Choices in a Tight Spot

Autumn Budget 2025 initial reaction

PwC UK Economics Team
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Foreword

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The Chancellor had to make tough choices in a tight spot. A total of 88 policy decisions were announced at the Autumn Budget, 75 of which were new. Here’s our take on three main highlights from the Budget presented, along with what was absent.

- **Painful decisions postponed:** First, the Chancellor was bold as she opted to frontload additional spending, funded in the first instance by borrowing but backloaded almost exclusively by more taxes in the future. In effect, most of the painful decisions affecting businesses and households have been kicked into the future. We have seen a similar pattern play out in the past.
- **Higher headroom, more stability:** Second, we saw a glimpse of what *‘securonomics’* means. The Chancellor learned from past decisions and opted for a thicker headroom against her main fiscal rule (c. £22bn vs £10bn) and chose to limit the OBR opining on fiscal rules to just once a year (compared to twice now). We think this could lead to greater stability in the future. It reduces the future likelihood of big changes to fiscal policy and limits the long run-up of leaks and speculation that typically paralyses economic and business-decision making.
- **Disinflationary in the short-term:** And third, the Chancellor threw in sweeteners (energy bills package, fuel duty freeze, rail fares freeze) which mechanically pushes inflation down by 0.4pp in 2026/27. This provides the Bank of England with economic justification to lower its policy rates faster, which could in turn ease financial conditions more quickly. This contrasts with previous experience where higher employment taxes partially fed through to higher consumer prices.

The biggest surprise was the absence of plans to deal with the supply-side issues of the economy. These range from economic inactivity to raising productivity in the public sector, tax reform, speeding up building infrastructure and residential dwellings, the skills agenda etc. An optimistic view is that yesterday’s Autumn Budget went a long way to bring stability to public finances, giving government breathing space to focus and deliver on the growth agenda. A more cynical view is that economic growth is lower than previous forecasts.

Crucially, the Autumn Budget relies on the private sector (businesses, households and financial markets) to fund higher government spending. This therefore requires the private sector to grow. With patience from the private sector running thin, if the growth fortunes of the UK economy do not pick up soon, then the next Budget could be even more challenging.

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In the Autumn Budget, the Chancellor made three major calls. First, she deferred difficult tax decisions to the future while ramping up spending almost immediately. Second, she bolstered the fiscal buffer. Third, she cleared the way for a faster easing of monetary policy.

1 Spend now, tax later

- The Chancellor was bold as she chose to raise, rather than cut, spending – funded first by higher borrowing and then by tax rises pushed into the future.
- In effect, most of the painful decisions affecting households have been kicked into the long grass, while some other changes (e.g. National Living Wage uprating) compound employment costs for businesses immediately.

2 Bolster the fiscal buffer

- We saw what 'securonomics' means in practice. The Chancellor learned from past decisions and opted for a thicker headroom against her main fiscal rule (c. £22bn vs £10bn) and chose to limit the OBR opining on fiscal rules to just once a year (compared to twice now).
- This reduces the likelihood of big changes to future fiscal policy and limits the long run-up of leaks and speculation that has been paralysing business and household decision-making.

3 Faster disinflation in the short-term

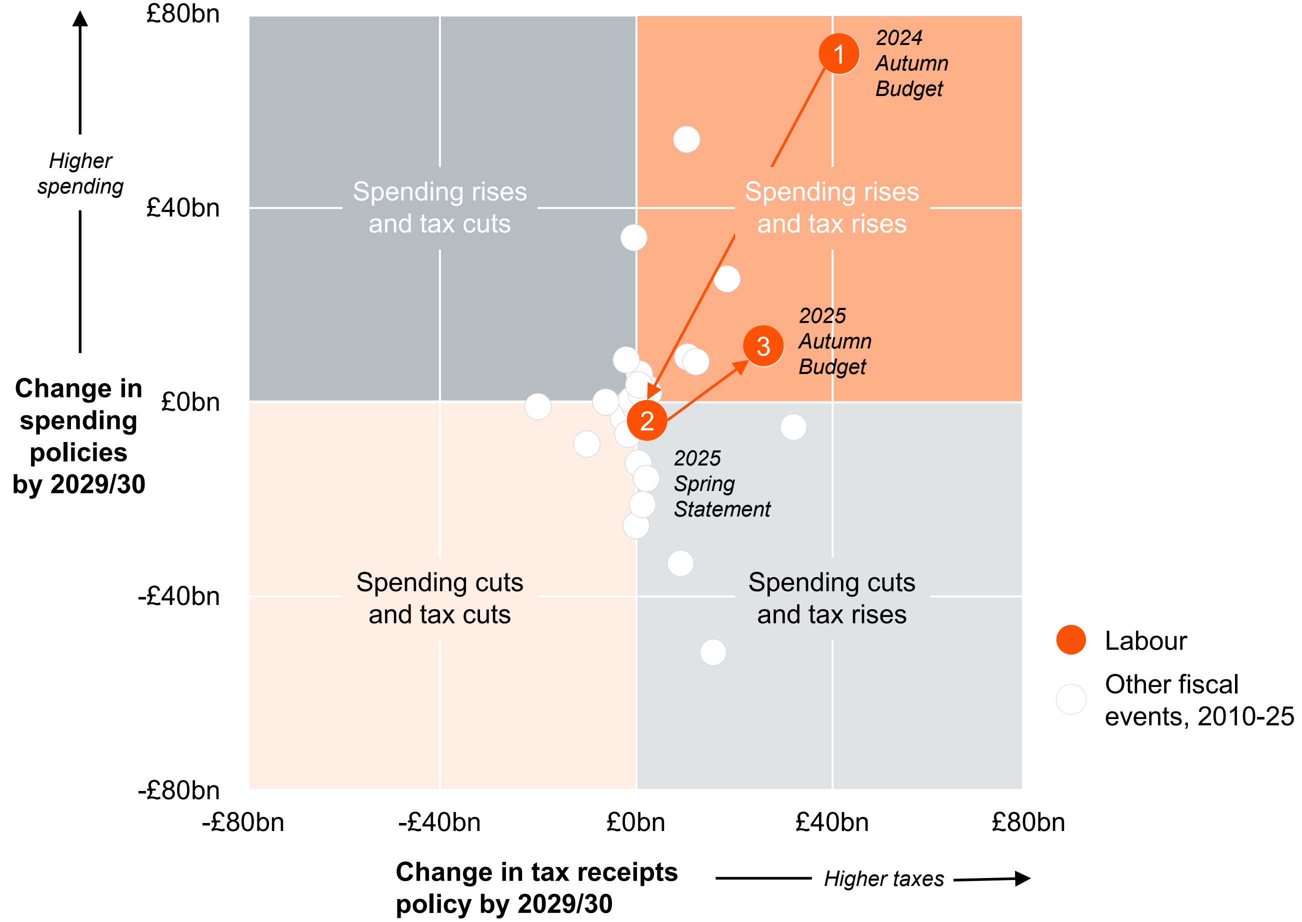
- Despite the inflation target technically sitting under the Central Bank's authority, the Chancellor added in sweeteners (energy bills package, fuel duty freeze, rail fares freeze) that mechanically push inflation down by 0.4pp in the short-term.
- This provides the Bank of England with the economic justification to lower its policy rates faster, which could in turn ease financial conditions more quickly. However, long-term supply side issues persist.

1

Spend now, tax later

The Chancellor announced £26bn of tax rises, the third-largest package since the OBR was founded in 2010. This felt like the second act of the 'Fixing the Foundations' Budget last Autumn.

