

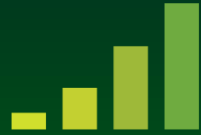


Institute for
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Post Pre-Budget Report briefing

Institute for Fiscal Studies, 10th December 2009

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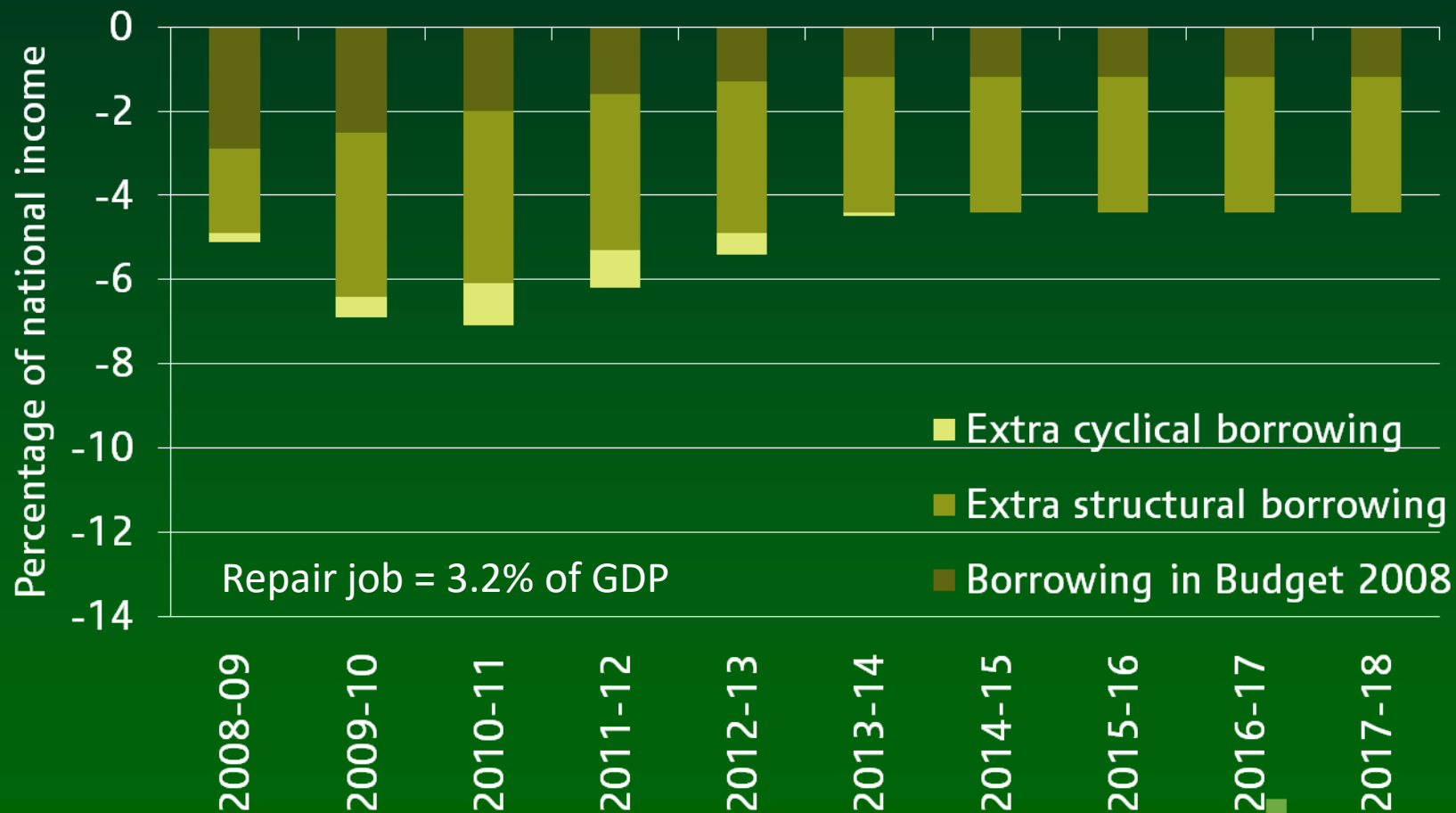


Public finances: less to repair, and less done?

Carl Emmerson

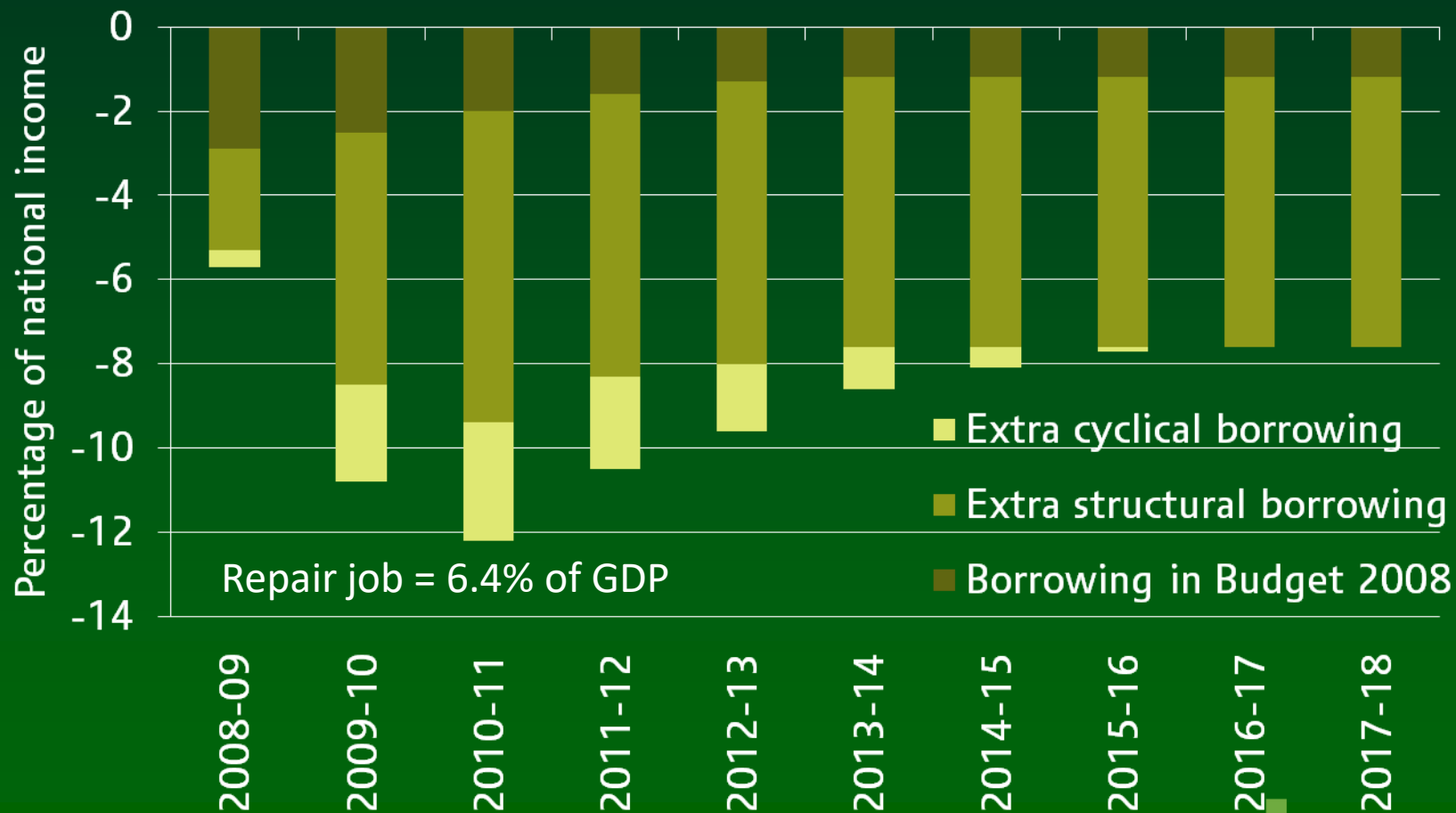
How big is the problem?

