17 October 2023

IFS Green Budget

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Outlook for the public finances

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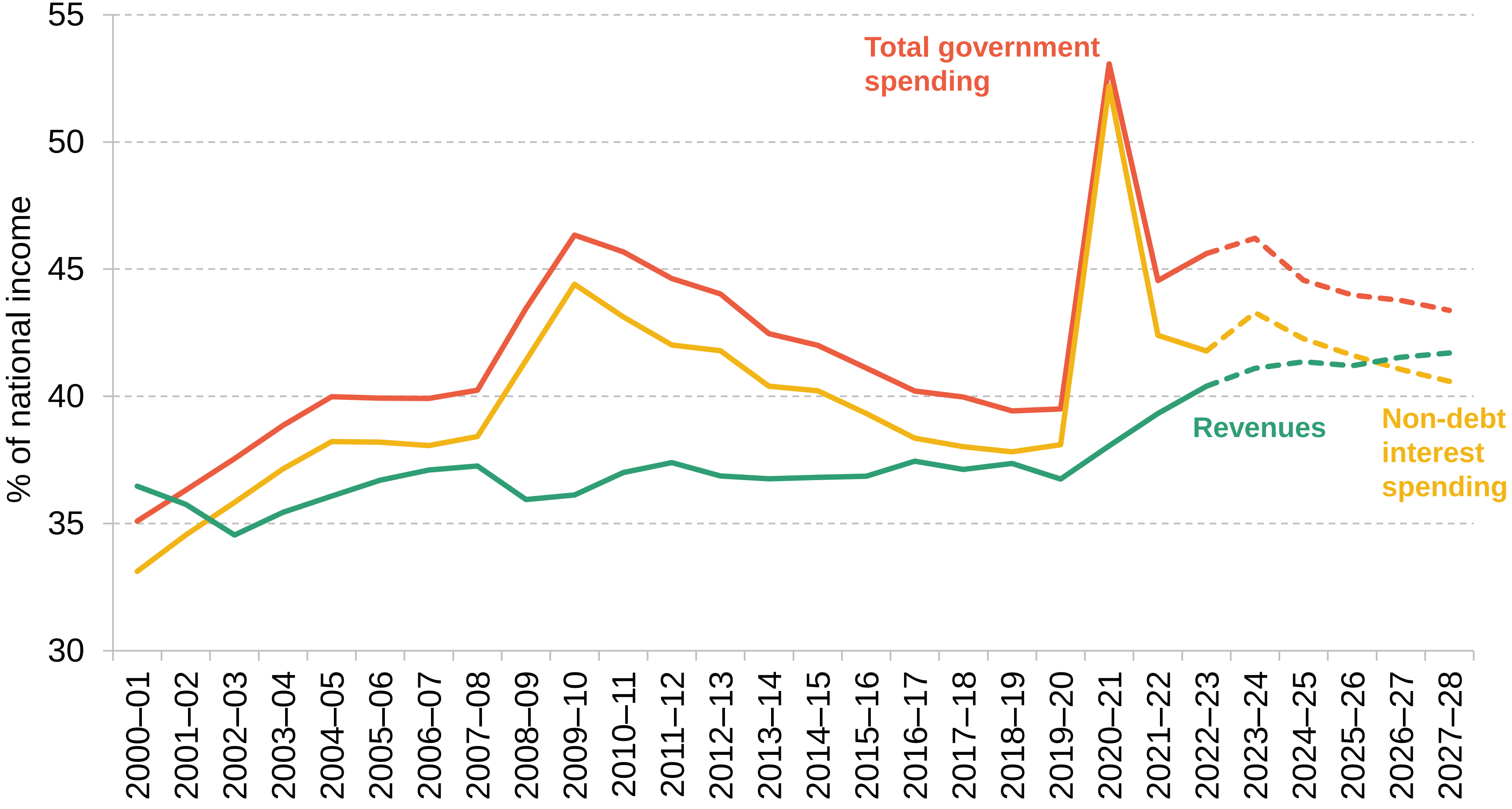
Nuffield Foundation

citi

UKRI Economic and Social Research Council

A permanently bigger state?



Notes and sources: see Figure 3.1.

