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@TheIFS

A look ahead to the 2025 Spring Forecast

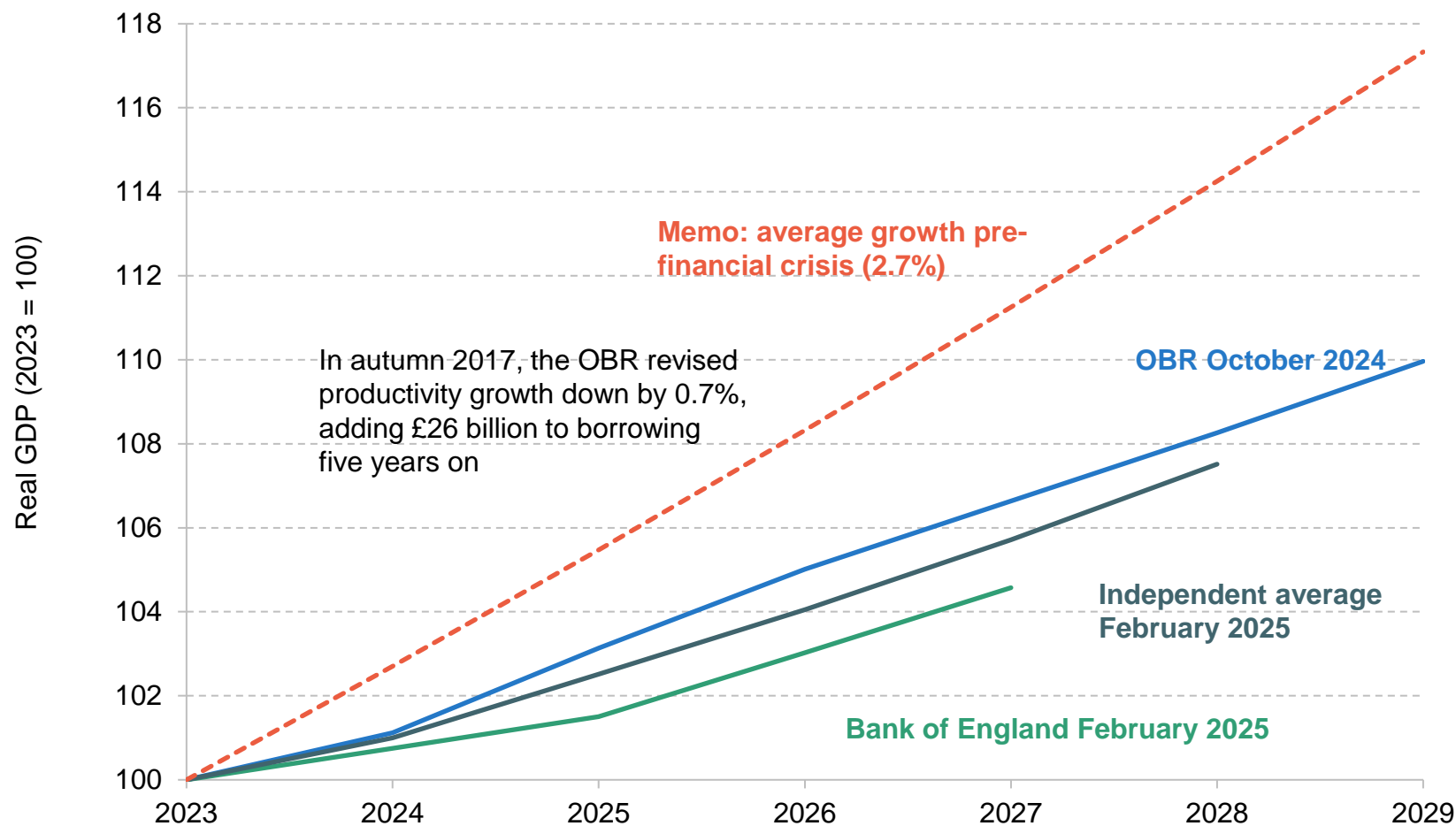


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Meeting or missing the fiscal rules?

- Main fiscal rule requires forecast current budget surplus in 2029-30
 - £10 billion margin in October 2024 tiny relative to uncertainty
- Debt rule could easily start to bind (£16 billion margin)
 - Change to targeted measure did not address design flaws
- Mixed-to-disappointing economic and fiscal news since then
- Key questions:
 - How do growth, inflation, tax-richness of economy balance out?
 - What judgement will the OBR make on productivity?
 - How persistent is any downgrade to growth?

