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Revamping Britain's balance sheet for growth and prosperity

A bout of inflation stabilised the United Kingdom's unsustainably elevated balance sheet—at a large cost to households. Now is the time to rebuild for productivity and growth.

This article is a collaborative effort by Anna Kortis, Jan Mischke, Michael Birshan, and Tera Allas, with Carlo Tanghetti and Rebecca J. Anderson.



From about 2000 to 2020, many major economies became increasingly unbalanced. Sharp rises in asset values saw the growth in wealth rapidly outpace GDP,¹ leaving economies vulnerable to painful inflation or asset price corrections.² The United Kingdom is an example: Wealth rose rapidly for 25 years, but higher inflation since 2020 reversed some of the paper gains, reducing the imbalance but leaving households almost £4 trillion worse off in real terms.³

What comes next is critical. Although inflation remains above the Bank of England's target level, the United Kingdom's recent correction provides an opportunity to consider how best to rebuild the country's "balance sheet"—its assets and liabilities across corporations, households, and governments.⁴ Taking a long-term balance sheet perspective provides insight into where the UK economy stands and identifies possible pathways it could follow to make productive investments on a stronger foundation.

Two decades of balance sheet inflation and rising paper wealth

In recent decades, the world's balance sheet has become untethered from the economy supporting it. Since 2000, global wealth grew from \$200 trillion to \$600 trillion, and global assets grew from 6.0 times GDP to 7.5 times GDP.⁵ In the United Kingdom, sharp rises in asset prices ahead of the Great Recession and again in the latter part of the 2010s outstripped both inflation and real economic growth, leading household wealth to see a nominal increase of 2.5 times in the space of 25 years.⁶

Yet this wealth was largely on paper, financed by surging values of real estate and equities rather than the accumulation of productive capital. It was also associated with rapid accumulation of debt, which grew at twice the rate of investment.

A healthy national balance sheet is anchored in productive assets such as machinery and equipment, infrastructure, and intellectual property, and its growth is supported by financial liabilities and assets that translate them into wealth and long-term growth. When asset prices rise faster than the underlying economy, wealth creation becomes increasingly financial rather than productive.

This pattern has characterised much of the world economy in the past two decades. Globally, households gained about \$400 trillion in wealth between 2000 and 2024, yet more than a third of that increase was "paper wealth," decoupled from real economic activity.⁷ In fact, each dollar of investment in that period generated \$2 in debt and \$4 of wealth (Exhibit 1), along with widening cross-border imbalances driven by persistent trade deficits or low domestic saving. Some of these imbalances persist despite easing since the pandemic-era peak in 2021.

The United Kingdom's balance sheet mirrors these pressures. Since the turn of the century, the country experienced a sharp rise in asset prices (significantly larger than in comparable European economies) that widened the gap between financial valuations and productive fundamentals (Exhibit 2).⁸ The result was elevated levels of paper wealth and a highly unbalanced national balance sheet.

¹ "Out of balance: What's next for growth, wealth, and debt?," McKinsey Global Institute, October 9, 2025.

² Available data shows that this trend has characterised multiple high-income economies since at least the mid-1990s—and possibly earlier—though limited data availability makes it difficult to identify a clear starting point. For more, see McKinsey Global Institute reports "The future of wealth and growth hangs in the balance," May 24, 2023, and "Out of balance: What's next for growth, wealth, and debt?," October, 9 2025.

³ McKinsey analysis of UK economic data; considers wealth in real 2025 pounds.

⁴ A country's balance sheet tallies up assets and liabilities across households, governments, and both non-financial and financial corporations. It includes financial assets, liabilities, and real assets held by each of the four sectors, and it excludes human and environmental capital as well as contingent liabilities (such as pay-as-you-go pension schemes). The analysis follows the criteria described in the System of National Accounts 2008. The values of asset and liabilities considered in the analysis reflect market values. For more details on the methodology, see Box 1 in "The rise and rise of the global balance sheet: How productively are we using our wealth?," McKinsey Global Institute, November 15, 2021.

⁵ Throughout the article, all monetary amounts mentioned are expressed in nominal terms, unless otherwise noted.

⁶ McKinsey Global Institute analysis based on OECD and S&P Global data. From 2000 to 2025, British household wealth increased from about £4.4 trillion to £10.6 trillion. Global wealth growth was even faster, driven by the United States and China, which saw household wealth growing by four and 20 times, respectively.

