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## NEWS RELEASE

contact number for media enquiries +44 (0) 20 7324 2845

# Budget 2009: V-shaped recovery or two fingered salute?

**Chancellor's budget is based upon 'ludicrously optimistic growth forecasts and will damage the economy', say leading economic forecasters.**

Today's Budget is based upon **unrealistic forecasts** for growth in the United Kingdom economy.

This is the key conclusion of Budget analysis produced by one of the country's leading economics consultancies, cebr, and released in their **Budget Reaction** report.

The **Treasury's forecasts for public finances are based upon a sharp 'V-shaped recovery'** with the economy shrinking by 3.5 per cent this year, but then recovering sharply to show 1.25 per cent growth in 2010, and then an above-trend rate of growth of around 3.5 per cent for the next three years.

But cebr argue that a more **realistic outlook is for the economy to shrink by 4.4 per cent in 2009, stagnate with no growth next year and then grow by under 1.5 per cent per year for the following three years.**

In addition, the commentators say that Mr Darling's major announcement of **a tax rate of 50 per cent on incomes over £150,000 will actually cost the exchequer money.** The collective impact of footloose high-end taxpayers leaving the country, firms being discouraged from locating in the UK and further tax avoidance could lead to an £800 million per year fall in government revenues.

Ben Read, managing economist at cebr, commented:

'We all knew that the Chancellor's hands were tied before he stood up today, but the least we should have got was a semblance of a plan to sort out the public

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finances in the medium term. Instead we got a work of fiction. **The Chancellor's growth forecasts are wildly optimistic and the public finances will be even worse than the horrendous predictions in today's budget.'**

'As a result the borrowing forecasts look completely shot. The government said public sector borrowing this year would be £175 billion – we think it will be around £190 billion, and whilst the government thinks borrowing will fall next year, we think it will actually rise to about £200 billion. Under current plans, there's no chance that borrowing will halve in five years, and will remain well above £100 billion until 2013. The next Chancellor will have a fine mess to sort out.'

Mark Pragnell, managing director at cebr, commented:

**'Although the Budget assumes a V-shaped recovery, in reality the Chancellor's plans are a two fingered salute to the next government.'**

'There has been little effort by the Treasury to produce serious forecasts for economy beyond the end of the year. One can only presume that the current administration don't expect to be around to deal with the mess.'

'This budget has done nothing for public finances and, if fully implemented, will damage the economy long term. The 50 per cent tax rate was a blatant political stunt which will actually worsen the public finances and make Britain a less attractive prospect for businesses to invest.'

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### NOTES TO EDITORS

cebr is a leading independent commercial economics consultancy with particular strengths in macroeconomic and market forecasting. The report has been co-authored by cebr staff (for details see below).

The United Kingdom Prospects report is a quarterly report released on the last Monday of March, June, September and December of each year. The report is part of the prospects service - cebr's macroeconomic advisory package for business.

For more information on the contents of the report, please contact:

Ben Read	020 7324 2865
Mark Pragnell	020 7324 2844
Douglas McWilliams	020 7324 2860