Growth: a key judgement



Source: Boileau et al (2025): A look ahead to the 2025 Spring Forecast

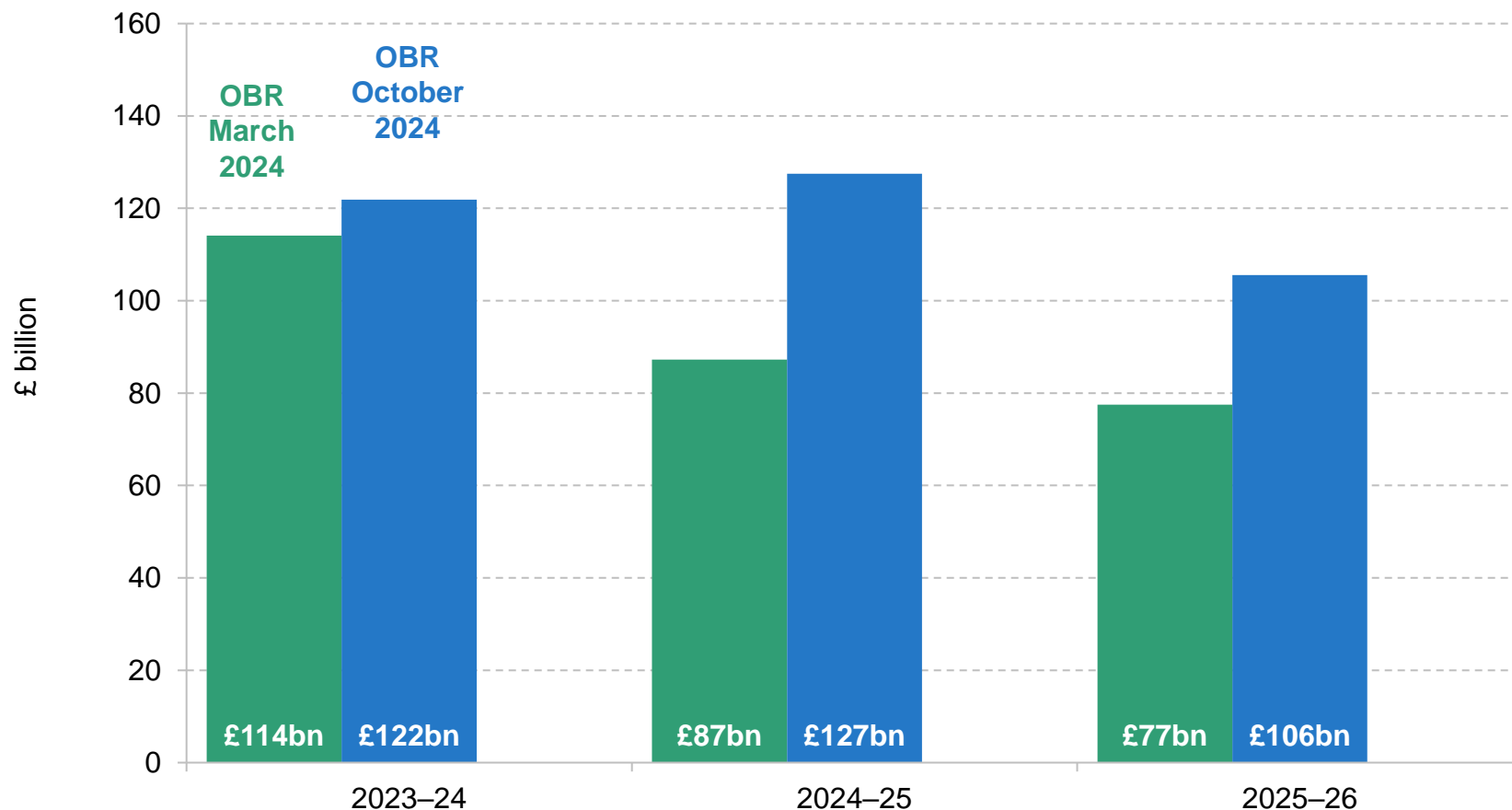
Interest rate risks



Source: Bank of England, Yield curves (<https://www.bankofengland.co.uk/statistics/yield-curves>)

