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UK Economic Outlook Weakens as IMF Forecasts Stagnation and Urges Tax Cuts

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The United Kingdom (UK) economy is projected to experience sluggish growth over the next two years, according to the latest forecast from the International Monetary Fund

(IMF). The global financial body has advised that the Government adopt “growth-friendly” reforms, including potential tax reductions, to revive economic momentum.

In its newly published *World Economic Outlook*, the Washington-based IMF forecasts that the UK’s Gross Domestic Product (GDP) will grow by just 1.2% in 2025 and 1.4% in 2026. The report warns that without decisive action, Britain’s economy risks stagnating amid mounting global pressures and constrained fiscal capacity.

The IMF has suggested that Chancellor of the Exchequer Rachel Reeves consider tax relief and prudent spending cuts as tools to stimulate growth. Its analysis comes as Reeves faces increasing pressure to deliver on promises of economic revival while maintaining fiscal discipline.

In its annual report on the UK, the IMF acknowledged the Government’s fiscal strategy as “well balanced,” but cautioned that it will not be easy to implement amid current challenges. “Delivering on this agenda will require overcoming significant challenges,” the report stated, citing global geopolitical tensions and the lingering effects of international trade disputes, including those originating from previous US administrations.

The report also noted the limitations facing the UK’s public finances, pointing to a high interest burden and growing demands on public resources, including defence and social care related to an ageing population. “Fiscal space is limited and constrained,” the IMF stated, underlining the need for policies that are both sustainable and conducive to economic expansion.

Despite the bleak forecast, the Chancellor remains optimistic. “The IMF’s forecasts show that the UK remains the fastest-growing European economy in the G7 despite the global economic challenges we are facing,” Reeves said. She reaffirmed the Government’s commitment to economic renewal through strategic investment, highlighting spending on city-region transport networks, housing, and infrastructure projects such as the Sizewell C nuclear plant.

However, growing concerns remain over the potential for further tax hikes as Reeves

attempts to balance the budget. Reports suggest that a significant tax plan could be introduced in the upcoming Autumn statement, leading to fears among businesses and households alike.

Shadow Chancellor Mel Stride criticised the Labour Government's handling of the economy, stating: "Labour promised growth but the IMF has confirmed what Britain already knows – under Labour, growth is going nowhere. Business confidence has collapsed all because of the Chancellor's reckless economic choices."

As the UK grapples with sluggish growth and fiscal constraints, the latest IMF forecast underscores the need for clear, pro-growth policies that prioritise productivity, investment, and economic independence.