



Carl Emmerson

23 November 2023

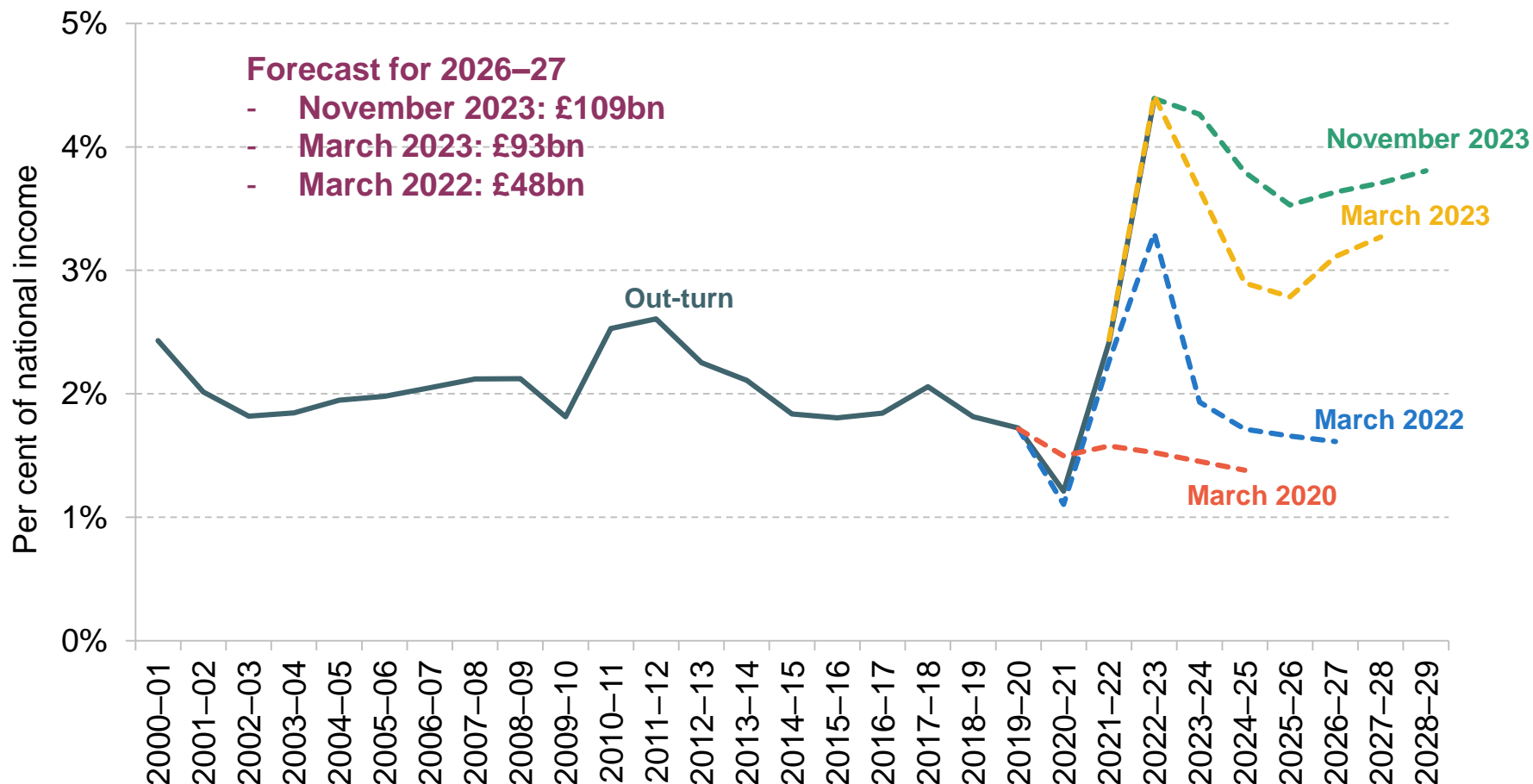
IFS post AS 2023
briefing

Online

