Carl Emmerson

Outlook for the public finances

18 November 2022

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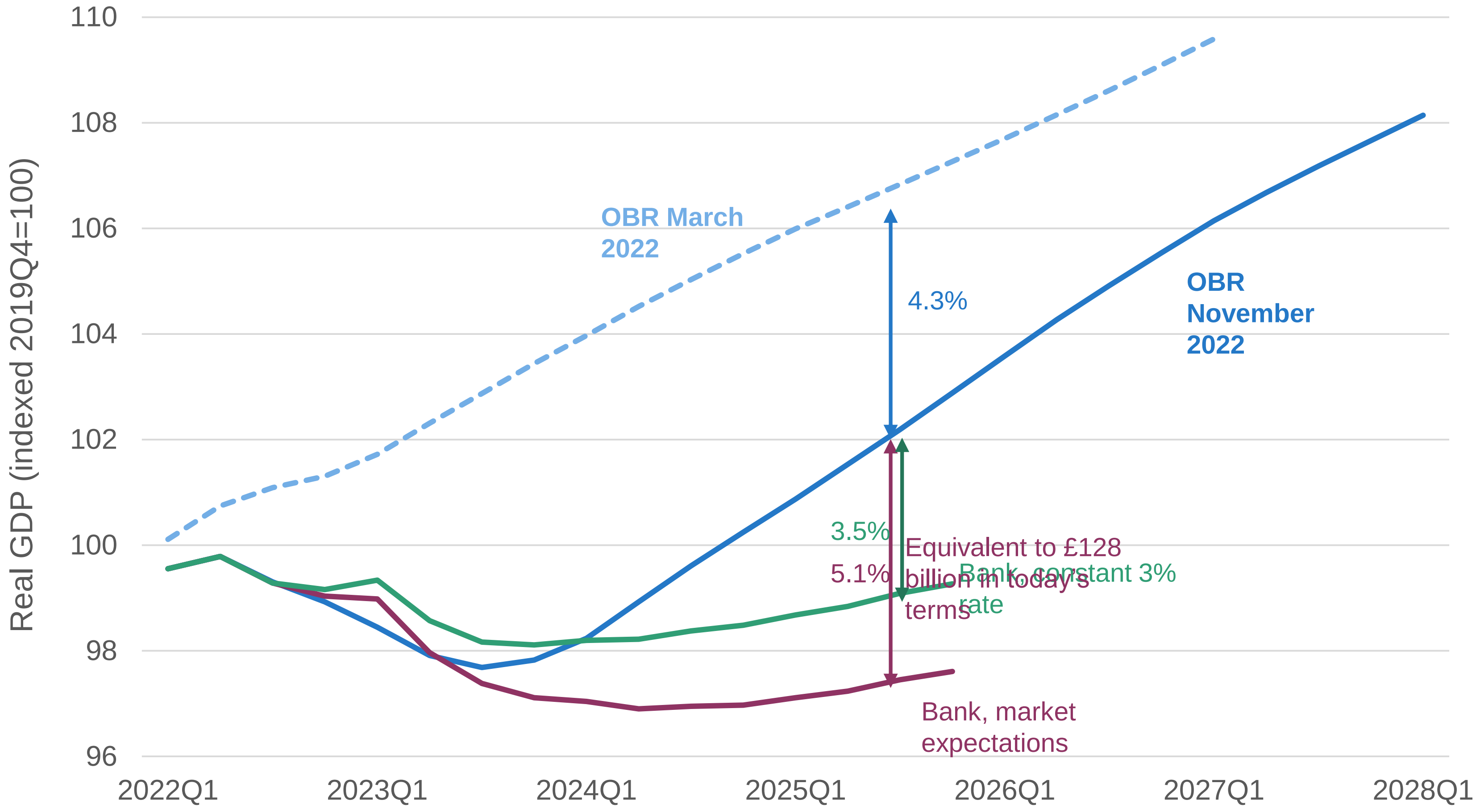
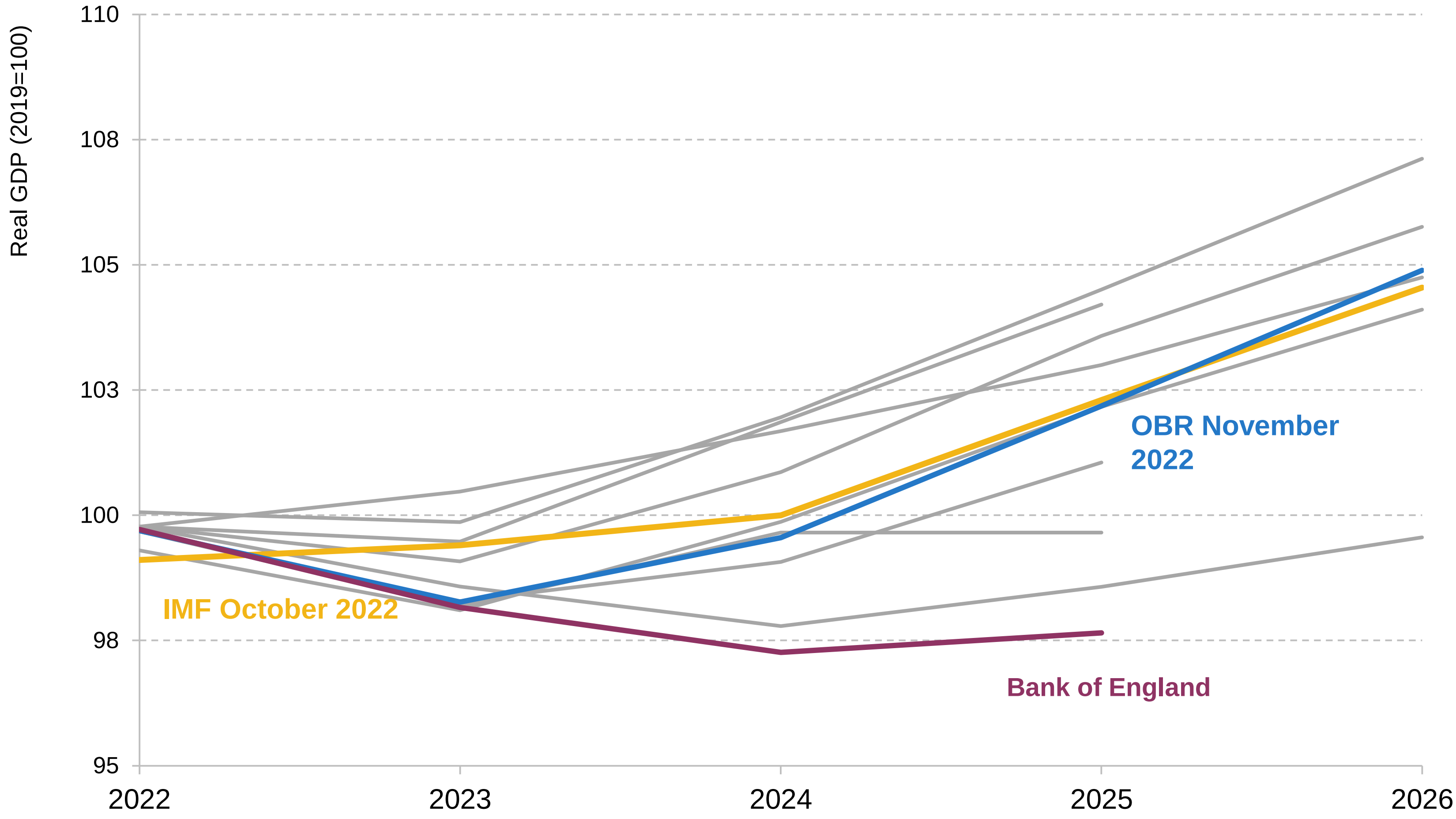
Economic and Social Research Council

