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# Through a glass, darkly: Uncertain outlook for the public finances

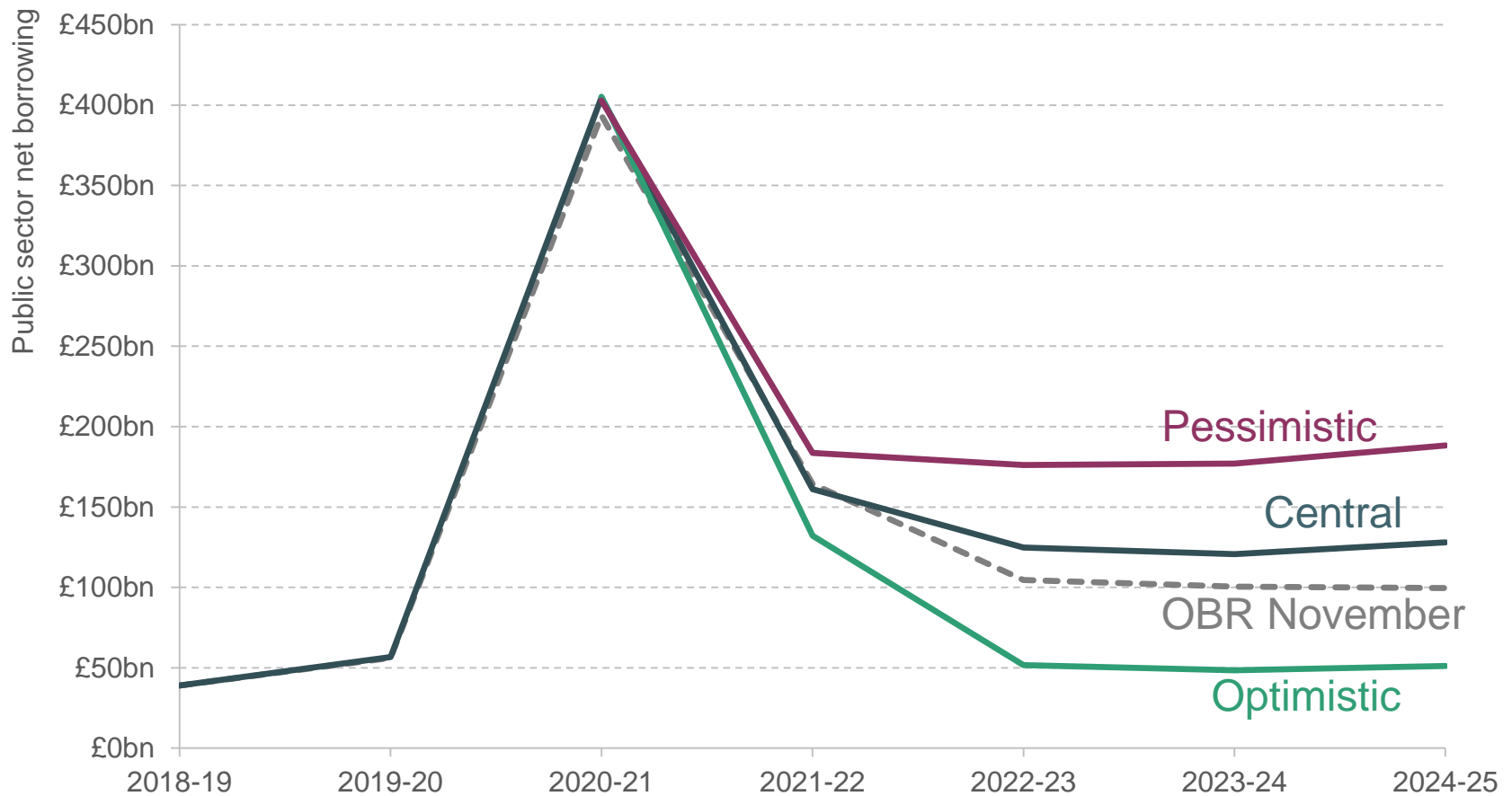
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Economic  
and Social  
Research Council