Distribution of tax receipts and spending policy changes in UK fiscal events, 2010-25



1 2024 Autumn Budget

Fixing the Foundations, Act 1: A major reset of tax and spending, with substantial tax rises and additional borrowing used to fund large increases in day-to-day spending. Importantly, fiscal rules were changed to protect future capital investment.

2 2025 Spring Statement

Fiscal Tweak. A focused set of fiscal adjustments used to rebuild the headroom eroded by weaker growth and higher borrowing costs. Underpinned by a high-level outline of spending priorities ahead of a full Spending Review.

3 2025 Autumn Budget

Fixing the Foundations, Act 2: A tax-raising Budget, used to eventually create a more durable fiscal buffer rather than focus on boosting spending. Minimal emphasis on pulling new growth levers.

Notes: Total tax receipts policy and spend policy measures for 2029-30 shown by fiscal event. We reverse the Treasury scorecard convention in the case of policies relating to spending, so that both tax receipts policy increases and spending policy increases are shown as positive values. | Sources: PwC analysis, OBR

The Chancellor relied on a mix of small policy tweaks and frozen tax thresholds to finance a modest rise in spending and build a larger fiscal headroom.

Main tax policy decisions

#	Main tax policy decisions	Raised by 2029-30
1	**Freezing tax thresholds** *(personal tax and employer NICs, from 2028/29)*	£8.0bn
2	**Pension salary-sacrifice** *(on contributions above £2,000, from 2029)*	£4.7bn
3	**HMRC measures to close the tax gap**	£2.4bn
4	**Reduction of main rate of Writing Tax Allowance to 14%** *(from Apr 2026)*	£1.4bn
5	**eVED: New mileage supplement for electric and plug-in hybrid cars**	£1.4bn

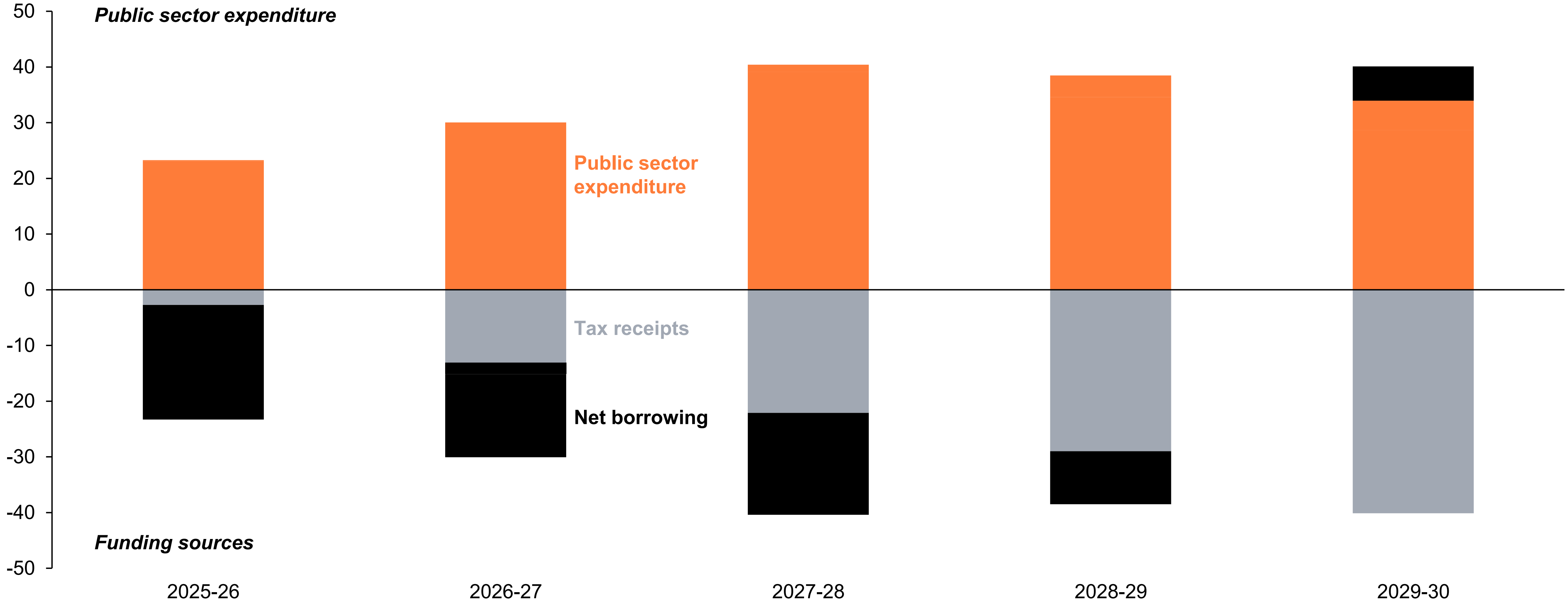
Main day-to-day spending policy decisions

#	Main day-to-day spending policy decisions	Spend by 2029-30
1	**Personal Independence Payment: Stop SS '25 reforms to eligibility**	£4.5bn
2	**Removing two child limit from April 2026**	£3.1bn
3	**Reversing proposed winter fuel payment changes**	£1.3bn
4	**Cancel Fuel Duty uprating for 2026/27. Extend 5p cut temporarily**	£0.8bn
5	**Changing Universal Credit to protect existing and new claimants**	£0.7bn

Notes: These are based on HMT's policy costings and thus will not incorporate changes due to forecasting or indirect effects. | Sources: PwC analysis, HMT

In the first three fiscal years, expenditure growth is front-run and funded via a mixture of higher borrowing and increased tax receipts. Towards the end of the forecast horizon, the additional expenditure pencilled in is funded exclusively by tax receipts.

Public sector expenditure and funding sources relative to March 2025, £bn



Notes: We have added indirect impacts to additional public sector expenditure. On average it amounts to an additional £1.7bn in extra expenditure over the forecast horizon. In the final year of the forecast horizon this amounts to an extra £5bn expenditure. Indirect impacts relate to second-order effects e.g. lower interest paid on government debt due to bond yields changing or a larger welfare budgets due to inflation indexation. | Sources: PwC analysis, OBR

There are other non-tax costs which could raise the cost of employment for business. A further increase to the National Living Wage joins the previous rise in employer NICs, while the Employment Rights Bill may be next in the pipeline. The OBR has not scored the ERB yet.

Rise in National Insurance Contributions (NICs)

In the Spring Statement, the government raised employer NICs from 13.8% to 15% and adjusted the Employment Allowance. The higher NIC rate will fall largely on employers, since it directly increases the cost of employing people.

For businesses, this could mean tighter margins and a choice between absorbing the hit, reducing headcount or wages, or passing the cost on through higher prices.

Higher National Living Wage (NLW)

The National Living Wage will rise to £12.71, up 11% compared with two years ago. Rates for younger workers are also increasing, with the minimum wage rising by 8.5% for 18–20 year olds and 6.0% for 16–17 year olds.

On current estimates, the UK minimum wage could now exceed France's as a share of average earnings, making it the highest in the G7.

Employment Rights Bill (ERB)

The Employment Rights Bill, to be delivered under the "Make Work Pay" plan, aims to modernise the employment framework to offer more certainty for both employers and workers. It is expected to include changes to dismissal rights and give employees greater stability over their working hours.

Crucially, the Bill is still subject to consultation and has not been scored by the OBR. Any resulting impact on growth is therefore absent from the OBR's forecasts.

