House of Commons Library

BRIEFING PAPER

Number CBP-8249, 8 March 2018

Spring Statement 2018: Background briefing

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Summary

This briefing sets out the background to Spring Statement 2018 which will take place on Tuesday 13 March 2018. The Office for Budget Responsibility (OBR) will publish revised forecasts for the economy and public finances on the same day.

The spring statement

In his statement, the Chancellor will respond to the OBR's latest forecasts for the economy and public finances. It is unlikely that the statement will feature any new spending or tax announcements: the Chancellor has said that the statement will be 'no major fiscal event'.

Wider challenges for the economy and public finances may also be reviewed at the spring statement, and consultations launched on how they may be addressed.

Economic situation

The UK economy grew by 1.7% in 2017, slightly slower than in 2016. This relatively modest growth reflected subdued growth in consumer spending. Consumers faced higher inflation, a result of past falls in the pound which raised import prices, and lacklustre earnings growth. Stronger export performance has mitigated this to some extent, supported by the lower value of the pound and a resurgent world economy. Much of the world has seen accelerating economic growth of late, including the US and Eurozone.

With UK inflation at 3%, well above its 2% target, the Bank of England's Monetary Policy Committee (MPC) lifted interest rates – from 0.25% to 0.5% - in early November. The MPC has signalled that it is likely to raise interest rates further, possibly in May.

Employment rates remain at near-record highs (around 75% of the working-age population is in work) and the unemployment rate is very low by historical standards at 4.4%.

The backdrop of a stronger global economy has led some forecasters – including the Bank of England – to raise slightly their expectations of UK GDP growth for 2018. Most expect it to be somewhere between 1.5-2.0% again this year. If the OBR follows suit, it may revise up its current forecasts of GDP growth of 1.4% in 2018 and 1.3% in 2019.

Public finances

Borrowing and debt

In 2016/17, UK government borrowed £46 billion to make up the difference between its spending and income raised from taxes and other sources. Since its 2009/10 peak the UK's borrowing – often referred to as the deficit – has fallen by 70%. Borrowing is now at a similar level to before the 2007-2008 financial crisis.

It is very likely that the OBR will lower its estimate for borrowing in 2017/18. Outturn data for the year so far has been better than expected, and the OBR says "it now looks clear that borrowing in 2017-18 will undershoot our November forecast by a significant margin".

If some of the improvement in borrowing is thought to be permanent, it may feed through to the OBR's borrowing forecast for future years. In November 2017, the OBR forecast that government borrowing will fall in each year after 2017/18 before reaching £26 billion, or 1.1% of GDP, in 2022/23.

At 86% of GDP, public sector net debt – largely the stock of borrowing arising from past deficits – remains relatively high by recent standards. In November 2017, the OBR forecast that the debt-to-GDP ratio will fall to just over 79% of GDP by 2022/23.

Government's public finance targets

In its forecast the OBR will assess the Government's progress against its targets for borrowing and debt. In its previous forecast, the OBR judged that the Government was on course to meet both targets.

The OBR will also assess progress against the Government's overall objective for the public finances, which is for the budget to be in balance – government spending to be no more than government income – sometime in the 2020s. There is some ambiguity about the exact date for achieving this target, but the OBR says that, whatever the date, the objective appears challenging.

The Treasury Committee recommends that the Government clears up the ambiguity in some of its targets for the public finances at Spring Statement 2018.

Further information

The Library will publish a summary of Spring Statement 2018 on the evening of 13 March.

The Library will publish its summary of UK Economic Indicators on 8 March

Look out for Spring Statement 2018 related 'Insights' on the Library's blog, Second Reading.

1. The statement

Summary

The Chancellor, Philip Hammond, will make his first spring statement on 13 March 2018. In the main the Chancellor's statement will respond to the Office for Budget Responsibility's latest forecasts for the economy and public finances. It is unlikely that the Chancellor will make any new spending or tax announcements: he has said that the statement will be 'no major fiscal event'.

Wider challenges for the economy and public finances may also be reviewed at the spring statement, and consultations launched on how they may be addressed.

Major tax and spending announcements will now only be made once a year, in the autumn Budget. The Chancellor has moved to a single autumn Budget to allow for greater Parliamentary scrutiny of Budget measures ahead of their implementation.

1.1 The first spring statement

Recent tradition had seen the Chancellor of the Exchequer present the Budget in spring. However, the current Chancellor – Philip Hammond – has moved the Budget to autumn, and has introduced a spring statement. Spring Statement 2018 will be the first such spring statement.

What can we expect from the statement?

In the main, the spring statement will see the Government make a formal response to the Office for Budget Responsibility (OBR)'s March economic and fiscal forecast. The OBR – the UK's public finances watchdog – is required to present updated forecasts twice a year.[1] The OBR's other set of forecasts are published alongside the autumn Budget.

The Chancellor has said that the spring statement will be 'no major fiscal event', in other words it should not feature lots of tax and spending announcements. A Treasury official was reported in the Financial Times saying that for Spring Statement 2018:

> There will be no red box, no official document, no spending increases, no tax changes…..The chancellor will publish updated economic forecasts; we expect the speech to last between 15-20 minutes.[2]

If unexpected economic changes require it, the Chancellor has reserved "the right to announce actions at the spring statement", but has said that he "will not make significant changes twice a year just for the sake of it."[3]

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1 The requirement is laid out in the Charter for Budget Responsibility

2 "*Chancellor abandons red box for stripped-back mini-budget*", FT, 18 February 2018

3 HC Deb 23 November 2016 c910

The wider challenges for the economy and public finances may be reviewed at the spring statement, and consultations launched on how they may be addressed.[4] The Chancellor expects some consultations "to go through the summer and inform decision-making and announcements at the autumn Budget".[5]

1.2 Why was the Budget moved?

The Chancellor said that he was moving to a single autumn Budget to allow for greater Parliamentary scrutiny of Budget measures ahead of their implementation. He reasoned that "No other major economy makes hundreds of tax changes twice a year, and neither should we.."[6]

Tax professionals have generally welcomed the move to one major fiscal event. Chapter 8 of the Library's Autumn Budget 2017: Background briefing provides a selection of their views. The Library briefing The Budget and the annual Finance Bill has more on how moving the Budget affects the timetable for developing tax policy and legislation.

Box 1: Parliament's fiscal year

The Government's fiscal calendar can change, but the below is a summary of the process and timings for a typical financial year:

- April: Government departments' spending plans (Main Estimates) are published
- July: Government departments' spending plans (Main Estimates) are debated in the House – using new procedures
- July: a Supply and Appropriation (Main Estimates) Bill is introduced and, if agreed, receives Royal Assent, formalising Main Estimates as departments' initial budgets for the year
- July: Government departments lay their Annual Reports and Accounts (for the financial year ending the previous March) before Parliament
- November: the Budget is published. Following the Budget a Finance Bill is introduced. Royal Assent of the Bill should be reached in the spring, before the start of the following financial year.
- November: the OBR publishes its economic and fiscal forecasts.
- February: Government departments' revised spending plans (Supplementary Estimates) are published, debated in the House – using new procedures
- February: Government requests advance funding for the first four months of the next financial year (Vote on Account) for each department.
- March: a Supply and Appropriation (Anticipations and Adjustments) Bill is introduced and, if agreed, receives Royal Assent, formally agreeing to revise in-year budgets as set out in Supplementary Estimates; and advance money for the new year in the Vote on Account
- March: the OBR's economic and fiscal forecast is published. The Chancellor makes a formal response to the forecast in the spring statement. The spring statement may also review, and consult on, wider challenges for the economy and public finances.

Further information is available in the following Library briefings:

- The Budget and the annual Finance Bill, October 2017
- The Estimates process and 2017/18 Main Estimates, June 2017
- Public spending: New debates in the House, January 2018
- Revised Government spending plans for 2017-18, February 2018

[4] HM Treasury press notice, *The new Budget timetable: 7 things you need to know*, 23 November 2016

[5] Treasury Committee, Oral evidence: Budget Autumn 2017, HC 600, 6 December 2017, Q297

[6] HM Treasury, Autumn Statement 2016: Philip Hammond's speech, 23 November 2016

2. Economic situation

Summary

Economic growth in 2017 came in at 1.7%, slightly lower than 1.9% in 2016. This relatively modest figure reflected subdued growth in consumer spending, which accounts for nearly two-thirds of GDP and is the perennial driver of economic growth in the UK. Consumers faced higher inflation, a result of past falls in the pound which raised import prices, and lacklustre earnings growth. Stronger export performance has mitigated this to some extent, supported by the lower value of the pound and a resurgent world economy. Much of the world has seen accelerating economic growth of late, including in the US and Eurozone.

With UK inflation at 3%, well above its 2% target, the Bank of England's Monetary Policy Committee (MPC) lifted interest rates – from 0.25% to 0.5% - in early November. The MPC has signalled that it is likely to raise interest rates further, possibly in May. The MPC believes that the recent decline in real (inflation-adjusted) average wages will soon be coming to an end, as inflation eases and pay growth picks up.

Employment rates remain at near-record highs (around 75% of the working-age population is in work) and the unemployment rate is very low by historical standards at 4.4%.

The outlook for 2018 is supported by the backdrop of a stronger global economy, which has led some forecasters – including the Bank of England – to raise slightly their expectations of UK GDP growth for 2018. Most expect it to be somewhere between 1.5-2.0% again this year. If the Office for Budget Responsibility (OBR) follows suit, it may revise up its current forecasts of GDP growth of 1.4% in 2018 and 1.3% in 2019.

