House of Commons Library

Research Briefing

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17 November 2022

Autumn Statement 2022: A summary

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Contents

1 Introduction

The Chancellor of the Exchequer, Jeremy Hunt, gave his 2022 Autumn Statement to Parliament on 17 November and published documents with further details. Once the Chancellor finished his statement, the Office for Budget Responsibility (OBR) published updated forecasts in its economic and fiscal outlook.

As the Library briefing Background to Autumn Statement 2022 explains, the Autumn Statement followed a turbulent time in UK politics. Significant tax cuts were announced in mid-September which were largely reversed by mid-October. There have been three Chancellors since August 2022 and three Prime Ministers. The Prime Minister, Rishi Sunak, says the UK's international reputation has taken "a bit of a knock" recently.

The OBR forecasts

The Autumn Statement was delivered in the context of weak economic growth, high inflation, and rising interest rates. The OBR forecast that the UK has been in recession since Q3 2022 which will last for just over a year to Q3 2023, with GDP falling by 2.1% over that time.

Economic output (measured by GDP) will not return to its pre-pandemic level until Q4 2024, according to the OBR's forecast.

Household budgets are being squeezed by rising inflation which reached 11.1% in October 2022, the highest rate since October 1981.

The OBR forecasts that high inflation will lead to average living standards – as measured by after-tax real incomes per person – falling by 7% in total over this year and next. This is despite £100 billion of Government support going to households. Living standards on this same measure will still be 1% below the pre-pandemic level in early 2028 (the end point of the OBR's forecasts).

As inflation subsides and real incomes grow again, the economy begins to expand again in 2024, with GDP growth of over 2% forecast in 2025, 2026 and 2027.

The difficult economic outlook is behind many of the decisions taken by the Chancellor. In terms of policy, the Chancellor's focussed on showing that, despite the weaker economic outlook, Government plans for the public finances are credible. He said that "credibility cannot be taken for granted".

Targets for government borrowing and debt

The Chancellor proposed new targets for government borrowing and debt, which currently focus on 2027/28. There targets have been met in the forecast through a combination of spending reductions and tax increases.

Taken together, the measures announced by the Chancellor reduce government borrowing in each year from 2024/25.

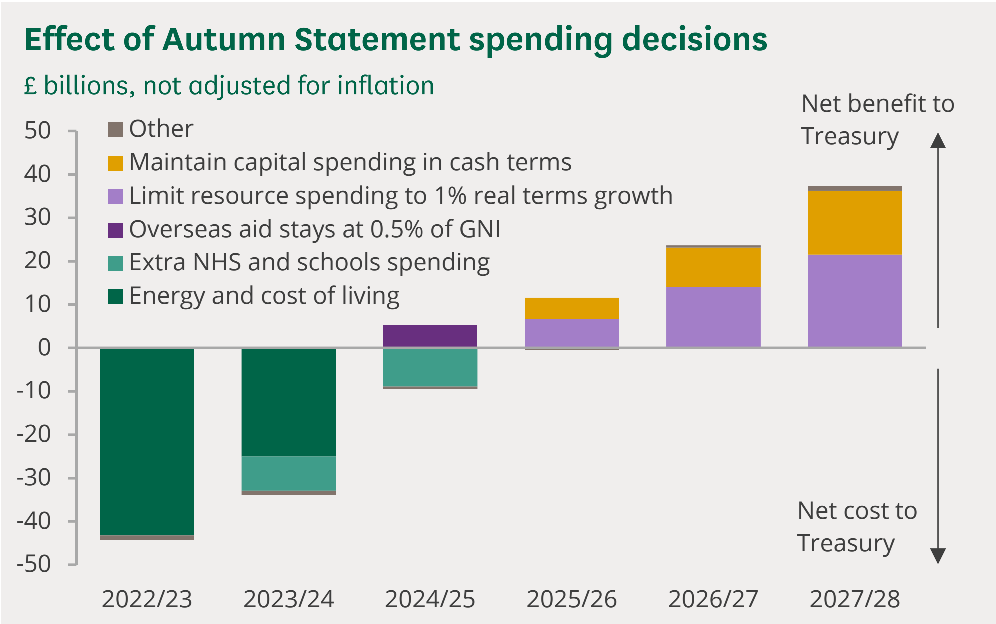
In 2027/28, through a combination of reduced spending (£30 billion) and tax increases (£25 billion), government borrowing is lowered by £55 billion.

2 Public spending trends

The Autumn Statement announced tax and spending measures amounting to a "consolidation" in the public finances of £54.9 billion by 2027/28 to "ensure debt as a share of GDP is on a sustainable path".

Of this total, tax policies accounted for £24.8 billion (45%), with the remaining £30.1 billion (55%) met through spending decisions.[1]

The effects of the main spending decisions are summarised in the chart below.



Source: HM Treasury, Table 5.1 Autumn Statement 2022 Policy Decisions, 17 November 2022

The Government's existing spending plans were set out at the Autumn Budget and Spending Review 2021. These spending limits are for all Government departments to the end of 2024/25. Beyond 2024/25 the Government has not yet set specific plans for each department, although it provides a general idea of its policy to the Office for Budget Responsibility to help it produce forecasts.

1 HM Treasury, Table 5.1 Autumn Statement 2022 Policy Decisions, 17 November 2022

2.1 Decisions affecting the current Spending Review period

Changes to existing spending limits

The Chancellor announced in this Autumn Statement that the limits in the 2021 Spending Review still applied. This means each department can still expect to receive at least the same amount in cash terms that it had been promised in 2023/24 and 2024/25.

Besides support for energy bills and the cost of living, the Chancellor also announced increases for two areas: the NHS and social care will receive an additional £5.1 billion in 2023/24 and £5.9 billion in 2024/25. The core schools budget will be increased by £2.8 billion in each of the next two years.

There will be one spending decrease within the current Spending Review period. At the 2021 Spending Review, the former Chancellor pencilled in a return to spending 0.7% of gross national income on overseas aid in 2024/25, up from the current 0.5%. In this Autumn Statement, the Chancellor announced the conditions to return to 0.7% would now not be met in that year (or indeed in any year in the five-year forecast period), freeing up £5.2 billion which will no longer go to the aid budget.

Higher inflation reduces spending power

The Chancellor said he would maintain departmental spending limits in cash terms rather than real terms. This means that inflation – which is now rather higher than anticipated when spending limits were set in autumn 2021 – has already reduced the effective spending power of departmental budgets.

Using the inflation forecasts available in 2021, it was expected that the £458.6 billion planned for overall departmental spending in 2024/25 would be worth about £440 billion in 2022/23 prices. [2] The new inflation forecasts reduce this to about £438 billion. This means the increase in inflation over the past year has already taken about £2 billion off real terms departmental spending in 2024/25.

