

Office for
**Budget
Responsibility**

2024 *Fiscal risks and sustainability* report

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Chair

12 September 2024

Content of this report

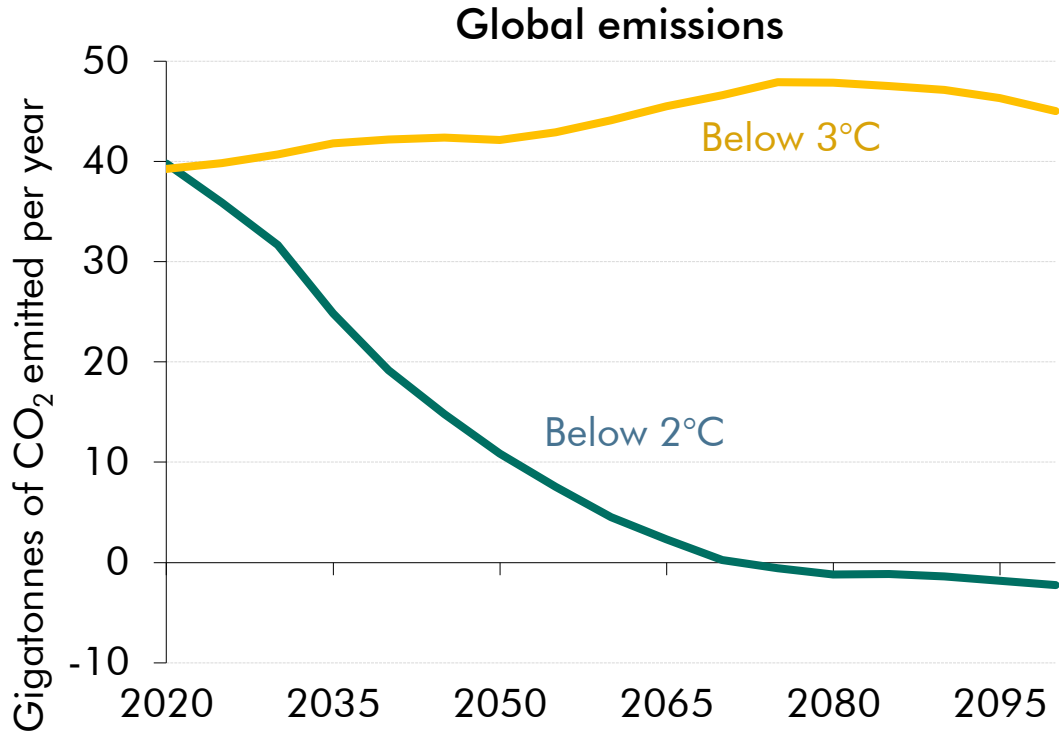
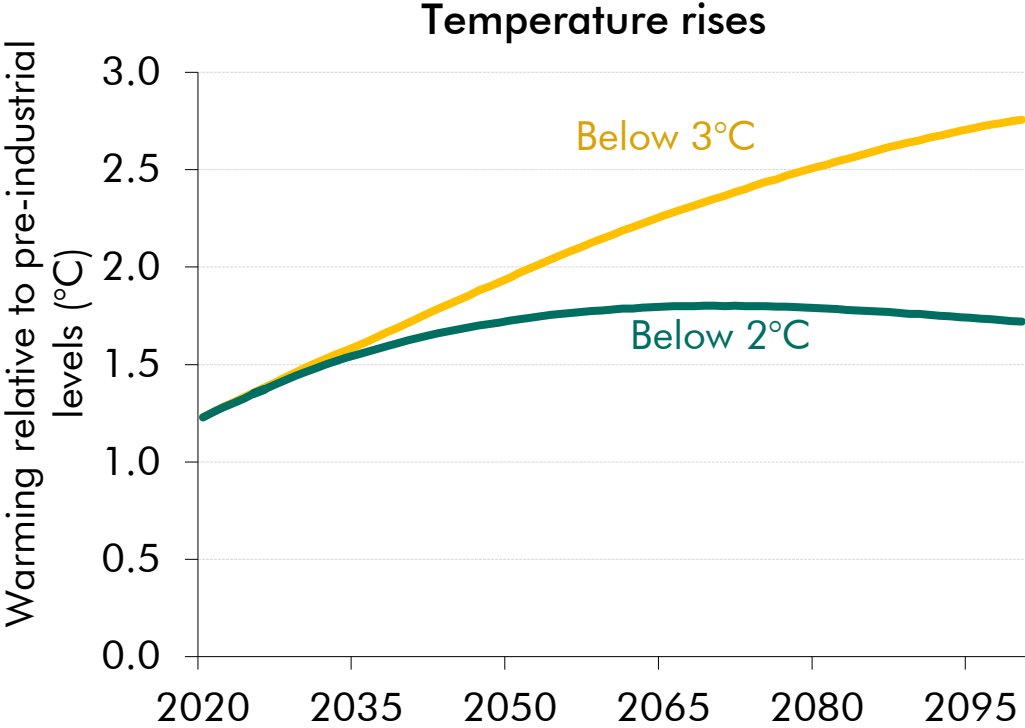
- **Climate change damage (Chapter 2)**
- **Long-term health trends (Chapter 3)**
- **Long-term demographic & fiscal projections (Chapter 4)**

OBR climate change analysis

Fiscal risks posed by climate change fall into three related categories:

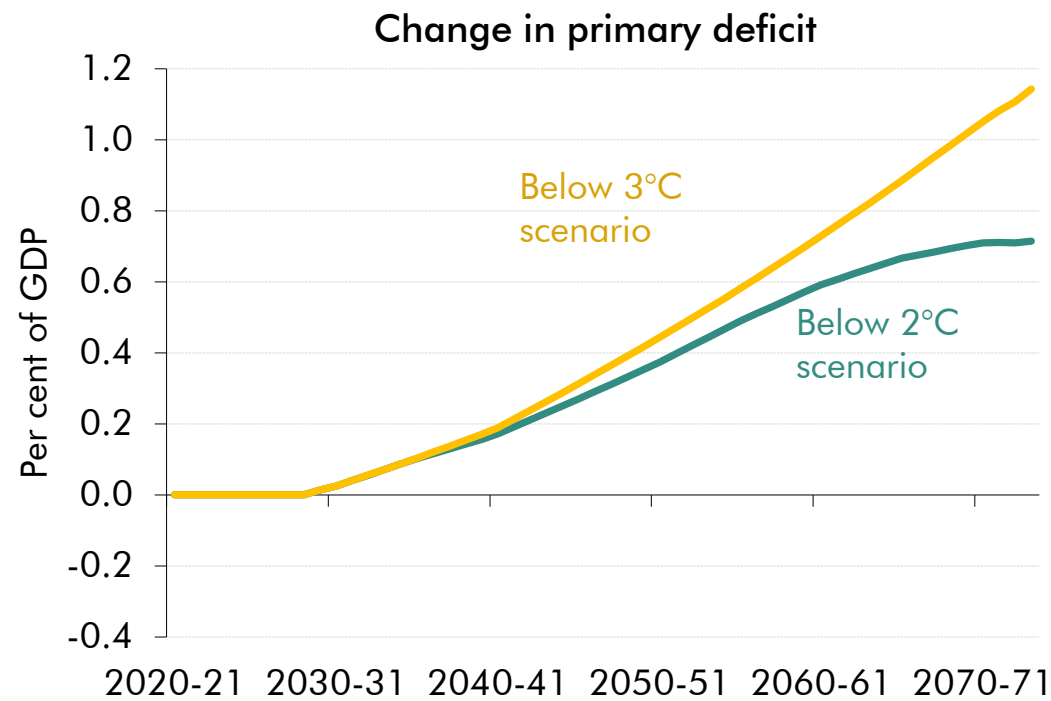
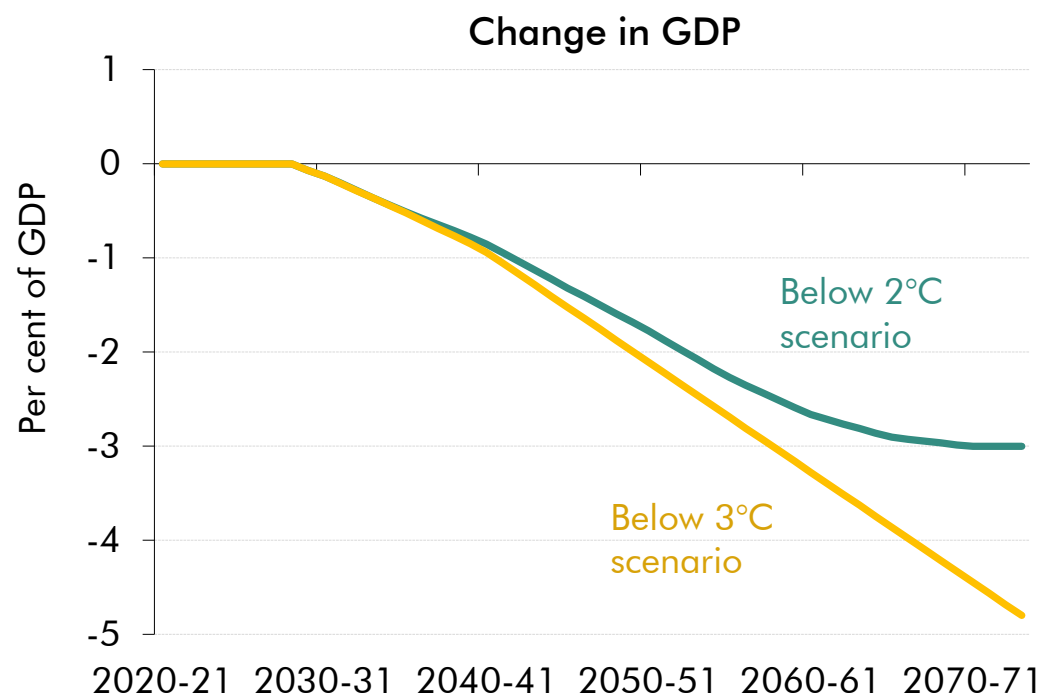
- **Mitigation:** Economic and fiscal impact of completing the **transition to net zero** carbon emissions and limiting the rise in global temperatures (*FRR 2021*)
- **Damage:** Economic and fiscal impact of the **physical damage** caused by higher temperatures, rising sea levels, and more extreme weather events (*FRS 2024*)
- **Adaptation:** Economic and fiscal impact of **increasing the country's resilience** to a hotter and more volatile climate (future *FRS*)

