INTERNATIONAL MONETARY FUND

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UNITED KINGDOM

July 2026

2026 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 2026 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 13, 2026 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 13, 2026, following discussions that ended on May 18, 2026, 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 June 23, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for the United Kingdom.

The documents listed below have been or 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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IMF Executive Board Concludes 2026 Article IV Consultation with United Kingdom

FOR IMMEDIATE RELEASE

- *The UK economy has remained resilient, but the war in the Middle East has dampened near-term growth prospects. Growth is projected to slow to 1.0 percent in 2026 before gradually recovering as the shock dissipates.*
- *The authorities' fiscal strategy remains appropriate, striking a good balance between deficit reduction and growth-friendly spending. Monetary policy should stay sufficiently restrictive to contain second-round effects from higher energy prices, with decisions remaining data dependent given heightened uncertainty.*
- *The authorities' structural reform agenda encompasses the right areas. Success will hinge on prioritization, sequencing, and sustained delivery, supported by systematic monitoring and transparent progress reporting.*

Washington, DC – July 16, 2026: The Executive Board of the International Monetary Fund (IMF) has completed an Article IV Consultation for the United Kingdom.[1] The authorities have consented to the publication of the Staff Report prepared for this consultation.

The economy was gaining momentum prior to the war in the Middle East. Growth picked up to 1.4 percent in 2025, driven by a recovery in private consumption and investment. The underlying disinflation process continued, with core inflation easing and wage growth moderating. Against the backdrop of declining inflation, the BoE gradually brought the Bank Rate down to 3.75 percent by February 2026. The fiscal stance tightened significantly in FY2025/26, marking the first year of the authorities' medium-term consolidation plan. However, the fallout from the war in the Middle East pushed energy prices higher and has weighed on the outlook.

Growth is projected to slow this year before recovering as the energy shock dissipates. GDP growth is expected to fall to 1.0 percent in 2026, as higher energy prices erode real incomes and tighter financial conditions further weigh on demand. Headline inflation is projected to peak above 3.5 percent toward end-2026, before declining and returning to target towards end-2027. However, the pass-through to core inflation should be more limited, given the weak labor market, slow wage growth, and a negative output gap.

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[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.

Risks to growth are tilted to the downside. The main risk is that disruptions to energy supply persist. Larger second-round effects on inflation could necessitate a more restrictive monetary stance, tightening credit conditions and slowing growth. Other factors that could hamper the outlook include policy uncertainty and a deteriorating external environment, including further trade tensions and tighter global financial conditions. On the upside, household savings drawdowns and productivity gains from faster-than-expected AI adoption could strengthen growth. Staying the course on deficit reduction and the structural reform agenda will support resilience by providing policy stability that anchors confidence and supports investment.

Executive Board Assessment[2]

They commended the authorities for their prudent policies that have enabled the UK's economic resilience despite repeated external shocks. Directors noted that elevated uncertainty, including from the war in the Middle East, has weakened near-term prospects while weak productivity gains continue to weigh on long-term growth. Against this background, Directors underscored the importance of sustaining the reform strategy to provide policy stability, anchor confidence, support investment, and raise productivity and living standards.

Directors concurred that the authorities' fiscal strategy appropriately balances debt stabilization with growth-friendly spending and welcomed recent changes to the fiscal framework that strengthen fiscal policy predictability. They agreed that the response to the energy shock has been prudent and should remain tightly targeted, temporary, and budget-neutral. Over the medium to long term, rising spending pressures from ageing, defense, and the energy transition will require difficult choices and greater focus on containing spending growth and enhancing efficiency. In this context, Directors stressed the importance of staying the course on fiscal consolidation and preparing upfront contingency measures in case the outlook deteriorates or delivery falls short.

Directors agreed that monetary policy should remain sufficiently restrictive to prevent higher energy prices from becoming entrenched in core inflation and wages. Given heightened uncertainty, developments should be closely monitored and decisions should remain data-dependent and be taken meeting by meeting. Directors welcomed the Bank of England's continued efforts to strengthen its communication framework and agreed that the ongoing transition to a repo-led, demand-driven liquidity framework should support effective policy transmission.

Directors welcomed that the UK financial system appears resilient while noting the elevated global risks. They positively noted the authorities' leading international role in addressing risks from the nonbank financial sector. Directors supported the authorities' ambition to make the financial sector a stronger engine of investment and productivity. A cautious approach to regulatory reform would be appropriate. Directors looked forward to the forthcoming FSAP as an opportunity for a more detailed assessment. Noting significant progress, they also encouraged continued efforts to strengthen the AML/CFT regime.

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[2] At the conclusion of the discussion, the Managing Director, as Chair 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 reform agenda. They agreed that addressing persistent skills shortages, improving labor mobility and migration policies, and enabling artificial intelligence adoption are important priorities for raising productivity and living standards. Noting the reform agenda’s ambition and possible implementation challenges, Directors stressed that success hinges on prioritization, sequencing, and sustained implementation supported by transparent monitoring of progress. They also emphasized the importance of strengthening resilience through deeper, more diversified trade ties and continued progress on energy security. Directors commended the authorities for their continued support of multilateral cooperation and leading role in the international financial architecture.

Table 1. United Kingdom: Selected Economic Indicators, 2021–2031

(Percentage change, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
						Projections					
Real Economy (change in percent)											
Real GDP	8.5	5.1	0.3	1.0	1.4	1.0	1.3	1.7	1.5	1.4	1.4
Domestic demand	9.2	4.9	0.4	1.7	2.0	1.2	1.5	1.7	1.3	1.3	1.4
Private domestic demand	7.7	7.6	-0.4	0.1	1.7	0.9	1.6	2.0	1.7	1.4	1.3
CPI, period average	2.6	9.1	7.3	2.5	3.4	3.2	2.4	2.0	2.0	2.0	2.0
CPI, end-period	5.4	10.5	4.0	2.5	3.4	3.5	2.0	2.0	2.0	2.0	2.0
Unemployment rate (in percent) 1/	4.6	3.8	4.1	4.3	4.9	5.6	5.3	4.8	4.5	4.5	4.5
Gross national saving (percent of GDP)	17.8	17.2	15.4	16.0	16.5	16.2	16.7	16.9	17.2	17.7	18.0
Gross domestic investment (percent of GDP)	18.6	19.1	18.9	19.0	18.9	19.3	19.6	19.6	19.6	19.7	19.9
Public Finance (fiscal year, percent of GDP)											
Public sector overall balance 2/	-5.2	-4.8	-4.9	-5.2	-4.3	-4.0	-3.3	-2.8	-2.0	-1.8	-1.8
Public sector primary balance	-3.1	-1.2	-1.9	-2.4	-1.4	-0.9	-0.2	0.4	1.2	1.3	1.2
Public sector cyclically adjusted primary balance 3/	0.0	-1.7	-1.6	-2.2	-1.1	-0.5	0.1	0.6	1.4	1.5	1.2
Public sector net financial liabilities (PSNFL) 4/	78.5	79.0	79.8	81.1	82.8	83.9	84.4	84.7	83.9	83.0	82.1
Money and Credit (12-month percent change)											
M4 (end-period)	6.3	1.6	-1.1	2.6	4.6	...	...	...	...	...	...
Net lending to non-fin private sector (end-period)	2.8	2.9	0.0	2.0	4.6	3.5	3.3	3.6	3.5	3.4	3.2
House Price Index (HMLR, end-period)	7.3	7.3	-2.7	3.1	1.8	...	...	...	...	...	...
Interest Rates (percent; year average)											
Bank Rate	0.1	1.5	4.7	5.1	4.3	3.8	3.2	3.0	3.0	3.0	3.0
Long Term Interest Rate	0.8	2.4	4.1	4.1	4.6	4.9	4.1	4.1	4.1	4.1	4.1
2y mortgage rate (75% LTV fixed rate,average)	1.4	3.5	5.3	4.8	4.3	...	...	...	...	...	...
5y mortgage rate (75% LTV fixed rate,average)	1.6	3.4	4.8	4.4	4.2	...	...	...	...	...	...
Balance of Payments (percent of GDP)											
Current account balance	-0.8	-1.9	-3.6	-3.0	-2.4	-3.2	-2.9	-2.7	-2.4	-2.1	-1.9
Trade balance	0.0	-1.1	-1.2	-0.7	-1.3	-1.4	-1.2	-1.2	-0.9	-0.7	-0.6
Exports of G&S (volume change in percent)	2.9	15.2	-2.3	1.3	2.1	1.9	1.2	1.5	1.5	1.3	1.3
Imports of G&S (volume change in percent)	5.3	13.9	-1.6	2.7	4.2	2.4	1.8	1.2	1.0	1.1	1.0
Terms of trade (percent change)	0.0	-4.3	0.3	2.7	0.2	0.4	0.8	0.0	0.3	0.1	0.1
FDI net	1.0	1.6	0.4	-1.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Reserves (end of period, billions GBP)	143.4	146.7	139.6	139.5	159.1	164.7	170.1	176.2	182.3	188.5	194.6
Exchange Rates											
Nominal effective rate (2010=100, year average)	102.6	101.0	102.2	106.5	107.6	...	...	...	...	...	...
Real effective rate (2010=100, year average)	102.6	101.2	103.8	108.3	110.6	...	...	...	...	...	...
Memorandum Items:											
Nominal GDP (billions GBP)	2,323	2,581	2,752	2,891	3,037	3,144	3,246	3,362	3,479	3,597	3,714
Nominal GDP (billions USD)	3,195	3,193	3,422	3,695	4,002	...	...	...	...	...	...

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 2026 ARTICLE IV CONSULTATION

June 23, 2026

KEY ISSUES

Context and Outlook. The UK economy has remained resilient in recent years, but the war in the Middle East has dampened prospects. Growth will slow down markedly this year, then gradually recover as the shock dissipates. Inflation will rise temporarily, delaying the return to target. Risks are tilted to the downside, notably from a prolonged increase in energy prices and sustained market volatility. The crisis underscores the importance of staying the course and providing policy stability—across macroeconomic management and structural reforms—to anchor confidence and support investment.

Policy Recommendations.

- Monetary policy. Monetary policy should remain sufficiently restrictive to ensure second-round effects from higher energy prices are contained and do not entrench inflation. Given heightened uncertainty, decisions should remain data dependent and be taken meeting by meeting, with clear communication on the reaction function. Continued progress on the repo-led, demand-driven liquidity framework should support effective policy transmission.

- Fiscal policy. In the short term, support to households in response to the energy crisis should remain tightly targeted, temporary, and financed through offsetting measures to preserve the consolidation path. In the medium term, the fiscal strategy appropriately aims to stabilize debt while protecting essential spending and supporting investment. With implementation risks elevated, pre-identifying contingency measures would help protect fiscal credibility if the outlook deteriorates or delivery falls short. Over the longer term, rising pressures from ageing, defense, and the climate transition will require difficult choices to contain spending growth.

- Financial stability. The financial system appears resilient, but the risk environment has deteriorated. The authorities' leadership on non-bank institutions (including system-wide stress testing and liquidity backstops) is welcome. Given the breadth and pace of the regulatory reform agenda, a cautious approach is warranted to ensure that incremental changes across the prudential framework do not weaken resilience. The forthcoming Financial Sector Assessment Program (FSAP) will provide a comprehensive assessment of the adequacy of the financial policy framework and the safety and soundness of the financial system.

- **Structural Reforms.** The authorities' agenda encompasses the right areas. Given inevitable lags, success will hinge on prioritization, sequencing, and sustained implementation, supported by systematic monitoring and transparent progress reporting. Leveraging AI requires complementary policies to ease constraints (including relevant supply of skills), alongside clear and predictable regulatory approaches that support adoption while safeguarding trust. Finally, reforms should also strengthen resilience to shocks—by reducing trade-related frictions through deeper and more diversified trade ties, and by accelerating measures that bolster energy security.

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

The mission took place in London during May 4–18, 2026. The staff team comprised L. Eyraud (head), M. Bellon, P. Deb, C. Lopez-Quiles, T. McGregor (all EUR), and B. Mosk (MCM). The mission met Chancellor Reeves, BoE Governor Bailey, Minister Bell, FCA Chief Executive Rathi, senior HMT and BoE officials, analysts and think tanks, trade union representatives, and business groups. M. Evio, M. Gandhi (both EUR) supported the mission. UK Executive Director Ms. Poon, Mr. Obeney and Mr. van Hasselt (OED) participated in the discussions.

CONTENTS

ANNEXES

BACKDROP

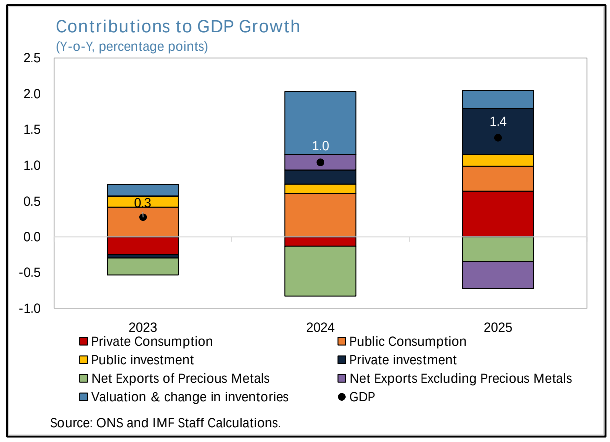
1. **The economy has remained resilient despite a succession of shocks—lingering post-pandemic distortions, a rise in global yields, trade tensions, and episodes of market volatility.** Yet activity has remained more resilient than anticipated, with the economy growing at 1.4 percent in 2025. Household incomes improved in real terms and the financial system has absorbed higher interest rates without material stress. Against this backdrop, the central policy challenge has been to sustain the recovery and set the conditions for durable, productivity-led growth.

2. **The conflict in the Middle East has reintroduced significant downside risks to the outlook.** As a net importer of energy, the UK remains vulnerable to spikes in oil and gas prices and to disruptions in global supply chains. Absent this shock, growth was expected to proceed broadly around potential this year, and inflation to return to target as past tightening worked through the economy. Instead, higher energy costs are likely to weigh on real incomes and demand while pushing headline inflation up. In this environment, sovereign yields have increased substantially, and monetary policy will need to remain tighter for longer to ensure that second-round effects do not entrench inflation. Perceived uncertainty regarding the direction of economic policy following the May 7 local elections has added to market pressures.

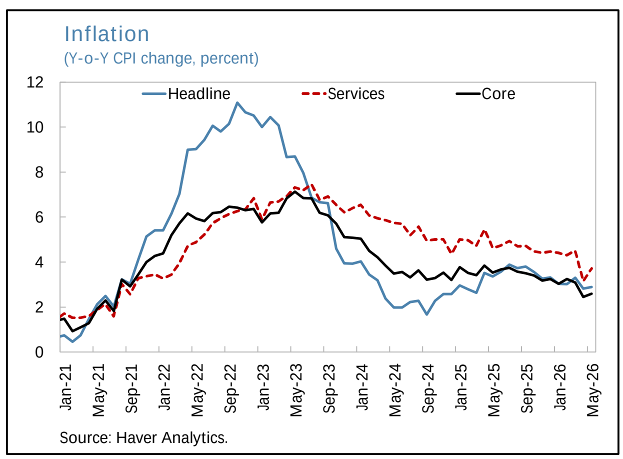
3. **Against a more challenging environment, the central message of this report is that the authorities should sustain—and where possible deepen—their reform strategy to provide policy stability and improve living standards.** The strategy—organized around stability, investment, and reforms—appropriately combines a growth-friendly public investment push within a strengthened fiscal framework with measures to ease key supply bottlenecks and improve the business environment. Initiatives—such as planning reforms to accelerate delivery of housing and infrastructure, and pragmatic steps to deepen trade and regulatory cooperation with major partners—will improve medium-term prospects, even if some measures take time to bear fruit. Precisely because the economy is facing repeated shocks, the authorities should stay the course: sustained implementation, clear prioritization, and continued communication about the reform strategy progress will be essential to build confidence and ensure that these measures translate into stronger potential growth and substantial real income gains for the population.

RECENT ECONOMIC DEVELOPMENTS

4. The UK economy was gaining momentum prior to the war in the Middle East despite significant external and domestic uncertainty. Growth picked up to potential last year, underpinned by a recovery in both private consumption and private investment, despite some drag from net exports. The quarterly pattern, however, was uneven: after a strong first half, activity decelerated in the second half as budget uncertainty and a weakening labor market weighed on confidence and demand, while services and construction underperformed. Even so, the slowdown was contained, and growth picked up again in 2026Q1 just prior to the Middle East conflict.



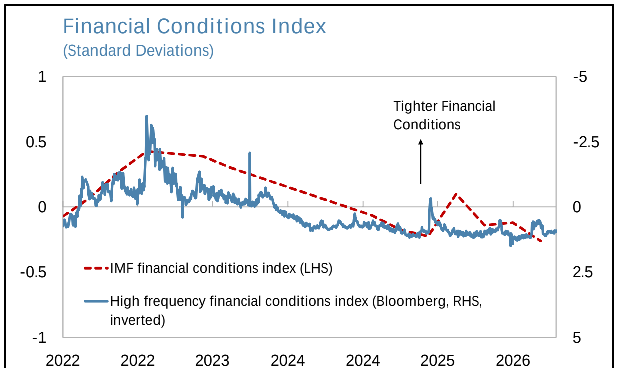
5. Despite renewed volatility in headline inflation, the underlying disinflation process continued in the run-up to the March 2026 energy price shock. Headline CPI rose temporarily last year, peaking at 3.8 percent in mid-2025, but then eased to 3.0 percent before the start of the war, with the movements driven largely by base effects from changes in food, energy, and regulated prices. More importantly, indicators of domestically generated inflation showed gradual improvement: core inflation eased, services inflation edged down slowly, and wage growth moderated as the labor market loosened. Inflation expectations also edged down. Taken together, these developments suggested that inflation pressures were on a downward trajectory, even as the headline rate remained sensitive to supply side and administered-price shocks. In addition, the November Budget measures that lowered households' energy bills and the Ofgem cap (a regulatory limit on the price of electricity and gas for households) that was set for Q2 before the start of the war, helped contain the surge, with headline inflation decreasing to 2.8 percent in April.[1]



[1] The November 2025 Budget measures aimed to reduce the cost-of-living and included a reduction in households' energy bills (including ending the Energy Company Obligation, covering part of the Renewables Obligation, and expanding the Warm Homes Discount), an extension of the fuel duty freeze until September 2026, and freezes in prescription drugs and regulated rail fares, with a cost of around 0.1 percent of GDP per year over 3 years.

6. The Bank of England (BoE) paused its rate cutting cycle in March. The MPC had been gradually easing monetary policy at a pace of roughly one 25bp cut per quarter since the summer of 2024, as underlying inflation pressures moderated and labor market conditions eased (Panel Figure 3). However, the surge in energy prices linked to the Middle East war has brought this easing cycle to a halt, with the policy rate maintained at 3.75 percent, still above the neutral level estimated by staff at 3 percent. In parallel, the BoE's normalization of its balance sheet has continued, although the pace of Quantitative Tightening (QT) was slowed to £70bn over 10/2025–09/2026 (down from £100bn annually in the past 3 years) and skewed towards shorter maturity gilts.

7. Financial conditions have become somewhat more accommodative since the last Article IV, although the conflict in the Middle East underscores their sensitivity to global shocks. The Bank Rate has been reduced by 150 basis points since August 2024, lowering debt service burdens for households and firms, including through reduced borrowing costs on variable-rate mortgages and business loans. However, the expected path of short rates has risen sharply amidst the energy price shock. Long-term gilt yields increased as well, with the 10-year gilt yield moving above 5 percent in April–May 2026 (see Selected Issues Paper (SIP) on drivers). Overall, while financing conditions had eased since the last Art. IV report, the current environment remains vulnerable to a rapid tightening if shocks further lift inflation expectations and risk premia.



Source: Bloomberg Finance.; Haver Analytics; Dealogic; national data sources; and IMF staff calculations.
Notes: Standard deviations are calculated over the period from 1996 to present. The IMF FCI is designed to capture the pricing of risk. It incorporates various pricing indicators, including real house prices. Balance sheet or credit growth metrics are not included. For details, see Online Annex 1.1 in the Oct 2018 GFSR.

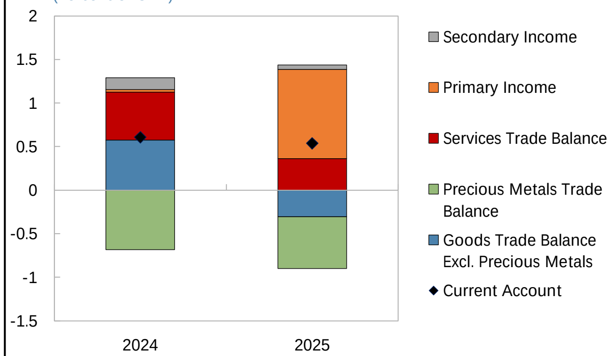
8. The fiscal stance tightened significantly in FY2025/26, marking the first year of the authorities' medium-term consolidation plan.[2] The cyclically adjusted primary balance (CAPB) improved by around 1 percentage point of GDP, as higher receipts—driven by tax measures, including the increase in employer NICs—more than offset higher recurrent spending on health and education, and an increase in public investment (see Figure 6, panels 1 and 2). Public sector net financial liabilities (PSNFL) increased slightly, remaining above 80 percent of GDP.[3]

[2] The fiscal year in the UK runs from April to March.

[3] 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 deficit declined for the second year in a row but remains somewhat elevated at close to 2½ percent of GDP in 2025. The improvement was primarily driven by higher net primary income, as earnings on direct investment abroad outperformed foreign earnings on direct investment in the UK. The services surplus continued to increase, offsetting the deterioration of goods exports caused by weak external demand and trade frictions. From the saving-investment perspective, higher private and public savings contributed to the current account decline. The REER appreciated only modestly, indicating minimal competitiveness losses. The 2025 external position is assessed as weaker than implied by medium-term fundamentals and desirable policies for the UK (Annex I).

Annual Change in the Current Account Balance
(Percent of GDP)



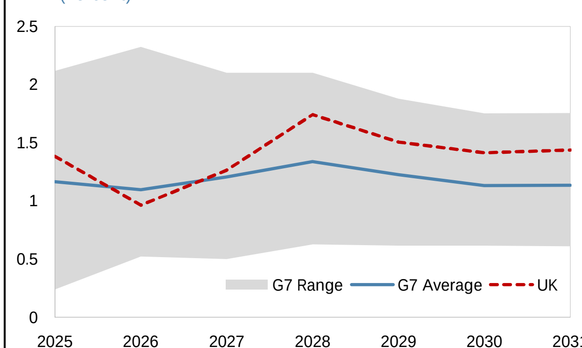
Source: Haver Analytics, ONS, and IMF staff calculations.
Notes: The chart isolates "precious metals", which are a very volatile component.

10. *Authorities' Views.* Treasury officials broadly shared staff's growth and balance of payments assessment and provided their own external sector analysis, including a granular examination of foreign assets and liabilities. They noted that sterling's reserve currency status allows the UK to tap into a deep, diversified investor base willing to hold sterling-denominated liabilities, contributing to resilience.

OUTLOOK AND RISKS

11. Growth is projected to slow down to 1 percent in 2026 before rebounding towards potential next year. The war is expected to have a significant impact on growth through higher energy prices, tighter financial conditions, and increased uncertainty. These channels matter for the UK due to the strong reliance on natural gas for the energy mix and its significant—albeit declining—role as the marginal fuel in electricity pricing, low domestic storage capacity, and greater sensitivity of sovereign bond yields to global risk shocks. Higher energy prices (Text Table 1) will erode real disposable incomes and increase production costs, weighing on consumption and investment. The labor market is likely to soften further. Once the shock dissipates, growth should recover in the second half of 2027 and further strengthen in the following years—driven by a recovery of private consumption and investment and a more supportive external sector —before stabilizing around a potential rate of 1.4 percent in the medium term.

GDP Growth
(Percent)



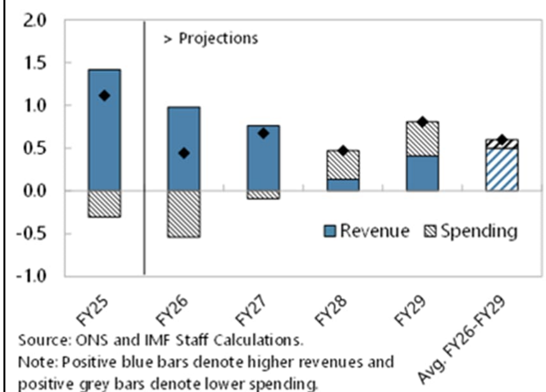
Source: IMF WEO and IMF Staff Calculations.

12. **The energy price shock is expected to push headline inflation temporarily higher and delay the return to target by about one year.** Under staff assumptions (Text Table 1), inflation is projected to peak above 3.5 percent toward end-2026, before easing in the second half of 2027. Although inflation expectations have edged up, the pass-through to core inflation should be more limited, given the weak labor market, slow wage growth, and a negative output gap. Inflation is projected to return to target toward end-2027.

Text Table 1. United Kingdom: Assumptions Conditioning Staff's Forecasts	
Energy prices	Energy prices are based on commodity futures prices as of mid-June. For natural gas, this indicates a 21.7 percent increase in 2026, and a 13.2 percent decrease in 2027. Oil prices are assumed to increase by 31.8 percent in 2026 and decrease by 11.8 percent in 2027.
Monetary policy	The Bank Rate is projected to remain at the current 3.75 percent level for the rest of the year, before declining at a rate of one cut per quarter on average in 2027, converging to the estimated nominal neutral rate of 3 percent in 2027Q3.
Fiscal policy	Expenditure projections are fully aligned with the authorities' medium-term plans, as detailed in the OBR March 2026 *Economic and Financial Outlook*, but envision higher debt interest and additional welfare spending as a result of the recent energy price shock. The projections are consistent with the departmental expenditure limits set out in the 2025 Spending Review. Defense spending is expected to increase from 2.4 percent of GDP in FY2025/26 to 3.0 percent by FY2030/31. Revenue projections are also based on the measures legislated by the authorities in the last two Fall budgets, although staff assumes a smaller revenue yield from tax compliance efforts, and that fuel duty is not uprated over the medium term. Fiscal multipliers are based on OBR estimates—around 0.3 for tax and 0.5 for spending—and are relatively low in international comparison partly due to the high sensitivity of gilt yields to fiscal policy shocks and the UK's flexible exchange rate regime.
Trade Policy	Growth projections incorporate the direct and indirect effects of tariffs and trade agreements effectively in place as of mid-May 2026. For UK-EU trade policy, projections assume the continuation of the TCA and implementation of new agreements announced in the May 2025 summit on a shared agrifood trade area and linked energy and emissions trading systems. For UK-US trade policy, projections assume a trade-weighted average tariff rate on UK exports of 8.23 percent. This reflects sectoral exemptions on autos and auto parts, steel, aluminum, aerospace, and pharmaceuticals, as part of the US-UK Economic Prosperity Deal announced in May 2025.
Medium-term growth	Medium-term potential growth is identical to the 2025 Article IV report at 1.4 percent, but the components have been updated: labor supply growth has been revised down to reflect lower net migration consistent with ONS projections, while labor productivity growth has been revised up after re-estimating the trend and including a small boost from AI investment and diffusion (0.2pp in line with the OBR). Like last year, the growth estimate incorporates the effect of the planning reform (0.2pp).
Source: IMF Staff.	

13. **A steady fiscal consolidation is expected to stabilize the net debt ratio in the medium term.** Under staff forecasts based on the authorities' legislated policies, the CAPB is projected to improve by about 2 percent of GDP over the next four years (2026/27–2029/30). On average, around three quarters of the adjustment is expected to come from higher taxes (including higher employer NICs and extension of the freeze to income tax threshold from 2028 to 2031), with the remaining quarter coming from lower primary spending towards the end of the projection horizon (including tighter departmental spending limits under the spending review) (Chart). This improvement comes against the backdrop of a rising interest bill in percent of GDP, driven by high interest rates and elevated debt levels (see Figure 6, panel 5). Both fiscal rules are met under the baseline forecast, with a current surplus expected in FY2029/30 and the PSNFL ratio declining thereafter (see Figure 6, panel 3).

Decomposition of Change in CAPB Ratio
(Percent of GDP)



Source: ONS and IMF Staff Calculations.
Note: Positive blue bars denote higher revenues and positive grey bars denote lower spending.

14. **Risks to growth are tilted to the downside.** The main risk is a prolonged increase in energy and food prices (see Risk Assessment Matrix in Annex II). If the shock has large second-round effects on inflation, monetary policy could require a more restrictive approach, leading to tighter credit conditions and slower economic growth. Uncertainty around the future direction of economic policy could add to the already volatile global environment, holding back consumption and investment decisions. The outlook could also be hampered by a deteriorating external environment, including further trade and geopolitical tensions, a slowdown in trading partners, and a tightening of global financial conditions. Growth could be supported if households use their savings to maintain spending. AI adoption could boost productivity more than expected in the medium term, provided key bottlenecks are lifted (see paragraph 39). More broadly, the outlook is subject to unusually high uncertainty, with global shocks becoming both more frequent and more difficult to anticipate. The baseline forecast should therefore be interpreted as a reference path, and scenario analysis can help illustrate the range of possible outcomes (see Annex III for an analysis of a severe downside scenario).