Higher inflation has also resulted in increased pay settlements in the public sector. The Institute for Fiscal Studies has highlighted this means some departments are having to spend more to deliver public services (an increase of around £5 billion this year alone) without any extra cash from central Government.[3]

2 Resource Departmental Expenditure Limits excluding depreciation, from HM Treasury, Autumn Statement 2022, 17 November 2022, table 2.1

3 Institute for Fiscal Studies, Green Budget 2022 Chapter 4: Public spending, pay and pensions, 8 October 2022

No changes to defence spending

Although the Autumn Statement says the Government "recognises the need to increase defence spending", no changes were made to the defence budget. Defence spending will instead be examined "as part of an update to the Integrated Review".[4]

The Autumn Statement also restates the Government's commitment to keep defence spending at or above 2% of GDP. NATO's latest figures show the UK was spending an estimated 2.21% of GDP on defence in 2022, so the Government still has some headroom above this target.[5]

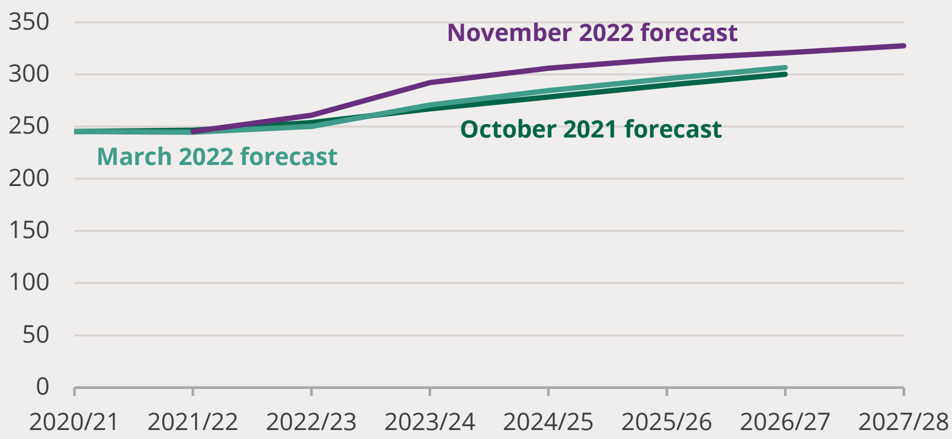
Welfare spending increases due to inflation

Benefits and the state pension will increase in April 2023 by at least the rate of inflation. This does not have an effect on departmental budgets set at the Spending Review, because welfare spending typically counts as Annually Managed Expenditure (AME) and is therefore not planned in advance.

However, inflation will increase government's welfare spending. The OBR estimates that total welfare spending will rapidly increase relative to last year's forecasts, ending up over £20 billion higher than forecast in every year from 2023/24 to 2026/27.

Welfare spending increases sharply

Total welfare spending, £ billions, not adjusted for inflation



Source: Office for Budget Responsibility, Economic and fiscal outlook, October 2021, March 2022 and November 2022 editions

The state pension accounts for a far greater proportion of welfare spending than anything else. In 2022/23 it is forecast to account for 47% of welfare

4 HM Treasury, Autumn Statement 2022, 17 November 2022
5 NATO, Defence Expenditures of NATO Countries (2014-2022), 27 June 2022

spending, rising to 49% by 2027/28. Universal Credit and its legacy equivalents make up the second largest proportion, at 28% in 2022/23.[6]

2.2 Decisions beyond 2024/25

Day-to-day spending growth limited

The Chancellor announced that after the current Spending Review period ends in 2024/25, departmental resource spending (that is, day-to-day spending rather than investment) will grow by 1% per year in real terms.

This represents a large reduction relative to previous forecasts. In March 2022, the OBR expected resource spending would increase by 2.0% in 2025/26 and 1.9% in 2026/27.

The Treasury estimates this change will result in it saving around £6.8 billion in 2025/26, £14 billion in 2026/27 and £21.5 billion in 2027/28. This makes it by far the largest saving from spending policy changes in the Autumn Statement.

Although this is not a spending cut overall, the extra spending restraint required from this limit may not fall evenly on departments, particularly if the Government wishes to protect areas such as health and education. This may therefore mean that some departments do experience spending cuts in the next Spending Review.

Investment spending frozen in cash terms

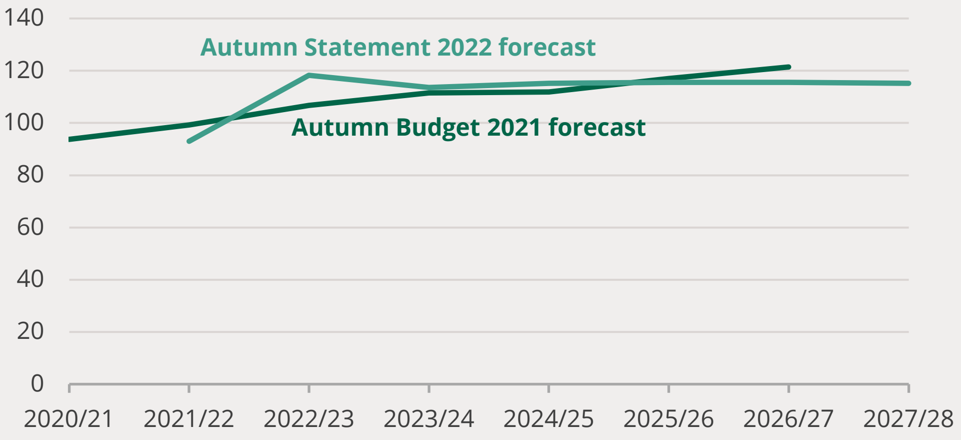
The Chancellor's restrictions on capital (investment) spending past the current Spending Review period are stricter than those on resource spending, with no increases expected in cash terms from 2025/26 onwards.

As the chart below shows, previous forecasts had expected capital spending to grow steadily (by about 4 to 5% per year) in 2025/26 and 2026/27.

6 OBR, Economic and fiscal outlook: November 2022, supplementary expenditure table 3.27, 17 November 2022

Capital spending forecasts are now flat

Capital DEL, £ billions, not adjusted for inflation



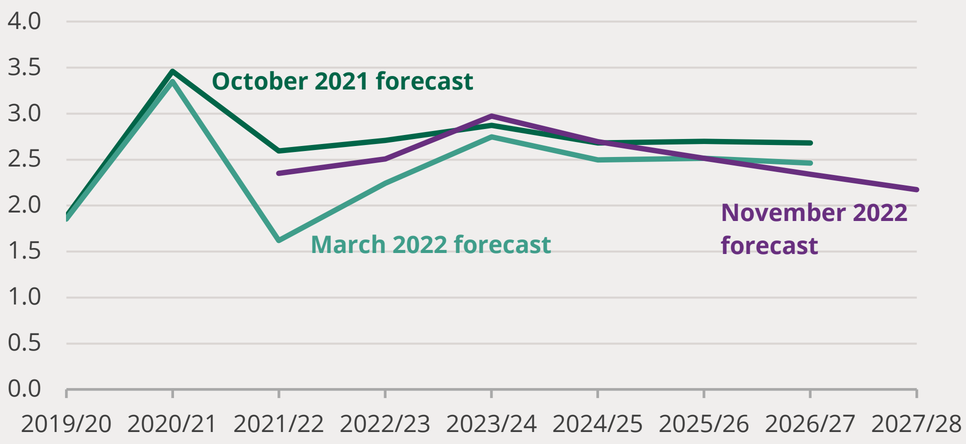
Source: HM Treasury, Autumn Budget and Spending Review 2021, table E.1, 27 October 2021, and Autumn Statement 2022, table 2.3, 17 November 2022

The new forecast also shows an increase in capital spending in 2022/23. However, this is possibly due to the Government's £4.6 billion bailout of collapsed energy company Bulb, rather than ongoing investment.