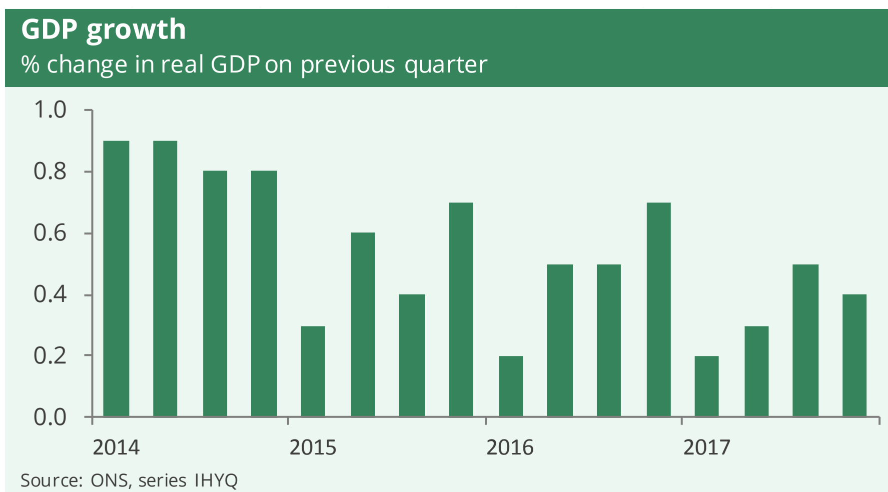
2.1 Recent growth performance

Economic growth was steady but relatively modest in 2017 at 1.7%. This compares to 1.9% in 2016 and is the lowest annual growth figure since 2012.[7]

Latest quarterly estimates show that growth accelerated somewhat in the second half of 2017 following subdued growth in the first half of the year. In Q4 2017, GDP increased by 0.4% compared with the previous quarter, slightly lower than the 0.5% recorded in Q3.[8] However, this was up from 0.2% in Q1 and 0.3% in Q2.

7 All national accounts data in this section are in real (inflation-adjusted) terms from ONS, Second estimate of GDP: October to December 2017, 22 February 2018

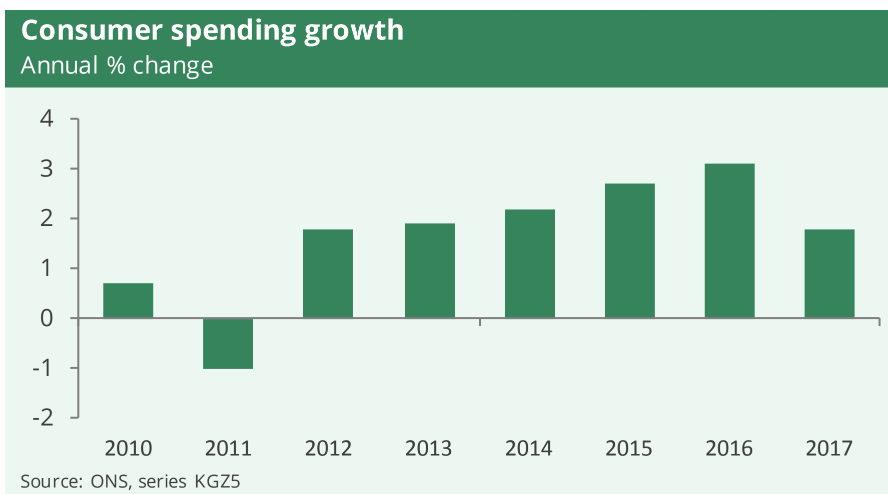
8 Q4 refers to the three-month period October-December, Q3 to July-September etc.



Weaker consumer spending…

The main reason for the subdued growth performance has been a slowdown in consumer spending, which accounts for nearly two-thirds of GDP and is the perennial driver of UK economic growth.[9]

Consumers have been hit by rising inflation, caused by higher import prices following past declines in the value of the pound, and weak wage growth. This squeeze on household budgets has led to consumer spending growth in 2017 slowing to its weakest pace since 2012.



…partially offset by higher exports…

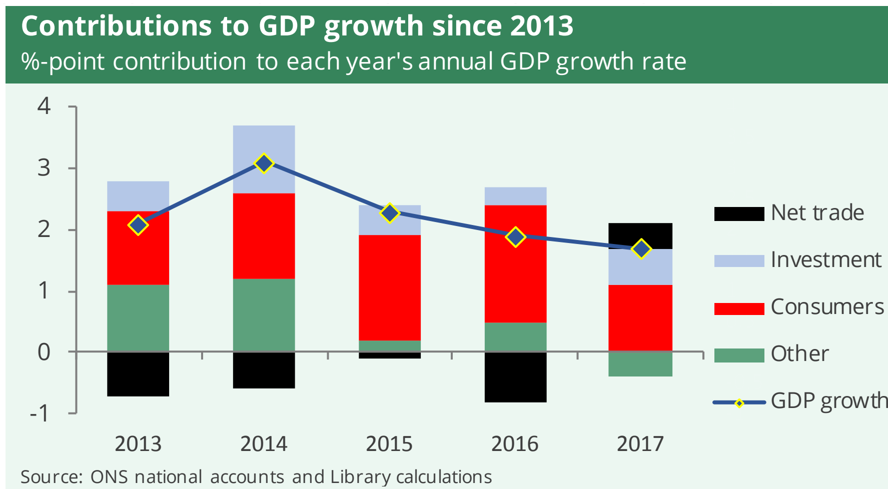
Partially mitigating the impact of weaker consumer spending has been the positive contribution of net trade towards GDP growth. This means that the increase in exports was greater than the increase in imports. In 2017, net trade boosted GDP growth by 0.4 percentage points – its first positive impact since 2011.[10]

With the contribution of consumer spending waning, overall growth in 2017 of 1.7% was more balanced. Consumer spending still contributed the most at 1.1 percentage points, with net trade and investment

9 Consumer spending is short-hand for final consumption expenditure of households

10 ONS, Second estimate of GDP: October to December 2017, 22 February 2018, table AB

providing 0.4 and 0.6 percentage points, respectively. Other elements subtracted 0.4 points from the headline GDP growth figure.[11]



The improvement in net trade is a result of strong growth in exports, supported by a resurgent world economy and past declines in the value of the pound (which made UK exports more price competitive internationally). In 2017, exports rose by 5.0% in volume terms (accounting for price changes), with goods exports up by 7.3% and services by 2.3%.[12] (As well as seeing a rise in demand for their goods and services, evidence points towards exporters increasing their profit margins.[13])

As noted, a key factor in the increased demand for UK exports has been the acceleration in global economic growth, which has been broad-based around the world. Stronger economic conditions in the Eurozone are particularly striking given its struggles to achieve sustained growth after the global economic crisis of 2008-2009 and the return to recession from 2011-2013 following debt crises in some of its member countries. Eurozone GDP growth was 2.3% in 2017, the highest in a decade.

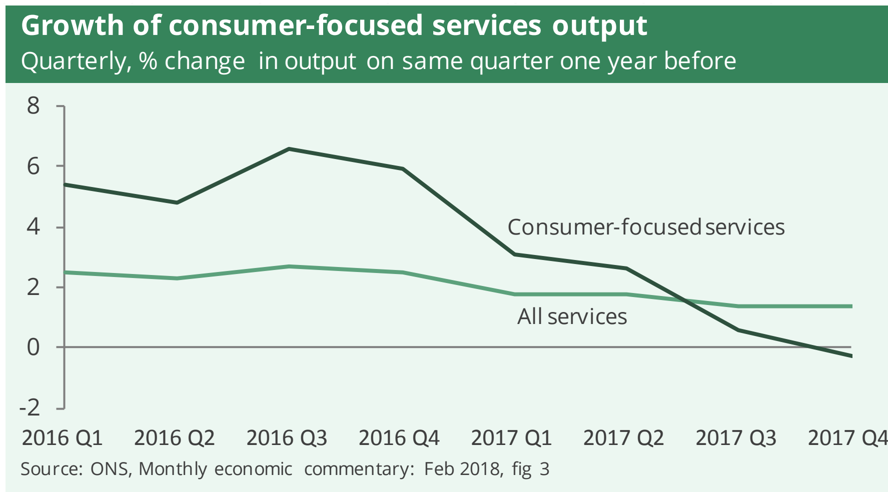
…which is boosting the manufacturing sector

Against this backdrop, the manufacturing sector, which exports a large amount of what it produces, has experienced continued strength. Output increased for the eight successive month in December 2017, the first time this has happened since 1988.[14]

Manufacturing output was 3.5% higher in the second half of 2017 compared with the same period in 2016.[15] In contrast, the services sector was up by 1.4% over this time.[16]

[11] Other includes government purchases of goods and services, changes in inventories and a statistical discrepancy.
[12] ONS, Second estimate of GDP: October to December 2017, 22 February 2018, table H2
[13] Bank of England, Inflation Report: February 2018, p14
[14] ONS, Monthly economic commentary: February 2018, 22 February 2018
[15] Based on ONS series L2KX
[16] Based on ONS series L2NC

Consumer-focused services industries have experienced a marked slowdown.[17] This reflects the squeeze on consumers' budgets following a decline in real (inflation-adjusted) incomes in 2017. In Q4 2017, output in these services had fallen compared with a year earlier; this compares with growth of over 5% in 2016.[18]



Growth of consumer-focused services output
Quarterly, % change in output on same quarter one year before

Source: ONS, Monthly economic commentary: Feb 2018, fig 3

2.2 Inflation and interest rates

Annual consumer price inflation stood at 3.0% in January and has yet to ease meaningfully following the increase seen over 2016 and 2017.[19] This was caused by the fall in the value of the pound from late 2015 and more noticeably following the result of the EU referendum in June 2016, which raised import prices.

Consumer price inflation expected to ease somewhat in 2018
Annual % change in CPI, monthly data and quarterly forecasts

Source: ONS, series D7G7 and Bank of England projections from Feb 2018 Inflation report: mode forecasts based on market interest rate expectations and other policy as announced

While Bank of England research suggests it can take up to four years for the full impact of a change in the value of the pound to be felt, the impact will diminish.[20] It is likely that some of the immediate impact of

[17] The ONS defines consumer-focused services as: retail trade; food and beverage; publishing, audiovisual and broadcasting activities; and arts, entertainment & recreation
[18] ONS, Monthly economic commentary: February 2018, 22 February 2018
[19] CPI measure; ONS, UK consumer price inflation: February 2018, 13 February 2018
[20] Bank of England, Inflation Report: February 2017, page 28

sterling's past fall will drop out of the annual inflation rate during 2018, putting downward pressure on the headline inflation figures.

