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**Spring Statement 2026:**  
**UK Economic Update Amid Weak**  
**Growth and Rising Risks**

**By**

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**12 March 2026**

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*Spring Statement 2026: UK Economic Update Amid Weak Growth and Rising Risks*

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**Executive Summary**

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**Reeves Presented Spring Statement**

- ✦ Chancellor Rachel Reeves reaffirmed fiscal discipline and economic stability, presenting no major new policy measures while arguing that tighter control of public finances has restored investor confidence.

**Weak Growth and Lower Trend Outlook**

- ✦ The UK economy grew only modestly in 2025, with GDP expanding 1.3% for the year and just 0.1% in the final quarter, while output per person remains near pre-pandemic levels.
- ✦ The Office for Budget Responsibility has lowered its trend growth estimate and cut the 2026 growth forecast to 1.1%, citing weaker labour supply, slower consumption, and signs of labour market softening.

**Elevated Inflation and Weakening Labour Market**

- ✦ UK inflation fell to 3.0% in January 2026, with core inflation also declining, signalling gradually easing price pressures. However, inflation remains higher than in other advanced economies due to high energy costs, and rising oil and gas prices linked to Iran conflict could push inflation back toward 5%.
- ✦ Unemployment has risen to a five-year high of 5.2%, while job vacancies fell to about 695,000 in January, the first time below 700,000 since 2021.
- ✦ Hiring has slowed sharply, with vacancies down 16% year-on-year and nearly 20% in six months, as firms cut recruitment amid rising labour costs.

**Weak Productivity and Investment Outlook**

- ✦ UK productivity growth has been weak for over a decade, though 2025 may have seen a modest rebound, with labour productivity growth estimated above 1%.
- ✦ Despite this, corporate profitability has declined and business investment is expected to fall from 11% of GDP in 2025 to around 10.5% by 2030 due to low returns on capital and high financing costs.

**High Public Spending and Structural Growth Risks**

- ✦ Public spending surged during the Covid crisis and remains elevated, while higher marginal tax rates risk weakening incentives to work, save, and invest.
- ✦ Weak productivity, declining investment incentives, and high public spending point to persistent structural challenges and rising stagflationary pressures in the UK economy.

**Key Risks to the UK Economic Outlook**

- ✦ Rising Middle East tensions and higher oil and gas prices could push UK inflation higher, erode household incomes, and complicate Bank of England rate-cut plans.
- ✦ Revenue forecasts rely partly on strong equity markets; a market downturn or prolonged energy shock could weaken fiscal projections and increase pressure on public finances.

**Fiscal Pressures and Policy Uncertainty Ahead**

- ✦ The Spring Statement introduced no major policy changes, but rising costs, from defence spending and local government finances to potential energy support, could force difficult fiscal decisions later this year.
- ✦ The government has also faced criticism for repeated policy reversals, raising concerns about consistency in its economic strategy.

## Introduction

Chancellor Rachel Reeves presented her Spring Statement outlining the government’s fiscal outlook and spending plans for the coming years. She argued that tighter control of public finances, combining restrained spending with higher taxes, had stabilised Britain’s fiscal position after what she described as the excessive spending of the previous Conservative government. According to Reeves, this renewed fiscal discipline has helped restore confidence among international investors and the domestic business sector.

The statement introduced no major new policy measures, broadly in line with prior expectations. Instead, [Reeves emphasised](#) fiscal stability and economic resilience while warning that the conflict involving Iran and the wider Middle East has increased global uncertainty. She stressed that the government must guide the economy through rising geopolitical risks and protect households from external shocks. Reeves also noted that she remains in close contact with the Bank of England, international counterparts, and key sectors such as maritime and North Sea energy to assess the potential economic implications of the escalating tensions.

