



## UK Autumn Budget - Wednesday, 26th November 2025

### Overview

- **Chancellor Reeves will be presenting her November Budget from 12:30GMT/07:30EST on Wednesday, 26th November 2025 .**  
The reading typically lasts for c. one hour, after which the full DMO remit and OBR forecasts are published. Note, US Weekly Jobless Claims (w/e Nov. 22nd), and Durable Goods (Sep) are due at 13:30GMT/08:30ET.
- The main goal for Reeves will be assuring markets that this really is a "one and done" budget: avoiding tax measures that undermine the growth narrative, signalling strict adherence to the fiscal rules and giving confidence that her headroom is adequate. Reeves needs to fill a fiscal hole of around GBP 20-35bln, once additional spending commitments are included. Initially, the central option was a manifesto breaching Income Tax rate increase. However, the OBR's wage forecasts have reportedly improved to such an extent that this is no longer needed, as such, **Reeves is set to make smaller adjustments to a number of tax measures.**
- Most recently, Sky News scooped that the OBR will be cutting its growth forecasts for the entire Parliamentary terms vs those outlined in March. The Treasury will likely argue that the 2025 figure has pulled some of the growth forward, lowering future numbers. Making the case that the downgrade isn't due to policy decisions taken by the Labour government but, instead, is due to the widely flagged OBR productivity downgrade.
- Furthermore, Sky News reports that the Treasury is confident the November Budget will break the 'doom-loop' that was, largely, sparked by the limited headroom she gave herself. Practically, **Sky's Coates expects this to mean that the headroom will be above the GBP 10-20bln consensus band vs the GBP 9.9bln left last time. He believes it will be above the prior and be above GBP 15bln, though is unsure if it will get to GBP 20bln.**
- **Market reaction will be contingent on a number of factors :** adherence to fiscal rules, size of headroom, tax combination selected & confidence in the revenue generation, inflation implications of taxes, degree of fiscal tightening, DMO remit, OBR forecasts and finally the implications for the BoE. Overall, the path of least resistance for Gilts is likely higher, assuming no major curveballs to the above points, ahead of further easing from the BoE and potential for the Budget to lower the terminal level.

## Spring Statement

- The 26th March Spring Statement saw the Chancellor unveil measures broadly as-expected, taking her headroom back to levels seen in October 2024 of GBP 9.9bln for the 2029/30 reference period. The statement saw significant spending cuts and adjustments to the timing and sizing of already announced measures; pertinently, the statement did not include any tax increases.
- The OBR described the headroom Reeves gave herself as being a “very small” margin against the risks inherent to fiscal forecasts. A remark that weighed on Gilts modestly. Further pressure then emerged as the OBR highlighted that the borrowing requirement over the horizon was some GBP 47.5bln above the October forecast. Subsequently, the DMO released its full remit which, although higher than before, the near-term requirement for 2025/26 was GBP 299.9bln, shy of the 302-305bln range of market forecasts; a detail that underpinned Gilts thereafter. The remit breakdown saw a skew away from long-dated issuance towards the short end of the curve.

