

# **Economic and fiscal outlook**

**23 November 2016**

**Robert Chote  
Chairman**

# Coverage and process

- **Five year forecasts, plus assessment of targets**
- **Independent BRC responsible for conclusions**
- **Helped by OBR staff and other officials**
- **Final pre-scorecard forecast on 9 November**
- **No pressure, but no answer on Nissan liabilities**

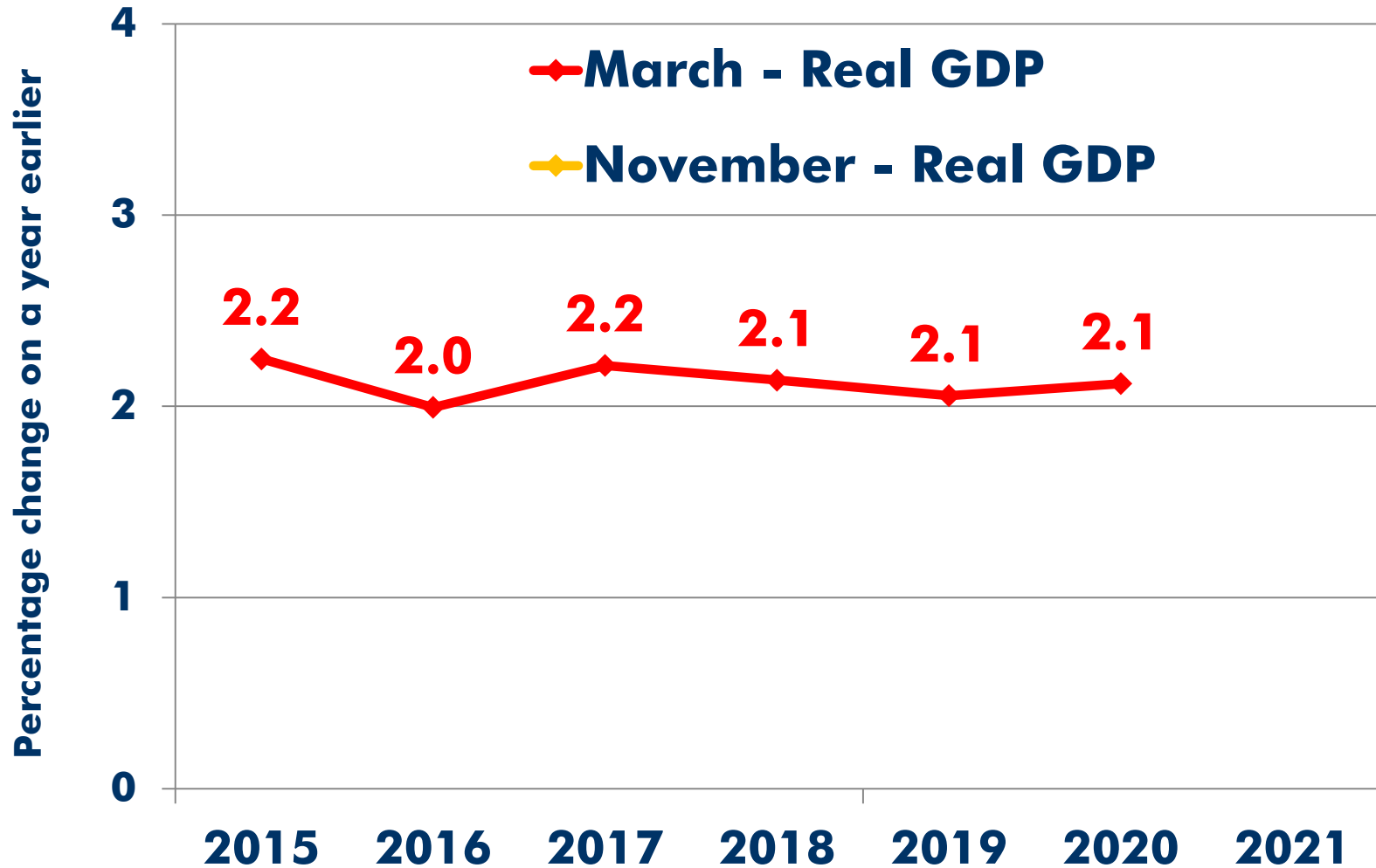
# Key points

- **Weaker outlook for economy**
  - Near-term hit from Brexit uncertainty and lower pound
  - Less investment means slower trend productivity growth
  - Lower net inward migration
- **Weaker outlook for public finances**
  - Borrowing already overshooting before referendum
  - Weaker growth will hit receipts, especially income tax
  - Autumn Statement fiscal giveaway
- **Government targets change again**
  - All existing targets breached and replaced
  - New fiscal mandate met with room to spare
  - Balancing budget next Parliament not easy

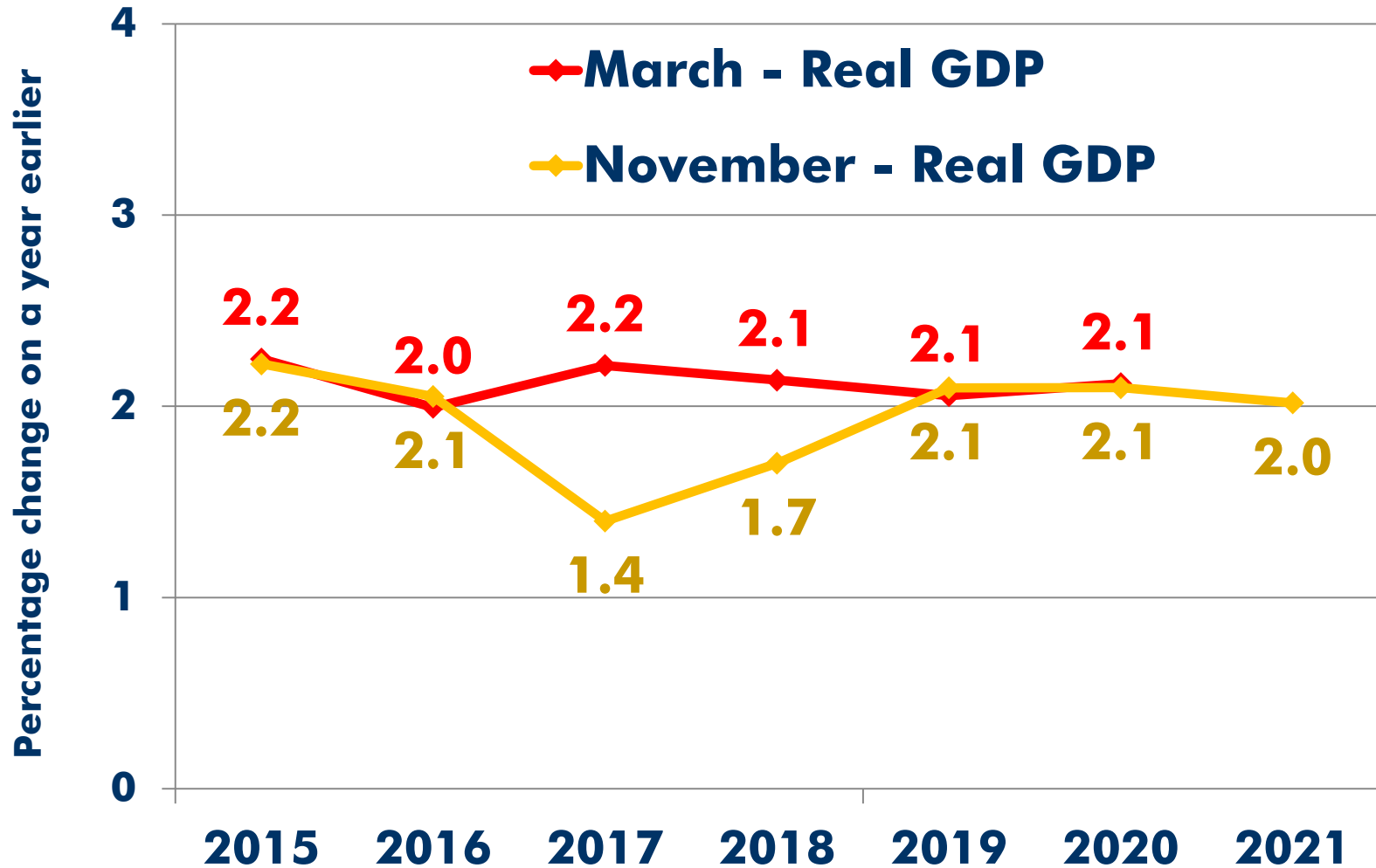
# Incorporating Brexit

- **No privileged information on negotiations**
- **Impossible to predict precise outcome**
- **So we have assumed**
  - UK leaves the EU in April 2019
  - Negotiation of new trading arrangements slows import and export growth for 10 years
  - UK adopts tighter migration regime and 'pull' factor weaker
  - Any reduction in net expenditure transfers to the EU will be recycled into additional domestic spending
  - No change to structure or management of tax systems with common EU rules (e.g. VAT and EU ETS)

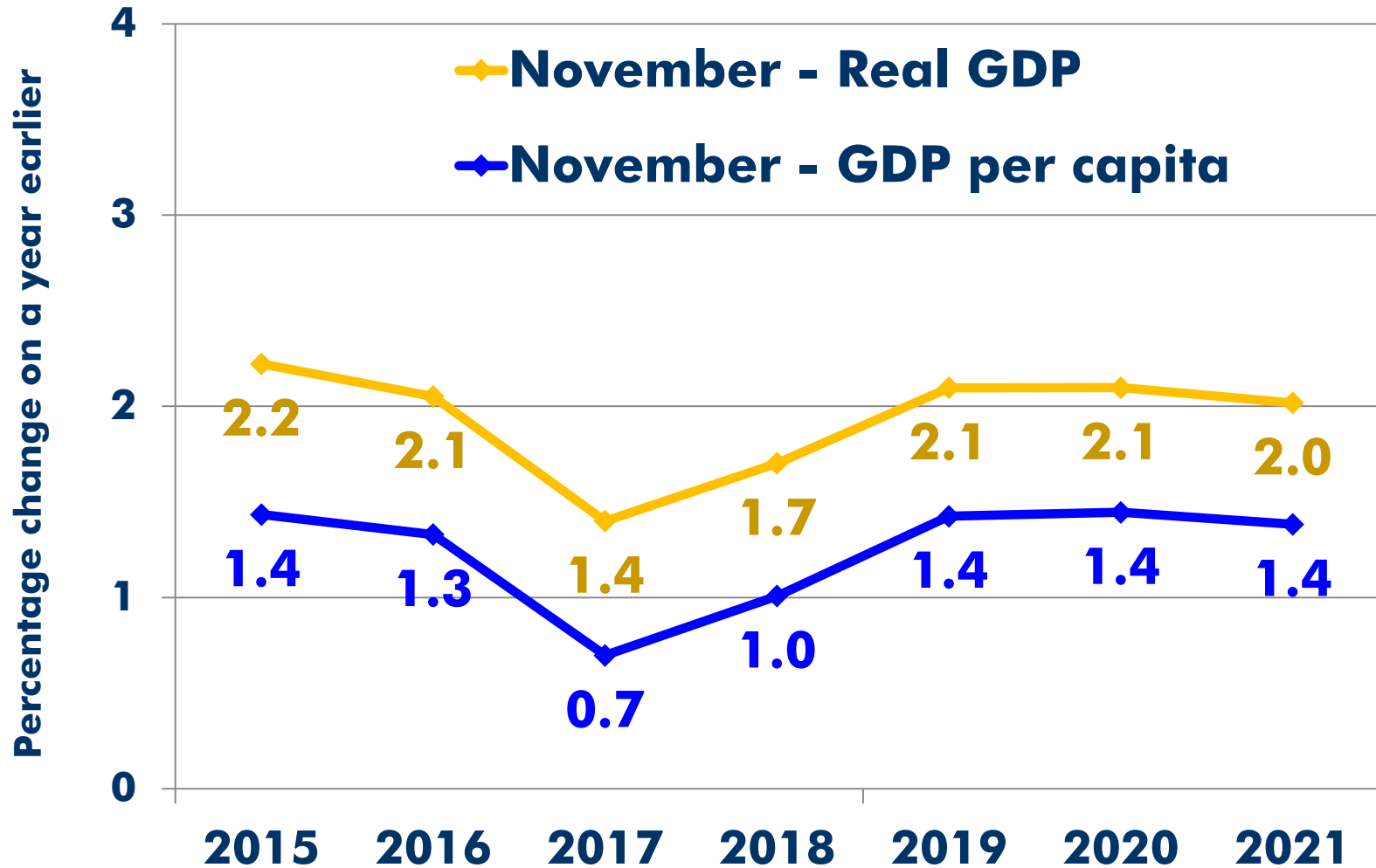
# Annual real GDP growth



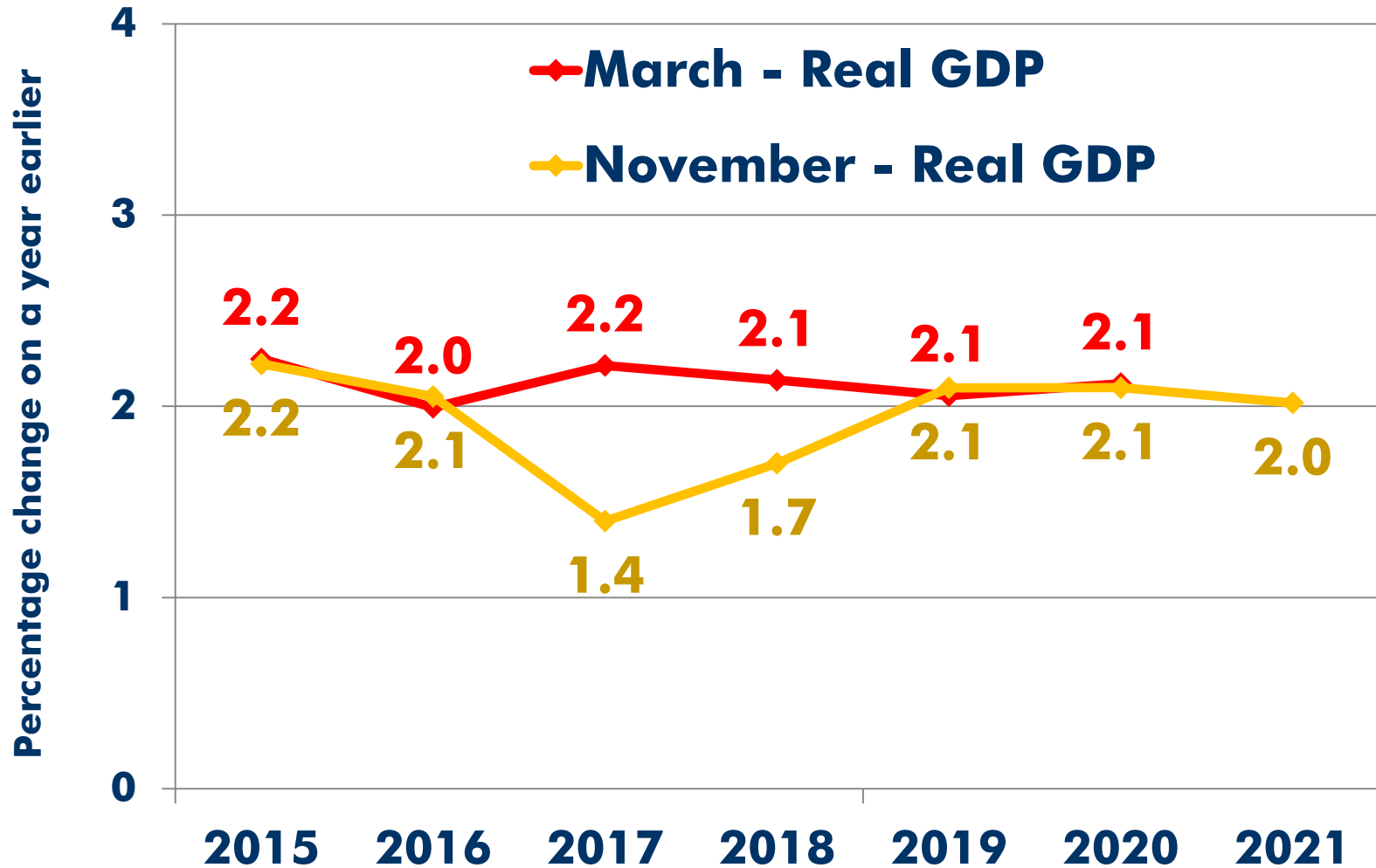
# Annual real GDP growth



# Annual real GDP growth

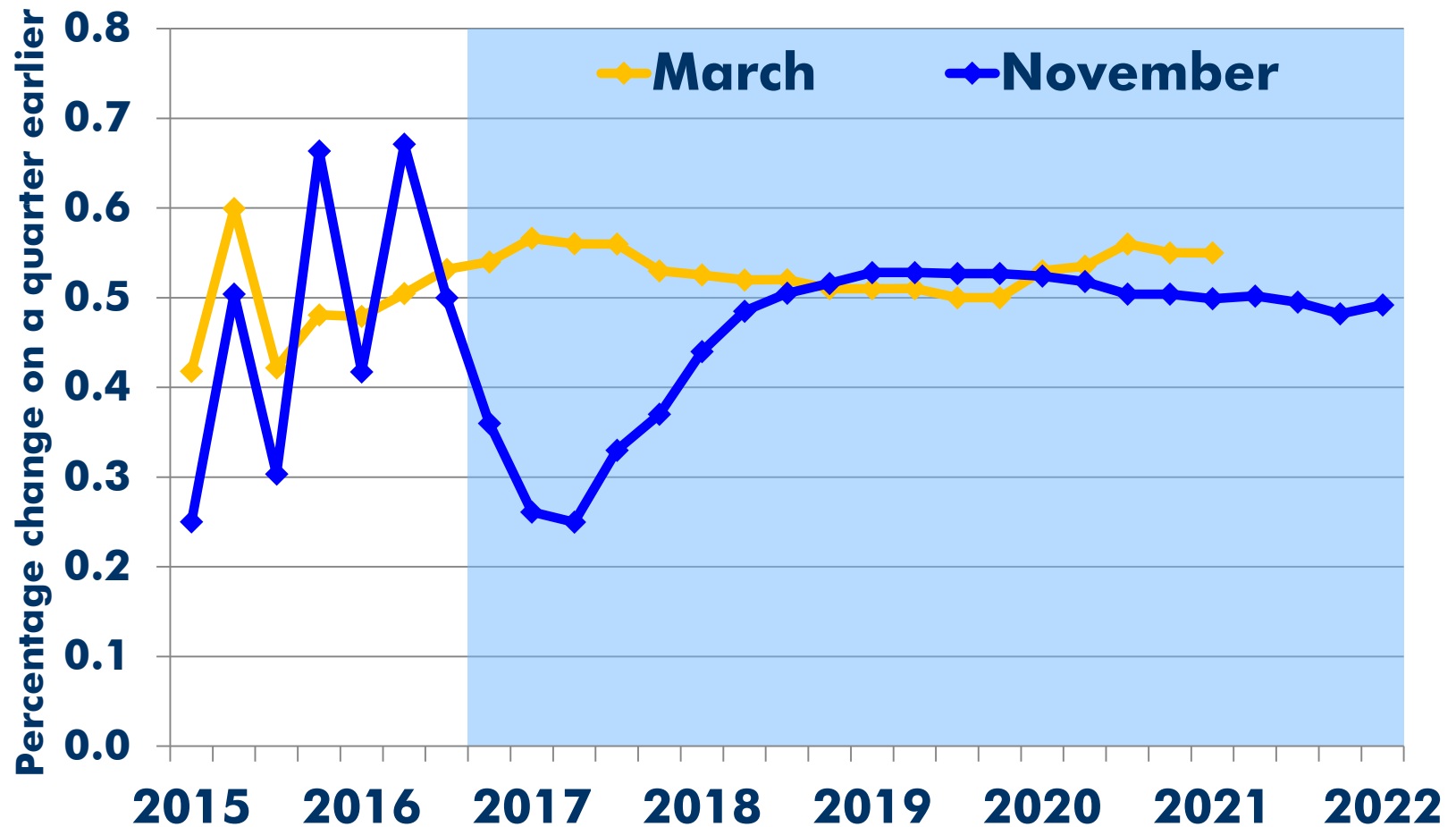


# Annual real GDP growth





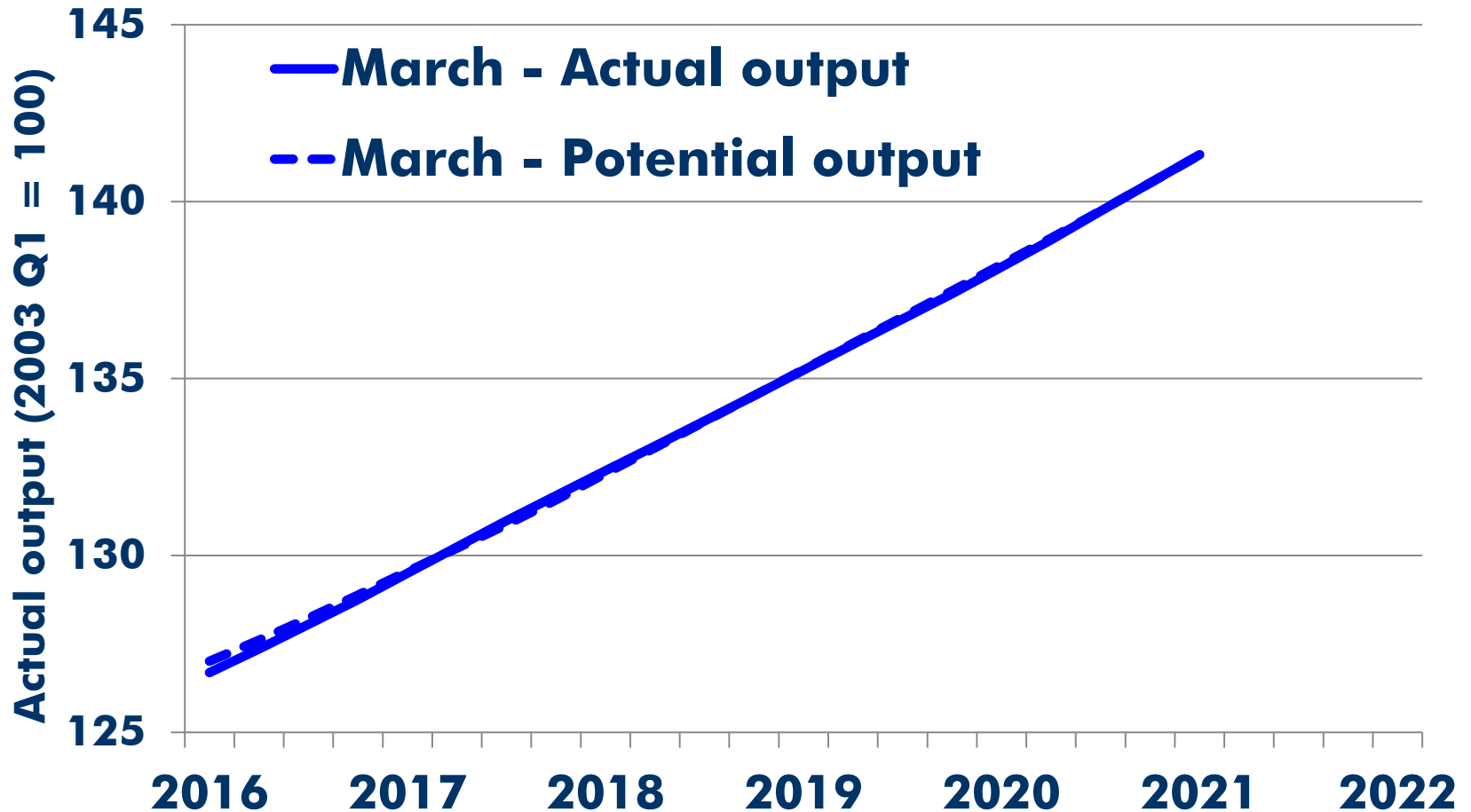
# Quarterly real GDP growth



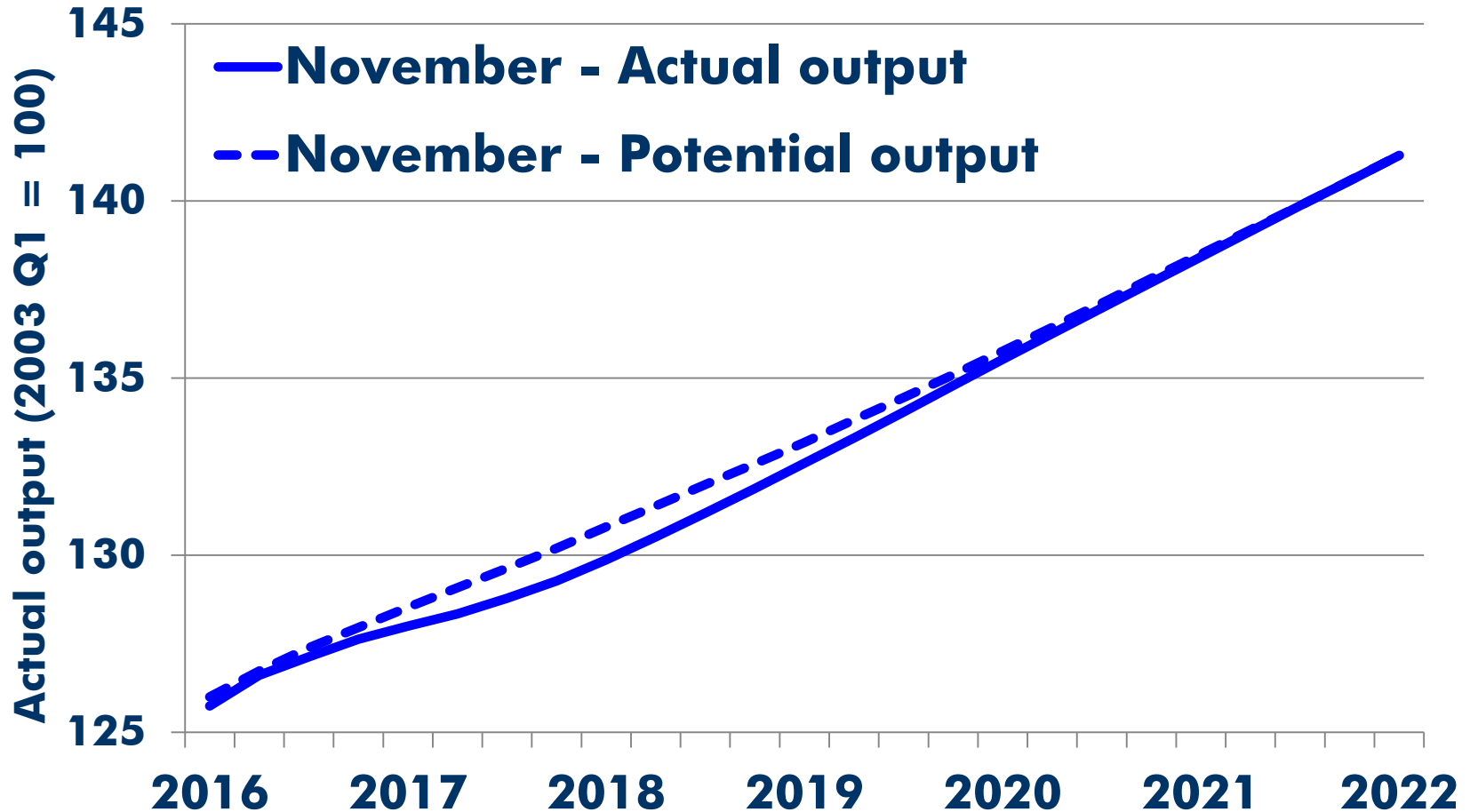
# Key growth judgements

- **Near-term**
  - delayed business investment and squeeze on consumers from higher inflation, partially offset by boost to net trade from lower pound
- **Across the forecast**
  - weaker investment reduces trend productivity growth via lower capital stock. But no direct HMT-style adjustment for trade intensity

