

Post Budget Briefing

Institute for Fiscal Studies

23rd March 2006

<http://www.ifs.org.uk/budgets/budget2006/index.php>

Public finances

Carl Emmerson

A small Budget?

- 2006 Budget
 - 45 measures averaging £40m each per year
- 2002 Budget
 - 54 measures averaging £220m each per year
- 1997 Budget
 - 27 measures averaging £370m each per year
- 2005 Pre-Budget Report
 - 30 measures averaging £165m each per year

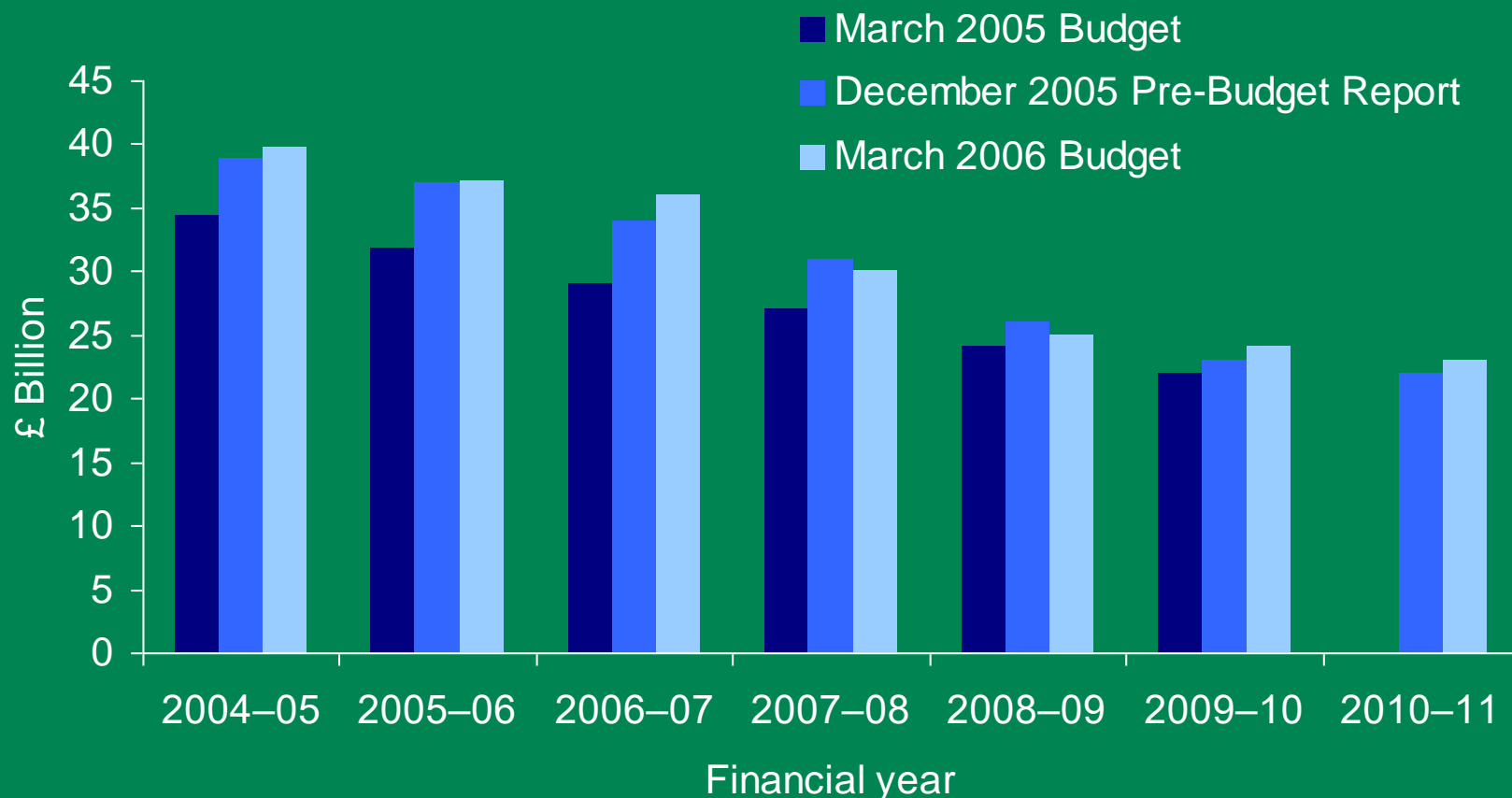
Budget measures

£million	2006–07	2007–08	2008–09
Total takeaway	515	1,260	1,205
Total giveaway	895	845	500
<i>Net takeaway</i>	<i>–380</i>	<i>415</i>	<i>705</i>

Underlying public finances

- Economy
 - growth forecasts unchanged from PBR
 - output gap estimated to be slightly smaller
- Public finances
 - offsetting changes in receipts and spending
 - borrowing and debt broadly unchanged

Public Sector Net Borrowing



Changes to forecasts (1)

- BBC classification change
 - January 2006 ONS decision to count this as central government rather than public corporation
 - both receipts and spending increased by around £3bn a year

