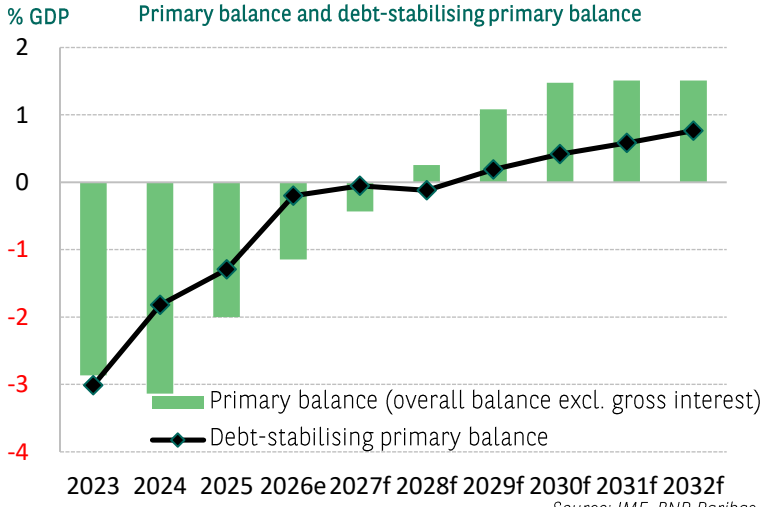
United Kingdom: Fiscal consolidation remains on track (1/2)

Return to a primary surplus from 2028

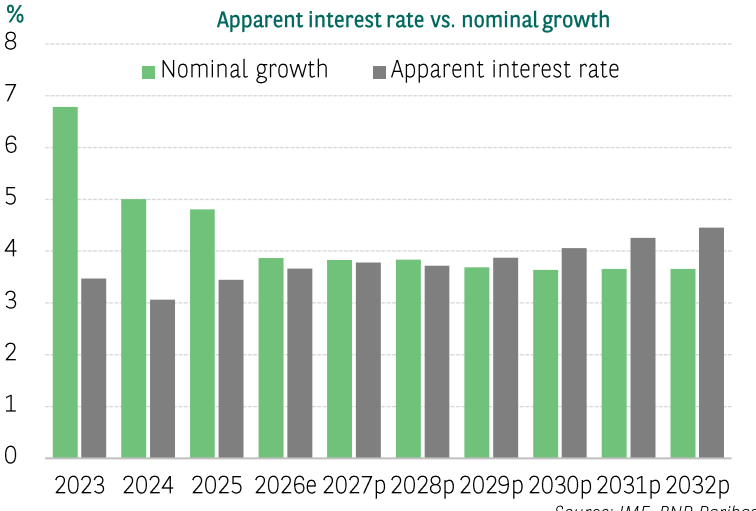


Source: IMF, BNP Paribas

The UK's primary balance is expected to return to surplus from 2028, continuing the path of fiscal consolidation initiated by the previous Labour government.

After improving by nearly 2 percentage points of GDP between 2024 (-3.1%) and 2026 (expected to be -1.1%), it is expected to remain in deficit in 2027, largely due to temporary support measures in response to the energy crisis. The primary surplus expected from 2028 onwards is projected to exceed the debt-stabilising balance from 2029, enabling a gradual decline in the debt-to-GDP ratio.

The apparent rate will rise above growth from 2029

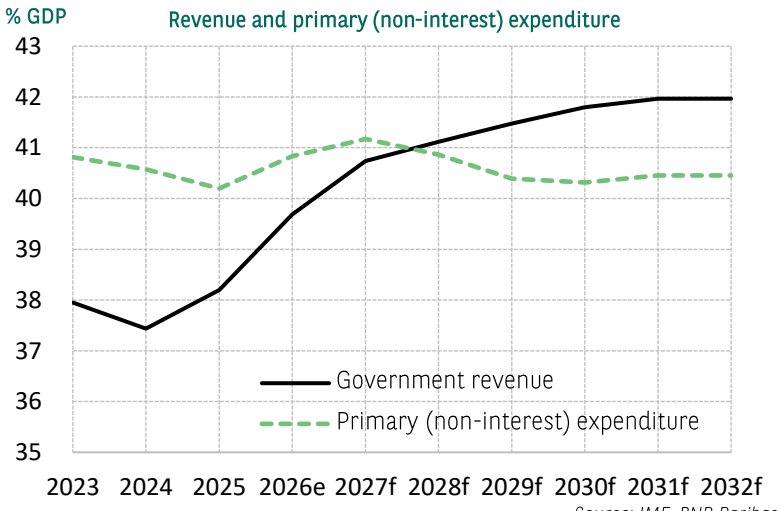


Source: IMF, BNP Paribas

The rise in interest rates is expected to gradually feed through to the apparent rate on UK public debt, which is projected to rise from around 3.5% in 2025 to nearly 4.5% by 2032.

From 2029 onwards, the apparent interest rate is expected to exceed nominal growth, contributing to an increase in the 'snowball' effect of the debt. In this context, maintaining the sustainability of public finances will depend on continued fiscal consolidation and the achievement of primary surpluses sufficient to offset this effect.

