



Institute for Fiscal Studies



Public finances: Osborne sails close to the wind

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Public Finances: Overview

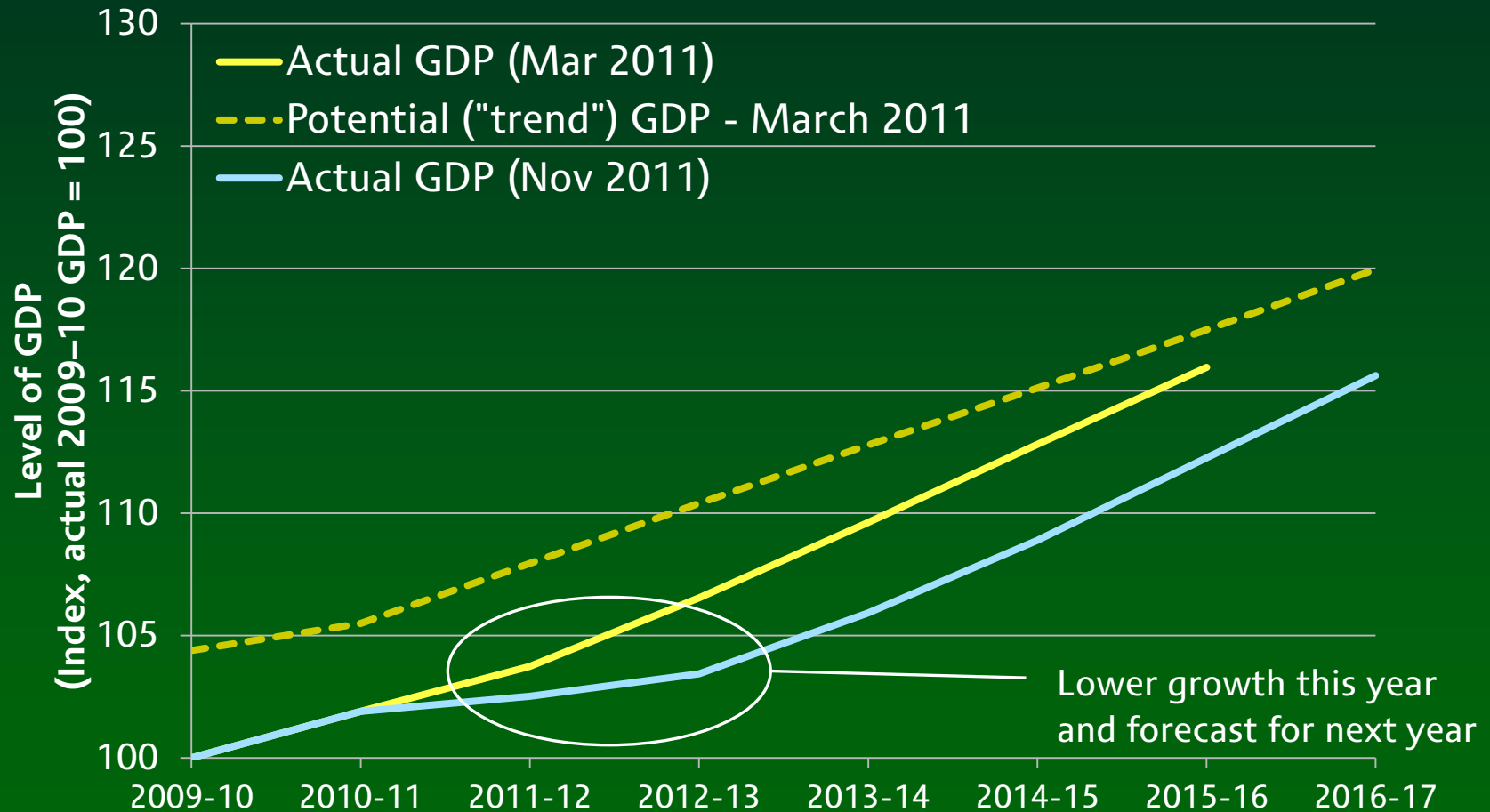
- Borrowing increased throughout medium-term horizon
- Largely due to lower than previously forecast level of “potential” output in UK economy: permanent problem
- A policy response of two halves
 - 2011–12 to 2014–15: reshuffling of existing tax and spend
 - 2015–16 and 2016–17: significant additional spending cuts
- Policy action sufficient to ensure still forecast to meet fiscal targets

Forecasting changes

- Borrowing increased in medium-term by about £30 billion a year
- Revenues lower by £40 billion a year
 - Lower receipts from...
 - Wages and salaries
 - Corporate profits and bonuses
 - Household consumption
 - Lower asset and commodity prices
 - Higher receipts from...
 - Investment
- Spending lower by £10 billion a year
 - Lower interest rates reduce debt interest spending
 - Higher unemployment increases welfare spending

