



25 March 2025

Presentation to MPs

Carl Emmerson

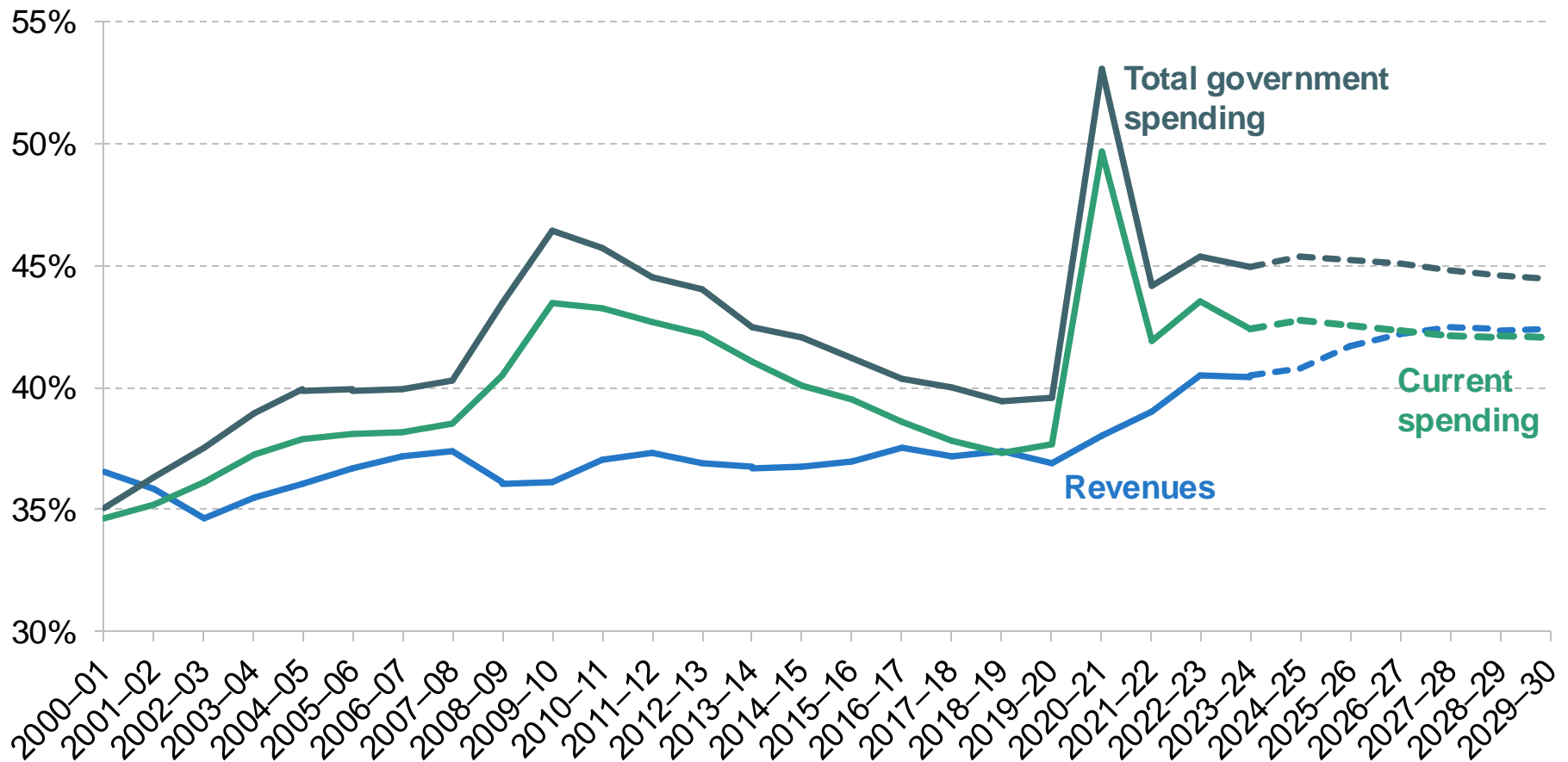
@TheIFS

Tomorrow's Spring Forecast Statement



Economic
and Social
Research Council

Spending & revenues as share of national income

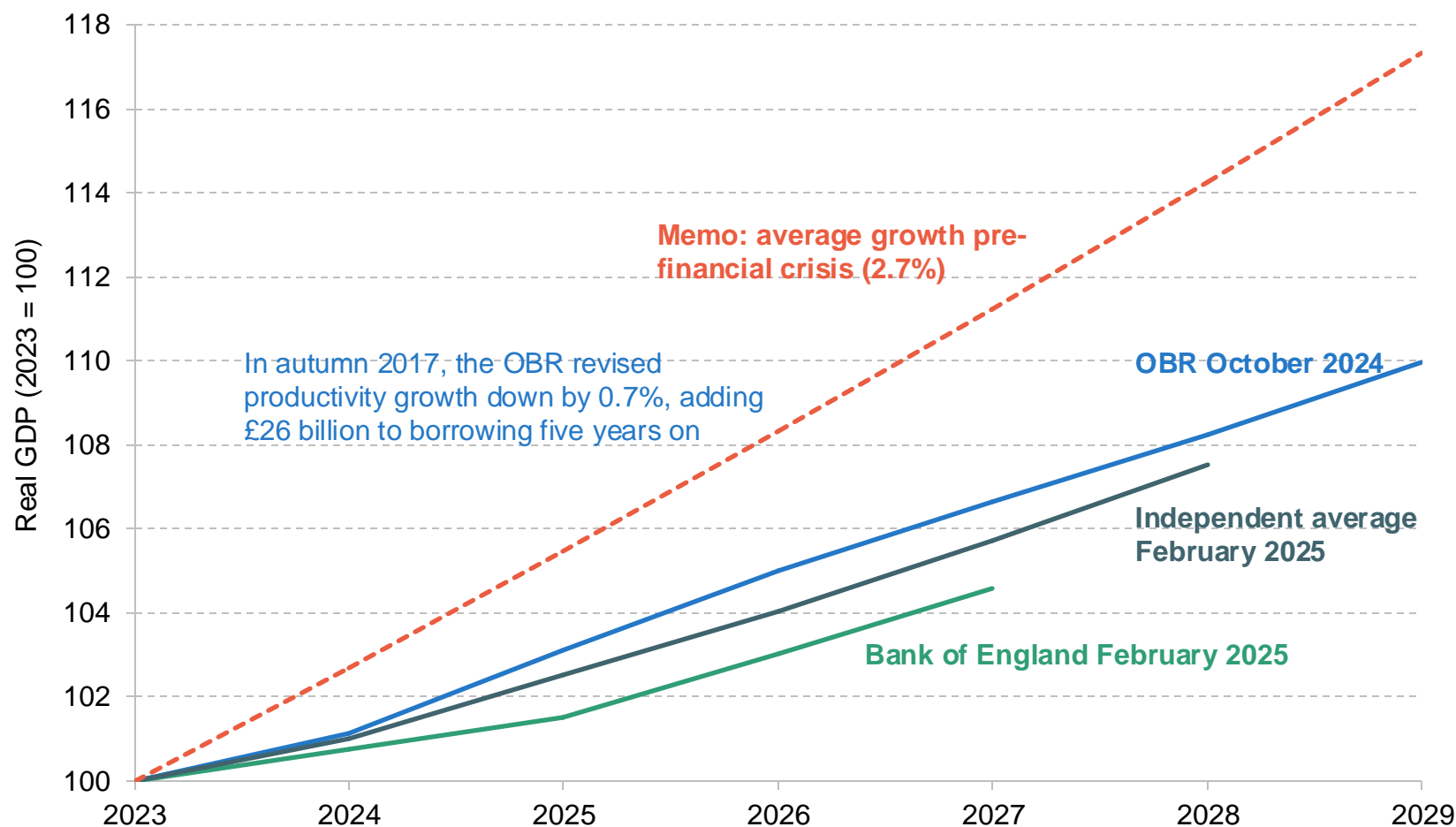


Source: Office for Budget Responsibility, Economic and Fiscal Outlook (October 2024)

Meeting or missing the fiscal rules?

- Main fiscal rule requires forecast current budget surplus in 2029-30
 - £10 billion margin in October 2024 tiny relative to uncertainty
- Debt rule could easily start to bind (£16 billion margin)
- Mixed-to-disappointing economic and fiscal news since then
- Key questions:
 - How do growth, inflation, tax-richness of economy balance out?
 - What judgement will the OBR make on productivity?
 - How persistent is any downgrade to growth?

