

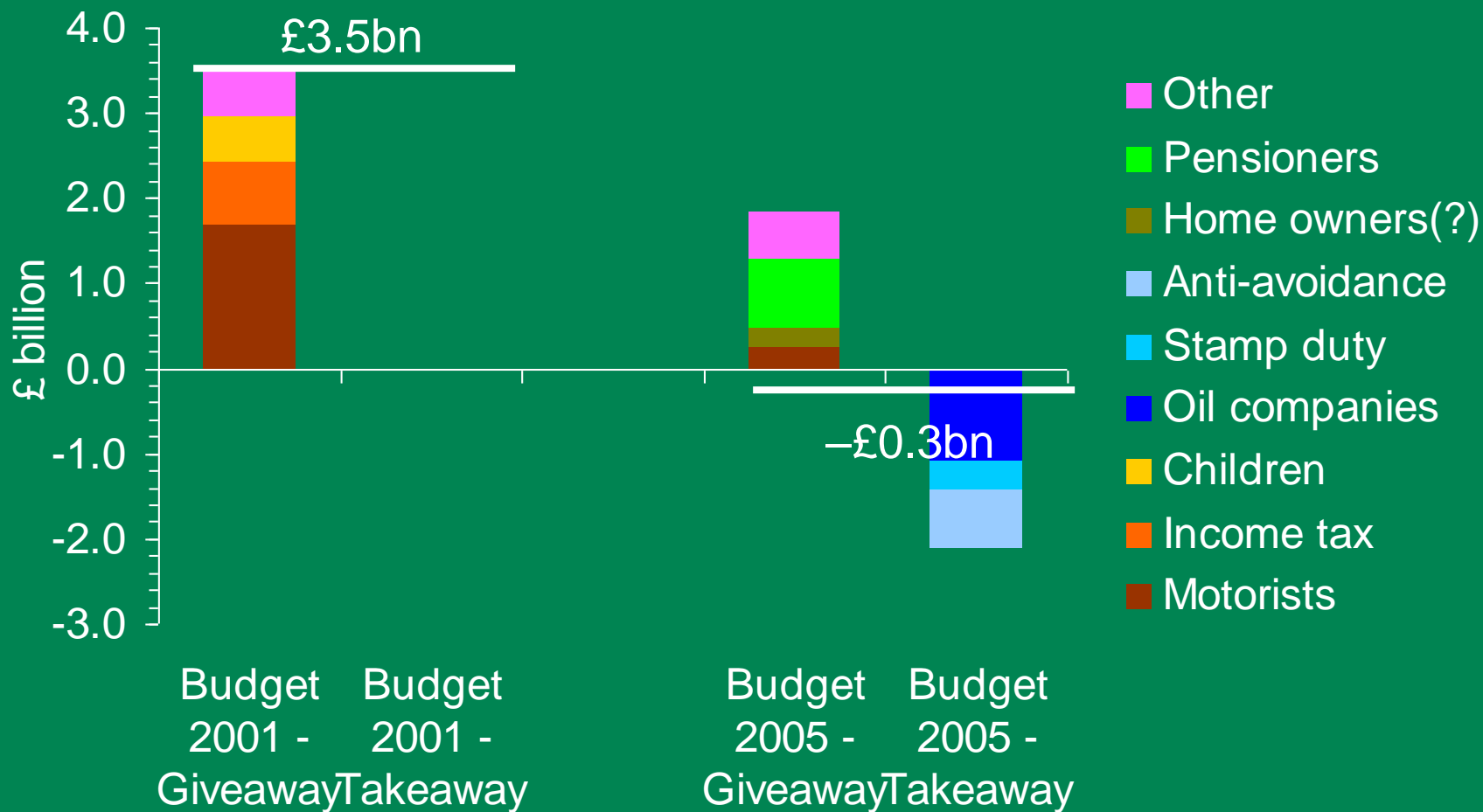
Meeting the golden rule?

Christine Frayne

Changes since PBR 2004

- Forecasts for economic growth unchanged
- Small forecasting changes
 - Higher equity prices boost current & future receipts
 - But lower NICs and public sector corporation profits
- Small net discretionary change
 - £265m tightening in 2005–06
 - Small net giveaway thereafter

