The Welfare Effects of Energy Bill Support in 2026–27

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Abstract

Using the model of Olivi, Sterk and Xhani (2026), this note evaluates three temporary measures that support UK households with their energy bills: the electricity VAT cut of October 2026 to March 2027, and two measures announced in the Budget of 28 October 2026, namely its extension to June 2027 and a £100 payment to households in Council Tax bands A–D. Together, the measures reduce welfare by about £2.45 per household. The reason is distributional. The households hit hardest by today's higher prices and interest rates are mortgaged households with relatively high incomes. For these households the package is a double whammy: they gain little from the measures, yet ultimately still help pay for them through higher taxes, which makes them net losers. Their losses dominate in the aggregate, even though the estimated welfare function gives them much lower weights than low-income households.

1 The policies

(i) **VAT cut.** On 21 July 2026 the government announced that VAT on domestic electricity would fall from 5% to 0% from 1 October 2026 to the end of March 2027. The cut applies to electricity only. It was costed at about £850 million and financed by scrapping the planned digital ID scheme.

(ii) **VAT cut extension.** The Budget of 28 October 2026 extends the 0% rate to 1 July 2027. It is expected to take about £50 off the annual price cap in April 2027 and is costed at £305 million in 2027–28.

(iii) **Household Energy Payment.** The Budget pays £100 to households in Council Tax bands A–D in England from January 2027, through the Council Tax system. Up to 20 million households are covered, and the cost is £2.6 billion including the devolved governments' Barnett shares.

The Budget finances (ii) and (iii) partly by raising the Bank Corporation Tax Surcharge from 3% to 6% between January 2027 and March 2028. We do not consider the changes to standing

charges announced in the Budget.[1] We also leave out the removal of Carbon Price Support from April 2028.

Approach. We evaluate the three policies in the model of Olivi, Sterk and Xhani (2026). This is a multi-sector New Keynesian model with rich household heterogeneity in income, wealth and consumption baskets. It is matched to UK household micro data, so it captures who bears the cost of changes in sectoral prices and who benefits from policies. At the same time it accounts for their macroeconomic effects, on output, inflation and interest rates, and for the distortions they create. The payment's recipients are described in Appendix A. Because the VAT measures apply to electricity only, energy consumption is a CES aggregate of an electricity and a gas bundle. This is a preference nest within the energy sector, not a separate sector. The electricity share is the same for all households, and the two fuels share the production side. The model therefore keeps its eight sectors, and the split adds only the distortion of the choice between electricity and gas to the welfare loss. The baseline starts from the observed sectoral prices and Bank Rate in 2026. It matches the Ofgem caps for October 2026 and January 2027 and the market path for Bank Rate to the end of 2027 (Appendix B). Policies (ii) and (iii) are announced in 2026Q4 and evaluated on top of a baseline that includes (i). All three are financed by lump-sum taxes proportional to labour income.[2] Welfare effects are in pounds per household in the paper's 2019 LCF units (+ = gain).

Welfare criterion. Welfare is measured by the second-order approximation to the social welfare function derived in Olivi, Sterk and Xhani (2026). It is evaluated around an efficient steady state and has four components:

- *within-sector inflation*: price dispersion across varieties within a sector, as in the textbook New Keynesian model;
- *between-sector inflation*: distortions of relative sectoral prices. A price subsidy affects this component directly, because it induces over-consumption of the subsidised good; it also includes the distortion of the choice between electricity and gas;
- *the output gap*: labour-market inefficiencies from markups that distort real wages;
- *redistribution*: fluctuations in each household's real budget relative to other households, caused by prices, interest rates and transfers. These are weighted by social welfare weights and split between hand-to-mouth and other households.

[1] Gas standing charges are to be abolished from the end of 2027 at the earliest, with targeted mitigation still to be set out, and the reform of electricity standing charges will be detailed next year. Neither measure is fully specified in the Budget.

[2] The Budget finances the measures partly through a temporary increase in the Bank Surcharge. Such a tax may be more progressive than taxes proportional to labour income, but that would likely increase the welfare loss.

The welfare weights are disciplined by data. Following Olivi, Sterk and Xhani (2026), they are estimated from how taxes and transfers moved with household income over the business cycle in the LCF (2002–2019). If the planner places a high weight on a group of households, the tax-and-transfer system should stabilise that group's income more strongly after shocks, so the observed cyclical movements reveal the weights. The estimates are fitted to each household in the 2019 cross-section and rescaled to have the same mean as the linear (Negishi–Pareto) weights, $g(i) = E/(\sigma e(i) + \psi W n(i))$. Appendix Figure 2 shows their distribution. Both sets of weights fall steeply with household expenditure, but the estimated weights vary considerably across households with similar expenditure. Results with linear weights are reported in Appendix D.

