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UK Households Increase Savings as Reeves's Fiscal Policies Signal Further Tax Hikes

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UK households are saving a larger share of their disposable income under the current Labour government, a shift partly attributed to Chancellor Rachel Reeves' firm stance on fiscal discipline and anticipated tax increases. Official figures show savings rates are at their highest in nearly three years, reflecting heightened financial caution among families.

Data from the Office for National Statistics (ONS) reveals that the household saving ratio, the proportion of disposable income not spent, rose to 11.1% in the first quarter of 2024. This marks a notable increase from 9.3% in the final quarter of 2023 and represents the highest level recorded since the third quarter of 2021. Analysts suggest the rise is partly due to growing expectations of future tax burdens, prompting households to bolster their financial reserves.

Chancellor of the Exchequer Rachel Reeves has emphasised a no-nonsense approach to managing public finances. Speaking recently, she reiterated her commitment to fiscal responsibility, stating, “Every commitment we make must be fully funded. That’s the approach I will bring to the Treasury.” Reeves has also rejected the idea of excessive government borrowing, warning there is “no magic money tree.”

Meanwhile, economic analysts are forecasting further tax increases. According to a June report from the London-based consultancy Capital Economics, tax rises in the upcoming Autumn Budget appear increasingly likely. Despite public sector borrowing being £2.9 billion lower than forecast by the Office for Budget Responsibility (OBR) during the first two months of the fiscal year, mounting pressures on public finances remain.

Capital Economics has warned that the OBR may revise its debt interest payments and overall borrowing forecasts upward in the Autumn Budget, citing increased borrowing costs and tighter public spending plans. This could erode the Chancellor’s current £9.9 billion fiscal buffer, the amount by which she is meeting her fiscal mandate.

The consultancy estimates Reeves may need to raise between £13 billion and £23 billion later this year to preserve that buffer. Analysts added that recent reversals on welfare spending, downward adjustments to productivity forecasts, and rising debt servicing costs could further intensify the need for tax increases.

Given current market sensitivity to elevated borrowing levels, any substantial deviation in fiscal policy could trigger reactions in the gilt market, the UK government bond market, potentially limiting the Chancellor’s room for manoeuvre.

As households brace for potential fiscal tightening, the rising savings rate may reflect a broader sense of economic prudence under a government signalling firm control over spending and taxation.