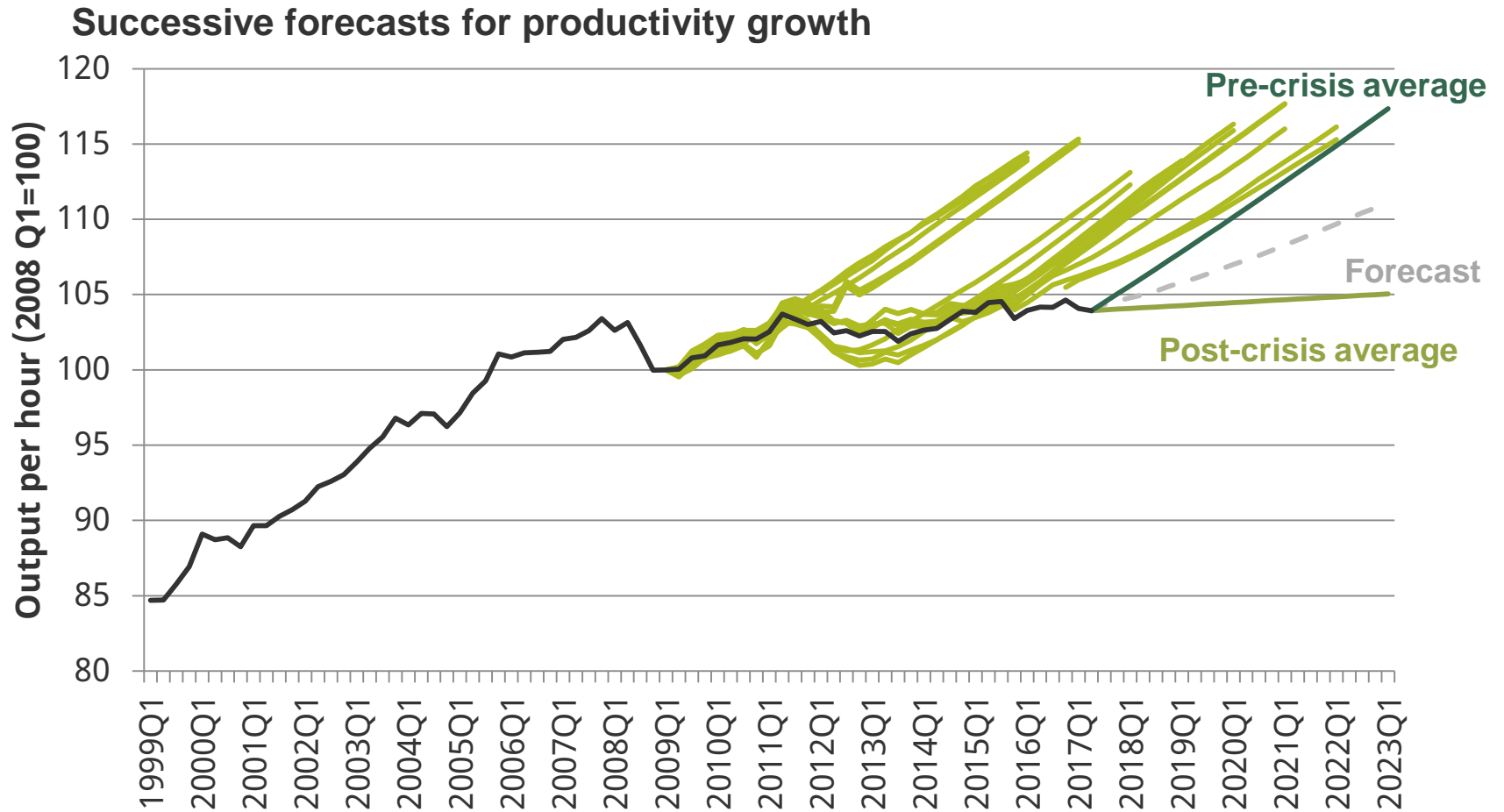


# Consequences of the economic downgrade

Thomas Pope

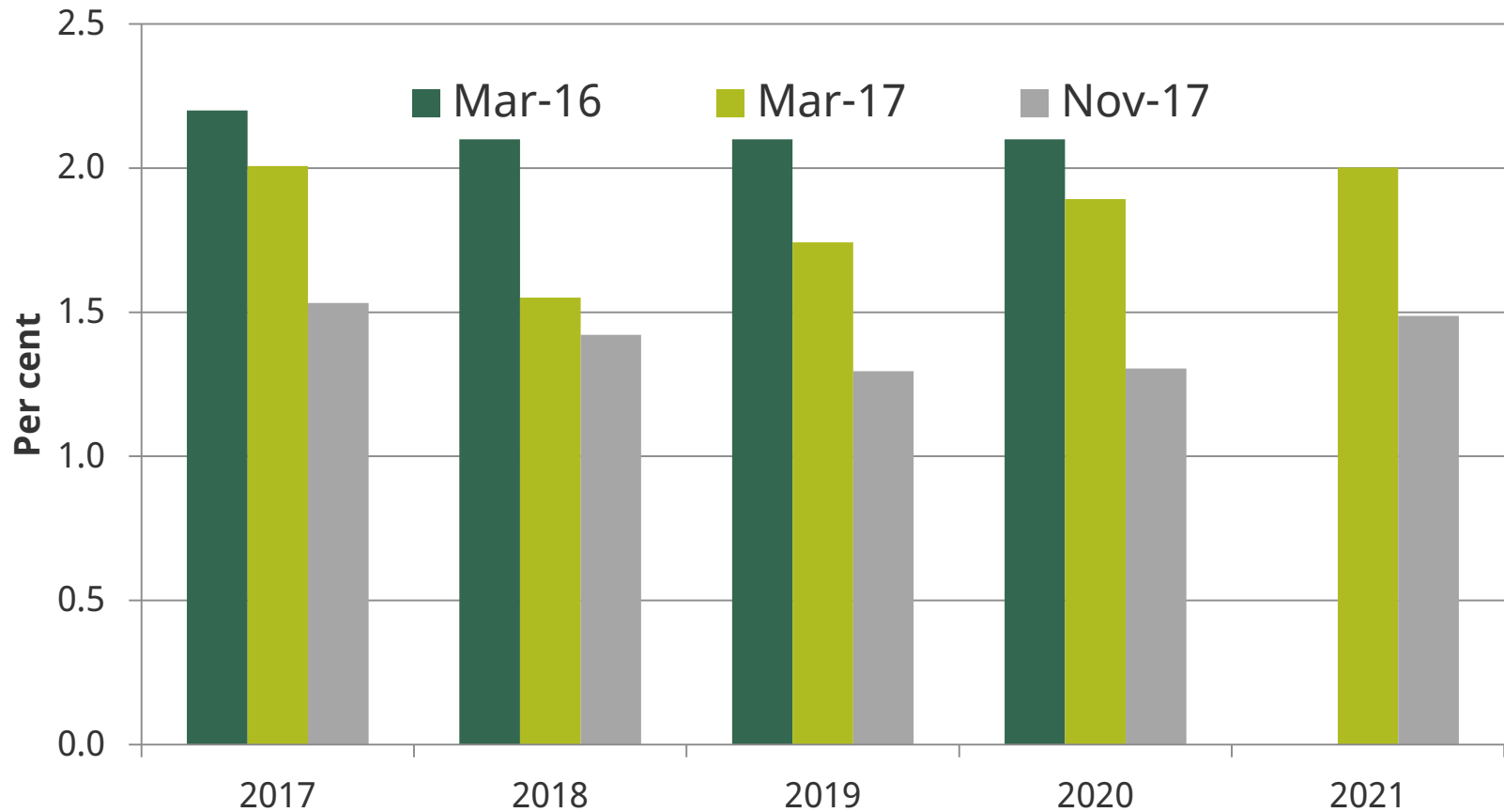
# OBR now more pessimistic about productivity



