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Wealth Management

GUIDE TO THE

Spring Forecast 2026

What does the update on the economy and public finances mean for your finances?

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Welcome

Navigating economic headwinds amid global turmoil

On Tuesday, 3 March, Chancellor of the Exchequer Rachel Reeves delivered the latest Spring forecast statement, reflecting the insights of the independent Budget Responsibility Committee of the Office for Budget Responsibility (OBR).

Reeves defended the government's economic strategy, describing it as the "right one" for the nation. She also announced progress in reducing borrowing, with projections showing a nearly £18bn decrease.

CHARTING A COURSE THROUGH UNCERTAINTY

Addressing the House of Commons, Reeves emphasised the growing importance of the government's economic plan in an increasingly uncertain global landscape. She reaffirmed the commitment to guiding the economy through challenges and shielding households from external shocks.

Reeves cited easing inflation and lower borrowing costs as signs of progress, noting that the OBR's latest forecasts confirm the government's strategy is delivering results.

UPDATED ECONOMIC FORECASTS

The latest projections present a mixed outlook for the UK economy. Economic growth is now expected to reach 1.1% in 2026, a slight decrease from the 1.4% forecast in November.

On a more positive note, inflation is predicted to fall faster than anticipated, reaching 2.3% in 2026 and hitting the Bank of England's 2% target by the end of the year.

EMPLOYMENT AND FISCAL RESILIENCE

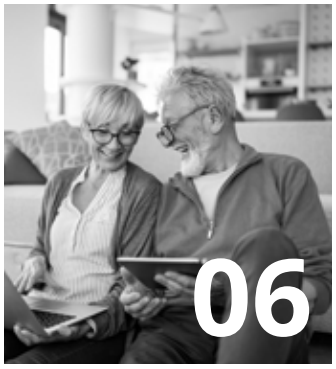
While inflation is easing, the job market faces new challenges. Unemployment is expected to peak at 5.3%, up from the 4.9% forecast in the Autumn Budget. Despite this, the government has strengthened its financial defences, with fiscal headroom rising from £21.7bn to £23.6bn, providing a critical buffer against potential economic shocks.

However, the OBR's forecast does not account for the impact of rising energy prices caused by the conflict in the Middle East. This global turmoil could reignite inflation and delay anticipated interest rate cuts, as rising oil and gas prices have already triggered a sell-off in gilts. ◄

PLANNING FOR YOUR FINANCIAL FUTURE

In these uncertain times, understanding how economic shifts could affect your personal finances or business is crucial for long-term stability. We are here to help you navigate these changes with confidence. If you need further information, please contact us for tailored guidance and support.

"Reeves defended the government's economic strategy, describing it as the "right one" for the nation. She also announced progress in reducing borrowing, with projections showing a nearly £18bn decrease."



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Economic and financial outlook

Unexpected shocks, slowing growth, and short-term changes to financial policies

This Spring forecast from the Office for Budget Responsibility's Budget Responsibility Committee provides an interim update on the economic and financial outlook ahead of the next Budget. The financial environment for the upcoming Budget remains challenging. Over the past 20 years, UK public sector debt has almost tripled as a share of GDP, standing at nearly double the average for comparable advanced economies.

Public sector net borrowing has remained high at around 5% of GDP over the past four years. Previous governments set out medium-term plans to reduce this borrowing. However, these plans were delayed by unexpected economic shocks, slow growth, and short-term changes to financial policy.

ECONOMIC GROWTH AND INFLATION EXPECTATIONS

The core forecasts in this update closely align with those shared in November 2025. Productivity growth is expected to rise to 1% in the medium term. Meanwhile, labour supply growth is forecast to slow from recent highs to 0.5% by 2030, driven by lower net migration and an ageing population.

Due to short-term economic cycles, the forecast projects that real GDP growth will slow from 1.4% in 2025 to 1.1% in 2026, then average 1.6% annually for the rest of the forecast period. Easing conditions in the labour market, along with declining inflation in energy and food prices, should help overall inflation reach its 2% target by late 2026.

BORROWING PROJECTIONS AND POTENTIAL RISKS

Public sector net borrowing is projected to fall from 5.2% of GDP in 2024/25 to 4.3% this year, reaching 1.6% by 2030/31. This decline is slightly faster than forecast in November, largely due to stronger revenue. Public sector net debt is forecast to remain broadly stable, reaching around 95% of GDP in the early 2030s.