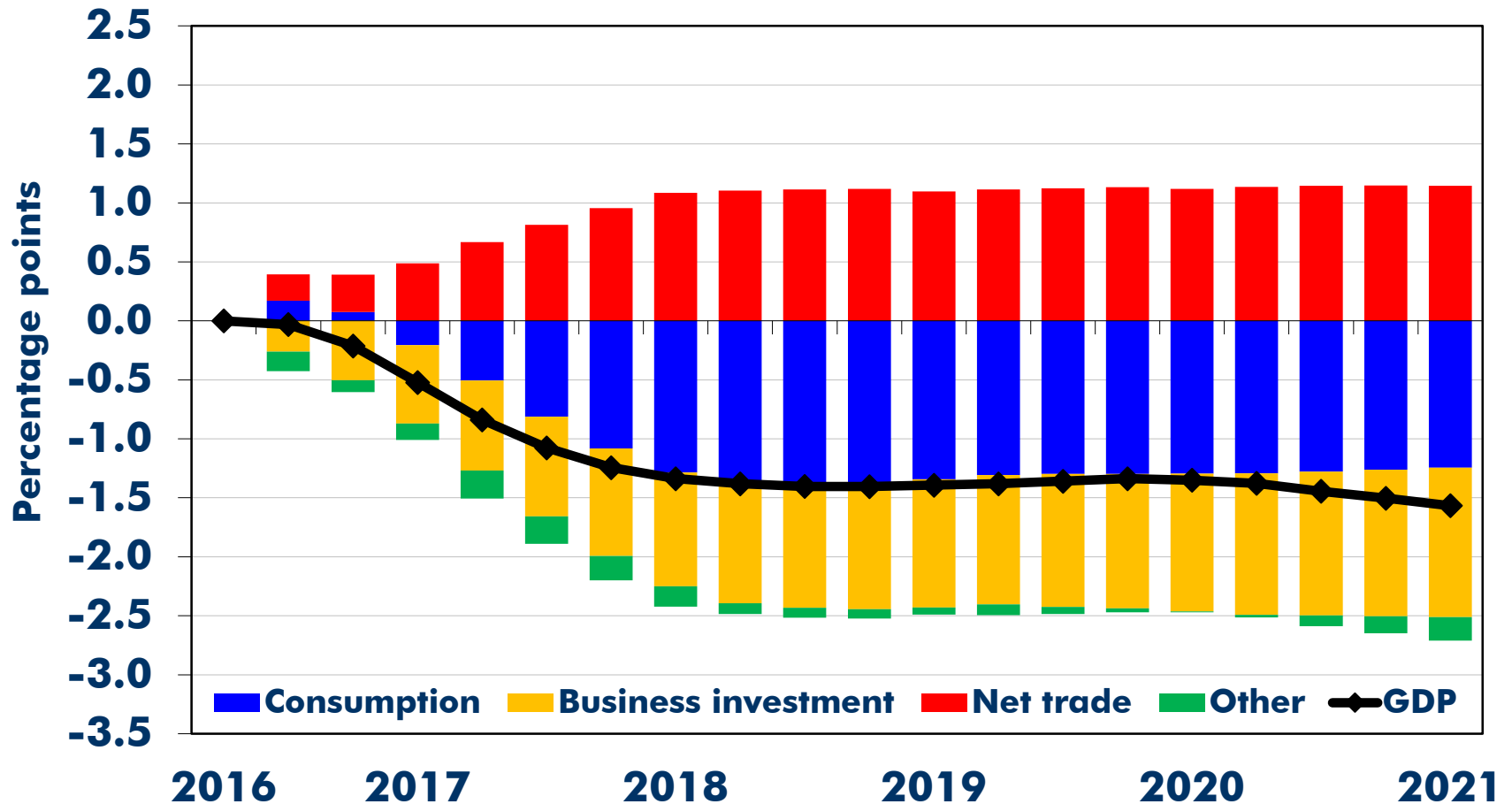
# Actual and potential GDP



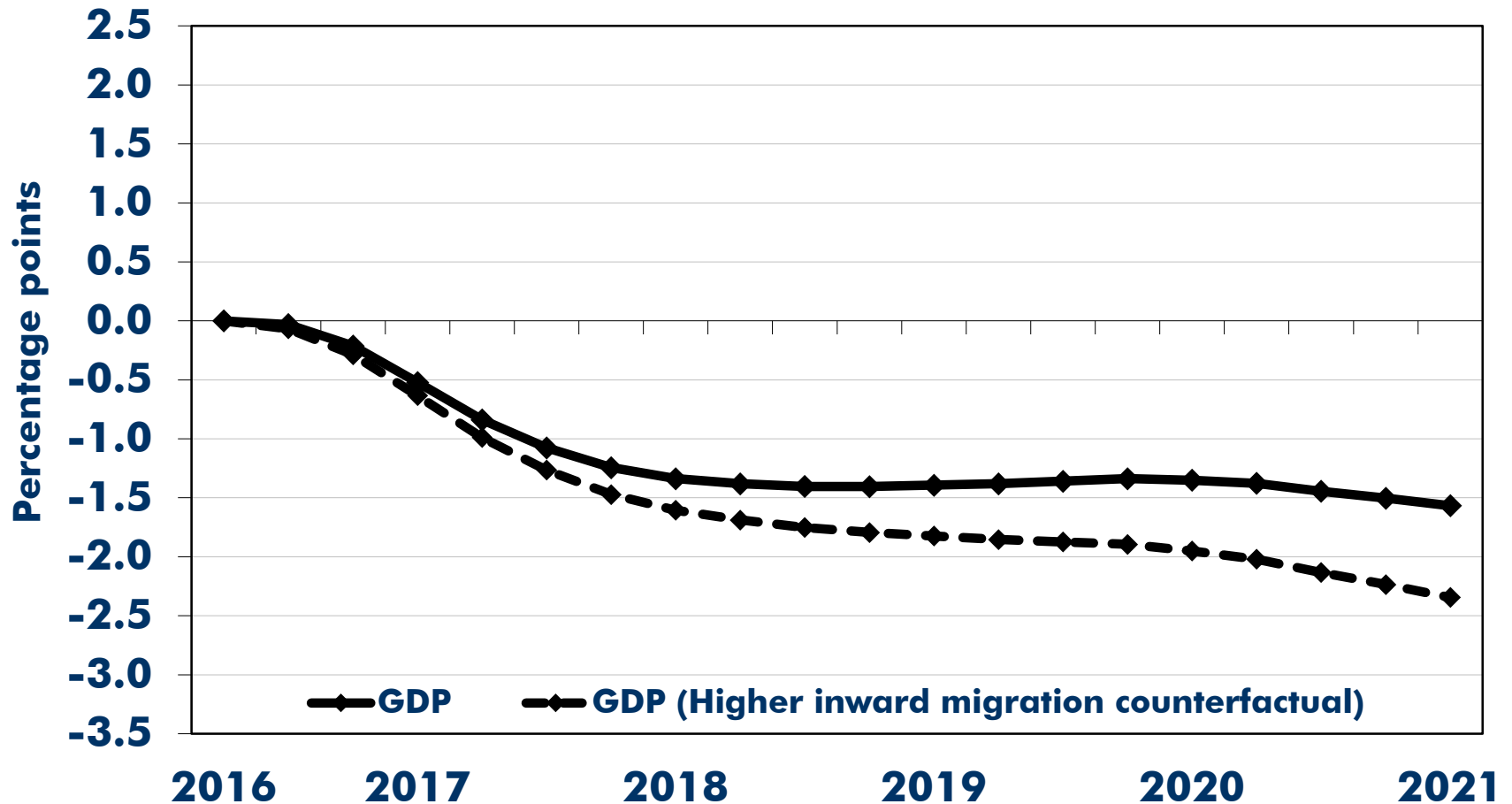
# Actual and potential GDP



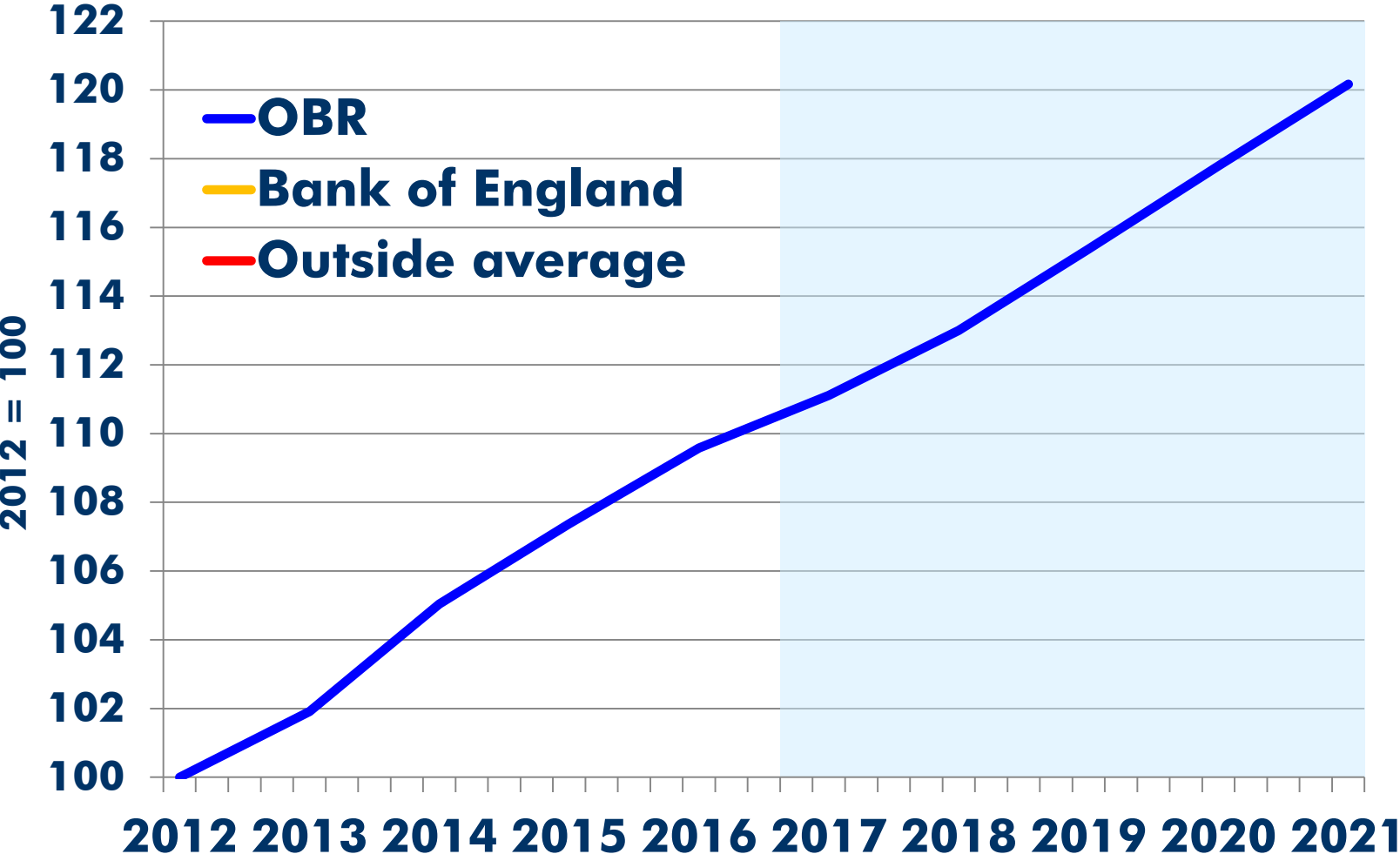
# Contributions to GDP shortfall



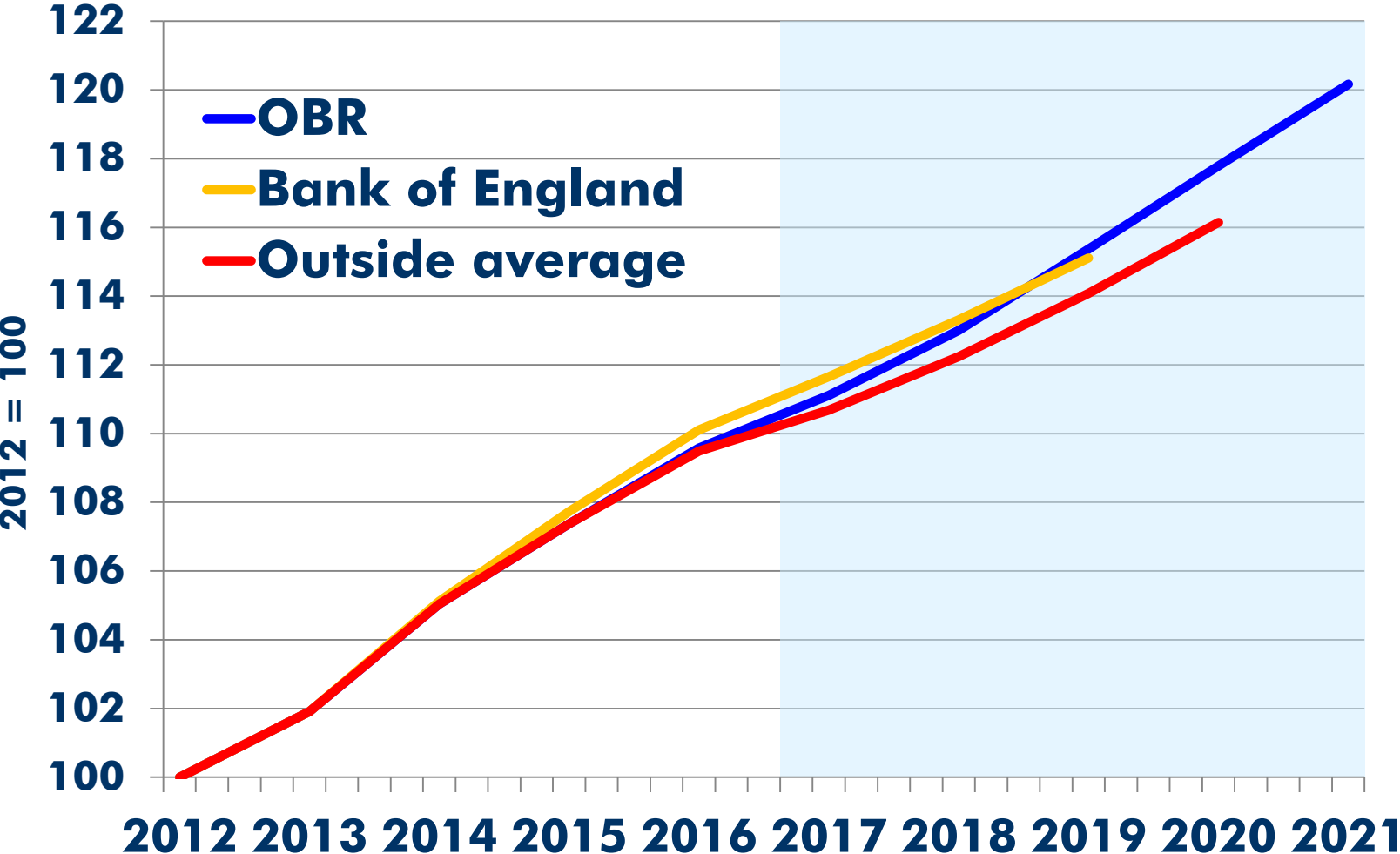
# Contributions to GDP shortfall



# Real GDP: external forecasts

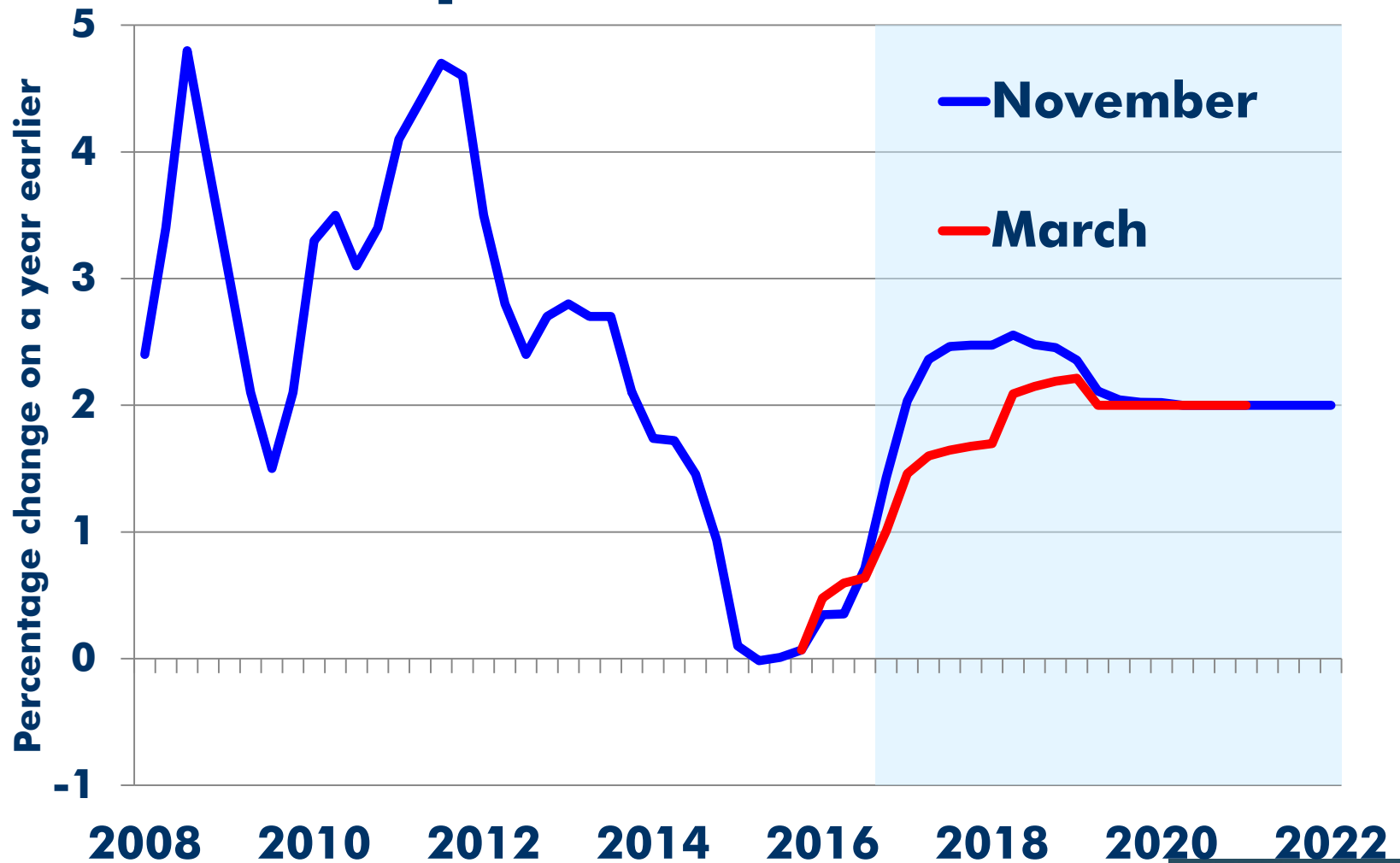


# Real GDP: external forecasts

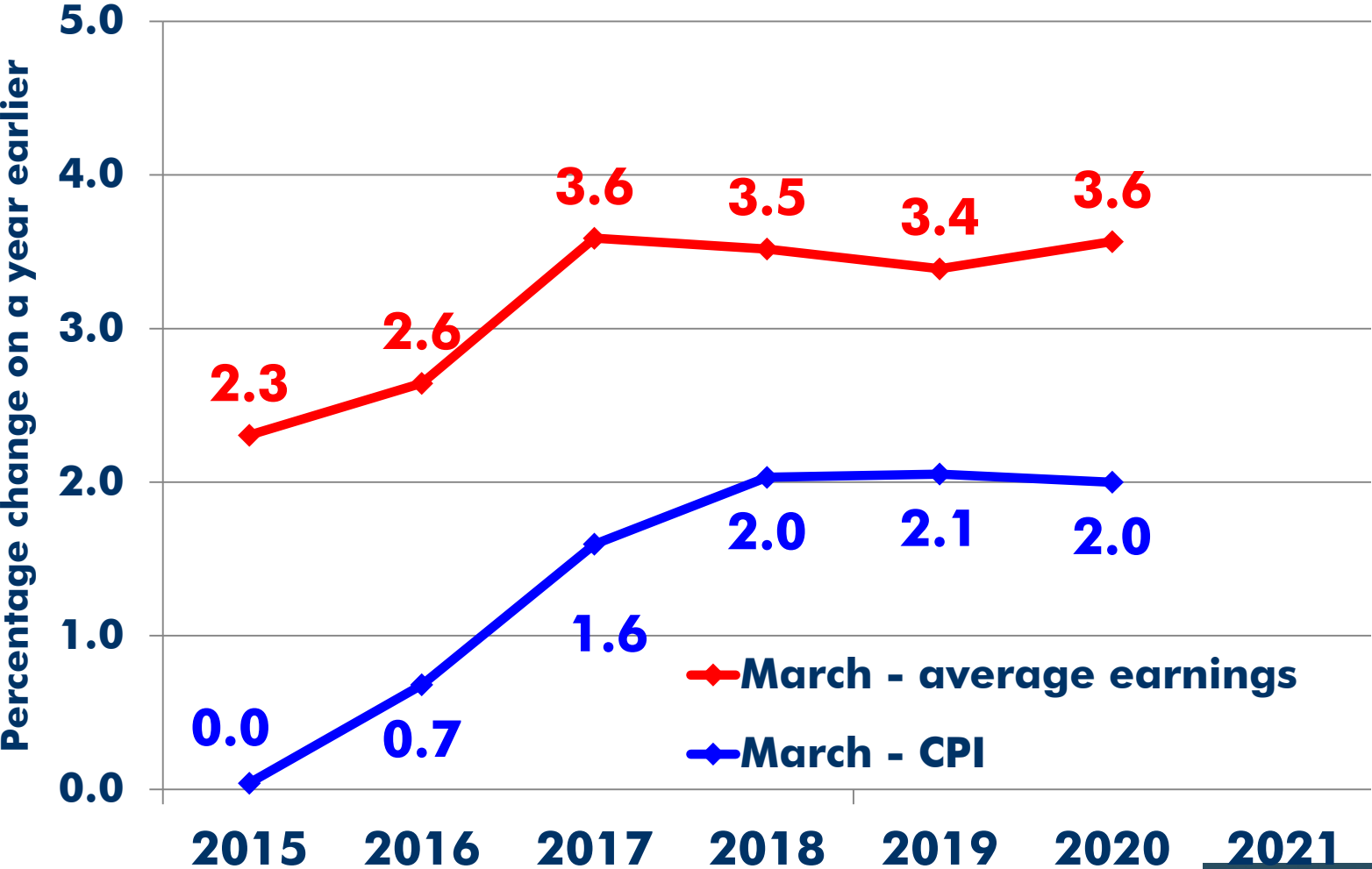




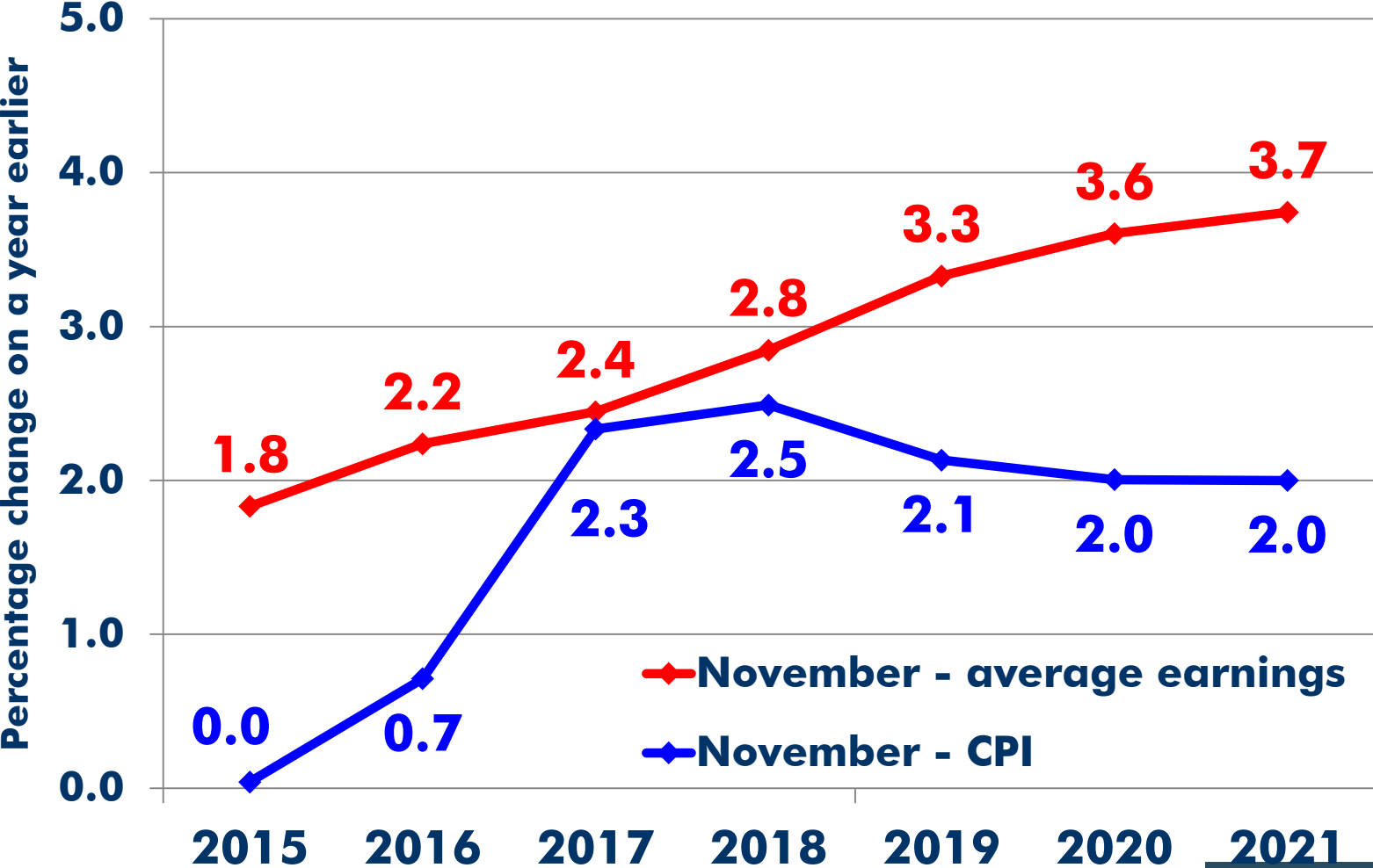
# Consumer price inflation



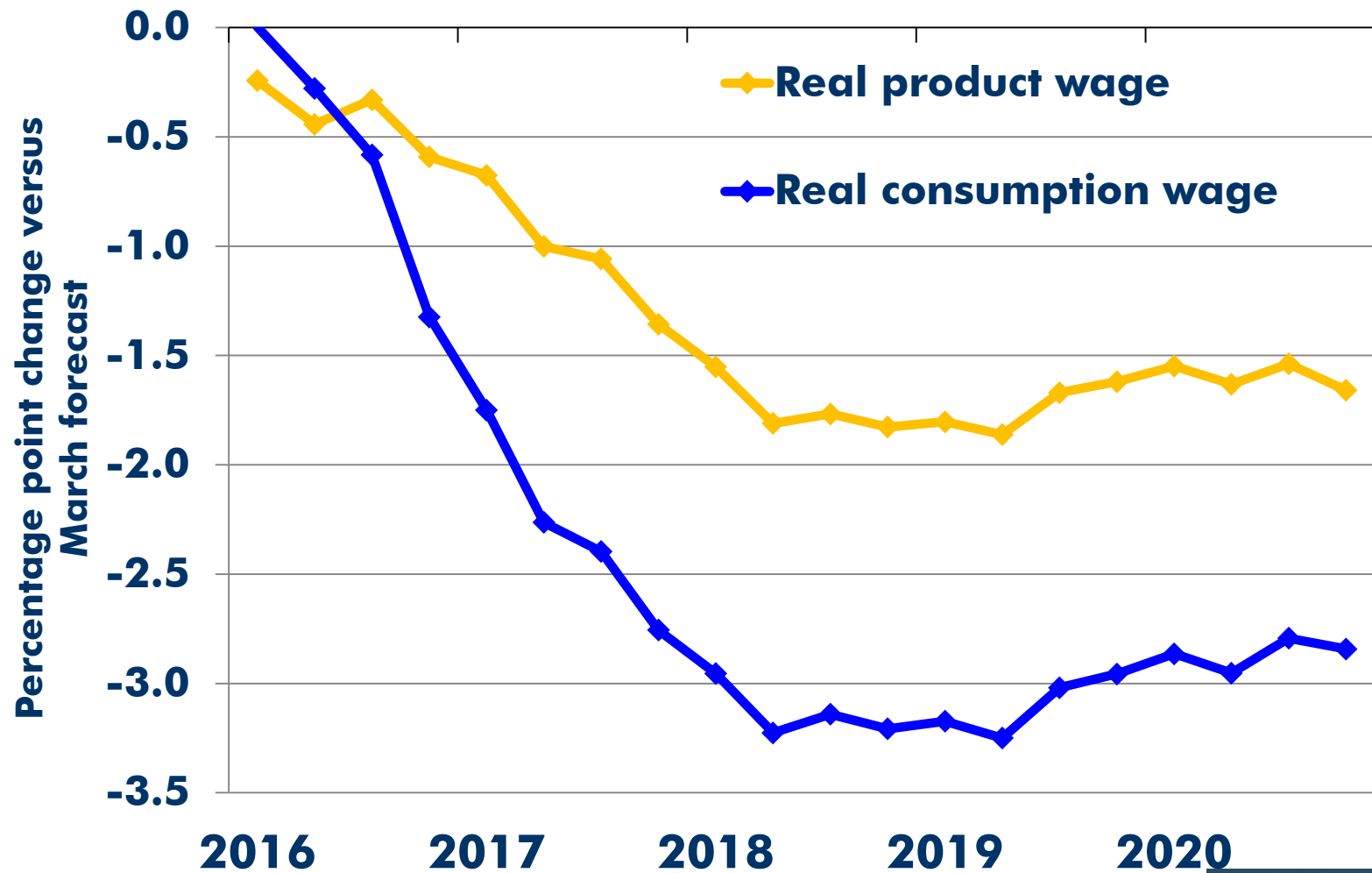
# Earnings growth and inflation



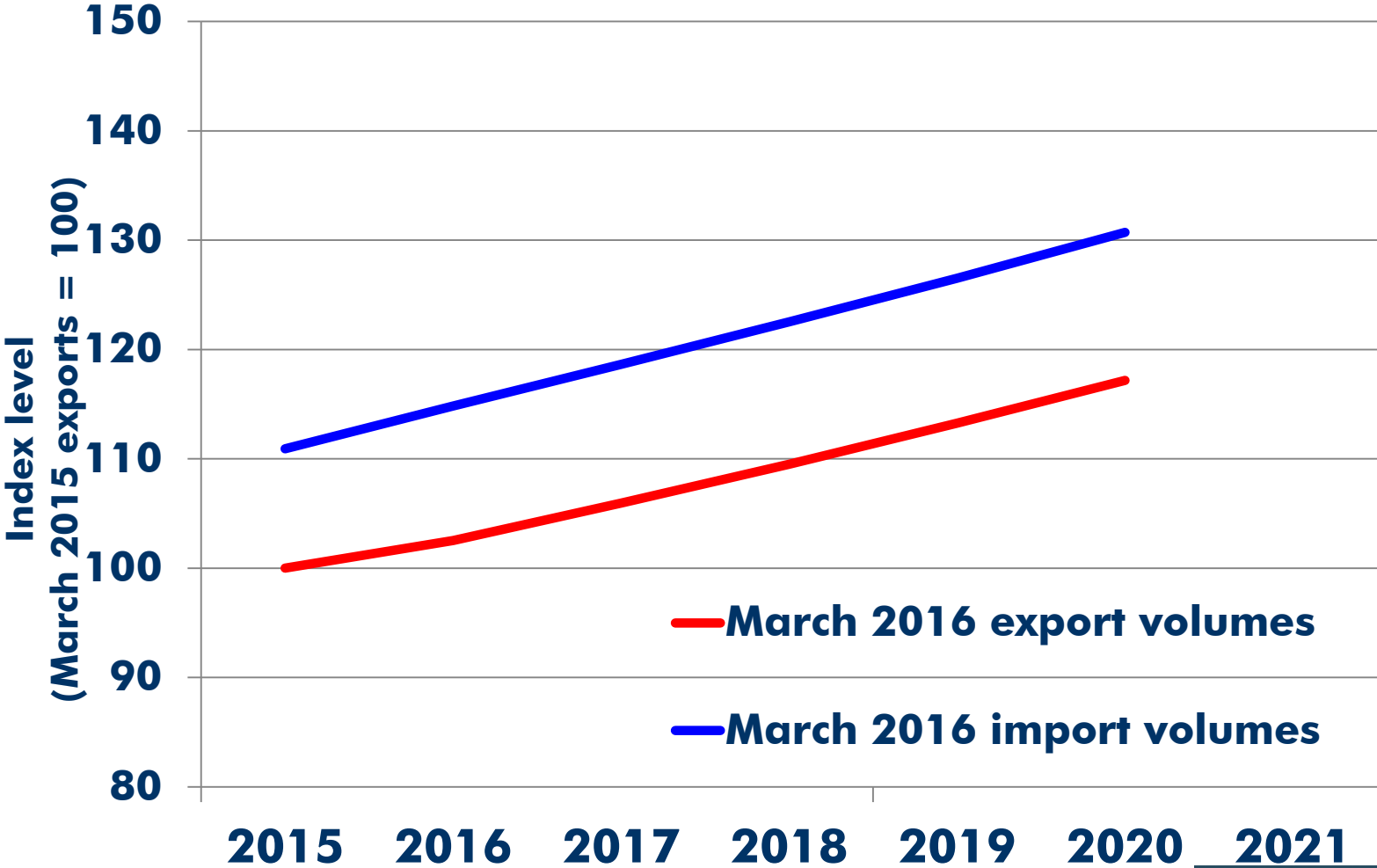
# Earnings growth and inflation



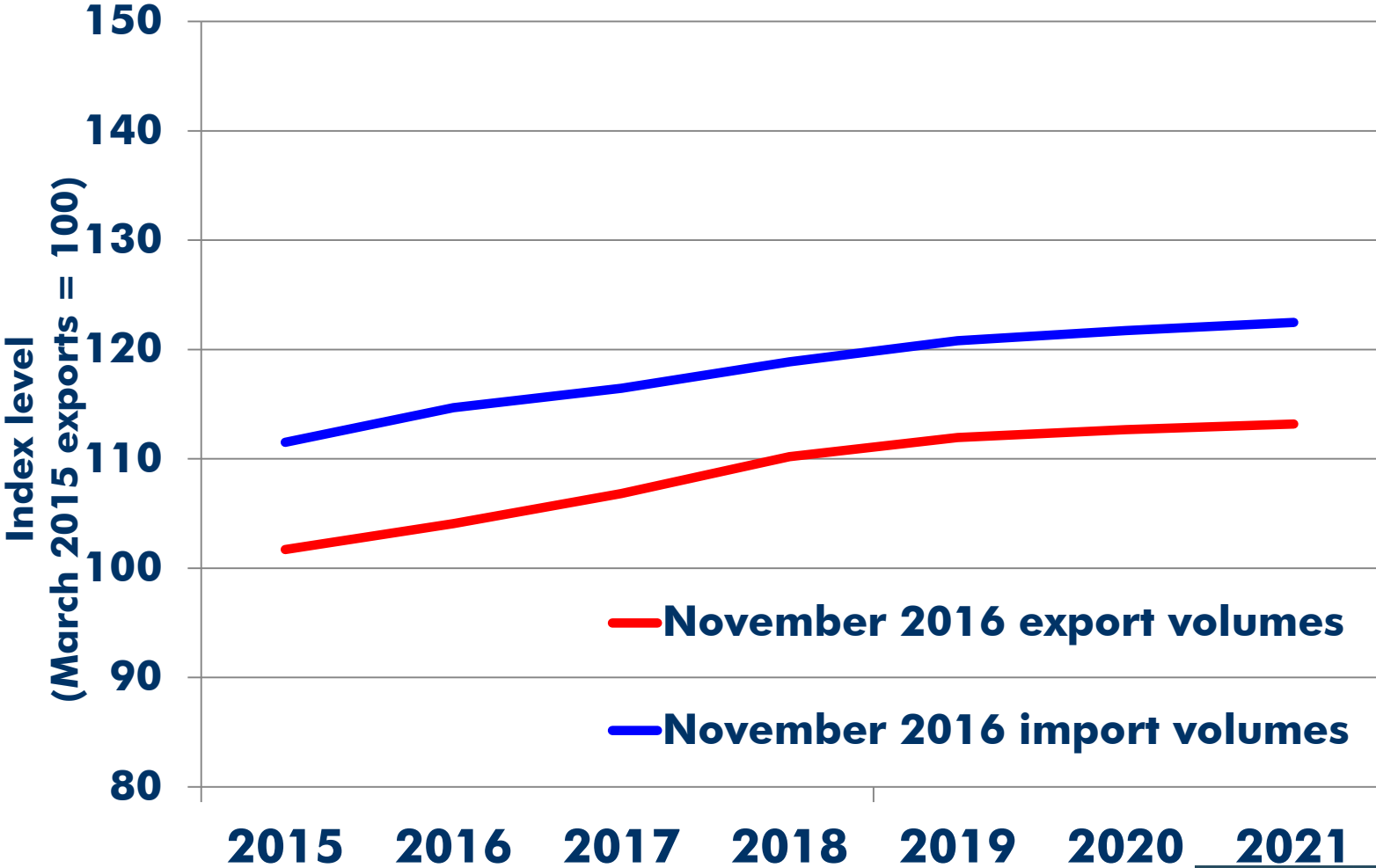
