INTERNATIONAL MONETARY FUND

IMF Country Report No. 25/204

UNITED KINGDOM

July 2025

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR UNITED KINGDOM

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with the United Kingdom, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 21, 2025 consideration of the staff report that concluded the Article IV consultation with the United Kingdom.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 21, 2025, following discussions that ended on May 27, 2025, with the officials of the United Kingdom on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 1, 2025.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the United Kingdom.

The document listed below will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
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IMF Executive Board Concludes 2025 Article IV Consultation with United Kingdom

FOR IMMEDIATE RELEASE

- An economic recovery is underway, with growth projected at 1.2 percent in 2025 before gaining momentum next year.
- The authorities' fiscal plans strike a good balance between supporting growth and safeguarding fiscal sustainability. It will be important to stay the course and deliver the planned deficit reduction over the next five years.
- The Bank of England (BoE) should continue to ease monetary policy gradually, while remaining flexible in light of elevated uncertainty.
- The authorities' Growth Mission covers the right areas to lift productivity. Given the breadth of the agenda, prioritizing and sequencing of structural reforms, along with clear communication, will be key to success.

Washington, DC – July 25, 2025: On July 21, the Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for the United Kingdom.[1]

The economy rebounded in Q1 2025, after weaker growth in the second half of 2024. The growth recovery in the first quarter was mainly driven by business investment. After easing to 1.7 percent in September, headline inflation picked up again in the fall mainly because of waning effects from lower energy prices. Wage growth continued to moderate as the labor market showed signs of easing. Monetary policy has remained restrictive, despite the gradual reduction in Bank Rate, and the stance of fiscal policy was broadly unchanged in FY2024/25 (relative to the previous year).

The economic recovery is expected to gain momentum this year and next. Growth is projected at 1.2 percent in 2025 and 1.4 percent in 2026, as monetary easing, positive wealth effects, and an uptick in confidence bolster private consumption, while the boost to public spending in the October budget will also help support growth. The forecast assumes that, all else equal, global trade tensions lower the level of UK GDP by 0.3 percent by 2026, due to continued uncertainty, slower activity in UK trading partners, and the direct impact of remaining US tariffs on the UK. The pickup in headline inflation that started in the second half of 2024 is expected to continue as a result of regulated price increases, the employer NIC rate hike,

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

and waning base effects from energy prices. The rise in inflation should nonetheless be temporary, and average CPI is projected to decline from 3.2 percent in 2025 to 2.3 percent next year.

Risks to growth remain to the downside. Tighter-than-expected financial conditions, combined with rising precautionary saving by households, would hinder the rebound in private consumption and slow the recovery. Persistent global trade uncertainty could also weigh on UK growth, by weakening world economic activity, disrupting supply chains, and undermining private investment. A significant rise in commodity prices risks intensifying inflationary pressures.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They noted that the economy is expected to recover modestly in 2025 before accelerating further in 2026, with inflation returning to target in the second half of next year after a temporary spike driven by one-off factors. They commended the authorities' efforts to foster policy stability and pro-growth reforms, but viewed domestic and global risks, including those stemming from trade tensions, as being tilted to the downside.

Directors concurred that the medium-term fiscal strategy appropriately supports growth, while stabilizing net debt. They emphasized the importance of staying the course and reducing fiscal deficits as planned over the medium term, which may require additional measures if risks materialize. Directors welcomed the recent improvements to the fiscal framework, and supported further refinements to improve predictability and reduce pressures for frequent policy changes. They encouraged continued efforts to improve spending efficiency and to address long-term pressures from ageing population, defense spending and climate transition.

Directors agreed that a gradual and flexible approach to monetary policy easing remains appropriate. Given elevated uncertainty, they noted that retaining flexibility to adjust the monetary stance in either direction is warranted. They welcomed the Bank of England's (BoE) implementation of the Bernanke Review, particularly the shift toward scenario-based communication, conditional guidance, and improved forecasting. They noted that the BoE's transition to a demand-driven repo-based framework is appropriate to mitigate balance sheet risks, while maintaining monetary control.

Directors recognized that the financial sector remains broadly resilient and that the macroprudential settings are appropriate. They underscored the importance of enhancing gilt market resilience amid rising global risks. They acknowledged the significant progress made in assessing and reducing vulnerabilities in the non-bank sector and encouraged further collaboration with other countries to mitigate financial risks. They encouraged steps to further strengthen the AML/CFT framework. Directors also emphasized that ongoing reforms should balance promoting growth with preserving financial stability.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Directors welcomed the authorities’ structural agenda which covers all relevant areas. They noted that careful prioritization and sequencing of policies will be key to success. They highlighted policy stability, planning reforms, and boosting human capital as the most important priorities, likely to deliver the largest growth benefits. Directors commended the authorities for their continued support of multilateral cooperation.

United Kingdom: Selected Economic Indicators, 2019-2030

(Percentage change, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
							Projections					
Real Economy (change in percent)												
Real GDP	1.6	-10.3	8.6	4.8	0.4	1.1	1.2	1.4	1.5	1.5	1.4	1.4
Domestic demand	1.9	-11.5	9.1	5.1	0.0	2.4	1.8	1.4	1.5	1.4	1.4	1.4
Private domestic demand	1.3	-13.1	7.2	7.2	0.5	0.8	1.3	1.6	1.5	1.5	1.5	1.4
CPI, period average	1.8	0.9	2.6	9.1	7.3	2.5	3.2	2.3	2.0	2.0	2.0	2.0
CPI, end-period	1.3	0.6	5.4	10.5	4.0	2.5	2.9	2.0	2.0	2.0	2.0	2.0
Unemployment rate (in percent) 1/	3.8	4.6	4.6	3.8	4.1	4.3	4.5	4.4	4.3	4.2	4.1	4.0
Gross national saving (percent of GDP)	15.6	14.6	17.2	16.6	14.3	15.0	13.1	13.2	13.5	13.5	13.7	13.9
Gross domestic investment (percent of GDP)	18.2	17.6	17.7	18.7	17.8	17.7	16.4	16.5	16.6	16.6	16.6	16.7
Public Finance (fiscal year, percent of GDP)												
Public sector overall balance 2/	-2.6	-15.1	-5.3	-5.0	-4.8	-4.7	-4.1	-3.5	-2.8	-2.6	-2.3	-1.9
Public sector primary balance	-1.3	-14.1	-3.2	-1.2	-1.7	-1.9	-1.1	-0.6	0.2	0.5	0.8	1.1
Public sector cyclically adjusted primary balance 3/	-1.4	-12.0	-3.6	-2.4	-1.9	-1.8	-0.8	-0.3	0.4	0.6	0.9	1.1
Public sector net financial liabilities (PSNFL) 4/	74.5	83.2	80.5	80.5	81.1	81.5	82.9	84.0	84.1	84.1	83.9	83.4
Money and Credit (12-month percent change)												
M4 (end-period)	3.8	12.6	6.4	1.6	-1.2	2.6	...	...	...	...	...	...
Net lending to non-fin private sector (end-period)	2.8	3.6	2.7	2.9	0.0	2.1	4.6	3.6	3.7	3.7	3.8	3.7
House Price Index (HMLR, end-period)	0.9	7.0	7.3	7.3	-2.7	4.0	...	...	...	...	...	...
Interest Rates (percent; year average)												
Bank Rate	0.8	0.2	0.1	1.5	4.7	5.1	4.1	3.2	3.0	3.0	3.0	3.0
Long Term Interest Rate	0.9	0.4	0.8	2.4	4.1	4.1	4.5	4.1	4.1	4.2	4.3	4.3
2y mortgage rate (75% LTV fixed rate,average)	1.6	1.6	1.4	3.5	5.3	4.8	...	...	...	...	...	...
5y mortgage rate (75% LTV fixed rate,average)	1.9	1.8	1.6	3.4	4.8	4.4	...	...	...	...	...	...
Balance of Payments (percent of GDP)												
Current account balance	-2.7	-2.9	-0.4	-2.1	-3.5	-2.7	-3.4	-3.3	-3.1	-3.1	-2.9	-2.8
Trade balance	-1.4	0.6	-0.2	-1.7	-1.1	-1.1	-1.1	-1.1	-0.9	-0.8	-0.7	-0.6
Exports of G&S (volume change in percent)	2.0	-11.8	3.2	12.6	-0.4	-1.2	0.3	1.1	1.2	1.2	1.1	1.1
Imports of G&S (volume change in percent)	2.7	-15.9	5.8	13.0	-1.2	2.7	1.9	1.2	1.3	1.1	1.1	1.1
Terms of trade (percent change)	0.7	1.5	-0.2	-3.9	1.0	3.6	1.7	0.2	0.4	0.4	0.4	0.0
FDI net	-1.5	-5.2	5.0	2.6	0.4	1.8	0.2	0.2	0.2	0.2	0.2	0.2
Reserves (end of period, billions GBP)	131.6	131.8	143.4	146.7	139.6	139.5	139.5	139.5	139.5	139.5	139.5	139.5
Exchange Rates												
Nominal effective rate (2010=100, year average)	97.8	98.3	102.6	101.0	102.2	106.5	...	...	...	...	...	...
Real effective rate (2010=100, year average)	98.6	98.8	102.6	101.3	103.9	108.3	...	...	...	...	...	...
Memorandum Items:												
Nominal GDP (billions GBP)	2,234	2,103	2,285	2,526	2,711	2,851	2,981	3,089	3,203	3,321	3,447	3,575
Nominal GDP (billions USD)	2,853	2,699	3,144	3,125	3,371	3,645	...	...	...	...	...	...

Sources: Bank of England; IMF's Information Notice System; HM Treasury; Office for National Statistics; and IMF staff calculations.

1/ ILO unemployment; based on Labor Force Survey data.

2/ Corresponds to the fiscal year beginning in April.

3/ In percent of potential GDP.

4/ PSNFL is a broader balance sheet metric than public sector net debt, that includes the Bank of England and additional liabilities (e.g. funded pension schemes), while subtracting a broad range of financial assets (e.g. student loans).

INTERNATIONAL MONETARY FUND

UNITED KINGDOM

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

July 1, 2025

KEY ISSUES

Context. The new government has launched bold reforms since taking office in July 2024. The efforts go in the right direction, but delivering on this agenda is challenging in a highly volatile global environment and with limited fiscal space. Economic activity is projected to gradually recover, driven by private consumption. The disinflation process is expected to continue despite a temporary uptick in inflation.

Policy Recommendations:

- **Fiscal policy.** The authorities' fiscal plans are growth-friendly and appropriately accommodate spending pressures and investment needs, while raising revenue to safeguard fiscal sustainability. Contingency measures can help quickly respond to adverse shocks, though managing longer-term spending pressures will require difficult choices. Further refinements of the fiscal framework have the potential to enhance policy predictability and reduce frequent changes to fiscal policy.

- **Monetary policy.** The gradual approach to policy easing continues to be appropriate, along with the transition to a demand-driven repo-based framework. Work should continue on strengthening the Bank of England's forecasting and communication capacity, in line with the recommendations of the Bernanke Review.

- **Financial stability.** The banking sector remains robust, and macroprudential settings are appropriate, although the global risk environment has deteriorated relative to last year's Art. IV report. The authorities have made significant progress on assessing and reducing NBFI vulnerabilities, with more action needed at both the domestic and international levels. Higher levels of uncertainty underscore the importance of enhancing the gilt market resilience.

- **Structural reforms.** The authorities' "Growth Mission" focuses on the right structural areas and is well aligned with past IMF recommendations, such as fostering policy stability, easing planning restrictions, and boosting skills. Prioritization, sequencing, and continued clear communication will be key to ensure quick wins and buy-in.

Approved By
Kristina Kostial (EUR) and Daria Zakharova (SPR)

The mission took place in London during May 12–27, 2025, with pre-mission outreach in Cambridge on May 9. The staff team comprised L. Eyraud (head), P. Deb, A. Hodge, L. Indraccolo (all EUR), E. Kemp (MCM), and B. Owen (ICD). The mission met Chancellor Reeves, BoE Governor Bailey, Financial Secretary to the Treasury Lord Livermore, FCA Chief Executive Rathi, senior HMT and BoE officials, analysts and think tanks, businesses, and trade union representatives. M. Evio, G. Li, and M. Gandhi (all EUR) supported the mission. UK Executive Director Ms. Poon and Mr. Obeney (OED) participated in the discussions.

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ANNEXES

CONTEXT

1. The new government has embarked on a bold agenda since taking office in July 2024. The agenda encompasses a wide range of policy changes, as part of a "Growth Mission" described by the Prime Minister as "the government's number one priority." On the fiscal side, the government has revised the fiscal rules, significantly increased public investment, health and defense spending, and introduced changes to the benefit system, among other initiatives. In the financial sector, the agenda aims to consolidate pension funds, unlock private investment in domestic capital markets, and promote a more pro-growth approach to financial regulations. On the structural front, efforts are underway to review planning laws, enhance the labor force skills, strengthen employee rights, and stimulate growth through a new industrial strategy. Alongside these significant reforms, the central bank is enhancing communication and forecasting while expanding its liquidity provision toolkit.

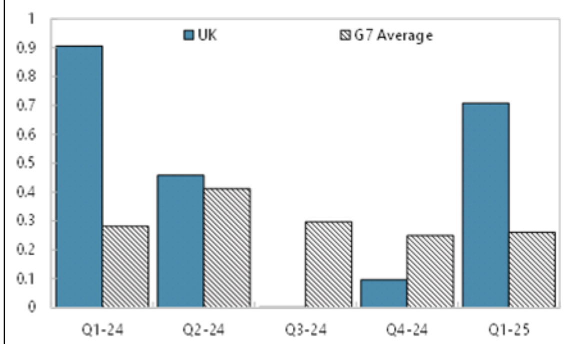
2. Delivering on this agenda will require overcoming significant challenges. First, shockwaves from trade policies and rapid geopolitical developments are affecting global growth and creating heightened levels of volatility in financial markets. Second, reforms may incur direct or indirect budgetary costs, but fiscal space is limited and constrained by an elevated interest burden and increasing demands on public resources, including defense and aging-related spending. Third, some initiatives are likely to challenge established interests and, while opposition is expected, the breadth of the authorities' agenda may amplify it. In refining their strategy, the authorities will need to navigate these challenges by carefully sequencing reforms, capitalizing on potential synergies, and prioritizing early wins to build momentum and garner support for more complex initiatives. Continued clear communication with the public and markets will also be essential.

3. This report offers recommendations on advancing reforms in a rapidly changing environment. They are anchored in the policy objectives of: (1) ensuring the medium-term fiscal strategy boosts growth while stabilizing debt; (2) completing the Bank of England (BoE)'s transition toward a smaller balance sheet while adapting the liquidity provision tools; (3) enhancing financial market resilience; and (4) prioritizing structural reforms toward creating a stable business environment, fostering private investment, and improving skills.

RECENT ECONOMIC DEVELOPMENTS

4. The UK economy recorded strong growth in the first quarter of 2025 after a lackluster performance in the second half of last year. Following a technical recession at end-2023, the economy rebounded in early 2024, with the UK growing faster than the G7 average in the first two quarters. This positive momentum waned subsequently, as domestic uncertainty increased ahead of the October 2024 budget, and confidence and hiring intentions dropped after the announcement of the National Insurance Contribution (NIC) hike.[1] At the same time, exports weighed on economic activity in a challenging global economic environment. As a result, GDP growth was flat in Q3 2024 and expanded by a modest 0.1 percent in Q4 (q-o-q). However, growth recovered significantly in Q1 at 0.7 percent q-o-q (mainly driven by business investment), and high-frequency indicators have generally shown signs of improvement in the first half of 2025 (Panel Figure 1).

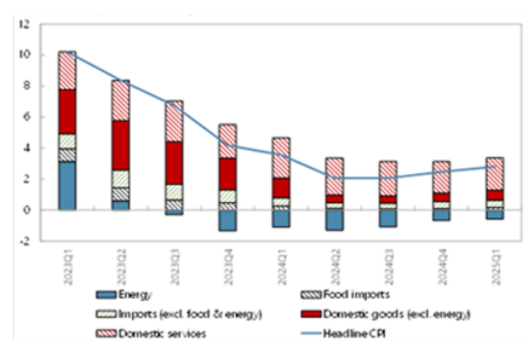
GDP Growth Rates
(Percent, Q-on-Q change)



Sources: Haver Analytics and IMF Staff Calculations.

5. Headline inflation eased markedly until mid-2024, and wage growth has moderated. Following a period of steady decline from a peak of 11.1 percent in October 2022 to 1.7 percent in September 2024, headline inflation picked up in the fall, mainly because of waning effects from lower energy prices, which had contributed to the disinflationary process in 2023 and the first half of 2024 (Panel Figure 2). Slowing wage growth has also played a role, by bringing down labor-intensive service inflation. In parallel, the labor market has shown signs of easing, with an increase in the unemployment rate and a fall in job vacancies (Panel Figure 3).

Headline CPI and its Components
(Year-on-year percentage points)

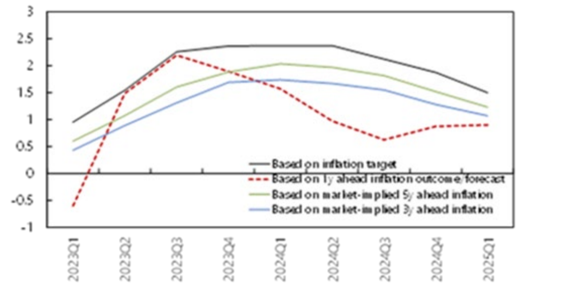


Sources: ONS and IMF Staff Calculations.

[1] The October Budget enacted an increase in the rate of employers' NICs from 13.8 to 15 percent, effective from April 2025.

6. **The monetary policy stance remains restrictive despite a gradual reduction in the policy rate.** As inflation pressures abated, the BoE has cut the Bank Rate by 100 bps from its peak in August 2024, with the Monetary Policy Committee (MPC) emphasizing a "gradual and careful" approach given persistent wage and services inflation. At 4.25 percent, the policy rate remains restrictive under a variety of measures of the neutral rate.[2] In September 2024, the BoE appropriately decided to maintain the size of quantitative tightening (QT) at GBP100bn a year over the next 12 months.

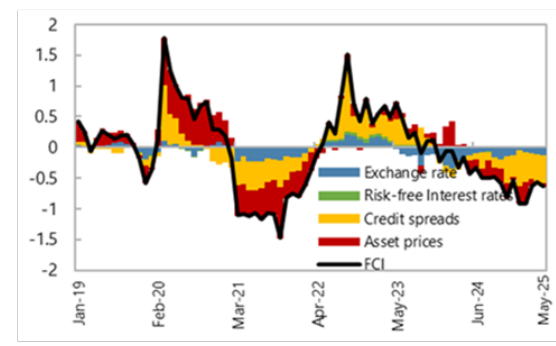
Monetary Policy Stance
(Percent)



Source: Haver Analytics and IMF Staff Calculations.
Notes: Monetary stance is calculated as the difference between the real interest rate (the Bank rate plus QT Impact and minus different reference rates on inflation) and the real natural rate at 1 percent. The forecast of the Bank Rate is based on the team's baseline conditioning assumption.

7. **After easing in 2024, financial conditions have tightened somewhat since early 2025.** In 2024, narrowing credit spreads on high-yield and investment-grade corporate bonds were the main driver in easing financial conditions, with a recovery in house and equity prices also contributing (Panel Figure 4). Private credit extension has grown, as bank lending to households and corporates expanded and non-bank lending to corporates continued (Panel Figure 5). Since the start of 2025, however, financial conditions have tightened somewhat, and in April 2025, financial market volatility spiked in reaction to global trade uncertainty, leading to a sharp repricing in financial assets.

Financial Conditions Index
(Higher index value - > tighter financial conditions)



Sources: Bank of England, Bloomberg and IMF Staff Calculations.
Notes: The FCI measures the overall ease or tightness of financial conditions in the economy, reflecting exchange rates, interest rates, credit spreads, and asset prices.

8. **The fiscal stance remained broadly unchanged in FY2024/25.**[3] Despite the nominal expenditure envelope being increased mid-year at the October 2024 budget and the negative effect on revenue of previously planned cuts to employee and self-employed NICs, the Cyclically-Adjusted Primary Balance (CAPB) ratio was roughly stable between FY2023/24 and FY2024/25. Public Sector Net Financial Liabilities (PSNFL)[4] increased by half a percent of GDP to reach 81.5 percent of GDP at end FY2024/25.

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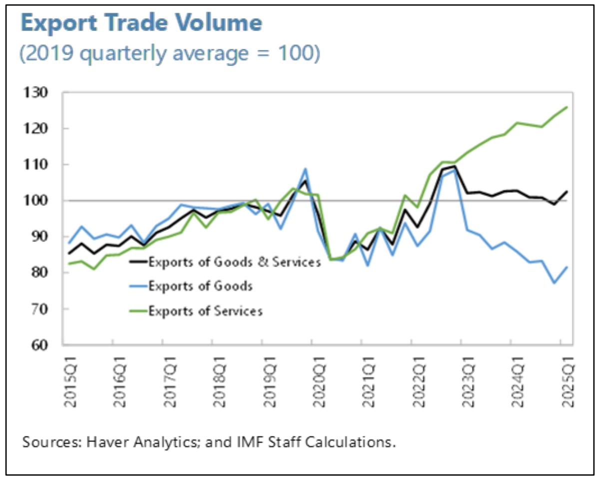
[2] Staff estimates a nominal neutral rate of 3 percent, while the BoE estimated a range of 2.25–3.75 percent in its February 2025 *Monetary Policy Report*.

[3] The UK fiscal year runs from April to March.

[4] PSNFL, which is the preferred balance sheet metric of the authorities, subtracts a wide range of financial assets from gross debt.

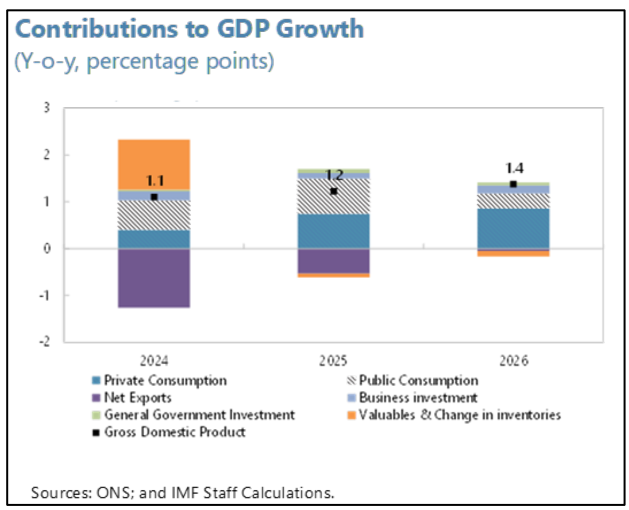
9. The current account (CA) deficit remained relatively high at 2.7 percent of GDP in 2024, amid sustained weakness in goods exports and negative net income. A 4.2 percent appreciation of the REER and production constraints in hydrocarbon and vehicles weighed down export growth, while import growth recovered in line with domestic demand (Panel Figure 6). Net primary income has deteriorated in recent years, as rising yields on debt liabilities outweighed profits from external equity assets. The external position is assessed as moderately weaker than implied by medium-term fundamentals and desirable policies for the UK (Annex I).



10. *Authorities' Views.* The authorities broadly agreed with staff's external assessment and Treasury officials noted that UK current account deficits are driven in part by the country's role as a global financial center. The authorities do not explicitly target the current account balance, but they expect that the fiscal consolidation path and structural reforms will contribute to a moderation in the deficit over the medium term.

OUTLOOK AND RISKS

11. After weakening in the second half of 2024, growth is expected to recover modestly over the course of 2025 and gain steam in 2026. Growth is projected at 1.2 percent this year and 1.4 percent next year. The recovery is assumed to be primarily driven by private consumption, reflecting monetary policy easing, positive wealth effects from asset price growth (including real estate), and an uptick in confidence. Higher public expenditure under the October budget and a ramp up in European partners' defense spending would further support the economy, while some forces that held back exports in recent years are expected to recede (exchange rate appreciation, elevated growth in labor costs, production constraints). The forecasts, which incorporate the May UK-US and UK-EU trade deals, assume that global trade tensions lower the level of UK GDP cumulatively by 0.3 percent by 2026, due to



persistent uncertainty, slower activity in UK trading partners, and the direct impact of remaining US tariffs on the UK.[5]

Assumptions Conditioning Staff's Forecasts	
Energy prices	Electricity prices are based on futures-implied path for natural gas that indicate a spike through 2025 (21.6 percent annual average increase), followed by a steady fall of about 7.2 percent per year through the medium-term. Oil prices are expected to fall by 13.9 percent in 2025 and 5.7 percent in 2026, before stabilizing.
Monetary policy and credit	The gradual policy easing is expected to continue, with the Bank Rate declining at a rate of one cut per quarter on average, converging to the estimated nominal neutral rate of 3 percent in 2026Q3. Credit growth to the non-financial private sector is expected to pick up and grow in line with nominal GDP over the medium term (average of 3.8 percent over 2025–30 compared to average monthly growth of 2.6 percent y-o-y over 2021-24).
Fiscal policy	Expenditure projections are fully aligned with the authorities' medium-term plans, detailed in the OBR March 2025 *Economic and Financial Outlook*, which account for pressures on public services and investment needs. Defense spending is expected to increase from 2.3 to 2.6 percent of GDP by FY2027/28. Revenue projections are also based on the measures announced by the authorities in the October 2024 budget and March 2025 Spring statement, although staff assumes a smaller revenue yield from tax compliance efforts, and that fuel duty is not uprated over the medium term.
Tariffs and trade deals	Growth projections incorporate the direct and indirect effects of tariffs effectively in place as of end-June 2025, and the assumption of a full implementation of the May 2025 UK-US and UK-EU deals. The UK-US deal entails: (1) a 10% tariff by the US in addition to the MFN rate on all goods imports from the UK, excluding autos and auto parts, steel, aluminum, aerospace, and pharmaceuticals, and (2) a 10% total tariff by the US on up to 100,000 UK auto car imports, after which a 25% tariff rate in addition to the MFN rate is assumed, and a 10% total tariff on auto parts. The UK-EU deal includes (1) a new security and defense partnership likely permitting UK participation in the Security Action for Europe defense Fund, (2) a veterinary agreement that will establish a shared UK-EU agrifood trade area, and (3) energy and emissions trading linkage allowing the UK to re-enter the EU's internal energy market.

12. Staff estimates the medium-term growth potential at 1.4 percent. The announced planning reform is estimated to improve potential growth in the outer years by 0.1pp compared to last year's Art. IV report, mainly through additional capital deepening and TFP gains coming from improved labor mobility—an order of magnitude similar to the OBR estimate in its *Economic and Fiscal Outlook* of March 2025. But growth remains subdued relative to its pre-GFC trend amidst weak productivity growth due to chronic underinvestment, an aging population, and diminishing labor supply contributions from immigration due to more restrictive policies.[6]

[5] The authorities describe the UK-US and UK-EU trade deals as initial steps toward more comprehensive agreements. Their impact on medium-term growth is estimated to be modest in light of the initial sectoral focus. Meanwhile, the direct impact of the remaining US tariffs is projected to lower UK GDP by only 0.1 percent by 2026, partly because UK goods exports to the US (excluding exempt categories) represent less than 2 percent of UK GDP.

[6] The government has pledged to reduce net migration, setting out plans in its May 2025 white paper. The measures include restricting visas for non-graduates and dependents of care workers and overseas students, reducing the length of post-study visas, and increasing the standard period for permanent resident status from 5 to 10 years, while improving visa routes for very highly-skilled individuals. Staff's medium-term growth forecasts are based on net migration assumptions that are consistent with the white paper's measures.

13. Inflation is projected to increase temporarily in 2025 driven by regulated and energy price changes. The pickup in headline inflation that started in the second half of 2024 is expected to continue as a result of regulated price increases, the NIC rate hike, and waning base effects from energy prices. These factors should have a strong but temporary impact, with headline inflation rising to 3.5 percent in 2025Q3.[7] Given base effects and the negative output gap, inflation should fall back quickly, returning durably to target in the second half of 2026. As a result, average CPI is projected to increase to 3.2 percent in 2025, before declining to 2.3 percent next year.

14. Although the budget raised the medium-term expenditure path significantly, the fiscal deficit ratio is still expected to decline gradually, and net financial debt would stabilize within five years. Under the plans announced in the October 2024 budget and the March 2025 Spring statement, primary spending will be on average 2½ ppts of GDP per year above the previous path. About one third is for public investment (0.8 percent of GDP per year), which will be funded through additional borrowing. The remaining two thirds are recurrent spending to relieve pressure on public services, which will be funded by higher revenue, mainly through an increase in employer NICs. Fiscal deficits are projected to decline by 2 ppts of GDP within five years. This decline is sufficient to stabilize PSNFL, which is projected to peak at around 84 percent of GDP (Panel Figure 7).

Change in the Authorities' Fiscal Plans
(OBR March 2025 vs March 2024 forecasts, percent of GDP)

	Average FY2024/25-FY2028/29
Primary Expenditure	**2.4**
Recurrent	1.6
Capital	0.8
Primary Revenue	**1.7**
Employer NIC	0.6
Other measures	0.3
Impact of macro forecast changes	0.8
Primary Deficit	**0.7**

Source: Office for Budget Responsibility and IMF staff calculations
Note: Primary expenditure is defined as public sector Total Managed Expenditure (TME) less interest expense. Capital spending is defined as total public sector gross investment, while recurrent spending is the residual. Primary revenue is public sector current receipts less interest and dividends. The impact of revenue measures is based on the direct effect, estimated by the OBR in October 2024. The annual changes in fiscal plans are expressed as a percentage of staff's baseline projection for nominal GDP in the relevant year, and these ratios are then averaged over the medium term.

15. Risks to growth are tilted to the downside. Global and domestic risks weigh on the near and medium-term outlook (see Risk Assessment Matrix in Annex II):

- Tighter-than-anticipated financial conditions, combined with households maintaining high savings rates for precautionary reasons, may hinder the rebound in private consumption and slow the recovery. In an environment of weak growth, persistent inflationary pressures may create "stagflation" risks, complicating the monetary policy stance and putting pressure on public finances. A significant rise in commodity prices due to international conflicts could further aggravate the situation.
- The medium-term fiscal plans are credible and take account of the spending needs. But they may be difficult to deliver given the uncertain macroeconomic outlook and political pressures (see paragraph 18).

[7] Tariffs are not expected to have a significant impact on inflation in staff forecasts, given the assumption of no UK retaliatory measures, although indirect effects (e.g., weaker economic activity) are mildly disinflationary.

- Further escalation in global trade tensions would dampen economic activity in both the short and medium term. Direct risks are limited given the May 2025 UK-US trade deal, but indirect effects could be more significant, arising from prolonged trade uncertainty undermining private investment, increased competition, and further weakening of global economic activity and supply chain disruptions, particularly if they affect services exports. Annex III presents an illustrative scenario with recommended policy responses.
- On the upside, the UK may benefit from a more comprehensive trade agreement with the US; from further cooperation and reduction of trade barriers through the UK-EU reset; and from trade diversion given the potential for higher tariffs on other countries that have substantial goods imbalances with the US. Higher public investment and planning reform could have stronger-than-anticipated spillover effects on the rest of the economy.

16. ***Authorities' Views.*** The authorities broadly agreed with staff's assessment of the outlook, acknowledging that monetary policy easing to date should support growth this year. They concurred that the anticipated rise in private consumption could be at risk if households maintain high savings for precautionary reasons given heightened economic uncertainty. Similar to staff, the BoE expects the impact of trade tensions on growth in its baseline forecast to be modest due to the large share of services in UK exports. The authorities noted that the impact could be more pronounced if indirect effects from lower global growth prove stronger than expected. They also assessed that further escalations in trade restrictions could dampen economic activity, although they highlighted that recent trade deals have significantly reduced uncertainty. The OBR forecasts stronger productivity and potential growth over the medium term compared with IMF staff, arguing that the subdued post-GFC trend provides a skewed picture due to successive shocks that hit the UK economy over the period. On inflation, the BoE, like staff, expects the recent pickup to be temporary, with a projected return to target in the second half of 2026.

POLICY DISCUSSIONS: TURNING AMBITION INTO ACTION

A. Fiscal Policy to Address Investment Needs and Preserve Sustainability

17. The authorities' medium-term fiscal strategy balances the need to boost growth with preserving sustainability. The revised medium-term spending envelope announced alongside the October budget accommodates well-known spending pressures, including on health and social care, as well as critical investment needs.[8] Taking better account of these pressures and needs, which are critical to boost productivity and growth, was a key recommendation of the 2024 Art. IV report. Funding the additional investment through borrowing is appropriate given its intergenerational benefits and lumpy nature, while higher revenue will offset the additional recurrent expenditure. Staff expects a positive growth impact of the government's fiscal strategy, since the multiplier associated with the growth-oriented new spending will likely be larger than the tax multiplier

[8] The Spending Review, completed in June, has allocated Departmental Expenditure Limits (DEL) over the coming years, in line with these priorities. DEL, which broadly comprises the discretionary budget of government departments, accounts for around half of public expenditure; the remainder is Annually Managed Expenditure (AME), which is mostly non-discretionary, such as welfare and interest payments.

associated with the revenue measures (although the higher NIC rates could have adverse effects on the labor market—see Annex IV).[9] The fiscal strategy appropriately envisages a tightening of the fiscal stance in FY2025/26 and in each subsequent year over the medium term to stabilize net financial debt and withdraw fiscal support to economic activity as monetary policy normalizes.[10] The risk of sovereign stress continues to be assessed as low (see Annex V).

18. Risks to this strategy must be carefully managed. In an uncertain global environment and with limited fiscal headroom, fiscal rules could easily be breached if growth disappoints or interest rate shocks materialize. The government may also face pressures to "top up" spending plans closer to 2030, since the real growth rate of departmental spending is projected to decline over the medium term, which could be challenging to deliver. To manage these risks, staff proposes a two-pronged strategy:

- ***Staying the course.*** Staff welcomes the authorities' commitment to deliver the planned deficit reduction and debt stabilization, which will require strictly adhering to the announced spending envelope. Future spending reviews should be used as a prioritization exercise, allocating spending across departments, without increasing its overall level. Given elevated uncertainty, the medium-term budget should be based on conservative growth assumptions to minimize the risk of revenue shortfalls.

- ***Contingency planning.*** In case the economic outlook deteriorates, growth-friendly contingent measures will likely be needed, which could be tax or expenditure-based. As recommended in recent Art. IV reports, potential tax measures include reforming property tax and removing VAT exemptions. On the spending side, the envelope could be adjusted through stricter prioritization and further efficiency savings, although unprotected departments have already faced significant reductions since the GFC. For example, efficiency improvements could be considered in the health sector (e.g., greater digitalization and streamlining of administrative processes), where measures of resource adequacy (hospital beds, doctors and nurses per capita) have fallen behind peer countries, despite similar levels of health spending per capita (see 2024 SIP).

