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The end (of austerity) is nigh?

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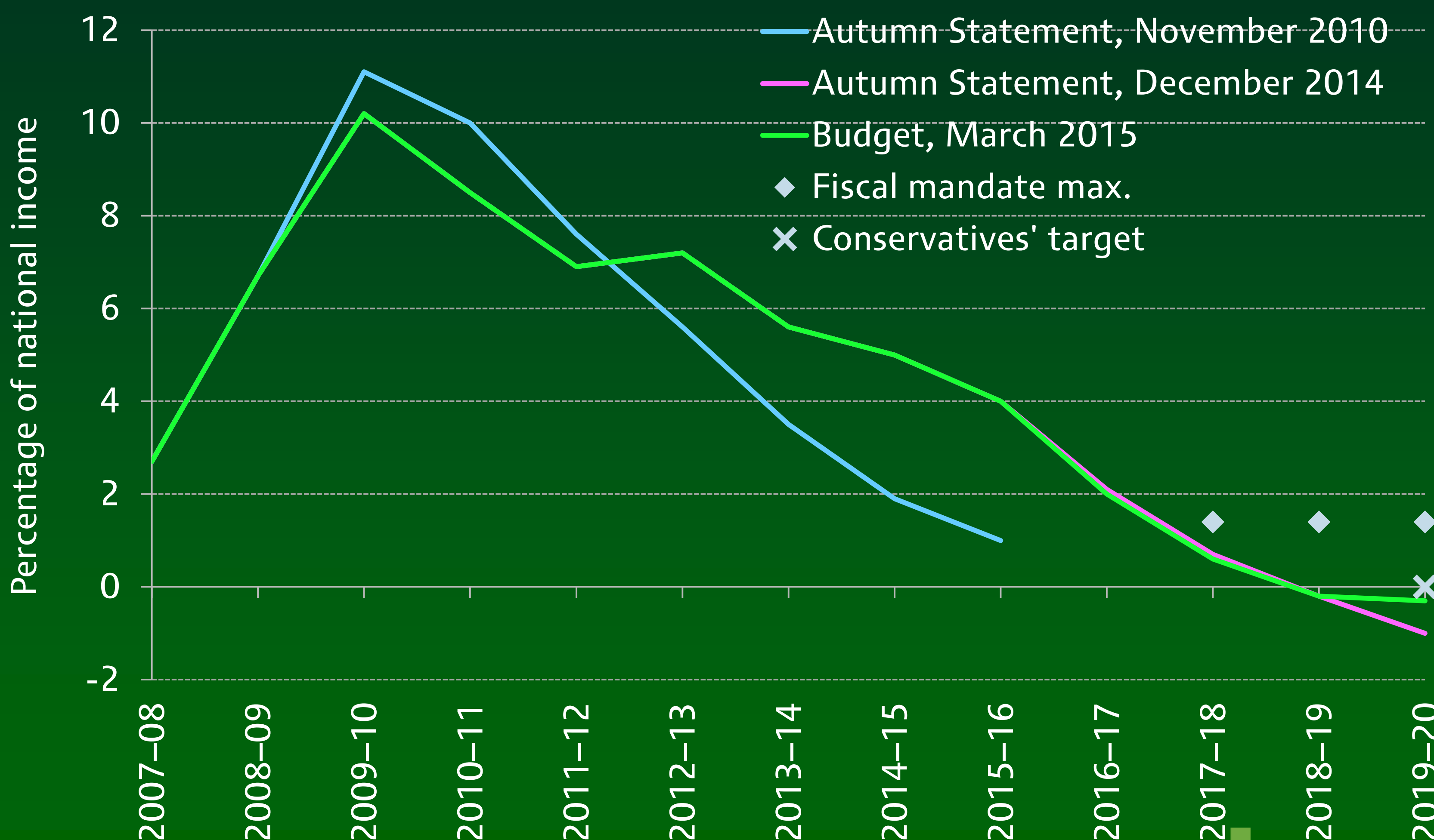
IFS hosts two ESRC Research Centres

Big picture

- Underlying position of the public finances little changed, in the absence of policy decisions
- But George Osborne is now aiming for a looser medium-term fiscal position
  - Surplus of £7 billion instead of £23 billion
  - Extra resources entirely used to reduce planned cut to public spending
  - Spending cuts to finish one year earlier: in 2018–19, not 2019–20
- Squeeze required on public service spending also eased by good news on inflation and debt interest costs
- Headline debt to fall as a share of national income one year earlier than previously forecast
  - Achieved by selling off government assets more quickly
  - Not a genuine reduction in government indebtedness

Forecasts for borrowing



Sources: OBR, Economic and Fiscal Outlook, March 2015; Figure 1.1b of *The IFS Green Budget: February 2015*.

