

Institute for
Fiscal Studies



Public finances: less to repair, a bit more done

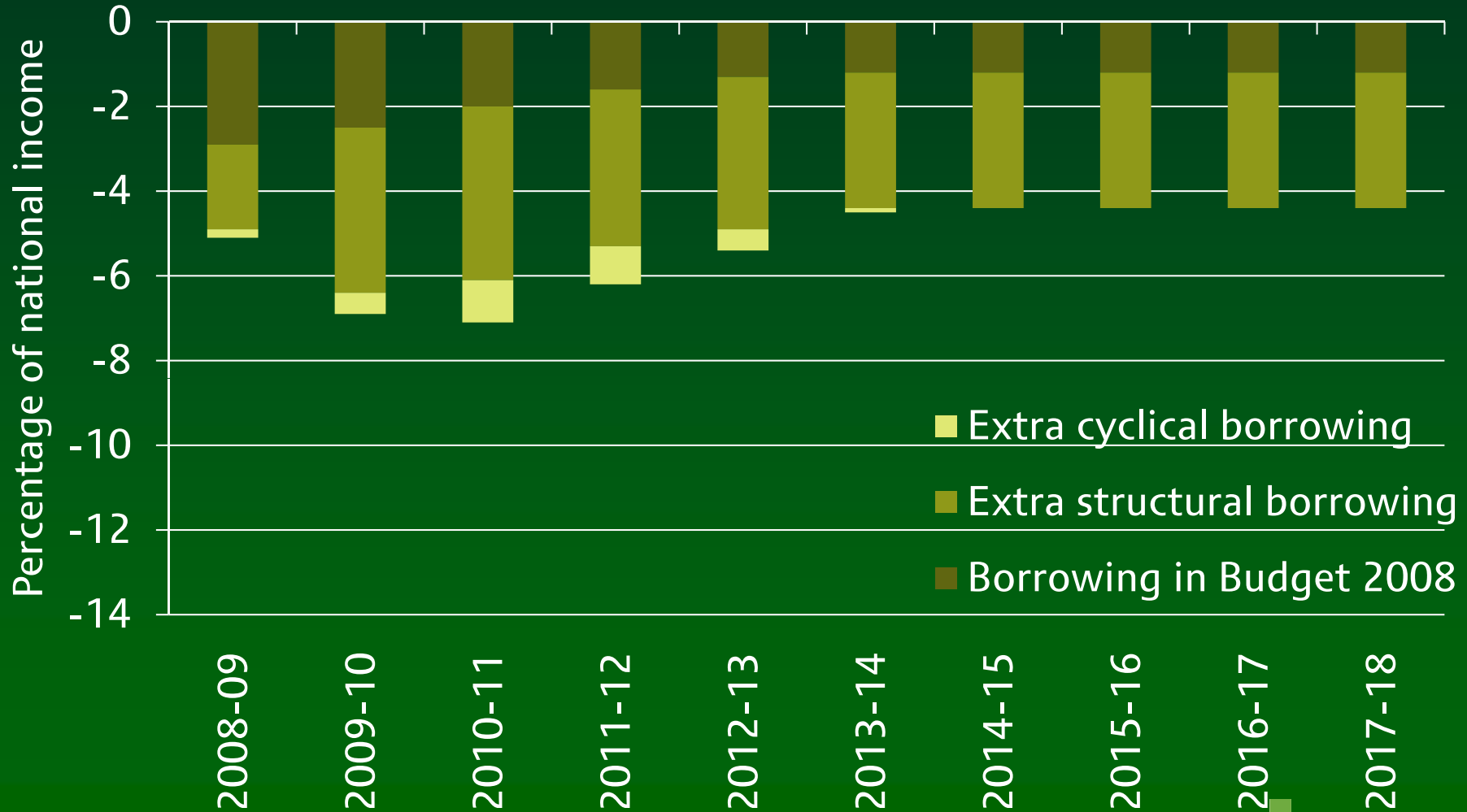
Gemma Tetlow

Public finances: summary

- The big picture
 - Borrowing in 2009–10 to be £11bn lower than PBR 2009 forecast
 - This is expected to persist in future, offset slightly by weaker outlook for growth
- New policy announcements
 - Small short-term giveaway, small medium-term takeaway
- Timescale for fiscal tightening shortened, from 8 years to 7 years
- Still work to be done
 - Further, as-yet-unannounced, fiscal tightening pencilled in for 2015–16 and 2016–17
 - Public service spending settlement to be very tight from April 2011

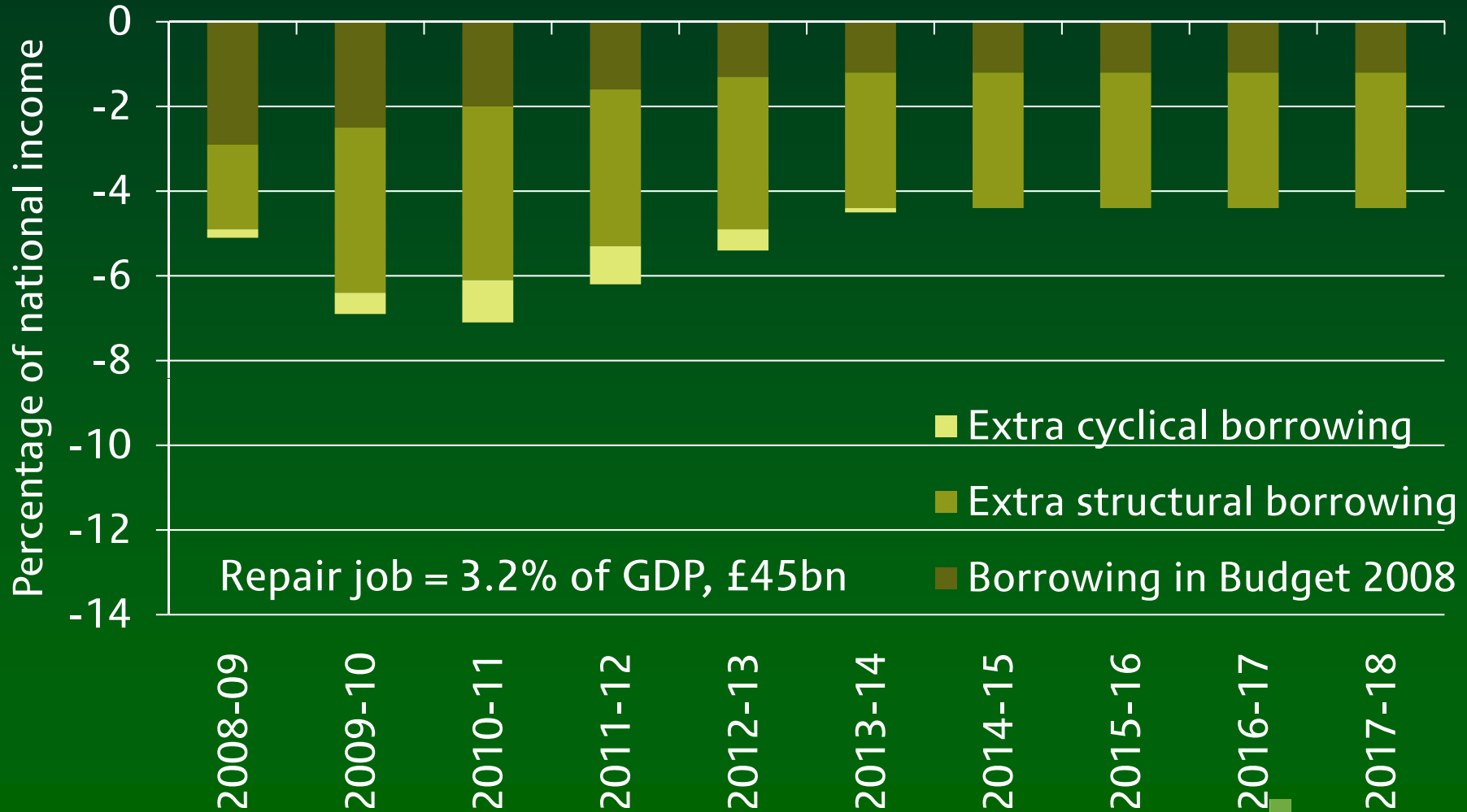
How big is the problem?

Public sector net borrowing in PBR 2008, excluding policy measures since PBR 2008



