



BRIEFING PAPER

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Spring Statement 2018: A summary

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Spring Statement 2018 at a glance

The Chancellor of the Exchequer delivered [Spring Statement 2018](#) to Parliament on 13 March. At the same time the Office for Budget Responsibility (OBR) published updated forecasts in its [economic and fiscal outlook](#).

The OBR's forecasts

There was no significant change to the OBR's headline forecasts for economic growth. Forecasts for government borrowing were revised down slightly. Overall, the OBR saw no reason to significantly alter its outlook on the UK economy or public finances, which in November 2017 were downgraded sharply.

For more on the OBR's forecasts, see sections 1 and 2.

Government consultations and other announcements

As expected, the Chancellor made no new spending or tax announcements.

The Government [published various documents](#) and [launched consultations](#) to address economic challenges. Calls for evidence include:

- [VAT, Air Passenger Duty and Tourism in Northern Ireland](#) – looking at the impact of VAT and Air Passenger Duty on tourism in Northern Ireland.
- [Tackling the plastic problem](#) – using the tax system or charges to address single-use plastic waste
- [Cash and digital payments in the new economy](#) – looking at the role of cash and digital payments in the new economy. This is intended to explore how the Government can further support digital payments, ensure the ability to pay by cash is available for those who need it, and tackle those who use cash to evade tax and launder money.
- [VAT registration threshold](#) – seeks views on whether the design of the VAT threshold could better incentivise small business growth.
- [Online platforms' role in ensuring tax compliance by their users](#) – this will look at how online platforms could work with HMRC and taxpayers to help people who make money through the platforms understand and meet their tax obligations.

Following consultation, the government:

- brought forward the next [business rates revaluation](#) by one year to 2021
- has set out its view on the [challenges posed by the digital economy](#) for the corporate tax system.

At Autumn Budget 2017, the Government announced additional spending for departments to prepare for exiting the European Union. Alongside Spring Statement 2018, the Chief Secretary to the Treasury [allocated the additional funding](#) for 2018/19 to departments. The Home Office (£395 million), the Department for Environment, Food and Rural Affairs (£310 million) and HMRC (£260 million) received the largest allocations.

The additional funding results in Barnett consequential for Scotland (£37.3 million), Wales (£21.4 million) and Northern Ireland (£15.2 million).

The Chancellor confirmed that he will set out public spending for 2020 and beyond, at this year's autumn Budget. A Spending Review will take place in 2019, which will allocate this spending to government departments.

1. OBR forecasts for the economy

The Office for Budget Responsibility (OBR) published a new set of forecasts alongside the Chancellor's Spring Statement.¹ Their previous set of forecasts were from November 2017.

GDP growth forecasts were little changed...

The OBR made only very small alterations to its GDP growth forecasts compared with its November 2017 projections. Slightly faster growth is expected in 2018, 1.5% compared with 1.4%, as a result of a stronger world economy. Forecasts for 2019 and 2020 are left unchanged at 1.3%, while for 2021 and 2022 they are very slightly lowered by 0.1% points to 1.4% and 1.5%, respectively.

...from November's downgrade

The main feature of these new forecasts is that they are broadly in line with the OBR's November forecasts, which downgraded the UK's economic prospects: the trend growth rate was lowered to 1.5% from around 2% previously.²

This was mainly a consequence of the OBR reducing its assumptions about long-term productivity growth, reflecting poor performance since the 2008/09 financial crisis.

Inflation expected to fall to under 2% in a year

The OBR forecasts consumer price inflation (as measured by CPI) to ease from its current rate of 3.0% to 1.9% on average in the first quarter of 2019 – below the Bank of England's 2% target. In its latest February forecasts, the Bank forecast CPI inflation would be higher at 2.3% during the same time period.³ The OBR's new CPI forecasts are largely unchanged from November's.

Wage growth forecasts for 2018 raised

Average wages are forecast to grow by more in 2018 than was forecast in November. The OBR projects an increase of 2.7% compared with 2.3% previously, a result it says of "early indications of stronger growth in pay settlements" this year. However, growth rates have been lowered a little in the later years of the forecast – for example, from 3.0% to 2.8% in 2021 and from 3.1% to 3.0% in 2022.

Average earnings growth adjusted for inflation – real earnings – are forecast to "remain subdued, averaging just 0.7% a year" over the next five years.⁴

