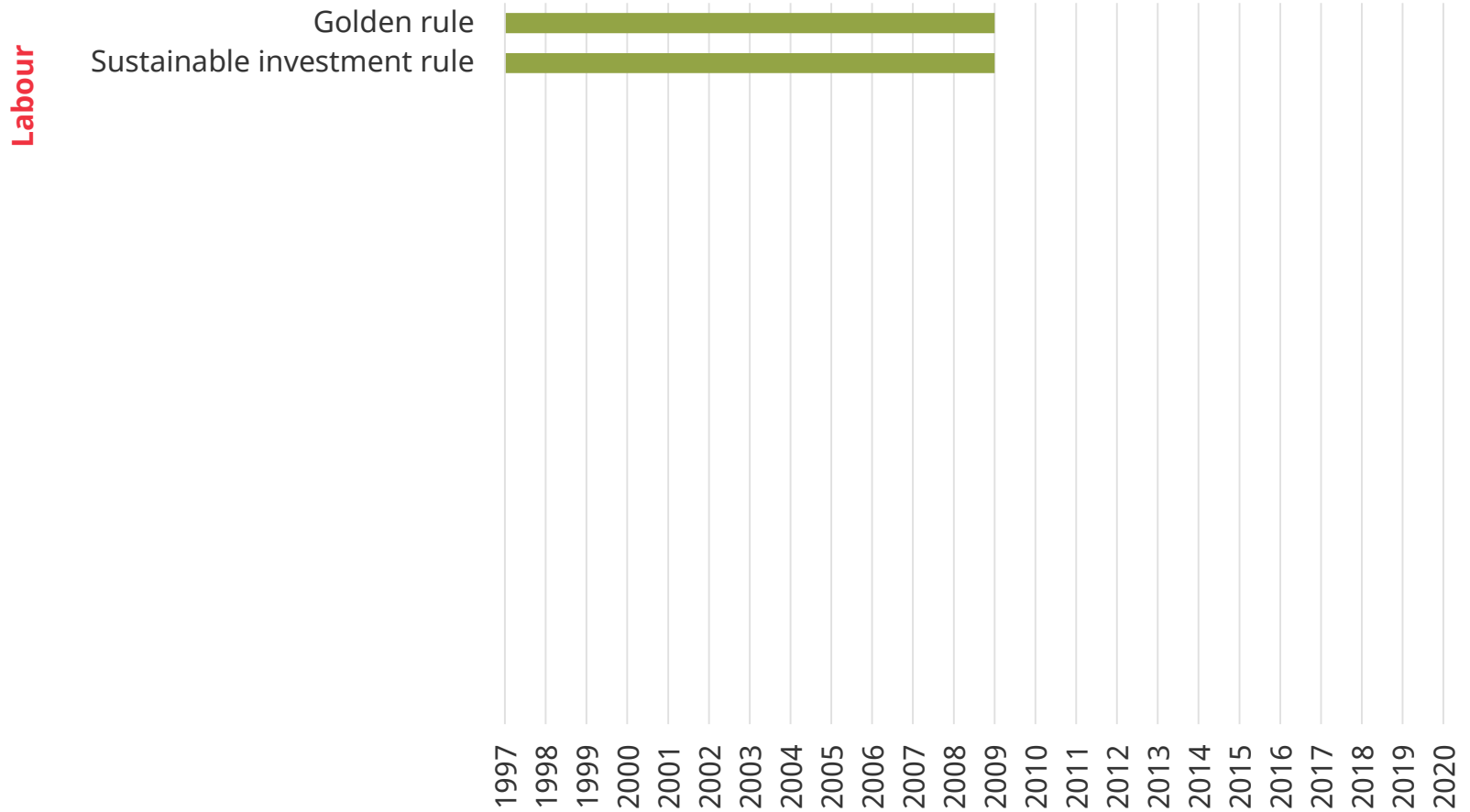


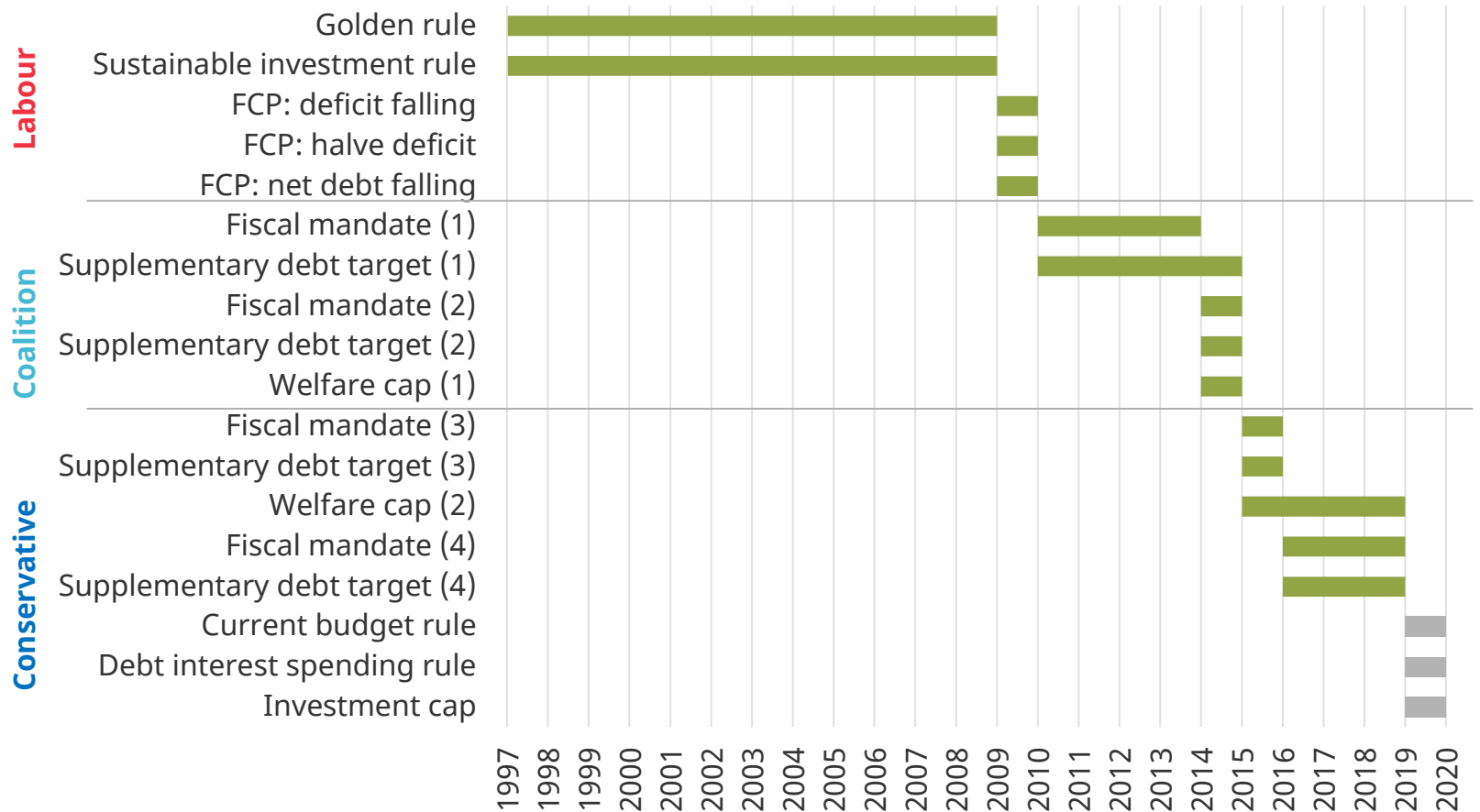
# Meeting the new fiscal targets?

