House of Commons Library

Research Briefing

By Matthew Keep,
Daniel Harari,
Lorna Booth

23 March 2022

Spring Statement 2022: A summary

Contents

Introduction

The Chancellor of the Exchequer gave his Spring Statement 2022 to Parliament on 23 March and published documents with further details, including a tax plan. Once the Chancellor finished his statement the Office for Budget Responsibility (OBR) published updated forecasts in its Economic and Fiscal Outlook.

The Spring Statement is supposed to be a fairly light touch affair in which the Chancellor only makes significant tax or spending announcements where "economic circumstances require it". However, the Chancellor did make announcements, including on personal taxes and fuel duty.

Inflation is high and rising

The Spring Statement was delivered in the context of rising inflation. Rising prices are squeezing household budgets, as energy, road fuel, food shopping and other items are becoming more expensive. Russia's invasion of Ukraine is likely to exacerbate the issue, forcing UK inflation higher for longer. The OBR now expect inflation to peak at close to 8.7% in Q4 2022, 4.3%-points higher and two quarters later than the peak in its October 2021 forecast.

Increased inflation has also meant that:

- previously announced tax changes – the freezing of the income tax personal allowance and higher rate threshold – are raising more money than previously expected,
- debt interest payments and welfare spending (from 2023/24, via benefits uprating and the pension triple-lock) are increasing,
- the real (inflation-adjusted) value of government budgets will be smaller. The Institute for Fiscal Studies estimate over the next three years day-to-day public service spending will grow by 2.9% per year in real terms, rather than the 3.3% per year planned in the 2021 Spending Review.

Supporting households

As discussed in section 3.4 of the Library briefing Background to Spring Statement 2022, there were many calls for further action to support household incomes. While the Chancellor announced changes to national insurance contribution thresholds, future income tax rates and fuel duty, he did not take up suggestions such as increasing benefits which will rise by much less than inflation in April 2022; or delaying or cancelling the 1.25%-point rise in national insurance contribution rates that is due to start in April.

1 Policy announcements

Announced changes to taxes and spending include:

- An increase to the level of earnings at which people start paying **National Insurance contributions** (NICs) from £9,880 to £12,570 in July 2022. The rise aligns the NICs thresholds (the primary threshold and lower profits limit) with the point at which people begin paying income tax on their income (the income tax personal allowance). The NICs thresholds and personal allowance will both then be unchanged until April 2026. They would normally be increased by inflation each year.

- Reducing **Class 2 NICs** to zero for the self-employed with profits between the small profits threshold (currently £6,515) and the lower profits limit (currently £9,568), from April 2022. Currently, Class 2 NICs are paid at a flat rate of £3.05 if you have self-employed profits of £6,515 or more.

- A temporary 12-month reduction of 5p per litre on **fuel duty,** starting from 6pm on the day of the statement.

- A decrease, in April 2024, to the basic rate of **income tax** from 20% to 19%.

- An increase in the **employment allowance** (which allows employers to reduce their NICs payments up to a certain amount) from £4,000 to £5,000, from April.

- Reducing **the rate of VAT on energy saving materials** (such as solar panels) from 5% to 0%, for five years from April 2022. Wind turbines and water turbines will be added to the list of energy savings materials.

- £500 million for the **Household Support Fund** in 2022/23. This allocation extends the fund, which received an initial allocation of £500 million for the period 6 October 2021 to 31 March 2022. The fund is used to support vulnerable households meet daily needs such as food, clothing and utilities. It is distributed by councils in England.

- **HMRC and DWP received additional funding** to collect tax, prevent and detect fraud and error, and collect debt.

2 OBR forecasts

The Office for Budget Responsibility (OBR) published new forecasts for the economy and public finances on 23 March 2022.[1] The OBR's previous forecasts were published in October 2021.[2] This section summarises the new forecasts for key indicators of the economy and the public finances.

