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Tom Blenkinsop MP
House of Commons
London
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Our ref: 6048W 10/11

Dear Mr Blenkinsop

Re: The effects of the change in the standard rate of value added tax on levels of consumer spending

As Chair of the Budget Responsibility Committee of the Office for Budget Responsibility I have been asked to reply to your recent question,

To ask Mr Chancellor of the Exchequer, what assessment he has made of the effects of the change in the standard rate of value added tax on levels on consumer spending. 65435

The OBR has not produced an estimate of the effect of the change in the standard rate of VAT from 17.5 per cent to 20 per cent in January 2011 on levels of consumer spending.

The OBR's March forecast incorporated the estimated impact of policy measures announced at or before the June Budget, including the increase in the standard rate of VAT from 17.5 per cent to 20 per cent that took effect from 4 January 2011.

The OBR applied a range of fiscal multipliers to help inform its judgement on the impact of VAT on aggregate demand in the economy. These multipliers are set out in Table C8 of the interim OBR's June Budget document. The interim OBR's June 2010 Budget forecast and the OBR's November and March forecasts assumed that the increase in the standard rate of VAT from 17.5 per cent to 20 per cent would reduce the level of real GDP in 2011/12 by around 0.3 per cent.

Yours sincerely



Robert Chote
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