

Office for  
**Budget  
Responsibility**

## **July 2023 *Fiscal risks and sustainability***

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The live event will begin at 11.30

Office for  
**Budget  
Responsibility**

## **July 2023 *Fiscal risks and sustainability* report**

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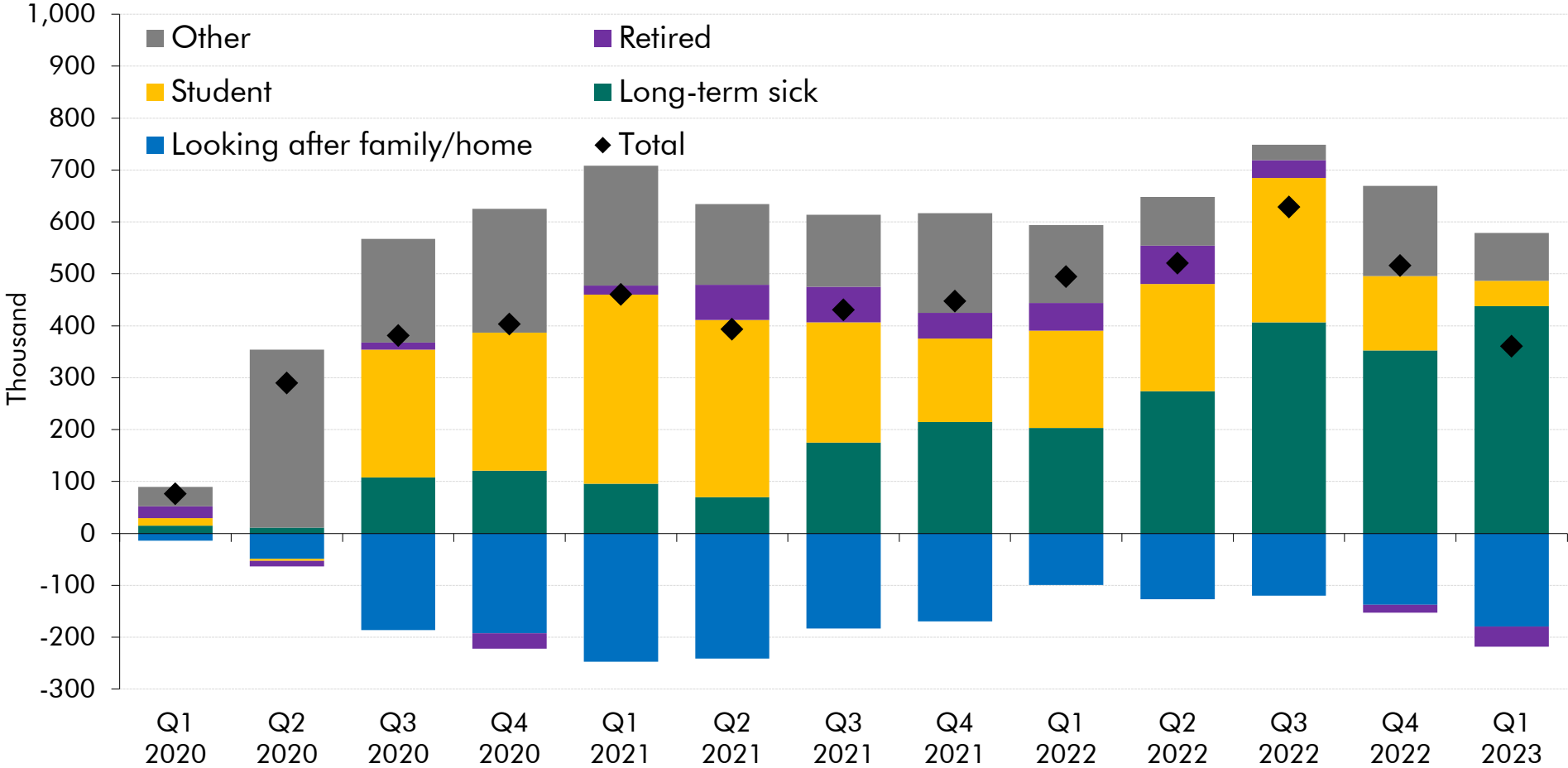
**Richard Hughes**  
Chair

London  
13 July 2023

# Content of this report

- **Inactivity and health (Chapter 2)**
- **Energy (Chapter 3)**
- **Debt sustainability (Chapter 4)**
- **Fiscal risk register (Chapter 5)**

# Change in working-age inactivity since 2020



Source: ONS

# The long-term sick inactive population

- **Age:** Half of the post-pandemic *increase* among those aged **50-64**
- **Health condition:** Half of the post-pandemic *increase* among those citing **mental health** problems and **unspecified conditions** (potentially including long-Covid)
- **Qualification:** Nearly three-fifths of the post-pandemic *increase* among those **with A-level qualifications or below**
- **Occupation:** Most of the post-pandemic *increase* among those who previously worked in **lower-paid occupations** and often in **high-social-contact sectors**
- **Duration:** More than half of the wider *stock* of those inactive for health reasons have been out of work for **over three years**, and over a fifth have **never worked**