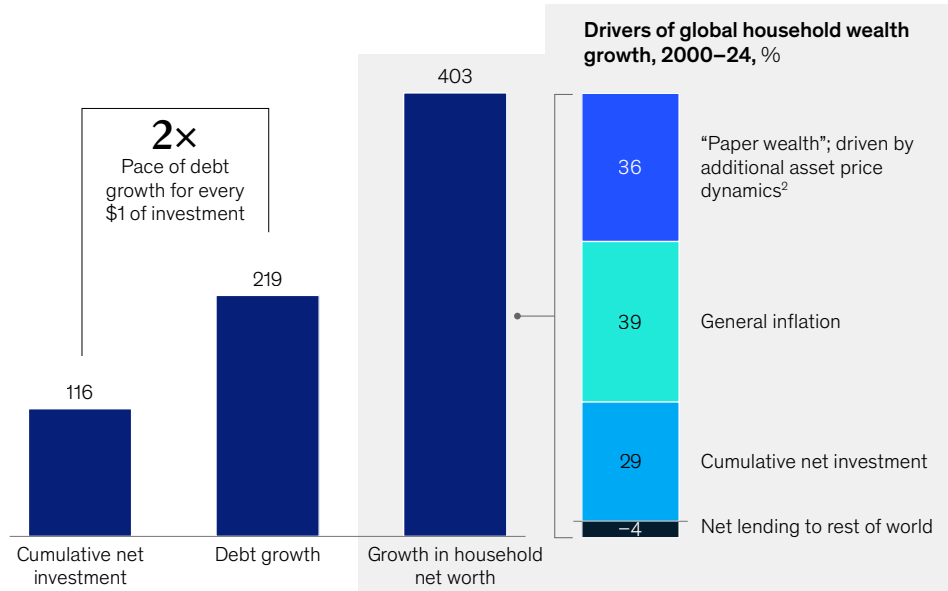
⁷ Paper wealth consists of wealth driven by asset price movements on top of those explained by inflation and investment; "Out of balance: What's next for growth, wealth, and debt?," McKinsey Global Institute, October 9, 2025.

⁸ The total size of the balance sheet refers to the total real and financial assets of general government, households, and corporations, valued at market values. Exhibit 2 excludes financial corporations to focus on assets held by "real economy" sectors—that is, nonfinancial corporations, households, and government, excluding financial intermediation.

Exhibit 1

Globally, paper wealth and debt surged between 2000 and 2024, with each dollar of investment generating \$2 of debt and \$4 of wealth.

Global cumulative investment and change in debt, liabilities, and net worth (estimated), 2000–24,¹\$ trillion



¹Global estimate based on data from 21 countries accounting for ~70% of global GDP as of 2024. "Real economy" includes general government, households and nonprofit institutions serving households, and non-financial corporations; excludes financial corporations from the balance sheet.
²Includes the portion of growth stemming from asset price growth in excess of inflation and the collective decrease of net worth in other sectors, which represents unbacked claims owed to the household sector.
 Source: CEIC; national statistics offices; OECD; US Federal Reserve Board; World Bank; McKinsey Global Institute analysis

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The UK balance sheet’s necessary but costly correction

This imbalance began to correct during the pandemic as high inflation and rising interest rates brought down the value of assets—such as traded debt securities—while imposing major costs on households whose wealth and purchasing power fell (Exhibit 3). Wealth decreases can have real, tangible impacts on households’ well-being. Higher wealth may entice families to spend more, which boosts growth, while the confidence generated by rising retirement funds or home values may make it easier

for consumers to justify taking on new debt to buy a car, undertake home renovations, or go on vacation.⁹

