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Thesis Reaction

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More Pain Less Gain - The Chancellor's Autumn Budget Statement

Whilst much of the content only confirmed previous announcements (eg. the cut in corporation tax), there were a number of initiatives which should be welcomed more by smaller and medium businesses and business start-up investors – than probably by markets generally.

Under the new rules the Chancellor is (thankfully) no longer allowed to make his own forecasts of economic growth (ie. GDP) but must use the figures generated by the Independent Office of Budget Responsibility (OBR). The OBR has downgraded the Chancellor's GDP forecasts (as below) and also agree that the budget can be balanced, but in year 6 rather than the year 5 that was hoped for.

Year	From	To
2011	1.7%	0.9%
2012	2.5%	0.7%
2013	2.9%	2.1%

These figures assume a resolution of the Eurozone debt crisis without which they forecast a recession.

Gilts

- New gilt issuance estimated to be £150 billion above the April forecasts but the interest bill will be £22 billion lower (Quantitative Easing and lower coupons).
- The UK is probably safe for now from attack by credit scaremongers and speculators, which is good news for interest rates and should underpin gilt prices

Small businesses

- Business rates exemption extended until 2013 is good news for an estimated 500,000 smaller business, in particular retailers.
- New investment encouraged via the Seed Enterprise Investment Scheme (SEIS)

Medium sized businesses

- The National Loan Guarantee Scheme (£20 billion now plus another £20 billion possibly later) should effectively knock around 1% off loan interest rates.

Investors

- The new SEIS mentioned earlier is more attractive than the old EIS as it offers 50% income tax relief (as opposed to 30%) regardless of the investor's top tax rate and a CGT holiday for 1 year (ie. rolled over gains exempted rather than deferred).

Infrastructure

- The proposed joint venture of Government, Network Rail and Pension Funds to establish a £26 billion fighting fund (via bond issuance) for investment in roads, rail, trams, schools and broadband is good news for the construction, services and property sectors.

Taxes

- The Chancellor confirmed there will be no Tobin tax (ie. levy on financial transactions) but is increasing the levy on banks to 8.8bp with effect from January.

Given the limited financial muscle available to the Chancellor then the options available must be targeted to stimulate activity in the right areas. In this respect we believe that, although these initiatives clearly won't solve the current debt situation any time soon, they are an important step in the right direction, and in particular the drawing in of private investors is a prudent strategy. Unfortunately, however, we are still, to a large extent, hostage to the outcome of the Eurozone debt crisis.

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