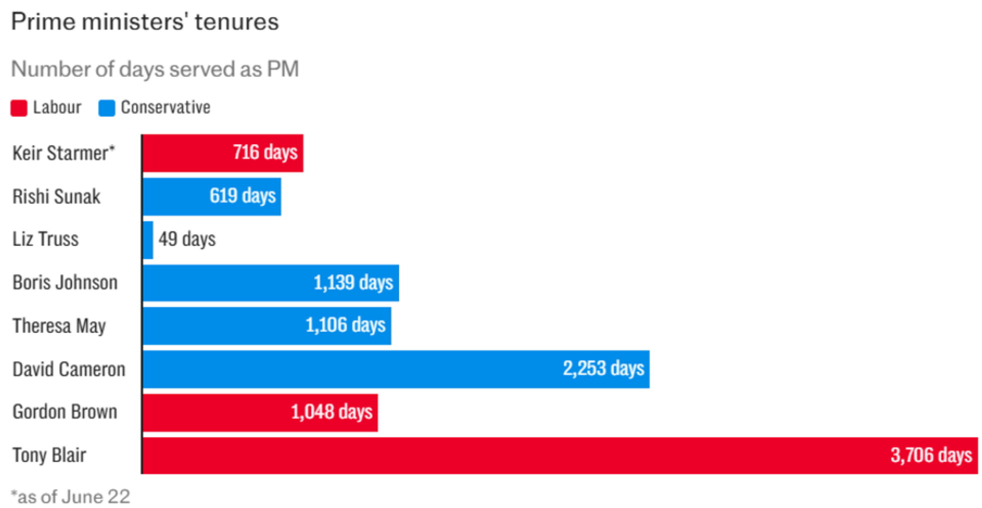
July 3, 2026

UK: boxed in between political pressures and financial constraints

By Angelo Katsoras

After leading Labour to a victory in the 2024 general election that secured a massive parliamentary majority (the party currently holds 403 of the 650 seats in the House of Commons), British Prime Minister Keir Starmer announced he would be resigning, bowing to relentless pressure from within his own party. The tipping point came after Labour posted its worst-ever local election results in May. This means the UK will have a new prime minister sometime in July, its seventh in a decade.



Source: "Starmer resigns as Prime Minister," The Telegraph, June 22, 2026

The task of persuading voters that Labour has a credible plan to turn the country around will now fall upon his successor. This almost certainly will be newly elected MP Andy Burnham, and former mayor of Greater Manchester.

However, like the outgoing prime minister, Burnham's promises are likely to collide with the harsh realities of a sluggish economy, high public debt, rising borrowing costs and sky-high electricity prices. Moreover, immigration is a hot-button issue that will be difficult to navigate.

What do we know of Burnham's policies so far?

The following are some ideas that he has supported recently:

- **Taxation:** Pledged to honour Labour's commitment not to increase the main rates of income tax, VAT, and National Insurance contributions for the working classes. This means he will have to rely more heavily on spending cuts and/or tax increases for higher-income earners and businesses.[1]
- **Fiscal framework:** Promised to uphold Labour's fiscal rules, including balancing day-to-day government spending with revenues by 2029-30, while also committing not to reduce the rate of growth in state pension payments.
- **Property tax reform:** Supports reforming or replacing the current property tax system based on 1991 property valuations, with one that better reflects current property values. Critics argue the changes would increase tax bills for many homeowners, making the reform politically difficult to fully implement.[2]
- **Social housing:** Redirect the entire £39-billion housing budget towards the construction of government-owned housing. Currently, part of the funding supports other forms of affordable rental housing, where tenants pay higher rents than in public residences.[3] Critics argue the shift could reduce the number of homes built because government-owned housing requires larger public subsidies than do projects involving the private sector.
- **Water, energy utilities and railways:** At a June 19 rally, Burnham pledged to reduce water bills, energy bills, and rail fares by bringing these sectors under greater public control through measures ranging from tighter regulation to public ownership.[4] However, lower prices would have to be balanced against the need for substantial investment to modernize ageing infrastructure and meet net-zero targets. The likely public takeover of the heavily indebted Thames Water utility, following the government's rejection of a rescue deal, could serve as an early test for this approach.
- **Defence spending:** The outgoing Prime Minister just announced that total military funding over the next four years would increase between £14.5 billion and £15 billion above the currently scheduled increases.[5] Burnham supports the current government's plans to increase military spending.

