

SARASIN

Six Minute Strategy

UK Budget: Back to 'big state' economics

November 2024



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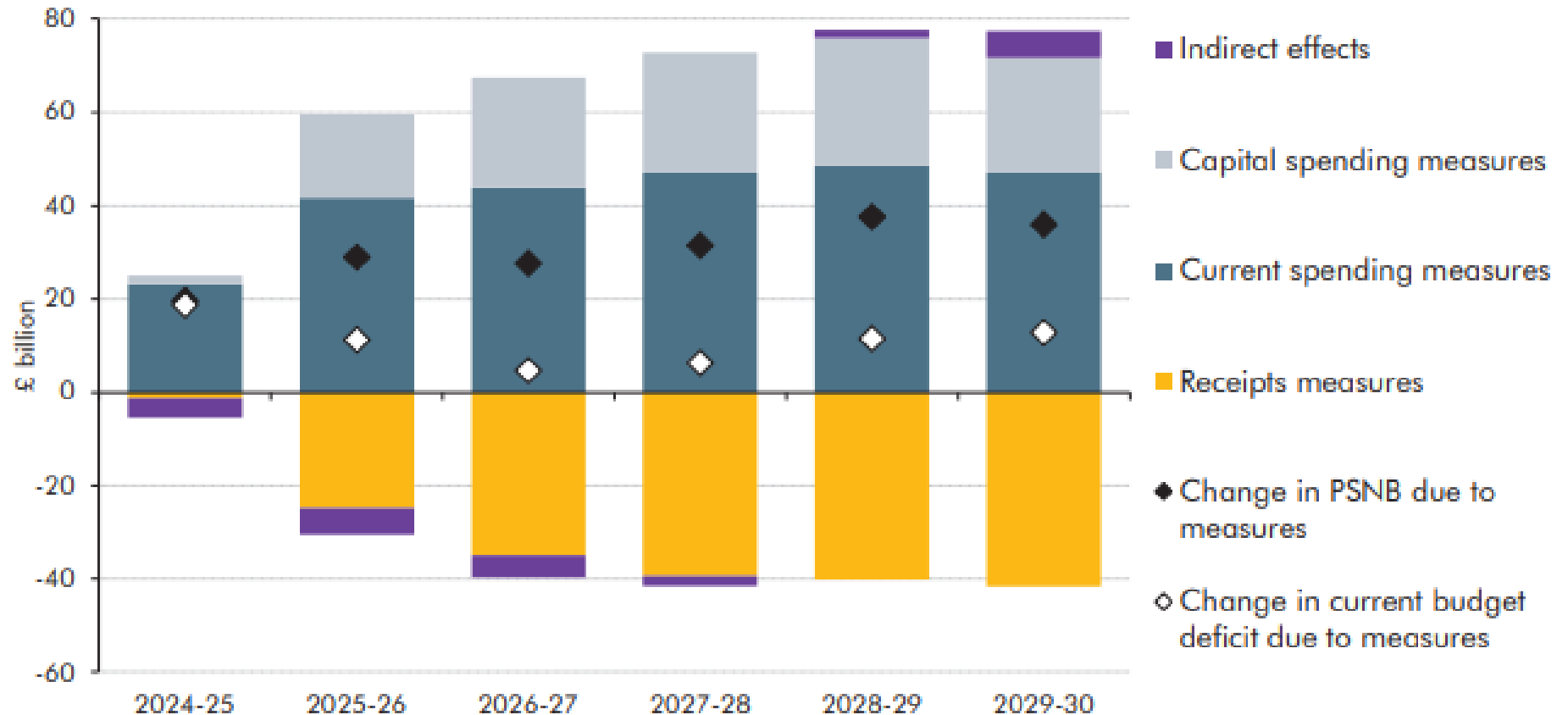


Fiscal year 2029-30: More spending, taxes, and borrowing

‘One of the largest increases in spending, tax, and borrowing of any fiscal event in history’ OBR



Impact of measures on public sector net borrowing and current deficit



Source: OBR

Budget spending policies will add a colossal 2.2% a year of GDP or £69.5 billion - £45 billion on current spending and £24 billion on capital spending OBR Oct 2024

