



Buying Time: UK Autumn Budget 2026 Preview

20 October 2026



Foreword

Labour conference gave much more shape to the Prime Minister's agenda for the UK, centred on a new model for growth, a greater role for the state and a new social contract. Yet, like his predecessors, he takes office at a difficult moment. The Middle East conflict has pushed energy prices, inflation and borrowing costs higher, adding to an already demanding fiscal backdrop.

The economy itself has been more resilient than might have been expected. The UK recorded the strongest cumulative growth in the G7 over the first half of 2026 and we now expect GDP to grow by around 1.3% this year. Business investment has been an important source of momentum, particularly ICT spending linked to AI. But the picture remains uneven, with private sector payrolls still weak and the latest external shock leaving interest rates higher than they otherwise would have been.

For the public finances, the picture is more nuanced than the rise in borrowing costs

alone suggests. Higher gilt yields and interest-rate expectations point to higher debt interest, but stronger inflation and nominal earnings also boost tax receipts. Our illustrative analysis suggests the headroom could fall from £24bn at the Spring Statement to around £14–22bn. That represents a relatively small change in the context of a £1.4tn budget and would still leave it within the range seen at recent fiscal events.

The harder issue is spending. The departmental envelope set at the Spring Statement was already tight, with unprotected departments facing a growing squeeze. Higher expected inflation has since eroded its real value further. Our analysis suggests around £6–10bn could be needed by 2029–30 just to restore departmental budgets to the real-terms path planned in the Spring, with around £7bn more required to avoid real-terms cuts to unprotected departments. Under the inherited framework, this Budget is the last clear opportunity to revisit the overall spending envelope ahead of next year's Spending Review.

That leaves three clear choices for the Chancellor John Healey: how much headroom to preserve, whether to top up inherited spending plans, and how much of the fiscal adjustment to bring forward. Our illustrative scenarios show how much those choices matter. A 'Buy time' package of around £20bn could address the most immediate pressures while accepting thinner headroom and leaving some of the underlying spending squeeze for later. A 'Full reset' of around £40bn would go further, rebuilding the fiscal buffer and addressing more of the underlying spending pressures now.

This Budget is unlikely to settle the bigger questions facing the Government. Many will depend on next year's Spending Review and the policy reviews now under way. The immediate task is therefore to address the pressures that have emerged since the Spring, set a credible fiscal and spending framework, and preserve the flexibility to make bigger choices on reform later in the parliament.



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Three numbers that frame the Budget

01

1.3%

PwC projection for 2026 real GDP growth

Growth has surprised on the upside, led by stronger investment

The UK recorded the strongest cumulative growth in the G7 over the first half of 2026, and we now expect growth of around 1.3% this year. Stronger business investment, particularly ICT spending linked to AI, has been an important driver, although private-sector employment remains weak.

02

£14-22bn

Illustrative fiscal headroom at the Budget

The headroom is likely to fall, but should remain within recent norms

The £24bn buffer at the Spring Statement is likely to shrink, as higher debt interest is only partly offset by stronger tax receipts. But even a £10bn swing in headroom is relatively small in the context of a £1.4tn budget. The Chancellor could choose to absorb the hit and run with a smaller buffer.

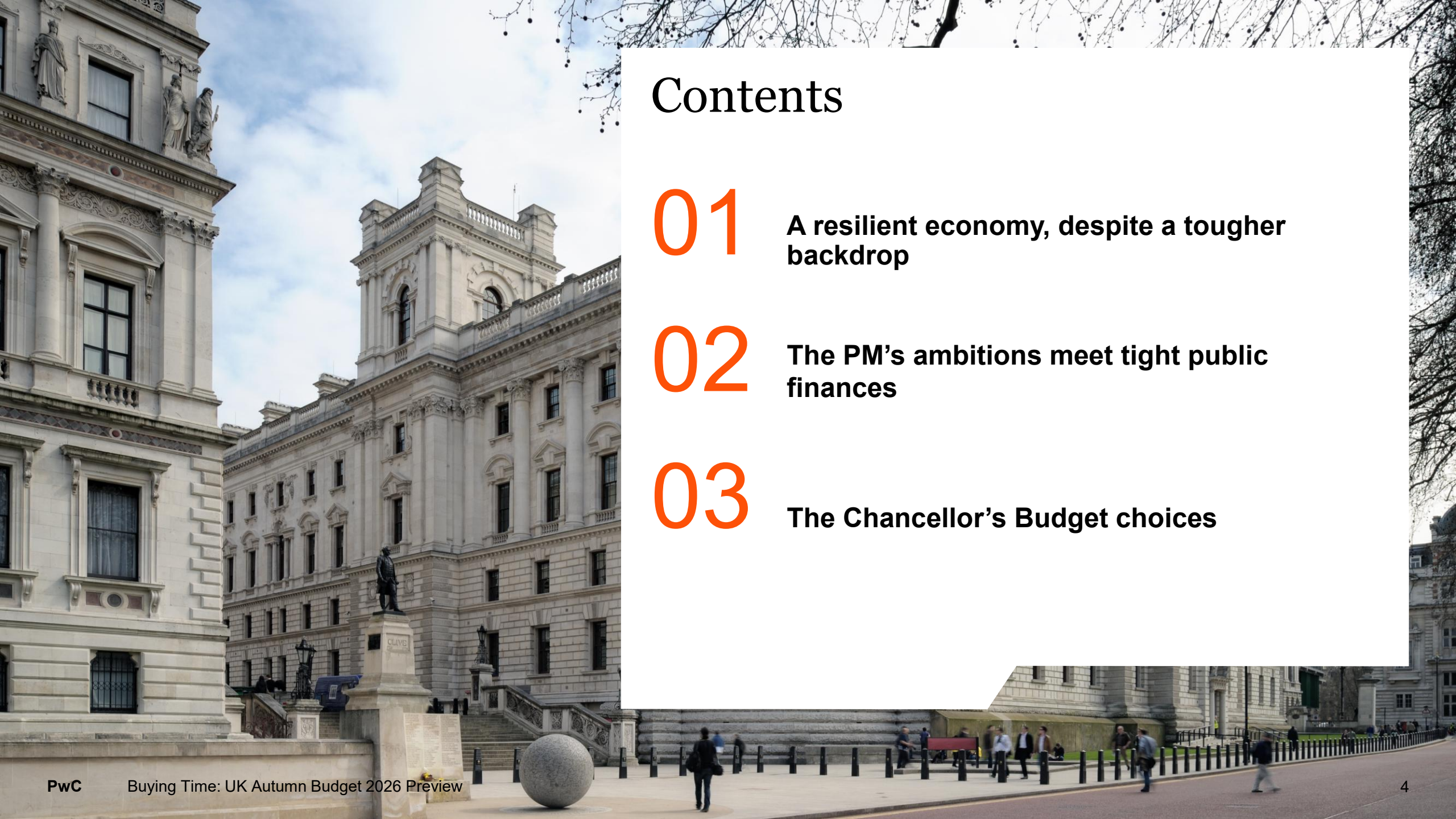
03

£13-17bn

Illustrative spending pressure by 2029–30

The bigger fiscal challenge is spending, not headroom

The Spring spending plans were already tight, and higher inflation has squeezed them further. Our illustrative analysis suggests around £6-10bn would be needed just to restore the Spring Statement real-terms spending path, plus around £7bn to avoid real-terms cuts to unprotected departments.



