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A Perfect Storm: Britain's Mounting Economic and Political Pressures

By Angelo Katsoras

Introduction

In the July 2024 election, the Labour Party secured a decisive majority and entered government with an ambitious agenda. The party promised to enhance public services and expedite the shift towards renewable energy, while assuring voters that it would refrain from imposing significant tax hikes on the middle class.

However, these promises soon came into conflict with the harsh economic realities of a sluggish economy, high public debt, rising interest costs and soaring electricity prices. These factors limited the government's ability to deliver on its commitments, disappointing both the population and bond markets.

The political consequences are already becoming evident. Public support for Labour has fallen sharply, and there are growing concerns that the Conservative Party could be overtaken, or even replaced, by the more right-leaning Reform Party in the next general election, which must be held by August 2029.

High debt and borrowing costs

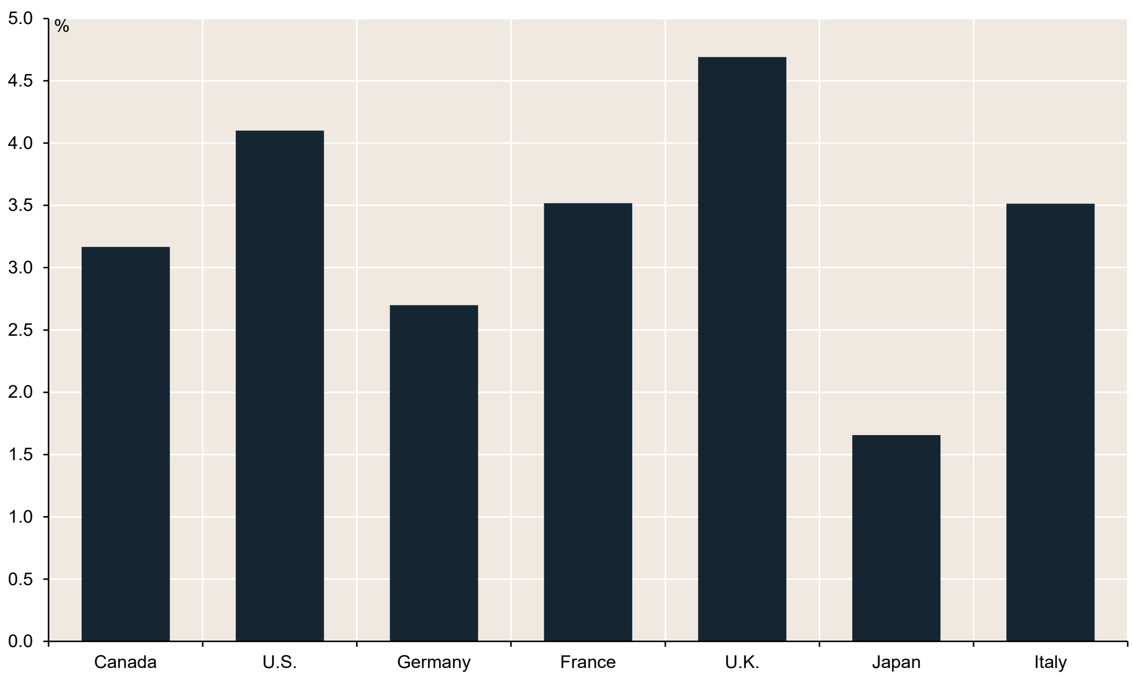
For many years, Western governments were able to increase public spending without facing significant rises in borrowing costs thanks to very low interest rates. That era has now come to an end, with the UK leading the shift.

Recently, the annual yield on ten-year British government bonds has been hovering around 4.5%, a dramatic increase from 0.2% in 2020. This makes the UK the country with the highest bond yields among the G7 economies (see the chart below).

