ECONOMIST INTELLIGENCE EIU Viewpoint

One-click report : United Kingdom

June 30th 2022

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Saved on: March 21st 2024

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One-click report : United Kingdom

Briefing sheet

United Kingdom | Summary | Briefing sheet

June 8th 2022

Political and economic outlook

- The UK economy is the fifth largest in the world. Services make up more than 40% of total exports and 80% of GDP. Having left the EU single market and customs union, the UK is seeking to rebalance trading relations towards markets outside the EU.
- The prime minister, Boris Johnson, has survived a vote of no confidence but will come under renewed pressure to resign amid substantial opposition from his Conservative Party. The party commands a large, 80-seat majority, but these divisions will hamper progress on policy reforms. A hung parliament is likely following the election in 2024.
- Low investment and productivity have held back UK growth for decades. The government will provide greater tax incentives to stimulate private investment, as well as financial support to households amid a cost-of-living crisis. However, tax and national insurance increases, as well as trade frictions, will be a countervailing drag on growth.
- GDP surpassed its pre-pandemic level in the first quarter of 2022, with the UK's size relative to pre-pandemic levels the fourth highest of the G7 group of advanced economies. In 2022 growth will be hampered by the Russia-Ukraine conflict as higher inflation erodes private consumption. With little carryover momentum, growth will slow sharply in 2023.

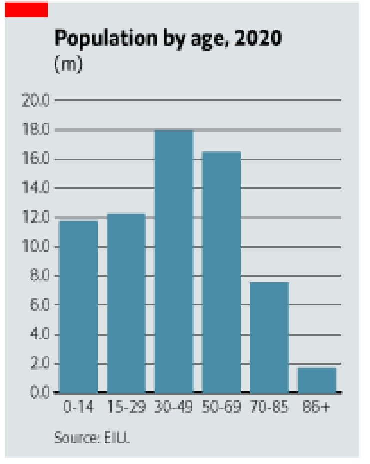
- The new trade agreement between the UK and the EU leaves many aspects of the relationship unsettled. It creates notable non-tariff barriers and has led to serious dissatisfaction in Northern Ireland, which will remain a source of friction.
- The UK is one of eight European countries with a public debt/GDP ratio above 100%. Its ability to borrow in its own currency and long average debt maturity will keep borrowing costs manageable, but fiscal consolidation will be slow in 2022-26.
- The invasion of Ukraine by Russia and the ongoing conflict will negatively affect the UK economy. Higher gas prices throughout Europe will fuel energy price inflation, and Russian investment in the UK property sector will also be curtailed by sanctions.

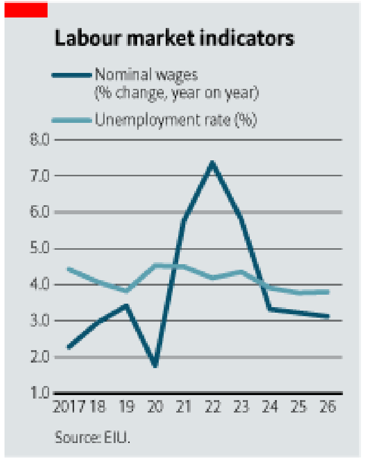
Key indicators

	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Real GDP growth (%)	7.4	3.6	0.5	1.9	1.7	1.8
Consumer price inflation (av; %)	2.5	7.2	4.4	2.1	2.0	1.9
Government balance (% of GDP)	-8.3	-5.5	-5.2	-4.3	-3.6	-3.3
Current-account balance (% of GDP)	-2.6	-2.7	-3.0	-2.9	-2.7	-2.9
Short-term interest rate (av; %)	0.1	1.3	1.5	1.6	1.8	2.0
Unemployment rate (%)	4.5	4.2	4.4	3.9	3.8	3.8
Exchange rate £:US$ (av)	0.73	0.78	0.77	0.73	0.70	0.68

[a] Actual. [b] EIU forecasts.

Market opportunities





Key changes since April 29th

- Mr Johnson survived a vote of no confidence on June 6th, but a large number (more than 40%) of Conservative members of parliament (MPs) voted against him. He will come under renewed pressure to step down in the coming months, but is unlikely to resign.
- Mr Johnson's political weakness will exacerbate the Conservative Party's internal divisions and reinforce the party's decline in opinion polls. Mr Johnson is unlikely to lead his party into the next general election, which is due in 2024.
- Inflation was 2.1% month on month in April, taking the year-on-year rate to 7.8%. EIU has revised up its inflation forecast for 2022, from 6.7% to 7.2%. We have also revised up our 2023 forecast, from 3.6% to 4.4%.
- We have revised down our real GDP growth forecast for 2022 (from 3.9% to 3.6%) and our 2023 projection (from 1.6% to 0.5%), mainly owing to downgrades to private consumption and fixed investment.

The month ahead

- June 16th—Bank of England monetary policy decision: We expect the Bank of England (the central bank) to raise its policy rate by a further 25 basis points, to 1.25%, amid increased cost-of-living concerns. This will be the fifth consecutive rate increase, after which we expect the pace of tightening to slow as energy prices stabilise at a high level.
- Mid-June—String of policy announcements: In an effort to draw a line under the no-confidence vote, Mr Johnson will unveil new stimulus measures. These could potentially include housing support, tax cuts and legislation to override parts of the Northern Ireland protocol. The latter is controversial and could risk sparking a trade war with the EU.

Major risks to our forecast

Scenarios, Q1 2022	**Probability**	**Impact**	**Intensity**
Supply-chain disruptions worsen in 2022, damaging economic activity	Very high	High	20
Aggressive rises in interest rates by the Bank of England in response to inflation produce a "stagflation" crisis	High	High	16
High energy prices push the UK electricity market into crisis	High	High	16
Further tax increases stifle the UK economy	Very high	Moderate	15
The UK is struck by another major cyber-attack	Very high	Moderate	15

Note. Scenarios and scores are taken from our Risk Briefing product. Risk scenarios are potential developments that might substantially change the business operating environment over the coming two years. Risk intensity is a product of probability and impact, on a 25-point scale.

Source: EIU.

Forecast summary

United Kingdom | Economy | Forecast | Forecast summary

June 8th 2022

Forecast summary

(% unless otherwise indicated)

	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Real GDP (% change)	7.4	3.6	0.5	1.9	1.7	1.8
Industrial production (% change)	5.1	1.2	2.1	1.6	1.6	1.6
Unemployment rate (av; EU/OECD harmonised measure)	4.5	4.2	4.4	3.9	3.8	3.8
Consumer price inflation (av; CPIH measure)	2.5	7.2	4.4	2.1	2.0	1.9
3-month £-LIBOR rate (av)	0.1	1.3	1.5	1.6	1.8	2.0
Bank of England base rate (end-period)	0.25	1.50	1.50	1.75	2.00	2.25
Government budget balance (% of GDP)[c]	-8.3	-5.5	-5.2	-4.3	-3.6	-3.3
Exports of goods fob (US$ bn)	442.3	485.0	482.8	517.6	551.2	591.0
Imports of goods fob (US$ bn)	-656.8	-767.3	-799.7	-837.7	-879.4	-929.4
Current-account balance (US$ bn)	-82.5	-86.1	-101.7	-110.6	-111.4	-125.4
Current-account balance (% of GDP)	-2.6	-2.7	-3.0	-2.9	-2.7	-2.9
Exchange rate US$:£ (av)	1.38	1.29	1.31	1.38	1.44	1.48
Exchange rate ¥:£ (av)	151.1	155.3	163.1	172.1	171.4	173.7

Exchange rate €:£ (av)	1.16	1.17	1.14	1.15	1.17	1.18

[a] Actual. [b] EIU forecasts. [c] General government.

Political stability

United Kingdom | Politics | Forecast | Political stability

June 8th 2022

The Conservative Party government led by the prime minister, Boris Johnson, will remain politically weak for the remainder of its term in office. Challenges abound, including managing the combination of high inflation and weakened public finances, which has arisen as a consequence of stresses due to pandemic-related disruptions in 2020-21; new trade barriers with the EU; and a spike in energy prices following Russia's invasion of Ukraine. An escalating cost-of-living crisis and revelations of parties held at the prime minister's residence and office during coronavirus lockdowns have seriously eroded the Conservative Party's approval ratings and brought the future of Mr Johnson in particular into question. By June 5th, 15% of Conservative members of parliament (54 MPs) had submitted letters of no confidence in the prime minister—the threshold to trigger a formal vote of no confidence in the leader. This was held on June 6th; Mr Johnson survived, but 148 Conservative MPs voted against the prime minister (against 211 who backed him), which was a worse result than several previous Conservative prime ministers who subsequently ended up resigning. Current rules state that another vote of no confidence cannot be called for 12 months, but, given the scale of the rebellion, there will be continued calls for Mr Johnson to resign and for the party to change its rules to reduce the time before another no-confidence vote can be called.

EIU does not expect the prime minister to give in to pressure for him to step down, but his already shaky position will be weakened even further. As previous leaders have learned, having faced a confidence vote it is hard to restore the authority of the office, and resignation or electoral defeat become more likely. The fact that the opposition to the prime minister comes from a range of different Conservative factions will make it extremely difficult for Mr Johnson to address the deep divisions within the party. MPs in traditional Conservative seats will remain upset by his more populist policies, and newly elected MPs in marginal seats will fear a public backlash as a result of the cost-of-living crisis. These developments will weaken Mr Johnson's standing, limiting his ability to make unpopular decisions. Although Mr Johnson benefits from the fact that there is no obvious successor within the Conservative Party, we believe that recent developments make it unlikely that he will lead the party into the next general election.

There are medium-term risks to the UK's integrity, but the dissolution of the union is not our core forecast for 2022-26. Pro-independence parties, led by the Scottish National Party (SNP), hold a majority in the Scottish parliament and made minor gains in the 2021 local elections while favouring a second independence referendum (the first was in 2014). The government has dismissed the possibility of granting a second referendum during this parliamentary term. Even if it were forced to grant one by a court order, the poll would take several years to organise. Opinion polling on Scottish independence has generally shown a consistent, if narrow, lead for remaining in the union, except during a period in 2020 when the devolved government's pandemic-related public health powers were abnormally visible to voters. Therefore, we do not expect Scotland to achieve independence in 2022-26.

Brexit has inflamed tensions in Northern Ireland, which remains within a regulatory union with the EU for most goods to avoid border checks on the island of Ireland. This requires checks between Northern Ireland and the rest of the UK for all goods deemed by a UK-EU joint committee to be "at risk" of pass-ing into the EU. This arrangement has been difficult to implement and is disliked by Unionist politicians in Northern Ireland for, in effect, creating a border between Northern Ireland and the rest of the UK. Following elections in May, the largest Unionist party, the Democratic Unionist Party (DUP), has refused to join the power-sharing executive with the largest nationalist party, Sinn Fein, unless there is fundamental reform of the Northern Ireland protocol, which constitutionally has prevented a government from being formed. To appease the DUP, Mr Johnson has indicated that his government will table legislation to allow the UK to override parts of the protocol. However, given that this risks provoking a trade war with the EU, there is likely to be stiff opposition to this in parliament, and such legislation would be highly unlikely to be passed by the House of Lords (the upper chamber).

Election watch

United Kingdom | Politics | Forecast | Election watch

June 8th 2022

The most likely date for the next general election is May 2nd 2024. Parliament must be dissolved within five years of the previous election (December 12th 2019) with an election to follow within 25 days. However, elections are usually held in the spring or summer, usually in May to coincide with local elections, and autumn or winter elections are rare. UK governments often call early elections in the penultimate year of a parliament to consolidate their gains, but this is unlikely given Mr Johnson's difficulties. If he is replaced, it is possible that the next leader will call an early election if this is accompanied by a sharp increase in the Conservatives' polling (they are currently trailing the opposition Labour Party by about 6 percentage points). Despite Labour's current poll lead, it remains unpopular in many of its former core working-class seats, which swung to the Conservatives in the last election, and has yet to present a compelling positive agenda for government. This dynamic, combined with the dominance of the SNP in Scottish seats, will mean that it is difficult for any one party to achieve an overall majority in the next election. This makes a hung parliament the most likely outcome, unless polling changes significantly.

International relations

United Kingdom | Politics | Forecast | International relations

June 8th 2022

Following Russia's invasion of Ukraine on February 24th, all countries in Europe have adopted severe sanctions against Russia, preventing the Central Bank of Russia from accessing international reserves, cutting Russian banks off from the SWIFT international bank messaging system and severely curtailing most non-energy trade with Russia. The UK is currently bringing forward legislation to provide greater scrutiny of foreign ownership of UK assets.

Although there have been greater signs of unity between the UK and the EU in response to the Ukraine conflict, underlying sources of tension related to the UK's departure from the bloc remain. The EU-UK Trade and Co-operation Agreement came into force on January 1st 2021. It provides for zero-tariff, zero-quota trade between the UK and the EU, at least in the first instance. However, leaving the single market and customs union has created a variety of non-tariff trade barriers in the form of border checks and product certifications. The agreement also provides a mechanism whereby if the divergence in regulations on labour, the environment or state aid becomes sufficiently great, the other side can implement retaliatory tariffs to compensate, subject to an arbitration period. The regulatory and tariff regimes may, therefore, drift apart over time.

