Public finances: keeping debt high?
Debt interest spending up

Per cent of national income

Forecast for 2026–27
- November 2023: £109bn
- March 2023: £93bn
- March 2022: £48bn

Source: OBR Economic and Fiscal Outlook
Worsening growth outlook (from a higher base)

Real GDP forecasts

Source: OBR Economic and Fiscal Outlook, Bank of England Monetary Policy Report

2024 growth forecast: +0.7%
  +1.8%
  +0.1%

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But with higher inflation boosting nominal growth

Nominal GDP forecasts

Higher inflation, and more tax rich growth, more than offsets impact of lower real growth on revenues

Freeze to income tax and NICs thresholds now forecast to raise £51 billion in 2027–28 (£14 billion higher than under the March 2023 forecast)

Source: OBR Economic and Fiscal Outlook
All of the windfall spent…

On average over the final three years of the forecast 93% of the windfall offset through fiscal loosening

A year ago, Mr Hunt offset just 18% of the deterioration since March 2022 through fiscal tightening

Source: OBR Economic and Fiscal Outlook
Debt rising, then stable

Note: Public sector net debt excluding the Bank of England shown. Source: OBR Economic and Fiscal Outlook
The ‘headroom’ rollercoaster

- Pre-measures forecast, 17 November, ‘headroom’: +£31 billion
- Press reports suggests that on 4 October it was *minus* £19 billion
  - if true £50 billion improvement in just 44 days
- Policy decisions seem to be ridiculously fine tuned in response to changes in uncertain and volatile forecasts
- What goes up could go down. And the Budget could be 125 days away…
How to lose £13 billion in 125 days...

- Ways to increase borrowing in 2028–29:
  - freeze fuel duty rates from current level: £6.2 billion
  - make business rate relief for retail, hospitality and leisure sectors permanent: £2½ billion
  - avoid any cuts to day-to-day public service spending in next parliament: £20 billion

- Raises questions about credibility of stated policy settings
A bigger post pandemic state

Tax and spend as a share of national income

Per cent of national income

Total government spending
Non-debt interest spending
Revenues

Source: OBR Economic and Fiscal Outlook

Public finances: keeping debt high?
(Still) a high tax government

Source: OBR Public Finances Databank (October 2023 & November 2023 (EFO edition)).
Conclusions

- Public finances hit by a growth forecast downgrade and a rise in debt interest costs

- More than offset by higher inflation boosting revenues while departmental allocations shrink in real terms

- Resulting windfall used to finance tax cuts, though taxes still rising sharply since 2019 to an all time UK high

- Debt remains barely on course to fall in five years time, even under questionable assumptions around policy settings