



Economic Research Report

The following report is written by our in-house analysts to provide you greater insight into upcoming economic events.



23rd March 2011

PREVIEW: UK Budget Announcement due at 1230GMT/0730CDT

- The DMO will publish its remit after the Chancellor delivers his budget.
- 2011/12 DMO issuance expected to be GBP 158bln - GBP 162bln, down from GBP 165.2bln in 2010/11.
- OBR are expected to unveil higher unemployment and lower growth projections.

Budget for growth

The eagerly anticipated and somewhat controversial "budget for growth" as dubbed by the Chancellor will likely raise even more questions by sceptics than it did the first time when the coalition proposed to introduce a set of harsh austerity measures last year. It was always viewed that the government was too optimistic on growth prospects when devising their grand plans to preserve the UK's cherished AAA sovereign debt rating. Nevertheless they have succeeded and since then all the major rating agencies have voiced their approval, but also warned that should the measures to solve fiscal crisis alter in some way, outlook or a rating change may follow.

Today, the Chancellor is again expected to reiterate his message that despite somewhat weaker than expected growth outlook, that it would be a huge mistake to change plans and water down the GBP 111bln programme of tax rises and spending cuts. His message will come amid new forecasts from the independent government body Office for Budget Responsibility (OBR) which are expected to show higher unemployment and lower growth projections.

Prev. forecast from OBR for 2011:

- Unemployment: 7.9% in 2010, 8.0% in 2011 and 7.7% in 2012
- GDP: 1.8% in 2010, 2.1% in 2011 and 2.6% growth in 2012

Still, according to the latest Ernst & Young ITEM Club report, Public Sector Net Borrowing (PSNBX) is expected to come in at GBP 8bln lower than the OBR forecast after a rebound in tax revenues and public spending cuts. As such, the DMO's financing remit for the FY 2011/12 may come in lower with analyst views ranging from GBP 158bln to GBP 162bln vs. Prev. GBP 165.2bln for the FY 2010/11, geared more toward index-linked gilts according to a recent survey of GEMMs. At the same time, as reported by the Sunday Times, the budget will include a GBP 300mln package to address record youth unemployment, reform of the planning system and a range of regulatory changes. Among the key measures that may be announced, is the so called fuel price stabiliser. Prices of petrol have continued to climb in the UK and are expected to rise by a further GBP 0.05 per litre next month when the fuel duty is accounted for. Analysts and various government bodies have spoken of their concern of high petrol prices and effect that it may have on spending patterns. However scrapping the rise would cost the Treasury an estimated GBP 500mln and instead will be more than welcomed especially after public sector borrowing data for February deteriorated sharply. As such, even though it remains highly unlikely that the fuel duty will be scrapped completely, it may be reduced in certain parts of the UK or even deferred until September.