19. Difficult decisions will likely be needed beyond the medium term to address new expenditure pressures and rebuild fiscal buffers. The effects of population aging are expected to drive spending higher in the long term, mainly in the areas of health and pensions. Under current policies, IMF staff analysis implies that spending would rise by around 8 percent of GDP by 2050, compared with 5½ percent of GDP, on average, in other advanced European economies (AEs). The

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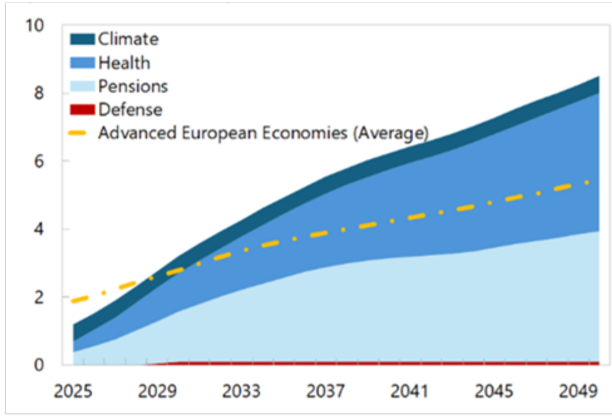
[9] The impact multiplier of public investment is estimated to be around 1, while the impact multipliers on recurrent spending and taxation are around 0.3, in line with OBR (2020).

[10] The medium-term fiscal adjustment plan is primarily revenue-based, relying on measures that have already been announced, including the higher employer NICs, the "non-dom" reforms for taxing new tax residents, and the freezing of personal income tax thresholds. Primary spending will also decline gradually after FY2025/26, including because of efficiency savings at the departmental level, outlined in the recent spending review.

UK has limited space to accommodate these pressures through borrowing, given that public debt is relatively high, the interest bill is larger than in other AEs, and additional buffers would be beneficial to reduce vulnerability to market pressures. Tough fiscal choices will therefore be needed. While the UK has scope to raise revenue, which is lower than in some G7 peers, its revenue ratio is close to a post-WWII high. Unless the authorities revisit their commitment not to increase taxes on "working people," further spending prioritization will be required, to align better the scope of public services with available resources. The authorities have already embarked on this process through recent reforms to incapacity and disability benefits, but other avenues for savings need to be considered. In particular, the triple lock could be replaced with a policy of indexing the state pension to the cost of living, as recommended in previous Art. IV reports. Access to public services could also depend more on an individual's capacity to pay, with charges levied on higher-income users, such as copayments for health services, while shielding the vulnerable. There may also be scope to expand means testing of benefits.

Additional Public Spending Pressures
(Percent of GDP, 2025–50)



Sources: Eble and others (2025), and IMF Staff Calculations.

20. Recent changes to the fiscal framework enhance the credibility and effectiveness of fiscal policy. At the October budget, the authorities substituted a current balance rule for the previous overall deficit rule, while expanding the perimeter of the net debt rule to include a broader range of financial assets and liabilities (PSNFL). These new rules will remain forecast-based, but their horizon will be shortened from five to three years (starting from FY2026/27). The authorities have also committed to reduce the number of fiscal events per year from two to one, and hold spending reviews every two years that produce detailed, three-year departmental forecasts. Staff sees these developments as broadly positive. The current balance and PSNFL rules protect space for public investment while safeguarding fiscal sustainability. The common three-year horizon for the rules and the spending review will make fiscal plans more credible, while still allowing time for gradual adjustment in response to shocks. The government's commitment to a single annual budget also has the potential to increase the stability of fiscal policy, which supports private investment and growth (see Annex VI).

21. Further refinements to the framework could enhance policy predictability and stability. A remaining challenge is that small forecasted deviations from medium-term rule targets tend to have a disproportionate effect on short-term fiscal policy. For instance, downgrades to macro-financial forecasts imply less headroom, putting pressure on the government to announce front-loaded corrective measures, which can be pro-cyclical and take place outside the single fiscal event. Symmetrically, positive surprises about the amount of headroom can create political pressure to cut taxes and increase spending, treating the extra headroom as fiscal space. In either case, these pressures are intensified by the hyper-focus of financial markets and the media on the concept of headroom. The following options, not mutually exclusive, could be considered to reduce pressure for overly-frequent changes to fiscal policy:

- ***Higher buffers.*** The first best would be to maintain more headroom under the rules, so that small changes in the outlook do not compromise assessments of rule compliance.
- ***De-emphasizing the concept of headroom in the public debate.*** The OBR communication about fiscal rule compliance could rely more on the following approaches: (i) *describe headroom differently,* in percentage points of GDP, or as a percentage deviation of PSNFL from the target, which could put small nominal changes in headroom into perspective; (ii) *report headroom as a range*, rather than a point estimate, using the fan charts already produced by OBR (e.g., 40th–60th percentiles); and (iii) give *more prominence to other indicators*, including gross financing needs, in fiscal policy analysis—many of which are already reported in OBR publications. Other stakeholders (authorities, think thanks, and media) could play a complementary role by highlighting these other metrics and alternative headroom descriptions in their public communications, while placing less emphasis on the nominal value of headroom.
- ***Annual assessment of rule compliance.*** The OBR could assess rule compliance only once per year ahead of the fall budget, while still producing bi-annual forecasts in line with best practice. Aligning the compliance assessment with the annual budget could help lower expectations for policy changes in the spring, although keen observers of the spring forecast could draw implications about rule compliance and headroom.
- ***More precise pre-requisites for supplementary budgets (outside the single fiscal event).*** If rules continue to be assessed twice per year, legislation could specify the conditions, including the size of the deviation from medium-term fiscal targets, under which fiscal policy would need to be adjusted when rules are breached. This would reduce pressure for supplementary budgets in the case of small breaches and would complement the margin for error that is already built into the current balance rule.[11]
- ***Proactive communication to manage market expectations.*** Continuing to telegraph and explain policy changes, including corrective fiscal measures and gilt issuance remits, in advance of formal announcements and implementation, can minimize the element of surprise and contribute to more stable financial conditions. Refraining from announcing new policy measures outside the single fiscal event would also contribute to policy stability.

22. ***Authorities' Views.*** The authorities view their fiscal strategy as underpinning growth, while responsibly stabilizing net debt over the medium term. Consistent with staff's view, they believe that the additional spending announced at the time of the October budget will be growth-friendly over the next five years, by making critical investments and addressing pressures on public services, including healthcare. The government has stressed that compliance with their fiscal rules is 'non-negotiable,' and is committed to delivering the planned deficit reduction over the medium term. They emphasize that the spending review's departmental allocations adhere to the medium-term envelope announced in the October budget. While they stand ready to implement contingency

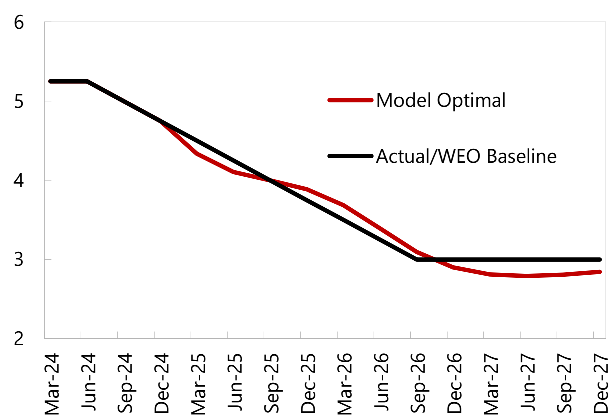
[11] Starting from FY2026/27, the current balance rule will be deemed to be met at the time of the spring OBR forecast if the current budget is either in surplus or in deficit by no more than half a percent of GDP.

measures if shocks materialize, the government has reiterated its promise to not raise taxes on 'working people.' Over the longer term, staff's analysis about the scale of spending pressures is broadly consistent with the OBR's report on fiscal risks and sustainability. The authorities note that spending plans and growth dividends of their structural reform agenda will help contain long-term public debt and spending pressures. They also note the forthcoming increase in the State Pension age and the next phase of the Pensions Review, which will consider the balance of all three pillars of the UK system—state, occupational and personal wealth, as examples of policies that will help mitigate these pressures. The authorities welcome staff's positive assessment of the recent changes to the fiscal framework and note with interest staff's recommendations for further refinements, agreeing on the importance of promoting stable fiscal policy.

B. Gradual Monetary Easing and Balance Sheet Transition

23. The gradual approach to policy easing continues to be appropriate. Calibrating the monetary policy stance has become more complex due to still weak growth and a widening negative output gap, a pickup in inflation, and higher long-term interest rates—some of these challenges have been aggravated by recent global trade tensions. Nonetheless, underlying inflation pressures, as measured by service inflation or wage growth, have continued to wane, while market inflation expectations remain broadly stable. Staff expects the recent rise in inflation to be short-lived due to muted second-round effects (given the labor market weakening[12]) and the one-off nature of regulated price changes and base effects from energy price dynamics. In this context, staff sees the continuation of the gradual pace of easing as striking the right balance between supporting the economy and managing inflation risks. This recommendation is further supported by model-based simulations that suggest an optimal path of one cut per quarter on average until reaching staff's estimate of the neutral rate (3 percent) in the second half of 2026.[13] That said, inflation and growth risks are elevated, and the balance of risks is quickly evolving. Given exceptional uncertainty over the next few months, caution is warranted, and the BoE should retain the flexibility to adjust the monetary stance in either direction.

Model Based Optimal Policy Projections
(Bank Rate, percent)



Source: IMF Staff Calculations.

24. The BoE's plan to strengthen its forecasting and communication capacity is welcome. The BoE has started implementing the recommendations of the April 2024 Bernanke Review. Monetary Policy Reports and other communications have increasingly relied on scenarios to show

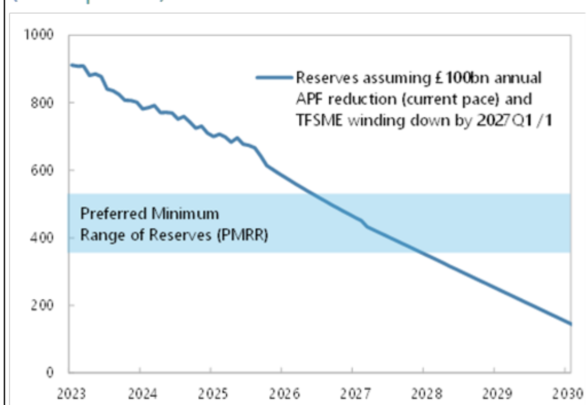
[12] There have been concerns about the quality of some statistics produced by the ONS, particularly labor market data from the Labour Force Survey, which are being addressed (see Annex VII).

[13] The model is similar to the "Constrained Optimal Policy Projection" toolkit used in the 2024 SIP on monetary policy.

how alternative interpretations of inflation persistence would impact the conduct of monetary policy. The BoE is using "conditional" guidance, with scenarios flagging the channels through which uncertainty could play out—this contributes to better disclosing its reaction function and risk management to the public. In this context, work needs to continue by: (i) *investing in modelling capacity, data, and personnel* to be able to quickly develop scenarios tailored to evolving economic circumstances; (ii) *enhancing communications around forecasts and scenarios*, with MPC members making greater use of the information from the central forecast and the alternative scenarios to justify the MPC decision and then explain their personal views; (iii) *considering to base the forecasts on an endogenous interest rate path,* particularly for alternative scenarios, to ensure consistency (as opposed to using market interest rates which tend to be volatile, are identical across scenarios, and may not reflect the MPC's views on future monetary policy); and (iv) *establishing processes to select and change the scenarios,* anchored by high-level principles, such as "parsimony" to avoid distracting from the central narrative, "policy relevance" to ensure focus on the scenarios that matter most for a given policy decision, and "conditional guidance" to help readers understand the central bank's response.

25. The BoE's decision to transition to a demand-driven repo-based framework with parsimonious reserves appropriately mitigates balance sheet risks while maintaining monetary control. The BoE, based on a 2025Q1 survey of market participants, estimates the minimum reserves to satisfy demand from commercial banks (PMRR) in the range of £385-540bn billion. At the current pace of QT, the BoE is expected to hit the PMRR level soon, with reserves reaching the point of scarcity by mid-2026. The BoE has decided to transition from a supply-driven system where reserves are created through outright asset purchases to a demand-driven one where reserves are provided predominantly via repo operations. This has the benefits of reducing the market footprint of the BoE and the balance sheet's exposure to interest rate risks, while maintaining monetary control, mitigating moral hazard,[14] and retaining flexibility for new QE in the future (repos can be quickly replaced by Asset Purchase Facility (APF) if needed, especially in times of financial stress).

Reserves at the BoE and the PMRR
(Billion pounds)



Source: Bank of England.
1/ Assuming repo facility usage (STR and ILTR) remains stable at current levels.

26. This transition calls for a review of instruments to address possible liquidity pressures. The shift toward a more parsimonious level of reserves necessitates two critical decisions regarding the central bank's asset composition:

[14] Repos tend to encourage prudent risk management and mitigate the expectation that the central bank will assume all the risks, since the underlying assets used as collateral are returned to the bank at the end of a repo operation.

- ***The allocation of reserves supplied through repo operations versus asset purchases.*** While staff supports the provision of reserves predominantly through repos, it still sees value in maintaining a small APF in the steady state, possibly with shorter maturities and aligning with currency in circulation. The APF could enhance the impact of BoE's liquidity operations on bank lending (as suggested by recent empirical analysis, see Rostagno and others 2025), foster financial stability in times of market disruptions, and reduce operational and duration risks by reducing rollover needs and allowing for better asset-liability management.

- ***Within repo operations, the allocation between short-term (STR) and long-term repos (ILTR).***[15] Both instruments are needed, with the STR addressing short-term needs and the ILTR providing longer-term liquidity and allowing for the use of a broader set of collateral (thus accessible by a wider range of banks). The ILTR also reduces operational risks associated with rollover of a larger volume of STR. Ongoing engagement with market participants, including through the recent consultation, can help address potential risks with the ILTR, including: (i) abuse of collateral transformation if the facility is excessively used by banks to comply with liquidity regulations and thus results in structural dependency on the BoE; (ii) complexity given the innovative variable-price, variable-size auction process;[16] and (iii) stigma associated with accessing repo operations.

27. ***Authorities' Views.*** The MPC has taken a "gradual and careful" approach to the withdrawal of monetary policy restraint. While highlighting substantial progress on disinflation over the past two years, MPC members continue to monitor closely the risks of inflation persistence, and what the evidence (including upcoming data) may reveal about the balance between aggregate supply and demand in the economy. The BoE is continuing work on implementing the Bernanke review recommendations, by strengthening modelling and data infrastructure, while moving toward a scenario-based approach in MPC communications. MPC members observed that scenarios were very helpful to better understand risks and their consequences, discuss the robustness of policy choices, and enhance internal discussion amongst MPC members and with BoE staff. The MPC is conducting its annual QT review, which will inform the MPC's decision on the pace of QT for the next 12 months. The BoE is also refining the tools to operationalize the transition to a demand-driven repo-based framework. While a majority of the reserves are expected to be backed by repos, a final decision on the steady-state level of gilt holdings by the BoE is still under discussion. In addition, the BoE noted that the exact mix of STR and ILTR will be determined by market demand. Work is continuing on recalibrating the ILTR, which is expected to become the primary source of liquidity to the banking system as QT and the Term Funding Scheme with additional incentives for SMEs (TFSME) unwind.

[15] The Short-Term Repo facility (STR) was introduced in October 2022, while the BoE initiated consultation in December 2024 on the Indexed Long-Term Repo (ILTR), with the goal of launching it in 2025. The ILTR supplements the STR by supplying reserves for 6 months (instead of one week under the STR) and against a broader range of collateral.

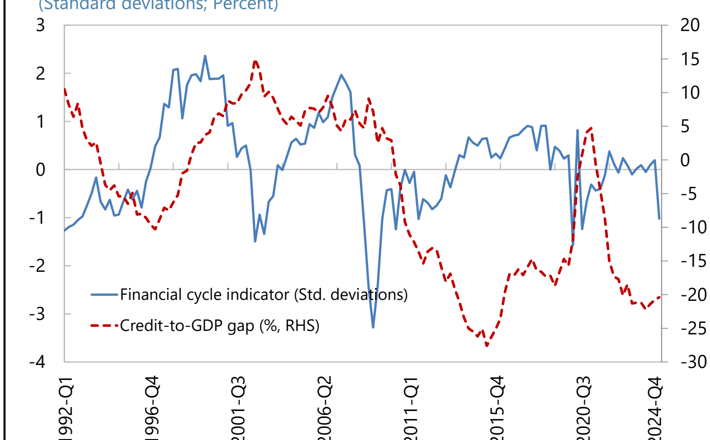
[16] At low levels of demand, the ILTR proposed auction process provides fixed amount against different types of collateral at minimum spreads; if demand is greater, larger amounts are available at higher spreads.

C. Financial Sector Policies to Foster Resilience and Growth

28. The banking sector remains broadly resilient. Household vulnerabilities have continued to decline against a backdrop of lower interest rates and higher wages, while the share of households in arrears or with high debt-servicing burdens is relatively low. The corporate sector has also been robust, and while the BoE estimates that the share of vulnerable corporates has increased, it is projected to stay well below historical peaks. The BoE's 2024 desk-based stress test showed that the banking system is strong enough to support households and businesses even during severe stress scenarios with negative aggregate supply and demand shocks. Overall, the banking sector remains sound, with adequate capital levels, sufficient liquidity, contained credit losses, and high levels of profitability. Furthermore, the 2025 Bank Resolution (Recapitalisation) Act will enable the Financial Services Compensation Scheme (FSCS) to provide funds to the BoE to recapitalize a failing small bank through resolution, and then recoup costs through industry levies. This will help minimize disruptions from small bank failures, but staff encourages prefunding the FSCS to an appropriate level to avoid moral hazard.[17] Finally, the Prudential Regulation Authority has postponed the implementation of Basel III by one year until January 2027, and kept the date of full implementation at January 2030. Staff continues to support full, timely, and consistent implementation of these standards to ensure a level playing field across jurisdictions while maintaining ample capital and liquidity.

29. Macroprudential settings are appropriate, but, in an uncertain global environment, financial stability risks have increased relative to the last Art. IV report. The UK's financial cycle is assessed to be in a mildly expansionary phase through most of 2024, with equity and house prices increasing.[18] Even though credit growth is relatively muted, and the credit gap remains negative, both consumer and corporate credit extension have continued to improve. In this context, staff supports the Financial Policy Committee (FPC)'s decision to maintain the countercyclical capital buffer (CCyB) at its two percent neutral level. That said, some risks have increased as corporate bankruptcies have risen, and more recently, asset prices and credit spreads have displayed elevated volatility in the context of global trade uncertainty, which in turn could

Financial Cycle Indicator And Credit-to-GDP Gap
(Standard deviations; Percent)



Sources: Haver Analytics and IMF Staff Calculations.
Note: The Financial Cycle Indicator tracks excesses in credit and equity markets relative to GDP, and in housing markets relative to income, with higher values signaling rising financial vulnerabilities. Credit-to-GDP gap is based on total credit to the non-financial sector.

[17] The absence of prefunding can exacerbate moral hazard if firms perceive that losses will be mutualized rather than imposed on shareholders and creditors.

[18] Real estate prices have risen at a moderate pace in the past year, against a backdrop of relatively high mortgage rates. Despite households' affordability constraints, a significant downward correction looks unlikely at this time, given limited supply and prevailing market expectations of rising house prices.

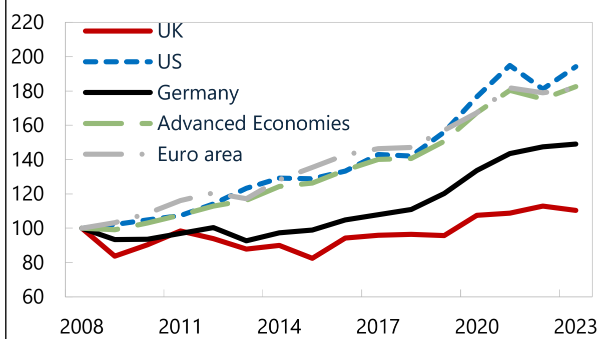
exacerbate refinancing challenges for highly-leveraged corporates. If financial conditions tighten significantly and result in a material increase in credit losses, the authorities should consider easing prudential policy to avoid exacerbating a credit downturn.

30. The authorities have made significant progress on assessing and reducing some NBFI vulnerabilities, and work needs to continue at both the domestic and international levels. With the NBFI sector accounting for more than half of the UK's financial assets and playing a prominent role in corporate lending, it remains important to monitor, assess and curb vulnerabilities in the sector. In this regard, the UK is playing a leading role globally, and has taken pioneering initiatives. The 2024 System-Wide Exploratory Scenario (SWES) exercise has improved the understanding of how NBFIs react in stress, thus facilitating the analysis of linkages and contagion risks between banks and non-banks. The development of a new contingent repo facility (CNRF) for appropriately regulated, resilient, and systemically important pension funds, insurance companies, and LDI funds, is also in line with recent Art. IV reports and FSAP recommendations (Annex VIII). The NBFI sector has remained broadly stable through periods of heightened market volatility during the past year. However, vulnerabilities remain given the sector's elevated leverage levels, concentration, growing interconnectedness with banks, and exposure to liquidity shocks including those from margin calls. Work to further reduce these vulnerabilities should continue, including at the international level given the large number of non-UK domiciled NBFIs as well as significant cross-border linkages of the system. In particular, staff encourages the authorities to continue working with the Financial Stability Board on new measures to monitor, contain, and mitigate the effects of NBFI leverage. Closing global and domestic data gaps continues also to be critical to enable a better system-wide assessment of risks. This includes data on Sterling asset holdings, private markets, and liquidity indicators of investment funds (Annex VII). Finally, the BoE could, in the future, consider expanding access to the CNRF facility so as to include a broader range of non-banks with a large gilt market footprint, provided they are adequately supervised and regulated.

31. High levels of uncertainty underscore the importance of continuing to enhance the resilience of the gilt market. The gilt market functioning has remained robust, and auctions have generally been well received, despite recent bouts of volatility as sovereign bond markets globally adjusted to higher government debt issuance plans and geopolitical developments. However, structural changes in the gilt market have rendered it more vulnerable. More patient investors like pension funds and insurers, which have traditionally tended to hold longer-term gilts, have scaled back their exposure in recent years, while the BoE is reducing its gilt holdings as part of QT. At the same time hedge funds and non-residents have become more prominent holders (see Panel Figure 5). Hedge funds are, by nature, more speculative, leveraged and tend to have concentrated positions; and thus could amplify volatility and liquidity shortages in case of a stress event. Furthermore, as illustrated by the SWES exercise, NBFIs could face liquidity pressures in such circumstances as banks become less willing to extend repo finance to them; a lack of gilt repo finance, in turn, would result in further gilt sales. While the CNRF could address some of these risks, staff recommends close monitoring and regular stress testing to provide insight into any escalating vulnerabilities. The authorities are also considering policies to enhance structural resilience, such as central clearing for gilt repo transactions, which is welcome. Finally, fiscal prudence remains of utmost importance, and the authorities should remain in close contact with market makers to assess demand for various tenors of gilts ahead of planned auctions. In this regard, the shift of issuance toward shorter-dated securities for FY2025/26 has been well received by the market.

32. The authorities' ongoing reforms of the financial sector and its regulations should balance promoting growth with preserving continuity and financial stability. Faced with several challenges, including the GFC, Brexit and low productivity growth, UK financial assets have grown at a much slower pace than in AE peers over the past decade, although they remain significantly larger as a share of GDP. Equity market capitalization declined, credit growth has been lackluster, and pension funds have reduced their risk appetite. In this context, staff supports the government's objective of further reinforcing the role of financial services as a driver of economic development, building on past initiatives, including the Edinburgh Reforms. Recent efforts to make the financial sector more efficient by reducing red tape (e.g., streamlining data collection by regulators and revising listing requirements), and enhancing financial infrastructure (e.g., shortening stock and bond settlement times) are welcome. Future growth-enhancing reforms should take financial stability implications into consideration together with the broader economic backdrop:

Total Financial Sector Assets
(Index 2008 = 100)



Source: Financial Stability Board.

- ***Pension fund consolidation.*** The authorities' plan to consolidate pension funds has the potential to reduce fees and expand access to diverse asset classes, although it will be important to manage unintended side-effects (such as herding of investment approaches and weaker competitive pressure). Mandating asset allocations should be avoided to ensure that pension funds remain able to effectively fulfill their fiduciary responsibilities and achieve the best outcomes for beneficiaries. The Pensions Regulator's remit should take into account financial stability considerations, as recommended by the FPC, to strengthen its ability to oversee the evolving pensions landscape and help manage potential risks.

- ***Recalibration of regulations***. Following the Chancellor's November 2024 Mansion House speech arguing that some regulatory changes after the GFC had gone too far, the government published remit letters for key financial authorities, emphasizing the importance of supporting growth and competitiveness. Reviewing financial regulations is warranted to simplify complex and outdated rules, but should be conducted cautiously to avoid creating new financial vulnerabilities and be well communicated. The primary objectives of financial authorities should remain safety and soundness, and any competitiveness objective should be subordinate to these.

- ***Broader business environment.*** Beyond the review of regulations, the financial sector reforms should be part of a broader strategy to bolster the sector's role in supporting sustainable economic growth, aligned with consistent tax, labor market, planning, and financial investment policies (see structural reform section).

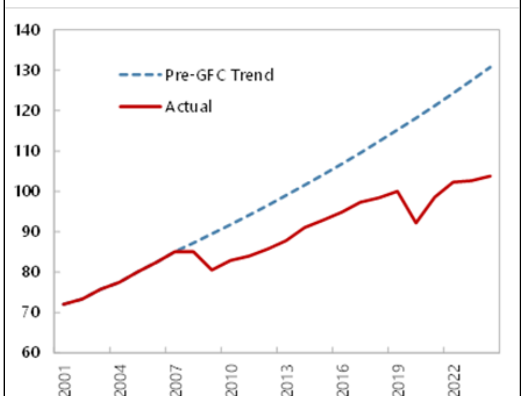
33. The AML/CFT regulatory and supervisory regime could be further strengthened to manage ML/TF risks. Staff encourages the authorities to continue implementing reforms under the Economic Crime Plan II 2023-26 to bolster effective risk-based supervision by the different AML/CFT supervisors. The Money Laundering Regulations should be revised to support coordination across the AML/CFT regime, while the authorities should continue to refine their framework to evaluate the effectiveness of the different supervisors. Systemically important and high-risk entities will be targeted by the FCA, as it implements its data-led, proactive supervisory strategy. The FCA also has a role in mitigating ML/TF risks posed by virtual assets through assertive supervision and proactive preparation for regulatory changes. Planned publication of an updated ML/TF National Risk Assessment and the development of a new Anti-Corruption Strategy are timely.

34. *Authorities' Views.* The FPC reiterated that the UK banking system as a whole is resilient. That said, the authorities concurred with staff that the global risk environment has deteriorated amid higher levels of uncertainty and saw a higher probability of adverse events. The FPC viewed macroprudential settings as appropriate with credit conditions reflective of the overall macroeconomic outlook. They also highlighted continued progress on mitigating NBFI vulnerabilities, and the BoE is in the process of onboarding eligible pension funds, LDI funds and insurers to its new CNRF facility. Following the SWES, the BoE plans to publish a Discussion Paper later this year, aimed at gathering views from market participants on reforms that could enhance the structure and resilience of the gilt repo market, including the case for considering central clearing of gilt repo transactions and minimum haircuts on non-centrally cleared repos. The authorities saw merit in financial sector regulatory reforms to enhance the efficiency of regulation and support the competitiveness of the sector without undermining financial stability.

D. Structural Reform Priorities to Deliver on the Growth Mission

35. Persistently weak labor productivity has been a primary driver of slow economic growth and stagnant living standards in the UK. As outlined in the SIP, the UK has faced a major trend decline in productivity since the GFC, further widening the gap with the US. While this challenge is shared with European peers, the UK has been hit harder by a series of adverse shocks (Brexit, Covid, energy price surge), leaving its GDP around a quarter below the level implied by the trend in the pre-GFC decades. The slowdown in productivity is multifaceted. Several factors have contributed, including chronic under-investment, limited access to

GDP
(Market Sector GVA, 2019=100)



Sources: ONS and IMF Staff Calculations.

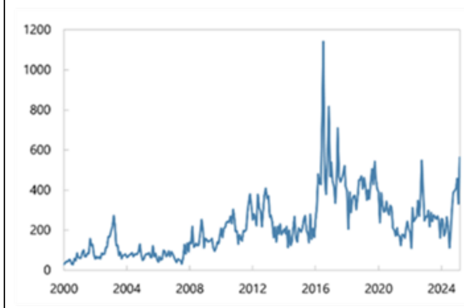
finance for businesses to scale up, skills gaps, challenges in retaining talent, low business spending on R&D, a deterioration in health outcomes, as well as the loss of pre-GFC productivity drivers such as North Sea Oil and the finance booms.

36. The authorities' structural agenda contains the right policies to reverse this trend, but prioritization will be key for success. In the October budget, the government articulated its "Growth Mission" around six pillars: (i) macroeconomic stability; (ii) investment, infrastructure, planning and housing ("capital"); (iii) people; (iv) innovation; (v) net-zero; and (vi) industrial strategy and trade.[19] While many reforms are still at the formulation and consultation stage, these pillars are broadly aligned with past IMF recommendations (Annex IX). To be most effective, policies should be sequenced, focusing on the most binding constraints to economic activity and accounting for implementation constraints and distributional effects, while ensuring internal coherence among reforms.[20] In this regard, staff views macro stability, capital, and people as the most pressing pillars of the Growth Mission. *Stability*, the foundation for growth, is vital for fostering confidence in an increasingly volatile global environment. On *capital*, the planning reform and complementary public infrastructure projects can lift the chronically-low private investment, which has weighed on productivity. Boosting *people*'s skills, enhancing their health, and incentivizing work will address shortages in sectors like construction and healthcare, and provide the productive workforce needed by growth industries. While the other pillars are also important, staff views them as complementary. They may either require a longer design or implementation timeframe or substantial fiscal resources. The remainder of this section explores each pillar.

Key Priorities: Stability, Capital, and Skills

37. Staff welcomes the government's commitment to economic policy stability. Since the GFC, policy uncertainty in the UK has remained high, including because of frequent changes to strategies aimed at enhancing growth and productivity, along with multiple revisions to fiscal policy and fiscal institutions (Annex VI).[21] This uncertainty can lead to increased borrowing costs (due to higher risk premia) and erode business confidence, which in turn discourages investment and hampers economic performance. The authorities have taken important steps to enhance policy predictability in the past year, including committing to a single annual budget and periodic spending reviews (see fiscal policy section). The ten-year infrastructure plan and industrial strategy also helpfully clarify the government's approach over a longer horizon. As the government aims to revise

Economic Policy Uncertainty Index



Sources: Baker, Bloom and Davis (2016), and Bloomberg.

[19] Staff uses a different categorization of pillars than the authorities Growth Strategy.

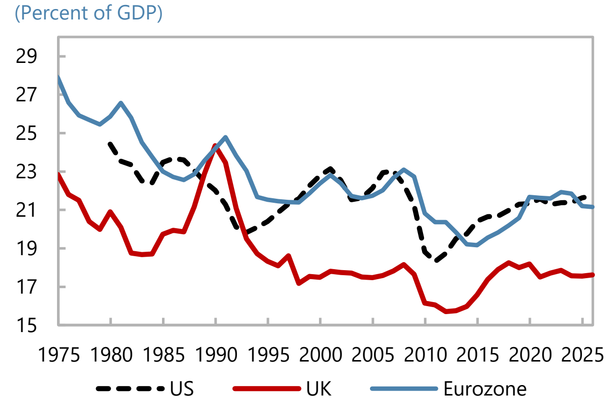
[20] For instance, it will be important that the pipeline of planned capital projects remains aligned with the infrastructure strategy, industrial strategy, National Wealth Fund's (NWF) priorities, and the medium-term budget.

[21] Baker, Bloom, and Davis (2016) construct a monthly economic policy uncertainty index for the UK based on references to policy uncertainty in newspaper articles, including monetary and fiscal policy uncertainty.

policies and regulations across numerous sectors of the economy, a gradual approach that is consistent and coordinated across policy areas is warranted to avoid destabilizing the business environment. Communicating the overall macro-fiscal strategy to financial markets and the public will contribute to a shared understanding of policy direction. Given the high level of uncertainty emanating from the external environment, staff encourages the government to continue advocating for a stable global trading system, pursuing deeper integration with other countries, and finding ways to resolve disagreements. In this context, recent efforts to strike trade agreements with key partners, including the EU, India, and the US, demonstrate the authorities' commitment to finding common ground and establishing a more predictable environment for UK exporters. The goal of such negotiations should be to reduce trade and investment barriers, while not increasing restrictions on non-members and mitigating potential spillover effects by minimizing discriminatory elements—such as the authorities' intention to develop the initial deal with the US into a more comprehensive agreement.

38. Planning reform is central to unlocking private investment. Capital accumulation in the UK has lagged other G7s since the GFC. Recent measures, such as the full expensing of investment in plant and machinery and higher public investment in the October budget, are steps in the right direction. While multifaceted reforms are required to enhance the business environment as discussed in the 2023 SIP, one of the most important relates to easing excessively-stringent planning restrictions that have severely inhibited the construction of new housing and infrastructure projects, raising investment costs and constraining labor mobility and productivity.[22] Initiatives already underway to unblock priority infrastructure projects, changes to the National Planning Policy Framework (including the release of some green belt land), and the reintroduction of mandatory housing targets represent significant progress. As discussed in the 2024 SIP, a more radical overhaul of the planning system is warranted, and the proposed Planning and Infrastructure Bill (introduced in parliament in March 2025) aims to do this by simplifying and improving decision-making in the planning process, reducing uncertainty, encouraging strategic planning at a regional level, and introducing a new approach to environmental protection.[23] While politically challenging, it will be essential to deliver on these proposed reforms, along with adequate resourcing and support for local planning departments, to break the status quo and NIMBYism (Not in my Backyard) that has plagued the system.

Gross Fixed Capital Formation
(Percent of GDP)



Source: WEO

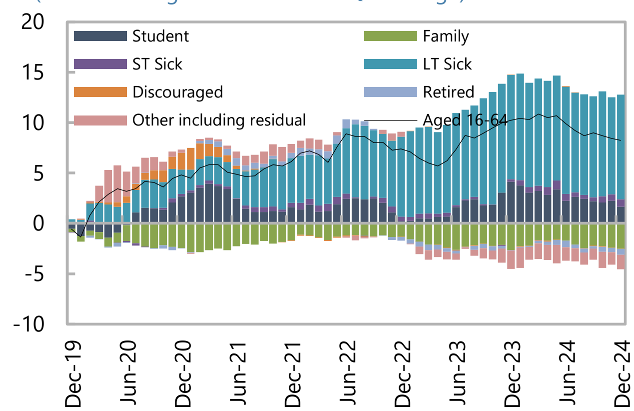
[22] Workers find it difficult relocate to job centers and cities with more productive jobs due to housing constraints driven by planning restrictions; or have to contend with long commute times (for example, see Cheshire, Hilber and Koster, 2018; Hsieh & Moretti, 2019).

