

Office for
**Budget
Responsibility**

Fiscal risks report

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Background to the FRR

- Weak risk reporting a failing against IMF Fiscal Transparency Code
- In 2015 the Treasury decided that the OBR should publish a risks report every two years and required this in legislation, including a commitment for the Government to respond within a year
- Most other FRRs produced by finance ministries or cabinet offices
- Scoping report in 2016: IMF guidelines and international experience.
- First FRR published and laid in parliament in July 2017
- FRR II due in 2019

Our approach

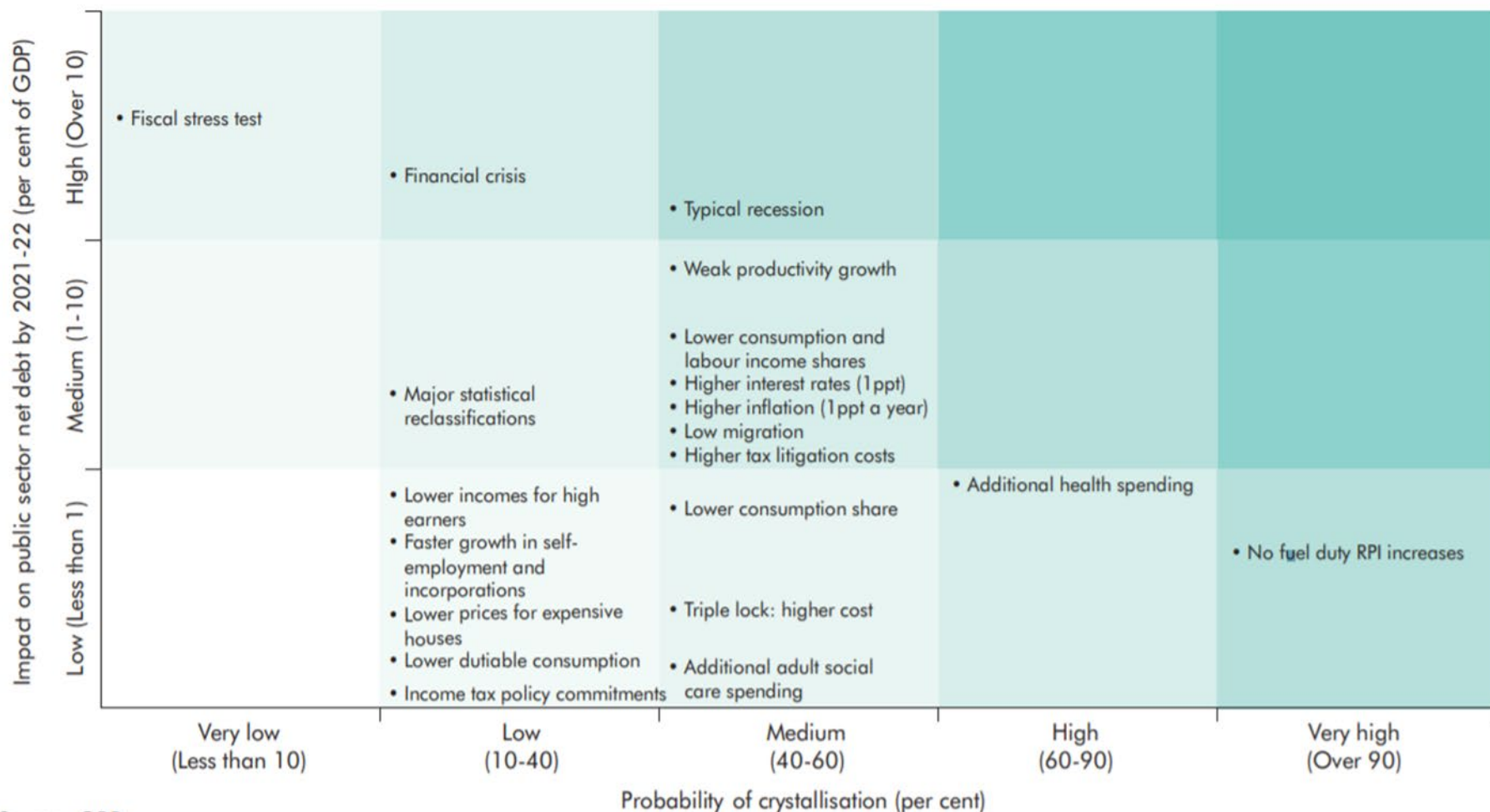
- The IMF defines fiscal risks as
 - “the possibility of deviations of fiscal outcomes from what was expected at the time of the Budget or other forecast”
- We adapted this to focus on risks
 - To our most recent (March 2017) forecast over the medium term
 - To fiscal sustainability over the longer term
 - With greater attention to downside risks in both cases
- We were particularly interested in
 - The probability of particular risks and their potential impact
 - Whether they were correlated with other risks
 - What the government was doing about them

Structure of the report

- Introduction: analytical framework
- Macroeconomic risks
- Financial sector risks
- Revenue risks
- Primary spending risks
- Balance sheet risks
- Debt interest risks
- A fiscal stress test
- Conclusions

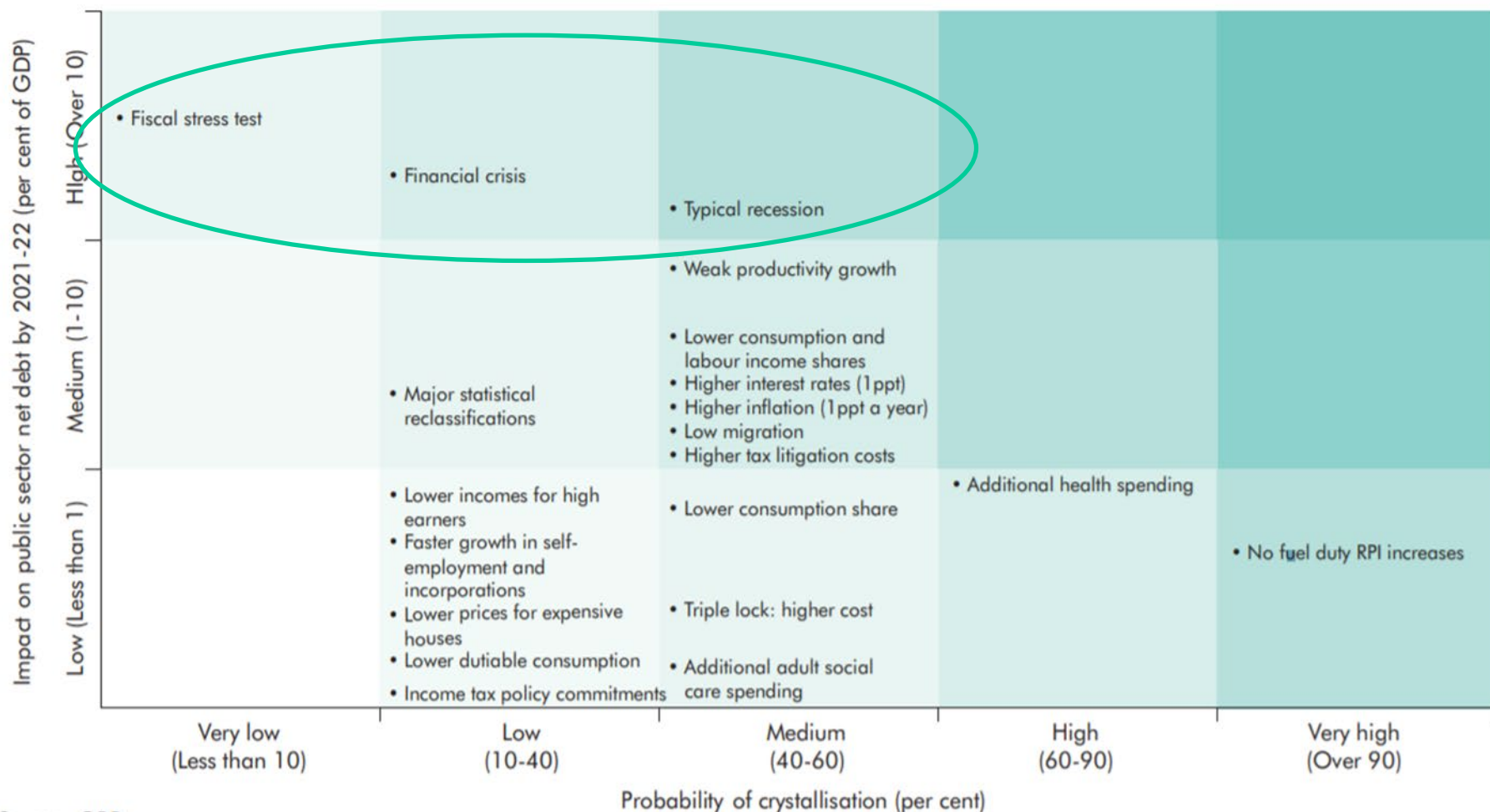
Including 57 issues that the Government might wish to consider in its response