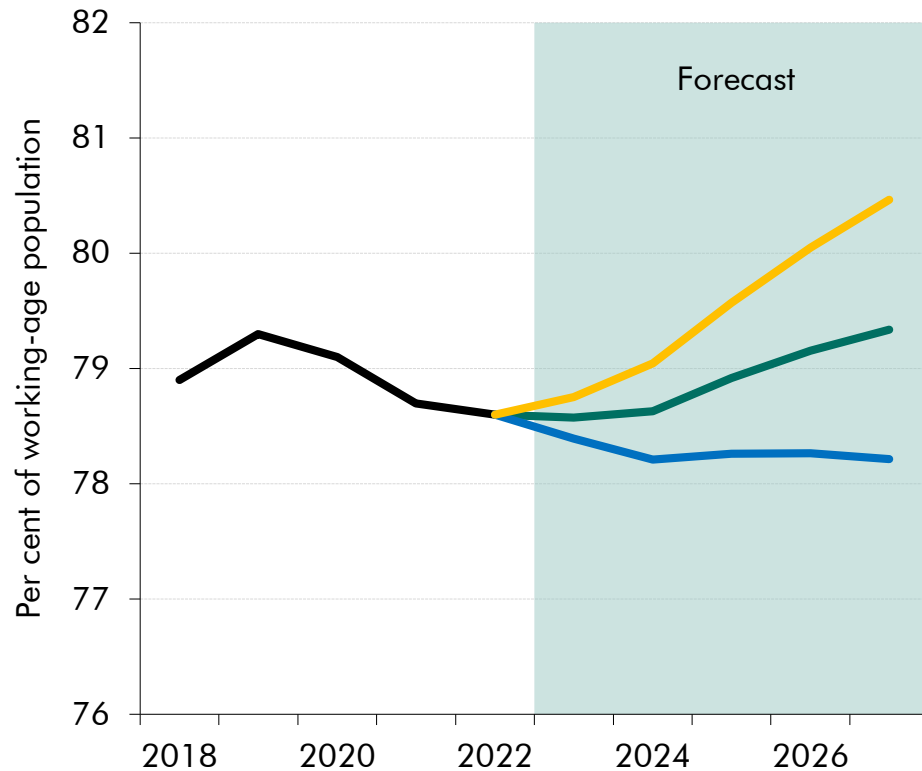
# Fiscal impact of health-related inactivity

**The 440,000 rise in health-related inactivity since start of the pandemic will cost the public finances in 2023-24:**

- Around £7bn in additional welfare spending, with around two-thirds of this spent on health-related universal credit and a third on disability benefits
- Around £9bn in foregone tax revenue, with three-fifths relating to lower PAYE and NICs receipts and smaller reductions across a range of other taxes
- £900-1,800 per person, per year in extra pressures on the NHS

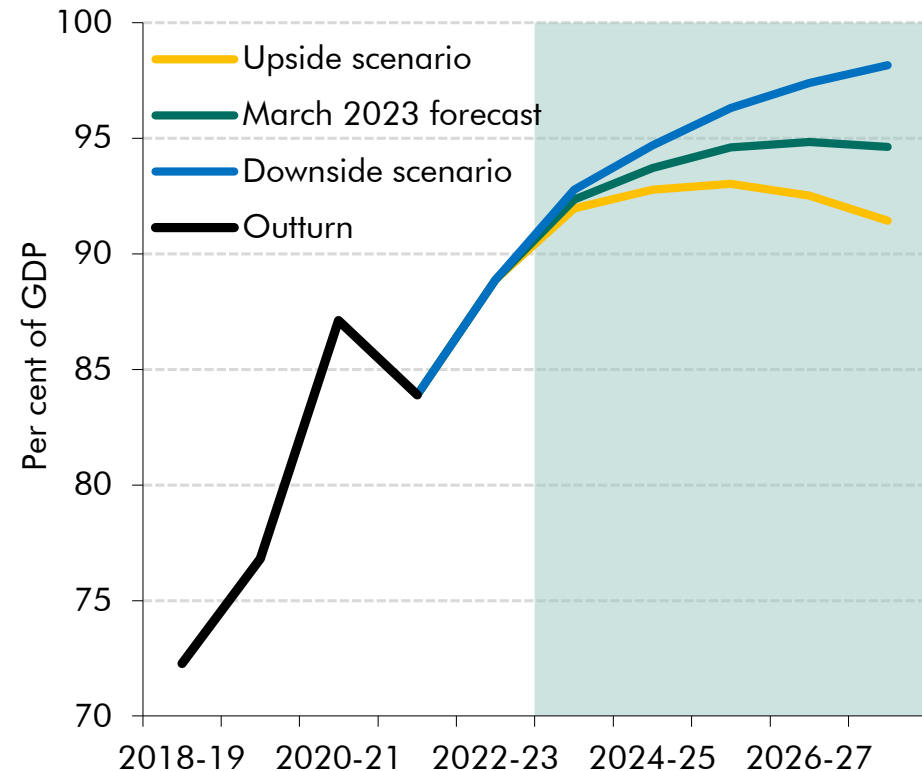
# Scenarios for health-related inactivity

## Participation rate



Source: ONS, OBR

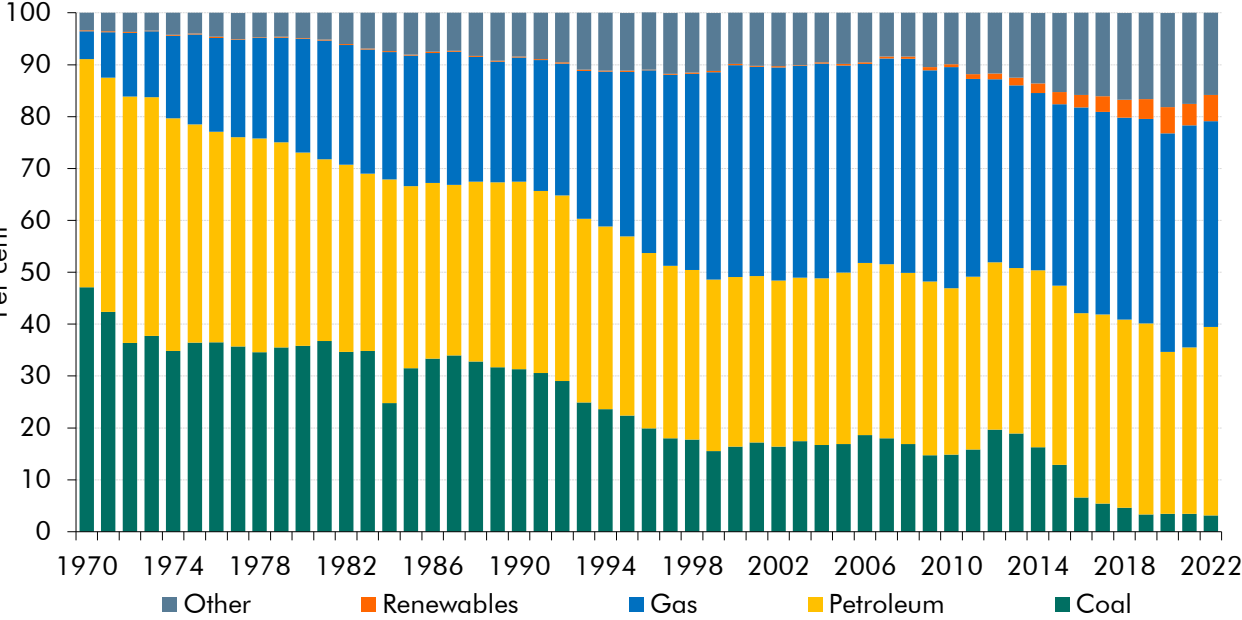
## Public sector net debt excluding Bank of England



