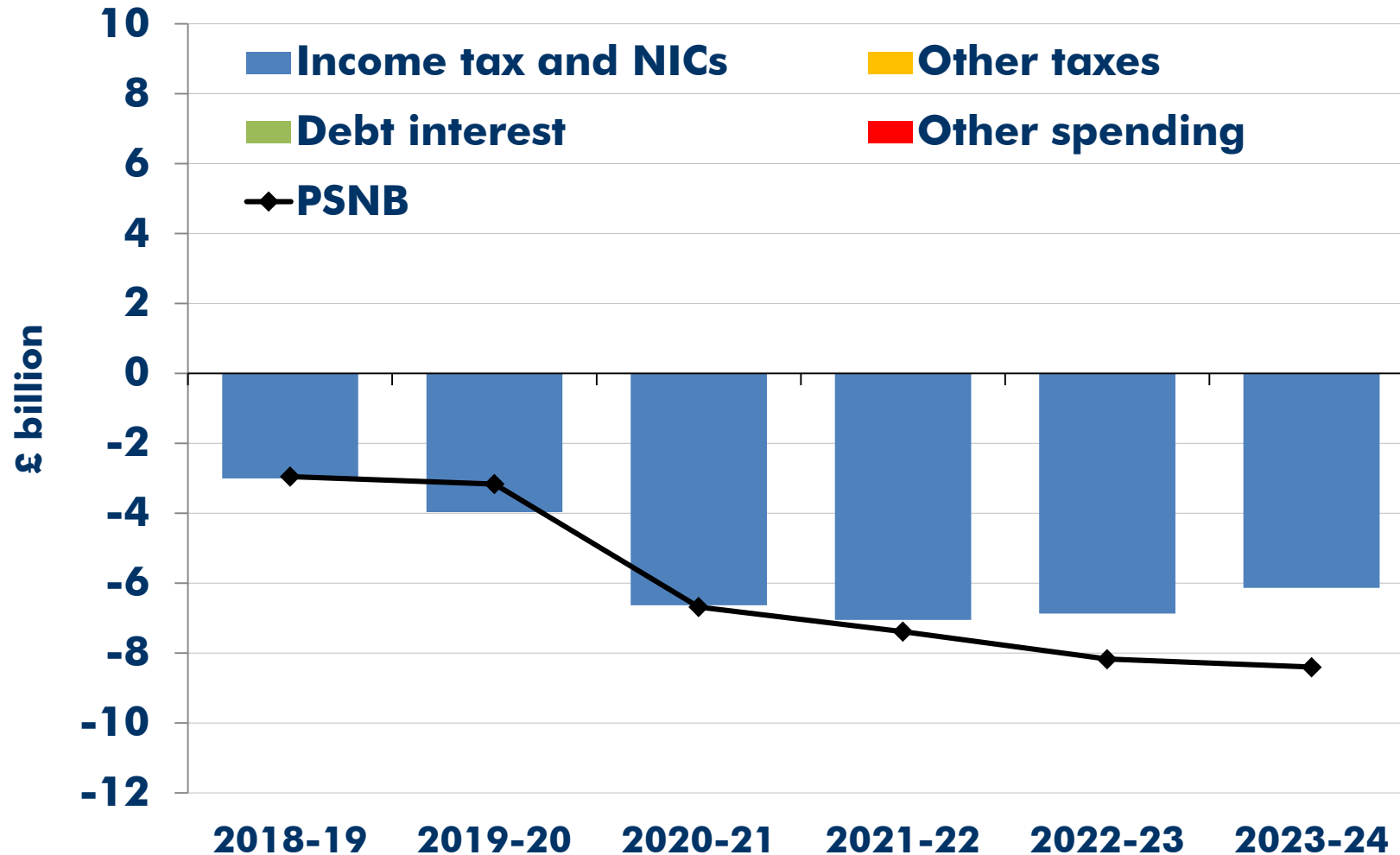
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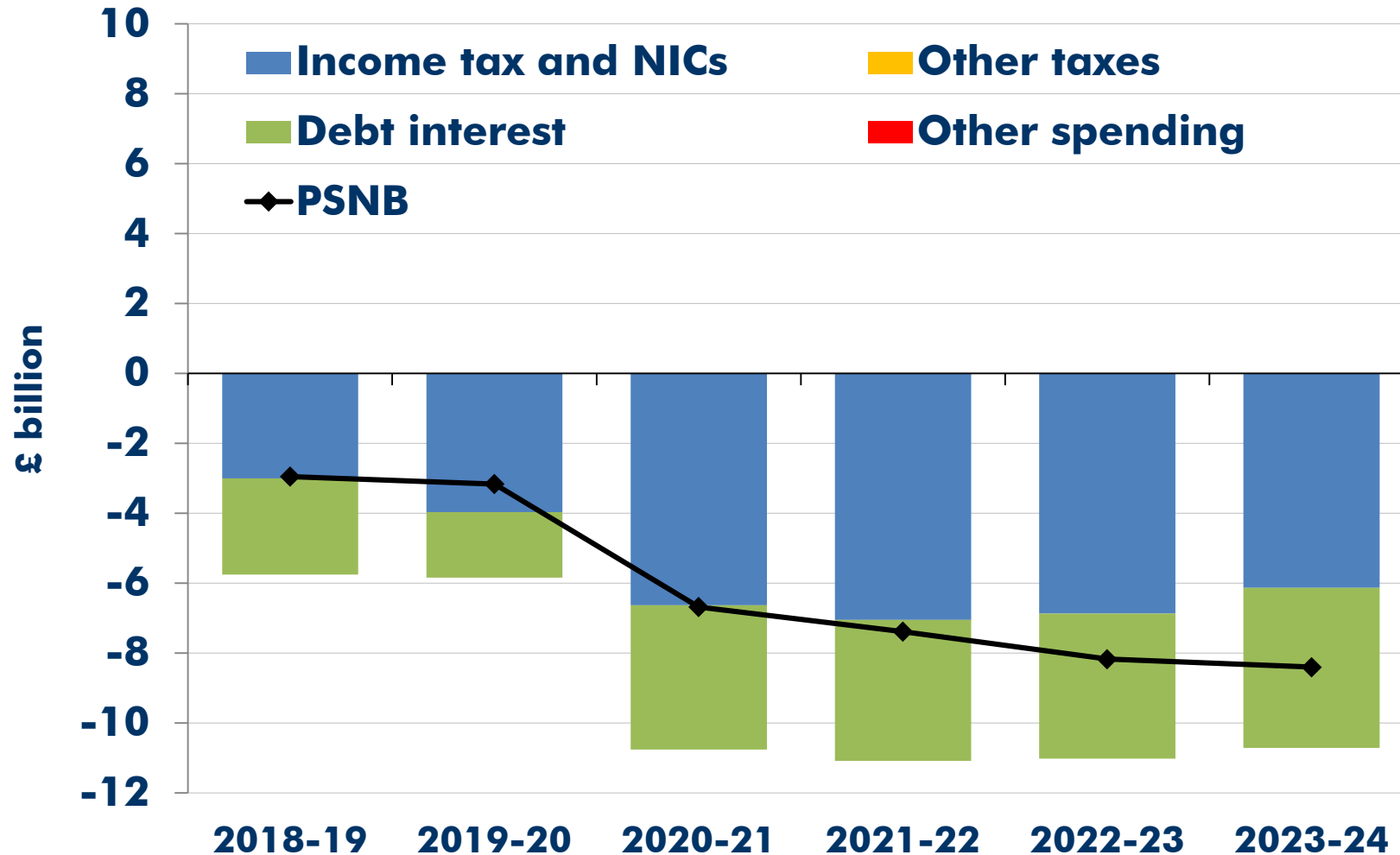
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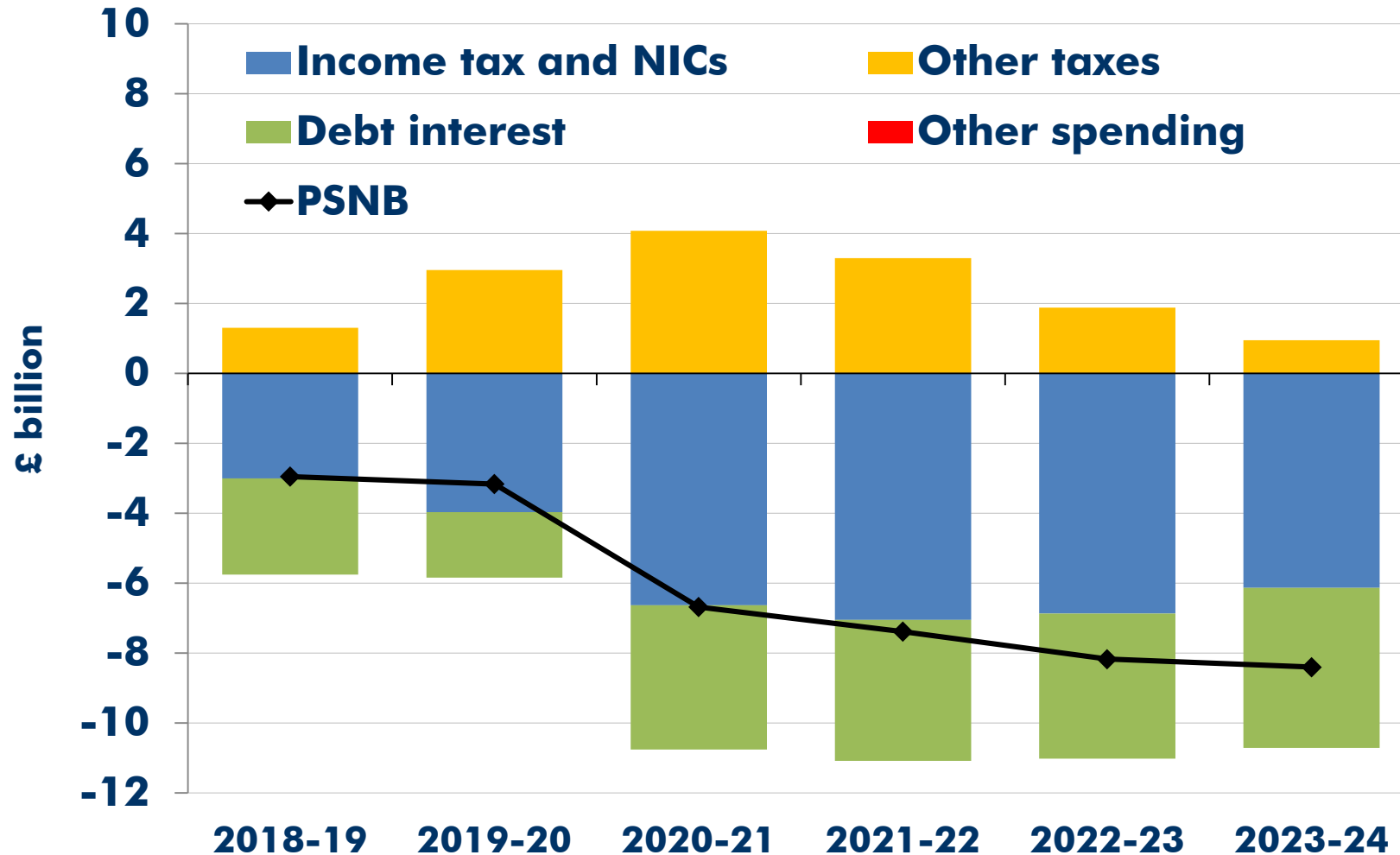
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