The OBR’s growth forecast is much less gloomy than the Bank’s



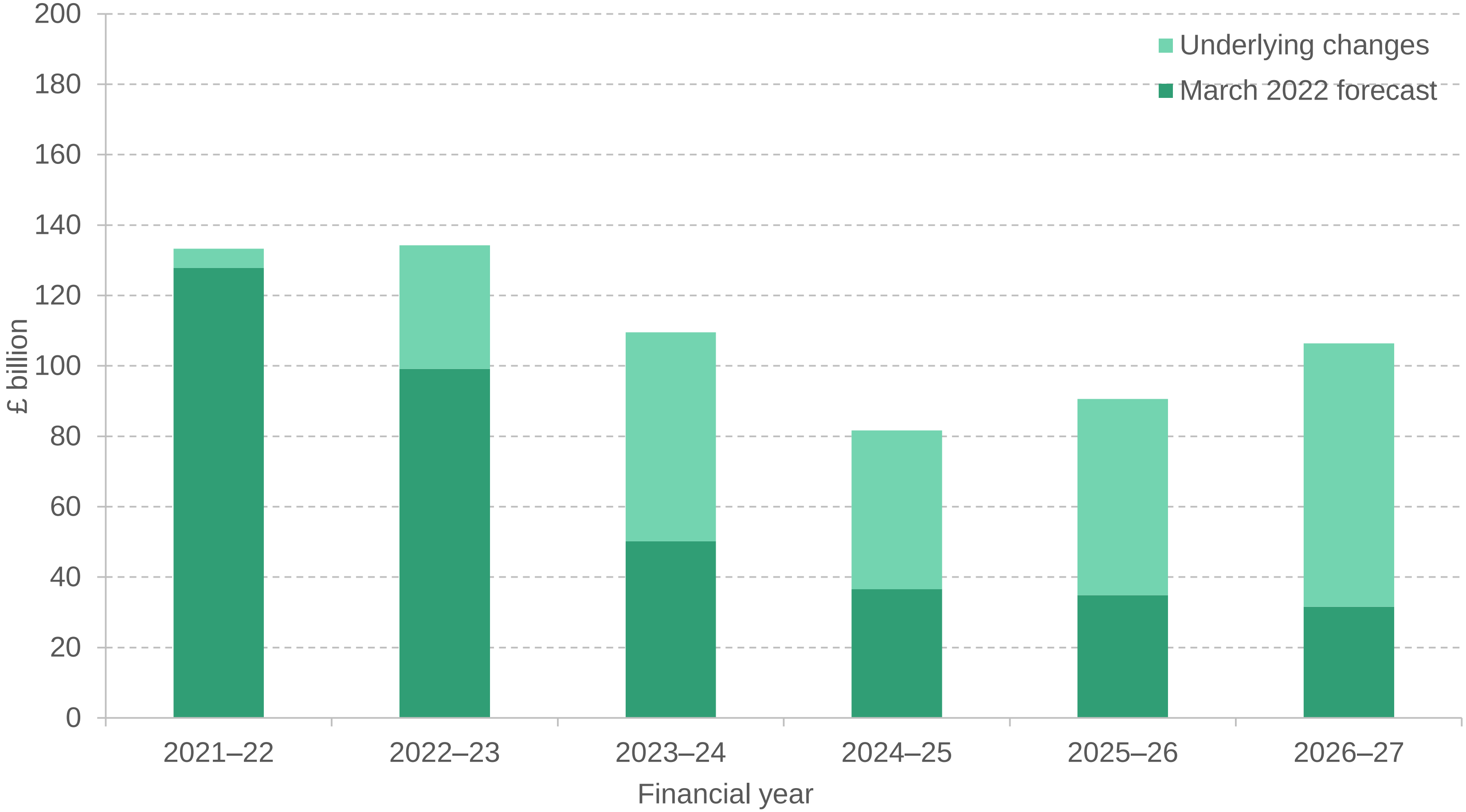
Sources: OBR and Bank of England, Monetary Policy Report (November 2022)