[23] For example, developers will be allowed to contribute to a "Nature Restoration Fund" to offset the environmental impact of a new development, instead of case-by-case conservation measures.

39. The UK also needs to make better use of its existing workforce. Over the past two decades, the UK has succeeded in maintaining strong labor supply growth, through immigration and impressive gains in labor force participation. But an aging population and the policy choice to moderate the levels of inward migration mean that the focus must shift toward upskilling the existing population. Although likely to take time, this requires addressing two interrelated challenges—inactivity and skill shortages:

- ***Inactivity*** has risen sharply since the pandemic, with close to a million people out of the workforce, a majority due to long-term illness. The increase is across all age groups, including prime working-age workers affected by mental health issues, with the UK being an outlier relative to other AEs. Reforms should: (1) relieve pressures on the health system by delivering the additional funding for the NHS allocated in the spending review, improving efficiency, and focusing more on prevention to reduce working-age ill health; and (2) incentivize work for those capable of reentering the labor force, with a key measure being the ongoing reform to incapacity and disability benefits, which could promote employment by tightening eligibility criteria.

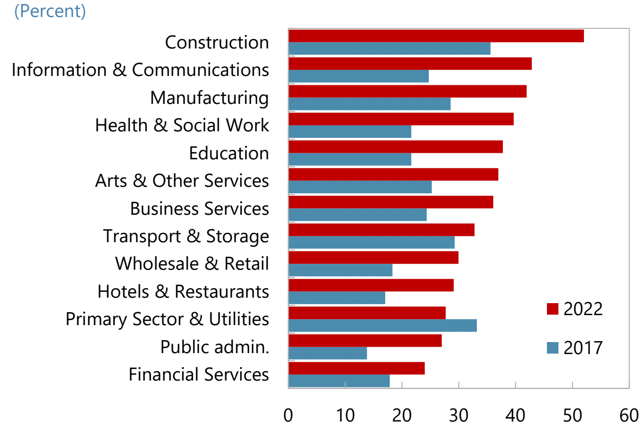
Economic Inactivity Decomposition by Reasons
(Percent change relative to 2019Q4 Average)



Sources: ONS; IMF staff calculations.

- ***Skill development*** must be prioritized to alleviate chronic shortages in key growth sectors like digital and software, manufacturing, medicine and life sciences, teaching, and construction. This calls for renewed effort to provide more and better-quality training and apprenticeships, reverse the decline in STEM outcomes, and encourage younger workers to enter future growth sectors, including dependents of migrants ([2024 SIP](), [April 2025 WEO Chapter 3]()). Many of these themes are featured in the authorities' *Get Britain Working* White Paper, but require further spelling out. The new Skills England agency should help coordinate and prioritize policies in this area. Efforts to improve job security and employment protections as part of the Employment Rights Bill could also encourage on-the-job training.

Proportion of Skill-Shortage Vacancies by Sector
(Percent)



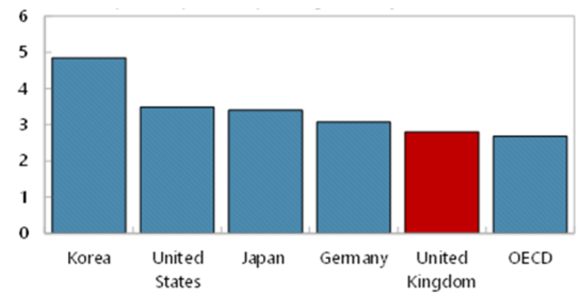
Sources: Employer Skills Survey, 2022.

Complementary Policies: Innovation, Energy Security, and Industrial Policy

40. The authorities' innovation strategy has the potential to stimulate technological advancements at the frontier, but also needs to trickle down to the wider economy. Despite generous tax policy incentives, spending on research and development (R&D) activities stands below that of many other AEs. The UK's scientific base and universities are of high quality, but the challenge is to translate scientific achievement into productivity gains. Beyond public R&D, complementary policies can further help create innovation-friendly environments, including by improving firms' access to finance, incentivizing their investment in workers' training and skills, and supporting collaboration between universities and private investors. In this context, the authorities have announced the creation of innovation hubs, which are expected to generate positive knowledge spillovers. The authorities also plan to expand the AI sector. While the UK's leading firms are well equipped to benefit from investments into AI and other innovations, it will be critical to ensure that these benefits spread to the rest of the economy and contribute to broader productivity growth. Greater diffusion and adoption of digital technologies can be facilitated, for example, through more active labor market policies, including grants or tax allowances for SMEs that invest in workers' human capital.[24] Besides challenges in upskilling their workforce, SMEs tend to face more difficulties in securing financing to cover the high fixed set-up costs related to AI and digital technologies, with banks unlikely to accept intangible assets as collateral for loans. Government institutions, like the National Wealth Fund (NWF), could help overcome these financial constraints (see below).

Gross Domestic Expenditure on R&D

(Public and private expenditure, percentage of GDP, year 2022)



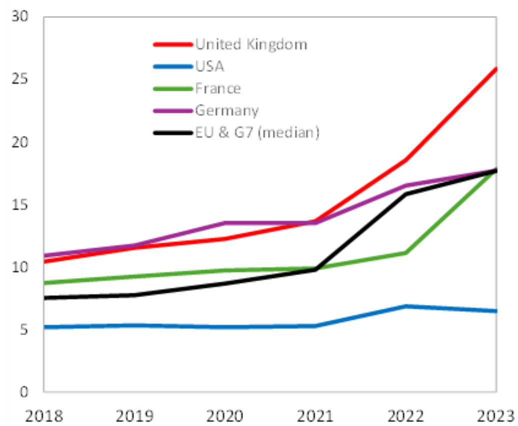
Sources: OECD and IMF Staff Calculations.

41. The UK's climate and energy strategy offers an opportunity to enhance energy security and deliver more stable prices, while reducing emissions. The UK has substantially reduced emissions in the past three decades, with encouraging progress made more recently with the uptake of electric vehicles and heat pumps (Panel Figure 8). But the reduced use of coal as well as the drawdown in North Sea oil and gas production have increased reliance on imported gas and heightened vulnerabilities, reflected in energy prices that have remained elevated since Russia's invasion of Ukraine (SIP 2023). High and volatile energy prices deter investment and are a constraint on growth. The authorities target clean power by 2030, aiming to generate at least 95 percent of Great Britain's electricity from renewable sources and nuclear, compared to 60 percent currently. This should help stabilize electricity prices and prevent the risk of large spikes, while reducing emissions. A recent assessment by the UK National Energy System Operator suggests that achieving the clean power target will be challenging, although within reach with timely implementation of key actions. Planning reforms will facilitate the necessary private investment in generation and transmission. Energy security can be further bolstered through continued progress across the UK's

[24] In 2023, SMEs accounted for almost half of total employment in the UK.

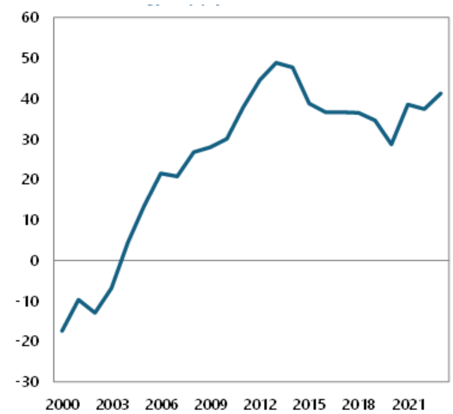
emissions reduction policies at the sectoral level (e.g., electrical vehicles and electric heat pumps), which will reduce reliance on imported fossil fuels (Dolphin and others, 2024).

Industrial Electricity Prices
(Pence per kWh inc. taxes)



Sources: International Energy Agency, DESNZ and IMF Staff Calculations.

Net Energy Import Dependency
(Percent of energy supply)



Sources: UK Government, Digest of UK Energy Statistics 2024.

42. Under certain conditions, sectoral interventions can overcome barriers to investment and boost productivity. The government launched a new high-level industrial strategy in June, following a public consultation. The strategy is aimed at overcoming barriers to growth in eight sectors, while ensuring evenly distributed prosperity across regions. While industrial policy (IP) can be implemented in many ways, investments through the NWF[25] are a particular focus for the authorities.

- ***Overall strategy.*** Public interventions can overcome market failures and boost private investment and growth. International experience shows that IP must be carefully designed to unlock its benefits and mitigate risks, and the bar is high to get it right. IP should be targeted based on evidence of market failures where horizontal policies alone are insufficient. Cost-benefit analysis and performance monitoring can ensure that the interventions have a net positive benefit. Making them subject to strict budgetary limits, over a fixed time period, will facilitate medium-term budgetary planning and limit fiscal costs. Empirical analysis conducted in the SIP suggests that some UK sectors like advanced manufacturing exhibit more acute market failures and could benefit the most from public support, which could be implemented using a wide range of instruments, some of them entailing a budgetary cost.

- ***National Wealth Fund.*** The NWF makes financial investments in private projects through equity injections, loans and guarantees, to support growth and clean energy. The authorities have provided the NWF with capital of around one percent of GDP, with the goal of catalyzing three times this amount in private investment. Like other policy banks, the NWF's challenge is to satisfy the competing objectives of unlocking truly "additional" investment,[26] generating

[25] In October 2024, the UK Infrastructure Bank became the NWF, with its mandate expanded beyond infrastructure to pursue a wider industrial strategy.

[26] "Additionality" means that the private project would not have happened without public support.

sufficient return on projects to cover the financing costs,[27] and minimizing fiscal risks. In order to strike the right balance between these objectives, rigorous project appraisal processes and additionality requirements are key to ensure that the selected projects are profitable, socially beneficial, exhibit clear market failures, and align with the authorities' industrial strategy and infrastructure plan. Equally critical are adequate risk management and reporting. While the NWF's risk management framework is sound, it should be further developed, including by publishing quantitative limits on exposure to different types of risk, supported by oversight from the UK Treasury. A comprehensive approach to reporting on contingent liability risks and statistical classification risks is important to monitor fiscal costs.

43. ***Authorities' Views.*** The authorities noted that their ambitious growth mission is largely aligned with past IMF advice, and while acknowledging staff's call for prioritization, counterparts highlighted synergies amongst various elements of the reform agenda and the importance of taking a holistic approach. The "mission boards," which bring together different departments in the pursuit of individual missions, ensure consistency and stability, while addressing policy tradeoffs. Reforms are being sequenced in terms of delivering fiscal stability first, followed by driving investment and removing barriers, and reforming the wider economy. In this context, the authorities highlighted the importance of planning reforms, which they saw as critical to remove hurdles for investment. The significant increase in public investment for transportation, energy and other growth-enhancing infrastructure will also play a catalytic role. There was a renewed emphasis on upskilling the labor force to address business needs in key sectors like construction, with greater emphasis on short courses and training with quicker payoff. The authorities also underscored the need to promote innovation, including by financial sector reforms aimed at facilitating access to scale up finance for high-growth businesses. Regarding the green transition, counterparts outlined continued progress in achieving emissions reductions, with a strong electric vehicle uptake. Achieving the clean power objective will bolster energy security and help stabilize electricity prices, which will be beneficial for growth. The authorities broadly agreed with staff's recommendations for successful IP, including the importance of targeting market failures in specific sectors, although the new industrial strategy also includes targeted economy-wide (horizontal) reforms. They noted that the NWF is making good progress in identifying appropriate investments, and explained that a rigorous risk management and reporting regime was already in place. Finally, the authorities remain committed to mitigating transnational aspects of corruption (Annex X).

STAFF APPRAISAL

44. An economic recovery is underway and is expected to gain momentum. Growth is projected at 1.2 percent in 2025 and 1.4 percent in 2026, as monetary easing, positive wealth effects, and an uptick in confidence bolster private consumption. The forecast assumes that, all else equal, global trade tensions lower the level of UK GDP by 0.3 percent by 2026, due to continued

[27] The UK's Financial Transaction Control Framework requires that the portfolio of NWF investments, when assessed as a whole, delivers a return over time that is at least sufficient to cover the government's borrowing costs.

uncertainty, slower activity in UK trading partners, and the direct impact of remaining US tariffs on the UK.

45. Risks to the outlook remain to the downside. Tighter-than-expected financial conditions, combined with households maintaining high savings rates for precautionary reasons, could slow the recovery. Persistent global trade tensions would also weigh on UK growth. The UK's progress in negotiating and deepening trade agreements, including with the EU and US, could help mitigate some of these downside risks by reducing trade restrictions and minimizing discriminatory elements that could fuel further trade tensions.

46. The authorities' medium-term fiscal strategy appropriately supports growth, while stabilizing net debt. The new spending plans, which take account of pressures on public services and investment needs, are expected to provide an economic boost over the medium term that outweighs the impact of higher taxation. As revenue is projected to increase, deficits are set to decline, stabilizing net debt. Nonetheless, there are significant risks to the implementation of the fiscal strategy. It will be important to stay the course and reduce fiscal deficits as planned over the medium term, which may require additional measures if risks materialize. In the longer term, tough policy decisions on spending priorities and the role of the state in certain areas will be needed to better align the coverage of public services with available resources.

47. While recent reforms of the fiscal framework enhance its credibility and effectiveness, further refinements could improve predictability and reduce pressure for frequent policy changes. Staff welcomes the authorities' commitment to a single annual fiscal event, but notes that small revisions to the economic outlook can erode the headroom within the rules and tend to have a disproportionate effect on short-term fiscal policy. Policy stability could be enhanced by further refinements to the fiscal framework, such as de-emphasizing point estimates of headroom in OBR assessments of rule compliance or assessing rules only once per year at the time of the fiscal event.

48. A gradual and flexible approach to monetary policy easing remains appropriate, while the BoE should continue to strengthen its modelling capacity and scenario-based communication. Although monetary policy calibration has become more difficult due to below-trend growth, the temporary rise in inflation, and high long-term interest rates, staff sees the BoE's gradual pace of easing as appropriate. Given the elevated uncertainty, the MPC is encouraged to retain flexibility to adjust the monetary stance in either direction if needed. Staff welcomes the implementation of the Bernanke Review and the use of scenarios and conditional guidance in the BoE's communications. The BoE will benefit from continuing to invest in modeling capacity, data and personnel. As the balance sheet normalizes, transitioning to a demand-driven approach, with reserves provided to banks mainly through repo operations, will reduce BoE's market footprint and limit its exposure to interest and credit risks. The transition is being accompanied by a timely review of BoE instruments.

49. The financial sector remains broadly resilient, but ongoing reforms should balance promoting growth with preserving financial stability. Macroprudential settings are appropriate, although global risks have risen in the past year. Significant progress has been made in assessing and reducing vulnerabilities in the non-bank sector; work should continue at the domestic and international levels to close data gaps and better monitor and manage non-bank leverage, concentration, and liquidity risks. Recent episodes of global bond market turbulence underscore the importance of enhancing gilt market resilience. Staff recommends close monitoring as well as regular stress testing and engagement with market participants to detect and manage future risks, while the authorities' plan to enhance structural resilience, including by considering central clearing for gilt repo transactions, is welcome. Finally, staff supports the government's aim of enhancing the role of financial services as a driver of growth, but risks will need to be carefully managed. In particular, regulatory reforms should balance simplification and modernization with mitigating vulnerabilities.

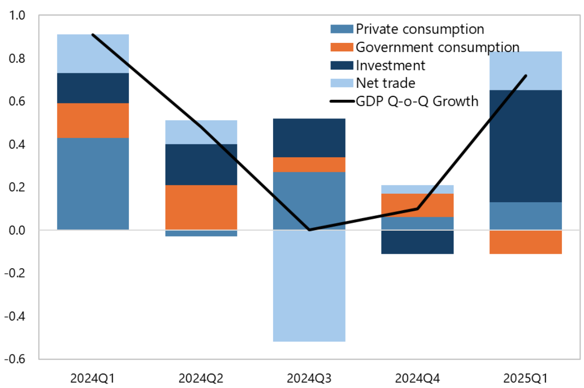
50. While the authorities' structural agenda covers the right areas and is broadly aligned with past IMF recommendations, careful prioritization and sequencing of policies will be key to success. Delivering on the "Growth Mission" involves significant challenges given limited fiscal space, the breadth of the reforms, and the volatile external environment. In refining their strategy, the authorities will thus need to carefully sequence reforms, ensure internal coherence among them, and prioritize early wins. Staff views policy stability, planning reforms, and boosting human capital (skills and health) as the most important aspects, as they are likely to deliver the largest growth benefits, while laying a strong foundation for progress on other fronts. Furthermore, economy-wide reforms should remain the main tool to boost competitiveness and growth, while sectoral interventions, as part of the new industrial strategy, can play a complementary role in sectors subject to clear market failures.

51. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. United Kingdom: Real Sector Developments

After weakening in the second half of 2024, growth rebounded in 2025Q1, …

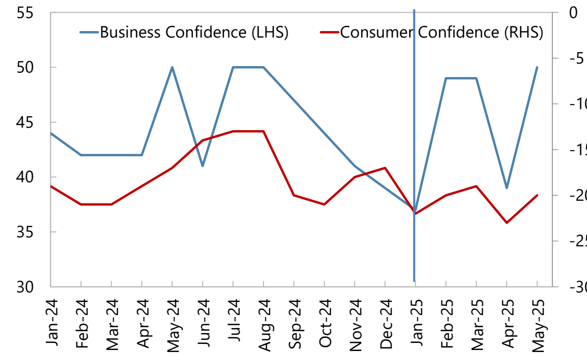
Contribution to GDP Q-o-Q Growth
(Percentage points)



Sources: ONS and IMF Staff Calculations

…and should gain momentum this year, partly due to improved confidence.

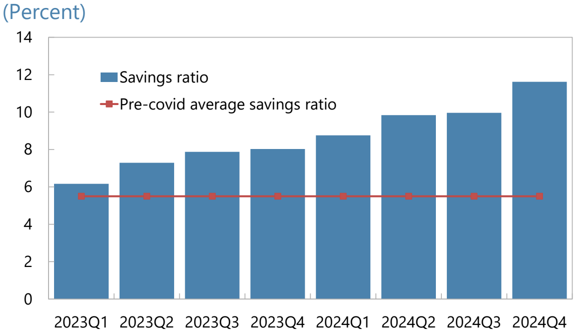
Consumer and Business Confidence
(Percent balance)



Sources: Gfk/European Commission; Lloyds Bank; and Haver Analytics.

The recovery would be driven by an expected normalization of the still elevated savings ratio….

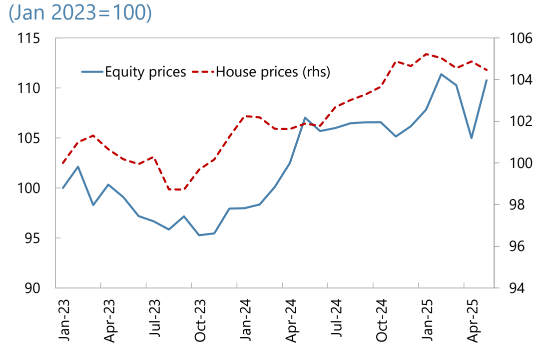
Household Savings Ratio
(Percent)



Sources: ONS and IMF Staff Calculations
Note: Pre-covid average savings ratio refers to period 2016-2019

…due to the easing of interest rates and stronger asset prices.

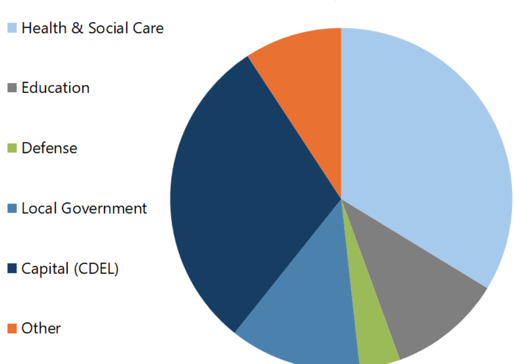
Asset Prices
(Jan 2023=100)



Sources: Haver Analytics and IMF Staff Calculations.

Growth is expected to strengthen further in 2026-27, partly due to higher public spending….

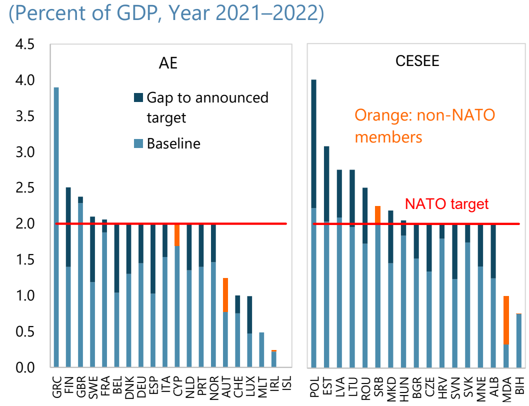
Medium-Term Public Spending Increase
(Share of total DEL increase of £115 bn, FY2024/25–FY2028/29)



Source: HMT; IMF staff calculations.
Note: Spending is the sum of RDEL (excl. depreciation) categories and CDEL.

…and the ramp up of defense spending in trading partner countries.

Europe Defense Spending
(Percent of GDP, Year 2021–2022)



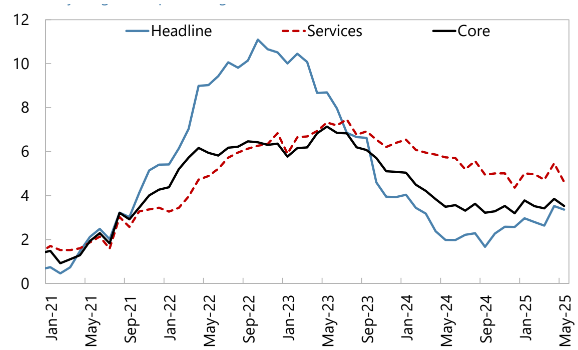
Source: NATO, World Bank and IMF staff estimates.

Figure 2. United Kingdom: Inflation and Monetary Policy

Inflation has declined significantly since Oct 2022, although it has picked up more recently.

Inflation

(Y-o-Y growth, percentage)

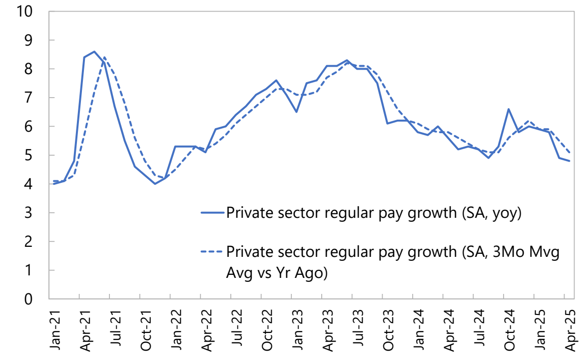


Source: Haver Analytics.

Private sector wage growth is slowing down, ...

Pay Growth

(Seasonally adjusted, y-o-y, percentage)

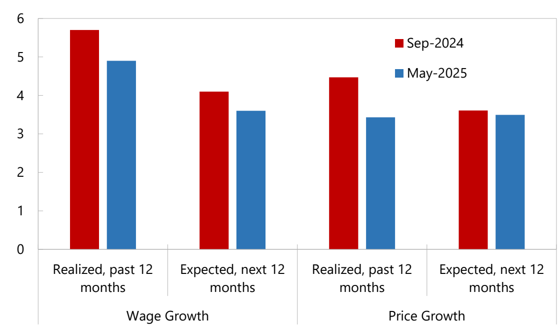


Sources: ONS and IMF staff calculations.

...while forward-looking wage indicators also point to moderation...

Firm's Price and Wage-Setting Expectations

(Percentage point over the past year)

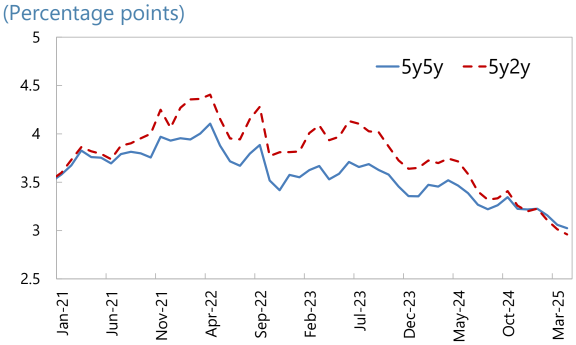


Source: BoE Decision Maker Panel.

...and market-implied inflation expectations have declined.

Inflation Expectations

(Percentage points)

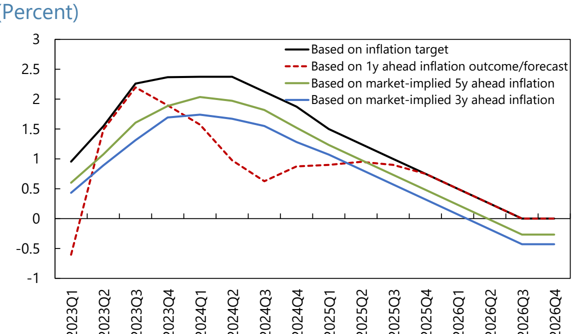


Sources: Bloomberg Finance L.P.; and IMF staff calculations.
Note: Inflation expectations are derived from swaps.

Monetary policy remains restrictive despite the BoE rate cuts...

Baseline Monetary Policy Stance

(Percent)

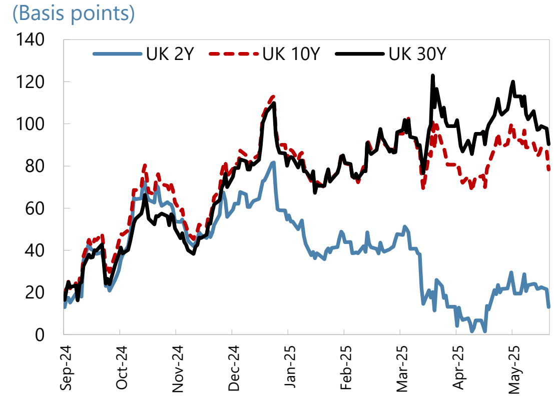


Sources: Haver analytics and IMF staff calculations.
Notes: Monetary stance is calculated as the difference between the real interest rate (the Bank Rate plus QT impact and minus different reference rates on inflation) and the real natural rate at 1 percent. The forecast of the Bank Rate is based on the team's baseline conditioning assumption.

...and geopolitical and fiscal developments have resulted in higher long-term gilt yields.

Changes in Yields Relative to Mid-September

(Basis points)



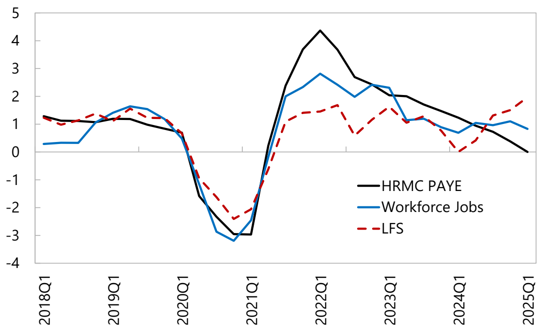
Source: Bloomberg Finance L.P.

Figure 3. United Kingdom: Labor Market Indicators

Given challenges with LFS response rates that cast doubt on labor market data, staff relies on various employment indicators that sometimes send conflicting signals ...

Employment Growth

(Y-o-Y growth rate)

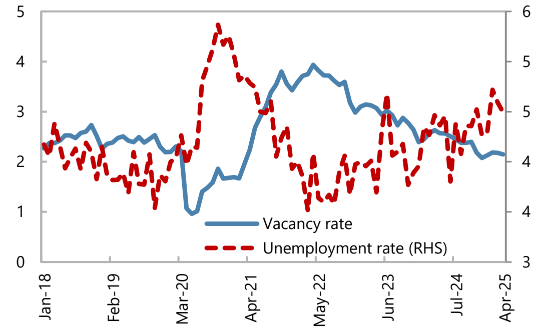


Sources: Haver Analytics; and IMF Staff Calculations

...but overall, the data suggests labor market is easing.

Labor Market Tightness

(Percent)

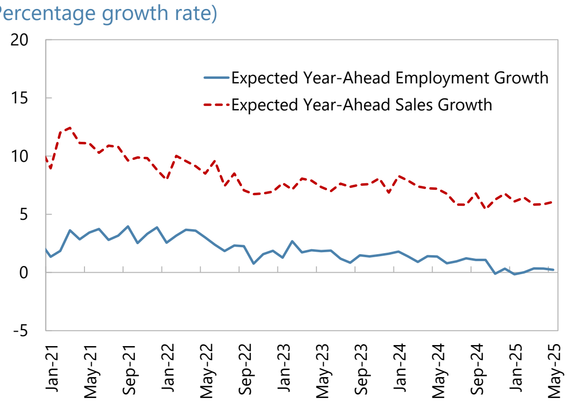


Sources: Haver Analytics and IMF Staff calculations

Firms' employment expectations point to cooling...

Firms' Sales and Employment Expectations

(Percentage growth rate)

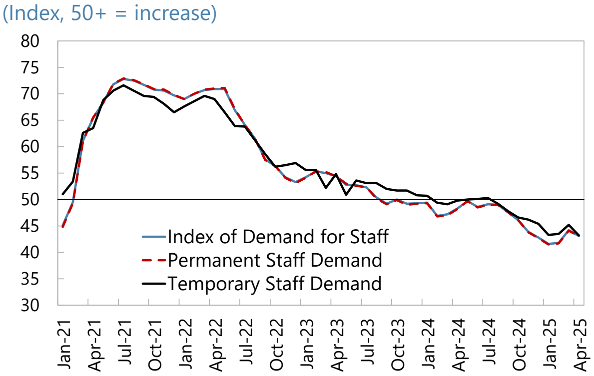


Sources: Bank of England Decision Making Panel; and Haver Analytics.

...as do survey measures of labor demand, ...

Labor Demand

(Index, 50+ = increase)

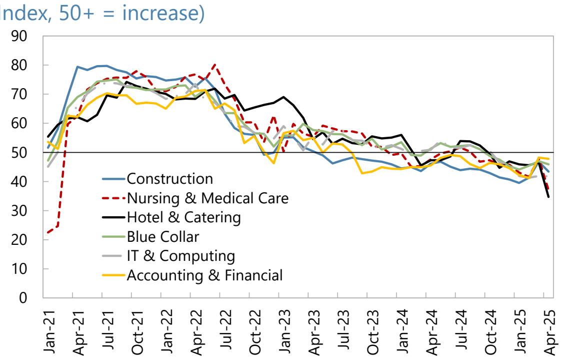


Sources: S&P Global.

... permanent staff placements, ...

Permanent Staff Placements by Sector

(Index, 50+ = increase)

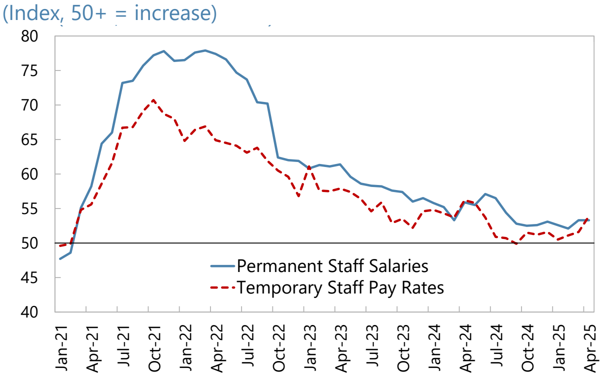


Source: S&P Global.
Note: Refers to hiring on a long-term, full-time basis with no predetermined end date to their employment.

...and staff salaries.

Permanent Staff Salaries and Temp Staff Pay Rates

(Index, 50+ = increase)



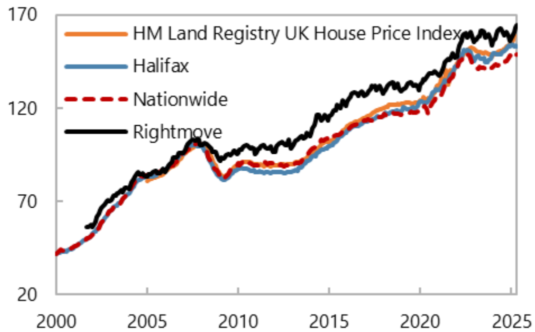
Sources: S&P Global.

Figure 4. United Kingdom: Residential Real Estate Development

House prices have continued to increase, but at a slower pace…

House Prices

(Index, Jan 2008 = 100)

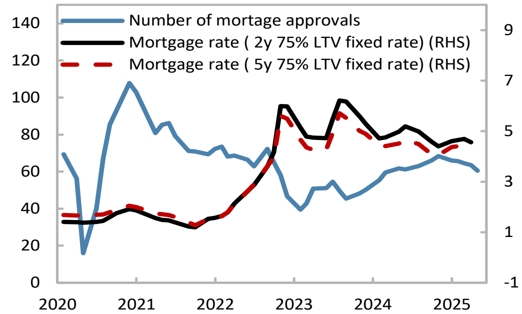


Source: Haver Analytics.

…as mortgage rates remain relatively high and mortgage approvals stagnated, …

Mortgage Rates

(Y-o-Y percentage change)

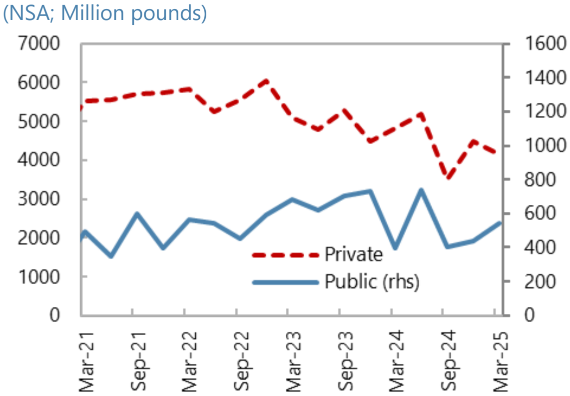


Sources: Bloomberg Finance L.P.

…while construction has not picked up.

Construction Orders: New Housing

(NSA; Million pounds)

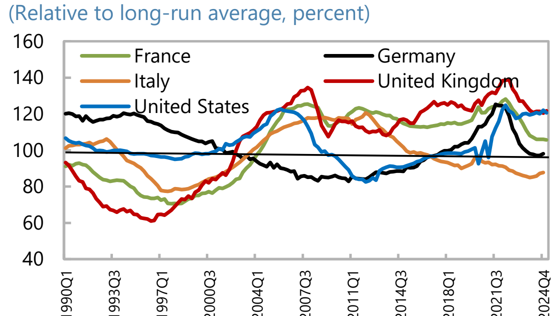


Sources: ONS and Haver Analytics.

