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Government banks largest monthly surplus on record ahead of Spring Budget.

The government recorded its largest monthly surplus since records began in January, helping borrowing in the year-to-date come in over £9bn below official forecasts. According to figures from the Office for National Statistics (ONS), the government banked a surplus of £16.7bn in January. This was more than double the surplus recorded last year and the highest since records began in 1993, although it was slightly lower than the £18bn surplus expected by the Office for Budget Responsibility (OBR). January's tax receipts are always higher than other months, due to receipts from self-assessed taxes. Receipts from self-assessed taxes hit £21.6bn in January, £2.4bn less than the OBR expected. The Treasury also paid significantly less interest on government debt than expected reflecting the recent fall in interest rate expectations. Falling interest rate expectations and the closure of the energy support scheme have improved the government's fiscal position ahead of the Spring Budget. Borrowing in the financial year-to-date came in at £96.6bn, which was £9.2bn less than forecast by the OBR back in November. However, the UK's public finances remain in a fairly parlous state with debt totalling 96.7% of GDP. January's figures are the last round of monthly borrowing figures before the Spring Budget, which is scheduled to be held on 6 March. Thanks to falling interest rate expectations, which will lower debt interest spending, the government is expected to have as much as £20bn to spend on cutting taxes. Although Chancellor Jeremy Hunt has tried to temper expectations slightly among the increasingly fractious Conservatives, the government is still widely expected to cut taxes in the Budget. Options on the table include cutting the basic rate of income tax by 1p or cancelling the Personal Allowance freeze, both of which would cost around £7bn. The planned increase to fuel duty will also almost certainly be scrapped at a cost of £2bn next year.

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Foreign direct investment in China falls to lowest level in decades.

China reported its smallest annual foreign direct investment since the 1990s last year, as the world's second-largest economy struggled to recover from the pandemic and investors sought higher yields elsewhere. China's direct investment liabilities, a gauge of foreign capital flowing into the country, totalled about $33bn in 2023, according to data released recently by the State Administration of Foreign Exchange (SAFE). This was an 82% decline from the previous year and the lowest annual figure since 1993. The SAFE gauge is more volatile than other direct investment indicators as it includes a wider range of activities linked to foreign capital inflows. The reading comes as Beijing struggles to reignite the country's stagnant economy as it seeks to counter a property crisis, weak domestic demand and low investor confidence. Foreign direct investment has fallen amid geopolitical uncertainty. Beijing has also cracked down on foreign consultancies over the past year amid concerns that international businesses sharing sensitive information to clients could pose a national security threat. Higher interest rates in other markets have prompted foreign businesses to pull money out of China to chase higher yields elsewhere. "Most economists believe that the central banks of major developed economies will start… interest rate cuts," said Wang Chunying, SAFE's spokesperson, indicating that this could lessen the chance of withdrawals. China's benchmark CSI 300 stock index fell 11% in 2023 amid slowing growth and as policymakers' muted response to property market woes failed to reassure investors. On Monday the gauge rose more than 1% on return from a week-long lunar new year holiday. But that still left the index down 1% for the year to date despite state-backed buying efforts launched ahead of the holiday to shore up market confidence. Times calculations based on Chinese commerce ministry data compiled by Wind show that FDI fell 34% to Rmb72.8bn ($10bn) year on year in September, the biggest decline since monthly figures became available in 2014. The latest SAFE reading offered some grounds for optimism. In the fourth quarter of 2023, there were $17.4bn of investments. This followed a deficit, the first ever, in the third quarter, SAFE data showed. In another sign of resilience, direct investment in China by German companies reached a record $13bn last year, according to a German Economic Institute report.

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Is a four-day week the future?

During the second half of 2022, 2,900 workers across 61 companies in the UK took part in a trial that involved reducing to a standard four-day working week. While it was implemented in slightly different ways by the businesses taking part, they all maintained staff wages at 100% of a five-day week salary. Although there has been a lot of positive feedback from those companies that took part in the trial, in the public sector the direction of travel seems different. On 26 October 2023, the UK government issued a publication in which it stated that local authorities should immediately cease any trials they are conducting on a four-day working week, as it is believed that reducing a local authority's potential capacity by 20% does not offer value for money for taxpayers. The typical model involves reducing the working week to 32 hours worked over four days, so eight hours per day. The key is that there should be no corresponding reduction in pay. However, many more employers already allow what is known as 'compressed hours', where a member of staff works full-time hours (35, 37.5 or 40, for example) over a four-day period, rather than five days. In the trial, some companies adopted a 'Friday off' approach, some staggered the day off so that there was full coverage across the working week, and some adopted an annualised approach.

What were the key findings from the trial?

- Of the 61 companies that took part, 56 are continuing with the trial, with many of them extending it, and 18 companies permanently changing to a four-day week.
- Of the 2,900 employees in the trial, 71% reported feeling reduced levels of burnout.
- Revenues of the companies involved rose on average by 1.4% during the trial.
- There was a 65% reduction in the number of sick days during the trial.
- The number of staff leaving the participating companies dropped by 57% during the trial period.

Many other organisations across the UK are conducting their own trials. Online bank Atom Bank saw a 500% increase in job applications almost immediately after it announced it was introducing a four-day week for its 430 staff.