Climate change scenarios



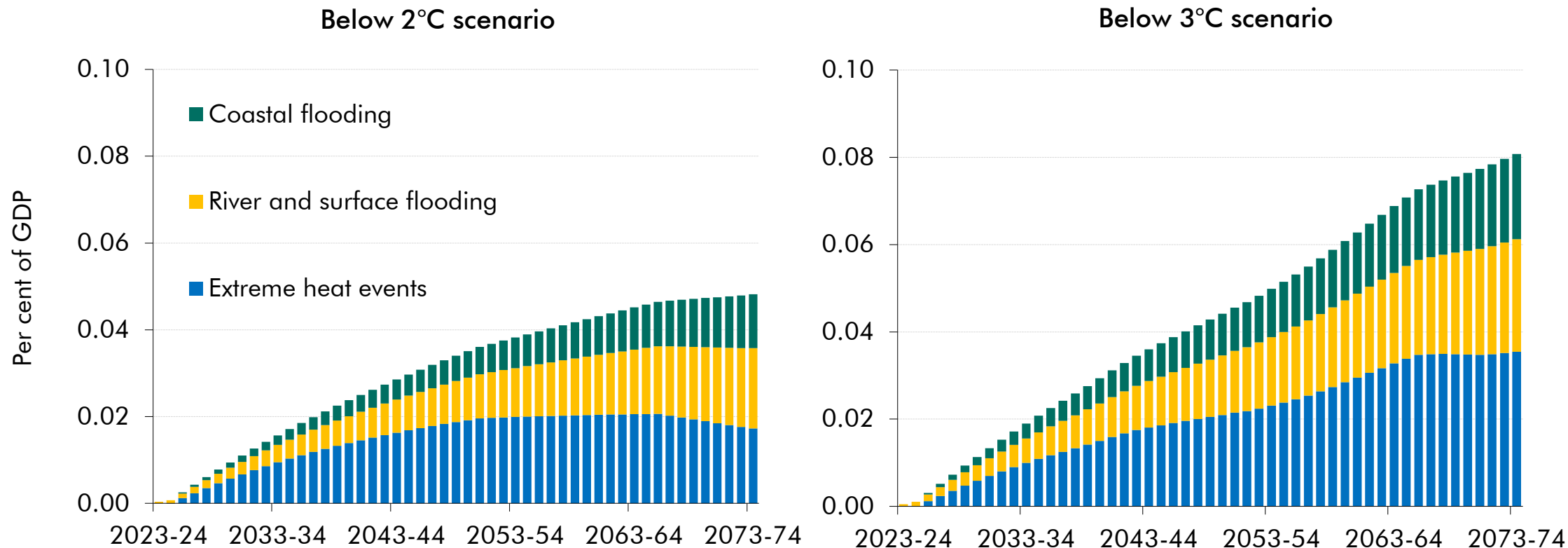
Source: IPCC

Indirect fiscal costs of climate damage



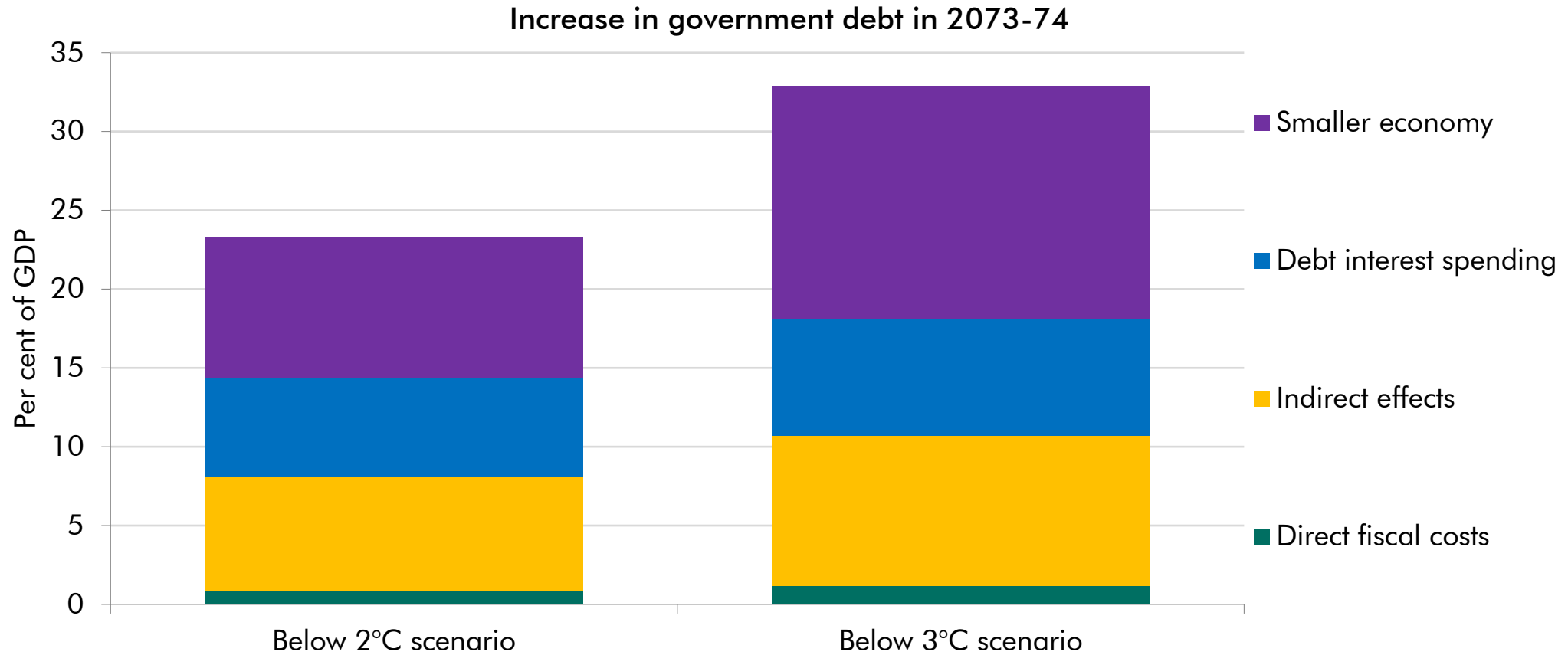
Source: OBR

Direct fiscal costs of climate damage

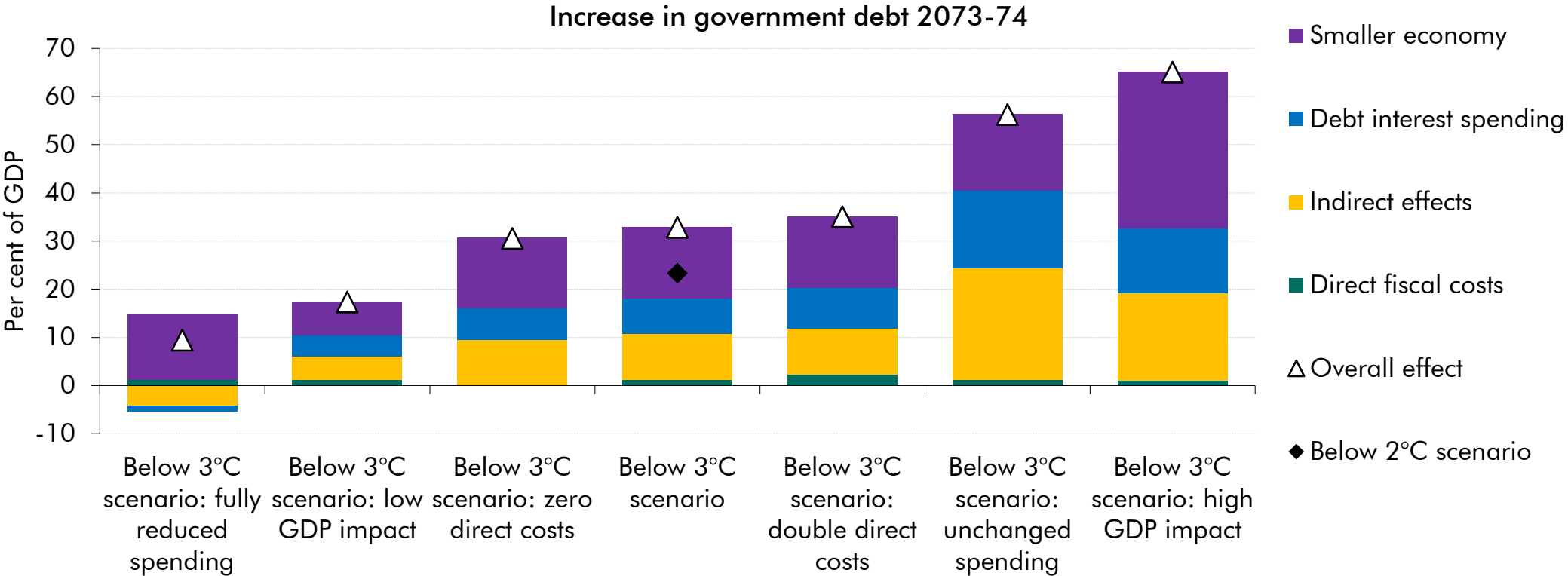


Source: OBR

Total fiscal costs of climate damage



Climate damage fiscal costs: Scenario range



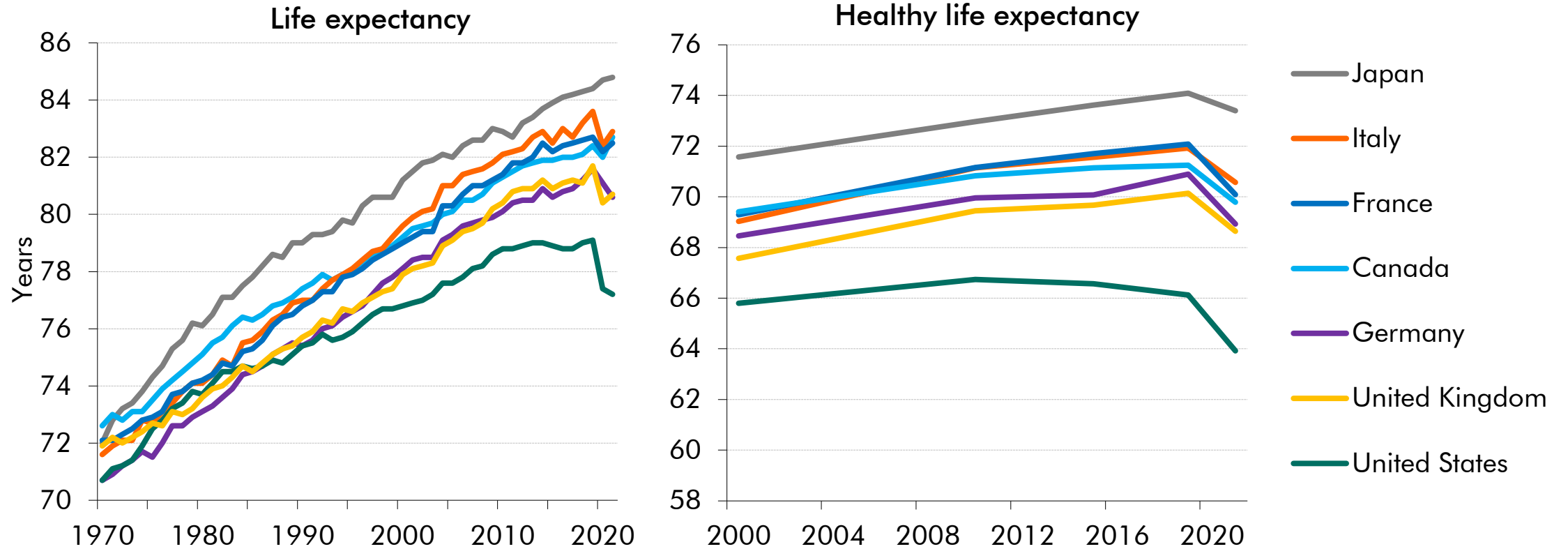
Source: OBR

Long-term health trends (Chapter 3)

Health of the population has been a major driver of economic and fiscal outlook in the:

