

Office for
**Budget
Responsibility**

Fiscal risks and sustainability

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IFS/OBR Event
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Fiscal risks and sustainability reports

- **Supplement to our semi-annual 5-year forecasts**
- **Look at range of threats to fiscal outlook**
 - Near-term risks (recessions, pandemic, geopolitical risks)
 - Long-term pressures (aging, climate change, global trade)
- **Most recent report in July 2023 considered**
 - Inactivity and health
 - Energy markets
 - Debt sustainability

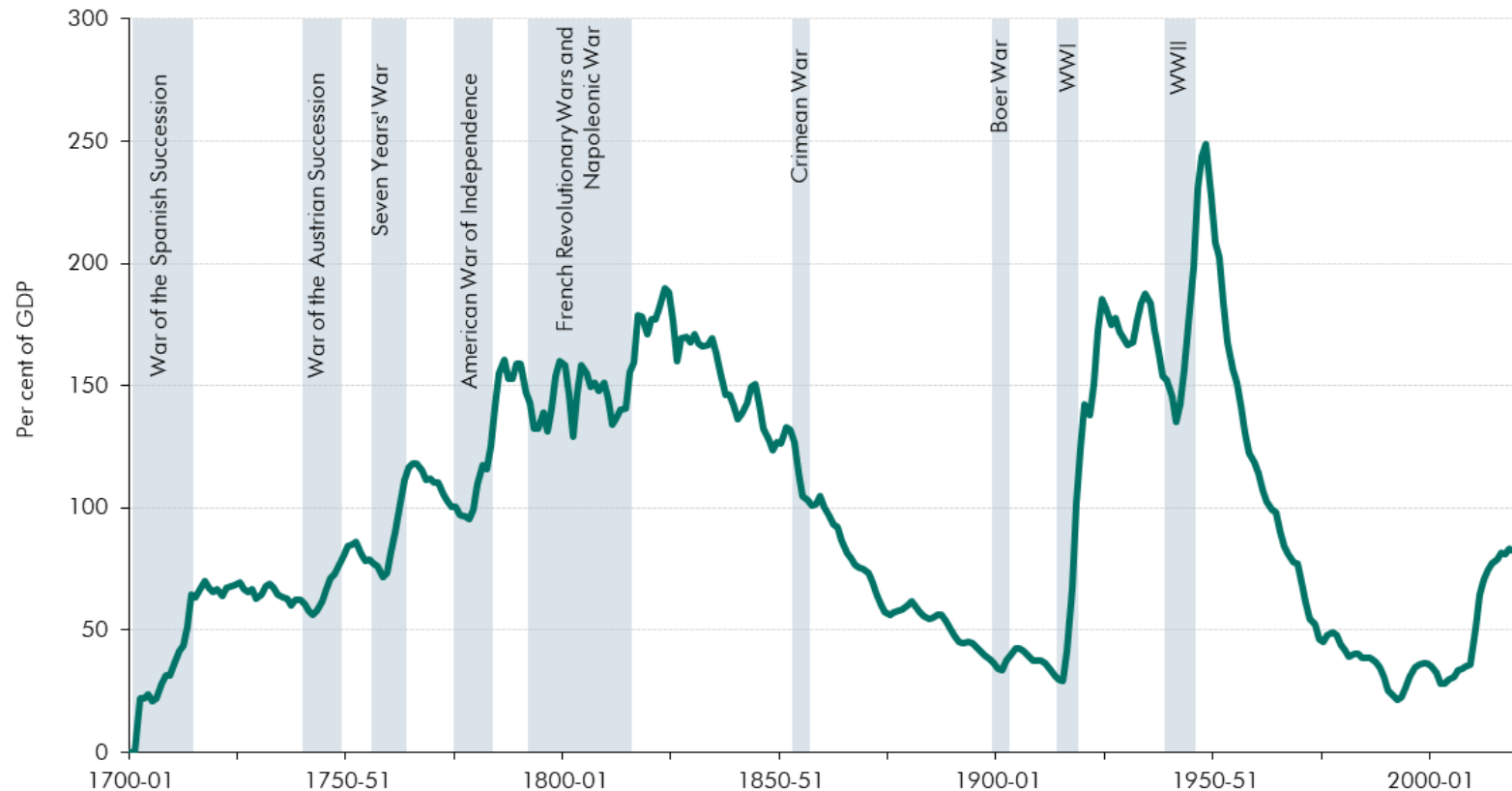
Why focus on public debt?