Source: ONS, OBR

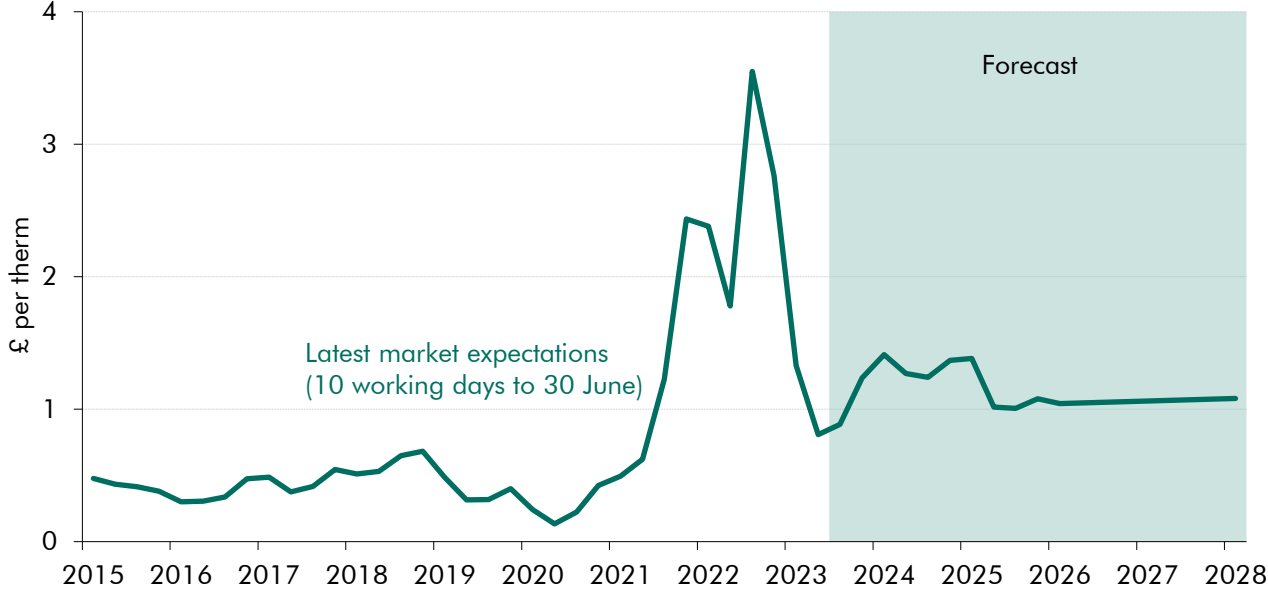
# Energy consumption and gas prices

## UK inland energy consumption



Source: DESZN

## Latest gas price expectations

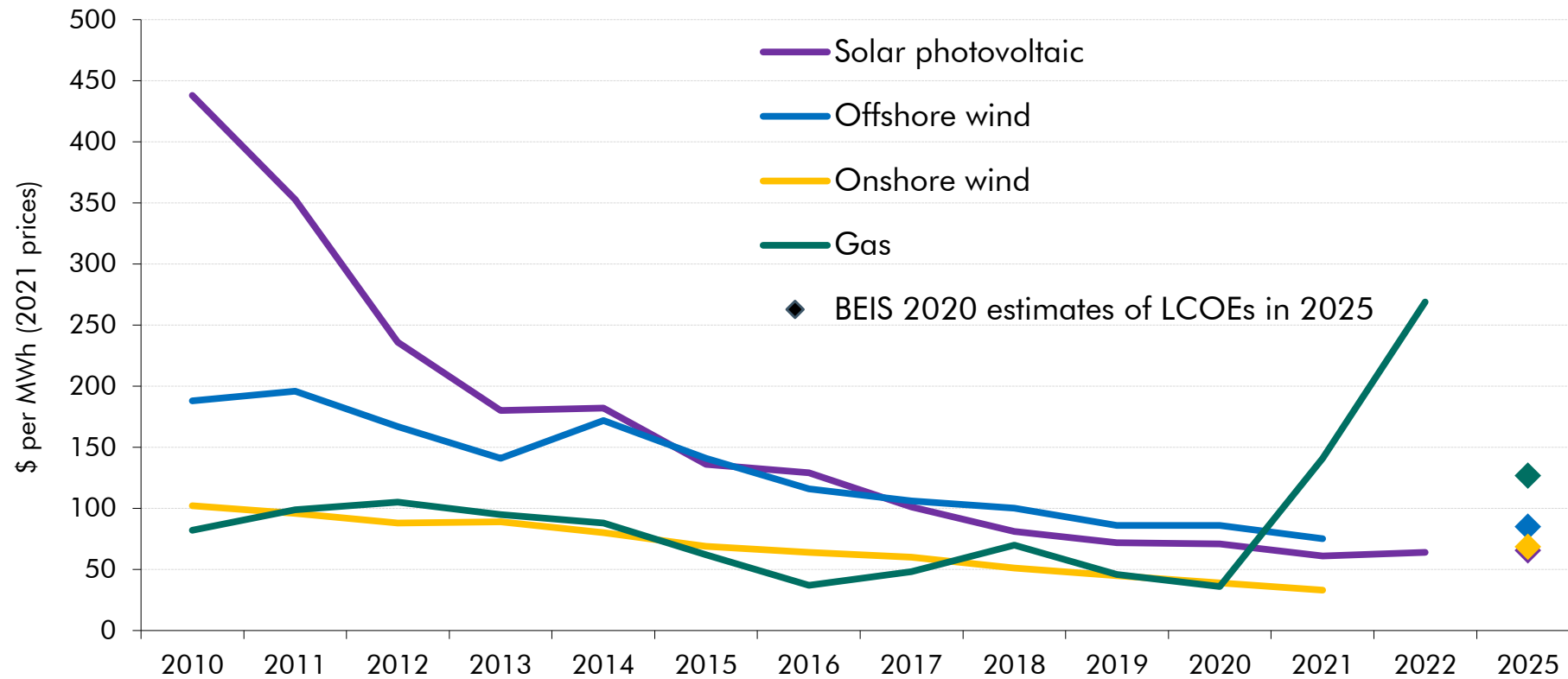


