UNITED KINGDOM: PACKAGE TO SUPPORT PURCHASING POWER RUNS UP AGAINST CLIMATE COMMITMENTS

Unsurprisingly, the 16 June meeting of the Bank of England's Monetary Policy Committee (MPC) led to a further increase in its policy rate, the fifth consecutive 25 basis point increase, taking it to 1.25%. This tightening of monetary policy, relatively modest when compared to the Fed's 75bp hike, aims to control inflation, which is continuing to rise steeply (2.5% m/m NSA in April, giving a year-on-year figure of 9%), without putting excessive constraints on an economy already hit by the inflation shock. Increases in prices for gas (67% m/m) and electricity (40% m/m) particularly affect households, whose purchasing power has already been significantly reduced. The GfK index shows that consumer confidence is at record lows (-40 in May), dragged down by historically negative responses on the general economic situation (-56) and personal financial situations (-25) over the next twelve months.

To help vulnerable households with the rising cost of living, the Chancellor of the Exchequer, Rishi Sunak, has brought forward a support package. According to HM Treasury, slightly over 10% of the most vulnerable UK households will receive at least GBP 1,200 this year[1]. This support package includes a GBP 650 lump sum cost of living payment to be paid to recipients of means-tested benefits in two instalments and a doubling of energy bill discounts to GBP 400 for all households to be applied from October 2022. These bills could increase by more than 40% (or GBP 800) per household per year, according to the UK energy regulator (Ofgem).

To limit the effect on the budget deficit, the Treasury will impose a temporary windfall tax (to end by 2025 at the latest) of 25% on oil and gas company profits, which have hit extraordinary levels as a result of higher oil prices since Russia's invasion of Ukraine. However, these companies will also benefit from a tax allowance of 90% on each pound invested in oil and gas extraction projects. This tax allowance could encourage the launch of several dozen new hydrocarbon projects with production capacity equivalent to nearly 1.9 billion barrels of oil. Although an increase in production on this scale would bring a welcome reduction in energy prices, by increasing oil and gas supply, the negative climate consequences would be less welcome. Burning these barrels would emit 899 million tonnes of greenhouse gases, which is incompatible with the UK's climate commitments. The UK has made a policy choice between the increase of fossil fuels extraction and the acceleration of the energy transition. By focusing on increasing supply over reducing demand, it does nothing to encourage much-needed energy-saving measures. Focused on the fossil fuel sector, this policy also does little to accelerate the transition to low-carbon energy sources. Reconciling support for purchasing power in the face of rising inflation and the acceleration of the energy transition remains a thorny problem.

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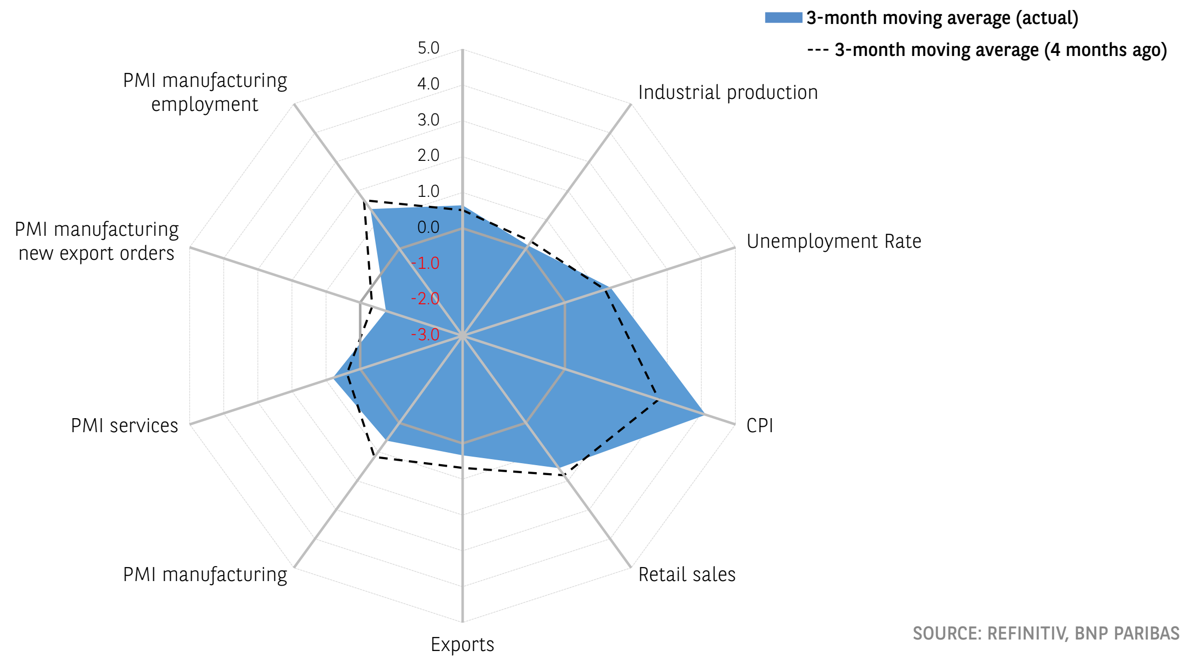
1. HM Treasury, "Overall government support for the cost of living: factsheet", Policy paper, 26 May 2022.

UNITED KINGDOM: 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 +5. 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.