Isabel Stockton

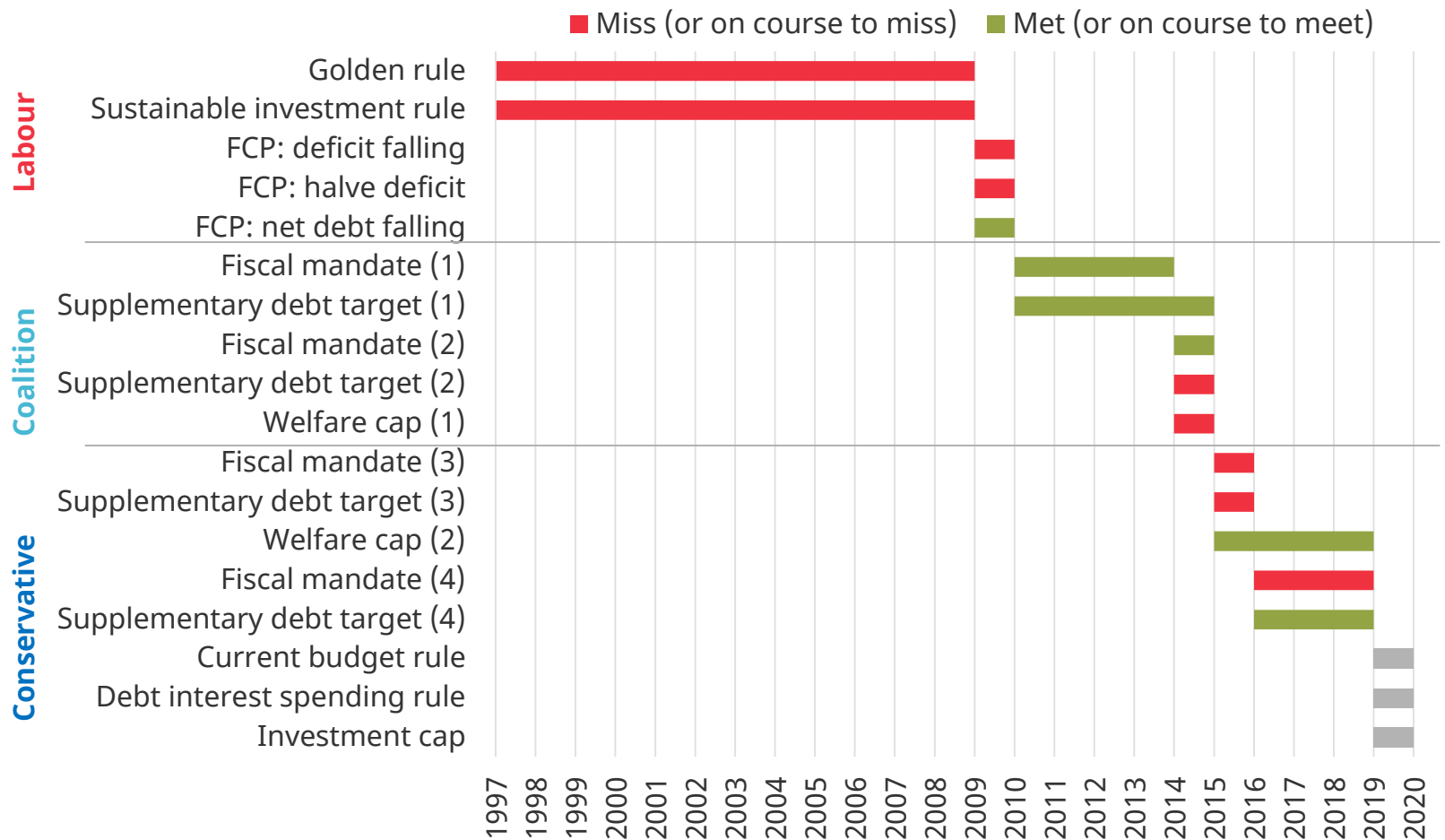
# Fiscal targets: 2 for 12 years



# Fiscal targets: 2 for 12 years and then 16 in 10 years



# Fiscal targets: 2 for 12 years and then 16 in 10 years, often missed



# The new government's fiscal targets

