



Scope
Ratings

UK Budget: Can the UK restore fiscal credibility?

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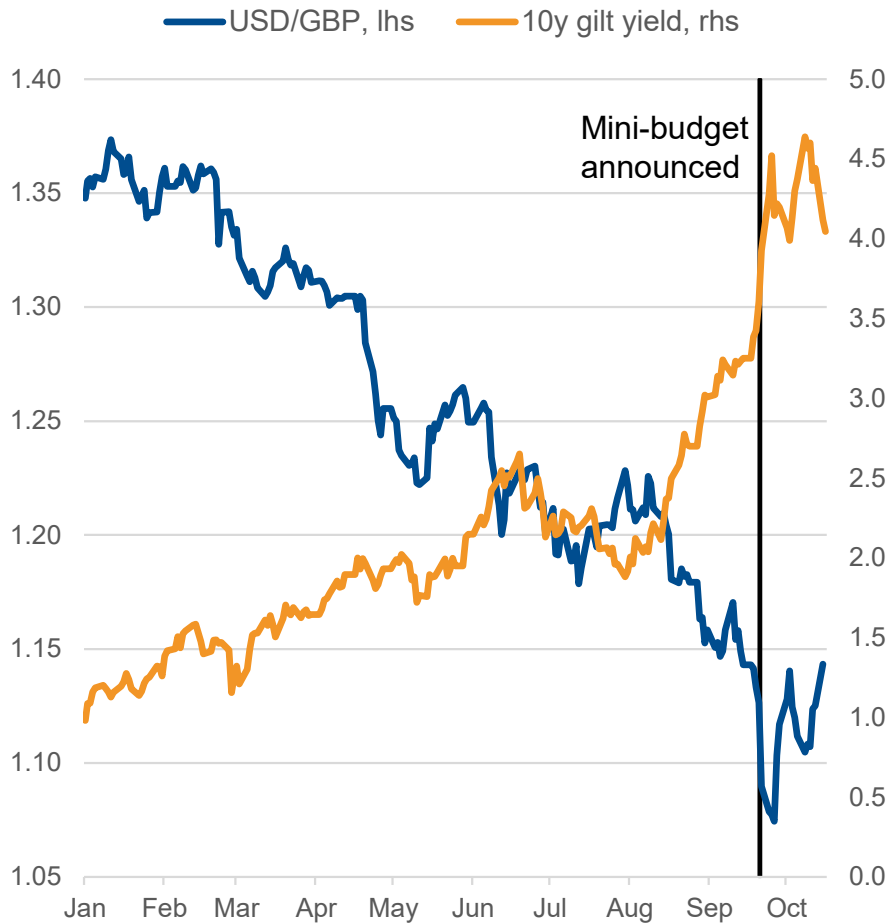
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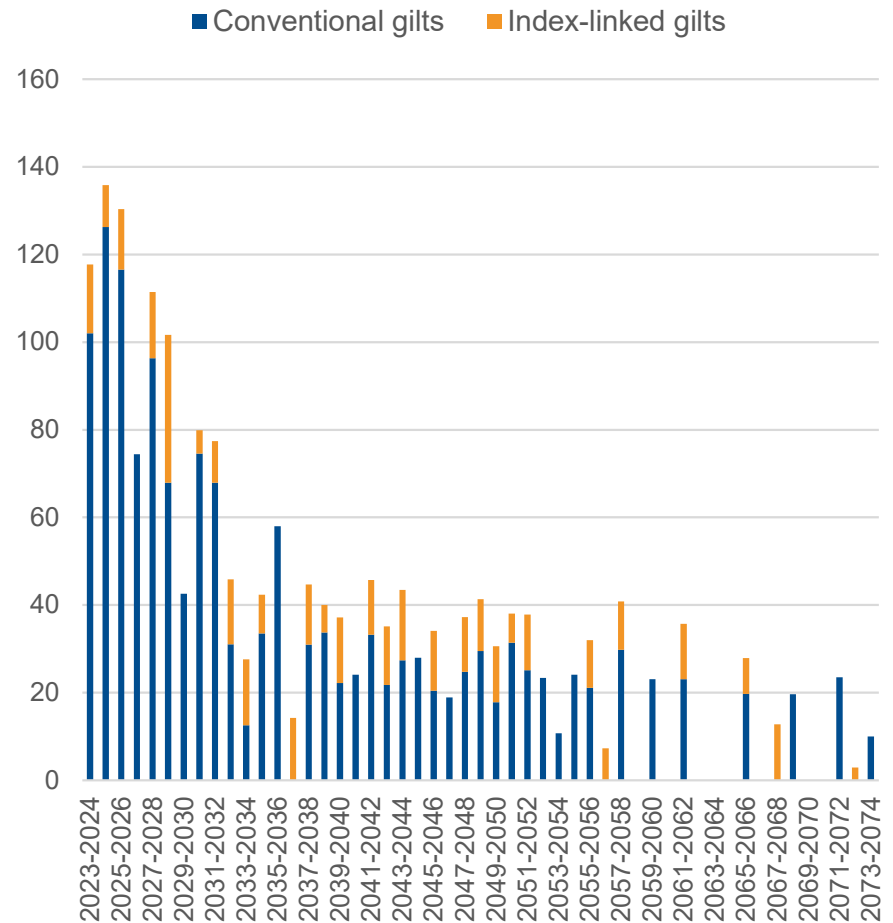
Gilts crisis highlighted UK debt vulnerabilities