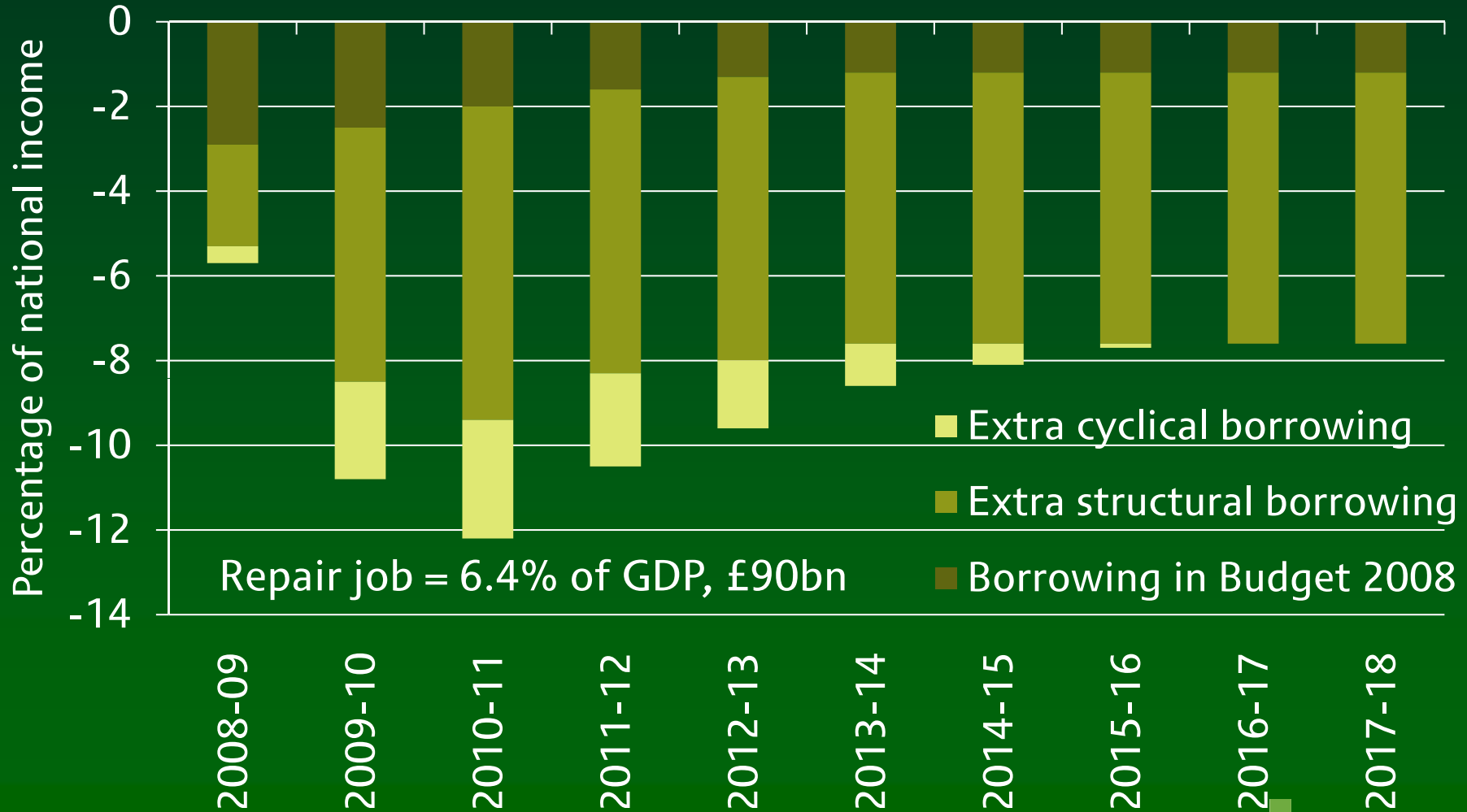
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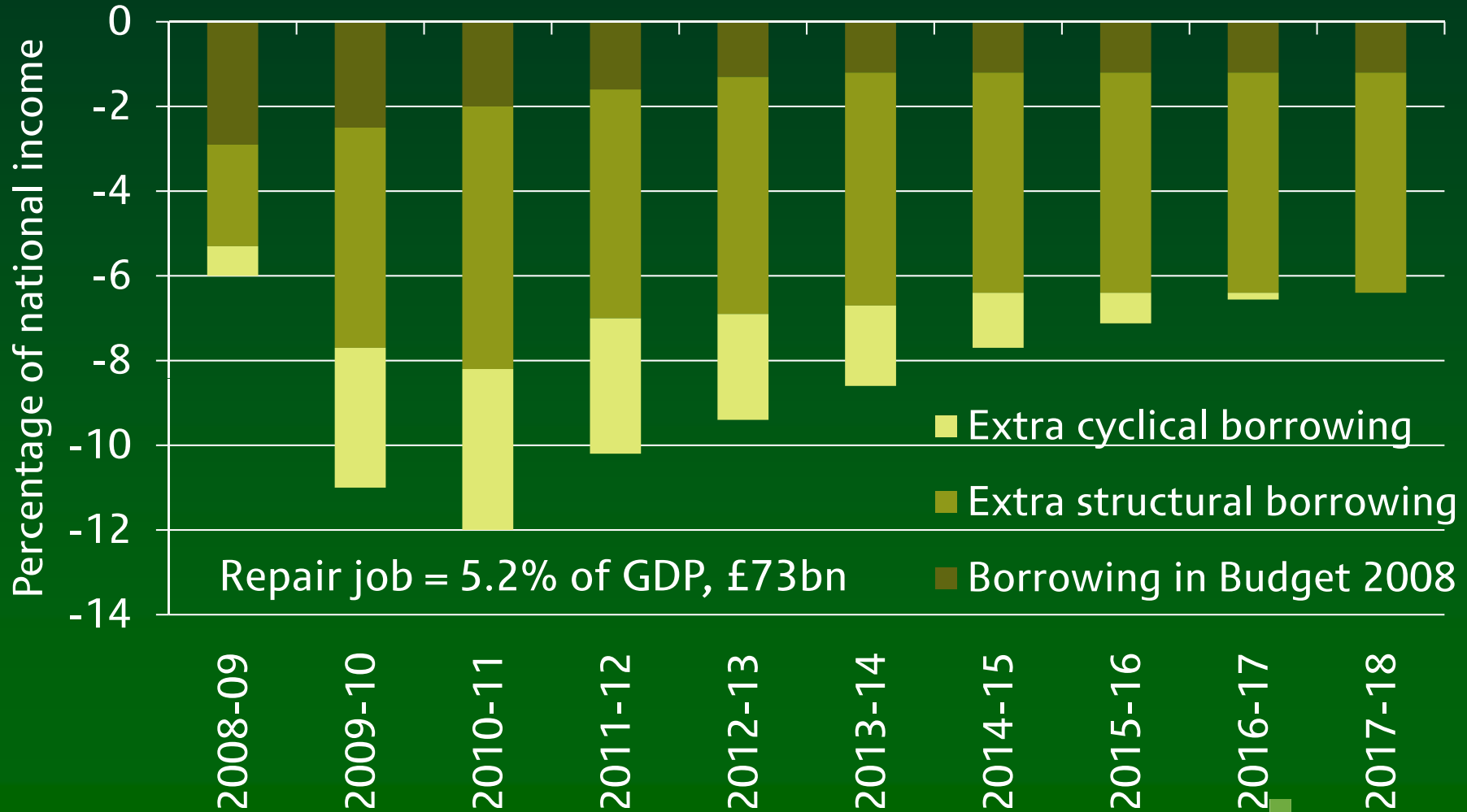
How big is the problem?

Public sector net borrowing in Budget 2009, excluding policy measures since PBR 2008



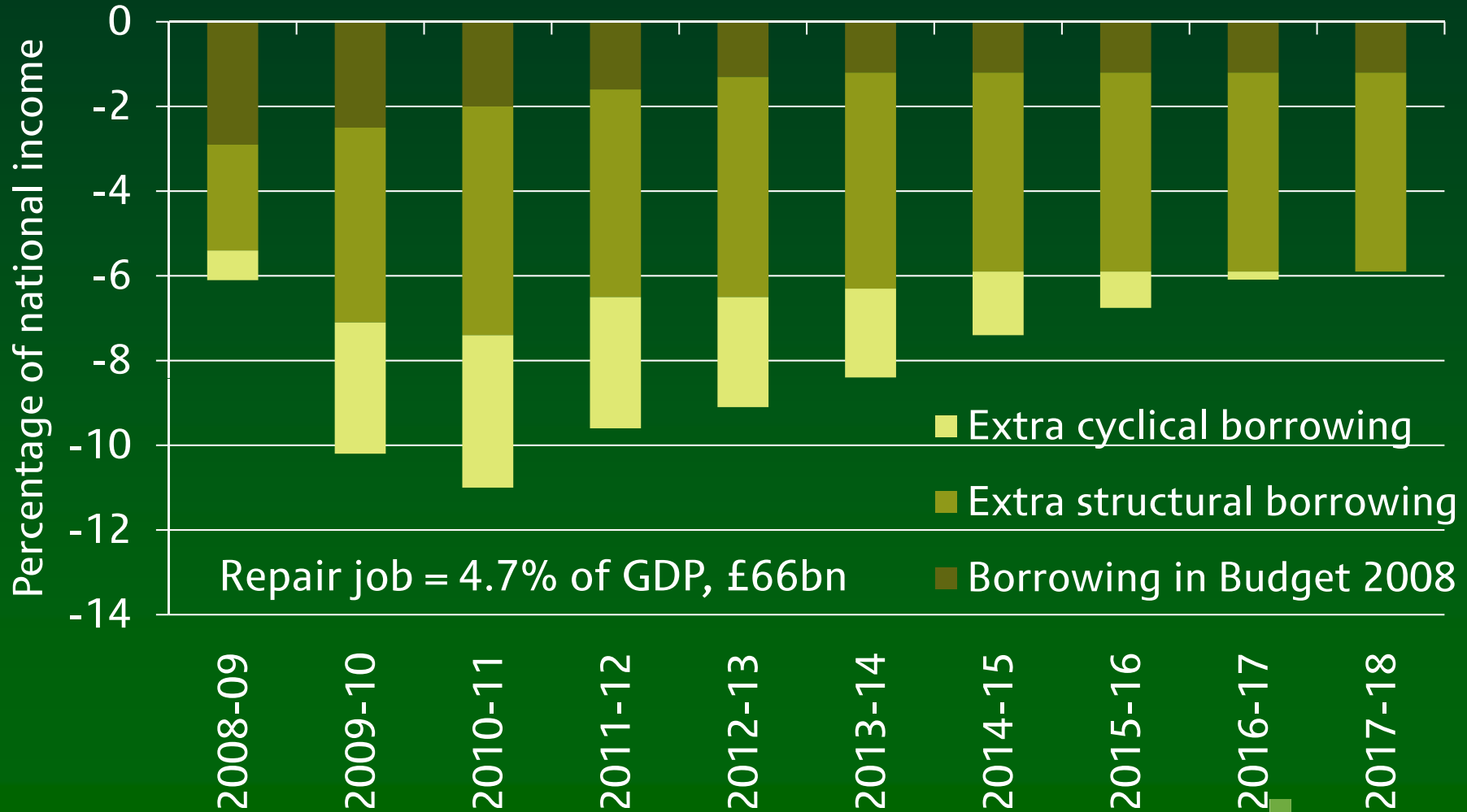
How big is the problem?

Public sector net borrowing in PBR 2009, excluding policy measures since PBR 2008



How big is the problem?

Public sector net borrowing in Budget 2010, excluding policy measures since PBR 2008



Changes to borrowing since PBR 2009

Public sector net borrowing, £ billion

	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15
PBR 2009	177.6	176	140	117	96	82
Revisions	-11.0	-14½	-9	-7	-6½	-6½
Budget 2010, no discretionary changes	166.5	161½	131	110½	90	75½
Discretionary changes						
Budget 2010						

Sources: HM Treasury; IFS calculations.