Public sector net borrowing in PBR 2008, excluding policy measures since PBR 2008



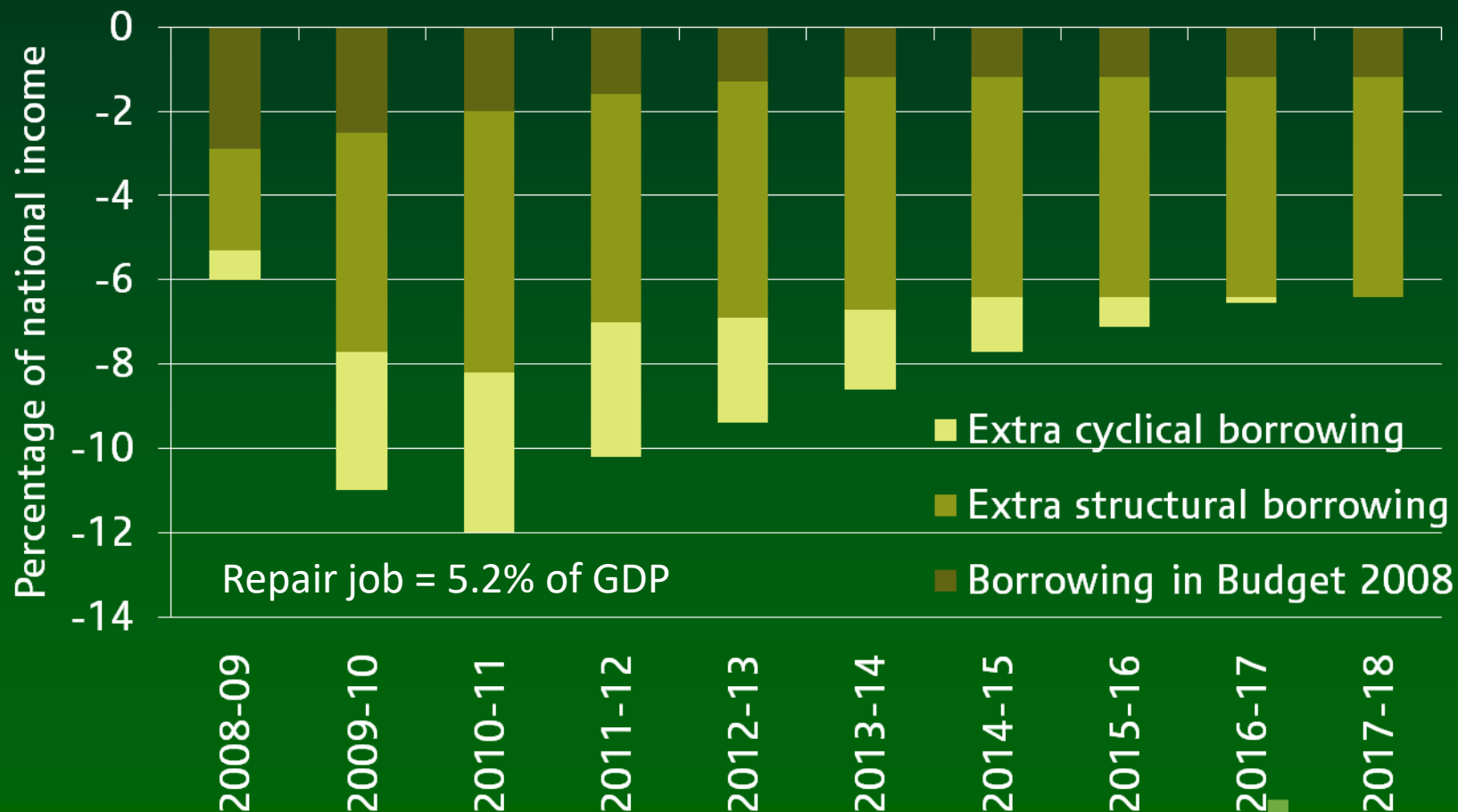
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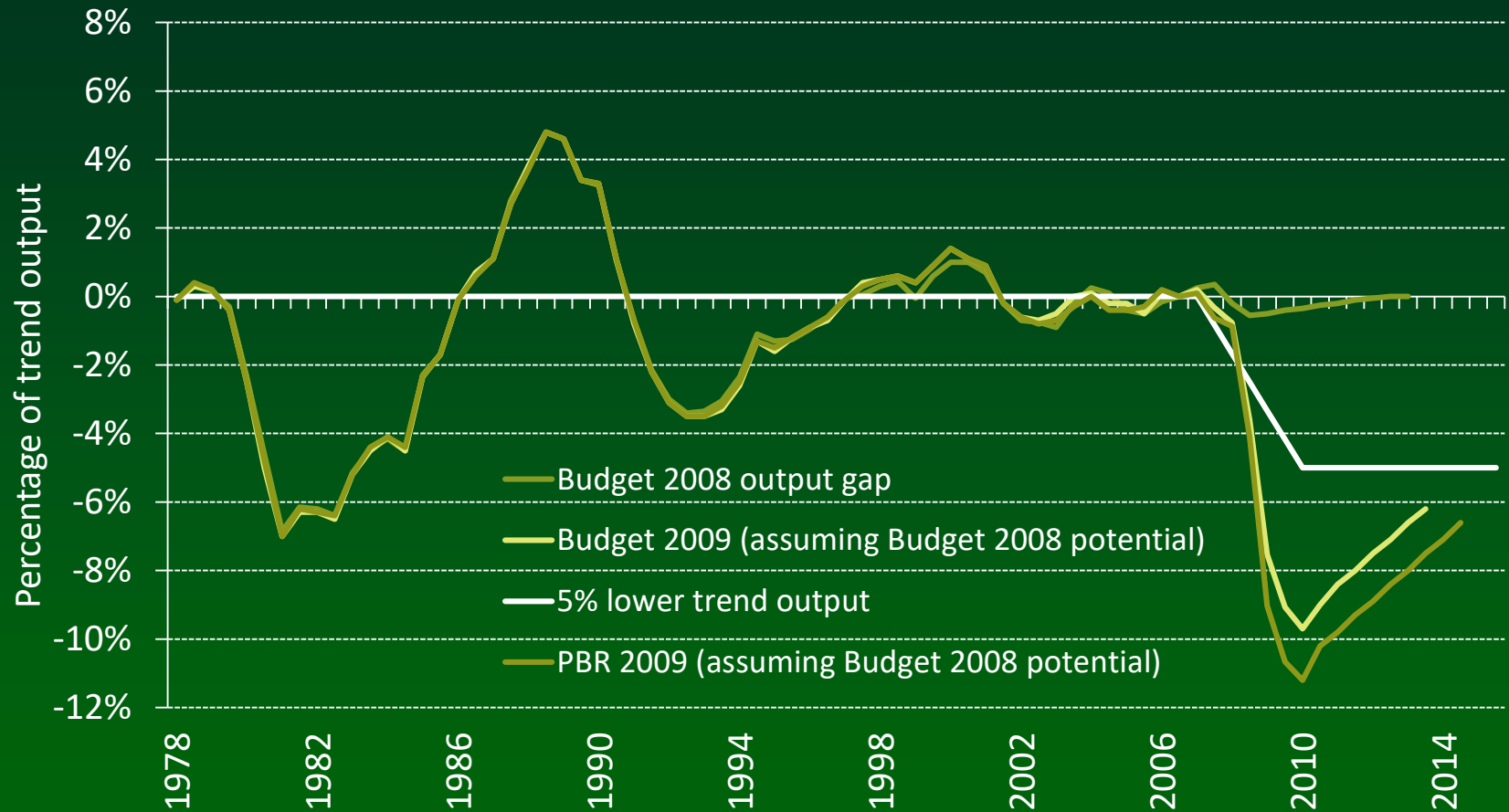
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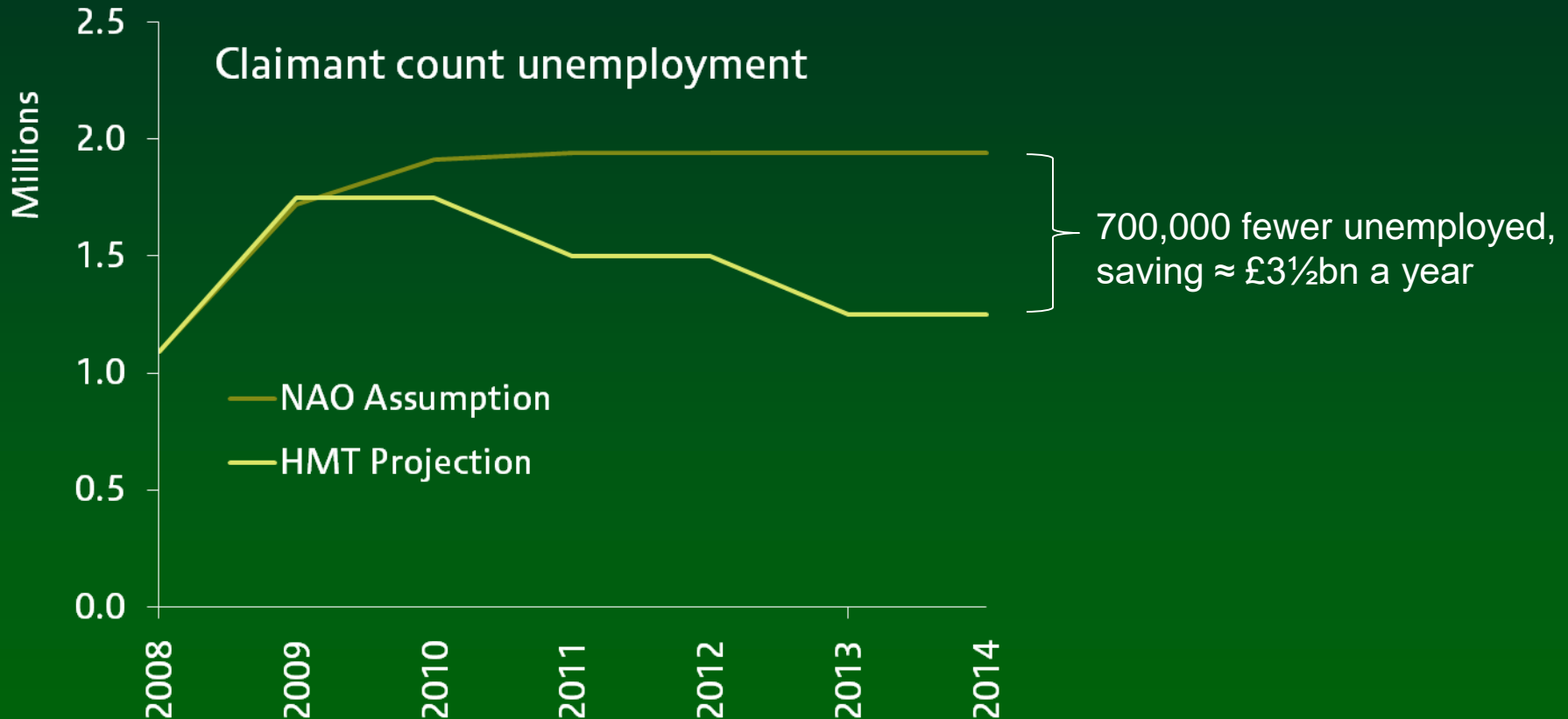