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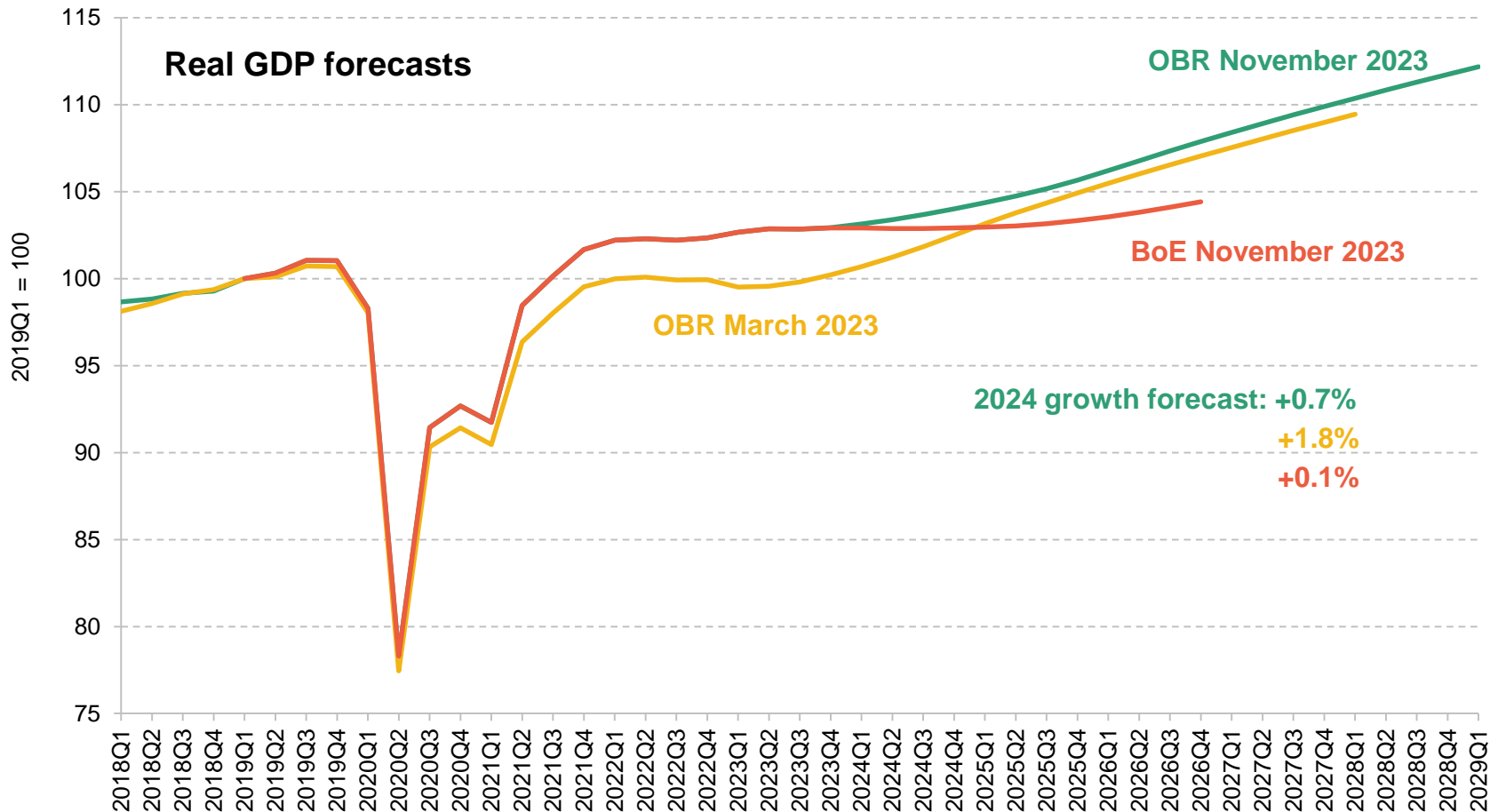
Public finances: keeping debt high?

