

UK 'risks breaking golden rule'

The UK government will have to raise taxes or rein in spending if it wants to avoid breaking its "golden rule", a report suggests.

The rule states that the government can borrow cash only to invest, and not to finance its spending projects. The National Institute of Economic and Social Research (NIESR) claims that taxes need to rise by about £10bn if state finances are to be put in order. The Treasury said its plans were on track and funded until 2008. According to NIESR, if the government's current economic cycle runs until March 2006 then it is "unlikely" the golden rule will be met. Should the cycle end a year earlier, then the chances improve to "50/50". Either way, fiscal tightening is needed, NIESR said.

The report is the latest to call into question the viability of government spending projections. Earlier this month, accountancy firm Ernst & Young said that Chancellor of the Exchequer Gordon Brown's forecasts for tax revenues were too optimistic.

It claimed revenues were likely to be £6bn below estimates by the end of the tax year despite the economy growing in line with forecasts. A Treasury spokesperson dismissed the latest claims, saying it was "on track to meeting spending rules and the golden rule in the current cycle and beyond". "Spending plans have been set out until 2008 and they are fully affordable." Other than its warning on possible tax hikes, the NIESR report was optimistic about the state of the UK and global economy.

It said the recent record-busting surge in oil prices would have a limited effect on worldwide expansion, saying that if anything the "world economy will continue to grow strongly". Global gross domestic product (GDP) is tipped to be 4.1% this year, dipping to 4% in 2005, before picking up

again to 4.2% in 2006. The US will continue to drive expansion until 2006, albeit at a slightly slower rate, as will be the case in Japan. Hinting at better times for UK exporters, NIESR said the euro zone "is expected to pick up speed".

Growth in Britain also is set to accelerate, it forecast. "Despite weak growth in the third quarter, the forces sustaining the upswing remain intact and the economy will expand robustly in 2005 and 2006," NIESR said, adding that "the economy will become better balanced over the next two years as exports stage a recovery". GDP is expected at 3.2% in 2004, and 2.8% in both 2005 and 2006. The main cloud on the horizon, NIESR said, was the UK's much analysed and fretted over property market.