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Labour has won: What does this mean for the UK?

The Labour Party will form the next UK government after securing a large majority. Financial markets are largely unmoved, though UK assets may ultimately benefit from a “stability dividend”. But with fiscal space limited, the result does not materially shift the near-term growth outlook, and any boost from supply-side reforms will take time to materialise.

Key Takeaways

- The UK general election has delivered a landslide victory for Labour, which will enter government with 412 seats and a majority of around 170.
- The Conservatives have retained 121 seats, the Liberal Democrats have secured 71, while the SNP just 9. The Reform party has won 4 seats.
- Labour has achieved this result on just 34% of the vote, the lowest share to have ever secured a majority.
- With the result broadly as expected, financial market volatility has been limited, but UK equities and the pound seem to be trading slightly stronger.
- It is possible that UK assets benefit from reduced political risk premium, and the economy more generally benefits from perceived political stability.
- However, the result is unlikely to change the UK's near-term growth outlook. With fiscal space limited, Labour's first budget will involve shifting the balance of tax and spend, rather than outright stimulus.
- The fiscal rule may eventually be altered to allow for more investment spending and perhaps to minimise the impact of Bank of England losses. But more fundamentally, the biggest constraint on Labour's fiscal plans may be weak potential growth.
- Labour has proposed a planning reform, green industrial policy, and closer relations with the EU to improve potential growth. But any boost from these will take years to materialise.

A Labour landslide, helped by Conservative collapse and the first-past-the-post system

The UK general election has delivered a landslide victory for Kier Starmer's Labour party, which will enter government with 412 seats and a majority of around 170. The Conservatives have retained 121 seats, while the Liberal Democrats have increased their seat count to 71 and the SNP's has fallen to just 9. The Reform party have won 4 seats.

Labour's vote share amounts to 34% – the lowest to have ever secured a majority, and turnout was about 60%. The result is largely due to the significantly more efficient vote share under the first-past-the-post system for Labour than in previous elections, a very strong performance in Scotland where Labour gained a significant share of the vote, and a split in the vote between the Conservatives and Reform on the right.

The market reaction has been muted, with the result broadly as expected – though Labour underperformed slightly relative to polls – and so largely priced in. UK equities and the pound are marginally stronger, perhaps benefitting from a reduced political risk premium. Compared to other elections in the world, the UK contest seems to stand out both for its predictability and the sense that any changes to the economic policy framework are likely to be limited.



Fights over the right of British politics, and over leadership in Scotland, are coming

The Conservative Party will now focus on its future and on the next leadership contest. Major political figures including former Home Secretaries Suella Braverman and James Cleverly are likely to stand, as is former Trade Secretary Kemi Badenoch.

Key to the debate will be how to address the erosion of the Conservative vote in multiple directions, and whether to prioritise voters who switched to Reform, or to the Lib Dems. The influence Nigel Farage's Reform party has in Parliament, and on the Conservatives, will be important.

Meanwhile, the SNP had a very difficult night, losing 38 seats and falling to a distant second in Scotland behind Labour. This will not alter its ability to govern in Holyrood, but if this trend holds, the SNP are likely to lose the next Scottish election in 2026. In the meantime, it will not have leverage over the UK government to seek a second referendum on independence.

Political stability for now, but a more fickle UK electorate points to longer-term volatility

While the size of the Labour majority is significant, the number of votes cast and seats gained for smaller parties and independent candidates is evidence of dissatisfaction among voters with the political status quo. With an incredibly high number of marginal seats, and evidence that voters are increasingly moving away from consistent single party support, Labour will face an uphill battle to replicate this result at the next election if it doesn't deliver on policy priorities.

What does Labour have planned for the first 100 days?

Starmer has indicated that he will look to move quickly once in office. The cabinet will likely be appointed within 24 hours and work will begin immediately to prepare for the King's Speech, which will be held on 17 July, before parliament leaves for recess. This will likely include proposals on planning and labour market reforms as well as on establishing GB Energy.

Starmer will have the opportunity to start building relations with world leaders at the NATO summit on 9 July. And the UK will chair a meeting of the European Political Community at Blenheim Palace on 18 July. This will be the first opportunity for Starmer to begin laying the groundwork for closer relations with EU member states, although this will fall short of any return to the European institutions including the single market and customs union.