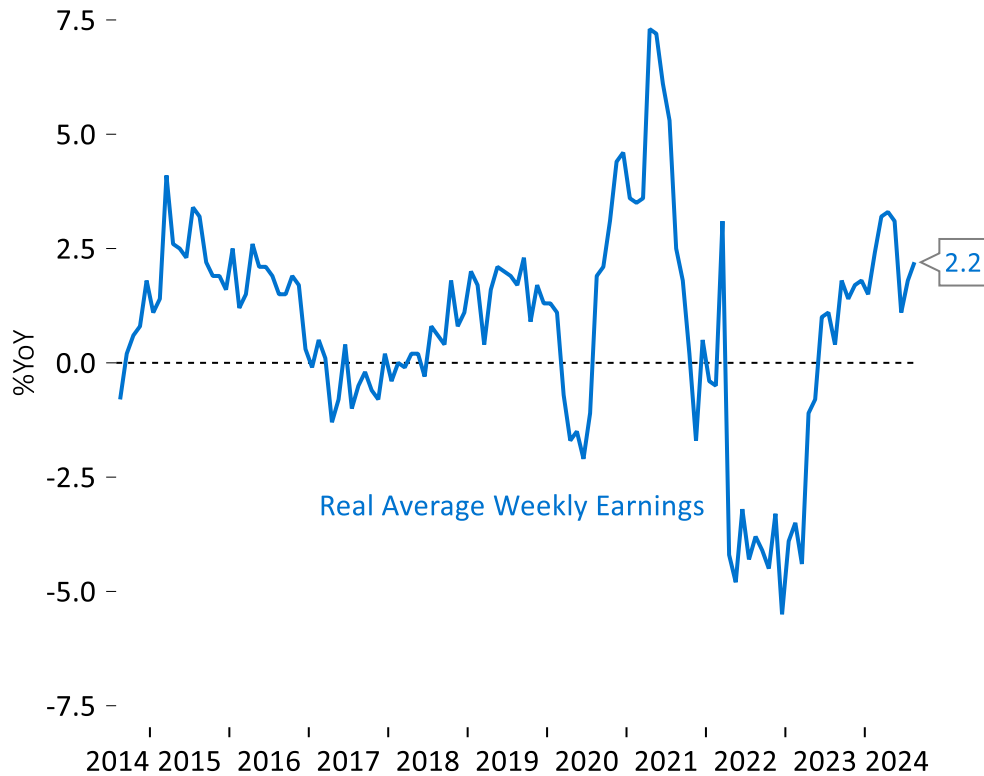
UK - Labour inherited an *improving* economy

