Economic and fiscal outlook

Robert Chote
Chairman

11 March 2020
Coverage and process

• Five year forecasts, plus progress against targets

• Independent BRC responsible for conclusions

• Pre-measures forecasts were closed on 17 February (economy) and 24 February (public finances)

• So impact of coronavirus on published forecasts very modest. No longer central in near term

• But assessment of Budget package impact still relevant
The big picture: net borrowing

- March 2019 (as restated in December)
- March 2020 (pre-measures)
- March 2020

[Graph showing net borrowing in billions from 2018-19 to 2024-25]
The big picture: net borrowing

- March 2019 (as restated in December)
- March 2020 (pre-measures)
- March 2020

<table>
<thead>
<tr>
<th>Year</th>
<th>March 2019 (as restated in December)</th>
<th>March 2020 (pre-measures)</th>
<th>March 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018-19</td>
<td>50</td>
<td>40</td>
<td>35</td>
</tr>
<tr>
<td>2019-20</td>
<td>40</td>
<td>45</td>
<td>40</td>
</tr>
<tr>
<td>2020-21</td>
<td>35</td>
<td>40</td>
<td>35</td>
</tr>
<tr>
<td>2021-22</td>
<td>30</td>
<td>35</td>
<td>30</td>
</tr>
<tr>
<td>2022-23</td>
<td>25</td>
<td>30</td>
<td>25</td>
</tr>
<tr>
<td>2023-24</td>
<td>20</td>
<td>25</td>
<td>20</td>
</tr>
<tr>
<td>2024-25</td>
<td>15</td>
<td>20</td>
<td>15</td>
</tr>
</tbody>
</table>
The big picture: net borrowing

- March 2019 (as restated in December)
- March 2020 (pre-measures)
- March 2020

£ billion

Pre-measures forecast revisions

• Forecast consistent with orderly move to typical FTA
  – Economy now 2% smaller than in absence of referendum vote
  – 4% hit to productivity and potential GDP over 15 years (2/3 to come)

• Global growth already weaker than last March pre-virus

• UK GDP growth outlook slightly weaker than last March
  – Recent outturns lower 2020 calendar growth
  – Weaker outlook for potential output over the medium term, with productivity outweighing participation

• Market interest rate expectations significantly lower
Pre-measures forecast revisions

• Borrowing revised up £3.1bn a year on average
  – Debt interest down £7.4bn (interest rates and RPI inflation)
  – Other current spending up £2.8bn (R&D tax credits)
  – Net investment up £4.6 billion (council capex and student loans)
  – Receipts down £3.0bn (weaker earnings and household spending)
Policy changes since last March

- **Budget package – building on Spending Round 2019**
  - Big increases in current and capital spending limits
  - Partly paid for by net tax increases
  - And absorbing direct Brexit savings already in our forecasts

- **New migration regime**
  - Tighter for EU and looser for non-EU migrants

- **Planned increases in National Living Wage**
  - To two-thirds of median earnings by October 2024
Borrowing: impact of policy decisions

- Resource spending
- Capital spending
- Use of direct Brexit fiscal savings
- Tax cuts
- Tax increases
- Other measures
- Indirect effects
- Overall

£ billion

Borrowing: impact of policy decisions

- Resource spending
- Capital spending
- Use of direct Brexit fiscal savings
- Tax cuts
- Tax increases
- Other measures
- Indirect effects
- Overall

£ billion

Change in real resource spending per person since 2010-11

Cumulative change since 2010-11 (per cent)

-25 -20 -15 -10 -5 0 5 10 15 20 25


-11 (per cent)
Change in resource spending since 2010-11

Cumulative change since 2010-11 (per cent of GDP)

-8 -7 -6 -5 -4 -3 -2 -1 0


June 2010
March 2015
July 2015
March 2019
March 2020
Change in capital spending since 2010-11

Cumulative change since 2010-11 (per cent of GDP)

-1.4 -1.2 -1.0 -0.8 -0.6 -0.4 -0.2 0.0 0.2 0.4 0.6 0.8

June 2010 March 2015
November 2016 March 2019
March 2020

How much capital will actually be spent?

