

United Kingdom



Outlook

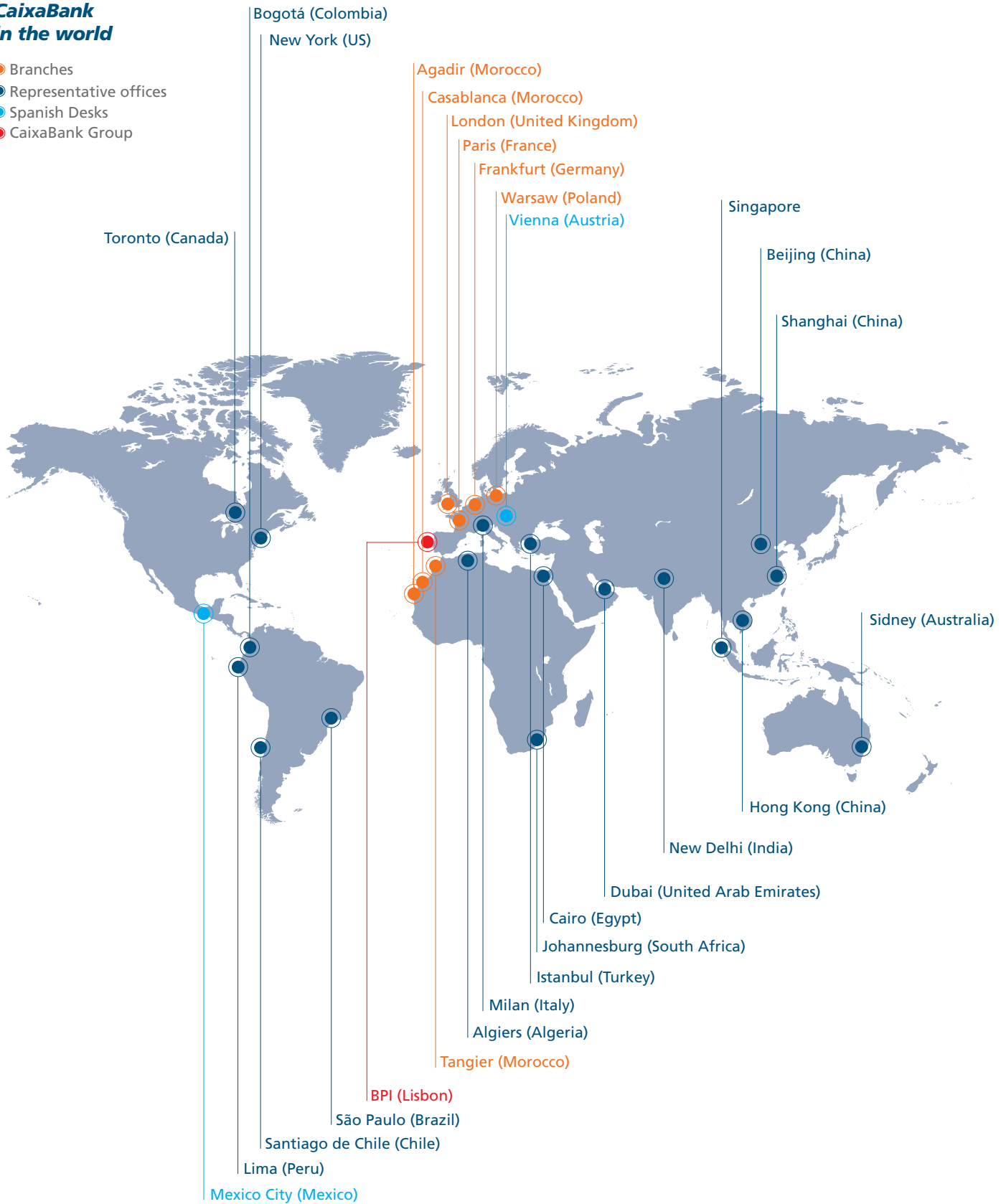
	Average 11-15	2016	2017	2018	2019	2020	2021	Forecasts	
								2022	2023
GDP growth (%)	2.1	2.3	2.1	1.7	1.7	-9.3	7.4	3.6	0.1
CPI inflation (%)*	2.1	1.0	2.6	2.3	1.7	1.0	2.5	6.8	2.1
Fiscal balance (% of GDP)	-6.1	-3.3	-2.4	-2.2	-2.2	-12.8	-8.0	-4.3	-2.3
Primary fiscal balance (% of GDP)	-4.2	-1.7	-0.6	-0.5	-0.8	-11.7	-5.9	-1.7	-0.7
Public debt (% of GDP)	75.2	76.9	75.7	74.8	74.1	90.2	84.3	76.1	71.3
Reference rate (%)*	0.5	0.3	0.5	0.8	0.8	0.1	0.3	1.2	2.5
Current balance (% of GDP)	-4.1	-5.3	-3.6	-3.9	-2.7	-2.5	7.4	-5.5	-4.8

Note: *annual average. CaixaBank Research forecast for GDP and CPI; interest rates from the BoE and other variables from the IMF.
Source: CaixaBank Research, based on data from the IMF, the Statistical Office and the BoE (via Refinitiv).

- **The UK economy surprised us positively in Q1 2022**, by recording quarter-on-quarter growth of 0.8% (we had expected a modest 0.1%), allowing GDP to exceed pre-pandemic levels. This strong showing conceals a downward trend throughout the quarter; in fact all of the growth was recorded in January. Moreover, the forecasts by the Bank of England (BoE) suggest that activity will cool off significantly in the coming quarters, and it has warned that the economy may even shrink in 2023.
- **The United Kingdom will also be hit by the consequences of the war in Ukraine.** It is true that Britain is far less dependent on Russian energy than its old European trading partners. Total imports of Russian natural gas stand at 8% and crude oil stands at 5%. However, the conflict has ended up aggravating the problems caused by bottlenecks in global supply chains and it has led to a significant rise in the prices of certain industrial and agricultural commodities of which Russia and Ukraine are the leading producers (e.g. Russia produces over 40% of the world's palladium and Ukraine produces 60% of the sunflower oil and 20% of the barley).
- The end result is **inflation which, as in all other developed economies, keeps breaking records.** In March, CPI rose to 7.0% year-on-year and reached its highest level in 40 years. According to the BoE's estimates, inflation could swiftly rise to 10% in the coming months and it will not fall below its target level of 2.0% until the second half of 2024. In an effort to control inflation, so far this year the BoE has risen interest rates by 75 bp to 1.0%. The consensus among analysts and investors is that it is likely to keep rising until it reaches 2.0% at the end of this year.
- In addition to the uncertainty associated with the war in Ukraine, the Brexit agreement is continuing to cause instability. **The United Kingdom has started to push a bill through its parliament that would allow it to unilaterally discard the Northern Ireland Protocol**, which is part of the *Brexit* agreement. If the United Kingdom ends up following through on its threat, the EU's response would be robust and it could result in a trade war between both blocks.
- In short, thanks to the good start to the year, the UK economy could grow by 3.6% in 2022, but there is a high probability of it entering a recession in 2023. Furthermore, given the **high level of uncertainty at present, we cannot rule out downward revisions in growth and upward revisions in inflation.**

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