

News in Review

4 June 2025

'An economic recovery is underway'



The UK economy is expected to grow faster than previously thought next year, according to the International Monetary Fund (IMF), but the government faces growing pressure to balance its books.

In its latest review, IMF forecasts UK growth of 1.2% in 2025, up from April's 1.1% projection, and 1.4% in 2026, saying *'an economic recovery is underway.'* The upward revision follows a stronger-than-expected start to the year, helped by rising consumer spending and business investment. Luc Eyraud, IMF's UK Mission Chief, described growth in the first quarter as *'very strong,'* though he noted the figures pre-date the impact of new import tariffs and higher employer taxes introduced in April.

The review welcomed recent planning and infrastructure investment reforms, saying they could lift long-term growth if fully delivered. However, IMF cautioned that global instability and tight fiscal conditions would test the Chancellor's commitment to her tax and spending rules. It recommended cutting the number of annual fiscal assessments by the Office for Budget Responsibility from two to one, to reduce pressure on short-term decision-making.

Despite growing fiscal challenges, the government insists its two core rules – covering everyday spending from tax revenues and reducing debt as a share of GDP by 2030 – remain non-negotiable. Although global trade tensions are expected to weigh on growth, IMF acknowledged the government's efforts to provide stability through trade deals with the EU, US and India.

On Monday, the government accepted all 62 recommendations from the

long-awaited Strategic Defence Review (SDR), including building 12 new nuclear-powered submarines, six new munitions factories and embracing AI.

Government to double pension megafunds by 2030

The government has confirmed plans to double the number of UK pension 'megafunds' by 2030, a move which it says will help millions of workers retire with larger pension pots. Megafunds are defined as multi-employer defined contribution schemes or Local Government Pension Schemes managing at least £25bn in assets.

New rules will require all such schemes to operate at megafund scale by the end of the decade. The government says this shift will unlock greater investment opportunities, such as infrastructure and private equity, leading to stronger long-term returns for savers.

Chancellor Rachel Reeves said, *"We're making pensions work for Britain. These reforms mean better returns for workers and billions more invested in clean energy and high-growth businesses — the Plan for Change in action."*

Reforms will be delivered through the upcoming Pension Schemes Bill. The legislation will also introduce clearer value-for-money measures and allow schemes to move savers into higher-performing funds, with protections in place. Funds that already exceed £10bn in assets will be allowed to remain if they present a credible plan to hit the £25bn threshold by 2035.

The shift builds on a recent pledge by pension funds to invest more in UK assets, supported by new local investment targets for LGPS authorities. In total, £50bn has already been committed. According to the

government, reforms could also reduce system inefficiencies, saving £1bn annually and potentially adding £6,000 to the average saver's pension pot.

Retail confidence hits five-year low as sales slide

Retailers are expecting tougher times ahead, according to the Confederation of British Industry (CBI), after the UK retail sector fell sharply in May. Its latest quarterly survey shows confidence among retailers dropping to its lowest level since May 2020, with a net balance of -29% expecting business conditions to deteriorate over the next three months.

Sales volumes also declined more steeply, with the CBI's monthly gauge falling to -27 in May, down from -8 in April. Looking ahead, expectations for June are even weaker, with a reading of -37, the lowest since February 2024.

The findings point to a growing divide between headline economic data and the day-to-day experience of many high street businesses, as consumer demand remains patchy and cost pressures persist.

"This was a fairly downbeat survey and highlights some of the challenges facing the retail and wider distribution sector," said Ben Jones, Lead Economist at the CBI. *"In contrast to other recent retail data, this survey suggests parts of the sector are still struggling with fragile consumer demand, though online sales seem to be holding up better."*

The pessimism comes despite recent official figures showing a surprisingly strong rise in sales in April.

Here to help

Financial advice is key, so please do not hesitate to get in contact with any questions or concerns you may have.