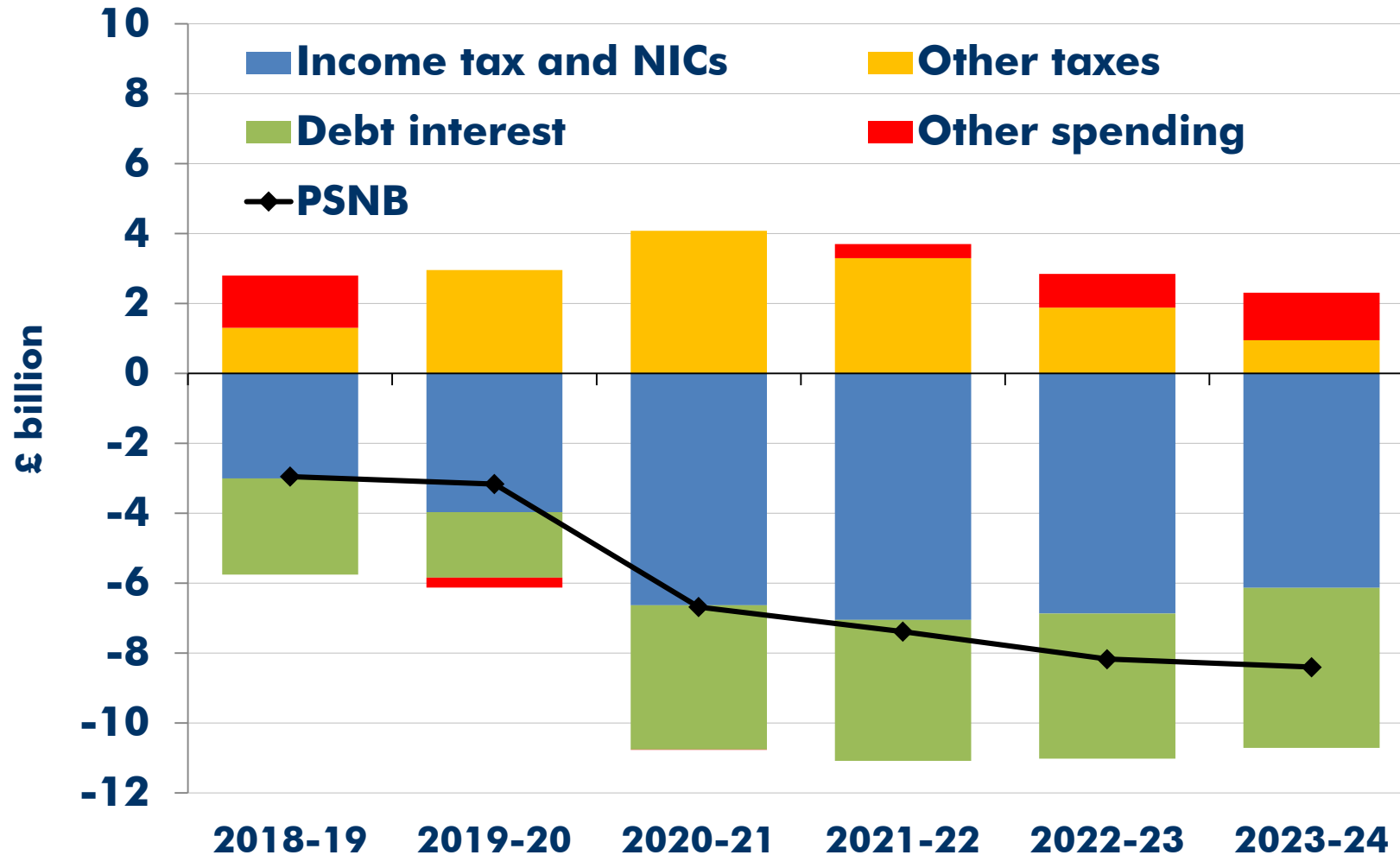
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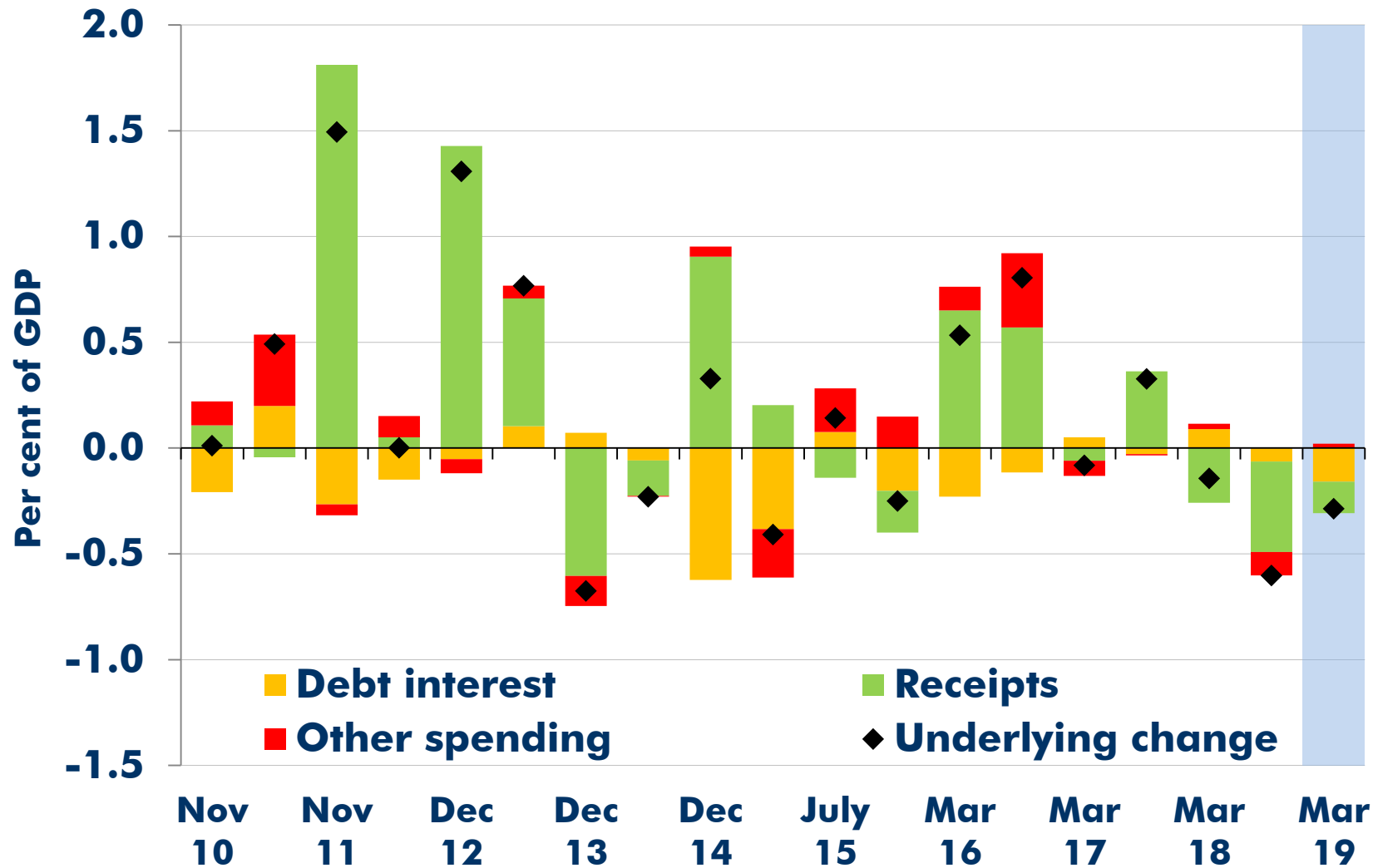
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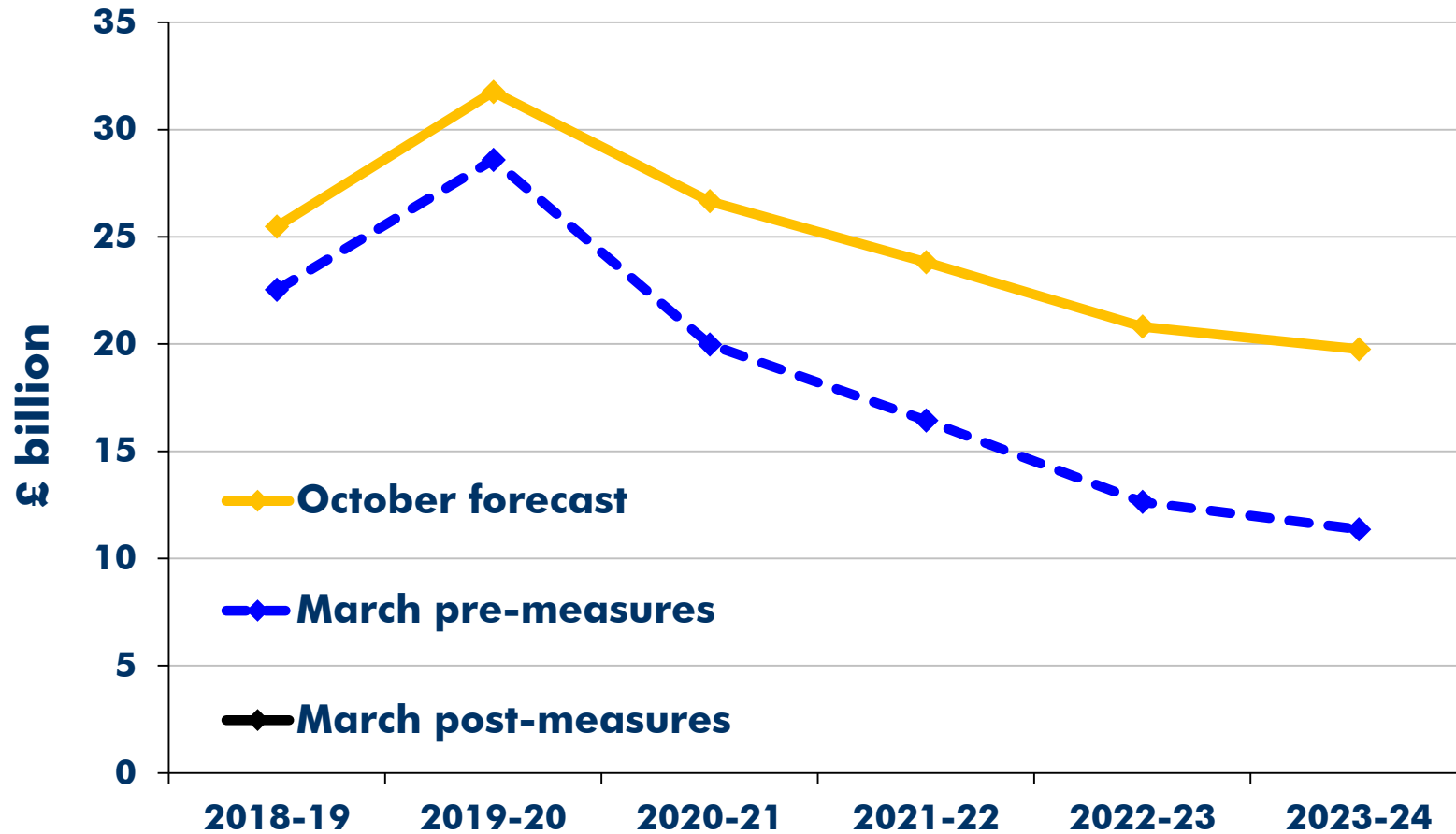
# Revisions to the budget deficit forecast