Actioned — Imminent — Forthcoming

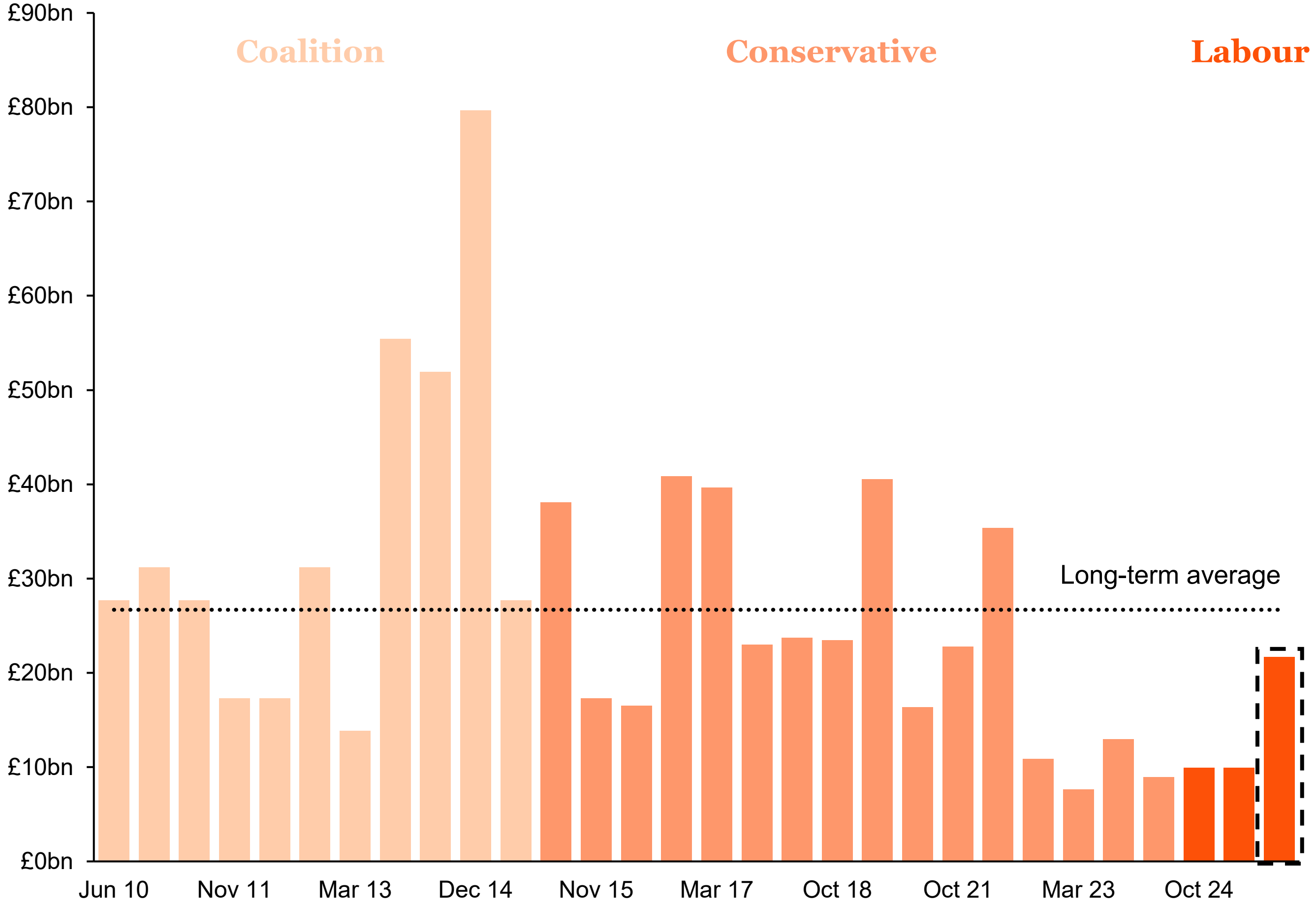
Sources: PwC analysis, ONS, OBR

2

Bolster the fiscal buffer

For the first time, we saw what 'securonomics' could look like in practice. The Chancellor learned from past decisions and opted for a thicker headroom against her main fiscal rule (£22bn vs £10bn), reducing the likelihood of sharp shifts in future fiscal policy.

Successive forecasts for headroom against primary fiscal rule



Likelihood of meeting fiscal mandates, per OBR

59% *(up from 54% in March)*
likelihood of meeting the fiscal mandate to have the current budget in surplus by 2029-39

52% *(up from 51% in March)*
likelihood of meeting the supplementary target that net debt is falling as a share of GDP by 2029-30

Notes: "Net debt" used as a shorthand for Public Sector Net Financial Liabilities. | Sources: PwC analysis, OBR

This is a rare case of a Chancellor taking the political and economic hit of tax rises to boost the fiscal headroom and strengthen policy stability. Tax increases are generally used to finance new spending or plug a fiscal hole.

Two-thirds

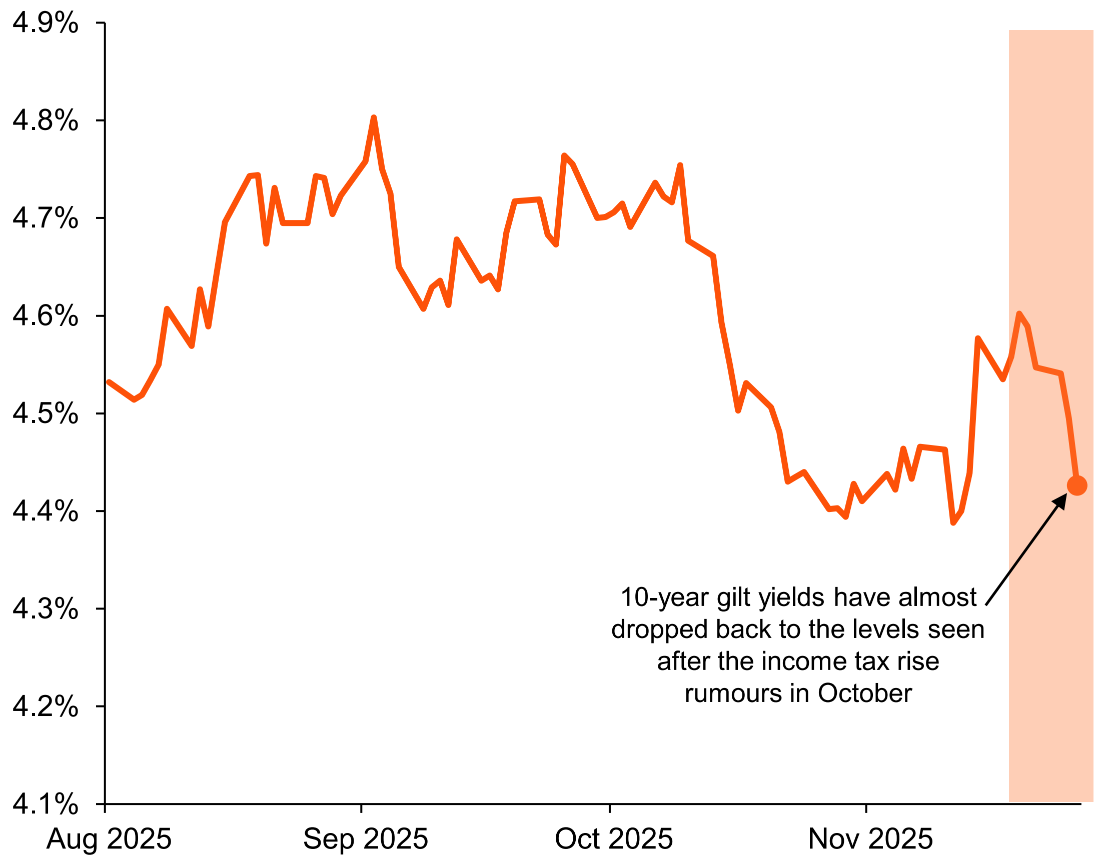
of the £26bn increase in tax receipts policy has been used to bolster the fiscal headroom.