Most economists therefore expect inflation to slow in 2018. The average forecast of economists is for annual CPI inflation to fall from 3.0% in Q4 2017 to 2.3% in Q4 2018.[21] The Bank of England forecasts inflation to ease to 2.4% in Q4 2018, before falling more slowly to 2.2% in Q4 2019 and 2.1% in Q4 2020.[22]

However, oil prices have risen in recent months, and the Bank of England in its February *Inflation Report* noted that, as a result, "it is possible that inflation could rise back above 3% temporarily".[23] This is well above the 2% target the Bank's Monetary Policy Committee (MPC), which sets interest rates, is required to meet.

The MPC believes that the recent decline in real (inflation-adjusted) average wages will soon be coming to an end. This is partly due to its projections for inflation to ease but it also expects wage growth to accelerate. Indeed, it has noted that on some measures pay growth is already starting to pick up (see section 2.3 for more on the labour market).[24]

In the statement accompanying the MPC's most recent monetary policy meeting, these factors led it to believe that "domestic inflationary pressures are expected to rise".[25] In addition, the MPC believes that the economy is growing slightly above "its speed limit" – the maximum rate before economic growth generates higher inflation.

While not raising interest rates at its February meeting, the MPC signalled that it was more inclined to raise rates earlier than it had previously anticipated.[26] Many observers now expect rates to be raised from 0.5% to 0.75% at the MPC's May policy meeting.

Overall, MPC members have been indicating that under current expectations at least three quarter-point rate increases – which would take interest rates to 1.25% – would be required over the next three years to bring inflation back to target.[27]

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21 HM Treasury, Forecasts for the UK economy: a comparison of independent forecasts, 21 February 2018 [to be clear, these are not Treasury forecasts]

22 Bank of England, Inflation Report: February 2018, Based on market's interest rate expectations

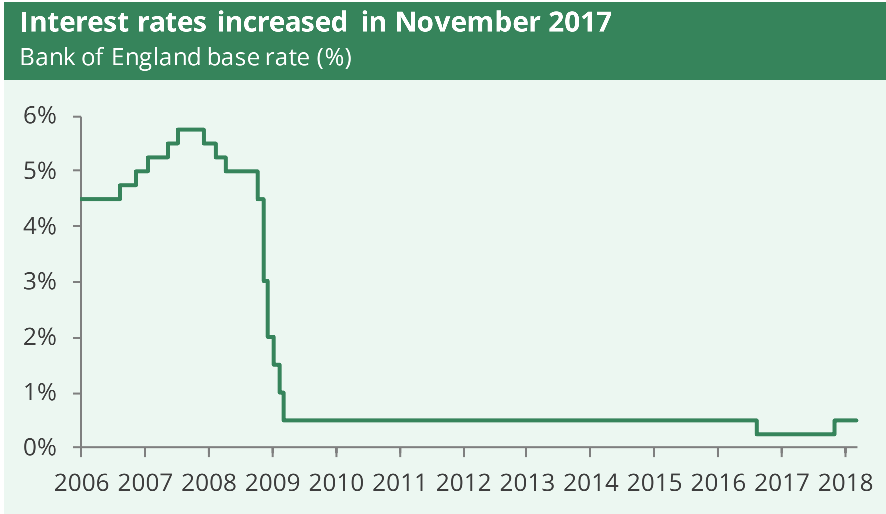
23 Bank of England, Inflation Report: February 2018, p41

24 For instance, 3-month on 3-month growth in average regular pay: Bank of England, Inflation Report: February 2018, p31

25 Bank of England, "Bank Rate maintained at 0.50%", 8 February 2018

26 Bank of England, "Bank Rate maintained at 0.50%", 8 February 2018

27 Bloomberg, "BOE Officials Push Home Message That More Rate Rises are Coming", 12 February 2018



In November, the MPC raised interest rates for the first time since 2007, taking the base rate from 0.25% to 0.5%.[28] This returned rates to the level they were at in the seven years prior to the August 2016 decision to cut rates, which followed the EU referendum result.[29]

2.3 Labour market

Employment

The UK employment rate was 75.2% at October-December 2017, having reached record highs earlier in 2017. Employment increased by 321,000 compared with the year before and by 88,000 compared with the previous quarter, to reach 32.15 million.[30]

The increase in employment levels was driven by strong growth in the number of full-time employees. Numbers of self-employed workers and part-time employees were both lower than in the previous quarter. It also largely reflected an increase in employment of UK nationals. The number of non-UK nationals in work increased by 33,000 over the year, but this was a much smaller annual increase than those seen between 2013 and 2016.

Unemployment also increased compared with the previous quarter by 46,000, although it was still lower than the year before at 1.47 million. The unemployment rate remains very low by historical standards at 4.4%. Forecasts suggest the rate will remain little changed over the next few years: the Bank of England has suggested it may fall slightly, although other forecasters anticipate no change or a slight rise in the unemployment rate.[31]

The rise in employment and unemployment was accompanied by a fall in the number of working-age people who are economically inactive

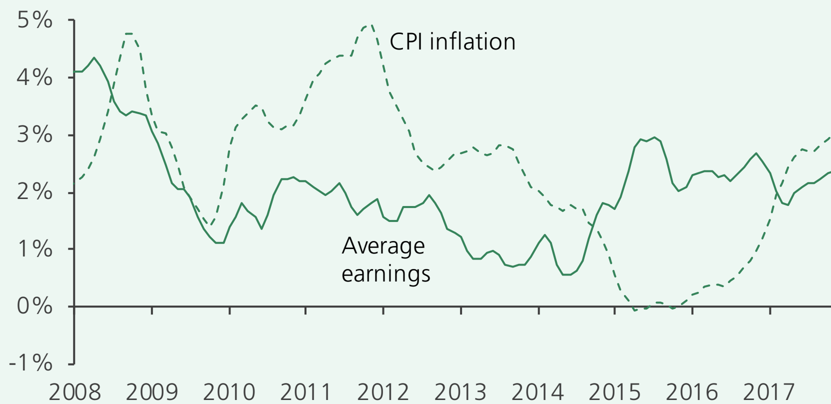
[28] Bank of England, "Bank Rate increased to 0.50%", 2 November 2017
[29] The MPC's quantitative easing (QE) programme, where the Bank creates new money to buy financial assets, remains active and unchanged. QE now totals £445 billion of assets: £435 billion of government bonds and £10 billion of corporate bonds.
[30] ONS UK Labour Market, February 2018, 21 February 2018
[31] Bank of England, Inflation Report: February 2018, Section 5 and HM Treasury, Forecasts for the UK economy: a comparison of independent forecasts, Feb 2018

(not in work and not seeking work). 8.77 million people aged 16-64 were economically inactive, 95,000 fewer than the year before.

Pay growth

Average earnings grew more slowly than prices over the past year, although this trend is likely to be reversed in the near future.

Earnings have grown more slowly than prices over the past year, and for most of the past decade



Note: 'average earnings' means average weekly earnings excluding bonuses for employees in Great Britain. Source: ONS series D7BT, KAI9

Average weekly earnings for employees in Great Britain were 2.5% higher in the three months to December 2017 compared with the previous year, both including and excluding bonus pay. CPI inflation averaged 3.0% over the same period, meaning average earnings fell by 0.5% after adjusting for inflation.[32] However, as noted above, inflation is expected to ease over the course of 2018.

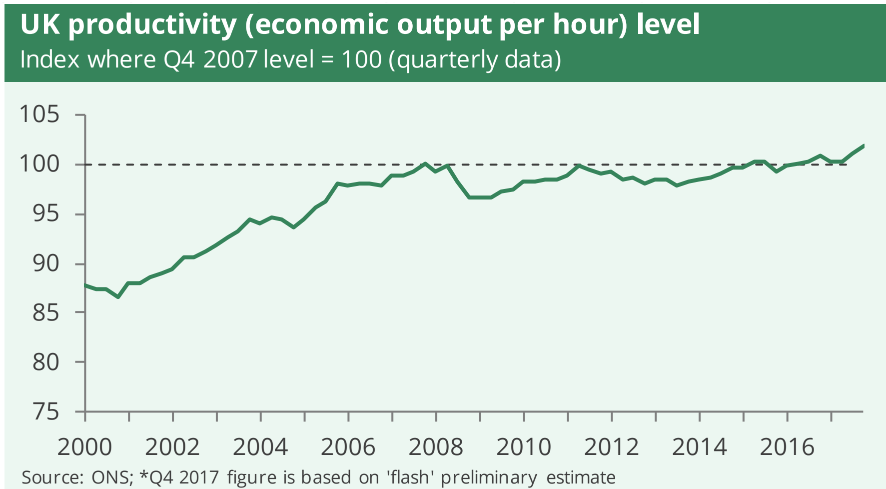
There are also signs that earnings may start growing more strongly in the months ahead. The Bank of England's Agents' annual pay survey reported that the average private sector pay settlement is expected to be 3.1% in 2018, up from 2.6% in 2017.[33] Some of the expected increase in pay reflects how employers respond to difficulties recruiting staff, with surveys indicating an increase in recruitment difficulties in 2017.[34]

2.4 Productivity

Economic growth since the 2008/09 recession has been attained by a large increase in employment instead of via improvements in productivity.

