



Budget 2015: a summary

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Section: Economic Policy and Statistics

The [2015 Budget](#) was presented by the Chancellor of the Exchequer to Parliament on 18 March 2015. At the same time the Office for Budget Responsibility published its updated forecasts in its [Economic and fiscal outlook](#). This note provides a short summary of both.

Separate Library notes give related information, see: [Budget 2015: Background briefing](#) (SN/EP/07136, 13 March 2015), [Economic Indicators, Budget Update](#) (RP15/15, 17 March 2015) and [Unemployment by Constituency, March 2015](#) (RP15/15, 18 March 2015).

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1 Budget policy measures at a glance

- **Personal allowance** increased to £10,800 in 2016/17, from £10,600 in 2015/16. It will then increase to £11,000 in 2017/18. The higher rate threshold will rise in line with the personal allowance to £42,700 in 2016/17 and £43,300 in 2017/18.
- Over the next Parliament **digital tax accounts** planned to replace **annual self-assessment tax returns** – a consultation is to take place over this summer.
- Pensioners already receiving income from an **annuity** will be able to sell that income to a third party from April 2016. Proceeds will be taxed at the individual's marginal rate.
- **ISAs** (Individual Savings Accounts) to become more flexible. From autumn 2015 individuals will be able to withdraw and replace money from their cash ISA in-year without losing any of their tax-free allowance.
- A new **Help to Buy: ISA** will be introduced. First time buyers who save into the scheme will, at the time of house purchase, receive £50 from the government for every £200 saved. The maximum government contribution will be £3,000.
- A new **Personal Savings Allowance** to be introduced from 6 April 2015. Basic rate taxpayers will pay no tax on savings income up to £1,000 per year. Higher rate taxpayers will pay no tax on savings income up to £500. Additional rate taxpayers will receive no allowance.
- **Pension tax relief lifetime allowance** will reduce from £1.25 million to £1 million in 2016/17. The allowance will be indexed by CPI from 2018/19.
- Various **changes to duties** including 1p off a pint of beer, and duties on spirits and lower strength cider reduced by 2%. The duty rate on high strength cider will reduce by 1.3% and rates on wine and higher strength sparkling cider will be frozen. **Fuel duty** is frozen.
- Support provided to **North Sea industry** with: the **supplementary charge** on ring-fence corporation tax profits reduced from 30% to 20% with effect from 1 January 2015; **petroleum revenue tax** reduced from 50% to 35% after 31 December 2015; and a new **investment allowance** to encourage investment in the North Sea.
- **Bank levy** to increase from 0.156% to 0.21% from 1 April 2015, raising £0.7 billion in 2015/16 and £0.9 billion in subsequent years.
- **Compensation payments**, such as those made by banks for mis-selling of products, will become non-deductible for corporation tax purposes.
- Additional measures on **HMRC debt recovery and tax avoidance**, including more accelerated payment notices and introducing legislation for tougher measures on serial avoiders and promoters of tax avoidance schemes.
- A **review of business rates** will be carried out, reporting its findings by Budget 2016.
- Pilots starting in April 2015 to allow Cambridgeshire and Peterborough and, subject to the formal approval, Greater Manchester and Cheshire East, to **retain business rates growth** beyond expected forecasts.
- The Government to **sell £20 billion of shares** in Lloyds and **assets** in Northern Rock.

2 Forecasts for the economy and public finances at a glance

The Office for Budget Responsibility (OBR) has published the following forecasts for the economy and the public finances:

- **Economic growth:** GDP will grow by 2.5% in 2015, and by 2.3% in 2016, revised up slightly from the previous forecast in December. The economy is forecast to grow by between 2.3-2.4% in each year from 2017 to 2019, very similar to the previous forecast.
- **Inflation:** forecasts have been lowered. The CPI annual inflation rate is predicted to be 0.2% on average in 2015 (down from 1.2% forecast in December), before rising to 1.2% in 2016 (down from 1.7% forecast in December).
- **Labour market:** forecasts for employment and unemployment are largely unchanged from the previous forecast in December. Employment levels are forecast to be 31.1 million in 2015, rising to 31.4 million in 2016. Forecasts for the unemployment rate over the next few years are steady at between 5.2-5.3%.
- **Earnings:** average earnings growth forecasts have been raised to 2.3% in 2015 from 2.0% forecast in December. Lower inflation rates will provide a boost to real earnings.
- **Budget deficit:** the forecasts for headline public sector borrowing are slightly lower for the next few years. In 2014/15, it is forecast to be £90 billion, and is expected to fall in each subsequent year, before a surplus of £5 billion is recorded in 2018/19. In 2019/20, the forecast budget surplus has been reduced from £23 billion to £7 billion as government spending is now forecast to increase faster than previously budgeted for. As a percent of GDP, the budget deficit is forecast to be 5.0% in 2014/15, falling to 0.6% in 2017/18, with surpluses forecast for 2018/19 and 2019/20.
- **Government debt:** net government debt in 2014/15 is forecast to be £1.48 trillion or 80.4% of GDP. While debt is forecast to fall as a percentage of GDP in subsequent years, down to 71.6% in 2019/20, debt in cash terms will rise to £1.63 trillion in 2019/20.
- **Fiscal targets:** The fiscal mandate and the supplementary debt rule (falling debt as a percent of GDP in 2016/17) are forecast to be met.