## Current budget target

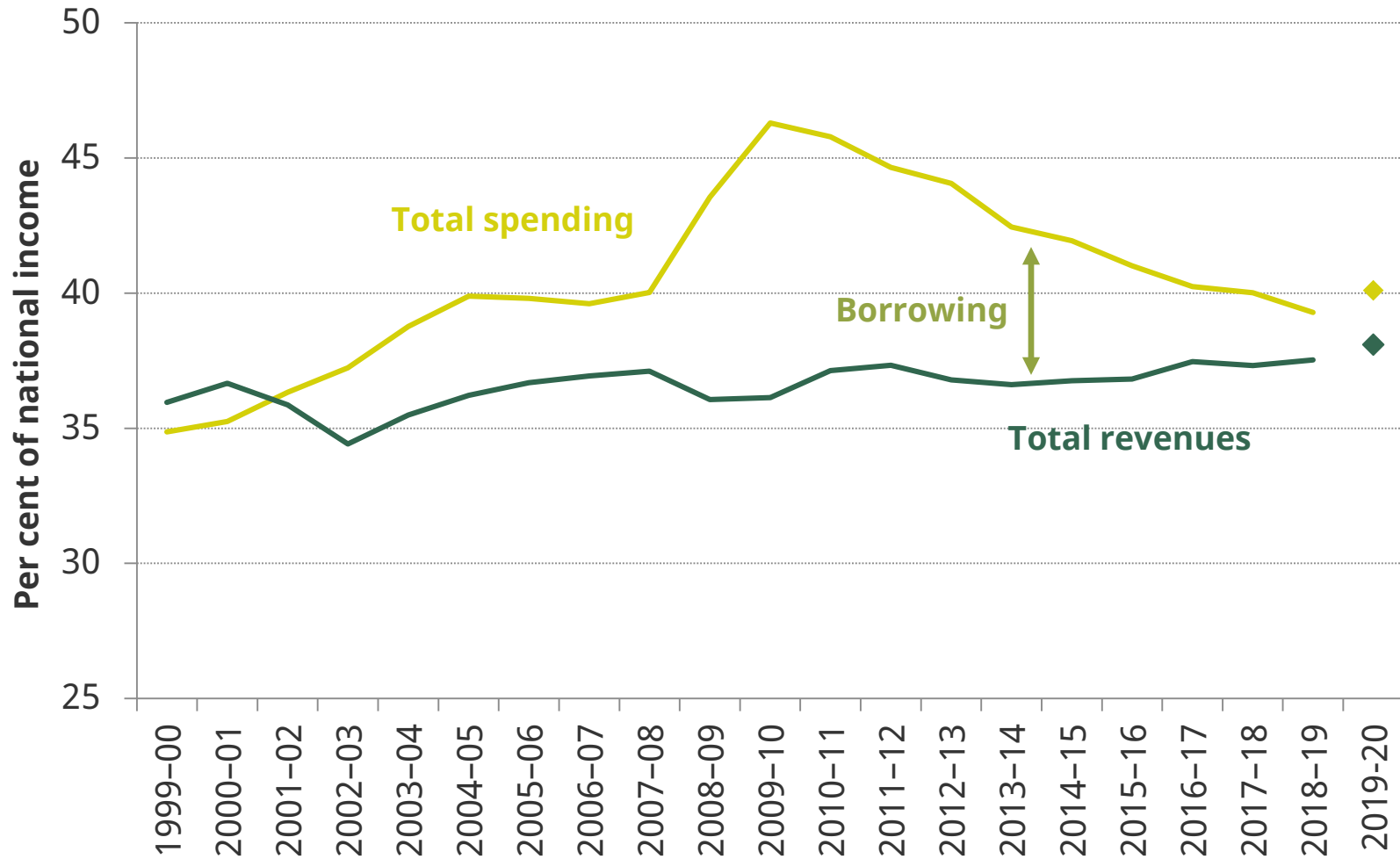
- Current budget balance or surplus in the third year of each forecast
  - allows borrowing for investment and for temporary reasons
  - allows policy time to adjust gradually to permanent shocks

