



# Institute for Fiscal Studies



## Borrow now, cut spending later

Gemma Tetlow

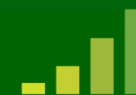
# Changes in borrowing forecasts since Mar 2012

## Public sector net borrowing, £ billion

	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
<b>Budget 2012</b>	<b>126</b>	<b>92</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
<b>AS 2012</b>	<b>121</b>	<b>80</b>	<b>99</b>	<b>88</b>	<b>73</b>	<b>49</b>

Notes: Numbers might not sum due to rounding.

Source: HM Treasury; Office for Budget Responsibility; IFS calculations.



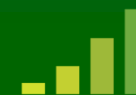
# Changes in borrowing forecasts since Mar 2012

## Public sector net borrowing, £ billion

	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
<b>Budget 2012</b>	<b>126</b>	<b>92</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
<b>Exc. Royal Mail Pens</b>	<b>126</b>	<b>120</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
<b>AS 2012</b>	<b>121</b>	<b>80</b>	<b>99</b>	<b>88</b>	<b>73</b>	<b>49</b>

Notes: Numbers might not sum due to rounding.

Source: HM Treasury; Office for Budget Responsibility; IFS calculations.



# Changes in borrowing forecasts since Mar 2012

## Public sector net borrowing, £ billion

	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
<b>Budget 2012</b>	<b>126</b>	<b>92</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
<b>Exc. Royal Mail Pens</b>	<b>126</b>	<b>120</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
Forecasting changes	–5	11.9	18.2	26.6	29.2	35.9
<i>Of which:</i>						
Revenues		10.4	16.3	25.5	30.1	38.8
Spending		1.4	1.9	1.1	–0.9	–2.9
<b>AS 2012</b>	<b>121</b>	<b>80</b>	<b>99</b>	<b>88</b>	<b>73</b>	<b>49</b>

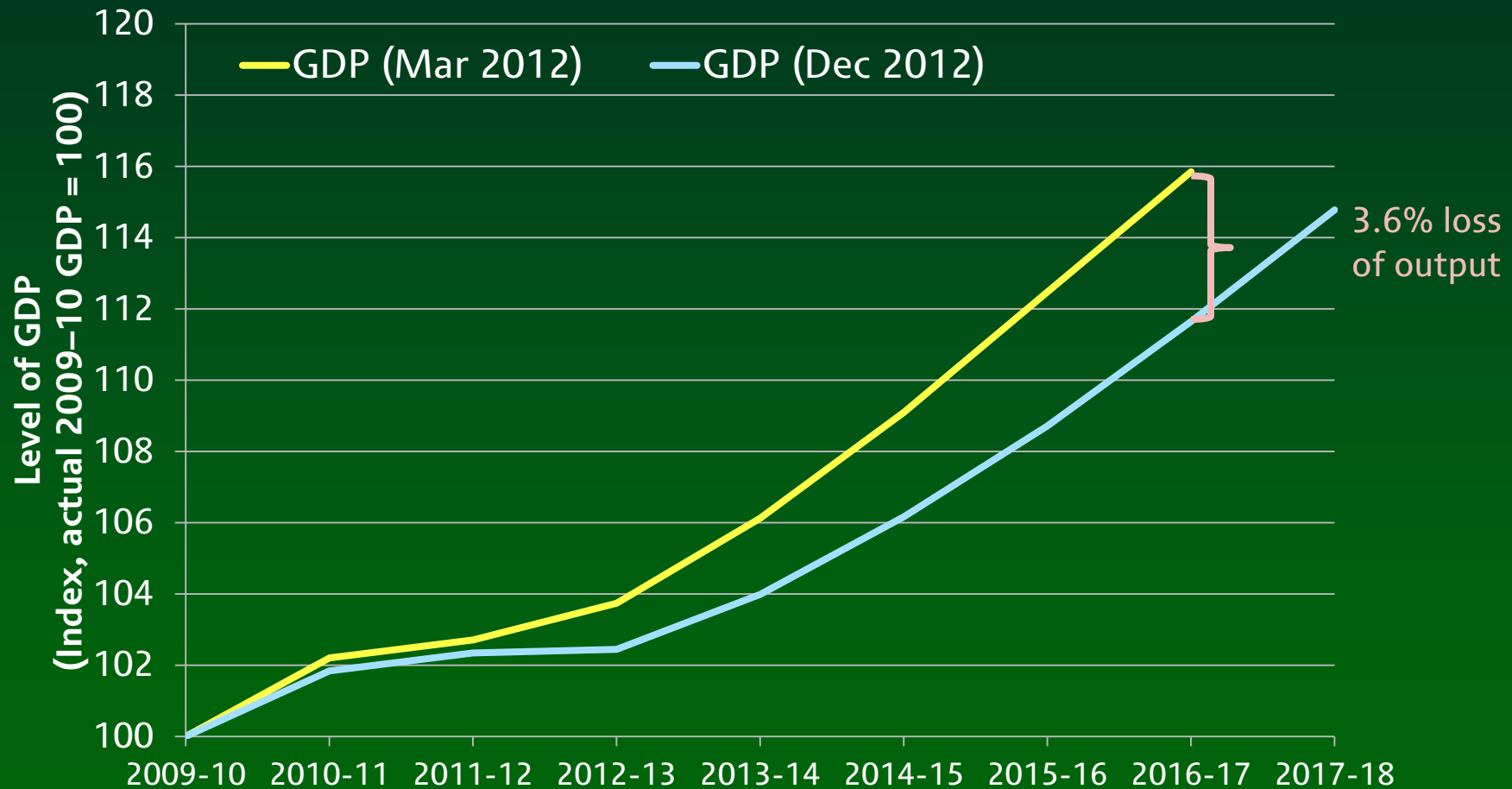
Notes: Numbers might not sum due to rounding.

Source: HM Treasury; Office for Budget Responsibility; IFS calculations.