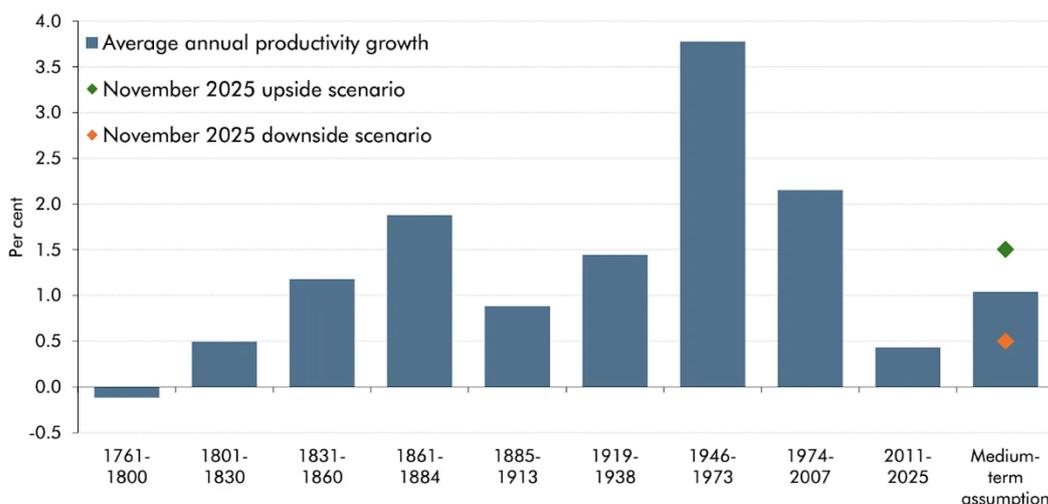
Britain’s economy could face a “[very significant](#)” shock from the war in Iran, the UK’s fiscal watchdog warned, as rising energy prices threaten to undermine Chancellor Rachel Reeves’ promise of economic stability. The OBR cut its growth forecast for 2026 to 1.1% and cautioned that escalating conflict in the Middle East could have major consequences for both the global and UK economies.

The projections were prepared before the recent escalation in the Iran conflict, which has already pushed up oil and gas prices and unsettled financial markets. Higher energy costs risk slowing growth and complicating efforts by the BoE to return inflation, currently around 3%, to its 2% target. Markets have sharply scaled back expectations for interest rate cuts, with the probability of a near-term reduction dropping to about 20%.

## Weak Growth and Lower Trend Outlook

The UK economy ended 2025 with only marginal growth. Real GDP expanded by 0.1% in the fourth quarter, matching the pace recorded in the previous quarter and falling slightly below market expectations of 0.2%. On an annual basis, GDP grew by 1.0% in Q4, below the expected 1.2%. For 2025 as a whole, the economy expanded by 1.3%, a modest improvement from 1.1% growth in 2024. The outlook for 2026 remains subdued. The Office for Budget Responsibility (OBR) now forecasts real GDP growth of just 1.1% this year, revised down from 1.4% projected only six months earlier. Despite the recovery in aggregate output, living standards have stagnated: output per person remains roughly at its pre-pandemic 2019 level.

**Figure 1: Growth in Output Per Hour Worked**



Source: [Economic and Fiscal Outlook March 2026, OBR](#)

The OBR has slightly lowered its estimate of the UK’s trend growth in its March economic statement compared with its November 2025 forecast. The revision reflects a small downward adjustment of 0.1 percentage points to the economy’s long-term growth rate. While the OBR has marginally raised its productivity growth outlook—supported by higher investment—this improvement is offset by weaker projected labour supply, largely due to lower expected immigration and the effects of an ageing population. As a result, overall potential output growth is slightly lower than previously forecast, leaving the level of potential output around 0.25% lower by 2030.

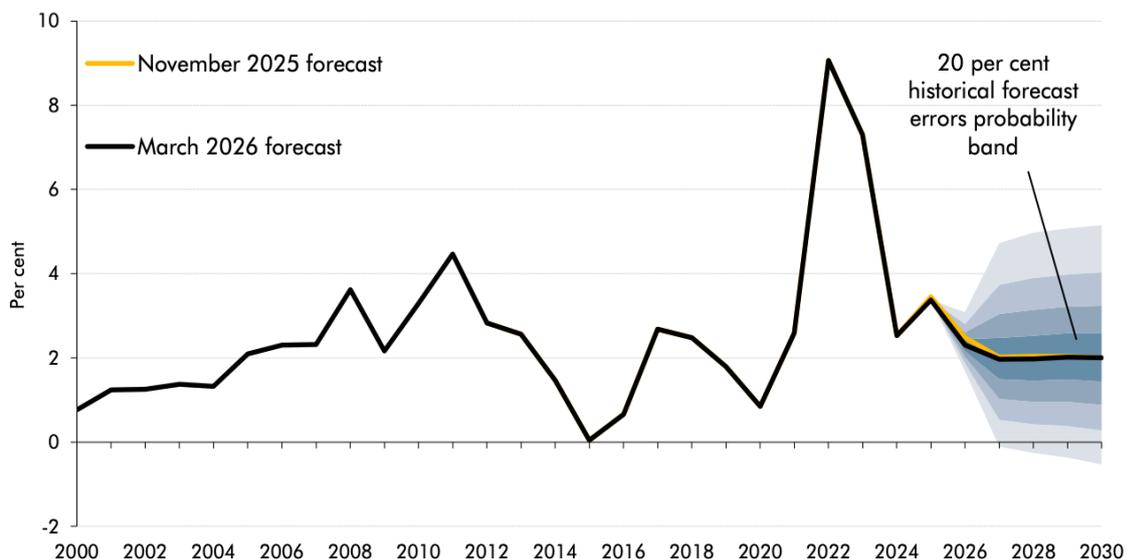
In the short term, the OBR also expects a cyclical slowdown. Growth in 2026 has been revised down to 1.1%, from 1.6% in the November forecast, reflecting weaker-than-expected economic performance in 2025, signs of labour market softening, and subdued business sentiment. The downgrade is driven mainly by weaker household consumption, now projected to grow by 0.8% rather than the previously expected 1.2%.