The Northern Ireland protocol will remain a source of UK-EU friction. The UK has extended the grace periods on internal checks between Northern Ireland and the rest of the country for an indefinite period. The government is seeking changes to the protocol to reduce trade blockages and political tensions in Northern Ireland, and will table legislation that would allow it to unilaterally override the protocol. The EU has offered limited concessions on how the protocol is to be implemented, but has said that it would apply substantial trade penalties against the UK if the protocol were disapplied, arguing that the current difficulties were foreseeable when the protocol was agreed. A UK-

EU trade war is not our baseline forecast, but it remains a significant risk. Meanwhile, checks on goods travelling to Northern Ireland are likely to remain unenforced.

Policy trends

United Kingdom | Economy | Forecast | Policy trends

June 8th 2022

For decades the UK has faced substantial economic policy challenges, including low public investment, wide regional disparities, high housing costs and chronically low productivity growth. The Conservatives' 2019 election manifesto promised greater public-sector investment (including in green energy and infrastructure) and additional current spending on the National Health Service (NHS), education and the police, as well as to address the issue of long-term social care. The pandemic led to a massive increase in state spending, but managing that emergency, along with ongoing divisions within the party, has delayed a more comprehensive investment programme.

In 2021 the government enacted a two-year tax "super-deduction", which allows companies to write off tax up to 130% of the value of their capital investment in 2021-23, as well as public investment, led by efforts to "level up" deprived regions outside London and the south-east in an attempt to boost private investment. This was based on the assumption that firmer underlying economic growth and stronger business sentiment would provide the fiscal resources to lift investment. However, Russia's invasion of Ukraine has prompted a sharp rise in global commodity prices, which is fuelling inflation, dampening growth, undermining investor confidence and aggravating cost-of-living concerns. The government has introduced some measures to increase support to households, but further-reaching measures to cushion the impact of higher utility prices are likely. Efforts to lift public investment thereafter will flounder: in 2023 there will be only one year until the next election, and the government is likely to focus on shorter-term stimulus, rather than longer-term investment.

Fiscal policy

United Kingdom | Economy | Forecast | Fiscal policy outlook

June 8th 2022

The pandemic triggered a massive expansion of fiscal support for workers and businesses. These initiatives were mostly phased out by October 2021, although their fiscal impact has been marked. The budget recorded a deficit of 8.3% of GDP in 2021, with the debt/GDP ratio reaching 102.8%.

In September 2021 the government announced that it planned to increase the corporation-tax rate from 19% to 25% in 2023 and national insurance contributions by 2.5 percentage points to fund additional health and social-care spending. Despite the cost-of-living crisis, in his recent spring statement Rishi Sunak, the chancellor of the exchequer, maintained plans to lift national insurance contributions and corporation tax, while making some concessions to households (including a cut in fuel duty), with more comprehensive measures likely given the government's political difficulties. Government revenue has increased as accelerating inflation increases the nominal tax take and moves more households into higher income-tax bands; the government has not allocated about half of this, with a view to using it to fund extra measures later in 2022, or to provide tax relief in advance of the 2024 election.

We forecast that expenditure as a share of GDP will decline over the second half of the forecast period, although much of this will be due to the normalisation of spending following the pandemic and the cost-of-living crisis.

Coupled with rising revenue, this means that the fiscal deficit will shrink gradually, from 5.5% of GDP in 2022 to 3.3% of GDP in 2026. We expect the debt/GDP ratio to edge down slightly, from 101.7% in 2022 to 100.5% in 2026.

Monetary policy

United Kingdom | Economy | Forecast | Monetary policy outlook

June 8th 2022

On May 5th the Bank of England (BoE, the central bank) raised its key interest rate by 25 basis points, to 1%, following similar increases at its previous three meetings. We believe that two additional rate rises of 25 basis points are likely at the BoE's next two meetings, in June and August. This reflects a continued acceleration in inflation. However, more aggressive tightening is unlikely, and we expect the BoE to keep rates unchanged thereafter. The BoE has become more downbeat about prospects for 2023 and is now forecasting a 0.25% contraction in real GDP next year (having previously projected moderate growth). It is unlikely to continue to raise interest rates at a time when the economy is teetering on the brink of a recession. The policy interest rate is forecast to end 2026 at 2.25%.

Global forecast data

United Kingdom | Economy | Forecast | International assumptions

June 8th 2022

	2021	2022	2023	2024	2025	2026
Economic growth (%)						
US GDP	5.7	2.5	1.9	1.7	1.9	1.7
OECD GDP	5.2	2.7	1.9	2.0	1.9	1.8
EU27 GDP	5.3	2.4	1.9	2.1	1.9	1.9
World GDP	5.7	3.0	2.9	2.7	2.6	2.6
World trade	10.5	4.2	4.8	4.1	3.7	3.6
Inflation indicators (% unless otherwise indicated)						
US CPI	4.7	7.2	2.8	2.1	2.1	2.1
OECD CPI	3.6	7.1	3.3	2.3	2.3	2.2
EU27 CPI	2.8	6.4	2.9	2.0	1.9	1.9
Manufactures (measured in US$)	5.8	1.3	2.8	2.6	2.4	1.9
Oil (Brent; US$/b)	70.4	105.6	89.4	76.5	70.5	66.5
Non-oil commodities (measured in US$)	37.9	23.6	-8.3	-6.1	-4.9	-3.1
Financial variables						
US$ 3-month commercial paper rate (av; %)	0.1	1.7	3.5	3.1	3.0	3.0

€ 3-month interbank rate (av; %)	-0.5	-0.3	1.0	1.5	1.5	1.5
US$:£ (av)	1.38	1.29	1.31	1.38	1.44	1.48
US$:€ (av)	1.18	1.10	1.14	1.20	1.23	1.25

Economic growth

United Kingdom | Economy | Forecast | Economic growth

June 8th 2022

Surging inflation, supply-chain disruption, commodity price increases and scheduled domestic tax rises will all undermine the pace of growth in 2022-23. The main impact will be felt through accelerating inflation, which will erode disposable incomes and prompt weaker growth in private consumption. Continued supply shortages and rising overheads will also increase caution among businesses, leading to a slowdown in fixed investment growth. The introduction of new trade barriers after Brexit has exacerbated supply shocks affecting countries across western Europe, making the UK particularly vulnerable to bouts of trade-related disruption. We forecast that real GDP will grow by 3.6% in 2022, but the headline figure is flattered by year-on-year comparisons with the 2021 base year, when many lockdown restrictions were still in place. We do not forecast a technical recession (implying two consecutive quarters of contraction), but we do expect real GDP to contract in the second and fourth quarters of 2022. With very little carryover effect in 2023, growth will slow abruptly, to just 0.5%.

Real GDP growth is forecast to slow to an average of 1.8% in 2024-26. Structural limitations such as low investment and poor productivity, significant skills gaps, high regional inequalities and a reliance on consumer-facing services to drive growth, alongside the creation of new trade barriers by Brexit, will undermine medium-term growth potential.

Economic growth

%	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
GDP	7.4	3.6	0.5	1.9	1.7	1.8
Private consumption	6.2	3.9	0.1	1.5	1.8	1.9
Government consumption	14.3	4.0	5.0	1.4	1.4	1.3
Gross fixed investment	5.9	7.8	2.2	3.7	3.6	3.5
Exports of goods & services	-1.3	0.9	1.3	2.3	2.4	2.9
Imports of goods & services	3.8	5.9	3.2	2.6	3.4	3.8
Domestic demand	8.5	4.8	1.1	2.0	2.0	2.1
Agriculture	4.0	5.2	0.4	1.9	1.7	1.8
Industry	7.5	3.4	0.5	1.9	1.7	1.8
Services	7.5	3.6	0.5	1.9	1.7	1.8

[a] Actual. [b] EIU forecasts.

Inflation

United Kingdom | Economy | Forecast | Inflation

June 8th 2022

The reopening of the economy caused a sharp spike in inflation in 2021, owing to increased consumer spending and supply-chain disruptions in the domestic market and internationally. The UK is also particularly dependent on natural gas, and a marked increase in gas prices from mid-2021 has dramatically driven up electricity prices, an important component of the consumer prices index. We expect these price pressures to increase in the remainder of 2022, following the Russian invasion of Ukraine, driving up full-year average inflation from 2.5% in 2021 to 7.2%. From 2023 inflation will decline to a still-high 4.4%, before slowing more rapidly as energy markets begin to stabilise, easing to 1.9% by 2026.

Exchange rates

United Kingdom | Economy | Forecast | Exchange rates

June 8th 2022

After a period of appreciation against the US dollar as the BoE began monetary tightening (with the pound strengthening from US$1.32:£1 in December to US$1.36:£1 in mid-February), sterling weakened to US$1.22:£1 in mid-May as the Federal Reserve (the US central bank) began its own tightening cycle and the war in Ukraine prompted a "flight to safety" among investors. Although sterling has strengthened slightly since then, to about US$1.25:£1 in early June, we expect it to remain weak against the dollar for the remainder of 2022, then to strengthen again from 2023 as inflation ebbs and the flight to safety abates. We expect some appreciation against the euro in 2022, before mild weakening in 2023. We expect that sterling will remain relatively steady against the euro in 2024-26, and that both currencies will appreciate gradually against the dollar, with the pound reaching US$1.48:£1 at end-2026.

External sector

United Kingdom | Economy | Forecast | External sector

June 8th 2022

The UK has been among the worst-hit countries in Europe by supply-chain disruptions. In the context of the Ukraine conflict, ongoing disruptions will continue to depress exports and imports. We expect Brexit to weigh on imports and exports over the medium term (relative to if the UK had remained in the EU), but we expect a return to overall export growth in 2022-23 as global markets unlock and UK exporters adapt to new trading rules.

The UK has run a persistent current-account deficit since 1985. After widening in 2021, we expect the deficit to increase further in 2022 (to 2.7% of GDP), before rising to 3% of GDP in 2023 (and moderating to just under 3% of GDP in 2024-26). Sanctions on Russia are likely to have a minor influence on the UK external balance—aside from movements of gold in financial transactions, the UK's primary import from Russia is petroleum products, and its exports to Russia are minimal as a percentage of total exports.

Country forecast overview: Business environment rankings

United Kingdom | Business | Business environment | Rankings overview

June 8th 2022

Value of index[a]		Global rank[b]		Regional rank[c]	
2017-21	2022-26	2017-21	2022-26	2017-21	2022-26
7.81	7.64	15	23	9	11

[a] Out of 10. [b] Out of 82 countries. [c] Out of 18 countries: Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey and the UK.

- The UK's global ranking drops by eight places, while its regional ranking falls by two places. Brexit has worsened the UK's terms of trade, but the country's strengths—a pro-business policy stance, a welcoming attitude to foreign investment, and flexible labour and product markets—will continue.

Business environment at a glance

United Kingdom | Business | Business environment | Business environment at a glance

June 8th 2022

Policy towards private enterprise and competition

2022-23: Final coronavirus-related support is phased out. A 130% ”super-deduction” on capital investment is in place.

2024-26: Elevated state intervention in investment and innovation continues. New state-aid rules are implemented.

Policy towards foreign investment

2022-23: Continued openness to investment, but increased scrutiny in sectors considered sensitive to national security. Crackdown on Russian investment and money-laundering through the property sector.

2024-26: Infrastructure plans offer investment opportunities. Possible changes in tax policies to bolster inward investment.

Foreign trade and exchange controls

2022-23: Increased trade barriers with EU. Negotiations over Northern Ireland protocol. Supply-chain disruptions persist. Sanctions imposed on Russian exports.

2024-26: Continued UK-EU negotiations probable. New trade agreements with other countries, including potential accession to Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) trade bloc.

Taxes

2022-23: Corporation tax increases from 19% to 25% and national-insurance contributions by 2.5 percentage points.

2024-26: Additional tax rises likely to fund public spending, investment and social care.

Financing

2022-23: Monetary policy tightening, with Bank of England (central bank) raising interest rates. Loss of ”passporting” rights and restrictions on EU services trade. Slow progress in establishing equivalence with EU.

2024-26: Modest decline in City of London’s status. Steady growth in alternative forms of debt financing.

The labour market

2022-23: Labour market remains tight. Pandemic-related departure of expatriates and sharp drop in immigration from EU due to the end to free movement of labour. Shortages in low-skilled occupations continue.

2024-26: Increased immigration from Hong Kong. Addition of more low-wage sectors to shortage lists.

Infrastructure

2022-23: Modest rise in spending on housing, roads and digital infrastructure. Emphasis on ”levelling up” regional infrastructure.

2024-26: Increased infrastructure investment, emphasis on boosting competitiveness.

Technological readiness

2022-23: High e-commerce penetration and strong research base, but spending on research and development (R&D) remains below EU average. Continued high threat from cybercrime and cyber-espionage.

2024-26: Modest rise in public R&D spending. Development of state ”blue skies” fund.

Market opportunities: Social indicators and living standards

May 16th 2022

Social indicators and living standards

	2021		2026	
		Western Europe (av)		Western Europe (av)
Health				
Healthcare spending (% of GDP)	12.5	11.3	12.0	11.1
Healthcare spending (US$ per head)	5,845	5,230	7,522	6,651
Infant mortality rate (per 1,000 live births)	3.9	3.2	3.7	3.0
Physicians (per 1,000 population)	3.1	4.0	3.3	4.2
Food and beverages				
Food, beverages & tobacco (% of household spending)	12.6	19.1	10.9	17.5
Meat consumption (kg per person)	84.1	89.6	84.0	95.1
Milk consumption (litres per person)	239.0	261.0	248.0	279.0
Coffee & tea consumption (kg per person)	4.6	6.2	5.1	6.7
Consumer goods in use (per 1,000 population)				
Passenger cars	547	552	536	n/a
Telephone main lines	475	415	476	401

Mobile phone subscribers	1,160	1,210	1,160	1,230
Television sets	1,177	837	1,339	935
Personal computers	872	843	878	867
Households				
No. of households (m)	28.0	193.0	28.4	200.9
No. of people per household (av)	2.4	2.2	2.5	2.1
Income and income distribution				
Median household income (US$)	64,540	52,760	82,720	62,670
Average monthly wage (US$)	4,500	4,150	5,730	n/a
Gini index	35.1[a]	–	–	–

[a] Latest available year.

