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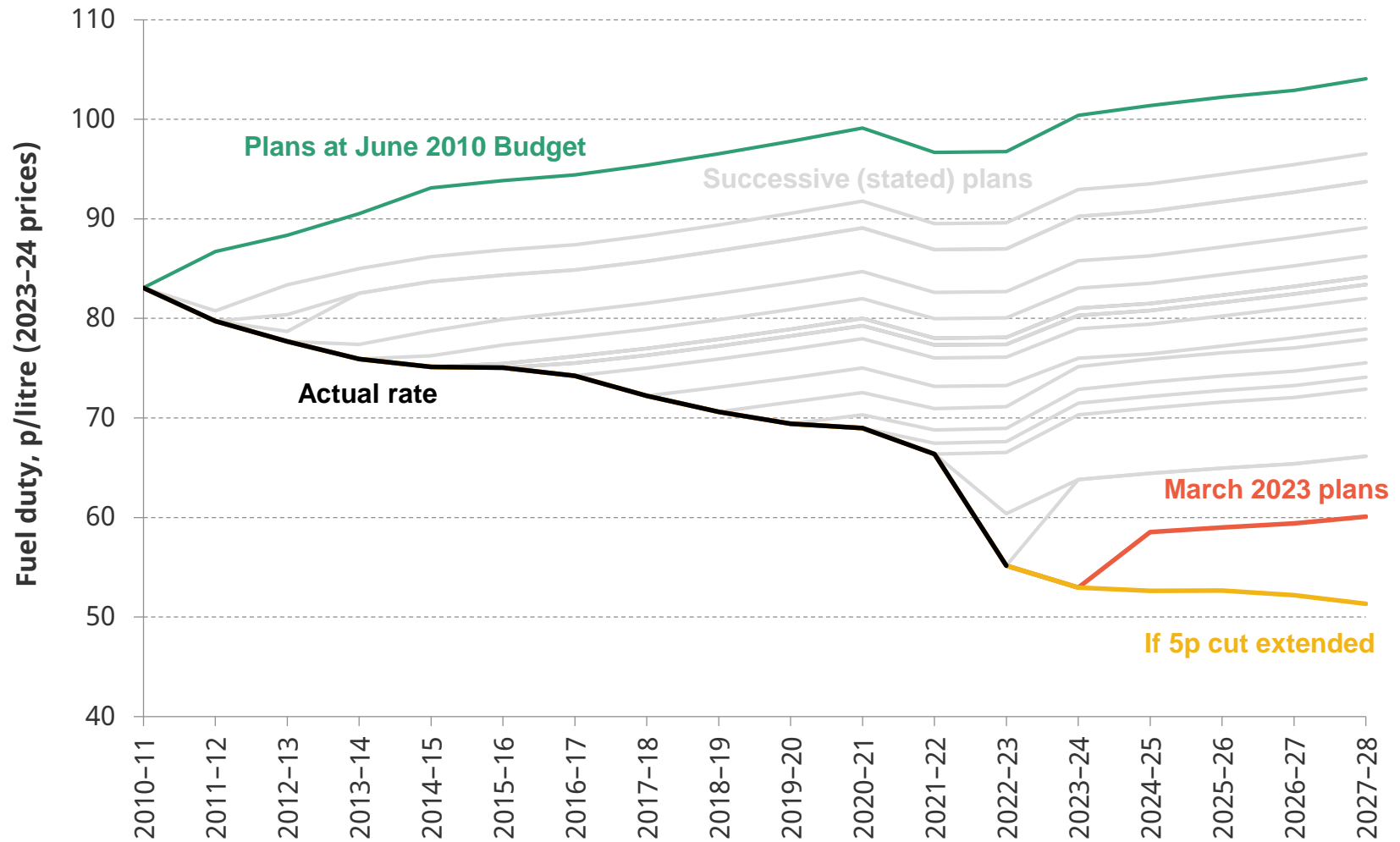
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How central are official borrowing forecasts?



