Isabel Stockton

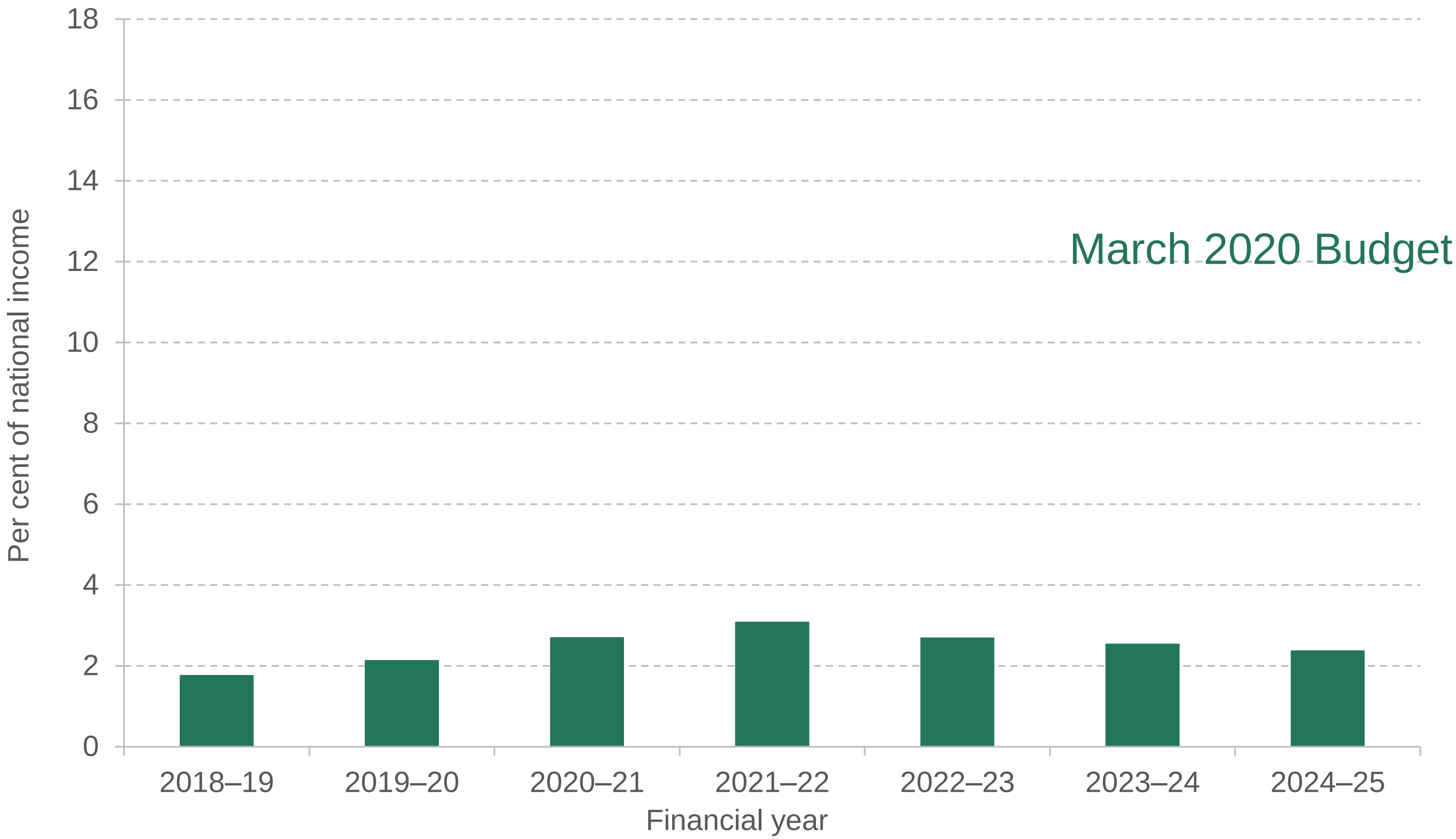
13 October 2020

Outlook for the public finances

@TheIFS

Economic and Social Research Council

Borrowing up hugely since March



Notes and sources: see *IFS Green Budget, October 2020,* Figure 4.5.