**Inflation Eases but Remains Elevated**

Inflation has begun to ease but remains elevated compared with other advanced economies. Consumer price inflation fell to 3.0% in January 2026 from 3.4% in December, the lowest rate since March 2025, largely reflecting slower increases in transport and food prices. Core inflation, which excludes food and energy, also declined to 3.1%, its lowest level since August 2021, indicating gradually moderating underlying price pressures. On a monthly basis, consumer prices fell by 0.5%, reversing December’s 0.4% increase.

However, inflation remains structurally higher than in peer economies. The UK recorded an average inflation rate of 3.4% in 2025, about one percentage point above the average [across other advanced economies](#). Energy costs are a major driver of this divergence, with UK households facing some of the highest electricity prices globally. While inflation is expected to decline further this year, that outlook could quickly change if global oil and gas prices rise, particularly if the conflict involving Iran leads to sustained disruptions in energy markets. Under such a scenario, inflation could move back toward 5%, well above the Bank of England’s 2% target.

**Figure 2: CPI Inflation**



Source: [Economic and Fiscal Outlook March 2026, OBR](#)

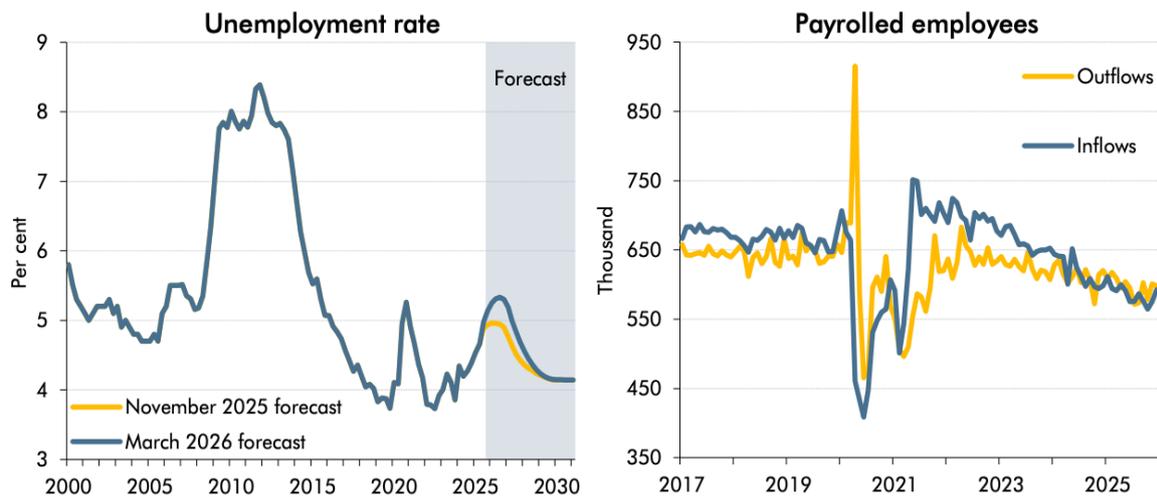
**Labour Market Weakening**

Labour market conditions are also deteriorating. The unemployment rate has risen to a five-year high of 5.2%, while job vacancies continue to decline. [According to the job search platform Adzuna](#), advertised vacancies fell

by 3% in January to around 695,000, the first time they have dropped below 700,000 since early 2021. Graduate job postings have also fallen sharply, dropping below 10,000 for the first time since records began in 2016.

