



Isabel Stockton

Pre-Budget Briefing

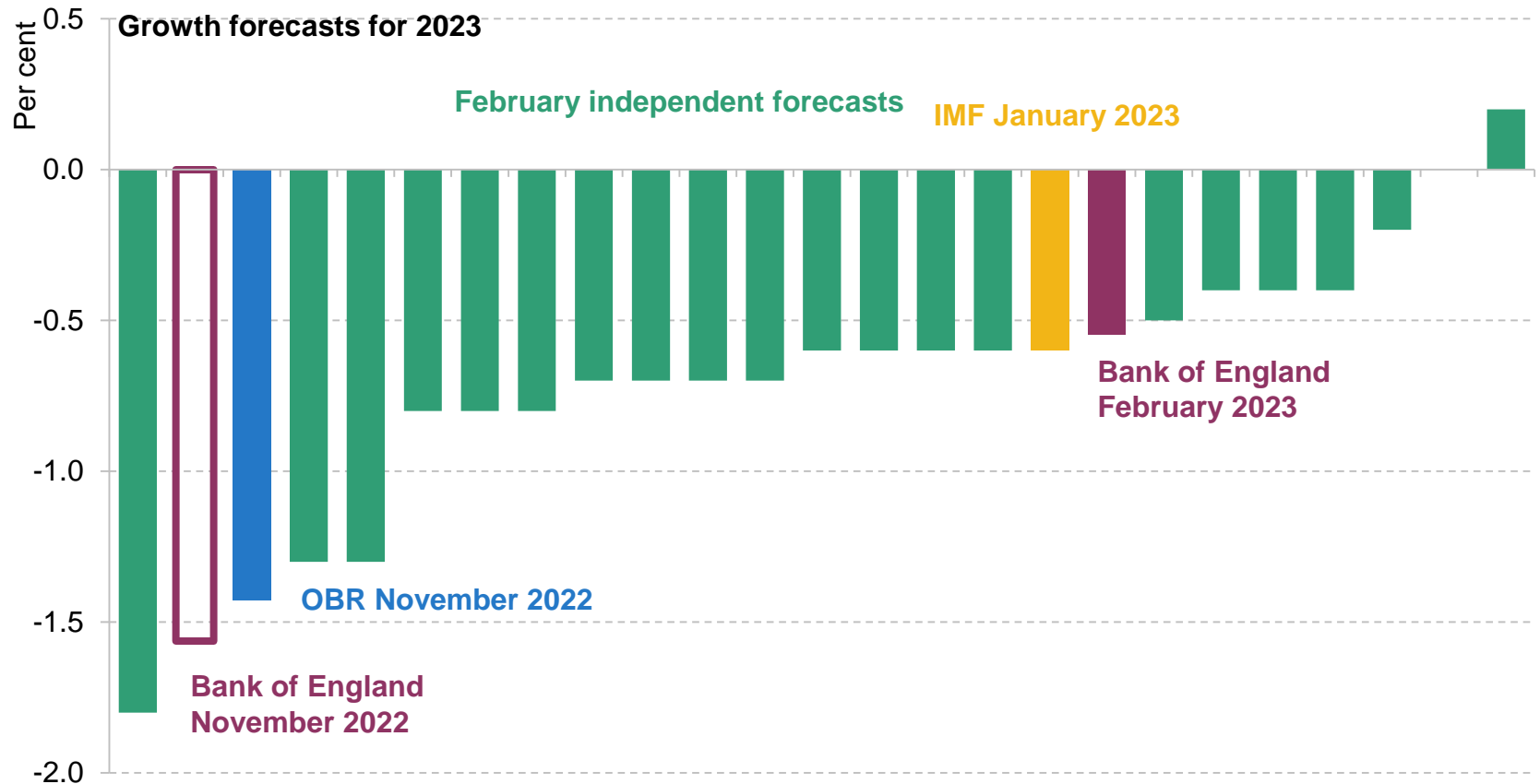
28 February 2023

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Outlook for the public finances



