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Fiscal events and how to avoid them:

Spring Forecast 2026 preview

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19 February 2026

Summary

Just three months after the Budget, there has been small and offsetting news:

- GDP was 0.4% – and inflation 0.2ppts – lower than expected in Q4 2025
- We estimate that this, combined with small U-turns and lower migration data, will add £6 billion to borrowing by 2029-30
- But the cost of borrowing has fallen, leaving estimated ‘headroom’ just £1 billion lower at £20 billion in 2029-30

There are big fiscal risks on both sides:

- When the OBR takes on a lower path for migration, that could blow a £10+billion hole in the public finances
- Defence and SEND pressures could add £18 billion to spending by 2029-30
- Forecast assumes Fuel Duty will rise for the first time since 2011 later this year and broader tax rises are planned around the likely date of a General Election
- The OBR’s wage forecast remains weak. Taking the Bank’s would reduce forecast borrowing by up to £20 billion

Stepping back, growth remains weak, households cautious, and the labour market is loosening

Given high policy uncertainty, avoiding a fiscal event is understandable, but that doesn’t mean economic policy should ‘clock off’ until the Budget

As political pressures mount, the Government should double down on its growth agenda rather than change tack, and should work to strengthen the OBR rather than undermine it

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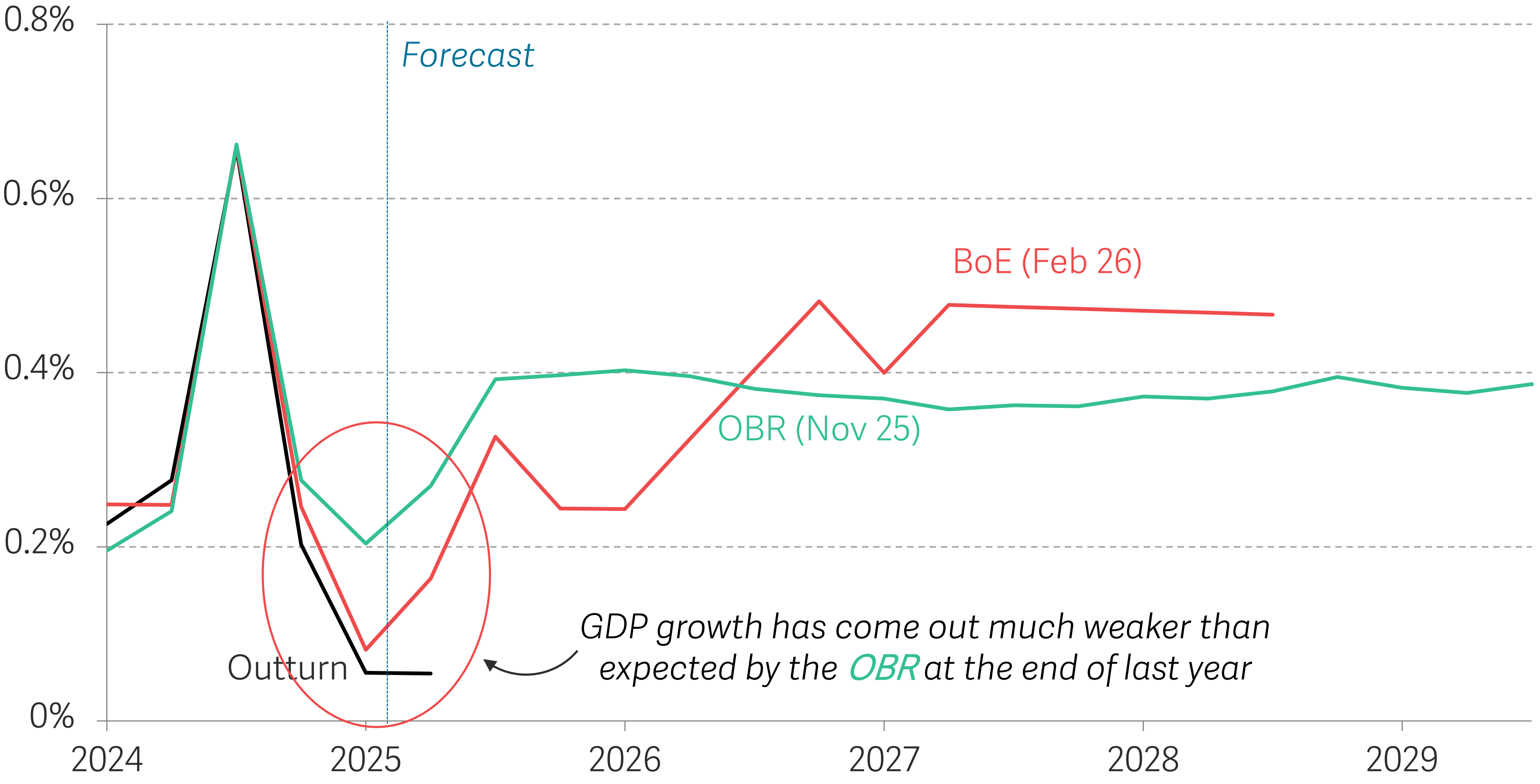
News on the economy since the Budget has been small and offsetting

Growth once again disappointed in the second half of 2025...

Quarterly growth in real GDP, chained-volume measure, outturns, Bank of England and OBR forecasts: UK



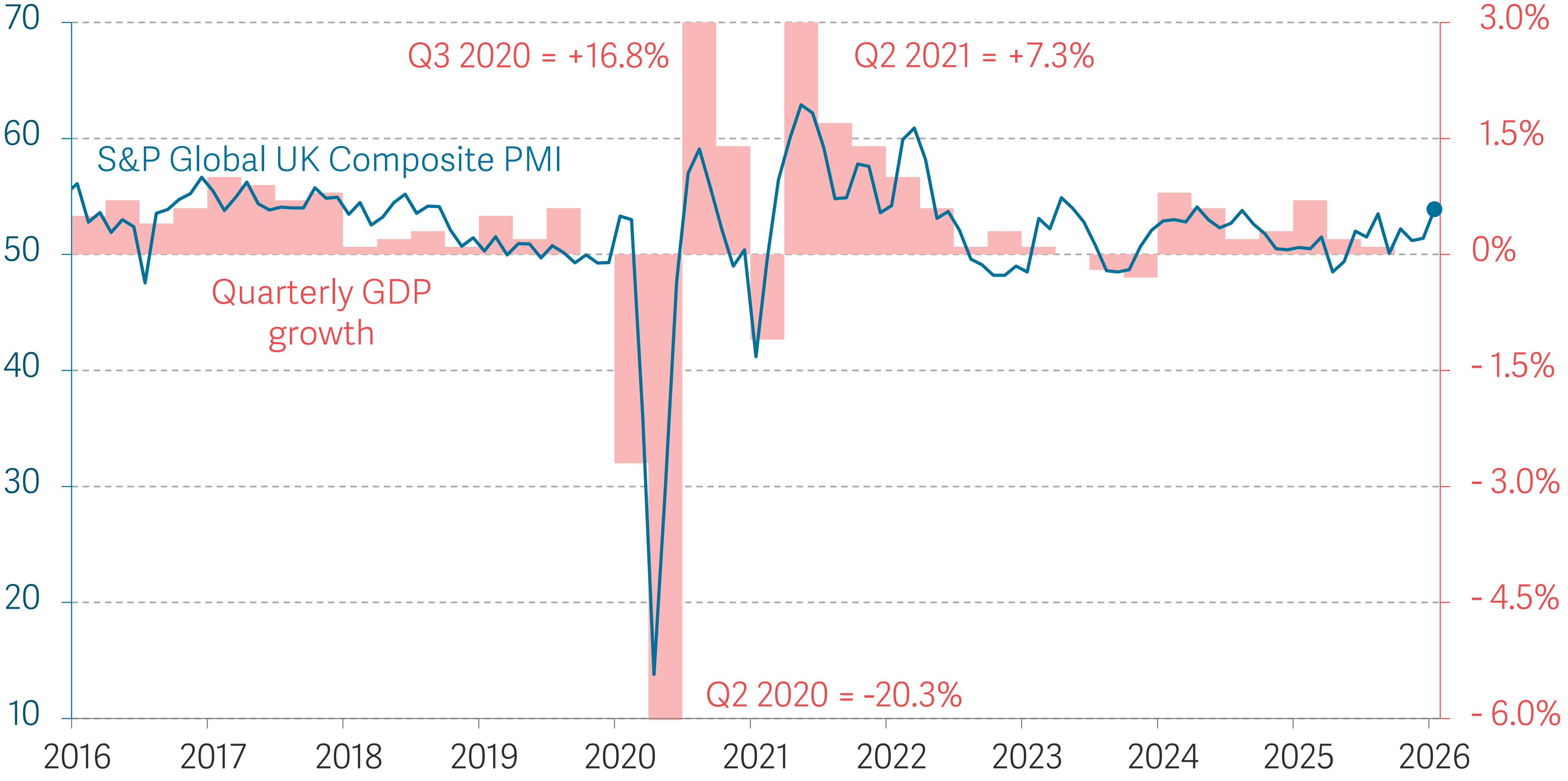
Quarterly GDP growth in Q4 was 0.1%, well below the 0.3% expected by the OBR

The level of GDP was 0.4% below the OBR's forecast by the end of last year

Source: RF analysis of ONS, Monthly GDP estimates; ONS, National Accounts; Bank of England, Monetary Policy Report, November 2025; OBR, Economic and Fiscal Outlook, various.

....but there are signs of a more promising start to 2026

Composite PMI (50 = no change on previous month) and quarterly GDP growth: UK



The Purchasing Managers Index, a key short-term indicator, has bounced back sharply at the start of 2026 to its strongest level in nearly two years

Source: RF analysis of ONS, National accounts, S&P Global, PMI.

Growth roller coaster is likely to be exaggerated by seasonality

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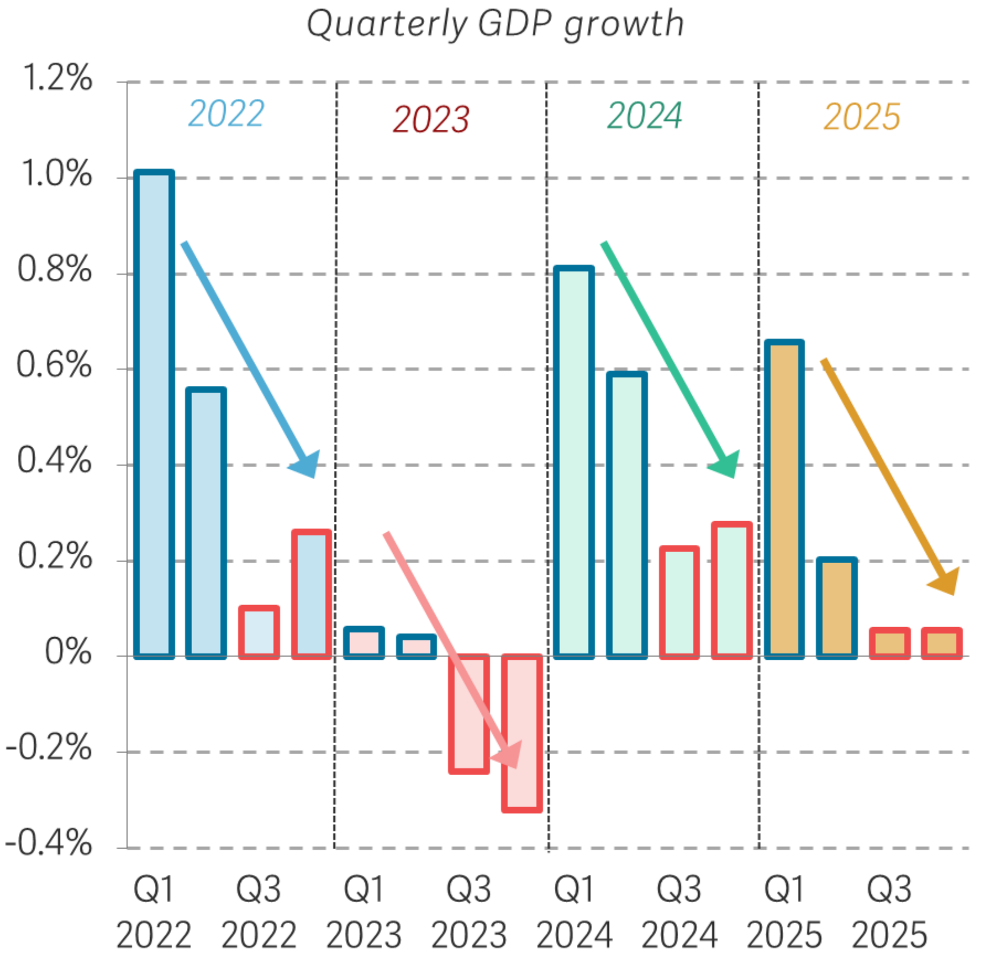
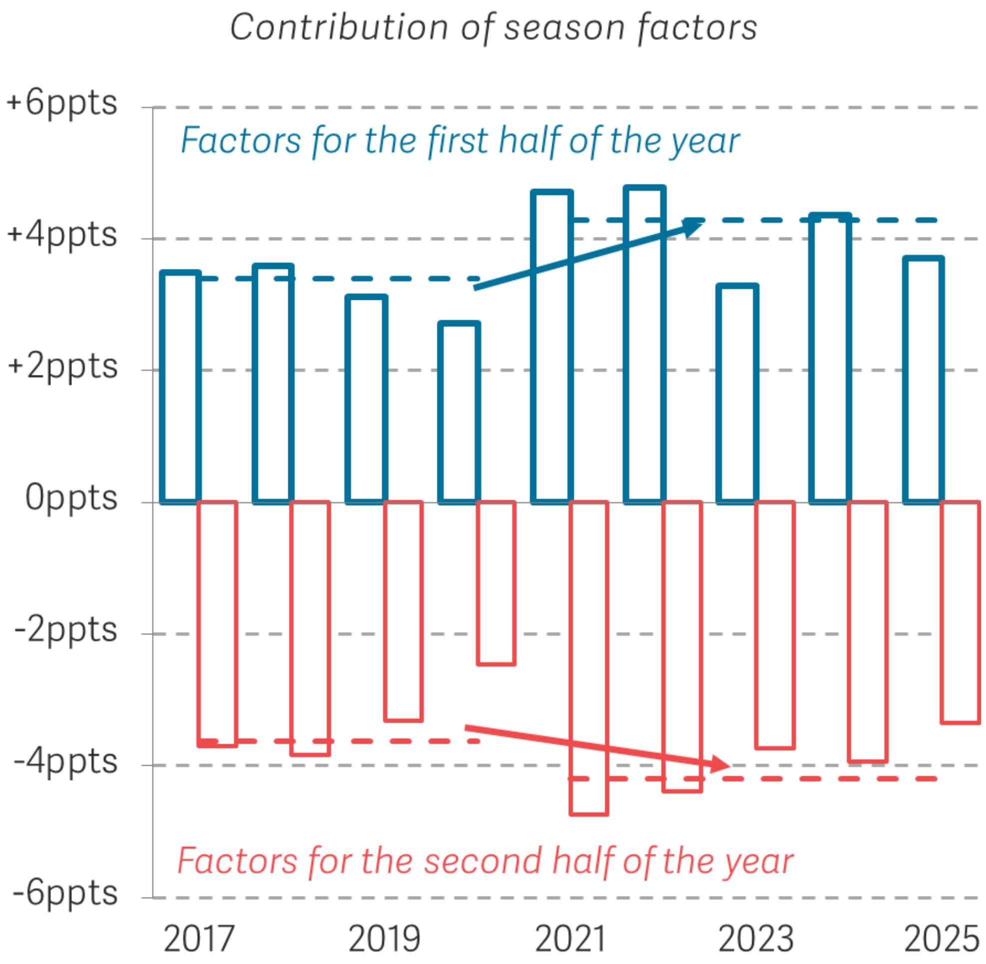
Quarterly GDP growth (left panel) and GDP seasonal factors (right panel): UK