# Economic scarring could keep borrowing elevated for years

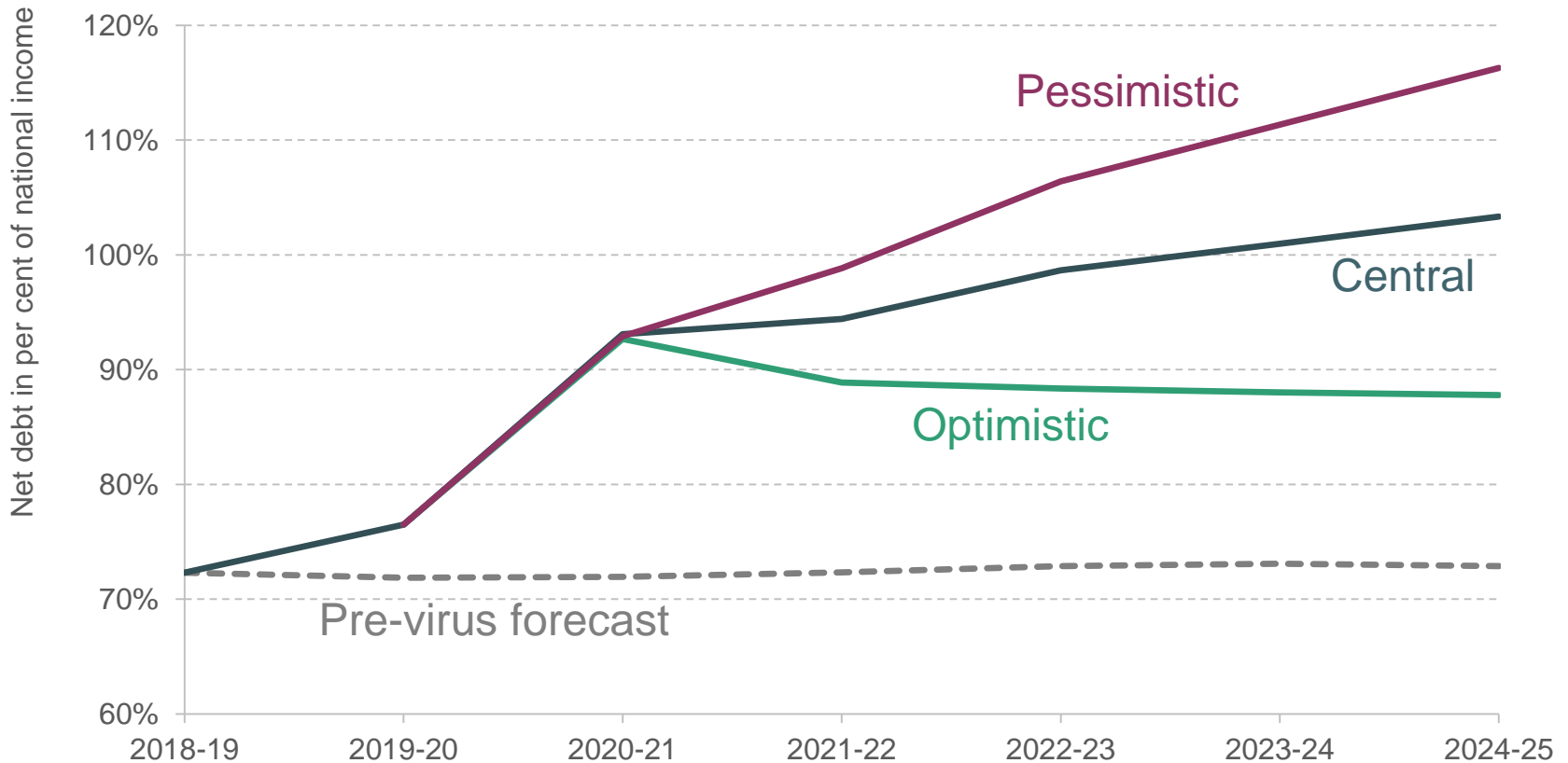


# This year's borrowing