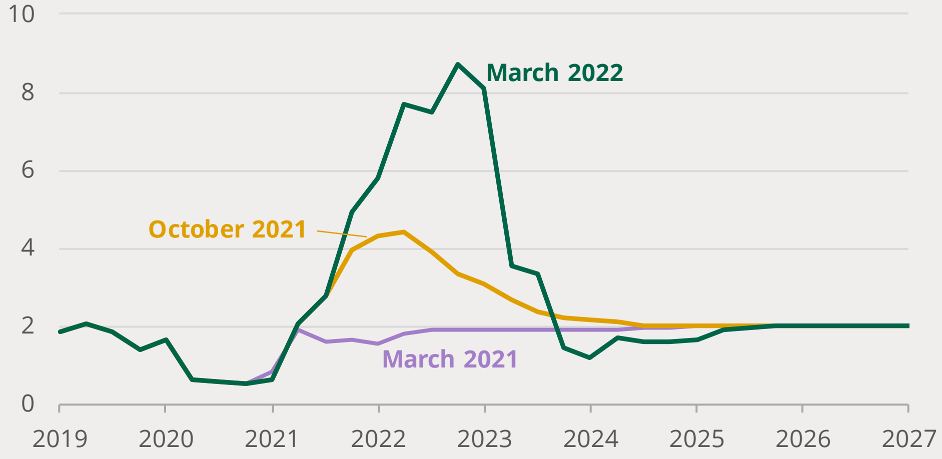
2.1 Economy

Inflation and Ukraine conflict

- The recent sharp increase in prices have resulted in inflation reaching a 30-year high of 6.2% in February 2022, based on the CPI measure of consumer prices. The conflict in Ukraine has led to even greater inflationary pressures in the world economy, as Russia and Ukraine are large producers of various products.[3] For the UK, the OBR notes most of the impact from the conflict will be felt via energy prices.
- The OBR now expects CPI inflation to peak at 8.7% in Q4 2022 and be above 7% in each quarter from Q2 2022 to Q1 2023. This is much higher than the peak of 4.4% forecast in October 2021.

OBR forecasts for inflation

%, annual change in CPI, comparison of quarterly OBR forecasts



1 OBR, Economic and fiscal outlook – March 2022, 23 March 2022.

2 OBR, Economic and fiscal outlook – October 2021, 27 October 2021

3 For more see section 2.2 of Library briefing, Background to Spring Statement 2022

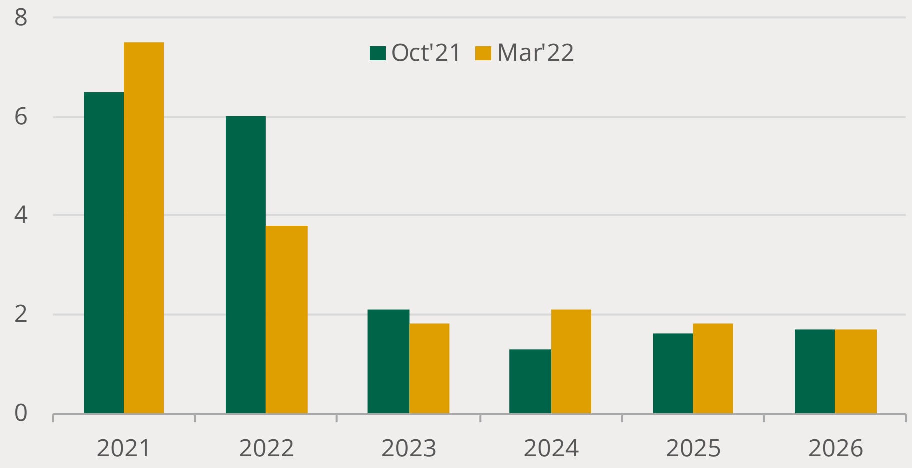
- The OBR's forecasts assume a further 40% increase in the household energy price cap in October 2022 but does not include possible effects from the conflict in Ukraine on other commodity prices, such as food.[4]
- Using market expectations of wholesale gas prices, the OBR then expects a large fall in utility bills in 2023, resulting in inflation easing below the Bank of England's 2% target by late 2023 and into 2024.

GDP

- The OBR lowered its forecast for GDP growth in 2022, from 6.0% to 3.8%. This is largely due to higher inflation squeezing household budgets and, in turn, weaker consumer spending growth.
- This effect carries over into 2023, with growth forecasts cut from 2.1% to 1.8%. In 2024, the forecast reduction in the inflation rate provides a boost to economic activity with GDP growth recovering to 2.1% (up from 1.3%).

