



Nick Ridpath

4 March 2026

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The Spring Forecast in perspective: Part 1



Economic
and Social
Research Council

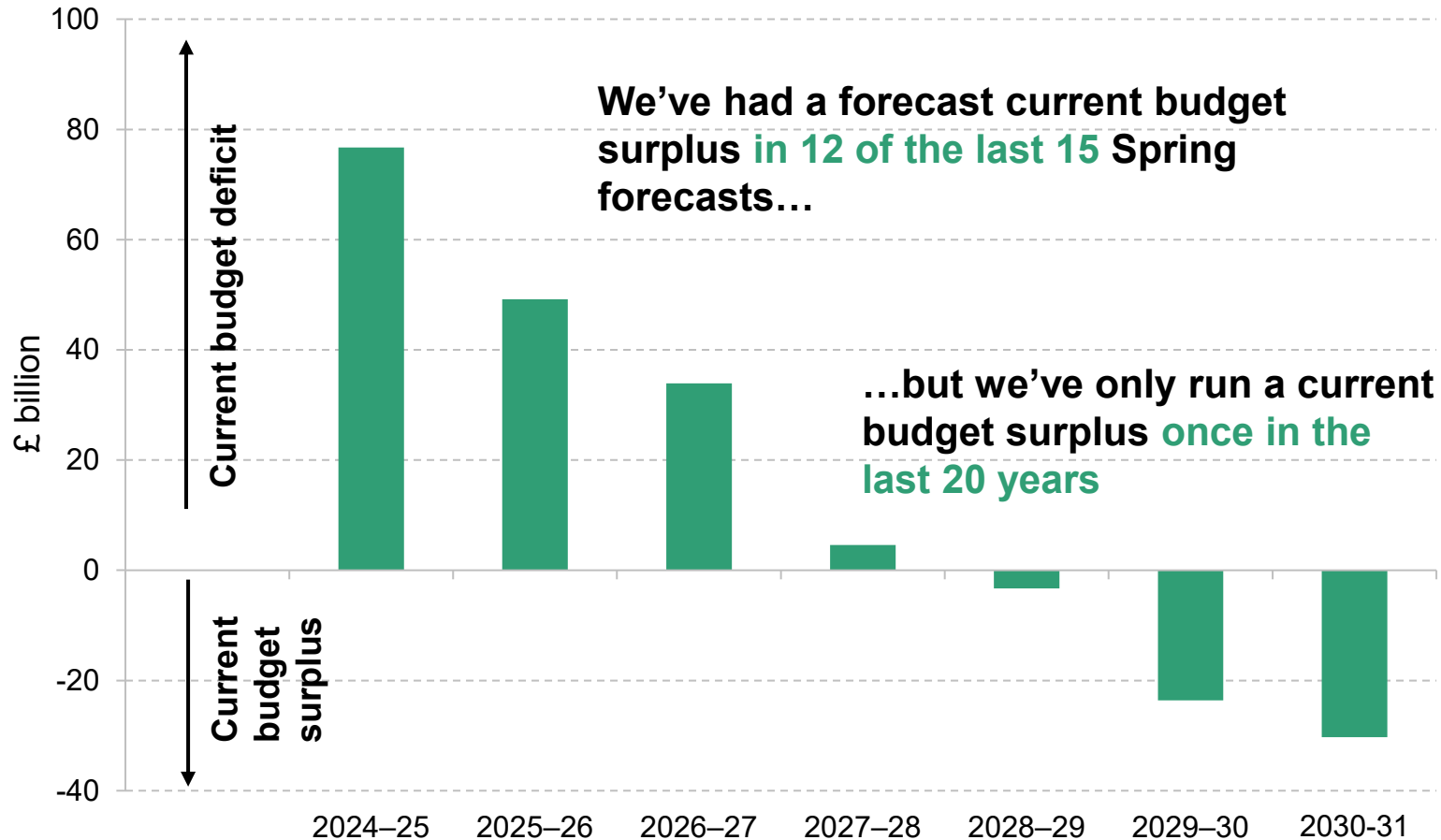
The big picture

- The forecast reflected three months of relative post-Budget calm
 - Borrowing outlook little changed since the Autumn
 - Modest improvement partially offset by (previously-announced) policy changes
 - But the forecast highlighted a range of risks going forward
 - UK fiscal position remains fragile

- The forecast did not reflect recent events in the Middle East
 - Huge uncertainty about the economic impacts
 - But we can be confident about their direction: this is bad news

Targeting a sharp fall in borrowing

Current budget deficit, £ billion, 2024–25 to 2030–31



Source: OBR EFO March 2026.

What could blow things off course?

