

Office for
**Budget
Responsibility**

July 2023 *Fiscal risks and sustainability*

The live event will begin at 11.30

Office for
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Responsibility**

July 2023 *Fiscal risks and sustainability* report

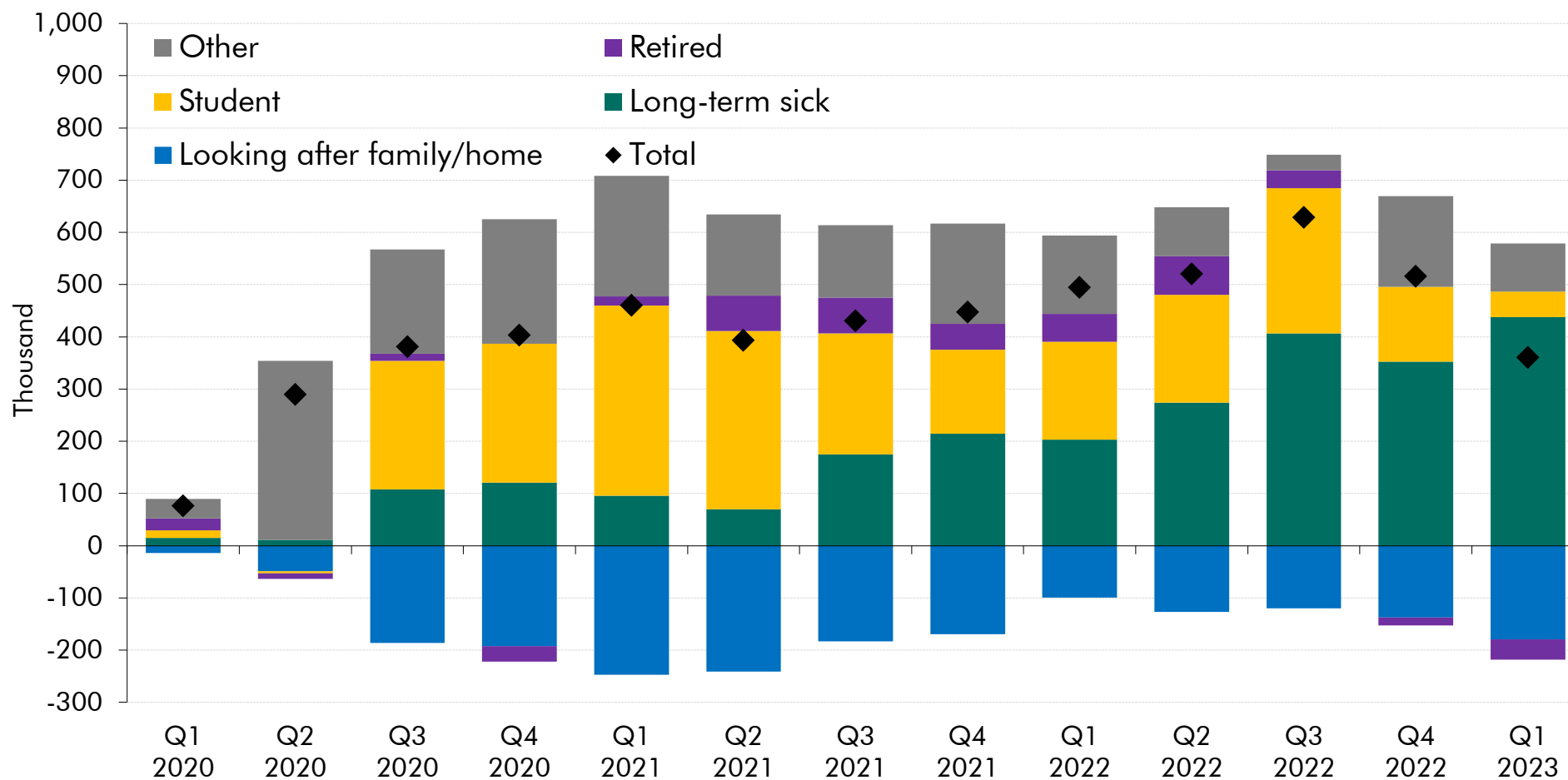
Richard Hughes
Chair

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**

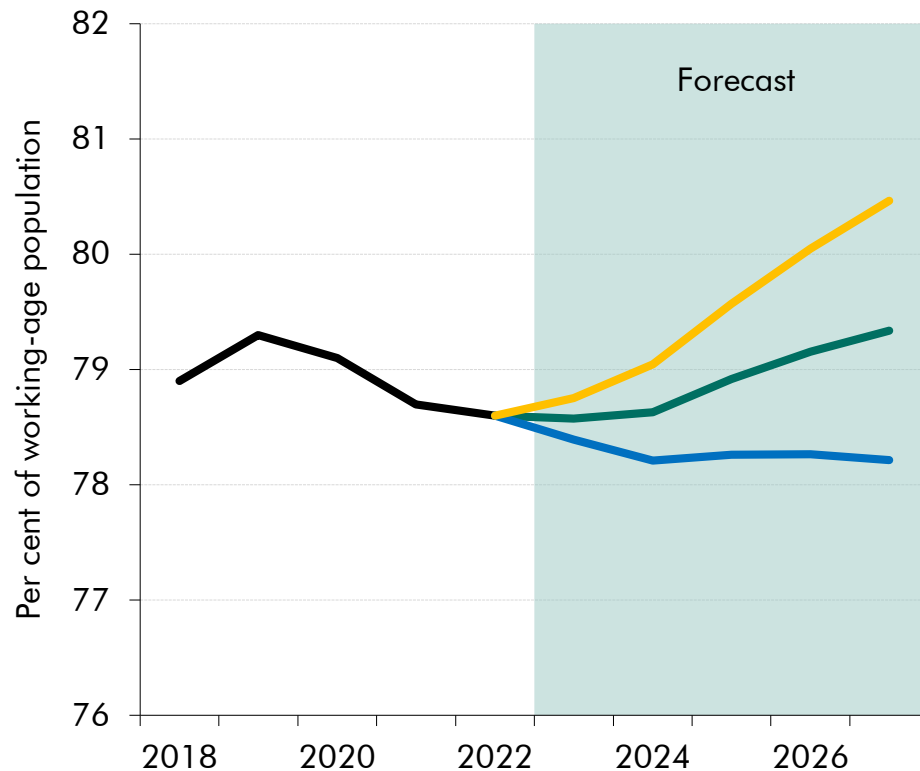
Fiscal impact of health-related inactivity

