

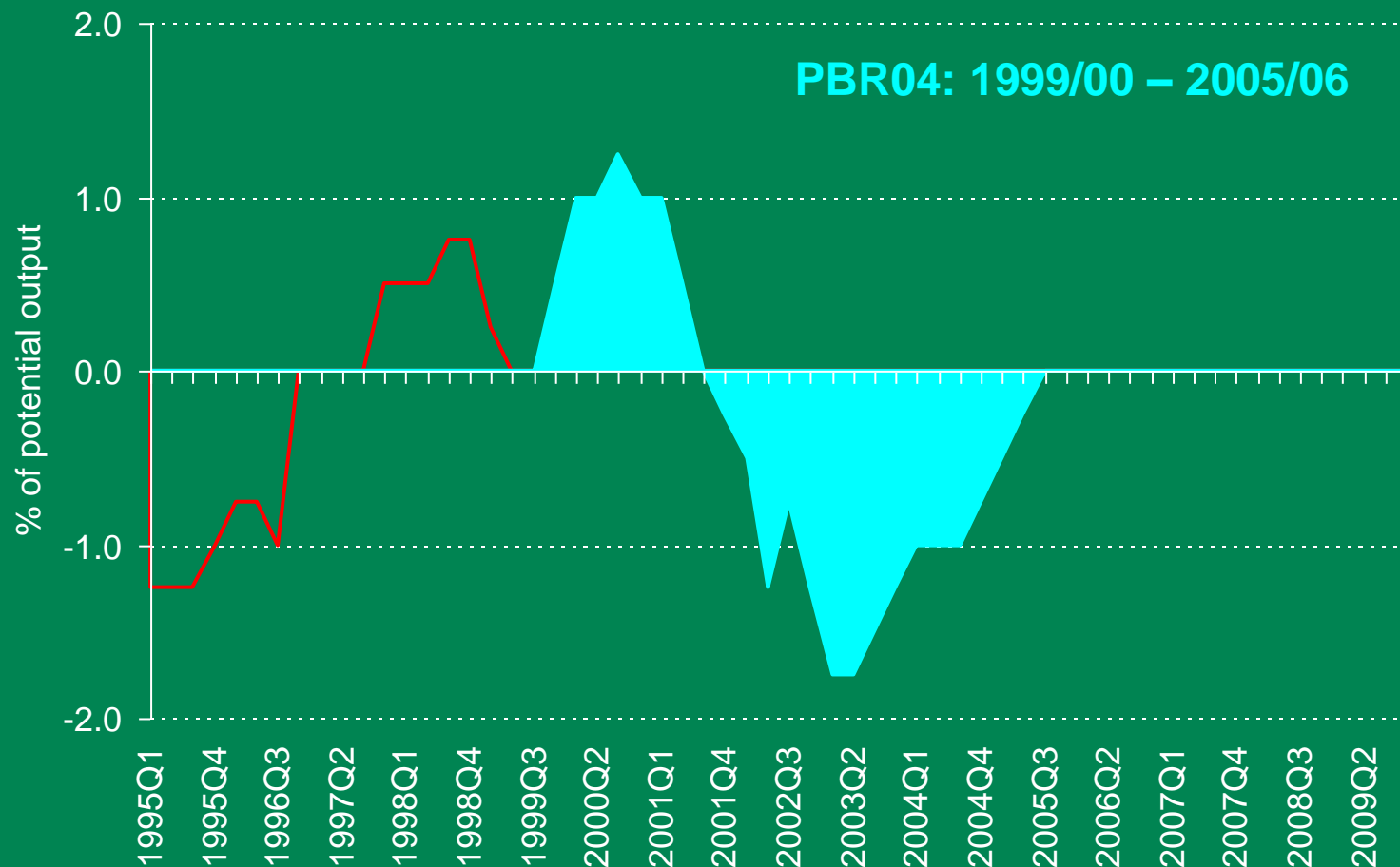
Meeting the fiscal rules?