OBR forecasts for GDP growth

Annual % change, comparison of OBR forecasts from Oct'21 and Mar'22



- The OBR stressed the "significant uncertainty" surrounding its forecasts. It notes, based on running statistical simulations, there is around a one in five chance that GDP will fall in 2022 or 2023, with a similar probability that it will be above 5.5%.[5]

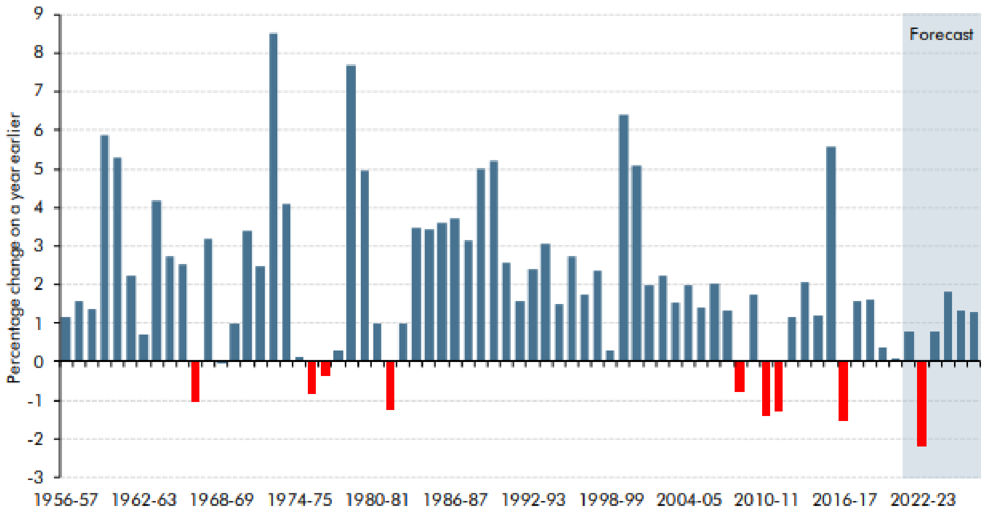
Household incomes

- The OBR expects rising inflation to be above earnings growth over the next year or so. In addition, despite the policy measures announced in the Spring Statement, there will be a net increase in taxes across the economy starting in April. As a result, the OBR forecasts household post-

[4] OBR, Economic and fiscal outlook – March 2022, 23 March 2022, Box 2.2 and para 2.24
[5] OBR, Economic and fiscal outlook – March 2022, 23 March 2022, para 2.35

tax incomes adjusted for inflation to fall in financial year 2022/23 by the largest amount (-2.2%) since records began in the mid-1950s.[6]

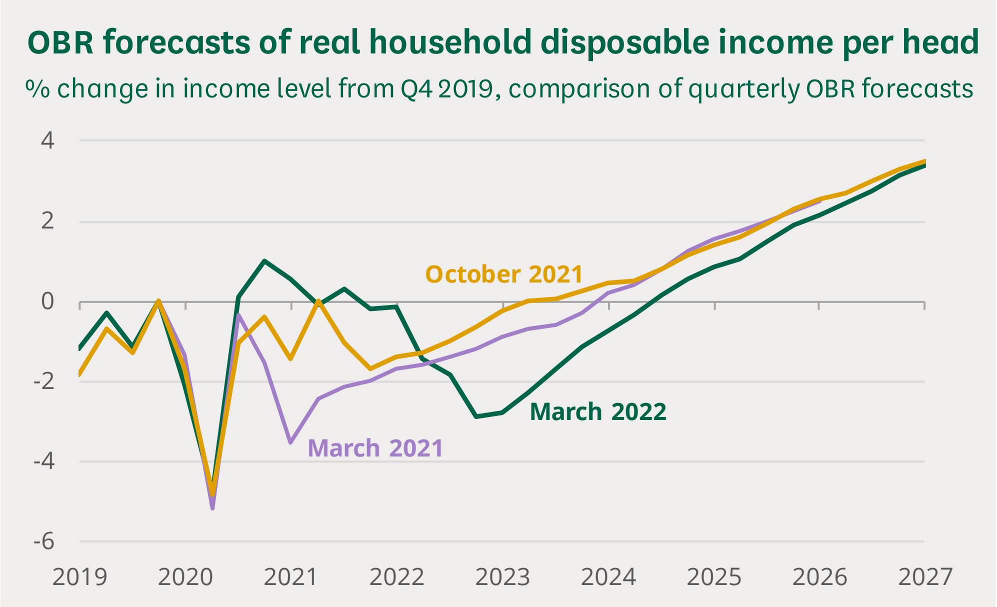
Chart 1.3: Change in real household disposable income per person



Source: ONS, OBR

Note: Chart taken from OBR, Economic and fiscal outlook – March 2022, p9

- On this same measure, the OBR now expects household post-tax incomes adjusted for inflation to start falling in Q2 2022. The OBR does not forecast them to recover to the same level as early 2022 until Q3 2024.



