Budget 2020: borrowing to spend

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IFS Spring Budget 2020 briefing

12 March 2020

Economic and Social Research Council

WiFi Network: The Building Centre (Open Network)

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Changes to the growth outlook

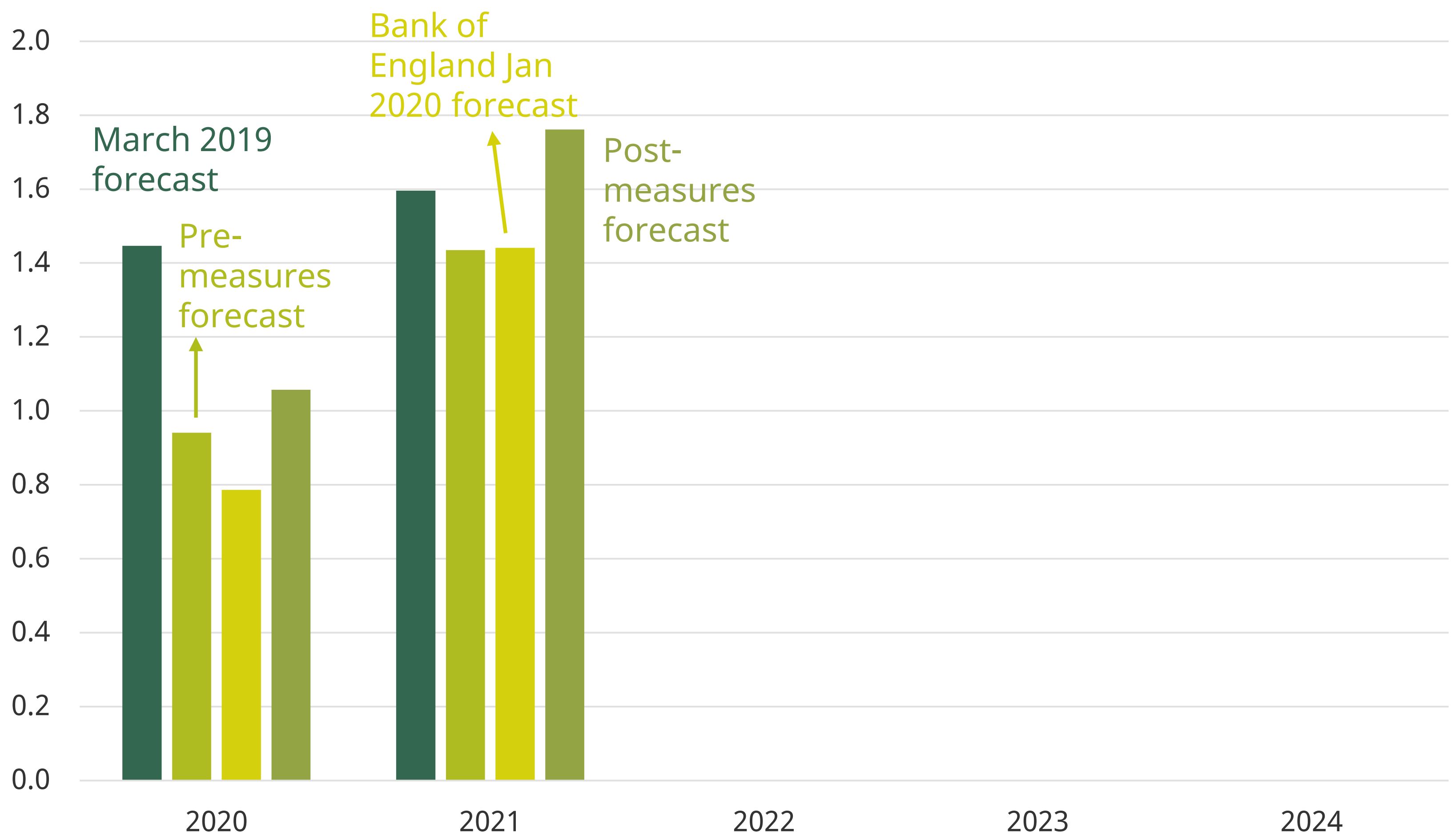
Before measures

- Downgrade to outlook for growth over the whole period since last year
- Less pessimistic than Bank of England in the near term
  - Notable since Bank already incorporates fiscal loosening in 2019 Spending Round