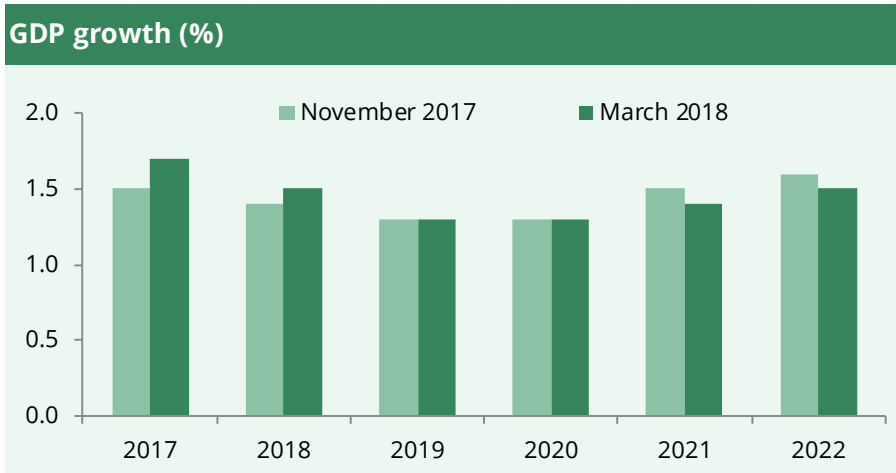
¹ OBR, [Economic and fiscal outlook – March 2018](#), table 3.10

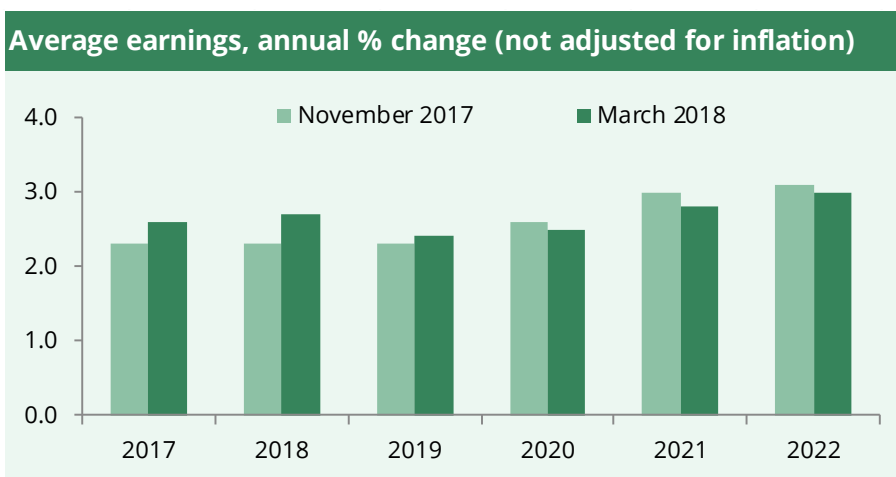
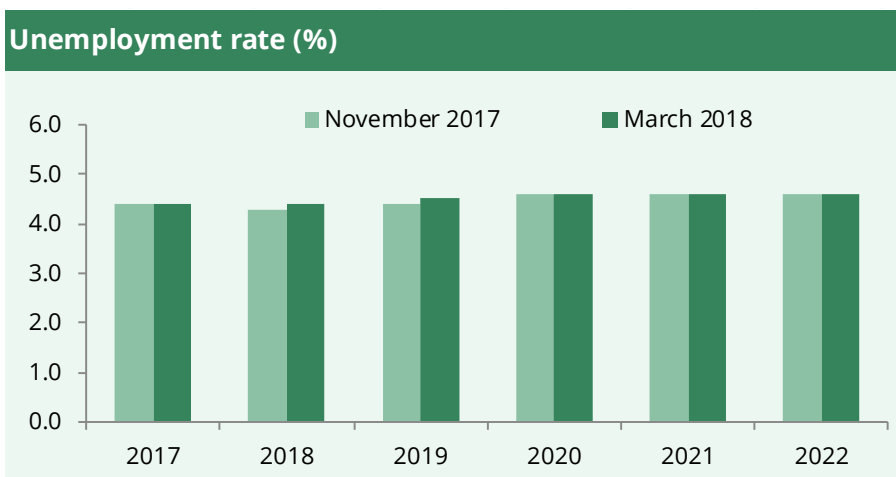
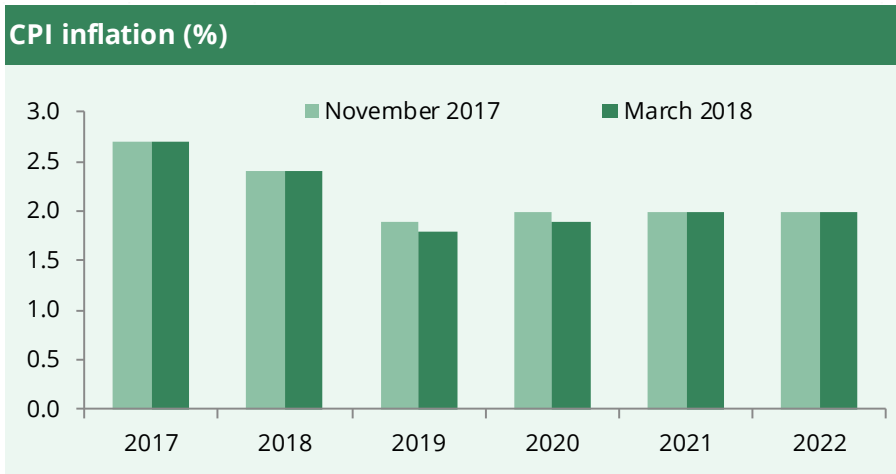
² For background see Library Briefing Paper, [Autumn Budget 2017: A summary](#)