Productivity – the amount that is produced for a given input – has been very weak over the past decade. Instead of growing at its historical average rate of around 2% per year, economic output per hour has increased only very slowly.[35]

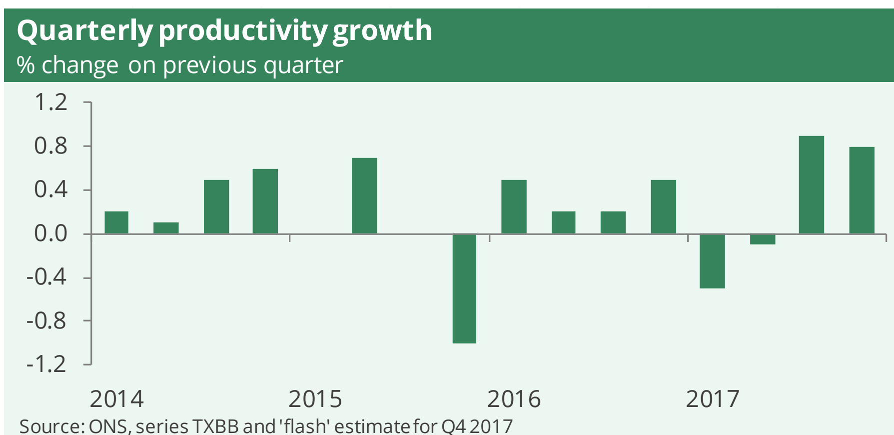
32 ONS UK Labour Market, February 2018, 21 February 2018
33 Bank of England, Agents' summary of business conditions - February 2018 update
34 Bank of England, Inflation Report, February 2018, pp20, 32
35 ONS, UK productivity flash estimate: October to December 2017, 21 February 2018



Over the long term, productivity growth is essential for increases in living standards. The more productive an economy is, the more can be produced in a sustainable fashion. In other words, productivity is crucial in determining the long-term growth rates. This, in turn, increases tax revenues and lowers government budget deficits. Of course, lower productivity growth results in the opposite: lower GDP growth and higher budget deficits.

The persistent weakness in productivity growth has led many forecasters to downgrade their expectations of the rates of productivity growth that the economy can achieve consistently to around 1% per year. This includes the Bank of England and the Office for Budget Responsibility (OBR). In November 2017, the OBR lowered its productivity growth forecasts, noting its persistent weakness since the 2008/09 recession. This, in turn, led it to cut its forecasts for GDP growth.[36]

Amongst all this gloom, recent productivity data has been encouraging. Following quarterly declines in productivity in the first half of 2017, productivity grew by 0.9% in Q3 compared with the previous quarter and then by 0.8% in Q4. This was the fastest increase recorded in a six-month period in a decade. Quarterly figures tend to be volatile, so it is too early to say whether this is the start of a long-awaited turnaround.



[36] For more see Commons Library briefing paper, Autumn Budget 2017: A summary

2.5 Growth forecasts

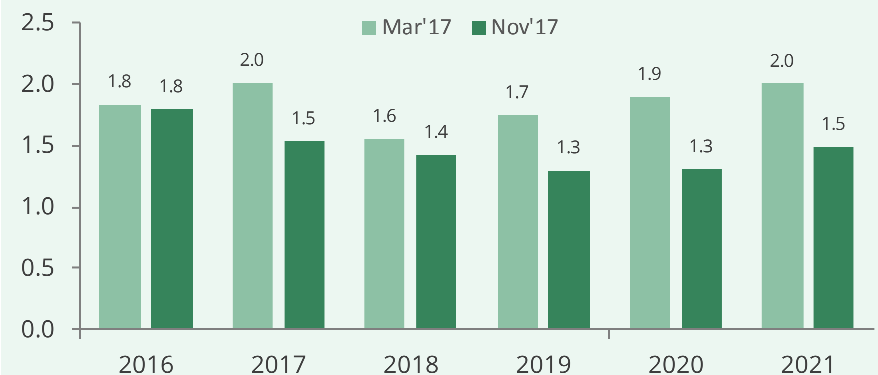
The economic outlook for 2018 is on balance probably a little brighter than it was at the time of the last OBR forecasts in November. This is principally due to the improved global economic environment, which is expected to boost UK exports. Consumer spending may also pick up if household purchasing power benefits from the expected slowing of inflation.

Risks to the outlook include uncertainty related to Brexit and whether, as is generally expected by economic forecasters, a 'smooth' departure from the EU is secured by the time the UK leaves in late March 2019. Even so, Brexit-related uncertainty may already be "weighing on business investment growth" in the words of the Bank of England.[37]

The Bank of England in February raised its GDP growth forecasts for 2018 from 1.6% to 1.8%, while the National Institute of Economic and Social Research lifted its from 1.7% to 1.9%.[38] While the average of all forecasts is lower at 1.5%, this is partly due to some older forecasts not having been updated recently.[39]

In its last set of forecasts in November, the OBR downgraded its expectations of GDP growth following its decision to lower assumptions of productivity growth.[40] It forecast GDP growth of 1.4% in 2018 and 1.3% in 2019. Based on the fact that other prominent forecasters revised up their expectations of GDP growth since then, it is possible that the OBR revises up its GDP growth forecasts at the spring statement.

OBR forecasts for GDP growth lowered in November
Annual % change in GDP; OBR forecasts from Mar'17 and Nov'17

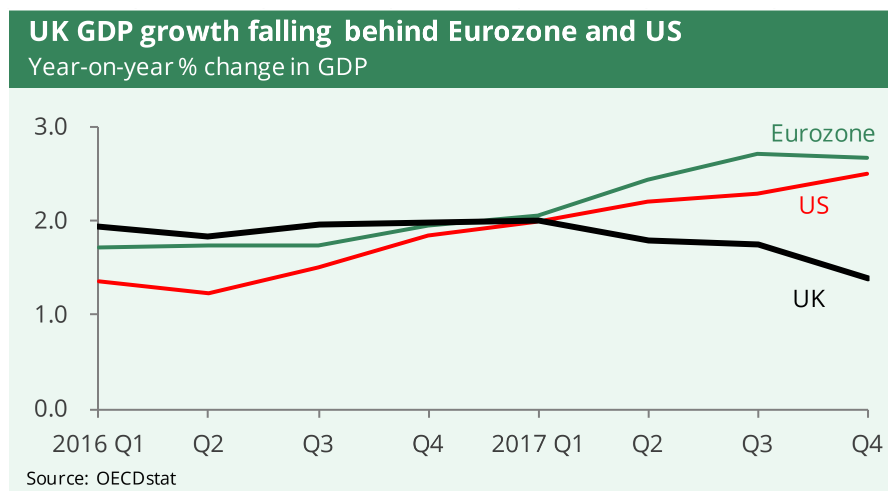


Source: OBR, Economic and fiscal outlook, Mar'17 and Nov'17

37 Bank of England, Inflation Report: February 2018, Box 3 and pp16,40
38 Bank of England, Inflation Report: February 2018, p42 and NIESR, *National Institute Economic Review No 243: February 2018*
39 HM Treasury, Forecasts for the UK economy: a comparison of independent forecasts, November 2017 [these are not Treasury forecasts]
40 OBR, Economic and fiscal outlook – March 2017; for more see the Commons Library briefing paper, Autumn Budget 2017: A summary

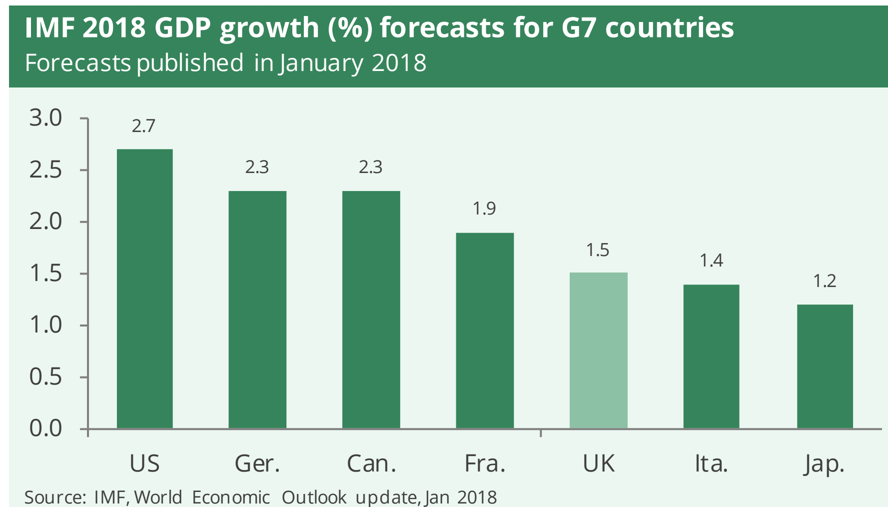
Box 2.1: Global economic conditions and international comparisons

As noted in section 2.1 the world economy has been strengthening, with growth accelerating in most regions. GDP growth in the Eurozone has been on an upward trend, with GDP 2.7% higher in Q4 2017 compared with a year before – its highest growth rate for a decade. Growth in the US also accelerated in 2017, up to 2.5% in Q4 2017. In contrast, UK GDP growth has been slowing (on a year-on-year basis) to 1.4% in Q4 2017.[41]



The IMF, in its January forecasts, upgraded its world growth forecasts noting that "the pickup in growth has been broad based, with notable upside surprises in Europe and Asia".[42] It expects recent tax policy changes to boost US GDP growth in the short term and boosted its forecasts for the Eurozone.

The IMF forecast UK GDP growth of 1.5% in 2018 and in 2019. This compares with growth forecasts of 2.7% and 2.5%, respectively, for the US and 2.2% and 2.0% for the Eurozone.[43]



The OECD will publish updated forecasts on 13 March, the day of the Spring Statement.

41 OECDstat, GDP growth
42 IMF, Global Economic Upswing Creates a Window of Opportunity, 10 October 2017
43 IMF, World Economic Outlook update, January 2018

3. The public finances

Summary

Government borrowing: the budget deficit

In 2016/17, government borrowed £46 billion to make up the difference between its spending and income raised from taxes and other sources. Since its 2009/10 peak the UK's borrowing – often referred to as the deficit – has fallen by 70%. Borrowing is now at a similar level to before the 2007-2008 financial crisis.

It is very likely that the OBR will lower its estimate for borrowing in 2017/18. Since its previous forecast – made in November 2017 – better than expected outturn data for the first ten months of 2017/18 has been released. Commenting on the data, the OBR says "it now looks clear that borrowing in 2017-18 will undershoot our November forecast by a significant margin".