- The policy measures announced by the Chancellor since October, including the £9 billion package of support to help with energy bills and the Spring Statement, are expected by the OBR to "offset a third of the

6 On a calendar year basis, the forecast 1.7% fall in 2022 is the largest decline since 2011

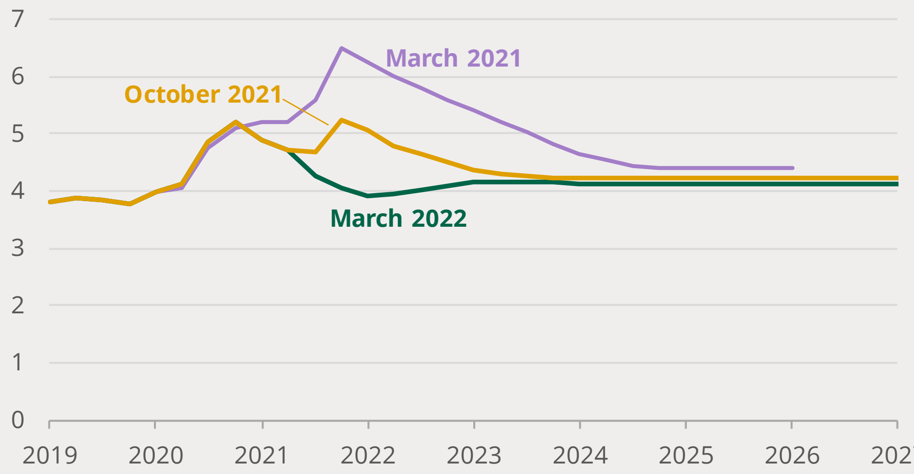
overall fall in living standards" that would have occurred in the coming 12 months.[7]

Unemployment

- The OBR lowered its forecasts for the unemployment rate, reflecting better-than-expected data following the end of the furlough scheme in September 2021. The unemployment rate is expected to remain around 4% in coming years.

OBR forecasts for the unemployment rate

%, comparison of OBR quarterly forecasts



- In contrast, the OBR observed that employment is still down 450,000 on pre-pandemic levels. The OBR now expects the size of the labour force to be smaller than it had assumed before the pandemic, partly due to smaller-than-expected population growth and partly due to higher numbers of working-age people not looking for work.

Long-term impact of Covid-19 pandemic and Brexit

- Estimates of the long-term sustained economic damage caused by the pandemic have been left unchanged. The OBR expects the pandemic to have resulted in GDP being 2% lower compared with the pre-pandemic GDP trajectory.[8]

- The OBR left unchanged its assumption that Brexit would lead to the UK economy being 4% smaller in the long-term compared to if the UK had voted to remain in the EU. The OBR noted in recent years the UK, "appears to have become a less trade intensive economy", in contrast with other G7 economies.[9]

---

7 OBR, Economic and fiscal outlook – March 2022, 23 March 2022, para 1.13
8 OBR, Economic and fiscal outlook – March 2022, 23 March 2022, Box 2.6, pp62-64
9 OBR, Economic and fiscal outlook – March 2022, 23 March 2022, Annex C

Summary table

OBR forecasts: economy

	2020	2021	2022	2023	2024	2025	2026
GDP growth, %							
October 2021	-9.8	6.5	6.0	2.1	1.3	1.6	1.7
March 2022	-9.4	7.5	3.8	1.8	2.1	1.8	1.7
GDP level, 2020=100							
October 2021	100.0	106.5	112.8	115.2	116.7	118.6	120.6
March 2022	100.0	107.5	111.5	113.5	115.9	118.0	119.9
Business investment growth, %							
October 2021	-10.2	-2.4	15.7	4.7	-0.8	4.8	5.8
March 2022	-11.4	-0.7	10.6	5.6	3.6	5.4	4.5
ILO unemployment rate, annual ave (%)							
October 2021	4.6	4.9	4.8	4.3	4.2	4.2	4.2
March 2022	4.6	4.5	4.0	4.2	4.1	4.1	4.1
CPI annual inflation, %							
October 2021	0.9	2.3	4.0	2.6	2.1	2.0	2.0
March 2022	0.9	2.6	7.4	4.0	1.5	1.9	2.0
Productivity growth, %							
October 2021	0.6	0.5	0.9	1.3	1.3	1.3	1.4
March 2022	1.3	1.2	-0.2	1.0	1.6	1.3	1.3
Average earnings, % change on previous year							
October 2021	1.2	5.0	3.9	3.0	2.2	2.9	3.5
March 2022	1.8	6.2	5.3	2.8	2.6	2.9	3.2
Real household disposable income per head, % change on previous year							
October 2021	-1.0	1.0	0.0	1.1	0.7	1.1	1.1
March 2022	-0.8	1.6	-1.7	-0.4	1.9	1.4	1.3