2 Results

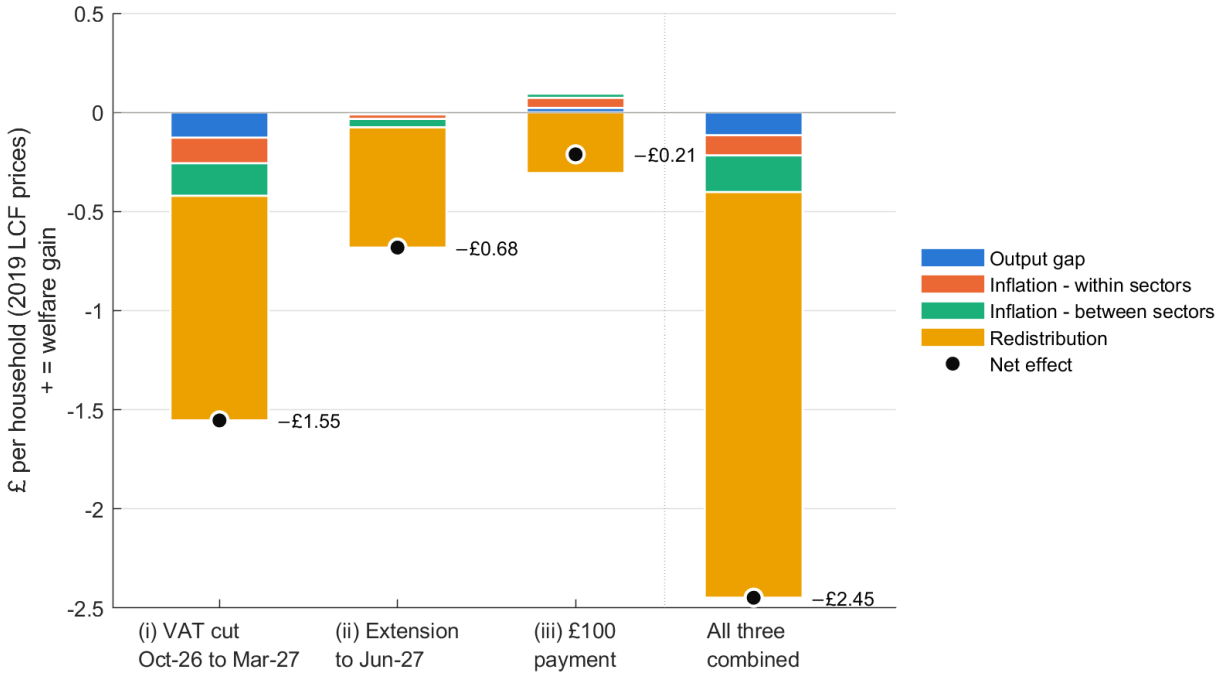


Figure 1: Welfare effect of each policy and of the three combined (£ per household, 2019 LCF units; + = gain). Bars stack the components of the loss (redistribution combines hand-to-mouth and other households); dots give the net effect. Each policy is evaluated relative to the baseline without it; for (ii) and (iii) the baseline includes (i). "All three combined" compares the baseline with all three policies to the baseline with none.

Figure 1 and the detailed results in Appendix C (Tables 2–3) give six findings.

1. **All three policies reduce welfare.** The VAT cut costs £1.55 per household, or 9.2p per £1 of fiscal cost; scaled to the official cost of £850m, about £2.70 per household. The extension costs £0.68 (8.2p per £1), and the payment £0.21 (0.35p per £1). These losses arise even though the welfare function places a much higher weight on lower-income households. A

household in the bottom expenditure decile has on average about five times the weight of one in the top decile (Appendix Figure 2). A planner who values redistribution towards the poor would therefore still not choose these policies in the current environment.

2. **Combined, the three policies reduce welfare by £2.45 per household**, or 2.9p per £1 of their joint fiscal cost of £85.43. This is the sum of the three individual effects: the cross term between (ii) and (iii) is below £0.001, and those with (i) are already included in the effects of (ii) and (iii). Redistribution accounts for 84% of the combined loss: £1.20 for hand-to-mouth households and £0.85 for other households. The two VAT measures account for 91% of the loss but only 30% of the cost.

3. **Macro channels are quantitatively important.** In partial equilibrium, the three policies together cost £0.44 per household. This holds producer prices, wages, output and interest rates at their baseline paths and switches only the policy instruments. Accounting for households' exposure to the macro variables doubles the loss to £0.88. Accounting for the policies' general-equilibrium effects on prices, output and Bank Rate raises it to £2.45. More than four fifths of the loss therefore comes from macro channels (Appendix Figure 5). For the VAT cut and its extension, the total loss is nine and eleven times the partial-equilibrium one; for the payment, the macro channels roughly net out.

4. **Redistribution dominates.** In partial equilibrium the VAT cut mainly distorts the consumption basket (−£0.14). Once macro effects are included, the redistribution terms account for almost three quarters of the loss of the VAT cut and for nearly 90% of the loss of the extension. Appendix Figure 6 shows why. The shock, and in particular the rise in interest rates, hits borrowers with high labour income hardest and benefits savers with low labour income, many of them pensioners. The VAT measures redistribute in the same direction, towards households with high energy shares and little labour income.

5. **Per pound, the payment costs much less than the price subsidies.** It is more than 20 times cheaper in welfare per pound of fiscal cost than either VAT measure. Its recipients are more exposed to the energy price peak (a cross term of +£0.06). But they were on average less affected by the price shocks in the other sectors (−£0.18) and by the high Bank Rate (−£0.04). That rate bears mostly on mortgagors, only 64% of whom receive the payment. This is the paper's point that the households most exposed to a combined price and interest rate shock are not the poorest. A universal payment of the same cost would reduce welfare by more, £0.33 (Table 4).

6. **The losses are much smaller than those of the 2022–24 package.** Olivi, Sterk and Xhani (2026) find that the Energy Price Guarantee and the Cost-of-Living payments together reduced welfare by about £124 per household, some 50 times the £2.45 found here. The main reason is that today's package is much smaller.

References

Olivi, A., V. Sterk and D. Xhani (2026), "The Macroeconomic and Welfare Effects of Targeted Inflation Support Packages", manuscript, University College London.