The upside is that a larger headroom, combined with the plan to have the OBR assess the Chancellor against her fiscal rules only once a year instead of twice, reduces the likelihood of major shifts to future fiscal policy. That matters, given the long run-up to this Budget and the way the surrounding speculation has already weighed on private sector growth.

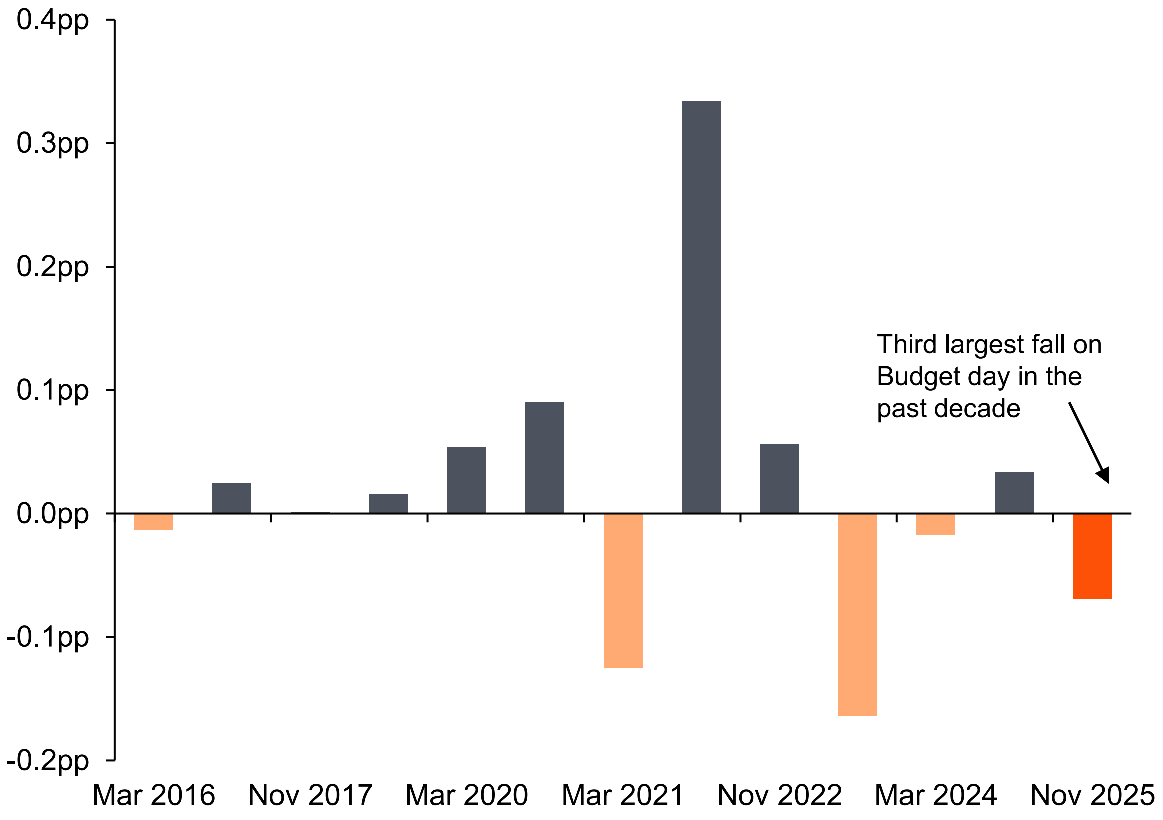
Notes: This analysis compares the November 2025 fiscal headroom against the primary fiscal rule (£17.5bn) with the pre-measures forecast (£4.2bn), an increase of £17.5bn.
| Sources: PwC analysis, OBR

At first glance, gilt markets have welcomed the move toward greater fiscal stability. The drop in yields on Budget day was the third largest fall seen on the day of a fiscal event in the past decade.

UK 10-year government bond yields, %



Percentage point change in UK 10Y gilt yields on the day of the budget



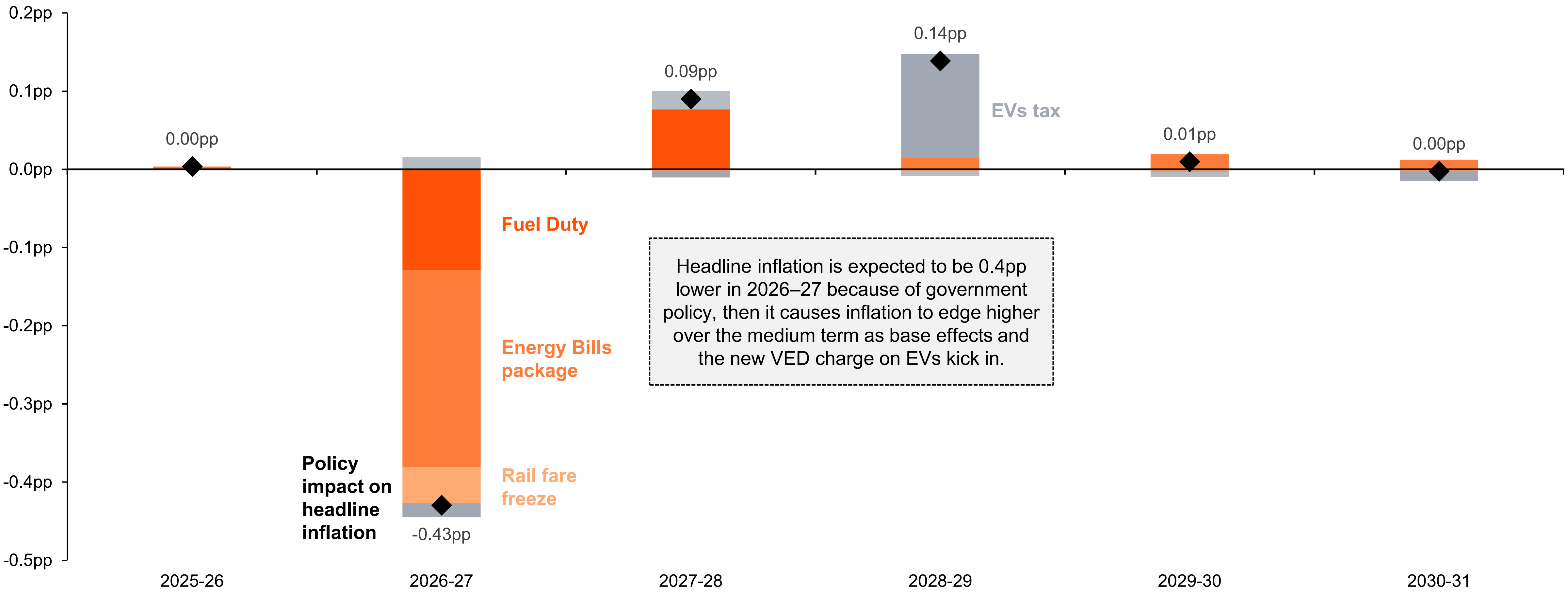
Sources: PwC analysis, LSEG Datastream

3

Faster disinflation in the short-term

The Autumn Budget contained affordability measures (fuel duty, rail fares, energy bills) which the OBR expects will mechanically reduce consumer price inflation in the short-term…