Source: OBR Economic and Fiscal Outlook November 2017

# Downgrade to the real GDP forecast

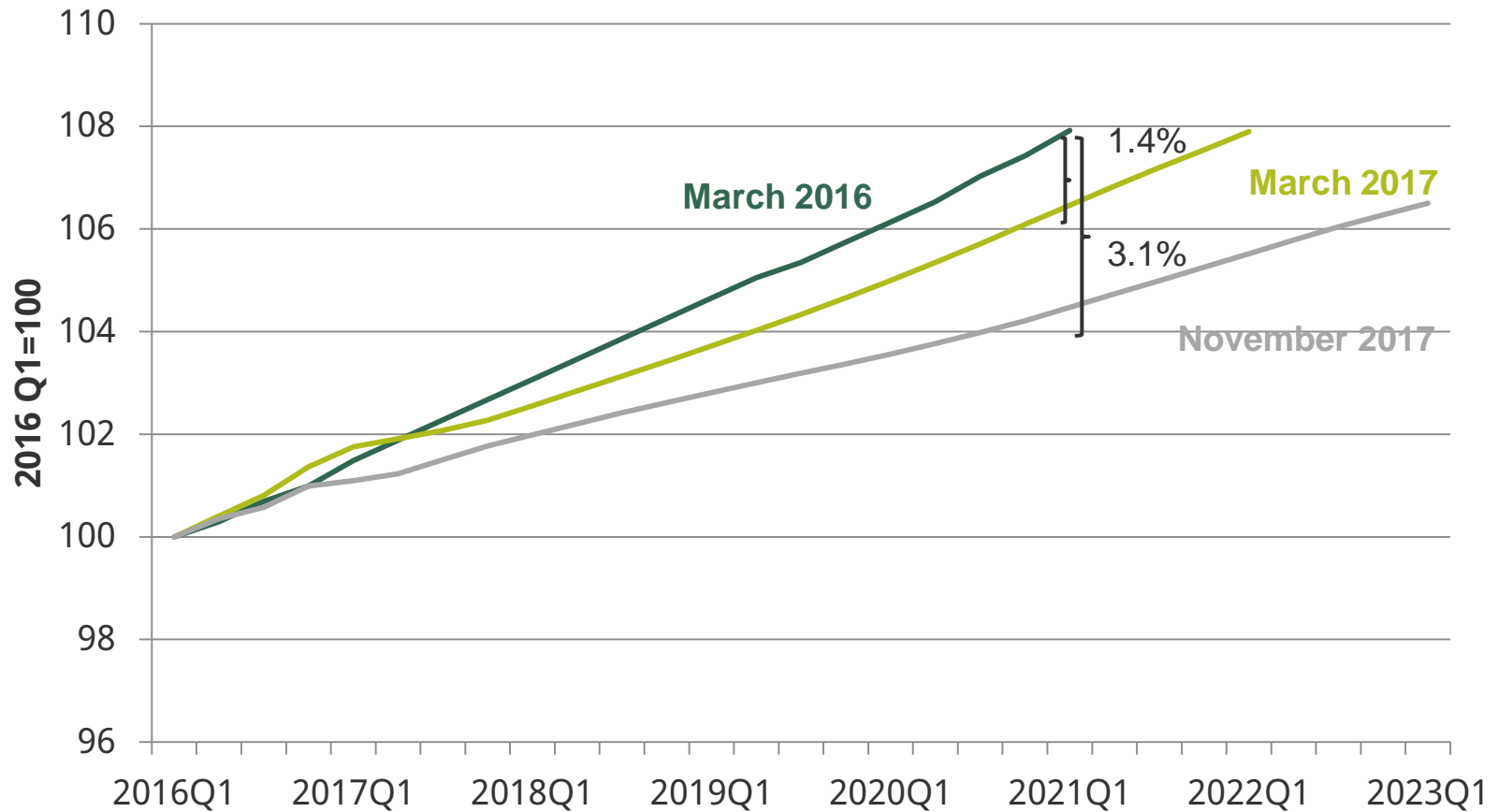
## Successive forecasts for GDP growth



Source: Successive OBR Economic and Fiscal Outlooks

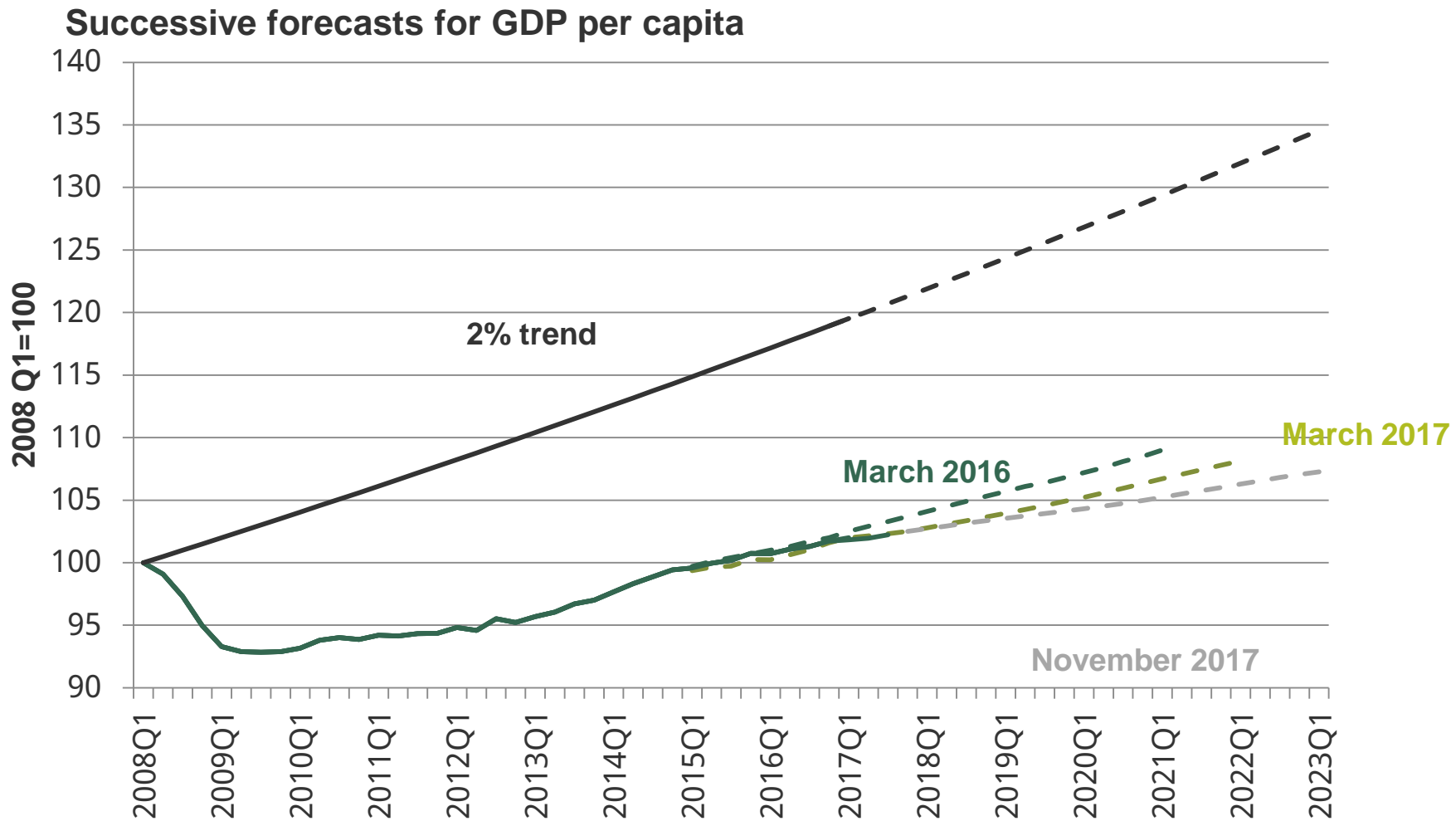
# Lower GDP per capita as a result

## Successive forecasts for GDP per capita



Source: Successive OBR Economic and Fiscal Outlooks

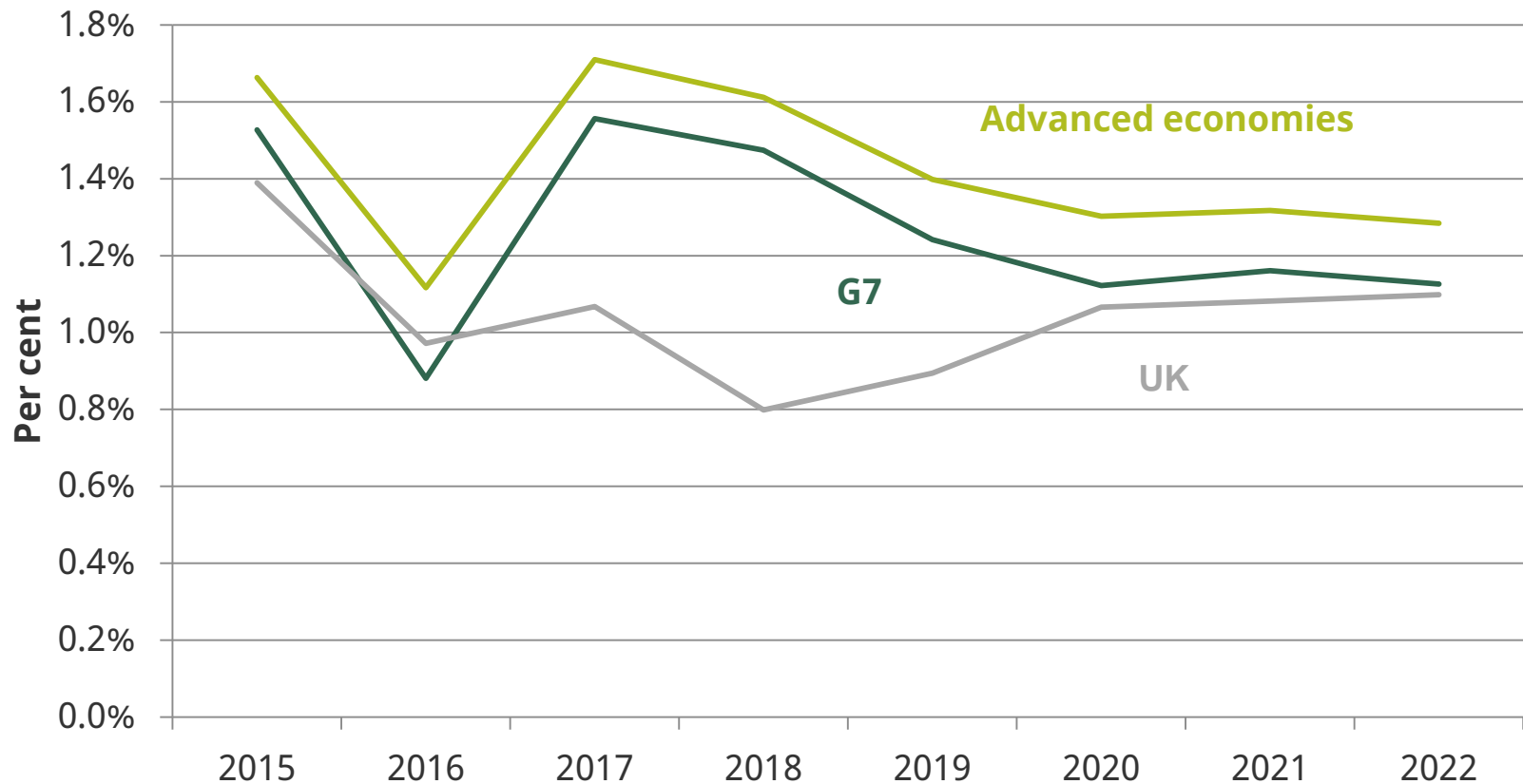
# GDP per capita – successive forecasts



Source: Successive OBR Economic and Fiscal Outlooks

# GDP per capita growth slowing in advanced economies

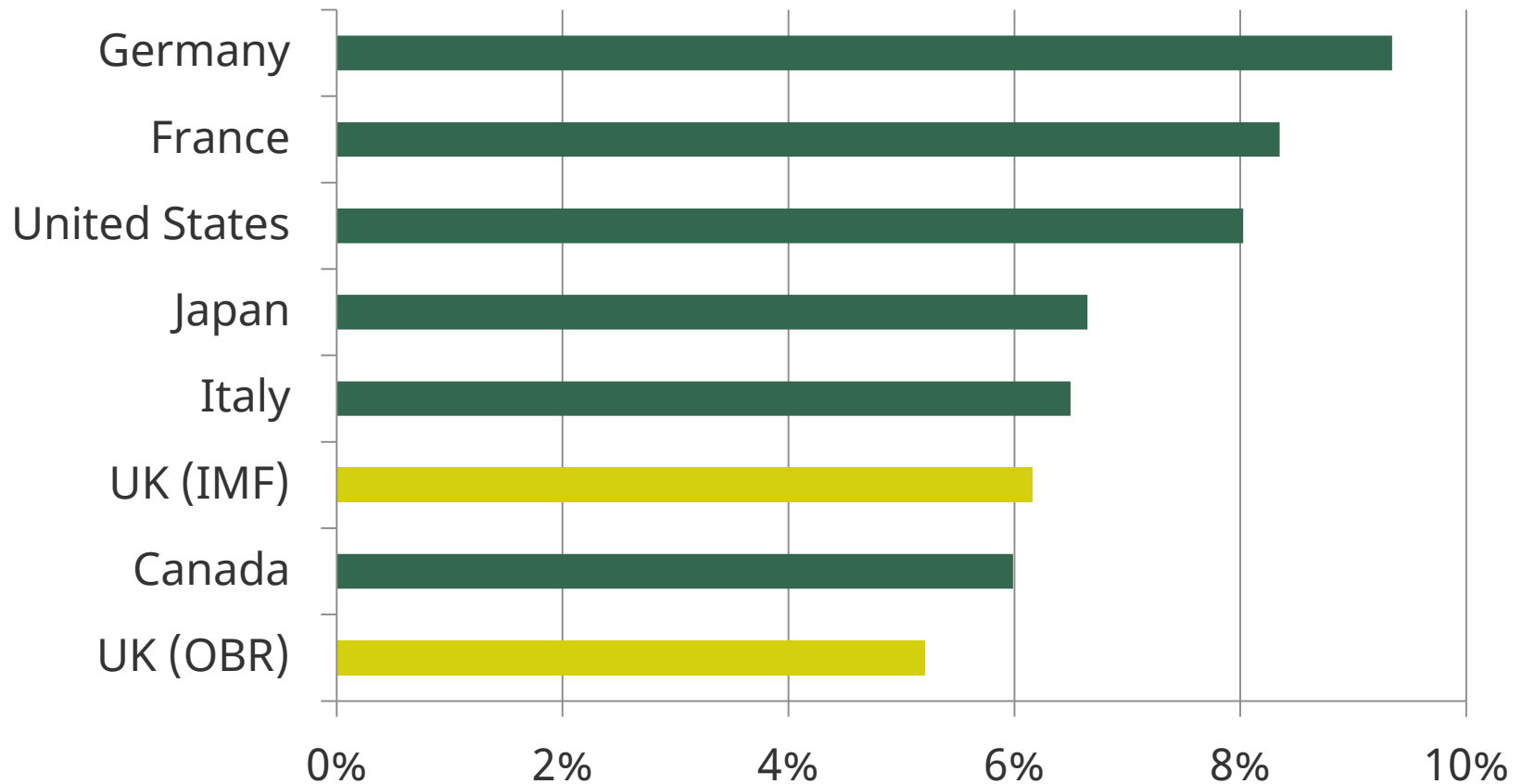