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

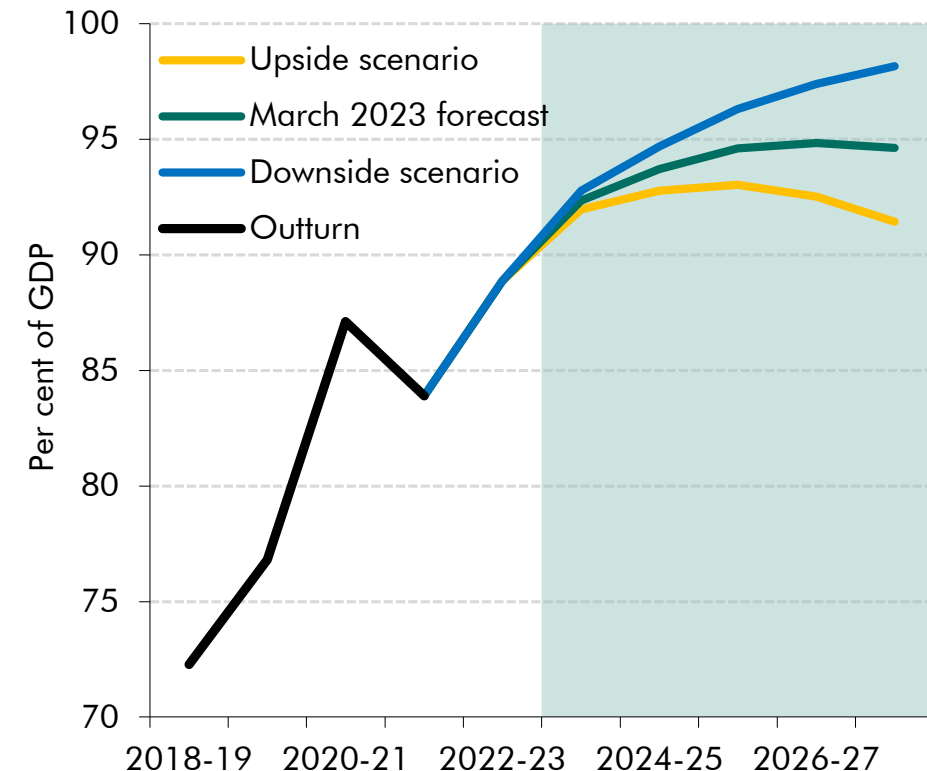
Scenarios for health-related inactivity

Participation rate



Source: ONS, OBR

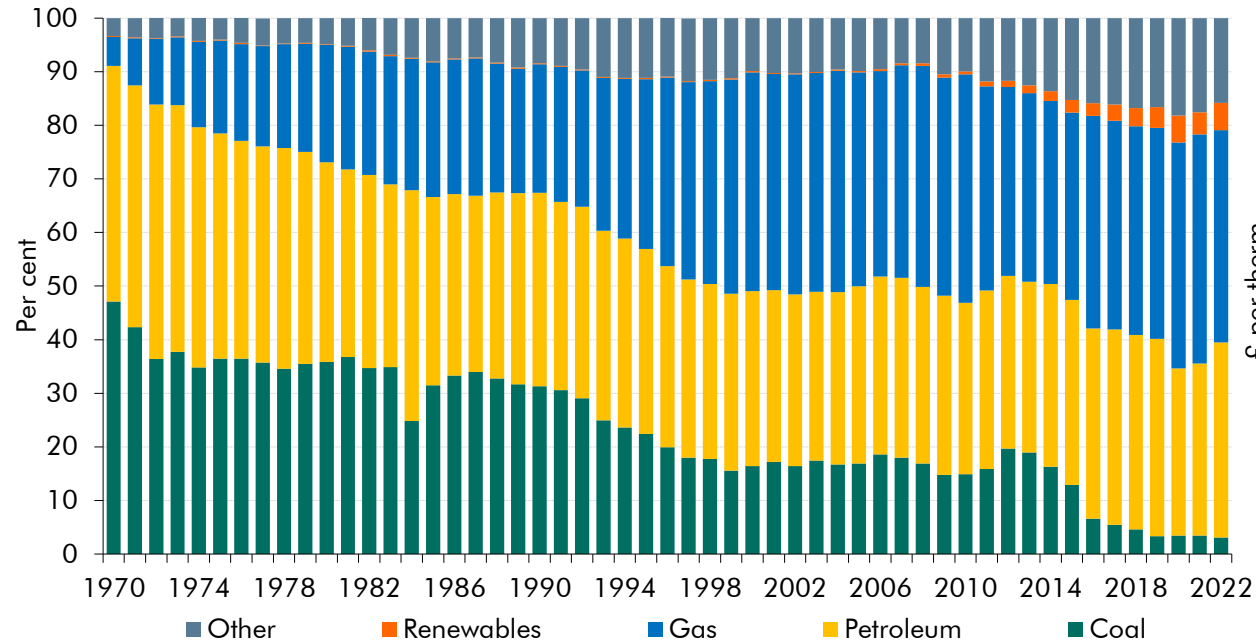
Public sector net debt excluding Bank of England