3 OBR forecasts for the economy

The OBR published its [Economic and Fiscal Outlook, March 2015](#) on the same day as the Budget. It contains independent official forecasts for the economy up to 2019 and the public finances up to 2019/20.

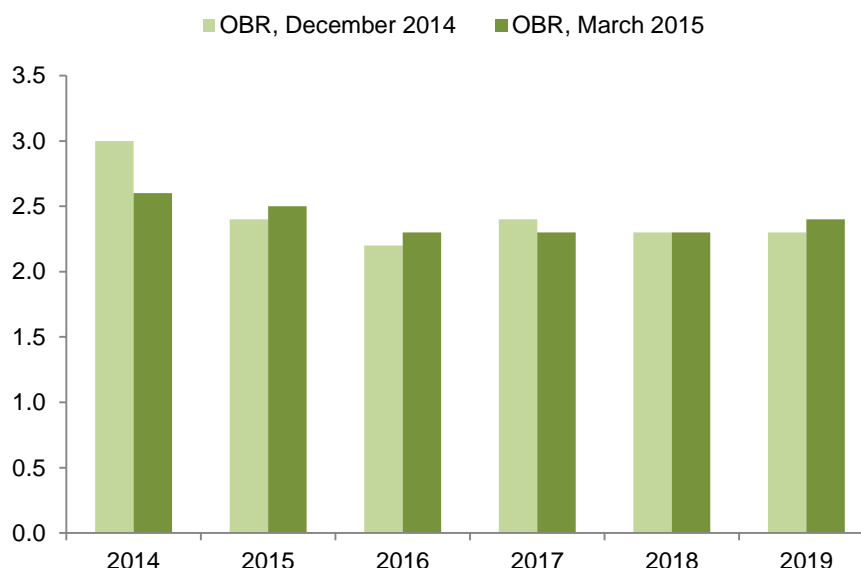
3.1 GDP growth

The OBR forecasts that the UK economy will grow by 2.5% in 2015, up slightly from 2.4% forecast in the Autumn Statement in December 2014. Growth of between 2.3-2.4% a year is forecast for 2016 to 2019. Forecasts are very similar to those made in December.

OBR forecasts: GDP growth (%)

	2014	2015	2016	2017	2018	2019
OBR, December 2014	3.0	2.4	2.2	2.4	2.3	2.3
OBR, March 2015	2.6	2.5	2.3	2.3	2.3	2.4