Prices remain relatively high…

House-Price-to-Income Ratio

(Relative to long-run average, percent)



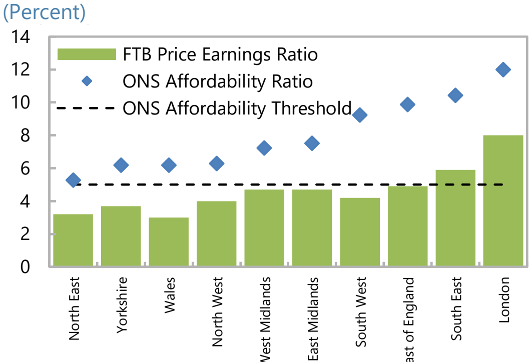
Source: OECD and IMF calculations.

Note: The long-run average is calculated over the period 1990Q1-2019Q4. Values above 100 indicate the current price-to-income ratio exceeds its long-term average.

… stretching affordability…

Regional Housing Affordability

(Percent)



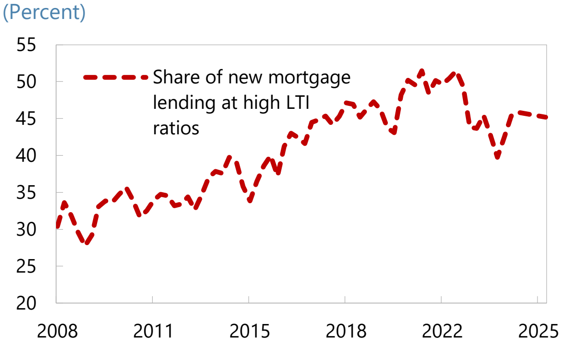
Sources: Nationwide, and ONS.

Note: ONS affordability ratios per region = average house price / average income.

…and leading lenders to be more cautious.

New Lending to High-LTI Borrowers

(Percent)



Sources: Haver Analytics and Mortgage Lending and Administration Return (MLAR).

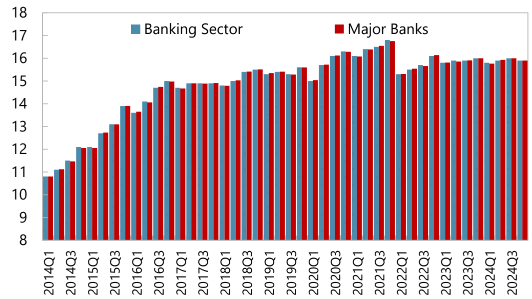
Note: High LTV ratio refers to Single Income Multiple Over 4.00% and Joint Income Multiple Over 3.00%.

Figure 5. United Kingdom: Financial Sector

The banking sector continues to maintain a comfortable level of capital buffers….

Aggregate CET1 Capital Ratio

(Percent)

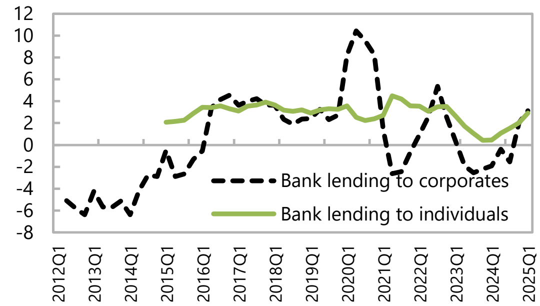


Source: Bank of England.
Note: Major UK banks are Barclays, Lloyds Bank, HSBC, NatWest, Standard Chartered, and, from end-2020, Virgin Money UK. Data available beginning 2014Q1.

…as credit extension from banks recovered for both households and corporates…

Private Credit Growth

(Percent, y-o-y growth)

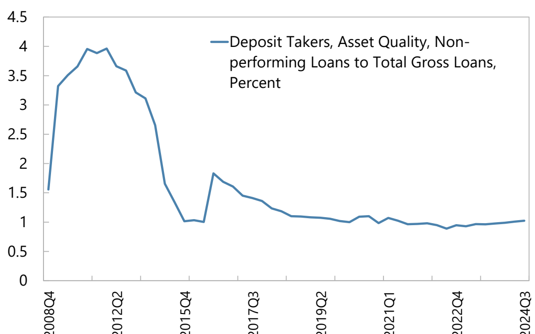


Sources: BoE; Haver Analytics, and IMF Staff calculations.
Note: Bank lending to individuals do not include student loans and credit card loans.

…while non-performing loans remain relatively low.

Bank's NPL Ratio

(Percent)

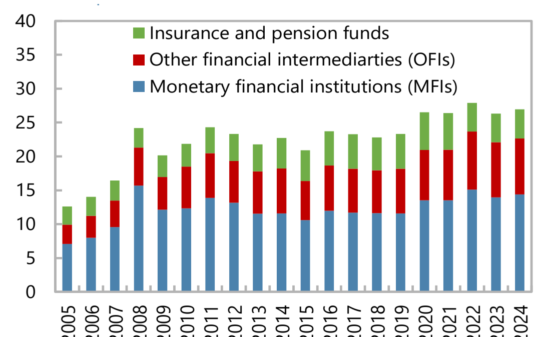


Sources: STA Financial Soundness Indicators.

NBFIs account for half of the financial sector assets…

Financial Sector – Financial Assets

(Trillion pounds)

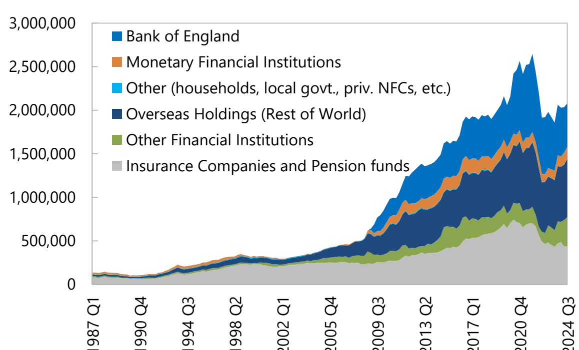


Sources: ONS.

…and hold a significant share of outstanding gilts…

Gilt Holdings

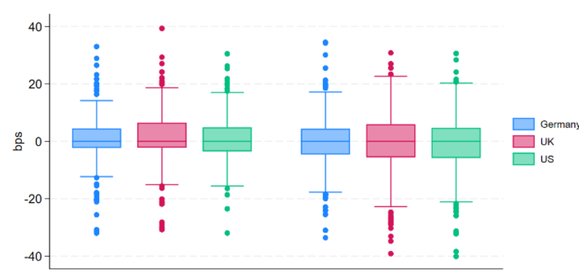
(Million pounds)



Source: DMO.

…while gilt yields have tended to be more volatile than sovereign yields in peer economies.

Sovereign 10-Year Bond Yields Volatility

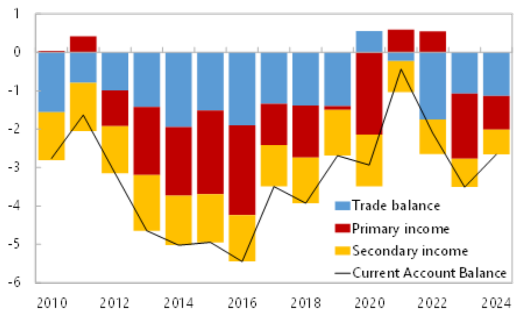


Source: Bloomberg Finance L.P.
Note: Boxes represent the interquartile range (25th–75th percentiles) of sovereign debt yield weekly changes, with horizontal lines indicating medians. Whiskers extend to values within 1.5× the interquartile range, while dots denote outliers beyond this range.

Figure 6. United Kingdom: External Sector Developments

The CA deficit deteriorated in 2023 and remained elevated in 2024 amid a reversal in temporarily positive net primary income effects….

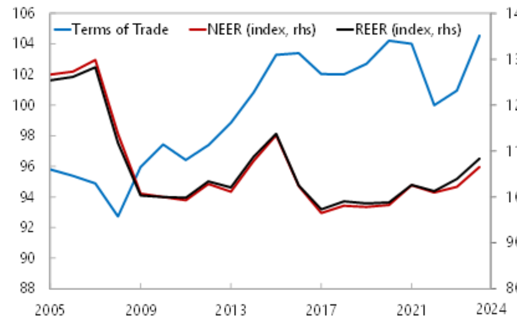
Current Account Balance
(Percent of GDP)



Sources: Haver Analytics, ONS, and IMF staff calculations.

…and weak goods export volumes growth partly explained by the appreciation of the REER and NEER.

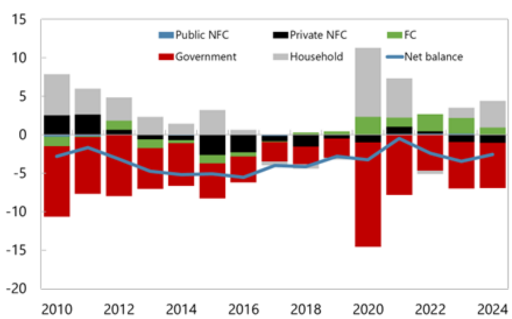
Terms of Trade and Effective Exchange Rates
(Indices 2022=100)



Sources: Haver Analytics, ONS and IMF staff calculations.

Going forward, fiscal consolidation should ease the CA deficit…

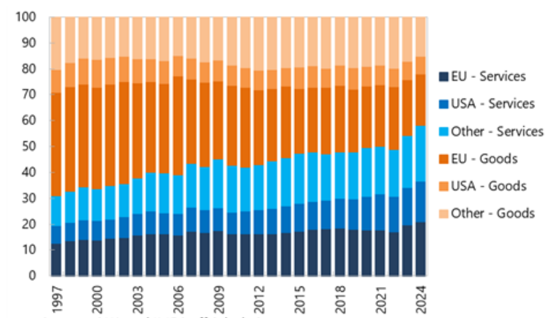
Saving-Investment Balance, by Sectors
(Percent of GDP)



Sources: ONS; and Haver Analytics

…while the direct effects of tariffs is somewhat mitigated by the UK's strong services export dominance.

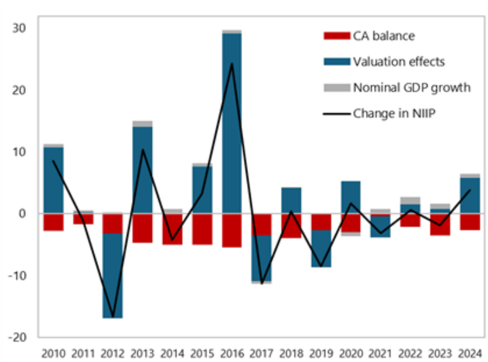
Breakdown of Exports by Destination
(Percent of total exports)



Sources: ONS, and IMF Staff Calculations.

The NIIP has been largely stable in recent years, as CA deficits…

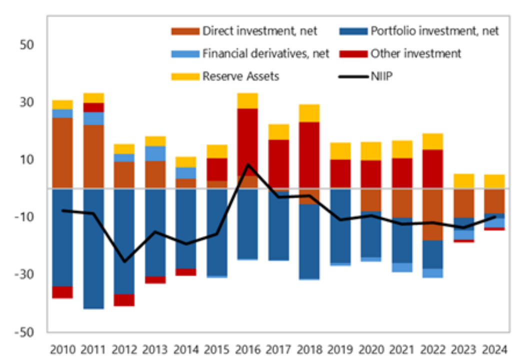
Contribution to Changes in NIIP
(Percent of GDP)



Sources: Haver, ONS, and IMF Staff Calculations

…have been offset by market price valuation effects.

NIIP Breakdown
(Percent of GDP)

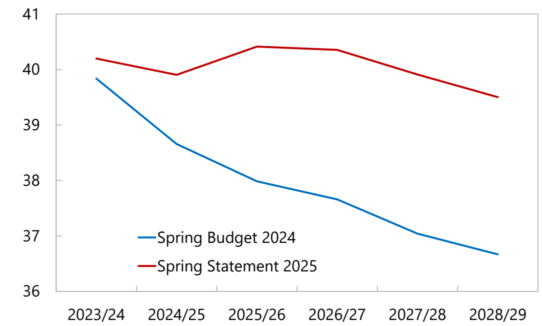


Sources: Haver, ONS, and IMF Staff Calculations

Figure 7. United Kingdom: Fiscal Developments

The October budget has raised the expenditure path to accommodate pressures on public services and investment needs.

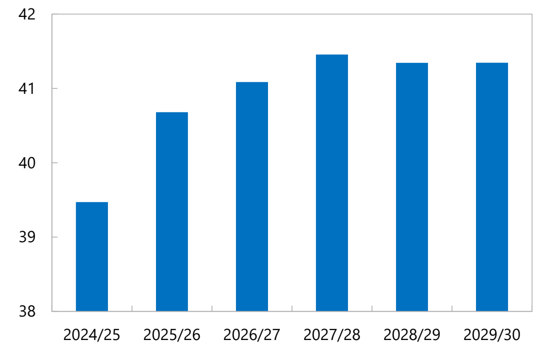
Primary Expenditure
(Percent of GDP)



Note: Nominal expenditure is expressed as a ratio of the 2025 AIV GDP forecast.
Source: Office for Budget Responsibility and IMF staff calculations.

The higher expenditure is partly funded by higher taxation that is projected to boost revenue collection.

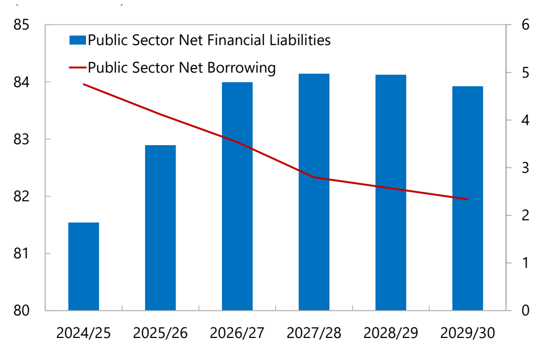
Revenue
(Percent of GDP)



Source: Office for Budget Responsibility and IMF staff calculations.

The fiscal deficit is projected to decline over time, stabilizing net financial debt…

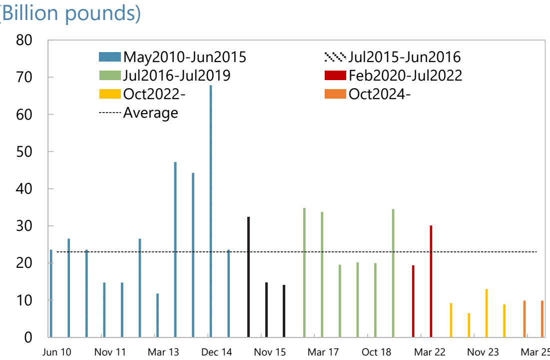
Fiscal Aggregates
(Percent of GDP)



Source: Office for Budget Responsibility and IMF staff calculations.

…but headroom vis-à-vis fiscal rules (current balance and debt targets) is low and sensitive to changes in the outlook…

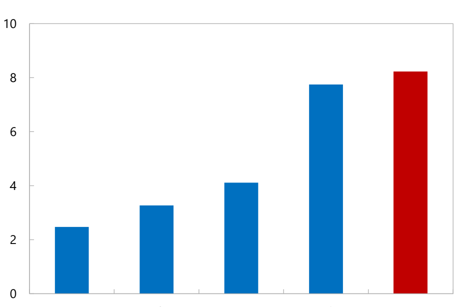
Headroom Against Fiscal Targets
(Billion pounds)



Source: Office for Budget Responsibility.

…and long-term spending pressures are above those in peer countries, requiring tough choices to contain future borrowing…

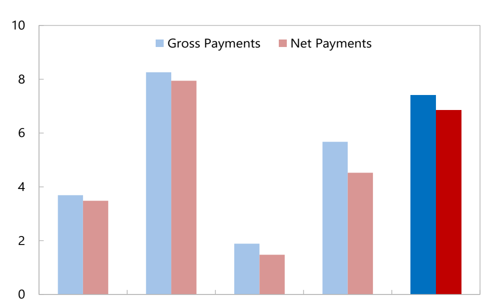
Additional Expenditure Pressures by 2050
(Percent of GDP)



Source: Eble and others (2025) and IMF staff calculations.

…which could further increase the UK's already high interest bill.

Interest to Revenue Ratio
(Percent, 2022–24 average)



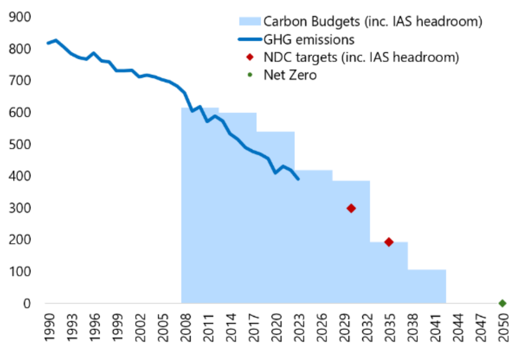
Source: IMF staff calculations.

Figure 8. United Kingdom: Climate Policy

The UK has continued to reduce emissions and has announced a new 2035 NDC target and a target to achieve clean power by 2030.

Greenhouse Gas Emissions & Targets

(MtCO2e)

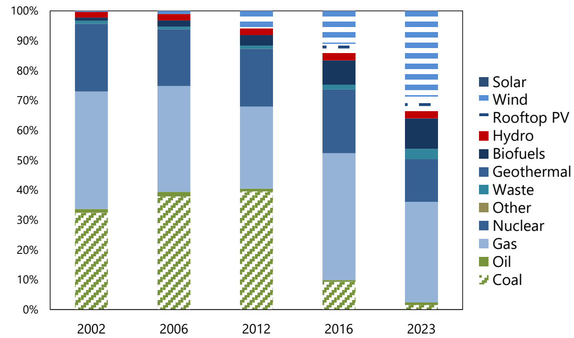


Source: Climate Change Committee, UNFCCC

Generation from coal has been eliminated, although the country remains heavily dependent on gas.

Electricity Generation Mix

(Percent share)

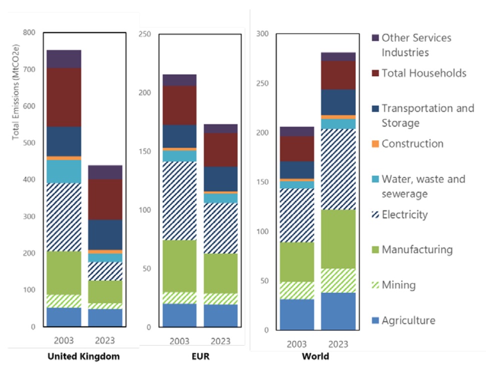


Source: IEA World Energy Balances; and IMF Staff Calculations.

Targeting emissions reductions in the housing and transportation sectors will be critical moving forward.

Emissions by Sector

(Total emissions (MtCO2e))

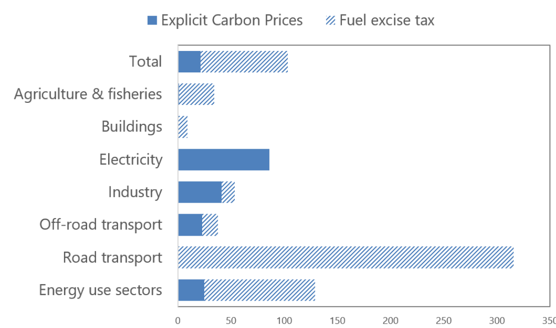


Sources: OECD Air Emission Accounts; UNFCCC; EDGAR; IMF staff calculations.

While the current Emission Trading Scheme (ETS) does not cover these two sectors, the UK has a strong mix of other targeted policies.

Effective Carbon Pricing by Sector

(USD/tCO2e, 2021 prices)

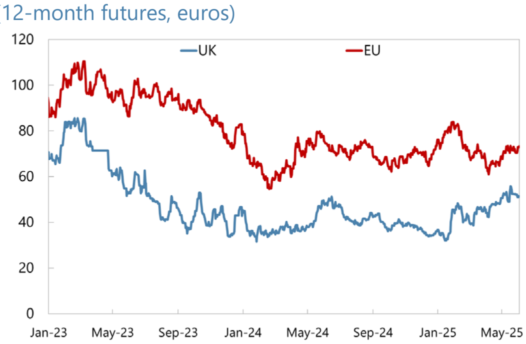


Source: OECD Effective and Net Effective Carbon Rates.

UK carbon prices have stabilized but a divergence with EU carbon prices remains.

Carbon Prices

(12-month futures, euros)

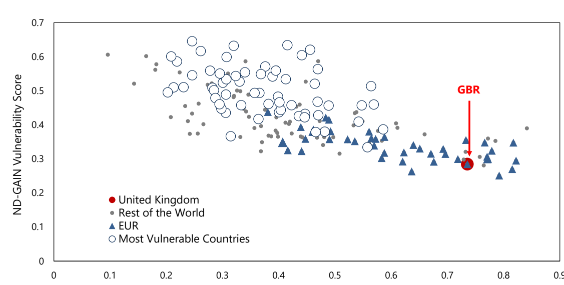


Sources: Bloomberg Finance L.P.

The UK is relatively less vulnerable to climate risks, but investment in adaptation should remain a priority.

Climate Risks and Readiness

(ND-GAIN, 2022)



Sources: IMF Climate Change Indicators Dashboard (2022).
Note: The Vulnerability Score assesses a country's current vulnerability to climate reflecting exposure, sensitivity, and adaptive capacity. The Readiness Score assesses a country's readiness to leverage public and private sector investment for adaptive actions.

Table 1. United Kingdom: Selected Economic Indicators, 2019–30

(Percentage change, unless otherwise indicated)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
							Projections					
Real Economy (change in percent)												
Real GDP	1.6	-10.3	8.6	4.8	0.4	1.1	1.2	1.4	1.5	1.5	1.4	1.4
Domestic demand	1.9	-11.5	9.1	5.1	0.0	2.4	1.8	1.4	1.5	1.4	1.4	1.4
Private domestic demand	1.3	-13.1	7.2	7.2	0.5	0.8	1.3	1.6	1.5	1.5	1.5	1.4
CPI, period average	1.8	0.9	2.6	9.1	7.3	2.5	3.2	2.3	2.0	2.0	2.0	2.0
CPI, end-period	1.3	0.6	5.4	10.5	4.0	2.5	2.9	2.0	2.0	2.0	2.0	2.0
Unemployment rate (in percent) 1/	3.8	4.6	4.6	3.8	4.1	4.3	4.5	4.4	4.3	4.2	4.1	4.0
Gross national saving (percent of GDP)	15.6	14.6	17.2	16.6	14.3	15.0	13.1	13.2	13.5	13.5	13.7	13.9
Gross domestic investment (percent of GDP)	18.2	17.6	17.7	18.7	17.8	17.7	16.4	16.5	16.6	16.6	16.6	16.7
Public Finance (fiscal year, percent of GDP)												
Public sector overall balance 2/	-2.6	-15.1	-5.3	-5.0	-4.8	-4.7	-4.1	-3.5	-2.8	-2.6	-2.3	-1.9
Public sector primary balance	-1.3	-14.1	-3.2	-1.2	-1.7	-1.9	-1.1	-0.6	0.2	0.5	0.8	1.1
Public sector cyclically adjusted primary balance 3/	-1.4	-12.0	-3.6	-2.4	-1.9	-1.8	-0.8	-0.3	0.4	0.6	0.9	1.1
Public sector net financial liabilities (PSNFL) 4/	74.5	83.2	80.5	80.5	81.1	81.5	82.9	84.0	84.1	84.1	83.9	83.4
Money and Credit (12-month percent change)												
M4 (end-period)	3.8	12.6	6.4	1.6	-1.2	2.6	...	...	...	...	...	...
Net lending to non-fin private sector (end-period)	2.8	3.6	2.7	2.9	0.0	2.1	4.6	3.6	3.7	3.7	3.8	3.7
House Price Index (HMLR, end-period)	0.9	7.0	7.3	7.3	-2.7	4.0	...	...	...	...	...	...
Interest Rates (percent; year average)												
Bank Rate	0.8	0.2	0.1	1.5	4.7	5.1	4.1	3.2	3.0	3.0	3.0	3.0
Long Term Interest Rate	0.9	0.4	0.8	2.4	4.1	4.1	4.5	4.1	4.1	4.2	4.3	4.3
2y mortgage rate (75% LTV fixed rate,average)	1.6	1.6	1.4	3.5	5.3	4.8	...	...	...	...	...	...
5y mortgage rate (75% LTV fixed rate,average)	1.9	1.8	1.6	3.4	4.8	4.4	...	...	...	...	...	...
Balance of Payments (percent of GDP)												
Current account balance	-2.7	-2.9	-0.4	-2.1	-3.5	-2.7	-3.4	-3.3	-3.1	-3.1	-2.9	-2.8
Trade balance	-1.4	0.6	-0.2	-1.7	-1.1	-1.1	-1.1	-1.1	-0.9	-0.8	-0.7	-0.6
Exports of G&S (volume change in percent)	2.0	-11.8	3.2	12.6	-0.4	-1.2	0.3	1.1	1.2	1.2	1.1	1.1
Imports of G&S (volume change in percent)	2.7	-15.9	5.8	13.0	-1.2	2.7	1.9	1.2	1.3	1.1	1.1	1.1
Terms of trade (percent change)	0.7	1.5	-0.2	-3.9	1.0	3.6	1.7	0.2	0.4	0.4	0.4	0.0
FDI net	-1.5	-5.2	5.0	2.6	0.4	1.8	0.2	0.2	0.2	0.2	0.2	0.2
Reserves (end of period, billions GBP)	131.6	131.8	143.4	146.7	139.6	139.5	139.5	139.5	139.5	139.5	139.5	139.5
Exchange Rates												
Nominal effective rate (2010=100, year average)	97.8	98.3	102.6	101.0	102.2	106.5	...	...	...	...	...	...
Real effective rate (2010=100, year average)	98.6	98.8	102.6	101.3	103.9	108.3	...	...	...	...	...	...
Memorandum Items:												
Nominal GDP (billions GBP)	2,234	2,103	2,285	2,526	2,711	2,851	2,981	3,089	3,203	3,321	3,447	3,575
Nominal GDP (billions USD)	2,853	2,699	3,144	3,125	3,371	3,645	...	...	...	...	...	...

Sources: Bank of England; IMF's Information Notice System; HM Treasury; Office for National Statistics; and IMF staff calculations.
1/ ILO unemployment; based on Labor Force Survey data.
2/ Corresponds to the fiscal year beginning in April.
3/ In percent of potential GDP.
4/ PSNFL is a broader balance sheet metric than public sector net debt, that includes the Bank of England and additional liabilities (e.g. funded pension schemes), while subtracting a broad range of financial assets (e.g. student loans).

Table 2. United Kingdom: Medium-Term Scenario, 2024–30

(Percentage change, unless otherwise indicated)

	2024	2025	2026	2027	2028	2029	2030
		Projections					
Real GDP	1.1	1.2	1.4	1.5	1.5	1.4	1.4
Domestic demand	2.4	1.8	1.4	1.5	1.4	1.4	1.4
Private consumption	0.6	1.2	1.4	1.4	1.4	1.4	1.4
Government consumption	3.0	3.6	1.4	1.5	1.7	1.6	1.6
Fixed investment	1.5	2.0	2.2	2.1	1.4	1.3	1.3
Public	1.0	2.6	1.9	2.5	-0.6	-1.3	-1.0
Residential	0.4	1.9	3.1	2.6	2.2	2.2	2.2
Business	2.0	1.3	2.0	1.8	1.7	1.7	1.7
Stocks 1/	0.2	-0.1	-0.1	0.0	0.0	0.0	0.0
External balance 1/	-1.3	-0.6	-0.1	-0.1	0.0	0.0	0.0
Exports of Goods and Services	-1.2	0.3	1.1	1.2	1.2	1.1	1.1
Imports of Goods and Services	2.7	1.9	1.2	1.3	1.1	1.1	1.1
Current account 2/	-2.7	-3.4	-3.3	-3.1	-3.1	-2.9	-2.8
Gross national saving 2/	15.0	13.1	13.2	13.5	13.5	13.7	13.9
Gross domestic investment 2/	17.7	16.4	16.5	16.6	16.6	16.6	16.7
CPI Inflation, period average	2.5	3.2	2.3	2.0	2.0	2.0	2.0
CPI Inflation, end period	2.5	2.9	2.0	2.0	2.0	2.0	2.0
GDP deflator, period average	4.0	3.3	2.2	2.1	2.2	2.3	2.3
Output gap 3/	-0.3	-0.4	-0.4	-0.3	-0.2	-0.1	0.0
Potential output	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Employment and productivity							
Employment	0.8	0.9	1.0	0.9	0.8	0.8	0.8
Unemployment rate 4/	4.3	4.5	4.4	4.3	4.2	4.1	4.0
Productivity 5/	0.3	0.3	0.4	0.6	0.6	0.7	0.7
Memorandum items:							
Private domestic demand	0.8	1.3	1.6	1.5	1.5	1.5	1.4
Household saving rate 6/	10.0	9.8	9.4	9.2	8.9	8.7	8.5

Sources: Office for National Statistics; and IMF staff estimates.
1/ Contribution to the growth of GDP.
2/ In percent of GDP.
3/ In percent of potential GDP.
4/ In percent of labor force, period average; based on the Labor Force Survey.
5/ Whole economy, per worker.
6/ In percent of total household available resources.

Table 3. United Kingdom: Statement of Public Sector Operations, 2019/20–2030/31 1/

(Percent of GDP, unless otherwise noted)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
							Projections					
Revenue	36.9	38.0	39.1	39.8	40.0	39.5	40.7	41.1	41.5	41.3	41.3	41.4
Personal income tax	8.6	9.5	9.5	9.7	10.1	10.7	10.8	11.1	11.5	11.4	11.4	11.5
National insurance contributions	6.5	6.9	6.8	6.9	6.5	5.8	6.7	6.6	6.6	6.5	6.5	6.5
Corporate income tax	2.2	2.5	2.8	3.1	3.3	3.3	3.3	3.3	3.3	3.4	3.4	3.4
VAT	6.0	5.7	6.0	6.3	6.2	5.9	6.0	6.0	6.1	6.0	6.1	6.1
Interest income	1.0	1.1	1.0	1.2	1.6	1.5	1.4	1.4	1.3	1.3	1.3	1.3
Other	12.6	12.3	12.9	11.5	12.3	12.2	12.5	12.6	12.6	12.7	12.7	12.7
Expenditure	39.6	53.1	44.3	44.8	44.8	44.2	44.8	44.6	44.3	43.9	43.7	43.3
Departmental Expenditure Limits (DEL)	16.9	24.3	20.8	19.3	18.9	19.1	19.7	19.8	19.7	19.5	19.3	19.3
-Recurrent (RDEL)	14.3	20.8	17.5	15.8	15.4	15.6	16.0	16.0	15.9	15.8	15.6	15.6
-Capital (CDEL)	2.6	3.5	3.3	3.5	3.5	3.6	3.7	3.8	3.8	3.7	3.7	3.7
Non-Discretionary (incl. Welfare)	20.3	26.6	20.4	20.5	21.3	20.8	20.7	20.6	20.2	20.0	19.9	19.7
Interest expense	2.4	2.1	3.1	5.0	4.6	4.3	4.4	4.3	4.3	4.4	4.5	4.3
Net lending/borrowing (overall balance)	-2.6	-15.1	-5.3	-5.0	-4.8	-4.7	-4.1	-3.5	-2.8	-2.6	-2.3	-1.9
Primary balance	-1.3	-14.1	-3.2	-1.2	-1.7	-1.9	-1.1	-0.6	0.2	0.5	0.8	1.1
Cyclically adjusted overall balance 2/	-2.7	-13.1	-5.6	-6.2	-4.9	-4.6	-3.8	-3.2	-2.6	-2.4	-2.3	-1.9
Cyclically adjusted primary balance (CAPB) 2/	-1.4	-12.0	-3.5	-2.4	-1.9	-1.8	-0.8	-0.3	0.4	0.6	0.9	1.1
General government gross debt 3/	84.7	107.5	101.2	98.2	99.4	101.0	103.0	104.6	105.2	105.6	105.5	105.4
Public sector net financial liabilities /4	74.8	83.1	80.4	80.5	80.9	81.5	82.9	84.0	84.1	84.1	83.9	83.4
Memorandum items:												
Output gap (percent of potential)	-0.8	-3.8	2.1	1.6	-0.4	-0.2	-0.5	-0.4	-0.2	-0.2	0.0	0.0
Deflator growth (Percent)	2.4	5.2	-0.4	7.0	5.9	4.1	2.7	2.2	2.2	2.2	2.3	2.2
Real GDP growth (percent)	0.9	-11.6	13.6	2.3	0.4	1.2	1.2	1.4	1.6	1.4	1.5	1.5
Nominal GDP growth (percent)	3.2	-6.9	13.0	9.5	6.3	5.4	4.0	3.5	3.8	3.6	3.8	3.8
Nominal GDP (in billions of pounds)	2,241	2,086	2,358	2,582	2,743	2,891	3,007	3,114	3,233	3,351	3,477	3,599
Potential GDP growth (percent)	1.4	-8.8	7.0	2.8	2.5	1.0	1.6	1.2	1.4	1.3	1.4	1.4

Sources: HM Treasury; Office for National Statistics; Office for Budget Responsibility; and IMF staff estimates.
1/ Fiscal year ends March 30.
2/ In percent of potential GDP.
3/ On a Maastricht treaty basis.
4/ End of fiscal year using centered-GDP as the denominator.

Table 4. United Kingdom: Balance of Payments, 2019–30

(Percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
							Projections					
Current account	-2.7	-2.9	-0.4	-2.1	-3.5	-2.7	-3.4	-3.3	-3.1	-3.1	-2.9	-2.8
Balance on goods and services	-1.4	0.56	-0.22	-1.7	-1.1	-1.1	-1.1	-1.1	-0.9	-0.8	-0.7	-0.6
Trade in goods	-6.5	-6.1	-7.1	-8.2	-7.7	-7.9	-8.1	-8.1	-7.9	-7.7	-7.6	-7.5
Exports	16.5	14.9	14.5	17.2	14.6	12.8	12.2	12.1	11.9	11.7	11.4	11.2
Imports	-23.0	-21.0	-21.6	-25.4	-22.3	-20.8	-20.3	-20.2	-19.8	-19.4	-19.1	-18.7
Trade in services	5.1	6.6	6.9	6.4	6.6	6.8	7.0	7.0	7.0	7.0	7.0	6.9
Exports	15.2	14.8	14.6	16.4	17.4	17.8	18.1	18.0	17.8	17.6	17.4	17.1
Imports	-10.1	-8.1	-7.8	-10.0	-10.8	-11.0	-11.1	-11.0	-10.8	-10.6	-10.5	-10.3
Primary income balance	-0.1	-2.1	0.6	0.5	-1.7	-0.9	-2.2	-2.2	-2.2	-2.3	-2.2	-2.1
Receipts	10.2	6.5	9.3	11.3	15.2	14.4	12.8	11.8	11.3	10.7	10.3	9.9
Payments	10.3	8.7	8.7	10.7	16.9	15.3	15.0	14.0	13.5	13.0	12.5	12.0
Secondary income balance	-1.2	-1.4	-0.8	-0.9	-0.7	-0.6	-0.1	0.0	0.0	0.0	0.0	-0.1
Capital and financial account	-3.4	-3.3	-0.4	-2.4	-3.2	-2.0	-3.4	-3.3	-3.1	-3.1	-2.9	-2.8
Capital account	-0.1	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
Financial account	-3.5	-3.5	-0.5	-2.5	-3.4	-2.2	-3.5	-3.5	-3.3	-3.2	-3.0	-2.9
Direct investment	-1.5	-5.2	5.0	2.6	0.4	1.8	0.2	0.2	0.2	0.2	0.2	0.2
Abroad	-0.7	0.6	5.1	4.0	0.9	1.9	3.0	3.0	3.0	3.0	3.0	3.0
Domestic	0.8	5.8	0.1	1.4	0.4	0.1	2.8	2.8	2.8	2.8	2.8	2.8
Portfolio investment	1.2	1.4	-8.3	-1.4	6.4	-1.1	-5.4	-5.4	-5.4	-5.4	-5.4	-5.4
Abroad	3.5	4.1	-2.3	-2.7	9.3	3.0	1.8	1.8	1.8	1.8	1.8	1.8
Domestic	2.3	2.7	6.1	-1.3	2.8	4.2	7.2	7.2	7.2	7.2	7.2	7.2
Financial derivatives	0.1	1.2	-1.2	-1.9	0.0	-0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other investment	-3.2	-0.7	3.3	-1.7	-10.2	-2.5	1.5	1.6	1.8	1.8	2.0	2.1
Abroad	-12.1	17.9	13.0	4.1	-0.8	12.2	1.0	1.0	1.0	1.0	1.0	1.0
Domestic	-8.8	18.7	9.7	5.8	9.4	14.7	-0.5	-0.6	-0.8	-0.8	-1.0	-1.1
Net transactions in reserve assets	0.0	-0.1	0.8	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-0.7	-0.4	0.1	-0.3	0.3	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Terms of trade (y/y percent change)	0.7	1.5	-0.2	-3.9	1.0	3.6	1.7	0.2	0.4	0.4	0.4	0.0

Sources: Office for National Statistics; and IMF staff estimates.
Note: a negative sign on the financial account indicates financial inflows.