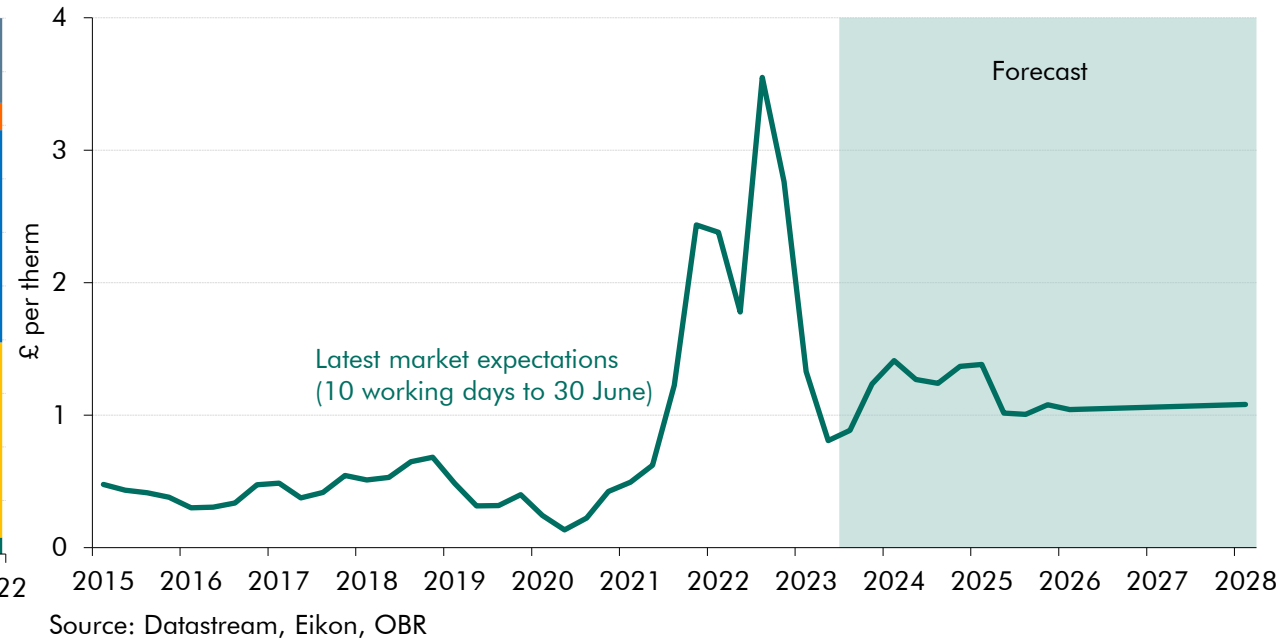
Source: ONS, OBR

Energy consumption and gas prices

UK inland energy consumption

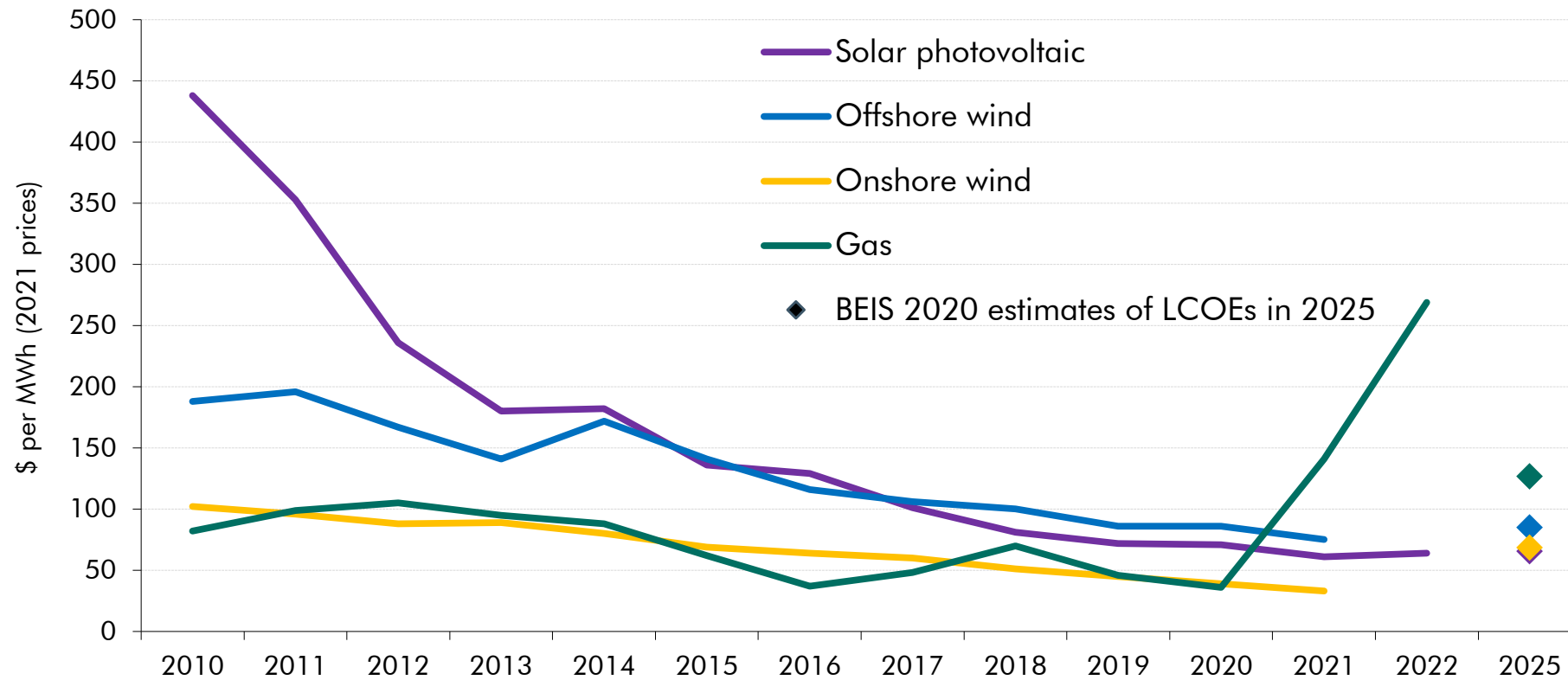


