

News in Review

16 March 2022

'At the Spring Statement, Rishi Sunak has to make a huge judgment call'

With a week to go until the next fiscal event in the government's calendar – the Spring Forecast Statement on 23 March - new research from the Institute for Fiscal Studies (IFS) has highlighted its belief that the Chancellor has some big decisions to make in the face of soaring living costs and new economic challenges presented by the war in Ukraine.

Interestingly, a Spring Statement is usually regarded as a lesser fiscal event than a Budget; providing a set of new economic forecasts and updates, rather than the government's planned spending and revenue gathering proposals which appear in the Budget. However, on this occasion, with inflation continuing its ascent, wages unable to keep pace, and the costs of energy, fuel and other commodities being driven even higher due to the invasion of Ukraine, the IFS is speculating whether the government will consider extra protection for households struggling to keep up with their bills, potentially making this a crucial event for many households.

The IFS analysis emphasises *'the far-reaching economic challenges associated with this shifting outlook. Households and public services will be squeezed by higher inflation, the economy rocked by heightened uncertainty, and the public finances buffeted by the fallout from Ukraine.'* Paul Johnson IFS Director added, *"At the Spring Statement, Rishi Sunak has to make a huge judgment call. Will he do more to protect households from the effects of energy prices,*

which have risen even further in the last two weeks? If he doesn't, then many on moderate incomes will face the biggest hit to their living standards since at least the financial crisis. If he does, then there will be another big hit to the public finances."

"Significant economic uncertainty"

Although the UK economy rebounded strongly in January, analysts' expectations indicate more subdued growth moving through 2022 as the cost-of-living crisis intensifies. Suren Thiru, Head of Economics at the British Chambers of Commerce (BCC) believes the Ukraine invasion *"has increased the risk of a recession in the UK"* by exacerbating the inflationary squeeze and *"derailing the supply of critical commodities to many sectors of the economy."* Chancellor Rishi Sunak said that Russia's invasion *"is creating significant economic uncertainty."* He added that the government's *"unprecedented support"* provided during the pandemic *"has put our economy in a strong position to deal with current cost of living challenges."*

Further emergency funding

In addition to funding provided by the World Bank, the International Monetary Fund (IMF) last week approved \$1.4bn of emergency funding for Ukraine, to meet the country's urgent spending needs and help alleviate the devastating economic impact of the war. Kristalina Georgieva, Managing Director of the IMF said, *"The Russian military invasion of Ukraine has been responsible for a massive humanitarian and economic crisis... The tragic loss of life, huge refugee flows, and immense destruction of infrastructure and productive capacity is causing severe human*

suffering and will lead to a deep recession this year. Financing needs are large, urgent, and could rise significantly as the war continues."

G7 Leaders showed support for the people of Ukraine and condemnation of Putin's war by issuing a joint statement, *'We are united in our determination to hold President Putin and his regime accountable for this unjustified and unprovoked war that has already isolated Russia in the world. The world should join together in calling on President Putin and his regime to immediately stop its ongoing assault against Ukraine and withdraw its military forces. We stand in solidarity with those who are bravely opposing the invasion of Ukraine.'*

Markets

At the end of last week, many European markets responded positively on tentative hopes that discussions between Ukraine and Russia were progressing, however US indices were more subdued, following the release of February's inflation figure which reached a 40-year high of 7.9%.

London stocks dropped into the red on Tuesday as Office for National Statistics (ONS) data revealed that real wages in the UK, taking inflation into account, had dropped by 1% in the three months to January, the biggest fall since 2014.

Here to help

It is essential that investors focus on longer-term timescales instead of focusing too intently on short-term volatility. Rest assured we will continue to monitor events closely. Financial advice is key, so please do not hesitate to get in contact with any questions or concerns you may have.

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.