- Under latest OBR forecasts, debt only just stabilised as a per cent of national income in the final year of the forecast period
- These forecasts are intended to represent a ‘central’ case
 - but it’s a central case, *conditional on stated government policy*
- Government policy unlikely to evolve as stated: likely to result in higher spending and/or lower revenues
 - non-trivial risk to the ‘centrality’ of forecasts
 - borrowing (and debt) likely to turn out higher than forecast

The classic example: fuel duties



Examples

- The classic example: indexation of fuel duties

- Provisional spending totals beyond 2025 imply cuts to some areas
 - when we get to a Spending Review, likely to be topped up
 - average upwards revision at SRs since 2010 of ~£14 billion per year

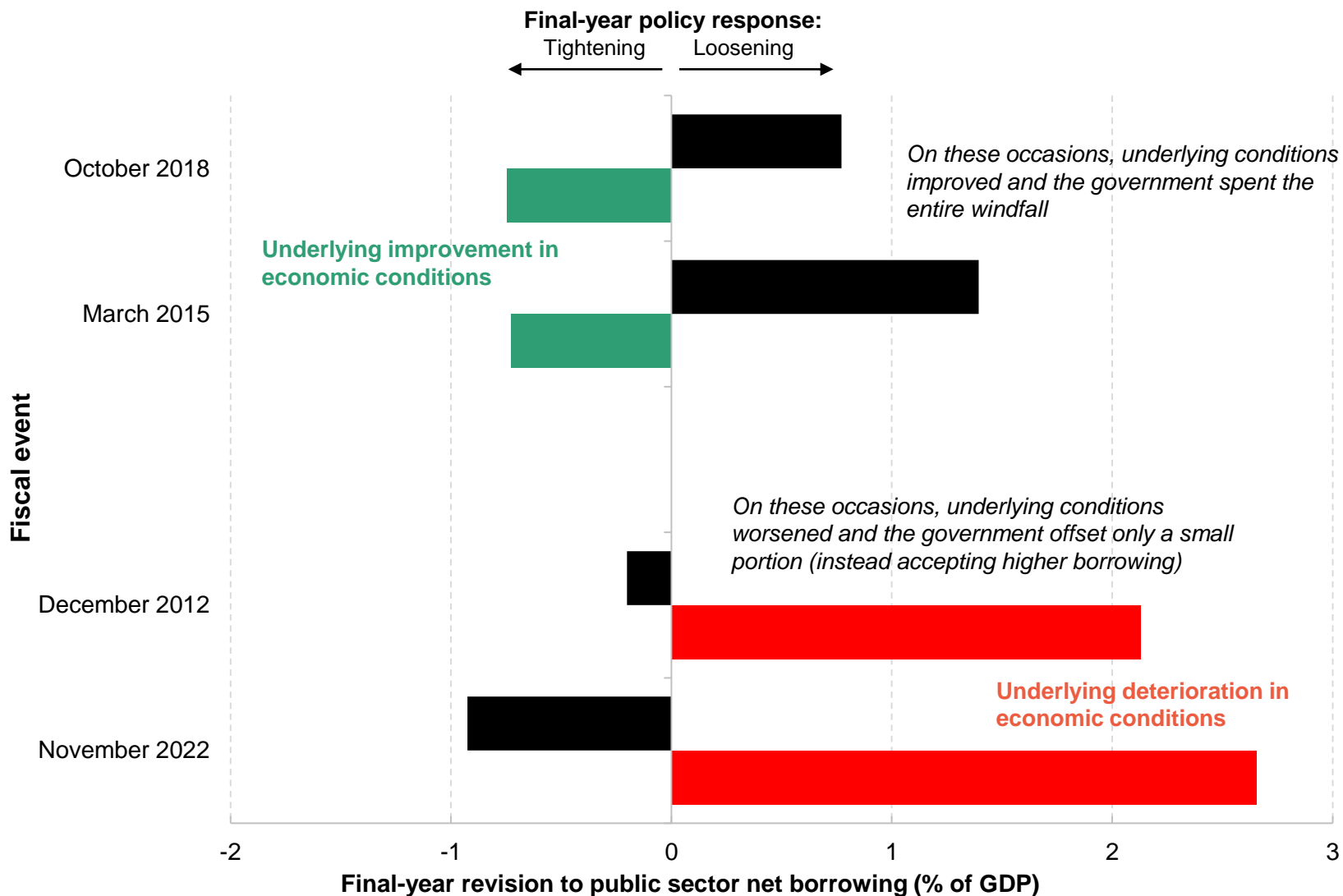
- Policy ‘ambitions’ and promises to do things ‘when conditions allow’, e.g.
 - make the 3-year full expensing policy permanent
 - increase defence spending to 2½% of GDP by 2030
 - return aid spending to 0.7% of GDP
 - scrap inheritance tax (?)