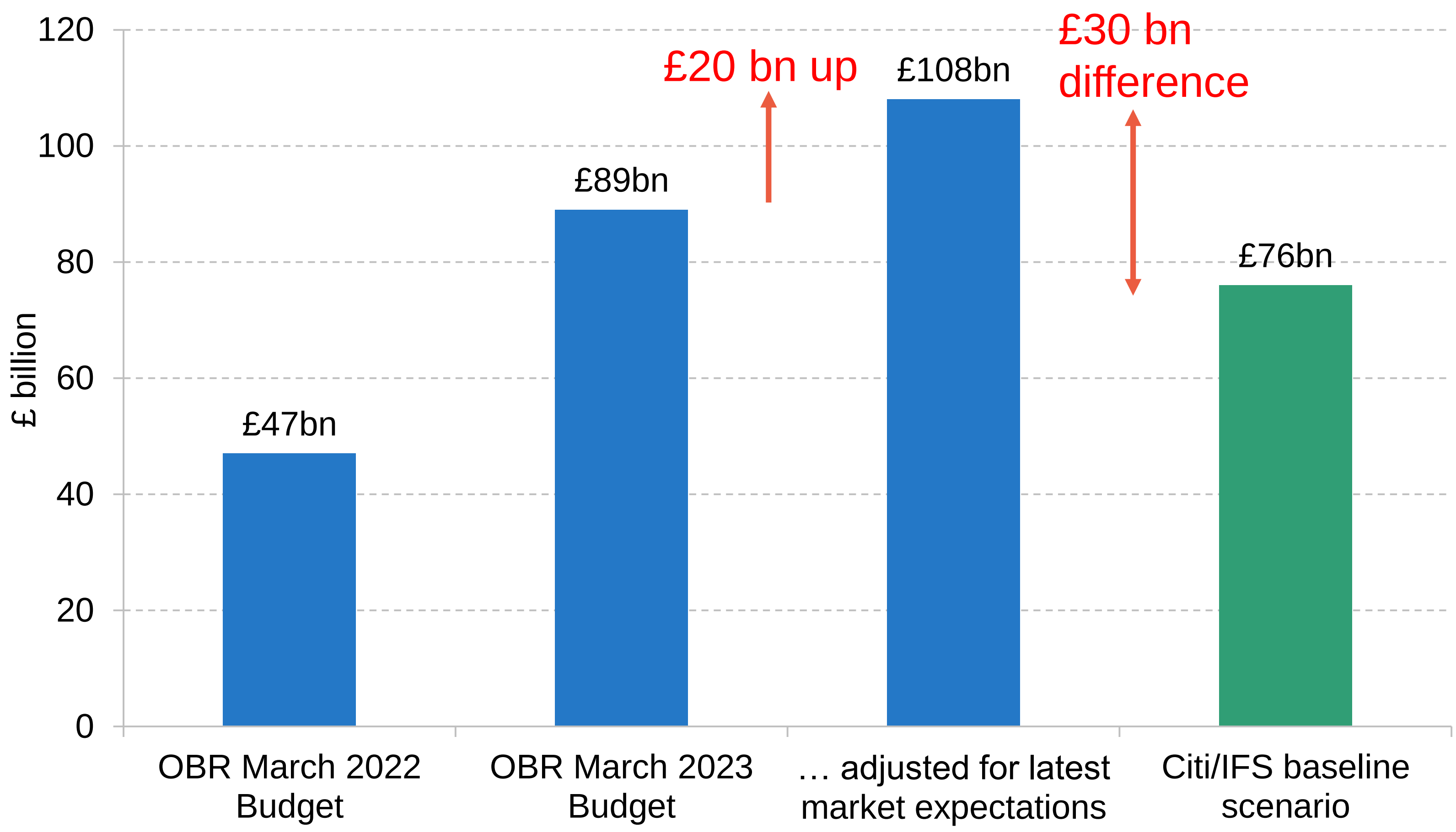
Impact of Citi’s economic forecast

- Lower real growth depresses revenues
  - recession in 2024, followed by weak recovery

- Hit to public finances mitigated by higher inflation
  - March 2023 OBR forecast: very low inflation from 2024Q1
  - higher inflation boosts revenues, partly offset by higher spending