Weak short-term growth thought to reflect a permanent problem

Comparison of forecasts for real GDP growth and trend GDP



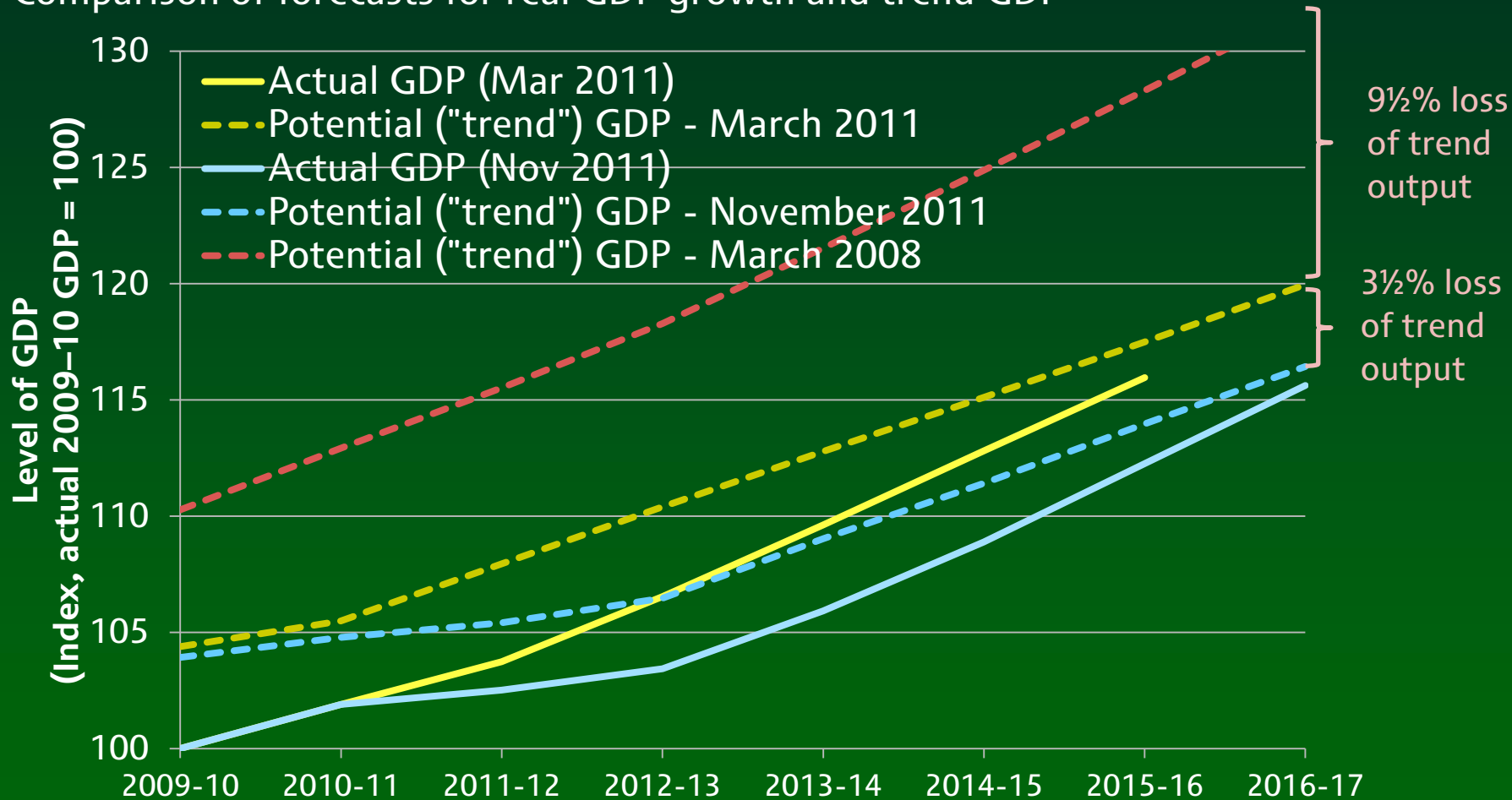
Weak short-term growth thought to reflect a permanent problem