Christine Frayne

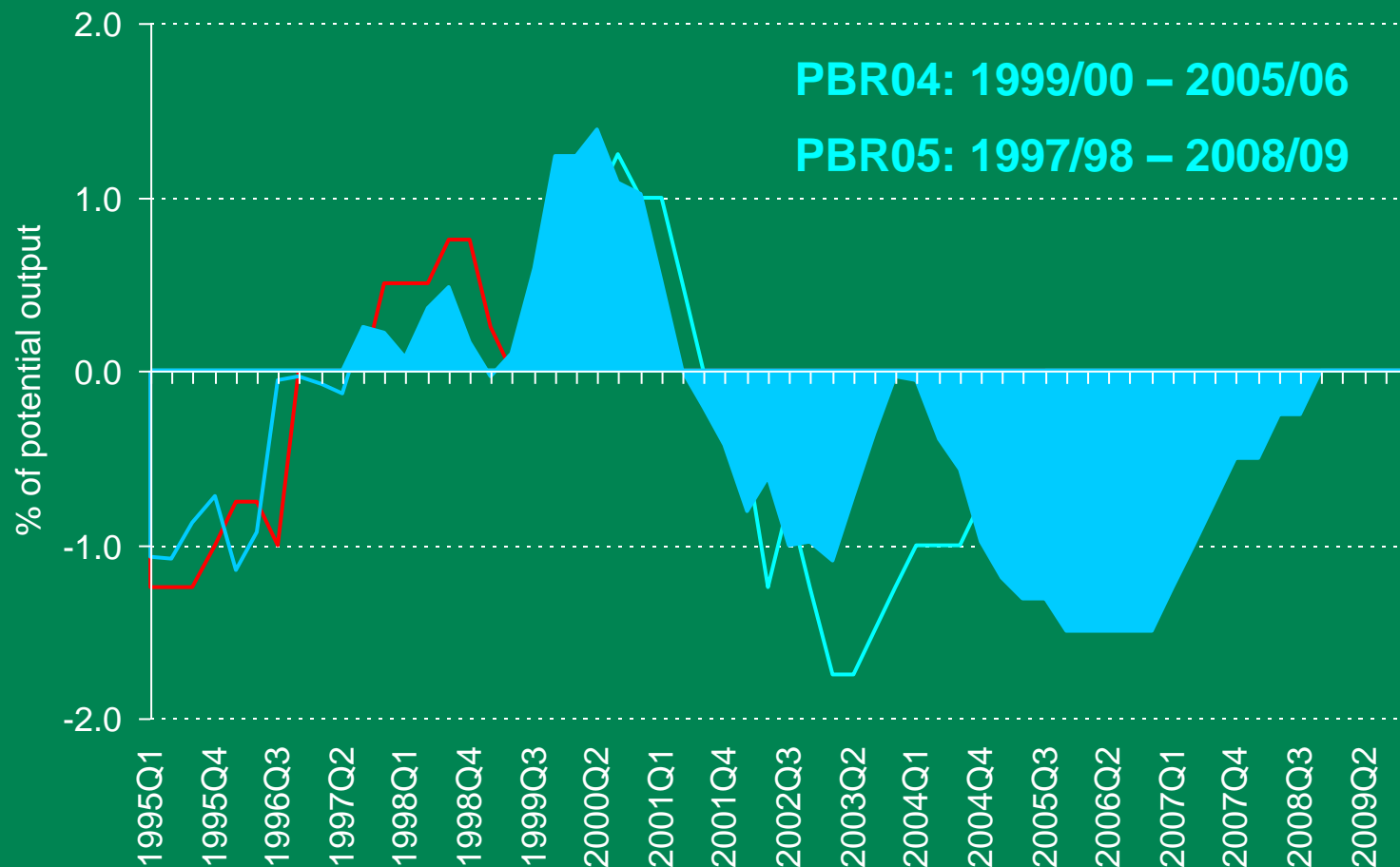
Gordon Brown's fiscal rules

- 