Paul Johnson, Director of the Institute for Fiscal Studies, spoke to the slide deck attached.

Growth

- The UK is in a 'technical recession' caused by stalled growth in the previous two quarters.
- But GDP per head has in fact been worsening since 2022.
- Significant population increases combined with stalled growth has meant that the UK has effectively been in recession on a per capita basis for two years.
- It is very unusual, and perhaps unprecedented, that in terms of income per person we will likely be no better off at the end of the parliament than we were at the beginning.
- Household disposable incomes will almost certainly be lower than they were in the 2019 election.
- OBR growth forecasts are significantly more optimistic than those of the Bank of England. There is little reason to believe that forecasts will have changed much since November. The average of independent forecasts is virtually unchanged.

Public finances

- Borrowing is £10 billion down on forecasts made in November 2023 but is £63 billion more than forecasts two years ago.
- Debt is higher than at any time since the early 1960s.
- A quarter of the UK's borrowing is index-linked rather than on a fixed rate. This means that inflation adds to the cost. A large fraction is also held by the Bank of England and so interest payments vary with the bank base rate.
- The result is that debt interest payments are at record levels. Spending on debt interest is now 4% of national income – double the average of the 2010s – amounting to £50bn or £60bn more than we had been used to.
- The scale of these payments is one of the major constraints on government who need to run a primary surplus – raise more in taxes and other revenues than they spend on everything other than debt interest – to avoid putting debt on an ever-rising path.

The Chancellor's fiscal rule

- Jeremy Hunt's five-year fiscal rule is that as a proportion of GDP, the level of the national debt in 2029 should be lower than in 2028.

- It is almost impossible to predict growth, inflation and interest rates over a five-year period. Any small movement in any of those factors will tip the outcomes one way or the other by tens of billions.
- This is not a sensible fiscal rule. We are meeting it by a hair's breadth – and that is why the chancellor is said to have so little 'headroom' – yet debt is actually on an upward path.
- The rule is all about the change in the final year of the forecast. This is probably the loosest fiscal rule we have had to date.

Public spending

- All the Chancellor's forecasts are predicated on current public service spending rising by 0.9% a year from April 2025.
- Given reasonable assumptions about what is likely to happen to spending on health, defence and one or two other protected areas, this would mean cuts of around £20 billion across other areas of public service spending, for example, local government, justice and social care.

Tax

The tax burden is at a record high having risen by £66bn over the course of the parliament.

- This has been driven especially by freezes to income tax allowance and thresholds. These will amount to a £40 billion tax increase by the time the freeze is due to end in 2027-28
- The 2p cuts in National Insurance rates already in place offsets these increases in 2024-25 for those earning around £40-50k but others will lose overall with higher and lower earners losing most.