CareEdge Global assigns 'Stable' outlook to the rating of United Kingdom

Reaffirms Long-Term Foreign Currency Rating of 'CareEdge AA-' (Unsolicited)

Issuer rating	CareEdge AA-/Stable (Unsolicited)

CareEdge Global has assigned a 'Stable' outlook to the rating of the United Kingdom, while reaffirming the Long-Term Foreign Currency rating of 'CareEdge AA- (Unsolicited)'.

The stable outlook reflects CareEdge Global expectations of fiscal consolidation of UK government budget coupled with a modest recovery in economic growth. The government's fiscal deficit is expected to reduce to 2.8% by 2028, from 5.7% of GDP recorded in 2024 primarily from the higher tax revenues, driven by measures announced in the Autumn 2024 budget statement. Further, the average annual growth rate of UK is expected to be 1.3% between 2025 to 2028, supported by a recovery in both domestic and global demand, rising productivity, and a stronger labor market.

Over the longer term, the UK's recent trade agreements with India, the United States, and the European Union offer potential for enhanced economic performance, supporting investment and export growth, helping to offset some of the lingering impact of Brexit.

General Government debt was elevated at 101% of GDP in 2024 and is projected to rise to 106% by 2028. Demographic pressures, particularly an ageing population are putting strains on debt levels by keeping public spending elevated.

Upside Scenario
The rating could be upgraded if stronger than expected growth enables faster than expected and significant fiscal consolidation. At the same time, further trade diversification beyond the EU enhances resilience and stability, strengthening the UK's overall economic outlook. A return to political stability following a period of uncertainty would further improve policy predictability and investor confidence, reinforcing the UK's overall credit outlook.

Downside Scenario
The rating could face downward pressure if general government debt rises above the 110% of GDP, exceeding current projections and signaling weaker fiscal discipline. This coupled with persistently high gilt yields would amplify fiscal strain through higher interest payment and weakening investor confidence. The UK's high external funding needs would add further vulnerability, making economy more exposed to shifts in global investor sentiment and financing conditions. Additionally persistent high inflation and widening current account deficit

could heighten risks to the UK's economic stability and credit profile.

Rationale

The reaffirmation of United Kingdom's rating reflects its large and well-developed financial sector, the status of the Sterling Pound as a reserve currency, the country's well-developed institutions, and a large, diversified, and competitive economy.

However, these strengths are partly offset by relatively subdued economic growth fundamentals in the long-term and a moderate fiscal profile, arising primarily from elevated general government debt levels. Additionally, the UK's weaker external position marked by persistent current account deficits and high external funding needs adds to its structural vulnerabilities.

Key Rating Drivers

Economic Structure & Resilience

The United Kingdom, with a nominal GDP of USD 3.6 trillion, remains the sixth-largest economy globally. It is a high-income economy with a GDP per capita of USD 54,475 (2024) in constant purchasing power parity terms (PPP). It represents a well-diversified and competitive economy with a large services sector, contributing to around 70% of the GDP and more than 45% of the total exports.

The UK economy is on a path of steady recovery. The economy expanded by 1.1% in 2024 as against the sluggish growth of 0.4% in 2023. Over the medium term, growth is expected to post moderate recovering growing at an average annual growth rate of 1.3% between 2025 to 2028, reflecting recovery in both domestic and global demand, and rising productivity.

Looking ahead, the UK faces structural challenges such as an ageing population and tighter immigration policies which are expected to weigh on the country's growth potential. The unemployment rate is forecasted to rise slightly to 4.5% in 2025 primarily due to short term adjustment to rising employment cost, driven by increases in the minimum wage and employers' national insurance contributions. However, it is expected to fall back to 4.3% in 2026 supported by gradual rebound in consumer demand and business confidence.

In terms of investment, the UK's gross fixed capital formation (GFCF) at 17.4% of GDP (2024) is seen to be lower than some of its European and similarly rated peers. However, annual business investment grew by 0.8% in 2024 signalling renewed confidence among firms despite a complex global backdrop.