## Forecast annual GDP per capita growth in advanced economies



Source: IMF World Economic Outlooks Database, October 2017

# But OBR expects UK to perform worse than main competitors

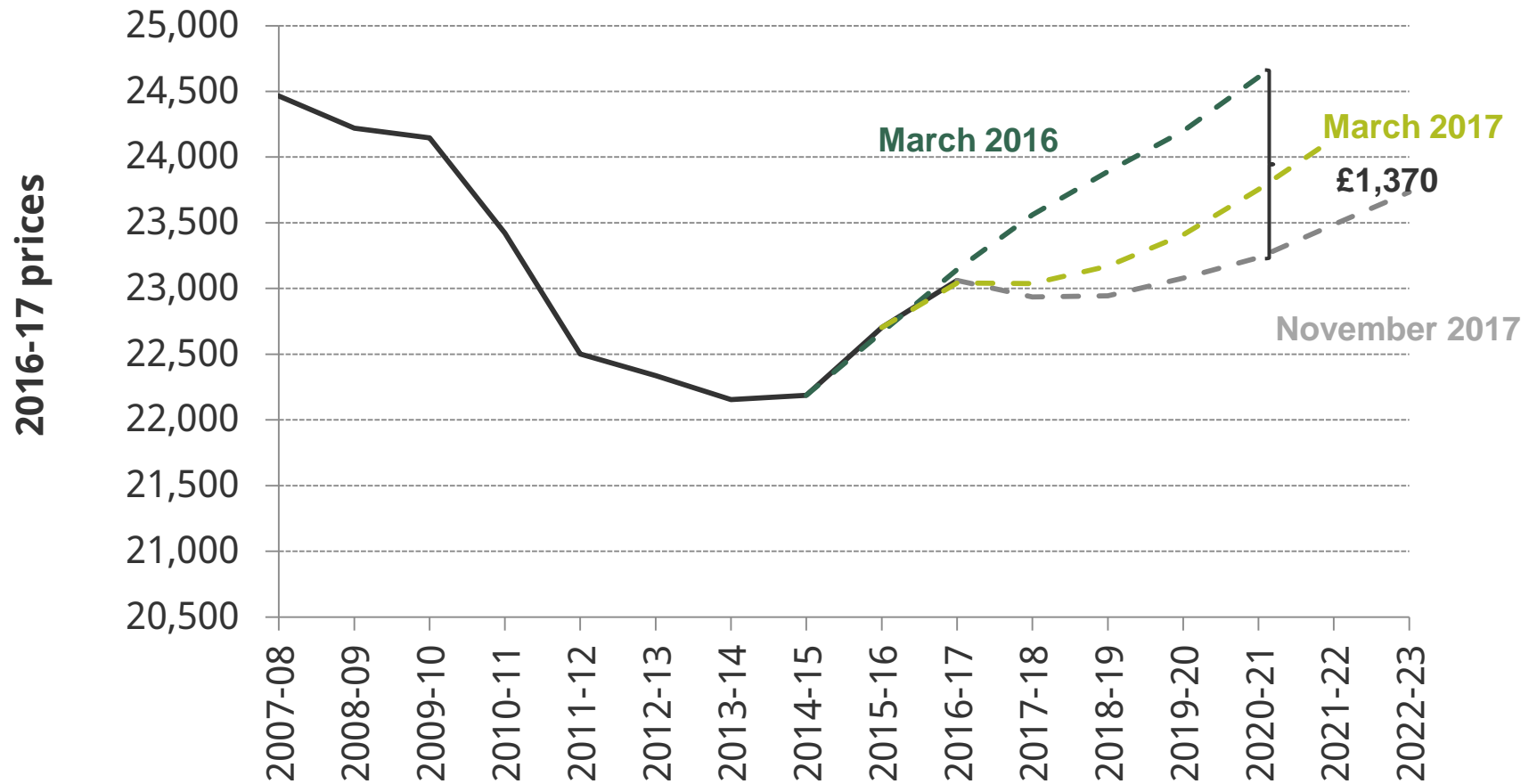
Forecast cumulative real GDP per capita growth in the G7, 2016–2022



Source: IMF World Economic Outlooks Database, October 2017 and OBR EFO November 2017

# This means lower real earnings growth

## Successive forecasts for median earnings, £ per annum

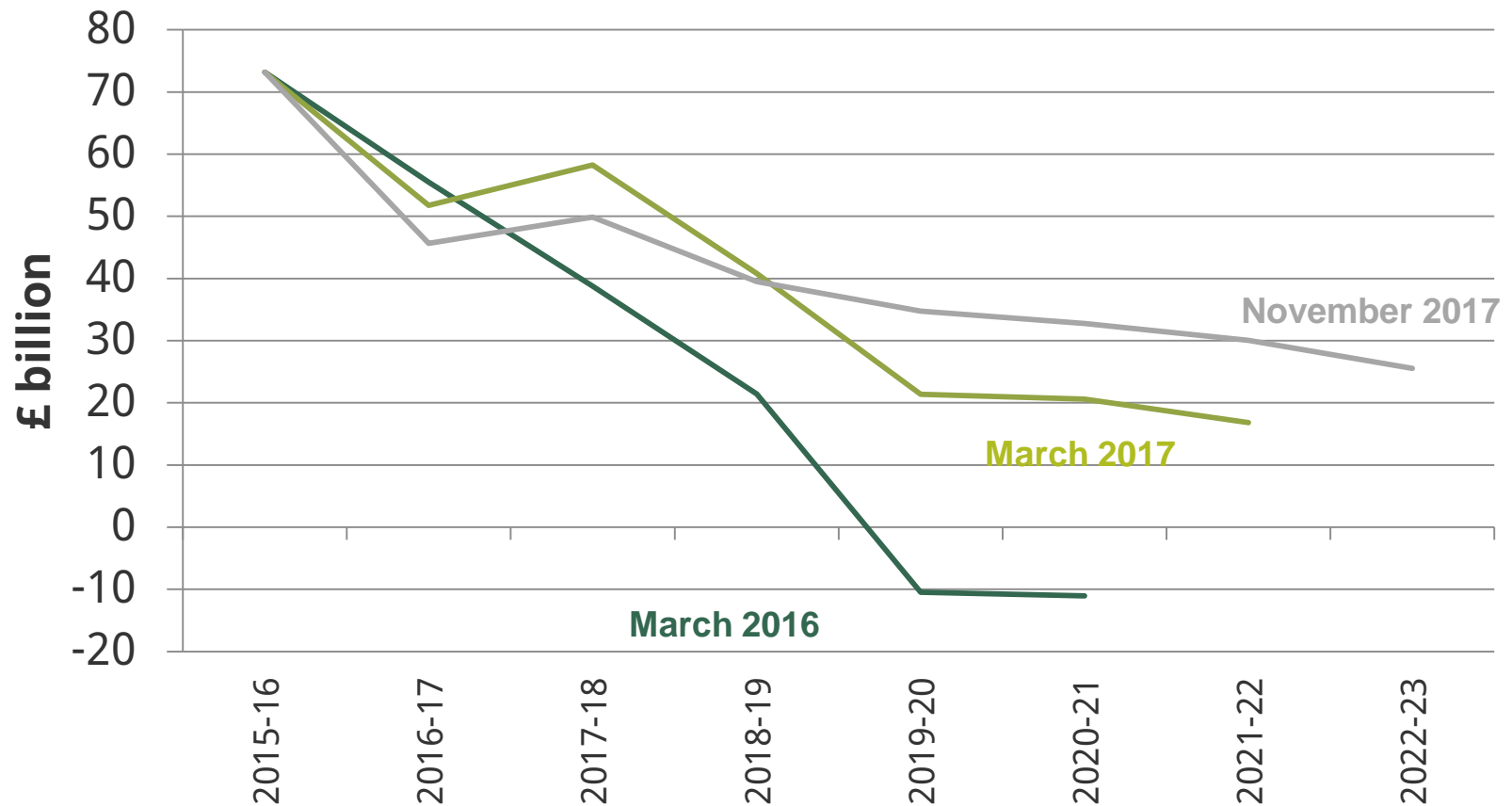


Source: IFS Calculations using the Annual Survey of Hours and Earnings and OBR Economic and Fiscal Outlooks