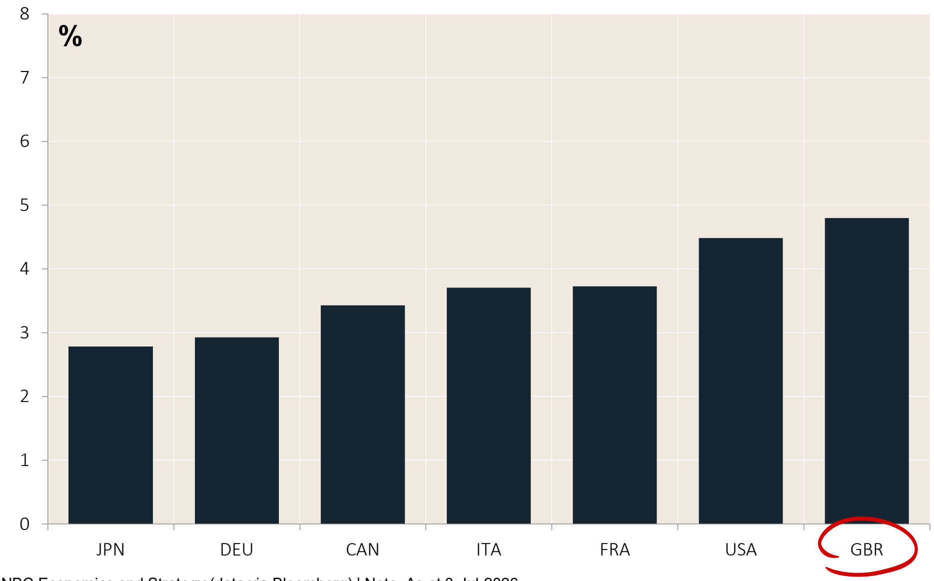
1 "What is Andy Burnham's 'Manchesterism' vision for the UK?," Reuters, June 19, 2026
2 "What Andy Burnham could mean for your money," Financial Times, June 13, 2026
3 "What are Andy Burnham's potential policies for No 10?," BBC, June 24, 2026
4 "Will Andy Burnham 'go big' in expanding the role of the state?," The Guardian, June 28, 2026
5 "Keir Starmer commits at least £1bn more for UK defence," Financial Times, June 26, 2026

High debt levels and borrowing costs will constrain Burnham's policy agenda

The UK's gross public debt has risen from around 35% of GDP in 2005 to approximately 106% in 2025. While high, this level of debt is not exceptional by international standards. According to the IMF, gross public debt as a percentage of GDP stands at about 113% in France, 140% in Italy, and 126% in the United States.[6]