A Model and mapping

Model. The model is that of Olivi, Sterk and Xhani (2026) with its current calibration. It has eight COICOP sectors with Calvo pricing and input-output linkages, and non-homothetic household demand estimated on the 2019 LCF cross-section. A share of hand-to-mouth households (0.30 on average) is calibrated by age. Monetary policy follows the Nakamura–Steinsson rule, $\hat{R}_t = \phi_\pi \pi^{1y}_{core,t} + \phi_{\tilde{\mathcal{Y}}} \tilde{\mathcal{Y}}_t + \phi_R \hat{R}_{t-1} + \varepsilon^R_t$, which looks through food and energy. Welfare is the paper's second-order loss with its estimated social welfare weights (Section 1 and Figure 2). Results with linear weights are reported as a sensitivity check.

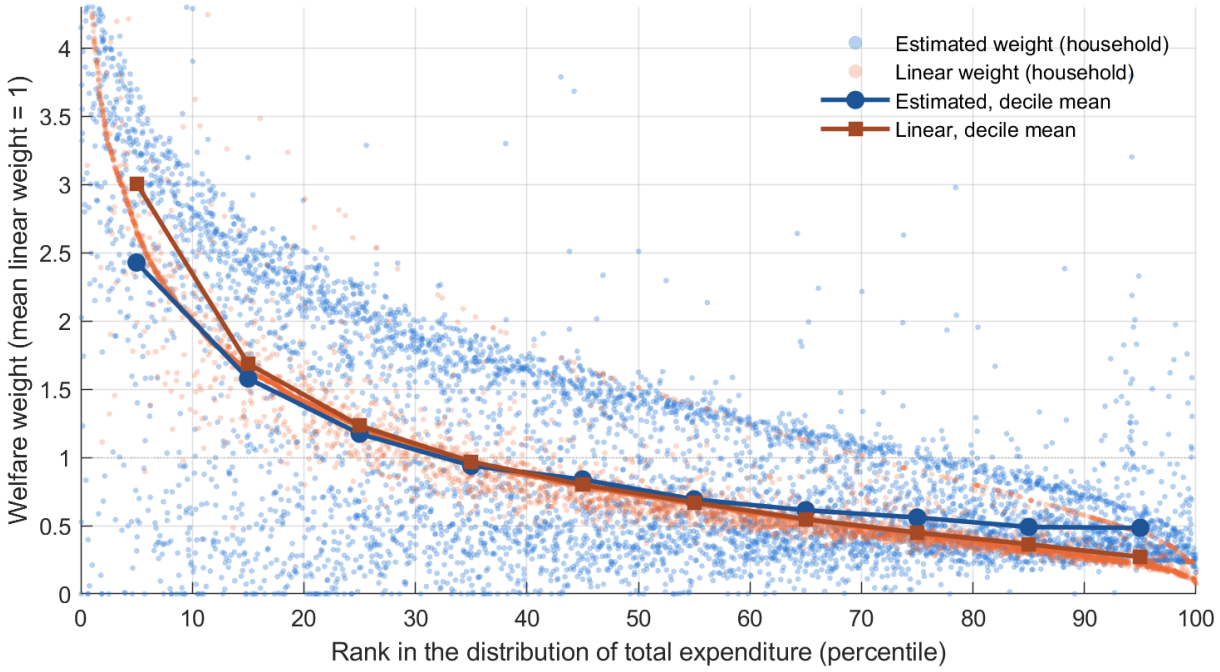


Figure 2: Social welfare weights. Each dot is a household in the 2019 LCF, plotted against its rank in the distribution of total expenditure. Blue: estimated weights; orange: linear (Negishi–Pareto) weights. Lines give population-weighted decile means. Both sets of weights are scaled so that the mean linear weight is 1. Households with negative estimated weights (about 1%) are not shown.

Electricity and gas. The VAT cut applies to electricity only, so the combined Electricity & Gas sector is split into an electricity and a gas bundle, combined with elasticity η_{EG}. The two bundles share the electricity share ω_{elec}, which is the same for all households, and the production side. The VAT cut then drives a wedge of $\ln 1.05$ between their consumer prices. The consumer price of energy falls by $\tau_E = \omega_{\text{elec}} \ln 1.05$, exactly like the Energy Price Guarantee in the paper. Under these assumptions the nine-sector model aggregates exactly to the eight-sector model, except for one additional loss term from the distortion of the choice between electricity and gas,

$$\Delta \mathcal{L}^{\text{nest}} = (1-\beta)\, \eta_{EG}\, \bar{s}_E\, \omega_{\text{elec}} (1-\omega_{\text{elec}}) \sum_t \beta^{t-1} \left(\hat{Q}_{el,t} - \hat{Q}_{g,t}\right)^2, \tag{1}$$

reported under between-sector inflation. Under the October 2026 cap, the typical bill of £1,723 consists of £858 for electricity and £866 for gas, so $\omega_{\text{elec}} = 0.498$ and $\tau_E = 0.0243$. The consumer price of electricity falls by 4.9% and that of energy by 2.4%. We set $\eta_{EG} = 0.1$, reflecting the limited scope for switching fuels in the short run.

The three policies in the model.

(i) VAT cut: $\tau_E = 0.0243$ in 2026Q4 and 2027Q1. It is announced in 2026Q3 (period 1), and households and firms have perfect foresight of its path, including its expiry.

(ii) Extension: $\tau_E = 0.0243$ in 2027Q2.

(iii) Payment: £100 in 2027Q1, £75 in 2019 prices, to households in bands A–D. The LCF does not record Council Tax bands, so we impute them. Renters are assumed to be in bands A–D. Within each region, the owner-occupiers with the highest total expenditure are assigned to bands E–H, so that the share of households in E–H matches the VOA's regional share of dwellings in those bands (March 2025). That share ranges from 8% in the North East to 31% in London, and is 19% in England. Scotland, Wales and Northern Ireland are given the England share. The imputed recipients are 81% of households. They include all households in the bottom two expenditure quintiles, 28% of the top quintile, 95% of households on means-tested benefits, 80% of hand-to-mouth households and 64% of mortgagors.