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<i>Of which</i>						
Lower growth						
Timing of bank bonus tax						
Other						

Note: Numbers do not sum due to rounding.
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<i>Of which</i>						
Lower growth	0.0	0	2	3	3	3
Timing of bank bonus tax						
Other						

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<i>Of which</i>						
Lower growth	0.0	0	2	3	3	3
Timing of bank bonus tax	0.6	-1½	0	0	0	0
Other						

Note: Numbers do not sum due to rounding.
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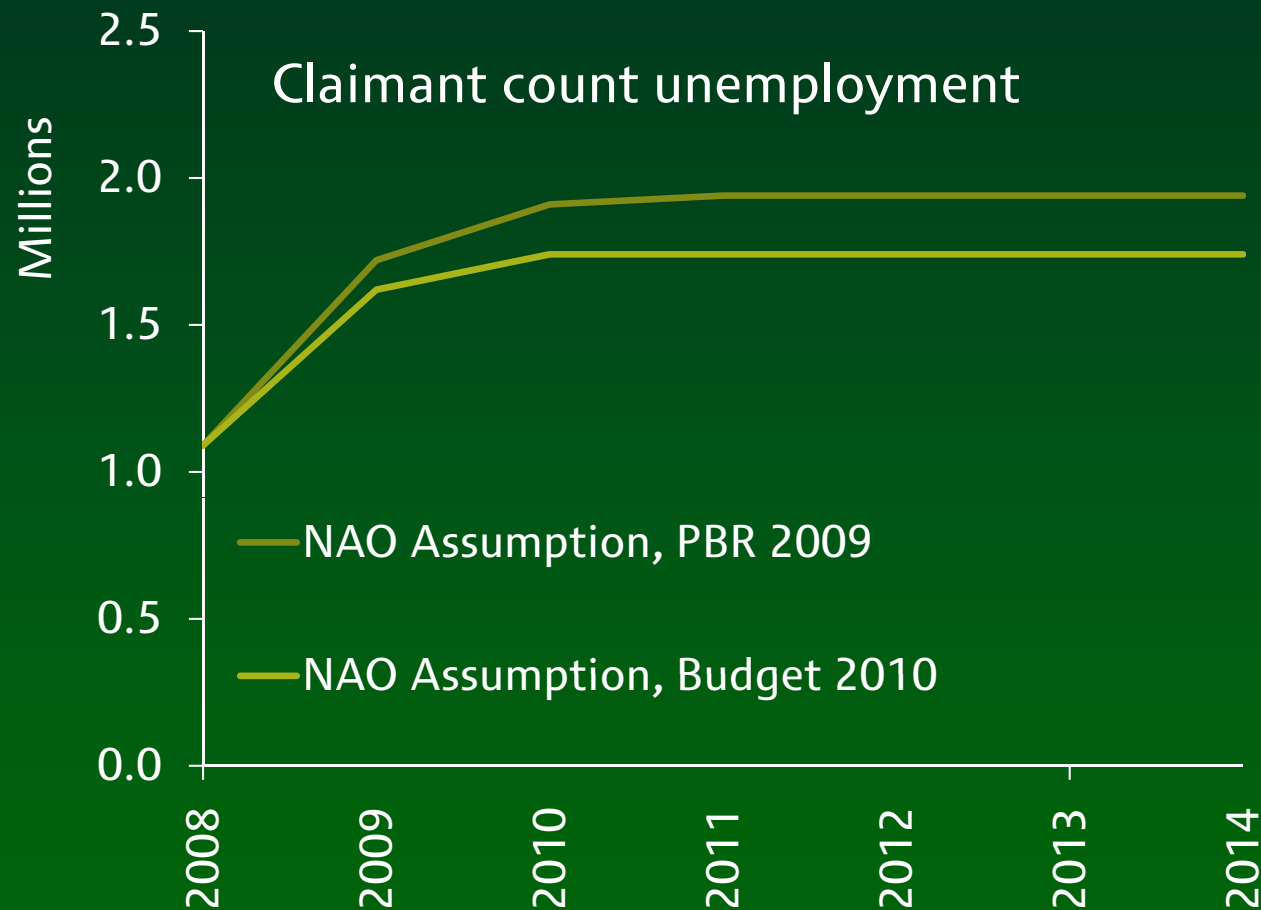
Changes to borrowing since PBR 2009

Public sector net borrowing, £ billion

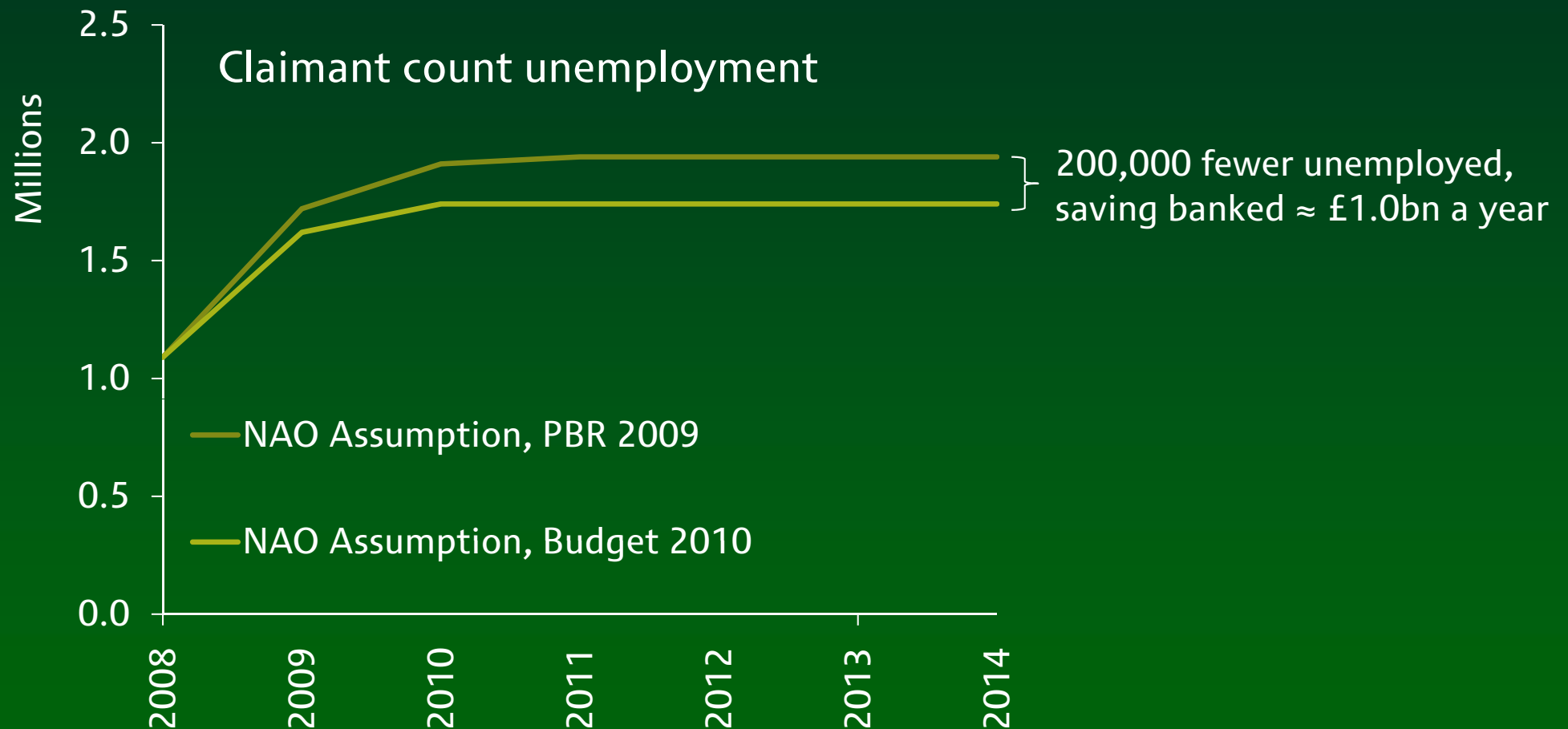
	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15
Revisions	-11.0	-14½	-9	-7	-6½	-6½
<i>Of which</i>						
Lower growth	0.0	0	2	3	3	3
Timing of bank bonus tax	0.6	-1½	0	0	0	0
Other	-11.6	-13	-11	-10	-10	-10

Note: Numbers do not sum due to rounding.
Sources: HM Treasury; IFS calculations.

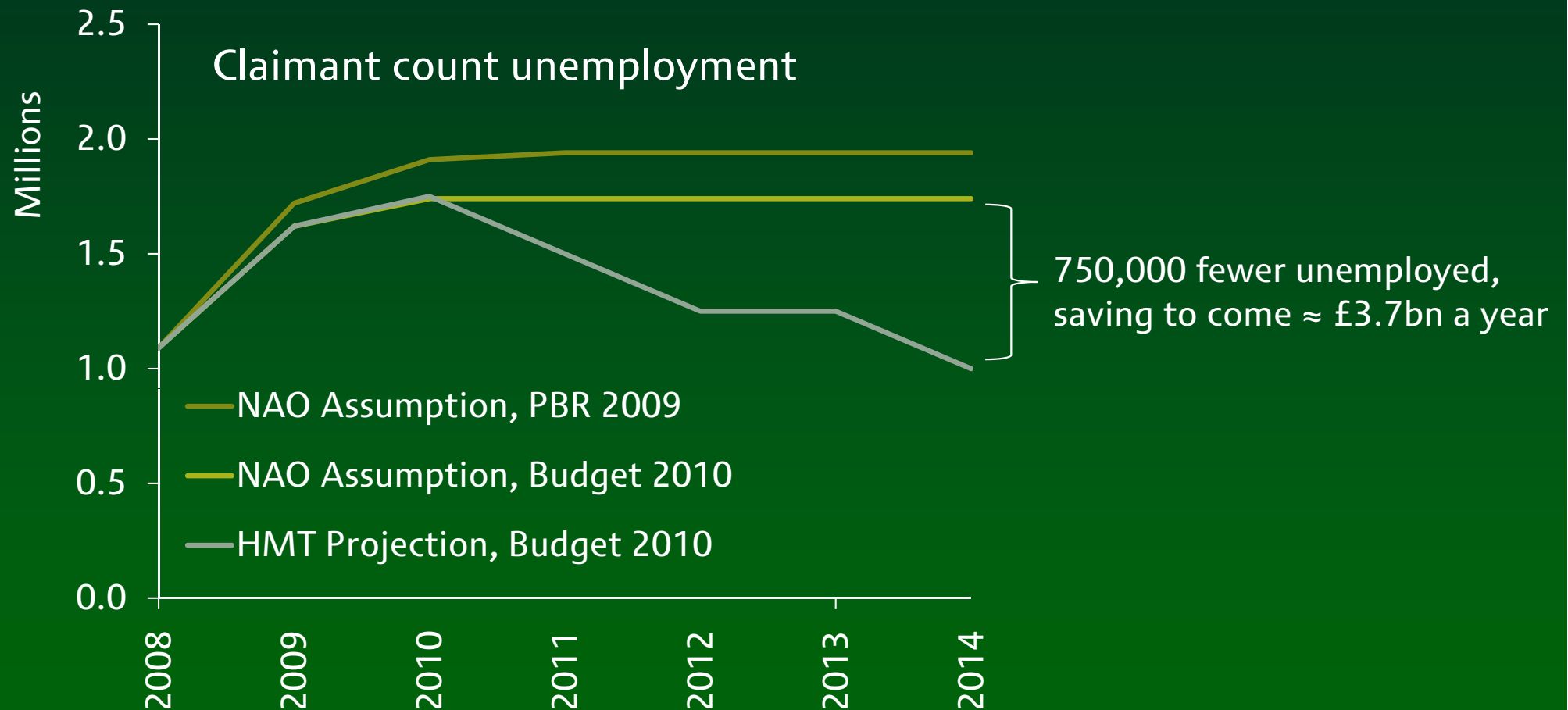
Caution in the unemployment assumption



Caution in the unemployment assumption



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Revisions	-11.0	-14½	-9	-7	-6½	-6½
Budget 2010, no discretionary changes	166.5	161½	131	110½	90	75½
Discretionary changes	0	+1.4	-0.2	-½	-1	-1½
Budget 2010	166.5	163	131	110	89	74

Sources: HM Treasury; IFS calculations.

