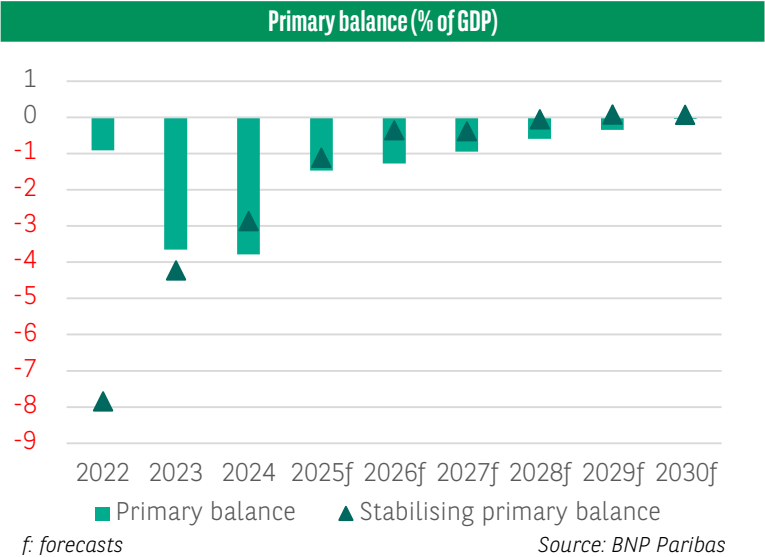
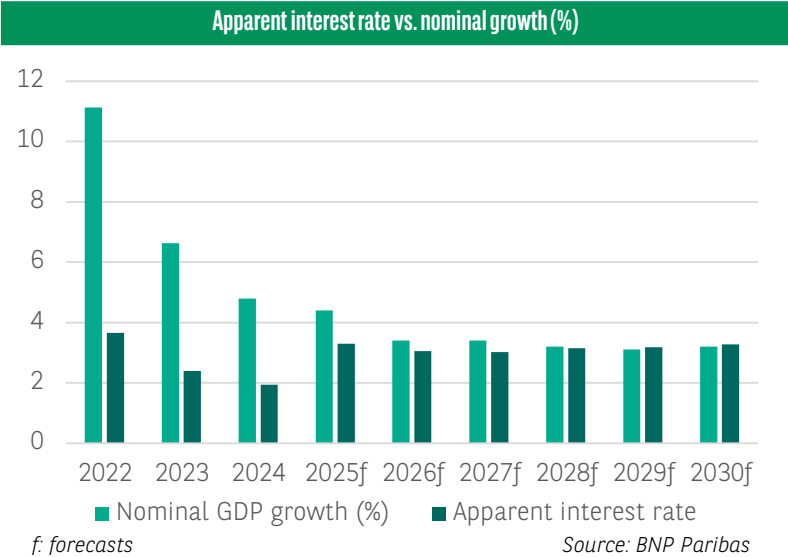


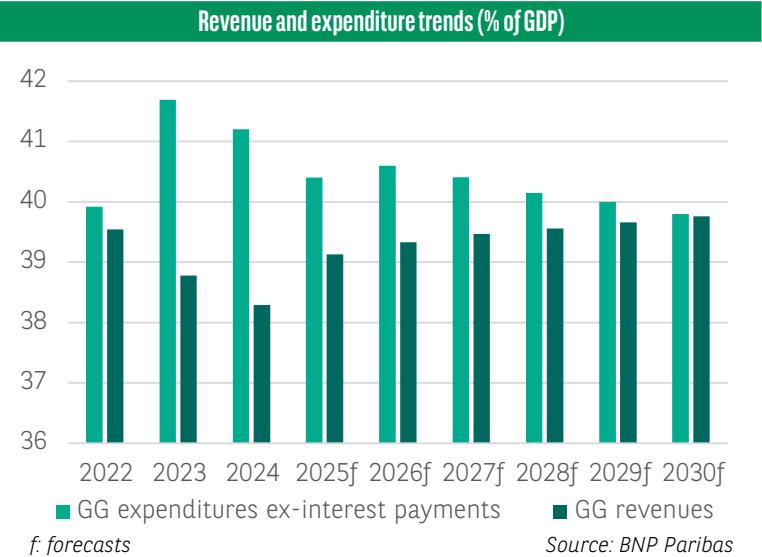
UNITED KINGDOM: Debt trajectory under control but significant upside risks (1)