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

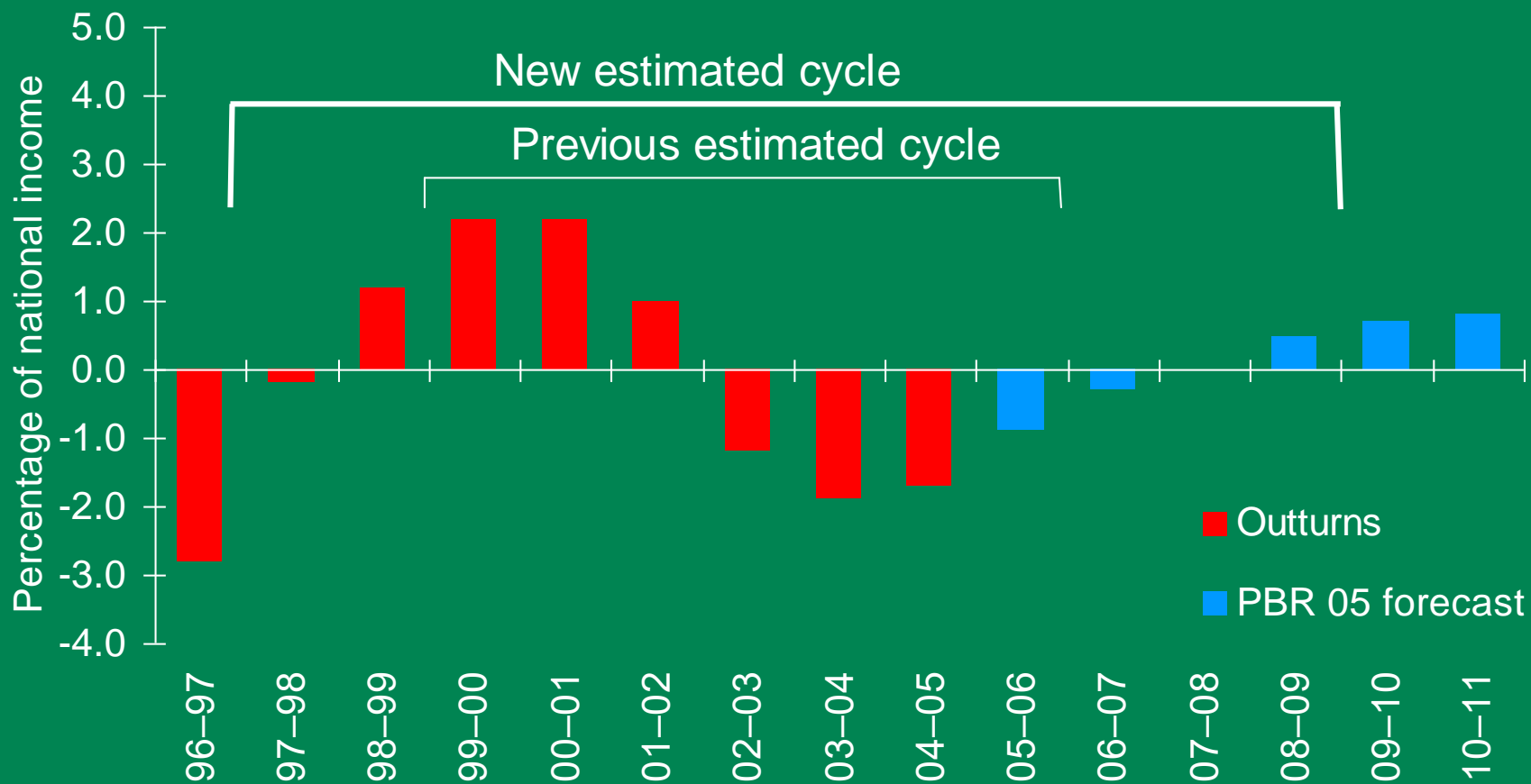
A seven year cycle?



A twelve year cycle?