Global spillovers as markets re-assessed government debt overhangs

UK exchange rate and gilt yields
USD/GBP, %



UK gilt redemption profile
GBP bn



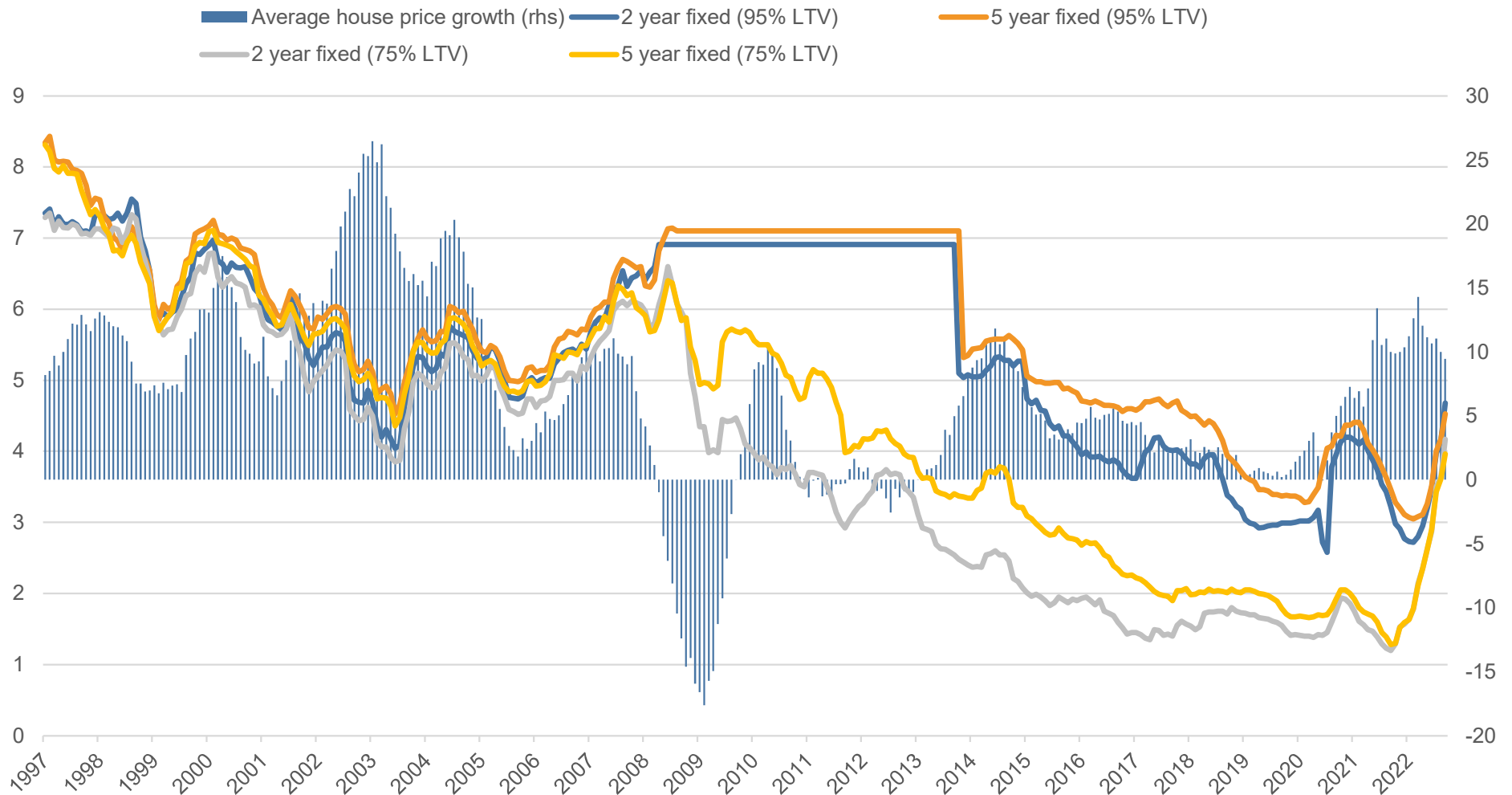
Source: Bank of England, Macrobond, UK Debt Management Office, Scope Ratings