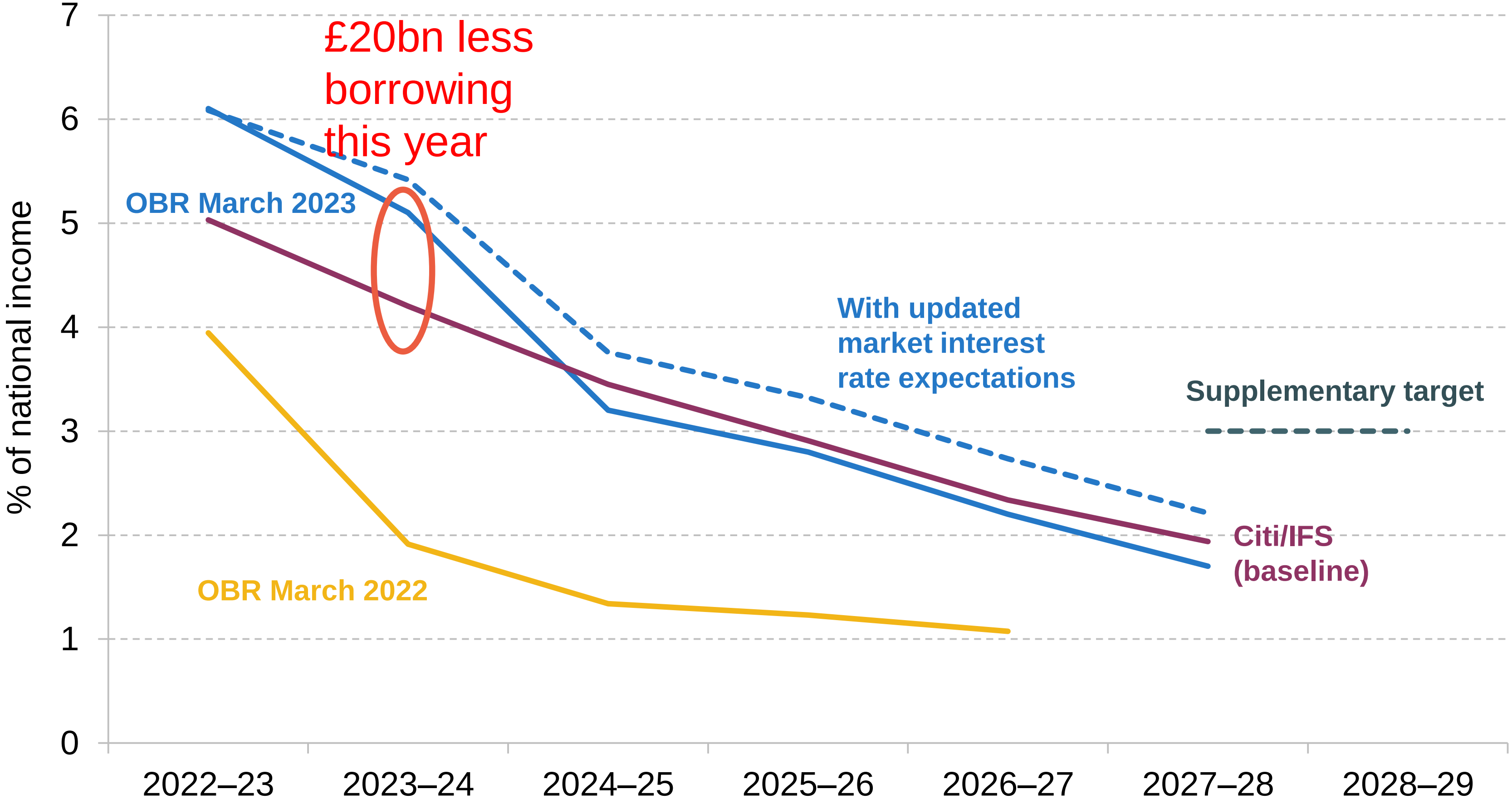
- Lower interest rates reduces forecast debt interest spending
  - Citi have Bank Rate around 2% from mid-2024 onwards
  - OBR uses market expectations, which are up since March and remain above 4%

