

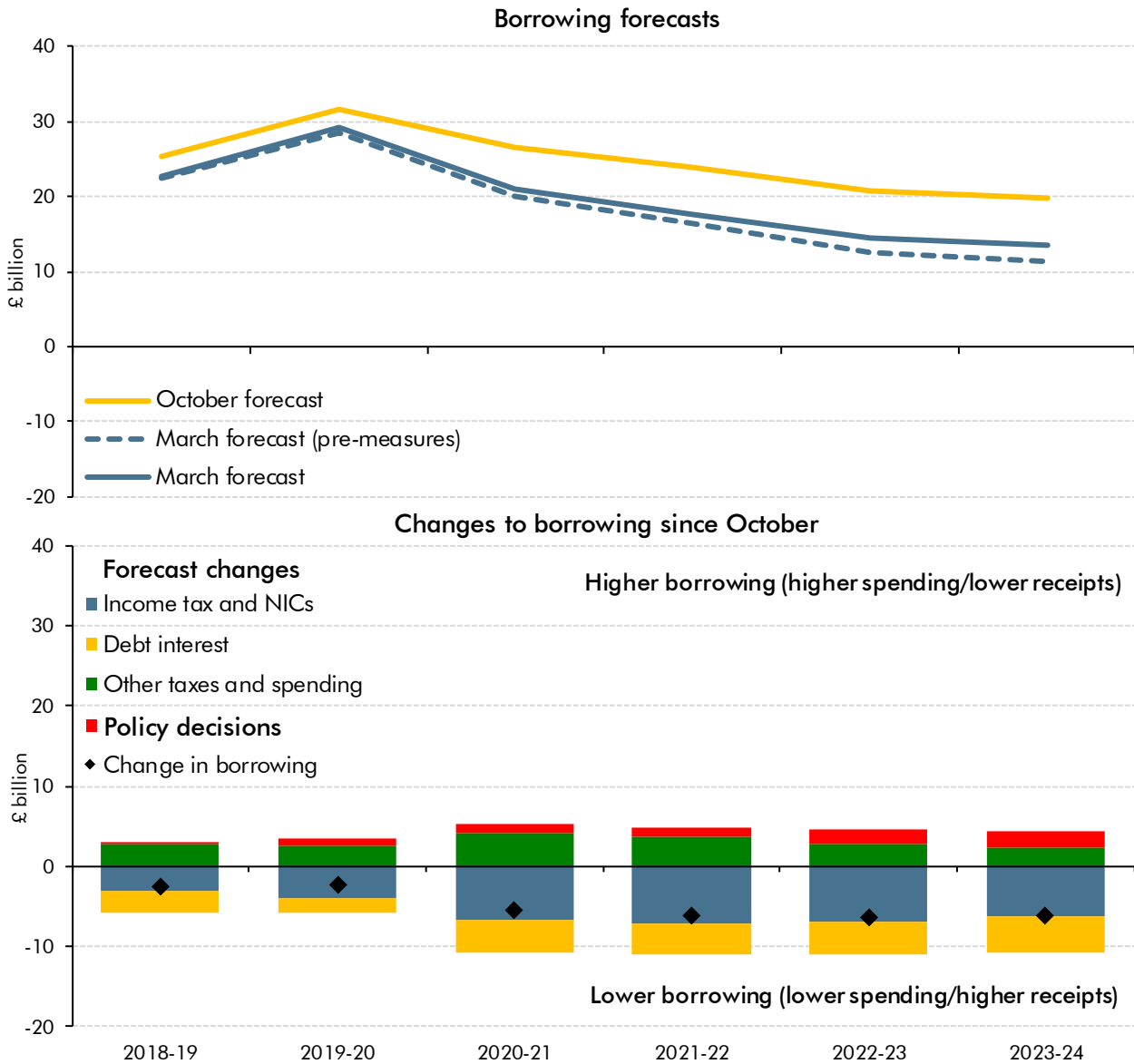
1 Executive summary

Overview

- 1.1 Economic growth in the UK and globally has slowed since the Budget in October, leading us to revise down our near-term GDP forecast. But tax receipts have performed better than we expected in the final months of 2018-19 and we judge that much of this buoyancy will endure. Together with downward pressure on debt interest spending from lower market interest rates, this delivers a modest medium-term improvement in the public finances. The Chancellor has banked most of it in lower borrowing, but has spent some on higher planned public services spending. Of the six forecasts we have produced since the EU referendum, four have shown an improved outlook for the public finances and two have shown a deterioration – but each one has been accompanied by some fiscal giveaway.
- 1.2 This forecast has been produced against the backdrop of considerable uncertainty over the next steps in the Brexit process. With discussions in Brussels continuing and Parliament scheduled to vote on various Brexit-related questions in the week of the Spring Statement, we have no meaningful basis for changing the broad-brush assumptions that have underpinned our forecasts since the referendum. So we continue to assume – consistent with government policy at the time we finalised our forecast – that the UK makes an orderly departure from the EU on 29 March into a transition period that lasts to the end of 2020.
- 1.3 Alternative outcomes, including a disorderly ‘no deal’ exit, remain the biggest short-term risks to the forecast. But the smoothness, or otherwise, of the UK’s withdrawal from the EU is but one step in the Brexit process, as negotiations on the terms of the UK’s future relationship with the EU have yet to begin in earnest. So many decisions remain to be taken that will help determine the eventual impact of Brexit on the economy and public finances.
- 1.4 The economy ended 2018 growing a little less strongly than we expected in October. In recent weeks survey indicators of current activity have weakened materially, in part reflecting heightened uncertainty related to Brexit. As a result, we have revised our forecast for GDP growth this year down to 1.2 per cent – more than reversing the upward revision we made in October in response to the Government’s discretionary fiscal loosening in the Budget. But we have not altered our assessment of the outlook for potential output, so our medium-term forecast is little changed: GDP growth still settles down to around 1½ per cent a year.
- 1.5 We now expect public sector net borrowing to come in at £22.8 billion (1.1 per cent of GDP) this year, down £2.7 billion since October thanks primarily to higher income tax receipts and lower debt interest spending. By 2023-24 the improvement since October is £6.3 billion, again thanks primarily to higher income tax receipts and lower debt interest spending (Chart 1.1). These downward pressures on borrowing are partially offset by the