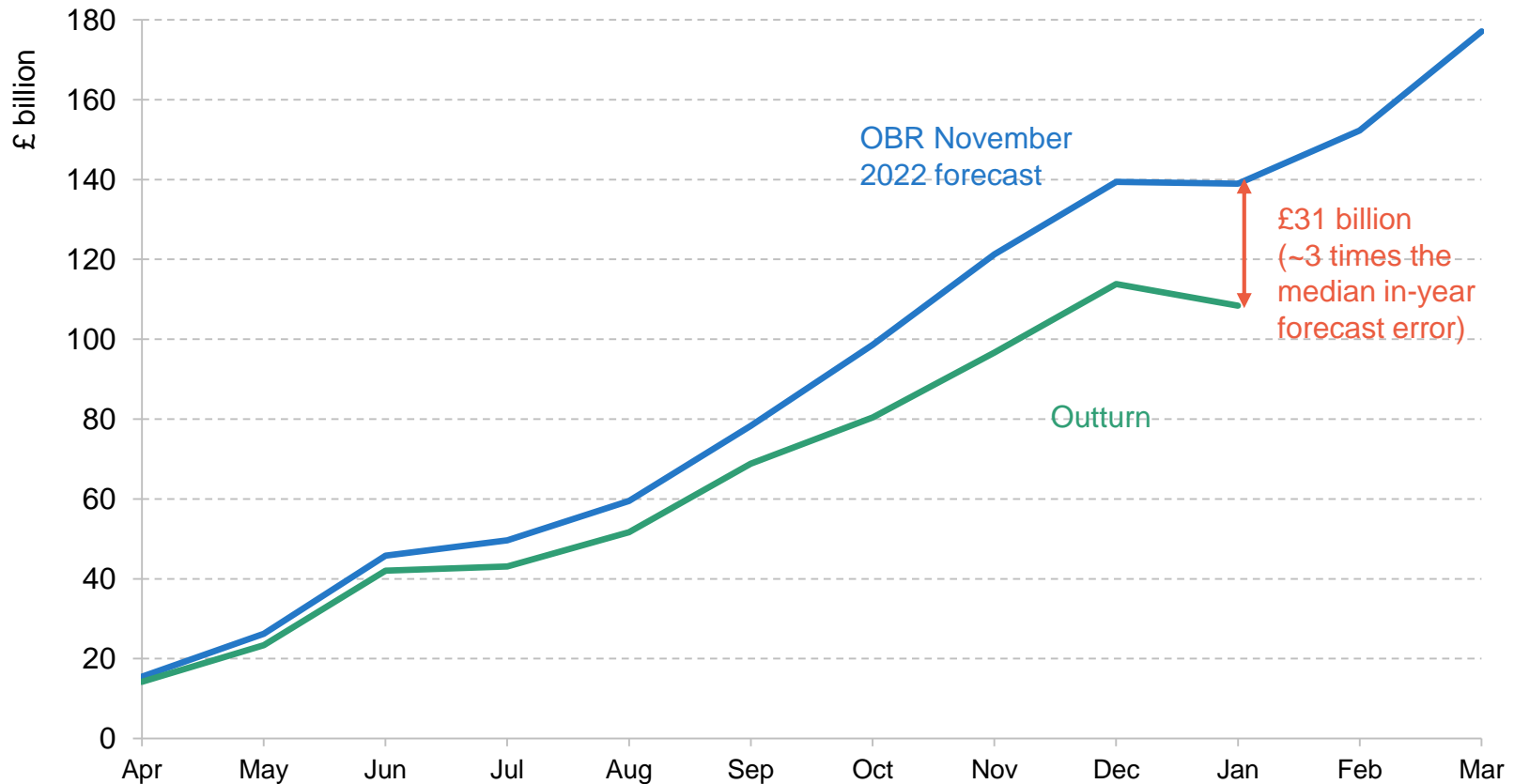
Shallower recession in newer forecasts



Notes: New forecasts (made in February) from HMT survey only.

Source: HMT survey of independent forecasters (February 2023), Bank of England Monetary Policy Report (February 2023), Office for Budget Responsibility, Economic and Fiscal Outlook (November 2022).