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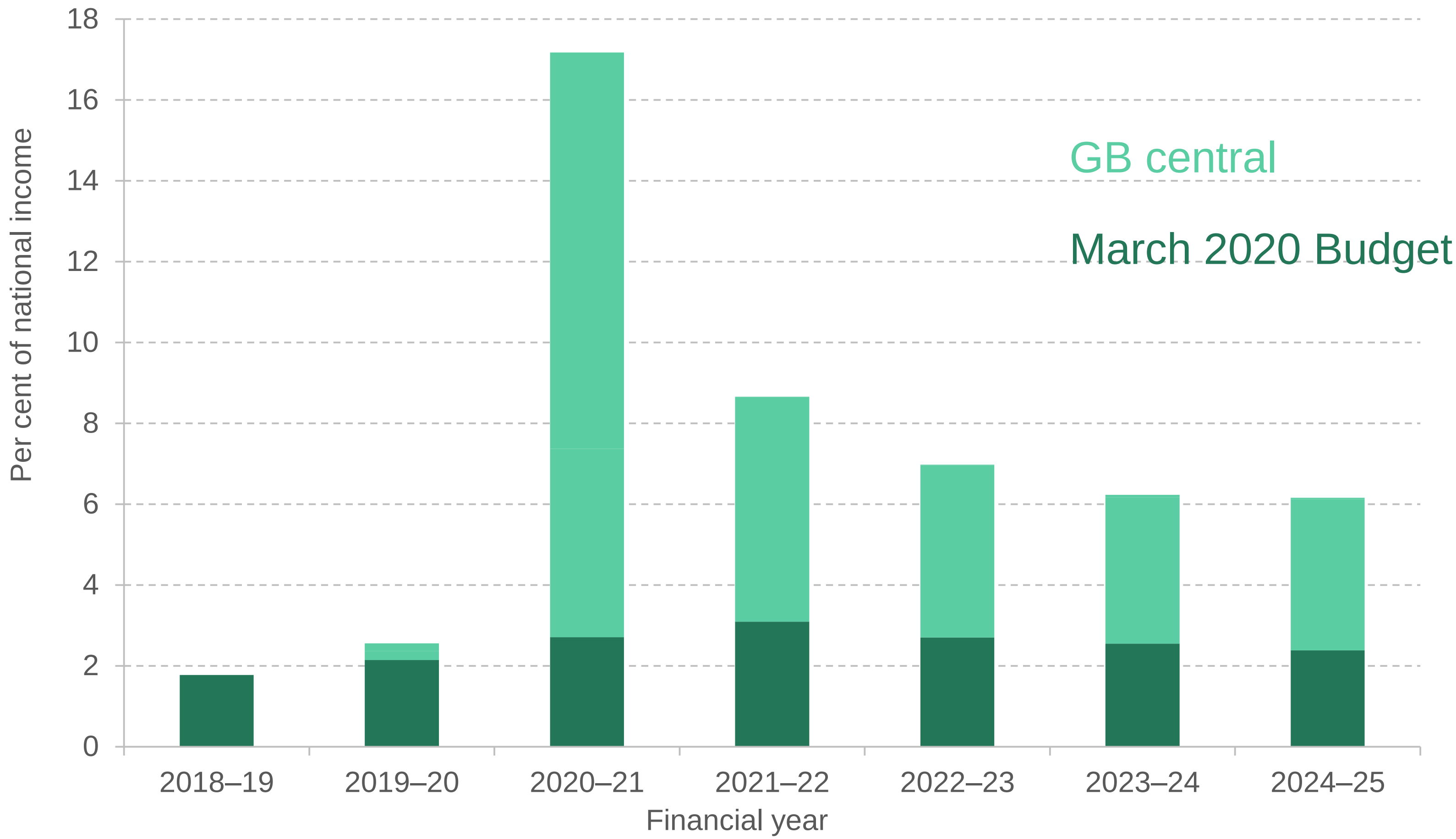
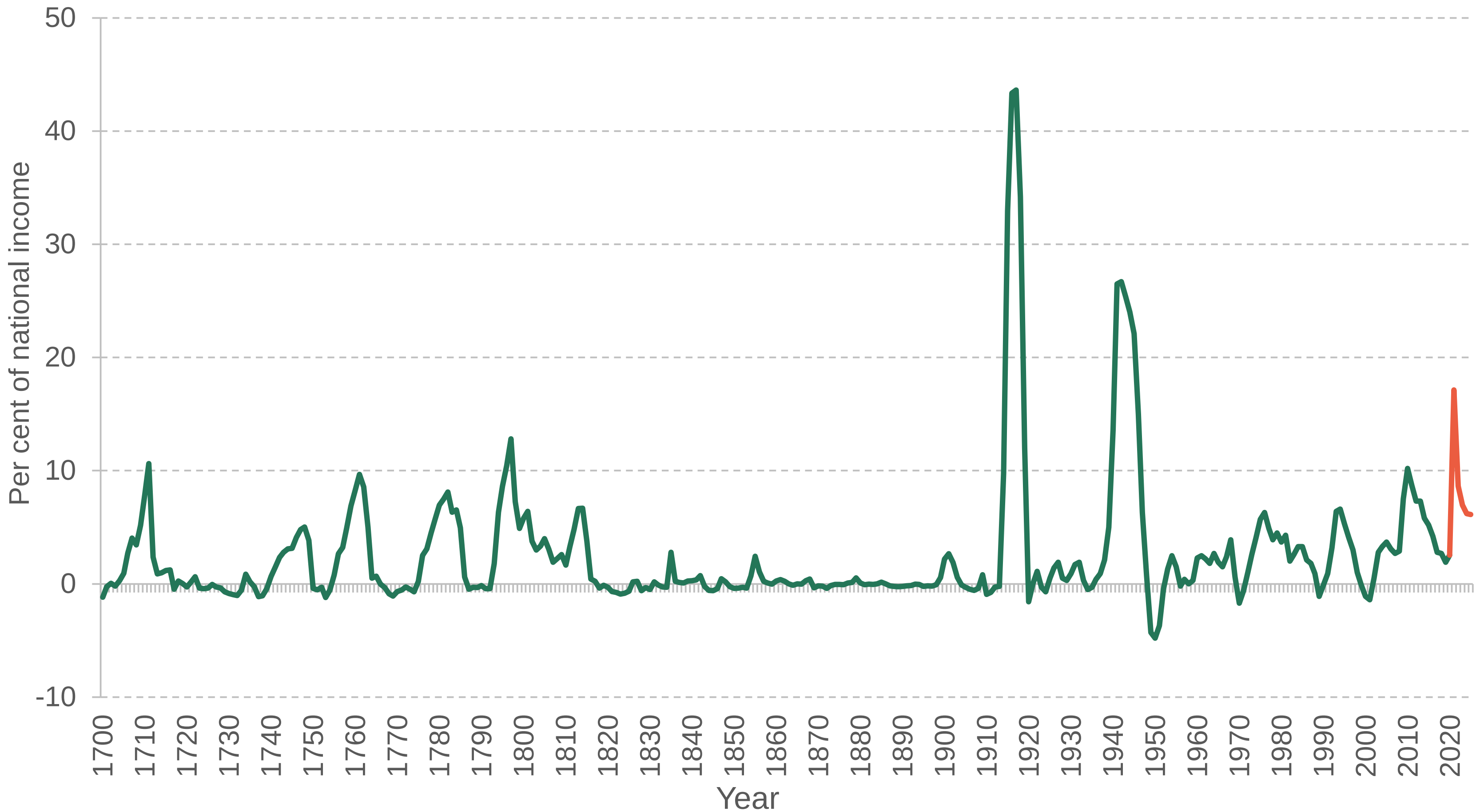