These central forecasts by the OBR's Budget Responsibility Committee (BRC) sit between many possible outcomes, and notable risks are involved. Global events, such as conflict in the Middle East, along with shifts in trade policies, interest rates, and productivity, could affect the UK economy. Long-term financial pressures also persist, including an ageing population and spending needs in defence, education, and welfare. ◂

> "Public sector net borrowing is projected to fall from 5.2% of GDP in 2024/25 to 4.3% this year, reaching 1.6% by 2030/31. This decline is slightly faster than forecast in November, largely due to stronger revenue."

Looking ahead, the OBR's Budget Responsibility Committee (BRC) forecasts that CPI inflation will fall from 3.4% in 2025 to 2.3% in 2026.

Inflation trends and future projections

Anticipated fall is primarily driven by domestic factors

Inflation plays a significant role in the economy, influencing everything from household budgets to business investment. Following a period of high inflation, the UK saw the Consumer Prices Index (CPI) return to the Bank of England's 2% target in mid-2024. This was largely due to easing post-pandemic supply chain issues and stabilising energy prices, which had previously soared.

However, inflation rose above the target again in 2025. This resurgence was driven by a combination of global and domestic factors. Renewed increases in energy and food prices put upward pressure on the inflation rate, while domestic pressures included rises in administered prices and strong wage growth.

PROJECTIONS FOR THE COMING YEARS

Looking ahead, the OBR's Budget Responsibility Committee (BRC) forecasts that CPI inflation will fall from 3.4% in 2025 to 2.3% in 2026. It is expected to reach the 2% target from 2027 onwards, reaching this milestone in late 2026. This anticipated fall in inflation is primarily driven by domestic factors, reflecting an assessment of growing slack in the economy.

The expected easing of inflation is also supported by several other factors. The effect of previous increases in administered prices will no longer be included in the annual comparison, helping to lower services inflation. Furthermore, food price inflation is expected to decline as global prices fall, while lower wholesale energy costs and government measures to reduce energy bills are expected to bring down utility inflation.

LONG-TERM OUTLOOK AND POTENTIAL RISKS

By 2030, the overall CPI level is projected to be 0.4% lower than previously forecast. This adjustment is mainly due to a more negative output gap, which affects domestically generated inflation, with the remainder attributable to lower energy prices. However, these projections are a central forecast and are subject to both upside and downside risks.

Based on past forecast errors, the BRC suggests there is a one-in-five chance that CPI inflation in 2026 could be above 2.8%, with a similar probability that it could be below 1.9%. Risks that could push inflation higher include more persistent inflation expectations among households and businesses, which could influence wage and price-setting. Conversely, a potential downside risk is that tighter monetary policy, both in the UK and internationally, could have a stronger-than-anticipated impact on demand.

BROADER INFLATION MEASURES

The central forecast for the Retail Prices Index (RPI) indicates a fall from 4.1% in 2025 to 3.1% in 2026. From 2027 to 2029, RPI is expected to average 2.9% annually, then fall to 2.3% in 2030. The gap between RPI and CPI is also forecast to be 0.5 percentage points lower in 2026 than previously projected, driven by lower mortgage interest payments, which affect only the RPI measure.

The GDP deflator, which measures the price of all domestically produced goods and services, is projected to grow broadly in line with the CPI over the forecast period. It is expected to rise by 3.6% in 2025, slow to 2.2% in 2026, and then average 1.9% annually from 2027. This reflects a slightly lower cumulative growth projection than in previous forecasts, consistent with the lower CPI inflation outlook. ◄

UK's debt interest spending forecast

Measured as a proportion of the country's total economic output

Navigating the landscape of national economics can often feel complex. A key area that warrants attention is government spending on interest on debt. This refers to the payments the government must make on its borrowings. Understanding the forecasts for this spending provides a clearer picture of the country's financial health and future obligations. Recent projections offer valuable insights into how these costs are expected to evolve over the coming years, highlighting the factors that influence them.

Current forecasts from the Office for Budget Responsibility's Budget Responsibility Committee indicate a gradual but notable increase in the amount allocated to servicing the national debt. Projections show that debt interest spending, measured as a proportion of the country's total economic output (gross domestic product or GDP), is expected to rise from 3.6% in the 2025/26 financial year to 3.8% by 2030/31.