Table 5. United Kingdom: Net Investment Position, 2019–30

(Percent of GDP)

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
							Projections					
Net investment position	-11.0	-9.3	-12.4	-11.8	-13.7	-9.8	-11.4	-13.0	-14.3	-15.6	-16.5	-17.4
Assets	517	623	570	554	501	509	499	493	486	480	474	468
Liabilities	528	632	582	566	515	519	510	506	501	496	491	486
Net direct investment	0.5	-7.9	-10.2	-18.1	-10.2	-8.7	-8.2	-7.7	-7.2	-6.7	-6.3	-5.9
Direct investment abroad	86.2	100.6	95.7	84.5	85.1	77.4	77.0	77.3	77.6	77.8	78.0	78.2
Direct investment in the UK	85.8	108.5	105.9	102.6	95.4	86.1	85.2	85.0	84.8	84.5	84.3	84.0
Net Portfolio investment	-25.9	-16.0	-15.8	-9.9	-4.4	-1.7	-5.6	-9.3	-12.9	-16.4	-19.7	-22.9
Portfolio investment abroad	129.7	151.2	149.0	118.4	121.7	123.5	121.4	120.4	119.4	118.4	117.4	116.4
Portfolio investment in the UK	155.6	167.2	164.8	128.4	126.2	125.2	126.9	129.7	132.3	134.8	137.1	139.3
Net financial derivatives	-1.2	-1.6	-3.1	-3.1	-3.2	-3.3	-2.9	-2.7	-2.4	-2.1	-1.9	-1.6
Assets	103.2	142.4	103.5	129.1	99.3	110.8	110.8	110.8	110.8	110.8	110.8	110.8
Liabilities	104.3	144.0	106.6	132.2	102.5	114.1	113.8	113.5	113.2	113.0	112.7	112.4
Net other investment	9.6	9.9	10.4	13.5	-0.9	-1.0	0.6	2.2	3.8	5.5	7.3	9.1
Other investment abroad	192.0	222.1	215.0	216.5	190.1	192.6	185.2	179.7	174.4	169.1	164.0	159.1
Other investment in the UK	182.3	212.3	204.6	203.0	191.0	193.6	184.6	177.6	170.5	163.6	156.7	150.0
Reserve assets	5.9	6.3	6.3	5.8	5.1	4.9	4.7	4.5	4.4	4.2	4.0	3.9
Memorandum items:												
Change in the net investment position	-8.6	2.3	-3.8	-0.6	-2.7	3.2	-2.0	-2.0	-1.8	-1.7	-1.5	-1.4
Current account balance	-2.7	-2.9	-0.4	-2.1	-3.5	-2.7	-3.4	-3.3	-3.1	-3.1	-2.9	-2.8

Source: Office for National Statistics.

Table 6. United Kingdom: Monetary Survey, 2016–24

(Billions GBP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
M4 1/	2251	2360	2414	2506	2821	3000	3047	3012	3090
Net foreign assets 2/	372	399	393	279	215	220	296	343	439
Foreign assets	3582	3748	3856	3693	3971	4094	4433	4387	4673
Foreign liabilities	3210	3349	3463	3414	3756	3874	4137	4044	4234
Net domestic assets 2/	1879	1960	2020	2227	2606	2781	2751	2668	2651
M4 lending to the private sector 3/	2258	2381	2457	2576	2655	2700	2728	2695	2715
Net foreign currency lending to the private sector 3/	-164	-190	-238	-168	-160	-185	-203	-163	-178
Net lending to the public sector	605	625	575	598	892	969	711	678	631
Other items, net	-821	-855	-774	-779	-781	-703	-485	-541	-517
Memorandum item: 4/									
M4 growth, percent	6.2	4.8	2.3	3.8	12.6	6.4	1.6	-1.2	2.6
M4 lending to the private sector growth, percent	4.2	5.5	3.2	4.8	3.1	1.7	1.0	-1.2	0.7

Source: Bank of England.
1/ M4 includes the private sector's holdings of sterling notes and coins; sterling deposits, including certificates of deposits; commercial paper, bonds, floating rate notes, and other instruments of up to and including 5 years' original maturity issued by UK monetary financial institutions (MFIs); claims on UK MFIs arising from repos; estimated holdings of sterling bank bills; and 95% of the domestic sterling interbank difference (the remaining 5% being allocated to transits). MFIs are defined as banks – including the Bank of England – and building societies (see here).
2/ MFIs balance sheet counterparts to M4 (BoE Table A3.1).
3/ Includes sterling lending by MFIs to the private sector other (non-MFI) financial corporations – non-bank credit grantors; mortgage and housing credit corporations; bank holding companies; securitization special purpose vehicles; other activities auxiliary to financial intermediation; and 'other financial intermediaries' belonging to the same financial group.
4/ Computed as the ratio of the change in the stock divided by last period's stock and therefore includes valuation changes.

Table 7. United Kingdom: Financial Soundness Indicators, 2016–24

	2016	2017	2018	2019	2020	2021	2022	2023	2024 1/
Capital Adequacy									
Regulatory Capital to Risk-Weighted Assets	20.6	20.7	21.4	21.3	21.6	22.1	21.4	21.3	21.2
Regulatory Tier 1 Capital to Risk-Weighted Assets	16.5	17.1	17.9	17.9	18.5	19.1	18.5	18.4	18.4
Capital to Assets	5.5	5.4	5.6	5.5	5.5	5.3	6.5	6.1	5.9
Credit Risk									
Non-performing Loans Net of Provisions to Capital	3.8	3.1	4.9	4.3	3.1	4.4	4.3	4.6	5.6
Non-performing Loans to Total Gross Loans	1.7	1.4	1.1	1.0	1.0	1.0	0.9	1.0	1.0
Foreign-Currency-Denominated Loans to Total Loans	79.5	78.7	67.4	60.1	54.9	60.8	62.9	62.6	61.1
Profitability									
Return on Assets	0.2	0.3	0.5	0.3	0.2	0.5	0.6	0.7	0.8
Return on Equity	1.1	2.8	5.2	3.6	2.6	6.5	7.9	9.0	10.0
Interest Margin to Gross Income	53.8	52.3	46.1	44.7	43.9	43.1	45.0	45.5	41.2
Non-interest Expenses to Gross Income	68.3	66.8	65.7	66.6	68.0	68.6	62.8	60.6	59.6
Trading Income to Total Income	12.3	12.8	16.5	17.3	21.1	16.1	21.2	22.2	22.7
Personnel Expenses to Non-interest Expenses	49.8	47.4	46.2	47.1	47.2	46.5	45.9	45.5	45.2
Liquidity									
Liquidity Coverage Ratio	149.3	159.2	172.2	163.6	160.7	164.9	159.9	166.8	167.9
Foreign-Currency-Denominated Liabilities to Total Liabilities	40.2	42.0	41.3	39.1	37.4	40.2	42.9	43.9	43.0
Fx, Equity, and Derivative Risk									
Gross Asset Position in Financial Derivatives to Capital	337.6	274.7	254.8	293.3	355.4	260.7	381.7	321.9	339.7
Gross Liability Position in Financial Derivatives to Capital	331.4	273.0	251.0	292.1	356.5	257.9	375.7	315.1	334.3

Source: IMF FSI database.

1/ Data for 2024 refers to Q3 2024.

Annex I. External Sector Assessment

<table>
<tr><td colspan="7">Overall Assessment: The external position in 2024 was moderately weaker than the level implied by medium-term fundamentals and desirable policies. After improving during 2016 to 2021 and almost balancing, the CA deficit has deteriorated in recent years, due to weak exports, the reversal of temporarily positive net primary income, and heightened fiscal deficits sustaining imports. The CA deficit is expected to narrow moderately through the medium term, driven by fiscal consolidation and improvements in the terms of trade. The evolution of the external position is uncertain, especially given the UK's status as a global financial center amid shifts in the international economic environment that could change the trajectory of trade and financial flows.

Potential Policy Responses: The authorities' fiscal consolidation path along with their structural reform agenda ("growth" mission) will support external rebalancing by containing import growth and boosting competitiveness, while progress in the net zero transition will help to mitigate risks of further energy-related terms of trade shocks. Given the high level of uncertainty emanating from the external environment, IMF staff encourages the government to seek to resolve trade tensions and to deepen economic integration through nondiscriminatory reductions in trade barriers or by pursuing free trade agreements at the regional, plurilateral, or multilateral level. Industrial policies should continue to be deployed cautiously, remain targeted to specific objectives where externalities and other market failures prevent effective market solutions, and avoid favoring domestic producers over imports.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. The NIIP has been relatively stable, deteriorating slightly from –9.3 percent of GDP in 2020, to –9.8 percent of GDP in 2024.[1] Valuation effects have largely offset CA deficits over recent years. These valuation effects have been primarily related to strong global equity growth, which positively affected foreign asset holdings (and more than offset the sterling appreciation effect), while foreign debt liabilities declined in line with higher interest rates. IMF staff projects that the NIIP will moderately deteriorate over the medium term, although large and volatile valuation effects make these estimates particularly uncertain.
Assessment. The external position remains vulnerable to changes in market sentiment, but there are buffers. The UK has a sizable stock of external liabilities (over 500 percent of GDP), much of which is short-term debt. The large mismatch between sterling-denominated liabilities relative to assets, paired with exchange rate flexibility, are mitigating factors against external shocks. Intragroup bank holdings also make up a large portion of external liabilities and are less reactive to changes in market sentiment.</td></tr>
<tr><td>2024 (% GDP)</td><td>NIIP: –9.8</td><td>Gross Assets: 509</td><td>Debt Assets: 261</td><td>Gross Liab.: 519</td><td colspan="2">Debt Liab.: 278</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. The CA deficit deteriorated from –0.4 percent of GDP in 2021 to –3.5 percent of GDP in 2023 and remained relatively high at –2.7 percent of GDP in 2024, following sustained weakness in export volume growth and a reversal of temporarily positive net primary income. Weakened price competitiveness (measured by the REER) and hydrocarbon and vehicle production constraints weighed down export growth in 2024, while import growth recovered in line with improved domestic demand. Net primary income has weakened since 2023, as rising yields on debt liabilities began to outweigh strong profits from global equities. Structural factors, including lower hydrocarbon production and uncertainties related to geoeconomic fragmentation, will continue to weigh on export growth. From a savings-investment balance perspective, heightened fiscal deficits since the pandemic have driven the recent deterioration in the CA, offset to an extent by a temporary spike in private savings. Following a projected CA deterioration in 2025, the fiscal consolidation path and a projected recovery in the terms of trade are expected to moderate the CA deficit to around –3.0 percent of GDP over the medium term, below pre-COVID-19 averages.
Assessment. The EBA CA model estimates a norm deficit of –0.3 percent of GDP, implying an (unadjusted) CA gap of –2.4 percent of GDP in 2024. As in previous years, measurement adjustments of 0.7 percent of GDP are made to account for differences between the statistical definition of income and the relevant economic concept.[2] Adjusting for this, IMF staff assesses the CA gap at –1.7 percent of GDP, within a range of –1.4 to –2.0 percent of GDP.</td></tr>
<tr><td>2024 (% GDP)</td><td>CA: –2.7</td><td>Cycl. Adj. CA: –2.7</td><td>EBA Norm: –0.3</td><td>EBA Gap: –2.4</td><td>Staff Adj: 0.7</td><td>Staff Gap: –1.7</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. The REER appreciated by close to 4.2 percent in 2024 compared to 2023, and stands 10 percent stronger than before the pandemic, weighing on price competitiveness. This has been driven primarily by an appreciation of the NEER, as interest rates remain, on average, higher in the UK than across other advanced economies, although the elevated relative inflation has also contributed to a smaller extent. The appreciation entails a partial reversal from the prepandemic period (2015–19) which saw a sustained depreciation in the REER, driven by expectations of restricted market access following Brexit. As of March 2025, the CPI-based REER was 2.6 percent above its 2024 average.
Assessment. The EBA REER level and index models suggest an overvaluation of 8.7 and 1.5 percent, respectively, for 2024. Consistent with the staff CA gap, staff assesses the REER gap to be 6.5 percent in 2024 (applying an estimated 0.26 elasticity), with a range of 5.5 to 7.6 percent.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="6">Background. The UK has maintained a very open financial account, with limited capital flow measures. As a global financial hub, portfolio investment flows and other investment make up a large share of UK financial flows, often driven by intragroup bank transactions. Portfolio investment debt inflows were an important source of financing for the CA deficit in 2024, counterbalanced to an extent by increased direct investment asset outflows.
Assessment. Large fluctuations in capital flows are inherent in countries with a large financial sector. This volatility is a potential source of vulnerability, although it is mitigated by a robust financial stability framework overseen by the Financial Policy Committee (FPC) of the Bank of England, including a broad set of macroprudential tools.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="6">Background. The pound has the status of a global reserve currency. The share of global reserves in sterling has grown very slightly over the last several years, from averaging 4.5 percent prepandemic (2016–19) to close to 5.0 percent in 2024.
Assessment. Reserves held by the UK are typically low relative to standard metrics, and the currency is free floating. Reserve levels have been stable, with a minimal drawdown in 2024.</td></tr>
<tr><td colspan="7">[1] The BoE's December 2022 Financial Stability Report estimates that official statistics may understate the UK's NIIP position, as FDI stocks are measured at 'own funds at book value', rather than market value. This stems from broader challenges in valuing unlisted equity and is not specific to the ONS approach. Additionally, FDI statistics from quarterly surveys are currently not benchmarked with the statistics from the higher-quality annual FDI survey. Indicative estimates from ONS for 2023 suggest that net FDI could be approximately 14 percent GDP higher.
[2] This is primarily: i) the effect of inflation on real income from debt assets due to the erosion in the real value of debt, from an economic conception, is not captured in the income account (contributing 0.6 percent of GDP to the adjustment), and ii) retained earnings on portfolio equity are not recorded in the income account (contributing 0.1 percent of GDP to the adjustment).</td></tr>
</table>

Annex II. Risk Assessment Matrix

Source of Risks	Relative Likelihood[1]	Impact if Realized	Policy Response
Global Risks			
Trade policy and investment shocks. Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	**High**	**Medium.** The growth effect would depend on the tariff scenario. Higher trade barriers would weigh on investment and net exports, slowing the economic recovery. Indirect effects could arise from prolonged trade uncertainty, increased competition, supply chain disruptions, tighter financial conditions, and weaker global growth. Effects could be mitigated by the large share of services in the UK economy and the diversification of the goods export base.	(1) Further diversify supply chains, deepen economic ties with trading partners, and undertake structural reforms to boost competitiveness. (2) Adjust monetary policy as needed to anchor inflation expectations and return inflation to target over the medium term. (3) Provide temporary and targeted support to the most affected population and sectors within the existing budget envelope. (4) Limit industrial policy interventions to those that address clear market failures. (5) Work with partners to resolve tensions, and diversify and deepen trade partnerships.
Tighter financial conditions and systemic instability. Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFI distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	**Medium**	**High.** A shift in risk sentiment would lead to gilt repricing, possibly fire sales, liquidity shortages and financial tightening, a reduction of credit growth and strains on leveraged corporates and households, which would lower economic activity. Higher gilt yields would raise the government's refinancing costs over the medium term, weakening debt dynamics.	(1) A cautious approach to monetary policy is warranted, to balance inflation risks with support for demand. (2) Pause active sales of gilts and activate BoE's contingent liquidity provision facilities if there are clear indications of market dysfunction that threatens financial stability. (3) Automatic fiscal stabilizers could be allowed to operate partially in the short term to support activity and shield the vulnerable. (4) A durably higher interest bill should be offset by high-quality fiscal measures.
Commodity price volatility. Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.	**Medium**	**Medium.** Energy prices are already relatively high in the UK. Rising and volatile energy prices would create an adverse terms of trade shock, increasing inflation. They would also impact negatively the competitiveness of UK firms, slow down investment and consumption—reducing growth both in the short and medium term.	(1) Further diversify the energy mix and sources. (2) Provide targeted support for households and firms, with a clear timetable for sunsetting. (3) Depending on the size of the shock, monetary policy might need to pause easing or even tighten to keep inflation expectations well anchored and return inflation to target over the medium term.
Deepening geoeconomic fragmentation. Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.	**High**	**High.** Trade barriers and supply disruptions in a more fragmented world result in higher prices and production bottlenecks, reducing economic efficiency and opportunities. This lowers medium-term growth, exacerbating fiscal and cost of living challenges. Global financial fragmentation could also disrupt capital flows, although with ambiguous effects depending on the scenario (credit costs of the public and private sectors could increase, but there may also be safe heaven flows to the UK).	(1) Diversify energy production and secure supply chains to prevent shortages of critical raw materials. (2) Adjust monetary policy as needed to anchor inflation expectations and return inflation to target over the medium term. (3) Automatic fiscal stabilizers could be allowed to operate partially to support activity and shield the vulnerable. (4) Limit industrial policy interventions to those that address clear market failures. (5) Continue implementing structural reforms to boost economic potential.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability.	**Medium**	**Low.** The UK's vulnerability to climate events is lower than most other countries (see panel Figure 8), but extreme weather events could disrupt global supply chains, affecting UK trade and leading to shortages of critical inputs.	(1) Undertake public investment for climate change preparedness and adaptation. (2) Continue progress toward reducing emissions, including by further diversification of energy sources.

Source of Risks	Relative Likelihood[1]	Impact if Realized	Policy Response
		Domestic Risks	
"Stagflation" due to persistent economic weakness and inflationary pressure. Private demand fails to pick up, resulting in persistently low growth while increases in energy and administrative prices have strong second-round inflationary effects.	**Medium**	**High.** Weaker-than-expected growth, coupled with persistent inflation, would complicate the monetary policy stance and exert additional pressure on the government's medium-term fiscal plans.	(1) Adopt a more cautious approach to monetary policy easing based on incoming data to ensure that inflation expectations remain anchored, with appropriate balancing of inflation risks and weaker growth outlook. (2) Allow automatic stabilizers to operate partially and avoid procyclical tightening. (3) Implement structural policies to boost productivity over the medium term.
Procyclical fiscal policy and instability. Forecast deviations from medium-term fiscal targets, due to changes in the outlook, create pressure for immediate and front-loaded fiscal responses, leading to frequent changes in fiscal policy.	**High**	**High.** Procyclical fiscal policy increases economic volatility, while heightened uncertainty could undermine consumer confidence, weighing further on economic growth. This could set back the government's commitment to policy stability, and reduce businesses' ability to plan and invest.	(1) Clear and consistent communication about medium-term fiscal plans can bolster market confidence. (2) Automatic stabilizers should be allowed to operate partially to support economic activity and shield the vulnerable. (3) Maintain larger buffers within the fiscal rules and refine the fiscal framework to reduce pressure for frequent changes to fiscal policy.
Financial sector volatility associated with NBFIs. Vulnerabilities within the NBFI sector remain prevalent given the sector's elevated leverage levels, exposure to liquidity shocks, and growing interconnectedness with banks. A large market shock would generate significant liquidity needs for NBFIs.	**Medium**	**High.** Unexpected liquidity pressures could increase stress, with banks unlikely to provide the needed liquidity via repo transactions to NBFIs. This could pressure the sterling corporate market as holders of corporate bonds sell assets to raise liquidity. Hedge funds might sell off gilts, leading to higher gilt yields and potential market dysfunction. Financing conditions for businesses and households could tighten.	(1) Pause active gilt sales by the BoE. (2) Activate the BoE's contingent liquidity provision facilities. (3) Communicate transparently and clearly for conducting effective market interventions during stress episodes, with timely information about market functioning supplied to market participants.
Social discontent. Real income loss, spillovers from conflicts, dissatisfaction with migration, and worsening inequality ignite social unrest, populism, polarization, and resistance to reforms or suboptimal policies. This weakens growth and leads to policy uncertainty and market repricing.	**Medium**	**Medium.** Social discontent affects consumer and business confidence, potentially delaying fiscal adjustment and reforms, weakening growth, and worsening public debt. Public sector strikes could further complicate service delivery.	(1) Increase support for the most vulnerable households and tackle public service delivery issues, particularly in healthcare. (2) Advance structural reform agenda to boost job creation and productivity, and promote more inclusive growth.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	**High**	**High.** UK is a global financial center. Cyberattacks can have severe financial and legal repercussions, causing disruptions for both individuals and businesses, and threatening economic stability.	(1) Enhance resilience by implementing improved regulations and robust guidelines. (2) Ensure that businesses have comprehensive crisis preparedness strategies in place to effectively respond to and recover from potential cyber incidents.

The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Annex III. Illustrative Scenario

This Annex, based on Scenario A of the April 2025 World Economic Outlook, presents a sensitivity analysis of the potential impact on the UK economy from an escalation of trade tensions. This analysis is intended to be illustrative given that the scenario is based on specific policy assumptions and must be interpreted in light of latest developments.

1. **Based on modelling, UK GDP would be 1 percent lower by 2026 under a scenario which assumes further escalating global trade tensions.** Scenario A of the WEO Box 1.1 assumes economic divergence forces across the main global players, higher trade tariffs, heightened uncertainty on policies, and tighter financial conditions. In this context, UK GDP growth would be expected to be lower by 0.6pp in 2025 and by 0.4pp in 2026. The UK's services-heavy export composition would minimize the direct effects from higher tariffs, while trade diversion would support output due to the UK's lower effective tariffs vis-a-vis other countries.

2. **In the scenario, corrective fiscal measures may be needed to maintain compliance with the fiscal rules.** In the absence of measures, given the weaker outlook, the fiscal deficit would be around half a percent of GDP per year higher on average, compared with staff's baseline projections, and the current balance rule would be breached. Financing higher deficits in the scenario would require additional borrowing throughout the medium term and could increase liquidity pressures in the face of unexpected shocks. Rather than letting automatic stabilizers operate fully, most of the impact of weaker growth on fiscal aggregates should be offset by implementing corrective measures and delivering on the planned medium-term consolidation. Possible measures are suggested in ¶18 of the staff report. Targeted and temporary fiscal support to affected domestic households and businesses may be needed, but it should be primarily financed by reprioritizing within the spending envelope.

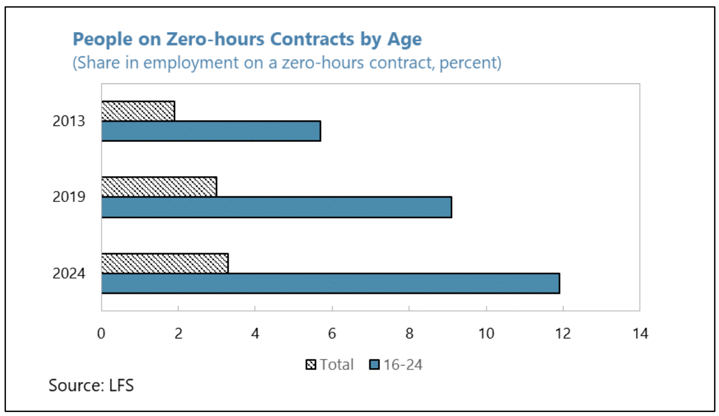
3. **The shock is expected to reduce inflation slightly, which would allow the BoE to ease monetary policy at a faster pace than under the baseline.** Under the WEO scenario, higher global uncertainty and tighter financial conditions represent a negative demand shock for the UK economy, which outweighs the inflationary effect of supply chain disruptions. There would also be additional disinflationary pressures from an appreciation of the sterling. In this context, headline inflation would be lower by 0.1pp and 0.3pp in 2025 and 2026 respectively. The larger economic slack due to the growth slowdown coupled with lower inflation would allow the BoE to accelerate the pace at which it reduces monetary policy restrictiveness, by additional 25 basis points cuts in both 2025 and 2026.

4. **The banking sector would remain adequately capitalized.** Some lessons can be learned from the BoE's 2024 desk-based stress tests, which show that banks' aggregate capital ratio would remain adequate following a much more severe shock to growth and asset prices. If risks to the UK's economic and financial stability began to materialize and the banking system appeared poised to tighten lending beyond what broader economic conditions justify, the FPC could consider lowering the countercyclical capital buffer. Furthermore, if liquidity pressures were to emerge, the BoE has a range of standing facilities to provide liquidity to a wide set of counterparties as well as contingent facilities that could be activated in the event that financial stability were at risk.

Annex IV. Recent Labor Market Developments[1]

Since the fall of last year, the authorities have taken important policy measures to protect workers, relieve cost of living pressures, and raise more revenue to finance critical investment needs. This annex focuses on three recent reforms: the strengthening of employees' rights, the increase in minimum wage, and the increase in employers' NIC rate.[2] Each of these reforms have their own merit but contribute to rising labor costs, which could impact negatively labor demand, particularly for lower paid and younger workers. While such negative side effects are not yet evident in the hard data, businesses have expressed concerns, and the effects could become more apparent, as the labor market weakens. Therefore, caution is warranted to ensure that reforms are implemented in a manner that does not erode UK's competitiveness or diminish job opportunities for more vulnerable workers.

1. **The Employment Rights Bill aims to strengthen worker protections, but could reduce labor market flexibility and entry, particularly for young individuals and those with health challenges.** The Bill, introduced in October 2024, provides "day-one" employment rights to workers such as protection against unfair dismissal, and entitlement to statutory sick pay, paternity, parental, and bereavement leave; regulates employment practices, in particular by prohibiting "exploitative zero-hour contracts" and restricting "fire and rehire" practices; and enhances workplace protection and flexibility. The bill also envisages stricter enforcement through a new Fair Work Agency. The reform is designed to modernize and strengthen workers' rights in the wake of emerging trends and workplace practices such as the rise of flexible work models and the gig economy. It could help incentivize work by providing workers with better job security, who could in turn feel more comfortable investing in new skills (including through apprenticeships) and on-the-job training and learning. But some of the provisions have raised concerns amongst businesses. For example, restrictions on "zero-hour" contracts, which have increased as a share of employment over the last decade, could disproportionately affect younger workers, who tend to rely on them more to get valuable experience for future employment. Similarly, "day-one" protections might make employers less willing to hire candidates without a clear job history, affecting both younger workers entering the workforce, but also workers who have been inactive due to health reasons. This will make it harder to tackle the broader inactivity problem.



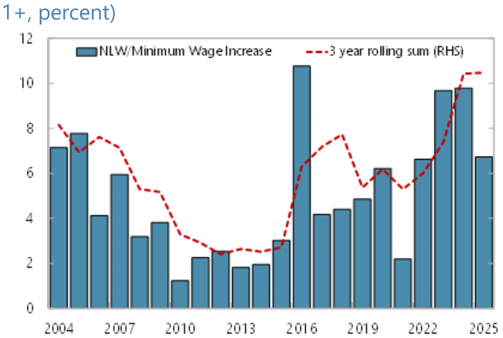
2. **The minimum wage has risen fast over the past four years and could have an impact on the overall level of wages and employment.** The National Living Wage (NLW) for workers over 21 years of age was increased 6.7 percent in April 2025, which follows above 10 percent hikes in

[1] Prepared by Pragyan Deb.

[2] Measures to support the labor supply, including by enhancing skills and reducing inactivity, are discussed in the structural reform section of the report.

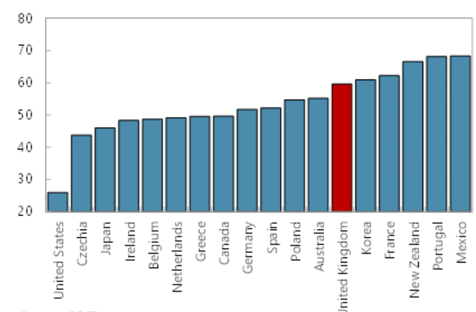
both 2023 and 2024. The NLWs for younger workers have risen even faster, at 18 percent and 16.3 percent in 2025 for 16–17 year-olds and 18–20 year-olds respectively. These increases are part of the authorities' long-term strategy to tackle "in-work poverty" and ensure that the NLW reaches around two-thirds of median earnings in order to relieve cost-of-living pressures on low-income workers stemming from the COVID-19 and energy price shocks. This is set to put the UK close to the top end of OECD peers in terms of relative minimum wage (as a share of median wages), and although the minimum wage only covers around 5 percent of workers, rapid increases could have ripple effects on wages more broadly, especially when the minimum wage gets closer to the median-wage (see for example Gergory and Zierahn, 2022; Gopalan et. al., 2021). A high NLW could also incentivize labor substitution, particularly for younger and low-skilled workers (see Giuliano, 2013; Clemens and Wither, 2019; and Clemens et al., 2021), and adversely affect human capital formation (see Neumark and Wascher, 2003; Schumann, 2017).

Minimum Wage Increase
(21+, percent)



Sources: Haver Analytics; and IMF Staff Calculations

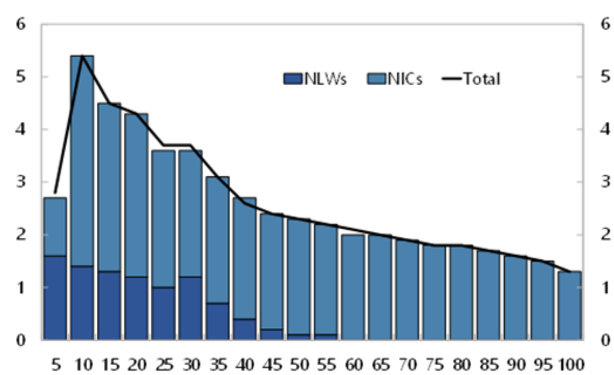
Minimum Relative to Median Wages of Full-Time Workers
(Percent, 2023)



Source: OECD

3. The increase in employers' NIC rate is likely to raise labor costs, and, at least partly, be passed on to workers in the form of lower real wages and employment. The NIC rate that firms pay was raised from 13.8 to 15 percent from April 2025, together with a reduction in the salary threshold at which employers are obliged to make contributions. This revenue measure was necessary to accommodate spending pressures and higher investment announced in the October budget and can be seen as partly offsetting the earlier reductions in NIC rates for employees and the self-employed that occurred in January and April 2024. It is also important to note that the UK has a relatively low tax wedge by international standards.[3] Nevertheless, the incidence of the employer NIC increase is likely to fall largely on workers, given thin profit margins in key labor-intensive industries such as leisure, hospitality and retail, and limited pricing

Impact on Weekly Employer Labour Costs Due to the Increase in NLW and NICs
(Impact by percentile of the labor cost distribution, percent))

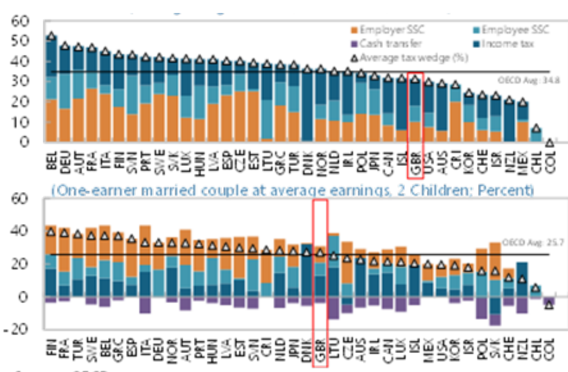


Source: Bank of England MPR.

[3] The most recent OECD data indicates a tax wedge of 31.3 percent in 2023, lower than the OECD of 34.8 percent for an average single worker, though the figures are slightly higher for married couples with children.

power. These are also the industries with a higher share of part-time workers. Surveys suggest that firms would respond by lowering hiring intentions and wage growth (Decision Maker Panel, CBI services survey). For workers on minimum wage, the adjustment is likely to come primarily in the form of lower employment. Modelling by the OBR and the BoE[4] finds that the impact will be stronger for lower pay workers; the BoE estimates that the increase in labor costs will be over 5 percent for the bottom 5th–10th percentiles of the pay distribution compared with just over 1 percent for the top 95th–100th percentiles of the distribution.

Average Tax Wedge
(Average single worker, no children, percent)



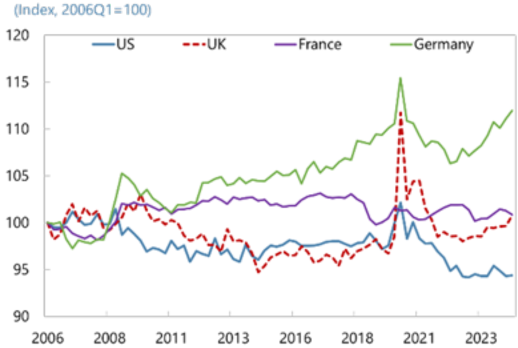
Source: OECD

Estimated Pass-Through of Employer NICs on Various Economic Channels
(GBP million)

Source: OBR

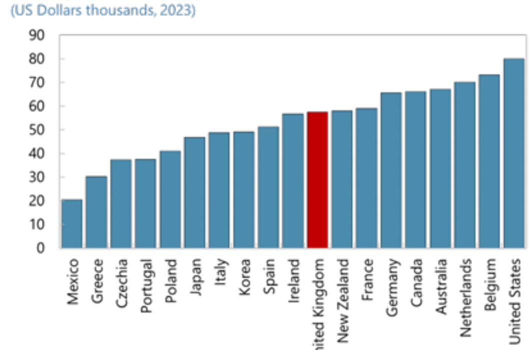
4. Together, these three measures are expected to raise the labor cost, particularly for younger and lower-paid workers. There are few estimates of the joint effect of the measures. IFS (2025) assesses a likely impact on labor costs (hiring a full-time worker aged 21 or over on the NLW) of around 7 percent on average, with higher increases for younger and part-time workers. It is important to put this in perspective since the evolution of real unit labor costs in the UK compares favorably with peers and the average level of nominal wages are below the OECD average, suggesting no immediate concerns about competitiveness.