# Lower tax revenues in part explained by weaker forecast for growth

Comparison of forecasts for real GDP growth



# Other forecasting changes

- Revenues
  - Reducing revenues
    - Changing composition of wage growth: now thought to reflect higher employment but lower average earnings
    - Lower asset prices and share/commercial property transactions
    - Higher forecast industrial and commercial sector losses
    - Lower forecast interest rates
  - Increasing revenues
    - Higher levels of residential property transactions
- Spending
  - Reducing spending
    - Lower forecast GDP deflator growth
    - Lower forecast interest rates
    - Lower forecast average earnings growth reduces state pension spending

# Changes in borrowing forecasts since Mar 2012

## Public sector net borrowing, £ billion

	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
<b>Budget 2012</b>	<b>126</b>	<b>92</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
<b>Exc. Royal Mail Pens</b>	<b>126</b>	<b>120</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
Forecasting changes	–5	11.9	18.2	26.6	29.2	35.9
<b>Implied borrowing</b>	<b>121</b>	<b>131.9</b>	<b>116.2</b>	<b>101.6</b>	<b>81.2</b>	<b>56.9</b>
<b>AS 2012</b>	<b>121</b>	<b>80</b>	<b>99</b>	<b>88</b>	<b>73</b>	<b>49</b>

Notes: Numbers might not sum due to rounding.

Source: HM Treasury; Office for Budget Responsibility; IFS calculations.



# Changes in borrowing forecasts since Mar 2012

## Public sector net borrowing, £ billion

	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
<b>Budget 2012</b>	<b>126</b>	<b>92</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
<b>Exc. Royal Mail Pens</b>	<b>126</b>	<b>120</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
Forecasting changes	–5	11.9	18.2	26.6	29.2	35.9
<b>Implied borrowing</b>	<b>121</b>	<b>131.9</b>	<b>116.2</b>	<b>101.6</b>	<b>81.2</b>	<b>56.9</b>
Measures						
<i>Tax changes</i>		<i>0.9</i>	<i>–0.2</i>	<i>2.4</i>	<i>0.9</i>	<i>–0.3</i>
<b>AS 2012</b>		<b>80</b>	<b>99</b>	<b>88</b>	<b>73</b>	<b>49</b>

Notes: Numbers might not sum due to rounding.

Source: HM Treasury; Office for Budget Responsibility; IFS calculations.





# Major tax changes

- Tax giveaways
  - Corporation tax: rate cut and temporary increase to annual investment allowance
  - Income tax personal allowance increased
  - Fuel duty rate cut
- Tax takeaways
  - Higher rate threshold cut
  - Pensions tax relief lifetime limit and annual allowance reduced
  - Bank levy increased
  - Swiss tax deal

# Changes in borrowing forecasts since Mar 2012

## Public sector net borrowing, £ billion

	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
<b>Budget 2012</b>	<b>126</b>	<b>92</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
<b>Exc. Royal Mail Pens</b>	<b>126</b>	<b>120</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
Forecasting changes	–5	11.9	18.2	26.6	29.2	35.9
<b>Implied borrowing</b>	<b>121</b>	<b>131.9</b>	<b>116.2</b>	<b>101.6</b>	<b>81.2</b>	<b>56.9</b>
Measures						
<i>Tax changes</i>		0.9	–0.2	2.4	0.9	–0.3
<i>Spending changes during SR2010 years</i>		–8.8	–3.4	–5.0		
<b>AS 2012</b>	<b>121</b>	<b>80</b>	<b>99</b>	<b>88</b>	<b>73</b>	<b>49</b>

Notes: Numbers might not sum due to rounding.

Source: HM Treasury; Office for Budget Responsibility; IFS calculations.



# Changes in spending plans for SR2010 period

£ billion

	2012–13	2013–14	2014–15
<b>Spending changes during SR2010 period</b>	<b>-8.8</b>	<b>-3.4</b>	<b>-5.0</b>



Notes: Numbers might not sum due to rounding.

# Changes in spending plans for SR2010 period

£ billion

	2012–13	2013–14	2014–15
Welfare spending	0.0	0.0	-1.7
<b>Spending changes during SR2010 period</b>	<b>-8.8</b>	<b>-3.4</b>	<b>-5.0</b>

Notes: Numbers might not sum due to rounding.

Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

# Changes in spending plans for SR2010 period

£ billion

	2012–13	2013–14	2014–15
Welfare spending	0.0	0.0	-1.7
HMT announcements on departmental spending	-1.4	1.1	0.2
Cut DEL reserve			
Cut growth rate of RDEL			
Cut overseas aid			
Increase capital spending			
<b>Spending changes during SR2010 period</b>	<b>-8.8</b>	<b>-3.4</b>	<b>-5.0</b>

Notes: Numbers might not sum due to rounding.

Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

# Changes in spending plans for SR2010 period

£ billion

	2012–13	2013–14	2014–15
Welfare spending	0.0	0.0	-1.7
HMT announcements on departmental spending			
Cut DEL reserve	-1.2	0.0	0.0
Cut growth rate of RDEL	0.0	-1.0	-2.4
Cut overseas aid	-0.2	-0.3	-0.4
Increase capital spending			
<b>Spending changes during SR2010 period</b>	<b>-8.8</b>	<b>-3.4</b>	<b>-5.0</b>

Notes: Numbers might not sum due to rounding.

Source: HM Treasury; Office for Budget Responsibility; IFS calculations.



# Changes in spending plans for SR2010 period

£ billion

	2012–13	2013–14	2014–15
Welfare spending	0.0	0.0	-1.7
HMT announcements on departmental spending			
Cut DEL reserve	-1.2	0.0	0.0
Cut growth rate of RDEL	0.0	-1.0	-2.4
Cut overseas aid	-0.2	-0.3	-0.4
Increase capital spending	0.1	2.3	3.0
<b>Spending changes during SR2010 period</b>	<b>-8.8</b>	<b>-3.4</b>	<b>-5.0</b>

Notes: Numbers might not sum due to rounding.

Source: HM Treasury; Office for Budget Responsibility; IFS calculations.



# Changes in spending plans for SR2010 period

£ billion

	2012–13	2013–14	2014–15
Welfare spending	0.0	0.0	-1.7
HMT announcements on departmental spending	-1.4	1.1	0.2
Cut DEL reserve	-1.2	0.0	0.0
Cut growth rate of RDEL	0.0	-1.0	-2.4
Cut overseas aid	-0.2	-0.3	-0.4
Increase capital spending	0.1	2.3	3.0
OBR assumed departmental underspend	-7.5	-4.5	-3.5
Resource underspend			
Capital underspend			
Single use military expenditure underspend			
<b>Spending changes during SR2010 period</b>	<b>-8.8</b>	<b>-3.4</b>	<b>-5.0</b>

Notes: Numbers might not sum due to rounding.