But OBR less of an outlier compared to independent forecasters



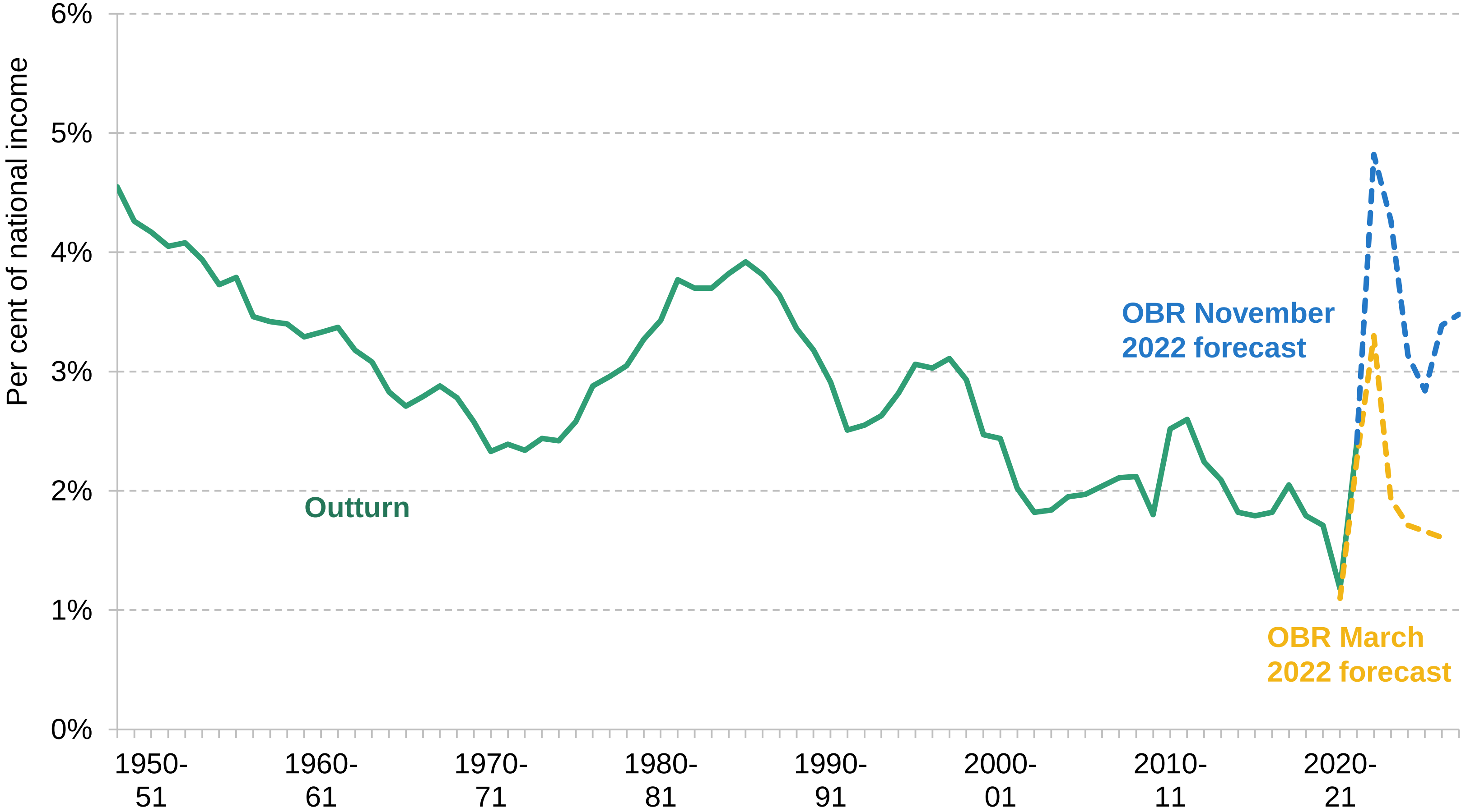
Source: HMT survey of independent forecasters, November 2022.