Repair job = 5.2% of GDP

Greater slowdown in 2009, but all temporary?



Caution in the unemployment assumption



Changes to borrowing since Budget 2009

Public sector net borrowing, £ billion

	2009–10	2010–11	2011–12	2012–13	2013–14
Budget 2009	175.4	173	140	118	97
Revisions	2.6	–½	–4½	–2½	0
PBR 2009, no discretionary changes	178.0	172½	135½	115½	97



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Revisions	2.6	−½	−4½	−2½	0
<i>Of which</i>					
Revenue fall	−1.5	−1.9	4.5	8	12
Spending increase	3.6	0.7	−8.7	−11	−11

Note: Numbers do not sum due to rounding.
Sources: HM Treasury; IFS calculations.



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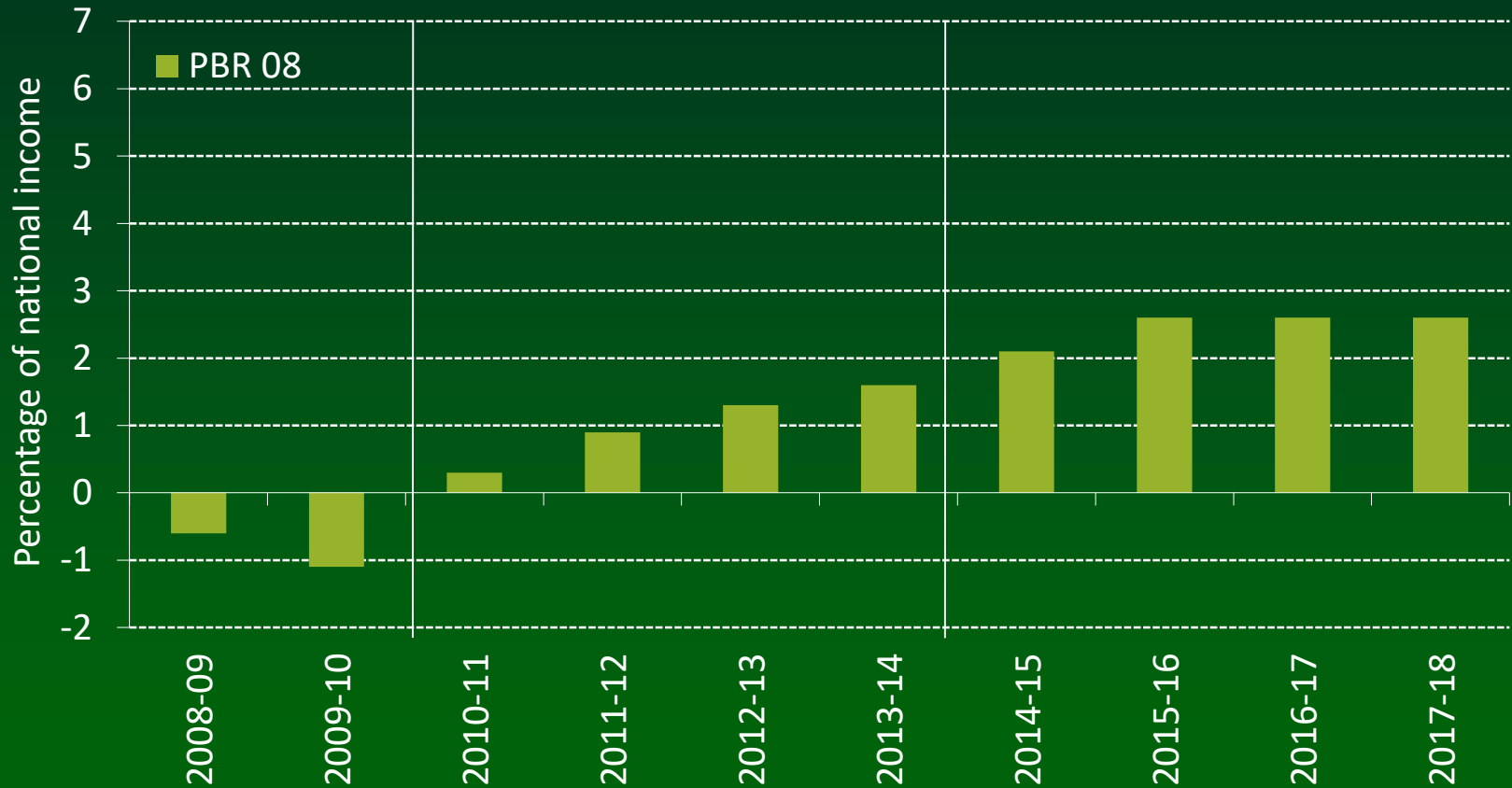
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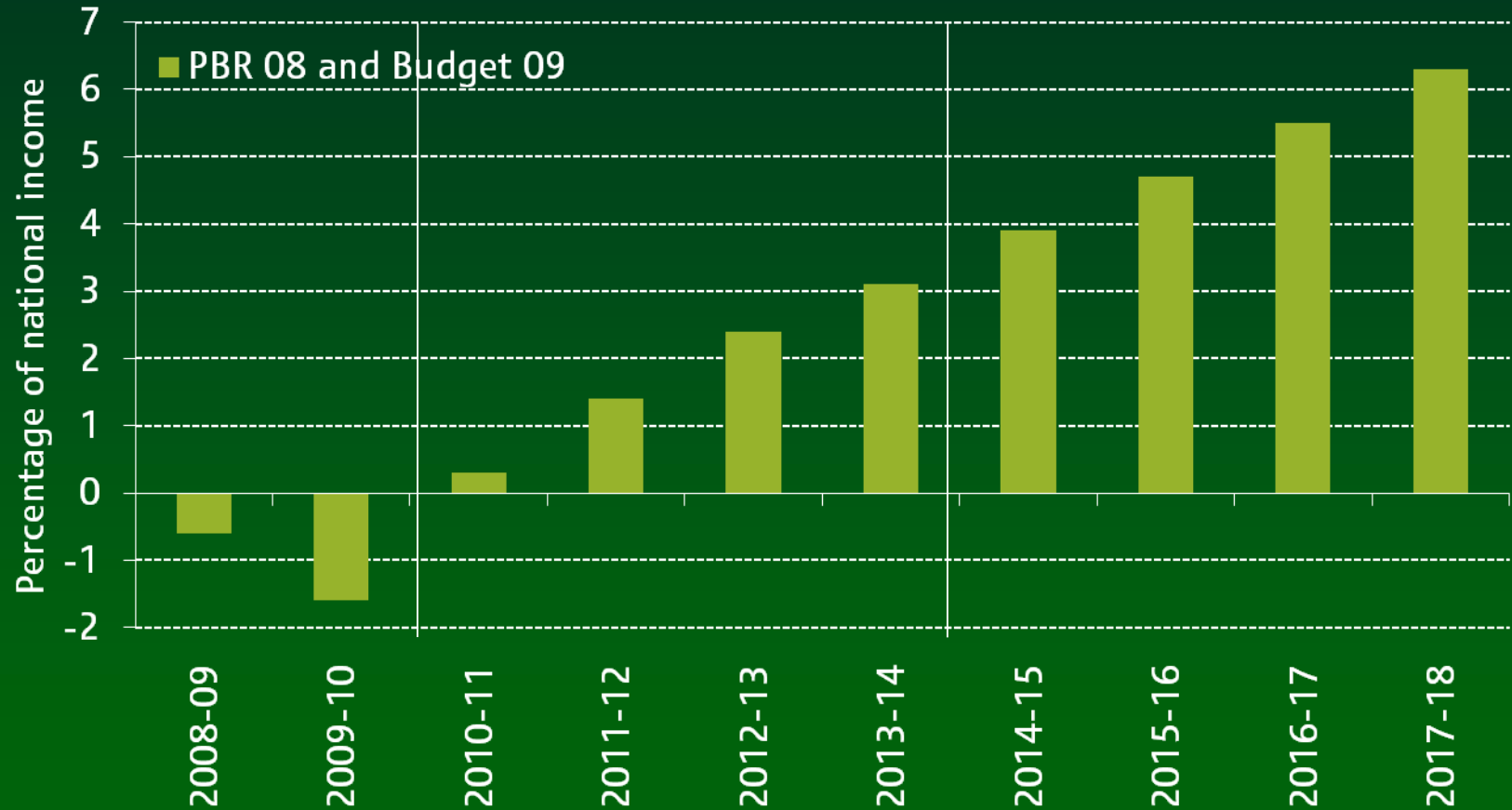