![Graph showing percentage change over spending review period from CSR 1998 to Budget 2020. The graph compares Government plans, Actual outturn, and OBR forecast.](image-url)
Borrowing: impact of policy decisions

- Resource spending
- Capital spending
- Use of direct Brexit fiscal savings
- Tax cuts
- Tax increases
- Other measures
- Indirect effects
- Overall

£ billion

Borrowing: impact of policy decisions

- Resource spending
- Capital spending
- Use of direct Brexit fiscal savings
- Tax cuts
- Tax increases
- Other measures
- Indirect effects
- Overall

£ billion

Borrowing: impact of policy decisions

- Resource spending
- Capital spending
- Use of direct Brexit fiscal savings
- Tax cuts
- Tax increases
- Other measures
- Indirect effects
- Overall

£ billion

## Tax policy changes

<table>
<thead>
<tr>
<th></th>
<th>2019-20</th>
<th>2020-21</th>
<th>2021-22</th>
<th>2022-23</th>
<th>2023-24</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net tax increase</strong></td>
<td>2.0</td>
<td>4.6</td>
<td>8.0</td>
<td>8.6</td>
<td>8.5</td>
</tr>
<tr>
<td><strong>Tax increases</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporation tax</td>
<td>4.6</td>
<td>6.1</td>
<td>6.7</td>
<td>7.1</td>
<td>7.5</td>
</tr>
<tr>
<td>Entrepreneur’s relief</td>
<td>0.2</td>
<td>1.1</td>
<td>1.5</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Red diesel</td>
<td>0.0</td>
<td>0.0</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Other</td>
<td>1.9</td>
<td>1.7</td>
<td>2.0</td>
<td>2.1</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>Tax cuts</strong></td>
<td>-4.8</td>
<td>-4.3</td>
<td>-3.7</td>
<td>-3.9</td>
<td>-3.9</td>
</tr>
<tr>
<td>NICs</td>
<td>-2.1</td>
<td>-2.2</td>
<td>-2.4</td>
<td>-2.4</td>
<td>-2.4</td>
</tr>
<tr>
<td>Business measures</td>
<td>-0.9</td>
<td>-0.9</td>
<td>-1.0</td>
<td>-1.2</td>
<td>-1.3</td>
</tr>
<tr>
<td>Fuel duty</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-0.6</td>
<td>-0.6</td>
</tr>
<tr>
<td>Other</td>
<td>-1.3</td>
<td>-0.8</td>
<td>0.3</td>
<td>0.2</td>
<td>0.3</td>
</tr>
</tbody>
</table>
Receipts and taxes

- National accounts taxes
- Current receipts

Per cent of GDP

- 1960-61
- 1970-71
- 1980-81
- 1990-91
- 2000-01
- 2010-11
- 2020-21
Receipts and taxes

- National accounts taxes
- Current receipts

Per cent of GDP

Borrowing: impact of policy decisions

- Resource spending
- Capital spending
- Use of direct Brexit fiscal savings
- Tax cuts
- Tax increases
- Other measures
- Indirect effects
- Overall

£ billion

Borrowing: impact of policy decisions

- Resource spending
- Capital spending
- Use of direct Brexit fiscal savings
- Tax cuts
- Tax increases
- Other measures
- Indirect effects
- Overall

£ billion

New migration regime

• Points-based migration system from 2021
  – More restrictive for EU migrants; marginally less so for non-EU

• Moved from ‘principal’ to ‘0% EU migration’ population projection
  – Net inward migration in 2025 down from 190k to 129k
  – Population down 0.4%; nominal GDP down 0.3% by 2024-25

• Very small net fiscal effect (£1bn more borrowing in 2024-25)
  – Lower tax receipts outweigh lower welfare spending
National Living Wage

Per cent of full-time median earnings in 2018
National Living Wage

- Current policy
- New policy

Net fiscal impact
£1.2bn less borrowing in 2024-35
Post-measures economy forecast: growth

-2
-1
0
1
2
3
4
5

Per cent change on a year earlier


March 19
March 20 pre measures
March 20 post measures
Post-measures economy forecast: growth

-2 -1 0 1 2 3 4 5

Per cent change on a year earlier

March 19
March 20 pre measures
March 20 post measures

Post-measures economy forecast: growth

Per cent change on a year earlier

-2 -1 0 1 2 3 4 5


March 19
March 20 pre measures
March 20 post measures
Post-measures economy forecast: inflation
Impact of measures on real GDP

