

Meeting the fiscal rules?

Gemma Tetlow

Institute for Fiscal Studies

Strengthening the public finances

Change in current budget balance, 2007–08 to 2012–13

% GDP	PBR 2007	Budget 2008
Spending cuts		
CSR 07 years		
SR 09 years		
Tax increase		
Overall current budget tightening	+1.7%	+1.6%

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CSR 07 years		
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Tax increase	+1.0%	
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Strengthening the public finances

Change in current budget balance, 2007–08 to 2012–13

% GDP	PBR 2007	Budget 2008
Spending cuts	−0.7%	−0.9%
CSR 07 years		
SR 09 years		
Tax increase	+1.0%	+0.7%
Overall current budget tightening	+1.7%	+1.6%

Strengthening the public finances

Change in current budget balance, 2007–08 to 2012–13

% GDP	PBR 2007	Budget 2008
Spending cuts	−0.7%	−0.9%
CSR 07 years	−0.4%	−0.3%
SR 09 years		
Tax increase	+1.0%	+0.7%
Overall current budget tightening	+1.7%	+1.6%

Strengthening the public finances

Change in current budget balance, 2007–08 to 2012–13

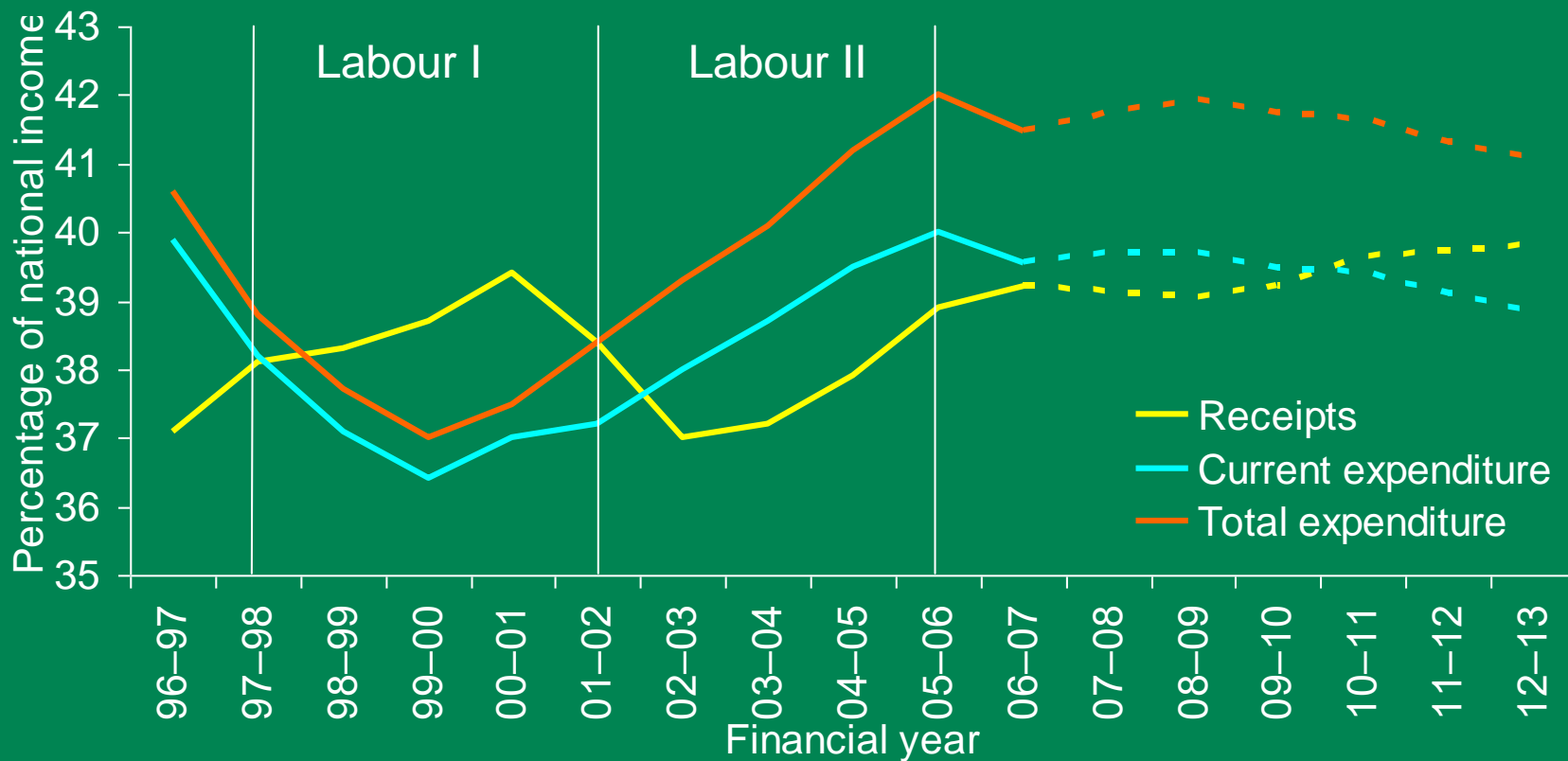
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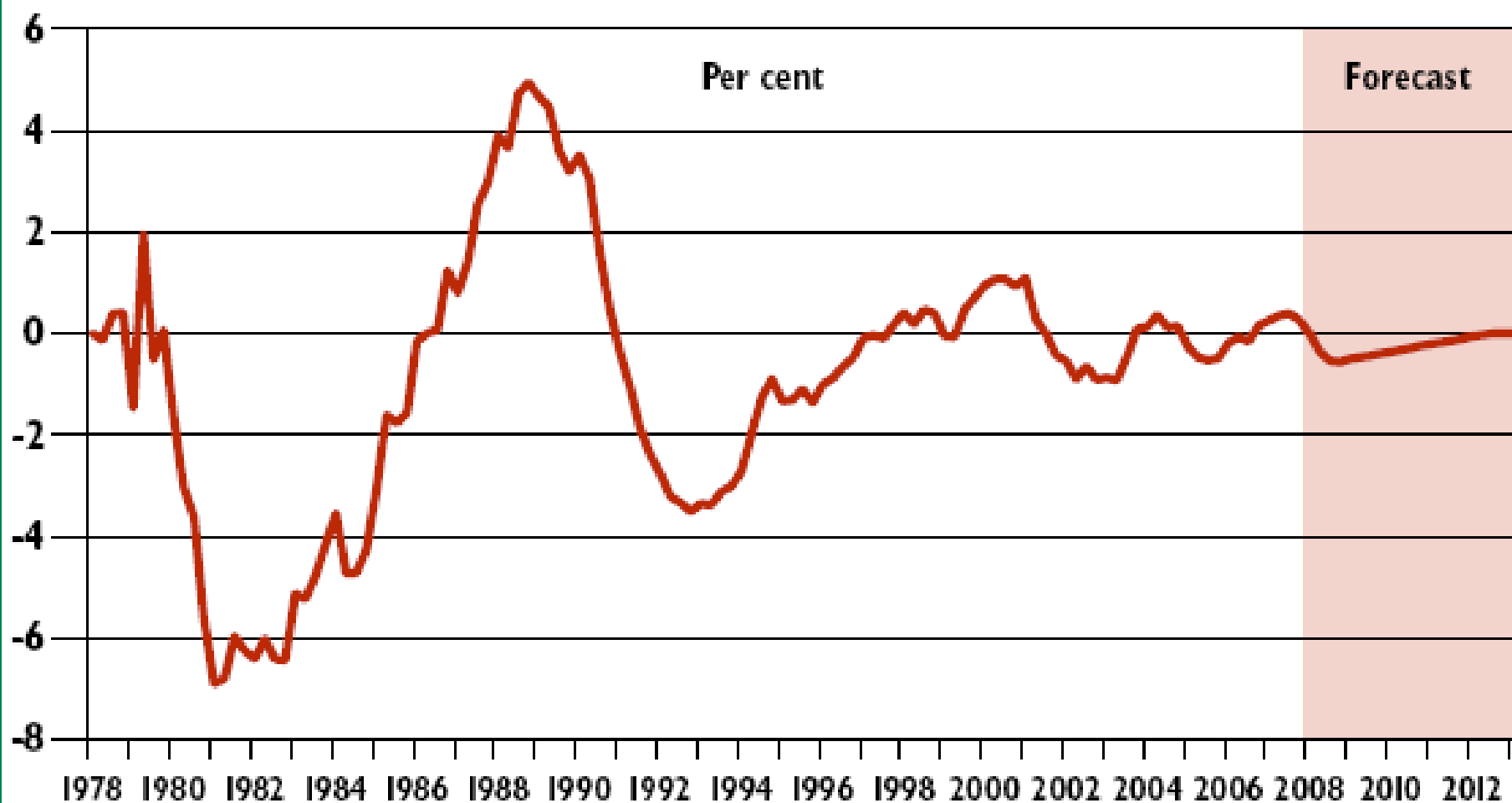
2007–08 terms	PBR 2007	Budget 2008
Spending cuts	–£10bn	–£12bn
CSR 07 years	–£6bn	–£4bn
SR 09 years	–£4bn	–£8bn
Tax increase	+£14bn	+£9bn
Overall current budget tightening	+£24bn	+£22bn