Capital spending being kept flat in cash terms means that it will be nearly £6 billion lower than previously forecast in 2026/27. However, as the chart below shows, capital spending will still be above 2% of GDP in 2027/28, albeit steadily decreasing. Since 2000, capital spending has averaged around 2% of GDP.

Capital spending as a proportion of the economy

Public sector net investment, % of GDP



Source: Office for Budget Responsibility, Economic and fiscal outlook, October 2021, March 2022 and November 2022 editions

The new forecast suggests that capital spending will actually be slightly higher in 2023/24, as a proportion of the economy, than earlier forecasts had suggested. This is probably because the economy is expected to shrink next year.

3 Policy announcements

3.1 Spending announcements

Energy support and cost of living

Since October 2022, the Government has capped the unit cost of gas and electricity for households, through the Energy Price Guarantee. It means that a household in Great Britain with 'typical' energy use will pay an average of £2,500 per year for six months.

In the Autumn Statement, the Chancellor announced:

- The cap on the unit cost of gas and electricity will be increased from £2,500 to £3,000 for a household in Great Britain with 'typical' energy use. This phase of the Energy Price Guarantee will begin in April 2023 and last for one year.
- Targeted Cost of Living Payments will be provided to people who receive certain benefits and tax credits in the UK in 2023/24.[7] Those eligible include:
  - households on means tested benefits who will receive a £900 payment
  - pensioner households who will receive a £300 payment
  - households on non-means-tested disability benefits who will receive a £150 payment
- The Household Support Fund will receive an extra £1 billion of funding from April 2023. The fund allows local authorities in England to make discretionary payments to people most in need to help with the rising cost of food, energy, and water bills.

Since October 2022, non-domestic users (businesses, charities, public sector organisations) of energy have been supported through the Energy Bill Relief Scheme (EBRS). This will change after 31 March 2023.

7 The Cost of Living Payments and Household Support Fund appear to closely resemble the package announced in May 2022, albeit with more generous support for recipients of means-tested benefits. For more information about these earlier announcements, see Commons Library briefing, Cost of Living Payments: Overview and FAQs

A Treasury-led review will determine support for non-domestic energy consumers, excluding public sector organisations, beyond 31 March 2023. At the Autumn Statement, the Government published terms of reference for the review, with the findings to be published by 31 December 2022.

The Library briefing Energy Prices Bill 2022-23 explains the Energy Price Guarantee and Energy Bill Relief Scheme further. Section 3 of the Library briefing Rising cost of living in the UK summarises other government support for households with rising energy and other prices.

Pensions and benefits

- Benefits and the state pension will rise by 10.1% in 2023/24, in line with the September value of the Consumer Prices Index inflation measure.

- The level of the benefit cap will also increase by 10.1% in 2023/24. The Secretary of State for Work and Pensions has a statutory obligation to review the level of the benefit cap at least once in each Parliament.[8]

- In-work conditionality' requirements for certain claimants on Universal Credit will be introduced earlier; they will have to meet with a Jobcentre Plus work coach to help them increase their hours or earnings. This will eventually apply to 600,000 claimants with a household income equivalent to between 15 and 35 hours at the National Living Wage.[9] The roll out will be phased, from September 2023.

- Plans will be delayed to:

  – create a new housing element of Pension Credit to replace pensioner Housing Benefit. This was planned for April 2025, but has been delayed to 2028/29

  – move income-related Employment and Support Allowance (ESA) claimants (not also claiming Child Tax Credit) onto Universal Credit through "managed migration". Managed migration was planned to start at scale in 2023 and be completed by 2025. ESA claimants will not now be migrated until 2028

- Reforms will be made to Support for Mortgage Interest from Spring 2023. These will cut the waiting period for Universal Credit claimants from nine to three months and remove the requirement that recipients have zero earnings.

- The amount spent by DWP on tackling fraud and error will be increased to £280 million by 2024/25. This is expected to raise an additional £1.7 billion a year by 2027/28. The OBR asked for, and received, assurances

8 The statutory obligation to review the level of the benefit cap every Parliament is described in section 2.5 of the Library briefing How benefit levels are set

9 At the National Living Wage that will apply from April 2023, this is equivalent to an annual income of between £8,100 and £19,000

from the Treasury that DWP and HMRC would have sufficient funding to carry out work on fraud, error and debt, given cuts to growth in wider departmental spending.

NHS and schools

- Spending will be increased to address NHS and social care pressures in 2023/24 and 2024/25, including:
  - £3.3 billion for the NHS in England each of 2023/24 and 2024/25, in response to financial pressures and to improve performance
  - £1 billion in 2023/24 and £1.7 billion in 2024/25 to help get people out of hospital and into social care, through the Better Care Fund and a ringfenced adult social care grant to local authorities
- The core schools budget will be increased by £2.3 billion in England in each of 2023/24 and 2024/25

Other areas of spending

- Rent increases in social housing in England will be limited to 7% in 2023/24, at a saving to government of £115-135 million a year
- There will be £6 billion for energy efficiency improvements between 2025 and 2028. An ambition has also been set to reduce energy consumption from buildings and industry by 15% by 2030 compared with 2021
- There will be increasing funding for the devolved administrations because of tax and spending decisions, through the Barnett formula and Block Grant Adjustments. Over 2023/24 and 2024/25, this will be around:
  - £1.5 billion for the Scottish Government
  - £1.2 billion for the Welsh Government; and
  - £650 million for the Northern Ireland Executive
- Plans will be delayed plans to increase the amount spent on international aid, keeping this at 0.5% of gross national income on official development assistance for longer, rather than reverting to 0.7% (the target in legislation)

3.2 Taxes

Overview

The Chancellor's Autumn Statement tax measures raise net revenues in each year of the forecast period. From 2024/25, the measures increase revenues by over £20 billion per year. Tax revenues in 2027/28 are estimated to be around £31 billion higher due to the Chancellor's announcements.[10]

The tax-to-GDP ratio, often described as the 'tax burden', is forecast to reach 37.5% of GDP in 2024/25. This would its highest level since the end of the Second World War.

The ratio is then forecast to fall to 37.1% of GDP by 2027/28, which is a level the OBR describes as the "highest sustained level for seven decades".[11]

Taxing windfall profits

- The **Energy Profits Levy**, an additional tax on UK oil and gas profits will increase from 25% to 35% from 1 January 2023. The levy will also be extended until 31 March 2028, it was due to end after 31 December 2025. Increasing the levy raises an additional £19 billion across the forecast period.