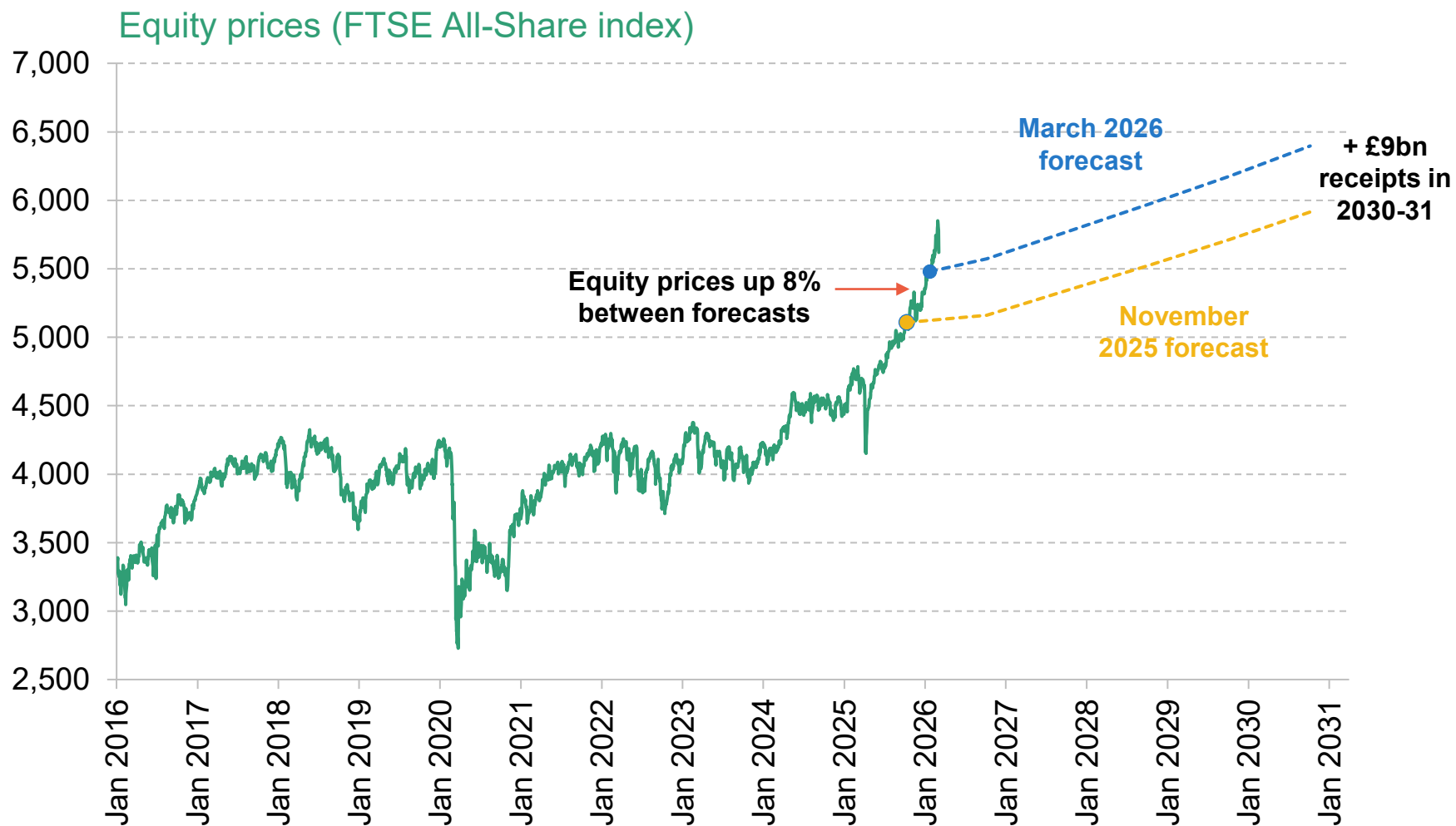
The UK's path to fiscal sustainability is fraught with risk

- War in the Middle East poses obvious challenges
- Risks around the outlook for the UK economy and public finances
 - Uncertainty around asset prices, migration and unemployment
- Risks related to policy choices
 - Pressures on defence budget and (many) other policy areas
 - 2027 Spending Review continues to look challenging
- Overall health of the public finances remains vulnerable

Risk of a global supply shock

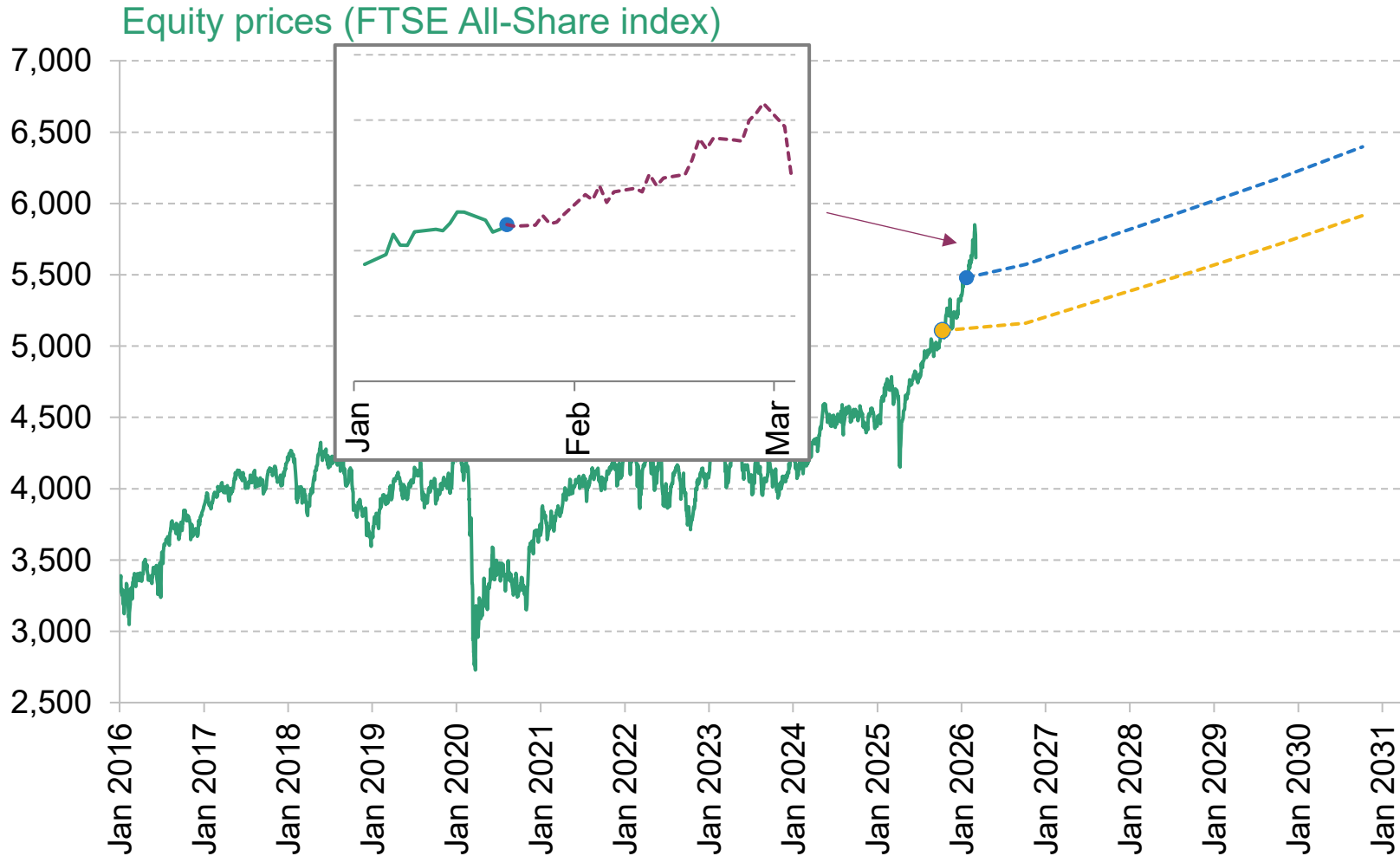
- War in the Middle East could have far-reaching economic consequences
- If sustained, bad for households, bad for firms, bad for the public finances
 - Both direct and indirect impacts on the public purse
- Impact on oil and gas prices the most obvious channel
 - Past OBR estimates suggest 75% ↑ energy prices for one year leads to:
 - Inflation up to 5% higher in short-term
 - Real GDP 1.5% smaller after four years
 - Partly due to higher interest rates following inflation spike