The big picture

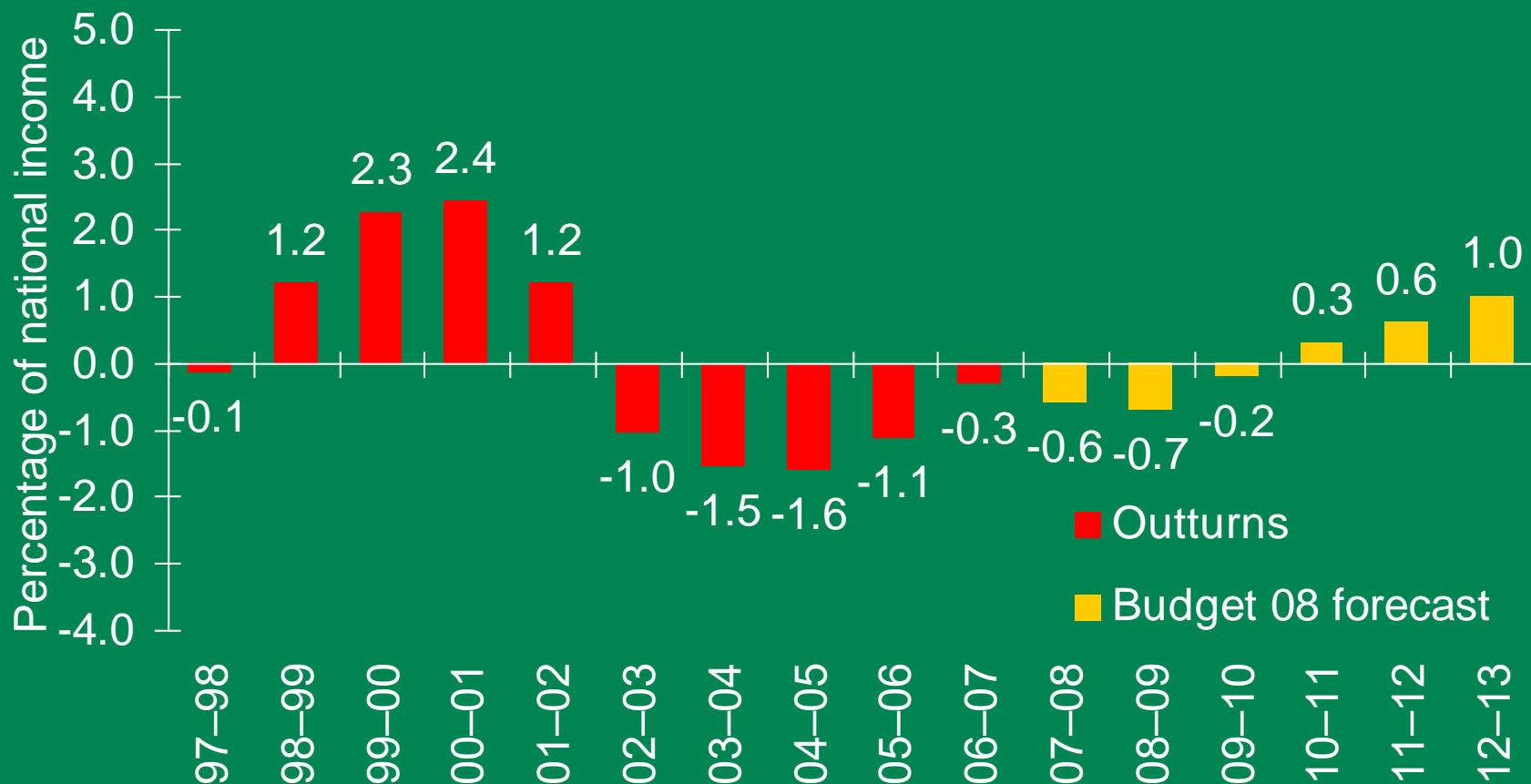


The fiscal rules

- Golden Rule
 - Borrow only to invest
 - Current budget balance or surplus
 - Judged over the economic cycle