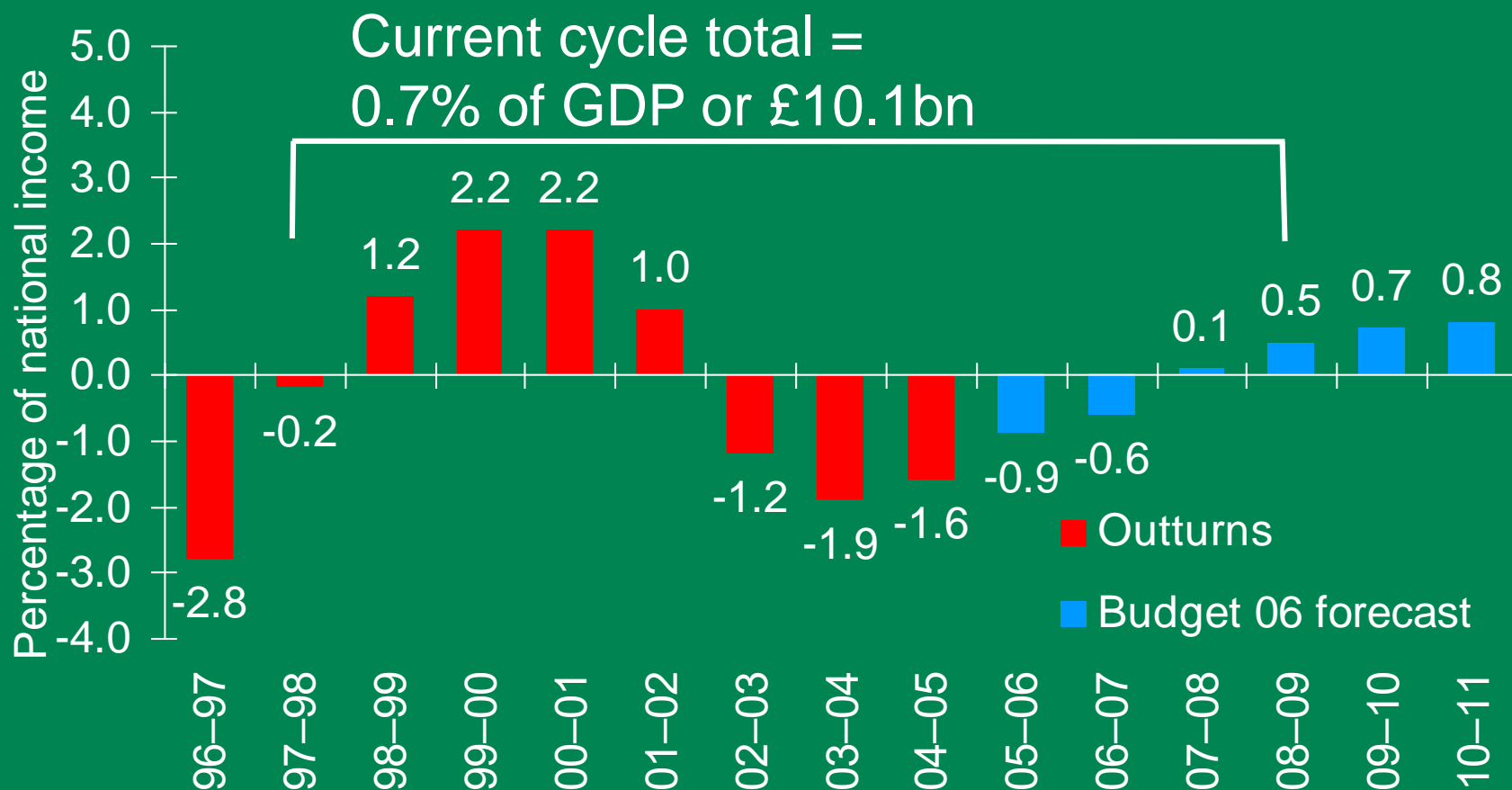
Changes to forecasts (2)

- Medium term receipts up by £2bn/year
 - 8% rise in stock market
 - slight increase in oil price
- No increase in short-term receipts
 - recent average earnings and employment data
 - oil production
- Spending up on Working and Child Tax Credits
 - due to lower salaries and wages

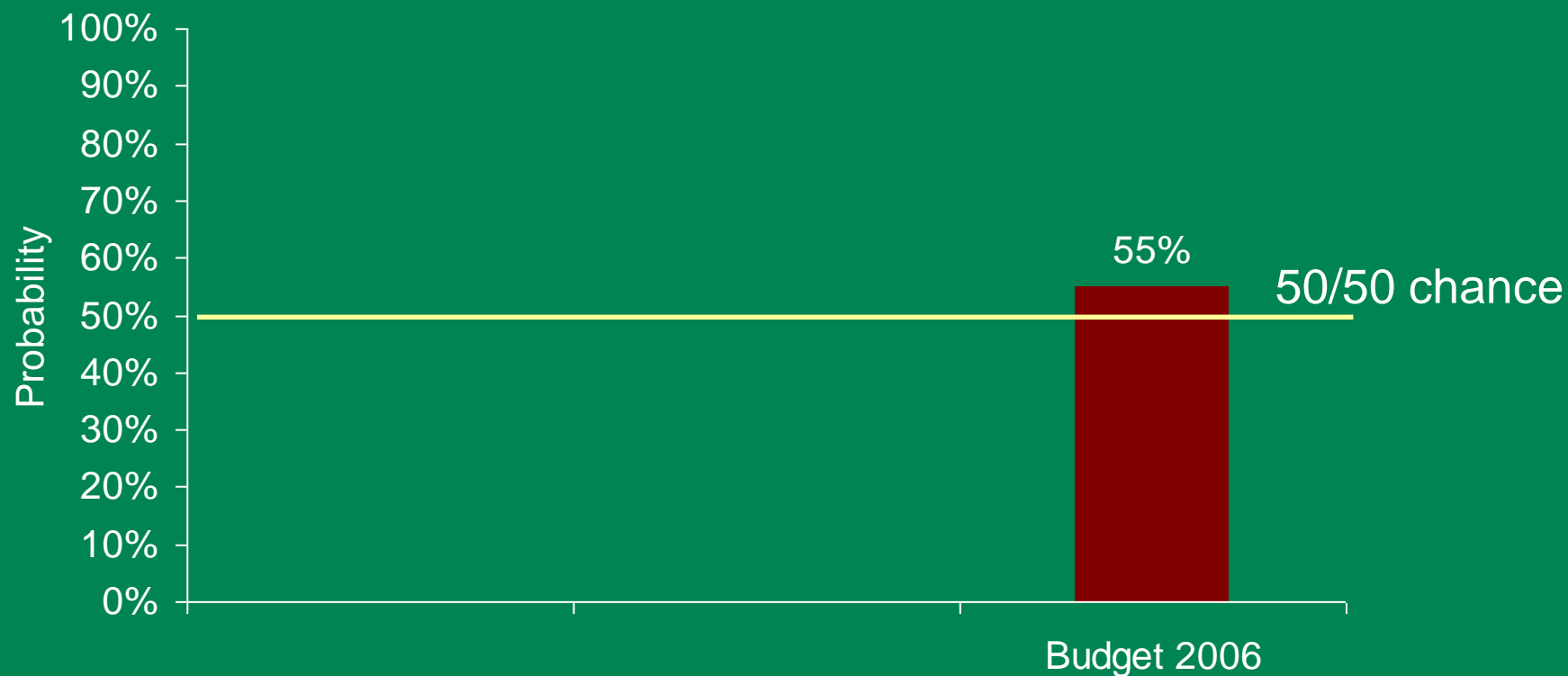
Gordon Brown's fiscal rules

- Golden rule
 - only borrow to invest
 - receipts must cover current spending
 - implies surplus or balance on current budget
 - judged over the economic cycle, not year by year
- Sustainable investment rule