Figure 10.1: Sources of fiscal risk over the medium term



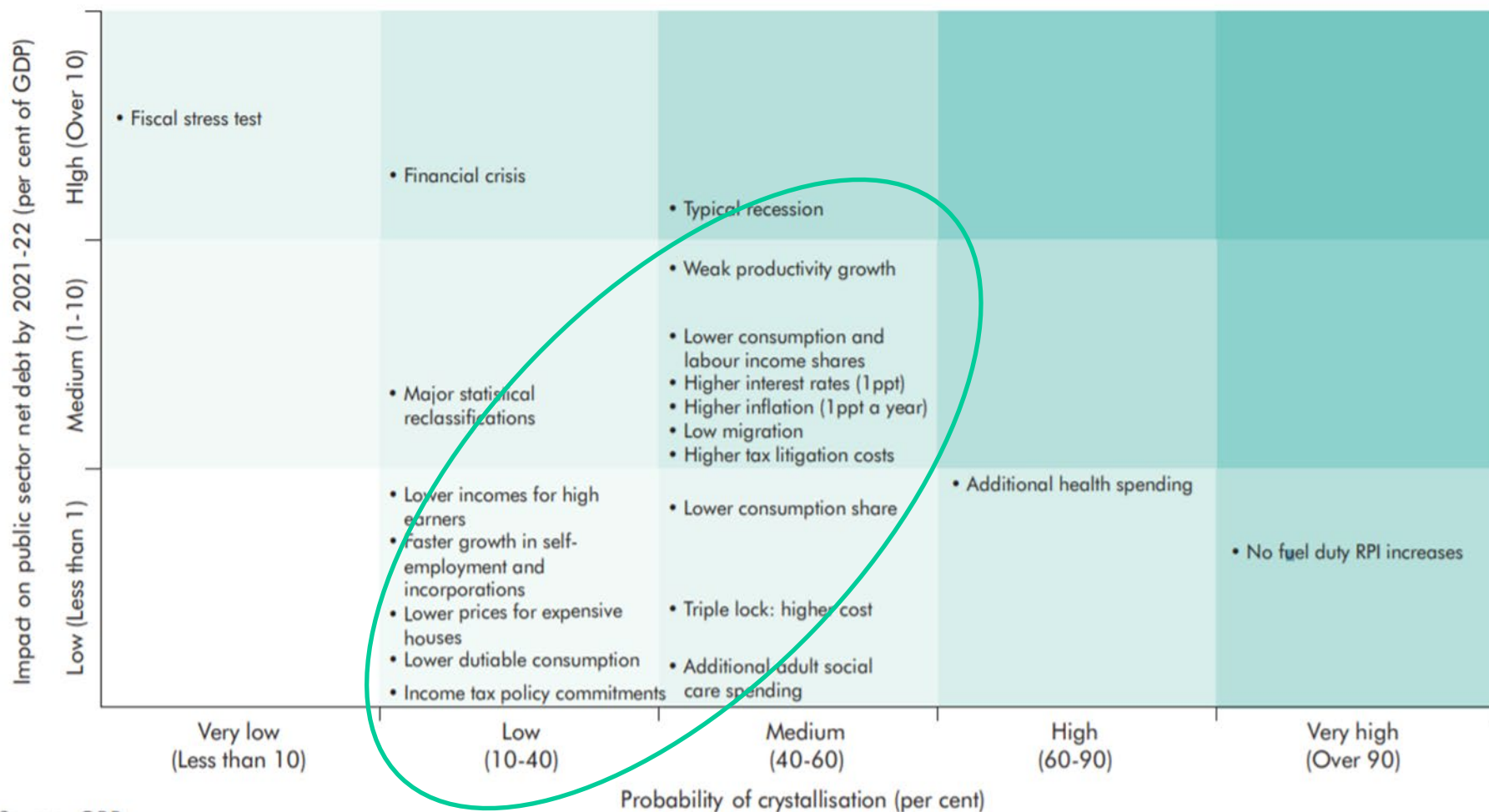
Source: OBR

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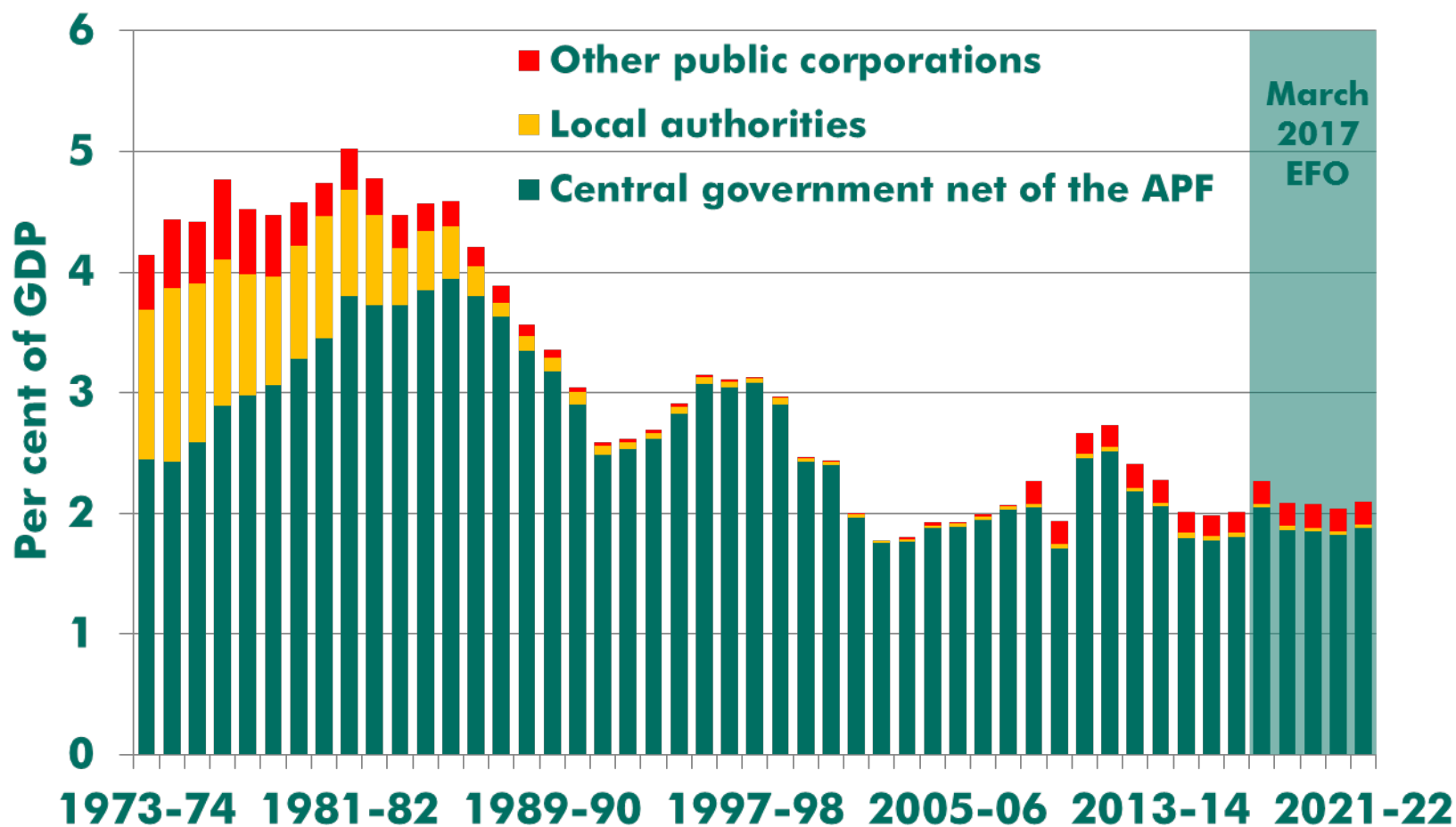
Source: OBR