The decline in vacancies reflects a broader slowdown in hiring that began in late 2025. Job postings are now 16% lower than a year earlier and nearly 20% lower than six months ago. Businesses have scaled back recruitment amid rising labour costs following increases in national insurance contributions and the minimum wage introduced in recent budgets.

**Figure 3: Unemployment Rate and Payrolled Employees**



Source: [Economic and Fiscal Outlook March 2026, OBR](#)

**Weak Productivity and Investment Outlook**

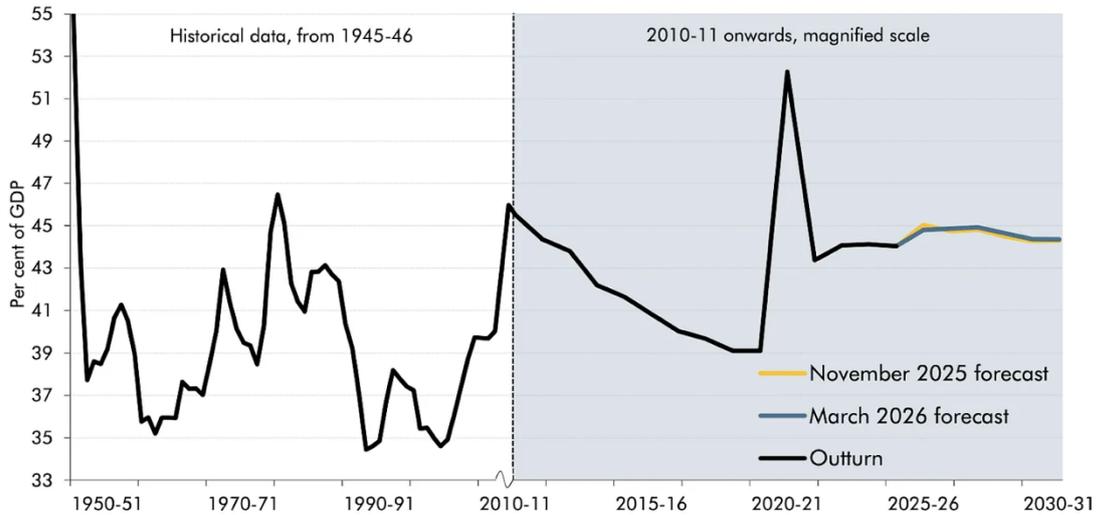
Productivity growth has been weak for more than a decade. Reflecting this persistent underperformance, the OBR has incorporated lower long-term productivity growth assumptions into its fiscal forecasts. Nevertheless, some economists argue that 2025 may have been one of the stronger years for productivity since the global financial crisis. Alternative employment indicators suggest that total employment growth was flat or declining during the year, implying labour productivity growth above 1%—more than double the average annual rate of 0.5% recorded since 2010.

Despite this modest improvement, the broader investment environment remains challenging. [The OBR notes that](#) corporate profitability, an important driver of private investment, has declined as a share of GDP since 2020. Private sector business investment is expected to decline as a share of GDP. While the Office for Budget Responsibility (OBR) has slightly raised its forecast for the level of business investment due to stronger recent data, it still expects investment to fall from 11% of GDP in 2025 to about 10.5% by 2030. The OBR attributes this to a low rate of return on capital and persistently high financing costs, though the projected level of investment is marginally higher—by about 0.1 percentage points—than in its November forecast

**High Public Spending and Structural Growth Risks**

The central issue in public finance is the size of government spending. OBR data show that the sharp rise in public spending during the Covid crisis was never fully reversed after 2021 and has since been reinforced by policy decisions to increase spending, taxation, and borrowing. The OBR itself warns that a higher tax burden risks distorting economic incentives. While the UK’s overall tax take is not unusually high among advanced economies, marginal tax rates may exceed the OECD average, potentially discouraging work, saving, and investment. Its decision to conduct further analysis of UK marginal tax rates relative to other countries is therefore welcome.

