Outlook for the public finances

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Borrowing up hugely since March

Per cent of national income

Financial year


Notes and sources: see IFS Green Budget, October 2020, Figure 4.5.
Borrowing up hugely since March

Notes and sources: see *IFS Green Budget, October 2020*, Figure 4.5.
Record borrowing outside of World Wars

Per cent of national income

Year

Notes and sources: see *IFS Green Budget, October 2020, Figure 4.3.*
Borrowing up hugely since March

Notes and sources: see IFS Green Budget, October 2020, Figure 4.5.
Borrowing up hugely since March

Notes and sources: see *IFS Green Budget, October 2020*, Figure 4.5.
Hey big spender

Total: £200.9bn

Health services, £35.6bn

Employment and household support, £84.9bn

Business support, £50.2bn

Other public services, £12.7bn

Other, £17.5bn

Notes and sources: see IFS Green Budget, October 2020, Figure 4.6.
Will extra spending persist?

- Scenarios assume no additional COVID-19 spending after March 2021
- Public services (Chapter 6)
  - Will extra COVID-19 spending be needed in future years?
  - More spending to deal with NHS backlogs?
- If 25% of the additional public service spending persists into future years that would add about £20 billion to spending
- Levelling up agenda (Chapter 7) adds to spending demands
- Extend any of this year’s £9 billion boost to benefits (Chapter 8)?
  - removal of £20 per week boost to UC would see about 4 million families losing an average of 13% of their benefits in April
  - support for private-sector renters would return to being based on 2011 rent levels
Borrowing to remain elevated

Notes and sources: see IFS Green Budget, October 2020, Figure 4.2.
Debt pushed up …

Notes and sources: see *IFS Green Budget, October 2020, Figure 4.9.*
... to levels not seen since 1950s

Notes and sources: see IFS Green Budget, October 2020, Figure 4.11.
Debt elevated for decades

Notes and sources: see *IFS Green Budget, October 2020*, Figure 4.15.
Growing costs of ageing

Notes and sources: see IFS Green Budget, October 2020, Figure 4.17.
Outlook for the public finances

Notes and sources: see *IFS Green Budget, October 2020*, Figure 4.18.
In the short term

- Supporting the economy should be first priority
- Additional borrowing *that delivered a fuller recovery* worthwhile

Even with a goal of only stabilising debt above 100%

- 2.1% of national income fiscal tightening in 2024–25 (£43 billion in today’s terms)
- Would still be running deficits of close to 4%

Huge uncertainty around this figure

- Likely pressures for some COVID spending to continue

Longer term: increasing pressure on pensions, health and care spending (OBR estimates £36 billion increase per decade)
Conclusions

- Borrowing to reach record levels for the UK in peacetime this year and, more importantly, to remain elevated for years
- Weak economy and huge uncertainty
  - now is not the right moment to set out a fiscal tightening
  - further giveaways that ensured a fuller recovery would be justified
- Post-crisis a substantial fiscal tightening looks unavoidable
  - Even if we settle for stabilising debt above 100% of GDP
  - Needed to address long-term spending pressures from ageing
- Key risk from elevated debt: interest rates rise without an associated boost to revenues from higher growth