Comparison of forecasts for real GDP growth and trend GDP

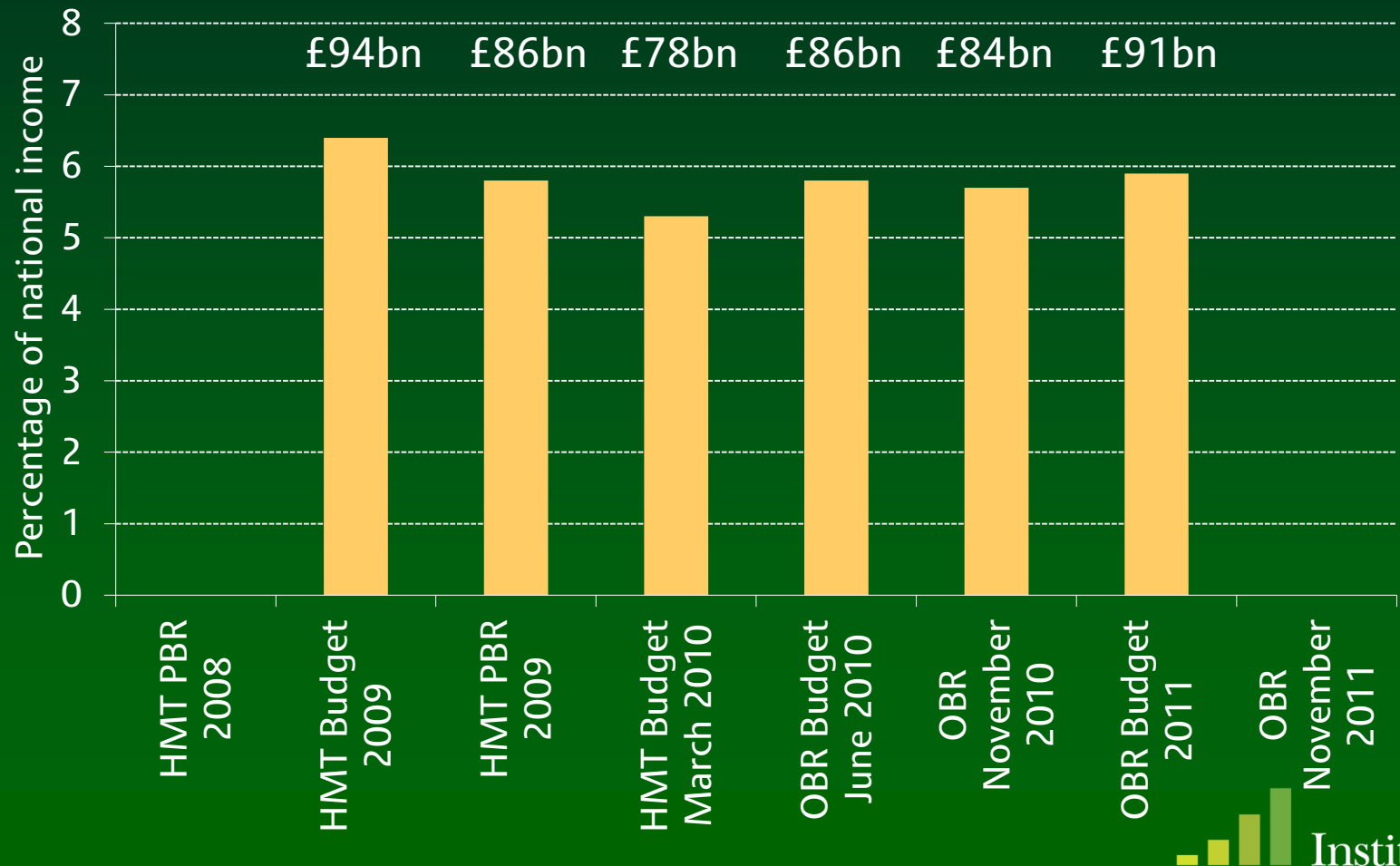


Weak short-term growth thought to reflect a permanent problem

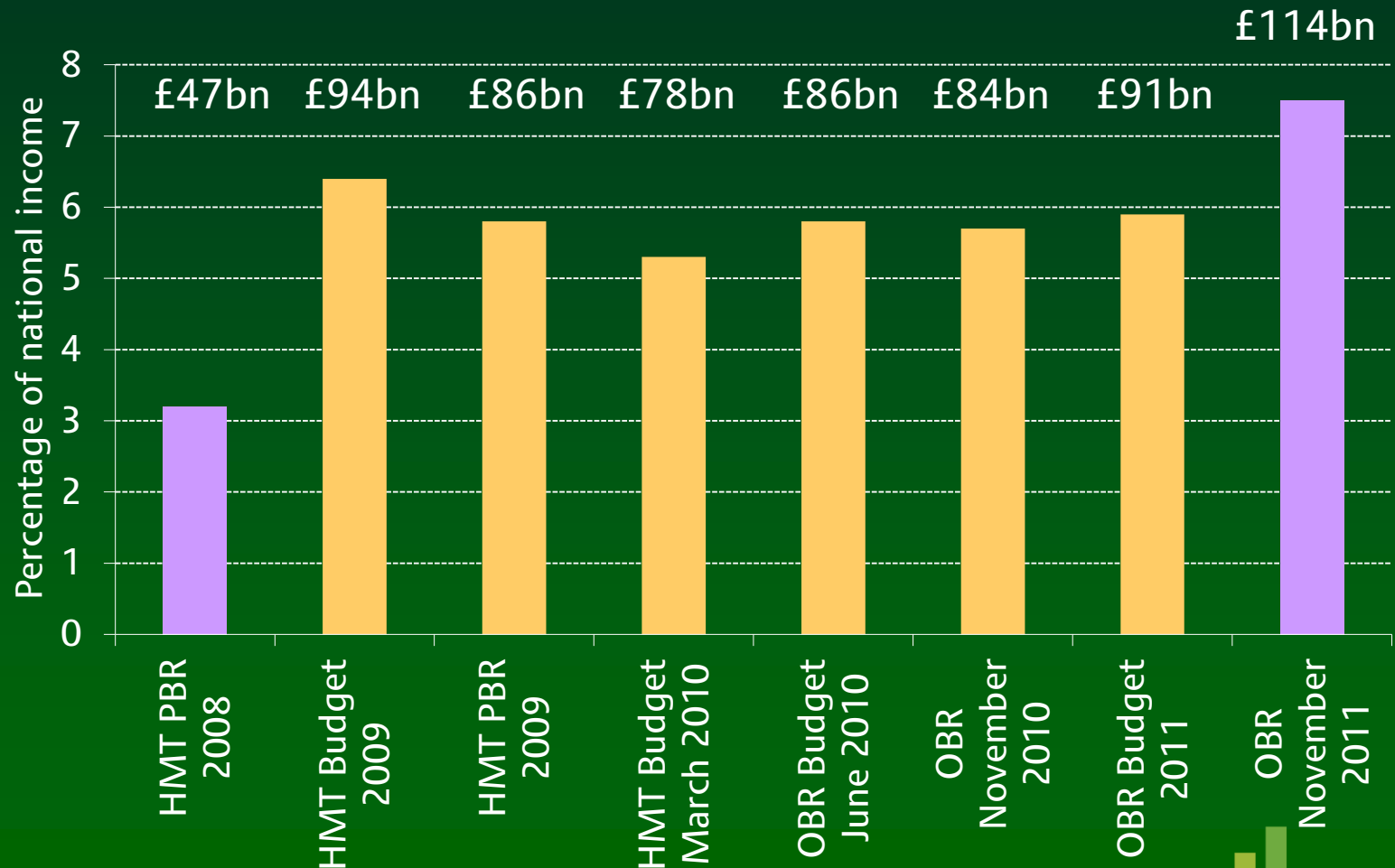
Comparison of forecasts for real GDP growth and trend GDP