Fiscal Strength

UK's fiscal assessment is characterized by an elevated level of gross general government debt at 101% of GDP in 2024. IMF projects this burden to increase consistently each year to reach

106% of GDP by 2028, higher in comparison to the pre-pandemic average of 87% (2015-19). A notable vulnerability lies in 25% of debt being inflation linked. This increases the risk of elevated interest payments, particularly if inflationary pressures persist. Demographic trends are also weighing on the fiscal outlook. An ageing population is expected to sustain high levels of committed expenditure on public sector wages, pensions, and social benefits.

Despite these challenges, several structural strengths help mitigate fiscal risks. The UK benefits from a long average maturity profile of its public debt, minimal exposure to foreign currency liabilities, and the global reserve status of the pound sterling. Additionally, the country maintains strong access to deep and liquid capital markets, supported by institutional investors with robust capacity to absorb government securities. Additionally, the fiscal deficit recorded at 5.7% of GDP in 2024, is forecast to narrow to 2.8% by 2028, driven largely by improved tax revenues, which are projected to rise to 37.7% of GDP over the same period.

External Position & Linkages

The UK's current account balance has historically remained in deficit, and this trend is expected to persist, with the deficit projected to average 3.5% of GDP over the next four years. External debt remains elevated at 274% of GDP (2024), reflecting London's role as a major international financial hub. However, this high level of external debt heightens the UK's sensitivity to shifts in global investor sentiment.

A particular vulnerability lies in the UK's external funding ratio, which stood at 7.64 times in 2023—among the highest compared to similarly rated peers. This is largely due to the substantial volume of short-term external debt by residual maturity. Additionally, the UK's net international investment position was negative at -9.6% of GDP in 2024. While foreign exchange reserves remain low in terms of import cover, they are broadly consistent with levels observed in other advanced economies.

On the trade front, the UK has made significant strides in enhancing its external partnerships. It recently concluded a landmark free trade agreement with India, eliminating tariffs on 90% of British exports and projected to boost bilateral trade by $34 billion annually by 2040. Additionally, the UK signed an Economic Prosperity Deal with the United States, which includes tariff reductions on key sectors such as automobiles and steel. Furthermore, agreement with the European Union address critical areas including sanitary and phytosanitary standards, emissions trading, as well as cooperation on security, fisheries, and defence.

Once finalized, these trade agreements are expected to support export diversification, improve investor confidence, and partially offset the structural weaknesses in the UK's external accounts. By opening up new markets and reducing trade barriers, the deals provide a critical boost to the UK's global economic engagement and resilience.

Monetary & Financial Stability

The Sterling Pound is a global reserve currency with a share of 4.8% in the global foreign exchange reserves (2024) and the UK's exchange rate regime is free-floating. These aspects serve as key strengths for the assessment of the UK's monetary pillar.

CPI inflation eased significantly to 2.5% in 2024 from a peak of 9.1% in 2022. However, it is forecasted to rise to 3.1% in 2025 due to increase in energy prices and regulated prices such as water bills before easing and returning to the Central Bank's 2% target by 2027. In response to easing inflation, Bank of England Monetary Policy Committee (MPC) cut interest rate by 25 basis points in May 2025 bring the rate to 4.25%. The MPC maintained this rate in its June meeting, signalling a cautious approach to further easing amid global economic uncertainty.

The UK represents a large and well-developed financial sector with banks maintaining a comfortable capital and liquidity position.

Institutions & Quality of Governance

The UK benefits from its strong legislative and executive institutions. However, the political turbulence of recent years including the frequent leadership changes has highlighted the importance of policy continuity, especially in the context of financial market volatility of 2022, which necessitated Bank of England's intervention.

After the Labour party's decisive victory in the 2024 general election, Sir Keir Starmer assumed office as Prime Minister. Yet, despite Labour's parliamentary majority, the political landscape seems to be shifting. The 2025 local elections revealed growing support for alternative parties such as Reform UK and Liberal Democrats who are increasingly challenging the traditional Labour-Conservative duopoly in British politics. Therefore, this evolving political landscape makes policy continuity a key monitorable.