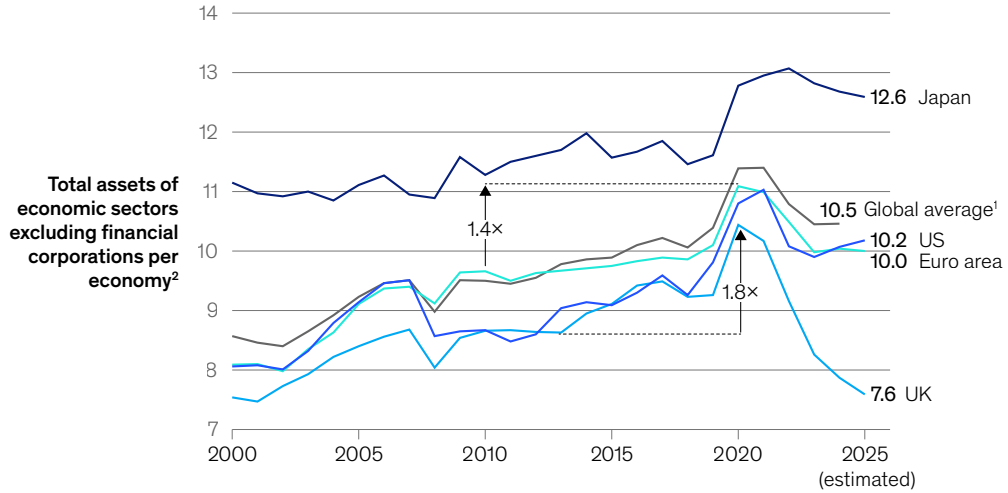
The value of real estate has decreased relative to GDP and in real terms. This reduces some of the risks inherent to elevated asset prices as well as household wealth. Real estate is the largest component of household wealth, accounting for 60 percent of the total (compared with about 50 percent globally and about 40 percent in the United States), and declined from its peak of 2.8 times GDP in 2020 to 2.1 times GDP in 2025.¹⁰ This was also driven by a spike in inflation, which outpaced

⁹ The increase in household consumption associated with increased household wealth is called the "wealth effect" in economic theory. For a discussion on the topic and some estimates of its magnitude in the US context, see, for instance, Gabriel Chodorow-Reich, Plamen T. Nenov, and Alp Simsek, Stock market wealth and the real economy: A local labor market approach, National Bureau of Economic Research working paper, NBER Working Paper Series, number 25959, updated February 2020.
¹⁰ Similarly, real estate value across the whole economy decreased from a peak of 4.4 times GDP in 2021 to 3.3 times GDP in 2025. McKinsey Global Institute analysis based on OECD and S&P Global data; 2025 estimates are extrapolated based on data up to second quarter 2025.

Exhibit 2

The UK balance sheet’s rapid growth in the 2010s outpaced that of its European peers, but it has also had a bigger correction since 2020.

Total assets of economic sectors (estimated), 2000–25, GDP multiples



¹Based on data from 23 countries accounting for 73% of global GDP.
²Excludes financial corporations.
 Source: CEIC; International Monetary Fund; national statistics offices; OECD; People’s Bank of China; S&P Global; US Federal Reserve; World Bank; World Inequality Database; McKinsey Global Institute analysis

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growth in house prices between 2020 and 2025.¹¹ Real estate values are now roughly in line with their average in the 2010s relative to GDP, though still above the long-term average of 1.8 times GDP seen in earlier decades.¹²

The value of financial assets has seen large adjustments in real terms, especially pension assets. The value of pension holdings, the largest financial asset in British households’ balance sheet, declined from 2.1 times GDP in 2020 to 1.0 times

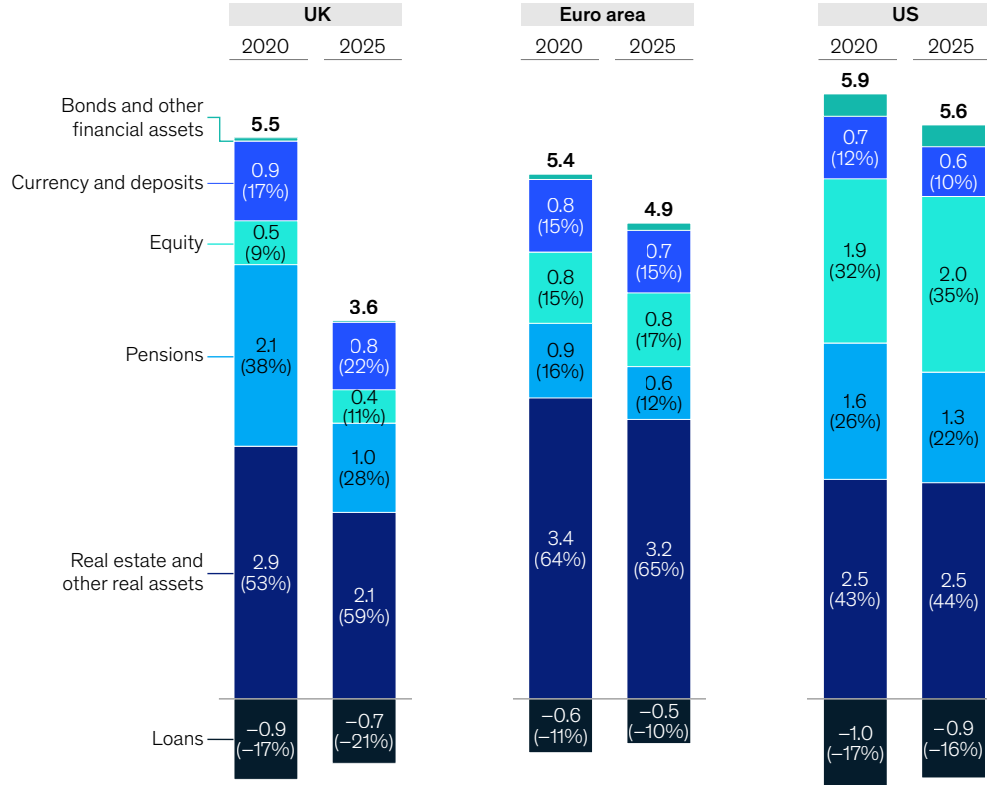
GDP in 2025; in nominal terms, the decline was from £4.4 trillion to £3.1 trillion (a 30 percent decrease), due to rising interest rates leading to price declines among long-term securities held by pension funds (although future nominal annuities are not reduced, the expected purchasing power from them is). Overall, households lost about 25 percent of their real wealth to inflation, and nominal wealth then declined by another 10 percent.¹³ Equity values have also moderated to now stand at about 1.8 times GDP, in line with the 1970–2024 historical average