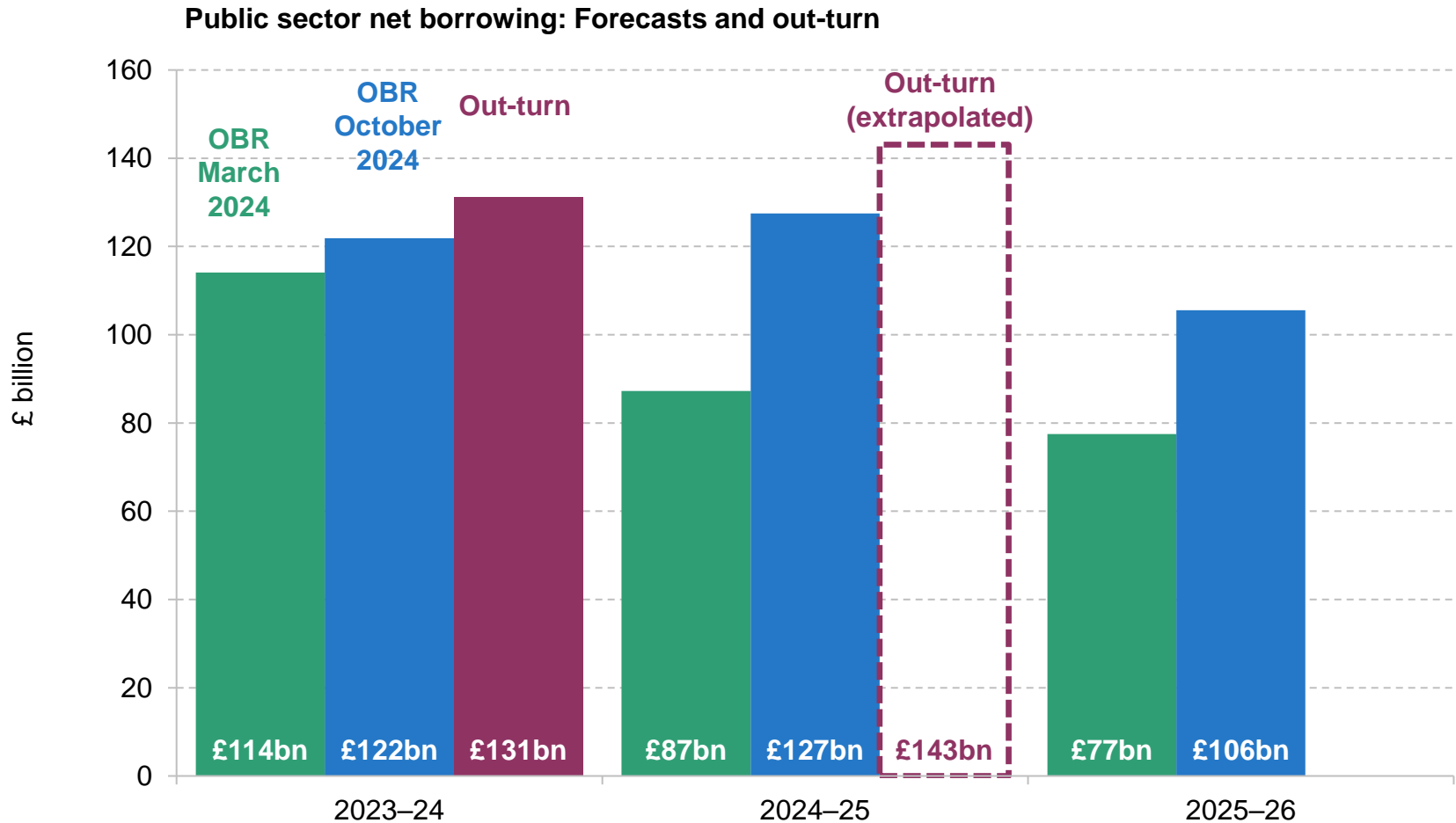
October 2024 Budget revised up borrowing substantially

Public sector net borrowing: Forecasts and out-turn



Source: Boileau et al (2025): A look ahead to the 2025 Spring Forecast

In-year borrowing ahead of the October 2024 forecast



Source: Boileau et al (2025): A look ahead to the 2025 Spring Forecast

Wake me up when September ends?

The case for waiting until the autumn

- Commitment to only one major fiscal event a year
 - Constant fiscal tinkering is costly; policy stability is valuable
- Very small forecast surplus \approx very small forecast deficit

The case for a fully-fledged Spring fiscal event

- Strong commitment to 'non-negotiable' fiscal rules
- Signal on (lack of) fiscal credibility risks adverse market reaction
- Timing of Spending Review
- Damaging speculation about specific measures to come