If the OBR believes that some of the improvement in borrowing in 2017/18 is permanent, and not due to temporary factors, this will feed through into its forecast for future years. In November 2017, the OBR forecast that government borrowing will fall in each year after 2017/18 before reaching £26 billion, or 1.1% of GDP, in 2022/23.

Government debt

At 86% of GDP, public sector net debt – largely the stock of borrowing arising from past deficits – remains relatively high by recent standards. In November 2017, the OBR forecast that the debt-to-GDP ratio will fall to just over 79% by 2022/23.

Government's public finance targets

In its March 2018 forecast, the OBR will assess the Government's progress against its targets for borrowing and debt. In its previous forecast, the OBR judged that the Government was on course to meet both targets.

The OBR will also assess progress against the Government's overall objective for the public finances, which is for the budget to be in balance – government spending to be no more than its income – sometime in the 2020s. There is some ambiguity about the exact date for achieving this target, but the OBR says that whatever the date, the objective appears challenging.

The Treasury Committee recommends that the Government clears up the ambiguity in some of its targets for the public finances at Spring Statement 2018.

3.1 The deficit: public sector net borrowing

When government spends more than it receives in taxes and other revenues, it needs to borrow to cover the difference. This borrowing is known as 'public sector net borrowing', but is often referred to as the deficit. Borrowing has fallen considerably since the high levels it reached during the financial crisis. Borrowing has decreased from a peak of £153 billion in 2009/10 to £46 billion in 2016/17.[44]

Public sector net borrowing, often referred to as the deficit, was £46 billion in 2016/17, equivalent to 2.3% of GDP.

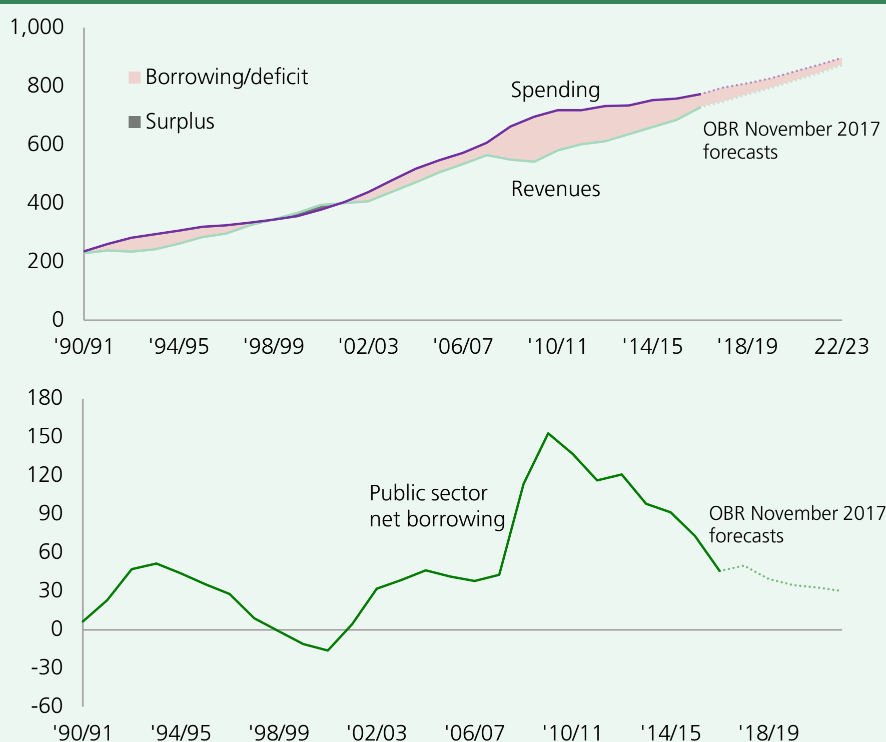
[44] All figures in this section are from ONS' public sector finances or the OBR's economic and fiscal outlook – November 2017.

The £46 billion borrowed in 2016/17 is equivalent to 2.3% of GDP, which is similar to the level it was prior to the 2007-2008 financial crisis. In November 2017, the OBR forecast that borrowing would increase in 2017/18, but – as discussed below – it looks likely that the OBR will decrease its 2017/18 borrowing forecast. The revision could potentially mean that forecast borrowing in 2017/18 will be lower than borrowing in 2016/17.

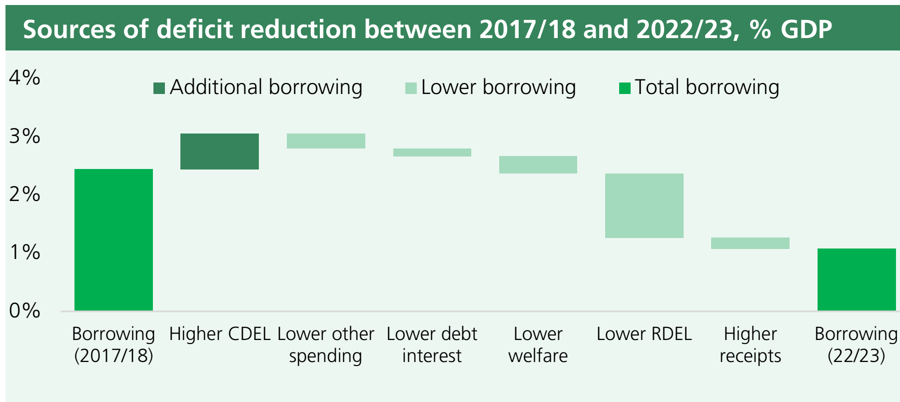
Forecasts

In November 2017, the OBR forecast that borrowing will fall in each year after 2017/18, dropping to around £26 billion in 2022/23 or 1.1% of GDP. However, the fall in borrowing is not as large as the OBR had forecast in March 2017. For instance, in March 2017 the OBR forecast borrowing of £17 billion in 2021/22, but by November it expected borrowing of £30 billion in the same year. The upward revision to the borrowing forecast was a result of the OBR expecting lower economic growth following its decision to lower assumptions of productivity growth (see section 2.5). Generally speaking, lower economic growth means reduced government tax revenues.

When total spending is higher than revenues, the government has a deficit and must borrow, £ billion

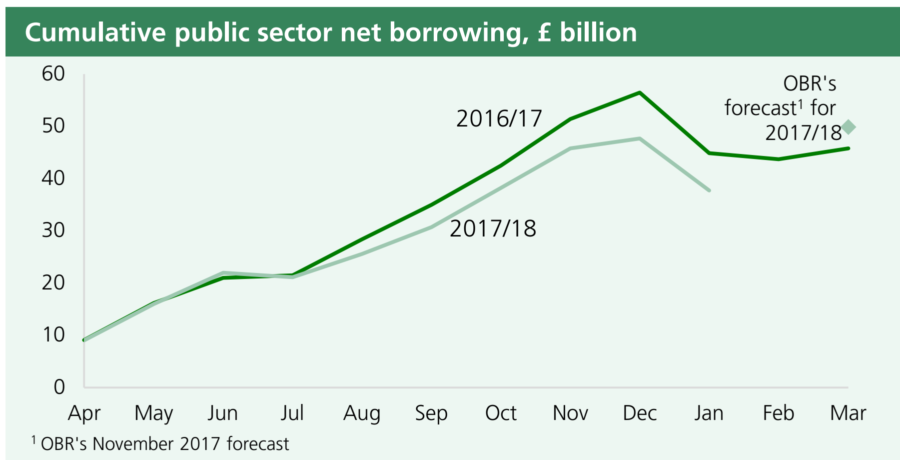


As the chart below shows, the OBR attributes much of the forecast fall in borrowing between 2017/18 and 2022/23 to reductions in departments' day-to-day spending on public services (RDEL in the chart). Lower welfare spending contributes around 0.3% of GDP towards the forecast fall in borrowing, while higher receipts are forecast to lower borrowing by 0.2% of GDP. Increases to capital spending (CDEL in the chart) are forecast to increase borrowing by 0.6% of GDP.



Borrowing so far in 2017/18

The Office for National Statistics (ONS) has published provisional data for the first ten months of 2017/18.[45] So far, government borrowing is 16% lower than during the first ten months of 2016/17. Commenting on this data, the OBR says "it now looks clear that borrowing in 2017-18 will undershoot our November forecast by a significant margin". In its November 2017 forecast, the OBR had estimated that borrowing across 2017/18 would be 9% higher than in 2016/17.



While it seems highly likely that the OBR will lower its 2017/18 borrowing forecast, the revision may not be as large as the fall in borrowing so far this year. The OBR says that "the full-year deficit is still unlikely to fall as sharply from last year's figure as a simple extrapolation of the year to date would suggest." There is still significant uncertainty around areas of government spending and revenue. For example, local authority borrowing – which is the largest source of difference between the OBR's forecast and the data published for the first ten months of 2017/18 – is particularly volatile, and can be large in the final months of the financial year.

Despite the uncertainty, the Institute for Fiscal Studies (IFS) – a public finances think tank – says that "it now appears more likely than not that the deficit this year [2017/18] will be lower than it was last year".[46] The

45 ONS. *Public sector finances: Jan 2018*, 20 October 2017
46 IFS. *IFS analysis of today's public finance figures*, 21 February 2018

Financial Times reports that the OBR's forecast of the deficit in 2017/18 could be reduced by "about £7.5 billion".[47]

If the OBR believes that some of the improvement in borrowing in 2017/18 is permanent, and not due to temporary factors, this will feed through into its forecast for future years. In the past the OBR has tended to assume that some of the strength continues, but some does not.

