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The UK economy to survive debt crisis under "new government and old remedies"

Overview

European governments successively announce austerity programs for taking the control of their debt and calming the fears of the market. This concomitant implementation of restrictive policies represents a negative shock at global level. In such a context of uncertainty especially the difficulties of the Euro Zone, the coordination of economic policies of the two major economic powers – China and the US – becomes a necessity.

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Focus: The UK economy to survive debt crisis under "new government and old remedies"

Euro zone debt crisis has brought global panic in the past months. Comparing to its European peers, the UK economy suffered less and its sovereign debt felt less pressure from the market. Several factors including relatively low public debt, relatively high potential growth rate, and political willingness to control debt in particular contributed to this stability. On the other hand, however, the pace of deterioration of public accounts, with a deficit at 11% of GDP in 2009, has been fast since the financial crisis in 2008, which arouses market concern. The recent announcement by the new coalition government shows its strong will to tackle the issue, but the envisaged efforts to stabilize the debt are not sufficient, therefore debt consolidation is to be a long term goal.

- Cameron's government targets essentially a reduction of expenditure. We believe it will not be sufficient to stabilize the debt, while tax will have to increase.
- The potential opposition on tax policy between Conservatives and Liberal Democrats might slow the process of debt consolidation.
- The severity of the new policy of the recently elected government with regard to financial activities might hamper credit recovery and then lessen fiscal revenues.
- The absence of coordination with the rest of Europe presents a risky isolation.

Despite these factors, we do not believe that a crisis scenario, comparable to the one observed in South Europe, will occur in the UK. Fundamentally, the country has a good potential of growth and specializations permitting it to take profit of the rebound of activities at global level.

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Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	Remark
Stock rating	Buy	Relative performance over MSCI-China Index >20%
	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

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