Current budget balance



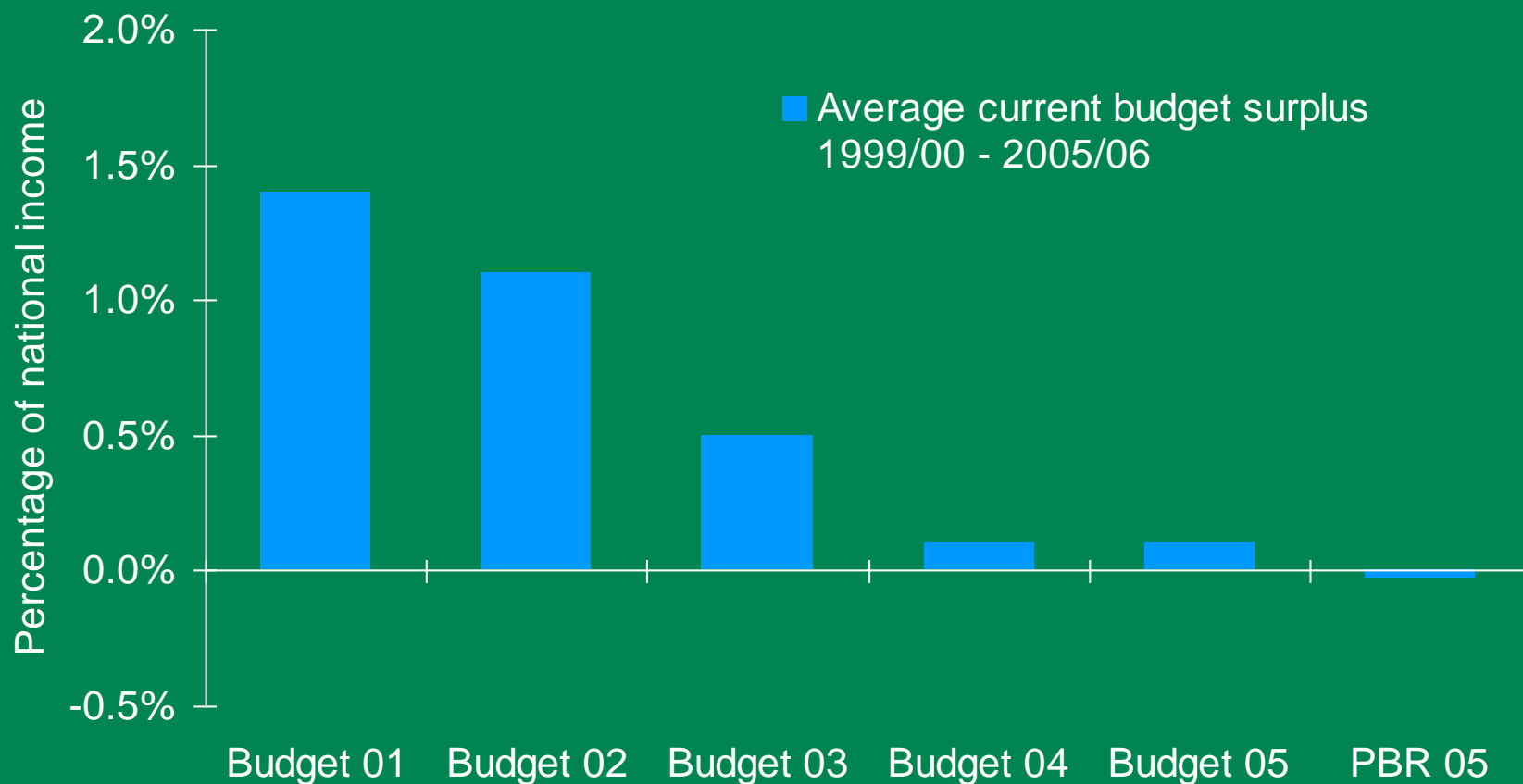
Meeting the golden rule?

“We would meet the Golden Rule irrespective.”

Gordon Brown, Evidence to Treasury Select
Committee, 19th July 2005

Meeting the golden rule?

