



# 2026 Spring Statement

Quiet by design

PwC UK Economics Team  
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# Foreword



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## Quiet by design

Yesterday's Spring Statement was short on surprises, and that was the point.

Rachel Reeves chose to give businesses and households an economic update rather than launch new flagship policies. That restraint is economically constructive: it reduces policy churn at a time when certainty and confidence matter the most. For the private sector, certainty acts like a fiscal stimulus, particularly at a time when the international backdrop is uncertain.

The headline message of the Chancellor was that borrowing would be lower than expected over the five-year forecast horizon. The Office for Budget Responsibility's (OBR) broadly validated this direction of travel, with government borrowing projected to ease slightly from 2027–28 onwards. That improvement was helped by stronger-than-expected receipts early this year, partly reflecting firmer equity market conditions and a loosening in forward-looking financial conditions.

The OBR expects the mood in the labour market to worsen before it improves, expecting the unemployment rate to peak at 5.3%, up from below 5% in its previous forecast. Nonetheless, there is some positive news beneath the headline, as the higher unemployment rate is being fuelled by a much higher supply of people into the workforce (with a corresponding decrease in economic inactivity) coupled with a cooling demand of workers from businesses and the government.

But the medium-term story is largely unchanged: the public finance repair job still relies on tax revenues rising as a share of the economy.

On balance, yesterday's Spring Statement left Government's fiscal headroom broadly intact. In the current volatile geopolitical backdrop, preserving that buffer is sensible as the outcome and duration of these risks remain uncertain and could change fast.

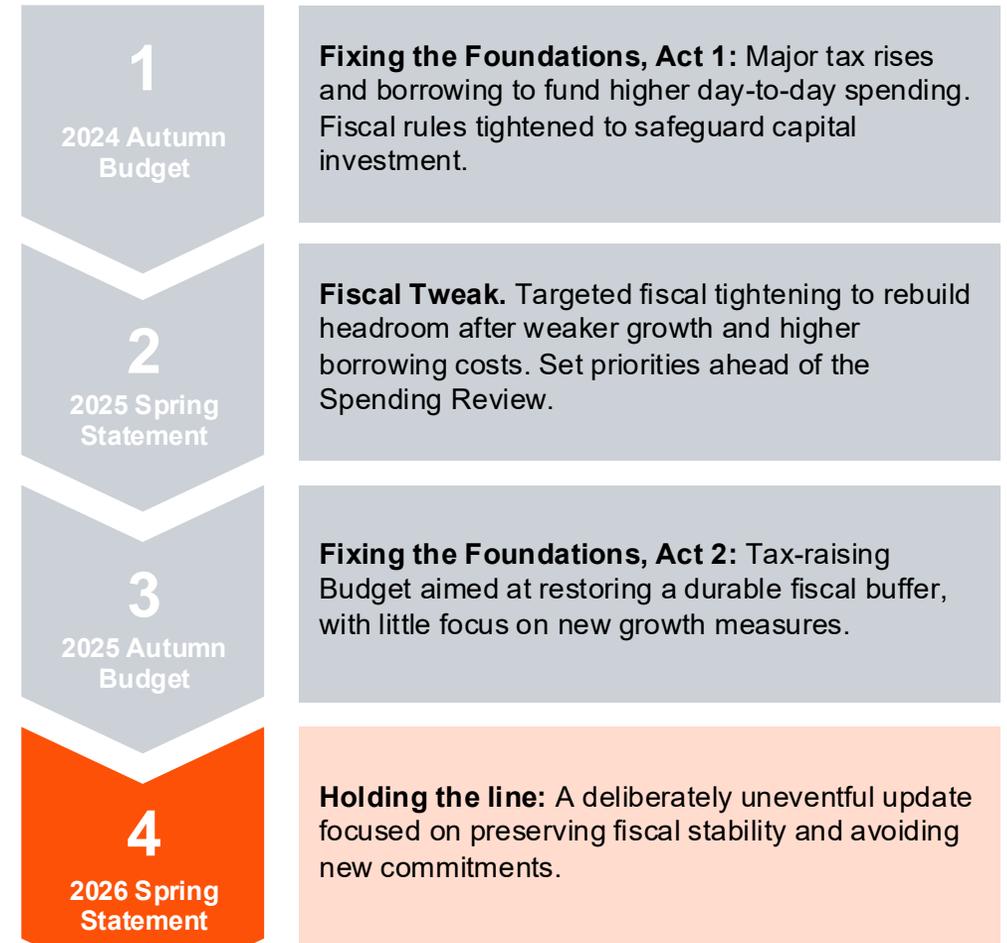
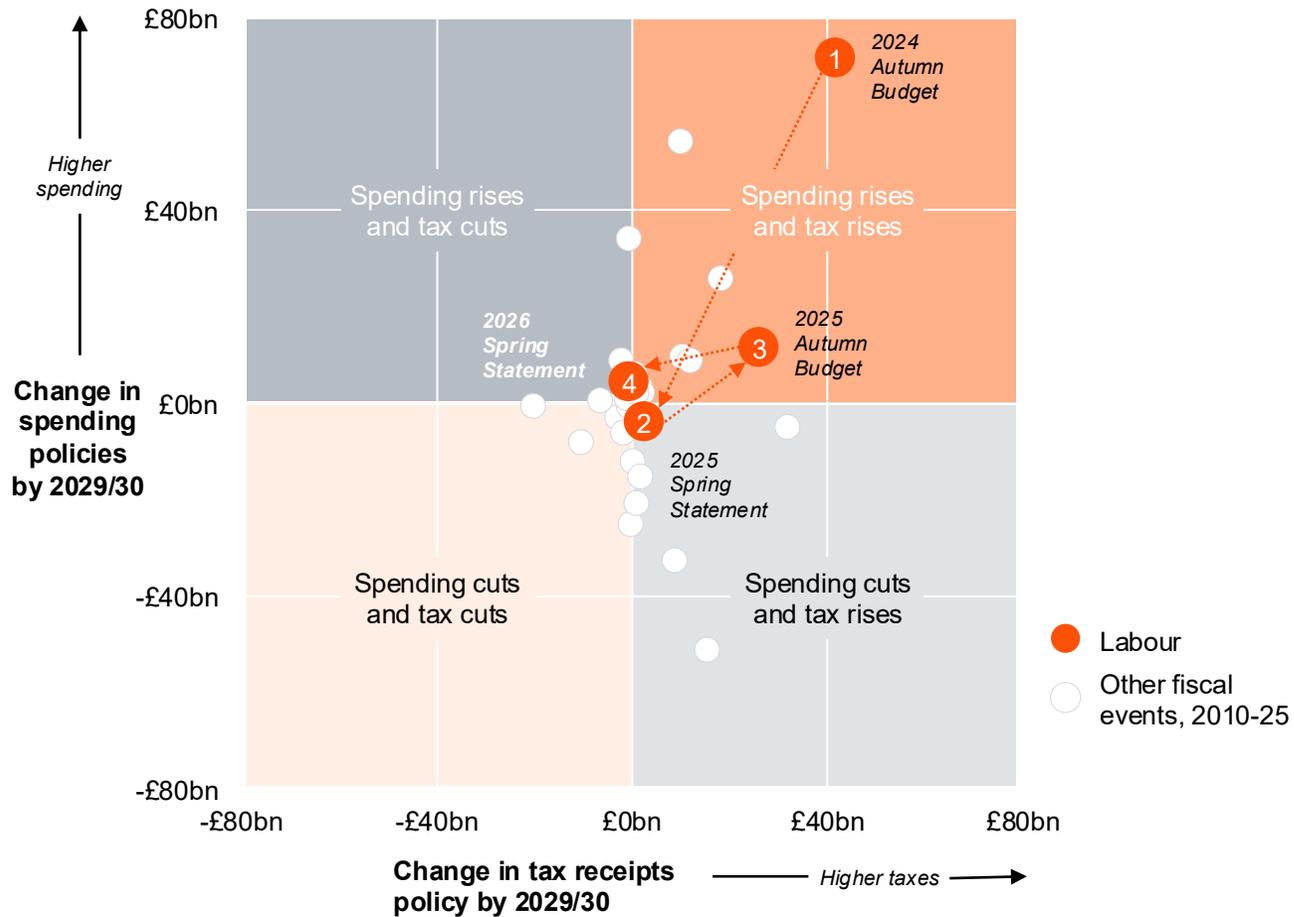