- **We have a lot more of it now**
 - Public debt has nearly tripled from under 30% of GDP in 2000 to almost 100% of GDP today
- **It's where a lot of risks end up**
 - $\frac{3}{4}$ of this increase in debt occurred in the 6 years following the financial crisis, pandemic, and energy crisis
- **It's become a lot more expensive**
 - Rise in interest rates means debt interest/government revenue set to more than double from 3.1% in 2020-21 to 7.8% by 2027-28

Why people say not to worry about debt

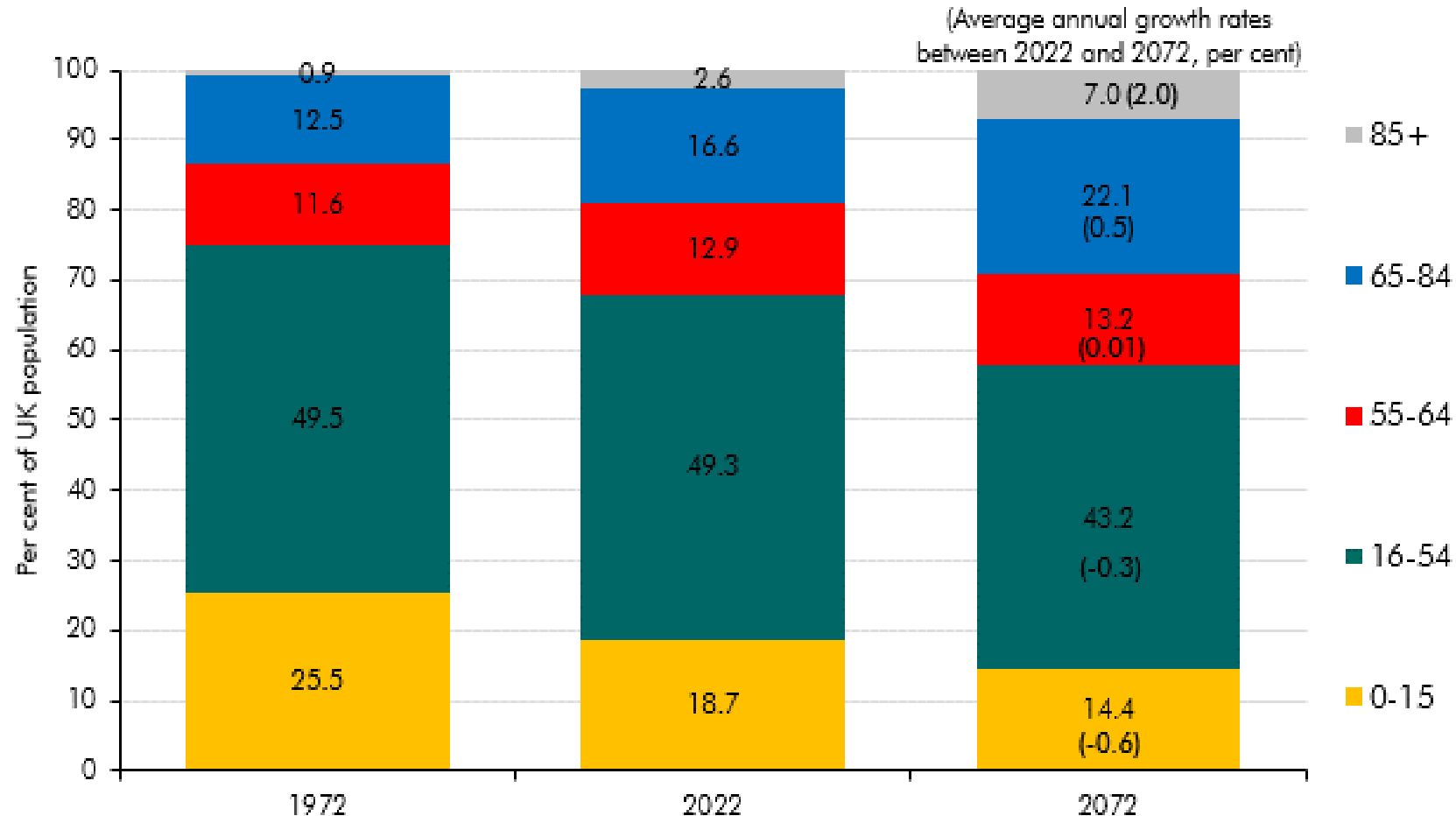
'1. We've had debt of 100% of GDP before'

