

FOR IMMEDIATE RELEASE

The Emergency Budget

The Chancellor has announced for a cumulative £120 billion fiscal retrenchment over the period 2010-11 to 2014-15. The OBR suggest this has a better than evens chance of removing the structural deficit by 2015-16 as per the government's new fiscal mandate. Given that much of the consolidation plans of the previous government have been retained the scale of the adjustment is dramatic. The government is planning real term cuts to departmental expenditures over the next five years cumulating to a total to 10 per cent. Nevertheless the reductions shown in 2011 are lower than those in Labour's last budget. In 2010 real government consumption is shown growing faster than in Labour's budget.

We expect the fiscal consolidation plans announced today to reduce GDP growth by 0.2 percentage point this year and 0.4 percentage point in 2011. The forecasts of the OBR are plausible. We do not expect GDP growth over the next few years to be as high as the OBR, but their medium to longer-term projections appear reasonable, especially given the expected path of future population growth.

The OBR's forecast highlights how dependent the UK economy will be on export growth over the next few years. The risk of spill-overs from the euro area sovereign debt crises to the real economy poses a serious risk to the UK's recovery. If the crises in the euro area are solved more aggressively than currently planned then this too will have an adverse affect on UK economic growth. Either way weak demand for UK goods in the Euro Area poses a considerable downside risk to the UK's future economic growth.

Of course UK exports are less 'tax-rich' than domestic expenditures, but a smaller economy will make hitting the government's fiscal mandate of a structural current budget in balance or surplus by 2015-16 more difficult. That the Chancellor's plans offer a higher than evens chance of success is welcome, but as recent events highlight Mr Osborne may very well have to deliver further consolidation measures in future budgets.

Today's plans are a credible attempt to eliminate the structural budget deficit. They also begin to address longer-term public finance issues. Nevertheless in the longer term the budget needs to be tightened further if the economy is to be suitably prepared for another economic crisis like that of the last two years and is also to make adequate provision for an ageing population.

We particularly welcome the OBR's approach to presenting their forecasts, highlighting the uncertainty that surrounds the projections for the future. The forward looking fiscal mandate is a welcome innovation. In future publications we hope to see further discussion of long-term fiscal issues.

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Notes:

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