highest outside the two World Wars



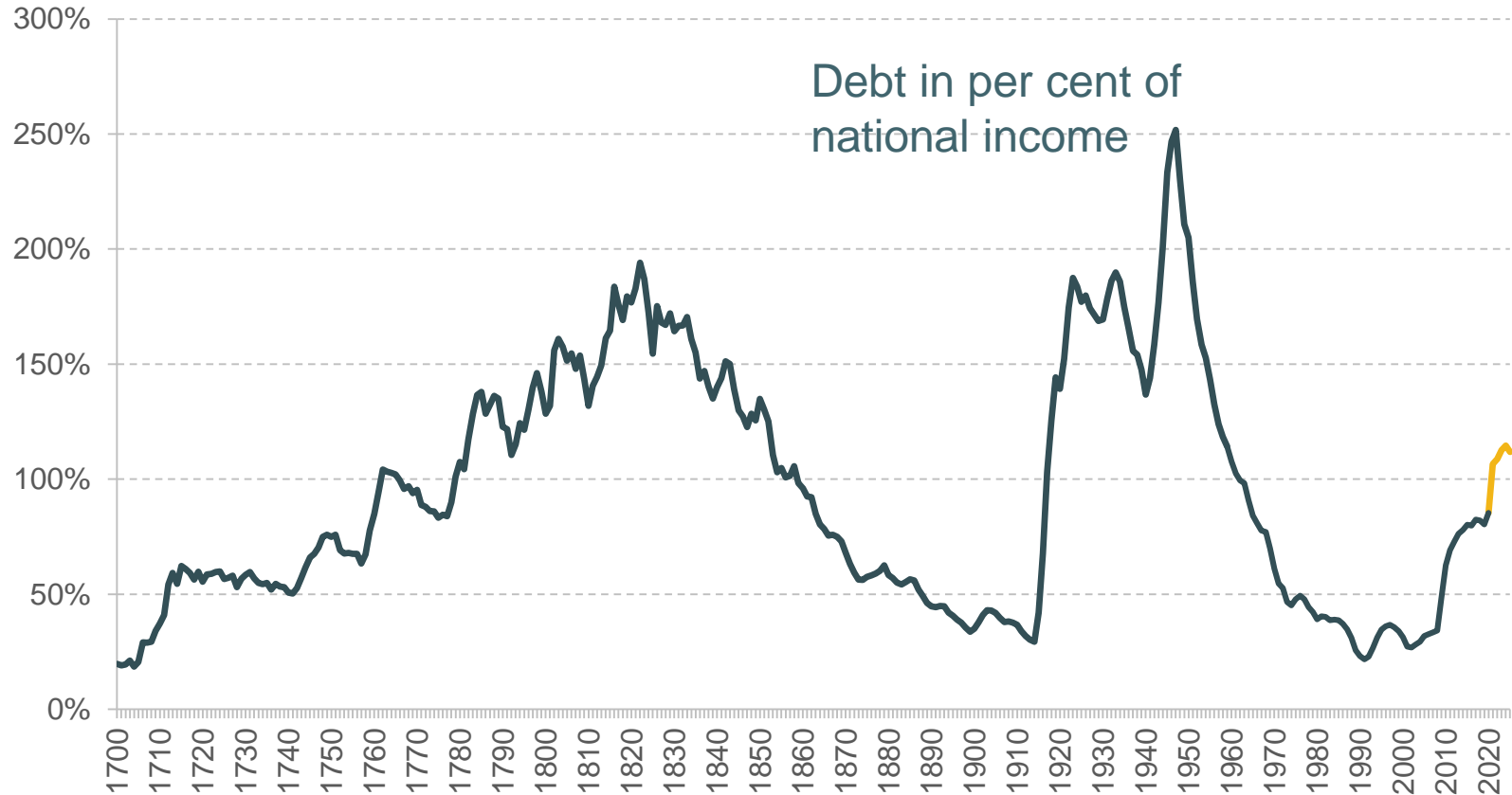
Source: Office for Budget Responsibility.

