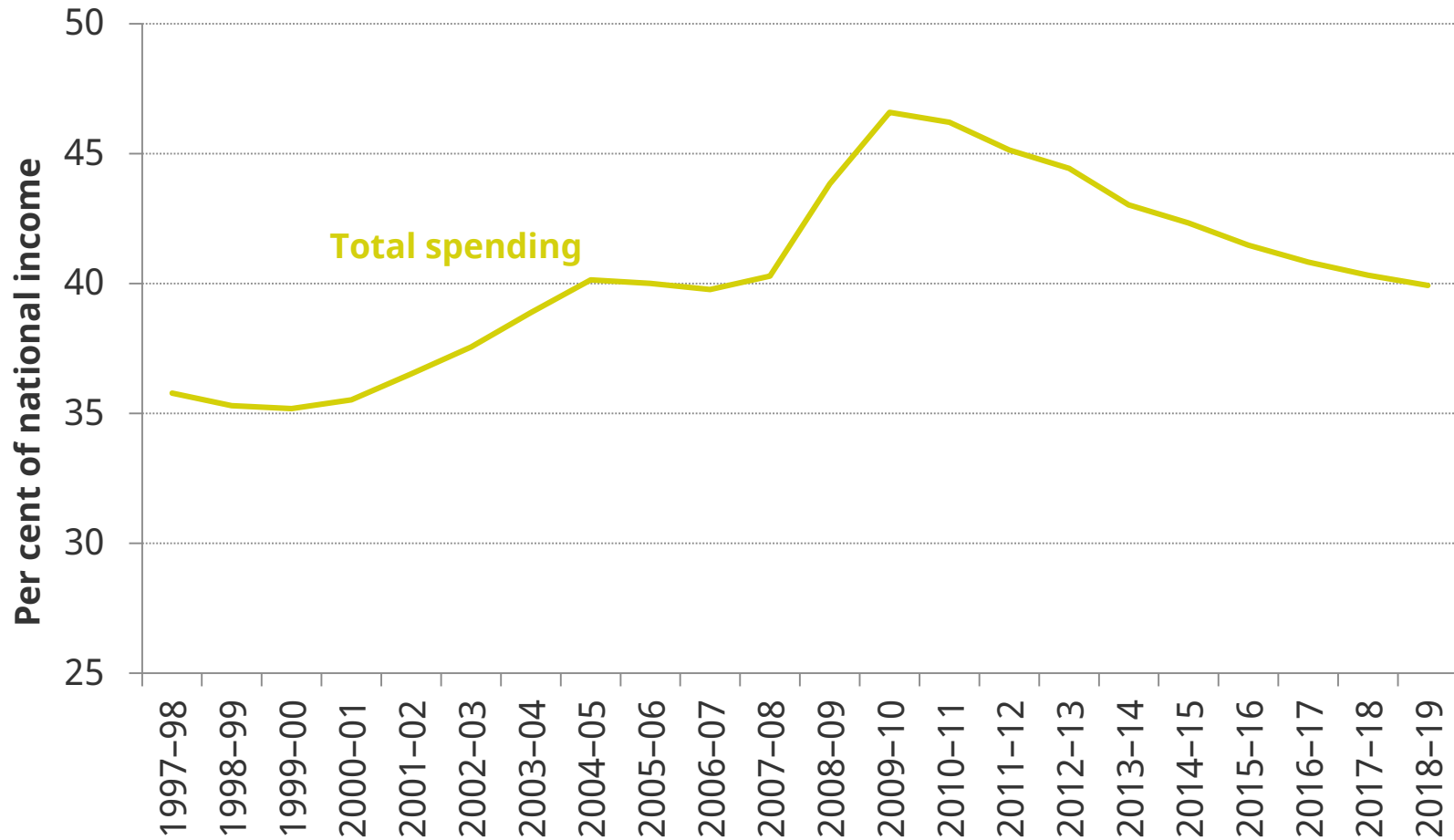


## IFS Green Budget 2019

Public finances: which way forward?

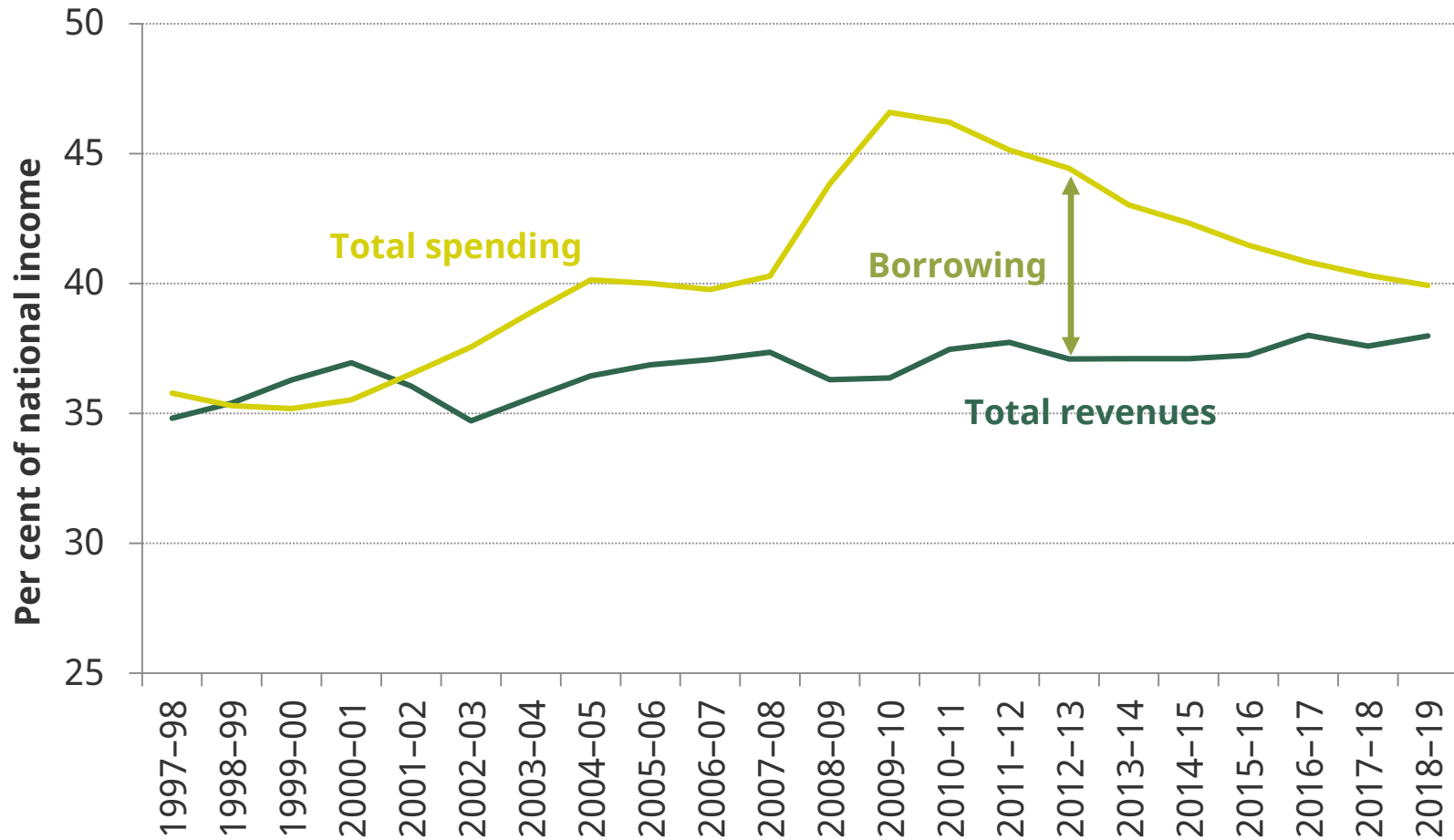
Isabel Stockton

## Total expenditure is at its lowest level since 2006-07



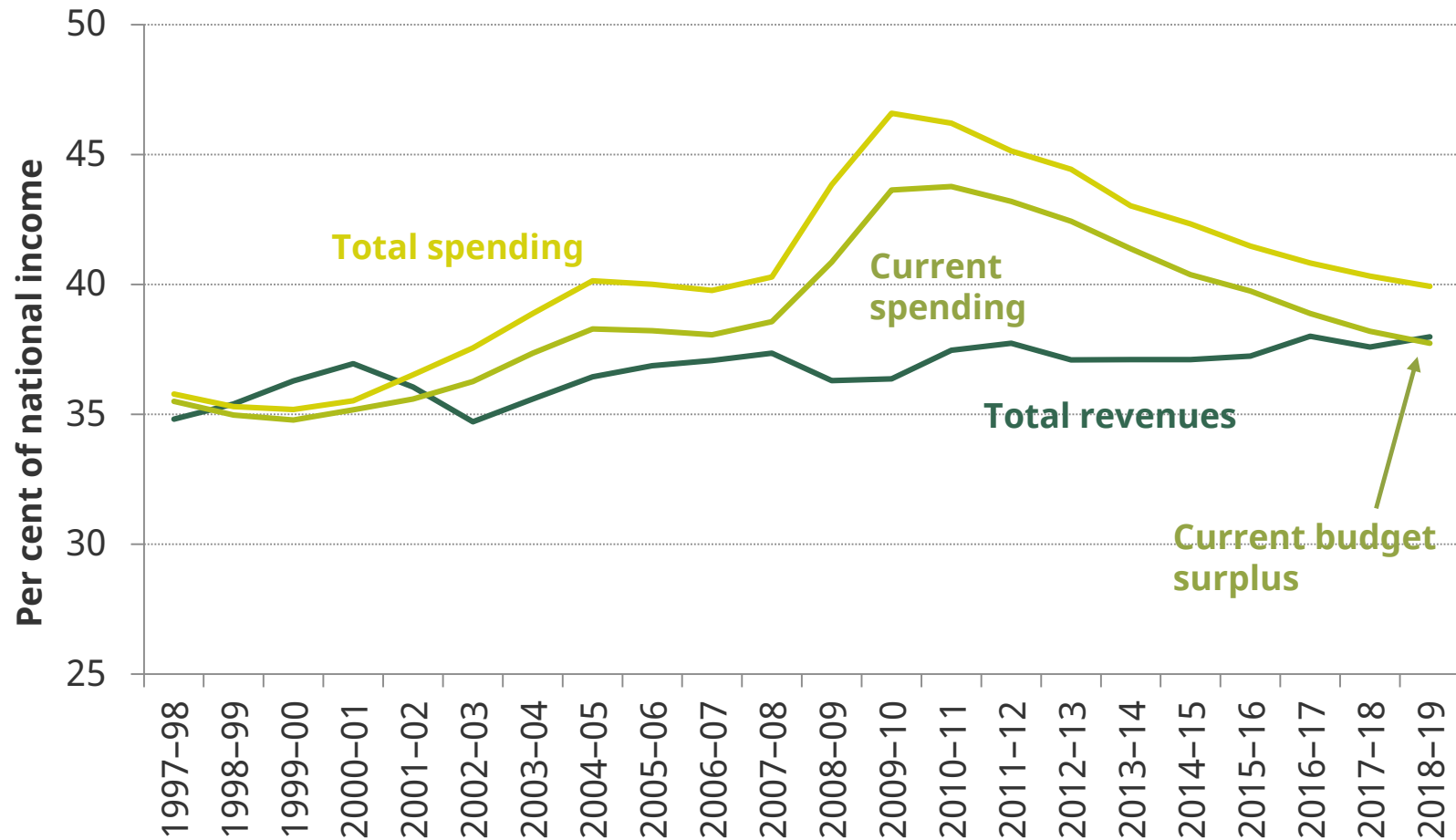
Notes and sources: see Green Budget 2019, Figure 4.1

