

Office for
**Budget
Responsibility**

Fiscal risks in the UK

Andy King
Budget Responsibility Committee

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Introduction

Background

- The IMF said in 2016 that “summary reporting of specific risks is a weakness that should be addressed”
- The Government then legislated for us to produce an *FRR* every two years, to which it is obliged to respond
- We published our first *FRR* in July 2017 and the Treasury responded with *Managing fiscal risks* in July 2018
- Several other countries produce risk reports, but usually by their finance ministries or cabinet offices

Our approach

- The IMF defines fiscal risks as
 - “the possibility of deviations of fiscal outcomes from what was expected at the time of the Budget or other forecast”
- In our *Fiscal risks reports* we focus on risks
 - to our latest forecast over the medium term (March 2019 EFO)
 - to fiscal sustainability over the longer term
- We are interested in
 - Probability and potential impact: any change over past two years?
 - What the Government is doing: response in *MFR* and policy
- But taking on fiscal risk not necessarily a bad thing

Chapters and special themes

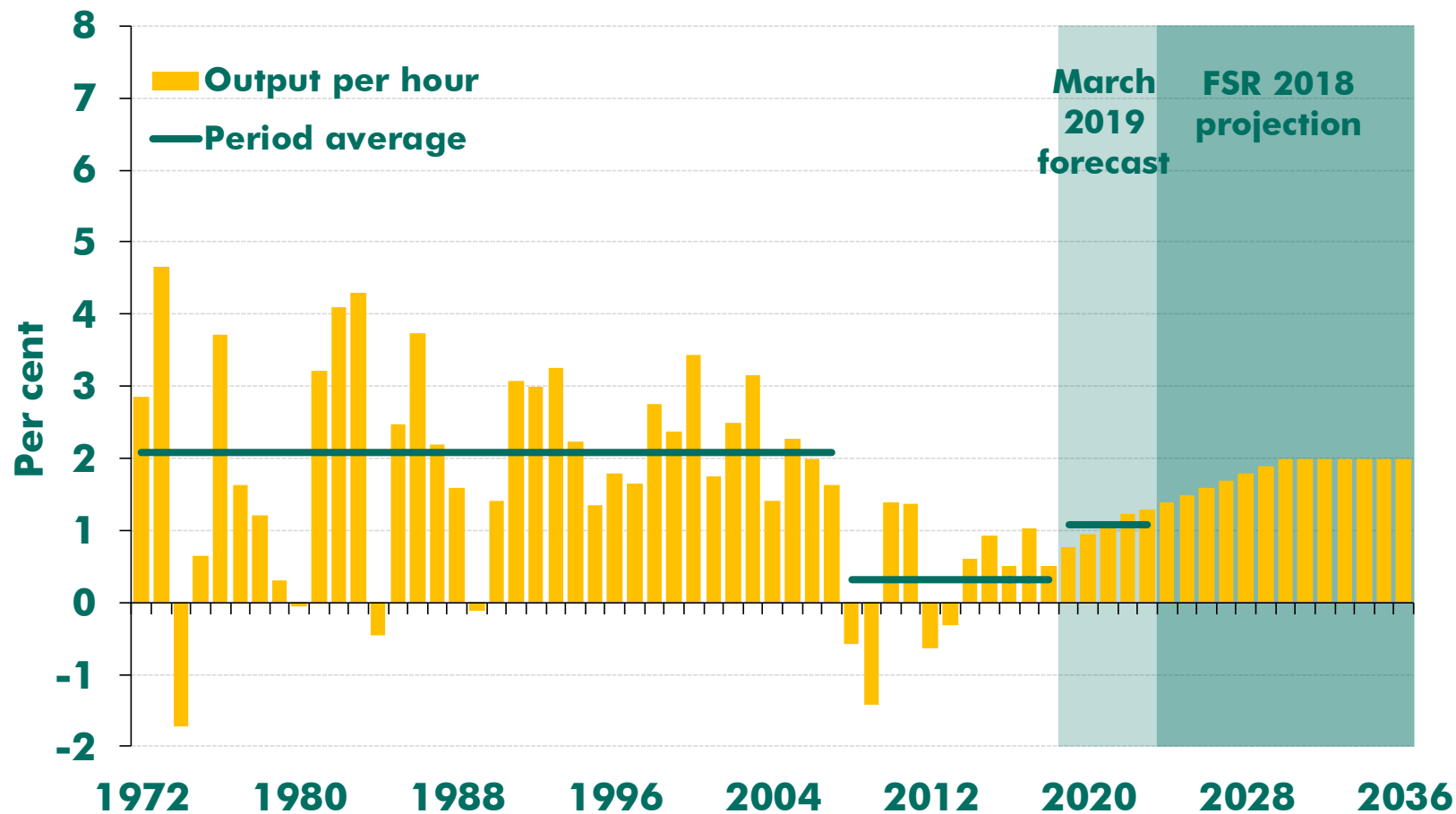
- **Macroeconomic risks:** output gap mismeasurement
- **Financial sector risks:** shadow banking
- **Revenue risks:** tax relief and digital economy
- **Primary spending risks:** NHS & free TV licences for over 75s
- **Balance sheet risks:** fiscal illusions & intangible assets
- **Debt interest risks:** 'R-G' and debt dynamics
- **Fiscal policy risks:** looser fiscal rule?
- **Climate change:** introduction to future work
- **A fiscal stress test:** IMF no-deal Brexit scenario