# Two views of real wages



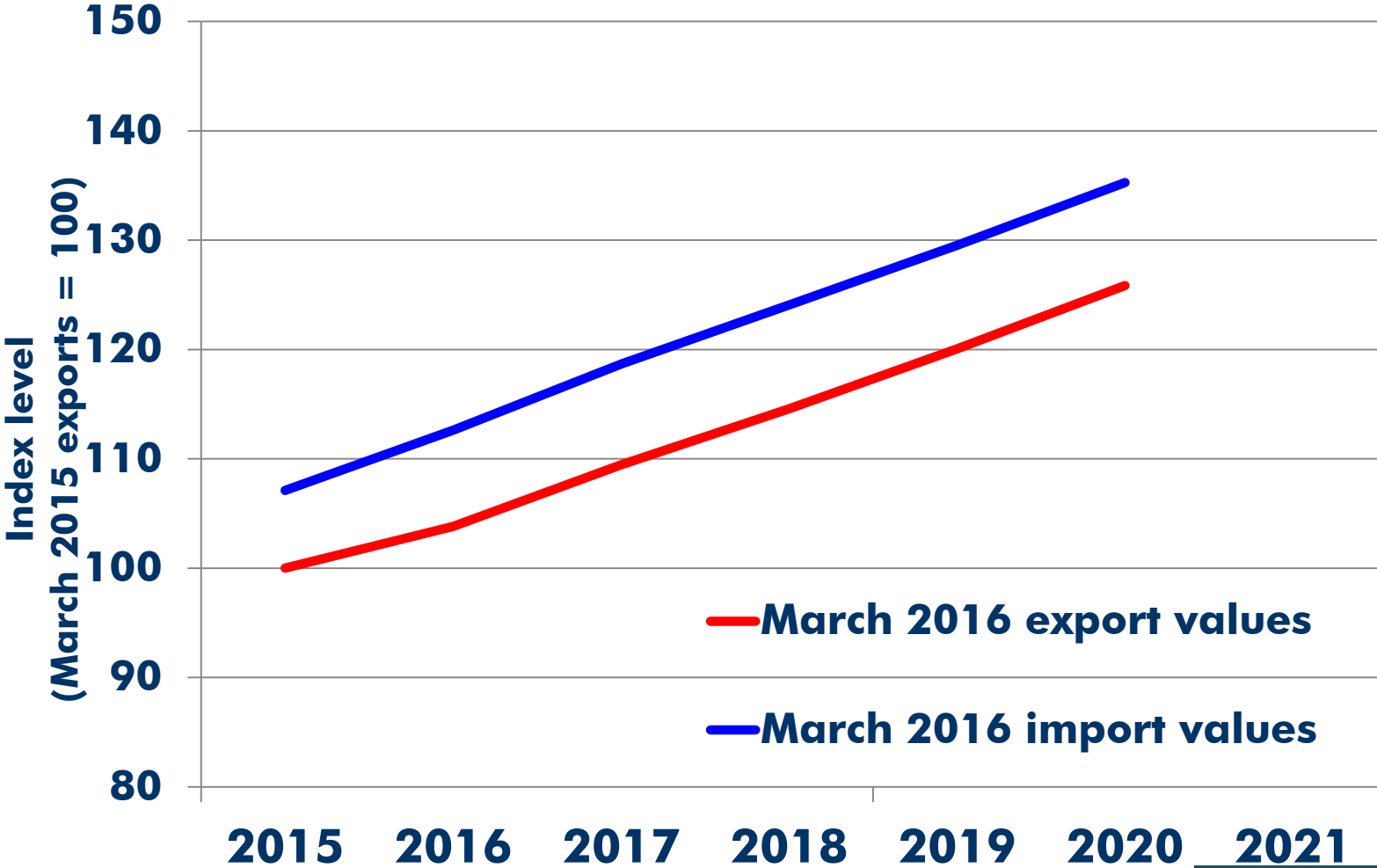
# Import and export volumes



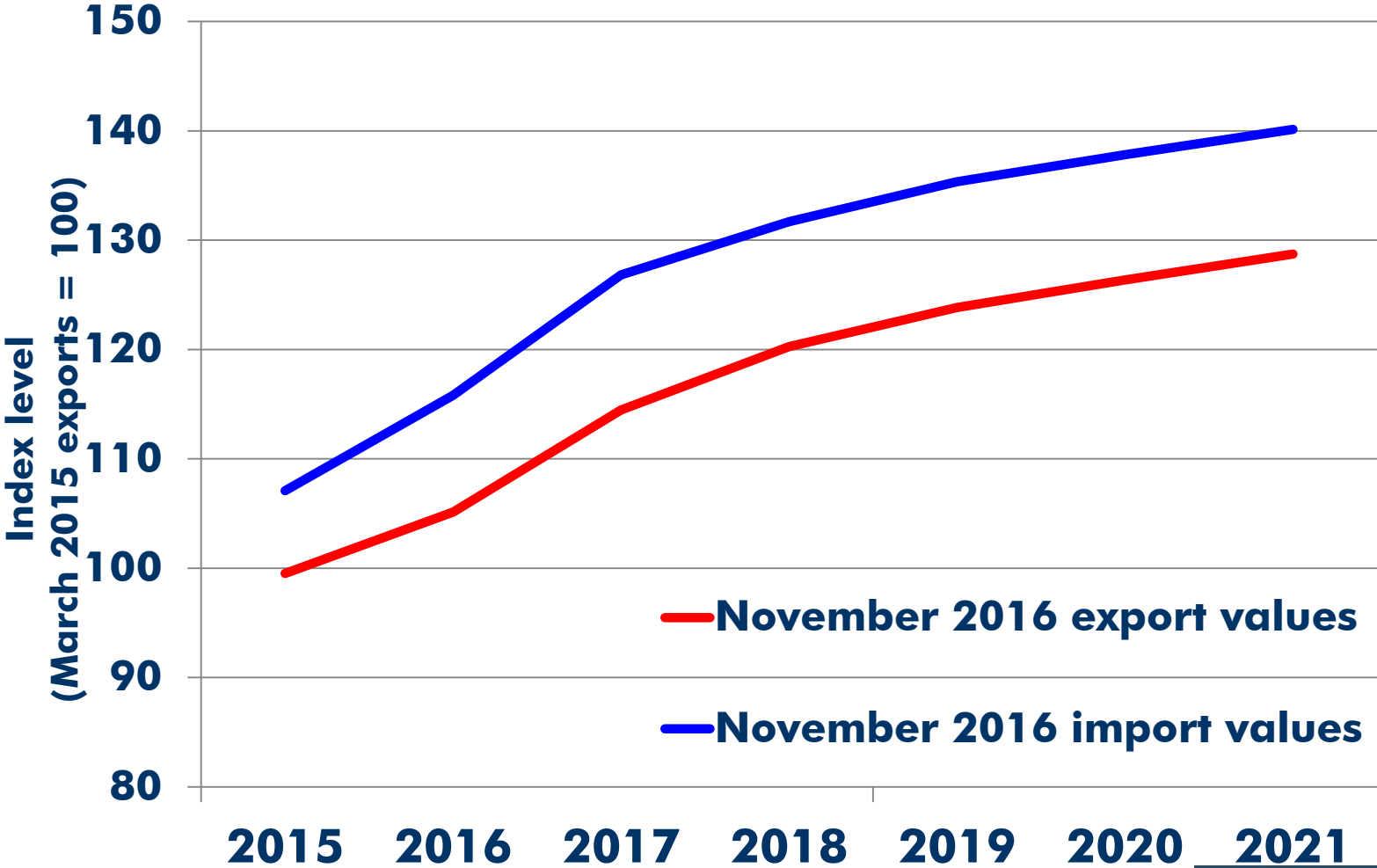
# Import and export volumes



# Import and export values



# Import and export values





# Current account balance

	£ billion					
	2015	2016	2017	2018	2019	2020
<b>March forecast</b>	<b>-81</b>	<b>-80</b>	<b>-75</b>	<b>-77</b>	<b>-76</b>	<b>-76</b>
<b>November forecast</b>	<b>-100</b>	<b>-111</b>	<b>-99</b>	<b>-87</b>	<b>-74</b>	<b>-63</b>
<b>Change</b>	<b>-20</b>	<b>-31</b>	<b>-24</b>	<b>-10</b>	<b>2</b>	<b>13</b>
<i>of which:</i>						
Trade volumes	-3	0	7	13	13	13
Trade prices	0	-10	-23	-23	-23	-23
Investment income balance	-18	-30	-15	-5	8	18
Transfers and other	0	9	7	5	5	6