Real Unit Labor Cost
(Index, 2006Q1=100)



Sources: Haver Analytics; WEO; and IMF staff calculations.

Average Annual Wages
(US Dollars thousands, 2023)



Source: OECD

[4] The BoE estimates that net effect of the changes to NICs is to increase firms' employment costs by 1.9 ppt, while the increase in NLW rise will add a further 0.2 ppts. They concur that, by the end of the three-year forecast horizon, most of the labor market adjustment will come via real wages (as opposed to profits, which are compressed in any case) particularly given the emerging weakness in the labor market.

5. **Although not apparent at the moment, the effect of the measures might get amplified as the labor market weakens.** The labor market, while still tight, is easing with falling vacancies and rising unemployment. There is no clear evidence in the data that this is driven by recent labor market reforms, but weakness in the labor market could amplify the impact of the new policies as workers' bargaining power declines. In such an environment, younger workers and those out of the labor market (for instance, due to long-term illness) might at the margin find it harder to (re)enter the job market. Therefore, it will be important to ensure that the implementation of the Employment Rights Bill and future NLW and tax increases are done in a manner that does not diminish job opportunities for the most vulnerable and keeps labor costs in check. For instance, the "day-one" protections could be flexibly interpreted with a probationary period; and future increases in the NLW should be kept in line with inflation and overall wage growth. The UK government intends to consult businesses and workers on all these measures.

Annex V. Sovereign Risk and Debt Sustainability Analysis

The authorities are committed to fiscal consolidation and debt stabilization over the medium term. They revised their fiscal framework in October 2024, with updated fiscal rules that target a balanced current budget by FY2029/30, while stabilizing public sector net financial liabilities (a metric of net debt deducting a broader range of financial liabilities). Under staff's baseline scenario, the primary balance is expected to improve by around 2 ppts to a surplus of 0.7 percent of GDP by the end of the forecast horizon (FY2030/31), reflecting the impact of announced revenue measures and gradual decline in the expenditure ratio.[1] General government gross debt settles at around 105 percent of GDP over the medium term, before beginning to increase again after FY2030/31 as the rising interest bill causes debt dynamics to deteriorate. Gross financing needs (GFNs) average approximately 10.6 percent of GDP over FY2025/26–FY2030/31, slightly above pre-pandemic levels. Moderate risks of stress associated with high debt and GFNs are mitigated by the UK's long maturity of general government debt, lack of foreign currency-denominated debt, and substantial market absorption capacity for gilts (once NBFI demand is accounted for).

1. Background. UK economic growth has been weak over the past two fiscal years (FY2023/24-FY2024/25), averaging 0.8 percent, against the backdrop of tight financial conditions. After declining to approximately 2 percent in mid-2024, CPI inflation has again moved higher, reaching 3.4 percent in May 2025, as core inflation continues to moderate slowly. Interest rates on new borrowing remain well above pre-pandemic levels. After the Covid-related fiscal expansion of 2020–21, the general government fiscal deficit ratio has declined to approximately 5½ ppts in FY2024/25, as tax increases and fiscal drag have lifted revenue collections, while support measures have been unwound. The decline in the deficit has nonetheless not been sufficiently large to prevent the general government debt-to-GDP ratio from increasing by 2¾ ppts over the past two fiscal years to approximately 101 percent of GDP by end FY2024/25.

2. Baseline fiscal assumptions. Staff's baseline is informed by the authorities' medium-term fiscal framework announced alongside the October 2024 budget and March 2025 statement. Staff's assumed expenditure path is aligned with the authorities' medium-term envelope, that takes account of spending pressures and investment needs. This path is close to what staff projected in the 2024 Article IV consultation. Staff's revenue projections reflect the impact of the announced package of revenue measures, including the increase in employer NICs, although staff has a more conservative assumption than the authorities about the potential gains from additional tax enforcement efforts and also does not assume medium-term uprating of the fuel duty. As envisaged by the authorities' medium-term budget framework, staff projects the primary deficit to improve by around 2 ppts of GDP between FY2025/26 and FY2030/31, as revenue collections increase and the expenditure ratio gradually declines. The debt-to-GDP ratio is projected to settle at around 105

[1] This Annex is presented on a general government basis. Hence, fiscal projections differ from those appearing elsewhere in the report, which are presented on a public sector basis, unless otherwise indicated.

percent over the medium term, before beginning to increase gradually as a higher interest bill worsens debt dynamics.[2]

3. Realism of baseline projections. Historical forecast errors point to some optimism in staff's baseline projections for medium-term primary balances and cyclical conditions, although past errors partly reflect the implementation of emergency fiscal support measures during the pandemic, when the output gap was much larger than forecast (Figure V.5). The projected medium-term fiscal adjustment and debt reduction paths are nonetheless within the range of what has been previously achieved in the UK.

4. Medium-term risks and mitigating factors. The Debt Fanchart and GFN Financeability modules both signal moderate risk (Figure V.6). For the fanchart, this reflects high uncertainty (as indicated by the fanchart width), a relatively high level of medium-term debt, and a probability of non-stabilization for medium-term debt of approximately 40 percent. Moderate GFN Financeability risks reflect moderately high GFNs, of around 10.6 percent of GDP per year on average under the baseline projections. GFNs exceed 20 percent of GDP in a generalized stress scenario with increased deficits, lower growth, and lower participation of foreign investors in the gilt market. While banks would need to increase their holdings of government debt by 13 percent in this scenario, this would be manageable given that banks' exposure to the public sector is currently only around 3 percent of sterling-denominated assets. While combining the debt fanchart and GFN indices yields a moderate medium-term risk signal (Figure V.1), there are several mitigating factors, including: a very long maturity of general government debt (of about 14 years on average) that smoothes GFNs and limits the pass-through from higher yields to effective interest rates; a lack of foreign currency-denominated debt that mitigates FX risks; a sizable stock of liquid assets that can alleviate solvency pressures; and substantial market absorption capacity for gilts aided by the UK's large institutional investor base, which reduces liquidity risks. The BoE also has the ability to stabilize the gilt market if conditions become disorderly. Staff therefore assesses overall risks of sovereign stress to be low.

[2] General government gross debt is projected to exceed 200 percent of GDP by FY2050/51, under current policies, due to the impact of additional spending pressures on health, pensions, defense and climate (as shown in ¶19 of the report). For further details about how these additional pressures are estimated by IMF staff, see Eble and others (2025).

Figure V.1. United Kingdom: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	Staff's assessment of the overall risk of sovereign stress is low, reflecting moderate levels of vulnerability in the medium-, and long-term horizons. Mitigating factors include exceptionally long debt maturity, lack of foreign currency debt and large market absorption capacity for gilts aided by the UK's large institutional investor base.
Near term 1/	...	...	
Medium term	Moderate	Moderate	Staff's assessment of the medium-term risk of sovereign stress is moderate, consistent with the mechanical signal. Risks associated with high debt and large financing needs are mitigated by the quality of the UK's institutions and the low sovereign exposure of UK banks.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test		...	
Long term	...	Moderate	Long-term risks are assessed as moderate and are driven by spending pressures including aging-related expenditures on health, social security and investment needs.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: The UK is at a low overall risk of sovereign stress. The large response to successive shocks and permanent output losses have raised debt levels and created relatively large financing needs, reflected in a moderate medium-term risk score. Long-term risks are also judged as moderate in view of spending pressures, including health-related pressures associated with an aging population. The risk of stress is mitigated by several factors including: a very long debt maturity that smoothes GFNs and limits the immediate pass-through from higher yields to effective interest rates; lack of foreign currency debt that mitigates FX risks; a sizable stock of public sector liquid financial assets, which can alleviate solvency pressures, and substantial market absorption capacity for gilts aided by the UK's large institutional investor base, which mitigates liquidity risks.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure V.2. United Kingdom: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other
	chosen			

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

Sector grouping		Subsectors captured in the baseline	Inclusion	Comments
CPS / NFPS / GG: expected / CG	1	Budgetary central government	Yes	
CPS / NFPS / GG: expected / CG	2	Extra budgetary funds (EBFs)	No	Not applicable
CPS / NFPS / GG: expected / CG	3	Social security funds (SSFs)	Yes	
CPS / NFPS / GG: expected	4	State governments	Yes	
CPS / NFPS / GG: expected	5	Local governments	Yes	
CPS / NFPS	6	Public nonfinancial corporations	No	
CPS	7	Central bank	No	
CPS	8	Other public financial corporations	No	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
chosen	chosen	chosen	missing	missing

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
chosen			chosen	

5. Debt consolidation across sectors: Consolidated (chosen) | Non-consolidated

Color code: chosen coverage | Missing from recommended coverage | Not applicable

Reporting on Intra-Government Debt Holdings

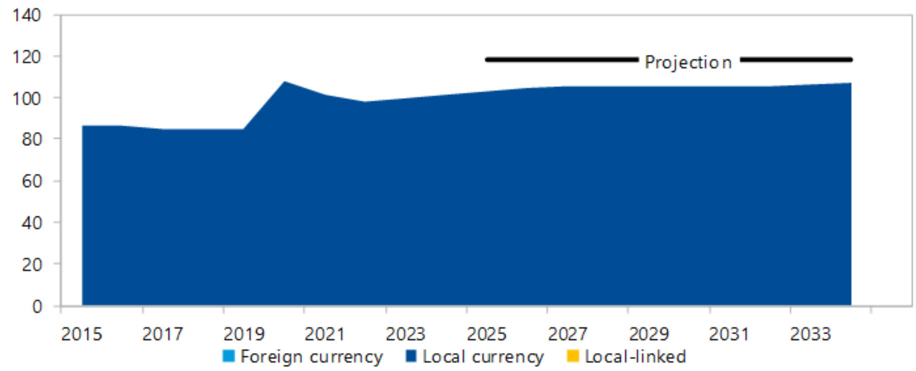
	Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.									0
6	Nonfin pub. corp.									0
7	Central bank									0
8	Oth. pub. fin. corp									0
	Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The coverage in this SRDSA is general government, with most debt issued by the central government. This reflects the preferred concept in the new SRDSF.

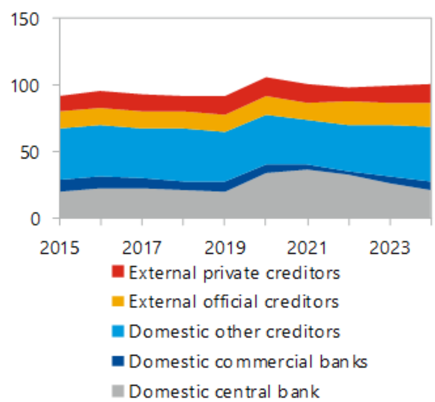
Figure V.3. United Kingdom: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



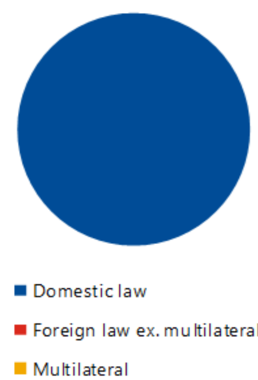
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



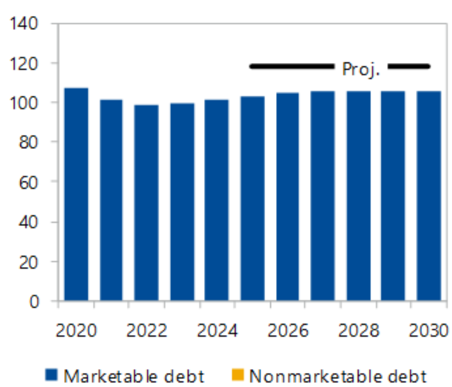
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2024 (percent)



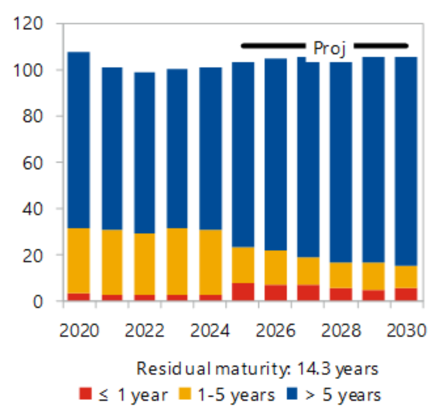
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

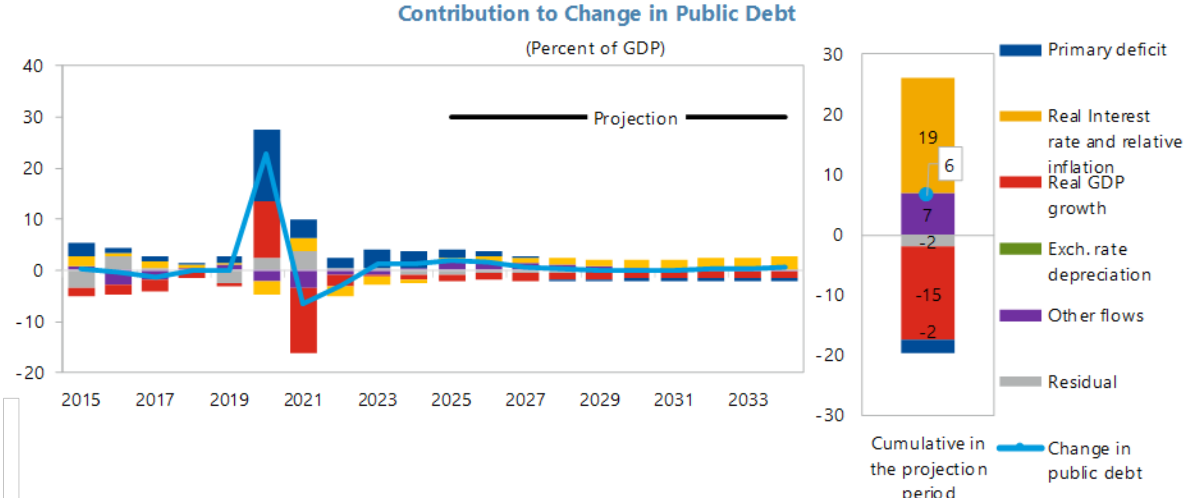
Commentary: Debt is entirely in domestic currency and marketable. All public debt is governed by domestic law. Debt is mostly long-term, with its residual maturity (around 14 years) one of the highest among advanced economy peers. The share of debt held by the central bank, which had risen with successive rounds of QE, has started to decline with QT since 2022. The remainder of the debt is predominantly held by NBFIs and external private creditors, with the domestic banking sector estimated to hold only about 7 percent of public debt.

Figure V.4. United Kingdom: Baseline Scenario 1/

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	101.0	103.0	104.6	105.2	105.6	105.5	105.4	105.5	105.8	106.2	106.7
Change in public debt	1.2	2.0	1.7	0.6	0.4	-0.1	-0.2	0.2	0.3	0.4	0.5
Contribution of identified flows	2.0	2.8	2.3	1.1	0.8	0.1	-0.1	0.1	0.2	0.3	0.3
Primary deficit	3.0	1.5	1.0	0.1	-0.1	-0.5	-0.7	-0.7	-0.7	-0.7	-0.7
Noninterest revenues	37.8	39.2	39.8	40.2	40.1	40.1	40.2	40.2	40.2	40.2	40.2
Noninterest expenditures	40.9	40.7	40.8	40.3	40.0	39.6	39.4	39.4	39.4	39.4	39.4
Automatic debt dynamics	-1.6	-0.7	-0.3	-0.5	-0.1	-0.2	0.3	0.7	0.9	1.1	1.2
Real interest rate and relative inflation	-0.4	0.5	1.1	1.2	1.3	1.4	1.6	2.0	2.2	2.4	2.6
Real interest rate	-0.4	0.5	1.1	1.2	1.3	1.4	1.6	2.0	2.2	2.4	2.6
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.2	-1.2	-1.4	-1.7	-1.5	-1.5	-1.4	-1.4	-1.4	-1.4	-1.4
Real exchange rate	0.0	0.0	...	...	...	...	...	...	...	...	...
Other identified flows	0.5	2.0	1.5	1.4	1.1	0.8	0.4	0.2	0.0	-0.1	-0.2
Other transactions	1.2	2.6	2.1	2.0	1.6	1.4	0.9	0.8	0.6	0.5	0.4
Contribution of residual	-0.7	-0.8	-0.6	-0.5	-0.4	-0.2	-0.1	0.0	0.1	0.1	0.2
Gross financing needs	12.8	9.7	11.2	10.9	11.4	10.2	10.0	11.7	11.3	12.6	13.3
of which: debt service	10.4	8.8	10.8	11.4	12.1	11.3	11.3	13.0	12.6	13.8	14.6
Local currency	10.4	8.8	10.8	11.4	12.1	11.3	11.3	13.0	12.6	13.8	14.6
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	1.2	1.2	1.4	1.6	1.4	1.5	1.3	1.3	1.3	1.3	1.3
Inflation (GDP deflator; percent)	4.1	2.7	2.2	2.2	2.2	2.3	2.2	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	5.4	4.0	3.5	3.8	3.6	3.8	3.5	3.3	3.3	3.3	3.3
Effective interest rate (percent)	3.7	3.3	3.3	3.4	3.5	3.6	3.8	4.0	4.2	4.4	4.5

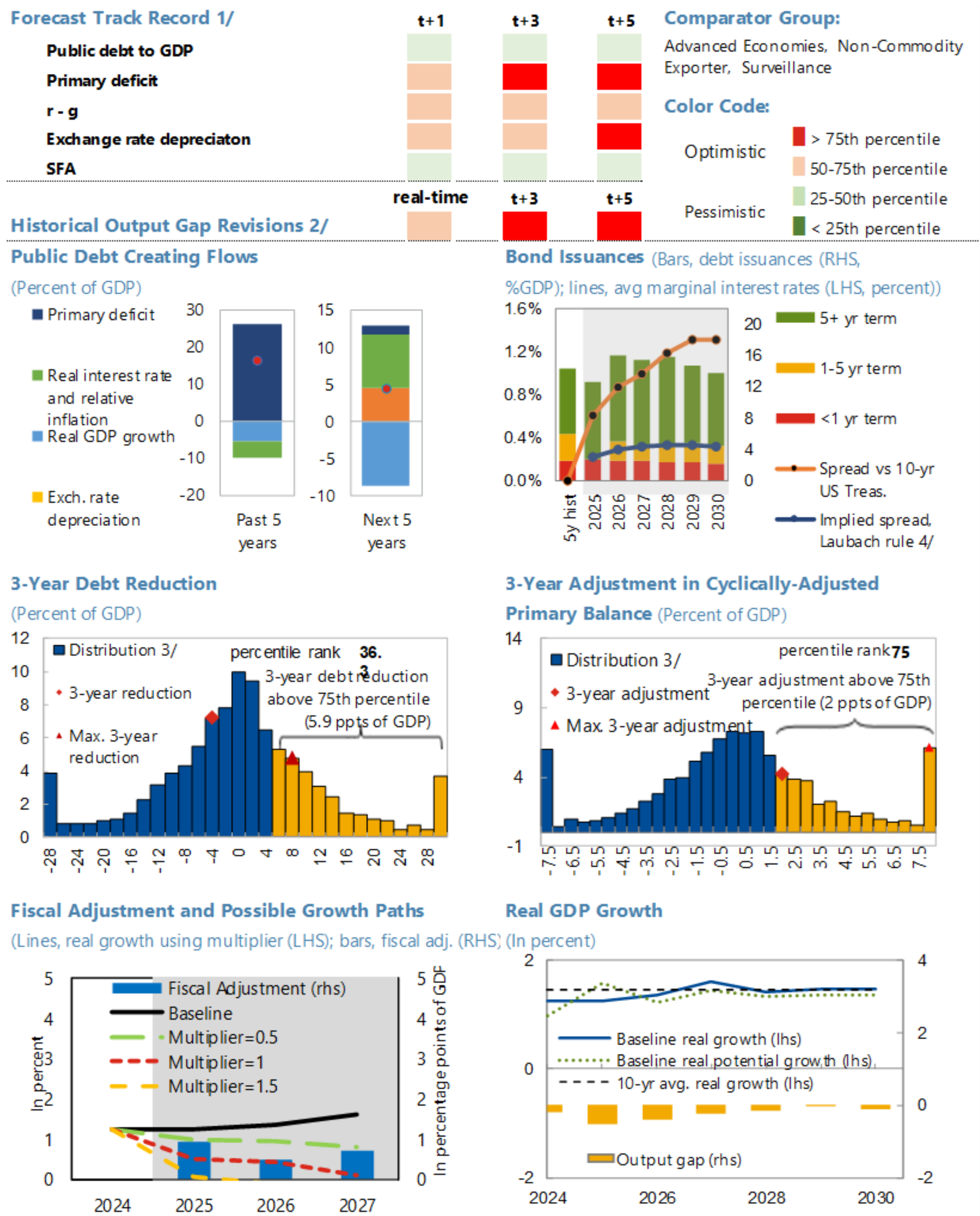
Contribution to Change in Public Debt



Staff commentary: General government debt settles at around 105 percent of GDP over the medium term, as the primary balance improves because of higher revenue collection and a gradually declining expenditure ratio. Debt begins to increase gradually again after FY2031/32, as the higher interest bill drives a deterioration in debt dynamics.

1/ Data are presented in fiscal years, so that, e.g., 2024 corresponds to FY2024/25, ending in March 2025.

Figure V.5. United Kingdom: Realism of Baseline Assumptions



Commentary: The realism analysis shows large historical forecast errors for the medium-term primary deficit, exchange rate and output gap projections, indicating an optimistic bias, while smaller errors have been recorded for the public debt to GDP ratio. Analysis using fiscal multipliers also suggests some optimism in the medium-term growth forecast. The projected fiscal adjustment and change in debt are within historical norms for the UK and partly reflect the effect of already-legislated tax increases. The largest contributor to public debt creating flows over the next five years is increased effective real interest rates, as the higher market interest rates of recent years feed through to the interest bill over the medium term.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

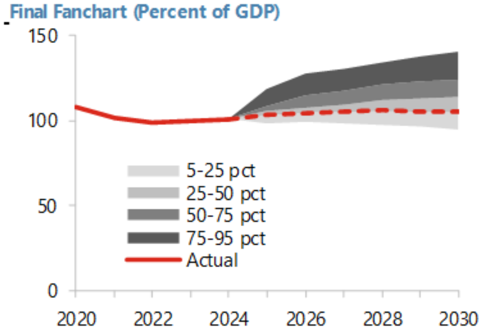
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

3/ Data cover annual obervations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

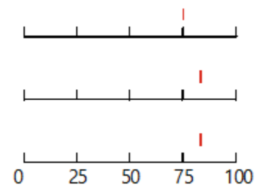
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure V.6. United Kingdom: Medium-Term Risk Analysis

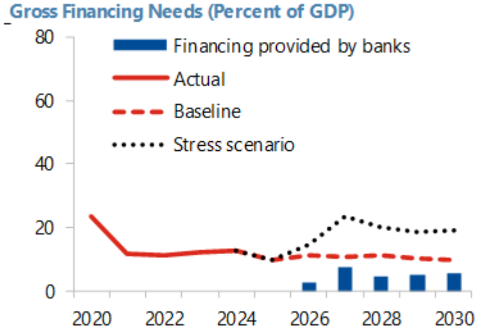
Final Fanchart (Percent of GDP)



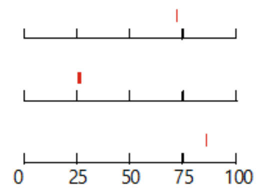
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	45.7	0.7	
Probability of debt non-stabilizaiton *(percent)*	40.4	0.3	
Terminal debt-to-GDP x institutions index	26.3	0.6	
Debt fanchart index (DFI)		1.6	
Risk signal: 3/		Moderate	



Gross Financing Needs (Percent of GDP)



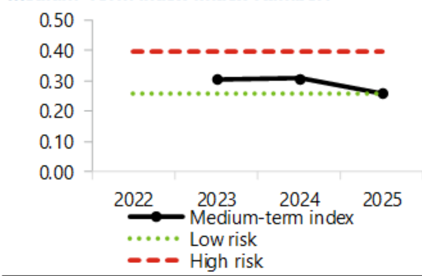
	Value	Contrib 1/	Percentile in peer group 2/
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	10.6	3.6	
Initial Banks' claims on the gen. govt *(pct bank assets)*	3.0	1.0	
Chg. In banks' claims in stress *(pct banks' assets)*	12.6	4.2	
GFN financeability index (GFI)		8.8	
Risk signal: 4/		Moderate	



Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.6	0.3	0.5	0.2
GFN finaceability index	8.8	0.2	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		Moderate		
Final assessment:		Moderate		

Prob. of missed crisis, 2025-2030, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2025-2030, if stress predicted: 42.0 pct.

Commentary: The Debt Fanchart and GFN Financeability modules both point to moderate risk. For the Fanchart, this reflects high uncertainty (as indicated by Fanchart width) and a high medium-term debt level, as well as a probability of debt non-stabilization of around 40 percent. Risks around the baseline debt projection are tilted to the upside, as shown by the baseline being below the median debt trajectory. Moderate financing risk reflects relatively high GFNs and increases in sovereign exposure of domestic banks under a stress scenario with limited rollover of external private financing, increased deficits and continued QT, offset by the very low initial sovereign exposure of domestic banks.

Sources: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure V.7. United Kingdom: Long-Term Risk Analysis

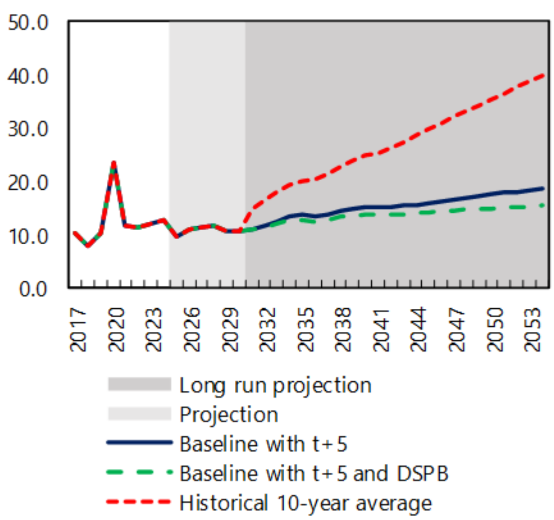
Triggered Modules

Large amortizations	Pensions	Climate change: Adaptation	Natural Resources
	Health	Climate change: Mitigation	

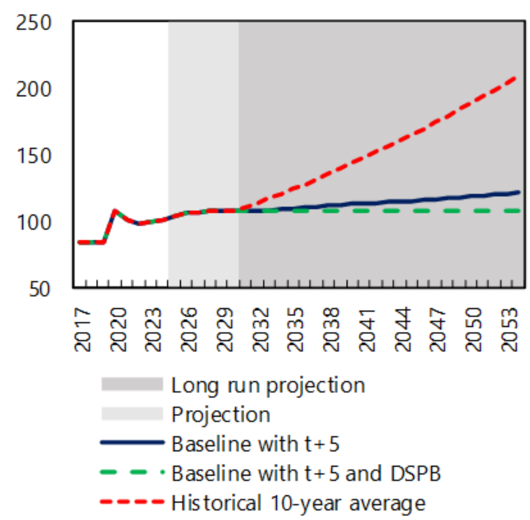
Long-Term Risk Assessment: Large Amortization

Projection	**Variable**	**Risk Indication**
Medium-term extrapolation	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Historical average assumptions	GFN-to-GDP ratio	
	Amortization-to-GDP ratio	
	Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



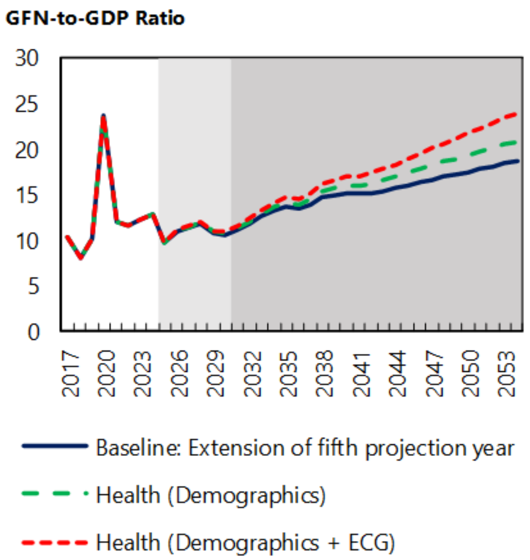
Total Public Debt-to-GDP Ratio

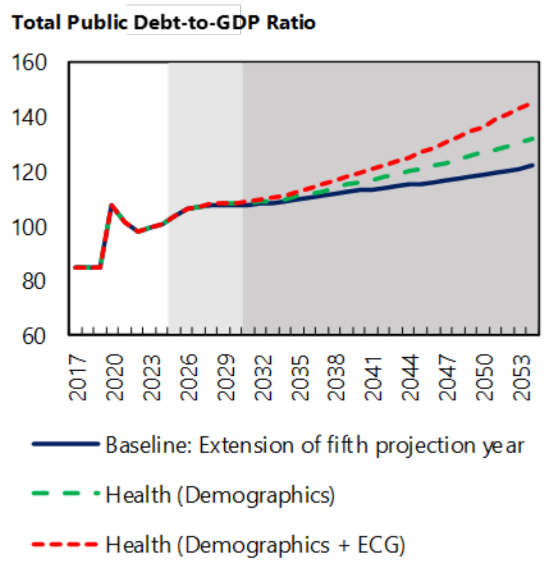


Staff Commentary: Long-term simulations suggest that GFN and / or amortization will exceed the 2015-2024 average by more than one std. dev. if (i) debt drivers remain at FY2030/31 levels over the long term; or (ii) the debt-stabilizing primary balance prevails over the long term, while other debt drivers remain at FY2030/31 levels; or (iii) debt drivers remain at the average over the past ten years. These results illustrate the long-term fiscal challenges in the UK due to high debt and spending pressures, including because of the ageing population.

Figure V.8. United Kingdom: Long-Term Risk Analysis

Demographics: Health



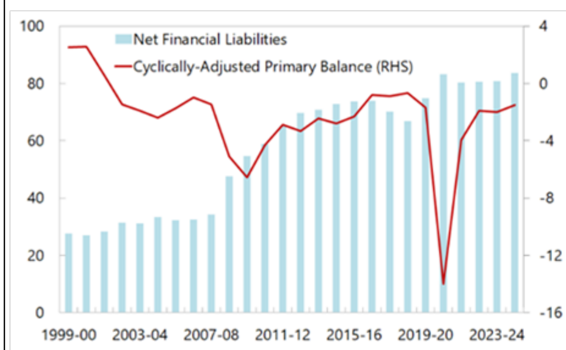


Staff Commentary: Long-term simulations suggest that GFN and GG debt will rise more sharply if (i) current health spending (around 8 percent of GDP) rises over time due to population ageing **(Demographics)**; or (ii) current health spending (around 8 percent of GDP) rises gradually to 10 percent of GDP (as implied by the NHS LT Workforce Plan) **(Demographics + Excess Cost Growth (ECG))**, relative to a baseline with health spending of around 8 percent of GDP and debt drivers remaining at FY2030/31 levels over the LT.

Annex VI. The Economic Benefits of Fiscal Policy Stability[1]

1. **UK fiscal policy has undergone significant shifts over the past two decades.** There have been large changes in the fiscal stance, with sharp policy loosening during the GFC and Covid pandemic, accompanied by substantial increases in public debt, followed by periods of consolidation. There have also been major tax reforms, including an 11 percentage point cumulative reduction in the main corporate tax rate during 2010–17, which was partially reversed in 2023, when the rate was raised to 25 percent. Furthermore, there have been numerous iterations of the fiscal framework, including nine sets of fiscal rules since 1997.

Fiscal Aggregates
(Public sector, percent of GDP)



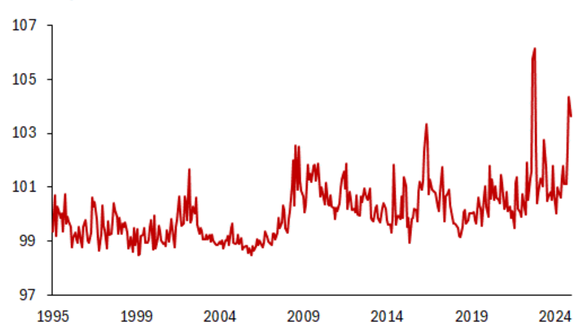
Sources: Office for Budget Responsibility and IMF Staff Calculations.

2. **A lack of stability in the conduct of fiscal policy can create uncertainty for financial markets and the public.** Uncertainty arises when fiscal policy is unclear, subject to prolonged reviews, or volatile because of frequent changes. Uncertainty can be associated with all aspects of fiscal policy, including taxation, the size and composition of expenditure, as well as the path of government borrowing and debt. In large countries, fiscal policy uncertainty can have international spillovers, contributing to global uncertainty.

3. **In turn, heightened fiscal uncertainty has the potential to drive borrowing costs higher and dampen economic activity.** When uncertainty rises, government borrowing costs are likely to incorporate larger term and risk premia, particularly for longer-dated government securities. These higher borrowing costs spill over to higher premia in the interest rates faced by corporates and other borrowers, tightening overall financial conditions. This can increase the debt service burden for corporates and households, discouraging business investment and weakening household consumption. There is also evidence that policy uncertainty reduces the size of fiscal multipliers.

4. **Fiscal policy uncertainty has been elevated in the UK since the GFC, with spikes around periods of economic stress and large policy changes.** The evolution of fiscal policy uncertainty overtime is captured by a new monthly index developed by IMF staff. The index is based on the number of mentions of UK fiscal topics in around 47 million English-language news articles in British, US and Canadian outlets since 1995. The index reveals that fiscal policy uncertainty

UK Fiscal Policy Uncertainty Index
(January 1995 - November 2024)



Source: Hong, Ke and Nguyen (2024).

[1] Prepared by Andrew Hodge, Gee Hee Hong (both EUR), and Anh Nguyen (FAD).

rose at the time of the GFC and has been higher on average since then. Uncertainty picked up temporarily around the time of the UK's referendum on exiting the European Union in 2016, as well as during the energy price crisis and "mini budget" in 2022, which coincided with several political and policy changes.[2]

5. Periods of fiscal policy uncertainty have been associated with tighter financial conditions, currency depreciation and slower economic activity in the UK. Econometric analysis is used to assess the impact of an exogenous increase in UK fiscal policy uncertainty, abstracting from the influence of external shocks (Figure VI.1).[3] It causes immediate sterling depreciation, which persists for over two years. It also raises gilt yields, relative to the Bank Rate, which spills over to higher spreads on UK corporate bonds, increasing the cost of borrowing for private firms. This weakens private investment and causes a persistent decline in economic activity. The impact in the UK is broadly in line with what staff finds in other advanced economies. The results show that exogenous changes in the index explain around one third of the changes in UK ten-year gilt yields (relative to Bank Rate) that occurred during August-October 2022, which included the "mini budget." It should be noted that during periods of elevated uncertainty, the adverse impact on financial conditions and economic activity could be larger than the econometric modeling suggests, because of non-linear effects that are not captured by the linear modeling approach.