Impact of Budget measures

- Sizable short-term boost from large increase in investment spending

Real growth


Bank of England Jan 2020 forecast
March 2019 forecast
Pre-measures forecast
Post-measures forecast
2.0
1.8
1.6
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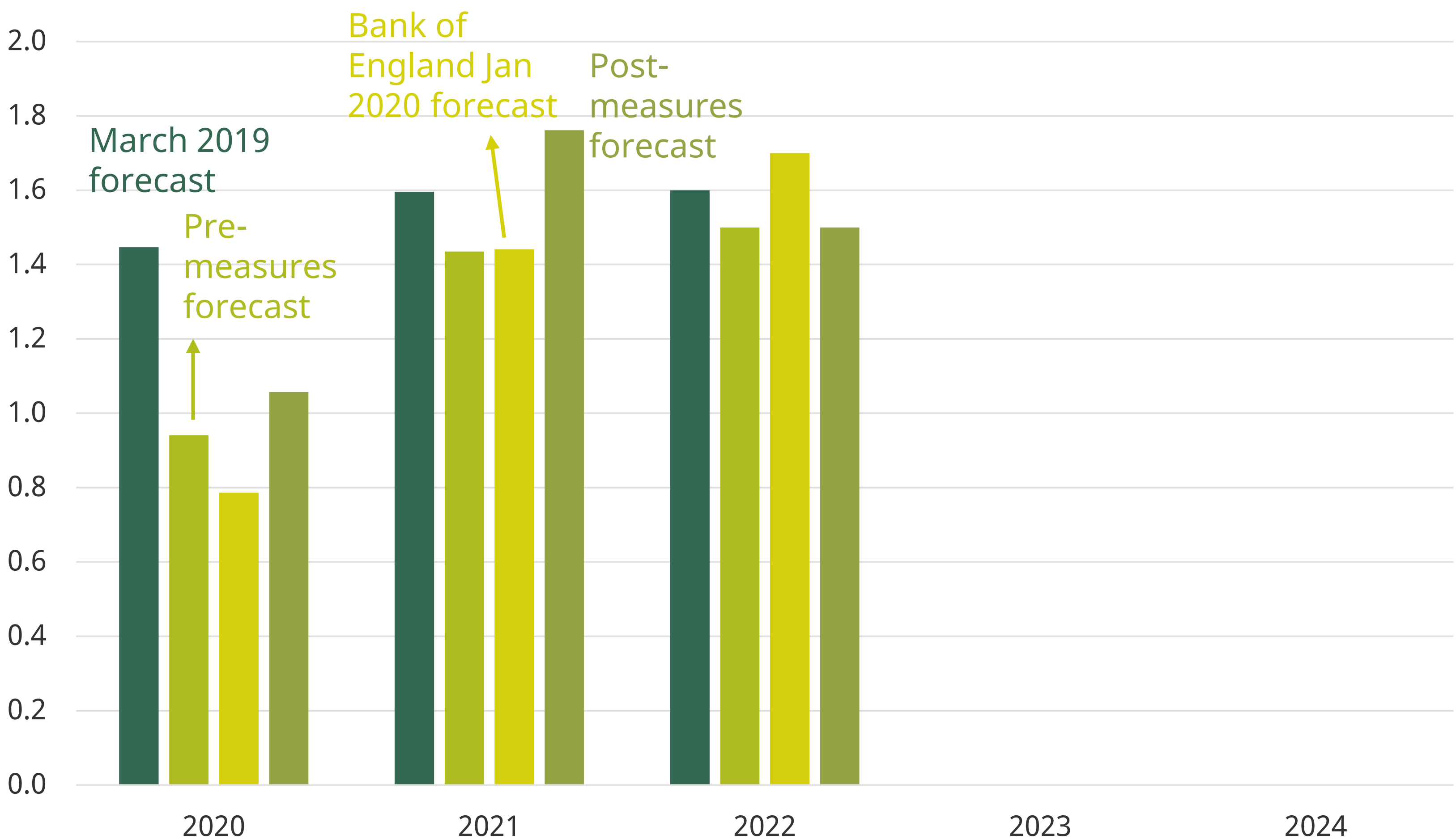
2020
2021
2022
2023
2024

Real growth



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Changes to the growth outlook

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Impact of Budget measures

- Sizable short-term boost from large increase in investment spending
- More pessimistic outlook in later forecast years
  - Fiscal stimulus unwinding
  - Productivity growth hindered by trade barriers

