Office for
Budget
Responsibility

November 2025 *Economic and fiscal outlook*

Transcript of Presentation by:

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1. Introduction

- Thanks, Laura. Good afternoon, everyone.

- Before I turn to the substance of our forecast, let me start with an apology.

- A link to our *Economic and fiscal outlook* document went live on our website too early this morning. It has been removed.

- We apologise to the Chancellor and Members of Parliament for this technical error and have initiated an investigation into how this happened.

- We will be reporting to our Oversight Board, the Treasury, and the Commons Treasury Committee on how this happened, and we will make sure this does not happen again.

- And let me now turn to the substance.

2. Productivity

- Turning to the substance of our economic projections, the productivity performance of the UK economy has continued to undershoot our forecasts, despite several significant downgrades since 2010.

- And continued sluggish productivity growth, several years on from the shock of the pandemic and the energy crisis, suggests that the sharp rebound we've expected since then is unlikely to materialise.

- Therefore, following our summer supply stocktake, we've further revised down our estimate of the underlying trend rate of productivity growth by 0.3 percentage points.

- As you can see from the chart on the left, this takes it from 1.3 to 1 per cent in the fifth and final year of our forecast.

- As you can see from the chart on the right, this downward revision takes our latest forecast for productivity growth closer to, but still above, the ½ a per cent average growth the UK has experienced since the financial crisis.

- And we've published a paper alongside today's *EFO* setting out the analysis and reasoning underpinning this judgement.

3. Real GDP

- Combining our new, lower, productivity forecast with our unchanged estimate of growth in the labour supply of around ½ a per cent per year,

- means that, in our latest central forecast, we now expect real GDP to grow by an average of 1½ per cent a year over the next five years,

- with stronger growth this year, and somewhat weaker growth in later years, than in our March forecast.

4. Earnings and inflation

- But the downward revision to productivity was not the only material change to our economy forecast since March.

- We have also revised *up* our forecast for earnings growth and inflation in the near-term, both of which are also important drivers of our fiscal forecast.

- This is especially true when personal tax thresholds are frozen in nominal terms, as they have been since 2022.

- As you can see from the chart on the left, we've revised up our estimate of nominal earnings growth by around 1 per cent per year in this year and next.

- This reflects the more persistent strength we've seen in wage settlements for this year, and in expectations for next year, than we had anticipated in March.

- More persistent domestic wage pressures mean we also expect inflation to be higher than in March, as you can see from the chart on the right.

- And while one-off cost of living measures announced in this Budget are expected to knock around a third of a percentage point off inflation next year,

- it's still forecast to be around ½ a percentage point higher next year, and take a year longer to return to its 2 per cent target than we thought back in March.

5. Pre-measures change in receipts since March

- The net effect of these changes to our economy forecast on tax receipts is actually to *increase* them by £16 billion by the end of the decade compared to our March outlook.

- This is because, while the reduction in productivity growth would have, in isolation, lowered tax revenues by around £16 billion by the end of the decade, as you can see in the grey bars in this chart,

- higher near-term inflation partly offsets its impact on nominal GDP, which is a key driver of tax receipts. In itself, this boosts all nominal receipts by around £14 billion, as shown in the blue bars in this chart.

- On top of this, higher nominal wage growth shifts the composition of GDP growth towards labour income and consumption.

- And because these are both more than twice as tax rich as business profits and investment, especially in the context of frozen personal tax thresholds,

- receipts are boosted by a further £11 billion courtesy of this 'compositional effect'.

- So, the net effect of these and other pre-measures changes in our receipts forecast, shown in the black diamonds, leaves total tax revenues £16 billion higher than in our March forecast, despite the downgrade to productivity.

6. Pre-measures change in borrowing since March

- Let me now turn to what these and other developments imply for the latest fiscal outlook, *before* taking account of the policies announced in today's Budget.

- As you saw in the previous chart, the net effect of changes to our economy forecast increased receipts, and therefore reduced borrowing, by £16 billion by the end of the decade compared to our March forecast.

- However, this improvement in the underlying receipts position is more than offset by a £22 billion increase in underlying spending in the same year. In particular:

    - higher inflation and disability caseloads are expected to push up the cost of welfare spending by around £8 billion;

    - higher borrowing and interest rates increase the cost of servicing the government's £3 trillion stock of debt by around £4 billion;

    - higher departmental and other central government expenditure adds around £6 billion per year to spending in the middle years of the forecast;

    - and last, but by no means least, we have significantly revised up our forecast for local authority spending by around £8 billion based on both higher outturn data and a much higher estimate of future spending on special educational needs.

- Taken together, and before accounting for the impact of Budget policies, these and other changes to our underlying fiscal forecast added around £6 billion to borrowing in 2029-30.

- And with the same impact on the current deficit, this left the Chancellor still meeting her target to balance the current budget in that year by around £4 billion in our pre-measures forecast.