Measures: giveaway then takeaway

Budget 2010	£ billion				
	2010–11	2011–12	2012–13	2013–14	2014–15
Tax giveaway					
Tax takeaway					
Spending giveaway					
Spending takeaway					
Net tax increase					
Net spending cut					
Net giveaway	1.4	-0.2	-0.7	-0.9	-1.6

Note: Actual numbers may differ due to rounding.
Sources: HM Treasury; IFS calculations.

Measures: giveaway then takeaway

Budget 2010	£ billion				
	2010–11	2011–12	2012–13	2013–14	2014-15
Tax giveaway					
Tax takeaway					
Spending giveaway	1.6	0.0	0.0	0.0	0.0
Spending takeaway	0.8	0.0	0.0	0.0	0.0
Net tax increase					
Net spending cut	-0.8	0.0	0.0	0.0	0.0
Net giveaway	1.4	-0.2	-0.7	-0.9	-1.6

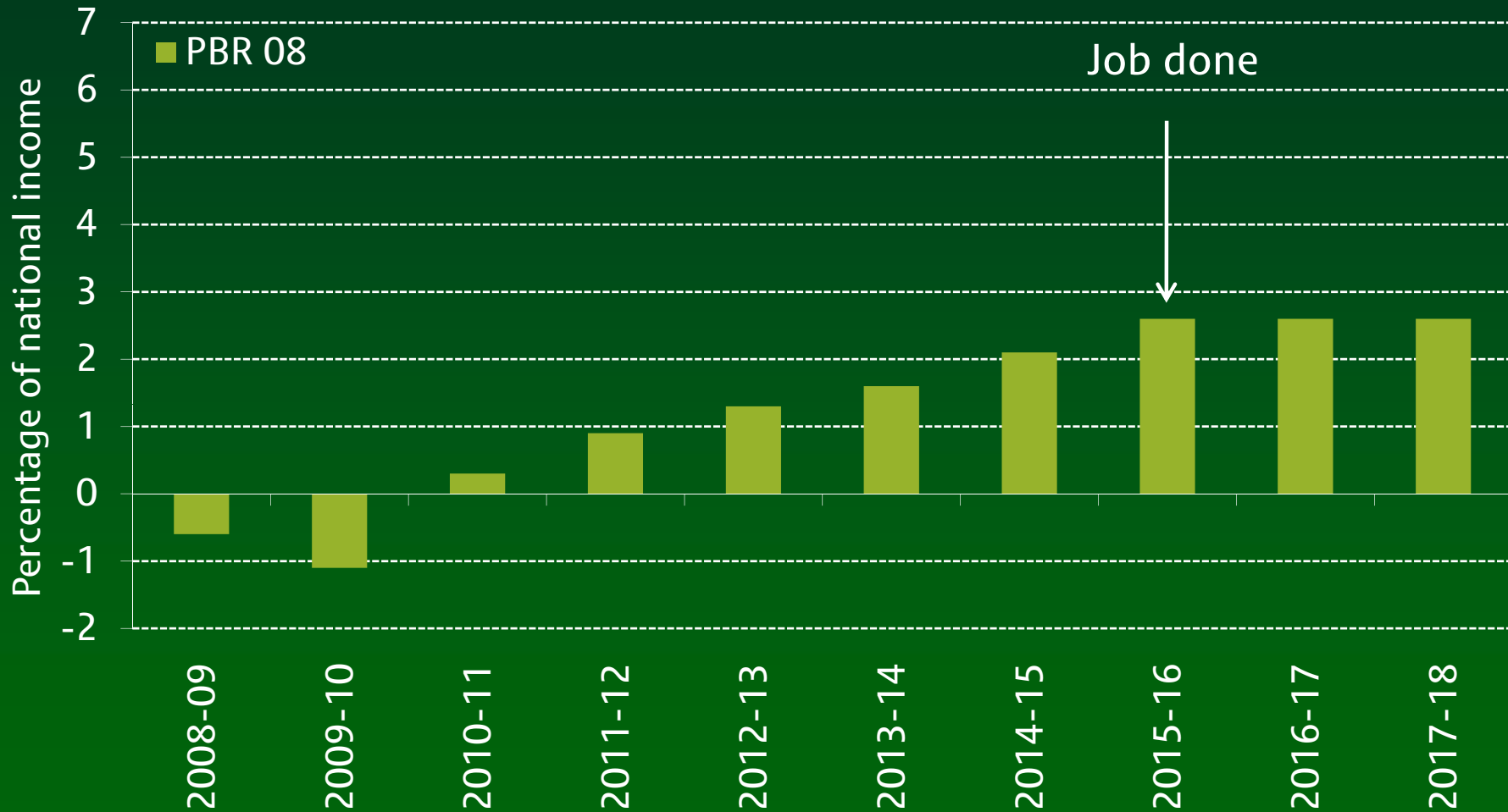
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Measures: giveaway then takeaway

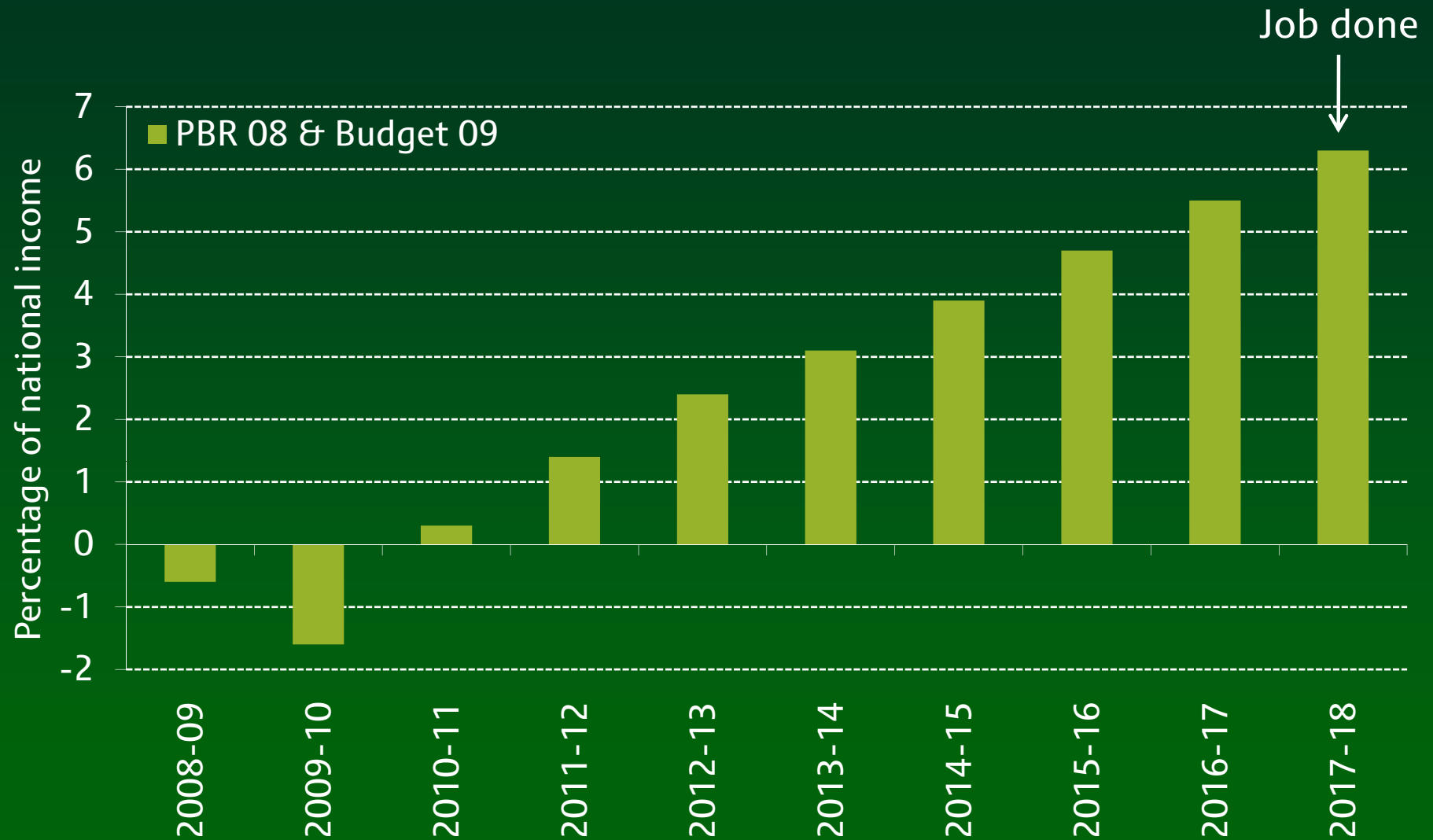
Budget 2010	£ billion				
	2010–11	2011–12	2012–13	2013–14	2014-15
Tax giveaway	1.2	0.8	0.4	0.4	0.4
Tax takeaway	0.5	0.9	1.1	1.3	2.0
Spending giveaway	1.6	0.0	0.0	0.0	0.0
Spending takeaway	0.8	0.0	0.0	0.0	0.0
Net tax increase	-0.7	0.2	0.7	0.9	1.6
Net spending cut	-0.8	0.0	0.0	0.0	0.0
Net giveaway	1.4	-0.2	-0.7	-0.9	-1.6