# Large increases in borrowing forecast since March 2016

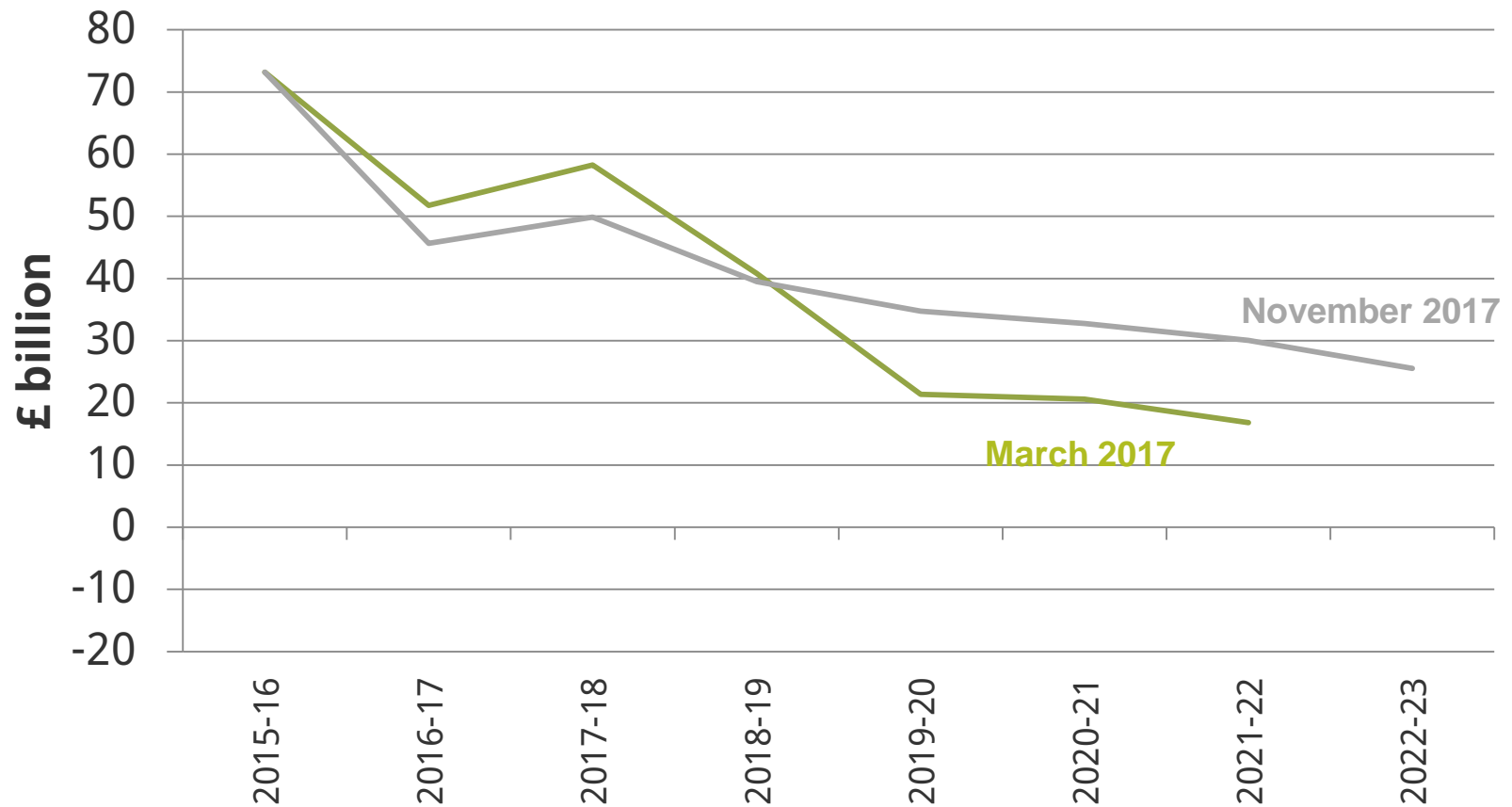
## Successive forecasts for Public Sector Net Borrowing



Source: Successive OBR Economic and Fiscal Outlooks

# Large increases in borrowing forecast since March 2016

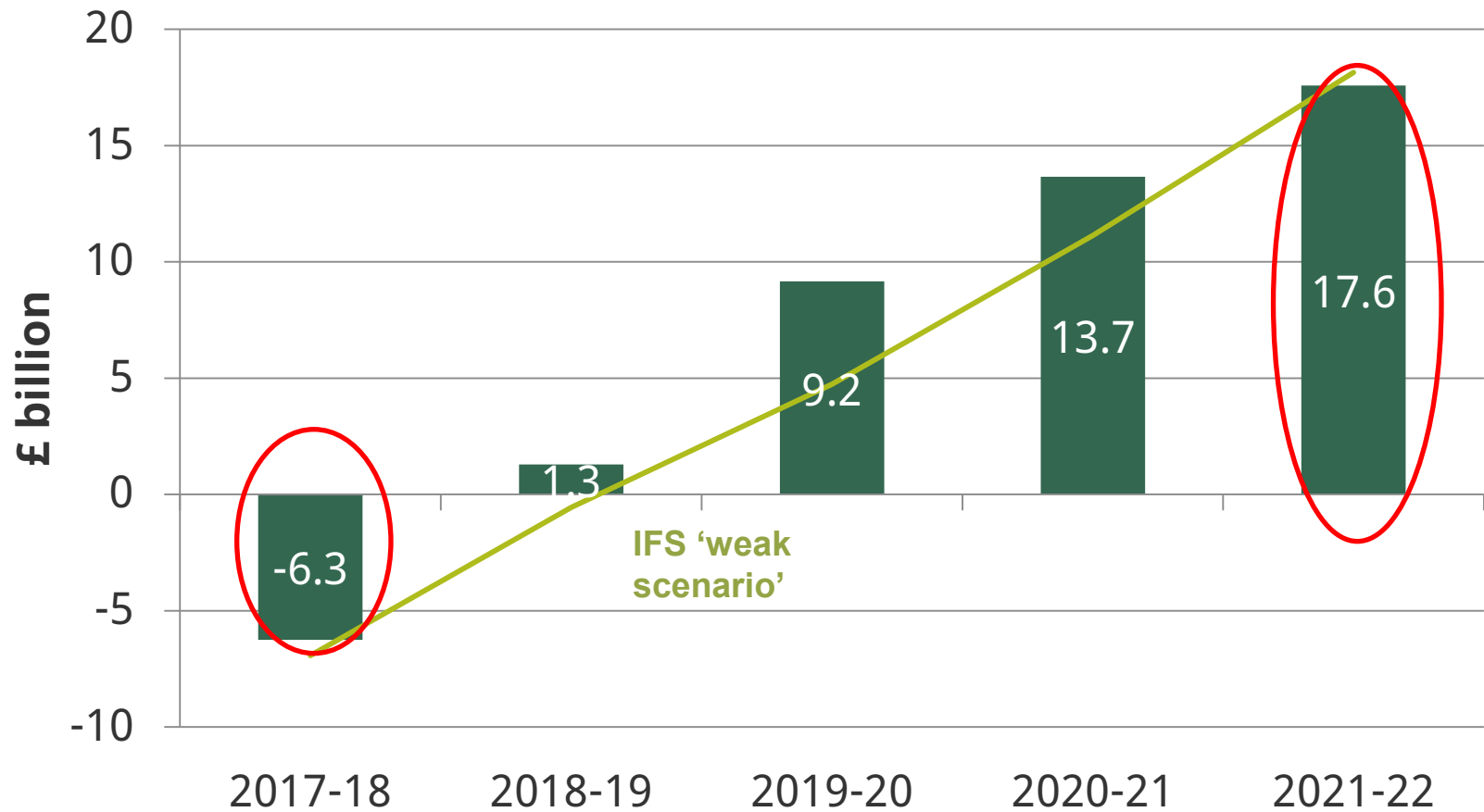
## Successive forecasts for Public Sector Net Borrowing