# Pre-measures deficit revisions since 2010

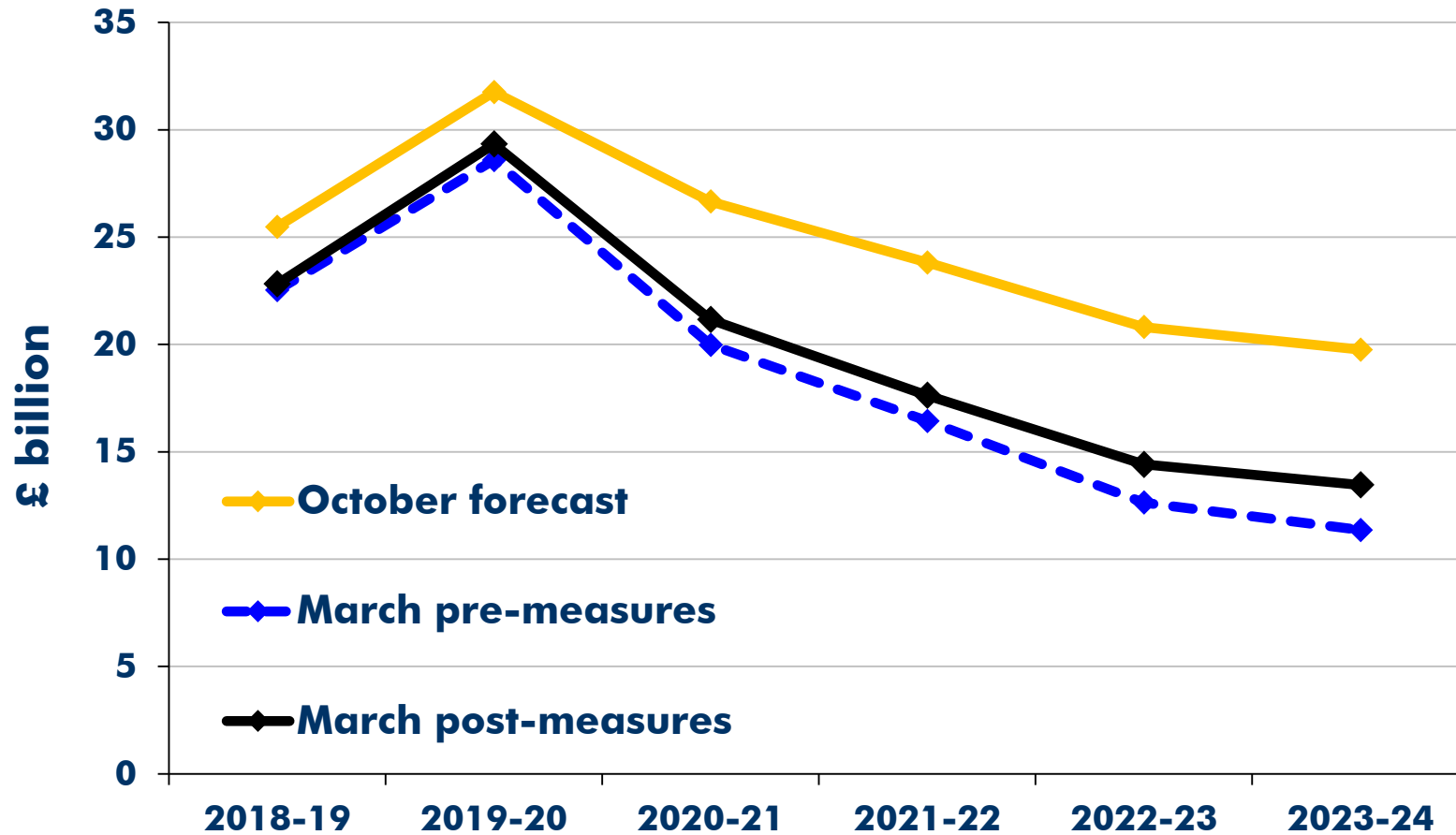


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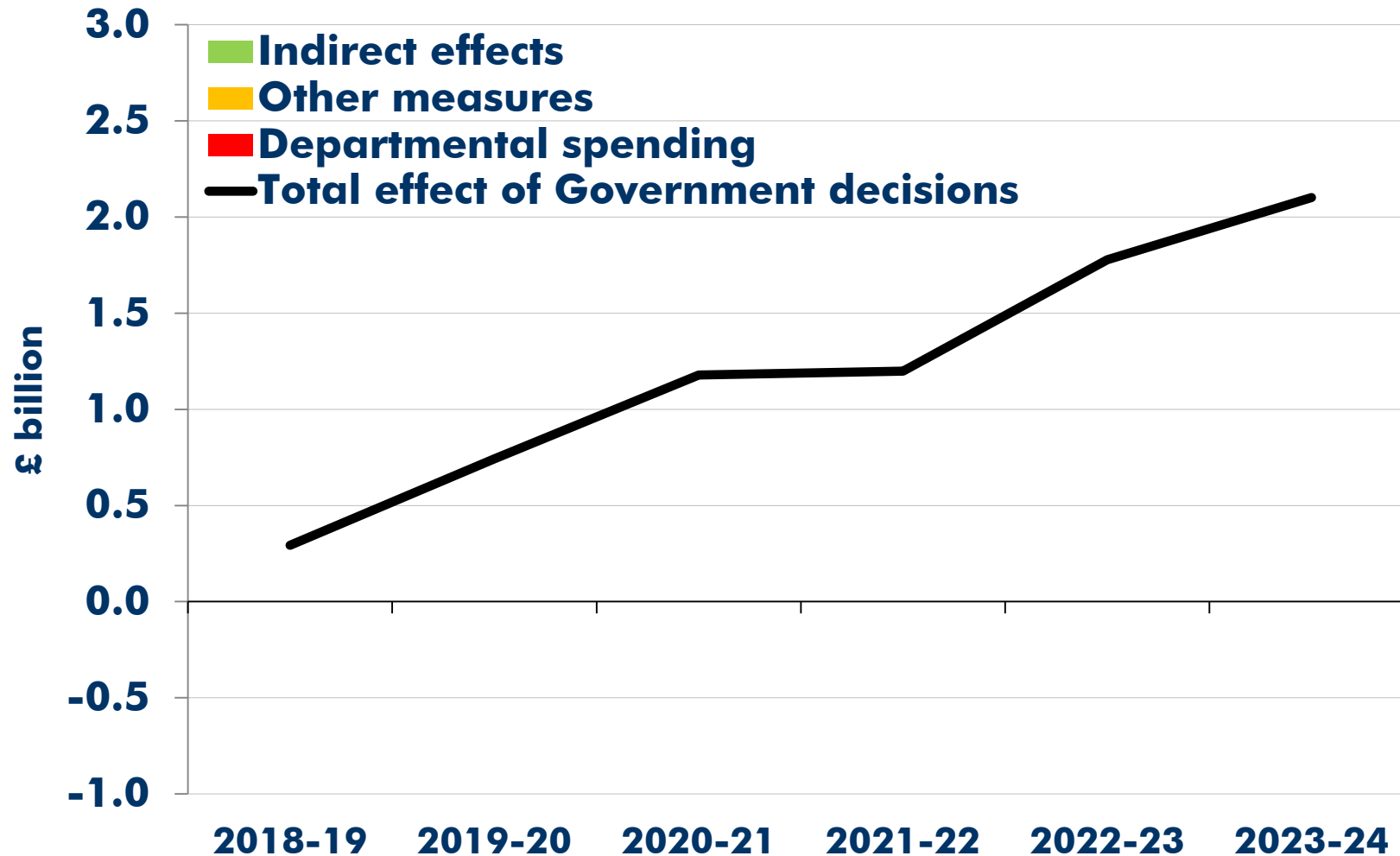