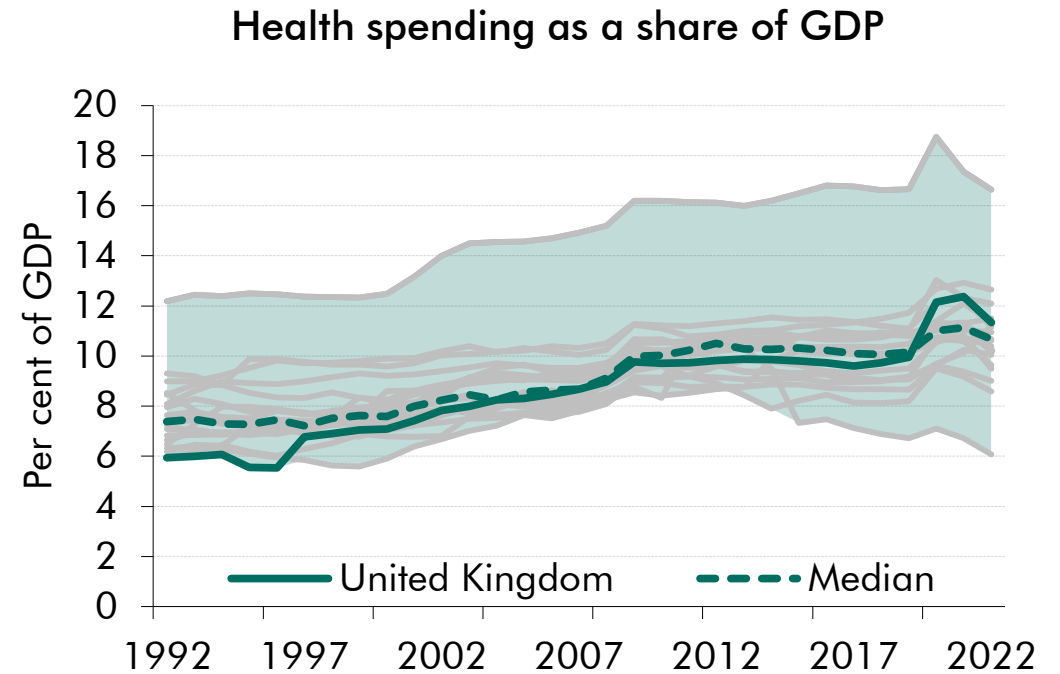
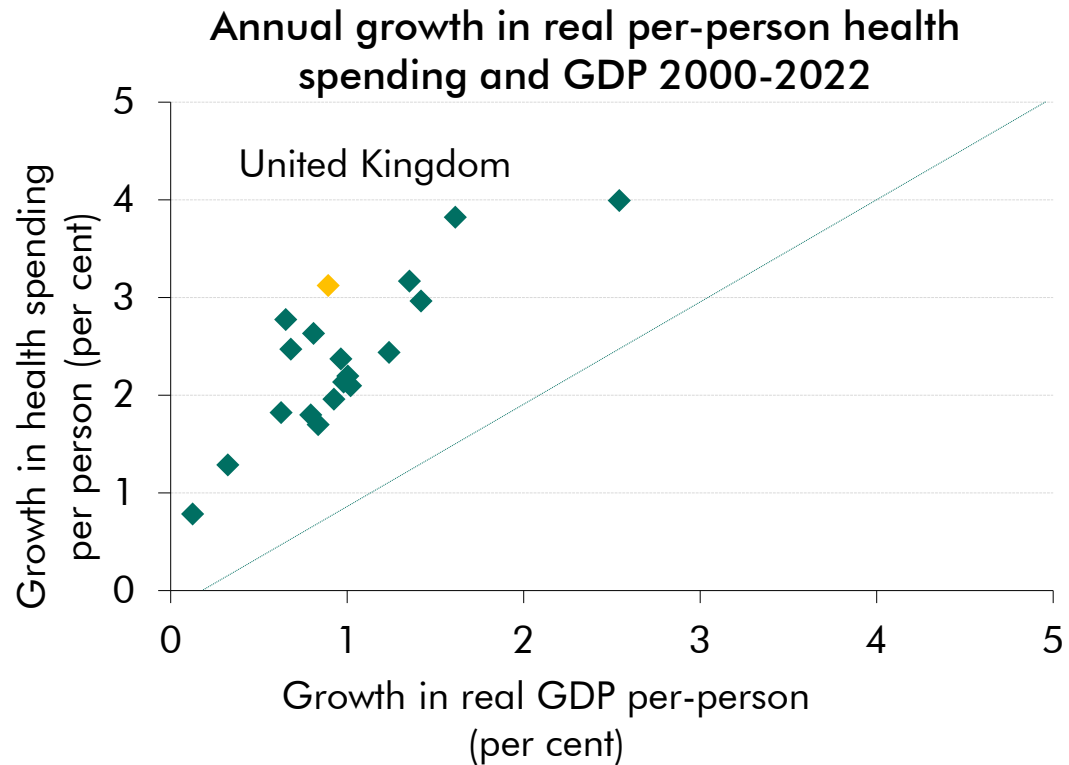
- **Near term:** Shock and recovery from the Covid pandemic (*FRR 2021*)
- **Medium term:** Post-pandemic rise in health-related inactivity (*FRS 2023*)
- **Long term:** Trends in healthy life expectancy & implications for public finances (*FRS 2024*)