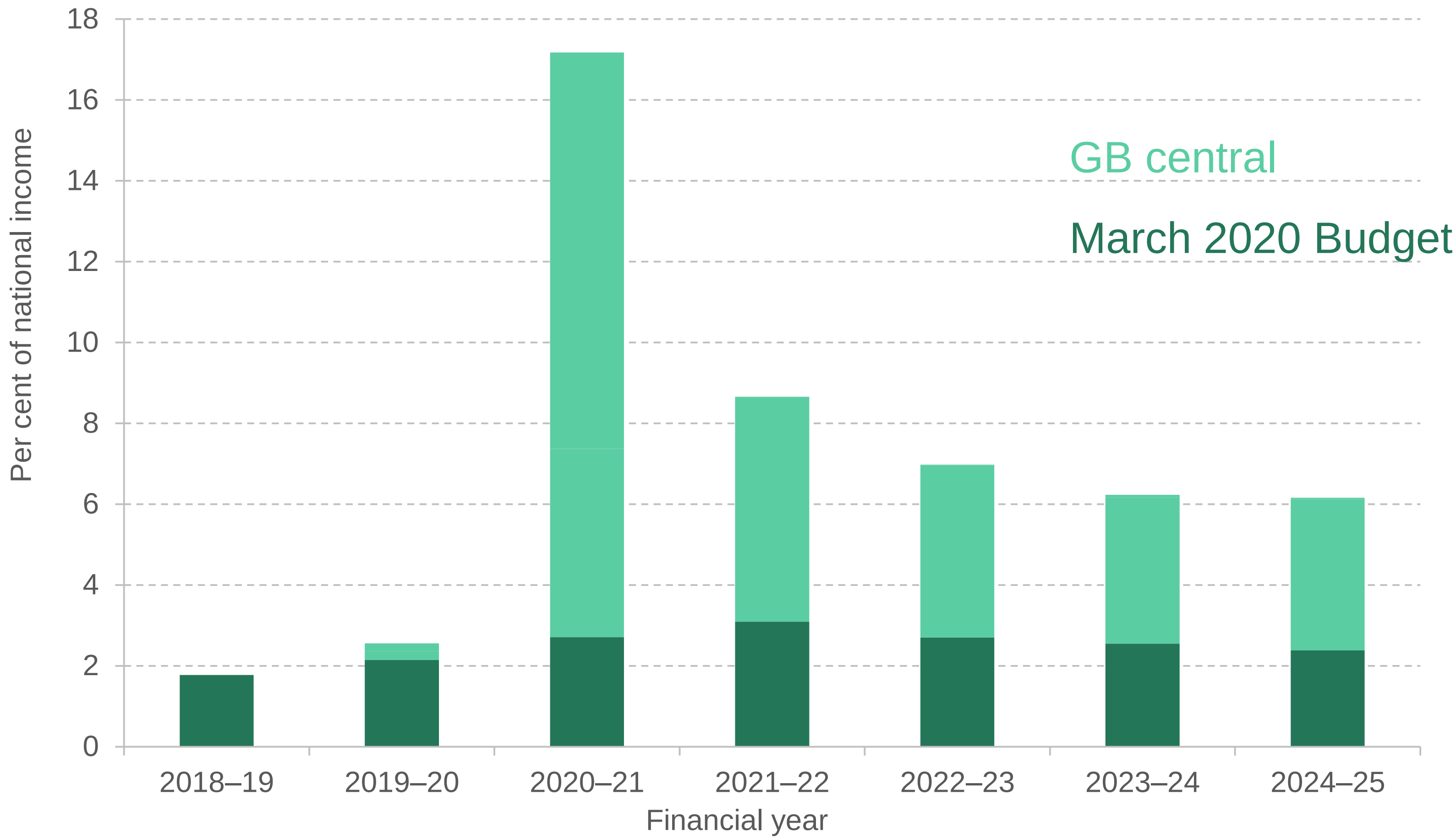
Notes and sources: see *IFS Green Budget, October 2020,* Figure 4.5.

Record borrowing outside of World Wars



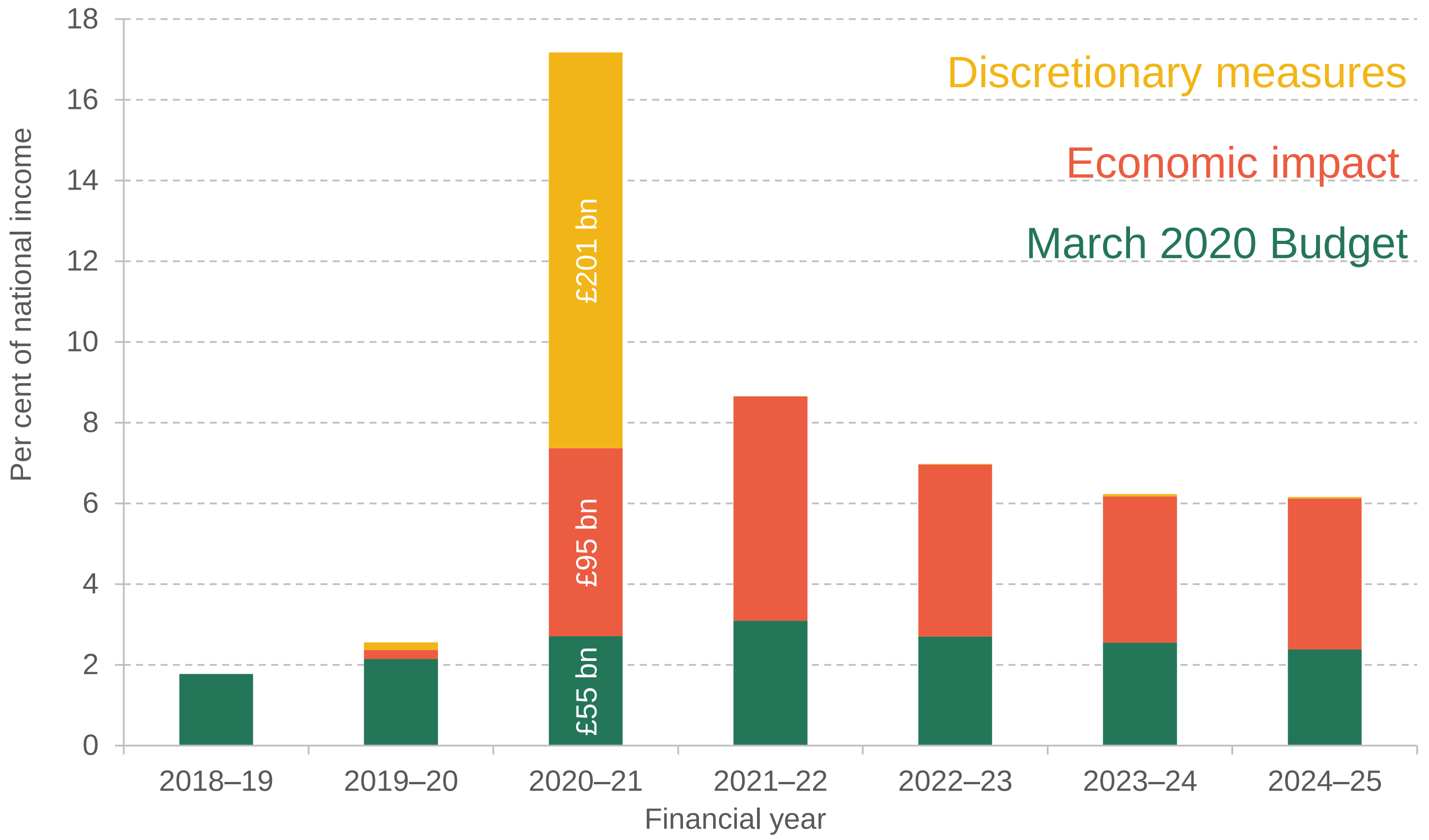
Notes and sources: see *IFS Green Budget, October 2020,* Figure 4.3.