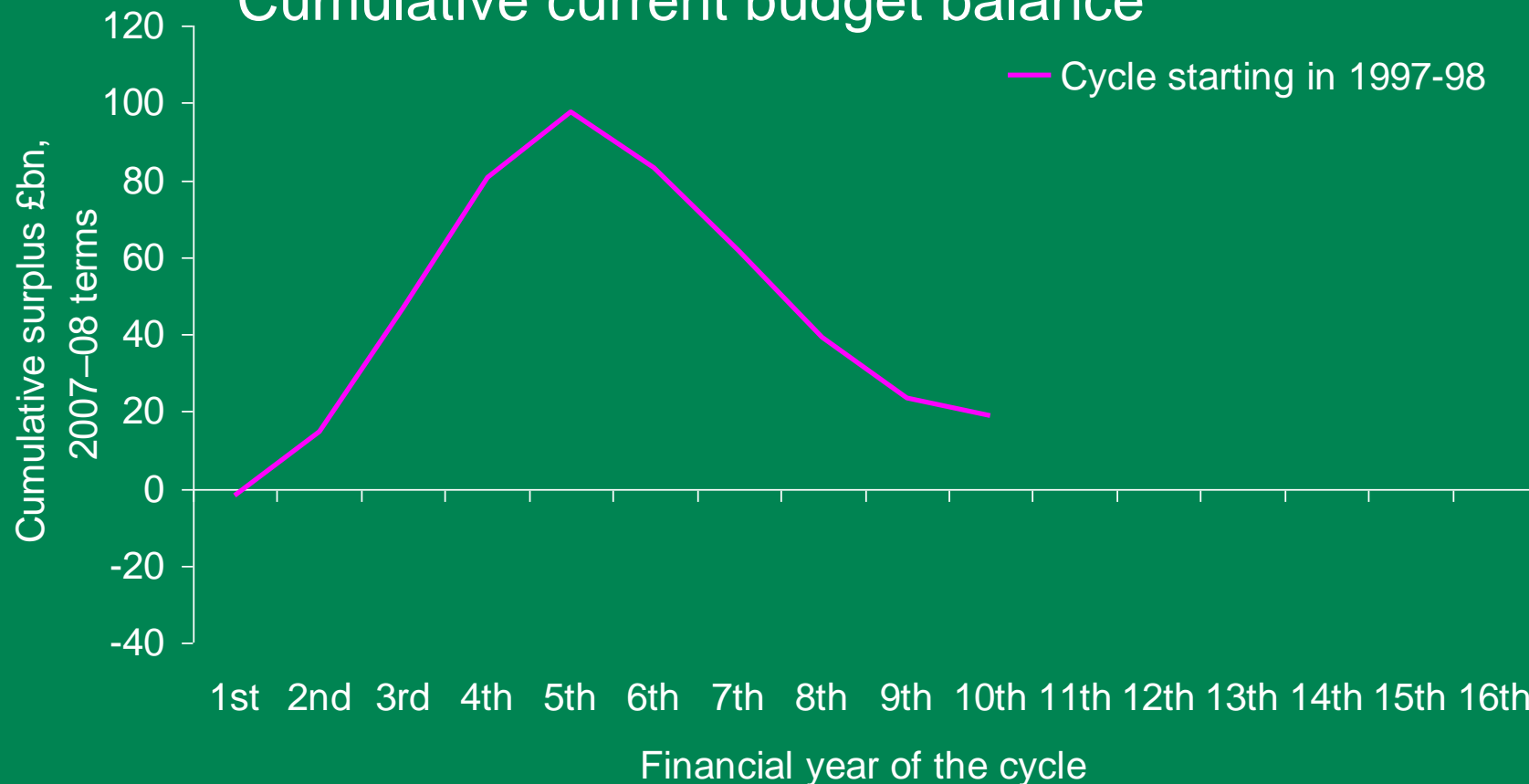
Chart B2: The output gap¹

Current budget balance



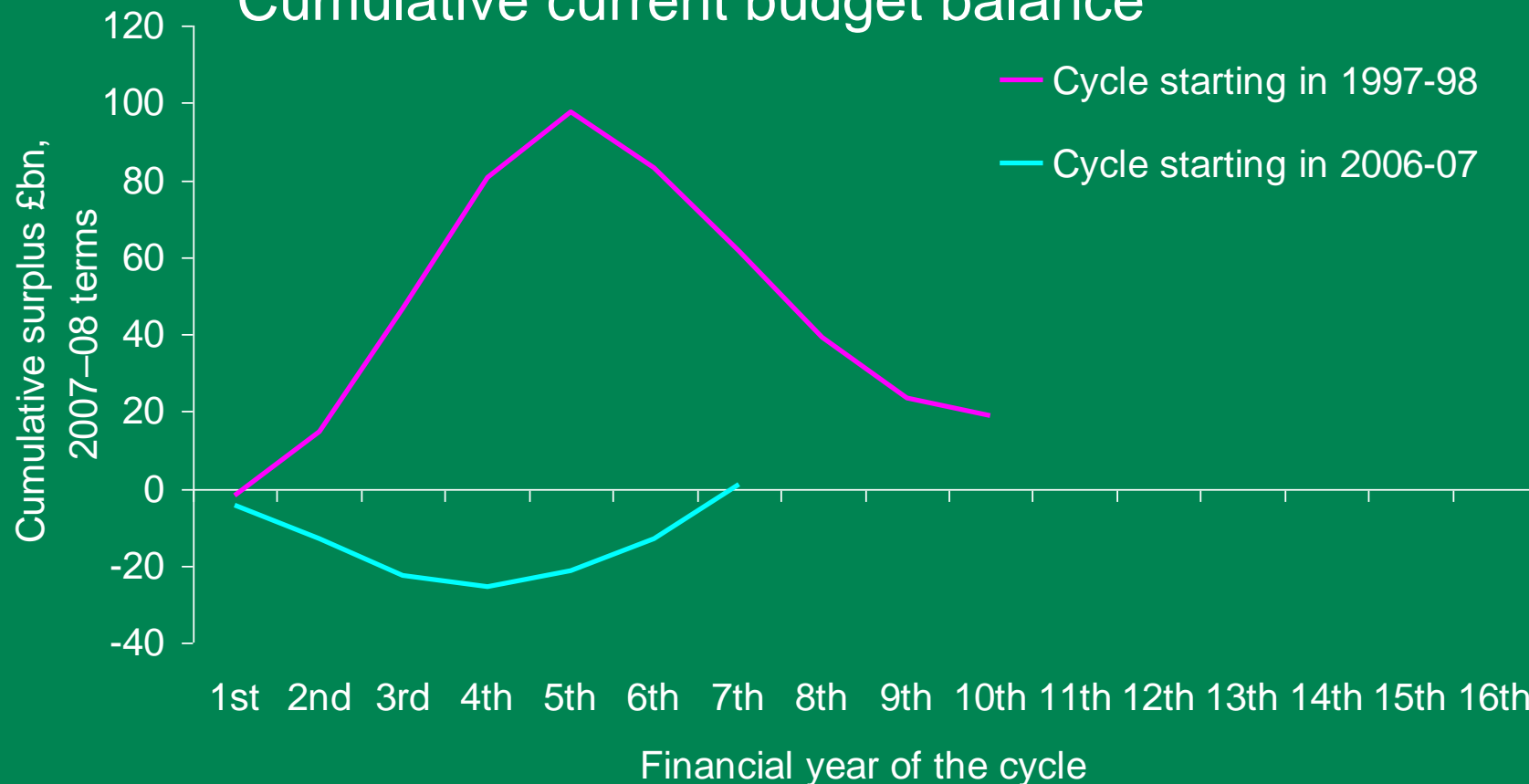