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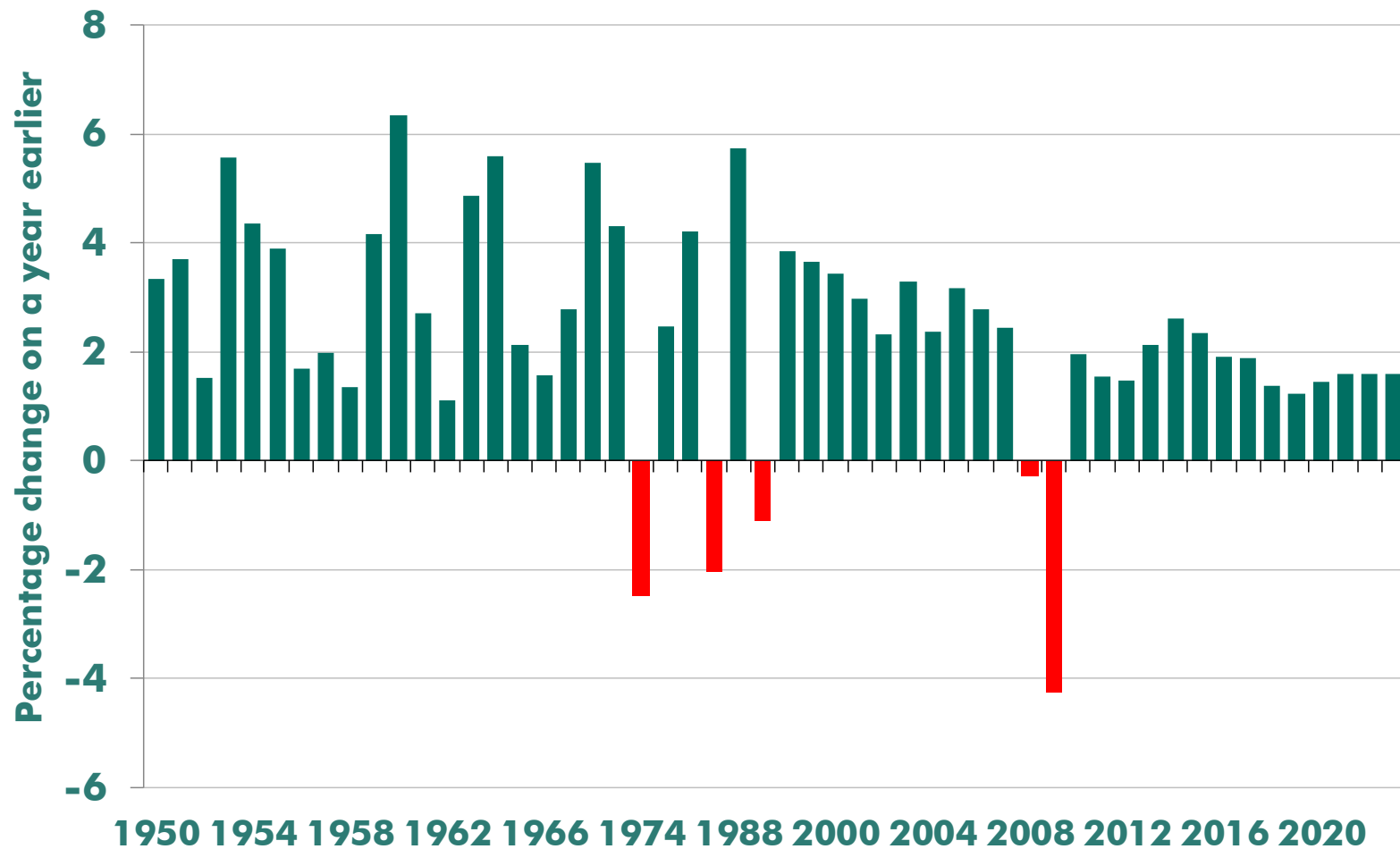
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Macroeconomic risks