## Two additional targets unlikely to bind for now

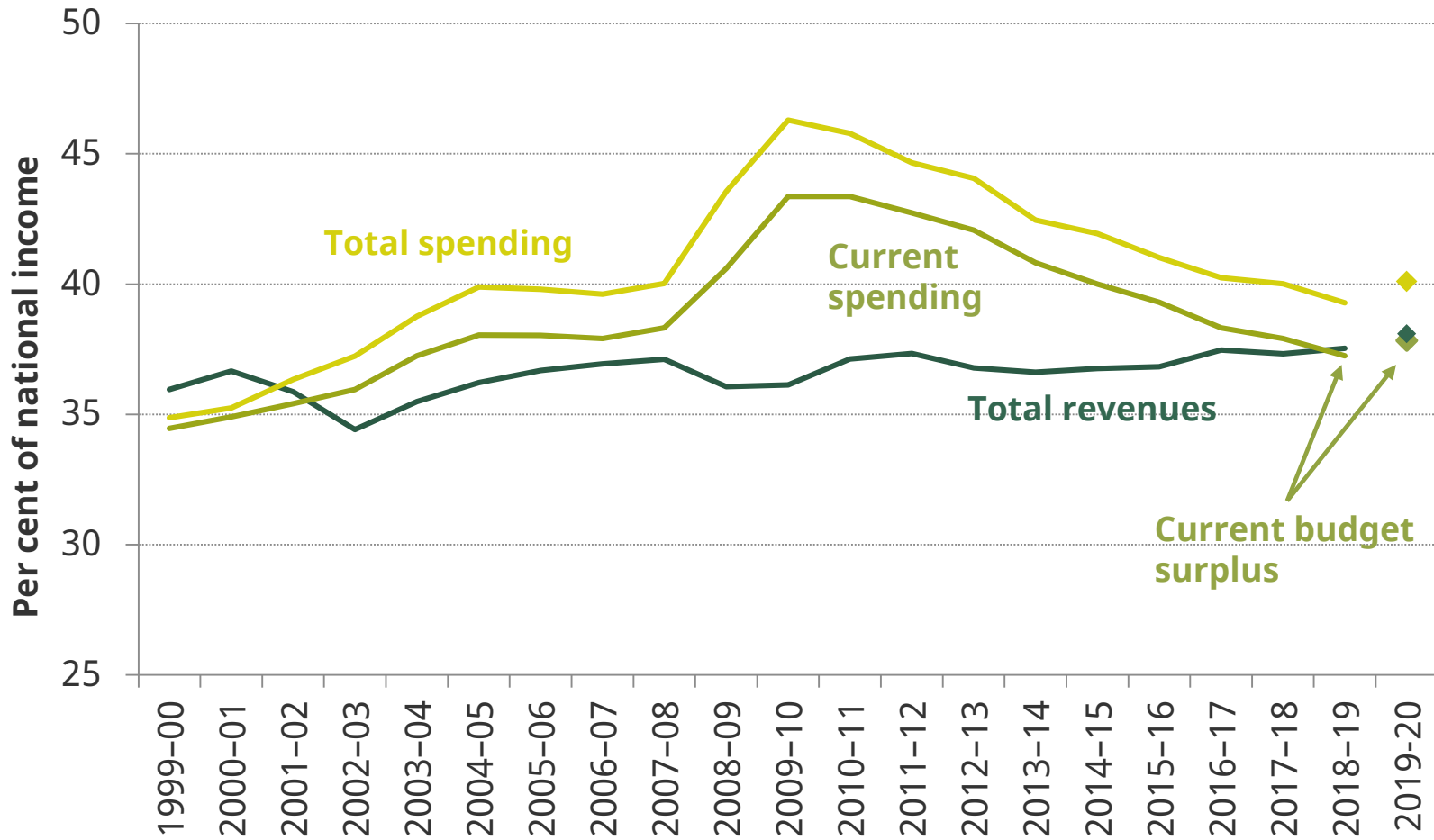
- Investment spending cannot exceed three per cent of national income
  - places a ceiling on overall borrowing
- If debt servicing costs exceed six per cent of revenues, re-evaluate investment plans
  - Similar to IMF debt sustainability assessments