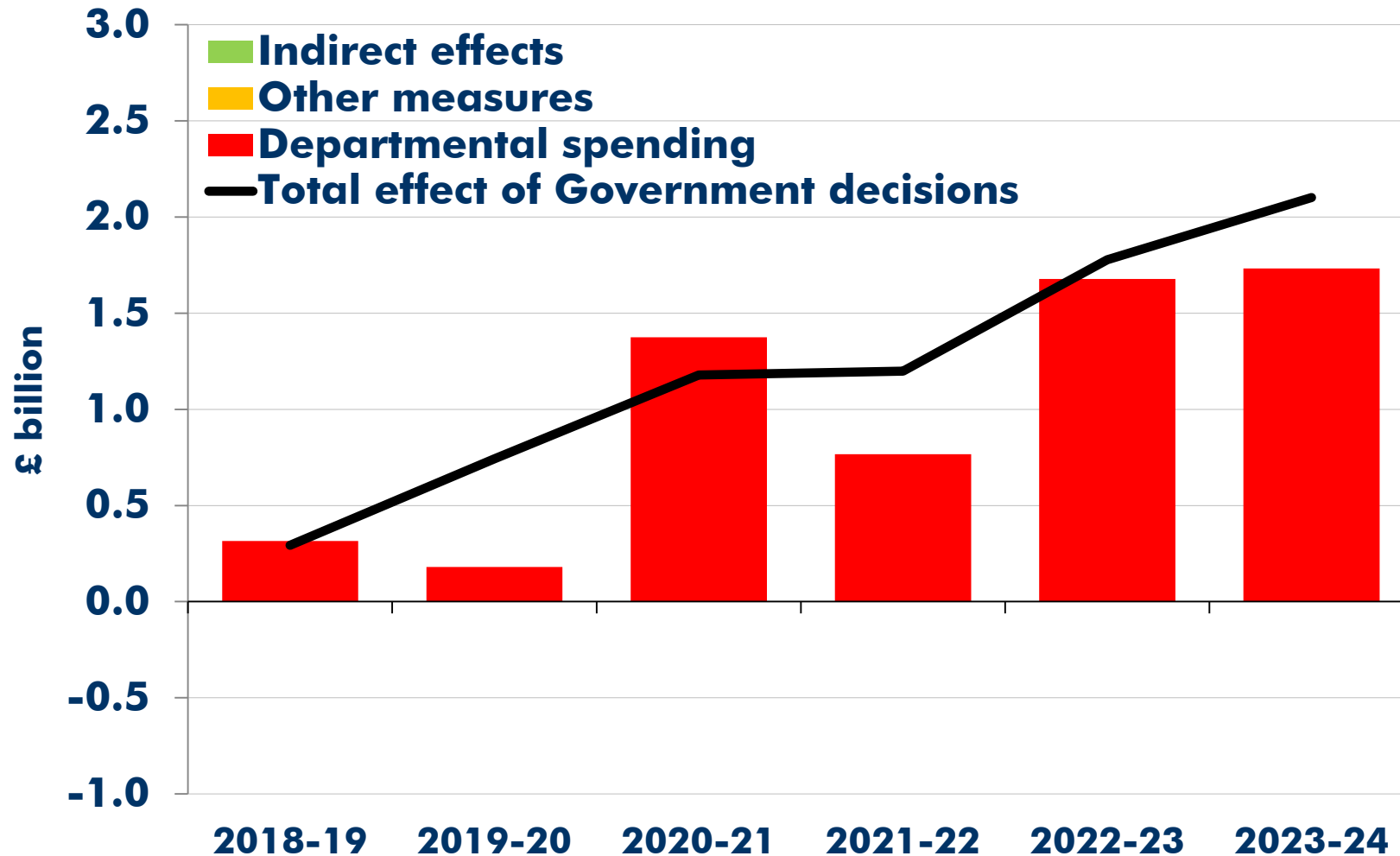
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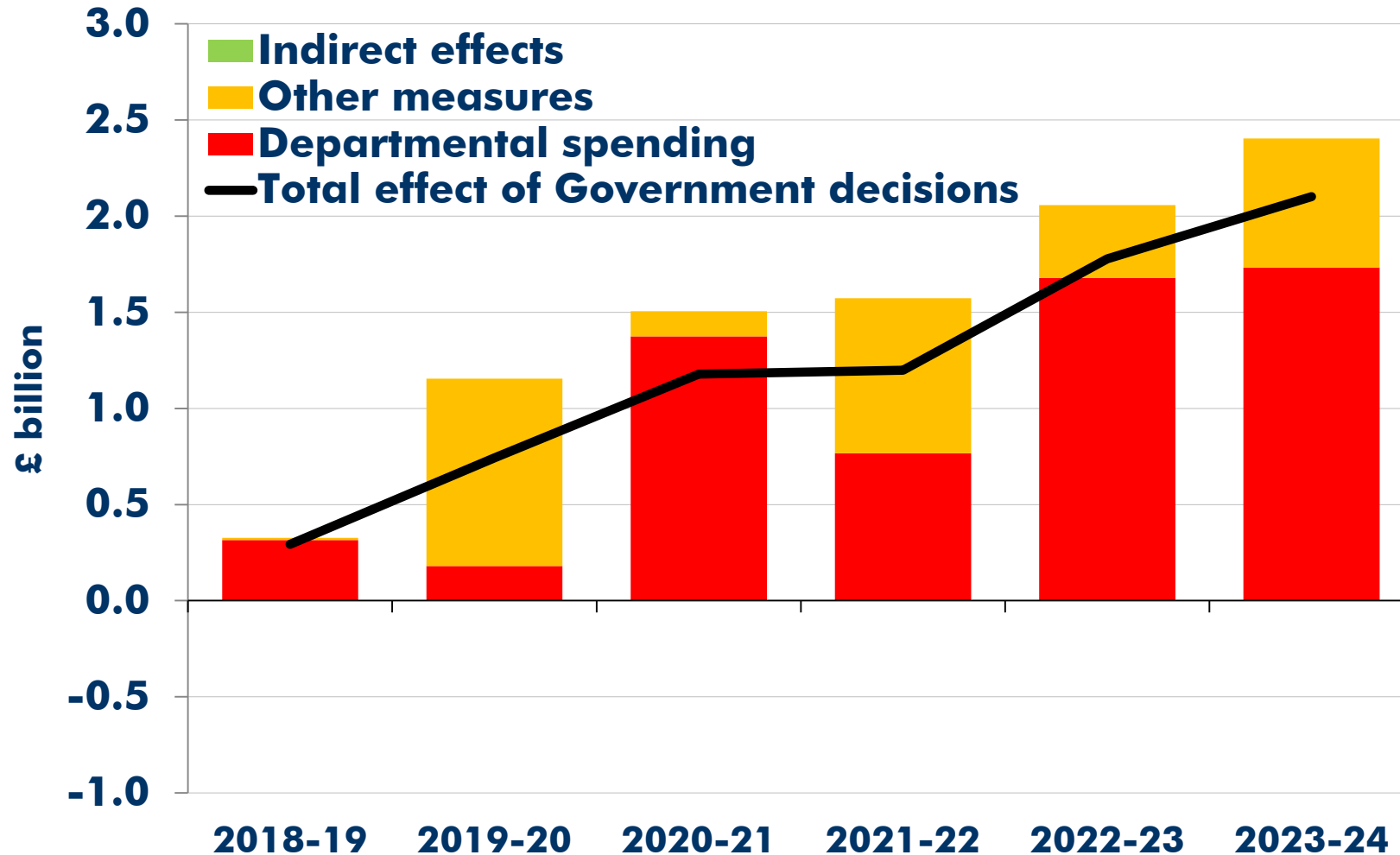
# The impact of policy measures on the deficit



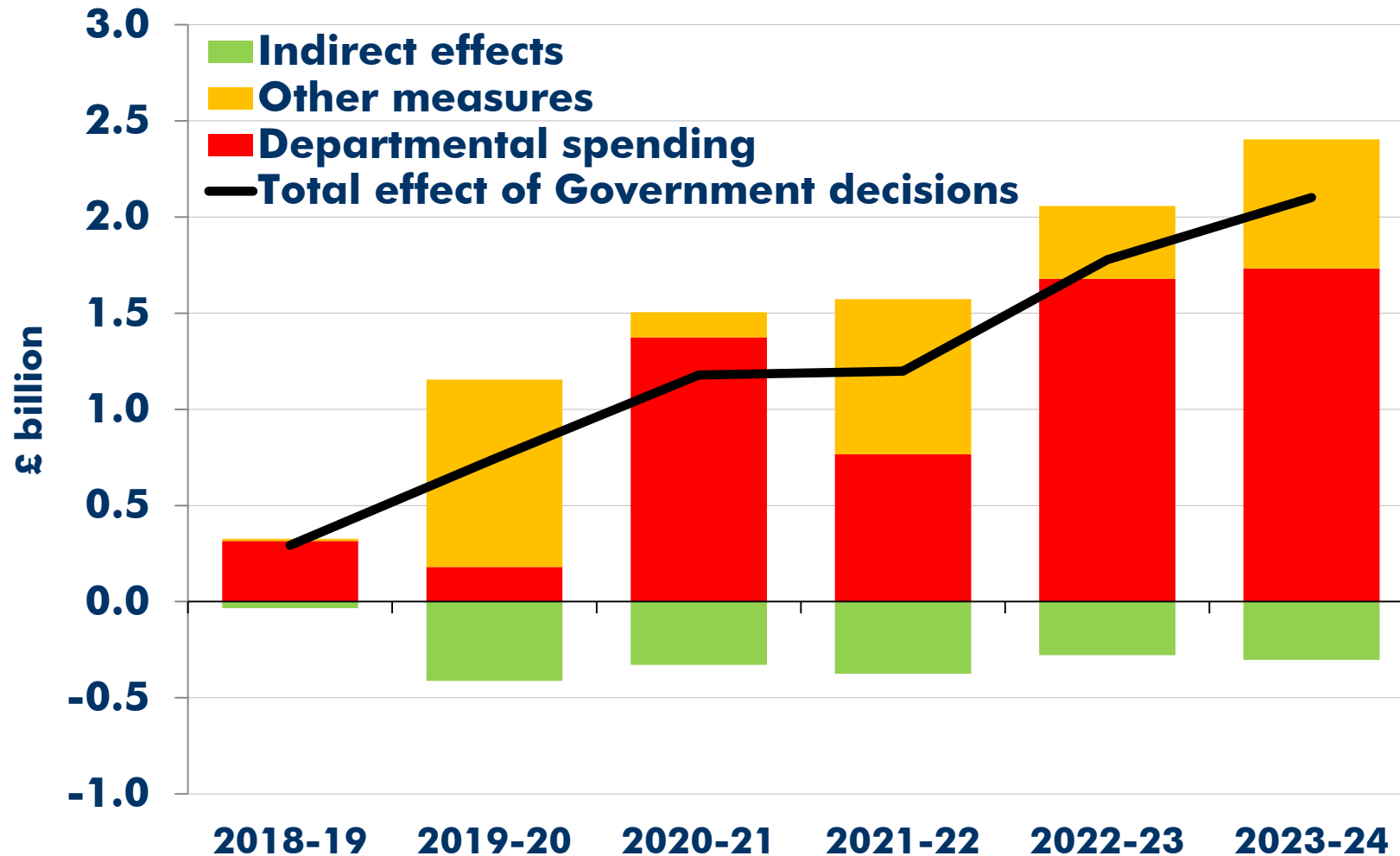
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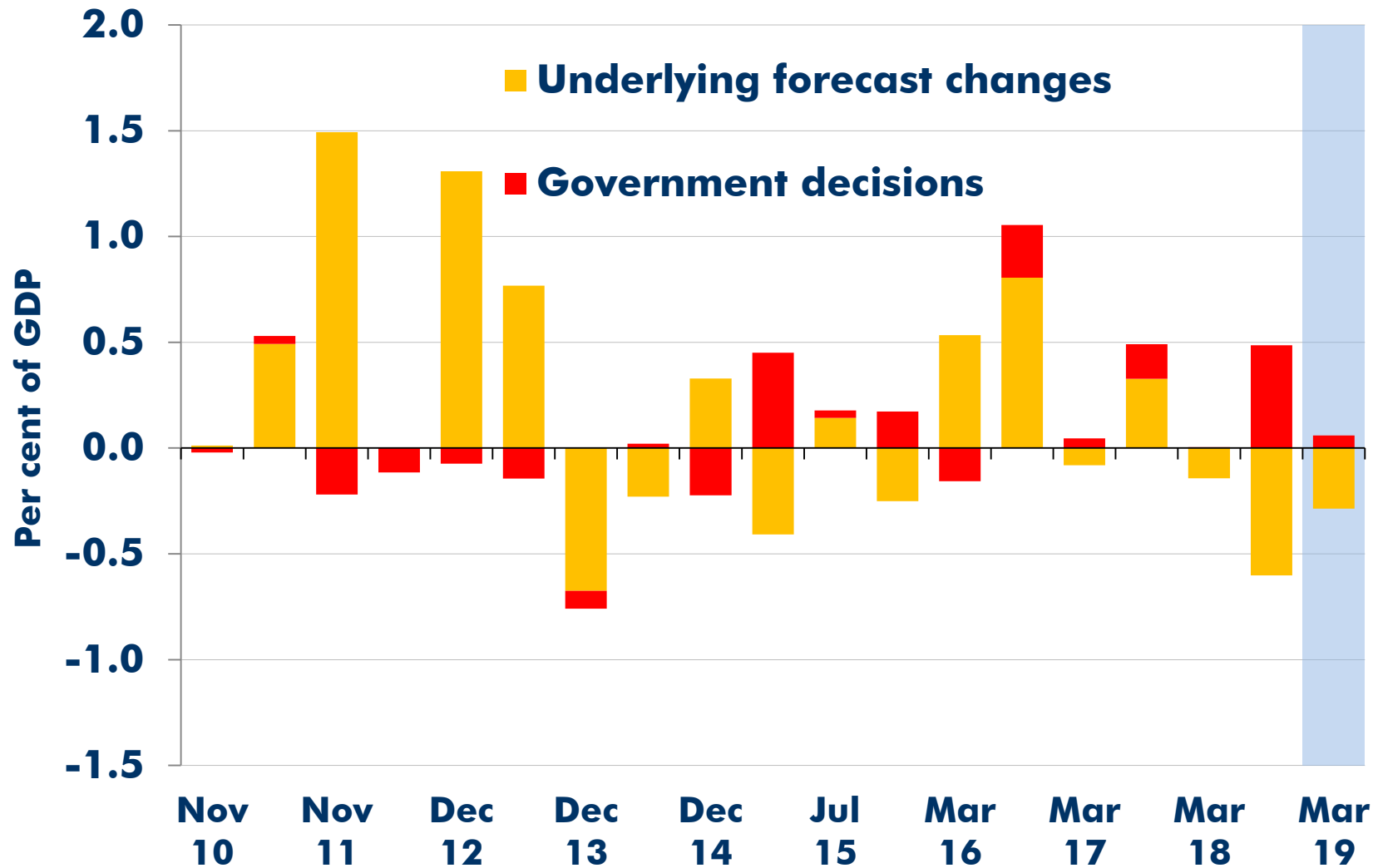
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# Forecast changes and policy changes