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Discretionary changes	–0.4	3.7	4	2	–1
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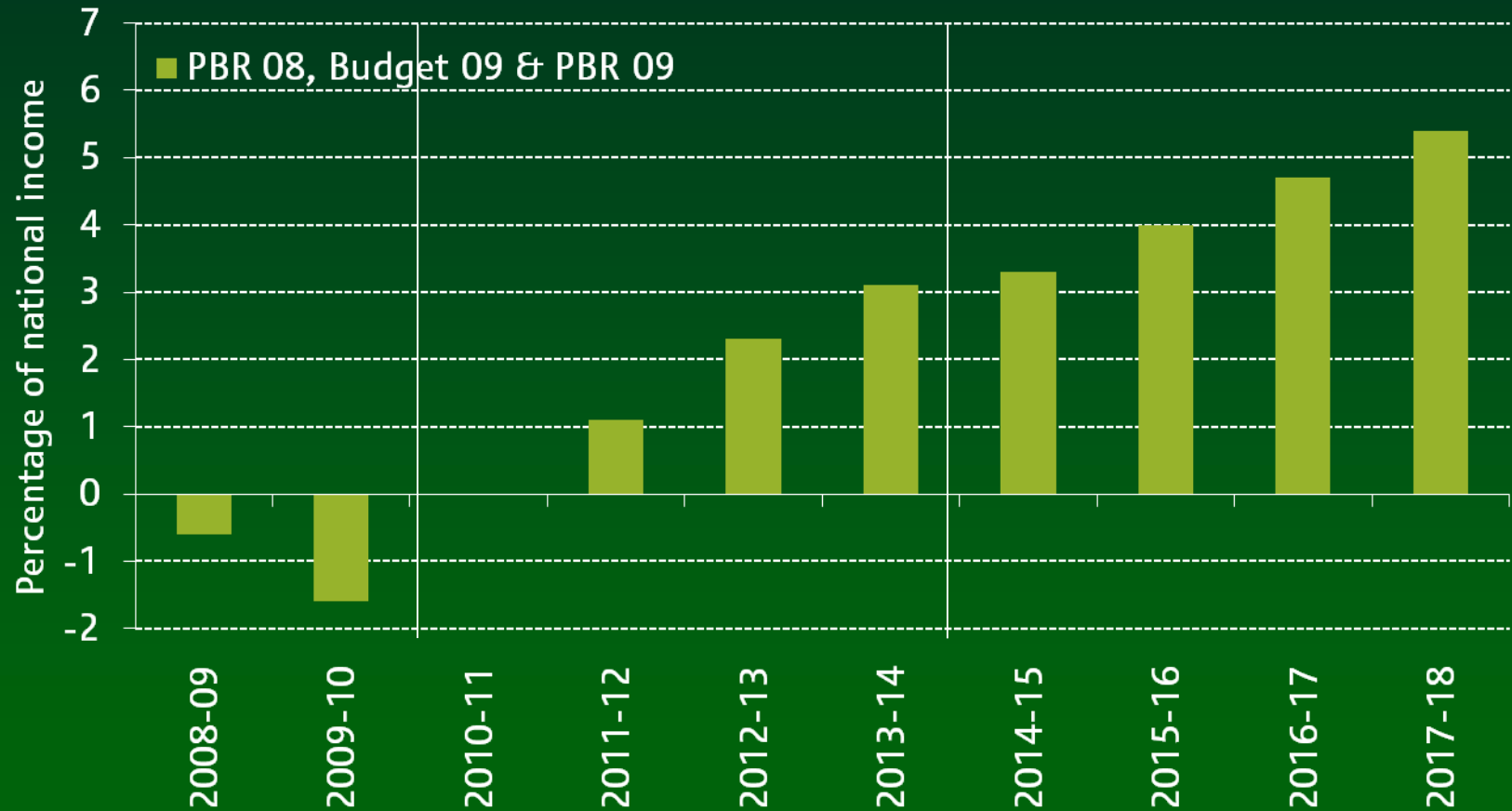
Fiscal tightening: two parliaments of pain



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Measures: giveaway then takeaway

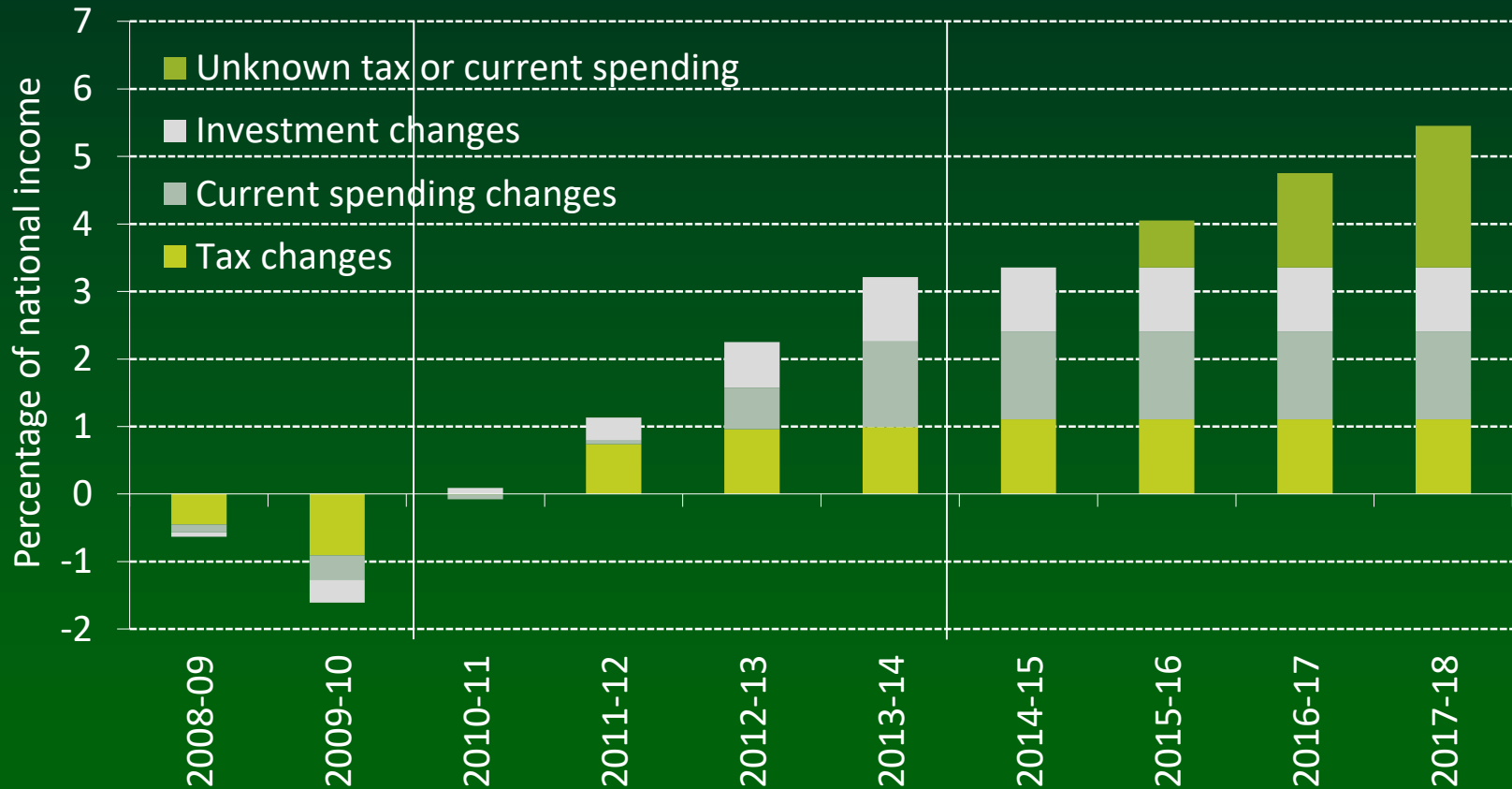
PBR 2009	£ billion					
	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15
Tax giveaway	0.0	0.3	1.9	1.7	1.8	1.9
Tax takeaway	0.6	0.4	5.5	6.8	7.8	10.4
Spending giveaway	0.2	4.0	7.7	6.9	5.0	4.8
Spending takeaway	0.0	0.1	0.0	0.0	0.0	0.0
Net tax increase	0.6	0.1	3.5	5.1	6.0	8.5
Net spending cut	-0.2	-3.9	-7.7	-6.9	-5.0	-4.8
Net giveaway	-0.4	3.7	4.2	1.8	-1.0	-3.7