A worse public finance outlook



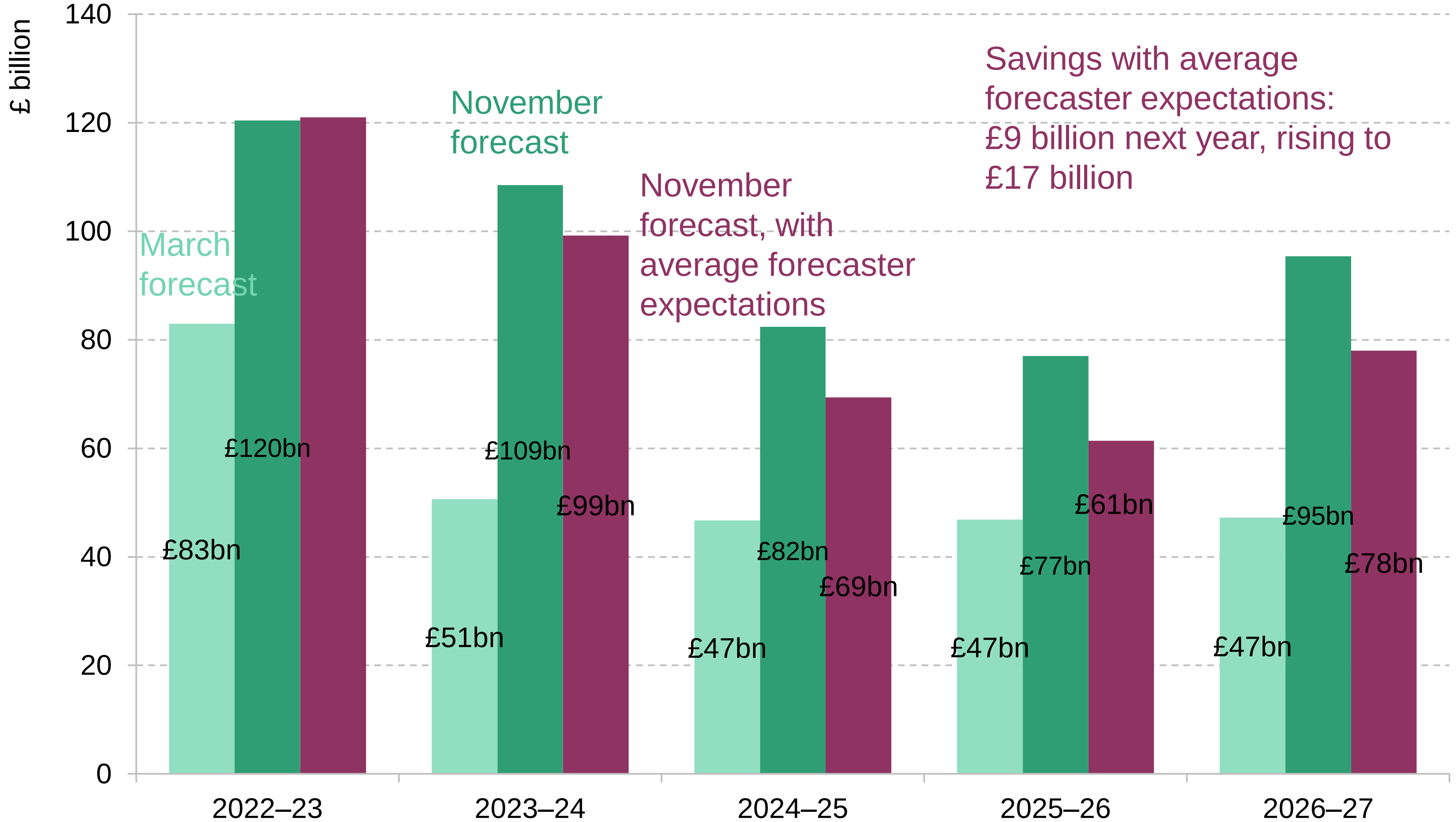
Source: Author's calculations using data from OBR and HM Treasury. Pre AS measures includes estimated indirect impact of measures in 2022–23.

Debt interest now at its highest share of GDP in over 70 years



Notes: Central government debt interest net of the APF shown.