Higher revenues from rising equity prices



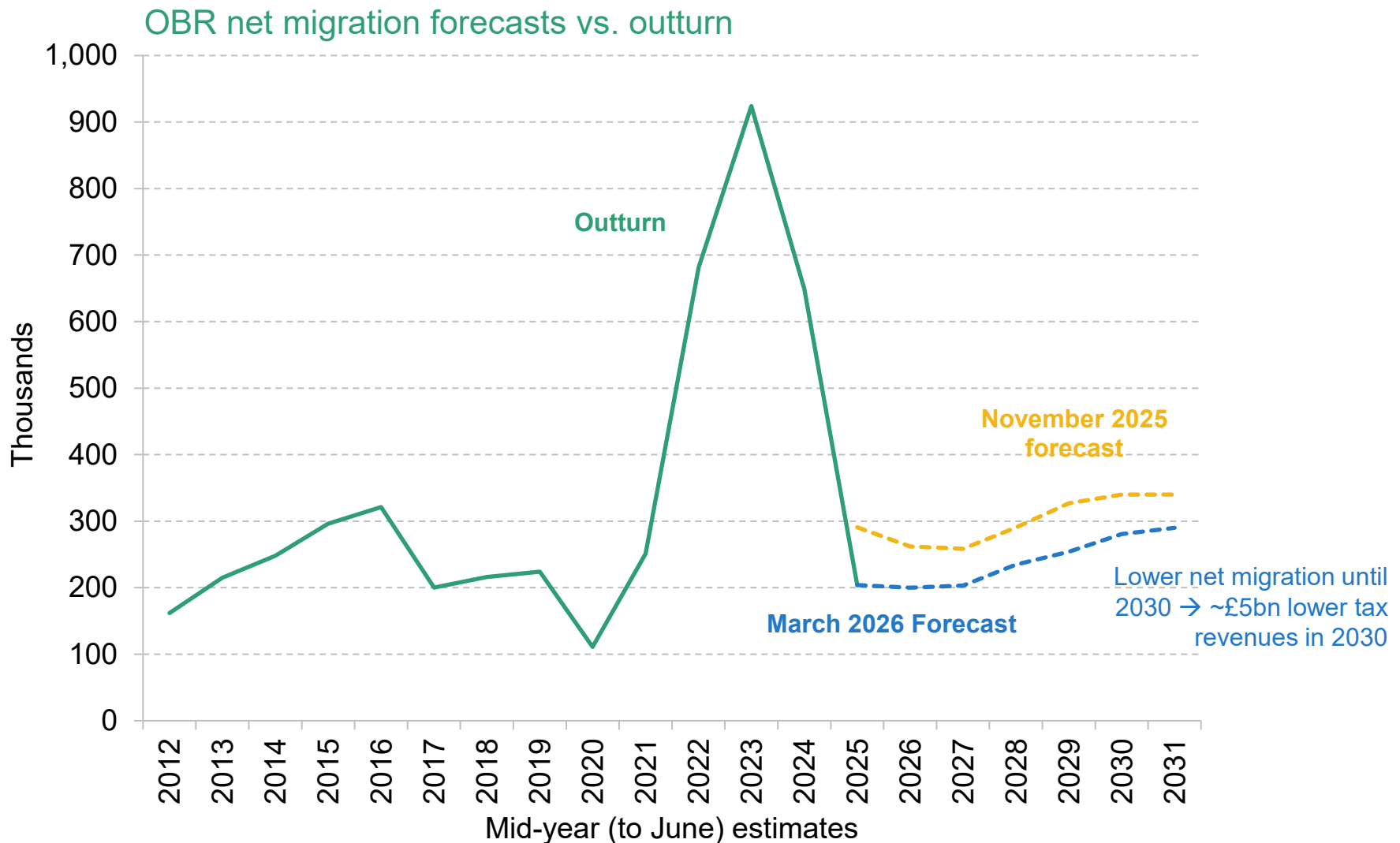
Source: Daily close price of FTSE All-Share Index from uk.investing.com; and OBR FY forecasts for the same from OBR EFO November 2025 and March 2026.