Changes in borrowing forecasts since Dec 2014

Public sector net borrowing, £ billion

	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
AS 2014	**97.5**	**91.3**	**75.9**	**40.9**	**14.5**	**–4.0**	**–23.1**
Policy measures on scorecard		0.0	–0.7	–0.0	–0.2	0.9	0.6
Forecasting changes		–0.1	0.4	0.4	0.4	–0.2	–4.7
Spend changes not on scorecard		–1.0	–0.4	–1.9	–1.9	–2.0	20.2
Budget 2015	**97.3**	**90.2**	**75.3**	**39.4**	**12.8**	**–5.2**	**–7.0**

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

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The scorecard: giveaways mostly paid for by takeaways

Effect on public sector net borrowing, £ billion

	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Measures from the scorecard		**0.0**	**–0.7**	**–0.0**	**–0.2**	**0.9**	**0.6**
Tax giveaway			0.6	2.8	2.8	3.1	3.2
Tax takeaway			–1.0	–2.9	–3.1	–2.3	–2.6
Spend giveaway			0.7	–	–	–	–
Spend takeaway			–1.0	–	–	–	–

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

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Relatively small forecasting changes overall…

Effect of forecasting changes on public sector net borrowing, £ billion

	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Forecasting changes	**–0.1**	**0.4**	**0.4**	**0.4**	**–0.2**	**–4.7**
Changes to forecast receipts	–1.1	3.3	4.9	5.8	4.0	–1.9
Changes to forecast spending	1.0	–2.9	–4.5	–5.4	–4.2	–2.8

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

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Some good news offsets some bad news on revenues…

Effect of forecasting changes on public sector net borrowing, £ billion

	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Forecasting changes	**–0.1**	**0.4**	**0.4**	**0.4**	**–0.2**	**–4.7**
Changes to forecast receipts	–1.1	3.3	4.9	5.8	4.0	–1.9
Lower inflation	0.1	0.7	0.7	0.4	0.8	1.0
Average earnings	–1.1	–1.8	–1.3	–0.8	–1.3	–3.9
Higher net inward migration boosts employment	–0.6	–0.8	–1.2	–1.4	–2.0	–2.5
North Sea – prices/production/exp.	0.0	0.9	0.8	1.1	1.2	1.1
Latest receipts of VAT and CT	–1.5	–2.0	–1.8	–1.8	–1.9	–2.3
Changes to forecast spending	1.0	–2.9	–4.5	–5.4	–4.2	–2.8

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks. Sub-categories of forecasting changes to revenues/spending are not comprehensive.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

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Good news on debt interest spending and welfare means more money for public services…

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Changes to forecast spending	1.0	–2.9	–4.5	–5.4	–4.2	–2.8
Change to GDP deflator	0.0	0.0	–0.9	–1.4	–0.1	1.3
Lower inflation	–2.2	–4.2	–4.7	–5.6	–6.5	–6.9
Gilt and short rates	–0.3	–1.2	–2.1	–3.0	–3.9	–4.5
Implied change to dept. spending	0.0	0.0	6.7	7.9	8.7	8.9

Notes: Numbers might not sum due to rounding. All figures for borrowing are on a basis that excludes public sector banks. Sub-categories of forecasting changes to revenues/spending are not comprehensive.
Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

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The most significant policy choice was not on the scorecard

