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Risks and challenges for the public finances

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Economic and Social Research Council
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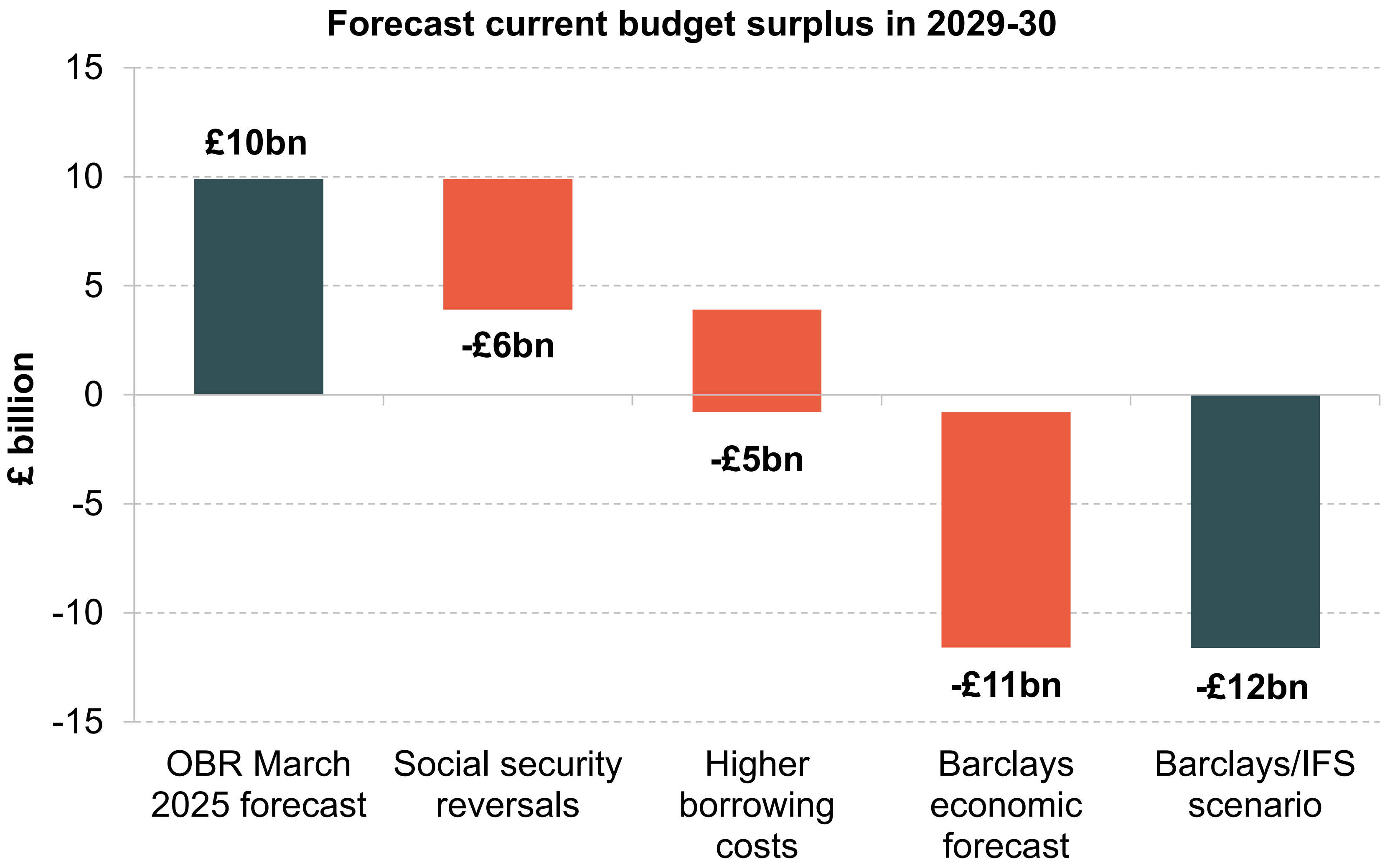
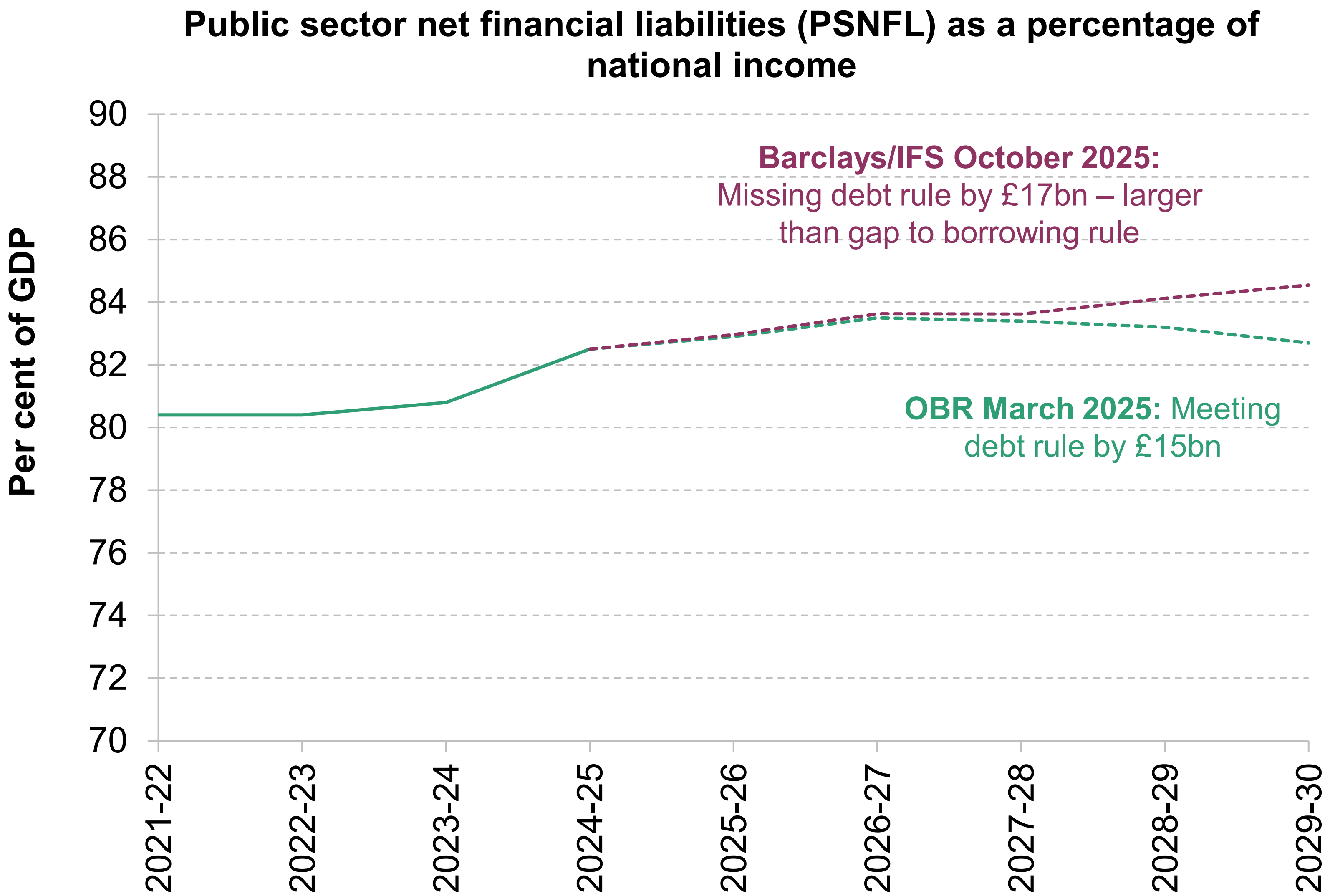
Challenges facing the Chancellor

