Spring Statement 2019
Debate on 20 March 2019

Summary

This House of Lords Library Briefing has been prepared in advance of the debate due to take place on 20 March 2019 in the House of Lords on the motion moved by Lord Young of Cookham (Conservative) that "the Grand Committee takes note of the economy in the light of the Spring Statement".

Overview

The Chancellor of the Exchequer, Philip Hammond, presented the spring statement to the House of Commons on 13 March 2019. In his speech, he said that the state of the economy was such that "provided we do reach a deal to leave the European Union with an orderly transition […] this country for the first time in a decade will have genuine and sustainable choices about its future".[1]

No changes to the tax system were announced in the statement, and only a small number of spending measures, summarised later in this briefing.

The Office for Budget Responsibility (OBR) published revised forecasts for the economy and the public finances on the same day.[2] These are also summarised below.

The OBR based its forecasts on an orderly Brexit, and stated that leaving the EU in a disorderly fashion would have a "severe short-term impact" on the economy. The Chancellor referred to a "deal dividend" in the event of an orderly departure, but also to the use of fiscal and monetary policies to mitigate the effects of leaving with no deal. This could include spending some of the "fiscal headroom" which he stated that he has kept in reserve.

The Chancellor provided some details of the next spending review, which will set the overall strategy for government spending. He stated that it would be launched before the summer 2019 parliamentary recess, assuming that "a Brexit deal is agreed over the next few weeks and that the uncertainty that is hanging over our economy is lifted".[3] The review would be concluded "alongside an autumn budget" and would cover a three-year period. He did not indicate how these plans might change if no Brexit deal was agreed. The Chancellor also confirmed that from 2019/20 government spending would rise in real terms: he said that there was an "indicative five-year path of 1.2% per annum real terms increases in day-to-day spending on our public services".[4]

OBR Revised Forecasts

Economic Growth

The OBR reduced its forecast for economic growth (measured by gross domestic product, GDP) for 2019 to 1.2%, from 1.6% at the time of the October 2018 budget.[5] The reasons it advanced included weaker growth in late 2018 than previously expected, including because of a weaker global economy, and "heightened uncertainty related to Brexit".[6] However, its medium-term forecast was "little changed", with growth predicted to be around 1.5% per year from 2020.[7] This remains below long-term historical averages, which the OBR has previously attributed to weak productivity growth.[8]

Unemployment and Earnings

In the 2018 budget, the OBR revised down its estimate of "equilibrium unemployment", which is the rate at which pressure on wages does not change as a result of shortages or surpluses in the supply of labour, to 4.0%.[9] This remains its estimate and, therefore, its medium-term forecast for the unemployment rate.[10] It expects unemployment to rise slightly above this in 2019, to 4.1%, consistent with the weaker economy described above.

The OBR increased its forecast of average earnings growth in 2019 (in nominal terms, ie not adjusted for inflation) to 3.1%, from 2.5% at the time of the 2018 budget, reflecting stronger recent data.[11] The Chancellor observed that this implied "real wage growth in every year of the forecast".[12]

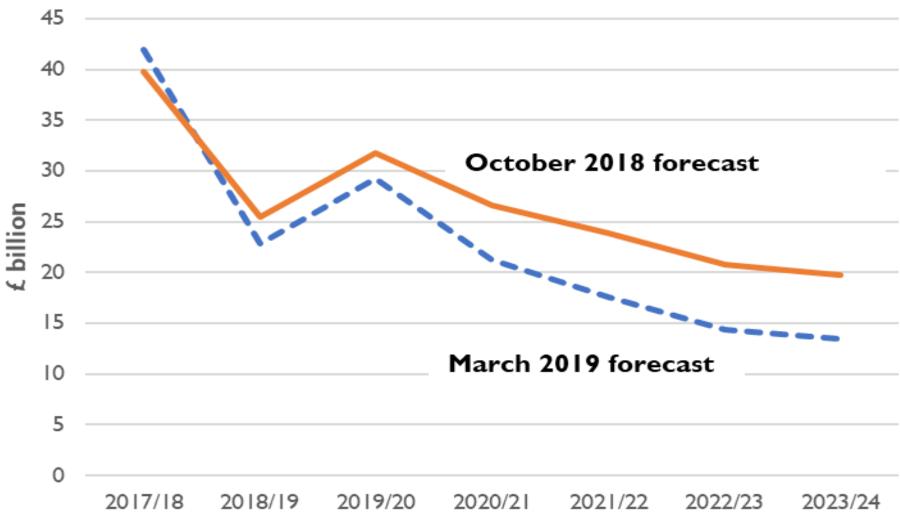
Public Sector Deficit

The public sector deficit is the difference between public sector spending and income in each year. For the spring statement, the OBR revised down its forecast for government borrowing in 2018/19 to £22.8 billion, from £25.5 billion at the time of the 2018 budget (itself a reduction from earlier forecasts).[13] Predicted borrowing in future years also fell: by 2023/24, the OBR forecast that public sector borrowing would be £13.5 billion, a reduction from £19.8 billion at the time of the 2018 budget.