Growth: a key judgement



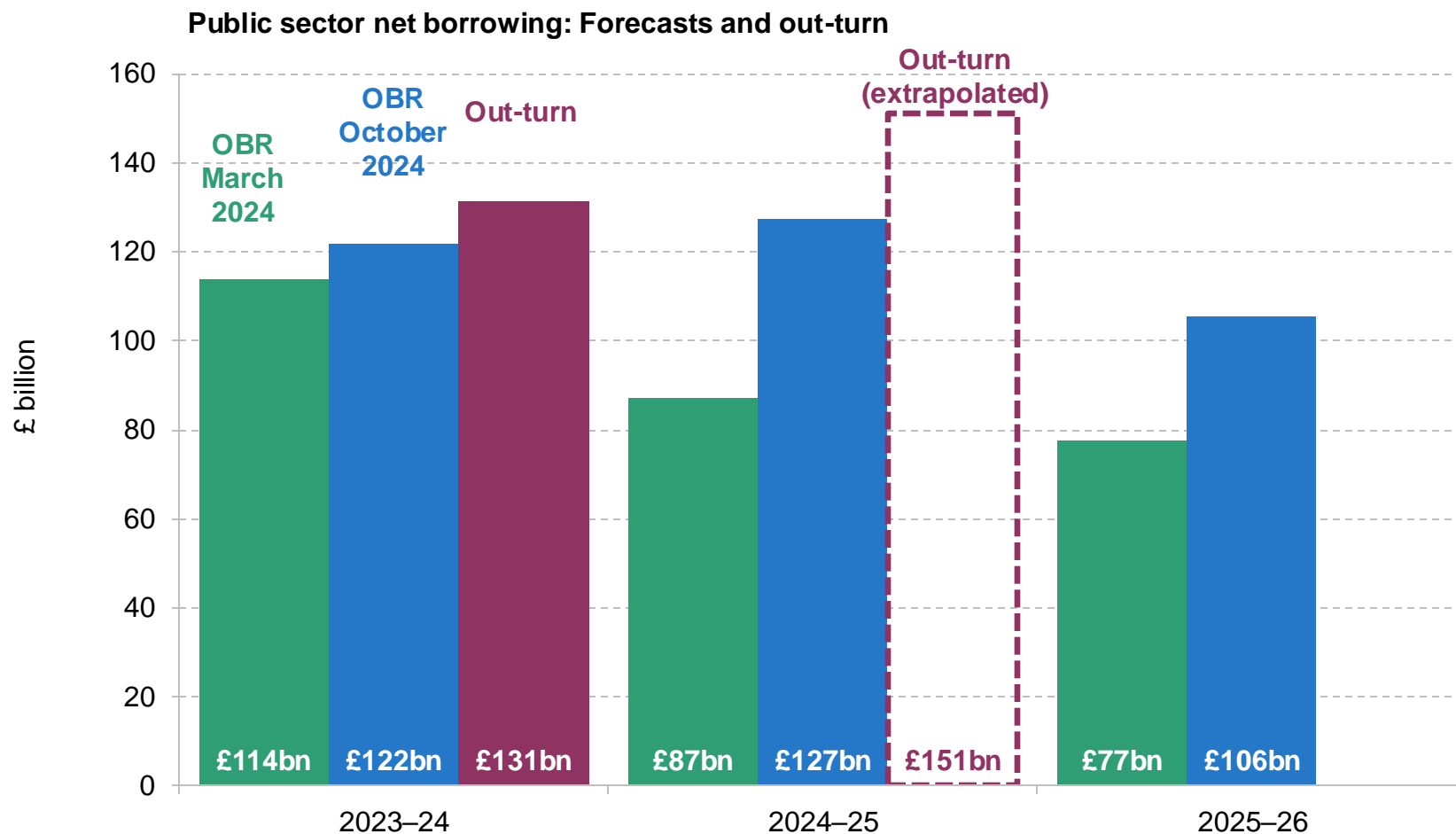
Source: Boileau et al (2025): A look ahead to the 2025 Spring Forecast

Interest rate risks



Source: Bank of England, Yield curves (<https://www.bankofengland.co.uk/statistics/yield-curves>)

In-year borrowing ahead of the October 2024 forecast



Wake me up when September ends?

The case for waiting until the autumn

- Commitment to only one major fiscal event a year
 - Constant fiscal tinkering is costly; policy stability is valuable
- Very small forecast surplus \approx very small forecast deficit

The case for a fully-fledged Spring fiscal event

- Strong commitment to 'non-negotiable' fiscal rules
- Signal on (lack of) fiscal credibility risks adverse market reaction
- Timing of Spending Review
- Damaging speculation about specific measures to come