Narrow margin against borrowing rule (£10bn) and debt rule (£15bn)	OBR widely expected to downgrade productivity forecast	Debt interest spending £64bn higher this year than forecast three years ago	Reversal of recent and planned social security savings
Taxes heading to historic highs	Pressure to end two child limit	NATO commitment to increase defence spending costs £46 billion by 2035	Public service spending plans reliant on significant productivity improvements
Adult and child disability caseloads continuing to rise	Corporation tax gap much higher than pre-pandemic	Gilt yield expectations increased since March	Debt as a share of GDP 5th among 38 advanced economies

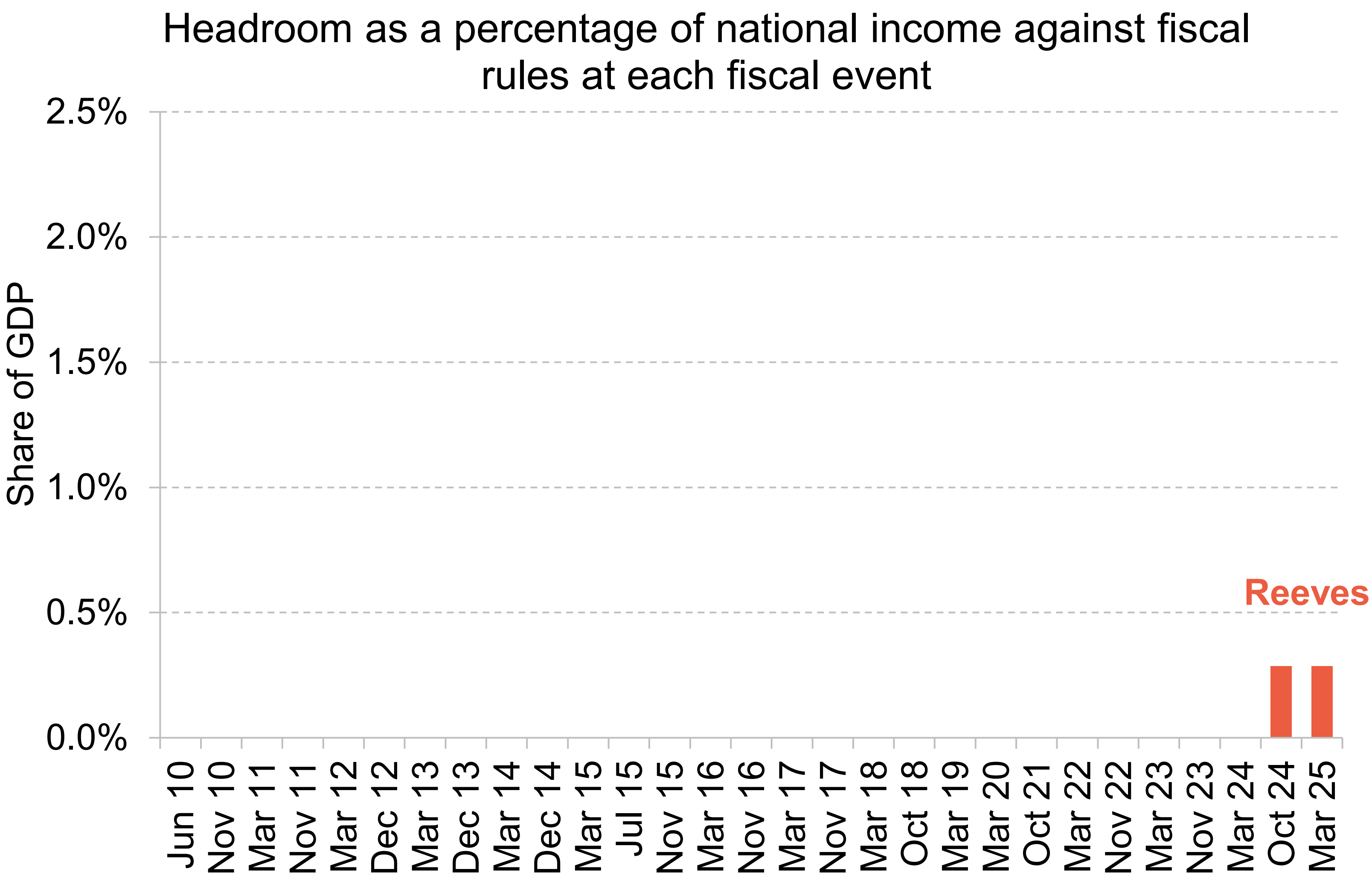
What might happen to headroom?



Might the debt rule bind?



Policy stability or policy volatility?