Latest gas price expectations



Relative price of energy generation

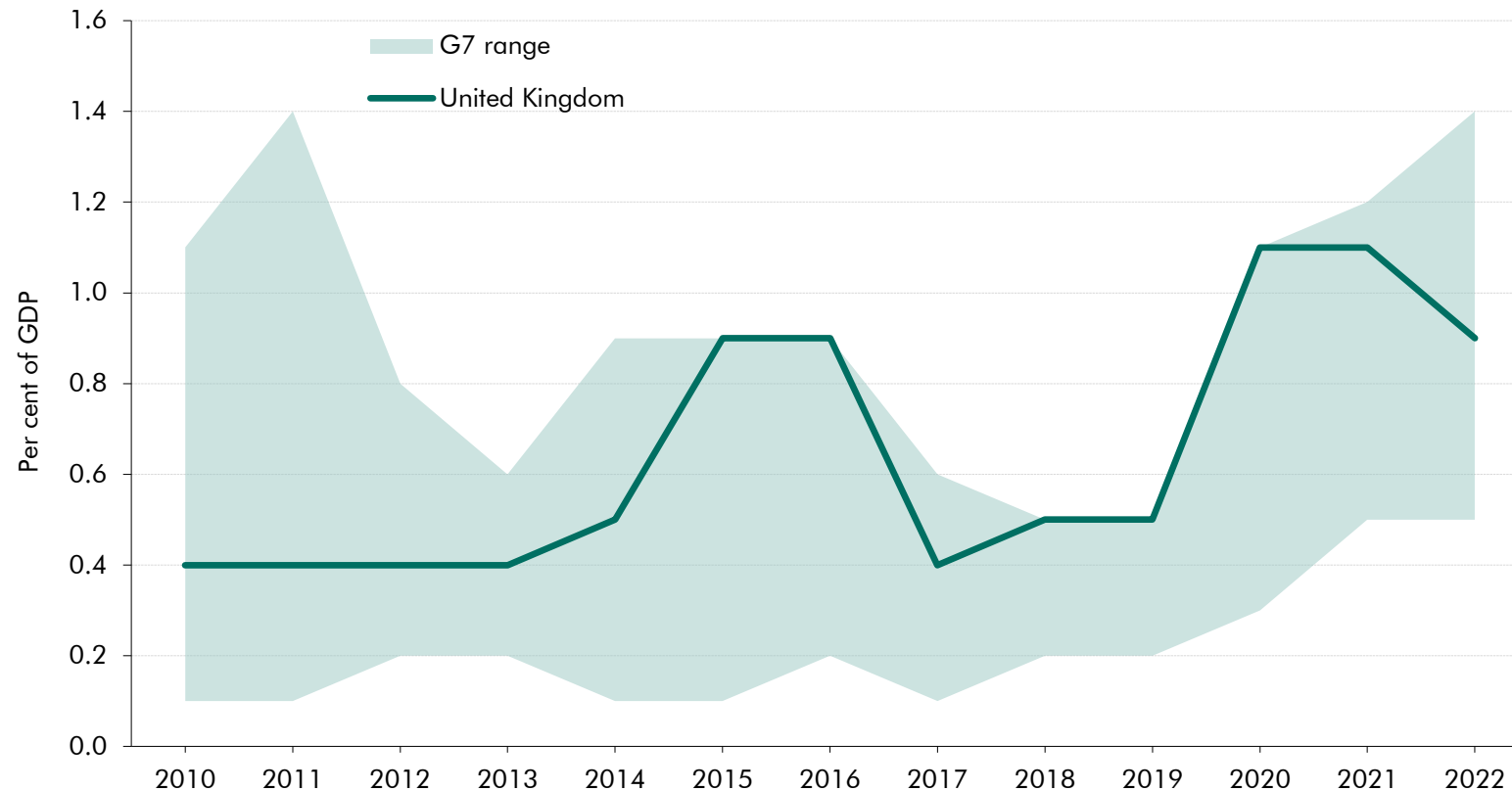
Trends in the levelised cost of electricity generation