Higher revenues from rising equity prices



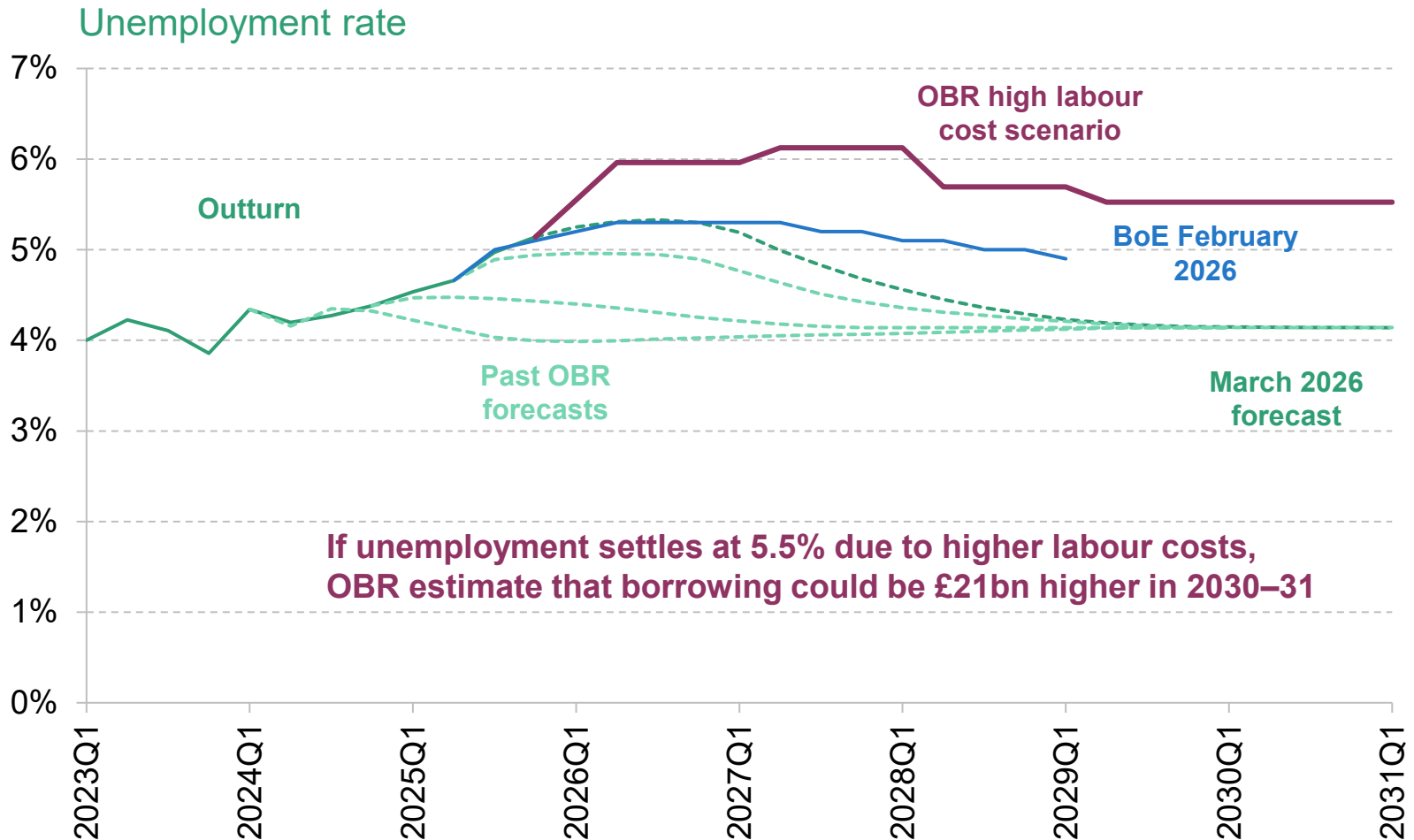
Source: Daily close price of FTSE All-Share Index from uk.investing.com; and OBR FY forecasts for the same from OBR EFO November 2025 and March 2026.

Uncertainty in the migration forecast



Source: OBR EFO November 2025 and March 2026.

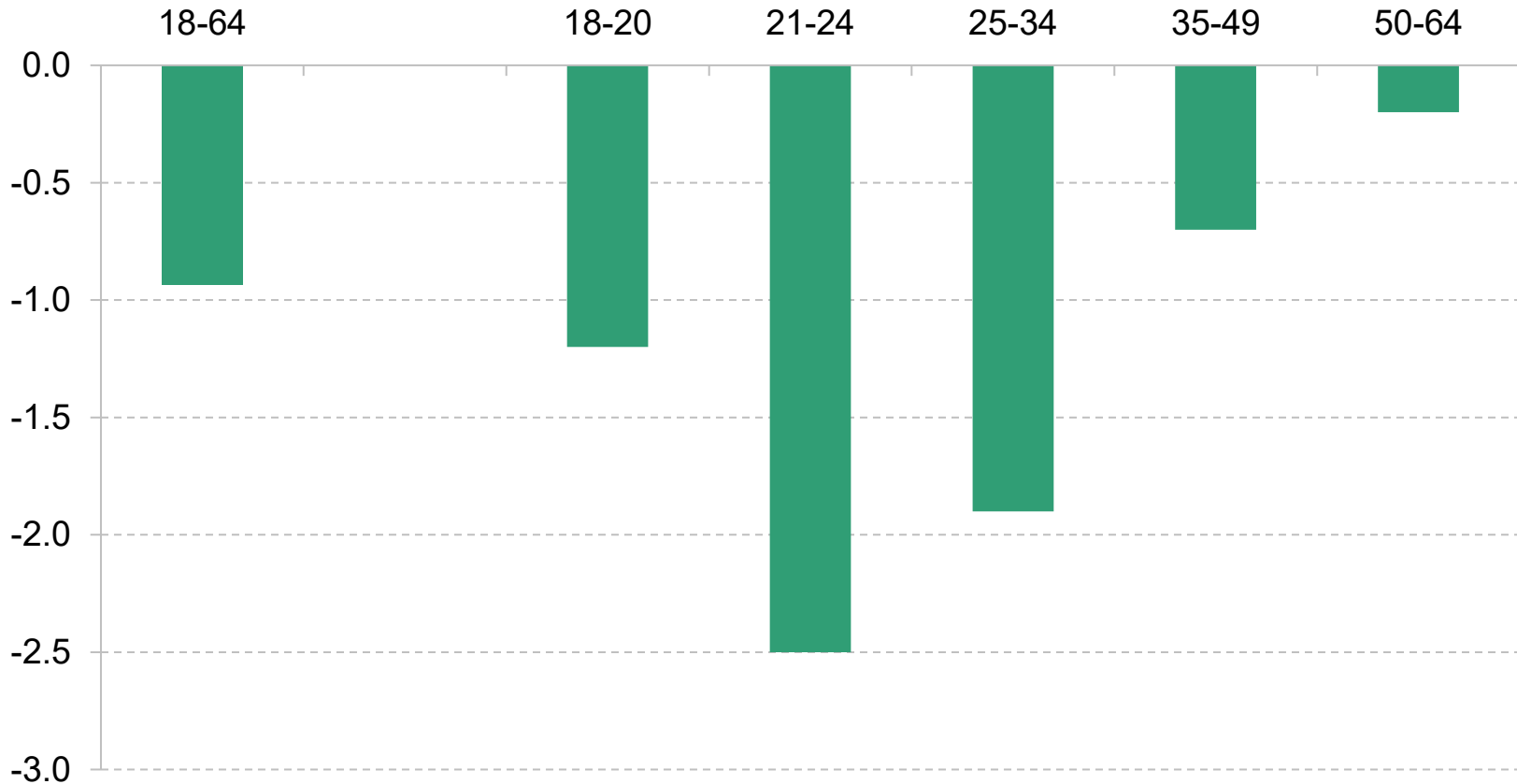
Unemployment: temporary or sustained?