Trends in healthy life expectancy



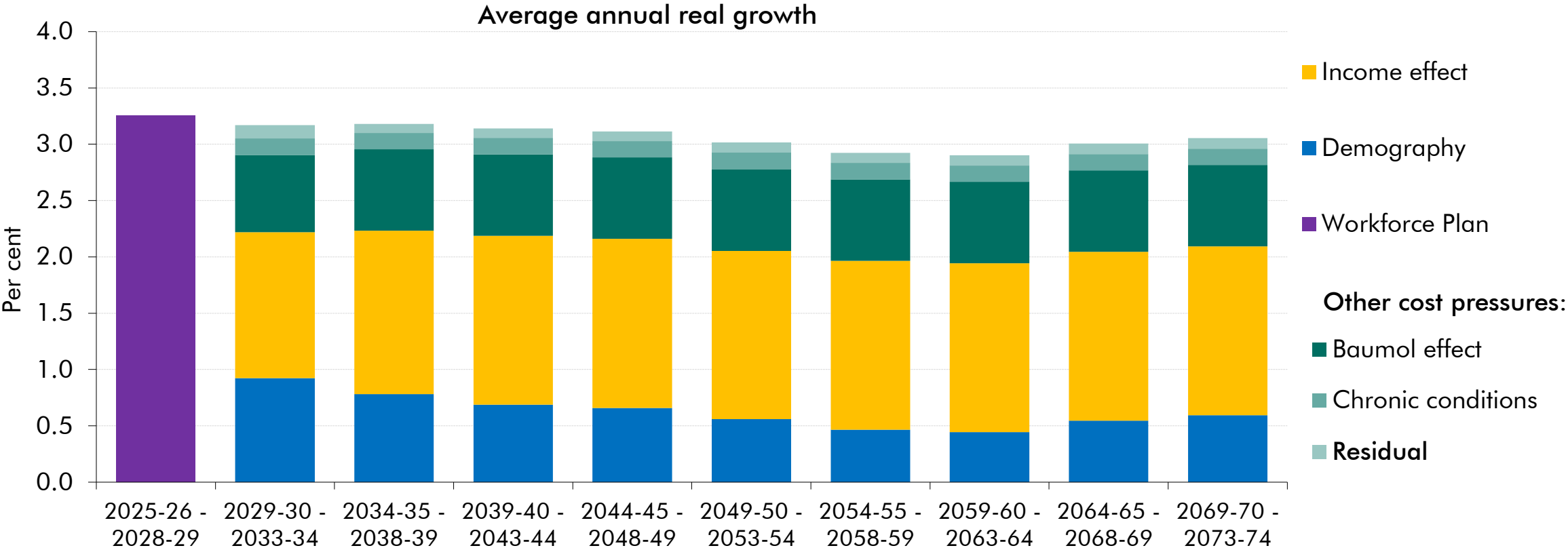
Source: Our World in Data, WHO

Trends in health expenditure



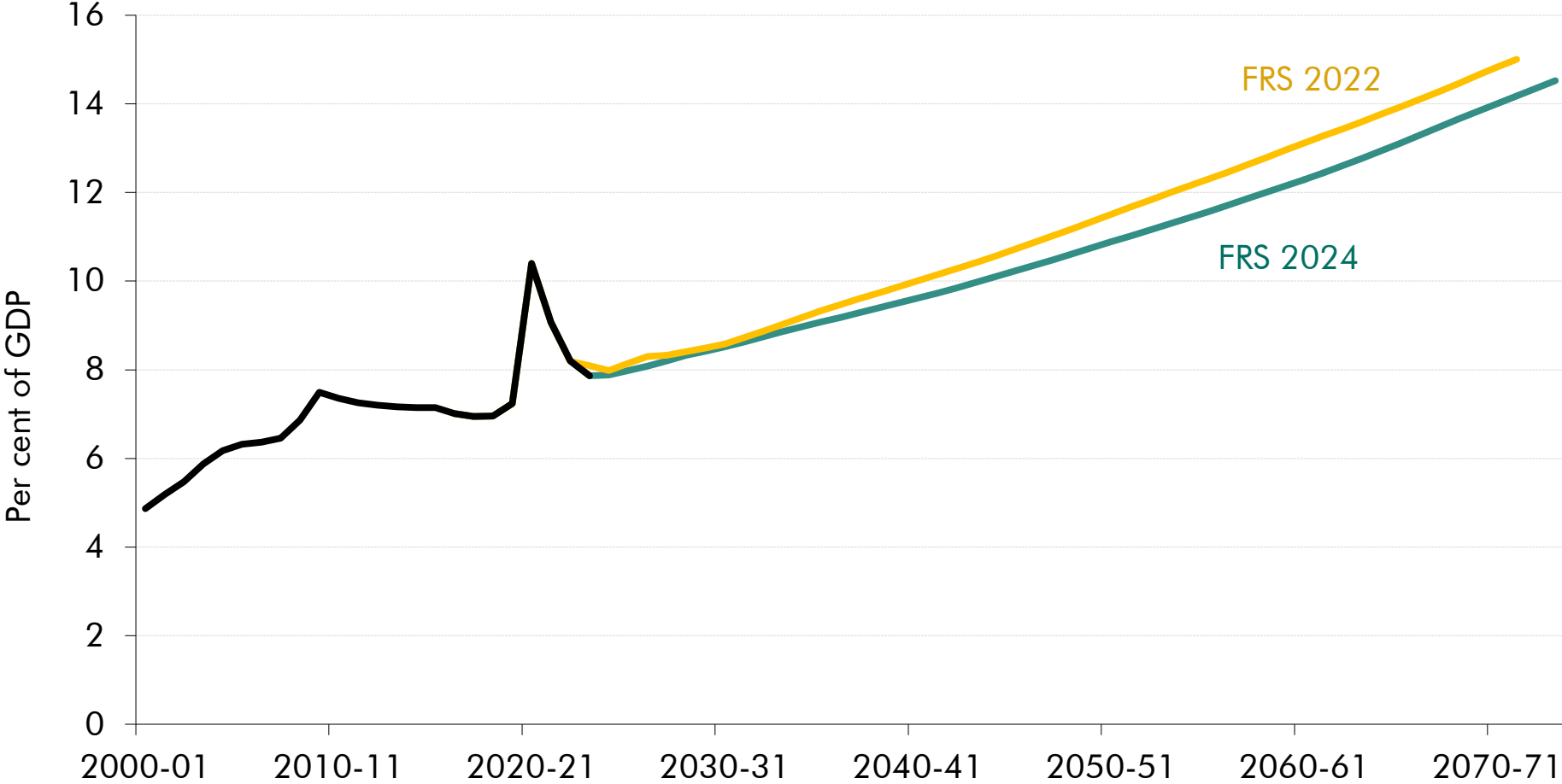
Source: Central Statistics Office, OECD

Growth in government health spending



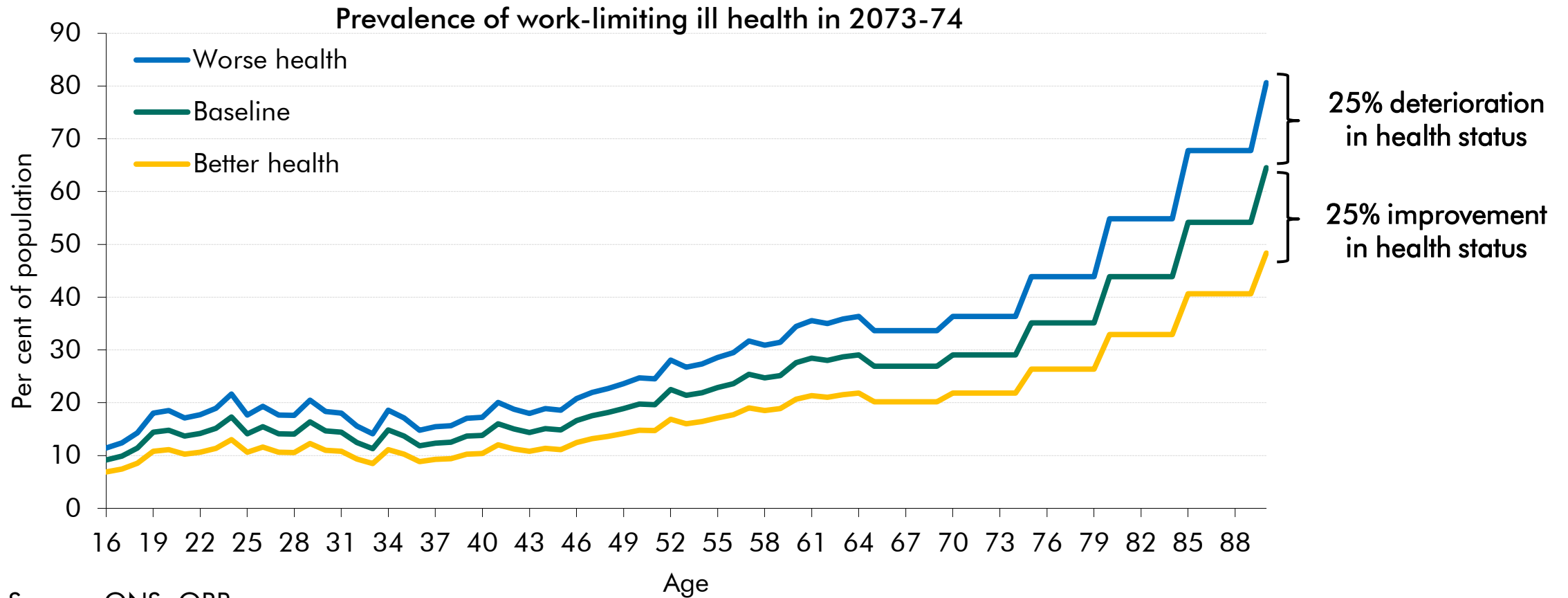
Source: OBR

Government health spending



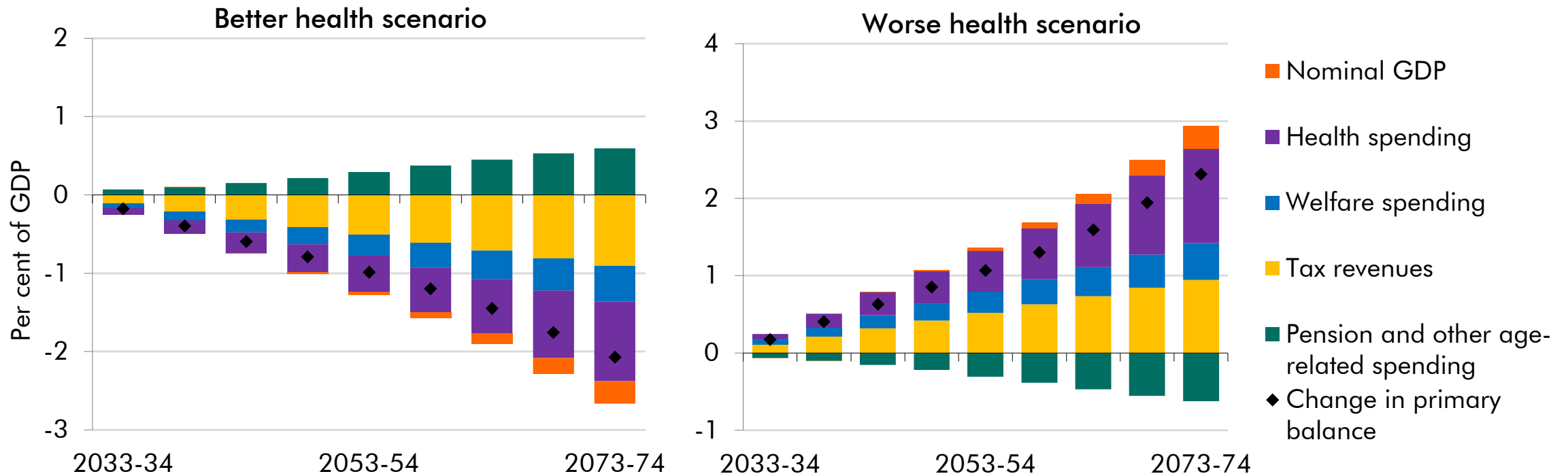
Source: IFS, OBR

Alternative long-term health scenarios