Rising mortgage rates expected to cool housing market

Better risk diversification, but exceptionally sharp rise in rates

UK house prices and mortgage interest rates of UK monetary financial institutions to households %



Source: Bank of England, Nationwide, Scope Ratings



Most mini-budget announcements have been reversed

Tax policy measures announced since March 2022

	Estimated cost/revenue
<u>Rishi Sunak's May 2022 package</u>	
Energy profits levy ('windfall tax')	In force since May 2022 Initially expected to raise GBP 5bn over one year; Treasury then expected GBP 28bn over four years.
<u>Kwasi Kwarteng's September 2022 'mini-Budget' measures</u>	
Cancel planned introduction of the health and social care levy (and from November reverse associated temporary rise in rates of National Insurance contributions)	GBP 16bn/year by 2026-27
Cancel planned rise in the rate of corporation tax from 19% to 25% scheduled for April 2023	GBP 18bn/year by 2026-27 ✘
Increase Annual Investment Allowance; reforms to employee share schemes and venture capital schemes	GBP 1.5bn/year in the medium term
Bring forward cut to basic rate of income tax by a year to April 2023	One-off GBP 5bn in 2023-24 ✘
Remove additional rate of income tax (45p)	Just over GBP 2bn/year in the medium term ✘
Increase stamp duty land tax allowance	Less than GBP 2bn/year in the medium term
VAT exemption for overseas visitors	Just over GBP 2bn/year in the medium term ✘
Off-payroll working	GBP 2bn/year in the medium term ✘
Freeze alcohol duties	GBP 0.6bn/year in the medium term ✘

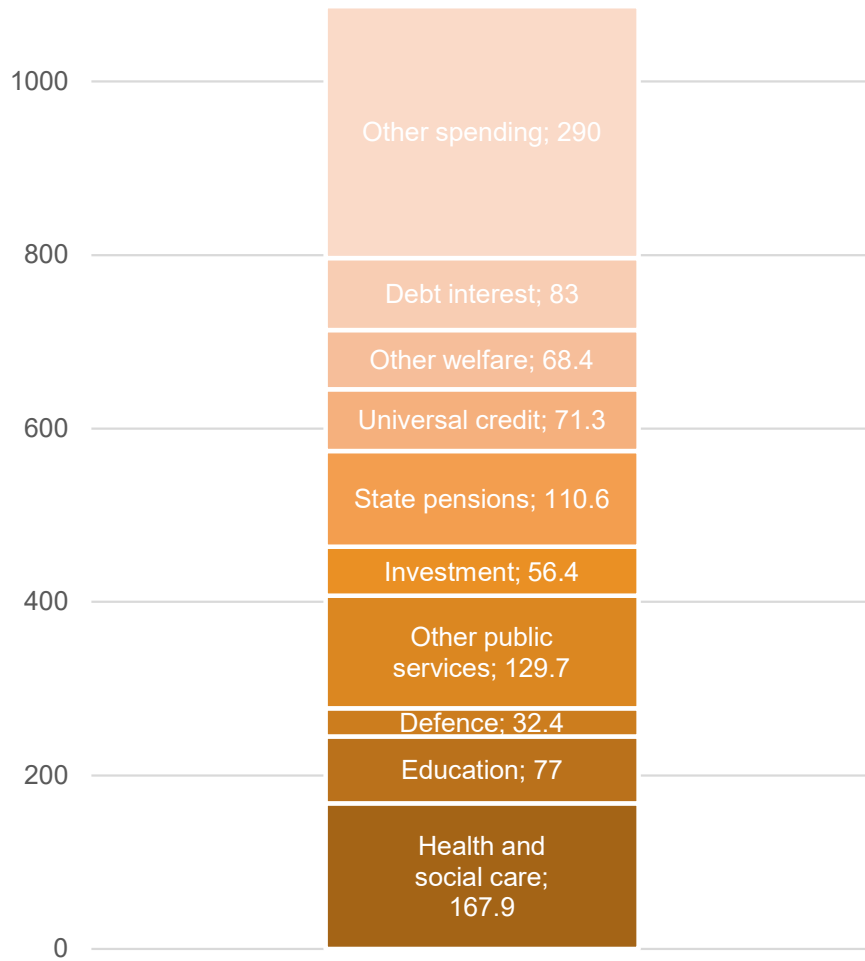
Note: Estimates from Institute for Fiscal Studies Green Budget 2022



