

ECONOMIC PULSE

UNITED KINGDOM: DARK CLOUDS GATHER

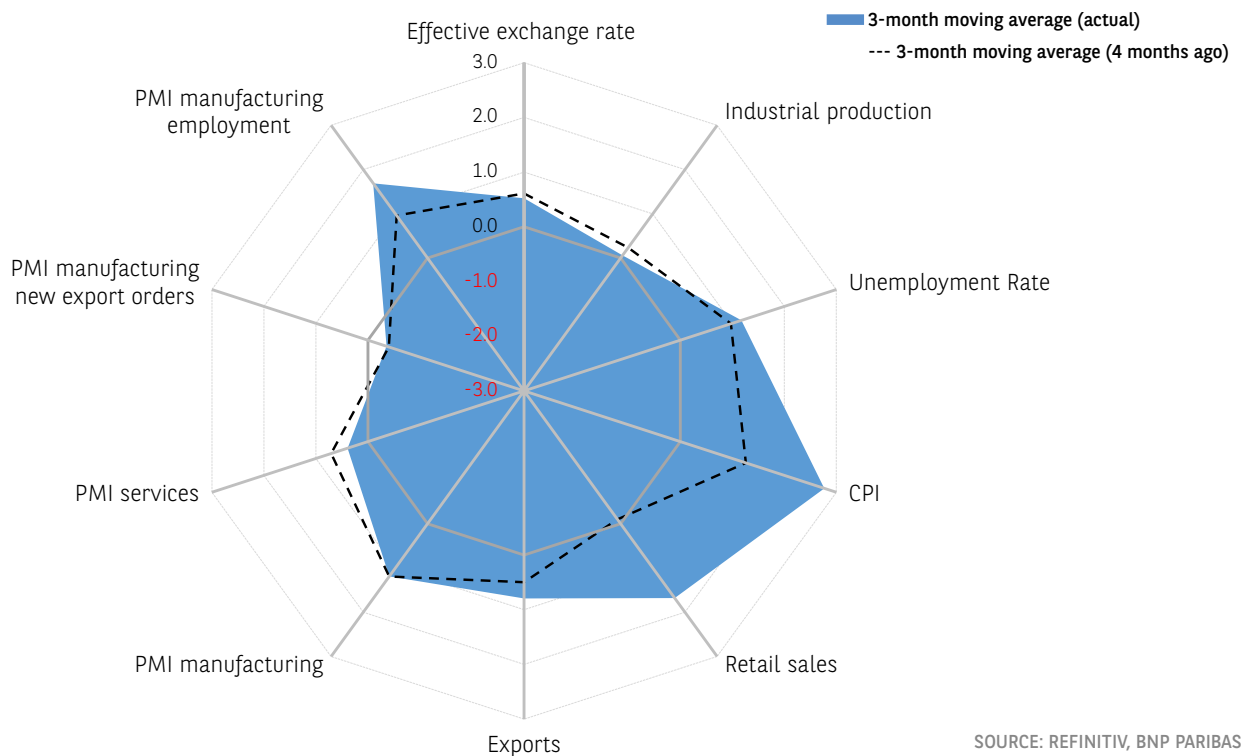
The UK is by no means the country with the greatest trade exposure to Russia: it buys virtually no Russian gas and in 2019, sent only 0.7% of its goods exports there (compared to 2% for Germany, for instance). Even so, in the UK, as in the whole of Europe, sanctions and shortages resulting from Russia's war in Ukraine will increase inflationary pressures and damage economic prospects. The Office for Budget Responsibility (OBR) has cut its growth forecast for 2022 from 6% to 3.8%, whilst inflation could climb from 6.2% in February to a peak of 9% by the year end.

Britons, whose real wages have started to fall, will see increasing damage to their purchasing power. From 1 April, 22 million people will be affected by the 54% increase in Ofgem's energy price cap. For Rishi Sunak, the Chancellor of the Exchequer, the reactivation of government support has become a key issue, and one that needs to be handled with care. With the next budget, that comes into effect in April, increasing the tax take (in particular with a GBP 12 billion increase in National Insurance contributions), a number of corrective measures have been announced: a 5p/litre (EUR 0.06/l) cut in fuel duty, zero rating of VAT on solar panels, and a doubling of the funding of the Household Support Fund. According to the OBR, however, what has been proposed falls far short of offsetting the increased fiscal pressure planned for 2022 and beyond.

A return to "whatever it takes" is not yet on the cards, while monetary policy normalization keeps on track. On 16 March, the Bank of England announced its third consecutive rate increase, taking the policy rate to 0.75% with further increases expected.

Jean-Luc Proutat

QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -3 and +3. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

