UK BUDGET CHECKLIST

22nd Jun. 2010

CAPITAL ECONOMICS

This checklist is intended to help clients keep track of the important measures and numbers announced during the Chancellor's Budget speech at 12.30pm and to provide some instant context.

POSSIBLE NEW MEASURES

Tax cuts:	Possible Cost (2011-12)
Raise income tax personal allowances by £1000	£3.7bn
Cancel planned rise in employers' NICs	£3.0bn
Freeze council tax for 1 year	£1.2bn
1% cut in corporation tax	£0.8bn

Tax rises:	Possible Yield (2011-12)
Raise standard rate of VAT to 20%	£11.3bn
Widen VAT net to include food	£11.0bn
Raise insurance tax to 20%	£6.0bn
Switch to per-plane air duty	£3.0bn
Bank Levy	£2.0bn
Levy Capital Gains Tax on non-business assets in line with income tax	£1.3bn
1% rise in alcohol duty (0.4p on a pint of beer or 1.6p on a bottle of wine)	£0.06bn
1% rise in cigarette duty (3.7p per packet)	£0.04bn

Spending rises:	
Restore link between state pension and earnings	£0.3bn

Spending cuts:	
Efficiency savings (pre-announced)	£6.2bn
Scrap pending projects (pre-announced)	£1.0bn
Cut capital expenditure (e.g. Crossrail)	£5.0bn
Freeze public sector pay in 2011/12	£2.0bn
Abolish child benefits for wealthy families	£1.3bn
Reform Job Seekers Allowance	£1.0bn
Action to address pub. pension deficit	£1.0bn
Means test winter fuel allowance	£1.0bn
Additional squeeze on gov. spending	£3.5bn

ECONOMIC & FISCAL FORECASTS

GDP Growth (%)	2010	2011	2012	2013	2014
Emergency Budget	___	___	___	___	___
Capital Economics Expected	1.2	2.3	2.6	3.0	3.0
OBR Interim Forecast	1.3	2.6	2.8	2.8	2.6
March Budget	1 to 1½	3 to 3½	3¼ to 3¾	3 to 3½	3 to 3½
Bank of England	1.5	3.4	3.5	-	-
Consensus Forecast	1.2	2.2	-	-	-
Capital Economics	1.0	1.5	2.0*	2.5*	3.0*

* Forecasts particularly uncertain and subject to change

Comments: The Chancellor's decision to tighten fiscal policy at a faster rate than on current plans is likely to mean that economic growth is nudged down in the near term. However, growth could be revised *up* in later years relative to the OBR's projection, reflecting the longer-term benefits of a faster fiscal tightening.

PSNB (£bn)	09/10	10/11	11/12	12/13	13/14	14/15
Emergency Budget	___	___	___	___	___	___
Capital Economics Expected	156	153	120	94	68	50
OBR Interim Forecast	156	155	127	106	85	71
March Budget	167	163	131	110	89	74

Mr. Osborne is likely to set out the vast majority of the coalition's fiscal tightening in this Budget to avoid additional austerity measures at subsequent budgets – the announced measures could result in a reduction in PSNB of around £20bn in 2011/12 relative to the OBR's projections.

Cyc.-adj. PSNB (% of GDP)	09/10	10/11	11/12	12/13	13/14	14/15
Emergency Budget	___	___	___	___	___	___
OBR Interim Forecast	8.8	8.0	6.1	4.7	3.5	2.8
March Budget	8.4	7.3	5.3	4.1	3.1	2.5

The new fiscal mandate could be to eliminate the whole of the structural deficit by the end of the Parliament. The Chancellor may even plan to tighten by more than the mandate entails to build in an element of caution.

Net debt (% GDP)	09/10	10/11	11/12	12/13	13/14	14/15
Emergency Budget	___	___	___	___	___	___
OBR Interim Forecast	53.5	62.2	68.2	71.8	73.7	74.4
March Budget	54.1	63.6	69.5	73.0	74.5	74.9

Forecasts for net debt will also be revised lower, but debt is still likely to plateau above 70% of GDP – the highest proportion since the 1960s.

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