Previous estimated cycle

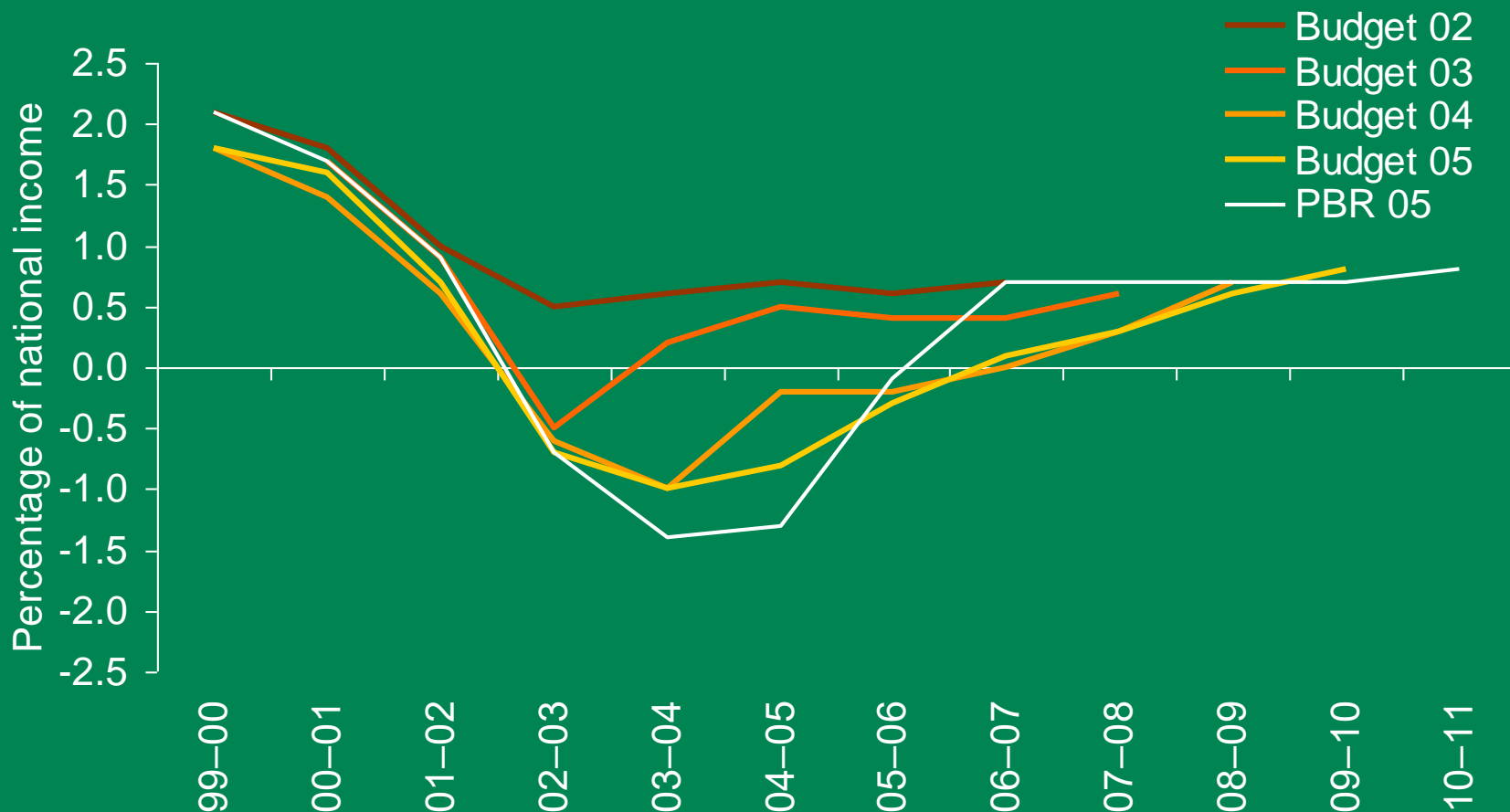


Meeting the golden rule?

	Average surplus over current cycle (%GDP)	Cumulative surplus (£bn 2005-06 GDP terms)	Current budget balance: first year of next cycle
1999/00 to 2005/06	-0.0%	-£2.4	-0.9%
1997/98 to 2005/06	+0.1%	+£10.3	-0.9%
1997/98 to 2008/09	+0.1%	+£12.3	+0.5%

Meeting the golden rule?