# The Government's targets

**Fiscal mandate:**  
structural deficit below 2% of GDP in 2020-21

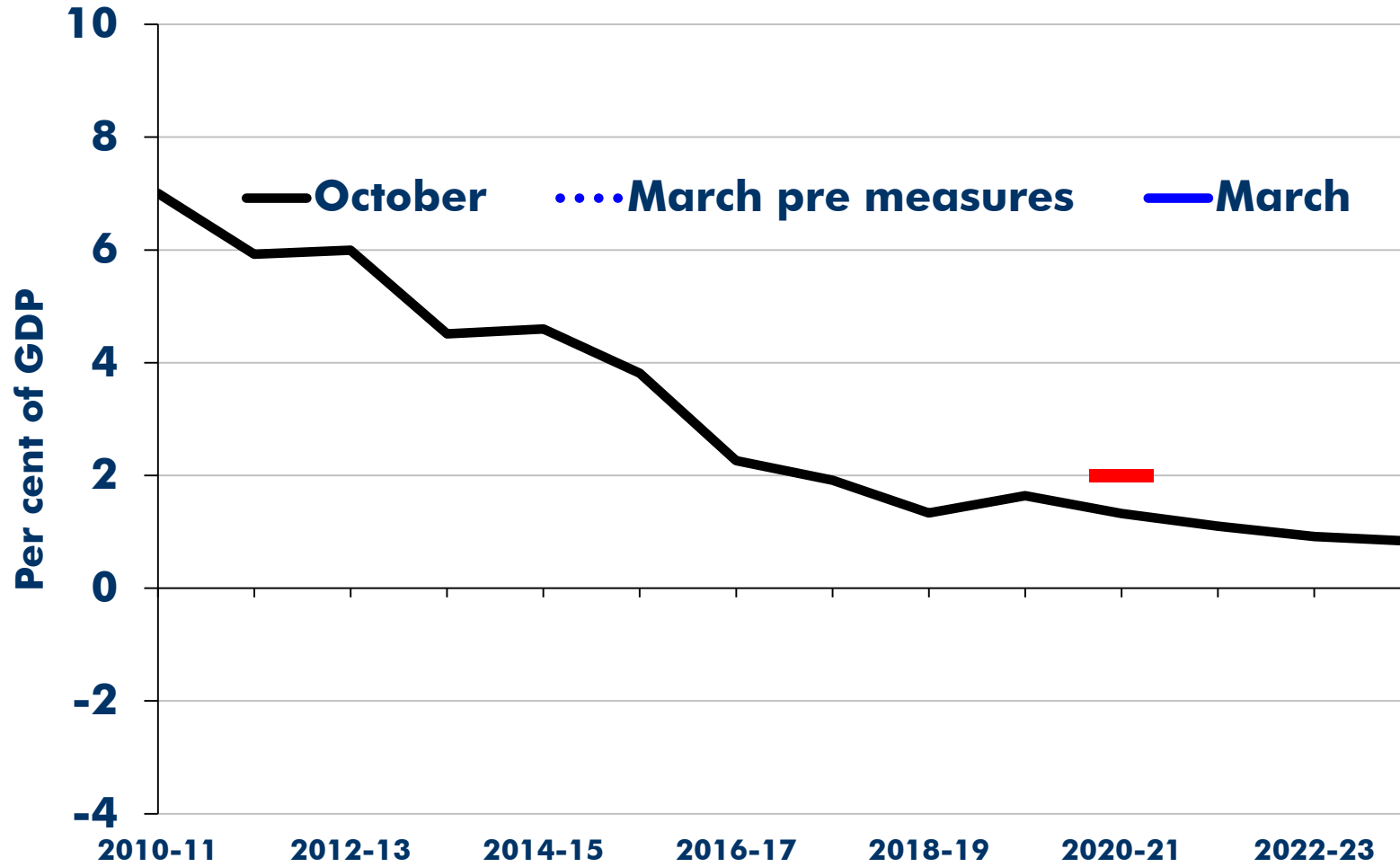
**Supplementary target:**  
debt falls as % GDP in 2020-21