Note: Actual numbers may differ due to rounding.
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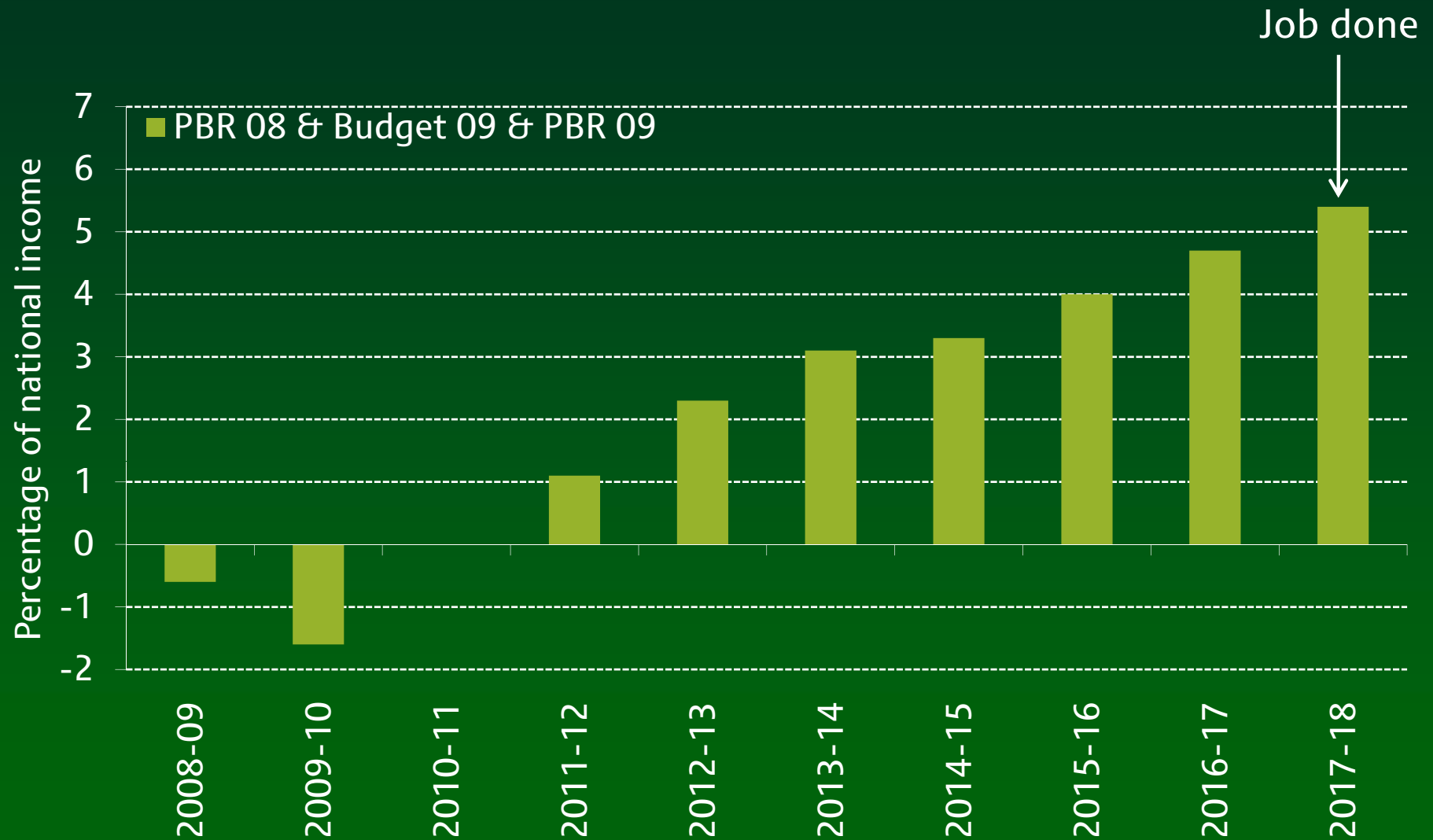
Fiscal tightening: two parliaments of pain?



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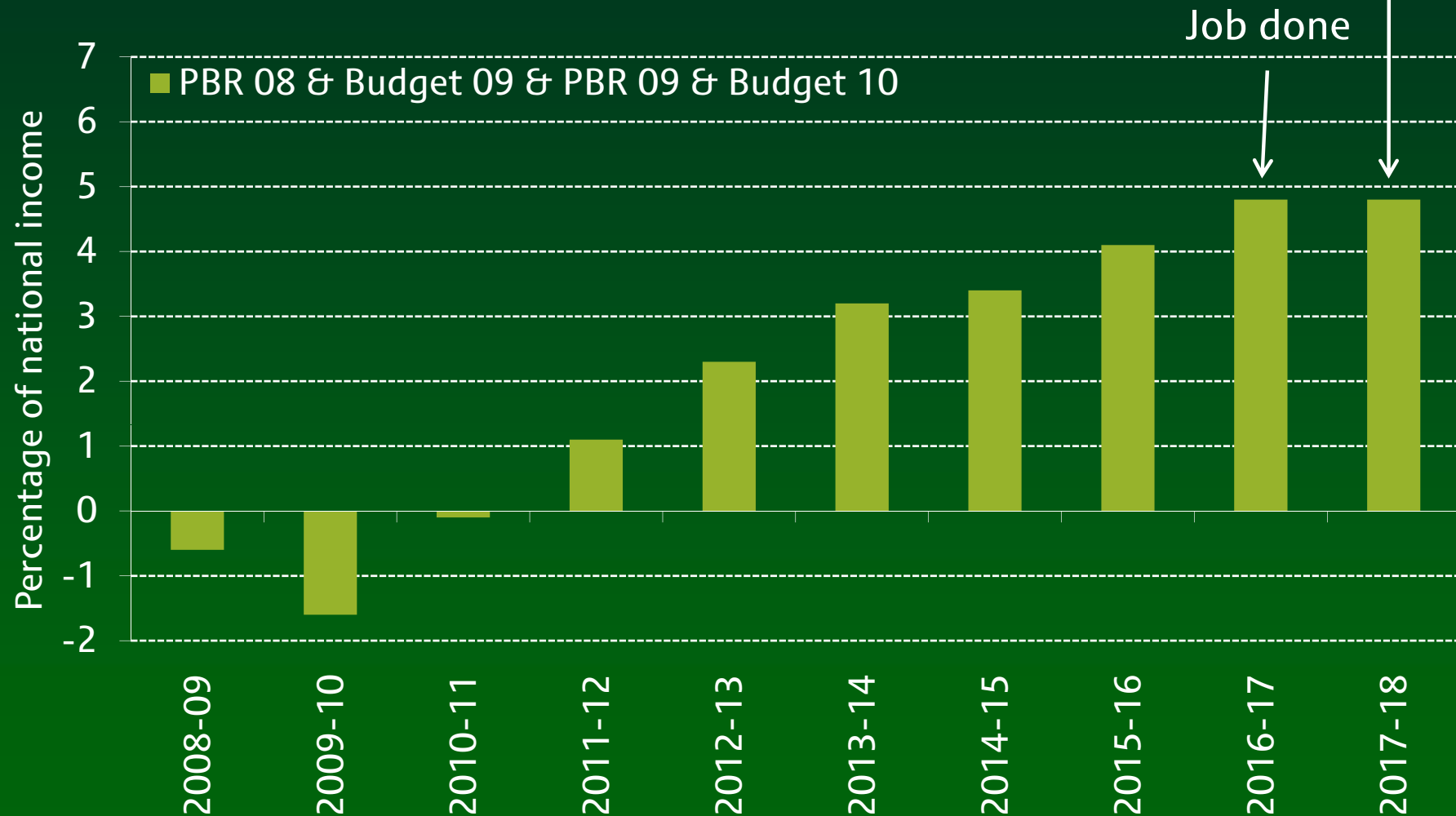


Fiscal tightening: two parliaments of pain?

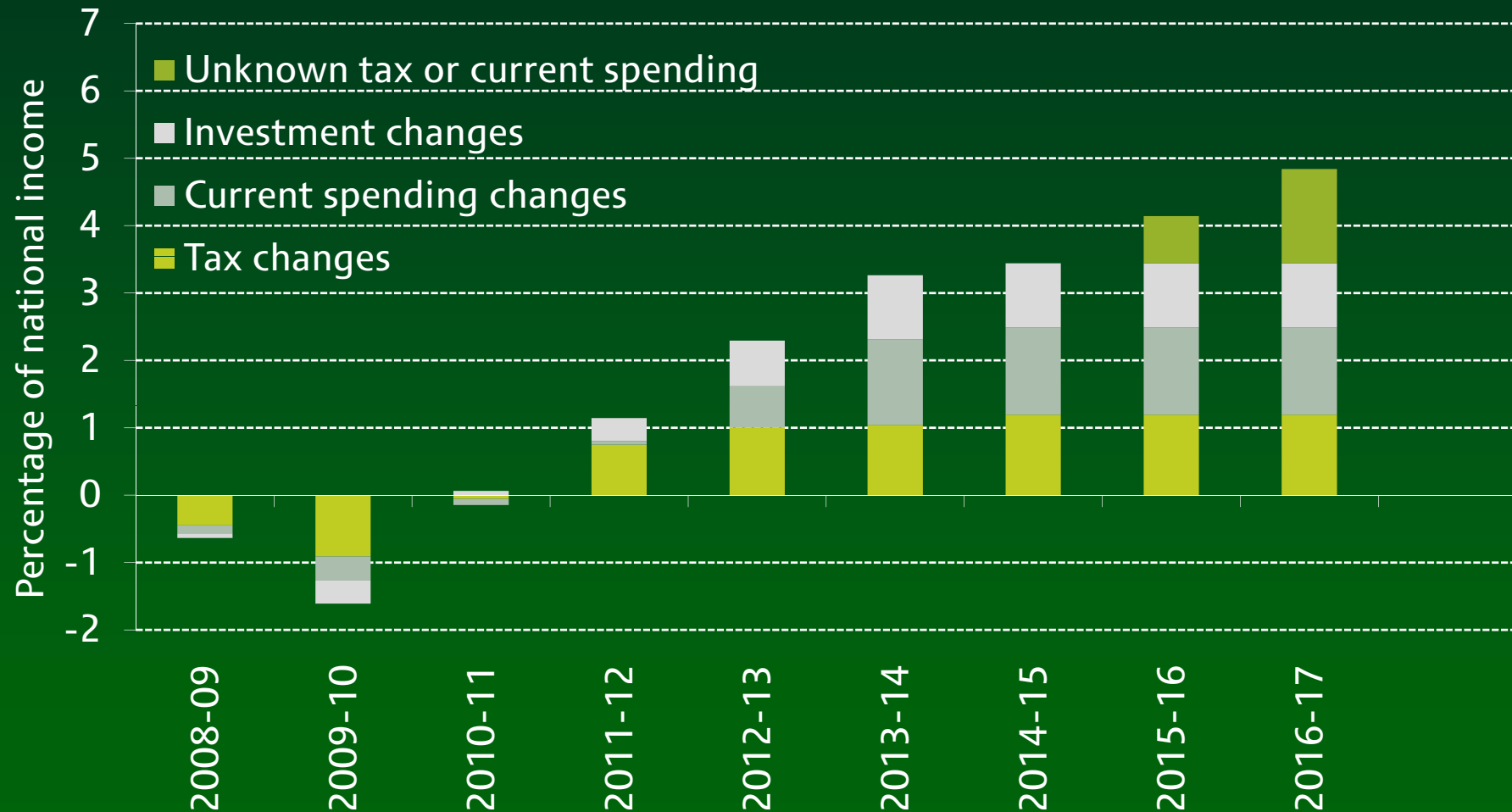


Fiscal tightening: two parliaments of pain?