7. Autumn Budget policy package

- Against this slightly weaker underlying fiscal position, the Chancellor's Autumn Budget included an array of spending and tax increases.

- Starting on the spending side of the Budget:

    - first, it pays for the **reversals to previously announced cuts to winter fuel payments and health-related benefits** announced over the summer at a cost of £7 billion per year;

    - second, it pays for the increases in **departmental spending** announced during the June Spending Review at an average cost of £1 billion a year over the next three years;

    - third, it scraps the **two-child limit** on benefits, which costs £3 billion per year and increases payments to 560,000 families;

    - and fourth, it announces a range of **other spending measures** including £2 billion a year to reduce household electricity bills over the next three years.

- Moving to the tax side of the Budget:

- first, it **freezes personal tax thresholds** for a further three years which raises £8 billion in 2029-30;
- second, it charges **NICs on salary-sacrificed pensions contributions** which raises £5 billion;
- third, it increases **income tax rates on dividends, property and savings income** by 2 percentage points which raises £2 billion;
- and there are a host of other **tax measures** raising a further £11 billion which you can read about in Chapter 3 of our *EFO*.

8. Overall change in borrowing since March

- Adding the cost and yield from Budget policy measures to the pre-measures fiscal position from before:
  - Budget policies further increase **spending** in every year and by £9 billion by the end of the decade;
  - but Budget **tax** rises more than offset this increase in spending by raising £26 billion in additional revenue;
  - all of these policy changes, together with their **indirect effects** on the economy and the forecast changes I described earlier, leave borrowing £15 billion higher next year but £6 billion lower by 2029-30;
  - and because some of the extra Budget spending is in the form of investment, the **current budget** is improved by £12 billion in that year compared to our March forecast.

9. Receipts and spending

- 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 by the end of the forecast. And the tax-to-GDP ratio reaches a new high of over 38 per cent of GDP by the end of the decade.
- Spending is also higher every year by around £33 billion and on a flatter profile than forecast in March, due to both forecast and policy changes.

- By the end of the decade, spending settles at just over 44 per cent of GDP, which is 5 percentage points higher than it was before the pandemic.

10. Borrowing

- Looking at what this implies for the overall path of government borrowing,
- borrowing as a share of GDP is projected to fall from just over 5 per cent last year, to 4½ per cent this year, to 2 per cent from 2029-30.
- And the near-term loosening in this Budget shifts back the weight of the planned fiscal consolidation by a year relative to March.
- The composition of the consolidation is also now more tax-heavy, with:
    - increases in tax accounting for three-quarters of the reduction in borrowing as a share of GDP;
    - and reductions in spending accounting for the remaining quarter.
- This compares to around two-thirds tax and one-third spending in last Autumn's Budget.

11. Debt

- Debt rises over the forecast from 95 to 97 per cent of GDP in 2028-29 before falling back to 96 per cent in 2030-31 due to a one-off repayment to the Bank of England.
- Compared to our March forecast, debt is around 1½ per cent of GDP higher on average over the next five years.

12. Current balance target

- Looking at what all of this means for the specific aggregates targeted by the Chancellor in her fiscal rules.
- Starting from the £10 billion the Chancellor had against her current balance target in March,
- underlying forecast changes reduced the margin against her current balance target by £6 billion,

- meaning the fiscal rules were met by around £4 billion in our pre-measures forecast.

- Budget policies improve the current budget in 2029-30 by £18 billion,

- so the current balance target is met in our post-measures forecast by a margin of £22 billion,

- which is more than double the £10 billion headroom the Chancellor set aside in her first two fiscal events.

- And this increases the Chancellor's probability of meeting her fiscal mandate from 54 per cent in March to 59 per cent in this event.

13. Net financial liabilities target

- Turning to the Chancellor's target to get net financial liabilities falling as a share of GDP by 2029-30, this is also expected to be met by an enhanced margin of £24 billion,

- which is somewhat higher than the £15 billion she had in March,

- and increases the probability that this target will be met in outturn from 51 to 52 per cent.

14. Margin against fiscal rules

- To put the £22 billion margin that the Chancellor has now built up against her main fiscal target into context,

- it is now roughly equal to the average revision to our pre-measures forecast between fiscal events of around £21 billion,

- and, as you can see from this chart, it is three-quarters of the £29 billion average margin that previous Chancellors set aside against their fiscal rules,

- but it's still less than half the £54 billion average difference between our forecast and final outturn for borrowing in four years' time, which is the current distance to the Chancellor's target.

15. Wider fiscal context

- More generally, even if the Government were to meet its fiscal rules and reduce overall borrowing below the roughly 2½ per cent of GDP it invests every year by the end of the decade,

- this would only reduce the UK government's deficit to the level that the average advanced economy had already achieved several years ago, as you can see from the chart on the left.

- And it would only just be enough to stop the UK's government's debt, which has tripled since the start of the century, from continuing to rise – and stabilise it at 96 per cent of GDP by the end of the decade.

