

## United Kingdom: general elections

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The UK elections resulted in an absolute majority for the Conservatives, against expectations of a hung Parliament. With 643 of 650 seats declared, the Conservatives obtain 326 seats (306 in 2010), while Labour lose 28 seats (230 vs 258 in 2010) and Liberal-Democrats lose most of them (8 vs 57 in 2010). As expected, the Scottish National Party take most of the seats from the Labour party in Scotland (obtaining 56 seats, 6 in 2010), while the UK Independence party increase significantly the vote share (to 12.6%), although obtain only 1 MPs.

After the uncertainty over recent weeks about the stability of the future government, the election results clarify the outlook of economic policy, with the continuation of fiscal consolidation and economic policy more in general.

Another Conservative-led government has been welcomed by markets. Sterling is marching up and the FTSE 100 is up more than 100 points in opening trade (around +2%). However, important challenges remain in sight about the Britain's future.

On a more medium-term perspective, the referendum on an EU exit is probably the most important issue for the UK economy, with important implications for the rest of Europe. The Conservatives leader has promised a referendum on a renegotiated status in the EU in 2017 (though it could be put forward), though EC president Juncker has signaled that there will be no changes in the treaties until at least 2019. Surveys suggest a significant support for an eventual Brexit, but well under 50% and receding (see chart). Still, the uncertainty is high as public opinion on the matter could change rapidly in view of the negotiations with the rest of Europe or even with events in other countries (Greece). In addition, the upsurge of Scottish National party opens the door to a second independence referendum earlier than the "at least one generation" mentioned by the former party leader when the referendum was lost. Moreover, the strong pro-European sentiment in Scotland and the possible anti-EU majority in the rest of the country imply that both issues could be interrelated. All in all, we think that this uncertainty could start weighing on investment in the short to medium-term.

Chart 1

Standard polling on EU membership



Source: ComRes, YouGov, Populus, Opinium, TNS, Panelbase, Survation, Ipsos MORI and Lord Ashcroft Polls

Beyond the EU debate, the UK faces long-term economic challenges, which need to be tackled, such as low productivity growth, the persistent current account deficit partly due to competitiveness problems and the low population growth if policies against immigration are hardened (for more detail see our recent presentation: [UK Ahead of Elections](#)).

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