Debt interest spending in 2026–27



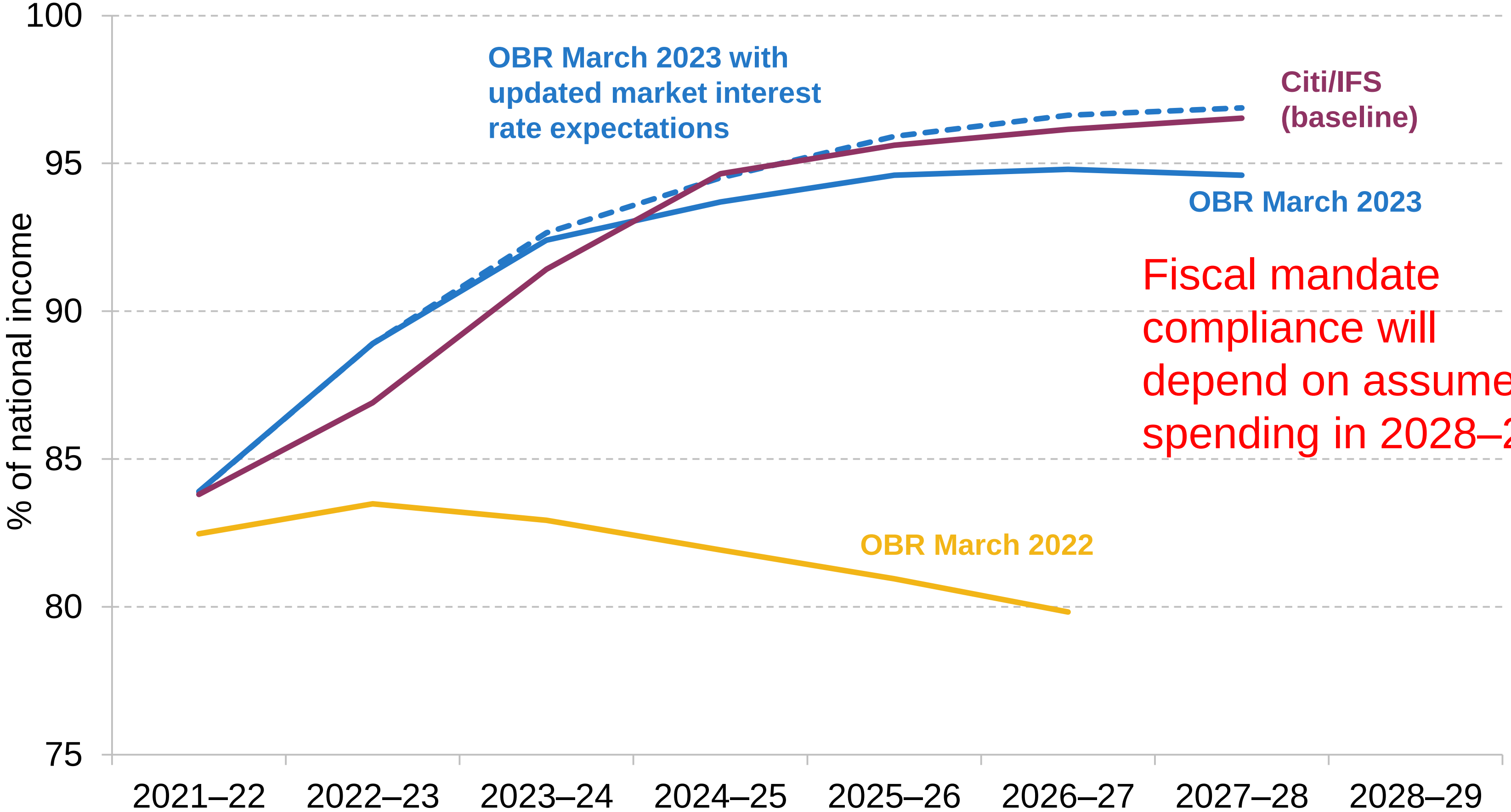
Notes and sources: see Table 3.3

Borrowing to fall…



Notes and sources: see Figure 3.14.

