



## BRIEFING PAPER

Number CBP-8524, 13 March 2019

# Spring Statement 2019: A summary

By Matthew Keep  
Daniel Harari

### Contents:

1. Spring Statement 2019 at a glance
2. OBR forecasts for the economy
3. OBR forecasts for the public finances



# Contents

<b>1. Spring Statement 2019 at a glance</b>	<b>3</b>
<b>2. OBR forecasts for the economy</b>	<b>5</b>
<b>3. OBR forecasts for the public finances</b>	<b>8</b>

Contributing Authors: Matthew Keep, summary  
Daniel Harari, forecasts  
Chris Rhodes, infrastructure review

# 1. Spring Statement 2019 at a glance

The Chancellor of the Exchequer gave his [Spring Statement 2019](#) to Parliament on 13 March and published a [Written Ministerial Statement](#) with further details. Once the Chancellor finished his speech the Office for Budget Responsibility (OBR) published updated forecasts in its [Economic and Fiscal Outlook](#).

## **Brexit**

The Spring Statement was delivered at a time when Parliament's focus was on the UK's exit from the EU. On the previous evening, the Government lost its second 'meaningful vote' on the withdrawal deal. Somewhat unsurprisingly, in his speech the Chancellor regularly referred to the benefits of leaving the EU with a withdrawal deal.

The Chancellor spoke about the relative downsides of leaving without a deal highlighting the potential for "significant disruption in the short- and medium-term and a smaller, less prosperous economy in the long-term, than if we leave with a Deal". He also said that, following a no deal departure, the Government would have to act with caution if it felt that the economy needing stimulating, in case such a response simply leads to inflation.

The Chancellor returned to a theme he has previously discussed: the Deal Dividend. If the UK leaves the EU with a deal including a transition to a future economic partnership, it is the view of the Chancellor that the UK will receive a Deal Dividend, "an economic boost from recovery in business confidence and investment" and a boost for the public finances with the Chancellor feeling freer to increase spending or reduce taxes once "the risk of a 'no deal' exit is removed". The Library's [background briefing](#) to Spring Statement 2019 discusses the 'Deal Dividend' further.

## **Spending Review 2019**

The Chancellor announced some details about Spending Review 2019 which depend on a Brexit deal being "agreed over the next few weeks".

The Spending Review process – in which spending plans will be set for Government departments – will begin before Parliament's summer recess and will cover a three-year period. The results of the review will be reported at Autumn Budget 2019.

## **Policy announcements**

The Chancellor made more policy announcements than expected, including:

- £260 million for a [borderlands growth deal](#) covering the border regions of England and Scotland.
- guaranteeing up to £3 billion of borrowing by housing associations in England to support delivery of around 30,000 affordable homes through the Affordable Homes Guarantee Scheme.
- £80 million of [new funding will be provided to police forces](#) in England in 2019/20, to tackle serious violence and knife crime. £20 million of Home Office spending will also be reprioritised to the issue.
- Professor Arindrajit Dube will undertake a [review on the latest international evidence on the impacts of minimum wages](#) to inform the Low Pay Commission's future remit for the minimum wage.
- announcing a start date of April 2019 [for reforms](#) that the Chancellor announced in Autumn Budget 2018 affecting businesses taking on apprentices. Non-levy paying employers will see the rate that they pay cut by a half from 10% to 5%. Levy-paying

## 4 Spring Statement 2019: A summary

employers will be able to share more levy funds across their supply chains, with the maximum amount rising from 10% to 25%.