## Current receipts have slowly increased



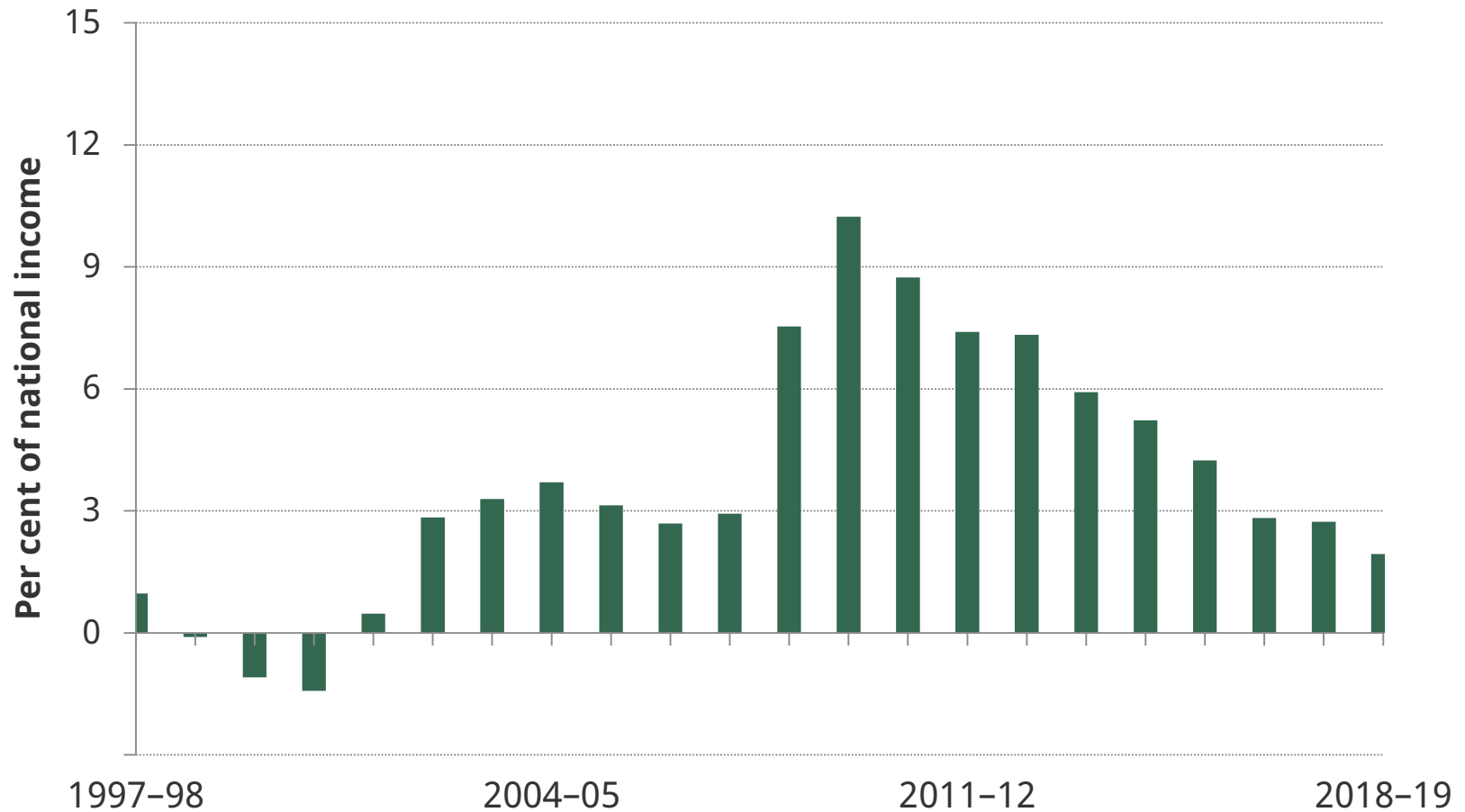
Notes and sources: see Green Budget 2019, Figure 4.1

## First current budget surplus in seventeen years



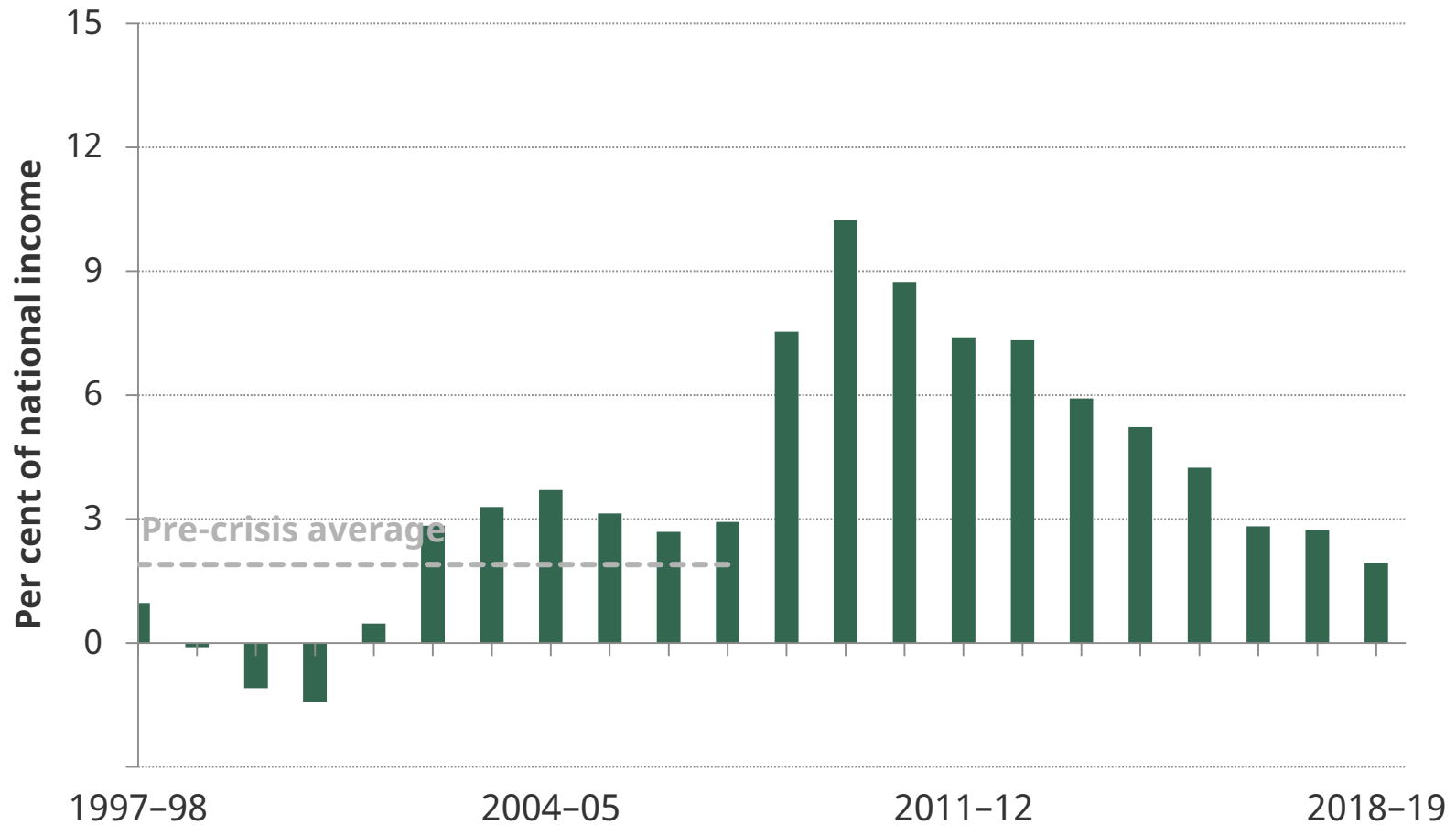
Notes and sources: see Green Budget 2019, Figure 4.1