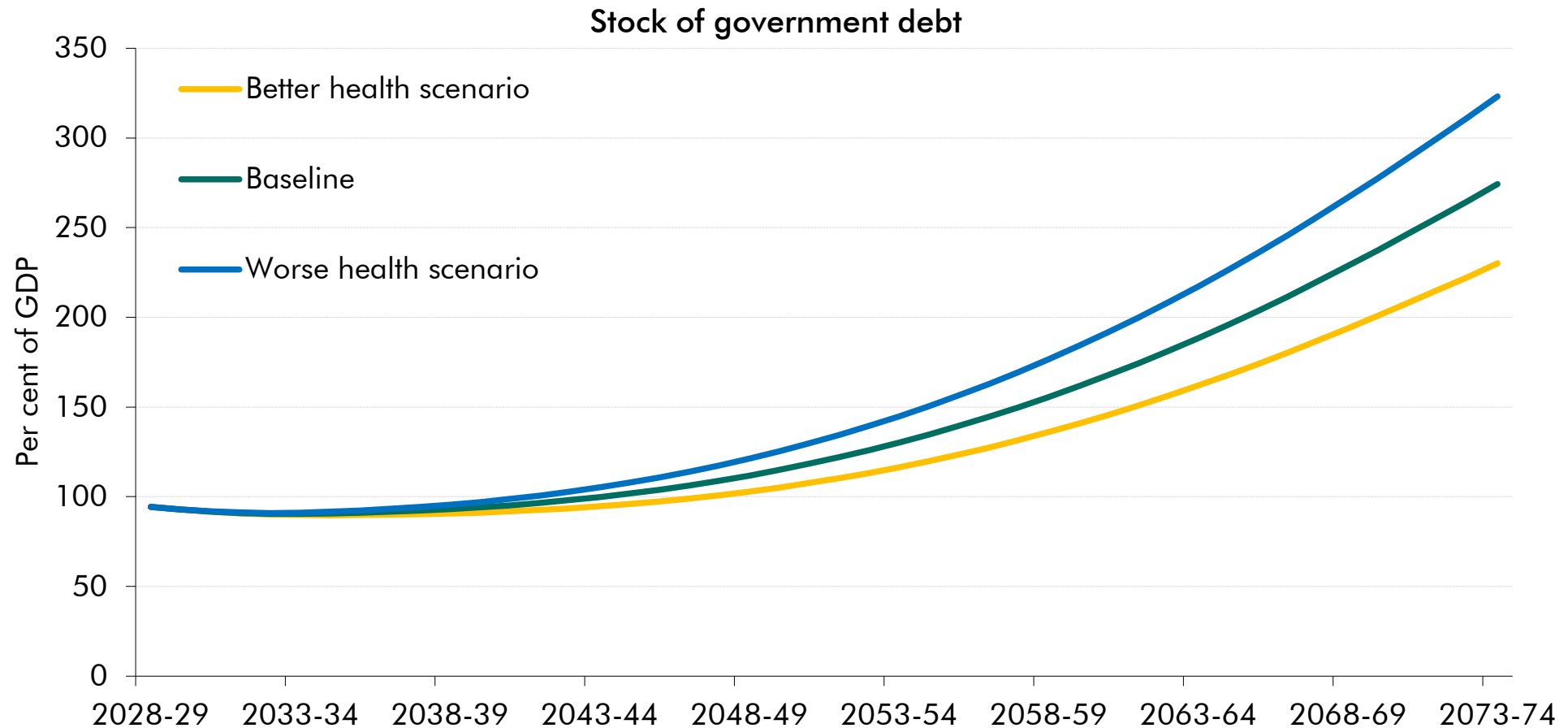


Source: ONS, OBR

Fiscal implications of better or worse health

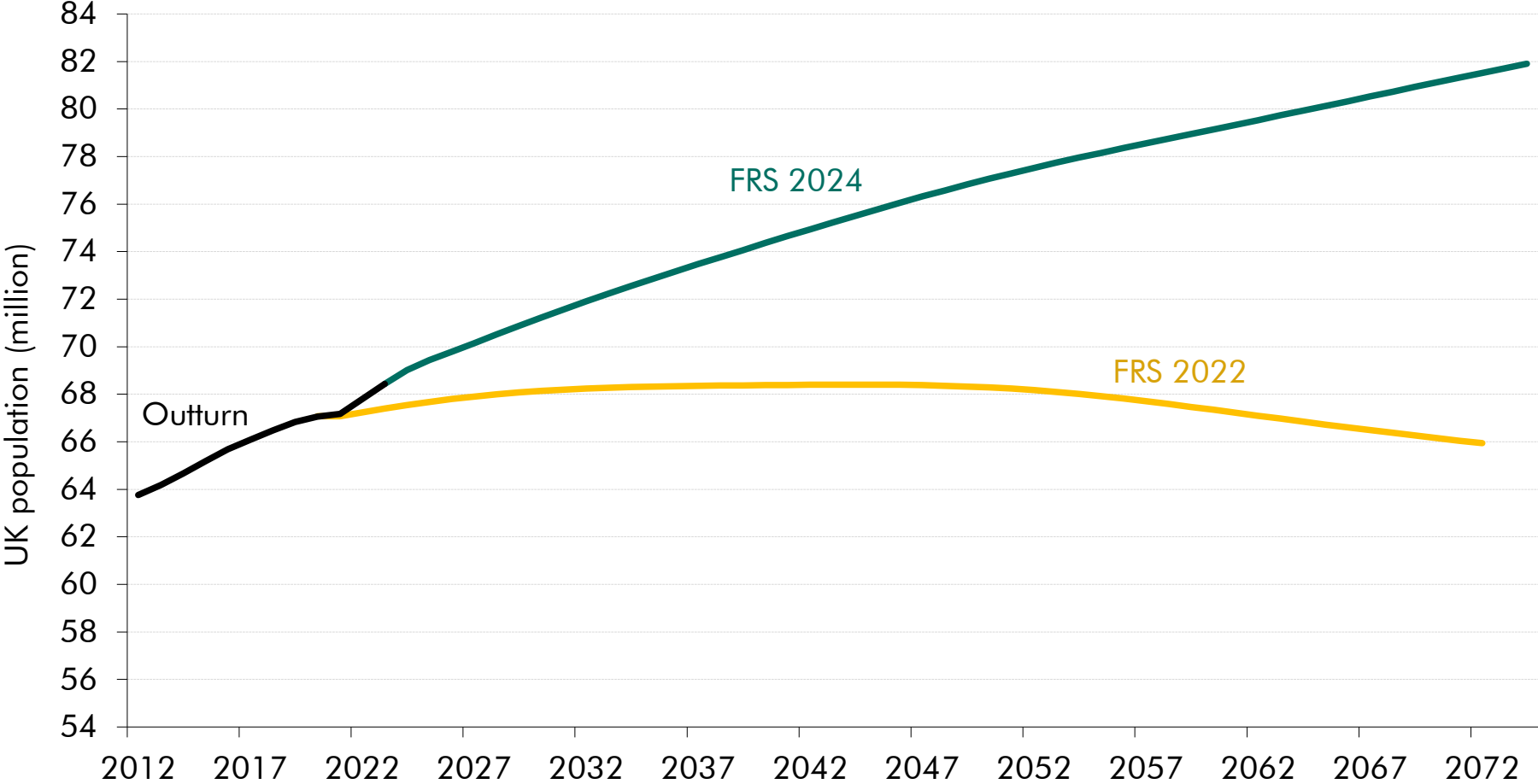


Debt implications of better or worse health



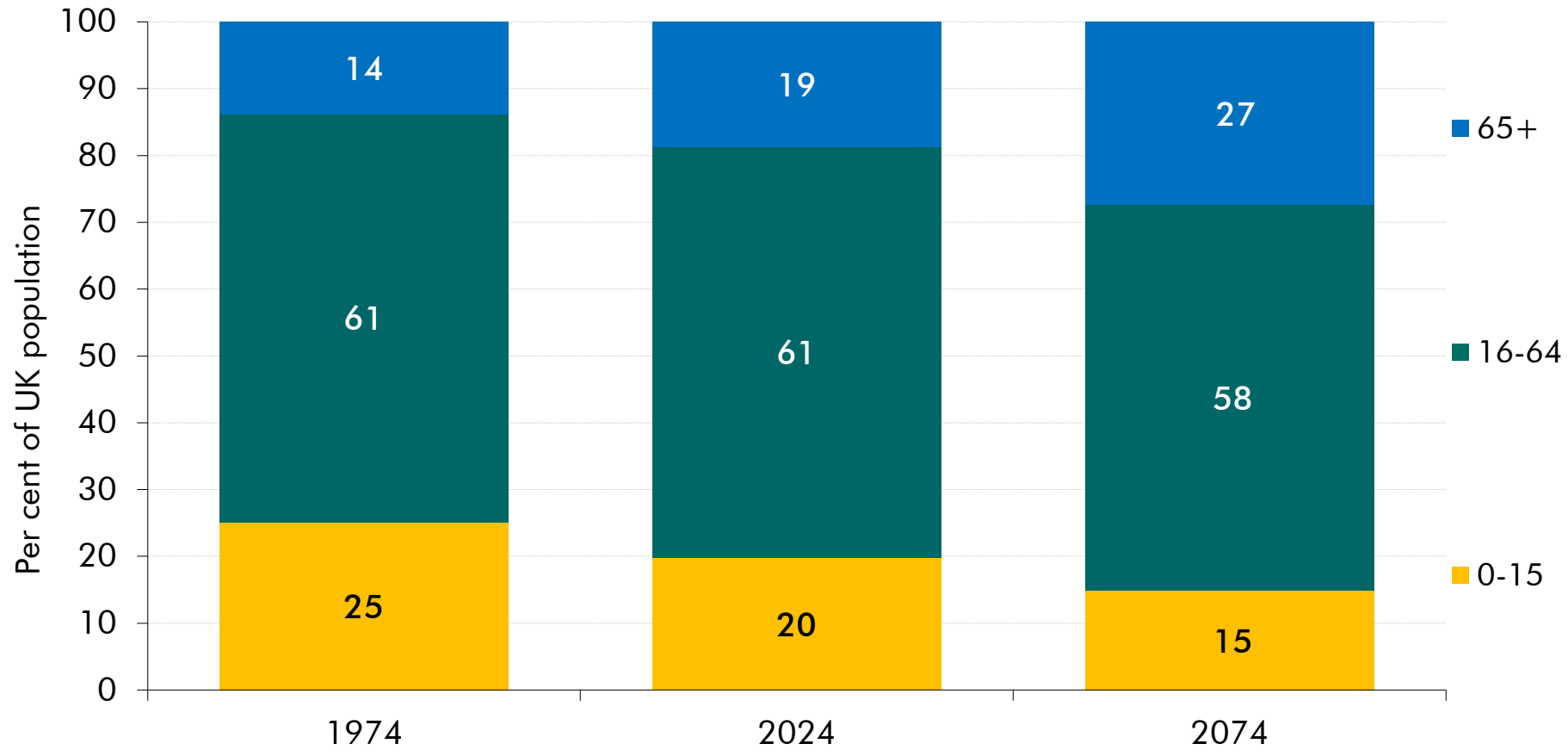
Source: OBR

Updated population projections



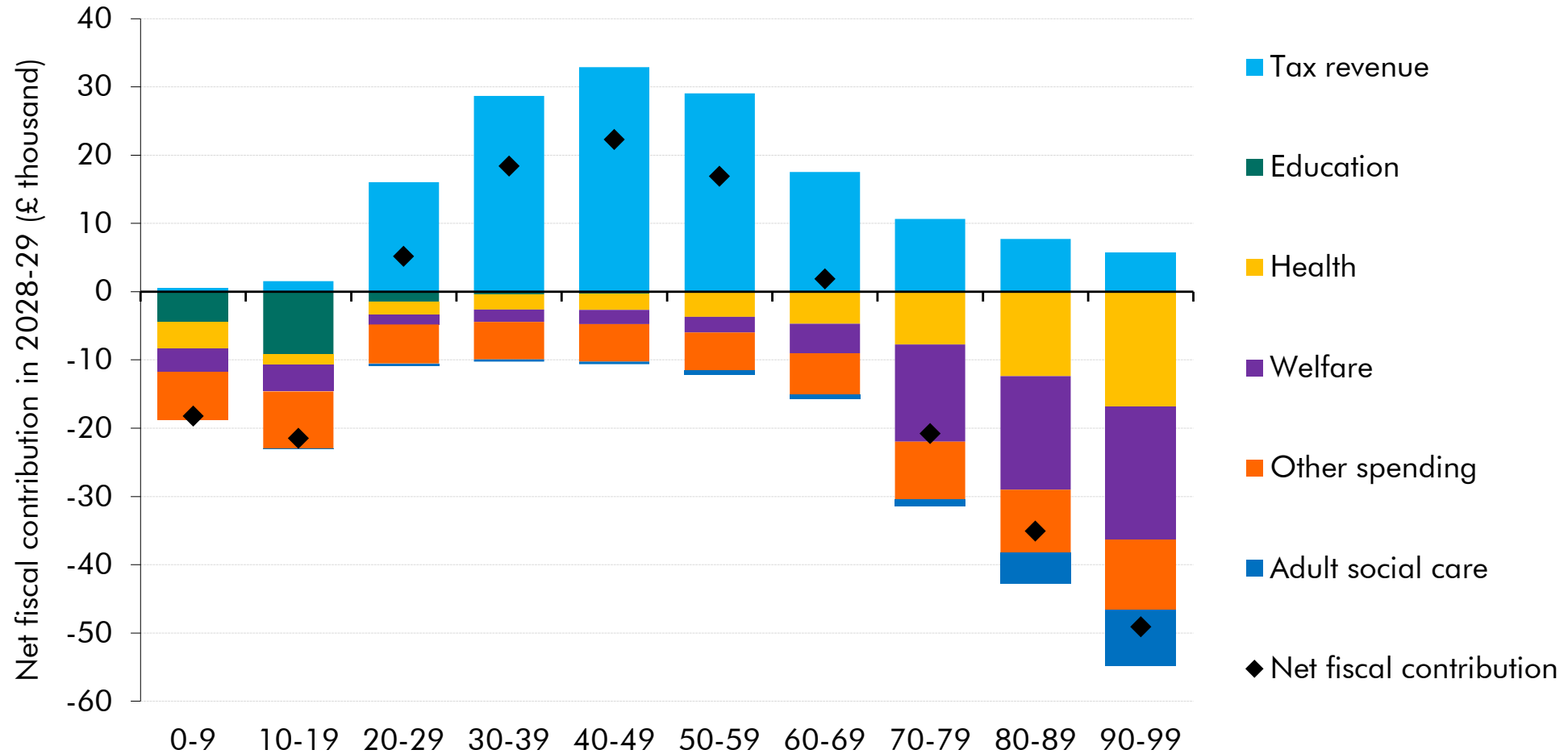
Source: ONS, OBR

Age structure of UK population



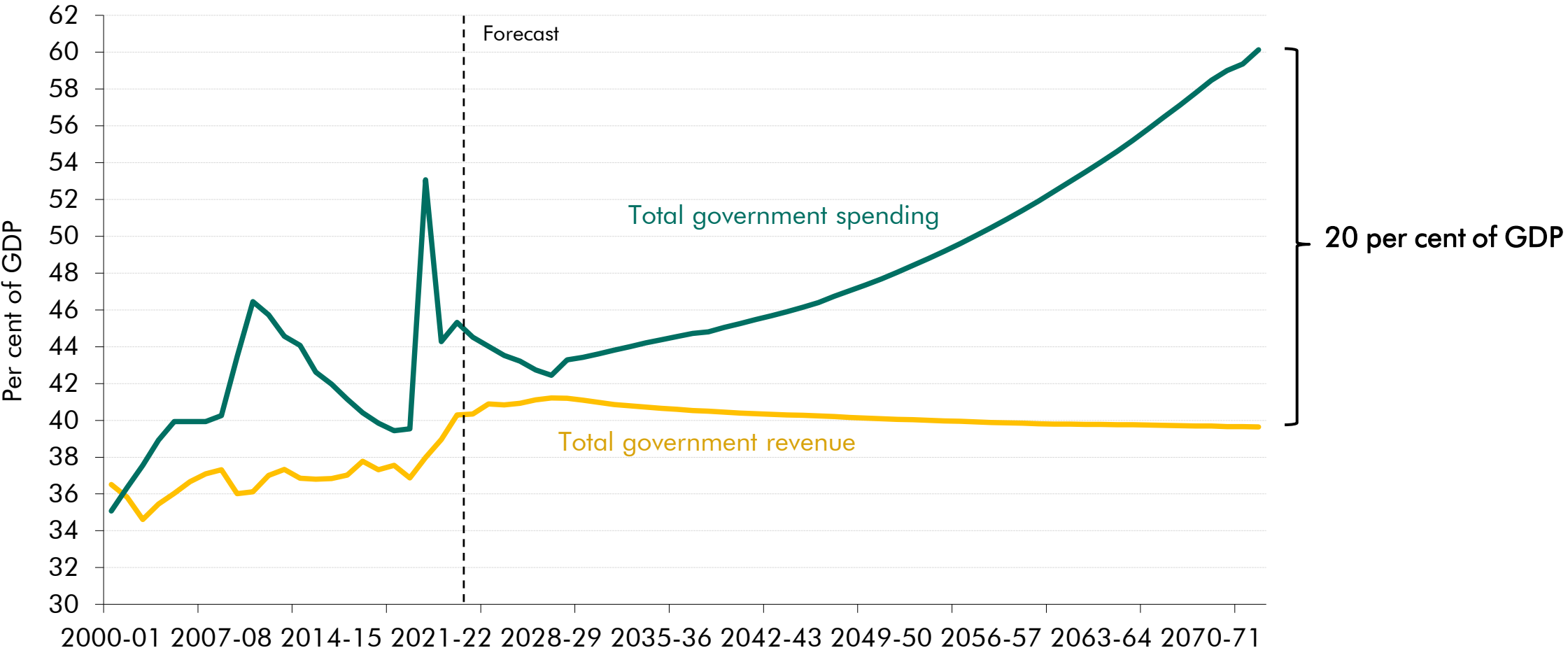
