

Changes in discount rates as at 31 March 2025

Summary of discount rates to be applied as at 31 March 2025

The discount rates to be applied as at 31 March 2025 for general provisions, post-employment benefits and financial instruments are summarised below.

Table 1: summary of discount rates as at 31 March 2025

Rate Type	Rate	Prior Year Rate
Nominal general provisions discount rates		
Short-term	4.03%	4.26%
Medium-term	4.07%	4.03%
Long-term	4.81%	4.72%
Very long-term	4.55%	4.40%
General provisions inflation rates		
Year 1	2.6%	3.6%
Year 2	2.3%	1.8%
Into perpetuity	2.0%	2.0%
Post-employment benefits discount rate		
Real Rate	2.40%	2.45%
Nominal Rate	5.15%	5.10%
CPI Inflation	2.65%	2.55%
Financial instrument discount rate		
Nominal Rate	2.15%	2.05%
Real rate with reference to RPI until February 2030	Minus 0.85%	Minus 1.05%
Real rate with reference to RPI from February 2030	0.05%	Minus 0.05%

Table 1A: IFRS 16 Leases discount rate from 1 January 2025

Rate Type	Rate	Prior Year Rate
IFRS 16 Leases Discount Rate (prior year rate is for the 2024 calendar year and current rate is for 2025 calendar year)		
Nominal Rate	4.81%	4.72%

The following detail is provided to assist preparers in utilising the various discount rates.

General provisions

General provisions discount rates are used to discount future cash flows related to provisions recognised in accordance with IAS 37.

Treasury gives rates for short, medium, long-term and very long term general provisions. These are defined as follows:

- short-term rate: a nominal discount rate to be applied to the cash flows of general provisions in a time boundary between 0 and up to and including 5 years from the statement of financial position date.
- medium-term rate: a nominal discount rate to be applied to the cash flows of general provisions in a time boundary of after 5 and up to and including 10 years from the statement of financial position date.
- long-term rate: a nominal discount rate to be applied to the cash flows of general provisions in a time boundary of after 10 years and up to and including 40 years from the statement of financial position date.
- very long-term rate: a nominal discount rate to be applied to the cash flows of general provisions in a time boundary exceeding 40 years from the statement of financial position date.

Note – it is the timing of the expected cash flow that governs the discount rate used – the PES papers make no reference to setting discount rates according to the overall term of the arrangement. To arrive at the SoFP balance for a provision with expected cash flows occurring in each year for 60 years, cash flow should first be inflated, then each of the four discount rates will need to be applied. It would not be appropriate to discount cash flows at the very long-term rate in the first 40 years simply because the liability is not expected to be wholly discharged until year 60.

Inflation assumptions

The central inflation assumptions offered in table 1 have been provided by HM Treasury. They are based on what is judged to be the most statistically reliable measure of inflation (the Office of Budget Responsibility Consumer Price Index (OBR CPI) forecasts).

The OBR CPI inflation rates should be applied across the following time frames:

- year 1: applied on cash flows up to and including 1 year from the date of the statement of financial position.
- year 2: applied on cash flows from after 1 and up to and including 2 years from the date of the statement of financial position.
- into perpetuity: applied on cash flows from after 2 years from the date of the statement of financial position.

HM Treasury consider the presumption to use OBR CPI inflation rebuttable only in certain instances. It is for each entity to assure itself over the reasonableness of the judgements made against the following criteria provided by HM Treasury as to when it is considered acceptable to rebut the presumption of inflating cashflows using OBR CPI.

Where no legal or other requirement prohibits the application of OBR CPI inflation, entities must satisfy themselves that;

- there is a logical basis for not applying OBR CPI inflation rates, in that the proposed alternative inflation rates would be clearly more applicable to the underlying nature of the cash flows;
- the proposed alternative inflation rates must be free from management bias. An indication of this may be an independent or professional assessment of the proposed alternative inflation rates, such as by a committee, third party or other experts; and,
- the inflation rates instead applied should be based on logical and relevant calculations and reasonable underlying assumptions. For example, they may be comparable to existing financial indices or based on historical trends.

Where a legal requirement exists prohibiting the application of the OBR CPI rates or requires an adjustment to the rate applied;

- an inflation rate specified by statute or by the courts can be applied instead of OBR CPI inflation;

- OBR CPI can be adjusted where this is required by statute or by the courts; for example, in the case of legally enforceable public pension caps; and,
- where OBR CPI cannot be applied by statute or by the courts, but an alternative rate or adjustment is not prescribed, a comparative inflation rate must instead be applied and must fulfil conditions as set out above.

The below is an excerpt from annex C of PES (2024) 09 which provides combined OBR CPI inflation and discount rates for up to 50 years after the statement of financial position date.