¹¹ McKinsey Global institute analysis based on OECD, S&P Global, and World Bank data; see also the Bank of England’s inflation calculator. According to the OECD, real house prices in the United Kingdom saw a decrease of about 6.5 percent from end 2020 to mid-2025, stagnated in the euro area, and increased by 10.0 percent in the OECD. “Analytical house prices indicators,” OECD, accessed December 2025.
¹² Long-term average refers to the 1970–2024 period; McKinsey Global Institute analysis based on OECD and S&P Global data; 2025 estimates are extrapolated based on data up to second quarter 2025.
¹³ We estimate that from 2020 to 2025, the value of the British households’ pensions holdings decreased by 1.3 trillion in nominal terms. This closely matches the decrease in financial net worth of British households recorded by the Office for National Statistics (ONS): “National balance sheet estimates for the UK: 2025,” ONS, December 18, 2025. One important caveat: While about half of the decrease in pensions is due to actual loss of value of financial assets held by pension funds, about £600 billion of the decrease reflects changes in “claims of pension funds on pension managers.” This is a balance sheet item linked to the value of defined benefit pensions. It measures the difference between the market value of the annuities that pension funds will have to pay and the market value of the assets they own—any difference between the would need to be covered by employers. Increases in interest rates have over the past years have reduced the gap between the two, leading to a decrease in “claims of pension funds on pension managers” For reference, see “UK (S.1): Claims of pension funds on pension managers (AF.64): Level: Liability: Current price: £million: Not seasonally adjusted,” ONS, December 22, 2025; and “Treatment of pensions in economic statistics,” in Pensions in the public sector finances: A methodological guide, ONS, December 4, 2024.

Exhibit 3

UK households saw large reductions in wealth relative to GDP, driven by real estate and pension holdings.

Household balance sheet composition (estimated), 2020–25, GDP multiples (share of household wealth)



Note: Figures may not sum to 100%, because of rounding.
 Source: International Monetary Fund; national statistics offices; OECD; S&P Global; US Federal Reserve; World Bank; McKinsey Global Institute analysis

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but well below the late-1990s peak of 2.4 times GDP.¹⁴ Meanwhile, the ratio of corporate equity to net corporate assets has fallen to a 25-year low of about 75 percent, meaning companies are worth less than the value of the assets they own.¹⁵

On the other side of the balance sheet, private debt is at long-term lows relative to GDP. Corporate and household debt stocks in the United Kingdom are now at their lowest levels relative to the economy in more than two decades, at about 60 and 75 percent

of GDP, respectively.¹⁶ Beyond the impact of inflation, there was true deleveraging. The debt-to-assets ratio for non-financial corporations fell from 40 percent in 2020 to about 30 percent in 2025, while the debt-to-equity ratio for financial corporations improved over the same period, decreasing from a multiple of nearly seven down to six.¹⁷

These developments have culminated in a decrease in paper wealth. From 2000 to 2020, rising asset prices accounted for almost half of the growth in

¹⁴ McKinsey Global Institute analysis based on OECD data; 2025 estimates are extrapolated based on data up to second quarter 2025.
¹⁵ McKinsey Global Institute analysis based on OECD data; 2025 estimates are extrapolated based on data up to second quarter 2025.
¹⁶ “Corporate debt” refers to loan and debt securities liabilities of non-financial corporations; McKinsey Global Institute analysis based on OECD and S&P Global data; 2025 estimates are extrapolated based on data up to second quarter 2025.
¹⁷ McKinsey Global Institute analysis based on OECD data; 2025 estimates are extrapolated based on data up to second quarter 2025.