Asymmetric responses

A broader issue: since 2010, Chancellors have not responded symmetrically to ‘good’ and ‘bad’ news about the public finances

- When the OBR present the government with a ‘windfall’, tendency to spend the majority of it (mainly by topping up spending plans)
- When public finance forecasts have got worse, tendency to accept higher borrowing rather than offset through tax rises/spending cuts

Asymmetric responses: examples



Source: Figure 5.7 Emmerson, Stockton, van de Schootbrugge and Zaranko (2023), 'Chancellors' responses to economic news', IFS Green Budget 2023.

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Asymmetric responses

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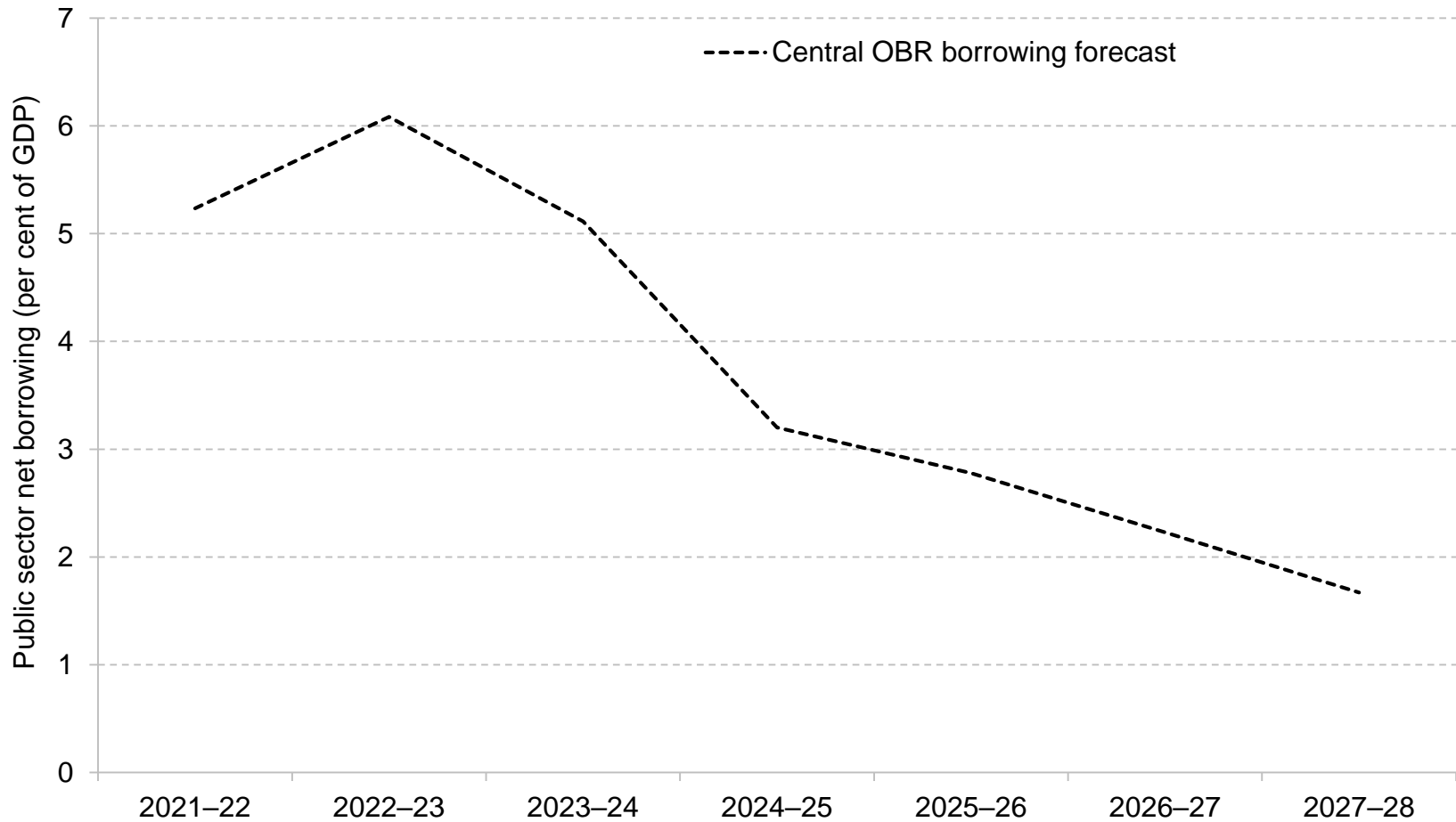
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The result: more borrowing, more debt, and a bigger state

- Under our estimates, public sector net debt between 3% and 11% of GDP higher on eve of the pandemic because of asymmetric behaviour