… but with weak growth that's only just enough to stabilise debt



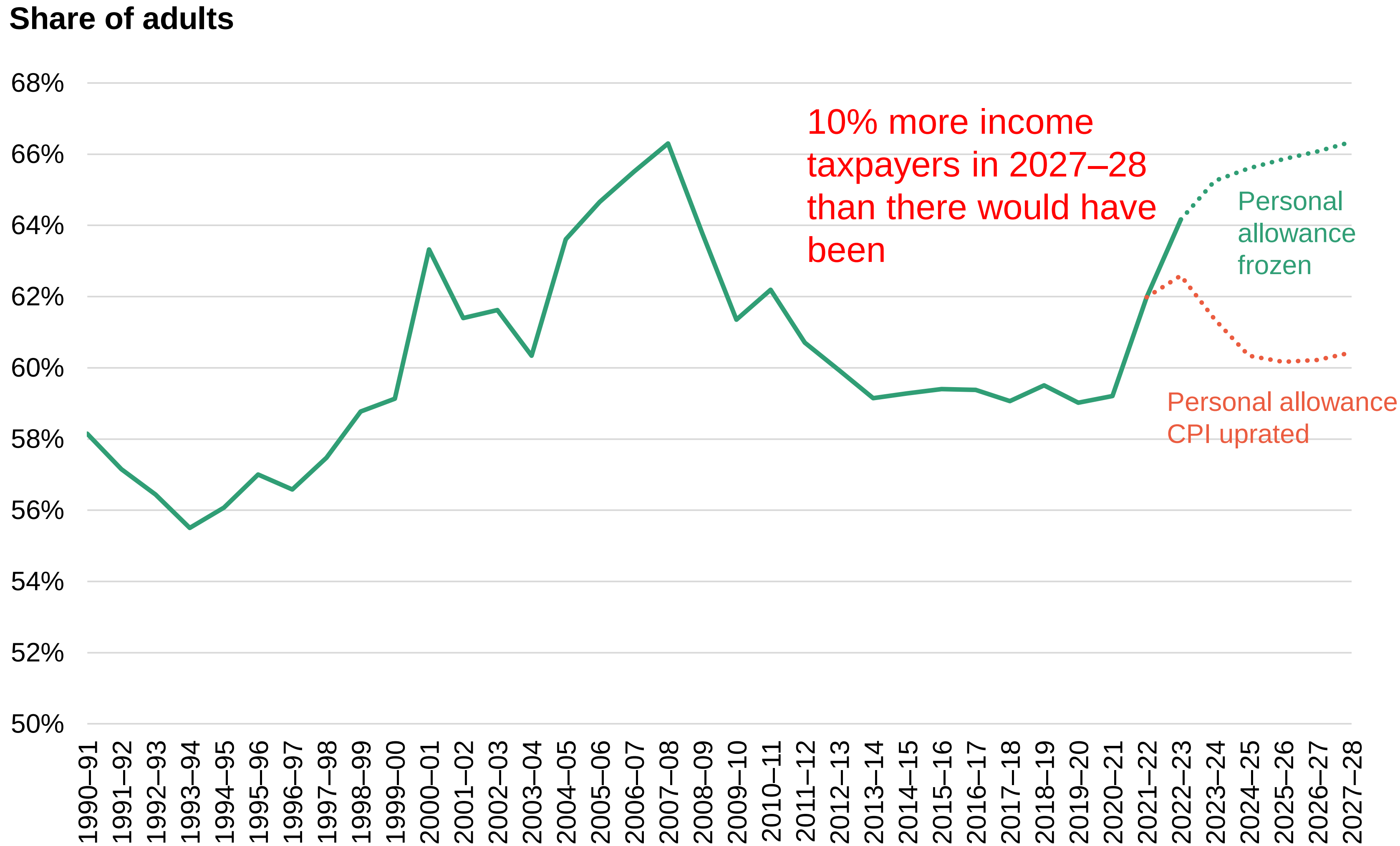
Fiscal mandate compliance will depend on assumed spending in 2028–29

Notes and sources: see Figure 3.15.