£2.1 billion net cost of 20 policy decisions announced since the Budget – notably the £1.7 billion of additional planned public services spending announced at the Spring Statement. This leaves the expected deficit in 2023-24 at £13.5 billion (0.5 per cent of GDP).

Chart 1.1: Public sector net borrowing: March versus October



Source: ONS, OBR

1.6 The Government’s stated ‘fiscal objective’ is to balance the budget by 2025-26 and past forecast performance suggests that it now has a 40 per cent chance of doing so by the end of our forecast in 2023-24. But in the years beyond the forecast the ageing population is likely to be putting increasing upward pressure on spending and the potential impact of different Brexit outcomes makes the medium-term outlook more than usually uncertain. In particular, our past scenario analysis has illustrated the importance of medium-term potential growth rates – both productivity growth and the contribution of net migration to population and employment growth – to medium-term fiscal health. Uncertainty around these judgements is always significant, but Brexit only makes it more so.

- 1.7 As regards the Government's other fiscal targets, the forecast changes and policy decisions leave the Chancellor with £26.6 billion (1.2 per cent of GDP) of headroom against his fiscal mandate, which requires the structural budget deficit to lie below 2 per cent of GDP in 2020-21. This is up from £15.4 billion in October, as the fiscal costs of the temporary near-term cyclical weakness of the economy have been swamped by the fiscal gains from higher income tax and lower debt interest spending. The Chancellor also meets his supplementary target of reducing net debt as a share of GDP in 2020-21. In this forecast it falls by 3.2 per cent of GDP in that year, unchanged from October. (The ending of the Bank of England's Term Funding Scheme contributes 2.2 percentage points of the decline.)
- 1.8 One risk to the public finance metrics that we do expect to crystallise over the coming months is an improvement in the accounting treatment of student loans. From September the Office for National Statistics will treat them partly as loans and partly as grants, reflecting the fact that a large proportion of the loan outlays and associated interest are not expected to be repaid. We do not yet know exactly how this will be done, so cannot reflect the change in our central forecast. But we estimate that it could increase the structural budget deficit by around £12 billion or 0.5 per cent of GDP in 2020-21. This would absorb almost half the Government's current headroom of 1.2 per cent of GDP against the fiscal mandate as well as making a balanced budget harder to achieve.

Economic developments since our previous forecast

- 1.9 Real GDP grew by 0.8 per cent in the second half of 2018. That was a little weaker than we expected in October, as an upside surprise in the third quarter was more than offset by an unexpectedly large slowdown in the fourth. Net trade and private investment were markedly weaker than expected, weighed down by a slowing global economy and Brexit-related uncertainty. Business investment has fallen for four consecutive quarters – its longest continuous decline since the financial crisis. Although the figures are volatile, monthly data suggest that GDP fell in December. Moreover, a broad range of survey indicators suggest that the softness has continued into 2019.
- 1.10 There is growing survey evidence that firms are building up stocks ahead of Brexit, although this is less evident in the official data. The CIPS UK manufacturing PMI reported sharp rises in both purchasing activity and a record stockpiling of inputs in February. But much of this is likely to be imported goods and materials – especially those imported from the EU – so that its impact on real GDP growth is likely to be largely offset by higher imports.
- 1.11 The recent growth disappointment has not been confined to the UK. Quarterly GDP growth slowed in most major economies at the end of 2018. Growth in the euro area slowed to 0.2 per cent in each of the third and fourth quarters of 2018. US GDP growth was supported by fiscal policy in 2018, but still slowed to 0.6 per cent in the fourth quarter. Thanks to the relatively sharp slowdown in most other G7 economies, the UK moved from the bottom of the G7 GDP growth league table at the start of 2018 to the middle of it by the end.
- 1.12 Despite slightly weaker GDP growth, the 211,000 increase in employment in the second half of 2018 was slightly higher than we forecast in October. This was entirely accounted for

by a rise in participation, leaving the unemployment rate broadly flat at 4.0 per cent of the labour force rather than dipping to 3.8 per cent as we expected in October. Average earnings growth was also somewhat higher than expected, leading to stronger growth in labour income that helps explain the buoyancy in income tax receipts in 2018-19.