# Current account balance

	£ billion					
	2015	2016	2017	2018	2019	2020
<b>March forecast</b>	<b>-81</b>	<b>-80</b>	<b>-75</b>	<b>-77</b>	<b>-76</b>	<b>-76</b>
<b>November forecast</b>	<b>-100</b>	<b>-111</b>	<b>-99</b>	<b>-87</b>	<b>-74</b>	<b>-63</b>
<b>Change</b>	<b>-20</b>	<b>-31</b>	<b>-24</b>	<b>-10</b>	<b>2</b>	<b>13</b>
<i>of which:</i>						
Trade volumes	-3	0	7	13	13	13
Trade prices	0	-10	-23	-23	-23	-23
Investment income balance	-18	-30	-15	-5	8	18
Transfers and other	0	9	7	5	5	6

# Current account balance

	£ billion					
	2015	2016	2017	2018	2019	2020
<b>March forecast</b>	<b>-81</b>	<b>-80</b>	<b>-75</b>	<b>-77</b>	<b>-76</b>	<b>-76</b>
<b>November forecast</b>	<b>-100</b>	<b>-111</b>	<b>-99</b>	<b>-87</b>	<b>-74</b>	<b>-63</b>
<b>Change</b>	<b>-20</b>	<b>-31</b>	<b>-24</b>	<b>-10</b>	<b>2</b>	<b>13</b>
<i>of which:</i>						
Trade volumes	-3	0	7	13	13	13
Trade prices	0	-10	-23	-23	-23	-23
Investment income balance	-18	-30	-15	-5	8	18
Transfers and other	0	9	7	5	5	6

# Current account balance

	£ billion					
	2015	2016	2017	2018	2019	2020
<b>March forecast</b>	<b>-81</b>	<b>-80</b>	<b>-75</b>	<b>-77</b>	<b>-76</b>	<b>-76</b>
<b>November forecast</b>	<b>-100</b>	<b>-111</b>	<b>-99</b>	<b>-87</b>	<b>-74</b>	<b>-63</b>
<b>Change</b>	<b>-20</b>	<b>-31</b>	<b>-24</b>	<b>-10</b>	<b>2</b>	<b>13</b>
<i>of which:</i>						
Trade volumes	-3	0	7	13	13	13
Trade prices	0	-10	-23	-23	-23	-23
Investment income balance	-18	-30	-15	-5	8	18
Transfers and other	0	9	7	5	5	6

# Current account balance

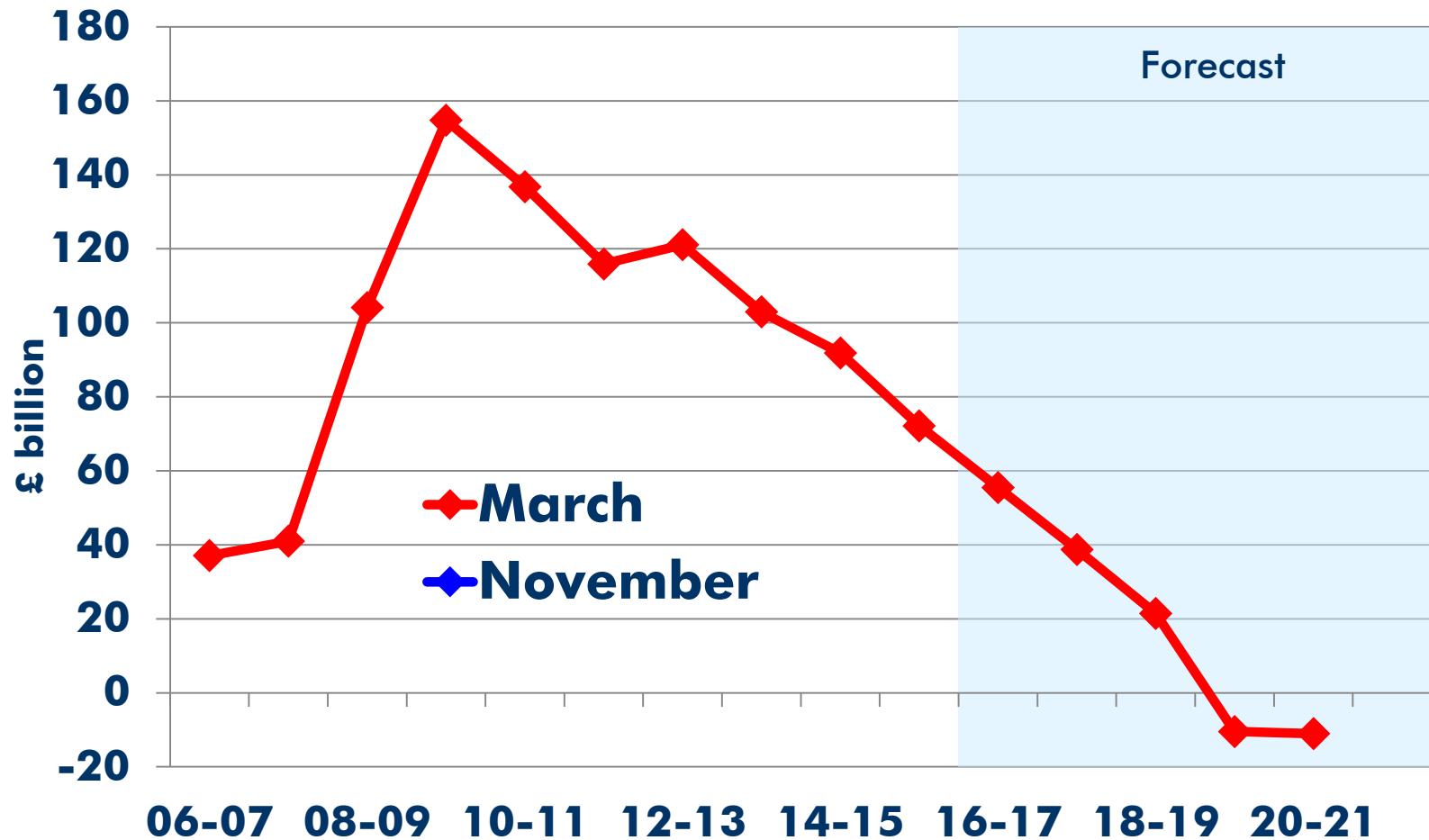
	£ billion					
	2015	2016	2017	2018	2019	2020
<b>March forecast</b>	<b>-81</b>	<b>-80</b>	<b>-75</b>	<b>-77</b>	<b>-76</b>	<b>-76</b>
<b>November forecast</b>	<b>-100</b>	<b>-111</b>	<b>-99</b>	<b>-87</b>	<b>-74</b>	<b>-63</b>
<b>Change</b>	<b>-20</b>	<b>-31</b>	<b>-24</b>	<b>-10</b>	<b>2</b>	<b>13</b>
<i>of which:</i>						
Trade volumes	-3	0	7	13	13	13
Trade prices	0	-10	-23	-23	-23	-23
Investment income balance	-18	-30	-15	-5	8	18
Transfers and other	0	9	7	5	5	6

# Impact on fiscal determinants

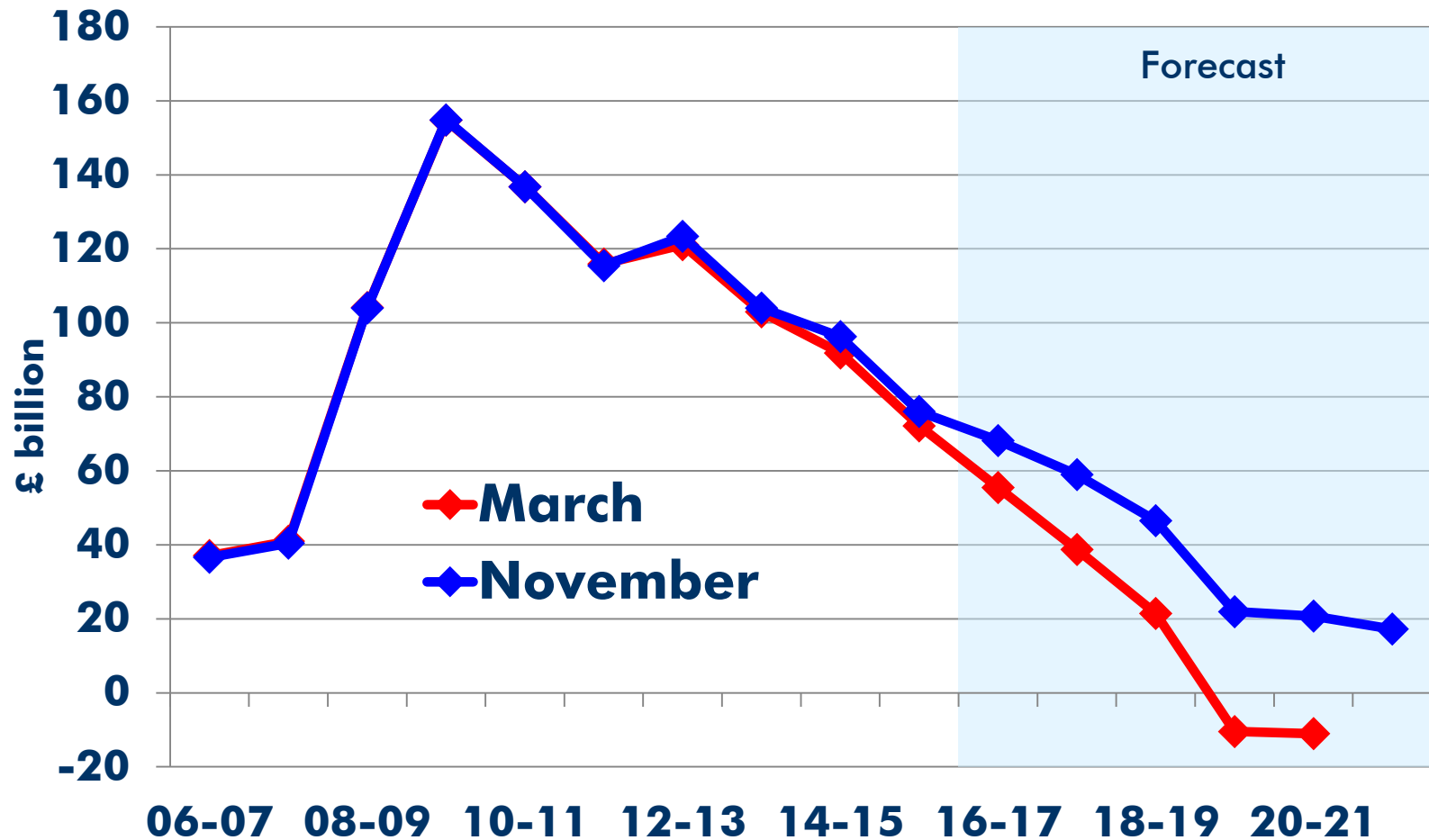
<b>Cumulative percentage growth, 2015/16 to 2020/21</b>	<b>November</b>	<b>March</b>	<i>Difference</i>
<b>Potential GDP</b>	9.9	11.1	-1.2
<b>Real GDP</b>	9.7	11.0	-1.3
<b>Nominal GDP</b>	19.6	21.7	-2.0
<b>Wages and salaries</b>	18.4	21.4	-3.0
<b>Non-north sea profits*</b>	18.5	19.6	-1.1
<b>Nominal consumer spending</b>	21.2	22.7	-1.5
<b>Real business investment</b>	12.9	27.7	-14.8

