TheCityUK

Ahead of the Autumn Statement next month, TheCityUK has submitted the following representation to the Chancellor.

This representation comes against a backdrop of positive economic news for the UK. While revising down its forecast for Eurozone GDP growth in 2015 by fully six-tenths of a percentage point, to 1.1%, the European Commission has raised its forecast for UK growth, to 2.7% from 2.5% in its forecast six months ago[1]. The Bank of England, meanwhile, expects real GDP growth in the UK to be 2.9%[2]. Moreover, consumer price inflation registered 1.3% in October[3], supporting the picture of macroeconomic stability relative to the Eurozone.

Nevertheless, weak economic conditions in the Eurozone may act as a drag on growth in the UK, given the very close economic and trade relations between two areas. In this context, a proactive economic policy that supports growth is called for. TheCityUK has therefore focused this representation on broad themes that address two of the fundamentals underlying economic growth: competitiveness and stability.

Government policy should ensure that UK-based financial services remain competitive – within the EU, as well as in the wider global context

The financial sector continues to play a pivotal role in funding investment and business expansion, and measures that curtail the sector's ability to perform this role will inevitably have the effect of stifling growth. It is therefore critically important that any new legislation or policies affecting the financial sector be framed with as much attention to the sector's competitiveness as to other policy goals.

The effects of the 2008-09 crisis and its aftermath are still evident, and in that context, it is natural and right that financial stability be a critical objective. However, more than five years after the onset of the crisis, we must not allow a concern with stability to result in legislation or policy that inadvertently stifles competitiveness and growth. To this end, all ***new regulation should be tested specifically for the impact it has on competitiveness***.

Additionally, ***new regulations should also be crafted with a view to the international context***. Sustained strong economic growth would greatly enhance the competitiveness of London as the EU's leading financial centre, with benefits accruing not only to London, but to the rest of the UK and indeed the whole of the Union as well. As the world's major economic powers give increased emphasis to bringing their monetary, tax, financial and other regimes into alignment, UK policy could be better attuned to the issue of global regulatory coherence in mind – or risk undermining the competitiveness which is the foundation of the UK's strength in the EU, as well as the cornerstone of its prosperity.

Both of the main pillars of output – labour and capital – are highly topical policy areas where issues of competitiveness should receive special emphasis. The openness of labour markets is an important driver of employment and growth. The success of knowledge-based industries, such as financial and related professional services, depends especially on firms' ability to attract the best talent from

[1] European Commission, *European Economic Forecast Autumn 2014*, 4 November 2014
[2] Bank of England, *Inflation Report November 2014*, 12 November 2014
[3] Office for National Statistics, *Consumer Price Inflation October 2014*, 18 November 2014

within and beyond the EU[4]. A skilled workforce is one of the main reasons that London is one of the pre-eminent financial centres of Europe – and indeed, the world. Policies that impede UK-based firms' ability to hire the workers they need, or make this process more expensive, would be hugely detrimental to the UK's competitiveness. Because of this, the ***Treasury should work alongside the Department for Communities and Local Government and the Department for Business, Innovation & Skills to advance strongly the case that highly skilled immigration is good for economic growth.***

On the capital side, we welcome the focus of the new European Commission on promoting a single market for capital, or Capital Markets Union, and underscore that implementation of a Single Market for Capital could increase competition in the financial system. Dynamic and innovative capital markets could benefit firms – and thereby the wider economy – by lowering the cost of capital and improving service provision.

Economic policy should encourage economic growth

A supportive business environment is a crucial foundation for strong economic growth. Although the UK performs well on this score, there is room for improvement in certain areas; the Government can be proud of the UK's eighth-place ranking on the World Bank's flagship business-environment index (covering 189 countries), but Britain could make it easier still for businesses to get credit, and could do more to ensure that the bureaucracy around property registration and utilities access does not serve as an unnecessary obstacle to starting or running a business[5].