Contents

01

A resilient economy, despite a tougher backdrop

02

The PM's ambitions meet tight public finances

03

The Chancellor's Budget choices



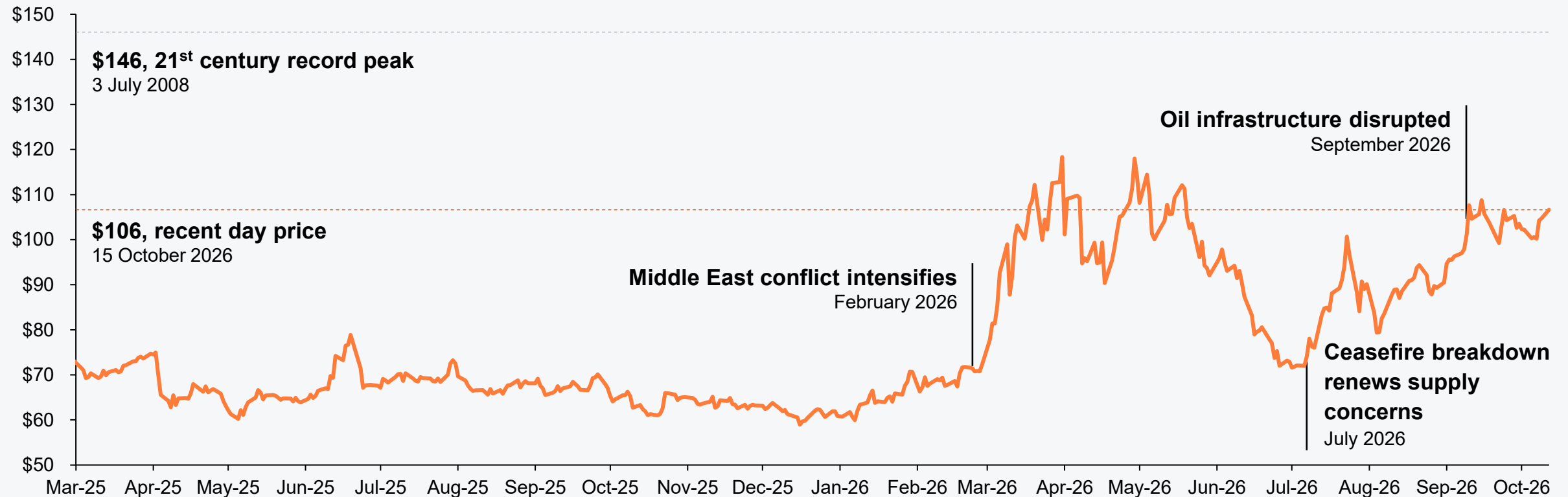
A resilient economy, despite a tougher backdrop

Renewed energy disruption has made the inflation and interest-rate outlook more difficult.

Successive supply shocks have pushed Brent crude above \$100 a barrel and kept refined products such as diesel and gasoil elevated, putting prices broadly in line with the Bank of England's most adverse July energy scenario. The key questions now are how long the disruption lasts and whether price pressures spread more widely. A cold winter would add further upward pressure.

Brent crude oil prices

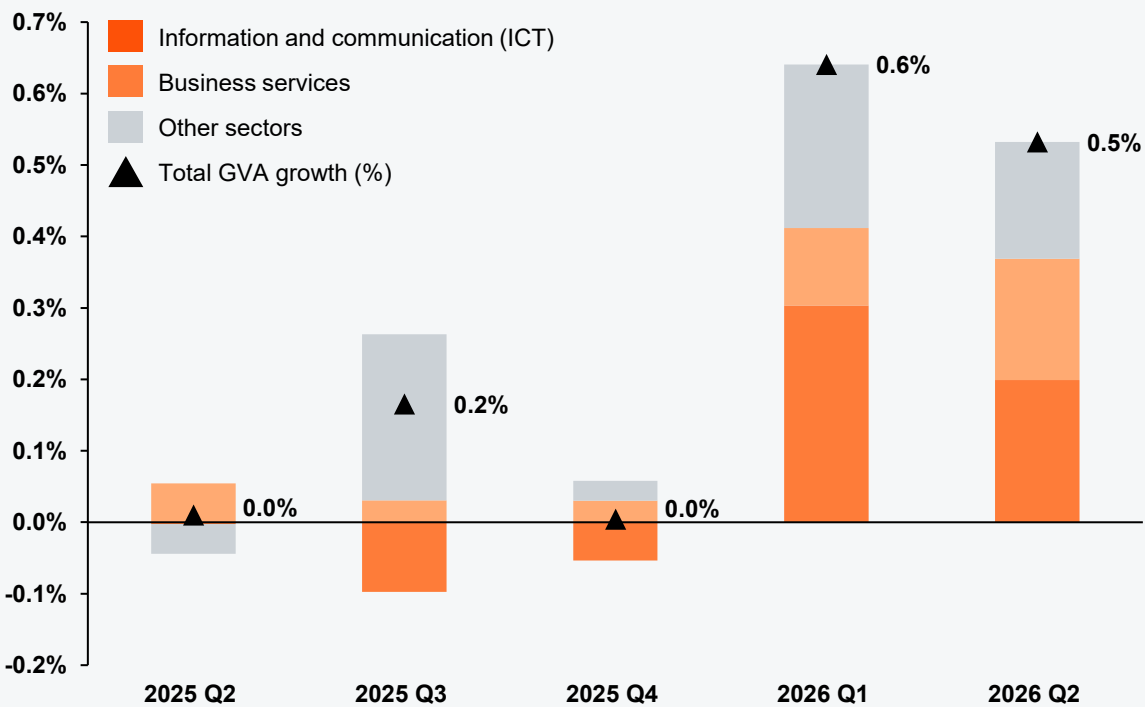
Daily settle price, US\$/barrel, up to 15 October 2026



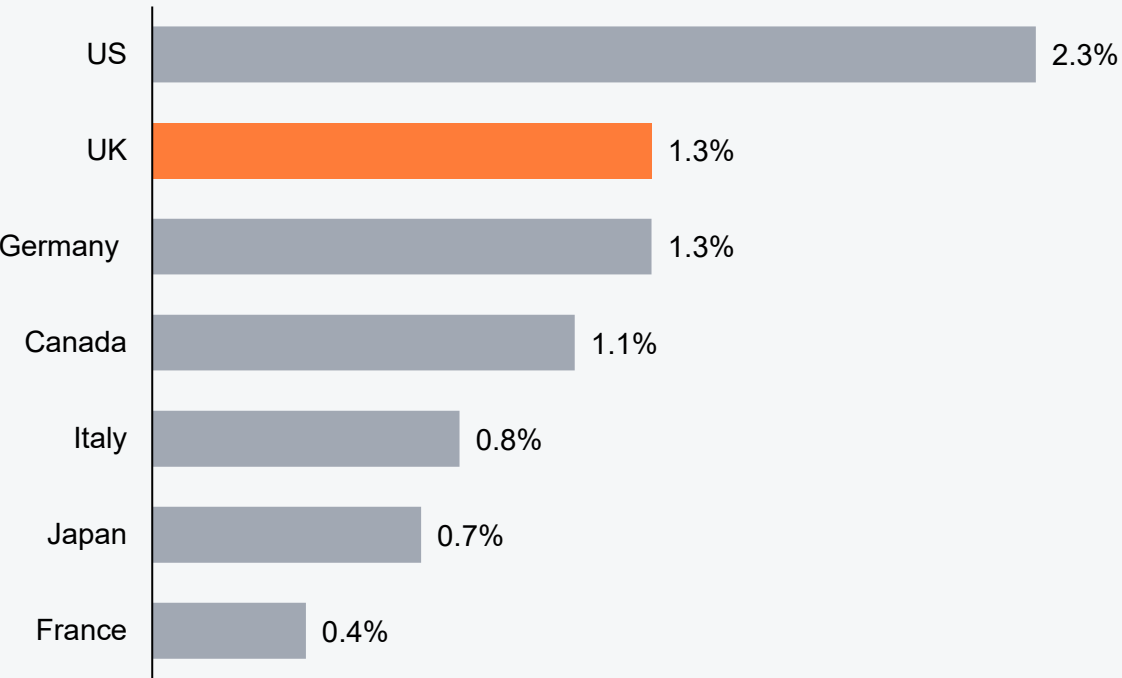
Yet the UK economy has proved more resilient than expected.

The UK recorded the strongest cumulative growth in the G7 over the first half of 2026, driven by strong growth in the ICT and business services sectors. Our own projections and the IMF's October forecasts both now point to faster growth this year than previously expected.