United Kingdom– Select Indicators									
	Unit	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025 F**	**2026 F**
Economic Indicators									
Nominal GDP	USD Billion	2,853	2,699	3,144	3,125	3,371	3,644	3,840	4041
GDP Per Capita (Constant-PPP)	USD	54,472	48,656	52,673	54,960	54,453	54,475	54,556	54,895
Real GDP Growth	%	1.6	-10.3	8.6	4.8	0.4	1.1	1.1	1.4
GFCF/GDP	%	18.2	17.5	17.7	17.8	17.6	17.4	-	-
Gross Domestic Savings/GDP	%	15.5	14.6	17.2	16.6	14.2	14.4	-	-
Exports (G&S)/GDP	%	31.6	29.7	29.6	33.4	31.6	30.6	-	-
Working-Age (15-64) Population (% Share in Total)	%	63.6	63.5	63.4	63.4	63.3	63.3	63.2	63.2
Old-Age (65+) Population (% Share in Total)	%	18.5	18.7	18.9	19.2	19.5	19.8	20.1	20.1
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-2.5	-13.2	-7.7	-4.6	-6.1	-5.7	-4.4	-3.7
Revenue/GDP	%	36.3	36.8	38.0	39.5	38.7	38.2	39.4	40.2
Expenditure/GDP	%	38.7	49.9	45.7	44.0	44.7	44.1	43.8	43.9
GG Gross Debt/GDP	%	85.7	105.8	105.1	99.6	100.4	101.2	103.9	105.4
GG External Debt (by Creditor)/GG Gross Debt	%	22.1	21.6	21.5	16.8	17.3	-	-	-
Interest/Revenue	%	6.0	5.4	7.3	11.0	8.5	9.7	-	-
External Indicators									
Current Account Balance/GDP	%	-2.7	-2.9	-0.4	-2.1	-3.5	-3.4	-3.7	-3.7
FDI, Net Inflows/GDP	%	0.7	5.8	0.2	1.4	-2.6	-	-	-
Outstanding FII Liabilities/GDP	%	159.9	174.5	160.9	125.2	129.2	-	-	-
NIIP/GDP	%	-11.3	-9.7	-12.3	-11.4	-14.0	-9.6	-	-
Foreign Exchange Reserves	USD Billion	172.7	177.2	193.0	176.1	177.9	183.2	-	-
Import Cover	Months	2.2	2.7	2.5	1.9	1.9	1.8	-	-
External Debt/GDP	%	309.9	360.5	311.2	293.2	284.5	274.5	-	-
Monetary and Financial Indicators									
CPI Inflation	%	1.8	0.9	2.6	9.1	7.3	2.5	3.1	2.2
Exchange Rate (Average)	LC per USD	0.8	0.8	0.7	0.8	0.8	0.8	-	-
Non-Performing Loans/Total Gross Loans	%	1.0	1.0	1.0	0.9	1.0	1.0	-	-
Private debt, loans and debt securities/GDP	%	157.0	176.7	163.9	148.5	142.4	137.5	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Solicitation Status

The rating is unsolicited

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge AA-/Stable	June 27, 2025
Issuer Rating	Long-Term Foreign Currency (Unsolicited)	CareEdge AA-	October 03, 2024

Criteria Applied

CareEdge Sovereign Rating Methodology

Analytical Contacts

Kiran Kavala
kiran.kavala@careedgeglobal.com

Shobana Krishnan
C-Shobana.Krishnan@careedge.in

Ankita Sharma
ankita.sharma@careedgeglobal.com

Media Contact

Mradul Mishra
mradul.mishra@careedge.in

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CareEdge Global IFSC Limited
(A subsidiary of CARE Ratings Ltd.)
Unit No. 06, 11 T-2, Block-11, GIFT SEZ, Gift City, Gandhi Nagar, Gujarat – 382355
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