Access to credit could be expanded by encouraging alternative and complementary financing options alongside mainstream ones. TheCityUK believes that this would facilitate business spending, leading to positive knock-on effects including faster economic expansion and job creation. Here, the proposed Capital Markets Union has yet another role to play, since further deepening of capital markets would reduce the amount of leverage in the financial system, thereby supporting financial stability. Moreover, alternative funding has particular relevance for small and medium-sized enterprises (SMEs), which are the lifeblood of the UK economy. Even as SMEs comprise more than 99% of UK companies and employ more than 50% of the workforce[6], bank lending to these firms contracted by an annualised 1.1% in the three months to September, following an annualised 0.5% decline in the three months to August[7]. TheCityUK believes that by implementing measures to revive and bolster markets such as those for securitisation, private placements, crowdfunding, and peer-to-peer lending, funding to SMEs could be augmented.

Alternative and complementary finance could have a particularly important role in the ***promotion of exports*** – another potential pillar of economic growth. The 2014 Budget doubled the Government's Direct Lending Scheme for exporters, and eased the conditions associated with such loans. TheCityUK welcomes this focus on export finance, and believes that the Government could do still more. For example, streamlining the provision of information-gathering about its various schemes for exporters, or leveraging technological innovation to enhance UK firms' export competitiveness, could help to encourage overseas sales by domestic firms.

Policy must also continue to support macroeconomic stability

As important as financial stability and increased competitiveness are to bolstering the UK's position, these goals must be achieved against a backdrop of broader macroeconomic stability. It is only in

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[4] TheCityUK, EU Reform: A view from TheCityUK, November 2014
[5] World Bank, Doing Business 2015, 29 October 2014
[6] TheCityUK, Alternative Finance for SMEs and Mid-Market Companies, October 2013
[7] Bank of England, Bankstats

this supportive enabling environment that the financial sector can flourish and make its own contribution to investment, jobs and growth.

The latest data indicate that the main focus of improved macroeconomic stability should be the public finances. In the first half of the 2014/15 fiscal year, central government receipts fell by 0.4% while central government expenditure rose by 2.1%[8]. This led to an increase in public sector net borrowing that is at odds with the goal of eliminating the budget deficit by 2018/19. Further restraint on government spending is therefore desirable, particularly given that tax collection has been weaker than forecast.

The Prime Minister announced recently that the Autumn Statement would include a provision for £15bn in new public spending on roads. Increased investment in infrastructure would undoubtedly encourage both short- and long-term economic growth by boosting spending now and increasing the economy's productive capacity in the years ahead. But in light of the need for continued fiscal consolidation, ***government policy should also facilitate greater involvement of financial and related professional services in infrastructure investment***. Possibilities for Government action in this regard abound. For example, the creation of a new body to project-manage infrastructure projects would pave the way for financial institutions to fund new projects because much of the uncertainty and risk around project logistics would be removed[9]. A more granular example is that greater transparency around the £5bn subsidy provided annually by the Government to Network Rail would allow better analysis of the use of the routes, and thus provide a baseline for assessing future investment in the system and of where private sector funding or participation could be of benefit to both the travelling public and the Government. Finally, against the backdrop of ever greater cross-border capital flows and the rapid growth of non-traditional sources of funding, the Government could support infrastructure investment by ensuring that the country remains open to and welcoming of new investment from overseas. China is a particularly important future source of capital for investment in UK infrastructure.

In this representation we have focused on broad macroeconomic issues of competitiveness, stability and growth in line with our view that the government must not take false assurance from the recent spate of strong economic data. It is therefore crucial that economic and financial policy be crafted with these issues as much to the fore as are issues of regulation and financial stability.

[8] Office for National Statistics, *Public Sector Finances September 2014*, 21 October 2014
[9] TheCityUK, *Financing UK Infrastructure Investment: What Is the Role of Private Capital?*, forthcoming, 2014