The OBR attributed these improvements in the public finances largely to two factors: first, higher than expected income tax and national insurance receipts, particularly from the highest earners; and second, lower expected future interest rates, derived from market data and reflecting the possibility of a no-deal Brexit.[14] Lower interest rates have the effect of reducing forecast future interest payments on government debt.

Figure 1 illustrates the predicted path of government borrowing as set out in the October 2018 and March 2019 forecasts.

Figure 1: Public Sector Net Borrowing[15]



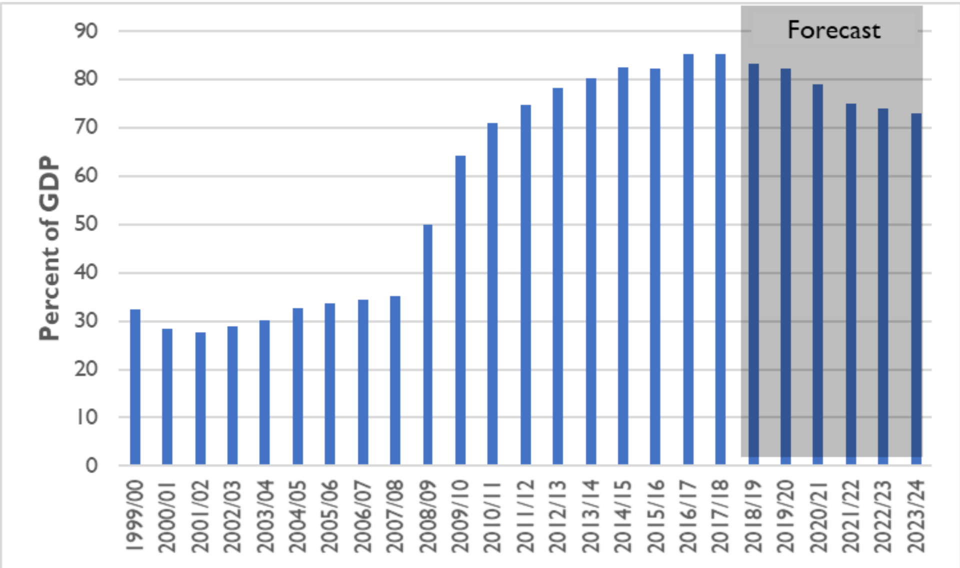
The OBR also noted that there remains £26.6 billion of "headroom" against another of the Government's targets, the "fiscal mandate" of a structural deficit of less than 2% of GDP in 2020/21.[16] This is an increase from £15.4 billion in October 2018. There is a further discussion on the significance of this sum in the Brexit section below.

Public Sector Debt

The public sector debt is the total stock of borrowing resulting from past deficits, to the extent that they have not yet been repaid. The reduced annual deficits described above, when combined with repayments of existing debt, allowed forecasts of overall debt to fall by more than previously expected over the period in the OBR's forecast. The OBR expects debt to fall from its 2016/17 peak of 85.2% of GDP to 83.3% in the current financial year and to 73.0% by 2023/24.[17]

Figure 2 shows the path of the Government's debt, relative to GDP, since 1999/00 and including the OBR's forecasts to 2023/24.

Figure 2: Public Sector Net Debt, 1999/00 to 2023/24[18]



Brexit

As in its previous publications, the OBR based its economic forecasts on government policy at the time that the forecasts were made. The OBR therefore noted that it had assumed "an orderly transition to a new—though, as yet, undefined—long-term relationship" with the European Union.[19] It also reiterated its view that "an abrupt, disorderly exit could have a severe short-term impact on the economy", but stated that "such a period of dislocation should prove largely transitory".[20]

In his statement, the Chancellor repeated his view that there would be a "deal dividend" for the economy if the UK struck a deal with the EU. He said:

> If we leave the EU with a deal and an orderly transition to a future economic partnership, we will see a deal dividend: an economic boost from recovery in business confidence and investment, and a fiscal boost from a reduction in the minimum necessary level of fiscal headroom once the risk of a no deal exit is removed.[21]

In February 2019, in evidence to the House of Commons Treasury Committee, both the OBR and the Institute for Fiscal Studies cast doubt on the first element of the 'dividend'.[22] The OBR suggested that while a deal would remove the possibility of a "particularly disorderly outcome", it would be unlikely to deliver a substantial positive impact on growth.