15. ***Authorities' Views.*** The authorities agreed that, prior to the war in the Middle East, the UK economy was relatively resilient , with growth around potential in 2025 and into 2026, and inflation expected to move back down to around the 2 percent target by April 2026. They broadly shared staff's assessment of the growth and inflation impacts of the energy shock, while also stressing that the diminishing role of gas in the economy—together with the smaller size of the shock—will likely result in greater resilience compared to 2022. On inflation, the authorities noted that the indirect effects of the energy price shock through higher energy input costs and its second-round effects through higher wages would likely materialize only gradually, including due to the energy price cap and because most wage negotiations for 2026 have already occurred. There was also broad

agreement that labor market slack is likely to reduce the risk of a wage acceleration, at odds with 2022 when the labor market was tighter. The authorities concurred that a lengthy conflict in the Middle East was the main risk to the outlook. Similarly to staff, given elevated uncertainty, they are working with different scenarios on the evolution of energy prices and the magnitude of second-round effects to assess the different possible outcomes for growth, inflation, and monetary policy. Strong second-round effects would produce material inflationary pressure.

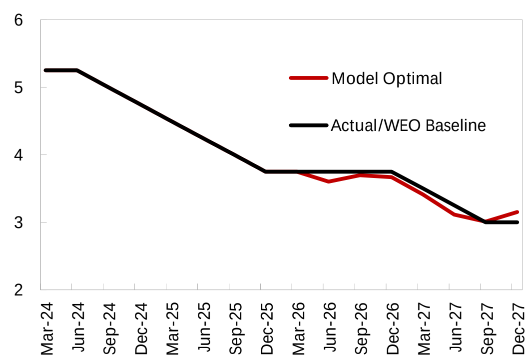
POLICY DISCUSSIONS

Against heightened uncertainty, a steady and predictable policy approach is essential to anchor confidence and support investment. Staff therefore recommends that the authorities stay the course—delivering the planned fiscal consolidation, maintaining a sufficiently restrictive monetary stance to contain renewed inflationary pressures, and continue advancing the structural reform agenda—while safeguarding financial stability.

A. Monetary Policy

16. Monetary policy should remain restrictive this year to ensure that higher energy prices do not spill over to core inflation and wage growth. While disinflation had been advancing before the shock—supported by a loosening labor market—the rise in energy prices poses a significant policy challenge: it will lift headline inflation this year while further depressing output below potential, complicating policy calibration. There is a risk that elevated inflation passes through core prices and wages in an environment of already elevated inflation expectations, though this risk is somewhat mitigated by the labor market slack and negative output gap.[4] In this context, staff assesses that holding the policy rate[5] unchanged for the remainder of the year—alongside some tightening in broader financial conditions—would maintain sufficiently restrictive monetary policy to limit second-round effects and keep long-term inflation expectations anchored. This stance would imply a real interest rate above neutral estimated by staff at 1 percent until the second half of 2027.[6] But given heightened uncertainty, monetary policy

Model Based Optimal Policy Projections
(Bank Rate, percent)



Source: IMF Staff Calculations.

[4] One difference with the 2022 energy shock is that back then the labor market was tight, wage growth was high, and the output gap was positive.

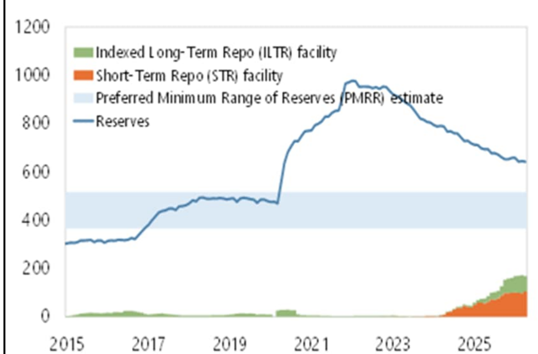
[5] The optimal policy projection is based on De Groot et al. (2021) and described in the 2024 Selected Issues.

[6] Before the war in the Middle East, staff assumed that monetary policy would continue to ease at a pace of one 25bp cut per quarter to reach 3 percent in Q3 2026. Therefore, keeping rates on hold implies additional restrictiveness of 75bps by end-year in nominal terms (and marginally below in real terms, using either three-year market-implied inflation expectations or staff's one-year ahead core inflation forecast).

decisions should continue to be taken on a meeting-by-meeting basis, guided by incoming data (e.g., wage settlements and price-setting intentions of firms). The authorities should also be prepared to respond more forcefully if second-round effects prove stronger than anticipated under the baseline (see discussion on a more severe scenario in Annex III).

17. The shift towards the repo-led, demand-driven liquidity framework is progressing well, but the transition is ongoing and experience with the framework remains limited. As the BoE continues to normalize its balance sheet, its asset purchase portfolio is expected to shrink to a point where liquidity will be provided primarily through regular repo operations by early-2027. This shift, which has been smooth so far, entails transitional risks, and the system's robustness remains untested, especially under severe stress conditions, both for the *aggregate provision* of liquidity and its *distribution*. To ensure that the central bank's supply of liquidity responds elastically and smoothly to the demand of banks, liquidity facilities need to be appropriately priced, predictable, and stigma-free, with regular repo operations of adequate size and maturity. The central bank should maintain close engagement with participating banks and stand ready to adjust the modalities of operations if needed. In turn, under the repo-based system, banks are expected to play a key role in distributing liquidity to non-banks. In this context, after a prolonged period of abundant reserves, banks' liquidity management is adjusting to changing market conditions. As banks optimize liquidity from an individual perspective, systemwide demand may not align with the level required for smooth market functioning, particularly in the presence of balance sheet constraints, or frictions in redistributing liquidity across the system. Continued close monitoring of distributional liquidity metrics and unencumbered collateral availability (for both banks and non-banks),[7] rather than aggregate reserves alone, complemented with market intelligence, would help identify emerging stresses and segmentation in money markets in real time and adjust operations as needed.

Bank Reserves and Use of Operations
(Billion GBP)



Sources: Bloomberg Finance and Bank of England.

18. The BoE has continued strengthening its forecasting and communication capacity in response to the Bernanke review. It has expanded its modelling infrastructure and has been experimenting with scenario analysis to communicate uncertainty and key trade-offs facing the

[7] Relevant metrics include distributional features of reserves (across bank size and type), liquidity flows within the system, and market-based indicators of segmentation and unequal market access across participants. This set of indicators can be complemented by tracking the distribution of unencumbered collateral availability of A, B and C types.

MPC. Recent changes to the BoE communication toolkit—particularly the individual MPC member statements and the enhancements to the Monetary Policy Report (MPR)—are steps in the right direction. The illustrative paths for the Bank Rate under a wide range of monetary policy rules are also welcome and will enhance consistency between policy paths and economic developments. Looking ahead, the BoE could further refine this approach to balance policy robustness, communication simplicity, and diversity of views on the MPC—in particular, by presenting a more streamlined and selective set of policy paths in the MPR. One possible option could be for the BoE to highlight those rules and associated rate paths that the MPC considers most informative at a given juncture, and eventually even consider basing the rate paths on an illustrative rule (with the choice of the rule reviewed as economic conditions evolve). The rate path implied by such rule would serve as a useful *reference point* for a discussion of the BoE's likely response in shock scenarios, which could also qualitatively take account of factors not captured by the simple rule.

19. *Authorities' Views.* MPC members agreed with staff that monetary policy needs to remain in restrictive territory. Beyond the future path of energy prices, a key factor shaping the course of monetary policy would be the scale of second-round effects on inflation from the energy shock, including whether the weak labor market would dampen them. Therefore, the MPC will continue to monitor the economic implications of the energy shock closely. The authorities noted that the transition to the repo-led liquidity framework is proceeding smoothly, with reserves set by market demand and supply terms set by the BoE to ensure adequate liquidity without crowding out markets. The BoE is closely monitoring encumbrance and liquidity metrics, neither of which is currently of concern. The BoE is also continuing work on implementing the Bernanke review recommendations, experimenting with how best to conduct and communicate monetary policymaking under uncertainty. While recognizing staff's recommendation to streamline the number of interest rate paths used for communication, the BoE highlighted that simple rules can only serve as illustrative guides to policy judgements and that no single rule adequately reflects observed policy responses, particularly to large shocks.

B. Fiscal Policy

Short-Term Response to the Energy Crisis

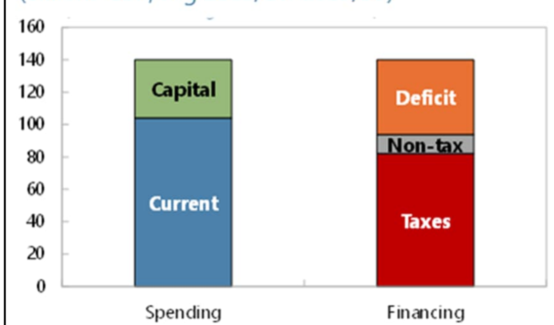
20. The FY2026/27 fiscal stance is appropriate given the growth slowdown. Staff projects a fiscal adjustment of around ½ percent of GDP—about half last year's effort—which is consistent with the authorities' medium-term consolidation plan but envisions higher debt interest and some additional welfare spending due to automatic stabilizers. With gilt yields elevated and market sentiment sensitive, continuing consolidation this year helps reinforce credibility and commitment to the fiscal rules. At the same time, the slower pace of adjustment this year reduces the risk of amplifying the downturn.

21. **Staff supports the prudent approach taken by the authorities to fiscal measures in response to the energy crisis.** The government is providing targeted support to low-income households who rely on oil to heat their homes and has removed some fixed energy-related levies for energy-intensive firms this year. The fuel duty freeze has also been extended until the end of the year. Together, these measures are estimated to cost less than 0.1 percent of GDP in FY2026/27.[8] The authorities are committed to maintaining compliance with fiscal rules and avoiding universal support schemes, like the 2022–24 energy price guarantee. The quarterly adjustment of households' energy prices (Ofgem price cap) also helps smooth prices, while allowing energy demand to adjust to prices. Given limited fiscal space and elevated gilt yields, staff advises that any additional support to households remain tightly targeted, budget neutral, and time bound. Broad-based measures, such as cuts in energy taxes, outright energy price caps, or generalized subsidies, should be avoided, as they are costly, difficult to unwind, and weaken price signals. Finally, support for firms should remain more limited: many firms can adjust through cost pass-through or efficiency gains, while broad-based assistance risks double compensation and reduces incentives to adapt.

Medium-Term Fiscal Strategy

22. **The medium-term fiscal strategy continues to strike a good balance between deficit reduction and growth-friendly spending.** Upon taking office, the government substantially increased the multi-year spending envelope to address critical investment gaps and longstanding pressures in health and education—with higher recurrent spending being funded by durable tax increases and higher capital spending financed through borrowing, consistent with past IMF advice (Chart). The front-loaded increase in public investment, alongside the protection of core public services, appropriately acknowledges the UK's persistent infrastructure shortfalls and demands on quality service delivery, while bolstering medium-term output. At the same time, the authorities have initiated a gradual consolidation from FY2025/26, aimed at stabilizing net debt over the medium term, with the adjustment relying primarily on revenue measures. The June 2025 spending review has further strengthened the credibility of this path by setting clear departmental expenditure limits for day-to-day spending over the next three years and capital spending over four years, with the next review scheduled for 2027. The risk of sovereign stress continues to be assessed as low (see Annex V).

Revision of Medium-Term Fiscal Plans
(Billions GBP; avg 2025/26–2029/30)

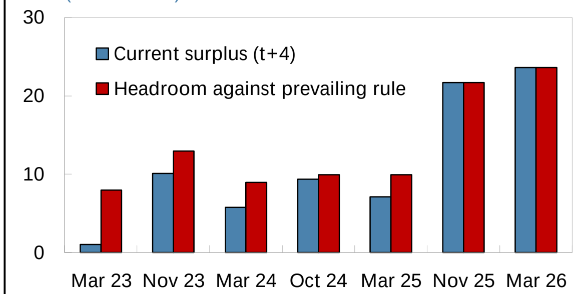


Source: IMF staff calculations.
Note: Compares OBR March 2024 to OBR March 2026 Medium-Term Forecasts

[8] Additional announced measures so far include a cut in VAT for family activities over the summer, payments to critical chemicals and ceramics firms, support for drivers, and a suspension of import duties on certain foods.

23. **Recent changes to the fiscal framework strengthen the stability and credibility of fiscal policy.** In line with the last Art. IV recommendations, the Chancellor has taken important steps to reduce intra-year changes to fiscal policy. First, the 2026 spring statement did not include any new policy measures, making the Fall budget the sole fiscal event. Second, the Office for Budget Responsibility (OBR) now assesses compliance with rules only at the time of the Fall budget, reducing market and media speculation about possible correction measures. Third, the projected buffer against the current balance in 2029/30 (known as "headroom" in the UK) has been more than doubled, from £10 billion as of March 2025 to £23 billion according to the latest OBR projections in March 2026 (Chart). Staff estimates that this projected doubling of headroom would increase the likelihood that the rules be met from around 50 percent to just under 75 percent.[9] Taken together, these reforms are expected to improve policy predictability going forward, support market confidence, and reinforce the credibility of the consolidation strategy.

Increase in Fiscal Buffer
(GBP Billions)



Source: OBR estimates and staff calculations.
Notes: Until March 2024, the rule was a ceiling of 3% of GDP on the overall fisc deficit. The current rule states that the projected current balance should be in balance or surplus in 2029/30 (t+4).

24. **Against the backdrop of heightened global volatility, implementation risks around medium-term fiscal plans remain elevated.** While the strategy is well designed, delivering the multi-year fiscal adjustment will be challenging. Risks exist on both the expenditure and revenue sides. The projected path for spending embedded in the fiscal plan relies on ambitious efficiency savings targets and the assumption that rising local government spending pressures can be contained within existing envelopes. On the revenue side, the increase in receipts projected by the authorities depends, in part, on a more tax-rich composition of nominal income growth, supported by a recovery in private consumption and asset prices that may not fully materialize, as well as on sizeable but uncertain yields from tax administration, compliance, and debt collection measures. These risks are likely to become more acute later in the projection horizon, particularly as spending plans are revisited in the 2027 Spending Review and as the 2029 election nears.

25. **Managing these risks will require determination and planning.** In a more shock-prone world, successful implementation of the medium-term consolidation plan will depend on both the willingness to stick to the plan and the capacity to manage new shocks. Staff recommends a two-step strategy:

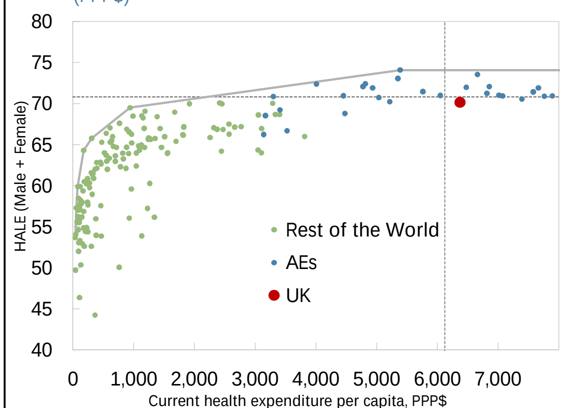
- **Staying the course.** With elevated debt and gilt market pressures, the priority is to deliver the planned deficit reduction. This calls for a cautious approach to new fiscal pressures: the authorities should be very selective in accommodating new demands and reprioritize, while

[9] Results are based on estimating a 4-variable macro-fiscal VAR (interest rate, GDP growth, primary balance, and public debt ratio). Fan charts for debt and current balance paths are constructed with Monte Carlo simulations, assuming nominal capital spending evolves as set out in the 2025 Spending Review.

sticking to the deficit reduction plan. Future spending reviews should focus on reallocating resources across departments, rather than increasing total spending.

- Developing contingency plans. To address risks that the planned consolidation be pushed off course—either due to macroeconomic shocks or implementation shortfalls, contingency measures that deliver corrective action on both the revenue and spending side should be formulated in advance. On the revenue side, emphasis should be placed on measures that durably raise revenue, while limiting the harm to growth and preserving progressivity of the tax system. Candidate measures include: broadening the VAT tax base by removing selected reduced rates and exemptions, reforming property taxation by replacing Council Tax with a recurrent property tax based on updated valuations, and increasing Capital Gains Tax to bring it more in line with Personal Income Tax. On the spending side, the focus should be on continuing to control the rising welfare bill, as well as delivering further efficiency measures that protect the most vulnerable and do not materially weaken service delivery, including strengthened procurement and contracting and further reforms that raise productivity in key public services—especially healthcare (Chart).[10]

Health Efficiency Frontier
(PPP$)



Source: WHO GHO.
Notes: Chart shows health-adjusted life expectancy (HALE) against PPP adjusted health spending per capita. Includes both public, private, and external expenditures.

Managing Long-Term Spending Pressures

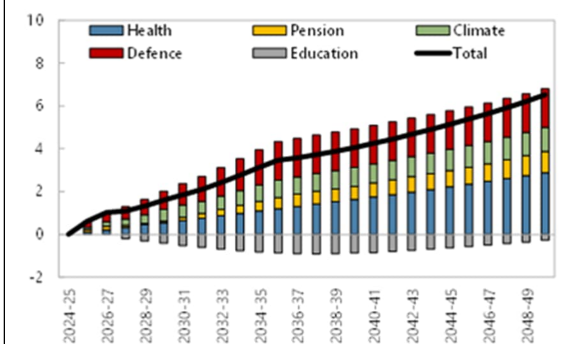
26. Over the coming decades, the UK will face sharp fiscal trade-offs, as a result of rising spending demands in a context of constrained revenue-raising capacity. The UK faces large and persistent pressures from population ageing, higher defense commitments, and the climate transition, which could raise public spending by around 7 percent of GDP by 2050 (Chart). With the tax-to-GDP ratio already set to reach historic levels by UK standards, meeting these pressures through tax measures alone would risk amplifying distortions and undermining growth prospects. Unless fundamental reforms were to be envisaged, tax space appears to be constrained across several major tax bases: the standard VAT rate of 20 percent is above the OECD average, revenue raised from property taxes (close to 4 percent of GDP) is already high by international standards, and taxes on capital income and gains may be particularly sensitive to avoidance and portfolio-shifting responses across jurisdictions. The ability to raise significant additional revenue from labor taxes is also increasingly limited. As discussed in the accompanying SIP, raising labor taxes further across the income distribution could still yield some additional revenue, but the UK is approaching a

[10] For a discussion of specific measures to enhance productivity in the NHS, see recent reports by the Health Foundation (2024) "How improvement can help NHS productivity" and the Nuffield Trust (2025) "Productivity in the NHS: what's getting in the way?", as well as the authorities "10 Year Health Plan for England: fit for the future".

point where labor supply responses could become sizable, and the associated efficiency costs would weigh on economic activity.

27. **Managing these long-term pressures will require a stronger focus on containing the growth of public spending.** The scale of rising spending pressures over the next two decades and limited tax space imply that a growing share of the adjustment will likely need to come from expenditure restraint. This does not imply a wholesale retrenchment of the welfare state. Rather, it points to more explicit choices about the scope, design, and targeting of public services, with an emphasis on protecting the most vulnerable and preserving growth-enhancing spending. Deeper expenditure reforms should be considered, for example replacing the "triple lock" with a policy of indexing the state pension to the cost of living, as recommended in previous Art. IV reports, and improving the targeting of social benefits (including health-related) by building on the conclusions of the forthcoming Timms review. Expanding charges in the health system beyond existing user fees while protecting the vulnerable, as well as focusing more on preventative care, could help contain rising healthcare costs. A transparent public debate would help clarify priorities and trade-offs, and support durable reforms.

Longer-Term Spending Pressures
(Percent of GDP)



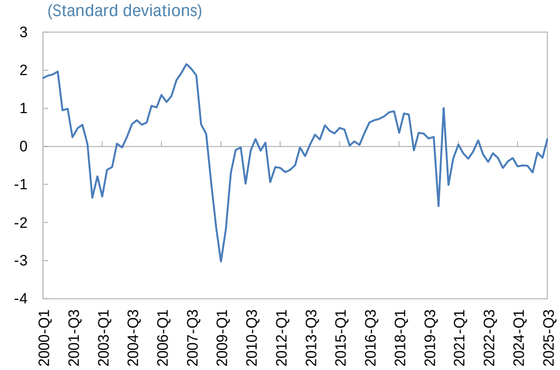
Source: Office for Budget Responsibility (OBR).

28. *Authorities' Views.* The authorities agreed that their fiscal strategy strikes the right balance between stabilizing debt, improving public services, and supporting growth. Consistent with staff's assessment, they noted that the move to a single major fiscal event, with a single OBR assessment of rule compliance, alongside larger fiscal buffers, has enhanced the stability of fiscal policy. In response to the recent energy shock, they agreed that support should remain timely, targeted and temporary, while emphasizing the importance of allowing automatic stabilizers to operate. They acknowledged that the medium-term consolidation path relies on spending growth moderation, including efficiency savings targets and containing local government spending pressures. On revenues, they view risks as more balanced, noting that much of the projected increase reflects policy decisions already taken, including higher employer NICs and the freeze in income tax thresholds. While seeing value in contingency planning, the government emphasized that larger fiscal buffers alongside the significant additional revenue raised through the last two Budgets should reduce the need for further material tax increases. Over the longer term, improving productivity in the health sector, finding ways to meet defense needs, and delivering the structural reforms needed to raise potential growth, will all be crucial to managing spending pressures. Finally, the authorities recognized the increasing tax-to-GDP ratio has implications for tax policy, but that there are continued opportunities to improve efficiency and reduce growth-damaging distortions.

C. Financial Sector Policies

29. The UK financial system appears resilient from a sectoral, bottom-up perspective. Staff analysis suggests that the UK is close to the middle of the financial cycle, with domestic financial vulnerabilities around their long-term averages. Household and corporate balance sheets have strengthened in recent years, with low aggregate indebtedness and arrears remaining contained (see Figure 5, panel 2). In the housing market, price growth has remained modest, and a sharp correction appears unlikely given limited supply and stable demand. The banking sector appears well capitalized (Figure 5, panel 3), non-performing loans remain at low levels, and the 2025 Bank Capital Stress Test results suggest that banks could continue to support the economy even under severe stress.

Financial Cycle Indicator
(Standard deviations)



Sources: IMF Global Data Source 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.

30. However, global risks are elevated, and financial stability risks have increased slightly since the 2025 Article IV consultation. As noted by the Financial Policy Committee (FPC), the global risk environment has deteriorated, with elevated global uncertainty, stretched asset valuations (notably US equities), rising AI-related debt financing, and pressures in sovereign debt markets. This is further compounded by the conflict in the Middle East. While banks, corporates and households appear resilient, system-wide vulnerabilities remain, particularly in market-based finance and core funding markets. Given its central role, the gilt market could act as an amplification channel for shocks, particularly in light of structural fragilities (see Selected Issues Paper on gilts) and elevated hedge fund activity.[11] Taking into account both sectoral resilience and the evolving risk environment, staff supports the FPC decision to maintain the countercyclical capital buffer (CCyB) at its two percent neutral level.

31. The authorities have been at the forefront of international efforts to address risks in the non-bank financial sector. Non-bank financial intermediaries (NBFIs) play an increasingly important role in global financial markets, and can create vulnerabilities through liquidity mismatches, elevated leverage, and complex interlinkages with the banking system, which can amplify shocks and transmit stress across markets and jurisdictions. To address these risks, the authorities have taken a leading role across three complementary dimensions:

- Risk assessment and monitoring. The 2024 System Wide Exploratory Scenario (SWES) exercise represented a pioneering step in operationalizing system-wide stress analysis across banks and non-bank financial institutions. The second SWES exercise, to be concluded in 2027, aims to

[11] The Bank of England's July 2025 Financial Stability Report flags that leveraged market participants such as hedge funds have an increasingly important role in core UK markets such as the gilt market.

investigate risks stemming from the private market ecosystem. This exercise should help reduce opacity in the NBFI system by mapping key exposures and interconnections—particularly between banks and non-banks and across borders.

- Risk management. The contingent non-bank repo facility (CNRF), launched in 2025, aims to address episodes of severe gilt market dysfunction. It can help mitigate the vulnerabilities, identified under the first SWES exercise, related to non-bank access to liquidity under stress conditions. The authorities should encourage registration and operational preparedness among eligible counterparties. They could also consider expanding eligibility to additional systemically-relevant, prudentially-supervised counterparties with a material contribution to gilt market functioning, and subject to robust collateral and risk management standards.

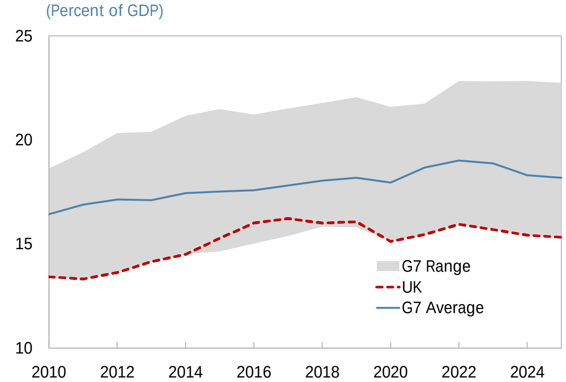
- Risk prevention and mitigation. The authorities are advancing their regulatory work on stablecoins—an emerging form of non-bank intermediation—as well as on tokenized assets and AI, with the BoE stepping up engagement through consultations on systemic stablecoins and experimentation with tokenized settlement infrastructure. The consultative process on stablecoins demonstrates a measured approach, including consideration of tools such as liquidity arrangements for systemic issuers, and shows the authorities' careful assessment of risks. The UK is also contributing to shaping international standards for NBFI oversight, including through the Financial Stability Board.

32. Within the NBFI landscape, the large insurance corporation and pension fund (ICPF) sector remains a potential source of risk. This sector represents about one third of the UK NBFI sector. Vulnerabilities stem from a range of structural and policy-related factors, including fragmentation in parts of the pension sector, policy initiatives aimed at influencing pension fund investment, and the growing use of risk transfer to insurers. First, fragmentation can contribute to risk management gaps[12] and inefficient capital allocation. While the authorities' strategy to accelerate consolidation can help address these shortcomings, it should be mindful of potential new risks, including increased concentration, and be accompanied by strong governance and risk management through robust regulation and supervision in the pension sector. Second, recent initiatives, including the 2025 Mansion House Accord, aim to encourage greater pension funds' investment in domestic assets. Mandating asset allocations should be avoided to ensure that pension funds remain able to effectively fulfill their fiduciary responsibilities independently and achieve the best outcomes for beneficiaries. Third, defined benefit pension schemes continue to de-risk by transferring liabilities to insurers through bulk purchase annuities (BPAs), creating a distinct set of vulnerabilities. The authorities should continue to strengthen the oversight of BPA markets, including the reliance on reinsurance and cross-border risk transfer, and monitor concentration and liquidity risks.

[12] For example, during the September 2022 gilt market turmoil, pooled LDI funds –often with many smaller pension funds as investors—contributed disproportionately to deleveraging, see 2023 SIP on the LDI crisis.

33. Staff supports the authorities' ambition to make the UK's financial sector a stronger engine of investment and productivity—helping to channel savings into productive uses, deepen capital markets, and improve access to finance for firms. This objective is reflected in the government's Financial Services Growth and Competitiveness Strategy and associated "Leeds Reforms" package, which aims to "rewire" parts of the regulatory and market framework to strengthen competitiveness and mobilize long term capital. The authorities' objective is well placed: private investment remains low relative to peers- and financing conditions are uneven in the economy, with persistent constraints for SMEs and high-growth- firms—particularly in accessing scale-up and risk capital. Alongside regulatory modernization (discussed below), non-regulatory initiatives—including the expanded role of the British Business Bank through co-investment- vehicles, the Growth Guarantee Scheme, and the Business Growth Service—can help crowd in capital and broaden firms' financing options. Continued progress in easing funding frictions—while preserving strong prudential and conduct standards—would help strengthen the financial sector's contribution to long-term growth.

Private Investment
(Percent of GDP)



Source: IMF WEO and IMF Staff Calculations.