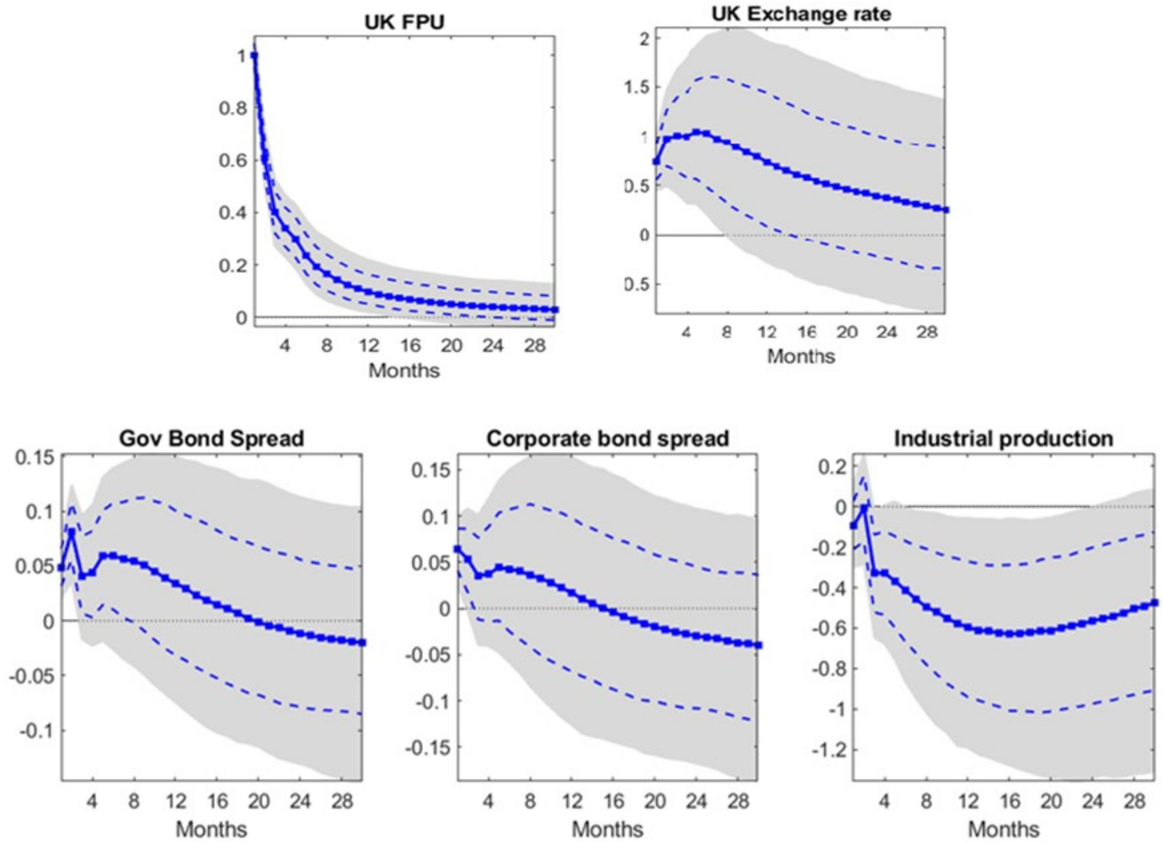
6. UK policy stability can be bolstered through the use of medium-term policy plans, advance communication of new policies, and a fiscal framework that incentivizes continuity and predictability. The authorities have made several institutional changes to foster policy stability, including a single annual budget and regular spending reviews. The ten-year infrastructure plan, industrial strategy and the authorities' commitment not to raise taxes on working people, also contribute to a predictable policy environment. Future changes to fiscal policy, including to the gilt remit, should be well-telegraphed in advance, to avoid surprising financial markets and the public. Staff have also proposed potential refinements to the fiscal framework, to reduce pressure for frequent policy changes, given the sensitivity of the current fiscal rules to small changes in the outlook (see fiscal policy section of the report).

[2] See Hong, Ke and Nguyen (2024) for further details.

[3] The model is a structural VAR. The exogenous shock to UK fiscal policy uncertainty is identified using a Cholesky ordering. US fiscal policy uncertainty is treated as the most exogenous variable, followed by UK fiscal policy uncertainty, and then UK macroeconomic and financial variables. This approach controls for the impact of changes in US fiscal policy uncertainty on the UK, to identify a true UK shock. It also reflects the assumption that an increase in UK fiscal policy uncertainty can impact UK macro-financial variables simultaneously, while shocks to UK macro-financial variables can only impact UK fiscal policy uncertainty with a lag.

Figure VI.1. United Kingdom: Economic Impact of Fiscal Uncertainty

Each panel displays the impact of a 1 std. dev. increase in the UK fiscal policy uncertainty index on the relevant variable (in percentage points for spreads, in percent for other variables)



Source: Hong, Ke and Nguyen (2024).
Note: The structural VAR model includes US fiscal policy uncertainty, UK fiscal policy uncertainty, the exchange rate (increase = depreciation), the Bank of England policy rate, the 10-year UK government bond spread (relative to Bank Rate), the corporate bond spread (relative to Bank Rate), and industrial production, which is a monthly metric of economic activity available in many countries. The econometric specification also includes dummy variables for March to May 2020, to control for COVID-related outliers. The exogenous shock to UK fiscal policy uncertainty is identified based on a Cholesky decomposition, using the order of variables as stated. Dashed lines and shaded areas represent confidence intervals of 68 and 95 percent, respectively.

Annex VII. Data Issues

Table VII.1. United Kingdom: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	B	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	B		
Granularity 3/	A		A	A	B		
			B		A		
Consistency			A	A		A	
Frequency and Timeliness	A	A	A	A	B		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance* , January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. The data provided by the Office for National Statistics (ONS), the Bank of England (BoE) and other national sources are adequate for surveillance. Concerns about the quality of Labour Force Survey (LFS) data persist, creating challenges to assess the underlying state of the labor market. However, these challenges are in part mitigated by the use of other data sources, such as the ONS Workforce Jobs Survey and HMRC payroll data. Additionally, there is potential to further address data gaps in the non-bank financial sector (NBFIs) including information on sterling asset holdings, private markets, and liquidity indicators of investment funds.

Changes since the last Article IV consultation. Concerns with the quality of the LFS data mainly come from low response rates among survey participants, which the ONS is adressing by reintroducing face-to-face interviews and offering respondents cash incentives. To further boost the sample size the ONS has applied new weights to LFS data in December 2024, which increased the level of employment and brought the LFS estimates more into line with estimates from business and administrative sources. Alongside its efforts to enhance the LFS, the ONS is continuing to develop the Transformed Labour Force Survey (TLFS). Finally, efforts are underway to collect data on NBFIs**.**

Corrective actions and capacity development priorities. The release of the Transformed Labor Force Survey (TLFS), originally scheduled for September 2024, has been postponed and may not occur until 2027. The TLFS aims to address the data quality issues present in the Labor Force Survey (LFS). The ONS successfully published annual 2022 and 2023 FDI data and are back to the usual publication timetable for the annual data. This data still needs to be incorporated into the UK Balance of Payments. In addition, to improve the quality of official statistics, the ONS is undergoing two reviews in 2025 (by Office for Statistics Regulation and another led by Sir Robert Devereux), with the last independent review conducted in 2016.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff uses additional international data sources from BIS, FSB, OECD for international comparisons. Additional commercial data from Bloomberg is used for the financial sector.

Other data gaps. Not relevant.

Table VII.2. United Kingdom: Data Standards Initiatives

United Kingdom adheres to the Special Data Dissemination Standard (SDDS) Plus since August 2022 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Table VII.3. United Kingdom: Table of Common Indicators Required for Surveillance

As of June 17, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	United Kingdom[8]	Expected Timeliness[6,7]	United Kingdom[8]
Exchange Rates	16-Jun-25	17-Jun-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	May-25	Jun-25	M	M	M	...	1W	...
Reserve/Base Money	May-25	Jun-25	M	M	M	M	2W	29D
Broad Money	Apr-25	Jun-25	M	M	M	M	1M	1M
Central Bank Balance Sheet	May-25	May-25	M	M	M	M	2W	29D
Consolidated Balance Sheet of the Banking System	Apr-25	Jun-25	M	M	M	M	1M	1M
Interest Rates[2]	16-Jun-25	17-Jun-25	D	D	D	...	...	...
Consumer Price Index	Apr-25	May-25	M	M	M	M	1M	NLT 3W
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2025Q1	May-25	Q	Q	A/Q	A	2Q/12M	9M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Apr-25	May-25	M	M	M		1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2024Q4	Mar-25	Q	Q	Q	M	1Q	NLT 6W
External Current Account Balance	2024Q4	Mar-25	Q	Q	Q	Q	1Q	NLT 1Q
Exports and Imports of Goods and Services	Apr-25	Jun-25	M	M	M	M	8W	NLT 40D
GDP/GNP	2025Q1	May-25	Q	Q	Q	Q	1Q	1Q
Gross External Debt	2024Q4	Mar-25	Q	Q	Q	Q	1Q	1Q
International Investment Position	2024Q4	Mar-25	Q	Q	Q	Q	1Q	NLT 1Q

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

Annex VIII. FSAP Recommendations

Key FSAP Recommendation	Time frame	Update on relevant work in progress
1: Strengthen backstops to the functioning of core markets in times of stress by considering allowing appropriately regulated and systemically interconnected NBFIs access to repo and/or Gilt purchase operations; clearly communicating the objectives, instruments, eligible participants, and the exit criteria. (BOE)	1-3 years	• Designed and carried out gilt market purchases on financial stability grounds in Autumn 2022 to address market dysfunction in long-dated gilts (see letter to TSC for more detail). More detail on operational design can be found here. The purchases were successfully exited. • Work to reflect on lessons learnt from the LDI episode is ongoing and seeks to build on other Bank analysis of the subject (see here) is largely complete. • The Contingent Non-Bank Financial Institution Repo Facility (CNRF) opened for applications in January 2025 (see Contingent Non-Bank Financial Institution Repo Facility (CNRF) | Bank of England). As a contingent facility, the CNRF will be activated at the Bank's discretion in episodes of severe gilt market dysfunction that threaten UK financial stability. The CNRF will to lend cash to participating insurance companies, pension funds and LDI funds (ICPFs) against gilt collateral for a short lending term. Work to explore how to design a broader facility (that would expand access to include more ICPF counterparties and potentially reach a broader set of NBFIs that are relevant to the functioning of UK core markets) has been continuing in parallel to the development of the CNRF.

2: *Enhance* and further strengthen the existing stress testing framework by consolidating the internal toolkit and run independent full-fledged top-down exercises covering all systemically relevant components of the financial system. (BOE/PRA, with FCA)	3-5 years	• The Bank published the final report for its system-wide exploratory scenario exercise (SWES) in November 2024. This exercise explored the behavior of banks and NBFIs in stress, and how their behaviors might interact and amplify shocks in ways that might cause adverse outcomes in UK financial markets core to UK financial stability. The Bank alongside the FCA is investing in building their capacity to conduct in-house stress simulations that model system-wide dynamics, to be to update the SWES findings periodically in a proportionate way, supplemented by engagement with firms. The Bank and FPC will also consider running another SWES-style exercise in the future to increase the understanding of other markets or issues.
		• To support this, the Bank is developing models to examine the channels through which different sectors, including core non-bank intermediaries such as dealers and central counterparties, propagate stress through financial markets and impacts aggregate liquidity in the non-bank financial system. In particular:
		  ○ The Bank is developing a "system interlinkages model". This includes improving the modelling of fundamental asset price and open-ended fund flows; refining the treatment of repo borrowing; and introducing an LDI fund.
		  ○ The Bank is also developing model approaches that exploit new datasets on financial exposures and interlinkages. For example, the Bank is extending the capital at risk microstructural model of banking sector exposures to consider amplification and feedback effects, as well as bringing in additional data collections on insurers and funds.
		• The Bank has published its approach to stress testing the UK banking system from 2025 onwards. The new approach takes into account that the level of capital in the banking system has increased materially since the global financial crisis, the changing nature of risks the banking sector faces, and the need to be effective, proportionate and efficient in pursuit of the FPC's and PRA's objectives. The approach combines the predictability of regular stress testing to risks from the financial cycle with the adaptability the Bank has been using over recent years to explore different risks.
		• The Bank is investing in its desk based / top-down modelling toolkit for stress testing the banking system. This will enable it to provide timely assessments of new risks and their impact on the ACS banks, outside of the annual stress test round. For example, supporting international exercises like the FSB/BCBS global stress test. The Bank is also continuing to invest in its suite of granular models and toolkit used to understand bank portfolio-specific risks, for use in the ACS and beyond.

3. Seek additional statutory powers to review and examine the resilience of all critical services (including, but not limited to, cloud	3-5 years	• Third parties are becoming increasingly important and relevant for the delivery of important business services (IBSs). The financial institutions that outsource key systems and processes which underpin their IBSs to third parties remain accountable for the risks to those IBSs. This means that they should establish appropriate oversight of the third-party risk and ensure effective management of these risks and remediation of any vulnerabilities, including cybersecurity risks. See the Supervisory Statement (SS) 2/21 'Outsourcing and third party risk management

Key FSAP Recommendation	Time frame	Update on relevant work in progress
services) that third parties provide to regulated firms. (BOE/PRA, FCA, and HMT)		• In addition to the responsibilities of individual financial institutions, the UK authorities are developing a framework to monitor and manage potential systemic risks posed by certain third party service providers to the UK financial sector. • In July 2022, the Bank of England, Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) jointly issued DP3/22 – Operational resilience: Critical third parties to the UK financial sector, which sought industry views on their initial thinking on a potential framework for CTPs. The consultation period for DP3/22 closed in December 2022. • In July 2023, the Financial Services and Markets Act 2023 (FSMA 2023) was adopted by the UK Parliament. FSMA 2023 contains the statutory building blocks of the proposed new framework for CTPs. In particular, FSMA gives (i) HM Treasury the power to designate certain third party service providers to the financial sector as critical third parties; and (ii) the regulators rulemaking powers, powers of direction, information-gathering powers and disciplinary powers over CTPs in respect of their services to the financial sector. • Following the coming into force of FSMA 2023, and building on feedback to DP3/22, the regulators published a joint consultation paper setting the proposed rules and supervisory expectations for CTPs in December 2023 (CP26/23 - Operational resilience: Critical third parties to the UK financial sector | Bank of England). • In November 2024, the regulators published their final requirements and expectations for CTPs incorporating feedback to CP26/23 (PS16/24 – Operational resilience: Critical third parties to the UK financial sector | Bank of England). • Although the rules in PS16/24 are already effective, the regime will not be implemented until HMT makes its initial designations of CTPs. In parallel, the regulators have developed an approach for overseeing CTPs in practice, which they published as part of the PS6/24 package. • Though not formally linked to the CTP regime, the authorities issued a Consultation Paper (CP) on Incident and outsourcing reporting on 13 December 2024. Part of the reason for this is because many of the incidents reported to the authorities originate at third parties, with firms becoming increasingly reliant on the services they provide. Under current requirements, the authorities receive limited and inconsistent data on third party arrangements relating only to firms' outsourcing arrangements. This limitation has resulted in gaps in the authorities' knowledge of potential risks that third parties pose to individual firms and the financial services sector. As a result, the authorities are proposing to introduce material third party reporting rules, which includes outsourcing and non-outsourcing arrangements for a sub-set of firms that have the biggest consumer and market impact. The consultation closed in March 2025 and authorities are considering what the future policy might look like.
4. Further develop "on the ground" reviews of systemically important financial firms' exposures and risk management practices for early identification and remediation of supervisory issues, including AML/CFT risks, and to also support macroprudential surveillance. (BOE/PRA and FCA)	1-3 years	• The PRA is satisfied with the actions taken below and is not planning to take any further actions through its current strategy. • As part of its 2021-26 strategy, the PRA strengthened its supervisory approach and its internal capabilities. For its largest firms, the supervisory approach continues to include regular 'on the ground' reviews for some topics (e.g. capital, liquidity). For its mid-sized firms, there is a new requirement to complete annual 'on site' visits. This adjusted supervisory approach has now been in place for over one year. The PRA is satisfied that it has embedded adequately. • The PRA's supervisory approach continues to include the aggregation of intelligence to inform the Bank of England's assessments of the risks and resilience of the UK banking (and insurance) system that are routinely considered by FPC. The PRA is continuing to invest in cross-firm work to enhance its macroprudential insights and frequently issues communications to the market to share its findings and to set expectations to firms on what they should do in response (e.g. the PRA wrote to relevant Chief Risk Officers after its Thematic review of private equity related financing activities in 2024). The market events in spring 2023 were a good demonstration of the PRA's ability to respond quickly where a macroprudential risk necessitates it. The PRA introduced greater focus on the composition of firms' liquidity asset buffer portfolios and liquidity monitoring metrics, aggregated this information through an internal taskforce, responded to commissions from the FPC on the exposure from non-systemic firms and carried out contingency planning on a small subset of those firms. • In 2023, the PRA introduced new requirements, training and guidance to ensure greater use of Section 166 Skilled Person Reviews. The PRA is satisfied, after a year embedding, with the benefits of these changes. It is seeing sustained use of Skilled Person Reviews for its largest firms (or adequate justification when such a review is not needed). It has no plans to make any immediate changes.

Key FSAP Recommendation	Time frame	Update on relevant work in progress
		• The PRA has established an international platform for supervisory cooperation with overseas regulators for Lloyd's of London to facilitate the sharing of supervisory information. The first meeting took place across two days in November 2023 and was attended by over 40 representatives. Participants were selected by reviewing materiality of presence (e.g. GWP and catastrophe exposure), both in countries where Lloyd's operates regulated operations and those without physical operations, and to achieve a wide geographical spread. Engagement from attendees was good. • The PRA will be hosting the next Society of Lloyd's International Platform on 2nd April 2025, which will be attended by a similar number of representatives as the initial meeting in 2023. The PRA has asked attendees for their input into the agenda and have tailored the sessions to ensure that, where topics are relevant and of interest to the wider group, these are included. The meeting will consist of a number of presentations by Lloyd's, followed by a regulator-only session and is deliberately shorter than previously to ensure a focussed and targeted agenda. • While the Financial Conduct Authority (FCA) remains the lead UK regulator for managing money laundering (AML) and terrorist financing (CFT) for the financial sector, the PRA will continue to consider both topics in its prudential assessment of firms and co-operate closely and share information with the FCA and other AML/CFT authorities.
5. Enhance cyber risk technical risk reviews on technology risk management expectations for all financial firms, and by conducting additional cybersecurity control verification activities to complement CBEST security testing. (BOE/PRA, and FCA)	1-3 years	• The PRA and the Bank plan to start consulting in the second half of 2025 on expectations around the management of Information and Communication Technology (ICT) and cyber resilience risks. This includes risks arising from IT transformations, and the sector's ability to detect, withstand and recover from disruptions in the event of ICT and cyber incidents. This strategic work will help the sector achieve higher standards of operational and cyber resilience. Alongside this, the FCA is continuing to work closely with the BoE and PRA in aligning its work in reviewing its cyber and ICT resilience expectations. The FCA, at present, does not intend to consult jointly with the PRA in H2 2025, instead looking to leverage existing tools within FCA's remit to help clarify and reinforce cyber resilience expectations for firms. • The PRA. FCA and Bank issued Consultation Papers (CP) on Incident and outsourcing reporting on 13 December 2024. The aim is to make it easier for firms to report incidents and third parties by proposing clear and consistent requirements on what incidents they need to report, when to report them, and how. The proposals will enable better incident management – including of cyber incidents - strengthening firms' operational resilience and minimising harm to consumers and markets. The consultation ran until the 13 March 2025. Following the consultation, the authorities will consider responses and develop the final policy. • The PRA/Bank and FCA contributed to the FSB Cyber Incident Reporting (CIR) workstream concluded in April 2023 with 16 recommendations, an updated Cyber Lexicon, and a proposal to develop FSB Format for Incident Reporting Exchange (FIRE). The FIRE workstream (conceived by the Bank/PRA) launched in July 2023, with the aim to develop a common format for the exchange of incident reporting information. The PRA/Bank and FCA IOREP policy proposals are highly aligned with the expected FIRE end state. • Firms are taking steps to comply with the Operational Resilience policy SS1/21 (Operational resilience: Impact tolerances for important business services) and PS21/3 (Building operational resilience), in particular to provide assurance that they have the resilience capabilities to remain within impact tolerance for their Important Business Services against severe but plausible cyber disruption scenarios. Firms are planning for a "destruction scenario", and ensuring they have the capability to re-build and repave their infrastructure, applications and data. The Bank/PRA and FCA expect firms to continue investing in their cyber resilience capabilities and at the same time strengthening their cyber-security tools. • Ransomware remains the most significant day to day threat for the UK finance sector. The Bank/PRA and FCA conducted a number of activities to further assess the threat and explore its response to a catastrophic ransomware attack. The previous SIMEX exercise (SIMEX22) with the industry explored the sectors' response to the operational paralysis of a GSIB as a result of a catastrophic cyber-attack. Over the past year Bank/PRA and FCA worked with some of the UK's most systemically important firms and FMIs to assess the sectors' ability to respond and recover from a severe but plausible (SBP), including ransomware, within Impact Tolerances (ITOLs). The Bank/PRA and FCA's engagement with these firms also explored the decisions around ransom payment and the broader response through the established sector response and authorities' response framework. In February 2025, the UK Government published its ransomware consultation paper proposing to ban payment of ransom for public sector and Critical National Infrastructure (CNI), disrupt criminals' business models, and gather intelligence

Key FSAP Recommendation	Time frame	Update on relevant work in progress
		on the specific threat. This policy reflects the UK's government position on ransom payment and the work the UK has been co-leading with Singapore and forty other international counterparts through the Counter Ransomware Initiative (CRI). The consultation period ends in April 2025. • The Bank/PRA and FCA have progressed work and developed the supervisory cyber toolkit in line with the IMF recommendations: ○ Introducing a new version of CQUEST which enables regulated firms of any size to benchmark their maturity in cybersecurity risk management and providing additional guidance clarifying that the regulator might require additional evidence (2023). ○ Jointly with the FCA publishing the Simulated Target Attack and Response for the Financial Services (STAR-FS) framework, a concept of cyber testing which is similar to CBEST but targeted on smaller and medium-sized firms (2024) and launching a supervisory initiative to increase the use of the framework in the sector (2025). ○ Continued the CBEST programme and published in 2023 and 2024 a detailed summary of the key learnings from the most recent round of CBEST tests so that firms across the UK finance sector can benefit from the thematic findings. This includes analysis by the National Cyber Security Centre (NCSC). ○ Completed piloting a new concept of pen-testing, building on CBEST, to test resilience against advanced threat actors and intended to challenge those firms with a high degree of cyber risk management maturity and planned preparation of the new guidance. ○ Introducing a new approach to assess cyber resilience metrics and MI reporting in the sector which enables further analytical work and complements existing supervisory engagement and scenario based cyber testing (CBEST, STAR-FS). • The Bank/PRA has recently completed its third Cyber Stress Test, which involved scenario testing an operational disruption to payments and settlements processes and understanding the financial stability impacts of such disruptions. Findings are expected to be published in Summer 2025. • The Bank/PRA and FCA continue to contribute to enhancing cybersecurity risk management good practice throughout the UK finance sector through a Public-Private partnership with UK Finance, and internationally through the G7 Cyber Expert Group, the European Systemic Cyber Group and in the FSB, in particular its work on cyber incident reporting. • The FCA has implemented a self-assessment tool for Operational Resilience (ORQUEST) to inform supervisory assessments, which includes questions relating to threat and vulnerability management, identity management and incident management.
6. Enhance entity transparency through improved verification of beneficial ownership information on the PSC Register and augment, as needed, ongoing support to Crown Dependencies and British Overseas Territories in operationalizing similar registers. (HMT, DBT/Companies House, and FCDO)	1-3 years	• The Economic Crime and Corporate Transparency Act 2023 introduced measures to reform the role of Companies House and improve transparency over UK companies, in order to strengthen the business environment, support national security and combat economic crime, whilst delivering a more reliable companies register to underpin business activity. • The reforms include: ○ Introducing identity verification for new and existing directors, beneficial owners and those who file information with Companies House - helping ensure that the authorities know the real people acting for and benefiting from companies. ○ Broadening the Registrar's powers so that the Registrar becomes a more active gatekeeper over company creation and custodian of more reliable data concerning companies and partnerships. ○ Improving the financial information on the Register so that the Register is more reliable, complete and accurately reflects the latest advancements in digital technology and enables better business decisions. ○ Providing Companies House with more effective investigation and enforcement powers and introducing better cross-checking of data with other public and private sector bodies. Companies House will be able to proactively share information with law enforcement bodies on higher risk corporate bodies or when there is evidence of anomalous filings or suspicious behaviour. ○ Enhancing the protection of personal information and addresses provided to Companies House to protect individuals from fraud and other harms. ○ Broader reforms to clamp down on misuse of corporate entities.

Key FSAP Recommendation	Time frame	Update on relevant work in progress
		• The Overseas Territories (OTs) and Crown Dependencies (CDs) are self-governing jurisdictions who are responsible for their own financial services regulation. The Government is working with the OTs and CDs to enhance transparency through improved access and verification of beneficial ownership information. • All OTs have committed to establishing wider access to company ownership data. At the UK-OTs Joint Ministerial Council in November 2024, the Falkland Islands and Saint Helena committed to join Montserrat and Gibraltar by implementing fully public registers by April 2025. Other Territories, including the British Virgin Islands, the Cayman Islands and Bermuda committed to expanding access to registers of beneficial ownership to those with a legitimate interest by June 2025. • The CDs have committed to implementing legitimate interest access to their registers of beneficial ownership, and they will do so in line with the EU. • The CDs and six OTs with global financial centres share beneficial ownership information with UK law enforcement agencies (within 24 hours, or 1 hour in urgent cases) under the Exchange on Notes arrangements, which were put in place in 2017. • All CDs and OTs with financial centres have committed to the OECD's Common Reporting Standard, under which taxpayer financial account information is automatically exchanged for tax purposes. This reciprocal, automatic exchange of financial information addresses the secrecy that facilitates offshore tax evasion and provides evidence of tax non-compliance.
7. Continue to encourage the conversion of remaining legacy LIBOR exposures of U.K. regulated firms and support foreign efforts to migrate from non-Sterling LIBOR, mindful of the needs of emerging markets users. (FCA, HMT, and BOE)	1-2 years	• On 30 September 2024, the remaining synthetic LIBOR settings were published for the last time and LIBOR came to an end. All 35 LIBOR settings have now permanently ceased. • The Bank and FCA facilitated public-private partnerships to allow for a market-led transition. Now LIBOR has been phased out, the Working Group on Sterling Risk Free Reference Rates has met its objective. Following agreement from its members, it was wound down on 1 October 2024. • The PRA and FCA's central LIBOR supervisory programmes have now been wound down, with ongoing monitoring handed over to individual supervisory teams. • The FPC Record on 27 March 2024 covered LIBOR transition. The Committee welcomed the further reduction in the stock of legacy US dollar LIBOR exposures, and consequently judged that the financial stability risk in the UK associated with US dollar LIBOR had effectively been mitigated (having previously concluded the same for sterling LIBOR in March 2023). • The Bank, FCA and HMT continue to work closely with other international authorities in monitoring global use of reference rates. The FSB's Official Sector Steering Group has now been wound down, with ongoing monitoring on the use of reference rates falling to the BIS Markets Committee (escalating to the FSB's Standing Committee on Supervisory and Regulatory Cooperation as necessary). • Marking the progress of US dollar LIBOR transition in the US, the Alternative Reference Rates Committee has now been wound down. • To support a globally consistent shift away from US dollar LIBOR to robust alternatives, IOSCO published a statement following its review of alternatives to US dollar LIBOR. The review assessed how certain US dollar benchmarks align with IOSCO Principles 6, 7, and 9 relating to design, data sufficiency, and transparency, and whether such rates provide users with robust and reliable benchmarks and sufficient information to enable them to assess their suitability. The review highlighted concerns that some credit sensitive rates – marketed as potential substitutes for US dollar LIBOR – exhibit the same inherent "inverted pyramid" weaknesses as LIBOR. Furthermore, Bloomberg announced plans to cease its BSBY index in November 2024. • On 1 October 2024, the Bank, FCA and RFR Working Group, published a joint statement to mark the cessation of LIBOR and encourage market participants to continue to ensure they use the most robust rates for the relevant currency, such as SONIA for GBP and SOFR for USD.
8. Continue preparing for diverse failure scenarios; eliminate rules that may constrain the bank resolution regime; and accelerate and expand the work on	3-5 years	• Banks: The UK's bank resolution regime has been in place since 2009 and has been amended from time to time to ensure it continues to effectively limit risks to financial stability, depositors and public funds. As with any policy framework, the UK continues to keep the regime under review to ensure it is fit for purpose. The Bank has continued to prepare its Heightened Contingency Framework (HCF) execution materials for diverse failure scenarios, including cyber, and use of multiple tools concurrently. The Bank worked with HMT as part of its updates to the resolution regime's Code of Practice to consider amendments relevant to the IMF's

Key FSAP Recommendation	Time frame	Update on relevant work in progress
recovery and resolution planning for insurers and CCPs. (HMT, BOE/PRA, FCA, and FSCS)		recommendations. The Bank has also worked together to consider any lessons learned from SVB US / UK and Credit Suisse failures to enhance the approach and engaged with relevant international work, including by the FSB, on lessons learned. Following on from that work, the Government introduced the Bank Resolution (Recapitalisation) (BRR) Bill in 2024, which received Royal Assent on 15 May 2025. Once in force later this year, the new measures will enhance the Bank's ability to resolve smaller banks that do not issue loss absorbing debt by allowing FSCS funds to be more readily available to facilitate a transfer. • Insurance: Amendments made to FSMA in 2023 give the PRA an additional tool (s.377A) to deal with a failing insurer by allowing it to seek a court order to write down liabilities to facilitate continuity of cover for policyholders. This has been enacted and is in the process of being fully operationalised by the PRA. Under the previous administration, HMT consulted on establishing an Insurer Resolution Regime (IRR) in January 2023. The proposed regime would align the UK to relevant standards, providing the Bank as resolution authority with a range of tools and powers to manage the failure of an insurer where this would have adverse systemic impacts. HMT will set out its plans for the IRR in due course. The regime would complement the Insurance Core Principles that the PRA complies with as part of its group-wide supervision of Internationally Active Insurance Groups, by requiring resolution authority-led resolvability assessment and resolution planning for the most systemically important insurers. In addition, in December 2024, the PRA published a Policy Statement and accompanying Supervisory Statement (PS20/24 and SS11/24) which set out the PRA's expectations for UK insurers to prepare, as part of their business-as-usual (BAU) activities, for an orderly 'solvent exit'; and if needed, to be able to execute a solvent exit. The 'Preparations for Solvent Exit Instrument' will come into force on 30 June 2026, and firms are expected to meet the expectations in SS11/24 by that date. • CCPs: A new legislative framework came into effect on 31 December 2023, significantly enhancing the existing CCP resolution regime (see Schedule 11 of FSMA 2023 and accompanying secondary legislation). In December 2024, the Bank published two Statements of Policy (here and here) giving details in relation to establishing a tear-up price and the removal of impediments to resolvability. These legislative enhancements made the UK regime fully consistent with FSB standards, providing the Bank with a range of CCP-specific tools and powers, including partial tear-up and cash calls designed to that enable it to act quickly, flexibly and decisively to handle the failure of a CCP. Work to operationalise the powers contained in the UK's enhanced resolution regime started in 2024 and will continue this year. The Bank is progressing CCP resolution planning and enhancing the operational capacity and preparedness to execute a CCP resolution. These arrangements were subject to testing, both internally and with external partners, in 2023, 2024, and early 2025, with further exercises (both internally and with external partners) planned for H2 2025. The Bank is developing its approach to the resolvability of CCPs with a view to establishing published standards in due course. This work will continue and be expanded throughout 2025 and 2026, developing into a formal CCP Resolvability Assessment Framework (RAF) programme.
9: Preserve the primacy of the FPC's financial stability objective and strengthen its focus on global financial standards and cross-border surveillance. (HMT, BOE, PRA, and FCA)	1 year	• The 2024 Remit letter from the Chancellor underscores the primacy of the FPC's financial stability objective. It also recommends the FPC support international work to address vulnerabilities in the financial system. • The letter notes the FPC should continue to prioritise building the resilience of the non-bank financial sector, including by working through the Financial Stability Board to improve regulatory frameworks across jurisdictions, and using insights gained (e.g., from the System Wide Exploratory Scenario), with a view to protecting and enhancing the resilience of the UK financial system. • The FPC was asked to play an active role in supporting the growth and competitiveness of the UK's financial services sector and the wider economy, through its primary objective to maintain financial stability, and also by supporting the government's economic policy under its secondary objective. In the remit and recommendations, the Chancellor asked the FPC to assess and identify areas where there is potential to increase the ability of the financial system to contribute to sustainable economic growth without undermining financial stability. • The FPC has emphasised in its external communications that UK financial stability will require levels of resilience at least as great as those put in place since the GFC and required by international baseline standards, and - recognising the importance of the UK as a global financial centre - in some cases greater. • The FPC has also publicly stressed the importance for UK financial stability of alignment with international standards within the PRA and FCA's secondary objectives. • The PRA's September 2022 discussion paper on its approach to policy also noted it will remain at the forefront of efforts to strengthen international standards where necessary, and that the long-term competitiveness of the UK

Key FSAP Recommendation	Time frame	Update on relevant work in progress
		is underpinned by a robust and effective prudential regime, built around global standards, in a way that instils trust and confidence in the UK as a place to do business.
10. Preserve the primacy of PRA and FCA's objectives of safety and soundness and market integrity, in principle and in practice, over any secondary objectives and ad hoc policy priorities. (HMT and FPC)	1 year	• The PRA's primary objectives rank above all other considerations when making policy, including its secondary competition objective and the secondary competitiveness and growth objective. o The Financial Services and Markets Act (FSMA) 2023, enacted by Parliament, preserves the primacy of the primary objectives to act in a way that promotes the safety and soundness of PRA-authorised persons so far as reasonably possible and to contribute to the securing of an appropriate degree of protection for those who are or may become policyholders while providing the PRA with wider rule-making responsibilities and enhanced accountability requirements. o In addition to the secondary competition objective, FSMA 2023 gives the PRA a new secondary competitiveness and growth objective. This objective is facilitating, subject to aligning with relevant international standards, (a) the international competitiveness of the economy of the United Kingdom (including in particular the financial services sector through the contribution of PRA-authorised persons), and (b) its growth in the medium to long term. FSMA 2023 left unchanged the existing PRA secondary objective to facilitate effective competition in the markets for services provided by PRA-authorised firms in carrying on regulated activities. The secondary objectives are engaged only when the PRA is proposing to perform its general functions in pursuit of the primary objectives, and do not rank above the latter. • The FCA's primary objectives also rank above all considerations, including the secondary international competitiveness and growth objective (SICGO). The secondary objective only applies when advancing the FCA's primary objectives by exercising the FCA's general functions (as listed in s.1B of FSMA). These functions include: o Rule-making (s.1B(6)(a)). o Functions in relation to giving general guidance (s.1B(6)(c)) o Determining general policies (s.1B(6)(d)) that govern how the FCA exercises particular functions. • Additionally, in speeches and public communications, senior leaders of the PRA (and Bank) have stressed that financial stability is a prerequisite for sustainable growth and that reforms supporting competitiveness and growth must not jeopardise financial stability. • The FCA published its SICGO report for 23/24 which provides an update on relevant rules and guidance from the FCA and how both the primary and secondary objectives were considered. This report will be updated for 24/25. • The FCA's 5 year strategy outlines the importance of international standards and the FCA's approach to global cooperation. • The PRA's recently finalized Approach to Policy document and accompanying Policy Statement (PS) 3/25 set out how the PRA makes policy under FSMA 2023. These documents make clear that primary objectives rank above all other considerations when making policy. They also describe how maintaining trust among domestic and foreign firms in the PRA and UK prudential framework is an important part of the PRA's approach to advancing its secondary competitiveness and growth objective.
11. Review and estimate the expected workload in core and new financial stability and supervisory risk areas and determine how to align BOE/PRA and FCA capacity and resources accordingly. (HMT, BOE/PRA, and FCA)	1-3 years	• Over 2022/23, the PRA increased its funding, re-deployed resources and set up a flexible resource hub to help manage its expanded regulatory responsibilities. The PRA is satisfied with these improvements, which have enabled the organization to better manage its expanded regulatory responsibilities. • Since 2022/23 and as part of business as usual, the PRA has continued to re-allocate resources within itself to reflect further changes in its responsibilities and the changing natural of the risk environment externally. For example, the PRA has allocated resource to its new responsibility in overseeing critical third parties that are designated by HM Treasury under the Financial Services and Markets Act 2023 and are planning new policy relating to the management of Information and Communication Technology (ICT) and cyber risk. • The second part of the PRA 2026 strategy includes the transformation of its capabilities around solvent exit planning (complementing the capabilities that it has built and continue to build on resolution as outlined in KR8) for small to mid-tier firms and the use of advanced technology to support supervision. Good progress has been made but with more still to achieve. On solvent exit planning, the PRA has achieved a major milestone by finalising the PRA's new rules and expectations on banks, building societies and insurers. These will come into effect over 2025/26. On deploying new technology, the PRA continues to release tools to assist Supervisors in analysing data received from regulated firms and other sources. This is being supplemented by a controlled roll-out of machine learning and AI tools to staff. Lastly, the PRA has and will continue to engage with firms to

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		identify targeted opportunities to streamline data collections (e.g. deletions of reporting templates that provide limited regulatory value).
		• In developing its Strategy for 2025 to 2030, the FCA took on board feedback that it should focus on a small number of priorities. The FCA's new strategy has four priorities (down from 13). One of those priorities is to become 'A smarter regulator: more efficient and effective'. This includes initiatives to:
		  o Enhance the FCA's supervisory model, so it is focusing market engagement on areas where harm is the greatest, taking a more flexible approach and being transparent about the risks and opportunities the FCA see within the market. The FCA will also review its firm categorization model to build relationships with a wider range of the participants that it considers having the most significant impact and influence within their markets
		  o Optimize the FCA's operational performance so it is using deeper insights into its operational performance and the value of its expenditure to inform its investment decisions, helping it make the biggest impact with the resources it has. It will also make its regulatory delivery, operations and processes more transparent, accountable and aligned to strategic objectives.