Public sector net debt



Source: Bank of England, IFS, ONS, OBR

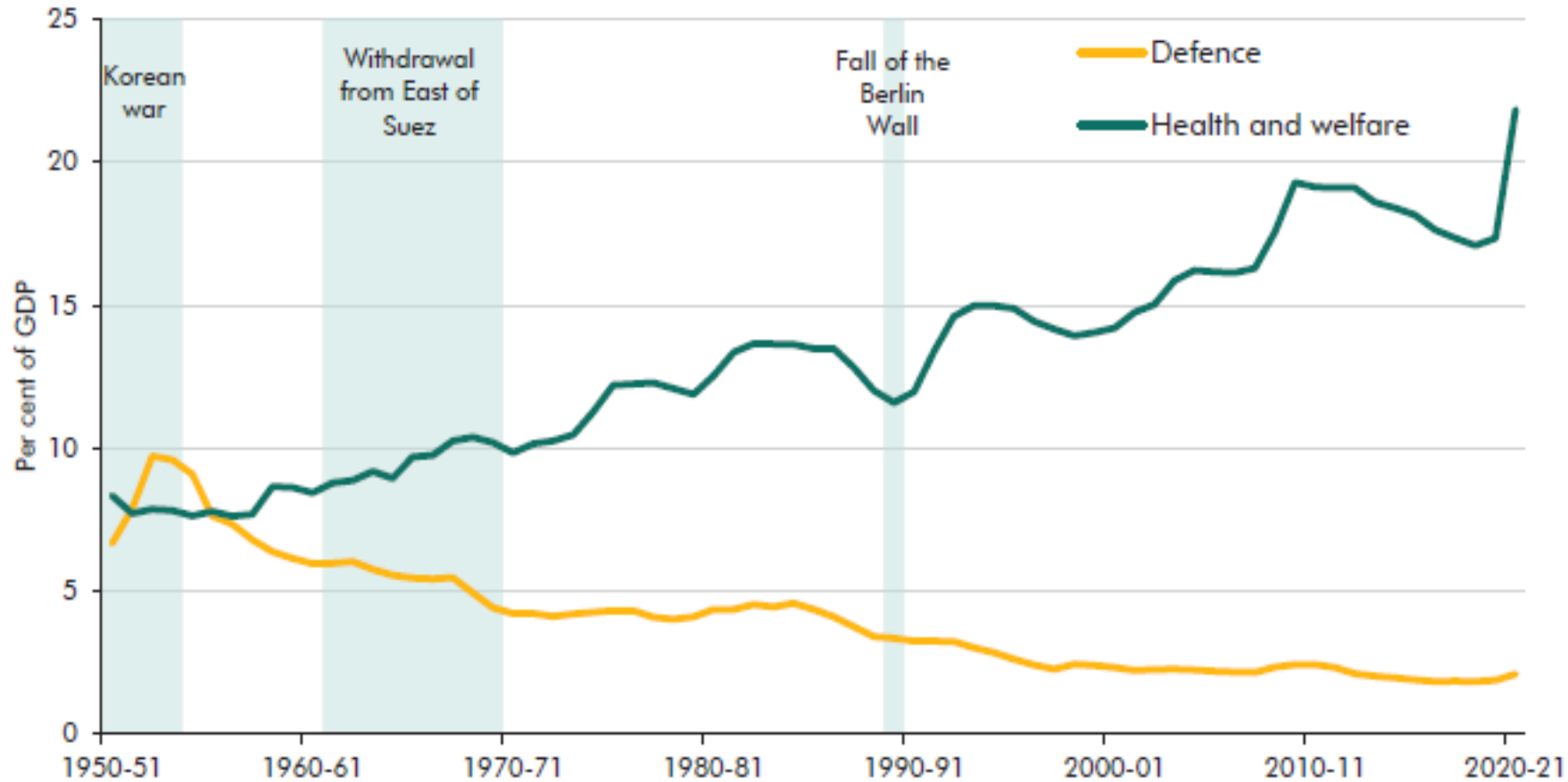
Age structure of the UK population



Note: 2022 and 2072 readings are from the OBR low migration baseline.
Source: ONS, OBR.