- An **Electricity Generator Levy** will be introduced from 1 January 2023. It will introduce a temporary 45% tax on "extraordinary" returns from low-carbon UK electricity generation. The levy raises an additional £14 billion across the forecast period.

Personal tax

- Both the **income tax-free personal allowance** and **higher rate threshold** will continue to be frozen until April 2028. The two thresholds have been left unchanged since April 2022 at their April 2021 levels. Employee and self-employed **National Insurance contribution thresholds** are aligned with the income tax thresholds and will be frozen from April 2023 until April 2028. [12]

10 OBR. Economic and fiscal outlook – November 2022, Table 1

11 OBR, Economic and fiscal outlook – November 2022, para 35

12 The personal allowance and NICs thresholds apply across the UK. The higher rate threshold (HRT) for non-savings and non-dividend income will apply to taxpayers in England, Wales, and Northern Ireland, and the HRT for savings and dividend income will apply UK-wide.

- The **income tax additional rate threshold** will fall from £150,000 to £125,140 from April 2023. Individuals pay income tax at 45% on income over the additional rate threshold.[13]

- The **dividend allowance** will fall from £2,000 to £1,000 from April 2023 and then to £500 from April 2024. Individuals only pay tax on any dividend income above the dividend allowance.

- The amount at which an estate has no **inheritance tax** to pay (the nil-rate band) will be frozen at existing levels until April 2028. The nil-rate band will continue at £325,000; the residence nil-rate band will continue at £175,000. These thresholds have been frozen since April 2022.

- The capital gains tax-free allowance (called the **Annual Exempt Allowance**) will fall from £12,300 to £6,000 from April 2023 and then to £3,000 from April 2024.

- From April 2025, electric cars, vans and motorcycles will begin to pay **vehicle excise duty.**

- Councils in England will be able to raise **council tax** by 3% without the need for a referendum, from April 2023, up from 2% currently. Councils with social care responsibilities will be able to increase the adult social care precept by up to 2% per year, up from 1% currently.

Business tax

- Several announcements were made on **business rates**, including:

  – Business properties will be revalued for business rates from 1 April 2023. Transitional relief will be provided to limit bill increases following the revaluation.

  – The business rates multiplier (the rate levied on a properties' value) will be frozen in 2023/24. It would normally have increased in line with inflation.

  – Retail, Hospitality and Leisure Relief is being extended and increased from 50% to 75% in 2023/24.

- The level at which employers start to pay **NICs for their employees** (the Secondary Threshold) will be frozen at £9,100 from April 2023 until April 2028. This is the single biggest tax raising measure in the Autumn Statement, raising £25 billion across the forecast.

- The Government will implement the globally agreed G20-OECD Inclusive Framework **Pillar 2 framework** in the UK. This seeks to limit

[13] The additional rate threshold (ART) for non-savings and non-dividend income will apply to taxpayers in England, Wales, and Northern Ireland. The ART for savings and dividend income will apply UK-wide

opportunities for multinationals to benefit from cross-border profit shifting and tax-planning.

- **Research and Development tax reliefs** are being reformed.

- **The VAT** registration and deregistration **thresholds** will remain at their current level of £85,000 for two more years from April 2024. The thresholds have already been frozen from April 2022.

- On 23 September 2022, the mini budget cut **stamp duty land tax** by increasing the thresholds that buyers of residential properties pay the tax from. The Autumn Statement makes this a temporary measure which will remain in place until 31 March 2025.

- Following consultation, the Government **will not introduce an online sales tax**. The Government's decision reflects concerns raised about the complexity and the risk of such a tax.

3.3 Other announcements

Living wage

- The National Living Wage, which applies to those aged 23 and over, will rise by 9.7% to £10.42 an hour from April 2023, in line with recommendations from the Low Pay Commission. National Minimum Wage rates that apply to people aged up to 22 and apprentices will also rise in line with their recommendations.

Social care cap

- Plans to cap the amount people have to pay for personal social care will be delayed from October 2023 to October 2025.

Regional development and devolution

- The Investment Zones programme will be changed, and existing expressions of interest will not be taken forward.

- There will be new mayoral devolution deals for Suffolk County Council (agreed), Cornwall Council (to be agreed shortly) and Norfolk County Council (in progress), along with an expanded mayoral deal with local authorities in the North East (to be agreed shortly).

Insurance regulation

- The Government has set out its final reform package for the regulation of insurance companies– the Solvency II reforms to prudential regulation.

Reviews and other planned work

The Chancellor announced future reviews and other pieces of work, including:

- a review of the Energy Bill Relief Scheme for non-domestic customers, led by the Treasury, to be published by the end of 2022
- a review of the UK's long-term tax treatment of the North Sea after the Energy Profits Levy ends
- an efficiency and savings review, to help identify savings in departmental budgets, with a progress report in the spring
- an independent review into oversight of Integrated Care Boards in England, led by Patricia Hewitt
- an NHS workforce plan, to be published next year
- a review of retained EU law to identify changes with the greatest potential to help certain industries grow
- work on improved regulation for emerging technologies, led by Sir Patrick Vallance

There will also be a number of consultations, including on audio-visual tax reliefs.

3.4 Public finance targets

Since the 1990s UK governments have adopted targets to guide and constrain their management of the public finances. The targets are often called "fiscal rules" and are included in the Charter for Budget Responsibility.[14]

The Chancellor proposed new fiscal rules in the Autumn Statement. They will take effect once approved by the House of Commons.

The new fiscal 'mandate' would require public sector net debt, as a percentage of GDP, to fall by the fifth year of the rolling forecast period. Public sector net debt here excludes the Bank of England's debt.

There are also supplementary targets:

- government borrowing (public sector net borrowing) to be below 3% of GDP by the fifth year of the rolling forecast period

[14] In the Charter for Budget Responsibility, the Government sets out how its management of the public finances operates.

- to ensure that certain spending on welfare is contained within a cap (and margin).

These concepts, along with the previous and current rules, are explained in the Library briefing The UK's fiscal targets.

The OBR judges, in its forecast, whether the targets are being met.

The OBR forecast that the Chancellor's proposed debt rule is being met by around £9.2 billion in the current target year of 2027/28. The proposed borrowing target is being met by around £18.6 billion in the same year.[15]

As the current targets (agreed in January 2022) haven't yet been officially replaced, the OBR continues to judge whether they are being met. The fiscal watchdog reports that "The Government's currently legislated targets for balancing the current budget and for debt to be falling by 2025-26 are both set to be missed by moderate margins".[16]

[15] OBR. Economic and fiscal outlook – November 2022, para 57

[16] OBR. Economic and fiscal outlook – November 2022, para 56

4 Forecast for the economy

The Office for Budget Responsibility (OBR) published new forecasts for the economy and public finances on 17 November 2022.[17] The OBR's previous forecasts were published in March 2022.[18] This section summarises the new forecasts for the economy and public finances and compares them to those in March.

The OBR's forecasts are for the next five years, as usual, taking them up to 2027 and 2027/28, for calendar years and fiscal years, respectively. Quarterly forecasts up to Q1 2028 are also published.