\*Cumulative growth from 2016Q2 to 2021Q1

# Public sector net borrowing

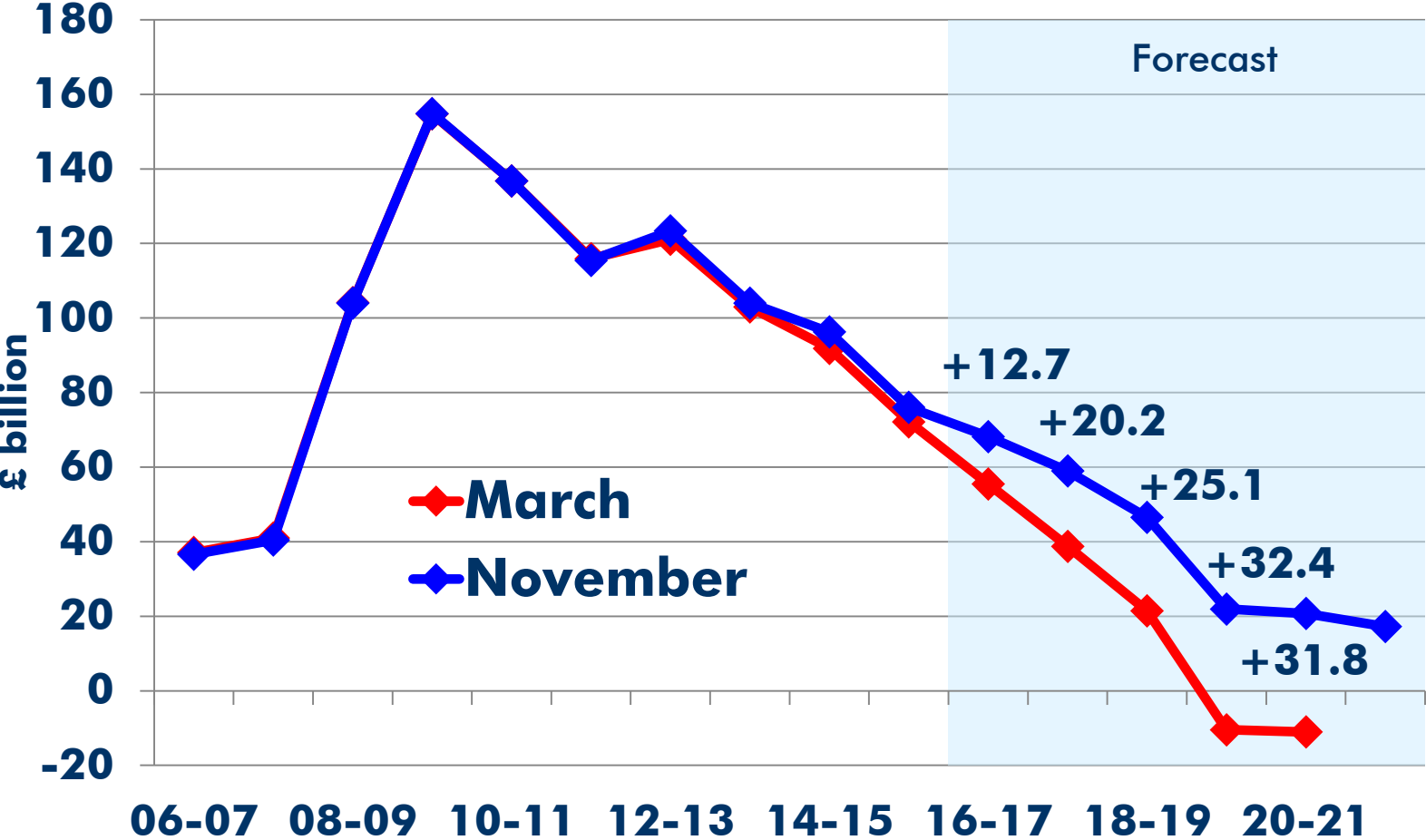


# Public sector net borrowing

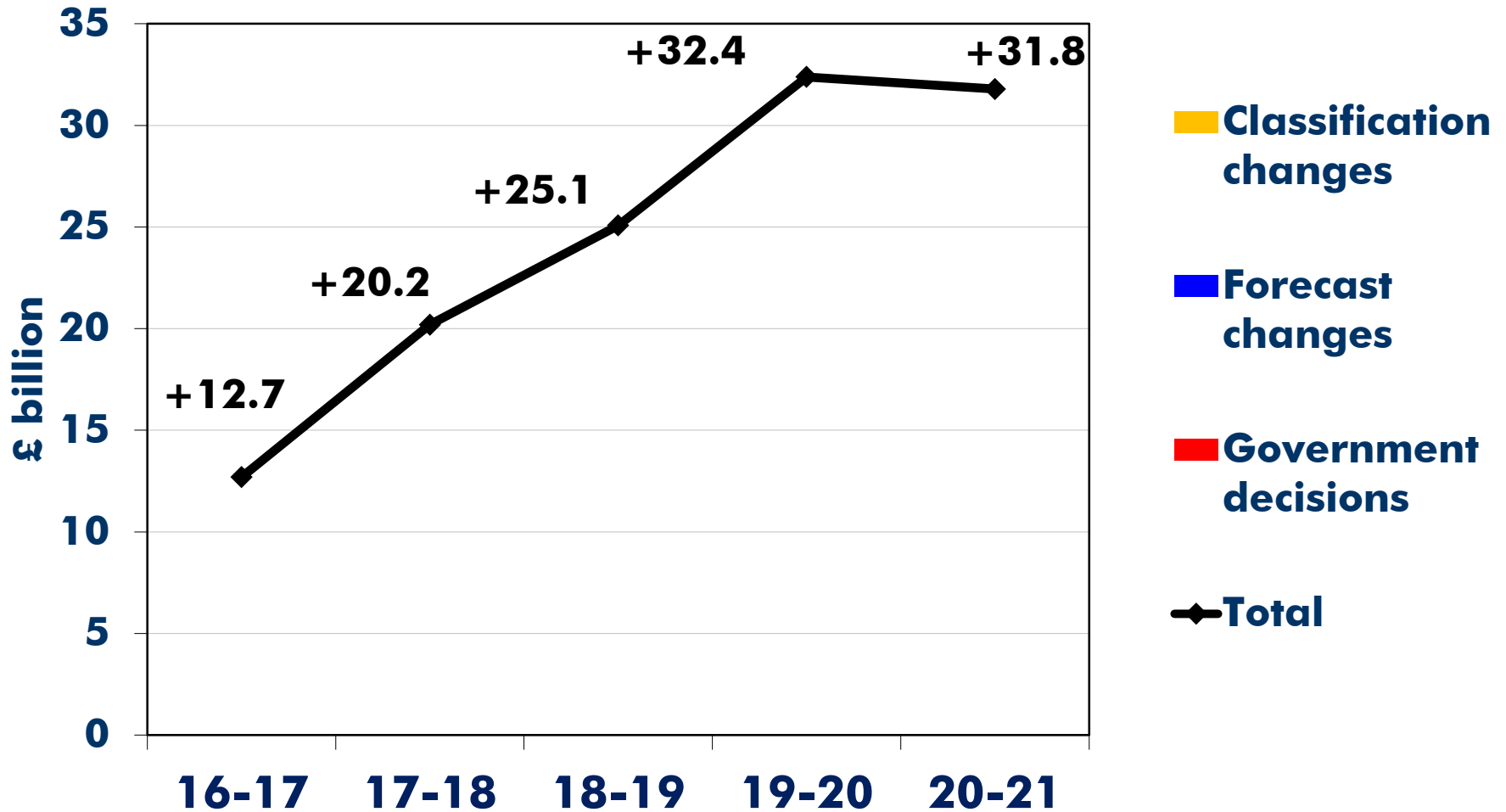




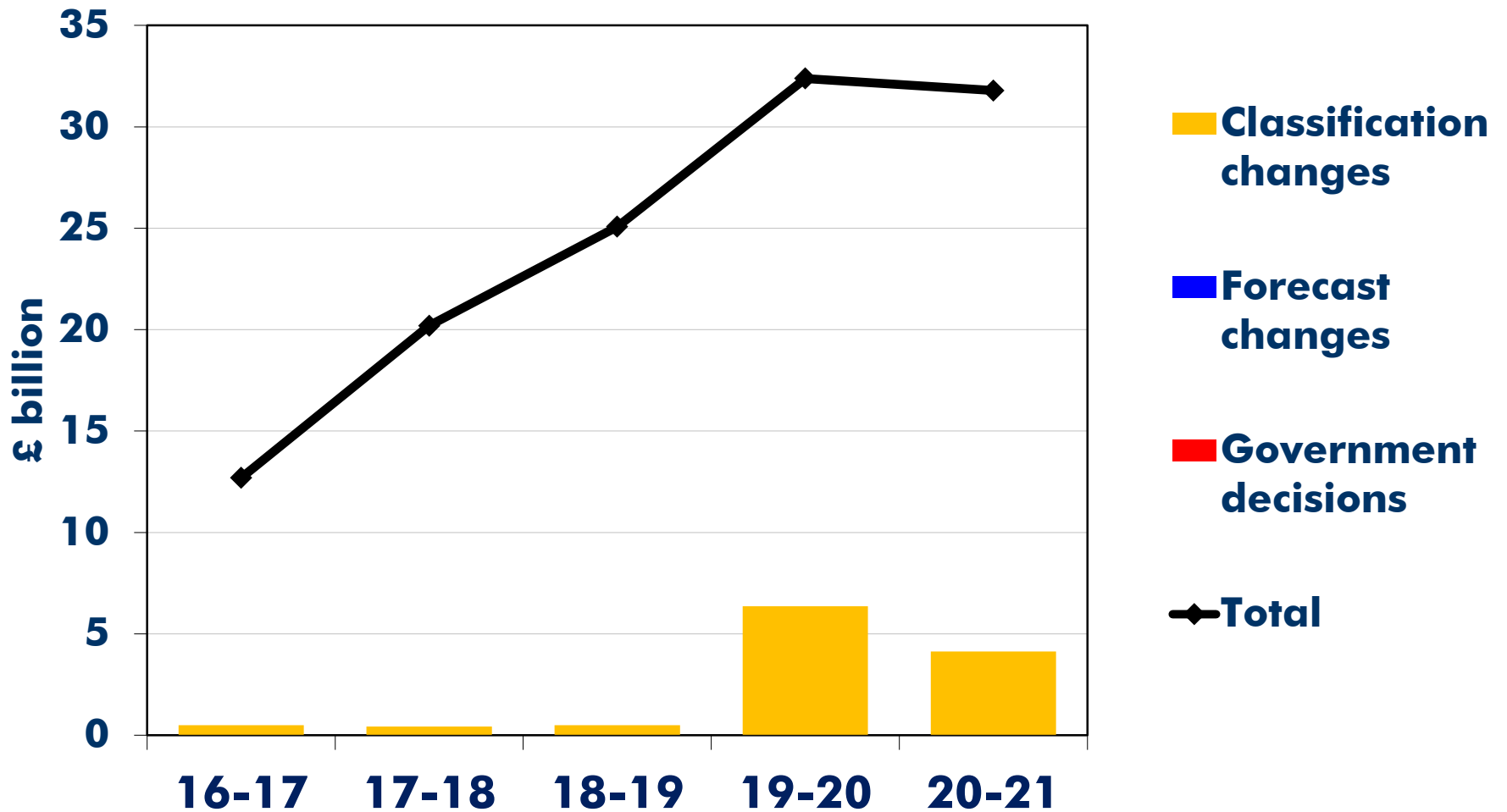
# Public sector net borrowing



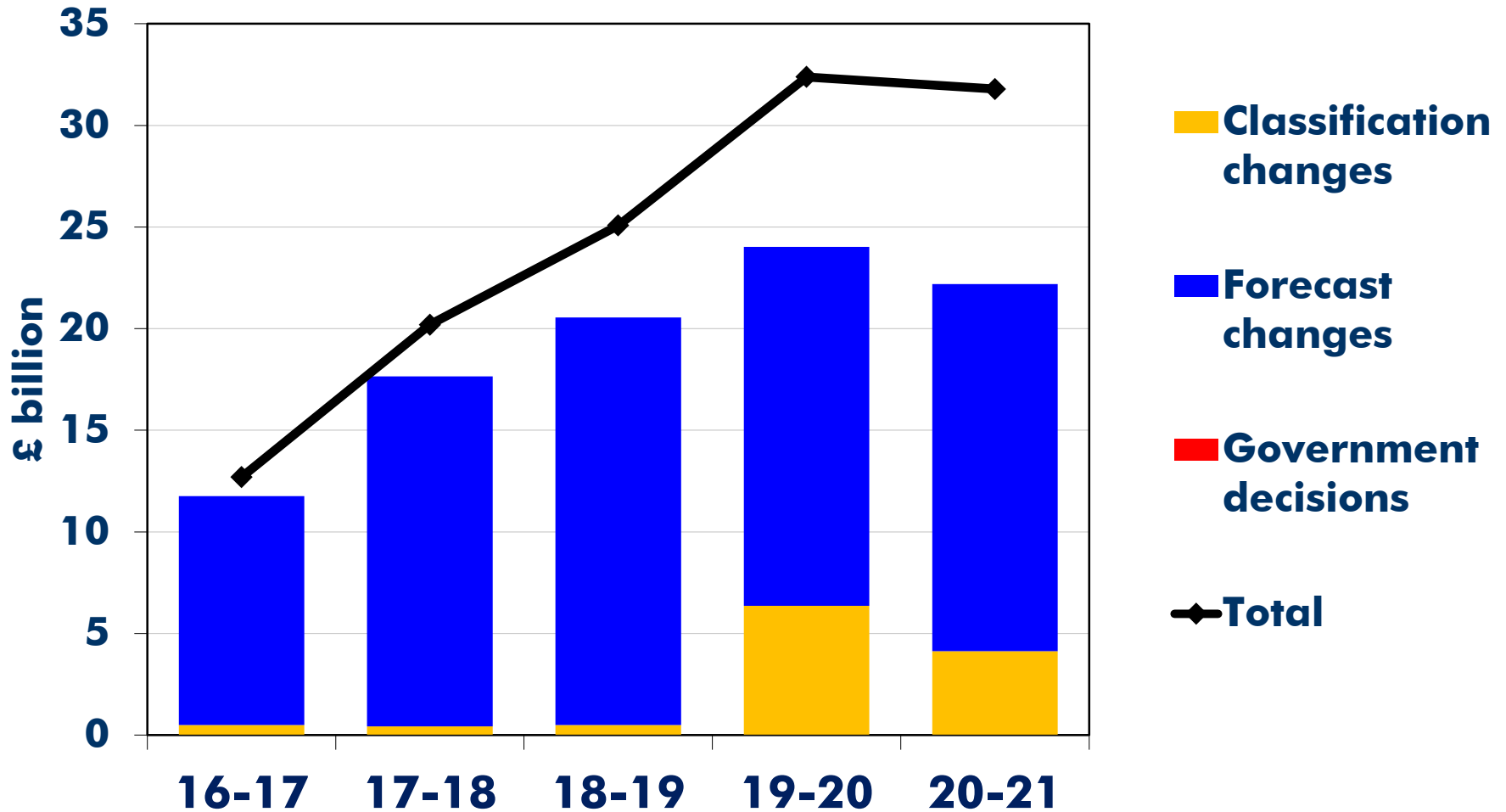
# Change in net borrowing



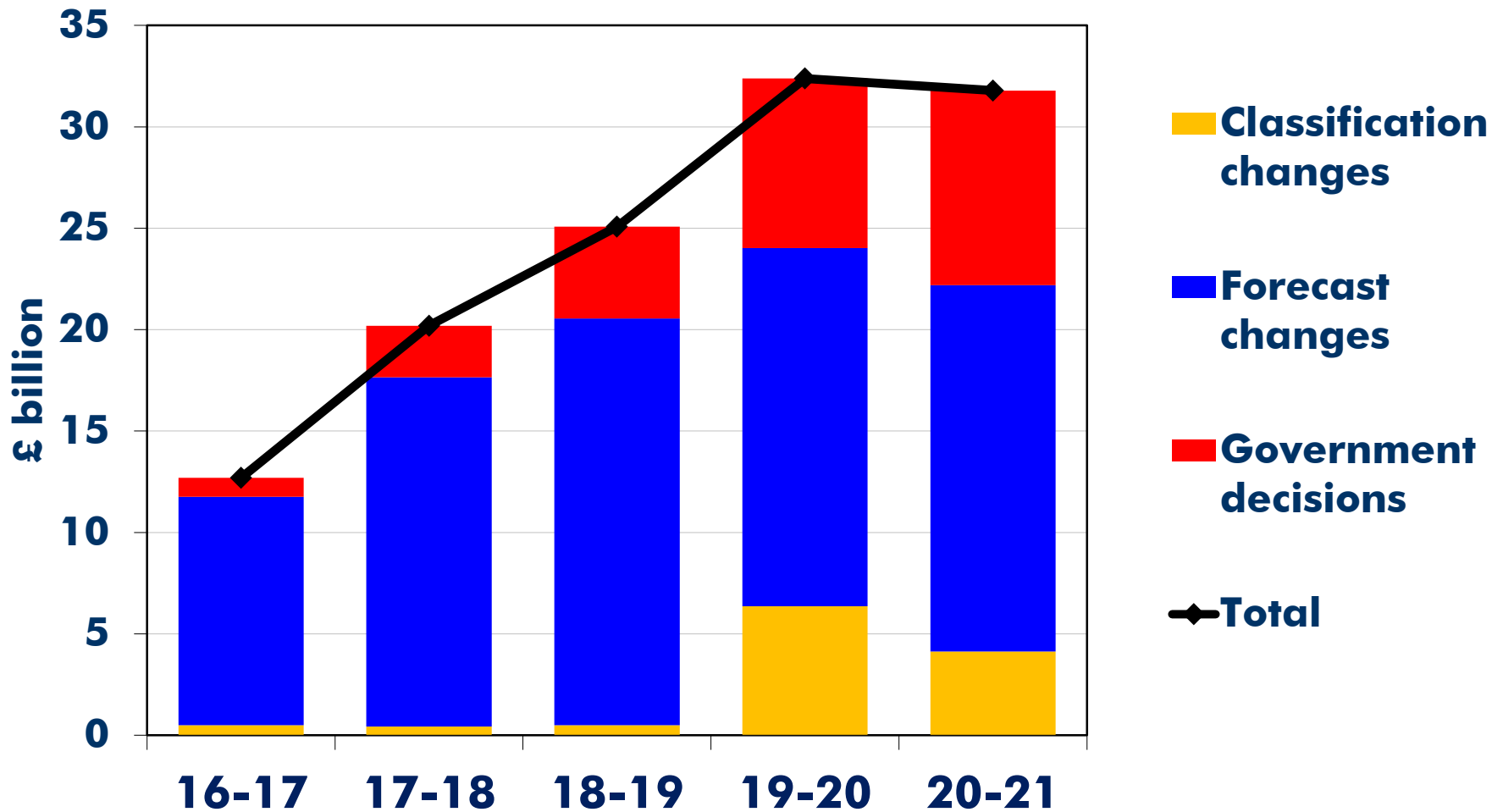
# Change in net borrowing



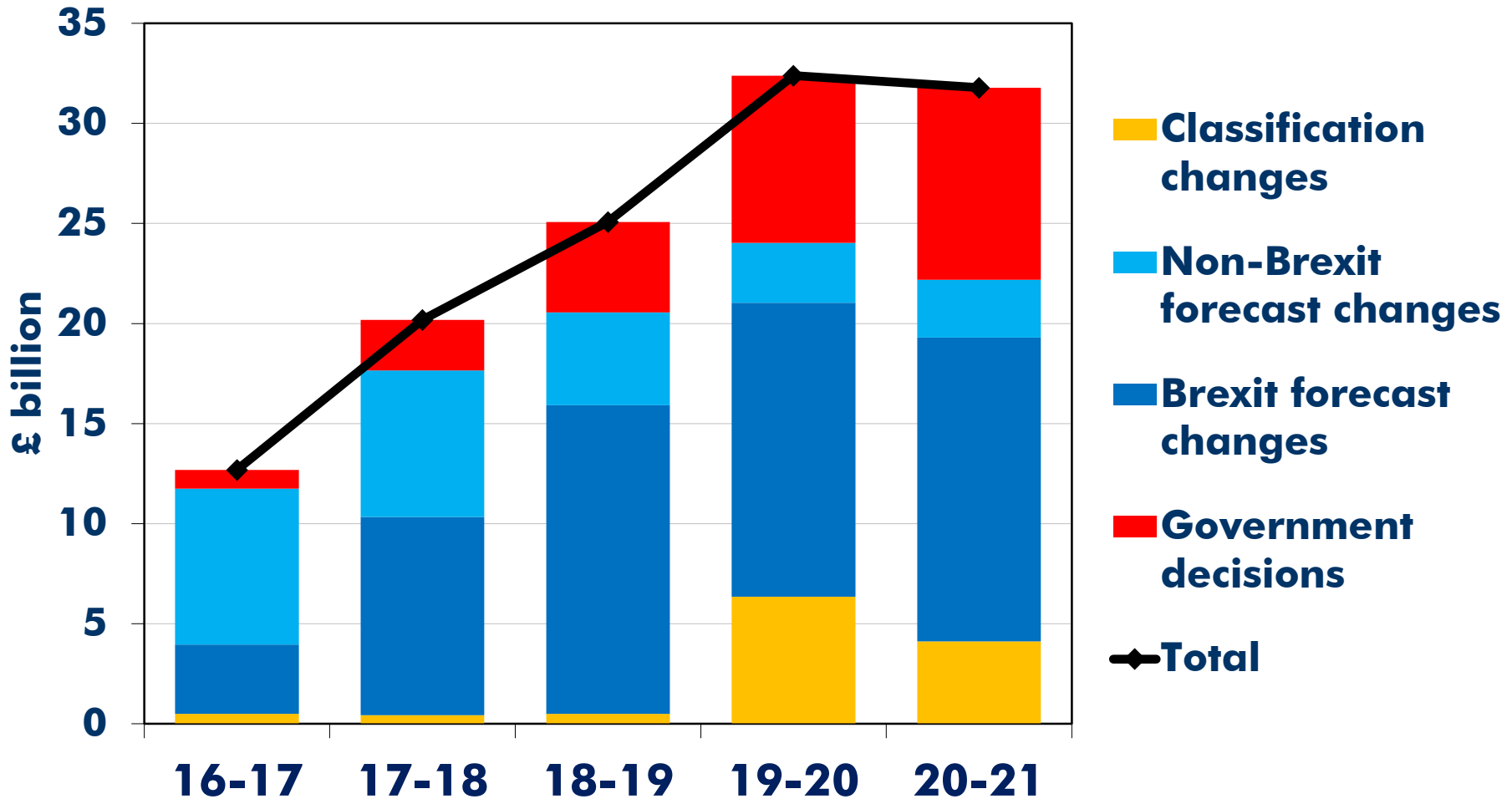
# Change in net borrowing



# Change in net borrowing



# Change in net borrowing



# Forecast changes: non-Brexit

	£ billion				
	16-17	17-18	18-19	19-20	20-21
<b>Total</b>	<b>7.8</b>	<b>7.3</b>	<b>4.6</b>	<b>3.0</b>	<b>2.9</b>
<i>of which:</i>					
Higher migration and GDP growth	-0.8	-1.9	-3.0	-4.4	-5.9
Weaker in-year receipts	4.5	4.6	4.8	5.0	5.3
Higher in-year spending	2.9	2.9	2.9	2.9	2.9
Other factors	1.2	1.7	-0.1	-0.6	0.6

# Forecast changes: non-Brexit

	£ billion				
	16-17	17-18	18-19	19-20	20-21
<b>Total</b>	<b>7.8</b>	<b>7.3</b>	<b>4.6</b>	<b>3.0</b>	<b>2.9</b>
<i>of which:</i>					
Higher migration and GDP growth	-0.8	-1.9	-3.0	-4.4	-5.9
Weaker in-year receipts	4.5	4.6	4.8	5.0	5.3
Higher in-year spending	2.9	2.9	2.9	2.9	2.9
Other factors	1.2	1.7	-0.1	-0.6	0.6



# Forecast changes: non-Brexit

	£ billion				
	16-17	17-18	18-19	19-20	20-21
<b>Total</b>	<b>7.8</b>	<b>7.3</b>	<b>4.6</b>	<b>3.0</b>	<b>2.9</b>
<i>of which:</i>					
Higher migration and GDP growth	-0.8	-1.9	-3.0	-4.4	-5.9
Weaker in-year receipts	4.5	4.6	4.8	5.0	5.3
Higher in-year spending	2.9	2.9	2.9	2.9	2.9
Other factors	1.2	1.7	-0.1	-0.6	0.6

# Forecast changes: non-Brexit

	£ billion				
	16-17	17-18	18-19	19-20	20-21
<b>Total</b>	<b>7.8</b>	<b>7.3</b>	<b>4.6</b>	<b>3.0</b>	<b>2.9</b>
<i>of which:</i>					
Higher migration and GDP growth	-0.8	-1.9	-3.0	-4.4	-5.9
Weaker in-year receipts	4.5	4.6	4.8	5.0	5.3
Higher in-year spending	2.9	2.9	2.9	2.9	2.9
Other factors	1.2	1.7	-0.1	-0.6	0.6

# Forecast changes: Brexit

	£ billion				
	16-17	17-18	18-19	19-20	20-21
<b>Total</b>	<b>3.5</b>	<b>9.9</b>	<b>15.4</b>	<b>14.7</b>	<b>15.2</b>
<i>of which:</i>					
Lower migration	0.8	1.9	3.0	4.4	5.9
Lower trend productivity growth	0.0	1.2	4.2	5.5	7.2
Cyclical slowdown	2.3	7.6	8.6	5.4	2.3
Higher inflation	0.9	2.7	2.3	2.0	2.2
Lower interest rates	-0.5	-1.1	-1.3	-1.6	-1.8
Other factors	0.0	-2.5	-1.5	-1.1	-0.6

# Forecast changes: Brexit

	£ billion				
	16-17	17-18	18-19	19-20	20-21
<b>Total</b>	<b>3.5</b>	<b>9.9</b>	<b>15.4</b>	<b>14.7</b>	<b>15.2</b>
<i>of which:</i>					
Lower migration	0.8	1.9	3.0	4.4	5.9
Lower trend productivity growth	0.0	1.2	4.2	5.5	7.2
Cyclical slowdown	2.3	7.6	8.6	5.4	2.3
Higher inflation	0.9	2.7	2.3	2.0	2.2
Lower interest rates	-0.5	-1.1	-1.3	-1.6	-1.8
Other factors	0.0	-2.5	-1.5	-1.1	-0.6

# Forecast changes: Brexit

	£ billion				
	16-17	17-18	18-19	19-20	20-21
<b>Total</b>	<b>3.5</b>	<b>9.9</b>	<b>15.4</b>	<b>14.7</b>	<b>15.2</b>
<i>of which:</i>					
Lower migration	0.8	1.9	3.0	4.4	5.9
Lower trend productivity growth	0.0	1.2	4.2	5.5	7.2
Cyclical slowdown	2.3	7.6	8.6	5.4	2.3
Higher inflation	0.9	2.7	2.3	2.0	2.2
Lower interest rates	-0.5	-1.1	-1.3	-1.6	-1.8
Other factors	0.0	-2.5	-1.5	-1.1	-0.6

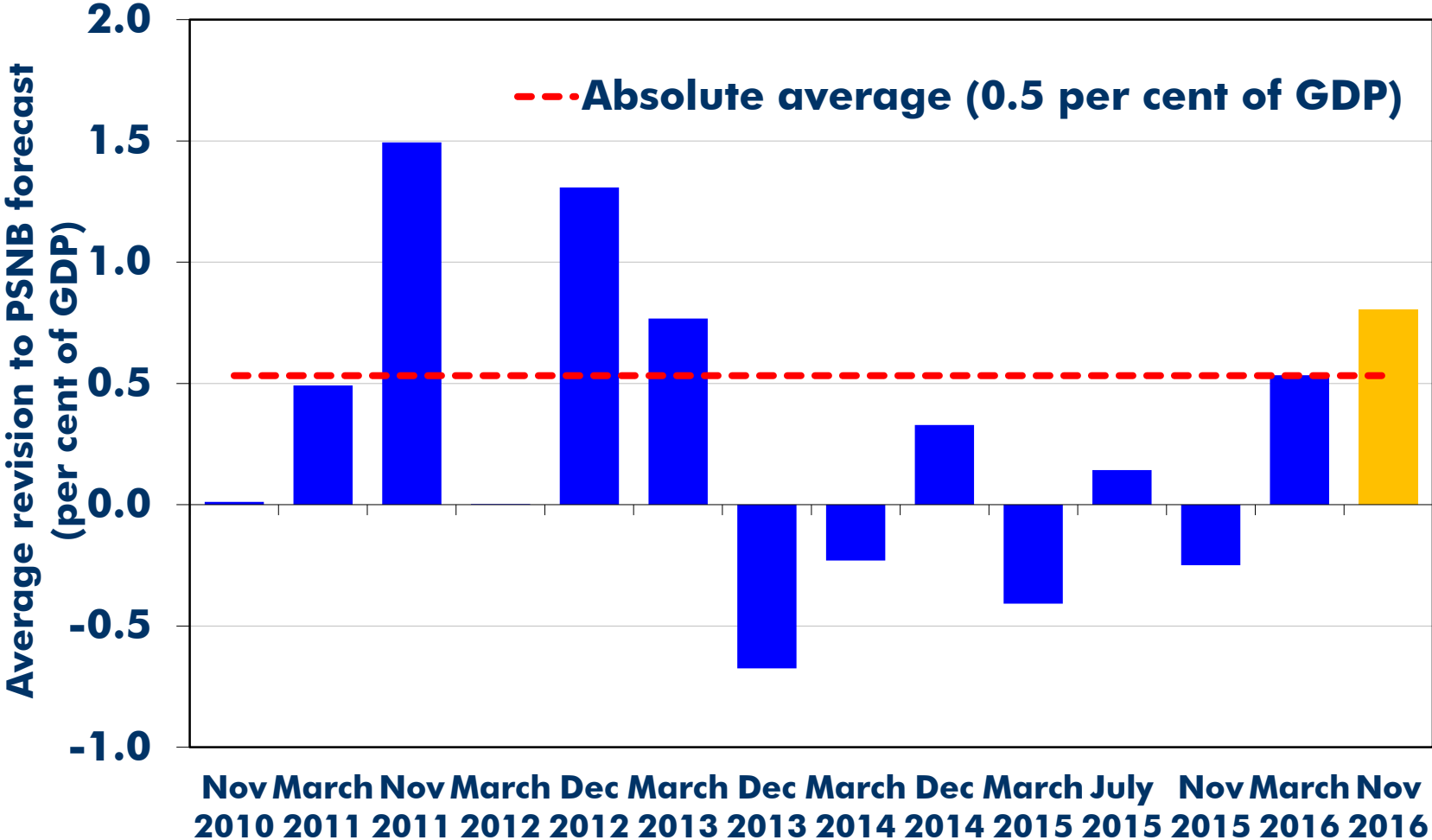
# Forecast changes: Brexit

	£ billion				
	16-17	17-18	18-19	19-20	20-21
<b>Total</b>	<b>3.5</b>	<b>9.9</b>	<b>15.4</b>	<b>14.7</b>	<b>15.2</b>
<i>of which:</i>					
Lower migration	0.8	1.9	3.0	4.4	5.9
Lower trend productivity growth	0.0	1.2	4.2	5.5	7.2
Cyclical slowdown	2.3	7.6	8.6	5.4	2.3
Higher inflation	0.9	2.7	2.3	2.0	2.2
Lower interest rates	-0.5	-1.1	-1.3	-1.6	-1.8
Other factors	0.0	-2.5	-1.5	-1.1	-0.6

# Forecast changes: Brexit

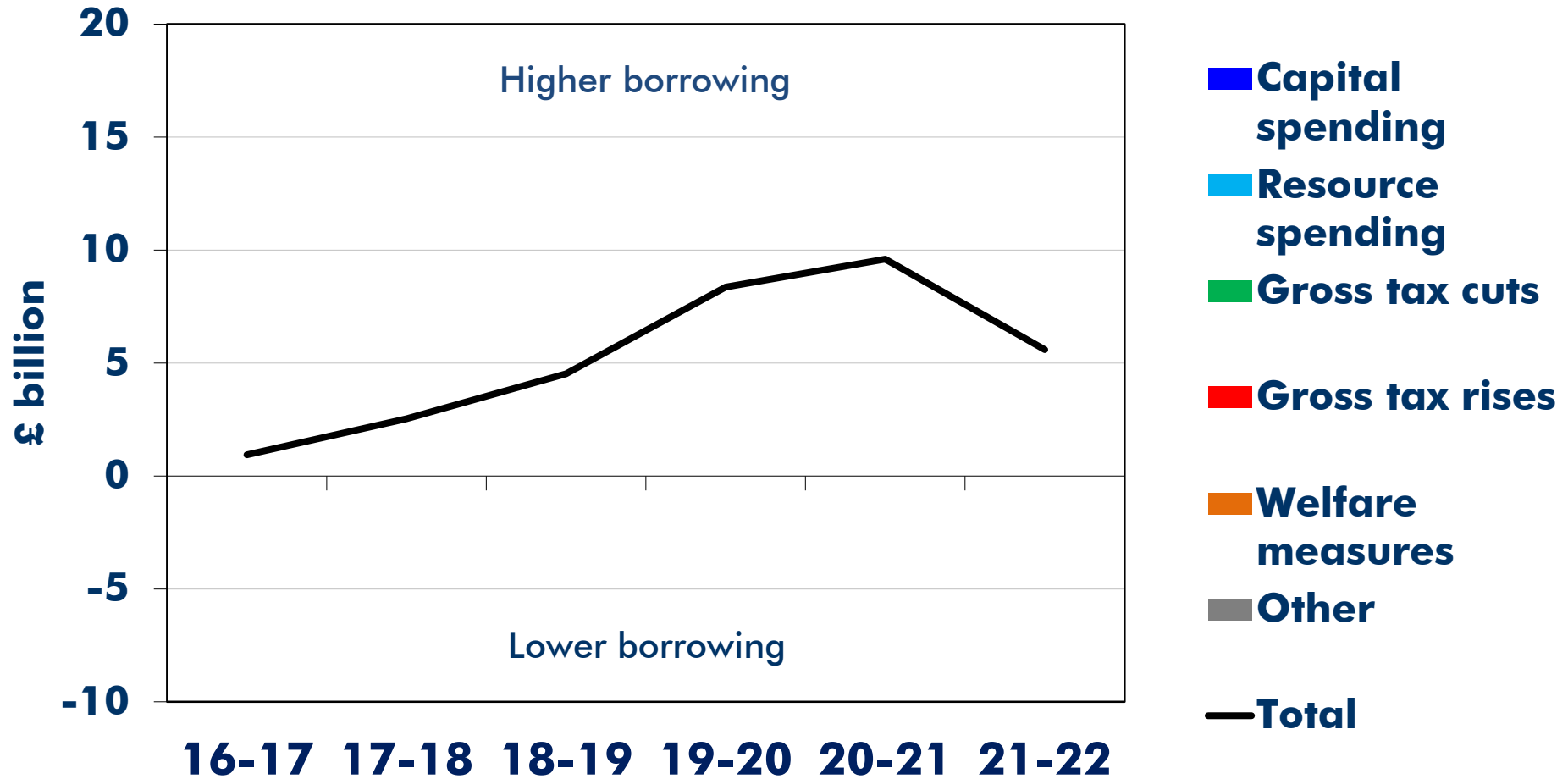
	£ billion				
	16-17	17-18	18-19	19-20	20-21
<b>Total</b>	<b>3.5</b>	<b>9.9</b>	<b>15.4</b>	<b>14.7</b>	<b>15.2</b>
<i>of which:</i>					
Lower migration	0.8	1.9	3.0	4.4	5.9
Lower trend productivity growth	0.0	1.2	4.2	5.5	7.2
Cyclical slowdown	2.3	7.6	8.6	5.4	2.3
Higher inflation	0.9	2.7	2.3	2.0	2.2
Lower interest rates	-0.5	-1.1	-1.3	-1.6	-1.8
Other factors	0.0	-2.5	-1.5	-1.1	-0.6

