

Office for  
**Budget  
Responsibility**

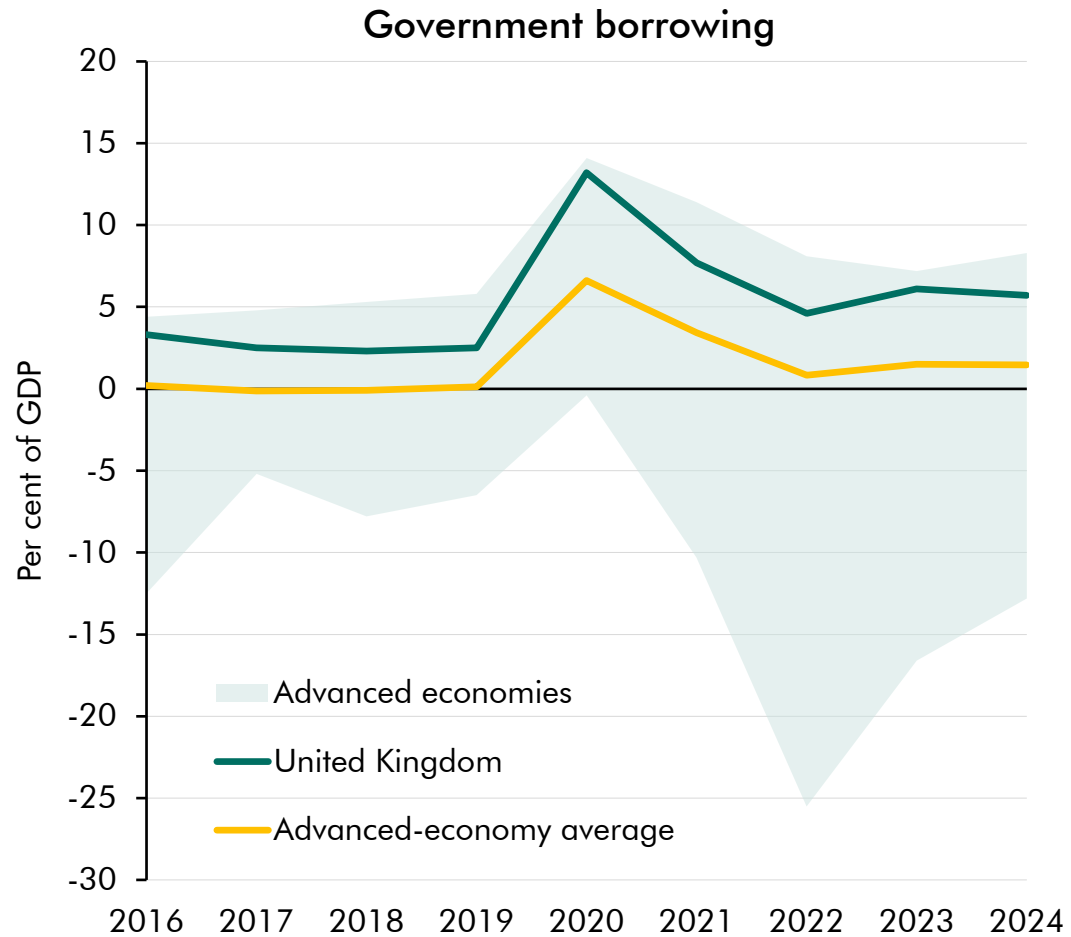
## ***2025 Fiscal risks and sustainability report***

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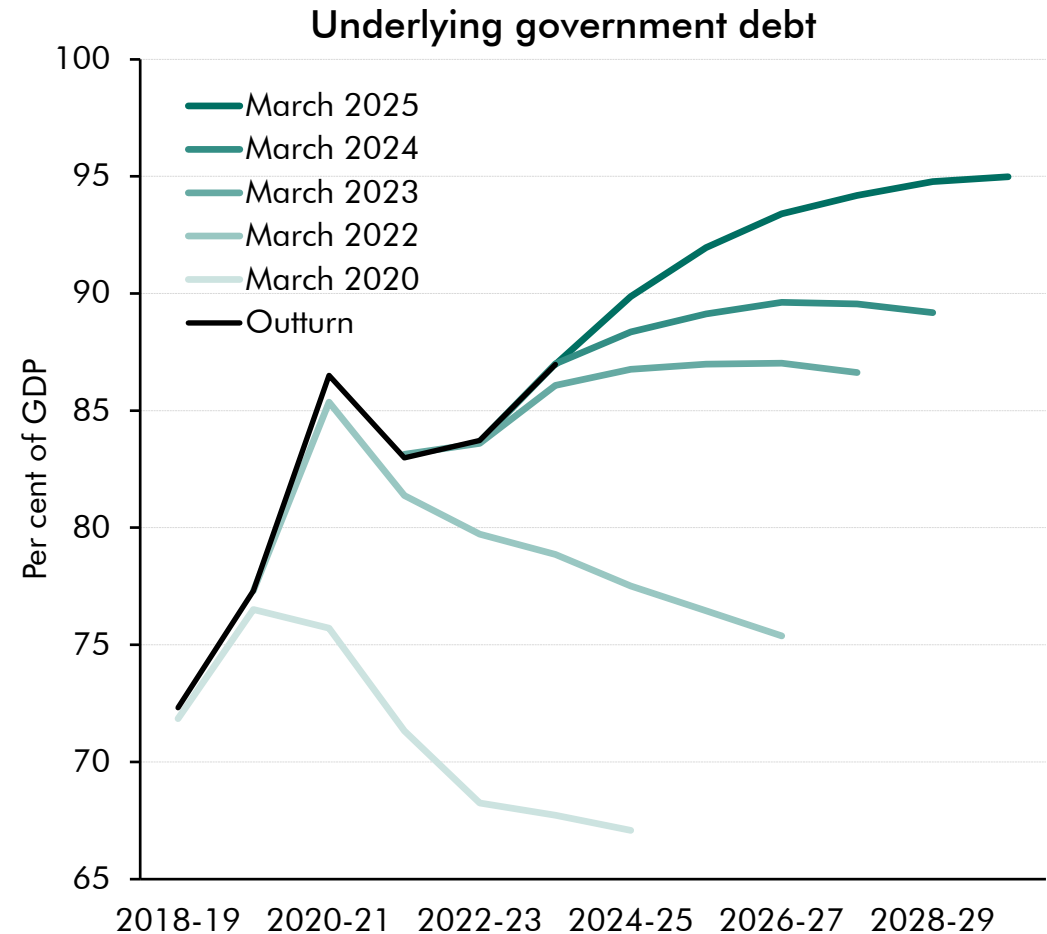
**Richard Hughes**  
Chair