Source: Successive OBR Economic and Fiscal Outlooks

# Higher borrowing in the medium term

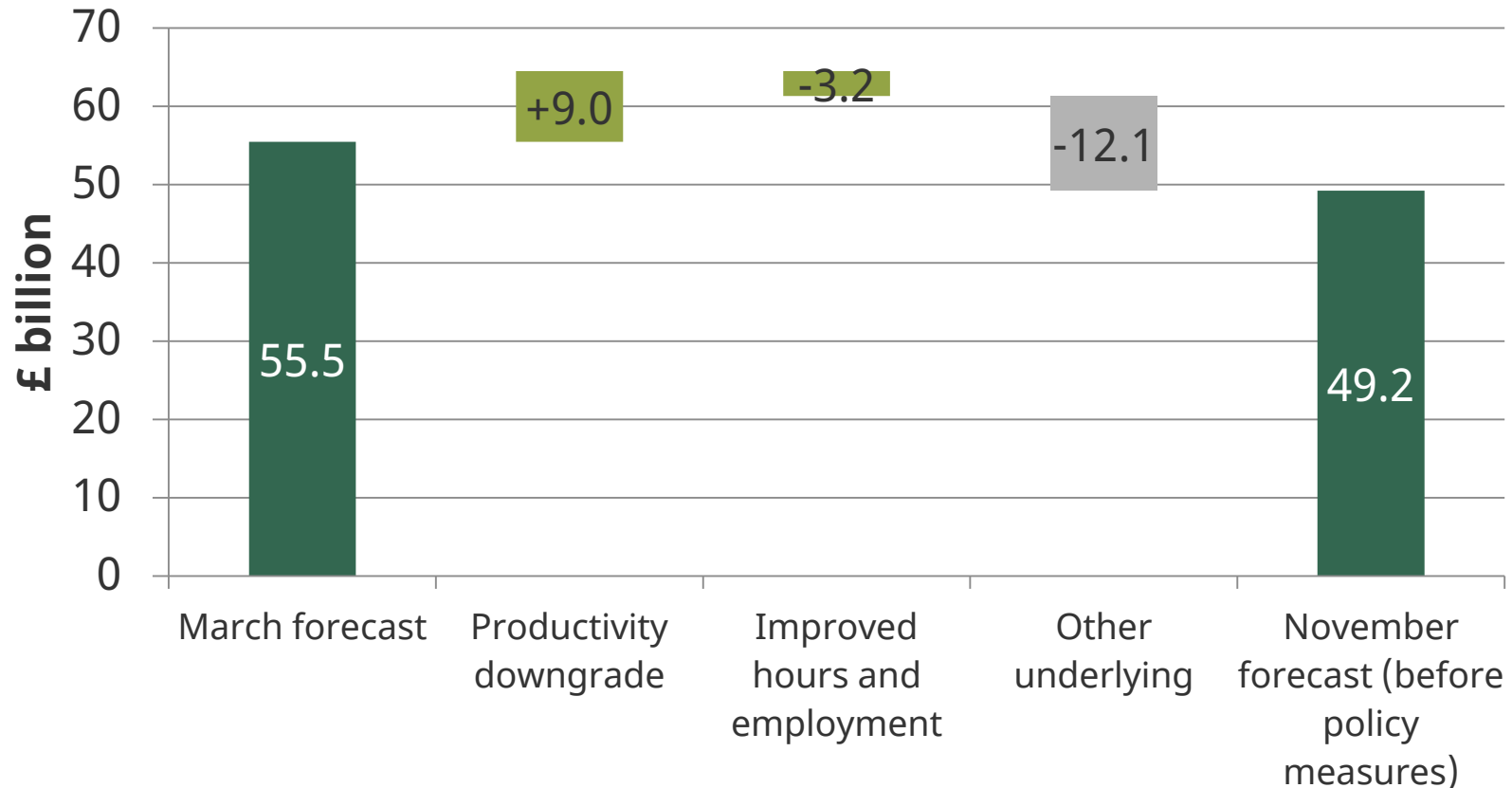
## Changes to the underlying borrowing forecast



Source: OBR Economic and Fiscal Outlook November 2017

# Decomposing borrowing changes this year

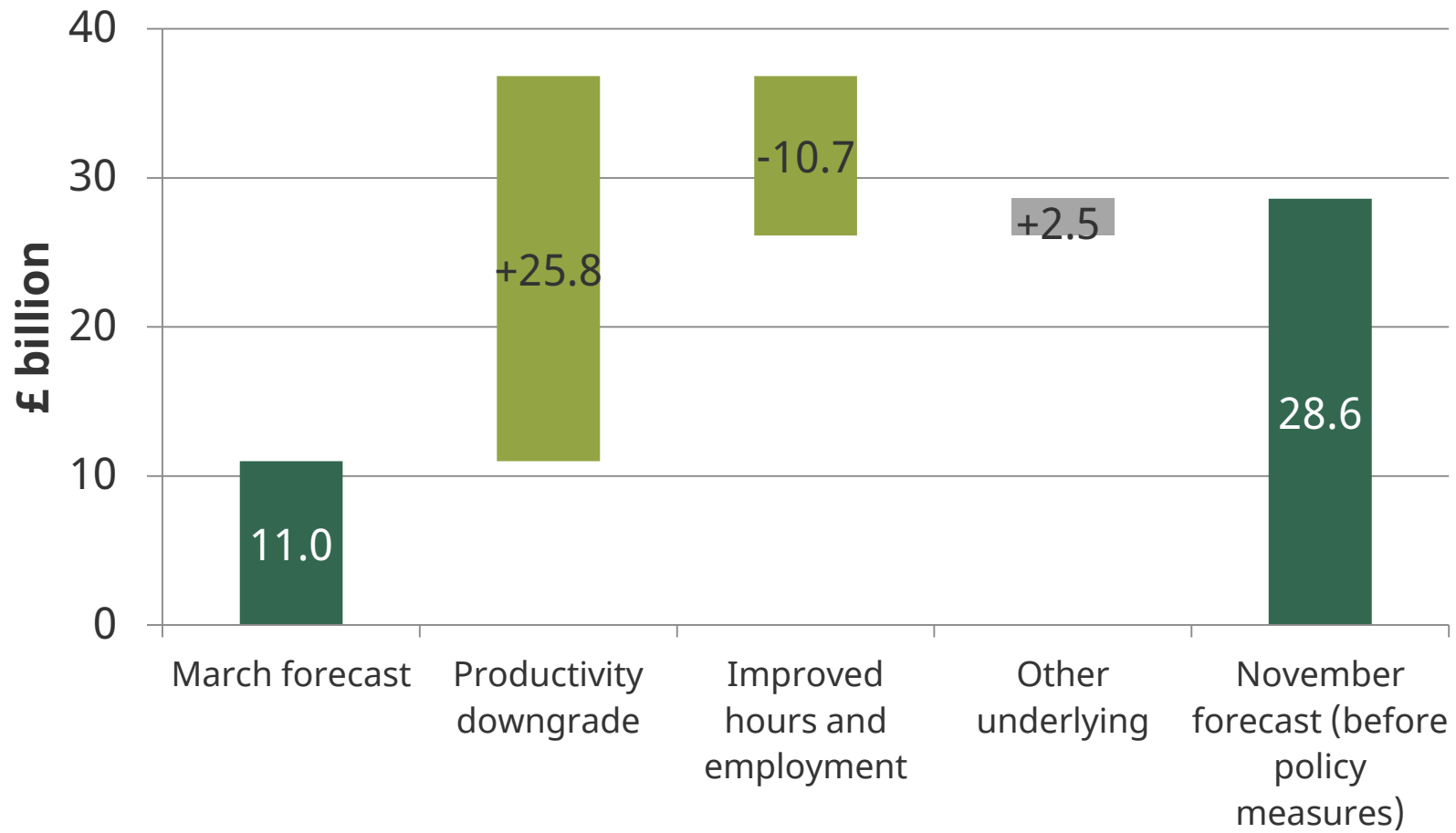
## Sources of changes to the 2017–18 borrowing forecast



Source: OBR Economic and Fiscal Outlook November 2017

# Decomposing borrowing changes in 2021–22

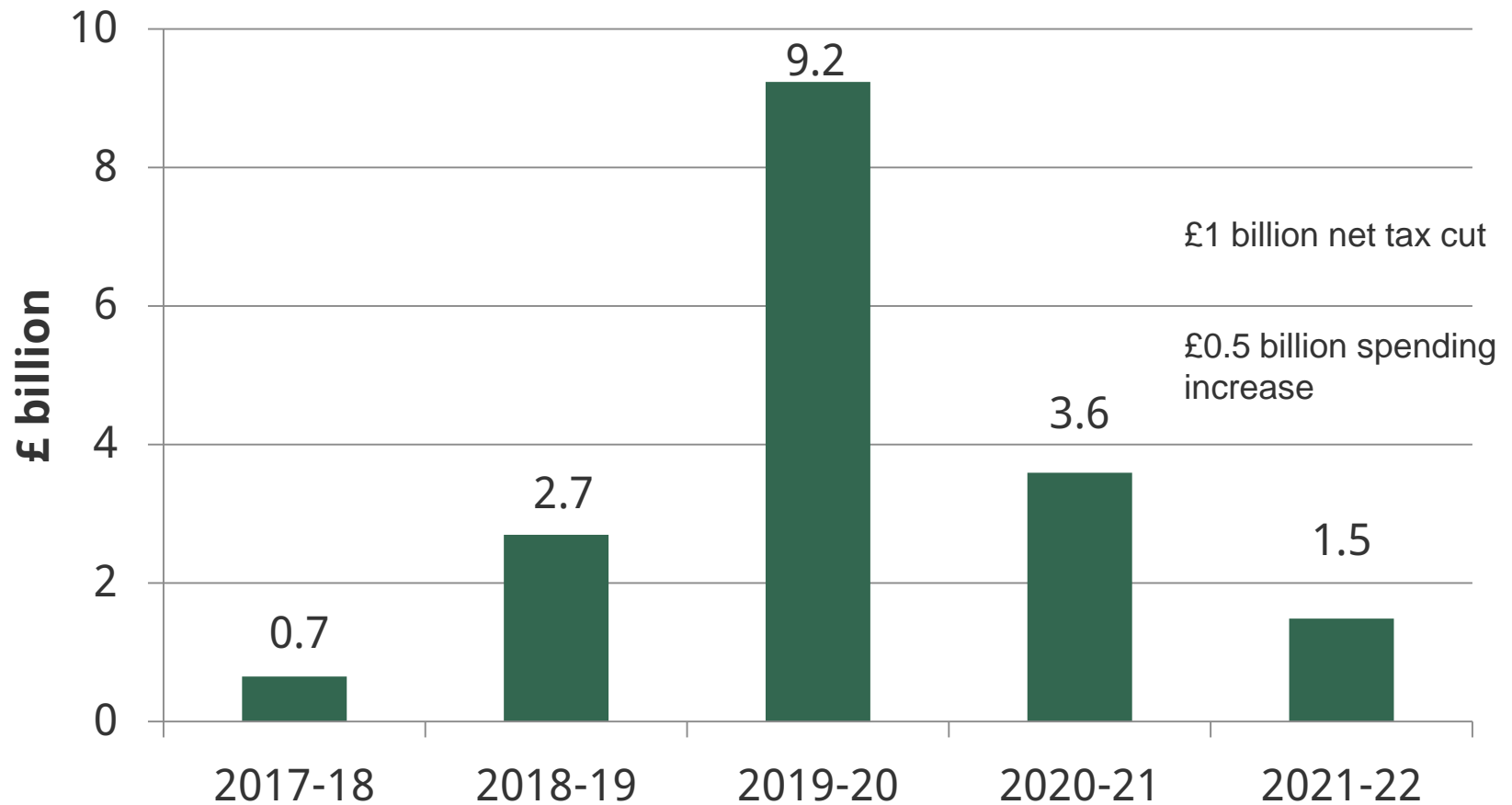
## Sources of changes to the 2021 –22 borrowing forecast