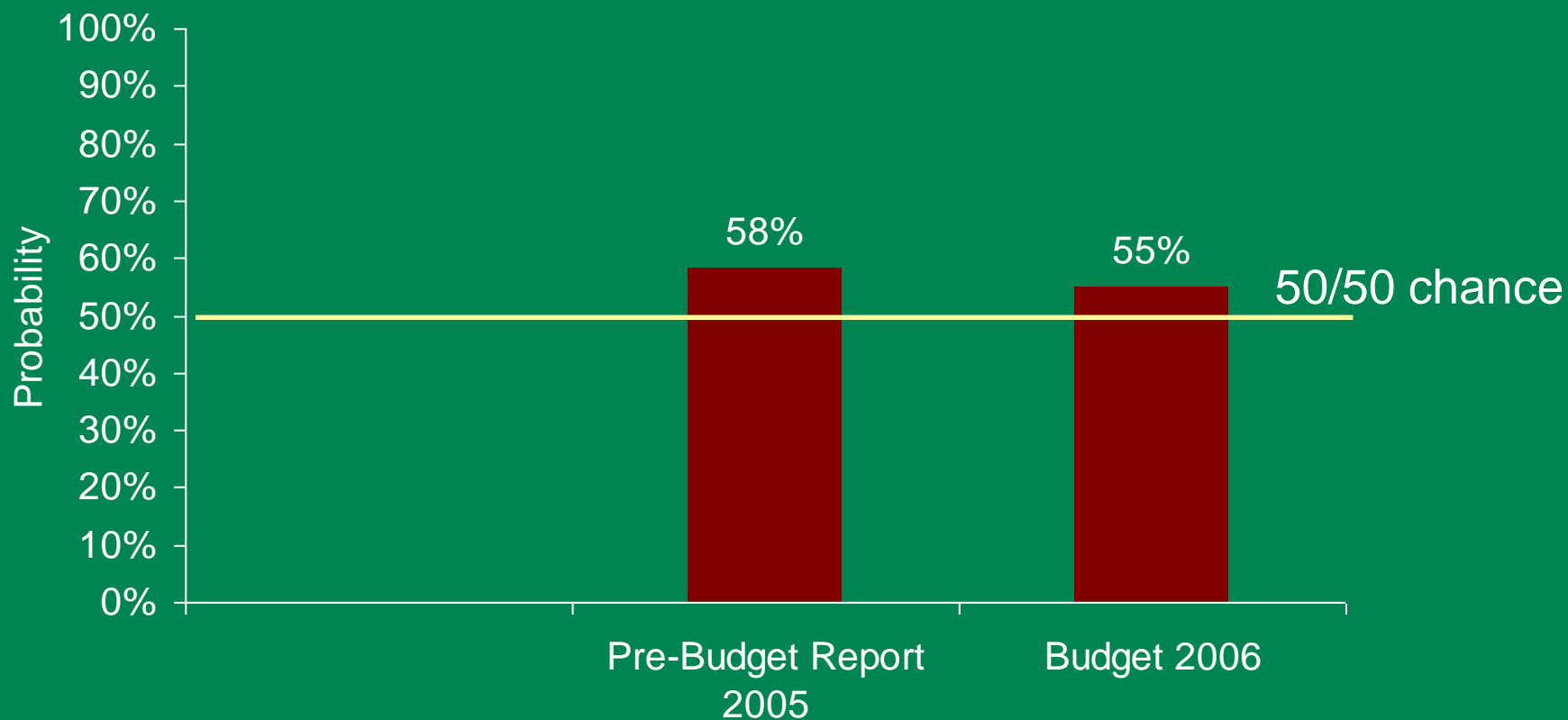
Current budget balance



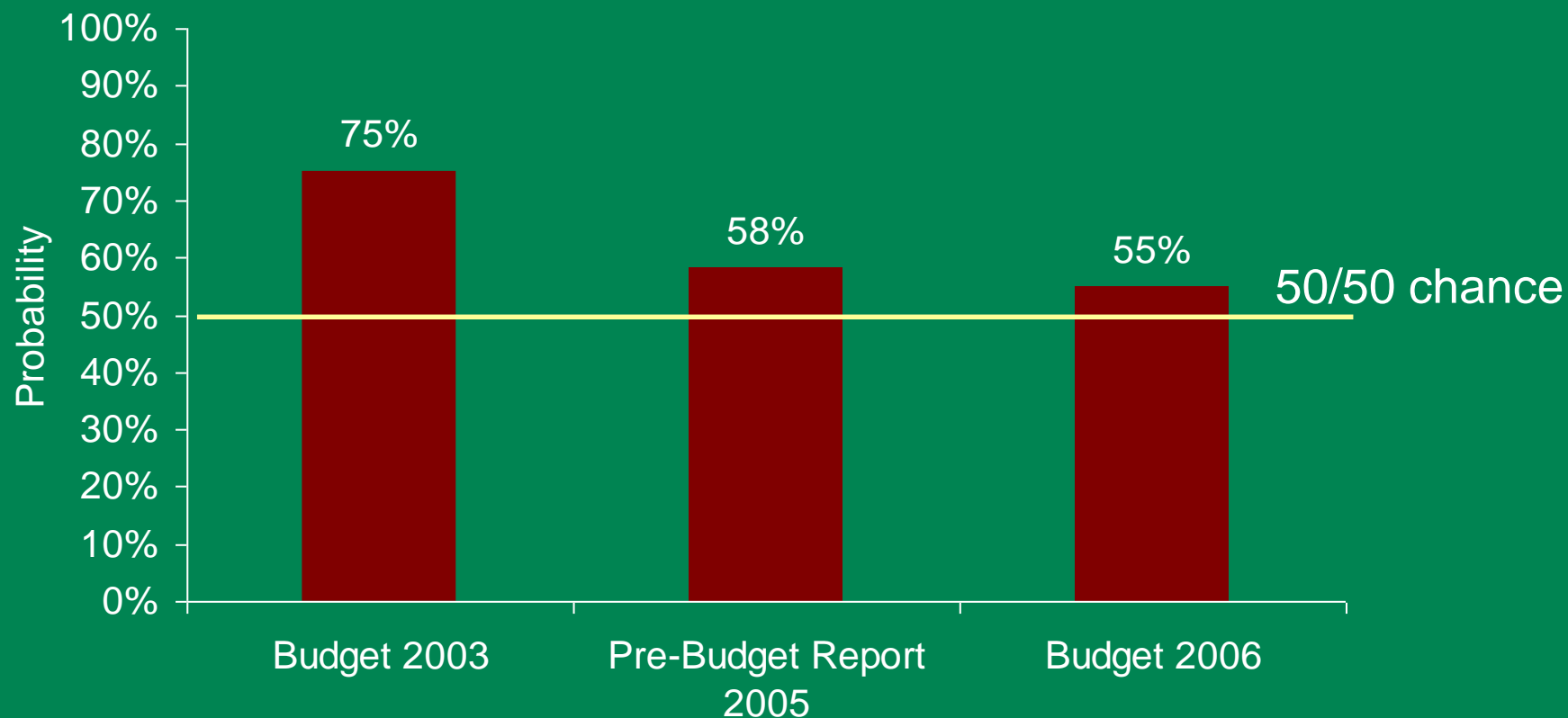
Chances of meeting the golden rule?



