



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

28 March 2019

The Rt Hon Nicky Morgan MP
Chair of the Treasury Committee
House of Commons
SW1A 0AA

Dear Nicky

TREASURY COMMITTEE REPORT ON BUDGET 2018

I am writing in response to the Treasury Committee's report on Budget 2018, published on 12 February 2019. HM Treasury has submitted a full government response attached. Alongside this, I want to take the opportunity to set out my thoughts on some of the report's key conclusions, many of which I also addressed at the Spring Statement.

The Committee's report asserts that Budget 2018 disregarded the government's fiscal objectives and that these now have no credibility. The government remains committed to meeting the fiscal rules and at Spring Statement 2019 the OBR again confirmed we will meet them early; there has been a sustained reduction in debt since it peaked at 85.1% of GDP in 2016-17, and cyclically adjusted borrowing is forecast to fall below 2% of GDP in 2018-19, two years early. Since 2010, government has made considerable progress in restoring the public finances to health and Budget 2018 showed that we have reached a turning point as debt began its first sustained fall in a generation. Spring Statement 2019 has shown that the public finances have continued to improve.

However, since I became Chancellor in 2016, the government has taken a balanced approach, reducing the deficit while also providing additional funding for public services, increased investment in infrastructure, and keeping taxes low. At Budget 2018 I funded the five-year settlement for the NHS and I said that the era of austerity was coming to an end. The Committee suggests that this is imprecise, although in previous committee hearings I have set out my understanding of what "ending austerity" entails. Insofar as it relates to funding of public services, I set out a new indicative path for public spending where RDEL will grow at an average of 1.2% in real terms in each year of the forecast. This compares to average cuts of 3.0% per year from 2010-15 and planned cuts of 1.3% per year from 2015-20.

Ending austerity is not solely about higher public spending. It is also about delivering wage growth and leaving more money in people's pockets. We have created 3.6 million jobs since 2010, and regular wages are growing at their fastest rate in over a decade. On 1 April the government will increase the National Living Wage by 4.9% to £8.21, which is projected to benefit over 1.7 million people. At Spring Statement, the OBR forecast predicts solid real

wage growth for the next five years – a sustained reversal of the pattern of real wage growth following the Financial Crisis. Moreover, at the Budget last year I raised both the Personal Allowance Threshold and the Higher Rate Threshold, delivering tax cuts for over 30 million people.

The hard work of the British people has meant that we are now, for the first time in a decade, able to exercise genuine and sustainable choice about our future fiscal path. The OBR's published figures demonstrate that, even after the forecast increase in RDEL total spending over the next five years, the deficit will shrink to 0.5% by 2023-2024. So, budget balance is clearly achievable – but it is a choice. It would be equally sustainable to increase RDEL spending growth still further; reduce taxation levels; or increase capital spending – or a combination of these measures. The critical point is that Britain once more has choices in planning its fiscal future, whilst ensuring that debt will continue to fall.

At the Spending Review I will be setting departmental budgets for future years. However, all Spending Reviews are about prioritisation and efficiency, and it would be odd to define ending austerity as meaning that every department sees an annual real terms increase in its budget. That was certainly not the case during the Spending Reviews of the last Labour government, and it would be a poor definition of ending austerity now. I intend to use the Spending Review to look at how we invest most effectively in our economy through a renewed focus on delivering high quality outcomes. The focus should be on what we achieve for public money, not just how much we spend.

Finally, I note the Committee's acknowledgment that business confidence and investment may improve as uncertainty is resolved upon EU exit. The fundamental drivers of business investment appear to be in place and the Bank of England's February 2019 Inflation Report forecasts GDP and business investment growth to pick up in the medium term. It also presented analysis of the sensitivity of GDP growth and inflation to uncertainty, financial conditions and the exchange rate. This showed that, all other things being equal, lower uncertainty and looser financial conditions could boost GDP growth in 2020 and 2021 by 0.7 and 0.4ppts respectively.

I hope that this letter, together with the formal government response attached, addresses some of the Committee's salient concerns. As you know I have presented my Spring Statement to Parliament, and I look forward to appearing before the Committee to discuss this in April.



PHILIP HAMMOND