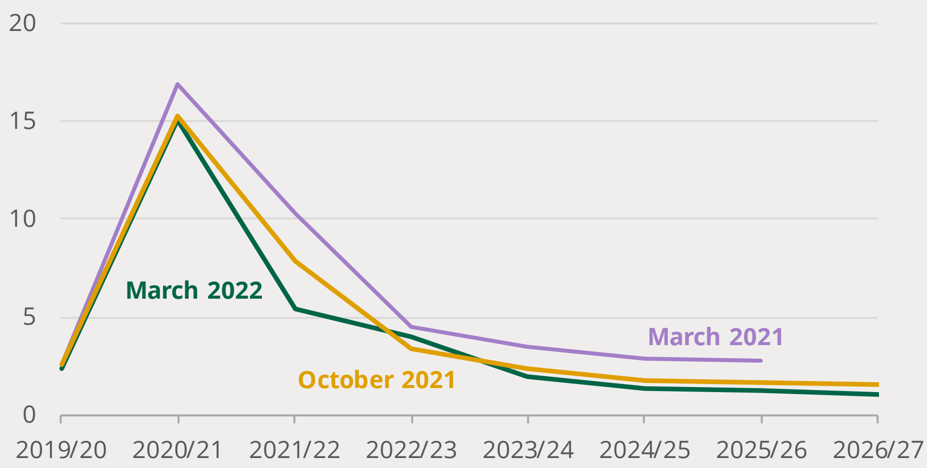
2.2 Public finances

Government Borrowing

- Forecasts for government borrowing – the budget deficit – have been lowered in all but one of the five years in the OBR's forecast.
- The OBR now expect more tax-rich economic activity,[10] which boosts government tax revenues. Student loan reforms – announced earlier in March – also lower borrowing. These improvements to borrowing are only partially offset by higher inflation increasing debt interest payments and welfare spending. The effect on welfare kicks in from 2023/24. The Chancellor has used some of the overall improvement to the borrowing forecast to reduce personal taxes.
- 2022/23 is the only year in which borrowing is forecast to be higher, compared with the October 2021 forecast. Energy cost support measures (including some announced in February 2022) and higher debt interest spending are larger than other improvements to underlying borrowing in 2022/23.
- Departments' budgets were set in cash terms in Spending Review 2021. Higher inflation has eroded their real terms value (what departments can actually buy with their budgets) by between £5 billion and £17 billion, depending on the measure of inflation used. In practice these figures may overstate the pressure because the government may be able to hold down pay rises, pay less for goods and grants, and has more in its central reserve.