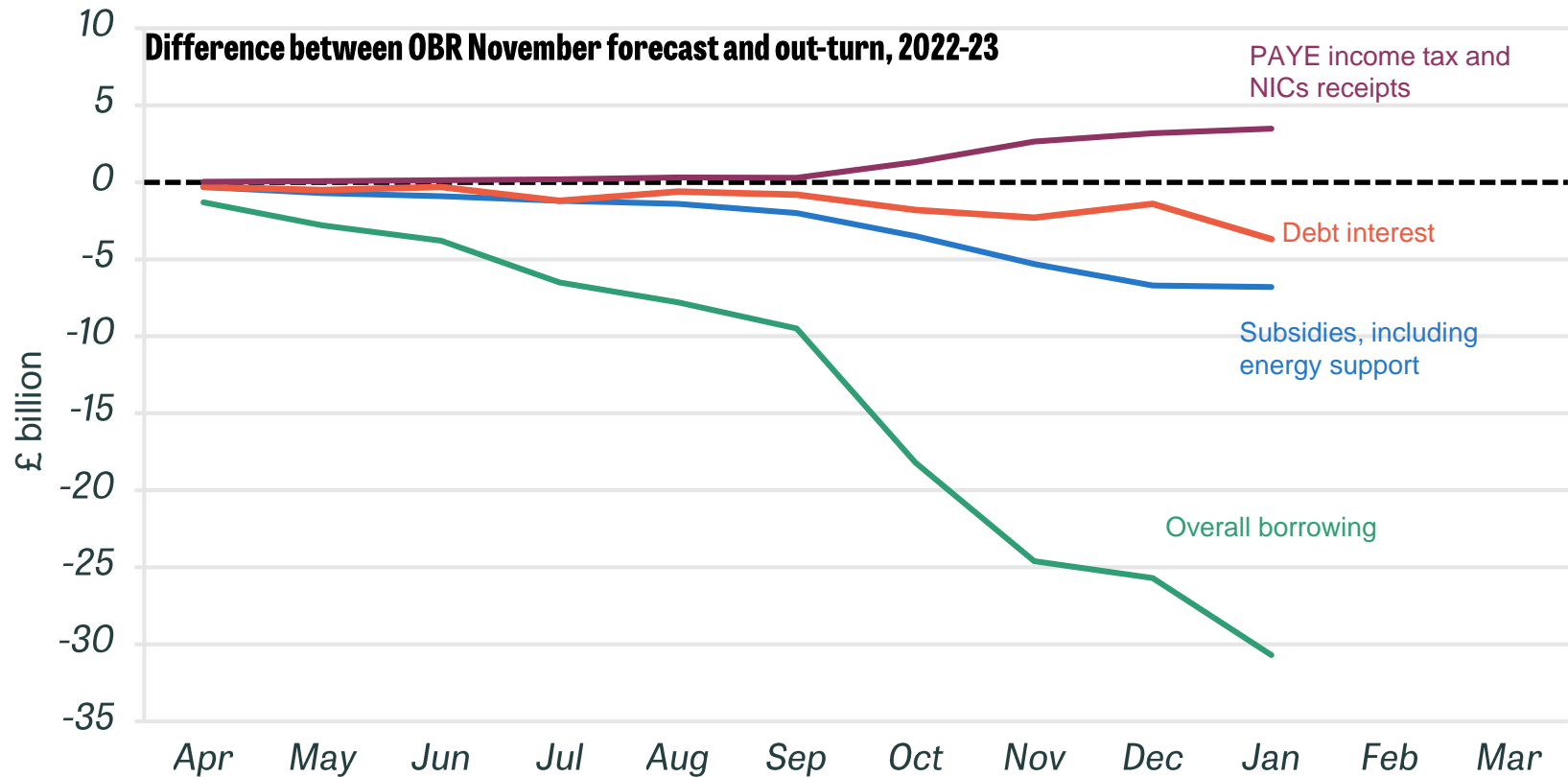
Borrowing in-year much below forecast



Notes: Outturn adjusted for a temporary difference in the treatment of student loans.