The warfare vs. welfare state

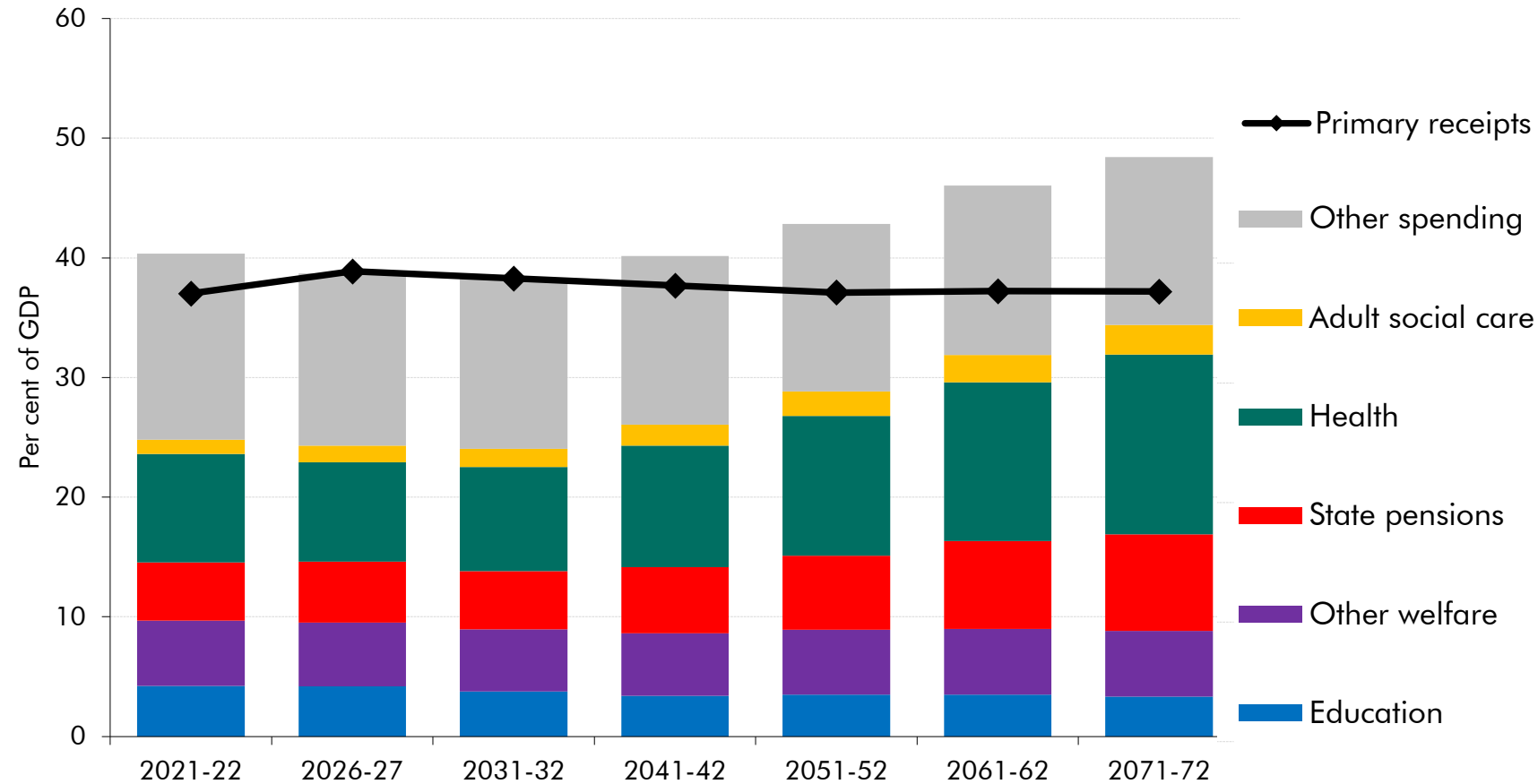
Defence and welfare spending since 1950



Note: Calendar year data used from 1950 to 1954.