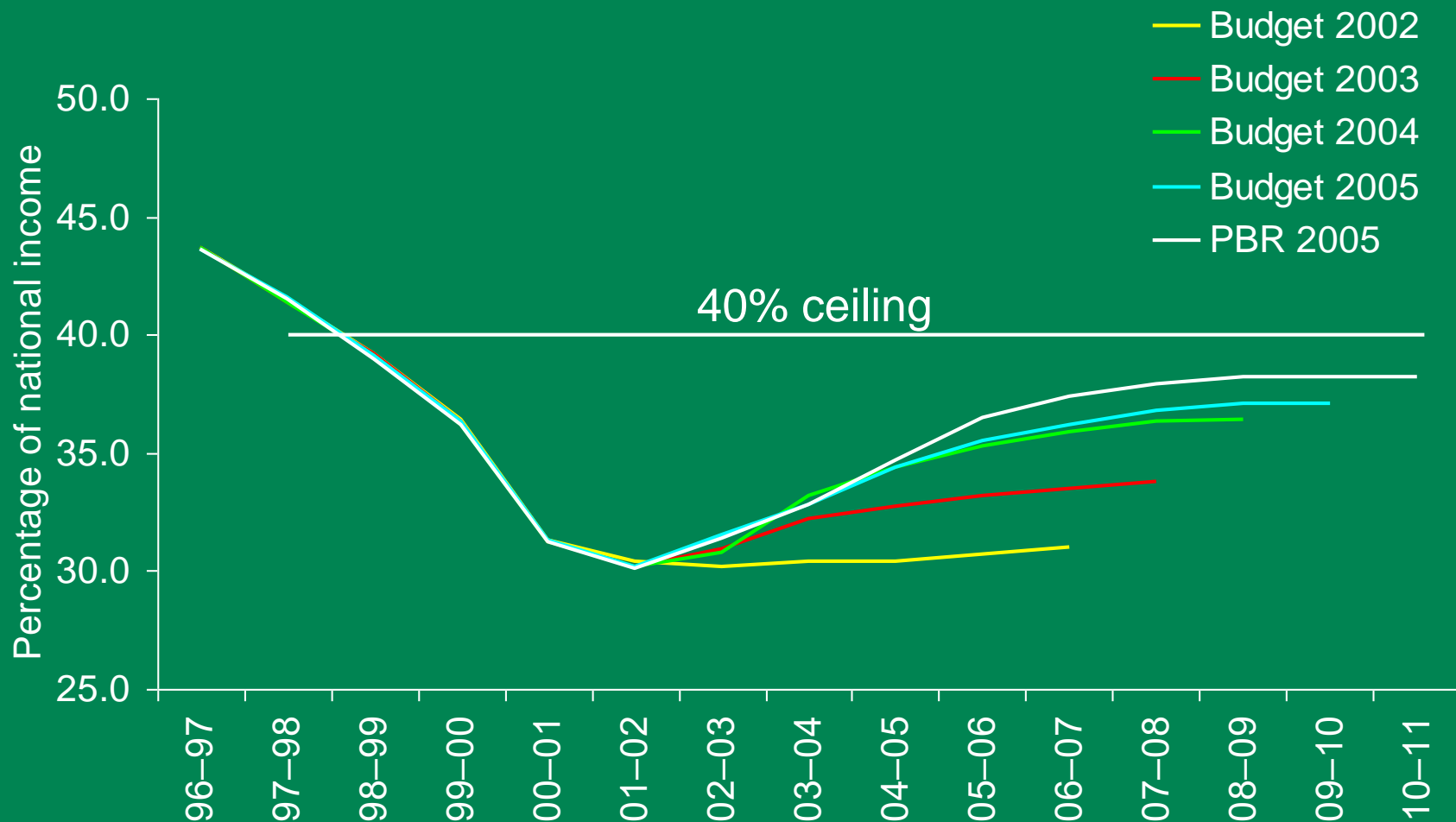
Estimated cyclically adjusted current budget surplus



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

Public sector net debt



Conclusion

- Treasury expects Golden Rule to be met
 - Over current cycle due to re-dating of economic cycle
- Medium term outlook potentially improved by
 - £3bn discretionary tax increase
 - Possible tight control over public spending over CSR 2007, saving £8bn in today's money
- Risks
 - Is there as much spare capacity in the economy as the Chancellor hopes?
 - Will receipts materialise?
 - Will spending be reduced?