SPRING FORECAST 2026

A MEASURED PATH FORWARD

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The Spring Forecast 2026 centres on the Office for Budget Responsibility's (OBR) updated Economic and Fiscal Outlook, and the Chancellor's speech. Unlike a full fiscal event, this publication does not introduce a wide-ranging package of new tax measures. Instead, it updates the official projections for economic growth, inflation, employment, borrowing, debt and tax receipts over the five-year forecast period. The Chancellor noted that ongoing geopolitical developments in the Middle East, including recent conflict involving Iran, contribute to global uncertainty and reinforce the value of a stable fiscal framework in navigating external shocks. Closer to home, the Chancellor stressed, "Inflation is down, borrowing is down, living standards are up, and the economy is growing."

Although policy announcements are limited, the forecast itself is materially important. The projected path for borrowing and debt determines the government's fiscal position heading into the remainder of the Parliament. The forecast also sets expectations for the tax burden, spending pressures and financial conditions, all of which affect households and businesses directly.

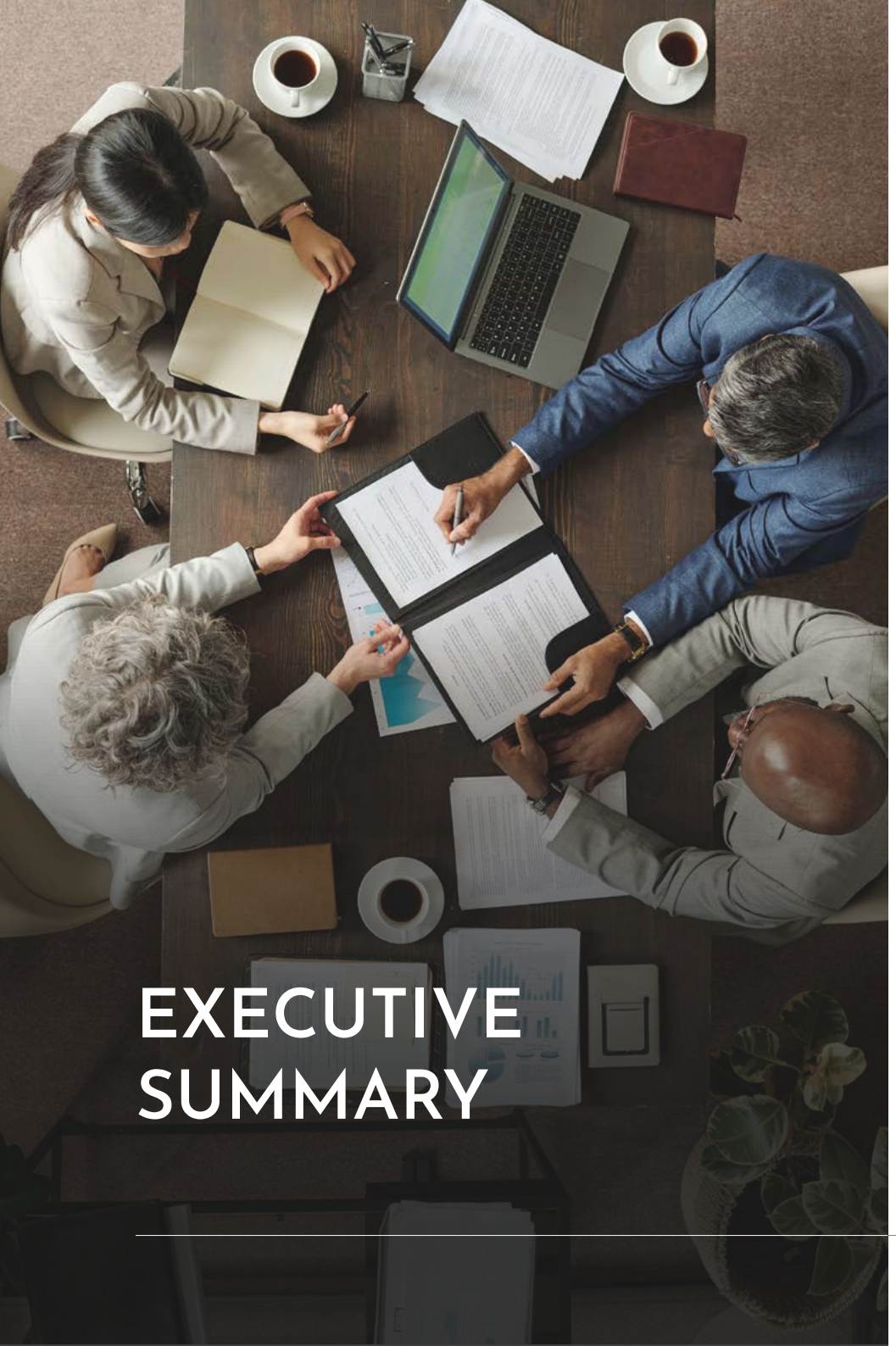
This document explains the key components of the March 2026 forecast, including:

- Revisions to growth, inflation and labour market assumptions
- The projected decline in public sector net borrowing
- The stabilisation of debt at historically high levels
- The continued rise in the tax-to-GDP ratio
- Confirmed spending measures incorporated since November 2025
- The principal risks identified by the OBR

> *Inflation is down, borrowing is down, living standards are up, and the economy is growing.*
>
> Rachel Reeves
> Chancellor of the Exchequer

The analysis is based on the published Economic and Fiscal Outlook and the Chancellor's statement to Parliament. It focuses on confirmed projections and incorporated measures, clearly distinguishing between established policy and forecast assumptions.

