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Q&A with Sanjay Raja

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As 2023 draws to a close, Sanjay Raja, Chief UK Economist at Deutsche Bank Research, shares his insights into some of the key economic issues facing the UK in 2024.

Q: When do you expect the next general election in the UK and what can we expect in the run up to it?

A: The road to the next general election is shortening. We expect it to take place late 2024. But before we get there, we will have at least two more fiscal events to watch as the Government prepares its last pitch for an election. We will also have local elections in May, which will give us the clearest indication yet of how the next election could shape up. At present, the Labour Party remains well in the lead, running a near 20pt lead over the current Government. Will the Government ramp up spending ahead of the next election? We're not expecting many fireworks. But the expectation for a final fiscal push ahead of the next election seems to be the base case in the market. Next spring will be a pivotal milestone, but we expect only a modest increase in spending.

Q: Is the tightening cycle done? Are rate cuts coming soon?

A: We think interest rates have likely peaked at 5.25%, marking the end of one of the fastest tightening cycles we've seen in some time. But it will be a good while before we see rate cuts with the Bank of England pushing a 'higher for longer' message. When can we start to think about rate cuts? With inflation falling, unemployment likely rising further, and growth likely turning sluggish over the next few quarters, we think the door for rate cuts could open as early as Q2-24. Risks are skewed to later. But ultimately, we see the BoE adjusting the Bank Rate lower by around 75bps next year.

Q: Why has UK inflation been so sticky? Are we due a big correction soon?

A: The UK has certainly stuck out like a sore thumb when it comes to inflation. In September, headline CPI was tracking just below 7% y/y. One reason has been the more acute terms-of-trade shock – and in particular, the energy shock, which saw energy bills more than double last year. Food and goods prices too surged as a result of geopolitical events, Brexit, and supply chain pressures. The UK also has a fair share of index-linked and administered prices in its basket. There's good news, though. October CPI fell to 4.6% y/y. And by April, we think headline CPI will be closer to 3% y/y. A return to 2% will



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take a little while longer – as services inflation takes longer to settle back. We see CPI returning sustainably to target by Q2-25.



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