

Bank of England Governor Warns UK Faces Acute Growth and Workforce Strains

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— Categories: Economics



The Bank of England Governor, Andrew Bailey, has warned that the United Kingdom is facing a critical economic challenge, with sluggish growth and shrinking workforce participation putting additional pressure on policymakers. Speaking at a central banking conference hosted by the U.S. Federal Reserve, Bailey highlighted the twin concerns of an ageing

population and an increasing number of working-age individuals absent from the labour market due to long-term illness.

Bailey said the Bank is now paying closer attention to labour force participation rather than just unemployment rates, as the proportion of Britons aged 16 to 64 who are active in the workforce remains below pre-pandemic levels. This contrasts with other advanced economies, many of which have seen participation recover. While data limitations exist, Bailey noted these factors alone do not explain the scale of the decline. Around 21 percent of working-age adults are currently economically inactive. Although this is an improvement from pandemic highs, it remains well above the levels seen before COVID-19.

This drop in participation is adding to inflationary pressures. With fewer workers available, the labour market tightens, pushing wages higher and complicating efforts to manage inflation. The UK recorded a 3.8 percent inflation rate in July, the highest among the G7 countries. Bailey avoided offering direct monetary policy guidance but made it clear that labour supply issues and weak growth are weighing on the country's economic outlook.

Other central bankers at the event echoed similar concerns. Christine Lagarde, President of the European Central Bank, and Kazuo Ueda, Governor of the Bank of Japan, both warned that ageing populations will continue to strain labour markets in the coming decades. They stressed the importance of policies that attract and retain workers, including immigration and workforce training. Bailey emphasised that with projections showing that nearly 40 percent of the UK population could be above working age by 2040, finding ways to bring in skilled foreign workers will be crucial to sustaining growth and productivity.

The economic backdrop adds urgency to these remarks. Recent data shows the UK economy contracted in April and May, underscoring a slowdown after earlier modest gains. Manufacturing, construction, retail, and energy sectors all reported declines, pointing to weakening demand across key industries.

Bailey's comments reinforce the scale of the challenge facing the UK economy. Structural issues, including a shrinking workforce, persistent inflation, and demographic pressures, are compounding near-term growth concerns. While interest rate policy remains an important tool, Bailey suggested that broader solutions will be needed. Strategies to boost workforce participation, improve productivity, and address demographic shifts are likely to feature heavily in future policy debates.

The Bank of England's warning comes at a time when the UK's economic resilience is under scrutiny. Policymakers are being urged to act decisively to ensure that growth does not stagnate further, as labour market imbalances and inflation continue to test the country's economic stability.