Debt interest spending for a lower interest rate path

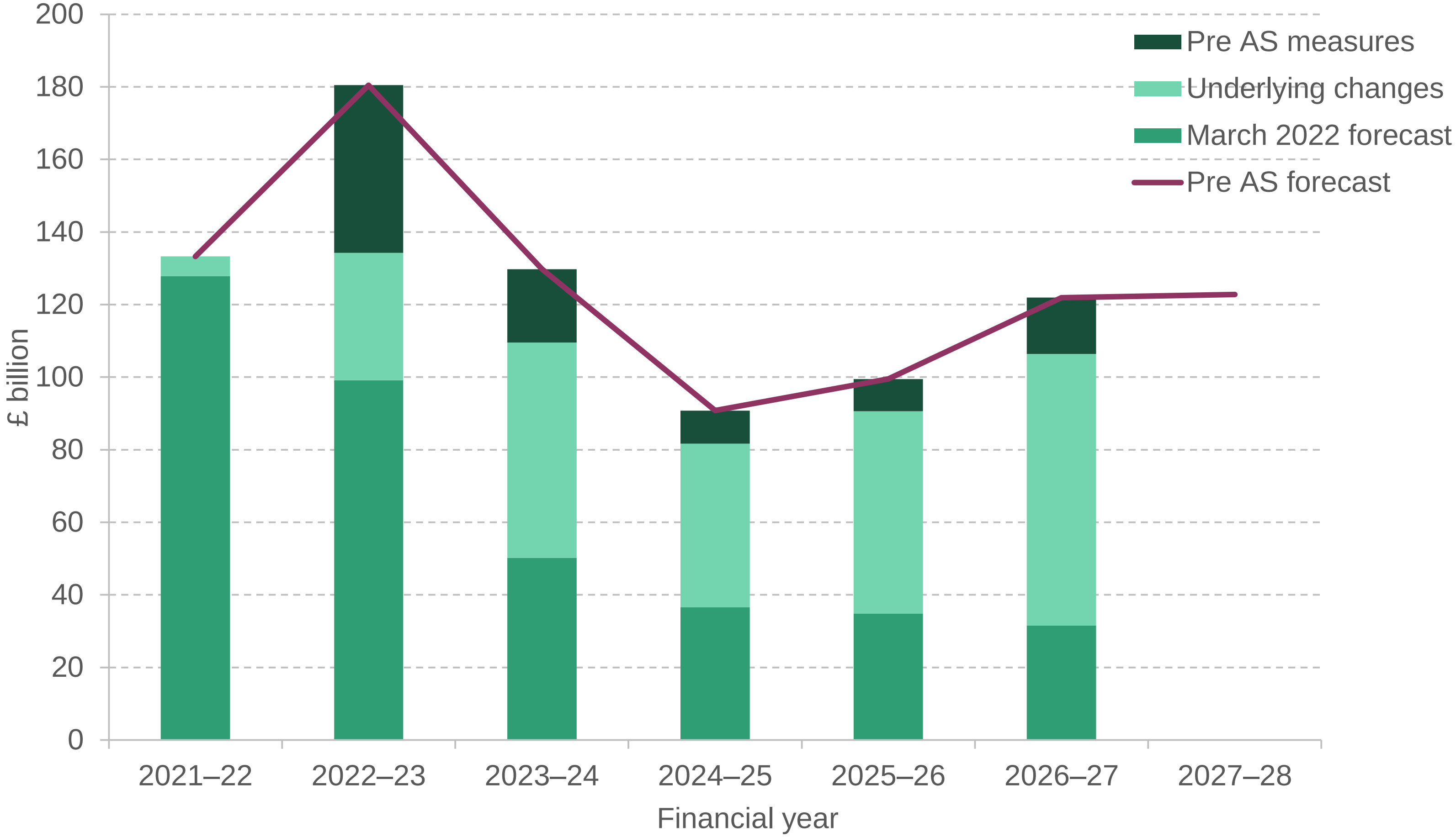


Notes: Central government debt interest net of the APF shown.

Increased benefit spending

- £7.5bn upwards revision to expected spend on disability and other health-related benefits in 2026–27, **over and above** effect of higher inflation
  - huge 1.1m increase in expected caseload (from 8.2m to 9.3m)
- Limited information provided by OBR
  - Our reading suggests this is driven mostly by out-of-work benefits claimed in light of work-limiting health issues
- Autumn Statement announced a delay until 2028 in moving existing claimants of health-related out-of-work claimants on to universal credit
  - despite commitment made in April to complete this by end 2024
- Is there a connection with the increase in caseloads?
- Or perhaps a way of pushing costs until after end of forecast period?
  - pension credit and pensioner housing benefit merger also delayed until 2028

A worse public finance outlook



Source: Author's calculations using data from OBR and HM Treasury. Pre AS measures includes estimated indirect impact of measures in 2022–23.

Underlying increase in borrowing largely accommodated

Source: Author's calculations using data from OBR and HM Treasury. AS measures includes estimated indirect impact of measures from 2023–24.