# Public sector net borrowing and net debt



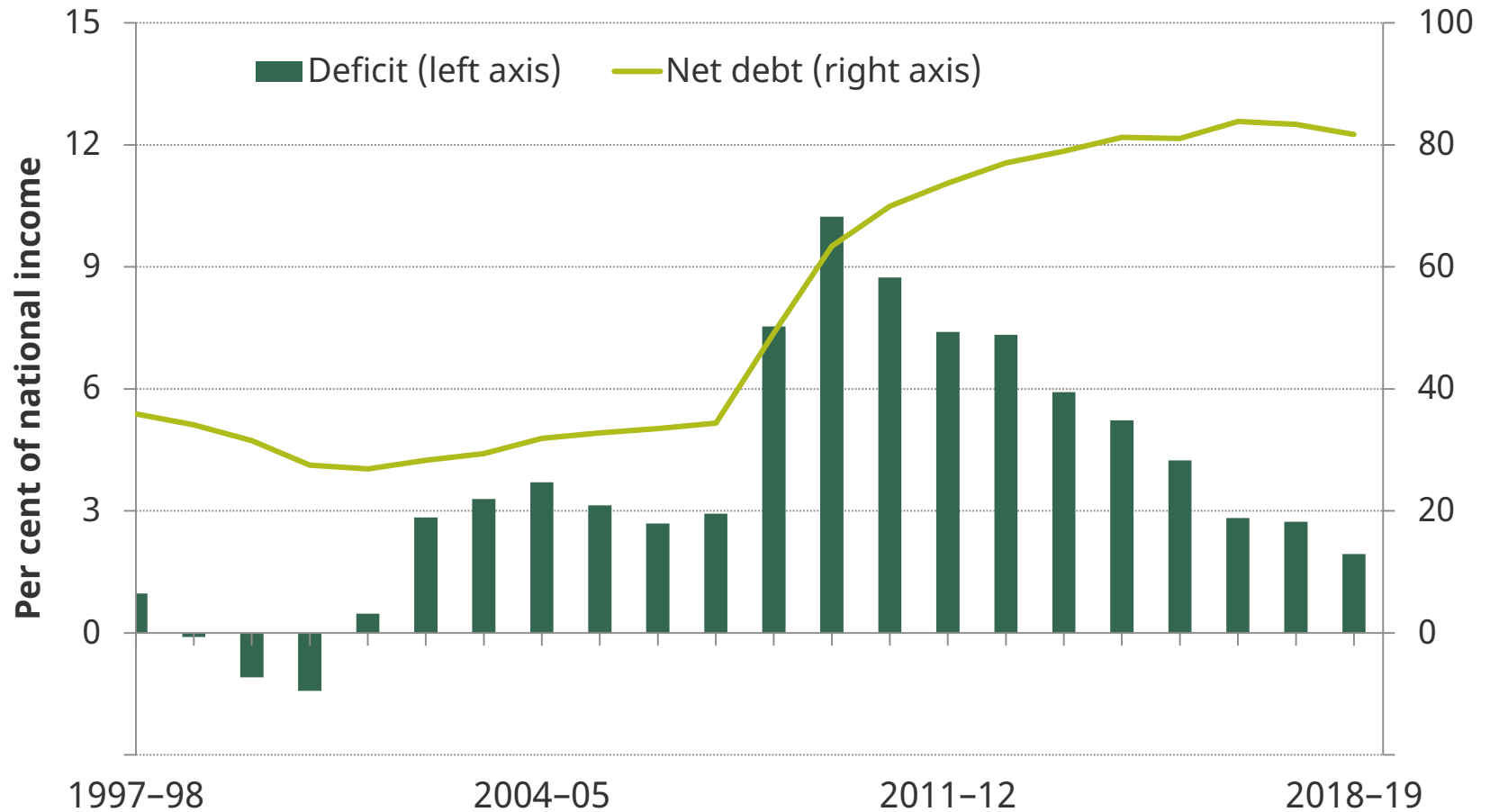
Notes and sources: Figures 4.2 and 4.B1, Green Budget 2019

# Public sector net borrowing and net debt



Notes and sources: Figures 4.2 and 4.B1, Green Budget 2019

# Public sector net borrowing and net debt



Notes and sources: Figures 4.2 and 4.B1, Green Budget 2019

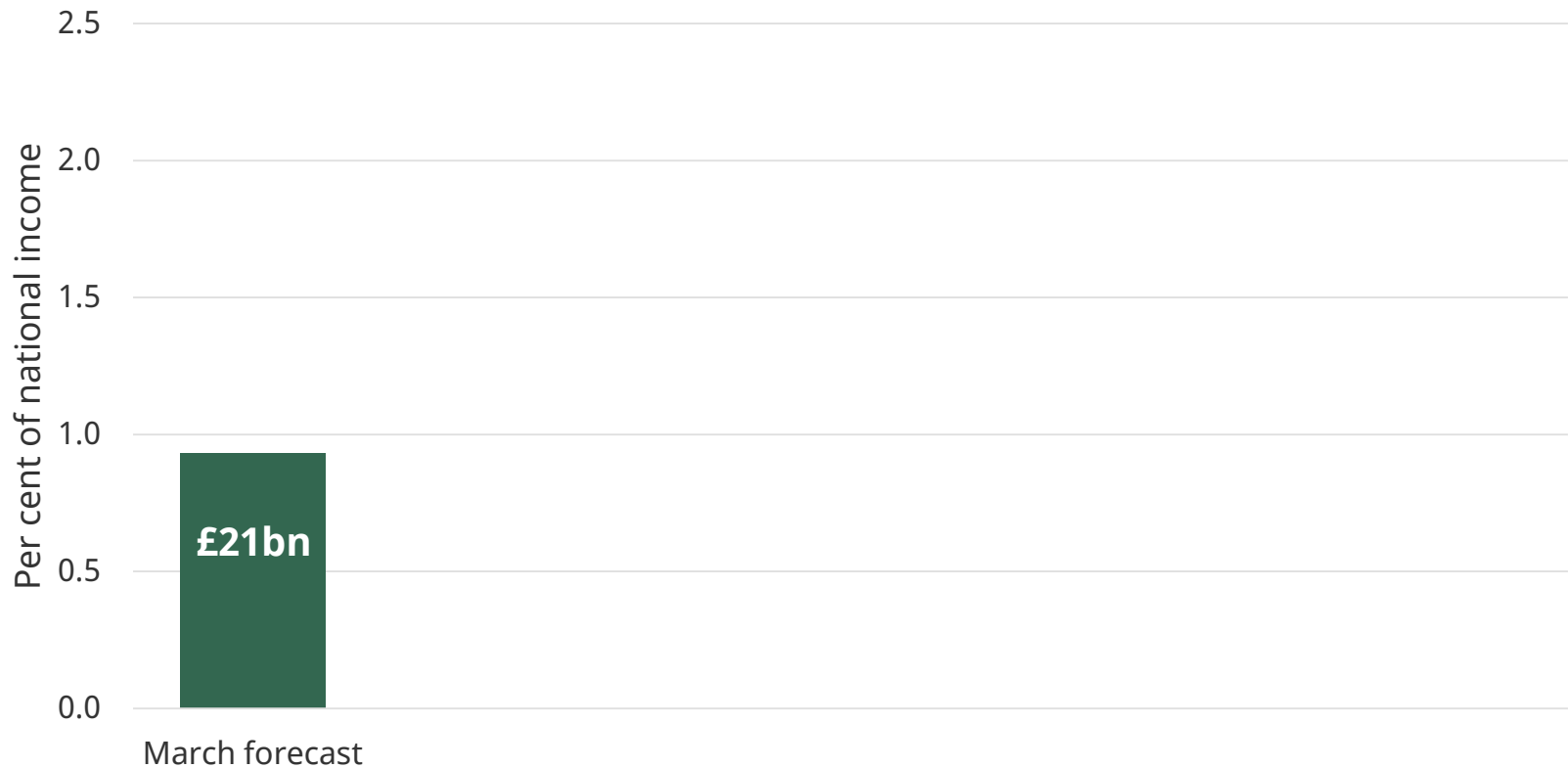
# The fiscal mandate: out of reach, out of date?

## Current fiscal targets

- Balanced budget by the mid-2020s
- Fiscal mandate: cyclically adjusted deficit below 2% of national income in 2020-21
- Additional targets on debt and welfare spending