# Forecast revisions in context

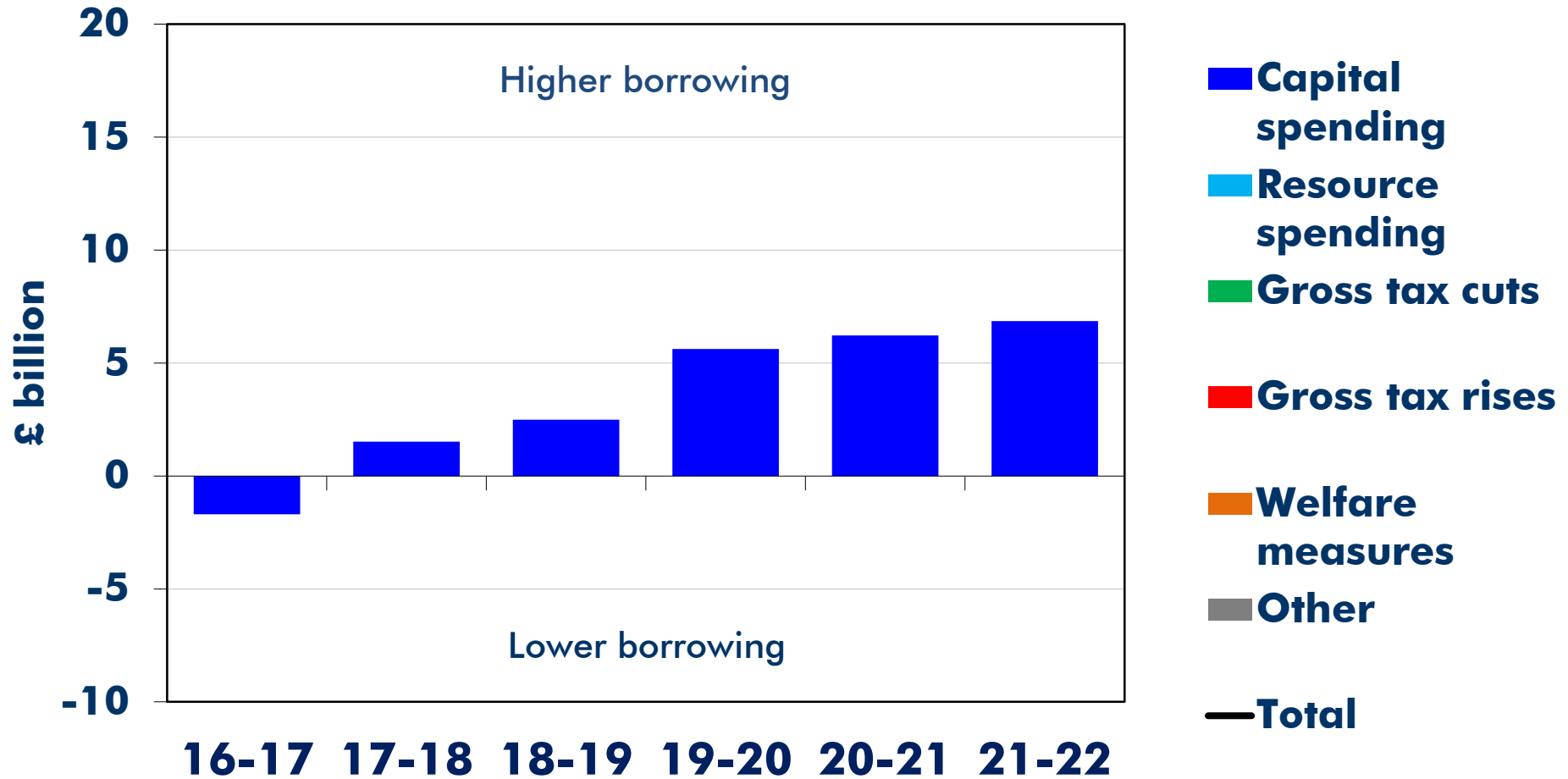




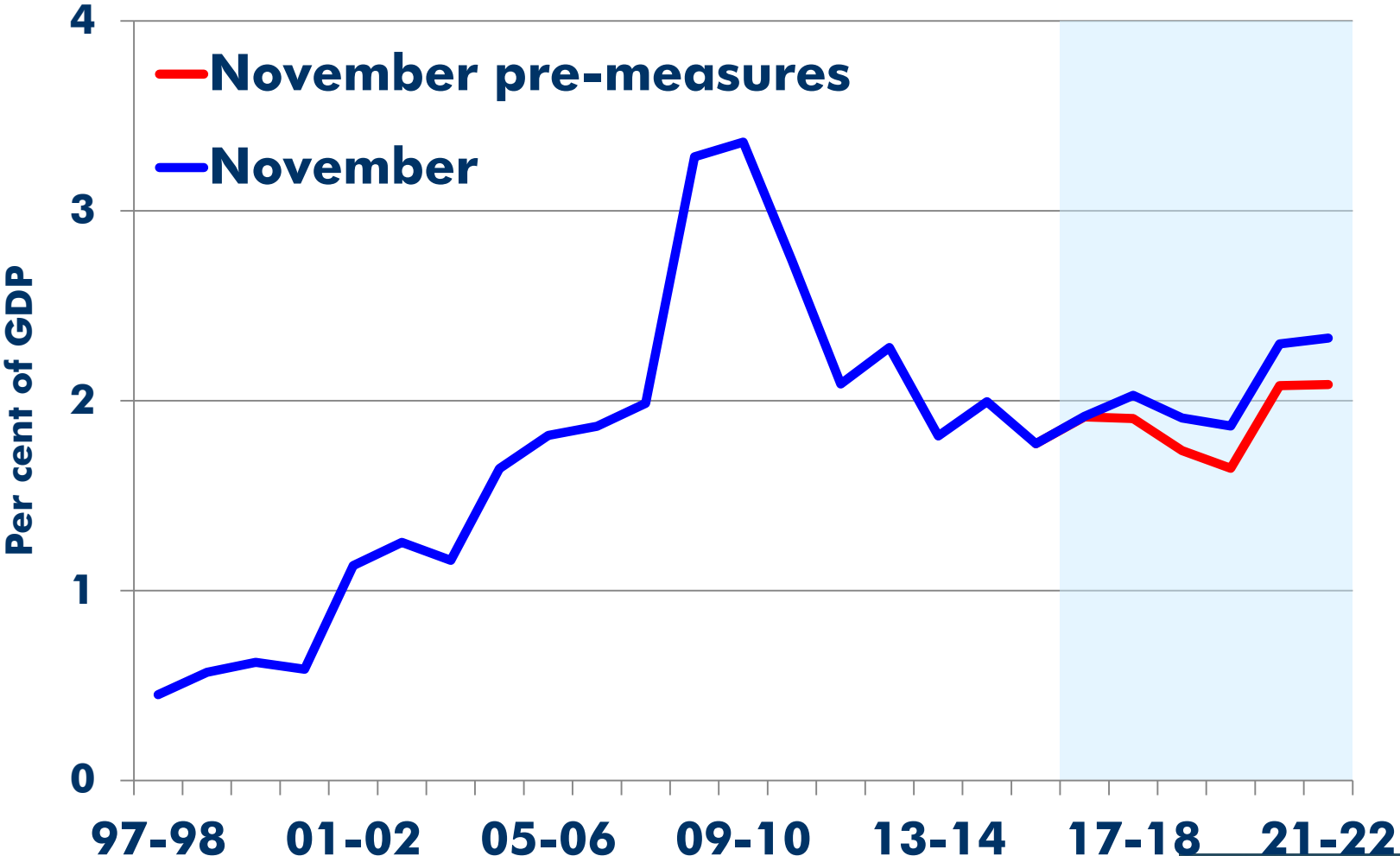
# The policy package



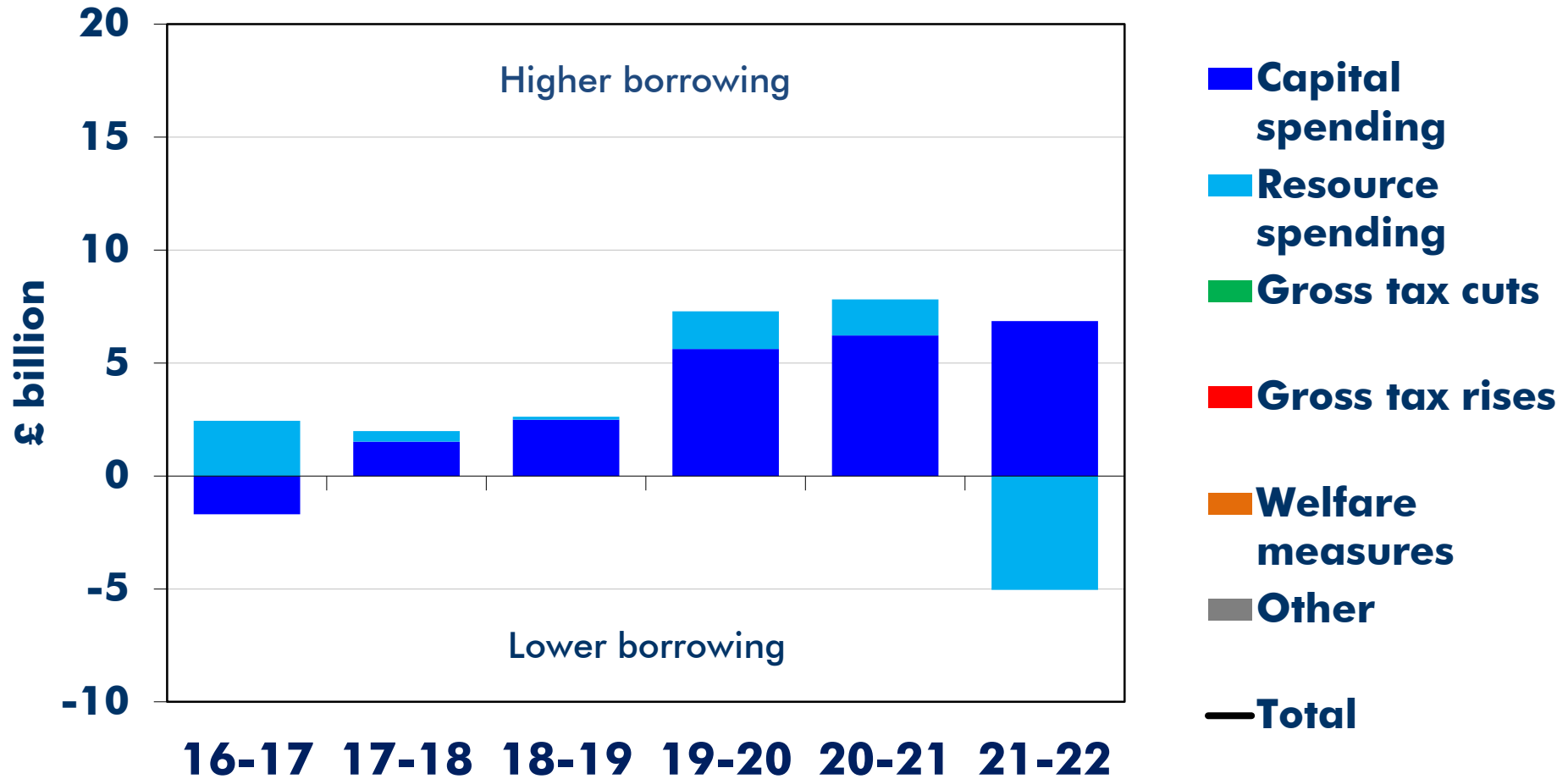
# The policy package



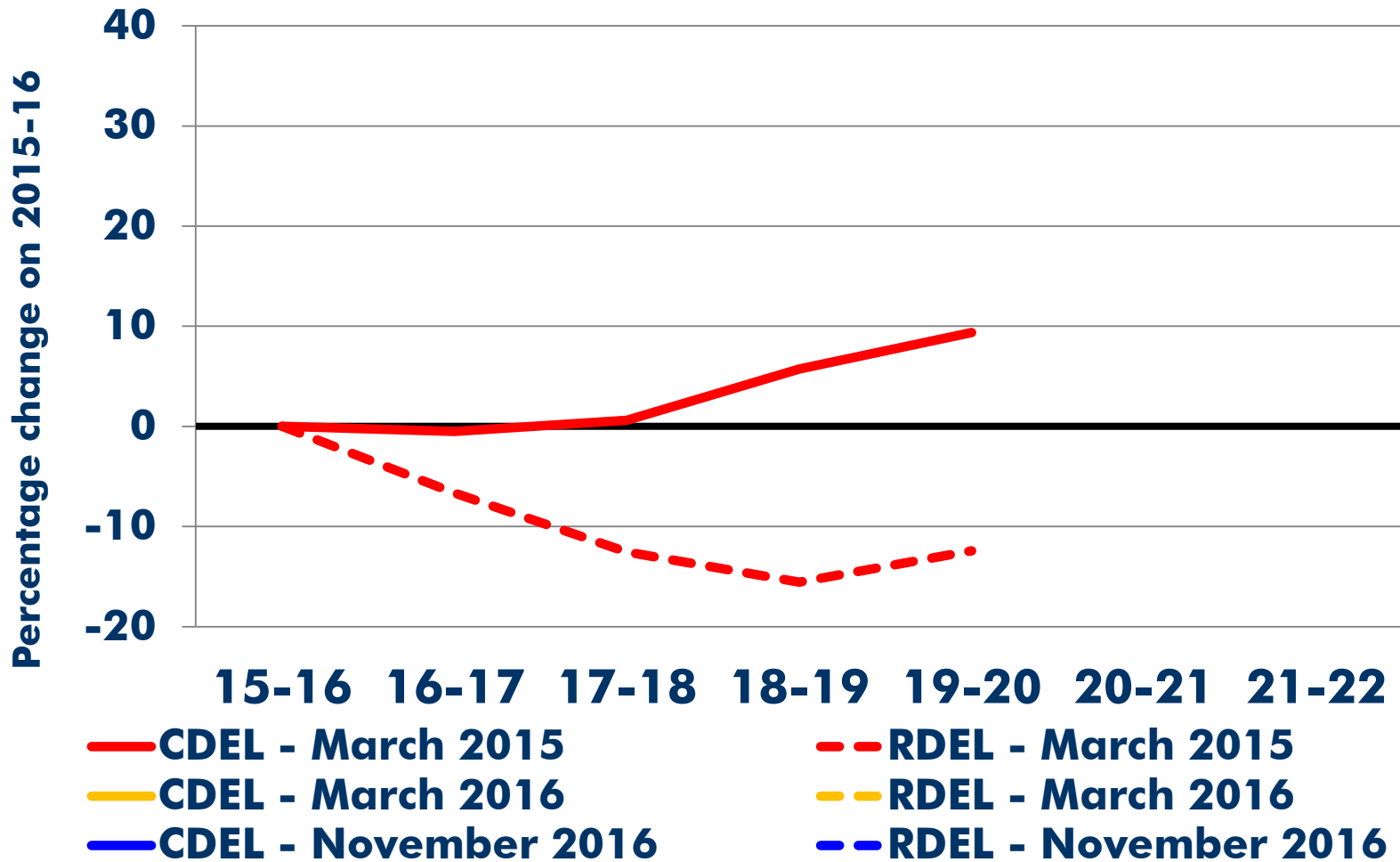
# PSNI



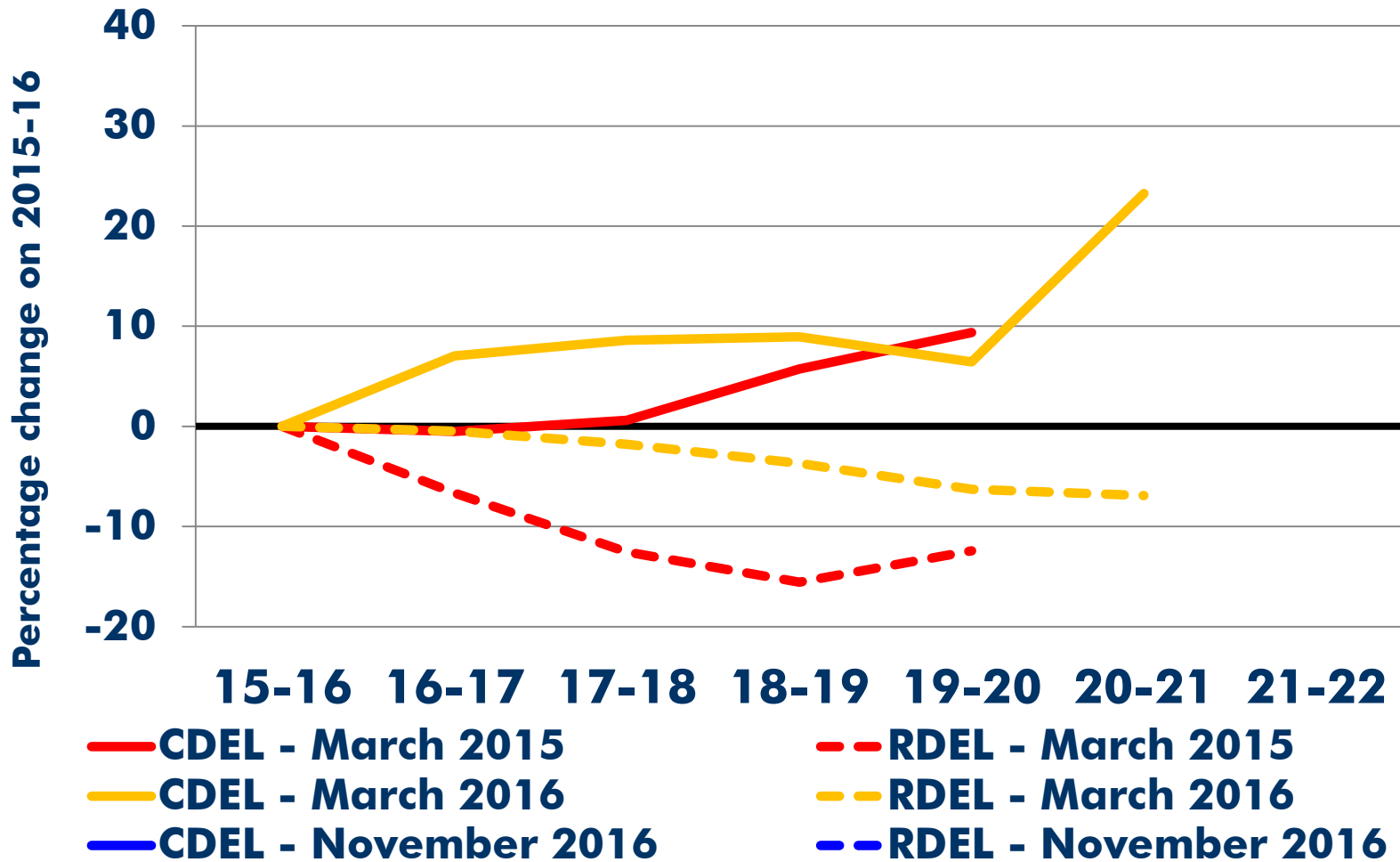
# The policy package



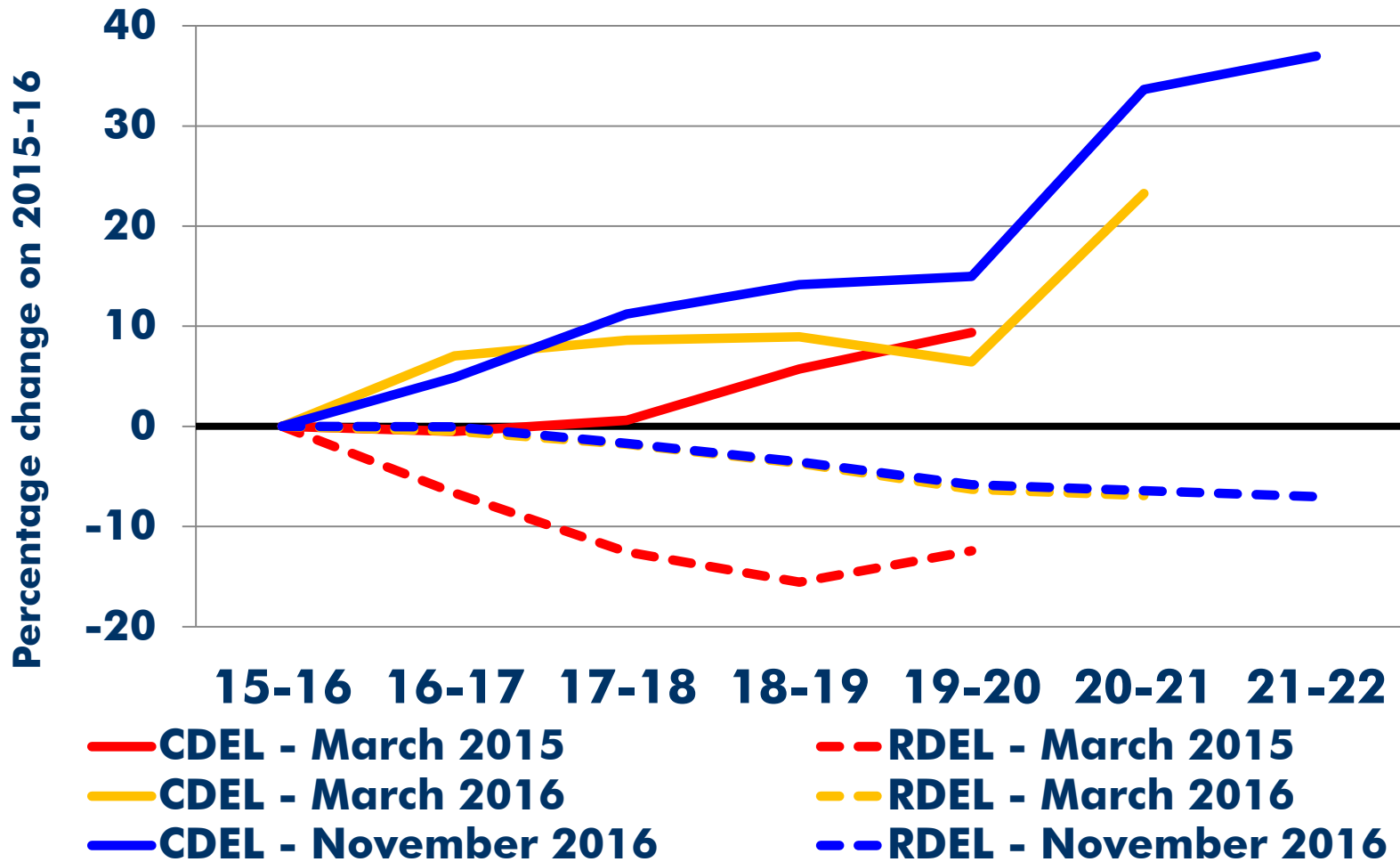
# Real per capita DEL spending



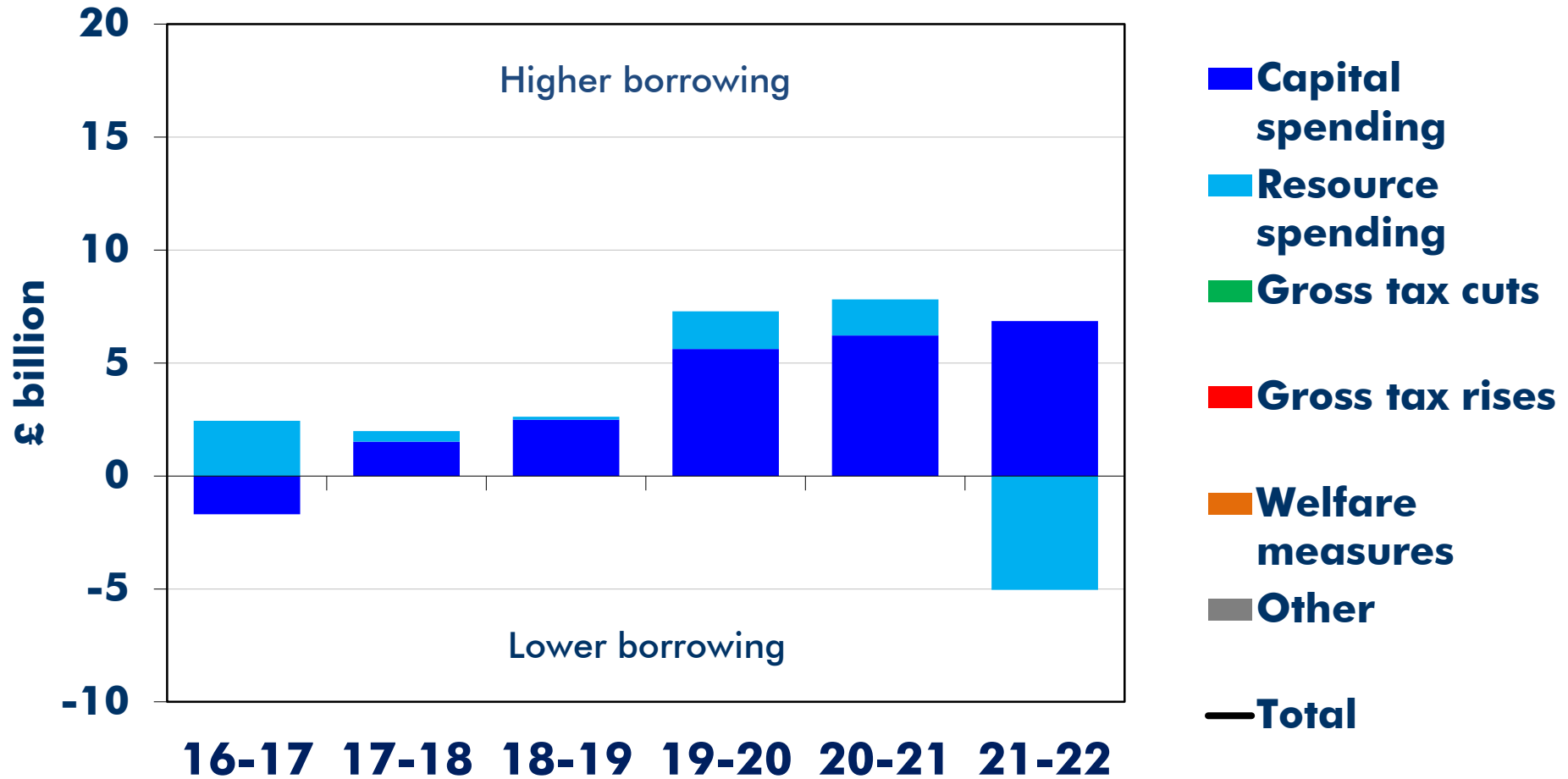
# Real per capita DEL spending



# Real per capita DEL spending

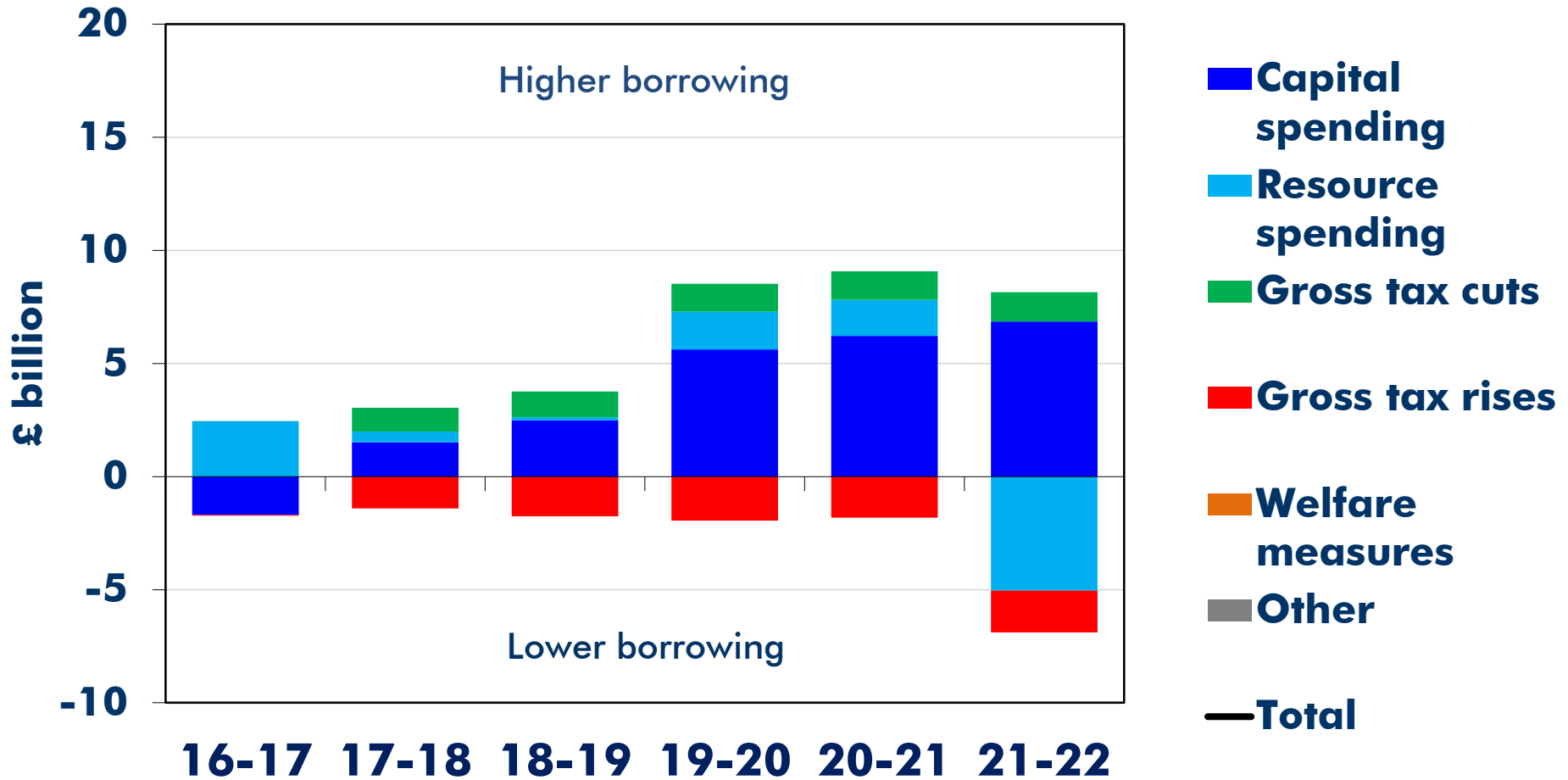


# The policy package

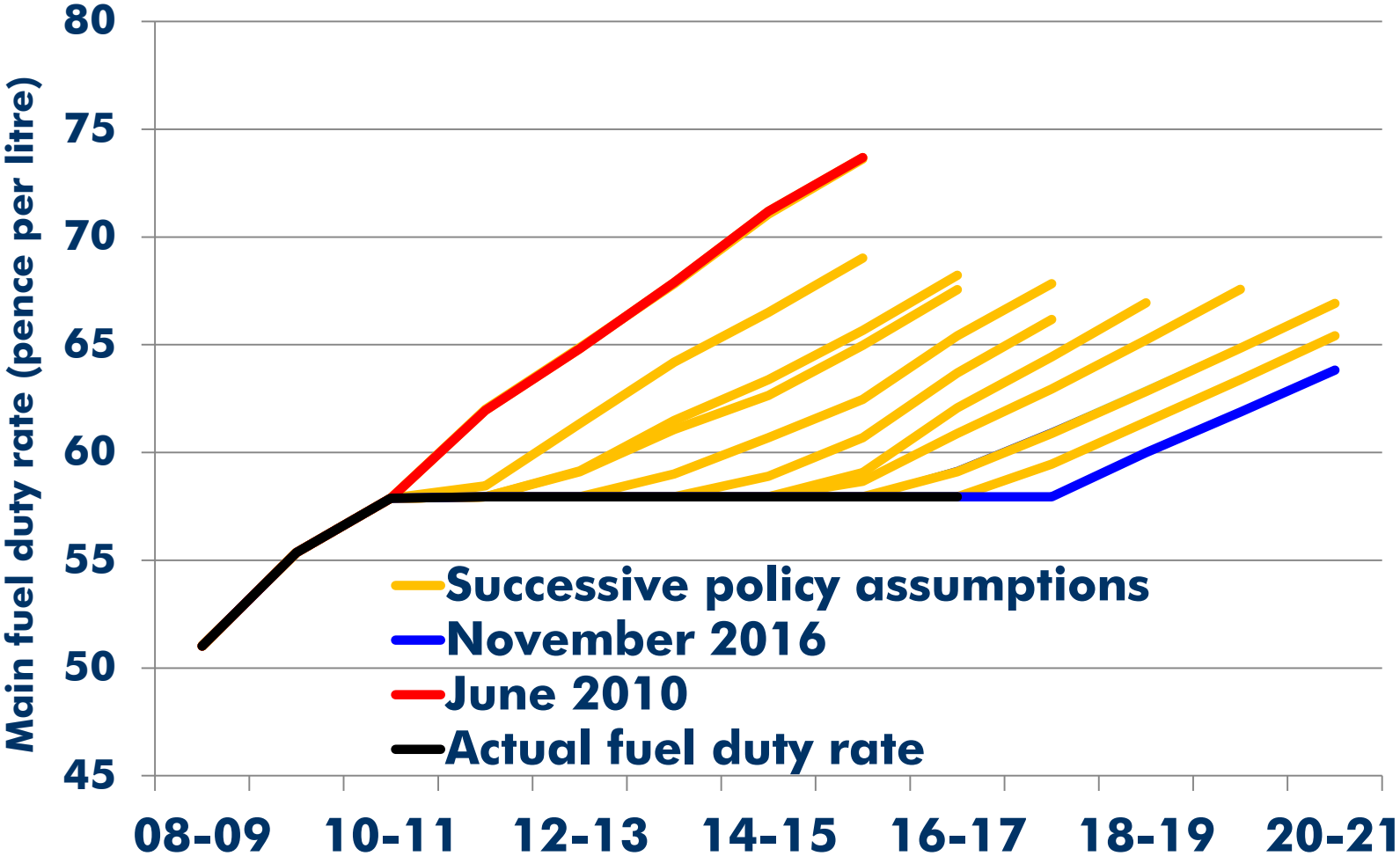




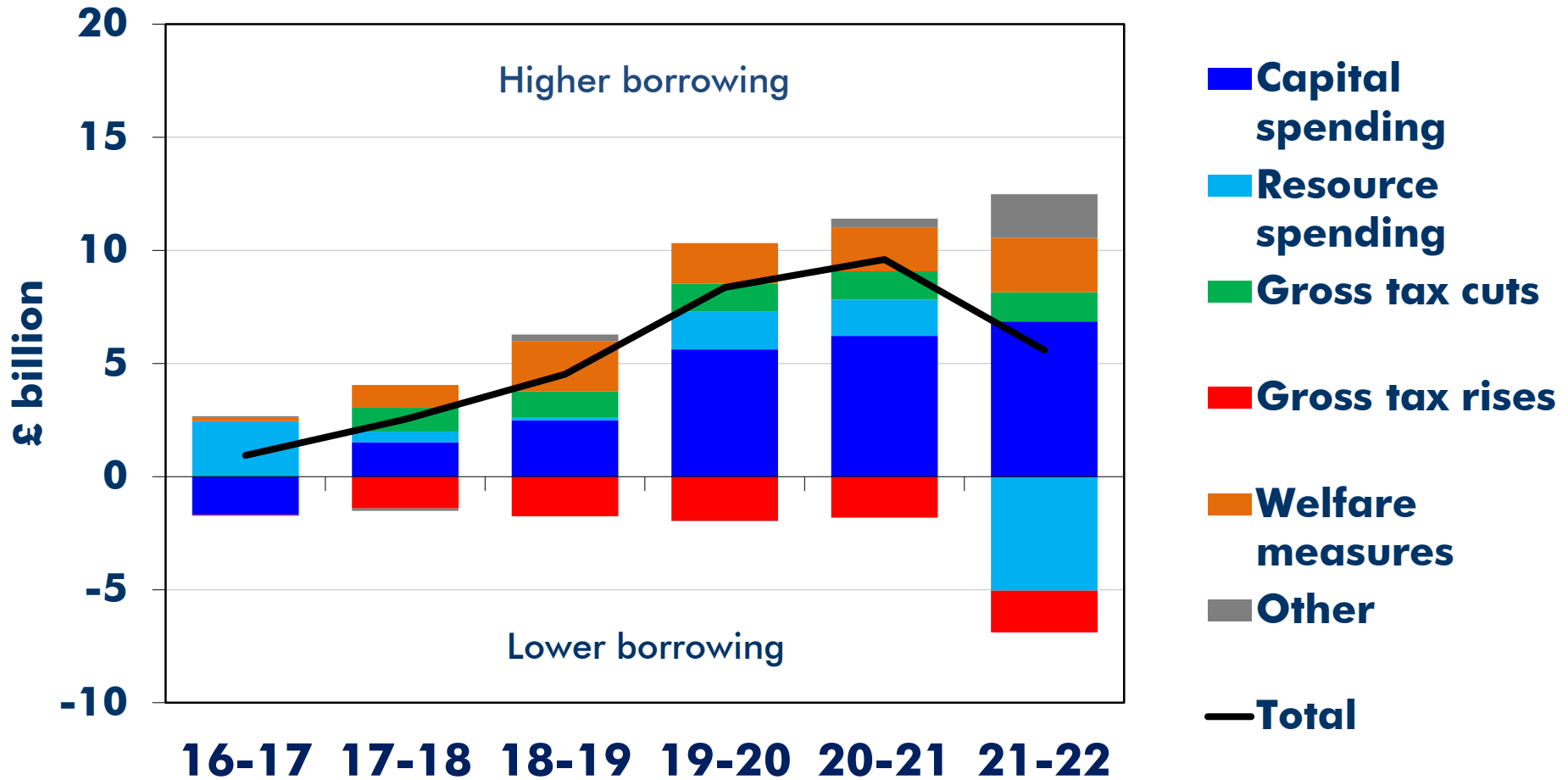
# The policy package



# Fuel duty



# The policy package



# Impact on the economy: modest

- **Fiscal loosening, mostly from higher spending**
  - GDP growth up 0.1ppt in 17-18, down slightly less in 18-19
- **Measures affecting inflation**