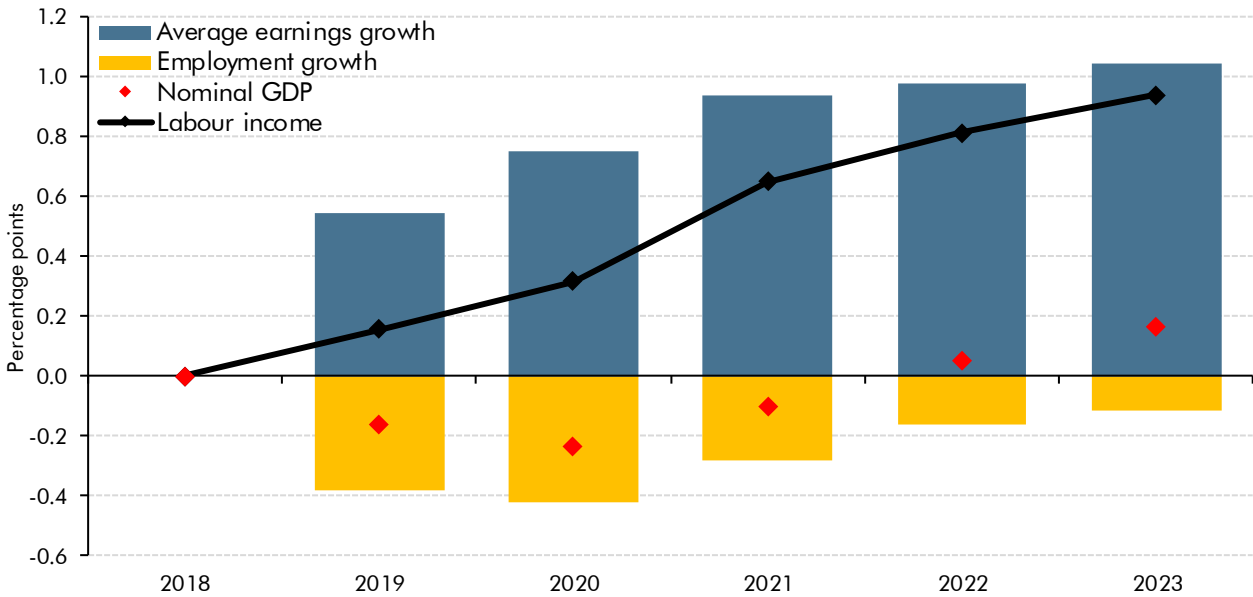
- 1.13 Oil prices rose steadily in the first three quarters of 2018, then fell sharply to average \$68 a barrel in the fourth quarter – around 20 per cent lower than we assumed in October, based on futures prices at the time. Partly as a result, CPI inflation fell back to 2.3 per cent in the fourth quarter and to 1.8 per cent in January 2019. This is the first time for two years that inflation has fallen below the Government's 2 per cent target. GDP deflator inflation has been in line with forecast. Combined with the weakness in activity, this means nominal GDP growth in the second half of 2018 was 0.1 per cent lower than we expected in October.

The economic outlook

- 1.14 Parliament requires us to produce our forecasts on the basis of stated government policy, but not necessarily assuming that particular objectives are achieved. With the terms of the UK's exit from the EU, and the nature of the future relationship, still to be settled, this is not straightforward. In November 2018, the Withdrawal Agreement and Political Declaration setting out the framework for the future relationship between the UK and EU were published. The UK Government also published an immigration White Paper in December, setting out proposals for the UK immigration regime in the post-transition period.
- 1.15 At the point we finalised this document (10 March) the precise terms on which the UK will depart from the EU remained unclear. With no meaningful basis on which to predict the nature of the future relationship between the UK and the EU, we have retained the broad-brush assumptions on productivity, trade and migration in our previous post-referendum forecasts. Reflecting the Withdrawal Agreement, we incorporate a transition period until December 2020, during which the terms on which the UK and EU trade with each other will remain unchanged. This means that we continue to assume that the UK makes an orderly transition to a new – though as yet undefined – long-term relationship. But there remains considerable uncertainty about the economic and fiscal implications of different potential outcomes, including the impact of any policy response that might accompany them.
- 1.16 On this basis, we have left our assumptions about potential output growth unchanged in this forecast. We judge that the economy was operating slightly above potential in the fourth quarter of 2018 – by 0.2 per cent, little changed from the margin we assumed in October. We have revised real GDP growth in 2019 down from 1.6 to 1.2 per cent, below our estimate of potential output growth. This pushes the output gap into negative territory in 2020 (which is also the fiscal mandate target year). The downward revision is in part due to slackening momentum in 2018 and our judgement that this will continue into early 2019, offsetting the discretionary fiscal loosening announced in the Budget. As Brexit uncertainty begins to dissipate, and productivity growth gradually improves, we expect GDP growth to pick up to 1.4 per cent in 2020 and to 1.6 per cent a year thereafter as the small margin of spare capacity is absorbed.