Note: Actual numbers may differ due to rounding.
Sources: HM Treasury; IFS calculations.

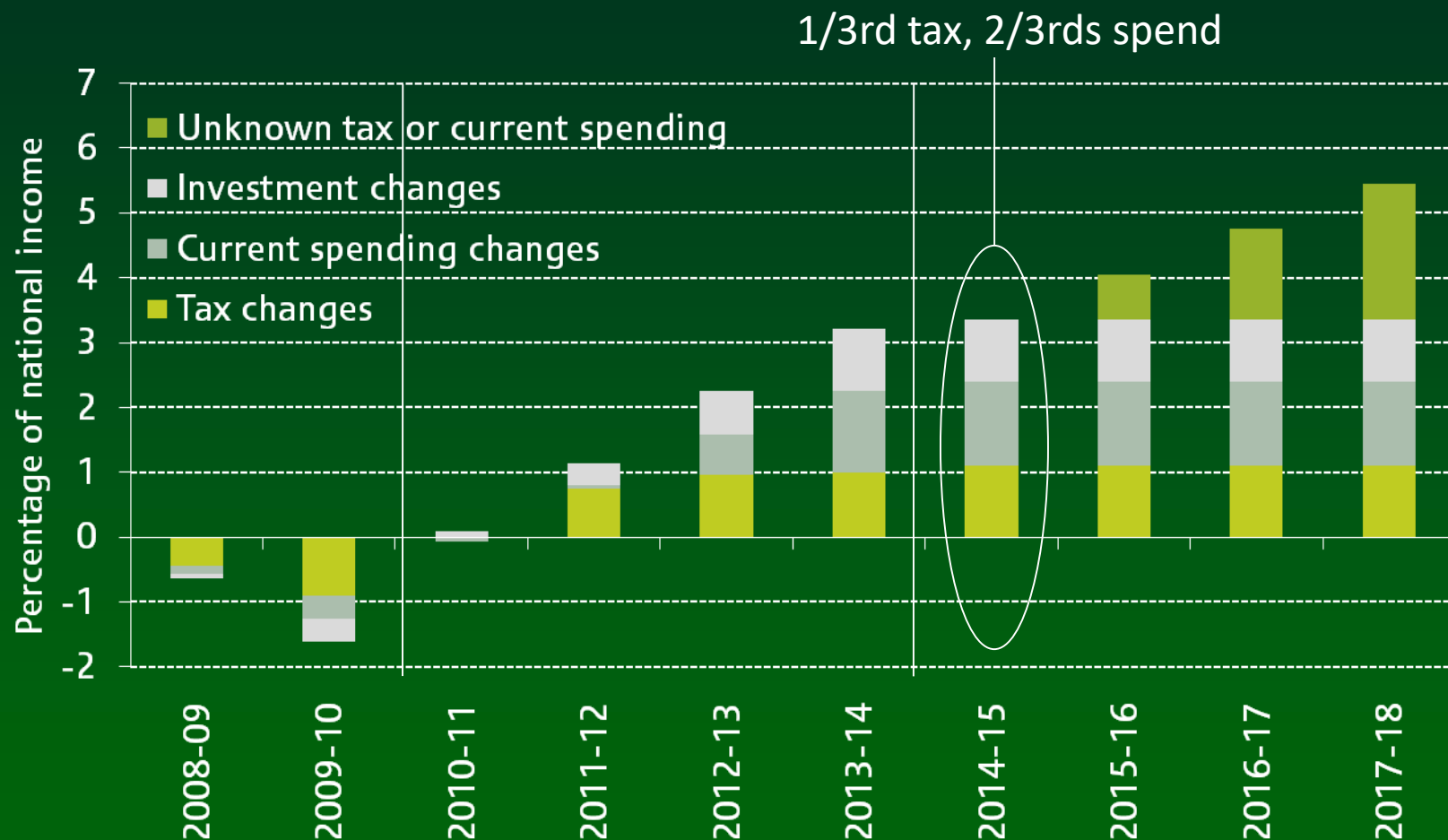


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Fiscal tightening: two parliaments of pain