Quiet by design

# The Spring Statement was light on surprises by design. The priority was stability, limiting policy churn at a time when confidence and certainty matters most.

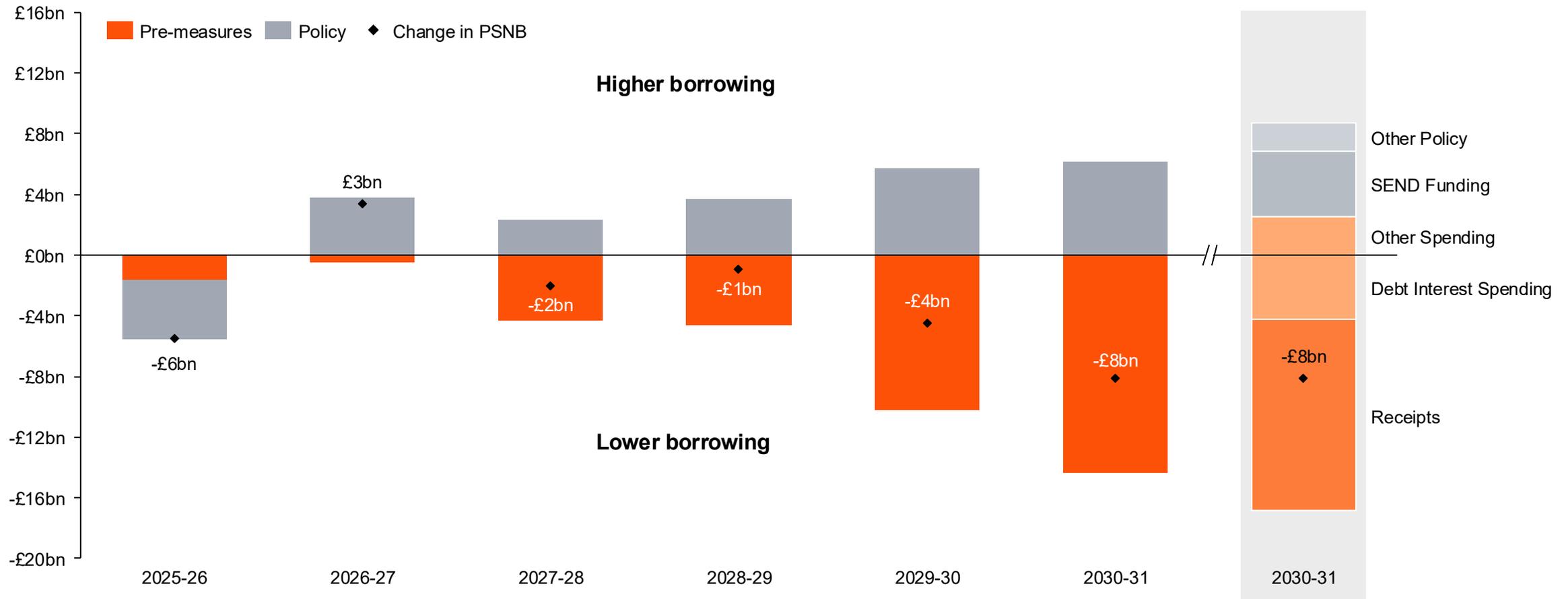
Distribution of tax receipts and spending policy changes in UK fiscal events, '10-'26



# Despite no significant policy changes, a better-than-expected fiscal outlook in January this year, along with lower projected gilt rates, helped reduced projected government borrowing relative to the previous OBR forecast

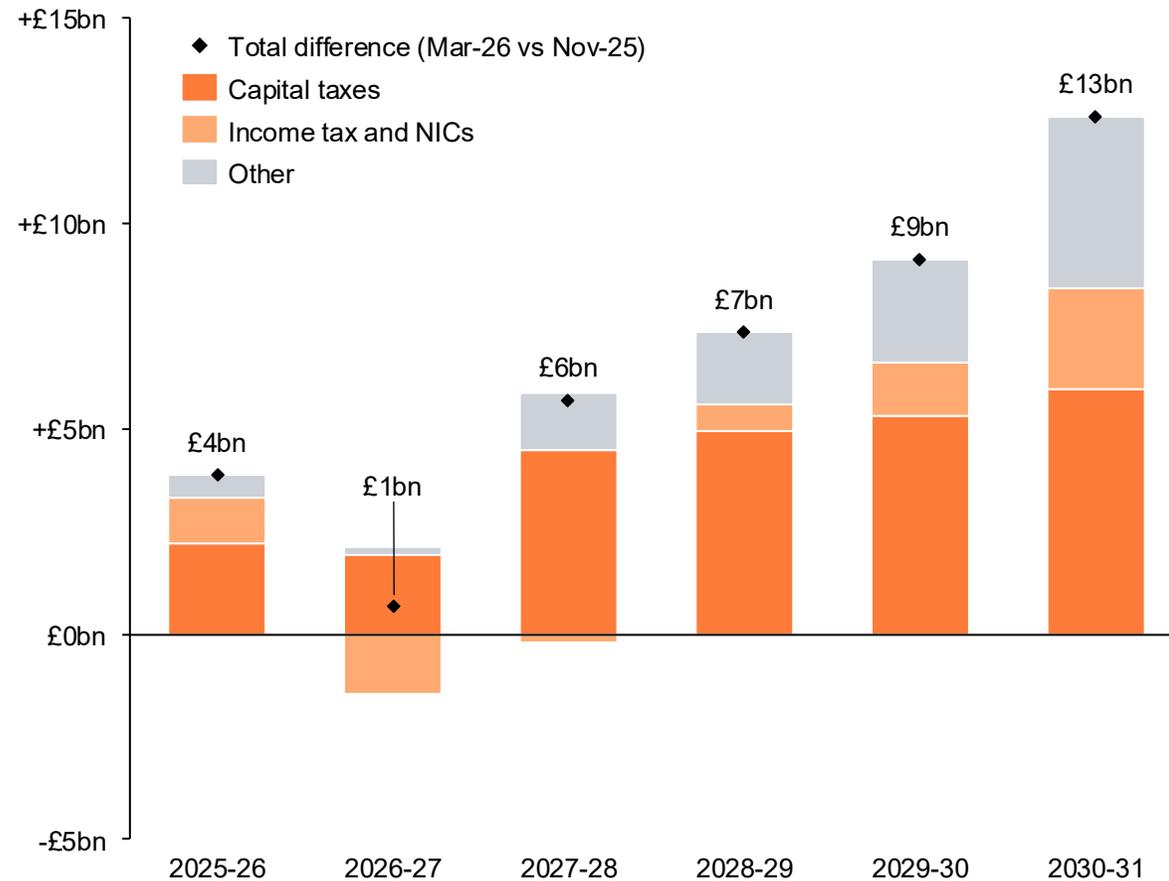
Public sector net borrowing (PSNB) forecast: changes since November '25, £bn