8 July 2025

# Context for this report



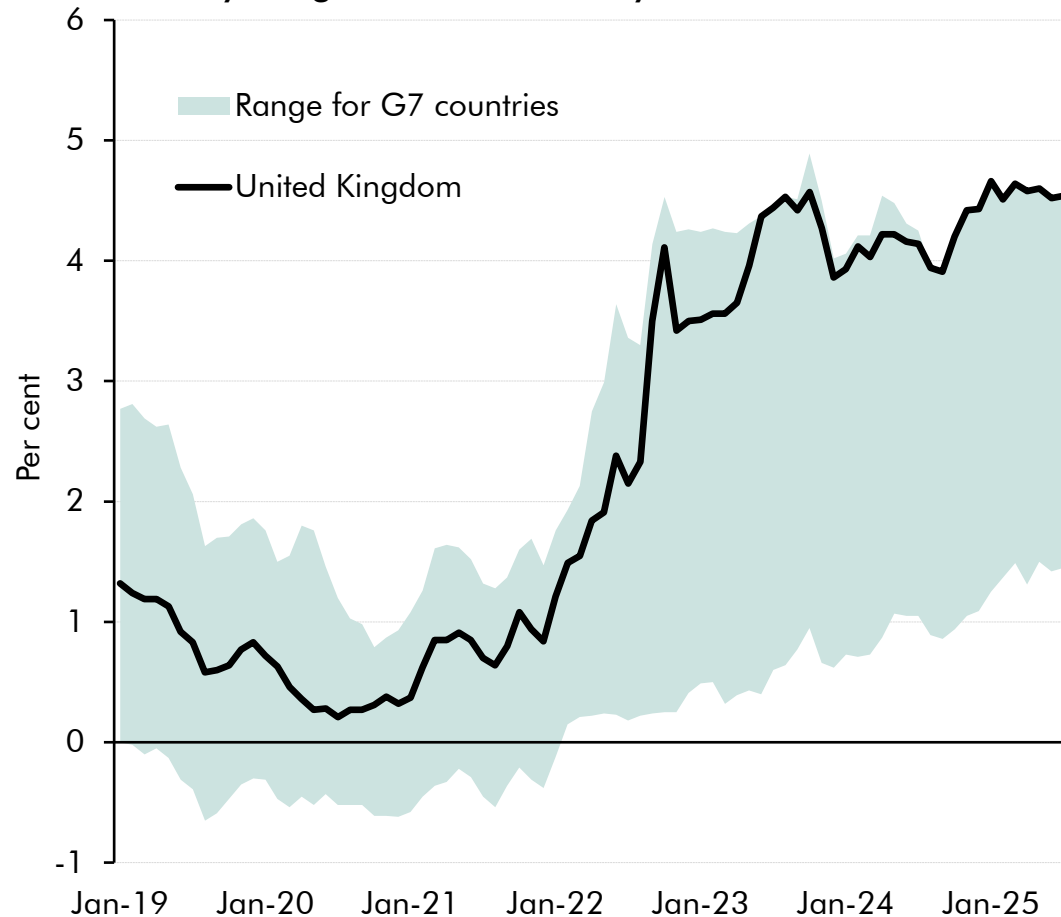
Source: IMF



Source: OBR

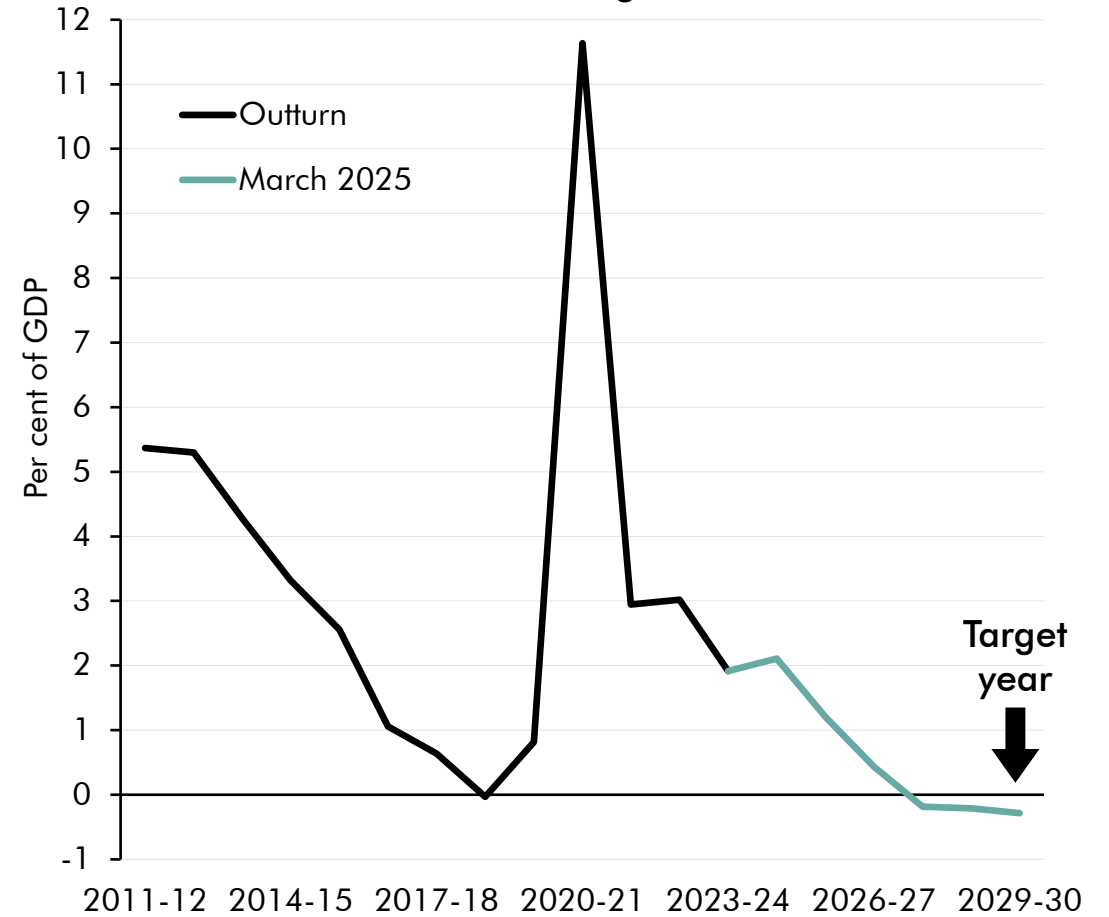
# Context for this report

10-year government bond yields for G7 countries



Source: BoE, ECB, OECD, St. Louis Federal Reserve

Current budget deficit

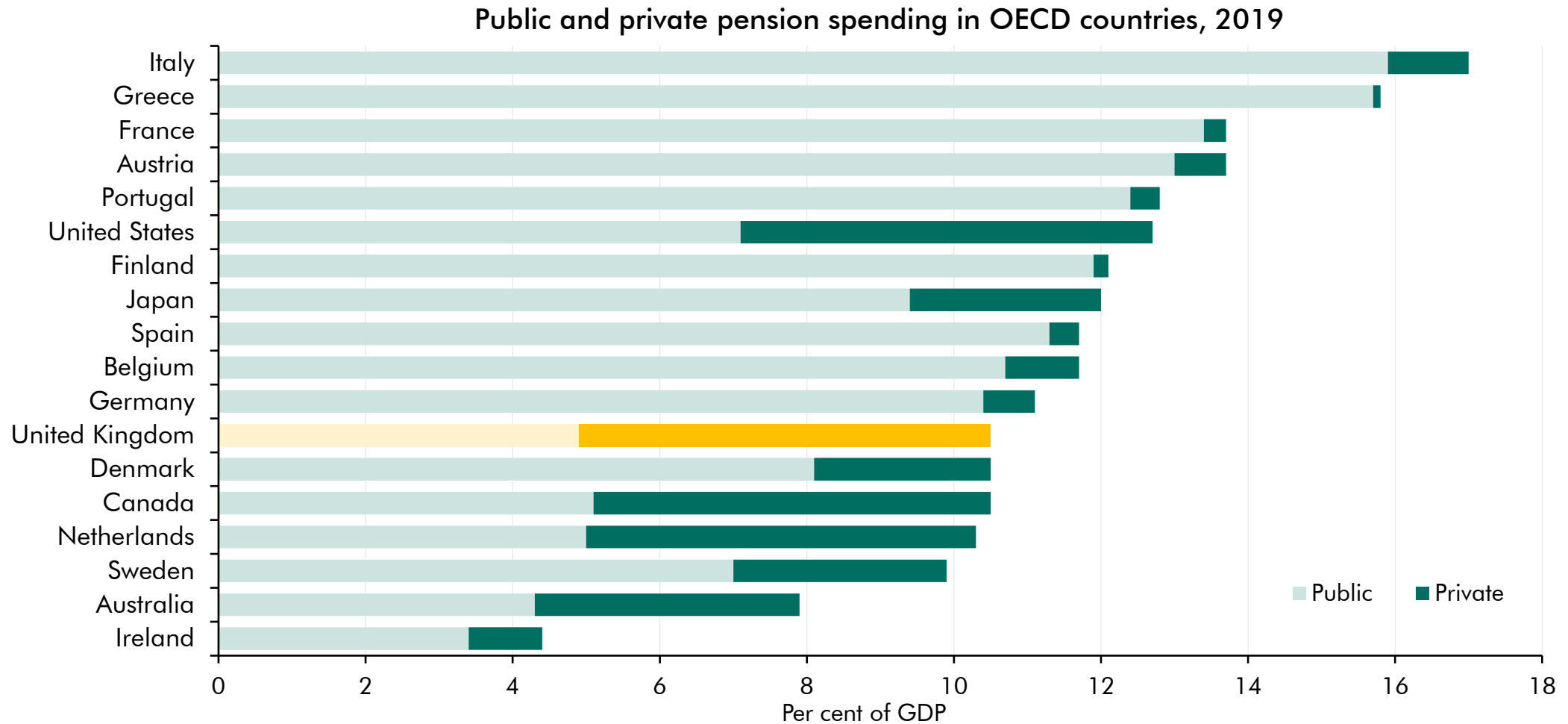


Source: OBR

# Contents of this report

- **The pensions system (Chapter 2)**
- **The public sector balance sheet (Chapter 3)**
- **Climate change (Chapter 4)**
- **Fiscal risk register (Chapter 5)**