Debt interest spending up



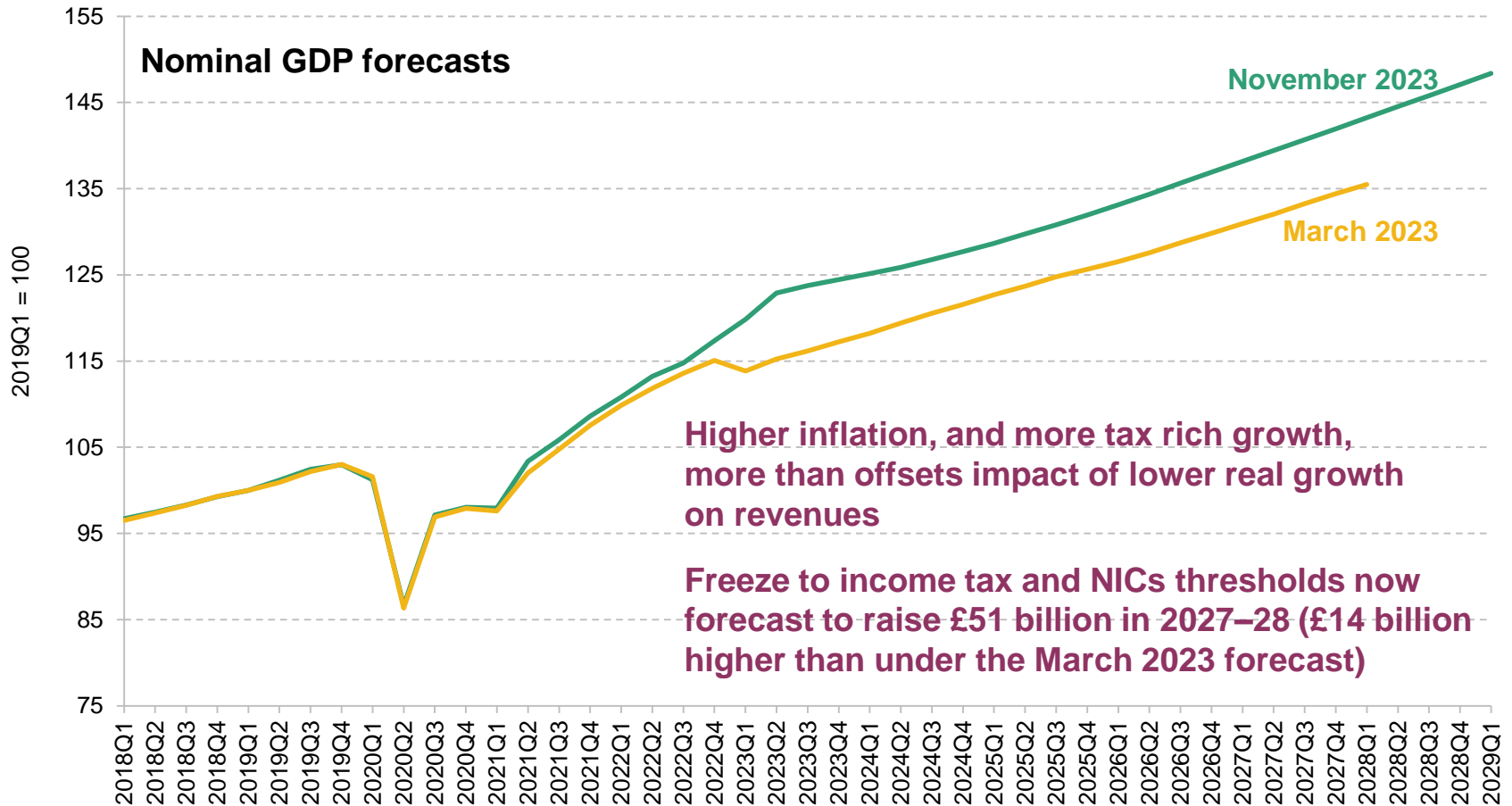
Source: OBR Economic and Fiscal Outlook

Worsening growth outlook (from a higher base)