- Private consumption
- Government consumption
- Private investment
- Other
- Net trade
- Government investment
- GDP

Percentage points

Q1 2020, Q3 2020, Q1 2021, Q3 2021, Q1 2022, Q3 2022, Q1 2023, Q3 2023, Q1 2024, Q3 2024, Q1 2025
Impact of measures on real GDP
Impact of measures on real GDP

- Private consumption
- Government consumption
- Private investment
- Other
- Net trade
- Government investment
- GDP

Percentage points

Q1 2020 | Q3 2020 | Q1 2021 | Q3 2021 | Q1 2022 | Q3 2022 | Q1 2023 | Q3 2023 | Q1 2024 | Q3 2024 | Q1 2025
Change in employment over forecast

![Bar chart showing change in employment](chart)

- **Pre measures**
  - Other: 400,000
  - General government: 300,000

- **Post measures**
  - Other: 100,000
  - General government: 700,000
Major fiscal giveaways and takeaways

![Graph showing fiscal giveaways and takeaways from 1992 to 2020. The x-axis represents years from Y1 to Y5, and the y-axis represents per cent of outturn GDP. The lines indicate different fiscal events: Budget 1992, Budget 2000, Pre-Budget Report 2008 and Budget 2009, March 2020 (excluding indirect effects).]
Cumulative policy impact on borrowing

Per cent of historic nominal GDP forecasts

-10 -8 -6 -4 -2 0 2 4


Receipts
Spending
Total
Policy impact on net debt

- Borrowing
- Financial transactions
- Indirect effects
- Effect of Government decisions

£ billion

Policy impact on net debt

Government decisions

- Borrowing
- Financial transactions
- Indirect effects
- Effect of Government decisions

£ billion

Policy impact on net debt

- **Borrowing**
- **Financial transactions**
- **Indirect effects**
- **Effect of Government decisions**

£ billion

<table>
<thead>
<tr>
<th>Year</th>
<th>Borrowing</th>
<th>Financial transactions</th>
<th>Indirect effects</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019-20</td>
<td></td>
<td></td>
<td></td>
<td>-50</td>
</tr>
<tr>
<td>2020-21</td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
<tr>
<td>2021-22</td>
<td></td>
<td></td>
<td></td>
<td>50</td>
</tr>
<tr>
<td>2022-23</td>
<td></td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>2023-24</td>
<td></td>
<td></td>
<td></td>
<td>150</td>
</tr>
<tr>
<td>2024-25</td>
<td></td>
<td></td>
<td></td>
<td>200</td>
</tr>
</tbody>
</table>
Policy impact on net debt

- Borrowing
- Financial transactions
- Indirect effects
- Effect of Government decisions

£ billion

Policy impact on net debt

- March 2020 pre-measures
- March 2020 post-measures

£ trillion

Alternative balance sheet metrics

Per cent of GDP

- PSND
- PSND ex. BoE
- PSNFL

Alternative balance sheet metrics

Per cent of GDP

- PSND
- PSND ex.BoE
- PSNFL

Year:
- 1999-00
- 2003-04
- 2007-08
- 2011-12
- 2015-16
- 2019-20
- 2023-24
Fiscal targets

• Current formal targets are those in Charter since January 2017

• But Budget decisions guided by new, looser rules set out in the Conservative manifesto and confirmed in the Queen’s Speech

• These will be reviewed again ahead of the Autumn Budget
The Government’s legislated targets

Performance against the Government’s fiscal 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 the decade
The fiscal mandate

Per cent of GDP

- March 2019
- Restated March 2019
- March 2020 pre-measures
- March 2020 post-measures

Years:
- 2010-11
- 2012-13
- 2014-15
- 2016-17
- 2018-19
- 2020-21
- 2022-23
- 2024-25

March 2019: [Graphical representation of March 2019]
Restated March 2019: [Graphical representation of Restated March 2019]
March 2020 pre-measures: [Graphical representation of March 2020 pre-measures]
March 2020 post-measures: [Graphical representation of March 2020 post-measures]
The fiscal mandate

Per cent of GDP

March 2019
Restated March 2019
March 2020 pre-measures
March 2020 post-measures

The fiscal mandate

- March 2019
- Restated March 2019
- March 2020 pre-measures
- March 2020 post-measures