Source: BEIS, IRENA, OBR

Renewable energy investment

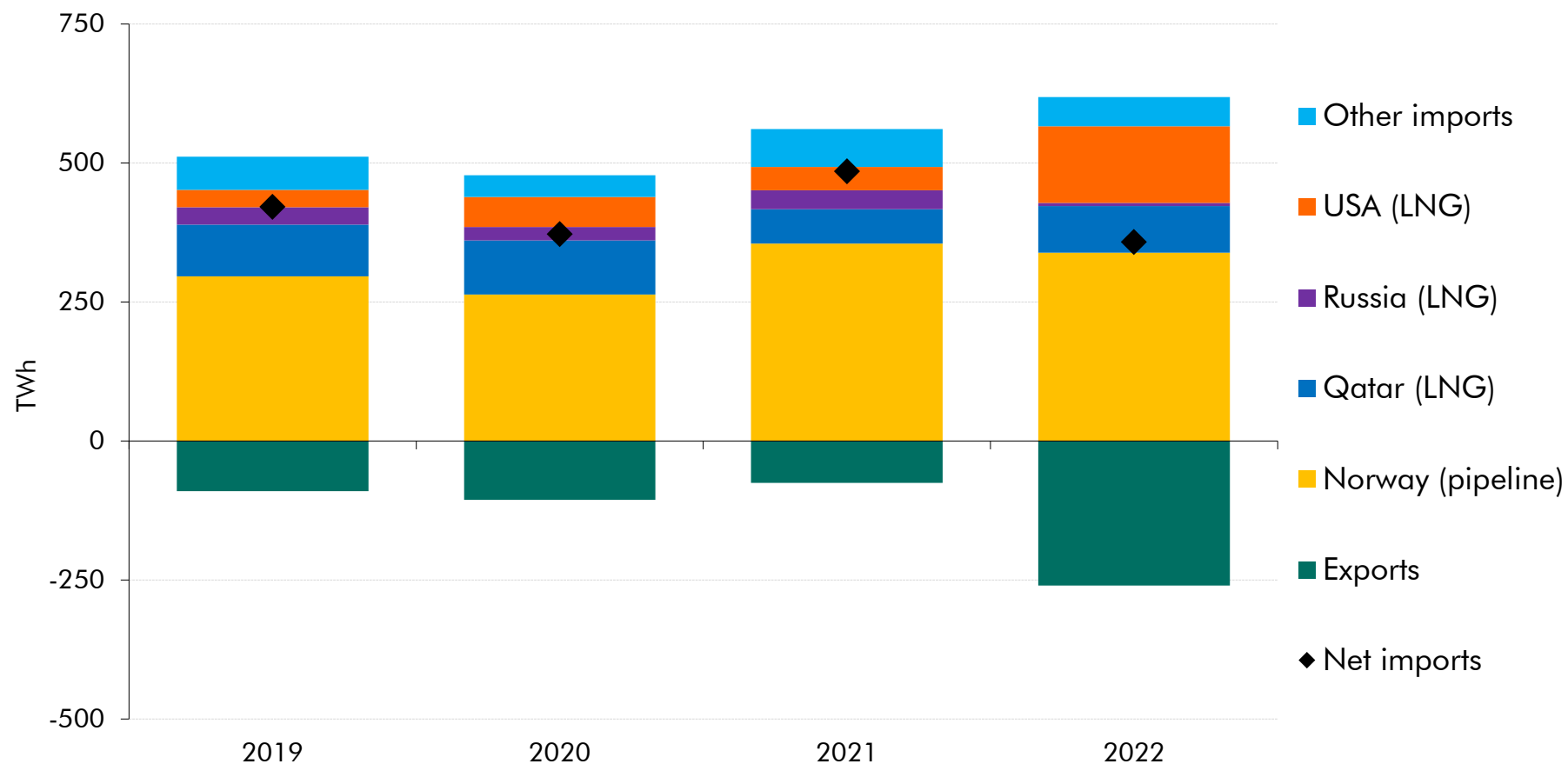
International investment in low-carbon technology