Source: ONS, OBR

Net fiscal contribution by age



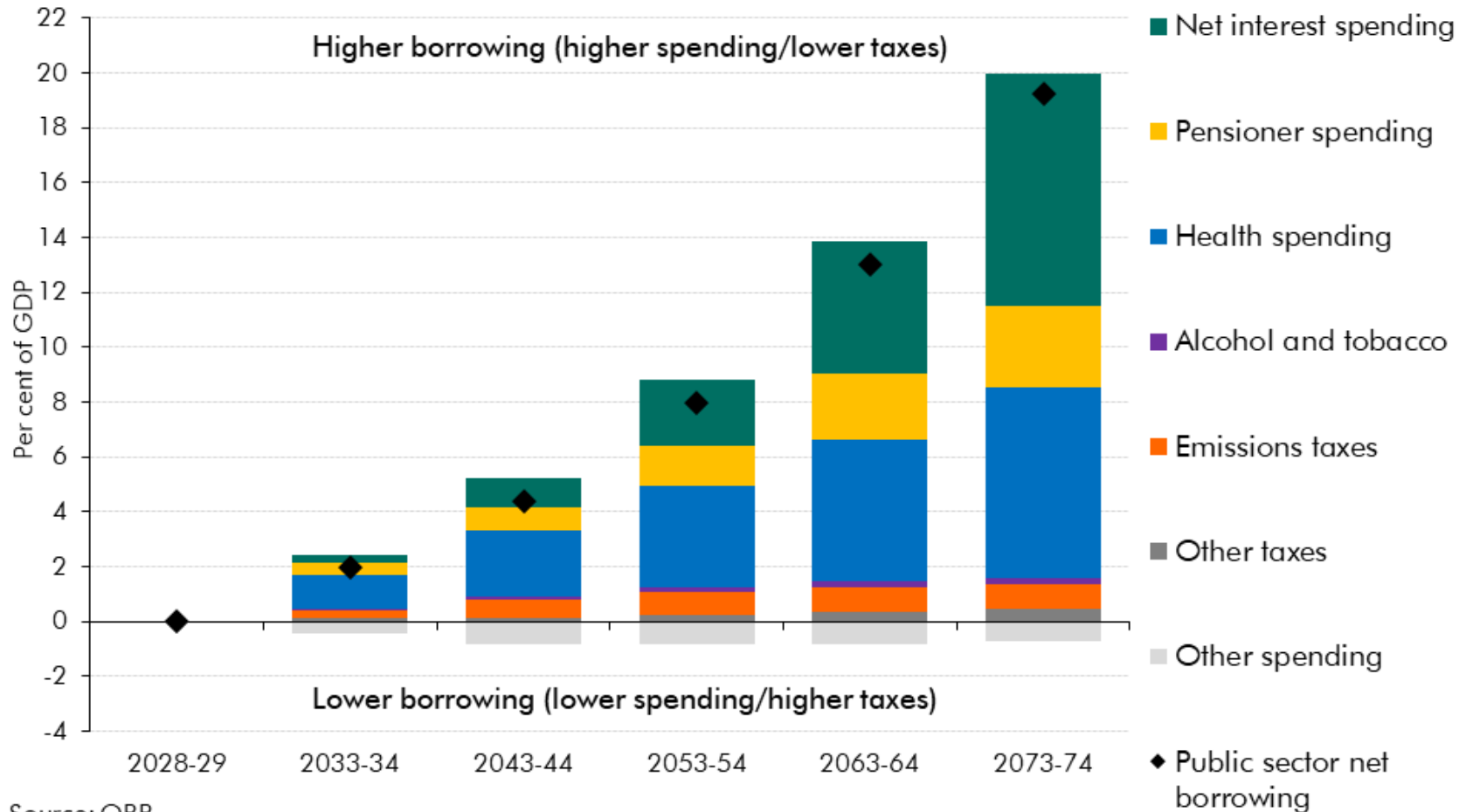
Source: OBR

Government revenue and spending



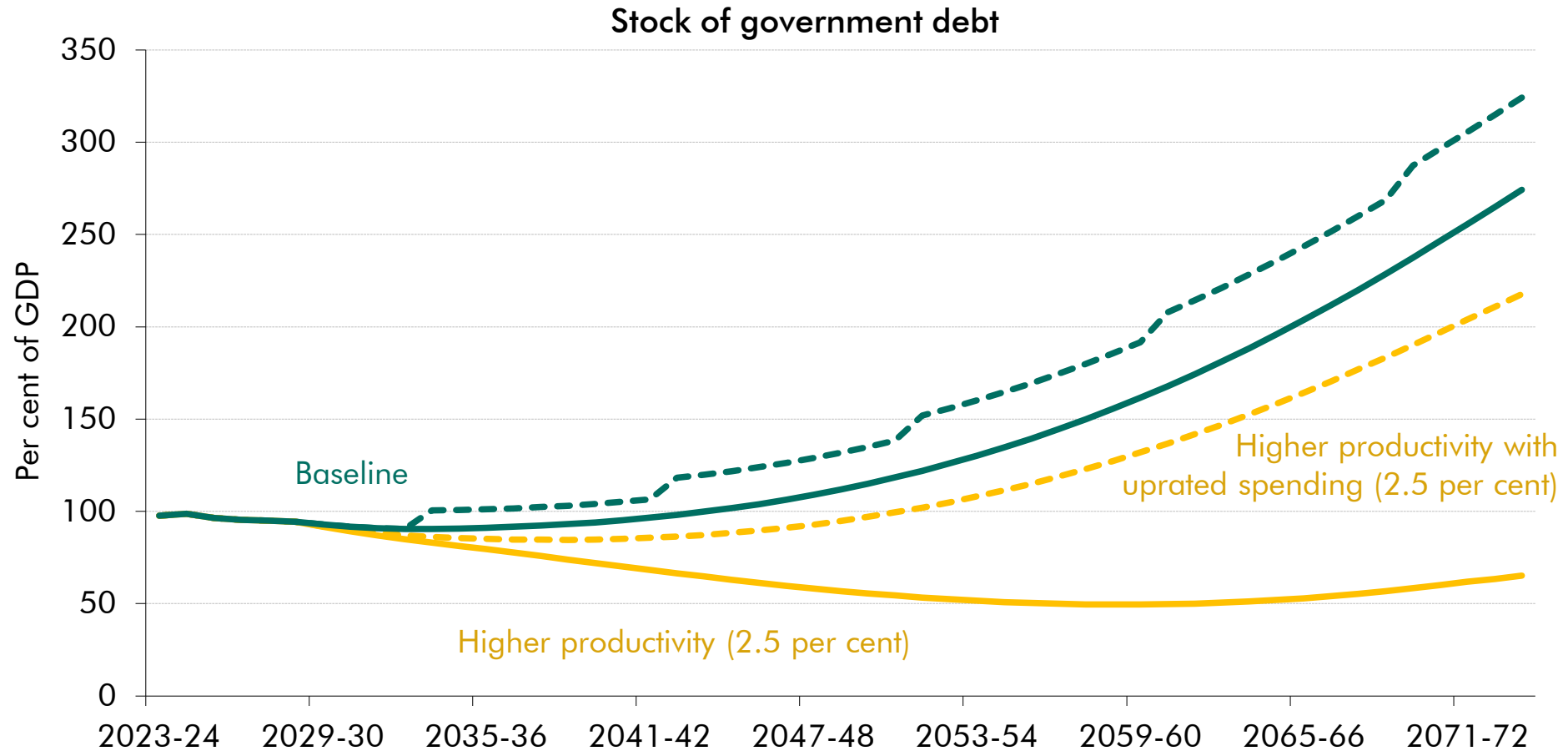
Source: ONS, OBR

Increase in government borrowing



Source: OBR

Level of government debt



Source: OBR

Preserving fiscal sustainability

- On almost any scenario, government is likely to have to adjust fiscal policy to keep the public finances on a sustainable trajectory
- Keeping debt at around its current level of just under 100 per cent of GDP would require a fiscal policy tightening of around 1 to 1 ½ per cent of GDP per decade
- Further spending restraint would require either a significant improvement in public sector productivity or strict prioritisation between competing pressures
- Further tax increases would need to weigh any additional direct revenue yield against the impact of a rising tax take on incentives to work, invest, and save
- An improvement in economy-wide productivity growth could materially improve fiscal sustainability, but only if the government doesn't spend the proceeds

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Thank you for listening

**Slides and speaking notes are now available on our website
www.obr.uk**

**Please email us with any further questions
OBR.Enquiries@obr.uk**