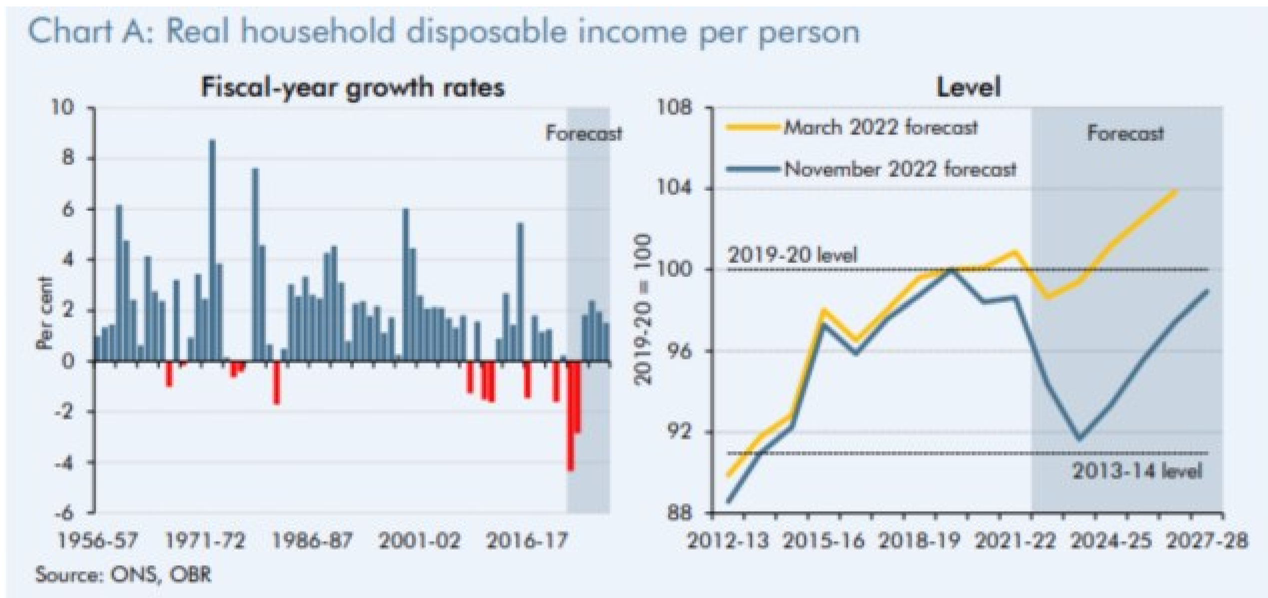
Today saw arguably the biggest fiscal event since George Osborne became Chancellor. Then, we saw austerity 1.0 when the fiscal adjustment was split roughly 80% spending cuts and 20% tax rises. This time around, the current Chancellor, Jeremy Hunt, has gone for more of a 55:45 split (£30bn of spending cuts and £25bn of tax increases). Back then, the Bank of England's actions in slashing interest rates, to what was then a record low, effectively softened the pain of austerity, therefore making it easier for the Chancellor to push forward with big spending cuts. This time around, the Bank of England is doing the opposite. This means that households are being hit from all angles in the form of interest rate rises, tax increases and spending cuts, whilst inflation is rampant. The Chancellor's and Governor's hands are effectively tied. Jeremy Hunt is walking a tightrope of shoring up the public finances in a way that limits the depth and length of the recession. For instance, the tax rises have been aimed at areas that will least impact economic growth, and spending restraint has been targeted outside of growth generators like capital investment. Moreover, the timing of this coincides with the next General Election, with spending increases (on health an education) and modest tax rises before, and spending cuts and significant tax rises after. Despite receiving a £650m Barnett consequential for the next number of years, Stormont still faces a fiscal black hole of probably the same amount for the current financial year.

All of the medicine being dished out by Jeremy Hunt and the Bank of England is helping create something of a Great Rewind where household living standards are falling at a record rate. Indeed, real household disposable income per head is set to fall by more than 7% over the next two years. This takes incomes back to 2013 levels (when there was light at the end of the George Osborne austerity tunnel). Records will also be broken on the tax front, with taxes as a share of national income (or GDP) set to hit a record high. Meanwhile public spending growth will go into the crawler lane, with inflation sapping spending power in the short-term and the Chancellor applying the handbrake in the medium to longer-term. Public spending growth will be limited to 1% in real terms from 2025-28, which compares to the previous plans of 3.7%. Given this outlook, it’s hard to see how public sector workers’ pay will keep pace with inflation, unless they get promoted or change jobs.



The OBR's much awaited economic and fiscal forecasts, which markets had been deprived of previously, unsurprisingly make for grim reading. The UK economy is expected to contract by 1.4% in 2023 and to grow by +1.3% in 2024. The size of the economy will only return to its pre-pandemic level at the end of the year after next. The rate of economic growth is then set to double to +2.6% in 2025. The good news – if there is any – is that inflation will be brought back down to earth, averaging zero percent over 2024-26. At this stage, it will be a case of believing it when we see it. Borrowing though will be at eye-watering levels for several years before it is brought under control, with £140billion of borrowing in the next fiscal year alone (down from £170bn this year).

Inflation may be public enemy number one, but it is the Chancellor's friend when it comes to raising revenue. The combination of freezing tax thresholds and high inflation pulls more and more people into paying higher tax – the so-called fiscal drag. Freezing income tax and national insurance thresholds at 2023/24 levels until 2028 nets the Treasury almost £1.3bn. There are similar moves on inheritance tax. And in the business world, the Chancellor is maintaining the secondary threshold for employer National Insurance contributions, which will yield almost £6bn per year by 2028. SMEs will also see the VAT threshold frozen at current levels for another three years, with inflation sucking more companies over the VAT

threshold. There was also some fiscal limbo dancing, with the Chancellor lowering the income tax threshold for the 45p rate to £125,000 from £150,000.

Another tax theme has been reducing tax relief or allowances on a number of measures. These included R&D tax reliefs and Capital Gains tax which will hit people cashing in on equity if they are not in a tax free-wrapper and also buy-to-let investors. The CGT tax allowance will be slashed from £12,300 to £6,000 next April and halved to £3,000 the following year. Also on the property front, the cuts in Stamp Duty announced in September will now be time-limited, ending in April 2025.

Further clarity on the Energy Price Guarantee was also provided with the current £2,500 cap for the average household to be raised to £3,000 from next April for a further 12 months. And there was also a range of cost-of-living payments for households on means tested benefits, and for those receiving a pension or disability payments. Pensioners will also be relieved that the 'triple lock' will remain intact, meaning the State Pension will rise by CPI (10.1%) next April, as will other welfare benefits. But significantly there is no energy price support for businesses from next April onwards.

The Chancellor also pulled harder on the windfall taxes lever in the shape of the Energy Profits Levy which will see the tax rate increased to 35% from January next year and extended to the end of March 2028. A new Electricity Generator Levy was unveiled which will impose a 45% tax on excess returns over the same period.

Interest rates have already gone back to levels last seen since 2008, the cost of living will go back to 2013 levels, and the clock is ticking towards a General Election whenever the electorate has never had it so bad. Dealing with the Great Rewind will be a major theme of the election and the longer-term challenge will be how we can fast-forward economic growth, reforms and productivity. For Northern Ireland, a starting point is getting Stormont

back up and running.

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