Size of the problem: change over time

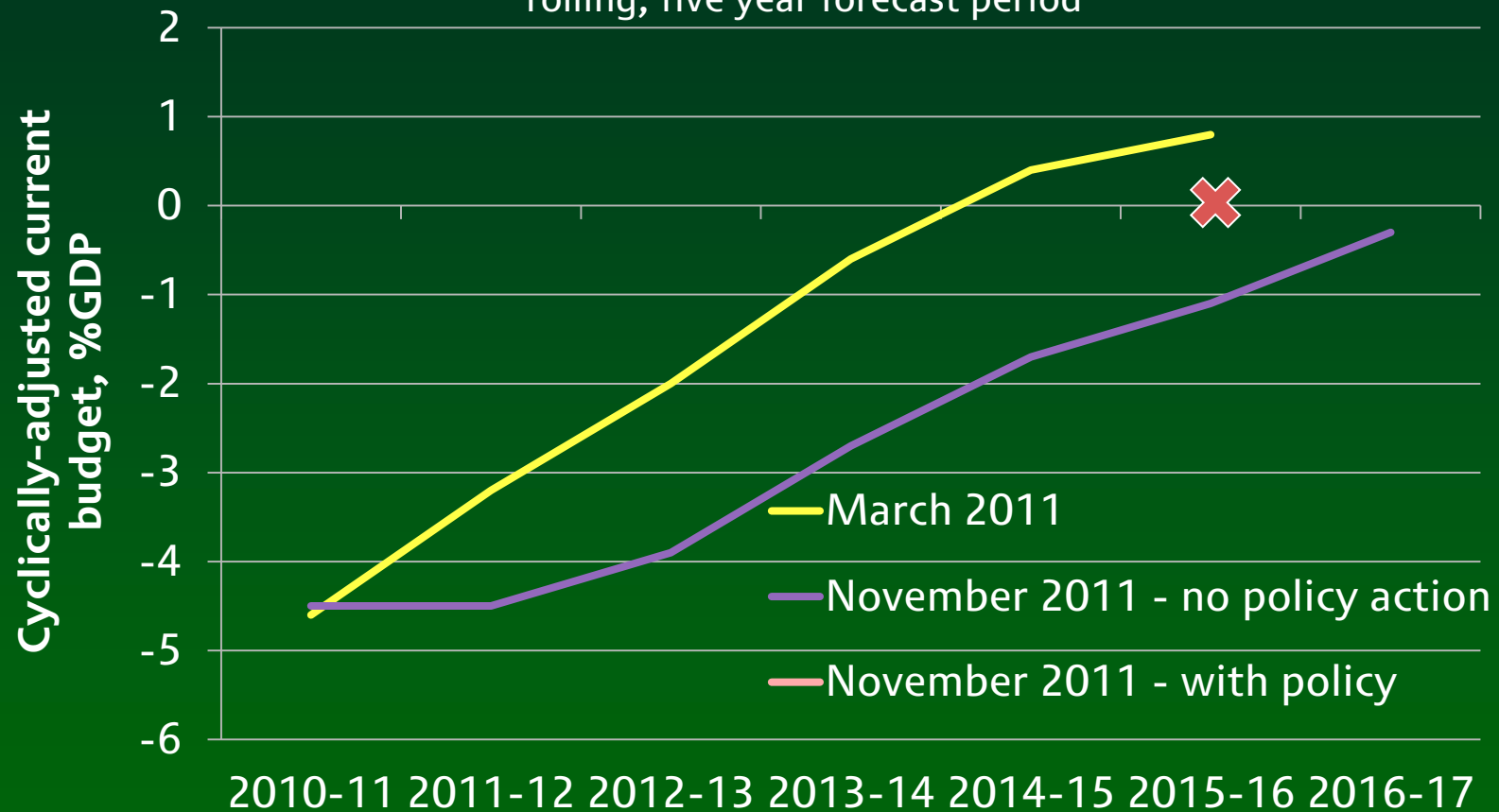


Size of the problem: change over time



Problems meeting the fiscal mandate

Fiscal mandate: “cyclically adjusted current budget balance by the end of the rolling, five year forecast period”



A response of two halves

Autumn statement 2011					£ billion
	2011-12	2012-13	2013-14	2014-15	2015-16
Tax giveaway					
Tax takeaway					
Spending giveaway					
Spending takeaway					
Net tax increase					
Net spending increase					
Net giveaway	0.0	0.1	0.1	-0.2	

A response of two halves

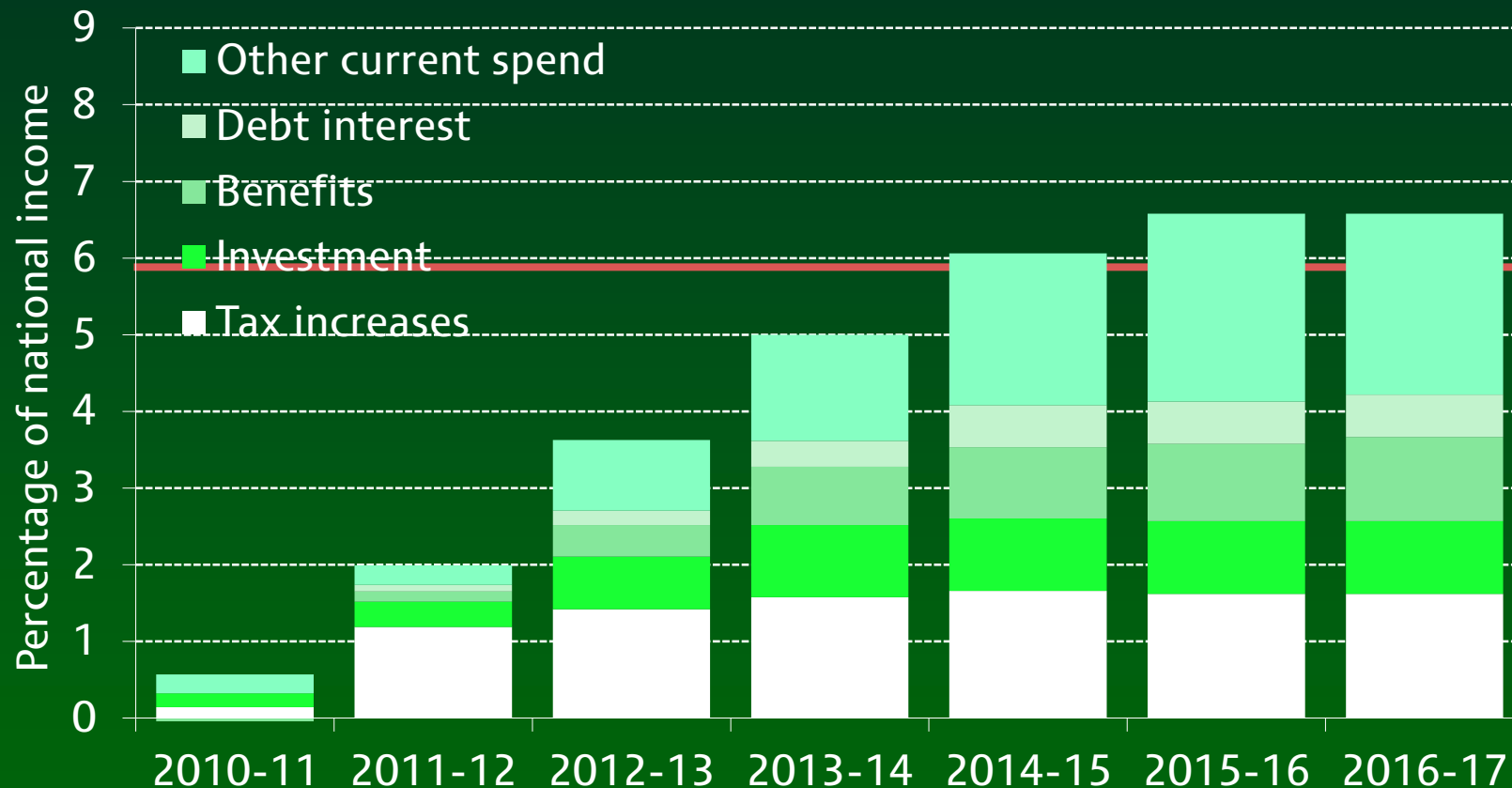
Autumn statement 2011					£ billion
	2011-12	2012-13	2013-14	2014-15	2015-16
Tax giveaway	+0.4	+1.3	+1.0	+1.0	
Tax takeaway	-0.3	-1.0	-1.2	-1.2	
Spending giveaway	0.0	+1.4	+2.5	+3.1	
Spending takeaway	0.0	-1.6	-2.3	-3.2	
Net tax increase	0.0	0.3	-0.1	-0.1	
Net spending increase	0.0	-0.3	0.3	-0.1	
Net giveaway	0.0	0.1	0.1	-0.2	