The objective is to provide a clear, structured assessment of the Spring Forecast and its practical implications for individuals and businesses, without speculation beyond the published material.



EXECUTIVE SUMMARY

The March 2026 Spring Forecast presents a revised outlook for the UK economy and public finances to 2030/31. While no major new tax measures were announced, the updated projections are significant in shaping the fiscal environment for the remainder of the Parliament.

The OBR has downgraded near-term growth expectations. Real GDP is forecast to grow by 1.1% in 2026, before strengthening modestly to around 1.6% in 2027 and 2028 and 1.5% in 2029 and 2030. The downgrade for 2026 reflects weaker-than-expected activity data and softer labour market conditions.

Inflation is forecast to average 2.3% in 2026 and return to the 2% target from 2027 onwards. Lower wholesale gas price assumptions and easing domestic price pressures contribute to this path. The unemployment rate is projected to reach a peak of 5.3% in 2026, then gradually decline to 4.1% by the end of the forecast period.

Public sector net borrowing is forecast to fall steadily from 5.2% of GDP in 2024/25 to 4.3% in 2025/26, and to 1.6% by 2030/31. In cash terms, this represents a reduction from £153bn to £59bn over the period. The projected improvement in borrowing is driven primarily by rising tax receipts as a share of GDP rather than significant reductions in spending.

Public sector net debt is forecast to peak at just under 97% of GDP before stabilising at around 95% in the early 2030s. Debt remains historically high, leaving the fiscal position sensitive to interest rate movements and economic shocks.

The tax burden continues to rise over the forecast period. National Accounts taxes are projected to reach 38.5% of GDP by 2030/31, a post-war high. The principal drivers are personal taxes, influenced by frozen thresholds and earnings growth, alongside capital taxes supported by equity price assumptions.

Policy measures incorporated since November 2025 are limited in scale and concentrated on the spending side, including additional funding to address special educational needs and disabilities (SEND) pressures and support for local authorities. These measures modestly increase borrowing in the later years of the forecast.

The OBR identifies several medium-term risks, including welfare caseload assumptions, defence spending commitments, debt interest sensitivity and the reliance on continued strength in tax receipts. The central forecast remains subject to material uncertainty.

Taken together, the Spring Forecast presents a picture of modest economic growth, falling borrowing, elevated but stable debt, and a rising tax burden. The implications for households and businesses arise less from new policy decisions than from the structural direction of public finances and the continued reliance on revenue growth to sustain fiscal consolidation.

THE ECONOMIC OUTLOOK

OUTPUT AND GROWTH PROJECTIONS

The OBR has revised down its short-term growth outlook. Real GDP is forecast to increase by 1.1% in 2026, compared with 1.4% projected in November. The downgrade reflects weaker output data towards the end of 2025 and signs of softening in business activity and hiring.

From 2027 onwards, growth is forecast to strengthen to 1.6% in 2027 and 2028, before easing slightly to 1.5% in 2029 and 2030. The medium-term profile assumes that spare capacity in the economy gradually closes and that productivity growth improves modestly from recent subdued levels.

The forecast does not assume a significant acceleration in trend productivity. Instead, potential output growth is projected to remain relatively modest, reflecting long-standing structural constraints. This limits the scope for rapid output expansion without generating inflationary pressures.

Real GDP per person is forecast to grow at an average rate of just over 1% per year between 2026 and 2030. While this represents an improvement relative to recent stagnation, it remains below pre-financial crisis norms. The gap between current productivity levels and the trajectory implied by historical trends remains substantial.

INFLATION OUTLOOK

CPI inflation is forecast to decline from elevated levels in 2025 to 2.3% in 2026 and to reach the 2% target from 2027 onwards. Lower wholesale energy prices, particularly gas prices, are a factor in the near-term decline. The forecast assumes no renewed supply-side shocks of the scale seen in 2022.

The moderation in inflation reduces pressure on real incomes and supports expectations of a gradual easing of monetary policy. However, the forecast path is contingent on stable global energy markets and contained domestic wage pressures.

Inflation dynamics remain relevant to the fiscal outlook. Nominal earnings growth, interacting with frozen tax thresholds, continues to generate additional revenue through fiscal drag. Although lower inflation reduces the pace of this effect relative to higher-inflation scenarios, the cumulative impact remains material over the forecast period.

LABOUR MARKET AND EARNINGS

The unemployment rate is forecast to rise to 5.3% in 2026, then gradually fall to 4.1% by 2030. The near-term increase reflects weaker labour demand rather than a sharp deterioration in underlying economic conditions.

Nominal wage growth is projected to slow to around 3.5% in 2026 and to average roughly 2–3% thereafter. As inflation falls back towards target, real wage growth remains positive but modest.

The labour market outlook is consistent with a period of softer employment conditions before stabilisation. For households, this suggests a need for continued caution in financial planning. For employers, it may marginally ease recruitment pressures in some sectors, though structural skills shortages are likely to persist in specialised areas.

Overall, the economic outlook is characterised by moderate growth, declining inflation and a temporary easing in labour market conditions. The central forecast assumes stability rather than acceleration, with risks on both the upside and downside.