Figure 10.1: Sources of fiscal risk over the medium term



Source: OBR

Debt interest spending



Maturity of the debt stock

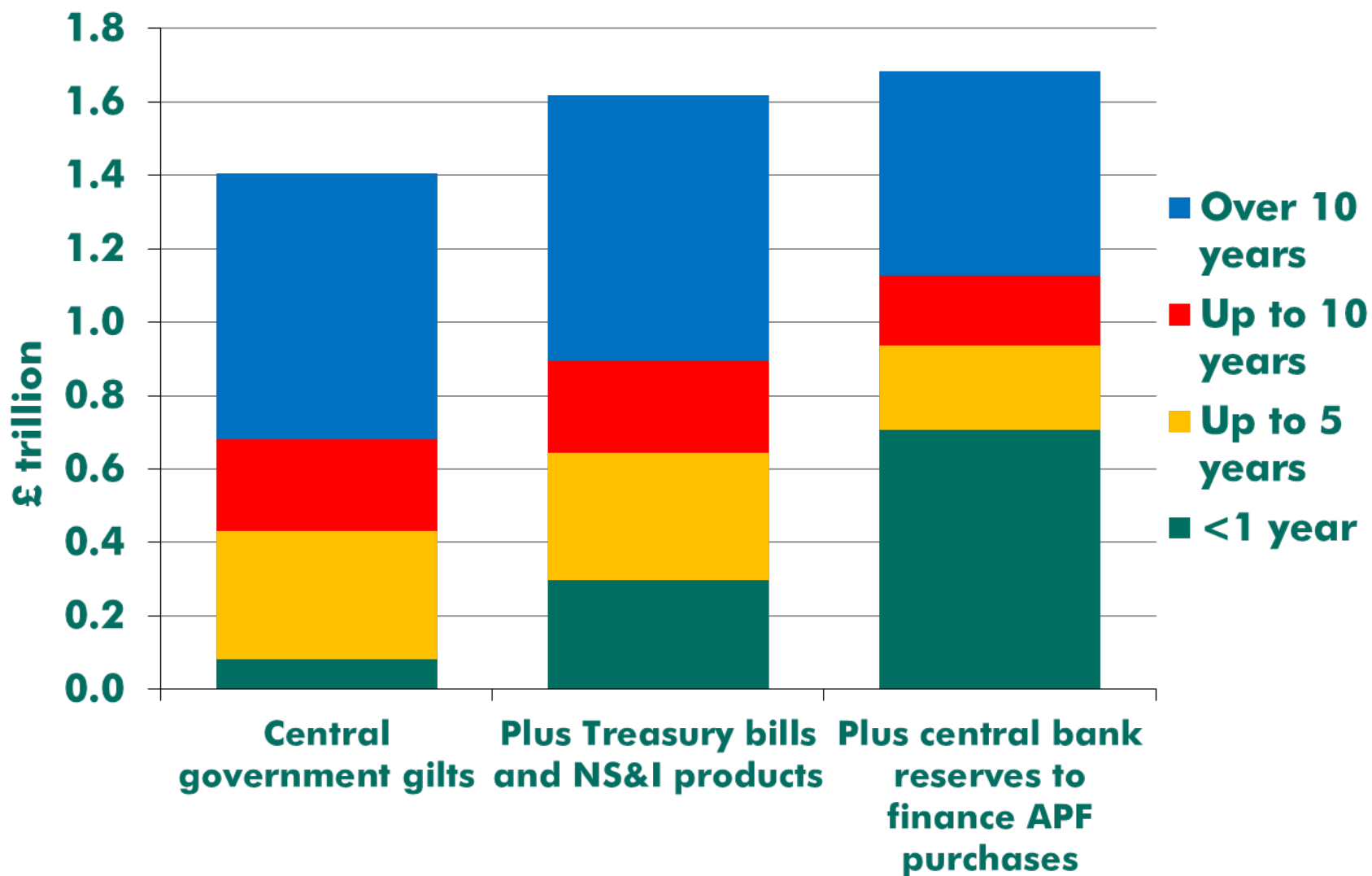
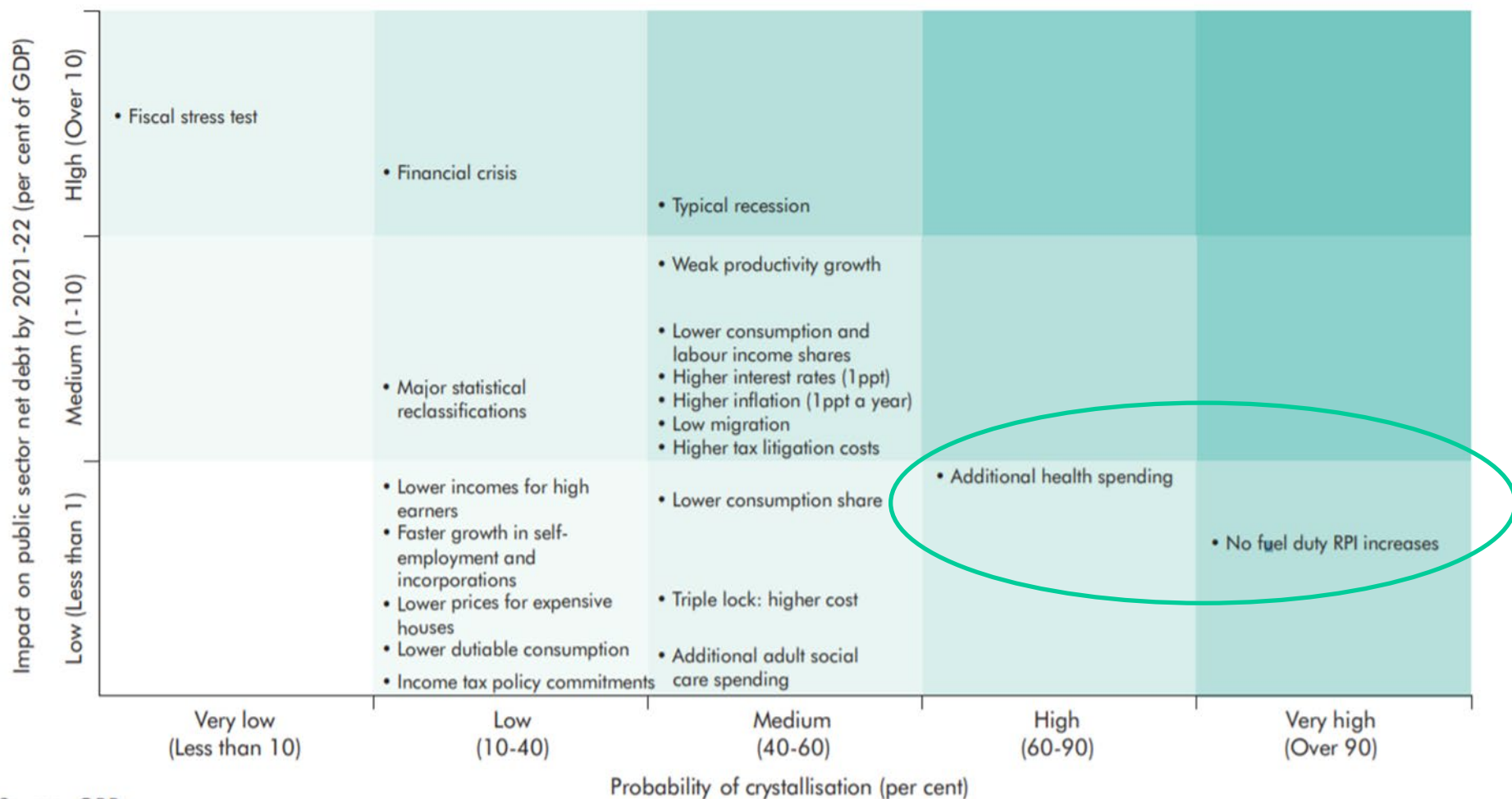
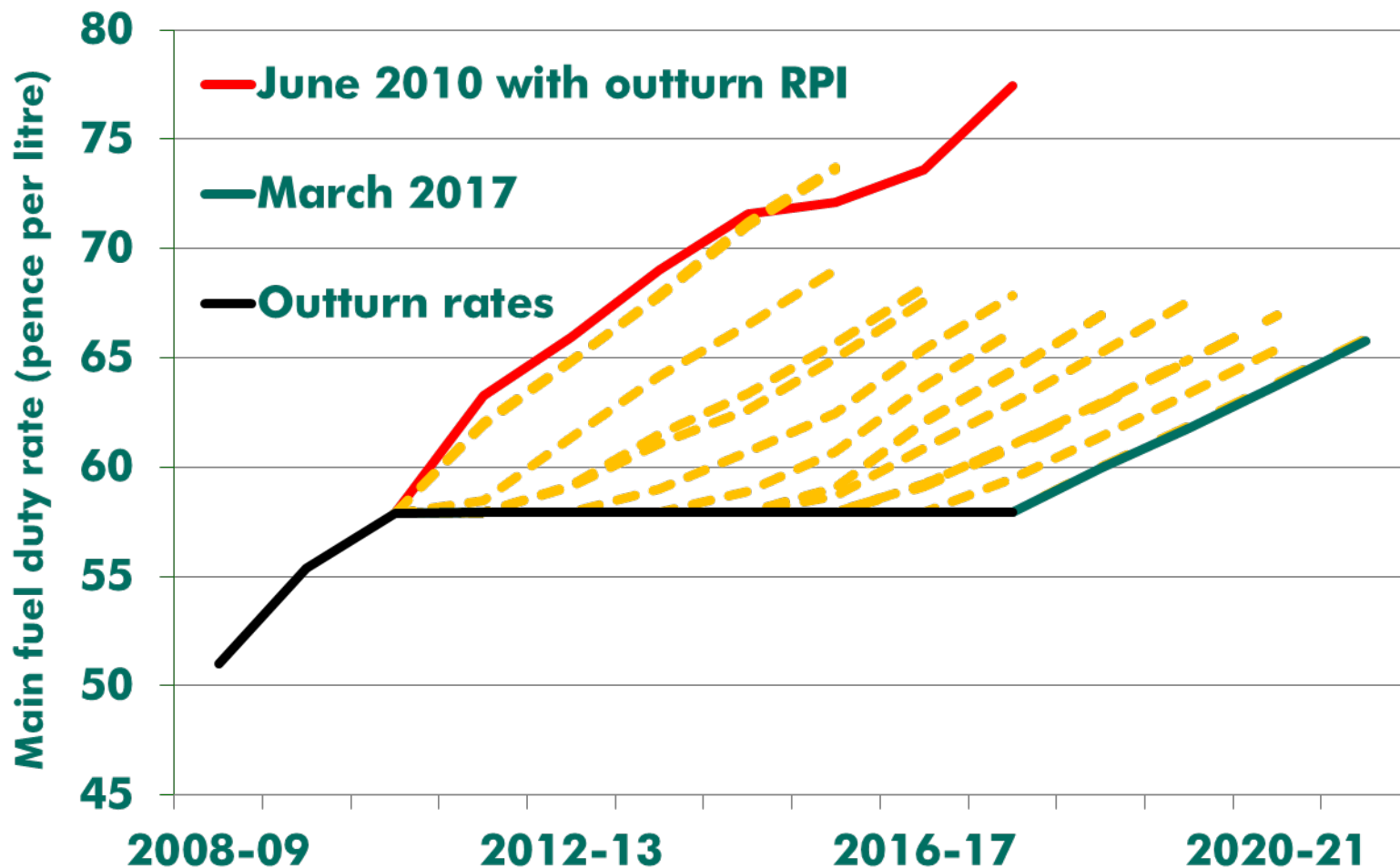