Big shocks like the fall in GDP during the first half of 2020 and 2021 (and the rises thereafter) can affect seasonal adjustment

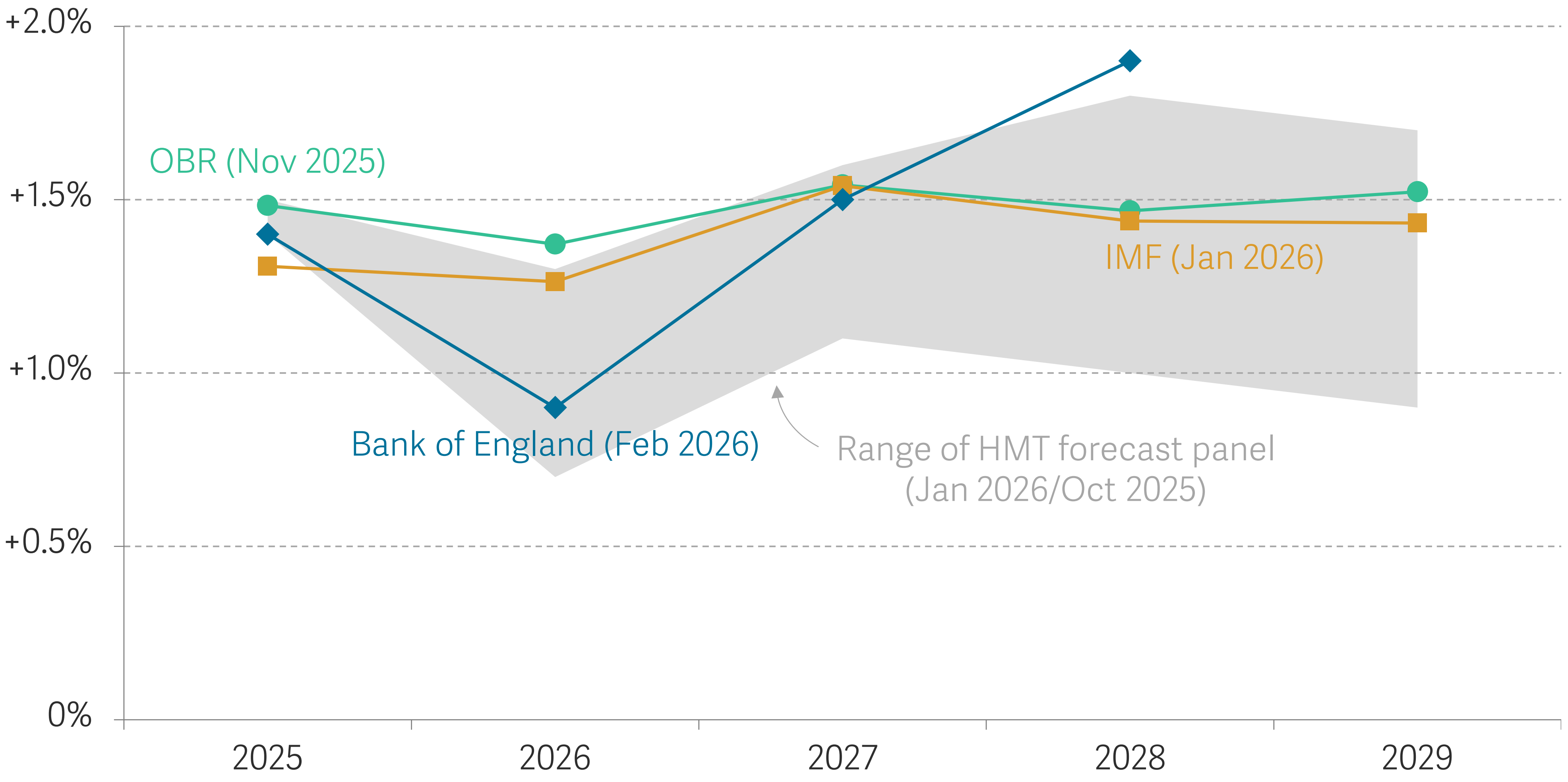
There's evidence that seasonal factors have become larger in the first half of the year and smaller in the second

This can help explain why growth has slowed in the second half of the past four years

Source: RF analysis of ONS, National Accounts.

So the OBR is likely to follow the Bank and mark down near-term growth

Forecasts for annual real GDP growth: UK

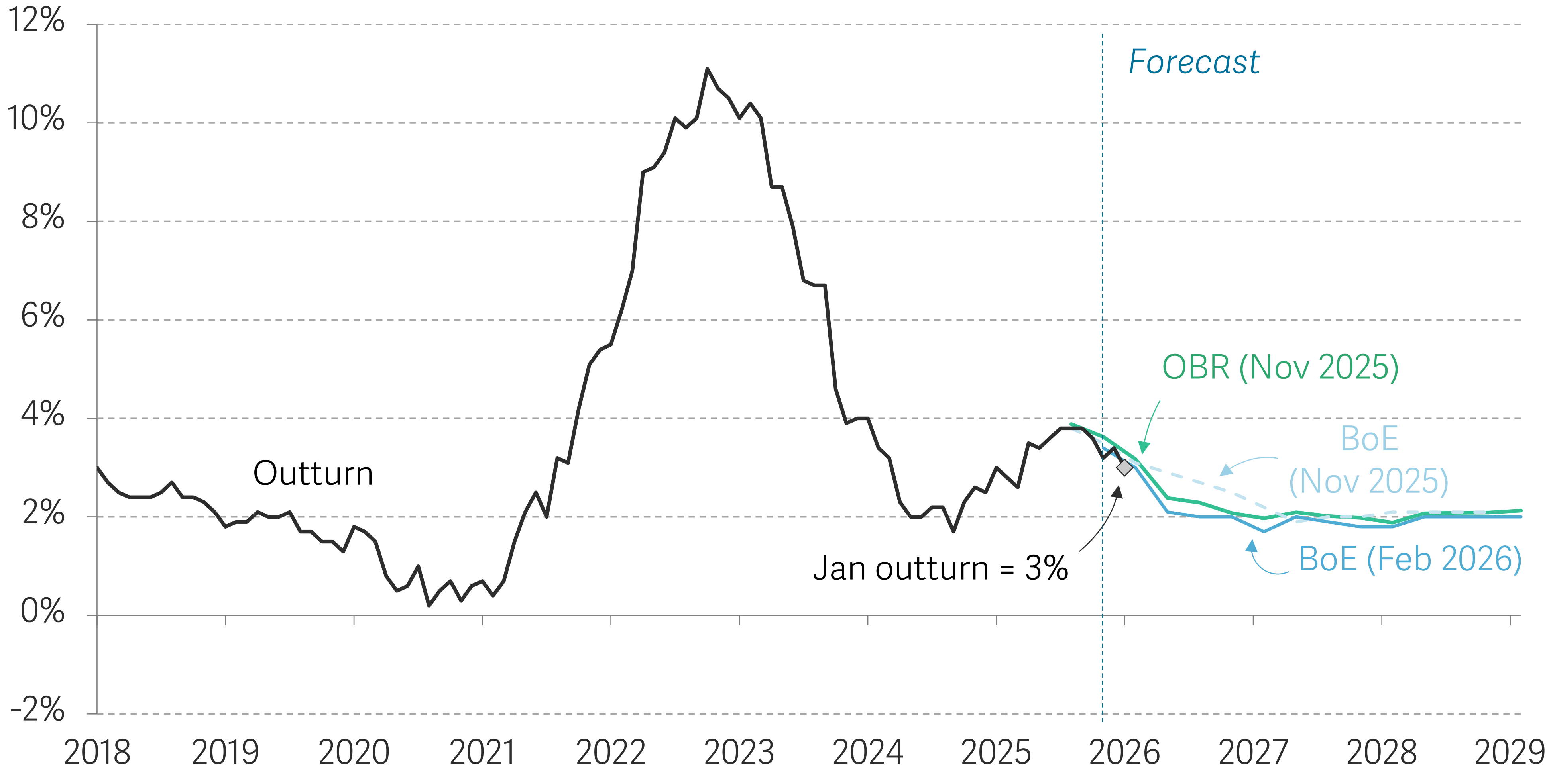


Based on weaker data, we expect the OBR to mark down its near-term growth forecast

Notes: External forecasters are those collated by HM Treasury. The swathe shown only includes forecasts made since August 2025. The number of external forecasts in each year are: 24 in 2025, 24 in 2026, 9 in 2027, 7 in 2028, and 7 in 2029.
Source: RF analysis of OBR, Economic and Fiscal Outlook, November 2025 and March 2025; HM Treasury, Forecasts for the UK Economy, various; and Bank of England, Monetary Policy Report, February 2026.

Inflation has fallen faster than expected

Consumer price inflation, outturns and projections: UK



Notes: OBR forecast is the post-measures forecast for inflation.
Source: ONS, Consumer Price Inflation; OBR, Economic and fiscal outlook, November 2025; and Bank of England, Monetary Policy Report, November 2025/February 2026.

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CPI inflation in Q4 2025 was 0.2ppts lower than expected by the OBR

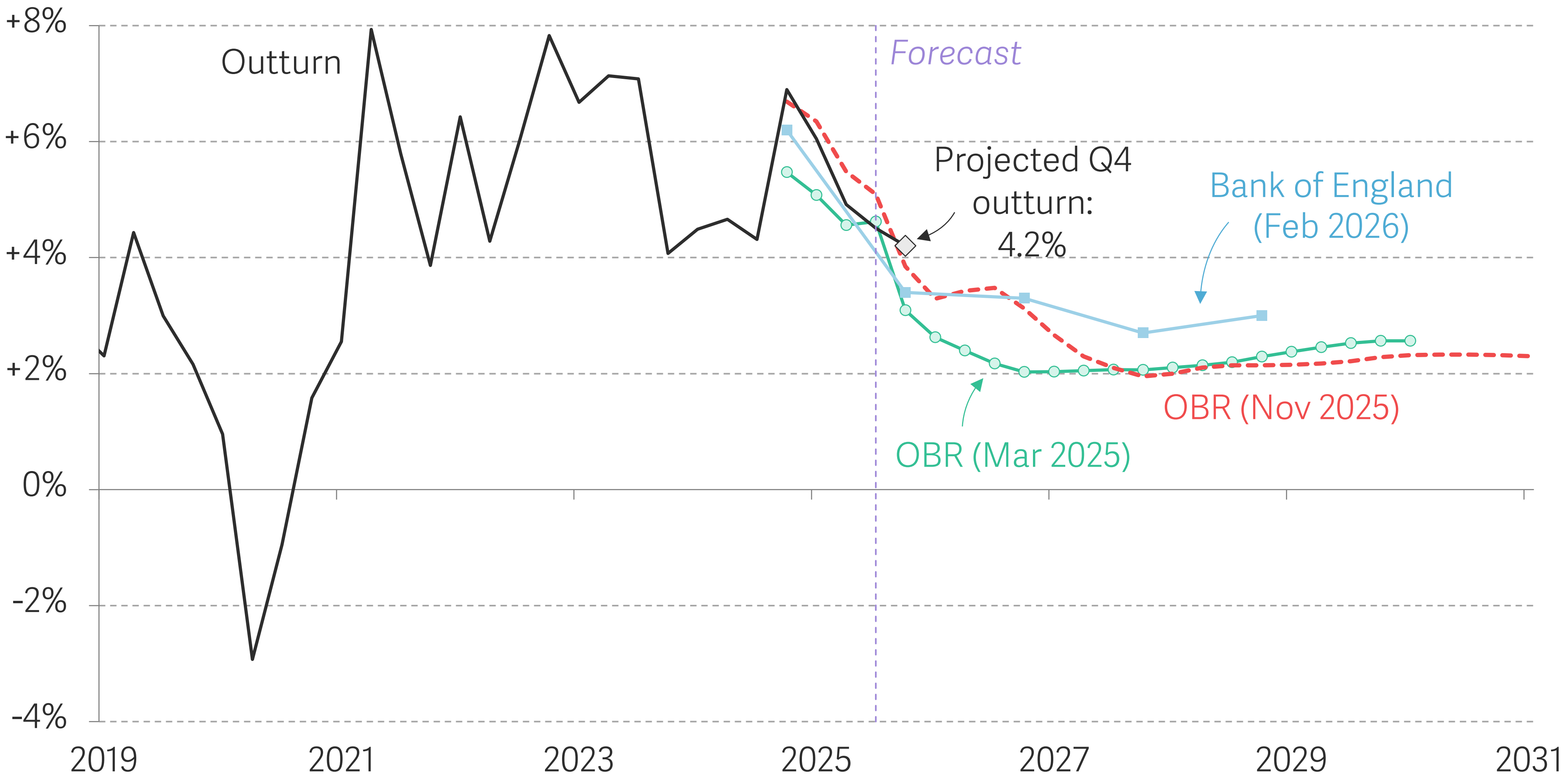
Inflation is now set to normalise in the coming months for the first time since before the pandemic, with big falls in Q2, when April's energy bills package takes effect