Also threatens the ‘centrality’ of official forecasts

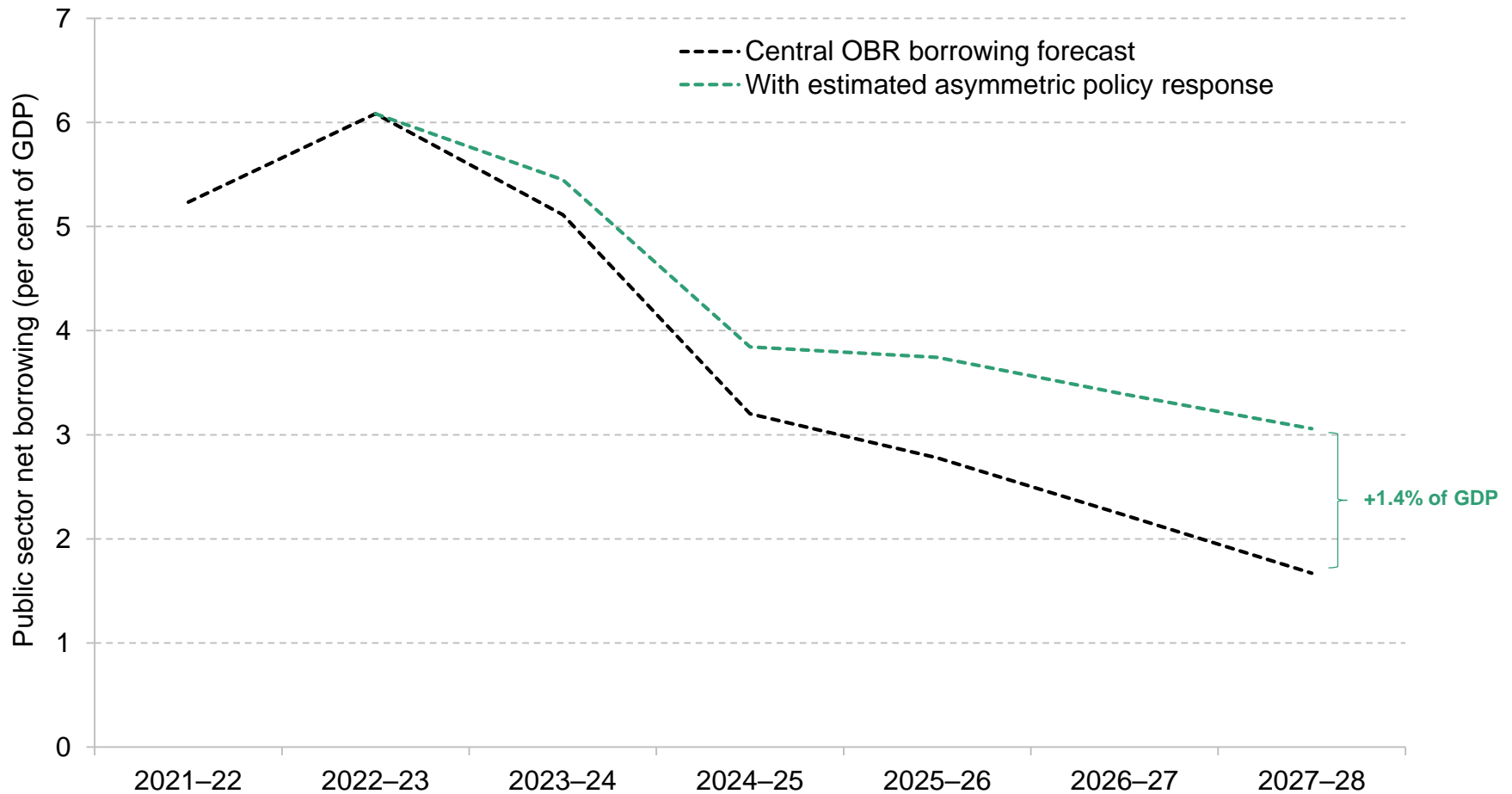
Our simulation exercise



Source: Figure 5.13 Emmerson, Stockton, van de Schootbrugge and Zaranko (2023), 'Chancellors' responses to economic news', IFS Green Budget 2023.

