

Budget 2020: Chancellor pumps billions into economy to combat coronavirus

Source: BBC NEWS. (2020).

<https://www.bbc.com/news/uk-politics-51835306>



Media caption The chancellor says his 2020 Budget offers the "largest sustained fiscal boost for nearly 30 years"

Chancellor Rishi Sunak has unveiled a £30bn package to boost the economy and get the country through the coronavirus outbreak.

He is suspending business rates for many firms in England, extending sick pay and boosting NHS funding.

In his first Budget speech, he warned of a "significant" but temporary disruption to the UK economy but vowed: "We will get through this together."

The Bank of England has **announced an emergency cut in interest rates.**

Mr Sunak, who was promoted to chancellor just four weeks ago after Sajid Javid quit the government, has had to hastily re-write the government's financial plans to deal with coronavirus.

"We are doing everything we can to keep this country and our people healthy and financially secure," he told MPs.

Of the £30bn in extra spending, £12bn will be specifically targeted at coronavirus measures, including at least £5bn for the NHS in England and £7bn for business and workers across the UK.

This is on top of other spending pledges that will amount to £18bn next year, and even more in following years.

The Office for Budget Responsibility (OBR) said extra spending on government departments and investment represented the biggest Budget "giveaway" since 1992, and will add around £100bn to public borrowing by 2024.

Labour leader Jeremy Corbyn said he welcomed many of the measures to "head off the impact" of coronavirus, which **has now been labelled a pandemic** by the World Health Organization.

But he said the extra money for the NHS was "too little, too late" and the UK was going into the crisis with its public services "on their knees" after years of Conservative cuts.

Measures to mitigate the effect of the coronavirus outbreak include:

- Statutory **sick pay for "all those who are advised to self-isolate"** even if they have not displayed symptoms
- Business rates for shops, cinemas, restaurants and music venues in England with a rateable value below £51,000 **suspended for a year**
- A £500m "hardship fund" to be given to local authorities in England to help vulnerable people in their areas
- A "temporary coronavirus business interruption loan scheme" for banks to offer loans of up to £1.2m to support small and medium-sized businesses
- The government will meet costs for businesses with fewer than 250 employees of providing statutory sick pay to those off work because of coronavirus
- Plans to make it quicker and easier to get benefits for those on zero hours contracts
- Benefit claimants who have been advised to stay at home will not have to physically attend job centres

The number of coronavirus cases in the UK reached 460 on Wednesday, with an eighth person confirmed to have died after contracting the virus.

The chancellor said that without accounting for the impact of coronavirus, the Office for Budget Responsibility has forecast growth of 1.1% in 2020, the slowest rate since 2009.

Despite speculation that he would ditch the framework on spending set by predecessor Mr Javid, Mr Sunak said his Budget is delivered "not just within the fiscal rules of the manifesto but with room to spare".

The chancellor has scrapped a planned cut in corporation tax and scaled back a tax break for entrepreneurs, saving £6bn over the next five years.

The spending in this Budget is being largely paid for with a big increase in government borrowing.

The government expects to borrow almost £100bn more in this Parliament (before mid-2024) than was expected the last time we had any forecasts.

And that figure does not include £12bn to be spent on getting the economy through the coronavirus outbreak.

The Treasury documents say that money will be accounted for in the next Budget in the autumn.

In other Budget measures, the chancellor announced that fuel duty would be frozen for another year. A planned increase in spirits duty will be cancelled and **duties for cider and wine drinkers in England will be frozen as well**, but a packet of 20 cigarettes will cost 27p more.

The so-called **tampon tax will be abolished**, and VAT on books, newspapers, magazines and academic journals **will be scrapped from 1 December**.

And the chancellor **pledged to more than double** spending on UK government research and development by 2024.



Media caption: Jeremy Corbyn: Talk of "levelling up" a "cruel joke"

The chancellor **announced more than £600bn for road, rail, housing and broadband projects** over five years, aimed at delivering on the Conservatives' election promise to boost economic growth outside of London and the south-east of England.

He announced plans for Treasury offices in Scotland, Wales and Northern Ireland and a "new economic campus in the north, with over 750 staff from the Treasury".

He also promised an additional £640m for the Scottish government, **£360m for the Welsh government, £210m for the Northern Ireland executive** and £240m for new city and growth deals.

▪ **Call for clarity on coronavirus fund for Scotland**

Mr Sunak said he was providing £200m for local communities in England to build flood resilience and would double investment in flood defences.

The chancellor will deliver another Budget in the Autumn, with measures aimed at preparing the UK economy for post-Brexit trading arrangements with the EU.

Figures released by the Office for National Statistics found that the UK economy did not grow at all in January.