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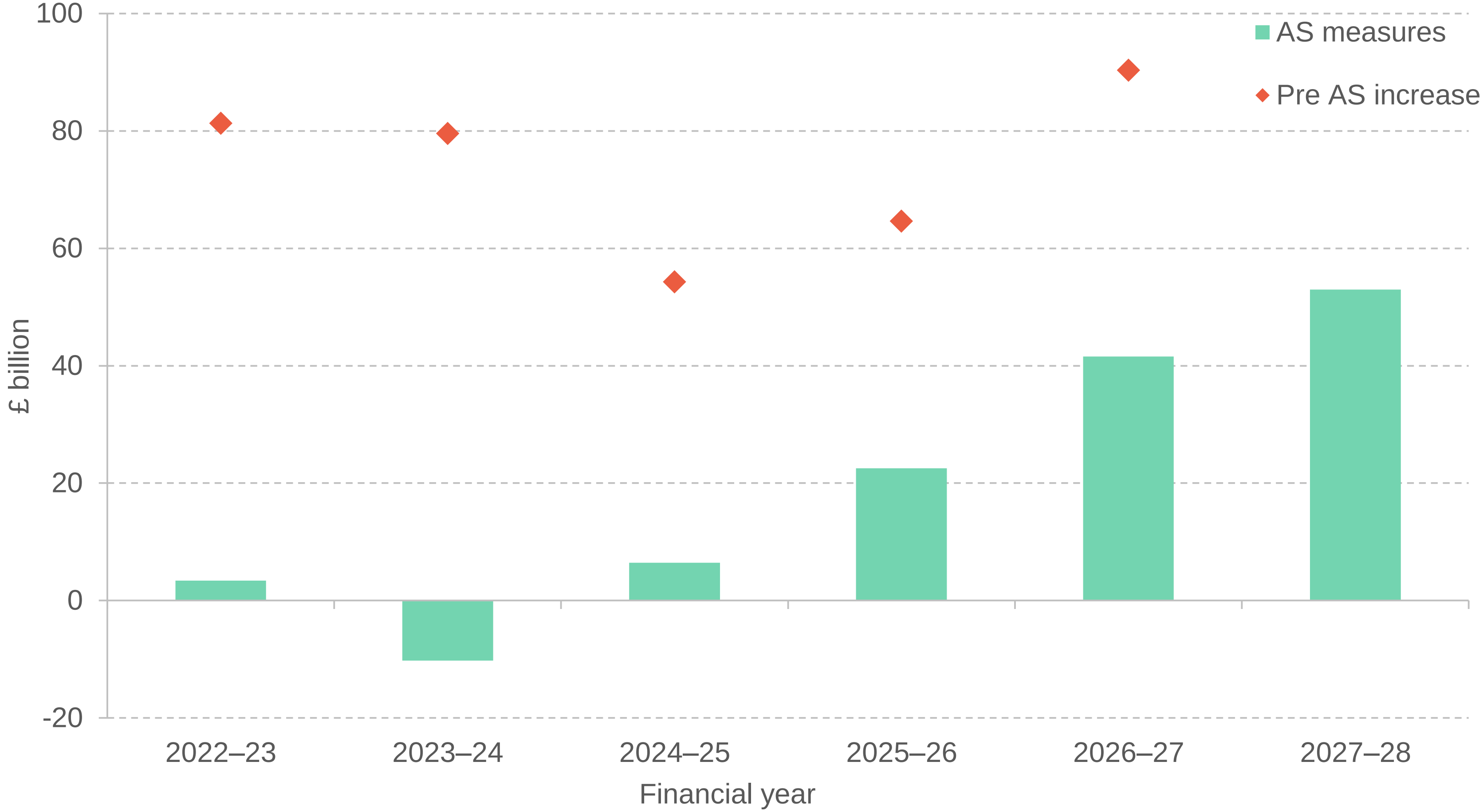

