



Reaction to Chancellor's Autumn Statement

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The Fiscal mandate is based on a rolling five year period and as expected, the OBR have used this flexibility to declare that the government will meet their fiscal rules, albeit two years later than they suggested back in March. However, this barely conceals the reality that the 2011 Autumn Statement represents a significant alteration in the government's economic and political strategy. As recently as the summer, George Osborne expected to be on course to close the structural deficit by the end of this parliament and announce some pre-election tax cuts. A lot can happen between today and 2015, although that strategy now looks holed below the waterline and, politically speaking, we are already on 'Plan B'.

The aim now will be to convince the electorate that the Coalition is best positioned to complete the deficit reduction plan and, at present, the electorate seems to trust the government more than the opposition. However, public opinion can be fragile and there are major risks ahead, with very little room for manoeuvre. If growth forecasts continue to disappoint relative to these downgraded expectations, at some point the OBR could call for further austerity in order to meet the government's fiscal rules. Such an event would be political dynamite and undermine the sense of political stability which the UK has enjoyed in the debt markets. A decisive shift towards supply side growth policies (aka tax cuts), supported by many on the Conservative benches, would surely test the Coalition to breaking point. Gilt markets seem oblivious to these issues, for the simple reason that while the situation in the UK may be bad, in many other countries it is either just as bad or even worse.

Source: rlam as at 30 November 2011 unless otherwise stated.

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