United Kingdom

	2020	2021	2022	2023	2024	2025	2026	2027
						Forecasts		
GDP growth (%)	-10.1	8.5	5.2	0.3	1.1	1.3	1.2	1.5
CPI inflation (%)*	0.9	2.6	9.1	7.4	2.5	3.4	2.5	1.9
Fiscal balance (% of GDP)	-13.2	-7.7	-4.6	-6.1	-5.7	-4.3	-3.6	-3.0
Primary fiscal balance (% of GDP)	-12.0	-5.6	-0.9	-3.7	-3.8	-1.8	-1.0	-0.2
Public debt (% of GDP)	93.1	91.7	89.8	91.8	93.7	94.6	95.9	96.4
Reference rate (%)*	0.2	0.1	1.5	4.7	5.1	4.5	3.7	3.5
Current balance (% of GDP)	-2.9	-0.4	-2.1	-3.5	-2.7	-3.1	-3.0	-2.6
EURGBP*	0.89	0.86	0.85	0.87	0.85	0.86	0.89	0.88

Notes: * 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 ONS, the BoE and the IMF (via Refinitiv and Bloomberg).

Outlook

The **UK economy** barely grew in Q3 (0.1% quarter-on-quarter), representing a slowdown compared to the growth rates seen in the first half of the year (0.7% in Q1 – due to the anticipation effect of the tariff war unleashed by Trump – and 0.3% in Q2); GDP continues to grow, but at a pace that remains too slow to be considered sustained expansion. In any event, performance in Q3 was badly hit by the cyberattack on Jaguar Land Rover (in what has been dubbed the most damaging cyber attack to ever take place in the UK, with a financial loss of 1.9 billion GBP). It is expected that the impact of this will start to be reversed in Q4, as production was gradually resumed at the beginning of October. Growth was supported by public expenditure, investment and household consumption (albeit at a very low rate of 0.2% quarter-on-quarter in Q3 2025). Meanwhile, growth was dampened by the foreign sector, reflecting the sluggish economic activity observed in the rest of the world. Moreover, **labour market indicators** have continued to decline, with falls in the number of employed, a rising unemployment rate and a slowdown in wage growth.

Economic policies

Inflation seems to have peaked in September; in October the downward trend continued and we expect the disinflationary process to continue in the final part of the year and in 2026. The still high levels of inflation (although inflation has started to decrease, it is still above the Bank of England's [BoE] target level) have led to the monetary authority following a cautious, gradual approach, with three 25 bp rate cuts in 2025 bringing it down to 4%. The BoE's stance was more dovish at its November meeting and, although it held rates at 4%, the figures released after the meeting (Q3 GDP and the labour market) support a further cut in December and, additionally, the markets are pricing in between one and two further cuts in 2026 (official interest rate at 3.5% or 3.25%).

The **UK's public finances continue to worsen**, despite the fact that its economic performance has not been overly weak. In September, the public sector deficit stood at 20.2 billion GBP, the highest for that month in five years. For the year-to-date it is 13.1% higher than in the same period in 2024, the second highest since monthly records began (1993), surpassed only by 2020. In turn, net public debt (excluding public banks) rose to 95.3% of GDP, the highest level since the 1960s. This worsening picture is due to higher public expenditure, especially on debt interest, pensions and public services, and also due to tax revenues rising less than expected. On 26 November

Closing date of this edition: 28 November 2025

the British government presented its latest budget, increasing its fiscal space to 21.7 billion GBP by 2029-2030, a significant increase on the 9 billion GBP announced in March, but still a long way from the 31 GBP billion from 2010-2022. We expect revenue to rise by 26 billion GBP (raising the tax burden to an all-time high of 38% of GDP), but this will not happen until the end of the current legislative term, as many of the measures announced (freezing personal income tax thresholds, increasing pension contributions or tax increases on capital gains) will not come into effect until 2028-2030. However, the budget does include an increase in expenditure, which will push up the deficit in the short term. As a result, the Labour government has avoided a political cost (although it will have to wait and see if this has a positive impact on the polls), but it is neither addressing ongoing fiscal pressures nor introducing measures to try to boost weak economic growth.

Exchange rate

Albeit with some ups and downs, GBP has followed a downward trend against the euro throughout the year and is trading at just over 0.87 GBP per euro. We expect this depreciation trend to continue in the coming quarters. This reflects both domestic fiscal uncertainty and expectations of rate cuts by the BoE versus expectations that the ECB has already reached a neutral rate level.

Risks

The medium-term outlook for the UK is modest; we are forecasting weak growth, which will stand at 1.3% in 2025 and 1.2% in 2026. It is facing internal and external factors that could further weaken its economic performance.