# Changes in spending plans for SR2010 period

£ billion

	2012–13	2013–14	2014–15
Welfare spending	0.0	0.0	-1.7
HMT announcements on departmental spending	-1.4	1.1	0.2
Cut DEL reserve	-1.2	0.0	0.0
Cut growth rate of RDEL	0.0	-1.0	-2.4
Cut overseas aid	-0.2	-0.3	-0.4
Increase capital spending	0.1	2.3	3.0
OBR assumed departmental underspend	-7.5	-4.5	-3.5
Resource underspend	-4.5	-2.0	-1.5
Capital underspend	-1.7	-1.5	-1.5
Single use military expenditure underspend	-1.3	-1.0	-0.5
<b>Spending changes during SR2010 period</b>	<b>-8.8</b>	<b>-3.4</b>	<b>-5.0</b>

Notes: Numbers might not sum due to rounding.



# Changes in borrowing forecasts since Mar 2012

## Public sector net borrowing, £ billion

	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
<b>Budget 2012</b>	<b>126</b>	<b>92</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
<b>Exc. Royal Mail Pens</b>	<b>126</b>	<b>120</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
Forecasting changes	-5	11.9	18.2	26.6	29.2	35.9
<b>Implied borrowing</b>	<b>121</b>	<b>131.9</b>	<b>116.2</b>	<b>101.6</b>	<b>81.2</b>	<b>56.9</b>
Measures						
<i>Tax changes</i>		0.9	-0.2	2.4	0.9	-0.3
<i>Spending changes during SR2010 years</i>		-8.8	-3.4	-5.0		
<b>AS 2012</b>	<b>121</b>	<b>80</b>	<b>99</b>	<b>88</b>	<b>73</b>	<b>49</b>

Notes: Numbers might not sum due to rounding.

Source: HM Treasury; Office for Budget Responsibility; IFS calculations.



# Changes in borrowing forecasts since Mar 2012

## Public sector net borrowing, £ billion

	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
<b>Budget 2012</b>	<b>126</b>	<b>92</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
<b>Exc. Royal Mail Pens</b>	<b>126</b>	<b>120</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
Forecasting changes	–5	11.9	18.2	26.6	29.2	35.9
<b>Implied borrowing</b>	<b>121</b>	<b>131.9</b>	<b>116.2</b>	<b>101.6</b>	<b>81.2</b>	<b>56.9</b>
Measures		–11.5	–3.6	–2.6	0.9	–0.3
<i>Tax changes</i>		<i>0.9</i>	<i>–0.2</i>	<i>2.4</i>	<i>0.9</i>	<i>–0.3</i>
<i>Spending changes during SR2010 years</i>		<i>–8.8</i>	<i>–3.4</i>	<i>–5.0</i>		
<i>Sale of 4G licences</i>		<i>–3.5</i>				
<b>AS 2012</b>	<b>121</b>	<b>80</b>	<b>99</b>	<b>88</b>	<b>73</b>	<b>49</b>

Notes: Numbers might not sum due to rounding.

Source: HM Treasury; Office for Budget Responsibility; IFS calculations.



# Changes in borrowing forecasts since Mar 2012

## Public sector net borrowing, £ billion

	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
<b>Budget 2012</b>	<b>126</b>	<b>92</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
<b>Exc. Royal Mail Pens</b>	<b>126</b>	<b>120</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
Forecasting changes	–5	11.9	18.2	26.6	29.2	35.9
<b>Implied borrowing</b>	<b>121</b>	<b>131.9</b>	<b>116.2</b>	<b>101.6</b>	<b>81.2</b>	<b>56.9</b>
Measures		–11.5	–3.6	–2.6	0.9	–0.3
<i>Tax changes</i>		<i>0.9</i>	<i>–0.2</i>	<i>2.4</i>	<i>0.9</i>	<i>–0.3</i>
<i>Spending changes during SR2010 years</i>		<i>–8.8</i>	<i>–3.4</i>	<i>–5.0</i>		
<i>Sale of 4G licences</i>		<i>–3.5</i>				
<b>Underlying borrowing forecast</b>	<b>121</b>	<b>120.3</b>	<b>112.1</b>	<b>99.1</b>	<b>82.1</b>	<b>56.6</b>
<b>AS 2012</b>	<b>121</b>	<b>80</b>	<b>99</b>	<b>88</b>	<b>73</b>	<b>49</b>

Notes: Numbers might not sum due to rounding.

Source: HM Treasury; Office for Budget Responsibility; IFS calculations.



# Changes in borrowing forecasts since Mar 2012

## Public sector net borrowing, £ billion

	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17
<b>Budget 2012</b>	<b>126</b>	<b>92</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
<b>Exc. Royal Mail Pens</b>	<b>126</b>	<b>120</b>	<b>98</b>	<b>75</b>	<b>52</b>	<b>21</b>
Forecasting changes	-5	11.9	18.2	26.6	29.2	35.9
<b>Implied borrowing</b>	<b>121</b>	<b>131.9</b>	<b>116.2</b>	<b>101.6</b>	<b>81.2</b>	<b>56.9</b>
Measures		-11.5	-3.6	-2.6	0.9	-0.3
<b>Underlying borrowing forecast</b>	<b>121</b>	<b>120.3</b>	<b>112.1</b>	<b>99.1</b>	<b>82.1</b>	<b>56.6</b>
Reclassifying financial transactions*		-11.8	-12.8	-11.1	-8.8	-7.7
<b>AS 2012 (exc. RMP)</b>	<b>121</b>	<b>108</b>	<b>99</b>	<b>88</b>	<b>73</b>	<b>49</b>
<b>AS 2012</b>	<b>121</b>	<b>80</b>	<b>99</b>	<b>88</b>	<b>73</b>	<b>49</b>

Notes: Numbers might not sum due to rounding.

Source: HM Treasury; Office for Budget Responsibility; IFS calculations.

