United Kingdom

The United Kingdom’s economic freedom score is 72.7, making its economy the 24th freest in the 2022 Index. The United Kingdom is ranked 17th among 45 countries in the Europe region, and its overall score is above the regional and world averages.

As was the case in many other highly developed countries over the past five years, the United Kingdom’s economic growth turned negative in 2020 before resuming in 2021. However, a five-year trend of robust economic freedom has stumbled a bit. With lower marks for fiscal health, business freedom, and labor freedom, the U.K. has recorded a 3.7-point overall loss of economic freedom since 2017 and has fallen from the upper half to the lower half of the “Mostly Free” category. Monetary freedom and trade freedom are strong, but excessive government spending has been a drag on fiscal health.

Impact of COVID-19: As of December 1, 2021, 145,586 deaths had been attributed to the pandemic in the United Kingdom, and the government’s response to the crisis ranked 68th among the countries included in this Index in terms of its stringency. The economy contracted by 9.9 percent in 2020.

Economic Freedom Score

HISTORICAL INDEX SCORE CHANGE (SINCE 1995): -5.2

Recent Freedom Trend

Quick Facts

Population: 67.2 million
GDP (PPP): $3.0 trillion
-9.9% growth in 2020
5-year compound annual growth -0.8%
$44,117 per capita

Unemployment: 4.3%
Inflation (CPI): 0.9%
FDI Inflow: $19.7 billion
Public Debt: 103.7% of GDP

Background: Steady growth has made Britain’s economy, which has been thriving since former Prime Minister Margaret Thatcher’s market reforms in the 1980s, the world’s fifth largest. In 2016, by popular referendum, British voters approved departure from the European Union, and the U.K. formally left the EU on January 31, 2020. A U.K.–EU Trade and Cooperation Agreement was concluded in December 2020, but some aspects of the future relationship remain uncertain. In December 2019, Prime Minister Boris Johnson led the Conservative Party to its largest electoral victory since 1987. Formal negotiations on a U.S.–U.K. free-trade agreement that began in 2020 were deprioritized by the U.S. in 2021. Services, particularly banking, insurance, and business services, are key drivers of GDP growth. Once–large reserves of oil and natural gas are declining.
Property rights and secured interests are well enforced, and mortgages and liens are recorded reliably. The judiciary is independent and efficient, and judicial proceedings are competent, fair, and reliable. The rule of law is so well established that London has become an international hub for dispute resolution. British common law provides criminal penalties for corruption by officials, and the government routinely implements these laws effectively.

The top individual income tax rate is 45 percent, and the top corporate tax rate is 19 percent. Other taxes include value-added and environment taxes. The overall tax burden equals 32.7 percent of total domestic income. Government spending has amounted to 42.3 percent of total output (GDP) over the past three years, and budget deficits have averaged 6.0 percent of GDP. Public debt is equivalent to 103.7 percent of GDP.

Business freedom in the U.K. is high, but the competition regulator has said that scrutiny and policing of the digital sector will increase. The high-skill, high-tech economy’s outpacing of the educational system has generated a skills gap. A Subsidy Control Bill, scheduled to take effect in 2022, includes a new definition of subsidies, lists seven subsidy-control principles, and identifies certain categories of automatically exempt or automatically prohibited subsidies.

As of July 2021, the U.K. had concluded trade agreements with Australia, the EU, and Japan. It also has 35 trade continuity agreements, which reflect preexisting agreements with the EU, covering 67 nations. The trade-weighted average tariff rate is 2.9 percent. EU-directed nontariff barriers, including technical and other regulations and quotas, will be adjusted. A well-developed financial sector supports the efficient investment framework.