Consolidation relies primarily on higher revenue



Source: IMF, BNP Paribas

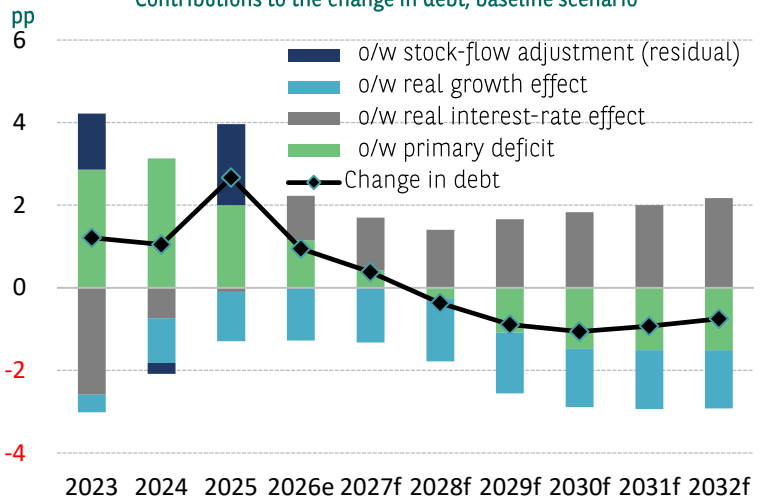
UK fiscal consolidation is expected to rely mainly on a structural increase in tax revenue, the share of which in GDP would reach a historically high level (42% in 2032), and on relative expenditure restraint after the middle of the decade.

The rise in revenue would be supported in particular by a freeze on tax thresholds and targeted tax measures. Welfare expenditure is expected to rise slightly as a share of GDP, driven by pensions and health-related benefits, but this increase would remain below the expected decline in departmental budgets.

United Kingdom: Fiscal consolidation remains on track (2/2)

Fiscal consolidation is essential to stabilise the debt ratio

Contributions to the change in debt, baseline scenario



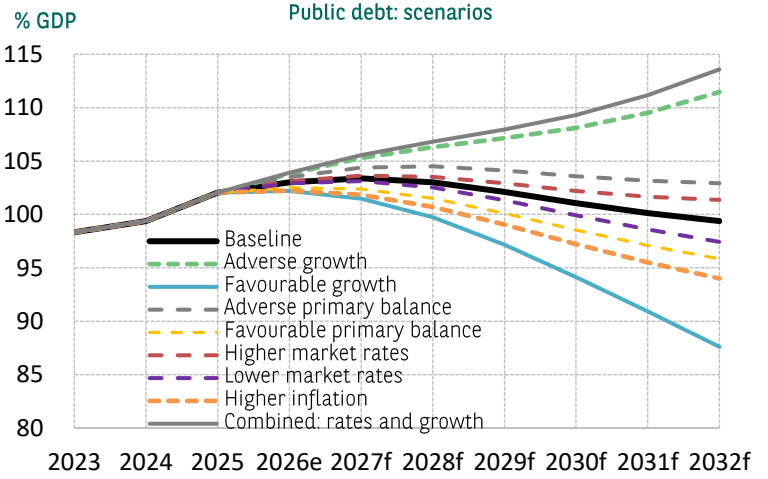
Source: IMF, BNP Paribas

The gross public debt-to-GDP ratio is projected to rise marginally in 2026–2027, driven by temporary fiscal support in response to the energy shock, slower growth and higher interest payments.

From 2028 onwards, fiscal consolidation is expected to resume, leading to a gradual decline in the debt ratio despite the increased burden of debt servicing, thereby ensuring compliance with the UK government's fiscal targets (which envisage a current account surplus and a reduction in the public sector's net financial debt as a percentage of GDP in 2029–2030).

A slowdown in growth is the main risk to public debt

Public debt: scenarios



Source: IMF, BNP Paribas

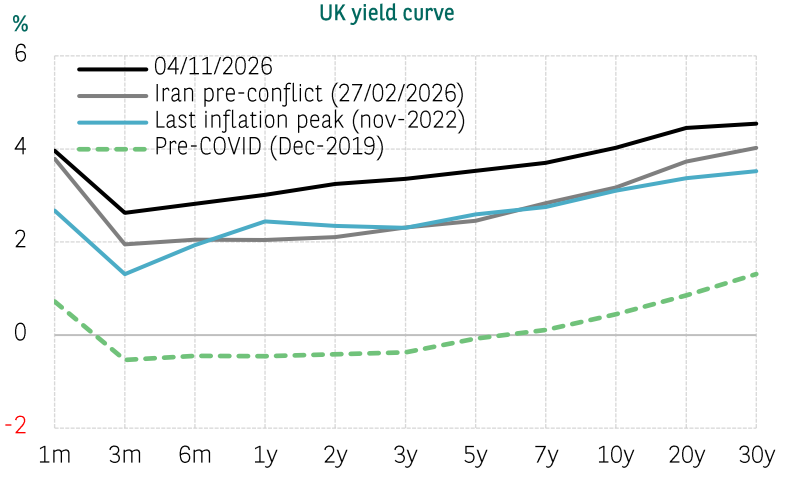
Note: the 'growth' and 'primary balance' scenarios incorporate, respectively, a negative shock to growth and to the deficit of 0.5 percentage points of GDP per year compared with the baseline scenario; the 'interest rate' scenario incorporates a 1 percentage point rise in the apparent interest rate.

The reduction in the debt-to-GDP ratio would remain relatively limited. It would fall from 103% of GDP in 2027 to 97% in 2032.

Its trajectory remains heavily dependent on macroeconomic assumptions, particularly regarding growth. Rising interest rates would also weigh on debt dynamics, but their effect would be gradual and mitigated by the long maturity (13 years). Conversely, growth lower than that anticipated in our central scenario would lead to a further rise in debt.

The rise in interest rates remains gradual

UK yield curve



Source: IMF, BNP Paribas

The rise in interest rates is expected to have a gradual impact on the interest burden, given the long average maturity of UK debt (around 13 years).

In the short term, however, this pass-through will be accelerated by the significant proportion of inflation-indexed debt (around 23%), which directly exposes the interest burden to energy shocks.

The rise in interest rates is accompanied by a steepening of the yield curve, against a backdrop of rising term premiums and persistent public financing needs despite fiscal consolidation.