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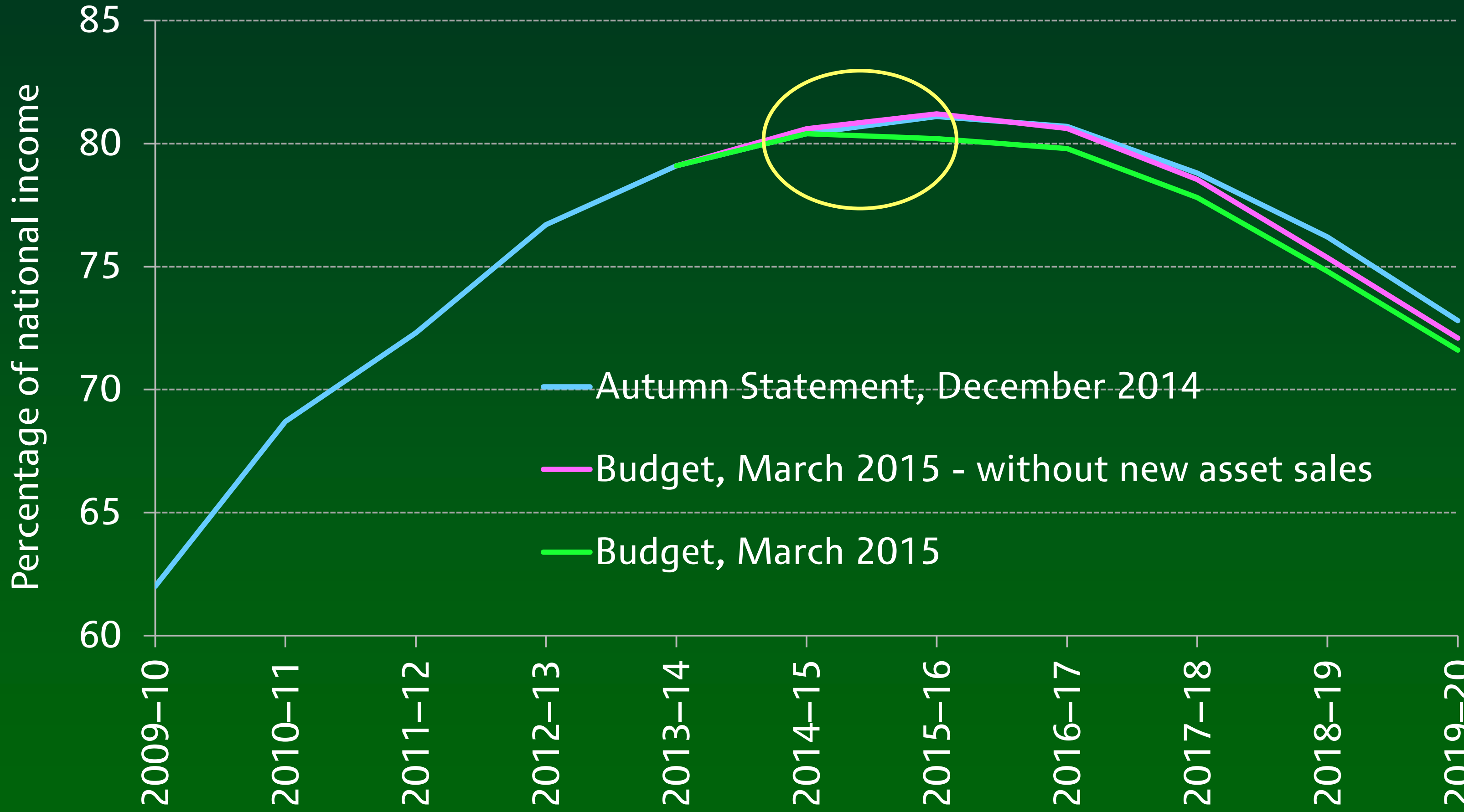
WANTED: New dictionary for Mr Osborne?

- Autumn Statement 2014:
  - Planned to freeze total spending in real terms in 2018–19 and 2019–20
  - "The government's *neutral* assumption is that TME will be held flat in real terms in 2018–19. Autumn Statement extends this *neutral* fiscal assumption to 2019–20." (AS 2014)
- Budget 2015:
  - Plans to freeze total spending in real terms in 2018–19 but increase in line with nominal GDP in 2019–20 : £20bn increase in spending relative to AS 2014 plans
  - "From 2018–19 the government has set a *neutral* fiscal assumption, holding TME flat in real terms in 2018–19 and in 2019–20 increasing TME in line with nominal GDP." (Budget 2015)

Debt to fall next year…but only because of accelerated asset sales



Source: Office for Budget Responsibility; IFS calculations.

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Summary

- Underlying position of the public finances little changed, in the absence of policy decisions
- Headline debt to fall as a share of national income one year earlier than previously forecast
  - Achieved by selling off government assets more quickly
  - Not a genuine reduction in government indebtedness
- Policy measures on the scorecard were small overall
- Biggest policy decision made was not on the scorecard
  - Reduce planned surplus in 2019–20 from £23 billion to £7 billion
  - Use all these extra resources to reduce planned cut to public spending
  - Spending cuts to finish one year earlier: in 2018–19, not 2019–20

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