

# UK elections: "securonomics" vs. "bold action"

Elections in the UK are set to be a transformative moment in British politics.

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FLASH NOTE

## SUMMARY

- The Labour Party is expected to win the upcoming UK general elections on 4 July, securing a victory for the first time since 2005. This anticipated victory is driven by voters' dissatisfaction with the Conservative Party's handling of rising living costs and declining productivity over recent years.
- Both Labour and the Conservatives face constraints due to a rising tax burden and limited fiscal headroom, preventing them from proposing radical changes. While both parties share a consensus on maintaining the main tax rates unchanged, their approaches to economic stimulus and fiscal responsibility diverge.
- Expected to secure a large majority, the Labour Party is likely to face minimal opposition in parliament, and it remains unclear who will emerge as the effective main opposition. However, we do not expect the party to make any radical changes if elected, as they will focus on building trust with their newly gained electoral base.

## A SHIFT IN THE POLITICAL LANDSCAPE

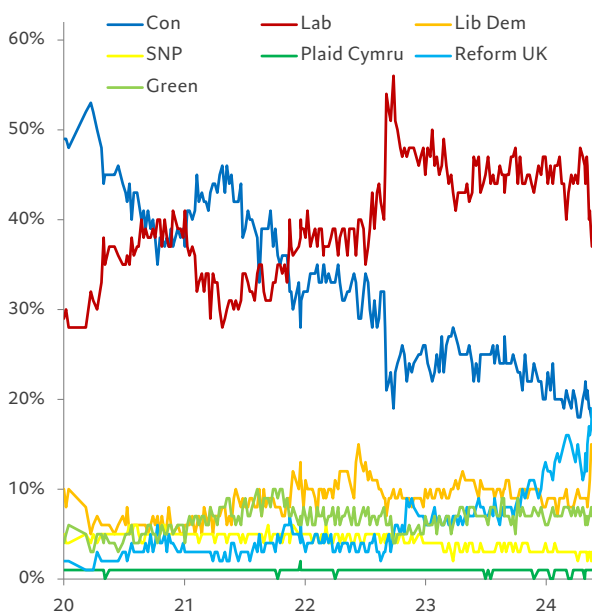
The general election in the UK on 4 July is poised to mark a shift in nation's political landscape. Against a backdrop of sluggish economic activity in recent years, the **Labour Party is expected to secure a decisive victory** for the first time since it last won under Tony Blair in 2005. This probable change in governance comes at a critical moment in time, as voters growing dissatisfaction with the Conservative Party's handling of key economic issues. As the election date approaches, a desire for a change is manifested among the electorate, setting the stage for what could be a **transformative moment in British politics for the foreseeable future.**

Prime Minister Rishi Sunak's Conservative Party has been losing popularity over the past few years due to factors such as a decline in economic activity and productivity,

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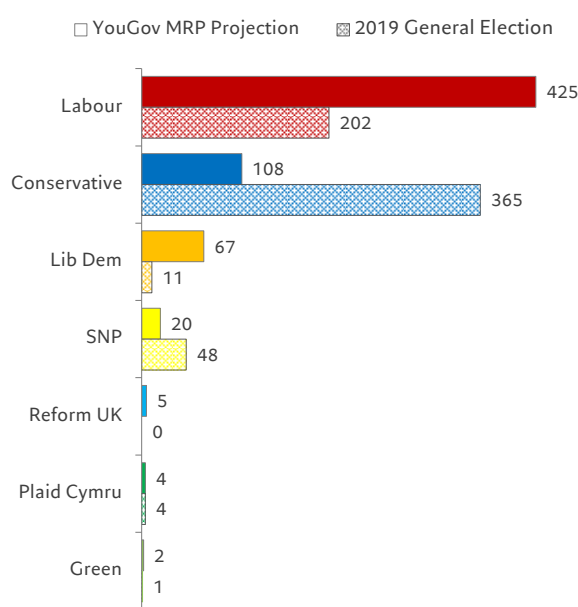
as well as a rise in the cost of living. The unpopular "mini-budget" introduced in autumn 2022 by Sunak's predecessor, Liz Truss, sparked a plunge in the Tories' approval ratings. Meanwhile, Sir Keir Starmer became the leader of the Labour Party in 2020 in response to Labour's failure to win the 2019 election under Jeremy Corbyn. Starmer's leadership marked a significant shift toward a less radical, more centre-left agenda within the party. **Many former Tory voters, disappointed with their party's performance and seeking change, have found a less radical and more consensus-driven Labour Party more appealing.** Positioned as both "pro-worker and pro-business", Labour is now seen as better equipped to address the UK's economic challenges. The recent comeback of Nigel Farage as the leader of Reform UK, the party he co-founded, is another setback for the Conservatives, as more radically right-leaning voters may view Farage's party as a better alternative.