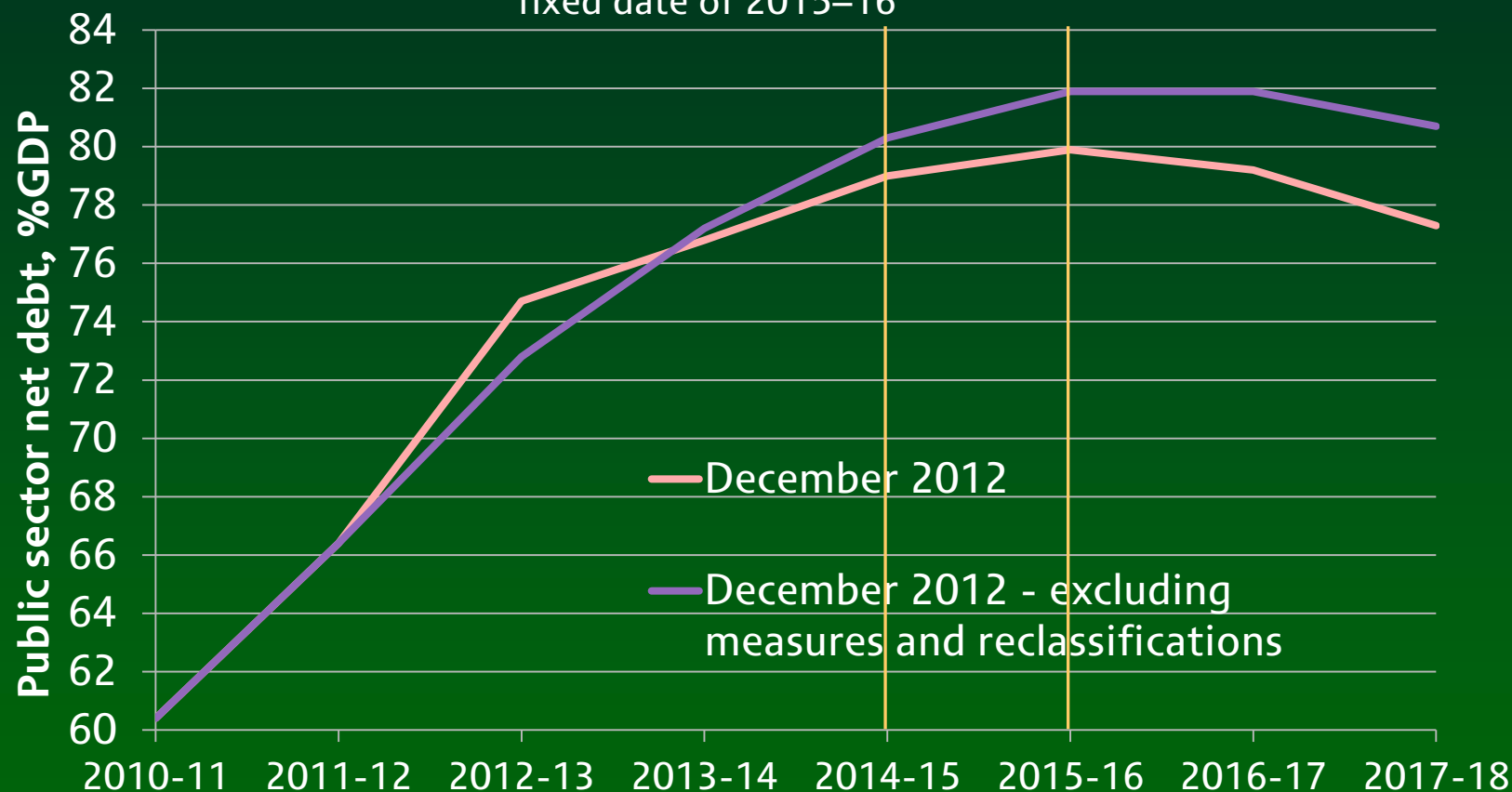
\* Reclassification includes Asset Purchase Facility, Northern Rock and Bradford & Bingley



Institute for  
Fiscal Studies

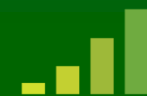
# Missing the debt target

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



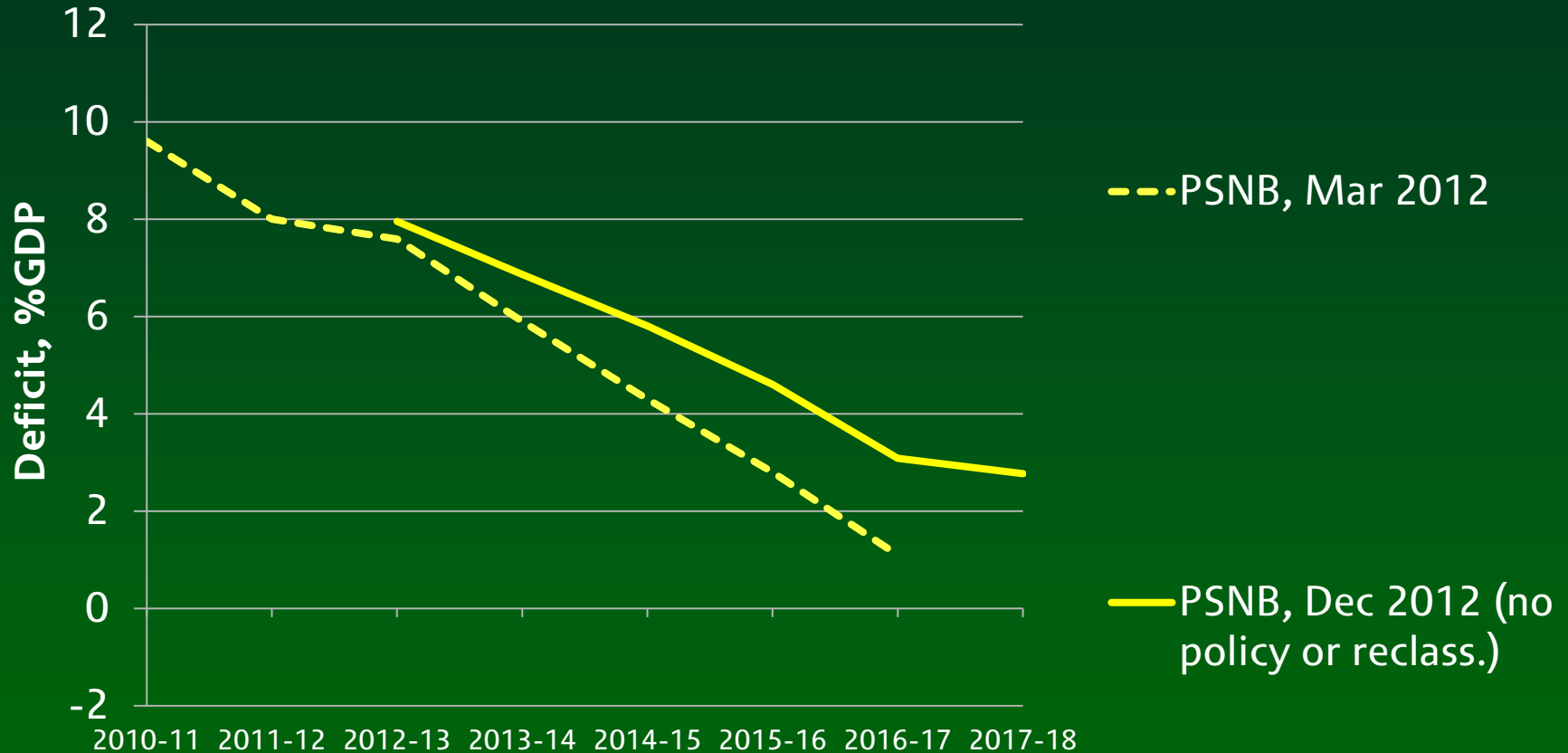
Source: Office for Budget Responsibility.

