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Public finances: tax rises ahead

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Economic and Social Research Council

Permanent hit to nominal GDP

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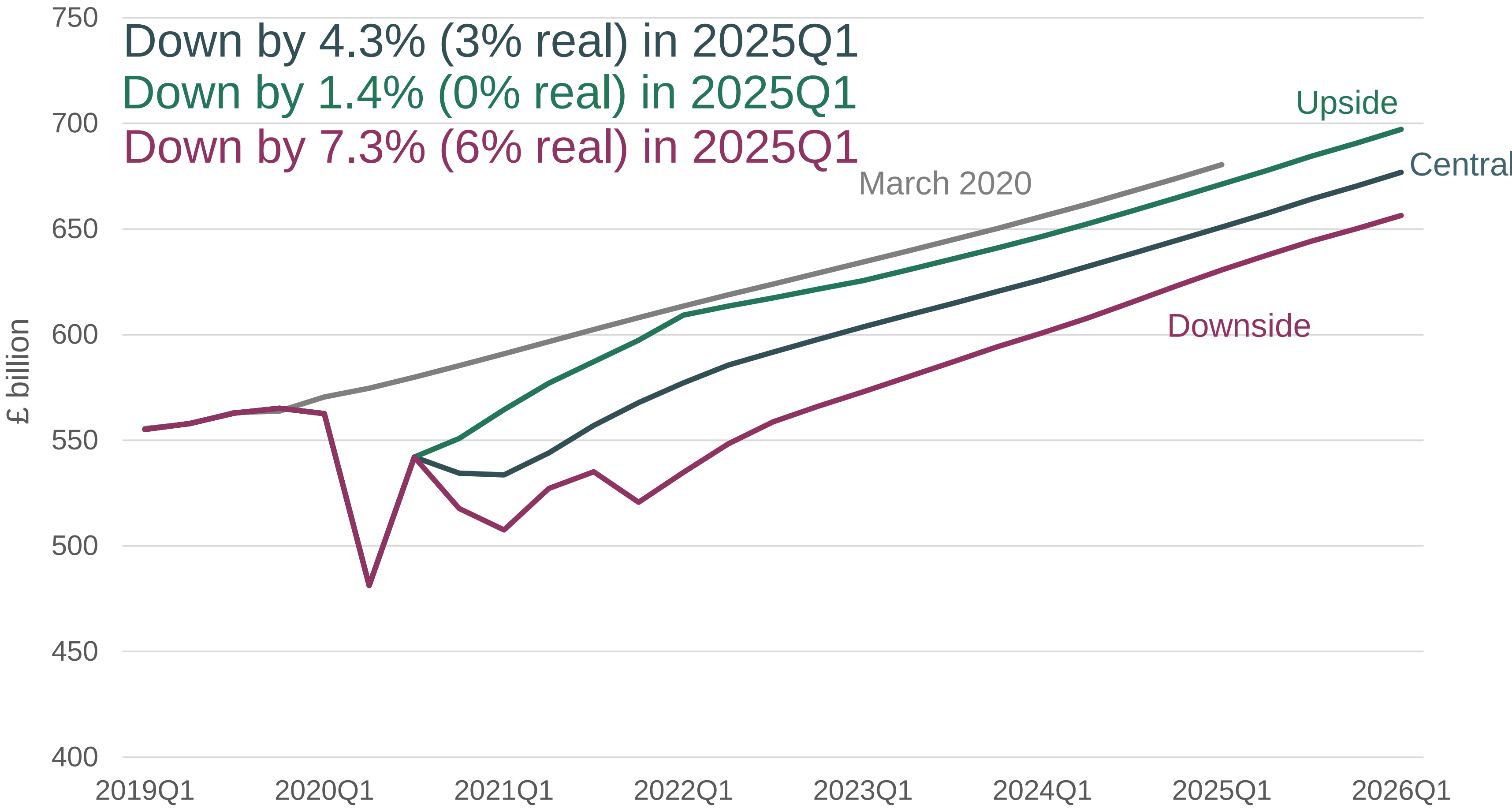
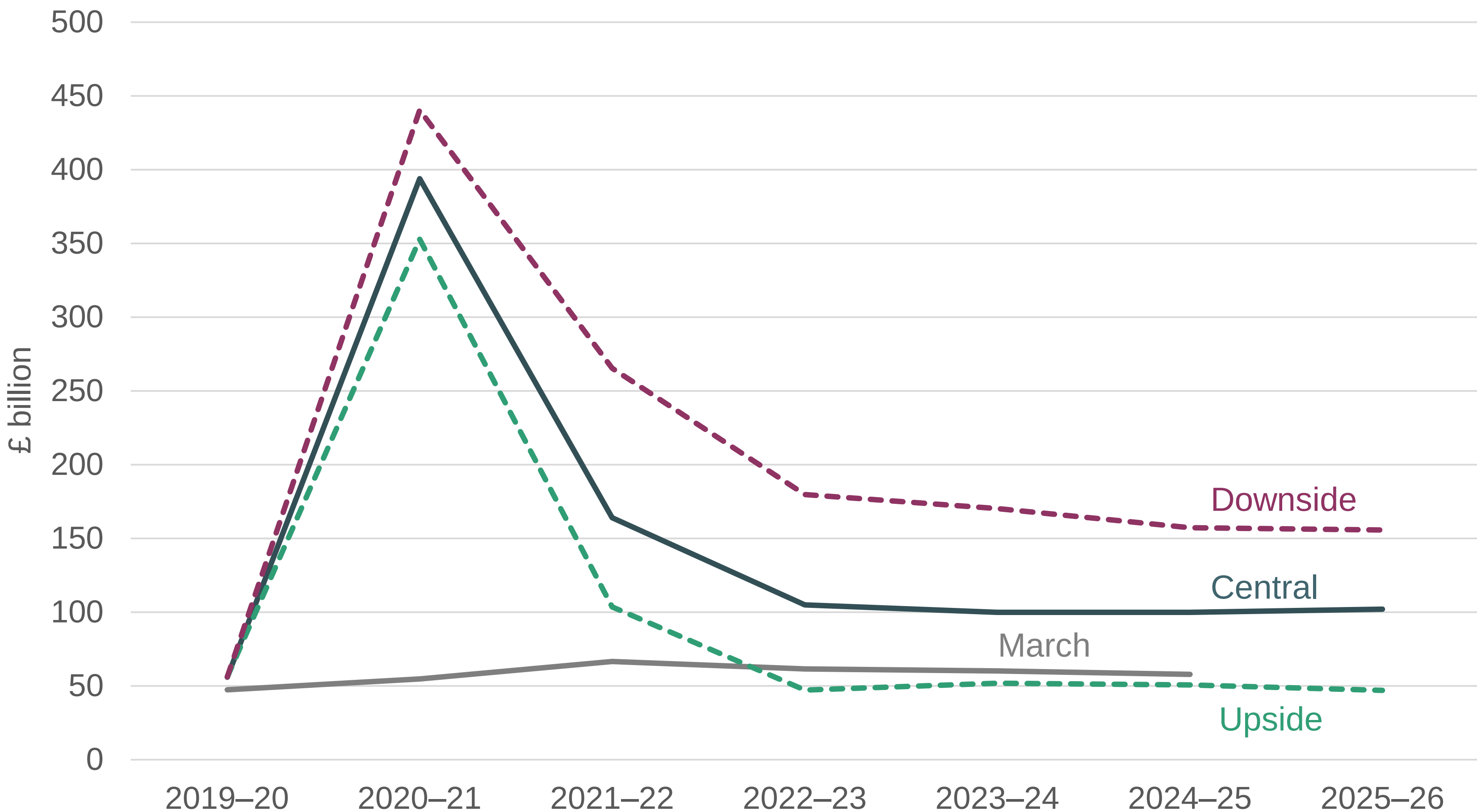
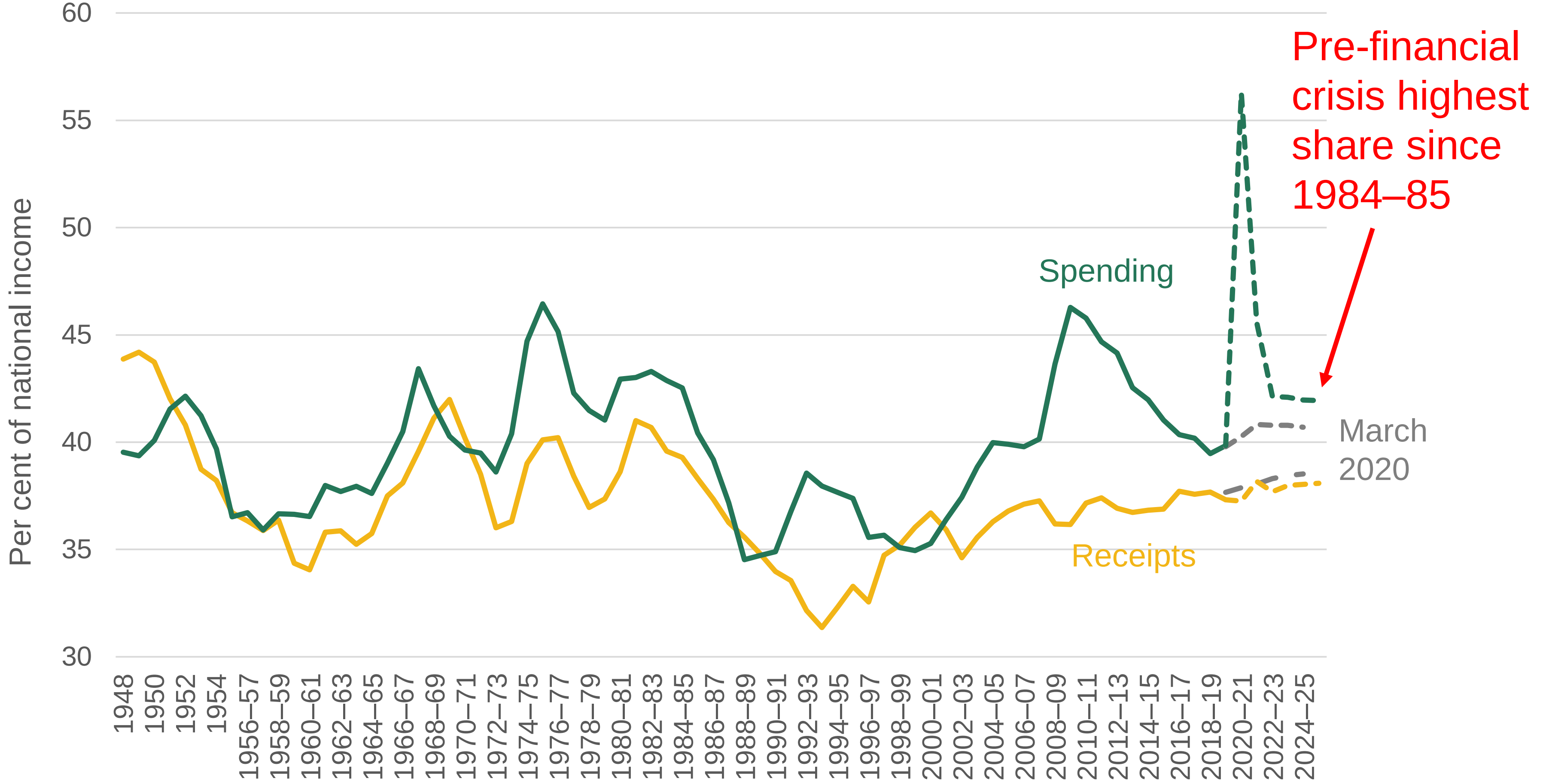