- That would still leave us with a debt-to-GDP ratio around twice the advanced-economy average and the sixth highest among 32 advanced economies, which you can see in the chart on the right.

- And we would still be devoting more of our national income to paying the interest on that debt than at almost any time in our post-war history.

16. Risks to the outlook

- And there are a number of risks and pressures which could push that level of debt even higher and further increase the stresses on the public finances.

- Starting with risks emanating from the economy, even after the downgrade in this forecast, the outlook for productivity growth continues to be one of the most important risks to the fiscal outlook.

- So our *EFO* explores the fiscal implications of productivity growth being ½ a percentage point higher or lower by the end of the forecast period.

- Interest rates have also remained highly volatile, varying by over 50 basis points since March,

- and the shortening in the average maturity of gilt issuance in recent years increases the Government's exposure to such changes.

- Finally, with some US equity valuations reaching levels seen during the dotcom bubble in the early 2000s, we also explore the economic and fiscal implications for the UK of a sharp correction in global equity prices.

- Turning to the fiscal side, there are also risks generated by policy commitments and pressures in spending and taxation.

- These include the Government's, as yet unfunded, commitment to further increase defence spending from 2½ per cent of GDP at the end of this decade to 3½ per cent by the middle of the next.

- This would require the Government to find an additional £32 billion in today's money within an overall envelope for departmental spending which is set to grow more *slowly* than the economy.

- The Government has also announced that the full cost of spending on special educational needs will be met by central rather, than local, government after 2028-29.

- But it has yet to set out a plan for how the additional £8 billion cost will be absorbed within existing budgets.

- And while local authorities will then no longer be responsible for financing the costs of SEND,

- they would still be required to recognise a £14 billion cumulative deficit built up from their past spending on the programme, which would leave many authorities technically insolvent at that point.

- A final policy risk comes from the planned increase in the tax take to a historic high by the end of this decade, which delivers most of the Government's deficit-reduction plan.

- A rising tax take increases the risk that it distorts or constrains economic activity by more than expected, reducing the revenue yield below that assumed in our forecast.

17. Fuel duty and electric vehicles

- There is one risk which the OBR has highlighted in successive EFOs and *Fiscal risk and sustainability* reports which this Budget does partly address.

- That is the steady erosion of the £25 billion per year that the Government currently collects in fuel duty from a combination of:

    - successive freezes to the duty rate;

    - and the rising take-up of electric vehicles.

- Left unaddressed, as the blue line on this chart shows, the shift from petrol-driven to electric cars is projected to reduce revenues from fuel duty to close to zero by 2050, leaving a hole in the public finances equivalent to more than ½ a per cent of GDP.

- By introducing a 3 pence per-mile tax on electric cars, this Budget helps to plug some of that hole.

- However, the new EV tax raises only around half the revenue that petrol duty currently does from a given car over the course of a year,

- and the EV tax only applies to *cars* and not the vans and lorries that currently account for around 40 per cent of total fuel duty receipts.

- Therefore, the new EV tax, as currently configured, only replaces around one-quarter of the total revenue the Exchequer is set to lose from the steady decline in the number of total petrol and diesel-driven vehicles between now and 2050.

- And it would still leave a hole in the public finances of around £15 billion in today's money by the middle of this century.

18. Summary

- Let me now conclude. To sum up our latest pre-measures forecast:

    - we expect the economy to grow by 1½ per cent on average over the next five years, which is 0.3 percentage points slower than in March due to weaker underlying productivity growth;

    - but we also expect wage growth and inflation to be higher, the net result of which boosts overall tax receipts by £16 billion in 2029-30;

    - but underlying spending pressures in local authorities and on welfare and debt interest have also increased, which leaves total spending £22 billion higher in the same year;

    - these forecast changes result in a modest deterioration in the pre-measures fiscal outlook;

    - with borrowing £6 billion higher, and the margin against the Chancellor's current balance target reduced by the same amount.

- Against this backdrop, the Chancellor's Budget delivers:

  - a £12 billion increase in spending on average over the next five years;
  - and a £26 billion tax rise by the end of the decade.
- Taken together, these Budget policies:
  - increase borrowing over the next three years by £5 billion on average;
  - and then reduce it over the following two by an average of £13 billion;
  - shifting the weight of fiscal consolidation back by a further year.
- The net effect of these forecast and policy changes is to boost the margin against the Chancellor's current balance target by £12 billion to £22 billion.
- And, while this is double what she had in March and roughly equal to the average movement in borrowing between forecasts,
- it is still less than ½ of the difference between our four-year forecast and final outturn.
- And even if this rule were met, it would still leave the UK with:
  - £60 billion more debt by the end of the decade than we forecast in March;
  - an overall debt burden which is twice the advanced-economy average;
  - and the country continuing to pay more to service that debt than at almost any other time in its post-war history.