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Spending giveaway	0.0	+1.4	+2.5	+3.1	+0.0
Spending takeaway	0.0	-1.6	-2.3	-3.2	-8.3
Net tax increase	0.0	0.3	-0.1	-0.1	-0.0
Net spending increase	0.0	-0.3	0.3	-0.1	-8.3
Net giveaway	0.0	0.1	0.1	-0.2	-8.3

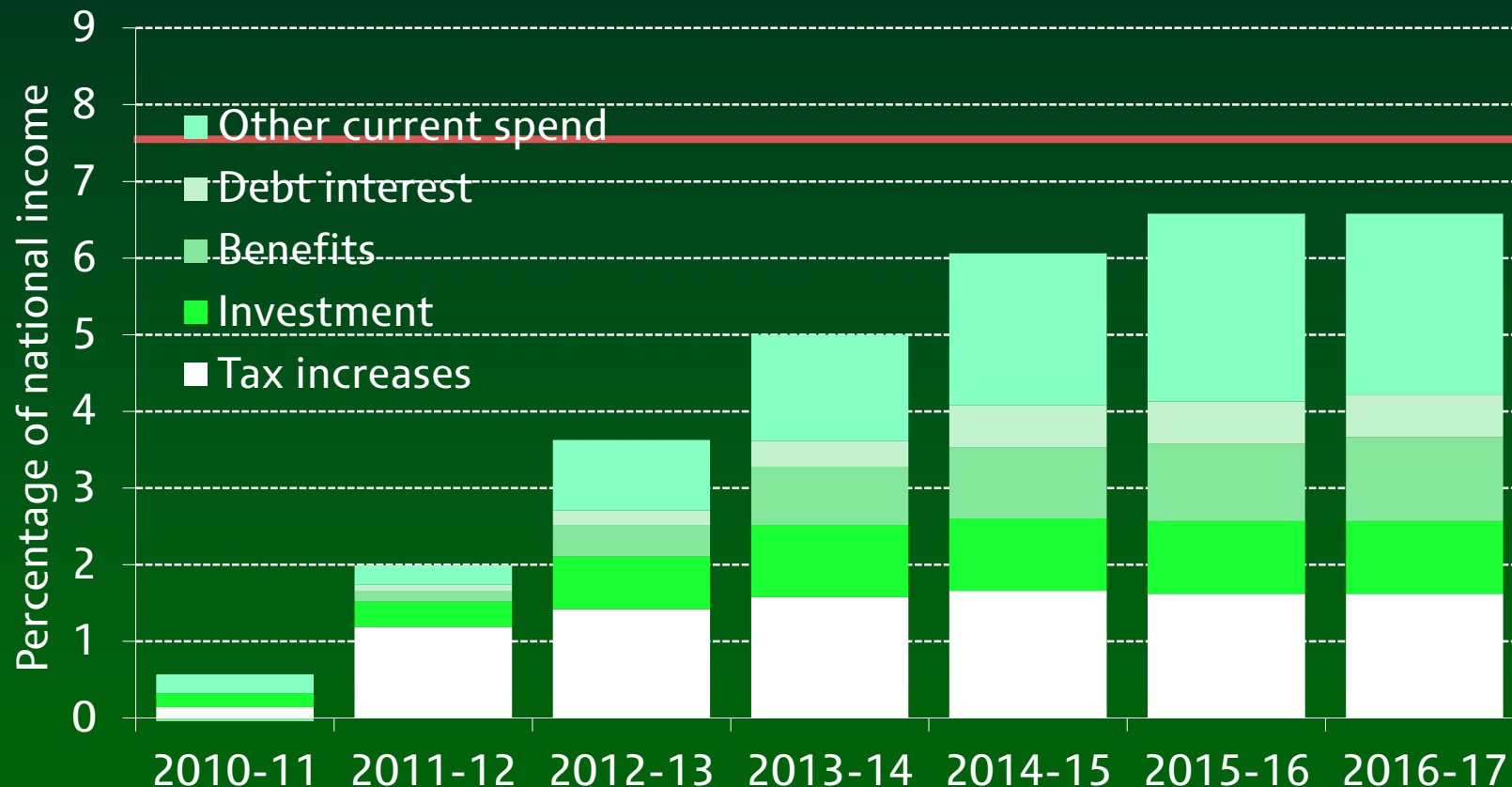