2030-31 breakdown, £bn

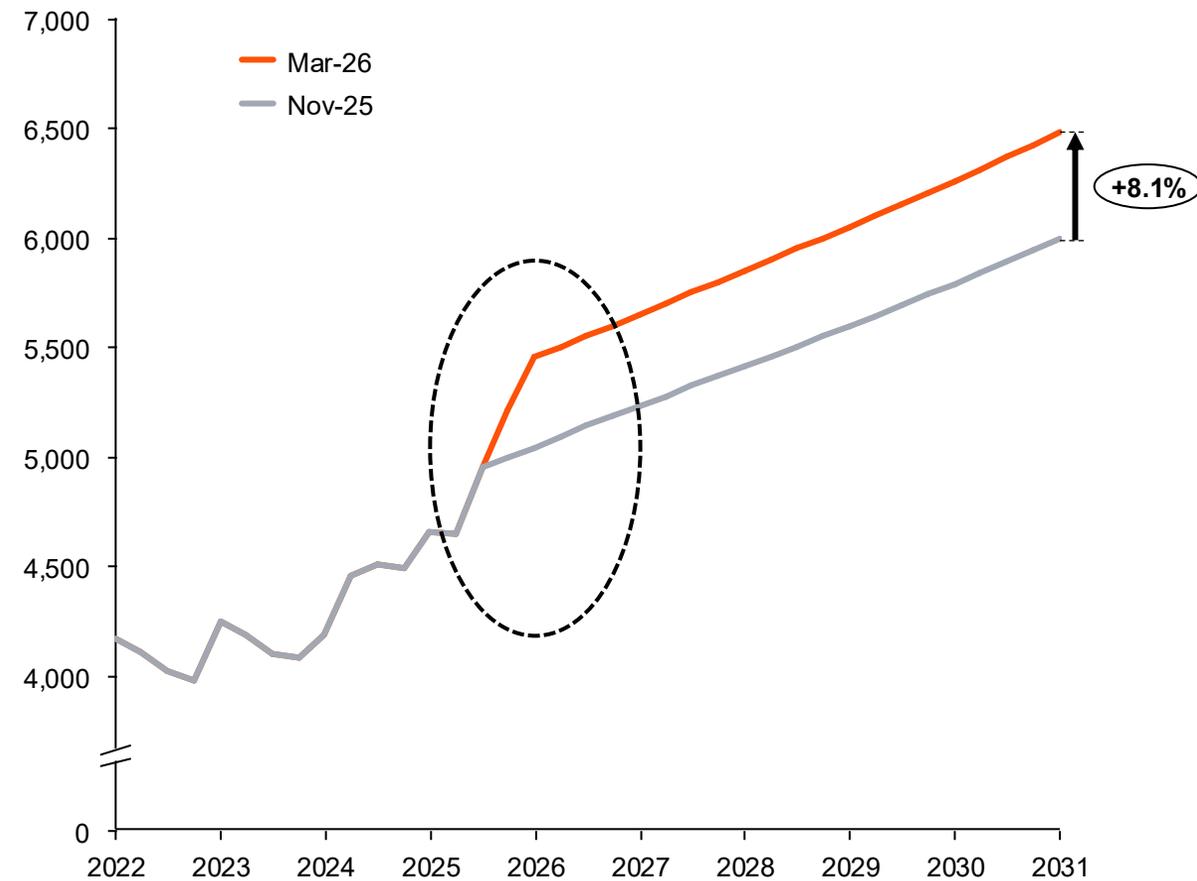


Tax receipts were revised up, reducing borrowing in each year. About two-thirds of this rise reflects stronger equity performance in the fourth quarter of last year, lifting expected capital and related tax revenues.

