Tariffs are just the latest reason to expect UK tax rises this year

The UK is less susceptible to US tariffs than the rest of Europe, but with the public finances operating under fine margins, a more protectionist and weaker global economy sets up a difficult set of choices for the Treasury

British PM Keir Starmer and Chancellor Rachel Reeves earlier this month

Tariffs aren't a big problem in isolation, but a weaker global economy is a bigger challenge

Two things can be true at once: the UK economy is less susceptible to US President Donald Trump's tariffs than the eurozone, and tariffs also make it harder for the UK Chancellor to avoid further tax rises later this year.

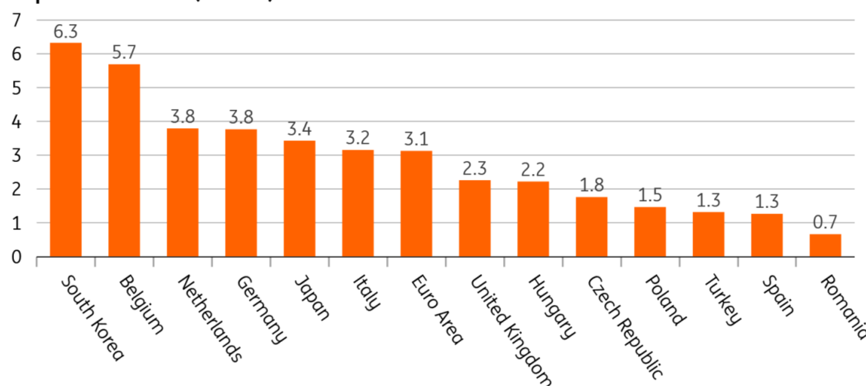
On the former, Britain's exports to the US account for a little over 2% of GDP, compared to roughly 3% in the eurozone and almost 4% in Germany. Outside of the car and pharmaceutical industry, the hit from 10% reciprocal tariffs looks pretty marginal on overall GDP. That impact would increase should the UK retaliate, but for now, that's looking less likely.

Britain's government is favouring diplomacy and is touting a narrow, services-focused trade deal with the US as a possible means of negotiating a more favourable baseline tariff. Whether that's

sufficient to gain an exemption is less clear, given our house view that the President needs sustained tariffs to generate tax revenue. And the UK's scope to offer broader concessions is limited by its more pressing desire to negotiate closer ties with the European Union. Closer alignment to US agricultural rules, for example, would make that task harder.

The UK is less exposed to US trade

Exports to the US (% GDP)



Source: Macrobond (Based on IMF data), ING calculations

Tariffs make tax hikes look even more inevitable

Where tariffs become a bigger problem for the UK economy is if the US or the eurozone enters recession. Neither is our base case, but the point is that any change in global demand will be more pivotal than the direct hit from American tariffs. Elevated uncertainty, not helped by the recent chopping-and-changing on the tariffs themselves, doesn't help either.

The much bigger question domestically, however, is whether April's substantial tax rise on employers feeds through into higher redundancies. So far that's not happened, and in the absence of a material weakening in the jobs market, it's worth remembering that the government is also increasing real-terms spending dramatically this year. That's still a decent tailwind for activity, and for that reason, we've made only small downward revisions to our 2025 and 2026 UK growth numbers.

For the Chancellor though, the key focus right now is convincing the independent Office for Budget Responsibility to further upgrade its medium-term growth forecasts. That's the key to getting more money under the fiscal rules. And the issue is that these forecasts already look pretty optimistic and are vulnerable to downward revisions at the Autumn budget.

The Treasury will receive a small windfall courtesy of lower Bank of England expectations, which helps lower debt interest projections, though that's counterbalanced by the rise in gilt yields since the OBR's most recent projections. It's a reminder that Britain's public finances are operating under increasingly fine margins, and even small forecast revisions can make decisive differences to the Treasury's slim room for manoeuvre.

That gives the Chancellor a headache. Further spending cuts, like those adopted at the recent Spring Statement, look unrealistic. If anything, we think spending plans will end up getting topped up again in the Autumn Budget. It also looks difficult for the government to change its main fiscal rule to give it more breathing space, having already done so last October. For that reason, we think

tax rises are becoming increasingly inevitable.

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