Consequently, interest payments on government debt have surged, more than doubling over the past five years. In the 2025–26 fiscal year alone, the UK is projected to spend £111 billion on interest payments — an amount that exceeds the entire education budget.[1]

UK has the highest borrowing costs in the G7

10-year nominal government bond yields (Oct 3/25)



NBC Economics and Strategy (data via Bloomberg)

[1] "Why British bond yields are higher than elsewhere," Economist, September 24, 2025

The UK's gross public debt has risen from 35% of GDP in 2005 to about 100% today. While high, this burden is not exceptional by international standards: France's debt stands at 112% of GDP, Italy's at 135%, and the United States' at around 119%. Yet all of these countries spend less on servicing their debt than the UK.

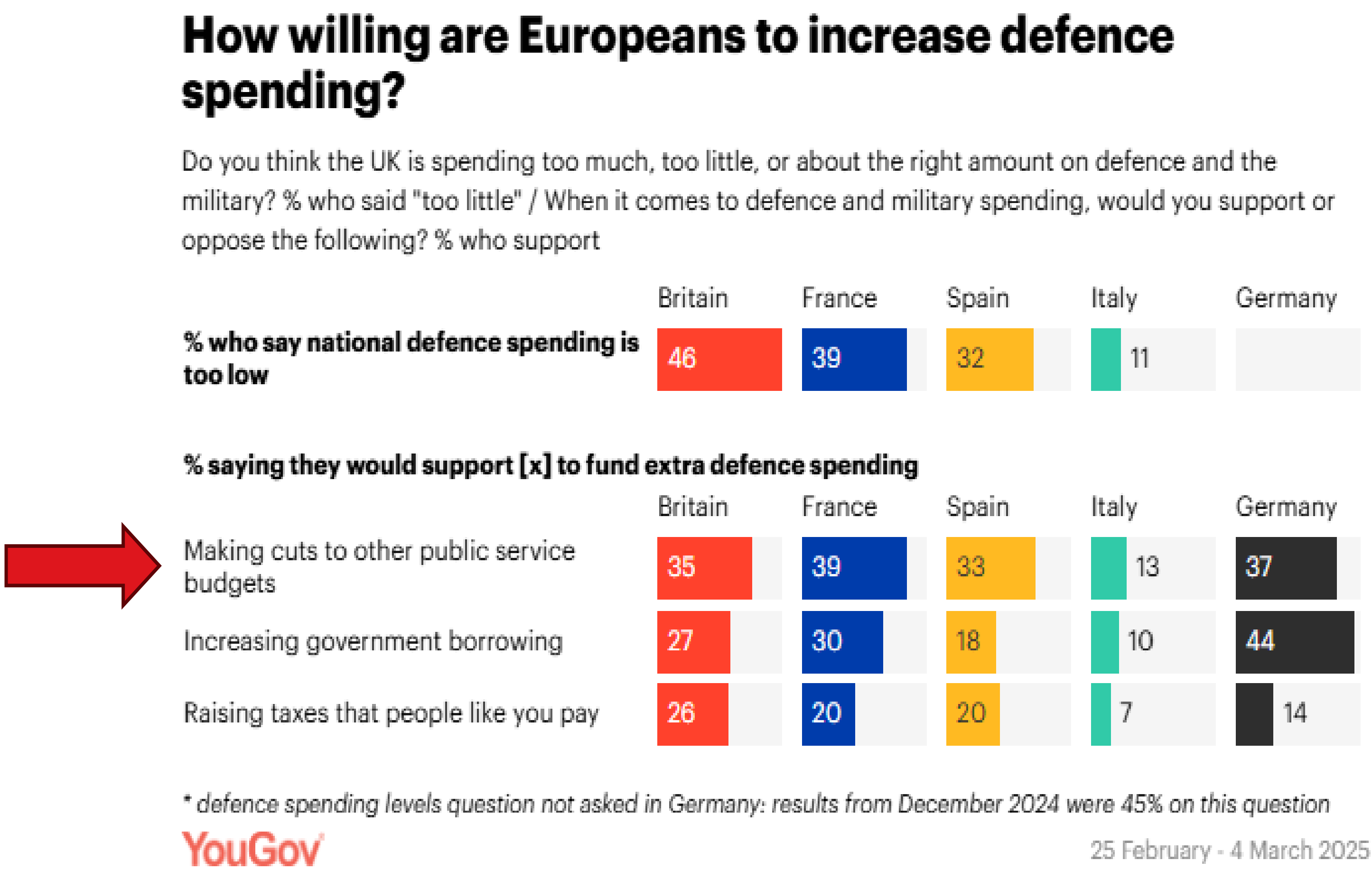
Persistently high inflation has added an additional layer of pressure on the UK. Consumer prices rose by 3.8% in the year to August, which is well above the eurozone's rate of 2%. In an attempt to contain these price pressures, the Bank of England has kept interest rates at 4% — double the level set by the European Central Bank.[2]

