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FM WASHINGTON 022302Z AUG 82

TO ROUTINE FCO

TELEGRAM NUMBER 2639 OF 2 AUGUST

INFO SAVING PARIS, BONN, UKDEL OECD, UKREP BRUSSELS

ADMINISTRATION'S MID-YEAR BUDGET REVIEW

SUMMARY

1. THE ADMINISTRATION'S MID-YEAR REVIEW OF THE FY83 BUDGET, PUBLISHED TODAY, SHOWS A SLOWER RECOVERY FROM ECONOMIC RECESSION AND HIGHER BUDGET DEFICITS THAN IT HAD INDICATED EARLIER. MANY PRIVATE FORECASTERS BELIEVE THESE OFFICIAL ESTIMATES OF THE BUDGET DEFICIT ARE STILL TOO LOW AND THAT ON CURRENT POLICIES THERE IS UNLIKELY TO BE A SUBSTANTIAL REDUCTION IN THE DEFICIT IN THE COMING YEARS.

DETAIL

2. THE ADMINISTRATION'S MAIN ECONOMIC ASSUMPTIONS ARE AS FOLLOWS (CALENDER YEARS):

	1981	1982	1983
GNP (O/O ANNUAL CHANGE)			
- CURRENT PRICES	11.4	5.6	11.2
- 1972 PRICES	2.0	-0.7	4.4
CONSUMER PRICE INDEX (O/O ANNUAL CHANGE)	10.3	5.9	6.7
UNEMPLOYMENT RATE (O/O)	7.6	9.2	8.4
INTEREST RATE (3 MONTH TREASURY BILLS O/O)	14.1	12.0	10.7

3. IN ITS LATEST BUDGET CALCULATIONS, THE OFFICE OF MANAGEMENT AND BUDGET (OMB) ESTIMATES A DEFICIT OF DOLLARS 108.9BN IN FY82 (COMPARED WITH A FORECAST DOLLARS 100.5BN IN APRIL) FOLLOWED BY DOLLARS 115BN IN FY83 (COMPARED WITH DOLLARS 101.9BN FORECAST EARLIER). THE INCREASE IN THE FORECAST DEFICIT IS MAINLY DUE TO A DOLLARS 18.6BN REDUCTION TO DOLLARS 646.5BN IN REVENUES. THIS RESULTS MAINLY FROM CHANGES IN ECONOMIC ASSUMPTIONS: A MORE RAPID REDUCTION IN INFLATION AND A DELAY IN THE RECOVERY FROM RECESSION. THE REVENUE CALCULATIONS TAKE INTO ACCOUNT THE TAX EQUITY AND FISCAL RESPONSIBILITY BILL NOW BEFORE CONGRESS AND OTHER TECHNICAL REESTIMATES. FY83 BUDGET OUTLAYS ARE SOME DOLLARS 5.5BN LOWER AT DOLLARS 751.5BN.

4. THE OMB PROJECTS THE DEFICIT WILL DECLINE FROM DOLLARS 115BN IN FY83 TO DOLLARS 92.6BN IN FY84 AND TO DOLLARS 73.6BN IN FY85. THIS WOULD BRING THE DEFICIT DOWN FROM A PROJECTED 3.6 PERCENT OF GNP IN FY83 TO 1.8 PERCENT IN FY85.

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5. MOST PRIVATE ECONOMISTS EXPECT THE RECOVERY WILL BE LESS ROBUST THAN THE REAL ANNUAL RATE OF 4.5 PERCENT ASSUMED BY THE OMB FOR THE SECOND HALF OF 1982 AND FOR 1983. FOR EXAMPLE, THE BLUE CHIP CONSENSUS OF PRIVATE FORECASTERS IS FOR REAL GROWTH AT A 3.8 PERCENT ANNUAL RATE FOR THE SECOND HALF OF 1982 AND 3.5 PERCENT IN 1983.

6. ON THE BASIS OF LESS OPTIMISTIC ECONOMIC ASSUMPTIONS, THE CONGRESSIONAL BUDGET OFFICE (CBO) ESTIMATED LAST WEEK THAT THE FY83 DEFICIT WOULD BE BETWEEN DOLLARS 141BN AND DOLLARS 151BN. CBO DIRECTOR ALICE RIVLIN ALSO SAID THAT THE FEDERAL BUDGET DEFICIT WOULD BE LIKELY TO REMAIN IN THE RANGE OF DOLLARS 140-160BN FOR THE NEXT THREE YEARS, EVEN IF ALL THE SPENDING CUTS AND TAX INCREASES CALLED FOR IN THE CURRENT BUDGET RESOLUTIONS WENT INTO EFFECT. RIVLIN ALSO NOTED THAT DEFICITS OF THIS SIZE WOULD KEEP PRESSURE ON FINANCIAL MARKETS, HOLD INTEREST RATES HIGH AND PREVENT A VIGOROUS RECOVERY FROM THE RECESSION. FED CHAIRMAN VOLCKER SUBSEQUENTLY COMMENTED TO A SENATE COMMITTEE THAT THE CBO ESTIMATES QUOTE CAME AS NO SURPRISE TO US. THEY ARE IN THE GENERAL AREA OF WHAT THE MARKETS THINK IS PROBABLE UNQUOTE.

7. FOR THESE REASONS, THE ADMINISTRATION UNDERSTANDABLY RELEASED THE REVISED ESTIMATES WITH LITTLE FANFARE THOUGH THIS HAS NOT PREVENTED PRESS COMMENT FROM REFLECTING THE DEEP SCEPTICISM OF THE MAJORITY OF OUTSIDE COMMENTATORS.

8. FCO PLEASE PASS TO BOTTRILL (TREASURY) AND WATSON (BANK OF ENGLAND).

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