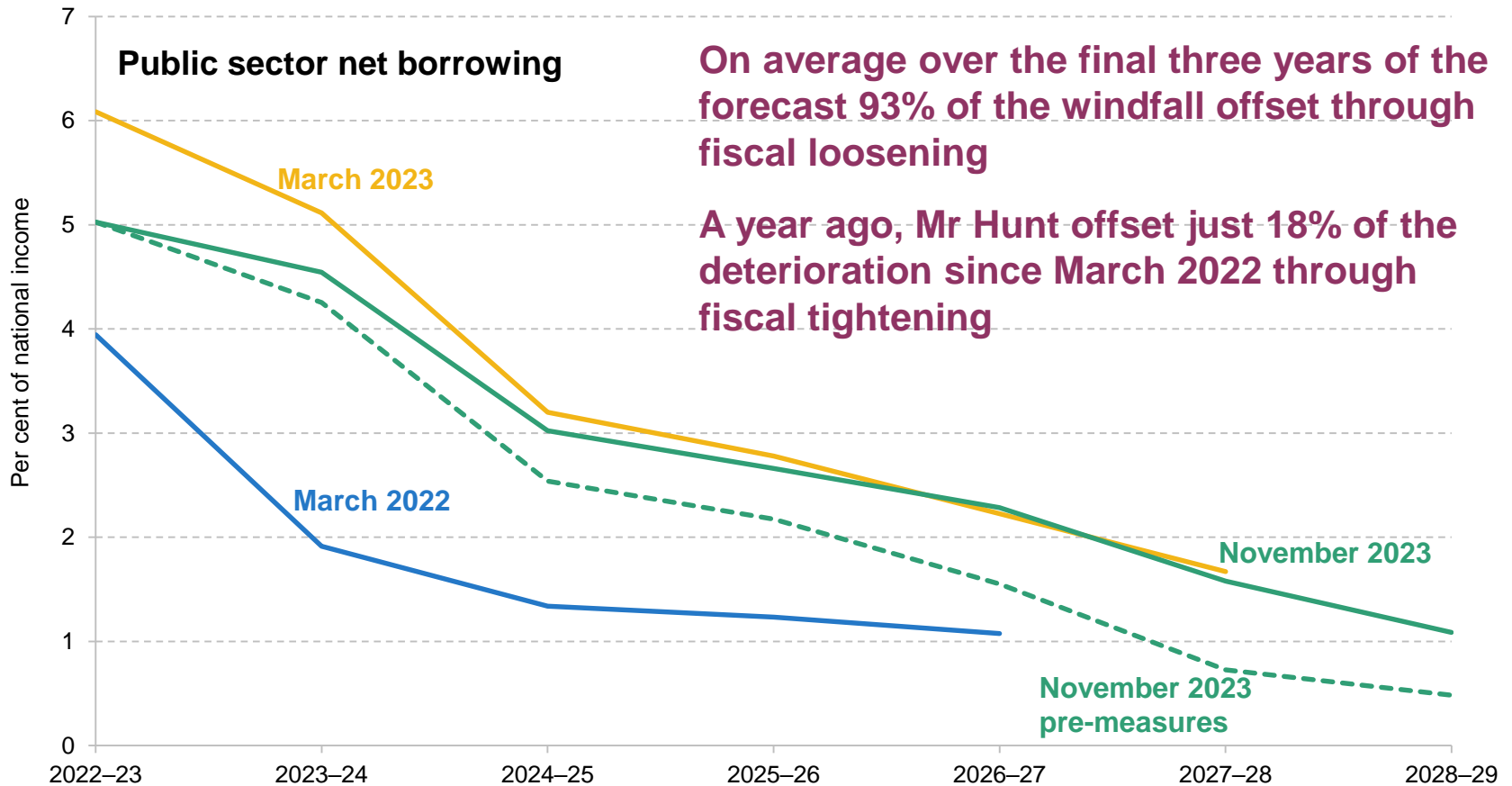
Source: OBR Economic and Fiscal Outlook, Bank of England Monetary Policy Report