Source: DESNZ

Gas imports

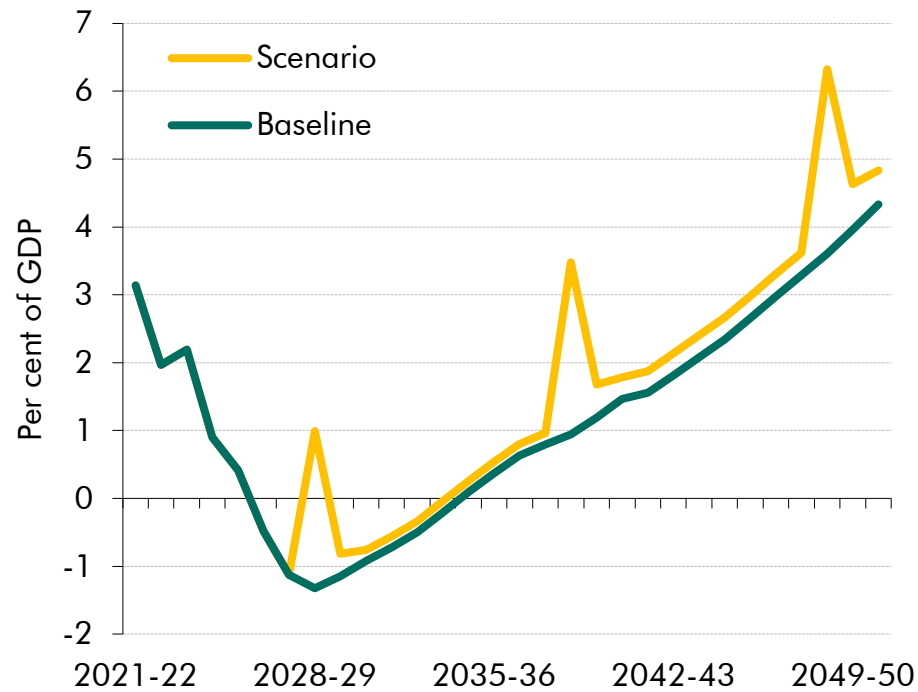
UK net imports of gas by country



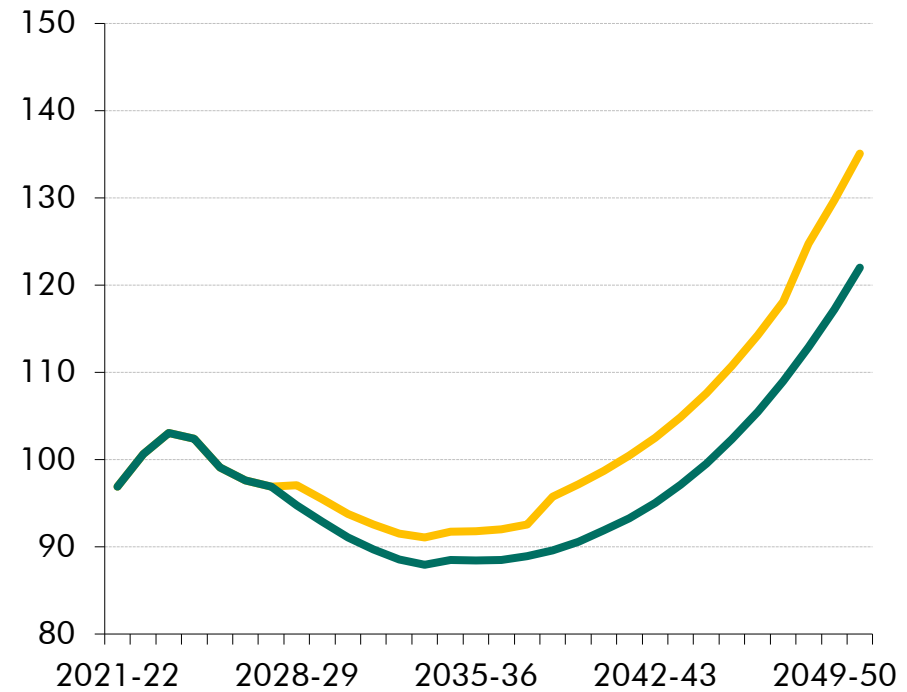
Source: DESNZ

Scenario for continued gas dependence

Primary deficit

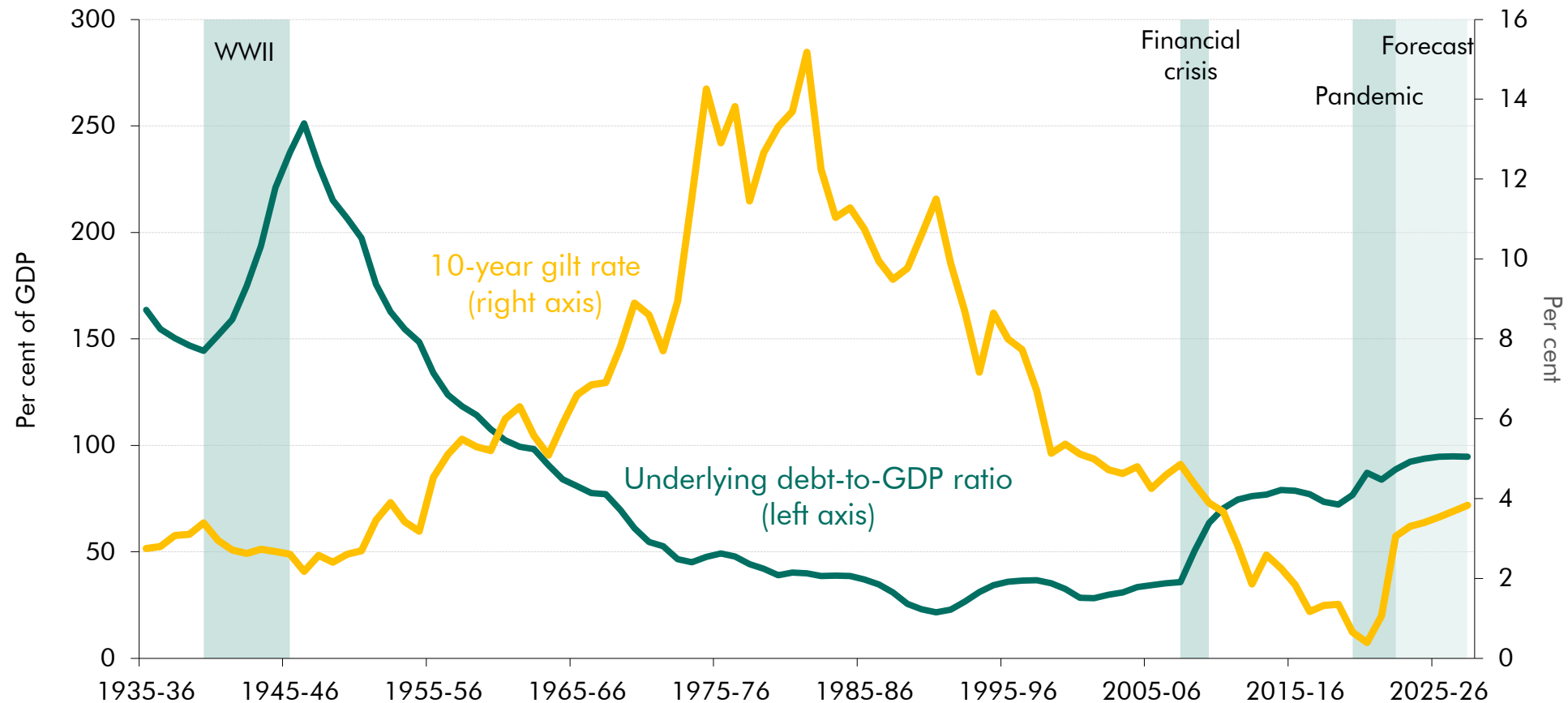