Source: Bank of England, HM Treasury, IFS, OBR

Receipts and spending over next 50 years

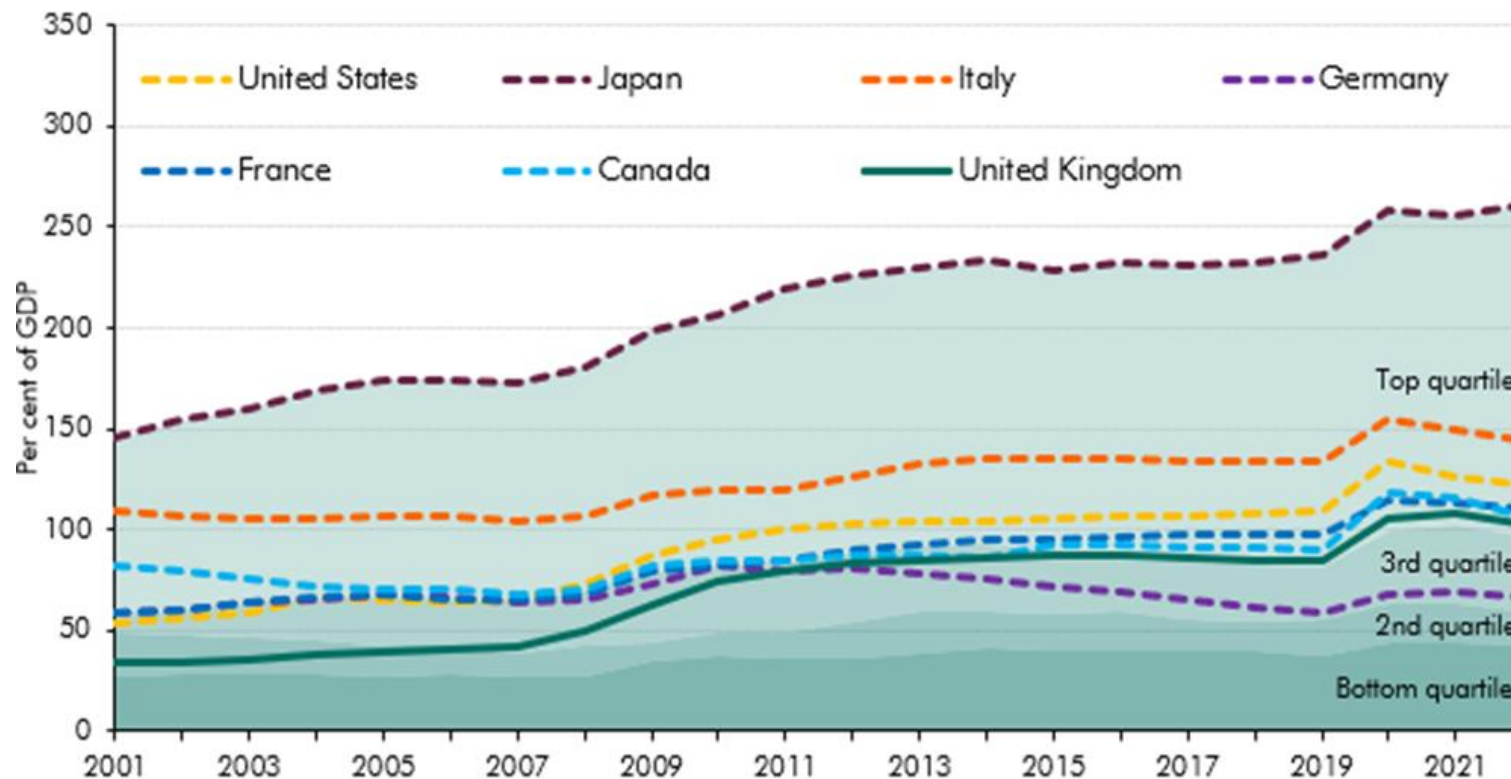


Source: DfE, DHSC, DWP, HM Treasury, OBR

Why people say not to worry about debt

'2. Lots of other countries have 100% of GDP in debt'

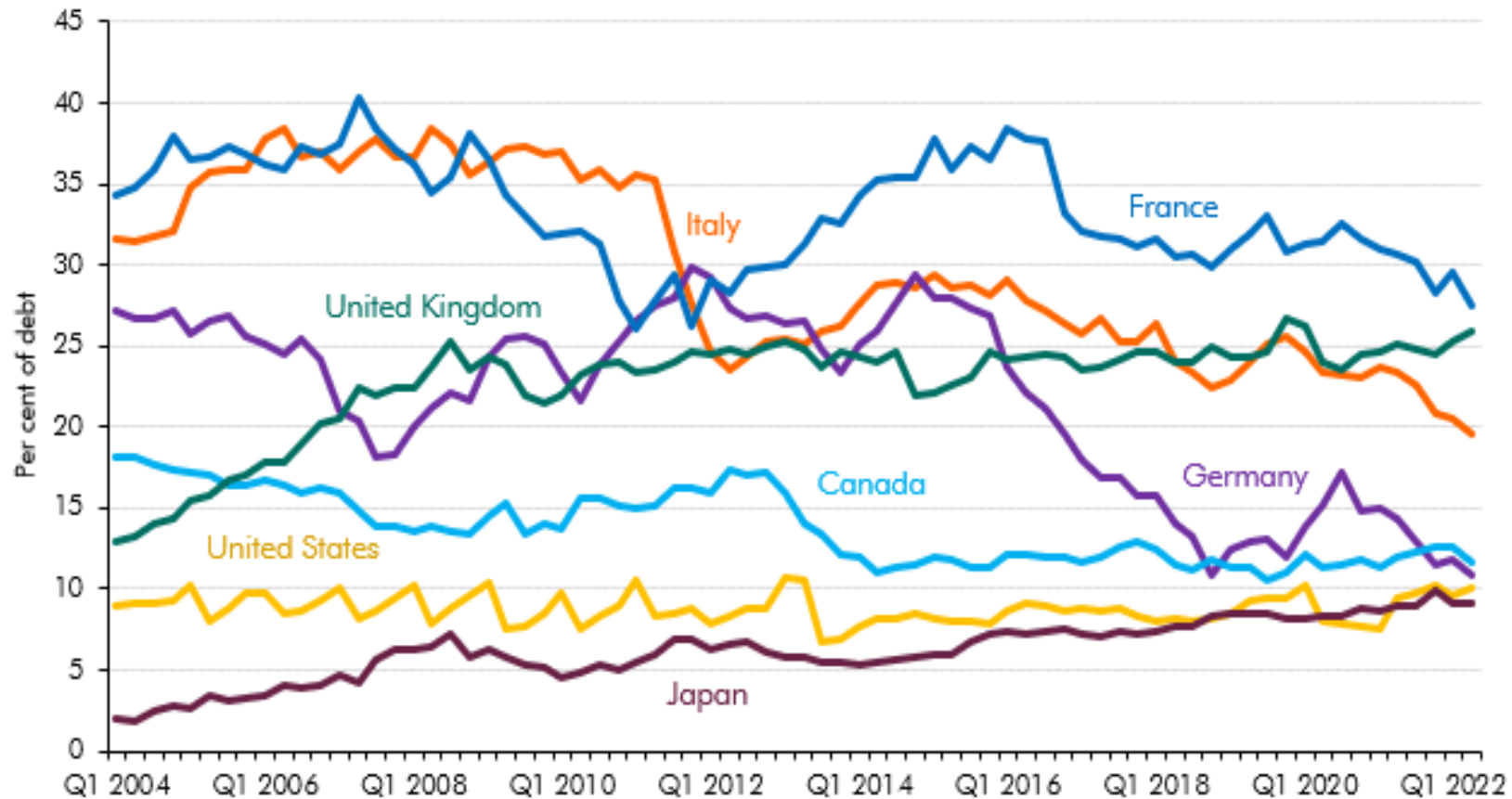
International comparison of general government gross debt



