

Calm budget reflection suggests that Sunak has not as y...

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It is time for calm budget reflection. Or rather, as calm a budget reflection as can be delivered on a day when the world appears to be moving into lockdown.

First, and most obviously foremost, it is apparent that the government does really believe that the coronavirus epidemic is going to cause substantial economic harm to the UK. The clearest indication of this did not come from the budget itself, but rather from the last action of Mark Carney whilst at the Bank of England, because the cut in interest rates of 0.5% announced hours before the budget took place has all his hallmarks on it. It was a closing mark of frustration, making clear the limits of what the Bank could do: this was a clear throwing down of the gauntlet to the Treasury that effectively demanded fiscal policy from them. At the same time lines of credit were created and the hint that quantitative easing will be used was given and both tied the hands of his successor, quite successfully. It is apparent that Carney wanted the last word and got it.

Second, despite all the enthusiastic comments in the press the suggested support for small businesses on coronavirus appears feeble, overall. It is true that the arrangements on statutory sick pay are welcome, but at present it is not clear how long it will take for the government to compensate small businesses for the cash that they have to pay, and given that cash flow is king at present, this could be crippling. The fact that statutory sick pay will also only be paid for 14 days is quite absurd: it is entirely possible that a person will have to self isolate for coronavirus more than once, and given that a period of isolation is likely to precede any period of sickness the chance that this will last for longer than 14 days is very high, in which case the offer of compensation appears far less significant than many of the headline writers would suggest. I suggest that the cost to many SMEs will remain crippling.

The other positive move for small businesses is the relief from business rates. Clearly this is of use. But, the loss that is hitting many High Streets comes from the departure of large chains and there was no relief for them even though they are going to be hit very hard indeed by coronavirus and this appears to be particularly shortsighted.

As for the rest of the suppose the business support measures, As I noted yesterday the total package comes to an apparent £7 billion and there are 5 million small businesses in the UK, meaning that support will, on average, come to just £1,400 each, which will be far too little to help many of them by very much. Let us not get over excited by this. The number of small business casualties arising from the coronavirus will, with this level of support, be significant, with substantial job losses following, and significant impact on GDP as well as long-term economic prospects. My suggestion remains that the overall level of support is, firstly, less than the headline writers are suggesting and, secondly, of substantially less significance than they imply. Sunak has delivered a package of far less use the many might have expected when realities begin to hit.

My suspicion is that as a result Sunak will be back at the Dispatch Box much sooner than any of the papers expect. The Bank of England might have correctly appraised the risk that we face, but Sunak has not and as a result the prospect of an emergency budget within a few weeks is real: if that happens expect significant cuts in VAT, the extension of support to bigger business, increased statutory sick pay repayment, and the issue that I have been talking about but which was totally ignored in this package, being mandatory bank loan term extensions and rent holidays, to be addressed. Automatic tax payment extension period will also be on the agenda then: there are simply not going to be enough people to process requests at present. It would seem that the government have simply not got their head around this.

Turning to the rest of the package, three things really stand out. Of these the first to note was the extraordinary absence of almost any significant measures with regard to tax, some minor changes to VAT on electronic books and newspapers (which will help Murdoch greatly), sanitary products and pensions apart (with the latter increasing the aggressiveness of the tax system). The change to entrepreneurs relief was timid; the lack of a mansion tax notable, and the absence of an overall restriction on tax relief for those on high pay quite apparent. What would seem to be clear is that if there is to be any levelling up in the UK it is not to be done via the tax system and that has, of course, to be an opportunity lost. Wealth inequality is not, in other words, anywhere near this government's agenda.

The second big feature was the announcement that fiscal rules are to be reviewed. Although it was claimed that the budget package would comply with the fiscal rule included in the Tory election manifesto, I do not think that any serious observer thinks that this will happen. I would suggest that Rishi Sunak has set him self up for long-term ridicule by suggesting that growth will continue, albeit at low rates, throughout this Parliament, and that it is possible for debt to fall as a ratio of GDP when a combination of worldwide recession, Brexit and the short-term impact of coronavirus make almost anyone with any sense think that this is a wholly unrealistic proposition. The suggestion that fiscal rules will be reviewed was welcome: my suggestion is that in the face of the crisis to come what we need is something entirely different, which is an awareness that the enormous deficits that are going to arise must be used for creative purpose, which

will embrace the Green New Deal.

This then brings me to my final point, which is the supposed claim by some newspapers that 'we are all Keynesians now' because Sunak is to borrow at least £30 billion a year more to pay for his programme, much of which will be for investment in wholly inappropriate assets like roads when the real need is for housing, green investment, and local public transport infrastructure, all of which was ignored. If this is Keynesian, it represents a mild dose of it. It is also deluded, because what it very clearly implies is that Sunak believes that he still has control of the public finances, [when as I suggested yesterday](#), this is something that he cannot control if the whole of the private sector (made up of households, businesses and those from outside the UK who have sterling balances) decide to save. What is clear is that the Treasury remains a very long way from understanding the task that it is really going to face, which will require that it put the UK economy back on track after the crisis that is about to hit it, the impact which is going to last for quite a number of years. Unless it truly embraces the use of deficit funding in a way that the Treasury has never done to date then we are in trouble. Nothing Sunak did yesterday suggests that he has any awareness of the scale of the task that he faces. And that worries me.