Borrowing up hugely since March



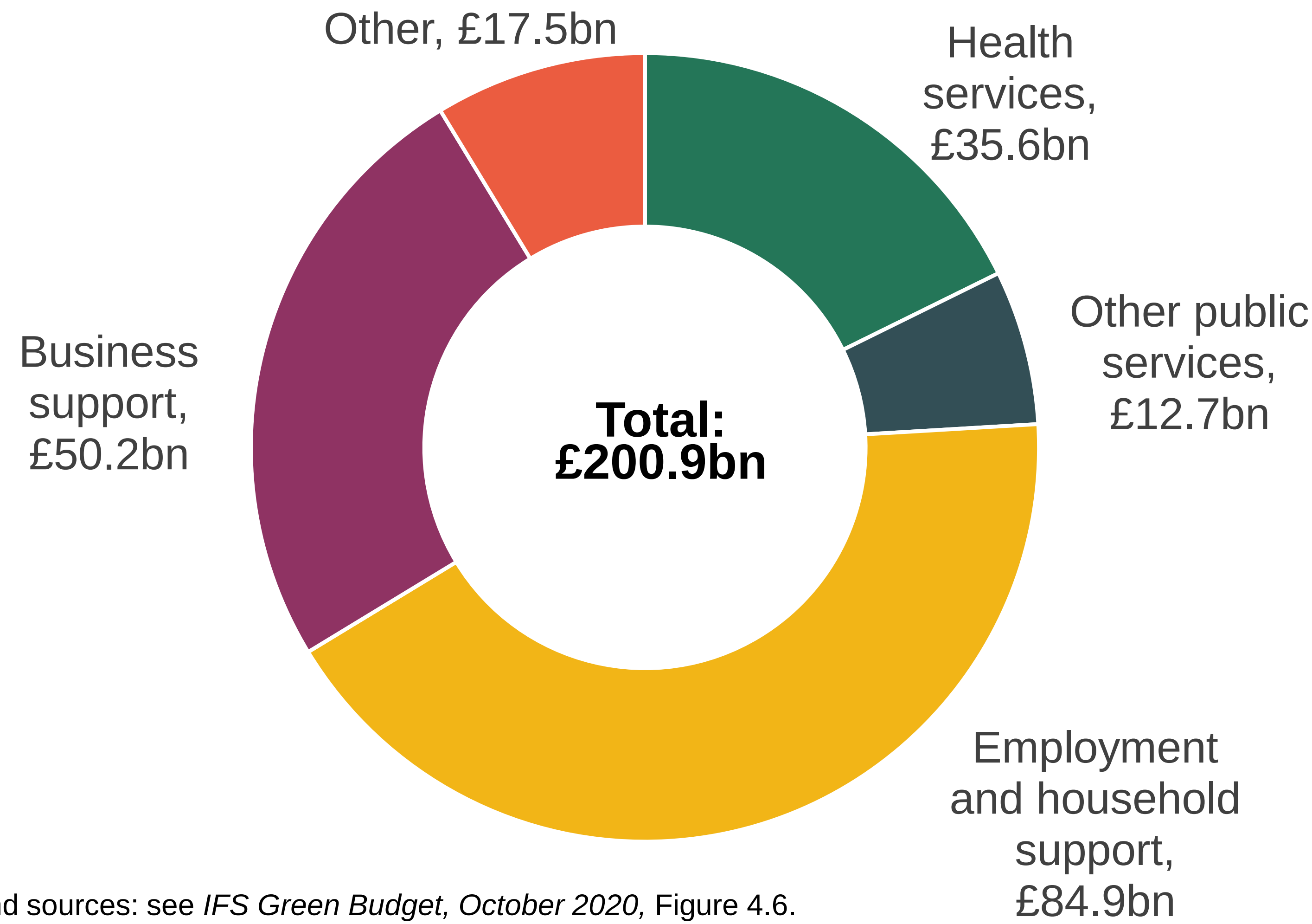
Notes and sources: see *IFS Green Budget, October 2020,* Figure 4.5.

Borrowing up hugely since March



Notes and sources: see *IFS Green Budget, October 2020,* Figure 4.5.