  - Fuel duty freeze and IPT hike cut CPI inflation <0.1ppt in 17-18
- **Housing**
  - Additional funds for housebuilding on public sector land increase housebuilding by 10k over the forecast
  - Measures affecting housing associations reduce housebuilding by 13k over the forecast

# The Government's targets

Fiscal mandate: borrowing

Current



Proposed



Supplementary target: debt



Welfare cap: spending

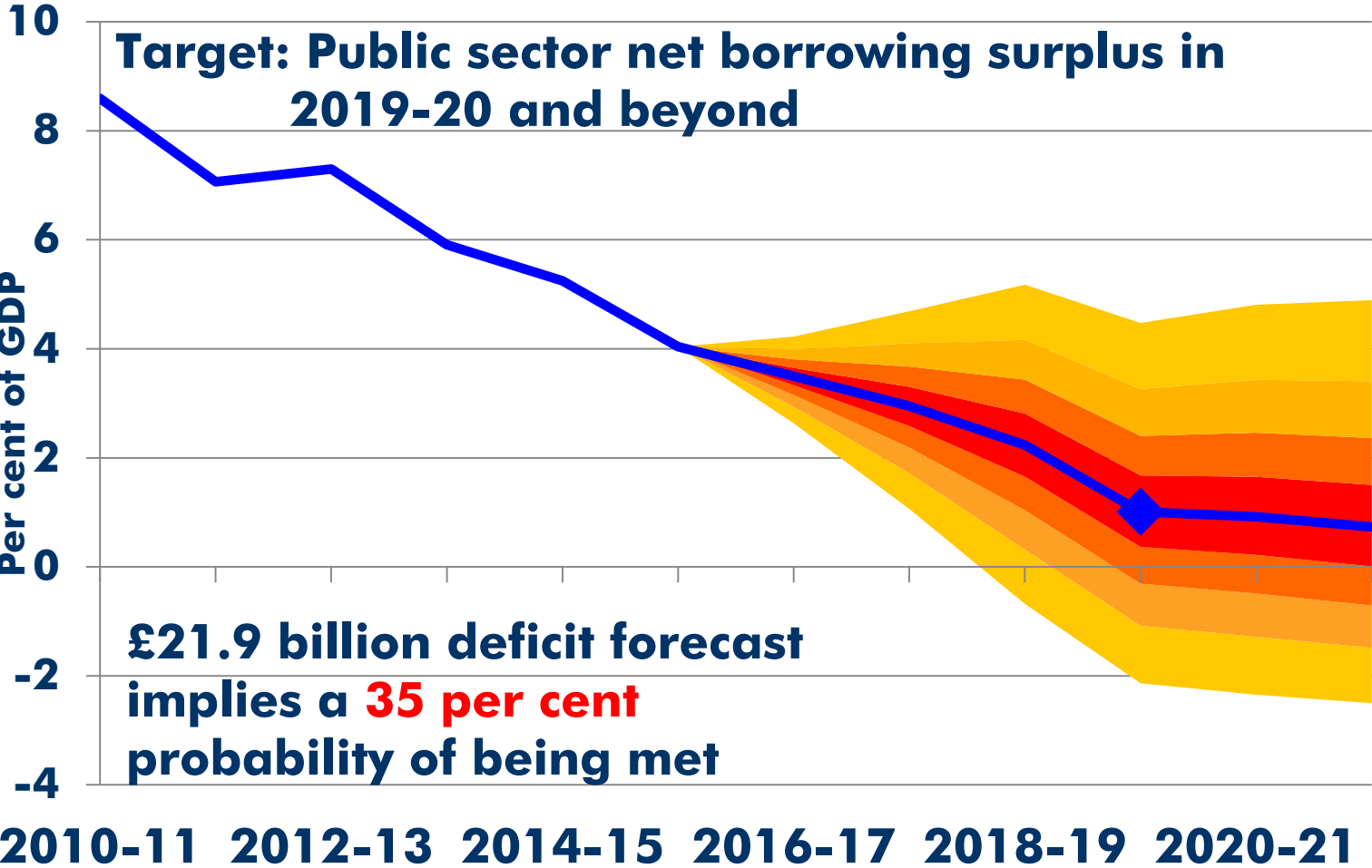


# Fiscal mandate: current

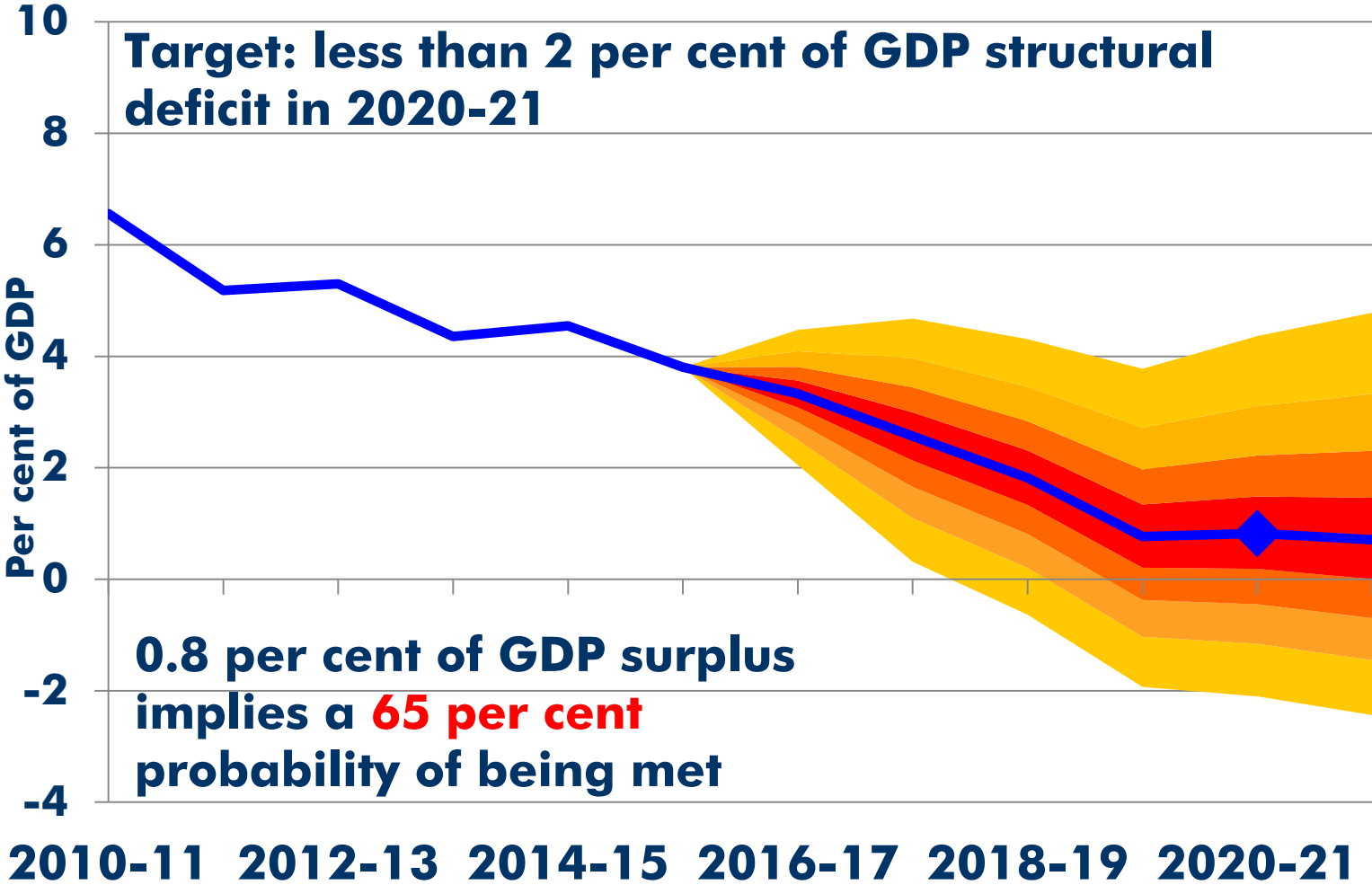
**Target: Budget surplus in 2019-20 and beyond, unless GDP growth slowing below 1% a year**

	Net borrowing (£ billion)	Target
<b>March forecast</b>	<b>-10.4</b>	<b>Met</b>
<i>Classification changes</i>	+6.4	
<i>Non-Brexit forecast</i>	+3.0	
<i>Brexit forecast</i>	+14.7	
<i>Policy giveaway</i>	+8.4	
<b>November forecast</b>	<b>+21.9</b>	<b>Missed</b>