Source: Office for National Statistics, Public Sector Finances, UK: February 2023

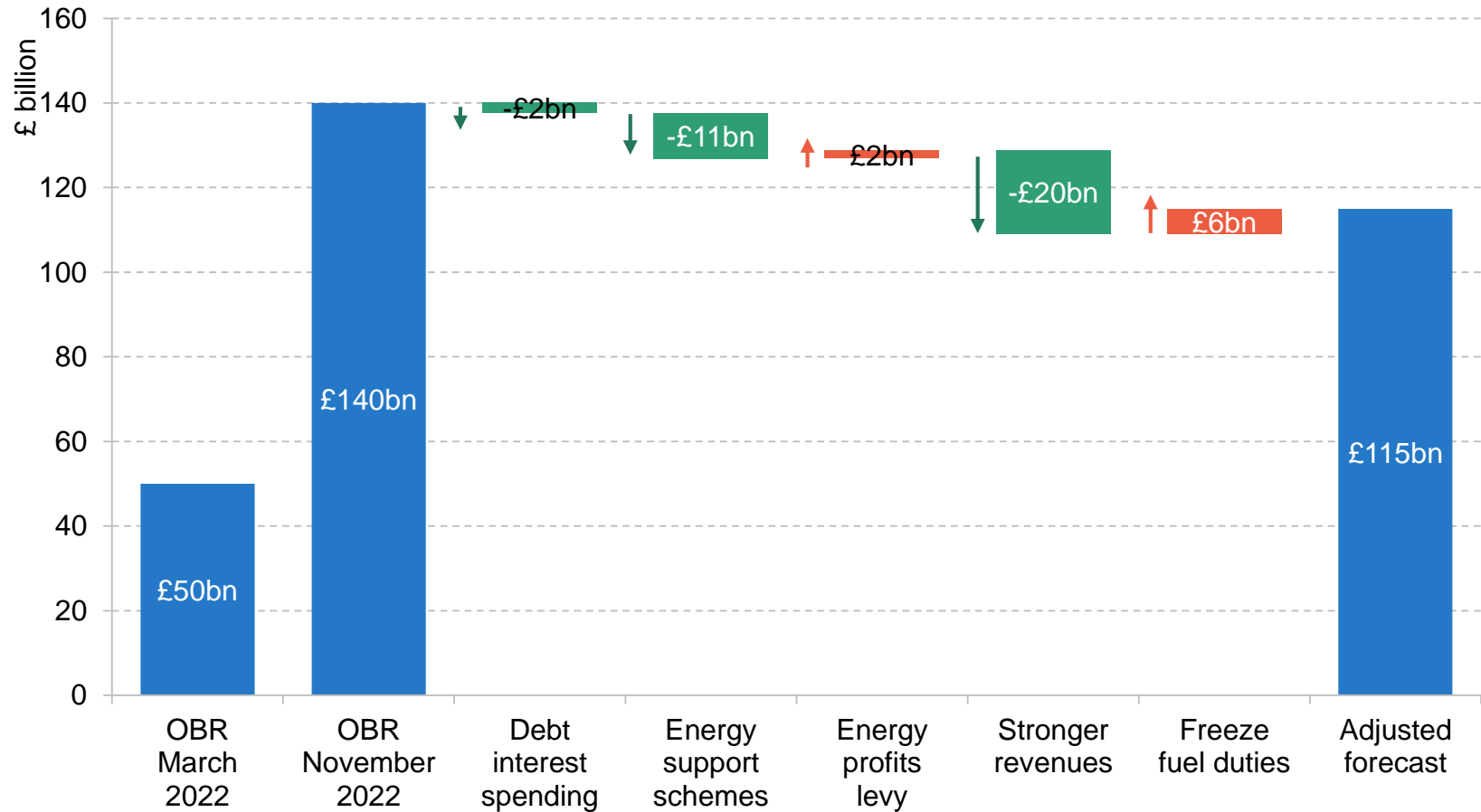
Drivers of lower-than-expected borrowing



Borrowing figures adjusted for a temporary difference in the treatment of student loans.

Sources: Office for National Statistics, Public Sector Finances Time Series and Office for Budget Responsibility, November 2022
EFO forecast: Receipts and spending profiles for 2022-23