Budget uncertainty has capped what were otherwise improving UK economic trends



UK real wages growing again as inflation declines

UK Real Wages

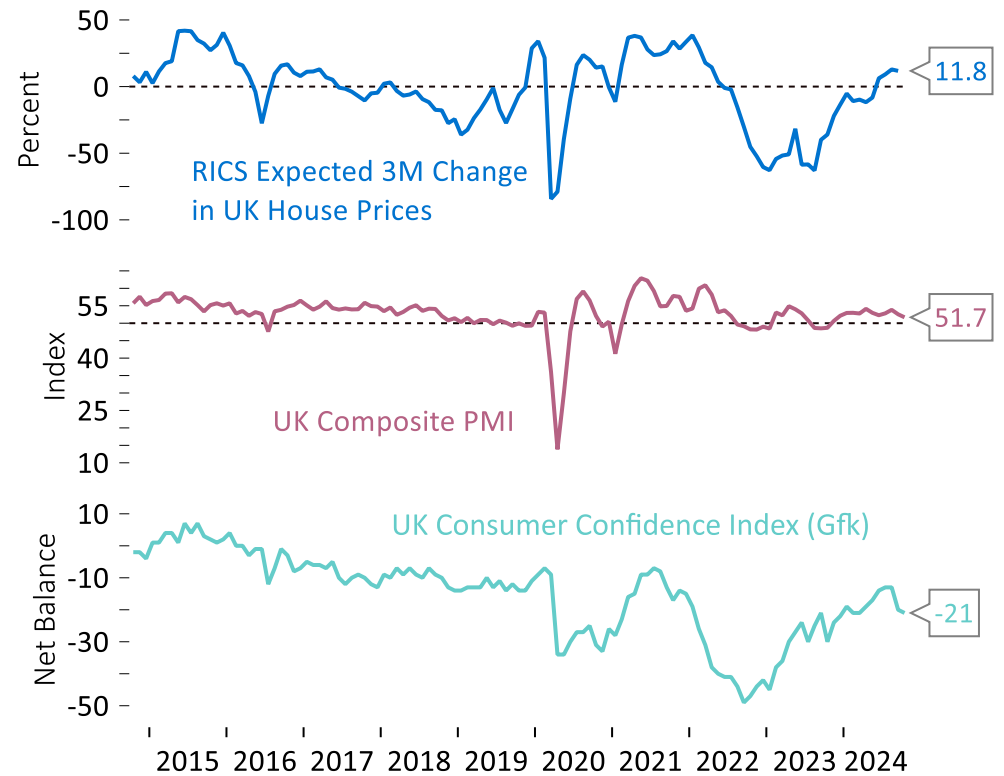


Source: Macrobond, 31.10.24



UK economic prospects improving

UK Business, Housing and Consumer Outlook



Source: Macrobond, 31.10.24

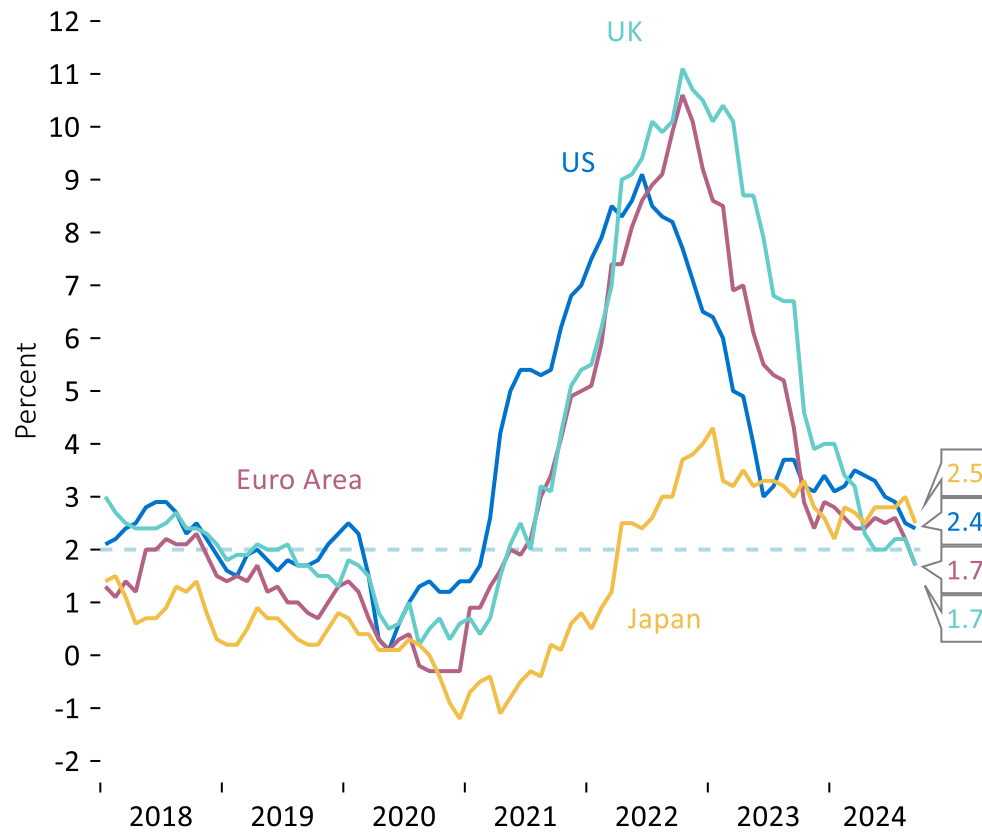
Past performance is not a reliable indicator of future results and may not be repeated.

