

# The November Budget

Buying time?

Julian Jessop

9 December 2025

# 1. Outline

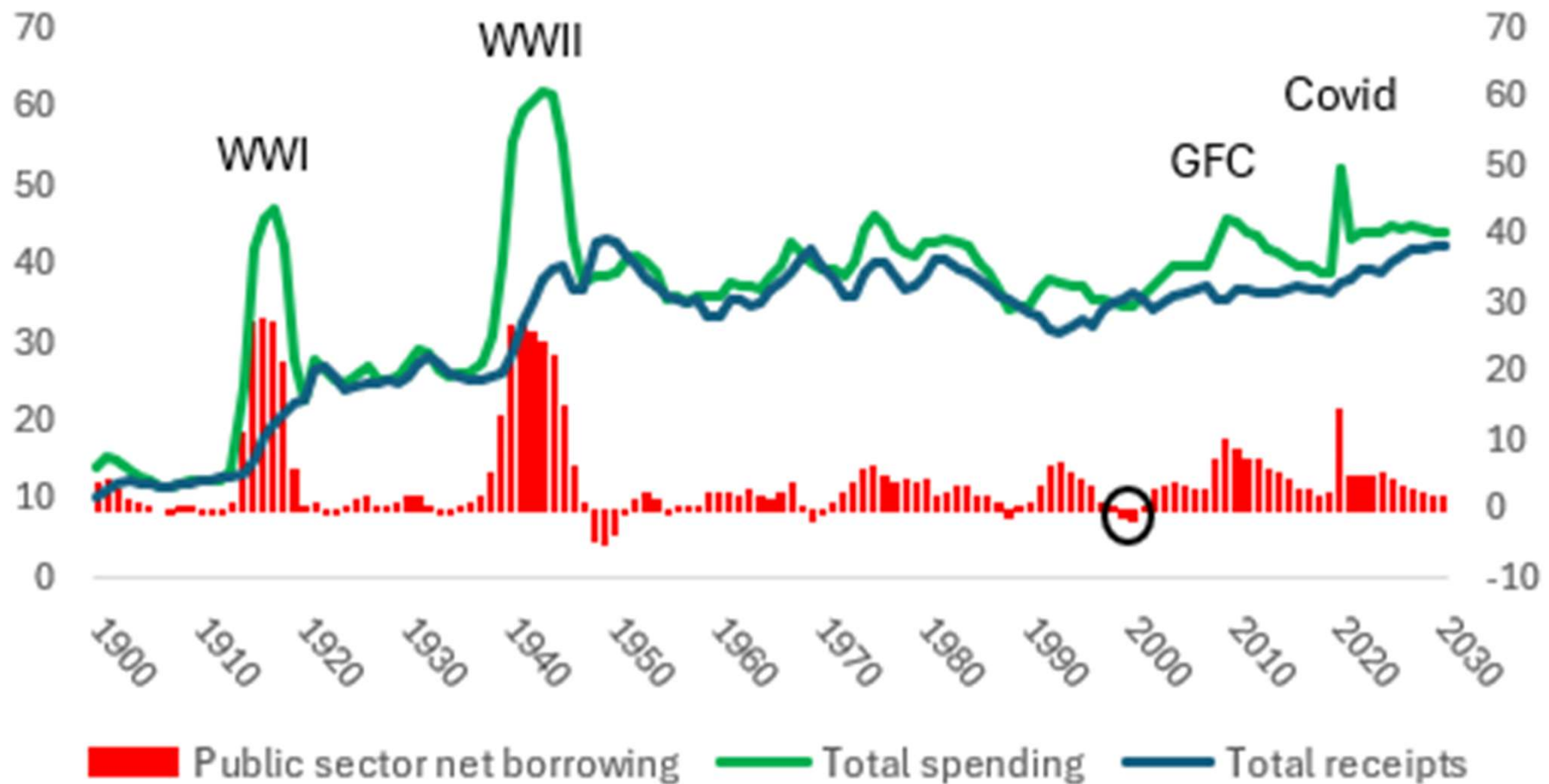
- Some context
  1. The state of the public finances
  2. The “fiscal rules” and “headroom”
  3. The role of the OBR
- Rachel Reeves’ two Budgets
- Some controversies
  1. Were the public misled?
  2. Can’t we just print money?
  3. Should we tax wealth more?
- Q&A