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Our simulation exercise

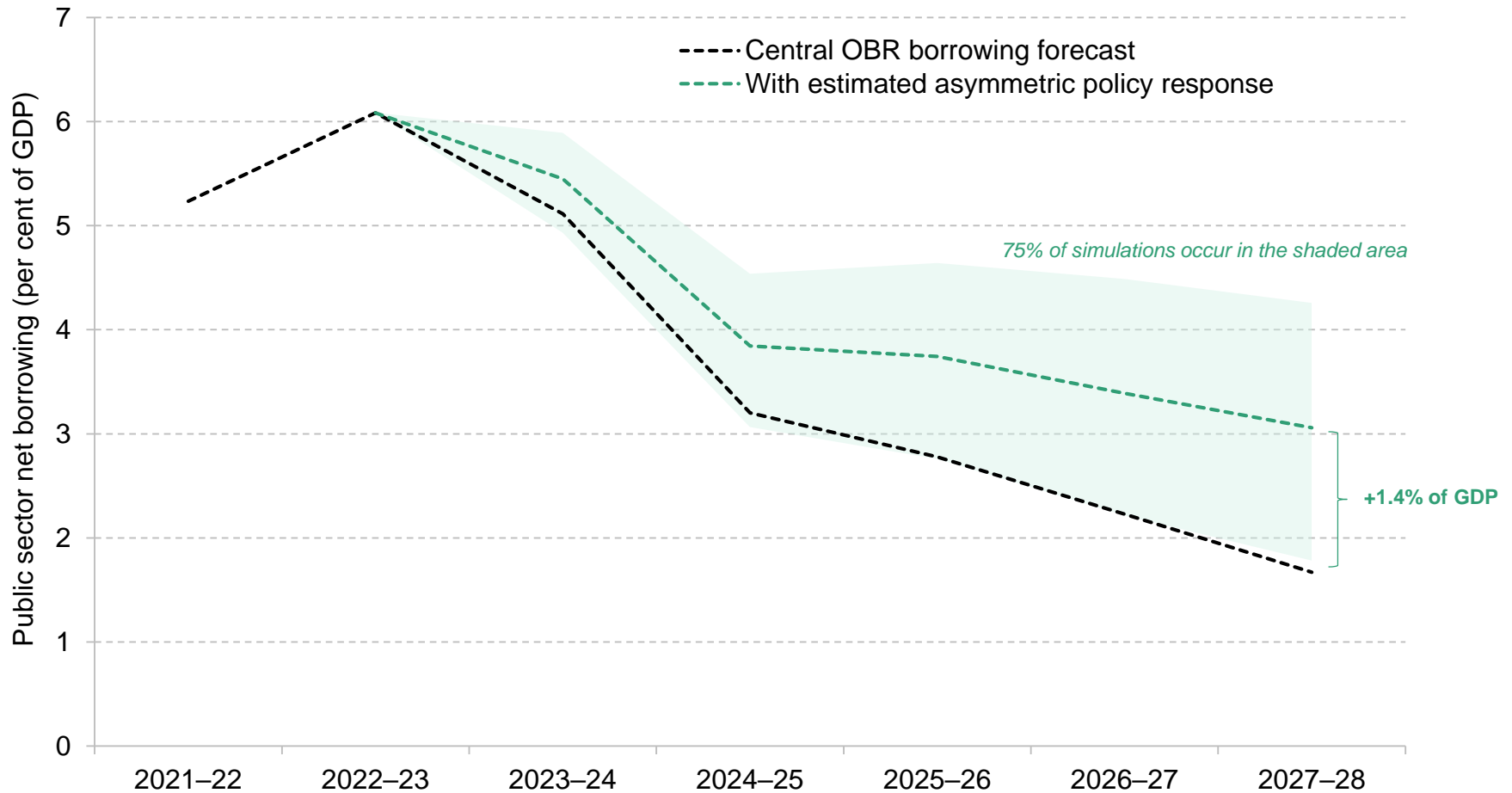


Source: Figure 5.13 Emmerson, Stockton, van de Schootbrugge and Zaranko (2023), 'Chancellors' responses to economic news', IFS Green Budget 2023.

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Our simulation exercise

If future Chancellors continue to behave like their predecessors, and shocks come along like they did in the 2010s, then we estimate a nine-in-ten chance that borrowing turns out higher than the OBR forecast



Source: Figure 5.13 Emmerson, Stockton, van de Schootbrugge and Zaranko (2023), 'Chancellors' responses to economic news', IFS Green Budget 2023.

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Concluding remarks

- Bad shocks are bound to come along: this is a key fiscal risk
- But even if good and bad shocks come along equally regularly, continued asymmetric responses to those shocks would lead to an ‘upwards ratchet’ in spending, borrowing and debt
- Policy risks are skewed towards higher spending and lower revenues
- Public finances are probably in a weaker position than official forecasts suggest

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