Note: Quartiles representative of OECD member economies. Data for France in 2022 is forecast data.
Source: IMF

Foreign holdings of sovereign debt

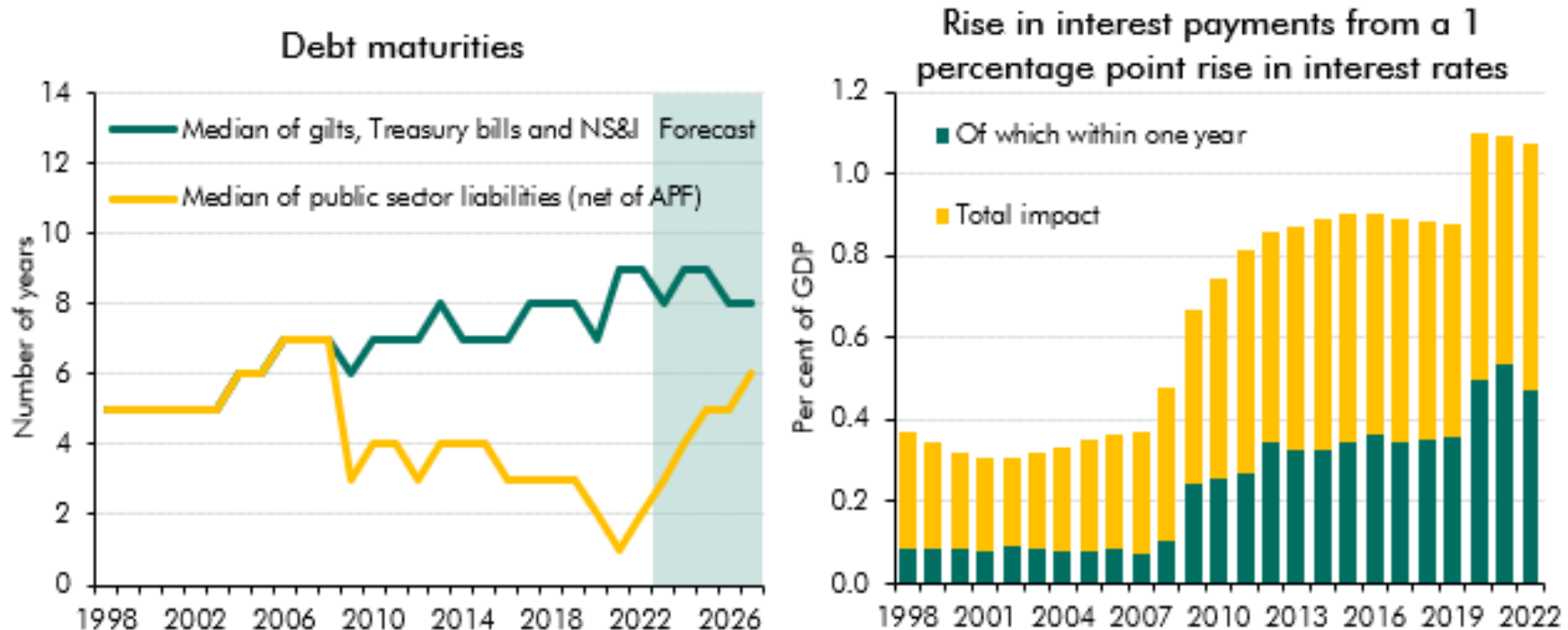
Share of sovereign debt in foreign private hands