THE FISCAL OUTLOOK

PUBLIC SECTOR NET BORROWING

The OBR forecasts a steady reduction in public sector net borrowing over the period to 2030/31. Borrowing is projected to fall from 5.2% of GDP in 2024/25 to 4.3% in 2025/26, then to 1.6% of GDP by 2030/31. In cash terms, that is a decline from £153bn to £59bn across the forecast horizon.

The profile is important. The forecast does not assume a rapid improvement in the near term. Instead, it assumes gradual consolidation, with borrowing remaining material for much of the period. That keeps the public finances exposed to forecast errors, particularly in growth and interest rate assumptions.

The OBR also indicates that borrowing in the final year of the forecast is modestly improved relative to the November position, reflecting changes in economic assumptions and the cumulative effect of policy decisions since then.

PUBLIC SECTOR NET DEBT

Debt remains high by historical standards. The OBR projects public sector net debt rising towards the late 2020s, then stabilising at around 95% of GDP in the early 2030s.

A stable debt-to-GDP ratio still implies a large stock of debt in cash terms. This increases the importance of debt interest costs and makes the fiscal position more sensitive to changes in market conditions than it was during the low-rate environment of the 2010s.

HEADROOM AND FORECAST SENSITIVITY

Even without focusing on annual fiscal rules assessments, the practical issue for households and businesses is sensitivity. The OBR highlights that relatively small deviations in key assumptions can significantly alter borrowing.

As an illustration of scale, the OBR's sensitivity analysis shows that a sustained increase in interest rates would materially raise borrowing by the end of the forecast period.

The same is true on the revenue side. The forecast path relies on receipts holding up as projected. If growth disappoints or revenues prove more volatile than assumed, the borrowing path can deteriorate quickly.

Debt remains high by historical standards. The OBR projects public sector net debt rising towards the late 2020s, then stabilising at around 95% of GDP in the early 2030s.

TAX RECEIPTS AND THE PROJECTED TAX BURDEN

A defining feature of the March 2026 forecast is the continued increase in the tax-to-GDP ratio over the medium term. The OBR projects that National Accounts taxes will rise to 38.5% of GDP by 2030/31. That would represent a post-war high and a marked increase compared with pre-pandemic levels.

This projected rise in receipts is central to the fiscal consolidation set out in the forecast. The reduction in borrowing over the five-year period is driven predominantly by revenue growth as a share of GDP rather than by a significant contraction in public spending.

DRIVERS OF REVENUE GROWTH

The increase in the tax burden is not attributed to new headline rate rises in this Spring Forecast. Instead, it reflects the interaction of existing policy settings with forecast economic conditions.

Personal taxes account for a substantial proportion of the projected increase. Earnings growth, combined with the freeze in personal tax thresholds until 2030/31, results in a larger share of income being taxed at higher marginal rates over time. This mechanism, commonly referred to as fiscal drag, operates automatically and compounds across years as nominal incomes rise.

Employer National Insurance changes introduced previously continue to feed through the early years of the forecast. Although not new in this statement, they remain part of the revenue base that underpins the borrowing path.

Capital taxes also contribute to the rising tax take. The forecast assumes continued strength in equity prices and asset valuations over the medium term. Given that capital gains tax and inheritance tax receipts are concentrated among a narrower group of taxpayers and are sensitive to asset price movements, these assumptions carry greater volatility risk than broad-based taxes.

FISCAL DRAG AND EFFECTIVE TAX RATES

Fiscal drag remains one of the most significant features of the revenue outlook. When income tax thresholds are held constant in cash terms while nominal wages increase, more individuals move into higher tax bands.

Over several years, this materially increases the average effective tax rate for many households without changing the statutory rates.

The cumulative effect is particularly relevant for:

- Individuals close to higher-rate and additional-rate thresholds
- Households affected by the withdrawal of the personal allowance
- Families subject to income-related benefit tapering

Although inflation is forecast to fall back to target, nominal earnings are still projected to grow. That means fiscal drag continues to operate, albeit at a slower pace than during periods of higher inflation.

REVENUE SENSITIVITY AND FORECAST RISK

The OBR highlights that the projected tax take is subject to uncertainty. Receipts are sensitive to variations in earnings growth, employment, consumption and asset prices. In particular, capital-related receipts can fluctuate significantly with equity market performance and transaction volumes.

The forecast assumes that tax receipts will rise steadily as a share of GDP through to 2030/31. If economic performance underdelivers relative to these assumptions, the borrowing path would weaken correspondingly. Conversely, stronger-than-expected growth would improve the fiscal position.

The reliance on rising receipts, therefore, increases the importance of economic stability. It also means that compliance and administrative effectiveness remain critical components of the revenue strategy, even where no new policy measures are announced.

PLANNING IMPLICATIONS OF A HIGHER TAX-TO-GDP RATIO

A sustained rise in the tax burden alters the long-term context for both households and businesses.

For individuals, the continuation of fiscal drag increases the importance of understanding marginal rates and threshold positioning. Income growth alone does not necessarily translate into proportionate increases in take-home pay.

For business owners and directors, the structure of remuneration and the timing of income and gains become more relevant in a system where effective rates are rising through thresholds and interaction effects rather than through explicit rate changes.