Source: OBR Economic and Fiscal Outlook November 2017

# Policy measures increase medium term deficit

## Effect of announced policy changes, Autumn Budget 2017



Source: OBR Economic and Fiscal Outlook November 2017

# Not the end of Austerity

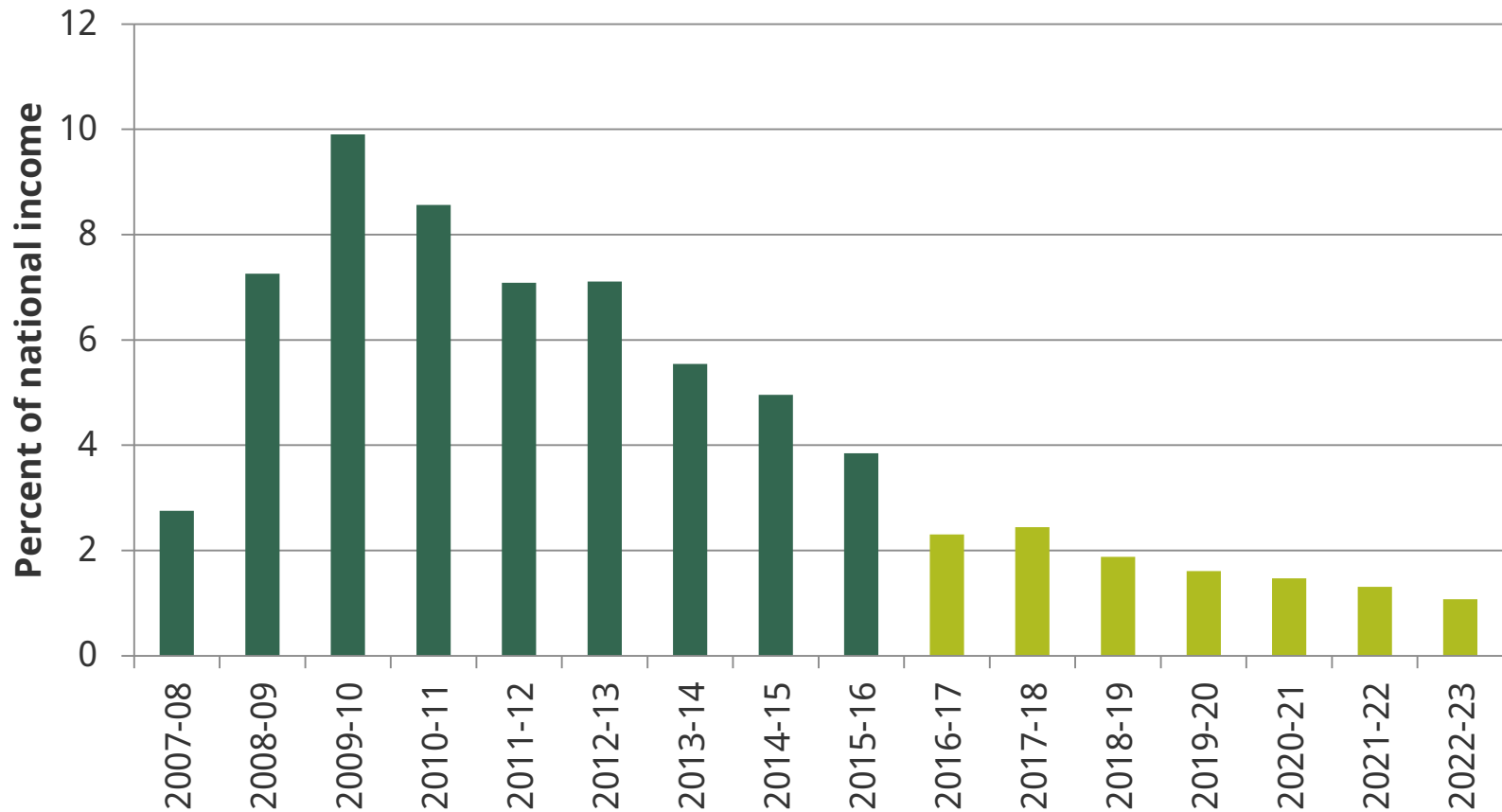
**Net tax rises of £4 billion to come by 2021–22**