Hey big spender

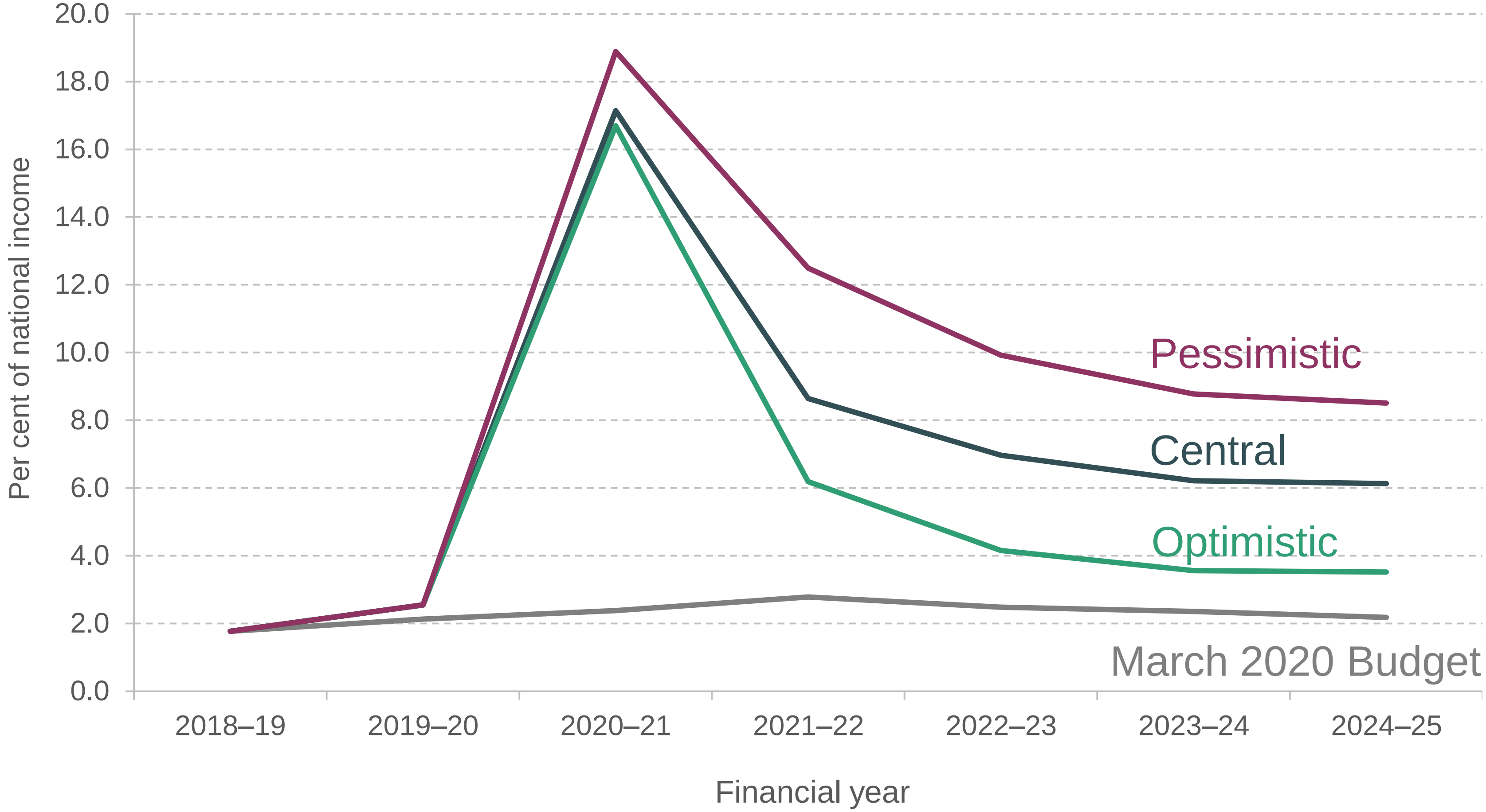


Notes and sources: see *IFS Green Budget, October 2020,* Figure 4.6.

Will extra spending persist?

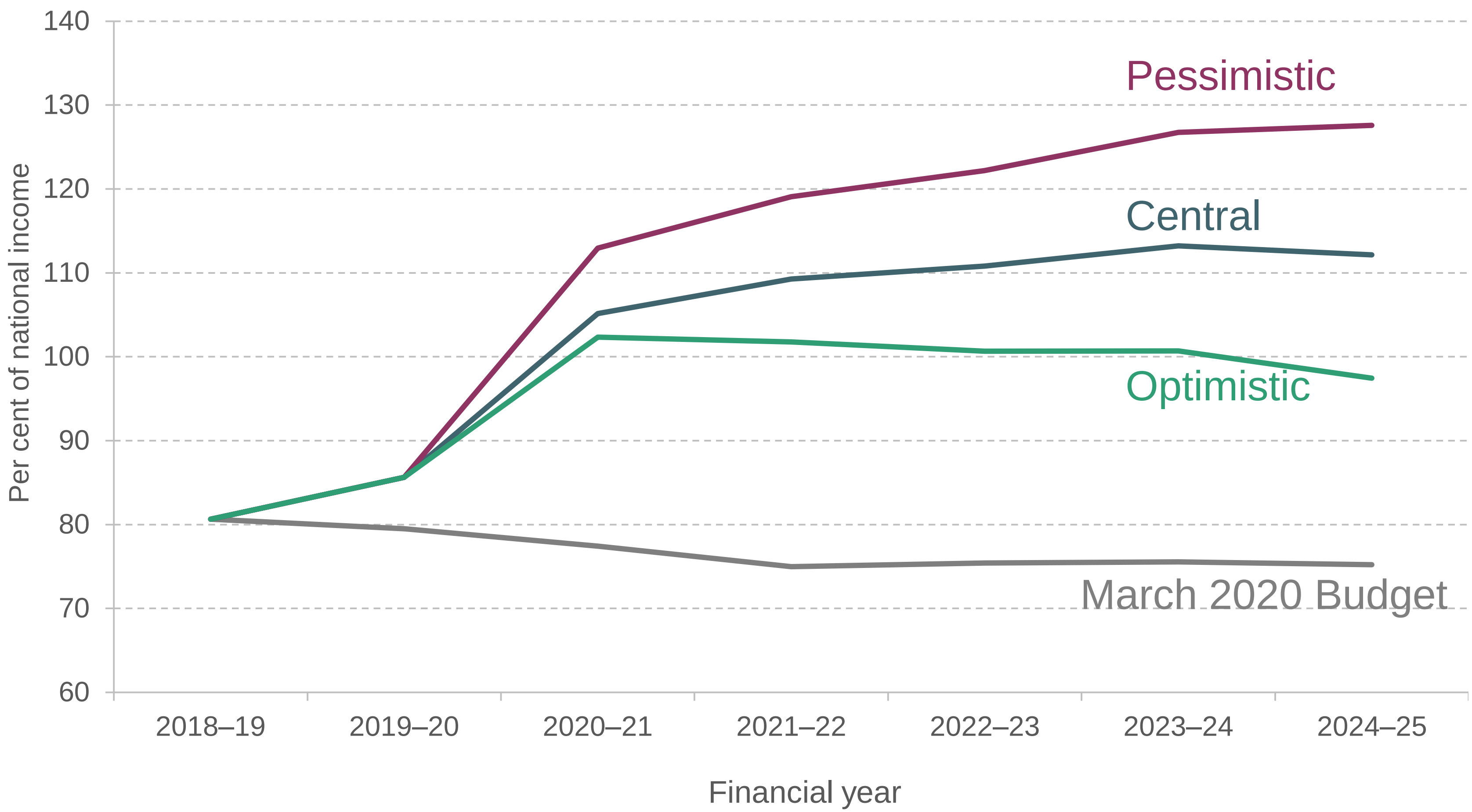
- Scenarios assume no additional COVID-19 spending after March 2021
- Public services (Chapter 6)
  - Will extra COVID-19 spending be needed in future years?
  - More spending to deal with NHS backlogs?
- If 25% of the additional public service spending persists into future years that would add about £20 billion to spending
- Levelling up agenda (Chapter 7) adds to spending demands
- Extend any of this year’s £9 billion boost to benefits (Chapter 8)?
  - removal of £20 per week boost to UC would see about 4 million families losing an average of 13% of their benefits in April
  - support for private-sector renters would return to being based on 2011 rent levels