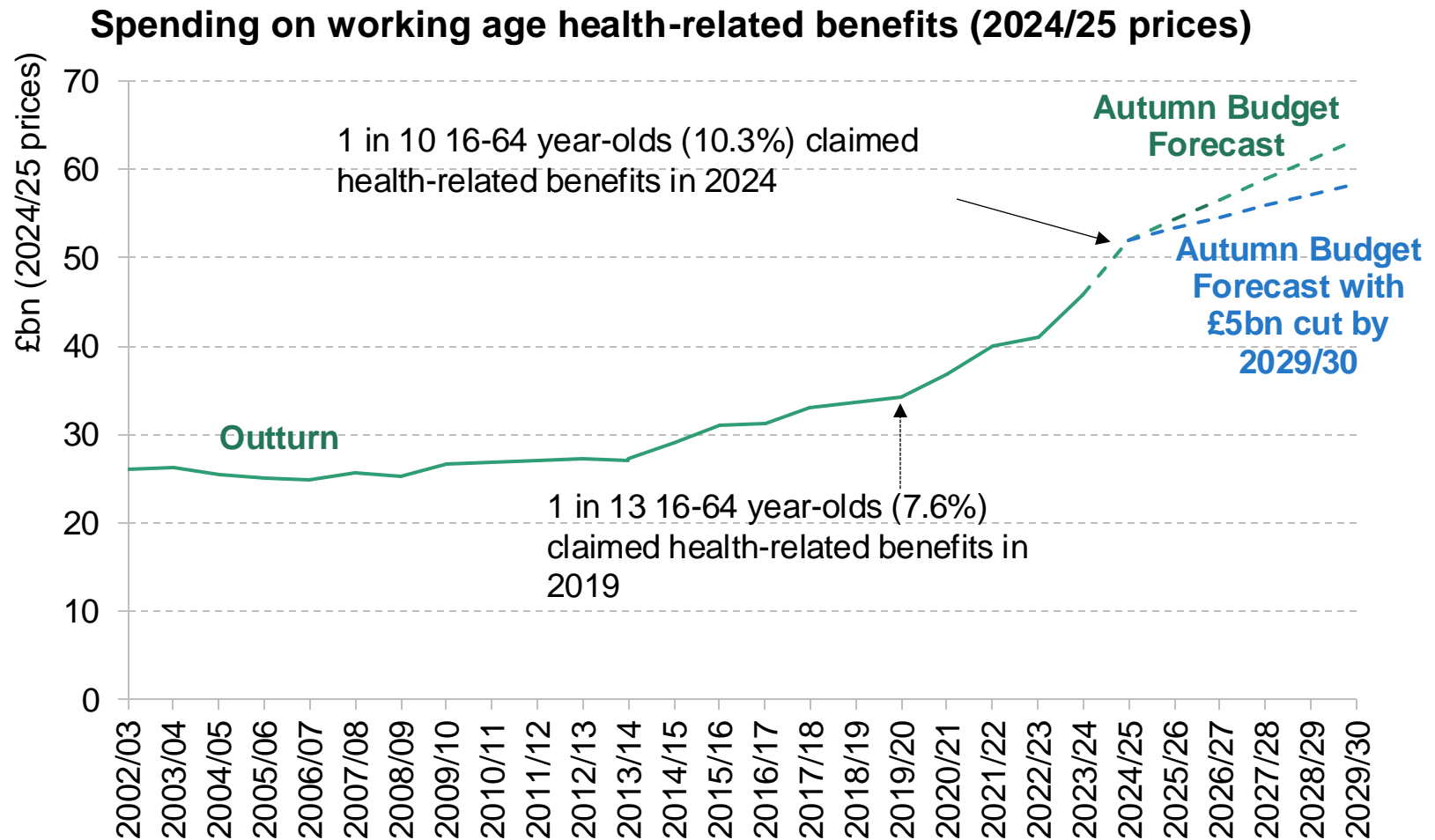
Inflexible fiscal rules + wafer-thin margins always risky

Options on tax and spending



- Fiscal rules bind in 2029–30
- Find savings in benefits spending (that the OBR will score)?
 - DWP estimates Green Paper will save £5 billion in 2029–30

A £5bn cut to health-related benefits would slow but not stop spending rise



Note: Excludes disability benefit spending in Scotland. Caseload figures are for England and Wales.

