Budget 2020: borrowing to spend

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IFS Spring Budget 2020 briefing
12 March 2020
Changes to the growth outlook

Before measures

• Downgrade to outlook for growth over the whole period since last year
• Less pessimistic than Bank of England in the near term
  – Notable since Bank already incorporates fiscal loosening in 2019 Spending Round

Impact of Budget measures

• Sizable short-term boost from large increase in investment spending
Real growth

Bank of England Jan 2020 forecast

March 2019 forecast

Pre-measures forecast

Post-measures forecast

Budget 2020: Borrow to Spend
Real growth

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Budget 2020: Borrow to Spend
Changes to the growth outlook

Before measures

• Downgrade to outlook for growth over the whole period since last year

• Less pessimistic than Bank of England in the short term
  – Notable since Bank already incorporates fiscal loosening in 2019 Spending Round

Impact of Budget measures

• Sizable short-term boost from large increase in investment spending

• More pessimistic outlook in later forecast years
  – Fiscal stimulus unwinding
  – Productivity growth hindered by trade barriers
Real growth

March 2019 forecast
Bank of England Jan 2020 forecast
Post-measures forecast

Pre-measures forecast

2020 2021 2022 2023 2024

March 2019 forecast
Bank of England Jan 2020 forecast
Post-measures forecast

Pre-measures forecast

2020 2021 2022 2023 2024

Budget 2020: Borrow to Spend
Forecast growth over the next five years

Average real growth over the forecast period

Forecast vintage:
- March 2000
- March 2001
- April 2002
- April 2003
- March 2004
- March 2005
- March 2006
- March 2007
- March 2008
- April 2009
- March 2010
- March 2011
- March 2012
- March 2013
- March 2014
- March 2015
- March 2016
- March 2017
- March 2018
- March 2019
- March 2020

Budget 2020: Borrow to Spend
Effects of budget policy measures on the current budget, 2022–23

- £19bn
- £2bn

Underlying

Budget 2020: Borrow to Spend
Underlying changes in the economy – effects on the current budget deficit 2022-23

<table>
<thead>
<tr>
<th></th>
<th>Improvement</th>
<th>Deterioration</th>
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</thead>
<tbody>
<tr>
<td>Lower revenues</td>
<td>£4.1bn</td>
<td></td>
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<tr>
<td>Other spending</td>
<td></td>
<td>±£1.4bn</td>
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<tr>
<td>Lower debt</td>
<td></td>
<td>±£7.7bn</td>
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<tr>
<td>interest spending</td>
<td></td>
<td></td>
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<tr>
<td>Total</td>
<td></td>
<td>±£2.1bn</td>
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Lower interest rates and a downgrade in RPI reduce debt servicing costs.
Debt servicing over the forecast

Debt burden at historic high, debt servicing costs at historic low

- Debt burden increased by 140% since 2007, but debt servicing costs decreased over same period
- Government needs to raise between £135 billion and £165 billion in each forecast year
  - About 50% more than pre-financial crisis as a share of GDP
- Successive forecasts downgraded government’s debt interest spending in current year from £60 billion to £38 billion
- Leaves public finances vulnerable to changes in outlook for interest rates and RPI inflation
Successive forecasts for debt interest spending

Note: Central government debt interest, net of APF

Budget 2020: Borrow to Spend
Effects of budget policy measures on the current budget, 2022–23

2019 forecast
-£19bn

Underlying
-£2bn

Manifesto: tax
-£4bn

New tax
-£4bn

2019 Spending Round
£16bn

Manifesto: spending
£3bn

New spending
£15bn

Of which: EU reallocation
£7bn

Indirect effects
-£12bn

Surplus
2019 Spending Round
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Budget 2020: Borrow to Spend
The current budget target

On current forecasts, the Chancellor has £12bn of headroom.

- Past forecast errors suggest a 40% chance of running a current budget deficit in the end.

Sources of uncertainty

- Growth outturn: outlook very uncertain, not least around Brexit and coronavirus
- A downgrade in growth by 0.3% a year over three years would eliminate the headroom
- Debt servicing costs have come down by £8 billion in the past year
Large increase to borrowing driven by big increases in investment spending

Budget 2020: Borrow to Spend
“Debt will be lower at the end of the Parliament”?
Conclusions

The economic outlook presents a mixed picture
• Downgrade to growth, but less pessimistic than Bank of England
  • Before accounting for any effect of coronavirus
• Very favourable conditions for debt servicing costs

Meeting the current budget target with modest headroom
• Most increases in current spending already announced in 2019 Spending Round or reallocating EU spending
• Debt excluding the Bank of England no longer falling
• Many sources of risk and uncertainty, particularly around Brexit and coronavirus
Spring Budget 2020: IFS Analysis

The Building Centre, London

12 March 2020