Impact of Autumn Budget 2025 policies on CPI inflation, percentage points



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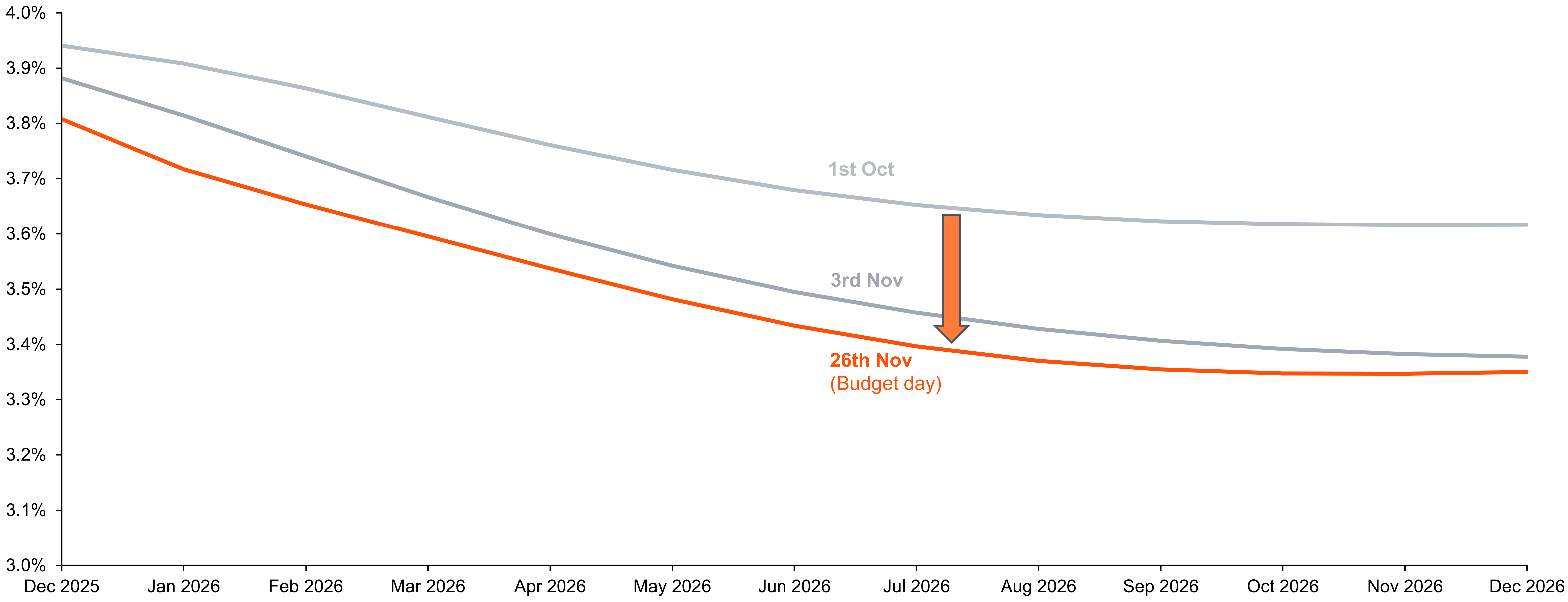
Sources: PwC analysis, OBR

This is likely to offer the Bank of England's Monetary Policy Committee with additional ammunition for a steeper cut in its policy rates than anticipated before the Autumn Budget. Expect a faster loosening of financial conditions.

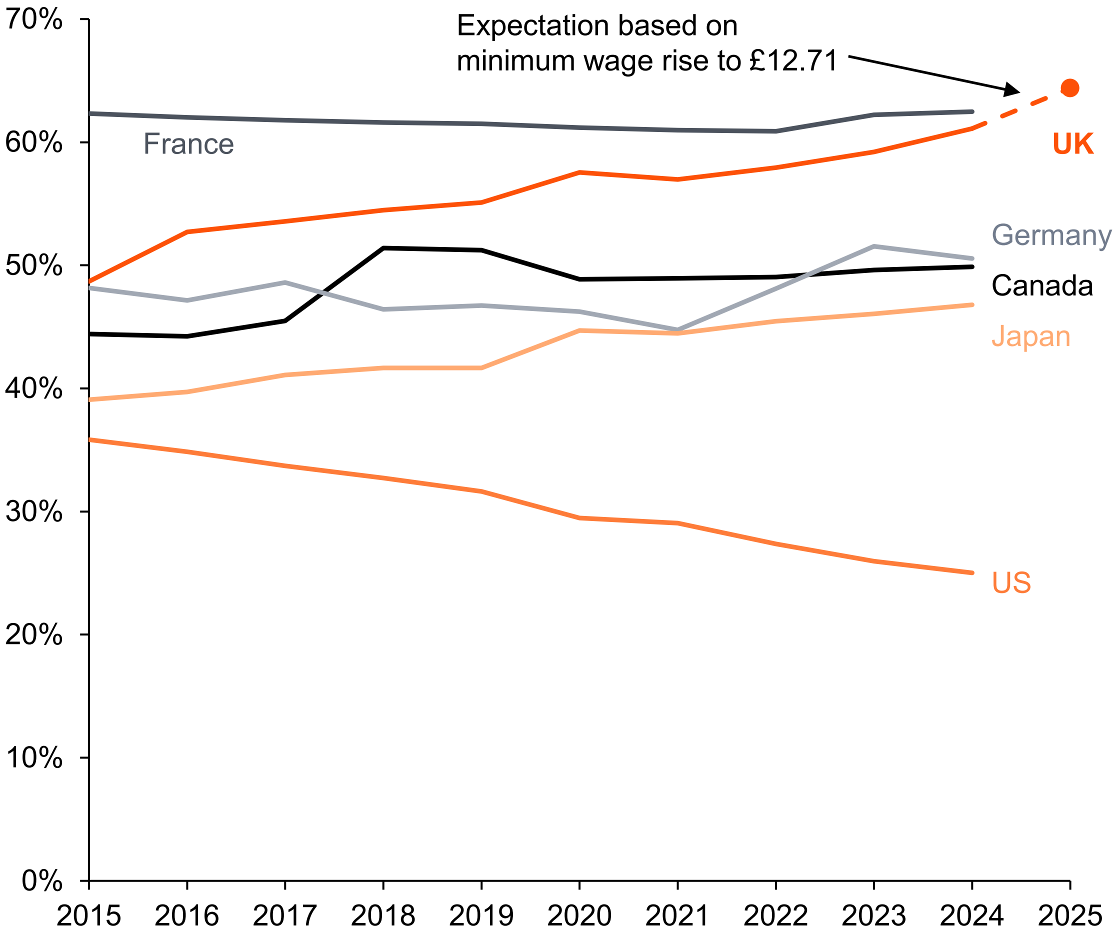
Market-implied expectations for the Bank Rate