**Net welfare cut of £11½ billion to come by 2021–22**

**Day-to-day Departmental spending per capita cuts worth £10 billion by 2022–23 (in today's terms)**

# Fiscal target still being met but fiscal objective looks very ambitious

## Public Sector Net Borrowing out-turn and latest forecast

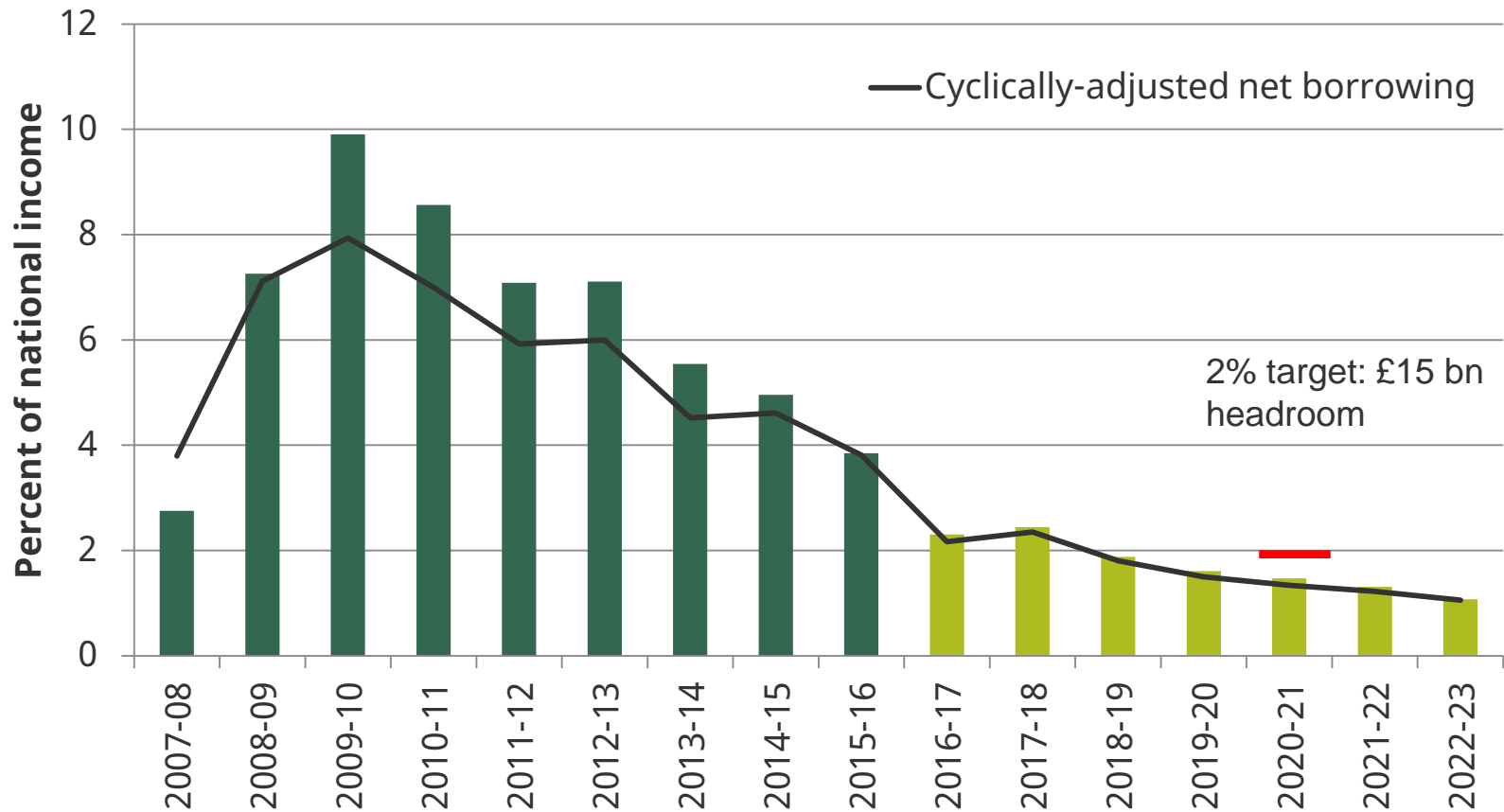


Source: OBR Economic and Fiscal Outlook November 2017



# Fiscal target still being met but fiscal objective looks very ambitious

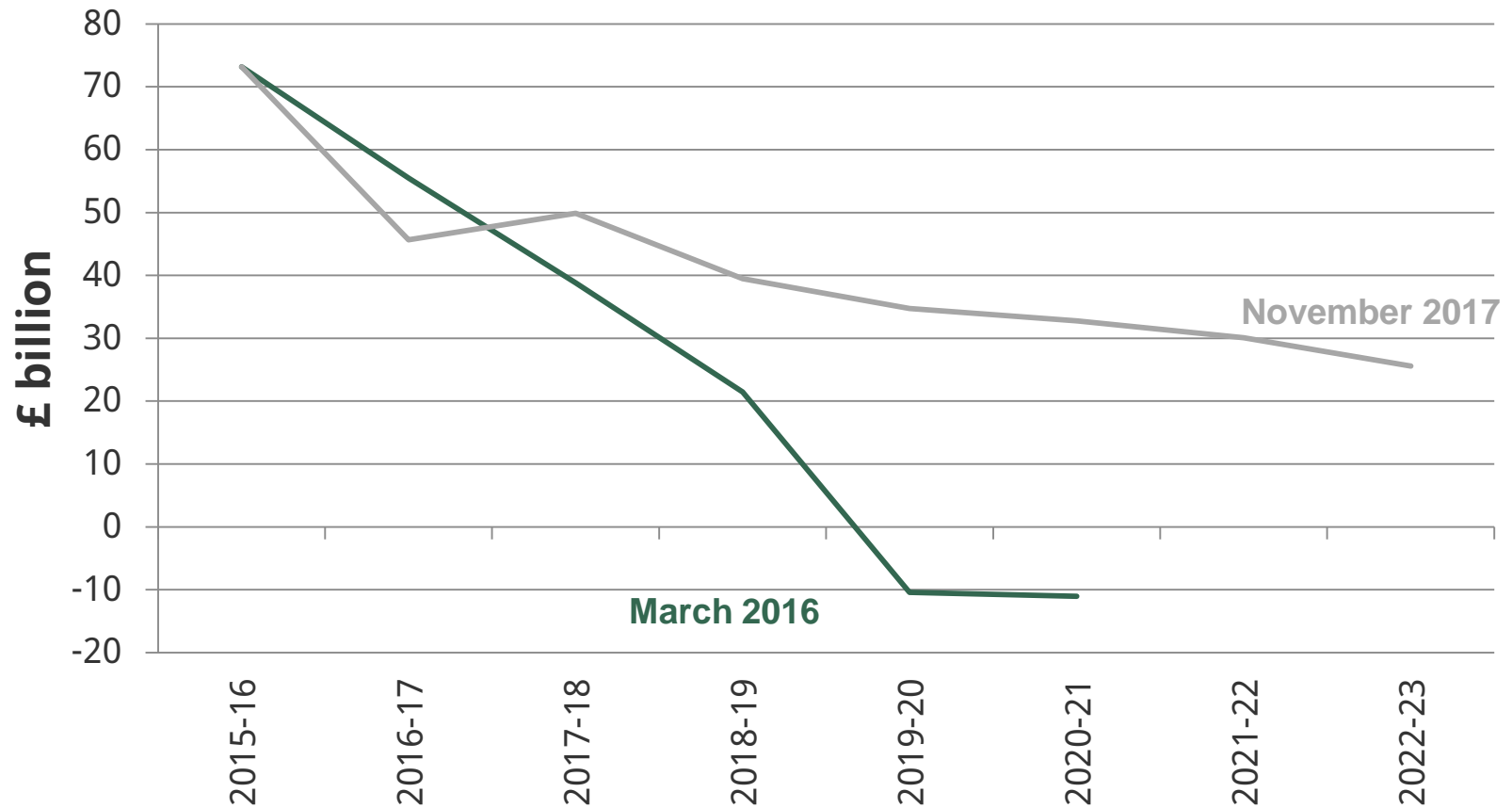
## Public Sector Net Borrowing out-turn and latest forecast



Source: OBR Economic and Fiscal Outlook November 2017

# Large increases in borrowing forecast since March 2016

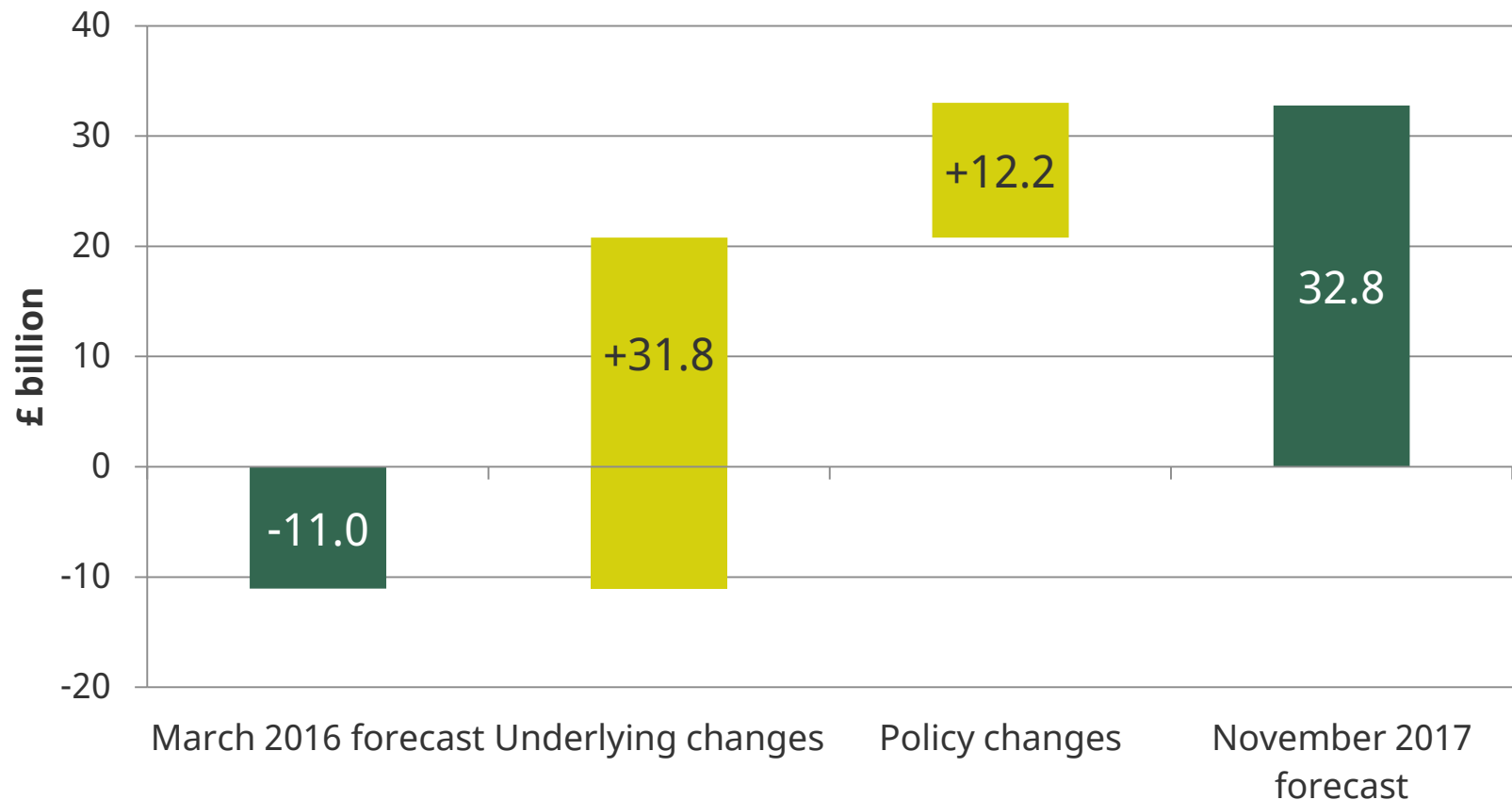
## Successive forecasts for Public Sector Net Borrowing



Source: Successive OBR Economic and Fiscal Outlooks

# Changes in borrowing since March 2016

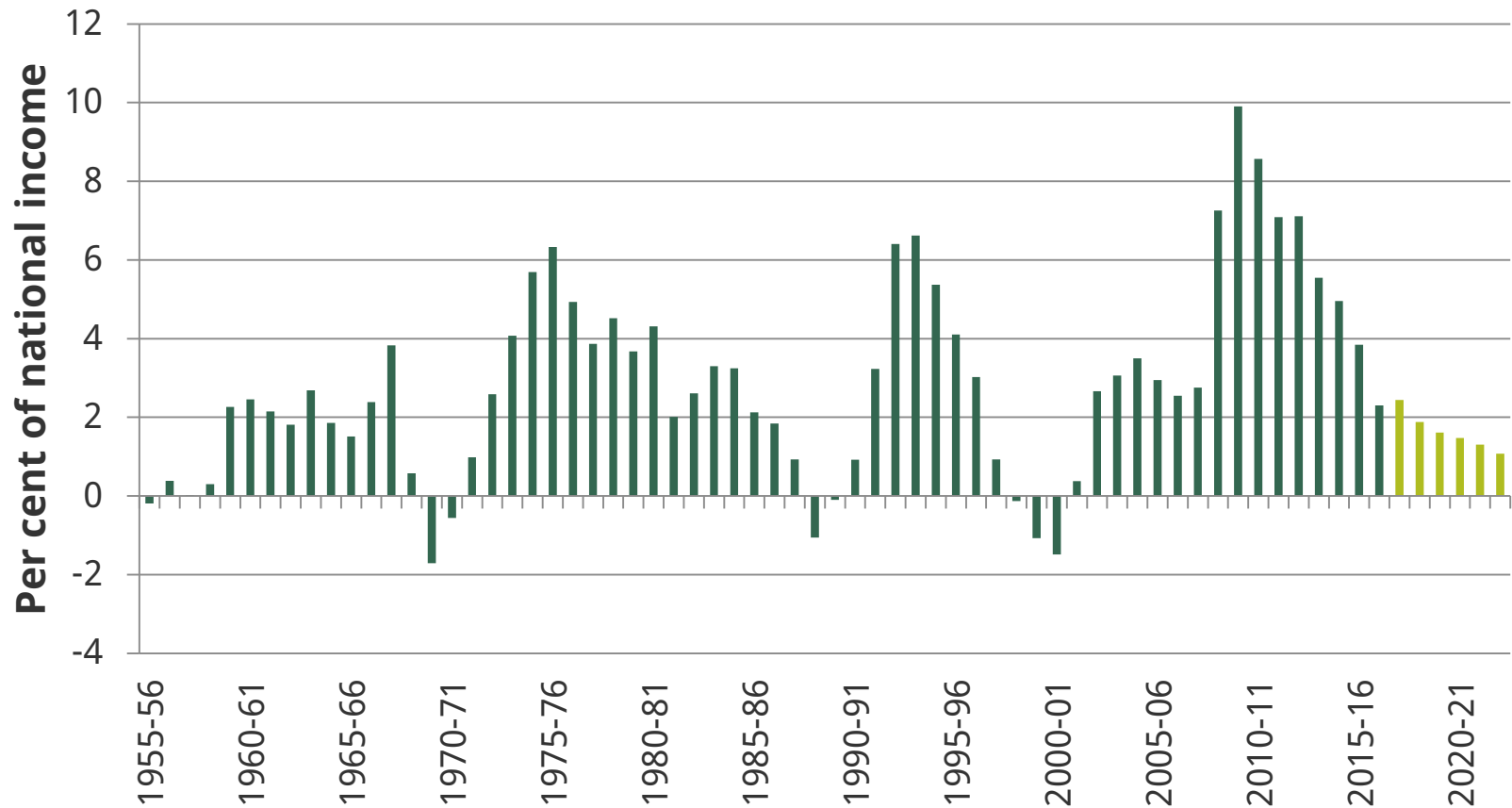
## Changes in 2020–21 borrowing, Budget 2016 to Autumn Budget 2017