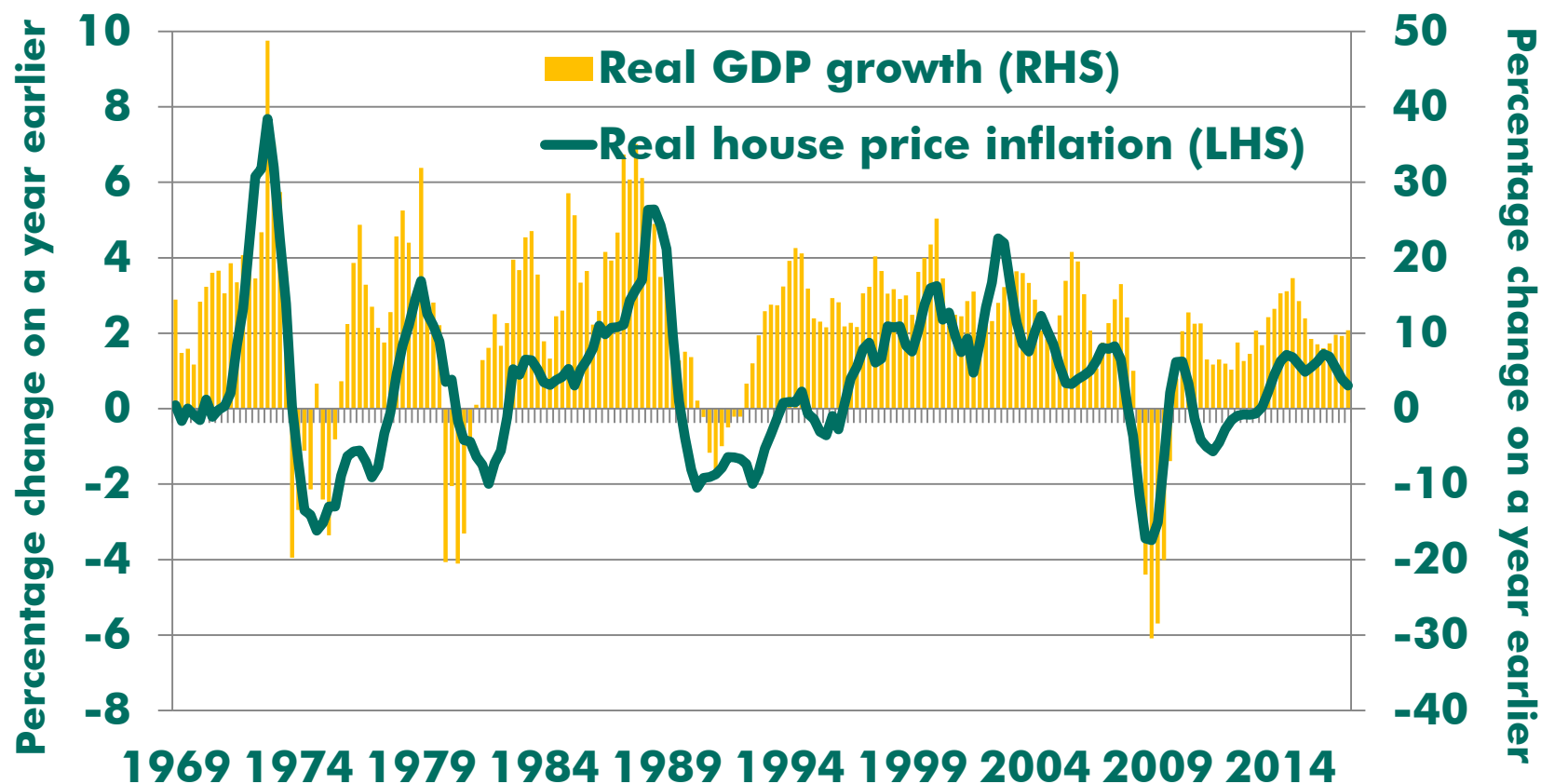
Productivity growth



Recessions

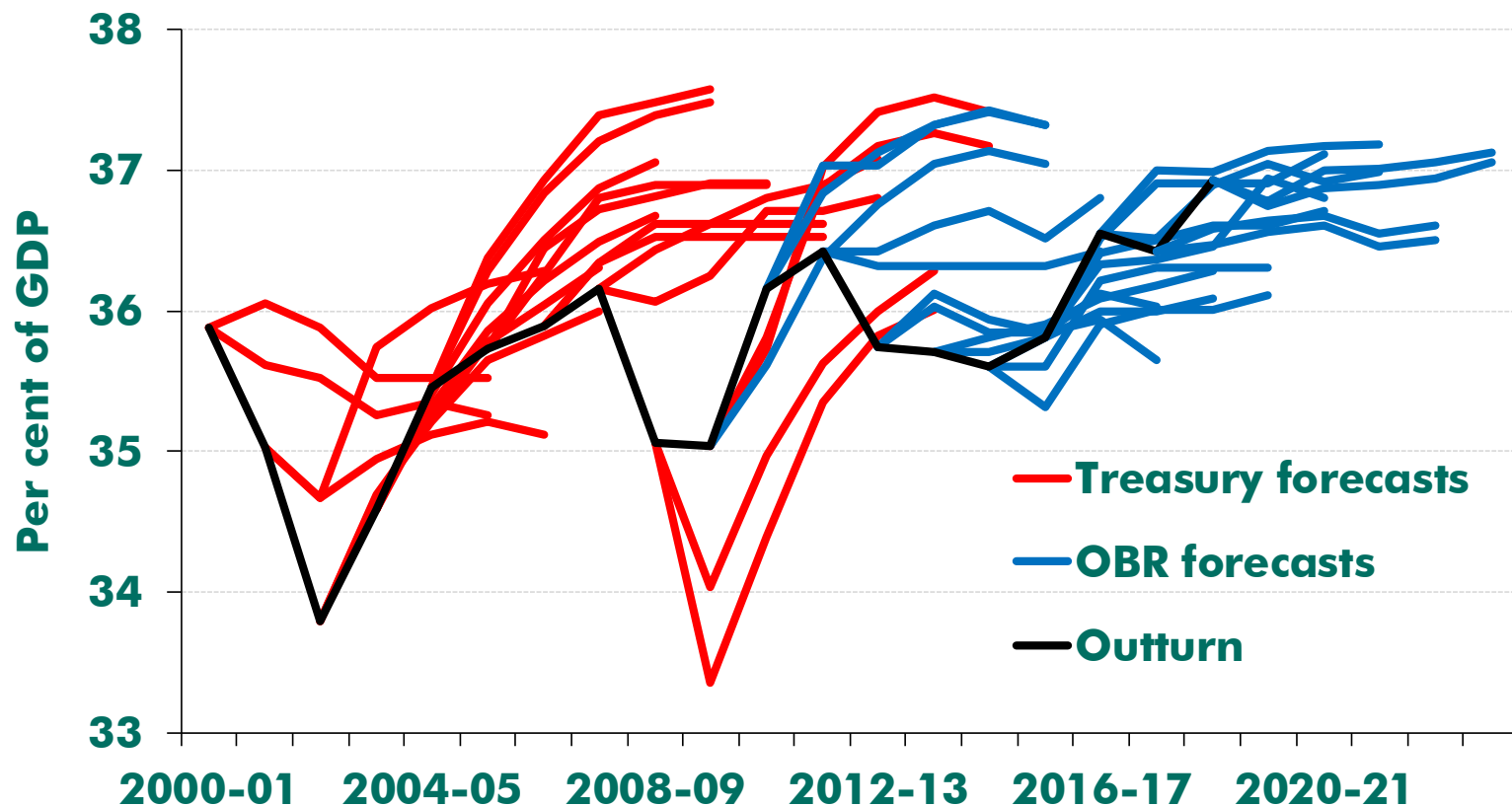


The housing market

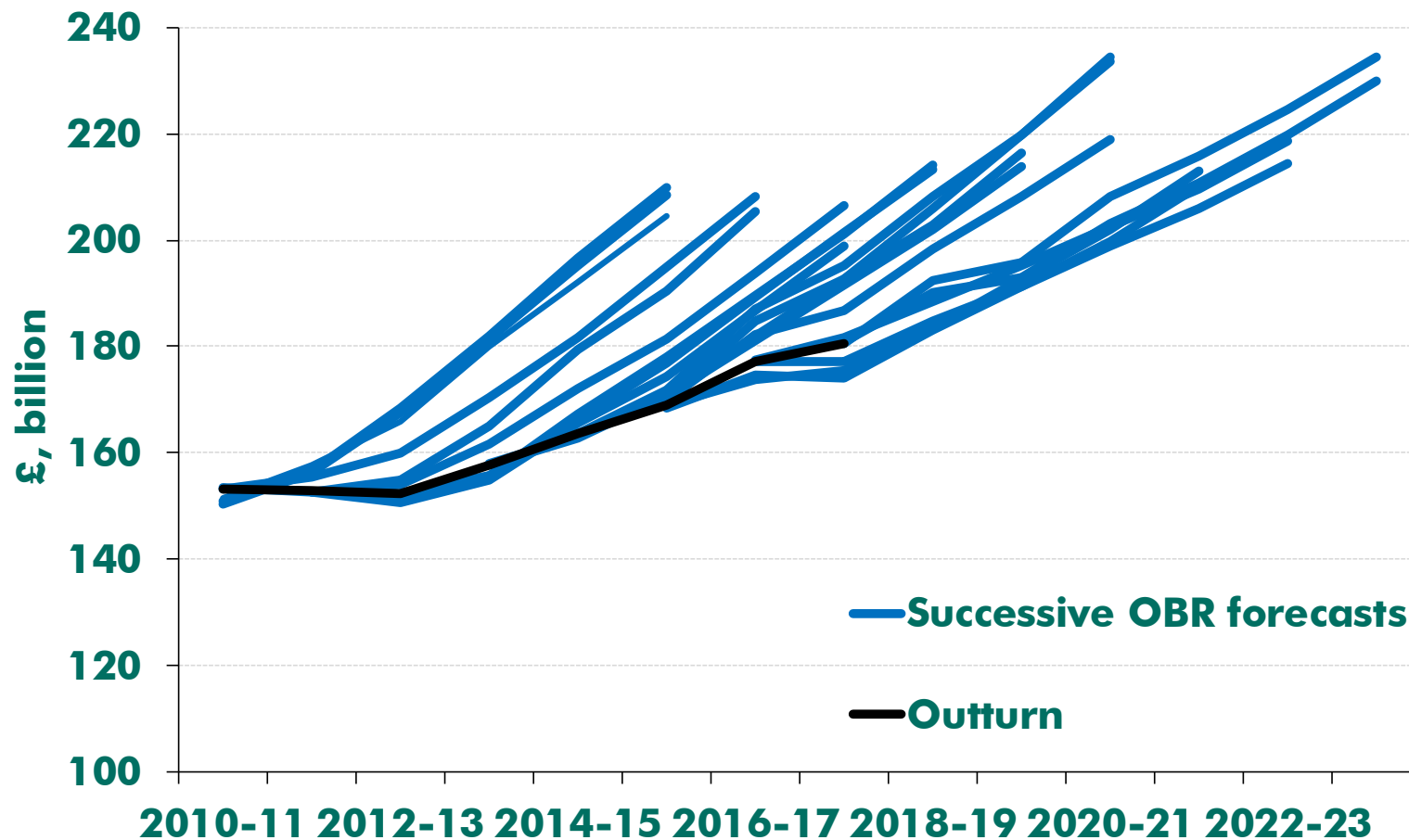


Revenue risks

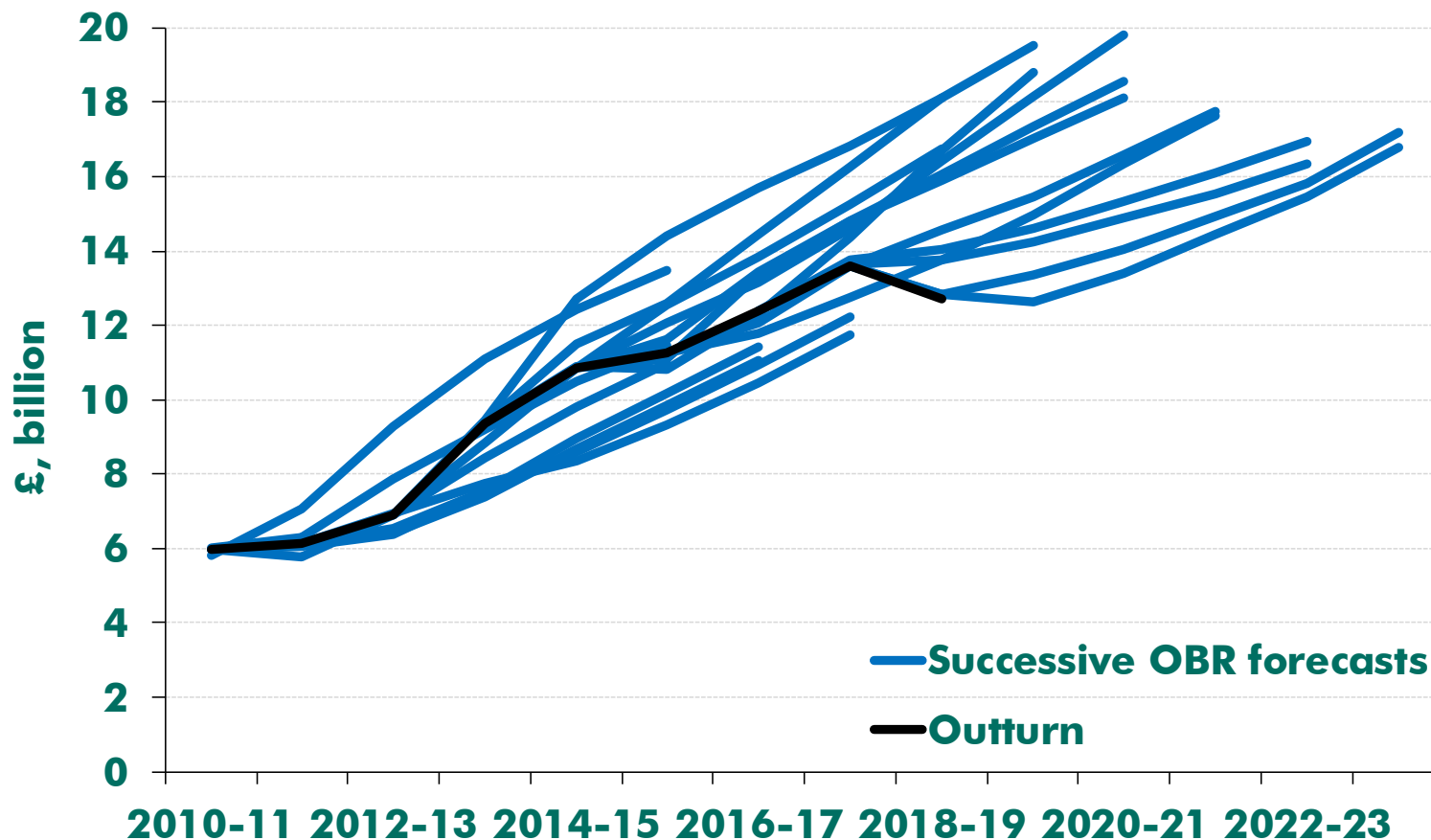