Meeting the golden rule?

Cumulative current budget balance

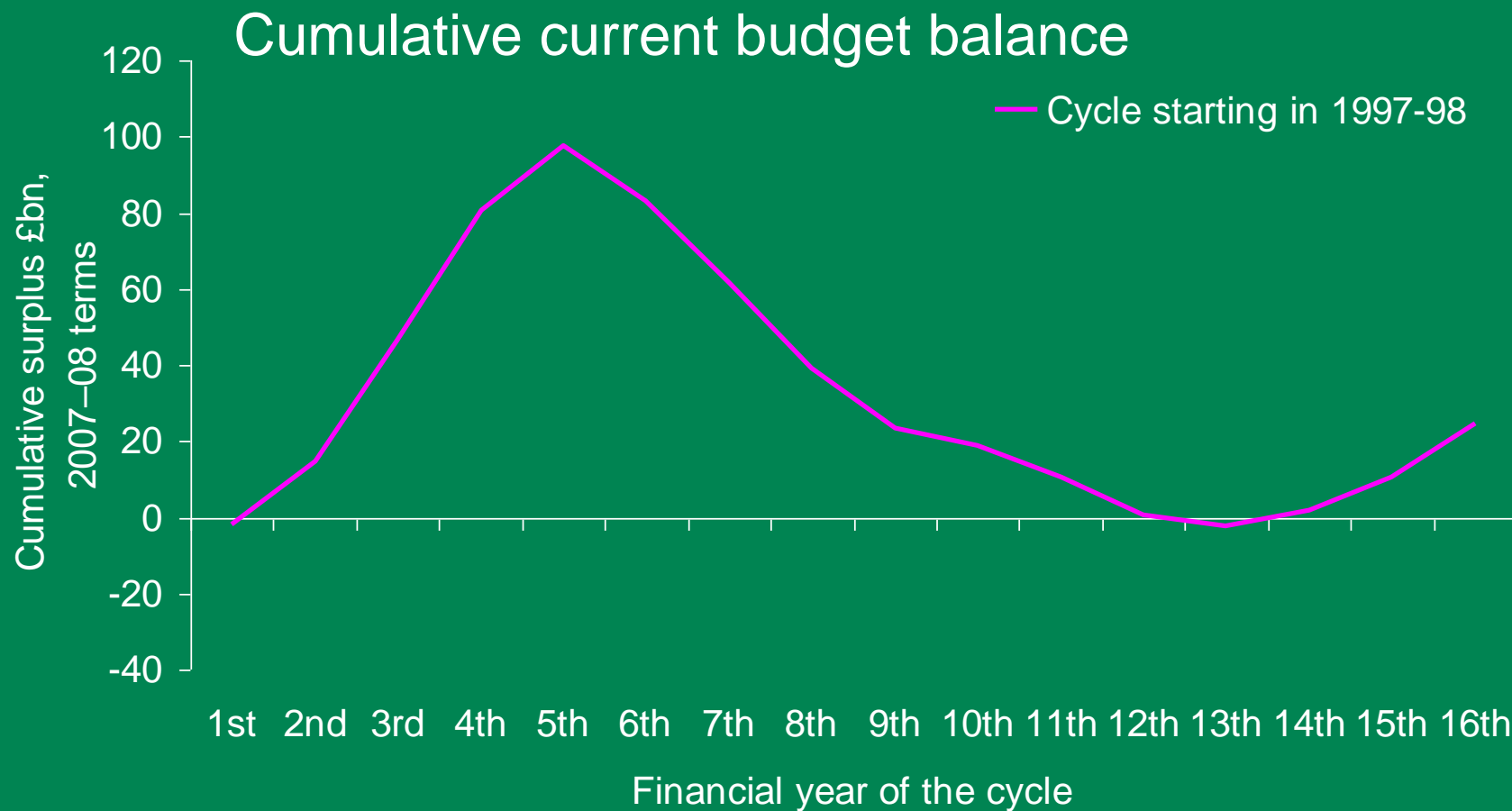


Meeting the golden rule?