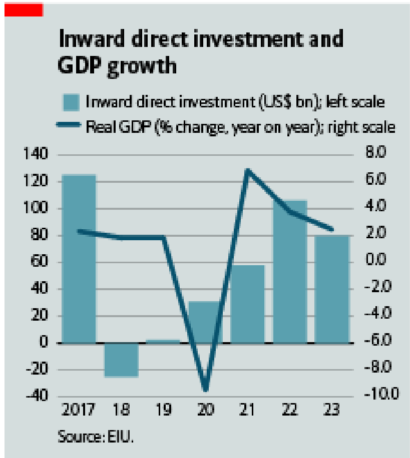
Sources: UN Statistical Office; World Bank; Food and Agriculture Organisation; Euromonitor; World Health Organisation; national statistical offices; International Telecommunication Union; EIU estimates and forecasts.

Global position

United Kingdom | Regulation | Global position

December 1st 2021

The outlook for the UK has become much more uncertain following the 2016 referendum vote to leave the EU. The UK departed the bloc on January 31st 2020, entering a transition period that lasted until end-2020, during which the UK retained most aspects of EU membership. An EU-UK Trade and Co-operation Agreement (TCA) came into force on January 1st 2021. It provides for zero-tariff, zero-quota trade between the UK and the EU. However, leaving the EU single market and customs union has created a variety of nontariff trade barriers. The TCA also leaves many aspects of the relationship between the UK and the 27-member bloc unsettled. The coronavirus (Covid-19) pandemic has compounded an already uncertain outlook during 2020 and 2021. Lockdowns and travel restrictions have delivered a severe blow to industries such as hospitality, tourism and aviation, as well as parts of the retail sector. The UK still has much to offer as an investment destination. Existing clusters and economies of scale in sectors such as pharmaceuticals, biotechnology, software development and financial services will remain powerful magnets for foreign entrants, while significant potential exists for large-scale, long-term investments in the energy, communications and transport sectors.



Regulatory/market assessment

United Kingdom | Regulation | Regulatory/market assessment

December 1st 2021

- The National Security and Investment Act passed into law in April 2021 and comes fully into force from January 4th 2022. The act makes it mandatory for investors (domestic and foreign) in 17 sectors to notify the government in advance of any transaction, regardless of size, that might give rise to UK national security risks. The implicated sectors include defence, energy, transport and communications.

- In October 2021 the government unveiled a "net zero" strategy, outlining how the UK will meet its target to effectively eliminate green-house gas emissions by 2050. The following month, while the UK was hosting the UN's COP26 climate talks, lawmakers approved a new Environmental Act that replaces EU legislation and oversight following the UK's departure from the bloc.
- Citizens of the European Economic Area (the EU, plus Iceland, Liechtenstein and Norway) and Switzerland became subject to UK immigration controls from January 1st 2021. A new points-based immigration system now treats EU and non-EU citizens equally.
- In March 2021 the UK government repealed legislation implementing the EU's directive on the taxation of interest and royalty payments. Companies now must rely on arrangements set out in bilateral tax treaties with individual EU member states, which in many cases eliminate withholding tax.
- The EU-UK Trade and Co-operation Agreement came into force in January 2021, outlining the initial terms of trade relations following the UK's departure from the EU. The agreement provides for zero-tariff, zero-quota trade between the UK and the EU, at least in the first instance. However, leaving the single market and customs union have created a variety of nontariff trade barriers in the form of border checks and product certifications.

Regulatory/market watch

United Kingdom | Regulation | Regulatory/market watch

December 1st 2021

- After lifting most coronavirus (Covid-19) restrictions in mid-2021, the government introduced additional measures in early December 2021 following the emergence of the new Omicron variant. The provisions, which fall well short of the full lockdowns from earlier in the pandemic, include orders to work from home, wear face masks in public spaces and use vaccine passes.
- The government launched its coronavirus vaccination programme in December 2020, and nearly 70% of the UK population was fully vaccinated by end-November 2021. The government is encouraging uptake of booster shots following the emergence of Omicron, with just under 28% of the population having received the additional dose.
- The government has wound down most of the relief mechanisms it put in place to support workers and businesses during the pandemic, including the Coronavirus Job Retention Scheme, which expired in September 2021. A Kickstart scheme remains active; it funds new job placements for young people aged 16–24 and pays 100% of the national minimum wage for 25 hours per week for six months.
- A UK Shared Prosperity Fund is expected to launch in April 2022, with annual spending of around £1.5bn. It will replace the previous EU development funding schemes and will focus on regional development and employment support.
- The corporate income tax rate will increase from 19% to 25% in April 2023, according to an announcement by the government in March 2021. The higher rate will apply to companies with annual profits exceeding £250,000.

- At least in the short term, EIU does not expect the UK to trigger Article 16 of the Northern Ireland protocol, which would override that agreement. However, tensions remain high and a UK-EU trade war remains a notable risk. Checks between the UK and EU are likely to remain unenforced in the meantime as negotiations continue on a less invasive system.
- The government has said it will remove its 2% digital services tax once the OECD's new arrangement on global corporate tax takes effect. The agreement, which was finalised in October 2021, is meant to come into force by 2023 but could be derailed if the US fails to ratify it.

Long-term outlook: The long-term outlook

United Kingdom | Economy | Long-term outlook | Long-term outlook

May 16th 2022

	2022-30	2031-50	2022-50
Population and labour force (% change; annual av)			
Total population	0.37	0.25	0.29
Working-age population	0.08	0.01	0.03
Working-age minus total population	-0.29	-0.24	-0.25
Labour force	0.40	0.16	0.24
Growth and productivity (% change; annual av)			
Growth of real GDP per head	1.6	1.4	1.5
Growth of real GDP	2.0	1.7	1.8

Labour productivity growth	1.5	1.5	1.5
Growth of capital stock	3.2	2.7	2.8
Total factor productivity growth	0.4	0.6	0.6

Initial conditions: From the early 1990s to 2019, with the exception of the 2008 crisis period, the economic performance of the UK improved relative to that of many regional peers, owing in part to a sharp rise in labour utilisation, with strong employment growth fuelling strong overall expansion. The pace of economic growth began to soften in 2019, and the economy contracted sharply in 2020 amid the coronavirus pandemic. A firm rebound left the UK 0.4% below its 2019 level. Prospects for 2022-23 are weak as private consumption is hit by soaring inflation, corporates face rising debt from the coronavirus crisis (hampering investment), and trade frictions from Brexit and supply-chain disruption depress export-oriented industries. Despite securing the Trade and Co-operation Agreement with the EU, the UK's relationship with the bloc remains unsettled. The UK is likely to diverge in some areas of regulation, particularly in technology and life sciences, while non-tariff barriers put UK firms at a competitive disadvantage within the single market.

The UK's prospects for growth in the medium term will be highly dependent on government policy formulation in response to these challenges. Both major parties have signalled a willingness to pursue a more interventionist strategy in the economy and provide more public investment, in an effort to address the UK's regional inequality and weak productivity growth. The current government has increased its threshold for borrowing for investment from 2% of GDP to 3%, established a national infrastructure bank in addition to the pre-existing British Business Bank, and invested £800m (US$1.1bn) into a "blue skies" fund to support innovative research.

The UK's structural advantages have traditionally included a comparatively low regulatory burden, a flexible labour market and a business environment that is conducive to foreign investment, which we expect to persist. On the negative side, factors that tend to constrain the UK's long-term outlook include an over-reliance on wealth effects generated by the volatile financial and real estate sectors, high levels of private-sector debt and a deficit in ”intermediate” labour market skills, which are skewed by significant geographical inequalities. These have contributed to the development of an unbalanced economy. Levels of productivity in the UK, in terms of output per hour worked, lag well behind those in the US, Germany and France. This weak trend is worrying and will weigh on medium- and long-term growth if not reversed, as well as playing an increasing role in policy debates.

Demographic trends: The working-age population is forecast to rise gradually over the long-term horizon, and the share of the population aged 65 or over will continue to increase. We forecast that by 2050 those aged 65 or older will account for 25.4% of the population (up from 18.7% in 2018). The share of the working-age population peaked at 66% in 2008-09, and we forecast a steady decline to 58.3% by 2050. The labour force participation rate stands at just over 78%—higher than the OECD average. We expect migration to continue to provide a key source of population and human capital growth. Most countries that operate skills-based immigration systems adjust their requirements periodically, a trend that we expect the UK to follow.

The EU is set to remain a key export destination

External conditions: The UK is a highly trade-dependent economy, and thus its departure from the world’s largest trading bloc will have implications for its long-term prospects. Despite the UK leaving the single market, the EU is likely to remain the UK’s most important export destination, particularly for goods trade, given its proximity and the volume of existing trade. Although the UK’s departure from the EU will allow the UK to negotiate trade deals with third countries, the total estimated value of trade deals under negotiation will not make up for the loss of access to the EU market.

The UK is likely to maintain its surplus in services, which is expected to grow as a percentage of total trade value over the course of our long-term forecast period as e-commerce and trade in intangible goods become more prominent globally.

Institutions and policy trends: The UK is a long-established democracy with well-entrenched rule of law (guaranteeing security of contracts), liberalised product markets and a rigorous competition policy regime. Much of the UK's policy around competition, trade, product regulation and other areas of economic policymaking had been informed by its EU membership, as was the governance of its own internal market, much of which is currently being repatriated to domestic equivalent authorities. It remains too early to gauge how effectively policymakers and institutions will manage these competencies on a national level, and whether any benefits can be realised from regaining direct control.

Long-term performance: Since the 2008 financial crisis the UK has suffered from chronically low productivity growth relative to its OECD peer countries, and relied heavily on moving people into work. The UK's ability to increase its productivity will be the determining factor behind long-term growth potential. A number of factors have been cited as possible causes for the UK's persistent productivity gap with its peers. These include a high degree of centralisation of the economy around the capital, London; the UK's relatively low share of spending on research and development (R&D); the dominance of the volatile financial services sector; and reliance on low-skilled immigration. Successive governments have tried to address the productivity issue, including the current government, which has committed to an increase in public investment to stimulate R&D, a shift in emphasis towards skilled immigration and supporting investment outside London. Whether these plans will boost productivity remains highly uncertain. We forecast that real GDP will grow by an annual average of 2% in 2022-30, and moderate to 1.7% in 2031-50.

Income and market size

	2021	2030	2050
Income and market size			
Population (m)	68.2	70.5	74.1
GDP (US$ bn at market exchange rates)	3,188.4	5,090.8	11,021.6
GDP per head (US$ at market exchange rates)	46,750	72,220	148,780
Private consumption (US$ bn)	1,960.1	3,165.5	7,139.8
Private consumption per head (US$)	28,740	44,910	96,380
GDP (US$ bn at PPP)	3,406.0	5,113.3	10,628.7
GDP per head (US$ at PPP)	49,940	72,540	143,470
Exports of goods & services (US$ bn)	860.6	1,592.2	4,805.6
Imports of goods & services (US$ bn)	900.6	1,730.2	5,404.0
Memorandum items			
GDP per head (at PPP; index, US=100)	72.3	74.2	77.2
Share of world population (%)	0.9	0.8	0.8
Share of world GDP (% at market exchange rates)	3.4	3.5	2.9
Share of world GDP (% at PPP)	2.4	2.2	1.9
Share of world exports of goods & services (%)	3.1	3.7	3.8

Automotive

United Kingdom | Automotive | Overview

April 21st 2022

- The UK's automotive sector is seeing a decline in trend. New-car sales, production and exports have fallen steadily since 2016, reflecting the damaging effects of Brexit on trade and the wider economy, as well as structural global factors linked to overcapacity and environmental pressures. In addition, since 2020 the covid-19 pandemic has caused major disruption to supply chains, while curbing vehicle output and consumer demand. A modest recovery in activity, anticipated in 2022, amid easing virus concerns, will be delayed by the fallout from the Russia-Ukraine war. The war will exacerbate supply-side frictions, material shortages, already high energy costs and other inflationary pressures.
- New-car sales dropped by 29.4% in 2020 (the fourth consecutive annual decline), to 1.63m units, the lowest level since 1992. Sales remained constrained in 2021, rising by just 1%, to an estimated 1.65m—compared with a recent peak of 2.7m in 2016 and an annual average of 2.3m in 2010-19.
- New commercial vehicle (CV) sales fell by 29.6% in 2020, to a seven-year low of 300,400 units. In contrast to the new-car market, CV sales rebounded firmly in 2021 (by 33.1%), supported by expanding online and logistics sectors. Annual sales were 6.3% below their 2019 level.
- In 2021 the UK was the world's 18th-largest automotive producer (and sixth-largest in Europe), according to the International Organisation of Motor Vehicle Manufacturers. Vehicle production expanded steadily in 2010-16, but has since fallen sharply, declining for five successive years. Following a drop of 8% in 2018 and 14% in 2019, output slumped by 29% in 2020 and another 5% in 2021, with annual production of 933,172 units, the lowest in 40 years and just half the level of 2016.