The public does not support cuts to the social safety net

Like many other Western countries, the UK public has been conditioned by years of borrowing at very low interest rates to believe that the government can maintain or even expand social programmes without making offsetting cuts elsewhere.

Indeed, even modest attempts at fiscal restraint have faced fierce resistance. In June 2025, for example, the Labour government was forced to partially abandon planned cuts to social programmes, expected to save around £5 billion annually, after more than 120 Labour MPs indicated that they would vote against the bill. To avoid defeat, ministers agreed that the cuts would apply only to new applicants, reducing the projected savings by billions. This retreat followed an earlier partial U-turn in May regarding proposed changes to the winter fuel payment policy.[3] These reversals are all the more striking given Labour's large parliamentary majority, which has historically made it easier for governments to implement tough but necessary reforms.

Unsurprisingly, there is also strong opposition in the UK and other countries to cutting social programmes to fund higher defence spending.



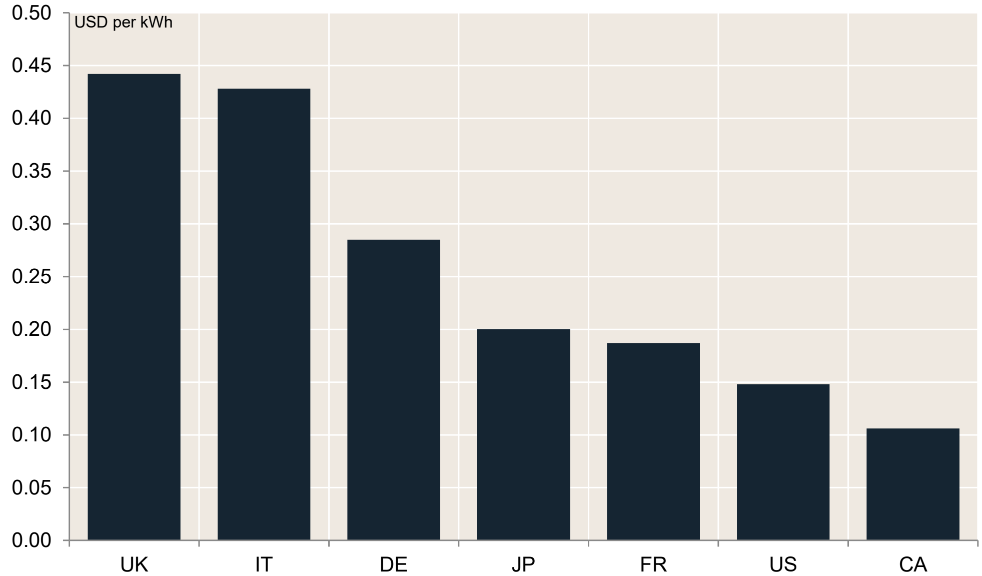
High electricity prices are driving partial deindustrialisation

Businesses in Britain pay more than four times more for electricity than their counterparts in the United States and about double the rates faced by competitors in France and Germany. This has contributed to a sharp contraction in energy-intensive industries, with production falling by around a third since 2021 — the lowest level in 35 years.