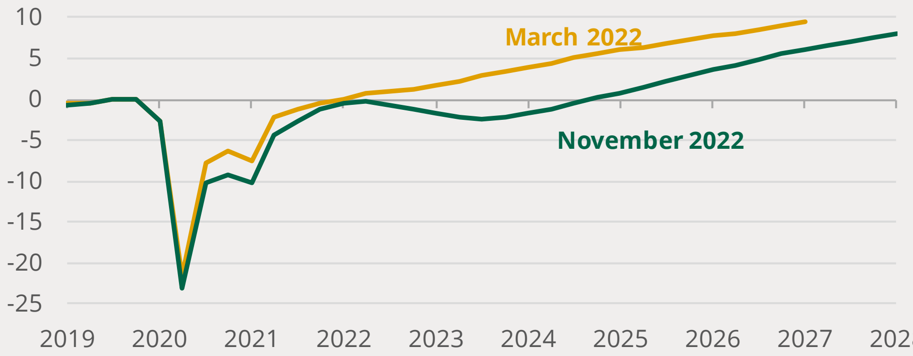
4.1 GDP growth

The OBR believes the UK has already entered recession, with falling economic output (measured by GDP) expected until Q3 2023.[19] High inflation squeezing household budgets is the main factor behind the weak economic outlook.

Overall, the OBR expects GDP to fall by 2.1% during this recession, which is expected to run from Q3 2022 to Q3 2023. GDP won't fully recover to its pre-pandemic level of Q4 2019 until Q4 2024, five years later, as shown in the chart below.

OBR forecasts for level of GDP

% change with GDP level of Q4 2019, comparison of quarterly OBR forecasts



Source: OBR, Economic and fiscal outlook – November 2022, 17 November 2022

17 OBR, Economic and fiscal outlook – November 2022, 17 November 2022

18 OBR, Economic and fiscal outlook – March 2022, 23 March 2022

19 For more on what is a recession, see Box 2, p53, of the Library briefing Background to Autumn Statement 2022

OBR forecasts for quarterly GDP growth

Quarterly % change in real GDP

Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024
-0.5	-0.4	-0.5	-0.5	-0.2	0.1	0.4	0.7

Source: Library calculations based on OBR, Economic and fiscal outlook – November 2022, 17 Nov 2022

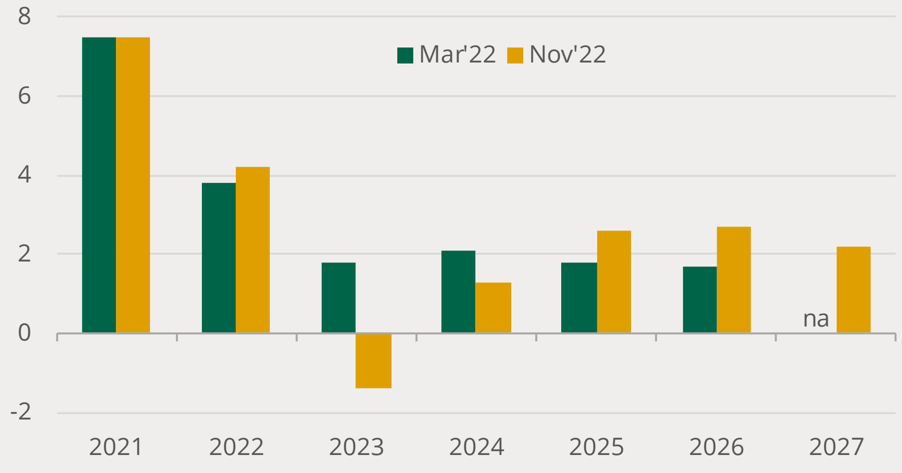
The OBR estimates that without Government policies announced since March 2022, such as the energy support packages, GDP would fall by an even larger amount during the recession that is forecast; a 3.2% overall decline, rather than 2.1%.[20]

The OBR forecasts GDP growth of -1.4% in 2023, compared with expected growth of 1.8% at the time of its March 2022 forecast. The OBR does expect a relatively strong recovery – at least compared to other forecasters, including the Bank of England[21] – to begin in 2024.

GDP growth of over 2% is expected in 2025, 2026 and 2027, supported by falling energy prices and inflation, as well as declining interest rates.[22]

OBR forecasts for GDP growth

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



Source: OBR, Economic and fiscal outlook – November 2022, 17 November 2022

20 OBR, Economic and fiscal outlook – November 2022, 17 November 2022, para 23

21 OBR, Economic and fiscal outlook – November 2022, 17 November 2022, para 34 and Bank of England, Monetary Policy Report, 3 November 2022

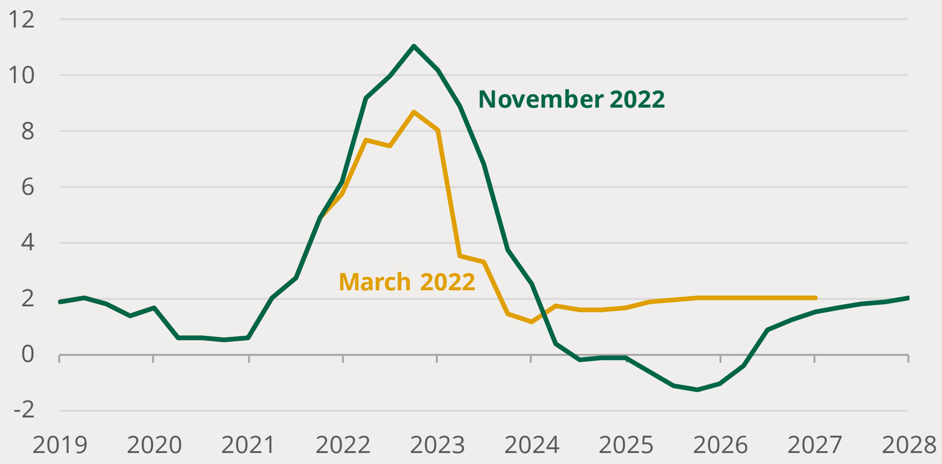
22 OBR, Economic and fiscal outlook – November 2022, 17 November 2022, para 22

4.2 Inflation

Prices have been rising at a faster pace than expected by the OBR in its March 2022 forecasts, hitting 40-year highs in recent months.[23] The OBR now expects inflation to peak at 11.1% in Q4 2022, up on its previous forecast for a peak of 8.7%.

OBR forecasts for inflation

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



Source: OBR, Economic and fiscal outlook – November 2022, 17 November 2022

The OBR estimates that without the Energy Price Guarantee, inflation would have peaked at 13.6% (as energy prices faced by households would have risen faster than they did).

Due to falling gas prices, market expectations of higher interest rates, and tighter fiscal policy – of spending cuts and tax rises – the OBR forecasts the inflation rate to come down quickly during 2023 and 2024.

The OBR even forecasts the annual rate of inflation to be negative – with prices being lower than a year before – for eight successive quarters from mid-2024. (The inflation rate is expected to return to the Bank of England target of 2% by 2028.)