# Underlying debt continues to rise in two of the three scenarios



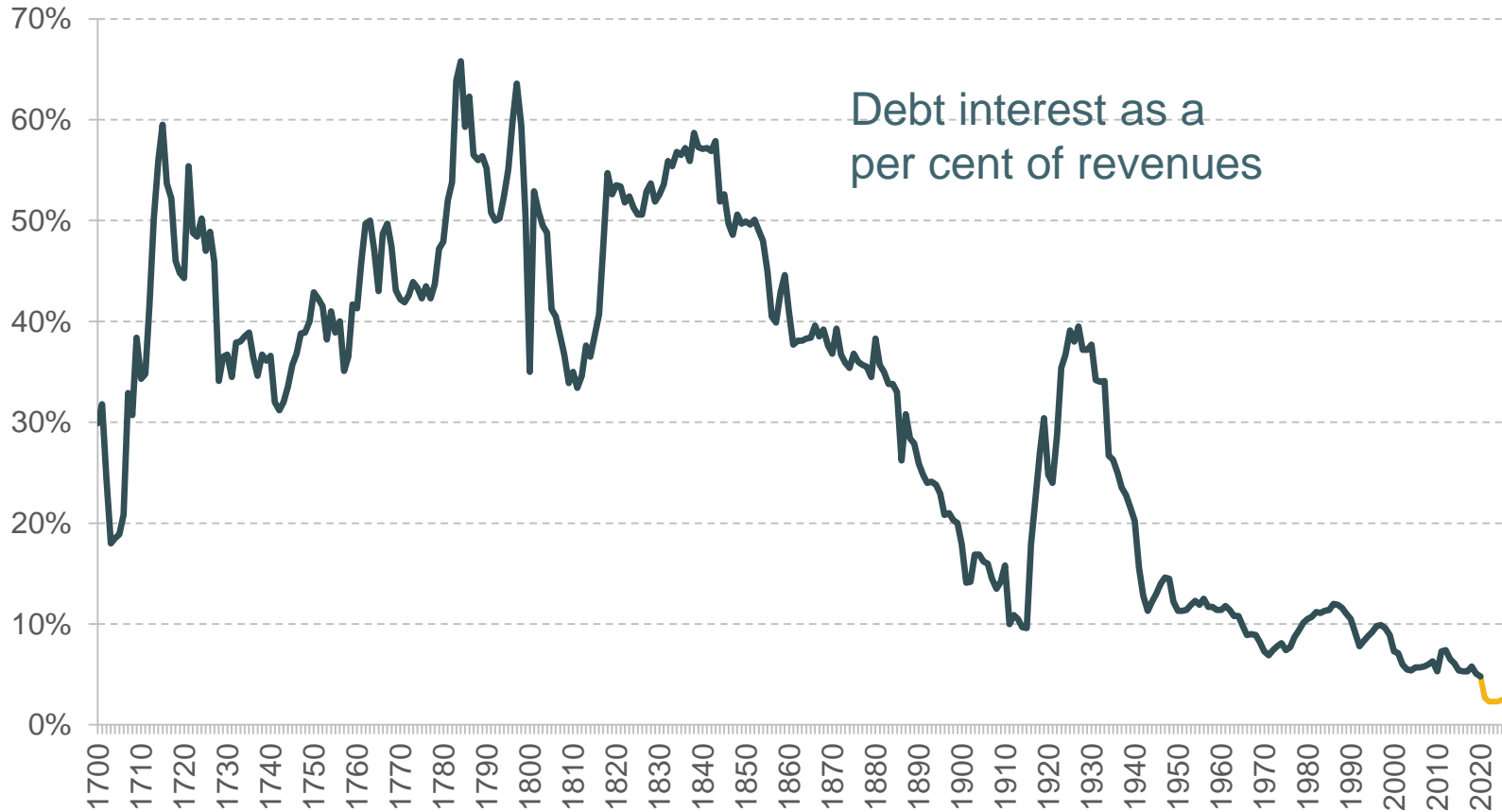
Notes: Net debt excluding the Bank of England shown.