Real growth

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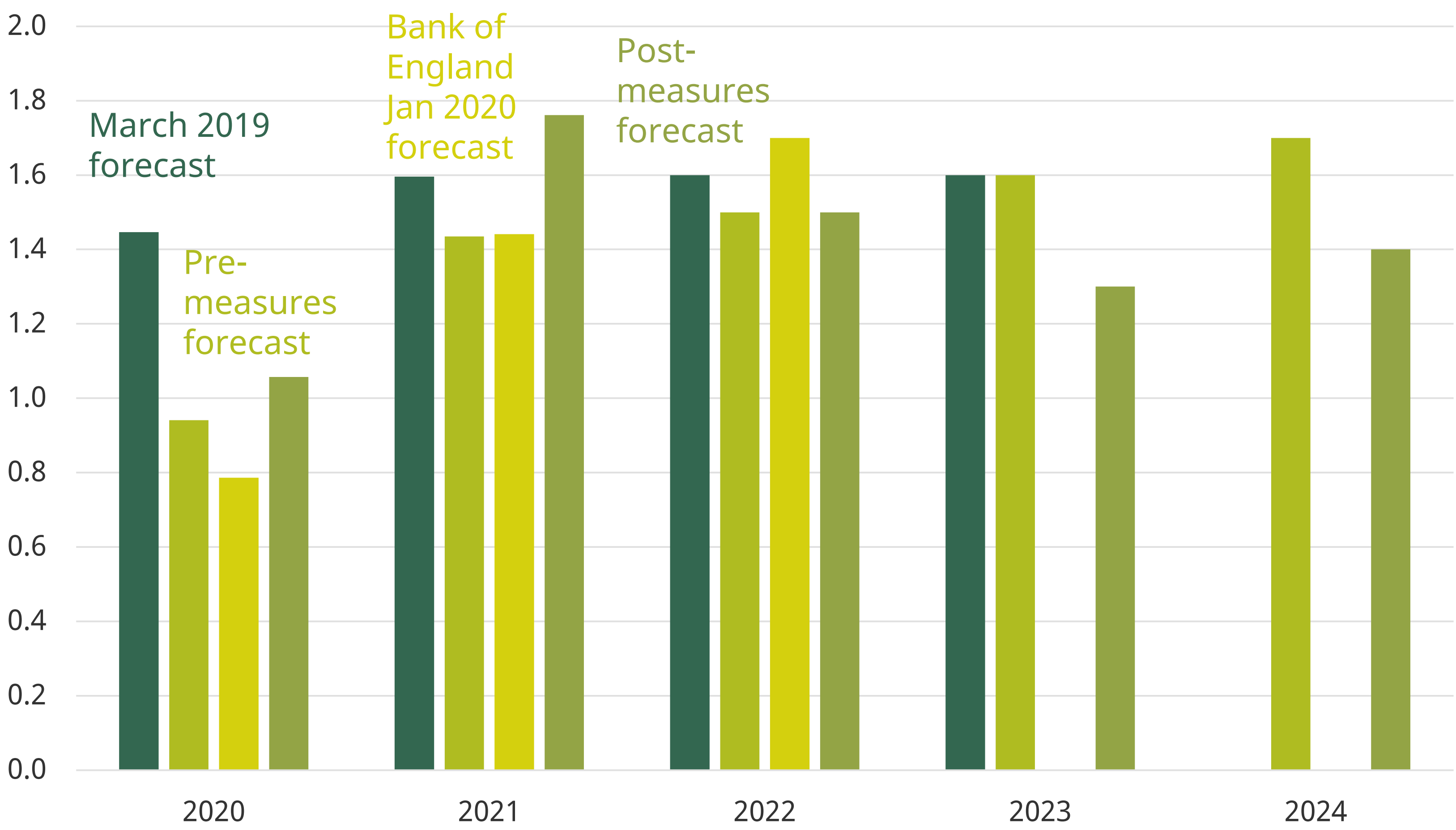