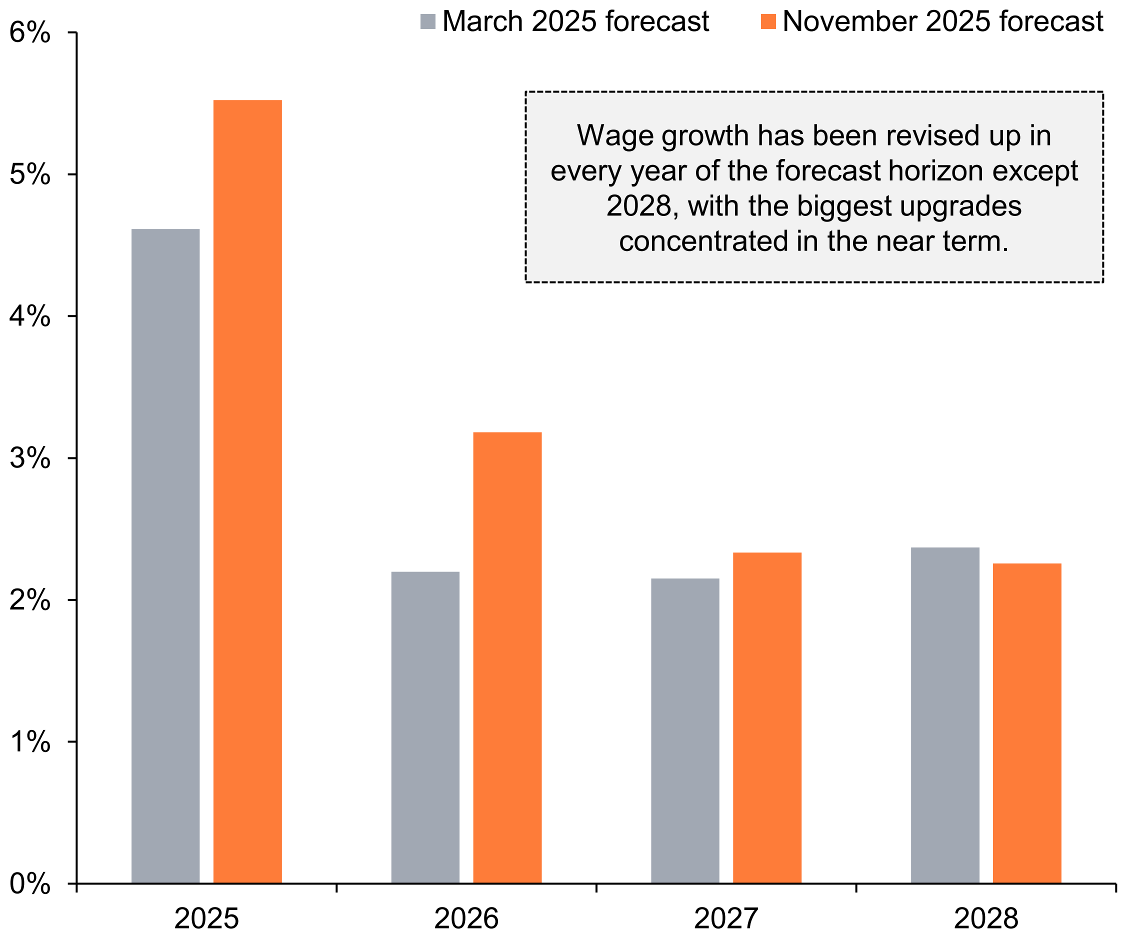
Sources: PwC analysis, LSEG Datastream

However, continued pressure on labour cost inflation will remain a concern for the Bank of England. The UK minimum wage could now be higher than that of France as a proportion of average earnings, and wage growth forecasts have been revised up.

Minimum wage as a % of the median wage for full time employees



OBR forecast for annual average nominal wage growth



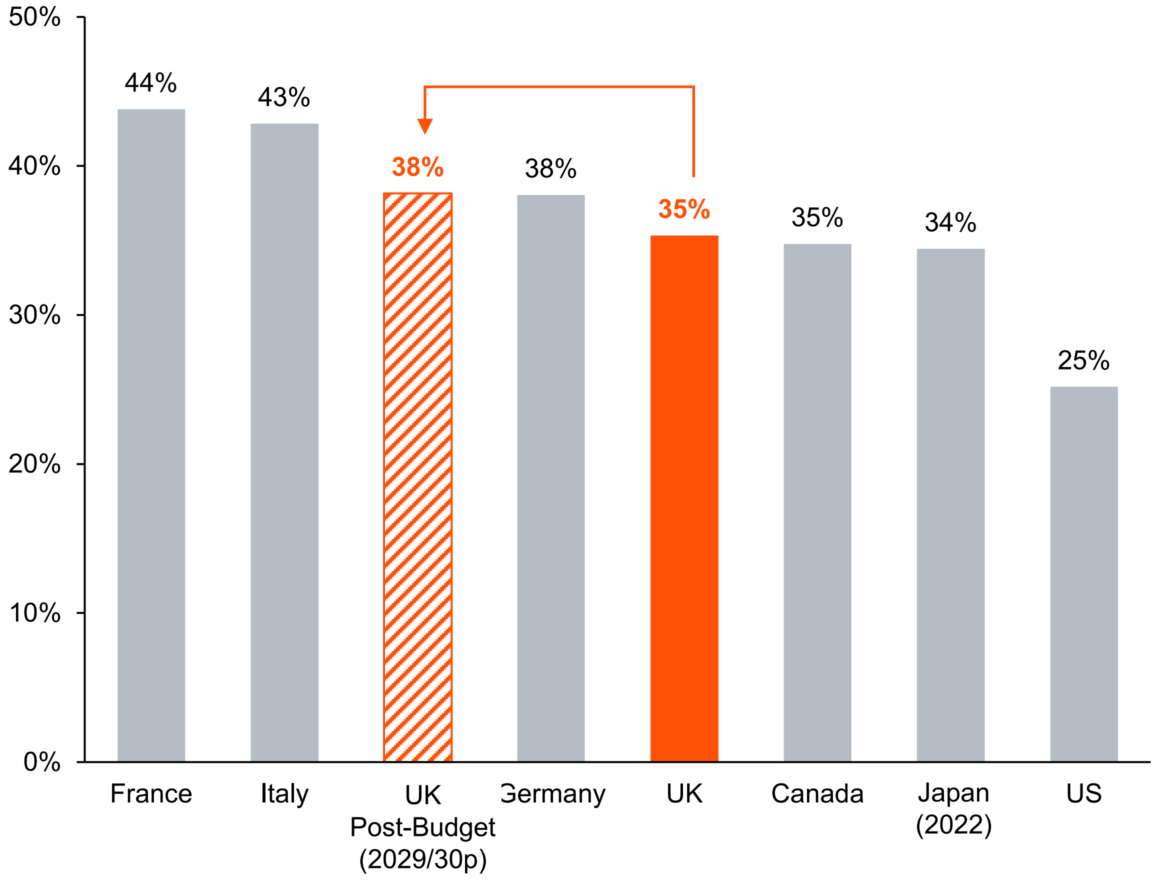
Notes: Italy is excluded from G7 analysis due to data availability. UK data for 2025 is approximated using the updated minimum wage and the ONS 2025 median hourly earnings data for full time employees. | Sources: PwC analysis, OECD, ONS, OBR