12: Ensure that the final accountability and transparency mechanisms adopted under the ongoing FRF review seek to safeguard regulatory independence and pose no constraints for operational and oversight effectiveness. (HMT, PRA, FCA with other agencies)	1-3 years	• The Financial Services and Markets Act (FSMA) 2023 implemented the outcomes of the FRF review. It includes a range of measures which enhance the regulators' transparency and accountability, and which facilitate scrutiny by Parliament. These measures include a requirement to keep rules under review (and to publish a framework for rule review), the establishment of an independent Cost Benefit Analysis (CBA) Panel, a requirement to notify relevant parliamentary committees following publication of a consultation following publication of a consultation, and a requirement to respond in writing to parliamentary committees' formal responses to consultations. • The PRA, Bank and FCA engaged closely with HMT and other stakeholders during the FRF review process, ensuring that the operational independence of the regulators was appropriately considered. The mechanisms which were ultimately adopted through FSMA 2023 elevate accountability and transparency while also preserving the regulators' operational independence • Some measures, such as the power for HMT to oblige regulators to make rules in a certain area, or to impose additional 'have regards' for rule-making, will require close ongoing cooperation between the regulators and HMT to ensure that exercise of these powers considers relevant operational considerations. • Both the FCA and PRA have implemented the new FSMA 2023 requirements which are now in force. The FCA and PRA are embedding these requirements in a manner that facilitates efficient and responsive policymaking while also allowing for effective oversight. The FCA and PRA CBA Panels are now set up and have started to independently scrutinise the CBAs, The FCA CBA Panel is considering relevant CBAs from the FCA as well as the Payments Systems Regulatory (PSR), while the PRA CBA Panel is considering the PRA's CBAs, as well as Bank CBAs relating to CCP and CSD rules. The FCA, and PRA have also published their respective statements of approach to CBAs. The FCA is available here and the PRA's here. Both regulators have also published statements on how they will approach rule reviews, with the FCA's available here and the PRA's here. • The Bank has also embedded its new FSMA 2023 requirements in relation to regulation of CCPs and CSDs, following its implementation on 1 January 2024. Alongside a new general rulemaking power for the Bank over CCPs and CSDs, new accountability and transparency mechanisms have been created. For example, a new statutory committee (the FMI Committee) was established, the Bank is consulting the new independent CBA Panel on CBAs (and has published a statement on its approach to conducting CBAs), and the new secondary objective to facilitate innovation has been embedded in policymaking.
13: Accelerate the efforts to close data gaps on NBFI activities, including data on all Sterling asset holdings and data needed to improve the management of liquidity demands by fund managers; continue improving flow-of-funds	3-5 years	• On the back of a comprehensive survey of the available data on banks' exposures to NBFIs, the Bank submitted a new data request to banks to address gaps in NBFI exposures in 2024. As this was a one-off exercise, the Bank will consider how to take forward any future data collections. • The ONS published a report in December 2024 covering plans to develop the UK financial sector account statistics to meet international standards and the progress made so far. • The ONS published for the first time in January 2025 international template data on debt securities and sectoral accounts in line of Special Data Dissemination Standards Plus on their UK National Data Summary Page. • The ONS is planning to publish for the first time in the October 2025 Blue Book (UK National Accounts annual publication) data for all UK based money market funds, as well as improved data for Non-Money Market Funds that will cover for the first time Private Equity Funds.

Key FSAP Recommendation	Time frame	Update on relevant work in progress
data including all cross-border NBFI exposures. (FPC, BOE/PRA, and FCA)		• The ONS primarily rely on the Financial Services Survey (FSS) to collect balance sheet data from NBFIs and has updated the questionnaire to encompass a wider range of institutions and collect more granular data, including new sector counterparty data which separately identifies the rest of the world, for the publication of the data via Data Gap Initiative phase 2 template submissions. The transformed questionnaire was launched in January 2025, and has two separate targeted samples to separate the collection of income and expenditure data from the collection of balance sheet data. The ONS intends to build the quality of the balance sheet data over time and integrate it into the National Accounts. • Over the past year, Bank staff have completed the aggregation of all internally available data on gilt holdings, forming a clear view of the size of the remaining data gap in this space. The Bank has also engaged with relevant stakeholders externally to learn about their data. The Bank is currently weighing the costs, benefits, and feasibility of different options to address remaining gaps. • The Bank co-led the FSB's Open-Ended Fund Data Pilot project which concluded last year. The FCA was also a participant in this project. The FSB is considering a longer-term work plan to mitigate data gaps in NBFIs which the Bank and FCA will contribute to. • The FCA, Bank and HMT are participating in multiple other international workstreams that are considering the adequacy of existing regulatory reporting, the areas where gaps remain, and how those gaps might be addressed in a coordinated, cross-jurisdictional manner. These include recent and current FSB workstreams on data gaps and leverage. • Domestically, the FCA's enhanced derivative reporting requirements under UK EMIR have become applicable since 30 September 2024. • The FCA is commencing work to reform its AIFMD reporting framework as part of the SRF transfer of the AIFM Level 2 regulation this year.
14. Strengthen information sharing with relevant third-country authorities, including reviewing the approach to monitor and supervise hybrid crossborder transactions, private market activities, and internationally active mixed financial groups. (FPC, BOE/PRA, and FCA)	3-5 years	• Good cooperation, information sharing and collaboration with relevant third country authorities remains a key priority for the UK authorities. Various market and supervisory events have provided opportunities to test these relationships and found them to be strong in both 'peace time' and during crises. Communication and information sharing between supervisory teams across jurisdictions remains strong. The PRA continues to look for additional opportunities to further build relationships with a large number of third country authorities. • The PRA have continued to enhance and develop its trilateral relationship with the FRB and ECB on day-to-day and long-term supervisory issues and have identified potential areas for common work, horizon scanning and information sharing on a number of financial and operational resilience issues. For example, through the Trilateral group, the PRA have developed a quantitative data collection template on NBFI exposures that seeks to consider counterparty-credit risk on a group-wide basis. • The PRA have undertaken a number of reviews in coordination with, or with the full participation of, regulators from key jurisdictions on both crystallised and emerging risks including in relation to Archegos, nickel, fixed income financing, crypto products and private equity. The PRA has also shared workplans and key areas of supervisory focus for the year ahead. • The PRA worked closely with key regulatory authorities (FINMA, FRB and ECB) in handling the resolution and acquisition of Silicon Valley Bank and Credit Suisse respectively, further bolstering strong bilateral and multilateral supervisory relationships and ensuring the free flow of information throughout the critical days and weekends preserving the financial stability of the UK. • As the PRA navigated the volatility post the invasion of Ukraine, the UK mini budget and the failures of SVB and Credit Suisse, the PRA held joint firm monitoring calls with the FRB and SSM, to further assess firms changes in risk profiles, counterparty exposures and overall risk appetite, on a global basis. The PRA also continues to share areas of key concerns on a regular basis with the FRB and SSM, including on a desk-based commodity stress test that it conducted through the Russia/Ukraine volatility. • The PRA has consulted on updates to its approach to branch and subsidiary supervision (CP11/24), to clarify its expectations of firms' booking arrangements and extend their formal application to a subset of UK banks, as well as to introduce additional indicative criteria that the PRA would consider when determining whether it is appropriate for an international bank to operate in the UK as a branch rather than a subsidiary; and to amend the PRA branch return to improve the collection of whole firm liquidity data.
15: Maintain the United Kingdom's commitment	3-5 years	• The UK welcomes the signing of the Memorandum of Understanding on Financial Services Cooperation on 27 June 2023 and the establishment of the Joint EU-UK Financial Regulatory Forum which has since met three times,

Key FSAP Recommendation	Time frame	Update on relevant work in progress
to mutual cooperation with the EU, post-Brexit, including intensifying regulatory dialogue to support financial stability and mitigate market fragmentation risks, including the regulatory status of the U.K. CCPs over the long term. (HMT, BOE, and FCA)		in October 2023, May 2024 and February 2025. UK authorities will continue to closely engage with EU authorities through the semi-annual Forum meetings, as well as bilaterally and through multilateral fora. • The PRA has signed and implemented 34 Memoranda of Understanding (MoU) with EU institutions and member states since the beginning of 2021. These MoUs include the PRA as signatory to the IAIS Multilateral Memorandum of Understanding which provides a formal basis for global cooperation and information exchange among insurance supervisors. The Bank has signed and implemented 13 MoUs with EU institutions and members states since the beginning of 2021 in relation to Financial Market Infrastructures. • The FCA is also signatory to MoUs with EU institutions and EU and EEA National Competent Authorities (NCAs) covering supervisory cooperation, enforcement and information sharing relating to, among others, market surveillance, investment services and asset management activities. There are also MoUs covering supervisory cooperation, enforcement and information exchange between UK and EU/EEA national supervisors in the field of insurance regulation and supervision It has also signed and implemented MoUs with global bodies such as IAIS and IOSCO. These continue to be reviewed and updated. • The FCA have also adopted several more specific MoUs, for example MoU with ESMA on benchmarks, which the FCA is currently updating and an MoU with AMF on MiFID data, which was adopted last year. Furthermore, the FCA has recently started negotiations for a DORA CTP oversight regime between the ESAs and UK authorities. • The Bank, PRA and FCA have also strengthened its ongoing regulatory dialogues through senior-level and working-level engagement with EU institutions, including the European Commission, the European Central Bank, the European Supervisory Authorities and the National Competent Authorities. • HMT granted the EU a package of equivalence decisions in November 2020, including a decision on CCP equivalence. The Bank has recognized three EU CCPs – Cboe Clear Europe, Eurex Clearing and LCH SA - since the Bank's tiering policy came into force in December 2022. Further EU CCPs that have applied for recognition are able to continue providing services to UK clearing members and trading venues under the Temporary Recognition Regime while permanent recognition is pending. • The Bank has signed and implemented 17 cooperation arrangements with EU institutions and members states since the beginning of 2021 in relation to Financial Market Infrastructures. Most recently, this includes an updated MoU with ESMA in relation to UK CCPs, which has been revised to take account of new EU requirements for cooperation arrangements under EMIR 3. It also includes agreements regarding the newly established resolution colleges for three EU CCPs. The Bank has also agreed with ESMA an MoU template – to be used for the recognition of EU CSDs which are non-systemic to UK financial stability. • Equivalence and recognition are unilateral decisions, and the EU has put in place time limited decisions for UK CCPs. This year, the European Commission renewed its equivalence decision regarding the UK CCP regime (until 30 June 2028). Following the Commission's equivalence determination, and the agreement of the revised UK CCP MoU between ESMA and the Bank, ESMA has extended its recognition of UK CCPs (now due to expire in June 2028).An enhanced UK CCP resolution regime (See Recommendation 8) came into effect in December 2023, making the UK regime fully consistent with international FSB standards. Similarly, to the EU regime, the Bank is developing policy options on second skin in the game (SSITG). The Bank also continues to engage with international counterparts on international workstreams, for example through CPMI-IOSCO and FSB. The FCA is also an active member of international workstreams withing the FSB, IOSCO and IAIS.

Annex IX. Staff Policy Advice from the 2024 Article IV Consultation

IMF 2024 Article IV Selected Recommendations	Policy Actions Between 2024 Article IV and May 2025
Monetary Policy	
Monetary policy has reached an inflection point and the MPC will need to balance the risks of premature vs. delayed easing. The Bernanke review will help strengthen the BoE's data and forecasting infrastructures, and communications.	The MPC has cut the Bank Rate four times since August 2024 to 4.25 percent from its peak of 5.25 percent; and provided guidance on further gradual cuts for the rest of 2025. The BoE is in the process of operationalizing the Bernanke review, including developing modelling infrastructure and shifting toward scenarios to present the forecasts and communicate uncertainty.
Fiscal Policy	
The medium-term fiscal strategy needs to take better account of mounting spending pressures and investment needs. The near-term fiscal stance is appropriately restrictive.	The medium-term expenditure envelope was revised upward at the October 2024 budget to account for spending pressures and is now closer to staff's 2024 Article IV projections. Expenditure will be 2½ ppts of GDP higher per year on average compared with previous plans, of which three quarters is recurrent spending and the remainder public investment. The higher spending implies a less restrictive fiscal stance in the near term than expected at the time of the Article IV, but the fiscal deficit is still projected to decline over the medium term.
High-quality consolidation measures will be required to stabilize debt with high probability, given the additional spending needs. Staff advises against additional tax cuts.	In the October 2024 budget, the authorities announced that revenue would be increased to partially offset the higher spending. The authorities projected revenue to increase by 0.3 ppts of GDP per year on average over the medium term, with the main measure being an increase in employer social security contributions (NICs). This fiscal strategy nonetheless implies additional borrowing over the medium term, so that net debt is projected to stabilize but not with high probability. The additional borrowing mostly funds higher investment, which is critical in the weak growth environment.
Broader reforms to fiscal institutions and processes - fiscal Rules; enhanced OBR role; and budget process.	The authorities have introduced two new forecast-based fiscal rules: a current balance rule and a rule requiring PSNFL to stabilize in 5 years. The horizon for the rules will be shortened from 5 to 3 years in FY2026/27, to align with that of the spending reviews, which are to be updated bi-annually. During the October Budget, the authorities have also committed to a single budget event per year. In addition to two regular OBR forecasts in Spring and Fall, a 'fiscal lock' has been introduced which requires an OBR forecast whenever there is a policy change costing more than one percent of GDP.
Structural Policy	
To durably lift potential growth: (i) ease planning restrictions to reduce construction delays and costs, and enhance labor mobility; (ii) upskill the workforce to address skill gaps; and (iii) improve health outcomes through capital and workforce investment, as well as efficient resource allocation. Staff also emphasized the importance of a clear and stable long-term growth strategy.	The pillars of the authorities' "Growth Mission" reflect many of the priorities identified in the 2024 AIV report, including (i) the Planning and Infrastructure Bill introduced in July 2024; (ii) a new entity "Skills England" to address skills gaps; and (iii) a significant increase in the NHS budget and investigation into its performance. The October Budget provided funding for the new National Wealth Fund, which is expected to catalyze £70bn of private investment (equivalent to 2½ percent of 2024 GDP), and set out plans for other reforms, including a ten-year infrastructure strategy and a plan to reduce inactivity levels ("Getting Britain Working").
Doubling up of policy efforts to credibly achieve the UK green transition targets and maintaining a cautious approach toward industrial policy interventions.	The authorities have recommitted to achieving the climate targets, including a new 2035 milestone target of an 81 percent reduction in emissions relative to 1990. The authorities plan to achieve clean power by 2030, supported by the launch of Great British Energy, increased public investment, and measures to catalyze private investment. They also lifted the de-facto ban on onshore wind farms. A ten-year industrial strategy was published in June 2025, to be implemented with the support of an Industrial Strategy Advisory Council. The strategy is based around eight target sectors, where there are barriers to growth and significant potential: advanced manufacturing; clean energy; creative industries; defense; digital and technologies; financial services; life sciences; professional and business services.

Annex X. Transnational Aspects of Corruption

1. The authorities continue to address transnational aspects of corruption. On the supply side, the authorities significantly increased funding for foreign bribery enforcement and continued measures to encourage the extension of application of the OECD Anti-Bribery Convention to the Crown Dependencies (CDs) and British Overseas Territories (BOTs). Regarding facilitation, the authorities continue to implement measures to prevent the laundering of proceeds of foreign corruption. The authorities are encouraged to continue implementing past recommendations to address the risks of transnational aspects of corruption.

Table X.1. United Kingdom: Transnational Aspects of Corruption[1]: Updates

Previous Recommendations	Significant Updates
Supply Side of Corruption – Criminalization and Prosecution of Foreign Bribery	
Review and raise awareness of its whistleblower protection framework	In March 2023, the-then UK government launched a review to examine the effectiveness of the whistleblowing framework. The government is considering options on strengthening the framework.
Ensure adequate resources for foreign bribery enforcement, independence of investigation and prosecution and transparency of court decisions	The government announced in December 2024 an additional £36 million of funding for the National Crime Agency's International Corruption Unit. The Serious Fraud Office received an additional £9.3 million in November 2024.
Engage with the Crown Dependencies (CDs) and British Overseas Territories (BOTs) to extend application of the OECD Anti-Bribery Convention and enhance enforcement	The UK continues to encourage its Overseas Territories (OTs) that have not yet had the Convention extended to them to do so, and to meet its high standards, including sending letters to the Attorney Generals of Anguilla and Turks and Caicos Islands (TCI), respectively.[2] In addition, the UK worked in collaboration with the OTs and CDs on a number of topics related to the enforcement of foreign bribery and related offences, such as through the International Anti-Corruption Coordination Centre (IACCC).[3]

[1] Under the 2018 Enhanced Framework on Governance, the United Kingdom volunteered to have its legal and institutional frameworks assessed in the context of bilateral surveillance on supply and facilitation of corruption.

[2] All OTs face common, and sometimes severe, resourcing challenges when having international treaties extended to them. Smaller OTs, such as Anguilla and TCI, only have a small team of lawyers and relevant officials covering the extension of treaties, amongst a wide range of responsibilities.

[3] Aside from the UK, Australia, New Zealand, Canada, the United States and Singapore, other Associate Members of the IACCC include CDs and OTs such as the Cayman Islands, Gibraltar, Turks and Caicos Islands, Jersey, Isle of Man, Bermuda, and Guernsey.

Table X.1. United Kingdom: Transnational Aspects of Corruption: Updates (Concluded)	
Facilitation of Corruption – Preventing the Concealment of Foreign Corruption Proceeds	
Previous Recommendations	**Significant Updates**
Strengthen effective supervision of high-risk sectors attractive for laundering illicit foreign proceeds	The authorities continue their efforts to improve the effectiveness of the AML/CFT supervisory regime, focusing on high-risk sectors such as banking and professional services. The authorities are continuing to address deficiencies identified in the risk-based supervision of the legal and accountancy sectors, which play a key 'gatekeeper' role to mitigate the inflow of foreign illicit proceeds into the UK's financial system. HMT concluded its public consultation on assessing four potential supervisory options for these sectors and is preparing respective policy changes. The Office for Professional Body Anti-Money Laundering Supervision (OPBAS) is implementing jointly with other key stakeholders, including the National Economic Crime Centre (NECC) and law enforcement, the Professional Enablers Strategy to strengthen intelligence sharing.
Enhance entity transparency and access to beneficial ownership information to mitigate the risk of laundering of foreign proceeds in the UK.	To further enhance beneficial ownership transparency, Companies House has been using its broadened powers to increase detection of fraudulent companies, including removal of over 60,700 fraudulent registered office addresses over the past year. In April 2025, Companies House has begun to conduct identity verification for beneficial owners and company directors, either through a direct verification service or through authorized AML-related third-party providers registered with Companies House. The authorities also expanded the amount of information accessible in the UK's Register of Overseas Entities and are rolling out legitimate access provisions upon application for information on settlors and beneficiaries of trusts and related identifying information. The authorities continue to engage with UK Overseas Territories and Crown Dependencies on their commitments to provide publicly accessible beneficial ownership registers. Five Overseas Territories have committed to implement such registers with a legitimate interest access filter by June 2025. The authorities should continue their targeted efforts to further improve effective AML/CFT supervision of high-risk sectors and focus on entity transparency to mitigate the risk of laundering of foreign proceeds of corruption in the UK.

INTERNATIONAL MONETARY FUND

UNITED KINGDOM

July 1, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

European Department

CONTENTS

FUND RELATIONS

(Data as of May 31, 2025)

Membership Status: Joined December 27, 1945; accepted Article VIII.

General Resources Account:

	SDR Million	Percent Quota
Quota	20,155.10	100.00
Fund holdings of currency	14,889.42	73.87
Reserve position in Fund	5,267.12	26.13

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocations	29,451.96	100.00
Holdings	29,896.11	101.51

Outstanding Purchases and Loans: None

Financial Arrangements: None

Overdue Obligations and Projected Payments to Fund[1]
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2025	2026	2027	2028	2029
Principal					
Charges/Interest		0.14	0.14	0.14	0.14
Total		0.14	0.14	0.14	0.14

[1] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Exchange Rate Arrangement:

The UK authorities maintain a free floating regime.

The UK accepted the obligations of Article VIII, Sections 2, 3, and 4 on February 15, 1961. It maintains an exchange system free of multiple currency practices and restrictions on payments and transfer for current international transactions, except for exchange restrictions imposed solely for the preservation of national or international security. The UK notifies the Fund of the maintenance of measures imposed solely for the preservation of national and international security under Executive

Board Decision No. 144–(52/51). The last of these notifications was made on December 18, 2023 (EBD/23/79).

Article IV Consultation:

The UK is on the standard 12-month consultation cycle. The last Article IV consultation was concluded on July 8, 2024 (IMF Country Report No. 2024/203).

FSAP:

An FSAP was conducted in time for the 2021 Article IV consultation, in line with the five-year cycle for members or members' territories with financial sectors that are determined to be systemically important pursuant to Decision No. 15495–(13/111), adopted December 6, 2013. The next FSAP will be conducted at the time of the 2027 Article IV consultation.

Technical Assistance: None

Resident Representatives: None

Statement by Veda Poon, Executive Director for United Kingdom, Matt Trott, Alternative Executive Director, and Will Obeney, Advisor to Executive Director July 21, 2025

On behalf of the UK authorities, we thank the IMF staff team for their valuable report which reflects open and insightful policy discussions during the Article IV mission and throughout the past year. Our authorities greatly value this continuous and constructive engagement. We are also grateful that staff were able to join a pre-mission outreach visit to Cambridge, providing a hands-on example of the government's growth mission in action. This statement seeks to give Directors a fuller understanding of policy developments since the last Article IV report, and how they interact.

Growth mission and the real economy

The government recently completed its first year in office, focused on fixing the foundations of the UK economy and beginning a decade of renewal. As a medium-sized, open economy, the UK is particularly exposed to risks from economic fragmentation, as well as global trade and wider policy uncertainty, making strong macroeconomic fundamentals even more important.

The government's Plan for Change sets out clear milestones to meet five key missions over the course of this parliament, with the growth mission – to raise living standards in every part of the United Kingdom – at its heart. The growth mission prioritizes policy stability, investment and reform, with key milestones including building 1.5 million homes and ending hospital backlogs. Following the July 2024 general election, the government sought to put fiscal policy on a sustainable path through: increased spending for the National Health Service and other priority public services, recognizing that well-functioning services are critical to the economy; increased public sector capital plans to support growth; and revenue measures. The recent Spending Review set out the government's detailed spending plans, including a boost to public sector capital investment to improve efficiency, reduce the backlog of critical repairs and upgrades, and further expand digital technology. Revenue announcements included increases to the rates of employer National Insurance Contributions and Capital Gains Tax, and actions to close loopholes and strengthen tax compliance.

A key pillar of stability is provided by the new fiscal framework and the government's ironclad commitment to meeting its fiscal rules. The Chancellor announced two non-negotiable fiscal rules last year: the stability rule to move the current budget into balance, and the investment rule to reduce net financial debt (Public Sector Net Financial Liabilities) as a proportion of GDP. These rules keep debt on a sustainable path while allowing the step change needed in investment. They are part of a Charter for Budget Responsibility, which implements a more stable and transparent framework. Implemented reforms include committing to one fiscal event per year, more regular Spending Reviews to reduce uncertainty about medium-term spending plans, and improved sharing of spending information with the independent Office for Budget Responsibility (OBR), whose forecasts form the basis for UK fiscal events. In addition, the first piece of legislation passed by the government introduced a ‘fiscal lock’, so that no government can announce fiscally significant measures (defined as permanent tax or spending commitments worth more than 1% of GDP) without being subject to the independent assessment of the OBR. We welcome the findings in Annex VI of the staff report, which outlines the economic benefits of fiscal policy stability. The government is committed to meeting its non-negotiable fiscal rules and welcomes staff’s recommendations to further support policy stability, which they will consider.

The Autumn Budget and recent Spending Review increased public investment by £120 billion over the course of the parliament, boosting growth, providing certainty to business, and crowding in private investment in the long run. Key priority areas for investment include transport, housing, and energy, and these long-term capital budgets are coupled with a 10-Year Infrastructure Strategy, aligned with the modern Industrial Strategy (discussed below). New spending has been accompanied by new guardrails including the National Infrastructure and Service Transformation Authority (NISTA), which will oversee infrastructure policy, strategy and delivery in the center of government. It will be held to account through an Advisory Council of external experts. The government has also created the National Wealth Fund (NWF) tasked with supporting delivery of the growth mission, generating a return for the taxpayer, and catalyzing over £70 billion of private investment. The NWF will produce a Strategic Plan later in the year.

The government is making other reforms needed to deliver sustained growth in the long-term, such as on planning. Last year’s changes to the National Planning Policy Framework will push housebuilding to a level not seen in over 40 years, whilst sustainably increasing both the UK’s productivity and economic activity. The flagship Planning and Infrastructure Bill will speed up the delivery of infrastructure projects through streamlining and improving the predictability of the planning process, introducing a more strategic approach to environmental protections, and enabling better project planning across local government boundaries. Both the OBR and IMF staff have recognized the positive growth benefits of these ongoing reforms in their latest growth forecasts, and the government is consulting on further changes to the planning system.

The investment and reform agendas are aligned with a new, modern 10-year Industrial Strategy, embracing the UK’s strengths in the eight manufacturing and services sectors best positioned to drive inclusive, sustainable and resilient growth. The strategy intends to make it easier and simpler for companies to do business, and enable investment and growth in key regions and clusters, with government as a more active partner tackling barriers to growth. One such sector strategy is the UK’s first Financial Services Growth and Competitiveness Strategy. This sets out our plans for reforming the UK’s financial regulatory system to be more proportionate, predictable, and internationally competitive, supporting innovation and growth while maintaining resilience. Other key interventions made in the Industrial Strategy include enhancing defense, digital, and engineering skills by creating more opportunities through targeted investment. That sits alongside the government’s Get Britain Working white paper, which outlines radical reforms to support people back into work. These include: providing enhanced access to training and apprenticeships, particularly for youth; the establishment of Skills England to support a national plan to boost the nation’s skills; and reforms to improve the quality and security of work, including through the Employment Rights Bill and improvements to the UK’s visa system for Global Talent.

The UK is an unashamed champion of global trade and investment, and will continue to build on announced trade and economic deals. The recently agreed Strategic Partnership with the European Union, Free Trade Agreement with India, and US-UK economic deal, are strengthening our trading relationships with key partners and increase certainty for business. Building on the free trade philosophies the UK has championed for centuries, we remain committed to an open, rules-based trading system, while adapting to a changing world. In that vein, the government’s new Trade Strategy committed to join the Multi-Party Interim Appeal Arbitration Arrangement (MPIA), a temporary arbitration arrangement for resolving appeals to WTO trade disputes. The Strategy also outlines a more agile approach to trade negotiations, boosts the capacity of the UK’s export credit agency UK Export Finance, and will target more mutual recognition of qualifications to support the UK’s status as the world’s 2nd biggest exporter of services.

As staff’s report highlights, energy security is also essential to growth and will support delivery of the UK’s ambitious climate goals. The government’s Clean Power Action Plan aims to fully decarbonize the power sector by 2030. The recent Spending Review confirmed the biggest program of investment in homegrown energy in UK history, including the major Sizewell C nuclear project. This builds on other major reforms such as lifting the de facto ban on onshore wind farms. Over the past year, over £40 billion of private investment in clean energy has been announced, and private investment will continue to be crucial to transition. Revenue decisions in the past year also support climate goals, such as through an increase to Air Passenger Duty rates from 2026-27, and a widened differential between Excise Duty rates on electric vehicles and hybrid or internal combustion engine cars.

Monetary and financial sector policy

The Bank of England’s (BoE’s) Monetary Policy Committee continues to take a gradual and careful approach to the withdrawal of monetary policy restraint, as two-sided risks to inflation remain. There has been substantial disinflation over the past two years, as previous external shocks have receded, and as the restrictive stance of monetary policy has curbed second-round effects and stabilized longer-term inflation expectations. This has allowed the MPC to withdraw gradually some degree of policy restraint, while maintaining Bank Rate in restrictive territory so as to continue to squeeze out existing or emerging persistent inflationary pressures, returning inflation sustainably to the 2% target. Meanwhile, the BoE is actively transitioning its balance sheet from a supply-driven gilt-based framework to a demand-driven, repo-based framework. Last month, the BoE confirmed its recalibration of the Indexed Long-Term Repo (ILTR) facility, which works alongside the Short-Term Repo (STR) facility as the primary source of liquidity to the banking system.

The BoE is actively strengthening its monetary policy forecasting and communication tools, building on the Bernanke Review. This includes the use of illustrative scenarios to build the analysis of uncertainty more explicitly into the monetary policy framework. Early experience already indicates strengthened MPC discussions around the robustness of different policy choices to alternative economic outcomes, and more effective external communication through a period of uncertainty. The BoE will continue to develop and apply the scenario approach, alongside a wider range of analytical tools, and a substantial effort to strengthen modelling capability. In this vein, we welcome staff's proposals on how to further develop the scenario approach.

Against a backdrop of a deteriorating global risk environment, UK household and corporate borrowers remain resilient and the UK's banking system is in a strong position to support households and businesses. At its July 9th meeting, the BoE's Financial Policy Committee (FPC) maintained the UK countercyclical buffer (CCyB) rate at its neutral setting of 2%, driven by evidence that banks' exposures to wider economic risks are not materially above long-term averages.

We agree with staff that reforms to the financial sector and its regulation should strike the right balance, promoting growth whilst preserving financial stability. We also agree with staff regarding the significant progress on assessing and reducing NBFI vulnerabilities and will continue with further efforts. Last year's System-Wide Exploratory Scenario (SWES) has strengthened our understanding of risks to and from NBFIs and their behavior in market stress, as well as how those behaviors and market dynamics can combine to amplify shocks in markets and potentially pose risks to financial stability. The outputs of the SWES have supported market monitoring, and enabled market participants to enhance their contingency planning. Separately, the UK authorities continue to tackle data gaps and build their understanding of interconnections within the market. To support core market participants to understand their positions relative to the aggregate, the FPC are publishing a wider range of data. Given the highly inter-jurisdictional nature of the NBFI market, the UK authorities also collaborate bilaterally and multilaterally such as through the FSB's working group on NBFI leverage. Finally, in January the BoE opened applications to the Contingent Non-Bank Financial Institution Repo Facility (CNRF) to eligible insurance companies and pension funds. The CNRF can be activated by the Bank in case of severe market dysfunction that threatens UK financial stability, arising from shocks that temporarily increase non-banks' market-wide demand for liquidity. Work to further reduce NBFI vulnerabilities should continue, including at the international level given the significant cross-border linkages.

Concluding remarks

The UK economic policy agenda is active and ambitious. Alongside our determined pursuit of domestic reforms, we reiterate our strong investment in the multilateral system, and our commitment to working with others internationally to support economic growth, reduce tensions, and resolve global challenges. We also reiterate our thanks to staff for their well-calibrated engagement with the UK authorities in between Article IV missions, which demonstrate the importance of the IMF providing timely and pertinent advice for policymakers against the context of a rapidly changing global economy.