But with higher inflation boosting nominal growth



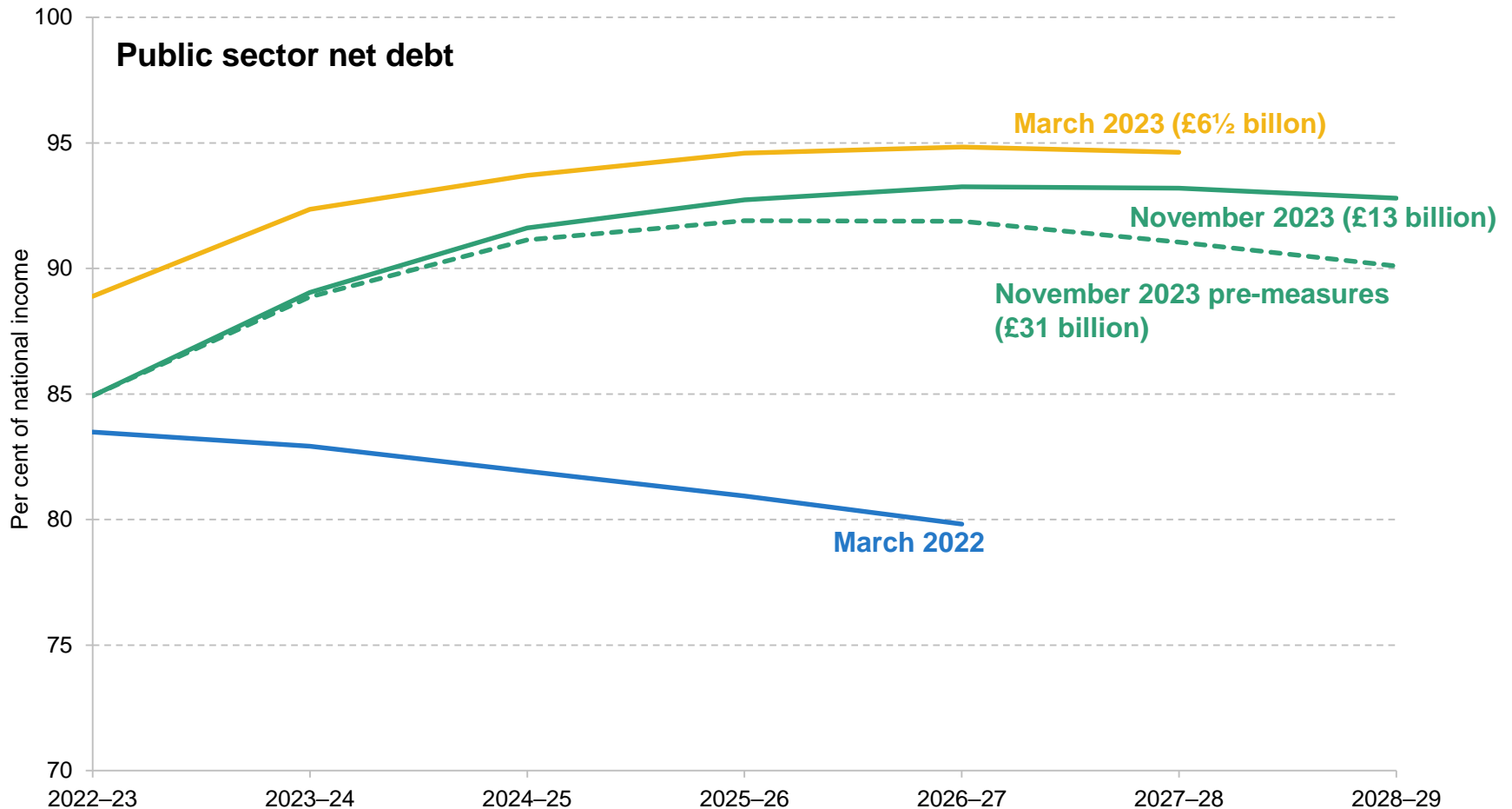
Source: OBR Economic and Fiscal Outlook

All of the windfall spent...



Source: OBR Economic and Fiscal Outlook

Debt rising, then stable



Note: Public sector net debt excluding the Bank of England shown. Source: OBR Economic and Fiscal Outlook