Pre-measures tax receipts forecast: changes since November '25, £bn



OBR March '26 and November '25 forecasts for FTSE All Share equity index

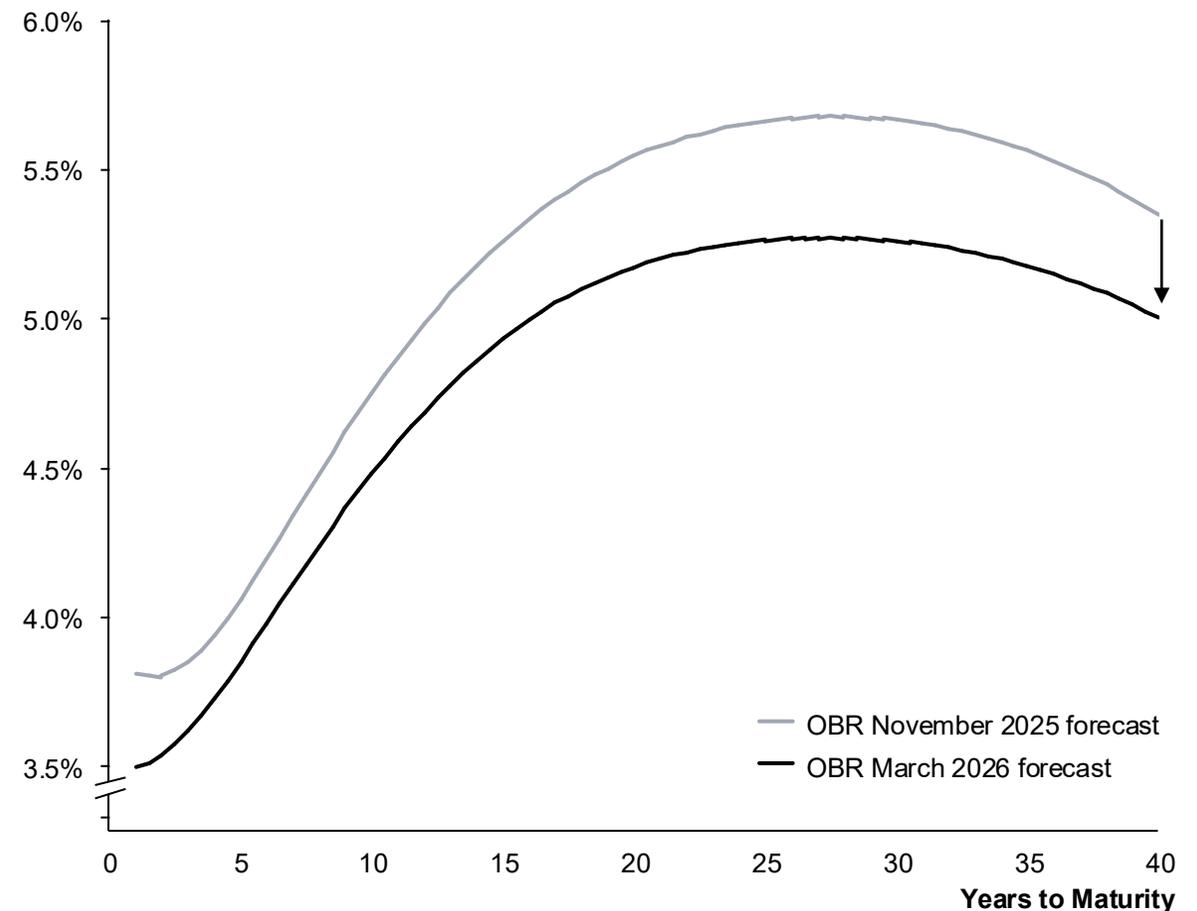


Pre-measures spending revisions were more modest, slightly higher in the near term and slightly lower in the final two years as projected borrowing costs were reduced. The forward-looking gilt yields did not account for the late breaking events in the Middle East.