Fiscal tightening, March 2011

March 2011: £91bn hole in public finances



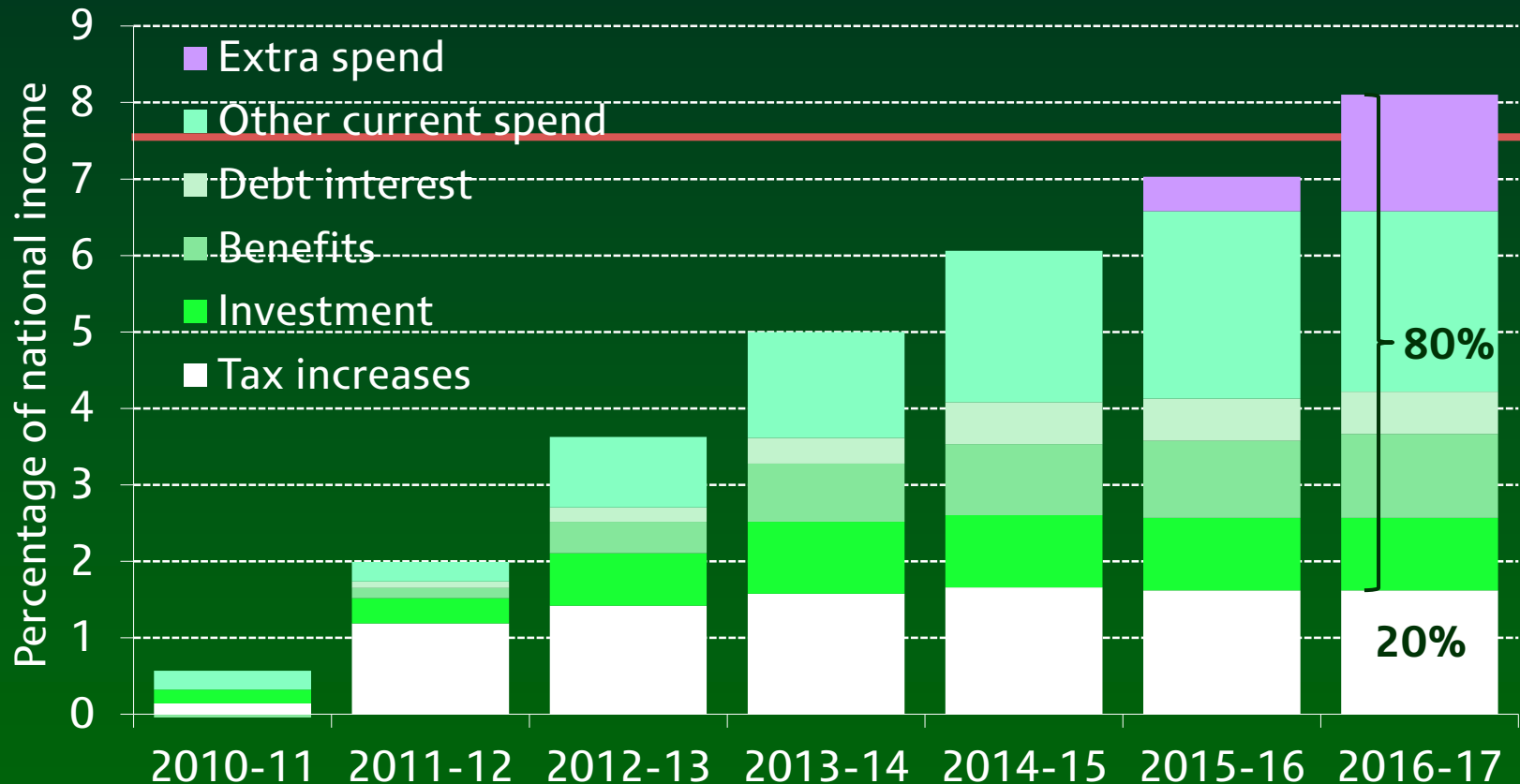
Fiscal tightening, November 2011: more to do

Nov 2011: £114bn hole in public finances



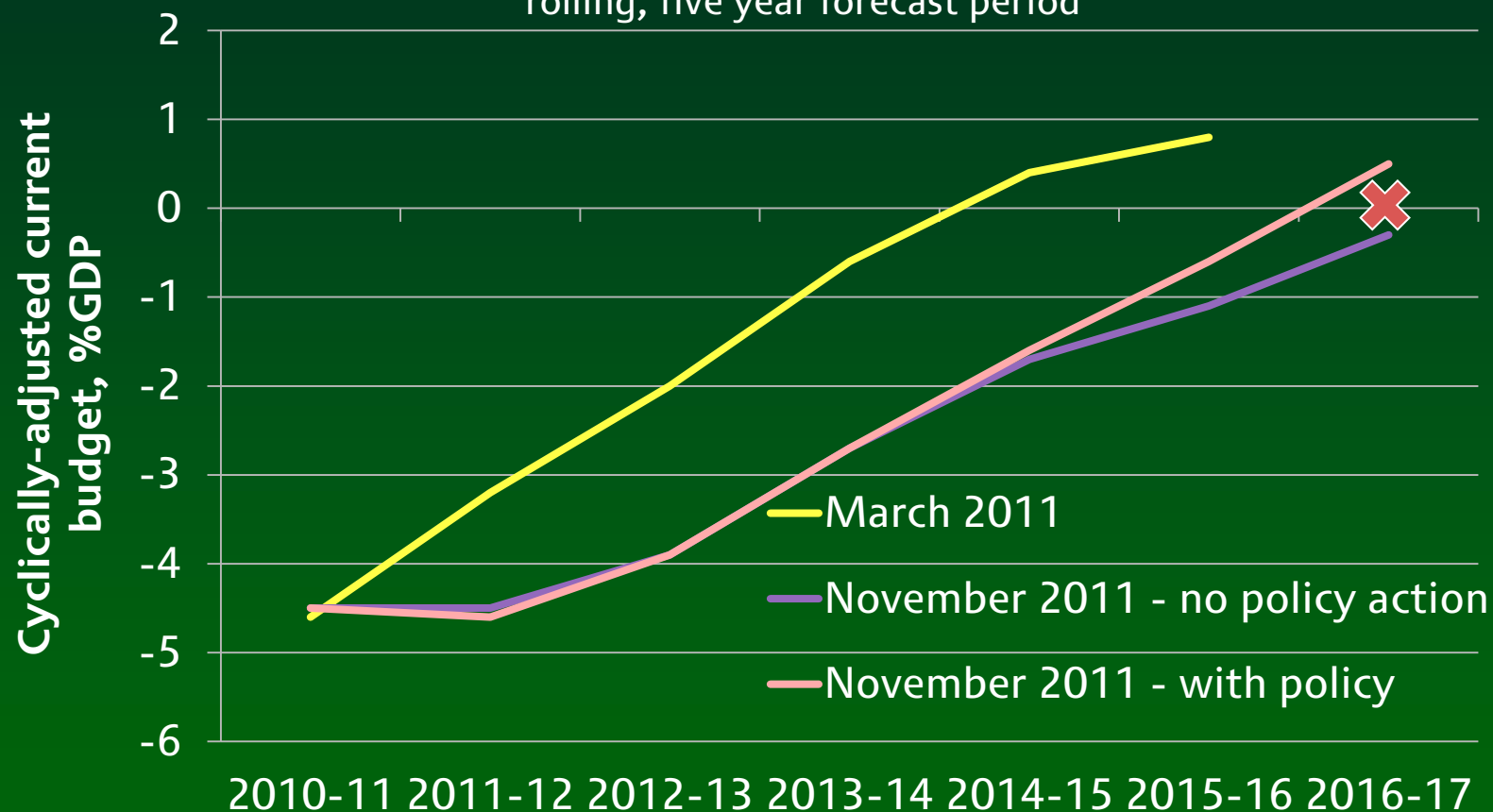
Fiscal tightening, November 2011: more to do, some more done