Source: OBR EFO March 2026 and earlier editions, and Bank of England Monetary Policy Report February 2026

Employment rates have fallen most among younger workers

Change in employment rates (percentage points) between 2023Q4 and 2025Q4



Source: IFS analysis using FOI PAYE statistics and population estimates and projections

Note: Employees only. Not seasonally adjusted. A constant rate of population growth is assumed between mid-year estimates.

Rising cost of hiring

% increase in real employer cost from employer NICs, minimum wage changes, and earnings growth, 2024-25 to 2029-30



Source: IFS analysis using OBR EFO March 2026 and Annual Survey of Hours and Earnings.

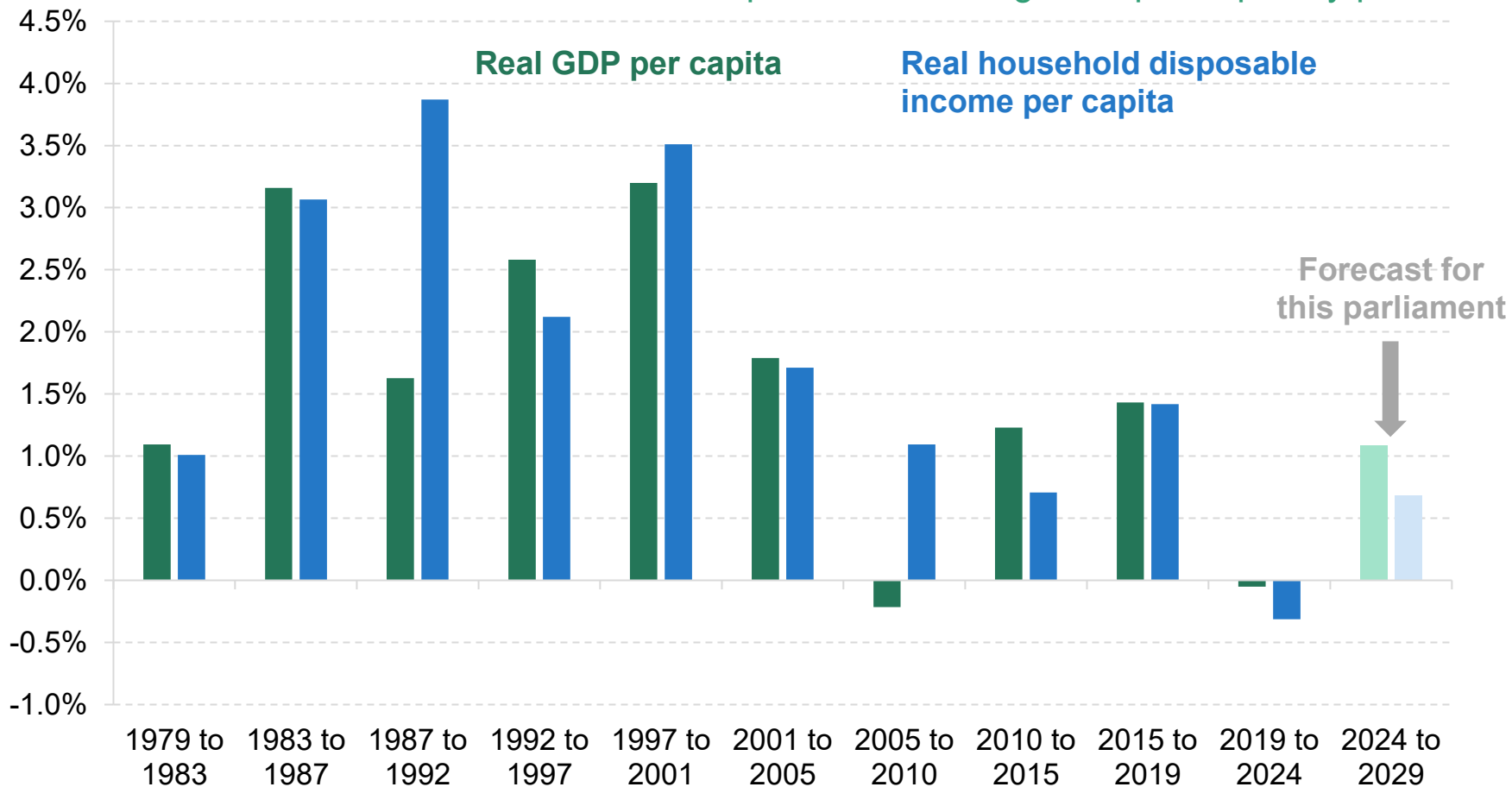
Note: Government has stated objective to align 18-20 and 21+ minimum wage rate. This assumes they are aligned by 2029-30 in line with Low Pay Commission proposals. Changes for 18-20 minimum wage part-time or full-time worker are the same.



Stepping back

Income growth modest by historical standards

Annualised real GDP and household disposable income growth per capita by parliament



Note: Measures the period between the quarter prior to the start of the parliament and the quarter prior to its end. 2015 to 2017 and 2017 to 2019 parliaments combined.



Max Warner

4 March 2026

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The Spring Forecast in perspective: Part 2



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What could blow things off course?



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Fragile policy assumptions

- Planned rise in **fuel duty** – will this happen?
- Planned **tax rises backloaded** (to an election year)
- Much discussion of changes to **student loan repayment** terms
- ‘**Exceptional**’ support for councils in 2026–27 – will these recur?
- Wide range of **public service spending** pressures...