Pre-measures spending forecast: change since November '25, £bn

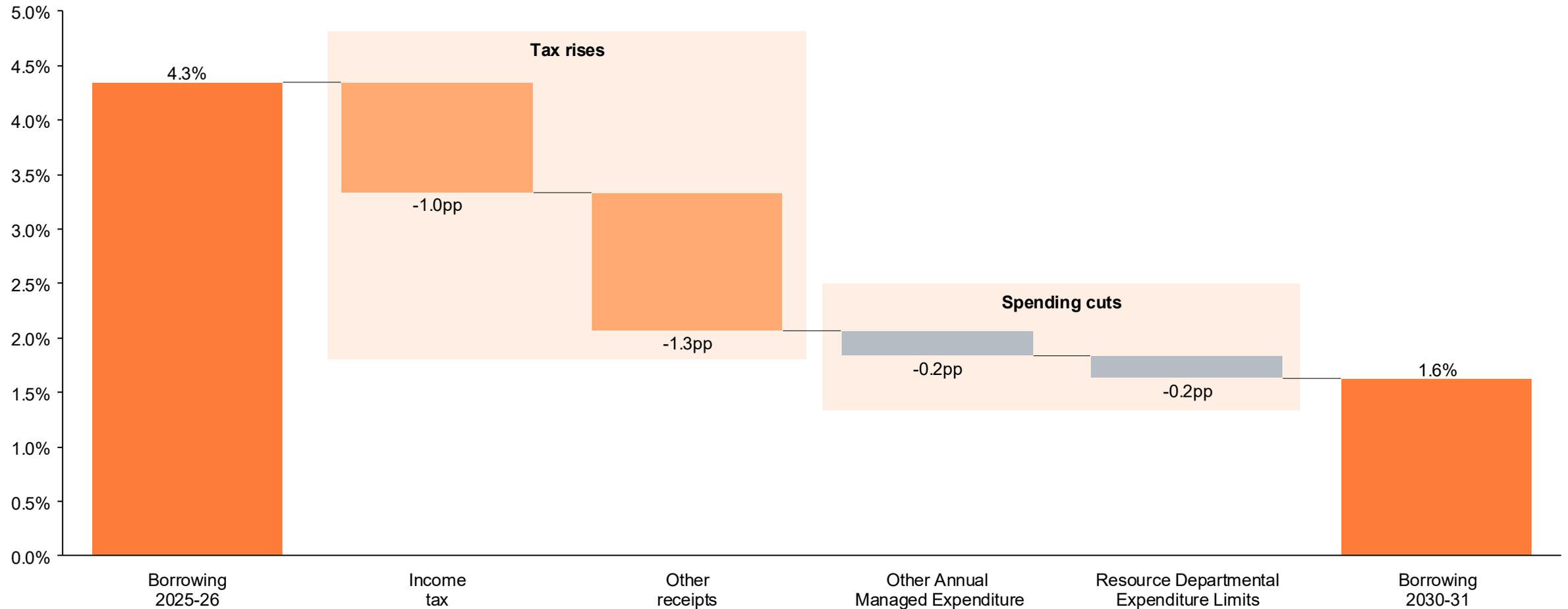


Gilt Yields, %



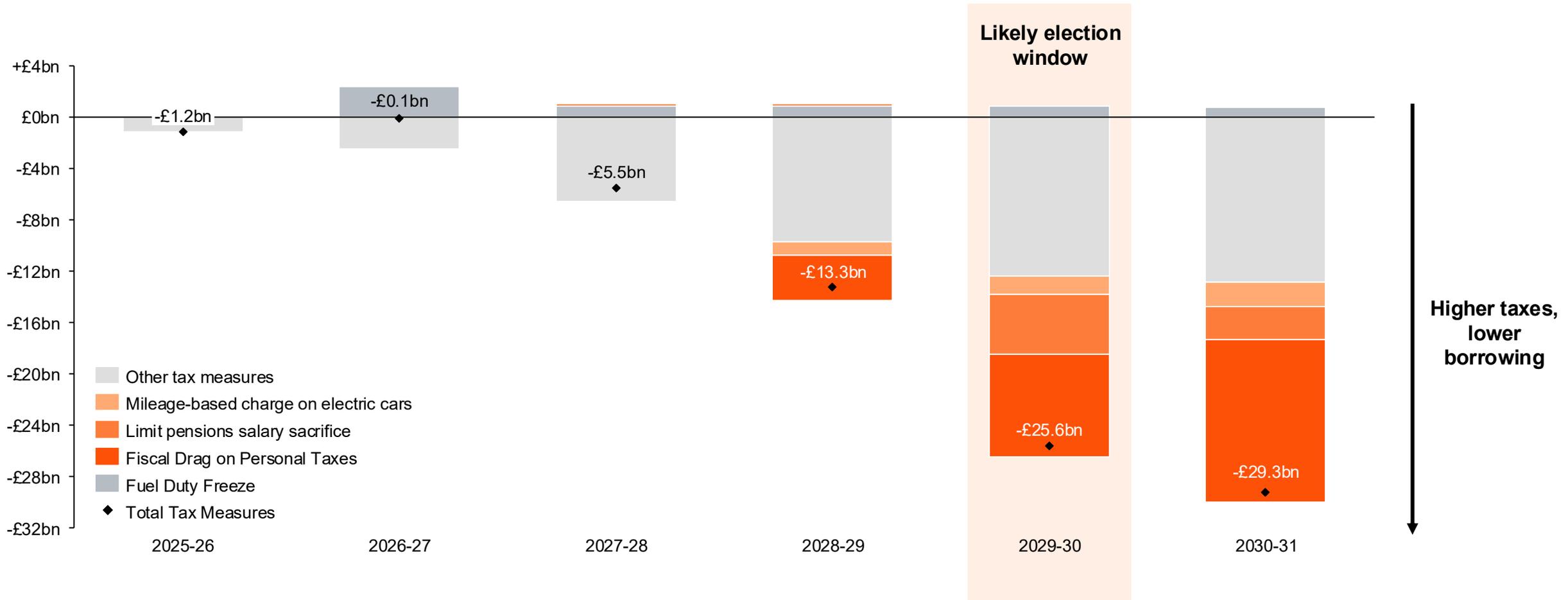
The long-term fiscal policy picture remains broadly unchanged. More than four-fifths of the future fiscal consolidation will come through higher taxes, with real-terms spending cuts playing a secondary role.