- beginning from June, paper landing cards will begin to be abolished. Citizens of the USA and a selection of other countries will be able to use e-gates at UK airports and Eurostar terminals.
- exempting PhD-level occupations from the cap on high-skilled visas from this autumn.
- developing a national scheme in England to provide free sanitary products to girls in secondary schools.
- setting out steps to reduce UK carbon emissions, including:
  - Professor Sir Partha Dasgupta will lead a review to assess the economic value of biodiversity. The review will identify actions that will enhance biodiversity and economic prosperity
  - A Future Homes Standard to be introduced by 2025 so that new build homes are have low carbon heating and are energy efficient.
  - The government will consult on decarbonising the UK's gas supplies
  - The government is seeking views on proposals for a new [Business Energy Efficiency Scheme](#) focused on small and medium enterprises (SMEs)

### **Government consultations and other publications**

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

- [Infrastructure Finance Review](#) – seeks to find solutions to challenges regarding attracting new funding, and the governance of infrastructure finance. The specific challenges include:
  - The end of UK access to finance from the European Investment Bank after Brexit
  - The end of the Private Finance Initiative (PFI) and its successor PF2 as ways of financing new infrastructure projects
  - Funding new infrastructure to facilitate technology such as electric cars (requiring charging infrastructure) and broadband
  - Funding infrastructure to meet the government's commitments to balanced growth across the UK and a low carbon economy
- [Strengthening the UK's offshore oil and gas decommissioning industry](#) – a call for evidence to identify what more should be done to further strengthen Scotland and the UK's position as a global hub for decommissioning.

A [report on unlocking digital competition](#) has been published by the Digital Competition Expert Panel, with proposals to boost competition and innovation for the benefit of consumers and businesses. Following this, [the Chancellor has asked](#) the Competition and Markets Authority to carry out a market study of the digital advertising market.

## 2. OBR forecasts for the economy

The Office for Budget Responsibility (OBR) published a new set of forecasts to which the Chancellor's Spring Statement responded. The OBR's previous set of forecasts were from October 2018.

### Brexit is the elephant in the room

All OBR forecasts assume that the UK leaves the EU on an orderly basis, including a transition period to the end of 2020 and then a smooth shift to a new long-term UK-EU relationship (which is not yet defined).<sup>1</sup> The OBR stated that alternative outcomes, including a disorderly 'no deal' exit, remain the biggest short-term risk to the forecast.<sup>2</sup>

### GDP growth forecasts for 2019 were lowered...

The OBR revised down its forecast for GDP growth in 2019 from 1.6% to 1.2%, a result of growth weakening at the end of 2018 which is thought to have continued into early 2019. This was due to a slowing world economy and declining business investment in the UK (itself linked to Brexit uncertainty).<sup>3</sup>

The OBR stated that the weakness seen in business investment at the end of last year was expected to "continue to weigh on business investment" in the near term.<sup>4</sup> Over time, the OBR believes a modest boost from investment to GDP growth could be expected in future years if Brexit uncertainty dissipates.<sup>5</sup> A weaker global economy is expected to lead to UK export growth being weaker than previously thought, acting as a drag on growth.<sup>6</sup>

### ...but were raised slightly in 2021 and 2022

The GDP growth forecast for 2020 was left unchanged at 1.4%, while forecasts for later in the five-year forecast period were raised slightly: from 1.4% to 1.6% in 2021 and from 1.5% to 1.6% in 2022, with 2023 unchanged at 1.6%. The OBR's overall average annual GDP growth forecast of 1.5% for 2019-2023 was the same as at the time of the Budget in October.

The OBR revised up its forecasts for average earnings growth, most notably for 2019. It now expects average earnings – *not* adjusted for inflation – to increase by 3.1% in 2019 compared with 2.5% in its previous October forecast. The OBR pointed to earnings growth being stronger in recent months than it had expected and forecast this "momentum" to be "maintained".<sup>7</sup>

---

<sup>1</sup> Further detail on the OBR's approach is available from the Library briefing paper [Spring Statement 2019: Background briefing](#) and in the OBR report

<sup>2</sup> OBR, [March 2019 Economic and fiscal outlook – press notice](#) [PDF]

<sup>3</sup> For more see the section on the current economic situation in the Library briefing paper, [Spring Statement 2019: Background briefing](#)

<sup>4</sup> OBR, [Economic and fiscal outlook – March 2019](#), 13 March 2019, p41, para 3.41