The BoE inflation forecast moved down in February's MPR and is below the OBR's for the first time since before the pandemic

<u>Based on the data, we expect the OBR to mark down its near-term inflation forecast</u>

Wage growth is falling but remains sticky

Average earnings growth, outturn and successive Bank of England and OBR forecasts: UK



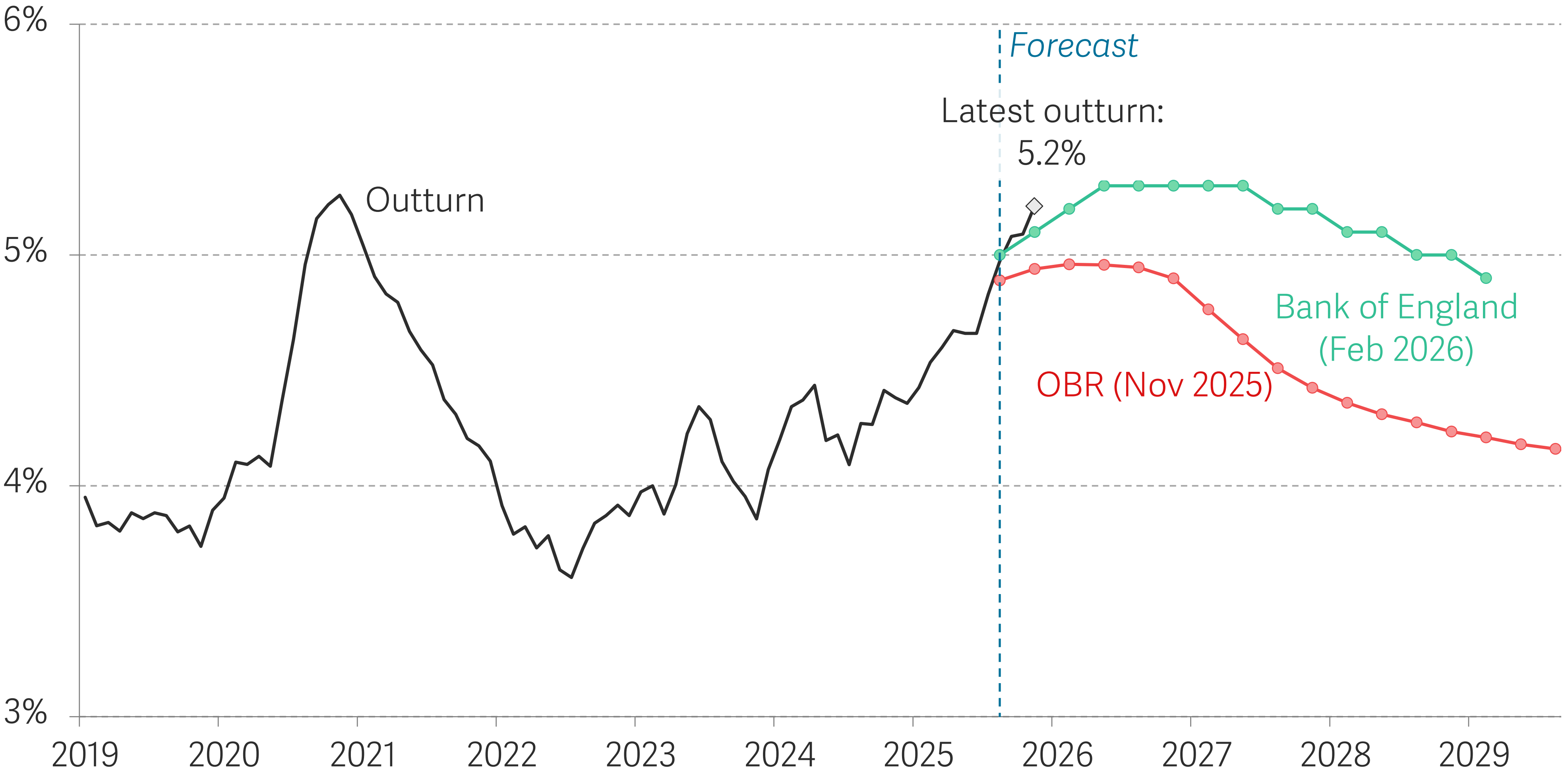
Notes: Year on year growth rate of wages and salaries (equal to total compensation of employees minus employers' social contributions) divided by employees.
Source: RF analysis of ONS, UK Economic Accounts; ONS, Labour market statistics; OBR, Economic and Fiscal Outlook, various.

Wage growth also appears to have been slightly stronger than the OBR expected in November – so we expect the OBR to mark up its near-term wage forecast

Looking ahead, the OBR's wage forecast remains much weaker than the Bank's

The labour market continues to loosen

Unemployment rate (16+), outturn and forecasts: UK



The Bank forecasts higher unemployment persisting for longer than the OBR

<u>We expect the OBR to increase its unemployment forecast</u>

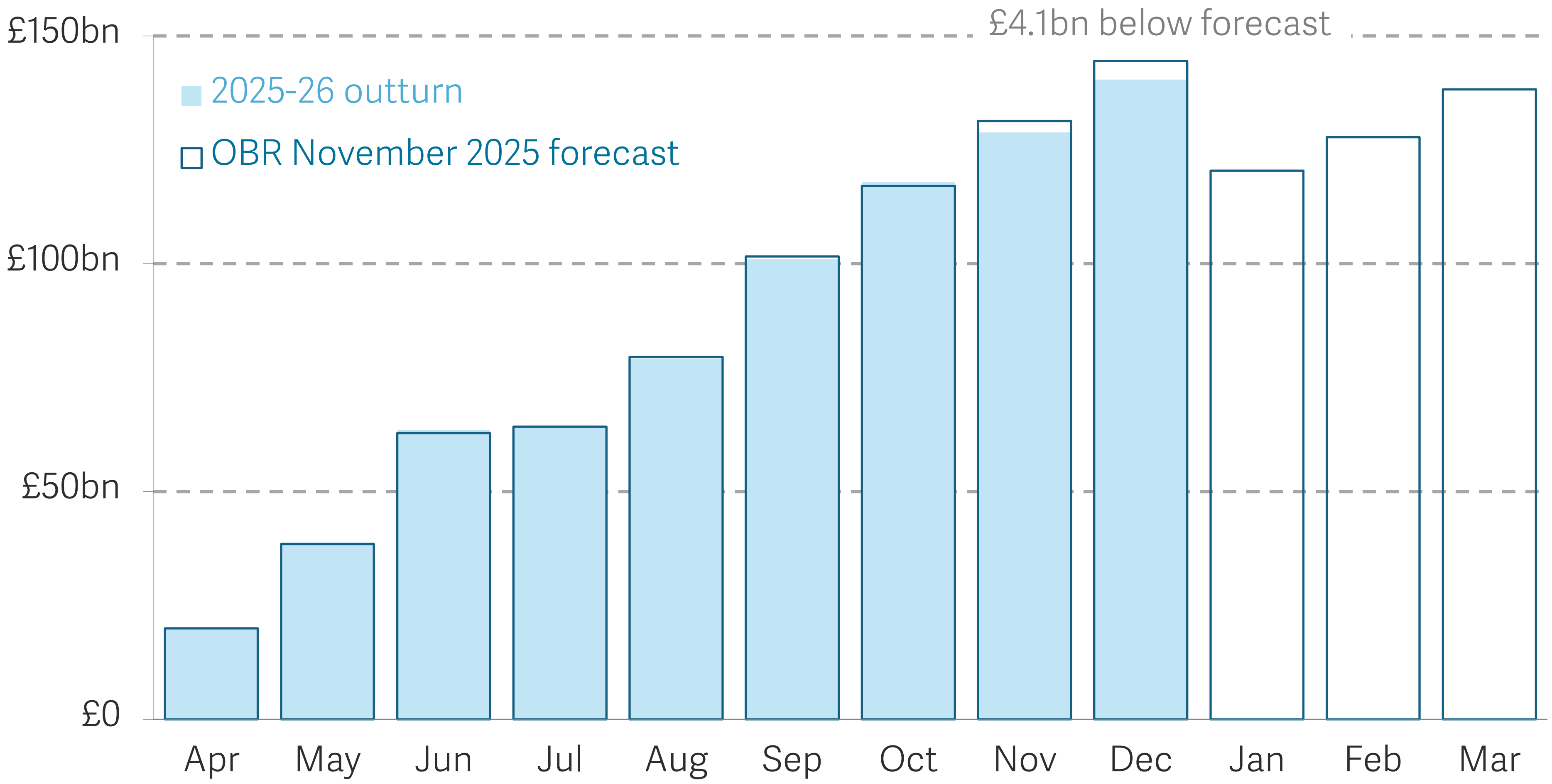
Net migration outturns are much weaker than forecast in November, <u>so we expect the OBR to reduce its short-term net migration projection</u>

Source: ONS, Labour Force Survey; Bank of England, Monetary Policy Report, February 2026, OBR, Economic and Fiscal Outlook, November 2025

The fiscal outlook at the Spring forecast is little changed from that at the Budget

Borrowing looks broadly as expected in November

Cumulative public sector net borrowing, outturn and November 2025 forecast: UK, 2025-26



Borrowing was slightly below forecast in the year to December (although January is a key month for the public sector finances)

Cash receipts have been £3.7 billion above forecast since November.

Source: RF analysis of ONS, Public Sector Finances; OBR, Economic and Fiscal Outlook, March 2025

We've had some small U-turns since the Budget, amounting to around £300 million additional spending

- Changes to inheritance tax relief thresholds to agricultural and business property (announced Budget 2024) and business rate reliefs for the hospitality sector (following Budget 2025) will reduce revenues

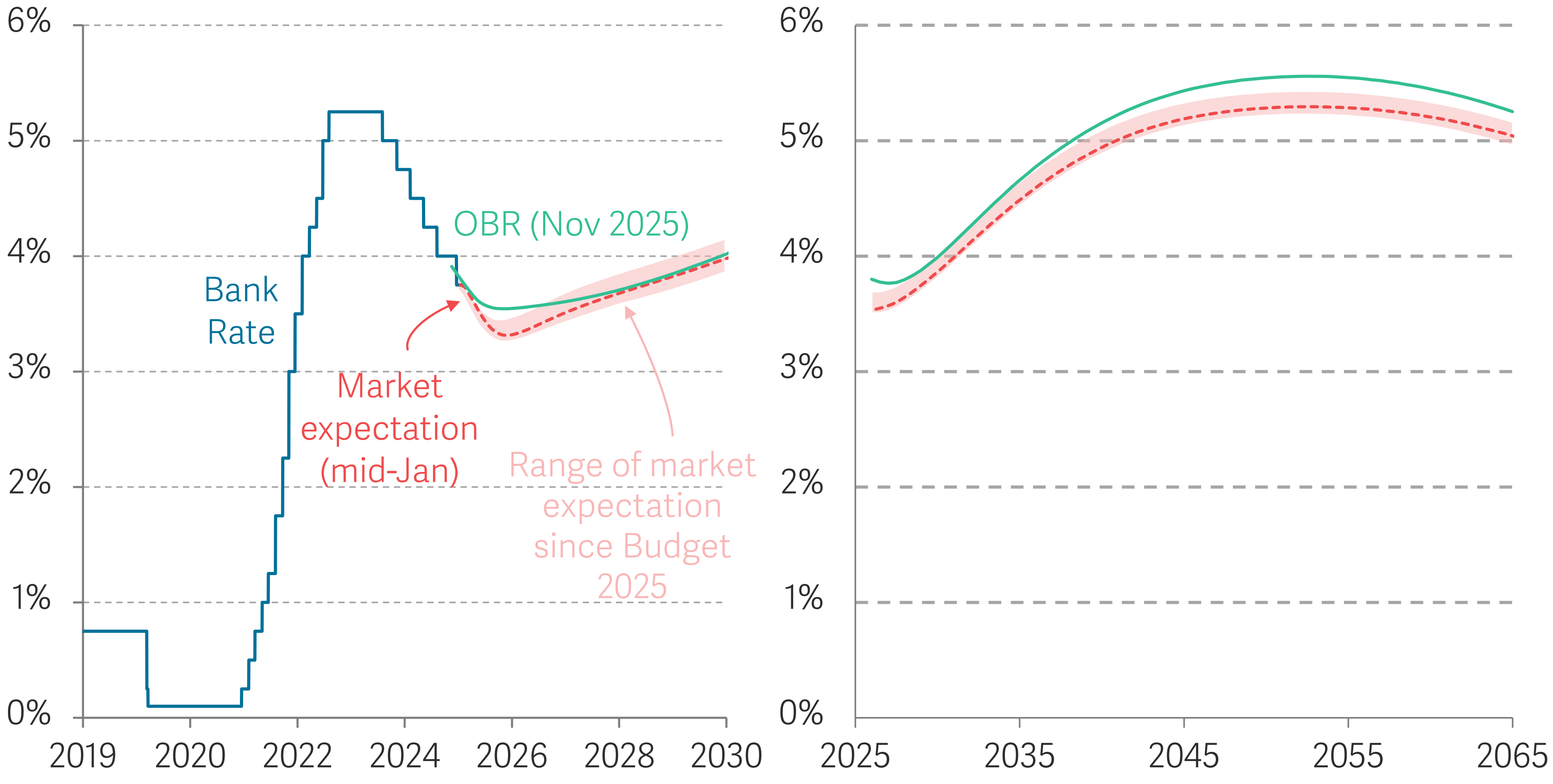
- Inheritance tax reforms were expected to raise £520 million in 2029-30 – now the Government expects around £300 million*