The forecast for a negative rate of inflation seems to be because the OBR has used the financial markets' expectations from 24-26 October of interest rates. This assumes they will rise from 3% currently to a peak of 5% in the second half of 2023 and remain above 3.5% for the rest of the forecast.[24] Higher interest rates eventually lead to lower rates of inflation (ignoring other factors).

23 ONS, Consumer price inflation, UK: October 2022, 16 November 2022

24 OBR, Economic and fiscal outlook – November 2022, 17 November 2022, paras 13-14 and chart 3

4.3 Household incomes

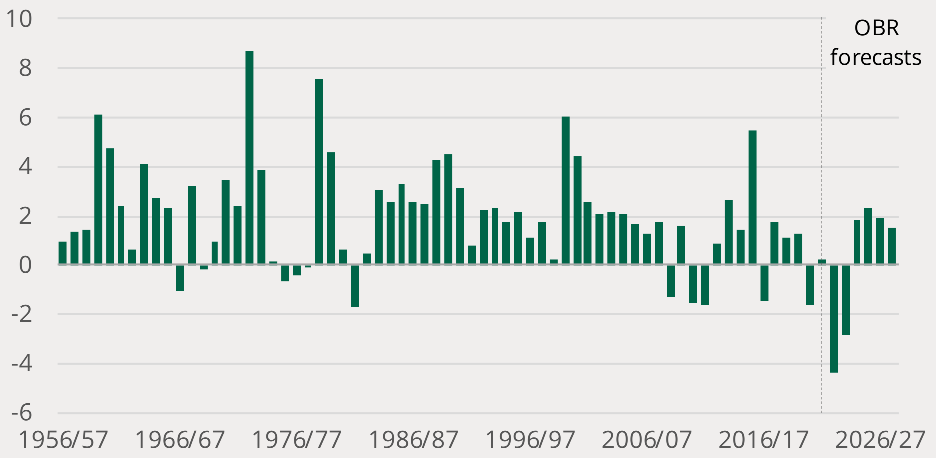
With inflation at a 40-year high of 11%, household budgets are getting squeezed. Average earnings are rising at a fast pace by historical standards but are not keeping pace with inflation.

Even with substantial government support to households – the OBR puts the figure at £100 billion – the OBR forecasts a reduction in average living standards of around 7% in total over this year and next.[25] This takes the level of after-tax household income adjusted for inflation, on a per person basis, back to the level seen in 2013/14.[26]

The forecast declines in 2022/23 and 2023/24, which would be the largest and second largest annual declines, respectively, since the data series began in 1956/57. The OBR estimates that the Government energy support packages and cost of living payments reduce the fall in real after-tax income per head over these two years by around one quarter.

OBR forecasts for real household disposable income per head

annual % change, fiscal years



Source: OBR, Economic and fiscal outlook – November 2022, 17 November 2022, chart A, p18

Household incomes are forecast to begin to recover in late 2023. Annual increases of 0.8% in 2024 and 2.6% in 2025 are expected.

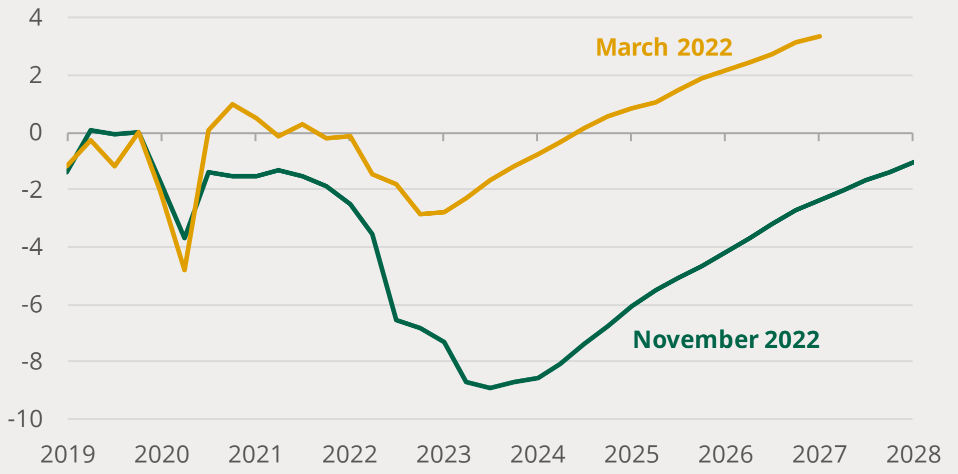
However, based on these forecasts, real post-tax income per head will not return to its pre-pandemic level by the end of the OBR's forecasts in Q1 2028; they will still be 1.1% below the level of Q4 2019, over eight years earlier.

25 Based on real household disposable income per head; OBR, Economic and fiscal outlook – November 2022, 17 November 2022, para 2

26 OBR, Economic and fiscal outlook – November 2022, 17 November 2022, Box 2, p18

OBR forecasts of real household disposable income per head

% change in income level from Q4 2019, comparison of quarterly OBR forecasts



Source: OBR, Economic and fiscal outlook – November 2022, 17 November 2022

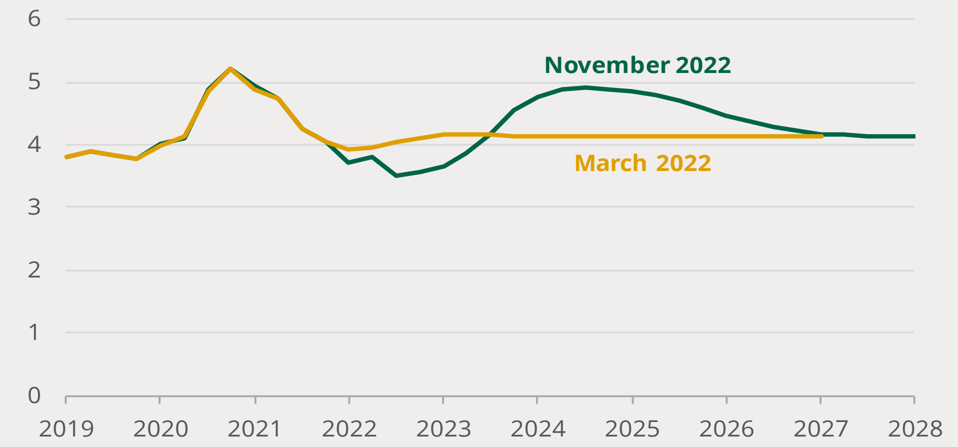
4.4 Unemployment

Due to the forecast recession, the OBR thinks unemployment will rise by around 500,000 to 1.7 million by mid-2024, taking the unemployment rate up from its current rate of 3.5% to 4.9%.