The primary budget balance has gradually recovered post-COVID, mainly supported by improved growth, but remains high compared to the rest of Europe. Nevertheless, structural adjustments were significant in 2025, particularly on the revenue side. This momentum is expected to continue in 2026 (the outlines of the 2026 budget will be unveiled on 26 November during Rachel Reeves' autumn speech). **Assuming that consolidation continues (guided by compliance with fiscal rules), the primary balance would return to equilibrium by 2030**, improving the sustainability of public finances. This is because the primary balance would then reach a level that would enable public debt to stabilise by that date.



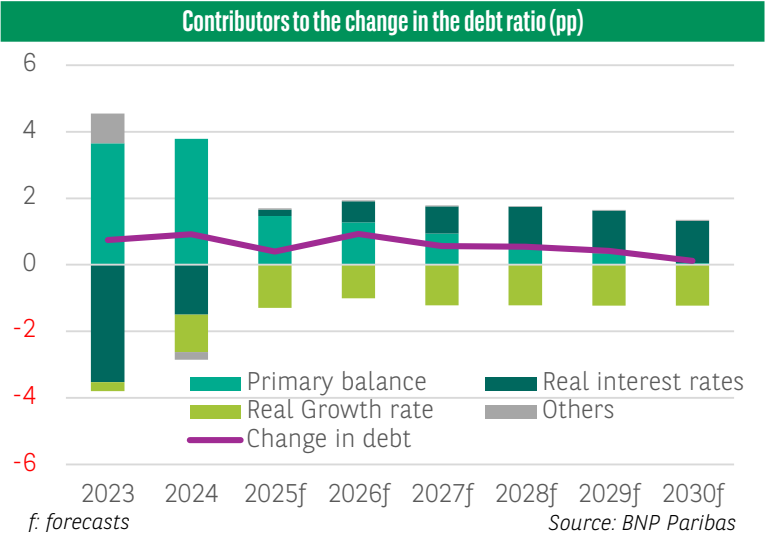
The gradual decline in inflation towards the 2% target (by 2028), as well as the fairly limited pace of economic growth, will reduce the dampening effect on debt dynamics. Real GDP growth would strengthen slightly to 1.3% in 2025, followed by a slowdown to 1.0% in 2026. Growth would then stabilise at its potential rate (1.2%). The apparent interest rate will stabilise between 3.0% and 3.2% over the projection horizon (the effect of the rise in fixed interest rates will be offset by the decline in inflation, with 24% of the debt being indexed to it).



By 2027, we anticipate that the bulk of the fiscal adjustment will come from revenues, particularly with the continued increase in certain taxes. Subsequently, the balance of the fiscal adjustment between revenues and expenditures will be better distributed in order to not overly burden activity in the run-up to the 2029 general election. Therefore, revenue as a share of GDP would increase by 1.2 percentage points between 2024 and 2027, then by 0.3 percentage points at the end of the decade. Public expenditure (excluding interest expenditure) would decline as a share of GDP to a lesser extent in 2024-2027 (-0.8 pp), before falling a further 0.6 pp by 2030.

