Public finance forecasts and Budget judgement
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2011–12

• Current receipts: £0.4 billion lower than forecast by OBR
  – Lower receipts of income tax, fuel duties, capital gains tax, stamp duties
  – Higher receipts of NICs and VAT
• Current spending: £3.3 billion lower than forecast by OBR
  – Expect underspend by central government departments
• Public sector net investment: assume OBR forecast correct

• Current budget deficit and public sector net borrowing
  – £2.9 billion lower than forecast by the OBR
  – PSNB: £124.2 billion (8.2% of national income)
  – CB deficit: £95.6 billion (6.3% of national income)
Medium-term: baseline (1)

- Assumes macro economy evolves as forecast by OBR in Nov 2011

- Revenues: stronger growth overall than forecast by OBR
  - Stronger growth of VAT, income tax, NICs, corporation tax
  - Weaker growth of fuel duties, business rates, council tax
  - Grow from 37.6% to 38.4% of national income

- Spending: very similar to OBR forecast
  - Assume departments stick to currently allocated budgets
  - Social security and other non-debt interest spending the same
  - Marginally lower debt interest spending
Medium-term: baseline (2)

- **Current budget**
  - Strengthens from 6.3% of national income deficit in 2011–12 to 0.4% surplus by 2016–17
  - 0.6ppt from increasing tax burden as share of national income
  - 6.2ppt from lower spending as share of national income

- **Public sector net borrowing**
  - Falls from 8.2% of national income to 0.6% of national income

- **Borrowing in 2016–17**
  - 0.6% of national income (£9 billion) lower than forecast by the OBR
  - (Compares to 1.6% of national income increase in OBR’s forecast for underlying borrowing in 2016–17 between March and November 2011)
Uncertainty: alternative scenarios

• OBR, November 2011
  – 2.4% a year average real economic growth over next five years

• Oxford Economics: central
  – Weaker economic growth: economy 1.2% smaller in real terms by 2016–17 than forecast by OBR

• ‘Corporate reawakening’
  – Same level of economic growth as forecast by OBR up to 2016–17

• ‘Eurozone break-up’
  – Sharp recession in 2012–13
  – Economy 3.0% smaller in real terms by 2016–17 than forecast by OBR
Cyclically-adjusted current budget surplus

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

Notes and sources: see Figure 4.3 of The IFS Green Budget: February 2012
Public sector net debt

**Supplementary target:** public sector net debt as a share of national income should be falling at a fixed date of 2015–16

Notes and sources: see Figure 4.4 of *The IFS Green Budget: February 2012*
Budget judgement: medium-term

• Baseline forecast (and Oxford Economics central scenario) suggest scope for a medium-term net giveaway
  – But risks skewed to the downside and longer-term pressures of ageing population loom

• Strong case for no significant medium-term net giveaway in the March Budget

• Revenue-neutral changes to tax and benefit system could be made that would boost economic growth

• Government should hold another Spending Review no later than autumn 2013
  – In light of evidence then available on impact of cuts over this SR period
  – Revise plans for 2014–15
  – Set out spending plans for 2015–16 and 2016–17
Budget judgement: short-term

- Some fiscal stimulus done in Autumn Statement 2011
  - Revenue neutral but slightly growth enhancing reallocation of spending; no attempt to offset short-term rise in borrowing resulting from weaker economic outlook
Budget judgement: short-term

• Some fiscal stimulus done in Autumn Statement 2011

• Case for taking this significantly further stronger than a year ago
  – Short-term economic outlook has worsened
  – Risk of monetary policy being tighter in response is now much lower

• But still not clear cut
  – £740 billion of new debt to be issued over next five years
  – Important to ensure interest rates on government borrowing remain low

• Chancellor should set out broadly what he would do were the economic outlook to deteriorate significantly

• Any stimulus measures should be: Timely, Targeted, Temporary
  – Temporary VAT cut; temporary cut to employers’ NICs
  – Investment spending boost
Summary

• Baseline forecast and Oxford Economics central scenario
  – Borrowing slightly lower in medium-term than forecast by OBR
  – Chancellor’s fiscal mandate met and supplementary target on course (just) to be met

• Alternative scenarios suggest risks skewed to the downside
  – ‘Eurozone break-up’ scenario: Chancellor’s fiscal mandate missed and debt on course to exceed 90% of national income

• Budget judgement
  – Medium-term: strong case for not announcing any significant net permanent giveaway in March Budget
  – Short-term: case for significant further fiscal stimulus stronger now than it was a year ago, but still not clear cut either way