Office for  
**Budget  
Responsibility**



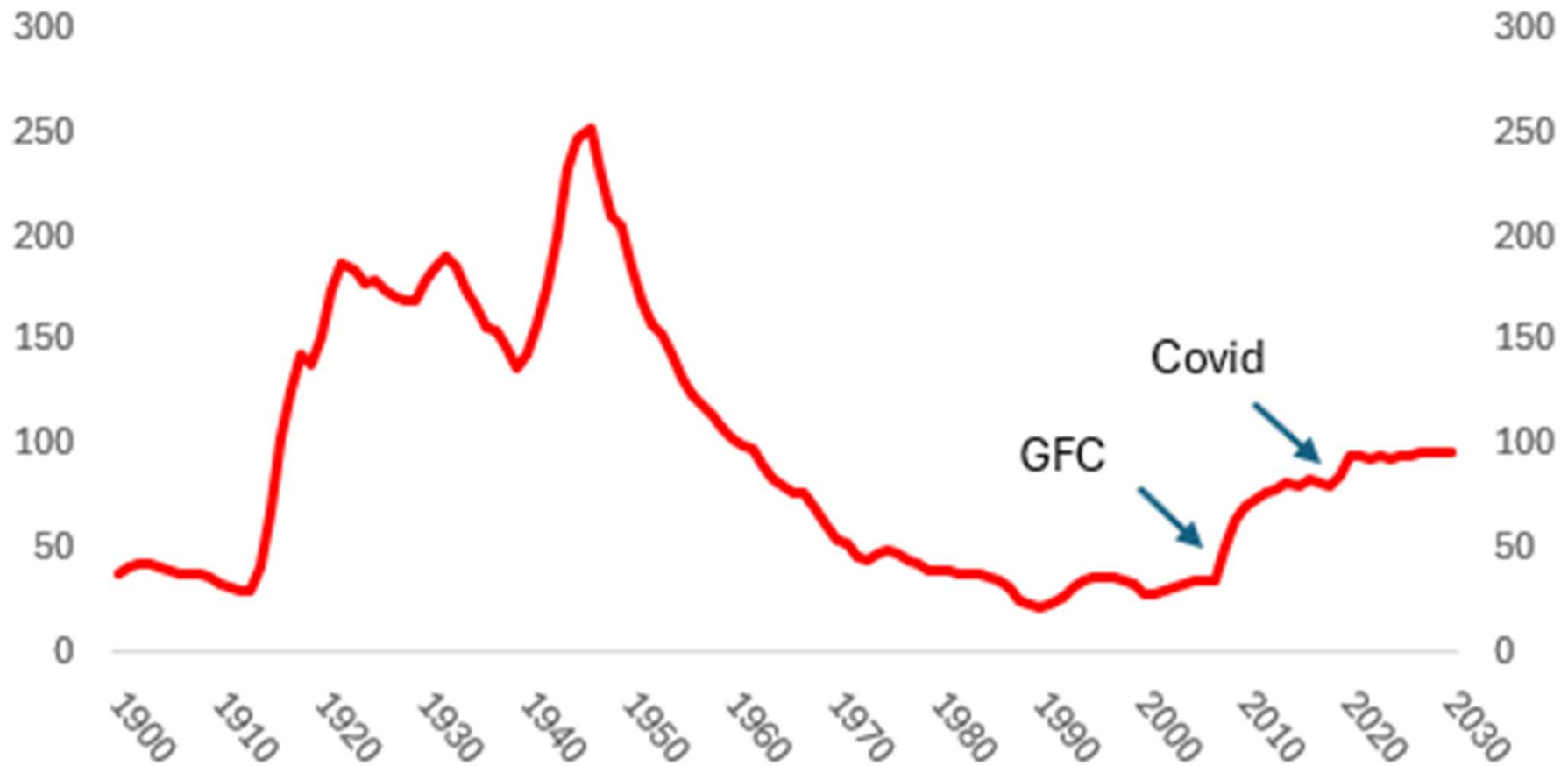
## 2. The books haven't been "balanced" since 2000

UK Public Sector Borrowing (% GDP) (Source: OBR)