# UK pensions system in context

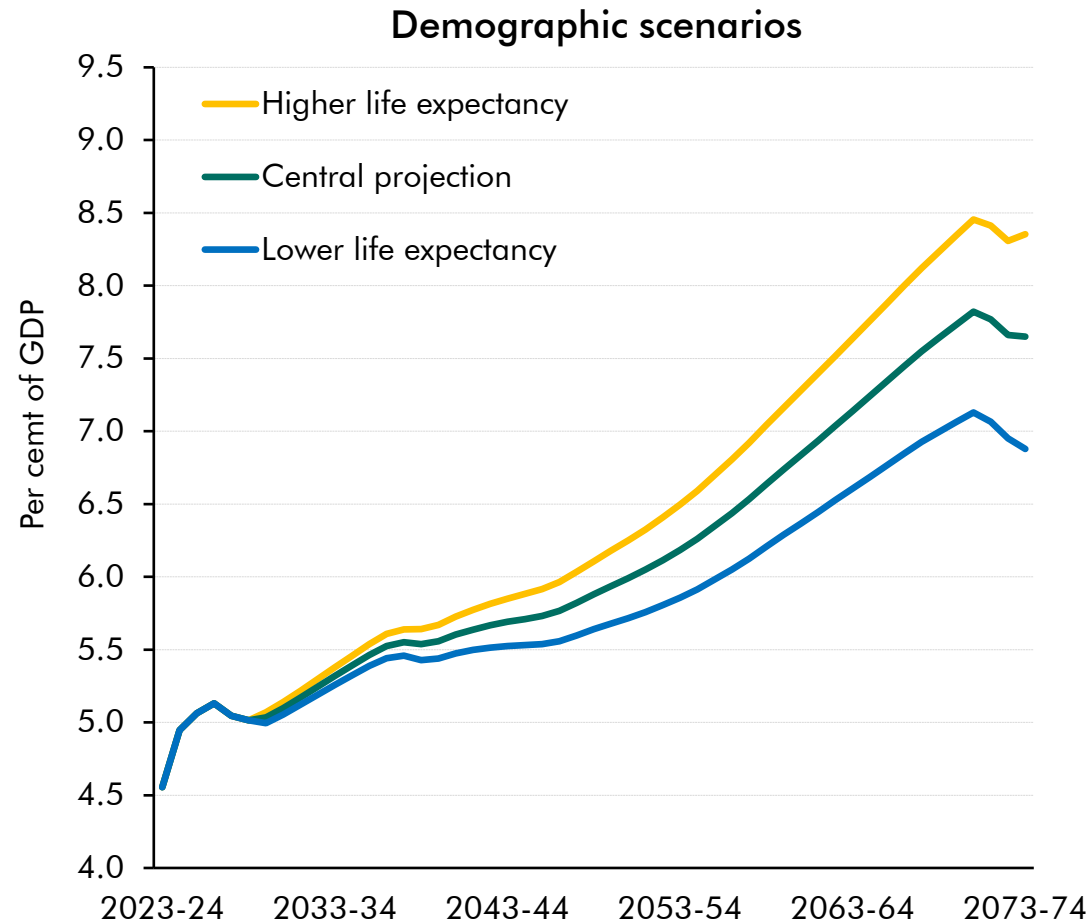


Source: OECD

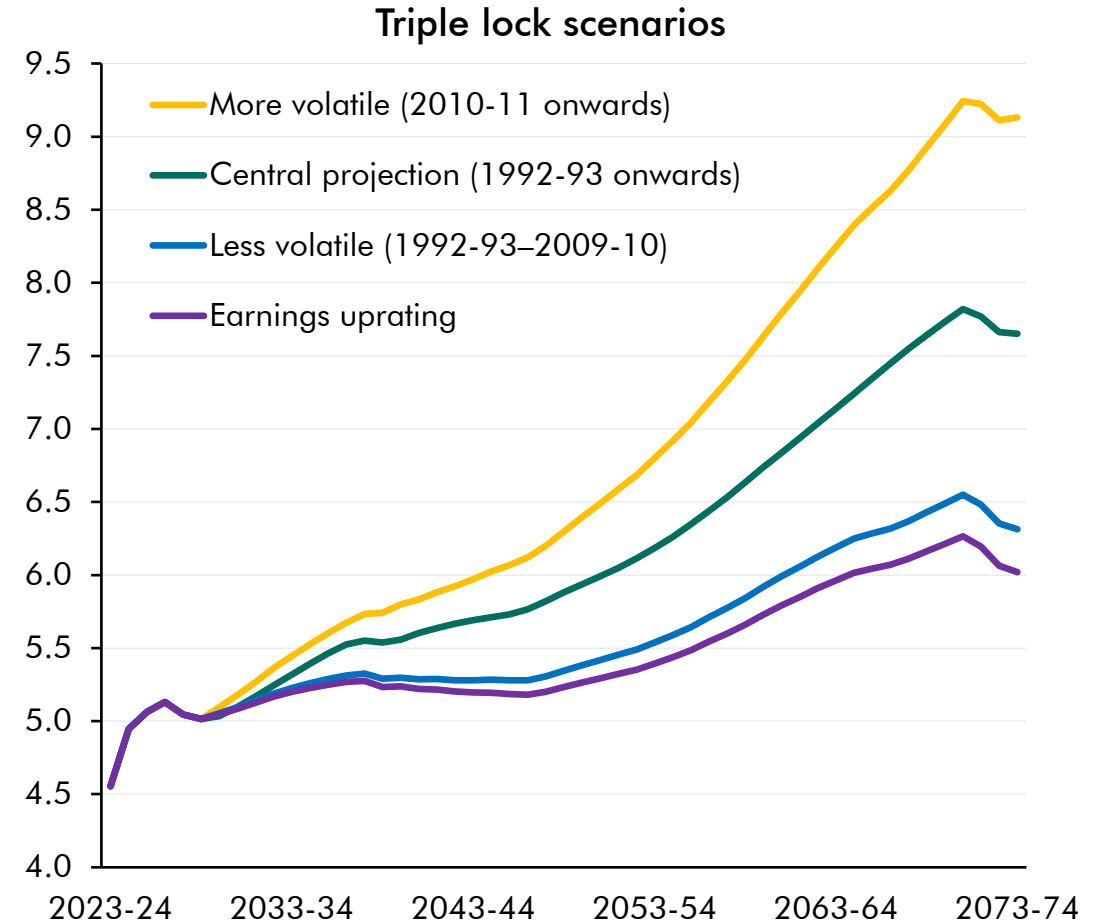
# Fiscal risks from the pensions system

- **State pension:** Ageing society makes it the second-largest (after NHS) source of direct pressure on the public finances over the long run and triple lock makes its ultimate cost highly uncertain
- **Private pensions:** Gaps in private pension saving mean some individuals at risk of inadequate income in retirement, which could give rise to both direct and indirect fiscal pressures in future
- **Government debt ('gilt') market:** Shift from defined benefit to defined contribution pension schemes is likely to affect the demand for, and cost of, government debt