[2] "Why British bond yields are higher than elsewhere," The Economist, September 24, 2025
[3] "UK's Starmer waters down welfare cuts to quell Labour revolt," Reuters, June 27, 2025

UK: Highest electricity prices in the G7

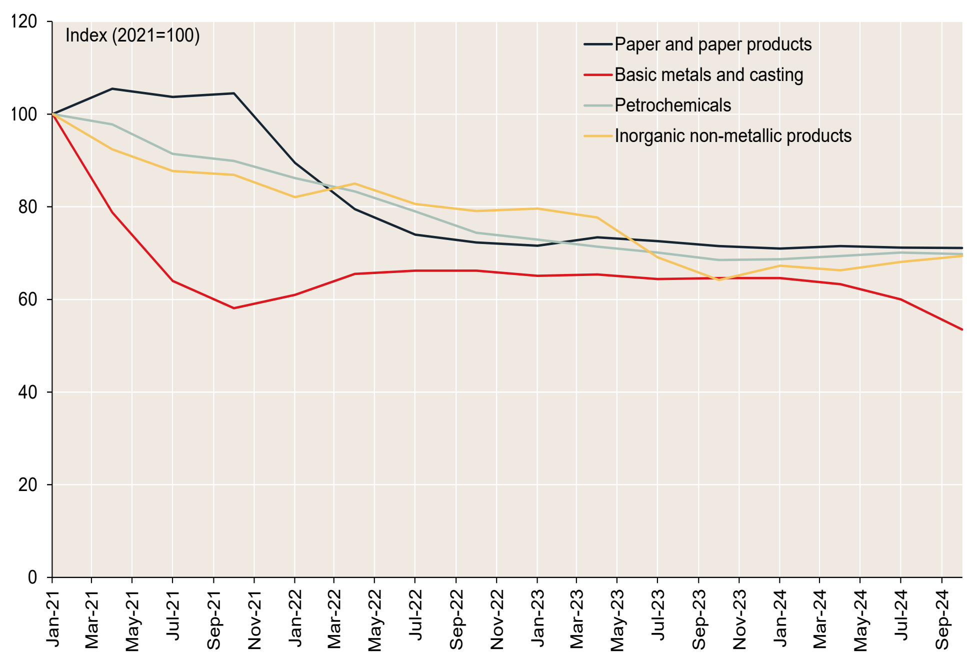
Electricity prices for businesses (at market exchange rate 2023-2025 average)



NBC Economics and Strategy (data via GlobalPetrolPrices.com)

The sectoral breakdown of production declines is as follows: "Between 2021 and 2024, manufacturing of paper and paper products contracted by 28.9 per cent. Manufacturing of petrochemicals plunged by 30.2 per cent, and that of inorganic non-metallic products, including concrete, cement, glass and ceramics, by 30.6 per cent."[4]

Output in Uk energy intensive sectors has fallen by a third since 2021



NBC Economics and Strategy (data via Office for National Statistics)

These higher energy costs may be offset in part by the carbon border adjustment mechanism, which is set to take effect in 2027. While this could narrow cost gaps, it may also lead to higher prices for consumers and businesses, as well as provoking countermeasures from countries that consider the tax to be targeting their exporters unfairly.

[4] "Output in UK energy-intensive industries hits 35-year low," Financial Times, May 19, 2025

The government's costly rescue of heavy industry

To prevent further industrial shutdowns, the government is supporting four of the country's six major steel producers. In April 2025, British Steel was placed under state control, while Liberty Speciality Steel required intervention in August to remain operational. Tata Steel secured a £500 million subsidy in September 2024 to aid its transition to electric arc furnace production, and Sheffield Forgemasters—state-owned since 2021—was allocated an additional £426 million in June 2025 to modernise operations. Furthermore, up to £2.5 billion has been earmarked to support the industry's shift to low-carbon production, including Tata Steel's decarbonisation initiatives cited above. [5]

The government has begun subsidising energy costs. Since April 2024, approximately 500 of the UK's largest energy users—including steelmakers—have received a 60% discount on network charges (i.e., the costs associated with transporting electricity from generators to consumers). This discount is set to increase to 90% by 2026. However, according to the UK Steel trade association, even with this exemption, UK steelmakers will still pay 14–25% more for electricity than their German and French competitors.[6]

The risk is that the more the government spends propping up heavy industry, the greater the risk of rising debt and higher interest rates — especially if it continues to avoid major spending cuts in order to avoid political backlash.