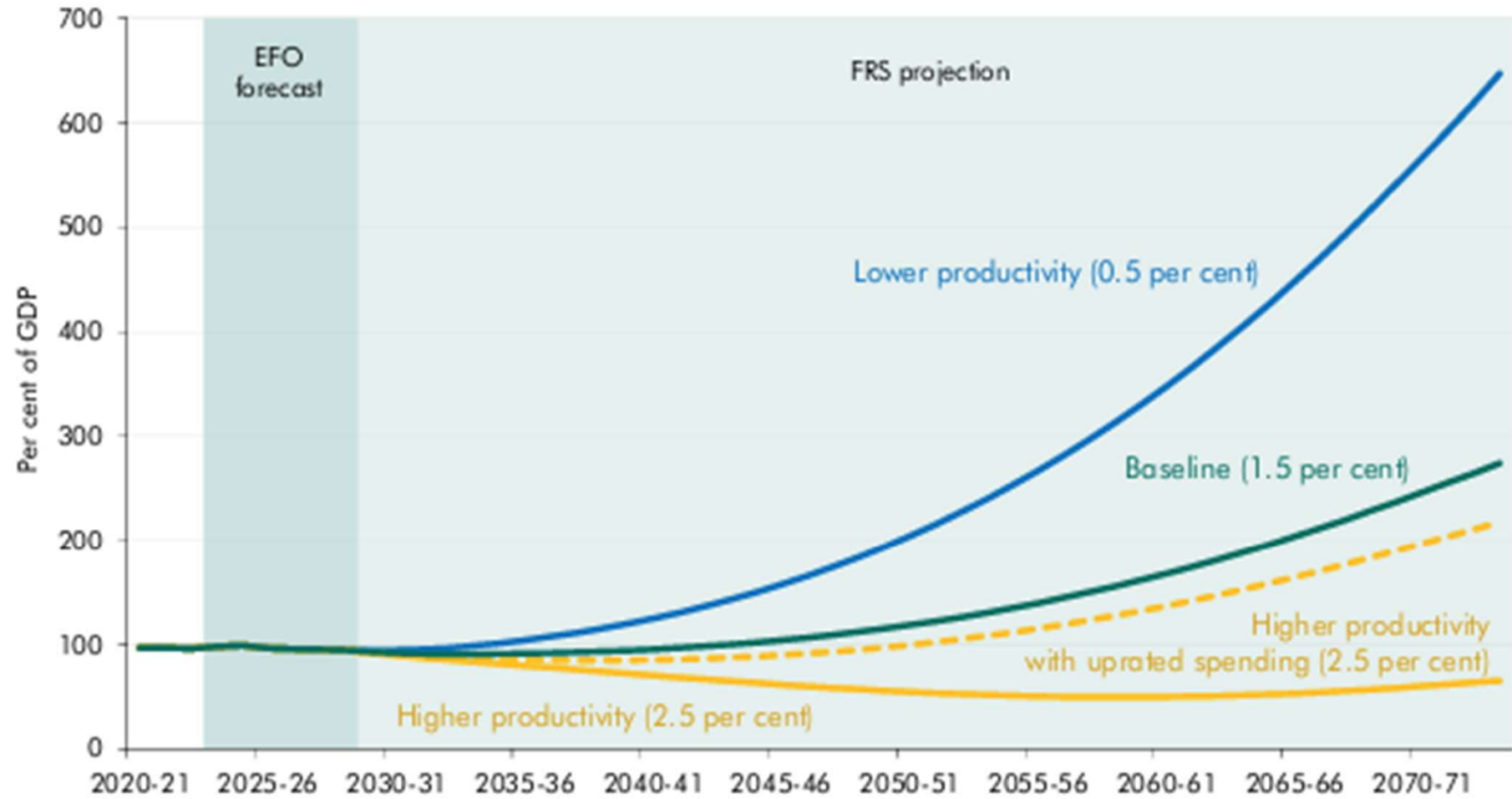
### 3. Debt is the highest since the 1960s

UK Public Sector Net Debt (% GDP) (Source: OBR)