Chances of meeting the golden rule?



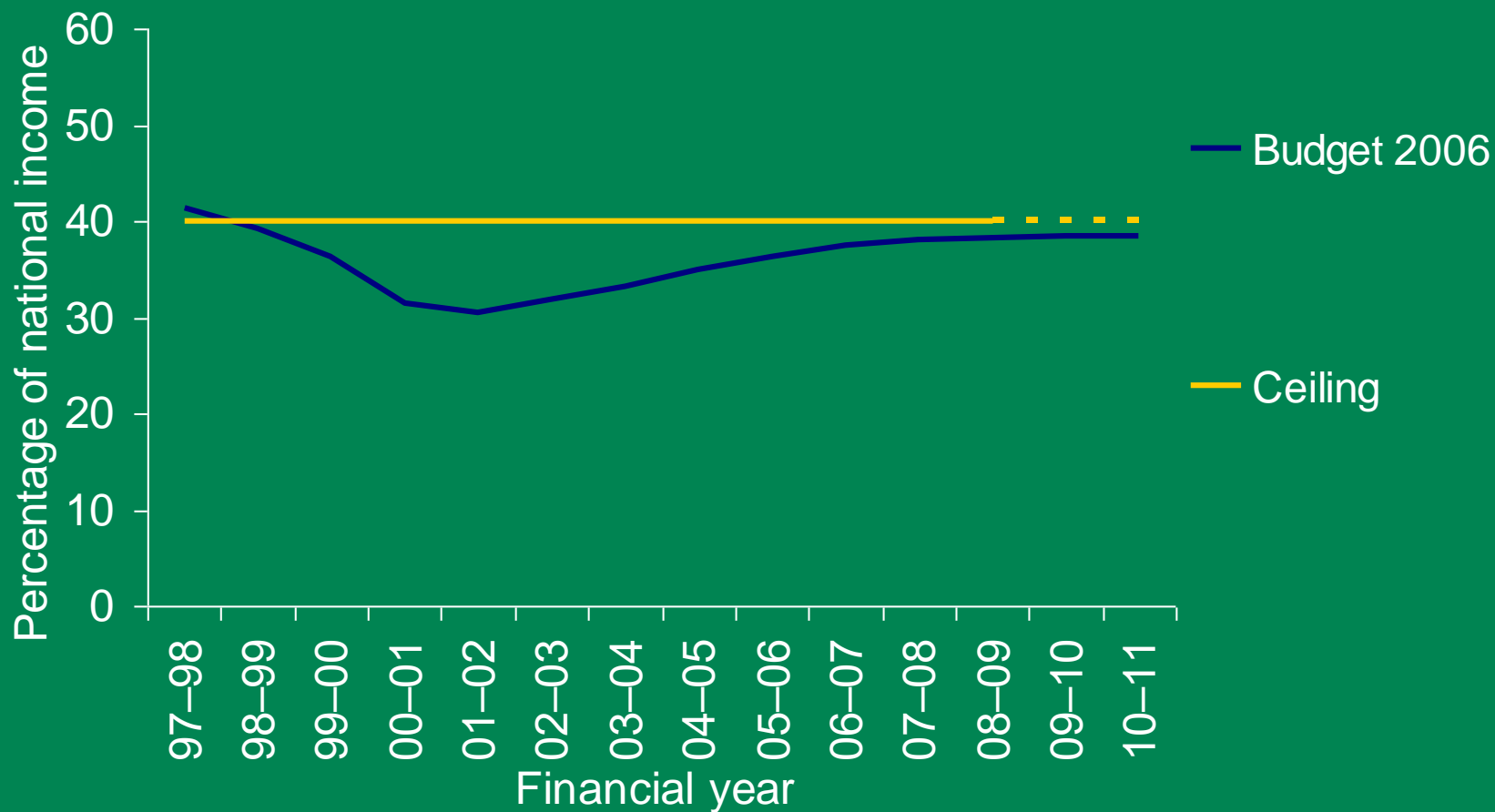
Chances of meeting the golden rule?