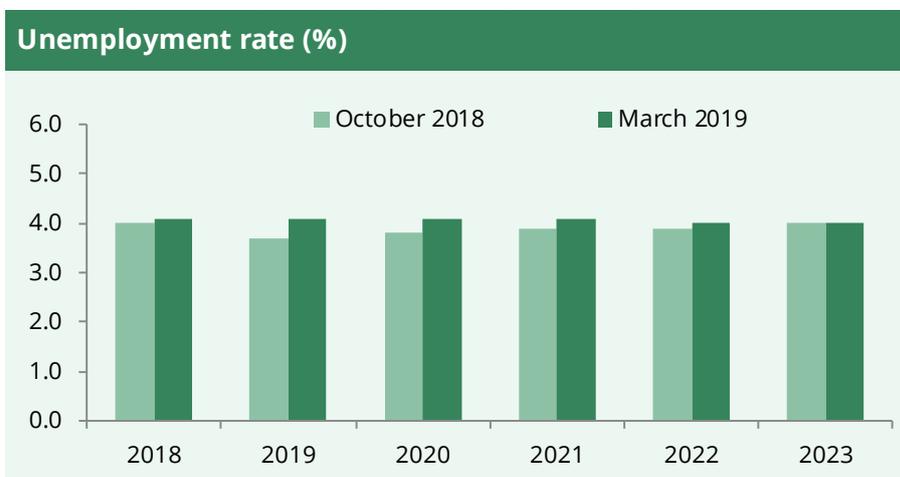
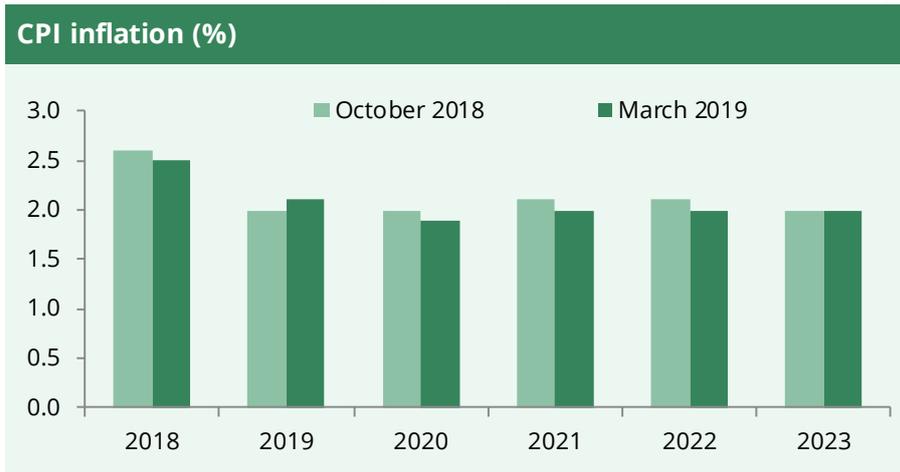
<sup>5</sup> OBR, [Economic and fiscal outlook – March 2019](#), 13 March 2019, p41, para 3.42

<sup>6</sup> OBR, [Economic and fiscal outlook – March 2019](#), 13 March 2019, p41, para 3.42

<sup>7</sup> OBR, [Economic and fiscal outlook – March 2019](#), 13 March 2019, p48, para 3.58

<b>OBR forecasts: economy</b>						
	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>GDP growth (%)</b>						
October 2018	1.3	1.6	1.4	1.4	1.5	1.6
March 2019	1.4	1.2	1.4	1.6	1.6	1.6
<b>Productivity growth (%)</b>						
October 2018	0.8	0.8	0.9	1.0	1.1	1.2
March 2019	0.5	0.8	0.9	1.1	1.2	1.3
<b>CPI inflation (%)</b>						
October 2018	2.6	2.0	2.0	2.1	2.1	2.0
March 2019	2.5	2.1	1.9	2.0	2.0	2.0
<b>ILO unemployment rate, %</b>						
October 2018	4.0	3.7	3.8	3.9	3.9	4.0
March 2019	4.1	4.1	4.1	4.1	4.0	4.0
<b>Average earnings, % change on previous year</b>						
October 2018	2.6	2.5	2.8	3.0	3.1	3.2
March 2019	3.0	3.1	3.0	3.1	3.1	3.3





## 3. OBR forecasts for the public finances

The OBR published new public finance forecasts alongside the Spring Statement.