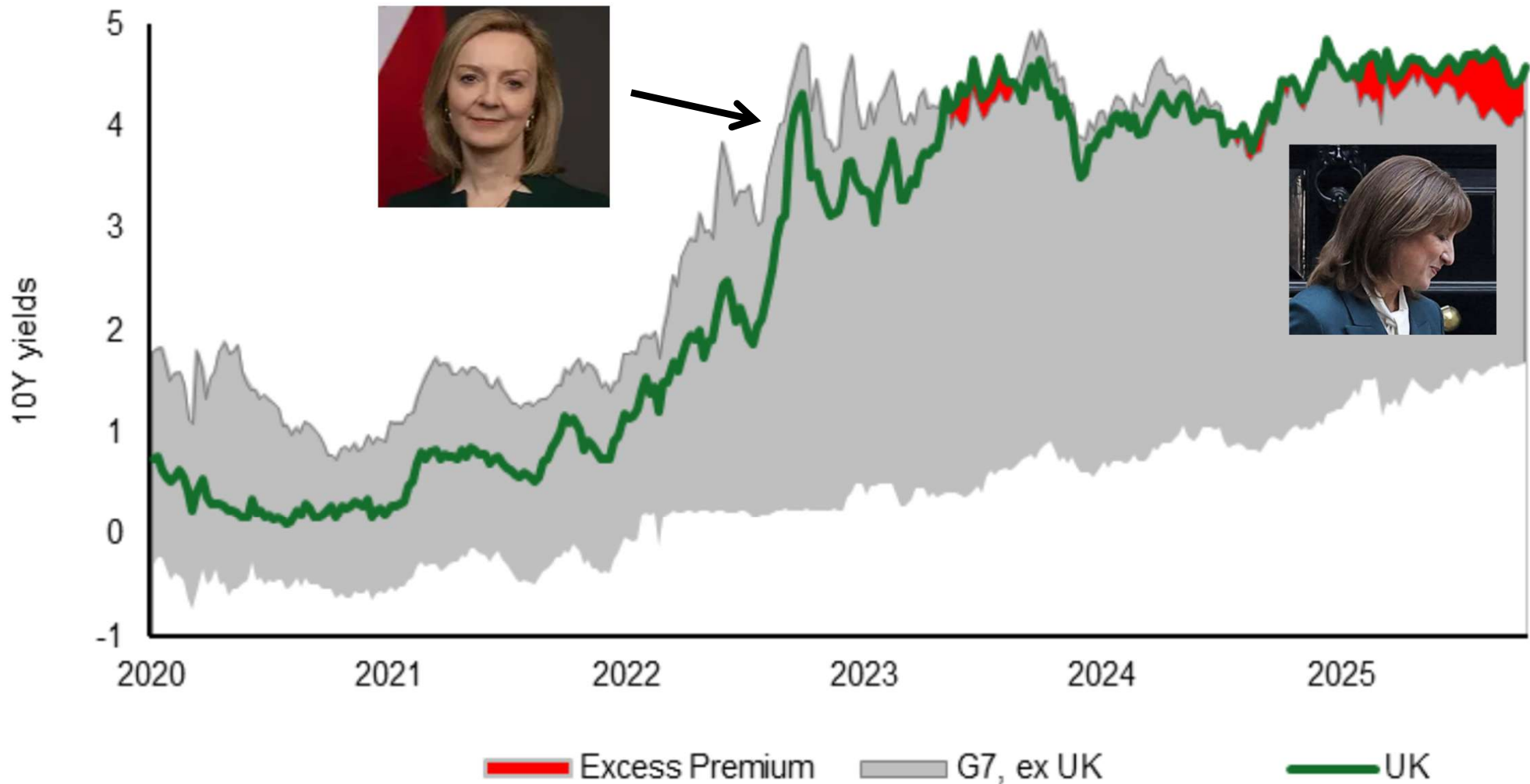
## 4. Long-term prospects are terrible

Chart 1.12: Public sector net debt sensitivity to productivity growth assumptions



Source: OBR

## 5. The UK's cost of borrowing is still relatively high



Adapted from a chart by Simon French (Panmure Liberum)

[www.julianhjessop.com](http://www.julianhjessop.com)

## 6. The UK fiscal framework

- Two main ‘fiscal rules’
- A **deficit rule**: the current budget (revenues minus day-to-day spending) must be forecast to be in surplus by 2029-30 (aka the ‘**Golden Rule**’)
- *Current taxpayers pay for current spending – but the government can still borrow to invest*
- A **debt rule**: public sector net financial liabilities to be falling as a share of GDP by 2029-30
- *Prevents the government from running up too much debt – even for investment*

## 7. “Fiscal headroom”

- The fiscal headroom is the margin by which the government is expected to meet its fiscal rules – an important buffer against unexpected shocks
- So, if the current budget is forecast to be in surplus by £10 billion, the headroom is £10 billion
- Rachel Reeves inherited headroom averaging just **£10 billion** from the previous government
- This is a tiny amount in the context of the public finances; the average since 2010 has been about **£30 billion** (even when debt was much lower)



## 8. The role of the OBR

- If you have rules, you need a **referee!**
- The OBR's job is simply to judge whether the government is on track to meet its own fiscal targets
- The government still writes the rules and makes all the policy decisions
- But some say the OBR has become too powerful (like **VAR...**)
- Could the discipline of the markets and of the ballot box be enough?