Borrowing to remain elevated



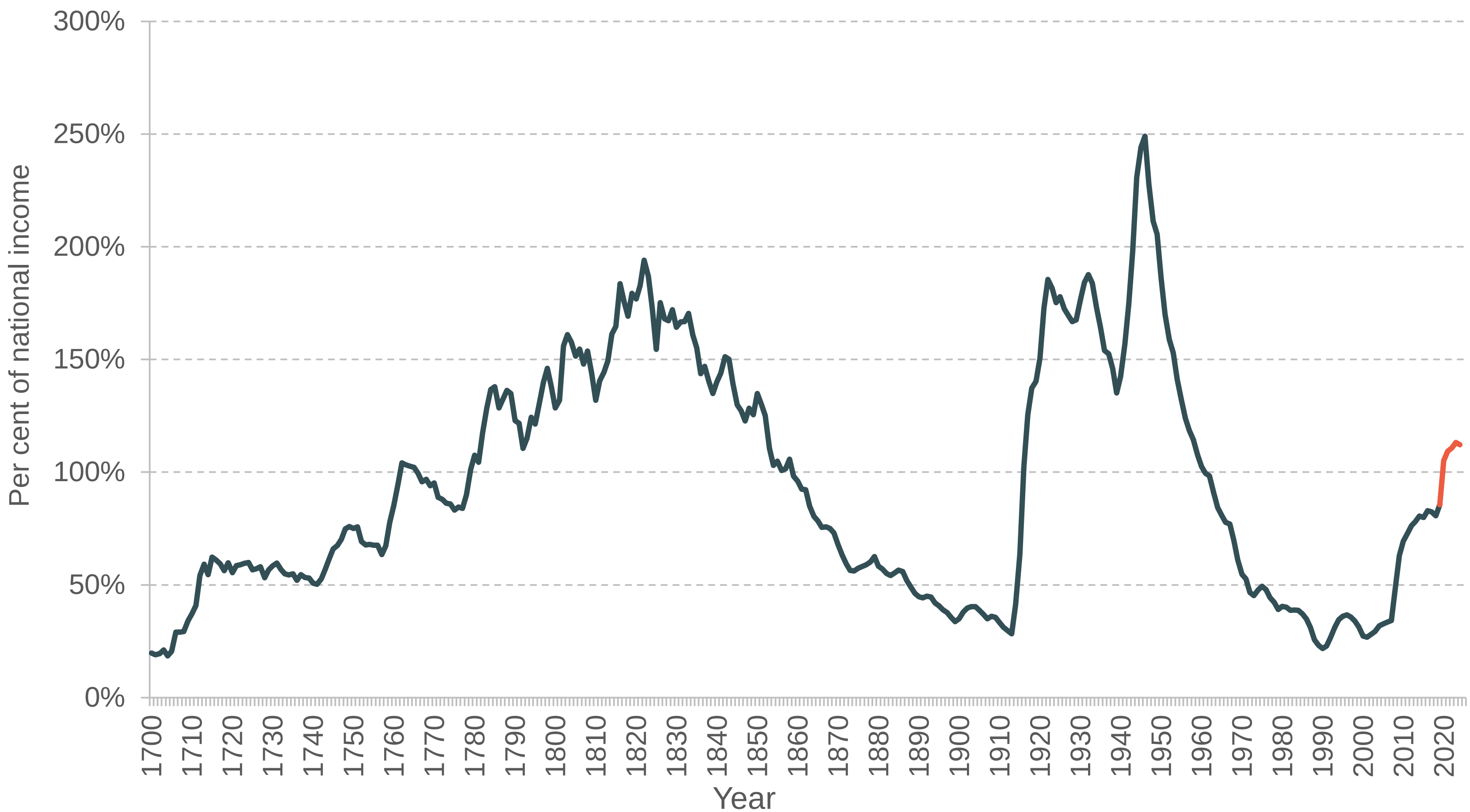
Notes and sources: see *IFS Green Budget, October 2020,* Figure 4.2.