Britain faces a fragmenting political landscape

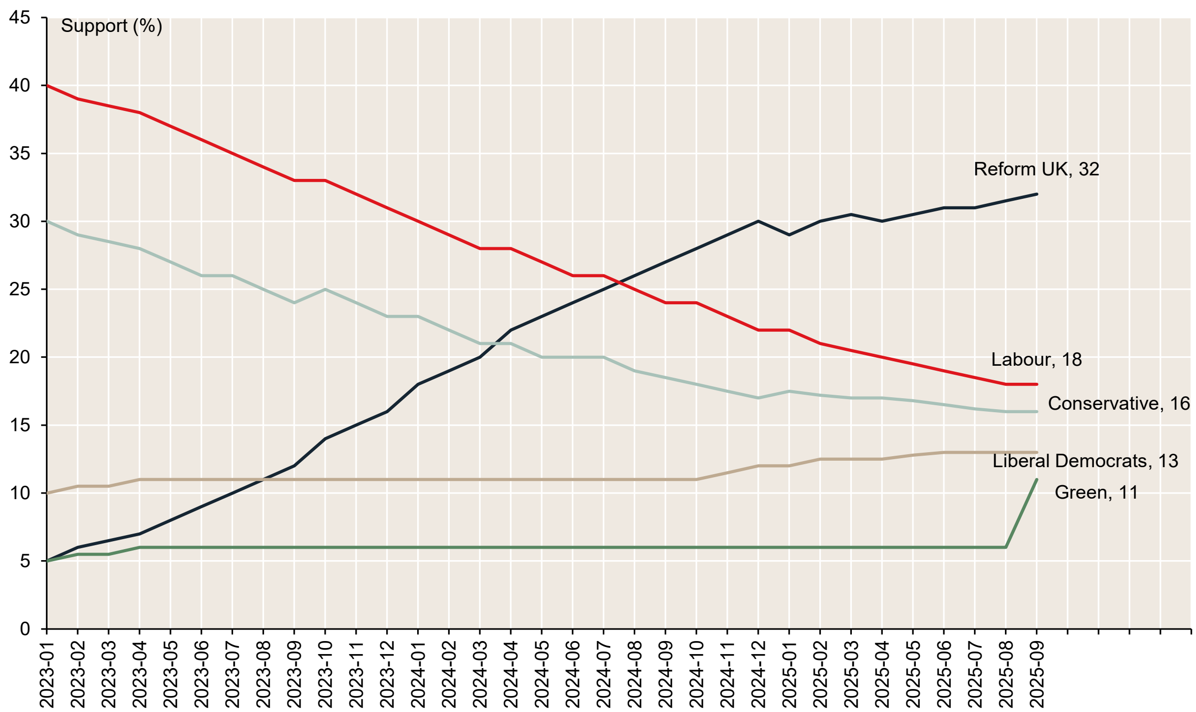
At first glance, British politics appears stable. The Labour Party won 411 out of 650 seats in the July 2024 election. However, beneath the headlines, the result is less solid than it seems. Labour secured only 34% of the popular vote, yet won 63% of the seats — the largest vote-to-seat mismatch on record.[7]

Since then, support for Labour has plummeted—falling to just 18% by the end of September. A rebellion by over 120 Labour MPs regarding proposed spending cuts has further exposed deep internal divisions. Under the current rules, a leadership challenge can be triggered if 20% of Labour MPs nominate a challenger, and the final decision lies with party members.[8]

The Conservatives suffered a massive defeat in the 2024 election. They won just 24% of the vote and 121 of the 650 seats. This was fewer than in 1906 (156 seats), their previous lowest total.[9] Much of their support went to the more right-leaning Reform UK party. By the end of September 2025, Reform's support had surged from 14% to 32%, while Conservative backing had fallen to 16%.