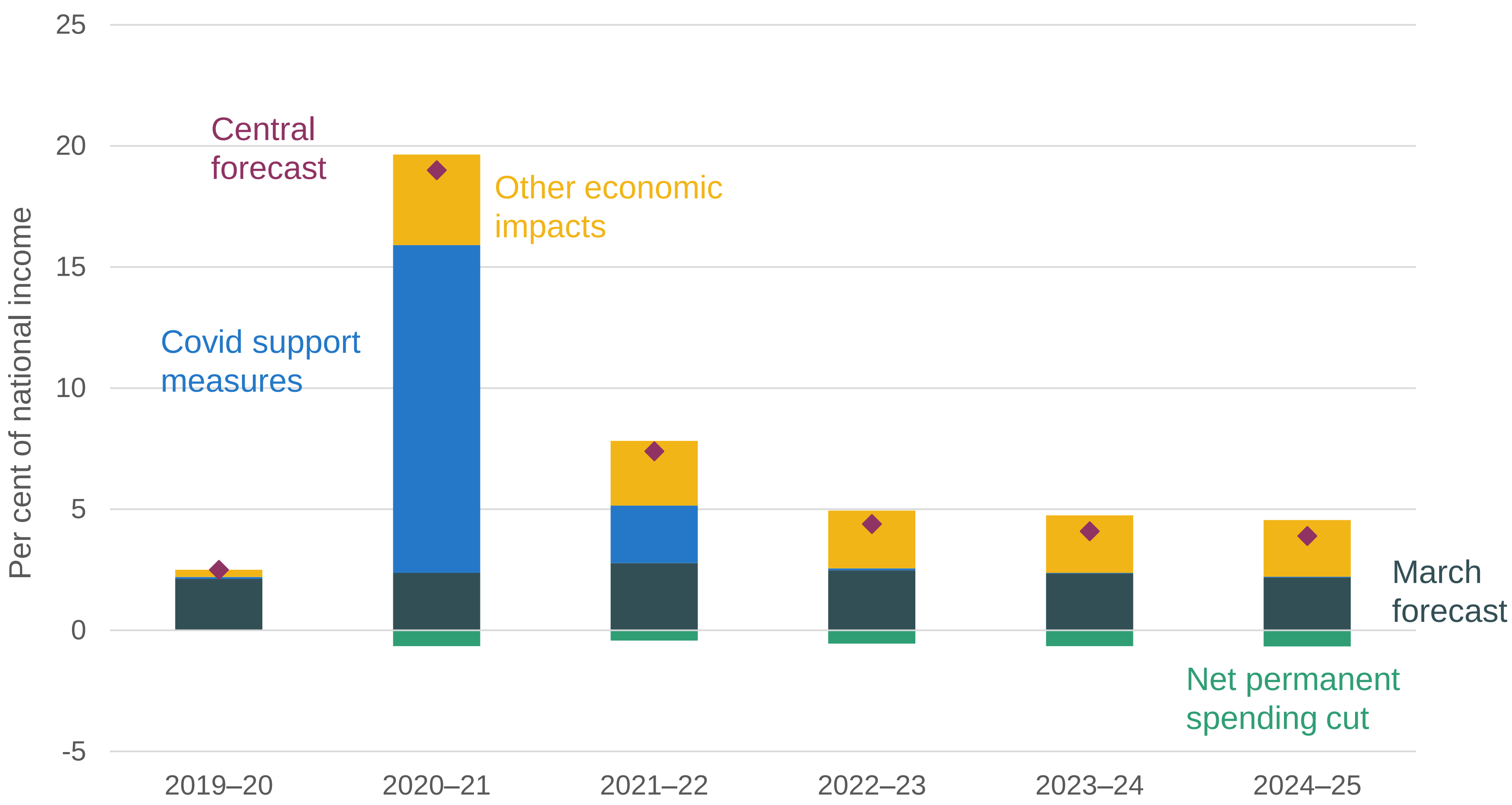
Persistent increase in borrowing under central scenario