## Fiscal Backdrop

- As a reminder, the Chancellor has to adhere to two fiscal rules pertaining to stability and debt. For stability, the current budget must be in surplus in the FY29 reference year (until that becomes the 3rd year of the term, then it switches to three years ahead); shown via headroom, at GBP 9.9bln last time. The debt rule requires public sector net financial liabilities (PSNFL) to fall as a portion of GDP over the same period, with a margin of GBP 15.1bln, or 0.4% of GDP, in the Spring Statement.
- Estimates of the fiscal hole vary significantly. General estimate is that she has around GBP 30bln to fill though some estimates are as high as GBP 40bln. The main hit comes via an expected productivity cut by the OBR, each 0.1pp downgraded to the productivity estimate increases the hole by c. GBP 7bln. The IFS expects a 0.3pp downgrade at the cost of c. GBP 20bln, while the Resolution Foundation believes that would cost around GBP 14bln. As of March 2025, the OBR estimates trend productivity growth of 1.0% a year in the central forecast.
- Wages are an interesting component of this. The OBR’s nominal earnings growth forecast was 4.3% for 2025, a figure that is below the 4.6-4.8% range seen across July to September 2025. As such, the OBR moving its wage growth view more in-line with the actual view will provide Reeves with much needed revenue (via higher VAT receipts). ITV’s Peston reported that this shift underpinned the U-turn on an Income Tax rate increase, which is said to reflect improved data on current and expected wage growth. This improvement reportedly partly offsets the productivity downgrade.
- Reeves therefore appears to face a fiscal hole in the GBP 20-35bln range, with a precise assessment still difficult. The figure depends heavily on the OBR’s forecasts and decisions on policies such as the two-child benefit cap and household energy bills. It also includes the previously announced and priced welfare U-turn after the May local elections, costing about GBP 6.5bln. Alongside filling the GBP 20-35bln gap, Reeves must also create sufficient headroom to avoid another year of intense fiscal scrutiny.

## Current Market Backdrop

- In brief, the economy is under pressure but at least some of this may reflect pre-budget concern and speculation. The most recent print was November’s Flash PMIs which were softer than forecast for services. S&P noted that some of the “malaise” seen can be explained by pre-budget pause to spending decisions, however, cautioning that “there’s a real chance this pause may turn into a downturn”. For September, the GDP print undershot consensus at -0.1% M/M, with the Q3 figure revised down to 0.1% (prev. 0.3%). CPI has finally dropped from the 3.8% mark to 3.6% in October, as the BoE forecast, a report that tipped the balance further in favour of a December cut. However, we await the November CPI report due just before the December announcement for full clarity. Elsewhere, PSNB eclipsed forecasts and the April-October deficit stands at GBP 116.8bln vs the OBR’s GBP 107bln consensus.

## Potential Policy Changes

- Broadly, the Chancellor has three options at this point: borrow more, cut spending and/or increase taxes. She is unlikely to change the fiscal rules to enable more borrowing, given market sensitivity to such a move and her continued description of them as “ironclad”. Cutting spending is possible, but the debacle seen around the mid-year welfare reforms will make Labour HQ wary of any significant adjustments. Therefore, **the onus is firmly on taxation to bolster the government’s coffers**.
- On taxes, the TL/DR, according to ITV’s Peston, is to extend the Income Tax threshold freeze by another two years and potentially to reduce the threshold where the 40p and 45p tax bands kick in. At the very least, Reeves will almost certainly freeze the threshold and continue the trend of fiscal drag beyond its current April 2028 expiry. Measures that will allow Reeves to argue, to what degree of success remains to be seen, that they have not breached the manifesto pledge of not increasing “National Insurance, the basic, higher, or additional rates of Income Tax, or VAT.”.
- On spending, Reeves is likely to increase the government’s spending via changes to energy bills, the two-child limit and other points. Adjustments that are part of the c. GBP 20-35bln hole she needs to fill.
- See grid below for the main changes to look out for. **Broadly, Reeves has a decision to make between breaching the manifesto (likely by raising the Income Tax rate) or a series of smaller measures. Given the improved OBR forecasts and desire to avoid Labour rebellion, it looks like Reeves is skewed towards the smaller measures.** A decision that makes determining the exact degree of tax raises and associated fiscal tightening tricky. SocGen expects the tandem-approach of adjusting National Insurance (employee) and Income Tax will be taken, with some slight tweaks to the NIC adjustment vs press reports. Measures that will contribute to tax raises of GBP 39.5bln/yr with just under GBP 12bln to be allocated to higher spending, equating to net fiscal tightening of GBP 30bln/yr. **Assumptions that would leave Reeves with headroom of around GBP 15bln vs GBP 9.9bln last time.**