Policies (ii) and (iii) were not anticipated in 2026Q3 and enter as news in 2026Q4. They are evaluated on top of the baseline, which includes policy (i). All three are financed with a balanced budget through lump-sum taxes proportional to steady-state labour income, as in the paper. For the price subsidies this financing is embedded in the loss function; for the payment it is an explicit tax, $c^T = -\bar{\tau}' F$. The fiscal costs in the model are £16.90, £8.32 and £60.21 per household in 2019 LCF units. These correspond to £480m, £317m and £2.3bn nationally at 2026 prices (official: £850m, £305m and £2.6bn).

Welfare. Following Section 4.2 of the paper, the *total* effect compares the loss along the baseline with and without the policy. The *partial equilibrium* (PE) effect holds producer prices and macro variables at their baseline values and switches only the policy instruments on and off in the loss. PE+ME adds the macro variables. The eleven loss terms are grouped as in the paper: output gap, within-sector inflation, between-sector inflation (including the electricity-gas term), and redistribution for non-hand-to-mouth and hand-to-mouth households. Losses are converted to pounds per household as in the paper, $-\frac{1}{2}\frac{E}{N}\frac{1}{1-\beta}\Delta\mathcal{L}$, in 2019 LCF spending units. Welfare per pound of fiscal cost is unaffected by this scaling.

B The baseline

The welfare effect of a small temporary policy depends mostly on its interaction with the paths it is introduced into, so the baseline starts from the state of the economy in 2026.

- **Initial conditions.** Lagged sectoral price levels (2025Q3–2026Q2) are taken from the ONS CPI indices for the eight COICOP divisions, relative to 2022Q1 and net of a 2% trend. Bank Rate in 2026Q2 is 3.75%, against a neutral rate of 3.25%. In 2026Q2, energy, food and restaurants and hotels are 8–11% more expensive relative to other goods than in 2022Q1.
- **Non-energy sectors.** The productivity of each sector is inverted so that its price level matches the data in 2026Q3; the shocks then decay at 0.7 per quarter. They are largest for food and for restaurants and hotels.
- **Energy.** Energy productivity is inverted so that the consumer energy price matches the data in 2026Q3 and the Ofgem caps for October 2026 (£1,723) and January 2027 (£1,999, Cornwall Insight, 30 September 2026). Both caps include the VAT cut, so they are matched by the consumer price *with* the cut. The January rise arrives as news in 2026Q4, and the shock decays at 0.7 per quarter afterwards (Table 1).
- **Bank Rate.** Monetary policy shocks align Bank Rate with 3.75% in 2026Q3 and with the market path to 2027Q4 (quarterly averages 3.92%, 4.25%, 4.50%, 4.70% and 4.85%). The rule applies from 2028Q1. The shocks are small: the rule alone gives a similar path.

Table 1: Baseline energy prices

Quarter	Cap (£/yr)	Consumer price (%, with cut)	Producer price (%, approx.)	Productivity (log points)
2026Q3	1,663	18.3	18.3	−0.165
2026Q4	1,723	21.4	23.8	−0.171
2027Q1	1,999	35.7	38.1	−0.333
2027Q2 onwards	–	–	–	$-0.333 \times 0.7^{t-3}$

Notes: Prices relative to 2022Q1, net of the 2% target. Caps on Ofgem's new consumption basis.

In the model, CPI inflation is 2.0 percentage points (annualised) above target in 2026Q3, against 1.6 in the data. It peaks at 4.6 points above target in 2027Q1 and then falls below target as energy prices decline (Figure 3). The consumer energy price peaks at 36% above its 2022Q1 relative level. The output gap is positive, and the nominal wage is 3–5% below its steady-state path, because the model attributes high relative prices to low productivity. Neither is targeted.

C Detailed results

Macroeconomic effects. Figure 4 shows the effect of each policy alone. Because the model is linear, these effects do not depend on the baseline. The VAT cut and its extension lower the

consumer price of energy by 2.4% in each quarter they apply. Consumer CPI inflation falls by about 0.55 points (annualised) when each starts and rises by the same amount when it ends. They raise the output gap by about 0.08%, through the supply wedge in the Phillips curve and the anticipated expiry in the Euler equation. Bank Rate rises by at most 1.5 basis points. The macroeconomic effects of the payment are negligible.

Table 2: Welfare effects (£ per household, 2019 LCF units; + = gain)

	(i) VAT cut Oct-26–Mar-27	(ii) Extension to Jun-27	(iii) £100 payment	All three combined
Output gap	−0.127	−0.010	+0.022	−0.115
Inflation: within sectors	−0.129	−0.023	+0.051	−0.102
Inflation: between sectors	−0.164	−0.042	+0.022	−0.185
of which electricity vs gas	−0.021	−0.010	0.000	−0.031
Redistribution: non-HtM	−0.471	−0.231	−0.148	−0.851
Redistribution: HtM	−0.662	−0.376	−0.158	−1.196
Total	**−1.554**	**−0.682**	**−0.212**	**−2.448**
Memo: PE	−0.173	−0.062	−0.208	−0.444
Memo: PE+ME	−0.312	−0.159	−0.409	−0.881
Memo: against steady state	−0.096	−0.048	−0.069	−0.223
Memo: no looking through	−0.333	+0.095	−0.208	−0.447
Memo: fiscal cost	16.90	8.32	60.21	85.43
Memo: total per £ of fiscal cost	−0.092	−0.082	−0.004	−0.029

Notes: Total effect relative to the baseline without the policy; for (ii) and (iii), the baseline includes (i). Estimated welfare weights, $\eta_{EG} = 0.1$. "Against steady state": the policy alone, without the baseline shocks. "No looking through": total effect when the rule also responds to the mechanical effect of the policy on consumer energy prices, as in the paper. "All three combined" compares the baseline with all three policies to the baseline with none. Its total is the sum of the three individual totals, because the cross term between (ii) and (iii) is below £0.001. Its PE and PE+ME effects switch off all three policies at once.