UK inflation – job mostly done

Rate hiking cycle is over - service sector inflation sticky in face of NICS and minimum wage increase



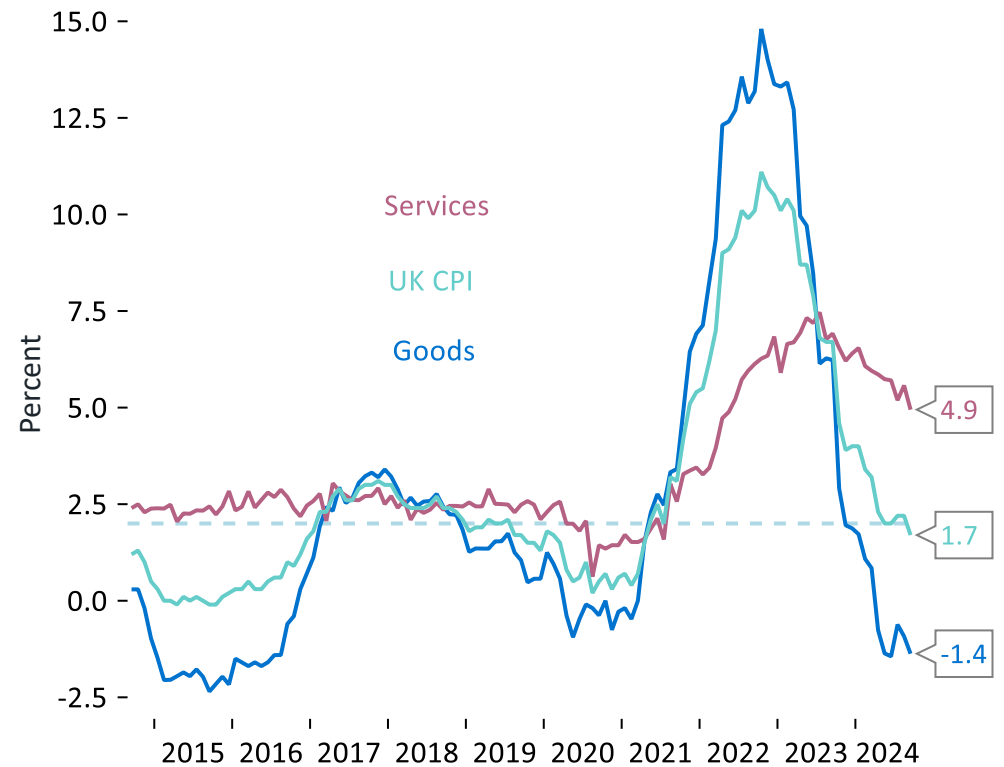
Advance economy CPI inflation



Source: Macrobond, 31.10.24



Components of UK CPI– may rise 25bps on Budget measures



Source: Macrobond, 31.10.24

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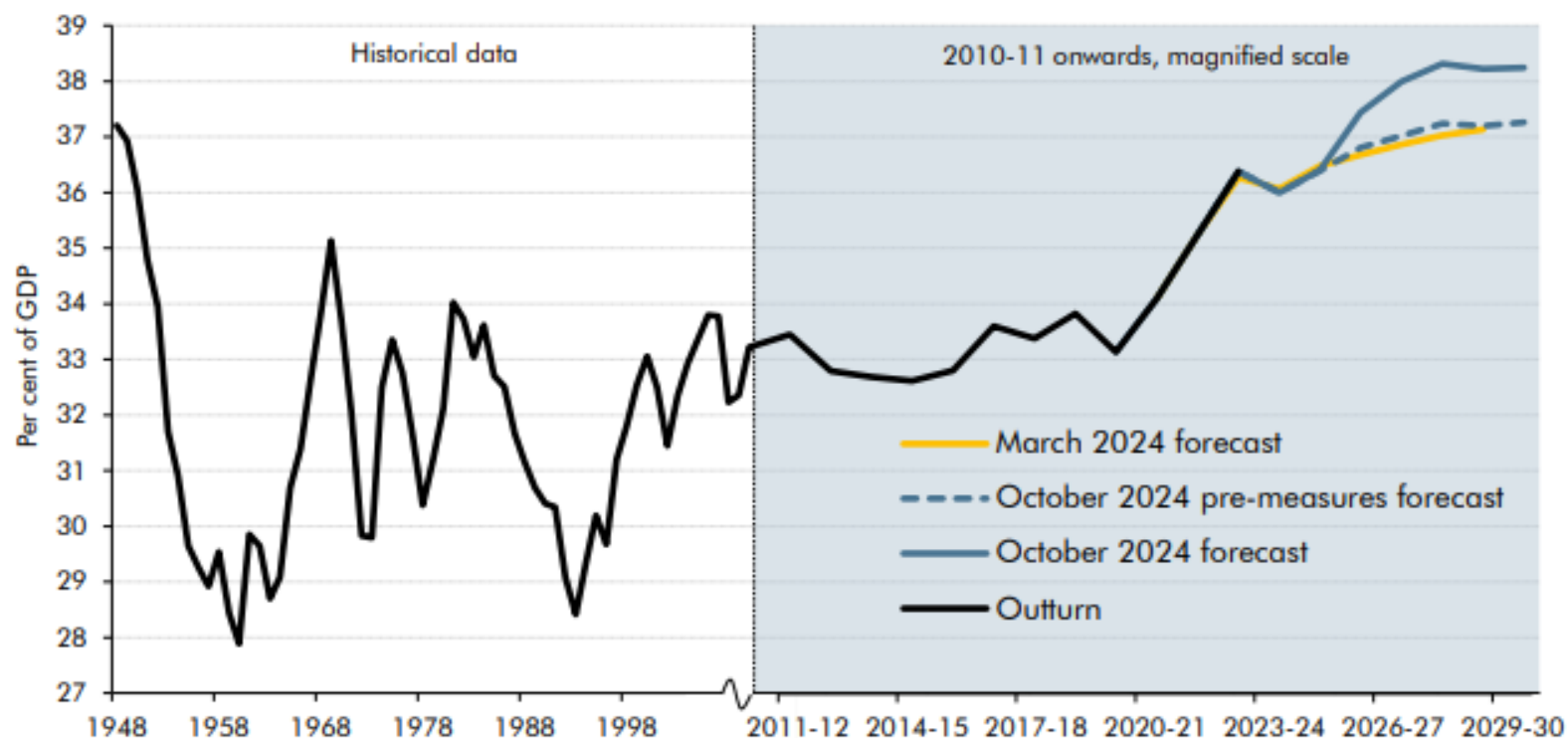
Tax increases on employers, capital, and inheritance

£40bn of extra taxes per year, the most since Chancellor Norman Lamont raised taxes in 1993



Tax as share of GDP is set to rise to 38.2% of GDP – a full 5.1% higher than pre-pandemic levels

Chart 1.8: National Accounts taxes as a share of GDP



Source: ONS, OBR

French Tax-GDP-Ratio 48% and Germany 40% - Eurostat/CEIC 2024

Source: OBR 31.10.24

Borrowing increases made possible by new debt measure

A front-loaded rise in public borrowing made possible using a wider measure of assets