- 1.17 In the near term, the weakness in activity is concentrated in business investment and net trade. Uncertainty related to the Brexit process sees business investment fall for a second successive calendar year in 2019 – its weakest performance since the financial crisis. A softening in the global outlook – and in particular a reduction in the trade intensity of world GDP growth due to ongoing trade disputes – has dampened the outlook for UK export market growth relative to October. As a result, net trade is now expected to reduce output growth modestly in every year of the forecast.
- 1.18 Consistent with surveys suggesting an easing in employment intentions, we expect the unemployment rate to rise marginally to 4.1 per cent in 2019 as output falls below potential. We then expect it to fall back to our estimate of its equilibrium of rate of 4 per cent by late 2022. The increase in employment over the forecast is more than accounted for by population growth.
- 1.19 Average earnings growth has been stronger than we expected in our previous forecast. We assume that some of this momentum is maintained, with growth of 3.1 per cent in 2019, up from 2.5 per cent in our October forecast. Average earnings growth reaches 3.3 per cent by 2023, reflecting a modest increase in productivity growth.
- 1.20 We have revised down our forecast for CPI inflation since October, reflecting the recent fall in the oil price and the modest disinflationary effect of the small degree of spare capacity we expect to open up. CPI inflation dips to 1.9 per cent in 2020, returning to the 2 per cent target thereafter. We have made a larger downward revision to RPI inflation due to the much weaker outlook for house prices in 2019 and 2020.
- 1.21 The small revisions to our GDP and inflation forecasts leave nominal GDP growth virtually unchanged from October over the forecast, growing by 18.6 per cent between 2018-19 and 2023-24, up from 18.4 per cent in October. But the composition of that growth is more ‘tax-rich’ than we expected then. Looking at the income measure, the upward revision to earnings growth means that cumulative labour income growth is just under 1 percentage point higher than we forecast in October, despite slightly weaker than expected employment growth (Chart 1.2). This boosts income tax and NICs receipts. In the expenditure measure of nominal GDP, we expect this higher labour income to raise nominal consumer spending as a share of GDP relative to our October forecast, which in turn boosts VAT receipts.

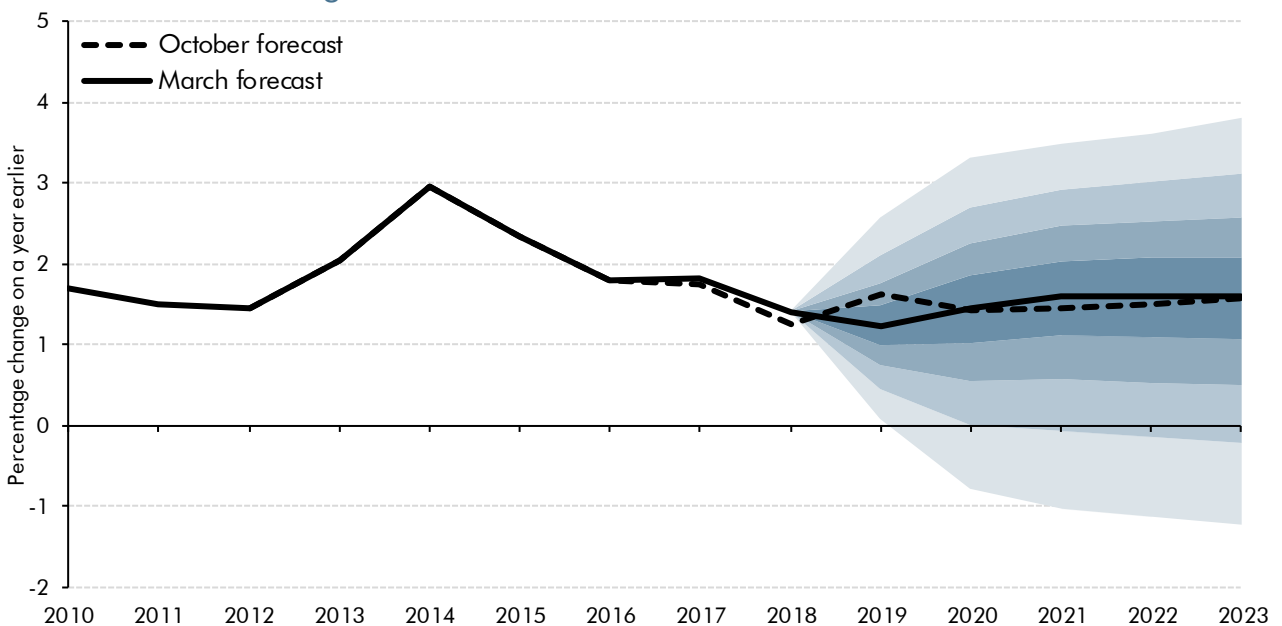
Chart 1.2: Revisions to cumulative labour income and nominal GDP growth



Source: OBR

1.22 The future is, of course, uncertain and no central forecast will be fulfilled in its entirety. Indeed, past experience suggests that the growth path over the next five years is unlikely to be as smooth as that depicted in our central forecast and that there is a roughly 50-50 chance of a recession in any five-year period. One way of illustrating the uncertainty around our GDP growth forecast is shown in Chart 1.3. This presents our central forecast together with a fan showing the probability of different outcomes based on past errors in official forecasts. The solid black line shows our median forecast, with successive pairs of lighter shaded areas around it representing 20 per cent probability bands. It implies a roughly one-in-five chance of the economy shrinking in calendar year 2020. And a similar probability of growth exceeding 2½ per cent – closer to the average pre-crisis growth rate.