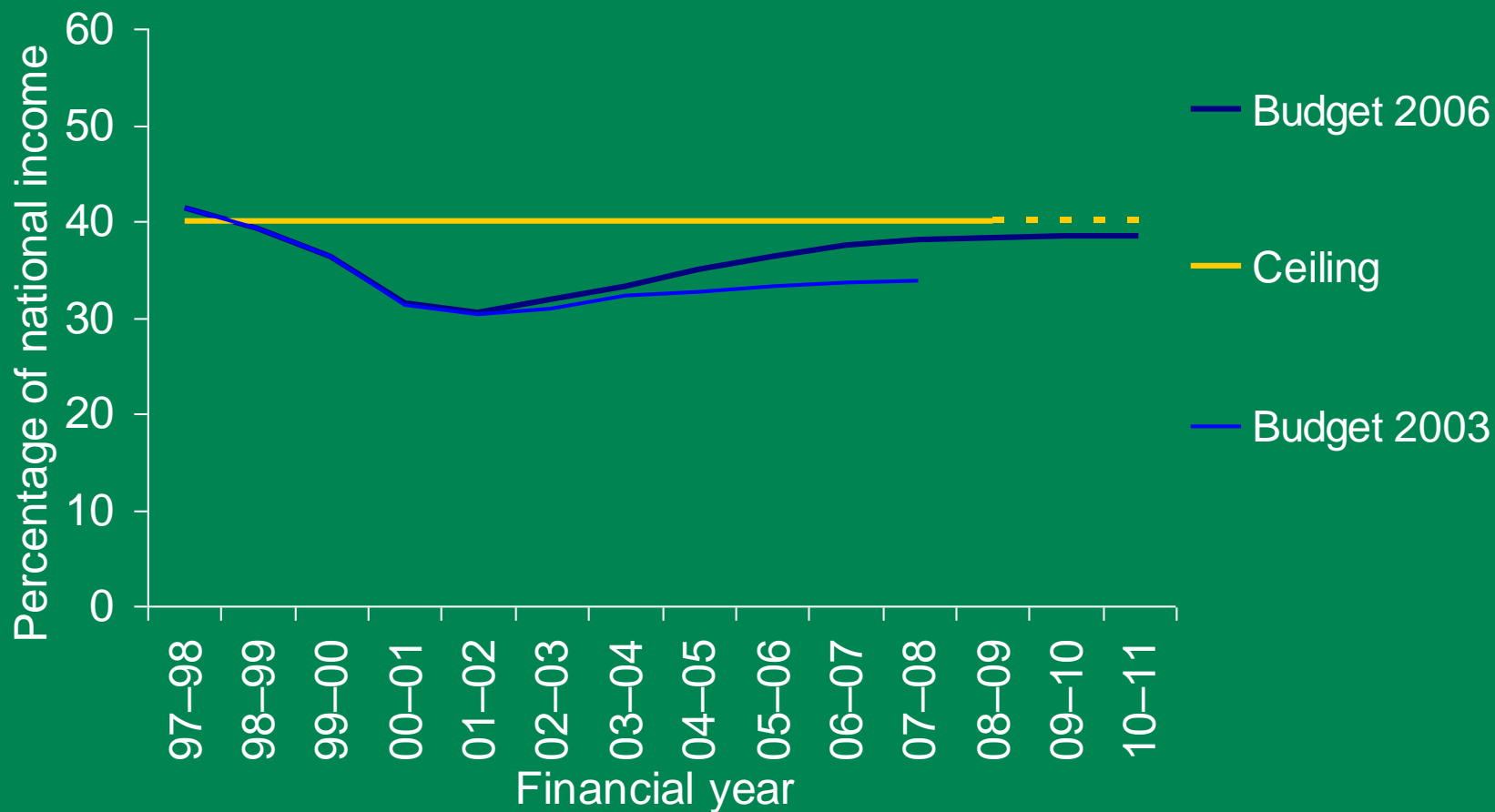
Gordon Brown's fiscal rules

- Golden rule
- Sustainable investment rule
 - keep debt at a “stable and prudent” level
 - defined as below 40% of national income
 - to be met every year in current economic cycle

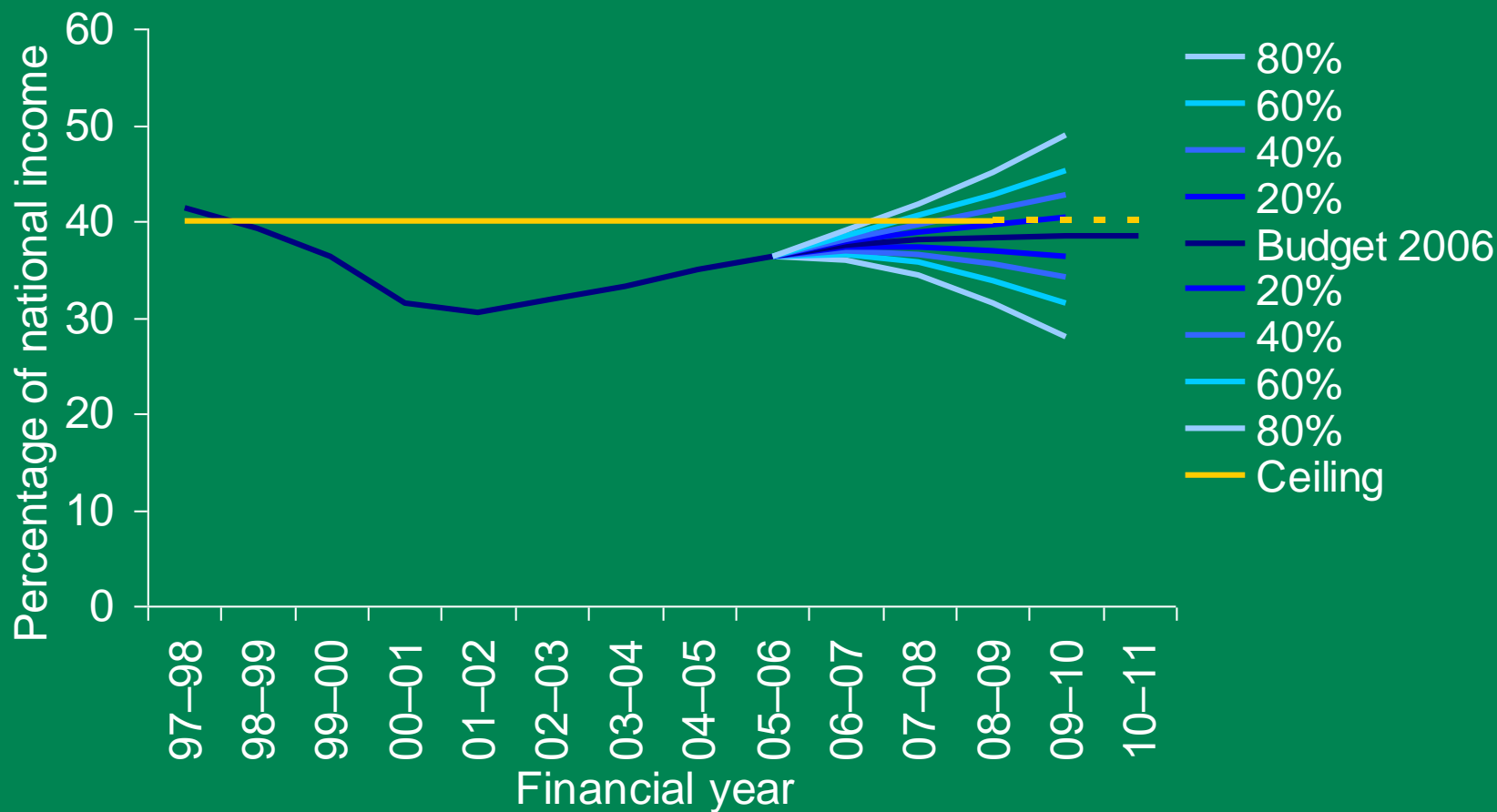
Will the investment rule be met?