34. Achieving these objectives will require a careful balance, especially in the review of financial regulations, taking into account elevated global risks. There is scope to further modernize some regulations to reduce unnecessary complexity, improve market functioning, enhance risk-based supervision, and support growth, while remaining consistent with the full implementation of international prudential standards. Recent reforms, such as changes to listing and prospectus regimes, may help ease financing constraints and reduce unnecessary regulatory burdens. At the same time, the breadth and pace of reforms under the "regulation for growth" agenda (Table) imply that adjustments are occurring across multiple parts of the financial system simultaneously—underscoring the importance of assessing cumulative effects, including the possibility that resilience might be reduced incrementally rather than through any single policy change. In this context, staff takes note of the adjustment to the systemwide capital benchmark, which the FPC sees as consistent with a fall in average risk weights, a reduction in the systemic importance of some banks and the anticipated effects of Basel 3.1 standards. The drivers of the decline in risk weights warrant further assessment, and staff welcomes forthcoming results from the BoE's analysis. Since the Basel 3.1 standards are not yet fully implemented and their effects remain unobserved in practice, careful assessment of the benchmark adjustment will also be important to ensure that financial stability is preserved. Given elevated global financial risks, the ongoing review of the capital framework, including the leverage ratio, should pay close attention to the overall resilience of the

banking system. In addition, efforts to support growth should focus on addressing the specific financing constraints identified by the FPC.[13]

Text Table 2. United Kingdom: Financial Regulations Modernization: Selection of Recent Streamlining/Easing Initiatives

Sector	Affects	Change or proposal	Status
Banking	System-wide bank capital expectations	FPC's System-wide Tier 1 capital benchmark reduced by 1 pp to 13% of RWAs	Announced
Banking	Banking Supervision	Moving Periodic Summary Meetings (PSMs) from yearly to a two-year cycle	Announced
Banking	Banking bonuses	Increase flexibility around senior banker pay; bonus deferral period cut from 8 to 4 years	Announced
Banking	Senior Manager Regime	Streamline the Senior Managers & Certification Regime	Phase 1 completed, phase 2 announced
Banking	Ring fencing	Higher core deposit threshold	In place
Banking	Ring fencing	Secondary threshold	In place
Banking	Ring fencing	Four-year transition period	In place
Banking	Ring fencing	Expanded permitted activities for RFBs	In place
Banking	Resolution	Resolution strategy (transfer or bail in) and MREL threshold range was increased from £15bn–£25bn to £25bn–£40bn	In place
Financial markets	Benchmark Regulation	Replacing UK BMR with the Specified Authorized Benchmarks Regime (SABR)	Consultation phase
Financial markets	Listing Rules	Streamlining rules and removing "premium" and "standard" listing segments	In place
Mortgages	High loan-to-income flow limit	Amendment of LTI flow limit for 15% allowance to be applied in aggregate, instead of at individual lender level	Temporary waiver in place; consultation phase
Mortgages	High loan-to-income flow limit	Increasing of the de minimis threshold from £100 million to £150 million	In place
Banking	Implementation of the Leverage Ratio	Capital framework review by the FPC	Under review
Banking	Leverage Ratio Requirement	Increase retail deposits threshold for application of requirement from £50 billion to £75 billion	In place
Banking	Small domestic deposit-takers	Strong and Simple regime	Partially in place; further steps in January 2027

Source: IMF staff calculations.
Regulatory developments have not gone uniformly in the direction of easing or streamlining existing settings. Recent proposals include PRA reforms that would tighten the capital treatment of funded reinsurance exposures and planned reforms to the UK MMF regime, including higher liquidity expectations for money market funds.

35. **The authorities should continue to strengthen the AML/CFT regulatory and supervisory regime to mitigate the UK's exposure to high ML/TF risks, including from fraud, sanctions evasion, and crypto currencies.** Staff welcomes the appointment of the FCA as the sole supervisor of the legal and accountancy professions and trust and company service providers (TCSPs), which act as 'gatekeepers' to the UK's financial system. This transition represents a significant shift from fragmented towards more consistent and coordinated, risk-based supervision of these high-risk sectors. Recent proposed changes to the Money Laundering Regulations (MLRs)[14] should be fully implemented to further strengthen effective supervision of financial institutions,

[13] See Chapter 1 of the Financial Stability Report - December 2025. The FPC flags mobilizing long-term investment, improving access to finance for high-growth firms, and facilitating technological innovation as focus areas.

[14] The changes to the MLRs were introduced as the Money Laundering and Terrorist Financing (Amendment) Regulations 2026, which are currently undergoing parliamentary scrutiny.

designated non-financial businesses and professions, and virtual asset service providers (VASPs). These include bringing the sale of 'off-the-shelf' companies by TCSPs under the scope of the MLRs and requiring VASPs to conduct counter-party due diligence in correspondent relationships with other VASPs. Recent measures establishing identity verification of company directors and beneficial owners and extending trust registration requirements to non-UK trusts are timely to further enhance entity transparency in the UK. The authorities should continue with the implementation of the Economic Crime Plan 2023–26, including increasing money laundering prosecutions and asset recovery efforts, as evidenced by a 24 percent rise in illicit proceeds recovered over the past five years.

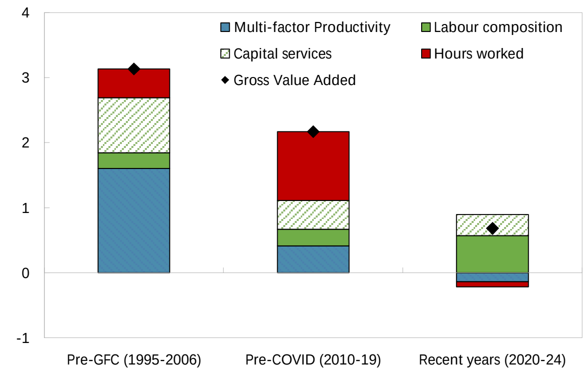
36. The UK authorities have made substantial progress in implementing the 2022 FSAP recommendations, with significant reforms across market resilience, supervision, operational resilience, and resolution frameworks. Key achievements include the launch of the Contingent Non-Bank Financial Institution Repo Facility (CNRF), the expansion of system-wide stress testing, enhanced oversight of critical third parties, strengthened supervisory practices, and the completion of the LIBOR transition. Authorities have also advanced resolution planning for banks, insurers, and CCPs, improved beneficial ownership transparency, expanded data collection on non-bank financial intermediation, and reinforced international regulatory cooperation, while continuing to ascribe to the primacy of financial stability objectives.

37. *Authorities' Views.* On broad financial stability risks, the authorities stated that the financial system remains resilient, although risks have increased. They emphasized the robustness of the banking sector—including its resilience in stress tests—and the strength of corporate and household balance sheets, while highlighting global vulnerabilities from stretched asset valuations, private credit and risky credit, and hedge fund activity in core funding markets. The authorities underscored their progress on implementation of previous FSAP recommendations (see Annex VI). Regarding the regulation-for-growth-agenda, the authorities highlighted the scope to streamline existing regulations that hinder growth, and concurred that financial stability remains a prerequisite for sustainable growth. Accordingly, regulatory initiatives are being assessed within the FPC's overarching financial stability framework, including for potential cumulative system-wide effects. They argued that stress testing remains an integral part of the framework, incentivizing prudent risk management. The authorities noted that the recalibration of the system-wide bank capital benchmark is consistent with the evolution of the financial system since the FPC's first assessment in 2015. They mentioned that further analysis of trends in banks' risk weights is under way, and argued that the planned reduction in Pillar 2A capital reflects the anticipated effects of Basel 3.1 implementation. The broader capital framework review is continuing, with the authorities noting that the stringency of UK capital requirements is comparable with peer jurisdictions. While recognizing that many growth constraints sit outside the banking sector, including barriers to equity financing for high-growth firms, they emphasised that banks remain a key part of the financing ecosystem, reflecting both direct corporate lending and indirect support to NBFIs.

D. Structural Reforms

38. UK growth has decelerated markedly over the past decade and a half, with trend productivity weakening relative to peers. Production-function decompositions suggest that the slowdown has been driven primarily by weaker total factor productivity (TFP) growth, with subdued capital deepening also contributing (Chart). The TFP slowdown appears concentrated in intangible-intensive sectors, pointing to slower innovation, diffusion, and scaling of new technologies (Goodridge and Haskel 2022). This has weighed on labor productivity, widening the gap with the United States and, more recently, with European peers. Against this backdrop, reviving TFP is central to sustaining improvements in living standards and preserving fiscal space over the medium term. The challenge is becoming more urgent given population aging and the fall in migration, which in the past decade supported activity by boosting labor supply and helping alleviate skills gaps.

Decomposition of Average Annual Output Growth
(Percent of GDP)

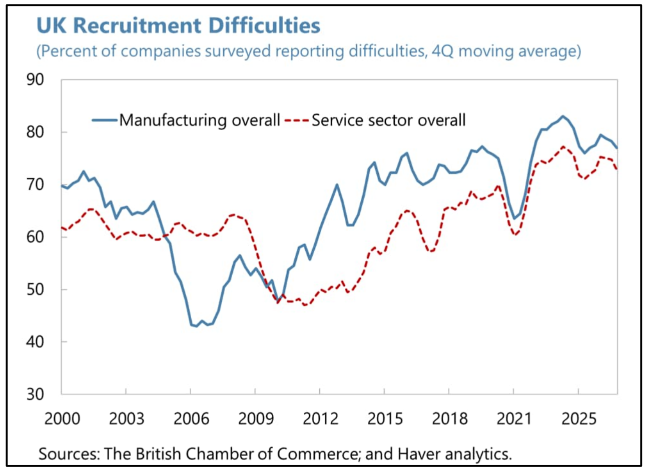


Sources: ONS, and IMF staff calculations.

39. For the authorities' strategy to deliver long-term gains, reforms will need to translate into a decisive shift toward productivity-led growth and innovation. The government's agenda is structured around three pillars—stability, investment, and reforms—which together provide a coherent framework to support potential growth and appropriately focuses on easing input constraints—raising public investment, expanding labor supply, and improving infrastructure (see last year's Article IV report for an overview of plans and Annex VII for implementation progress). While necessary, these measures alone may not be sufficient to deliver the step change in growth needed to offset demographic pressures and rising demands on public services. Sustained improvements in living standards require a stronger emphasis on TFP, which in turn depends on progress in a few key areas:

- Improving labor mobility. The UK's productivity problem reflects pronounced spatial disparities, with workers unable to easily move to high-productivity locations and exploit agglomeration benefits because housing costs in productive urban areas, particularly London, are prohibitively high, a direct consequence of planning restrictions (see Carella, Deb and Haider, 2024). The Planning and Infrastructure Act passed in December 2025, the focus on strategic spatial planning, changes to the NPPF with the release of "grey-belt" land and mandatory housing targets are all steps in the right direction. But these reforms also illustrate a challenge: despite impressive regulatory and legislative steps, construction activity remains weak even in forward-looking indicators such as housing starts and planning decisions—underscoring the need to track implementation closely and assess whether weak outcomes reflect policy lags, design gaps, or other frictions.

- Addressing skills gaps. The UK workforce suffers from larger and more chronic skills gaps than most peer countries (see Deb and Li, 2024), which act as a binding constraint on TFP through multiple channels: skills gaps limit businesses' ability to adopt and diffuse new technologies, reduce the scope for within-firm productivity improvements, and prevent high-productivity firms from scaling. It also implies skill mismatches and suboptimal use of labor resources. While the authorities' skills agenda has the right institutional architecture with Skills England, the Growth and Skills Levy, and the Temporary Shortage List—it is operating against a backdrop of a deteriorating tertiary education funding model, decades of underinvestment, and migration restrictions that are further tightening availability of skilled labor. This calls for a significant enhancement of the pace and ambition of domestic upskilling, with a focus on younger people.



- Deepening financing for innovation. A central weakness in the UK innovation ecosystem is that many high-growth, innovation-intensive firms struggle to secure sufficient long-term risk capital to scale domestically. On the credit-supply side, there are three mutually reinforcing frictions: (i) a scale-up financing gap for firms that have outgrown early-stage venture but still need substantial equity to expand; (ii) institutional investors' portfolios that are relatively less oriented toward domestic risky productive investments compared to similar advanced economies, including because of a fragmented investor landscape; and (iii) constrained financing for intangible assets, which are hard to collateralize and ill-served by the UK's bank- and listed-equity-heavy financing model. The authorities' reform agenda targets the UK's structural constraints in mobilizing "patient" capital: pension fund consolidation aims to overcome fragmentation; market and listing changes seek to lower frictions in public markets and strengthen the domestic scale-up pipeline; and the expanding role of public finance institutions (e.g., British Business Bank vehicles) can help crowd in private capital where coordination problems and information frictions are binding. However, these reforms operate with lags and their effects are still uncertain, underscoring the case for complementing the current approach with additional steps. For instance, there may be scope for consolidating public finance institutions—without material disruption to their investment activity—to reduce fragmentation and eventually increase the scale of their financing operations.

40. Realizing AI's productivity potential will depend first on steady progress on the wider reform agenda. AI presents a transformative opportunity to boost TFP growth by improving process efficiency, accelerating innovation, and enabling new products and business models. The UK is well positioned to benefit, given its strong research base and the large exposure of its workforce and key sectors to AI-driven productivity gains (Chart). But realizing these gains at scale will depend first and foremost on the successful implementation of the authorities' broader growth agenda: horizontal reforms that ease economy-wide bottlenecks—skills, policy stability, infrastructure and energy capacity—are prerequisites for AI adoption to translate into durable TFP gains. At the same time, complementary, more targeted interventions can be justified where there is evidence of market failures—particularly those that slow AI development and diffusion as well as job transitions. Priorities include addressing near-term shortages in AI-relevant talent (including through targeted visa eligibility and fast-track pathways for specialized occupations), and providing clear, predictable regulatory frameworks that keep pace with technological change and offer legal clarity for firms—especially in data-intensive sectors such as health and finance—while safeguarding trust (see SIP).

AI Preparedness and Exposure Indices

(Index; Percent of Total Employment)

Note: The plot comprises 32 adv. economies (in red), 56 emerging markets (in green), 37 low-income countries (in blue). The reference lines are derived from median values.
Source: Fraser Institute; ILO; UN; WB; International Telecommunication Union; Universal Postal Union; WEF; and IMF staff calculations.

41. The authorities should sustain the implementation of their reform agenda. The economic payoff from many structural reforms will materialize only gradually, and credibility will ultimately hinge on sustained delivery: moving from announcements to implementation, staying the course through inevitable lags and trade-offs, and relying on systematic monitoring and evaluation to course-correct where needed. More regular communication on reform progress would help anchor expectations and sustain support during the implementation phase. In this regard, staff recommends publishing annual reports on the advancement of the agenda. These reports should separate inputs and process from outputs and outcomes: early metrics (e.g., skills program allocations and disbursements, take-up, and completion rates) can demonstrate momentum and identify bottlenecks, but durable policy traction ultimately requires evidence of results (e.g., measurable reductions in skills shortages and improved job matching) to assess effectiveness and recalibrate policies as needed.

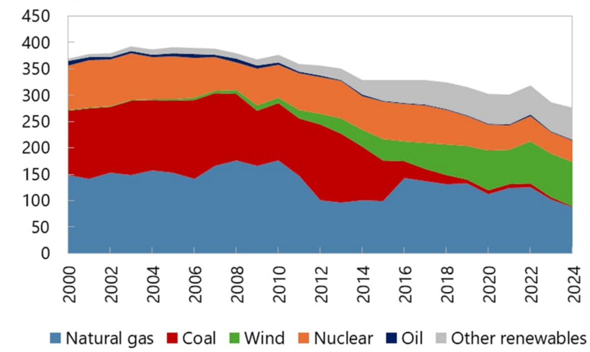
42. Finally, to lift productivity durably, the reform agenda also needs to make the economy more resilient to shocks—so that firms can invest, innovate, and scale in a more predictable environment. The global environment has become structurally more uncertain, with more frequent and persistent shocks arising from geopolitics, trade fragmentation, energy markets, and climate risks. As discussed in the previous sections of the report, the authorities have taken important steps to strengthen macroeconomic and financial stability, which underpins resilience.

Further progress could come from reducing key structural vulnerabilities, including through continued trade diversification and greater energy security:

- Trade diversification. Over the past year, the government has moved to reduce trade-policy uncertainty, developed diversification strategies (e.g., 2024 critical imports and supply chains strategy, and 2025 critical minerals strategy), and strengthened ties with major partners—notably through the UK–EU "reset" agreed at the May 2025 summit and the UK–US Economic Prosperity Deal. However, progress in translating the EU reset into operational reductions in border frictions has been more gradual than anticipated, and persistent geoeconomic fragmentation risks strengthen the case for a faster, more decisive approach to enhance supply-chain resilience. Priorities could include: (i) accelerating ongoing efforts to *reduce trade frictions with the EU*, the UK's top trading partner. Near-term steps include concluding and implementing the SPS/veterinary arrangement, linking energy and emission trading systems, and achieving other customs simplifications to lower fixed costs for firms, especially SMEs; and (ii) Advancing *broader diversification* by deepening existing and seeking new trade agreements in line with the rules-based trading system to deepen services and digital trade opportunities, reduce regulatory frictions, and enhance the robustness of trade links beyond the EU and US. This includes promoting cooperation with international partners to promote resilience in critical minerals supply chains, implementing the WTO e-commerce agreement, and expanding the UK's digital trade templates (e.g., with Singapore or with the CPTPP-EU dialogue). Pursuit of industrial policies should be targeted, temporary, justified by cost-benefit analyses, and avoid creating economic distortions.

- Energy security. Important measures have been implemented in recent years to strengthen energy resilience. These include publishing the Clean Power 2030 Action Plan (Dec 2024), putting Great British Energy on a statutory footing (Great British Energy Act 2025) to help accelerate domestic clean generation and crowd in investment, and supporting electrification via the Zero Emissions Vehicle mandate and the Boiler Upgrade Scheme. The UK economy is better placed than in 2022 to face energy shocks. The share of renewables in electricity production has increased to over 50 percent (Chart), which has contributed to reduce in recent years the share of time natural gas sets the wholesale electricity price. Recent measures to weaken the link between gas and electricity prices are also expected to help reduce price volatility going forward. However, gas still plays a disproportionate role in the overall energy mix, largely due to its use for residential heating. To further reduce vulnerability to external shocks and reliance on natural gas, priorities include: (i) incentivizing investments in electricity storage, including through long-

Electricity Generation by Source
(Thousands, GWh)



Notes: Excl. "other sources".
Source: IEA

duration schemes and improving connectivity; (ii) accelerating permitting of new renewables; and (iii) speeding up grid connections and transmission build-out. While the transition is likely to raise energy and network costs in the short term, it should help reduce volatility over the medium and long term by lowering exposure to imported fossil fuels. Targeted cash transfers can help protect vulnerable households during the transition. The introduction of feebates could also reinforce incentives to shift towards clean energy in the residential and transport sectors. Finally, energy pricing that reflects both supply costs and externalities is important to support energy conservation, while clear and stable investment frameworks (for networks, storage, and low-carbon dispatchable capacity) would help lower risk premia and support more predictable energy costs for households and firms.

43. *Authorities' Views.* The authorities highlighted substantial progress in delivering on the three principles of their growth mission—stability, investment and reform—and broadly concurred with staff's structural reform priorities, while stressing that measures need time to take effect. On the first principle, they have strengthened tax revenues and increased fiscal certainty by committing to a single fiscal event per year, as well as making material progress on fiscal consolidation and supporting disinflation. On the second, they have significantly increased public investment allocations, developed a 10-year infrastructure pipeline to catalyze private investment, and scaled up resources at public finance institutions. On the third, they have advanced a wide-ranging reform agenda spanning planning and housing, energy security, the labor market, and regulatory simplification. Counterparts stressed that recently legislated planning reforms will take time to fully implement and bear fruit, which, together with weak demand, explains why its effects on construction are not yet evident in the data. They concurred on the need to address skills gaps. On the potential to consolidate public finance institutions, they noted that resources have already been increased, and any potential consolidation would need to avoid disrupting existing financing operations. The Chancellor's recent Mais lecture provided a holistic view of goals and highlighted three key priority areas: harnessing innovation—including AI—by unlocking private capital, boosting regional growth through infrastructure and fiscal devolution, and forging a deeper relationship with the EU. On AI, the authorities shared staff's view that AI-driven productivity gains for the UK are large and noted that their strategy is aimed at realizing this potential, including by building sovereign capability, managing the transition and encouraging adoption. Finally, on energy security, the authorities conveyed that the role of gas in the energy mix and the share of time gas sets the wholesale electricity market price has decreased in recent years. They have no plans to introduce feebates across the wider decarbonization and electrification portfolio, as they are concerned about distributional aspects, specifically on heating. They reaffirmed their intention to limit licenses for North Sea drilling. Finally, the authorities reiterated their commitment to mitigating transnational aspects of corruption (Annex IX).

STAFF APPRAISAL

44. **The UK economy has remained resilient in recent years, but the Middle East war has dampened near-term prospects.** Growth is projected to slow to 1.0 percent this year, then gradually recover as the shock dissipates. Higher energy prices are expected to push inflation up temporarily, delaying the return to target by a year to the second half of 2027. The external position is assessed to be weaker than implied by medium-term fundamentals and desirable policies, and projected to deteriorate modestly because of the energy shock before strengthening in the medium term. Risks to the outlook are tilted to the downside, notably from a prolonged increase in energy prices and sustained global market volatility. Maintaining policy stability will be critical to anchor confidence and support growth given elevated market pressures.

45. **Monetary policy should remain sufficiently restrictive, supported by continued improvements in the communications framework.** Under the baseline energy price outlook, holding rates for the remainder of the year should be sufficient to bring inflation back to target by end-2027. But given heightened uncertainty, decisions should remain data dependent and taken meeting by meeting. The shift toward a repo-led, demand-driven liquidity framework is progressing well, but the transition is still ongoing and experience with the new framework remains limited. In parallel, the BoE has strengthened its forecasting and communication capacity in response to the Bernanke review. Recent changes—particularly the individual MPC member statements, enhancements to the Monetary Policy Report, and the illustrative paths for the Bank Rate under alternative monetary policy rules—are welcome steps. Looking ahead, the BoE could further enhance this approach by presenting, alongside the central forecast, a more streamlined and informative set of policy paths under alternative scenarios.

46. **The authorities' fiscal strategy remains appropriate, as it strikes the right balance between deficit reduction and growth-friendly spending.** The prudent response to the energy shock so far is welcome. In the near term, continued consolidation will help reinforce credibility and commitment to the fiscal rules, while the slower pace of adjustment compared to 2025 will limit procyclicality and thereby avoid amplifying the slowdown. Recent improvements to the fiscal framework, including the move toward a single fiscal event and enhanced buffers under fiscal rules, are also strengthening the stability and credibility of fiscal policy. Over the medium term, the strategy's emphasis on stabilizing debt while protecting investment and core services is well placed, but implementation risks remain elevated. Staying the course on deficit reduction and pre-identifying contingency measures—on both the revenue and spending sides—would help safeguard fiscal credibility should the outlook deteriorate or policy delivery fall short. Over the longer term, rising pressures from ageing, defense, and the climate transition will require difficult choices to contain spending growth, given the limited space to raise additional tax revenue without harming growth.

47. **The UK financial system appears resilient, and the authorities should continue to take a cautious approach regarding regulatory reforms.** Banking sector capitalization is strong and non-performing loans are low, supported by sound corporate and household balance sheets. At the

same time, global risks have intensified, including elevated macroeconomic uncertainty, pressures in sovereign debt markets, and vulnerabilities in market-based finance. The decision to maintain the countercyclical capital buffer at its neutral level has been appropriate. The authorities' leadership in addressing risks in the non-bank financial sector is welcome. Given the breadth and pace of regulatory reforms, a cautious approach is warranted to ensure that incremental changes fully preserve overall resilience.

48. The authorities' structural reform agenda encompasses the right areas, with success now hinging on clear prioritization and sustained delivery. Systematic monitoring and reporting of progress on these fronts would also help ensure timely course-correction given inevitable implementation lags. Key priorities include improving labor mobility through planning reform, closing persistent skills gaps through strengthened domestic upskilling efforts and facilitated immigration pathways, and mobilizing financing for innovation. Some of these reforms and other complementary actions—such as providing predictable and enabling regulations and improving AI-relevant skills—are also essential to reap the United Kingdom's large potential gains from AI. Resilience to external shocks would benefit from further trade diversification and continued progress in strengthening energy security, including accelerating investment in renewable capacity and grid infrastructure.

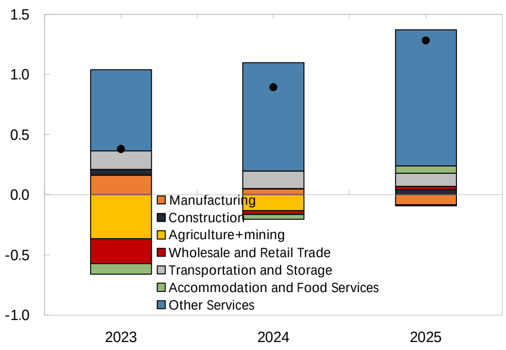
49. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. United Kingdom: Real Sector Developments

The economic recovery continued in 2025, with strong contributions from services and a lower drag from construction...

Contributions to GVA Growth

(Percentage points)

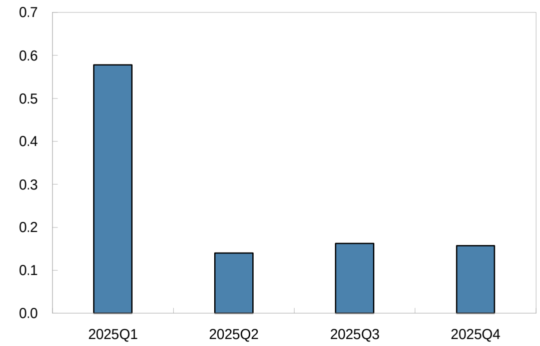


Source: Haver Analytics and IMF Staff Calculations.

... although it lost some momentum in the second half of the year.

GDP quarterly path Q-o-Q Growth

(Q-o-Q, percentage points)

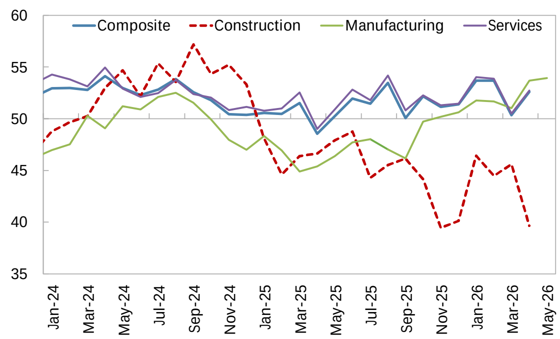


Source: ONS and IMF Staff Calculations.

High frequency indicators showed signs of a strong start to 2026, but retracted in March.

PMI by Sector

(SA, 50+=Expansion)

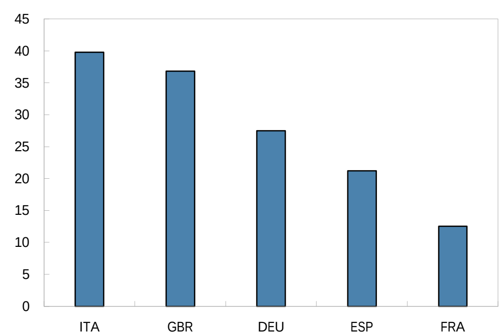


Sources: CPS/IHSM and Haver Analytics.

Growth will decelerate given the large exposure of the economy to energy price shocks...

Share of Gas in Energy Supply

(Percent)

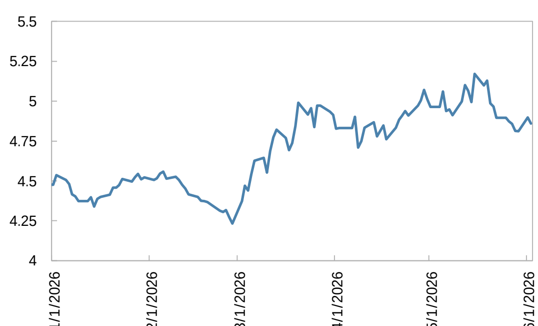


Source: IEA.

....and the tightening of financial conditions.

10-year Gilt Yield

(Percent)

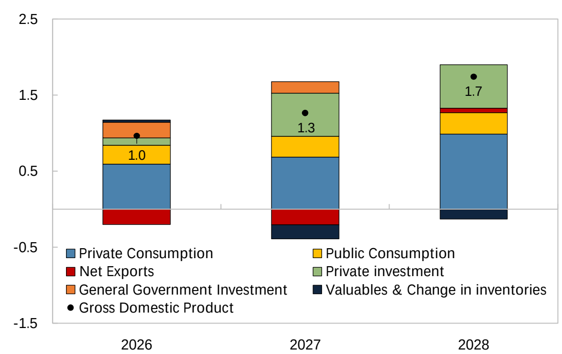


Source: Bloomberg.

Growth is expected to slow down in 2026 and rebound towards potential at the end of 2027.

Projected Contributions to GDP Growth

(Y-o-Y, percentage points)

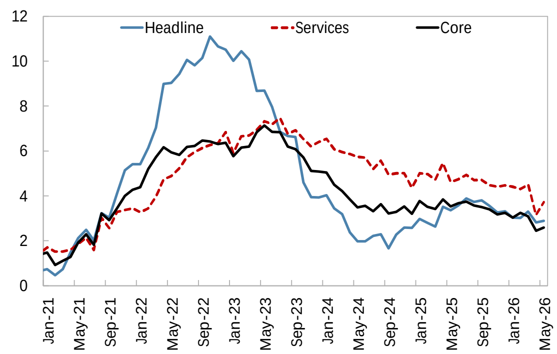


Source: ONS and IMF Staff Calculations.

Figure 2. United Kingdom: Inflation and Wage Developments

Headline inflation has declined from its peak in Oct 2022…

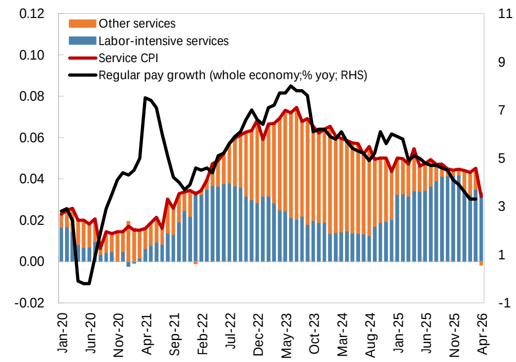
UK Inflation
(Y-o-Y growth, percentage)



Source: Haver Analytics.

