



September 28, 2022



Since mid-summer, debates surrounding what the new conservative leader and Prime Minister would do to tackle the cost of living crisis have been widespread. Now that we know it is Liz Truss, the country's attention is very much fixed on her to deliver a plan.

One of the first indications of what this plan will look like was last week's 'mini-budget' from Kwasi Kwarteng, the new Chancellor of the Exchequer.

Never before has a 'mini-budget' garnered so much attention. However, with winter just around the corner, the urgency to solve or stem the cost of living crisis, of which energy prices are a big factor, is upon us now – two months before the autumn budget is set to be announced.

Truss has announced a series of tax cuts and policies to help grow the economy in light of an anticipated recession. She has stated that she is prepared to be "unpopular" to expedite growth of the economy on the basis that reforms may <u>disproportionately benefit the wealthy</u>.

Leading up to the announcement, economists were torn as to whether this was the right approach. On the one hand, some were calling 'Trussonomics' a sure fire way to grow the economy at a faster rate and reduce the length of recession (by bringing in more money which will cover the cost of the amount borrowed). On the other hand, some experts argued this would lead the country down an "unsustainable path"; kicking the can down the road and increasing the debt burden.

The mini-budget shows us what the government truly intends to do.

So what are key takeaways from the announcement?

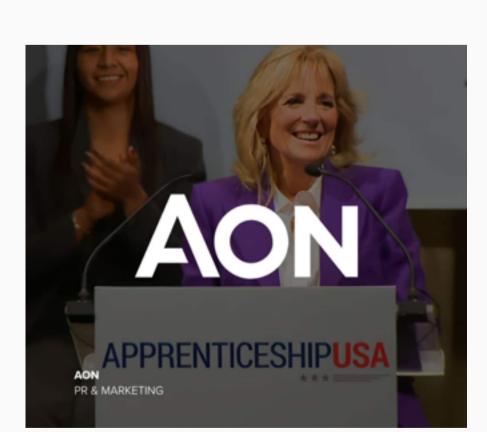
- People will keep more of their earnings as a result of a reversal to a National Insurance (NI) increase.
- Plans to increase the tax companies pay on profits (corporation tax) from 19% to 25% has been scrapped, designed to reduce pressure and supposedly encourage investment.
- Stamp duty has been cut, meaning that there is no proportionate taxation of people buying first, second, third (etc) homes.
- The cap on bankers' bonuses is to be lifted as part of efforts to "reaffirm" the UK's status as a financial services hub.
- Low-tax zones have been established for UK businesses to support investment, jobs and growth.
- Household bills will be cut by an expected £1,400 this year with aid from an energy price guarantee and £400 grant.

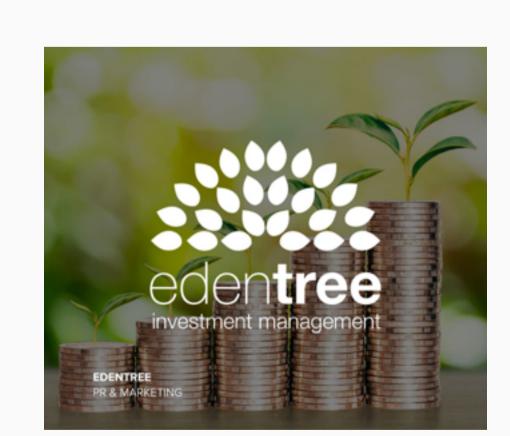
This announcement has carried mixed reactions among economists as well as voters. But, all initial indicators point towards it being a reckless gamble with the country's finances in a time of economic nadir. Immediately after Friday's announcement, the pound plummeted to record lows against the dollar, and the IMF has already issued a blunt warning to the government, saying their pledge to borrow £45m is risky and will "likely increase inequality".

However, the true verdict of the mini-budget announcement will not be known until further into the future, when assessments will be made as to the state of the country's economy and the true impact of the cost of living on every household. One thing is for certain though, the bite of a winter cost of living crisis will be felt far and wide.

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