While this may seem small, it represents a substantial financial commitment. This figure is particularly significant in the historical context; spending on debt interest is now approximately double the 2% of GDP average seen in the decade before the global pandemic.

A CLOSER LOOK AT THE NUMBERS

Expressed in monetary terms, the forecast suggests that nominal spending on debt interest will rise from £110 billion in 2025/26 to £137 billion by 2030/31. This represents a significant share of government expenditure. However, it's also important to note how these figures compare with previous estimates. Compared with the Office for Budget Responsibility's forecast from November 2025, the overall picture for debt interest spending as a share of both GDP and total government revenue remains largely unchanged.

Despite the large nominal figures, recent analysis shows that the forecast for debt interest spending is, on average, £2.8 billion lower than anticipated in November 2025. This downward revision is not due to a single cause but reflects several interconnected economic factors. The most significant of these is a change in the inflation outlook, which directly affects the cost of servicing a specific type of government debt. Understanding these influences is crucial for a complete picture of the situation.

IMPACT OF INFLATION AND INTEREST RATES

The primary driver of the reduced spending forecast is a weaker-than-expected outlook for Retail Prices Index (RPI) inflation. A significant portion of UK government debt is 'index-linked', meaning interest payments rise and fall with inflation. The revision to the RPI inflation forecast is expected to reduce spending by £3.4 billion in 2025/26 and £3.2 billion in 2026/27, with smaller reductions in subsequent years. This illustrates the direct and immediate effect that inflation forecasts can have on national finances.

Current forecasts from the Office for Budget Responsibility's Budget Responsibility Committee indicate a gradual but notable increase in the amount allocated to servicing the national debt.

Another key factor influencing debt interest costs is the path of official interest rates. The latest market expectations for the Bank of England's Bank Rate and government bond (gilt) yields have reduced projected debt interest costs. This factor is expected to lower spending by an average of £1.0 billion per year across the forecast period. It highlights the sensitivity of government borrowing costs to the broader monetary policy environment and market sentiment.

FINANCING ADJUSTMENTS AND FUTURE OUTLOOK

Beyond inflation and interest rates, other technical adjustments and financing factors also play a role. These elements are projected to reduce interest spending on debt by an increasing amount each year, culminating in a reduction of £1.8 billion by 2030/31. This is primarily due to a lower net financing requirement for the government before any new policy measures are considered. Essentially, if the government needs to borrow less than previously expected, its future interest payments will also be lower.

Looking ahead, the trajectory of debt interest spending remains a central feature of the UK's fiscal landscape. While recent forecasts offer a slight reprieve compared with earlier estimates, overall spending remains historically high. These projections underscore the lasting financial impact of recent global events and the ongoing costs associated with higher national debt. Continuous monitoring of inflation, interest rates, and economic growth will be essential to manage these costs effectively in the years ahead. ◂

“Another key factor influencing debt interest costs is the path of official interest rates. The latest market expectations for the Bank of England's Bank Rate and government bond (gilt) yields have reduced projected debt interest costs.”

The first two scenarios from the BRC assume the rise in unemployment is cyclical. In an upside scenario, the unemployment rate could fall more quickly than the central forecast, from 5% in 2025/26 to 4.1% by 2027/28.

Labour workforce

Evidence points towards a more subdued labour market

Recent data indicate a shift in the UK's labour market conditions. The unemployment rate is rising, redundancies have increased, and pay growth in the private sector has slowed. Evidence from administrative data and surveys points to a more subdued labour market.

The OBR's Budget Responsibility Committee (BRC) projections in the Spring forecast suggest the unemployment rate could reach 5.3% in 2026. This is linked to weaker labour demand as economic output falls below its potential. It appears that people entering the workforce are finding it particularly difficult to secure jobs amid cautious hiring.

A CLOSER LOOK AT EMPLOYMENT FIGURES

Data on payrolled employees suggest that the flow of people joining and leaving jobs remains low, with inflows particularly weak. After an expected peak in 2026, the unemployment rate is forecast to gradually fall, reaching an estimated equilibrium rate of 4.1% by 2030 as the economy recovers.

This forecast peak in unemployment is notably lower than the 8.4% rate seen after the financial crisis and is similar to the level reached during the pandemic, although that figure was influenced by the furlough scheme. The employment rate is expected to fall to 60.4% in 2026, then recover to 60.7% by 2030. However, there is considerable uncertainty around these forecasts.