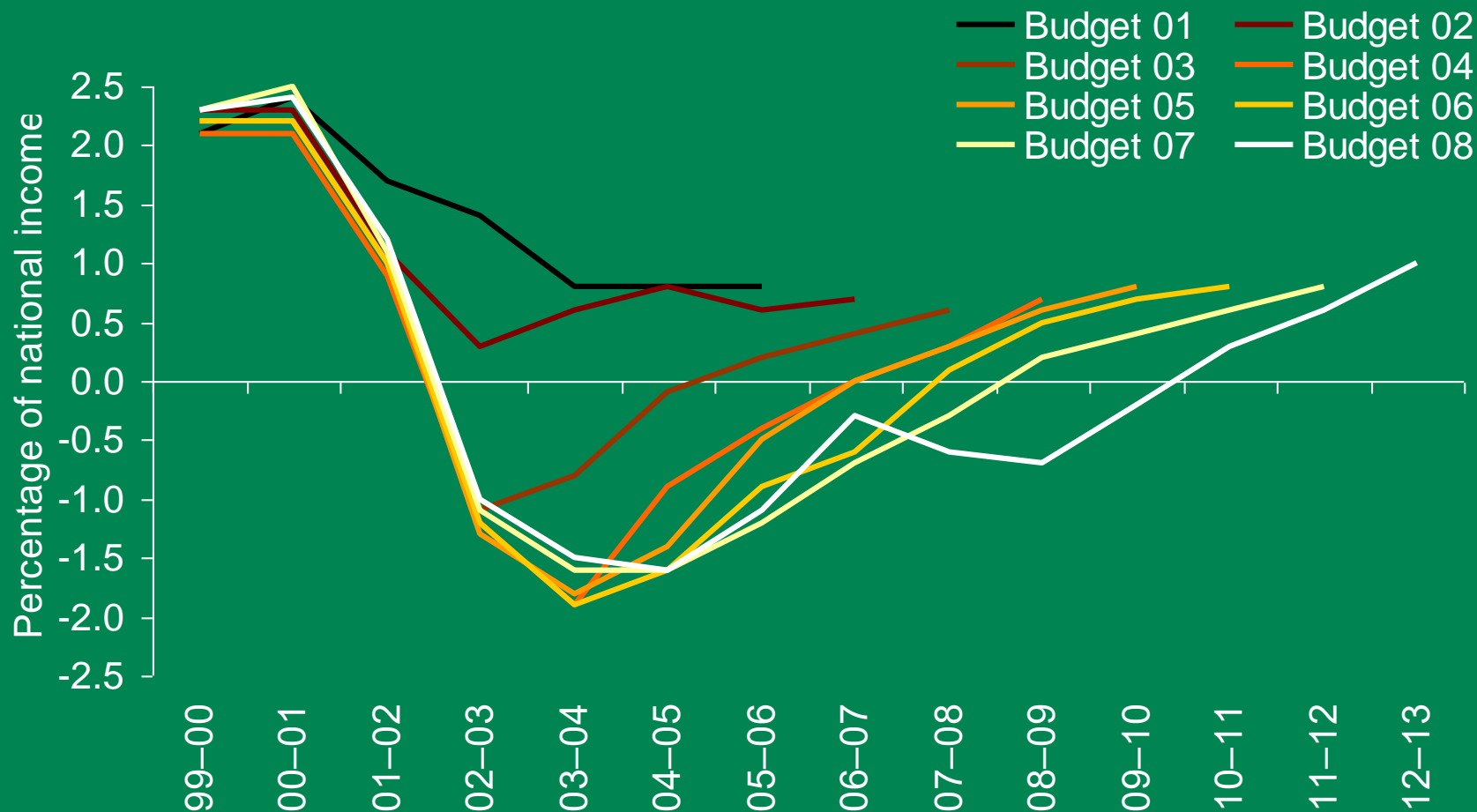
Cumulative current budget balance



Meeting the golden rule?