- New-car sales and vehicle production declined over the first quarter of 2022 (sales in March, traditionally the busiest month, were the weakest since 1998). Near-term prospects are weak, given renewed supply-chain disruptions owing to the Russia-Ukraine war and a renewed coronavirus wave in Asia, and with UK households in 2022 expected to experience the largest annual real-term hit to disposable incomes in more than 60 years as a result of soaring energy costs, high inflation and tax increases.
- EIU forecasts growth in new-car sales of 1.7% in 2022, with a firmer recovery from the pandemic-driven slump in 2023-24, assuming a gradual easing of supply bottlenecks and inflationary pressures and no major new coronavirus shocks. A stronger recovery has been impeded by the knock-on effects of the Russia-Ukraine war on commodity markets (not only energy, but also critical components in vehicle and battery production, such as nickel, cobalt and aluminium), global supply chains and consumer sentiment.
- Over our five-year forecast period (2022-26), new-car sales are projected to rise at a compound annual growth rate (CAGR) of 4.6%—inflated by the weak base level in 2021. We expect annual sales to stabilise below their 2010-19 trend. The share of chargeable electric vehicles (EVs) will continue to rise (from 18.5% of new-car sales in 2021), but significantly wider take-up will be constrained by affordability issues, weak incentives and limited charging infrastructure.
- The UK left the EU single market and customs union in January 2021, having agreed a limited Trade and Co-operation Agreement (TCA) with the EU. This averted the imposition of immediate tariffs and allowed for quota-free trade, but it represented a ”hard Brexit” with new trade frictions, new non-tariff barriers and disruption to integrated global supply chains (already under strain from the pandemic). Full customs controls took effect from January 2022, implying tighter import restrictions. TCA provisions, including phased ”rules of origin” restrictions, could lead to the imposition of export tariffs in the future.
- The UK has five mass producers of vehicles (all foreign-owned) that have primarily used the country as an export base to the EU. Challenges posed by structurally weakened trade and investment links as a result of Brexit will be

amplified by the prolonged disruptive effects to supply chains from the pandemic and the war in Ukraine. Recent state-subsidised EV-related investments have safeguarded the near-term future of plants operated by Nissan (Japan) and Vauxhall (owned by Netherlands-based Stellantis), but risks of a downsizing of the UK's automotive industry will persist in the next five years. A key influencing factor will be the UK's ability to attract new EV battery production facilities (gigafactories) in the face of strong competition from more-established hubs elsewhere in Europe, such as Germany, Hungary and Sweden.

Consumer goods

United Kingdom | Consumer goods | Overview

May 17th 2022

- The UK's large consumer sector has faced considerable headwinds in recent years, amid subdued household demand and major disruption to business supply chains from an economically damaging Brexit process and the global pandemic. The near-term outlook is weak, with a significant real-term squeeze on household incomes in 2022 from soaring energy costs (amplified by the Russia-Ukraine war), high inflation, domestic tax rises and higher interest rates. Consumer sentiment has slumped close to historical lows, and there is a high risk of the economy falling into recession in the near term.
- Following an initial pandemic-driven slump, retail sales were fairly resilient in 2020-21, reflecting strong growth in online spending, extensive fiscal support and a shift in consumption from services to retail goods (amid movement restrictions). However, underlying demand has weakened since mid-2021, and EIU expects volume sales to fall in 2022, amid a decline in real disposable income of households and a shift back to spending on services. We forecast modest average growth of 1% per year in 2023-26 in volume terms. In value terms retail sales will be boosted by

higher inflation, but retail margins will face pressure from higher energy, transport, storage, commodity, labour and other input costs.

- The UK will remain Europe's largest online retail market. Robust internet sales have gone hand in hand with falls in retail employment and the number of retail stores, mostly in town centres (traditional department stores and shopping centres have been a notable casualty). The pandemic has accelerated the shift in consumer behaviour towards online and convenience channels, which will drive growth of more cashier-free and 24-hour stores, click-and-collect services and rapid-delivery start-ups. Online sellers will continue to thrive, despite increased regulatory scrutiny and plans for new e-commerce taxation. In the forecast period (2022-26) online grocery retail will be the fastest-growing segment of the e-commerce market; the absence of movement restrictions will bring shoppers back to high streets for non-food purchases.
- The retail sector accounts for about 6% of the UK economy's gross value added. It employs about 2.9m people, of which a significant proportion work part-time. A consequence of Brexit, the pandemic and this year's cost-of-living crunch will exacerbate relatively large existing inequalities across the UK, sustaining more polarised demand in the discount and luxury channels.

Retail sales

	2017[a]	2018[a]	2019[a]	2020[b]	2021[b]	2022[c]	2023[c]	2024[c]	2025[c]	2026[c]
Retail sales (£ bn)	393.6	408.1	425.1	433.7	456.2	484.8	507.9	521.8	539.4	553.7
Retail sales (US$ bn)	507.5	545.1	543.0	556.7	627.7	637.7	679.3	718.8	774.0	816.8
Retail sales, volume growth (%)	2.9	1.4	2.4	1.0	2.6	-0.4	1.1	0.6	1.3	0.7
Retail sales, US$ value growth (%)	0.4	7.4	-0.4	2.5	12.8	1.6	6.5	5.8	7.7	5.5
Non-food retail sales (US$ bn)	269.8	292.9	295.2	295.4[a]	336.0	332.6	353.4	374.9	401.1	420.6
Food retail sales (US$ bn)	237.7	252.3	247.7	261.3	291.8	305.1	325.9	343.9	372.9	396.2

Consumer price inflation (av; %)	2.6	2.3	1.7	1.0[a]	2.5[a]	6.7	3.6	2.1	2.0	1.9

[a] Actual. [b] EIU estimates. [c] EIU forecasts.

Sources: Edge by Ascential; EIU.

- The UK left the EU single market and customs union on January 1st 2021, after finalising a Trade and Co-operation Agreement (TCA) with the EU. The TCA averted a no-deal fiasco, and in theory allows for tariff- and quota-free UK-EU trade. However, the agreement is limited in scope and has created significant new non-tariff barriers, trade frictions and regulatory compliance issues.
- Brexit has also inflamed tensions in Northern Ireland, which remains within a regulatory union with the EU in order to avoid border checks on most goods. As expected, this has disrupted post-Brexit trade between Britain and Northern Ireland. The UK government has threatened to rewrite the Northern Ireland protocol that it had previously agreed under the TCA, although we do not expect it to disapply the protocol unilaterally. The EU has warned that doing so would trigger retaliatory action by the bloc, which would further damage UK-EU trade.
- More broadly, Brexit has led to a decline in UK-EU trade in food products and has disrupted large parts of the UK's fisheries, agriculture, and food and drink sectors, which face significant medium-term damage. An exodus of EU labour has contributed to employee shortages and pockets of stronger wage inflation in some retail and foodservice sectors.

Energy

United Kingdom | Energy | Overview

June 30th 2022

- EIU expects total energy consumption in the UK to increase by only 0.4% year on year in 2022 as the support given by a growing economy will be capped by soaring energy prices. During our 2022-31 forecast period energy demand will remain flat as energy-efficiency gains completely offset demand growth driven by economic growth—we forecast that real GDP will grow at an annual rate of 1.8% during that period.
- Despite rebounding by 11.6% year on year in 2021, oil consumption will decline by 0.9% in 2022, mainly pulled down by high crude and refined-product prices. We forecast that this decline will continue in 2022-31, during which oil demand will fall at an annual average of 1%, mainly owing to the electrification of transport and efficiency gains in new internal combustion (IC) vehicles. It is our view that oil demand in the UK will never return to pre-pandemic levels.
- Natural gas consumption increased by 6.3% in 2021, and we forecast it will grow by a further 3.1% in 2022, despite current high gas prices. However, the rate of growth will slow to an annual average of 0.9% in 2022-31, as renewables-based power generation increases. We expect gas demand in the UK to peak by the end of this decade.
- Coal consumption will fall dramatically, owing mainly to the planned phasing-out of coal use in power generation by the end of 2024. We expect annual coal consumption to fall by an annual average of 15.2% in 2022-31. The UK government has set a deadline of 2024 for phasing out coal-fired power, with only one coal-fired power plant remaining in the UK by the end of 2022. Although we expect the government to meet this target, there is some risk that this will be delayed if the ”gas crisis” of a shortage of supply and high prices is not resolved.

- We expect the share of fossil fuels in total energy demand to decline from 77% in 2021 to 75% in 2031. Natural gas will continue to be the main energy source in the UK during our forecast period.
- The share of non-hydro renewables (without considering biomass) in power generation is forecast to rise from 33% in 2022 to 54% in 2031.

Energy: key indicators

	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]	2031[b]
GDP (US$ bn at market exchange rates)	2,760	3,188	3,201	3,445	3,784	4,100	4,384	5,322
Real GDP (% change, year on year)	-9.3	7.4	3.6	0.5	1.9	1.7	1.8	1.7
Population (m)	67.9	68.2	68.5	68.8	69.0	69.3	69.5	70.7
Population (% change, year on year)	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.3
Gross domestic energy consumption (ktoe)	156,477	166,724[c]	165,956	164,402	163,134	162,850	163,416	166,030
Gross domestic energy consumption (% change, year on year)	-8.3	6.5[c]	-0.5	-0.9	-0.8	-0.2	0.3	-0.1

Note. Forecasts for all dates are available via EIU's data tool.

[a] Actual. [b] EIU forecasts. [c] EIU estimates.

Sources: EIU; © OECD/IEA 2018 IEA statistics, www.iea.org/statistics, licence: www.iea.org/t&c.

Financial services

United Kingdom | Finance | Overview | Financial services | Overview

April 12th 2022

- The UK has one of the world's best-developed financial industries. The coronavirus has delivered a sharp, but hopefully short, shock to the sector. Managing the country's departure from the EU may prove to be a greater challenge. It is likely to require a long-term shift in trading relationships and may contribute to an ongoing shrinkage of the sector.
- London is currently one of the two leading global financial centres (along with New York) and has the largest share of many international markets. The UK financial sector—banking, insurance, fund management, securities and alternative investment—plays a significant role in the economy. In 2021 it accounted for 8.3% of gross value added, down from 9.1% at its peak in 2009, according to the Office for National Statistics (ONS). It employed 1.1m people, or 3.2% of the total workforce, down from 3.7% in 2009. The industry makes a substantial contribution to the balance of payments and tax revenue.
- In response to covid-19, the government enforced nationwide shutdowns and rolled out financial support to help workers and businesses affected. This included more than £330bn (US$434bn) in government-backstopped loans, business tax deferments and holidays, targeted aid to the worst-hit sectors, and wage support for salaried and self-employed workers. New measures put in place in December 2021 in response to the emergence of a highly transmissible variant of the virus, named Omicron, were lifted from late February 2022 onwards.
- The UK recorded real GDP growth of 7.4% in 2021, following a severe 9.3% contraction amid the pandemic in 2020. GDP rose above its pre-pandemic level for the first time in November 2021, according to the ONS. EIU forecasts growth of 3.9% in 2022 and an average of 1.8% in 2023-26. The UK has been one of the worst-hit

countries in Europe in economic terms, as well as having among the region's highest cumulative totals of covid-19 deaths and confirmed cases. However, the UK's relatively high coronavirus vaccination rate has helped to contain the incidence of serious illness and hospitalisation during the Omicron wave.

- The UK left the EU on January 31st 2020, ending 47 years of membership. A transition period with the EU ended on December 31st 2020. An EU-UK free-trade agreement was concluded in December 2020 that averted the most extreme form of "no deal" disorder. The trade pact did not include financial services, but the UK and the EU agreed and implemented some temporary arrangements to reduce disruption to financial markets.
- The UK granted a designation of regulatory equivalence for many EU financial firms, allowing them to continue to operate in the country. However, the EU did not reciprocate for UK financial firms, except for derivatives clearing houses. The UK government is emphasising the benefits of being able to determine its own priorities for the financial sector. It has begun to reform regulations governing UK financial markets, starting with changes to stockmarket listing rules.
- The Bank of England (BoE, the central bank) has raised its main rate three times since December 2021, from 0.1% to 0.75%, in the face of rising inflationary pressures. It has also signalled that further modest rate rises could be required in the coming months. UK consumer price inflation averaged 2.5% in 2021, up from 1% in 2020, and we forecast that inflation will rise further, to an average of 6.4%, in 2022. The BoE has begun to reduce its quantitative easing programme, which peaked at £895bn.
- We expect London to retain its status as one of the world's main financial centres, especially in the trading of foreign exchange and derivatives, but a loss of influence and post-Brexit restrictions on financial services trade with the EU are inevitable. Reaching agreement on a complex new trading arrangement will be difficult and time-consuming (taking years, rather than months), and financial firms in the UK must come to terms with the loss of "passporting" (the right of UK-regulated companies to do business in the EU and vice versa).

- Financial services companies previously serving the EU from the UK will continue to relocate some of their operations and staff to within the bloc. Although outflows of financial sector employees (and related tax revenue) from the UK have so far been modest, it is likely that the trend will continue as competing financial services hubs, including Amsterdam (Netherlands), Frankfurt (Germany) and Paris (France), gradually grow in size and influence. European policymakers will strive to attract major financial functions away from London.