Drivers of the forecast reduction in borrowing between '25-'26 and '30-'31, % of GDP



# Most of the future tax rises remain back-ended, with the bulk occurring in the final three years of the forecast window.

Tax measures announced by UK Government since March '25, £bn

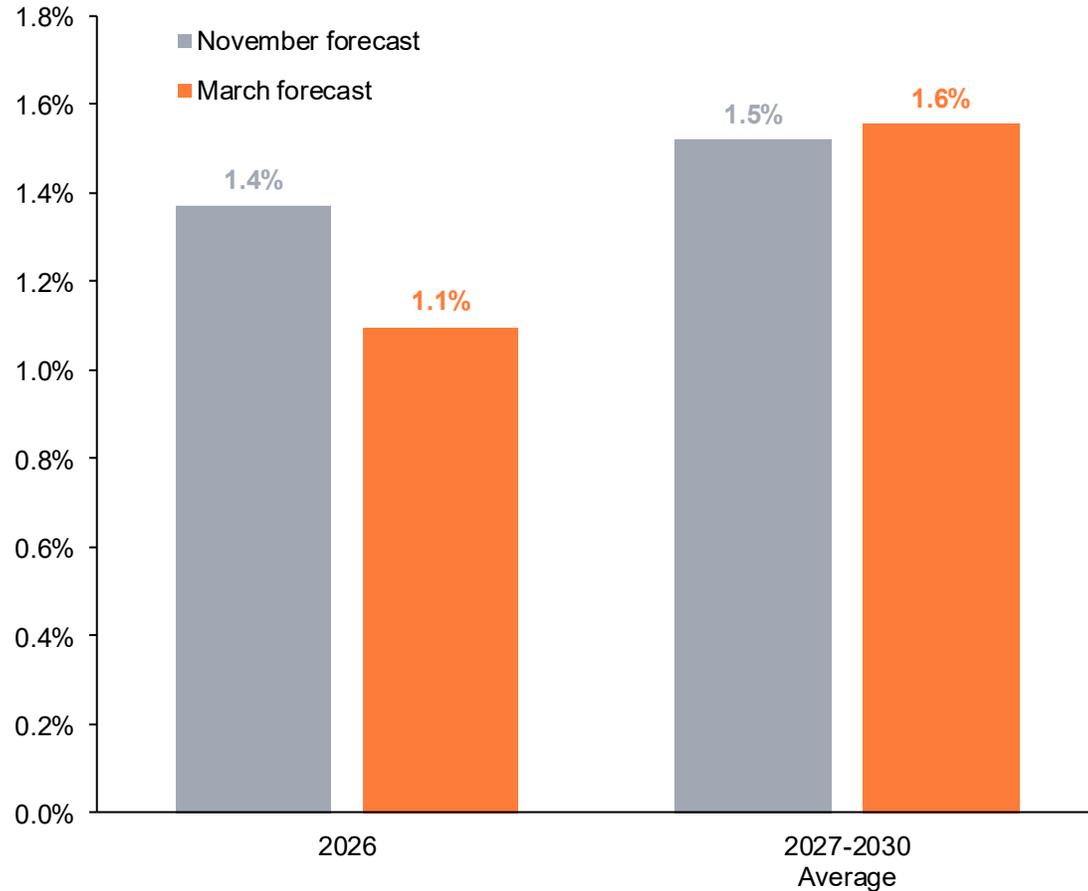


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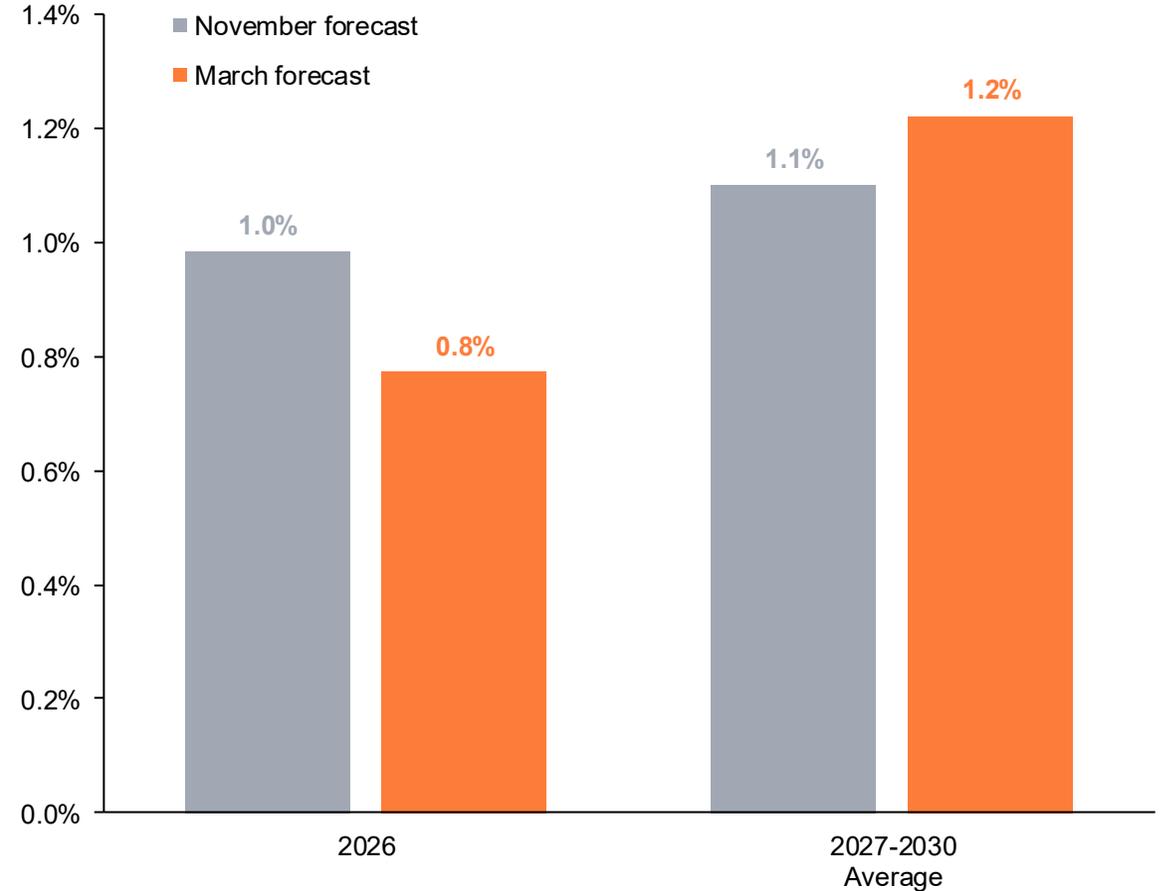
Uneven outlook with  
mounting risks