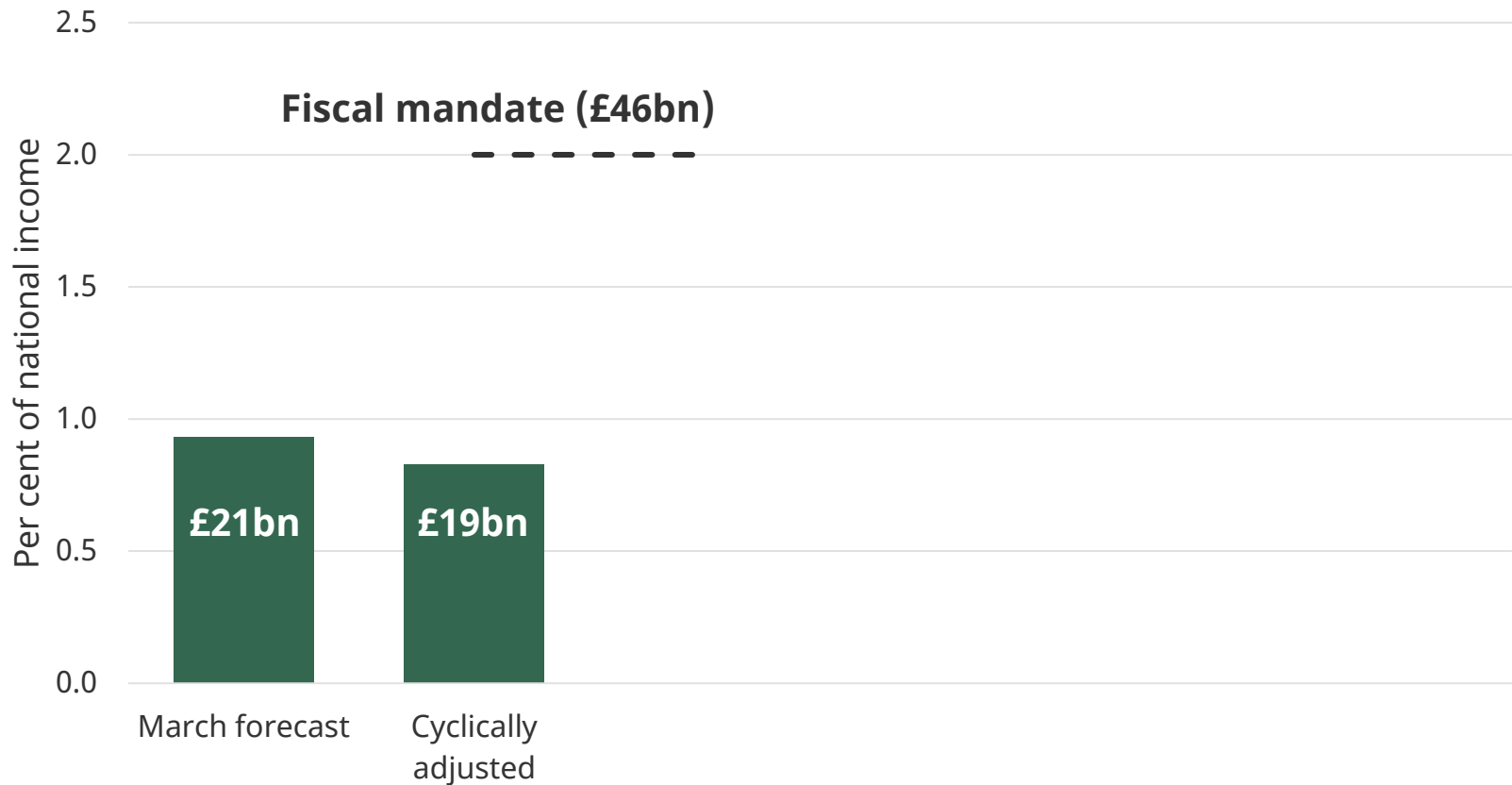


## Changes since the March forecast: Borrowing in 2020-21



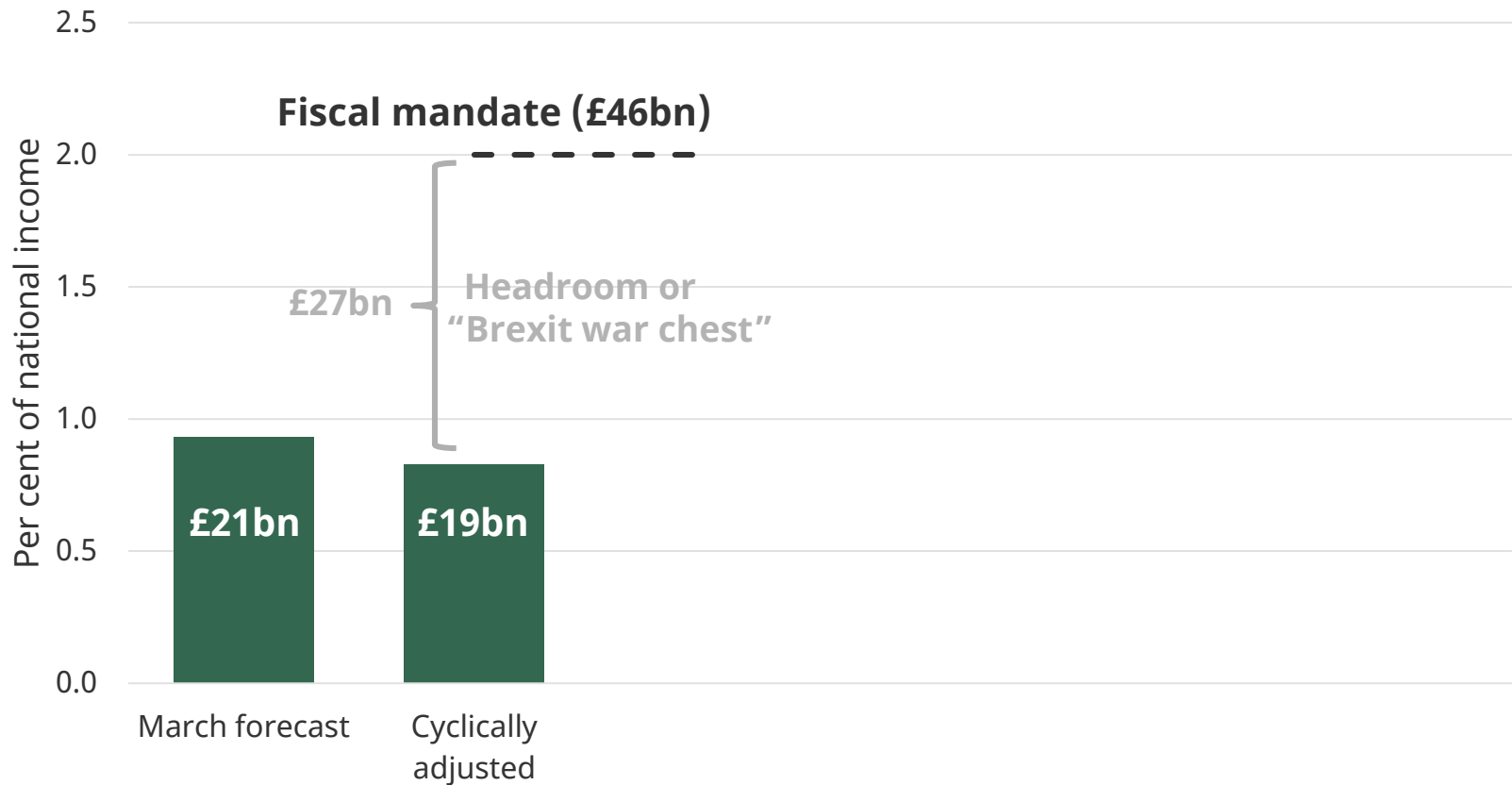
Notes and sources: Figure 5.1, Green Budget 2019

## Changes since the March forecast: Borrowing in 2020-21



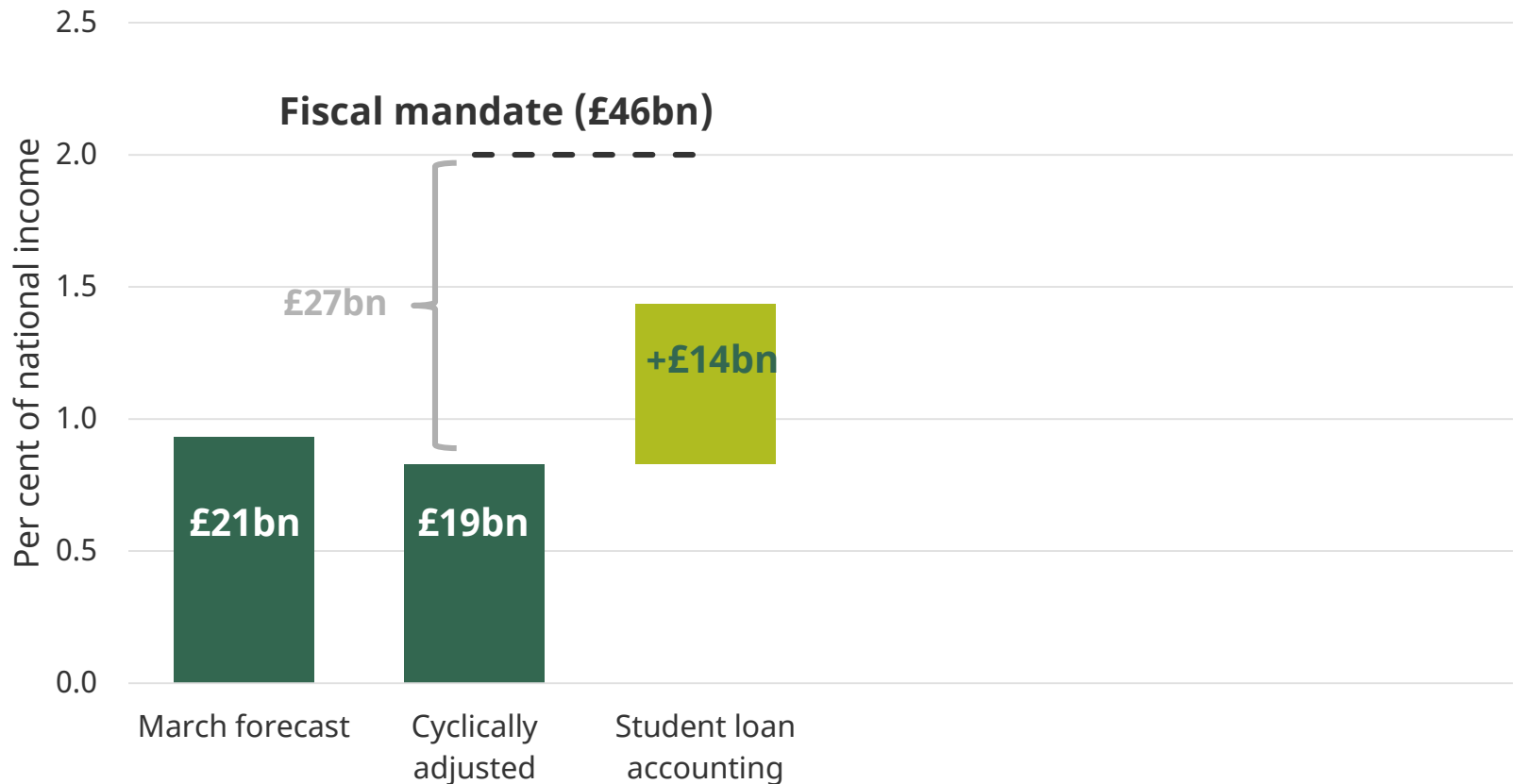
Notes and sources: Figure 5.1, Green Budget 2019