# Bringing debt to its highest level in more than half a century



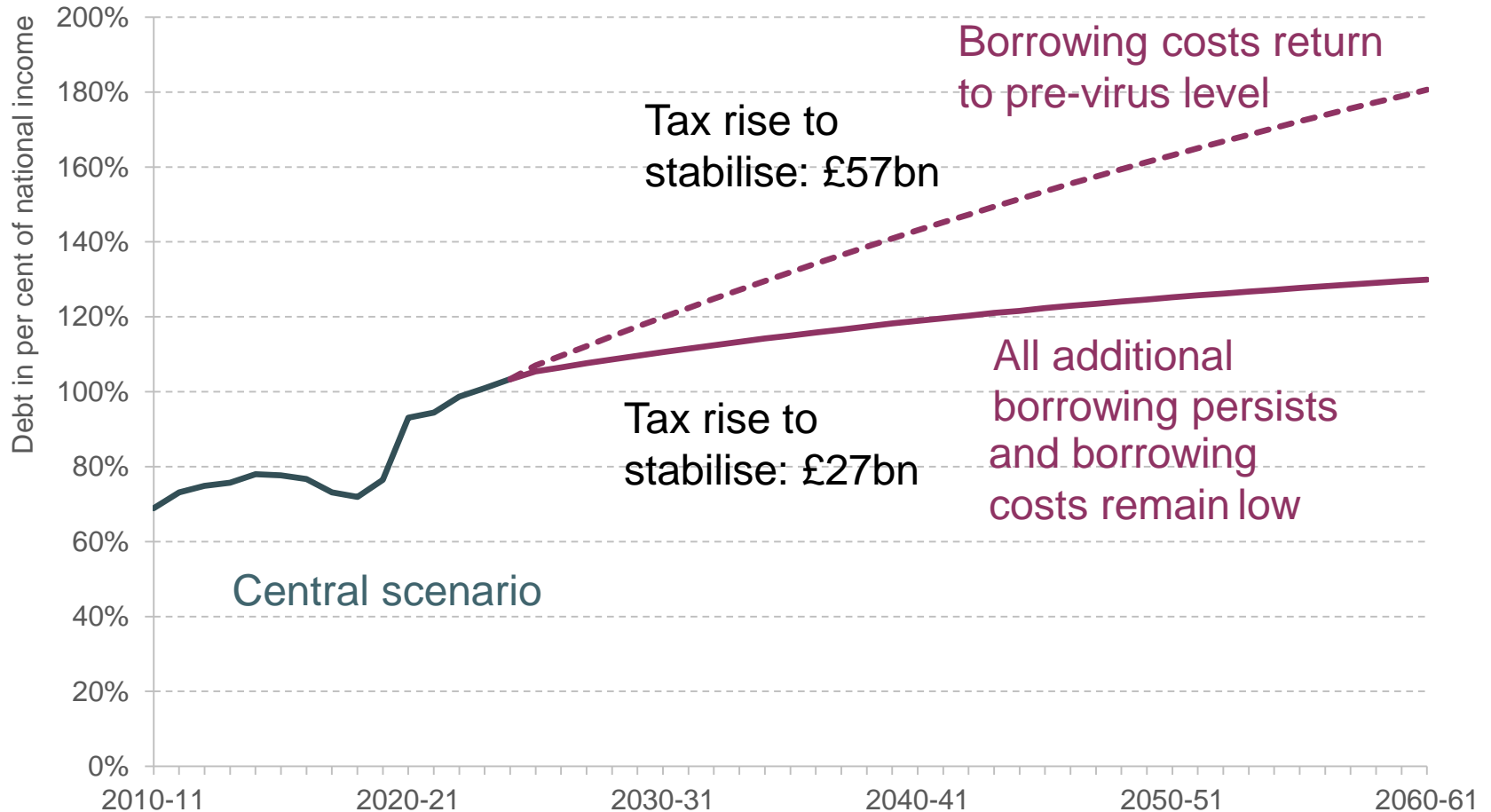
Notes: Net debt (PSND) shown.

