

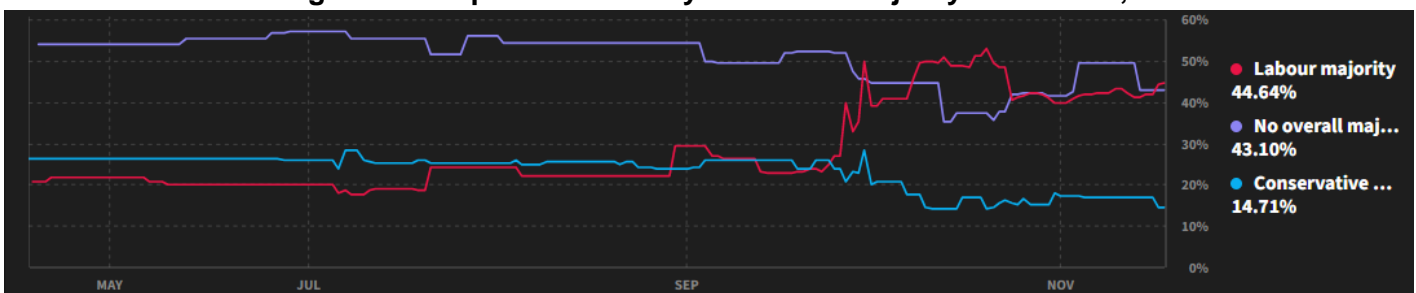
MNI POLITICAL RISK-Tough Economic Outlook To Dominate Politics After Autumn Statement

By Tom Lake

Chancellor of the Exchequer Jeremy Hunt's Autumn Statement, delivered earlier today in the House of Commons, contained – as expected – a sizeable number of revenue raising measures as well as announcements on efforts to contain government spending. Politically, the government of Prime Minister Rishi Sunak is treading a fine line in attempting to boost market confidence in UK finances while Office for Budget Responsibility forecasts project an unprecedented decline in household disposable incomes.

- The Chancellor announced a series of revenue raising measures, including:
 - A reduction in the threshold for payment of the additional 45% rate of income tax from GBP150,000 to GBP125,140.
 - The maintaining at current levels the income tax personal allowance, higher rate threshold, main national insurance thresholds and the inheritance tax thresholds until April 2028.
 - Cutting the dividend allowance from GBP2,000 to GBP1,000 next year and then to GBP500 from April 2024. Reducing the Annual Exempt Amount for capital gains tax from GBP12,300 to GBP6,000 next year and then to GBP3,000 from April 2024.
 - From January 1st until March 2028 the Energy Profits Levy will increase from 25% to 35%, and the government will introduce a new, temporary 45% levy on electricity generators.
- Harry Horton at ITV on OBR projections: ***“...household disposable income falls by 4.3% next year, the largest fall since records began. That is followed by the second largest fall in 2023-24 at 2.8%. Tax burden peaks at 37.5% of GDP in 2024-25 - highest level since WWII.”***
- If the above projections come to fruition, it will be the dominant subject of UK politics for the coming two years, removing the political oxygen from almost any other issue.
- Tough economic conditions for households seen as damaging Conservative electoral prospects. Data from Smarkets shows the opposition centre-left Labour Party with a 44.6% implied probability of winning a majority at the next general election, above the implied probability of a hung parliament on 43.1%. Bettors give the centre-right Conservatives just a 14.7% implied probability of retaining a majority of seats.

Chart 1. Betting Market Implied Probability of Overall Majority at Next GE, %



Source: Smarkets

- A number of the measures announced by Hunt are not due to come into effect until 2025, after the next election is due. There has been speculation that the Chancellor and PM have sought to use the autumn statement to lay 'landmines' for Labour, who could find themselves winning power but unable to significantly alter the planned fiscal measures for fear of rattling financial market confidence in the UK economy.

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