Forecast growth over the next five years

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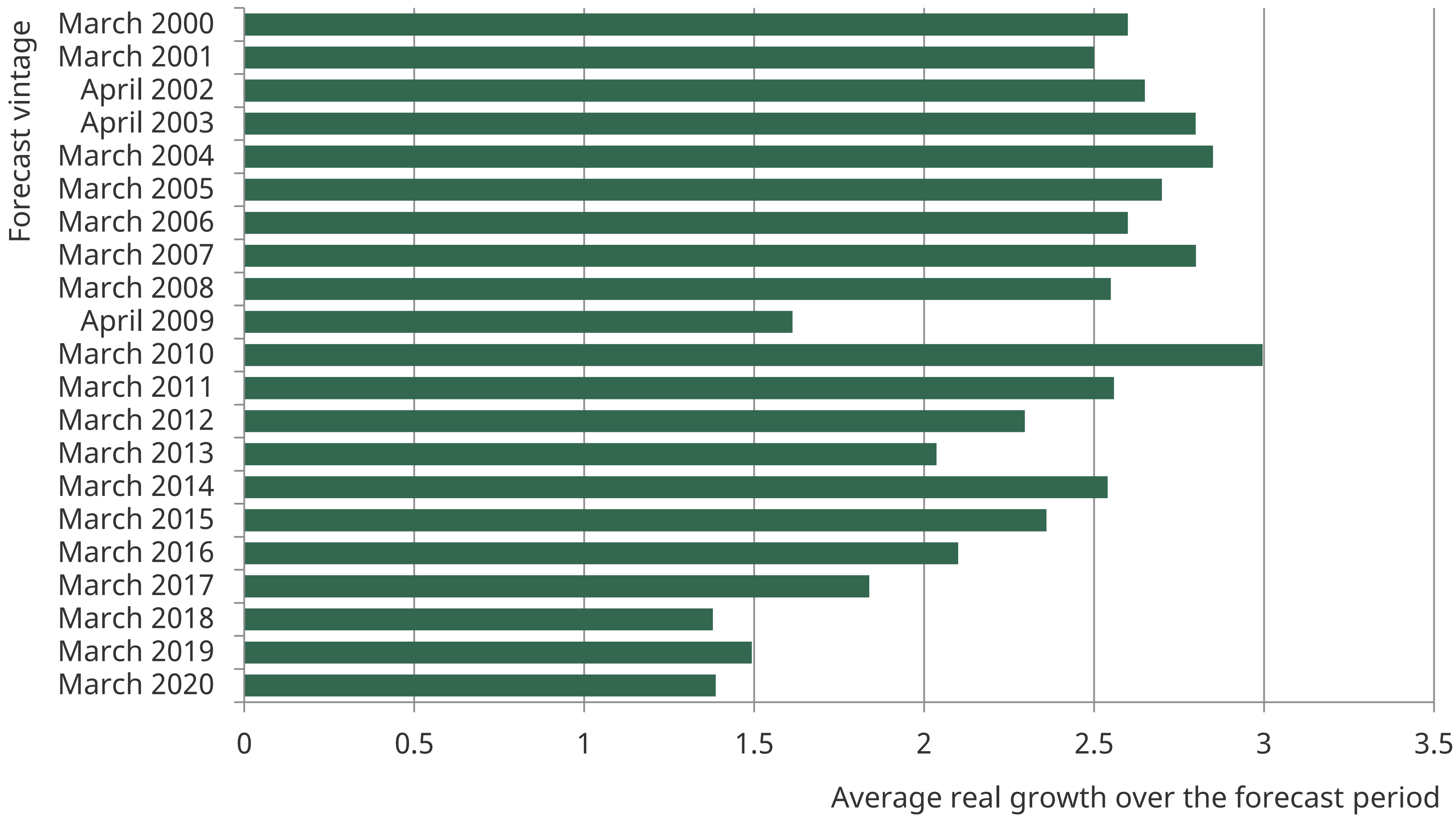
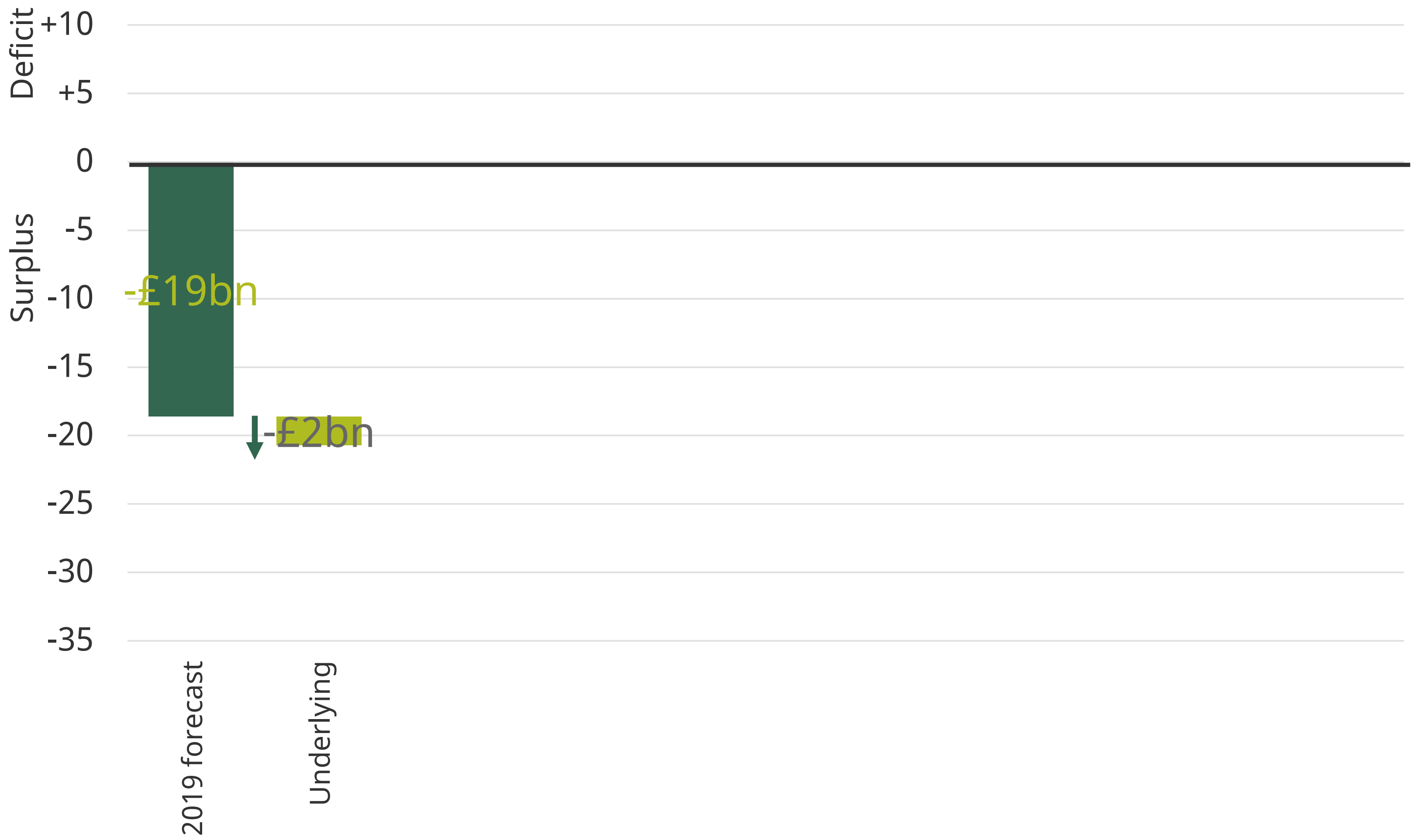
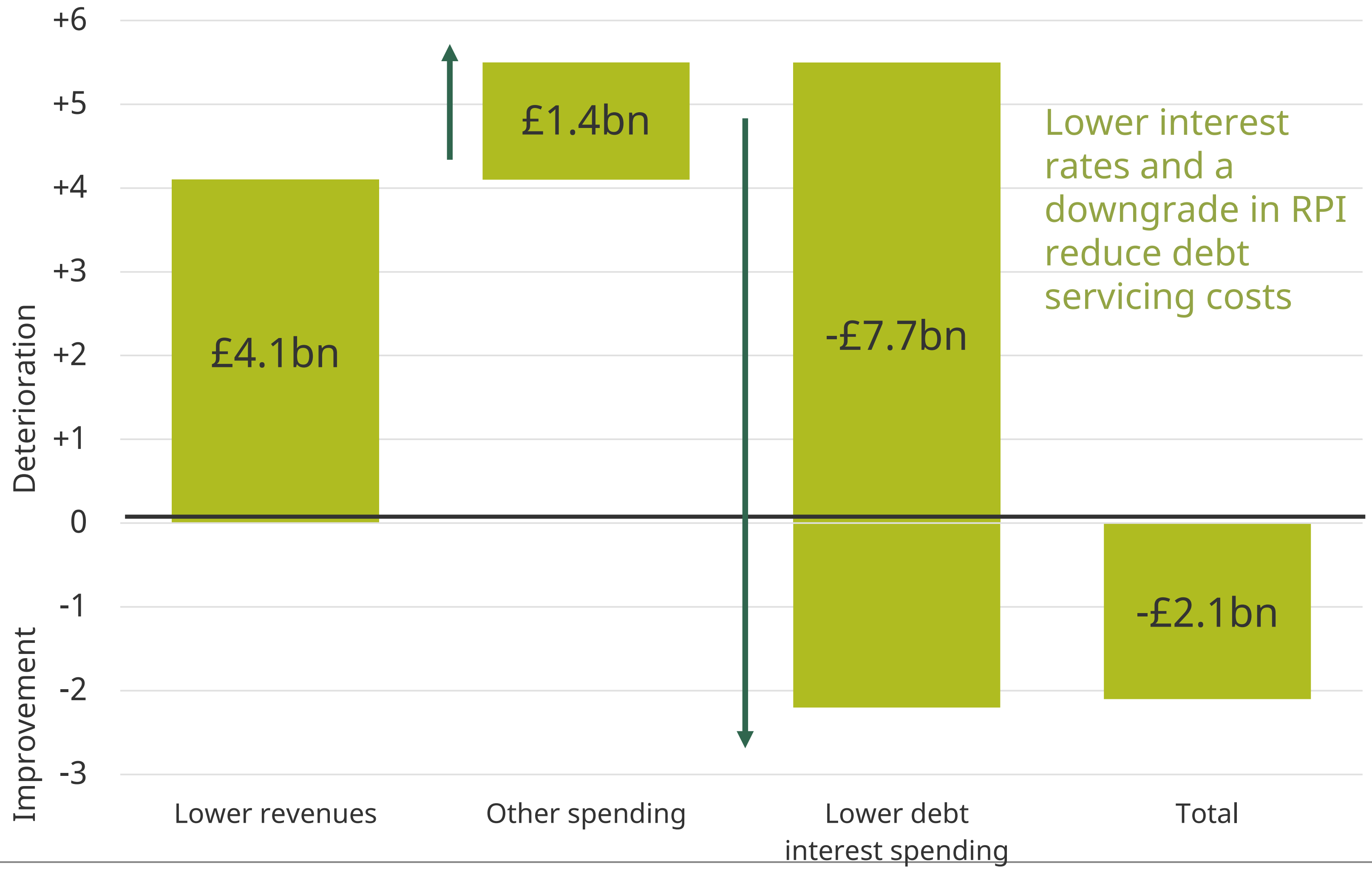