Chart 1.3: Real GDP growth fan chart



Source: ONS, OBR

Table 1.1: Overview of the economy forecast

	Percentage change on a year earlier, unless otherwise stated						
	Outturn	Forecast					
	2017	2018	2019	2020	2021	2022	2023
Output at constant market prices							
Gross domestic product (GDP)	1.8	1.4	1.2	1.4	1.6	1.6	1.6
GDP per capita	1.2	0.8	0.6	0.9	1.1	1.1	1.1
GDP levels (2017=100)	100.0	101.4	102.7	104.1	105.8	107.5	109.2
Output gap	0.0	0.2	-0.1	-0.2	-0.1	0.0	0.0
Expenditure components of real GDP							
Household consumption	2.1	1.7	1.1	1.5	1.6	1.6	1.6
General government consumption	-0.2	0.2	2.1	1.7	1.6	1.6	1.7
Business investment	1.5	-0.9	-1.0	2.3	2.3	2.4	2.4
General government investment	3.7	0.5	5.9	1.8	2.2	0.9	2.0
Net trade ¹	0.5	-0.2	-0.5	-0.2	-0.1	-0.1	-0.2
Inflation							
CPI	2.7	2.5	2.1	1.9	2.0	2.0	2.0
Labour market							
Employment (millions)	32.1	32.4	32.6	32.7	32.9	33.0	33.2
Average earnings	2.8	3.0	3.1	3.0	3.1	3.1	3.3
LFS unemployment (rate, per cent)	4.4	4.1	4.1	4.1	4.1	4.0	4.0
Changes since October forecast							
Output at constant market prices							
Gross domestic product (GDP)	0.1	0.1	-0.4	0.0	0.1	0.1	0.0
GDP per capita	0.1	0.1	-0.4	0.0	0.1	0.1	0.0
GDP levels (2017=100)	0.0	0.1	-0.2	-0.2	-0.1	0.0	0.1
Output gap	0.0	0.0	-0.4	-0.4	-0.2	-0.1	-0.1
Expenditure components of real GDP							
Household consumption	0.3	0.4	-0.1	0.3	0.3	0.2	0.1
General government consumption	-0.1	-0.8	0.0	-0.3	-0.1	0.0	0.1
Business investment	-0.2	-1.4	-3.2	0.2	0.3	0.3	0.2
General government investment	2.0	0.7	0.3	-1.5	0.4	0.1	0.6
Net trade ¹	-0.1	-0.4	-0.3	-0.1	-0.1	0.0	0.0
Inflation							
CPI	0.0	-0.1	0.0	-0.1	-0.1	-0.1	0.0
Labour market							
Employment (millions)	0.0	0.0	-0.1	-0.1	-0.1	-0.1	0.0
Average earnings	0.0	0.4	0.6	0.2	0.2	0.0	0.0
LFS unemployment (rate, per cent)	0.0	0.1	0.4	0.3	0.2	0.1	0.0

¹ Contribution to GDP growth.

The fiscal outlook

1.23 Public sector net borrowing has fallen sharply over the past decade, from its post-crisis peak of 9.9 per cent of GDP (£153.1 billion) in 2009-10 to 1.1 per cent of GDP (£22.8 billion) in 2018-19 on our latest forecast. With the output gap in 2018-19 assumed to be slightly positive, we judge that the structural deficit (which excludes the effect of the economic cycle) will be a little higher than the headline deficit at 1.2 per cent of GDP. It is therefore already below the 2 per cent of GDP target ceiling the Chancellor has set himself for 2020-21.

1.24 Table 1.2 shows that on current policy – including our assumptions regarding the UK’s exit from the EU and new policies announced since our October forecast – we expect the deficit to remain below 2 per cent of GDP throughout the forecast. It rises modestly in 2019-20, then falls slowly in the four years to 2023-24. Our central forecast is for a structural deficit of 0.8 per cent of GDP in 2020-21, well below the ceiling set in the ‘fiscal mandate’.

Table 1.2: Overview of the fiscal forecast

	Per cent of GDP						
	Outturn	Forecast					
		2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Revenue and spending							
Public sector current receipts	36.4	37.0	36.9	37.1	37.1	37.2	37.2
Total managed expenditure	38.5	38.1	38.2	38.0	37.9	37.7	37.8
Deficit: Current and previous fiscal mandate measures							
Cyclically adjusted net borrowing	2.0	1.2	1.3	0.8	0.7	0.6	0.5
Public sector net borrowing	2.0	1.1	1.3	0.9	0.7	0.6	0.5
Cyclically adjusted current budget deficit	-0.1	-0.9	-0.8	-1.4	-1.5	-1.5	-1.6
Debt: Supplementary target							
Public sector net debt	84.7	83.3	82.2	79.0	74.9	74.0	73.0
£ billion							
Revenue and spending							
Public sector current receipts	753.1	789.0	811.4	844.0	874.0	906.6	941.5
Total managed expenditure	795.0	811.8	840.7	865.2	891.7	921.0	954.9
Deficit: Current and previous fiscal mandate measures							
Cyclically adjusted net borrowing	41.5	24.9	28.7	18.9	15.9	13.9	13.4
Public sector net borrowing	41.9	22.8	29.3	21.2	17.6	14.4	13.5
Cyclically adjusted current budget deficit	-1.3	-18.3	-18.3	-31.6	-34.5	-37.3	-40.4
Debt: Supplementary target							
Public sector net debt	1779	1803	1838	1828	1796	1838	1878

Changes in public sector net borrowing

1.25 As in October, we have revised down our pre-measures forecast for borrowing in every year – but by only about half as much as in that forecast. This is driven by the relatively unusual combination of an upward revision to receipts and a downward revision to debt interest spending – only the fifth time that revisions to receipts and debt interest spending have pushed borrowing in the same direction in the 19 forecast revisions since June 2010.