Data is provisional and may be revised

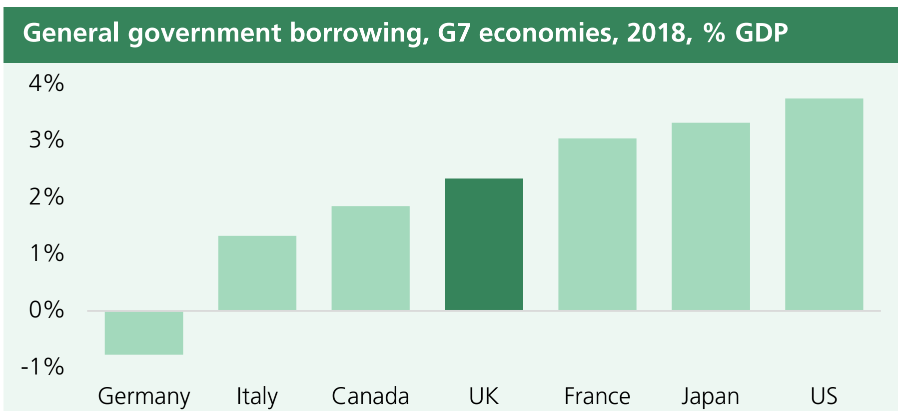
The ONS' data for the first ten months of 2017/18 are provisional, and may be revised significantly as more reliable data becomes available. The example of 2016/17 gives an idea of the extent to which data may be revised. Initially the ONS estimated that government borrowed £52 billion in 2016/17, but this figure has now been revised down by £6.2 billion to £45.8 billion. This is still not the final figure and may be revised further over the coming months as the ONS replaces provisional data with final outturns.

International comparisons

In October 2017, the IMF – which uses a slightly different measure of government borrowing – forecast UK government borrowing of 2.3% of GDP in 2018, which places the UK in the middle of the advanced economies of the G7. France, Japan and the US are expected to borrow more, as a % of GDP, than the UK; Canada, Italy and Germany are expected to borrow less.

The IMF's forecast for UK government borrowing is higher than the European Union average of 1.2%.[48]

General government borrowing, G7 economies, 2018, % GDP



3.2 The current budget deficit

The current budget deficit was £7 billion in 2016/17, equivalent to 0.4% of GDP.

The current budget deficit is the difference between government current spending – day-to-day spending on running public services, grants and administration – and government income from taxes and other sources. Unlike public sector net borrowing, the current budget deficit doesn't include investment spending and therefore is said to measure the degree to which taxpayers meet the cost of paying for the services provided to them.

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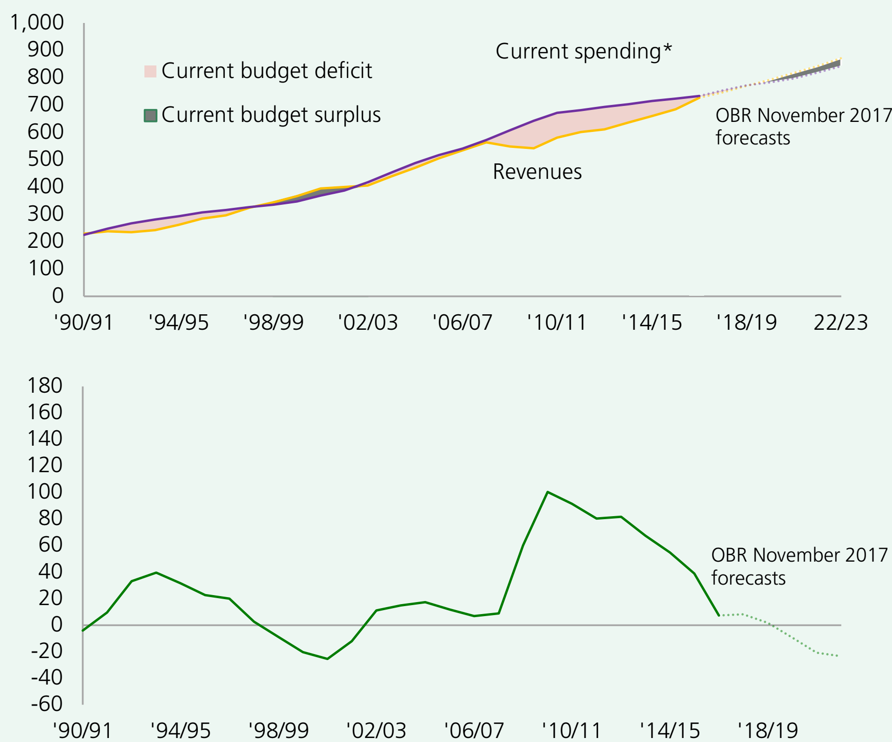
47 *Deficit restraint puts UK economy on better course*, FT, 22 February 2018
48 IMF. *World Economic Outlook Database*, October 2017

Opposition parties have proposed targets for the public finances that focus on the current budget,[49] rather than public sector net borrowing – which is the Government's preferred measure (see section 3.4). Focusing on the current budget would allow borrowing for investment purposes.

The current budget deficit was £7 billion in 2016/17, equivalent to 0.4% of GDP. The current budget has fallen significantly since its peak of £100 billion in 2009/10.

In November 2017 the OBR forecast that the current budget would have a small deficit in 2018/19, and would reach a surplus by 2019/20. If a surplus is reached government will receive more in taxes and other revenues than its current spending – the day-to-day spending on running public services, grants and administration.

When current spending is higher than revenues, the government has a current budget deficit, £ billion



note: * current spending including depreciation

As discussed in section 2.1, borrowing so far in 2017/18 has been lower than the OBR expected in November 2017. This is likely to mean that the OBR will lower its forecast for the 2017/18 current budget deficit. It is possible that the OBR may forecast that the current budget will be in surplus in 2017/18. Recent media reports have highlighted that the current budget was in surplus in the 12 months ending in January 2018, and during the 2017 calendar year.[50]

[49] Labour Party Manifesto 2017; Liberal Democrat Manifesto 2017; SNP, *What do the SNP propose as an alternative to austerity?*

[50] George Osborne austerity target is hit – 2 years late: Improvement in public finances puts day-to-day budget into surplus, *FT*, 1 March 2018

Box 3.1: The OBR may estimate the UK's financial settlement with the EU

In December 2017, the UK and EU reached a political agreement on how the UK would contribute to the EU's outstanding financial commitments – spending that was agreed while the UK was a member – after Brexit.[51] This financial settlement sets out what future UK payments will cover and provides some principles for future payments.

According to the Financial Times,[52] an Annex to the OBR's forecast will estimate the UK's future annual payments arising from the financial settlement.

What has the UK agreed to contribute to?

During the transition (or implementation) period the UK will continue to contribute to, and participate in, the EU Budget. This means for 2019 and 2020, the UK will pay into the EU Budget and receive funding from it.

After the transition period is over, the UK will make other payments:

- in their annual Budget the EU commits to some future spending without paying recipients at the time. The UK will contribute towards the financing of these commitments outstanding at 31 December 2020
- the UK will share the financing of the EU's liabilities incurred before 31 December 2020. The most significant of these are the pensions and other benefits of EU employees

The UK will also remain liable for its share of the EU's contingent liabilities. These are liabilities that may occur depending on the outcome of an uncertain future event. They relate mainly to financial guarantees (on loans and financial assistance programmes).

The UK also agrees to honour its commitments on some EU overseas development programmes including the European Development Fund and EU Trust Funds. Likewise, the UK will honour commitments made on the Facility for Refugees in Turkey.

Some payments will be made by the EU to the UK. The UK will receive some capital back from the European Central Bank, European Investment Fund, and – more significantly – the European Investment Bank. The UK will also receive its share of the net assets of the European Coal and Steel Community.

Why will there be annual payments?

The UK and EU agreed that the UK 'should neither pay more nor earlier than if it had remained a Member State.' This means that for items such as the EU's outstanding commitments, or the pensions of EU employees, the UK will make payments as they become due each year.

Has the value of the settlement been estimated?

Treasury officials have been clear that it is impossible to put a definitive number on the settlement, but believe that £35 billion to £39 billion is a reasonable estimate.[53]

If the FT is correct, and the OBR includes an Annex on the UK's future annual payments to the EU, the data will provide the fullest assessment yet of the settlement.

The Library briefing Brexit: the exit bill has more detail on the settlement.

[51] Joint report from the negotiators of the European Union and the United Kingdom Government on progress during phase 1 of negotiations under Article 50 TEU on the United Kingdom's orderly withdrawal from the European Union, 8 December 2017

[52] *"Hammond to reveal impact of Brexit bill on UK public finances"* FT, 8 February 2018

[53] European Scrutiny Committee, Oral evidence: EU Withdrawal, HC 763, Q185

3.3 Public sector net debt

Public sector net debt is the overall level of government indebtedness, built up over many years. Broadly speaking, it is the stock of borrowing arising from past deficits.

Public sector net debt – broadly speaking the stock of borrowing from past deficits – was 85.6% of GDP at the end of 2016/17.

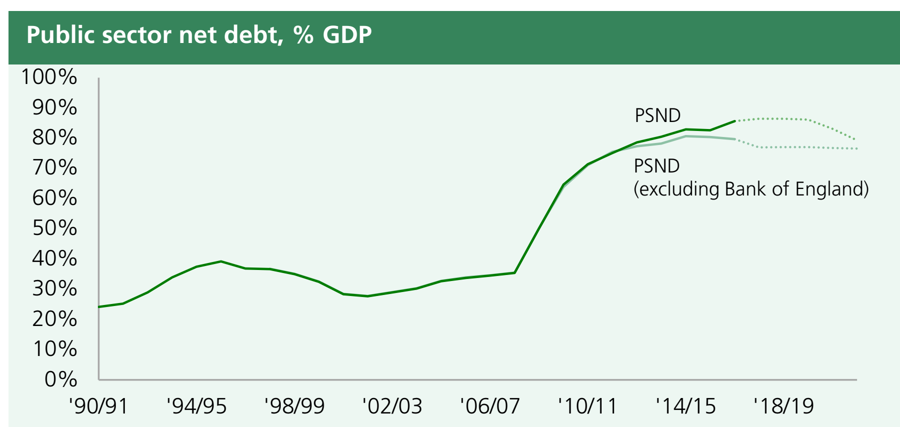
Before the financial crisis, public sector net debt was around 34-35% of GDP. As a result of the crisis, debt increased sharply. Public sector net debt was 86% of GDP at the end of 2016/17, a debt-to-GDP ratio not seen since the mid-to-late 1960s.[54]

In November 2017, the OBR forecast that the debt-to-GDP ratio would increase in 2017/18, fall slightly in 2018/19 and a little further in 2019/20. By 2022/23 the OBR forecast that the ratio will have fallen to just under 80% of GDP.