\* Reclassification includes Asset Purchase Facility, Northern Rock and Bradford & Bingley



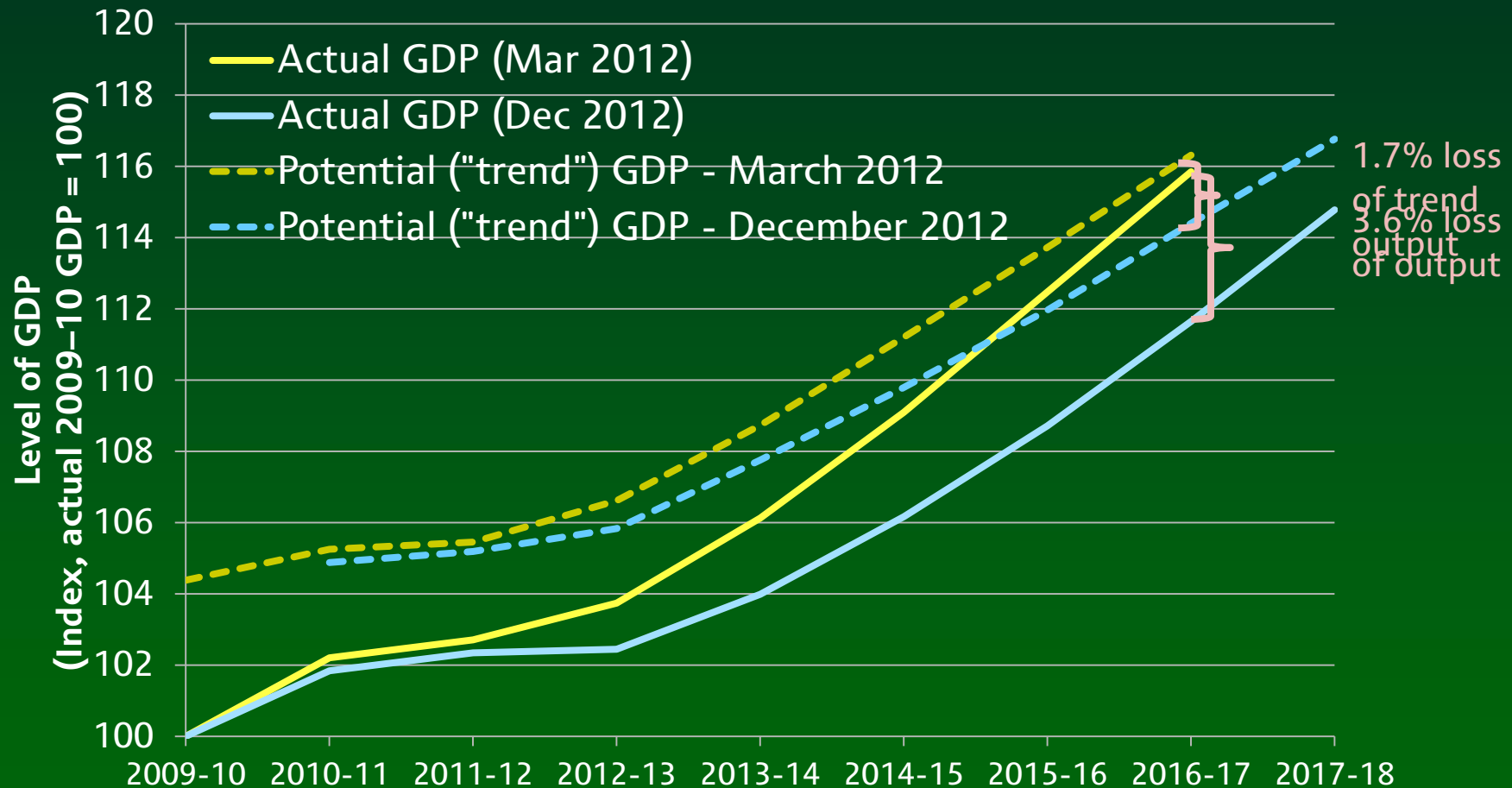
Institute for  
Fiscal Studies

# Dealing with the problem in 2017–18?



# Some of weak short-term growth thought to reflect a permanent problem

Comparison of forecasts for real GDP growth and trend GDP



- About half of weak medium-term growth is expected to be temporary