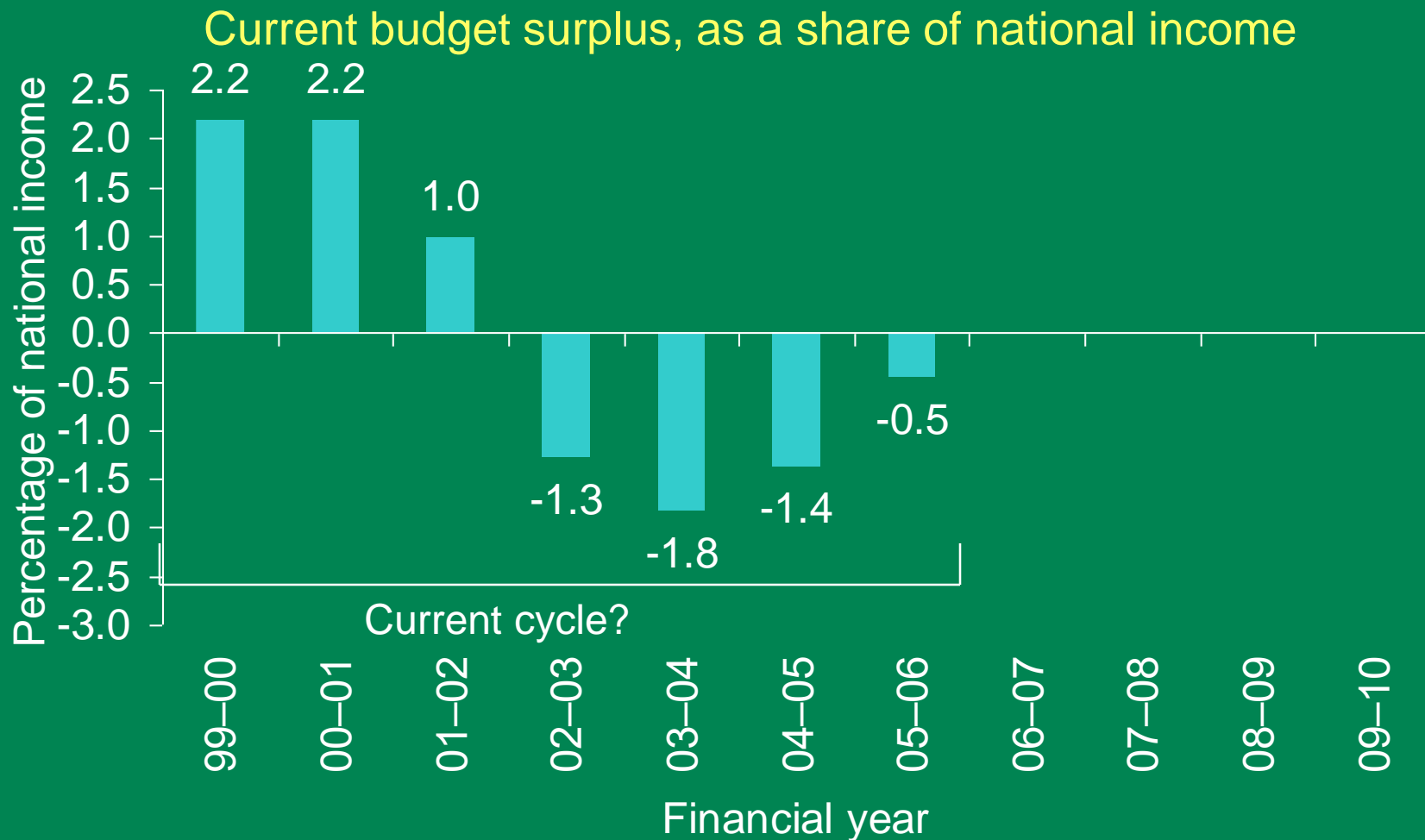
Small pre-election giveaway



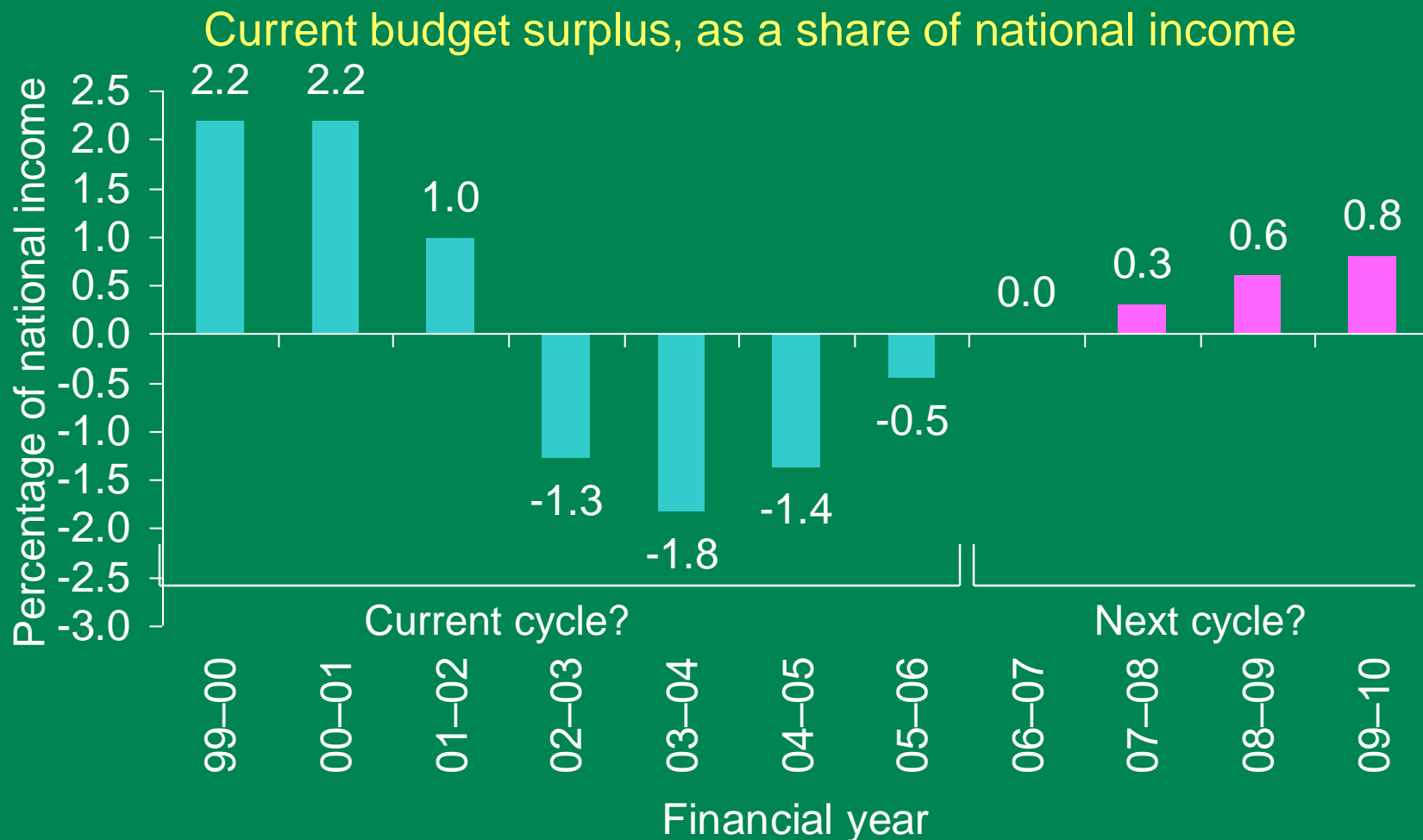
The Chancellor's fiscal rules

- Golden rule: only borrow to invest
 - Receipts cover current spending
 - Surplus or balance on current budget
 - Judged over the economic cycle
- Sustainable investment rule: debt at a 'stable and prudent' level, <40% of national income

Meeting the golden rule? (1)