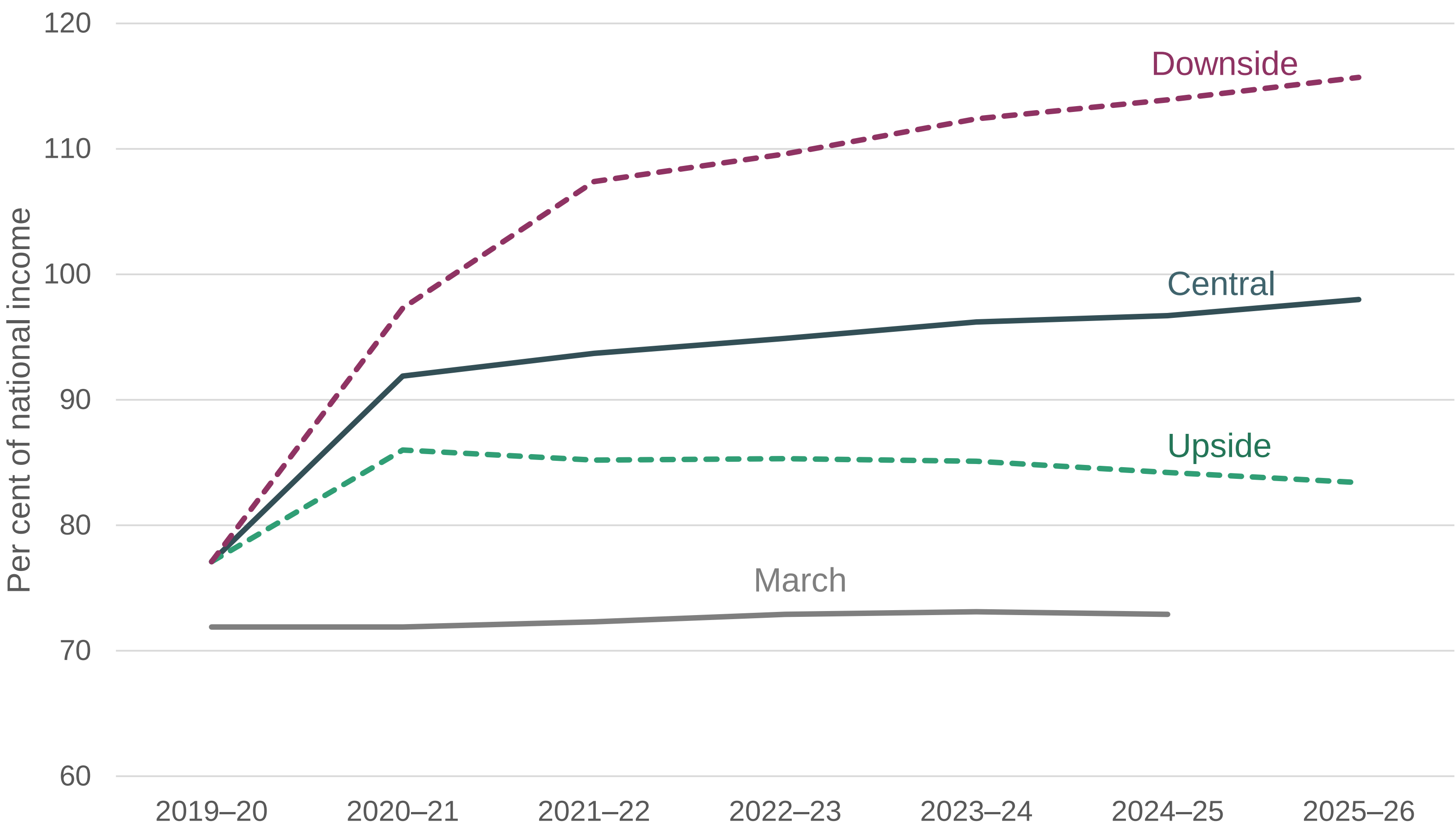
Spending elevated as a share of national income