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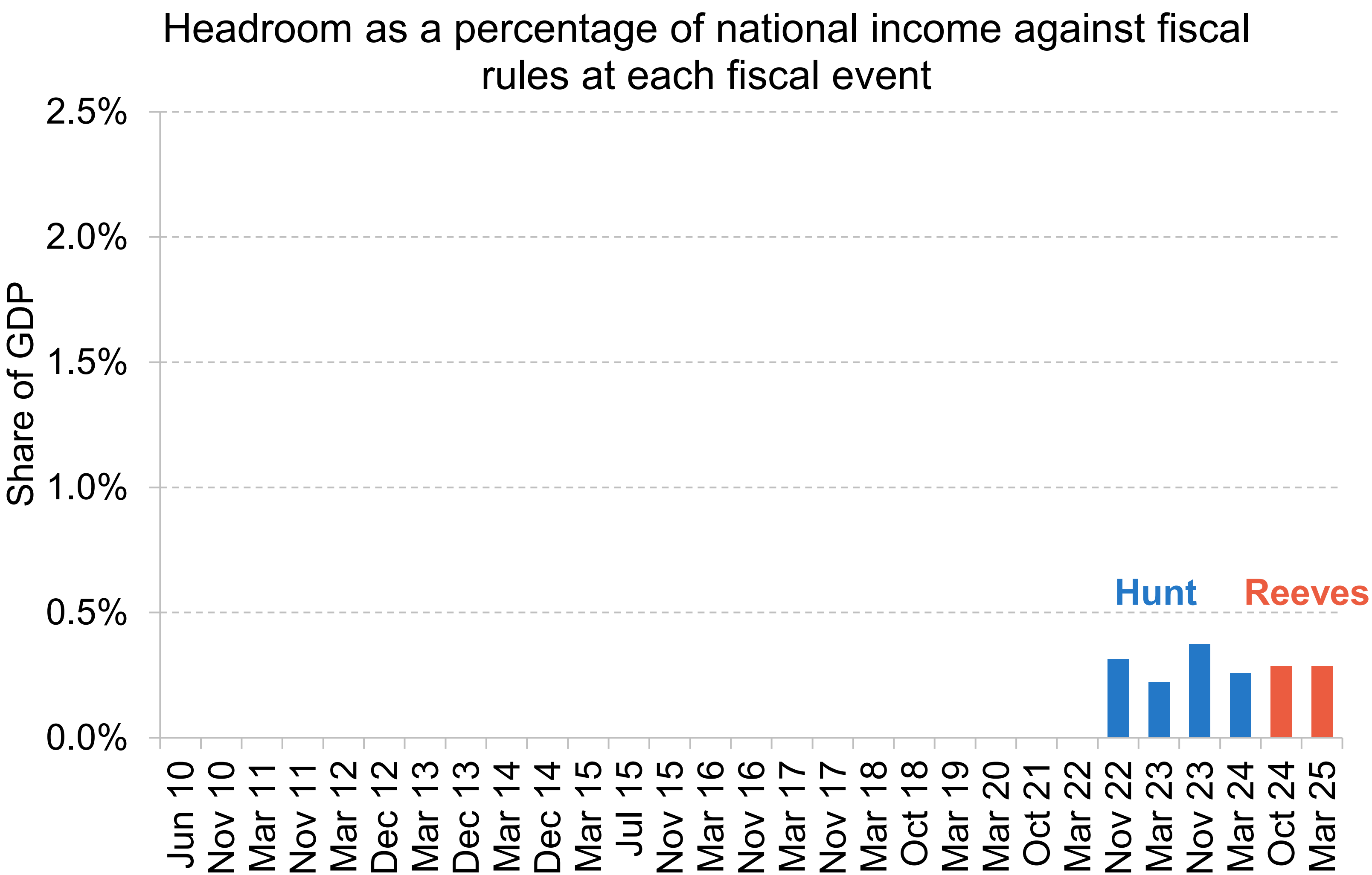