Growth has picked up in H1 2026, led by ICT and business services
Contributions to quarter-on-quarter real GVA growth by sector, percentage points



The UK could be the joint second-fastest-growing G7 economy in 2026
Real GDP growth, 2026 (UK: PwC projection; all others: IMF)

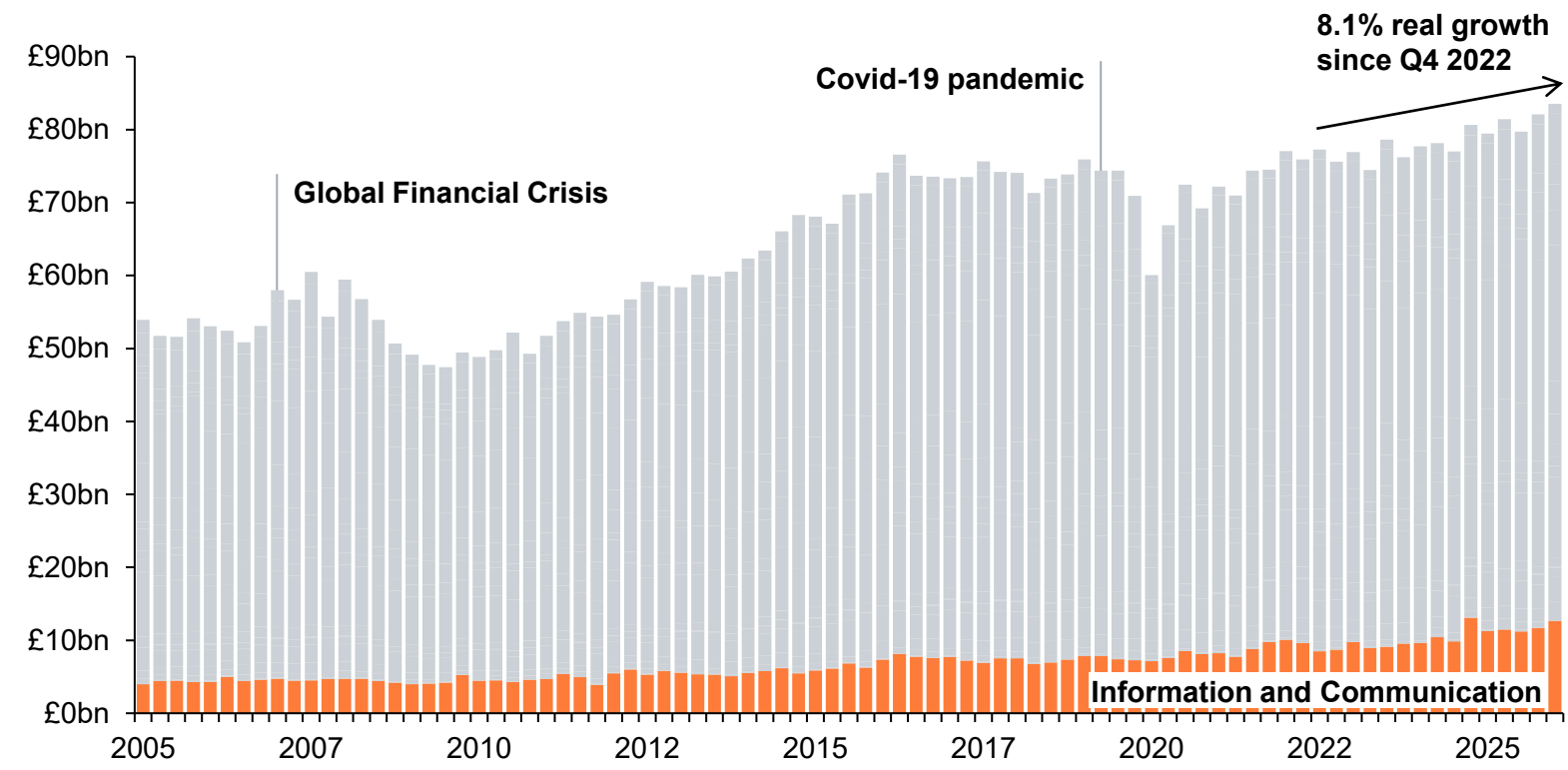


Stronger business investment has been an important source of that resilience, with AI-related investment adding momentum.

Business investment has picked up so far in 2026, particularly hardware spending in the information and communication sector (ICT). Much of this is likely linked to the build-out of AI infrastructure. The UK still lags the US, both in the scale of that build-out and in the boost it gives to growth, but it is making progress and is ahead of many of its European peers.

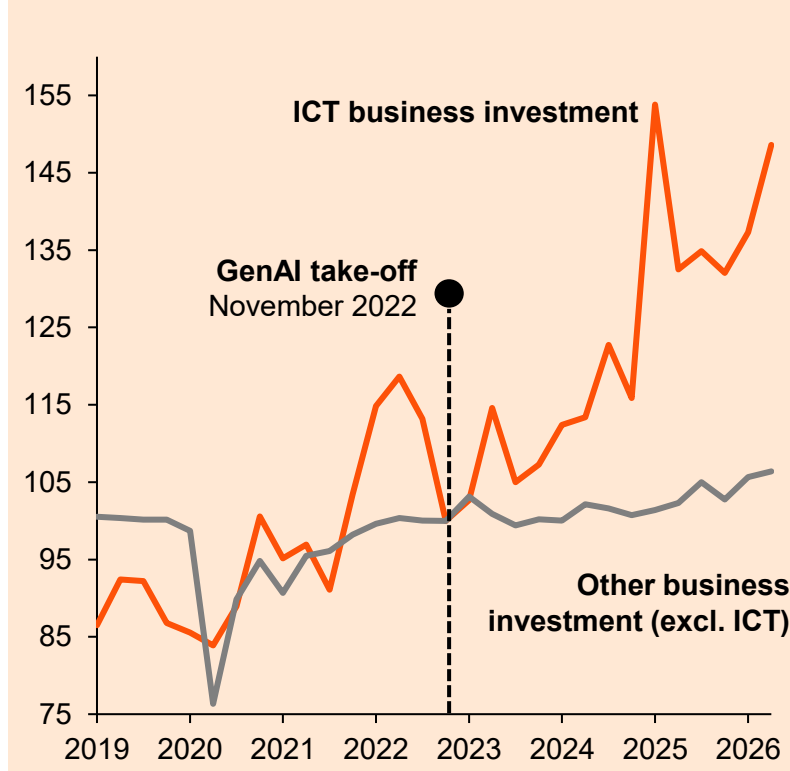
UK quarterly business investment

Real £bn, 2005-2026, with the information and communication sector highlighted



ICT investment has surged since late 2022

Index, 2022 Q4 = 100, real terms

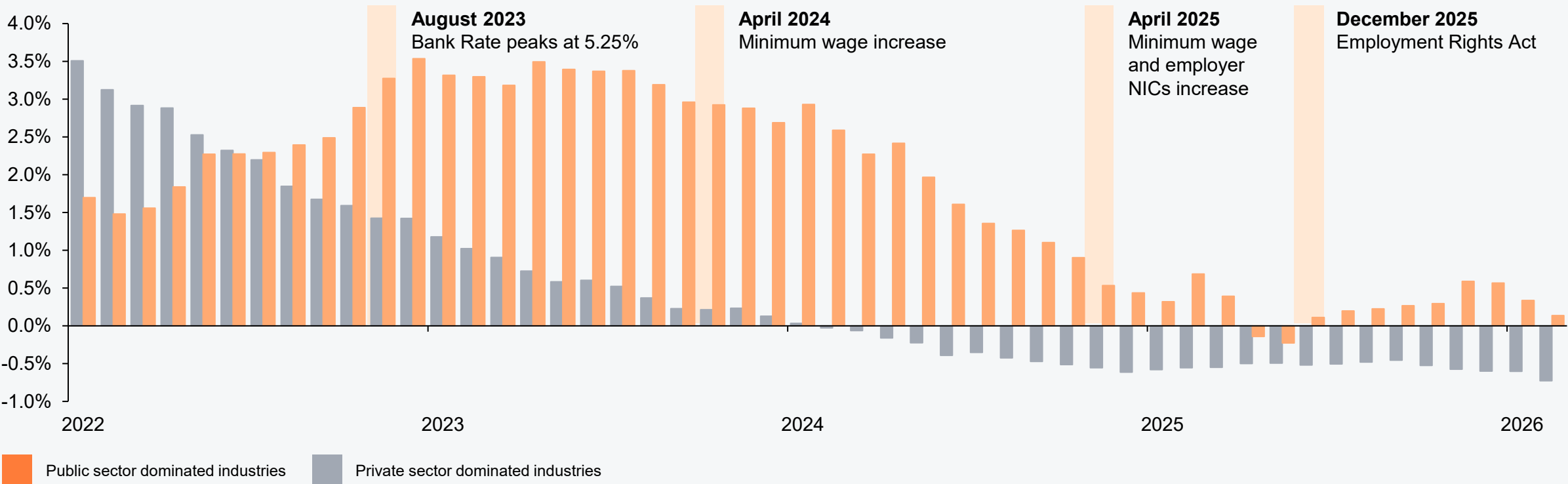


But that resilience has not yet translated into a stronger labour market.