**The Conservative manifesto also promised that the debt burden would fall over the Parliament.**

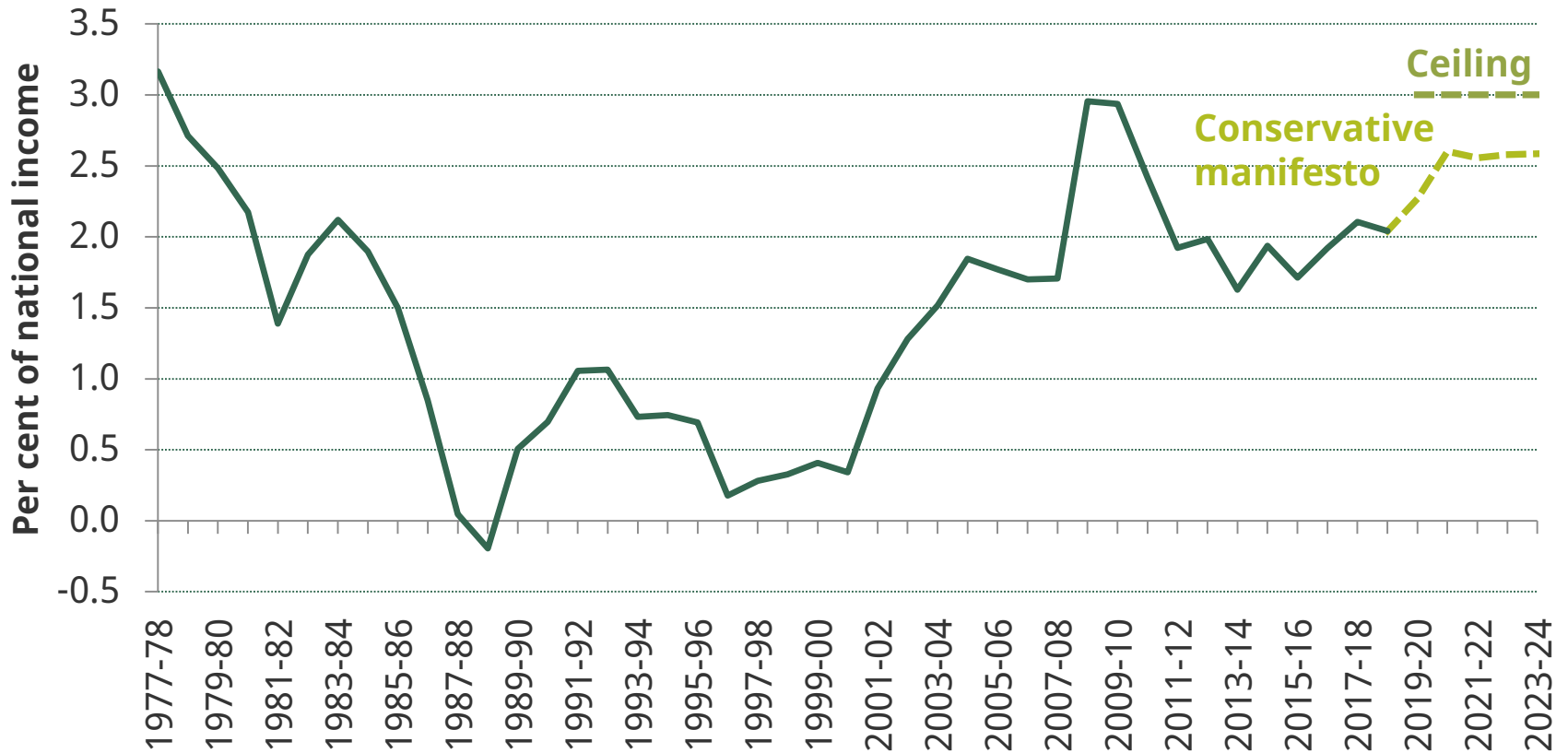
# Cuts to spending, and a rise in current receipts, have brought borrowing to below its pre-crisis level



# First current budget surplus in seventeen years



# The investment ceiling



Even with increases proposed in the Conservative manifesto, there is plenty of headroom against the 3% ceiling.