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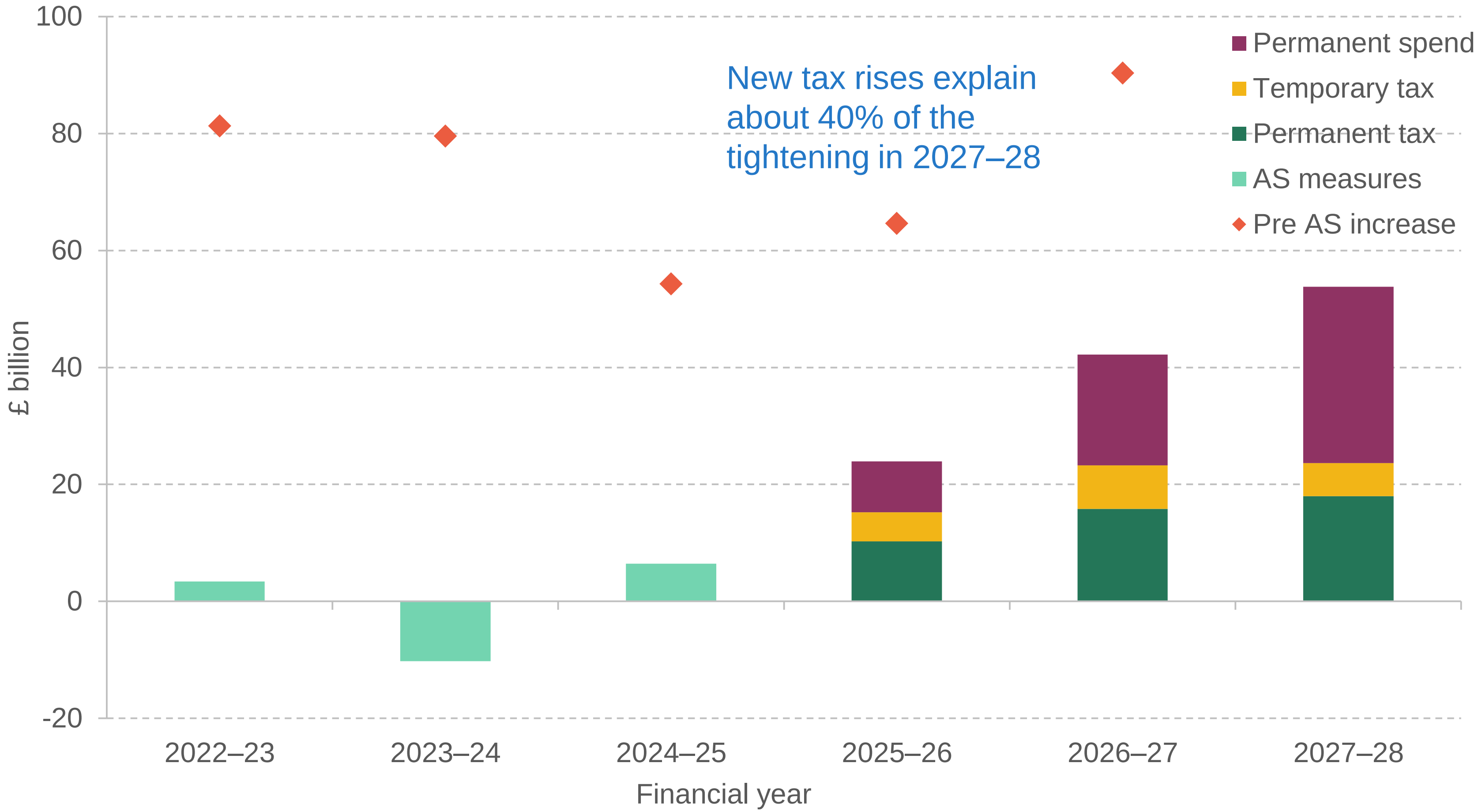
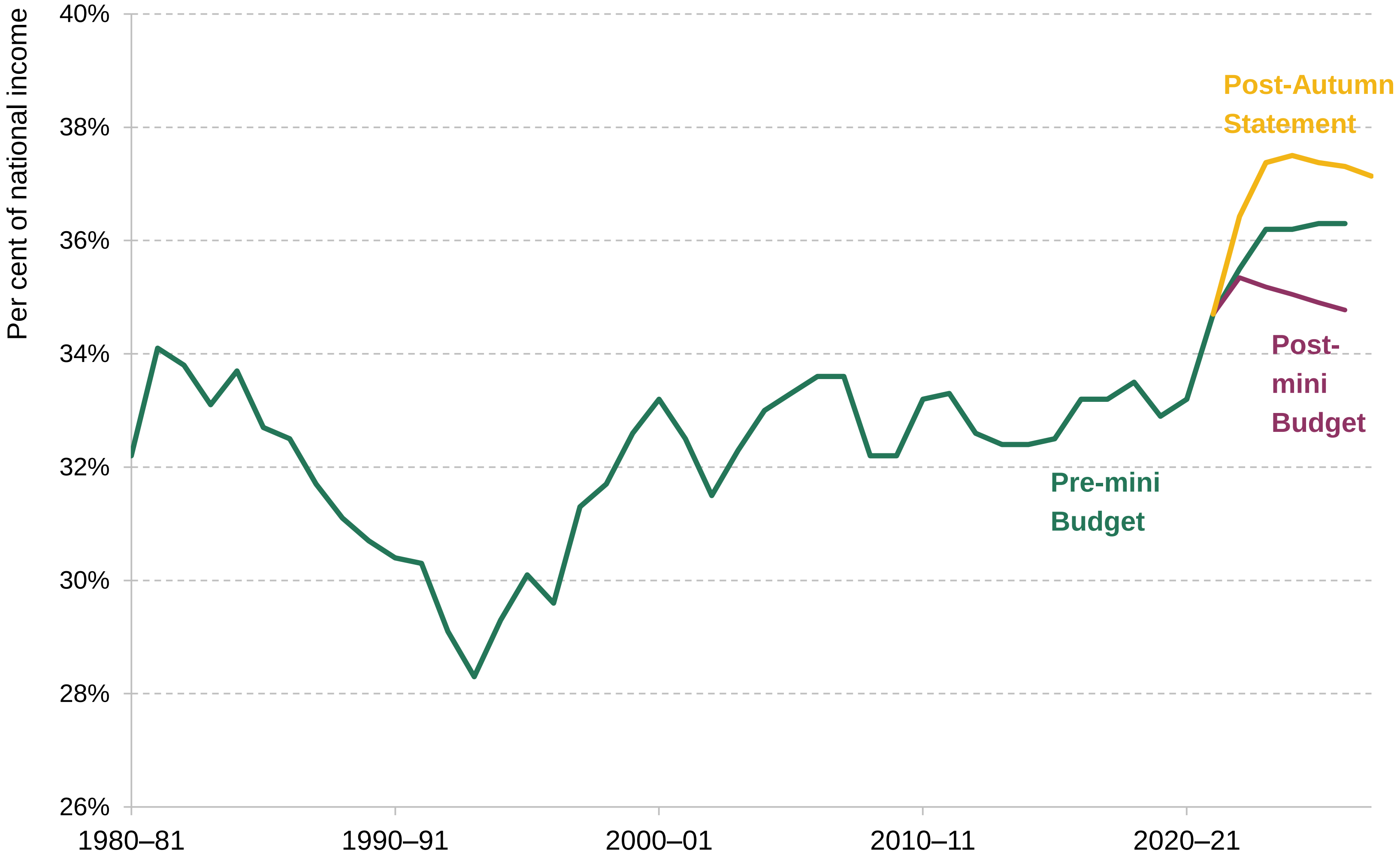
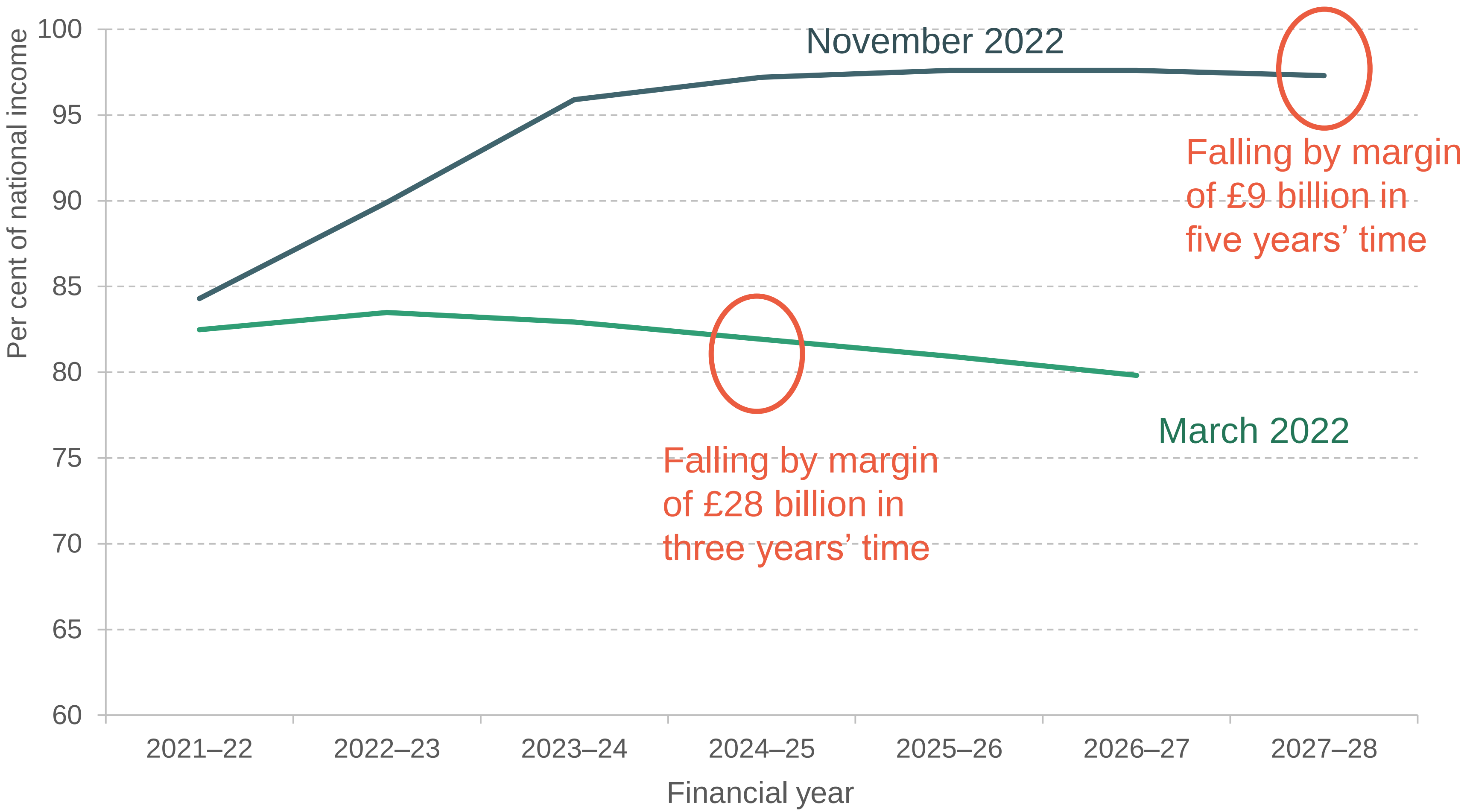


Source: Author's calculations using data from OBR and HM Treasury. AS measures includes estimated indirect impact of measures from 2023–24.

Tax as a share of national income is forecast to increase above 37%



Debt barely on a falling path



Note: Underlying debt (excluding the Bank of England) shown.

Risks to revenue

- Current baseline assumes annual RPI uprating of fuel duties, which hasn't happened since 2011
  - with expiry of 5p cut, implies a 23% rate increase in April
  - freezing rates again will cost £5.7 billion in 2023–24, rising to £6.2 billion by 2027–28

- Income tax thresholds and personal allowance set to be frozen for 6 years (until April 2028)
  - extra year of freeze raises £1.3 billion in 2027–28
  - longest personal allowance freeze in recent decades has been 2 years. How credible is it that the freeze will last 6?

Conclusions

- Deterioration of £45 to £75 billion since March due to a much weaker economic outlook
  - big impact (~£40 billion) of higher interest rates, large possible saving if interest rates rise by less
- Autumn statement measures only counteract a small share of this, with new tax rises explaining ~40% of the tightening in 2027–28
- Tax as a share of national income set to rise to record 37%, will this happen?
- Can spending plans that have been trimmed by £30 billion in 2027–28 be delivered?