Public sector net debt



Source: OBR

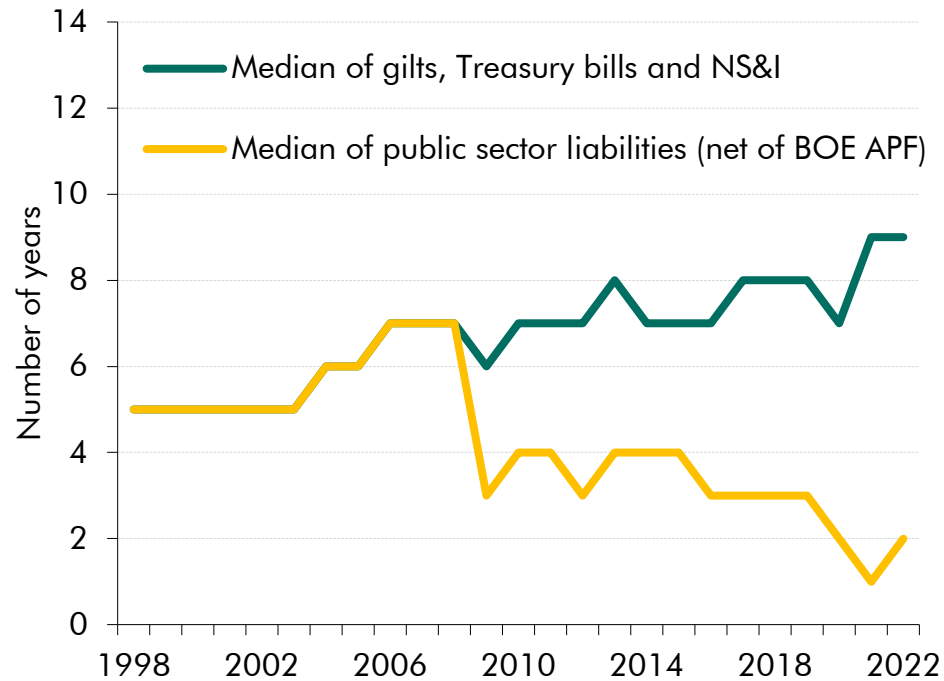
Government debt and cost of borrowing



Source: Bank of England, ONS, OBR

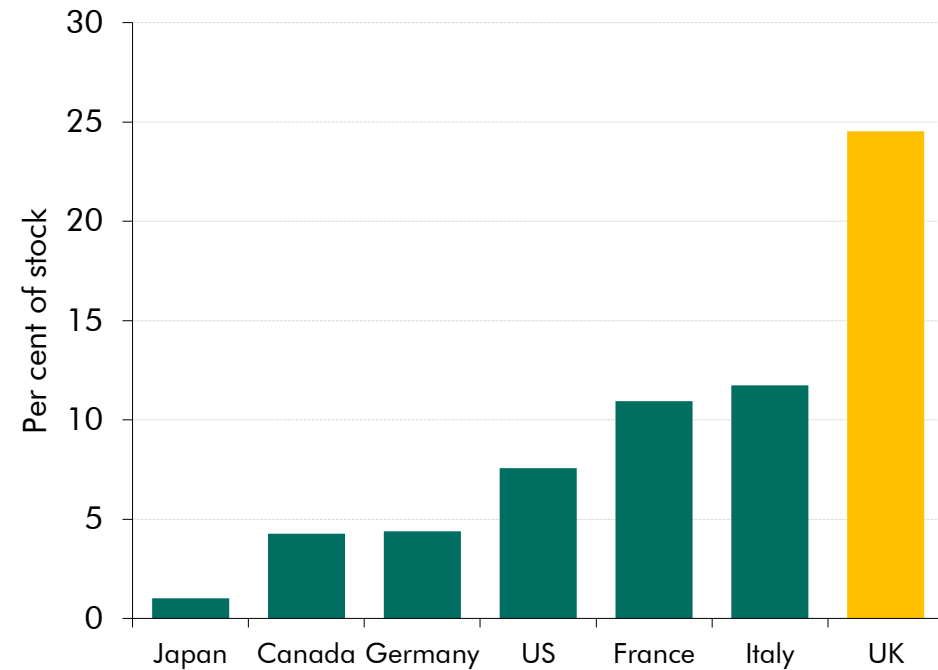
Sensitivity of UK debt to interest and inflation