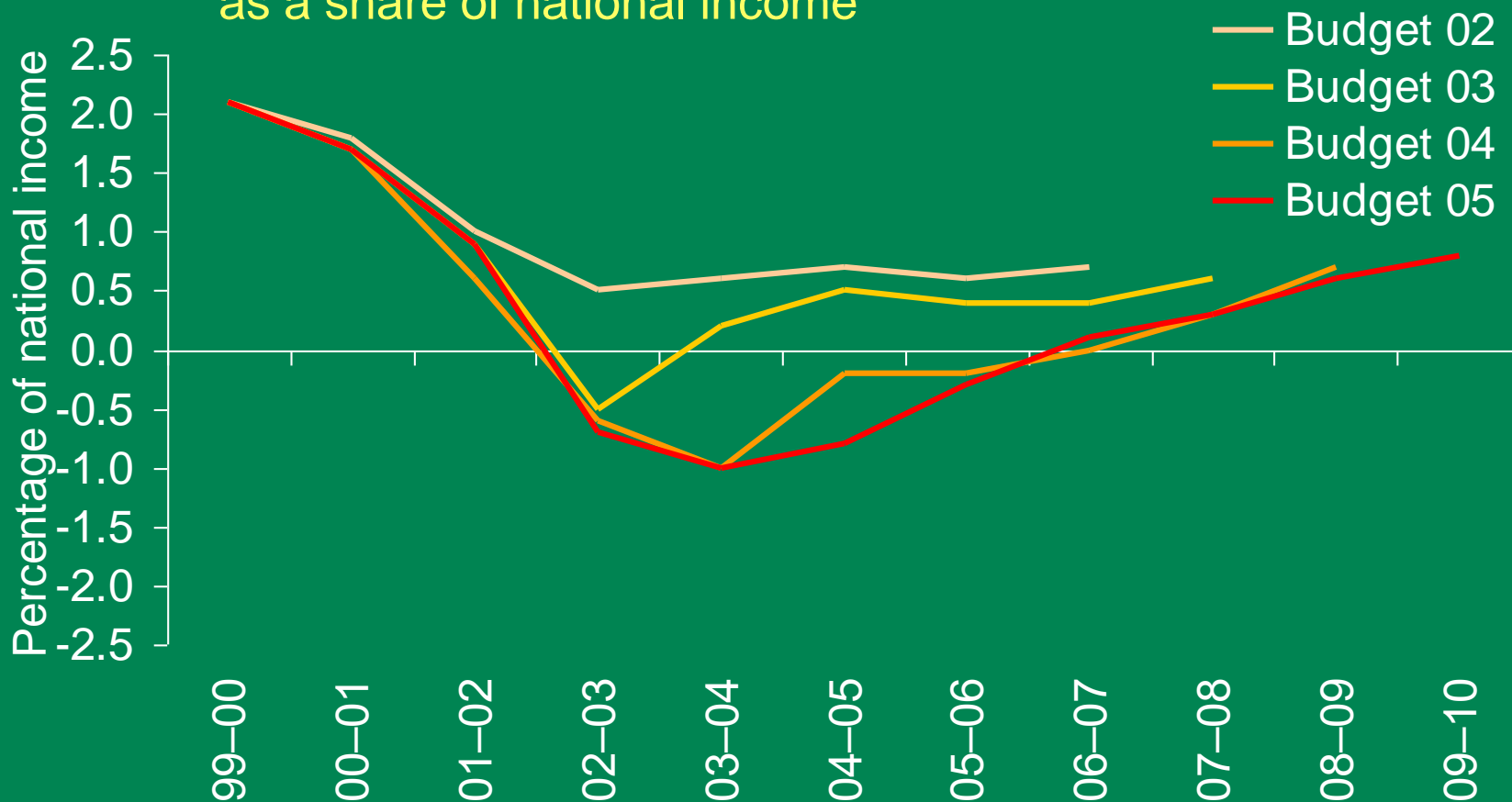


Meeting the golden rule? (1)



Meeting the golden rule? (2)

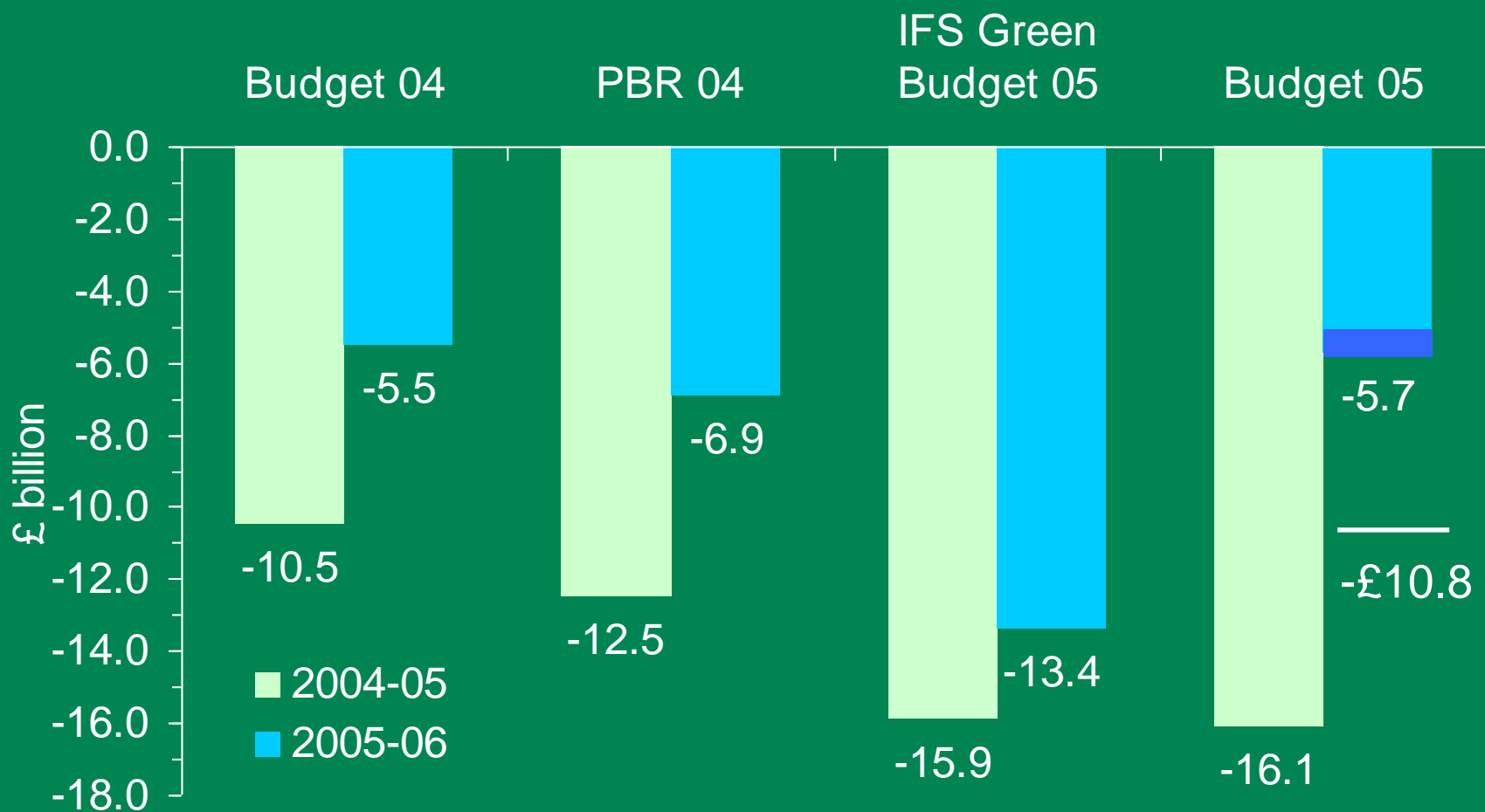
Cyclically adjusted current budget surplus,
as a share of national income



Room to manoeuvre?