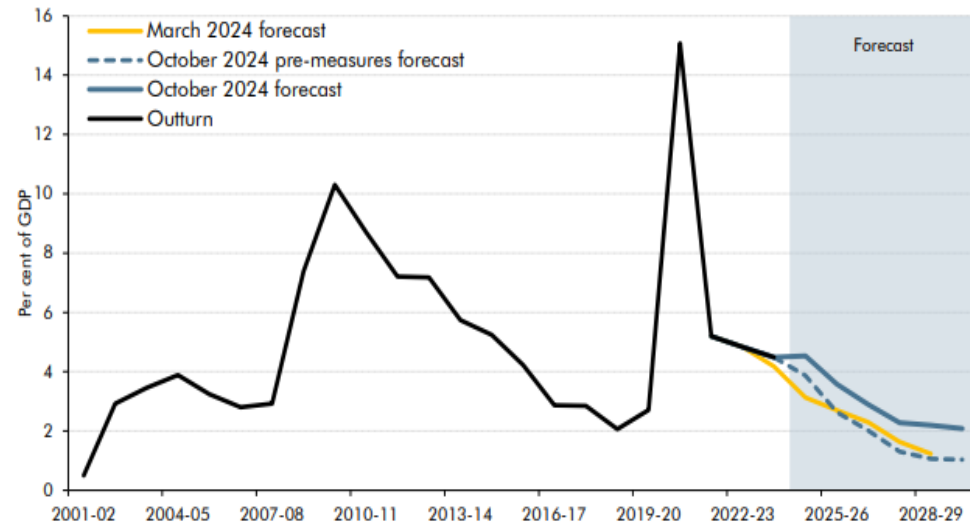


2025 Public sector borrowing rising to £127bn (4.5% of GDP)



PSNFL gives more space for borrowing – IMF agrees

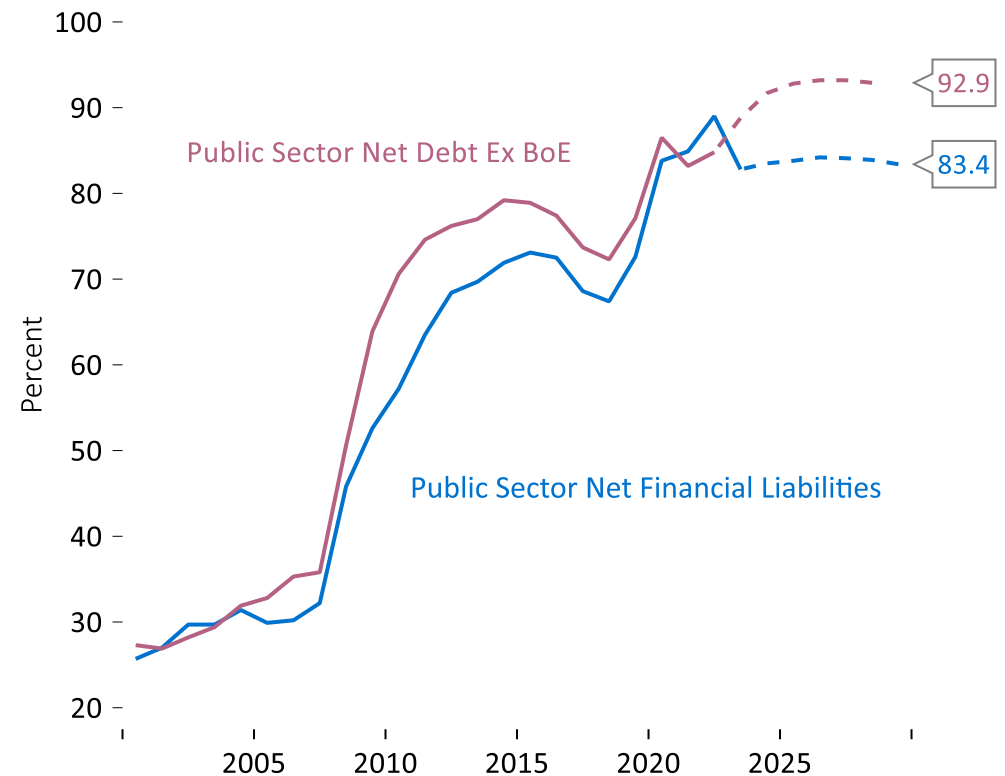
Chart 1.6: Public sector net borrowing



Source: ONS, OBR

The IMF backed the increases in UK investment and public spending as well as “sustainable” tax rises.