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Source: OBR

Actual and default fuel duty rates



Impact of policy measures in 2017-18

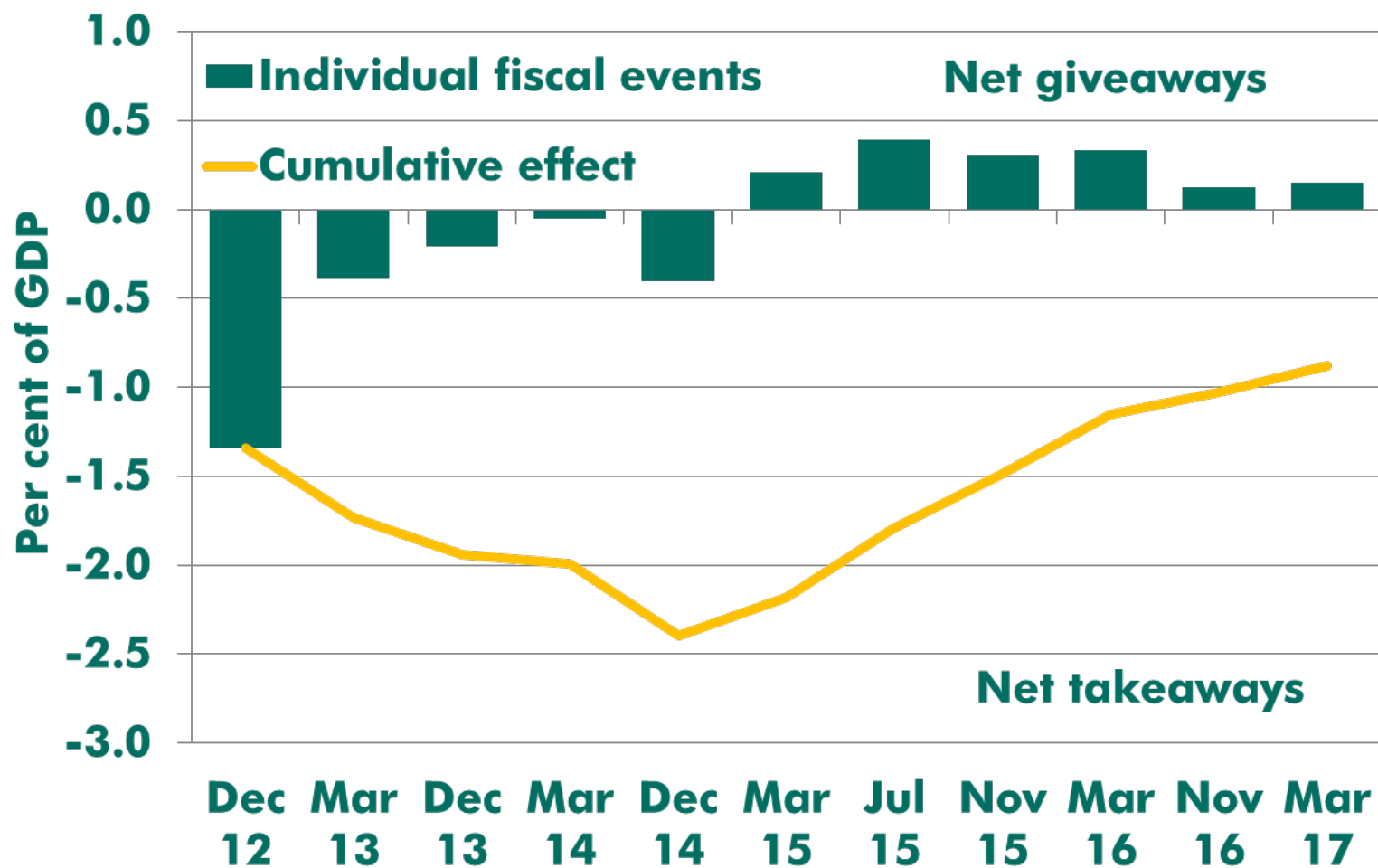
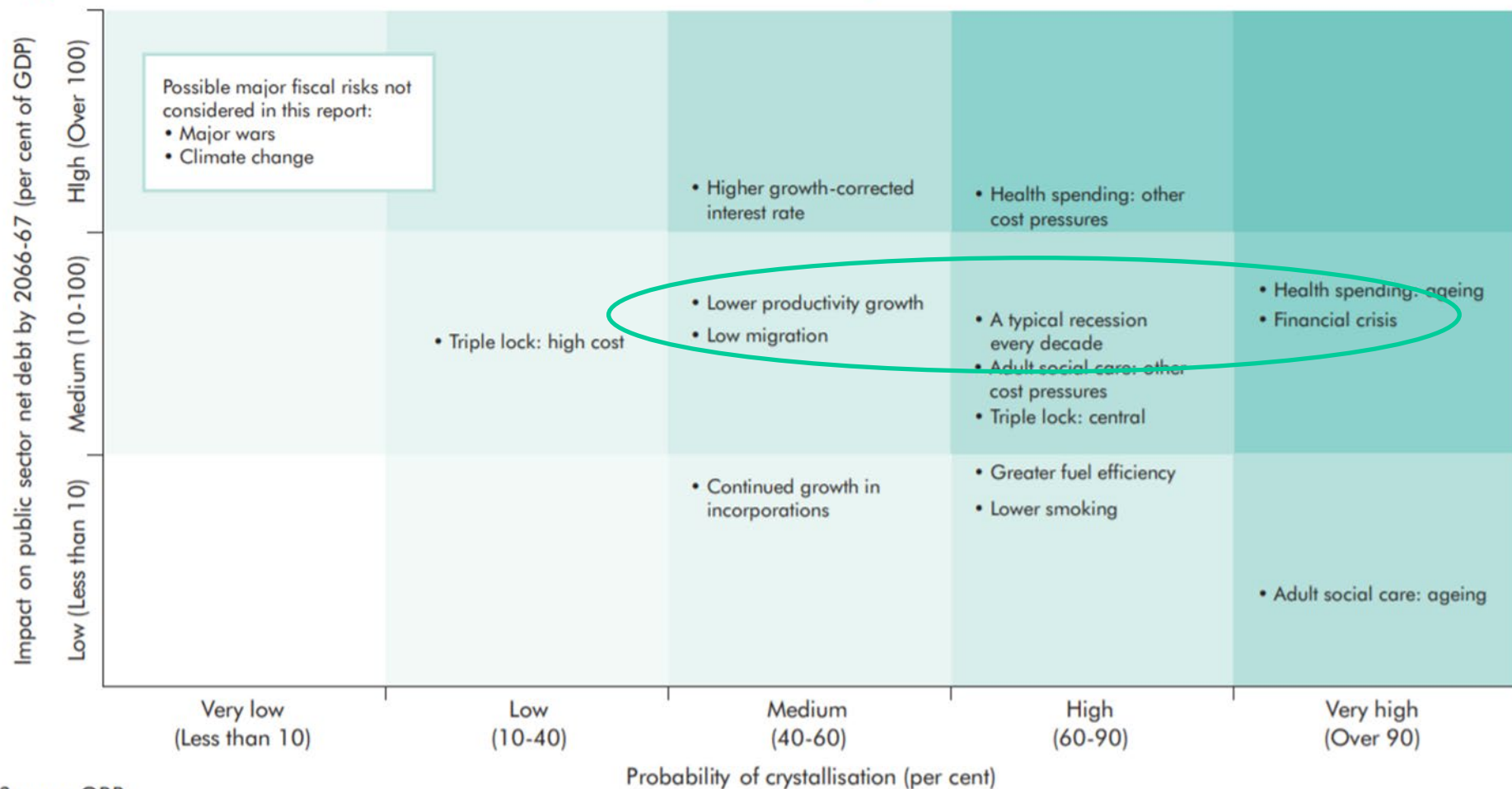
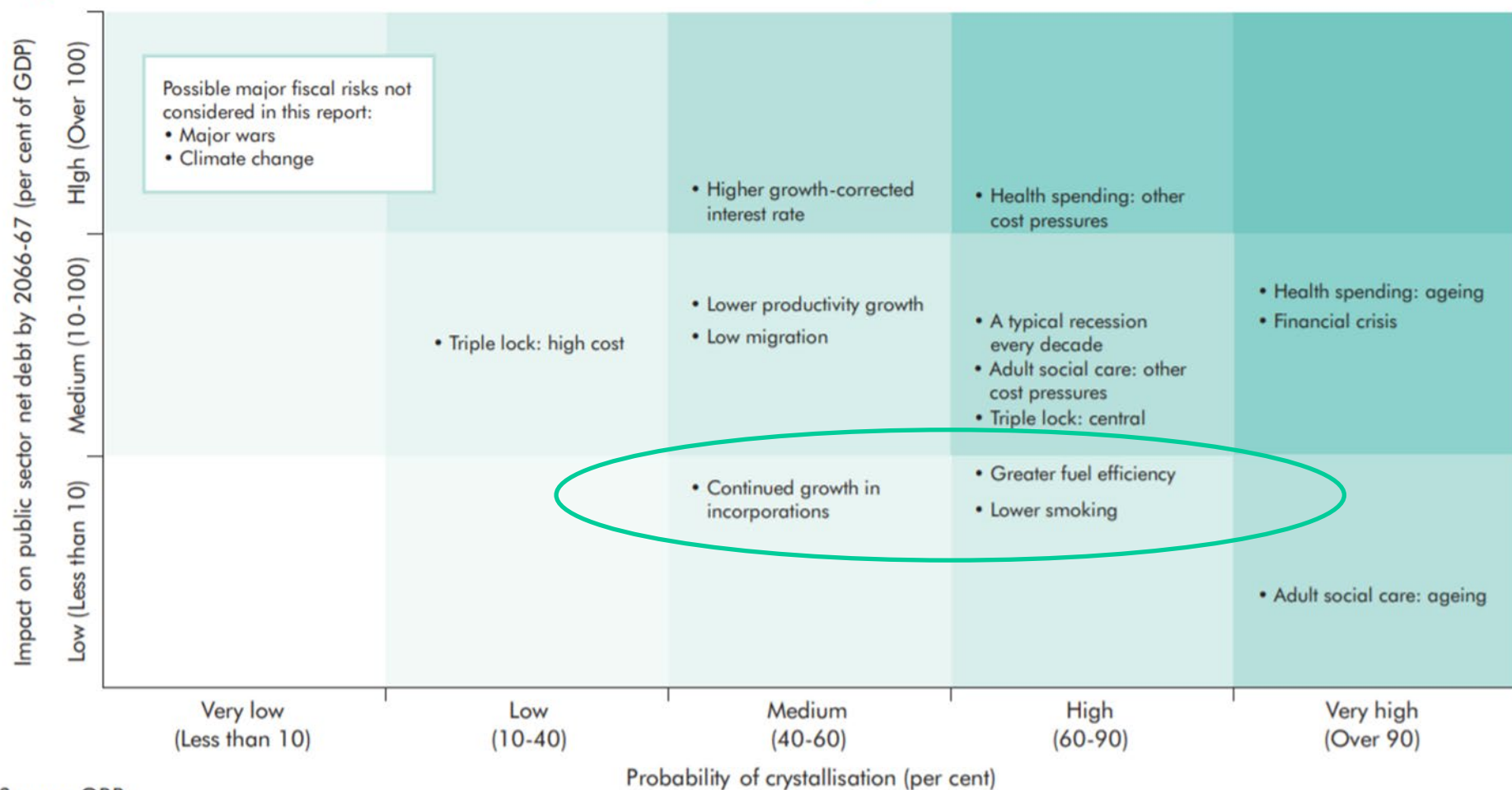


