

Key messages:

- We forecast real GDP growth of 1.5 per cent in 2018, falling back to 1.3 per cent in 2019 and 1.3 per cent in 2020.
- We expect public sector borrowing of £37.1 billion in 2018-19 (1.8 per cent of GDP), falling to £21.4 billion in 2022-23.
- The Government is on course to meet its three fiscal targets on the basis of our latest central forecast.
- Its 'fiscal objective' to balance the budget by the middle of the next decade looks more challenging.
- Our forecasts are based on broad-brush assumptions regarding the UK's exit from the EU, rather than a specific outcome.

Macroeconomic outlook

The background to our latest forecast is a continuing strength of advanced economies around the world. Despite this global tailwind we still expect UK GDP growth to ease to 1.5 per cent in 2018 before picking up slowly over the remaining years of the forecast. This reflects our revised assumption that the economy is operating a little above its potential. We now expect growth to average 1.4 per cent a year over the next five years.

CPI inflation is expected to average 2.4 per cent in 2018 and 1.8 per cent in 2019 before getting back to the Bank of England's 2 per cent target in 2021.

Short-term fiscal outlook

Public sector net borrowing has fallen from its post-crisis peak of 9.9 per cent of GDP (£152.5 billion) in 2009-10 to 2.2 per cent of GDP (£45.2 billion) in 2017-18. With little spare capacity in the economy, we judge that the 2017-18 structural deficit (which excludes the effect of the economic cycle) was close to the headline deficit at 2.3 per cent of GDP. The deficit is expected to fall by around £8 billion in 2018-9.

Medium-term fiscal outlook

We expect the deficit to move below 2 per cent of GDP in 2018-19 and to fall slowly over the four years to 2022-23. Our central forecast is for a structural deficit of 1.3 per cent of GDP in 2020-21, below the 2 per cent of GDP ceiling set in the Government's 'fiscal mandate'. We expect debt to peak as a share of GDP in 2017-18 at 85.6 per cent of GDP.

Fiscal framework and national fiscal rules

The Government has set itself three fiscal rules that require:

- the structural deficit (cyclically adjusted public sector net borrowing) to be below 2 per cent of GDP by 2020-21;
- public sector net debt to fall as a percentage of GDP in 2020-21; and
- welfare spending (excluding the state pension and payments closely linked to the economic cycle) to be below a welfare cap that was set for 2022-23, in line with our November 2017 forecast for that year.

Our latest central forecast shows all three targets on course to be met, with the deficit target met by a margin of 0.7 per cent of GDP. The Government's longer-term aim of balancing the public finances by the middle of the next decade looks more challenging, as the pace of deficit reduction slows towards the end of the forecast and as age-related pressures on the public finances are set to mount.

Key indicator forecast

Forecasts and charts all from the March 2018 *Economic and fiscal outlook*.

| | Forecast | | | | | |
|---|----------|---------|---------|---------|---------|---------|
| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 |
| Real GDP (% change year-on-year, calendar year) | 1.5 | 1.4 | 1.3 | 1.3 | 1.5 | 1.5 |
| Output gap (per cent of potential output) | -0.1 | -0.1 | -0.2 | -0.2 | -0.1 | 0.0 |
| Public sector net borrowing (% of GDP) | 2.2 | 1.8 | 1.6 | 1.3 | 1.1 | 0.9 |
| Cyclically adjusted net borrowing (% of GDP) | 2.3 | 1.9 | 1.6 | 1.3 | 1.1 | 0.9 |
| Public sector net debt (% of GDP) | 85.6 | 85.5 | 85.1 | 82.1 | 78.3 | 77.9 |

Chart 1: Real GDP fan chart

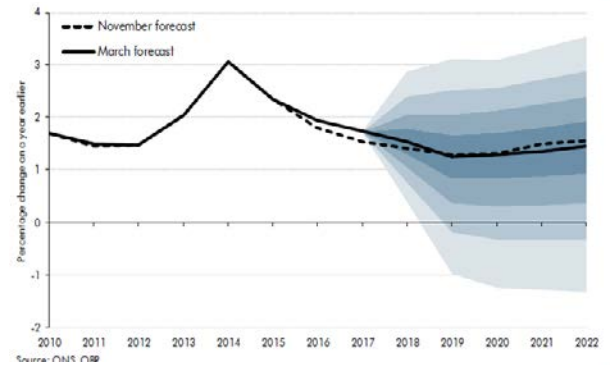


Chart 2: Total public sector spending and receipts

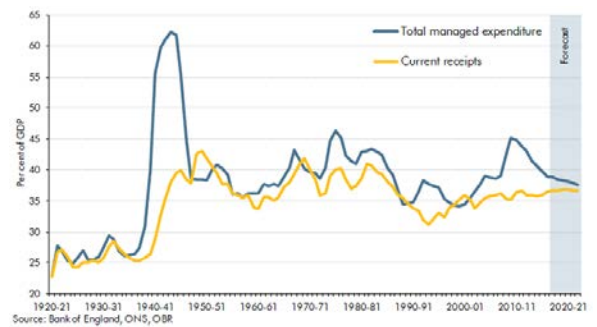


Chart 3: Cyclically adjusted public sector net borrowing fan chart