## Changes since the March forecast: Borrowing in 2020-21



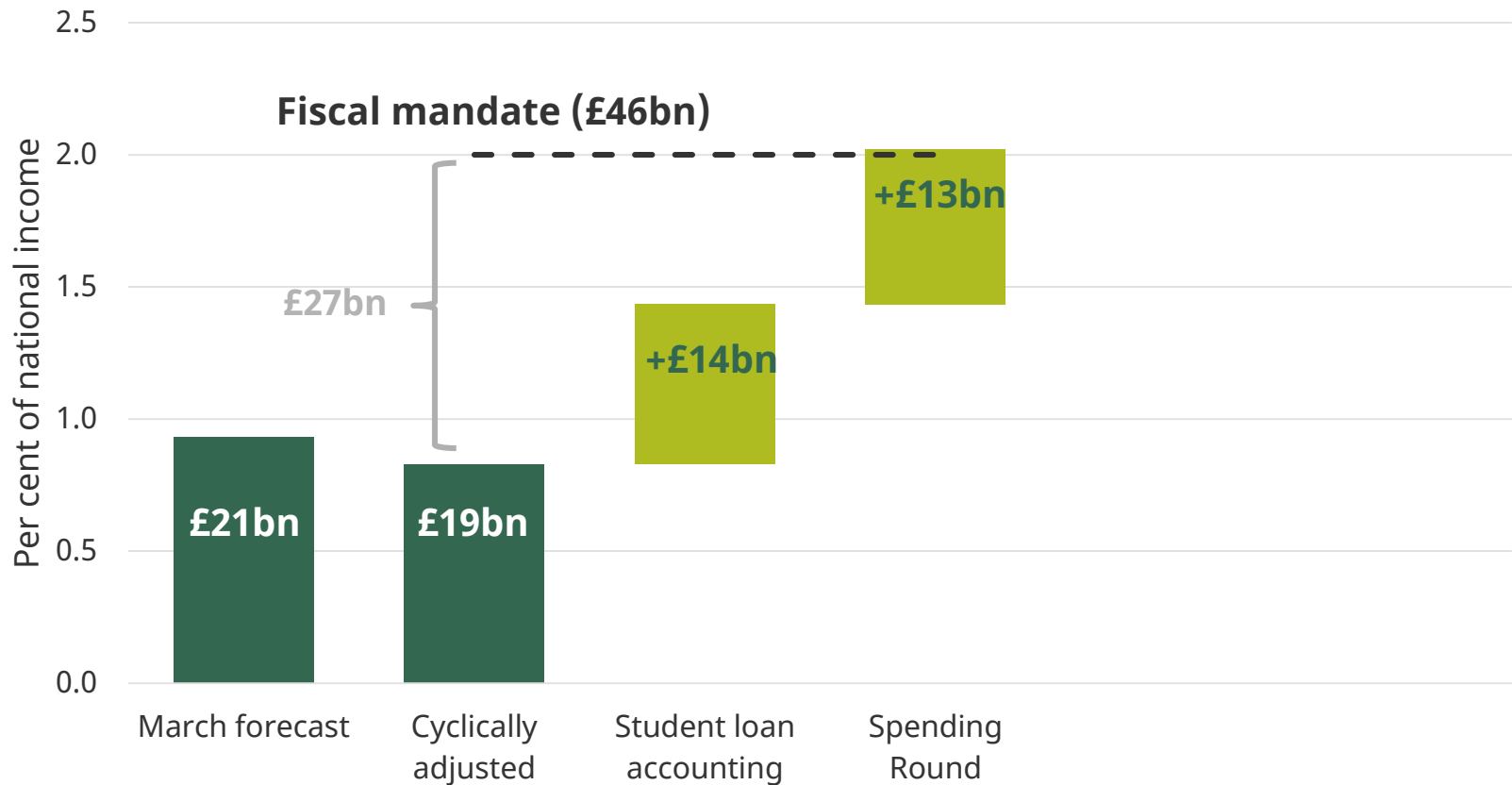
Notes and sources: Figure 5.1, Green Budget 2019

## Changes since the March forecast: Borrowing in 2020-21



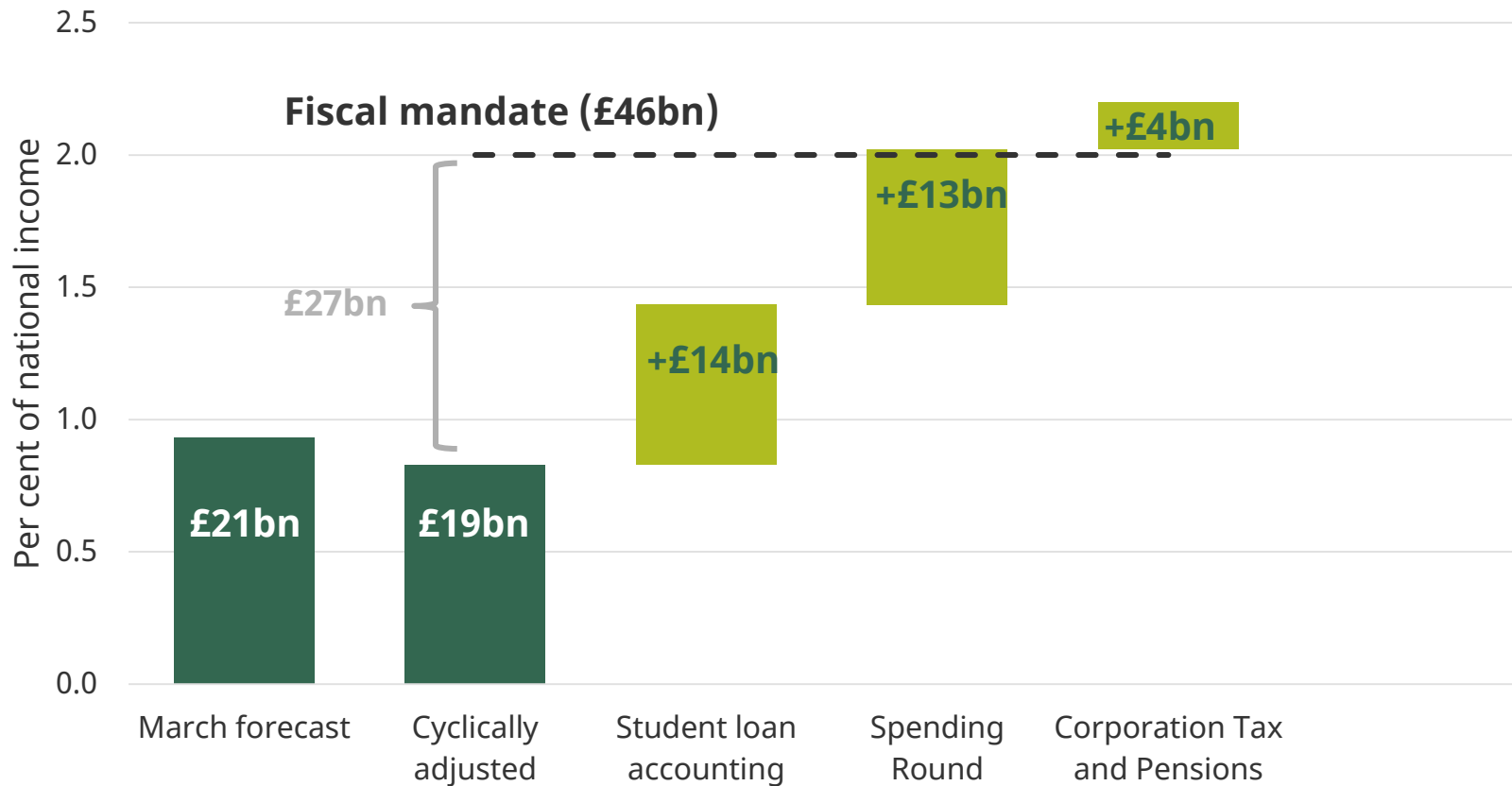
Notes and sources: Figure 5.1, Green Budget 2019

## Changes since the March forecast: Borrowing in 2020-21



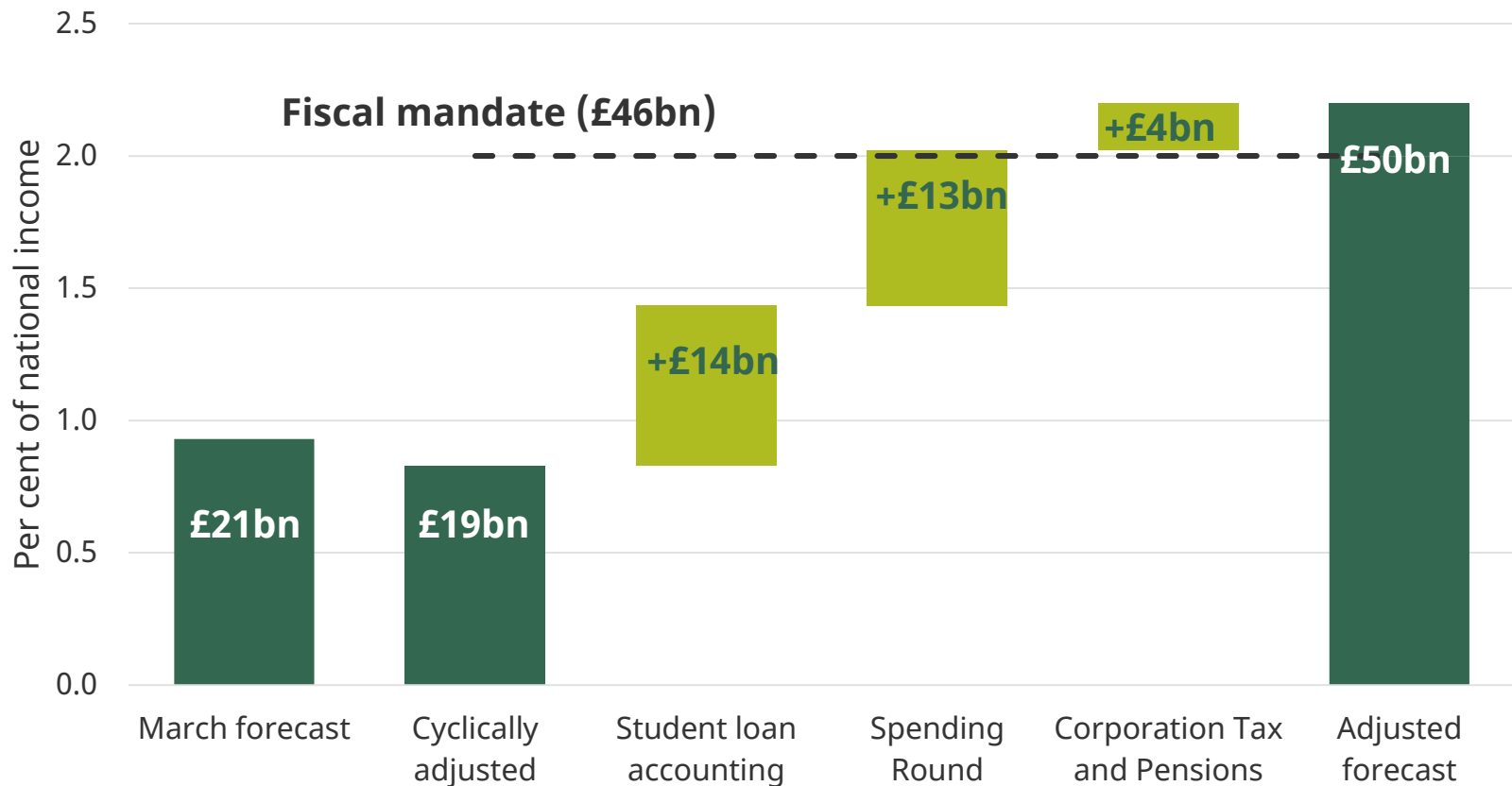
Notes and sources: Figure 5.1, Green Budget 2019