# The OBR revised down real GDP and per capita growth for 2026 but upgrades to 2027–30 leave the overall medium-term picture largely unchanged.

OBR March '25 and November '26 forecasts for real GDP growth, %

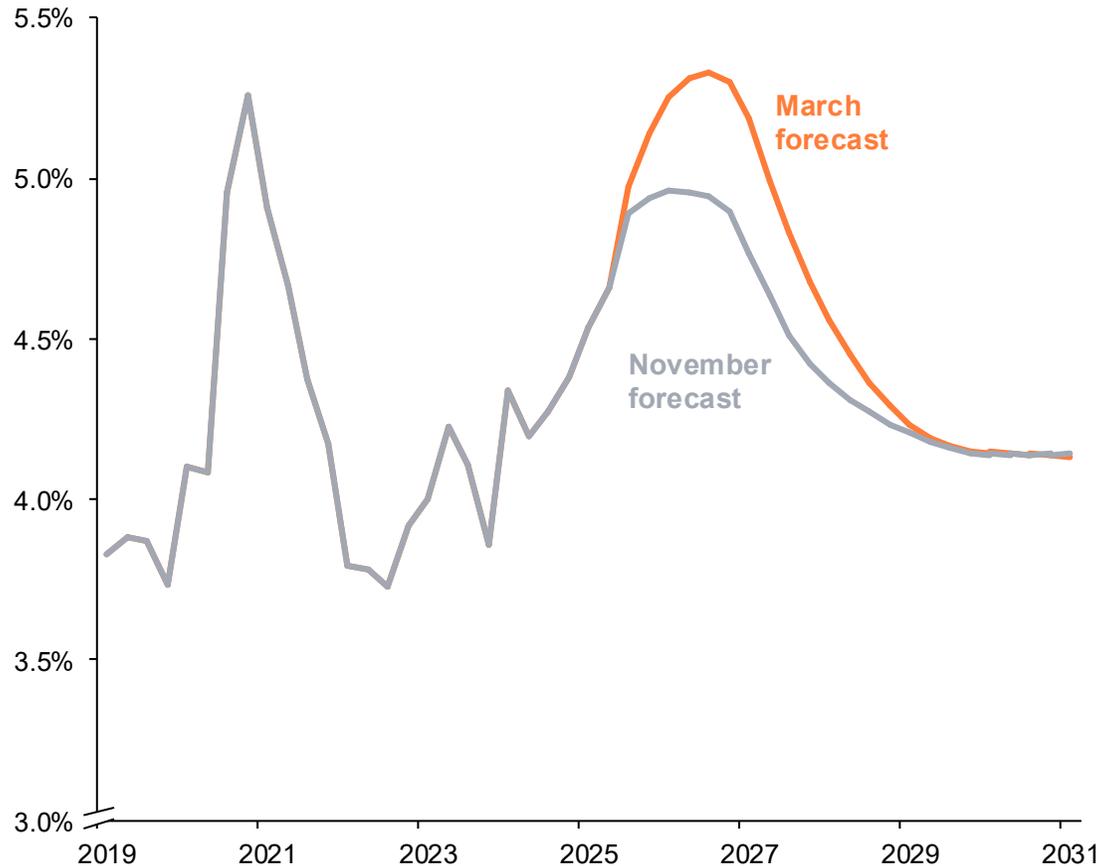


OBR March '25 and November '26 forecasts for real GDP per capita growth, %

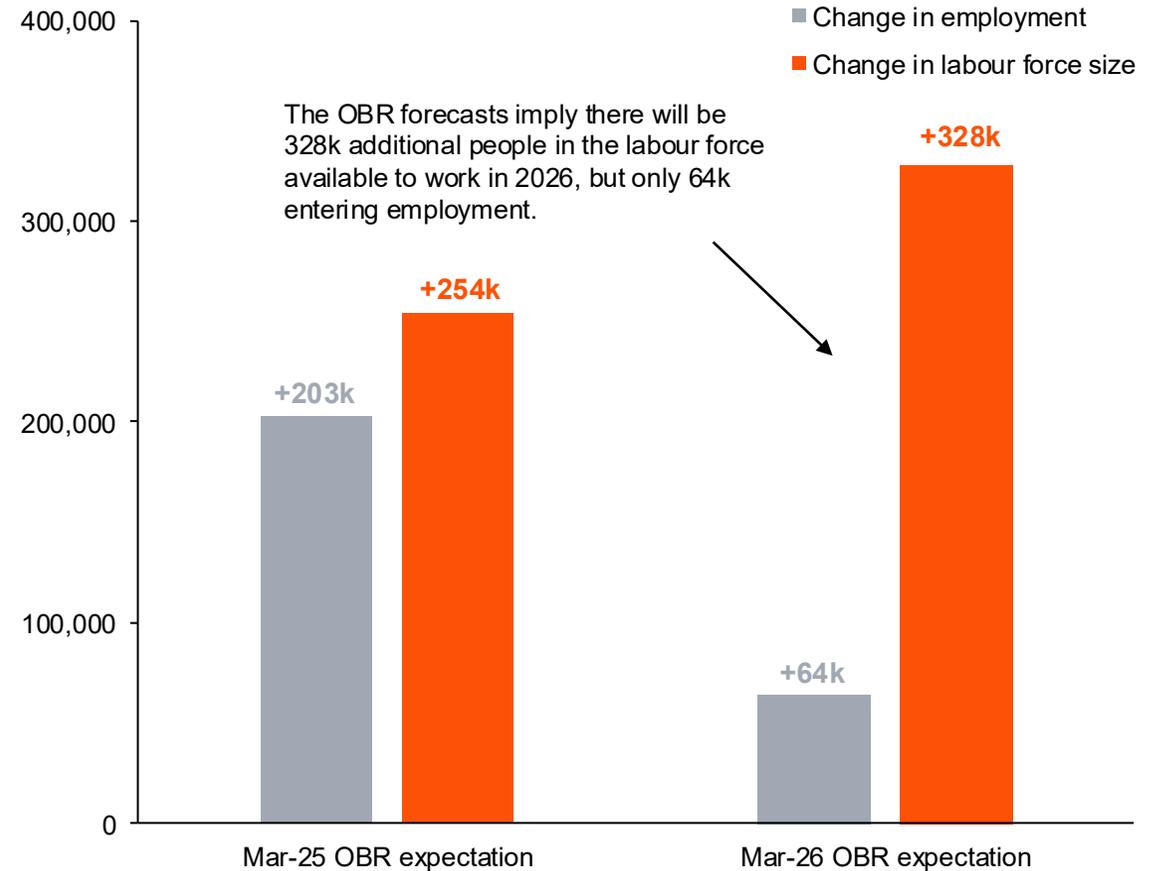


At face value, the labour market has weakened, with unemployment forecasts revised up. However, this primarily reflects a higher participation rate which includes the return of inactive workers to the labour force.

OBR's March '26 and November '25 forecasts for unemployment rate, %



OBR's March '25 and '26 implied forecasts for change in employment and labour force size between 2025 and 2026



There remain credible pathways to a stronger fiscal position, without requiring changes to government policy.



### AI-driven productivity boom

- Productivity is one of the most important forecast judgements and remains highly uncertain. Empirical analysis shows that since the Global Financial Crisis, the OBR has overestimated productivity growth.
- However, there could be signs of a shift in this trend. Output per hour has risen more in the past year than in the previous seven combined.
- If productivity growth were 1.5pp higher per year over the forecast period, the OBR estimates borrowing would be £50bn lower by 2030–31.



### Higher labour force participation

- The rise in long-term sickness has been a key drag on participation since the pandemic, although there are tentative signs this is stabilising. This could lift labour supply above the OBR's assumptions.
- Even a modest fall in economic inactivity due to a sustained reduction in long-term sickness would expand the workforce and, if matched with job creation, strengthen the fiscal outlook.