CYCLICAL VS STRUCTURAL CHANGES

The central forecast assumes the recent rise in unemployment is cyclical, but there is uncertainty about how long this weakness will persist. Some evidence also suggests that part of the rise in unemployment may be structural, meaning it could be longer-lasting.

It is not yet clear how new technologies, such as AI or higher labour costs, including increased employer National Insurance contributions, will affect the labour market. Additionally, recent growth in real wages has outpaced productivity, prompting firms to reduce employment to manage these higher costs. To explore these uncertainties, four alternative scenarios for the unemployment rate have been considered.

POTENTIAL CYCLICAL SCENARIOS

The first two scenarios from the BRC assume the rise in unemployment is cyclical. In an upside scenario, the unemployment rate could fall more quickly than the central forecast, from 5% in 2025/26 to 4.1% by 2027/28. This would involve higher near-term GDP growth and stronger wage growth, temporarily pushing up inflation and interest rates.

Conversely, a cyclical downside scenario assumes the unemployment rate peaks at 6.8% in 2026/27. This would entail negative GDP growth in that year, weaker wage growth, and temporarily lower inflation and interest rates relative to the central forecast.

POTENTIAL STRUCTURAL SCENARIOS

The other two scenarios consider a more persistent, structural increase in the unemployment rate, with the equilibrium rate rising to 5.5%. In a 'technological displacement' scenario, new technology replaces workers, raising productivity among those who remain employed. GDP levels might remain unchanged, but with a smaller share of income going to labour.

In a 'higher labour costs' scenario, the reduction in employment is driven by higher labour costs and is not offset by higher productivity. This would imply a lower level of real GDP than the central forecast, with the shares of income for labour and corporate profits unchanged. ◄

Housing market

Insight into what we might expect in the coming years

The UK housing market is a constant focus, affecting homeowners, buyers, and the wider economy. Analysis in the Spring forecast from the Office for Budget Responsibility's (OBR) Budget Responsibility Committee (BRC) offers insight into what we might expect in the coming years. This includes their key projections for house prices, mortgage rates, new homes, and property sales.

Looking ahead, the BRC anticipates that house price inflation will average just over 2.5% for the remainder of the forecast period. This rate is expected to align closely with average income growth, suggesting a stable but modest rise in property values. This outlook remains largely consistent with last November's forecast.

MORTGAGE RATES AND HOUSING SUPPLY

For those with mortgages, the average effective interest rate on outstanding loans is projected to rise from 4.1% this year to 4.5% over the rest of the forecast period. This is 0.3 percentage points lower than the November BRC forecast, reflecting lower market expectations for interest rates.

Regarding the supply of new homes, net additions to the UK housing stock are forecast to fall from an average of 260,000 per year in the early 2020s to a low of 220,000 in 2026/27. This dip is attributed to the effects of a recent slowdown in housing starts.

IMPACT OF PLANNING REFORMS

Following this expected low point, the BRC projects a sharp increase in net additions, rising to just over 305,000 by 2030/31. This significant growth is expected to result from planning reforms, although the tangible effects of these reforms have yet to be fully realised. The progress of these reforms will be reassessed in the upcoming Autumn Economic and Fiscal Outlook (EFO).

Compared with the November forecast, stronger recent data and near-term indicators have slightly strengthened the short-term forecast. However, the medium-term outlook remains broadly unchanged. This adjustment results in a cumulative total of 1.3 million net additions to the UK housing stock between 2025/26 and 2029/30, approximately 30,000 higher than previously projected.

PROPERTY TRANSACTION TRENDS

Property transactions were volatile throughout 2025. This was partly due to activity being brought forward to avoid the end of the stamp duty holiday and to speculation ahead of the November 2025 Budget. Despite these fluctuations and recent declines, transactions for 2025 as a whole rose by nearly 11% to 1.2 million, marking the highest level since 2022. ◂

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Public sector receipts forecast

Mechanism that naturally pushes more income into higher tax bands

The Office for Budget Responsibility outlined its expectations for the future of public finances in the Spring forecast, forecasting that total public sector receipts will rise as a share of the economy over the coming years. According to its Budget Responsibility Committee, overall government revenue is projected to rise from 38.8% of gross domestic product (GDP) in the 2024/25 financial year, equivalent to roughly £1.1 trillion, to 42.7% of GDP by the 2030/31 financial year, representing approximately £1.6 trillion in total receipts.