- Introduction

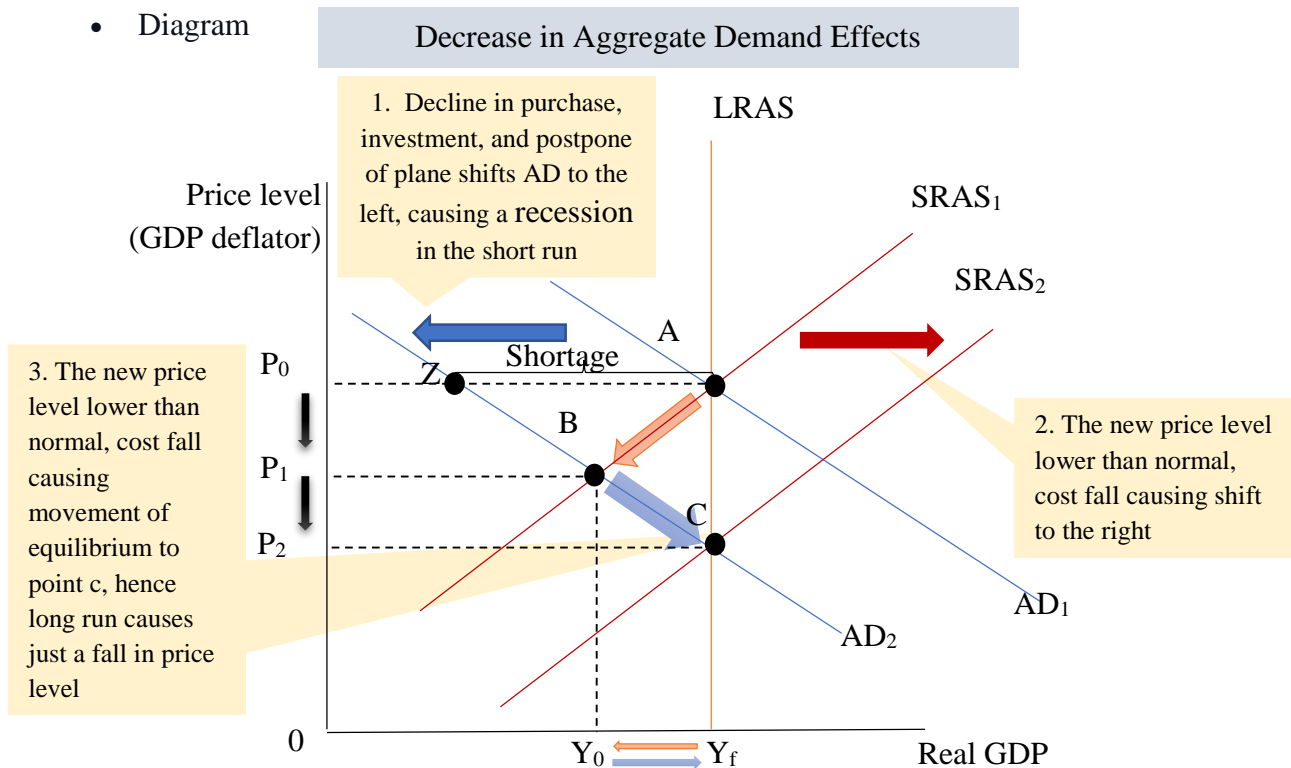
Key points and issues from the article were an increase in budget spending to overcome the coronavirus outbreak. The England Bank cutting interest rates. Extra spending of £30bn this year and more for the following years. Also, approximately £100bn to add to public borrowing (not including 12bn to recover from the outbreak). As well as additional money for the National Health Service, NHS. Also suspended business activities below £51,000 for a year. And hardship fund amounted £500m, £1.2m loan supports for small businesses, and sick pay to employees. Growth of 1.1% in 2020. Tax vacation for entrepreneurs dipping, saving, and reducing £6bn. As well as frozen fuel duty until 2021, cider and wine, but an increase in cigarette cost while canceling other Value-added tax, VAT, on books, magazines, and others. Also, research and development R&D to double-spending. More than 600bn for broadband, housing, road, and rail. Also, more than £999m located in cities as growth deals. £200m for local communities. This article related to topic 1,2,7, and 8. Introduction to Macroeconomic Growth, The Macroeconomic Environment: GDP and Business Cycles, Banking, Money, Interest rates, and Monetary Policy. These topics were chosen because it describes the government budget spending, measurement to overcome the outbreak, and planning for future growth for the economy.

- Analysis

This article related to Monterey's policy. It involves both government and central bank to control the interest rate and the money supply of a nation to attain macroeconomic goals similar growth, liquidity, consumption, and inflation. In other words, related to the concept of Monterey policy implanted by the government to obtain economic goals. For example, in this article, the England Bank reduced interest rate, while the government suspended business activities, and increased budget spending on R&D, healthcare, infrastructure, and canceled the annual tax for a year to overcome, recover, and make the economy strong again. These actions affect both individual and group positively. The huge budget allocated to recover from this unpleasant event is the biggest since 1970. This is important for the citizen as well as non-citizen because it shows that the country is controlling its currency and both native and foreign organizations, corporations, and companies have more incentive to invest in the country. This positive interaction by the authorities will lead to stabilizing the country's economy for the next five years as the budget will increase for each year as planned. This huge economic incentive, change, and the extraordinary amount of budget will result in economic growth, however, indicate, people getting richer, more outside investments, and positive change for its market. This will happen due to reduced interest rates, increase loans, government spending, transfer payment, and suspending tax for one year. This new policy and action by both government and central bank introduced to recover the COVID-19 outbreak.

