

## Press Release

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**EMBARGO 00.01 hours Sunday 6 December 2009**

### **What PBR 2009 Should Contain**

- We expect the UK economy to return to growth in the fourth quarter buoyed by the effects of the fiscal stimulus package (in particular the temporary cut in VAT) and the ensuing recovery in the rest of the world.
- The release of construction data by the Office for National Statistics on Friday 4 December suggests that the estimate of the contraction of GDP in 2009Q3 could be revised from 0.3 to 0.1 per cent. However, the Chancellor will still have to significantly revise down his estimate of the economic contraction this year.
- In conjunction with the EUROFRAME Group our latest forecast suggests a tentative recovery in the UK with GDP increasing by 1.1 per cent in 2010 and 1.7 per cent in 2011.
- Given such a weak recovery, the unemployment rate will continue to increase. With signs that there is little more monetary policy can do, it is left to fiscal policy to provide any further boost to the economy.
- A temporary income tax rebate worth around 1 per cent of GDP would boost economic growth by 0.2 per cent in 2010-11. The planned increase in VAT should not be delayed.
- A temporary fiscal expansion should only be enacted if a convincing plan to consolidate the public finances is announced. Halving the level of borrowing by 2014 requires plans to tighten the public finances by a further £30 billion a year (in today's money) between 2011-12 and 2013-14.
- Even after this consolidation a structural deficit of around 4 per cent of GDP remains. Plans for an additional £60 billion a year (in today's money) tightening are required. A consolidation of such magnitude should be through a combination of increasing retirement ages, cuts to spending plans and tax increases.

**ENDS**

*more...*

**Notes for editors:**

Budget Consolidation options to address a structural deficit of 6 per cent of GDP were discussed in Barrell R. (2009) 'Budget Consolidation Options for the UK', *National Institute Economic Review*, No. 210, pp. 58-60.

NIESR's latest projections for the public finances are contained in table 8 (page 52) of the UK forecast published in *National Institute Economic Review*, No. 210.

**For further information:**

National Institute of Economic and Social Research  
2 Dean Trench Street  
Smith Square  
London, SW1P 3HE  
United Kingdom

Switchboard Telephone Number: +44 (0) 207 222 7665

Switchboard Fax: +44 (0) 207 654 1900

Contact:

Ray Barrell ([r.barrell@niesr.ac.uk](mailto:r.barrell@niesr.ac.uk)) on +44(0)20 7654 1925

Simon Kirby ([s.kirby@niesr.ac.uk](mailto:s.kirby@niesr.ac.uk)) on +44(0)20 7654 1916