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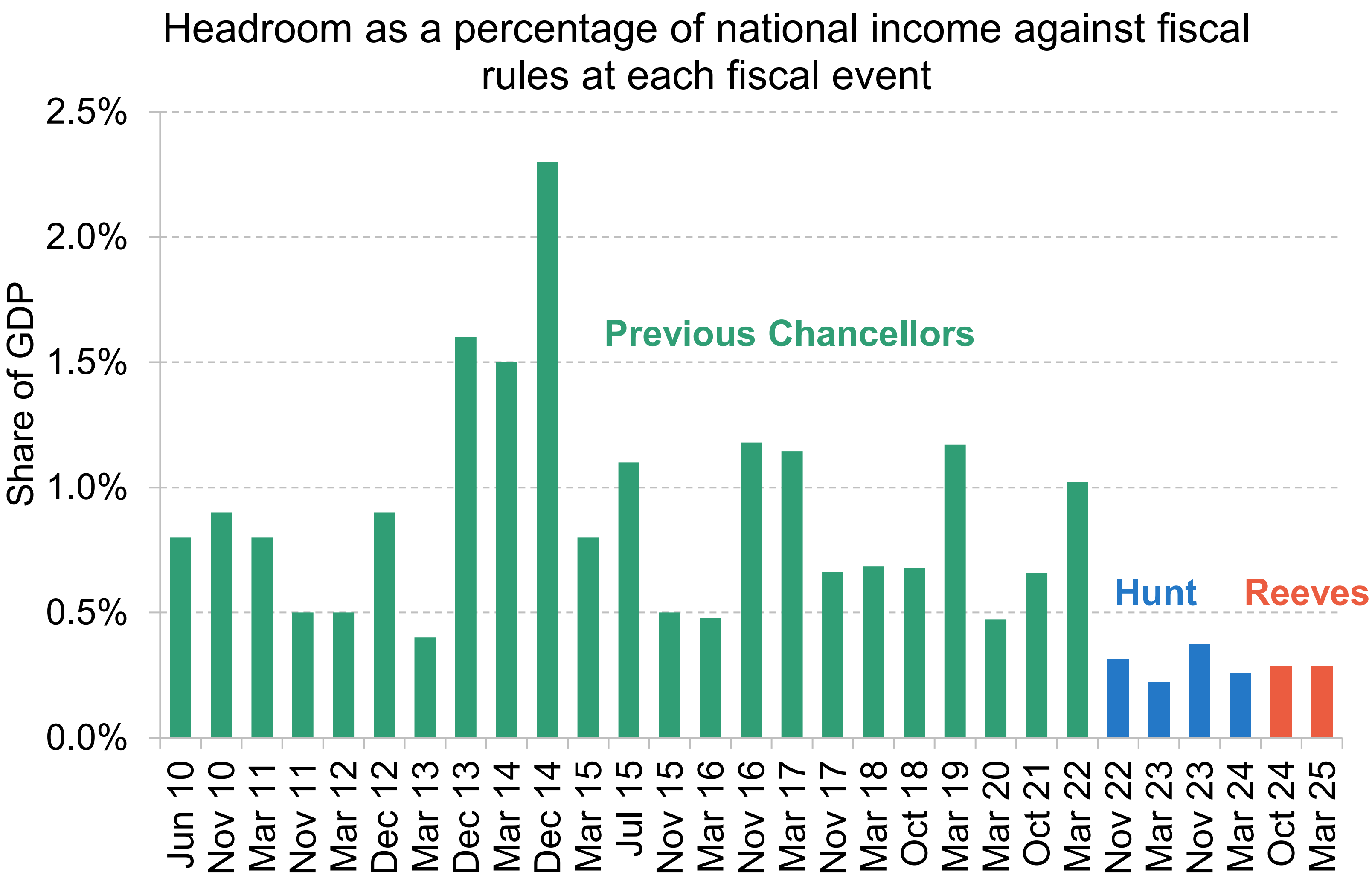

How to reduce borrowing?

Spending cuts:

- Attempts to cut social security spending far from fully successful
- Spending Review settlements run to 2028-29
  - Unspecified spending cuts in 2029-30 would lack credibility

Tax rises:

- Lots of focus on compatibility with manifesto pledges
- Wider economic effects also need consideration
- Meaningful reform could lighten the economic burden of higher taxes, and make the system fairer, simpler and less damaging to growth

Conclusions

Key point: meeting the fiscal rules likely to require a fiscal consolidation

Three choices this raises for Rachel Reeves:

1. Should it come in the form of spending cuts, tax rises, or both?

2. How large should the consolidation be?

3. Adjust fiscal framework to go to one OBR forecast per year?

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