Nov 2011: £114bn hole in public finances



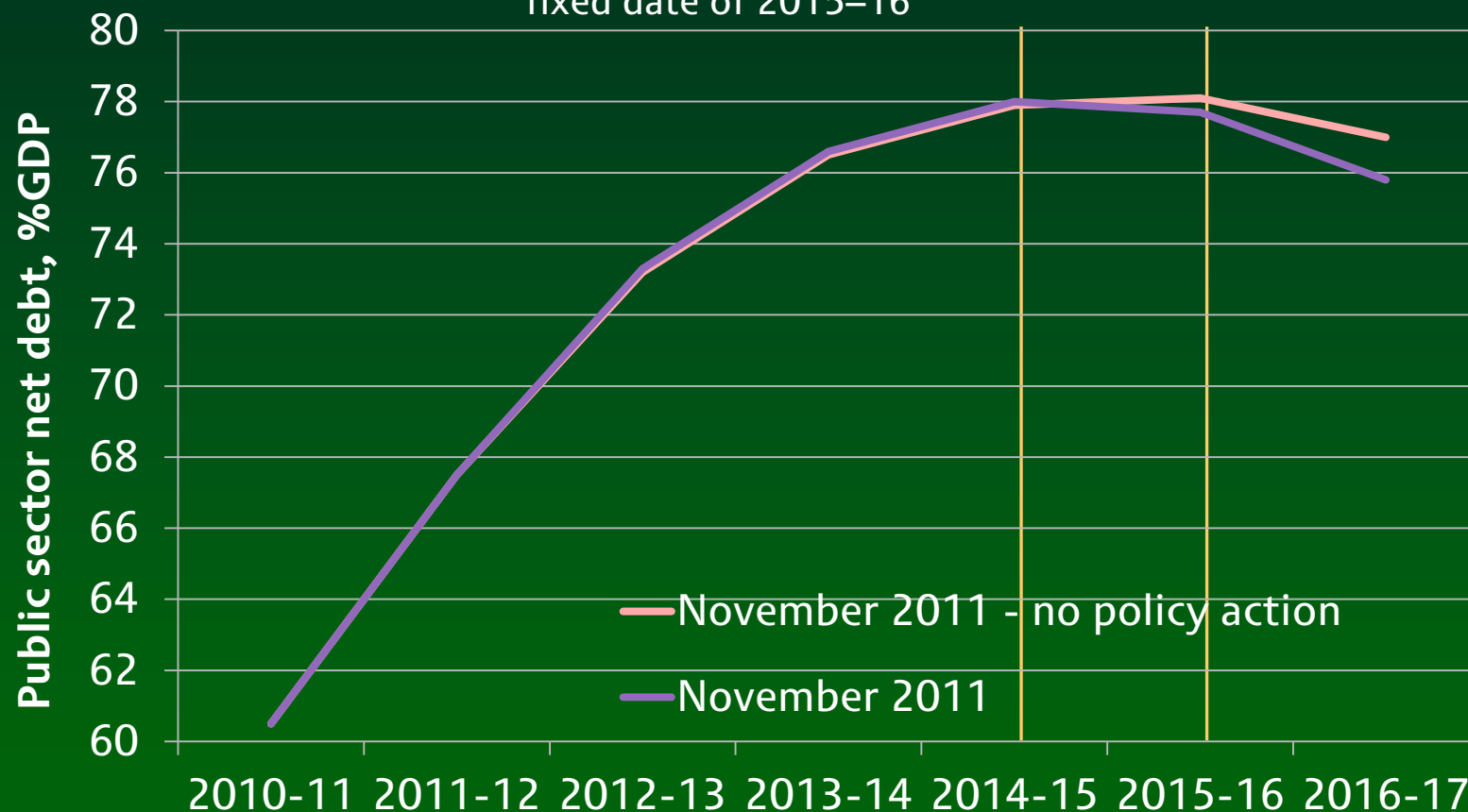
Less headroom against the fiscal mandate

Fiscal mandate: “cyclically adjusted current budget balance by the end of the rolling, five year forecast period”



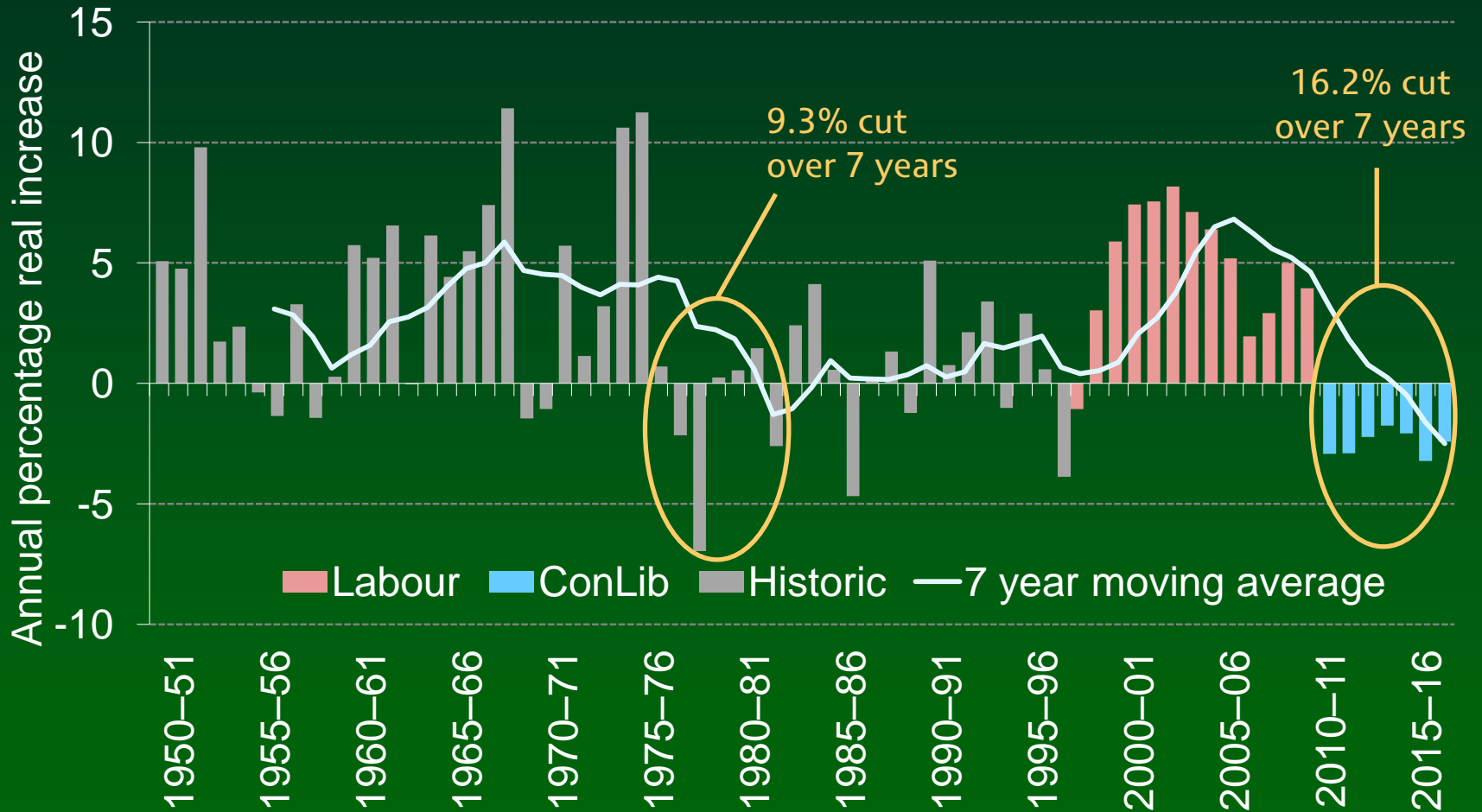
Perilously close on the supplementary target