PBR 2009: End of fiscal tightening

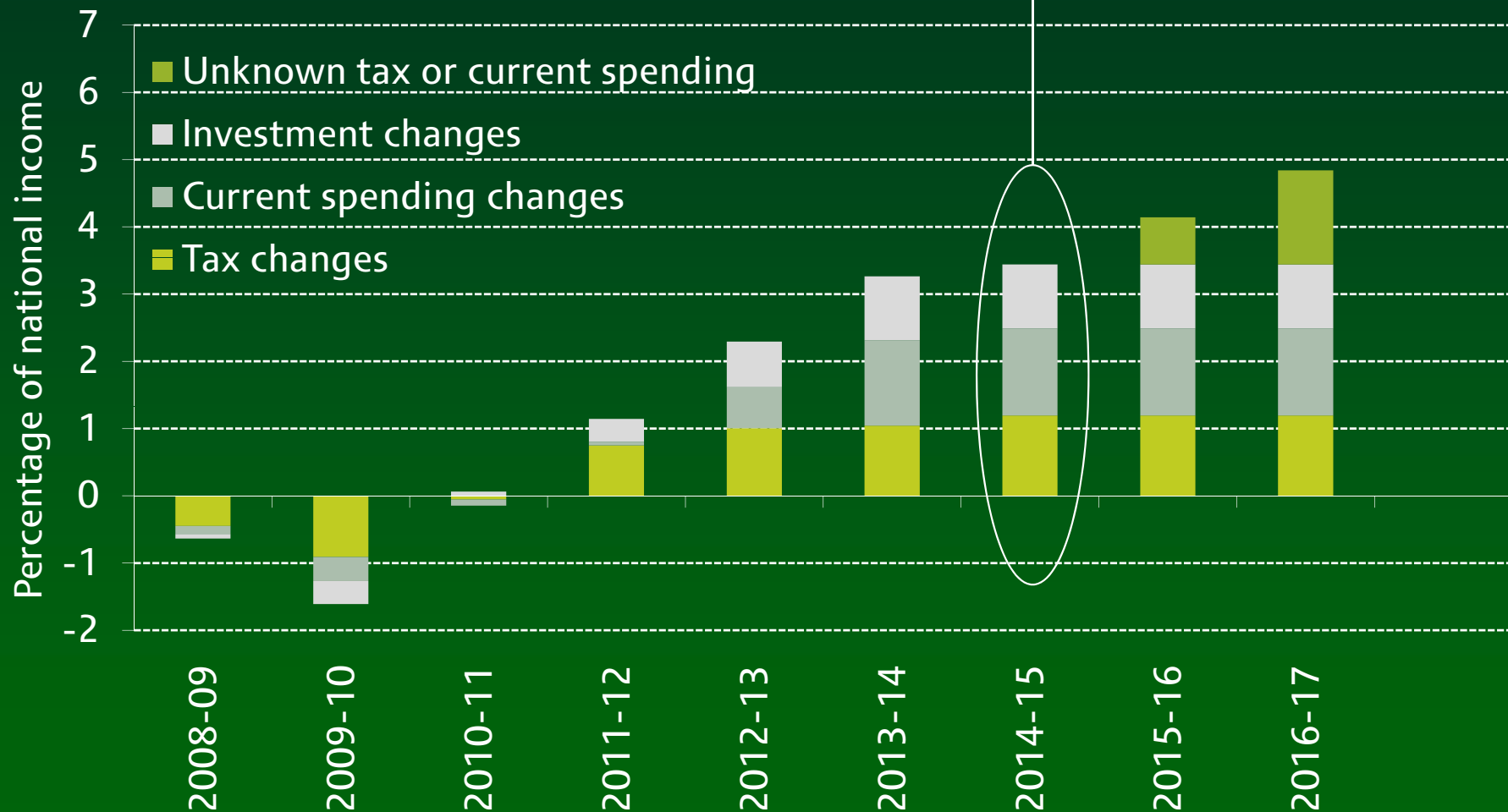


Fiscal tightening: two parliaments of pain?



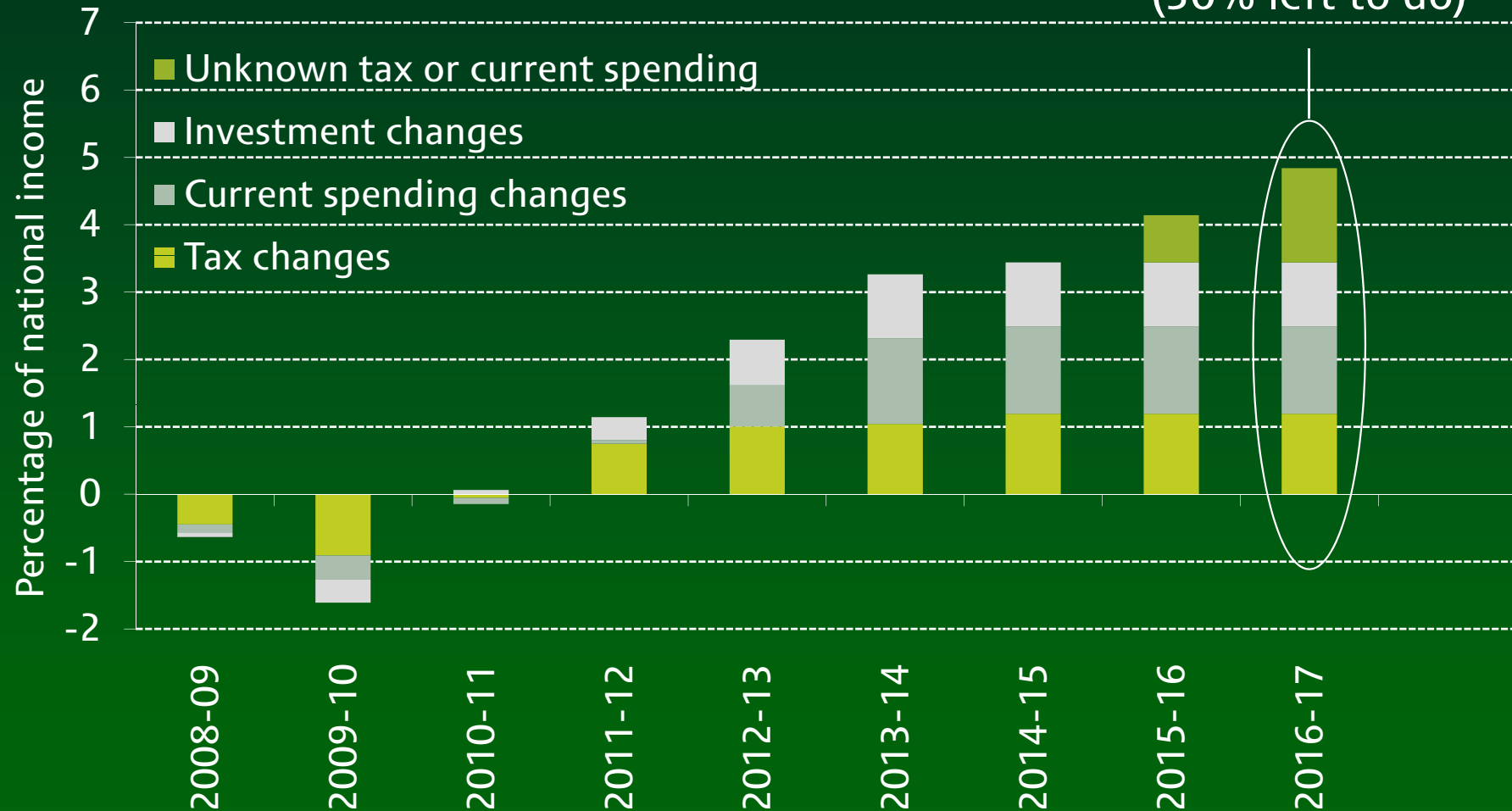
Fiscal tightening: two parliaments of pain?

1/3rd tax, 2/3rds spend

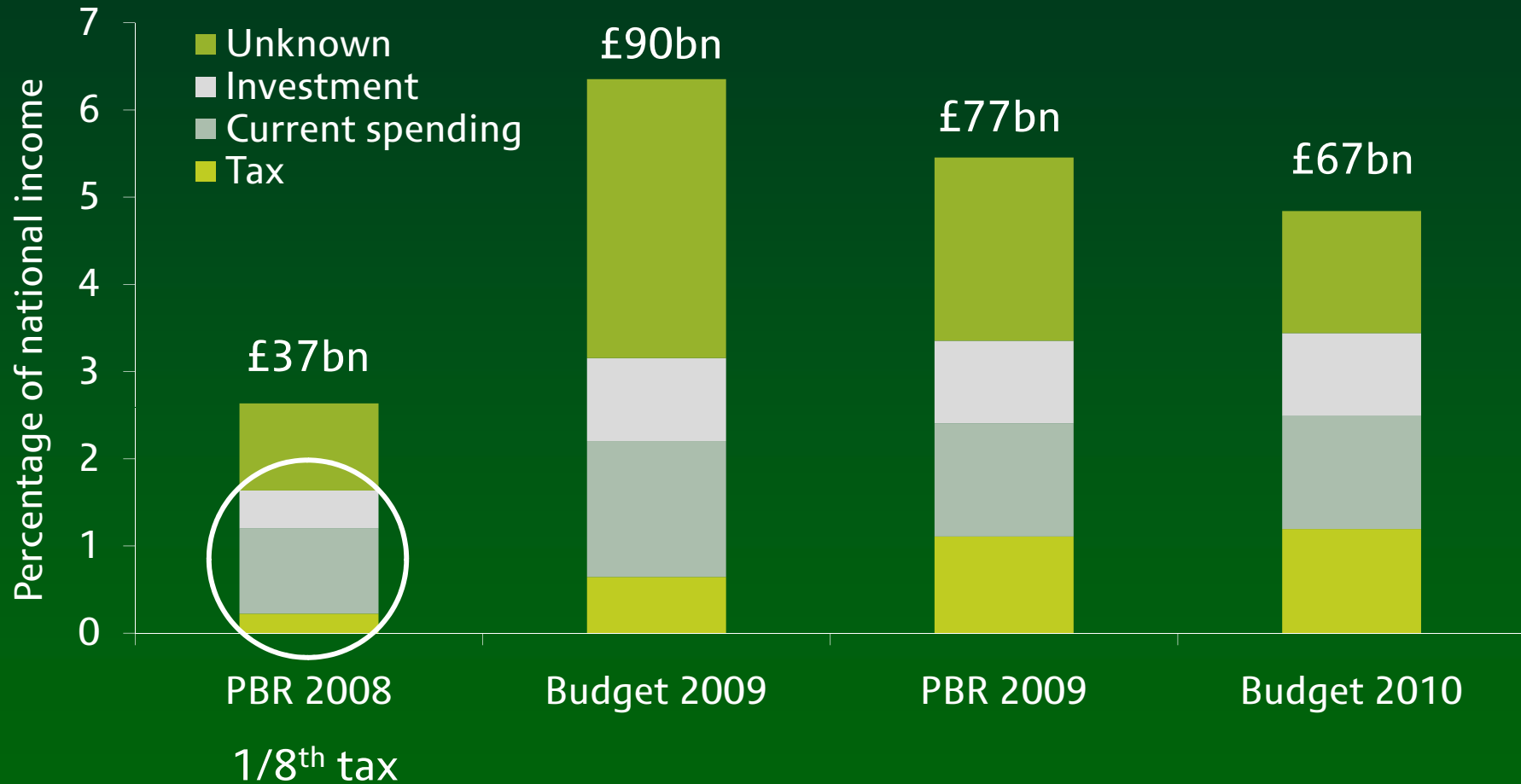


Fiscal tightening: two parliaments of pain?