**Welfare cap:**  
spending below cash limit in 2022-23

**Fiscal objective:**  
balance budget by middle of next decade

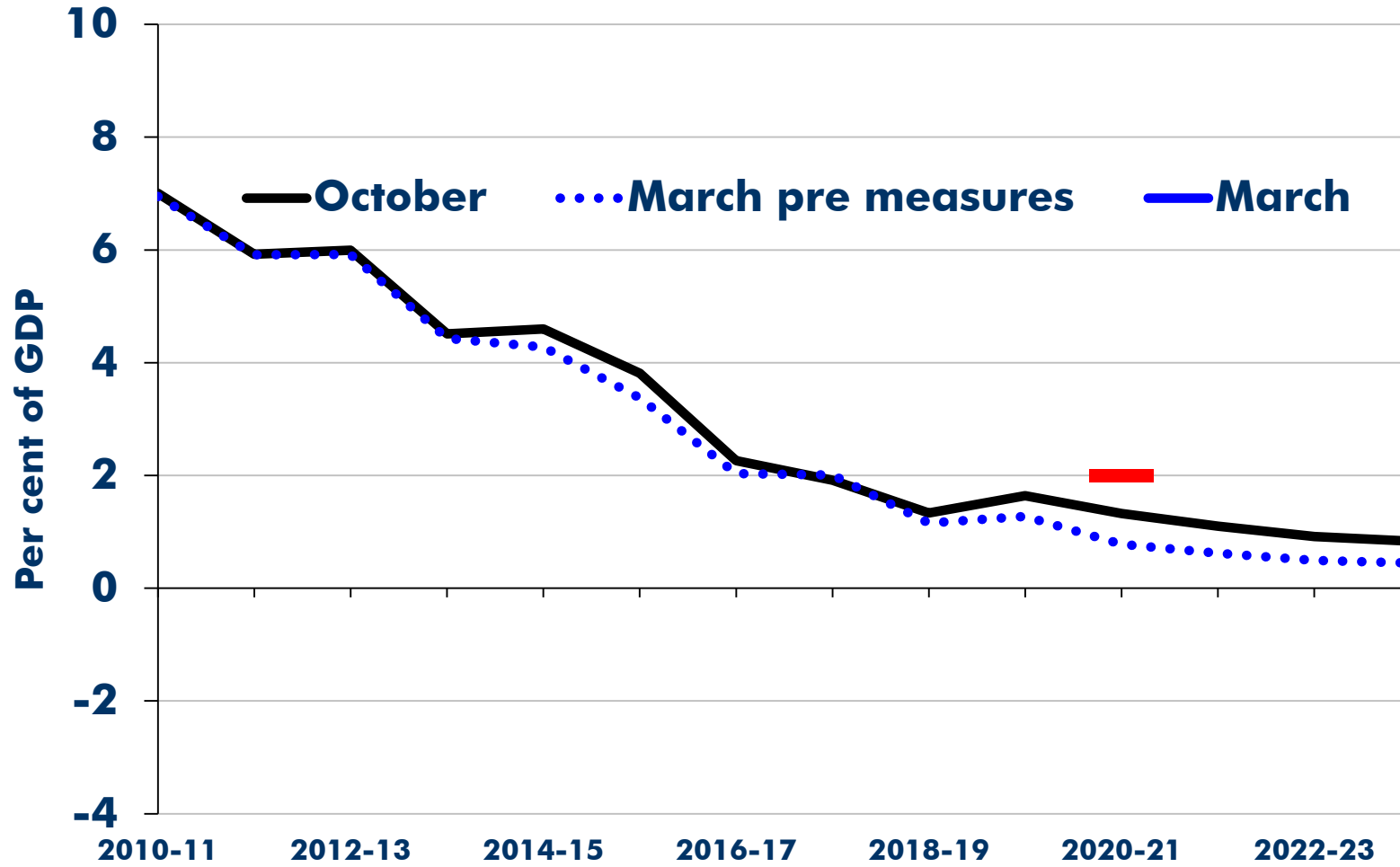


# The fiscal mandate

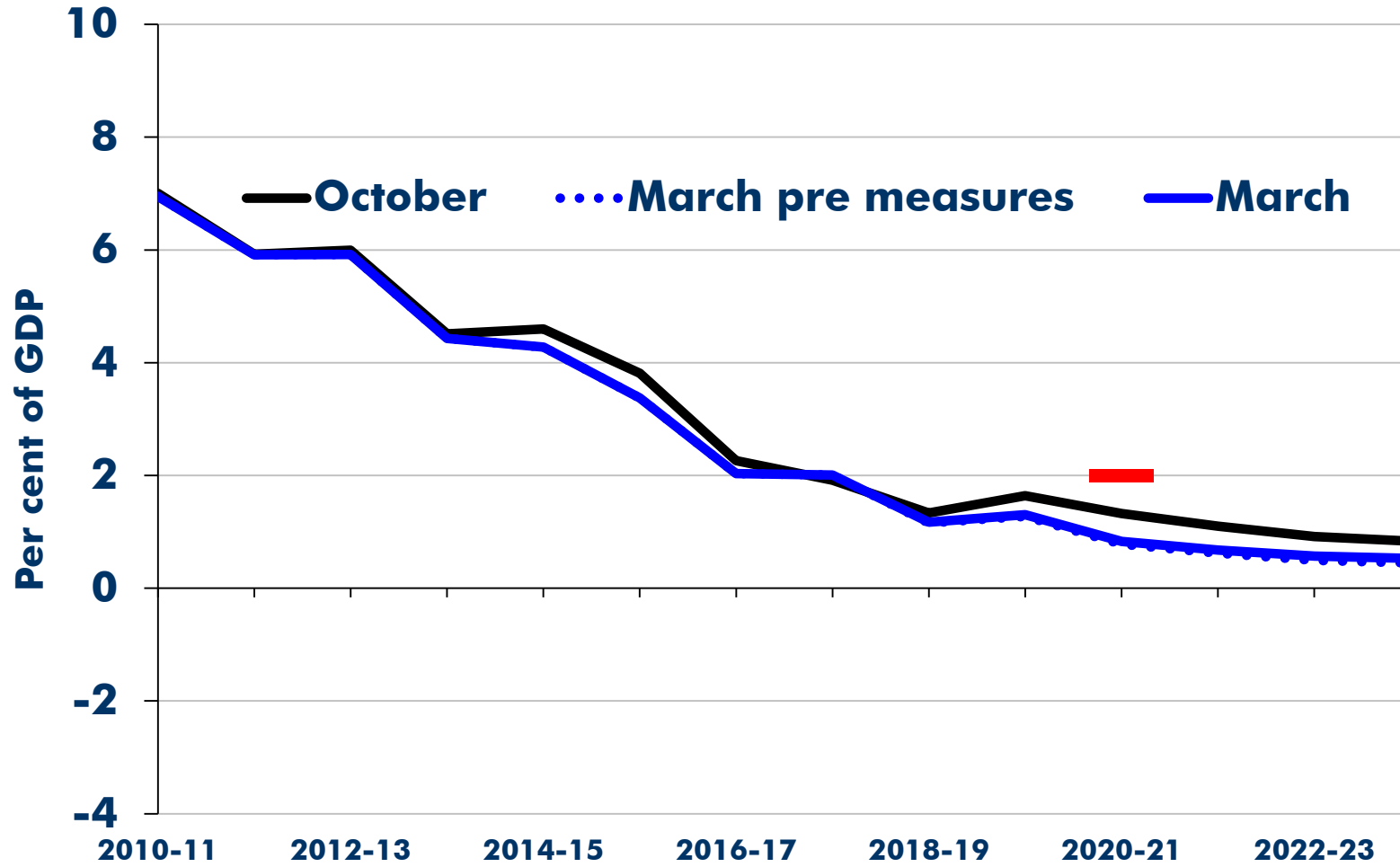




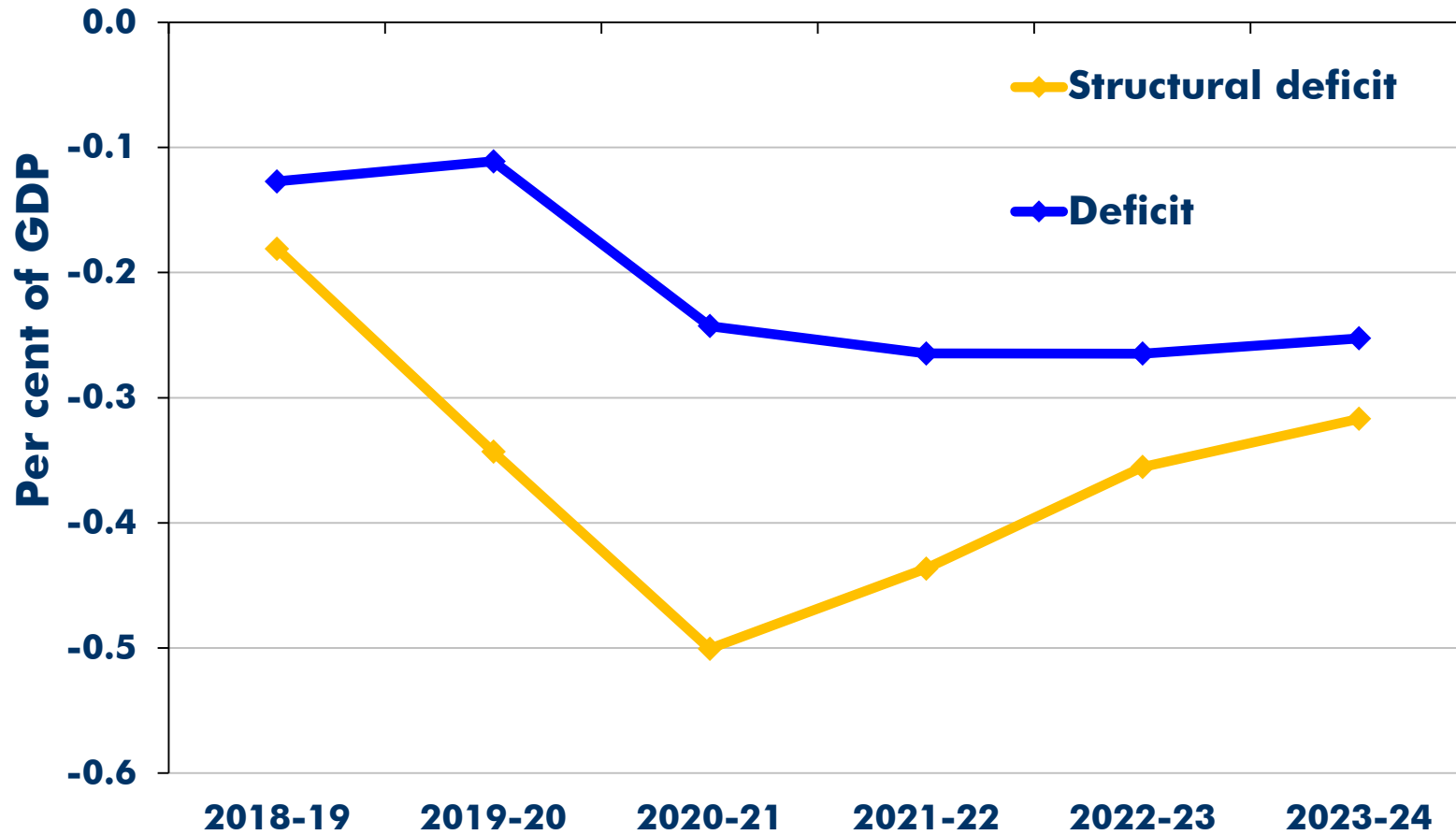
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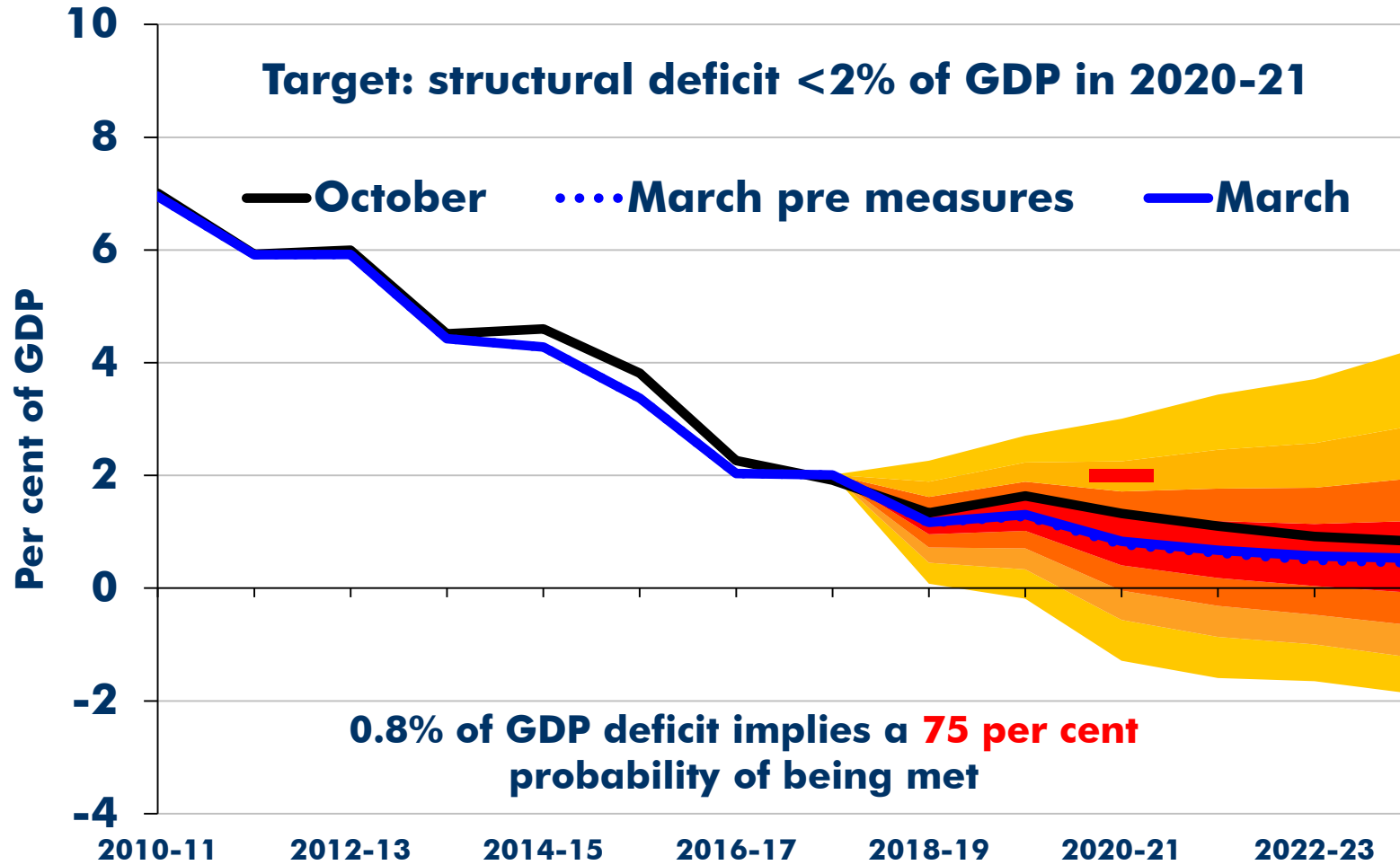