- The cost of the support package for pubs is unclear but likely to be of the order of £100 million in England annually, over three years, plus additional funding for Scotland and Wales

* D Tomlinson MP, Inheritance tax: agricultural property relief and business property relief, Statement UIN HCWS1218, 5 January 2026.

Expectations of deeper rate cuts by the Bank have pushed borrowing costs down since November

Bank rate and market expectations (left panel) and gilt yields by year of maturity (right panel): UK



Relative to mid-January, gilt yields are down 2 basis points

Meanwhile, changes in gilt yields since November could mean a difference of £1 billion in borrowing

Using a longer market window would reduce this sensitivity

Note: We have shown the Bank Rate and yield curve from the OBR's fiscal forecast window in October. The market expectation curves are taken from overnight index swap (OIS) and government liability nominal yield curves between 10 working days in mid-January and the range from Budget 2025 to end-January 2026.
Source: Bank of England, Yield Curves; and OBR, Economic and Fiscal Outlook, November 2025.

All this leaves borrowing essentially unchanged by 2029-30

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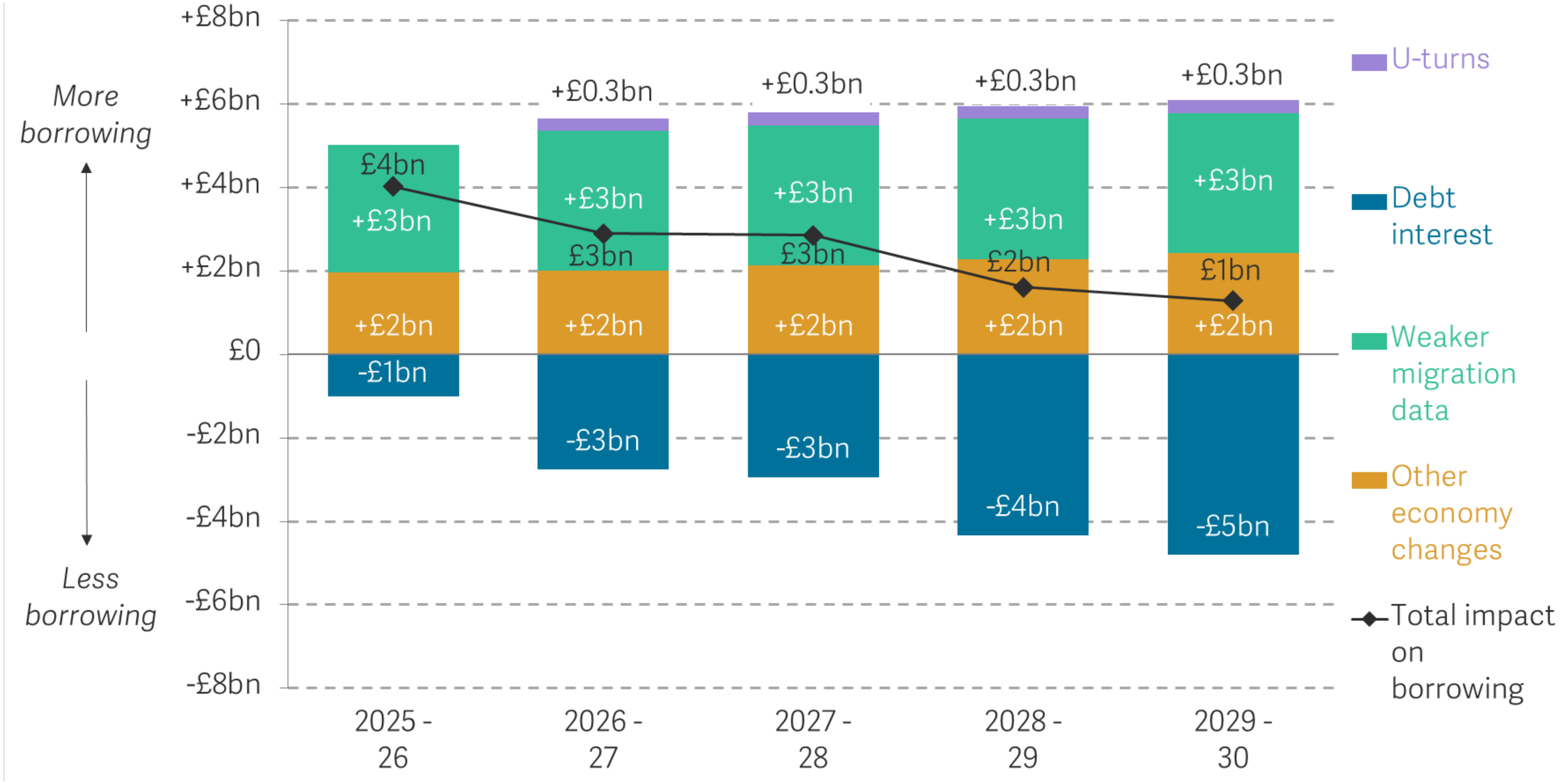
RF scenario impact on public sector net borrowing: 2025-26 to 2029-30



We estimate lower growth and inflation; higher wages and unemployment; combined with small U-turns and lower net migration **increases borrowing by £6 billon…**

…but lower interest rates offset that **leaving borrowing around £1 billion higher than at the Budget with 'headroom' of around £20 billion**

Source: RF analysis of OBR, Economic and Fiscal Outlook, March 2025.

There are some big risks to the fiscal outlook

Net migration has plummeted and the OBR judgement about the future path could remain a risk for future events

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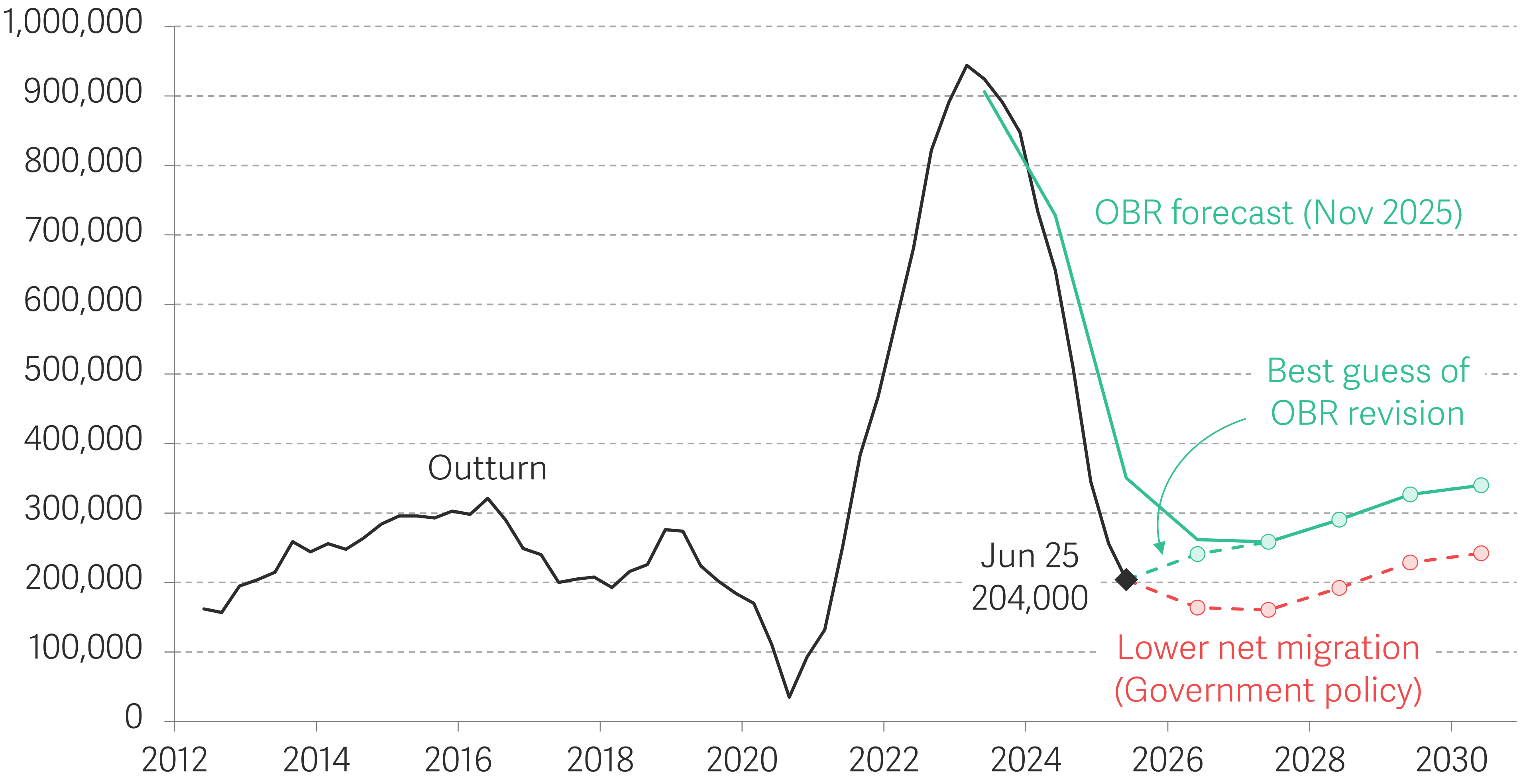
Long-term net migration in the UK, outturn & forecast: 2012-2030



The OBR has previously estimated a 1 million cumulative fall in net migration over 5 years could equal £13-20bn extra borrowing

The alternative projection has cumulative net migration 250k lower by 2030. We expect the OBR will use the latest outturn but return migration to the same end-point until new ONS projections are available.

A lower path for net migration accounting for the immigration white paper may result in cumulative net migration 720k lower by 2030

Notes: The projections are not forecasts of net migration. The revised OBR projection assumes net migration returns to the OBR projection by mid-2027. The lower migration projection is based on the government's estimate lower migration inflows (100k per annum) owing to measures in May 2025 immigration white paper.
Source: RF analysis of ONS Long-term International Migration statistics & National Population Projections; OBR, Economic and Fiscal Outlook, November 2025; Home Office, Restoring control over the immigration system: technical annex, May 2025.