Effects of budget policy measures on the current budget, 2022–23



Underlying changes in the economy – effects on the current budget deficit 2022-23

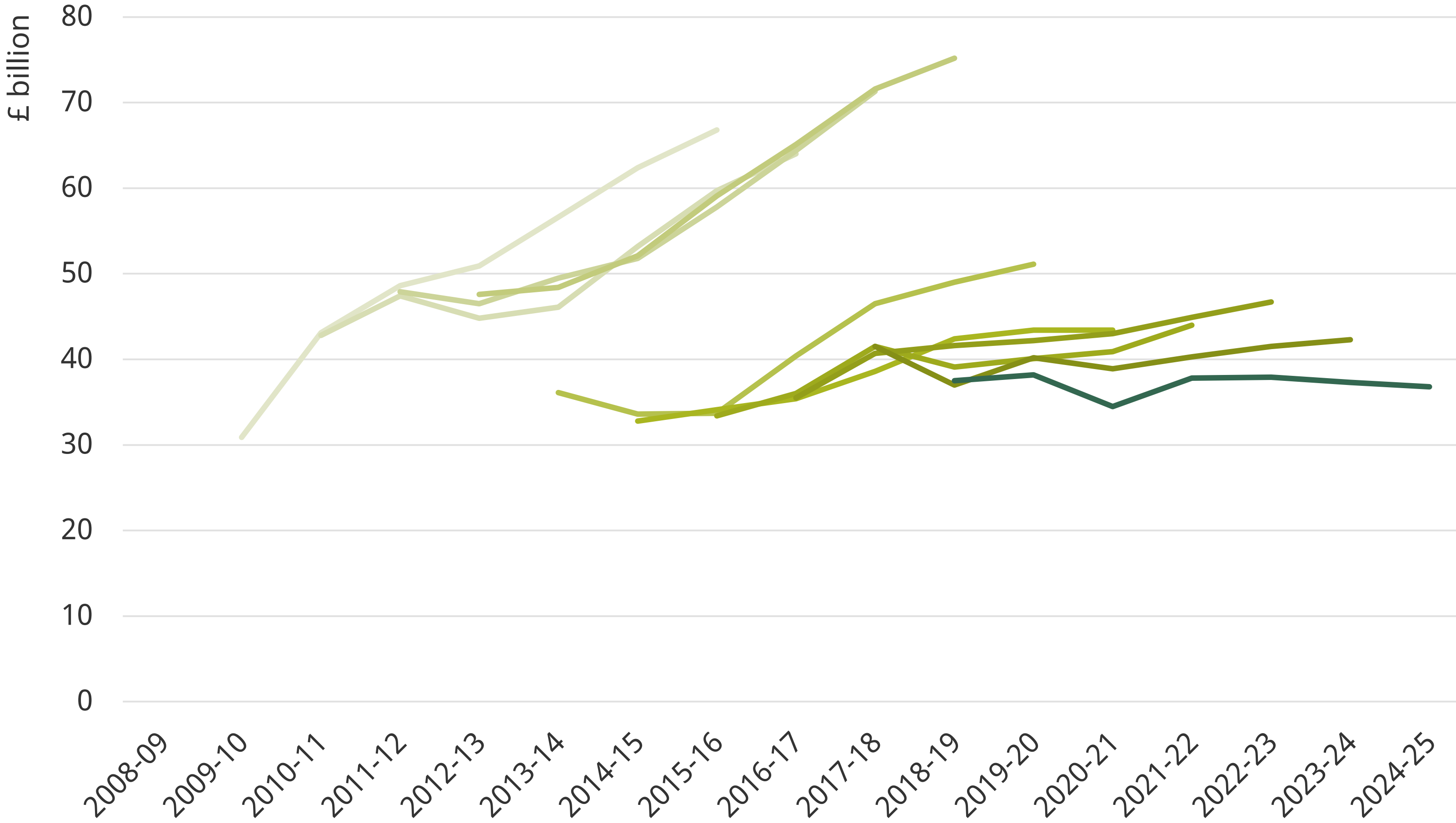


Debt servicing over the forecast

Debt burden at historic high, debt servicing costs at historic low

- Debt burden increased by 140% since 2007, but debt servicing costs decreased over same period
- Government needs to raise between £135 billion and £165 billion in each forecast year
  - About 50% more than pre-financial crisis as a share of GDP
- Successive forecasts downgraded government’s debt interest spending in current year from £60 billion to £38 billion
- Leaves public finances vulnerable to changes in outlook for interest rates and RPI inflation

Successive forecasts for debt interest spending



Note: Central government debt interest, net of APF

Effects of budget policy measures on the current budget, 2022–23

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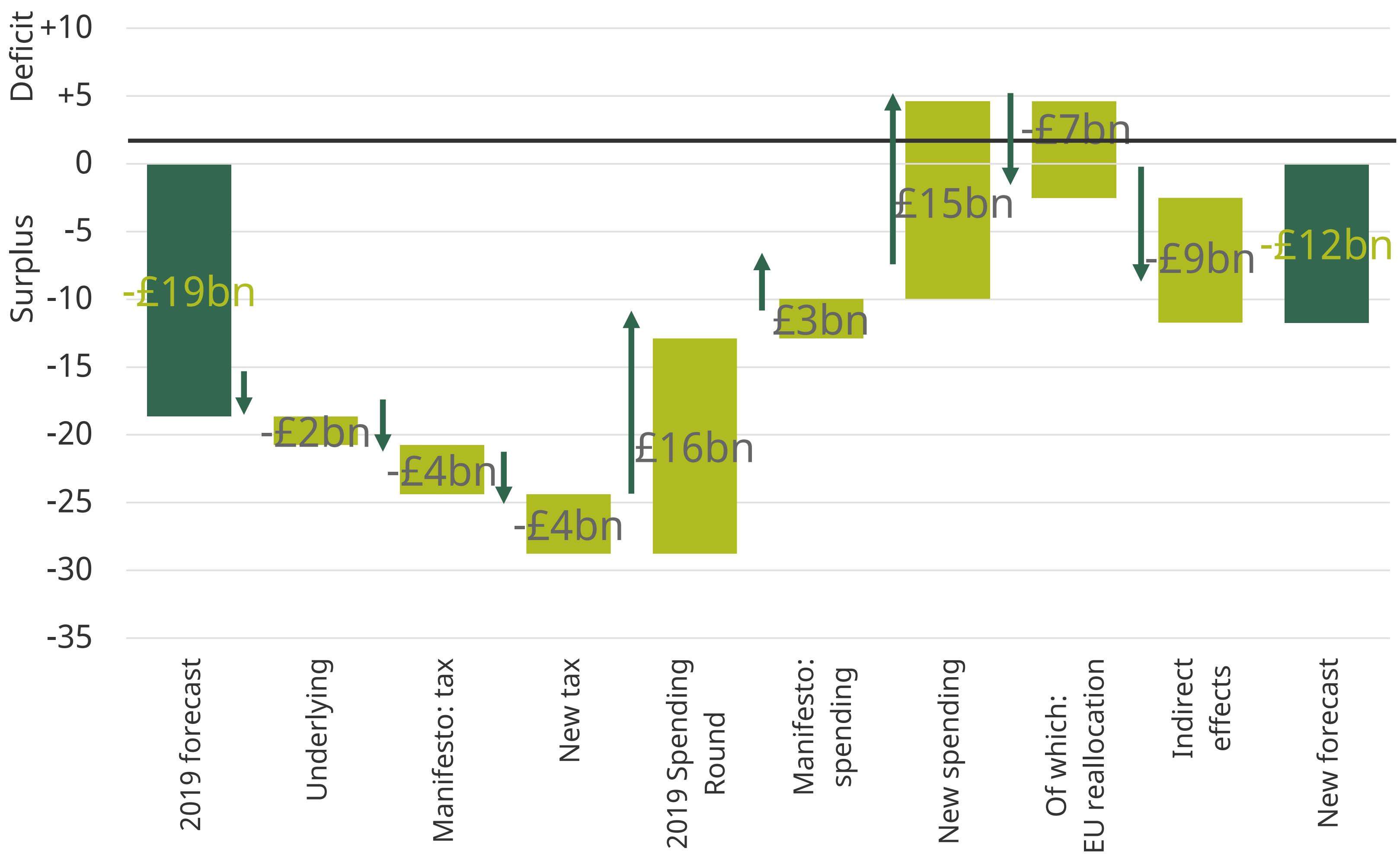