Within this broader picture, the amount of revenue generated specifically through taxes, often referred to as the tax take, is also set to increase. Forecasts suggest that National Accounts taxes will rise from 34.5% of GDP in 2024/25 to a peak of 38.5% by the end of the forecast period. Reaching this 2030/31 peak would mark a historic high for the United Kingdom. It would also represent a notable 5.6% increase over the pre-pandemic level of 32.9% recorded in 2019/20.

MAIN DRIVERS BEHIND RISING REVENUES

The anticipated increase in the tax take as a share of GDP between 2024/25 and 2030/31 is driven primarily by two key areas: personal taxes and capital taxes. Personal taxes, which encompass both income tax and National Insurance contributions, account for the majority of this growth, contributing 2.4 percentage points to the total increase. Capital taxes are expected to account for a further 0.9 percentage points of the rise over the same period.

The increase in personal taxes this year is largely driven by policy decisions, particularly the rise in employer National Insurance contributions announced in the October 2024 Budget. Moving forward, personal tax receipts are projected to continue their upward trajectory. This ongoing rise is primarily due to a combination of general earnings growth and the decision to freeze personal tax thresholds until April 2031, a mechanism that naturally pushes more income into higher tax bands as wages rise.

FACTORS INFLUENCING CAPITAL TAX GROWTH

Capital tax receipts are also forecast to grow steadily over the medium term. This expected rise is largely attributed to projected increases in equity prices, alongside adjustments to the inheritance tax and capital gains tax regimes. Many of these systemic changes were formally outlined in the October 2024 Budget and will gradually influence the total amount of tax collected from assets and investments.

While the general outlook for the tax take remains broadly unchanged from earlier November 2025 estimates, there are subtle shifts in the data. The medium-term forecast shows a small increase, reaching an additional 0.2 percentage points by 2030/31. This uplift is primarily driven by stronger-than-expected growth in equity prices since November, which naturally leads to slightly higher forecast receipts in areas tied to asset wealth.

NAVIGATING UNCERTAINTY IN ECONOMIC FORECASTING

Projecting economic data over a five-year period inherently involves significant uncertainty. Economic conditions can fluctuate, and historical data show that forecasts are rarely exact. Looking back at previous records, the average absolute difference in five-year forecasts of receipts as a share of GDP is roughly 0.9 percentage points, highlighting the inherent variability of these long-term economic projections.

The stability of different tax streams varies considerably depending on how they are collected. For example, the rising yield from income tax and National Insurance contributions is largely driven by the freezing of personal tax thresholds. Because these taxes are paid by a very broad base of the population, the overall yield tends to remain relatively stable and is less sensitive to changes in individual taxpayers' behaviour. However, these specific yields remain highly sensitive to broader economic factors such as inflation and nominal earnings growth.

ASSESSING THE IMPACT ON ECONOMIC ACTIVITY

A higher level of tax collection carries certain risks for the broader economy. Specifically, a larger tax take increases the likelihood that incentives within the tax system might distort or constrain general economic activity more than analysts originally expected. Policymakers must continually monitor these dynamics to ensure that the tax environment does not inadvertently suppress business growth or personal enterprise.

The Budget Responsibility Committee notes that recent data indicate positive short-term developments in public sector revenue. Relative to the November 2025 forecast, total public sector receipts are now expected to be £3.7 billion higher for the 2025/26 financial year.

When comparing the United Kingdom with other advanced economies, the overall level of the tax take is not considered unusually high. However, there is some evidence that the UK's marginal tax rates may currently be above the Organisation for Economic Co-operation and Development (OECD) average. This is particularly relevant because high marginal rates can directly affect individuals' incentives to work, save, and invest for the future.

SHORT-TERM IMPROVEMENTS IN EXPECTED RECEIPTS

The Budget Responsibility Committee notes that recent data indicate positive short-term developments in public sector revenue. Relative to the November 2025 forecast, total public sector receipts are now expected to be £3.7 billion higher for the 2025/26 financial year. This immediate boost is mainly due to higher-than-expected receipts from self-assessment income tax and capital gains tax, which were processed around the payment deadline at the end of January.