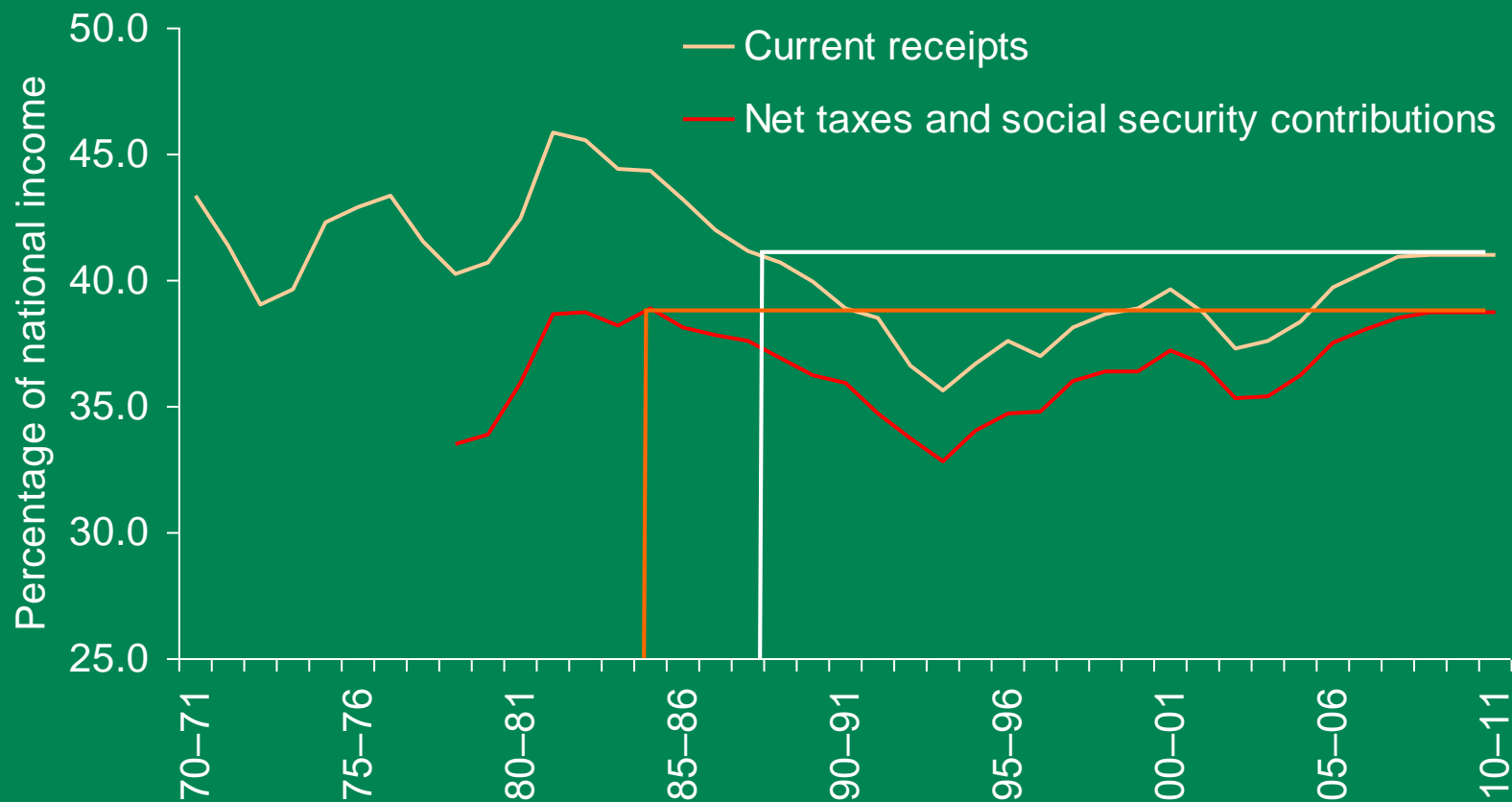
Will the investment rule be met?



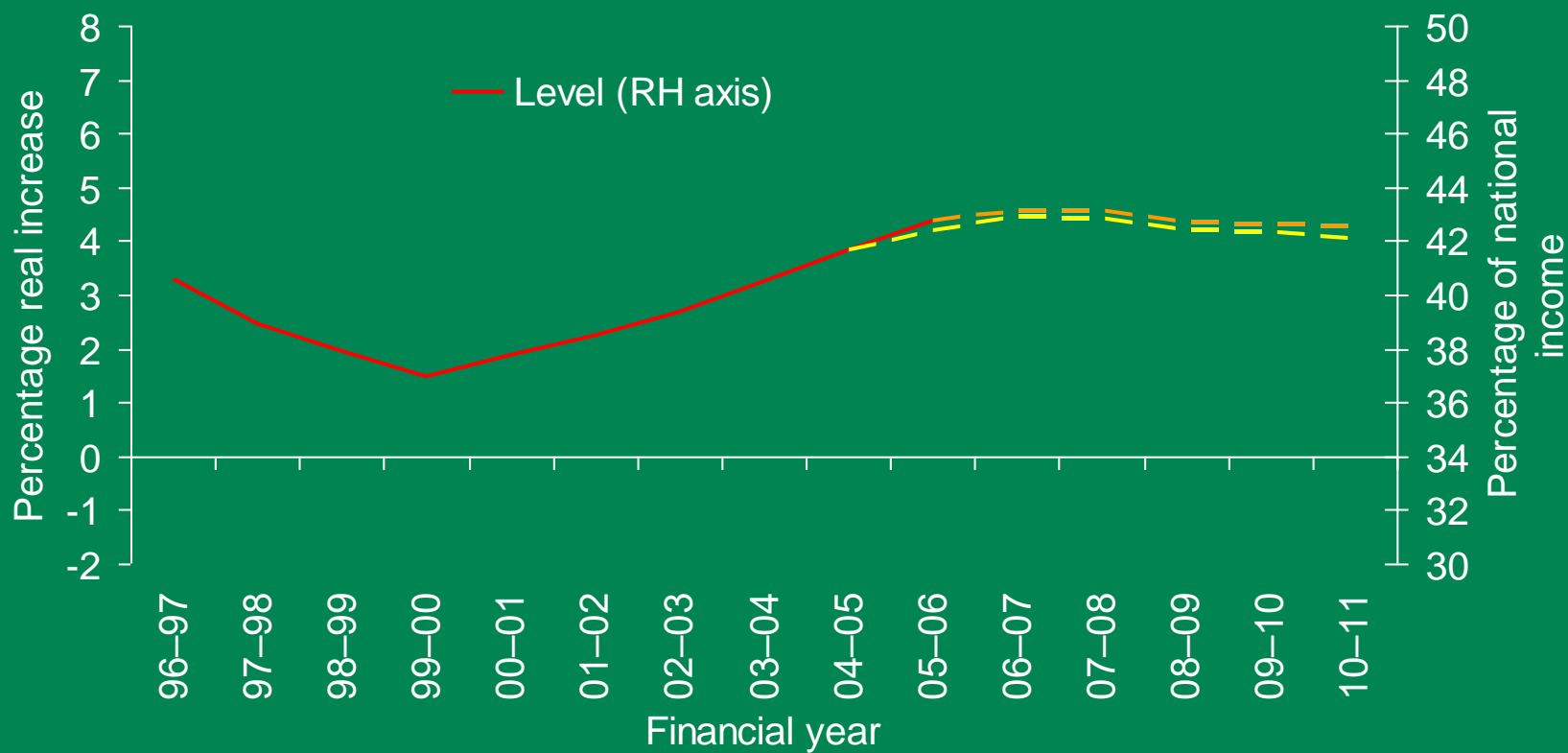
Will the investment rule be met?



