# United Kingdom



| | | | | | | | Forecast | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| GDP growth (%) | -10.1 | 8.5 | 5.0 | 0.4 | 1.1 | 1.2 | 1.1 | 1.1 |
| CPI inflation (%) | 0.9 | 2.6 | 9.1 | 7.3 | 2.5 | 3.4 | 3.0 | 2.8 |
| Fiscal balance (% of GDP) | -12.9 | -7.5 | -4.6 | -6.0 | -6.0 | -5.3 | -3.8 | -3.0 |
| Primary fiscal balance (% of GDP) | -11.7 | -5.4 | -1.0 | -3.7 | -4.0 | -2.7 | -1.1 | -0.3 |
| Public debt (% of GDP) | 104.4 | 103.0 | 97.1 | 98.3 | 99.4 | 102.1 | 102.0 | 102.5 |
| 10-year bond yield (%) | 0.3 | 0.7 | 2.4 | 95.9 | 4.1 | 4.6 | 4.9 | 4.6 |
| Reference rate (%)* | 0.10 | 0.25 | 3.50 | 5.25 | 4.75 | 3.75 | 3.8 | 4.2 |
| Exchange rate (EUR/GBP) | 0.89 | 0.86 | 0.85 | 0.87 | 0.85 | 0.86 | 0.86 | 0.87 |
| Current balance (% of GDP) | -2.8 | -0.8 | -2.0 | -2.5 | -2.9 | -3.0 | -3.3 | -3.2 |

**Notes:** *Annual average across all variables. Bank of England forecasts for GDP, CPI and the reference rate. All other figures: the IMF, WEO October 2026. Forecast for the 10-year bond yield, Bloomberg, as at 14 October 2026.
**Source:** CaixaBank Research, based on data from AMECO, the IMF, Bloomberg and the ECB.

## *Outlook*

**The UK is facing sluggish growth, with inflation on the rise**. The British economy has performed better than expected in the first half of the year, although activity in the private sector remains fairly weak, with both household consumption and investment negatively impacted by the energy *shock* caused by the conflict in the Middle East and the tightening of financial conditions. Meanwhile, inflation, which had fallen to 2.6% before the summer (having peaked at 3.3% in March), rose again to around 3.1% in August, driven by energy prices and certain service sectors. Overall, we expect the UK economy to grow by less than 1.0% this year and next, following growth of 1.3% in 2025. Meanwhile, inflation is not expected to return to the BoE's target on a sustained basis until late 2027 or early 2028, which would keep monetary policy in restrictive territory for longer than anticipated a few months ago.

**The state of public finances is the main cause for concern**. The Government is pursuing a strategy of gradual fiscal consolidation, which has the backing of the IMF, but its implementation is being hampered by rising energy bills, high borrowing costs and insufficient growth to generate a significant increase in tax revenue. Public debt could remain above 100% of GDP until nearly 2030, according to IMF estimates, and the latest budget outturn figures have heightened this concern: net borrowing between April and June reached 57.6 billion pounds (1.8% of GDP), almost 5.0% higher than initially forecast. Fiscal consolidation will continue to depend on sensitive political decisions on spending and revenue, at a time when an ageing population, rising defence spending and investments associated with the energy transition are increasing structural pressures on public accounts.

**The British sovereign debt market reflects concerns about the fiscal situation**. Yields on British government bonds (gilts) have risen significantly since the outbreak of the war in the Middle East. The IRR on the 10-year gilt has climbed above 5.3%, levels not seen on a sustained basis for more than two decades, while that of the 30-year bond has edged close to 6.0%, its highest level in almost 30 years. The yield curve shows a steep upward slope and reflects both expectations of interest rates remaining high for a longer period and a rising fiscal risk premium associated with the high volume of issuance required to finance public deficits. The Bank of England (BoE) itself acknowledges that financial conditions have tightened significantly since the outbreak of the conflict in the Middle East and that much of the rise in yields across all segments of the curve is due to higher risk premia and increased uncertainty. Indeed, the arrival of the new government led by Andy Burnham in July 2026 has introduced an additional element of uncertainty, due to the limited room for manoeuvre available to pursue its reform agenda whilst maintaining fiscal stability. Against this backdrop, the decision taken in mid-September to

scale back sales of long-term gilts as part of the quantitative tightening (QT) programme has provided some relief on yields along the curve, although it does not eliminate the structural pressure being exerted by high levels of debt.

**The pound has performed strongly against the major currencies**. The British currency has shown relative resilience against the euro, albeit within a broader weakening trend compared with 2024. Therefore, the pound has appreciated modestly against the euro over the year, reaching a rate of 0.86 EUR/GBP, having previously hit a high of 0.88 EUR/GBP in November 2025. This apparent strength against the euro is due more to the positive yield spread of gilts over the bund than to economic improvements in the country, given its weak growth and the decline in its fiscal position. Against the dollar, the pound has fluctuated within a wider range (1.33-1.37 GBP/USD), but remains well above the lows of 1.22 GBP/USD recorded in early 2025.