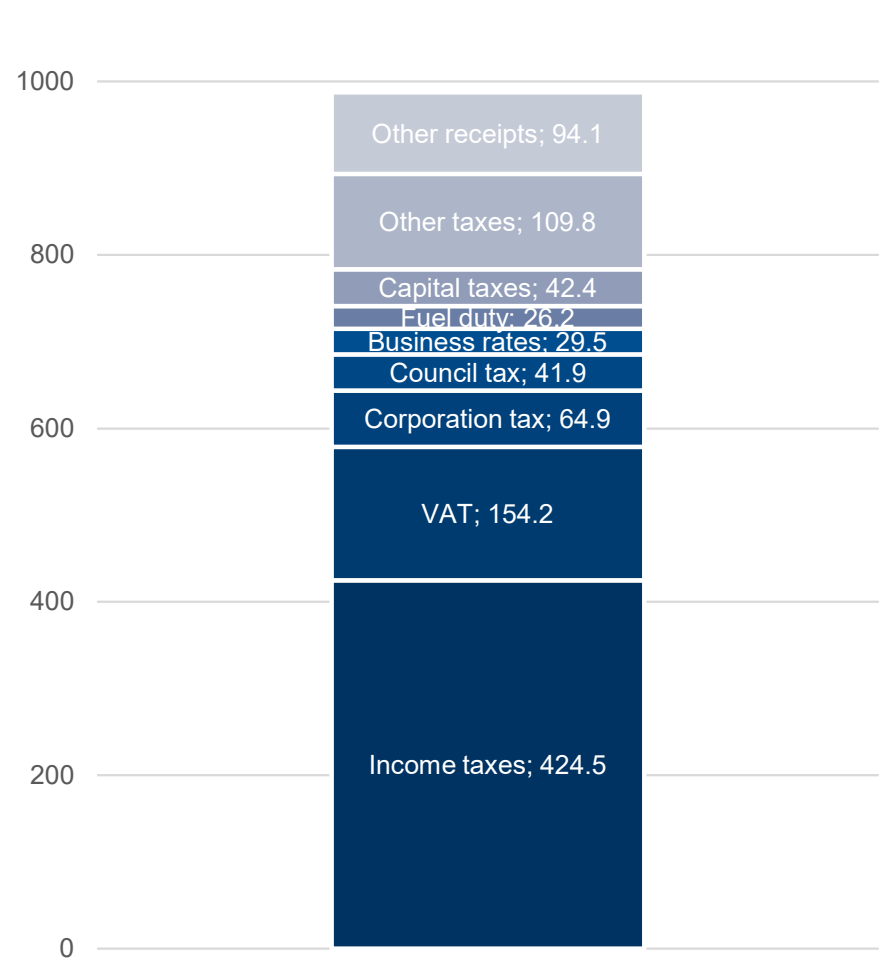
The challenging search for further spending cuts

Public sector spending and receipts

Public sector spending 2022-23
GBP bn



Public sector receipts 2021-22
GBP bn



Source: OBR, Scope Ratings

The UK's fiscal framework

The framework plays an important role in regaining fiscal credibility

➤ Treasury's objective for fiscal policy:

“to ensure sustainable public finances, economic growth and stability, value for money for the taxpayer, a strong balance sheet, and intergenerational fairness”

➤ Current fiscal targets

- **Public sector net debt** (excl. the BoE) as a % of GDP to be falling by the third year of the OBR's forecast;
- **Current budget** to be balanced by the third year of the OBR's forecast;
- **Public sector net investment** not to exceed 3% of GDP p.a. on average across the forecast period; and
- **Welfare spending** to be contained within a predetermined cap set by the Treasury.

The UK's sovereign credit strengths and weaknesses

Scope last affirmed the UK's AA credit rating in June 2022

Credit strengths

- Large, wealthy and diversified economy
- Strong institutional framework
- Robust debt profile and market access

Credit challenges

- High stock of public debt
- Weak external position with persistent current account deficit
- Prolonged uncertainties surrounding the implementation of the post-Brexit UK-EU trade agreement

Positive rating-change drivers

- Economic and fiscal policy frameworks maintain the debt-to-GDP ratio on a stable downward trajectory in the medium term
- Reduction of external vulnerabilities

Negative rating-change drivers

- Weakening in economic and fiscal outlooks lead to higher debt-to-GDP
- Larger attrition of UK services sector than anticipated due to Brexit and/or risks to the UK's constitutional integrity
- Increase in external vulnerabilities or challenge to sterling's status as a reserve currency



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