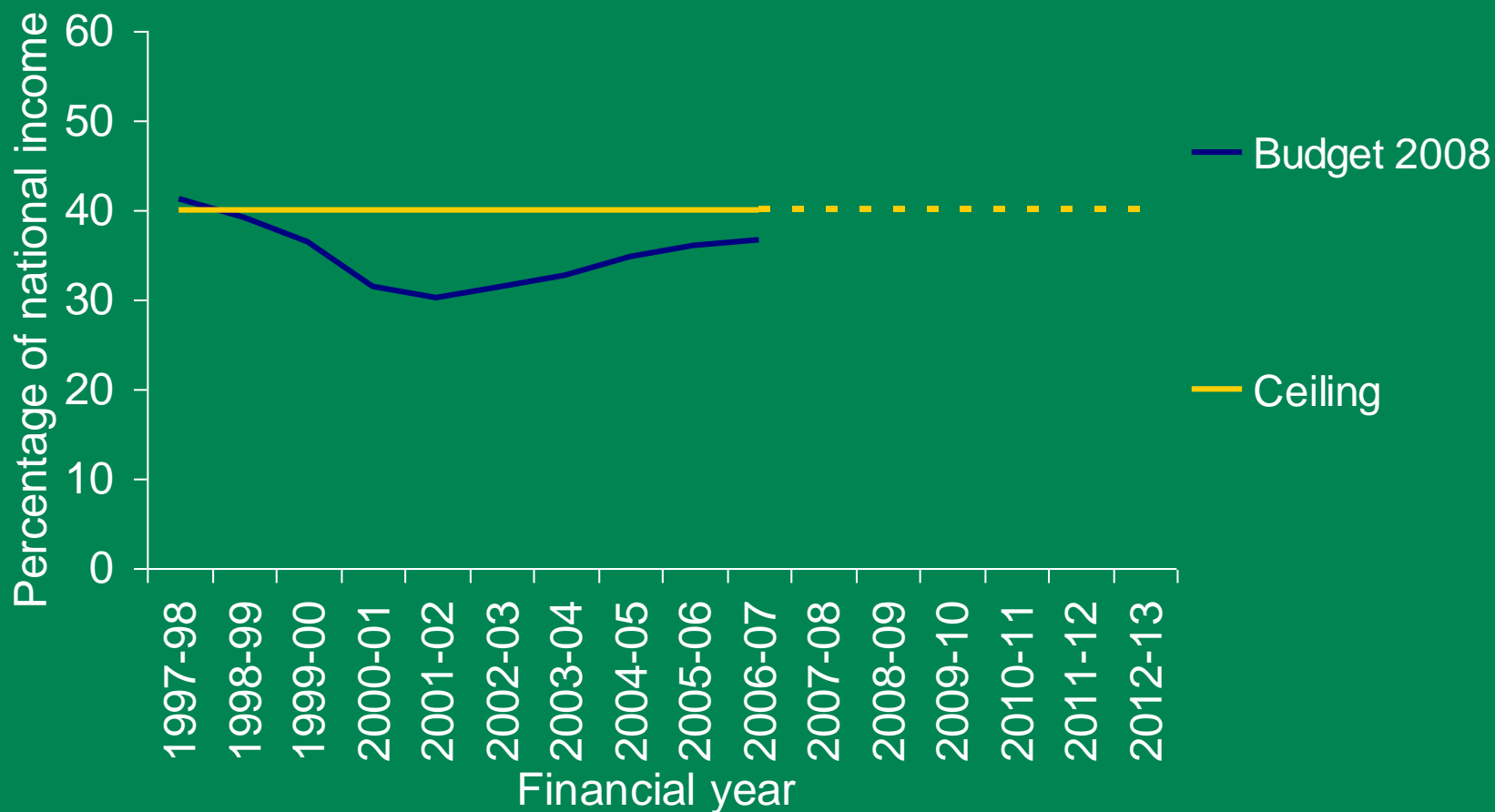
Current budget balances



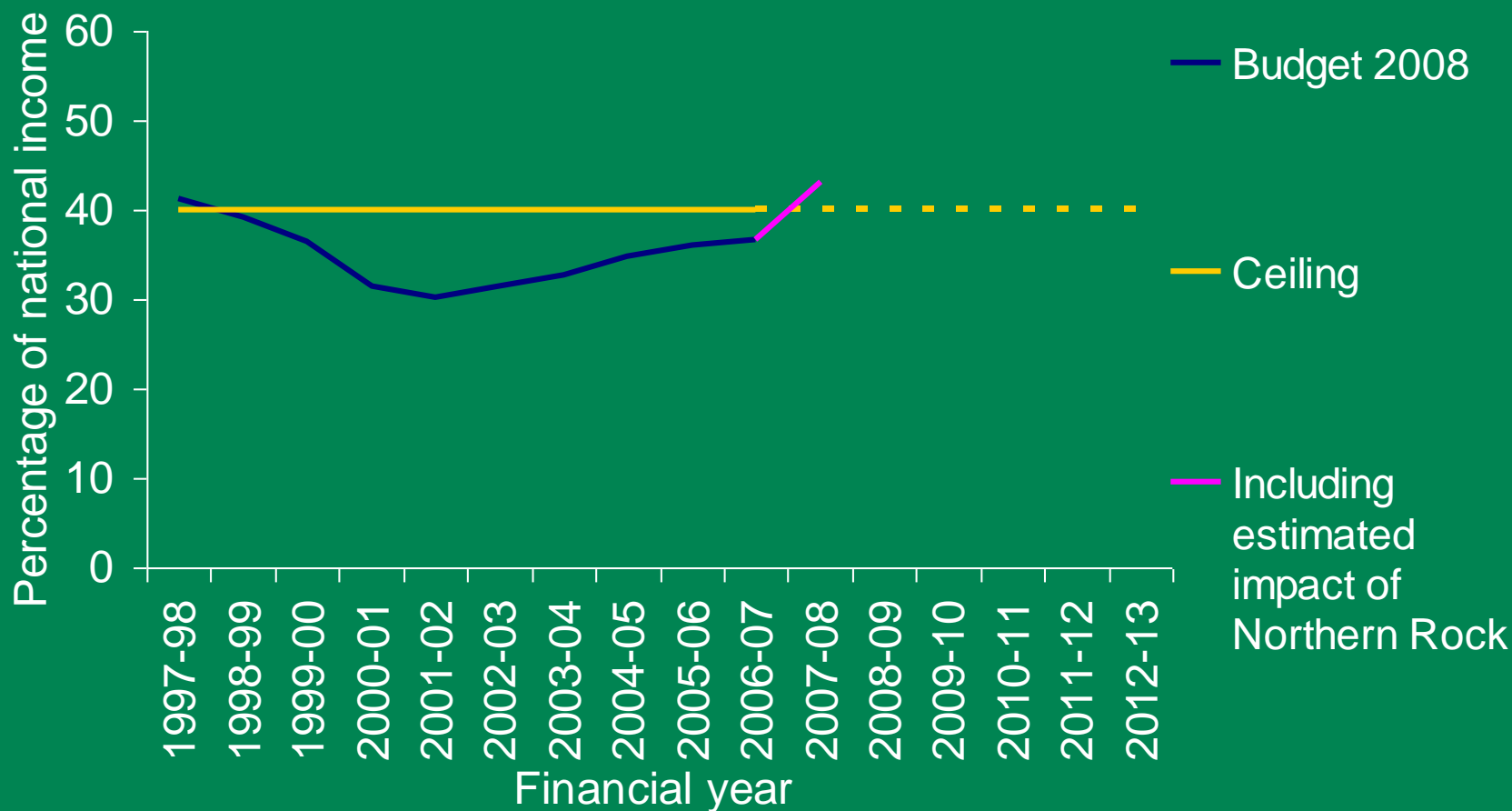
The fiscal rules

- Golden Rule
 - Borrow only to invest
 - Current budget balance or surplus
 - Judged over the economic cycle
- Sustainable Investment Rule
 - Debt at a stable and prudent level
 - This cycle: $\leq 40\%$ of national income every year
 - Now defined excluding Northern Rock