# The debt interest ceiling



Central government debt interest, net of APF

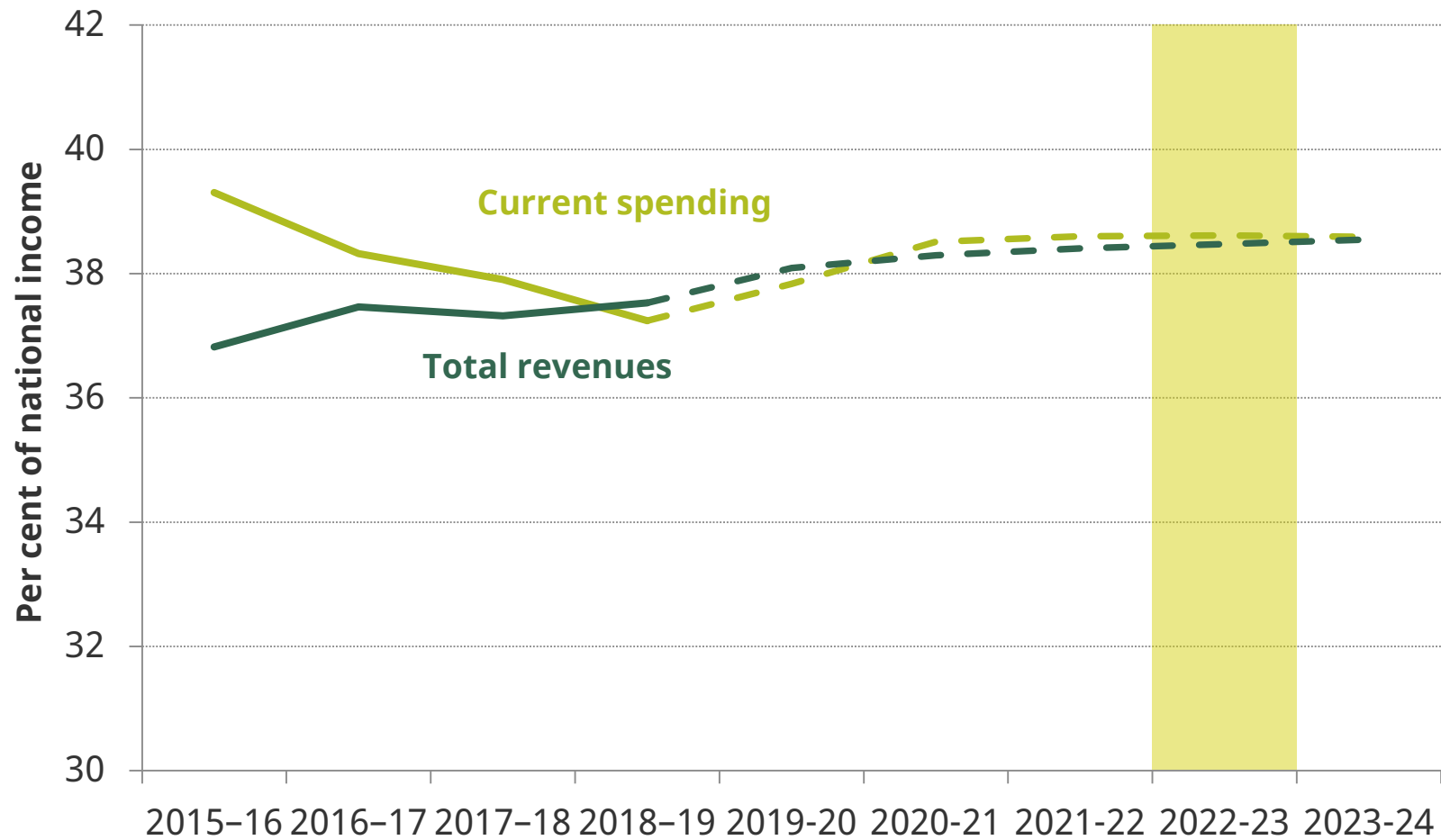
Unless interest rates were to rise sharply, the debt interest rule will not bite in the near future.