… and the underlying disinflation process continues.

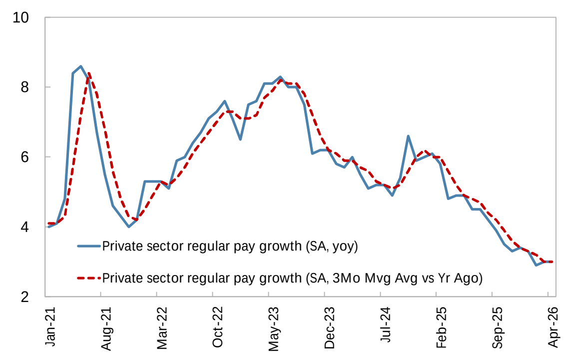
Contributions to Services Inflation
(Percentage points)



Source: Haver Analytics and IMF Staff Calculations.

Private sector wage growth has shown a material slowdown…

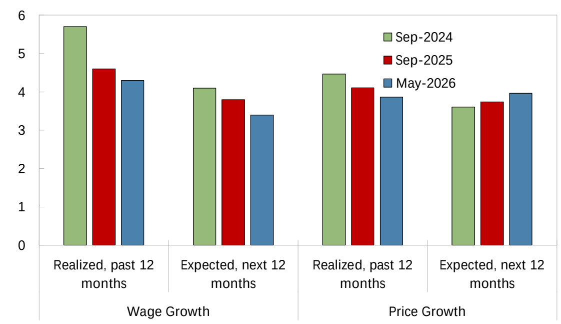
Pay Growth
(Seasonally adjusted, y-o-y, percentage)



Sources: ONS and IMF staff calculations.

…with forward-looking wage indicators also pointing to moderation.

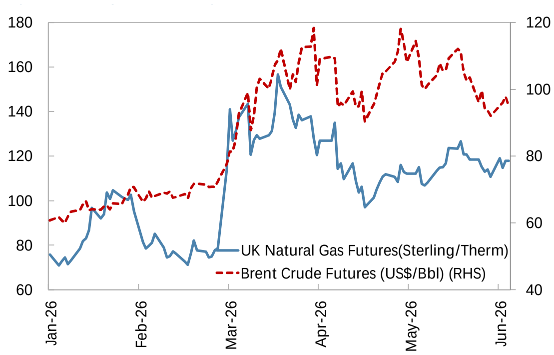
Firm's Price and Wage-Setting Expectations
(Percentage point over the past year)



Source: BoE Decision Maker Panel.

But the recent surge in energy prices will push headline inflation in the short term…

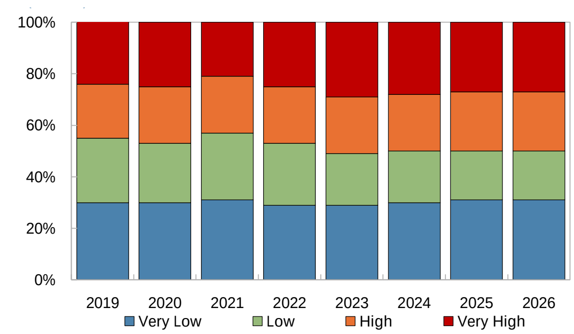
Oil and Gas Futures Prices
(USD/GBP)



Source: ICE and Haver Analytics.

… given the high energy intensity of the CPI basket.

CPI Basket by Energy Intensity
(Share of total CPI basket)



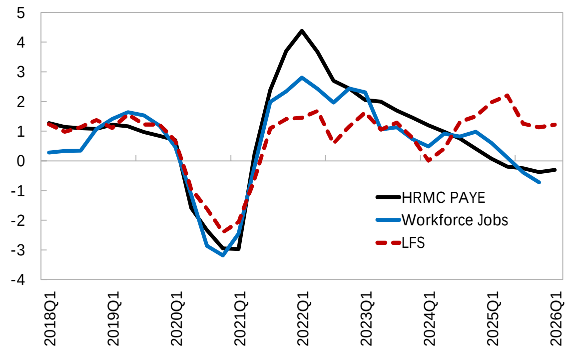
Source: Deutsche Bank and ONS.
Note: Each component of the UK CPI basket is assigned an energy intensity rating based on the estimated share of its price attributable to energy costs in its production and distribution.

Figure 3. United Kingdom: Labor Market Indicators

Employment figures continue to show mixed trends…

UK Employment Growth

(Y-o-Y growth rate)

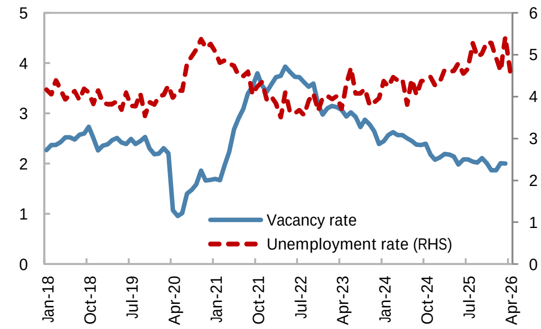


Source: Haver Analytics and IMF Staff Calculations.

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

Labor Market Tightness

(Percent)

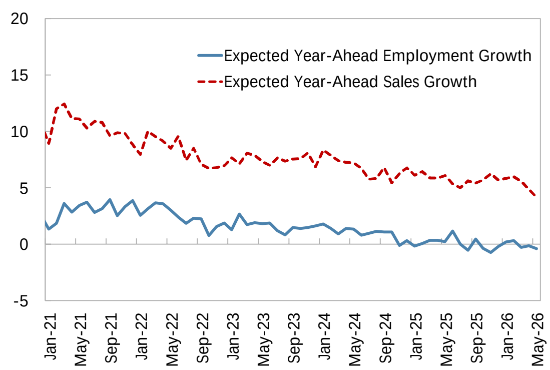


Sources: Haver Analytics and IMF Staff calculations

Firms' employment expectations point to cooling…

Firms' Sales and Employment Expectations

(Percentage growth rate)

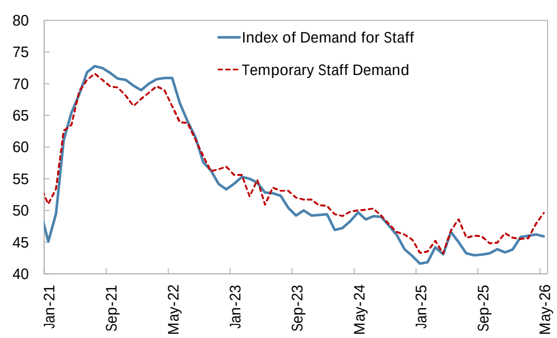


Source: Bank of England Decision Making Panel; and Haver Analytics.

…as do survey measures of labor demand.

Labor Demand

(Index, 50+=increase)

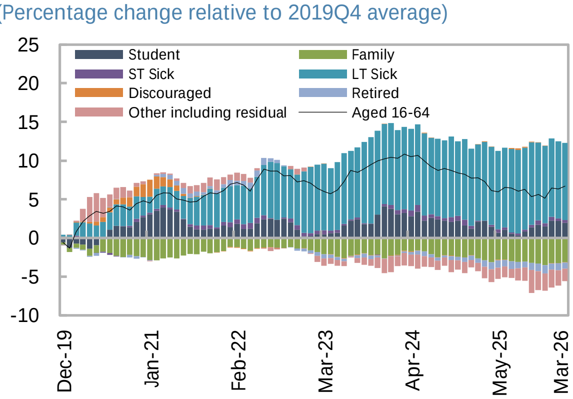


Sources: S&P Global.

Although labor force participation has recently improved, the share of long-term sick remains high…

Economic Inactivity by Reason

(Percentage change relative to 2019Q4 average)

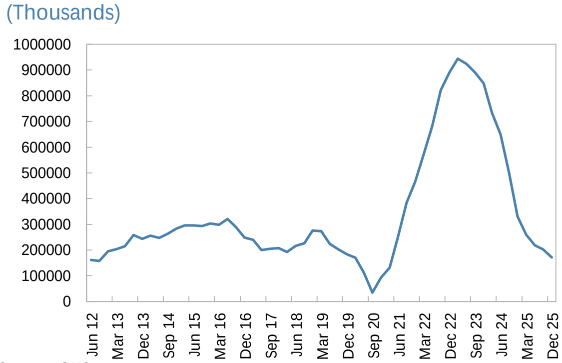


Sources: ONS; IMF staff calculations.

…and the sharp fall in migration will add to labor market pressures over the long term.

Net Long-Term Migration

(Thousands)



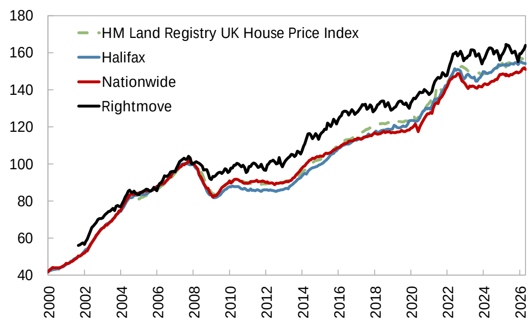
Sources: ONS.

Note: Each point reflects the value for the year ending in the month shown.

Figure 4. United Kingdom: Residential Real Estate Development

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

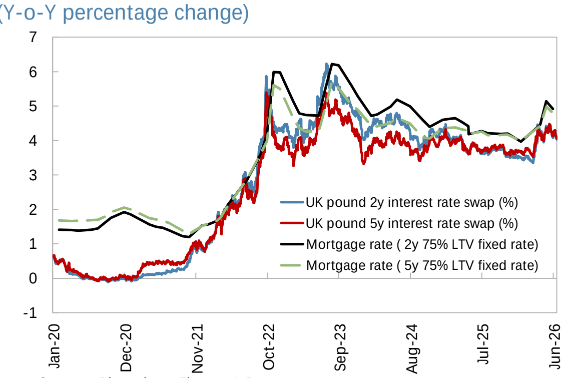
House Prices
(Index, Jan 2008=100)



Source: Haver Analytics.

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

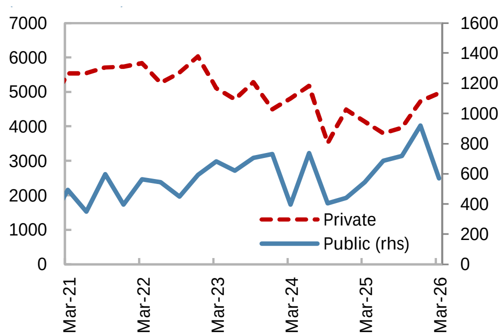
Mortgage Rates
(Y-o-Y percentage change)



Sources: Bloomberg Finance L.P.

...while nascent construction gains remain modest.

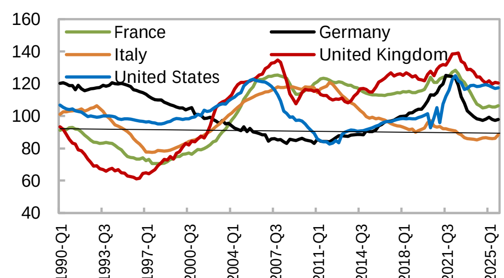
Construction Orders: New Housing
(NSA; Million pounds)



Sources: ONS and Haver Analytics.

Prices remain relatively high...

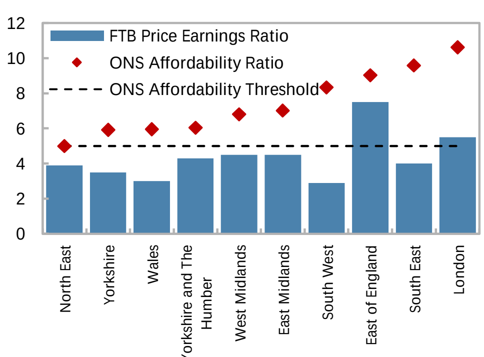
House-Price-to-Income Ratio
(Relative to long-run average, percent)



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...

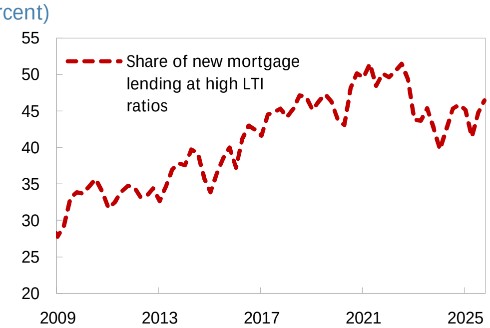
Regional Housing Affordability
(Ratio)



Sources: Nationwide, and ONS.
Note: ONS affordability ratios = median house price / median income.

...and leading lenders to remain cautious.

New Lending to High-LTI Borrowers
(Percent)



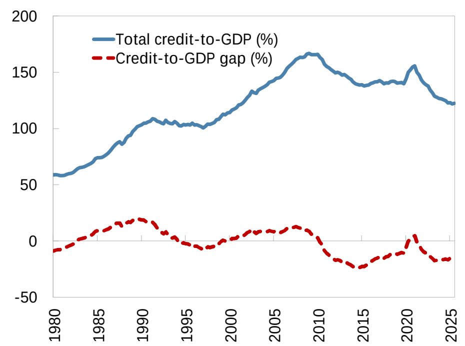
Sources: Haver Analytics and Mortgage Lending and Administration Return (MLAR).
Note: High LTI ratio refers to Single Income Multiple Over 4 and Joint Income Multiple Over 3.

Figure 5. United Kingdom: Financial Sector

The negative credit-to-GDP gap suggests credit in the economy is below its long-term trend relative to GDP…

Credit-to-GDP and Credit-to-GDP Gap

(Percent)

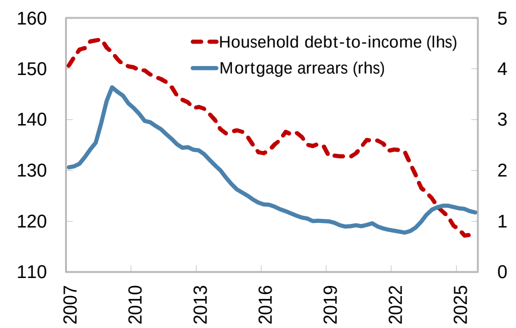


Source: Financial Policy Committee.

…and while this gap may reflect subdued credit activity, robust household balance sheets remain a positive feature.

Household Debt to Income and Mortgage Arrears

(Percent, percent)

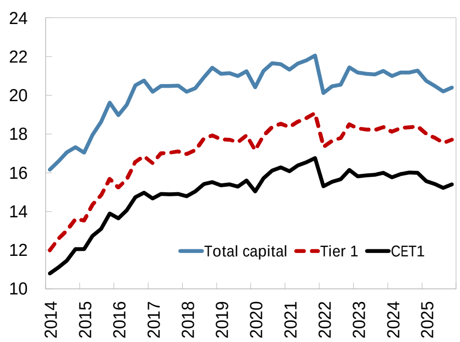


Source: Bank of England.

UK banks maintain comfortable capital levels relative to risk-weighted assets…

Average UK Bank Capital Ratios

(Share)

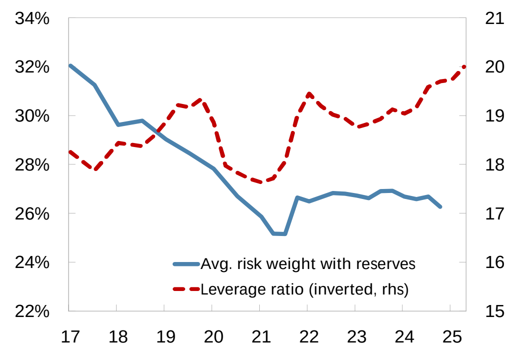


Source: Bank of England.

…however, declining average risk weights alongside rising leverage raise questions about underlying risk measurement.

Average Bank Risk Weights and Leverage Ratio

(Percent)

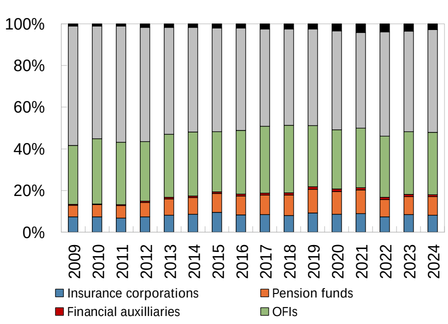


Source: Bank of England and Financial Policy Committee.

Non-bank financial intermediaries account for about half of financial assets, with 16 percent held by the insurance corporation and pension fund (ICPF) sector…

Sector Holding Shares of Financial Assets

(Percent)

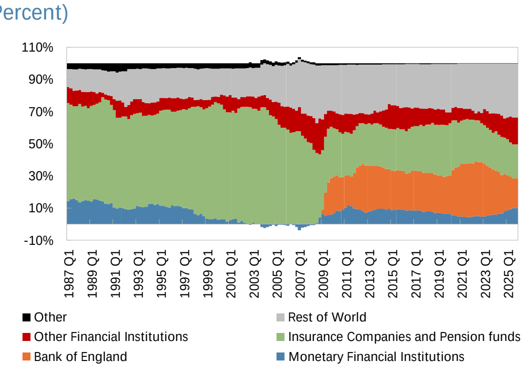


Source: Financial Stability Board.

At the same time, declining gilt holdings by ICPFs, alongside rising foreign participation, have made the investor base less stable and more price-sensitive.

Sector Holding Shares of Gilts

(Percent)

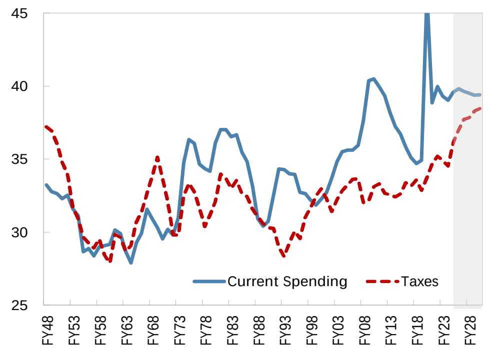


Source: HM Treasury.

Figure 6. United Kingdom: Fiscal Developments

The rise in the tax-to-GDP ratio combined with a reduction in non-interest spending ...

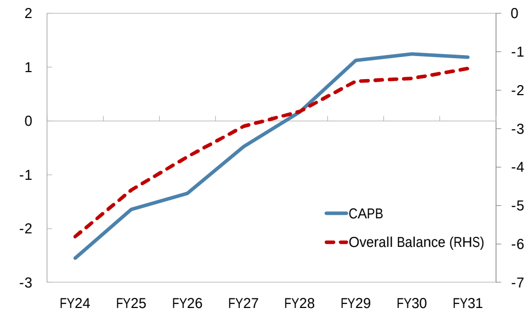
Tax Revenue and Primary Expenditure
(Percent of GDP)



Source: ONS and IMF Staff Calculations.

...should result in a sizeable medium-term fiscal consolidation...

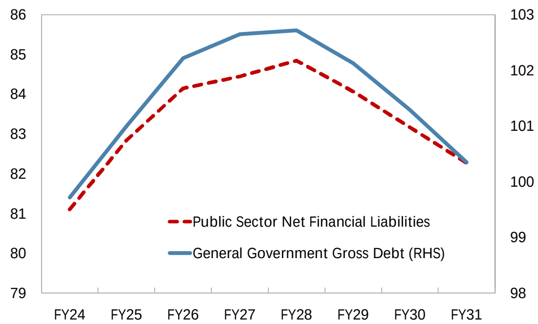
Fiscal Balance
(Percent of GDP)



Source: ONS and IMF Staff Calculations.

...that stabilizes debt in FY2029/30.

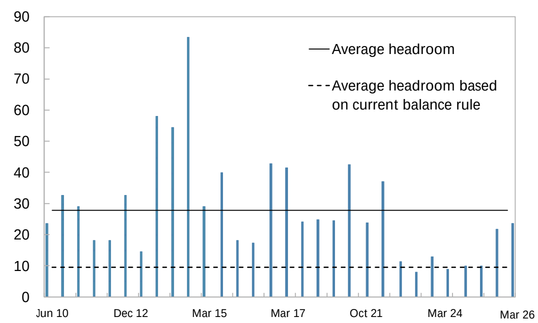
Debt
(Percent of GDP)



Source: ONS and IMF Staff Calculations.

Larger fiscal buffers will contribute to more stable and predictable fiscal policy...

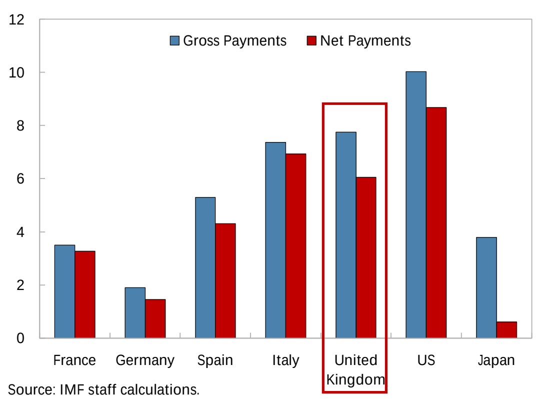
Headroom Against Past Fiscal Balance Targets
(Billion pounds)



Source: Office for Budget Responsibility.

.... but a high debt interest burden presents a key risk to the medium-term fiscal plan...

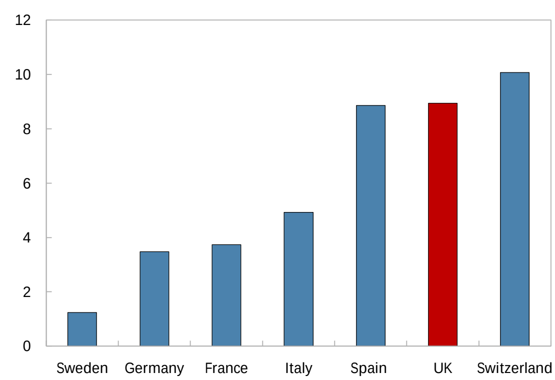
Interest to Expenditure Ratio
(Percent, 2022–25 average)



Source: IMF staff calculations.

... while sizeable long-term spending pressures will require difficult choices spending and tax to stabilize debt.

Additional Expenditure Pressures by 2050
(Percent of GDP)

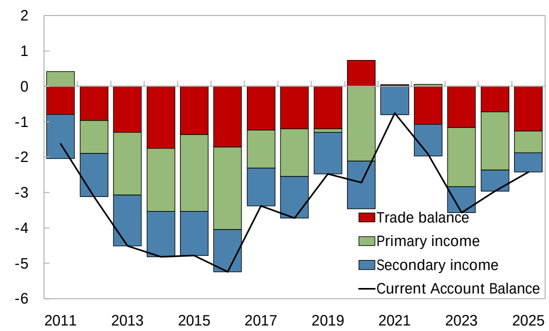


Source: Eble and others (2025) and IMF staff calculations.

Figure 7. United Kingdom: External Sector Developments

The CA deficit declined in 2025 amid an improving net primary income ….

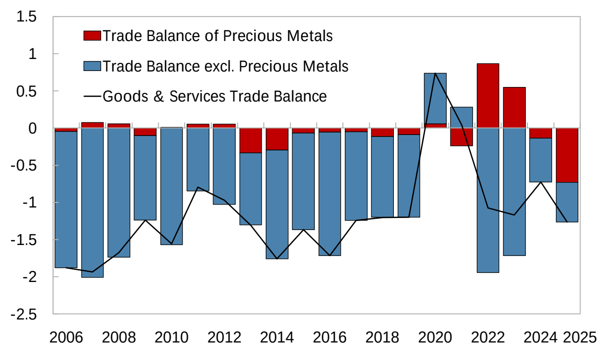
Current Account Balance
(Percent of GDP)



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

… despite a deteriorating trade balance driven by net imports of precious metals….

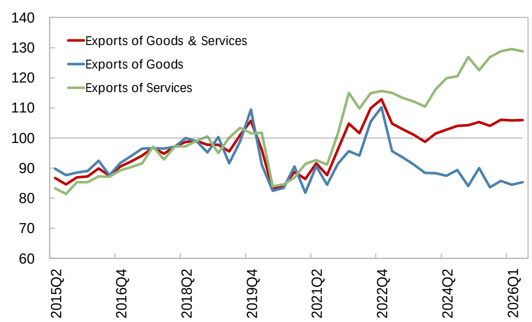
Trade Balance
(Percent of GDP)



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

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

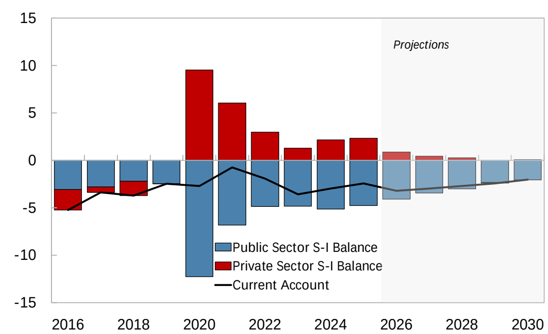
Export Trade Volume
(2019 Quarterly Average=100)



Source: Haver Analytics and IMF Staff Calculations.

Going forward, fiscal consolidation should support the reduction in the CA deficit.

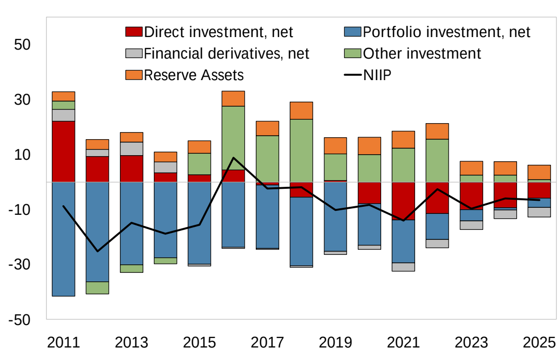
Saving-Investment Balance, by Sectors
(Percent of GDP)



Source: ONS and Haver Analytics.

The NIIP has been largely stable in recent years…

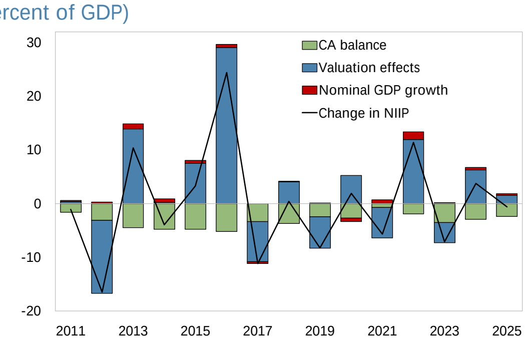
NIIP Breakdown
(Percent of GDP)



Source: Haver, ONS, and IMF Staff Calculations.

…as CA deficits have been offset by market price valuation effects.

Contribution to Changes in NIIP
(Percent of GDP)

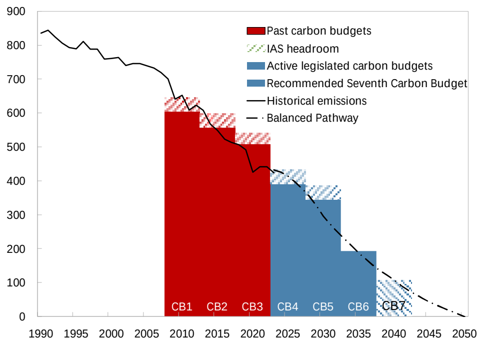


Source: Haver, ONS, and IMF Staff Calculations.

Figure 8. United Kingdom: Climate Policy

The UK has continued to reduce emissions and has announced a new carbon budget for the period 2038–2042.

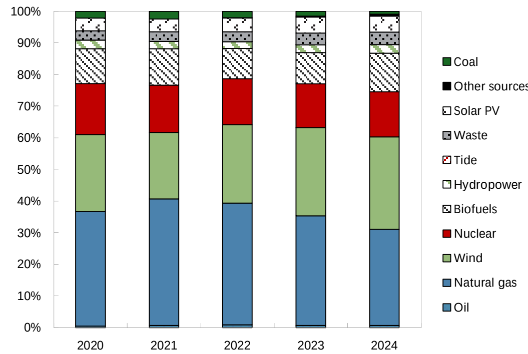
Greenhouse Gas Emissions & Targets
(MtCO₂e)



Source: Climate Change Committee

Generation from coal is almost eliminated, although the country remains heavily dependent on gas.

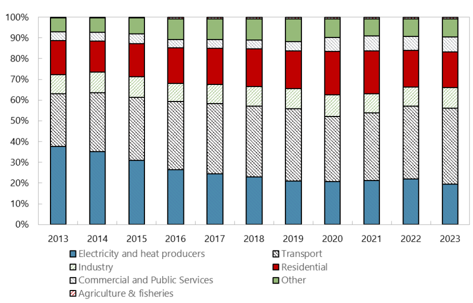
Electricity Generation Mix
(Percent share)



Source: International Energy Agency.

While significant progress has been made in emissions of electricity and heat production, in other sectors, like transport, progress has been slower.

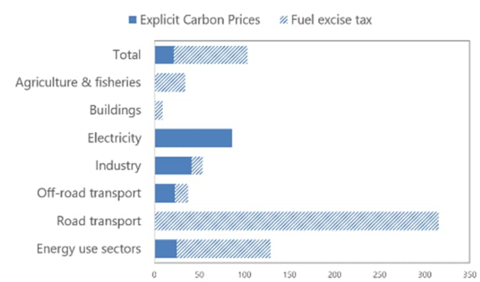
Emissions by Sector
(Percent of total)



Source: International Energy Agency.