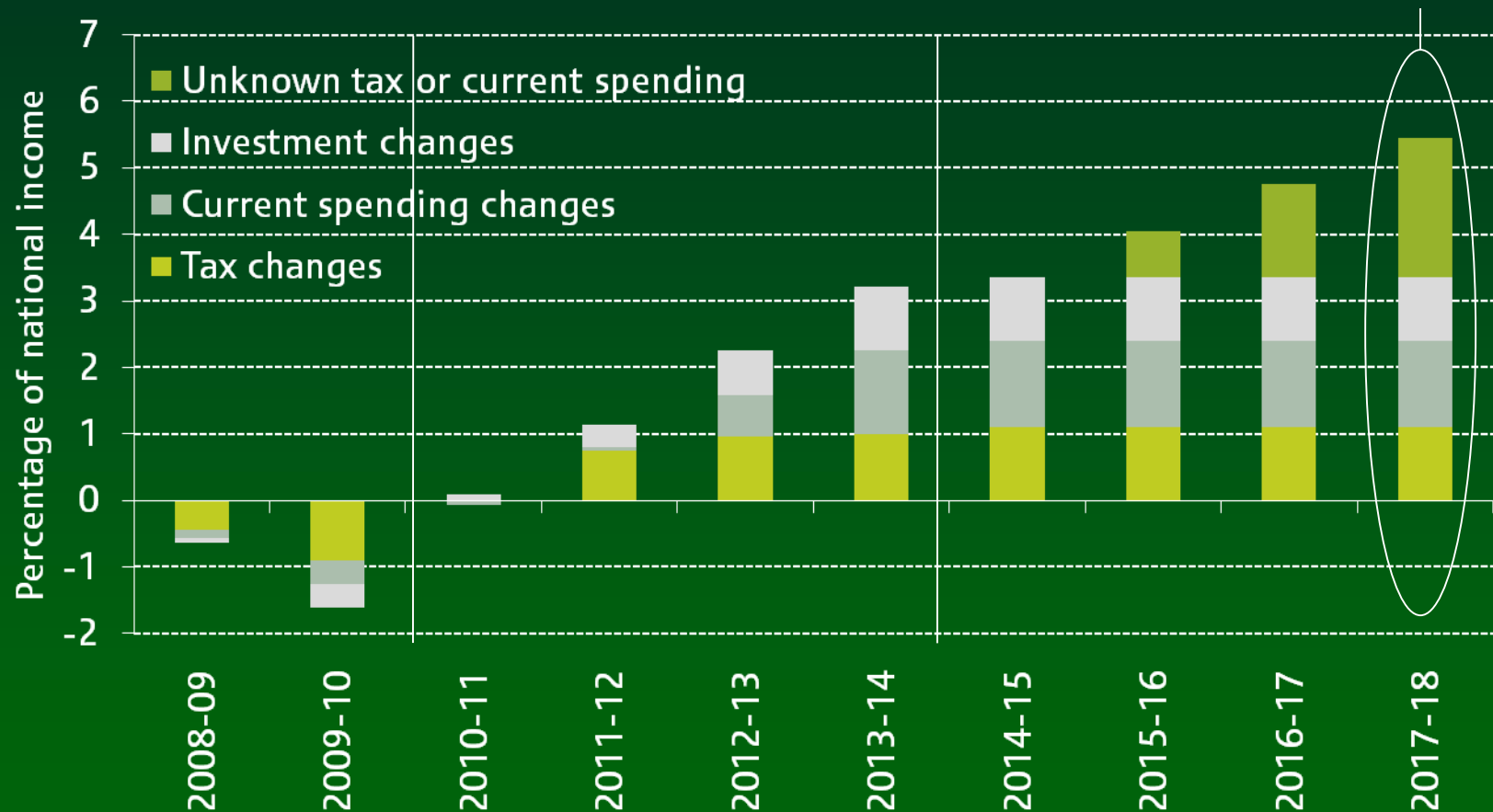


Fiscal tightening: two parliaments of pain



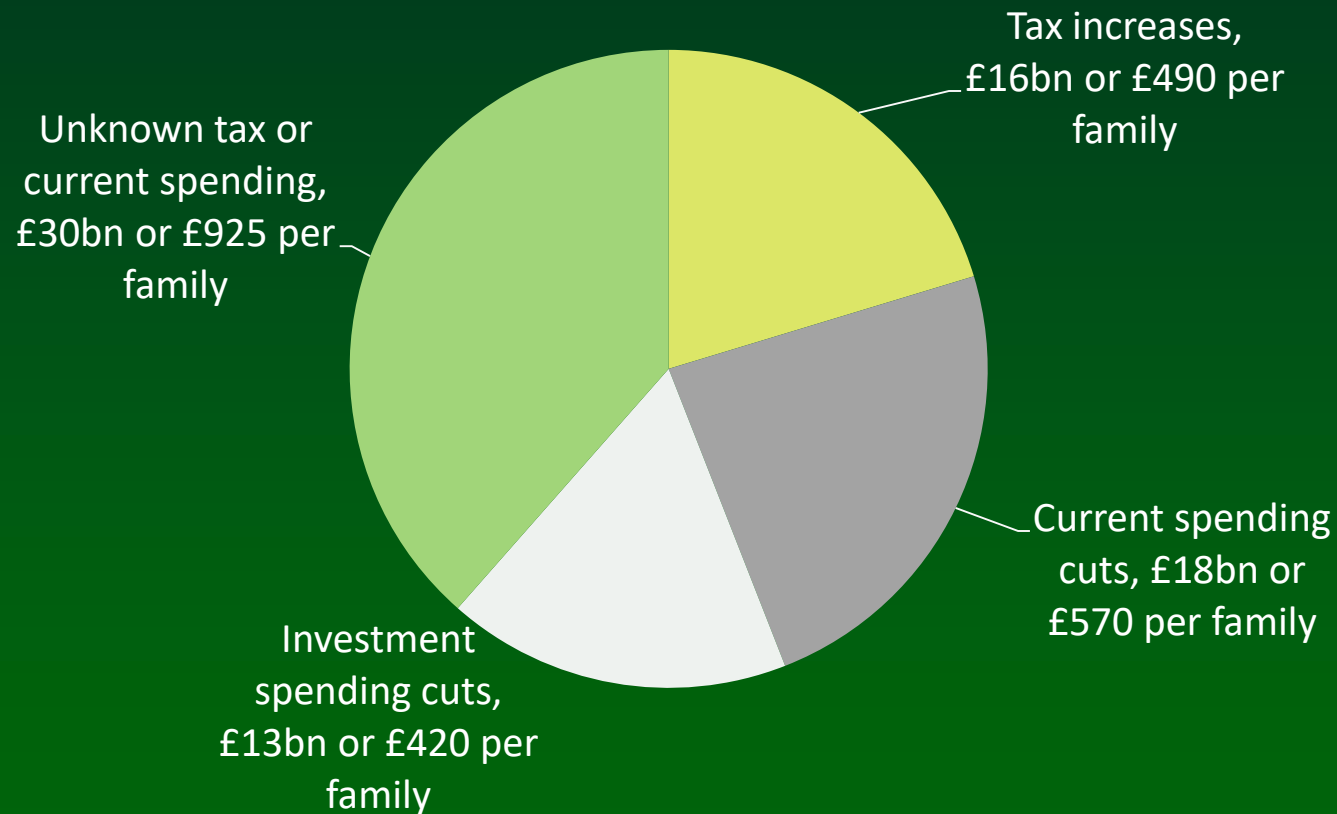
Fiscal tightening: two parliaments of pain

Total repair 5.4%



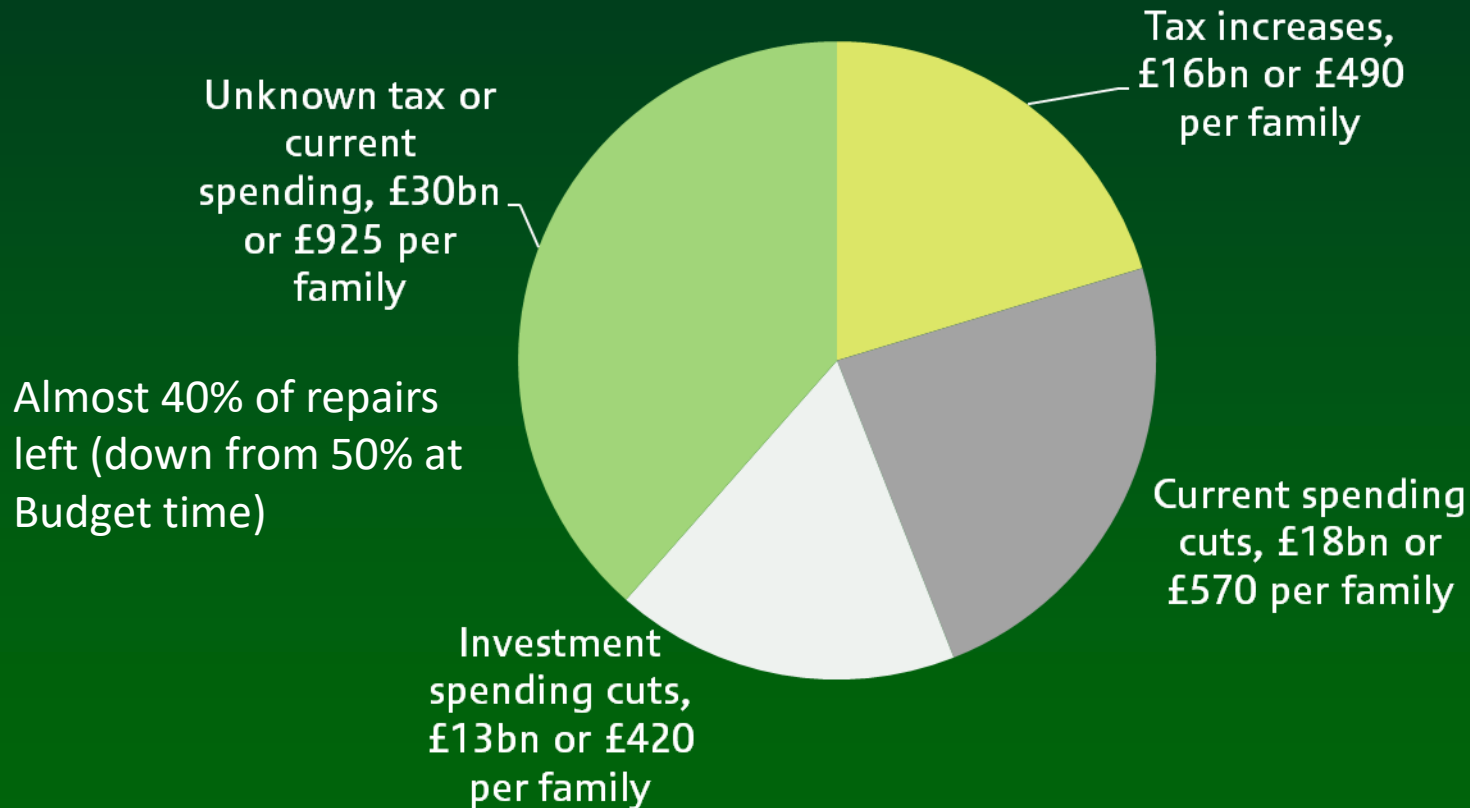
Eventual annual cost of fiscal tightening

Total tightening = 5.4% of national income which is £76 billion or £2,400 per family

