United Kingdom

Outlook

	Avg. 12-16	2017	2018	2019	2020	2021	2022	Forecast 2023	2024
GDP growth (%)	2,2	2,4	1,7	1,6	-11,0	7,6	4,1	0,4	0,6
CPI inflation (%)*	1,5	2,7	2,5	1,8	0,9	2,6	9,1	7,7	3,8
Fiscal balance (% of GDP)**	-5,3	-2,4	-2,2	-2,2	-13,0	-8,3	-6,3	-6,6	-6,6
Primary fiscal balance (% of GDP)**	-3,6	-0,6	-0,5	-0,9	-12,0	-6,0	-2,7	-2,2	-0,8
Public debt (% of GDP)*	76,8	76,2	75,4	74,6	94,5	96,7	91,9	95,9	95,9
Reference rate (%)*	0,5	0,5	0,8	0,8	0,1	0,3	3,5	4,3	4,5
Current balance (% of GDP)**	-4,8	-3,6	-4,1	-2,8	-3,2	-3,2	-2,0	-5,8	-5,2

Notes: * Annual average. (e): estimate.
**Forecasts from the Office for Budget Responsibility, including the impact of the fiscal stimulus package presented.
Source: CaixaBank Research, based on data from the OBR, the Statistical Office and the BoE (via Refinitiv).

- **The economic outlook for the UK improves substantially**. GDP managed to grow by 0.1% quarter-on-quarter in Q1 2023 (against the decline we had expected), justifying a notable upward revision in this year's growth forecast to 0.4% from -0.8% previously estimated. This improvement in the UK forecast is in line with the upward revision published by the Bank of England (BoE), which, in its May report, no longer expects a recession in the coming years (0.25% in 2023 and 0.75% in 2024 versus -0.5% and -0.25% estimated in February, respectively). This improvement in growth expectations is based on a slightly better than expected start to the year globally (quarterly GDP in Q1 in China was 2.2%; in the US, 1.3% and -0.1% in the euro zone), on the evident improvement in the energy scenario and on the impact of the stimulus measures approved by Rishi Sunak's government (which could contribute up to 0.3 p.p. to this year's growth). Despite this greater optimism, the anticipated growth rates are still very modest and clearly below their long-term average (close to 2.0%).
- **In this context, inflation could start to correct in the coming months**. After the headline price index exceeded 10% in September, the BoE already pointed to a sharp fall from April onwards, mainly due to an energy base effect, although at the same time they were concerned about the evolution of food inflation. The BoE acknowledges that inflation forecasts are subject to high uncertainty and it is difficult to anticipate at what point it will return, on a sustained basis, to its 2.0% target. Moreover, it notes that risks to inflation are clearly concentrated on the upside and warns of the need to monitor possible second-round effects that could feed back into inflation, further delaying a return to the 2% target. For the moment, there is no evidence that the rise in inflation is being passed on to wages (which grew 5.9% year-on-year in Q1 vs. 7.0% in Q4), although the BoE reiterates that its priority is still to ensure price stability.
- **Interest rates will remain high for longer**. In addition to the impact of the interest rate hikes already approved, there will be the impact of the global slowdown expected from the summer onwards. The slower economic dynamism should facilitate the reduction in inflation, which will be particularly intense in Q3 and Q4, according to the BoE's estimates. Under these assumptions, everything points to the interest rate ceiling being quite close but, given the BoE's continued commitment to price stability, it seems unlikely that interest rates will be cut before the summer of 2024.

Closing date of this edition: 20 June 2023