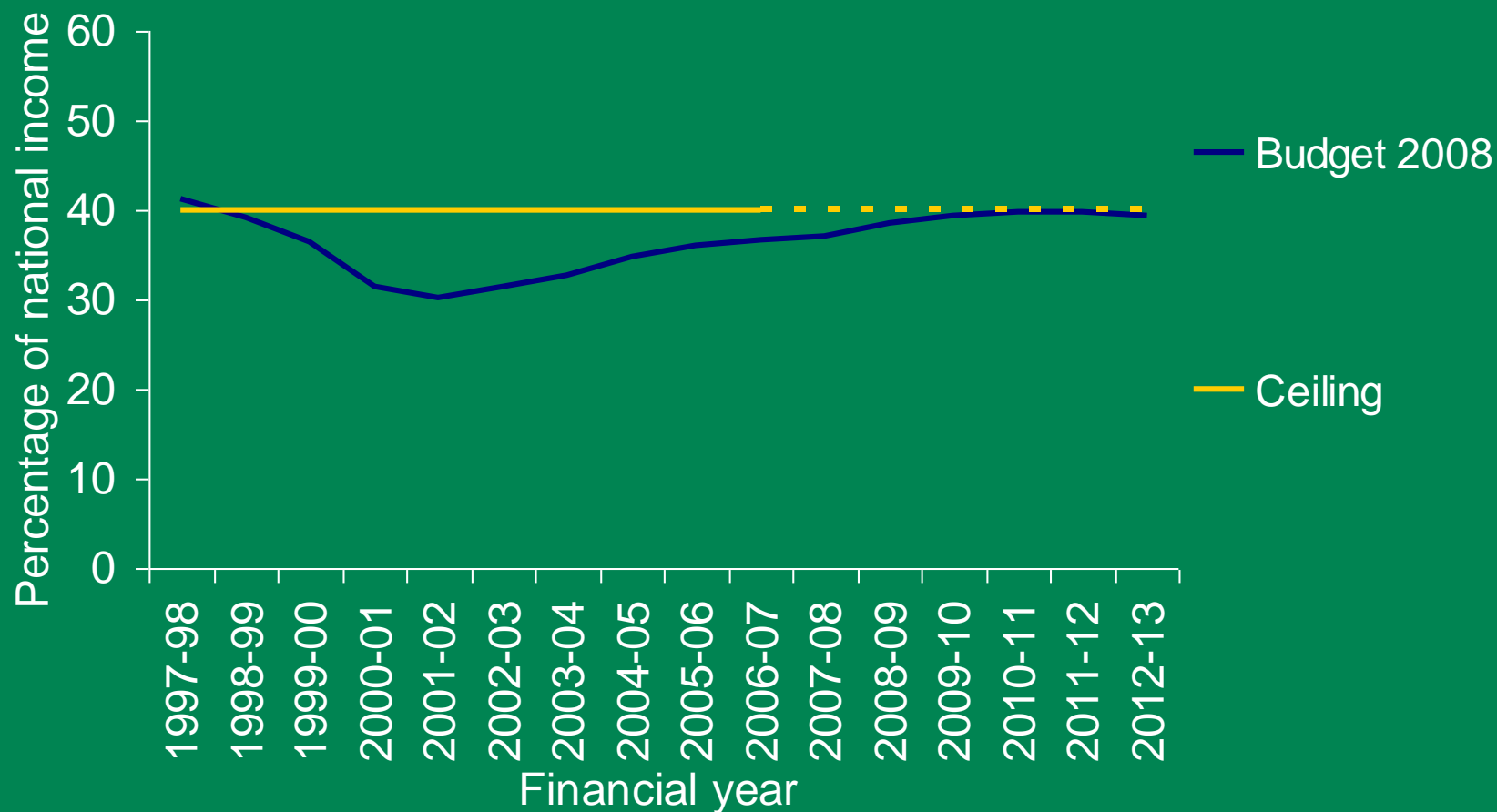
Will the investment rule be met?



Will the investment rule be met?