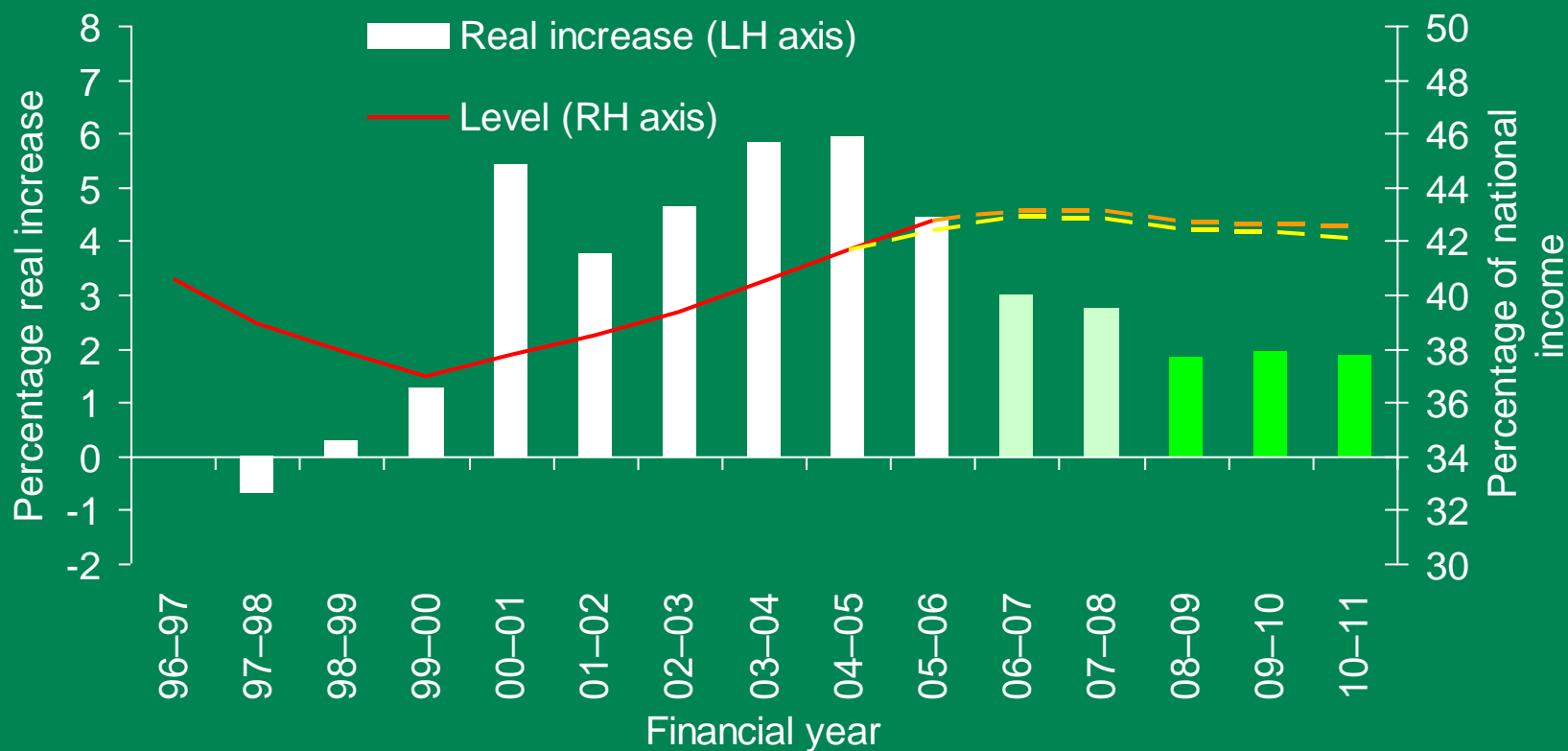
A rising tax burden



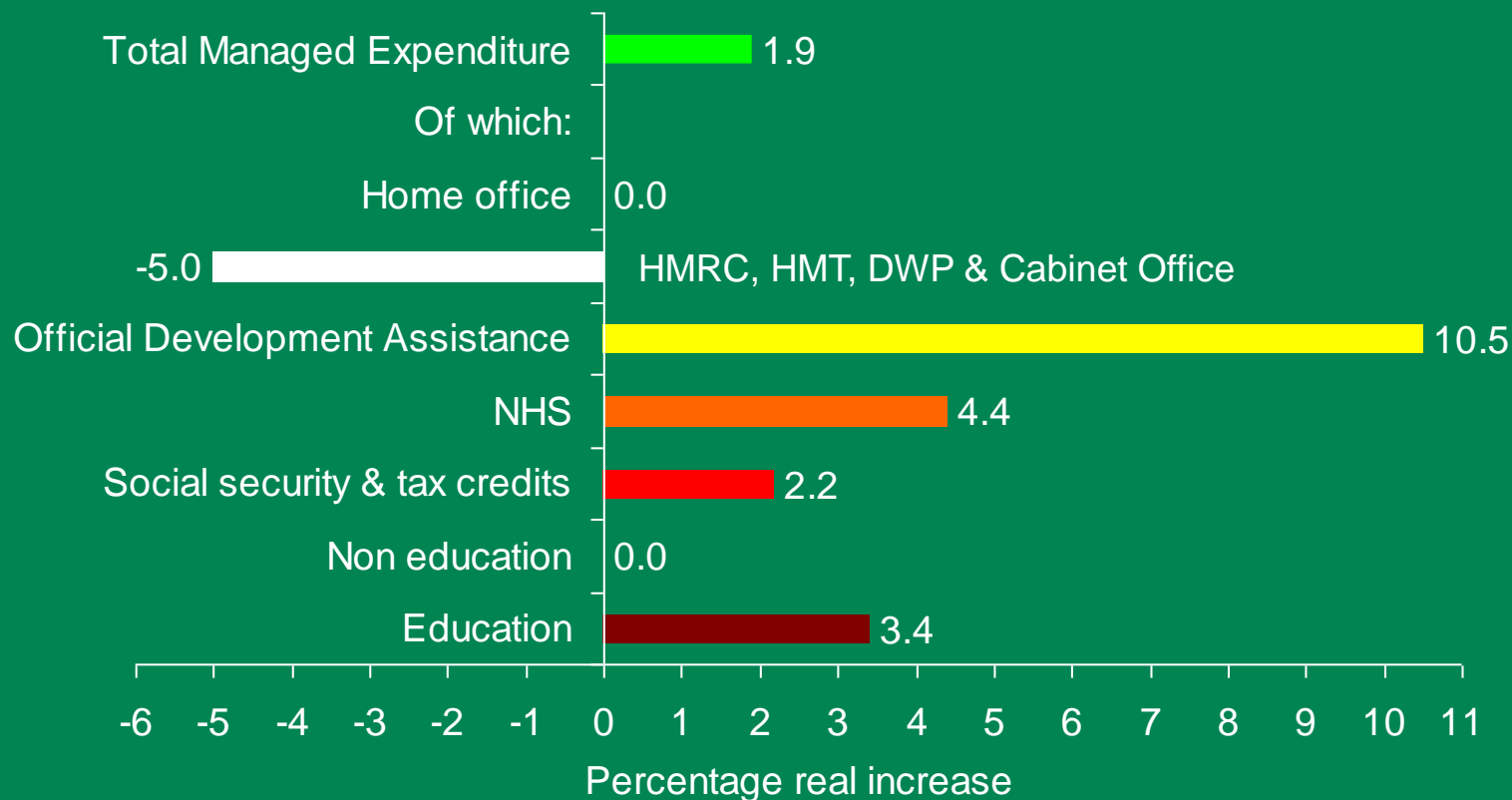
Total Managed Expenditure



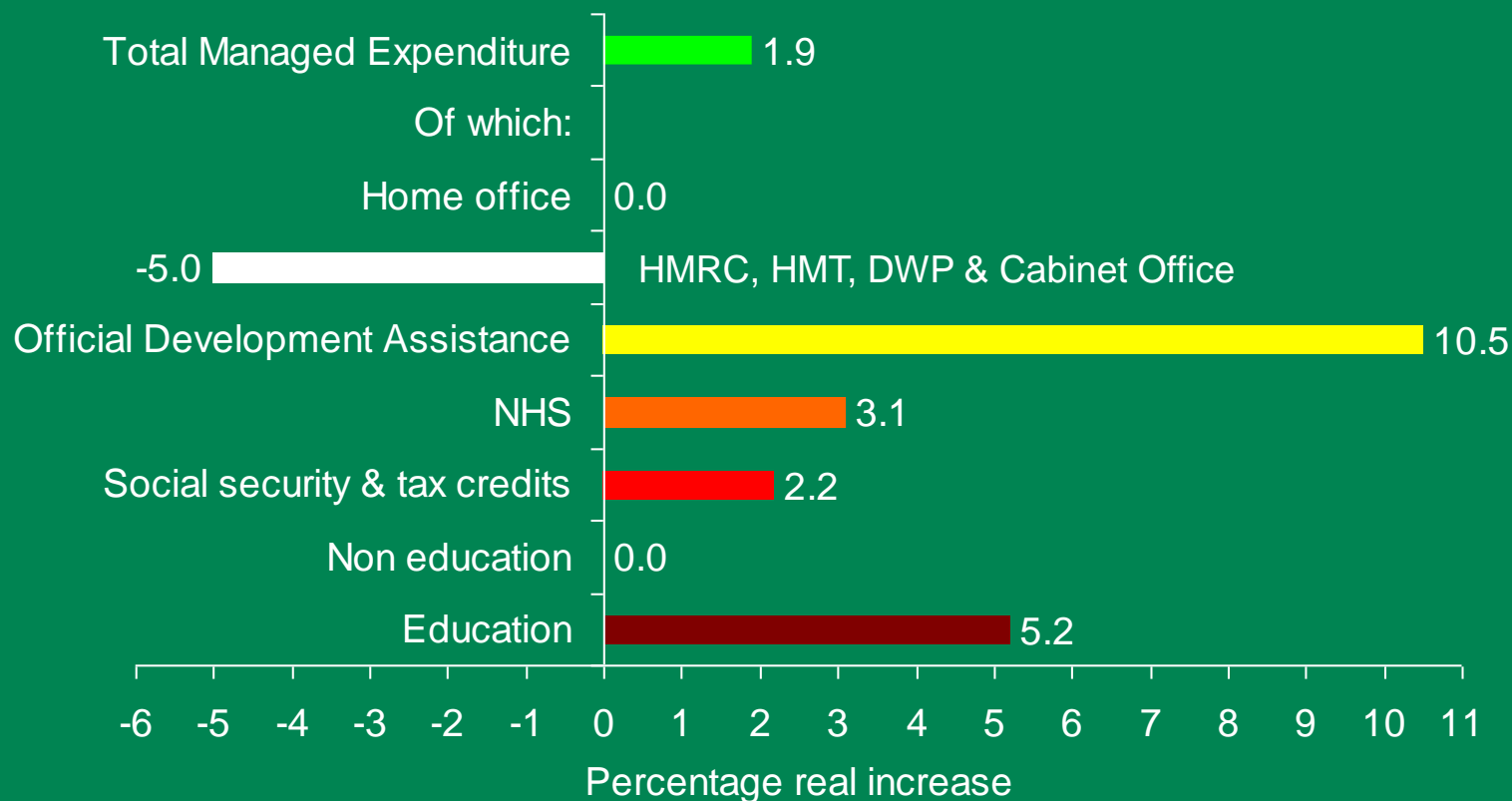
Total Managed Expenditure



What increases might we have?



What increases might we have?



Conclusion

- Relatively small Budget
 - fiscal rules still expected to be met with reduced margin of error
- Risks
 - can economy grow as quickly as hoped?
 - will receipts materialise?
 - will total spending be reduced?
 - if so which departments will suffer?