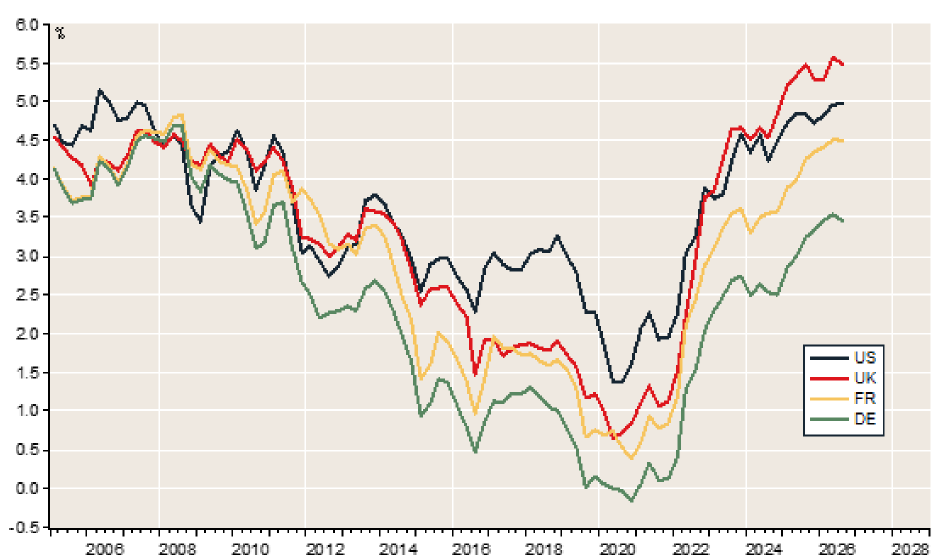
However, when it comes to borrowing costs, the UK stands out. Yields on British government bonds (both 10-year and 30-year maturities) are the highest in the G7. Although France, Italy and the United States all have higher debt-to-GDP ratios than the UK, they have advantages that Britain lacks. The United States issues the world's dominant reserve currency, while France and Italy benefit from the financial protections associated with belonging to a large monetary union.

World: UK has the highest borrowing costs in the G7
10Y nominal government bond yields



NBC Economics and Strategy (data via Bloomberg) | Note: As at 3-Jul-2026

UK: Borrowing costs are the highest in a generation
30-year bond yield: U.S., UK, France and Germany (quarterly averages)



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A little good fortune would deliver some relief. A long-term reduction in tensions between Iran and the United States would help keep energy prices and inflation down, easing pressure on UK borrowing costs. However, the fragile truce in the Gulf is already under strain, as both sides recently exchanged blows again.

6 General government gross debt, Percent of GDP, World Bank (via IMF), 2026

How bond markets have already forced Burnham to revise his policy positions

Below are three examples:

- In September 2005, Burnham stated that Britain needed to get "beyond this thing of being in hock to the bond markets." In January, he said his remarks had been misrepresented, arguing that while he recognized the importance of the UK sovereign bond market, the country's "low-growth loop" ultimately served neither investors nor the broader economy.[7]
- Last May, Burnham suggested that the government's fiscal rules could be amended to allow for higher defence spending. He pointed to Germany's decision to exempt additional defence spending from its borrowing limits as a possible model. However, after bond markets reacted negatively to this proposal, his campaign told BBC News that changing the fiscal rules was no longer under consideration.[8]
- More recently, in June 2026, Burnham retreated from his proposal to financially compensate women affected by the raising of the state pension age from 60 to 65. Women born in the 1950s argued that they lost thousands of pounds sterling because they were not adequately informed about the change. The proposed compensation scheme was estimated to cost up to £10.5 billion.[9]