## Changes since the March forecast: Borrowing in 2020-21



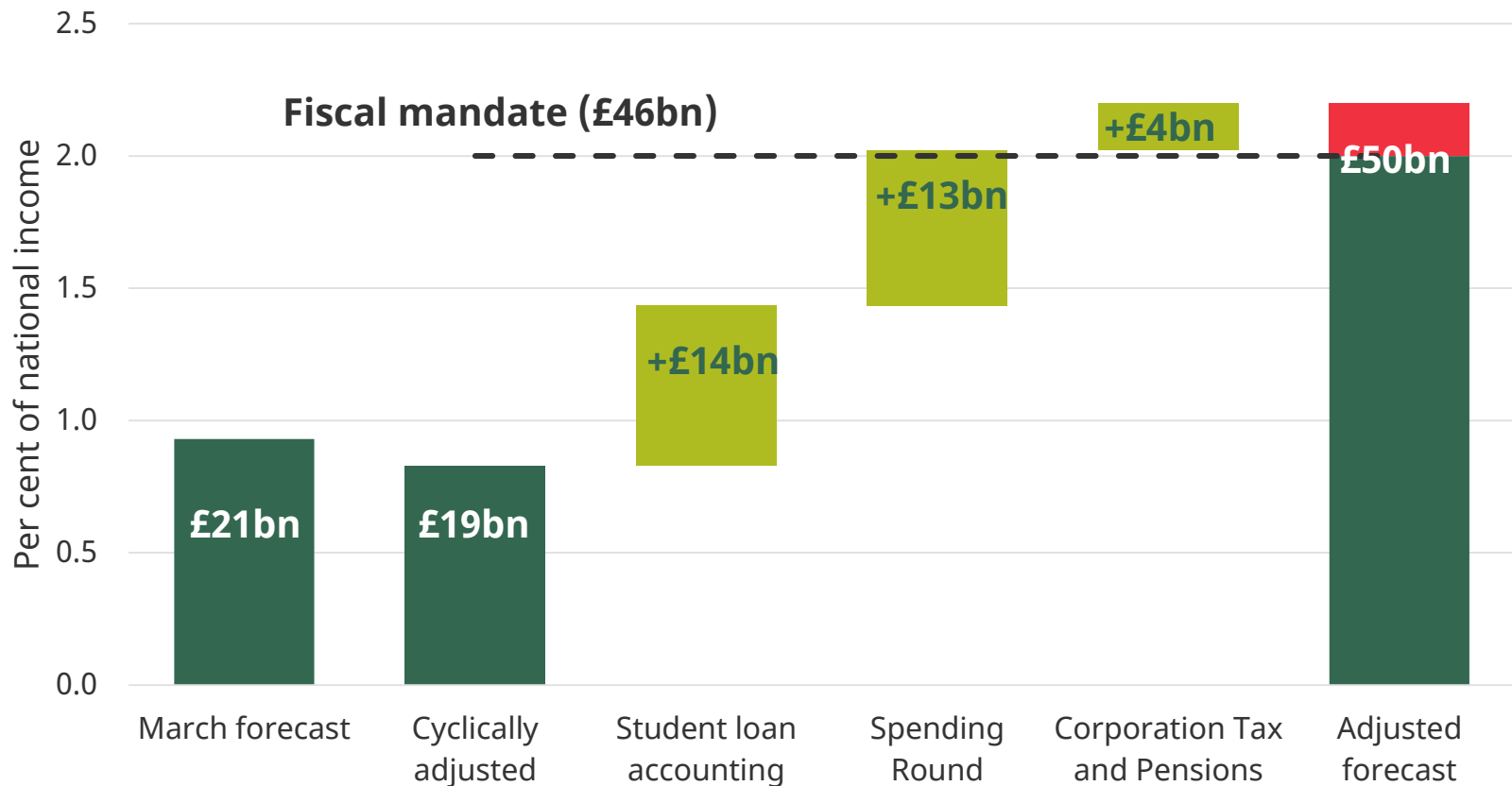
Notes and sources: Figure 5.1, Green Budget 2019

## Changes since the March forecast: Borrowing in 2020-21



Notes and sources: Figure 5.1, Green Budget 2019

## Changes since the March forecast: Borrowing in 2020-21



Notes and sources: Figure 5.1, Green Budget 2019



# Adjusting the baseline borrowing forecast

## Forecast headline borrowing, accounting for

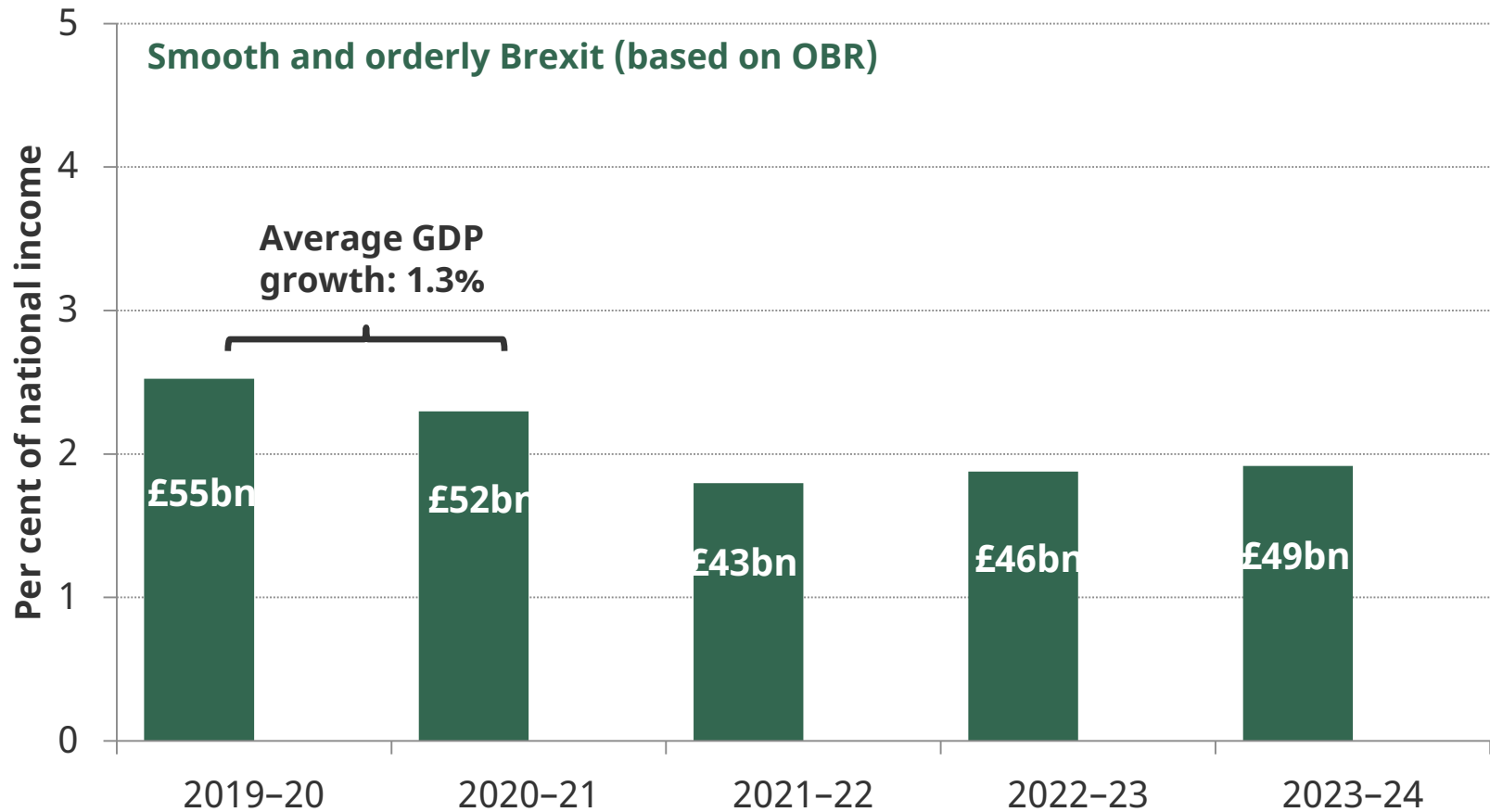
- weaker near-term growth as forecast by Bank of England
- temporary boost to growth from Spending Round giveaway
- direct fiscal saving from EU transfers banked
- departmental spending growth beyond 2020–21 sufficient to cover NHS and schools pledges