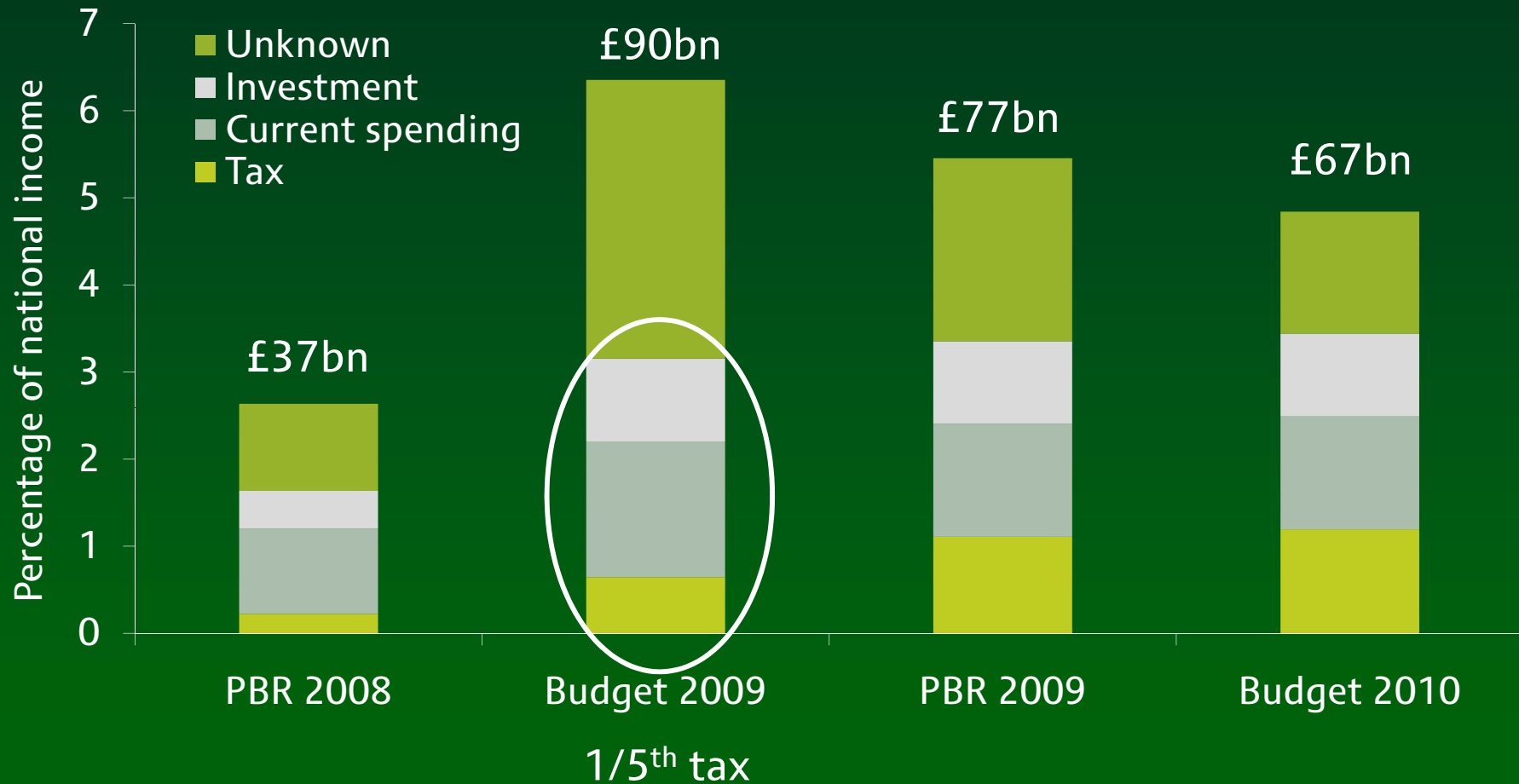
Total repair 4.8%, £67bn
(30% left to do)



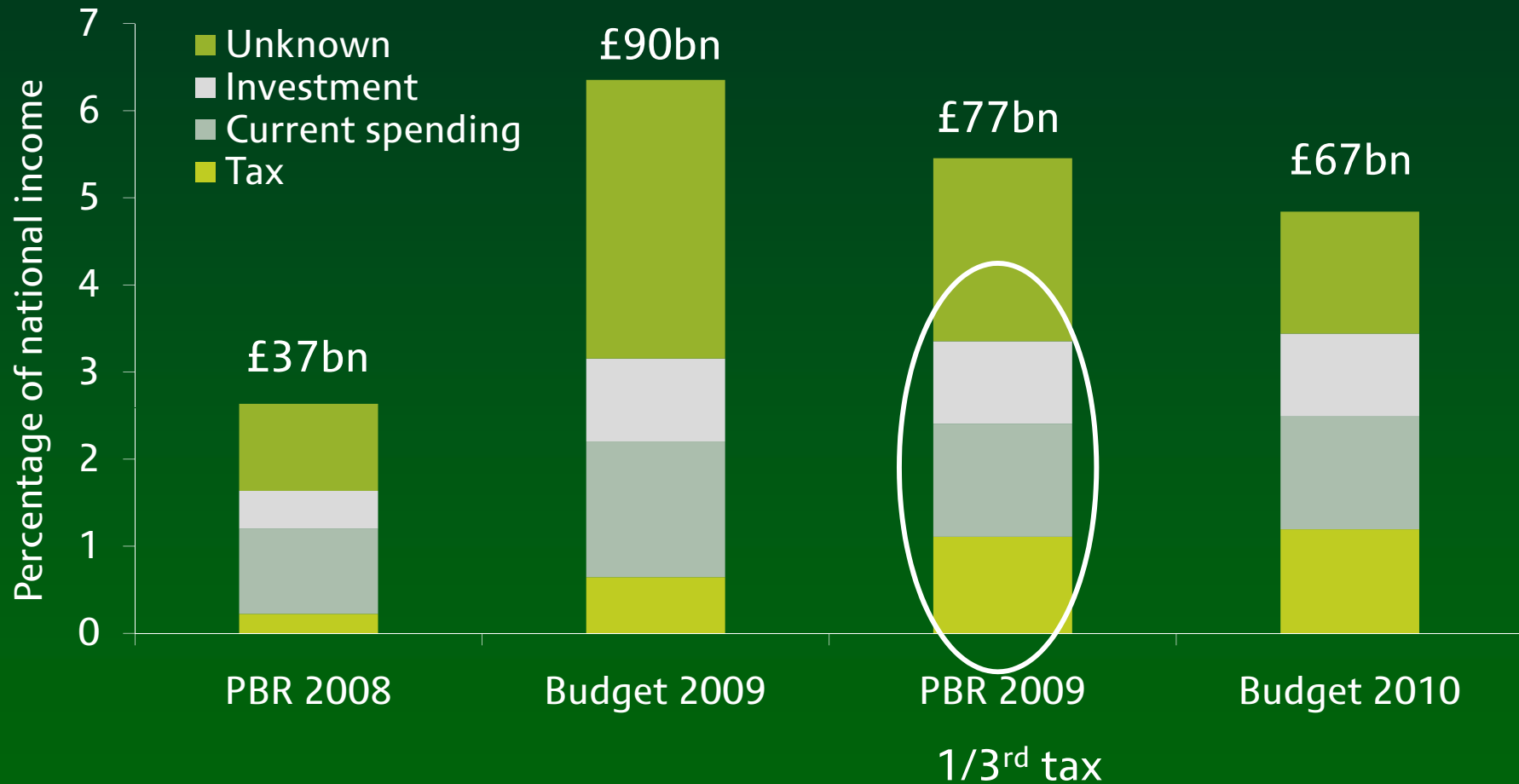
Planned size and mix of tightening in 2017–18