## Meeting the current budget target?

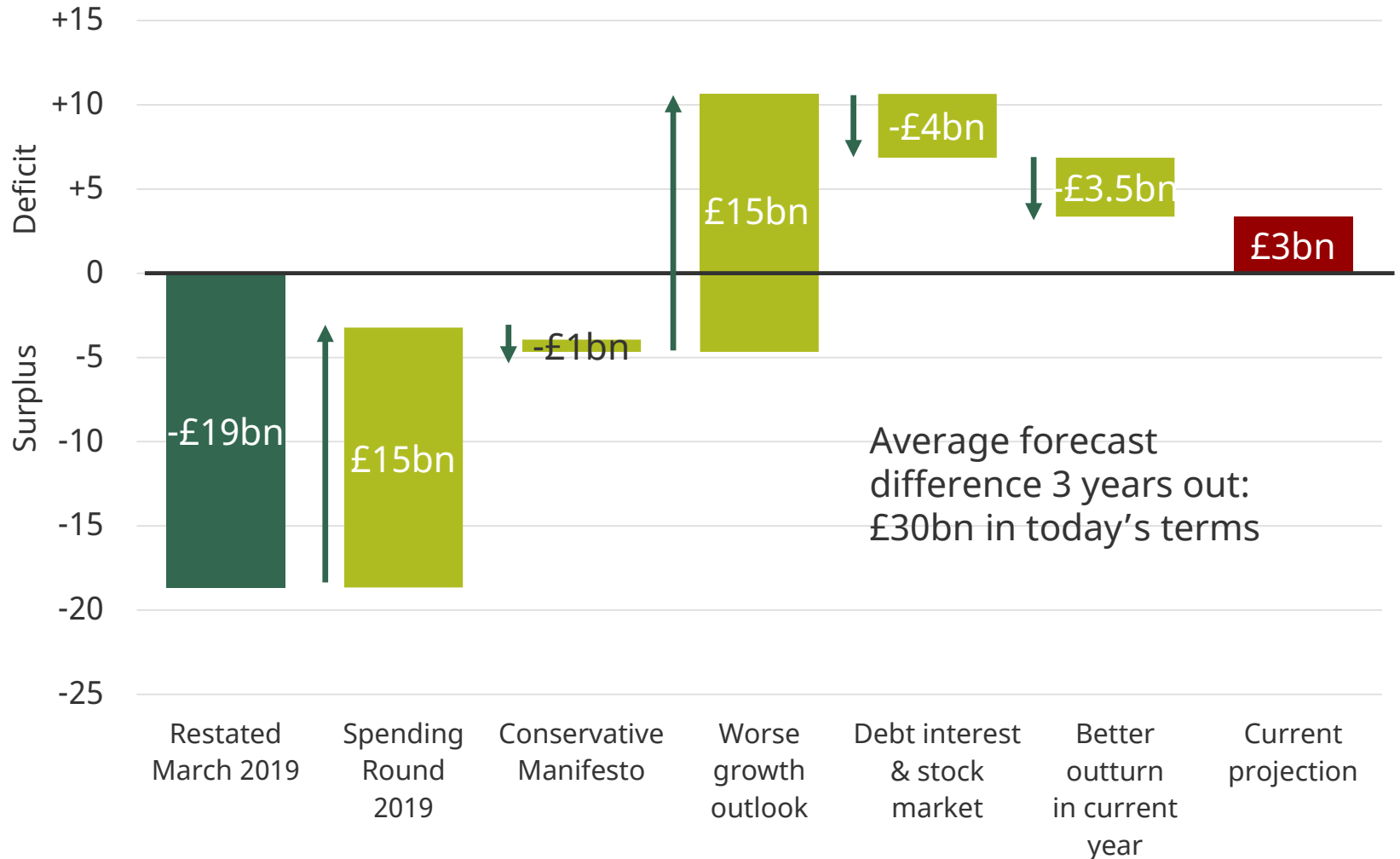
### Forecast current budget deficit

- OBR's restated 2019 forecast incorporates methodological and classification changes
- Add Spending Round 2019 and multi-year settlements for the NHS and schools in England
- Add impact from Conservative manifesto: modest spending increase more than matched by tax rises
- Adjust for Bank of England's weaker January 2020 growth projection
- Assume favourable outturn for borrowing this year persists

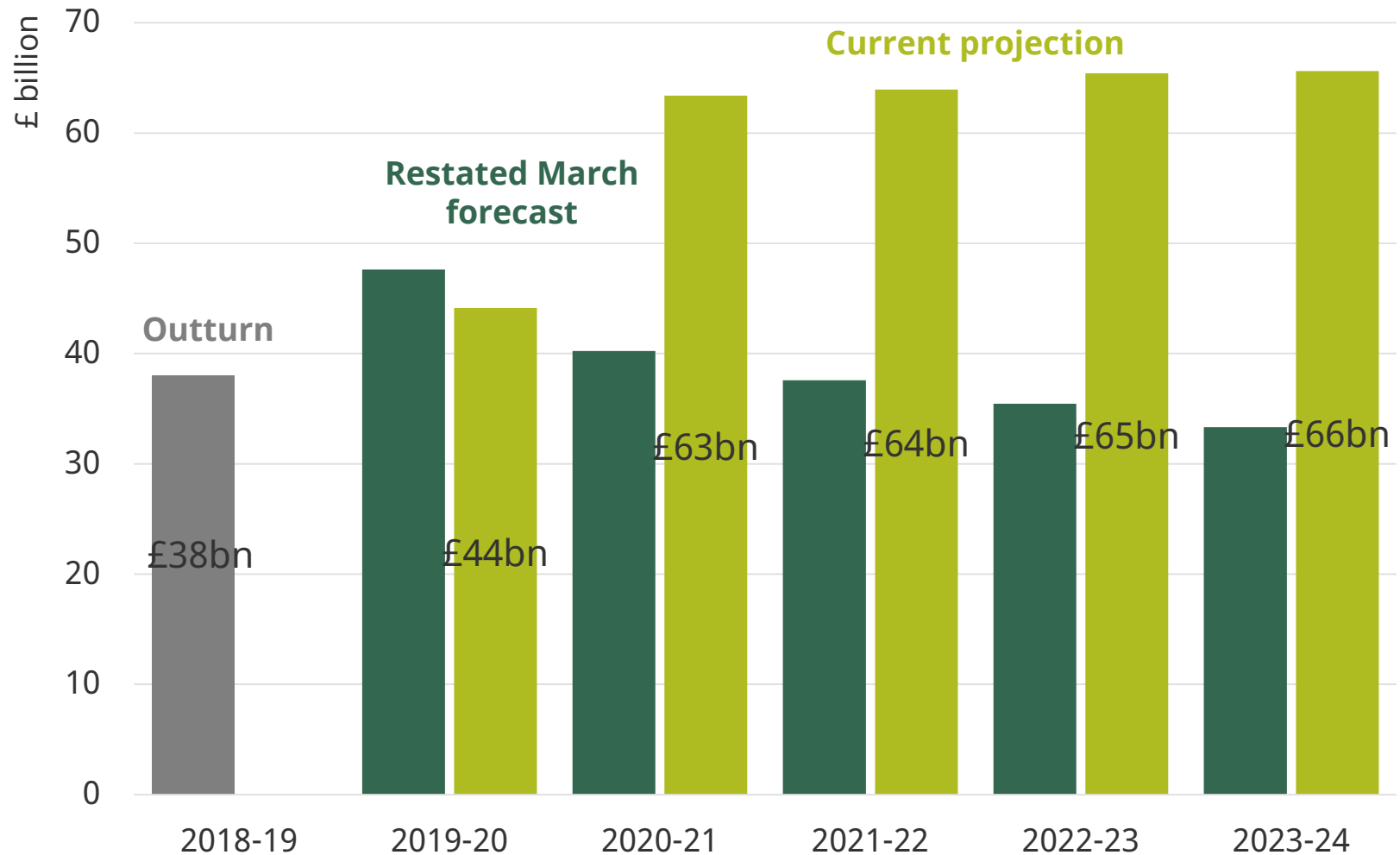
## Current budget close to balance for whole forecast period