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

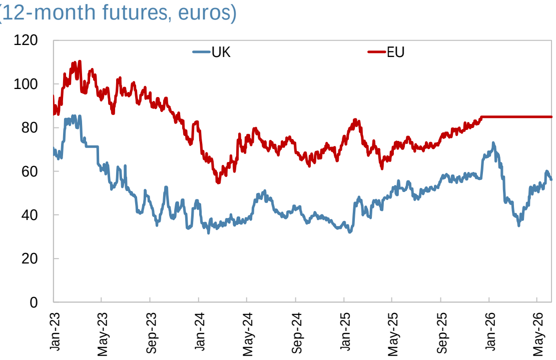
Effective Carbon Pricing by Sector
(USD/tCO2e, 2021 prices)



Source: OECD Effective and Net Effective Carbon Rates.

Linking the UK ETS with the EU would align carbon prices with the EU.

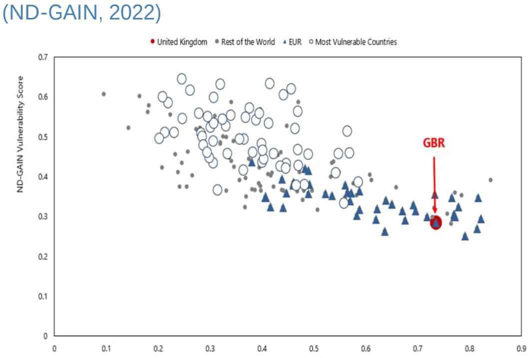
Carbon Prices
(12-month futures, euros)



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 adaptative actions.

Table 1. United Kingdom: Selected Economic Indicators, 2021–31

(Percentage change, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
						Projections					
Real Economy (change in percent)											
Real GDP	8.5	5.1	0.3	1.0	1.4	1.0	1.3	1.7	1.5	1.4	1.4
Domestic demand	9.2	4.9	0.4	1.7	2.0	1.2	1.5	1.7	1.3	1.3	1.4
Private domestic demand	7.7	7.6	-0.4	0.1	1.7	0.9	1.6	2.0	1.7	1.4	1.3
CPI, period average	2.6	9.1	7.3	2.5	3.4	3.2	2.4	2.0	2.0	2.0	2.0
CPI, end-period	5.4	10.5	4.0	2.5	3.4	3.5	2.0	2.0	2.0	2.0	2.0
Unemployment rate (in percent) 1/	4.6	3.8	4.1	4.3	4.9	5.6	5.3	4.8	4.5	4.5	4.5
Gross national saving (percent of GDP)	17.8	17.2	15.4	16.0	16.5	16.2	16.7	16.9	17.2	17.7	18.0
Gross domestic investment (percent of GDP)	18.6	19.1	18.9	19.0	18.9	19.3	19.6	19.6	19.6	19.7	19.9
Public Finance (fiscal year, percent of GDP)											
Public sector overall balance 2/	-5.2	-4.8	-4.9	-5.2	-4.3	-4.0	-3.3	-2.8	-2.0	-1.8	-1.8
Public sector primary balance	-3.1	-1.2	-1.9	-2.4	-1.4	-0.9	-0.2	0.4	1.2	1.3	1.2
Public sector cyclically adjusted primary balance 3/	0.0	-1.7	-1.6	-2.2	-1.1	-0.5	0.1	0.6	1.4	1.5	1.2
Public sector net financial liabilities (PSNFL) 4/	78.5	79.0	79.8	81.1	82.8	83.9	84.4	84.7	83.9	83.0	82.1
Money and Credit (12-month percent change)											
M4 (end-period)	6.3	1.6	-1.1	2.6	4.6	...	...	...	...	...	...
Net lending to non-fin private sector (end-period)	2.8	2.9	0.0	2.0	4.6	3.5	3.3	3.6	3.5	3.4	3.2
House Price Index (HMLR, end-period)	7.3	7.3	-2.7	3.1	1.8	...	...	...	...	...	...
Interest Rates (percent; year average)											
Bank Rate	0.1	1.5	4.7	5.1	4.3	3.8	3.2	3.0	3.0	3.0	3.0
Long Term Interest Rate	0.8	2.4	4.1	4.1	4.6	4.9	4.1	4.1	4.1	4.1	4.1
2y mortgage rate (75% LTV fixed rate,average)	1.4	3.5	5.3	4.8	4.3	...	...	...	...	...	...
5y mortgage rate (75% LTV fixed rate,average)	1.6	3.4	4.8	4.4	4.2	...	...	...	...	...	...
Balance of Payments (percent of GDP)											
Current account balance	-0.8	-1.9	-3.6	-3.0	-2.4	-3.2	-2.9	-2.7	-2.4	-2.1	-1.9
Trade balance	0.0	-1.1	-1.2	-0.7	-1.3	-1.4	-1.2	-1.2	-0.9	-0.7	-0.6
Exports of G&S (volume change in percent)	2.9	15.2	-2.3	1.3	2.1	1.9	1.2	1.5	1.5	1.3	1.3
Imports of G&S (volume change in percent)	5.3	13.9	-1.6	2.7	4.2	2.4	1.8	1.2	1.0	1.1	1.0
Terms of trade (percent change)	0.0	-4.3	0.3	2.7	0.2	0.4	0.8	0.0	0.3	0.1	0.1
FDI net	1.0	1.6	0.4	-1.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Reserves (end of period, billions GBP)	143.4	146.7	139.6	139.5	159.1	164.7	170.1	176.2	182.3	188.5	194.6
Exchange Rates											
Nominal effective rate (2010=100, year average)	102.6	101.0	102.2	106.5	107.6	...	...	...	...	...	...
Real effective rate (2010=100, year average)	102.6	101.2	103.8	108.3	110.6	...	...	...	...	...	...
Memorandum Items:											
Nominal GDP (billions GBP)	2,323	2,581	2,752	2,891	3,037	3,144	3,246	3,362	3,479	3,597	3,714
Nominal GDP (billions USD)	3,195	3,193	3,422	3,695	4,002	...	...	...	...	...	...

Source: 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, 2021–31

(Percentage change, unless otherwise indicated)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
						Projections					
Real GDP	8.5	5.1	0.3	1.0	1.4	1.0	1.3	1.7	1.5	1.4	1.4
Real domestic demand	9.2	4.9	0.4	1.7	2.0	1.2	1.5	1.7	1.3	1.3	1.4
Private consumption	7.3	7.6	-0.4	-0.2	1.0	1.0	1.1	1.6	1.3	1.1	1.1
Government consumption	13.0	0.1	2.1	2.9	1.6	1.2	1.3	1.3	1.8	1.0	1.2
Fixed investment	9.3	6.8	0.5	1.7	4.3	1.6	3.7	2.8	2.1	2.2	1.9
Public	7.2	3.2	4.8	4.2	4.9	6.2	4.4	-0.2	-1.3	0.2	0.7
Residential	16.6	9.9	-6.1	-1.1	1.6	0.6	2.8	2.9	2.7	2.7	2.1
Business	6.0	5.4	2.2	2.6	4.3	0.7	4.0	3.9	3.1	2.6	2.2
Stocks 1/	0.0	0.2	-0.1	0.2	-0.1	0.2	-0.1	-0.2	-0.2	0.0	0.1
External balance 1/	-0.8	0.2	-0.2	-0.5	-0.7	-0.2	-0.2	0.0	0.1	0.1	0.1
Exports of Goods and Services	2.9	15.2	-2.3	1.3	2.1	1.9	1.2	1.5	1.5	1.3	1.3
Imports of Goods and Services	5.3	13.9	-1.6	2.7	4.2	2.4	1.8	1.2	1.0	1.1	1.0
Current account 2/	-0.8	-1.9	-3.6	-3.0	-2.4	-3.2	-2.9	-2.7	-2.4	-2.1	-1.9
Gross national saving (percent of GDP)	17.8	17.2	15.4	16.0	16.5	16.2	16.7	16.9	17.2	17.7	18.0
Gross domestic investment (percent of GDP)	18.6	19.1	18.9	19.0	18.9	19.3	19.6	19.6	19.6	19.7	19.9
CPI Inflation, period average	2.6	9.1	7.3	2.5	3.4	3.2	2.4	2.0	2.0	2.0	2.0
CPI Inflation, end period	5.4	10.5	4.0	2.5	3.4	3.5	2.0	2.0	2.0	2.0	2.0
GDP deflator, period average	0.7	5.7	6.3	4.0	3.6	2.5	2.0	1.8	1.9	1.9	1.8
Output gap 3/	0.5	2.2	-0.3	-0.6	-0.6	-0.9	-0.9	-0.5	-0.4	-0.3	-0.2
Potential output	4.3	3.3	2.8	1.4	1.4	1.3	1.3	1.4	1.4	1.4	1.4
Employment and productivity											
Employment	0.0	1.2	1.2	0.8	1.6	1.4	1.0	1.0	0.8	0.7	0.7
Unemployment rate 4/	4.6	3.8	4.1	4.3	4.9	5.6	5.3	4.8	4.5	4.5	4.5
Productivity 5/	8.6	3.9	-0.9	0.2	-0.2	-0.5	0.3	0.7	0.7	0.7	0.8
Memorandum items:											
Private final domestic demand	7.7	7.6	-0.4	0.1	1.7	0.9	1.6	2.0	1.7	1.4	1.3
Household saving rate 6/	12.8	5.5	6.4	9.9	9.9	9.2	8.9	8.1	8.0	7.7	7.2

Source: 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, 2021/22–2030/31 1/

(Percent of GDP, unless otherwise noted)

	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
					Projections					
Revenue	38.4	39.3	39.4	38.8	40.1	41.1	41.9	42.0	42.4	42.6
Personal income tax	9.4	9.5	10.0	10.4	10.7	11.3	11.7	11.6	11.7	11.9
National insurance contributions	6.7	6.7	6.4	5.8	6.7	6.7	6.7	6.7	6.8	6.8
Corporate income tax	2.7	3.0	3.4	3.2	3.2	3.3	3.4	3.4	3.4	3.4
VAT	5.9	6.1	6.1	5.9	5.8	6.0	6.0	6.1	6.1	6.1
Interest income	1.0	1.2	1.6	1.5	1.3	1.4	1.4	1.4	1.4	1.4
Other	12.7	12.8	12.0	11.9	12.3	12.4	12.7	12.8	13.0	13.0
Expenditure	43.6	44.0	44.3	44.0	44.4	45.0	45.2	44.8	44.4	44.4
Departmental Expenditure Limits (DEL)	20.4	19.0	18.7	20.6	20.8	21.2	21.3	21.1	20.8	20.7
-Recurrent (RDEL)	17.2	15.6	15.2	16.8	17.0	17.3	17.2	17.2	16.9	16.9
-Capital (CDEL)	3.2	3.4	3.5	3.8	3.8	3.9	4.1	3.9	3.8	3.8
Non-Discretionary (incl. Welfare)	20.1	20.1	21.0	19.1	19.3	19.5	19.4	19.2	19.0	19.2
Interest expense	3.1	4.9	4.6	4.3	4.3	4.4	4.5	4.5	4.6	4.6
Net lending/borrowing (overall balance)	-5.2	-4.8	-4.9	-5.2	-4.3	-4.0	-3.3	-2.8	-2.0	-1.8
Primary balance	-3.1	-1.2	-1.9	-2.4	-1.4	-0.9	-0.2	0.4	1.2	1.3
Cyclically adjusted overall balance 2/	-5.7	-6.1	-4.9	-5.4	-4.6	-4.4	-3.7	-3.0	-2.2	-2.0
Cyclically adjusted primary balance (CAPB) 2/	-3.6	-1.7	-1.6	-2.2	-1.1	-0.5	0.1	0.6	1.4	1.5
General government gross debt 3/	99.4	96.2	98.5	99.7	101.0	102.2	102.9	103.1	102.7	102.1
Public sector net financial liabilities 4/	82.8	79.0	79.8	81.1	82.8	83.9	84.4	84.7	83.9	83.0
Memorandum items:										
Output gap (percent of potential)	2.7	1.6	-0.6	-0.4	-0.7	-1.0	-0.7	-0.5	-0.3	-0.3
Deflator growth (Percent) 5/	0.4	7.0	5.3	4.1	3.5	2.3	1.8	1.9	2.0	2.2
Real GDP growth (percent)	13.3	2.7	0.1	1.4	1.2	0.8	1.7	1.5	1.5	1.4
Nominal GDP growth (percent)	13.7	9.9	5.3	5.6	4.7	3.1	3.5	3.5	3.5	3.6
Nominal GDP (in billions of pounds)	2,401	2,637	2,778	2,933	3,071	3,167	3,277	3,390	3,510	3,635
Potential GDP growth (percent)	5.5	3.8	2.2	1.3	1.5	1.1	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 31.
2/ In percent of potential GDP.
3/ On a Maastricht treaty basis.
4/ End of fiscal year using centered-GDP as denominator.
5/ GDP deflator.

Table 4. United Kingdom: Balance of Payments, 2021–31

(Percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
						Projections					
Current account	-0.8	-1.9	-3.6	-3.0	-2.4	-3.2	-2.9	-2.7	-2.4	-2.1	-1.9
Balance on goods and services	0.04	-1.1	-1.2	-0.7	-1.3	-1.4	-1.2	-1.2	-0.9	-0.7	-0.6
Trade in goods	-6.5	-7.6	-7.0	-7.1	-8.0	-7.9	-7.8	-7.8	-7.5	-7.4	-7.3
Exports	14.8	17.4	15.2	13.5	12.7	12.8	12.5	12.3	12.1	11.8	11.6
Imports	-21.3	-25.0	-22.1	-20.6	-20.6	-20.7	-20.3	-20.0	-19.6	-19.2	-18.9
Trade in services	6.6	6.5	5.8	6.4	6.7	6.5	6.6	6.6	6.6	6.7	6.7
Exports	14.5	16.6	16.7	17.5	18.0	18.1	18.0	17.9	17.7	17.5	17.4
Imports	-7.9	-10.1	-10.9	-11.1	-11.3	-11.6	-11.4	-11.2	-11.0	-10.9	-10.7
Primary income balance	0.0	0.1	-1.7	-1.6	-0.6	-1.3	-1.4	-1.3	-1.3	-1.2	-1.2
Receipts	8.9	12.1	15.0	14.5	13.8	12.7	12.1	11.5	10.9	10.4	9.8
Payments	8.9	12.0	16.7	16.1	14.4	14.0	13.5	12.8	12.2	11.6	11.0
Secondary income balance	-0.8	-0.9	-0.7	-0.6	-0.5	-0.4	-0.2	-0.2	-0.2	-0.2	-0.2
Capital and financial account	-1.4	-2.2	-2.9	-3.1	-2.7	-3.2	-2.9	-2.7	-2.4	-2.1	-1.9
Capital account	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Financial account	-1.5	-2.3	-3.1	-3.3	-2.8	-3.3	-3.0	-2.8	-2.5	-2.2	-2.1
Direct investment	1.0	1.6	0.4	-1.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Abroad	4.2	4.5	0.9	-1.9	2.2	3.0	3.0	3.0	3.0	3.0	3.0
Domestic	3.2	2.9	0.4	-0.4	1.9	2.8	2.8	2.8	2.8	2.8	2.8
Portfolio investment	-8.3	-1.4	6.6	-1.2	-1.2	-5.4	-5.4	-5.4	-5.4	-5.4	-5.4
Abroad	-2.3	-2.8	9.3	3.0	3.5	1.8	1.8	1.8	1.8	1.8	1.8
Domestic	6.0	-1.4	2.8	4.2	4.7	7.2	7.2	7.2	7.2	7.2	7.2
Financial derivatives	-1.2	-1.9	0.0	-0.4	-0.3	0.2	0.2	0.2	0.2	0.2	0.2
Other investment	6.2	-0.6	-10.0	0.0	-1.9	1.6	1.9	2.0	2.4	2.6	2.8
Abroad	13.4	4.0	-0.8	10.6	13.9	1.0	1.0	1.0	1.0	1.0	1.0
Domestic	7.1	4.7	9.2	10.6	15.7	-0.6	-0.9	-1.0	-1.4	-1.6	-1.8
Net transactions in reserve assets	0.8	0.0	-0.1	-0.1	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Net errors and omissions	-0.6	-0.3	0.7	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Terms of trade (y/y percent change)	0.0	-4.3	0.3	2.7	0.2	0.4	0.8	0.0	0.3	0.1	0.1

Source: 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, 2021–31

(Percent of GDP)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
						Projections					
Net investment position	-14.0	-2.6	-9.7	-6.0	-6.6	-8.2	-9.4	-10.4	-11.1	-11.4	-11.6
Assets	558	550	494	503	487	481	476	470	465	460	456
Liabilities	572	553	504	509	493	489	485	480	476	471	467
Net direct investment	-13.8	-11.4	-10.1	-9.4	-5.9	-5.5	-5.1	-4.7	-4.4	-4.0	-3.7
Direct investment abroad	91.6	90.5	83.8	78.7	71.1	71.7	72.4	72.9	73.5	74.0	74.7
Direct investment in the UK	105.4	101.9	93.9	88.1	77.0	77.2	77.5	77.7	77.8	78.1	78.4
Net Portfolio investment	-15.6	-9.5	-4.0	-0.8	-3.4	-7.2	-10.9	-14.4	-17.9	-21.2	-24.4
Portfolio investment abroad	147.1	116.3	120.4	123.3	131.4	130.2	129.4	128.2	127.1	126.3	125.6
Portfolio investment in the UK	162.6	125.7	124.4	124.1	134.8	137.4	140.2	142.6	145.0	147.5	150.0
Net financial derivatives	-3.1	-3.0	-3.2	-3.1	-3.5	-3.2	-2.9	-2.6	-2.4	-2.1	-1.8
Assets	101.8	126.4	97.8	108.9	91.3	91.3	91.3	91.3	91.3	91.3	91.3
Liabilities	104.9	129.4	101.0	112.1	94.8	94.5	94.3	94.0	93.7	93.4	93.2
Net other investment	12.3	15.7	2.5	2.5	0.9	2.5	4.3	6.1	8.3	10.7	13.1
Other investment abroad	211.0	211.5	187.3	186.9	187.6	182.2	177.4	172.3	167.5	163.0	158.9
Other investment in the UK	198.7	195.9	184.8	184.4	186.6	179.7	173.2	166.2	159.2	152.4	145.8
Reserve assets	6.2	5.7	5.1	4.8	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Memorandum items:											
Change in the net investment position	-6.4	10.0	-7.3	3.3	-0.9	-1.8	-1.5	-1.3	-1.0	-0.7	-0.6
Current account balance	-0.8	-1.9	-3.6	-3.0	-2.4	-3.2	-2.9	-2.7	-2.4	-2.1	-1.9

Sources: Office for National Statistics and IMF staff estimates.

Table 6. United Kingdom: Monetary Survey, 2018–25

(Billions GBP)

	2018	2019	2020	2021	2022	2023	2024	2025
M4 1/	2414	2506	2819	2997	3044	3012	3090	3231
Net foreign assets 2/	393	279	215	219	296	343	439	438
Foreign assets	3856	3693	3971	4094	4433	4387	4673	4997
Foreign liabilities	3463	3414	3756	3875	4137	4044	4234	4559
Net domestic assets 2/	2020	2227	2603	2778	2748	2668	2651	2793
M4 lending to the private sector 3/	2457	2576	2653	2697	2724	2695	2715	2874
Net foreign currency lending to the private sector 3/	-238	-168	-160	-184	-203	-163	-178	-187
Net lending to the public sector	575	598	892	969	711	678	631	614
Other items, net	-774	-779	-781	-703	-485	-541	-517	-508
Memorandum item: 4/								
M4 growth, percent	2.3	3.8	12.5	6.3	1.6	-1.1	2.6	4.6
M4 lending to the private sector growth, percent	3.2	4.8	3.0	1.7	1.0	-1.1	0.7	5.9

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 percent of the domestic sterling interbank difference (the remaining 5 percent 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, 2018–25

	2018	2019	2020	2021	2022	2023	2024	2025
Capital Adequacy								
Regulatory Capital to Risk-Weighted Assets	21.4	21.3	21.6	22.1	21.4	21.3	21.3	20.4
Regulatory Tier 1 Capital to Risk-Weighted Assets	17.9	17.9	18.5	19.1	18.5	18.4	18.4	17.8
Capital to Assets	5.6	5.5	5.5	5.3	6.5	6.1	6.0	5.6
Credit Risk								
Non-performing Loans Net of Provisions to Capital	4.9	4.3	3.1	4.4	4.3	4.6	5.4	5.2
Non-performing Loans to Total Gross Loans	1.1	1.0	1.0	1.0	0.9	1.0	1.0	0.9
Foreign-Currency-Denominated Loans to Total Loans	67.4	60.1	54.9	60.8	61.7	62.2	65.2	66.4
Profitability								
Return on Assets	0.5	0.3	0.2	0.5	0.5	0.6	0.7	0.7
Return on Equity	5.2	3.6	2.6	6.5	7.8	8.8	9.1	9.2
Interest Margin to Gross Income	46.1	44.7	43.9	43.1	44.5	45.4	41.1	43.2
Non-interest Expenses to Gross Income	65.7	66.6	68.0	68.6	63.3	61.2	62.7	61.8
Trading Income to Total Income	16.5	17.3	21.1	16.1	21.7	22.4	22.6	22.1
Personnel Expenses to Non-interest Expenses	46.2	47.1	47.2	46.5	45.5	45.2	43.0	44.5
Liquidity								
Liquidity Coverage Ratio	172.2	163.6	160.7	164.9	159.9	166.8	172.8	164.7
Foreign-Currency-Denominated Liabilities to Total Liabilities	41.3	39.1	37.4	40.2	42.1	43.7	42.9	44.3
Fx, Equity, and Derivative Risk								
Gross Asset Position in Financial Derivatives to Capital	254.8	293.3	355.4	260.7	393.6	329.2	340.8	299.4
Gross Liability Position in Financial Derivatives to Capital	251.0	292.1	356.5	257.9	387.5	322.6	331.6	294.4

Source: IMF FSI database.

Annex I. External Sector Assessment

<table>
<tr><td colspan="7">Overall Assessment: The external position in 2025 was weaker than the level implied by medium-term fundamentals and desirable policies. However, the CA deficit ratio has trended down from the elevated levels of the mid-2010s. In 2025, the deficit improved for the second year in a row after the temporary pandemic-related deterioration. The improvement was primarily driven by higher private and public savings, reflected in higher net primary income and services trade surpluses, which offset the drag from goods trade deficits. The CA deficit is expected to increase in the short term due to the energy price shock and to narrow moderately in the medium term, driven by fiscal consolidation and improvements in the terms of trade following the resolution of the energy crisis. The REER remains elevated due to successive shocks. The net international investment position (NIIP) is projected to deteriorate in the medium term, although its evolution is uncertain given difficult-to-predict valuation effects and the UK's status as a global financial center.

Potential Policy Responses: The authorities' fiscal consolidation path will support external rebalancing by containing import growth and reducing interest rates on domestic liabilities, while progress in the net-zero transition should help mitigate risks of further energy-related terms of trade shocks. Policies should promote transparent, predictable and mutually beneficial trade policy frameworks. Industrial policies should continue to be deployed cautiously, remain targeted to specific objectives where externalities and other market failures prevent effective market solutions, and minimize trade and investment distortions.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. The NIIP has been stable, at -6.6 percent of GDP in 2025, and close to the past decade's average of -6.2 percent of GDP.[1] Valuation effects have largely offset CA deficits in 2025, as in recent years. These valuation effects have been primarily related to strong global equity price growth and slight sterling depreciation, which positively affected foreign asset holdings. The NIIP is projected to deteriorate in line with projected current account deficits over the medium term, although volatile valuation effects make these estimates uncertain.

Assessment. The NIIP remains vulnerable to changes in market sentiment, including due to the large fraction of short-term liabilities that create rollover risks. Nonetheless, there are two mitigating factors. First, the UK has a large currency mismatch between sterling-denominated liabilities and foreign-currency-denominated assets, which, paired with exchange rate flexibility, mitigates external shocks. Second, intragroup bank holdings constitute a large share of external liabilities and are less reactive to changes in market sentiment.</td></tr>
<tr><td>2025 (% GDP)</td><td>NIIP: -6.6</td><td>Gross Assets: 486</td><td>Debt Assets: 249</td><td>Gross Liab.: 493</td><td colspan="2">Debt Liab.: 270</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. The CA deficit improved for the second year in a row from -3.6 percent of GDP in 2023 to -2.4 percent of GDP in 2025, driven by an increase in both public and private savings while investment remained stable. This improvement was primarily reflected in higher net primary income and an increase in the services trade surplus. Goods trade deficits excluding volatile precious metals improved mildly by 0.3 percent of GDP despite rising trade frictions. Following a projected CA deterioration in 2026 due to the energy price shock, the fiscal consolidation path and a projected recovery in the terms of trade and external demand are expected to moderate the CA deficit to -2 percent of GDP over the medium term, below pre-COVID-19 averages.

Assessment. The EBA CA model estimates a norm deficit of –0.1 percent of GDP, implying an unadjusted CA gap of –2.3 percent of GDP in 2025. Measurement adjustments of 0.1 percent of GDP account for differences between the statistical definition of income and the relevant economic concept.[2] After this adjustment, staff assesses the CA gap at –2.2 percent of GDP, within a range of –1.9 to –2.5 percent of GDP. About a third of the gap reflects higher health expenditure, proxying for more spending on social safety nets than in the rest of the world, which reduces precautionary savings. Part of the remaining gap could be due to the pound's status as a global reserve currency –which also reduces incentives for precautionary savings—and deep financial markets that together attract strong capital inflows, as well as inflation differentials between the UK and the rest of the world.[3]</td></tr>
<tr><td>2025 (% GDP)</td><td>CA: -2.4</td><td>Cycl. Adj. CA: -2.4</td><td>EBA Norm: -0.1</td><td>EBA Gap: -2.3</td><td>Staff Adj.: 0.1</td><td>Staff Gap: -2.2</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="6">Background. The REER appreciated by 2.2 percent in 2025 compared to the average in 2024, leaving it 10 percent stronger than before the pandemic. The NEER appreciated 0.97 percent compared to the 2024 average as interest rates remain higher in the UK than in other advanced economies. The real appreciation in previous years was driven by higher inflation in the UK than in other advanced economies. As of March 2026, the REER was 0.2 percent below its 2025 average.

Assessment. The EBA REER level and index models suggest an overvaluation of 13.3 and 4.4 percent, respectively. Consistent with the staff CA gap, staff assesses the 2025 REER gap at 8.2 percent (using an estimated elasticity of 0.26), within a range of 7.2 to 9.2 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. As a global financial hub, portfolio investment flows and other investments constitute a large share of financial flows, often driven by intragroup bank transactions. Portfolio investment net inflows were the most important source of financing for the CA deficit in 2025.

Assessment. Large fluctuations in capital flows are inherent in countries with large financial sectors. 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 held in sterling increased slightly over the past several years, from an average of 4.5 percent pre-pandemic (2016–19) to close to 5.0 percent in 2025.

Assessment. Reserves held by the UK are typically low relative to standard metrics, and the currency is free-floating. Reserve levels remained stable, with a modest accumulation in 2025.</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. Indicative estimates from ONS for 2023 suggest that net FDI could be approximately 14 percent GDP higher.
[2]This is the effect of retained earnings on portfolio equity that are not recorded in the income account.
[3]The inflation differential between the UK and the rest of the world can generate depreciation pressures of the pound, and valuation effects that allow for smaller CA balance than other economies with different asset and liabilities structures.</td></tr>
</table>

Annex II. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Global Risks			
Geopolitical Tensions, Intensification of Conflicts, and commodity price volatility. Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility.	High	High. Geopolitical conflicts that lead to protracted shocks to energy and food prices. The UK relies heavily on gas imports, making it vulnerable to price swings. Rising and volatile energy prices create an adverse terms-of-trade shock, increasing inflation. They also have a negative impact on the competitiveness of UK firms, increase costs for farmers and hence food prices, and slow down investment and consumption.	(1) Accelerate the energy transition to diversify the energy mix. (2) Provide targeted and temporary support for vulnerable households and exposed firms, within the existing budget envelope (minimizing deviations from the deficit reduction plan). (3) Monetary policy might need to pause easing for longer or even tighten to keep inflation expectations anchored and return inflation to target over the medium term.
Protectionism and Trade Disruptions. Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation. Trade diversion triggers broader protectionism.	High	Medium. Higher trade barriers would weigh on investment and net exports. Supply chain disruptions could be inflationary. Reduced trade could have long-term effects on productivity through decreased competition. Some of these effects could be mitigated by the large share of services in the UK economy.	(1) 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 in the medium term. (3) Limit state intervention to address clear market failures.
Disorderly AI Correction. An abrupt revision in expectations of strong AI-led productivity gains causes a sharp market correction, investment decline, and wealth loss, which suppress demand and tighten financial conditions globally.	High	Medium. A sharp repricing of tech assets could generate valuation losses for UK investors. Spillovers could extend beyond AI-related assets through sentiment and risk-appetite channels, potentially triggering broader de-risking across portfolios. Negative wealth effects could weigh on household consumption and confidence.	(1) Monitor and contain amplification channels. Step up surveillance of concentrated exposures among leveraged investors and open-ended funds. Ensure that liquidity backstops and market tools are operational. Communicate clearly to avoid disorderly conditions. (2) If the shock propagates or impairs core market functioning, deploy liquidity facilities to support intermediation.
Fiscal Vulnerabilities and Higher Interest Rates. Higher public debt and deficit levels put further upward pressure on long-term interest rates, sharply tightening global financial conditions, amplifying currency volatility. Disruptions are amplified by increased role of price-sensitive investors and leveraged NBFIs in sovereign debt markets, limited market absorption capacity when NBFIs offload debt securities, higher roll-over needs on shorter sovereign debt maturities, and strong sovereign-financial nexus.	Medium	Medium. Sharp yield increases can interact with leverage, margin requirements, and liquidity mismatches in parts of the financial system—especially among NBFIs—forcing asset sales and straining market intermediation. If market participants are unable to absorb these flows smoothly, adjustments in yields can become disorderly and impair market functioning. This may be mitigated by the Contingent NBFI Repo Facility (CNRF).	(1) Activate the BoE's contingent liquidity provision facilities to support market functioning during stress episodes. (2) Communicate clearly about the operational framework for market interventions, including the conditions under which such tools may be deployed. (3) If market dysfunction persists, consider a temporary adjustment to the pace of balance sheet reduction, including active gilt sales, to avoid exacerbating strains in gilt market intermediation.