Source: Successive OBR Economic and Fiscal Outlooks

# Borrowing relatively low by historical standards by end of forecast period

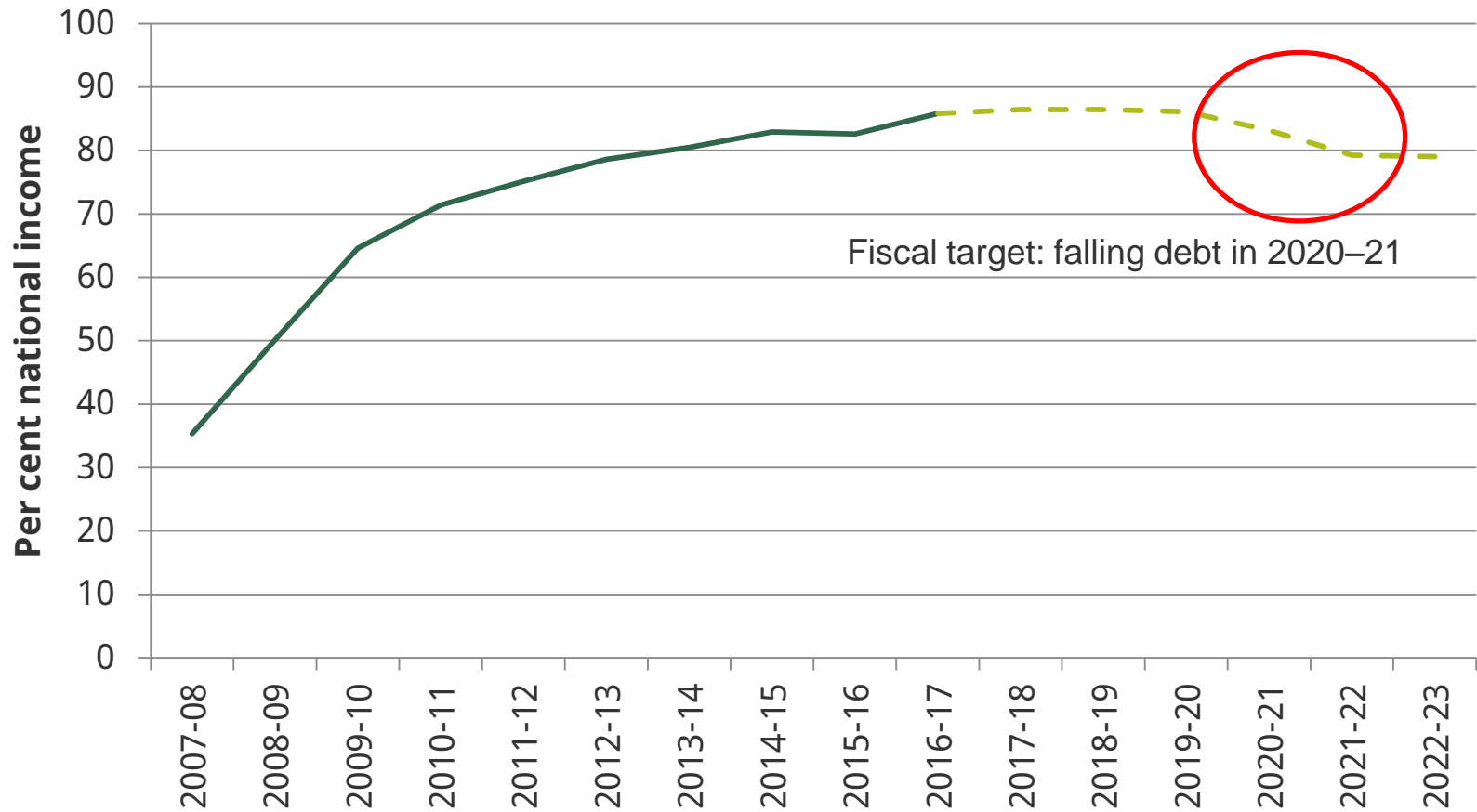
## Public Sector Net Borrowing



Source: OBR Databank, November 2017

# But debt far above pre-crisis levels and set to fall slowly

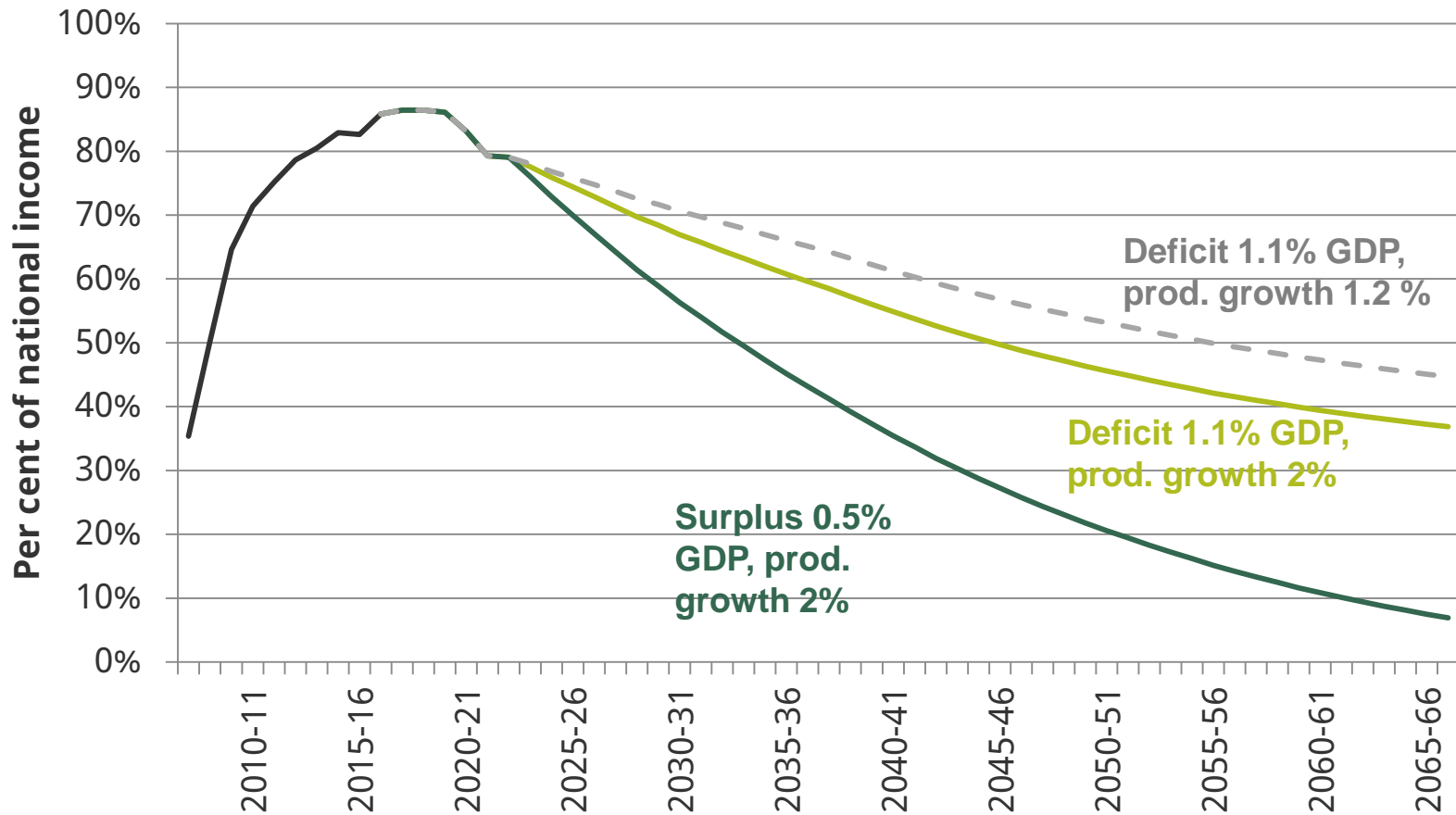
## Public Sector Net Debt, out-turn and forecast



Source: OBR Economic and Fiscal Outlook November 2017

# Higher deficit and slower growth would mean higher debt burden

## Debt profiles under different scenarios for borrowing



Source: OBR Economic and Fiscal Outlook November 2017 and Fiscal Sustainability Report January 2017

# Where is Brexit in all of this?

## **Public finances weaker due to effects on wider economy, unchanged since November 2016**

- Reduced immigration, increased uncertainty, higher prices
- ≈£15 billion per year

## **£3 billion over two years to prepare for Brexit**

## **No allowance for any one-off 'divorce bill' (£40 billion?)**

## **UK's net contribution to EU assumed to continue or be spent elsewhere, rather than saved (≈£8–£10 billion per year)**

## **All of this is very uncertain**

# Summary

## **Big downgrade to productivity growth bad news for all of us**

- GDP per capita 3.1% lower in 2020–21 than forecast less than two years ago
- Annual real median wages revised down by £1,400 in that time

## **Underlying borrowing higher by £18 billion in 2021–22**

## **Policy loosened in response**

## **Fiscal targets for this parliament on course to be met but fiscal objective seems increasingly ambitious**



# Consequences of the economic downgrade

Thomas Pope