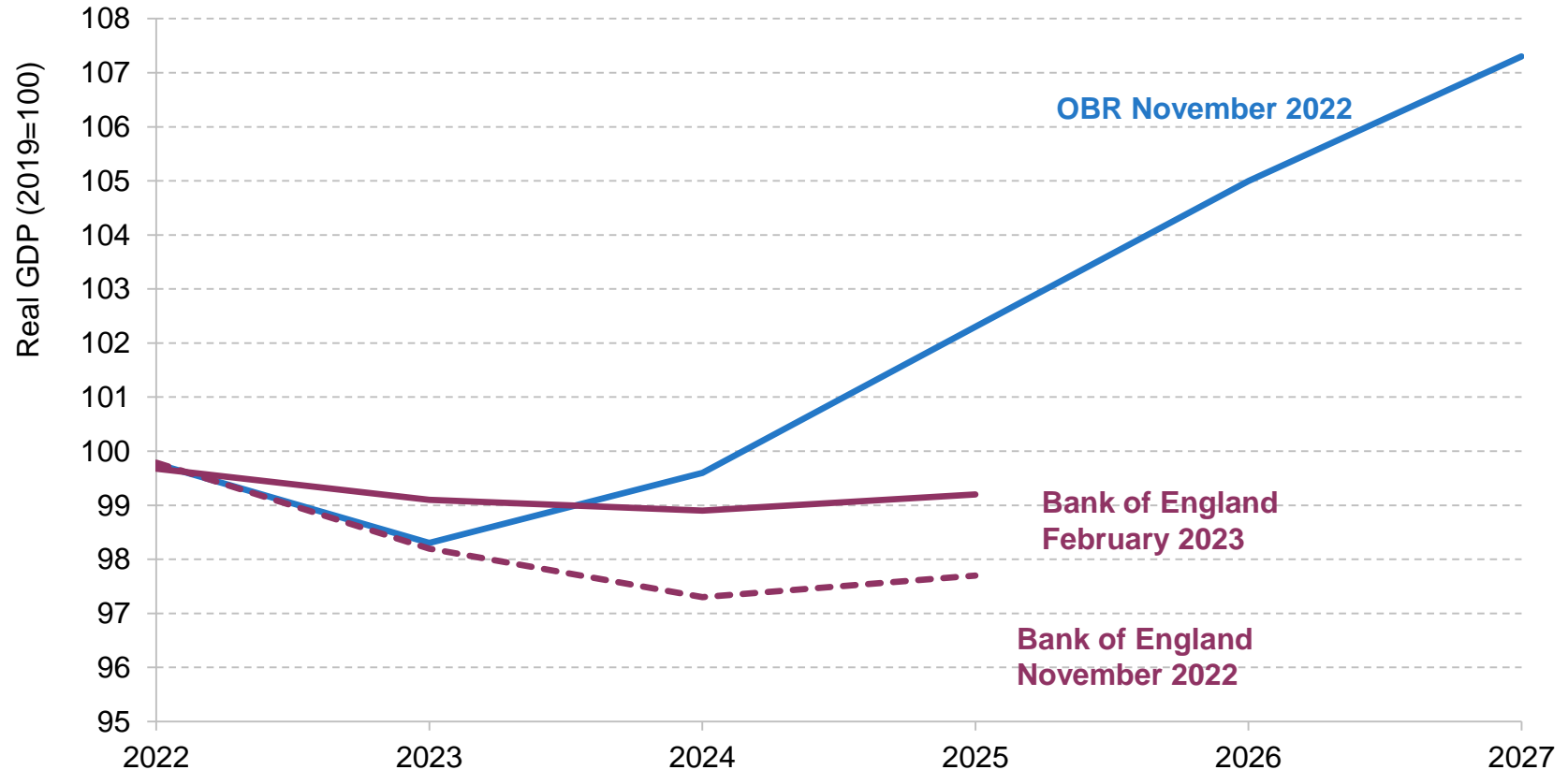
Changes in the borrowing outlook for 2023-24



How persistent are these changes?

- Case for permanent tax cuts or spending increases rests on changes to longer-term outlook
- Chancellor's fiscal rule also bites in five years' time
- No energy price guarantee beyond 2023-24 → no ongoing savings
- Persistent savings relative to November from lower interest rates:
 - £4 billion in 2027-28
 - Rate expectations rising again in February
- Longer term, economic growth the most important factor for the health of the public finances