4

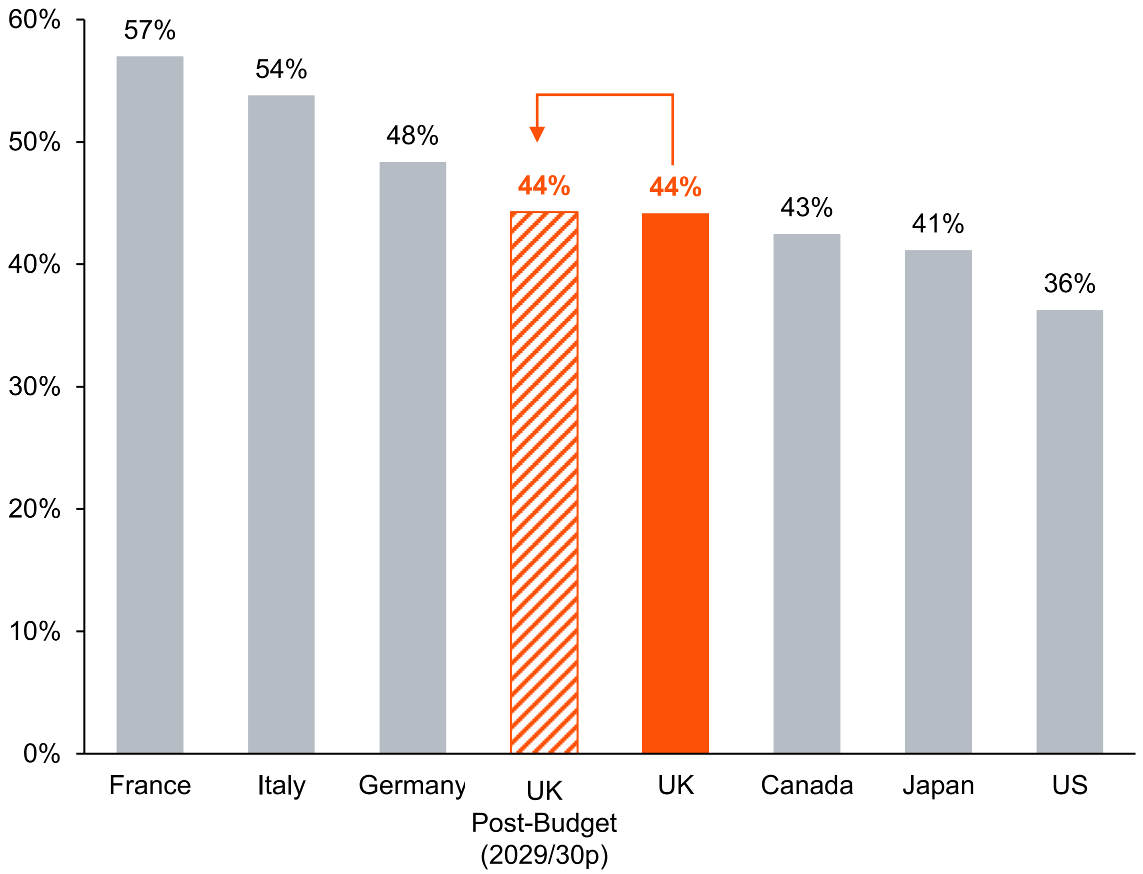
Bigger picture

The old adage that the UK wants European-style public services with US-level taxes is breaking down. Over the next five years, the UK's tax take is set to move much closer to that of its European peers.

Tax receipts as a % of GDP (2023, unless otherwise labelled)



Government spending as a % of GDP (2023, unless otherwise labelled)



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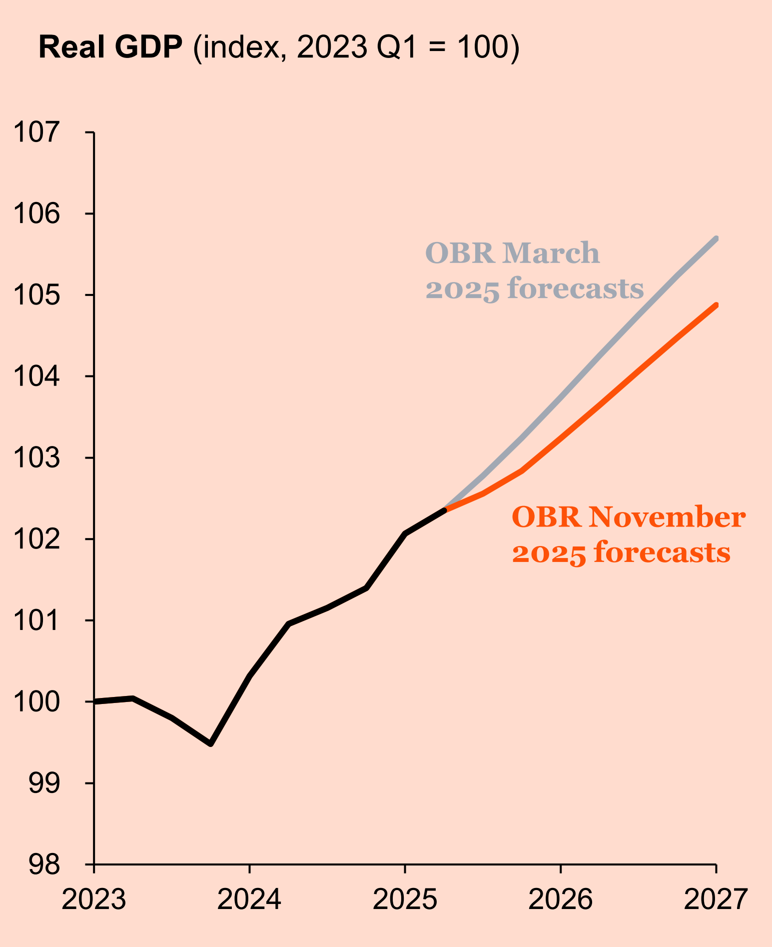
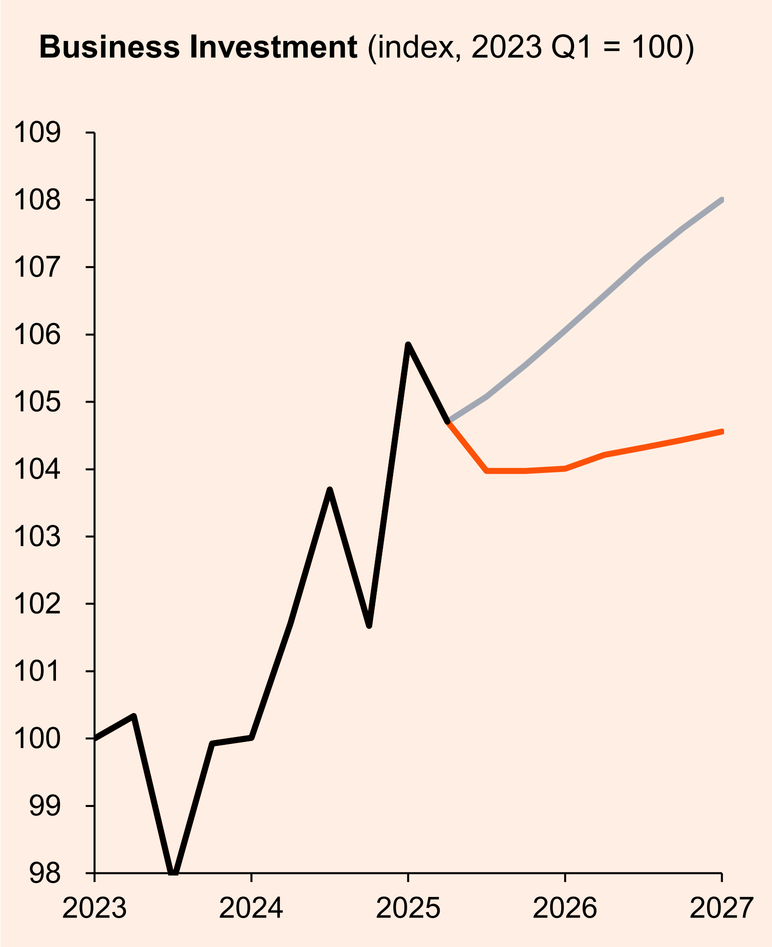
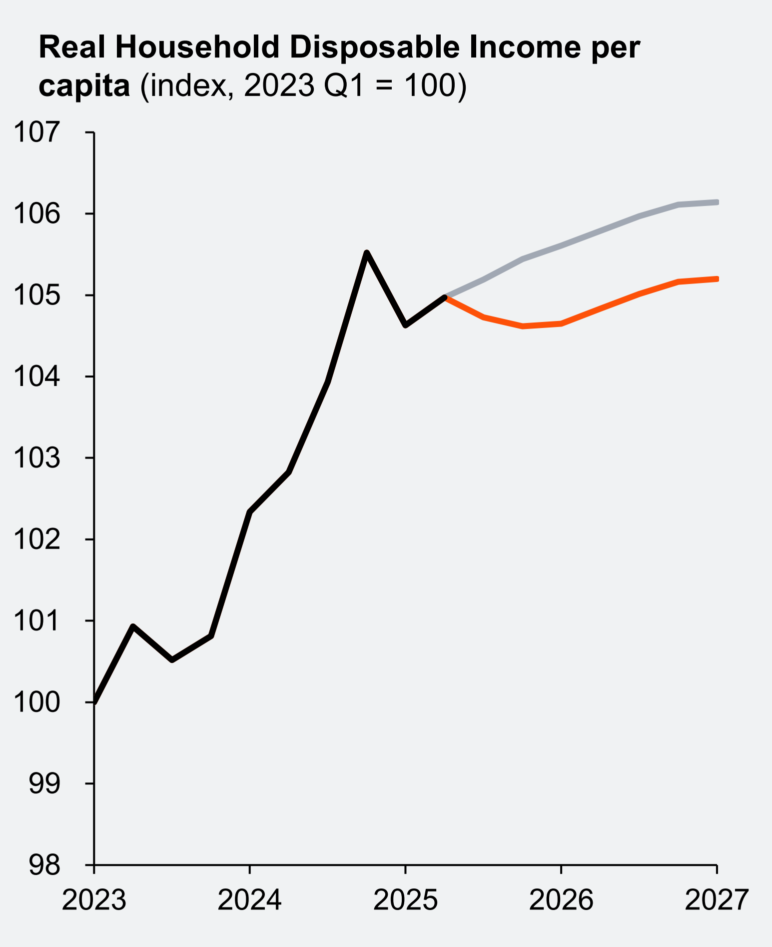
Notes: OBR projections for 2029/30 are based on the November 2025 Economic and Fiscal Outlook. All other figures refer to 2023 actuals, except Japan's tax data, which is for 2022. | Sources: PwC analysis, OBR, OECD, IMF