The Government must choose between cutting SEND spending or topping up its funding

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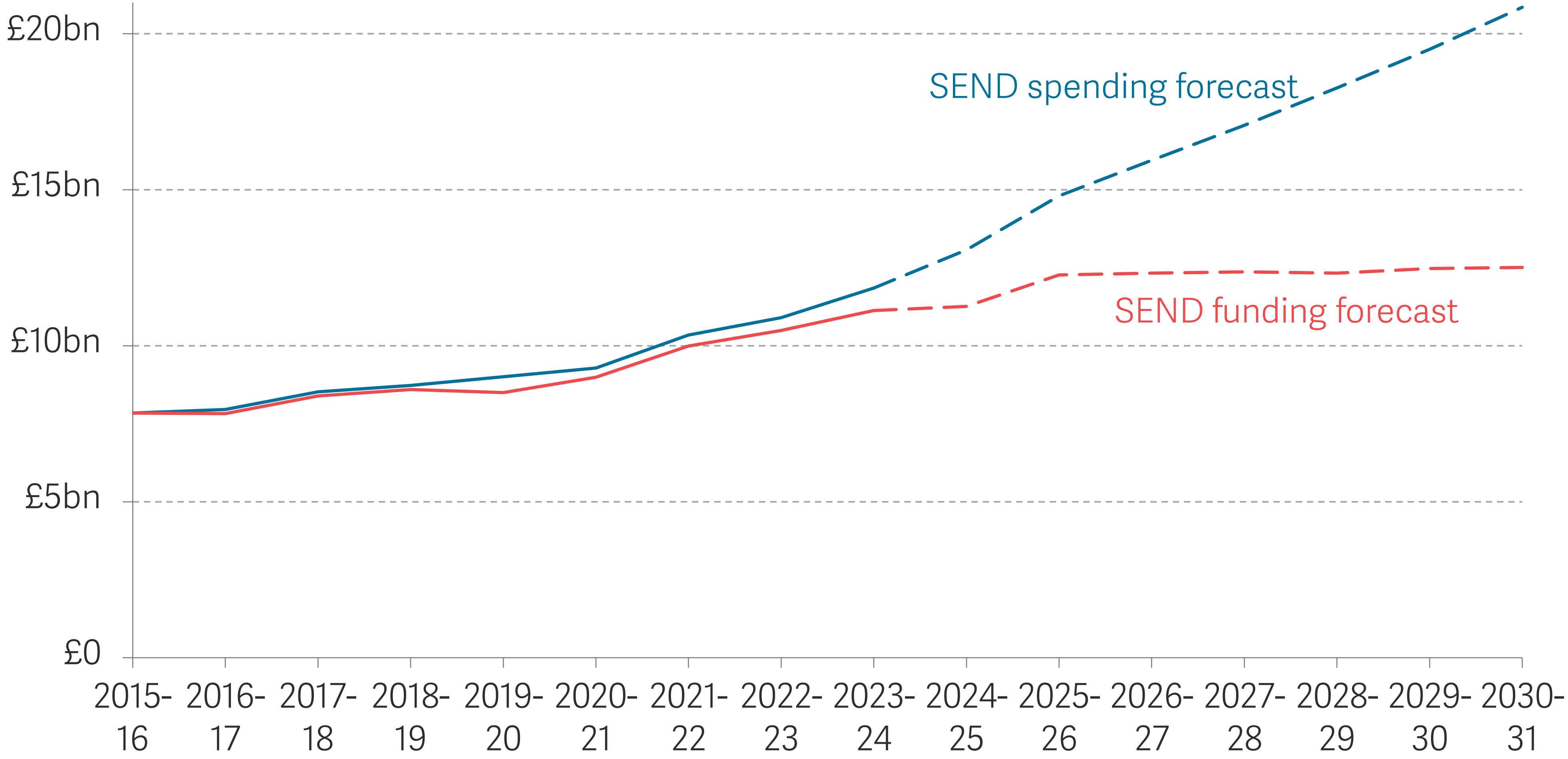
Actual and forecast special educational needs provision (SEND) spending and funding in 2025-26 prices

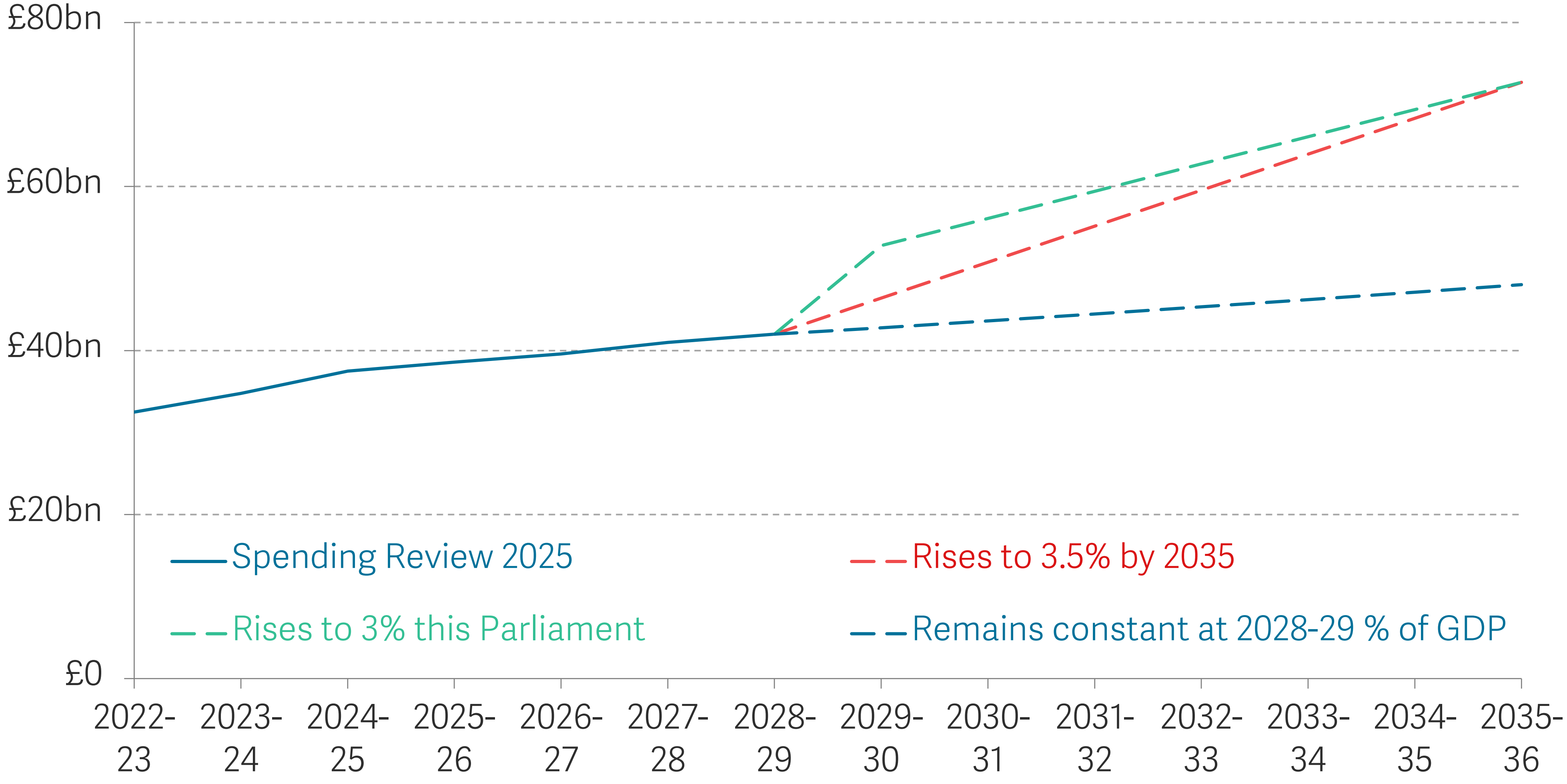


The Government has not set out how it plans to plug the £8 billion gap in SEND funding

Notes: Solid lines indicate actual spending/ funding figures whereas dashed lines refer to OBR forecasts. Figures in 2025-26 prices based on OBR November 2025 GDP deflator.
Source: OBR, Economic and Fiscal Outlook, November 2025.

A faster ramping up of defence spending would be expensive

Nominal day-to-day departmental spending on defence under different scenarios

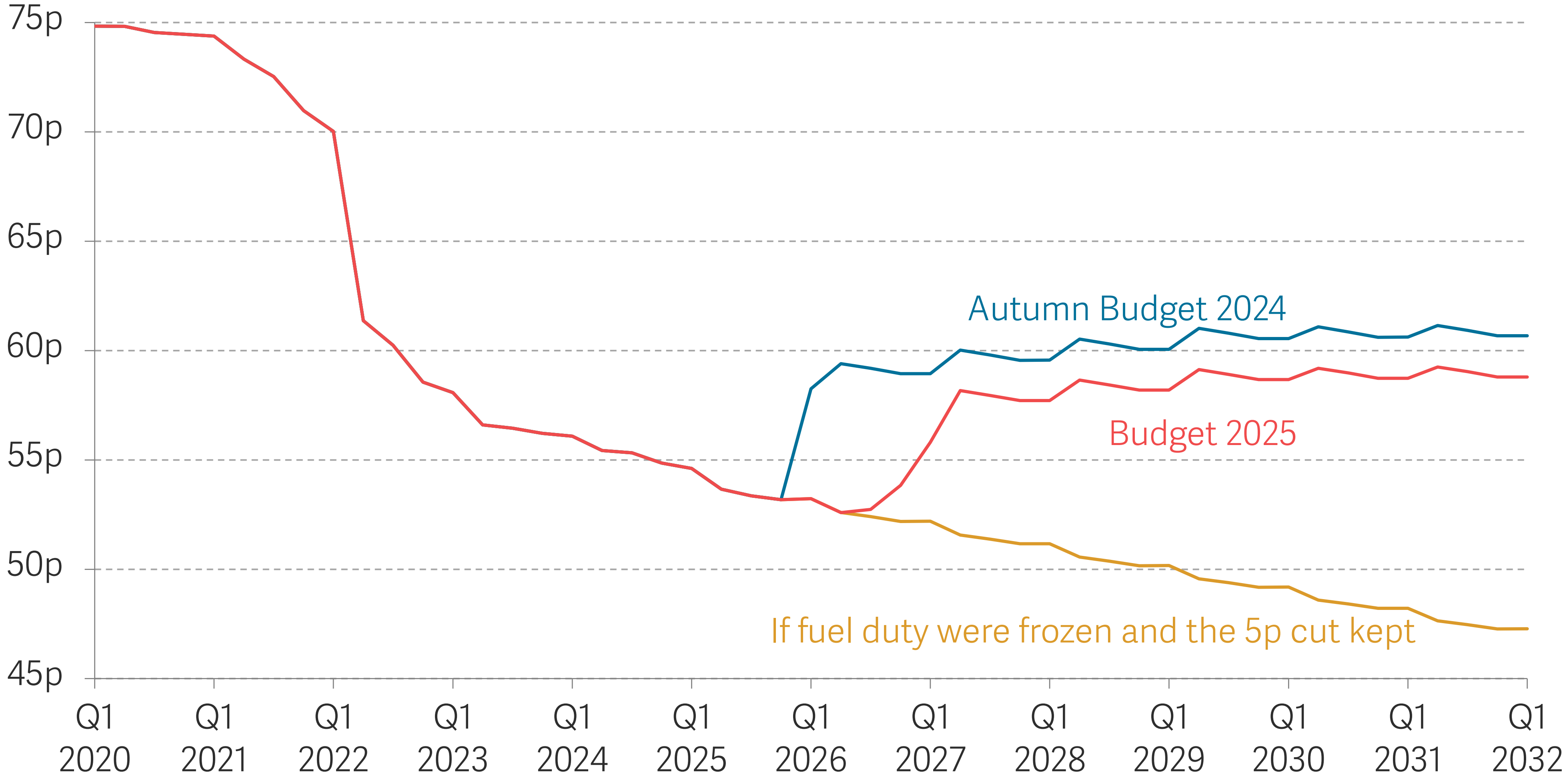


Raising defence spending to 3% of national income this Parliament would require an additional £10 billion of day-to-day spending compared to maintaining the defence budget at roughly 2.5%

Notes: Assumes that RDEL spending as a share of TDEL on defence remains constant. Remains constant as % of GDP based on 2028-29 figures committed to in Spending Review 2025.
Source: RF analysis of OBR, Economic and Fiscal Outlook, various; HM Treasury, Budget and Spending Review documents.

The OBR forecast is based on fuel duty rising

Real-terms main rate of Fuel Duty per litre under different scenarios: UK



To its credit, the Government has an active plan to raise Fuel Duty in September, the first such plan since 2011…

…but there is a risk that this proves hard to deliver

Notes: Under Budget 2025 policy, Fuel Duty is set to rise by 1p in September 2026, 2p in December 2026, and 2p in March 2027, and be uprated annually by RPI inflation from April 2027. Under Autumn Budget 2024 policy, Fuel Duty was set to be frozen in 2025-26 and uprated by RPI from 2026-27 onwards. Figures in 2025-26 prices based on OBR November 2025 GDP deflator. Source: RF calculations using OBR, Economic and Fiscal Outlook - November 2025.