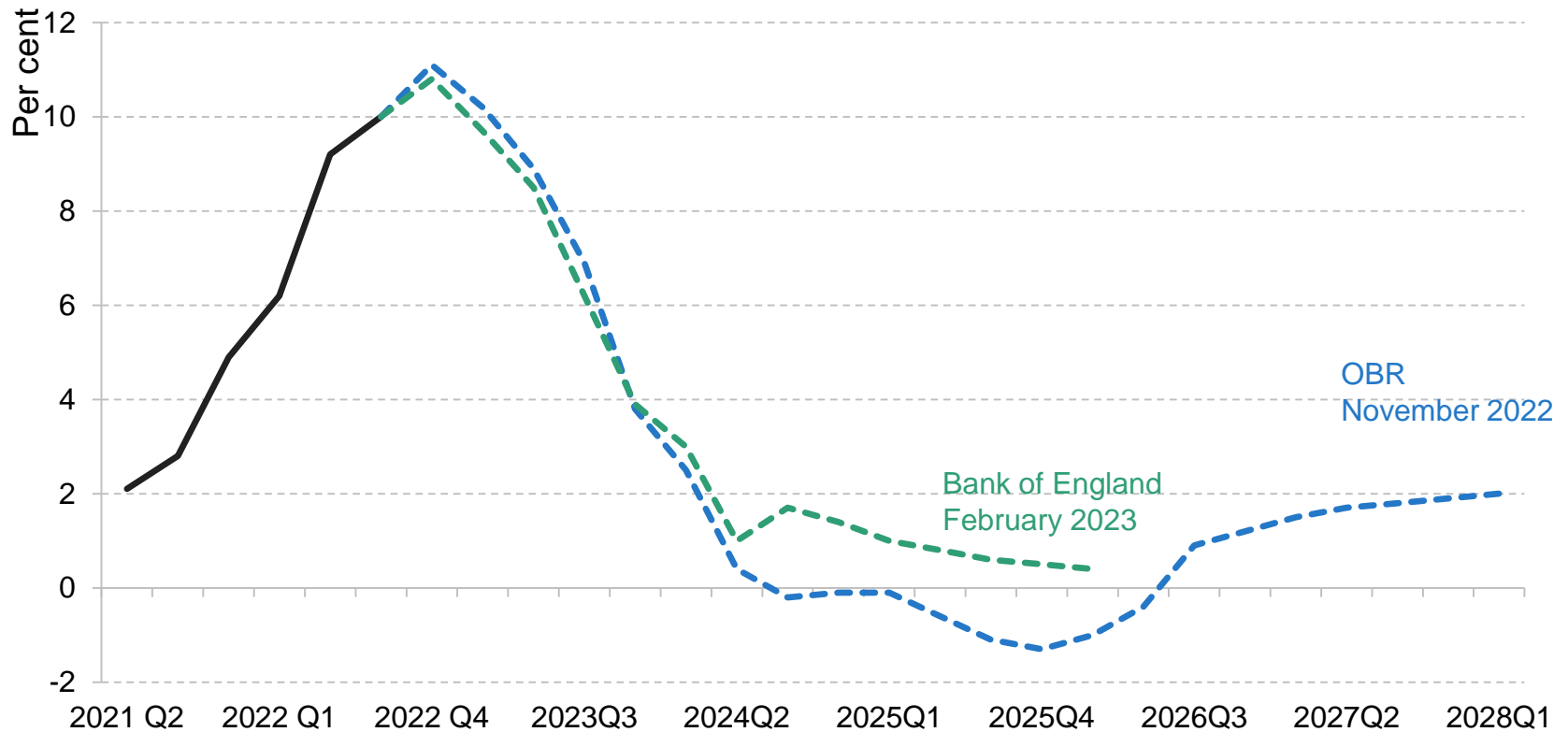
Huge medium-term uncertainty remains after shallower recession



Notes: New forecasts from HMT survey only.