Debt excluding the Bank of England

In August 2016, following the EU referendum result, the Bank of England (the Bank) took some action to support the economy. The Bank's package of measures has some impact on public sector net debt, as the Bank is part of the public sector. The impact is largely temporary, so the ONS and OBR have published a measure of public sector net debt that excludes the Bank of England. On this measure the path of public sector net debt is smoother.

Public sector net debt, % GDP

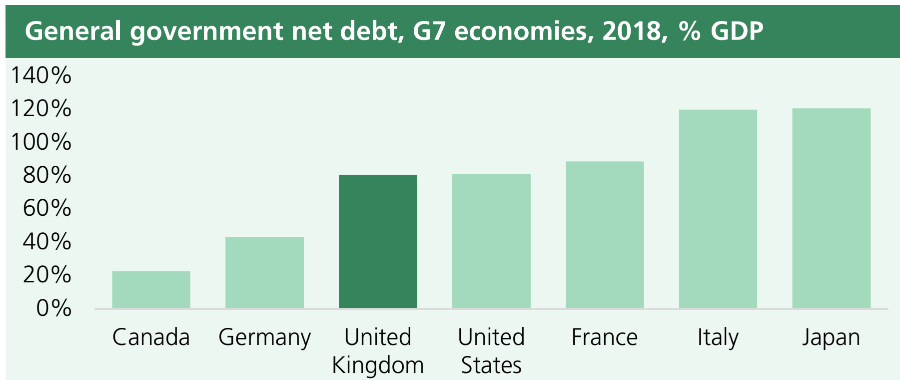


International comparisons

The IMF – which uses a slightly different measure of government debt – forecast that the UK's net debt in 2018 is set to be 80.6% of GDP, broadly similar to the US'.

The UK's debt is lower than four of the G7 economies. However, by European standards the UK's debt-to-GDP ratio is relatively large. The IMF forecast that the UK's net debt in 2018 will be higher than the EU average of 69%.[55]

[54] OBR. *Public finances databank*, March 2018
[55] IMF. *World Economic Outlook Database*, October 2017



The UK's government net debt-to-GDP ratio in 2018 is forecast to be lower than Japan's, Italy's, France's and the US'.

3.4 Government's objective and targets for the public finances

In its forecast, the OBR will assess the progress of the Government's public finance targets. The targets support the Government's overall objective for the public finances, which is reaching a budget surplus in the middle of the next decade. A surplus would see government spending be less than government income from taxes and other sources.

It is possible that the Government may choose to rephrase some of its public finance targets, which are contained in the Charter for Budget Responsibility (the Charter), at Spring Statement 2018. The phrasing of some of the targets means that they have been open to interpretation since the previous Parliament ended earlier than expected. Also, the updated welfare cap is not yet reflected in the Charter. To revise the Charter, the Government will need to publish a draft update of the Charter, which must then be approved by Parliament.

Box 3.2: The Charter for Budget Responsibility (the Charter)

The Charter for Budget Responsibility sets out the OBR's role, how it performs its duties and the required content of its key publications. The Charter also sets out the Government's targets for the public finances – which are often referred to as its fiscal targets – and how the Government's policy for the public finances operates.

The Charter has been changed on several occasions since its introduction in 2011. The latest version was proposed alongside Autumn Statement 2016 and came into force on Tuesday 24 January 2017 when the House of Commons approved it.

The Library briefing *The Office for Budget Responsibility and Charter for Budget Responsibility* discusses all of the targets and their predecessors.

Objective for the public finances

The Government's objective for fiscal policy is to return the 'public finances to balance at the earliest date in the next Parliament'. The objective aims to provide sustainable public finances, ensure confidence in the economy, and support the effectiveness of monetary policy. If the public finances are in balance government spending is no more than government income.

When the objective was introduced in autumn 2016, its wording suggested the deficit would be eliminated by 2025 at the latest. Its

interpretation now is questionable, given the early election in 2017, but the Conservative Manifesto suggests the Government are still aiming at the 'middle of the next decade'.[56] The Treasury Committee recommends that the Government should clear up this ambiguity by updating the Charter at Spring Statement 2018.[57]

Box 2.3: Public finance objective – the OBR's judgement

What will OBR judge in March 2018 forecast?

The OBR will judge whether the Government is on course to meet its objective for the public finances.

What was the OBR's judgement in November 2017?

Given the ambiguity over the final date for the objective, the OBR considered whether the Government was on course to balance the budget in 2022/23 or 2025/26.

The OBR's forecast doesn't yet cover 2025/26 – the five-year forecast horizon extends to 2022/23. However, with the OBR's forecast for 2022/23 showing a budget deficit, it says that achieving a budget balance in 2025/26 "appears challenging from a variety of perspectives".

The OBR forecasts a deficit of £25.6 billion, or 1.1% of GDP, in 2022/23. Therefore, against this target date the Government's objective for the public finances would be missed.

Borrowing target: the fiscal mandate

The Government has targets to support it in achieving its overall fiscal objective. Chief amongst these is the fiscal mandate, a target for controlling the level of borrowing.

The fiscal mandate focuses on an adjusted version of borrowing. The fiscal mandate is:

- a target to reduce cyclically adjusted public sector net borrowing to below 2% of GDP by 2020/21.

The adjustment means the target focuses on structural borrowing, or the element that remains once borrowing related to the ups and downs of the economy are removed. This is what is meant by 'cyclically adjusted': removing the parts of borrowing related to the economic cycle.

Box 3.4: Fiscal mandate – the OBR's judgement

What will OBR judge in March 2018 forecast?

The OBR will judge, based on its central forecast, whether the Government has a better than 50% chance of meeting its fiscal mandate.

What was the OBR's judgement in November 2017?

The OBR forecasts that the Government is on course to meet the fiscal mandate. The OBR forecast that in 2020/21 cyclically adjusted net borrowing would be 1.3% of GDP, so the target is on track to be achieved with a margin of 0.7 per cent of GDP or £14.8 billion.

56 2017 Conservative Manifesto, page 14

57 Treasury Committee, *Autumn Budget 2017*, 17 January 2018, HC600 2017-19, para 55

Box 3.5: Structural borrowing, cyclical elements and the output gap

Structural borrowing

Structural borrowing is the level of borrowing we would expect to remain if the economy was running at a sustainable level of employment and activity. Structural elements are the underlying or persistent part of government borrowing, which are unrelated to the economic cycle. The OBR never knows what the economy's normal level is, so it estimates it through the output gap (see below).

Cyclical elements of borrowing

Cyclical elements of borrowing refer to the effect of the economic cycle on the level of government borrowing. In a recession, government borrowing tends to increase as tax receipts are reduced and spending on benefits increases. The reverse happens when the economy is growing strongly. These effects are sometimes known as the economy's 'automatic stabilisers'.

The output gap

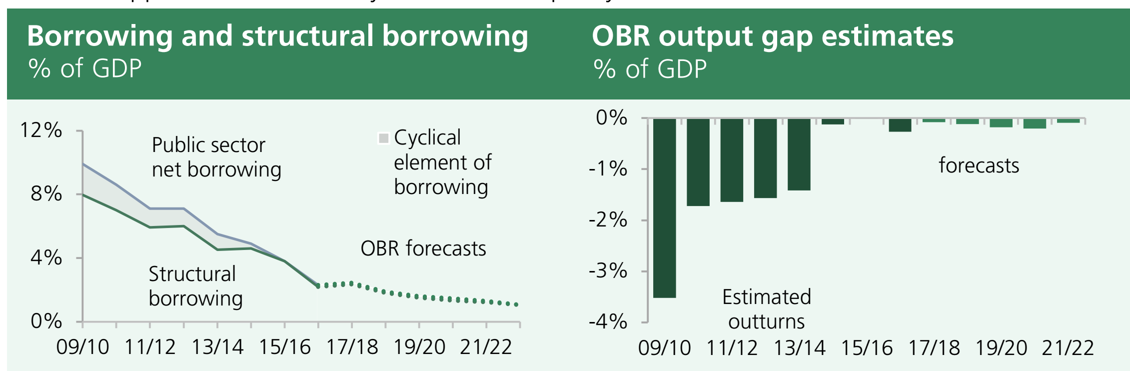
The difference between the actual level of economic output and what could be achieved if the economy was operating at full potential is known as the 'output gap'. A negative output gap suggests that the economy is operating below its potential level and has idle resources. A positive output gap suggests that the economy is operating above potential, or overheating.

A big problem for policymakers is that the level of potential output cannot be directly measured and consequently neither can the output gap. Therefore economists must estimate what the output gap is.

November 2017 estimates

The OBR estimates that the economy was operating just below its potential in 2016/17, with a small output gap of -0.3%. As the economy was thought to be running close to capacity, the OBR judged that structural borrowing and public sector net borrowing were broadly similar. This means that there was only a small cyclical element of borrowing that could be eliminated through economic growth.

In contrast, in 2009/10 the OBR estimated that the output gap was -3.5%; that is the economy was thought to be running 3.5% below capacity. As the economy was thought to be running below capacity the OBR judged structural borrowing to be lower than overall borrowing. This meant that the remaining part of overall borrowing was thought to be cyclical – related to the economic cycle – which would disappear as the economy returned to capacity.



The debt target

The fiscal mandate is supplemented with a debt target. The supplementary target is for public sector net debt as a percentage of GDP – the debt-to-GDP ratio – to be falling in 2020/21.

Supplementary debt target: a target for public sector net debt as a percentage of GDP to be falling in 2020/21.

