Autumn 2025

Usually when the Chancellor of the Exchequer finishes their statement in the Commons, the Office for Budget Responsibility (OBR) publish their updated economic forecasts for the UK. Unfortunately, their report was made available early from a predictable internet address, which looked as though someone at the OBR had pressed, in error or deliberately, the go-live button too soon!

An inadvertent error on Wednesday 26th November 2025, that by 1st December had cost Richard Hughes his position, as Chair of the OBR. This is not the only controversy dogging Rachel Reeves' 2025 Autumn Budget – with claims of her misleading.

The OBR's economic and fiscal outlook sets out the central forecast and the uncertainties that surround it for the five years to 2030-31, taking account of recent data and government policies announced since the last forecast and up to and including the Budget.

In a significant change of judgement to their forecasting model, the OBR expectations of the **UK's prospects for growth of productivity** have been reduced. The central forecast now assumes an underlying rate of productivity growth in the medium term of **1 percent**, 0.3 percentage points slower than in their March forecast (this takes it from 1.3 to 1 percent in the fifth and final year of their forecast).

The slowdown in productivity growth since the 2008 financial crisis, while being global, the UK has seen the largest fall of 'G7 countries'. As Professor David Miles, the OBR's head of economic analysis, put it*: '…now five years on from Covid and a couple of years on from the very big changes in energy prices…' we can now look back '…to where there has been some growth in productivity, but it really hasn't bounced back…' as may have been expected.*

The UK's **productivity performance** has consistently undershot the OBR's forecasts, despite several substantial downgrades since 2010. The OBR's expected significant rebound in the growth of productivity from recent shocks, such as the financial crisis, has not materialised and this has become apparent to them.

The OBR say their decision, to now alter this, is not a reflection of any particular government policies. Rather, it is based on their latest assessment of the **UK's productivity performance** in an historical and international context, away from the shock to the economy from Covid, which has been clouding judgement of the underlying trend, of what was happening to underlying productivity.

Although the likely rate of productivity growth is one of the most important judgements in the OBR's economic modelling, this is inherently difficult to forecast, and subject to significant uncertainty.

For example, the hoped for pick-up in productivity growth over their five-year forecast period is based on judgements about the fading, in economic terms, of some past shocks, with the possible effect of artificial intelligence technology on the UK economy of the future.

The overall effect of this altered judgement is for the OBR's assessment of **potential output growth** in 2029 to be 0.3 percentage points lower than in March, at 1.5 percent.

Combining their new, lower, productivity forecast with an *unchanged estimate of growth in the labour supply* of around ½ a percent per year, means that, in their latest central forecast, the OBR now expect **real GDP** to grow by an **average of 1½ percent a year over the next five years** (0.3 percentage points slower than the OBR projected in March, through lower underlying productivity growth). With stronger growth in this current year, and possibly weaker growth in later years.

Another material change to the model was to revise up earnings growth and inflation in the near term, accounting for the more persistent strength seen in wage settlements this year. More persistent domestic wage pressures suggest higher inflation. This in combination with frozen personal tax thresholds (since 2022) boosts nominal tax receipts, through higher labour income and consumption.

So, the net effect of these and other pre-measures changes leaves total 2029-30 **tax revenues £16 billion higher** than in March, *despite the downgrade to productivity*. Higher tax revenues means that borrowing is reduced by £16 billion.

However, this improvement of £16bn is offset by £22bn of higher spending (welfare, local authority and interest rates), *increasing borrowing by just £6bn in 2029-30*. Noting though, this is far less than the portrayal, given by the Chancellor's pre-Budget media 'pitch-rolling', specifying a blackhole of £20 billion to £30 billion in size.

In fact, the OBR's forecast downgrades - **netting to £6bn** - left the Chancellor headroom on the current budget in that year (2029-30) **of around £4 billion**.

That then was before the Chancellor's announcement of an array of tax and spending increases, in addition to those announced in last year's 2024 Budget (+£70 billion per year).