# But servicing the debt is cheaper than it has been in three centuries



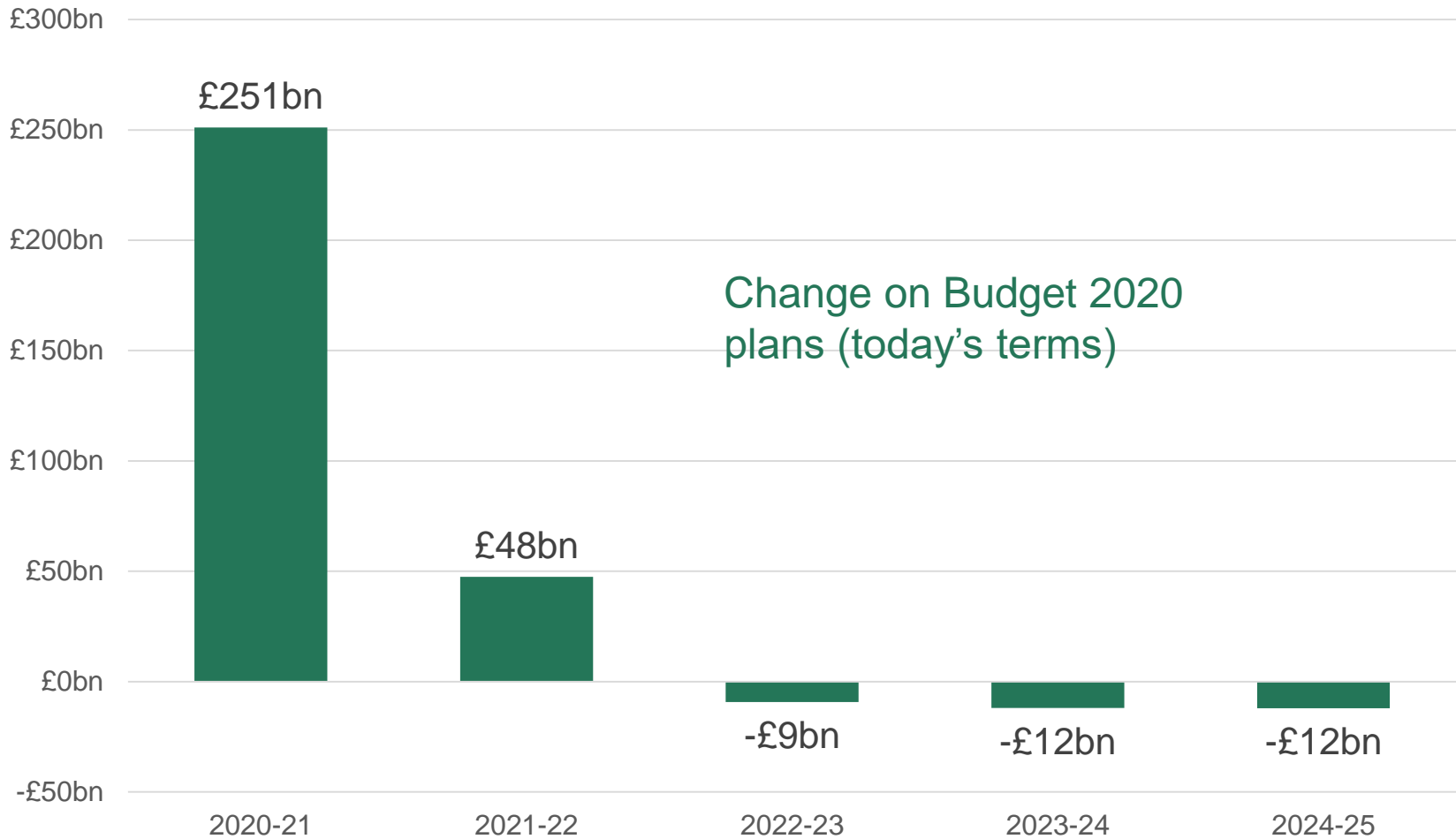
Notes: Debt interest net of APF from 2009.