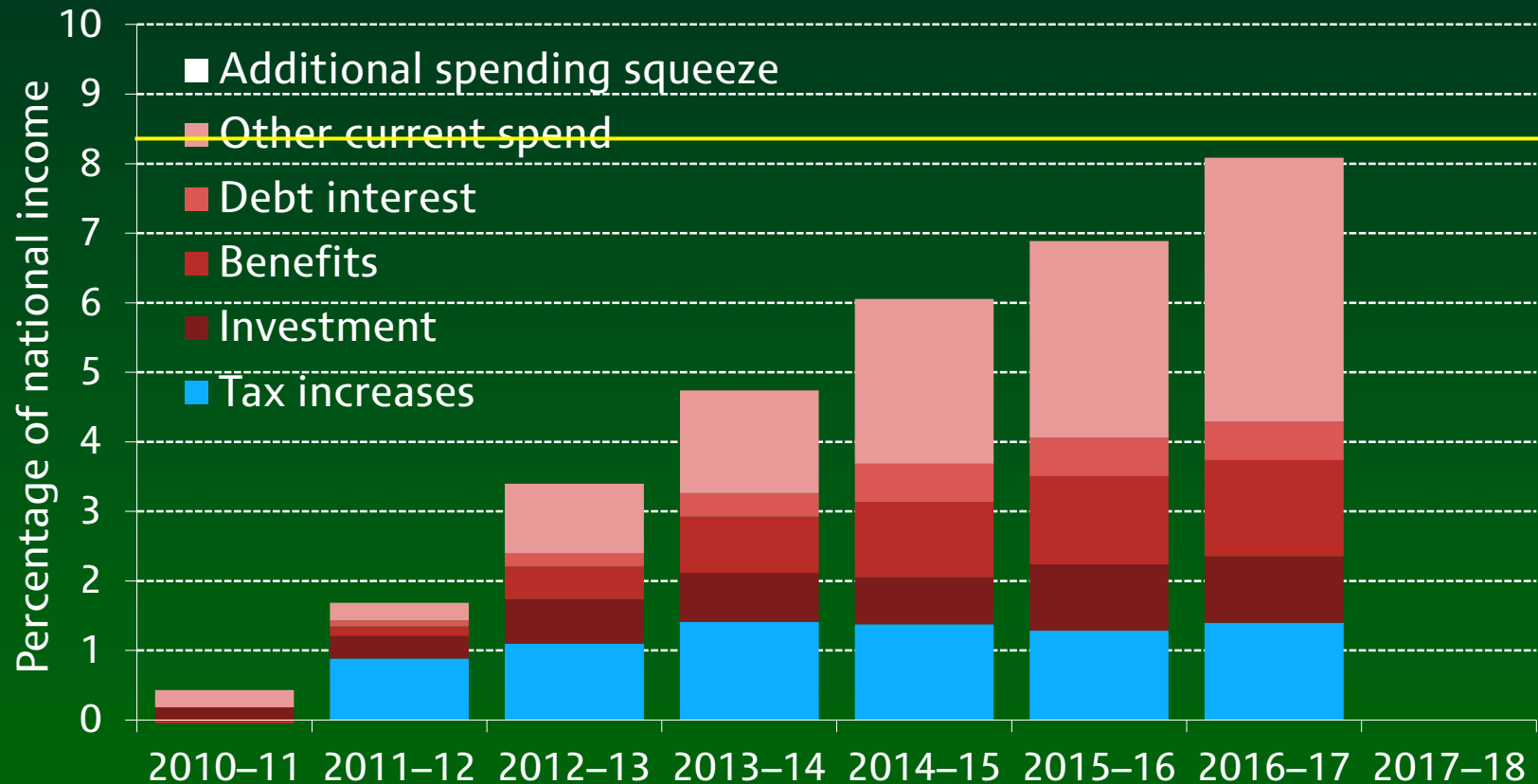
# Size of the problem has increased

Estimated underlying increase in structural borrowing since March 2008, %GDP



# The cure (December 2012): 9.2% national income consolidation over 8 years (£144bn)

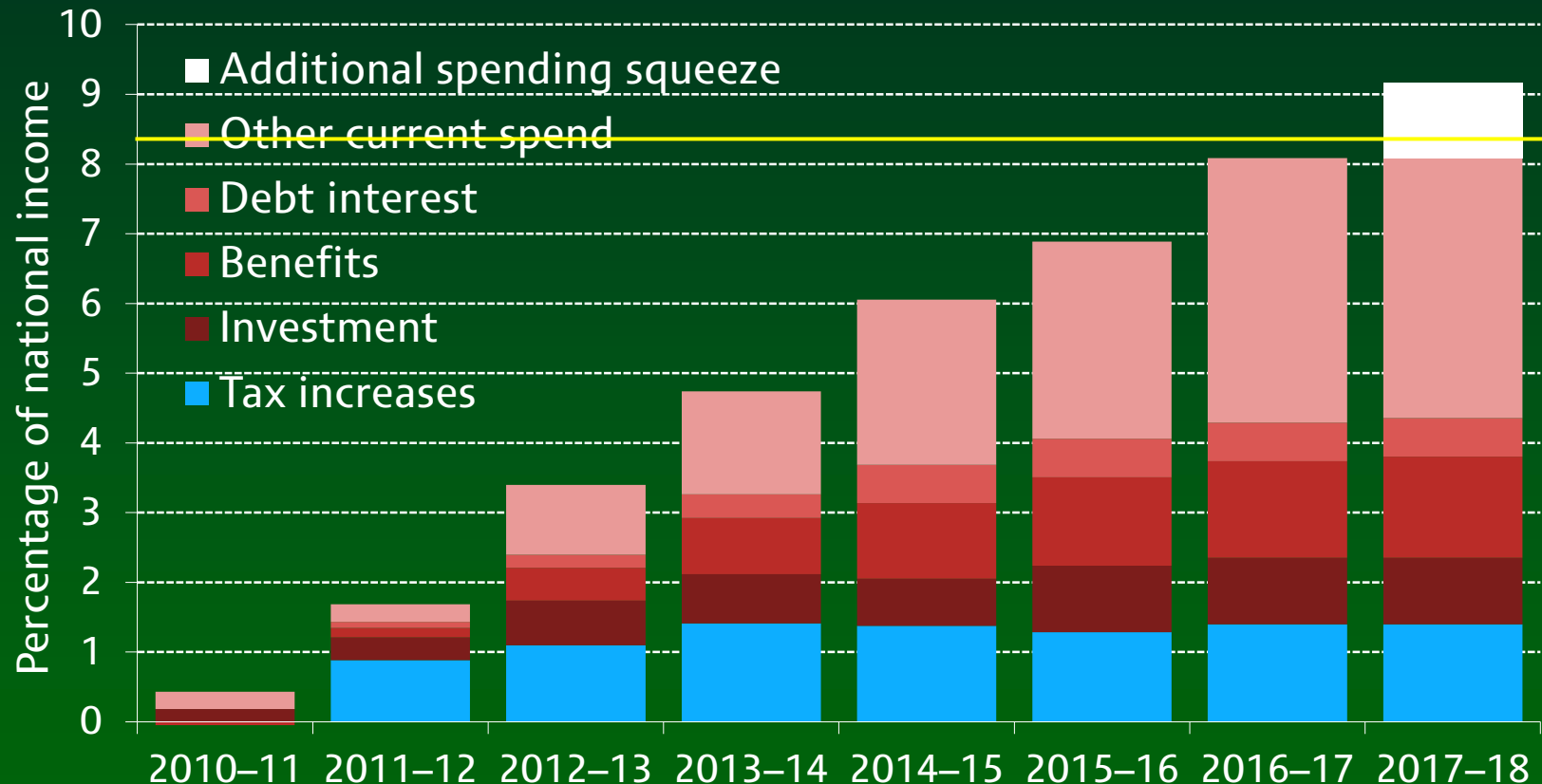
Dec 2012: 8.2% national income (£129bn) hole in public finances