The forecast does not introduce new tax measures in this Spring event. However, the structural direction of the revenue projections indicates that the public finances remain dependent on a high and rising tax base over the medium term.

POLICY MEASURES INCORPORATED SINCE NOVEMBER 2025

Although the March 2026 Spring Forecast does not introduce a broad package of new tax measures, the OBR has incorporated a number of confirmed policy decisions made since the November 2025 forecast. These are described as “firm and final” measures and are built directly into the fiscal baseline.

The overall fiscal effect of these measures is modest in the context of total borrowing, but they are relevant in understanding how the medium-term path has shifted.

NET IMPACT ON BORROWING

Taken together, policy decisions since November slightly reduce borrowing in 2025/26 but increase borrowing in later years of the forecast. From 2026/27 onwards, the combined impact is to add several billion pounds per year to projected borrowing by the end of the forecast period.

This reinforces that the Spring Forecast is not being used to deliver a significant fiscal loosening. The borrowing trajectory continues to rely primarily on rising receipts rather than on new policy savings.

DEPARTMENTAL SPENDING ADJUSTMENTS

Some of the incorporated measures relate to revisions to departmental spending limits and in-year adjustments. These include changes reflected in supplementary estimates and updated departmental allocations.

While individually technical, such revisions contribute to the overall borrowing profile and affect the baseline from which future spending plans are set.

SPECIAL EDUCATIONAL NEEDS AND DISABILITIES (SEND) FUNDING

One of the more substantive spending decisions incorporated into the forecast concerns funding pressures related to special educational needs and disabilities.

The government has increased day-to-day departmental expenditure from 2028/29 onwards to address rising SEND costs.

This reflects recognition of sustained demand growth and the accumulation of financial pressures within local authority education budgets.

The OBR had previously identified SEND as a material risk to departmental spending plans. By adjusting the baseline to include additional funding, the government has effectively acknowledged that earlier assumptions were unlikely to hold without policy change.

However, the forecast still assumes that associated reforms will moderate cost growth over time. If those reforms do not deliver the intended effect, further adjustments could be required.

LOCAL AUTHORITY SUPPORT

The forecast also incorporates support measures for local authorities, including exceptional financial assistance and adjustments linked to the operation of local government finance mechanisms.

In addition, the clearance of accumulated SEND-related deficits in England is reflected in the public finance aggregates. While the accounting treatment does not increase public sector net borrowing directly, it affects central government cash requirements and changes the profile of financial flows between tiers of government.

These measures highlight ongoing structural pressures in local government finance, particularly in demand-led services such as social care and education.

OTHER CONFIRMED MEASURES

Other incorporated measures include adjustments affecting housing providers and participation in international education programmes. While smaller in fiscal scale, they form part of the updated baseline and contribute to the medium-term borrowing profile.

SPENDING PRESSURES AND MEDIUM-TERM RISKS

While the central forecast shows borrowing declining over the medium term, the OBR makes clear that the outlook remains subject to significant uncertainty. The principal risks arise not from new policy announcements, but from the sustainability of existing assumptions on spending, welfare and economic performance.

The forecast path assumes that departmental spending remains broadly within planned envelopes after the adjustments already incorporated. Where pressures are structural or demand-led, this assumption carries risk.

WELFARE AND CASELOAD ASSUMPTIONS

Welfare spending remains one of the largest components of public expenditure and one of the most uncertain areas within the forecast.

The OBR highlights the continued sensitivity of disability and incapacity-related benefits to participation trends and assessment outcomes. The central forecast assumes that recent growth in health-related inactivity moderates over time. If that moderation does not occur, spending would exceed the projected path.

Because these benefits are demand-led rather than cash-limited, higher-than-expected caseloads would directly increase borrowing unless offset by new policy measures.

For households, the implication is that labour market participation remains central to the fiscal story. For policymakers, it represents a potential pressure point heading into future fiscal events.

DEFENCE COMMITMENTS AND GEOPOLITICAL EXPOSURE

The forecast also reflects ongoing defence spending commitments. In her statement, the Chancellor emphasised the importance of maintaining national security and meeting existing defence objectives.

The OBR notes that defence spending assumptions are sensitive to geopolitical developments.

Any acceleration in spending commitments beyond those currently incorporated would require funding through either higher borrowing or offsetting measures elsewhere.

Given the scale of the defence budget relative to total departmental spending, even modest percentage changes translate into multi-billion-pound impacts over time.

PUBLIC SERVICE DELIVERY PRESSURES

Beyond specific policy areas, the OBR identifies broader risks within departmental plans.

These include:

- NHS cost pressures
- Asylum accommodation expenditure
- Local authority service demand
- Education-related funding requirements

Although the forecast assumes that departments deliver within their allocated budgets, the OBR has historically highlighted implementation risk in efficiency and savings programmes. Where savings are not realised as planned, the effect feeds through to borrowing.

The SEND adjustment incorporated in this forecast illustrates how previously identified risks can crystallise into baseline spending increases.

DEMOGRAPHIC AND LONG-TERM STRUCTURAL PRESSURES

While the Spring Forecast focuses on the five-year horizon, the OBR reiterates longer-term pressures associated with an ageing population.

Rising healthcare and pension costs over the coming decades remain structural features of the UK's fiscal outlook. Although outside the immediate forecast window, these pressures shape expectations about the sustainability of the tax burden and public spending path.