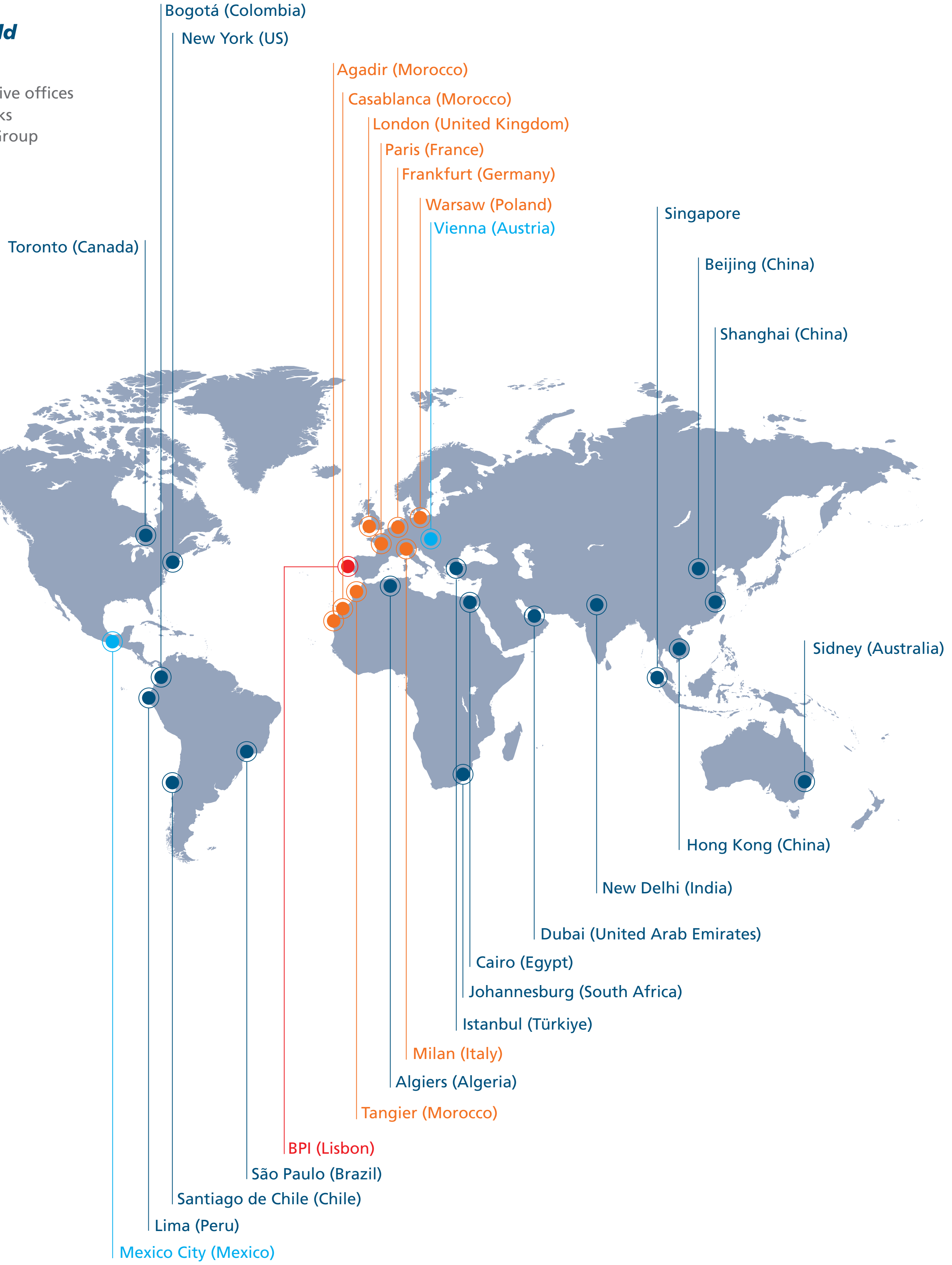
- **Internal risks.** The declining labour market, with employment falling and wages slowing, is placing further strains on private consumption, while uncertainty about monetary policy lingers: an unexpected upturn in inflation or tensions in the foreign exchange market could force the BoE to slow down rate cuts.
- **External risks.** The UK economy continues to be exposed to global weakness (further escalations in trade tensions could have a negative impact on its economy) and volatile energy prices, which could deepen the decline in the foreign sector. This is coupled with political risks – such as tensions over fiscal policy – and exchange rate movements: further depreciation of the pound, amid capital outflows or a loss of confidence, would make imports more expensive and could delay the disinflationary process. These factors are creating a scenario in which the UK recovery may be more fragile and protracted than expected.

Sovereign credit rating				
Rating agency	Rating*	Last changed	Outlook	Last changed
Standard & Poor's	AA	27/06/16	Stable	21/07/23
Moody's	Aa3	16/10/20	Stable	20/10/23
Fitch Ratings	AA-	27/03/20	Stable	22/03/24

Note: *A shaded cell indicates "investment grade" and an unshaded cell indicates "speculative grade".

CaixaBank in the world

- Branches
- Representative offices
- Spanish Desks
- CaixaBank Group



London/UK branch

20 Fenchurch Street. 23rd floor.
London. United Kingdom

Director: Victor Granero Valero
9491@caixabank.com