Debt pushed up …



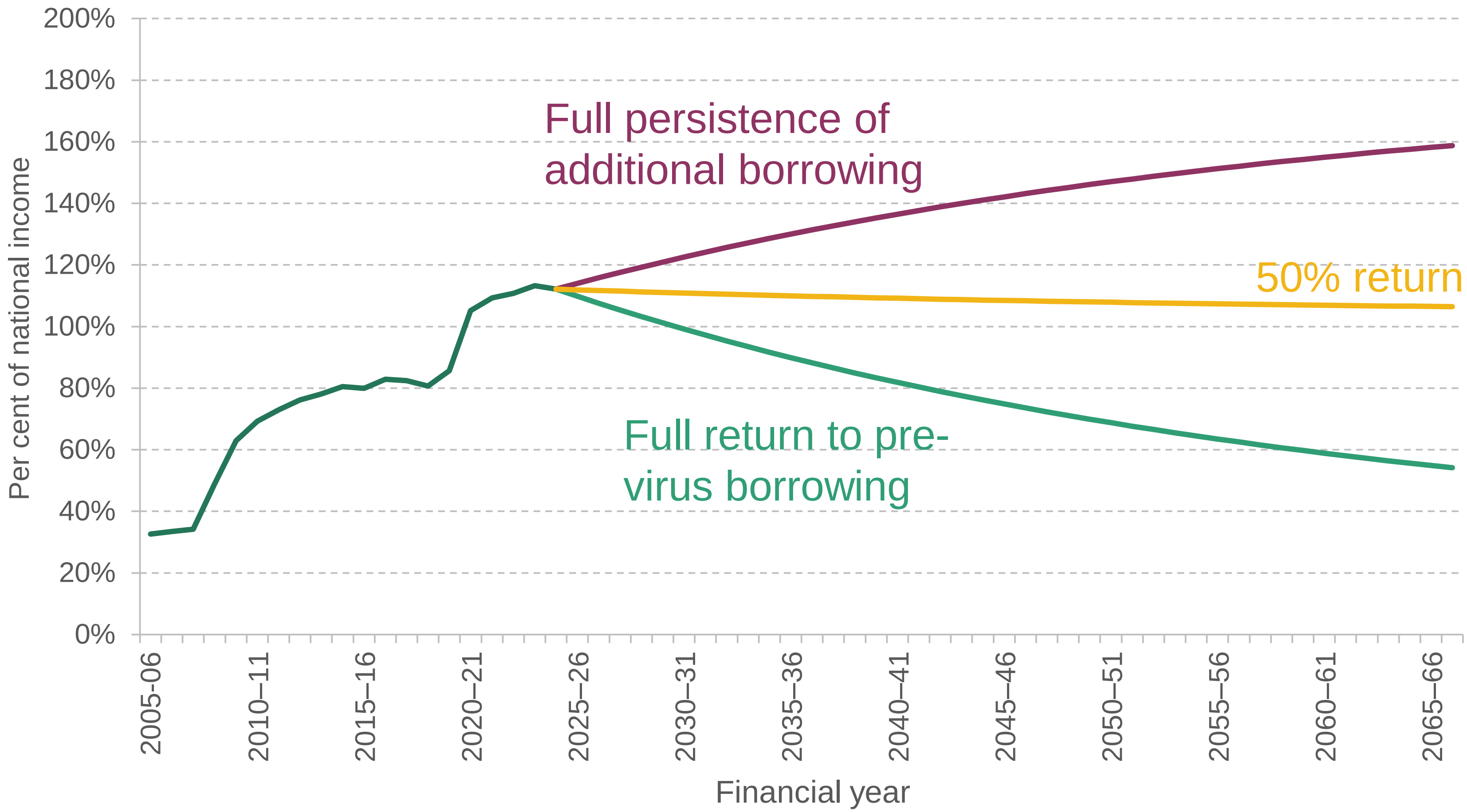
Notes and sources: see *IFS Green Budget, October 2020,* Figure 4.9.

… to levels not seen since 1950s



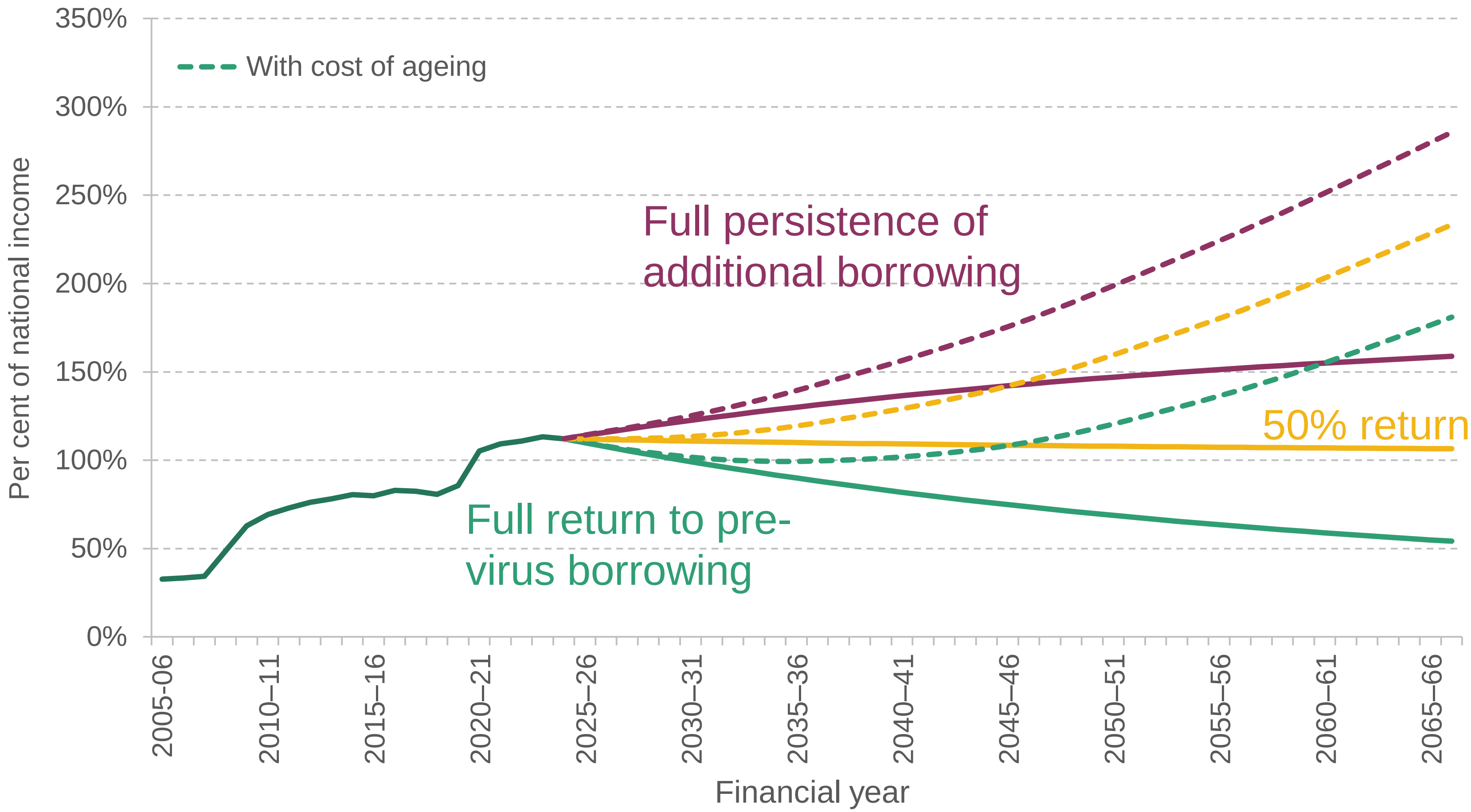
Notes and sources: see *IFS Green Budget, October 2020,* Figure 4.11.

