Meeting the new fiscal targets?

Isabel Stockton
Fiscal targets: 2 for 12 years

Labour

Golden rule
Sustainable investment rule

Meeting the new fiscal targets?
Fiscal targets: 2 for 12 years and then 16 in 10 years

Meeting the new fiscal targets?
Meeting the new fiscal targets?
The new government’s fiscal targets

Current budget target
• Current budget balance or surplus in the third year of each forecast
  – allows borrowing for investment and for temporary reasons
  – allows policy time to adjust gradually to permanent shocks

Two additional targets unlikely to bind for now
• Investment spending cannot exceed three per cent of national income
  – places a ceiling on overall borrowing
• If debt servicing costs exceed six per cent of revenues, re-evaluate investment plans
  – Similar to IMF debt sustainability assessments

The Conservative manifesto also promised that the debt burden would fall over the Parliament.
Cuts to spending, and a rise in current receipts, have brought borrowing to below its pre-crisis level.

Meeting the new fiscal targets?
First current budget surplus in seventeen years

Meeting the new fiscal targets?
Even with increases proposed in the Conservative manifesto, there is plenty of headroom against the 3% ceiling.
Between the Second World War and the turn of the century, the ceiling would have been breached in every year but one.

Central government debt interest, net of APF

Unless interest rates were to rise sharply, the debt interest rule will not bite in the near future.
Meeting the current budget target?

Forecast current budget deficit

- OBR’s restated 2019 forecast incorporates methodological and classification changes
- Add Spending Round 2019 and multi-year settlements for the NHS and schools in England
- Add impact from Conservative manifesto: modest spending increase more than matched by tax rises
- Adjust for Bank of England’s weaker January 2020 growth projection
- Assume favourable outturn for borrowing this year persists
Current budget close to balance for whole forecast period

Meeting the new fiscal targets?
The current budget deficit in the target year of 2022-23

- £19bn
- £1bn

Restated March 2019
Spending Round 2019
Conservative Manifesto
Worse growth outlook
Debt interest & stock market
Better outturn in current year
Current projection

Meeting the new fiscal targets?

Average forecast difference 3 years out: £30bn in today’s terms
Borrowing forecast

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<th>Year</th>
<th>Outturn</th>
<th>Restated March forecast</th>
<th>Current projection</th>
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Meeting the new fiscal targets?
Debt

Per cent of national income

Including Bank of England

Excluding Bank of England


Meeting the new fiscal targets?

With investment at 3% and a 1% current budget deficit.
Conclusions

The latest Conservative fiscal targets join a fast-growing set of targets, most were quickly abandoned

• Rolling current budget target has much to commend it
• Abandoning December’s fiscal targets in March would undermine credibility

Very different amounts of headroom on day-to-day and investment spending

• Investment spending could be increased by much more than proposed in the 2019 Conservative manifesto
• Target requires any tax cuts or increases day-to-day spending to be matched by tax rises or spending cuts elsewhere
A look ahead to the March 2020 Budget

Wednesday 26 February 2020
One Birdcage Walk, London

@TheIFS