In terms of policy, Labour would likely make several fairly immediate changes. It has said it will end the Rwanda deportation scheme "on day one". Other major initiatives are likely to include reversing the ban on onshore windfarms, launching a defence review, and publishing a draft of its revised national planning policy framework.

Limited fiscal space, even if rules are tweaked

Labour Chancellor Rachel Reeves is likely to hold a budget event in the autumn. For now, Labour look set to only tweak the existing fiscal rules. Debt will still have to be falling as a percentage of GDP in the fifth year of the OBR's forecast. But on borrowing, there may be changes that allow for more capital spending. This may provide a very modest increase in fiscal space, but the debt rule is likely to remain the binding constraint on fiscal expansion.

We think Labour will eventually introduce larger changes to the fiscal rules, with Reeves using the budget to announce that she has requested the OBR to review the viability of switching the debt rule from its current measurement of public sector net debt to public sector net worth. This change would provide more fiscal space to increase investment spending. It is also possible that there are changes to the way in which Bank of England (BoE) losses on past asset purchases are reflected in the public finances, which could create some near-term fiscal space.

But the budget is likely to be more about changing the balance of tax and spending rather than outright fiscal easing. Indeed, Labour's current fiscal plans involve spending increases of £9.5 billion (around 0.3% of GDP) funded by an £8.6 billion increase in taxes. On net, this may be modestly stimulative, but it won't materially change the growth and inflation outlook and so the likely path of monetary policy.

Incidentally on monetary policy, BoE communication has been highly restricted during the election campaign, leaving short-term interest rate expectations to be driven by the data flow rather than policy guidance. With the election now over, Huw Pill, the Bank's chief economist, is due to speak next week and may help guide market pricing ahead of the August policy meeting. We continue to expect the first rate cut at this meeting.

With Labour having ruled out increases in income tax, national insurance and VAT in its manifesto, obvious revenue raisers have been closed off. But tax increases beyond those already announced are likely in time. An increase in the headline rate of capital gains tax is unlikely for now, but changes in the tax relief available for capital gains and inheritance tax are possible. Any further measures will be dependent on the OBR's forecasts.

"Productivity isn't everything, but in the long run it is almost everything"

As fiscal space is so limited, Labour's governing strategy relies on boosting potential growth and productivity.

In part, this involves improving the UK's attractiveness as an investment destination. Labour's hope is that more stability in policymaking will reduce the risk premium on UK assets, lowering the cost of capital for firms, and perhaps the government itself, and helping to crowd in private sector investment.



The UK may be aided in this respect by perceptions of higher political risk in countries like the US and France.

While this “stability dividend” may be supportive at the margin, the real prize on the growth front would be meaningful supply-side reform. In particular, Labour has focussed on planning reform, a green industrial strategy, and closer relations with the EU as key drivers of growth.

Each of these faces serious political constraints, and the reforms delivered may fall well short of rhetoric. But there certainly is some low hanging fruit around planning and closer trading ties with the EU, and Starmer may find such reforms easier to push through Parliament than the Conservatives. Crucially, the OBR seems minded to score such reforms reasonably generously.

However, it is worth noting that the OBR’s potential growth forecasts are already somewhat optimistic (at around 1.7%) and liable to be revised lower. So it may be that there is an aspect of running to stand still when it comes to the fiscal space provided by any growth enhancing reforms.

More generally, Starmer has said that he will operate a ‘mission driven government’ in which key priorities are

driven forward by cross-departmental mission boards. These missions are focussed around green industry, justice, breaking down barriers to opportunity, stabilising the NHS and achieving the highest sustained growth in the G7.

One of the only leftward shifts in developed market politics this year

The UK’s shift towards the left comes at a time when political momentum across developed markets is moving in the opposite direction. This trend is particularly strong across Europe, with major economies like France and the Netherlands joining more established trends rightwards in Italy, Greece and Hungary. Polling in Germany and Austria indicates these countries will also join this trend in future elections. US politics might also take a turn to the right come November.

This is important when considering Starmer’s aims to improve EU relations, as well as retain stable relations with any US president. Based on wider political trends, Labour in government may well find itself representing a very different kind of politics to those of its allies.

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