Decomposing the increase in forecast borrowing



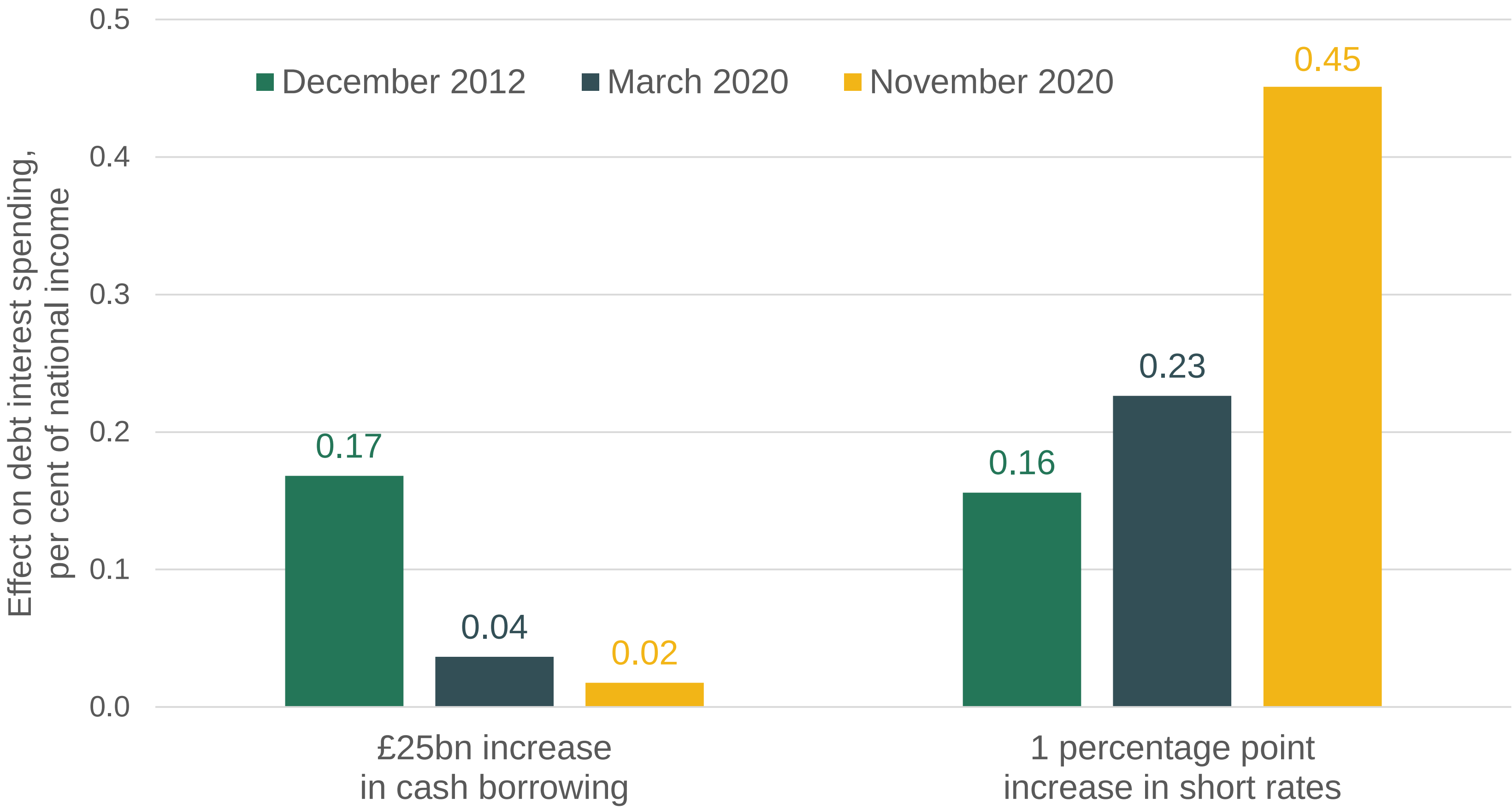
Underlying debt to rise



Reasons to expect tax rises

- Under current forecast consolidation of
  - ≈£15bn would stop debt rising in 2025–26
  - ≈£20bn to deliver a current budget balance in 2025–26 (£66bn in downside scenario)
- Additional spending pressures, for example:
  - Make increase to Universal Credit permanent: ≈£7bn
  - U-turn on new squeeze to non-Covid spending: ≈£11bn
  - Continue any of the £55bn Covid spending planned for 2021–22?
- Don't forget
  - Ageing: OBR estimates annual increase ≈£39bn per decade
  - Brexit: no deal scenario adds ≈£6bn

Debt interest spending down, but much more exposed to rate rises



Conclusions

- Under OBR central scenario borrowing falls to 4% of national income in medium term while debt continues to rise
- Much uncertainty, in particular forecast predicated on:
  - 3% long-run hit to real GDP (with EU trade deal)
  - no Covid spending beyond 2021–22
  - tighter path for non-covid spending kept to
- Tax rises look likely, but should wait until recovery well underway
- Elevated debt, financed at a low maturity, exposes public finances to risk of Bank Rate rises occurring without improved growth outlook