The OBR argues that due to the current difficultly firms are having in filling jobs, unemployment won't begin to rise until the number of job vacancies falls first.[27]

OBR forecasts for the unemployment rate

%, comparison of OBR quarterly forecasts



Source: OBR, Economic and fiscal outlook – November 2022, 17 November 2022

[27] OBR, Economic and fiscal outlook – November 2022, 17 November 2022, para 30

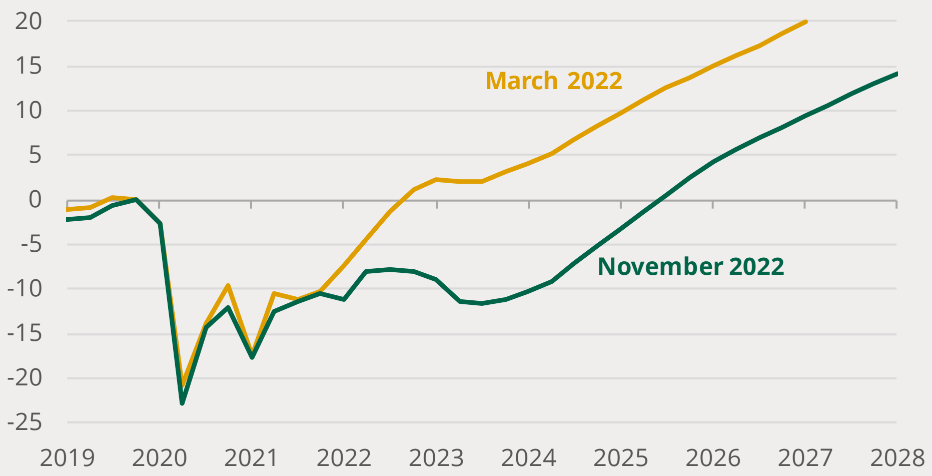
4.5 Business investment

The OBR forecasts business investment to be “much weaker” than it forecast in March 2022.

This is partly due to the expected recession but also other factors, such as high energy prices and higher interest rates.[28] Overall, the OBR anticipates that by the end of 2024, business investment will be 12% lower than it forecast in March 2022.

OBR forecasts for level of business investment

% change with GDP level of Q4 2019, comparison of OBR quarterly forecasts



Source: OBR, Economic and fiscal outlook – November 2022, 17 November 2022

4.6 Long-term growth assumptions

The OBR didn’t alter its expectations of how fast the economy could grow under normal conditions over the long-term (called the –**growth rate in potential output)**. From 2027, the OBR thinks the economy can grow sustainably by 1.7% per year.

The OBR raised its assumptions of **net migration** per year from 129,000 to 205,000 from 2026 onwards. The assumption changed based on higher-than-expected net migration after Brexit and consideration of the current migration regime, since it made its previous assumption in March 2020.[29]

The OBR left unchanged its assumption that **Brexit** would lead to the UK’s trade intensity – how much it exports and imports – being 15% lower in the long run than if the UK had remained in the EU. The OBR said the latest

28 OBR, Economic and fiscal outlook – November 2022, 17 November 2022, para 20

29 OBR, Economic and fiscal outlook – November 2022, 17 November 2022, para 18

evidence “suggests that Brexit has had a significant adverse impact on UK trade”.[30]

4.7 Summary of OBR forecasts for the economy

OBR forecasts: economy
Comparison of March 2022 and November forecasts

	2021	2022	2023	2024	2025	2026	2027
GDP growth, %							
March 2022	7.5	3.8	1.8	2.1	1.8	1.7	na
November 2022	7.5	4.2	-1.4	1.3	2.6	2.7	2.2
GDP level, 2022=100							
March 2022	96.4	100.0	101.8	103.9	105.8	107.5	na
November 2022	96.0	100.0	98.6	99.9	102.5	105.2	107.6
Business investment growth, %							
March 2022	-0.7	10.6	5.6	3.6	5.4	4.5	na
November 2022	-0.1	4.9	-2.1	3.1	8.2	6.6	4.8
ILO unemployment rate, annual ave (%)							
March 2022	4.5	4.0	4.2	4.1	4.1	4.1	na
November 2022	4.5	3.6	4.1	4.9	4.7	4.3	4.2
CPI annual inflation, %							
March 2022	2.6	7.4	4.0	1.5	1.9	2.0	na
November 2022	2.6	9.1	7.4	0.6	-0.8	0.2	1.7
Productivity growth, %							
March 2022	1.2	-0.2	1.0	1.6	1.3	1.3	na
November 2022	0.9	0.3	-0.8	0.9	1.5	1.6	1.4
Average earnings growth, %							
March 2022	6.2	5.3	2.8	2.6	2.9	3.2	na
November 2022	5.3	5.9	4.2	1.7	1.7	1.9	2.7
Real household disposable income per head, % change on previous year							
March 2022	1.6	-1.7	-0.4	1.9	1.4	1.3	na
November 2022	0.5	-3.3	-3.8	0.8	2.6	2.0	1.7

30 OBR, Economic and fiscal outlook – November 2022, 17 November 2022, para 25

5 OBR forecasts for the public finances

5.1 Government borrowing

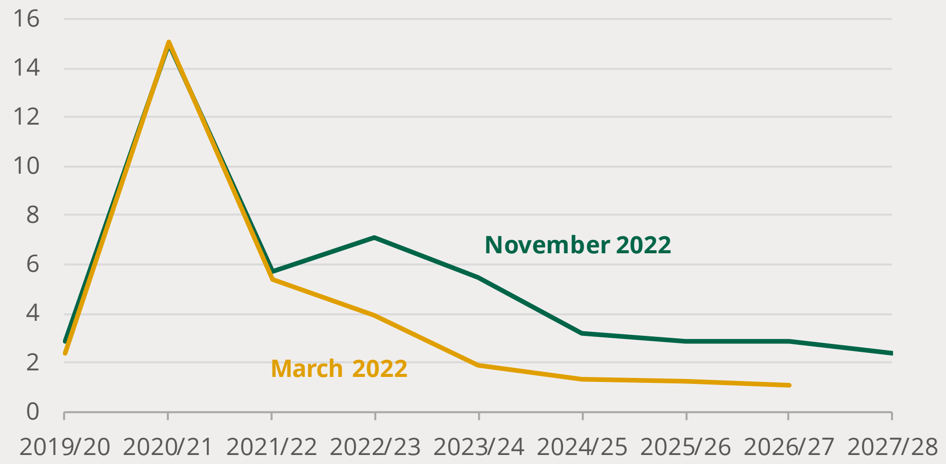
OBR forecasts for government borrowing – the budget deficit – have been increased in all years of the forecast period. Borrowing is an average of £61 billion (2.4% of GDP) a year higher between 2022/23 and 2026/27, compared with the OBR's March 2022 forecast.

The level of borrowing is highest in 2022/23, where it is forecast to reach £177 billion, up from £133 billion in 2021/22. Much of the increase is due to debt interest spending (see below) and the cost of energy and other cost-of-living support to households and businesses.

Borrowing falls in each year from 2022/23 and is forecast to be £69 billion by 2027/28. The fall in borrowing is at first due to energy and cost of living support ending in 2023/24. Borrowing is then forecast to fall due to the recovery of the economy, and the tax rises and spending cuts announced in the Autumn Statement.