[1] 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.

Source of Risks	Relative Likelihood	Impact if Realized	Policy Response
Domestic Risks			
Implementation gaps in the structural reform agenda Insufficient prioritization, capacity constraints, and political pressures create execution risks to the agenda, with limited pass-through from announced strategies to real economic outcomes.	Medium	High. Disappointing gains in potential growth and productivity, which would weigh on household incomes and living standards. Firms may postpone investment decisions, limiting capital deepening and innovation.	(1) Monitor implementation of the agenda through progress reports and course correct if needed. (2) Prioritize the reform agenda to ensure timely delivery. (3) Reduce key structural vulnerabilities, including through continued trade diversification and greater energy security.
Delays in the fiscal adjustment plan. Underperformance of revenues, policy reversals or new spending needs delay the medium-term fiscal adjustment.	High	High. Higher borrowing weakens market confidence while slow delivery of the plan undermines credibility. This could weigh on business and consumer confidence, weakening growth and increasing the required fiscal adjustment. Greater market uncertainty regarding the future course of economic policy could also increase borrowing costs.	(1) Stick to the medium-term deficit reduction plan. (2) Develop and, if need be, activate contingency plan with correction measures on both the revenue and spending sides in case deficit reduction is pushed off course. (3) Mitigate financing risks through active debt management strategies.
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	Medium. Unexpected liquidity pressures could amplify stress if the financial system's intermediation capacity proves insufficient. Banks may be unable or unwilling to provide sufficient repo financing to NBFIs, forcing them to raise liquidity through asset sales—gilts in particular—pushing yields higher and risking disorderly market conditions. Such dynamics could impair market functioning and tighten financing conditions.	(1)Activate the BoE's contingent liquidity provision facilities to support market functioning during episodes of stress. (2) Communicate clearly and transparently about the operational framework for market interventions, including the conditions under which such tools may be deployed. (3) Only if market dysfunction were to persist, consider a temporary adjustment to the pace of balance sheet reduction, including active gilt sales, to avoid exacerbating strains in gilt market intermediation.
Labor Shortages. Tighter immigration policies exacerbate labor shortages in aging destination economies, reducing potential output, fueling inflation, and straining fiscal balances through lower revenues.	High	Medium. Reduced net migration would decrease labor supply, with negative effects on potential output.	(1) Accelerate the agenda meant to close critical skills gaps. (2) Ensure schemes such as the TSL work as intended to alleviate acute skill shortages in the short term. (3) Boost the productivity of the existing labor force, including by use of AI.
AI Acceleration. Rapid AI adoption significantly improves productivity, boosts growth, and revives business dynamism. Realizing these gains requires complementary policies including providing enabling regulation, supporting labor market transitions, mobilizing financing for innovation, managing potential energy supply constraints, and scaling up critical inputs.	Medium	High. The UK is well-placed to benefit from AI adoption because its key sectors are AI-intensive and a large share of its workforce is exposed to AI. Aggregate TFP could increase by 1 to 5 percentage points over 10 years depending on AI technology potential and the pace of AI effective adoption.	(1) Ease innovation bottlenecks, such as specialized labor shortages and the scarcity of domestic scale-up finance. (2) Provide regulatory clarity. (3) Lead by example and boost public sector TFP with efficient public sector AI adoption.
Cyberthreats. Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	High	High. As a global financial center, UK is exposed to risks derived from cyberattacks on financial infrastructure (e.g. Mythos).	(1) Continue to invest in resilience, cyber preparedness, and effective public-private coordination.

Annex III. Illustrative Downside Scenario

This Annex, based on the severe scenario of the April 2026 World Economic Outlook, presents a sensitivity analysis of the potential impact on the UK economy from a larger and more persistent increase in global energy prices. The analysis is intended to be illustrative given that the scenario is based on specific policy assumptions.

1. Under this scenario, growth would weaken further but remain in positive territory. The severe scenario assumes higher oil and gas prices, a significant increase in inflation expectations, and tighter financing conditions due to risk-off sentiment and tighter monetary policy. In this context, UK GDP growth would be 0.6 percentage points lower in 2026, and 0.8 percentage points lower in 2027 (compared to the staff's baseline), while headline inflation would be higher by 0.7 percentage points in 2026 and 2.0 percentage points in 2027.

2. Given higher inflation, monetary policy would need to be more restrictive for longer. Higher inflation and lower growth would further complicate the calibration of monetary policy. Higher energy prices would have direct and indirect effects (through energy-intensive consumption items) on inflation, and the rise in inflation expectations would also be more likely to lead to second-round effects on core inflation and wage growth, potentially with non-linear effects. Staff modelling finds that two rate hikes this year followed by a hold throughout 2027 would be necessary to support the return of inflation to target over the medium term. In a more uncertain environment, the MPC's recent use of scenarios to complement the baseline forecast would become even more useful for weighing risks and guiding robust policy decisions internally, and communicating the reaction function externally.

3. Corrective fiscal measures would be needed to restore buffers, particularly if additional energy-related support measures were taken. In the absence of support measures, weaker growth and higher interest rates would increase the fiscal deficit ratio by around half a percent of GDP on average over the next two years compared to the baseline, but debt would still stabilize over the medium term. Financing higher deficits in this downside scenario would require additional borrowing, which could increase liquidity and financial market pressures. Given the limited fiscal space and market pressures, deviations from the medium-term deficit path should be contained by implementing corrective measures on both the revenue and spending sides. Nonetheless, considering the magnitude of the shock, some deviations reflecting the operation of automatic stabilizers may be warranted to avoid overly-procyclical policy. Furthermore, any additional support to households and firms would need to be temporary and targeted, without blunting price signals.

4. The banking sector would remain adequately capitalized. The BoE's 2025 desk-based stress tests, which was based on a significantly larger shock, indicate that UK banks' aggregate capital ratios would remain above minimum requirements even under a pronounced downturn in

activity and asset prices. If risks to the UK economic outlook were to materialize and banks were to tighten lending by more than justified by macroeconomic conditions due to capital erosion, the Financial Policy Committee could consider releasing the countercyclical capital buffer. Should broader liquidity strains also emerge, the BoE could activate its contingency liquidity facilities, including those for banks and non-banks, as needed to preserve financial stability.

Annex IV. Staff Policy Advice from the 2025 Article IV Consultation

Selected Recommendations	Policy Actions Between 2025 Article IV and May 2026
Monetary Policy	
The gradual approach to policy easing continues to be appropriate. Work should continue on strengthening the Bank of England's forecasting and communication capacity, in line with the recommendations of the Bernanke Review. The MPC could consider basing the forecasts on an endogenous interest rate path, particularly for alternative scenarios.	The Bank Rate has been cut by 150 bps since August 2024 at a pace of 25bp per quarter (from 5.25 percent at its peak over mid 2023-mid 2024 to 3.75 percent in February). The BoE has increasingly relied on scenarios and recently made changes to its communication toolkit, in particular introducing individual MPC member statements and enhancements to the Monetary Policy Report. The report now includes a more structured discussion of the central projection separately from the alternate scenarios, and illustrative interest paths for the Bank Rate under a wide range of policy rules.
Fiscal Policy	
The authorities' medium-term fiscal strategy strikes the right balance between boosting growth and preserving sustainability. Risks must be carefully managed by staying the course on planned deficit reduction, basing the medium-term budget on conservative growth assumptions, and contingency planning in case the economic outlook deteriorates.	The medium-term fiscal adjustment continues to envision a consolidation of 2.5 ppts of GDP between 2025/26 and 2029/30, which will help stabilize debt. However, actual spending in 2025/26 has exceeded what was set out in the spending envelope, driven by higher welfare spending (including on the child benefits, the winter fuel payment and health-related benefits). The OBR's projections for future revenue and spending are based on more conservative assumptions about potential growth, although implementation risks remain elevated as discussed in this staff report.
Difficult decisions will likely be needed beyond the medium term to address existing and new spending pressures and rebuild fiscal buffers.	The government has published several white papers, including a 10-Year Health Plan for England, aiming to modernize the NHS, and a SEND White Paper, announcing additional funding and reforms to the system. It has also launched a review of the disability benefits system (Timms review) and the increase in NEETs (Milburn review).
Recent changes to the fiscal framework enhance the credibility and effectiveness of fiscal policy, but targeted refinements to the framework could enhance policy predictability and stability.	To insulate fiscal policy from small changes to the economic outlook and reduce the pressure to frequently change fiscal policy, the authorities more than doubled the fiscal buffer against the current balance rule. To support the move to one fiscal event, the OBR now assesses compliance with the fiscal rules only once per year, at the time of the Fall Budget.
Structural Policy	
The authorities' "Growth Mission" focuses on the right structural areas. Prioritization, sequencing, and continued clear communication will be key to ensure quick wins and buy-in.	Several key reforms have been launched since the 2025 AIV consultation (see Annex VII). The Planning Bill, which aims to speed up the construction planning process for both housing and infrastructure received Royal Assent in December 2025. There was a significant augmentation to NHS Budget and a new agency of the Department of Education, "Skills England" to address skills gaps was established in June 2025.
The UK's climate and energy strategy offers an opportunity to reduce emissions while delivering more secure and affordable energy. Continued progress on UKs clean power targets and emissions reduction policies at the sectoral level can bolster energy security by reducing reliance on imported fossil fuels.	The authorities have continued to make progress to meet their emissions targets. They published a revised Carbon Budget Delivery Plan to meet Carbon Budgets 4 to 6. Several announcements have been made across key sectors such as mileage charges for EVs, budget allocations for heat and buildings policies, and a Finance Bill including primary legislation to implement CBAM from January 2027. There was progress on their 2030 goals on renewables, such as new contracts with hydrogen producers and expanded investment into nuclear power. The authorities also continue working towards linking the UK and EU ETSs

Annex V. Sovereign Risk and Debt Sustainability Analysis

The authorities 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)[1]. Under staff's baseline scenario, the primary balance is expected to improve by around 2½ ppts to a surplus of 1.2 percent of GDP by the end of the forecast horizon (FY2031/32), reflecting both higher revenues and a gradual decline in the expenditure ratio.[2] General government gross debt settles at around 100 percent of GDP over the medium term while gross financing needs (GFNs) average approximately 10 percent of GDP over FY2026/27–FY2031/32. 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. High debt levels and rising spending pressures, particularly from an aging population and rising demand for healthcare, present long-term fiscal challenges for the UK.

1. Background. The authorities' fiscal strategy aims to stabilize debt over the medium term and safeguard fiscal sustainability while supporting growth and essential public services. It combines higher public investment with additional resources to address pressures on public services, and is guided by two fiscal rules: a net debt-stabilization rule and a current balance rule—both applying to the broad public sector. Recent reforms to the fiscal framework—including the move to a single fiscal event in the Fall and one formal assessment of the rules each year—have enhanced the stability and credibility of fiscal policy. The general government (nominal) deficit ratio declined by 1½ ppts of GDP in FY2025/26, as tax measures more than offset higher spending, marking the first year of the authorities' medium-term consolidation plan. The general government debt ratio (in gross terms) was broadly stable last year around 100 percent of GDP.

2. Baseline fiscal assumptions. Staff's baseline is informed by the authorities' medium-term fiscal plans formulated in the October 2024 budget and recalibrated in the March 2025 Statement and November 2025 budget. Staff's assumed expenditure path is aligned with the authorities' medium-term expenditure envelope, which takes account of spending pressures and investment needs. This path is slightly higher than what staff projected in the 2025 Art. IV consultation, due to higher spending on special education needs and disability, the decision to walk back on some smaller benefit reforms, and assumed higher debt interest and welfare spending as a result of the energy price shock. Staff's revenue projections reflect the impact of recent measures taken at the last budget, including the extension of the freeze to income tax and social security thresholds, 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

[1] The authorities preferred measure of net debt is Public Sector Net Financial Liabilities (PSNFL), which subtracts a wide range of financial assets from gross debt, including liquid and illiquid financial assets, funded pension liabilities, and other accounts payable.

[2] 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.

duty. As envisaged by the authorities' medium-term fiscal framework, staff projects the primary deficit to improve by around 2½ ppts of GDP between FY2026/27 and FY2030/31, as revenue collections increase and the expenditure ratio gradually declines, and to remain stable thereafter at a surplus of around 1.2 percent of GDP. The debt-to-GDP ratio is projected to settle at around 100 percent over the medium term.

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. In particular, the projected 3½ percentage point improvement in the overall balance over five years is anchored by the spending review's multi-year departmental limits and is significantly below the adjustment achieved during the 2010s (8½ percentage points over a decade or 1 percentage point per year). At the same time, staff's growth projections appear somewhat optimistic given the projected fiscal consolidation. The recovery in growth in 2027 and 2028 is driven by monetary policy easing, a pickup in consumption, and stronger external demand.

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 50 percent. Moderate GFN Financeability risks reflect moderately high GFNs of around 10 percent of GDP per year on average under the baseline projections. GFNs exceed 20 percent of GDP for one year 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 around 13 percent in this scenario, this would be manageable given that banks' exposure to the public sector is currently less than 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 13 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 still large institutional investor base, which mitigates 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.

5. Long-term risks. High debt levels and rising spending pressures present long-term fiscal challenges for the UK. Simulations suggest that if health spending rises from current levels of around 8½ percent of GDP to 10 percent by the middle of the century, as implied by the NHS Long Term Workforce plan, GFNs would rise steadily and debt would increases to over 120 percent of GDP (Figure V.8).

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 a relatively low level of vulnerability in the near-term and 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 still 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 still 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

	CG	GG	NFPS	CPS	Other	Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
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/

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/

5. Debt consolidation across sectors:

Consolidated	Non-consolidated

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

Reporting on Intra-Government Debt Holdings

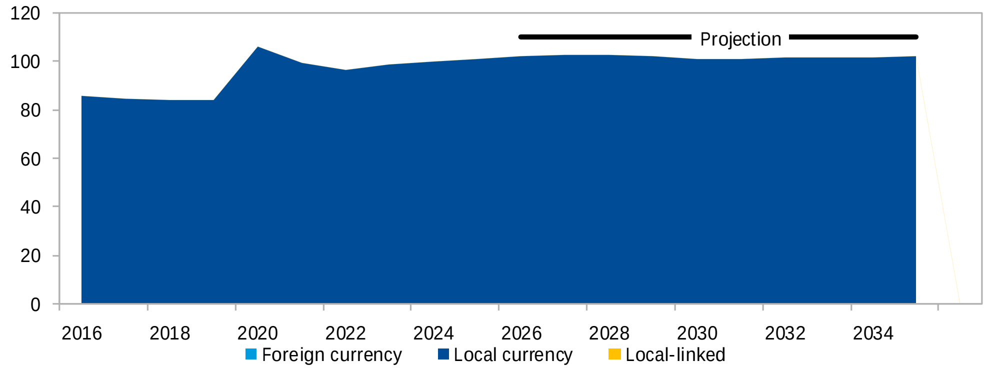
Issuer \ Holder		Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
1	Budget. central govt									0
2	Extra-budget. funds									0
3	Social security funds									0
4	State govt.									0
5	Local govt.			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

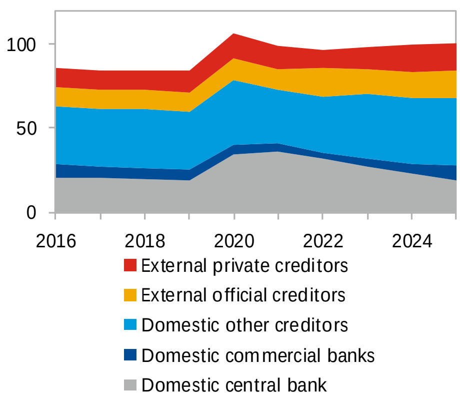
Figure V.3. United Kingdom: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



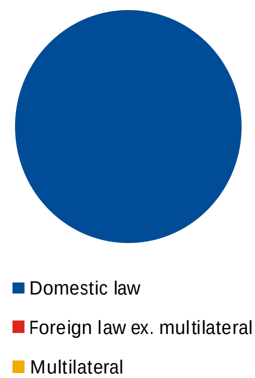
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



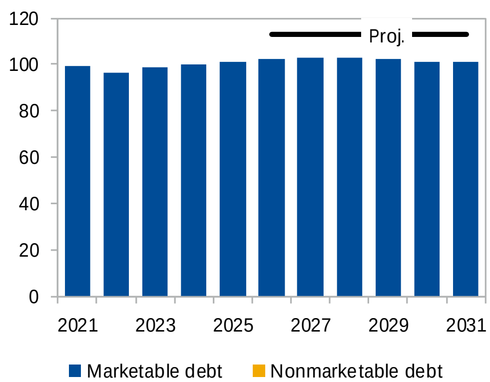
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2025 (percent)



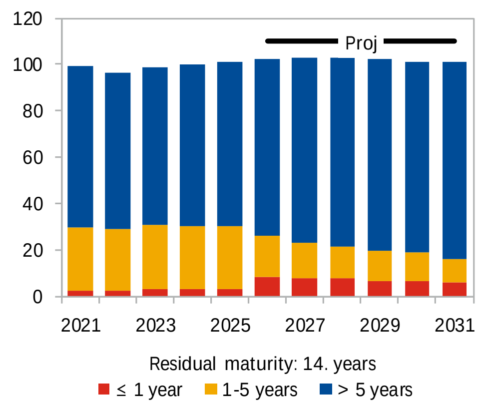
Note: The perimeter shown is general government.

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.

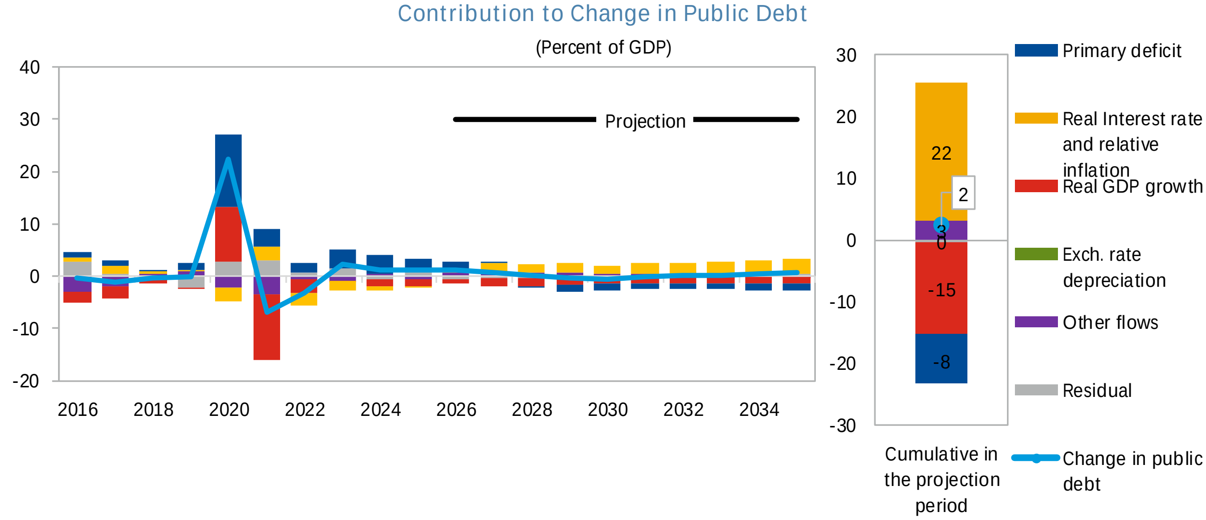
Commentary: Debt is entirely in domestic currency and marketable. All public debt is governed by domestic law. Debt is mostly long-term, with its residual maturity (around 14 years) one of the highest among advanced economy peers. The share of debt held by the central bank, which had risen with successive 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 about 10 percent of public debt.

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

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Public debt	101.0	102.2	102.9	103.1	102.7	102.1	102.1	102.1	102.3	102.6	103.2
Change in public debt	1.3	1.2	0.8	0.2	-0.4	-0.7	0.0	0.1	0.2	0.3	0.6
Contribution of identified flows	0.1	1.8	1.1	0.5	-0.2	-0.6	-0.1	0.0	0.0	0.0	0.3
Primary deficit	2.0	1.2	0.4	-0.2	-1.1	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Noninterest revenues	38.2	39.3	40.3	40.4	40.8	41.0	41.0	41.0	41.0	41.0	41.0
Noninterest expenditures	40.3	40.5	40.6	40.2	39.7	39.8	39.8	39.8	39.8	39.8	39.8
Automatic debt dynamics	-1.3	0.0	-0.2	0.0	0.1	0.2	0.7	0.9	1.1	1.3	1.6
Real interest rate and relative inflation	-0.1	0.9	1.5	1.5	1.7	1.6	2.0	2.2	2.4	2.7	2.9
Real interest rate	-0.1	0.9	1.5	1.5	1.7	1.6	2.0	2.2	2.4	2.7	2.9
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	-0.8	-1.7	-1.6	-1.6	-1.4	-1.3	-1.3	-1.3	-1.3	-1.3
Real exchange rate	0.0	0.0	…	…	…	…	…	…	…	…	…
Other identified flows	-0.7	0.6	1.0	0.7	0.8	0.4	0.4	0.2	0.0	-0.1	-0.1
Other transactions	0.0	1.4	1.7	1.5	1.5	1.1	1.2	1.0	0.8	0.6	0.6
Contribution of residual	1.2	-0.7	-0.4	-0.4	-0.2	0.0	0.1	0.1	0.2	0.2	0.3
Gross financing needs	13.3	8.0	11.3	10.9	10.8	10.0	11.0	10.9	11.5	12.5	13.1
of which: debt service	11.9	7.5	11.7	11.8	12.6	11.9	12.9	12.8	13.4	14.4	15.0
Local currency	11.9	7.5	11.7	11.8	12.6	11.9	12.9	12.8	13.4	14.4	15.0
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	0.8	1.7	1.5	1.5	1.4	1.3	1.3	1.3	1.3	1.3
Inflation (GDP deflator; percent)	3.5	2.3	1.8	1.9	2.0	2.2	2.0	2.0	2.0	2.0	2.0
Nominal GDP growth (percent)	4.7	3.1	3.5	3.5	3.5	3.6	3.3	3.3	3.3	3.3	3.3
Effective interest rate (percent)	3.4	3.1	3.3	3.5	3.7	3.7	4.0	4.3	4.5	4.7	4.9

Contribution to Change in Public Debt



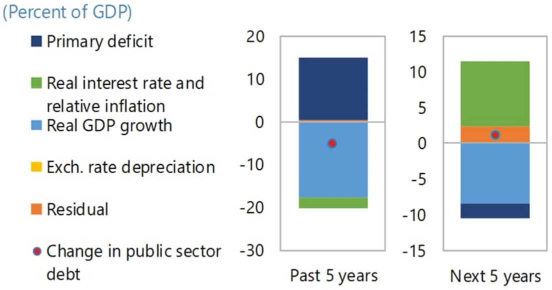
Staff commentary: General government debt settles at around 105 percent of GDP over the medium term, as the primary balance improves because of higher revenue collection and a gradually declining expenditure ratio. Debt begins to increase gradually again after FY2031/32, as the higher interest bill drives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

1/ Data are presented in fiscal years, so that, e.g., 2025 corresponds to FY2025/26, ending in March 2026.

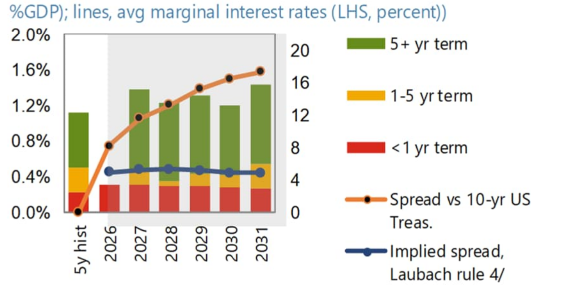
Figure V.5. United Kingdom: Realism of Baseline Assumptions

Public Debt Creating Flows

(Percent of GDP)

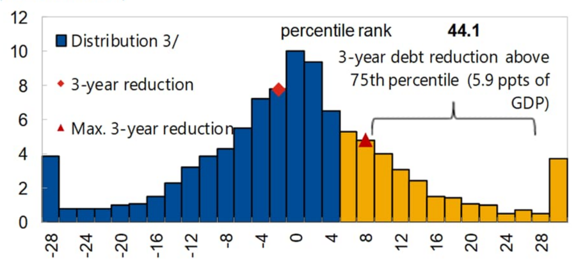


Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))

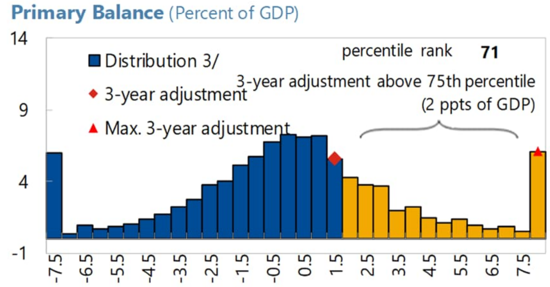


3-Year Debt Reduction

(Percent of GDP)

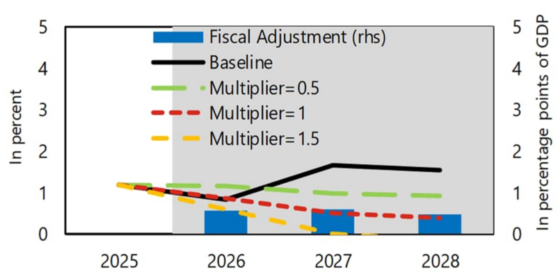


3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



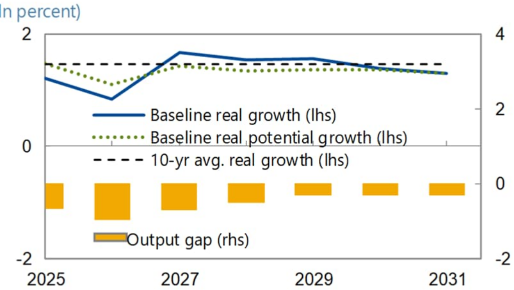
Fiscal Adjustment and Possible Growth Paths

(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth

(In percent)



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 and stock-flow adjustments. 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, while moderate real GDP growth over the projection horizon helps bring debt down.

Source : IMF Staff.

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

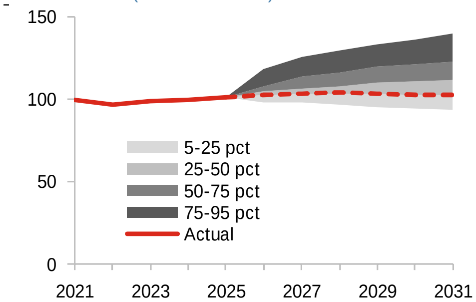
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

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.