# State pension: Demography and triple lock

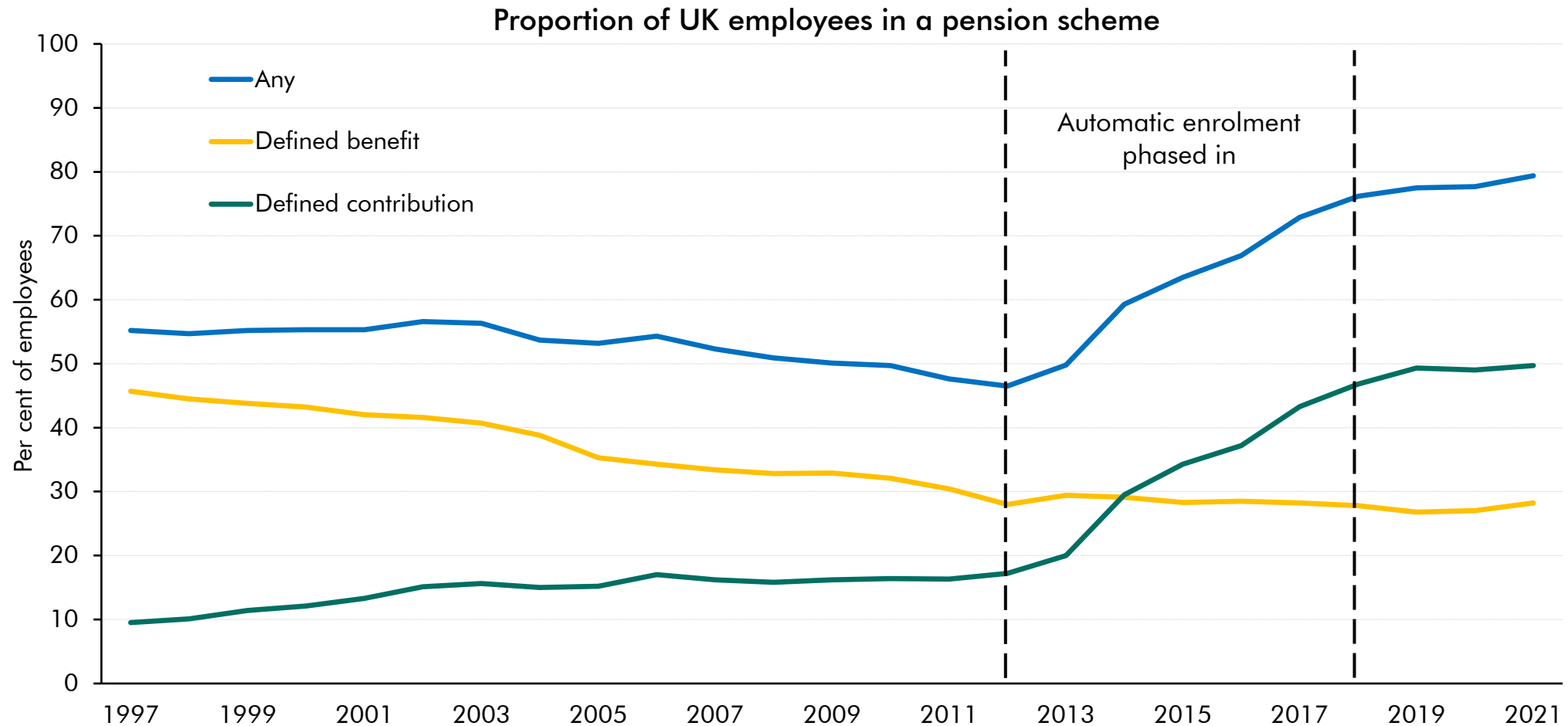


Source: OBR



Source: OBR

# Pension enrolment by sector

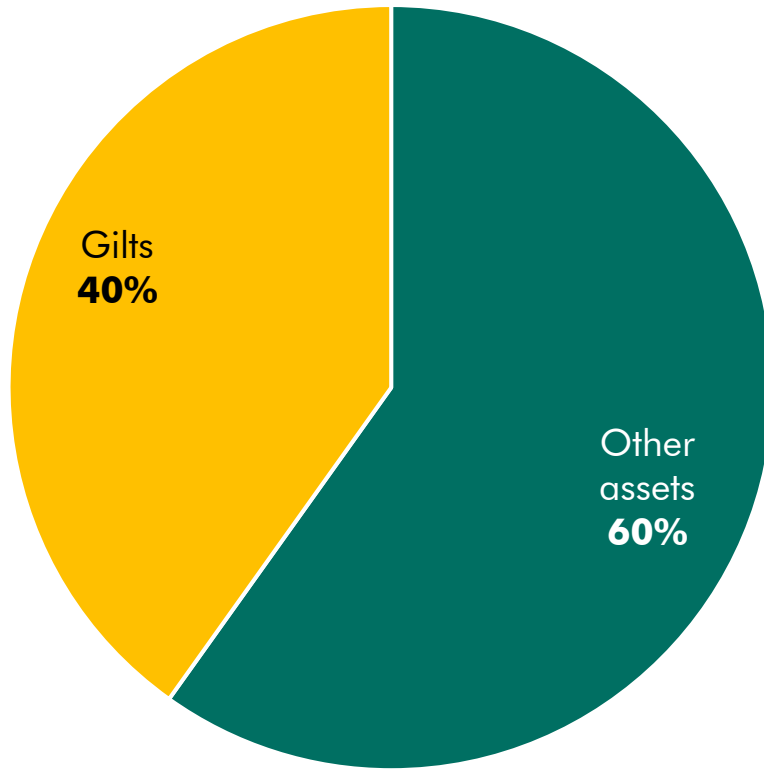


Source: Cribb, J. & Karjalainen, H. *How important are defined contribution pensions for financing retirement?*, June 2023.