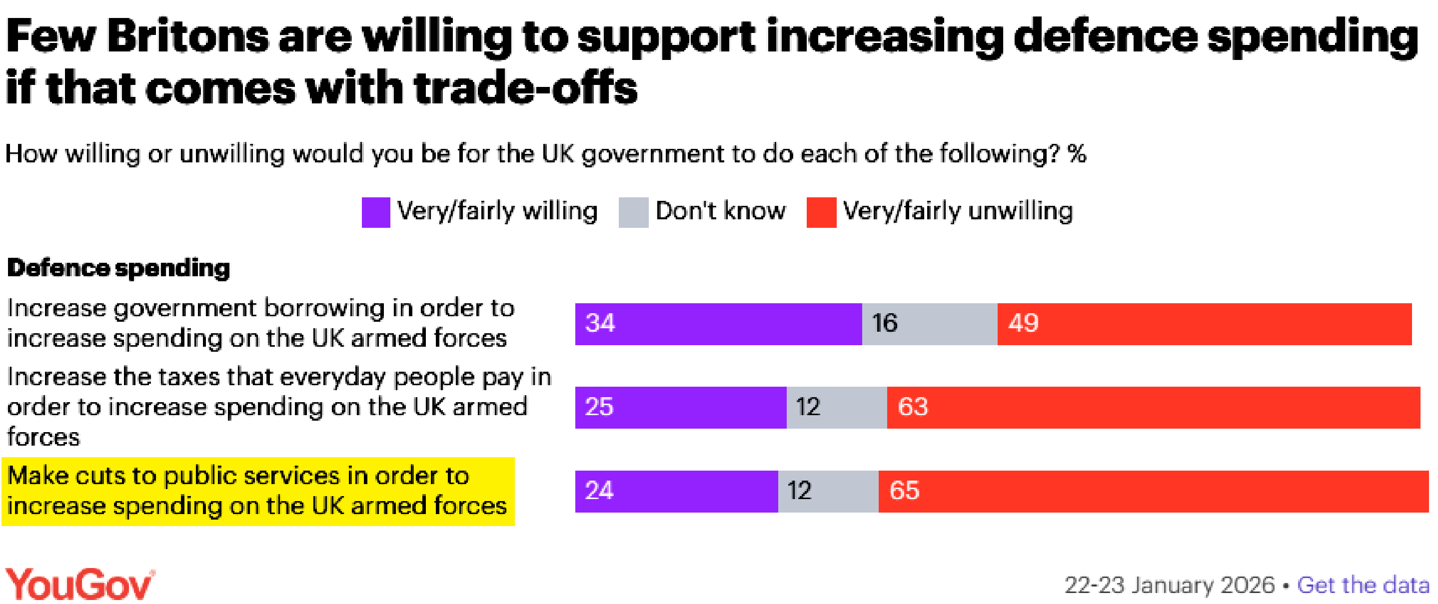
More policy reversals are to be expected down the road.

The public does not support cuts to social safety net

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

Even modest attempts at fiscal restraint have faced fierce resistance. In June 2025, for example, the Labour government was forced to partially abandon planned welfare reforms expected to save around £5 billion annually after more than 120 Labour MPs warned they would vote against the bill. To avoid defeat, ministers agreed that tougher eligibility rules for some disability and sickness benefits would apply only to new claimants, reducing the projected savings by billions of pounds. The retreat followed an earlier partial U-turn in May over changes to the winter fuel payment program.[10] These turnarounds are all the more striking given Labour's large parliamentary majority.

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



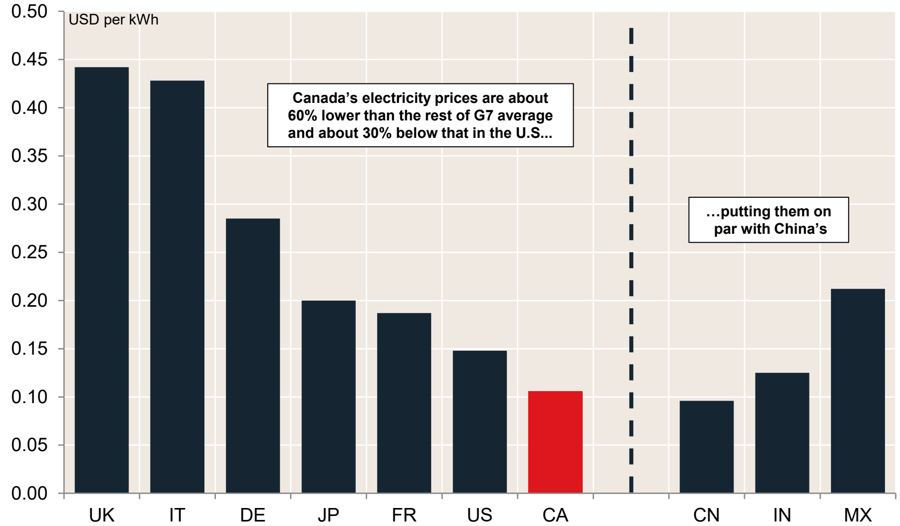
Sky-high electricity prices yet another challenge

British businesses pay more than three times as much for electricity as their counterparts in the United States, more than four times as much as those in Canada, around 2.5 times as much as those in France, and about 50% more than those in Germany. These high energy costs are making it increasingly difficult for the UK to retain existing industries or attract new investment without offering costly government subsidies. The challenge is rendered all the greater by the country's financial situation.