The current budget target

On current forecasts, the Chancellor has £12bn of headroom.

- Past forecast errors suggest a 40% chance of running a current budget deficit in the end.

Sources of uncertainty

- Growth outturn: outlook very uncertain, not least around Brexit and coronavirus
- A downgrade in growth by 0.3% a year over three years would eliminate the headroom
- Debt servicing costs have come down by £8 billion in the past year

Large increase to borrowing driven by big increases in investment spending

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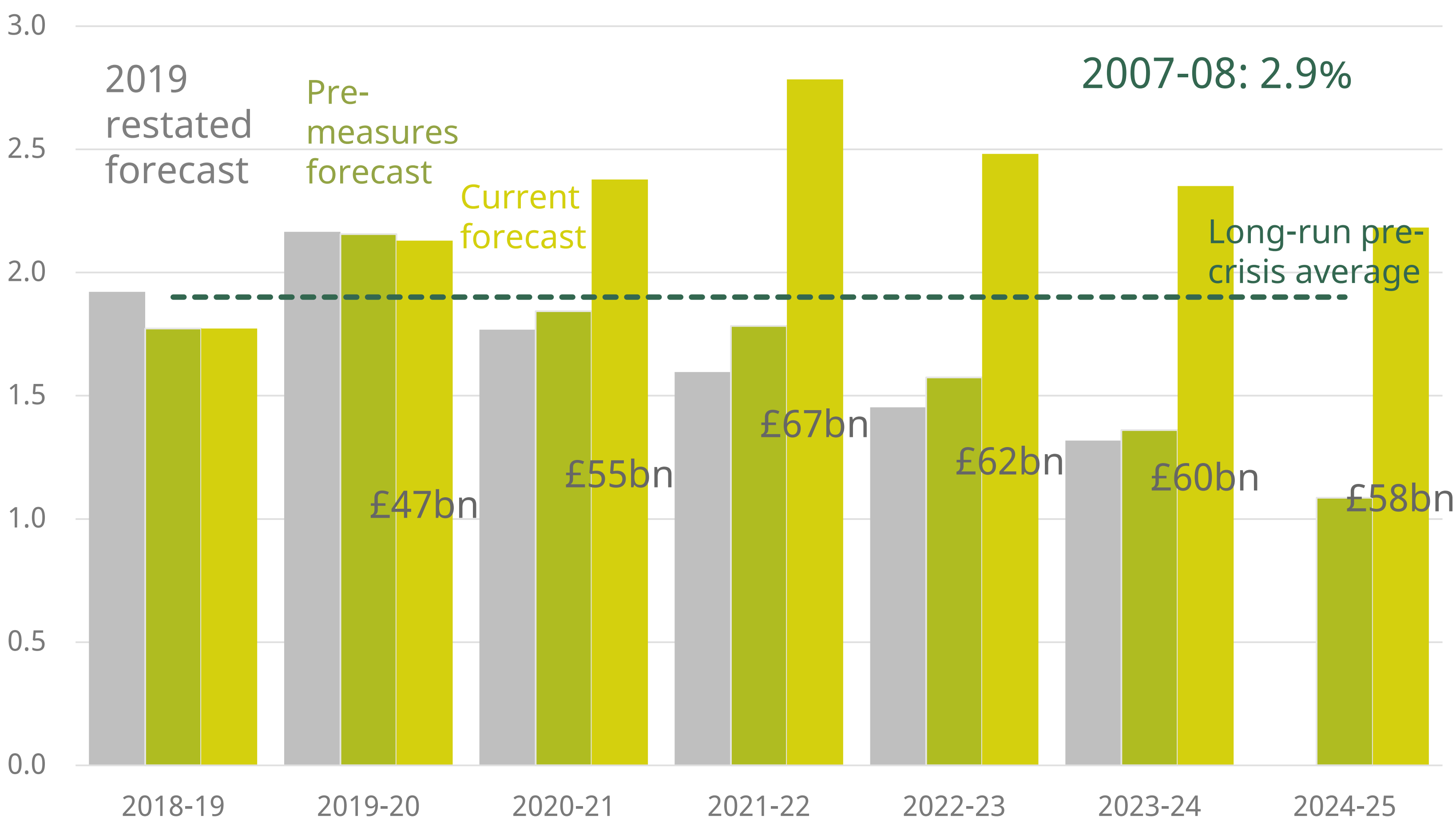

