Resolution Foundation looks forward to 26 March

Synopsis: The headroom bind. This week it was the turn of the Resolution Foundation to consider the Chancellor's options as the Spring Forecast draws ever nearer.

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A little over a week ago, the Institute for Fiscal Studies (IFS) published its note looking ahead to the Spring Forecast. Now, with the arguable benefit of more news about UK economic performance (GDP growth -0.1% in January) and a welter of rumours about working age benefit changes, the Resolution Foundation has examined the issues facing Rachel Reeves on 26 March. Its main points are…

- Relative to what was forecast by the Office for Budget Responsibility (OBR) in October, GDP is 1.2% weaker than expected. Based on its own research – Resolution, like many others, has little faith in the Office for National Statistics (ONS) Labour Force Survey – unemployment figures are suggesting a recession is coming.

  [Coincidentally, on the same day Resolution released its projections, OECD forecasts emerged cutting its UK growth estimates to 1.4% for 2025 and 1.2% for next year. The latest (February) Treasury consensus forecasts are 1.1% and 1.4%. The OBR's corresponding figures from last October's Economic and Fiscal Outlook were 2.0% and 1.8%.]

- Interest rates, both in terms of the Bank (Base) Rate and gilt yields, are higher than the OBR expected five months ago.

- Ten months into the financial year, tax receipts are £7.7bn below OBR projections, partly due to the weakness of the economy.

- The combination of lower growth, higher interest and below target tax receipts means that Resolution estimates that the Chancellor's headroom measure – the surplus on the public sector current account by 2029/30 – will have moved to a £4.4bn deficit from a £9.9bn surplus on last October's OBR reckoning. In other words, to return to last October's limited headroom requires about £15bn extra revenue to be found in 2029/30.

- As Gemma Tetlow of the Institute for Government remarked at a Resolution presentation on Monday, £15bn is a trifling amount when considering the difference between about £1trn of spending and £1trn of revenue. However…

- March will be the first test of Rachel Reeves' new fiscal rules, which only received parliamentary approval in January.

- The Chancellor and the First Lord of the Treasury (the Prime Minister) have both spoken of the rules being iron-clad, so falling at the first hurdle does not look to be on the agenda.

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- Equally, the Chancellor has pledged to have only one fiscal event per year, meaning that, in theory, her only lever in March is to cut spending.

- Unsurprisingly given its mission, the Resolution Foundation is against cuts to working age benefits to address the shortfall. It points out that *total* benefit spending in 2029/30 is projected to be the same 11.0% of GDP as it is in 2024/25. However, it omits to note that this comparison should be treated with caution as the phasing in of a State Pension Age (SPA) of 67, from 2026, will reduce benefit spending to 10.9% in 2027/28 and 2028/29.

- The speakers at Monday's Resolution presentation were divided on whether the Chancellor should react to her likely headroom miss...

- On one side (including Resolution's own head of research), there was a view that the politics made it impossible for Rachel Reeves to adopt the we'll-sort-it-out-in-autumn approach. The spectre of Liz Truss looms large over anyone who ploughs ahead with extra borrowing and ignores market risk.

- The other view, voiced by Gemma Tetlow and Charlie Bean, a former Bank of England economist, was that reacting to every change in an OBR projection five years in the future is not a sensible way to operate economic policy.

- Both sides reluctantly agreed that the quick and dirty solution would be to freeze tax/national insurance bands and allowances through to 2029/30, even though the Resolution view was that this would only add £8bn in 2029/30.

Comment

Resolution and the IFS both project a similar miss for the Chancellor's fiscal headroom test. In the next week, we can expect more pitch-rolling of measures to close the gap.

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