As industrial production grows more automated, access to affordable electricity is becoming a key factor in determining industrial competitiveness. For example, the UK is seeking to leverage its strengths in the IT sector to become a leader in artificial intelligence, but the energy-intensive nature of AI means that success will depend, in large part, on access to abundant, affordable electricity.

7 “What is Andy Burnham's 'Manchesterism' vision for the UK?,” Reuters, June 19, 2026
8 “Burnham seeks to calm markets by committing to fiscal rules,” BBC May 18, 2026
9 “Andy Burnham rules out cash for Waspi women after Labour backlash,” Financial Times, June 11, 2026
10 “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, 2023-2025 average (at market exchange rate)



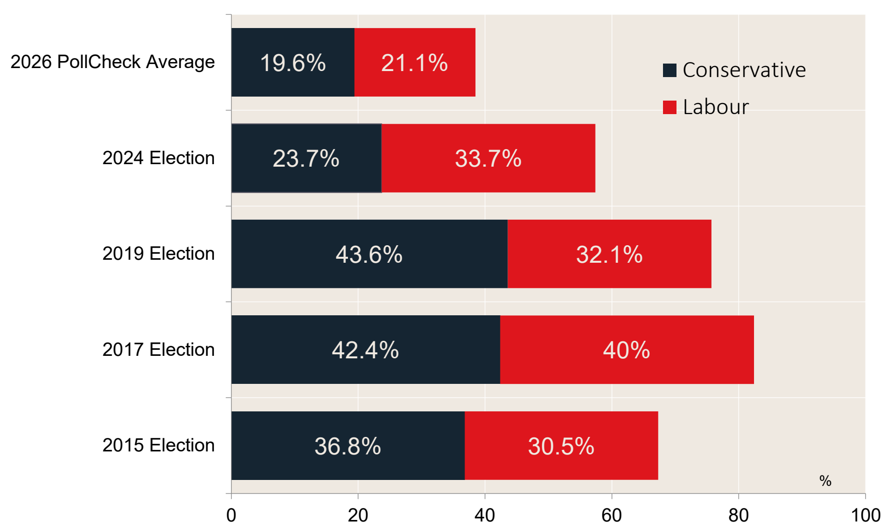
NBC Economics and Strategy (data via GlobalPetrolPrices.com)

Britain faces a fragmenting political landscape

Similar to many other European countries, support for traditional governing parties is in sharp decline in the UK. Combined, support for Labour and the Conservatives is only around 41%, down sharply from 2017 when they accounted for more than 80% of the vote (see chart below).

The collapse in support has fractured Britain's political landscape. Polling averages now put Reform UK in first place with about 26% support, up from just 6–7% in mid-2023. Whether Burnham can reverse Labour's decline remains uncertain. He has until the next general election, slated for 2029, to rebuild the party's popularity.

U.K.: Support for Britain's Main Parties Is Declining



NBC Economics and Strategy (data via Latest UK Polls - Westminster Voting Intention Tracker), Pollcheck

Bottom line

Like his predecessor, Andy Burnham will have to wrestle with a daunting fiscal reality. He has outlined an ambitious agenda to improve public services, while simultaneously promising no major tax increases for the middle classes and no significant spending cuts. These plans will be challenged by the UK's high debt burden, elevated borrowing costs, and exceptionally high energy prices, all of which will continue to hinder economic growth. Unless stronger growth materializes, Burnham will be forced to make difficult trade-offs between delivering on his promises and maintaining the confidence of financial markets.

More broadly, the UK's experience should serve as a warning to other countries that will inevitably face the same challenge: how to respond to mounting pressure to increase spending on defence, infrastructure and social programs while managing higher debt and borrowing costs.

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