Healthcare

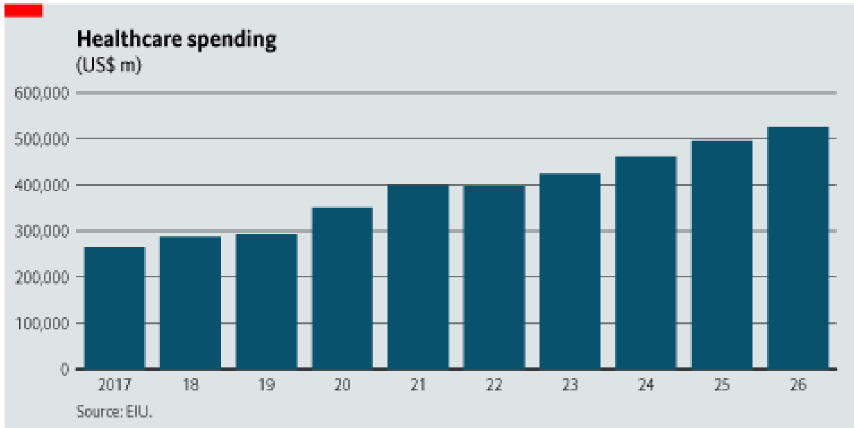
United Kingdom | Healthcare | Spending

June 21st 2022

Overview

- In the past two years the UK's healthcare system, already struggling with high demand, has faced two challenges: the covid-19 pandemic and the UK's departure from the EU's single market on January 1st 2021. The first has pushed up death rates, necessitated additional funding and expanded waiting lists for non-covid care. The second has caused recruitment problems and necessitated an overhaul of pharmaceutical supervision.
- The UK responded to the pandemic by increasing spending on healthcare to an estimated 12.8% of GDP in 2020, from 10.2% in 2019, according to the OECD. We estimate that this share fell to 12.5% in 2021 as real GDP recovered, despite continued real growth in healthcare spending.
- An additional national insurance levy came into effect from April 2022 to help fund health and social care over the forecast period. The government has also allocated extra funding to help the National Health Service (NHS) cope

with a backlog in demand for non-covid care. Even so, EIU expects total health spending growth to slow as fiscal constraints bite, taking the share of GDP back to 12% in 2026.



- We forecast that health spending will rise at a compound annual growth rate (CAGR) of 4.2% in 2022-26. However, with inflation high, real growth in healthcare spending will average just 0.7% a year, compared with 2.5% a year in the five years before the pandemic.
- Pharmaceutical sales will grow at a CAGR of 4.5% in nominal local-currency terms in 2022-26, driven partly by covid-19 vaccine sales. So far, about 86.9% of the population aged over 12 have received at least two vaccine doses, and over 68.2% have received three doses, according to government data. A booster (fourth) dose was offered to certain groups from early 2022.
- The 2021 Health and Care Act aims to reorganise NHS England funding flows from July this year. It will pass management from the 191 clinical commissioning groups (CCGs) set up in 2012 to 42 integrated care systems that will co-ordinate care at regional levels. The reforms do not apply in Scotland, Wales or Northern Ireland.

Funding sources

- Healthcare provision in the UK is dominated by the NHS, which is financed primarily via general taxation. NHS care is free at the point of delivery, but fixed charges are levied (in England) for most prescription medicines and dental care, with some exemptions.
- Public expenditure (including compulsory contributions) accounted for 81.7% of current health spending in 2020, according to provisional data from the OECD, above the OECD average of 74%. The public share in the UK has increased from 78.5% in 2019, but remains lower than current shares in Germany (85.1%) and France (83.7%).

Healthcare: key indicators

	2017[a]	2018[a]	2019[a]	2020[a]	2021[b]	2022[c]	2023[c]	2024[c]	2025[c]	2026[c]
Life expectancy, average (years)	81.0	81.0	81.1	81.2	81.3	81.4	81.5	81.6	81.8	81.9
Life expectancy, male (years)	79.1	79.2	79.3	79.4	79.5	79.7	79.9	80.0	80.2	80.4
Life expectancy, female (years)	82.8	82.8	82.9	82.9	83.0	83.1	83.1	83.2	83.3	83.4
Infant mortality rate (per 1,000 live births)	3.9	3.8	3.9	3.9	3.9	3.8	3.8	3.8	3.7	3.7
Healthcare spending (£ bn)	205.7	215.3[b]	228.9[b]	274.2[b]	289.6	308.8	324.3	335.1	345.7	356.6
Healthcare spending (% of GDP)	9.8	9.9[b]	10.2[b]	12.8[b]	12.5	12.4	12.3	12.2	12.1	12.0
Healthcare spending (US$ bn)	265.2	287.5[b]	292.4[b]	352.0[b]	398.6	396.9	423.8	461.6	496.0	526.0
Healthcare spending (US$ per head)	3,975	4,282[b]	4,330[b]	5,185[b]	5,843	5,794	6,162	6,688	7,161	7,566
Healthcare (consumer expenditure; US$ bn)	31.6	33.6	32.0	29.5	34.1	33.4	35.5	37.8	40.1	42.3
Doctors (per 1,000 people)	2.8	2.8	3.0	3.0	3.1	3.1	3.2	3.2	3.3	3.3
Hospital beds (per 1,000 people)	2.5	2.5	2.5	2.4	2.4	2.4	2.3	2.3	2.3	2.3

[a] Actual. [b] EIU estimates. [c] EIU forecasts.

Sources: US Bureau of Census; UN; OECD; World Bank; EIU.

- Most NHS funding and commissioning occurs under separate frameworks in the four UK nations, with variations in some policy areas. About 86% of funding goes to NHS England, with Scotland, Wales and Northern Ireland sharing the rest under a formula (the Barnett formula) related to population size. Within England, funding flows will now be channelled via 42 integrated care systems, which are set to replace the former system of CCGs.
- The UK's relatively weak public finances will come under further pressure as a result of the coronavirus crisis. However, the government reaffirmed a pre-pandemic funding deal in 2018, which will cause spending (excluding emergency covid-19 funds) to rise by £33.9bn (US$44bn) per year by fiscal year 2023/24 (April 6th-March 5th).
- According to the King's Fund, a health policy think tank, NHS spending in England increased to £191bn in 2020/21, from £149bn in 2019/20. The 2020/21 total included £47bn in covid-19 funding. In 2021/22 the country spent £190bn on the NHS, including £34bn in covid-19 funding. Core spending (excluding covid) is expected to total £174bn in 2023/24.
- In September 2021 the government announced that national insurance payments for all working adults would increase by 1.25 percentage points and another 1.25 points for employers in April 2022. The levy, which will become a tax on earned income from 2023, is intended to raise health and social care funding by £12bn a year, in part to pay for elderly care.

Private health insurance

- Voluntary (or private) spending on healthcare accounted for 18.3% (provisional data) of the UK's total health expenditure in 2020, the smallest share since 2010, according to the OECD. By contrast, up until 2018, the share of voluntary spending on healthcare had been gradually rising as a share of overall health expenditure.
- This decline was driven by a fall in spending on healthcare from voluntary insurance schemes. These shrank in both per capita purchasing-power-parity (PPP) terms and also as a percentage of overall spending to 4.4%, from 5.6% in 2019.

- Out-of-pocket (OOP) spending accounted for 13.8% of total health spending, down from 15.9% in 2019. Nevertheless, the amount of spending continued to rise on a per capita basis (current prices; PPP) in 2020.
- The private health insurance market remained broadly flat in the years preceding the pandemic, reflecting the dominance of the NHS. However, according to a 2021 study by LaingBuisson, a consultancy, in 2020 private spending on private acute medical care in hospitals and clinics shrank by about 30%, to an estimated £6.17bn, as the private sector provided resources to the NHS (at cost).
- From the end of 2020, however, there was a strong rebound in private acute medical care. Again much of this comes from NHS contracts as the health services try to reduce the backlog of non-covid care.
- The leading independent healthcare group is Bupa, with 2.3m policyholders and 31m customers at the end of June 2020. It was boosted by an agreement between Bupa UK and a friendly society, CS Healthcare, to transfer the latter’s 17,500 members as of January 2021.

Telecommunications

United Kingdom | Telecommunications | Overview

May 16th 2022

- Mobile telephony makes up the majority of telecommunications connections in the UK. The mobile penetration rate has levelled off in recent years amid a saturated market. EIU expects a moderate rise during the five-year forecast period (2022-26), with the rate stabilising around the 117% mark.
- There were an estimated 40.3 broadband subscriptions per 100 people in 2020—the tenth-highest rate in the OECD—with total internet user penetration at 94.8% of the population. We forecast a rise in user penetration to

99.4% by 2026, with the coronavirus pandemic likely to accelerate the upward trend.

- A UK digital strategy was published in 2017, covering areas such as digital skills, connectivity and cyber-security. The publication of an updated strategy, which is expected to focus on tech-led economic growth and productivity in the light of the pandemic, was still awaited in mid-May 2022. The government has established a new central digital and data office, which will focus on innovation and transformation strategies related to cyber-security, data and emerging technologies.
- The UK is ahead of many European countries in fifth-generation (5G) deploy-ment, largely owing to a clear policy. The country's largest mobile operators have all launched 5G services, although speed remains below expectations. Operators will focus on boosting revenue from industrial usage of 5G.
- The Telecommunications (Security) Act, aimed at safeguarding the UK's 5G and fibre-broadband infrastructure, became law in November 2021. It provides the state with new powers to impose controls on the use of telecoms goods, services or facilities deemed to be a high risk to national security. Companies that violate these controls will be subject to a fine of up to 10% of their relevant turnover, or £100,000 (US$132,000) per day in cases of persistent violations.
- The government's digital strategy aims for the majority of the population to have 5G mobile coverage by 2027. In 2020 the government and Ofcom, the telecoms regulator, agreed on a scheme with the UK's four main mobile network operators (MNOs)—O2, EE, Vodafone and Three—for a shared rural 4G network that would remove most connectivity ”not spots” (areas without 4G coverage) by 2025.
- A 2018 commitment to achieve ”full-fibre broadband coverage” by 2025 has been watered down to a minimum of 85% gigabit-capable broadband by the same year. Most of the network will be built through private investment, with a government budget of £5bn (US$6.6bn) allocated to the 20% of UK premises that are hardest to reach. In November 2020 the government announced plans to spend £1.2bn of this funding in 2020-25.

Telecoms penetration

	2017[a]	2018[a]	2019[b]	2020[b]	2021[b]	2022[c]	2023[c]	2024[c]	2025[c]	2026[c]
Telephone main lines (m)	31.8	31.5	32.4[a]	32.0[a]	32.3	32.6	32.7	32.8	33.0	33.1
Telephone main lines (per 100 people)	47.6	46.9	48.0	47.2	47.4	47.6	47.6	47.6	47.6	47.6
Mobile subscriptions (m)	79.1	78.9	79.8[a]	79.0[a]	79.1	79.2	79.7	80.4	80.8	81.2
Mobile subscriptions (per 100 people)	118.5	117.5	118.2	116.4	116.0	115.7	116.0	116.5	116.6	116.7

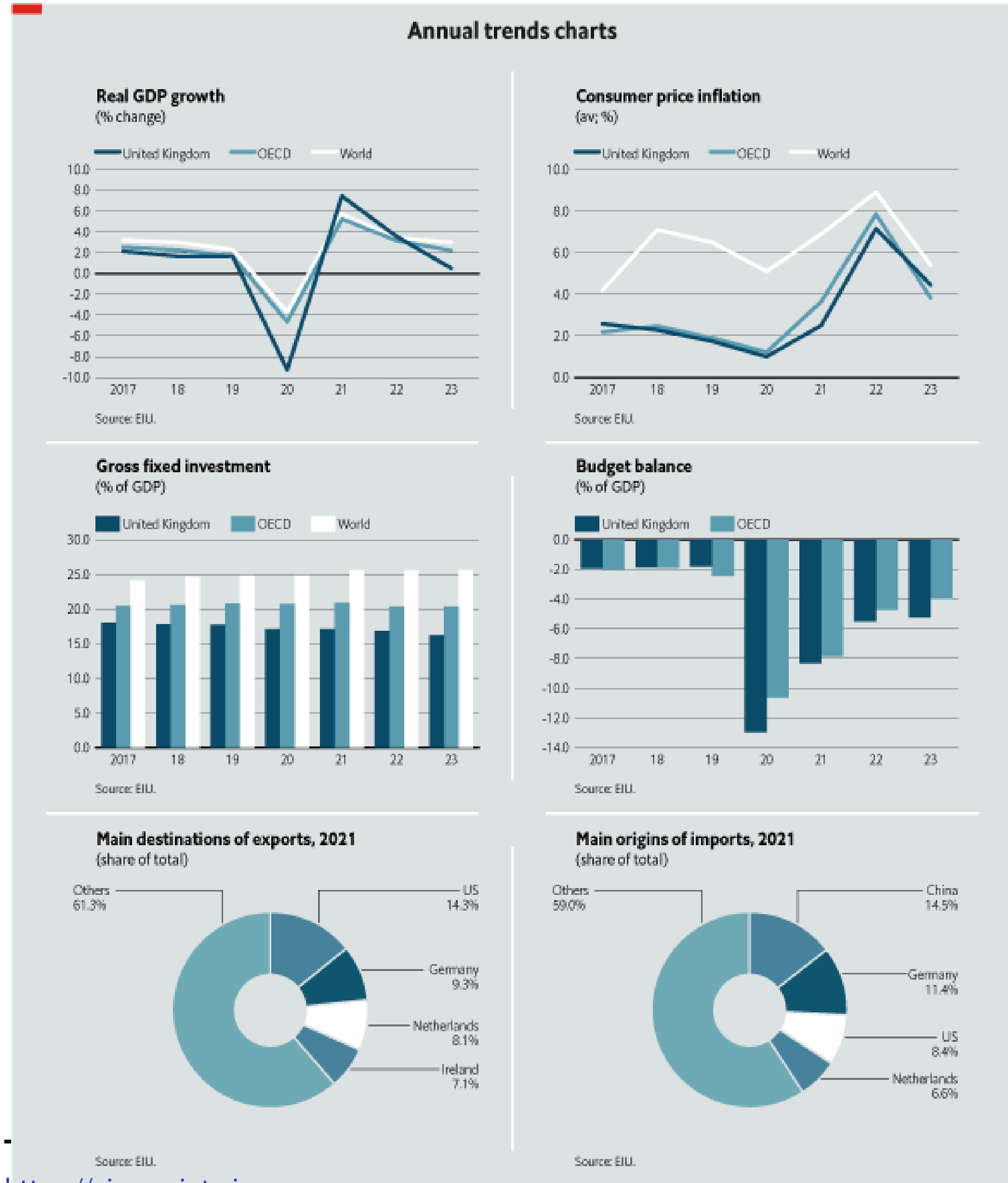
[a] Actual. [b] EIU estimates. [c] EIU forecasts.