OBR Public Net Debt Forecasts



Source: Macrobond, 31.10.24

Source: OBR, Guardian 31.10.24

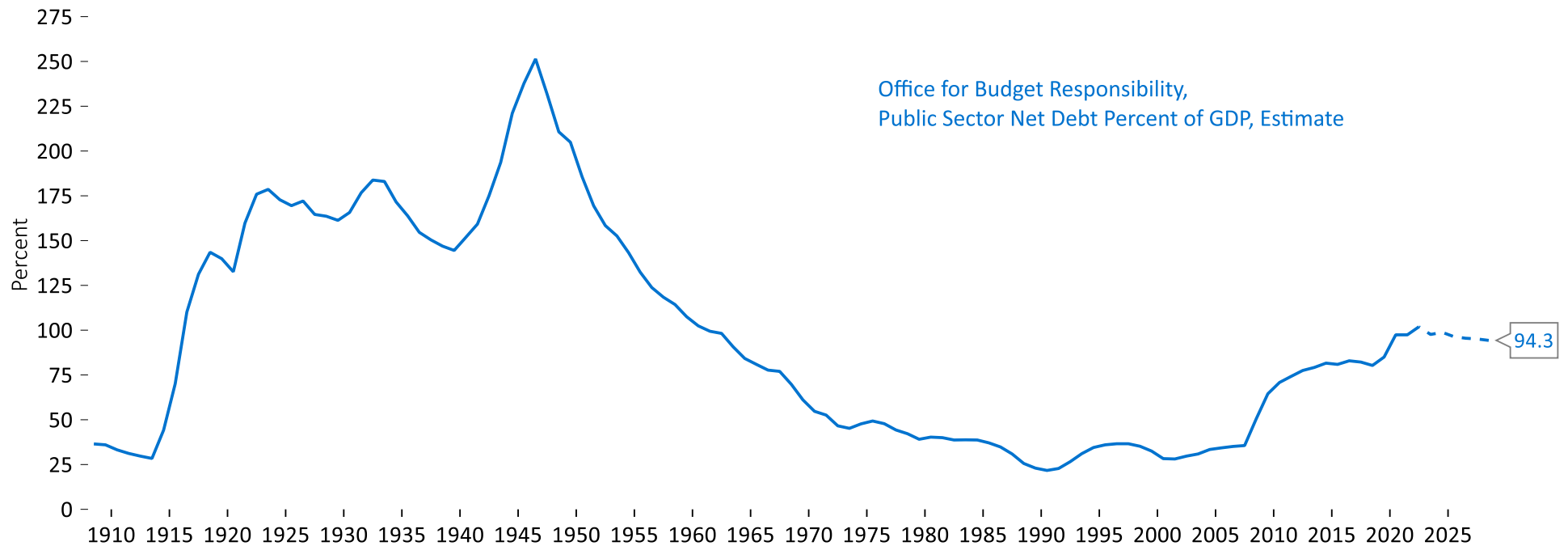
But a difficult fiscal inheritance still constrains budget choices

After WWII, budget repair was helped by strong growth and higher inflation



Today budget repair needs to occur through budget balance – this is tough

Office for Budget Responsibility,
Public Sector Net Debt Percent of GDP, Estimate



Source: Macrobond, 31.10.24

“Compared to our March forecast, growth is forecast to be an average of a $\frac{1}{4}$ percentage point higher this year and next. This reflects stronger GDP and real wage growth in recent quarters, and the net fiscal loosening in this Budget. Growth is then weaker between 2026 and 2028 as these temporary effects fade.” OBR October 2024

Bond market vigilantes still nervous

There will be greater gilt issuance with the BoE a net seller not buyer – rate expectations rise