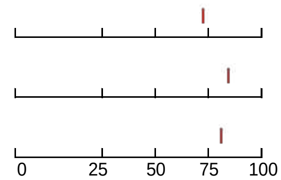
Figure V.6. United Kingdom: Medium-Term Risk Analysis

Final Fanchart (Percent of GDP)

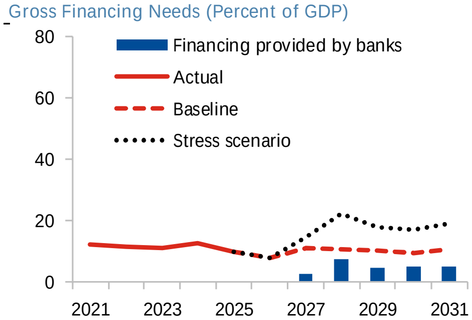


Debt fanchart module

	Value	Contrib 1/	Percentile in peer group 2/
Fanchart width *(percent of GDP)*	46.7	0.7	
Probability of debt non-stabilizaiton *(percent)*	53.3	0.4	
Terminal debt-to-GDP x institutions index	26.6	0.6	
Debt fanchart index (DFI)		1.7	
Risk signal: 3/		Moderate	

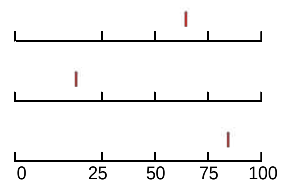


Gross Financing Needs (Percent of GDP)



Gross financing needs (GFN) module

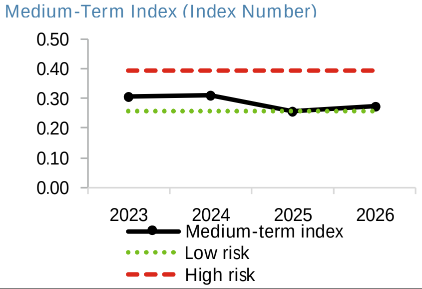
	Value	Contrib 1/	Percentile in peer group 2/
Average baseline GFN *(percent of GDP)*	10.0	3.4	
Initial Banks' claims on the gen. govt *(pct bank assets)*	2.8	0.9	
Chg. In banks' claims in stress *(pct banks' assets)*	12.7	4.2	
GFN financeability index (GFI)		8.6	
Risk signal: 4/		Moderate	



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	1.7	0.4	0.5	0.2
GFN finaceability index	8.6	0.2	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		Moderate		
Final assessment:		Moderate		

Prob. of missed crisis, 2026-2031, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2026-2031, if stress predicted: 38.6 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 35 percent. Risks around the baseline debt projection are skewed towards higher-than-baseline debt 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.

Source: 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.

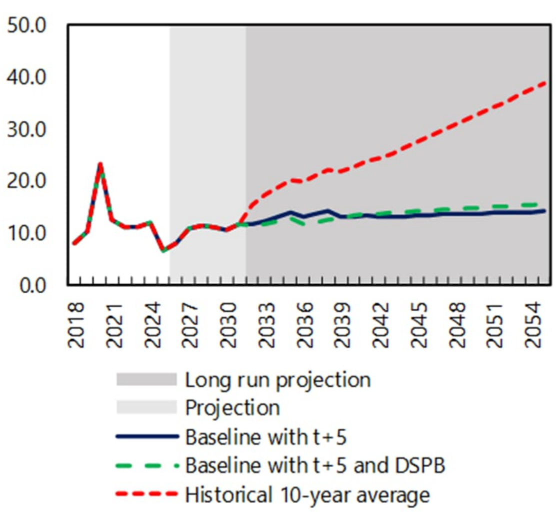
Figure V.7. United Kingdom: Long-Term Risk Analysis

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

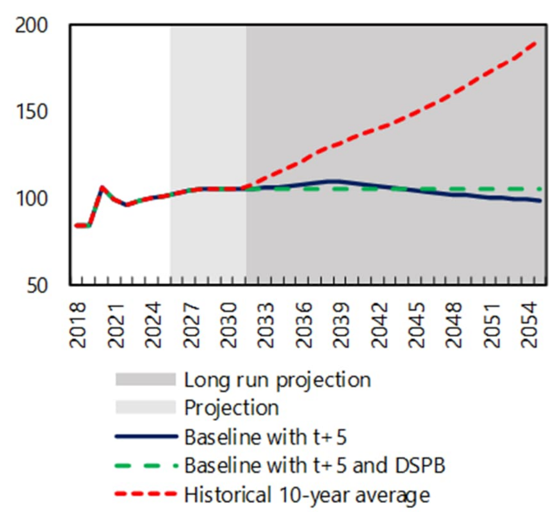
Long-Term Risk Assessment: Large Amortization

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

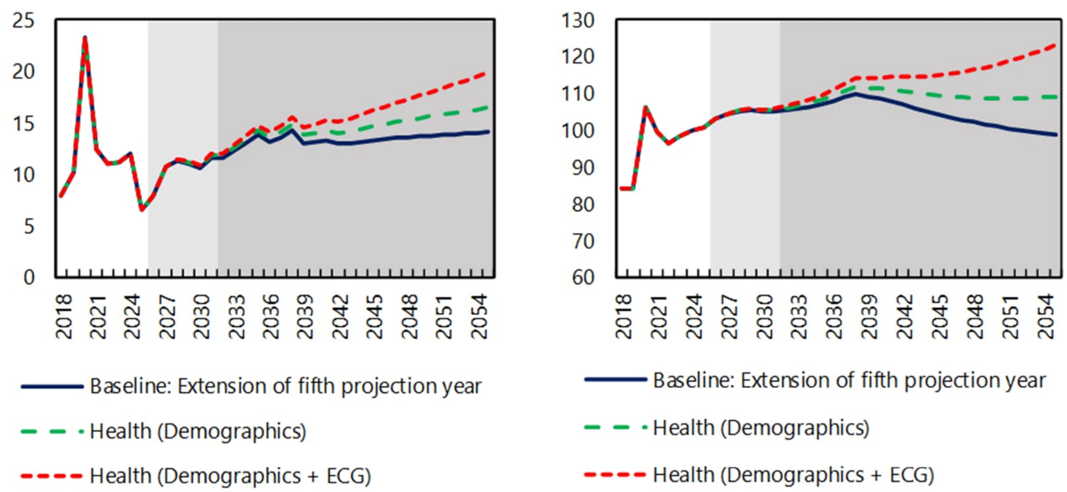


Staff Commentary: Long-term simulations suggest that GFN and / or amortization will exceed the 2015-2025 average by more than one std. dev. if (i) debt drivers remain at FY2031/32 levels over the long term; or (ii) the debt-stabilizing primary balance prevails over the long term, while other debt drivers remain at FY2031/32 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

GFN-to-GDP Ratio | **Total Public Debt-to-GDP Ratio**



Staff Commentary: Long-term simulations suggest that GFN and GG debt will rise more sharply if current health spending (around 8.5 percent of GDP) (i) rises over time due to population ageing (Demographics); or (ii) 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 8.5 percent of GDP and debt drivers remaining at FY2031/32 levels over the LT.

Annex VI. 2022 FSAP Recommendations

Key FSAP Recommendation	Timeframe	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	• The BoE 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, building 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 lend cash to participating insurance companies, pension funds and LDI funds (ICPFs) against gilt collateral for a short lending term. Since launch, there has been strong engagement from ICPFs, and the Bank has an active pipeline of applications. 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 continued in parallel, although the near-term focus has been on onboarding ICPF applicants.
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 BoE 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. • As part of this, the BoE is investing in its desk-based / top-down modelling toolkit for stress testing the banking system, including new mortgage models, as well as mid (UK) and large corporate (UK,US and euro area) loan-level models. The BoE has also run a deep dive with banks on Chinese and Hong Kong SAR portfolios. On interest rates, BoE has built granular product-level models for projecting net interest income to enable the simulation of higher interest rate scenarios. • This investment has enabled the BoE to provide timely assessments of the impact of new scenarios and risks on banks in a more

Key FSAP Recommendation	Timeframe	Update on Relevant Work in Progress
		comprehensive manner, including outside of the biennial firm-submission stress tests (Bank Capital Stress Tests or BCSTs). For example, in the 2024 desk-based stress test BoE considered more than one scenario, made greater use of sensitivity analysis (including on house prices and net interest income assumptions). The BoE has also run supplementary analysis to explore wider risks such as unrecognised losses on hold-to-collect assets and cash flow hedges that could crystallise under stress, and to better understand UK banks' lending exposures to private market funds (as part of a wider examination of risks from private markets). Furthermore, the BoE also supported international exercises like the FSB/BCBS global stress test. • The BoE published the final report for its system-wide exploratory scenario exercise (SWES) in November 2024. This exercise explored the behaviour of banks and NBFIs in stress, and how their behaviours might interact and amplify shocks in ways that might cause adverse outcomes in UK financial markets core to UK financial stability. The BoE alongside the FCA is investing in building capacity to conduct in-house stress simulations that model system-wide dynamics, to be able to update the SWES findings periodically in a proportionate way, supplemented by engagement with firms. • In December 2025, the BoE launched its second SWES exercise focused on private markets. The exercise will explore the actions of non-banks and banks active in the UK private markets ecosystem in response to an economic downturn, and how these actions may interact to amplify stress and pose a threat to UK financial stability and the UK corporate sector. The exercise will be run in close collaboration with market participants. The Bank has signed up 50 firms, including 17 alternative asset managers. The exercise will complement existing work on private market risks done by the Bank/PRA (e.g. PRA thematic review, bank and insurers stress tests, FPC monitoring). The Bank will launch the scenario phase of the exercise in June, including the publication of the PM SWES scenario. The Bank will publish interim findings throughout 2026 upon completion of major milestones, with the first update expected alongside July FSR and a final report to be published in 2027. • 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: o The Bank is developing its "system interlinkages model". This includes improving the modelling of fundamental asset price

Key FSAP Recommendation	Timeframe	Update on Relevant Work in Progress
		and open-ended fund flows; refining the treatment of repo borrowing; and introducing an LDI fund. o The Bank is also developing model approaches that exploit new datasets on financial exposures and interlinkages. For example, the capital at risk microstructural model of banking sector exposures will be extended to include amplification and feedback effects, as well as bringing in additional data collections on insurers and funds. • The Bank has embedded the findings from SWES-1 into a desktop-toolkit. This replicates the key drivers of asset transactions reported in the SWES using firm-level data (such as sales to: meet LDI recapitalisation calls; restore liquidity buffers after initial margin and variation margin calls; meet redemption requests; reduce risk back to within internal risk limits). It enables the BoE to track how a large subset of vulnerabilities in core UK markets are evolving over time in a consistent way, and BoE are discussing its results with firms so that outputs can be verified, and to identify how stressed behaviours may be evolving. • The PRA's 2025 Life Insurance Stress Test (LIST) focused on annuity writers and, for the first time globally for a regulator, published firm level outcomes. Results showed the sector remained resilient under a severe market stress involving lower risk free rates, falls in equity and property prices, wider spreads, and associated defaults and downgrades. • Alongside the core scenario, LIST 2025 included exploratory stresses on asset concentration and Funded Reinsurance (FundedRe) recapture. Firm level results were published only for the core scenario. The FundedRe scenario demonstrated that recapture can materially affect solvency, though firms could absorb the impact at current levels. Given FundedRe's early adoption, the findings highlight the need for continued monitoring, especially as exposures grow or structures become more complex. • Combined with Market Risk Sensitivities and Matching Adjustment Portfolio data, the results enhance the PRA's ability to assess sector-wide sensitivities. • The PRA will run a Dynamic General Insurance Stress Test (DyGIST) in 2026. DyGIST 2026 is also a global first for a regulator, with the dynamic nature of the exercise representing a significant change from previous exercises by simulating a sequential set of adverse events over a three-week period in May 2026. • The objectives of the exercise are to: assess the industry's solvency and liquidity resilience to a specific adverse scenario; assess the

Key FSAP Recommendation	Timeframe	Update on Relevant Work in Progress
		effectiveness of insurers' risk management and management actions following an adverse scenario; and inform the PRA supervisory response following a market-wide adverse scenario. • The results of the DyGIST exercise will be disclosed at an aggregate industry level in 4Q 2026. • Progress in strengthening CCP stress-testing frameworks has continued. Supervisory stress testing has made increased use of desk-based exercises, alongside participatory approaches, and is being supported by continued investment in analytical capability, including planned enhancements into 2027. In parallel, engagement with other relevant authorities has been strengthened through more coordinated and collaborative approaches to CCP stress testing across jurisdictions. • The Bank has also started a project to 'join the dots' between these various stress-test initiatives, and plans to develop a strategy for making the Bank's stress testing more macroprudential and efficient. Analytically this includes developing a vision for using stress tests to support a coherent system-wide assessment of the resilience, behaviours, and interactions of firms, sectors, and markets under stress.
3. Seek additional statutory powers to review and examine the resilience of all critical services (including, but not limited to, cloud services) that third parties provide to regulated firms. (BOE/PRA, FCA, and HMT)	3–5 years	• In 2023, the government gave regulators new powers, as recommended by the last FSAP, to oversee the resilience of critical third parties (CTPs) to the UK financial sector. These powers seek to mitigate the risks that CTPs may pose to financial stability. • In November 2024, the Bank, PRA and FCA published their final policy and rules establishing a CTP regime setting out how they intend to use their new powers, having consulted widely and working closely with industry to inform the design of the regime. The final rules, when implemented, will not only strengthen the resilience of the services that critical third parties provide to individual firms, but will improve the resilience of the UK financial services sector as a whole. • HM Treasury will decide which third parties should fall under the new regime based on advice from regulators. HM Treasury is currently gathering evidence to inform designation decisions this year (i.e. 2026). HM Treasury will decide which third parties should be designated, and may only exercise its designation power if, in its opinion, a failure in or disruption to the provision of the services that the third party provides to firms could threaten the stability of, or confidence in, the UK financial system. HM Treasury generally expects to make designations of CTPs on the basis of recommendations from the financial regulators.

Key FSAP Recommendation	Timeframe	Update on Relevant Work in Progress
		• The new rules align closely with international standards and similar regimes, like the EU's Digital Operational Resilience Act (DORA). In January 2026, the Bank/PRA and FCA published a Memorandum of Understanding to strengthen collaboration on the oversight of CTPs under the UK CTP regime and EU's DORA. • The new rules do not reduce the responsibility of financial firms and FMIs in making sure they are resilient to operational shocks and for their management of third-parties, in-line with FCA's existing outsourcing and operational resilience rules.
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 two years, and the PRA is satisfied that it has been adequately embedded. • 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. For example, the PRA wrote to relevant Chief Risk Officers after its Thematic review of private equity related financing activities in 2024, and to Chief Financial Officers to communicate feedback and prudential expectations for significant risk transfer financing in 2025). The PRA routinely conducts thematic reviews, with considerable time spent onsite, to further assess the resilience of firms including a review of banks' Counterparty credit risk (CCR) management practices, including the use of Potential future exposure metrics, as well as a review of banks' risk management of principal trading firms (the latter underpinned a 2026 speech, which has prompted many firms to undertake risk management enhancement programmes). • The market events in spring 2023 post US-tariff shock and the current Middle East conflict all demonstrate 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

Key FSAP Recommendation	Timeframe	Update on Relevant Work in Progress
		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 three years of 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. • 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. Meetings have been held in November 2023 and April 2025. 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. There were over 40 representatives attend and engagement from attendees has been good. The next meeting is scheduled for September 2026. • 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 UK authorities (the Bank of England, PRA, and FCA) have continued to strengthen the regulatory framework and supervisory practices for cyber resilience in response to the IMF FSAP 2022 recommendations. The work carried out between 2021 and early 2026 shows substantial progress across regulation, supervisory practices, incident reporting, cyber testing, and domestic and international collaboration. Cyber regulatory framework and guidance Upcoming Cyber Resilience Regulation (2026 Consultation) and technical practices guidance. Between 2022 and 2026, the PRA, FCA and the Bank of England continued to publish technical guidance and thematics informed by the outcomes of their supervisory activities and collaboration with the sector. This included the annual CBEST thematics (2024, 2025), the Cyber Recovery thematic (2025), the Cyber Stress Testing thematics (2022, 2024), and the SIMEX exercise publications (2022, 2024). The Bank also remains involved and contributes to the CPMI-IOSCO Cyber Resilience Guidance Toolkit.

Key FSAP Recommendation	Timeframe	Update on Relevant Work in Progress
		The PRA, FCA and the Bank of England plan to start consulting in the second half of 2026 on expectations around the management of cyber resilience risks. The original plan for a 2025 consultation has been updated to ensure it reflects the evolving threat landscape and aligns with developments in the UK Government's national cybersecurity strategy. The consultation will be progressed in 2026 and it includes risks arising from the sector's ability to detect, withstand and recover from disruptions in the event of cyber incidents. This strategic work will help the sector achieve higher standards of operational and cyber resilience. While the regulations will focus on cyber risks, the PRA, FCA and Bank rulebook covers operational risk and resilience more broadly, including technology and third party risk management expectations. The authorities will also consider the implications of recent AI developments as part of this consultation. • Frontier AI and emerging technologies. In May 2026, the PRA, FCA, Bank of England and HM Treasury (UK Authorities) published a joint statement on frontier AI models and its implications for cyber resilience. The statement highlighted the importance of effective protective, detective, threat containment and cyber response capabilities including to address faster and more disruptive frontier AI-driven attacks. Additional guidance was provided to the sector through CMORG (June 2026), and as part of FSB's and the G7 Cyber Expert Group (CEG) work on frontier AI (June and July 2026). These activities build on earlier work, including a 2022/23 discussion and feedback paper on artificial intelligence, followed by further publications on the impact of AI on financial stability (2024) and the Bank's approach to innovation (2025). The Bank of England led AI surveys and, in collaboration with the FCA, established the AI consortium, a public-private engagement platform focused on AI in UK financial services. The PRA, FCA, Bank of England have also continued to support UK financial sector guidance on post-quantum cryptography through national and international collaboration, including the G7 CEG and CMORG. New Operational Incident and Third Party Reporting Rules (March 2026). The PRA, FCA, and Bank jointly published final rules in March 2026 (PRA PS7/26 and equivalent FCA/Bank publications). The rules: (a) set clear, consistent criteria for incident reporting; (b) establish requirements for reporting material third-party arrangements (MTPs); and (c) aim to improve incident management and reduce harm from major disruptions, including cyber events. The framework is closely aligned with emerging

Key FSAP Recommendation	Timeframe	Update on Relevant Work in Progress
		international standards, particularly the FSB's work on the Format for Incident Reporting Exchange (FIRE). • UK Government and other strategic directives Cyber Security & Resilience Bill (CSRB). The UK Government's proposed CSRB (second reading in Jan 2026) updates NIS regulations and increases cyber resilience expectations across critical sectors (e.g. water, energy, transport) on which the financial sector depends. Key features expected to affect financial institutions include: (a) expanded sectoral coverage (e.g. managed service providers); (b) stronger regulatory powers; and (c) potentially stricter requirements on reporting and governance. The UK Authorities are monitoring the bill to ensure future supervisory approaches remain aligned with NCSC guidance. UK Government Ransomware consultation. UK government proposals include: (a) a potential prohibition on ransom payments for critical infrastructure; and (b) mandatory reporting of ransomware incidents. The Bank and the PRA contributed to the official policy consultation and a detailed government response was published in July 2025. Authorities will continue monitoring the development of future legislation, through the CSRB or other Home Office initiatives in this area. Engagement with systemic firms and FMIs has focused on severe but plausible scenarios, including destructive ransomware and recovery within impact tolerances. • Supervisory Practice Operational Resilience implementation. Firms have continued progressing towards meeting the Bank/PRA/FCA operational resilience requirements. Since 2025, many have invested in cyber recovery solutions that significantly reduce recovery times. Authorities shared *Effective Practices for Cyber Response and Recovery* in 2025 to support industry improvement. Cyber toolkit improvements Authorities have implemented several enhancements aligned to FSAP recommendations: o A redesigned CQUEST maturity assessment (2023) o STARFS testing framework for smaller firms (2024) and expanded promotion of its use (2025) o Annual CBEST thematic publications (2023–2025) o Pilot of an advanced penetration testing model targeting mature firms

Key FSAP Recommendation	Timeframe	Update on Relevant Work in Progress
		o New analytics for cyber resilience metrics and MI reporting o Increased use of Skilled Person Reviews (s166) focused on cyber controls o A developing cyber assurance framework covering the full NIST aligned lifecycle In relation to the Frontier AI issue, the PRA has progressed its engagement with systemically important firms to gather intelligence on their readiness, patching capacity, and the operational impact of AI-enabled vulnerability discovery. These engagements also assessed the potential implications of emerging AI models for firms' cyber defenses. Cyber and Operational Stress Test (CORST). The Bank/PRA recently completed their 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 were published in summer 2025 and included an annex on how financial impacts of operational disruption can combine with operational and confidence factors to create financial instability. • Collaborations with the sector and international engagements Cross Market Operational Resilience Group (CMORG). CMORG is the UK financial sector's strategic public-private forum for strengthening operational resilience across the system. The Bank/PRA continue to work closely with CMORG on systemic cyber resilience. Key outputs since 2021 include: a reconnection framework for firms returning from cyber quarantine; cyber recovery guidance for severe incidents; a data vaulting reference architecture; a dynamic scenario library; Guidance on shared third-party risks; and SIMEX22 and SIMEX24 thematic publications on cross-sector coordination. CMORG remains central to enhancing collective resilience and crisis readiness across the financial system. International engagement. UK authorities actively contribute to the G7 Cyber Expert Group (CEG), the Financial Stability Board (FSB) and UK Finance public-private partnerships. Outputs (2021–2026) include: best practices for recovery and reconnection; guidance on quantum risk and AI in cybersecurity; A roadmap for transitioning to post quantum cryptography; cross border incident response protocols; and multi jurisdiction cyber exercises (2024, 2026). These engagements help maintain global alignment and strengthen UK influence in shaping emerging cyber standards.

Key FSAP Recommendation	Timeframe	Update on Relevant Work in Progress
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 which reform the role of Companies House and improve transparency over UK companies, in order to strengthen business environment, support national security and combat economic crime, whilst delivering a more reliable companies register to underpin business activity. • The reforms include: o Identify verification for new and existing directors and beneficial owners became mandatory from November 2025. Restrictions will soon be introduced on those who can file statutory documents with Companies House. This includes requiring anyone filing information with Companies House to be identity verified or an Authorised Corporate Service Provider, helping to identify the real beneficial owner acting on behalf and benefiting from companies. o Broadening the Registrar's powers so that the Registrar is a more active gatekeeper over company creation and custodian of more reliable data concerning companies and partnerships. o 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. o 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. o Enhancing the protection of personal information and addresses provided to Companies House to protect individuals from fraud and other harms. o Broader reforms to clamp down on misuse of corporate entities. • From April 2025 to March 2026, over 3.7 million identities have been verified. It is estimated that 6 to 7 million individuals will need to undertake this process by November 2026. • Since 4 March 2024, Companies House has made significant progress in tackling false and misleading information on the register using new powers. As of 30 November 2025, Companies House have removed

Key FSAP Recommendation	Timeframe	Update on Relevant Work in Progress
		over 343,500 false or inappropriate addresses and redacted 66,400 incorporation documents to remove personal data used without consent. • The Overseas Territories (OTs) and Crown Dependencies (CDs) are self-governing jurisdictions that 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. • Publicly Accessible Registers of Beneficial Ownership (PARBOs) are in place in Montserrat, Gibraltar and Saint Helena. The Falkland Islands have committed to implement a PARBO in summer 2026. • Registers of beneficial ownership accessible to those with a legitimate interest are in place in the Cayman Islands and the Turks and Caicos Islands. Anguilla, Bermuda and the British Virgin Islands have committed to introduce such registers and these are expected to launch in 2026. The authorities are continuing to engage with all five Territories to ensure that their legitimate interest access registers deliver the maximum possible degree of access and transparency whilst protecting the right to privacy in line with respective constitutions. • The CDs have committed to implementing legitimate interest access to their registers of beneficial ownership, aligning with the EU's 6th Anti-Money Laundering Directive. • 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 of 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 that 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.

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		• 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 recovery and resolution planning for insurers and CCPs. (HMT, BOE/PRA, FCA, and FSCS)	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 continues to prepare and enhance its Heightened Contingency Framework (HCF) execution materials for diverse failure scenarios, including cyber, use of multiple tools concurrently, and fast failure. The Bank worked with HMT as part of its updates to the resolution regime's Code of Practice

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		in 2025, including to consider amendments relevant to the IMF's recommendations This includes working together to consider lessons learned from the SVB US / UK and Credit Suisse failures to enhance their approach. Authorities have also engaged with relevant international work, including by the FSB, on lessons learned. Following on from that work, the BRR Act came into force in 2025. Related changes have been made to ensure that the Bank's policies on firms' resolvability also remain up to date, including amendments to the Bank's Minimum Requirement for Own Funds and Eligible Liabilities (MREL) policy that applied from January 2026. These new measures will enhance the Bank's ability to resolve banks, including, through the BRR Act mechanism, smaller banks that do not issue non-regulatory capital loss absorbing debt, by allowing FSCS funds to be more readily available to facilitate a transfer. In April 2026 the Bank set out the implications of these changes in an updated operational guide to transfer resolution, and in updates to the operational guide to bail-in and 'Approach to Resolution' publications. • 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 operationalized by the PRA. HMT consulted on establishing an Insurance 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. The regime, if enacted in legislation, 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 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 their expectations for UK insurers to prepare, as part of their business-as-usual 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. Crisis Management Groups have been established for all UK Internationally Active Insurance Groups. • 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

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		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 enable it to act quickly, flexibly and decisively to handle the failure of a CCP. Work to operationalize the powers contained in the UK's enhanced resolution regime started in 2024 and continues this year. The Bank is progressing CCP resolution planning and enhancing 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 2025, with a further table top exercise planned for H2 2026. The Bank is developing its approach to the resolvability of CCPs with a view to establishing published standards in due course. In May 2026, the Bank published a discussion paper on CCP resolution execution and resolvability outcome and this work will continue throughout 2026, including via direct dialogue with industry stakeholders. The Bank intends to publish proposed resolvability standards for consultation, and undertake further engagement with industry on these, in H2 2026. In 2025 the Bank has, and will continue to, input into HMT's production of a proposed CCP compensation scheme procedure Statutory Instrument (SI) as a further development of the UK's CCP resolution regime, which implements in more detail the No Creditor Worse Off (NCWO) safeguard already created in FSMA 2023. To note, the exact timing of making of the SI is a matter for Parliament.
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 2025 Remit letter from the Chancellor reaffirmed the primacy of the FPC's financial stability objective. It also recommended that the FPC supports international work to address vulnerabilities in the financial system. • The letter notes the FPC should continue to prioritise building resilience in NBFIs and associated markets, including by working through the Financial Stability Board to improve regulatory frameworks and monitoring across jurisdictions, and using insights gained 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, subject to that, by supporting the government's economic policy under its secondary objective. The remit and recommendations also ask the FPC to assess and identify areas where there is potential to increase the ability of the financial system to

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		contribute to sustainable economic growth, consistent with maintaining financial stability. • The FPC has 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 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 FSMA 2023 gave the PRA a new secondary competitiveness and growth objective. This objective is to facilitate, 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 (strategic and operational) objectives also rank above all considerations, including the secondary international competitiveness and growth objective (SIGCO). The secondary objective is only engaged when advancing its primary objectives by exercising general functions (as listed in s.1B of FSMA). These functions include: o Rule-making (s.1B(6)(a)).

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		o Functions in relation to giving general guidance (s.1B(6)(c)). o Determining general policies (s.1B(6)(d)) that govern how PRA exercise's 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 jeopardize financial stability. • The FCA has published two reports on its work to embed SIGCO—the first in 2023/24 and a second in 2024/25. These provide updates on relevant rules and guidance from the FCA on how both the primary and secondary objectives were considered. • The FCA's 5 year strategy outlines the importance of international standards and 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 and PS 15/25—Closing liquidity reporting gaps and streamlining Standard Formula reporting was published last year with the aim of improving safety and soundness. 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. The PRA has also published two reports on embedding SIGCO—in 2023/24 and 2024/25.
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, redeployed 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, PRA have continued to re-allocate resources within the PRA to reflect further changes in responsibilities and the changing nature of the risk environment externally. For example, PRA has allocated resource to 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.

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		• The second part of the PRA 2026 strategy includes the transformation of capabilities around solvent exit planning (complementing the capabilities PRA have 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. On solvent exit planning, PRA has achieved a major milestone by finalising the new rules and expectations on banks, building societies and insurers. This came into effect for banks and building societies in October 2025. 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, PRA has and will continue to engage with firms to identify targeted opportunities to streamline data collections (e.g. deletions of reporting templates that provide limited regulatory value). • The FCA prioritised its work for 2023/24 to ensure it directs its resources most effectively. It made 13 commitments in its multi-year strategy, published in April 2022. Going into 2023/24, it chose to invest even further in FCA's most critical commitments: o Preparing financial services for the future—working with the Treasury to implement the new regulatory framework so the FCA can address emerging harms more efficiently o Putting consumers' needs first—to improve consumer protection and standards for all consumers and ensure FCA's support for struggling consumers remains a priority o Reducing and preventing financial crime – prioritising this will also help protect consumers to an extent and consumers in vulnerable circumstances specifically, as they may be more susceptible to fraud. This also supports the FCA's commitment to Putting consumers' needs first o Strengthening the UK's position in global wholesale markets – to help ensure that the UK continues to be seen as one of the leading global markets of choice and strengthen FCA's ability to respond to market volatility • The FCA continued to deliver across the remaining 9 commitments made in its strategy at a similar pace to 2022/23 (year 1). • In deciding where to focus efforts, the FCA took account of the impact of the challenges in the year ahead on the outcomes in its Strategy that it wants financial services firms to deliver. They have factored in the investment and progress it has already made in the first year of its Strategy.