- Measures announced yesterday have little impact before 2017-18

# The cure (December 2012): 9.2% national income consolidation over 8 years (£144bn)

Dec 2012: 8.2% national income (£129bn) hole in public finances

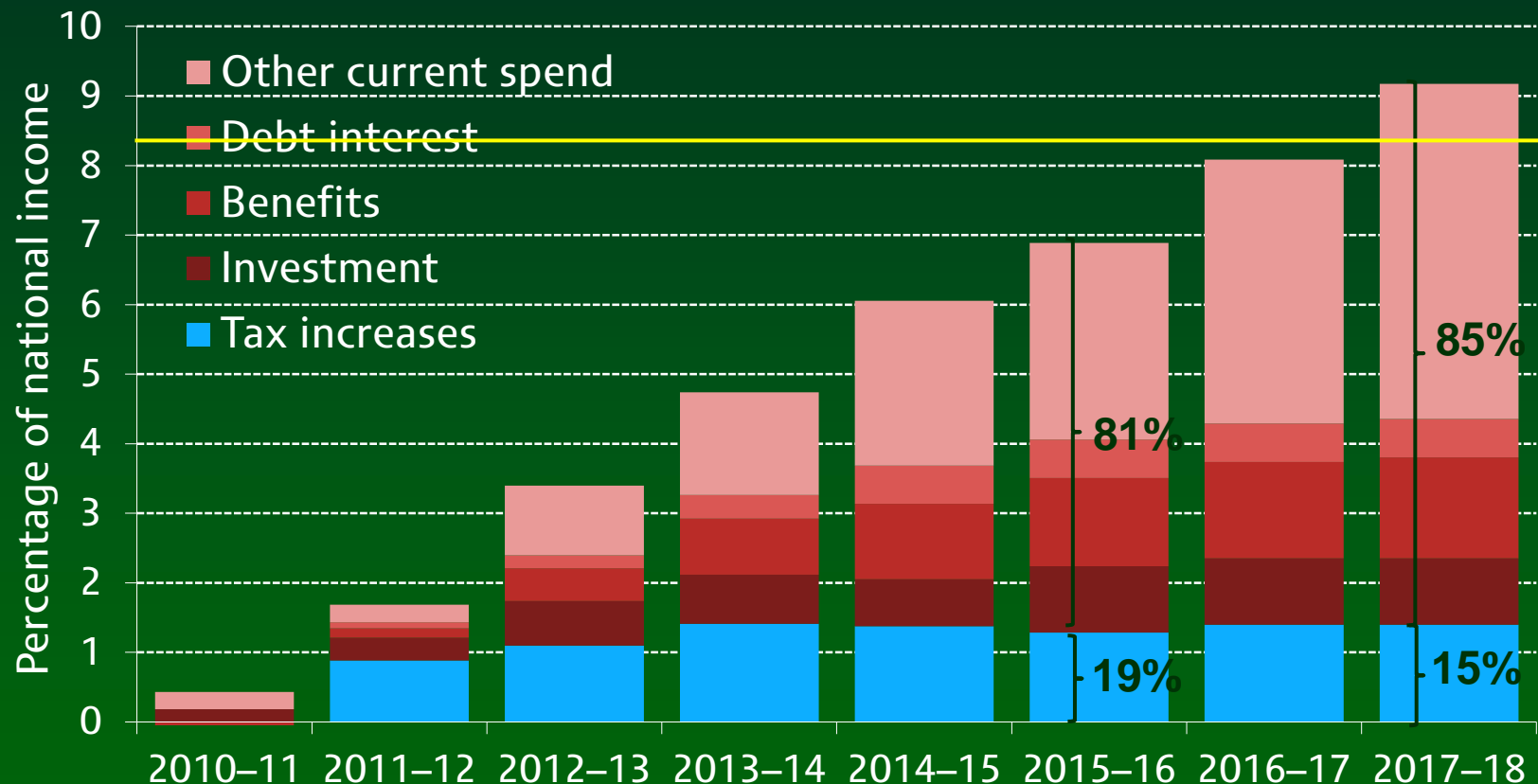


- Measures announced yesterday have little impact before 2017-18
- Additional spending cut in 2017-18: 1.1% of GDP (£17bn)



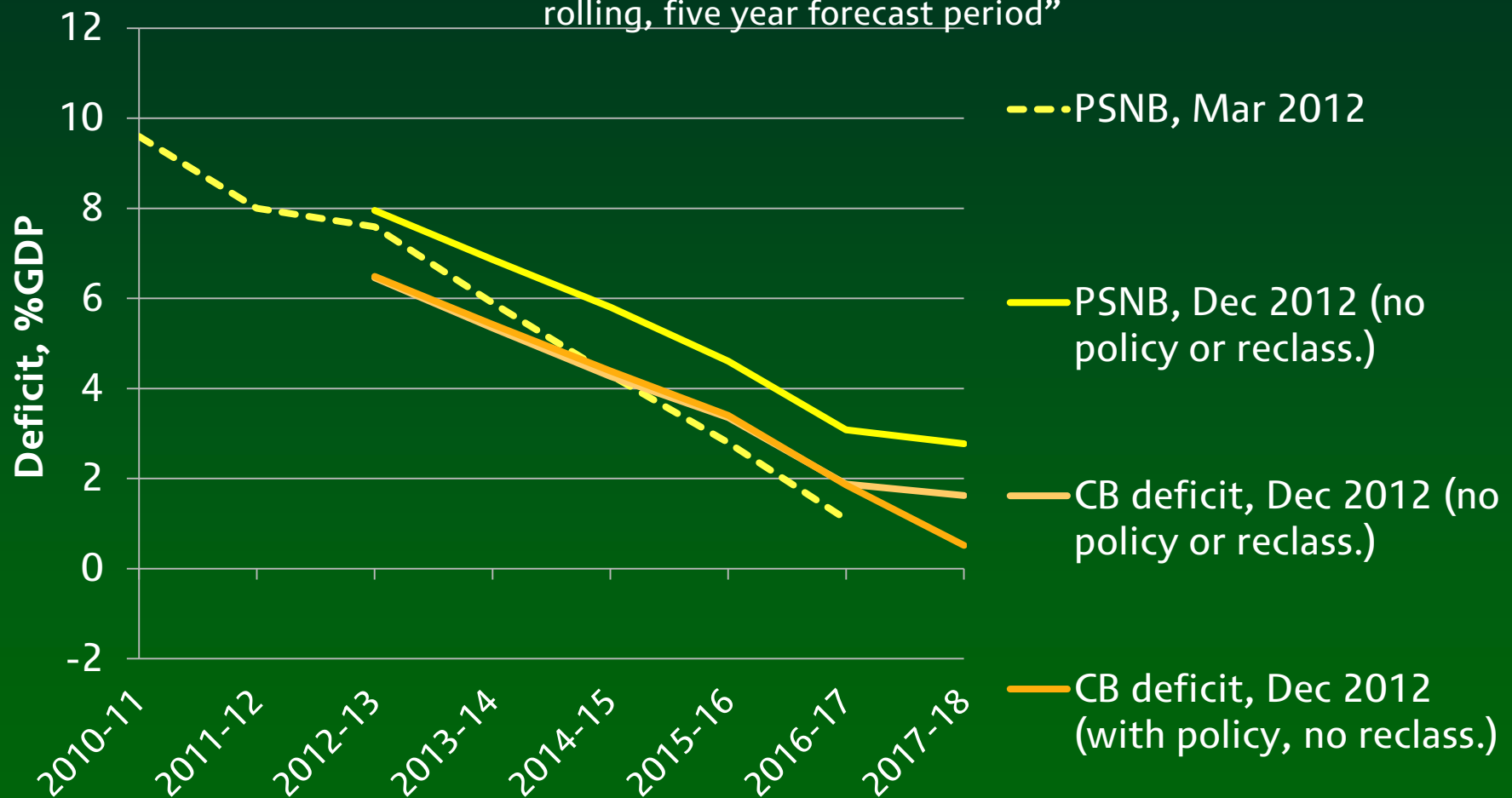
# The cure (December 2012): 9.2% national income consolidation over 8 years (£144bn)