There are big tax rises planned just ahead of a possible election

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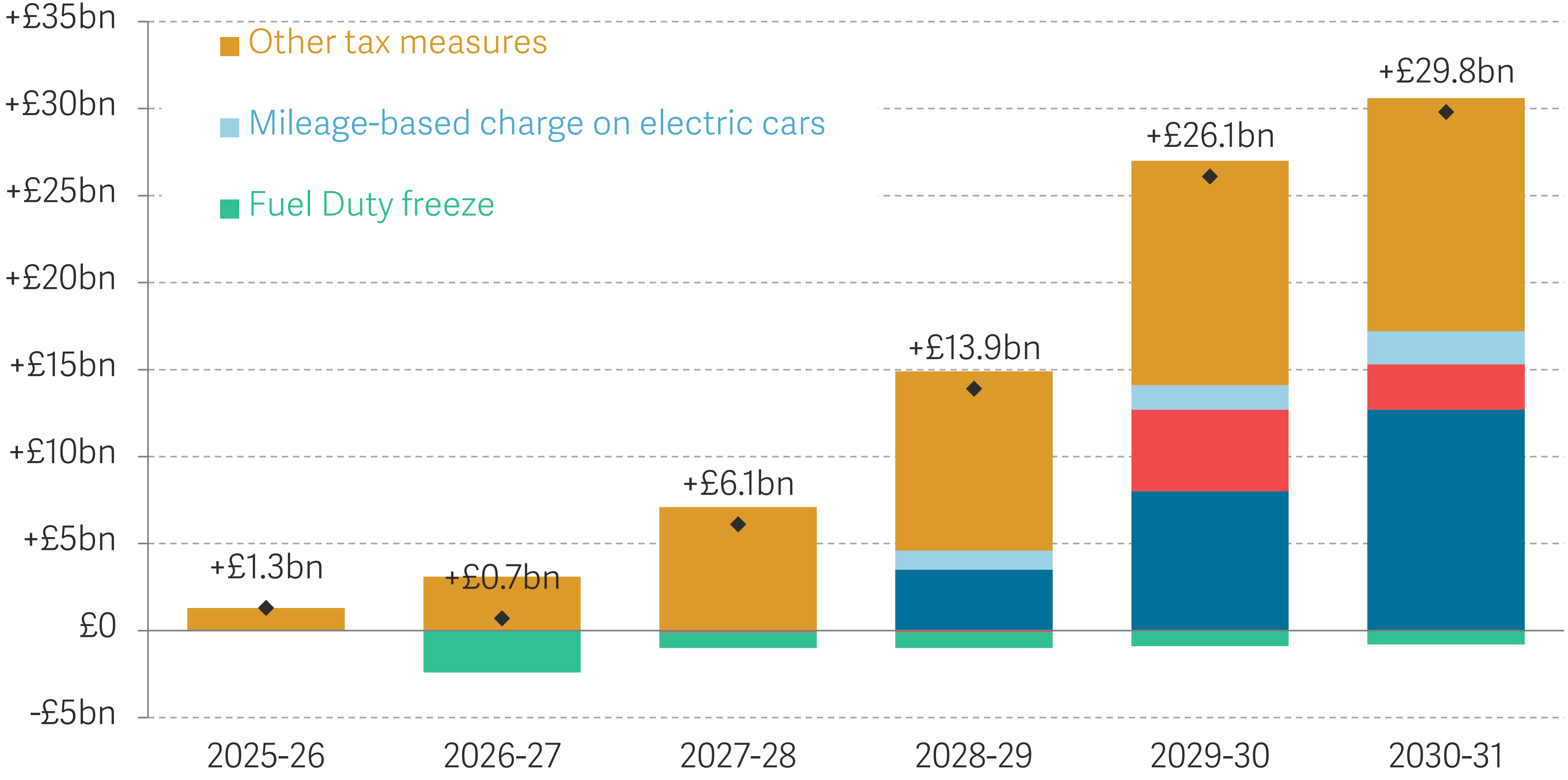
Effect on borrowing (in cash terms) of Government tax decisions since March 2025: UK



Three-quarters of the £77 billion in extra tax raised at the Budget over the next 5 years is due to arrive after April 2029

And help with energy bills will only last for three years, with £55 set to be added to electricity bills in 2029-30

Source: RF analysis of OBR, Economic and Fiscal Outlook, November 2025.

Fiscal risks loom large

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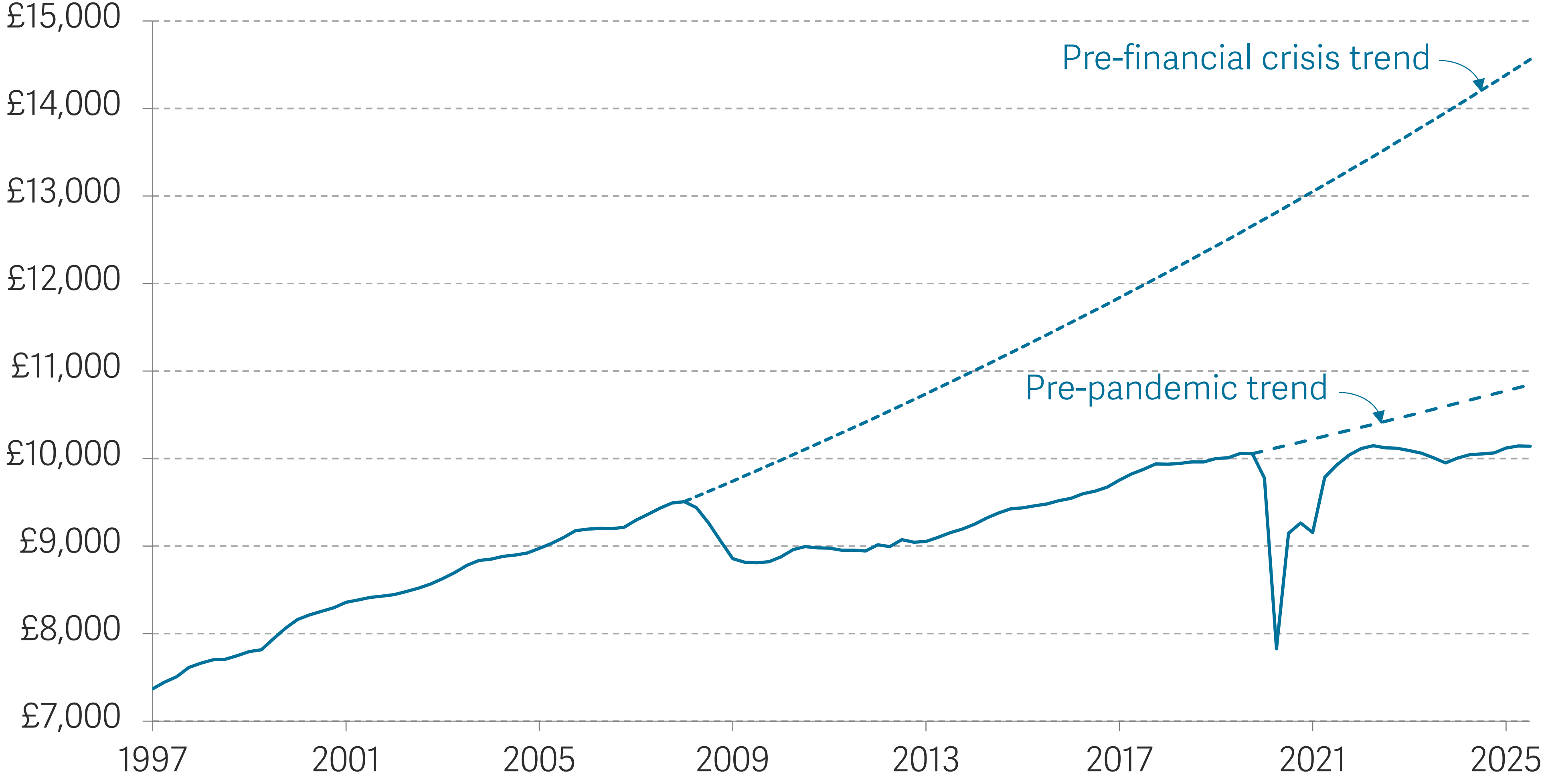
- There are significant policy risks ahead:
  - SEND (~£8 billion by 2029-30)
  - Defence (~£10 billion by 2029-30)
- It will also be easier to announce tax rises than deliver them in an election year
- The OBR is likely to have to mark down its projections for migration at a future event, reducing receipts by ~£10 billion, or more
- On the upside, if the OBR brought its wage forecast into line with the Bank of England's, that could reduce borrowing by ~£20 billion

There are big economic challenges that should not be ignored

The recovery from Covid has disappointed…

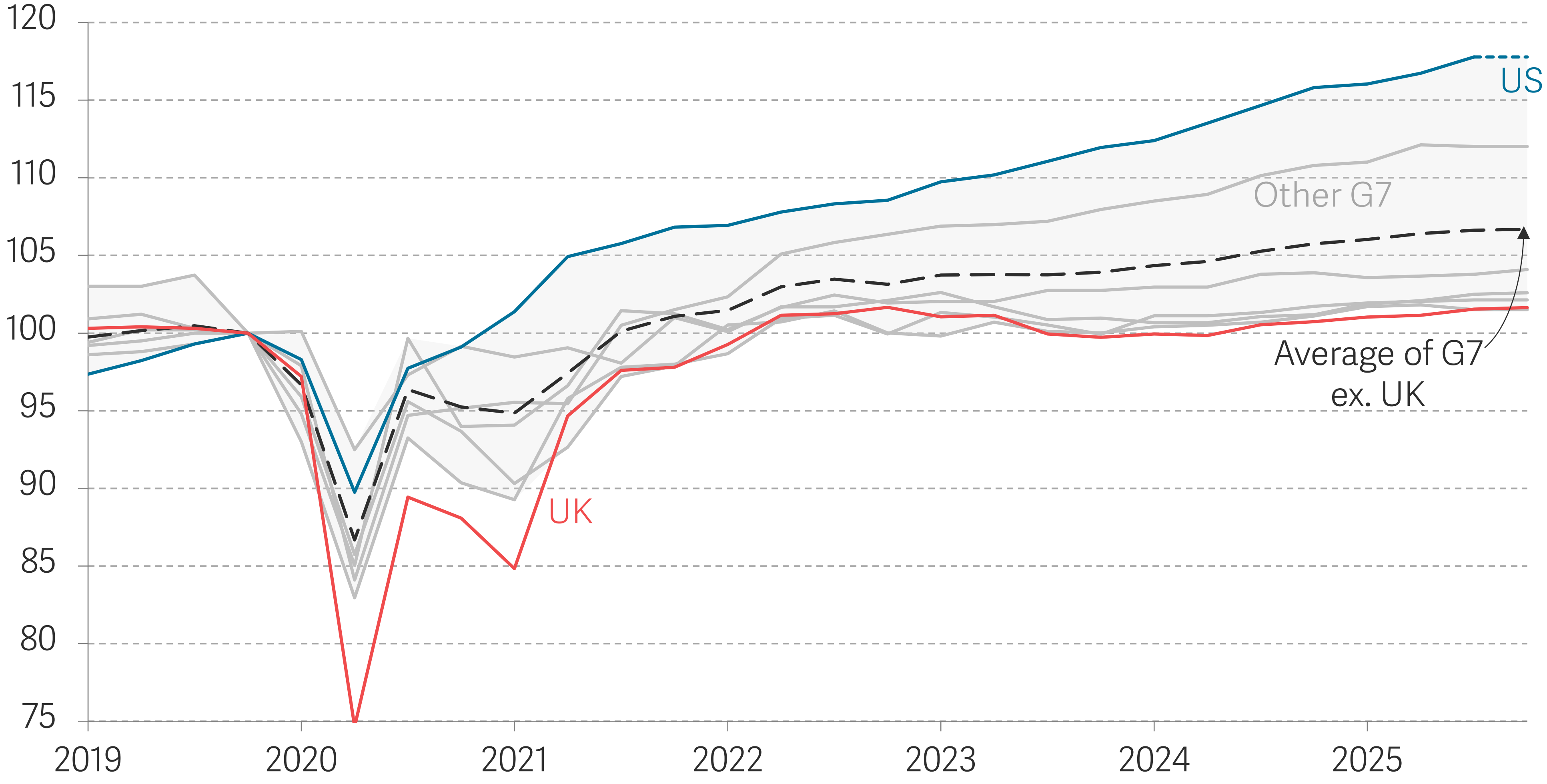
Quarterly GDP per person, outturns and pre-financial-crisis and pre-pandemic trends: UK



Source: RF analysis of ONS National Accounts.

...although the UK is not alone

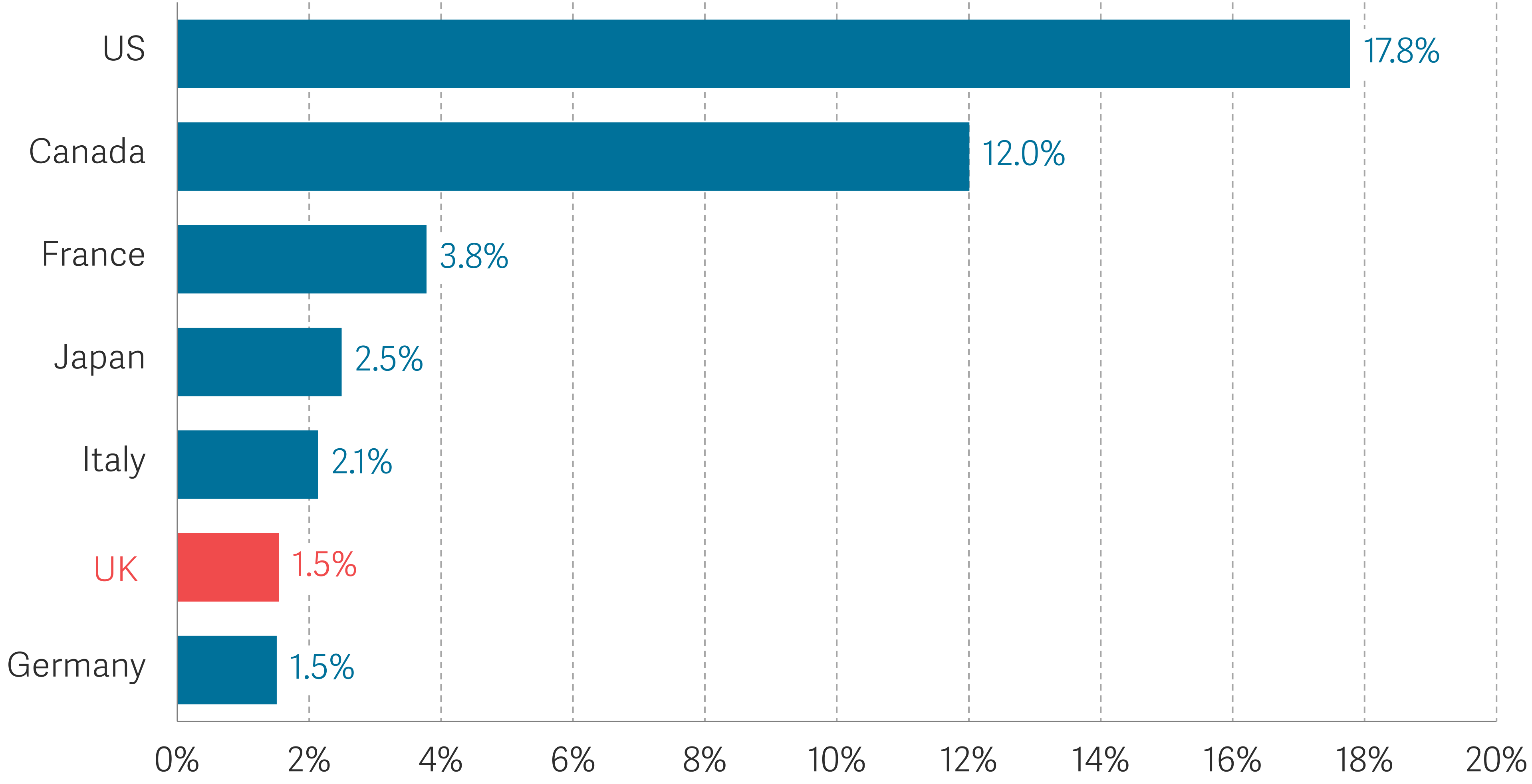
Real GDP (Q4 2019 = 100): G7 countries



Notes: for the US, Q4 2025 is the consensus forecast compiled by Bloomberg.
Source: RF analysis of OECD, ONS, National Accounts; and Bloomberg, Economic Calendar.