Ultimately, a fiscal tightening Budget comes with short-term economic costs, even if the greater stability it delivers should support stronger and more predictable growth over the longer term. The OBR has downgraded most of its key forecasts.



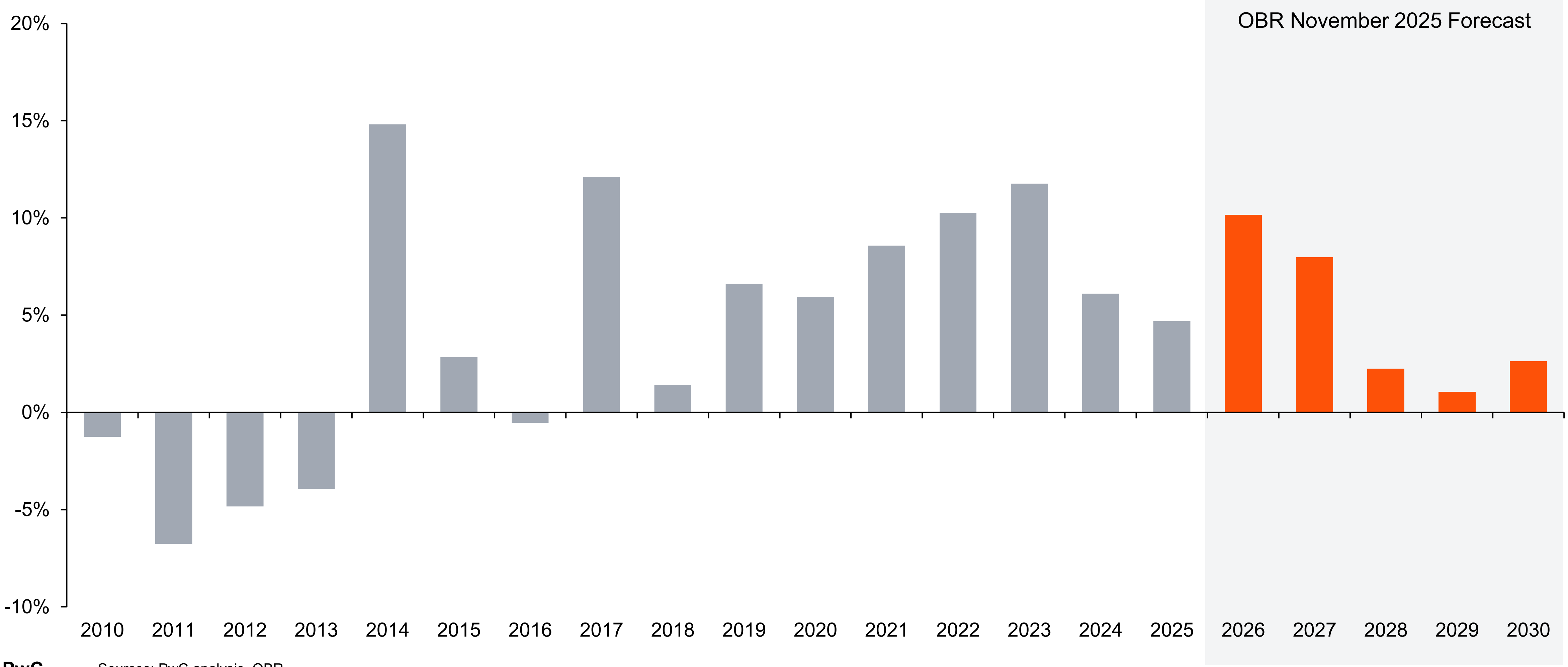




Sources: PwC analysis, OBR

However, the Government's fiscal rules are still functioning as intended, protecting capital investment at a time when past Budgets might have cut it to help close a gap in the public finances.

Growth in real general government fixed investment



Sources: PwC analysis, OBR

Even so, the elephant in the room was that the Autumn Budget did little to address the UK's long-standing structural challenges, but a thicker headroom and fewer future fiscal events should free up the bandwidth needed for policymakers to confront them with real urgency.

Non-exhaustive

Area	Challenge	Policy considerations	Economic impact
Infrastructure	Planning reform to build more homes	Streamline the planning and permitting process to encourage significantly higher and sustained levels of housebuilding. This would be a significant tailwind to consumer finances, encourage labour mobility and improve productivity levels. The UK currently has one of the oldest, coldest, smallest and most expensive housing stock in Western Europe.	H
	Planning and other reforms to upgrade and build more infrastructure	Combine planning reform, public-private partnership models, regulatory clarity to close the UK's infrastructure gap (energy, transport, digital). Improved infrastructure raises productivity via agglomeration, reliability, connectivity.	H
Productivity	Public-sector productivity	Raise public sector productivity via process re-engineering, digitisations, outcome-based funding, better measurement of outputs, automation and workforce upskilling.	H
	Skills agenda	Develop lifelong learning, high-quality apprenticeships, management training. Align FE/HE curricula to industry demand. Improve digital and AI skills. Enable labour mobility between sectors/regions (also links to the residential planning reforms). Invest more time and resources on the cohort of the population with non-tertiary education. Encourage higher participation rates for older workers.	H
	AI adoption	Encourage AI adoption across sectors by improving data access/infrastructure; supporting smaller firms update, aligning regulation and standards, training workforce and embedding AI in business models.	M
Economic governance	Closer and more predictable relations with large trading partners	Reduce non-tariff and regulatory barriers between the UK and our large trading partners. Improve data-flow agreements, services mobility/recognition of professional qualifications an actively encourage long-term cooperation and co-ordination. This lowers trade costs, reduces investment uncertainty, improves FDI and export potential.	M
	Decentralisation	Give sub-national levels real powers over planning, infrastructure, skills, budgets. Link local growth-plans to devolved fiscal-tools. Encourage tailored regional investment rather than one-size-fits-all central model.	M
	Tax reform	There is an increasingly compelling case to reform the tax code - both to simplify and stabilise the system and to align more closely with growth plans and industrial strategy.	M

Source: PwC analysis

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