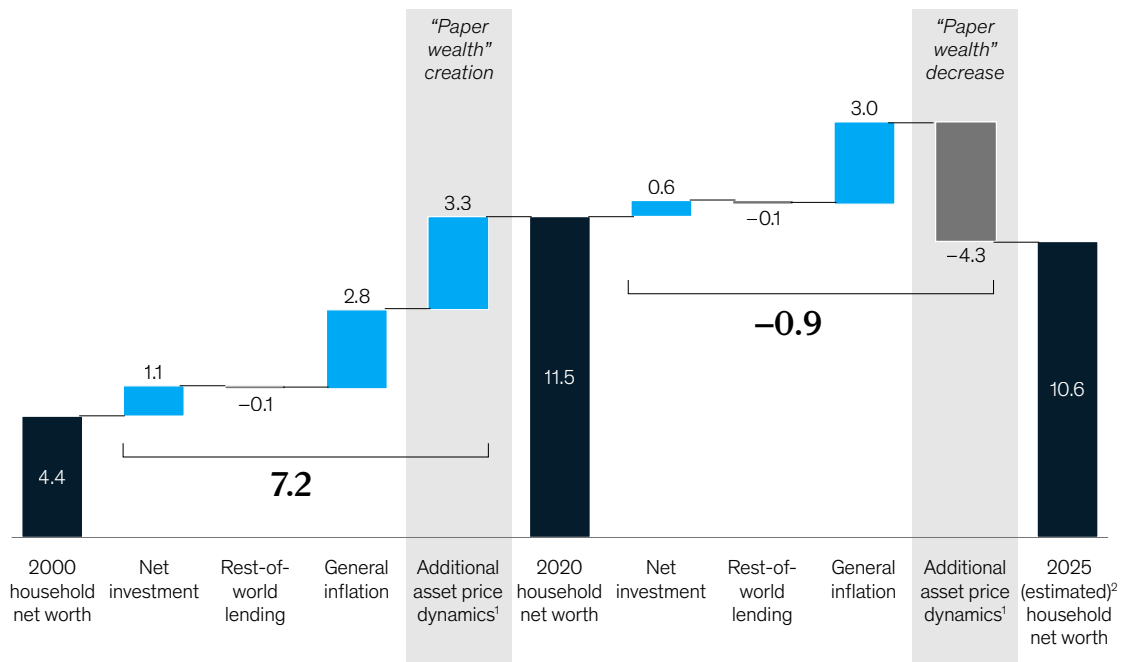
wealth of UK households.¹⁸ Since then, this effect has reversed as asset prices corrected in real terms, with real estate and pension holdings being the key drivers of this development. Among other factors, the magnitude of this adjustment was due to the high persistence of inflation in the United Kingdom and the correspondingly elevated long-term interest rates dampening real estate price growth.¹⁹

While this reduced the gap between paper valuations and productive capital, it also strongly affected households: Between 2020 and 2025, the total real wealth of British households decreased by almost £4 trillion due to high inflation; on average, real personal wealth decreased by almost 25 percent (Exhibit 4).²⁰

Exhibit 4

UK asset prices grew significantly faster than inflation until 2020, when the trend reversed.

Decomposition of household net worth in the UK (estimated), 2000–25, £ trillion



Note: Figures may not sum, because of rounding.

¹Includes the portion of growth stemming from asset price growth in excess of inflation and the collective decrease of net worth in other sectors, which represents unbacked claims owed to the household sector.

²2025 estimates based on partial year data, covering the first two quarters of 2025.

Source: OECD; Oxford Economics; S&P Global; McKinsey Global Institute analysis

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¹⁸ McKinsey Global Institute analysis based on OECD data; 2025 estimates are extrapolated based on data up to second quarter 2025.

¹⁹ For example, see Sam Fleming, "UK set for highest inflation in G7, says OECD," Financial Times, September 23, 2025.

²⁰ McKinsey Global Institute analysis based on OECD data; 2025 estimates are extrapolated based on data up to second quarter 2025; real wealth decreased expressed in real 2025 GBP terms.