UK debt maturities



Source: Bank of England, DMO

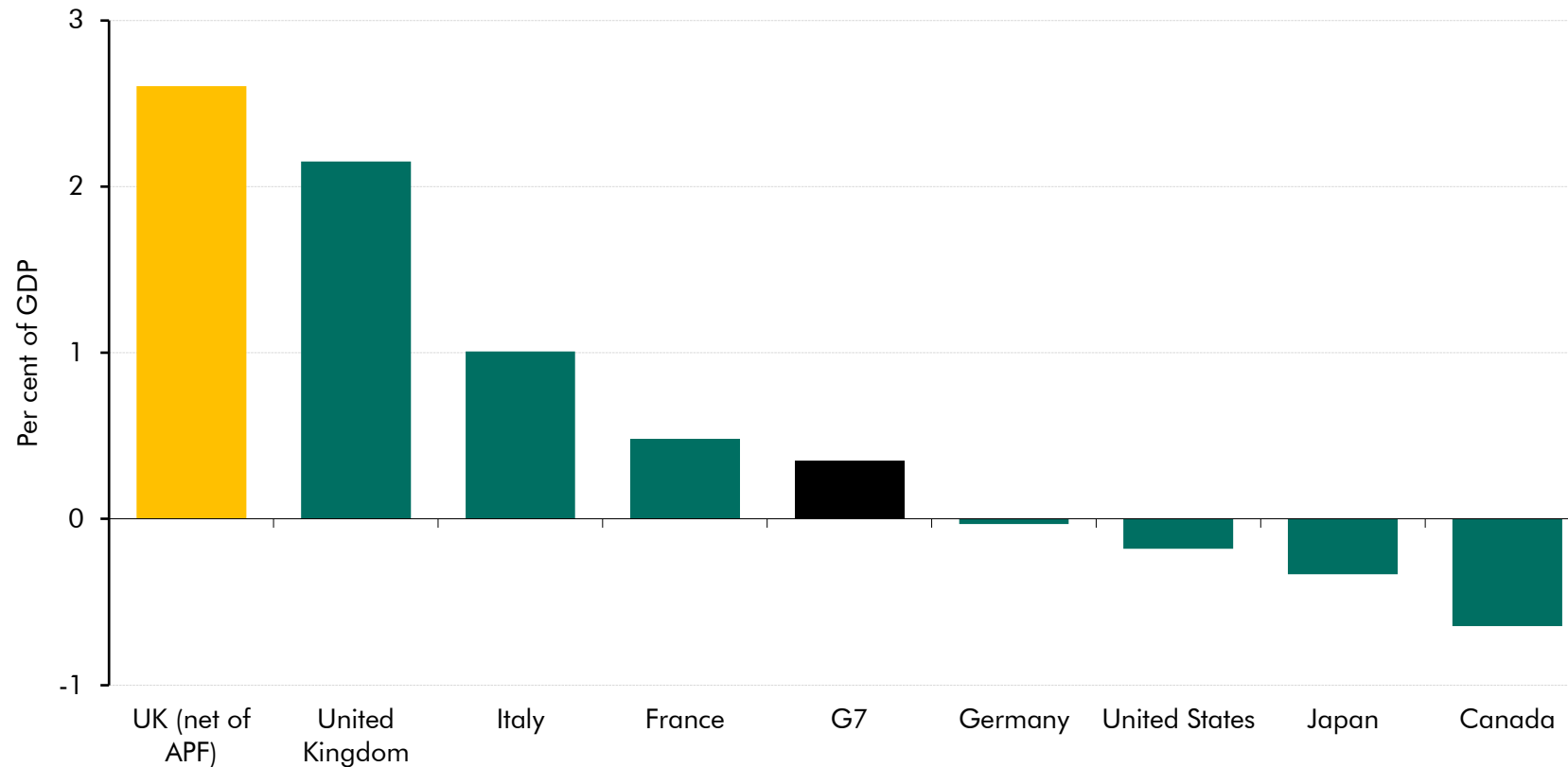
Stock of index-linked gilts



Source: Bloomberg

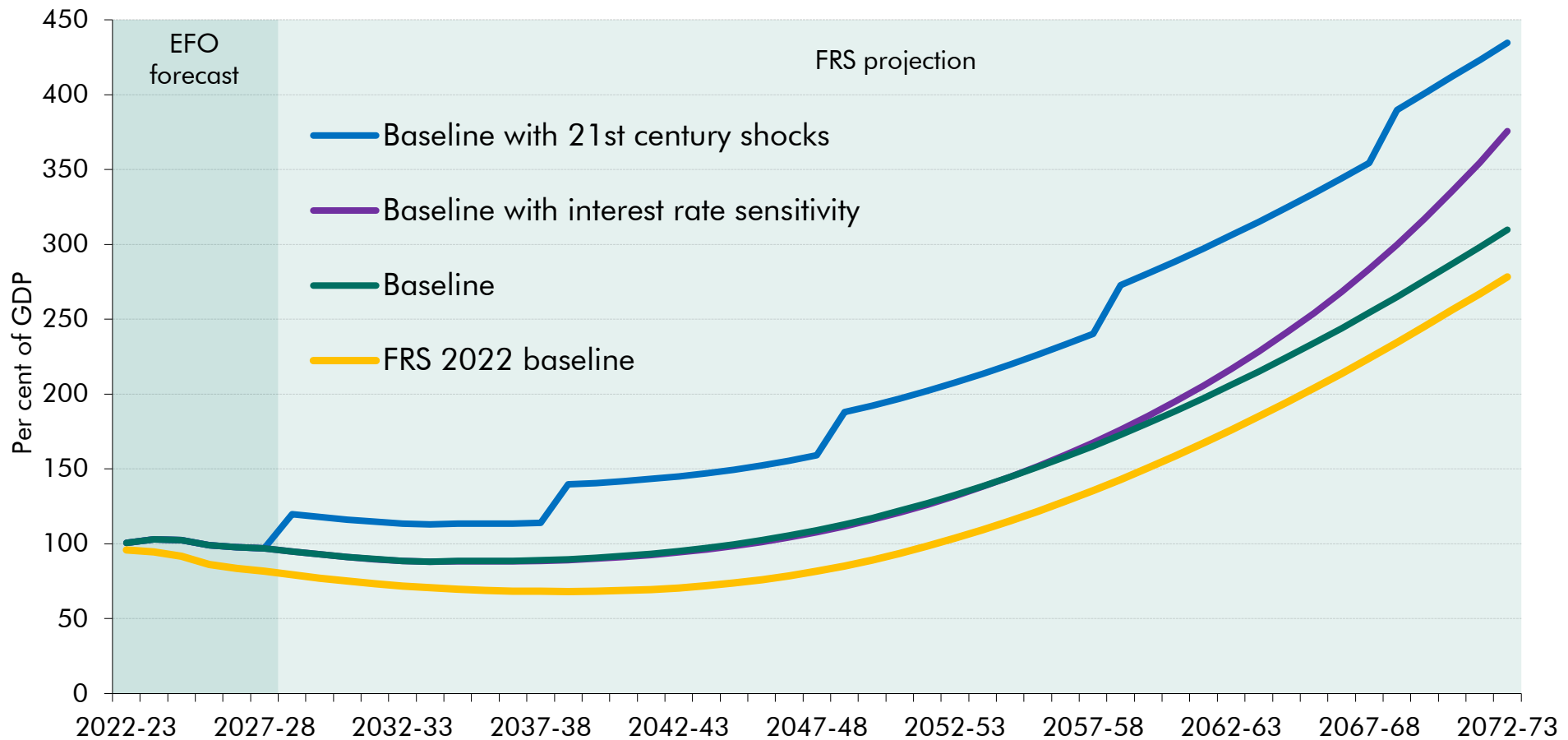
Impact of recent interest rate rises

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

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

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