Source: Datastream, Eikon, OBR



# Relative price of energy generation

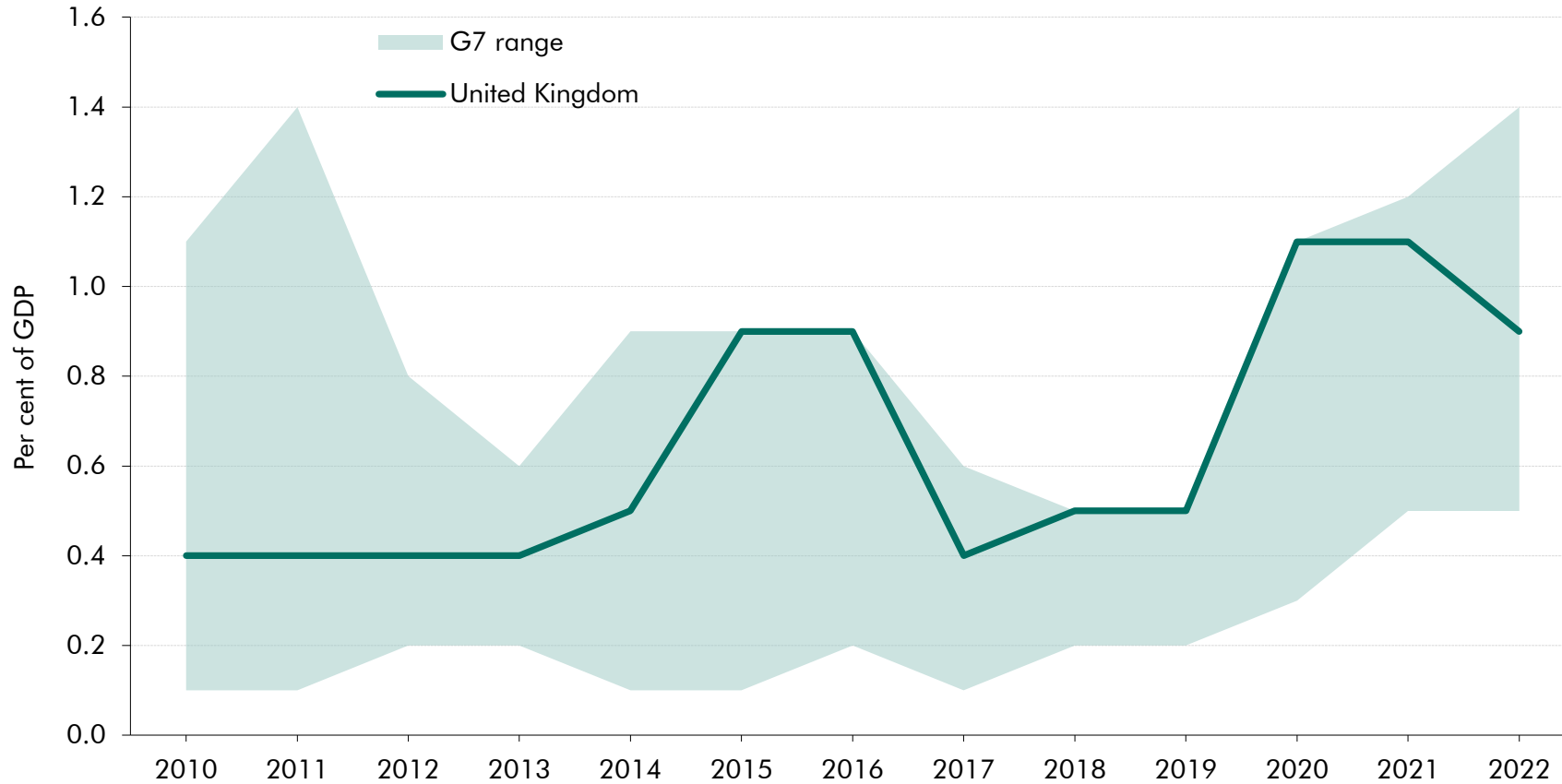
## Trends in the levelised cost of electricity generation