Policy risks

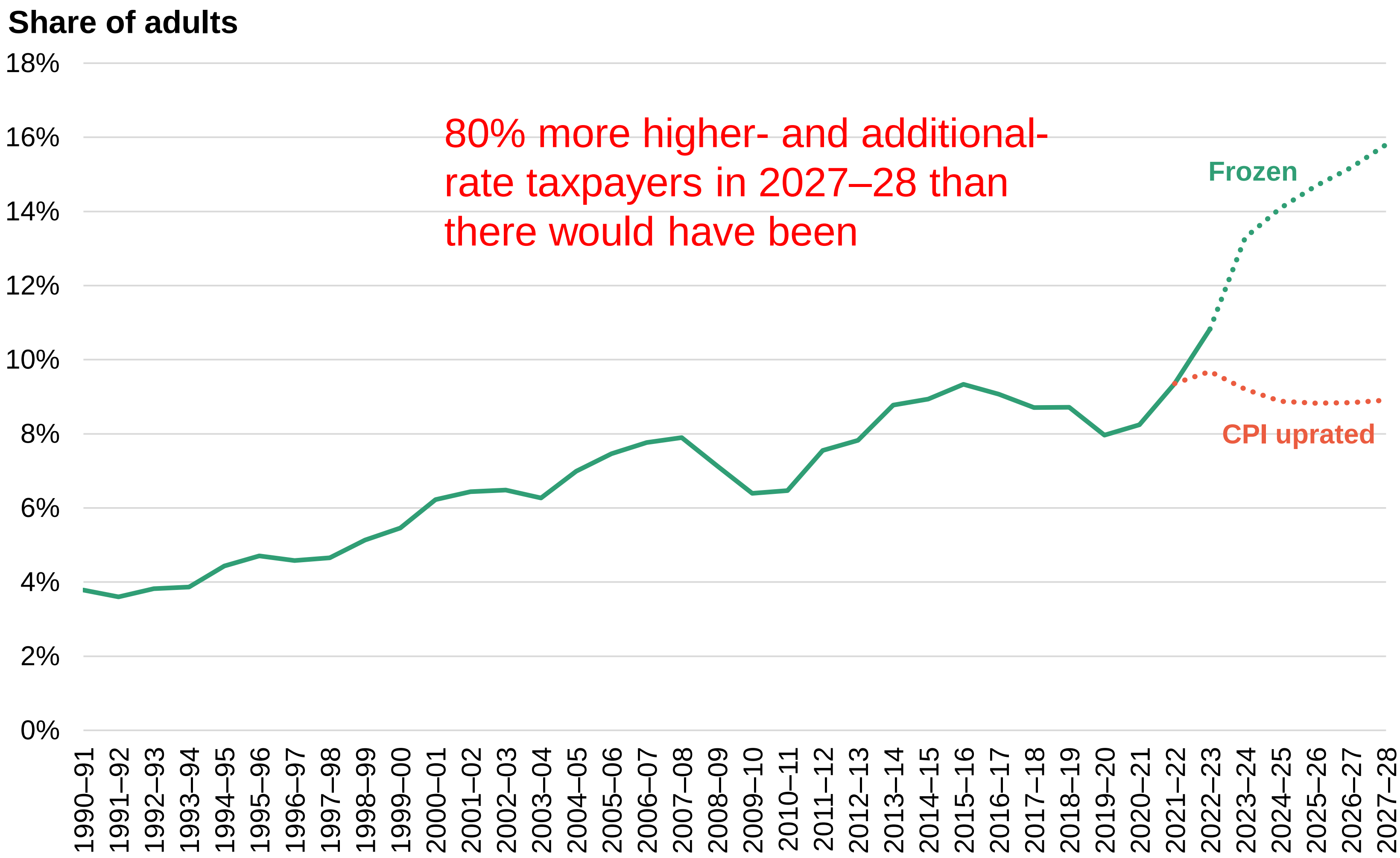
- Will personal direct tax threshold freeze be ended before 2027–28?
  - total tax rise of £52 billion; implies 6.5m more taxpayers and 4.5m more paying higher- and additional- rate tax

Income tax payers



Notes and sources: see Figure 4.4.

Higher and additional rate taxpayers



Notes and sources: see Figure 4.5.

Policy risks

- Will personal direct tax threshold freeze be ended before 2027–28?
  - total tax rise of £52 billion; implies 6.5m more taxpayers and 4.5m more paying higher- and additional- rate tax
  - ending it one year early would reduce revenue by £5 billion
- Will fuel duty rates be frozen, cutting tax by £6 billion in 2027–28?
- Will full expensing be made permanent?
- Will spending plans, which imply £9 billion of cuts to day-to-day spending on unprioritised areas, be topped up?

Budget judgement

- Borrowing this year will be below the March 2023 forecast, and the tax burden is rising sharply to record levels

- Despite that the case for net tax cut is weak
  - borrowing much higher than forecast in March 2022
  - inflation is high and interest rates are rising
  - size of state to remain above that pre-pandemic and pre-GFC, and with weak growth debt only stabilised

- Chancellor should avoid “paying for” certain immediate tax cuts with uncertain future tax rises or spending cuts