Private sector payrolls have been falling since early 2024, with higher borrowing costs and employment costs weighing on hiring. Growth in public sector-dominated industries, which had propped up overall employment, has now slowed to close to zero.

Payrolled employee growth in private and public sector-dominated industries

Annual % change, seasonally adjusted, 2022-2026





The PM's ambitions meet tight public finances

The new Prime Minister has raised the Government's ambitions, but many of the biggest reforms still need to be funded and sequenced.

Andy Burnham's conference speech gave much more shape to the agenda, from closer EU ties and devolution to public control and social care. But the biggest reforms still need funding, sequencing and detailed delivery plans.

UK-EU relations | Direction set

Closer ties are the stated direction. Long-term options are due around the 20 Nov summit, with a preferred model to follow before the next election.

Devolution | Powers expanding

More fiscal and planning power is moving to mayors, with a roadmap due at the Budget ahead of business-rate retention from Apr-27 and income-tax sharing from Apr-28.

Industrial strategy | Focus evolving

The current framework continues for now, but with greater emphasis on reindustrialisation and industrial energy costs. A wider 10-year Plan for Britain is due later this year.

Welfare | PIP reform under review

The Timms Review is examining the future of Personal Independence Payment, with final recommendations due this autumn. Reform could reshape one of the fastest-growing areas of welfare spending.



Water | Ownership options widening

Direct state stakes in water companies are now on the table. The Water Bill will remove existing caps on state ownership, with further detail due later this year.

Energy grid | Public investment expanding

Publicly owned Great British Grid will invest public capital alongside private investment and existing network operators, giving the state a direct role in grid investment.

Housing | Council role expanding

Councils are getting a bigger role in housing, with new-build social homes protected from Right to Buy for 35 years and stronger powers over empty homes.

Pensions & social care | New settlement announced

Triple lock reform, plus a National Care Service from the next Parliament, with funding to follow the Casey Commission's report in summer 2027.

Workplace protections | Reforms continuing

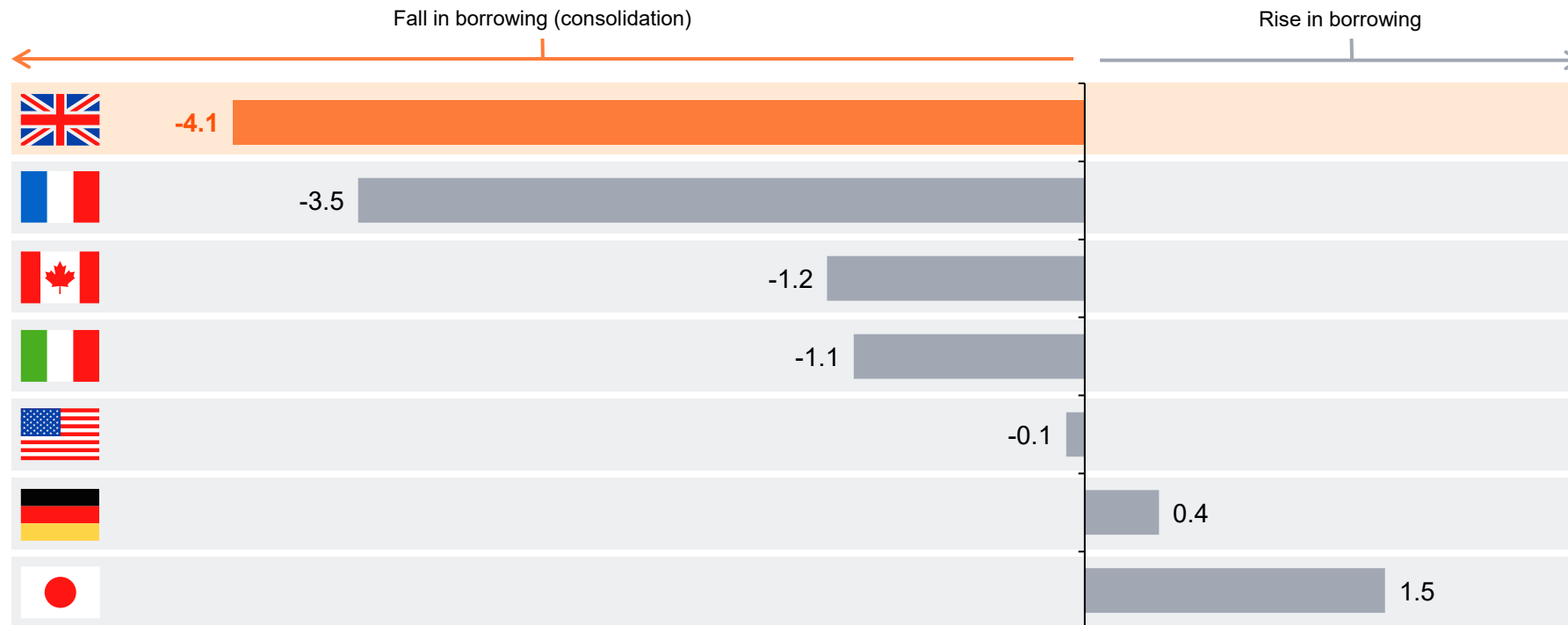
Starmer-era employment reforms are being phased in through 2026-27. Andy Burnham has added plans to ban non-compete clauses, with legislation to follow.

And those ambitions collide with an already demanding fiscal settlement.

The inherited plans assume a larger fiscal adjustment than any other G7 economy. Against that backdrop, funding a substantial reform programme before the next election will be difficult, particularly given the Government's manifesto commitments.

Projected change in primary government borrowing across the G7

Percentage-point change in borrowing excluding interest payments, % of GDP, 2025–31



-4.1pp

Largest projected fiscal adjustment in the G7 2025–31

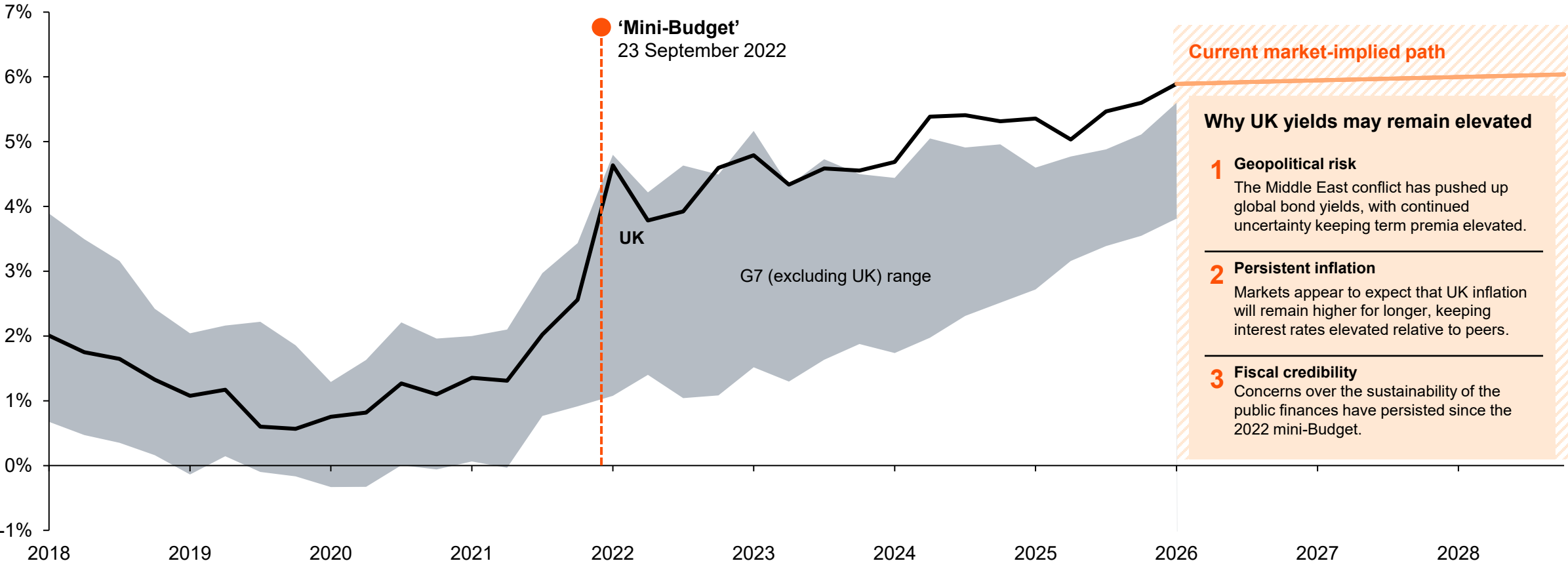
Much of the consolidation is expected to come through higher tax revenues. Frozen personal tax thresholds alone account for almost three-fifths of the projected rise in the tax take this decade, raising substantial revenue through fiscal drag without further tax-rate rises being needed.

