

FINANCIAL MARKETS

# THE UK BUDGET 2018



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We believe that sound investment and trading decisions begin with a strong grounding in financial education. Our goal is to make this available to everyone - and this free eBook is part of that commitment.

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# IS IT BUSINESS AS USUAL?

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## FOREWORD

On Monday 29th October at 15:30 GMT, the UK government announced its latest Budget in the House of Commons.

Chancellor Philip Hammond spent 72 minutes explaining the government's fiscal plans for the years ahead while sharing forecasts for economic growth.

In this eBook, we will dissect the major decisions made by the UK government. We'll also explore how they affected the financial markets.

**Patrick Latchford**  
**CEO, Blackwell Global Investments (UK) Limited**

# WHAT IS THE BUDGET?

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## WHY BUDGETS MATTER

The UK Budget is a widely anticipated event. Delivered annually, each Budget is a detailed update on the public finances and economic growth by the UK government.

It also outlines the government's fiscal (taxation and spending) policy plans, along with future fiscal targets.

Since 2010, each Budget has relied on input from the Office for Budget Responsibility (OBR). This is an independent body created by the UK government. Twice a year, it produces five-year forecasts for UK public finances and the economy.

Using these the forecasts, the OBR can scrutinise the UK government's Budget and whether it's on track to meet its targets. Ultimately, the OBR adds a layer of independence and transparency to important economic forecasts.

However, analyses from the OBR can also help the UK government formulate future fiscal policy. A typical Budget details the following:

- How much revenue can be raised by taxes.
- Planned expenditure on public services, state pensions and debt interest.
- If there will be a budget deficit or surplus in the years ahead.
- Whether the national debt will increase or decrease in the years ahead.

The most recent Budget was announced on October 30th 2018 by Chancellor Philip Hammond (his third Budget to date). This Budget makes forecasts for the next five fiscal years until 2023/24. Remember - each fiscal year starts in April and finishes the following March.

# THE BUDGET 2018

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## BUDGET OVERVIEW

At the 2018 Conservative Party conference, Prime Minister Theresa May declared that “austerity is over” and that the UK could afford to spend more ahead of Brexit.

Chancellor Philip Hammond was keen to reinforce this message at his Budget speech, claiming that an “era of austerity is finally coming to an end”. Here are the key points from the Budget:

## ECONOMIC GROWTH

Projected economic growth over the next five years was increased. While the forecast for 2018 fell from 1.5% to 1.3% (due to poor weather earlier in 2018), forecasts for the next five fiscal years all increased to between 1.4% and 1.6%.

## BUDGET DEFICIT

The amount the UK is borrowing every year (known as the budget deficit) is also falling. For instance, public borrowing for 2018 is £11.6 billion lower than forecast earlier this year. Annual borrowing is forecast to continually fall over the next five years - from £31.8 billion to 19.8 billion.

## NATIONAL DEBT

As a share of the country's GDP, the UK's national debt stands at 83.7% this year, after reaching a high of 85.2% in 2016-17. Debt is expected to fall to 74.1% by 2023/24.

## UNEMPLOYMENT

In terms of unemployment, the UK government confirmed that 3.3 million more people have secured work over the last eight years. By 2022, it forecasts that 800,000 more people will be in work.

## TAXES & PAY

With employment rates reaching a record high in the UK this year, this Budget reduces the taxes of the nation's workers.

For example, both the personal allowance tax threshold and the higher rate income tax threshold are set to increase. For those who have to pay 20% of their wages in tax, the threshold will rise from £11,850 to £12,500 as of April 2019.

Those earning more and paying 40% of their wages will start

paying from £50,000, rather than £46,350.

The National Living Wage will also increase. As of April 2019, the current wage of £7.83 will go up to £8.21. Overall, around 2.4 million workers will benefit from this increase as their overall yearly pay will rise by £690.

## HOUSING

To help with the UK's housing crisis, £500 million has been set aside for the Housing Infrastructure Fund to create 650,000 new homes. A further £1 billion has also been promised for other small house builders.

First-time buyers are also set to be given a hand stepping onto the property ladder. For houses worth up to £500,000, first-time buyer relief will be made available. This will affect over 200,000 properties in the UK.

## NHS

One of the most significant Budget announcements is the new money being provided to the NHS. The government has allocated an additional £20.5 billion for the service over the next five years.

After urges to Prime Minister Theresa May, more funding has also been set aside for mental health support. An extra £2 billion has been allocated for mental health services.

## DEFENCE



With an increase in terror threats, the UK government has recognised the need to increase protection for the UK. An extra £160 million to assist counter-terrorism police has been introduced. There has also been an additional £1 billion given to the armed forces.

## BREXIT

An additional £500 million - adding to the £1.5 billion already set aside - has been allocated to government departments to help prepare for Brexit.

## HOW THE MARKETS REACTED

After the Budget, the pound sterling fell against some of its major peers.

Despite Philip Hammond announcing better than expected growth forecasts, the pound sterling fell to €1.1239 against the euro. It also fell 0,19% against the US dollar, hitting \$1.2777.

Much of this can be attributed to Brexit. Chancellor Philip Hammond's speech did little to reassure the markets that a 'No Deal' Brexit is unlikely.

As well as this, the Budget speech also announced a Digital Services Tax that could help the UK raise £1.5 billion across a four year period. This would have a significant impact on the likes of Facebook, Amazon, Apple and Google - as the tax targets tech companies generating revenues of over £500 million. Amazon and Google shares dropped 4.3% and 2.3% respectively.

Ultimately, this Budget doesn't change the fundamental picture for the UK. Sentiment will continue to be determined by whether a Brexit transition deal can be agreed before March 2019.

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