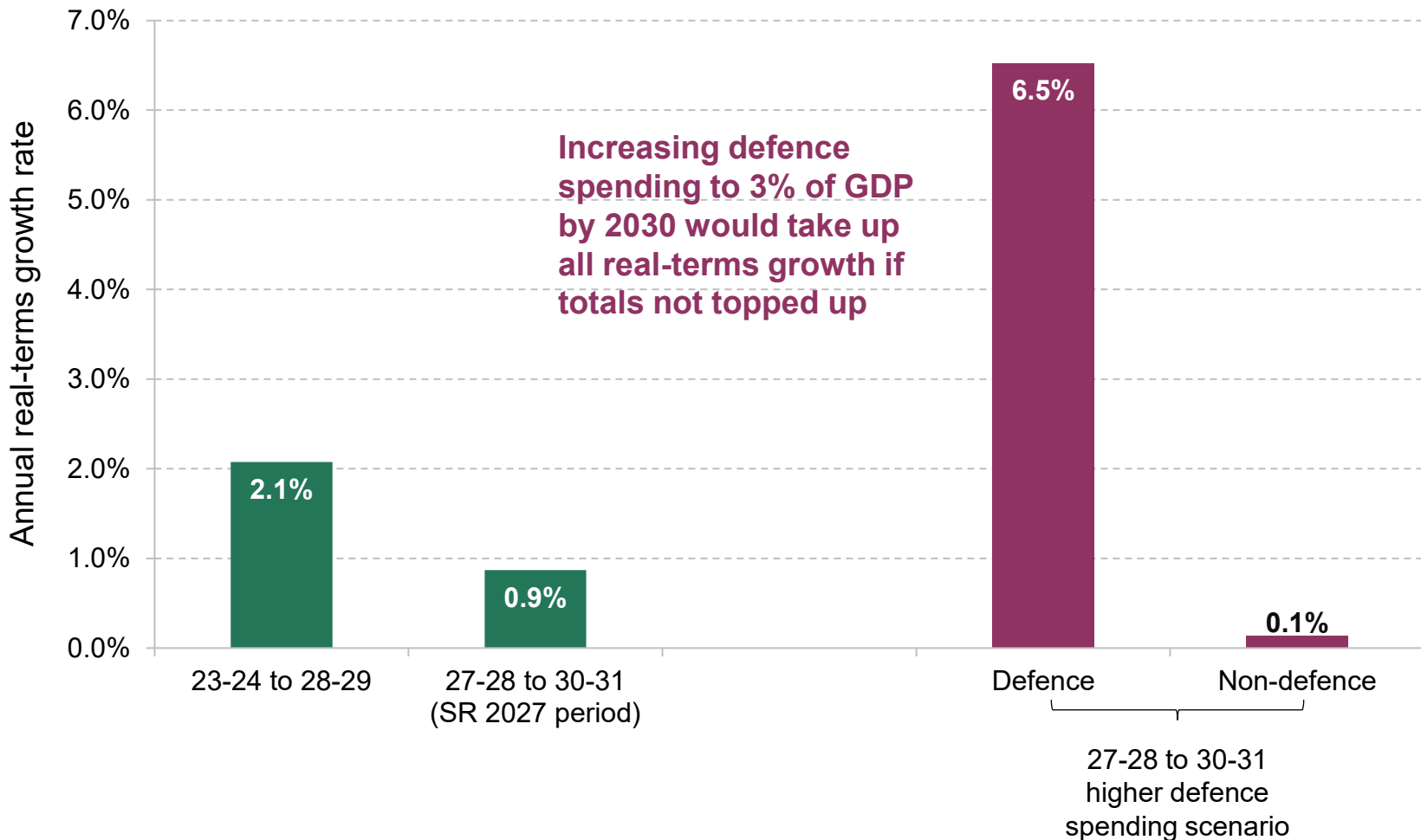
2027 Spending Review



- **Overall growth in departmental spending plans still relatively slow**
 - Despite top-ups from 2028–29 onwards for SEND costs
- **Defence spending:** one clear challenge when allocating this total
 - Current plans: defence rises to 2.6% of GDP in 2027–28. NATO commitment to hit 3.5% by 2035
 - Going faster on defence spending e.g. reaching 3% of GDP by 2030 is equivalent to a ~£14bn boost relative to staying at 2.6%
 - Borrowing to fund increase not a sustainable long-term solution

A story of two Spending Reviews

Average annual real growth in total departmental spending



Notes: 23–24 total adjusted for SCAPE, employer NICs. Both periods include top-up for SEND spending