This initial difference compared to the November estimates is expected to grow over time. By the 2030/31 financial year, total receipts are projected to be £12 billion higher than previously forecast, which equates to an additional 0.3% of GDP. Underlying forecast differences are expected to boost receipts from 2027/28 onwards, contributing an average of £8 billion per year to the public purse.

FUTURE OUTLOOK AND ONGOING SUPPORT

The main driver of this ongoing financial boost is a stronger forecast for equity prices. Higher equity prices naturally increase revenue across several areas, including capital taxes, onshore corporation tax, self-assessed income tax, and interest and dividend receipts. Additionally, the higher-than-expected final figures for 2025/26 provide a stronger starting point for the forecast, particularly benefiting projections for self-assessment, capital gains tax, and Value Added Tax (VAT). ◄

> "Capital tax receipts are also forecast to grow steadily over the medium term. This expected rise is largely attributed to projected increases in equity prices, alongside adjustments to the inheritance tax and capital gains tax regimes."

Special educational needs

Strategic shift in how SEND provision is managed and funded

The landscape of funding for special educational needs and disabilities (SEND) in the UK is undergoing significant review and change. In late 2025, an assessment by the Office for Budget Responsibility's Budget Responsibility Committee highlighted substantial financial pressure on the government. The committee projected a potential £6.3 billion shortfall by the 2028/29 financial year to fully fund SEND spending within the existing departmental expenditure limits (DEL).

In response to these projections, the Chancellor of the Exchequer, Rachel Reeves, announced that the government has taken steps to address the anticipated shortfall. An additional £4.1 billion has been allocated to the revenue departmental expenditure limit (RDEL) for 2028/29. Alongside this financial commitment, new policy reforms have been outlined in a white paper titled 'Every Child Achieving and Thriving', signalling a strategic shift in how SEND provision is managed and funded.

FUTURE PROJECTIONS AND PLANNED REFORMS

This injection of funds has significantly eased immediate spending pressure. However, some uncertainty remains about the long-term impact of the proposed policy reforms. The government's financial models assume that the growth rate of new Education, Health and Care Plans (EHCPs) will slow over the next decade.

The official projection is that the proportion of school pupils holding an EHCP will begin to decrease from 2029/30 onwards. Despite these projections, the details of how the new reforms will achieve this slowdown have not been fully set out. Furthermore, estimates of potential cost savings from these changes have not yet been provided, which continues to pose a risk to financial forecasts.

POTENTIAL RISKS AND HISTORICAL CONTEXT

Examining past government initiatives offers some perspective. Previous reforms that changed eligibility for public spending programmes, such as the transition from Disability Living Allowance to Personal Independence Payment for disability benefits, did not always deliver the savings originally projected. This history suggests that projected savings from new reforms are not guaranteed.

There is also potential for short-term cost increases associated with the new SEND policies. A surge in the number of assessments could occur before the planned changes to EHCP assessments take effect in September 2029. This could temporarily increase spending before the long-term effects of the reforms are realised, adding another layer of complexity to the financial outlook for SEND services. ◄

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Welfare spending forecasts

Spending is forecast to rise by £18 billion, representing a 5.8% increase

Total welfare spending is a significant component of the national budget, primarily comprising government outgoings on social security and various tax credits. To project these figures accurately, the Office for Budget Responsibility's Budget Responsibility Committee relies on a range of economic indicators. These determinants include population growth, unemployment rates, average earnings, and inflation levels. By combining these broader economic factors with the latest outturn data and forecasting models from the Department for Work and Pensions (DWP), expected financial commitments over the coming years can be mapped.

Interestingly, around half of this total expenditure falls under the government's 'welfare cap'. This cap serves as a fiscal control mechanism, but it explicitly excludes the state pension and payments that are highly sensitive to the economic cycle, such as certain unemployment benefits. By isolating these more predictable costs, policymakers can better track baseline spending trends, separate from the immediate effects of economic downturns or periods of rapid growth.

CURRENT EXPENDITURE AND FUTURE TRAJECTORIES

Looking ahead to the current financial year, the Office for Budget Responsibility's Budget Responsibility Committee forecast welfare spending to rise by £18 billion, representing a 5.8% increase. This brings the total projected expenditure to £333 billion, equating to roughly 10.9% of the nation's Gross Domestic Product (GDP). This immediate increase reflects the current economic environment, adjusting for inflation and demographic changes that shape the population's immediate needs.