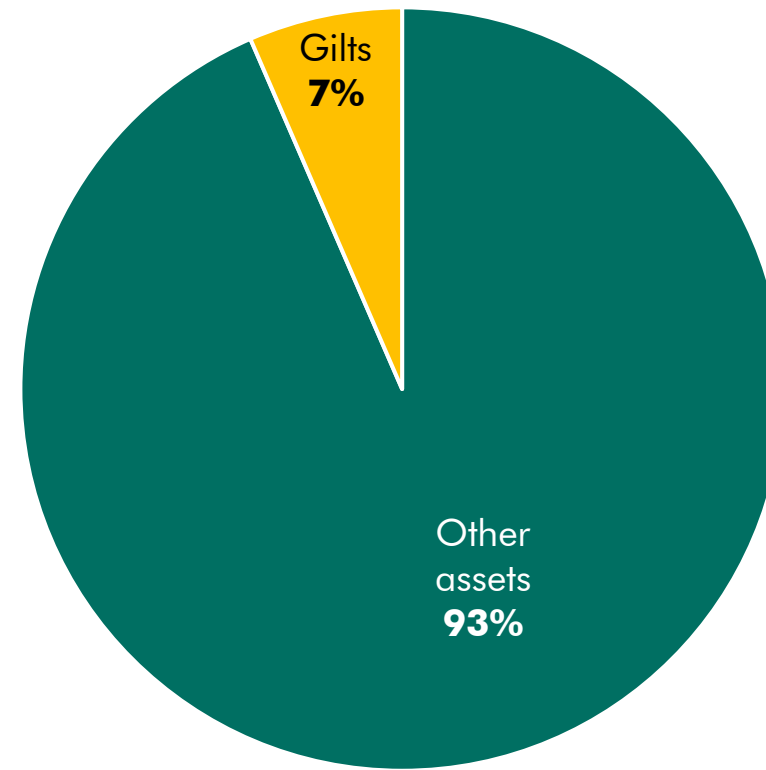


# Asset holdings of UK pension schemes

Defined benefit pension schemes

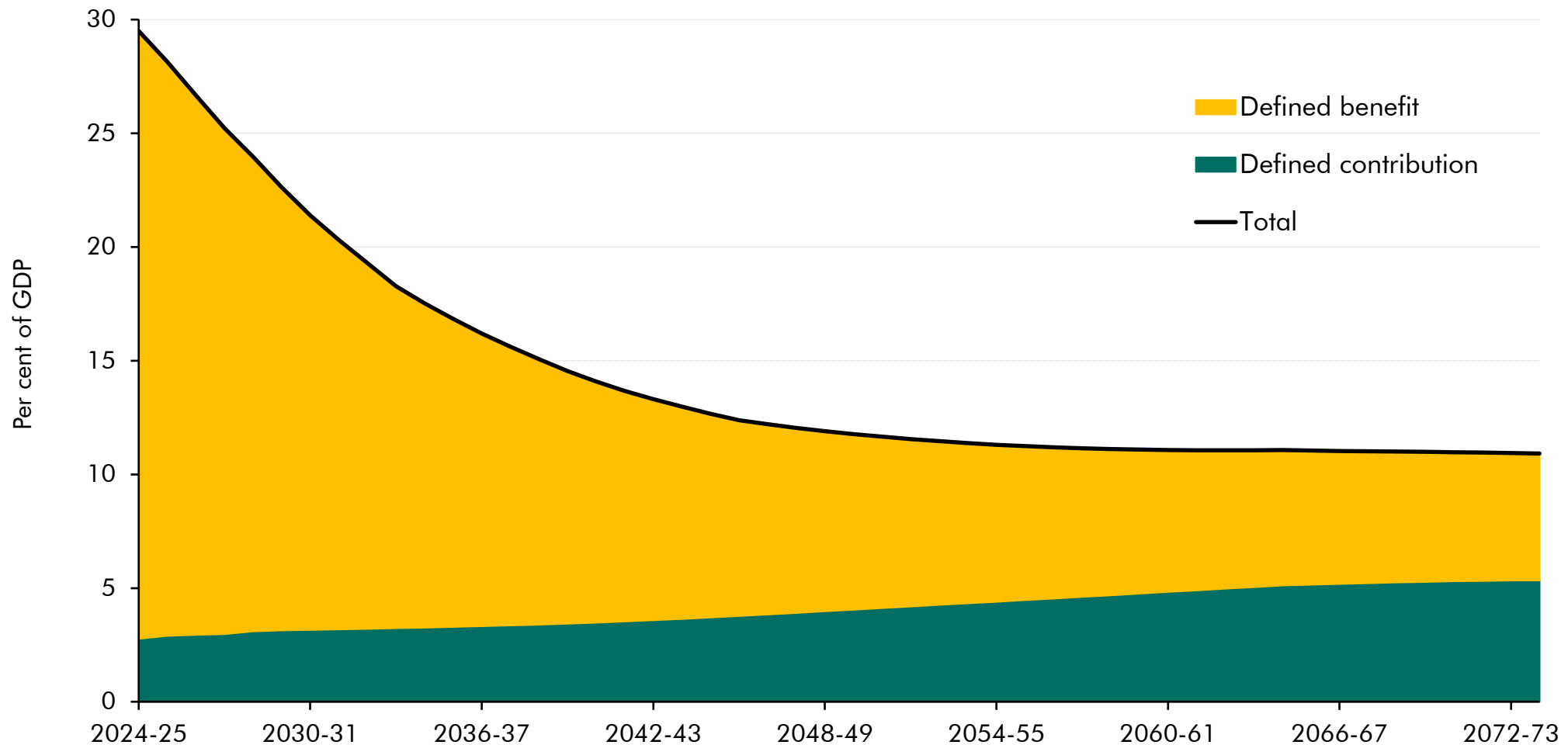


Defined contribution pension schemes

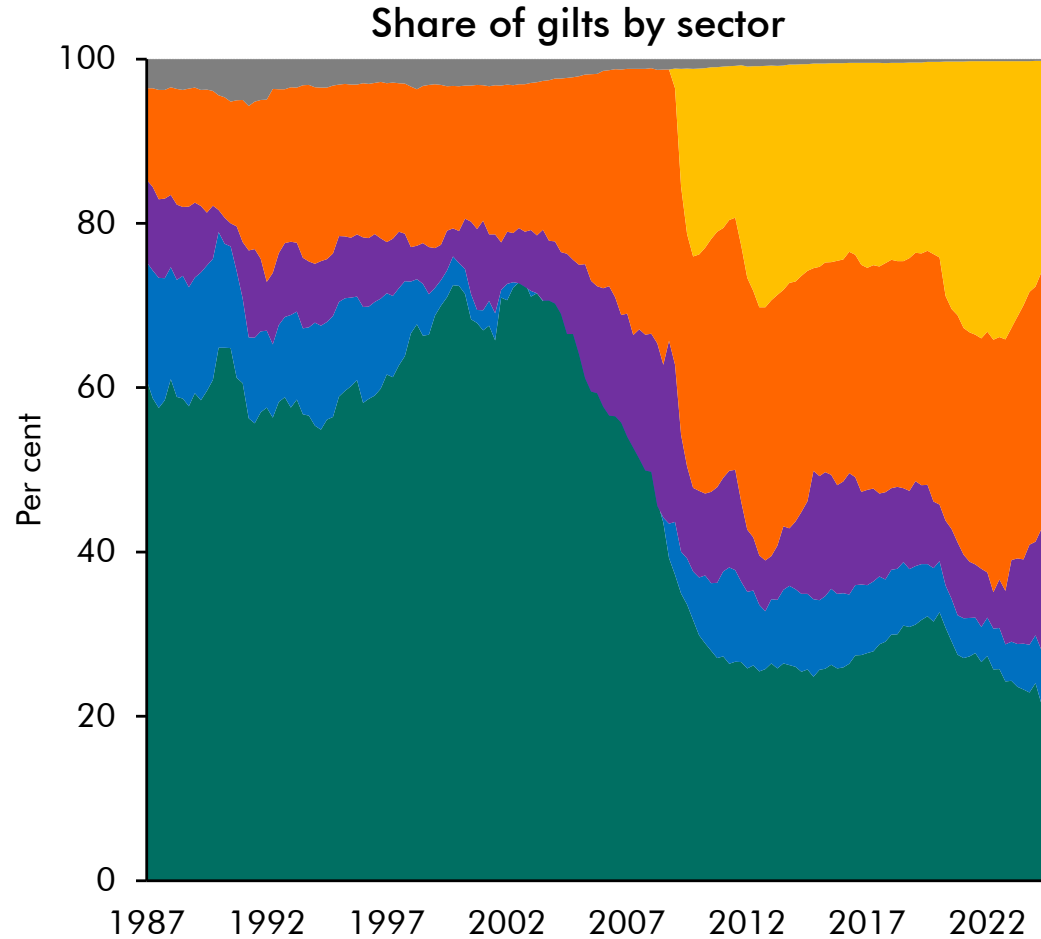


Source: PPI

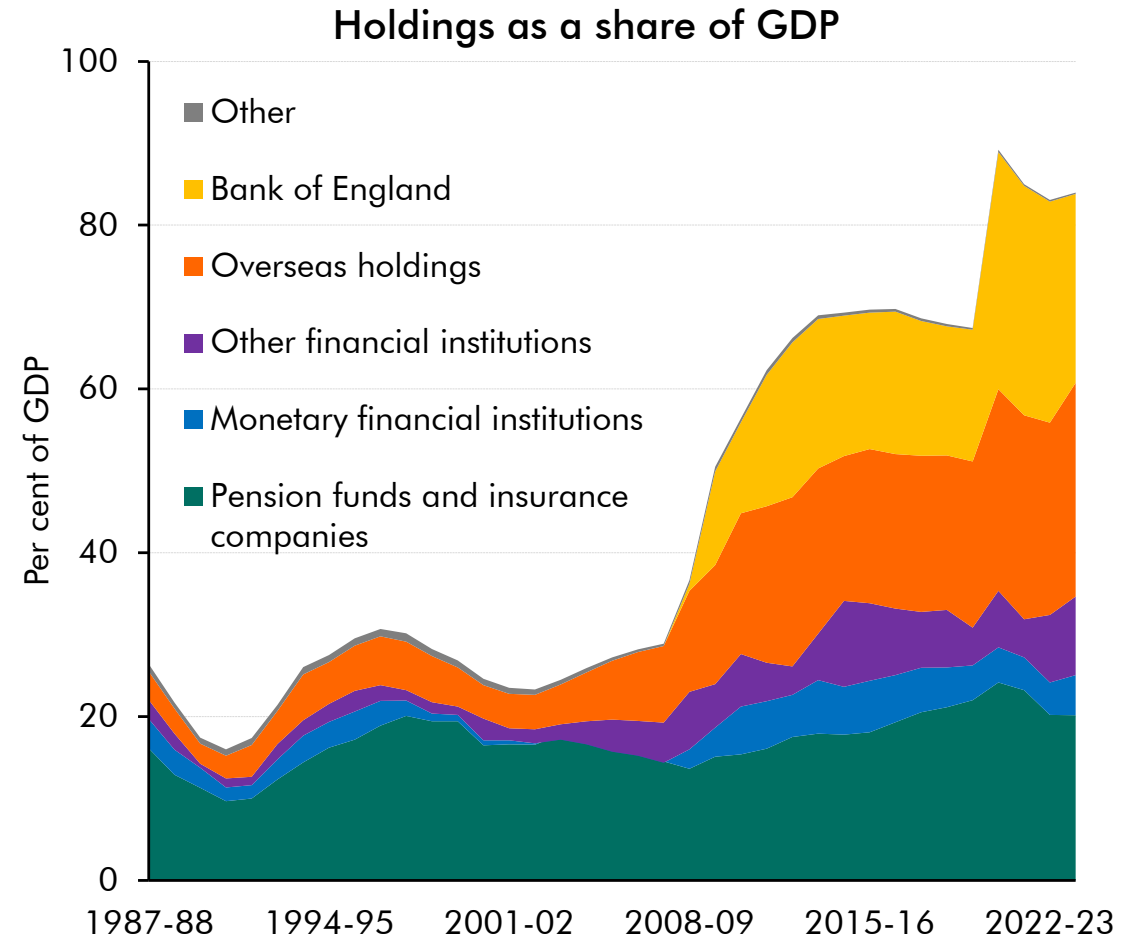
# Projected pension sector holdings of gilts



# Gilt holdings by sector



Source: ONS

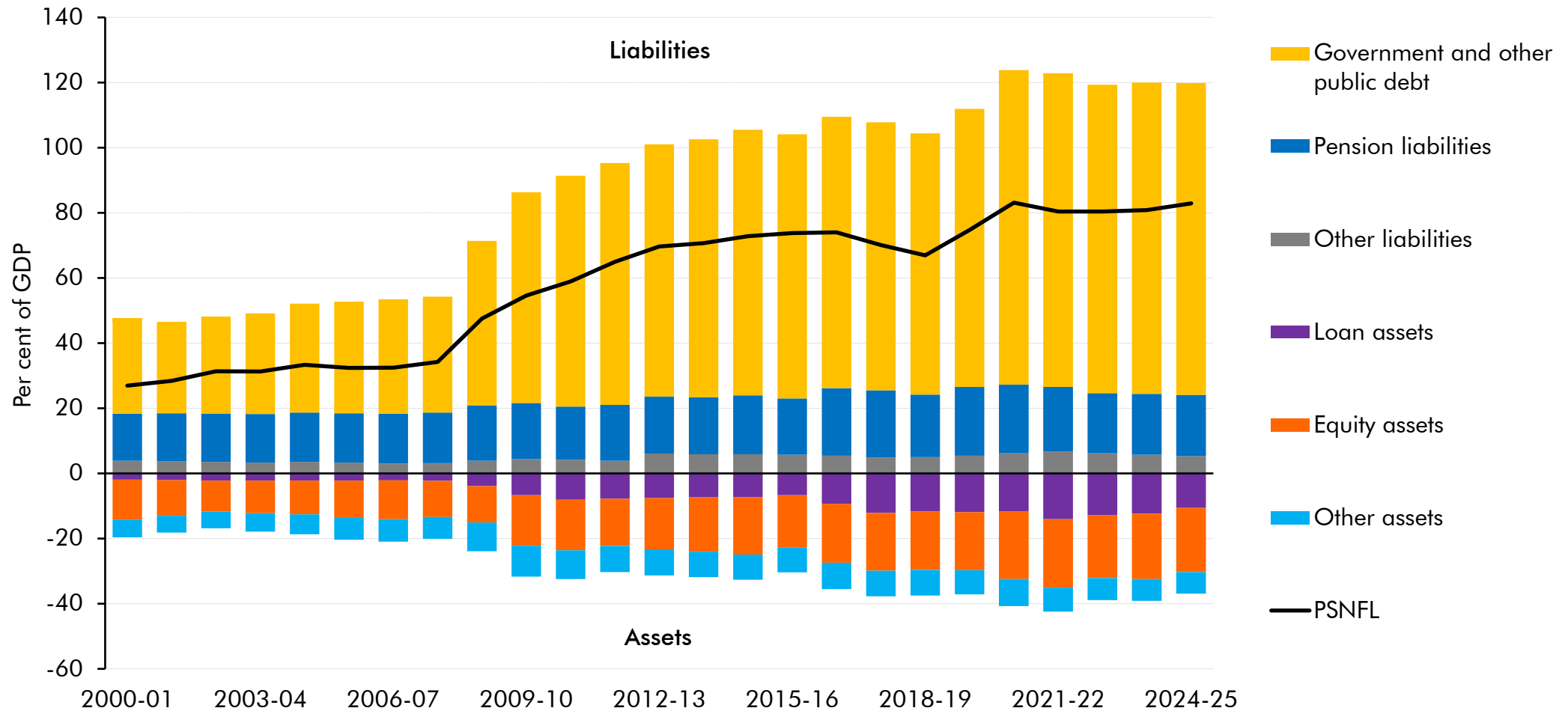


Source: ONS

# Different public balance sheet measures

	General government gross debt (GGGD)	Public sector net debt (PSND)	Public sector net financial liabilities (PSNFL)	Public sector net worth (PSNW)
Assets				Non-financial assets
			Illiquid financial assets	Illiquid financial assets
		Liquid financial assets	Liquid financial assets	Liquid financial assets
Liabilities	Government debt	Government debt	Government debt	Government debt
		Other public debt	Other public debt	Other public debt
			Other liabilities	Other liabilities
				Unfunded public sector pensions
				PFI contracts