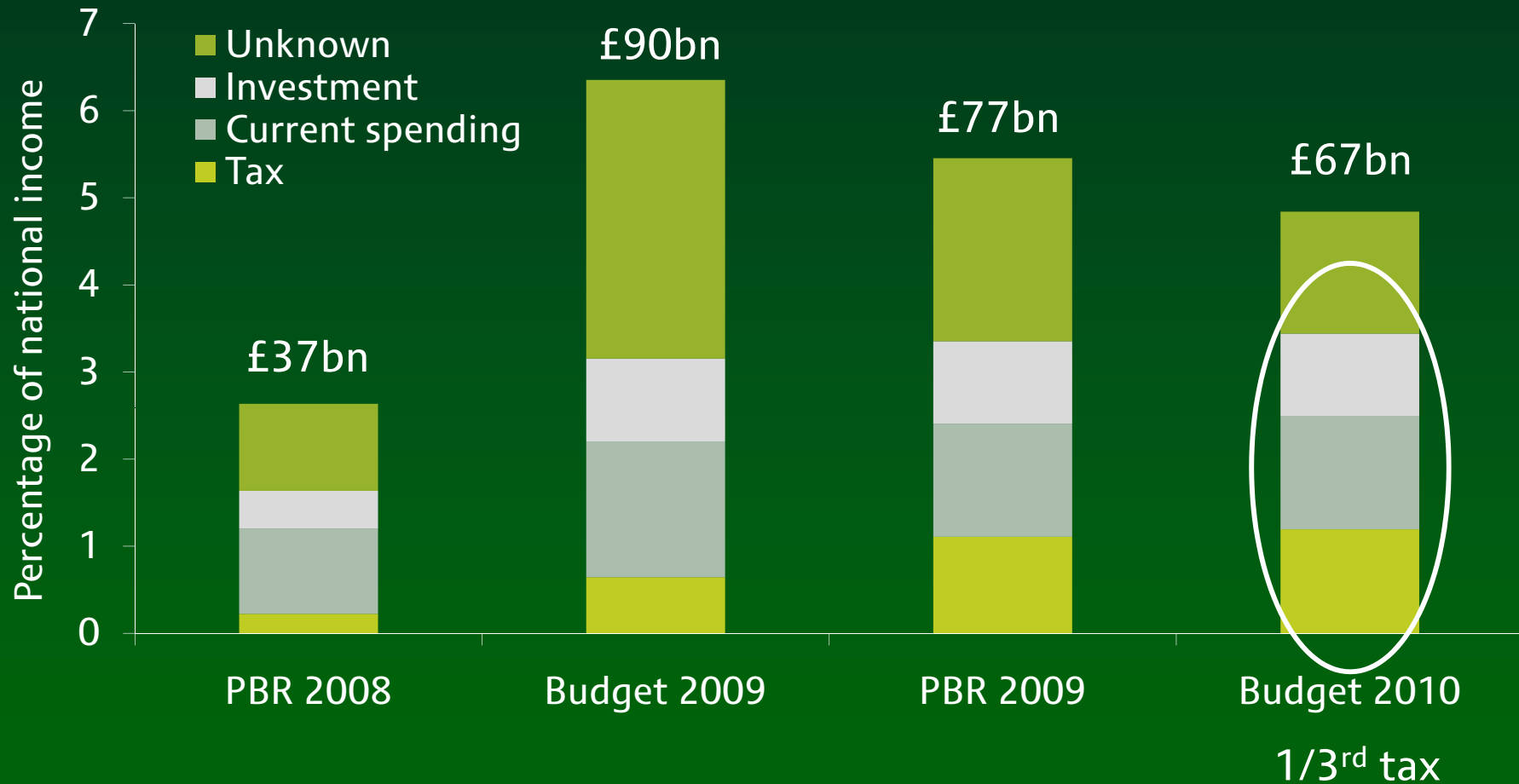
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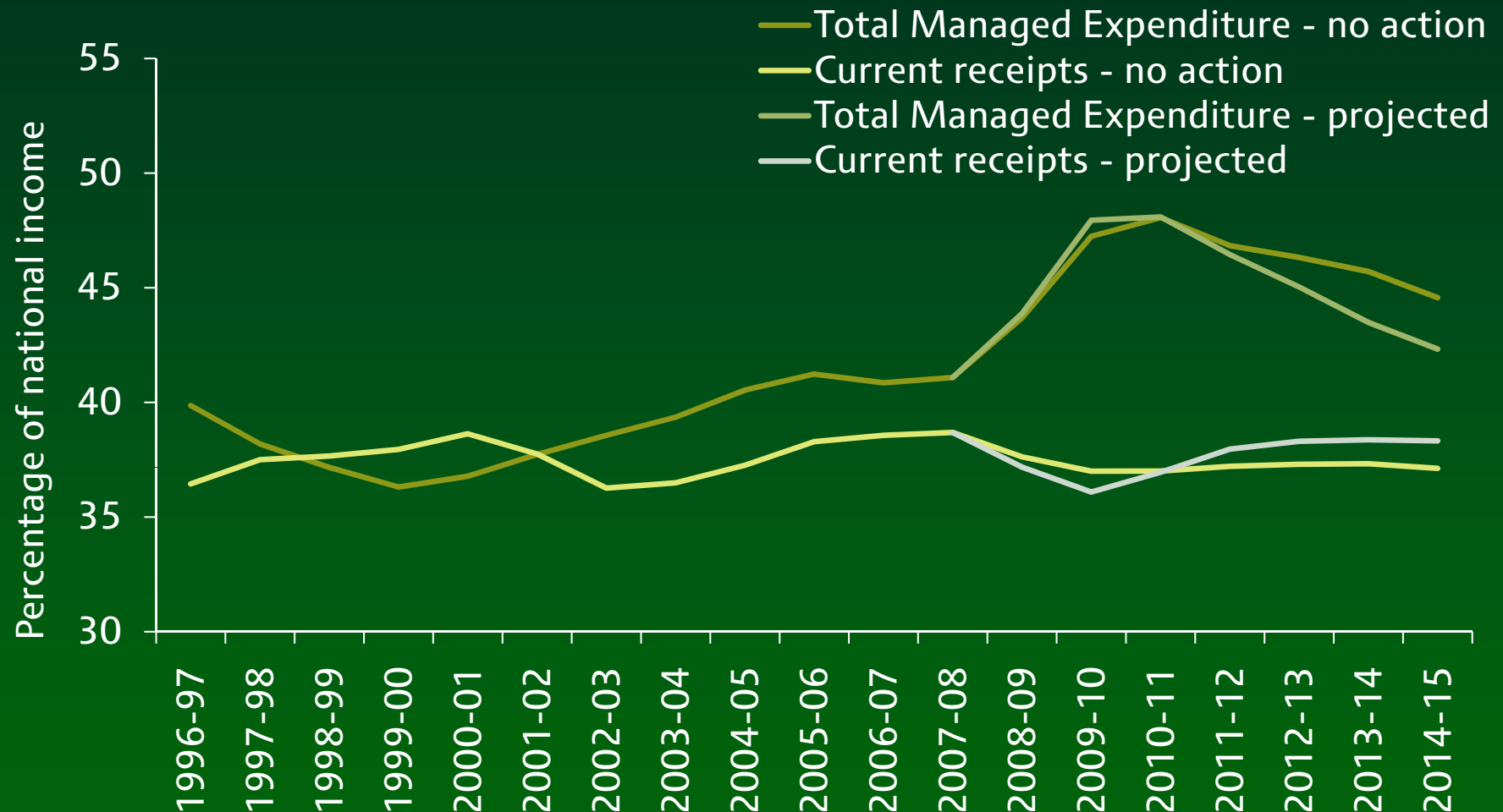
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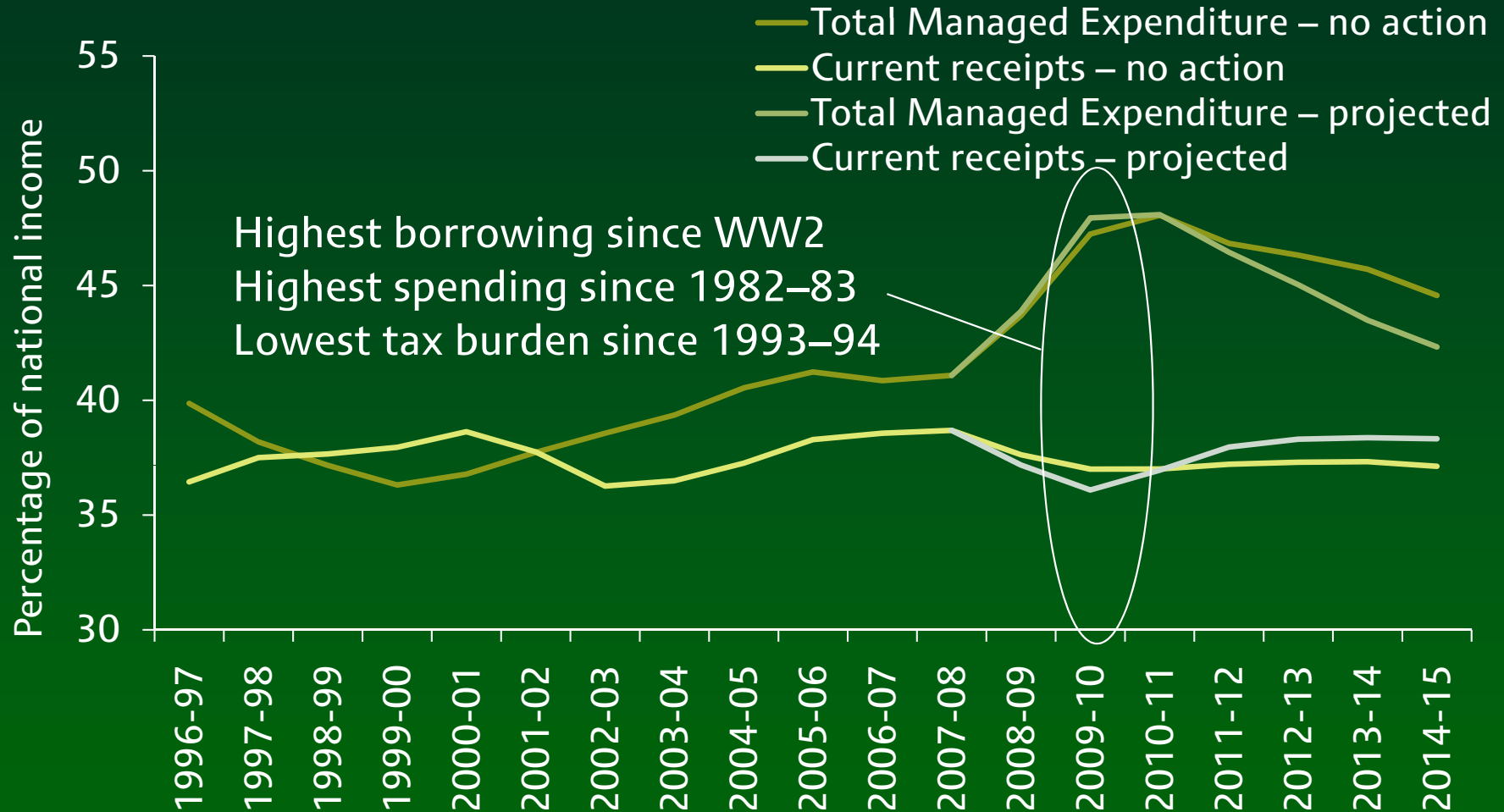
Planned size and mix of tightening in 2017–18



What would have happened with no action?



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Difference between the two main parties

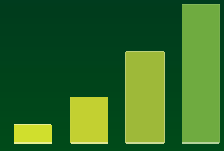
- Government's Fiscal Consolidation Plan
 - Target (1): Halve deficit from 2009–10, to 5.9% of GDP in 2013–14
 - Target (2): 5.5% of GDP borrowing in 2013–14
 - Budget forecast for 2013–14: 5.2%, down from 5.5% at PBR

Difference between the two main parties

- Government's Fiscal Consolidation Plan
- Conservative target for borrowing:
 - Balanced structural current budget by “end of forecast horizon”
 - Budget 2010 forecasts imply
 - Structural current budget deficit: 0.6% of GDP (£8bn) in 2015–16
 - Down from 1.1% of GDP (£15bn) in PBR 2009
 - Less additional work required by a Conservative government
 - Action needed would likely depend on judgement of new Office of Budget Responsibility in June
- Stability and Growth Pact
 - Target: no more than 3% general government deficit
 - Budget forecast: 4.2% of GDP in 2014–15, down from 4.6% in PBR

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