The IFS has pointed out that the timing of the debt target makes it "particularly easy to meet given temporary factors that are likely to reduce PSND [public sector net debt] in that year."[58] The temporary factors mentioned refer to a Bank of England scheme, the loans for which are expected to begin being repaid to the Bank in 2020/21.[59] The

58 IFS. *The IFS Green Budget: February 2017*, page 78
59 The scheme is the Term Funding Scheme, under which up to £100 billion of loans are to be made available to UK banks and building societies until the end of February 2018, with the loans to be repaid within four years of being taken out

loans are part of the public sector's debt, so when they are repaid they decrease debt. The IFS estimates that this effect means that in order for the supplementary debt target not to be met the budget deficit would have to be around or over 4% of GDP in 2020/21.[60]

Box 3.6: Supplementary debt target – the OBR's judgement

What will OBR judge in March 2018 forecast?

The OBR will judge, based on its central forecast, whether the Government is on course to meet its supplementary debt target.

What was the OBR's judgement in November 2017?

The OBR forecasts that the Government is on course to meet the debt target. The OBR expect the debt-to-GDP ratio to peak in 2017-18 and to fall in each year of the forecast.

The Welfare Cap

The Government has a further target for controlling spending on around 55% of welfare spending – the welfare cap. The target is for relevant welfare spending to be within the cap level. The main areas of welfare spending excluded from the cap are pensions and Jobseekers Allowance payments.

The Charter for Budget Responsibility requires the Government to set a new welfare cap at the first Budget of a new Parliament. The Government did so at Autumn Budget 2017. The cap is for 2022/23 and will be formally judged by the OBR in the first Budget of the next Parliament. In the interim years the OBR will monitor progress against the cap.

The Charter has not yet been updated with the new welfare cap, so it currently includes the target set at Autumn Statement 2016. The Government may take the opportunity of the spring statement to publish an update of the Charter. Any revisions will only take effect once approved by a vote in the House of Commons.

The Library briefing *The welfare cap* goes into further detail on the cap.

Box 3.7: The welfare cap – the OBR's judgement

What will OBR judge in March 2018 forecast?

The OBR will monitor progress against the cap. The OBR will not make a formal assessment of the welfare cap – this will only happen in the first Budget of the next Parliament.

What was the OBR's judgement in November 2017?

The OBR didn't monitor progress against the cap, as the Government set the new welfare cap in November 2017.

[60] IFS. *The IFS Green Budget: February 2017*, page 78

Appendix 1: Sources of further information

Library's Brexit briefings

The Library's briefings, and other relevant parliamentary material, on Brexit are pulled together in parliament's Brexit hub.

Section 6 of Productivity in the UK looks at the channels through which Brexit can affect future productivity – and growth – prospects.

Look out for spring statement related blogs on the Library's blog, Second Reading.

HM Treasury

Autumn Budget 2017

Spring Budget 2017

Autumn Statement 2016

Budget 2016

Office for Budget Responsibility

Economic and fiscal outlook, November 2017

Economic and fiscal outlook, March 2017

Monthly commentary on the public finances

Public finances databank

Institute for Fiscal Studies

Autumn Budget 2017

Post-Spring Budget 2017 Briefing

Green Budget 2017

Post-Autumn Statement 2016 Briefing

Post-Budget Briefing 2016

Commentary on the January 2018 public finances

House of Commons Library

Economic indicators (an edition will be published on 8 March 2018)

Autumn Budget 2017: A summary

House of Commons Treasury Select Committee

Inquiry into Autumn Budget 2017

Inquiry into Budget 2017

Inquiry into Autumn Statement 2016

Appendix 2: Economic and public finance data 1979-2022

Economic data, 1979-2022

	Real GDP growth %	Inflation RPI %	Inflation CPI %	ILO Unemployment Q4, %
1979	3.7%	13.4%	..	5.5%
1980	-2.0%	18.0%	..	8.0%
1981	-0.8%	11.9%	..	10.2%
1982	2.0%	8.6%	..	11.1%
1983	4.2%	4.6%	..	11.7%
1984	2.3%	5.0%	..	11.6%
1985	4.2%	6.1%	..	11.3%
1986	3.1%	3.4%	..	11.3%
1987	5.3%	4.2%	..	9.7%
1988	5.7%	4.9%	..	8.0%
1989	2.6%	7.8%	5.2%	7.0%
1990	0.7%	9.5%	7.0%	7.5%
1991	-1.1%	5.9%	7.5%	9.5%
1992	0.4%	3.7%	4.3%	10.4%
1993	2.5%	1.6%	2.5%	10.3%
1994	3.9%	2.4%	2.0%	9.0%
1995	2.5%	3.5%	2.6%	8.3%
1996	2.5%	2.4%	2.5%	7.8%
1997	4.0%	3.1%	1.8%	6.5%
1998	3.1%	3.4%	1.6%	6.1%
1999	3.2%	1.5%	1.3%	5.8%
2000	3.7%	3.0%	0.8%	5.2%
2001	2.5%	1.8%	1.2%	5.2%
2002	2.5%	1.7%	1.3%	5.1%
2003	3.3%	2.9%	1.4%	4.9%
2004	2.4%	3.0%	1.3%	4.7%
2005	3.1%	2.8%	2.1%	5.1%
2006	2.5%	3.2%	2.3%	5.5%
2007	2.4%	4.3%	2.3%	5.2%
2008	-0.5%	4.0%	3.6%	6.4%
2009	-4.2%	-0.5%	2.2%	7.8%
2010	1.7%	4.6%	3.3%	7.9%
2011	1.5%	5.2%	4.5%	8.4%
2012	1.5%	3.2%	2.8%	7.8%
2013	2.1%	3.0%	2.6%	7.2%
2014	3.1%	2.4%	1.5%	5.7%
2015	2.3%	1.0%	0.0%	5.1%
2016	1.9%	1.8%	0.7%	4.8%
2017	1.5%	3.6%	2.7%	4.3%
2018	1.4%	3.3%	2.4%	4.3%
2019	1.3%	2.8%	1.9%	4.5%
2020	1.3%	2.9%	2.0%	4.6%
2021	1.5%	2.9%	2.0%	4.6%
2022	1.6%	3.0%	2.0%	4.6%

Sources: ONS (series, IHYP, CZBH, D7G7, MGSX)
OBR, Economic and fiscal outlook, November 2018, Table 3.8, and Economy Supplementary Tables 1.6 & 1.7

Public finance data 1979/80 to 2022/23						
	Public sector net borrowing		Structural deficit		Public sector net debt	
	£ billion	% GDP	£ billion	% GDP	£ billion	% GDP
1979/80	8.5	3.7%	9.2	3.9%	98.2	45.0%
1980/81	11.5	4.3%	7.7	2.9%	113.8	45.6%
1981/82	6.0	2.0%	-0.4	-0.1%	125.2	45.3%
1982/83	8.5	2.6%	2.0	0.6%	132.5	43.9%
1983/84	11.8	3.3%	7.2	2.0%	143.6	43.6%
1984/85	12.5	3.2%	10.7	2.8%	157.0	44.3%
1985/86	9.0	2.1%	9.0	2.1%	162.5	41.7%
1986/87	8.4	1.8%	9.1	2.0%	167.8	40.1%
1987/88	4.7	0.9%	10.7	2.1%	167.4	35.6%
1988/89	-6.0	-1.1%	5.9	1.0%	153.7	29.3%
1989/90	-0.6	-0.1%	7.9	1.3%	151.9	26.2%
1990/91	6.2	0.9%	4.7	0.7%	151.1	24.2%
1991/92	23.0	3.2%	13.1	1.8%	165.8	25.2%
1992/93	47.1	6.4%	35.0	4.8%	201.9	29.0%
1993/94	51.6	6.6%	41.8	5.4%	249.8	33.9%
1994/95	43.8	5.4%	37.1	4.5%	290.0	37.5%
1995/96	35.3	4.1%	23.6	2.8%	322.1	39.2%
1996/97	27.7	3.0%	24.1	2.6%	347.0	36.9%
1997/98	8.9	0.9%	21.3	2.2%	358.6	36.7%
1998/99	-1.2	-0.1%	13.6	1.4%	357.8	35.0%
1999/00	-11.1	-1.1%	4.2	0.4%	349.3	32.5%
2000/01	-16.3	-1.5%	-3.6	-0.3%	316.7	28.4%
2001/02	4.2	0.4%	11.6	1.0%	323.1	27.7%
2002/03	31.9	2.7%	32.7	2.7%	356.2	29.0%
2003/04	38.7	3.1%	43.0	3.4%	391.0	30.2%
2004/05	46.1	3.5%	54.9	4.1%	446.5	32.7%
2005/06	41.4	2.9%	49.4	3.5%	487.2	33.7%
2006/07	37.9	2.6%	44.9	3.0%	523.6	34.5%
2007/08	42.9	2.8%	59.1	3.8%	557.2	35.4%
2008/09	113.5	7.3%	111.2	7.1%	768.3	50.1%
2009/10	153.0	9.9%	122.8	8.0%	1,011.9	64.6%
2010/11	137.1	8.6%	112.0	7.0%	1,157.6	71.4%
2011/12	116.2	7.1%	97.1	5.9%	1,253.1	75.1%
2012/13	120.8	7.1%	102.0	6.0%	1,363.6	78.6%
2013/14	98.2	5.5%	80.0	4.5%	1,464.4	80.5%
2014/15	91.4	4.9%	85.1	4.6%	1,554.7	82.9%
2015/16	73.0	3.8%	72.5	3.8%	1,602.6	82.6%
2016/17	45.8	2.3%	43.3	2.2%	1,726.8	85.6%
2017/18	49.9	2.4%	48.0	2.3%	1,791.2	86.5%
2018/19	39.5	1.9%	37.9	1.8%	1,840.2	86.4%
2019/20	34.7	1.6%	32.3	1.5%	1,884.9	86.1%
2020/21	32.8	1.5%	29.7	1.3%	1,879.3	83.1%
2021/22	30.1	1.3%	28.1	1.2%	1,853.0	79.3%
2022/23	25.6	1.1%	25.0	1.1%	1,909.4	79.1%

Source: OBR, ONS
Note: figures exclude public sector banks

BRIEFING PAPER
Number CBP-8249
8 March 2018

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