Distributional effects. Figure 6 shows where the redistribution terms come from, following Figure 7 of Olivi, Sterk and Xhani (2026). Households are grouped by their net nominal position, distinguishing borrowers from savers, and by labour-income terciles. For each group, the figure plots the effect on the real budget relative to the average household, $I_t(i)$, in pounds per quarter. The black lines show the baseline shock without policy, split into prices and wages and into interest rates. The coloured lines show each policy: the change in $I_t(i)$ that it causes, including its general-equilibrium effects and its financing.

The shock redistributes mainly through interest rates. Over 2026Q3–2029Q2, higher rates cost borrowers with high labour income about £3,200 relative to the average household, and benefit savers with low labour income, a group that includes many pensioners, by about £14,500. The VAT measures redistribute in the same direction. The cut transfers about £90 to low-income savers and takes about £28 from high-income borrowers, because it subsidises households with high energy shares and is financed by taxes proportional to labour income; the extension does

Table 3: Total effect by baseline ingredient (£ per household)

	Policy alone	VAT cut (i)	Energy	Other sectors	Bank Rate gap	MP shocks	Total
(i) VAT cut	−0.096	–	−0.778	−0.684	−0.101	+0.106	−1.554
(ii) Extension	−0.048	+0.001	−0.304	−0.297	−0.041	+0.007	−0.682
(iii) £100 payment	−0.069	−0.010	+0.060	−0.184	−0.035	+0.026	−0.212
All three combined	−0.223	–	−1.022	−1.166	−0.176	+0.139	−2.448

Notes: The model is linear and the loss quadratic, so the total effect equals the effect of the policy alone (against the steady state, including the electricity-gas term) plus one cross term for each ingredient of the baseline. The ingredients are: energy (initial price level, inferred shocks and January news); the initial prices and inferred shocks of the seven non-energy sectors; the Bank Rate gap in 2026Q2; and the monetary policy shocks that align Bank Rate with the market path. For (ii) and (iii), the VAT cut is a further ingredient; for the three combined, it is part of the policy. The columns add up to the total; the code checks this.

the same on a smaller scale. The payment goes to the low- and middle-income groups (£53 and £26 for borrowers) and is financed mostly by high-income households (about −£65 for borrowers and −£98 for savers). It therefore also takes from high-income borrowers, the group that loses most from the shock, and gives to low-income savers (£39), who gain from it.

D Sensitivity

All three policies reduce welfare in every scenario in Table 4. The ranking is unchanged: per pound of fiscal cost, the payment is always far less costly than the two VAT measures. The neutral rate matters most, because it determines how far the market path for Bank Rate lies above steady state. With a neutral rate of 2.75% the losses are £2.07, £0.91 and £0.33; with 3.75% they are £1.04, £0.46 and £0.09. A more persistent energy shock lowers the loss from the VAT cut to £1.17 and changes the other two less. With Bank Rate tied to the market path, a lower January cap slightly *raises* the losses, because the monetary policy shocks then absorb a larger part of the rate path. Starting from steady state, the losses are about a third of the baseline ones or less, and the payment is almost neutral. The estimated welfare weights raise all losses relative to linear weights. The electricity-gas term is small at any plausible short-run elasticity.

The OBR's energy price path. The OBR's Economic and fiscal outlook of 28 October 2026 is conditioned on market prices for the 10 working days to 19 August. In that forecast the cap peaks at about £1,875 in 2027Q1. Wholesale gas falls from about 150p a therm at the end of 2026 to about 95p in late 2027 and just under 70p from mid-2028, and wholesale electricity falls from about £125/MWh to under £70. We construct a quarterly cap path from these figures. The non-wholesale part of the bill is 53% of the October cap, which is the OBR's figure of 47% for the wholesale share in 2026Q4, and grows at 2% a year. The wholesale part moves with an

Table 4: Sensitivity of the total welfare effect (£ per household)

	(i) VAT cut	(ii) Extension	(iii) £100 payment
Baseline	−1.554	−0.682	−0.212
Energy prices			
Jan-27 cap £1,872	−1.639	−0.692	−0.271
Jan-27 cap £2,118	−1.479	−0.673	−0.159
OBR energy path	−1.566	−0.620	−0.258
Energy shock decays at 0.9	−1.173	−0.634	−0.199
Interest rates and initial conditions			
Neutral rate 2.75%	−2.070	−0.908	−0.333
Neutral rate 3.75%	−1.037	−0.456	−0.090
Start from steady state	−0.444	−0.217	−0.013
Preferences and policy design			
Linear welfare weights	−1.297	−0.556	−0.083
$\eta_{EG} = 0$	−1.533	−0.672	−0.212
$\eta_{EG} = 0.3$	−1.595	−0.702	−0.212
Payment to all households (same cost)	–	–	−0.333

Notes: Each row changes one element of the baseline. "OBR energy path": caps of £1,875 in January 2027 and then £1,801, £1,726, £1,652, £1,578, £1,507 and £1,437 to July 2028 (see text). "Start from steady state": no initial conditions or shocks other than the energy path relative to July 2026; Bank Rate from the rule.

equally weighted index of wholesale gas and electricity prices, lagged one quarter. Compared with the baseline, the January peak is lower but energy prices decline more gradually. For the VAT cut the two effects almost offset each other. The extension costs a little less, because energy prices remain higher in 2027Q2, and the payment a little more, because the January peak is lower. The OBR notes that more recent external forecasts put the January cap at about £2,150.

