Kicking the can down the road?

Gemma Tetlow
The big picture

• In the absence of policy action, borrowing would have increased
  – Weaker outlook for productivity growth ➔ reduced tax revenues
  – Reforms to disability benefits expected to save even less
  – Partially offset by lower forecast debt interest spending
  – £13 billion increase in borrowing in 2019–20, £17 billion in 2020–21

• There were also significant permanent giveaways
  – £8 billion by 2019–20, rising thereafter
  – Cuts to income tax, capital gains tax, fuel duties, corporation tax, business rates
  – Additional support for saving

• Offset by other policy action
  – Of which more in due course...
Compliance with the fiscal rules

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2. **Supplementary debt target:** debt falling as % GDP in every year

3. **Fiscal mandate:** achieve a budget surplus in 2019–20 and each year thereafter
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Eliminating the deficit?

Set to be 9th largest reduction in borrowing (6th largest reduction in structural borrowing) year-on-year since 1949

Large reduction in borrowing between 2018–19 and 2019–20 to meet mandate

% of national income

Financial year

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Source: Office for Budget Responsibility.
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   - How?
2019–20: Fixing policy to fit the figures?

- Surplus, November 2015: 10.1
- Underlying deterioration
- Net tax cuts / spending increases
- Real tax rises / spending cuts
- Unspecified spending cut
- Shuffling money
- Surplus, March 2016: 10.4
On course to meet the mandate in 2019–20?

- Osborne on course to achieve surplus of £10bn in 2019–20
- Only true because
  - Changed timing of revenues/spending: reduces borrowing by £8bn
  - Pencilled in unspecified spending cuts: reduce borrowing by £3.5bn
- Without these actions, he would have been on course to break the fiscal mandate
- There is considerable uncertainty surrounding borrowing in four years’ time
  - OBR: ‘margin [£10 billion] is small in comparison with the uncertainty that surrounds our fiscal forecast at that horizon’
  - Further policy adjustments (either tightening or loosening) likely to be needed/possible
Achieving a surplus in 2020–21

- £10 billion surplus
  - £4 billion of this achieved by, again, shuffling revenues/spending
  - Also announced £10 billion cut to planned spending on public services
  - Without either of these actions: deficit of £3 billion

- Longer term
  - Some policies will raise less/cost more than they do in 2019–20 and 2020–21
  - Long-run public finances weakened by more than figures for 2020–21 suggest, making fiscal mandate harder to meet in next parliament
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