

Institute for
Fiscal Studies



Kicking the can down the road?

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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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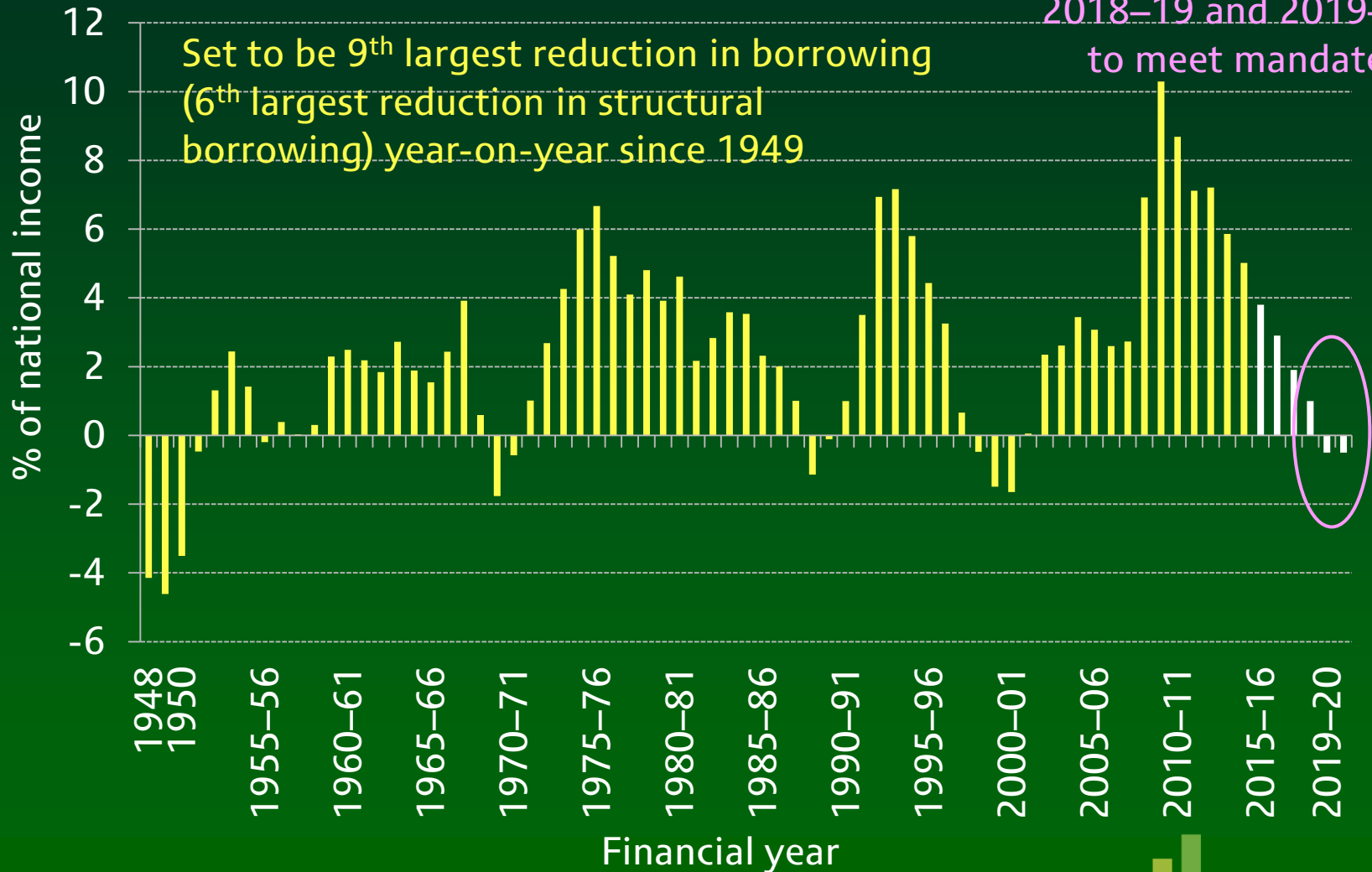
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Eliminating the deficit?

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



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- How?



2019–20: Fixing policy to fit the figures?



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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