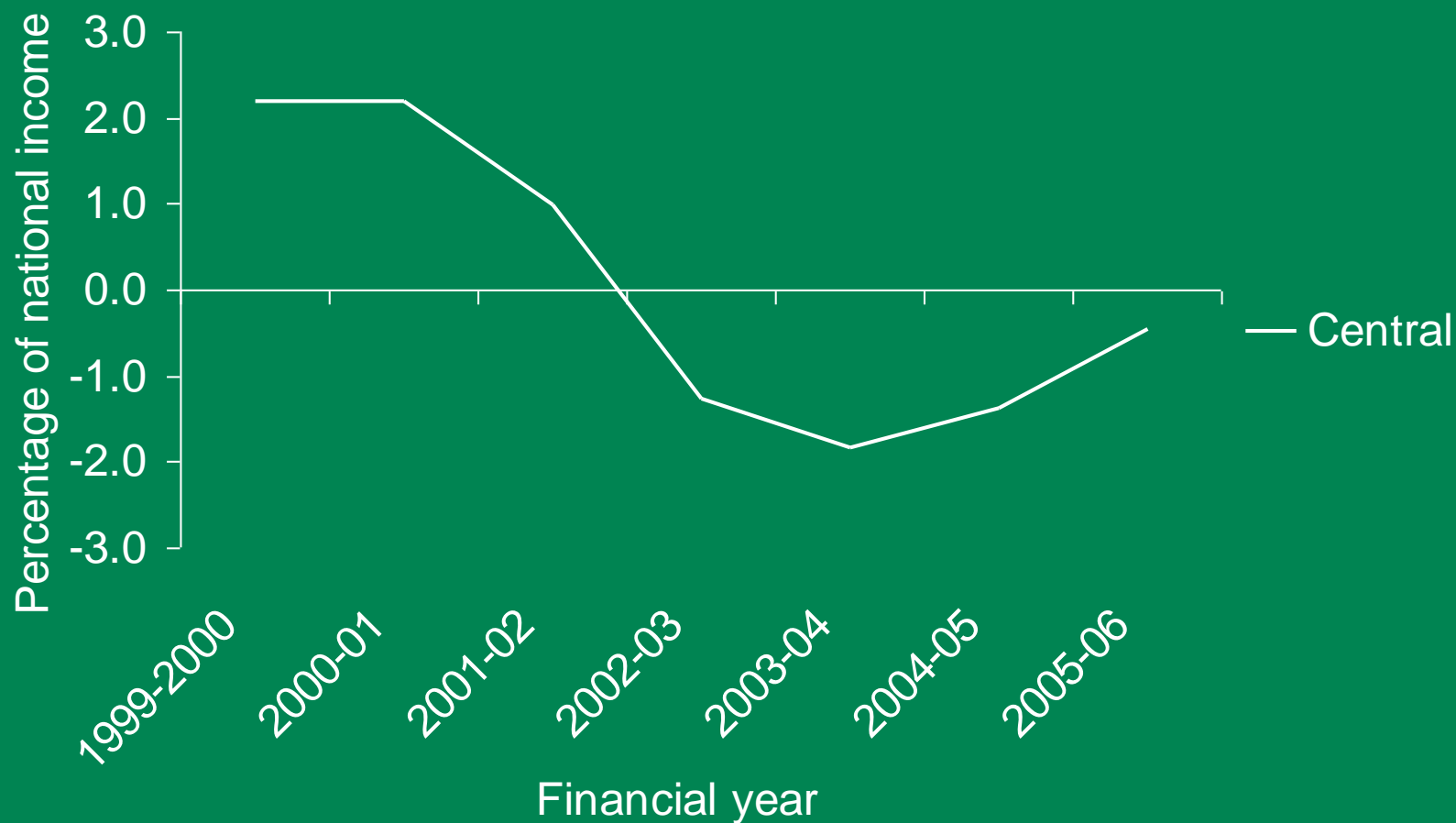
- PBR 2nd December 2004
 - Golden rule met with £8bn to spare
- ONS revision 28th February 2005
 - Margin increases by £3bn
 - Golden rule now met with £11bn to spare
- Budget 16th March 2005
 - Golden rule now met with £6bn to spare

Meeting the golden rule? (3)



