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Prospects for the UK economy

- Assuming a vote to remain in the EU: the UK economy is expected to grow by 2.0 per cent in 2016. Growth will pick up to 2.7 per cent in 2017.
- The Inflation rate is expected to average 0.3 per cent this year and 0.9 per cent next
- We expect the Bank of England to start raising interest rates in November. Rates will then continue rising throughout 2017, ending the year at 1.5 per cent.

Uncertainty surrounding the outcome of the UK's referendum on leaving the European Union has probably weighed on economic growth in recent months. But assuming a vote to remain in the EU, we expect an uptick in growth in the second half of this year as delayed investment decisions are implemented.

The EU referendum has also led us to push back the point at which we expect the tightening phase of the monetary cycle to begin, to November of this year. Consumer price inflation is forecast to be below the 2 per cent target in the second half of this year and throughout 2017. From then on inflationary pressures should build to a level broadly consistent with the Bank's target rate in 2018.

The recent depreciation in sterling can be largely attributed to the risk that the UK will vote to leave the EU. Given this, and our forecast assumption that the referendum will result in a vote to remain in the EU, we expect sterling to appreciate sharply in the third quarter, ending this year broadly where it started in 2015.

We expect house price inflation to peak in 2016. While income growth should provide a support, affordability remains an acute constraint on the inflow of first-time buyers. The recent tightening of lending standards by the Financial Policy Committee, together with the rate of gradual increases in interest rates and hence mortgages, should also weigh on future demand for housing.

Given the fiscal plans announced in the March Budget and the outlook for the economy, we expect an absolute fiscal surplus to be achieved in fiscal year 2019-20, in line with the government's target.

The Review also includes NIESR's analysis of the short and long-term macroeconomic impacts of a UK decision to leave the EU – see separate press release.

Summary of the forecast – UK economy

	Real gross national income ^(a)	Real GDP ^(a)	Unemployment ^(b)	CPI ^(c)	RPIX ^(d)	External current balance ^(e)	PSNB ^(f)
2015	2.6	2.3	5.1	0.1	1.1	-96.2	76.2
2016	1.3	2.0	5.2	0.3	1.3	-122.3	63.7
2017	1.5	2.7	5.2	1.3	2.0	-127.6	52.9

(a) Percentage change, year-on-year. (b) ILO definition, fourth quarter, rate. (c) Consumer prices index, percentage change, fourth quarter on fourth quarter. (d) Retail price index, excluding mortgages, percentage change, fourth quarter on fourth quarter. (e) Year, £ billion. (f) Public sector net borrowing, fiscal year, £ billion. Includes the flows from the Bank of England's Asset Purchase Facility.

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Notes:

The forecast for the UK economy is published in the National Institute Economic Review no. 236 May 2016. Details of NIESR's previous UK economic forecast can be found [here](#).

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