Chart 1: voting intention in the UK



Source: Pictet Wealth Management, YouGov, as of 01.07.2024

Chart 2: YouGov MRP seats projection



Source: Pictet Wealth Management, YouGov, as of 01.07.2024

This change in voter sentiment is clearly reflected in recent surveys. Barring last-minute surprises, polls now suggest a **landslide victory for the Labour Party, which is expected to win approximately 400 seats.** By contrast, the Conservatives are anticipated to face a historic loss, gathering only about 100 seats, a significant decline from the 365 seats won in the 2019 general election. Although Reform UK is leading against the Conservatives in some surveys, the party is expected to win only a few seats.

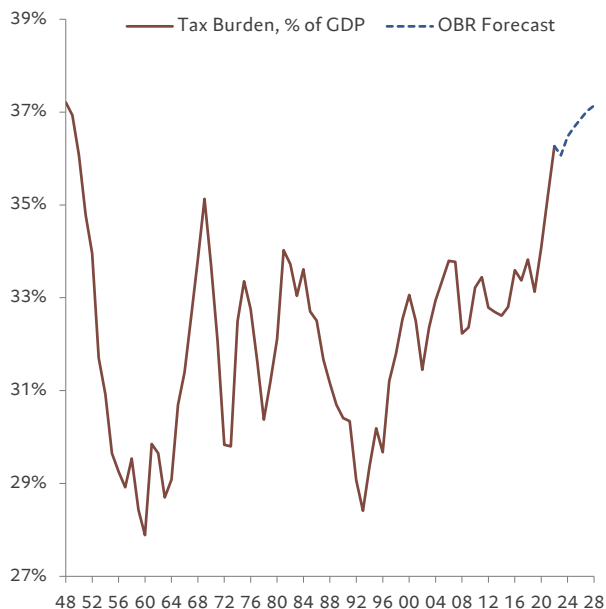
**LIMITED FLEXIBILITY FOR RADICAL CHANGES**

Despite the possibility of a Labour landslide, the new government will have **little room of manoeuvre to implement drastic changes.** The ability to raise revenues through taxes and/or borrowing will be constrained, as the tax burden is already high and expected to reach all-time highs, while net debt as a percentage of GDP is

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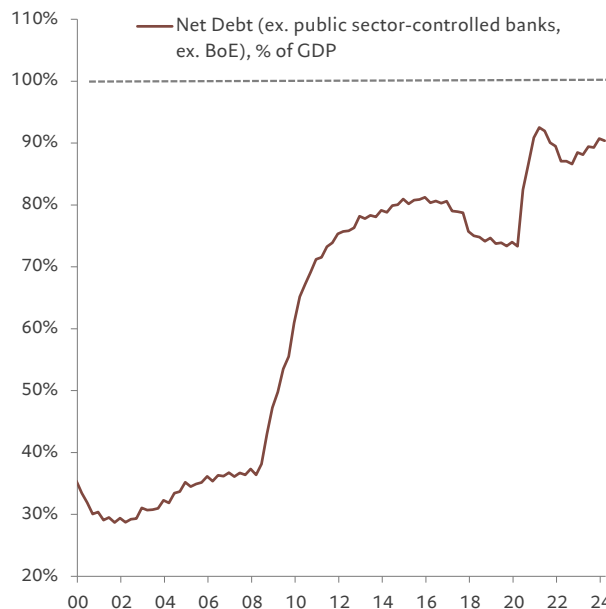
also at critical levels, leaving an estimated fiscal headroom of only GBP8.9 bn by 2028-2029 from the 2024 Spring Budget review. Consequently, a tax and spending reform is urgently needed.