Source: BEIS, IRENA, OBR

# Renewable energy investment

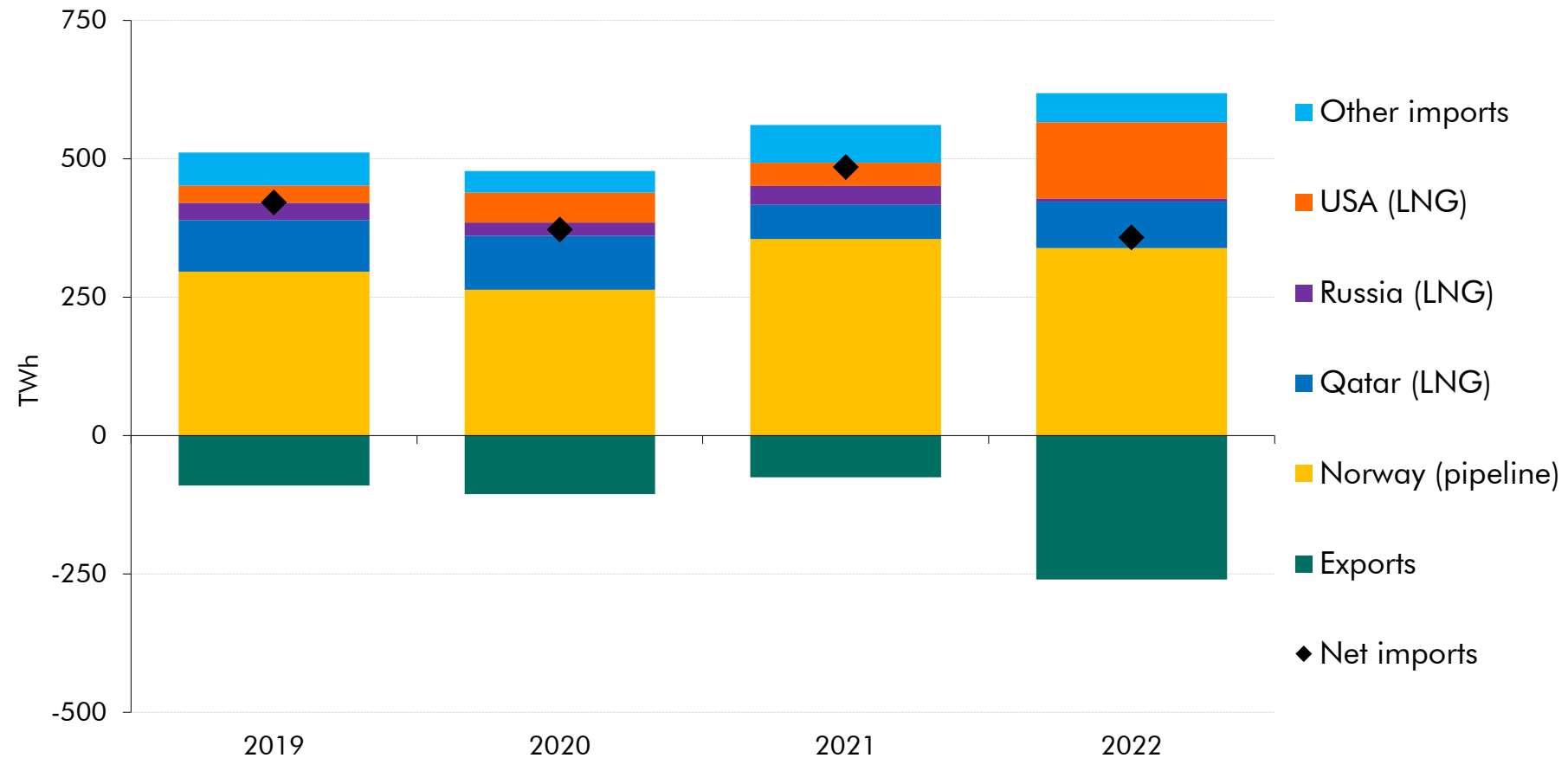
## International investment in low-carbon technology