Figure 10.2: Sources of risk to fiscal sustainability



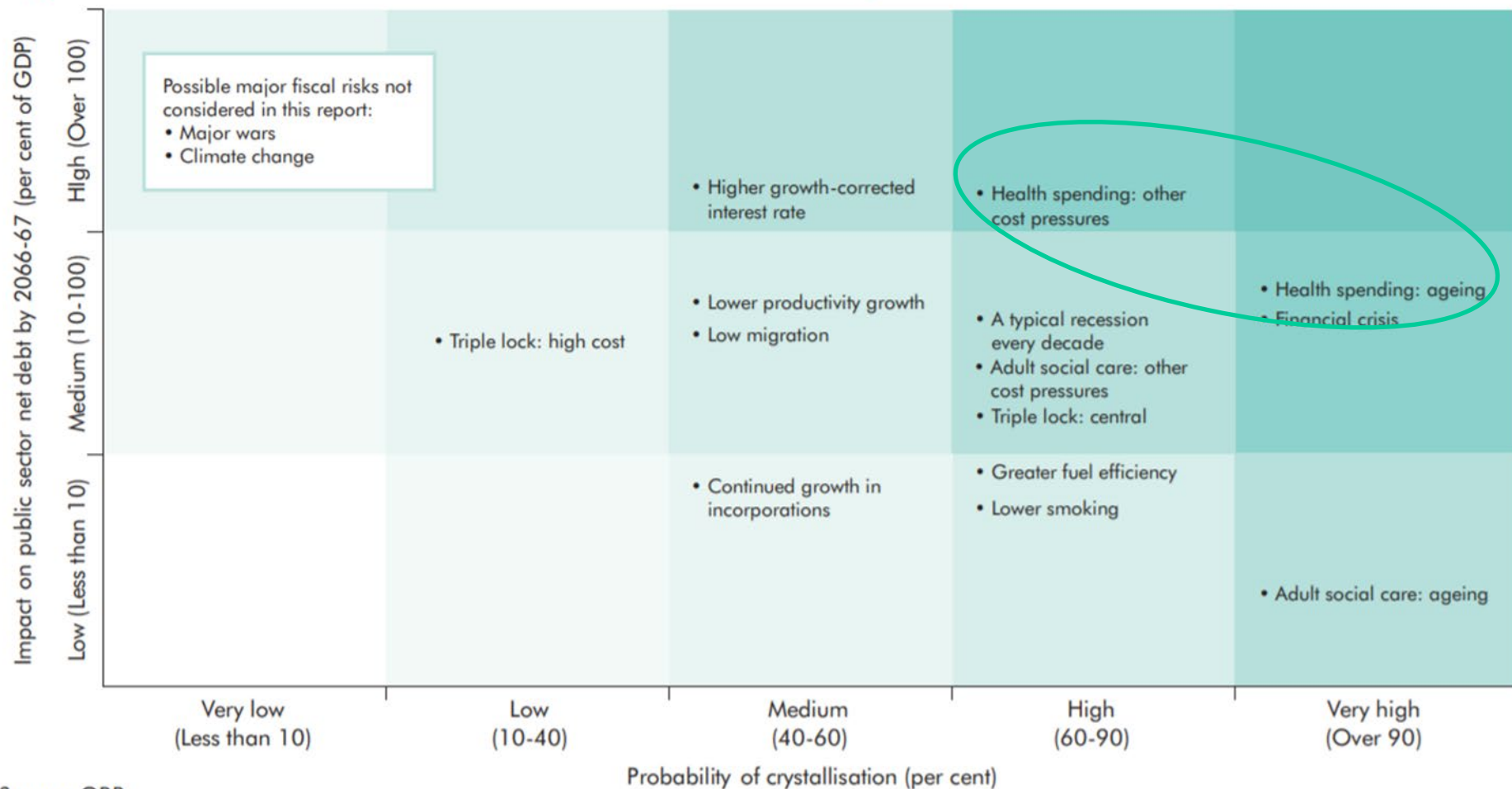
Source: OBR

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