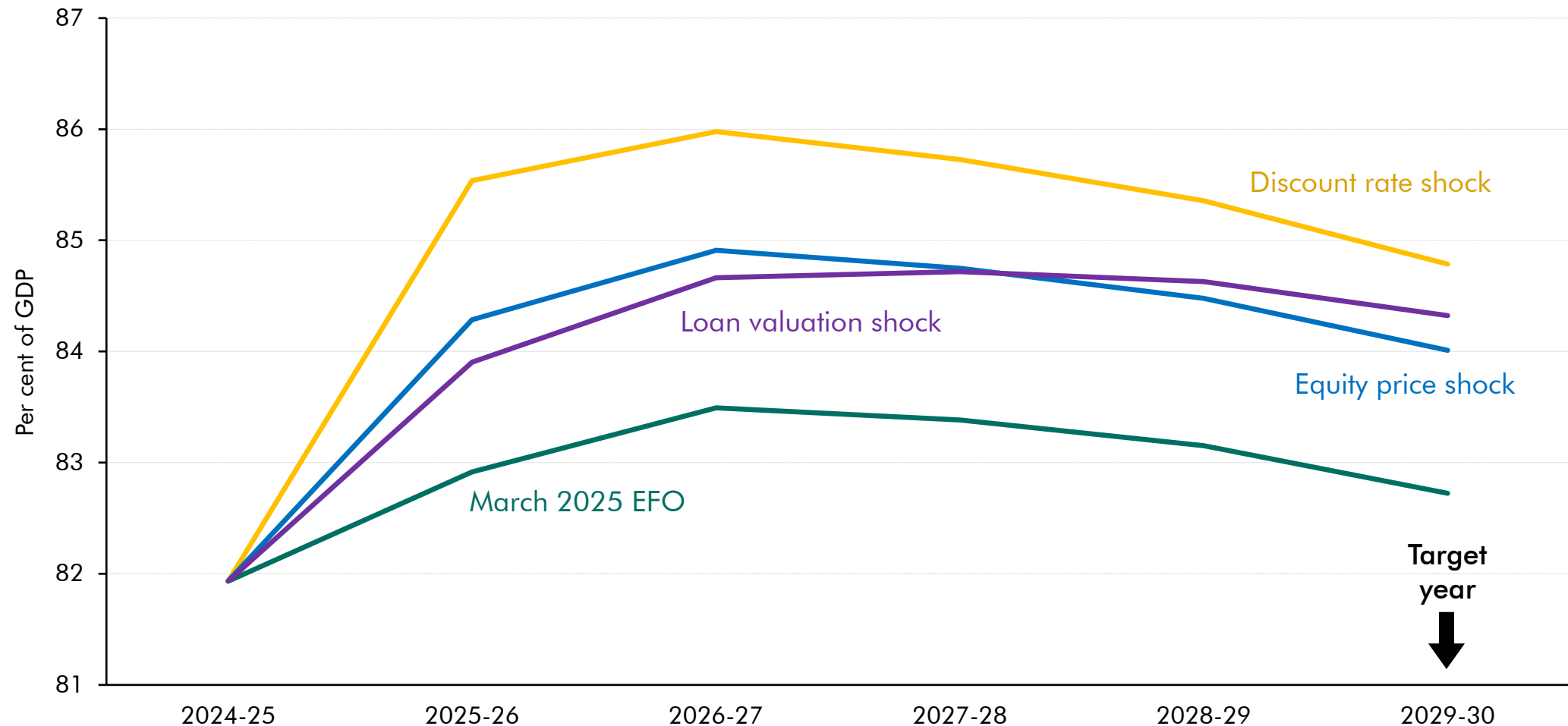
# Composition and evolution of PSNFL



# Sources of risks to PSNFL

- **Transactions:** Financial transactions such as concessional loans which involve a subsidy element
- **Valuation changes:** Changes in the value of financial assets and liabilities already on the balance sheet
- **Classification changes:** Movement of institutions and their assets and liabilities into and out of the public sector

# Sensitivity of PSNFL to valuation shocks



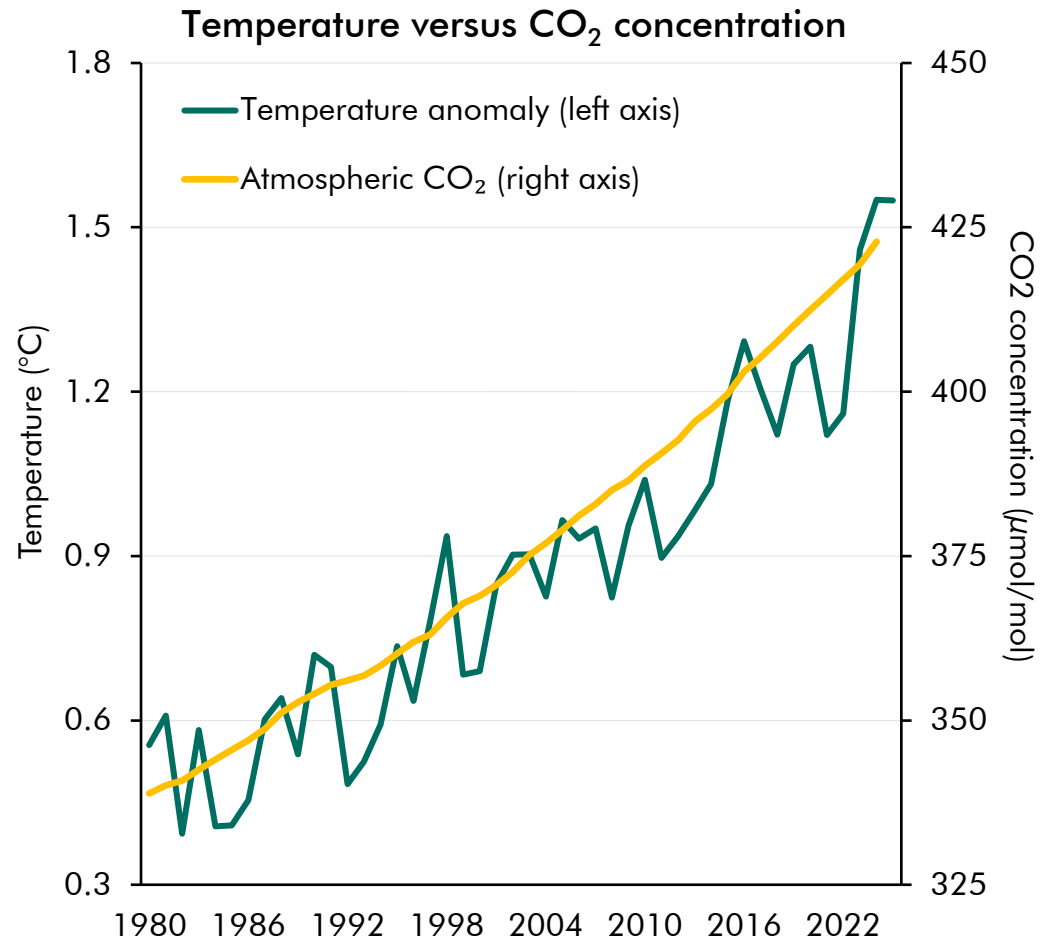
# PSNFL impact of water reclassification