What stands out is our weak consumption recovery as household remain cautious

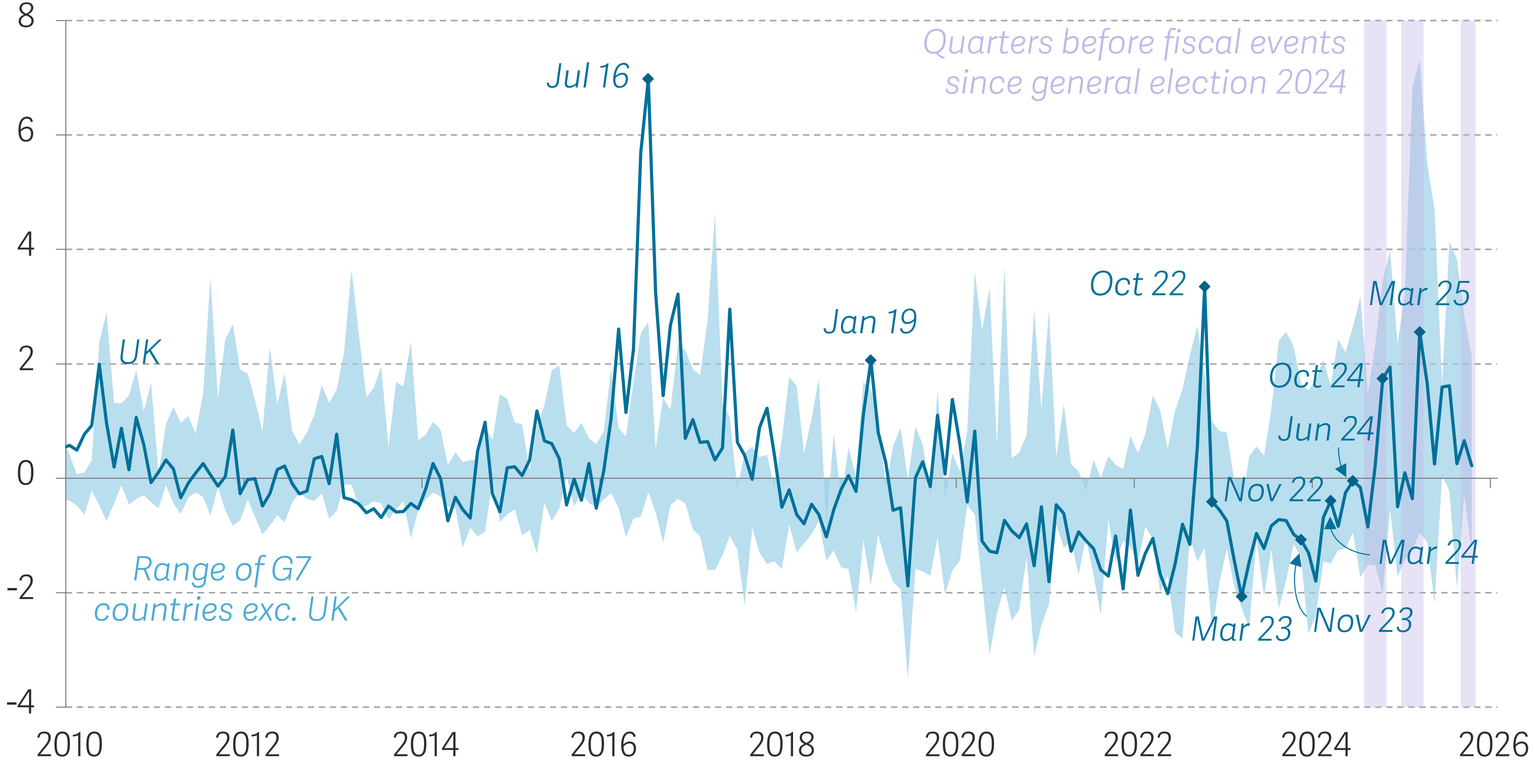
Change in the level of real household consumption spending between Q4 2019 and Q3 2025: G7 countries



Notes: includes non-profit institutions serving households.
Source: RF analysis of OECD, ONS, National Accounts.

UK policy uncertainty is high compared with other G7 countries

Country-specific components of policy uncertainty indices : G7 countries.

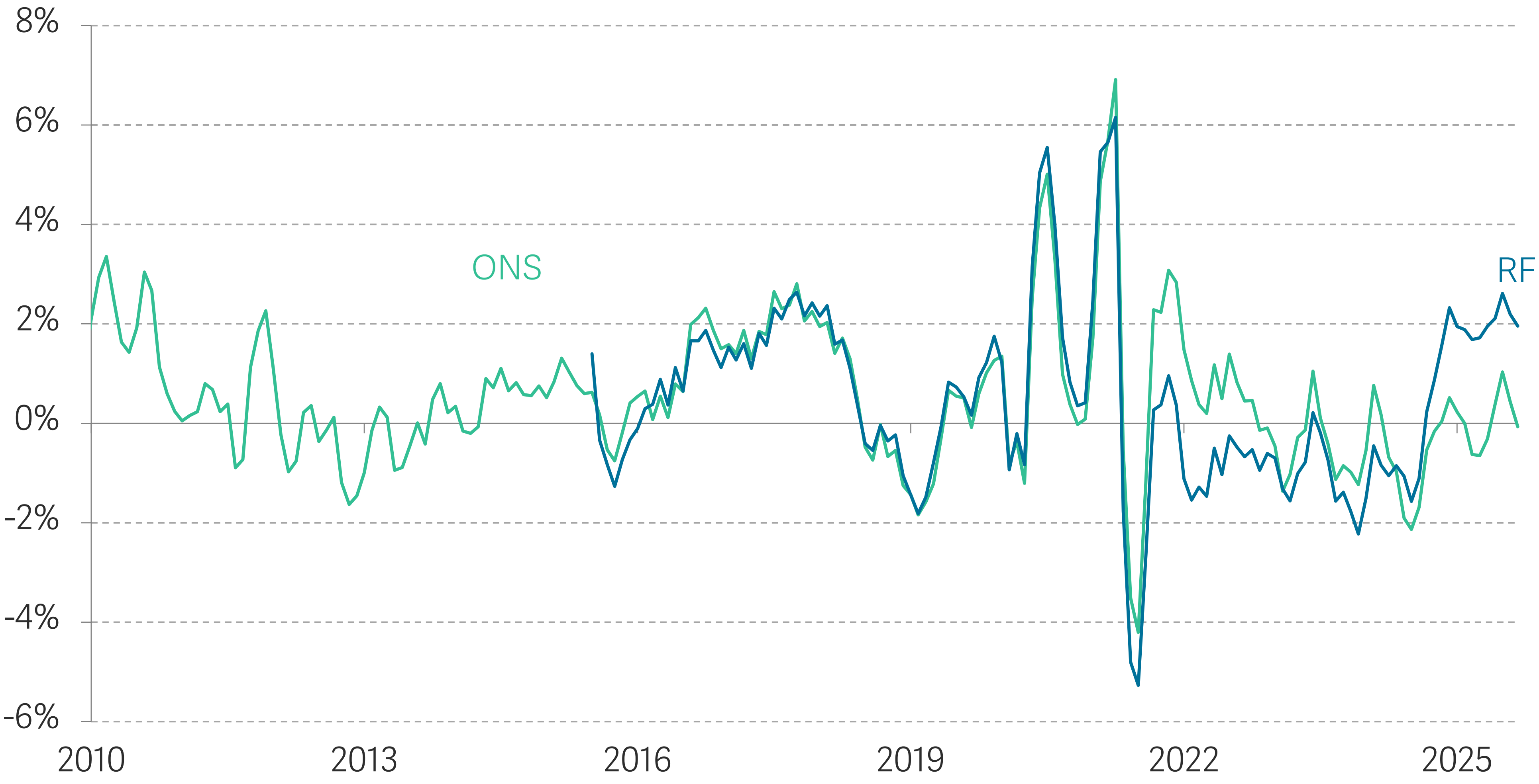


Policy uncertainty has risen globally but the UK specific uncertainty has risen, particularly around the time of recent fiscal events

Notes: standardised residuals are the z-scores of residuals calculated from a regression of each country's policy uncertainty index on the global PPP series.
Source: RF analysis of Economic Policy Uncertainty Index (for the underlying methodology, see: S Baker, N Bloom & S Davis, Measuring Economic Policy Uncertainty, The Quarterly Journal of Economics, November 2016).

On the supply side, there have been some 'green shoots'

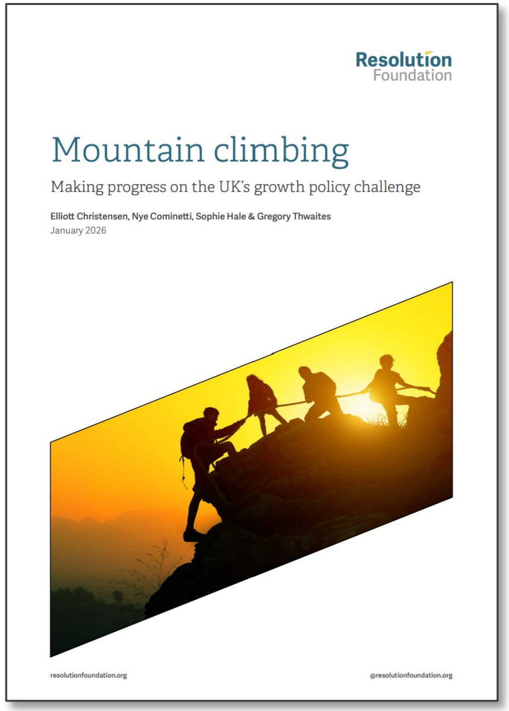
Annual productivity growth using official and RF measures of total hours worked: UK



Notes: Productivity measured as monthly gross value added (ONS code ED9T) and hours worked either the headline ONS number (YBUS) or ONS average hours multiplied by the RF estimate of employment. Growth rates measured as the change in the trailing 3-month average on the value a year earlier.
Source: ONS; RF analysis of ONS, National Accounts, Labour Force Survey; ONS/HMRC, Earnings and employment from Pay As You Earn Real Time Information; HMRC, Income of individuals with self-employment sources; and ONS, National population projections: 2022-based.

Based on RF adjusted employment, productivity growth is ~2%

But the Government can (and should) do more urgently to raise growth, see:



The outlook for living standards remains bleak beyond this year

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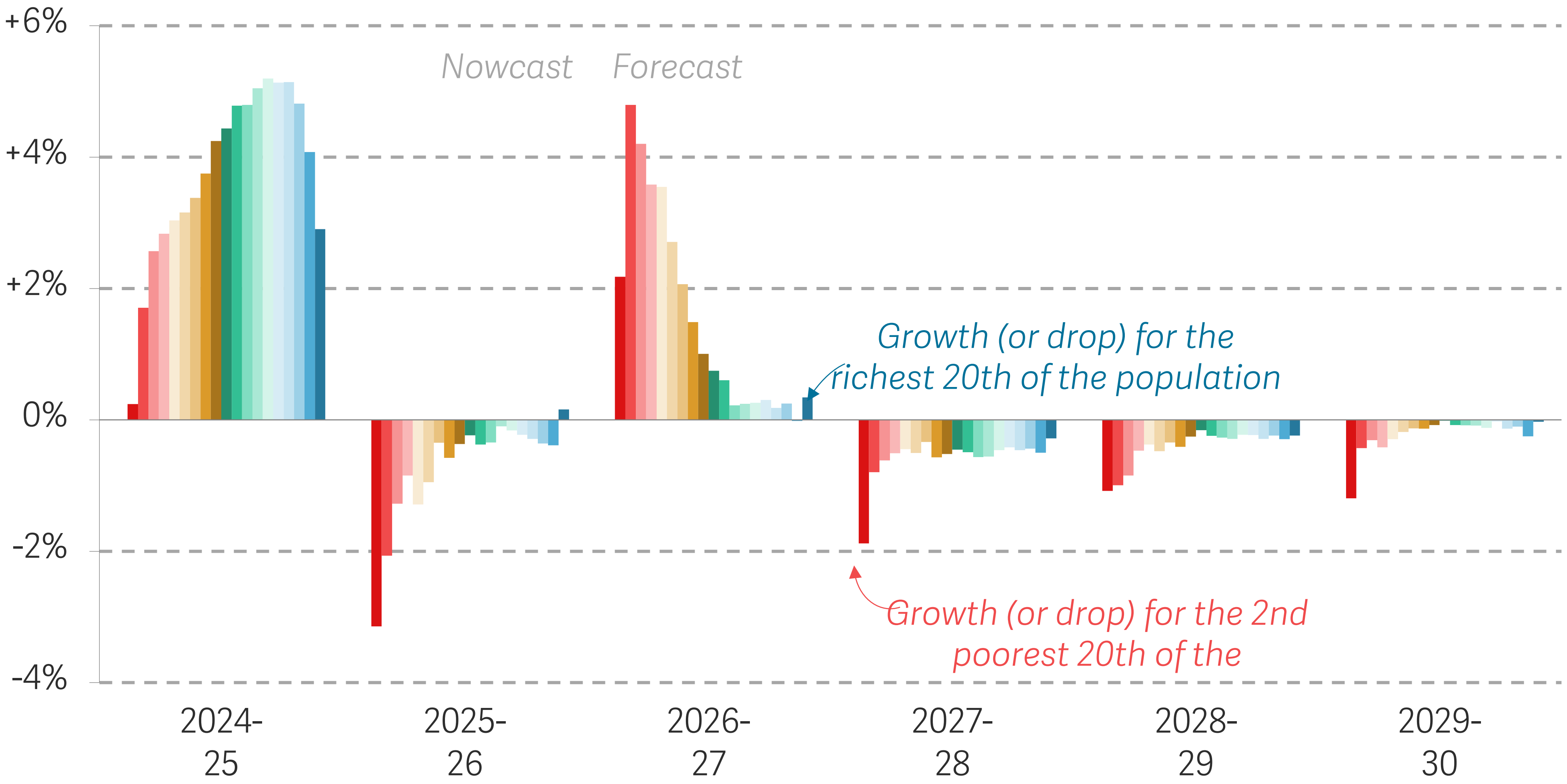
Annual real growth in equivalised household disposable income after housing costs, by non-pensioner income vigintile: UK