2027 Spending Review

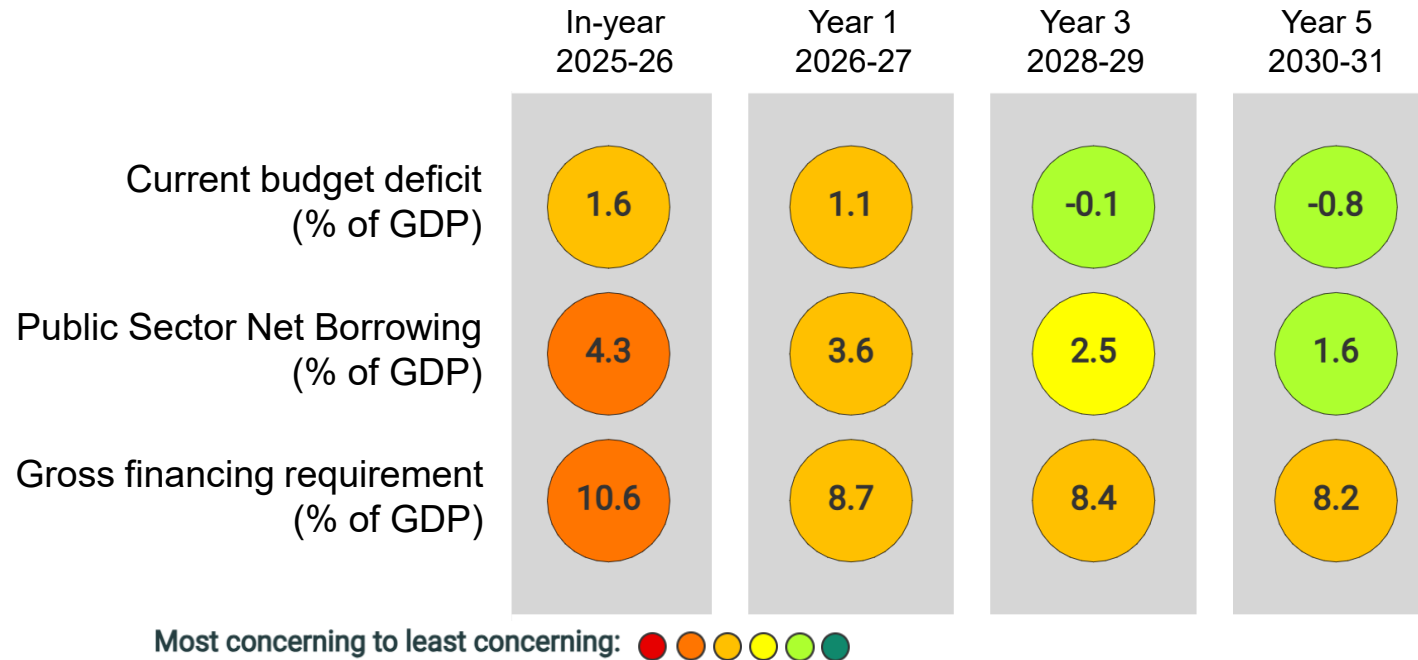
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 - Borrowing to fund increase not a sustainable long-term solution
- Other pressures: SEND spending (is extra enough?), public sector pay, departmental efficiencies not realised, asylum costs, etc

A broader view of fiscal sustainability

- In recent years, most discussion of fiscal policy has been very focused on so-called “headroom” against the fiscal rules
- Here we zoom out and consider a broader assessment of the UK’s fiscal position using a ‘traffic light’ grading system
- The precise indicators, and how to grade them, are subject to debate
 - These choices will depend on context and preferences
- The specifics matter less than the **broad story and direction of travel**

A broader view of fiscal sustainability IFS

Borrowing and financing

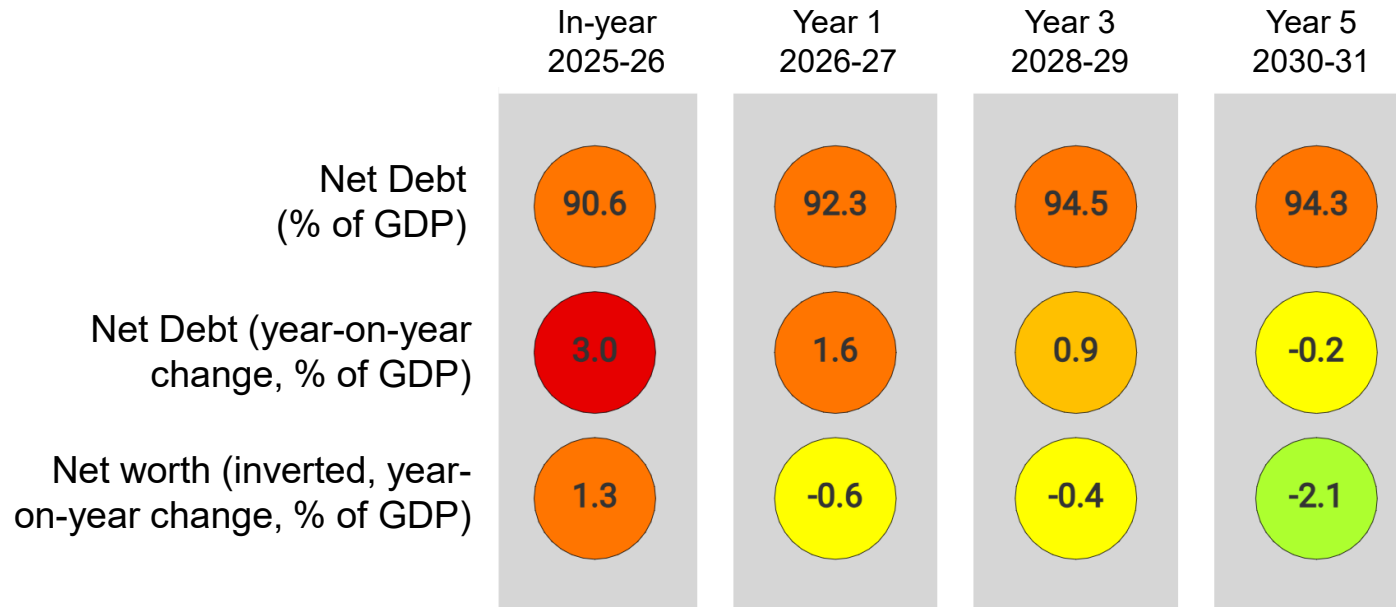


- Borrowing measures look concerning this year and next, then improve
 - Current budget surplus expected by 2028–29
 - Gross financing requirement still high

Note: Specific measures shown and thresholds applied reflect judgements of IFS researchers, drawing on historic UK levels and international comparisons. For discussion, see [Zaranko \(2026\)](#).

