

## Key messages:

- We forecast real GDP growth of 1.5 per cent in 2017, falling back to 1.4 per cent in 2018 and 1.3 per cent in 2019.
- We expect public sector borrowing of £49.9 billion in 2017-18 (2.4 per cent of GDP), falling to £25.6 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

GDP growth in 2017 has been a little weaker than we expected in March reflecting the squeeze on household's real incomes and spending as a result of higher inflation following the depreciation of sterling last year. We have lowered our real GDP forecast in every year. We now expect growth to average 1.4 per cent a year over the next five years, slowing a little over the next two then picking up modestly in the medium term. The main reason for revising down GDP growth relative to March was a significant downward revision to our assumption for potential productivity growth, having reassessed post-crisis weakness and the hypotheses put forward to explain it.

CPI inflation is expected to average 2.7 percent in 2017 and 2.4 percent in 2018 before falling back to the Bank of England's 2 percent target in 2020.

## 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 2.3 per cent of GDP (£45.7 billion) in 2016-17, a smaller deficit than we forecast in March. With little spare capacity in the economy, we judge that the 2016-17 structural deficit (which excludes the effect of the economic cycle) was close to the headline deficit at 2.2 per cent of GDP. On both measures the deficit is expected to rise fractionally in 2017-18. It is then expected to fall steadily through the rest of the forecast period, but more slowly than we assumed in March due to the effect of weaker productivity growth on tax receipts and policy measures announced in the Autumn Budget. We expect the deficit to move below 2 per cent of GDP next year 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 86.5 per cent of GDP. This is lower than we assumed in March due mainly to the reclassification of English housing associations to the private sector, which reduces PSND by 3.2 per cent of GDP.

## Fiscal framework and 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.

Chart 1.4: Real GDP growth fan chart

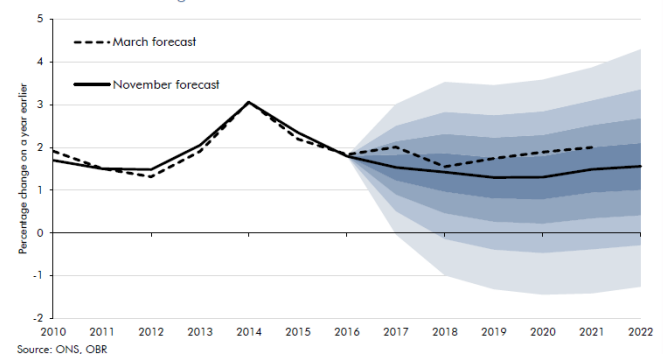


Chart 4.12: Total public sector spending and receipts

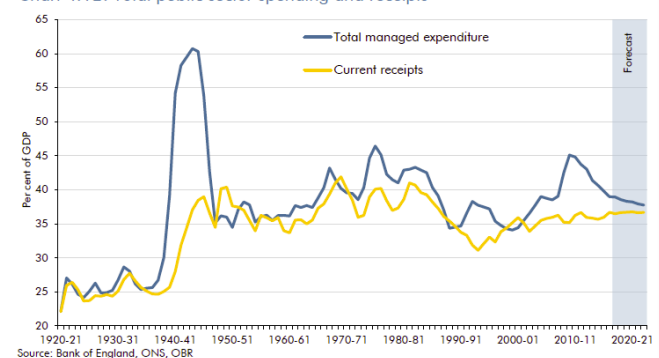
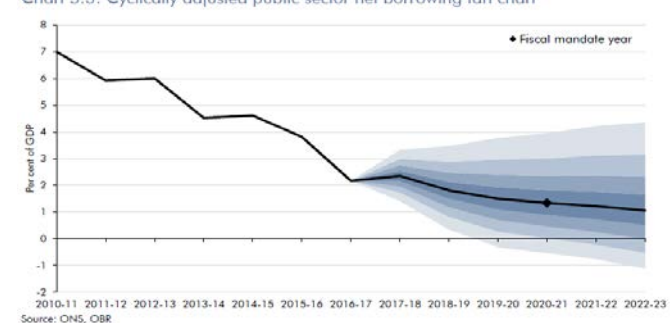


Chart 5.3: Cyclically adjusted public sector net borrowing fan chart



	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)	2.4	1.9	1.6	1.5	1.3	1.1
Cyclically adjusted net borrowing (% of GDP)	2.3	1.8	1.5	1.3	1.2	1.1
Public sector net debt (% of GDP)	86.5	86.4	86.1	83.1	79.3	79.1
Real public spending (% change year-on-year)	1.4	0.3	0.7	1.1	0.7	1.1

Forecasts and charts all from the November 2017 Economic and fiscal outlook.