Higher borrowing costs have reduced the Chancellor's room for manoeuvre.

The Iran war has pushed gilt yields higher, adding to an already difficult fiscal backdrop. While some of that pressure may ease, UK borrowing costs are likely to remain elevated, alongside other advanced economies.

UK 20-year gilt yields compared with the rest of the G7

Historical yields and current market-implied UK path, %

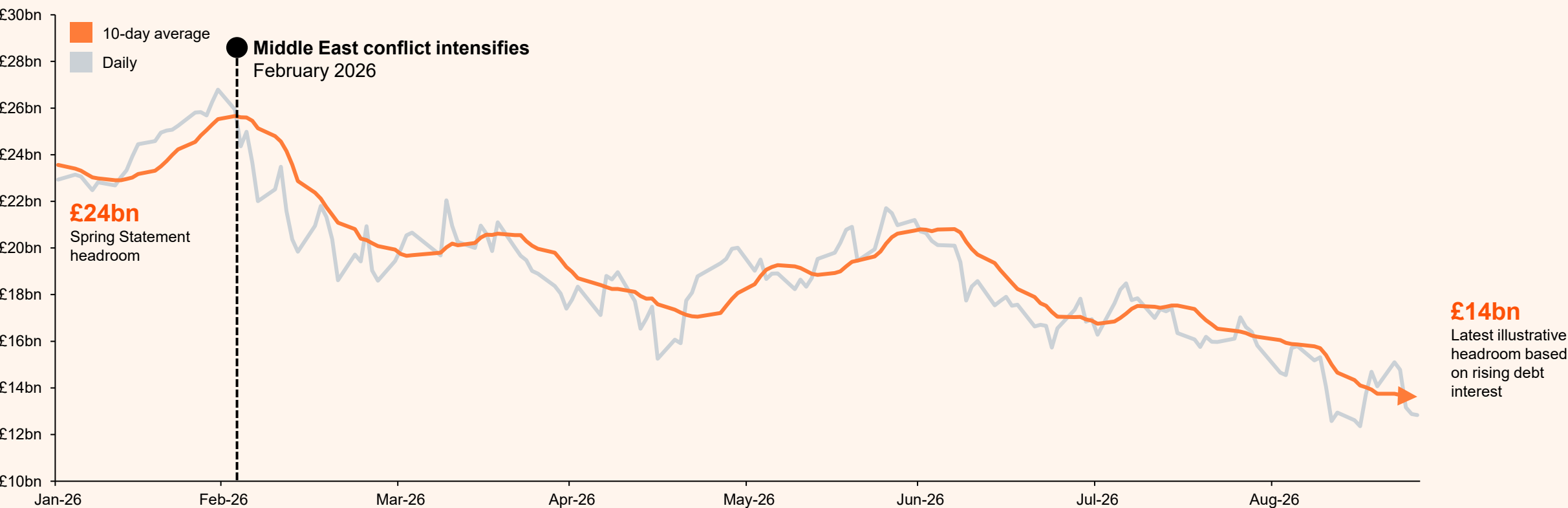


We estimate higher gilt yields and interest-rate expectations have knocked around £10bn off the Chancellor's headroom.

Our analysis suggests changes in gilt yields and expected short-term interest rates since the Spring Statement might have reduced the fiscal headroom from £24bn to around £14bn through higher debt interest. But this is only one side of the fiscal arithmetic.

Illustrative headroom based on changes to debt interest expectations since the Spring Statement

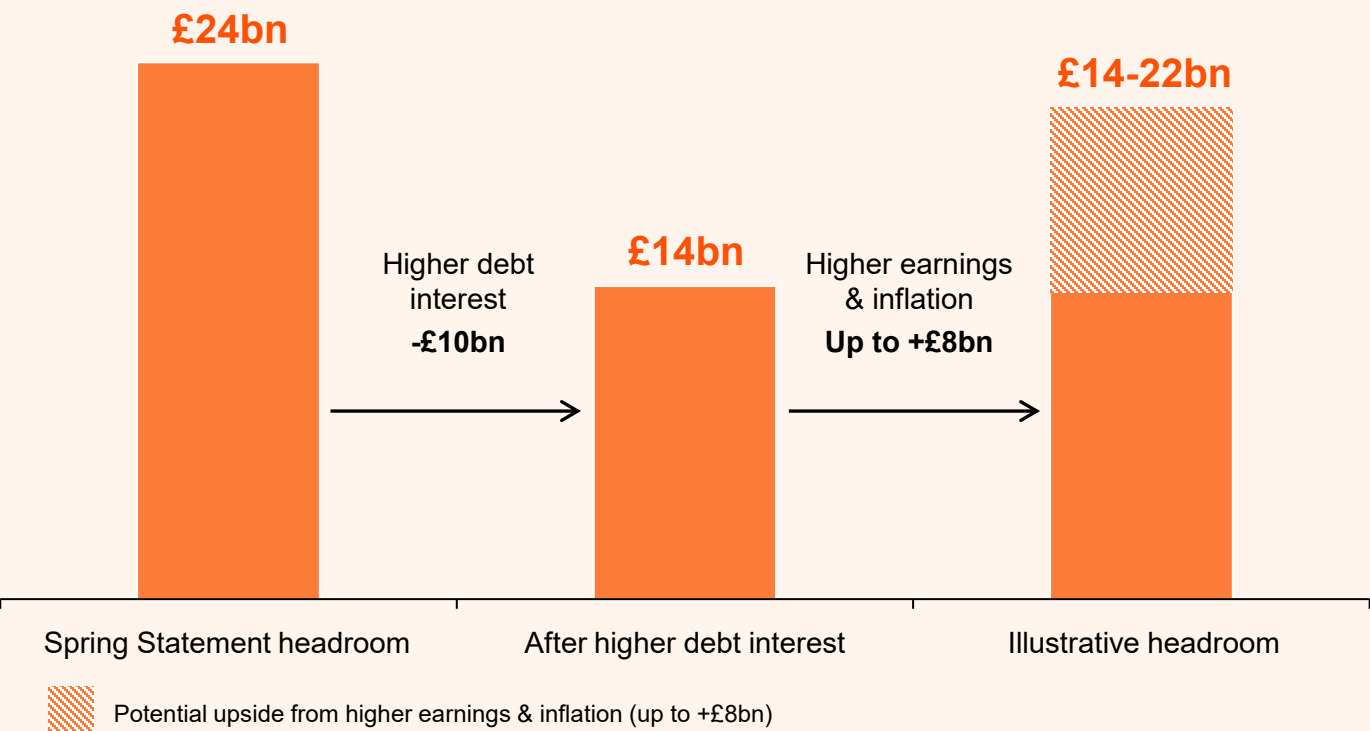
Impact of gilt yields and expected short-term interest rates only, 2026, £bn