GDP growth: OBR forecasts
Annual % change, real terms



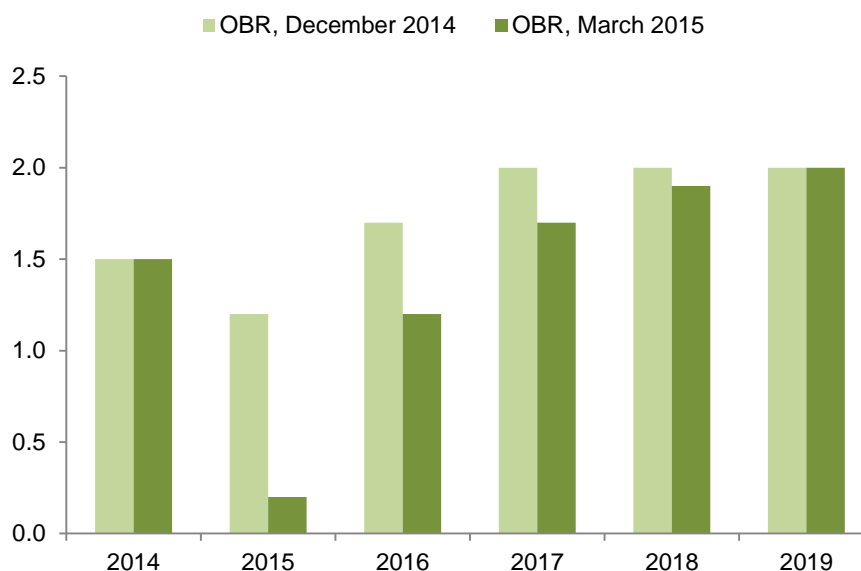
3.2 Inflation

The inflation rate has been declining sharply in recent months as food and, especially, petrol prices have been falling (due to the sharp fall in the price of oil), prompting the OBR to revise down its forecast for CPI inflation in the next few years. Forecasts for 2015 have been cut from 1.2% at the time of the Autumn Statement in December to 0.2% now. The OBR also reduced forecasts for 2016 from 1.7% to 1.2% and for 2017 from 2.0% to 1.7%. Inflation is expected to return to the Bank of England's target by the end of the forecast period in 2019.

OBR forecasts: CPI inflation (%)

	2014	2015	2016	2017	2018	2019
OBR, December 2014	1.5	1.2	1.7	2.0	2.0	2.0
OBR, March 2015	1.5	0.2	1.2	1.7	1.9	2.0

Inflation: OBR forecasts
Annual % change, CPI



3.3 Employment and unemployment

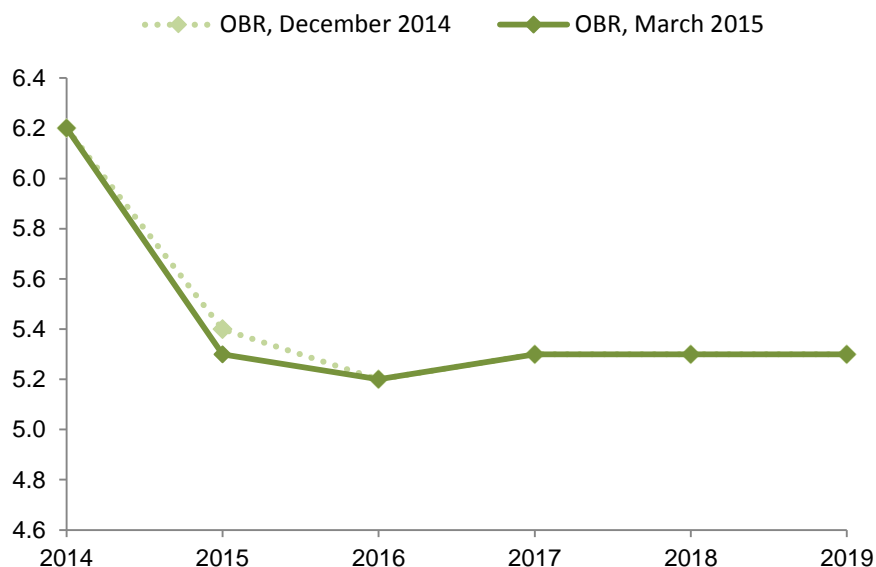
OBR forecasts for the unemployment rate are very similar to those made at the time of the Autumn Statement, with only the forecast for 2015 being revised (from 5.4% to 5.3%). The OBR forecasts the unemployment rate to remain close to this level (5.2-5.3%) between 2016 and 2019. Forecasts for the number of people employed are also very similar to those made at the time of the Autumn Statement.

Forecasts for the number of people claiming unemployment benefits (the claimant count) have been lowered, with around 770,000 people expected to be claiming in 2015, down from a forecast of 840,000 at the time of the Autumn Statement.

OBR forecasts: employment and unemployment

	2014	2015	2016	2017	2018	2019
Employment, millions						
OBR, December 2014	30.7	31.2	31.4	31.5	31.6	31.7
OBR, March 2015	30.7	31.1	31.4	31.5	31.7	31.9
ILO unemployment rate, %						
OBR, December 2014	6.2	5.4	5.2	5.3	5.3	5.3
OBR, March 2015	6.2	5.3	5.2	5.3	5.3	5.3
Claimant count, millions						
OBR, December 2014	1.04	0.84	0.83	0.84	0.85	0.86
OBR, March 2015	1.04	0.77	0.74	0.76	0.77	0.77