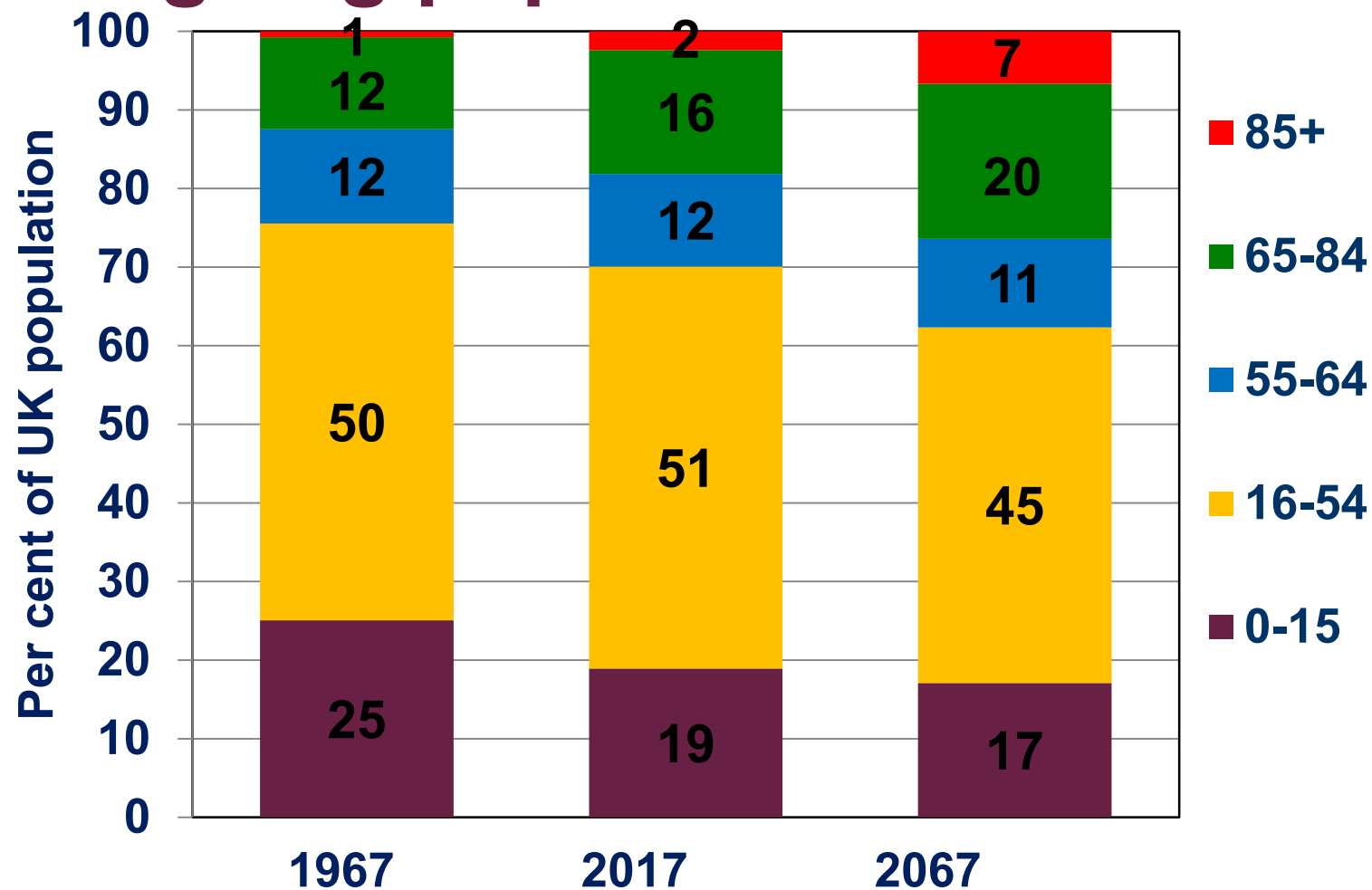
Source: OBR

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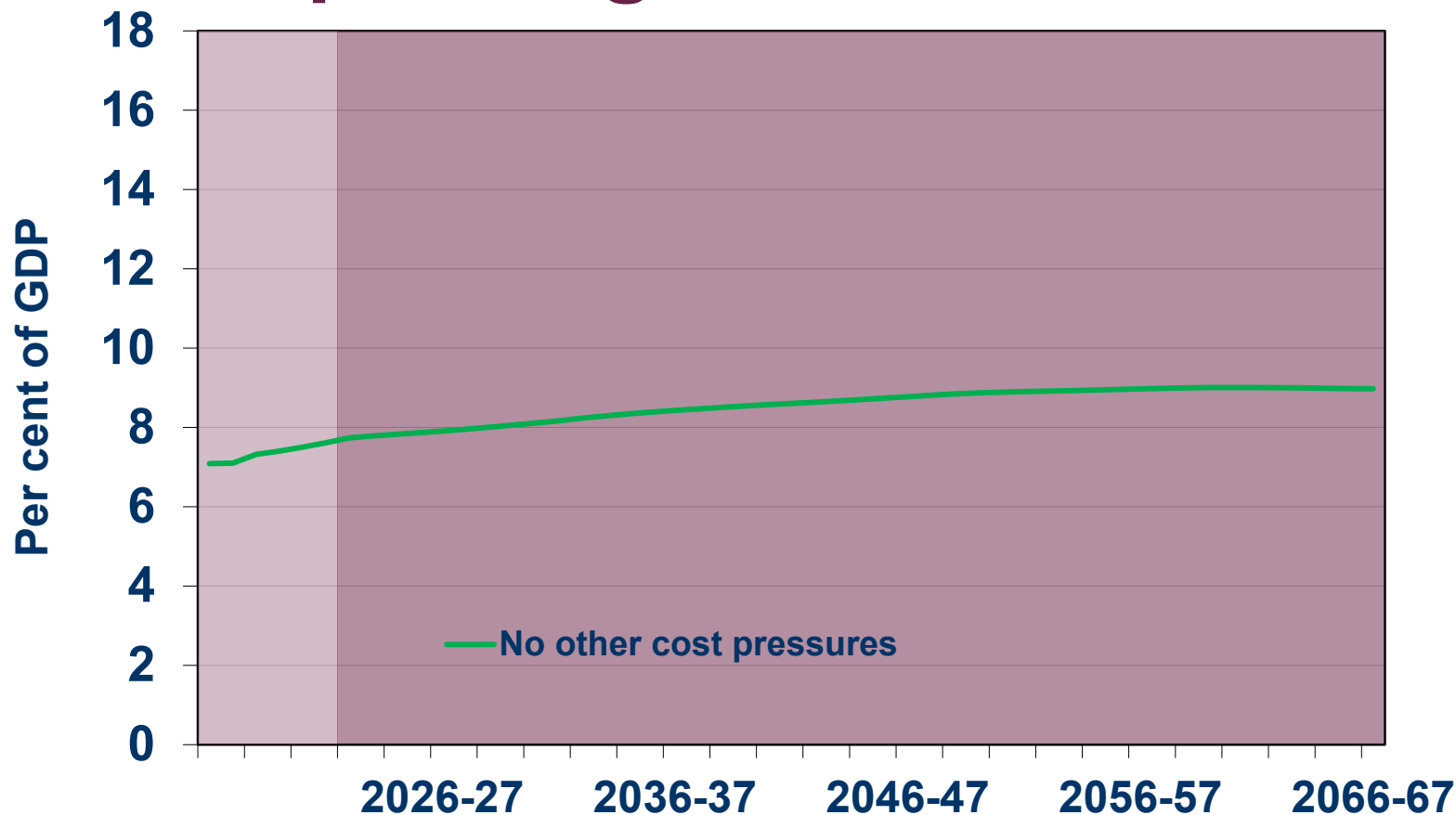