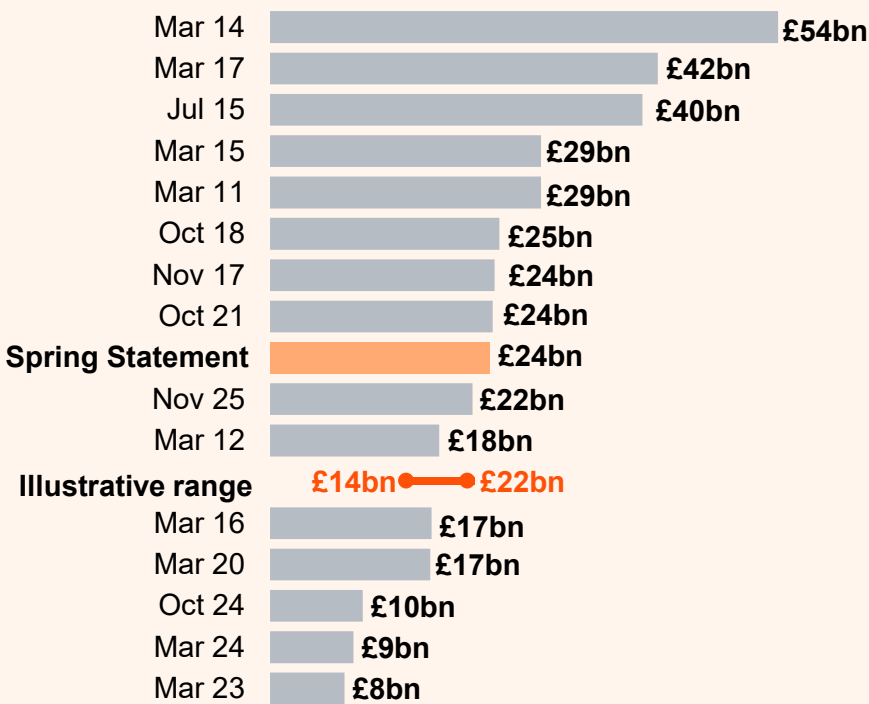
But stronger earnings and inflation could offset much of the hit to headroom, which is likely to fall between £14-22bn.

Higher gilt yields and interest-rate expectations point to lower headroom through higher debt interest. But stronger nominal earnings and inflation could offset much of that deterioration through higher tax receipts. The OBR’s judgement on earnings will therefore be critical.

Higher earnings and inflation could offset much of the hit from debt interest
Illustrative impact on the buffer against the stability rule (hereafter ‘fiscal headroom’), £bn



Despite the fall, the headroom would remain within the range seen at recent fiscal events

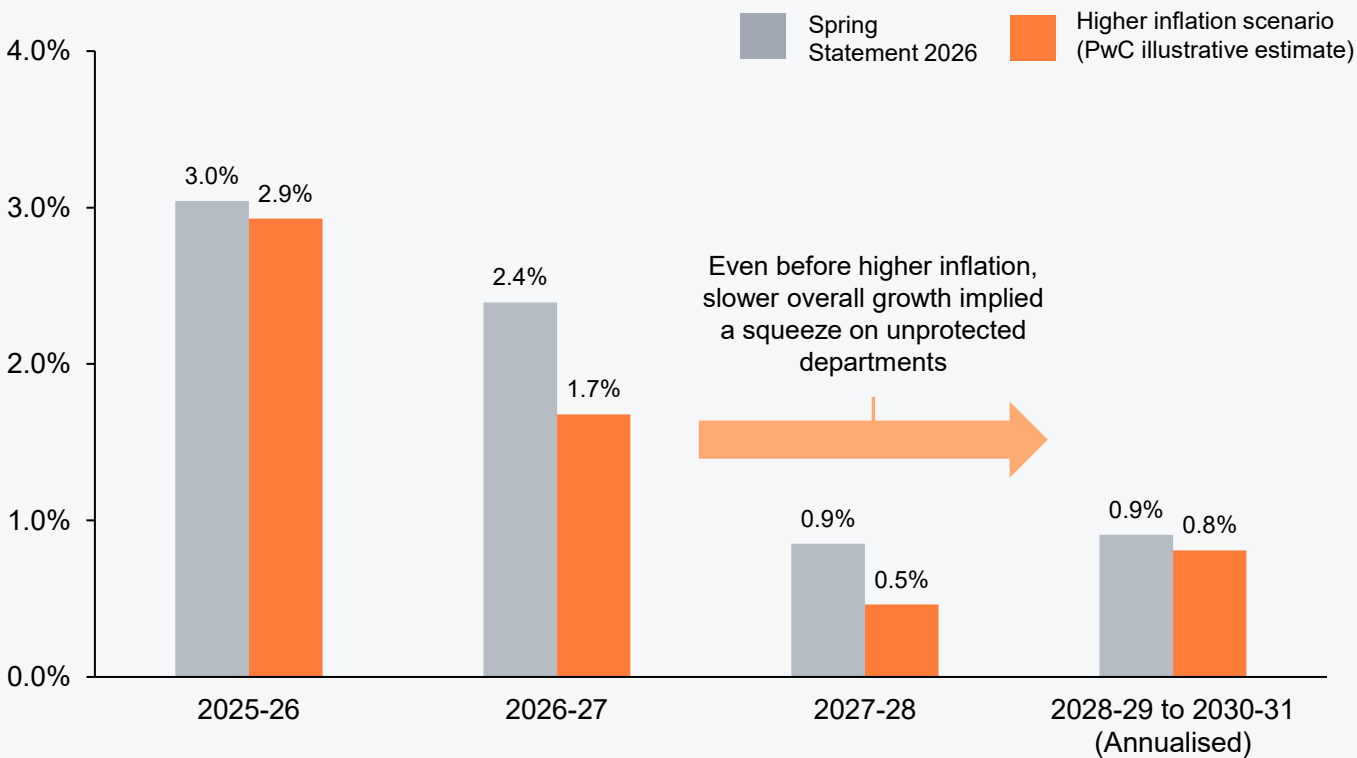


Sources: PwC analysis, OBR, HMT. Notes: Illustrative range is judgement-based and highly uncertain. It reflects changes in gilt yields and expected short-term rates since the Spring Statement, and applies changes in consensus forecasts for GDP deflators and average earnings between February and August to the OBR’s ready reckoner. Other forecast changes, including variables such as GDP and equity prices, are not captured. We deem £14–22bn to be a reasonable illustrative range, but the eventual OBR estimate could fall outside it.

The same inflation that cushions the headroom deepens the squeeze on departmental spending.

The spending envelope set at the Spring Statement was already tight, with unprotected departments facing a growing squeeze from 2028–29. Our illustrative analysis suggests higher expected inflation has since eroded its real value. This Budget is the last clear opportunity to top up spending ahead of next year’s Spending Review.

Higher inflation expected to reduce the real growth in planned day-to-day spending
Annual real-terms RDEL growth, %



£6 - 10bn

Restore spending power lost to inflation

PwC illustrative estimate of the additional funding needed by 2029–30 to restore departmental budgets to the real-terms path planned at the Spring Statement.



~ £7bn

Avoid real-terms cuts to unprotected departments

PwC estimate of additional funding needed by 2029–30 to hold unprotected spending flat in real terms from 2028–29.

Sources: PwC analysis, OBR, IMF, HMT. Notes: PwC illustrative range reflects the rise in independent inflation forecasts since February. The lower end (£6bn) applies the consensus revision to the GDP-deflator outlook to the OBR’s March path, while the upper end (£10bn) assumes the OBR moves to the current consensus median.



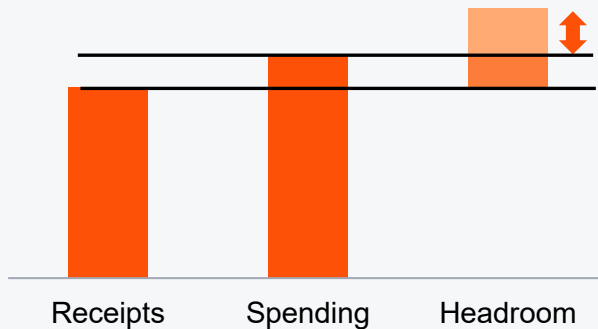
The Chancellor's Budget choices

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The fiscal arithmetic sets the parameters, but the Budget ultimately comes down to a series of choices...