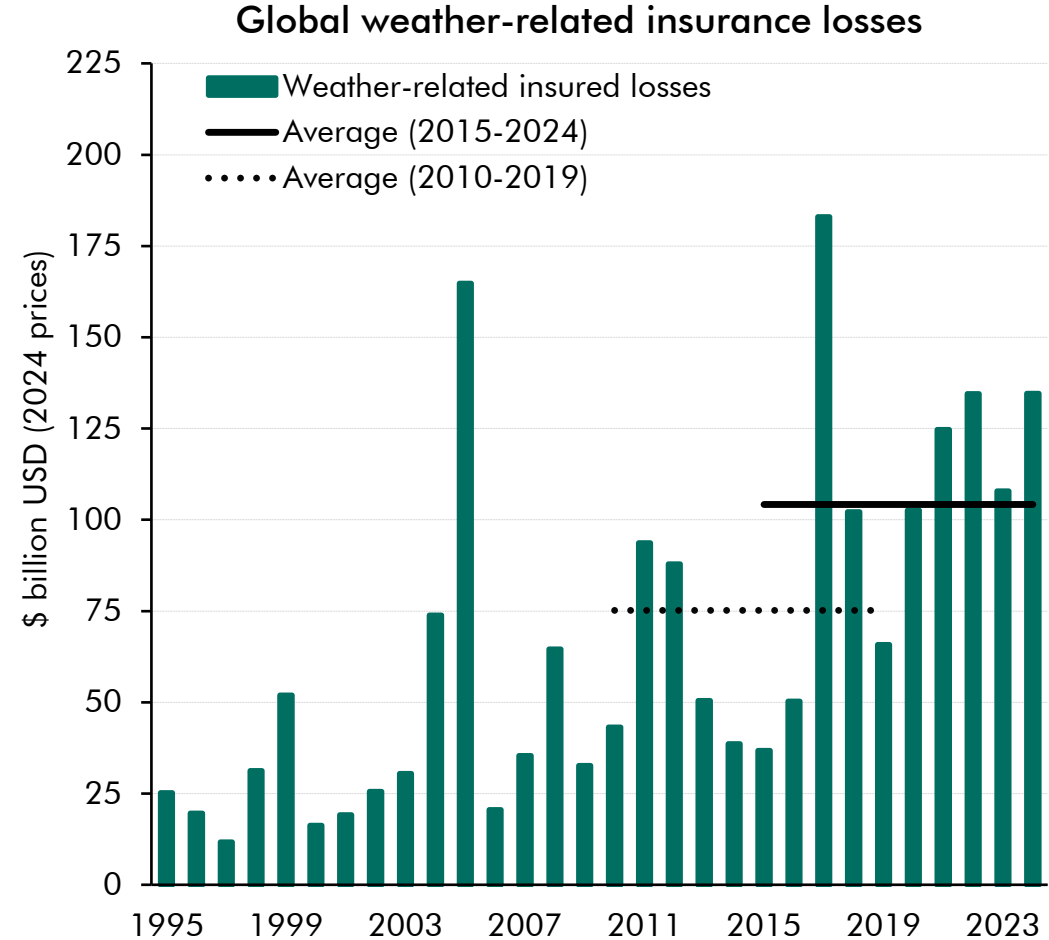
Source: Water companies, OBR



# Emissions, temperatures, and damage



Source: Copernicus, Met Office Hadley Centre, NOAA

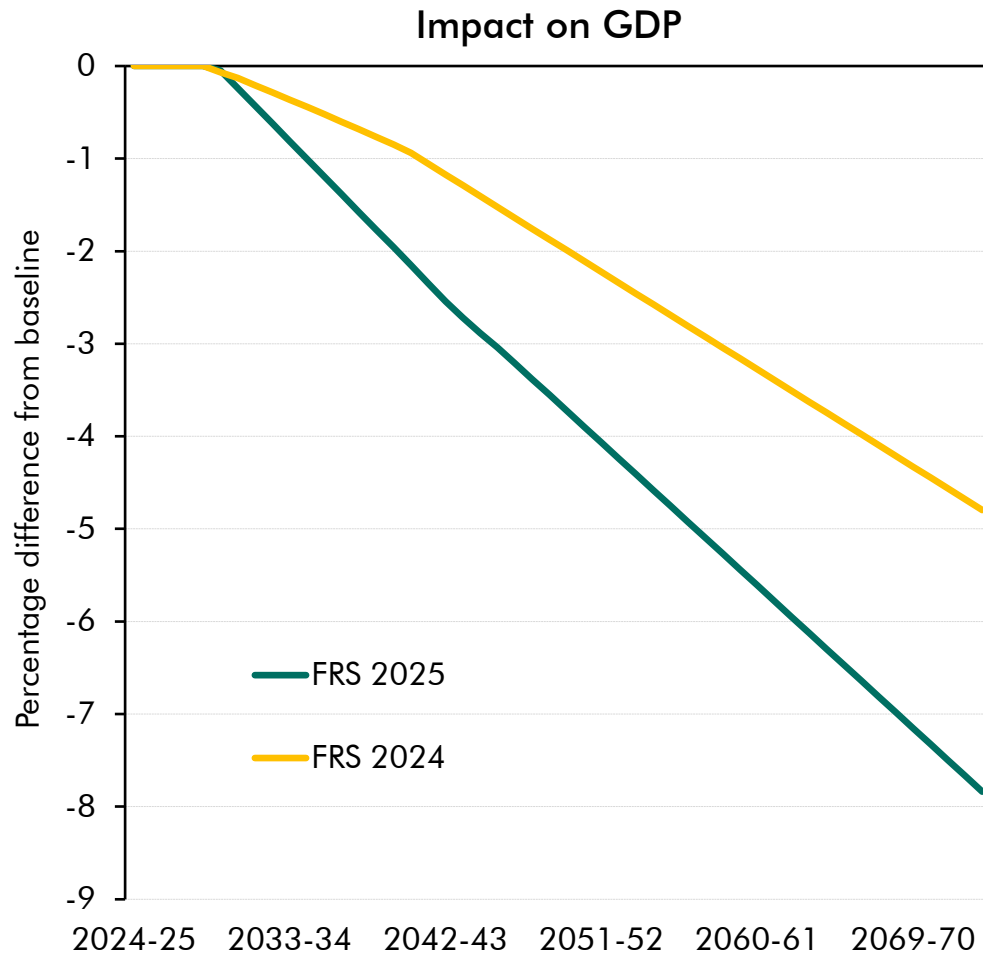


Source: Swiss Re

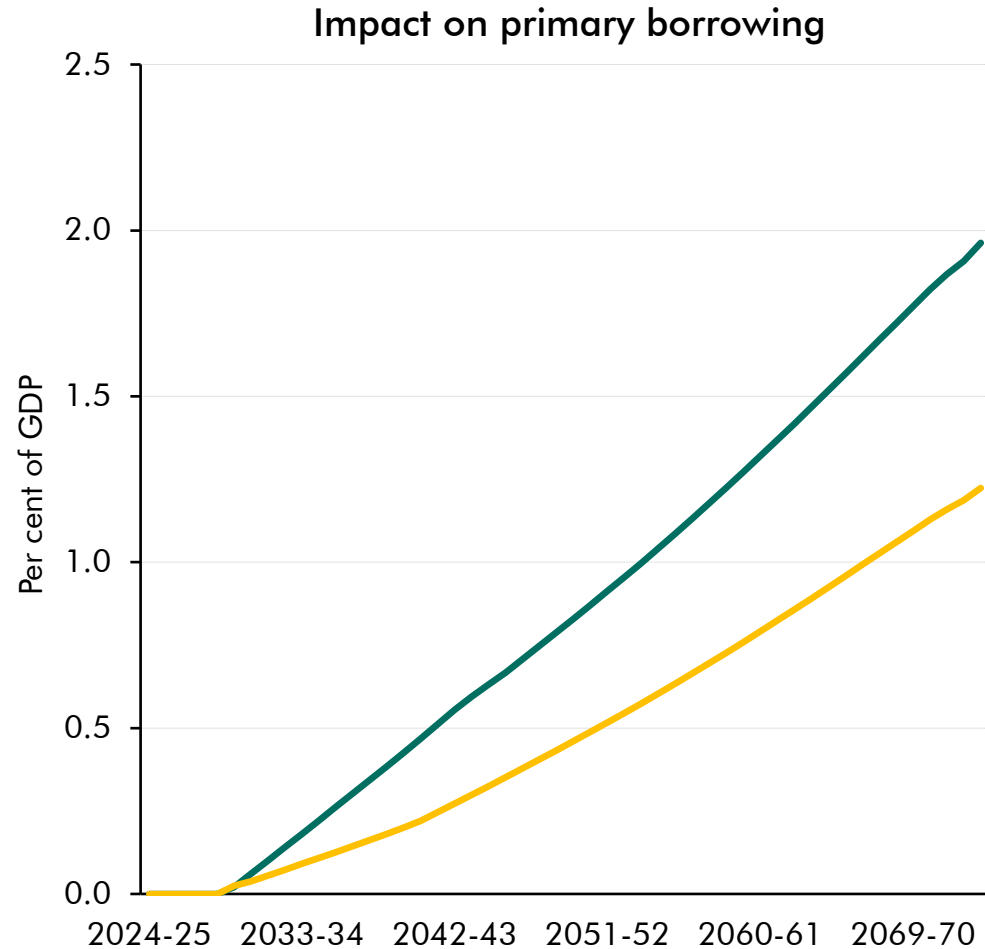
# Fiscal risk from climate change

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

# Climate damage (3°C): Economic and fiscal costs

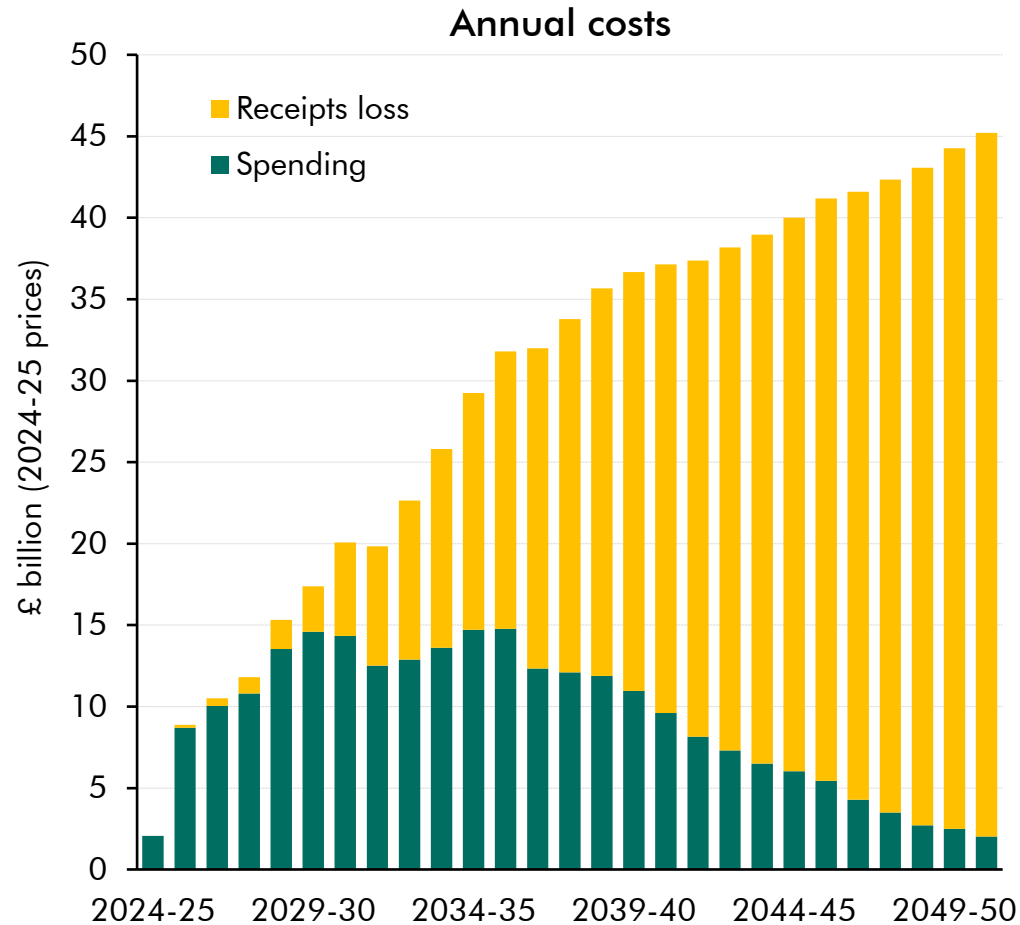


Source: NGFS, OBR

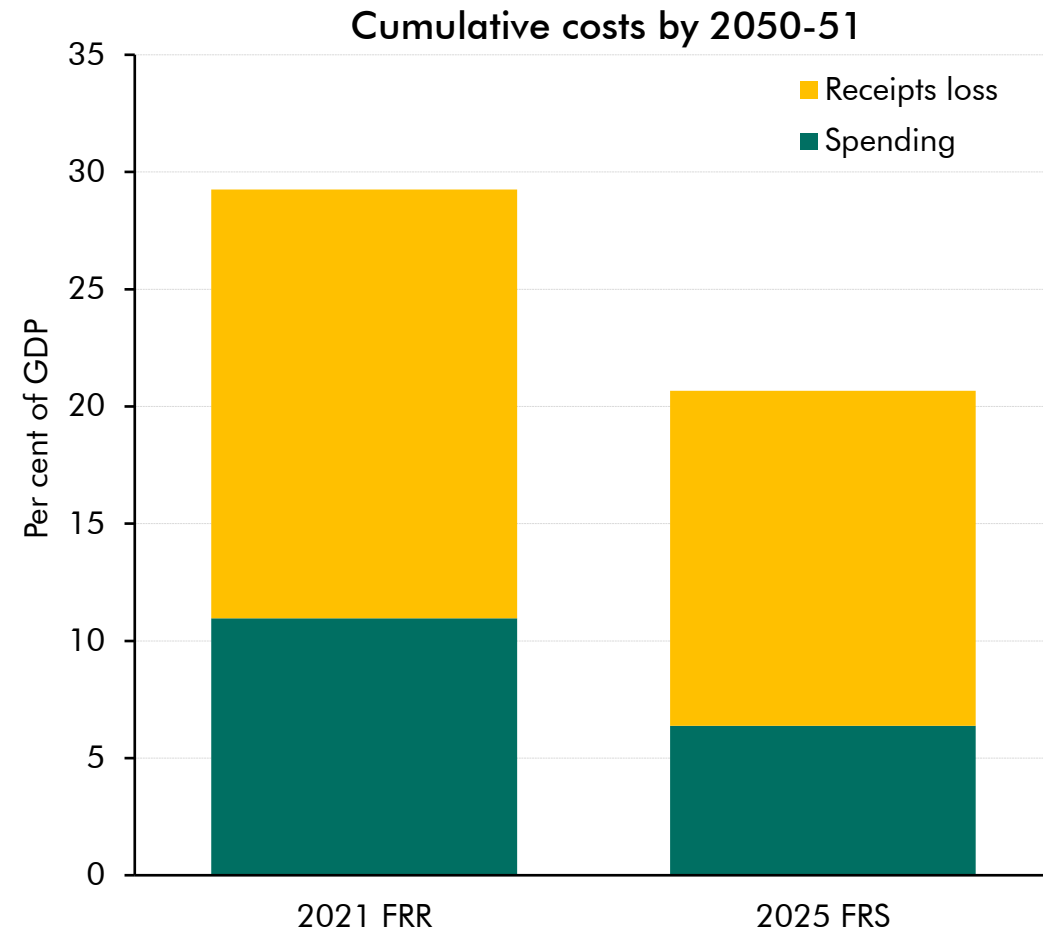


Source: NGFS, OBR

# Climate mitigation: Fiscal costs

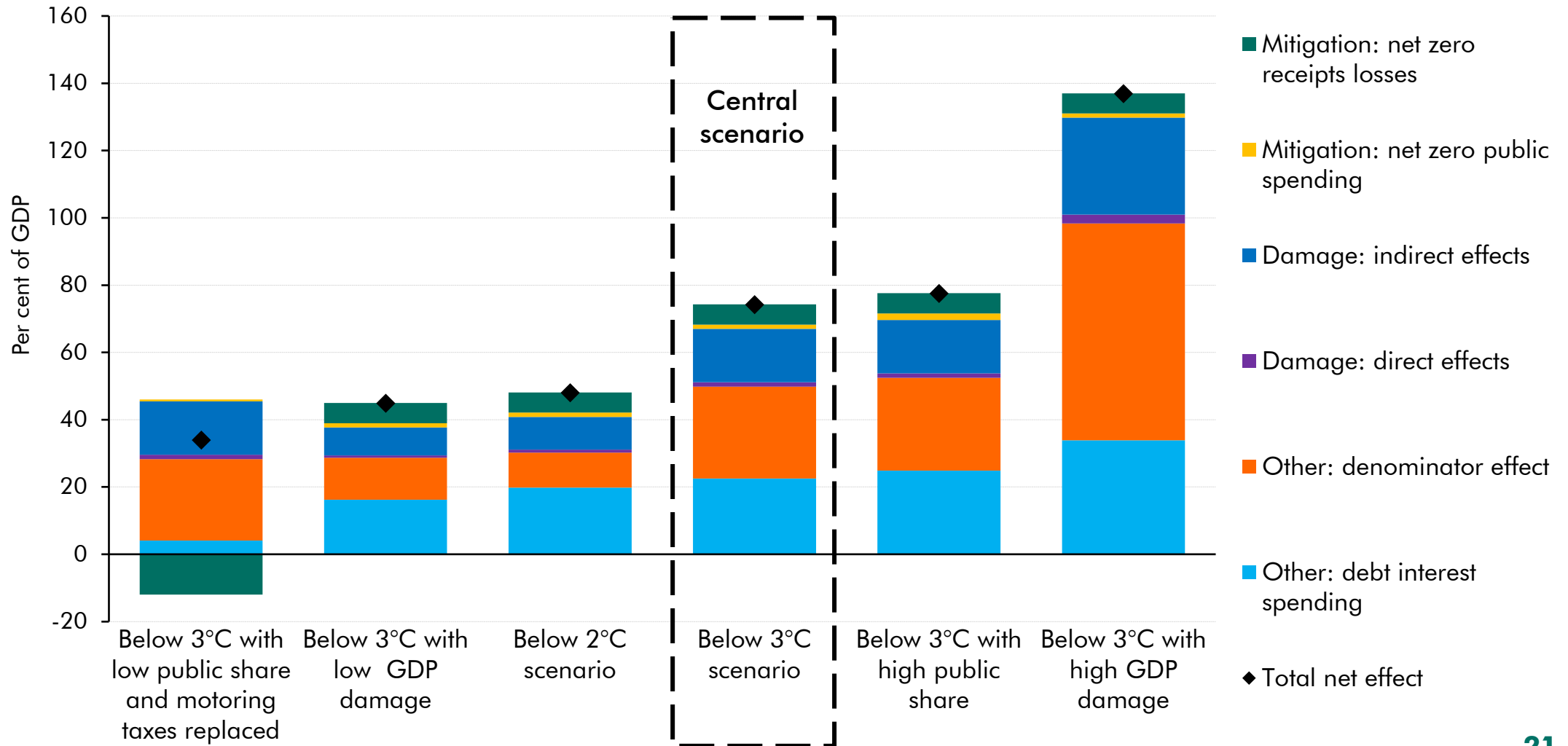


Source: CCC, HMRC, OBR



Source: CCC, HMRC, OBR

# Climate change: Total fiscal cost scenarios



# Conclusions

- **UK public finances have emerged from a series of global shocks in a relatively vulnerable position**
- **UK government has the 6<sup>th</sup> highest debt, 5<sup>th</sup> highest deficit, and 3<sup>rd</sup> highest borrowing costs among 36 advanced economies**
- **Risks explored in this report around pensions, balance sheet, and climate change could each add further percentage points of GDP to borrowing and net liabilities**
- **Final chapter and fiscal risks register explore an array of risks including around global trade policy, European defence spending, and the UK economic outlook**



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**Thank you for listening**

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**Slides and speaking notes are now available on our website  
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**Please email us with any further questions  
[OBR.Enquiries@obr.uk](mailto:OBR.Enquiries@obr.uk)**