Revenue forecast surprises



Income tax surprises

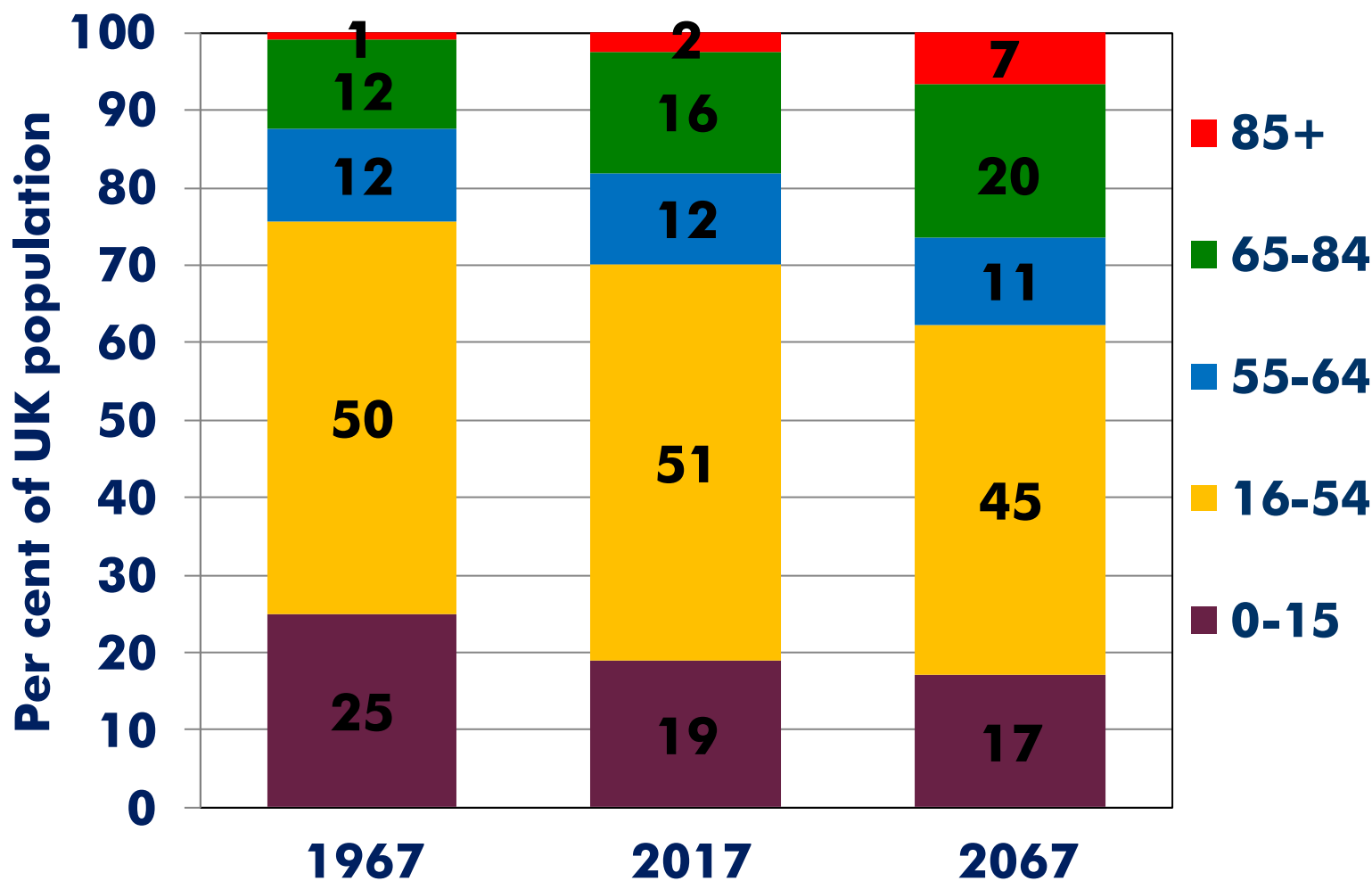


Property transaction tax surprises

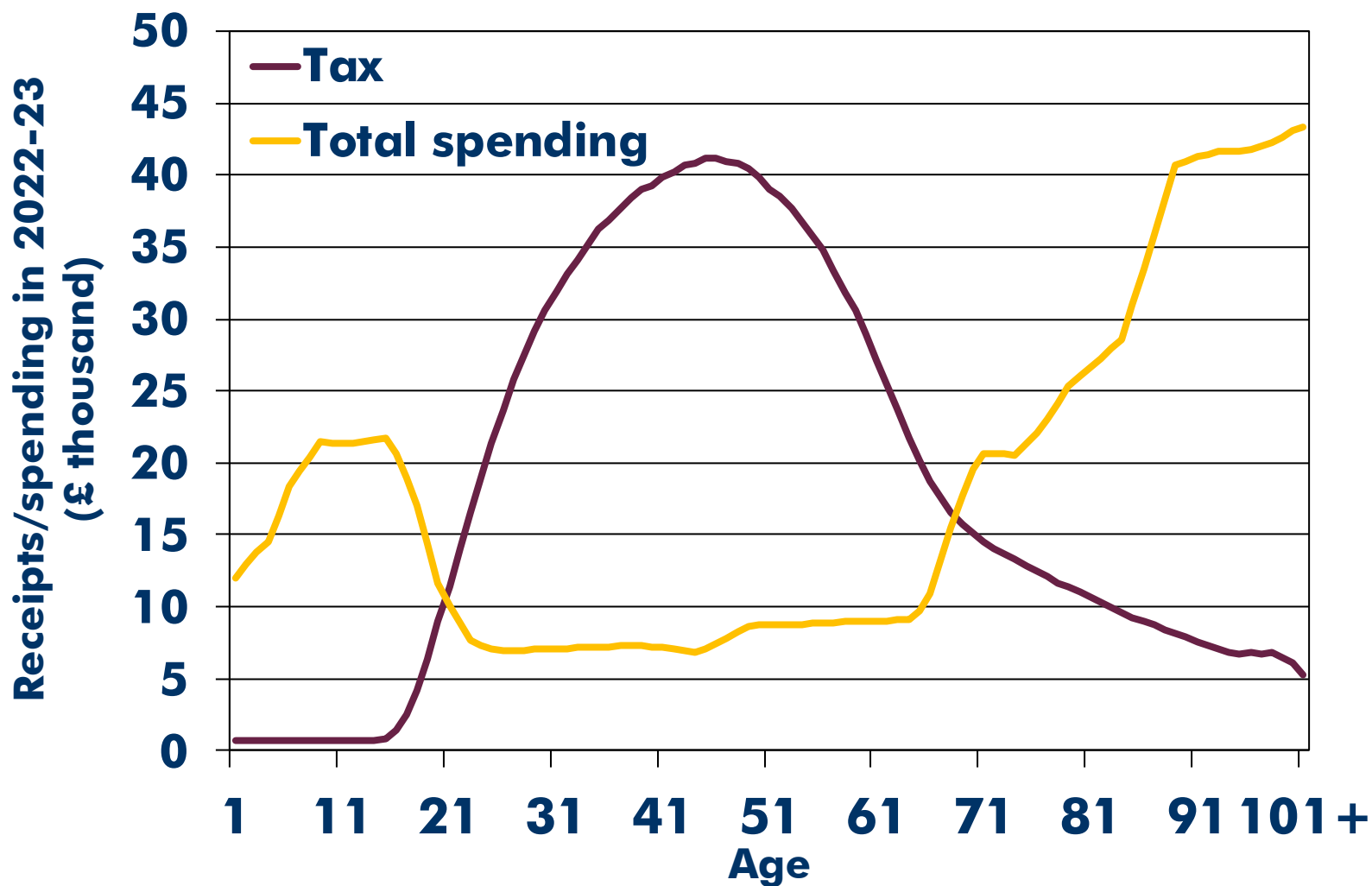


Long-term spending pressures

The ageing population



Long-term spending pressures



Long-term spending pressures

Per cent of GDP	2017-18	2022-23	2067-68
Health	7.1	7.6	13.8
Adult social care	1.2	1.3	1.9
Education	4.3	4.1	3.8
State pensions	5.1	5.0	6.9
Pensioner benefits	0.8	0.8	1.3
Public service pensions	2.0	2.1	1.5
Total age-related spending	20.5	20.9	29.2
Other welfare benefits	4.8	4.5	4.2
Other spending	11.4	11.0	11.2
Spending	36.7	36.4	44.6

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Conclusions

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- Governments are there to manage society's risks...
- ...but also risks to the public finances.
- These come in many forms:
 - Nasty surprises – e.g. macroeconomic shocks
 - Slow-building pressures – e.g. population ageing
 - Policy choices – macro: fiscal targets; micro: the triple lock
 - Brexit – overlays many potential sources of risk