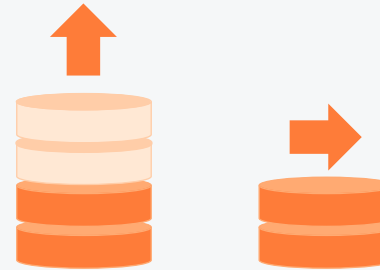
The Chancellor must decide how much headroom to retain, how much of the spending squeeze to address and when to make the fiscal adjustment.

Thick or thin headroom?



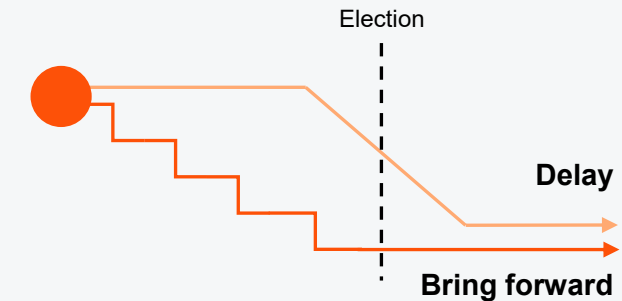
- The Spring Statement restored the headroom to £24bn. Changes in the economic outlook since then, including higher expected bond yields, inflation and wage growth, could leave it at around £14–22bn.
- The Chancellor must decide how much headroom to preserve. A fiscal buffer is there to absorb shocks like this, but using it now would increase the risk of further repair work next year.

Top-up or hold the line?



- The inherited spending plans were already tight, implying real-terms cuts for unprotected departments later in the parliament. Higher expected inflation has since intensified that squeeze.
- Under the framework inherited from Rachel Reeves, this Budget is the last clear opportunity to top up spending ahead of next year's Spending Review. If the Chancellor intends to increase spending, he should set out those plans and how he will fund them now.

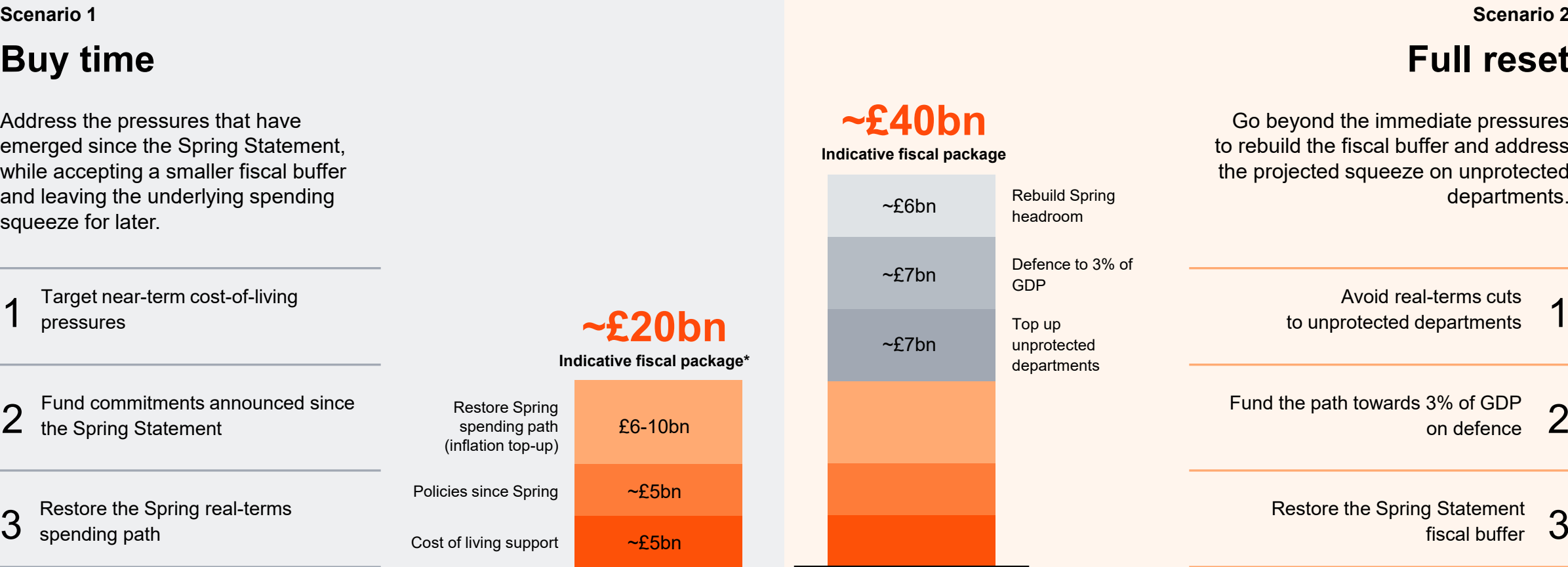
Tighten now or later?



- The inherited fiscal path is heavily back-loaded, with the squeeze intensifying towards the end of the parliament and close to the potential next election.
- Bringing some tightening forward could bolster market confidence and make effective use of the Government's political capital. But it would also weigh on growth while the economy is still absorbing the Middle East shock.

The scale of the Budget depends on how far the Chancellor chooses to go beyond the immediate pressures.

Our scenarios point to a £20–40bn package, depending on how far the Chancellor goes beyond immediate pressures to rebuild the headroom, top up budgets and fund higher defence spending. The package would not need to be funded entirely through tax rises, as some costs could be absorbed by existing headroom or treated as investment. See the next slide for the indicative tax package.

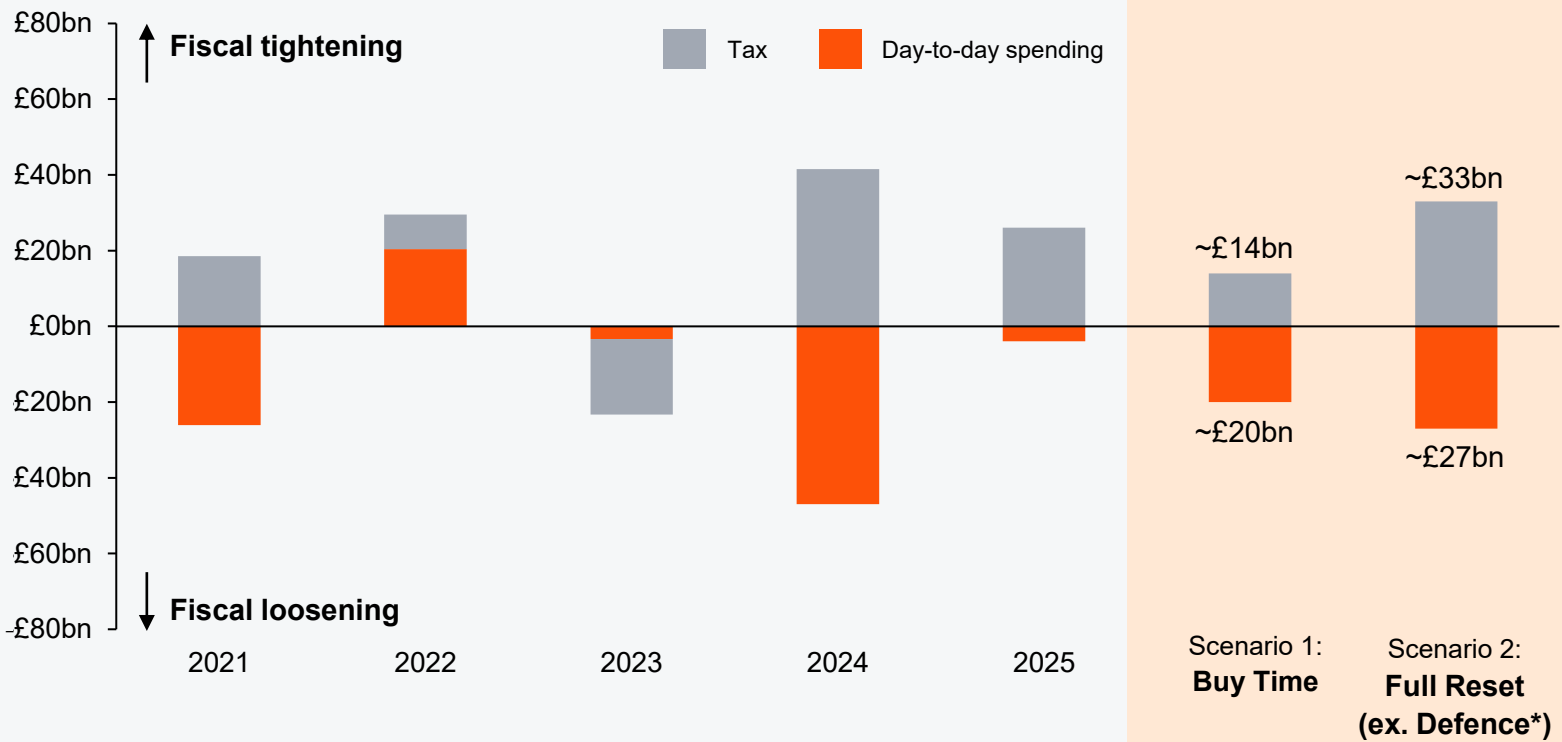


Even a ‘Buy time’ Budget could require around £15bn of tax rises despite accepting thinner headroom. A ‘Full reset’ would require materially more revenue.