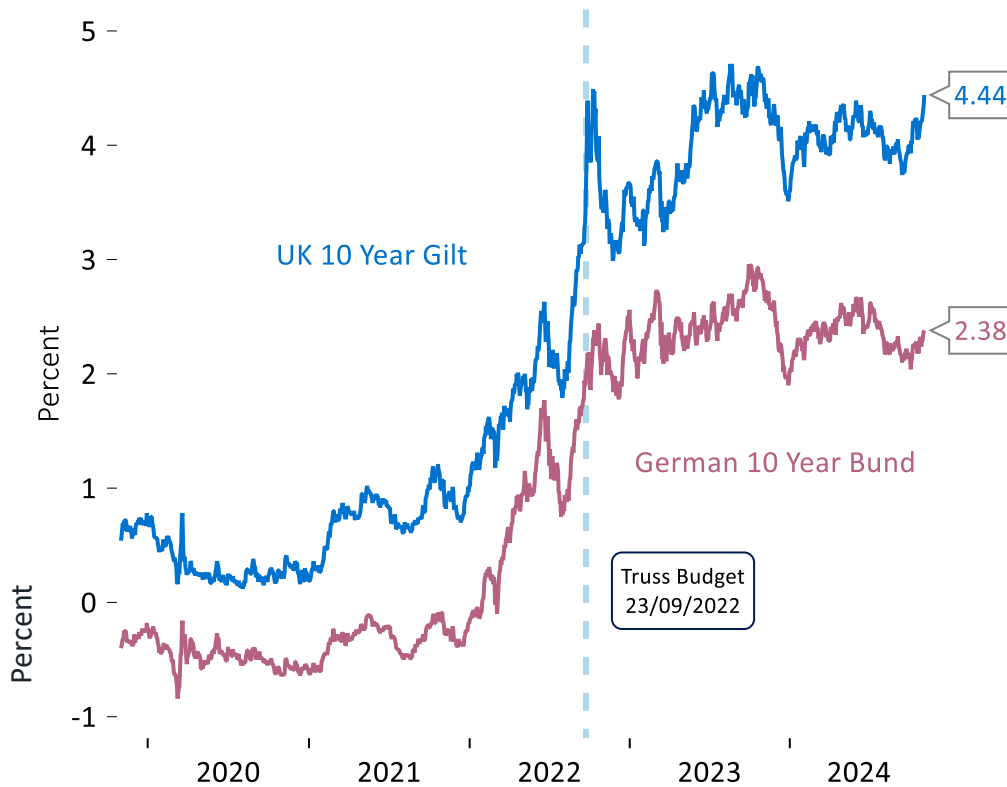


UK bond yields are rising and spread to Bunds widening



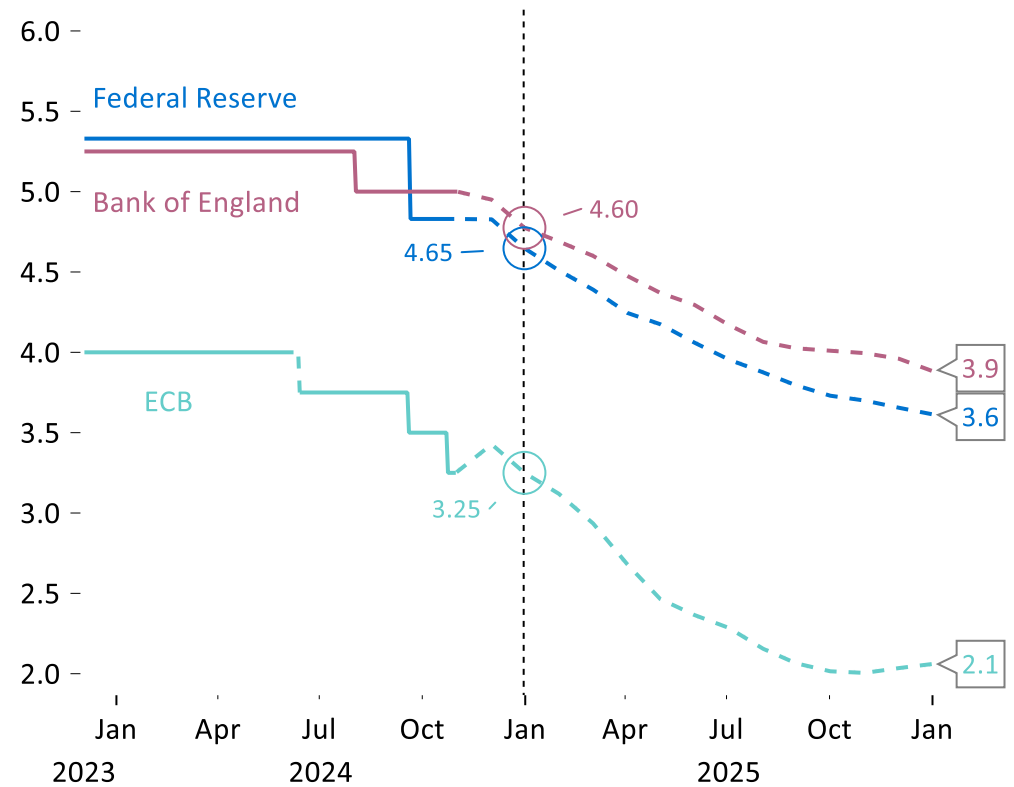
Bank of England likely to slow rate cuts (+30bps end 2025)

UK and German Government Bond Yields



Source: Macrobond, 01.11.24

Central Bank Market-Implied Policy Rates



Source: Macrobond, 31.10.24

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