E Caveats

- **Electricity versus gas.** The electricity share is common to all households and the two fuels share a production side. Households with electric heating or without a gas connection, who gain more from the VAT measures, are not distinguished. The value $\eta_{EG} = 0.1$ is calibrated, not estimated.
- **Initial conditions.** The loss is a second-order approximation around the steady state, evaluated as if household wealth were at its steady-state distribution in 2026Q3. Wealth positions built up since 2022 are not captured. The sectoral shocks are inferred from one quarter of prices and assumed to decay at 0.7 per quarter. Energy prices beyond January 2027 are an assumption; the OBR-consistent path is one alternative.
- **Financing.** The model finances all three policies by lump-sum taxes proportional to labour income in the period of payment. The VAT cut is in fact financed by savings over three years,

and the Budget measures partly by a temporary tax on bank profits, which may be passed on to borrowers and savers.

- **Pre-existing wedges.** The approximation is taken around an efficient steady state. Energy is already taxed at 5% against 20% on most goods, so cutting it further widens an existing distortion; the resulting first-order term is not captured.
- **Council Tax bands** are imputed from tenure, region and expenditure. Band reflects 1991 property values, so some low-spending owners live in high-band properties and some high-spending renters in low-band ones.
- **Welfare weights and data.** The fitted weights are negative for about 1% of households in the 2019 sample (population-weighted). Consumption baskets are from the 2019 LCF.

F Implementation and sources

The exercise is in `run_burnham.m` (MATLAB R2020b, Dynare 6.4), using copies of the paper's code (commit `aeeae19` of 27 October 2026) with the Cost-of-Living payments set to zero. Initial conditions are passed to Dynare as a `histval` block. All shocks are inverted jointly on the final baseline path, and policy-only simulations start from steady state, which by linearity is exact. The Budget measures are evaluated with `budget` = 1. Council Tax bands are imputed by `impute_ctax_AD.m`, and the payment uses a transfer column of the paper's Cost-of-Living machinery. The driver checks that the decompositions add up and that the electricity-gas term matches an explicit nine-sector evaluation of the loss. Figures are produced by `make_figs.m` and `make_slim_figs.m`.

Sources. Ofgem price caps (July and October 2026) and Ofgem's press release of 26 August 2026; Cornwall Insight's January 2027 forecast (30 September 2026); ONS CPI indices by COICOP division (MM23); Bank of England (Bank Rate) and secondary reports of OIS and SONIA pricing (October 2026); HM Treasury, *Budget 2026* (28 October 2026); OBR, *Economic and fiscal outlook*, October 2026; VOA, *Council Tax: stock of properties, 2025* (Table CTSOP1.0).

Olivi, A., V. Sterk and D. Xhani (2026), "The Macroeconomic and Welfare Effects of Targeted Inflation Support Packages", manuscript.