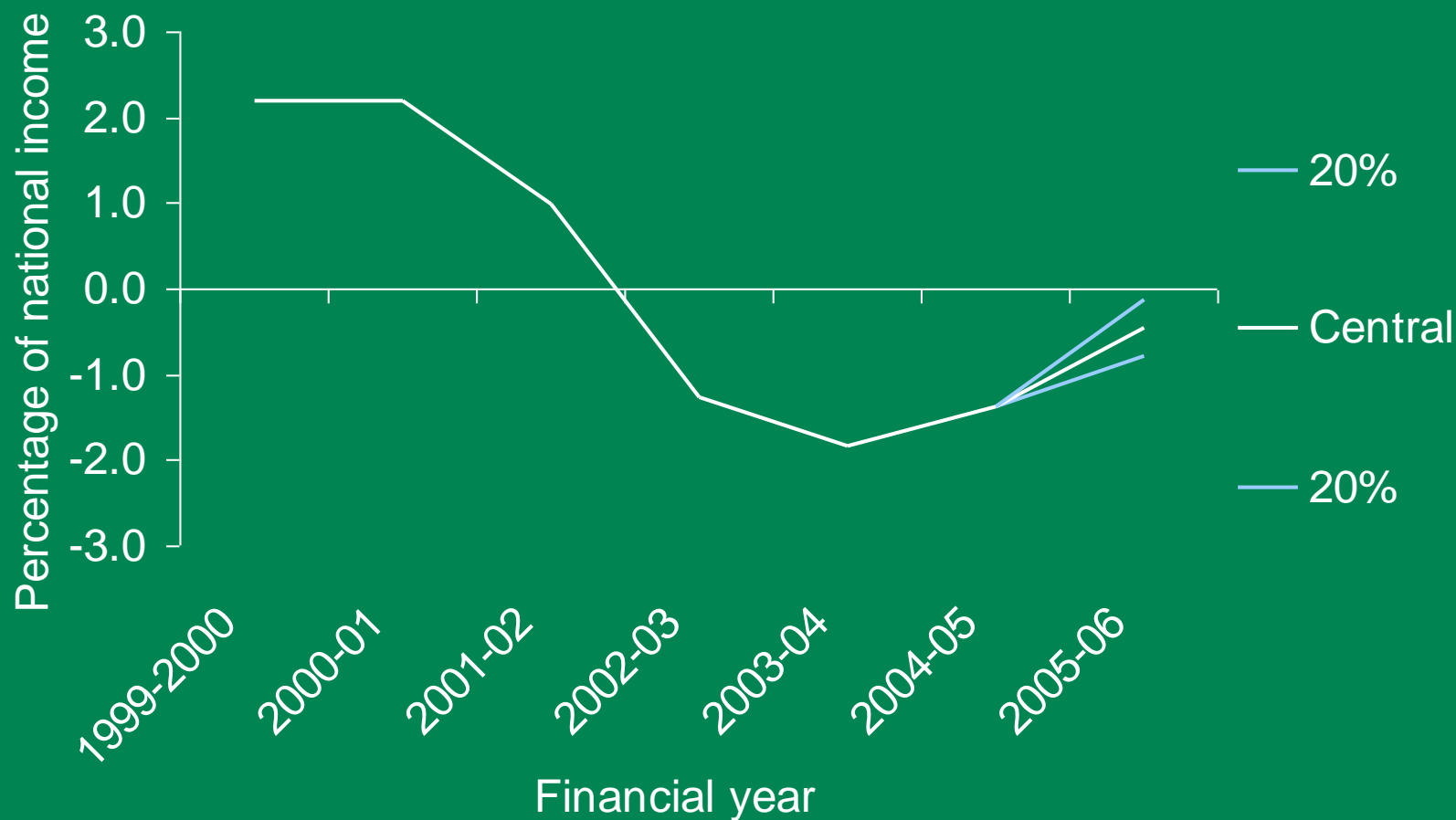
Forecasting uncertainty

Current budget surplus, as a share of national income



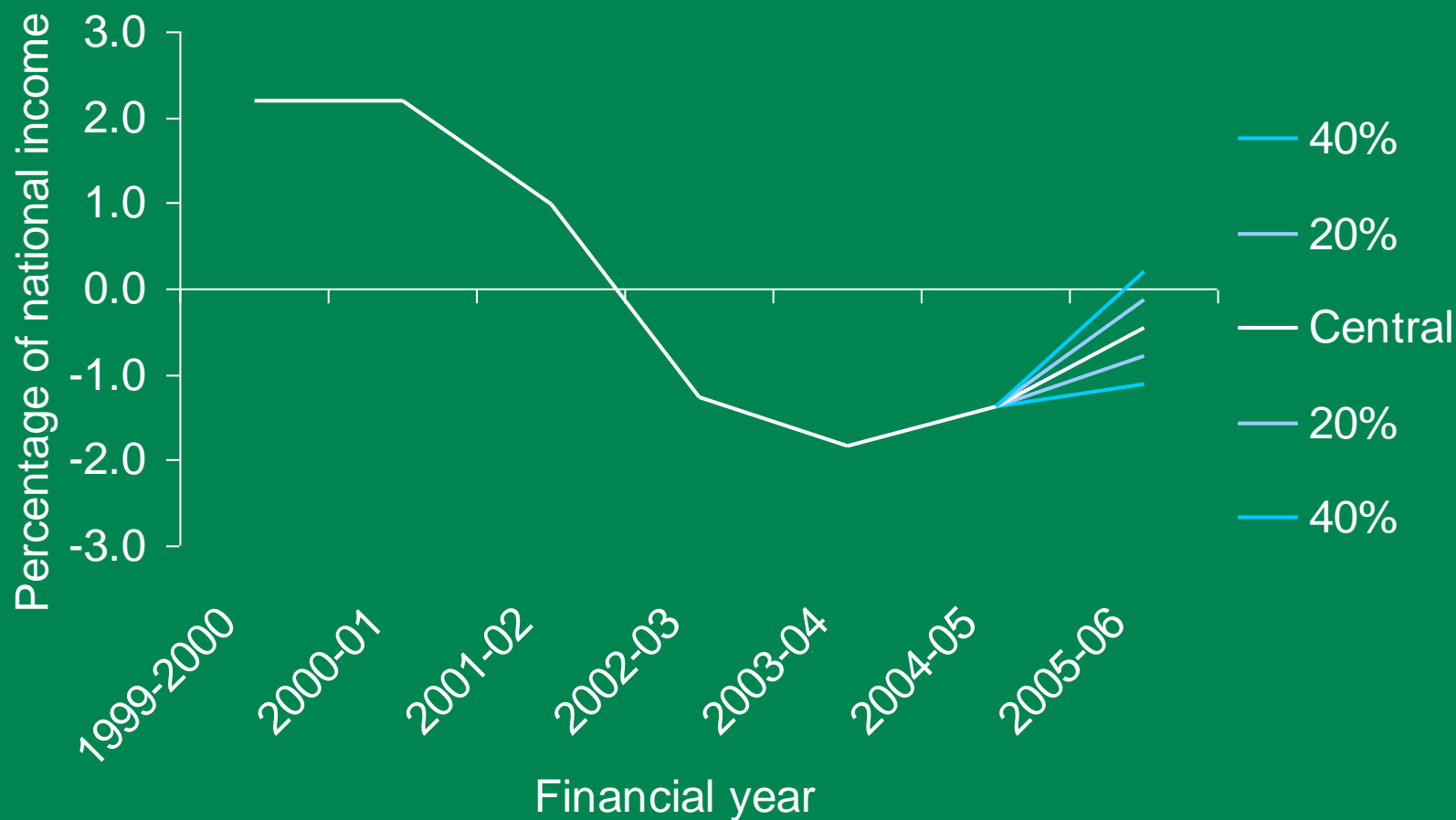
Forecasting uncertainty

Current budget surplus, as a share of national income



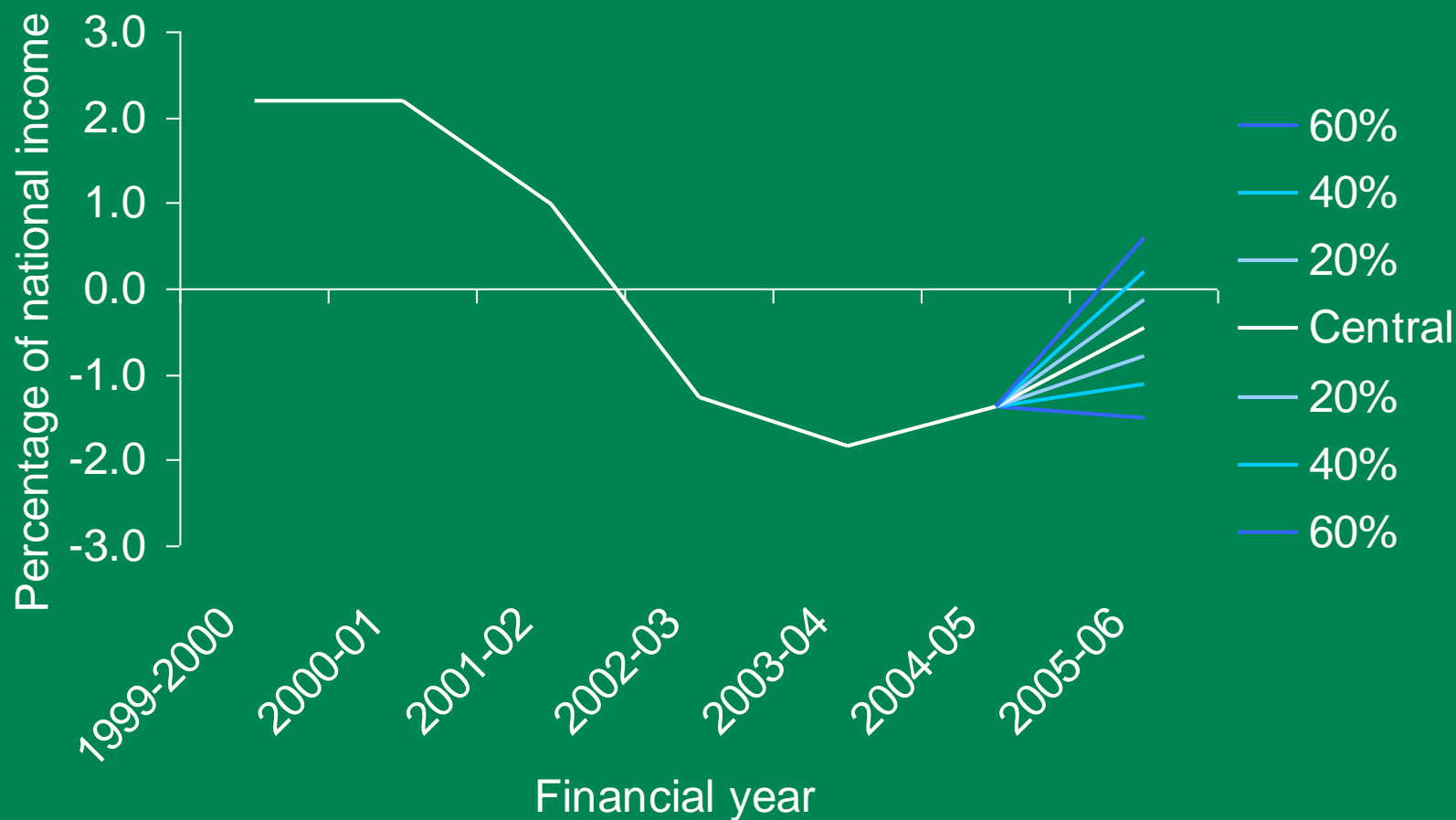
Forecasting uncertainty

Current budget surplus, as a share of national income



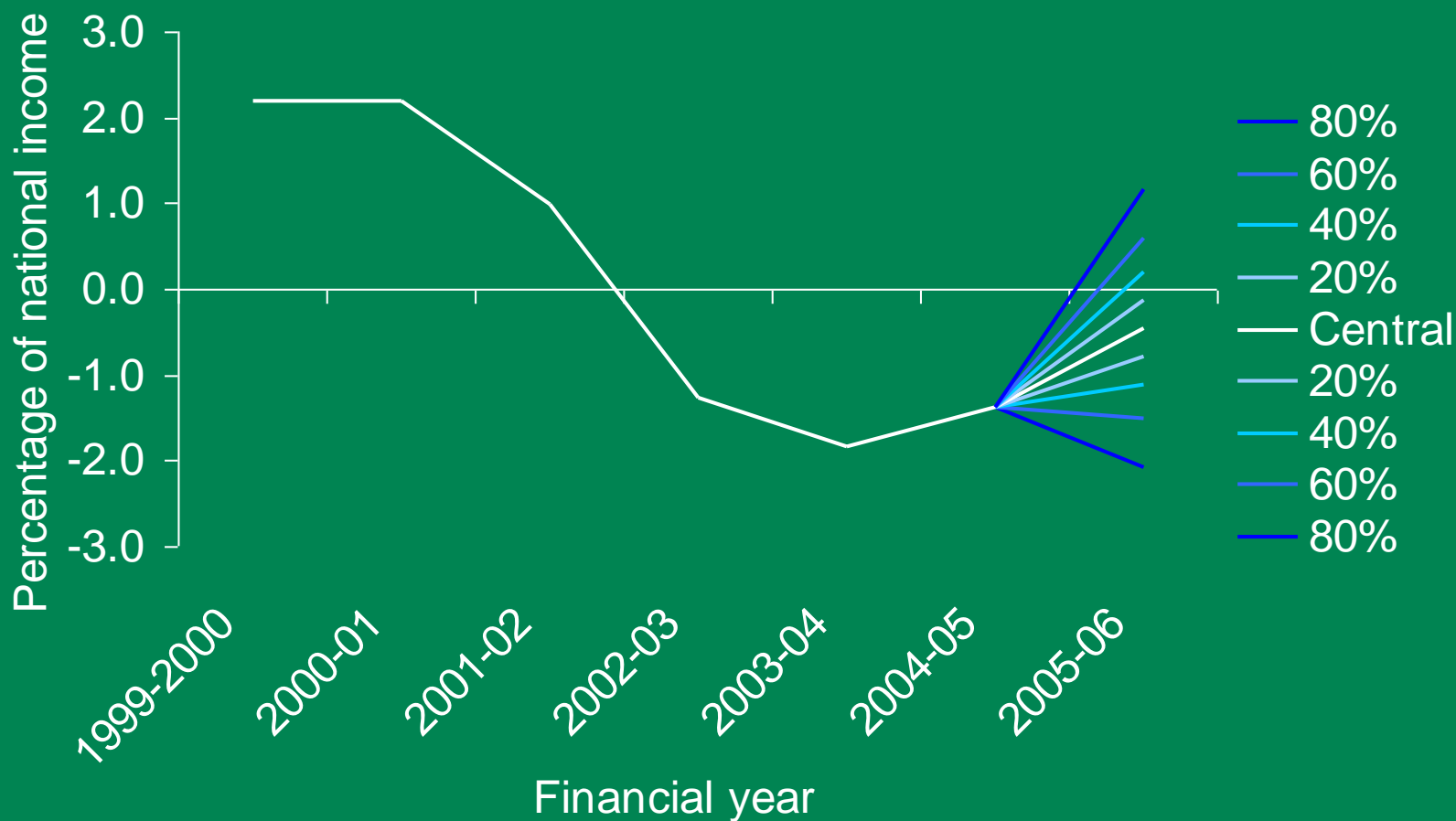