## 9. Rachel Reeves' first Budget (October 2024)

- “**Spend and tax**”: over the next five years she raised spending by an average of £70 billion a year (2/3 current, 1/3 investment) and tax by £36 billion
- Biggest tax hike was in **employer National Insurance** contributions – not an explicit breach of the Labour Manifesto but still passed on to “**working people**”
- *"Public services now need to live within their means because I'm really clear, I'm not coming back with more borrowing or more taxes"* (Rachel Reeves, speech to the CBI on 24 November 2024)

## 10. Reeves' second Budget (November 2025)

- More of the same!
- Extended the (Tory) **freeze on personal tax thresholds** for another three years beyond 2028, dragging many more into paying higher rates of tax
- A “**smorgasbord**” (“dog’s breakfast”) of smaller measures, including taxes on savings, property (‘Mansion Tax’), gambling, Electric Vehicles...
- The tax increases are loaded towards the end of the 5-year forecast period - unlike in 2024 - but the revenues are less certain

## 11. So, what changed?

- The OBR downgraded its projections for **productivity**, which had been too optimistic for many years (though it turned out that this was offset by more favourable assumptions about tax revenues)
- Reeves decided to increase the **fiscal headroom** from about £10 billion to about £22 billion
- But she also decided to increase **welfare spending**, including the abolition of the two-child cap, and shift some costs from household bills to general taxation