## Risks

The United Kingdom's risk balance is skewed slightly to the downside. Notable risks include:

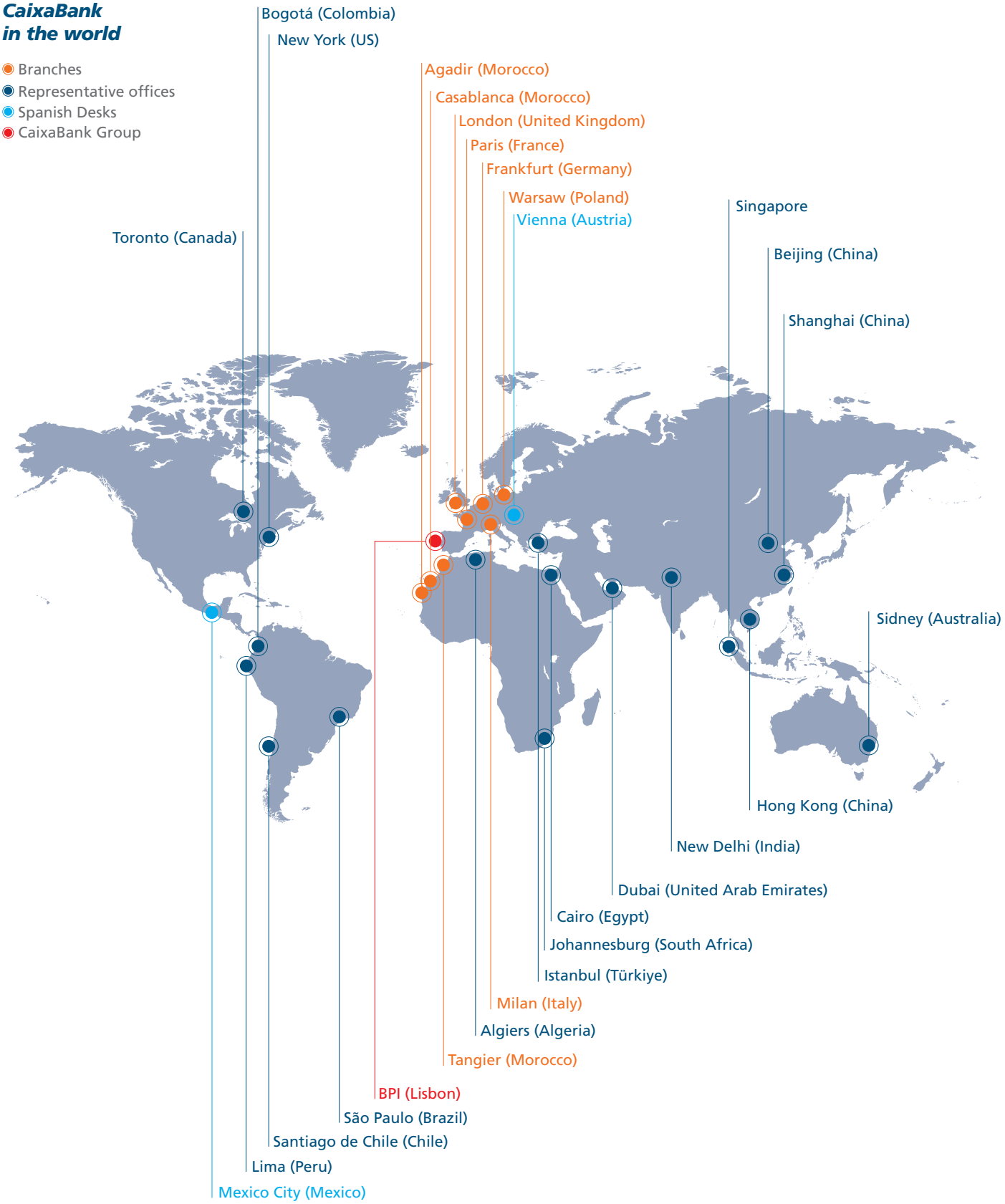
- **Political risk:** the new government's limited budgetary headroom increases the likelihood of tensions between its growth, public expenditure and fiscal discipline objectives, keeping British assets highly vulnerable to any political surprises.
- **Persistent inflation:** inflation remains well above the 2% target, limiting the scope for interest rate cuts and keeping funding costs high. Furthermore, a spillover of geopolitical tensions in the Middle East could keep oil and gas prices high, further fuelling inflationary pressures and undermining growth.
- **Fiscal deterioration and high *gilt* sensitivity.** The combination of low growth, persistent inflation, high funding costs and fiscal fragility has resulted in one of the most challenging sovereign risk profiles among major developed economies. The bond market continues to act as the main mechanism for steering UK economic policy; consequently, any significant deviation from budgetary targets could lead to periods of volatility, both in gilts and in pound sterling, and to a rapid rise in borrowing costs.
- **Currency risk:** the pound remains vulnerable to bouts of fiscal risk aversion; its recent performance is driven more by capital flows than by underlying economic strength. The pound's trajectory will largely depend on the relative path of monetary policy. If the BoE is forced to keep rates high due to persistent inflation, the interest rate differential would work in the pound's favour; however, a more accommodative shift by the Bank, or rate cuts that are more aggressive than those of the ECB and the Federal Reserve, would put downward pressure on the currency.

| Sovereign credit rating | | | | |
|---|---|---|---|---|
| Rating agency | Rating* | Last changed | Outlook | Last changed |
| STANDARD &POOR'S | AA | 27/06/16 | Stable | 21/04/23 |
| MOODY'S | Aa3 | 16/10/20 | Stable | 20/10/23 |
| FitchRatings | AA- | 27/03/20 | Stable | 14/08/26 |

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

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