## No adjustment for strong growth in borrowing since March

- spending growth might not persist

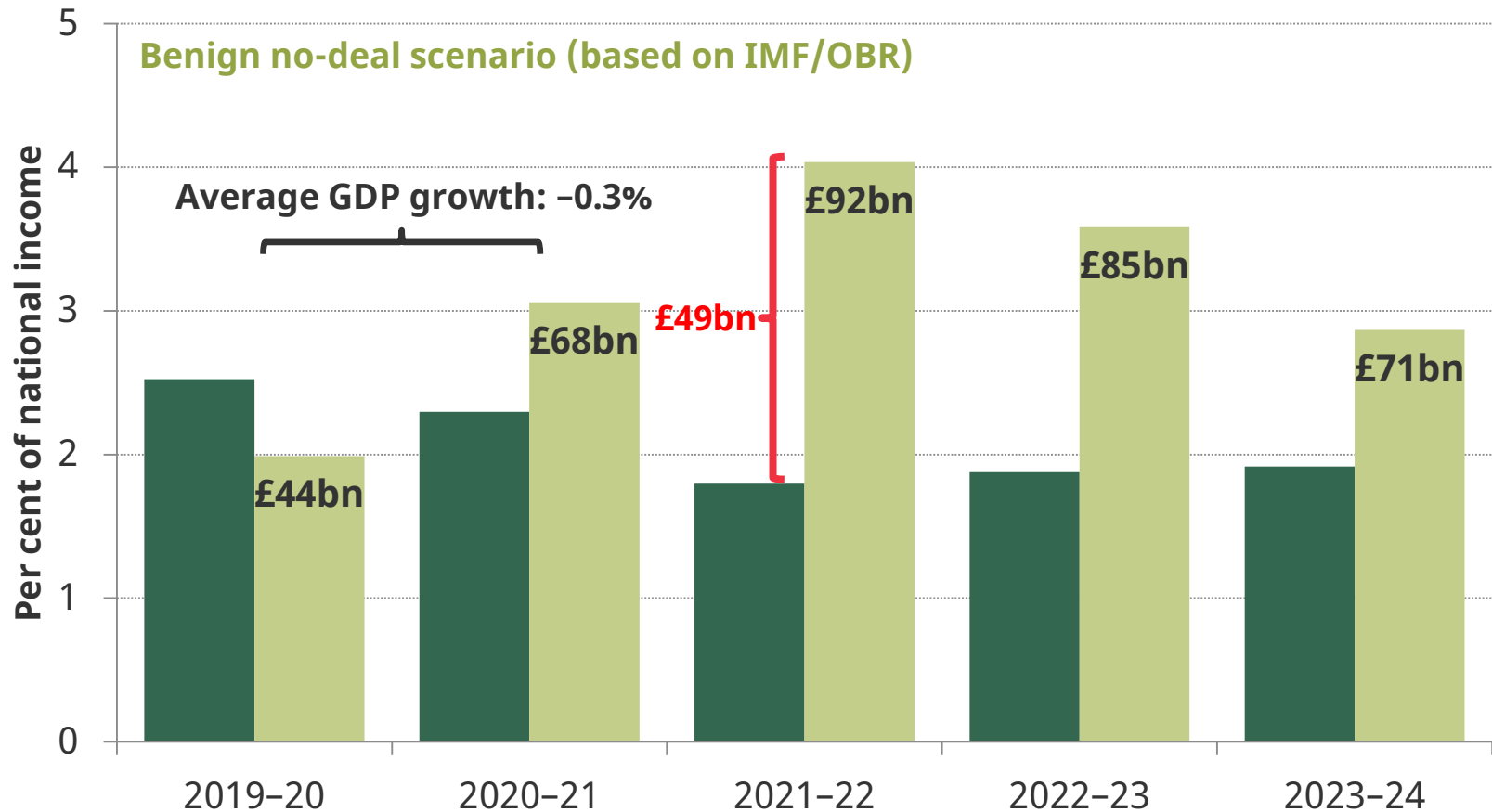
## Do not allow for any net tax cuts

# Borrowing under different Brexit scenarios



Notes and sources: see Tables 4.2 and 5.1, Green Budget 2019

# Borrowing under different Brexit scenarios



Notes and sources: see Tables 4.2 and 5.1, Green Budget 2019

## Time for new fiscal targets?

### All current targets expire within forecast period

- Budget: opportunity to set out new fiscal rules or targets
- Why fiscal targets?
  - self-commitment
  - strengthen Treasury's position in 2020 Spending Review

### Targets flexible enough for a no-deal Brexit are too loose for a smooth Brexit

- set new targets once Brexit uncertainty reduced
- in the meantime, limit **permanent** increases in net **day-to-day** spending and net tax cuts

# Time for new fiscal targets?

## Borrow to invest?

- future generations benefit from good investments made today
- public sector assets as well as liabilities: target public sector net worth instead of debt?
- concerns about transparent and credible measurement

## Borrow during a temporary downturn?

- automatic stabilisers
- discretionary stimulus, especially when monetary policy ineffective
- key considerations: **timely**,
- **targeted** to regions/industries with greatest cost of lost output
- **temporary**, to restore fiscal sustainability in the longer term

# Fiscal response to a no-deal Brexit

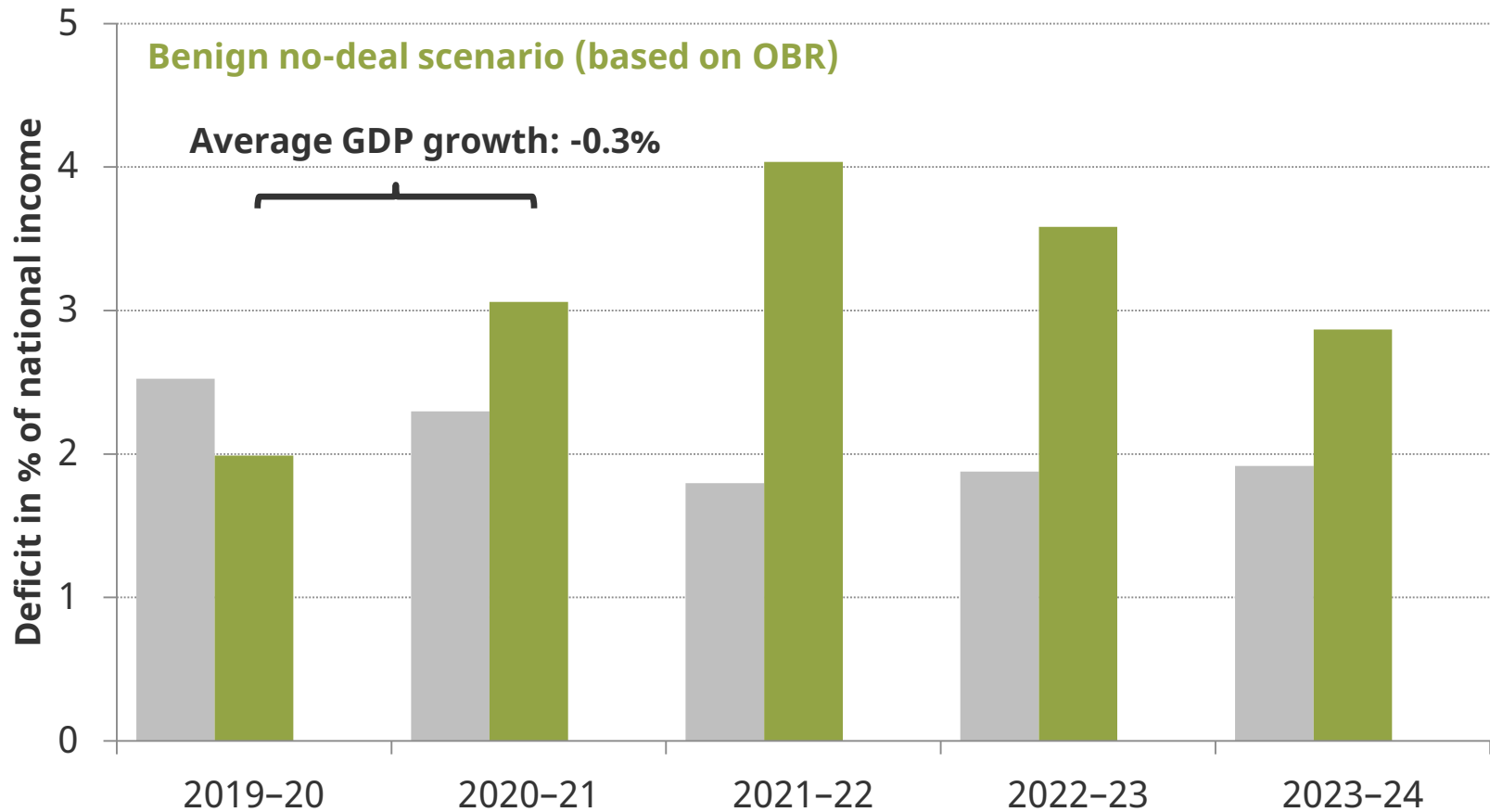
## In the short to medium term

- case for a temporary stimulus package
- illustrative scenario:
  - 1% of national income
  - implemented in 2020-21, in place for two years

## In the longer term

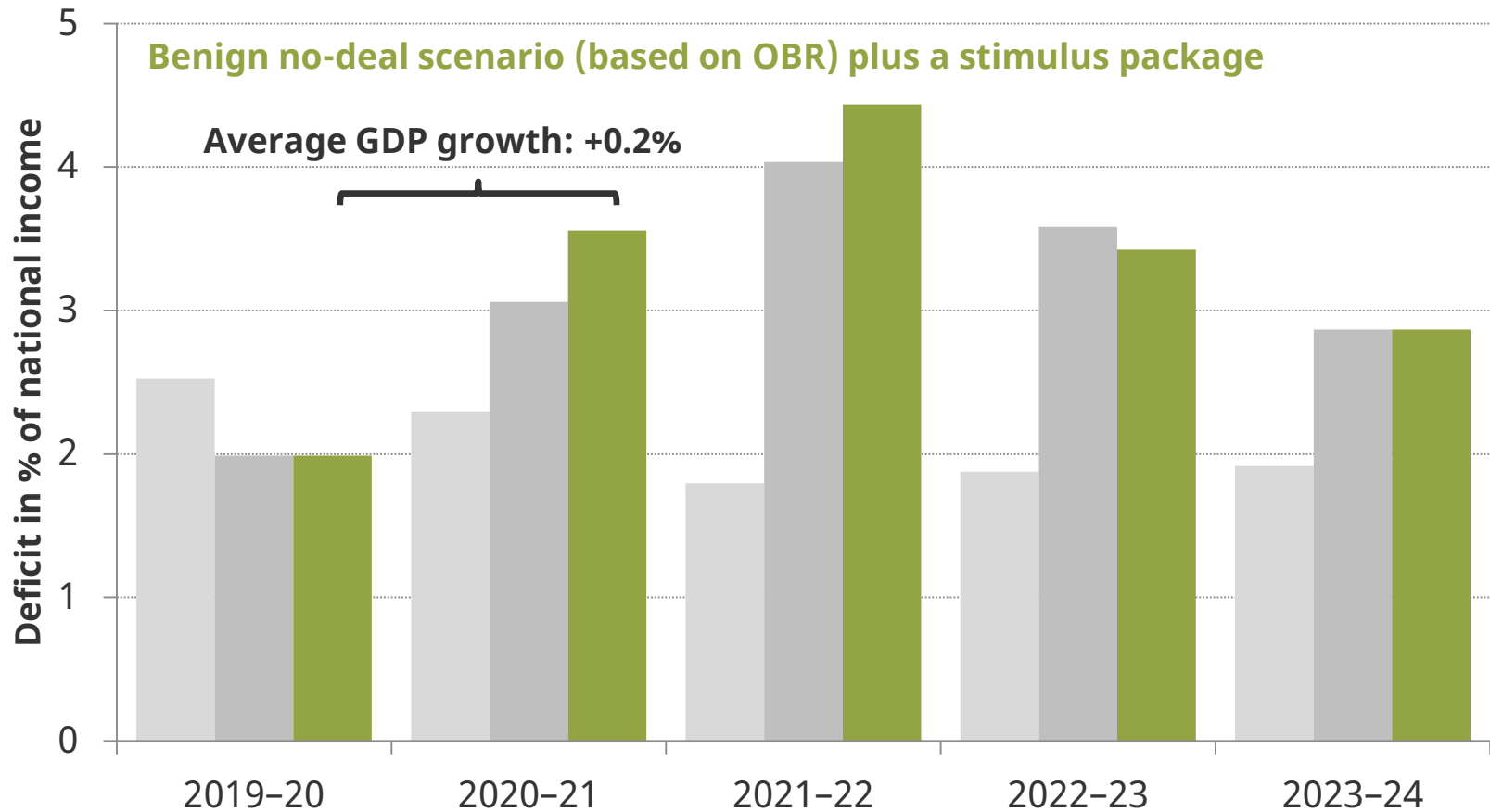
- trade barriers and lower net migration → a smaller economy
- higher taxes or lower spending needed
- IMF benign no-deal scenario would require long-run additional fiscal tightening of 1½ % of GDP or £33 billion (compared to smooth Brexit)