Moving forward, the forecast indicates a steady upward trend over the medium term. Spending is expected to rise by an average of £15 billion, or 4.1%, in nominal terms each year for the remainder of the forecast period. By the 2030/31 financial year, total welfare expenditure is projected to reach £407 billion, representing

11.2% of GDP. In historical context, this would be 1.2% of GDP higher than the pre-pandemic level recorded in 2019/20, illustrating a structural shift in national spending.

PENSIONS AND DEMOGRAPHIC SHIFTS

The primary drivers of this projected increase are higher spending on pensioner and health-related benefits. Looking specifically at pensions, spending is forecast to rise by 0.3% of GDP between 2024/25 and 2030/31. This is largely due to demographic changes, as larger cohorts of the population reach retirement age. When combined with the ongoing commitment to the triple lock uprating, which ensures the state pension rises in line with inflation, average earnings, or a minimum baseline, overall pensioner spending is expected to increase by 0.6% of GDP by the end of the decade.

However, this upward trajectory is partially offset by planned adjustments to the retirement age. Between 2026 and 2028, the state pension age will rise from 66 to 67. This policy change will keep people in the workforce for an extra year before they can claim their state pension. Consequently, this shift acts as a financial offset, reducing projected pensioner spending by approximately 0.3% of GDP by the 2030/31 financial year.

HEALTH BENEFITS AND RISING CASELOADS

Alongside pensions, health-related benefits are the other major driver of increased welfare spending. Over the forecast period to 2030/31, expenditure in this category is expected to rise by 0.4% of GDP. This rise is largely driven by expanding caseloads across various support channels, reflecting a growing share of the population requiring health and disability assistance.

The figures reveal a clear expansion in the number of individuals accessing these benefits. Between 2024/25 and 2030/31, incapacity caseloads are projected to grow by 0.6 million, taking the total from 3.4 million to 4.0 million. Even more notable is the forecast rise in disability caseloads, which are expected to increase by 2.3 million over the same timeframe. This will bring the total number of individuals receiving disability support from 6.5 million to 8.8 million, highlighting a significant area of future government expenditure. ◄

Defence spending

The uncertain current geopolitical situation creates a greater risk

The global landscape is marked by significant geopolitical uncertainty. This shifting international environment has prompted extensive discussions about national security and the financial resources required to maintain it. As a result, the Office for Budget Responsibility's Budget Responsibility Committee has determined that there is a distinct possibility that further increases to defence spending will be necessary over the current Spending Review period to adapt to these emerging global challenges.

When a nation alters its budgetary priorities to address external risks, it inevitably triggers ripple effects throughout the domestic economy. Current discussions centre on striking a balance between fiscal responsibility and the perceived need for enhanced national security measures.

GOVERNMENT COMMITMENTS AND STRATEGIC PLANNING

To navigate these complex circumstances, the Chancellor of the Exchequer, Rachel Reeves, said the Government has made its commitment to long-term security planning clear. Central to this approach is a firm commitment to meeting the requirements set out in the Strategic Defence Review. This comprehensive evaluation serves as the foundational blueprint for how the country intends to structure, equip, and fund its armed forces over the coming decades.

A crucial component of this broader framework is the Defence Investment Plan. This plan sets out the specific financial allocations and procurement strategies required to modernise military capabilities. By adhering to these structured reviews and plans, the government aims to ensure that any increases in spending are implemented methodically rather than through reactive, short-term measures.

ANALYSING THE 3.5% TARGET BY 2035

A key focus of the current economic and security discourse is the proposed objective of raising defence expenditure to 3.5% of Gross Domestic Product (GDP) by 2035. GDP is the total value of all goods and services produced over a specific period, making it a standard benchmark for measuring national economic health and the distribution of spending.

There are different methodologies for reaching this 3.5% target, and the chosen method significantly alters the short-term financial impact. Ramping up defence spending on a linear path means increasing the budget by a steady, equal percentage each year until the 2035 deadline. This approach contrasts with the current trajectory implied by the Spending Review, which may involve varying levels of investment year by year, depending on other economic factors.

FINANCIAL REALITY OF REACHING THESE GOALS

Choosing a linear path to achieve the 3.5% goal would require a substantial financial commitment in the near term. If this steady increase is implemented, it would add an additional 0.2% of GDP in the final year of the current Spending Review period alone. This is a crucial metric, as it shifts immediate budgetary requirements away from previous baseline expectations.