REVENUE-SIDE SENSITIVITY

Spending risk is only part of the picture. The forecast relies on continued strength in receipts, particularly from personal taxes and capital-related revenues.

The OBR identifies equity prices and earnings growth as meaningful sensitivities. If asset markets underperform or earnings growth slows materially, the projected tax take would weaken.

Because the reduction in borrowing depends heavily on rising receipts as a share of GDP, revenue underperformance would have a disproportionate effect on the fiscal position.

INTEREST RATE AND DEBT SERVICING RISK

High debt levels increase exposure to interest rate movements. A sustained rise in market interest rates would increase debt servicing costs and widen borrowing relative to the central forecast.
The OBR's scenario analysis demonstrates that relatively small shifts in rates can translate into multi-billion-pound changes in borrowing by the end of the forecast period.

This reinforces that fiscal consolidation is contingent not only on domestic economic performance but also on financial market stability.

OVERALL RISK ASSESSMENT

The central forecast presents a path in which borrowing falls, debt stabilises, and inflation returns to target. However, that path rests on:

- Moderate but sustained growth
- Contained welfare caseloads
- Controlled departmental spending
- Stable financial conditions
- Continued strength in tax receipts

Deviations in any of these areas would materially alter the fiscal outlook.

For households and businesses, the implication is not immediate disruption, but continued uncertainty. The medium-term environment remains one in which economic resilience and prudent financial planning are important, particularly given the limited headroom implied by the high starting level of debt and the projected rise in the tax burden.

FINANCIAL CONDITIONS AND FORECAST SENSITIVITIES

The March 2026 forecast incorporates market expectations for interest rates and financial conditions at the time the projections were finalised. These assumptions influence borrowing costs, debt interest payments and, indirectly, economic activity.

Although monetary policy decisions are independent of fiscal policy, their interaction is central to the outlook.

INTEREST RATE ASSUMPTIONS

The OBR's forecast is conditioned on market expectations that Bank Rate declines modestly from recent levels before gradually rising again over the medium term. Long-term gilt yields are assumed to remain materially higher than the ultra-low levels seen during the 2010s.

This rate environment differs structurally from the decade following the financial crisis. Even if rates ease somewhat from their recent peaks, the baseline cost of borrowing is higher than it was for much of the previous decade.

For the public finances, this has two consequences:

- Debt interest costs remain elevated relative to historical averages.
- The fiscal position is more sensitive to rate changes.

For households and businesses, it implies that financing costs may moderate but are unlikely to revert to previous lows.

DEBT INTEREST SENSITIVITY

With public sector net debt stabilising at around 95% of GDP, even relatively small changes in interest rates can have a measurable impact on borrowing.

The OBR's sensitivity analysis demonstrates that sustained upward movements in rates would increase debt servicing costs and widen borrowing relative to the central forecast. Conversely, lower-than-expected rates would improve the position.

Because debt interest is largely outside short-term discretionary control, it acts as a constraint on other spending and tax decisions. A material shift in market conditions can alter fiscal headroom without any change in domestic policy.

EQUITY MARKET EXPOSURE

The forecast assumes continued strength in equity prices over the medium term. Asset valuations influence capital gains tax receipts and, indirectly, inheritance tax and other capital-related revenues.

These revenue streams are more volatile than broad-based taxes such as income tax or VAT. A significant correction in equity markets would reduce capital-related receipts and could weaken the outlook for borrowing.