The United Kingdom's lack of investment and balance sheet capacity for growth

While the gradual rebalancing of some elements of the United Kingdom's balance sheet have reduced the risk of a sudden reset in the future, others continue to present challenges that could curb potential growth and limit future prosperity:

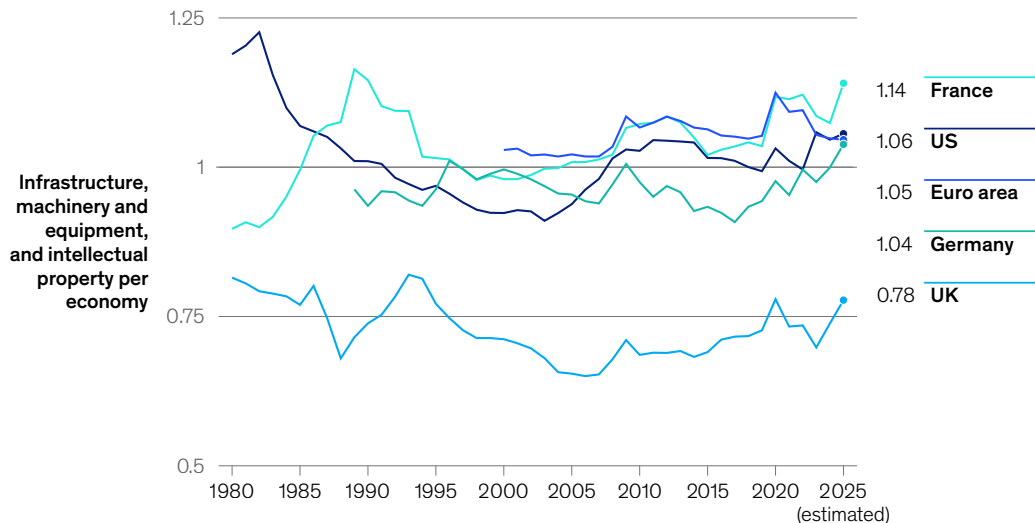
The country's stock of productive capital, including machinery, infrastructure, and intellectual property, is undersized relative to the scale of the British economy, at less than 80 percent of GDP, compared with 100 to 110 percent in comparable European economies (Exhibit 5).²¹ The gap looks unlikely to

be bridged soon. UK workers operate with about one-third less capital per hour worked than in peer economies; separate estimates looking at broader definitions of capital estimate a gap as high as about £2 trillion in 2019 and might take decades to fill even with a significant increase in investment.²² Capital intensity (capital services per hours worked) has grown more slowly than hours worked since 2010, and this "capital shallowing" has been a material factor behind the United Kingdom's productivity stagnation over the past ten to 15 years.²³ The stock of intellectual property remains below that of leading economies,²⁴ as does R&D intensity, at about 2.6 percent of GDP. Similarly, gross fixed capital formation trails G7 peers, amounting to

Exhibit 5

The United Kingdom's stock of productive capital has been persistently lower than that of comparable economies.

Productive capital for selected economies (estimated), 1980–2025, GDP multiples (eg, 1.0×)



Source: CEIC; International Monetary Fund; national statistics offices; OECD; S&P Global; US Federal Reserve; World Bank; World Inequality Database; McKinsey Global Institute analysis

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²¹ McKinsey Global Institute analysis based on OECD data; 2025 estimates are extrapolated based on data up to second quarter 2025.

²² The estimate of £2 trillion is based on a broader definition of productive capital, including fixed assets other than machinery, infrastructure, and IP, as well as intangibles not included in the national accounts. Closing the United Kingdom's capital gap with higher productivity peers within 20 years would require the United Kingdom to invest at a rate of more than 28 percent of GDP—or about ten percentage points higher than the average investment rate over the 2000–25 period: "The UK's capital gap: a short-fall in the trillions of pounds that will take decades to bridge," The Productivity Institute, May 12, 2025.

²³ "Annual multi-factor productivity, market sector, UK: October to December 2024," Office for National Statistics, May 23, 2025.

²⁴ According to the System of National Accounts 2008, intellectual property products include R&D, mineral exploration and evaluation, computer software and databases, entertainment, literary and artistic originals, and other forms of knowledge-based capital.