Policy	Possible Change	Detail (GBP)
Income Tax, Rate	U/C	A 2p increase to the three rates from the current 20%, 40% and 25% for basic, higher & additional rates respectively has been touted, though not expected amid the new OBR forecasts. A 1p increase to the three rates would raise 8.2bln, 2.1bln & 0.23bln respectively for 2028/29.
Income Tax, Thresholds	Potentially Lowered	A potential lowering of the thresholds for the higher & additional rates; currently at 50.2k and 125.14k for higher & additional respectively.
Income Tax, Thresholds	Freeze	More likely, Reeves could continue the freeze for another two years (currently to April 2028), raising c. 8bln.
Income Tax & National Insurance	Lift & Cut	Combining a 2p increase to Income Tax Rates with an offsetting 2p cut to National Insurance Contributions (employee), to move the burden away from the working class; raising c. 6bln.
Corporation Tax	Increase	Former Deputy PM Rayner earlier in the year pushed for a higher rate, while the potential avenues for this are broad, a 1p increase raises 4bln. The Times has reported that Reeves is considering protecting small businesses from any related move.
Pension Lifetime Allowance	Restore	A measure touted by Rayner, restoring the limit at 1mln would raise c. 1.5bln.
Pension Lump Sum	Reduce	Cutting the tax-free lump sum to 100k (current 250k), raising 2bln
Gambling Taxes	Increase	FT reported that Reeves is planning a two-tier system, with higher online taxes but not change to storefront levies. Reeves has previously spoken favourably of an increase. Evoke (EVOK LN) said store closures, job cuts and odds adjustments could occur if taxes are increased. Flutter (FLTR LN), also of note.
Rental Gains	Introduce	Subject rental income to National Insurance Contributions, raising c. 2bln depending on the thresholds. Rightmove (RMV LN), of note.
Council Tax Multipliers	Increase	Lifting Council Bands F, G & H by as much as 50%, an increase that could generate over 3bln. Reeves reportedly intends to have a "mansion tax" applied to homes over 2mln in value as part of the scheme, by revaluing the bands, according to The Times; which has been told it could slow down the top-end of the housing market. Taylor Wimpey (TW/ LN), Barratt Redrow (BTRW LN), of note.
Banking Profits	Increases	Raising the level of tax paid on bank profits, according to The Telegraph; however, the banking levy will not change. Lifting the levy by 2pp to 5% would generate 0.5-0.7bln/yr, 8% would generate c. 1.5bln/yr, according to the Rayner memo.
Fuel Duty	Unfreeze	Speculation that Reeves could remove the temporary 5p/litre freeze that was enacted after Russia invaded Ukraine in 2022; raising c. 2.6bln.
EPL	Removal	Officials in the energy industry have called for the Energy Products Levy (EPL) to be removed in order to protect jobs. Energy names have outlined that removal of the levy would, longer term, unlock over GBP 50bln of investment.
Energy Bills	Cut	Looking at cutting household energy bills, targeting a 150-170/yr reduction according to Politico. Also, VAT on energy could be trimmed.
Two-Child Limit	Removal	Pressure on Labour to remove the cap on the amount of financial support a family can receive; cost of c. 2.5bln. The Independent reported that Reeves will remove the cap.
Household Benefit Cap	Removal	If done, it would almost certainly be in tandem with removing the Two-Child Limit, at a greater cost of 3.3bln, via IFS.
Isa	Cut	To cut the cash Isa limit to GBP 12k/yr from GBP 20k/yr, via FT.

## DMO

- The 2025-26 finance remit was a headline GBP 304.2bln in March, financed by Gilt sales of GBP 299.2bln. Of that, GBP 231.7bln will be split among conventional auctions, GBP 40bln via syndication and then GBP 27.5bln is unallocated. Breakdown of the conventional allocation, GBP 231.7bln, below.

Bucket	Figure (GBP)	%	No. of Auctions
Short	110.9bln	47.9%	24
Medium (incl. green)	73.7bln	31.8%	19
Long (incl. green)	26.7bln	11.5%	13
I/L	20.4bln	8.8%	16
Total	231.7bln	-	72

- Generally, the expectation is for an increase to the current borrowing remit owing to a likely upward revision to the Central Government Net Cash Requirement (CGNCR). SocGen writes that the FY25 Gilt remit may need to be revised up by GBP 15bln, noting that the CGNCR is over GBP 5bln above the OBR's forecast. Morgan Stanley takes a similar view, expecting the

gilt issuance level for FY25/26 to be revised up by around GBP 10bln.