Autumn Budget 2025 policy package

The Chancellor intends to raise taxation by over **£26 billion** annually by 2029-30:

- **Freezing personal tax thresholds** for another three years, should raise £8 billion by 2029-30, through increasing income taxation.
- **National insurance contributions** on employees using salary-sacrifice to make pensions contributions, raises £5 billion (by 2029-30).
- **Increasing income tax rates** on dividends, property and savings income by 2 percentage points, raises £2 billion.
- Together with £1.5bn from changes to writing-down allowances; just under £1.5bn from a mileage-based charge on **electric cars;** just over £1bn from gambling duty reform.
- And just under £0.5bn from a high value council tax surcharge or the so-called **'mansion tax'**.

While in tandem significantly increasing spending:

- **Reversal of previously announced cuts** to winter fuel payments and **health-related benefits** announced over this last summer at a cost of £7 billion annually.
- **Removal of the two-child limit on benefits**, which costs £3bn annually by increasing payments to an estimated 560,000 families (average annual change in award for gaining families: £4,530; 2026-27).
- £2 billion a year to reduce household electricity bills.

Overall, the latest Budget policies announced further increase spending in every year by amounts rising from £7 billion in 2026-27 to £11 billion in 2029-30. All policy changes, together with their indirect effects on the UK economy and forecast changes, **leave annual borrowing £15 billion higher next year** but £6 billion lower by 2029-30.

Taking both forecast and policy changes together, the Budget pushes both tax receipts and spending higher as a share of GDP. Receipts are up by £38 billion in total by the end of the forecast with the tax-to-GDP ratio reaching an unprecedented high of the UK's Gross Domestic Product (GDP) by the end of this decade.

Incorporating both pre-measures changes and the impacts of policy, National Accounts taxes as a share of GDP are forecast to increase from 35 percent in 2024-25 to an all-time high of just over **38 percent from 2029-30 onward**; *higher than implied by Labour's manifesto at the time of the General Election.*

Total spending is also higher every year by around £33 billion and on a flatter profile than forecast in March. Meaning that by the end of the decade, spending settles at just over 44 percent of GDP, which is **5 percentage points higher than it was before the pandemic.**

Public sector net borrowing

Since the turn of the century, there have been two periods where public sector net borrowing has increased significantly. The first was in the financial crisis where borrowing peaked at **10.2 percent of GDP in 2009-10**, after which it gradually fell to reach **2 percent of GDP in 2018-19**. The second was the sharp increase during the pandemic to a post-war high of **14.7 percent of GDP in 2020-21**. This was followed by a more rapid decline in the following year, but borrowing has since remained at the historically high level of around **5 percent of GDP** over the past four years. The deficit, funded by borrowing, represents a reliable metric for measuring Government's performance:

	Borrowing projection			
	Nov-25		Mar-25	
	£bn	%GDP	£bn	%GDP
2025/26	138	4.5%	118	3.9%
2026/27	112	3.5%	97	3.1%
2027/28	98	3.0%	80	2.5%
2028/29	87	2.6%	77	2.3%
2029/30	***68**	**1.9%**	74	2.1%
2030/31	67	1.9%		

*The near-term loosening in this Budget shifts back the weight of the planned debt consolidation by one year relative to the Chancellor's March '25 package: increases in tax, accounting for three-quarters of the reduction in borrowing as a share of GDP.

The stock of public debt

Public sector net debt (PSND) is forecast to rise from 95 percent of GDP this year to a **peak of 97 percent of GDP in 2028-29**. Even if the Chancellor's current balance target is met, there will be **£60bn more debt** by the end of the decade than forecast in March; a debt burden twice the advanced-economy average.

Personal taxation

This 2025 Budget extends the freezing of personal tax thresholds for a further three years from 2028-29 to 2030-31. As a result:

- The income tax personal allowance, the higher-rate threshold and additional-rate threshold are frozen at £12,570, £50,270 and £125,140, respectively, until 2030-31.
- The NICs secondary threshold is frozen until 2030-31. This threshold was reduced from £9,100 to £5,000 as part of the changes to employer NICs announced at Autumn Budget 2024.

The freeze and extensions at this Budget are now expected to mean that between 2022-23 and 2030-31, over **5 million additional individuals** will have been brought into paying **income tax**, and around 5 million more will have moved to the **higher rate**, and 600,000 more onto the **additional rate**.

Overall, the freezes have led to the forecast **proportion** of taxpayers being at either the **higher** or **additional** rate increasing to around **25 percent in 2030-31** (from 15 percent in 2021-22).