To put this percentage into practical context, an additional 0.2% of GDP equates to approximately £6 billion. This represents a significant sum of public money that

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must be sourced through reallocation from other government departments, higher taxation, or additional public borrowing. Managing this £6 billion requirement is a key consideration for economic planners and policymakers.

WIDER ECONOMIC IMPLICATIONS

The injection of an additional £6 billion into the defence sector carries various economic implications. On the one hand, increased defence spending often creates highly skilled jobs, advances technology, and secures lucrative contracts for domestic manufacturing and engineering firms. This can stimulate growth in specific industrial sectors and regions.

On the other hand, dedicating a larger share of the national budget to defence entails difficult choices elsewhere. A neutral assessment recognises that funds allocated to military expansion may constrain resources for other public services, such as healthcare, education, or infrastructure development. Policymakers must continually weigh the benefits of heightened security against the opportunity costs within the domestic economy.

PLANNING FOR THE FUTURE

As the geopolitical situation evolves, the assumptions underpinning the Spending Review and the Strategic Defence Review will remain under constant scrutiny. Economic forecasts and security assessments are not static; they require regular updates to reflect the realities of the global stage.

Ultimately, the trajectory of defence expenditure will depend on a complex interplay between international developments and domestic economic performance. ◂

“As the geopolitical situation evolves, the assumptions underpinning the Spending Review and the Strategic Defence Review will remain under constant scrutiny. Economic forecasts and security assessments are not static; they require regular updates to reflect the realities of the global stage.”

Net migration forecasts

Central forecasts predict that net inward migration will increase in the future

The United Kingdom's adult population growth is primarily driven by net inward migration. Figures from the Office for Budget Responsibility's Budget Responsibility Committee show a significant drop from previous highs. This change is largely due to shifts in visa policies and the stabilisation of international student numbers following the pandemic's disruption. Looking ahead, central forecasts predict that net inward migration will rise to approximately 290,000 people by 2030, driven mainly by arrivals from non-EU countries.

In November, the Office for National Statistics (ONS) revised its recent net migration estimates downwards. This adjustment was largely due to a change in how the migration of British nationals is calculated, leading to a higher estimate of those leaving the country. Between 2021 and 2024, the average net migration of British nationals is now estimated at -92,000 per year. This is a significant shift from the previous estimate of -6,500, bringing the figures more in line with trends observed between 2012 and 2020.

REVISIONS TO MIGRATION FORECASTS

Following the ONS revision, the central forecast for overall net inward migration has been lowered by around 60,000 people per year. This reduction, equivalent to about 50,000 adults, is entirely driven by a new, more negative assumption for the net migration of British nationals. The cumulative effect of this change is a projected reduction in the UK's adult population by around 200,000 by 2030, compared with earlier forecasts.

The ONS continually reviews its migration data. Several risks could affect the final numbers. These include the long-term impact of previous policy changes on student and skilled worker visas, the number of humanitarian arrivals from Ukraine who choose to remain in the UK, and the future level of net migration from EU nationals. Potential future government policy changes, such as

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those related to indefinite leave to remain and asylum, are not yet factored into these forecasts, as the details remain undecided.

ECONOMIC IMPACT OF MIGRATION CHANGES

The Chancellor of the Exchequer, Rachel Reeves, said the economic consequences of these migration trends are complex. While a lower population affects the overall size of the economy, the impact on individual living standards, often measured by output per person, depends on various factors. Based on available data, the increase in the number of British nationals emigrating is mainly among younger adults. This group tends to have slightly higher employment rates but lower earnings than the UK average.

This demographic detail has a few key implications. The larger outflow of younger adults reduces the number of new entrants to the labour force, negatively affecting overall employment. It also has a small negative effect on the labour participation rate, as this group is more likely to be in work. Conversely, it has a small positive impact on average productivity, assuming that the lower earnings of those leaving reflect their productivity levels. These effects largely cancel each other out, leaving the net migration forecast unchanged and the outlook for potential output per person broadly unchanged. ◂

> “Following the ONS revision, the central forecast for overall net inward migration has been lowered by around 60,000 people per year.”

Is it time to talk about your future financial plans?

If you would like to explore the Spring Forecast 2026 or your financial plans, please contact us.

We look forward to hearing from you.

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