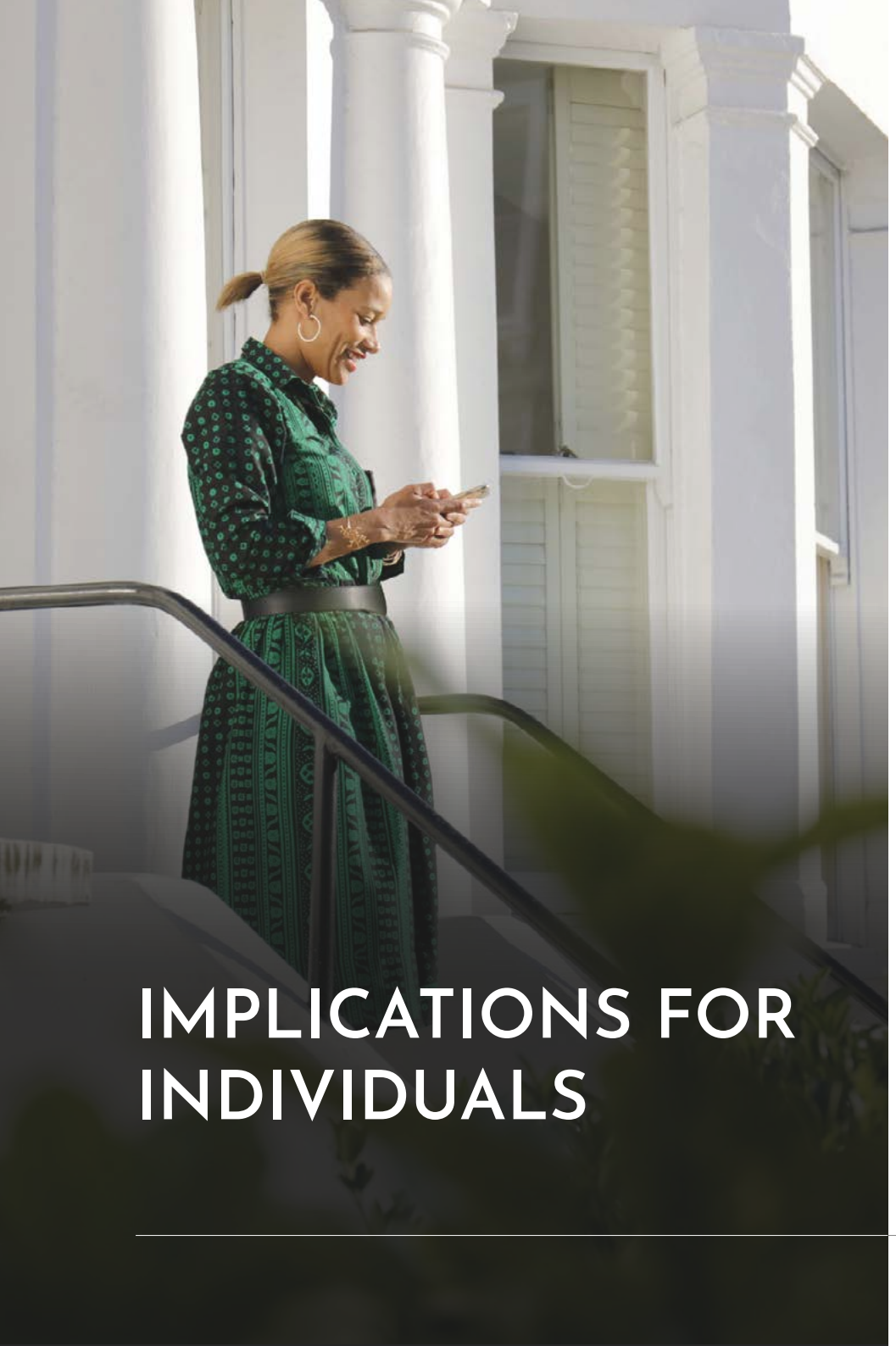
The OBR explicitly highlights equity price sensitivity as a risk to the fiscal path. This reinforces the broader point that the projected rise in the tax burden depends in part on financial market performance.

BROADER FINANCIAL STABILITY CONSIDERATIONS

The interaction between growth, rates and financial conditions remains central to the forecast. Stable inflation and moderate growth support a gradual easing of monetary conditions. However, external shocks, geopolitical developments or renewed supply disruptions could change that trajectory.

For households, financial sensitivity primarily manifests through mortgage rates and consumer credit costs. For businesses, it affects the cost of working capital, investment finance and covenant resilience.

The current forecast assumes orderly financial conditions and no systemic disruption. As with all central projections, this assumption is subject to change if economic or market conditions deteriorate.



IMPLICATIONS FOR INDIVIDUALS

This Spring Forecast does not introduce major new personal tax measures. The practical impact for most people comes from the economic outlook, how quickly inflation eases, what happens to jobs and wages, and the continued effect of frozen thresholds.

HOUSEHOLD BUDGETS AND THE COST OF LIVING

Inflation is expected to fall further and settle back at around the 2% target over the medium term. That should make day-to-day costs more predictable than they have been in recent years.

However, it is worth separating the two ideas:

- Lower inflation means prices are rising more slowly.
- It does not mean prices fall back to previous levels.

For most households, this suggests a gradual easing of pressure rather than a sudden improvement.

INTEREST RATES, MORTGAGES AND BORROWING

Market expectations in the forecast imply interest rates ease modestly from recent highs, then stabilise at a higher level than in the 2010s.

If you are refinancing a mortgage in 2026, small changes in rates still make a big difference to monthly payments. A practical step is to run a budget based on a couple of different rate outcomes, not just the best-case one.

If you are using consumer credit, it is sensible to review whether any borrowing is on variable rates and whether it can be reduced or consolidated on better terms, without stretching affordability.

JOBS, PAY AND SECURITY

The forecast includes a rise in unemployment in 2026, followed by a gradual improvement. That does not point to a collapse in the labour market, but it does suggest conditions are softer than last year's forecast.

For individuals, this can translate into:

- More competition for roles in some sectors
- Slower pay growth in parts of the economy
- Greater focus on job security and transferable skills

If you are thinking about a job move or negotiating pay, it may be a year when clarity around total package, progression, and stability matters as much as headline salary.

TAX IN PRACTICE, EVEN WITHOUT NEW TAX RATES

Even when tax rates do not change, many people still feel the system tightening because thresholds remain fixed while wages rise.

Over time, that can mean:

- More people moving into higher-rate bands
- Larger portions of income are taxed at higher marginal rates
- Less of a pay rise translating into take-home pay than expected

If your income is close to a threshold, small planning choices can matter, for example, pension contributions or the timing of bonuses, where you have control over them.

BENEFITS AND SUPPORT

The forecast remains sensitive to welfare and participation assumptions, which tells you this is an area the government and the OBR are watching closely.

For individuals who receive income-related support, the key point is that future changes are more likely to appear through rules, assessments, or eligibility details than through headline announcements.

WHAT THIS MEANS FOR PERSONAL PLANNING

For most households, this forecast suggests a steady environment, but not one to be complacent about.

Practical steps that usually help in this kind of outlook:

- Review fixed outgoings and build a realistic buffer if possible
- Stress-test mortgage or rent affordability against a tougher month
- Avoid relying on optimistic assumptions about pay rises
- If you are near tax thresholds, understand your marginal rate and the effect on take-home pay.