Moreover, this new policy amended, improved, and enhanced foreign direct investment (FDI), entrepreneurs, and other businesses within the country. This strong, and optimistic incentive, though, indicate, increase of FDI as well as local businesses due decline in the interest rate and tax dangling, drooping, and holding. This will impact the country creating jobs as well as growing its economy. Therefore, this offer, economic incentive, will encourage and give a strong sing for investors to spend in the country as well as the strong incentive offered by the government extraordinary spending on all sectors, departments, and retailers (Bank, 2020).

- Diagram



The diagram shows the negative impact of the financial crisis, which case aggregate demand to shift to the left during the recession. The gap between Y_f and Y_0 , potential and real GDP respectively, indicate that some firms operating below their usual and normal capacity. Hence, the unemployment rate will increase, while profit and income will decrease. This system of adjustment from point B to C known, referred to by an economist, as an automatic mechanism because there are no actions, involvement, or interference by the government (Hubbard and O'Brien, 2017).

- Conclusion and Suggestion

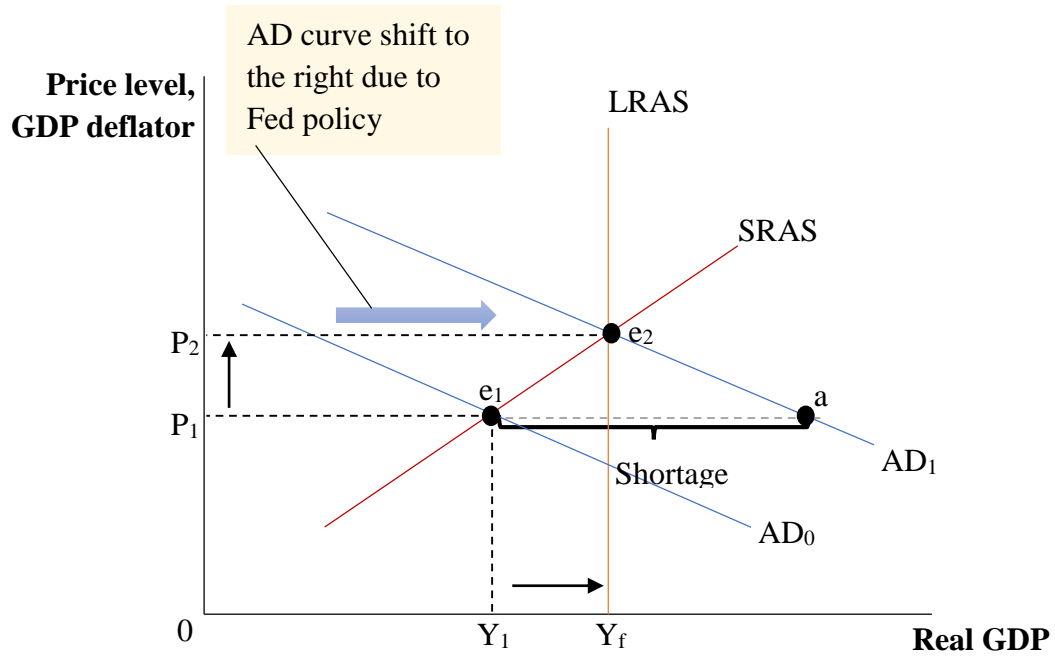
Monetary, loose, or an easy policy is an alternative system taken by the Fed to achieve macroeconomic goals similar to ending a recession instead of standing, holding, and waiting for the automatic mechanism to shift the AD curve back to the right, initial, or original potential GDP faster. Monetary policy takes in count the money supply and interest rate, not the money. For stability of price, financial markets, higher employment rate, and economic growth, the Fed should activate monetary policy faster. However, when the Fed reducing interest rates, it increases investment, consumption, and net exports shifting aggregate demand to the right after implanting expansionary monetary policy. Hence, increase spending leads to an increase in both employment and price level (HAYES, 2020).

- References

- Bank, E., 2020. *Strategy*. [online] European Central Bank. Available at: <<https://www.ecb.europa.eu/mopo/strategy/html/index.en.html>> [Accessed 18 June 2020].
- Glenn Hubbard, R. and Partrick O'Brien, A., 2017. *Economics*. United States of America: Person Education, Inc, pp.901, 905, 913, and 914.
- HAYES, A., 2020. *Fiscal Policy Vs. Monetary Policy: Pros & Cons*. [online] Investopedia. Available at: <<https://www.investopedia.com/articles/investing/050615/fiscal-vs-monetary-policy-pros-cons.asp#:~:text=To%20stimulate%20a%20faltering%20economy,and%20removing%20money%20from%20circulation.>> [Accessed 18 June 2020].

- Appendix

Expansionary Monetary Policy



Increase Money Supply