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		• Going into 2024/25, the FCA chose to deprioritise preparing financial services for the future. FCA invested significantly in implementing the Treasury's Smarter Regulatory Framework (SRF). This enabled significant progress, so much so that FCA no longer consider this needs to be such a highly prioritised commitment as in 2022/23. • In developing the 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 sees within the market. FCA has streamlined prioritisation, moving from more than 45 portfolio prioritisation letters issued ad hoc to firms, to an annual suite of 8-10 publications setting out regulatory priorities for each market. The first tranche of these will be published by March 2026. This enables the FCA to focus on the greatest harms in each market, being clear with firms about expectations of them, and annual programme of work. o The FCA will also review its firm categorisation model to build relationships with a wider range of the participants that it considers having the most significant impact and influence within their markets; and dial up and down on its supervisory oversight of significant firms demonstrably doing the right thing. o Optimise the FCA's operational performance making the best use of data and digital capabilities. This will enable FCA to use deeper insights to optimise operational performance, driving greater productivity and efficiency in regulatory delivery, operations and processes.
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	• HMT completed the FRF review in 2022 and enacted the outcomes of the review through the Financial Services and Markets Act (FSMA) 2023. The Act 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, and a requirement to respond in writing to parliamentary committees' formal responses to consultations.

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		• 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 and safeguarded. The mechanisms which were ultimately adopted through FSMA 2023 elevate accountability and transparency while also preserving the regulators' operational independence and effectiveness. • The FSMA 2023 framework has now been operational for approximately 3 years. The FCA and PRA have embedded these requirements in a manner that facilitates efficient and responsive policymaking while also allowing for effective oversight, although as recognized in HM Treasury's recent consultation, there is scope to realize further improvements. The FCA and PRA CBA Panels are now set up and are independently scrutinizing 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 published their respective statements of approach to CBAs. The FCA's is available here and the PRA's here. Both regulators have also published statements on how they 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. The Bank has also published its approach to the review of rules, ensuring its regulatory framework is flexible and remains fit for purpose.
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 data including all cross-border NBFI exposures. (FPC, BOE/PRA, and FCA)	3–5 years	• On the back of a comprehensive survey of the available data on banks' exposures to NBFIs, the BoE submitted a new data request to banks to address gaps in NBFI exposures in 2024. As this was a one-off exercise, the Bank is considering 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.

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		• The ONS published for the first time in January 2025 international template data on debt securities and sectoral accounts, in line with the Special Data Dissemination Standards Plus, on their UK National Data Summary Page. • The ONS published 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 covers for the first time Private Equity Funds. • The ONS primarily relies 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 2024/25, Bank staff completed aggregation of all internally available data on gilt holdings, forming a clear view of the size of the remaining data gap in this space. They have also engaged with relevant stakeholders externally to learn about their data. BoE staff are 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, 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 the FSB's Nonbank Data Task Force (NDTF) and the associated workstream on leveraged trading strategies (WLS). • Domestically, the FCA's enhanced derivative reporting requirements under UK EMIR have become applicable since 30 September 2024. • Fund Liquidity: o In December 2025, the FCA consulted on proposals to enhance the liquidity risk management framework for retail-oriented authorised funds (CP 25/38). These proposals take account of the FSB and IOSCO's recommendations on fund liquidity risk management and the FSB's recommendations on liquidity preparedness for margin and collateral calls.

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		o Later in 2026, the FCA will consult on a revised regime for alternative investment fund managers (AIFMs), as part of which they will consult on revised liquidity risk management rules and proposals to require some illiquid alternative investment funds (AIFs) to have redemption terms which match the illiquidity of the portfolio. The AIFM reforms CP will also take account of the FSB's recommendations on liquidity preparedness for margin and collateral calls • Fund Data: o The FCA plans to transform its regulatory data model for asset managers and funds (including private market funds). This will be achieved by designing new, proportional, streamlined regulatory returns that address data gaps, incorporate international standards and regulatory practices and provide a consistent firm experience for submission. Collection of accurate and comparable data from funds will enable data-led supervision, foster confidence in UK markets, support investment and drive innovation. • 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, as set out in SS5/21 - International banks: The PRA's approach to branch and subsidiary supervision | Bank of England (which was refreshed in May 2025) and SoP7/24 – The Prudential Regulation Authority's approach to insurance branch authorisation and supervision | Bank of England (which was refreshed in May 2024). • 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 Bank / PRA currently has supervisory cooperation Memoranda of Understanding (MoU) with over 60 countries covering over 70 competent authorities. The MoUs and similar agreements with third country regulators follow a risk based approach, which considers the volume of cross-border financial services activity between the two jurisdictions and the presence of UK-regulated firms in the host market, in addition to the presence of relevant overseas firms in UK financial markets.

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		• The PRA has continued to enhance and develop 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, they developed a quantitative data collection template on NBFI exposures that sought to consider counterparty-credit risk on a group-wide basis. • The PRA has 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, private equity, CRR management practices and banks' risk management of principal trading firms. Building upon the long track record of undertaking joint reviews with US and Swiss regulatory counterparts, the PRA has now also established joint reviews with Japanese and European supervisory colleagues. They have 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 PRA navigated the volatility following the invasion of Ukraine, the UK mini budget and the failures of SVB and Credit Suisse, they 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. PRA also continue to share areas of key concerns on a regular basis with the FRB and SSM, including on a desk-based commodity stress test they conducted through the Russia/Ukraine volatility. • The PRA has published updates to its approach to branch and subsidiary supervision (PS6/25), 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. The PRA made these targeted changes to its expectations of international and UK trading banks in line with its continued approach of responsible openness.

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		• Letters of Good Standing (LOGS). Annually, the FCA receives c2k LOGS requests from overseas regulatory authorities, asking for verification of UK firms and individuals who are authorised or registered with the FCA. The FCA is obligated under FSMA (S354A) to respond to these requests. FCA have re-engineered their end-to-end process for managing these requests, including through updating of external webform to make it clearer and easier for external regulators to submit requests. FCA expect this change to significantly reduce response times to overseas regulators.
15. Maintain the United Kingdom's commitment 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)	3–5 years	• The UK welcomes ongoing regulatory dialogue with the EU through the Joint EU-UK Financial Regulatory Forum, which last met in March 2026. UK authorities will continue to engage closely with EU authorities through the semi-annual Forum meetings, as well as bilaterally and through multilateral fora. • The PRA has signed and implemented 32 Memoranda of Understanding (MoUs) with EU institutions and Member States, and a further three MoUs with EEA Member States. The PRA, EU and EEA insurance regulators are also signatories to a Multilateral Memorandum of Understanding, which provides a formal basis for cooperation and information exchange among insurance supervisors, in addition to the IAIS Multilateral Memorandum of Understanding. • The FCA has also signed five MoUs with EU institutions and counterparties, and 31 bilateral MoUs with EU and EEA National Competent Authorities (NCAs) since 2020. The FCA has also signed and implemented MoUs with global bodies such as IAIS and IOSCO. These continue to be reviewed and updated as required. • The FCA has also adopted a number of more specific MoUs, for example two MoUs with ESMA on critical benchmarks and the recognition of UK benchmark administrators in the EU in 2023, which the FCA is currently updating, and an MoU with the AMF on MiFID data, which was adopted in 2024. Furthermore, together with the Bank and PRA, the FCA has recently started negotiations on a DORA CTP oversight regime between the ESAs and UK authorities. An MoU to enhance regulatory cooperation and oversight of critical third parties under the UK's CTP regime and the EU's DORA was signed in January 2026. • The Bank, PRA and FCA have also strengthened their 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.

Key FSAP Recommendation	Timeframe	Update on Relevant Work in Progress
		• HMT granted the EU a package of equivalence decisions in November 2020, including a decision on CCP equivalence. The Bank has recognised 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 20 cooperation arrangements with EU institutions and Member 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 four EU CCPs. The Bank has also agreed with ESMA an MoU template to be used for the recognition of EU CSDs that 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. In 2025, 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 in March 2025, ESMA 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 within the FSB, IOSCO and IAIS. Following multi-year engagement between the PRA and the EBA, in December 2025 the EBA published updated Guidelines on the equivalence of confidentiality and professional secrecy regimes of third-country authorities, which recognise the PRA's professional secrecy regime as equivalent to the EU's. This provides a clear legal basis for information sharing, strengthening the supervisory relationship.

Annex VII. Key Milestones of the Authorities' Structural Reform Agenda

Area	Measure	Description	Date
Stability	Single fiscal event commitment and Budget Responsibility Act 2024	Moved to only one major fiscal event per year (Autumn Budget). Adopted new legislation requiring all fiscally significant measures to be accompanied by an OBR assessment. Capped corporation tax at 25 percent.	10/2024
Stability	Spending Review 2025	Adopted the first multi-year spending review since 2021, setting departmental budgets through 2029–30.	06/2025
Stability / Investment	Energy	Overhauled grid connection processes to prioritize strategically important projects and accelerate delivery through a new Connection Accelerator Service. Secured over £100bn of network investment to support the energy transition. £14.2bn investment approval for major nuclear project.	12/2025
Investment (planning)	Revised NPPF and fast tracking of major infrastructure projects	Reinstated mandatory housing targets. Released selected Grey Belt land. Strengthened intervention policy and "call-in powers". Fast tracked nationally significant infrastructure.	12/2024
Investment (planning)	Planning and Infrastructure Act 2025	Streamlined Nationally Significant Infrastructure Projects consenting. Simplified environmental mitigation through the Nature Restoration Fund. Modernized planning committees. Royal Assent in 12/2025.	12/2025
Investment (planning)	English Devolution Act 2026	Legislation to implement the December 2024 White Paper. Established statutory framework for strategic authorities.	07/2025
Investment (public)	Public Investment	Changed fiscal rules to allow greater borrowing for investment. Raised five-year public investment by over £120bn, highest sustained level in four decades. Launched regional investment initiatives for infrastructure improvement.	10/2024
Investment (public) / labor (supply)	Additional NHS funding	The 2025 Spring Review provided £53bn in additional resource spending for health and social care in 2028–29 relative to the 2023–24 outturn. This followed the Autumn Budget 2024 announcement of £1.5bn capital for surgical hubs/diagnostics, to support a target of 40,000 extra elective appointments per week.	10/2024
Investment (public)	10-Year Infrastructure Strategy	Allocated £725bn to a long-term funding plan integrating economic, housing and social infrastructure. Launched the infrastructure pipeline digital portal to support more strategic decision-making in construction.	06/2025
Investment (public) / Labor (supply)	NHS 10-Year Health Plan	Allocated up to £10bn for NHS technology/digital transformation over the next three years to support the shift from analogue to digital, and delivery of the 2 percent productivity target.	06/2025
Investment (public) / Labor (supply)	Social and Affordable Homes Programme	Announced a successor £39 billion 10-year program to deliver social and affordable housing.	06/2025
Labor (supply)	Get Britain Working White Paper	Set an 80 percent employment rate ambition supported by nearly £1bn for the devolved "Connect to Work" scheme, the £1.5bn "Youth Guarantee", and the overall £240m to fund the Trailblazer program, Jobs & Careers Service pathfinders, and NHS Accelerators.	11/2024
Labor (supply)	Employment Rights Act 2025	Employment law reform establishing the right to claim against unfair dismissal after 6 months (down from 24) and restrictions on exploitative zero-hours contract.	12/2025

Area	Measure	Description	Date
Labor (supply)	Immigration White Paper	Raised Skilled Worker minimum salary threshold, closed social care worker route, and tightened student/graduate routes. Consultation to increase settlement qualifying period to 10 years.	05/2025
Labor (skills)	Skills England	Set up "Skills England" a new executive agency under the Department for Work and Pensions to work with partners to create better skills for better jobs. Announced additional investment of £1bn into the Growth and Skills Levy (formerly the Apprenticeship Levy) and gave employers more flexibility by funding shorter, modular training courses alongside full apprenticeships.	06/2025
Labor (skills)	Skills Investment Packages	Committed over £1b in funding for four skills investment packages (construction, digital, engineering, and defense). Announced and launched 29 Technical Excellence colleges. Allocated £166m for Skills Bootcamps in 26–27, including £30m additional construction funding.	06/2025
Labor (skills)	Temporary Shortage List	Set up time-limited visa access for critical occupations in priority sectors, phasing out Immigration Salary List. Commissioned the Migration Advisory Committee review.	07/2025
Industrial strategy	Public Co-Investment Vehicles (British Business Bank, UK Export Finance, National Wealth Fund)	Adopted a new 5-year strategic plan for the BBB backed by an additional £2.5bn per year to take on more managed risk. Increased the UKEF's financial firepower. Established the National Wealth Fund (formerly UKIB) with £5.8bn additional funding (for a total of £27.8bn) and a clearer mandate to crowd in private investment. Aligned with Industrial and Infrastructure Strategy.	10/2024
Investment/Industrial strategy	Clean Power 2030 Action Plan	Established a roadmap for decarbonizing the electricity grid by 2030, including offshore wind targets (43–50GW) and grid connection priorities.	12/2024
Industrial strategy	AI Opportunities Action Plan	Designates 5 AI Growth Zones. Delivers upskilling courses and created new scholarships. Public sector initiatives to foster public-sector AI adoption. Commits £2bn over 5 years for sovereign AI compute, and mobilizes public capital to co-invest in starting and scaling AI businesses.	01/2025
Industrial strategy	Great British Energy Act 2025	Established GB Energy, a publicly-owned energy investment company, backed by £8.3bn.	05/2025
Industrial strategy	Industrial Strategy	Delivered a "Modern Industrial Strategy" across eight high-growth sectors, following the 2024 consultations. Set up £600m Strategic Sites Accelerator and £500m Local Innovation Partnership Fund.	06/2025
Trade	UK-EU Reset	Committed to a closer UK-EU economic relationship, with a focus on increased regulatory alignment. Negotiations are ongoing on a Sanitary and Phytosanitary Agreement, Emissions Trading Scheme linking, participation in the EU's Internal Electricity Market, and a Youth Mobility Scheme.	05/2025
Trade	UK-US Economic Prosperity Deal	Reduced auto tariffs (from 25 to 10 percent for first 100k vehicles), and agreed on steel/aluminum relief, agricultural market access, and pharmaceuticals tariff exemptions.	05/2025
Trade	UK Trade Strategy	Plan to stimulate economic growth, through delivery of targeted business support, more agile agreements, and greater focus on services, while advancing economic security.	06/2025

Annex VIII. Data Issues

Table VIII.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	Intersectoral Consistency	Median Rating
	A	A	A	A	B	A	A

Detailed Questionnaire Results

Data Quality Characteristics	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Intersectoral Consistency
Coverage	A	A	A	A	B	
Granularity[3]	A		A	A	B	
			A		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 but are being addressed. In the interim, the challenges to assess the underlying state of the labor market can be partly mitigated through the use of other data sources, such as the ONS Workforce Jobs Survey and HMRC payroll data. Data gaps in the non-bank financial sector (NBFIs) including information on sterling asset holdings, private markets, and liquidity indicators of investment funds remain.

Changes since the last Article IV consultation The ONS is making progress on the Transformed Labour Force Survey (TLFS). Progress includes, inter alia, the launch of a streamlined questionnaire, supported completion, and a cross-over survey that helps to understand different responses in LFS and TLFS. The date of the transition from the LFS to the TLFS is yet to be decided. FDI revisions back to 2022 were brought through in the Annual National Accounts 2025. Transition plans for SDDS Plus were completed in April 2026.

Corrective actions and capacity development priorities The authorities are working closely with the IMF to address remaining data gaps, such as improving the granularity of NBFI assets and liabilities reporting.

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

As of June 18, 2026

	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[7]	Frequency of Reporting[7]	Expected Frequency[7,8]	Announced Frequency[9]	Expected Timeliness[7,8]	Announced Timeliness[9]
Exchange Rates	2026-06-17	2026-06-18	D	D	D	D	...	1D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2026-05	2026-06	M	M	M	M	1M (1W encouraged)	3D
Reserve/Base Money	2026-05	2026-06	M	M	M (W encouraged)	M	2W (1W encouraged)	29D
Broad Money	2026-04	2026-06	M	M	M	M	1M	1M
Central Bank Balance Sheet	2026-05	2026-05	M	M	M (W encouraged)	M	2W (1W encouraged)	29D
Consolidated Balance Sheet of the Banking System	2026-04	2026-06	M	M	M	M	1M	1M
Total assets of other depository corporations[2]	2026-04	2026-06	M	M	M	M	1M	1M
Total credit from other depository corporations[2]	2026-04	2026-06	M	M	M	M	1M	1M
Interest Rates[3]	2026-06-18	2026-06-18	D	D	D	D	...	1D
Consumer Price Index	2026-05	2026-06	M	M	M	M	1M	NLT 3W
Revenue, Expenditure, Balance and Composition of Financing[4]-General Government[5]	2026-04	2026-05	M	M	Q	Q	12M	3M
Revenue, Expenditure, Balance and Composition of Financing[4]-Central Government	2026-04	2026-05	M	M	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt[6]	2026-04	2026-05	M	M	Q	M	1Q	NLT 6W
Total stock of General Government Debt[5]	2026-04	2026-05	M	M	...	Q	...	3M
External Current Account Balance	2025-12	2026-03	Q	Q	Q	Q	NLT 1Q	NLT 1Q
Exports and Imports of Goods and Services	2026-04	2026-06	M	M	M	M	8W (4-6W encouraged)	NLT 40D
GDP/GNP	2026-03	2026-05	Q	Q	Q	Q	1Q	1Q
Gross External Debt	2025-12	2026-03	Q	Q	Q	Q	1Q	1Q
International Investment Position	2025-12	2026-03	Q	Q	Q	Q	1Q	NLT 1Q

[1] Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Other depository corporations include all deposit-taking corporations (except for the central bank) and money market funds.
[3] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[4] Foreign, domestic bank, and domestic non-bank financing.
[5] The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments. The total stock of general government debt is required for SDDS Plus countries and encouraged for SDDS and e-GDDS countries.
[6] Including currency and maturity composition.

Table VIII.3. United Kingdom: Table of Common Indicators Required for Surveillance (Concluded)

[7] 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") semi-annual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[8] 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. Indicators that are not in the IMF Data Standards Initiatives are shown as "...".

[9] 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 IX. Transnational Aspects of Corruption

1. The authorities continue to address transnational aspects of corruption. On the supply side, the authorities intend to launch a public consultation on the whistleblowing framework in 2026 to ensure its effectiveness, and they continue to encourage all Overseas Territories to extend application of the OECD Anti-Bribery Convention to their jurisdictions. 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 IX.1. United Kingdom: Transnational Aspects of Corruption[1]: Updates

Previous Recommendations	Significant Updates
Supply Side of Corruption – Criminalization and Prosecution of Foreign Bribery	
Strengthen whistleblower protection framework	A public consultation on the whistleblowing framework is envisaged to be launched in 2026.
Engage with the Crown Dependencies and British Overseas Territories to extend application of the OECD Anti-Bribery Convention and enhance enforcement	The Overseas Territories are strongly encouraged to extend application of the OECD Anti-Bribery Convention to their jurisdictions.
Facilitation of Corruption – Preventing the Concealment of Foreign Corruption Proceeds	
Strengthen effective supervision of high-risk sectors attractive for laundering illicit foreign proceeds	The Financial Conduct Authority has been designated as the AML/CFT supervisor for legal and accountancy professionals, and trust and company service providers, which is intended to address the fragmentation and inconsistency of the previous system of multiple self-regulatory bodies.
Enhance entity transparency and access to beneficial ownership information to mitigate the risk of laundering of foreign proceeds in the UK	As of November 2025, identity verification for new and existing directors and beneficial owners is mandatory. Anyone filing information with Companies House is now required to be verified directly or through an authorized corporate service provider. Companies House's investigation and enforcement powers has been strengthened by enabling it to proactively share information with law enforcement agencies on high-risk entities or suspicious filings. As of February 2026, 33,028 overseas entities had registered with the UK's Register of Overseas Entities, with penalties issued for non-registration (44) and failure to update (111). The proposed Money Laundering and Terrorist Financing (Amendment) Regulations would extend Trust Registration Service registration and data sharing rules to non-UK trusts holding UK land acquired prior to October 6, 2020. The authorities continue to engage with UK Overseas Territories and Crown Dependencies on the delivery of publicly accessible beneficial ownership registers. Cayman Islands and Turks and Caicos have launched legitimate interest access to their registers, while Anguilla, Bermuda, and British Virgin Islands have deferred implementation for later in 2026.
Recover criminal assets to deprive criminals of their illicit foreign proceeds laundered in the UK	The total value of proceeds of crime recovered from confiscation orders, forfeiture orders, and civil recovery orders increased by 24 percent from £217.6 million in 2019–20 to £284.5 million in 2024–25.

[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. The IMF staff and UK have provided additional views and information which do not prejudice the OECD Working Group on Bribery (WGB)'s monitoring of the implementation of the OECD Anti-Bribery Convention.

INTERNATIONAL MONETARY FUND

UNITED KINGDOM

June 23, 2026

STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

European Department

CONTENTS

FUND RELATIONS

(Data as of May 31, 2026)

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	14,639.34	72.63
Reserve position in Fund	5,517.12	27.37

SDR Department:

	SDR Million	Percent Allocation
Net cumulative allocations	29,451.96	100.00
Holdings	29,715.76	97.50

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				
	2026	2027	2028	2029	2030
Principal					
Charges/Interest	9.77	20.32	20.33	20.31	20.32
Total	9.77	20.32	20.33	20.31	20.32

[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 of the IMF's Articles of Agreement 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 August 21, 2025 (EBD/25/47).

Article IV Consultation:

The UK is on the standard 12-month consultation cycle. The last Article IV consultation was concluded on July 1, 2025 (IMF Country Report No. 2025/204).

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 Ms. Poon, Executive Director for United Kingdom, Mr. van Hasselt, Alternate Executive Director, and Mr. Obeney, Advisor to the Executive Director
July 13, 2026

On behalf of the UK authorities, we thank the IMF staff team for excellent engagement throughout the past year, and for this comprehensive and useful set of Article IV papers. The UK economy gained momentum amidst global headwinds, entering the recent shock from the Middle East war from a position of greater strength. Long-term prospects are supported by continued fiscal discipline and productivity-boosting reforms under the government's growth mission.

Growth mission and fiscal policy

The UK's economic strategy is grounded in the three principles of stability in our public finances, investment in our infrastructure, and structural reform. The government's first two budgets put fiscal policy on a sustainable path through: increased spending for the National Health Service and other priority public services; increased public sector capital investment to support growth; and revenue measures that raised taxes, including on wealth and the wealthy, with increases to capital gains tax rates and the introduction of a new High Value Council Tax Surcharge. Detailed spending plans were announced through the Spending Review in June 2025, setting day-to-day departmental budgets until 2028-29, and until 2029-30 for capital investment. Amendments to the fiscal rules enabled the government to count the financial benefits of investment rather than just the cost, helping to unlock over £120bn of capital investment over the course of the 2024-29 parliament.

Since these initial policy decisions, the UK has continued to deliver a fiscal consolidation that reduces borrowing while protecting investment, in line with IMF advice. A deficit reduction of 1pp in 25/26 is forecast to be followed by 0.5pp in 26/27, putting the UK on track for the lowest fiscal deficit in the G7 in 2029. As the staff report notes, further refinements have been made to the fiscal framework to support stability, including assessing compliance with the fiscal rules only once a year starting 25/26, a move which is now enshrined in legislation. This has supported the government's commitment to a single fiscal event per year, limiting major policy changes to the Budget to give businesses and households the certainty they need.

As the staff report notes, the government remains committed to managing fiscal pressures in the short-term and beyond. In particular, the government's fiscal rules mean that day-to-day spending will be fully funded by revenues by 29/30, and the government will only borrow for investment. In line with this responsible approach to public finances, the government's response to the Middle East war is grounded in the principles of providing temporary, targeted support to those most in need, whilst avoiding stoking inflation. Alongside reforms to increase corporation tax receipts, the package provides near-term support while not increasing borrowing in the medium-term. The staff report identifies higher defense commitments as a key long-term spending pressure. In a signal of the government's commitment to managing such pressures, the UK's Defense Investment Plan, announced on 30 June, increased defense spending by £15bn, funded by reprioritizing public spending, including through a 1% reduction in capital budgets across other departments alongside additional savings measures.

The UK is driving long-term growth by prioritizing three big choices: accelerating AI, innovation and technology leadership; empowering regional growth; and pursuing pragmatic and deeper UK-EU alignment.

AI is one of the most powerful drivers of future productivity, and staff's Selected Issues Paper shows that the UK is well placed to lead. The government's ambition is for the UK to be the fastest adopter of AI in the G7 – ensuring we not only develop world leading technologies, but capture the economic benefits through higher productivity, stronger firms and better jobs. The government is committed to building a digitally skilled workforce to support long-term economic growth, drive innovation and expand individual opportunity. As part of this ambition, the Department for Science, Innovation and Technology has launched the AI Skills Boost campaign to upskill 10 million workers in AI skills by 2030. We are taking a pro-innovation approach to regulation and are consulting on a pioneering AI Growth Lab cross-economy regulatory sandbox, which would carefully supervise the deployment of AI-enabled products and services that current regulation hinders. On June 8, the government also launched the AI Economics Institute, led by former IMF Chief Economist, Professor Simon Johnson, which will build and maintain the analytical capability needed to assess AI's economic impact across the UK economy, considering both opportunities and risks.

We remain resolute in our belief that fair and open international trade and investment is the best route to growth. The UK is deepening its economic links with European and other international partners to reduce frictions, strengthen supply chain security, and provide business with predictable rules. Where it is clearly in our mutual interest, the UK will consider alignment with EU standards that lowers costs, supports investment and jobs, and strengthens economic security, while preserving necessary autonomy in strategically important sectors. Alongside this, since the last Article IV consultation the UK signed trade deals with India (coming into force on July 15) and the Republic of Korea, concluded negotiations with the Gulf Cooperation Council, and is pursuing deeper trade and economic ties with a range of other partners.

Growth levels preceding the war in the Middle East, and resilience observed in subsequent months, show the positive impacts of the UK's current economic strategy. In 2025, the UK was the fastest-growing European G7 economy and business investment increased by 4.3% – more than triple the rate of overall output growth. The independent Office for Budget Responsibility (OBR) forecast GDP per capita growth to accelerate to 5.6% over the course of the parliament. While the OBR's forecast was finalized before the beginning of the war, in their latest forecasts both the IMF and the OECD expect the UK to remain the fastest-growing European G7 economy this year and next. Government action to reduce borrowing and ease inflation created the conditions for the independent Monetary Policy Committee (MPC) to cut Bank Rate six times this parliament. Furthermore, the government took the responsible decision to build more headroom at the Budget, to the highest level in four years, providing the UK economy with the buffer to weather shocks and the flexibility needed to respond to them.

Monetary and financial sector policies

The Bank of England (BoE)'s MPC will continue to monitor closely the situation in the Middle East and how its impact propagates through the economy, standing ready to act as necessary. CPI inflation has fallen to 2.8%, although it is expected to rise later this year as the effects of higher energy prices continue to pass through. The risk of material second-round effects in price and wage-setting, against which policy needs to lean, is greater the longer higher energy prices persist. But the labor market continues to loosen, and signs of a weakening economy may contain inflationary pressures. Interest rates faced by households and businesses remain higher than prior to the war, which will act to reduce inflation over time.

The BoE continues to implement the recommendations from the Bernanke Review, including strengthening its forecasting and communication tools. We welcome staff's endorsement of the use of individual MPC member statements, and enhancements to the Monetary Policy Report. Scenarios aim to capture the key questions that are relevant to each policy decision, to support MPC decision-making and communicate the range of possible outcomes. This has prepared us well for responding to recent events as they unfold. We view any rules-based representation as a simplification, abstracting from the broader set of considerations and diversity of views that inform MPC decisions. Reflecting that, no single rule estimated on UK data accurately captures observed policy responses, particularly to large shocks.

The Financial Policy Committee (FPC) views the UK financial system as resilient against a deteriorating risk environment. The UK banking system remains appropriately capitalized, with high levels of liquidity. The 2025 Bank Capital Stress Test scenario shows the sector has the capacity to support households and businesses even in a broad and severe macroeconomic stress. We remain vigilant to emerging risks. For example, the FPC has assessed evidence on three broad categories of AI-related risks to financial stability. First, risks associated with the increasing adoption of AI across the financial system, with the FPC monitoring firms' deployment of AI and its implications for financial stability. Second, evolving risks arising from rapid progress in frontier AI capabilities, which reinforces the importance of firms acting on the May 2026 joint statement from the BoE, Financial Conduct Authority, and HM Treasury on frontier models and heightens the need for firms to strengthen existing cyber and operational resilience frameworks. Third, growing macro-financial risks associated with elevated AI-related asset valuations, market concentration and expanding financing activity, for which the FPC has established a forward-looking framework to assess the implications of developments for financial stability.

Financial sector surveillance and regulation continues to respond nimbly to emerging risks, most notably in the nonbank financial sector, while streamlining and simplifying regulations elsewhere that may unnecessarily constrain growth. The BoE's first system-wide explanatory scenario exercise (SWES) was regarded as world leading, offering novel insights into the system-wide dynamics in core markets and helping to shape potential reforms aimed at enhancing the resilience of the gilt repo market. The BoE has now launched a second SWES exercise, focusing on developments in the private markets ecosystem. This will aim to improve our understanding of the behavior of banks and non-bank financial institutions (NBFIs) active in private markets in response to a downturn, and whether these interactions can amplify stress across the financial system and pose risks to UK financial stability and the provision of finance to the UK corporate sector. We have responded to other emerging risks through regulation, including by tightening the capital treatment of funded reinsurance exposures, and through planned reforms to the UK Money Market Fund regime including through higher liquidity expectations.