



UK Budget Briefing

AIB Corporate & Commercial Treasury London

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Economic Forecasts

- Underlying inflation (RPIX) to be at 2.25% by year-end and 2.50% by end 2002.
- Inflation target to stay at 2.50%.
- Public spending to rise by 3.7% p.a. by 2003-04.
- Brown maintained his GDP growth forecasts for this year and 2002 and 2003 at 2.25-2.75%.

Government Spending Estimates

- Current Budget Surplus of Stg23 bln in 2000-01 (up from Stg16.6 in pre-budget report), Stg17bln in 2001-02 and Stg15 bln in 2002-03.
- 2000-01 Public Sector Net Surplus revised to Stg16.4bln(1.4% of GDP), far higher than the pre-budget forecast of STg8.7 bln. Surplus of Stg6.0 bln forecast for next financial year.
- Debt/GDP ratio of 31.8% in 2000-01, 30.3% in 2001-02 and 29.6% the year after.
- Total cost of budget measures: Stg3.16 bln in 2001-02, Stg3.6 bln in 2003-04, Stg4.15 bln.

Personal/ Consumer Taxation

- 10p tax rate extended to first Stg1,880 of taxable income at a cost of one billion per annum.
- 10% capital gains tax rate extended to all employees.
- Abolition of stamp duty in designated areas.
- Starting rate of new children's tax credit raised to Stg10 per week from April.
- From 2003 maternity pay increased by £40 a week and leave extended by 8 weeks.
- Introduction of 2-weeks paid paternity leave.
- From 2003 pensioners tax allow. income based
- Tobacco duty to rise with inflation, 6p per pack.
- Freeze on duties on spirits, wine and beer.
- Freeze on car vehicle excise rates in 2001/02.
- Duty on petrol cut by 2p per litre.
- No betting tax from January 1 2002.

Corporate/ Company Announcements

- Will consult on extending R&D tax credits to larger companies.
- VAT threshold raised to Stg54,000 for small companies.
- Proposes lower VAT for firms with t/over above Stg54,000.

Additional Measures

- Social measures: Transport spending to increase by 20% p.a. for next 3 years. Education spending to rise by 5.2% a year after inflation. Stg200 mln. 3-year combat drugs programme announced.

- Acceptance of all recommendations for the Myners review of institutional investment, including abolition of MFR.

Market Reaction

	3.20pm	3.55pm	4.25pm
GBP/EUR	0.6349	0.6347	0.6350
GBP/USD	1.4606	1.4615	1.4614
3-Mth Futures (%)			
<i>Jun '00</i>	5.38	5.38	5.38
<i>Sep '00</i>	5.26	5.26	5.26
<i>Dec '00</i>	5.34	5.34	5.34
2-Year Gilts (%)	5.176	5.176	5.176
5-Year Gilts (%)	5.076	5.104	5.096
10 Year Gilts (%)	4.850	4.993	4.871
FTSE 100	6,003.0	5,987.2	6006.4

Budget Assessment

Brown Takes No Chances With the Economy.....

- Gordon Brown's fifth budget package contained a raft of measures designed to ensure that the ruling Labour Party wins the general election but also aimed at keeping the economy on an even keel. He already announced handouts to pensioners and motorists in his November's pre-budget report but a strong economy and buoyant tax receipts meant that he could afford to be even more generous. There was little for companies with the focus on families with children and the

redistribution of wealth. The Chancellor rejected tax cuts in favour of improved public services.

- There were no great shocks and in general the market response was subdued. However, there was some reaction from long-term interest rates to the Chancellor's decision to fully accept the proposals of the Myners report. Given the slowdown in global growth the unchanged GDP forecasts for the next two years were a little surprising. The sharp upward revision to the government surpluses reflects the buoyancy of the economy and the healthy state of the public finances. The freeze on excise duties is expected to cut inflation but only very slightly.
- The budget has not changed our view on the outlook for sterling or UK interest rates. We expect unchanged policy when the BoE concludes its meeting later today but there is a risk of another 0.25% reduction in either April or May, with rates ending the year at 5.50%.
- Sterling should be underpinned against the dollar and to a lesser extent against the euro by the UK's relatively high interest rates. We continue to see \$1.50 as a medium term target.

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