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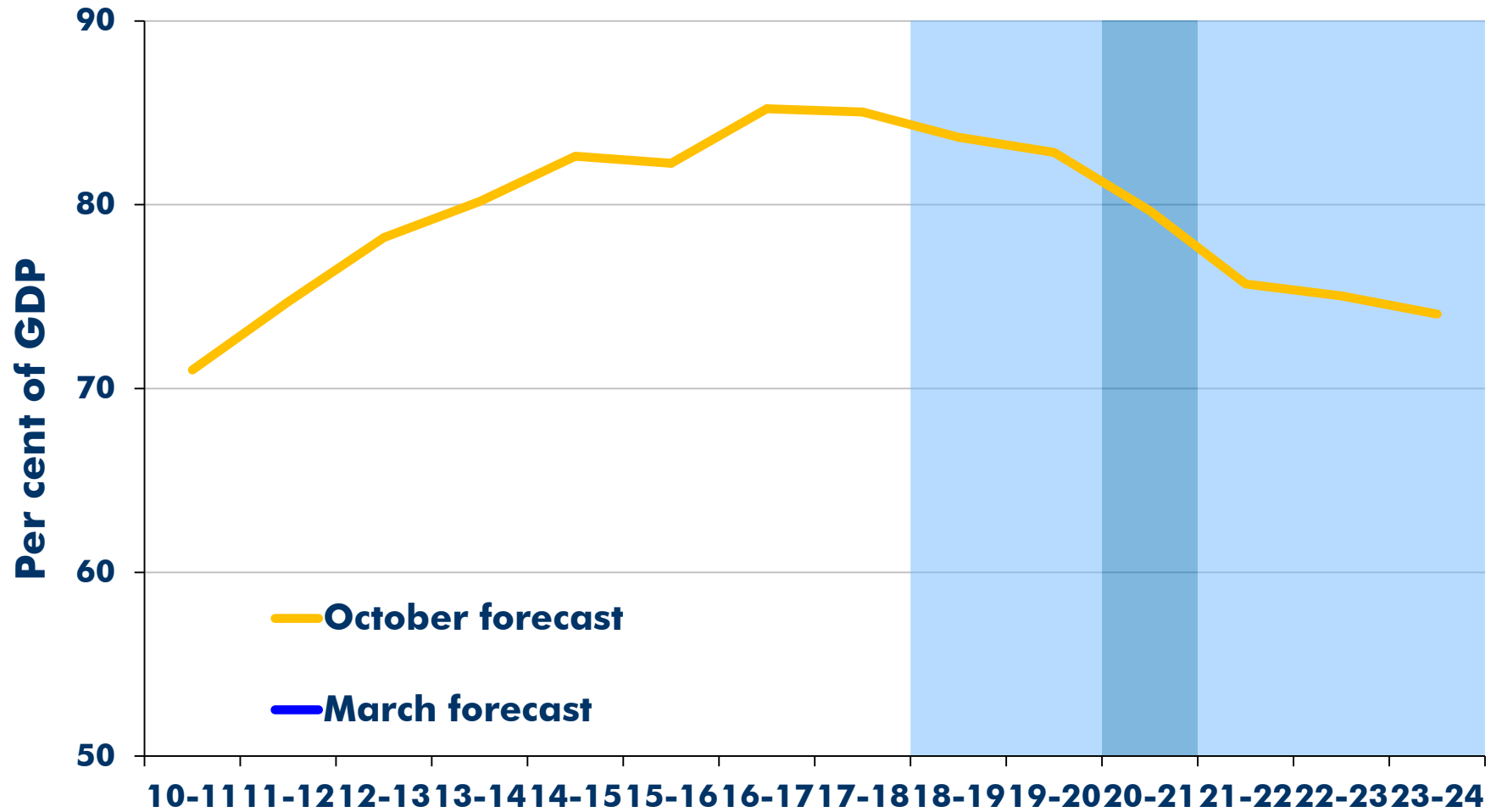
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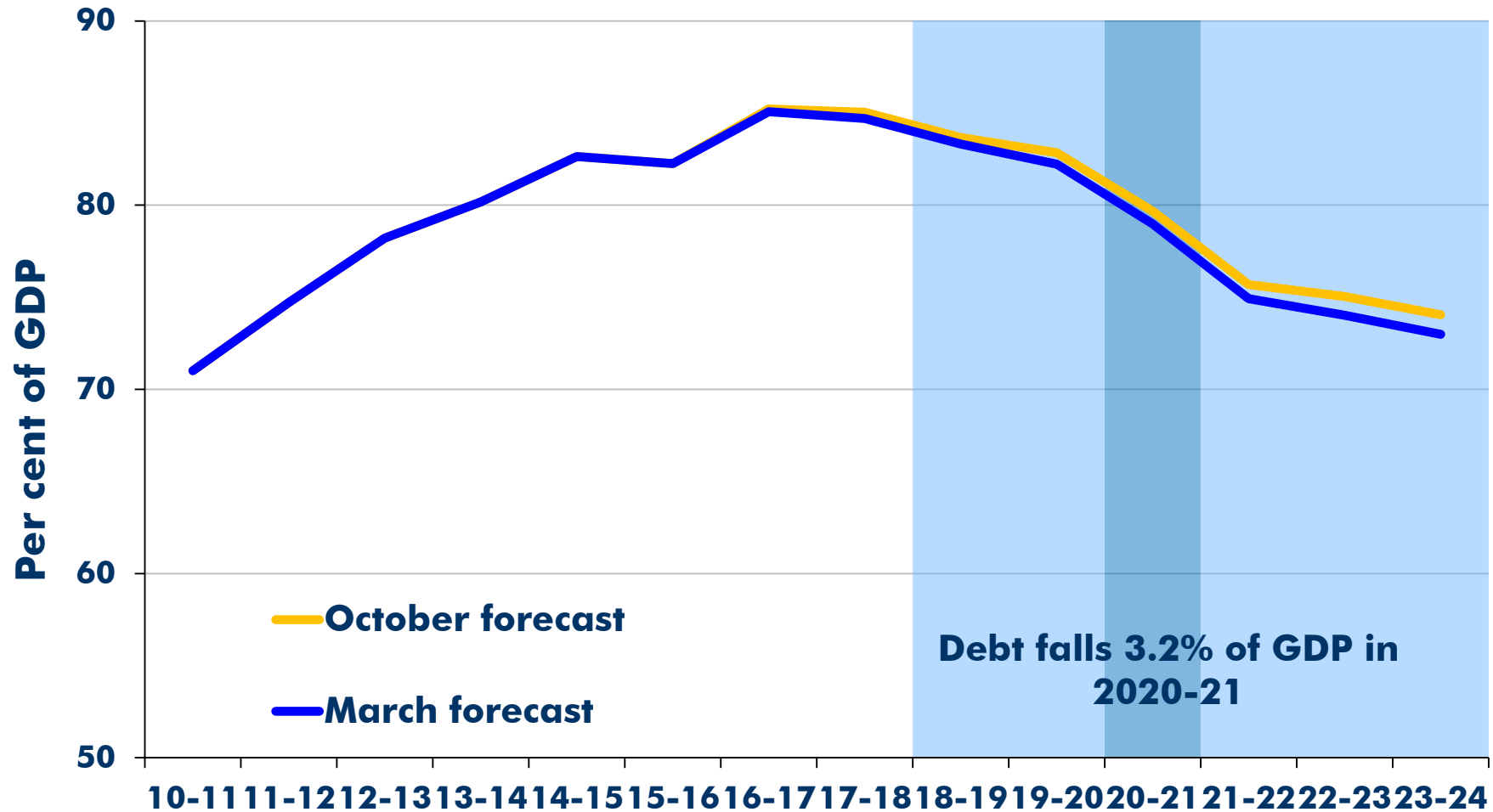
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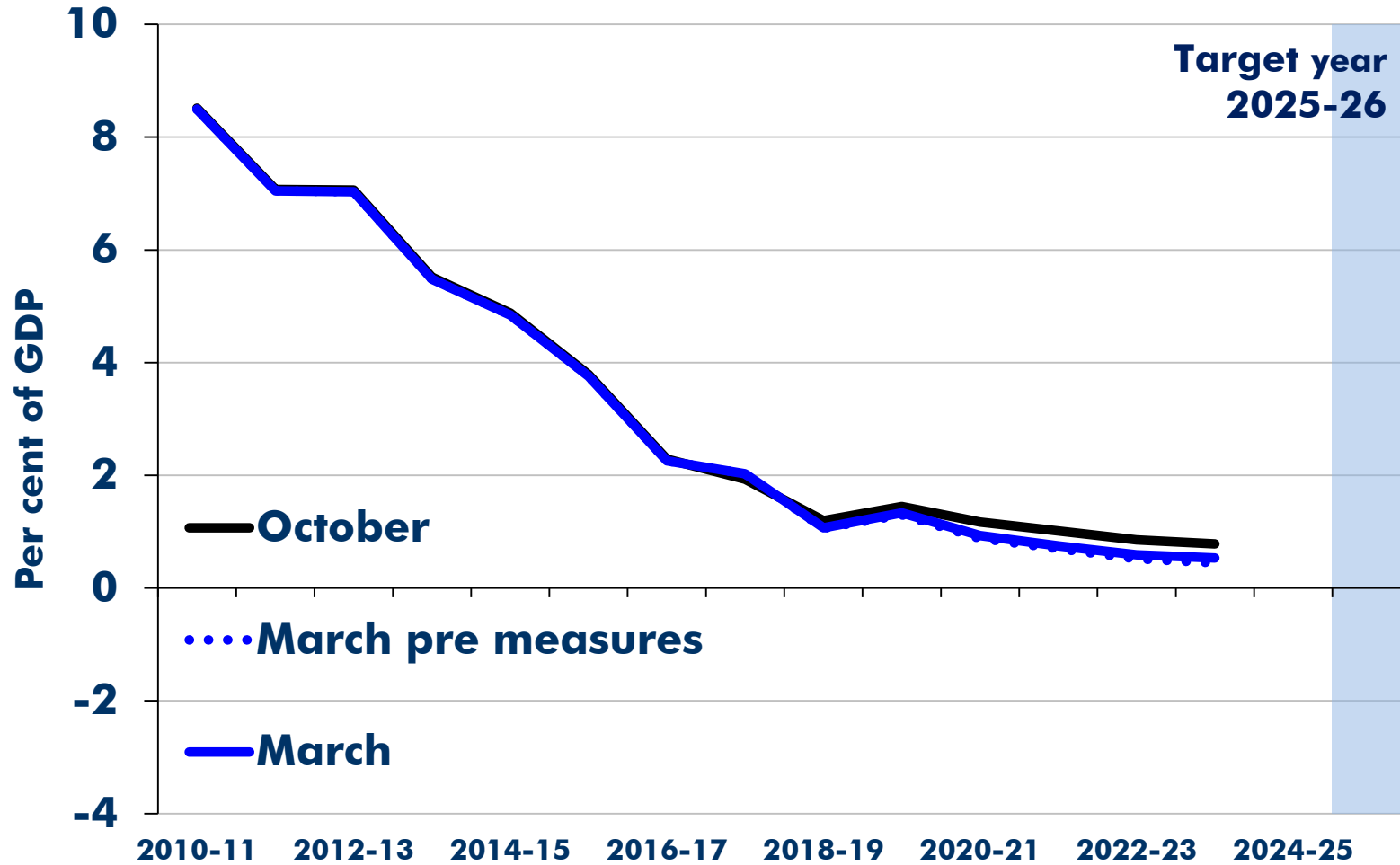
# Supplementary target: net debt