OBR forecasts for the budget deficit

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

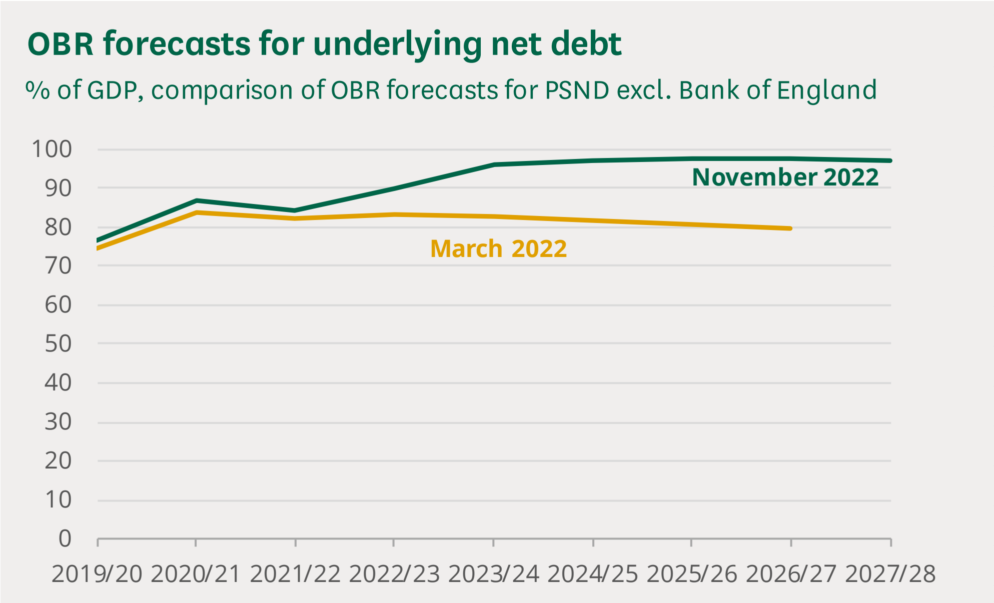


Source: OBR, Economic and fiscal outlook – November 2022, 17 November 2022

5.2 Government debt

The Government's underlying debt was equivalent to 84.3% of GDP at the end of 2021/22. The OBR forecast that it will increase each year before reaching 97.6% of GDP in 2025/26. It then falls to 97.3% of GDP in 2027/28. Government underlying debt excludes the Bank of England. The Government uses this measure of debt for its debt target.

Compared with its March 2022 forecast, the OBR believes the underlying debt-to-GDP ratio will be higher in each year of its forecast. This is because it expects both the cash size of the economy (as measured by GDP) to be smaller and the stock of debt to be larger. By 2026/27, the underlying debt-to-GDP ratio is nearly 18% of GDP higher than forecast in March 2022.



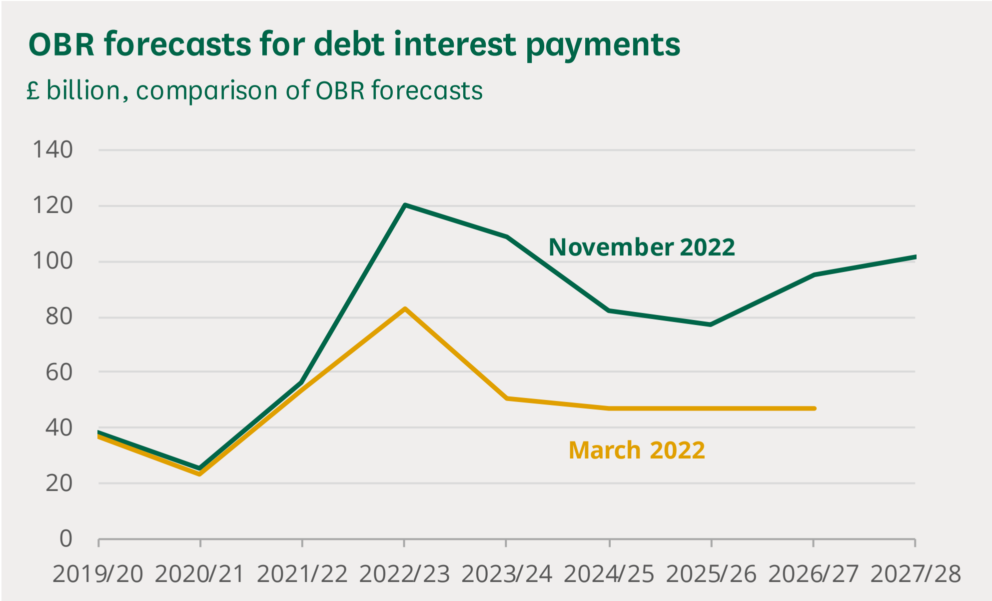
Source: OBR, Economic and fiscal outlook – November 2022, 17 November 2022

5.3 Government debt interest

The Government makes interest payments on its debt. The OBR's forecast for the Government's debt interest spending is significantly higher than its March 2022 forecast. It summarises that "the debt interest burden over the next five years is projected to be almost twice as large as UK governments have become accustomed to over the past two decades".[31]

[31] OBR. Economic and fiscal outlook – November 2022, para 42

Much of the increase is because the OBR assumes that interest rates will be higher than it did in March 2022. In particular, the OBR assumes the Bank of England's main interest rate will be higher, which increases the effective rate of interest paid on some of the Government's existing stock of debt.[32] It also assumes that investors want a higher rate of return to lend to the Government, which increases debt interest on new government borrowing.



Source: OBR, Economic and fiscal outlook – November 2022, 17 November 2022

32 For more on this see Box 10 of the Library briefing Coronavirus: Economic impact.

5.4 Summary of OBR forecasts for the public finances

OBR forecasts: public finances

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Net borrowing (PSNB), £ billion							
March 2022	127.8	99.1	50.2	36.5	34.8	31.6	na
November 2022	133.3	177.0	140.0	84.3	76.9	80.3	69.2
Net borrowing (PSNB), % of GDP							
March 2022	5.4	3.9	1.9	1.3	1.2	1.1	na
November 2022	5.7	7.1	5.5	3.2	2.8	2.9	2.4
Current budget deficit, % of GDP							
March 2022	3.8	1.7	-0.8	-1.2	-1.3	-1.4	na
November 2022	3.3	4.6	2.5	0.5	0.3	0.5	0.2
Net debt (PSND), £ billion							
March 2022	2,330	2,453	2,516	2,533	2,469	2,480	na
November 2022	2,373	2,571	2,752	2,825	2,809	2,872	2,963
Net debt (PSND), % of GDP							
March 2022	95.6	95.5	94.1	91.2	85.8	83.1	na
November 2022	97.4	101.9	106.7	105.8	101.7	100.0	99.3
Net debt (PSND) excluding Bank of England, % of GDP							
March 2022	82.5	83.5	82.9	81.9	80.9	79.8	na
November 2022	84.3	89.9	95.9	97.2	97.6	97.6	97.3
Net debt interest payments, £ billion							
March 2022	53.5	83.0	50.6	46.7	46.9	47.3	na
November 2022	56.4	120.4	108.5	82.4	77.0	95.4	101.9

Source: OBR, Economic and fiscal outlook – November 2022, 17 November 2022

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