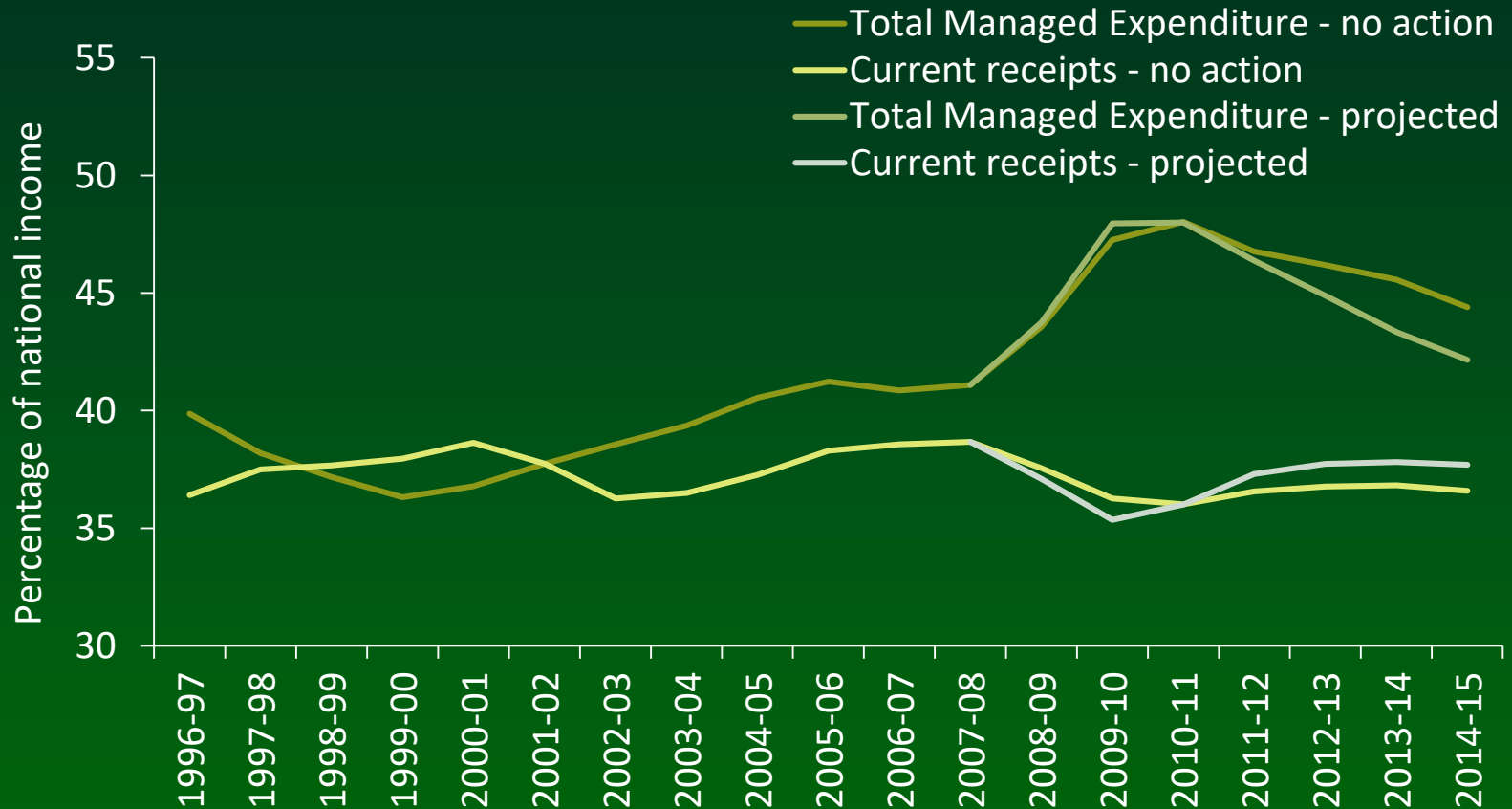


Eventual annual cost of fiscal tightening

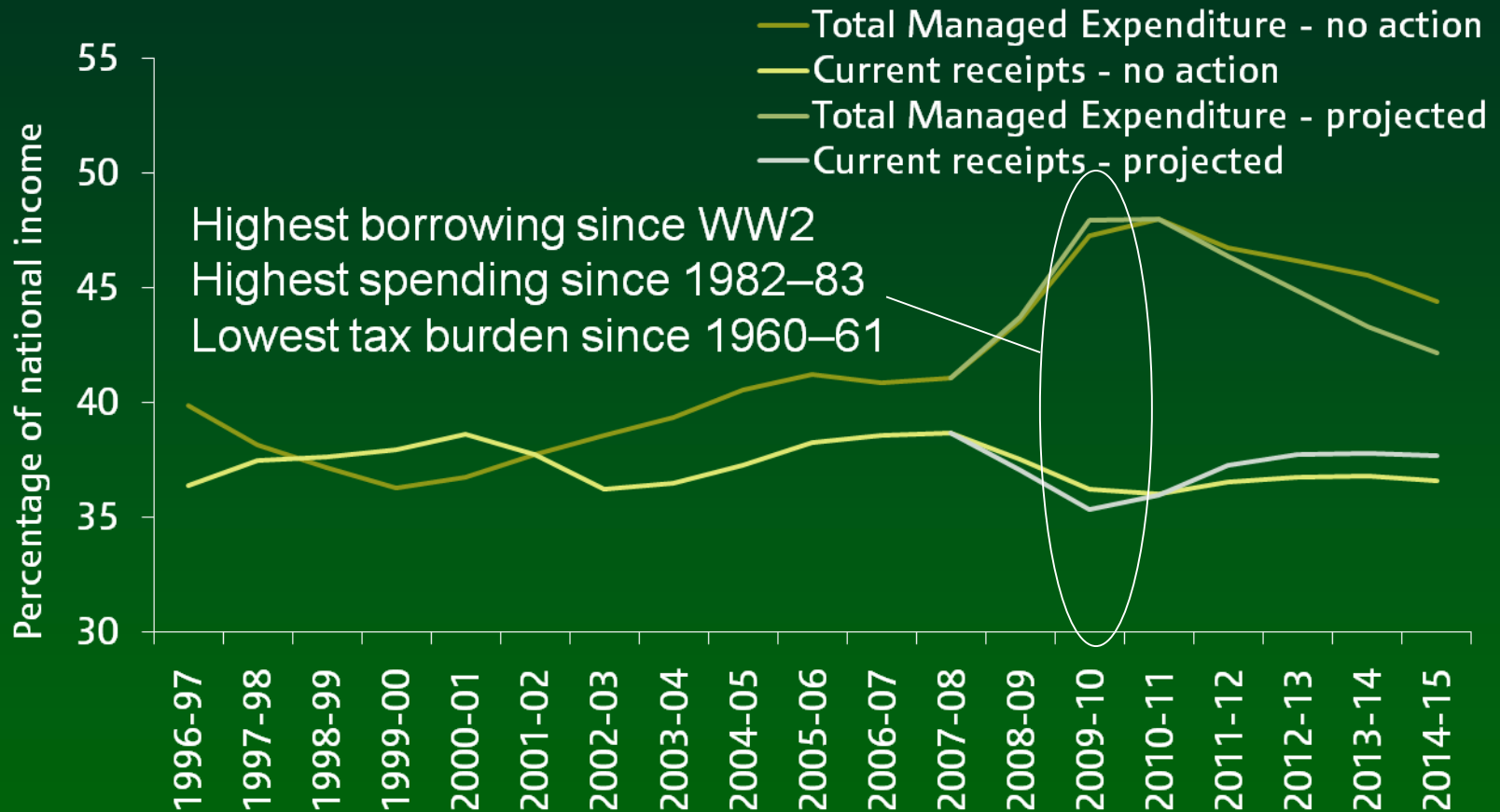
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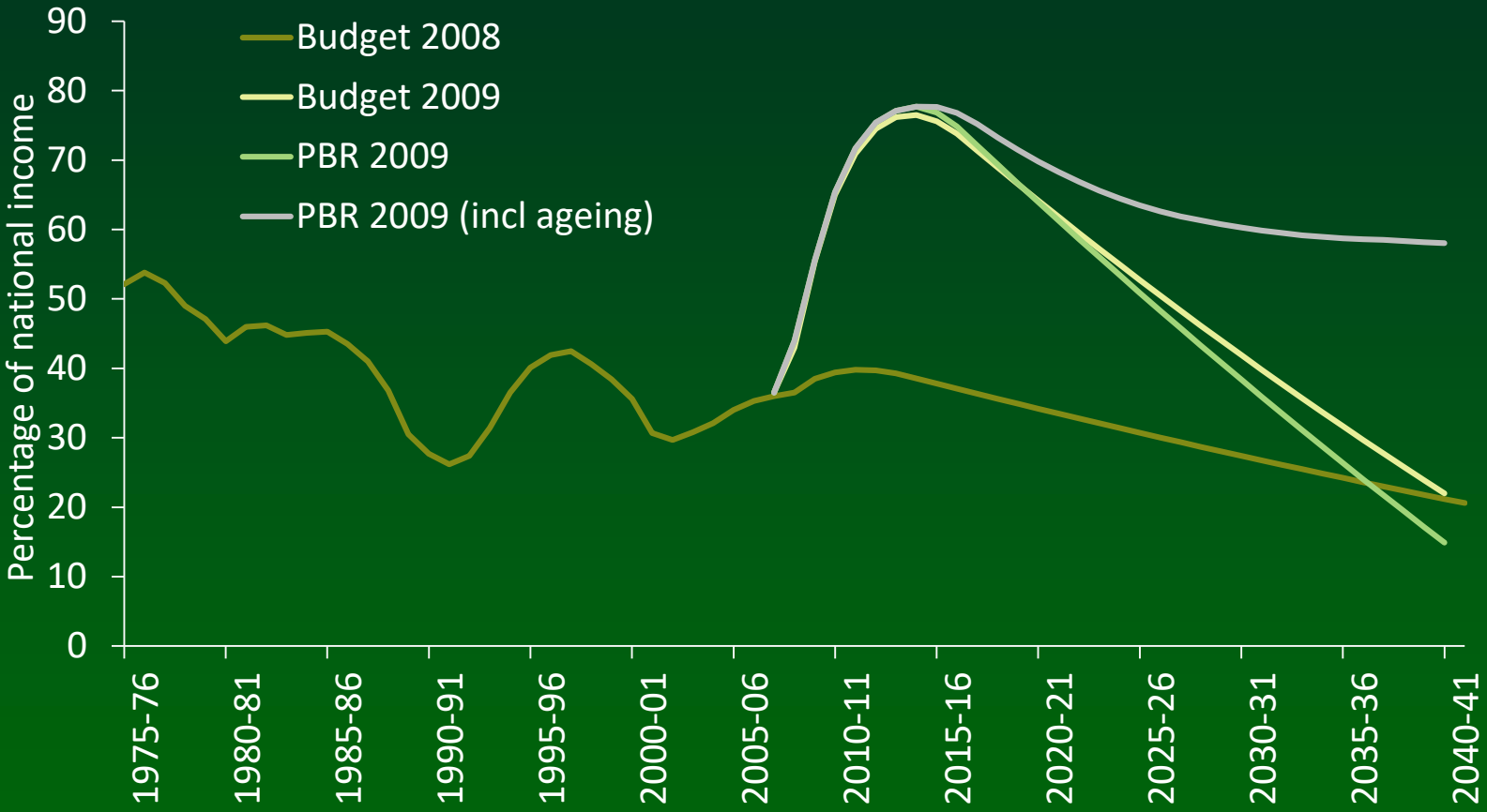
What would have happened with no action?