Dec 2012: 8.2% national income (£129bn) hole in public finances



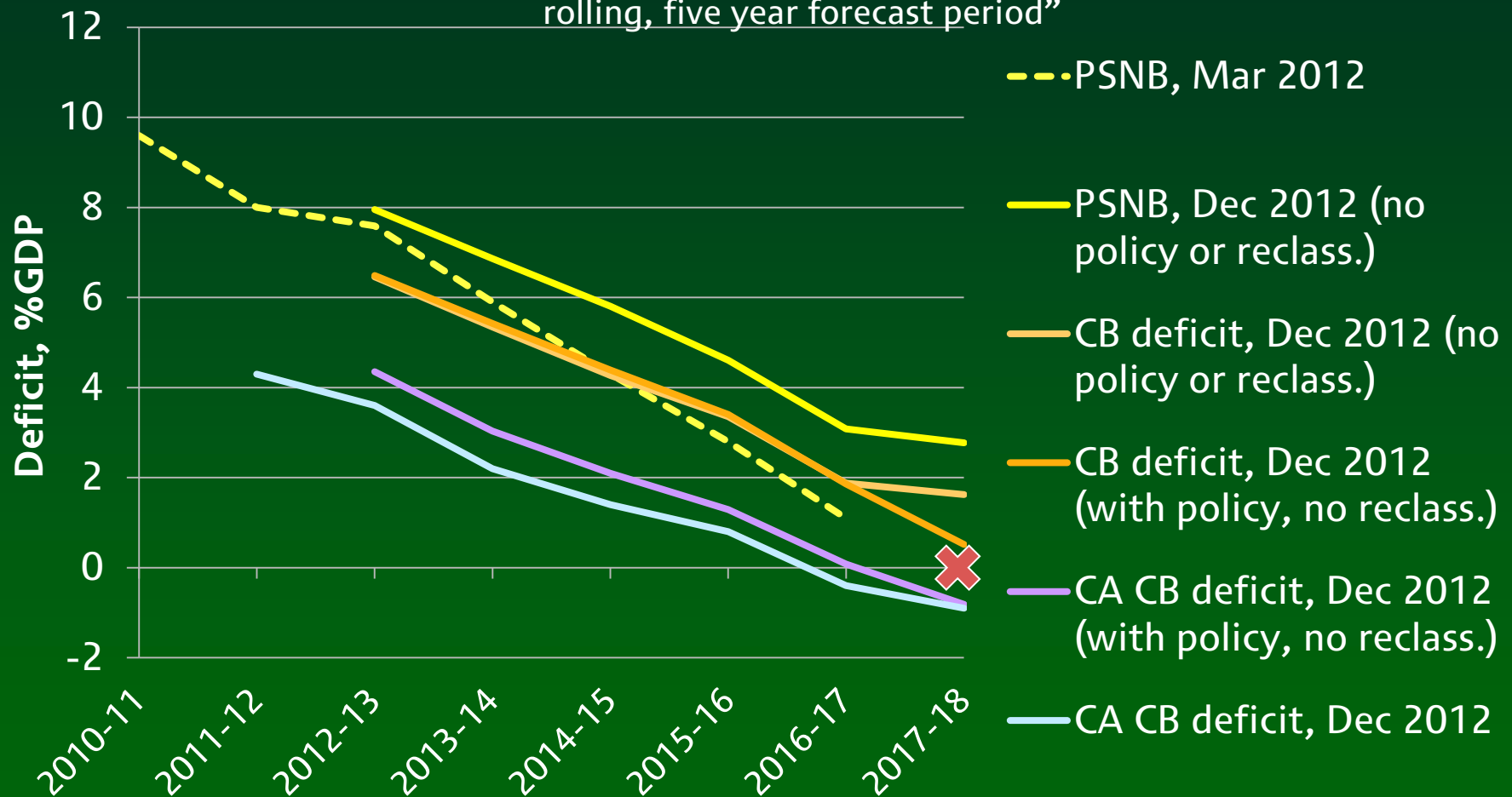
# Dealing with the problem in 2017–18 and meeting the fiscal mandate

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



# Dealing with the problem in 2017–18 and meeting the fiscal mandate

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



- Fiscal mandate met (using a definition of current budget that excludes reclassifications of financial transactions)



# Conclusions

- Deficit on course to be lower this year than last
  - Margin for error very small: could still turn out higher
  - Would not be true without either departmental underspend or 4G licence sale
- Excluding measures, borrowing has increased by £36bn by 2016–17
  - Up to 2016-17: Chancellor has largely chosen to accept higher borrowing and therefore on course to miss supplementary (debt) target
  - In 2017/18: 60% of deterioration offset by spending cut (tba)
- OBR output gap implies about half of weaker growth over forecast horizon is permanent
  - If correct, fiscal mandate met and LR public finances strengthened by yesterday's announcements
  - But size of output gap and outlook for public finances very uncertain



# Institute for Fiscal Studies



## Borrow now, cut spending later

Gemma Tetlow