As discussed previously, the forecasts have been produced at a time of particular uncertainty, largely as a result of the Brexit process. The OBR's forecasts assume that the UK leaves the EU in an orderly manner with a transition to a new long-term relationship.

### A little less borrowing forecast in all years...

The OBR forecasts that the Government will borrow £22.8 billion this year. By 2023/24, they expect borrowing to fall to £13.5 billion. Lower borrowing is forecast in every year of the five-year forecast period, compared with the OBR's previous forecast (October 2018).

The improvement in the borrowing forecast is a result of revisions to the OBR's underlying forecast, which take into account the latest data for the economy and public finances. The revisions decrease borrowing by around £6 billion a year on average, while Government decisions taken since October 2018 increase borrowing by around £1 billion a year.

The revisions to the OBR's underlying forecast were largely a result of higher income tax receipts and lower spending on debt interest.

### ...but a coming accounting change could have a significant impact

The Office for National Statistics (ONS) is changing the way it accounts for student loans. The accounting change, which is expected to be in force by September, aims to ensure that the treatment of the loans better reflects how they work in practice and is likely to have a relatively significant impact on borrowing figures in the short- to medium-term.

The OBR have estimated that the change could result in borrowing being £10.5 billion higher in 2018/19, rising to £13.7 billion higher in 2023/24.<sup>8</sup>

It is important to say that nothing real has changed to the way the loans work. This is all about how the loans are accounted for in Government borrowing – the change ensures that the losses expected on the loans are recognised when they are issued, rather than in 30 years' time when they are written off. The change has no direct impact on government debt.

The Library Insight [Student loans: ONS changes accounting rules](#) has more on the change.

---

<sup>8</sup> OBR. Economic and fiscal outlook – March 2019, [para B.21](#)

## Lower forecasts for government debt

The OBR forecasts that the debt-to-GDP ratio will be 83.3% at the end of 2018/19. It expects the ratio to fall each year and forecast that debt will be equivalent to 73.0% of GDP in 2023/24.

The OBR's forecast for the debt-to-GDP ratio is lower in all years than was forecast in October 2018. The improvement is largely a result of lower forecasted borrowing over the period. Nominal GDP is also forecast to be a little larger, compared with the previous forecast, which reduces the debt-to-GDP ratio slightly from 2020/21 onwards.

## Fiscal targets forecast to be met

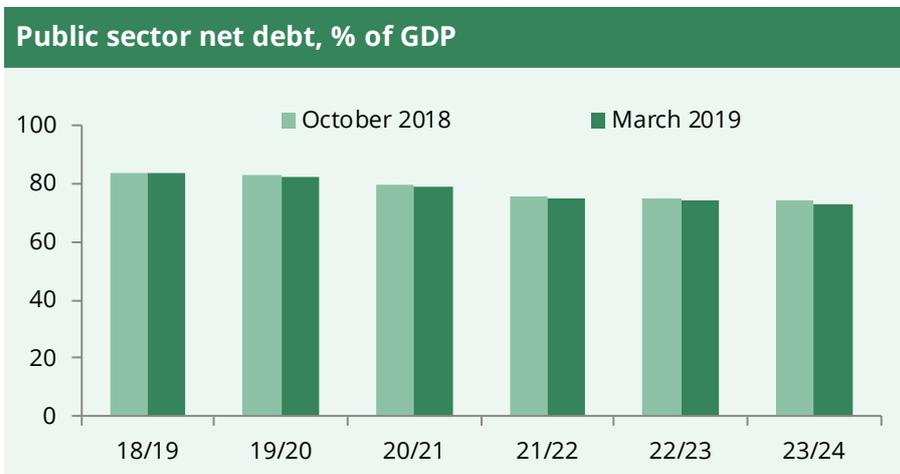
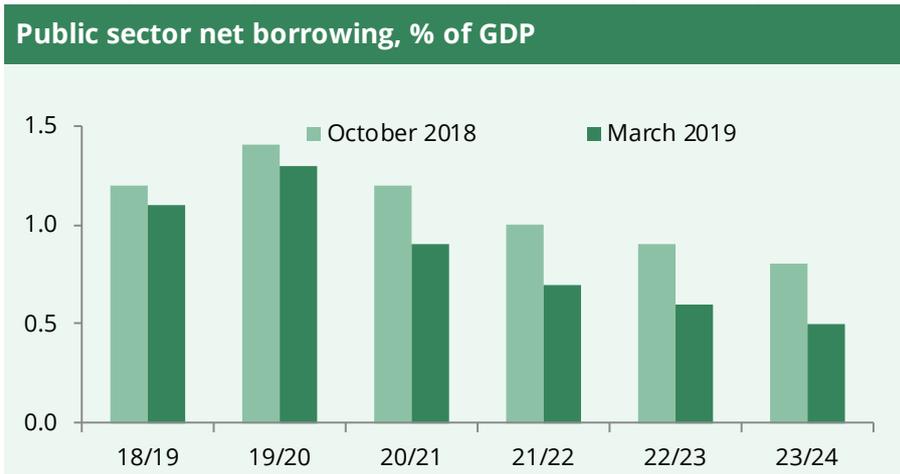
The OBR believes the Government is on course to meet its targets covering public sector borrowing, debt and welfare spending.<sup>9</sup>