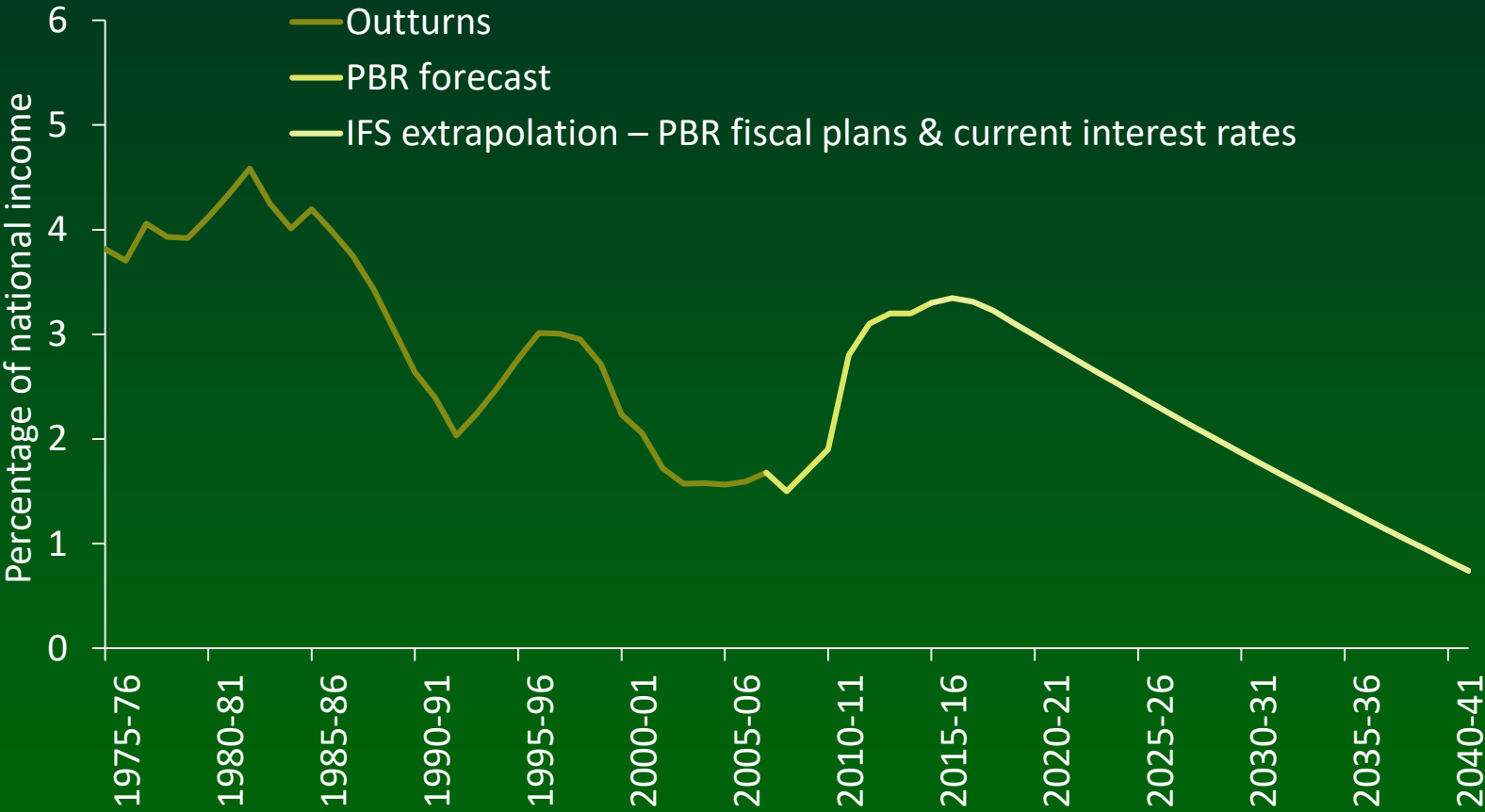
What would have happened with no action?



Debt to remain high for a generation



But burden of high debt low



Note: Excludes unrealised losses on financial interventions.
Sources: HM Treasury; IFS calculations.

Breaking the rules?

- Fiscal Responsibility Bill legislates the “Fiscal Consolidation Plan”
 - borrowing in 2013–14 no more than half the level in 2009–10
 - borrowing to fall every year to 2015–16
 - debt to fall as a share of national income in 2015–16
- None of these is a sensible fiscal rule
- Law could be broken
 - Treasury forecasting a fall from 12.6% of national income to 5.5%
 - our estimates suggests that pre-crisis forecasting accuracy and no further policy changes then chances of not halving deficit four-in-ten
 - if forecast to 2012–13 accurate would still have a one-in-four chance of breaking the law

Breaking the rules?

- Conservatives proposed fiscal rule
 - debt should be falling at the end of the forecast horizon
- Also not a sensible fiscal rule
- Under current forecasts rule more likely than not to be broken
 - Treasury projecting debt to *increase* from 77.1% of national income in 2013–14 to 77.7% in 2014–15
 - on current policies and forecasts roughly a six-in-ten chance of their rule being broken

Summary

- Headline borrowing and debt little changed since Budget
 - underlying revenues and spending reduced by similar amounts
 - but more borrowing now thought to be temporary rather than permanent so smaller repair job needed
- Rather than fix the problem more quickly Chancellor has responded by fixing it more gradually
 - PBR 2009 contains a net giveaway in 2011–12 and 2012–13
 - mix of cure also revised: now one-third tax and two-thirds spend rather than one-fifth tax and four-fifths spend
- Debt to remain high for a generation
 - potentially to stabilise around 60% of national income unless further policies to mitigate costs of ageing population are announced
- Fiscal Consolidation Plan far from sensible and law could be broken





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