Source: DESZN

# Gas imports

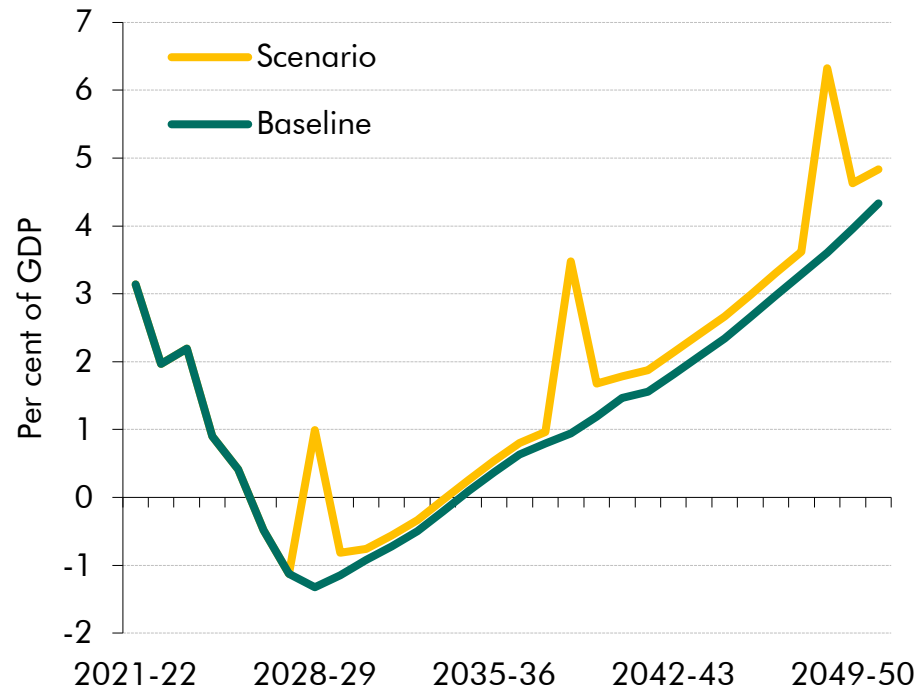
## UK net imports of gas by country



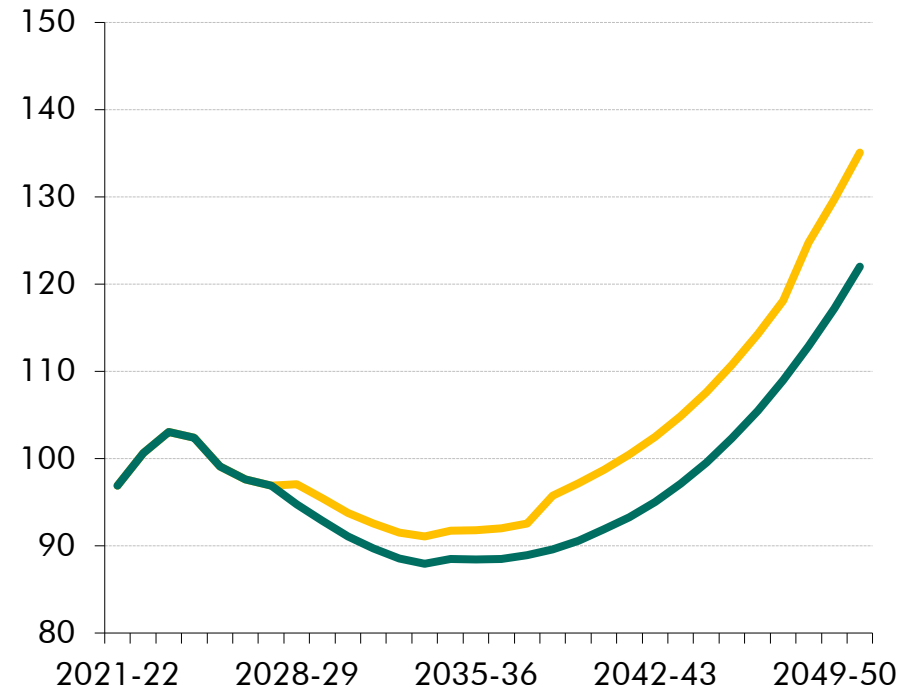
Source: DESNZ

# Scenario for continued gas dependence

## Primary deficit

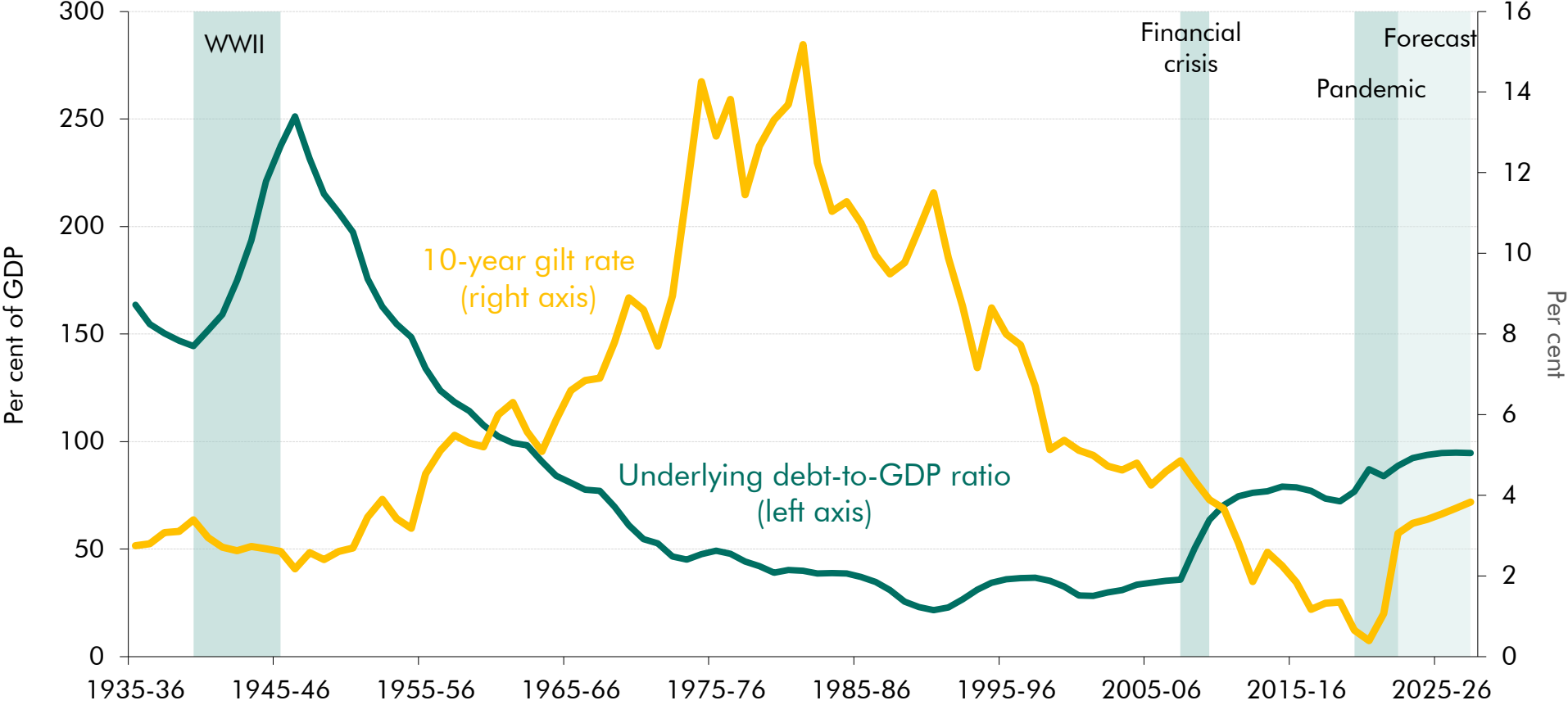


