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News in Review

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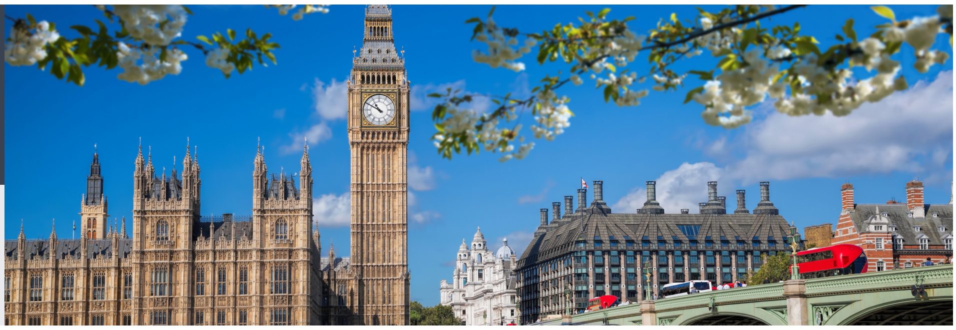
Spring Forecast 2026



On Tuesday 3 March, Chancellor of the Exchequer Rachel Reeves delivered her Spring Forecast, unveiling updated economic forecasts from the Office for Budget Responsibility (OBR). The Chancellor opened her statement by saying, *"This government has the right economic plan for our country,"* which was *"even more important in a world that in the last few days has become yet more uncertain,"* pointing to events in the Middle East.

She said the government will plot a course through the current uncertainty and "*secure the economy through shocks.*" Referring to what she described as the largest increase in defence spending since the Cold War, she reiterated her commitment to defence, providing reassurance in the light of global developments. She specifically referenced a £650m commitment made in January to upgrade Typhoon fighter jets, a new Royal Navy frigate launched in February and a recent £1bn helicopter deal.

One fiscal event

Reiterating the government's intention to hold one key fiscal event each year - the Budget in the Autumn - Reeves said, "*Stability is the single most important precondition for economic growth... limiting major policy changes to the Budget and giving businesses and households the certainty they need.*"

Economic forecasts

The Chancellor outlined the OBR's latest assessment of the UK economy, with the independent forecaster predicting continued economic expansion, but at a slower pace than previously forecast. Growth in 2026 is now expected to be 1.1%, down from a prediction of 1.4% in November 2025, before averaging 1.6% a year over the rest of the forecast period.

Unemployment

The OBR projects unemployment to peak at 5.3% later in 2026, before gradually falling throughout the forecast period and ending the Parliament at around 4.1%. The Chancellor then turned specifically to youth unemployment, saying that *"this government will not leave an entire generation of young people behind*." She confirmed that the government is currently taking action by reforming apprenticeships and delivering a Youth Guarantee, with more plans to be set out in the weeks ahead.

Borrowing

In its Economic and Fiscal Outlook, the OBR forecasts that public sector net borrowing will fall from 5.2% of GDP in 2024/25 to 4.3% of GDP this year, and then to 1.6% of GDP in 2030/31. This is a slightly faster pace of decline than in the November forecast, with borrowing revised down by £8bn in 2030/31 compared to November, largely due to an improved receipts forecast.

Inflation

Setting out more of Labour's economic record, the Chancellor said the OBR projects that inflation will fall from 3.4% in 2025 to 2.3% in 2026, and then to 2% from 2027 onwards. It also forecasts that the 2% target for the UK inflation rate will be met towards the end of 2026.

This would mean the UK meets its target sooner than originally predicted following the November Budget, where the OBR had forecast a rate of 2.5% in 2026, then 2% in the following three years.

Looking ahead

In two weeks' time, at the Mais Lecture, the Chancellor has said she will set out "*three major choices"* set to determine the future course of the economy, including strengthening global relationships, breaking down trade barriers and harnessing the power of AI.

The Chancellor closed her statement saying, *"If we stay the course and stick to our plan, and our debt interest rates return to the G7 average, we will have £15bn a year more for the priorities of working people and to make working people better off - that is the prize on offer, that is the prize within our grasp*."

Business response

Responding to the Chancellor's Spring Forecast, Shevaun Haviland, Director General of the British Chambers of Commerce, said that it confirmed the Uk economy is *"heading in the right direction, but further acceleration is needed. With GDP expected to grow well below 2% a year until 2030, unemployment set to rise in the near term and net trade remaining anaemic, there is more to do*."

She added, "*Crucially, the OBR's inflation forecast does not take into account the widening conflict in the Middle East and increasing disruption to oil and gas supplies and shipping. That inevitably adds a fresh element of uncertainty on prices and government borrowing*."