United Kingdom

Country note, June 2017

Office for Budget Responsibility

Key messages:

- We forecast real GDP growth of 2.0 per cent in 2017, falling back to 1.6 per cent in 2018.
- We expect public sector borrowing of £58.3 billion in 2017-18 (2.9 per cent of GDP), falling to £16.8 billion in 2021-22.
- The Government is on course to meet its three fiscal targets on the basis of the latest forecast.
- Its 'fiscal objective' to balance the budget at the earliest possible date in the next Parliament 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

We revised our forecast for GDP growth in 2017 higher at the time of our forecast in March, reflecting greater momentum at the end of last year than we previously anticipated. In 2018 we expect GDP growth of 1.6 per cent, as higher inflation slows household consumption. Growth is expected to pick up from 1.7 per cent to 2.0 per cent over the remaining three years of the forecast, as business investment picks up and the effect of the sterling-driven rise in inflation abates.

CPI inflation is expected to increase to 2.4 per cent in 2017, and 2.3 per cent in 2018 before falling back to the Bank of England's 2 per cent target rate over the following three years.

Fiscal outlook

Public sector net borrowing peaked at 9.9 per cent of GDP (£151.6 billion) in 2009-10, before falling to 3.8 per cent of GDP by 2015-16. The latest data suggests borrowing in 2016-17 was £48.7 billion (2.5 per cent of GDP) compared to our March forecast of £51.7 billion. We expect borrowing to increase in 2017-18, reflecting some one-off timing effects and changes to corporation tax payments.

Beyond that we expect borrowing to fall by around one percentage point of GDP from 2.9 per cent in 2017-18 to 1.9 per cent then 1.0 per cent in 2019-20. In the final two years of the forecast the improvement slows somewhat, falling by 0.1 and then 0.2 per cent of GDP in 2020-21and 2021-22.

Public sector net debt is forecast to fall from a peak of 88.8 per cent of GDP in 2017-18 to 79.8 per cent of GDP in 2021-22.

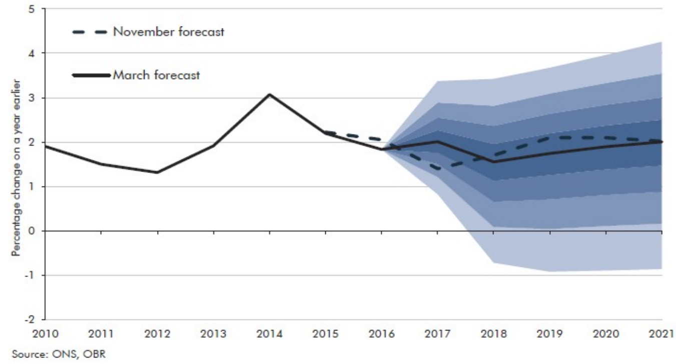
Fiscal framework and fiscal rules

The Government has set itself three fiscal rules:

- the structural deficit (cyclically adjusted public sector net borrowing) to be below 2 percent 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 2021-22, in line with our November 2016 forecast for that year.

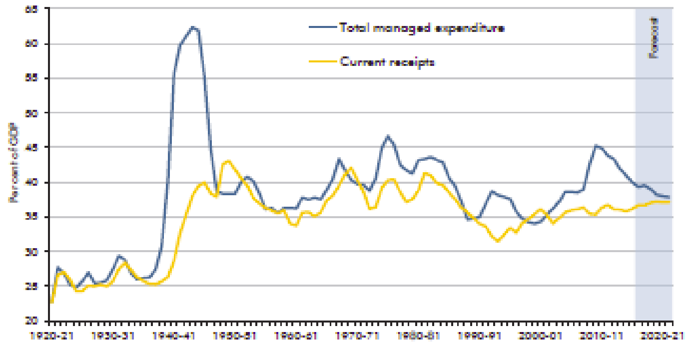
Our latest forecast implies that all three of these targets are on course to be met, with the structural deficit target met with a margin of 1.1 per cent of GDP. The Government's longer term aim of balancing the public finances as the earliest possible date in the next Parliament looks more challenging, as the pace of deficit reduction slows towards the end of the forecast and as age-related pressures on the public finances begin to take hold.

Chart 1.3: Real GDP growth fan chart



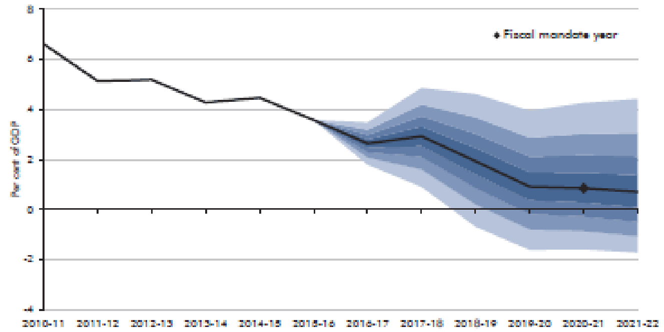
Source: ONS, OBR

Chart 4.15: Total public sector spending and receipts



Source: Bank of England, ONS, OBR

Chart 5.3: Cyclically adjusted public sector net borrowing fan chart



Source: ONS, OBR

	Forecast					
	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Real GDP (% change year-on-year, calendar year)	1.8	2	1.6	1.7	1.9	2.0
Public sector net borrowing (% of GDP)	2.6	2.9	1.9	1.0	0.9	0.7
Cyclically adjusted net borrowing (% of GDP)	2.6	2.9	1.9	0.9	0.9	0.7
Public sector net debt (% of GDP)	86.6	88.8	88.5	86.9	83.0	79.8

Forecasts and charts all from the March 2017 *Economic and fiscal outlook*.