Source: OBR

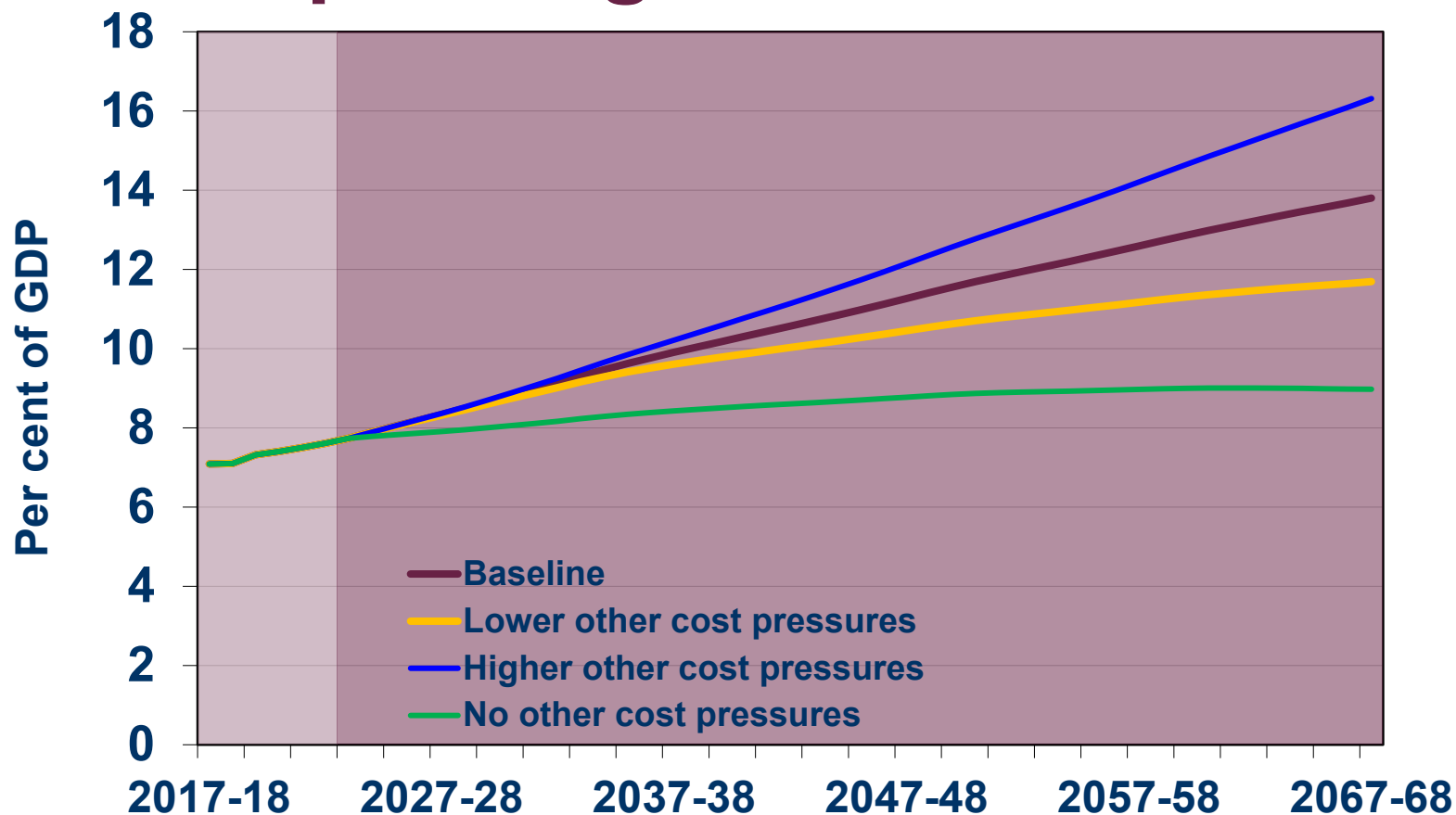
The ageing population



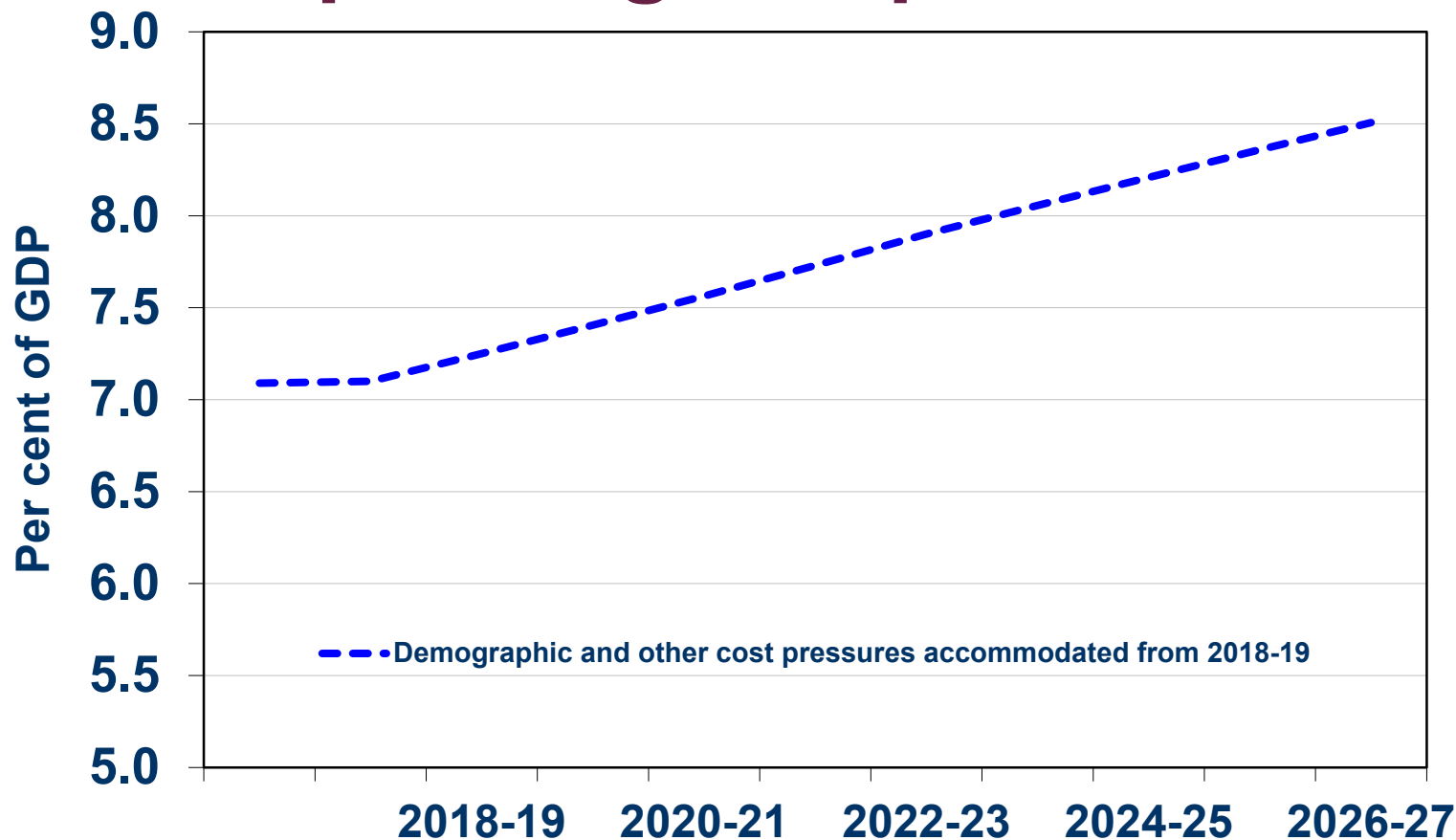
Health spending as % of GDP



Health spending as % of GDP



Health spending and pressures



Health spending and pressures

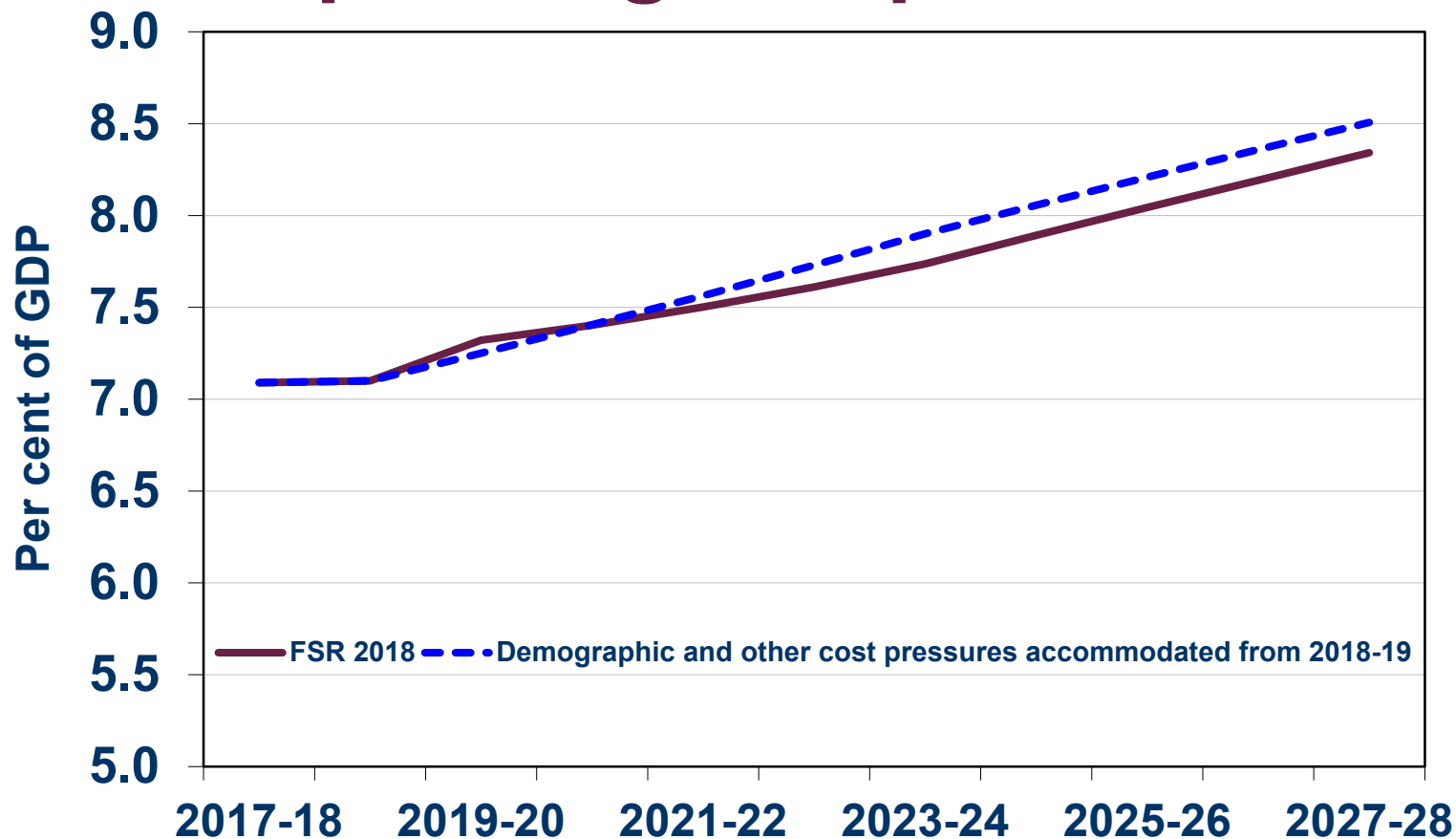
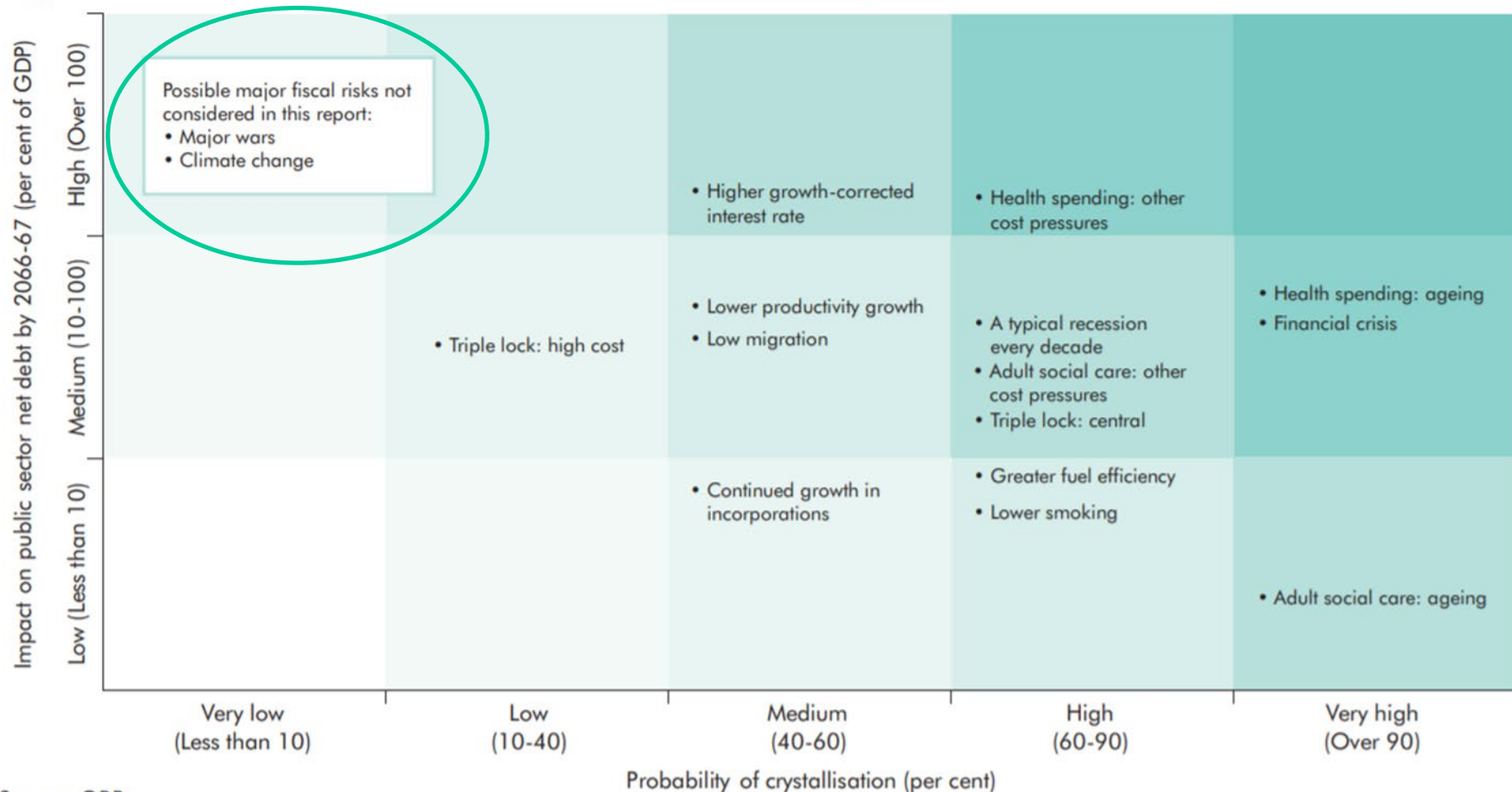


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What's left to do?

- Major risks:
 - Major wars
 - Climate change
 - Cyber security
- Cross-cutting themes
 - Inflation
 - Housing market
 - Mental health and chronic physical conditions
 - Interactions between different tax/spending items