- Despite this uptick, **market focus will likely be on the next fiscal year's remit, for this Morgan Stanley expects it to come in at around GBP 267bln for FY26/27.** A marked Y/Y reduction that would be welcome by the market.

## Market Reaction

- The market reaction will be dependent on a handful of factors. **If the fiscal rules are adhered to** : a breach would be unexpected and likely spark a significant sell off in Gilts and UK assets generally. **The degree of headroom Reeves gives herself**: c. GBP 10bln or less would likely be received unfavourably, given the risk of a further tax-raid by Reeves, for this the GBP 10-20bln range forms a broad consensus, and would provide some breathing room. **How contractionary the budget is**: SocGen expects net fiscal tightening of c. GBP 30bln/yr, a figure that will be scrutinised in terms of what it means for the UK growth outlook - of particular note given the already sombre assessment of the UK as an investment destination. **Confidence in the revenue generation of tax measures**: if, as the mood music points to, Reeves selects a series of smaller measures rather than hiking Income Tax rates then the revenue generation calculation becomes more varied and subject to significant uncertainty over the forecast horizon; a selection that will speak to how credible the headroom is judged to be. **The DMO remit**: Reeves can't afford to push Gilts lower by necessitating an increase in borrowing, while the 2025 remit is expected to be revised modestly higher, the 2026 one should see a lower level of gross issuance, to the benefit of Gilts. **Fiscal forecasts/assessment**: how the OBR assesses the economy will perform over the horizon and their view on the headroom Reeves gives herself - points that drove a large portion of the post-budget reaction in 2024. **Whether the tax increases are judged as being inflationary or not**, with particular reference to the BoE on this point.
- Overall, assuming Reeves does not throw in any major curveballs, the OBR takes a not-unfavourable assessment and the market has confidence in the approach taken and headroom generated, **then the path of least resistance for Gilts is likely higher with yields to moderate ahead of further BoE easing towards neutral from the current 4% Bank Rate.** Political fallout could spark a reassessment of this either in the nearterm, or as we approach the May local elections (see below). For Sterling, option pricing points to at most a c. 1% swing in either direction for GBP/USD.

## BoE

- **The downbeat growth outlook and contractionary budget will have a deflationary impact on the economy, increasing the odds of a 25bps cut in December** (pending the November CPI report) from the c. 85% current level. Further out, while Bailey has said he is comfortable with market pricing which points to a terminal around 3.5%, a deflationary hit could potentially skew Threadneedle St. lower. However, pricing will already reflect the assumption of a contractionary budget, and thus the implications for the terminal rate may not be particularly pronounced. **Overall, the bar for the Budget to significantly change the outlook for the December meeting is relatively high, as the MPC and particularly Bailey are focussed on inflation prints.**

## Political Fallout

- In the week before the Budget, fractures within Labour became increasingly evident. The Times and then other outlets reporting that the Tribune Group, a Left-leaning faction, reportedly have the 80 MPs required to spark a leadership contest under Labour rules. Crucially, however, they are yet to decide on a nominee to challenge Starmer. Reporting that renewed concern that a Left-leaning successor could elect to drop the fiscal rule in order to increase spending levels, likely be funded via elevated borrowing to the detriment of Gilts.
- Such a sell off would lift yields, increase debt servicing costs and potentially spark yet another U-turn and forced fiscal consolidation. As such, the proactive consolidation Reeves is electing to take is the better option, from a market perspective at least.
- If no leadership contest arises post-Budget, the next flash point will be the May local elections. YouGov polling for the question of who respondents would vote for in a general election has Labour on 19%, trailing Reform UK on 27%; Conservatives at 17%.

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