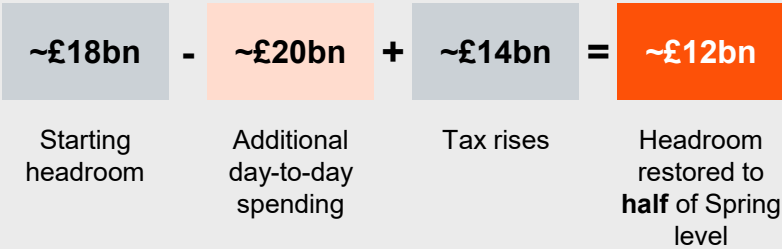
Using some of the existing fiscal buffer would keep the revenue requirement of a ‘Buy time’ Budget more contained but it could still require around £15bn of tax rises. A ‘Full reset’ would require materially more revenue to fund higher spending and rebuild headroom, but would still be smaller than the 2024 Budget.

How the scenarios compare with previous Autumn fiscal events

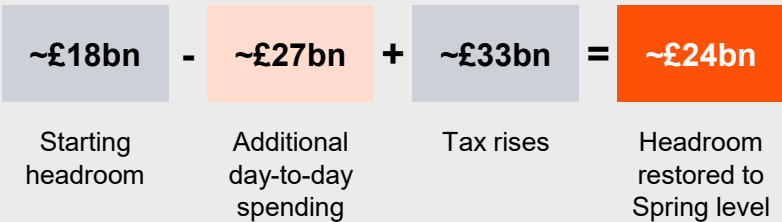
Annual aggregate taxation and day-to-day spending effects in 2029-30, £bn



Scenario 1: Buy time



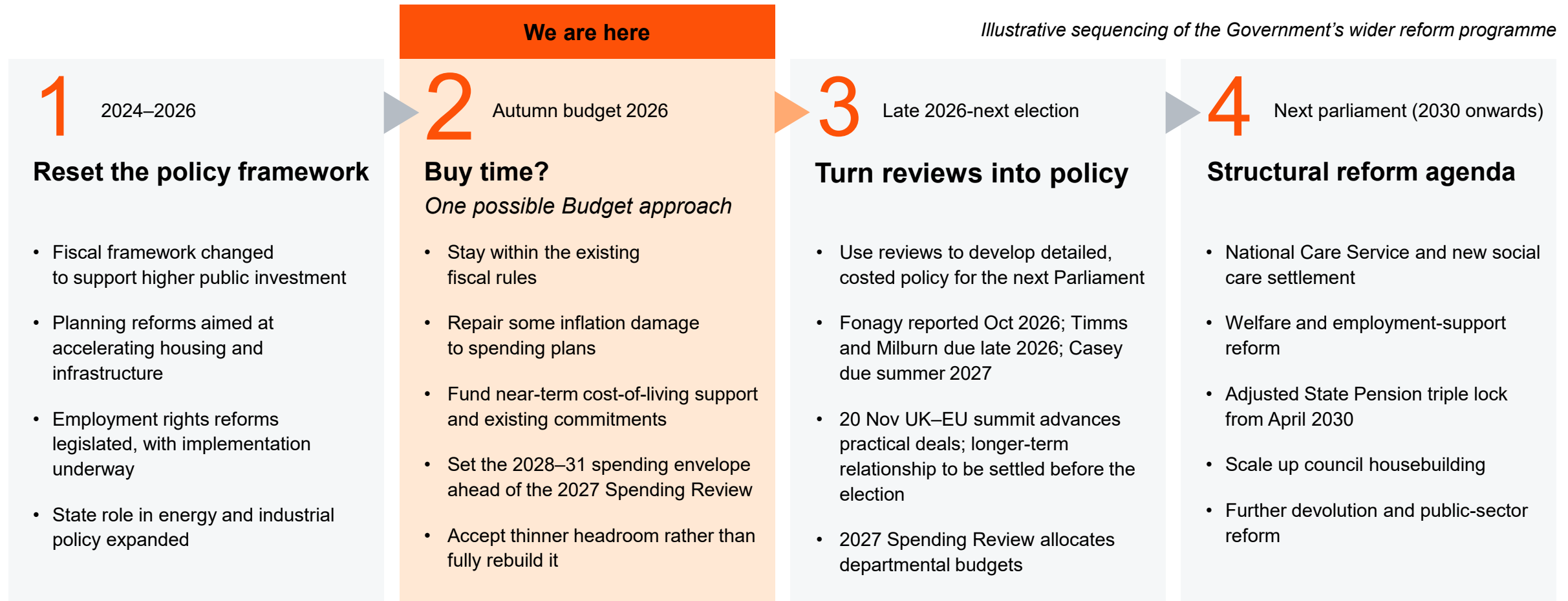
Scenario 2: Full reset



Sources: PwC analysis, OBR. *Note: 1) Graphics are illustrative and do not represent PwC projections or policy recommendations. 2) 2021-23 figures reflect the estimated 2029-30 effect of historic measures, rather than the size of each fiscal event when announced. 3) Our scenarios exclude additional defence spending as the eventual split between capital investment and day-to-day spending is uncertain. The analysis focuses on day-to-day spending relevant to the stability rule.

A 'Buy time' Budget could fit within a wider programme of reform, giving ongoing reviews time to shape the Government's longer-term policy platform.

A smaller Budget need not mean less ambition: the Chancellor could address the immediate pressures now while using ongoing reviews to develop a broader reform programme for later in the parliament.



Top 5 decisions for businesses to watch out for

01



Where does the tax burden land?

It is hard to see a Budget without at least £10–15bn of tax rises, even with a thinner headroom. The Chancellor will likely try to shield businesses where possible, but some measures could still raise business costs.

What to watch

Whether the burden falls on labour, property, financing or investment, and which businesses are most exposed.

02



Can the UK close its energy cost gap?

UK business electricity prices remain among the highest in comparable economies. From 2027, the BICS will cut policy costs for 10,000 manufacturers, reducing bills by up to 25%.

What to watch

Whether support is broadened, or network and policy costs are shifted off business bills, particularly for energy-intensive sectors, data centres and electrification.

03



Could the Budget raise the cost of capital?

UK borrowing costs remain high relative to G7 peers, keeping financing conditions sensitive to fiscal credibility.

What to watch

How the Budget affects the fiscal outlook and gilt yields, with implications for business financing costs and investment hurdle rates.

04



Will location matter more?

Greater devolution will give local leaders more control over funding, planning and skills, with Mayoral Strategic Authorities set to retain more locally generated revenues from 2028.

What to watch

Whether the Budget sets out timelines for new local funding and tax powers, and when businesses could start to see the impact.

05



Will the cost of hiring change?

Employer labour costs are around 37% higher than in 2019, with higher NICs and a minimum wage up almost three-quarters in five years.

What to watch

With an under-25 NIC exemption ruled out and the Milburn review still to come, the question is whether the Chancellor offers any near-term relief for hiring costs, or leaves the bigger decisions until after the review.

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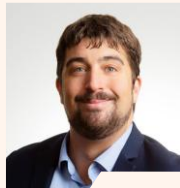
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“We help you understand, quantify and enhance the impact of your programmes and activity”

Neil Scott



Regulatory Strategy

“We help turn regulatory complexity into long-term value”

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