Source: DWP Caseload and Expenditure Tables, DWP Statxplorer and ONS population estimates

Tomorrow's Spring Statement

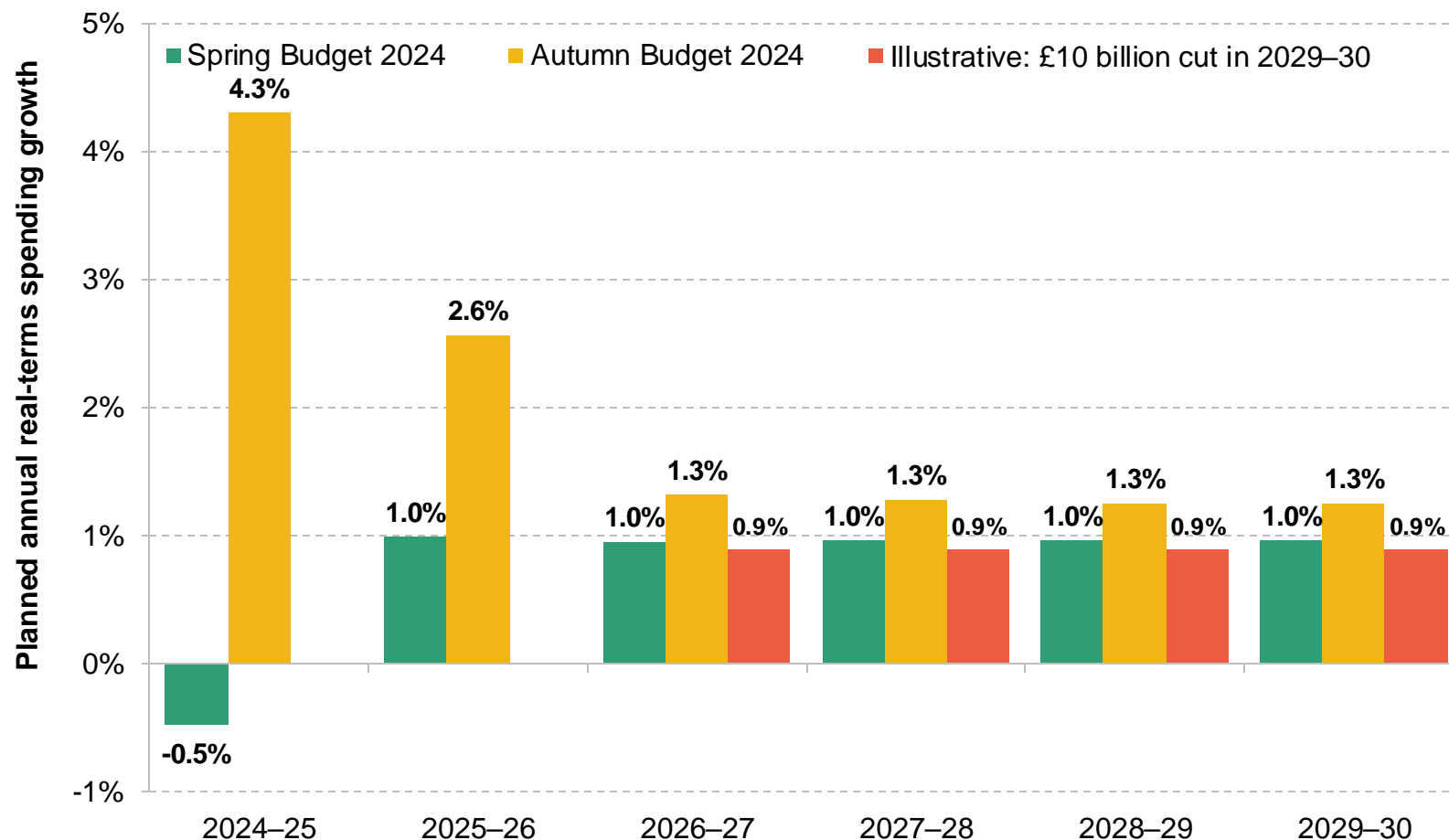
Options on tax and spending



- Fiscal rules bind in 2029–30
- Find savings in benefits spending (that the OBR will score?)
 - DWP estimates Green Paper will save £6 billion in 2029–30
- Extend threshold freezes for 2 more years, raising £10 billion?
 - Opaque and arbitrary revenue-raiser, but deliverable
- Pare back departmental spending plans?

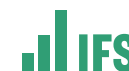
Front-loaded spending plans

Real terms day-to-day spending growth, 2024–25 to 2029–30, plans at Spring Budget 2024 and Autumn Budget 2024



Source: Bee Boileau (2024): Public Spending – A parliament of two halves?

Conclusions



- Chancellor *could* still be on track to meet her fiscal rules, e.g. if strong wages outweigh feeble growth and higher interest rates
- If taking fiscal action, options on tax, public services and benefits
 - Paring back departmental spending envelope would make June's Spending Review all the more difficult
 - Competing commitments (again) hard to reconcile
- Tomorrow's Spring Statement unlikely to be the non-event first billed