# Fiscal mandate: current

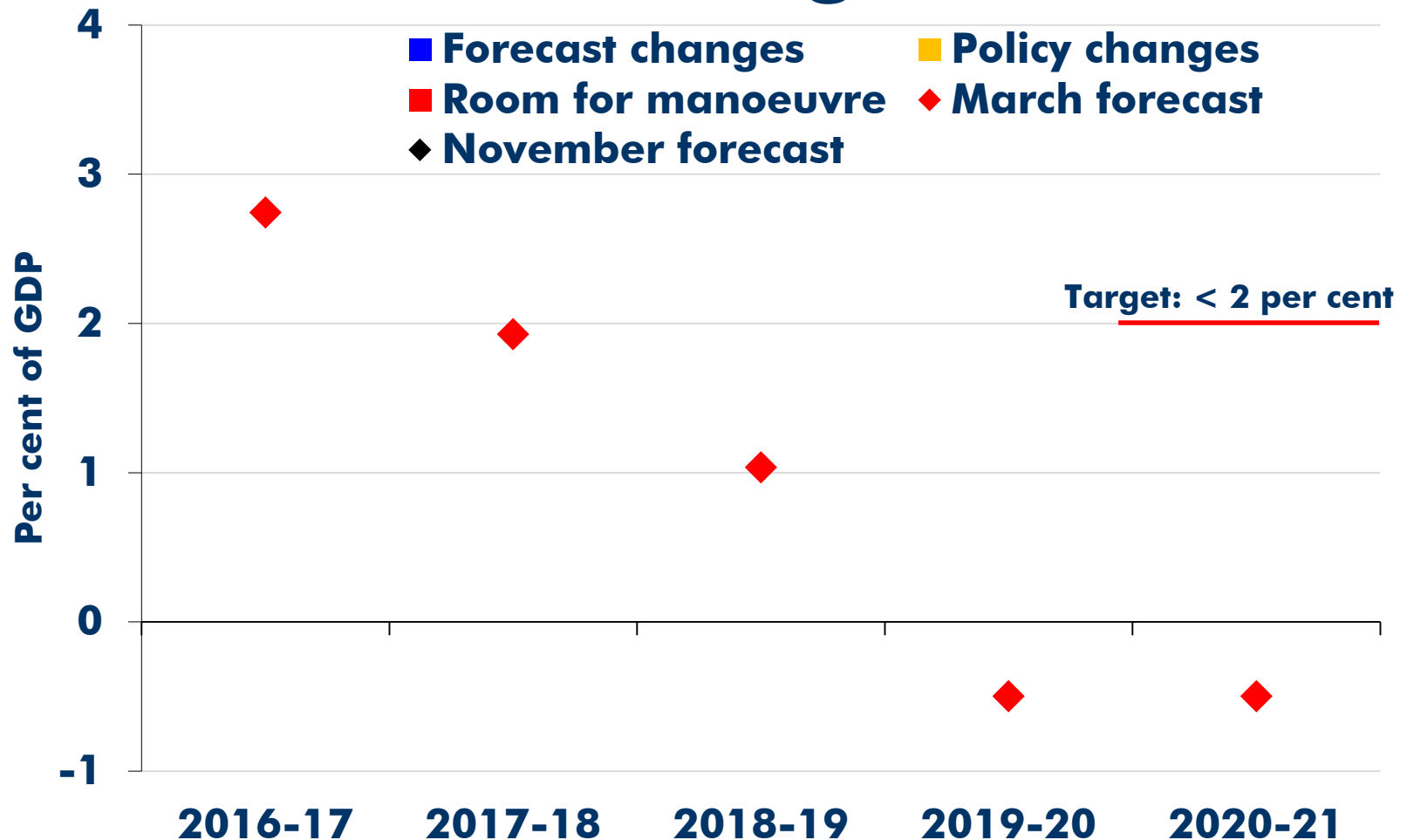


# Fiscal mandate: proposed

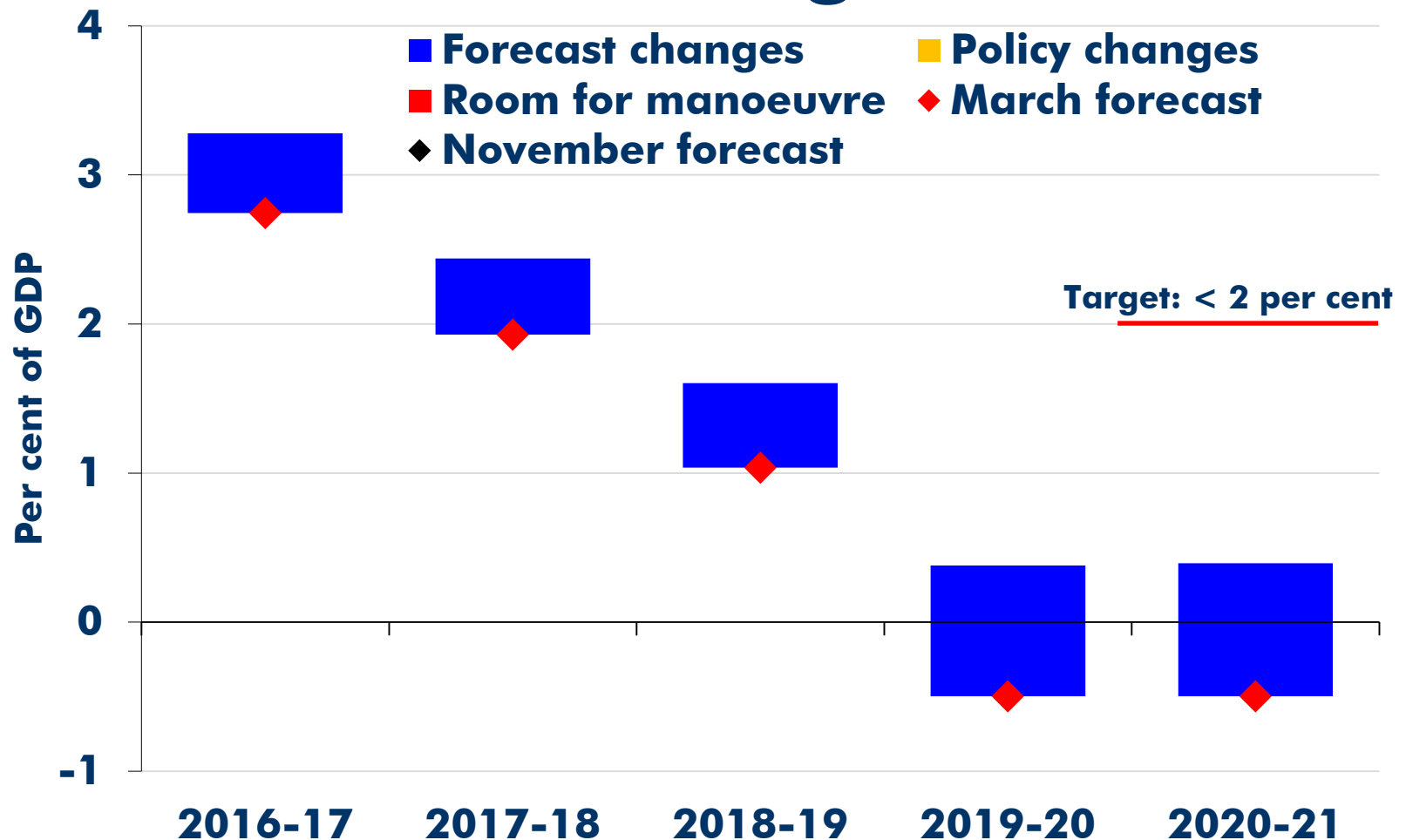




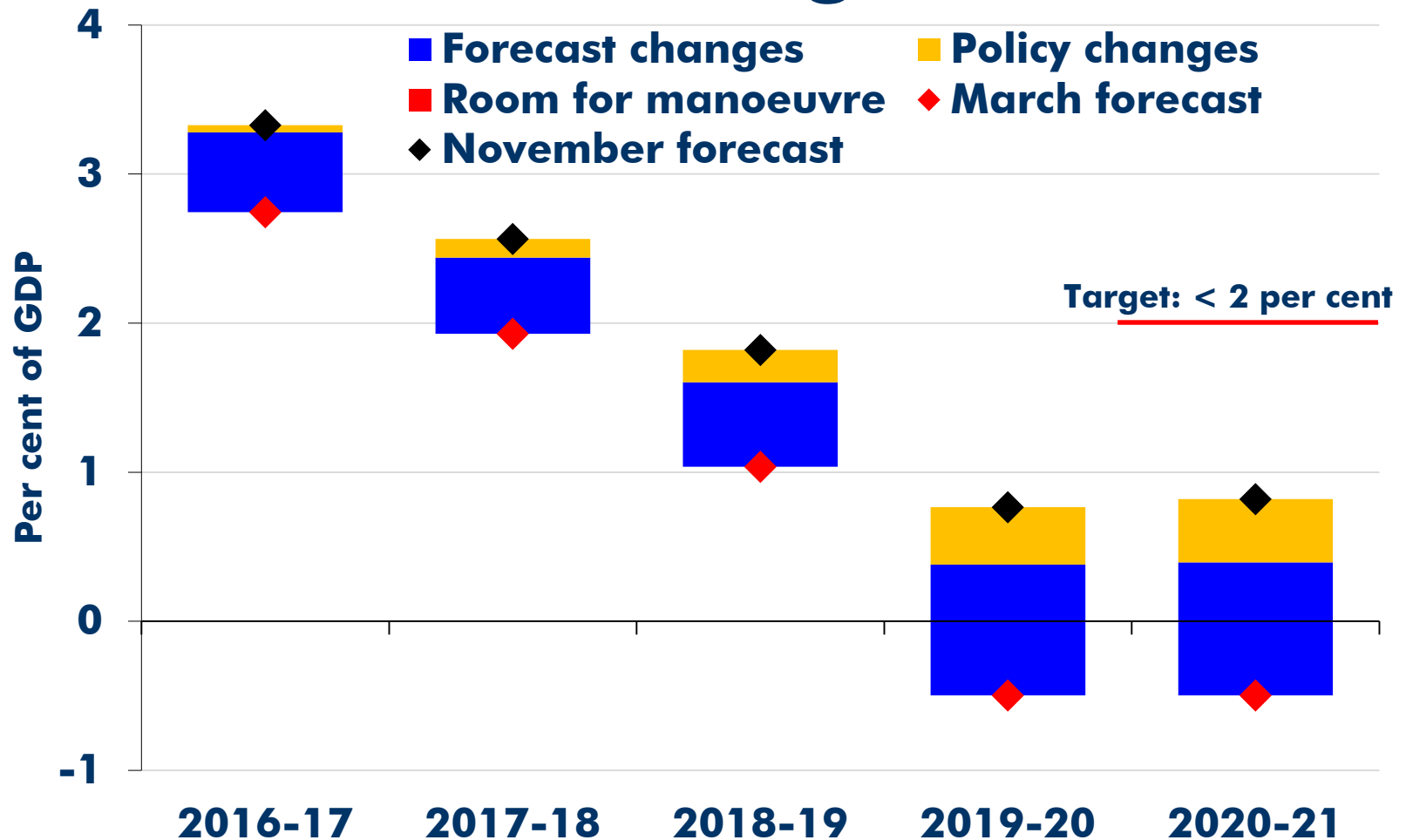
# Structural borrowing



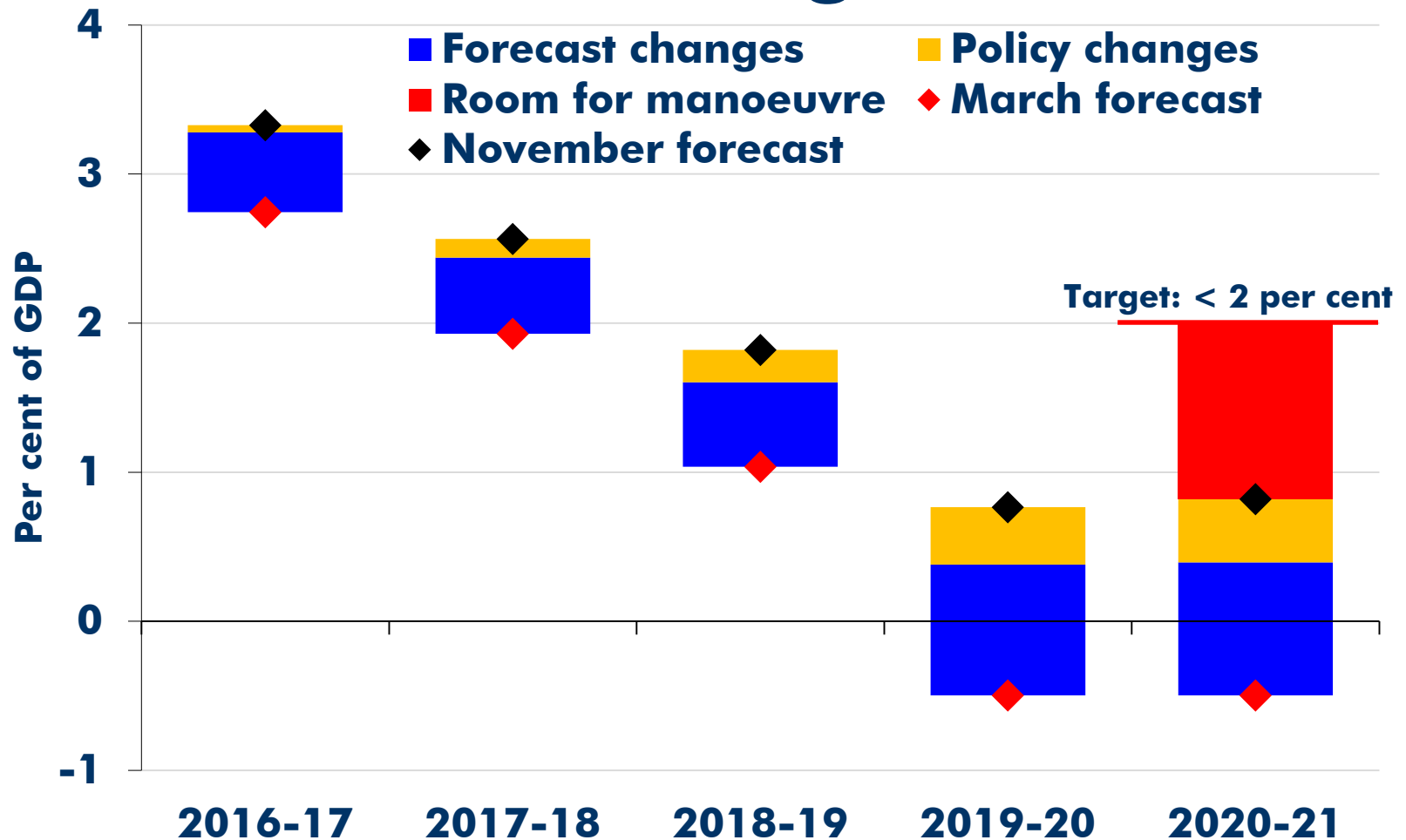
# Structural borrowing



# Structural borrowing



# Structural borrowing



# Balancing the budget

- **Proposed fiscal mandate less binding**
- **But Charter also commits the Government to “return the public finances to balance at the earliest possible date in the next Parliament”**
- **Not straightforward**
  - Government currently not planning significant fiscal tightening beyond 2019-20
  - Ageing could push spending up c. 0.8% of GDP between 2020-21 and 2025-26
  - State pension caseload will jump in the next Parliament, having shrunk during the current one

# The supplementary target

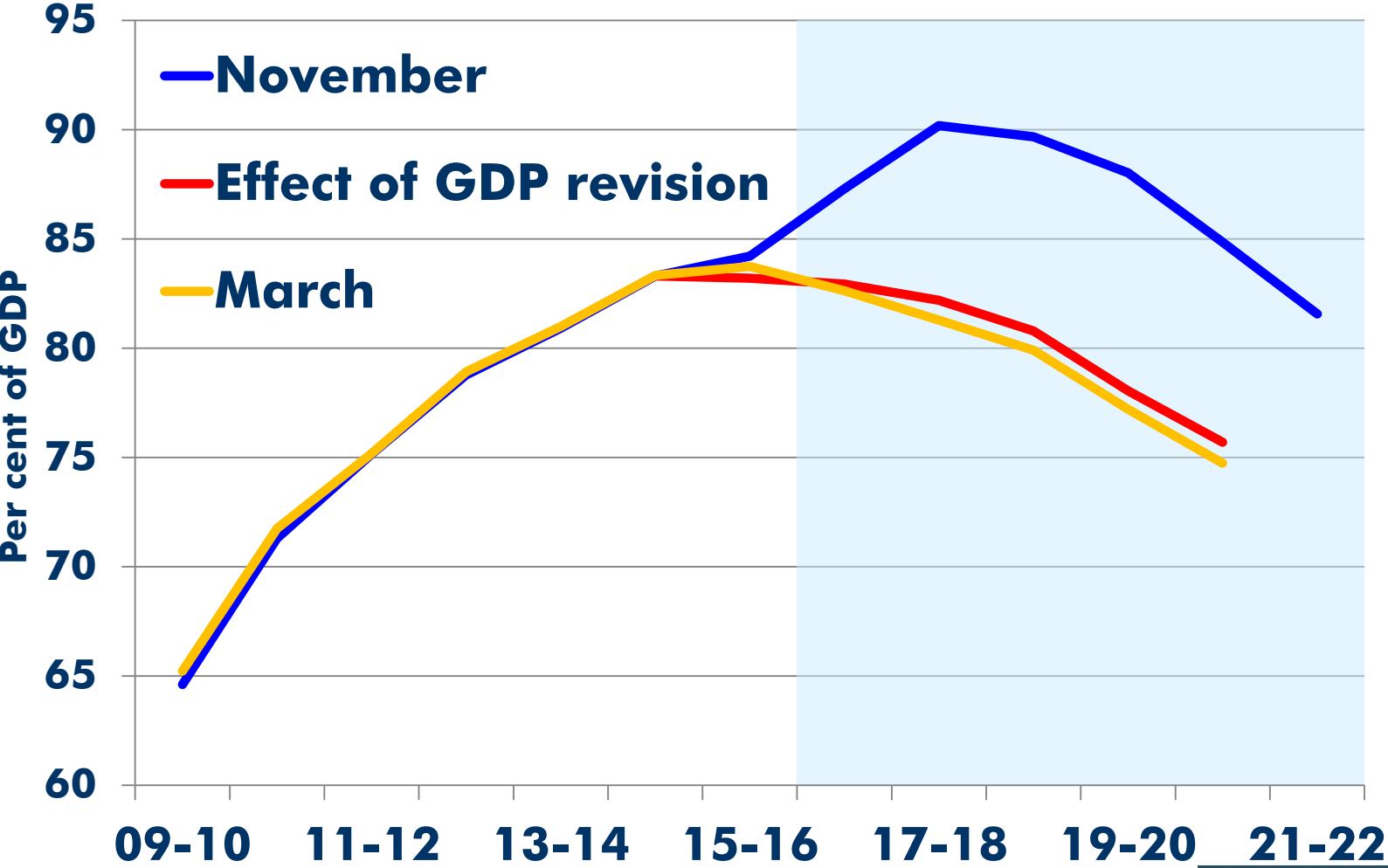
- **Current**

- For public sector net debt to fall as a percentage of GDP in each year to 2019-20 (and implicitly beyond)

- **Proposed**

- For public sector net debt to fall as a share of GDP in 2020-21

# Public sector net debt



# Public sector net debt

	£ billion					
	15-16	16-17	17-18	18-19	19-20	20-21
<b>March forecast</b>	<b>1591</b>	<b>1638</b>	<b>1677</b>	<b>1715</b>	<b>1725</b>	<b>1740</b>
<b>November forecast</b>	<b>1610</b>	<b>1725</b>	<b>1840</b>	<b>1904</b>	<b>1945</b>	<b>1950</b>
<b>Change in cash level of net debt</b>	<b>19</b>	<b>86</b>	<b>163</b>	<b>189</b>	<b>220</b>	<b>210</b>
<i>of which:</i>						
Pre measures borrowing changes	4	16	33	54	78	100
Autumn Statement policy measures	0	1	3	8	16	26
Asset sales	0	19	13	13	18	18
August monetary policy package	-1	49	112	115	118	84
Other factors	16	1	1	-1	-10	-18



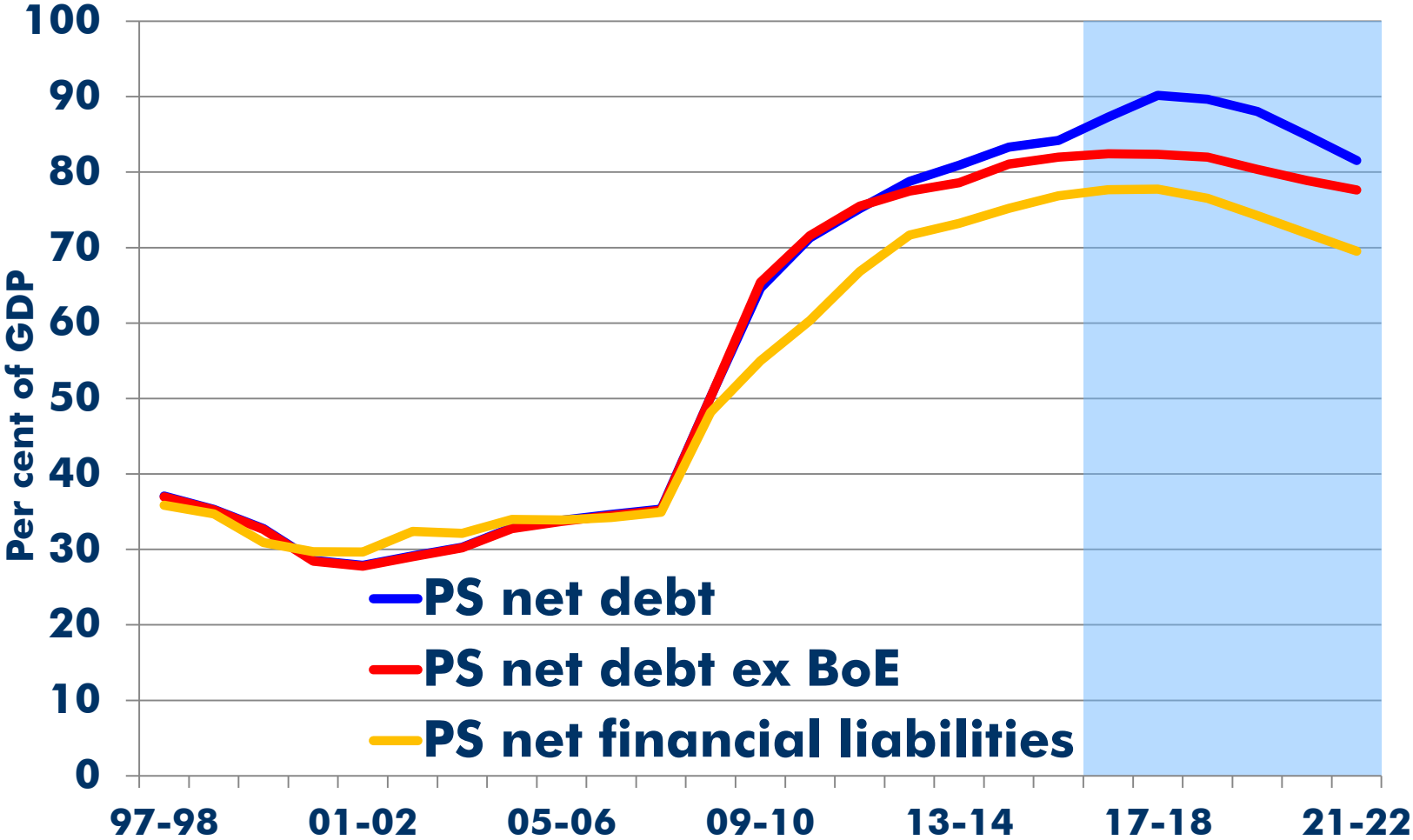
# Public sector net debt

	£ billion					
	15-16	16-17	17-18	18-19	19-20	20-21
<b>March forecast</b>	<b>1591</b>	<b>1638</b>	<b>1677</b>	<b>1715</b>	<b>1725</b>	<b>1740</b>
<b>November forecast</b>	<b>1610</b>	<b>1725</b>	<b>1840</b>	<b>1904</b>	<b>1945</b>	<b>1950</b>
<b>Change in cash level of net debt</b>	<b>19</b>	<b>86</b>	<b>163</b>	<b>189</b>	<b>220</b>	<b>210</b>
<i>of which:</i>						
Pre measures borrowing changes	4	16	33	54	78	100
Autumn Statement policy measures	0	1	3	8	16	26
Asset sales	0	19	13	13	18	18
August monetary policy package	-1	49	112	115	118	84
Other factors	16	1	1	-1	-10	-18

# Public sector net debt

	£ billion					
	15-16	16-17	17-18	18-19	19-20	20-21
<b>March forecast</b>	<b>1591</b>	<b>1638</b>	<b>1677</b>	<b>1715</b>	<b>1725</b>	<b>1740</b>
<b>November forecast</b>	<b>1610</b>	<b>1725</b>	<b>1840</b>	<b>1904</b>	<b>1945</b>	<b>1950</b>
<b>Change in cash level of net debt</b>	<b>19</b>	<b>86</b>	<b>163</b>	<b>189</b>	<b>220</b>	<b>210</b>
<i>of which:</i>						
Pre measures borrowing changes	4	16	33	54	78	100
Autumn Statement policy measures	0	1	3	8	16	26
Asset sales	0	19	13	13	18	18
August monetary policy package	-1	49	112	115	118	84
Other factors	16	1	1	-1	-10	-18

# Balance sheet measures



# Public sector net debt

	£ billion					
	15-16	16-17	17-18	18-19	19-20	20-21
<b>March forecast</b>	<b>1591</b>	<b>1638</b>	<b>1677</b>	<b>1715</b>	<b>1725</b>	<b>1740</b>
<b>November forecast</b>	<b>1610</b>	<b>1725</b>	<b>1840</b>	<b>1904</b>	<b>1945</b>	<b>1950</b>
<b>Change in cash level of net debt</b>	<b>19</b>	<b>86</b>	<b>163</b>	<b>189</b>	<b>220</b>	<b>210</b>
<i>of which:</i>						
Pre measures borrowing changes	4	16	33	54	78	100
Autumn Statement policy measures	0	1	3	8	16	26
Asset sales	0	19	13	13	18	18
August monetary policy package	-1	49	112	115	118	84
Other factors	16	1	1	-1	-10	-18

# The current welfare cap

	£ billion				
	16-17	17-18	18-19	19-20	20-21
<b>Existing welfare cap</b>	<b>115.2</b>	<b>114.6</b>	<b>114.0</b>	<b>113.5</b>	<b>114.9</b>
<b>Existing welfare cap + margin</b>	<b>117.5</b>	<b>116.9</b>	<b>116.2</b>	<b>115.8</b>	<b>117.2</b>
<b>March forecast</b>	<b>119.8</b>	<b>118.0</b>	<b>116.4</b>	<b>116.2</b>	<b>118.1</b>
Economic determinants	0.1	0.4	0.8	1.1	1.3
Other forecast changes	-0.3	0.2	0.6	1.4	1.8
Inherited policy measures	0.0	0.6	1.2	1.4	1.3
New policy measures	0.1	0.4	1.0	0.5	0.6
November forecast	<b>119.8</b>	<b>119.6</b>	<b>120.1</b>	<b>120.5</b>	<b>123.2</b>
<b>Difference from cap</b>	<b>+4.6</b>	<b>+5.0</b>	<b>+6.1</b>	<b>+7.0</b>	<b>+8.2</b>
<b>Difference from cap + margin</b>	<b>+2.3</b>	<b>+2.7</b>	<b>+3.8</b>	<b>+4.7</b>	<b>+5.9</b>

# The current welfare cap

	£ billion				
	16-17	17-18	18-19	19-20	20-21
<b>Existing welfare cap</b>	115.2	114.6	114.0	113.5	114.9
<b>Existing welfare cap + margin</b>	117.5	116.9	116.2	115.8	117.2
<b>March forecast</b>	119.8	118.0	116.4	116.2	118.1
Economic determinants	0.1	0.4	0.8	1.1	1.3
Other forecast changes	-0.3	0.2	0.6	1.4	1.8
Inherited policy measures	0.0	0.6	1.2	1.4	1.3
New policy measures	0.1	0.4	1.0	0.5	0.6
November forecast	119.8	119.6	120.1	120.5	123.2
<b>Difference from cap</b>	<b>+4.6</b>	<b>+5.0</b>	<b>+6.1</b>	<b>+7.0</b>	<b>+8.2</b>
<b>Difference from cap + margin</b>	<b>+2.3</b>	<b>+2.7</b>	<b>+3.8</b>	<b>+4.7</b>	<b>+5.9</b>

# The proposed welfare cap

	£ billion					
	16-17	17-18	18-19	19-20	20-21	21-22
<b>Welfare cap</b>						<b>126.0</b>
Welfare cap pathway	119.8	119.6	120.1	120.5	123.2	
Margin (per cent)	0.5	1.0	1.5	2.0	2.5	3.0
Margin	0.6	1.2	1.8	2.4	3.1	3.8
<b>Welfare cap and pathway plus margin</b>	<b>120.4</b>	<b>120.8</b>	<b>121.9</b>	<b>122.9</b>	<b>126.3</b>	<b>129.7</b>

# Conclusion

- **Weaker outlook for economy and public finances**
  - Growth forecasts not as pessimistic as some
  - But uncertainty and downside risks
  - Weaker growth means weaker receipts
- **Fiscal targets breached and loosened**
  - No big stimulus of additional austerity
  - Mandate absorbs forecast and giveaways
  - Room to spare for more bad news