Table 2: 50 year excerpt from Annex C PES (2024) 09

Year	Inflation rate	Inflation cumulative	Discount rate	Cumulative Combined rate
(a)		(b)	(c)	(d) $d=b*c^a$
1	2.6%	102.6%	4.03%	98.62%
2	2.3%	105.0%	4.03%	96.98%
3	2.0%	107.1%	4.03%	95.09%
4	2.0%	109.2%	4.03%	93.23%
5	2.0%	111.4%	4.03%	91.41%
6	2.0%	113.6%	4.07%	89.42%
7	2.0%	115.9%	4.07%	87.64%
8	2.0%	118.2%	4.07%	85.89%
9	2.0%	120.6%	4.07%	84.18%
10	2.0%	123.0%	4.07%	82.51%
11	2.0%	125.4%	4.81%	74.85%
12	2.0%	127.9%	4.81%	72.85%
13	2.0%	130.5%	4.81%	70.90%
14	2.0%	133.1%	4.81%	69.00%
15	2.0%	135.8%	4.81%	67.15%
16	2.0%	138.5%	4.81%	65.35%
17	2.0%	141.3%	4.81%	63.61%
18	2.0%	144.1%	4.81%	61.90%

Year	Inflation rate	Inflation cumulative	Discount rate	Cumulative Combined rate
19	2.0%	147.0%	4.81%	60.25%
20	2.0%	149.9%	4.81%	58.63%
21	2.0%	152.9%	4.81%	57.06%
22	2.0%	156.0%	4.81%	55.54%
23	2.0%	159.1%	4.81%	54.05%
24	2.0%	162.3%	4.81%	52.60%
25	2.0%	165.5%	4.81%	51.19%
26	2.0%	168.8%	4.81%	49.82%
27	2.0%	172.2%	4.81%	48.49%
28	2.0%	175.6%	4.81%	47.19%
29	2.0%	179.2%	4.81%	45.93%
30	2.0%	182.7%	4.81%	44.70%
31	2.0%	186.4%	4.81%	43.50%
32	2.0%	190.1%	4.81%	42.34%
33	2.0%	193.9%	4.81%	41.20%
34	2.0%	197.8%	4.81%	40.10%
35	2.0%	201.8%	4.81%	39.03%
36	2.0%	205.8%	4.81%	37.98%
37	2.0%	209.9%	4.81%	36.97%
38	2.0%	214.1%	4.81%	35.98%
39	2.0%	218.4%	4.81%	35.01%
40	2.0%	222.8%	4.81%	34.08%
41	2.0%	227.2%	4.55%	36.73%
42	2.0%	231.8%	4.55%	35.83%
43	2.0%	236.4%	4.55%	34.96%
44	2.0%	241.1%	4.55%	34.11%
45	2.0%	245.9%	4.55%	33.28%
46	2.0%	250.9%	4.55%	32.47%

Year	Inflation rate	Inflation cumulative	Discount rate	Cumulative Combined rate
47	2.0%	255.9%	4.55%	31.68%
48	2.0%	261.0%	4.55%	30.91%
49	2.0%	266.2%	4.55%	30.15%
50	2.0%	271.5%	4.55%	29.42%

Post-employment benefits provisions

The real discount rate applicable on 31 March 2025 is 2.40% (the previous year's rate was 2.45%). This rate is calculated as net of CPI measured at 2.65%.

The rate is applicable for all provisions for continuing obligations arising from previous employment service.

HM Treasury consider that schemes for which RPI is a material assumption are limited and consequently will no longer provide rates that take account of RPI inflation.

A nominal rate to be used for assessing interest costs of scheme liabilities for 2025/26 is set at 5.15%.

Financial instruments

The financial instrument discount rate is used for some financial instruments in accordance with the requirements of the financial reporting manual (FReM).

The FReM states:

Where future cash flows are discounted to measure fair value, entities should use the higher of the rate intrinsic to the financial instrument and the real financial instrument discount rate set by HM Treasury (promulgated in PES papers) as applied to the flows expressed in current prices.

To reflect the upcoming changes to RPI in 2030 HM Treasury have provided real rates for before and after February 2030. Accordingly, the real financial instrument discount rate to be applied at 31 March 2025 is minus 0.85% (prior year rate minus 1.05%) until February 2030 and 0.05% (prior year rate minus 0.05%) after February 2030. These rates can be applied where the instrument is index linked to RPI.

While entities should employ their own RPI modelling HM Treasury have provided indicative RPI rates of 3.10% until February 2030 and 2.10% from February 2030.

Where the financial instrument is not linked to an inflationary index, and a nominal rate is required, 2.15% (previously 2.05%) may be used.

Leases

PES (2023) 10 confirmed that the HM Treasury incremental borrowing rate (a nominal rate) of 4.72% is to be applied for new leases commencing, or relevant lease modifications / remeasurements in the 2024 calendar year under IFRS 16.

For the 2025 calendar year, PES (2024) 09 confirms the incremental borrowing rate as 4.81%. This will be relevant for newly commenced leases, relevant lease modifications (paragraph 45 of IFRS 16) and relevant lease remeasurement scenarios (paragraph 40 of IFRS 16), occurring in 2025. In these scenarios, it should only be used where the rate implicit in the lease cannot be readily determined.