Public finances: yet more tax rises ahead?
Permanent hit to nominal GDP

Down by 4.1% (3% real) in 2025Q1
(3% real compared to 11% at same point following financial crisis)

Down by 1.6% (0% real) in 2025Q1
Down by 7.5% (6% real) in 2025Q1

Public finances: yet more tax rises ahead?
New support pushes borrowing up next year, later tax rises reduce it

Borrowing forecast for 2020–21
2.0% of national income lower than in November forecast

Borrowing forecast for 2021–22
2.9% of national income higher than in November forecast

The impact of tax increases grows over time

Public finances: yet more tax rises ahead?
Balancing the books before and after the pandemic

Current budget deficit in 2025-26

-£30bn
-£20bn
-£10bn
£0bn
£10bn
£20bn
£30bn
£40bn
£50bn
£60bn

Pre-pandemic forecast
Covid impact
Saving on debt interest
Tax
Spend
Current forecast

Note: cyclically-adjusted.
Debt interest risk

- Lower debt interest spending despite much more borrowing
- Not costless: much more exposed to rising interest rates or inflation
- Expansion of quantitative easing means additional debt effectively financed at Bank Rate
  - OBR forecast takes market expectations as of Feb 5, which were 0.5% for 2026Q1, this has since risen to 0.8%
  - +0.3ppt on all interest rates adds £7 billion to debt interest
    - just the change in 4 weeks for interest rates in 5 years time!
- Higher interest rates could be associated with stronger outlook for receipts, which overall would be good for the public finances
Balancing the books before and after the pandemic

Pre-pandemic forecast: £21bn

Covid impact: +£71bn

Saving on debt interest: -£4bn

Tax: -£30bn

Note: cyclically-adjusted.
Public finances: yet more tax rises ahead?
Balancing the books before and after the pandemic

Note: cyclically-adjusted.
Changes to non-virus resource budgets since last March

Note: Figures may not sum due to rounding. Source: OBR Economic and Fiscal Outlook, November 2020 and March 2021.

Public finances: yet more tax rises ahead?
Some public services are facing a budget squeeze in 2022–23

Real-terms % change in non-virus resource budget, 2021–22 to 2022–23

- Total: +2.1%
- NHS England: +5.0%
- Schools: +5.1%
- Defence: +0.3%
- Overseas aid (if kept at 0.5% of GNI): +5.0%
- Unprotected: -1.0%

Source: OBR Economic and Fiscal Outlook, March 2021.

Public finances: yet more tax rises ahead?
NHS spending plans are almost always topped up

Health spending: planned and out-turn annual real-terms growth


Public finances: yet more tax rises ahead?
Balancing the books before and after the pandemic

Pre-pandemic forecast: £21bn
Covid impact: +£71bn
Saving on debt interest: -£4bn
Tax: -£30bn
Spend: -£17bn
Current forecast: £0bn

Note: cyclically-adjusted.

OBR’s downside scenario adds £57 billion to the deterioration

Public finances: yet more tax rises ahead?
Fiscal rules and fiscal tightening

“in normal times the state should not be borrowing to pay for everyday public spending”

- much to commend it: underpinned Gordon Brown’s golden rule and George Osborne’s original fiscal mandate
- on course to meet under central scenario
- £57 billion more fiscal tightening needed under downside scenario

“over the medium term, we cannot allow our debt to keep rising”

- true over the longer-term
- on course to meet under central scenario
Debt just about stabilised

Notes: Net debt excluding the Bank of England shown.
Fiscal rules and fiscal tightening

“in normal times should not be borrowing to pay for everyday public spending”
  - much to commend it: underpinned Gordon Brown’s golden rule and George Osborne’s original fiscal mandate
  - on course to meet under central scenario
  - £57 billion more fiscal tightening needed under pessimistic scenario

“over the medium term, we cannot allow our debt to keep rising”
  - true over the longer-term
  - on course to meet under central scenario
  - £44 billion more fiscal tightening needed under downside scenario

“take advantage of lower interest rates to invest in capital projects that can drive our future growth”
  - absolutely if borrowing locked in at low rates
  - investment spending already planned to rise to highest sustained level of last 40 years: challenge is to spend it well
Tax & spend elevated as a share of national income

Spending

Highest sustained share since 1950

Taxes

Pre-financial crisis highest share since 1984–85

Per cent of national income

Public finances: yet more tax rises ahead?
Conclusion: yet more tax rises coming?

- Dramatic worsening in economic outlook in last year

- Enormous package of support across 2020–21 and 2021–22

- Subsequent tightening might be sufficient to deliver current budget balance and stabilise debt

- But
  - biggest tax raising Budget since 1993: will these measures happen?
  - receipts hugely uncertain and interest rate rises could be painful
  - plans predicated on spending after March 2022 now being lower