Sources: International Telecommunication Union; EIU.

Data and charts: Annual trends charts

United Kingdom | Economy | Charts and tables | Annual trends charts

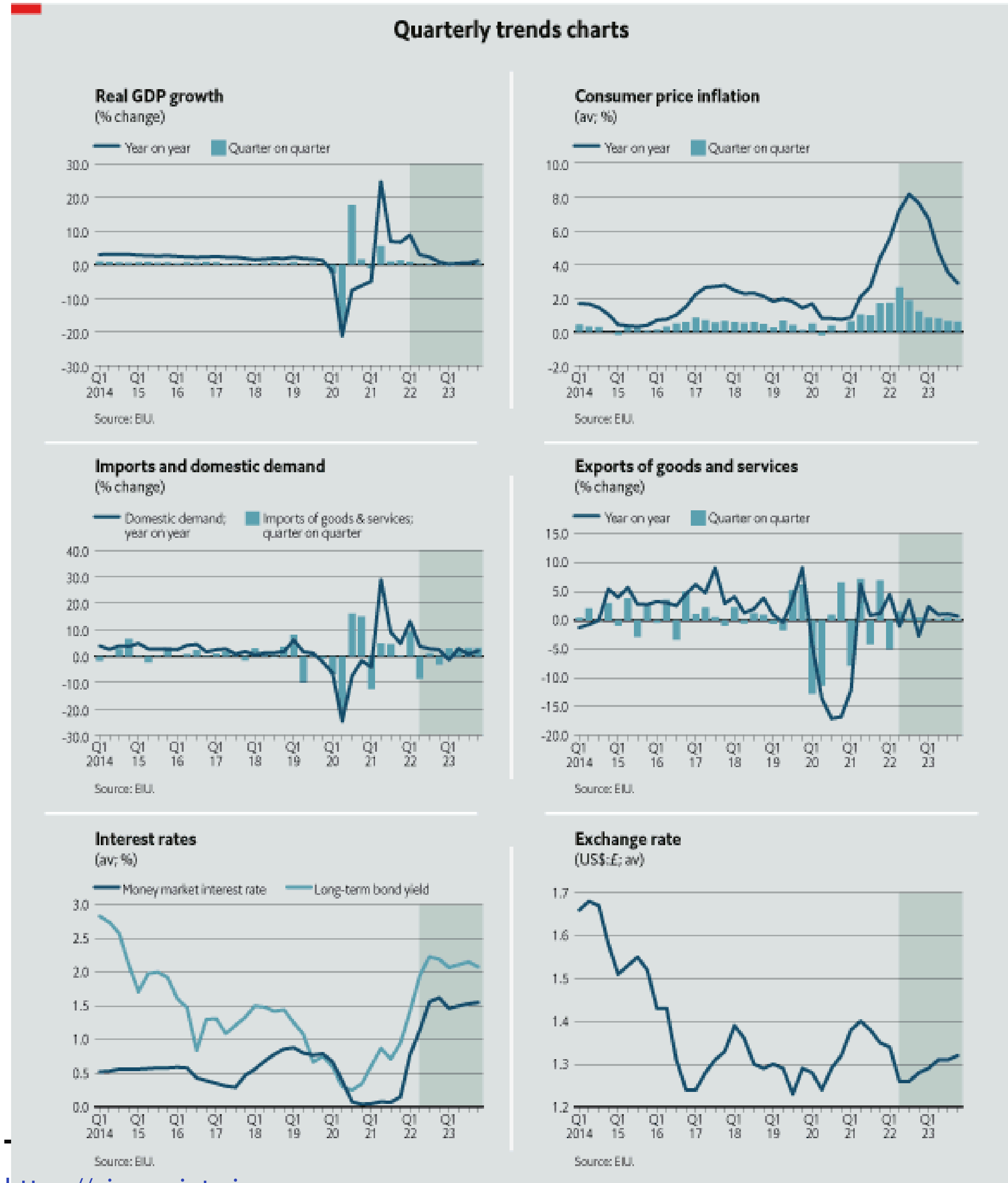
June 8th 2022


Annual trends charts
Real GDP growth
(% change)
United Kingdom
OECD
World
10.0
8.0
6.0
4.0
2.0
0.0
-2.0
-4.0
-6.0
-8.0
-10.0
2017
18
19
20
21
22
23
Source: EIU.
Consumer price inflation
(av; %)
United Kingdom
OECD
World
10.0
8.0
6.0
4.0
2.0
0.0
2017
18
19
20
21
22
23
Source: EIU.
Gross fixed investment
(% of GDP)
United Kingdom
OECD
World
30.0
25.0
20.0
15.0
10.0
5.0
0.0
2017
18
19
20
21
22
23
Source: EIU.
Budget balance
(% of GDP)
United Kingdom
OECD
0.0
-2.0
-4.0
-6.0
-8.0
-10.0
-12.0
-14.0
2017
18
19
20
21
22
23
Source: EIU.
Main destinations of exports, 2021
(share of total)
Others 61.3%
US 14.3%
Germany 9.3%
Netherlands 8.1%
Ireland 7.1%
Source: EIU.
Main origins of imports, 2021
(share of total)
Others 59.0%
China 14.5%
Germany 11.4%
US 8.4%
Netherlands 6.6%
Source: EIU.

Data and charts: Quarterly trends charts

United Kingdom | Economy | Charts and tables | Quarterly trends charts

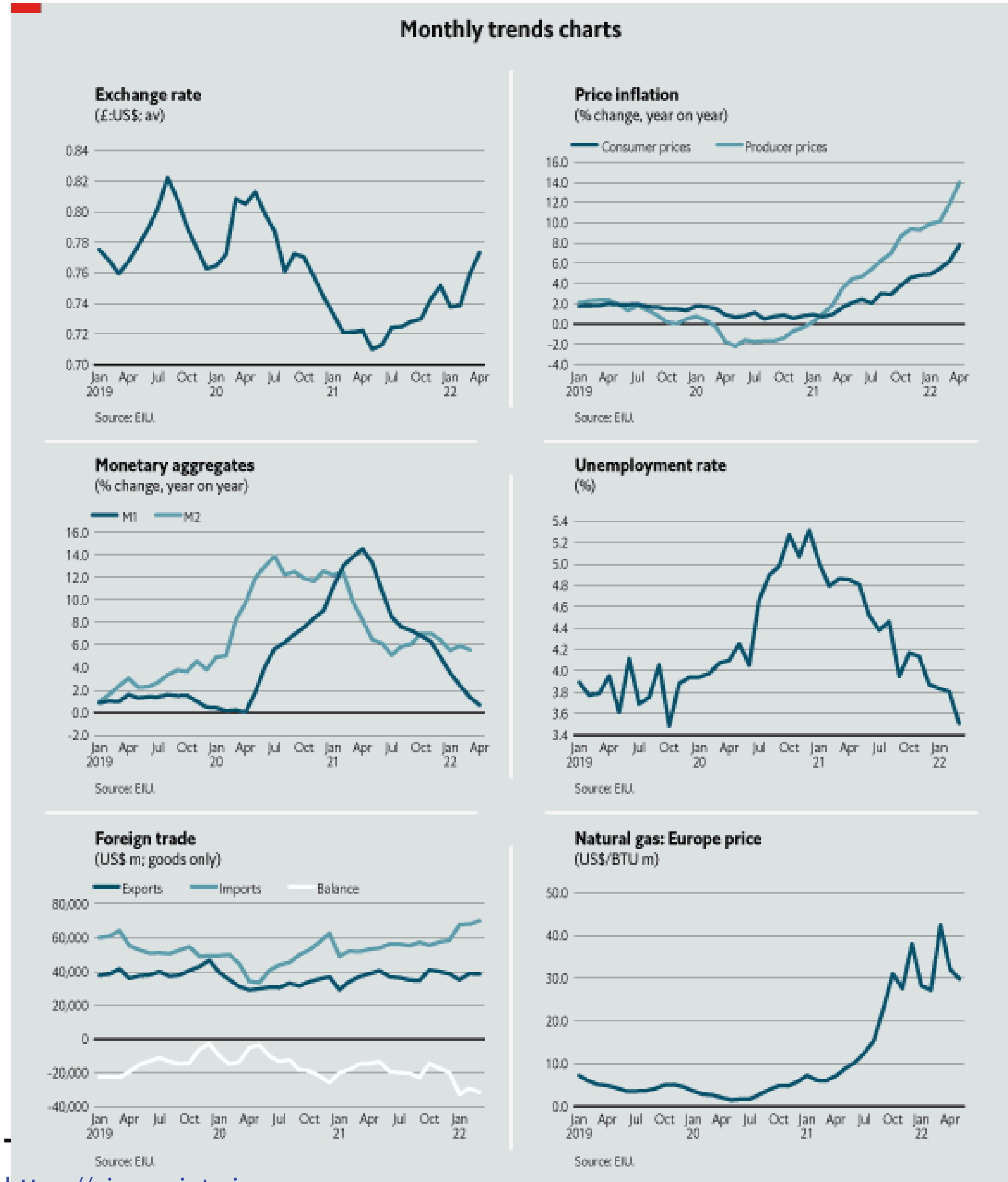
June 8th 2022


Quarterly trends charts
Real GDP growth
(% change)
Year on year
Quarter on quarter
Source: EIU.
Consumer price inflation
(av; %)
Year on year
Quarter on quarter
Source: EIU.
Imports and domestic demand
(% change)
Domestic demand; year on year
Imports of goods & services; quarter on quarter
Source: EIU.
Exports of goods and services
(% change)
Year on year
Quarter on quarter
Source: EIU.
Interest rates
(av; %)
Money market interest rate
Long-term bond yield
Source: EIU.
Exchange rate
(US$:£; av)
Source: EIU.

Data and charts: Monthly trends charts

United Kingdom | Economy | Charts and tables | Monthly trends charts

June 8th 2022


Monthly trends charts
Exchange rate
(£:US$; av)
Source: EIU.
Price inflation
(% change, year on year)
Consumer prices
Producer prices
Source: EIU.
Monetary aggregates
(% change, year on year)
M1
M2
Source: EIU.
Unemployment rate
(%)
Source: EIU.
Foreign trade
(US$ m; goods only)
Exports
Imports
Balance
Source: EIU.
Natural gas: Europe price
(US$/BTU m)
Source: EIU.

Data summary: Gross domestic product, current market prices

United Kingdom | Economy | Charts and tables | GDP at current market prices

June 8th 2022

Gross domestic product, at current market prices

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Expenditure on GDP (£ bn at current market prices)										
GDP	2,097.1	2,174.4	2,255.3	2,150.4	2,317.1	2,490.4	2,636.7	2,747.0	2,856.8	2,971.9
Private consumption	1,352.8	1,412.3	1,449.1	1,309.6	1,424.4	1,582.7	1,670.6	1,728.3	1,790.6	1,860.6
Government consumption	388.6	399.0	424.0	477.9	511.3	585.1	647.5	676.8	706.8	736.7
Gross fixed investment	377.9	386.5	399.6	367.9	395.8	418.0	427.3	443.1	458.9	475.0
Exports of goods & services	630.1	663.3	699.3	609.9	625.4	713.5	741.0	756.8	777.5	807.3
Imports of goods & services	656.6	691.6	719.9	603.5	654.5	816.9	849.0	860.0	878.1	909.7
Stockbuilding	4.4	4.9	3.3	-8.4	8.1	8.0	-0.7	2.0	1.0	2.0
Domestic demand	2,123.6	2,202.7	2,276.0	2,147.0	2,339.5	2,593.8	2,744.7	2,850.2	2,957.3	3,074.3
Expenditure on GDP (US$ bn at current market prices)										
GDP	2,703.5	2,904.4	2,880.8	2,760.5	3,188.4	3,200.8	3,445.2	3,784.0	4,099.5	4,383.5
Private consumption	1,743.9	1,886.4	1,851.0	1,681.2	1,960.1	2,034.2	2,182.9	2,380.8	2,569.5	2,744.3
Government consumption	501.0	533.0	541.6	613.4	703.5	752.0	846.1	932.3	1,014.3	1,086.6

Gross fixed investment	487.1	516.2	510.4	472.3	544.6	537.2	558.3	610.3	658.6	700.7
Exports of goods & services	812.3	886.0	893.2	782.9	860.6	917.1	968.2	1,042.4	1,115.8	1,190.7
Imports of goods & services	846.5	923.8	919.6	774.8	900.6	1,049.9	1,109.3	1,184.7	1,260.0	1,341.7
Stockbuilding	5.7	6.5	4.2	-10.8	11.1	10.3	-0.9	2.8	1.4	3.0
Domestic demand	2,737.7	2,942.2	2,907.2	2,756.2	3,219.4	3,333.7	3,586.4	3,926.2	4,243.8	4,534.5
Economic structure (% of GDP at current market prices)										
Household consumption	64.5	65.0	64.3	60.9	61.5	63.6	63.4	62.9	62.7	62.6
Government consumption	18.5	18.4	18.8	22.2	22.1	23.5	24.6	24.6	24.7	24.8
Gross fixed investment	18.0	17.8	17.7	17.1	17.1	16.8	16.2	16.1	16.1	16.0
Stockbuilding	0.2	0.2	0.1	-0.4	0.3	0.3	0.0	0.1	0.0	0.1
Exports of goods & services	30.0	30.5	31.0	28.4	27.0	28.7	28.1	27.5	27.2	27.2
Imports of goods & services	31.3	31.8	31.9	28.1	28.2	32.8	32.2	31.3	30.7	30.6
Memorandum item										
National savings ratio (%)	14.6	14.1	15.2	14.2	14.8	14.4	13.2	13.3	13.4	13.2

[a] Actual. [b] EIU forecasts.

