

UK Autumn Budget

More tax rises, little signs of a long term growth strategy

Today's UK budget has been eagerly anticipated and leaked in recent weeks. Overall, this is another tax raising budget with £26bn in new measures on top of the £40bn raised last year. The burden largely falls on income tax, national insurance and other capital and wealth taxes, measures which will dampen consumer spending.

The public finances remain in a fragile state, and reduced growth forecasts necessitated further tax hikes, in the absence of spending restraint. The Office for Budget Responsibility (OBR) projects a persistent budget deficit in the near term, but the Government's target to close the current deficit (ex-capital spending) will still be met by the end of the parliament. The overall picture is that tough choices have been made to achieve this by limiting spending increases in many departments to pay for a spending boost of c.£9bn largely flowing to welfare policies. In the short run, this tax raising budget is expected to dampen GDP growth, with little steer on the big strategic plans to boost UK productivity and growth in the long term.

Key Points - UK Autumn Budget: Another big tax-raising budget

Budget 2025 is set against uncertain growth outlook

This Budget is set against an uncertain economic backdrop so far this year. GDP growth was robust in the early part of the year, but has since moderated. Having pencilled in overly optimistic forecasts earlier this year, the fiscal watchdog, the Office for Budget Responsibility (OBR), has cut its GDP outlook in 2026 to 1.4% (1.9% in March 2025), 1.5% in 2027 (was 1.8%), and 1.5% in 2027 (was 1.8%). Inflation forecasts have also been cut, which all in, reduce the expected deficit reduction that was pencilled in in March by the Chancellor.

The Government has returned for further material tax rises

The Chancellor had committed to not raising taxes materially further following last year's hikes to national insurance (NI) on employer contributions, which among other measures raised £40bn. The deterioration in the fiscal numbers since then means the Chancellor broke that pledge with a package of £26bn in tax rises, largely through income tax threshold freezes and NI hikes.

Spending policy focused on welfare

While the tax rises are largely to fill the hole in the fiscal rules, there are also net spending increases in the budget. The overall picture is that trade offs have been made to achieve this by limiting spending increases in many departments to pay for a modest overall spending boost of c.£9bn, which largely funds higher welfare spending.

Markets sated by increased by fiscal headroom of c.£22bn

With the OBR report published early in error, the initial market reaction saw a rally in gilt markets, with the 10-year yield falling c.8bp briefly from 4.5% to 4.42%. However, as investors digested the details further, the market settled back to pre-budget levels, which the Government can bank as a 'win', signalling little concern that the measures will imperil the fiscal outlook further. Government borrowing is projected to fall from 4.5% of GDP in 2025-26 to 1.9% in 2030-31, while the current budget deficit will be closed. However, debt will remain around 95% of GDP over the period, which is two percentage points higher than projected in March.

Little signs of a long term growth plan

The tax hikes are expected dampen GDP growth, albeit they are back-loaded. The OBR forecasts confirms this, estimating that the Budget measures will add only modestly to GDP. While the continued focus on capacity-enhancing infrastructure is to be welcomed, and should bear fruit in the long term, there are few other sign of a coherent growth strategy to boost moribund productivity and GDP in the long term.

UK ECONOMIC & FISCAL FORECASTS

(%)	2024	2025(f)	2026(f)	2027(f)	2028(f)	2029(f)
GDP	1.1	1.5	1.4	1.5	1.5	1.5
Household Cons.	-0.2	0.9	1.2	1.5	1.6	1.8
Inflation	2.5	3.5	2.5	2.0	2.0	2.0
Unemp Rate	4.3	4.8	4.9	4.6	4.3	4.2
Fiscal (% of GDP)	24/25	25/26	26/27	27/28	28/29	29/30
Borrowing (PSNB)	5.1	4.5	3.5	3.0	2.6	1.9
Current Budget Bal.	2.6	1.7	0.9	0.1	-0.1	-0.6
Public Sector NFLs	81.3	83.1	83.3	83.6	83.7	83.0

Sources: OBR, UK Treasury, November 2025