Per cent of GDP vs. years (2010-2025). The line shows the percentage of GDP compared to the fiscal mandate over time, with different colors indicating various fiscal measures.
The fiscal mandate

Per cent of GDP

- March 2019
- Restated March 2019
- March 2020 pre-measures
- March 2020 post-measures

Years:
- 2010-11
- 2012-13
- 2014-15
- 2016-17
- 2018-19
- 2020-21
- 2022-23
- 2024-25

March 2019:
- Pre-measures: 7% of GDP
- Restated: 6.5% of GDP

March 2020:
- Pre-measures: 6.5% of GDP
- Post-measures: 5.5% of GDP
The fiscal mandate

Per cent of GDP

March 2019
Restated March 2019
March 2020 pre-measures
March 2020 post-measures

The fiscal objective

Per cent of GDP

-1
0
1
2
3
4
5
6
7
8
9
10
11

October 2018 pre-measures forecast
March 2020 forecast

The fiscal objective

- Adding to borrowing
- Reducing borrowing

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (£ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 2018 pre-measures forecast for 2023-24</td>
<td>-5</td>
</tr>
<tr>
<td>Classification changes</td>
<td>+15</td>
</tr>
<tr>
<td>Underlying forecast changes</td>
<td>+10</td>
</tr>
<tr>
<td>Policy changes</td>
<td>+30</td>
</tr>
<tr>
<td>March 2020 forecast for 2023-24</td>
<td>+50</td>
</tr>
</tbody>
</table>
The Budget 2020 targets

Performance against the Government’s fiscal targets

Current budget rule:
balanced by 2022-23

Investment rule:
net investment no more than 3% on average

Welfare cap:
spending below cash limit in 2024-25

Debt-interest-to-revenue ratio:
interest costs no more than 6% of revenue
The current budget target

Per cent of GDP

-2 -1 0 1 2 3 4 5 6 7 8


Outturn
March 2020 pre-measures forecast
March 2020 post-measures forecast
The current budget target

Per cent of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Outturn</th>
<th>March 2020 pre-measures forecast</th>
<th>March 2020 post-measures forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011-12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013-14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015-16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017-18</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019-20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021-22</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2023-24</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The current budget target

- Outturn
- March 2020 pre-measures forecast
- March 2020 post-measures forecast

Per cent of GDP

<table>
<thead>
<tr>
<th>Year</th>
<th>Outturn</th>
<th>March 2020 pre-measures forecast</th>
<th>March 2020 post-measures forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011-12</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013-14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015-16</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017-18</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019-20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021-22</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2023-24</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The maximum investment rule

- 3 per cent of GDP ceiling

Public sector net investment

Per cent of GDP

Debt interest to revenue ratio

Debt-interest-to-revenue ratio

Threshold
Likelihood of meeting the rules

More likely than not to be met

More likely than not to be missed

Fiscal mandate
Debt target
Legislated targets (at outset in November 2016)

Fiscal mandate
Debt target
Legislated targets (today)

Current budget deficit rule
Maximum investment rule
Budget 2020 targets
Risks and uncertainties

• EFO discusses many risks and uncertainties

• But coronavirus obviously the most immediate
  – A simultaneous demand and supply shock
  – Lower receipts, more government spending, but investment?
  – Impossible to predict scale of impact with confidence
  – But more likely near-term impact than long-term
  – Not in official data yet, but already moving market prices
Conclusion: the big judgement

• Hammond aimed for budget surplus and falling debt ratio

• New government more like Labour pre-crisis
  – Balance current budget and sustain higher investment
  – Happy to borrow; content to stabilise debt-to-GDP ratio

• Sustainable on current growth and interest rate forecasts
  – Lots of calls to spend more while borrowing costs low
  – But financing conditions could become less favourable

• But more vulnerable to interest rate / inflation surprises
  – Debt burden higher, more index-linked and shorter maturity
Conclusion: the big judgement

Gross financing requirement
PSNB

Per cent of GDP

Conclusion: the big judgement

- Gross financing requirement
- PSNB

Per cent of GDP
- 1999-00
- 2003-04
- 2007-08
- 2011-12
- 2015-16
- 2019-20
- 2023-24
Conclusion: the big judgement

Per cent of GDP

- CGNCR
- Redemptions
- Other
- Gross financing requirement