The 'headroom' rollercoaster

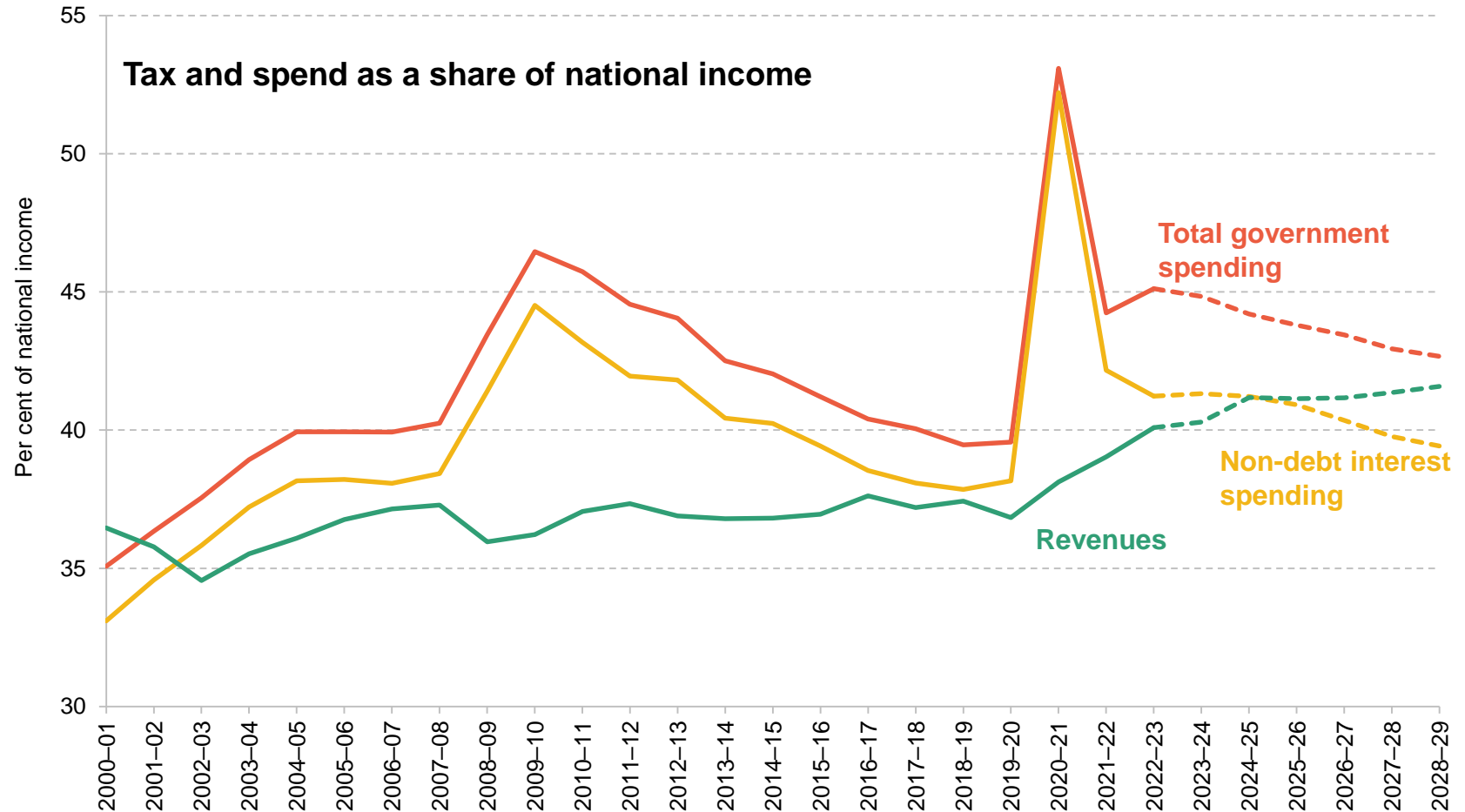
- Pre-measures forecast, 17 November, 'headroom': +£31 billion
- Press reports suggests that on 4 October it was *minus* £19 billion
 - if true £50 billion improvement in just 44 days
- Policy decisions seem to be ridiculously fine tuned in response to changes in uncertain and volatile forecasts
- What goes up could go down. And the Budget could be 125 days away...

How to lose £13 billion in 125 days...