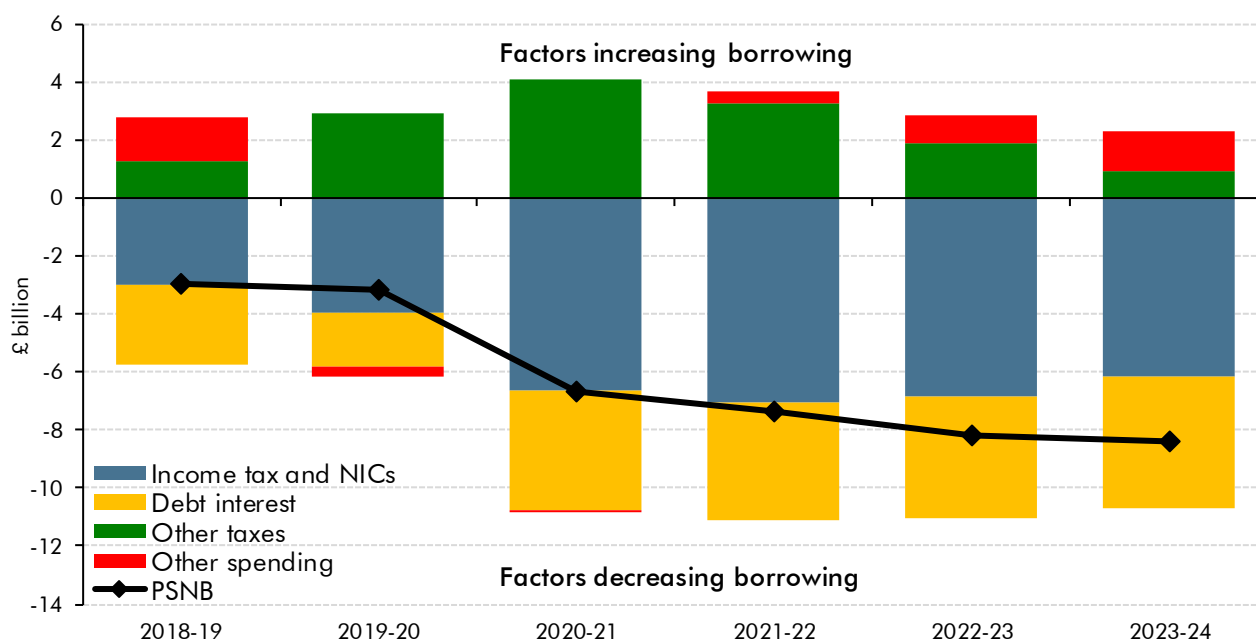
1.26 The drivers of these revisions are dominated by two factors:

- Despite little change in our forecast for nominal GDP growth, the **tax-to-GDP ratio** has been revised up. This largely reflects near-term momentum in earnings growth and a buoyant effective tax rate on labour income due to particularly strong earnings growth among the highest earners. Both have boosted income tax and NICs receipts.
- Market-derived expectations of future interest rates are lower than in October, reducing our forecast for **debt interest payments**. This is, however, likely to reflect the market pricing in some probability of a ‘no deal’ Brexit and an associated monetary

policy easing. So to some extent it will not be consistent with the assumption of a smooth exit that underpins our economy and receipts forecasts. If a smooth Brexit is achieved, market interest rates – and our debt interest forecast – could rise again.

1.27 Chart 1.4 breaks down the main movements in our forecast since October.

Chart 1.4: Sources of revisions to our pre-measures PSNB forecast



Source: OBR

1.28 Presented with this improvement in the outlook for the public finances, the Government has once again decided to loosen discretionary fiscal policy – albeit modestly. This is the sixth time in the six Budgets, Autumn and Spring Statements since the EU referendum that the Chancellor has loosened the purse strings. Taken together, these discretionary moves have significantly eased the squeeze on public spending that he inherited from his predecessor.

Underlying revisions to borrowing in 2018-19

1.29 Over the first 10 months of 2018-19, borrowing has fallen somewhat faster than we assumed in our full-year forecast from October. This mainly reflects strong receipts growth in January, the largest month for central government receipts, which were 9.8 per cent higher than a year earlier.

1.30 Around half the January strength reflected self-assessment (SA) income tax and capital gains tax payments that relate largely to liabilities incurred in 2017-18. Initial HMRC analysis indicates that this strength was broadly based across the various SA tax streams, leading us to revise up our 2018-19 SA income tax and CGT forecast by £1.7 billion. Our revisions to other receipts forecasts for this year are largely offsetting, with higher PAYE income tax and NICs receipts (partly driven by the continued strength in earnings growth, especially among the highest earners) offset by weaker VAT and corporation tax revenues.

- 1.31 We have revised our spending forecast for 2018-19 down by £0.9 billion. That is more than explained by lower debt interest, where RPI inflation in January 2019 – the key month for accrued interest on index-linked gilts – was lower than we had predicted in October. (RPI inflation feeds through to accrued interest on index-linked gilts with a lag of two months.)
- 1.32 Taking those factors into account, and bearing in mind that the new policy decisions do not affect borrowing materially this year, we have revised overall borrowing in 2018-19 down by £2.7 billion to £22.8 billion. That is broadly in line with the in-year forecast that would be generated by extrapolating the year-to-date performance of the public finances.

Underlying revisions to borrowing from 2019-20 onwards

- 1.33 From 2019-20 onwards, our pre-measures borrowing forecast has been revised down in every year, by £6.8 billion (0.3 per cent of GDP) a year on average:
- Just over half the revision reflects higher **receipts**, which are up by £3.5 billion a year on average. That is more than explained by strength in income tax and NICs receipts, thanks to the higher 2018-19 starting point and slightly stronger earnings growth. This is partly offset by downward revisions to oil and gas revenues (due to lower oil and gas prices), capital tax receipts (due to lower equity prices) and interest and dividend receipts (due to lower market expectations of future interest rates).
 - Just under half the revision reflects lower **spending**, which is down by £3.3 billion a year on average. This is dominated by lower spending on debt interest, reflecting lower near-term RPI inflation and lower market expectations for interest rates across the forecast. Other spending revisions are largely offsetting, with higher welfare spending (largely driven by an upward revision to our disability benefits forecast) offset by other smaller items.