## Public sector net debt



Source: OBR

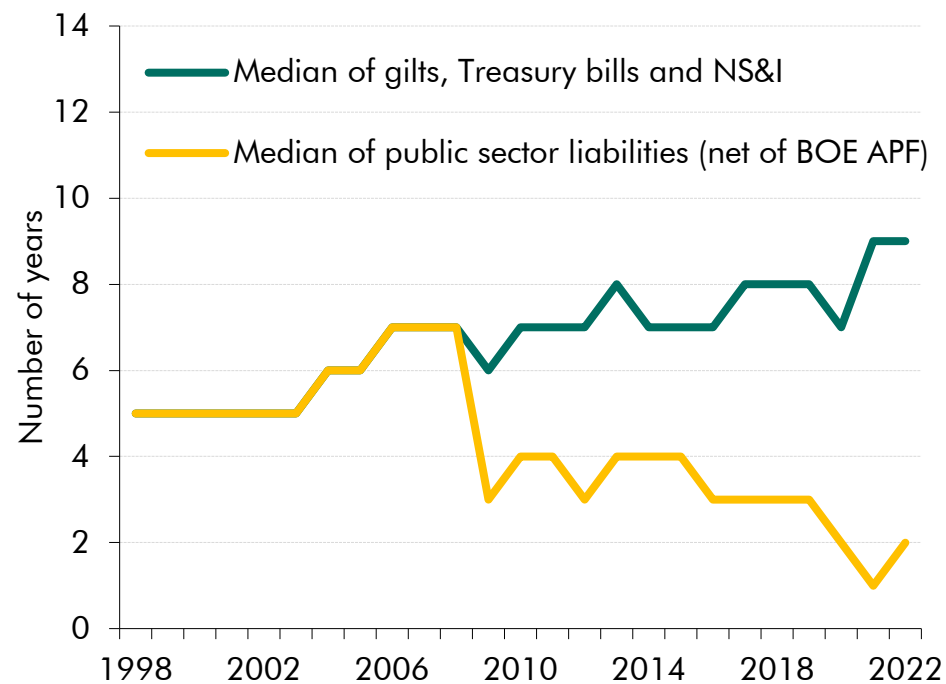
# Government debt and cost of borrowing



Source: Bank of England, ONS, OBR

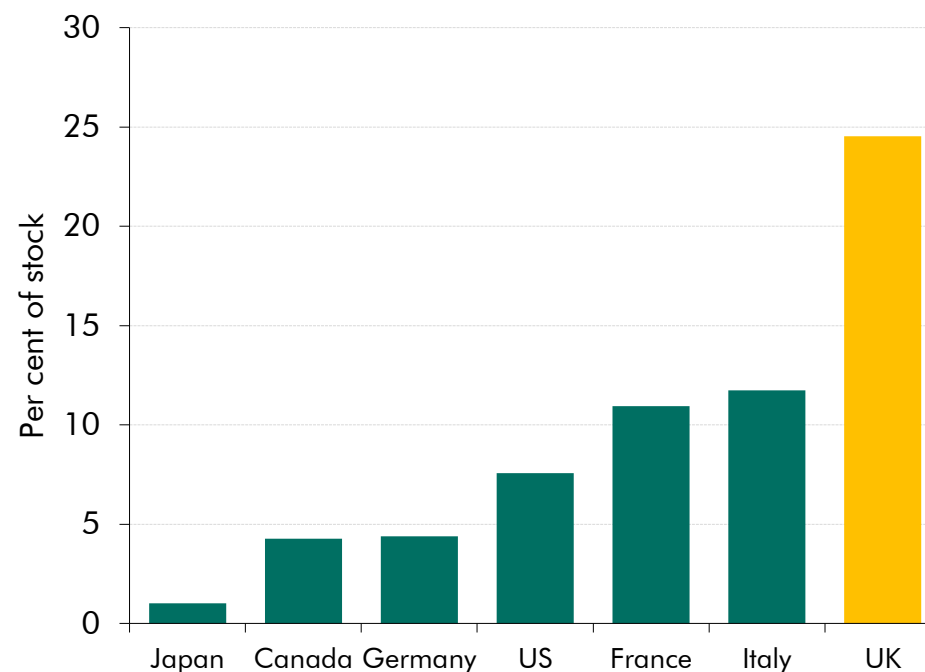
# Sensitivity of UK debt to interest and inflation