Data summary: Gross domestic product, at constant prices

United Kingdom | Economy | Charts and tables | GDP at constant prices

June 8th 2022

Gross domestic product, at constant prices

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Real expenditure on GDP(£ bn at 2019 prices)										
GDP	2,182.2	2,218.2	2,255.3	2,046.2	2,198.5	2,276.8	2,288.1	2,331.0	2,370.9	2,413.6
Household consumption	1,398.0	1,430.9	1,449.0	1,295.9	1,376.1	1,429.8	1,430.6	1,452.4	1,478.1	1,505.8
Government consumption	405.4	406.9	424.0	398.9	456.1	474.4	498.1	505.1	512.2	518.8
Gross fixed investment	397.7	397.4	399.6	361.6	382.9	412.7	421.8	437.4	453.1	469.0
Exports of goods & services	658.3	676.5	699.3	608.6	600.8	606.3	614.1	628.0	643.2	662.1
Imports of goods & services	678.6	699.5	719.9	606.4	629.7	666.6	688.1	706.1	729.9	757.3
Stockbuilding (% of GDP)	12.7	1.8	6.5	-9.0	0.2	8.0	-0.7	2.0	2.0	3.0
Domestic demand	2,214.3	2,240.1	2,275.9	2,046.6	2,221.0	2,327.2	2,353.8	2,400.1	2,448.9	2,499.9
Real expenditure on GDP (% change)										
GDP	2.1	1.7	1.7	-9.3	7.4	3.6	0.5	1.9	1.7	1.8
Household consumption	1.6	2.4	1.3	-10.6	6.2	3.9	0.1	1.5	1.8	1.9
Government consumption	0.6	0.4	4.2	-5.9	14.3	4.0	5.0	1.4	1.4	1.3
Gross fixed investment	3.3	-0.1	0.5	-9.5	5.9	7.8	2.2	3.7	3.6	3.5

Exports of goods & services	5.7	2.8	3.4	-13.0	-1.3	0.9	1.3	2.3	2.4	2.9
Imports of goods & services	2.9	3.1	2.9	-15.8	3.8	5.9	3.2	2.6	3.4	3.8
Stockbuilding (% contribution to GDP growth)	0.2	-0.5	0.2	-0.7	0.4	0.4	-0.4	0.1	0.0	0.0
Domestic demand	1.9	1.2	1.6	-10.1	8.5	4.8	1.1	2.0	2.0	2.1
Real contribution to GDP growth (% points)										
Private consumption	1.0	1.5	0.8	-6.8	3.9	2.4	0.0	1.0	1.1	1.2
Government consumption	0.1	0.1	0.8	-1.1	2.8	0.8	1.0	0.3	0.3	0.3
Gross fixed investment	0.6	0.0	0.1	-1.7	1.0	1.4	0.4	0.7	0.7	0.7
External balance	0.7	-0.1	0.1	1.0	-1.5	-1.4	-0.6	-0.2	-0.4	-0.4
Memorandum items										
Industrial production (% change)	0.1	3.5	3.6	-8.4	5.1	1.2	2.1	1.6	1.6	1.6
Real personal disposable income (% change)	0.9	2.8	1.3	-0.3	1.3	-1.2	-0.2	1.3	1.4	1.7

[a] Actual. [b] EIU forecasts.

Data summary: Gross domestic product by sector of origin

United Kingdom | Economy | Charts and tables | GDP by sector of origin

June 8th 2022

Gross domestic product by sector of origin

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Origin of GDP (£ bn at constant 2018 prices)										
GDP at factor cost	1,950.8	1,981.4	2,017.3	1,832.4	1,969.8	2,039.9	2,050.1	2,088.6	2,124.3	2,162.5
Agriculture	13.4	11.9	13.8	12.5	12.9	13.6	13.7	13.9	14.2	14.4
Industry	389.3	396.1	405.5	361.5	388.5	401.7	403.5	411.2	418.1	425.7
Services	1,548.3	1,573.5	1,598.0	1,458.4	1,568.3	1,624.6	1,632.9	1,663.5	1,692.0	1,722.4
Origin of GDP (real % change)										
Agriculture	5.9	-10.9	15.9	-9.8	4.0	5.2	0.4	1.9	1.7	1.8
Industry	1.3	1.7	2.4	-10.8	7.5	3.4	0.5	1.9	1.7	1.8
Services	2.4	1.6	1.6	-8.7	7.5	3.6	0.5	1.9	1.7	1.8
Origin of GDP (% of factor cost GDP)										
Agriculture	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Industry	20.0	20.0	20.1	19.7	19.7	19.7	19.7	19.7	19.7	19.7

Services	79.4	79.4	79.2	79.6	79.6	79.6	79.7	79.6	79.6	79.6
Memorandum item										
Industrial production (% change)	0.1	3.5	3.6	-8.4	5.1	1.2	2.1	1.6	1.6	1.6

[a] Actual. [b] EIU forecasts.

Data summary: Growth and productivity

United Kingdom | Economy | Charts and tables | Growth and productivity

June 8th 2022

Growth and productivity

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Growth and productivity (%)										
Labour productivity growth	1.1	0.5	0.6	-8.5	8.0	2.1	-0.2	1.1	1.2	1.3
Total factor productivity growth	0.4	0.0	0.1	-9.0	1.3	-1.7	-0.2	1.0	1.0	1.0
Growth of capital stock	3.1	2.6	2.3	0.7	1.3	2.2	2.2	2.4	2.6	2.7
Growth of potential GDP	2.0	1.9	1.8	1.9	0.1	-0.5	1.0	2.3	2.1	2.3
Growth of real GDP	2.1[c]	1.7[c]	1.7[c]	-9.3[c]	7.4[c]	3.6	0.5	1.9	1.7	1.8
Growth of real GDP per head	0.7[c]	1.0[c]	1.1[c]	-9.7[c]	6.9[c]	3.1	0.1	1.5	1.3	1.4

[a] EIU estimates. [b] EIU forecasts. [c] Actual.

Data summary: Economic structure, income and market size

United Kingdom | Economy | Charts and tables | Economic structure, income and market size

June 8th 2022

Economic structure, income and market size

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Population, income and market size										
Population (m)	66.7	67.1	67.5	67.9	68.2	68.5	68.8	69.0	69.3	69.5
GDP (US$ bn at market exchange rates)	2,704	2,904	2,881	2,760	3,188	3,201	3,445	3,784	4,100	4,384
GDP per head (US$ at market exchange rates)	40,516	43,257	42,660	40,663	46,746	46,728	50,101	54,823	59,179	63,050
Private consumption (US$ bn)	1,744	1,886	1,851	1,681	1,960	2,034	2,183	2,381	2,569	2,744
Private consumption per head (US$)	26,135	28,096	27,410	24,765	28,737	29,697	31,744	34,493	37,092	39,473
GDP (US$ bn at PPP)	3,075	3,165	3,315	3,044	3,406	3,721	3,859	4,030	4,185	4,354
GDP per head (US$ at PPP)	46,076	47,133	49,084	44,834	49,935	54,326	56,124	58,390	60,415	62,629
Personal disposable income (£ bn)	1,381	1,448	1,487	1,493	1,549	1,645	1,731	1,787	1,845	1,913
Personal disposable income (US$ bn)	1,780	1,935	1,900	1,917	2,131	2,114	2,262	2,461	2,648	2,822
Growth of real disposable income (%)	0.9	2.8	1.3	-0.6	1.2	-0.7	-0.2	1.3	1.4	1.7
Memorandum items										
Share of world population (%)	0.89	0.89	0.89	0.88	0.88	0.88	0.88	0.88	0.89	0.86
Share of world GDP (% at market exchange rates)	3.36	3.41	3.33	3.29	3.37	3.20	3.26	3.38	3.47	3.58

Share of world GDP (% at PPP)	2.55	2.48	2.49	2.32	2.35	2.37	2.31	2.28	2.25	2.27
Share of world exports of goods (%)	2.51	2.47	2.58	2.32	2.04	1.97	1.88	1.94	1.96	2.19

[a] Actual. [b] EIU forecasts.

Data summary: Fiscal indicators

United Kingdom | Economy | Charts and tables | Fiscal indicators

June 8th 2022

Fiscal indicators

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Fiscal indicators (% of GDP)										
Government expenditure	37.2	37.0	36.8	48.1	44.7	42.8	43.1	42.7	42.3	42.1
Interest[c]	2.6	2.4	2.1	1.9	2.6	3.1	3.6	3.6	3.6	3.7
Non-interest[c]	34.6	34.6	34.8	46.3	42.1	39.7	39.6	39.1	38.7	38.4
Government revenue[c]	35.3	35.1	35.0	35.2	36.4	37.3	37.9	38.4	38.7	38.7
Budget balance[c]	-1.9	-1.9	-1.8	-13.0	-8.3	-5.5	-5.2	-4.3	-3.6	-3.3
Primary balance[c]	0.7	0.5	0.3	-11.1	-5.7	-2.4	-1.7	-0.7	0.1	0.3
Government debt[d]	85.2	84.5	83.8	102.5	102.8	101.7	101.3	101.3	101.0	100.5

[a] Actual. [b] EIU forecasts. [c] General government. [d] General government, gross public debt (Maastricht definition). Includes impact of financial sector interventions in Northern Rock, Bradford & Bingley and compensation payments to Icelandic bank depositors. Does not include impact

of reclassification of Royal Bank of Scotland and Lloyds Banking Group as public corporations by the Office for National Statistics. Does not include impact of gilt transactions with the Bank of England. End-period.

Data summary: Monetary indicators

United Kingdom | Economy | Charts and tables | Monetary indicators

June 8th 2022

Monetary indicators

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Monetary indicators										
Exchange rate US$:£ (av)	1.29	1.34	1.28	1.28	1.38	1.29	1.31	1.38	1.44	1.48
Exchange rate €:£ (av)	1.14	1.13	1.14	1.12	1.16	1.17	1.14	1.15	1.17	1.18
Exchange rate US$:€ (av)	1.13	1.18	1.12	1.14	1.18	1.10	1.14	1.20	1.23	1.25
Exchange rate €:£ (year-end)	1.13	1.11	1.18	1.11	1.19	1.15	1.12	1.15	1.17	1.19
Real effective exchange rate (av; 2010=100)	97.1	98.9	98.4	98.6	102.4	101.5	103.1	105.9	108.0	109.7
M4 money supply growth (%)[c]	4.8	2.3	3.8	12.6	160.6[d]	7.2	6.3	4.5	4.3	4.3
Domestic credit growth (%)	5.5	3.2	4.9	3.1	156.1[d]	6.7	4.5	4.3	4.0	3.9
Purchasing power parity US$:£ (av)	1.47	1.46	1.47	1.42	1.47	1.49	1.46	1.47	1.46	1.47
3-month £-Libor rate (av; %)	0.4	0.7	0.8	0.3	0.1	1.3	1.5	1.6	1.8	2.0

10-year government bond yield (av; %)	1.2	1.5	0.9	0.4	0.8	1.9	2.1	1.9	1.9	1.9
Bank of England base rate (%; end-period)	0.50	0.75	0.75	0.10	0.25	1.50	1.50	1.75	2.00	2.25
Lending rate (%; average mortgage SVR from UK MFIs)	4.4	4.3	4.3	3.8	3.6	4.3	4.5	4.4	4.5	4.5
Deposit rate (av; %)	0.9	0.9	0.9	0.4	0.2	1.2	1.4	1.1	1.3	1.3

[a] Actual. [b] EIU forecasts. [c] Headline broad money (M4) figures from Bank of England include deposits of "intermediate other financial corporations" (IOFCs) that specialise in intermediation between banks, giving a distorted measure of underlying M4 growth. [d] EIU estimates.