Chart 3: tax revenue per GDP



Source: Pictet Wealth Management, OBR, as of 01.07.2024

Chart 4: net debt per GDP



Source: Pictet Wealth Management, ONS, as of 01.07.2024

**The fiscal plans that Labour and Conservative parties have presented in their manifestos show contrasting yet relatively consensual approaches to managing the UK economy.** Labour proposes increasing taxes by GBP8.6 bn to fund spending increases, including its Green Prosperity Plan. Higher taxes will primarily target the very wealthy. This includes imposing VAT on private schools and ending their tax breaks, instituting a windfall tax on energy companies, as well as treating carried interest from private equity deals as income rather than capital gains, thereby imposing a higher tax rate. Additionally, Labour plans to wind up the ‘non-domicile’ tax loopholes that remain after the announced scrapping of non-dom status in the 2024 UK Spring Budget, which is expected to bring in a total of GBP5.2 bn in revenues by 2028-29. But Starmer has promised to leave the corporate tax rate unchanged at 25%. Labour is also expected to maintain the current ‘triple lock’ scheme on state pensions, whereby pensions increase each year by the highest of either inflation, average wage growth, or a flat 2.5%. The party has also pledged to keep income tax, VAT and national insurance contributions unchanged, although it remains unclear whether there will be any changes to capital gains tax. However, **we do not expect Labour to make any bold decisions if elected, instead adopting a more prudent, step-by-step approach** to rebuild trust among electors, given that they have been out of office since 2010.

Conversely, the Conservatives are promising tax reductions totalling GBP17 bn, including cuts to national insurance and the permanent elimination of stamp duty for first-time homebuyers purchasing properties up to GBP425,000. They also pledge to leave corporate tax rates, income tax, VAT and capital gains taxes unchanged, as well as to introduce a triple lock "plus" for pensioners, with personal allowances

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increasing at the same rate as the state pension. The promised tax cuts will be offset by cutting welfare benefits that aim to save up to GBP12 bn a year as well as by “tackling the tax gap” between tax owned and tax paid, currently close to an elevated GBP40 bn, which is expected to raise an additional GBP6 bn in savings. It also pledged to keep public sector borrowing below 3% of GDP by 2029-30. However, the Conservatives provided no additional information in their manifesto about addressing the remaining non-dom loopholes. Overall, **both parties are somewhat aligned in their commitment by not raising income tax, VAT national insurance rates, but they diverge in their strategies for economic stimulus and fiscal responsibility.**

Although it is very unlikely that Reform UK will win the upcoming elections, its agenda has created quite a stir in political and economic circles. In addition to reducing corporation tax rate to 15% from year three of the new parliament, introducing a corporation tax-free allowance on the first GBP100,000 of profits and raising the threshold for VAT registration GBP150,000, the party has also pledged to overhaul the Bank of England’s (BoE) quantitative easing (QE) scheme to balance its announced GBP40 bn tax cut. Reform UK suggests abolishing the interest payments that the BoE is required to make to commercial banks on government bonds acquired through its QE programme. This proposal aims to relieve taxpayers, who currently bear the cost of the BoE’s losses from underperforming investments and high interest expenses. Governor Andrew Bailey noted that this change could influence the effectiveness of monetary transmission in impacting the economy. Although unlikely to see the light of day, **Reform UK’s proposal provides some insight into the kind of opposition the incoming government may face.**

## WHAT CAN WE EXPECT POST-ELECTIONS?

Barring last-minute surprises, we can confidently expect the Labour Party to win the elections on 4 July. We believe a **Labour victory would provide tailwinds to growth in the UK, as the party has tacked to a centre-left stance and is showing prudence on fiscal matters.** Conversely, a **Conservative win might create headwinds to growth due to historical political instability within the party and the lingering effects of Liz Truss’s “mini-budget”.** Post-election, a key issue will be identifying where the main opposition to a Labour will come from in a likely majority government scenario. While immediate opposition may be minimal to start with, there remains a possibility, albeit low, of a coalition between right-wing parties in the long term.

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