July 2023 Fiscal risks and sustainability

The live event will begin at 11.30
July 2023 Fiscal risks and sustainability report

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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

- **Per cent of working-age population**
- **Forecast**

### Public sector net debt excluding Bank of England

- **Per cent of GDP**
- **Upside scenario**
- **March 2023 forecast**
- **Downside scenario**
- **Outturn**

Source: ONS, OBR
Energy consumption and gas prices

UK inland energy consumption

Latest gas price expectations

Source: DESNZ
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: DESNZ
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

- Median of gilts, Treasury bills and NS&I
- Median of public sector liabilities (net of BOE APF)

Stock of index-linked gilts

Source: Bank of England, DMO

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**
Thank you for listening

Slides and speaking notes are now available on our website
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