Data summary: Employment, wages and prices

United Kingdom | Economy | Charts and tables | Employment, wages and prices

June 8th 2022

Employment, wages and prices

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
The labour market (av)										
Labour force (m)	33.5	33.8	34.1	34.1	33.9	34.1	34.4	34.7	34.8	35.0
Labour force (% change)	0.5	0.9	0.8	-0.1	-0.6	0.8	0.8	0.8	0.4	0.5
Employment (m)	32.1	32.4	32.8	32.5	32.4	32.8	33.0	33.3	33.5	33.6
Employment (% change)	1.0	1.2	1.1	-0.8	-0.5	1.4	0.7	0.8	0.5	0.5

Unemployment (m)	1.5	1.4	1.3	1.6	1.5	1.3	1.4	1.4	1.3	1.3
Unemployment rate (%; EU/OECD standardised measure)	4.4	4.1	3.8	4.5	4.5	4.2	4.4	3.9	3.8	3.8
Wage and price inflation (% except labour costs per hour)										
GDP deflator	1.8	2.0	2.0	5.1	0.3	3.8	5.3	2.3	2.2	2.2
Consumer prices (av; CPIH measure)	2.6	2.3	1.7	1.0	2.5	7.2	4.4	2.1	2.0	1.9
Producer prices (av)	3.9	3.4	1.4	-1.0	5.2	11.0	5.5	2.0	2.0	2.0
GDP deflator (av)	1.8	2.0	2.0	5.1	0.3	3.8	5.3	2.3	2.2	2.2
Private consumption deflator (av)	1.8	2.0	1.3	1.1	2.4	6.9	5.5	1.9	1.8	2.0
Government consumption deflator (av)	1.0	2.3	2.0	19.8	-6.4	10.0	5.4	3.1	3.0	2.9
Fixed investment deflator (av)	3.0	2.3	2.8	1.7	1.6	-2.0	0.0	0.0	0.0	0.0
Average nominal wages (av)	2.3	3.0	3.4	1.8	5.8	7.4	5.8	3.3	3.2	3.1
Average real wages (av)	-0.3	0.7	1.6	0.8	3.2	0.2	1.3	1.2	1.2	1.2
Unit labour costs (£-based; av)	2.0	2.4	3.0	13.6	-1.1	6.1	7.0	3.2	3.0	2.8
Unit labour costs (US$-based)	-2.9	6.1	-1.5	14.2	6.0	-0.9	8.8	8.8	7.3	5.7
Labour costs per hour (£)	22.0[c]	22.7[c]	23.5[c]	23.9[c]	25.3[c]	27.1	28.7	29.7	30.6	31.6
Labour costs per hour (US$)	28.4[c]	30.3[c]	30.0[c]	30.7[c]	34.8[c]	34.9	37.5	40.9	43.9	46.6

[a] Actual. [b] EIU forecasts. [c] EIU estimates.

Data summary: Current account and terms of trade

United Kingdom | Economy | Charts and tables | Current account and terms of trade

June 8th 2022

Current account and terms of trade

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Current account (US$ bn)										
Current-account balance	-98.1	-112.5	-77.0	-69.9	-82.5	-86.1	-101.7	-110.6	-111.4	-125.4
Current-account balance (% of GDP)	-3.6	-3.9	-2.7	-2.5	-2.6	-2.7	-3.0	-2.9	-2.7	-2.9
Goods: exports fob	435.4	468.3	474.9	396.8	442.3	485.0	482.8	517.6	551.2	591.0
Goods: imports fob	-616.4	-658.0	-651.9	-564.2	-656.8	-767.3	-799.7	-837.7	-879.4	-929.4
Trade balance	-180.9	-189.8	-176.8	-167.3	-214.4	-282.3	-316.9	-320.1	-328.3	-338.4
Services: credit	376.6	416.7	417.7	386.2	417.4	433.4	482.9	522.3	561.9	596.6
Services: debit	-229.8	-264.7	-267.4	-211.9	-242.9	-250.3	-269.5	-295.5	-319.6	-342.2
Services balance	146.8	152.0	150.3	174.3	174.5	183.0	213.4	226.8	242.3	254.4
Primary income: credit	241.8	291.9	277.8	174.5	249.6	413.8	460.4	489.6	496.4	512.0
Primary income: debit	-277.0	-332.6	-294.4	-214.8	-266.1	-374.6	-430.6	-475.8	-487.6	-520.3
Primary income balance	-35.2	-40.7	-16.6	-40.3	-16.5	39.2	29.8	13.9	8.7	-8.3
Secondary income: credit	22.7	25.0	24.4	26.5	23.2	23.3	25.1	25.7	25.8	27.6
Secondary income: debit	-51.7	-59.1	-58.3	-62.8	-49.2	-49.4	-53.2	-56.9	-60.0	-60.8

Secondary income balance	-29.0	-34.1	-33.9	-36.3	-26.0	-26.1	-28.1	-31.2	-34.2	-33.1
Terms of trade										
Export price index (US$-based; 2010=100)	89.9	96.5	92.3	89.7	109.4	121.5	123.7	127.4	130.9	134.4
Export prices (% change)	1.1	7.3	-4.3	-2.8	21.9	11.0	1.8	3.0	2.8	2.7
Import price index (US$-based; 2010=100)	89.6	95.4	89.6	86.3	93.4	105.9	107.0	110.0	111.8	113.9
Import prices (% change)	1.2	6.5	-6.0	-3.7	8.3	13.4	1.0	2.8	1.7	1.9
Terms of trade (2010=100)	100.4	101.2	103.0	104.0	117.1	114.7	115.5	115.8	117.1	118.0
Memorandum item										
Export market growth (%)	4.7	4.4	1.1[c]	-4.8[c]	10.0[c]	7.0	5.0	3.9	3.4	3.5

[a] Actual. [b] EIU forecasts. [c] EIU estimates.

Data summary: Foreign direct investment

United Kingdom | Economy | Charts and tables | Foreign direct investment

June 8th 2022

Foreign direct investment

	2017[a]	2018[a]	2019[a]	2020[a]	2021[a]	2022[b]	2023[b]	2024[b]	2025[b]	2026[b]
Foreign direct investment (US$ bn)										
Inward direct investment	125.4	-25.2	2.3	31.0	22.6	61.5	52.8	50.4	72.4	101.0
Inward direct investment (% of GDP)	4.6	-0.9	0.1	1.1	0.7	1.9	1.5	1.3	1.8	2.3
Inward direct investment (% of gross fixed investment)	25.7	-4.9	0.5	6.6	4.1	11.5	9.5	8.3	11.0	14.4
Outward direct investment	-172.0	28.7	48.2	53.3	-101.5	-18.1	-41.3	-37.9	-47.0	-66.8
Net foreign direct investment	-46.6	3.5	50.5	84.3	-78.9	43.4	11.5	12.6	25.3	34.3
Stock of foreign direct investment	2,369.0	2,226.0	2,317.0	2,548.0	2,562.0	2,623.5	2,676.3	2,726.7	2,799.1	2,900.1
Stock of foreign direct investment per head (US$)	35,503	33,154	34,311	37,534	37,562	38,301	38,920	39,506	40,407	41,714
Stock of foreign direct investment (% of GDP)	87.6	76.6	80.4	92.3	80.4	82.0	77.7	72.1	68.3	66.2
Memorandum items										
Share of world inward direct investment flows (%)	6.2	-6.4	0.2	3.1	2.0	5.0	4.1	3.8	5.2	7.0
Share of world inward direct investment stock (%)	7.9	6.9	6.8	7.6	6.9	6.5	6.3	6.2	6.1	6.1

[a] Actual. [b] EIU forecasts.

Political structure

United Kingdom | Summary | Political structure

June 8th 2022

Official name

United Kingdom of Great Britain and Northern Ireland

Form of state

Parliamentary monarchy

Legal system

Based on statute and common law; no written constitution; Scotland has its own system

National legislature

Bicameral; the House of Commons (the lower house of parliament) has 650 members directly elected on a first-past-the-post basis; the House of Lords (the upper house, with about 800 members) was reformed in 1999, when most hereditary peers lost their seats

Electoral system

Universal direct suffrage from the age of 18

National elections

The last general election was held on December 12th 2019; the next election is scheduled for May 2nd 2024

Head of state

Queen Elizabeth II, who acceded to the throne in 1952

National government

Cabinet headed by the prime minister, who is appointed by the monarch on the basis of ability to form a government with the support of the House of Commons. The centre-right Conservative Party took office as a majority government in December 2019

Main political parties

Conservative Party; Labour Party; Liberal Democrats; Reform UK (formerly Brexit Party); Green Party; Scottish National Party (SNP); Plaid Cymru (Welsh National Party); Northern Ireland parties: Ulster Unionist Party (UUP), Democratic Unionist Party (DUP), Alliance Party, Social Democratic and Labour Party (SDLP), Sinn Fein

Prime minister: Boris Johnson

Attorney general: Suella Braverman

Chancellor of the exchequer: Rishi Sunak

Chief secretary to the Treasury: Simon Clarke

Leader of the House of Commons: Mark Spencer

Leader of the House of Lords & Lord Privy Seal: Lady Evans

Minister for Brexit opportunities: Jacob Rees-Mogg

Minister for the Cabinet Office: Stephen Barclay

Parliamentary secretary to the Treasury & chief whip: Chris Heaton-Harris

Party chair & minister without portfolio: Oliver Dowden

President for COP26: Alok Sharma

Secretaries of state

Business, energy & industrial strategy: Kwasi Kwarteng

Defence: Ben Wallace

Digital, culture, media & sport: Nadine Dorries

Education: Nadhim Zahawi

Environment, food & rural affairs: George Eustice

Foreign, Commonwealth & development: Liz Truss

Health & social care: Sajid Javid

Home Office: Priti Patel

Housing, communities & local government: Michael Gove

International trade: Anne-Marie Trevelyan

Justice & Lord Chancellor: Dominic Raab

Northern Ireland: Brandon Lewis

Scotland: Alister Jack

Transport: Grant Shapps

Wales: Simon Hart

Work & pensions: Therese Coffey

Central bank governor

Andrew Bailey

Basic data

United Kingdom | Summary | Basic data

June 8th 2022

Land area

244,100 sq km (including inland water), of which 71% is arable and pasture land, 10% forest and 19% urban and other. England totals 130,400 sq km, Scotland 78,800 sq km, Wales 20,800 sq km and Northern Ireland 14,100 sq km

Population

67.1m (official mid-year estimate, 2020)

Main urban areas

Population in ’000 (official mid-year estimates, 2020)

Greater London (capital): 9,304

Greater Manchester: 2,730

West Midlands: 2,607

West Yorkshire: 1,889

Glasgow: 1,673

Climate

Temperate

Weather in London (altitude 5 metres)

Hottest month, July, 13-22°C; coldest month, January, 2-6°C; driest months, March and April, 37 mm average rainfall; wettest month, November, 64 mm average rainfall

Language

English. Welsh is also spoken in Wales, and Gaelic in parts of Scotland

Measures

Officially metric system, but the former UK imperial system is still widely used

Currency

Pound (or pound sterling) = 100 pence

Time

GMT (summer time, 1 hour ahead)

Fiscal year

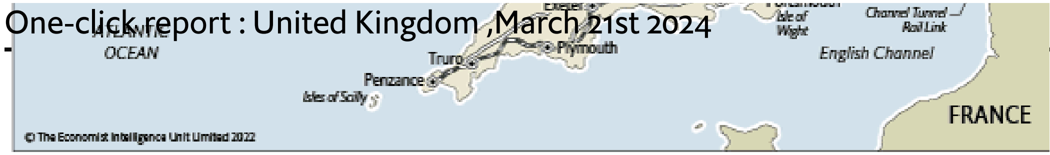
April 1st to March 31st; tax year April 6th to April 5th

Public holidays

January 3rd (New Year's Day*), April 15th (Good Friday), April 18th (Easter Monday), May 2nd (Early May Bank Holiday), June 2nd (Spring Bank Holiday), June 3rd (Platinum Jubilee Bank Holiday), August 29th (Summer Bank Holiday), December 26th and 27th (Christmas Day and Boxing Day*)

*New Year's Day is traditionally celebrated on January 1st, and Christmas Day and Boxing Day are traditionally celebrated on December 25th and 26th. As those days fall on weekends in 2022, the next two working days are given as holiday

Main railway
Main road
International boundary
Country boundary
Main airport
Capital
Major town
Other town
0 km 50 100 150 200
0 miles 50 100
Shetland
Orkney
Thurso
Lewis
Outer Hebrides
Ullapool
Inverness
Kyle of Lochalsh
Isle of Skye
Aberdeen
SCOTLAND
ATLANTIC OCEAN
North Sea
Dundee
Mull
Oban
Perth
Stirling
Dunfermline
Greenock
Glasgow
Edinburgh
Islay
Motherwell
Berwick-upon-Tweed
Kilmarnock
Firth of Clyde
Dumfries
Londonderry (Derry)
NORTHERN IRELAND
Stranraer
Larne
Antrim
Omagh
Belfast
Bangor
Armagh
Newcastle
Sunderland
Carlisle
Middlesbrough
UNITED KINGDOM
Scarborough
Isle of Man
Lancaster
Bradford
York
Irish Sea
Blackburn
Leeds
Kingston upon Hull
Bolton
Grimsby
Liverpool
Manchester
Anglesey
Birkenhead
Sheffield
Warrington
Lincoln
Holyhead
Bangor
Chester
The Wash
Wrexham
Stoke
Derby
Nottingham
REPUBLIC OF IRELAND
ENGLAND
King's Lynn
Norwich
Shrewsbury
Leicester
Great Yarmouth
Wolverhampton
Peterborough
Cardigan Bay
Birmingham
Coventry
Aberystwyth
Northampton
Cambridge
WALES
Worcester
Ipswich
Milton Keynes
Fishguard
Luton
Gloucester
Oxford
Southend
Newport
Swindon
Swansea
LONDON
Cardiff
Bristol
Celtic Sea
Reading
Canterbury
Bristol Channel
Crawley
Dover
Barnstaple
Salisbury
Folkestone
Calais
Southampton
Hastings
Bournemouth
Portsmouth
Brighton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Wight
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