Forecasting uncertainty

Current budget surplus, as a share of national income



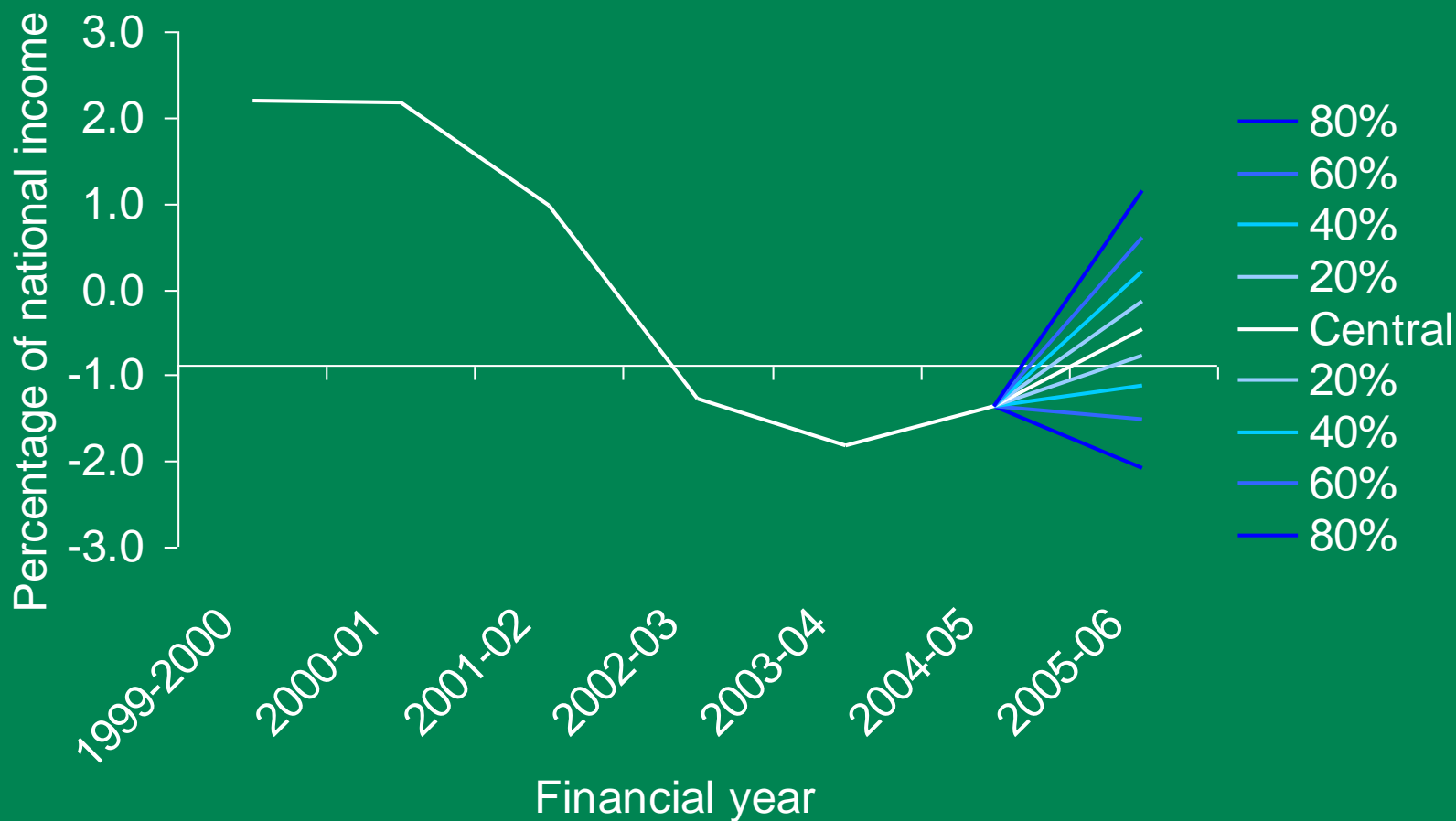
Forecasting uncertainty

Current budget surplus, as a share of national income

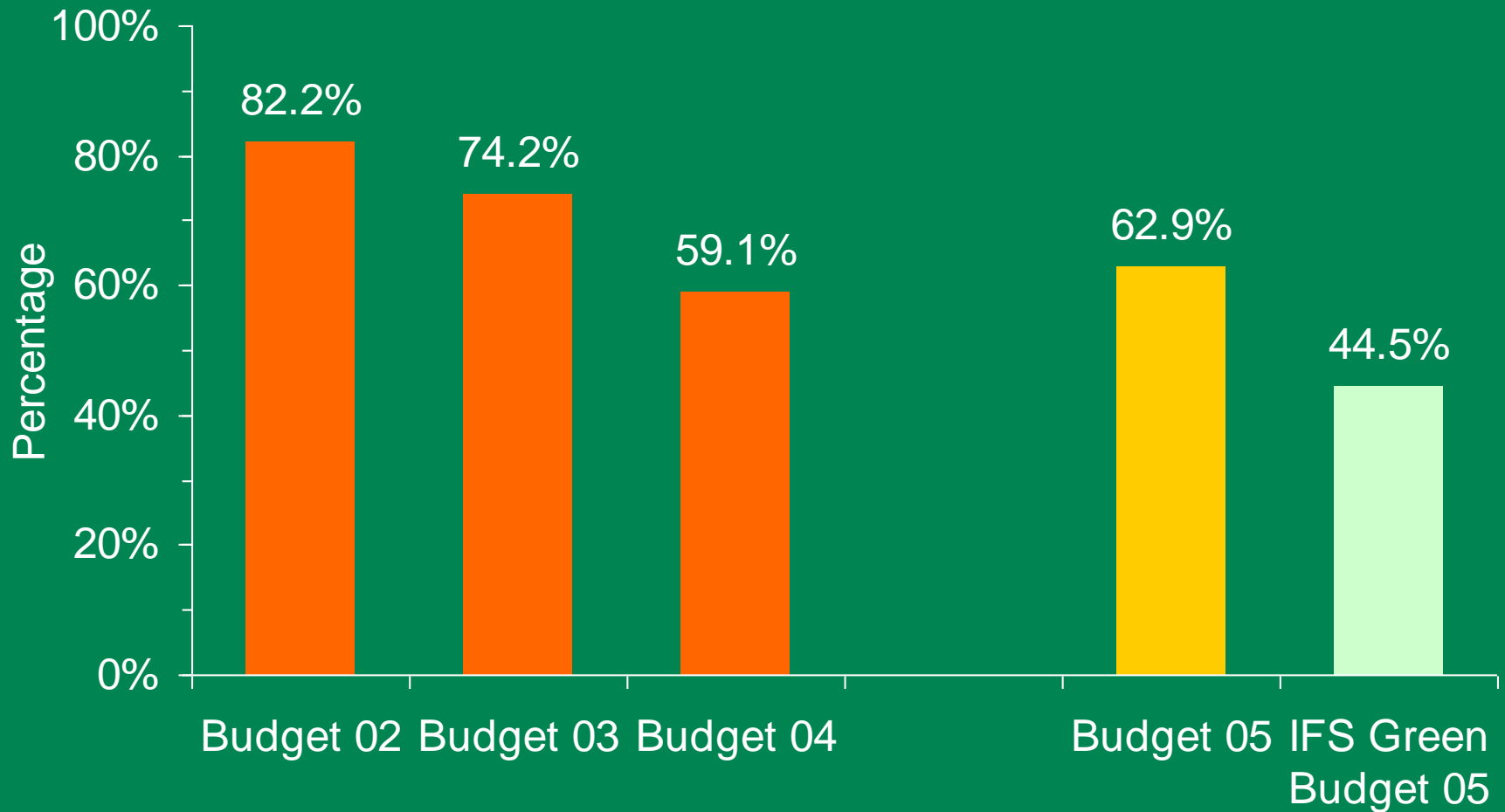


Forecasting uncertainty

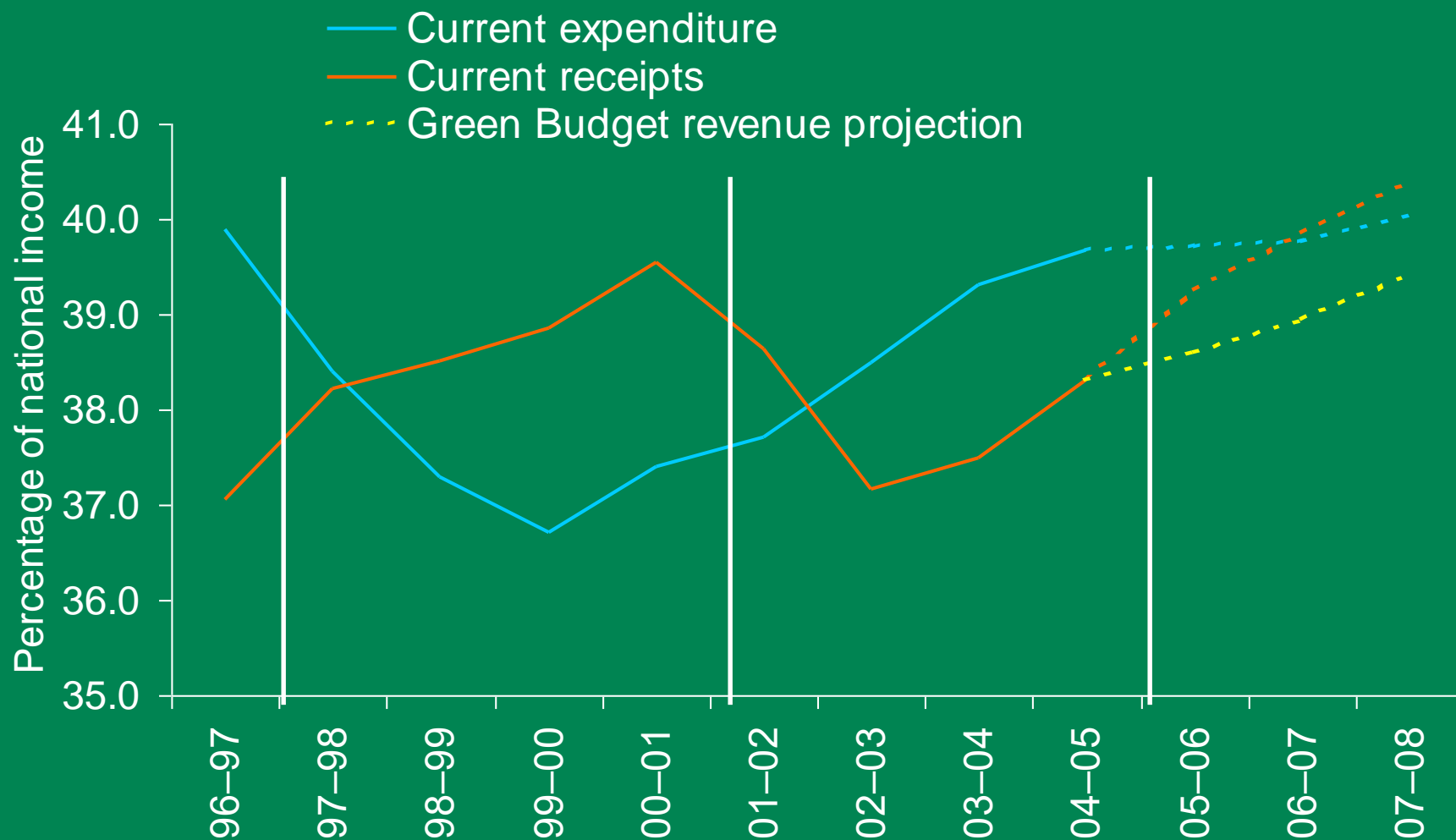
Current budget surplus, as a share of national income



Will the golden rule be met?