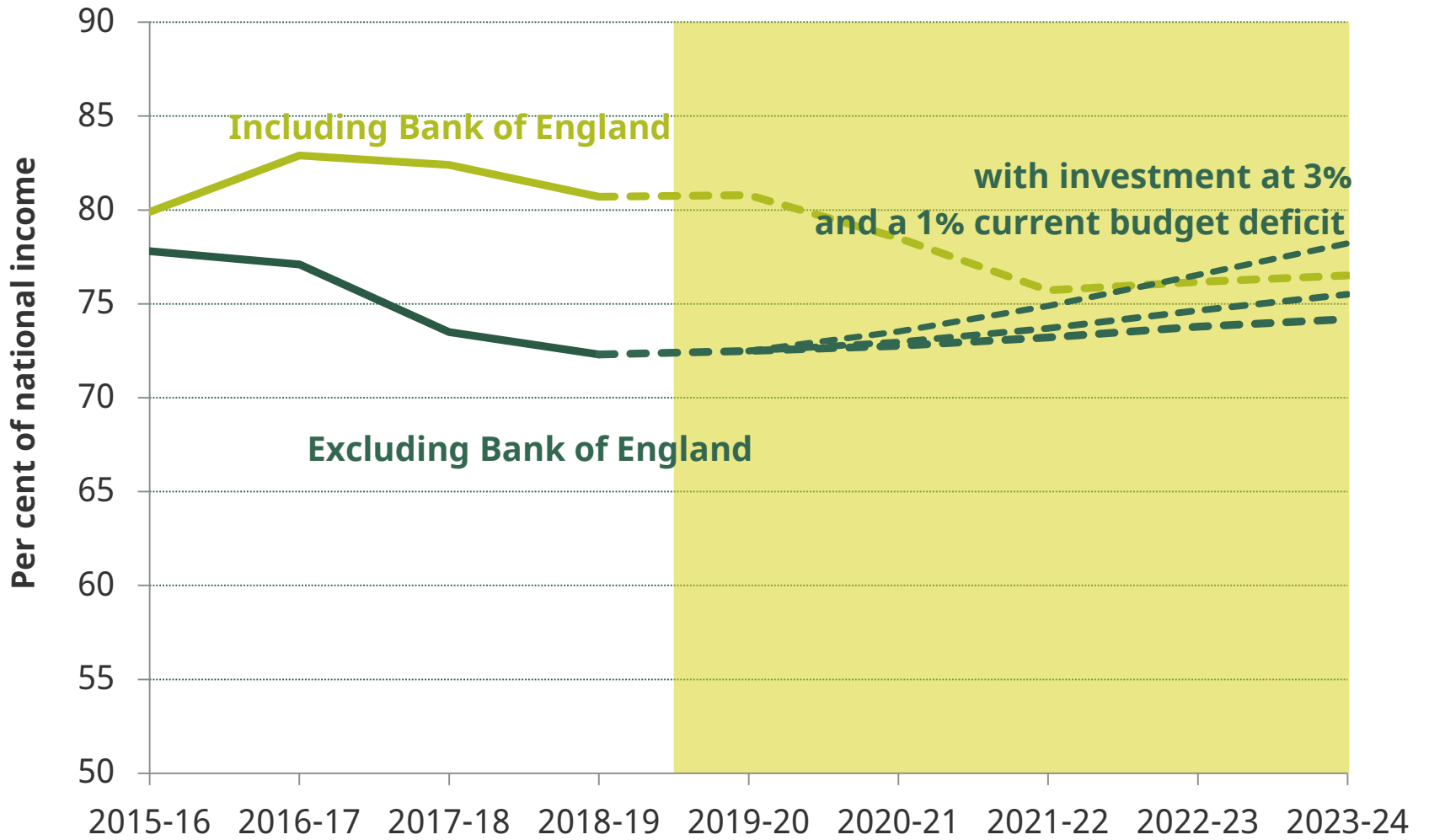
# The current budget deficit in the target year of 2022-23



# Borrowing forecast



# Debt



## Conclusions

### **The latest Conservative fiscal targets join a fast-growing set of targets, most were quickly abandoned**

- Rolling current budget target has much to commend it
- Abandoning December's fiscal targets in March would undermine credibility

### **Very different amounts of headroom on day-to-day and investment spending**

- Investment spending could be increased by much more than proposed in the 2019 Conservative manifesto
- Target requires any tax cuts or increases day-to-day spending to be matched by tax rises or spending cuts elsewhere

# A look ahead to the March 2020 Budget

Wednesday 26 February 2020

One Birdcage Walk, London

 @TheIFS