Unemployment rate: OBR forecasts
ILO measure, %



3.4 Average earnings

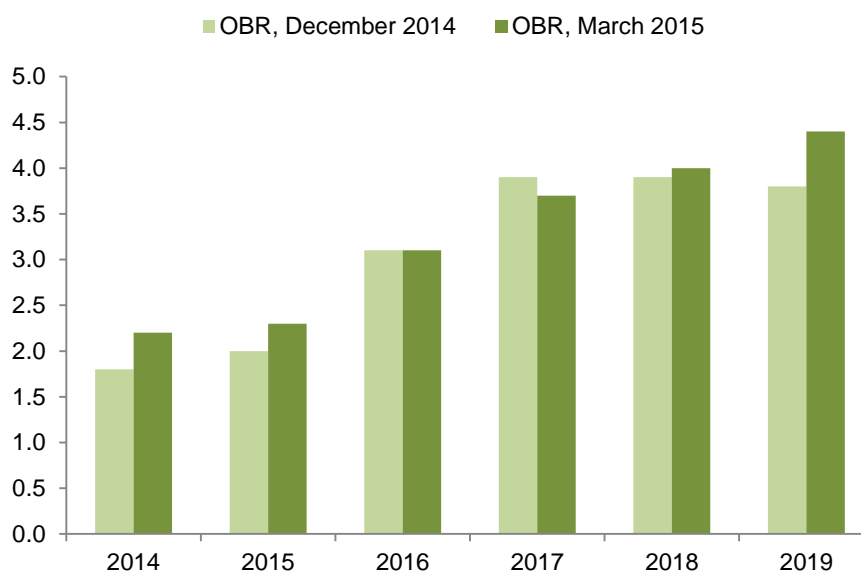
The OBR has raised its forecasts for average wage growth – in cash terms – in 2015 from 2.0% at the time of the Autumn Statement to 2.3%.¹ Forecasts for 2016 are left unchanged, while those for 2017 have been lowered slightly. Low inflation rates will provide a boost to real earnings over the near term.

OBR forecasts of average earnings (% change on previous year)

	2014	2015	2016	2017	2018	2019
OBR, December 2014	1.8	2.0	3.1	3.9	3.9	3.8
OBR, March 2015	2.2	2.3	3.1	3.7	4.0	4.4

¹ The OBR's measure of average earnings (using national accounts data) is different to other, more commonly-used, measures of earnings such as Average Weekly Earnings and the Annual Survey of Hours and Earnings.

Average earnings: OBR forecasts
Annual % change



4 OBR forecasts for the public finances

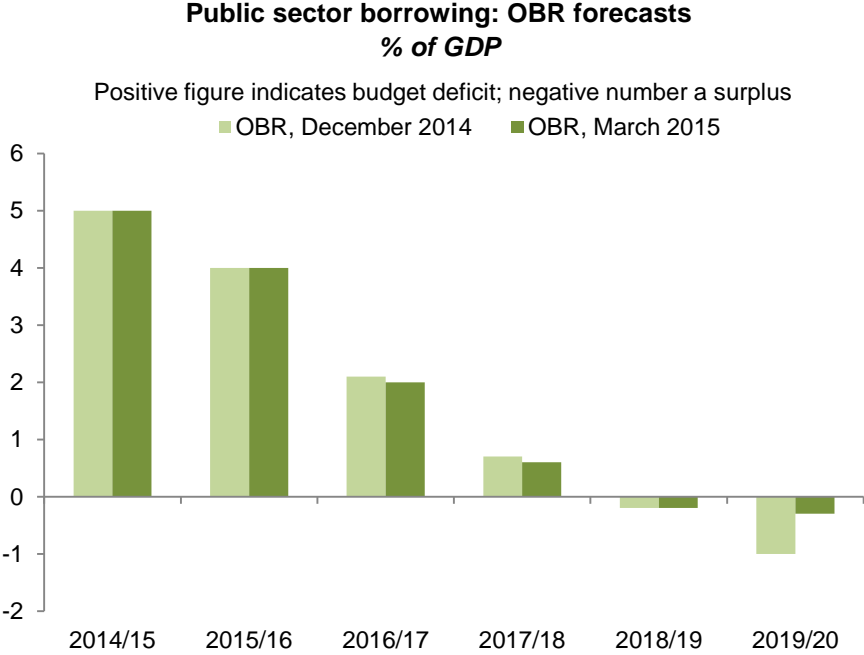
OBR forecasts: public finances

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Net borrowing, £ billion						
OBR, December 2014	91	76	41	15	-4	-23
OBR, March 2015	90	75	39	13	-5	-7
Net borrowing, % of GDP						
OBR, December 2014	5.0	4.0	2.1	0.7	-0.2	-1.0
OBR, March 2015	5.0	4.0	2.0	0.6	-0.2	-0.3
Net debt, £ trillion						
OBR, December 2014	1.49	1.56	1.61	1.64	1.65	1.65
OBR, March 2015	1.48	1.53	1.58	1.61	1.62	1.63
Net debt, % of GDP						
OBR, December 2014	80.4	81.1	80.7	78.8	76.2	72.8
OBR, March 2015	80.4	80.2	79.8	77.8	74.8	71.6