Typical income growth is expected to be 1.2% this year…

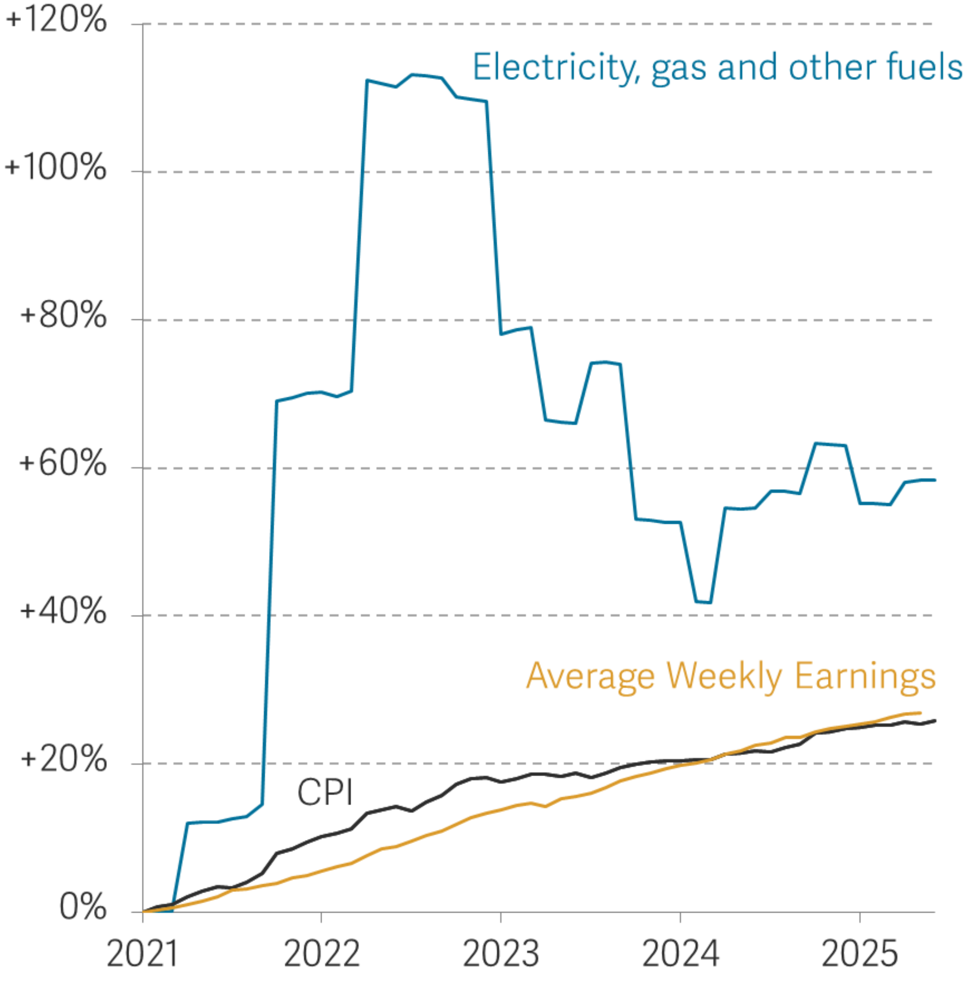
…and 4.7% for lower-income families

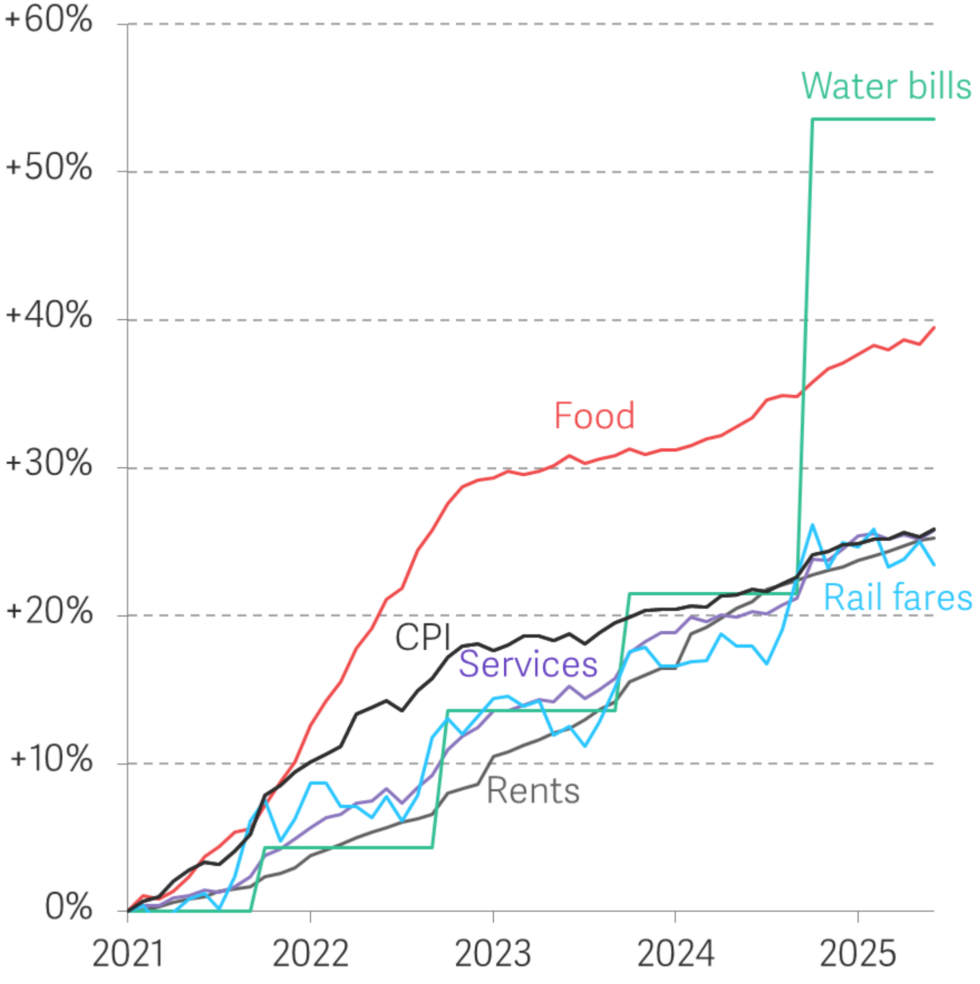
But the outlook beyond then remains bleak with families across the distribution set to see their incomes fall in real terms

Notes: The bottom 5 per cent are excluded due to concerns about the reliability of data for this group.
Source: RF projections including use of the IPPR Tax Benefit Model; DWP, Households Below Average Income; ONS, various; OBR, Economic and Fiscal Outlook, November 2025.

As families continue to face a high cost of essentials

Change in CPI price level by spending category: UK, July 2021 to December 2025

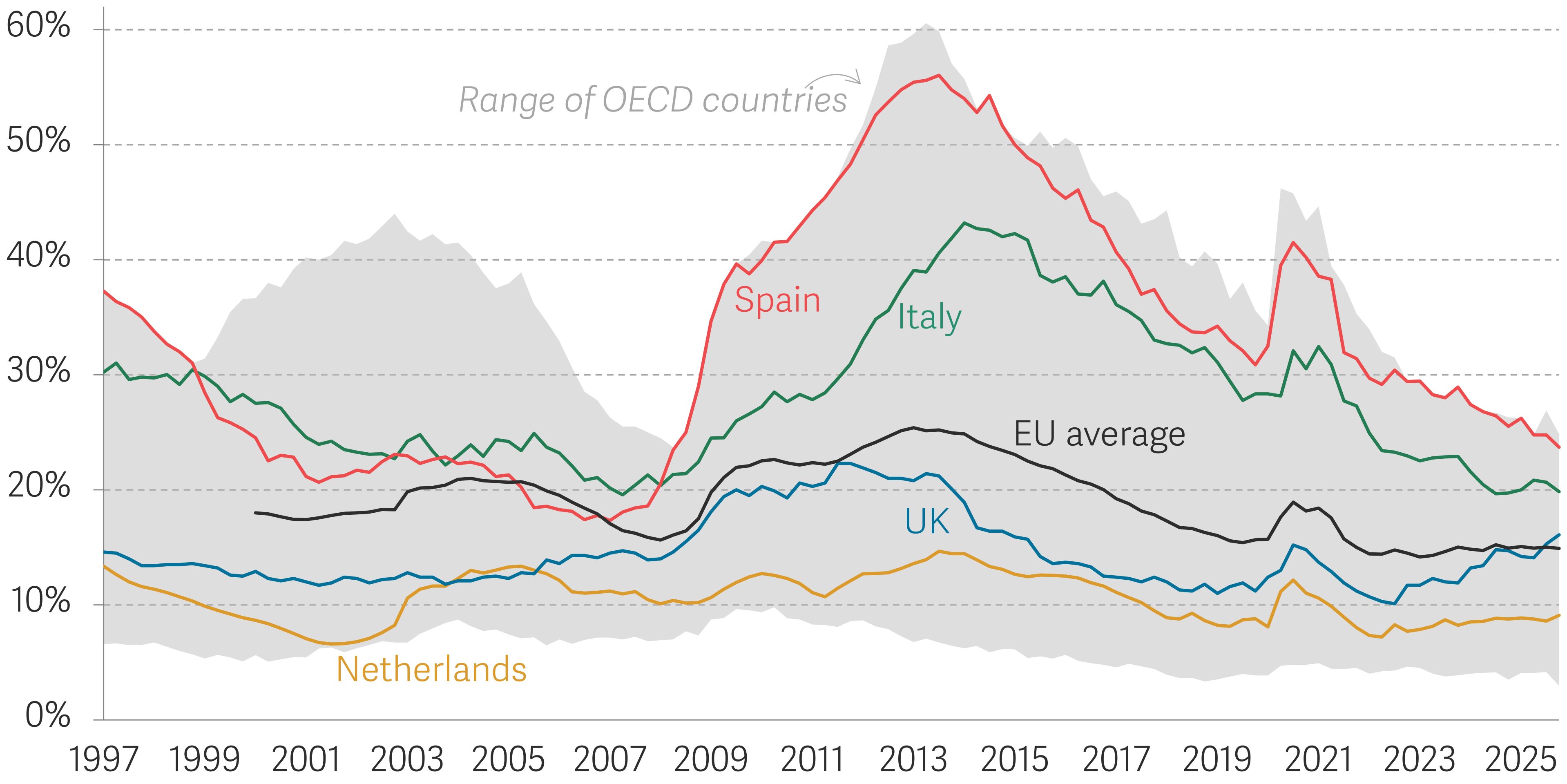




Source: RF analysis of ONS, Consumer Prices & Labour Market Statistics.

Young people face a particularly difficult outlook

Youth unemployment rates: various countries



The UK's youth unemployment rate now above the EU average for the first time since records began

Source: RF analysis of OECD data.

The priorities for economic policy

It makes sense for Spring forecast to be a low-key event…

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- Given evidence fiscal events are raising policy uncertainty, it's understandable that the Government does not want to change tax and spending policy alongside the Spring forecast
- This also argues for avoiding changes in fiscal policy ahead of the next Budget, and being clear fiscal guardrails will remain for the Parliament
- BUT that shouldn't mean that the Government ignores wider economic policy until the Budget in the autumn
- Doubling down on growth, easing the burden for families struggling with the cost of living, and helping young people in the labour market should be key policy objectives

The Government must not undermine the OBR

- OBR remains a cornerstone of policy framework – providing fiscal credibility that saves the UK £37-55 billion a year in debt interest costs
- Relative to international peers the OBR is under-resourced relative to its broad remit
- Increasing resources, including the number of BRC members, and delegating responsibility for running the organisation to a CEO/COO would improve the functioning of the OBR
- Publication of the pre-measures forecast could improve the quality of the Budget process
- The Government should resist the temptation to undermine the OBR by curbing what it can publish

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