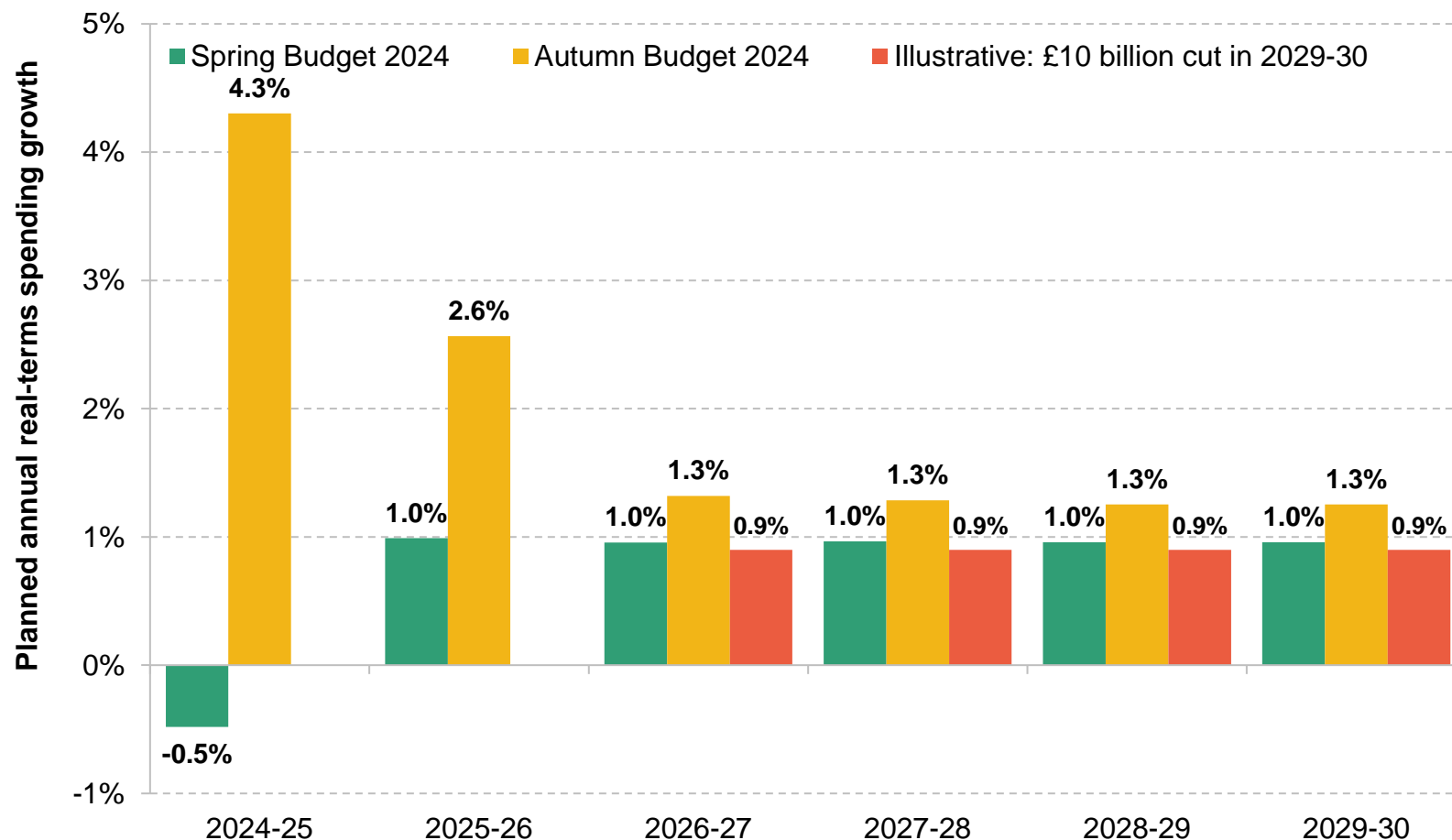
Inflexible fiscal rules + wafer-thin margins always risky

Options on tax and spending

- Fiscal rules bind in 2029-30
- Extend threshold freezes for 2 more years, raising £10 billion?
 - Opaque and arbitrary revenue-raiser, but deliverable
- Find savings in benefits spending (that the OBR will score)?
- Pare back departmental spending plans?

Front-loaded spending plans

Real terms day-to-day spending growth, 2024–25 to 2028–29, plans at Spring Budget 2024 and Autumn Budget 2024



Source: Bee Boileau (2024): Public Spending – A parliament of two halves?

- Chancellor *could* still be on track to meet her fiscal rules, e.g. if strong wages outweigh feeble growth and higher interest rates
- Otherwise, commitment to single fiscal event likely to be abandoned
 - Better rule design and larger margins could support policy stability
- If taking fiscal action, options on tax, public services and benefits
 - Paring back departmental spending envelope would make June's Spending Review all the more difficult
 - Competing commitments (again) hard to reconcile
- Spring Forecast now looks unlikely to be the non-event first billed

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