

The UK is relying on EU trade reset to bolster its public finances

For all the excitement about trade deals with India and the US, it's talks with the EU that will be most pivotal for the UK. Whether that's enough to unlock huge gains in fiscal 'headroom', we're not so sure



UK PM Keir Starmer on the 80th anniversary of VE Day. The government is seeking to secure several trade deals to improve the country's finances

The UK is seeking to secure a number of deals

Trade deals are like buses. You don't see one for weeks, then two – maybe even three – come along at once.

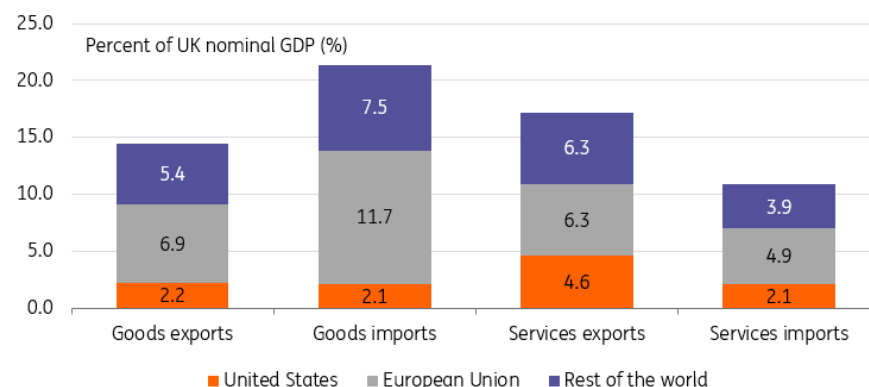
The UK and India have, after years of talks, agreed a deal that will reduce tariffs for some UK-made goods in exchange for tax concessions on Indian workers moving to Britain, amongst other things. And if reports are accurate, the UK has virtually reached a deal with the US on exempting at least a portion of British steel and car exports from President Trump's sectoral tariffs. Time will tell whether that gets signed.

The UK is walking a fine line on both sets of negotiations, cautious not to give concessions that could jeopardise talks with the European Union, which could prove much more consequential.

This is not simply about reducing reliance on the US. All of these negotiations, particularly those with the EU, are designed above all to ease the pressure on Britain's public finances.

The logic is simple. The Office for Budget Responsibility, which polices the fiscal rules, judged that Brexit would generate a permanent 4% hit to productivity. Lower productivity means slower economic growth. And slower economic growth makes it harder to reduce budget deficits and stabilise debt-to-GDP ratios, which is what the UK's fiscal rules mandate.

UK trade with the EU is more significant than with the US



Source: Office for Budget Responsibility

Closer UK-EU ties could be helpful for the public finances

Closer EU trades will, the UK government hopes, convince the OBR that some of this productivity hit can be undone.

Formally, the UK has said it doesn't want to regain single market or customs union membership. But those red lines could get significantly watered down over the coming months.

The government has said it wants to agree a veterinary agreement, which would see Britain realign with EU food standards and remove cumbersome border checks. In practice, we think that an agreement could cover a much wider range of goods exports. The UK hasn't meaningfully diverged from EU product regulation since Brexit, after all.

Of course, the EU would have to agree, and for some in Brussels, this probably sounds a lot like cherry-picking. Then again, the political climate has changed dramatically since the UK left the EU in 2020. Migration isn't the priority it once was, while the UK has a strong hand to play on defence.

Both sides meet for a summit on 19 May, and positive headlines could potentially have a tangible impact on UK markets, even if those initial talks are centred on military rather than economic matters.

Whether this is a game-changer for the UK's public finances, we're not so sure. That 4% productivity hit to the OBR's forecasts is not going to be fully regained, given the UK isn't going to completely re-align with the EU. And that [limits the scope](#) for upward revisions to those OBR growth projections, even if a deal can be reached before the Autumn budget.

In fact, given the more sombre global economic outlook, it's more likely those forecasts will get revised down. And that makes further tax rises look increasingly unavoidable later this year.

[Read more on UK-EU talks and the impact on Britain's public finances](#)

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