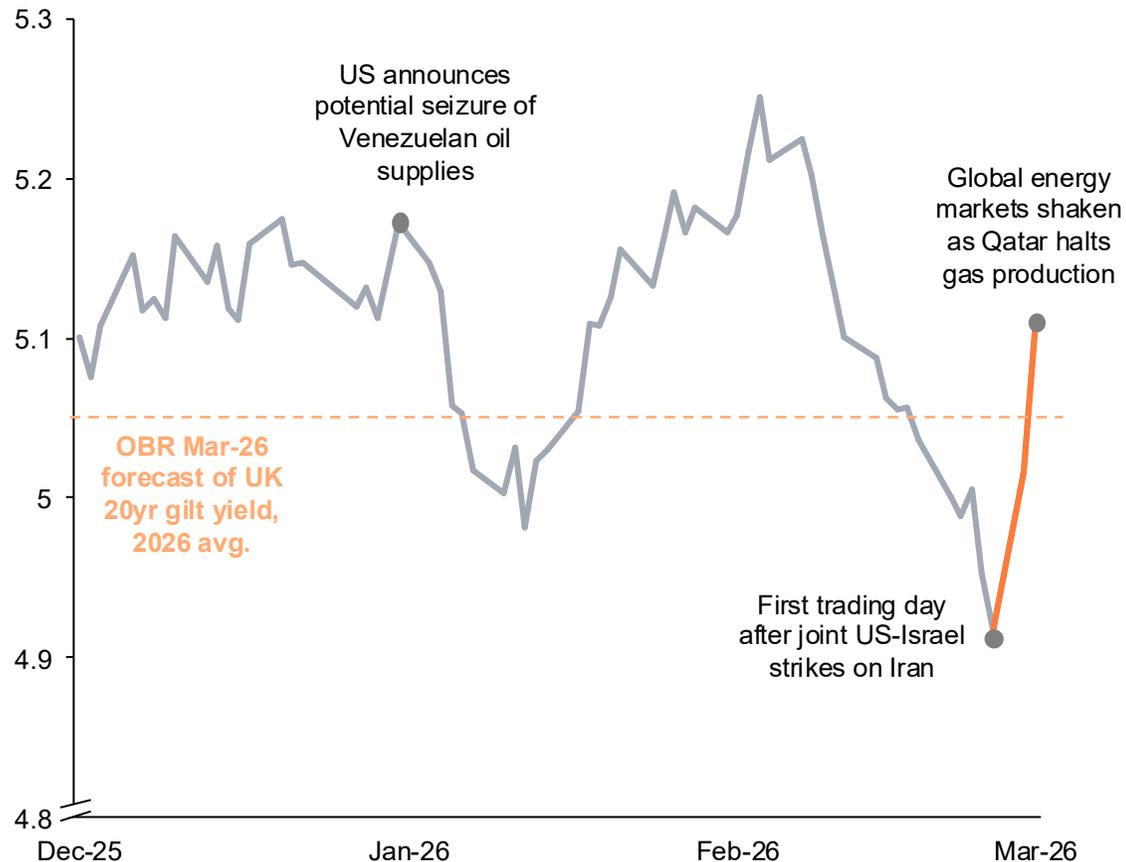


### Lower Bank Rate and gilt yields

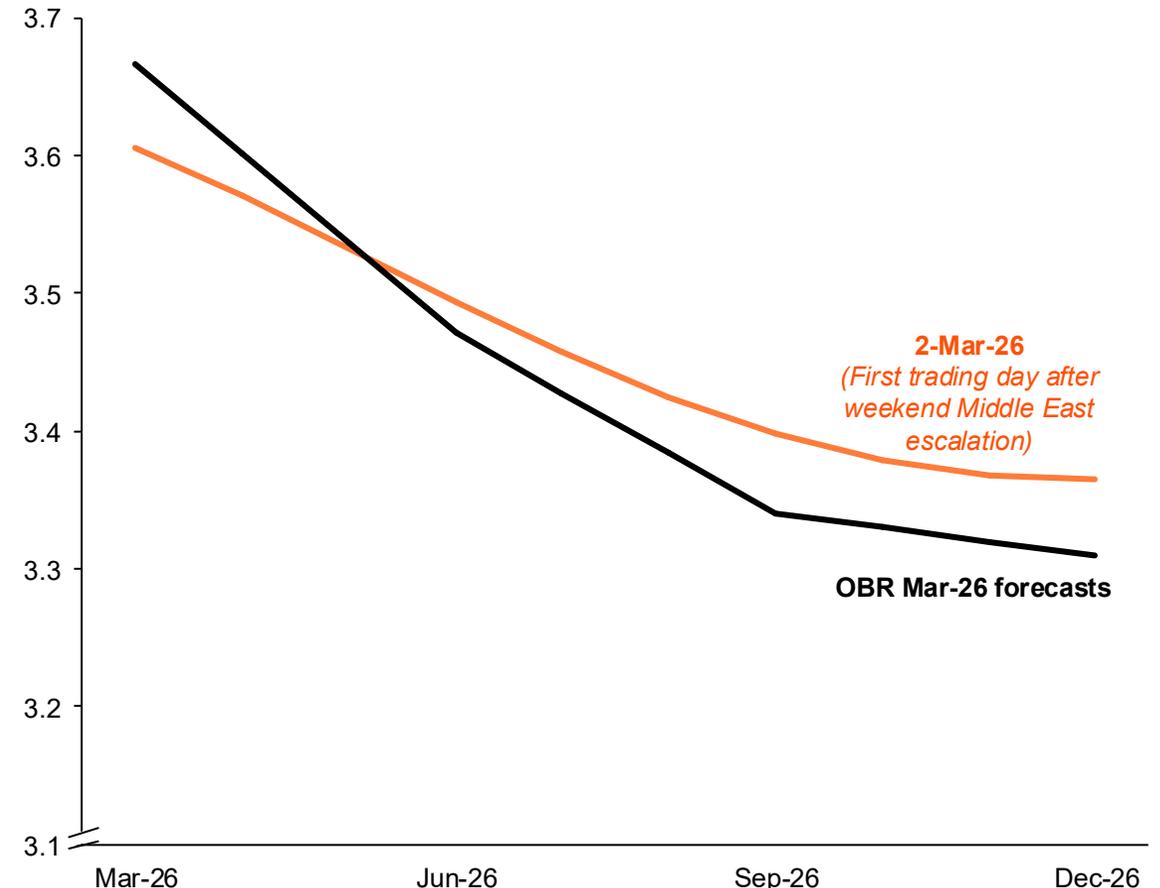
- With inflation projected to return to target in H1 2026 and the labour market close to normalising, there is a credible case for the Bank of England to cut rates faster than markets expect.
- The OBR estimates that a sustained 1pp reduction in the Bank Rate and gilt yields would lower borrowing by £15bn in 2030–31.
- However, crucially, this is contingent on the wider geopolitical backdrop stabilising (see next slide).

However, greater geopolitical volatility remains the elephant in the room. Expectations for gilt yields and Bank Rate have moved higher since the OBR closed its forecast.

UK 20-year government gilt yields, %



Bank of England Bank Rate expectations, OBR vs latest market expectations, %



# Economic projections

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# Economic projections: UK

## PwC main scenario projections

	2010-19 Average	Latest	2024 Q3	Q4	2025 Q1	Q2	Q3	Q4	2026 Q1	Q2	Q3	2026	2027-29	As-at
<b>Economic output</b>														
UK real GDP growth, %	2.0	1.3 <i>2025</i>	1.3	1.9	1.8	1.4	1.3	1.0	0.6	0.7	1.0	0.9	1.7	<i>25<sup>th</sup> Feb</i>
<b>UK Prices and Policy rate</b>														
Consumer prices, %	2.2	3.2 <i>Nov</i>	2.0	2.5	2.8	3.5	3.9	3.3	2.9	-	-	-	2.2	<i>26<sup>th</sup> Feb</i>
- Services, %	3.0	4.4 <i>Nov</i>	5.2	4.8	4.9	4.9	4.9	4.5	4.2	-	-	-	2.6	<i>26<sup>th</sup> Feb</i>
- Core goods, %	0.8	1.1 <i>Nov</i>	0.2	0.9	1.3	1.5	1.5	1.2	0.8	-	-	-	1.0	<i>26<sup>th</sup> Feb</i>
- Energy, %	3.2	1.9 <i>Nov</i>	-13	-8	-7	-1	2.7	1.8	-0.1	-	-	-	4.1	<i>26<sup>th</sup> Feb</i>
Base interest rate, %	0.5	3.75 <i>Dec</i>	5.1	4.8	4.6	4.3	4.1	3.9	-	-	-	-	3.6	<i>24<sup>th</sup> Feb</i>
<b>Residential property, UK</b>														
Prices, annual growth rate, %	3.7	3.6 <i>Jun</i>	0.9	2.7	4.3	2.5	2.6	2.4	-	-	-	2.5	3.4	<i>25<sup>th</sup> Feb</i>
Transactions, monthly avg, 000s	92	96 <i>Jul</i>	92	97	128	81	-	-	-	-	-	-	-	-

# Economic projections: Global

## PwC main scenario projections

	2010-19 Average	Latest	2024 Q1	Q2	Q3	Q4	2025 Q1	Q2	Q3	Q4	2025	2026	2027-29	As-at
<b>G7 GDP, annual real growth rate, %</b>														
US	2.4	2.2 Q4	2.9	3.0	2.7	2.5	2.0	2.1	2.3	2.2	2.1	2.4	2.1	23 <sup>rd</sup> Feb
Canada	2.3	0.6 Q4	0.1	0.5	1.4	1.9	2.3	1.2	1.4	0.6	1.4	1.5	1.8	23 <sup>rd</sup> Feb
Germany	2.0	0.4 Q4	-0.5	-0.6	-0.6	-0.2	0.2	0.2	0.3	0.4	0.2	1.0	1.5	23 <sup>rd</sup> Feb
France	1.4	1.1 Q4	1.7	1.0	1.1	0.6	0.6	0.8	0.9	1.1	0.8	1.0	1.3	23 <sup>rd</sup> Feb
Italy	0.2	0.8 Q4	0.3	0.7	0.5	0.6	0.7	0.4	0.6	0.8	0.6	0.8	0.9	23 <sup>rd</sup> Feb
Japan	1.2	0.2 Q4	-0.9	-0.7	0.7	1.3	1.6	1.8	0.6	0.2	1.1	1.0	0.6	23 <sup>rd</sup> Feb
Eurozone	1.4	1.3 Q4	0.5	0.5	0.9	1.3	1.6	1.5	1.4	1.3	1.4	1.2	1.4	23 <sup>rd</sup> Feb
<b>Commodities</b>														
Brent crude, USD/bbl	79	61 Dec	82	85	79	76	76	66	69	65	69	69	66	24 <sup>th</sup> Feb

# Who to contact

## Economics team leadership

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## About us

Our team of economic consultants and strategists work alongside a wide range of clients, using economic insights to inform strategic choices, guide the development of policy and assess the impact of major investments and spending decisions. In the boardroom, in front of regulators and with policymakers and decision-makers at large, we develop big, distinctive ideas and important insights that are grounded in robust economic analysis.

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