

# Spring Statement 2026

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## Micro tweaks, macro problems: The UK's uncomfortable economic outlook

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By former GK Strategic Adviser and former Treasury and Education Minister, David Laws

Rachel Reeves kept to her promise that this week's Spring Statement would be no more than an economic update, with new forecasts, rather than a fully-fledged Budget.

But the Chancellor and the Treasury still need to do better in planning their annual economic statements – what is the point of publishing forecast updates just three months after the last set? Unsurprisingly, the changes to the forecasts are rather trivial – slightly lower growth this year and slightly higher unemployment, combined with a marginally higher 'headroom' against fiscal targets – £23.6bn versus the £21.7bn in November.

Unfortunately, these micro tweaks to the government's forecasts are already not worth the paper they are written on. They were finalised before the US and Israel attacked Iran, leading to an outbreak of conflict which has sent energy prices soaring, increased market interest rates and sent equity markets plunging. Expectations for higher inflation will also make it more difficult for the Bank of England to bring down UK interest rates. The Spring Statement update is already, therefore, an irrelevance – and the outlook depends critically on how long conflict in the Middle East lasts and what this means for energy prices.

We can therefore only step back and ask what the big picture looks like for the UK, and it's not a particularly pretty picture. The OBR is forecasting trend growth of a mere 1.5%, high levels of public borrowing and debt, and taxes rising to a peacetime high. In addition to this, there are a host of spending pressures including defence, health and social care, and welfare costs. And the government is predicting much lower public spending growth in the run up to the next election – which is unlikely to materialise.

While growth trundles along at between 1% and 1.5%, the UK's economic and political problems are likely to remain with us. We need sustained growth of 2% and more if we are to deliver improved public services, moderately lower taxes, and manageable public borrowing. For that we need two things to happen.

The first is a better UK strategy for growth – something the Chancellor only hinted at today in relation to a speech she is due to make in a few weeks' time. This needs to explain how on relations with the EU, on skills, on planning, on infrastructure and on business investment, the UK is going to be a better place for businesses to grow.

The second thing the government needs in order to deliver growth is economic stability. Sadly, much of that is outside its control. President Trump's disruptive foreign and defence policies, combined with endless uncertainty over US tariff and other policies, is exactly what the world and UK economies do not need. In the face of such uncertainties, the forecasts in the Spring Statement must be treated with even more scepticism than most economic forecasts merit.

## **The Chancellor asks the public to trust that the plan is working**

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By GK Senior Associate, Sam Tankard

The Chancellor's combative Spring Statement was light on new policy detail but was designed to deliver a clear message: the plan is working.

Against a backdrop of global economic and geopolitical uncertainty, Reeves pointed to a number of positive indicators from the OBR to argue that the government's approach has restored stability to the UK economy - inflation falling, borrowing costs easing and growth projected to strengthen over the remainder of the Parliament.

In the aftermath of last week's seismic by-election defeat in Gorton and Denton, the Chancellor is also responding to the rising popularity of radical parties on both ends of the political spectrum, in the shape of the Green Party and Reform UK. A significant portion of the statement was devoted to framing these parties as risks to the UK's economic credibility, while continuing to draw contrasts with the poor fiscal record of previous Conservative governments.

The Chancellor will hope that the robustness of her statement will shore up the views across the country, and (perhaps just as importantly) across her own backbenches, that the country must 'stay the course' to secure the 'prize on offer' from a strategy rooted in fiscal discipline.

Reeves' critics, including those within the Cabinet, will say that a coherent growth strategy is still lacking. The OBR's figures certainly reflect that, with near term growth metrics still leaving much to be desired for a government elected on a pro-growth platform.

Two questions now emerge. Firstly, whether the Chancellor's 'growth speech' billed for mid-March will show any sign of a plan to capitalise on the green shoots revealed in the spring statement. Secondly, and more importantly, will be the question of whether an increasingly impatient electorate will accept the Chancellor's argument for continuity at the local elections in May.

## The OBR presents a mixed picture amidst Middle Eastern conflict

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By GK's Head of Policy, Hugo Tuckett

The Office for Budget Responsibility's (OBR's) latest forecast offers a mixed picture on the state of the UK economy and public finances. An improved outlook for public sector borrowing will be welcomed by the Treasury, although weaker than previously predicted economic growth this year will certainly be a cause for concern.

The OBR is projecting that public sector net borrowing will fall to 1.6% of GDP in 2030-31, the latest year of the forecast period, with borrowing revised down by £8 billion compared to its previous forecast in November. Reeves was keen to jump on this news in her statement to parliament, pointing out that the government's fiscal headroom is now forecast to stand at almost £24 billion in 2029-30. This is a bigger margin than predicted in the government's 2025 Autumn Budget and reduces the prospect of a further round of tax rises later this year. The Chancellor will also be buoyed by the OBR's prediction that inflation will reach the Bank of England's 2% target in late 2026.

Economic growth – supposedly the Prime Minister and Chancellor's central aim when coming to power – continues to disappoint. The OBR is now forecasting the UK's real GDP growth to slow from 1.4% in 2025 to 1.1% in 2026, before averaging 1.6% per year for the rest of the parliament. This will only heap further pressure on the government to come up with a credible growth plan in short order if it hopes to avoid being forced to implement scant increases in public sector spending in the run up to the next general election in 2029 – something that will hardly play well with Labour's base as it seeks to fend off the rising electoral threat posed by the Greens.

The Chancellor is due to set out her growth plans in the next few weeks. Expect a focus on further reforms to the planning system following the recent passage of the Planning and Infrastructure Act and a renewed offer on skills, particularly for young people, to address the rise of those aged 16-24 not in employment, education or training.

Unfolding events in the Middle East mean that much of what has been announced today is very likely to quickly become redundant. A protracted conflict threatens to keep already soaring energy prices higher for longer, creating inflationary pressures that will threaten the 2% inflation target. Similarly, President Trump's economic agenda following the Supreme Court's decision to strike down his Liberation Day tariffs is also likely to lead to further economic instability, creating further uncertainty for investors, and weakening global growth prospects.

While the Chancellor will present the OBR's latest forecast as an endorsement of her plan for the economy, all eyes will remain on the Middle East as the economic repercussions of the conflict continue to make themselves felt.

## Contact Information

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