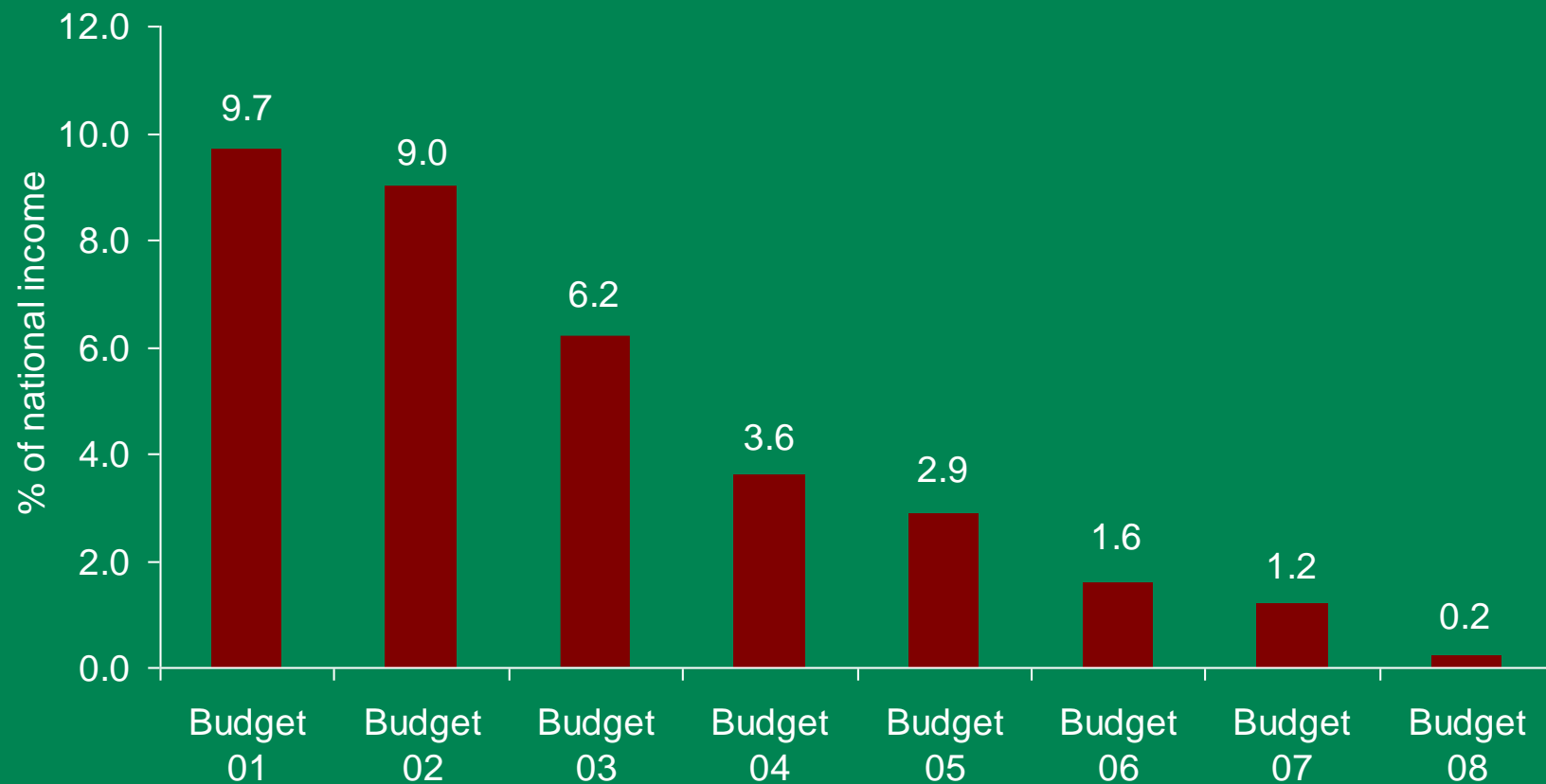


Will the investment rule be met?



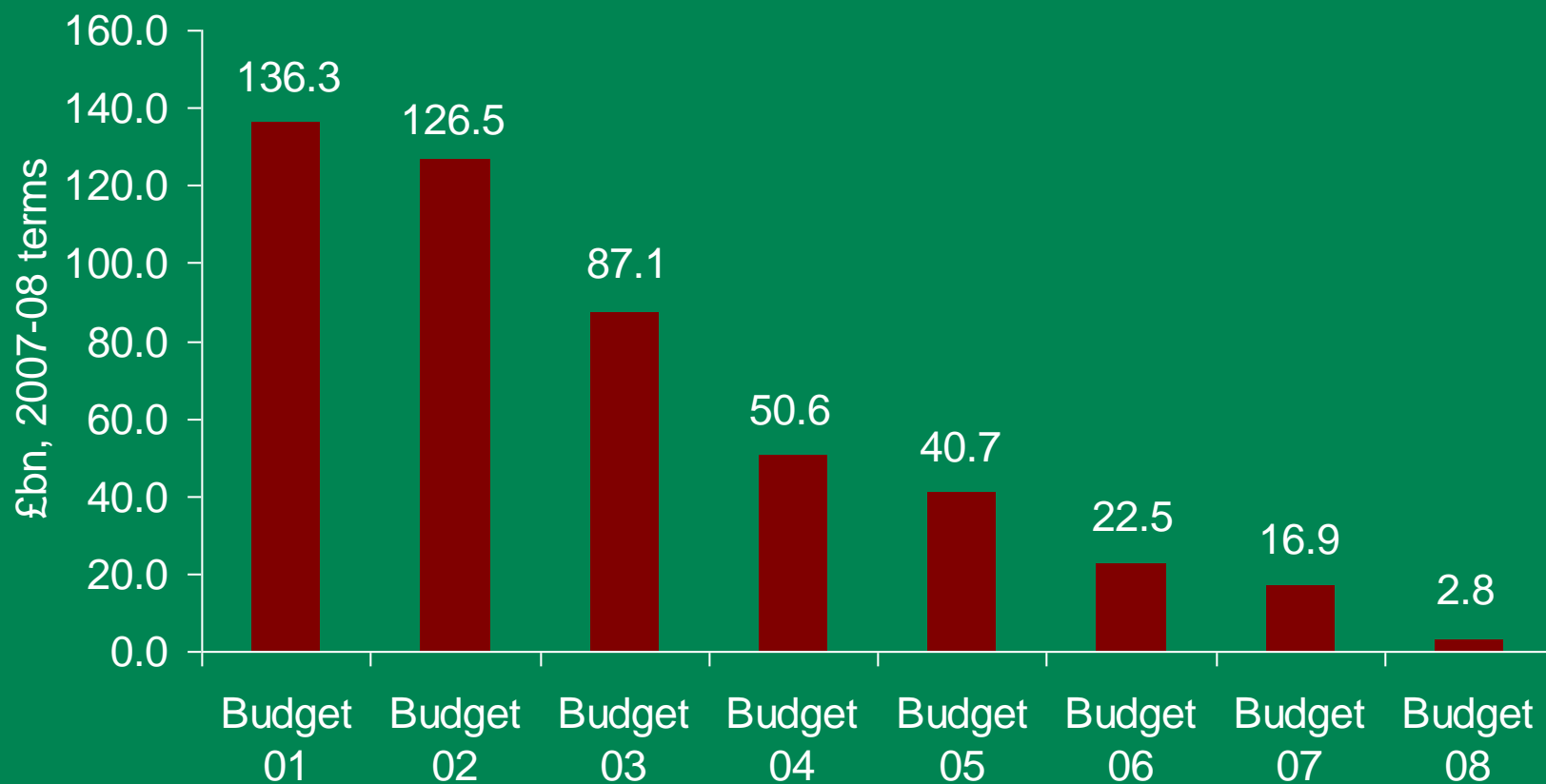
Meeting the net debt rule?

Minimum forecast headroom from 40% ceiling



Meeting the net debt rule?

Minimum forecast headroom from 40% ceiling



Risks to the public finances

- Economic downturn deeper/more prolonged
- Underlying receipts weaker than Treasury believes
 - Though Budget 2008 projection now closer to Green Budget 2008
- Political pressure for greater giveaways

Greater giveaways ahead?

- One-off enhanced payment for over-60s
 - Maybe over-60s equally deserving next winter?
 - Cost £575 million per year
- Fuel duty: delay 2p nominal increase until October
 - Maybe oil price will remain high?
 - Cost £550 million per six months
- Gift aid: 2p cut in charity relief delayed for 3 years
 - Maybe charities equally deserving in year four?
 - Cost £120 million per year
- To make these policies permanent: £2bn a year

Conclusions

- £7½bn deterioration in public finances
 - Financed by new measures, tighter Spending Review 2009 and higher borrowing
- No room to manoeuvre against either fiscal rule
 - Debt rule could easily be breached in 2010–11
- Increased pressure for further giveaways?