- Ways to increase borrowing in 2028–29:
 - freeze fuel duty rates from current level: £6.2 billion
 - make business rate relief for retail, hospitality and leisure sectors permanent: £2½ billion
 - avoid any cuts to day-to-day public service spending in next parliament: £20 billion

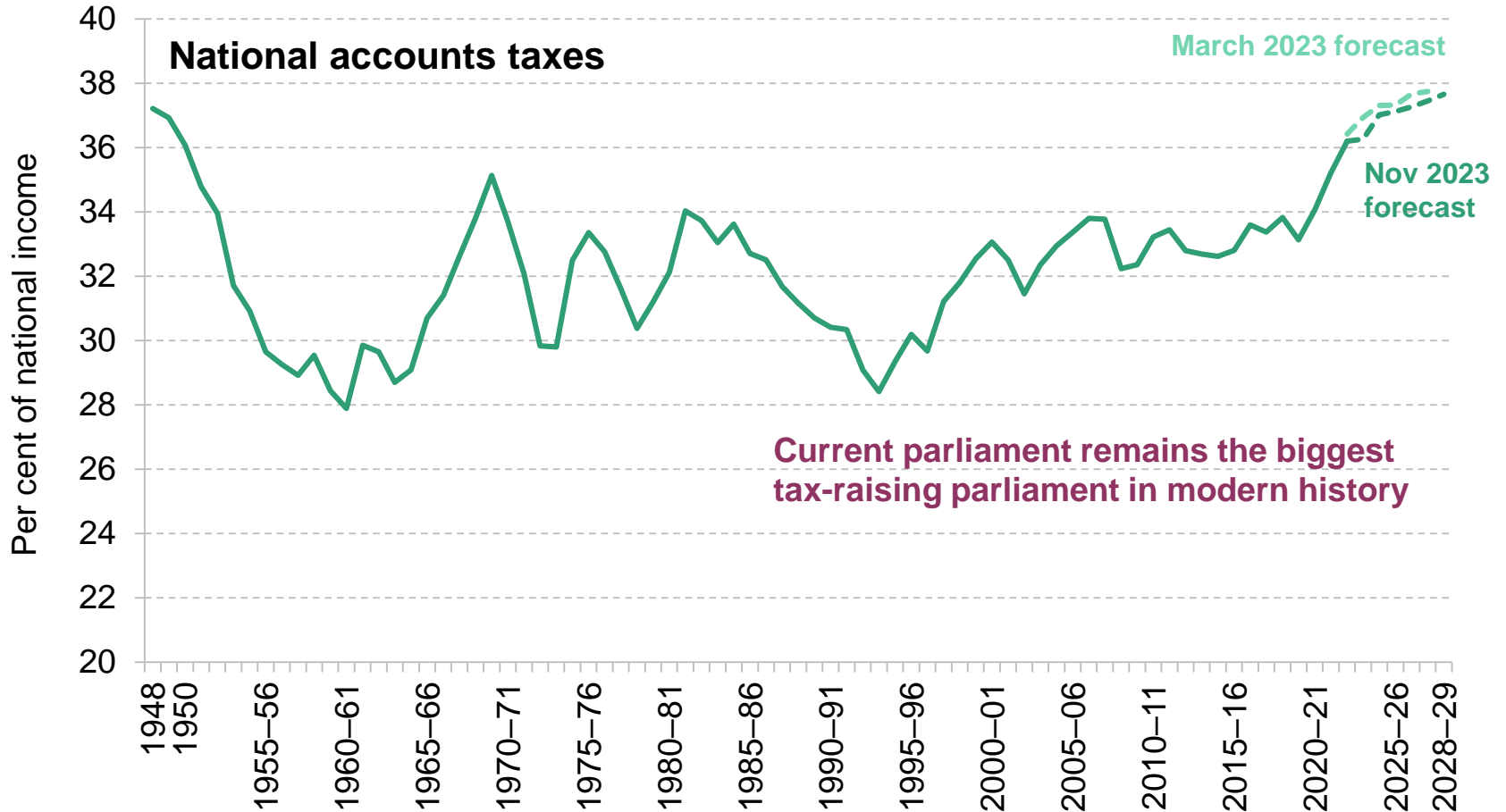
- Raises questions about credibility of stated policy settings

A bigger post pandemic state



Source: OBR Economic and Fiscal Outlook

(Still) a high tax government



Source: OBR Public Finances Databank (October 2023 & November 2023 (EFO edition)).

Conclusions

- Public finances hit by a growth forecast downgrade and a rise in debt interest costs
- More than offset by higher inflation boosting revenues while departmental allocations shrink in real terms
- Resulting windfall used to finance tax cuts, though taxes still rising sharply since 2019 to an all time UK high
- Debt remains barely on course to fall in five years time, even under questionable assumptions around policy settings