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Bank will seek better news before acting.

UK inflation was 4% in the year to January, unchanged on December 2023. While this was lower than market expectations of an increase to 4.2%, it still reduces the likelihood of an interest rate cut by the Bank of England before the summer. The latest Consumer Prices Index (CPI) from the Office for National Statistics (ONS) shows that prices fell by 0.6% in January itself, the same rate as January 2023. Core CPI, which leaves out volatile data relating to energy, food, alcohol, and tobacco, rose by 5.1% in the year to January 2024, compared with a figure of 5.2% recorded a month earlier. CPI including owner-occupiers' costs (CPIH) rose by 4.2% in the 12 months to January 2024, the same rate as a month earlier. On a monthly basis, CPIH fell by 0.4% in January, the same rate as January last year. The ONS said the largest contribution to the monthly change in both the CPI and CPIH rates came from housing and household services, mainly through higher gas and electricity charges (the energy price cap rose by 5% on 1 January). These were offset by falls in the cost of furniture and household goods, food, and non-alcoholic drinks. Experts commented that inflation was unchanged in January, reflecting counteracting effects within the basket of goods and services. The price of gas and electricity rose at a higher rate than this time last year due to the increase in the energy price cap, while the cost of second-hand cars went up for the first time since May. Offsetting these, prices of furniture and household goods decreased by more than a year ago and food prices fell on the month for the first time in over two years. All of these factors combined resulted in no change to the headline rate. The Bank of England, which is required by the government to maintain long-term UK inflation at 2%, has kept interest rates on hold at a 15-year high of 5.25% since August 2023. Earlier this month, the Bank's rate-setting Monetary Policy Committee maintained a cautious tone, saying it needs more evidence that inflationary pressures have eased before it will consider bringing down borrowing costs. The next Bank Rate announcement is on 21 March.

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New laws 'guarantee' privacy for digital pound users amid Bitcoin concerns.

The Treasury and Bank of England are attempting to smooth concerns over snooping on digital pound spending, with upcoming legislation set to protect user privacy. Following public resistance to the proposed central bank digital currency (CBDC) nicknamed 'Britcoin', officials plan to assure Parliament that personal data access will be off-limits. CBDC is a digital form of cash which will be created by the Bank of England, unlike existing digital payments which are created through the private sector. It is not intended to replace cash. The Bank suggests it is "likely to be needed in future" as digital payments become ever more important in the economy. The future legislation will "guarantee" that both the Treasury and the Bank are unable to monitor spending habits or access individual data tied to the digital pound. In response to consultations, more than 50,000 people expressed concerns over privacy and the possibility of cash disappearing with the proposed introduction of a digital pound by 2030. The upcoming laws will also likely keep spending limits between £10,000 to £20,000, despite worries that letting people spend that much could trigger bank runs and risk lenders running out of cash. In the banking sector, there are concerns that a digital pound could reduce the level of deposits at commercial banks, having knock-on effects on lending in the wider economy. Modelling by the Bank of England suggests that up to 20% of commercial bank deposits could move out of bank accounts into digital pound wallets if the government adopts CBDC. According to its annual report, the Bank has spent £13m across two years mulling over the digital pound.

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Jeremy Hunt's budget giveaway 'will act as a sweet filling in tax sandwhich'.

Jeremy Hunt's expected pre-election giveaway budget will be sandwiched between £20bn of tax increases already implemented and a further £17bn of hikes pencilled in for after polling day, a thinktank has said. The Resolution Foundation said it expected Hunt to freeze fuel duty and cut income tax on 6 March but warned the chancellor's "tax sandwich" was based on the "fiscal fiction" of £30bn of spending cuts in the next parliament. Coinciding with the release of the last set of figures for the public finances before the budget, a report from the thinktank said lower interest rates would reduce government borrowing and increase Hunt's room for manoeuvre by £10bn to £23bn. A separate study by Capital Economics said it expected Hunt to have only £15bn to play with but, like the Resolution Foundation, the consultancy said it was pencilling in tax cuts of about £10bn in the budget. Commentors say the chancellor may see some small improvements to the outlook for the public finances ahead of his March budget. They believe he and the prime minister have made it clear they'll spend any improvement on pre-election tax cuts. But what Britain is being offered is really a 'tax sandwich' say some. Juicy tax cuts in this election year are sandwiched between far bigger tax rises already introduced last year. And highly unusually, the government has already announced plans for a chunky package of tax rises that will come into effect after polling day. History also tells us those future tax rises will be even bigger, as governments tend to hike taxes early in a new parliament. Implausibly large cuts to public services that are pencilled in for after the election mean history may well be about to repeat itself. Among the options for the chancellor are to scrap the planned 5p increase in fuel duty at a cost of £2bn next year, cutting the basic rate of income tax by 1p or cancelling the personal allowance freeze in 2024-25 (£7bn each), cutting employee national insurance by 1p (£5bn), raising the child benefit withdrawal threshold from £50,000 to £70,000 (£2bn) or abolishing it altogether (£4bn). Tax increases already announced for after the election include higher stamp duty and three further years of income tax threshold freezes.

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