A broader view of fiscal sustainability IFS

Balance sheet and debt sustainability



Most concerning to least concerning: ● ● ● ● ● ●

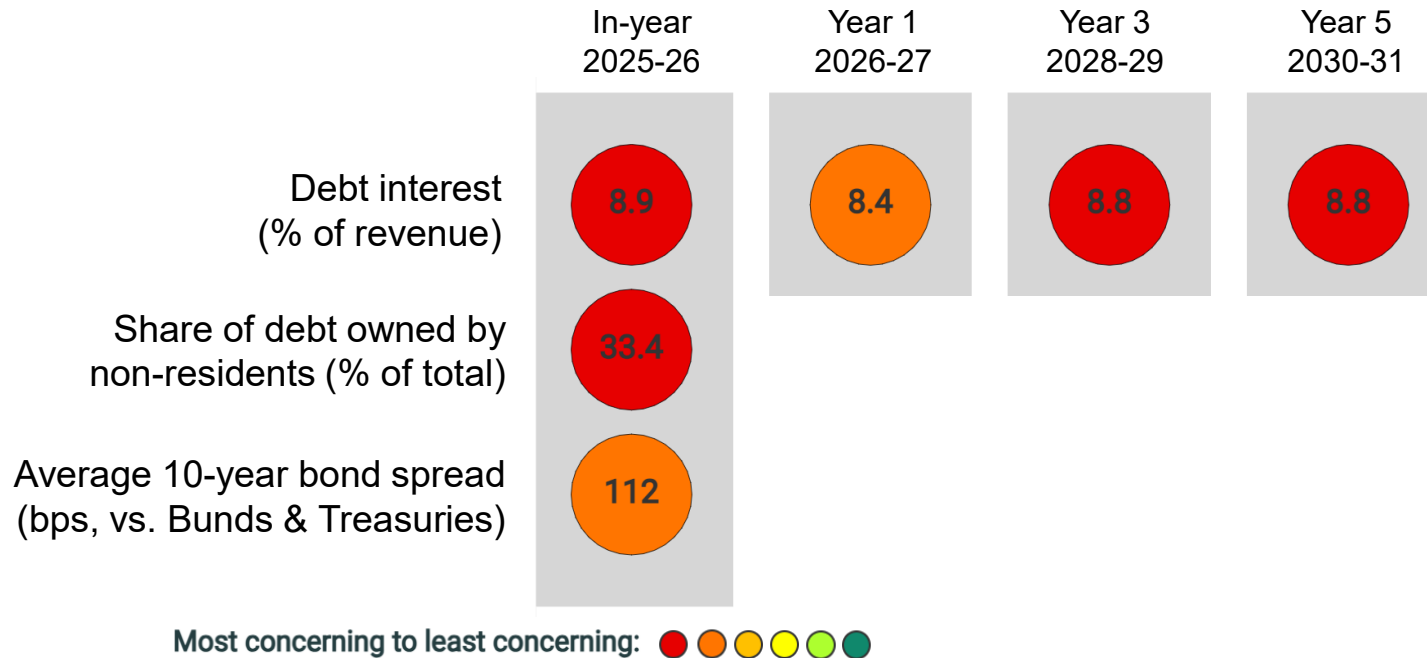
Note: Net Debt refers to Public Sector Net Debt excluding the Bank of England. Net Worth refers to Public Sector Net Worth

- Levels of debt remain historically high over whole forecast period
- Debt rising in near-term, forecast to be flat by 2030–31

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A broader view of fiscal sustainability IFS

Debt interest and debt risk



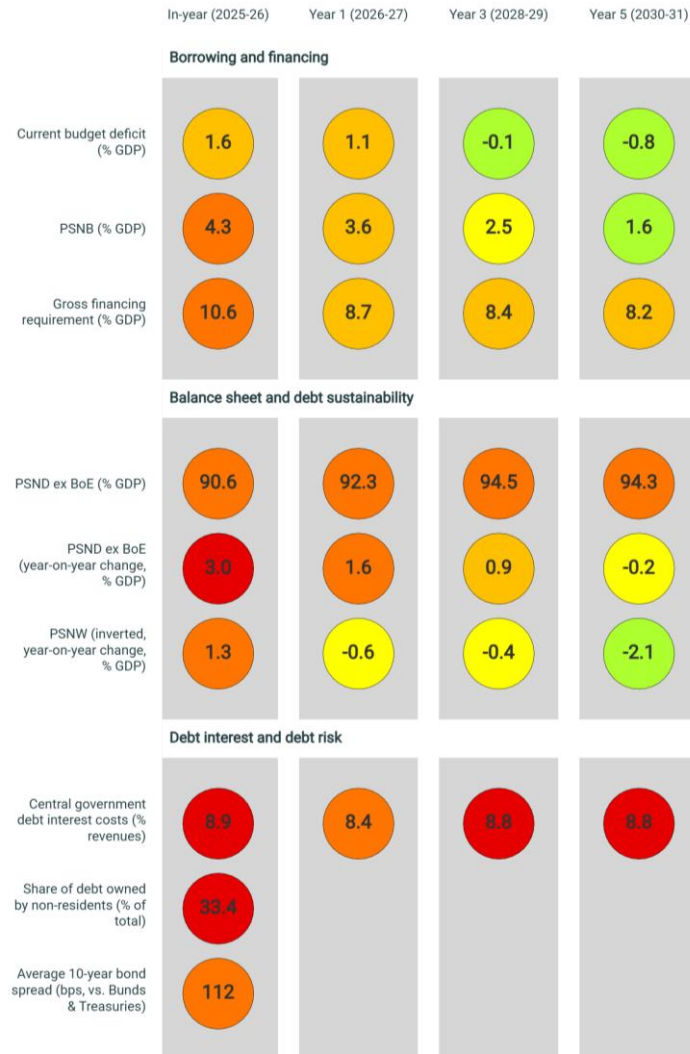
Note: Debt interest refers to central government debt interest, net of the Asset Purchase Facility.

- Since the pandemic, interest costs have been at highest level in over 30 years, and high compared to other G7 nations
- A high share of debt is held overseas, risk of volatility
- Interest rates on new UK debt are high compared to other countries

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A broader view of fiscal sustainability IFS

Most concerning to least concerning: ●●●●●●



- **The public finances are still vulnerable**

- Debt and borrowing high
- Debt interest very high

- Some improvements forecast over coming years, but big risks to delivery

- Large longer-run fiscal pressures remain

- Ageing population, net zero transition, defence

Note: Specific measures shown and thresholds applied reflect judgements of IFS researchers, drawing on historic UK levels and international comparisons. For discussion, see [Zaranko \(2026\)](#).

- Chancellor deserves credit for making this (close to) a non-event
 - One major fiscal event per year is enough
 - Events of recent days, after forecast closed, shows the folly of adjusting policy to precise forecast movements
- The UK's fiscal challenges remain daunting
 - Borrowing set to come down – but numerous risks to deliverability
 - A broader assessment highlights vulnerabilities

The Institute for Fiscal Studies
2 Marylebone Road
London
NW1 4DF

www.ifs.org.uk