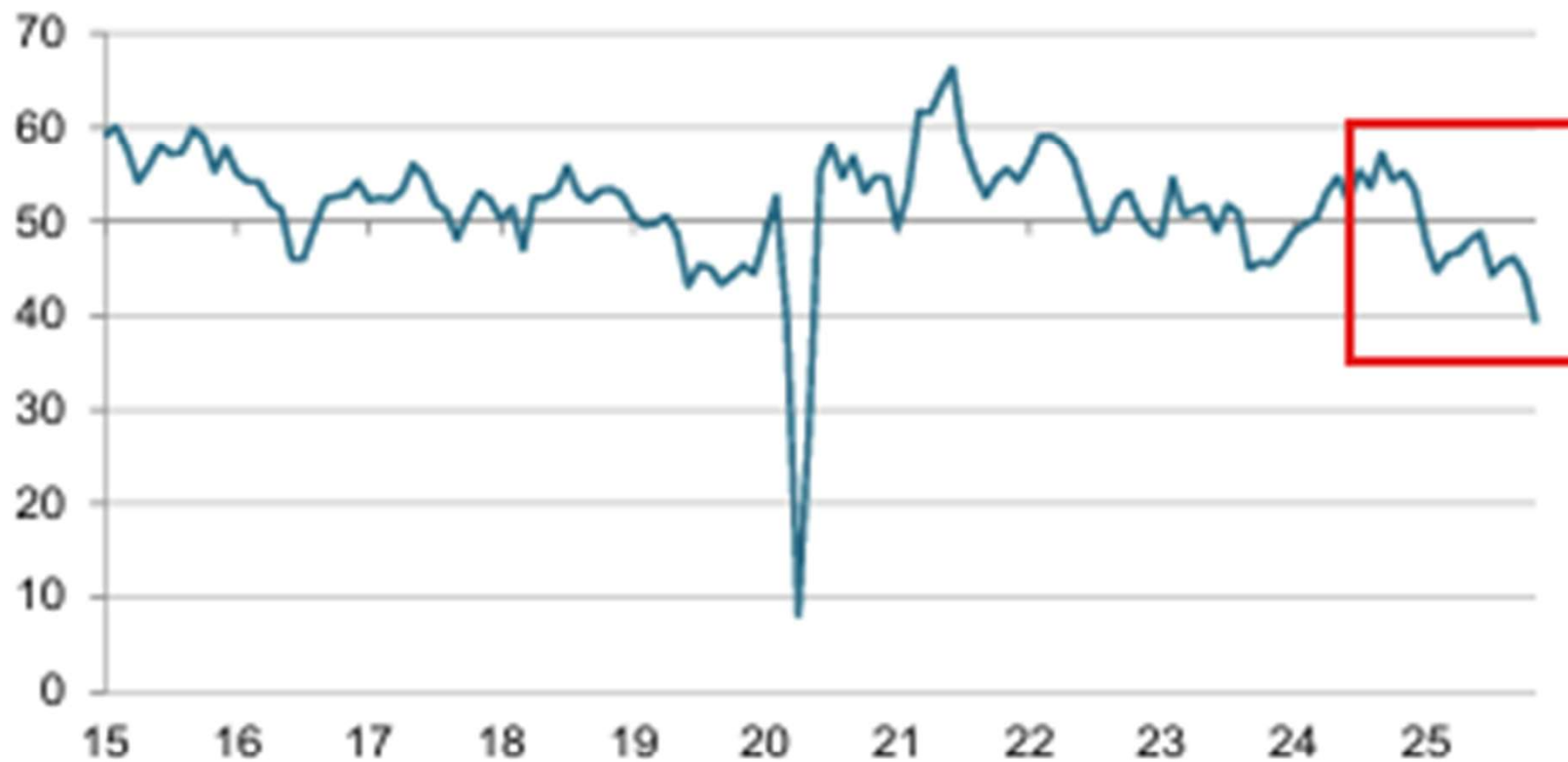
## 12. The fallout

- Bond **markets** welcomed the increase in headroom
- End of prolonged period of pre-Budget **uncertainty** and backloading of tax increases may allow a bounce in economic activity in the spring...
- But government appears to have **given up on growth** in favour of traditional Labour 'tax and spend' – especially on welfare – and more state intervention
- Tax system now even more complicated
- Little progress on **structural reform**

# 13. “Build baby, build!!”

S&P Global UK Construction PMI Total Activity

Index, sa, >50 = growth m/m



Data were collected 12-27 November 2025.

Source: S&P Global PMI. ©2025 S&P Global.

# 14. Were the public misled?

The INDEPENDENT

SATURDAY 29 NOVEMBER 2023 WWW.INDEPENDENT.CO.UK

FRANCE AGREES TO INTERCEPT MIGRANT BOATS IN THE CHANNEL



**Lotte Jeffs** So why are we still calling people like the Miss England winner Grace Richardson 'openly gay'?



Rachel Reeves used her Budget speech in the Commons on Wednesday to make the case for raising taxes

**BUDGET BACKLASH**

## Reeves 'misled the public' over fake fiscal black hole

Chancellor accused of suggesting the public finances were in dire straits to pave the way for £26bn tax hike despite being told by Office for Budget Responsibility there was no deficit – and in fact she had a surplus of £4.2bn

**KATE DEVLIN**  
WHITEHALL EDITOR

Rachel Reeves has been accused of misleading the public on the state of the country's finances to justify £26bn worth of tax hikes in

her Budget. There had been dire warnings the chancellor faced a £20bn black hole. But it has now emerged that Ms Reeves's comments came just days after the Office for Budget Responsibility had told her that the economic outlook had

significantly improved and that, instead of a deficit, she had a surplus of £4.2bn. Tory leader Kemi Badenoch called for the chancellor to be sacked, saying she had "lied to the public to justify record tax hikes ... to save her own skin".

# The Daily Telegraph

NEWSPAPER OF THE YEAR

## Reeves on brink over tax lies

• She fights for job after being accused of misleading public ahead of the Budget • OBR told her there was no £30bn black hole, making raid on workers unnecessary • Badenoch calls for Chancellor to quit and accuses her of bribing MPs to 'save her skin'

By **Yeo Ping Chan**, **David Martin** and **Andy Gibbons**

RACHEL REEVES misled the public over the state of the country's finances ahead of her £26bn tax raid, wrongly suggesting she had a £30bn black hole, the Office for Budget Responsibility said in a report published a day before her Budget speech. It revealed that a series of statements from Ms Reeves and her officials to reveal weekly black holes exaggerated the fiscal shortfall she faced, preparing the ground for her tax raising and welfare spending.



