Huge medium-term uncertainty
Poor household income growth to continue…

Real household disposable income

Source: IFS calculations based on ONS UK Economic Accounts (historical RHDI and population statistics), OBR EFO March 2023 (forecast per-capita RHDI)

Public finance risks
... with OBR still forecasting the worst two years on record

Source: IFS calculations based on ONS UK Economic Accounts (historical RHDI and population statistics), OBR EFO March 2023 (forecast per-capita RHDI)
Partly due to rising taxes

National accounts taxes

Per cent of national income

Budget 2023

1950
1960–61
1970–71
1980–81
1990–91
2000–01
2010–11
2020–21
A significant borrowing windfall

Successive borrowing forecasts

- **November 2022**: March to Nov 2022 underlying borrowing up £45bn, just £3bn offset by measures.
- **Nov 2022 to March 2023**: Improvement of £18bn, all given away through tax cuts and spending increases.

Public finance risks
Tiny margin against poorly designed debt target

OBR forecasts for debt as a share of national income

- Falling by margin of £9 billion in five years’ time
- Falling by margin of £6 billion in five years’ time
- £6bn of headroom could easily be missed
  - Nominal growth in year 5 down by 0.2ppt, drop since November 0.4ppt
  - Or just freeze fuel duties & boost public sector pay by additional 1%
  - Come November the rule will apply to the change in debt in 2028–29, but pressures that make reducing debt difficult may persist
How easy will reducing debt be?

Illustrative longer-term debt trajectories

Notes: Underlying debt (excluding the Bank of England) shown. All post 2027–28 scenarios assume primary balance and long-run interest rates in line with OBR March 2022 Economic and Fiscal Outlook.

Public finance risks
Debt interest spending still forecast to remain elevated

Forecasts for debt interest spending

Per cent of national income


Average since 2010

Pre-pandemic

March 2023

November 2022

March 2022

Public finance risks
1. **Public sector pay pressures**
   - Nurses down 10% since 2010, experienced teachers down 13% even before this year
   - Departments say they can ‘afford’ awards of ~3.5% next year (2023–24)
     - OBR forecast 4.5% private sector pay growth, BoE more like ~5.5%
   - Matching private sector could add c. £2.5 – £5 billion to pay bill
   - Around £9 billion more to undo last year’s reduction vis-à-vis private sector
   - £14 billion ‘Reserve’ for 2023–24 could fund one-off/backdated pay awards

2. **Post-election spending plans**
   - The plans pencilled in for after 2025 imply cuts to some areas
     - Now look even tighter, given ambition to spend 2½% GDP on defence
   - True of both resource (day-to-day) and capital (investment) budgets
Cuts pencilled in for after the next election

Illustrative change in day-to-day funding implied by latest plans, 2024–25 to 2027–28

- **Total**: 1.0%
- **NHS England**: 3.8%
- **Schools**: 0.0%
- **Defence**: 6.8%
- **Overseas aid**: 2.1%
- **Core childcare**: 12.2%
- **Everything else**: -3.2%

- Growth in line with long-run NHS average
- Growth to 2½% of GDP by 2030
- Held flat in real-terms
- Kept at ½% of GDP
- £18bn of cuts for other unprotected budgets (incl. local government, further education, courts, prisons, HMRC, etc)

Average annual real-terms growth (%)
Risks to the forecast: fuel duty revenues

- OBR estimates cumulative £80bn tax cut, relative to RPI uprating since 2010–11
- Fuel duty revenues in 2023–24 same in nominal terms as 2008–09
- Continuing freeze would reduce revenues in 2027–28 by £4 billion

If 5p cut extended
Conclusions

- Chancellor choose to give away rather than bank most of the improvement in borrowing over the next three years

- Despite a forecast return to current budget surplus a wafer thin margin of error against poorly designed debt target remains
  - possibly pushing Mr Hunt to some unwelcome policy decisions

- Pressures to tax less and spend more could leave debt rising
  - freezing fuel duties, retaining full expensing and avoiding departmental spending cuts could easily cost £25 billion