Government decisions

- 1.34 The Government does not consider this Spring Statement to be a full ‘fiscal event’ and has not produced a ‘scorecard’ of policy measures. But several measures have been announced since the Budget and departmental spending totals were increased again in the Statement itself. Overall, these changes add to borrowing by increasing amounts over the forecast period, rising from £0.7 billion in 2019-20 to £2.1 billion in 2023-24:
- Total **departmental spending** has been increased by £0.2 billion in 2019-20, rising to £1.7 billion in 2023-24. This comprises two main parts. First, the decision to keep non-NHS current departmental spending flat in real terms despite higher GDP deflator inflation adds amounts rising to £0.8 billion in 2023-24. Second, a further addition to NHS funding – again to maintain real-terms funding in the face of revisions to GDP deflator inflation – adds amounts that also rise to £0.8 billion in 2023-24.
 - Several policy changes to **universal credit (UC) and disability benefits**. These include delaying the rollout of personal independence payment and stopping the review of some existing cases to free up capacity to finish the rollout. This costs £0.2 billion a

year on average from 2020-21 onwards. The decision not to limit the number of UC child elements for some new UC claims and changes to the profile of the UC managed migration phase have broadly offsetting effects over the five years.

- **Other policy changes** are smaller and their effects are largely offsetting. They include raising the fees payable for an application for a grant of probate and the doubling of the ‘immigration health surcharge’. Annex A provides more detail.

1.35 The modest net giveaway led us to revise our nominal GDP forecast up a fraction. This reduces borrowing marginally in every year via higher tax revenues. Higher departmental spending raises contributions to public service pension schemes, reducing net expenditure. These effects are shown in the ‘Indirect effects’ row in Table 1.3.

Table 1.3: Changes to public sector net borrowing since October

	£ billion						
	Outturn	Forecast					
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
October forecast	39.8	25.5	31.8	26.7	23.8	20.8	19.8
March forecast	41.9	22.8	29.3	21.2	17.6	14.4	13.5
Change	2.1	-2.7	-2.4	-5.5	-6.2	-6.4	-6.3
Underlying revisions to receipts	0.9	-1.7	-1.0	-2.5	-3.7	-5.0	-5.2
<i>of which:</i>							
Income tax and NICs	1.1	-3.0	-4.0	-6.6	-7.1	-6.9	-6.1
VAT	-0.1	0.5	0.6	0.4	0.1	-0.1	-0.3
Onshore corporation tax	0.4	1.2	0.7	0.2	-0.4	-0.6	-0.7
Capital taxes	0.0	-0.6	1.1	2.2	2.2	2.0	2.1
Other	-0.4	0.2	0.6	1.3	1.4	0.5	-0.1
Underlying revisions to spending	1.2	-1.2	-2.2	-4.1	-3.6	-3.2	-3.2
<i>of which:</i>							
Debt interest	0.0	-2.7	-1.9	-4.1	-4.0	-4.1	-4.6
Welfare spending	0.0	0.0	0.0	0.4	0.6	1.0	1.7
Departmental spending	0.5	-0.8	-0.8	0.0	0.0	0.0	0.0
Other changes	0.7	2.4	0.5	-0.4	-0.2	-0.1	-0.3
Total effect of Government decisions	-	0.3	0.7	1.2	1.2	1.8	2.1
<i>of which:</i>							
Departmental spending	-	0.3	0.2	1.4	0.8	1.7	1.7
Other measures	-	0.0	1.0	0.1	0.8	0.4	0.7
Indirect effects	-	0.0	-0.4	-0.3	-0.4	-0.3	-0.3
<i>Memo: March pre-measures forecast</i>	<i>41.9</i>	<i>22.5</i>	<i>28.6</i>	<i>20.0</i>	<i>16.4</i>	<i>12.6</i>	<i>11.4</i>

Note: This table uses the convention that a negative figure means a reduction in PSNB, i.e. an increase in receipts or a reduction in spending will have a negative effect on PSNB.

Changes to public sector net debt

1.36 Our forecast for public sector net debt (PSND) has been revised down since October, by steadily increasing amounts that reach 1.1 per cent of GDP in 2023-24.

1.37 We have revised down our pre-measures forecast due to:

- Modestly higher **nominal GDP**, which reduces the debt-to-GDP ratio slightly from 2020-21 onwards.
- The downward revisions to our pre-measures forecast for **public sector net borrowing** reduce cash debt and the debt-to-GDP ratio by progressively larger amounts. This is the largest source of change to our debt forecast since October.
- Upward revisions to our pre-measures **financial transactions** forecast, mainly due to changes related to the timing of onshore corporation tax payments.
- Early redemptions in the **Term Funding Scheme** reduce debt at the start of the forecast but this unwinds by 2021-22. Higher gilt prices and the assumption that the APF no longer sells any assets within the forecast period increasingly add to debt.

1.38 As regards Government policy decisions, a short delay to a large UK Asset Resolution (UKAR) asset sale increases debt in 2018-19 but this unwinds in 2019-20, after which the effects of lower departmental spending dominate.