As the Chancellor stated, the second element of his "dividend" would arise from the release of the "fiscal headroom" discussed in the section on the public sector deficit, above. The Chancellor confirmed that such a release would take place within the context of the spending review later this year.[23] He argued that it would provide "real choices" within the spending review, including "how much of the 'deal dividend' we can prudently release". He also suggested that there would be choices about how it was used, noting the competing demands of public spending, capital investment, "keeping taxes low" and reducing debt.[24]

At the time of writing, the House of Commons has voted (on 12 to 13 March 2019) not to approve the Government's Brexit withdrawal agreement and associated documents, and to reject no deal as an option, but the further votes on potentially extending article 50 have not yet taken place. Unless and until such an extension is agreed, no deal remains the default option.[25] The Chancellor stated that "leaving with no deal would mean significant disruption in the short and medium term", including a "reduction in the productive capacity of the British economy".[26] Considering mitigating actions, he stated that:

> [T]he Treasury and the Bank of England together have all the tools of fiscal and monetary policy available to us, including the fiscal headroom I have held in reserve […] Our economy is operating at near full capacity, so any fiscal and monetary response would have to be carefully calibrated not to simply cause inflation.[27]

Commenting on this possible "fiscal response", the OBR has observed that the Chancellor might spend the 'fiscal headroom' whatever the outcome on Brexit; either as a 'dividend' if the UK leaves with a deal, or to boost the economy in a no-deal scenario.[28]

Spending Measures

New spending measures referred to by the Chancellor in his statement included:

- Up to £260 million for the 'borderlands growth deal' which will benefit the border regions of England and Scotland;[29]
- £205 million for three technology projects: to develop a new supercomputer, to provide support for genome research; and to develop new kinds of laser;[30]
- £80 million for police forces in England to target knife crime, plus a further £20 million of "reprioritised" funding;[31] and
- Free sanitary products in secondary schools and colleges in England from school year 2019/20.[32]

In addition, HM Treasury stated that it would guarantee "up to £3 billion of borrowing by housing associations in England to support delivery of around 30,000 affordable homes".[33]

Press Articles and Comment

Links to selection of articles and commentaries on the budget are provided below.

- Delphine Strauss, '[Philip Hammond Puts Brave Face on Weaker UK Growth Forecast]', *Financial Times* (£), 13 March 2019
- Paul Johnson, '[Spring Statement 2019]', Institute for Fiscal Studies, 13 March 2019
- Resolution Foundation, '[Super, Smashing, Great? Spring Statement Response]', 14 March 2019
- Institute of Economic Affairs, '[IEA Responds to Spring Statement 2019]', 13 March 2019
- Kate Bell, '[What Have We Learned From Today's Spring Statement?]', Trades Union Congress, 13 March 2019

Further Information

- HM Treasury, '[Spring Statement 2019: What You Need to Know]', 13 March 2019
- House of Commons, '[Written Statement: Spring Statement 2019]', 13 March 2019, HCWS1407
- House of Commons Library, *Spring Statement 2019: A Summary*, 13 March 2019

[1] HC *Hansard*, 13 March 2019, col 345.
[2] Office for Budget Responsibility, *Economic and Fiscal Outlook*, March 2019, CP 50.
[3] HC *Hansard*, 13 March 2019, col 346.
[4] ibid.
[5] Office for Budget Responsibility, *Economic and Fiscal Outlook*, March 2019, CP 50, pp 5 and 43.
[6] ibid, pp 5 and 41.
[7] ibid, p 5.
[8] Office for Budget Responsibility, *Economic and Fiscal Outlook*, October 2018, Cm 9713, p 43–4.
[9] Office for Budget Responsibility, 'The Equilibrium Unemployment Rate', March 2018.
[10] Office for Budget Responsibility, *Economic and Fiscal Outlook*, March 2019, CP 50, p 47.
[11] ibid, p 48.
[12] HC *Hansard*, 13 March 2019, p 345.
[13] Office for Budget Responsibility, *Economic and Fiscal Outlook*, March 2019, CP 50, pp 114 and 118.
[14] ibid, pp 114–5.
[15] ibid, p 118.
[16] ibid, p 7.
[17] Office for Budget Responsibility, *Economic and Fiscal Outlook*, October 2018, Cm 9713, p 195; and Office for Budget Responsibility, *Economic and Fiscal Outlook*, March 2019, CP 50, p 133.
[18] Office for Budget Responsibility, *Economic and Fiscal Outlook*, March 2019, CP 50, p 133.
[19] ibid, p 26.
[20] ibid, p 160.
[21] HC *Hansard*, 13 March 2019, col 347.
[22] House of Commons Treasury Committee, *Budget 2018*, 12 February 2019, HC 1606 of session 2017–19, pp 11–12.
[23] HC *Hansard*, 13 March 2019, col 347.
[24] ibid.

[25] BBC News, 'Brexit: Prime Minister to Bring Third Brexit Deal Vote to Commons', 14 March 2019.
[26] HC *Hansard*, 13 March 2019, col 347.
[27] ibid.
[28] House of Commons Treasury Committee, *Budget 2018*, 12 February 2019, HC 1606 of session 2017–19, p 25.
[29] HM Treasury, 'Spring Statement 2019: What You Need to Know', 13 March 2019.
[30] ibid.
[31] HM Treasury and Home Office, '£100 Million Funding for Police to Tackle Violent Crime', 13 March 2019.
[32] HM Treasury, 'Spring Statement 2019: What You Need to Know', 13 March 2019.
[33] ibid.