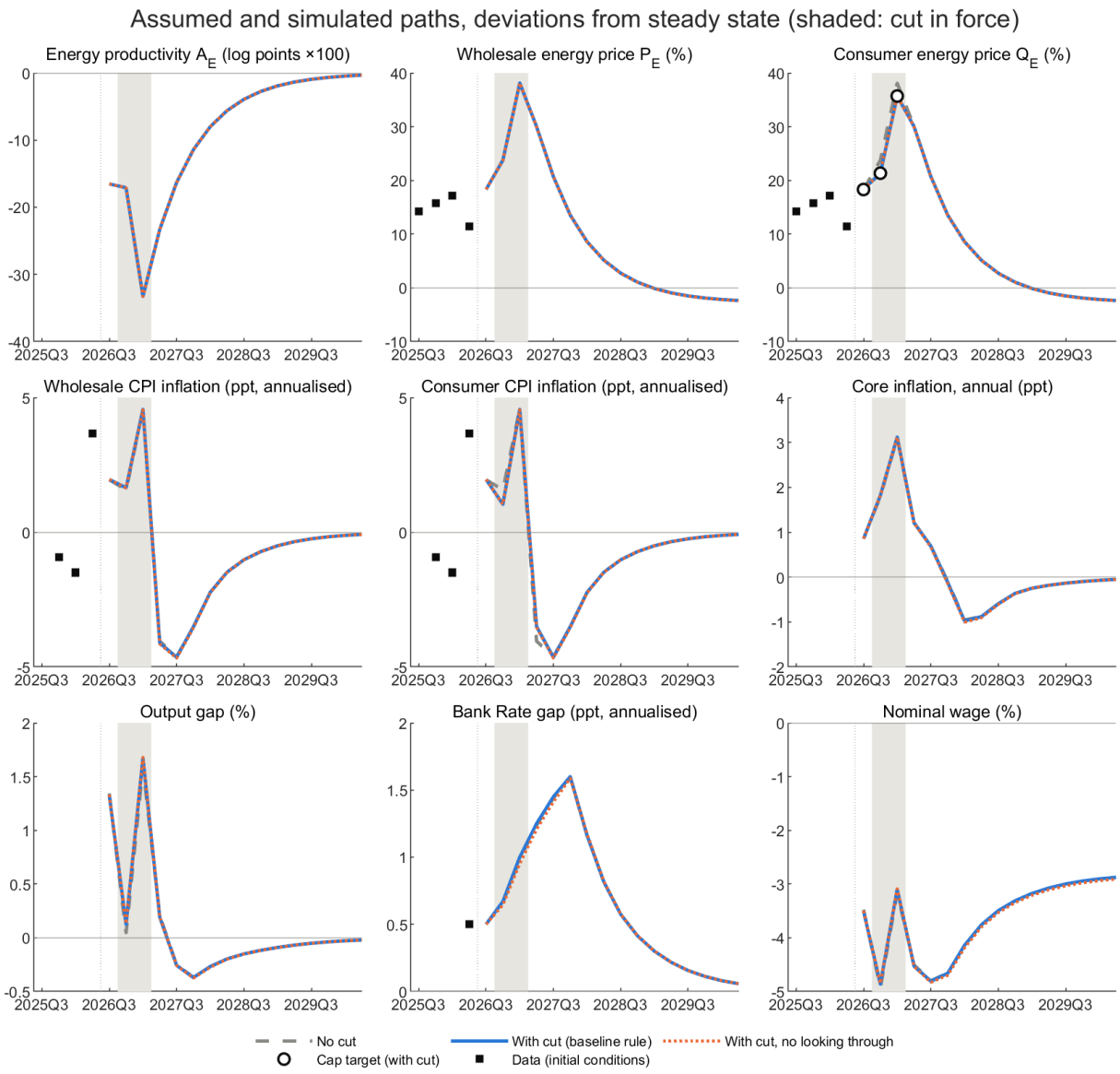


Figure 3: Initial conditions and simulated baseline (deviations from steady state). Squares: data used as initial conditions. "No cut": counterfactual without policy (i); "with cut": baseline; "no looking through": alternative rule. Circles: consumer energy price targets. Shaded: VAT cut in force.

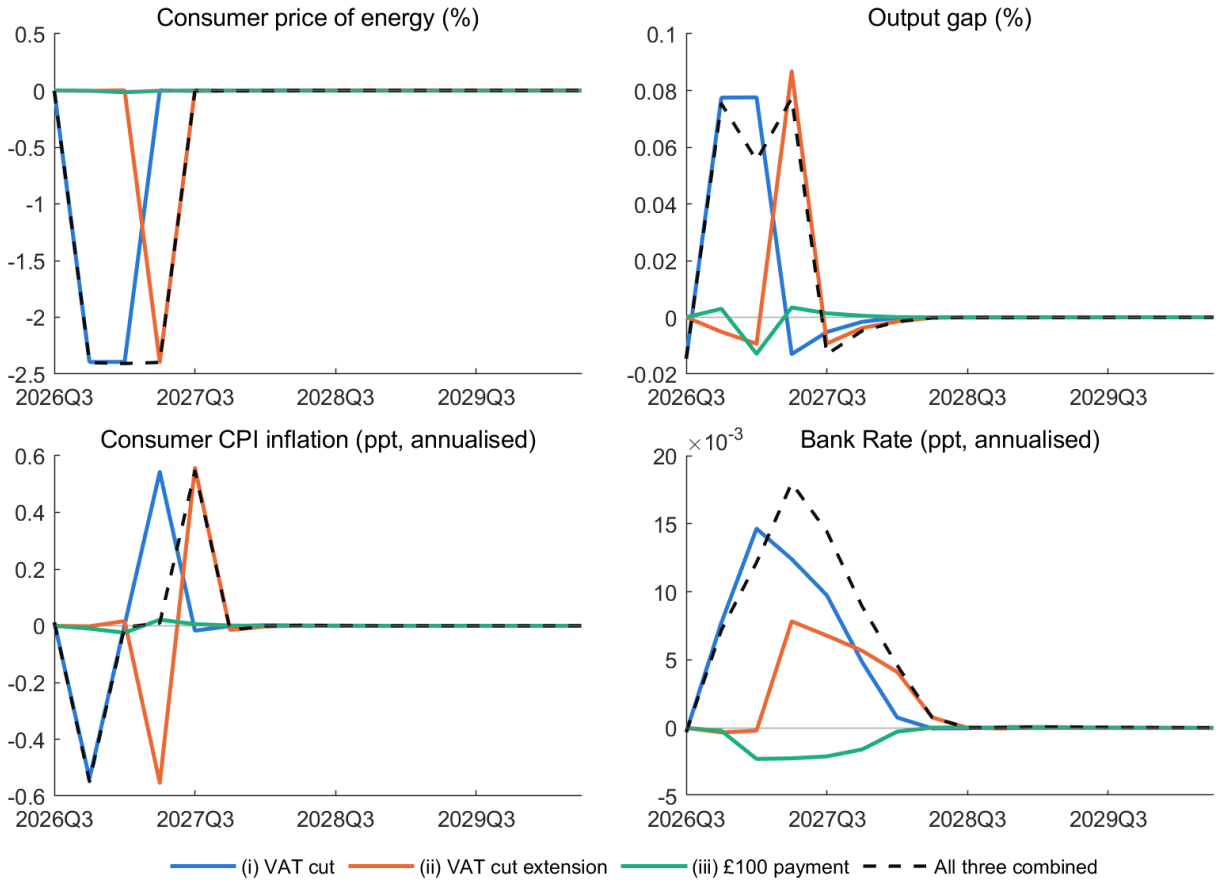


Figure 4: Effects of each policy alone and of the three combined (dashed), relative to no policy. Policies (ii) and (iii) are announced in 2026Q4.

