PREVIEW: UK Budget due Wednesday March 3rd 12:30GMT/07:30ET

3rd March 2021

BACKGROUND: With it being around a year since Sunak's last budget update, markets await details on how the Treasury plans to guide the UK economy through what is expected to be the recovery phase of the pandemic. Despite the relative success of the UK's vaccination efforts, some support measures will remain in place in the short-term as the economy begins to reopen. The main challenge for the Chancellor will be how to align the optimism from the rapid rollout of vaccines in the UK with the need to ensure that the recovery is not blunted by overly restrictive fiscal policy whilst also looking to address the hole in the UK's finances, which some estimate could reach GBP 40bln by the end of the current parliament in 2024, according to the FT.

FURLOUGH: Despite the government recently announcing its roadmap for exiting lockdown, support for the labour market will be required in the coming months due to the staggered nature of the plan. As it stands, the existing furlough scheme is set to expire at the end of April which would come ahead of the May and June reopening dates for some of those industries such as leisure and hospitality that have been hit hardest by the pandemic. As such, an extension to the furlough scheme is widely expected, albeit the extent of which is unclear with Chancellor Sunak refraining from offering explicit guidance. That said, a recent report in the FT suggested that the scheme would be held in place until summer before being phased out.

OTHER BUSINESS SUPPORT MEASURES: As highlighted by ING, the furlough scheme can only protect jobs as long as firms are strong enough to support them in the recovery phase. As such, the Chancellor is expected to unveil a GBP 5bln grant scheme which would see "**restart grants**" worth up to GBP 6,000 for non-essential retail businesses upon their scheduled reopen on April 12th, whilst businesses in the leisure, hospitality and fitness sectors that are set to reopen in June will be eligible for grants of up to GBP 18,000. Additionally, Chancellor Sunak is set to extend the year-long **business rates holiday** for hospitality, leisure and retail sectors that was due to expire on March 31st. Note, press reports suggest that Sunak will wait until November before issuing his final report on the broader business rates review. For the broader economy, the Treasury is to pledge **GBP 22bln in financing for its new infrastructure bank** with the view of generating GBP 40bln to put towards major projects. For the housing sector, Sunak is expected to unveil a **mortgage guarantee scheme** to assist those with small deposits in an attempt to bring back 95% mortgages

CORPORATION TAX: Given the need to remedy the UK's finances in the wake of the pandemic, the prospect of taxation has been a key focus in the run up to the announcement. Reports suggest that an increase in the corporate tax rate is an inevitability, albeit the timeframe and the extent of any hike is subject to speculation. As it stands, corporation tax currently resides at 19%, which is amongst the lowest in the G7 and therefore provides the Chancellor some shelter from criticism, particularly given the likelihood of an increase in the US from 21% to as high as 28%. There had been expectations that the rate in the UK could rise to 23%, however, recent press reports have begun to lean towards a figure of 25%. A political showdown within the Conservative Party could be on the cards should this be the case with Sky News suggesting that any Tory rebels who oppose such a move could have the whip removed. Note, estimates indicate that each 1% increase in the rate could generate GBP 3.3bln in annual revenue for the Treasury.

OTHER TAXATION MEASURES: Elsewhere, The Telegraph recently reported that the Chancellor could freeze the GBP 12,500 point at which people start paying the basic rate of **income tax** and the GBP 50,000 threshold at which they pay the 40% rate for at least three years. Additionally, adjustments to **pension tax relief** for high earners could be another option for the Chancellor in a move that would level the playing field for lower earners. **Capital gains tax** is another source of contention within the Conservative Party. As it stands, capital gains are taxed between 10-28% vs. the 20-45% for income tax; any measures taken on this front would look to narrow this gap. One of the more palatable revenue-raisers could come in the form of an **online sales tax**, something that would likely be considered as part of the business rates review due at the end of the year. **Fuel duty** is set to be held at current levels with Treasury sources suggesting that reliance on cars as a transport safety measure during the pandemic is still too great, according to The Independent. For the housing sector, the current **Stamp Duty holiday** is set to be extended by three months until the end of June in order to avoid a cliff-edge that would threaten the viability of hundreds of thousands of sales that are yet to complete.

OBR FORECASTS: The OBR's central projection within its November Economic and Fiscal Outlook saw the FY20 headline deficit at 19% before falling to 7.4% in 2021 in anticipation of a better GDP outturn this year and a decline in government spending. Since the November forecast was made, SocGen suggests that the OBR will need to offset the better fiscal momentum with the extension of economic support measures stemming from the most recent national lockdown (imposed in January). As such, SocGen expects a relatively small net effect and therefore the upcoming deficit forecast will likely match the one presented late last year. For the accompanying GDP forecasts, the 9.9% economic contraction in 2020 was not as soft as the -11.3% seen by the OBR. This will provide a firmer base for 2021, however, the aforementioned lockdown will likely level things out for the UK. Accordingly, SocGen suggests that the 2021 forecast of 5.5% looks reasonable and later-years should not be subject to much in the way of alterations (currently 6.6% for 2022, 2.3% 2023, 1.7% 2024 and 1.8% 2025).

GILT REMIT: Given the offsetting forces in the UK economy, UBS expects the fiscal 2021 borrowing requirement to be largely unchanged from the one published by the OBR in November. **Consensus looks for Gilt issuance of GBP 247.2 bln for FY 2021/22**; 30% short, 26% medium, 28% long, 14% I/L (6% unallocated)