> *If you are thinking about a job move or negotiating pay, it may be a year when clarity around total package, progression, and stability matters as much as headline salary.*

IMPLICATIONS FOR BUSINESSES

The March 2026 Spring Forecast does not introduce major new corporate tax measures. For most businesses, the practical impact comes from the economic outlook, the projected path of interest rates, and the continued rise in the overall tax burden rather than from a specific new rule.

TRADING CONDITIONS AND DEMAND

Growth of around 1.1% in 2026, rising modestly thereafter, suggests steady rather than rapid expansion in overall demand.

For many SMEs, this points to:

- A stable but competitive environment
- Limited scope to rely on strong macro growth to drive revenue
- Continued importance of pricing discipline and cost control

Businesses that rely heavily on discretionary consumer spending may see demand soften if the labour market weakens temporarily. Those operating in essential services or business-to-business markets may experience more stable trading conditions.

The key point is that the forecast does not assume a sharp downturn, but neither does it support aggressive expansion based purely on macro conditions.

LABOUR MARKET AND WORKFORCE PLANNING

With unemployment forecast to rise in the short term before improving, recruitment conditions may ease slightly in some sectors.

This can present opportunities:

- Greater availability of candidates
- Reduced upward pressure on wages in certain roles
- Improved retention where external opportunities are fewer

However, structural skills shortages are unlikely to disappear. Businesses should continue to focus on:

- Training and internal development
- Succession planning
- Clear reward structures aligned with productivity

The Chancellor's emphasis on participation and apprenticeship reform may support businesses willing to invest in early-career training.

BORROWING COSTS AND INVESTMENT DECISIONS

The forecast assumes interest rates ease somewhat from recent peaks but remain above the levels seen during the 2010s.

For businesses with variable-rate debt or refinancing needs in 2026, the cost of capital remains a material consideration. Even modest changes in rates can affect profitability where margins are tight.

Before committing to major capital expenditure, it is sensible to:

- Review cashflow projections under different sales scenarios
- Assess covenant headroom
- Consider the resilience of working capital if customer payments slow

A stable but modest growth environment favours measured investment rather than expansion based on optimistic assumptions.

TAX ENVIRONMENT AND REVENUE PRESSURE

Although no new tax measures were introduced in this Spring Forecast, the projected rise in the tax-to-GDP ratio is relevant to business planning.

The public finances rely on rising receipts over the medium term. That increases the importance of:

- Maintaining robust compliance processes
- Ensuring accurate and timely filings
- Retaining documentation to support relief claims

For owner-managed businesses, the continued operation of fiscal drag means remuneration planning remains important. Decisions on salary, dividends, and pension contributions should be reviewed periodically, particularly when income levels approach key thresholds.

SECTOR-SPECIFIC CONSIDERATIONS

Spending pressures highlighted in the forecast can also signal areas of commercial relevance.

Increased baseline funding for SEND provision and continued focus on defence may create opportunities in:

- Education support services
- Specialist consultancy
- Procurement and supply chains
- Professional and technical services

At the same time, ongoing pressure on local authority finances suggests that businesses supplying into the public sector should monitor payment terms and budget cycles closely.

RISK MANAGEMENT AND RESILIENCE

The forecast rests on moderate growth, contained spending pressures and stable financial conditions. The OBR makes clear that deviations in interest rates, asset prices or economic activity could materially change the fiscal outlook.

For businesses, this underlines the importance of resilience:

- Maintain realistic revenue forecasts
- Monitor debtor days and stock levels
- Avoid over-reliance on a single customer or sector
- Review insurance and protection arrangements where appropriate

In a period of modest growth and high public debt, disciplined financial management is more valuable than aggressive expansion based on optimistic assumptions.

OUTLOOK BEYOND 2026

The March 2026 Spring Forecast sets the baseline for the remainder of the Parliament. It presents a path in which borrowing declines steadily, debt stabilises at a high level, inflation returns to target, and growth remains modest but positive.

However, the outlook is not fixed. It depends on a set of assumptions that hold broadly true over the next five years.

First, growth must remain stable. The forecast does not rely on a surge in productivity or investment. Instead, it assumes gradual improvement from a subdued starting point. If growth weakens further, the projected rise in tax receipts would slow, and borrowing would be higher than currently expected.

Second, inflation must remain contained. The return to 2% inflation supports more predictable economic conditions and influences interest rate expectations. A renewed external shock, particularly in energy markets, would affect both households and the fiscal position.

Third, spending pressures must remain manageable within departmental limits. The incorporation of additional SEND funding illustrates how previously identified risks can translate into higher baseline expenditure. Similar pressures in welfare, health or defence could alter the medium-term fiscal path.

Fourth, financial conditions must remain orderly. With debt stabilising at around 95% of GDP, the public finances are more sensitive to interest rate movements than in lower-debt periods. Changes in market expectations can alter borrowing projections even without domestic policy shifts.