Table 1.4: Changes to public sector net debt since October

	Per cent of GDP					
	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
October forecast	83.7	82.8	79.7	75.7	75.0	74.1
March forecast	83.3	82.2	79.0	74.9	74.0	73.0
Change	-0.4	-0.6	-0.7	-0.8	-1.0	-1.1
of which:						
Change in nominal GDP ¹	-0.1	-0.1	-0.1	-0.2	-0.3	-0.3
Change in cash level of net debt	-0.3	-0.6	-0.6	-0.6	-0.7	-0.7
	£ billion					
October forecast	1810	1851	1841	1809	1856	1896
March forecast	1803	1839	1828	1796	1838	1878
Like-for-like change in cash debt	-7	-12	-13	-13	-18	-19
of which:						
Underlying forecast revisions	-11	-11	-12	-13	-20	-23
Public sector net borrowing (pre-measures)	-3	-6	-13	-20	-28	-37
Financial transactions (pre-measures)	-6	-3	1	5	5	6
Valuation changes	-1	-2	0	2	3	8
Effect of Government decisions	4	-1	-1	0	2	4
Affecting public sector net borrowing	0	1	3	5	7	9
Affecting financial transactions	4	-2	-3	-3	-3	-3
Indirect effects	0	0	-1	-1	-1	-2

¹ Non-seasonally adjusted GDP centred end-March.

The accounting treatment of student loans

1.39 The ONS plans to improve the accounting treatment for student loans. Compared to the current treatment, spending will rise and receipts will fall, reflecting estimates of how much of the principal extended and interest charged will never actually be paid. Our preliminary estimate is that this will raise the recorded deficit by amounts rising from around £10 billion in 2018-19 to £14 billion in 2023-24. These changes also produce lower valuations of the stock of outstanding loans and so increase public sector net financial liabilities. This would rise by 2.8 per cent of GDP compared to our central forecast from 2018-19 onwards. Cash based measures such as the central government net cash requirement (CGNCR) and PSND will not be affected by the change. Annex B provides further detail.

Performance against the Government's fiscal targets

1.40 The *Charter for Budget Responsibility* requires the OBR to judge whether the Government has a greater than 50 per cent chance of meeting its fiscal targets under current policy. The latest version was approved by Parliament in January 2017.¹

1.41 The current *Charter* states that the Government's objective for fiscal policy is to "**return the public finances to balance at the earliest possible date in the next Parliament**". At the time that it was drawn up, 'the next Parliament' was expected to run from 2020 to 2025.

1.42 The *Charter* also sets out targets for borrowing, debt and welfare spending that require:

- The **structural deficit** (cyclically adjusted public sector net borrowing) to lie below 2 per cent of GDP by 2020-21 (the 'fiscal mandate').
- **Public sector net debt** to fall relative to GDP in 2020-21 (the 'supplementary target').
- Welfare spending (excluding the state pension and payments closely linked to the economic cycle) to lie below a '**welfare cap**'. The latest version sets the effective cap 3 per cent above our November 2017 forecast for 2022-23 at £135 billion, with the level of spending to be adjusted for subsequent changes in our inflation forecast.

1.43 Our central forecast implies that all three targets are on course to be met:

- **Fiscal mandate:** the structural deficit falls to 0.8 per cent of GDP in the target year, giving a margin against the mandate of 1.2 per cent of GDP (£26.6 billion). These margins are up from 0.7 per cent of GDP and £15.4 billion in October, with a little under half due to lower structural spending and the rest from higher structural receipts.
- **Supplementary target:** public sector net debt falls by 3.2 per cent of GDP in 2020-21, unchanged from our October forecast. The repayment of loans issued under the Bank's Term Funding Scheme at the end of their four-year term accounts for 2.2 per cent of GDP of the year-on-year fall.

¹ The latest and previous versions are available on the 'Legislation and related material' page of our website.

- **Welfare cap:** the relevant welfare spending is forecast to be £1.6 billion below the cap in 2022-23, and £5.5 billion below the cap-plus-margin.

1.44 Achieving the broader balanced budget fiscal objective in 2025-26, looks challenging (although this lies beyond our formal forecasting horizon). In particular, this is a period in which population ageing will continue to exert upward pressure on spending, and more so than in recent years when the state pension age has been rising. That said, the chances of the Government balancing the budget by 2025-26 – ignoring the potential effects of the new accounting treatment for student loans – look greater than they did in October. The probability of balancing the budget as early as 2023-24 (based purely on past forecast performance), is now 40 per cent, up from 35 per cent in October.

1.45 The uncertainties around our central forecast reflect those regarding the outlook for the economy and those regarding the performance of revenues and spending in any given state of the economy. We assess the robustness of our judgements in three ways:

- First, by looking at **past forecast errors**. If our central forecasts are as accurate as official forecasts in the past, then the chance that the structural deficit would be below 2 per cent of GDP in 2020-21 is around 75 per cent – slightly higher than in October.
- Second, by looking at the **sensitivity of the deficit to key features of the economy forecast**. The 1.2 per cent of GDP margin relative to the 2 per cent structural deficit ceiling would fall to zero if potential output were 2.4 per cent lower, or if the effective tax rate were 1.2 per cent of GDP lower for structural reasons.
- Third, drawing on our **previous economic scenarios** to examine the channels through which a ‘no deal’ Brexit could affect the public finances. We conclude that the range of possible fiscal outcomes is clearly large, given the uncertainty both around the economic impact and around the nature and effectiveness of any policy response. But while the short-term shock to the economy would no doubt have fiscal costs, the more significant channels would probably be via its longer-term impact on potential output. The direct fiscal effects of any policy response (such as tariff policy or fiscal stimulus) would also affect the final path of the deficit, though this is presently unknowable.