Supplementary target: “public sector net debt as a percentage of GDP to be falling at a fixed date of 2015–16 ”

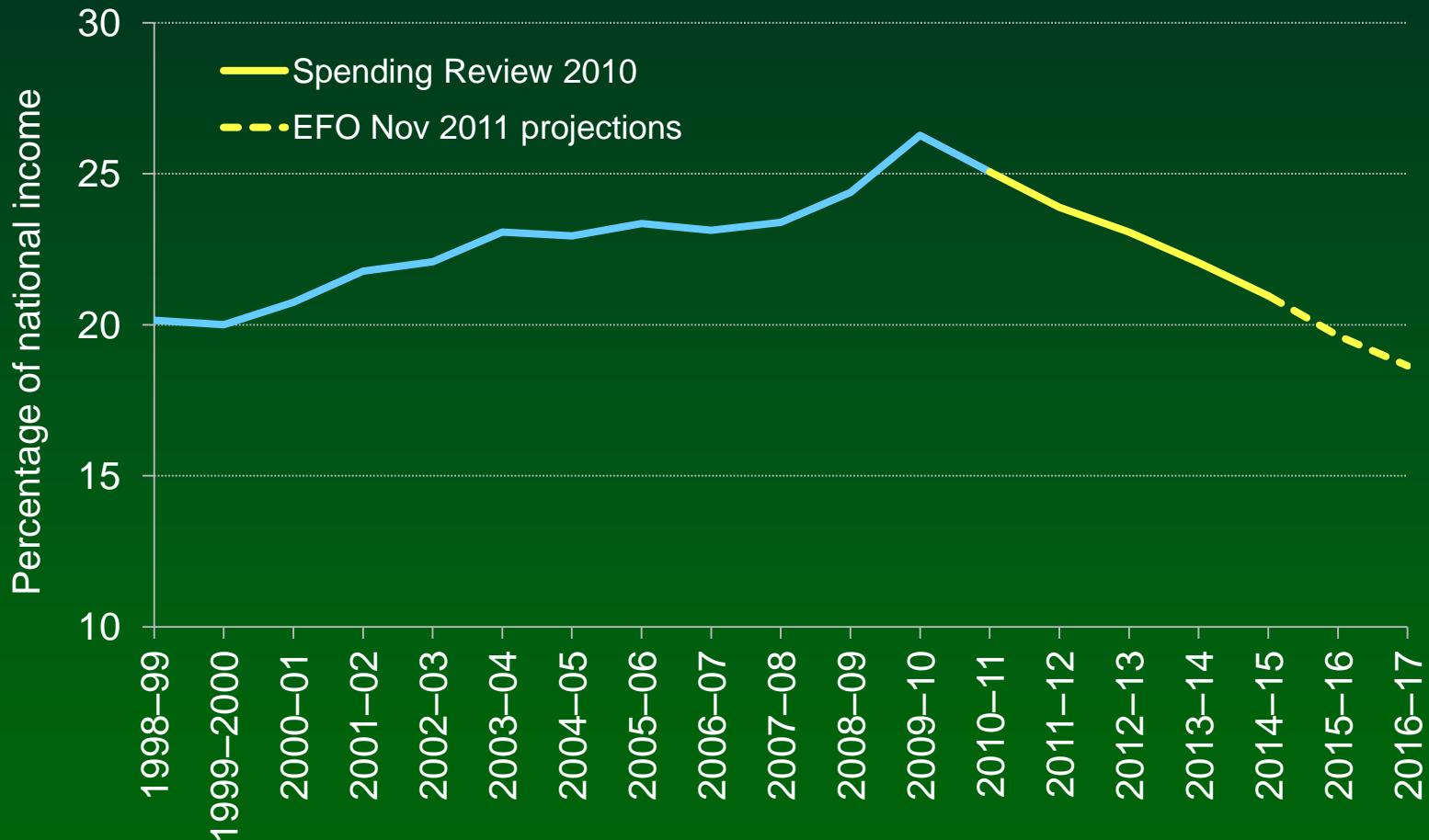


7-year

~~6-year~~ squeeze on public service spending



DELs: The grand old Duke of York?



Note: Figure shows Departmental Expenditure Limits (DELs) as a share of national income under current policies, assuming no further changes to Annually Managed Expenditure policies.



Public Finances: Summary

- Reduced outlook for potential output of the UK economy
- Fed through into permanently higher borrowing, without policy action
- A policy response of two halves
 - 2011–12 to 2014–15: reshuffling of existing tax and spend
 - 2015–16 and 2016–17: significant additional spending cuts
- Policy action sufficient to ensure still forecast to meet fiscal rules
 - Less room for manoeuvre against fiscal mandate than had in March
 - Substantially less room for manoeuvre against the supplementary target