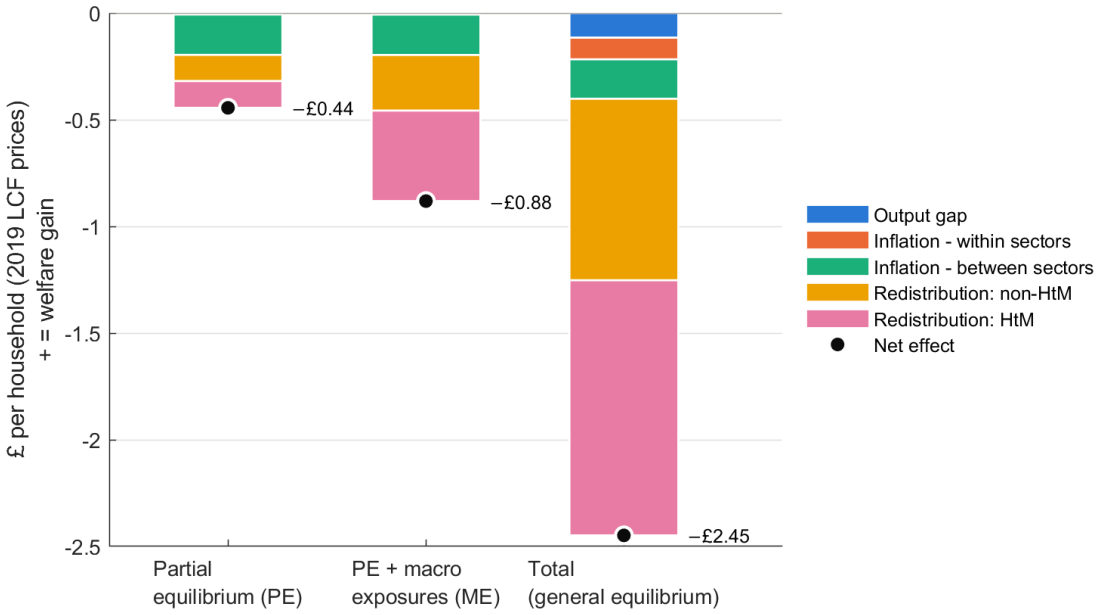


Figure 5: Welfare effect of the three policies combined: partial equilibrium (PE), PE plus macro exposures (ME), and total (£ per household, 2019 LCF units; + = gain). PE holds producer prices and macro variables at their baseline paths and switches off only the policy instruments in the loss; PE+ME adds the macro variables (output gap, wages, Bank Rate); the total also includes the policies' effects on prices and macro variables. Bars stack the components of the loss; dots give the net effect.

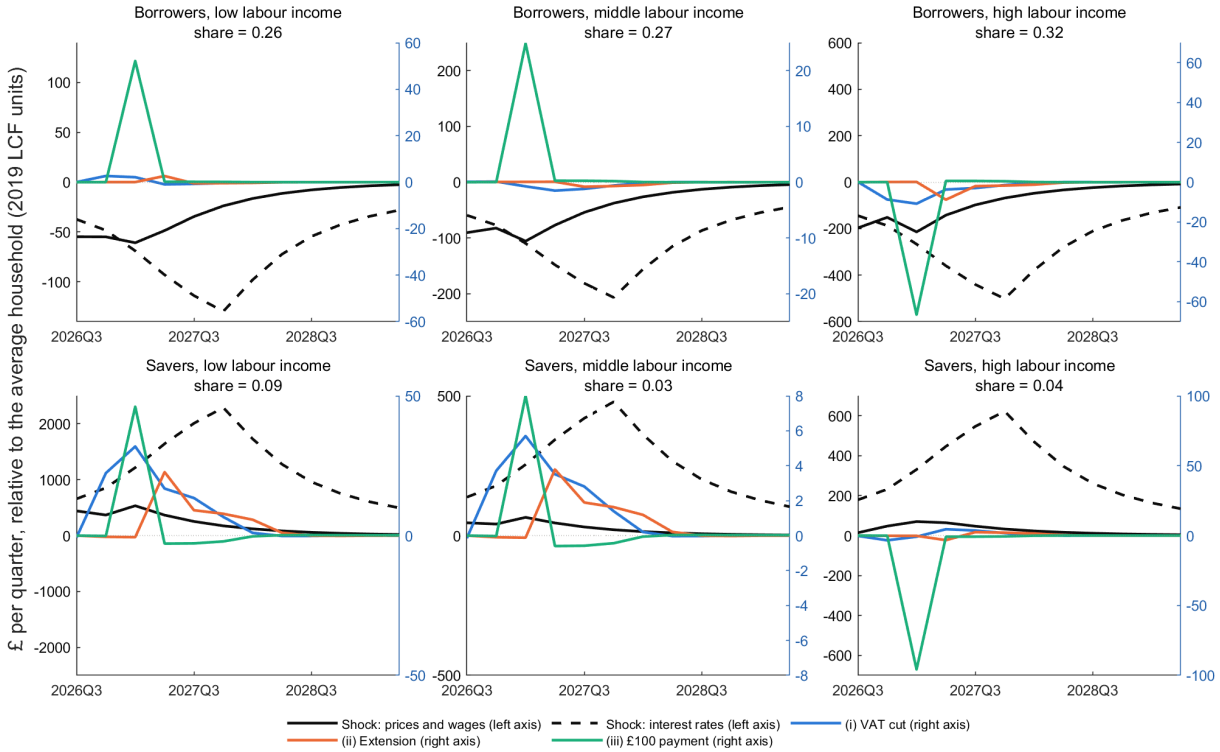


Figure 6: Distributional effects of the baseline shock and of the three policies, by group: budgetary effect relative to the average household (£ per quarter, 2019 LCF units). Borrowers and savers are split at the 84th percentile of net nominal wealth, as in the paper; income groups are labour-income terciles (35th and 65th percentiles). Shares are population-weighted. Black lines (left axis): the shock without policy, through prices and wages (solid) and interest rates (dashed). Coloured lines (right axis): the effect of each policy, including its financing.