"Debt will be lower at the end of the Parliament"?

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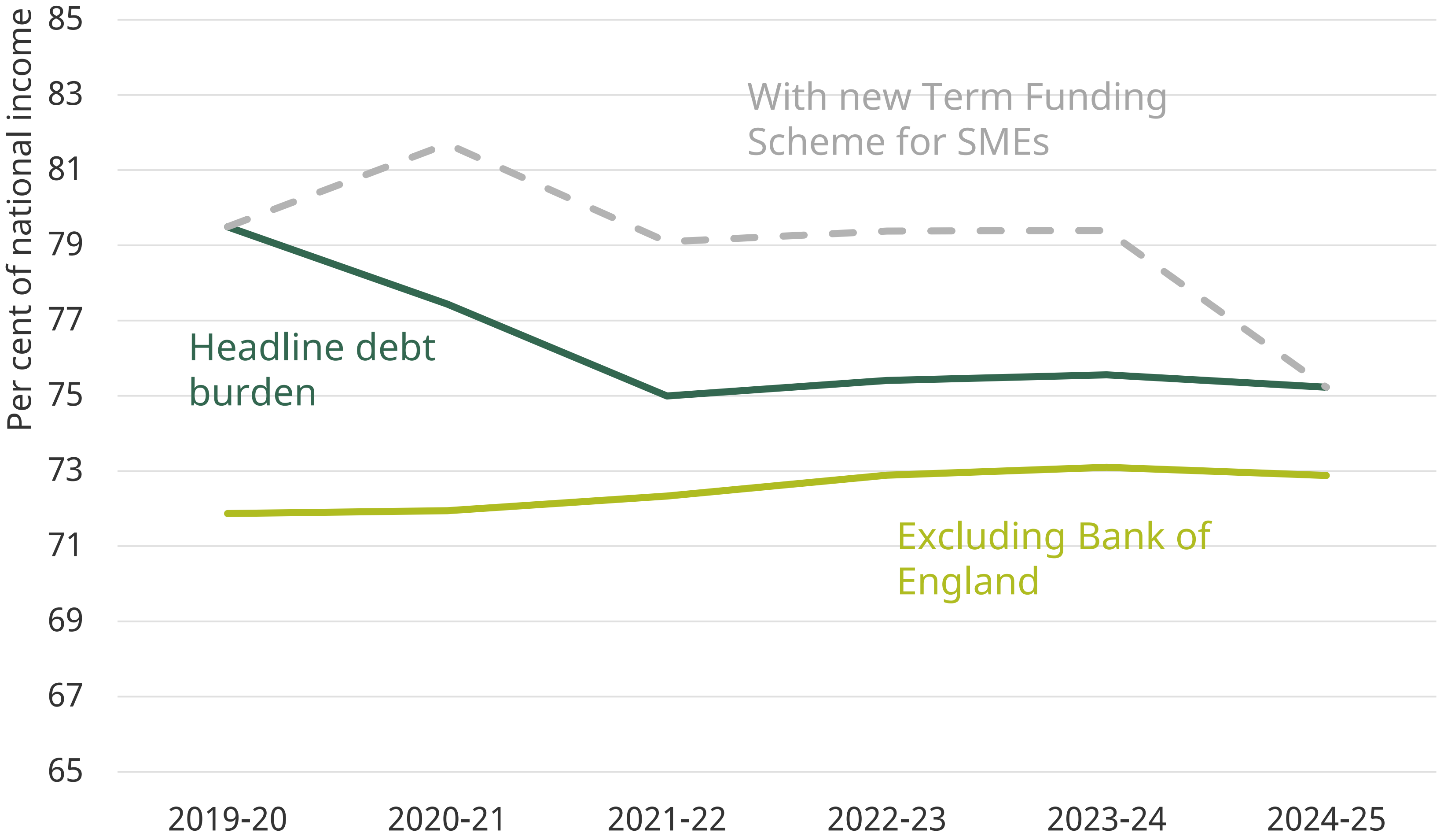

Conclusions

The economic outlook presents a mixed picture

- Downgrade to growth, but less pessimistic than Bank of England
  - Before accounting for any effect of coronavirus
- Very favourable conditions for debt servicing costs

Meeting the current budget target with modest headroom

- Most increases in current spending already announced in 2019 Spending Round or reallocating EU spending
- Debt excluding the Bank of England no longer falling
- Many sources of risk and uncertainty, particularly around Brexit and coronavirus

Spring Budget 2020: IFS Analysis

The Building Centre, London

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