United Kingdom

Country note, July 2019

Office for Budget Responsibility

Key messages:

- We forecast real GDP growth of 1.2 per cent in 2019, rising to 1.4 per cent in 2020 and 1.6 per cent in 2020.
- We expect public sector borrowing of £29.3 billion in 2019-20 (1.3 per cent of GDP), falling gradually to £13.5 billion in 2023-24.
- 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. The forecasts also assumed that the UK would leave on 29 March 2019, which was Government policy when we published our forecast. Parliament voted to extend Article 50 1 day later.

Macroeconomic outlook

The economy ended 2018 growing a little less strongly than we expected in our previous forecast in October 2018. Survey indicators of current activity have weakened materially, in part reflecting heightened uncertainty related to Brexit. As a result, we have revised our forecast for GDP growth this year down to 1.2 per cent. But we have not altered our assessment of the outlook for potential output, so our medium-term forecast is little changed: GDP growth still settles down to around 1½ per cent a year.

Short-term fiscal outlook

Public sector net borrowing has fallen from its post-crisis peak of 9.9 per cent of GDP (£153.1 billion) in 2009-10 to 1.1 per cent of GDP (£24.0 billion) in 2018-19. With economy running a little above potential, we judge that the 2018-19 structural deficit (which excludes the effect of the economic cycle) is close to the headline deficit at 1.2 per cent of GDP. The deficit is expected to rise by around £5 billion in 2019-20.

Medium-term fiscal outlook

We expect the deficit increase slightly in 2019-20 to 1.3 per cent of GDP, fall sharply to 0.9 per cent of GDP, and then fall slowly over the three years to 2023-24. Our central forecast is for a structural deficit of 0.8 per cent or GDP in 2020-21, below the 2 per cent of GDP ceiling set in the Government's 'fiscal mandate'. We expect debt to fall as a share of GDP over the forecast period from 83.1 per cent of GDP in 2018-19 to 73.0 per cent in 2023-24.

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 1.2 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: Real GDP fan chart

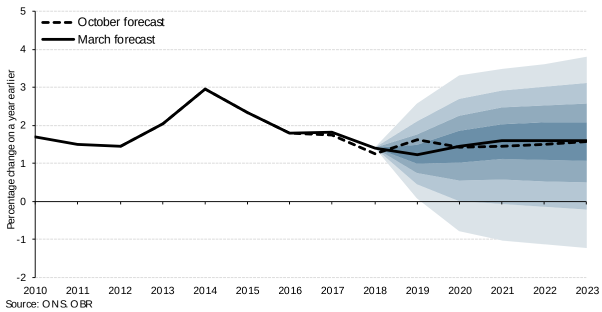


Chart 2: Public sector net borrowing

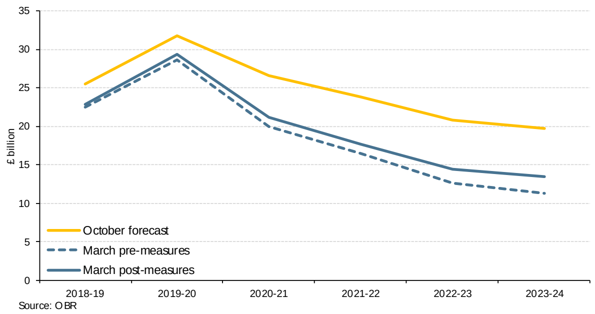
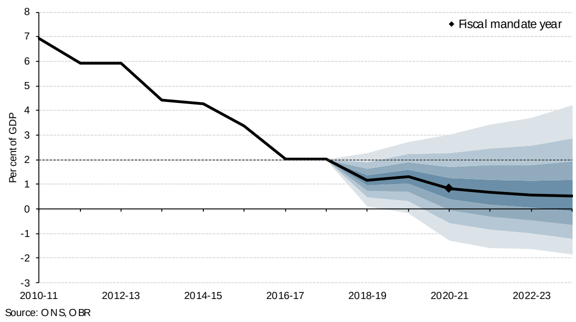


Chart 3: Cyclically adjusted public sector net borrowing fan chart



Key indicator forecast

Forecasts and charts all from the March 2019 *Economic and fiscal outlook*.

	Forecast					
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24
Real GDP (% change year-on-year, calendar year)	1.4	1.2	1.4	1.6	1.6	1.6
Output gap (per cent of potential output)	0.2	-0.1	-0.2	-0.1	0.0	0.0
Public sector net borrowing (% of GDP)	1.1	1.3	0.9	0.7	0.6	0.5
Cyclically adjusted net borrowing (% of GDP)	1.2	1.3	0.8	0.7	0.6	0.5
Public sector net debt (% of GDP)	83.3	82.2	79.0	74.9	74.0	73.0
Real public spending (% change year-on-year)	0.3	1.5	1.0	1.1	1.3	1.7

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