4.1 Public sector borrowing

The OBR forecasts that headline public sector borrowing will total £90 billion in 2014/15, slightly lower (by £1 billion) than was forecast at the time of the Autumn Statement. Borrowing in 2015/16 has also been revised down by £1 billion to £75 billion. The forecast deficits in 2016/17 and 2017/18 are also slightly lower than forecast at the time of the Autumn Statement, while the surplus in 2018/19 is slightly larger. In 2019/20, however, there is a large downward revision to the forecast budget surplus from £23 billion to £7 billion, as government spending is now forecast to increase faster than previously budgeted for.

As a percentage of GDP, borrowing is forecast to fall from 5.0% in 2014/15 to 0.6% in 2017/18, before surpluses are recorded in 2018/19 and 2019/20. Government borrowing peaked at 10.2% of GDP in 2009/10 following the financial crisis and recession.

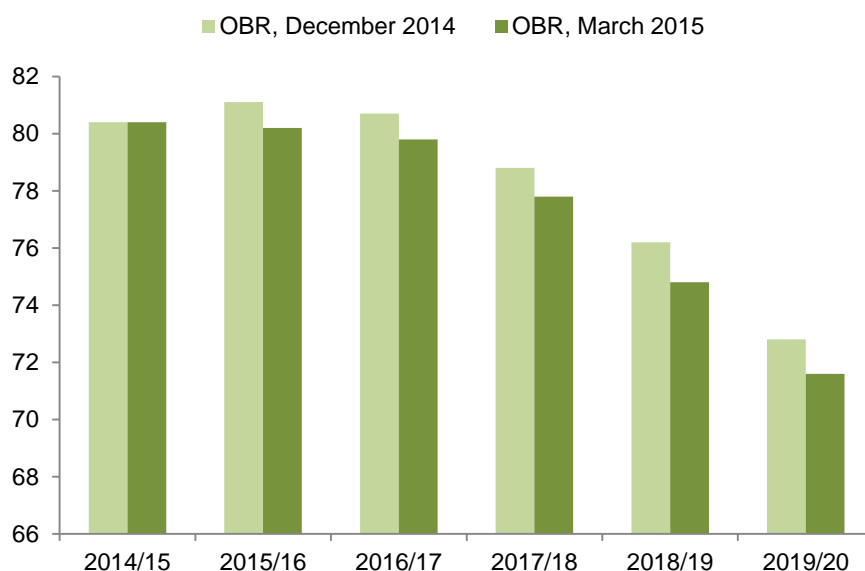


4.2 Public sector debt

Forecasts of government net debt have been lowered for every year of the forecast period compared with those made at the time of the Autumn Statement. As a percentage of GDP, debt is forecast to be 80.4% in 2014/15, falling slightly in 2015/16 and 2016/17 when it will be 79.8%. In 2017/18 forecasts have been lowered from 78.8% to 77.8%, and those for 2018/19 and 2019/20 have also been revised down. The forecast 71.6% debt-to-GDP ratio in 2019/20 will still be almost double what it was before the recession at 37% in 2007/08.

In 2014/15 net debt is forecast to total £1.48 trillion, rising up to 2019/20 when it will be £1.63 trillion.

Public sector net debt: OBR forecasts
% of GDP



4.3 Fiscal rules

Fiscal mandate

The fiscal mandate requires that the cyclically-adjusted current balance – a measure of underlying government borrowing that excludes investment spending and effects from the economic cycle – be in surplus by the end of the third year of a rolling five-year period. The OBR forecasts that the cyclically-adjusted current balance will be +0.8% in 2017/18, meaning that the government is on track to meet this target.

OBR forecasts: Cyclically adjusted current balance, % GDP

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
OBR, December 2014	-2.7	-2.2	-0.5	0.7	1.5	2.3
OBR, March 2015	-2.5	-2.1	-0.4	0.8	1.7	1.7

Note: negative figures indicate a deficit, positive figures a surplus

Supplementary target

The supplementary target requires that public sector net debt falls as a share of GDP between 2015/16 and 2016/17. The OBR forecasts that debt will fall slightly during this period (by 0.4 percentage points from 80.2% to 79.8% of GDP).

Public sector net debt, % of GDP

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
OBR, December 2014	80.4	81.1	80.7	78.8	76.2	72.8
OBR, March 2015	80.4	80.2	79.8	77.8	74.8	71.6