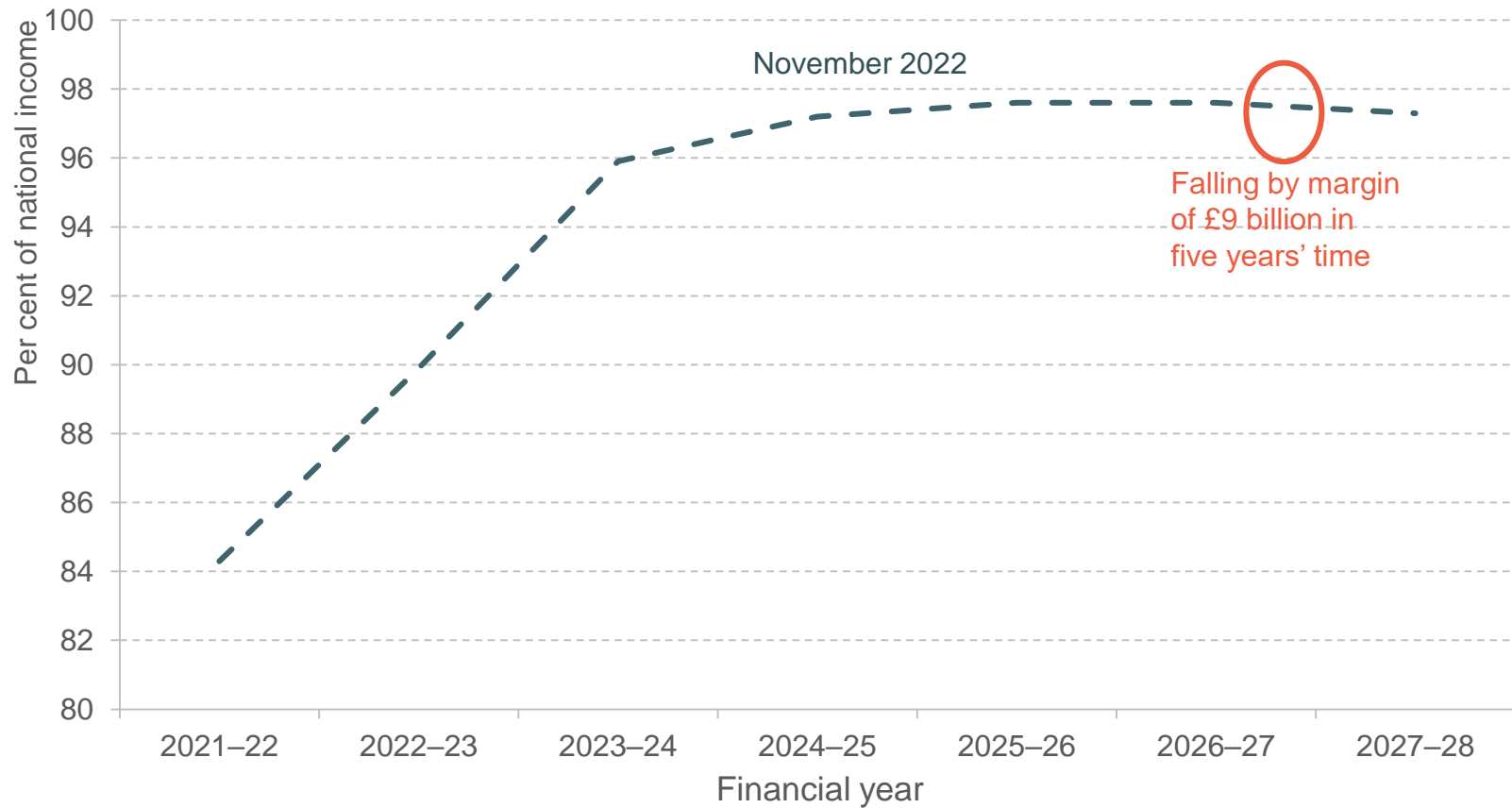
Source: HMT survey of independent forecasters (February 2023), Bank of England Monetary Policy Report (February 2023), Office for Budget Responsibility, Economic and Fiscal Outlook (November 2022).

Inflation set to fall sharply, but Bank expects no deflation



Source: Bank of England, Monetary Policy Report (February 2023) and Office for Budget Responsibility, Economic and Fiscal Outlook (November 2022)

Even a modest change could put debt on a rising path



Note: Underlying debt (excluding the Bank of England) shown.

Conclusions

- Sizable reduction in borrowing in the short term:
 - Running £31 billion below forecast for 2022-23: three times the average gap
 - £25 billion improvement in 2023-24 is plausible, after the inevitable freeze in fuel duties
- Temporary improvements do not justify a permanent loosening
- Judgements on growth and persistence of strong revenues key for medium-term outlook
 - Bank of England forecasting shallower recession but dismal trend growth at $<1\%$
 - Good reasons to want debt decisively falling in the medium term
 - Small, uncertain changes to the outlook four to five years out do not justify immediate policy action
 - Case for permanent tax cuts or spending increases no stronger than in November

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