OBR forecasts for the budget deficit

% of GDP, comparison of OBR forecasts for Public Sector Net Borrowing



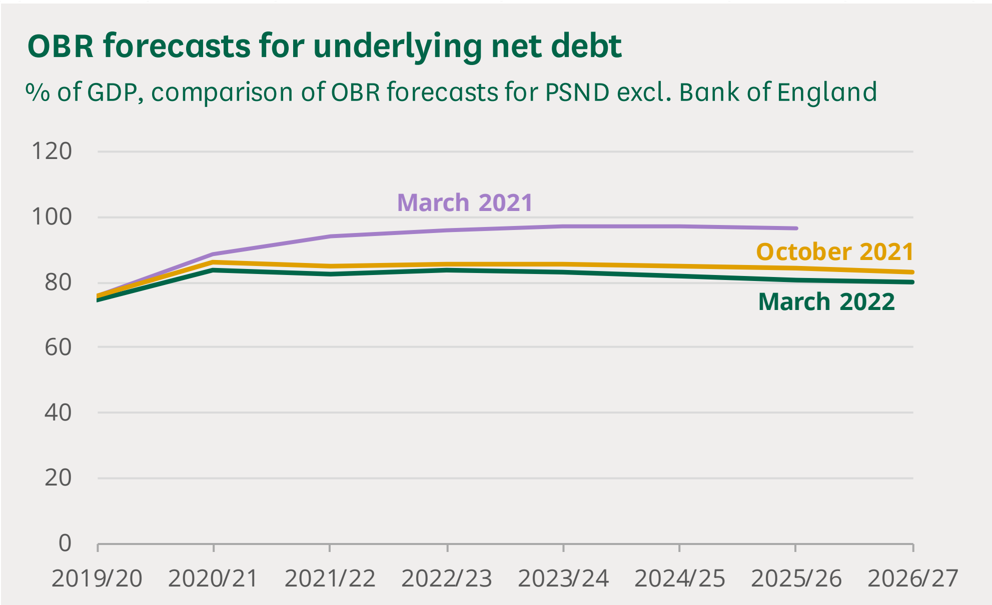
10 Box 3.2 of the OBR's March 2022 economic and fiscal forecast explains further

Government debt

- Significant government borrowing has meant that public sector net debt has increased since the start of the pandemic. As a proportion of the value of annual economic output (GDP), net debt has risen from 83% of GDP in 2019/20 to a forecast 96% of GDP in 2021/22. It is expected to gradually decline, as economic growth outpaces increases in debt. By 2026/27 (the last year for which the OBR provides forecasts), debt is anticipated to fall to 83% of GDP.

- Compared with its October 2021 forecast, the OBR believes the debt-to-GDP ratio will be lower in each year of its forecast. This is because it expects both the cash size of the economy to be larger and the stock of debt to be lower, largely due to lower forecasted government borrowing.

- One of the Chancellor's targets for the public finances (see below) focuses on an underlying measure of the debt-to-GDP ratio. As explained in the Library briefing, The UK's fiscal targets, this underlying measure excludes the Bank of England's debt. The underlying debt-to-GDP ratio is forecast to rise to 83.5% in 2022/23, before declining gradually to 79.8% in 2026/27. Excluding the Bank of England means this measure of underlying debt isn't affected by some temporary policy measures the Bank has taken following the EU referendum and pandemic.



Public finance targets

- In January 2022, the House of Commons approved revised targets for the public finances. The targets, which cover government debt and borrowing, are often referred to as the 'fiscal targets'.

- In its forecast, the OBR judge that both targets for debt and borrowing are being met by a larger margin than in the October forecast.

- The target for government debt is for the underlying debt-to-GDP ratio to be falling by the third year of the OBR's forecast (currently 2024/25). The borrowing target focuses on the current budget. The target is for the current budget to be in balance by the third year of the OBR's forecast (2024/25).
- The debt and borrowing targets are supplemented by two spending caps or limits – one on government's investment spending, the other on welfare. Both spending limits are being met in the OBR's forecast.

Summary table

OBR forecasts: public finances

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Net borrowing (PSNB), £ billion							
October 2021	319.9	183.0	83.0	61.6	46.3	46.4	44.0
March 2022	321.9	127.8	99.1	50.2	36.5	34.8	31.6
Net borrowing (PSNB), % of GDP							
October 2021	15.2	7.9	3.3	2.4	1.7	1.7	1.5
March 2022	15.0	5.4	3.9	1.9	1.3	1.2	1.1
Current budget deficit, % of GDP							
October 2021	11.8	5.3	0.6	-0.5	-0.9	-1.0	-1.1
March 2022	11.7	3.8	1.7	-0.8	-1.2	-1.3	-1.4
Net debt (PSND), £ billion							
October 2021	2,136	2,369	2,479	2,561	2,567	2,546	2,567
March 2022	2,134	2,330	2,453	2,516	2,533	2,469	2,480
Net debt (PSND), % of GDP							
October 2021	96.6	98.2	97.9	97.8	94.7	90.5	88.0
March 2022	94.0	95.6	95.5	94.1	91.2	85.8	83.1
Net debt (PSND) excluding Bank of England, % of GDP							
October 2021	86.1	85.2	85.4	85.7	85.1	84.2	83.3
March 2022	83.9	82.5	83.5	82.9	81.9	80.9	79.8