**Figure 4: Public Spending as a Share of GDP**



Source: [Economic and Fiscal Outlook March 2026, OBR](#)

Without stronger corporate returns and investment incentives, the UK risks remaining trapped in a prolonged period of low productivity growth and weak economic dynamism. Taken together, these trends point to an economy increasingly characterised by stagflationary pressures—weak growth combined with persistent inflation. Structural weaknesses remain pronounced, particularly in productivity and investment. [Chancellor Rachel Reeves has acknowledged](#) that the UK records the lowest productivity growth and investment rates among G7 economies.

**Key Risks to the UK Economic Outlook**

*Middle East Conflict*

A key risk to the OBR’s forecast stems from escalating tensions in the Middle East. Reeves said the government would steer the economy through rising global volatility triggered by the Middle East conflict while maintaining policy stability and supporting business investment. Nevertheless, sustained increases in oil and gas prices could push inflation high. [A \\$10 increase in oil prices typically adds roughly 0.1 percentage points](#) to consumer price inflation within months, while rising wholesale gas costs could push household energy bills higher when the regulator Ofgem updates its price cap in July. Because UK electricity prices are closely linked to gas prices, the country tends to be more exposed to energy shocks than many European peers.

The UK still has the highest inflation among Group of Seven economies, limiting the ability of the BoE to cut interest rates quickly. Higher inflation would also affect public finances by increasing debt servicing costs through index-linked gilts, raising social security payments, and adding pressure on departmental spending. In addition, higher energy prices would erode real household incomes and weaken consumption, an important pillar of the OBR’s growth outlook.

Despite the heightened risks, Reeves sought to project confidence, arguing that fiscal discipline had strengthened the public finances and positioned the economy to withstand global turbulence. The OBR slightly increased her fiscal “headroom” under the government’s fiscal rules to £23.6 billion, up from £21.7 billion after the November budget. Reeves reiterated that stability remained the government’s central economic objective and pledged to maintain fiscal discipline despite mounting geopolitical uncertainty.

*Revenue Projections*

Another vulnerability lies in the revenue projections. A significant share of the upward revision in government revenues since the November forecast reflects stronger capital tax receipts linked to higher equity prices. The OBR expects receipts to be £12 billion higher by 2030–31 than previously forecast, with around £9 billion of this increase driven by equity prices roughly 8% higher than assumed in November. If financial markets were to react negatively to geopolitical tensions and equity prices declined, these revenue projections could quickly come under pressure.

### *Monetary Policy*

Higher energy-driven inflation could also complicate monetary policy. Central banks facing renewed inflation risks might need to maintain or even tighten policy rather than easing it. For the Bank of England, which has struggled to return inflation sustainably to its 2% target after the post-pandemic surge, a renewed oil-price shock would pose a difficult policy trade-off. These risks are not incorporated into the OBR's baseline forecast, but they could influence the short-term outlook. Over the longer term, however, they are unlikely to materially alter the UK's structural challenges of weak trend growth and high public sector costs.

### **Fiscal Pressures and Policy Uncertainty Ahead**

Rachel Reeves used the Spring Statement to project stability and avoided announcing new policy measures, largely sticking to her pledge not to introduce major fiscal changes. The updated forecast reflects only minor adjustments since the last Budget, including changes to inheritance tax, business rates relief for pubs, and the UK's participation in Erasmus.

However, significant fiscal pressures remain on the horizon. The Office for Budget Responsibility highlights several sources of potential upward spending pressures, including the uncertain trajectory of incapacity benefits and growing strains on local government finances. Defence spending presents an even larger challenge: raising expenditure to NATO's target of 3.5% of GDP by 2035 could require roughly £40 billion in additional annual spending in today's terms. Current projections place defence spending at around 2.6% of GDP by 2028-29, though the government has indicated an ambition to reach 3% before the end of the parliament.

Additional pressures could emerge if energy prices remain elevated. Rising household energy bills may prompt calls for government support, while political pressure to cancel the planned September fuel duty increase would likely intensify if the US-Iran conflict keeps global oil prices high.

At the same time, the government's economic strategy has been weakened by repeated policy reversals. The government has struggled to maintain a consistent policy direction, repeatedly reversing key decisions. [These U-turns include](#) restoring the winter fuel allowance for pensioners, abandoning the cap on child benefits for families with more than two children, and reconsidering earlier commitments on income tax policy, among other policy reversals. Taken together, these developments raise questions about the consistency of the government's fiscal strategy at a time when the UK economy already faces weak growth, high inflation risks, and mounting geopolitical uncertainty.