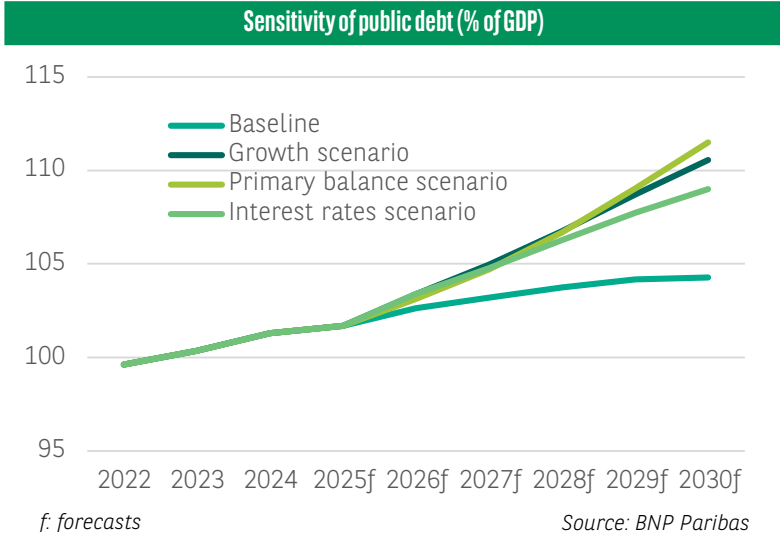


UNITED KINGDOM: Debt trajectory under control but significant upside risks (2)



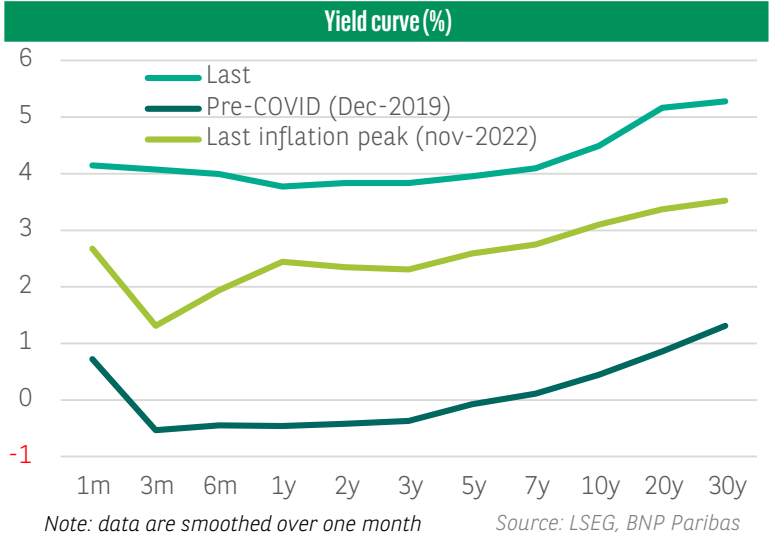
The sharp decline in the primary deficit due to structural adjustment efforts will be the main contributor to the slowdown in the rise of the debt ratio. It will more than offset the increased pressure from real interest rates, which will be the main unfavourable factor from 2028 onwards. However, the rise in real interest rates will be moderated between now and 2027 by the impact of lower inflation on the apparent rate of indexed debt.

The real growth rate is expected to decline at a relatively stable rate over the next five years.



Please note: the "growth" and "primary balance" scenarios incorporate a negative shock to growth and to the deficit of 0.5 pp of GDP per year compared to the central scenario, respectively; the "interest rate" scenario incorporates a 1 pp increase in the apparent interest rate.

In our central scenario, the debt ratio would stabilise below 105% of GDP by the end of the decade. However, a more pronounced growth or deficit shock would significantly reverse this trend and cause the debt ratio to rise above 110% of GDP. The scenario of rising interest rates appears less damaging in the medium term, as the average residual maturity of the debt (14 years) is relatively high, and the proportion of inflation-indexed bonds (24%), whose yield will be mitigated by the slowdown in inflation, is significant.



The yield curve has shifted significantly upwards compared to pre-COVID levels and the last peak in inflation.

The curve remains high but not very steep, as still high key policy rates by the BoE is limiting the decline in short-term rates. Moreover, they are only expected to fall moderately, given the limited number of rate cuts expected from the BoE (two more according to our forecasts), leading to a high terminal rate (3.5%). Long-term rates have fallen since September 2025, but expectations of persistent inflation and the prospect of a further increase in public debt by the end of the decade are limiting this decline.