## UK debt maturities



Source: Bank of England, DMO

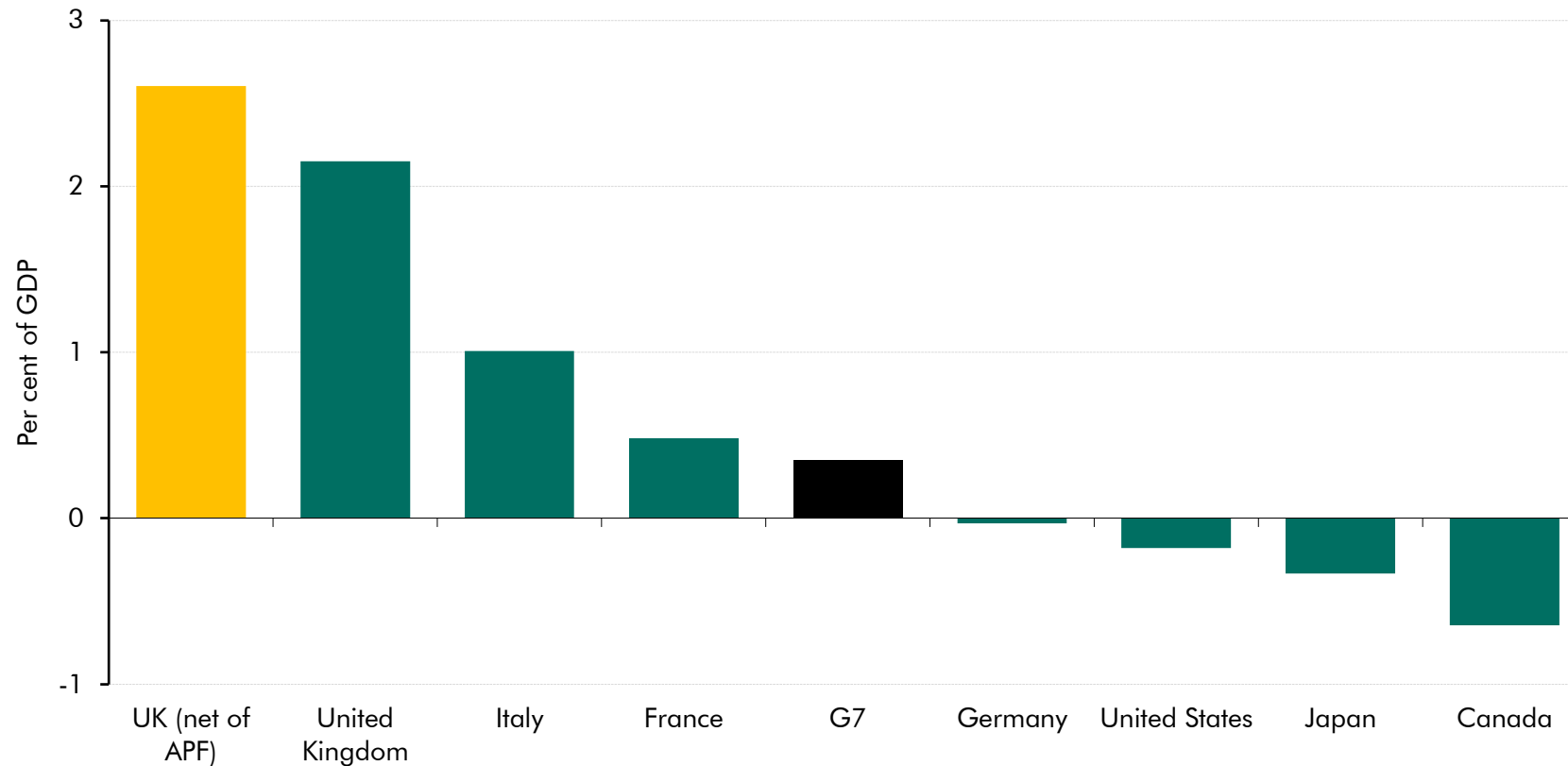
## Stock of index-linked gilts



Source: Bloomberg

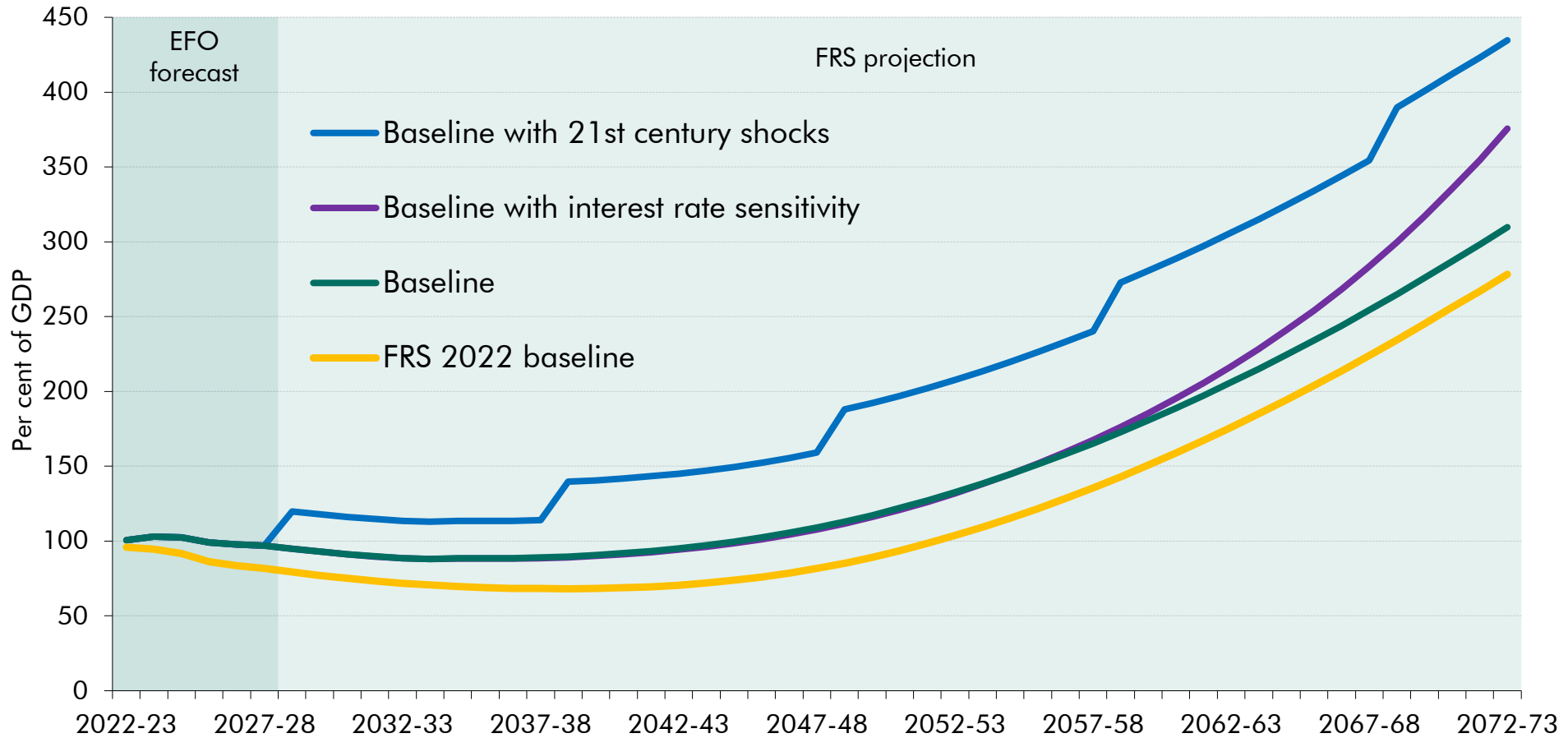
# Impact of recent interest rate rises

## Change in government net interest payments from 2019 to 2022



Source: IMF, ONS, OBR

# Long-term debt scenarios



Source: OBR



# Conclusion

- **2020s proving to be a risky era for the public finances:**
  - Covid pandemic
  - Energy and cost-of-living crisis
  - Sudden rise in interest rates
- **Rapid succession of shocks has pushed:**
  - Borrowing to its highest level since the 1940s
  - Debt to its highest level since the 1960s
  - Debt servicing costs to their highest level since the 1980s
- **Looking ahead, Government faces growing pressures from:**
  - Rising health-related inactivity
  - Continued volatility in global gas prices
  - Rising debt stock increasingly sensitive to interest rates and inflation
- **Tackling these risks can help contain their fiscal consequences and safeguard sustainability**

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**Thank you for listening**

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**Please email us with any further questions  
[OBR.Enquiries@obr.uk](mailto:OBR.Enquiries@obr.uk)**