## Borrowing under different Brexit scenarios



Notes and sources: see Tables 4.2 and 5.1, Green Budget 2019

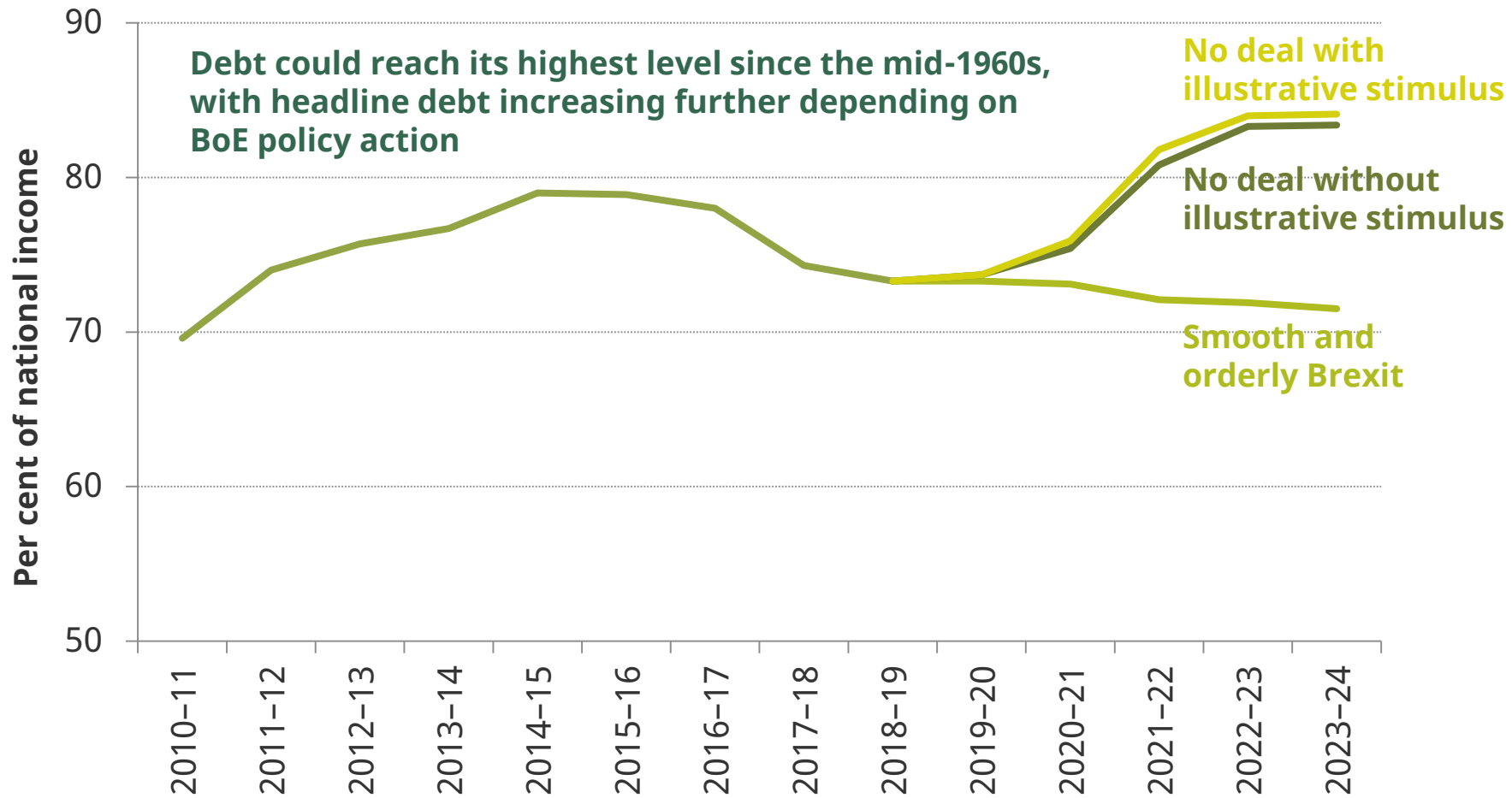
## Borrowing under different Brexit scenarios



Notes and sources: see Tables 4.2 and 5.1, Green Budget 2019

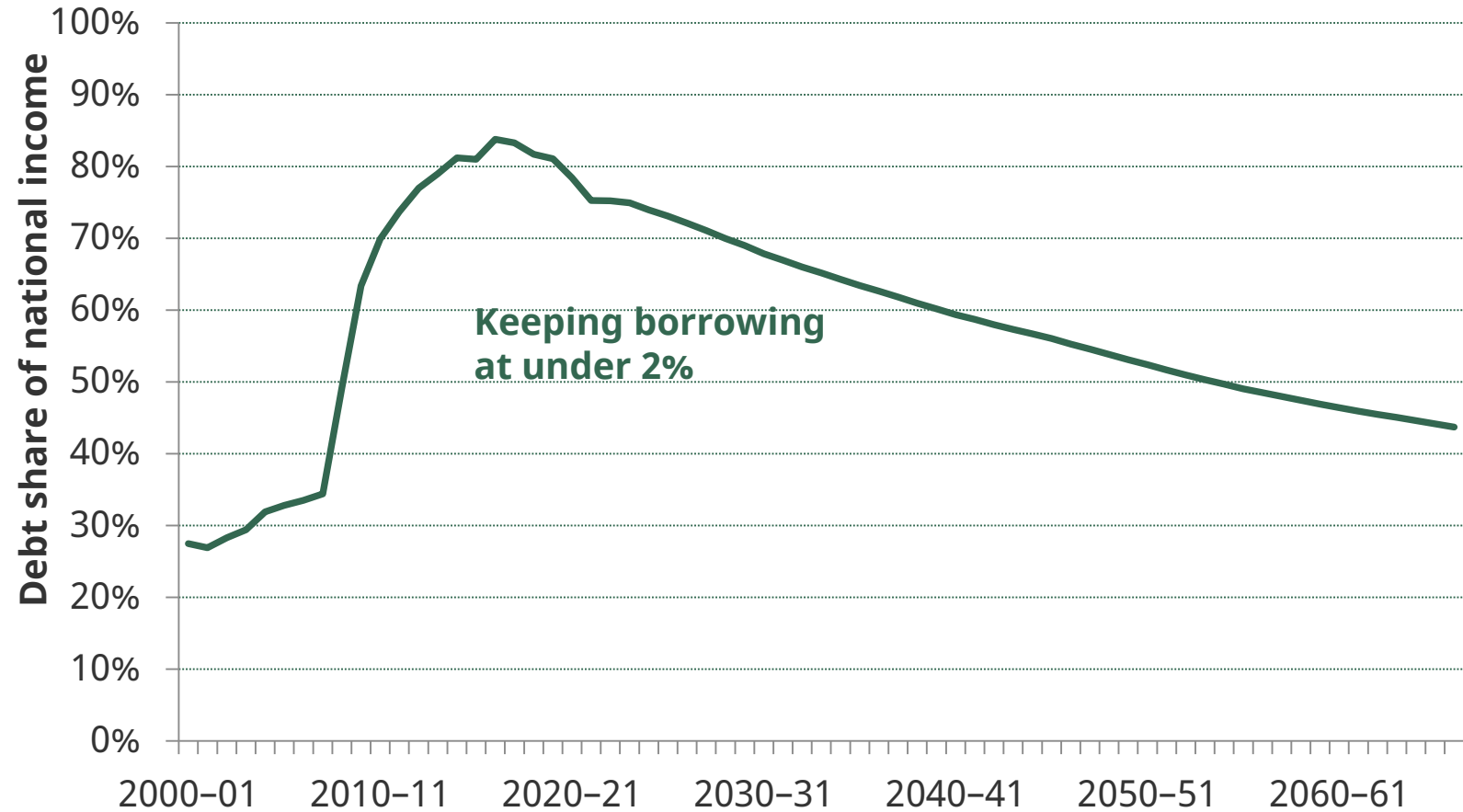


# Debt under different Brexit scenarios



Notes and sources: see Green Budget 2019, Figure 4B.1, Table 4.2 and Table 5.1

# Long-run outlook for public sector net debt



Notes and Sources: Figure 4.6, Green Budget 2019

# Public finances under pressure

## Medium-term forecast under current plans and smooth Brexit

- borrowing at ~2% of national income for next five years

## Long-run consequences of a no-deal Brexit

- IMF benign scenario adds ~1½% of national income to borrowing

## Regardless of Brexit, the next recession might not be far away

- 'typical' recession adds around ~1¾% of national income for two years

## Spending pressures on health, social care and pensions

- OBR: increase of ~2% of national income each decade

**This is not the moment for substantial and permanent net tax cuts**

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# Conclusions

**Outlook for borrowing worsened dramatically since March, now on course to breach Government's fiscal mandate.**

## **Benign no-deal Brexit scenario**

- case for a short-term stimulus, but
- more austerity required in the long run

## **Fiscal policy adrift without any credible fiscal anchor**

- major risks to long-term sustainability of public finances from health and social care, pensions and future economic growth