The report of both Ms Reeves and her officials, the OBR said, was "designed to open up the 'air war' space for officials to debate forecasts and the effect of policy changes. Mr Hughes will give evidence to MPs on the Treasury select committee next week. Ms Reeves will have to face questions from broadcast cameras about her actions on political television shows tomorrow.

David Trudon said the chaos surrounding the run-up to the Budget had damaged the government's credibility. Mr Hughes, investment director at Atlantic, which manages a £1.5bn gilt fund, said the chancellor had made "a mess" of her Budget. He said: "This is probably a further example of leading markets down one path to then go in another over time that just erodes confidence in the UK. It's a continuation of how the Labour administration have conducted themselves over the last two years."

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**Chris Mason: Why, in my judgement, Reeves was misleading on one specific point**

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# 15. What we now know

Table 1: Timing and outcomes of fiscal forecast rounds reported to the Treasury

Date	Fiscal forecast round	Margin against Government's fiscal target	
		Current balance	PSNFL falling
26 March	Final <i>EFO</i> (Spring Statement)	+ £9.9 billion	+ £15.1 billion
3 October	Round 1 (Autumn Budget)	- £2.5 billion	- £0.5 billion
20 October	Round 2 (Autumn Budget)	+ £2.1 billion	+ £5.8 billion
31 October	Round 3 (Autumn Budget)	+ £4.2 billion	+ £11.1 billion
10 November	Round 4 (Autumn Budget)	Post-measures rounds*	
21 November	Round 5 (Autumn Budget)		
26 November	Final <i>EFO</i> (Autumn Budget)	+ £21.7 billion**	+ £24.4 billion**

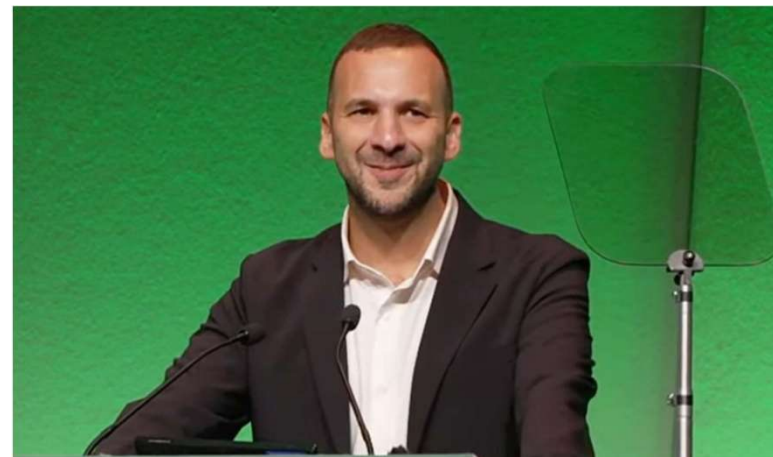
\* Post-measures rounds do not include any further changes to the pre-measures forecast and solely take account of the economic and fiscal impacts of the Government's preliminary Budget policies. We do not provide figures for Rounds 4 and 5 as this would reveal confidential information on the impact of Government policy under development.

\*\* Differences to the final pre-measures round (Round 3) solely reflect the impact of Government policies.



## 16. Can't we just print more money?

- “The government does not face the same **budget constraints** as a household, because it can always create more money...”



- Pumping more money into an economy which is already close to capacity is likely to cause **inflation**
- This could be offset by raising taxes, but the outcome would then be the same: higher government spending still means higher taxes (just for a different reason)

## 17. Should we tax wealth more?

- “Tax wealth not work”
  - “Redistribute wealth to boost demand”
  - “Stop the rich from driving up house prices...”
- We already have plenty of taxes on wealth (usually on income or on capital gains when assets are sold)
  - Wealth taxes rarely raise as much as expected
  - Inequality is not that high; wealth is invested; incentives matter; we just need to build more houses!



## 18. Some conclusions

- Pre-Budget speculation harmed the economy, but at least the **uncertainty** has now eased and markets have settled down



- Rachel Reeves may also have bought Labour a little more time by increasing the fiscal headroom and backloading the latest round of tax increases...
- But this government still does not have a clear **strategy for growth** (I'm not sure that the last one did either!)

# Questions and discussion

Julian Jessop

@julianhjessop

[www.julianhjessop.com](http://www.julianhjessop.com)