Debt elevated for decades



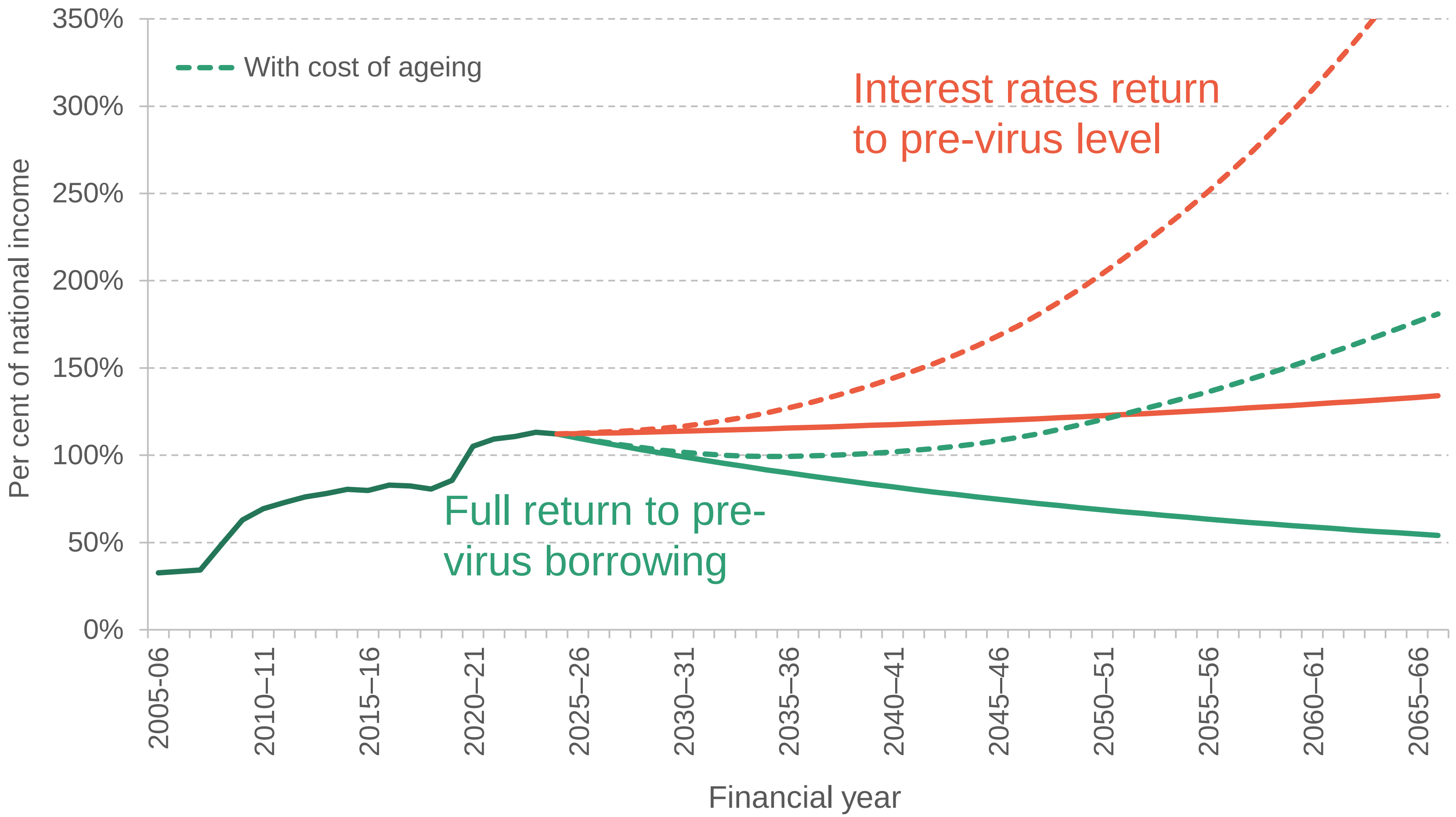
Notes and sources: see *IFS Green Budget, October 2020,* Figure 4.15.

Growing costs of ageing



Notes and sources: see *IFS Green Budget, October 2020,* Figure 4.17.

… along with other risks



Notes and sources: see *IFS Green Budget, October 2020,* Figure 4.18.

So what?

- In the short term
  - Supporting the economy should be first priority
  - Additional borrowing *that delivered a fuller recovery* worthwhile
- Even with a goal of only stabilising debt above 100%
  - 2.1% of national income fiscal tightening in 2024–25 (£43 billion in today’s terms)
  - Would still be running deficits of close to 4%
- Huge uncertainty around this figure
- Likely pressures for some COVID spending to continue
- Longer term: increasing pressure on pensions, health and care spending (OBR estimates £36 billion increase per decade)

Conclusions

- Borrowing to reach record levels for the UK in peacetime this year and, more importantly, to remain elevated for years
- Weak economy and huge uncertainty
  - now is not the right moment to set out a fiscal tightening
  - further giveaways that ensured a fuller recovery would be justified
- Post-crisis a substantial fiscal tightening looks unavoidable
  - Even if we settle for stabilising debt above 100% of GDP
  - Needed to address long-term spending pressures from ageing
- Key risk from elevated debt: interest rates rise without an associated boost to revenues from higher growth