# The long-term trajectory of debt



Notes: Illustrative paths for debt excluding the Bank of England

# The November Spending review pencilled in cuts to previous plans



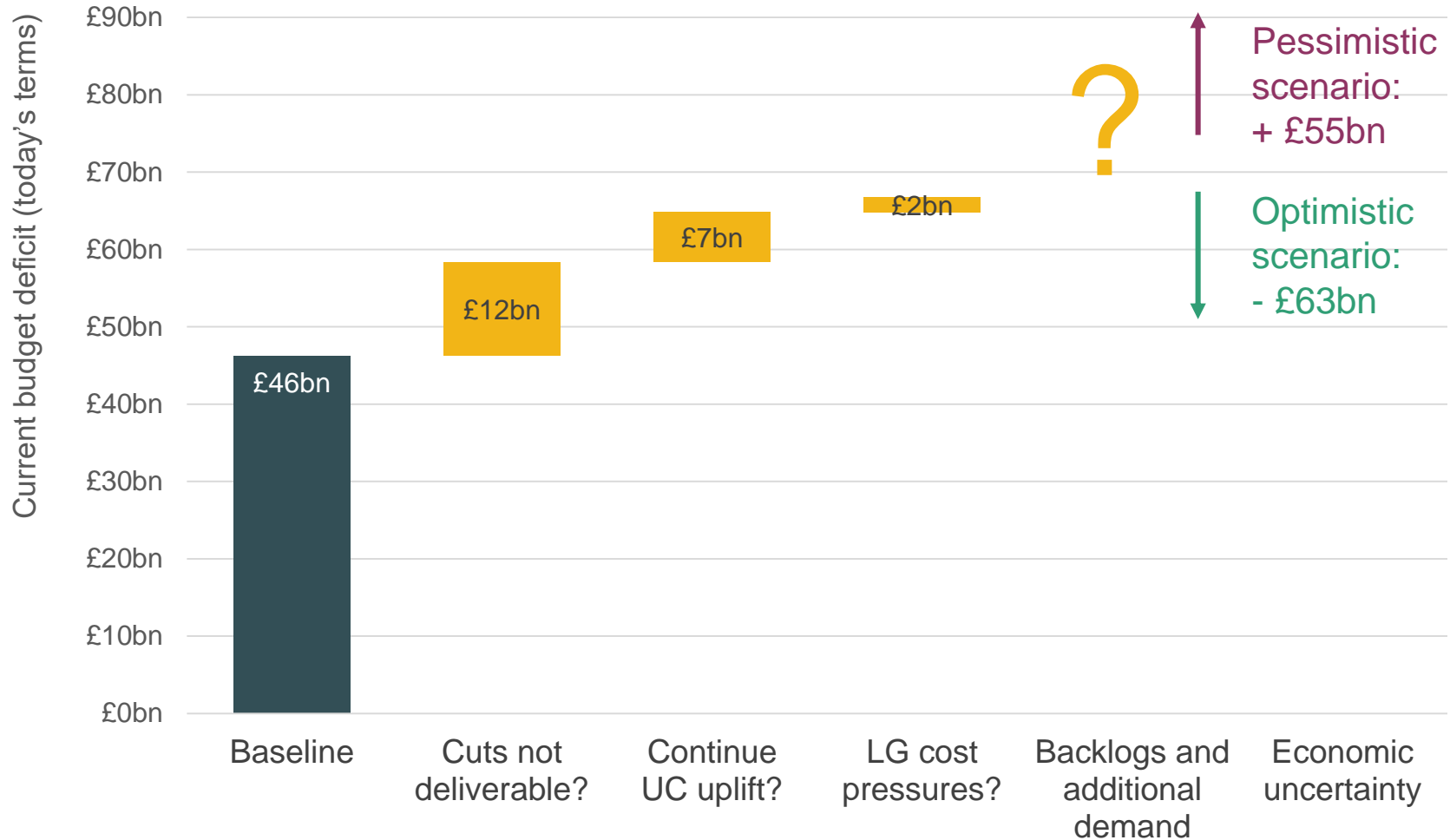


# Expect an increase in spending post-pandemic



- Cuts to previous spending plans of £12bn likely difficult to deliver
- ½ year of schooling lost: normal cost of >£30bn a good benchmark; inaction could hit revenues by much more
- Many additional demands on the NHS:
  - Poorer population health
  - Backlog of planned care: 5.3m fewer referrals since April
  - Pandemic preparedness: PPE, track-and-trace, additional capacity
- Growing public demand for other spending?
  - Keeping £20 per week UC increase ≈£6½ bn a year
  - Cost pressures on Local Government services: >£2bn/year by 2025
  - Social care

# Where might this leave the current budget deficit in 2024-25?



# So what should the Chancellor do?



- In the short run: Borrowing cheap, CX can relax about the deficit
  - Spending that makes recovery more complete likely to pay off
- In the medium run
  - Lasting increase in spending likely
  - Debt elevated for decades; interest rate risk increased
  - Don't forget ageing: OBR estimates increase in annual spending on pensions, health and social care ≈£39bn per decade
  - Net tax rises (even more) likely
    - Much uncertainty, but £60bn plausible to “balance the books”
    - Any permanent giveaways would add further to this bill

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