The OBR says that meeting the Government's overall objective for the public finances – reaching a budget surplus by the middle of the 2020s – appears challenging.<sup>10</sup>

<b>OBR forecasts: public finances</b>						
	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
<b>Net borrowing, £ billion</b>						
October 2018	25.5	31.8	26.7	23.8	20.8	19.8
March 2019	22.8	29.3	21.2	17.6	14.4	13.5
<b>Net borrowing, % of GDP</b>						
October 2018	1.2	1.4	1.2	1.0	0.9	0.8
March 2019	1.1	1.3	0.9	0.7	0.6	0.5
<b>Cyclically adjusted net borrowing, % of GDP</b>						
October 2018	1.3	1.6	1.3	1.1	0.9	0.8
March 2019	1.2	1.3	0.8	0.7	0.6	0.5
<b>Net debt, £ billion</b>						
October 2018	1,810	1,851	1,841	1,809	1,856	1,896
March 2019	1,803	1,838	1,828	1,796	1,838	1,878
<b>Net debt, % of GDP</b>						
October 2018	83.7	82.8	79.7	75.7	75.0	74.1
March 2019	83.3	82.2	79.0	74.9	74.0	73.0

<sup>9</sup> For more on the Government's targets see the Library briefing [The Office for Budget Responsibility and Charter for Budget Responsibility](#)

<sup>10</sup> OBR, *Economic and fiscal outlook – March 2019*, [para 5.22](#)



### About the Library

The House of Commons Library research service provides MPs and their staff with the impartial briefing and evidence base they need to do their work in scrutinising Government, proposing legislation, and supporting constituents.

As well as providing MPs with a confidential service we publish open briefing papers, which are available on the Parliament website.

Every effort is made to ensure that the information contained in these publicly available research briefings is correct at the time of publication. Readers should be aware however that briefings are not necessarily updated or otherwise amended to reflect subsequent changes.

If you have any comments on our briefings please email [papers@parliament.uk](mailto:papers@parliament.uk). Authors are available to discuss the content of this briefing only with Members and their staff.

If you have any general questions about the work of the House of Commons you can email [hcenquiries@parliament.uk](mailto:hcenquiries@parliament.uk).

### Disclaimer

This information is provided to Members of Parliament in support of their parliamentary duties. It is a general briefing only and should not be relied on as a substitute for specific advice. The House of Commons or the author(s) shall not be liable for any errors or omissions, or for any loss or damage of any kind arising from its use, and may remove, vary or amend any information at any time without prior notice.

The House of Commons accepts no responsibility for any references or links to, or the content of, information maintained by third parties. This information is provided subject to the [conditions of the Open Parliament Licence](#).