Source: IMF

Why people say not to worry about debt

'3. We have a long average maturity of debt'



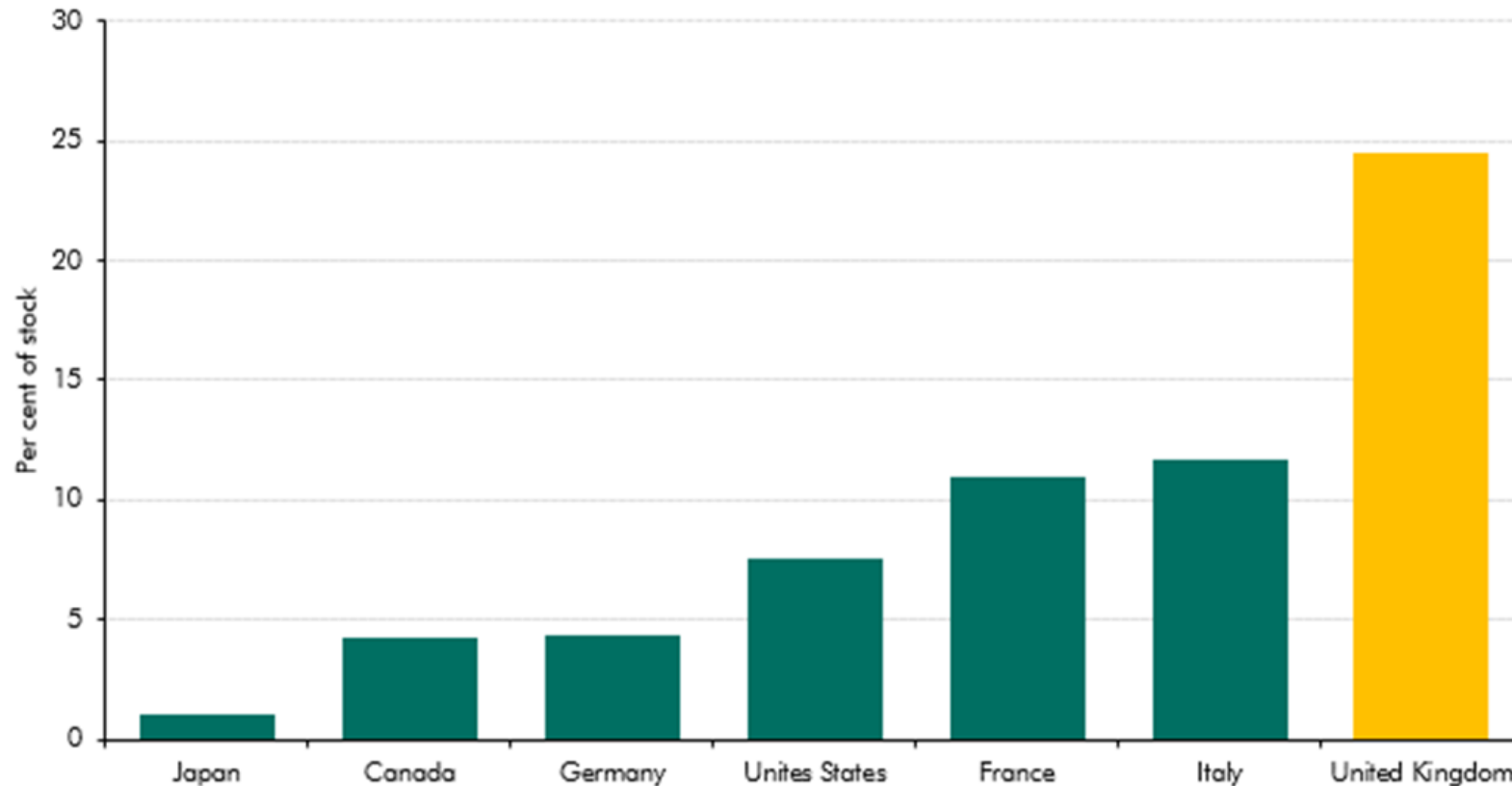
Note: Consolidated public sector liabilities are proxied here by the stock of Bank reserves, Treasury bills, NS&I products and gilts net of those held in the APF. The median shows the year in which half of the outstanding public sector liabilities would be impacted by a change in interest rates.