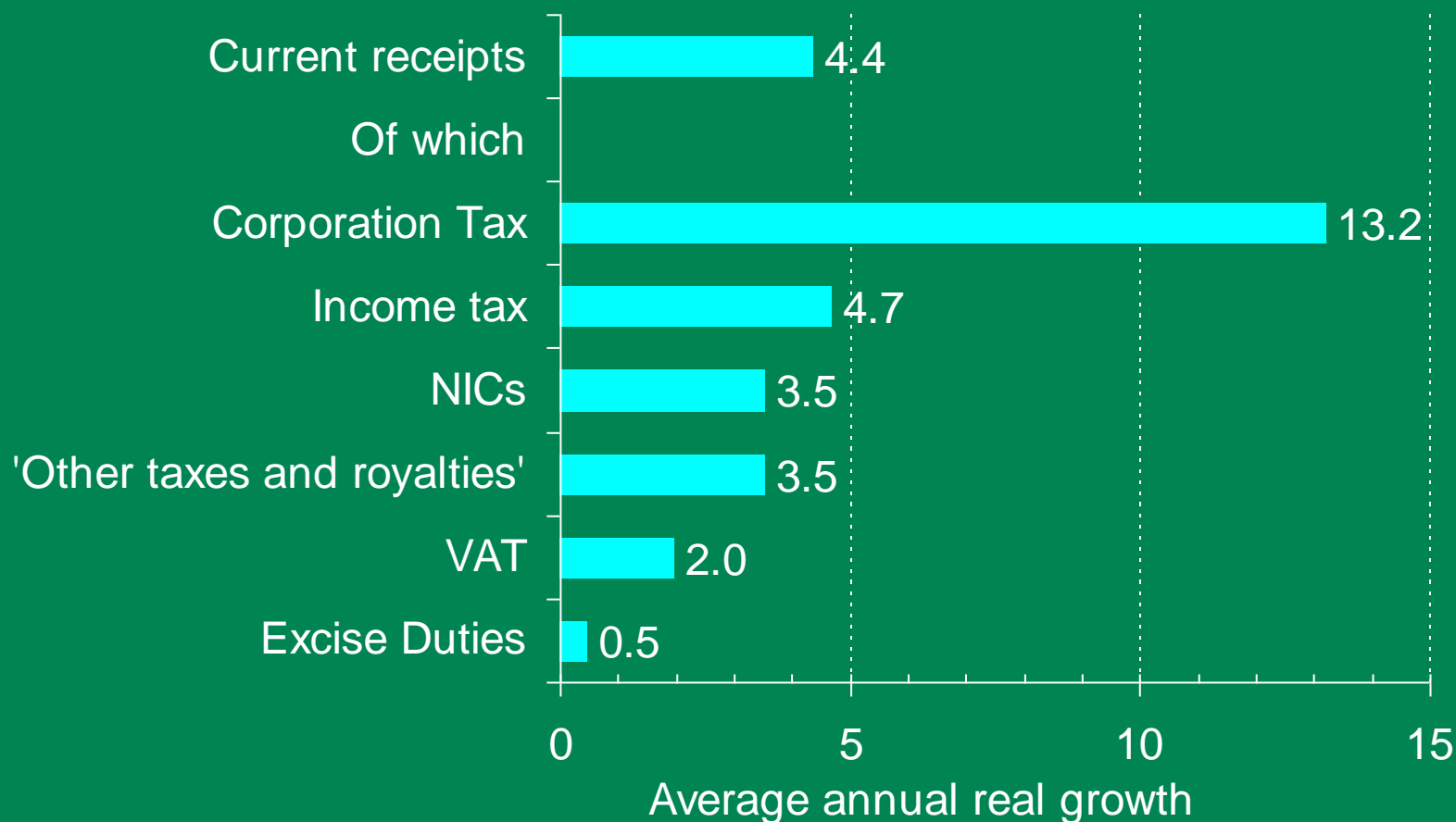


Taxes to rise, spending to stabilise?



Forecast growth in revenues

Average annual real growth in revenues, 2004–05 to 2007–08



The parties compared: 2007–08

	Tory	Lib Dem
Net change in tax	–£4bn	+£4bn
Net change in spending	–£12bn	+£4bn
Net change in borrowing	–£8bn	No change

The parties compared: 2007–08

	Tory	Lib Dem	<i>Labour baseline plans</i>
Net change in tax	–£4bn	+£4bn	+£25bn
Net change in spending	–£12bn	+£4bn	+£13bn
Net change in borrowing	–£8bn	No change	–£11bn

Conclusions

- Public finances little changed since the PBR
 - Despite £3bn improvement from ONS revision
- Over current economic cycle
 - Whether golden rule is met likely to go to the wire
- Over the next economic cycle
 - Tax burden set to grow
 - New tax raising measures might still be required