U.K. polling trends (2023-2025)

Support share by political party



NBC Economics and Strategy (data via Politico Poll of Polls)

[5] "Government supporting four out of six of UK's steel companies," Financial Times, August 22, 2025
[6] "UK nuclear plant to add £200,000 a year to large businesses' energy bills, analysts say," Financial Time, sept 14, 2025
[7] "Understanding The Most Disproportionate UK Election," Nuffield College (Oxford University), March 4, 2025
[8] Britain will soon face a fate worse than Keir Starmer, telegraph, sept 16, 2025
[9] "Conservatives wrecked by first-past-the-post as they suffer worst ever defeat," The Standard, July 5, 2024

In a first-past-the-post parliamentary system, the Conservative Party's current level of support puts it at risk of being replaced by Reform UK. The 1993 Canadian federal election provides a cautionary precedent in this regard: the Progressive Conservatives dropped from 169 seats to just two after receiving only 16% of the vote. A decade later, the weakened party merged with the Reform Party of Canada as the junior partner.

Britain is not alone in witnessing the erosion of its political centre

On October 7, the French government collapsed for the second in time in less than four weeks after losing a confidence vote on a €44 billion austerity plan, with the left and far right uniting against it. President Macron's Ensemble coalition now holds just 161 of the 577 seats in the National Assembly — sharply down from the 245 it held before the snap legislative elections in June and July 2024.[10] In a bit of good news, the government's third attempt to form a coalition narrowly survived a no-confidence vote, paving the way for another attempt to pass the 2026 budget. However, securing approval for the budget will require scaling back major reforms and proposals, including the planned gradual increase in the retirement age from 62 to 64.

Germany is experiencing a similar trend. The combined vote share of its traditional centrist parties — the Christian Democrats (CDU/CSU) and the Social Democrats (SPD) — dropped from 69.4% in 2005 to just under 45% in the 2024 federal elections, marking a historic low. Current polls place their combined support in the 40% range.

Bottom-line:

The UK economy is under mounting pressure due to high debt levels, rising borrowing costs and soaring energy prices. These challenges are slowing growth, accelerating deindustrialisation and undermining social cohesion, all of which have far-reaching political repercussions.

The era of borrowing with no regard for costs is over. This new reality will be particularly challenging for political parties in the West that have become accustomed to making expensive promises in order to win elections, especially in countries where citizens have not experienced significant spending cuts for decades.

[10] "The unravelling of France's centrist project," The Economist, October 2, 2025

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NBC.EconomicsStrategy@nbc.ca

To contact us:
514-879-2529

Stéfane Marion
Chief Economist and Strategist
stefane.marion@nbc.ca

Matthieu Arseneau
Deputy Chief Economist
matthieu.arseneau@nbc.ca

Jocelyn Paquet
Senior Economist
jocelyn.paquet@nbc.ca

Kyle Dahms
Senior Economist
kyle.dahms@nbc.ca

Alexandra Ducharme
Senior Economist
alexandra.ducharme@nbc.ca

Daren King, CFA
Senior Economist
daren.king@nbc.ca

Warren Lovely
Chief Rates and Public Sector Strategist
warren.lovely@nbc.ca

Taylor Schleich
Rates Strategist
taylor.Schleich@nbc.ca

Ethan Currie
Strategist
ethan.currie@nbc.ca

Angelo Katsoras
Geopolitical Analyst
angelo.katsoras@nbc.ca

Nathalie Girard
Senior Coordinator
n.girard@nbc.ca

Giuseppe Saltarelli
Desktop Publisher
giuseppe.saltarelli@nbc.ca