³ Bank of England, [Inflation Report: February 2018](#)

⁴ OBR, [Economic and fiscal outlook – March 2018](#), p9, para 1.22

OBR forecasts: economy						
	2017	2018	2019	2020	2021	2022
GDP growth (%)						
November 2017	1.5	1.4	1.3	1.3	1.5	1.6
March 2018	1.7	1.5	1.3	1.3	1.4	1.5
Productivity growth (%)						
November 2017	0.0	0.9	1.0	1.2	1.3	1.3
March 2018	0.6	0.8	0.9	1.0	1.1	1.2
CPI inflation (%)						
November 2017	2.7	2.4	1.9	2.0	2.0	2.0
March 2018	2.7	2.4	1.8	1.9	2.0	2.0
ILO unemployment rate, %						
November 2017	4.4	4.3	4.4	4.6	4.6	4.6
March 2018	4.4	4.4	4.5	4.6	4.6	4.6
Average earnings, % change on previous year						
November 2017	2.3	2.3	2.3	2.6	3.0	3.1
March 2018	2.6	2.7	2.4	2.5	2.8	3.0





2. OBR forecasts for the public finances

The OBR also published new public finance forecasts.

A little less borrowing forecast in all years

Better than expected tax revenues have led to the OBR lowering its forecasts for public sector borrowing in 2017/18. The majority of the improvement comes from strong self-assessment income tax, PAYE, and National Insurance contributions.

The OBR puts the recent unexpected strength in tax receipts down to temporary factors, which are unlikely to persist in future years of the forecast.

The OBR forecast that borrowing will be £3.2 billion lower a year on average from 2018/19 onwards. Again, this largely comes as a result of an improved receipts forecast.

Debt forecasts lower

The OBR forecasts the debt-to-GDP ratio to be around 1% of GDP lower in all years of the forecast, compared with its November 2017 forecast. Some of this revision is a result of the OBR expecting GDP to be higher in all years, while some is due to the forecast cash level of debt being lower.

The path of the debt-to-GDP ratio is forecast to be the same as in November 2017 – that is, falling in each year of the forecast period after 2017/18.

Fiscal targets forecast to be met...

The OBR believes the Government is on course to meet its targets covering public sector borrowing, debt and welfare spending. The Government's headroom – the difference between the OBR's forecast and the Government's target – is little changed for the borrowing target.

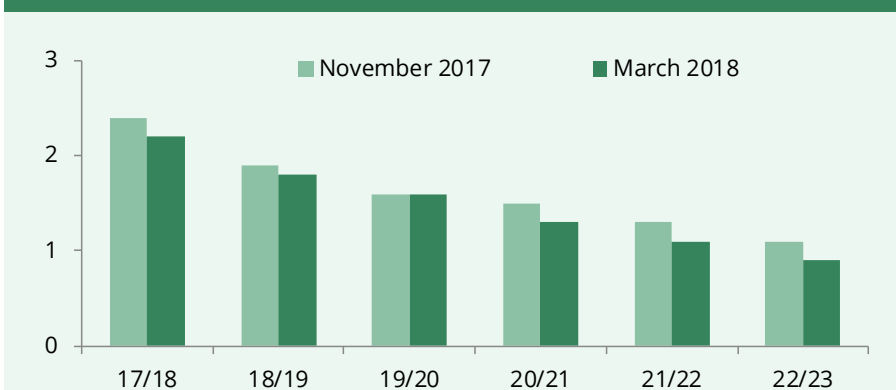
...but the overall objective looks challenging

The OBR believes that the Government's overall objective for the public finances of a balanced budget – interpreted as applying to 2025/26 – looks challenging.⁵

⁵ For more on the Government's targets see the Library briefing [The Office for Budget Responsibility and Charter for Budget Responsibility](#)

OBR forecasts: public finances

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Net borrowing, £ billion						
November 2017	49.9	39.5	34.7	32.8	30.1	25.6
March 2018	45.2	37.1	33.9	28.7	26.0	21.4
Net borrowing, % of GDP						
November 2017	2.4	1.9	1.6	1.5	1.3	1.1
March 2018	2.2	1.8	1.6	1.3	1.1	0.9
Cyclically adjusted net borrowing, % of GDP						
November 2017	2.3	1.8	1.5	1.3	1.2	1.1
March 2018	2.3	1.9	1.6	1.3	1.1	0.9
Net debt, £ billion						
November 2017	1,791	1,840	1,885	1,879	1,853	1,909
March 2018	1,783	1,835	1,880	1,868	1,841	1,893
Net debt, % of GDP						
November 2017	86.5	86.4	86.1	83.1	79.3	79.1
March 2018	85.6	85.5	85.1	82.1	78.3	77.9

Public sector net borrowing, % of GDP**Public sector net debt, % of GDP**

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