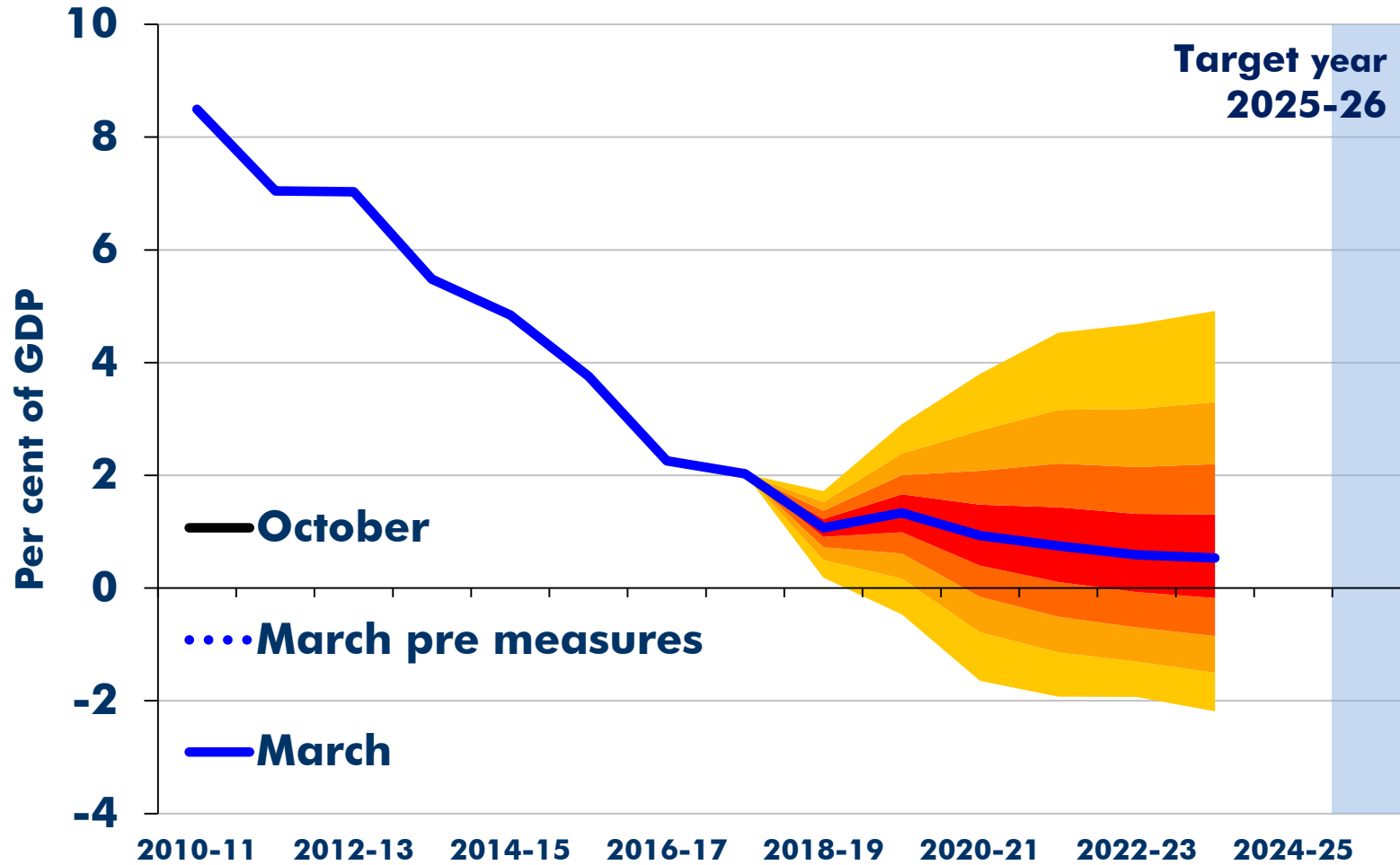
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# The fiscal objective



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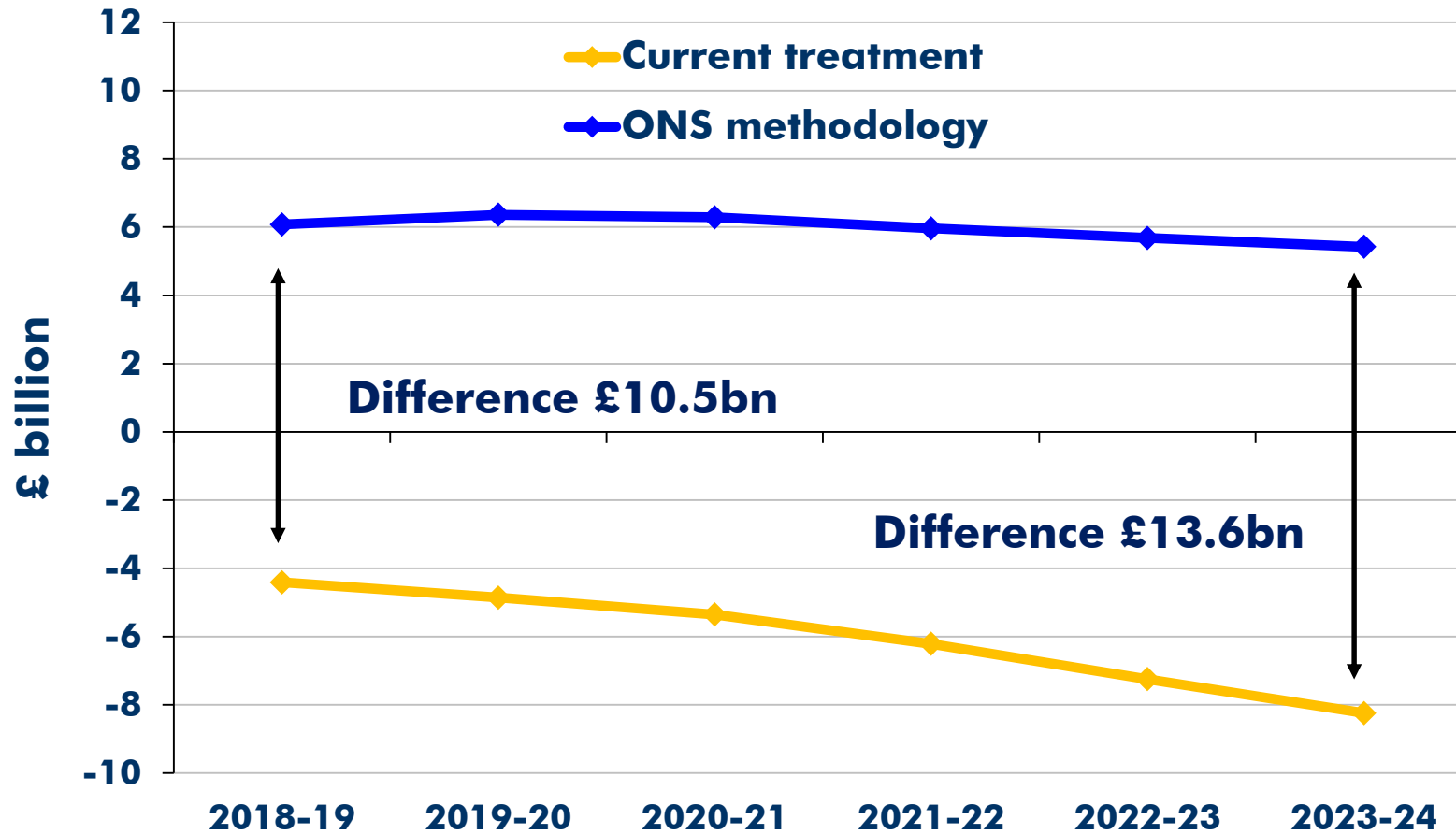




# Risks and uncertainties

- **EFO discusses many risks and uncertainties**
- **'No deal' lessons from past scenario analysis**
  - Range of possible outcomes large
  - Hit to potential more important than short-term shock
  - Fiscal impact of policy response important, but unknowable

# Better accounting for student loans



# Conclusion

- **Not a full fiscal event, but not a non-event**
- **Forecasts assume a non-disruptive Brexit**
- **Near-term economic outlook weaker**
- **But outlook for public finances modestly improved**
- **Most of the proceeds banked, but some fiscal giveaway**
- **Wait to see how many Brexit clouds clear by next forecast**