McKinsey Global Institute research identifies four potential long-term scenarios for the trajectory of wealth and growth for the United Kingdom and other major global economies.

about 18 percent of GDP over the 2000–25 period, compared with 21 percent in the United States and 22 percent in France and Germany.²⁵

Household investment is skewed towards real estate. Real estate dominates the balance sheet of UK households, making up about 60 percent of total assets compared with about 50 percent on average globally. Equity holdings, whose performance has outstripped real estate in recent decades, are comparatively underrepresented, accounting for about 11 percent of household wealth, compared with 14 percent in France, 15 percent in Germany, and 35 percent in the United States.

The government faces fiscal constraints. The face value of the United Kingdom's government debt (the amount to be repaid when bonds expire) is about 100 percent of GDP, slightly below its 2020 peak of about 105 percent but well above the average of about 85 percent in the 2010s.²⁶ At the same time, the market value of the United Kingdom's public debt (the amount needed to purchase all the government-issued bonds on the market) has fallen below 80 percent of GDP, down from an average of about 95 percent in the 2010s due to higher interest rates,

eroding wealth for UK and international investors, and households holding that debt as an asset.²⁷

Igniting future growth and sustainable wealth formation

Much is at stake over the next decade. McKinsey Global Institute (MGI) research identifies four potential long-term scenarios for the trajectory of wealth and growth for the United Kingdom and other major global economies, all of which are characterised by some degree of imbalance.²⁸ One scenario sees both sustained real economic growth and wealth creation (“productivity acceleration”), and in the other three scenarios, wealth or growth are reduced to different degrees: a further decrease of real wealth via continued inflation (“sustained inflation”); a shrinking balance sheet due to a prolonged recession and a further decrease in asset values (“balance sheet reset”); or a return to a state of imbalance marked by stagnant growth, low investment, excess savings, and ultralow interest rates (“secular stagnation”).²⁹ Depending on the scenario, UK households could cumulatively gain £35,000 or lose £15,000 in real wealth per capita

²⁵ “Gross fixed capital formatting (% of GDP),” World Bank, updated 2024. While the United Kingdom has a vibrant start-up and tech ecosystem, this innovation remains a small part of the economy. For instance, in the United States, R&D spending is heavily driven by larger incumbent firms rather than start up alone (in 2023, about 90 percent of R&D was driven by companies with more than 250 employees). Additionally, about a quarter of UK R&D is performed in higher education institutions, producing human capital and knowledge that are not directly captured in traditional balance sheet measures: “Business R&D performance in the United States increases to \$722 billion in 2023,” National Center for Science and Engineering Statistics, September 29, 2025; “Gross domestic expenditure on research and development, UK: 2023,” Office for National Statistics, August 15, 2025.

²⁶ “General government debt,” International Monetary Fund, updated 2024.

²⁷ Face and market value for British government debt were aligned until 2010. Afterwards, they diverged significantly due to the difference between the interest rate on bonds issued before 2010 and that on bonds issued after. While this phenomenon affected all OECD economies, the magnitude of the discrepancy has been higher in the United Kingdom compared with most comparable economies. For more, see “Face and market value of debt securities in official statistics,” Office for Budget Responsibility, July 2021.

²⁸ “Out of balance: What’s next for growth, wealth, and debt?,” McKinsey Global Institute, October 9, 2025.

²⁹ “Out of balance: What’s next for growth, wealth, and debt?,” McKinsey Global Institute, October 9, 2025.

by the mid-2030s—a 20 percent increase or 10 percent decrease relative to today (Exhibit 6).³⁰

Our analysis suggests igniting growth the United Kingdom needs a step up in productive investment, ending several years of high inflation and a preceding decade of secular stagnation. This would rebuild the country’s balance sheet for sustainable growth and wealth, rather than repeat past episodes of leveraged asset price gains. Such a scenario would include two key elements:

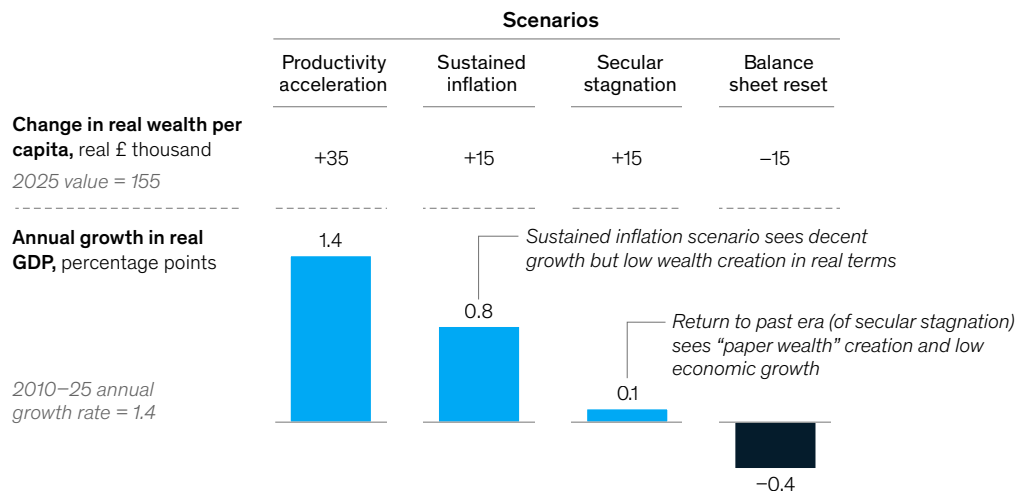
Rebuilding the stock of productive capital. Building on existing efforts such as the Industrial Strategy,³¹

there is an urgent need to shift the United Kingdom’s balance sheet by accelerating public and private investment in infrastructure, machinery, and technology.³² This could be supported by efforts to attract more private capital, including foreign direct investment,³³ by streamlining permitting processes and make it easier and cheaper to build, and by developing strategies to lower business costs such as energy prices.³⁴ Initiatives that facilitate access to capital sources for enterprises, scale-ups in particular, may also increase business dynamism: The Bank of England recently found that high-growth firms struggle to access capital needed to scale, especially those whose value is based on intangible assets.³⁵

Exhibit 6

In the next decade, Britons’ real wealth could rise by £35,000 or fall by £15,000, depending on the scenario.

Total change in real wealth and annual growth in real GDP (estimated), 2025–33



Source: Bank of England; “Damodaran Online,” Aswath Damodaran, accessed Feb 18, 2026; OECD; Office for National Statistics; Oxford Economics; S&P Global; World Bank; World Inequality Database; McKinsey Global Institute analysis

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³⁰ The sustained inflation and secular stagnation scenarios see the same growth in real growth, but with different dynamics. In the sustained-inflation scenario, GDP growth is higher than in the stagnation scenario, which supports wealth growth. At the same time, real interest rates are higher, which negatively affects asset values. The two effects mostly cancel each other out, leading to the level of wealth growth.

³¹ Policy paper: Industrial Strategy, GOV.UK, updated December 1, 2025.

³² As noted, see “The UK’s capital gap: a short-fall in the trillions of pounds that will take decades to bridge,” The Productivity Institute, May 12, 2025.

³³ For a discussion on foreign direct investment in the United Kingdom, see “Welcome to the UK: How can FDI help reignite the country’s growth?,” McKinsey, January 15, 2026.

³⁴ Seventy-nine percent of businesses in the 2024 business perception survey reported operational costs (including material and energy costs) as a challenge: “Executive summary: business perceptions survey 2024,” UK Department for Business & Trade, updated on October 23, 2025; In the January 2026 ONS Business Insights and Conditions Survey, 20 percent of businesses cited energy prices as a factor in considering raising prices: “Business insights and impact on the UK economy: 22 January 2026,” Office for National Statistics, January 22, 2026.

³⁵ “Unlocking growth: what can the literature tell us about what’s holding back high-growth firms,” Bank of England, October 2, 2025.

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Strengthening the linkages between capital markets and the real economy. One of the principal features of an unbalanced balance sheet is the disconnect between wealth and growth, because savings flow towards low-productivity assets, leading to paper wealth. This could be mitigated by efforts to channel finance and savings towards more productive uses. This could include changes in the financial sector from risk weights to mortgage support and pension fund allocation, but it could also entail changes in incentives for retail investor capital allocation, such as investor information and education, simple products, or even monetary incentives.³⁶ This would support the long-term growth of households' wealth, linking it with

the productive capital stock fuelling the British economy.

There is a window of opportunity to shape the United Kingdom's balance sheet, especially by rebuilding its stock of productive capital and strengthening linkages between capital markets and the real economy. All stakeholders have a role to play in determining the trajectory of the country's economy. And business leaders especially should not be passive observers: MGI research shows just a few standout firms have the capacity to meaningfully accelerate a nation's productivity growth and contribute to rebuilding the balance sheet sustainably.

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³⁶ The December ISA reform, which maintained a favourable tax regime for stock and bond investments but limited it for deposits, is a promising example of incentives rebalancing.