Source: Bank of England, DMO, Herriot-Watt, ONS, OBR

Why people say not to worry about debt

'4. We can inflate away our debt'

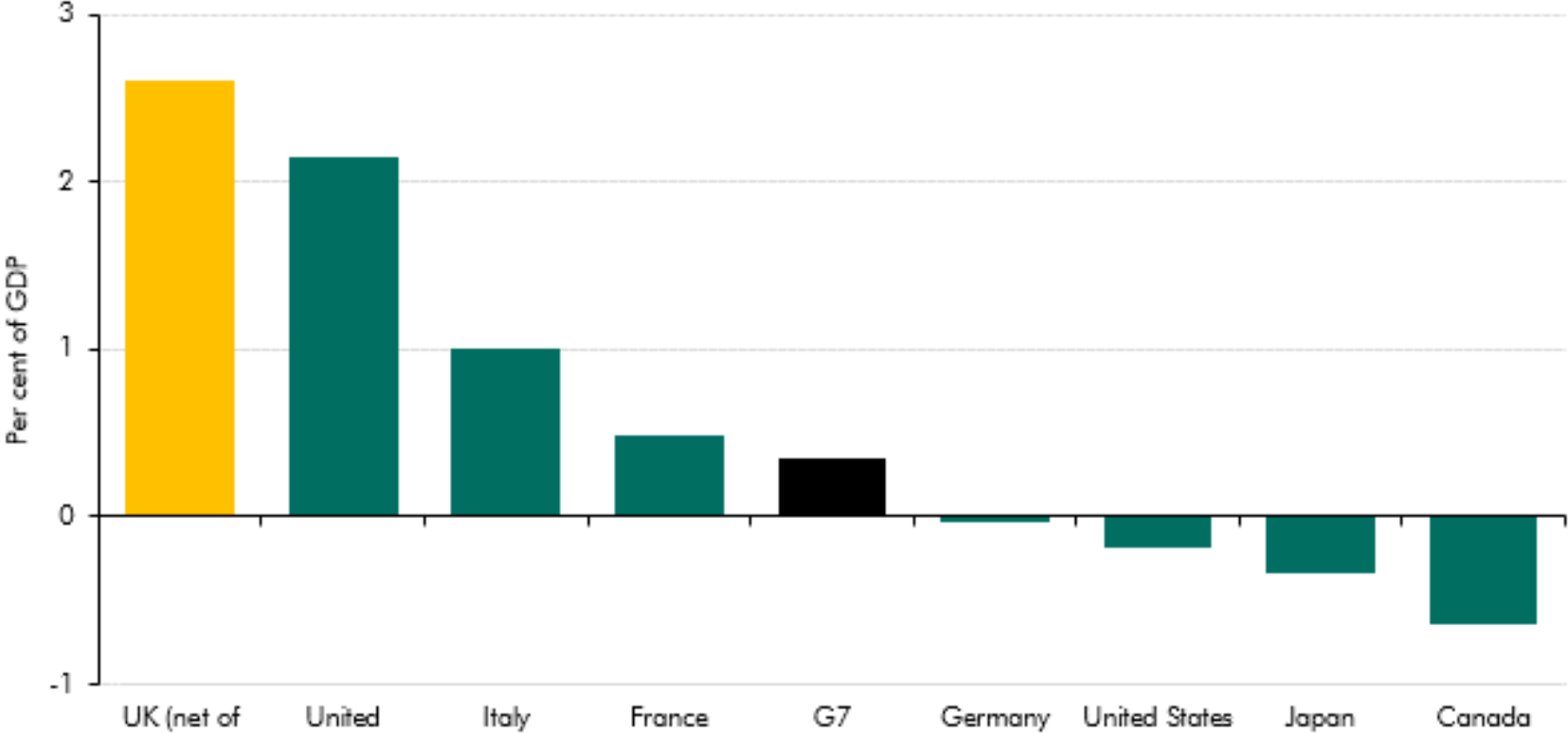
Share of index-linked debt in G7 countries (2023)



Source: Bloomberg

Change in government interest payments

Change in government net interest payments (2019-2022)



Note: This is on a general government basis.
Source: IMF, ONS, OBR

Why people say not to worry about debt

'5. Something will turn up'

- **Fiscal shocks have become more frequent**
 - 21st century has already seen 3 'once in a generation' shocks
- **Fiscal shocks have become more costly**
 - Cost of shocks gone from 10% to 20% of GDP per decade
- **Government's react differently to good and bad news**
 - Over to Carl