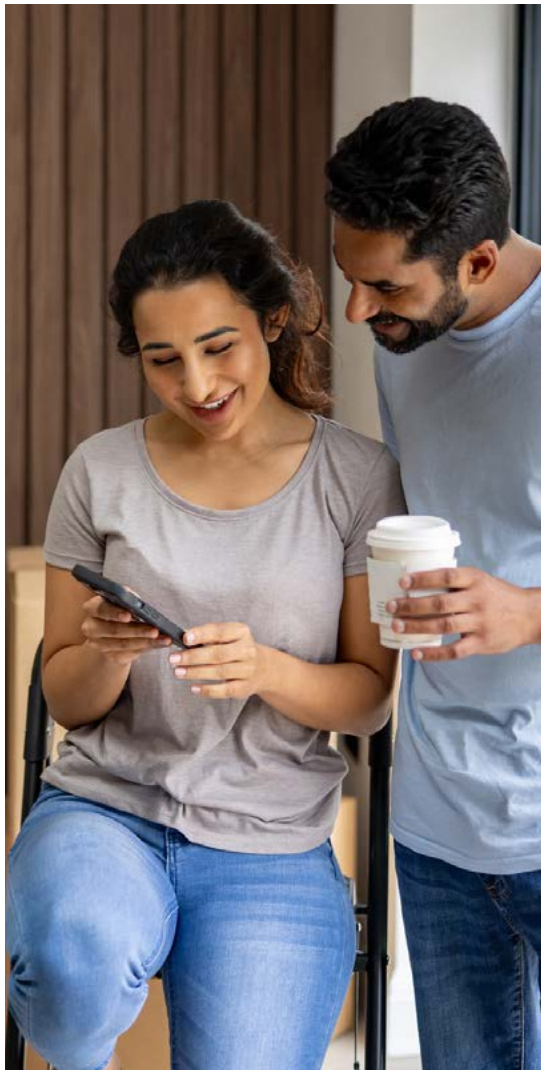
The rising tax-to-GDP ratio is a defining feature of the forecast. By 2030/31, the tax burden is projected to reach a historic high. This indicates that the improvement in borrowing is closely linked to revenue performance rather than to a shrinking state.

Looking ahead, the most significant policy decisions are expected to occur at the Autumn Budget. For households and businesses, the practical implication is continuity rather than disruption. The environment is one of moderate growth, elevated but stable debt, and continued reliance on tax receipts to support fiscal consolidation.

Planning for the next few years should therefore be grounded in:

- Realistic growth assumptions
- Awareness of tax threshold effects
- Sensitivity to interest rate changes
- Financial resilience against moderate economic volatility

The Spring Forecast does not signal a major change in direction. It confirms the trajectory: steady growth, declining borrowing, high but stable debt, and a tax burden that remains historically elevated over the medium term.



IMPORTANT INFORMATION

The information in this document is based on the Office for Budget Responsibility's Economic and Fiscal Outlook published in March 2026 and the Chancellor's accompanying Spring Forecast statement to Parliament.

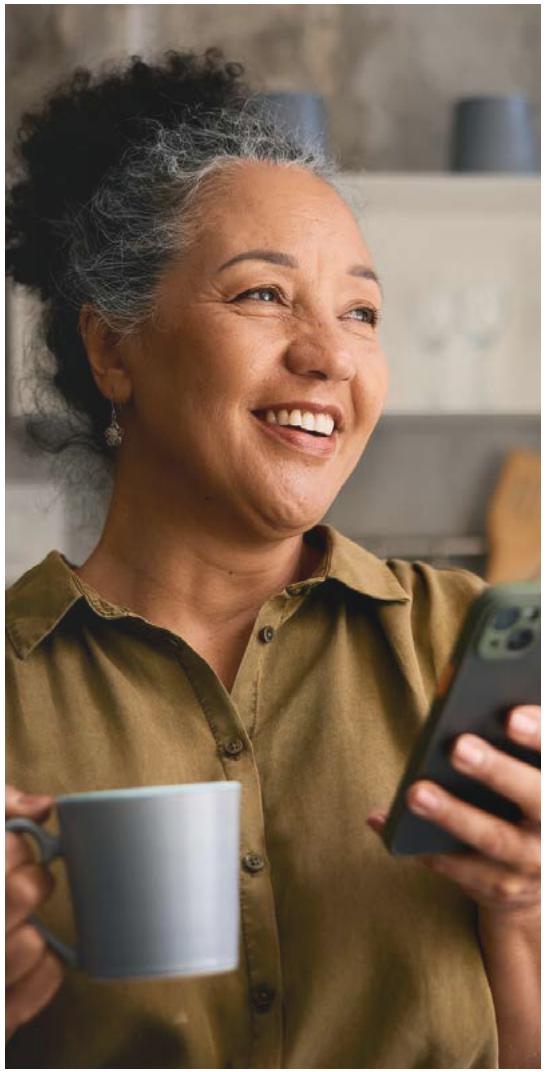
The projections referred to are forecasts, not guarantees. Economic growth, inflation, interest rates, borrowing and tax receipts are all subject to change as new data emerges and as domestic and global conditions evolve.

The way tax charges or tax reliefs apply depends on individual and business circumstances and may be subject to future legislative change. The absence of new measures in this Spring Forecast does not preclude further policy developments later in the year.

Nothing in this document constitutes financial, tax or investment advice. Decisions should be taken only after considering your specific circumstances and, where appropriate, obtaining professional advice.

While every care has been taken to ensure accuracy at the time of writing, no representation or warranty is given as to the completeness or ongoing accuracy of the information contained in this document.

Talk to us about your finances



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