

Institute for Fiscal Studies Green Budget

Synopsis: The Institute for Fiscal Studies (IFS) has presented its Green Budget, suggesting the black hole is £22bn, but that figure comes with major caveats.

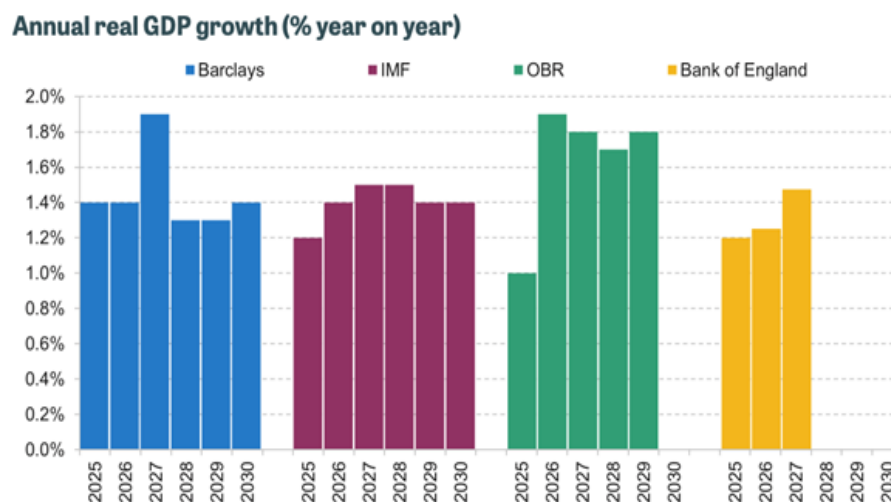
Date published: 17.10.2025

On Monday the Institute for Fiscal Studies (IFS) presented chapter 4 of its Green Budget, examining the Chancellor's options to raise tax. Three days later the IFS delivered its 343-page Green Budget [tome](#), a thankfully shorter 32-page [summary](#) and a near two hour presentation.

In between the two events, Rachel Reeves had [told](#) Sam Coates at Sky News that, "...of course, we're looking at tax and spending as well". The comment came as something of a surprise, as spending cuts had been off most expert's radar – the Chancellor had only presented her delayed three-year [Spending Review](#) in June. Perhaps because talk of spending cuts could unsettle already restive backbenchers, in an [interview](#) with The Guardian on Wednesday Reeves responded to a question about higher taxes on the wealthy by saying "that will be part of the story".

In this Bulletin, we move on from the IFS's thoughts on the fine grain of tax changes and consider the Green Budget's broader economic and fiscal analysis. This incorporates work from Barclays on the outlook for the UK economy and the all-important gilts market.

The Economic Backdrop



Source: Barclays, IMF, OBR, BoE

Barclays notes that the UK unemployment rate has risen 0.5 percentage points in the past 12 months, leaving it at the highest since 2016, outside of the COVID pandemic period. It forecasts that growth will decelerate in the second half of 2025 due to elevated uncertainty, restrictive monetary policy and households continuing to build up their savings. However, the gloom stops there. With two more cuts in the Bank of England Rate (to 3.5%) expected by the middle of next year, Barclays

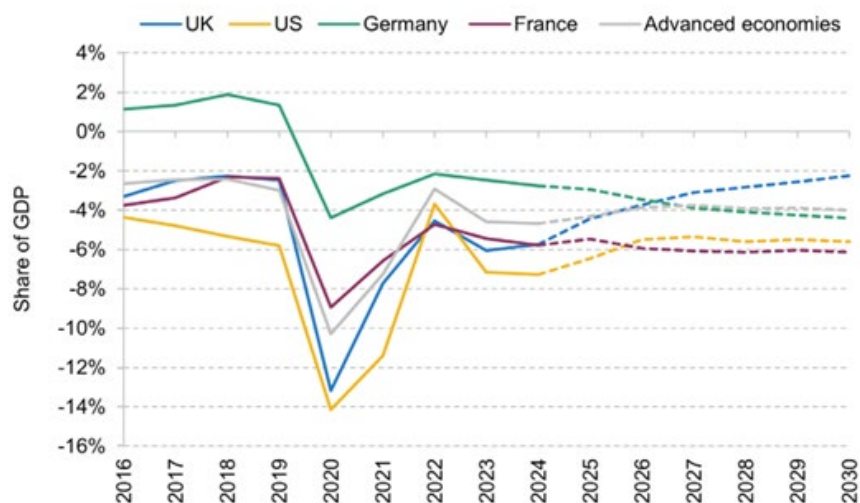
says there should be a cyclical rebound in activity in 2026 and 2027 as the economy starts to absorb existing slack. It sees productivity growth rising to 0.4% a year, still well below the OBR's projected level even if, as Barclays and others suggest, the OBR will cut its productivity growth projection by 0.1%-0.2% a year.

Barclays departs from the OBR on another key assumption, suggesting that there will only be a gradual reduction in the household savings rate from 10.8% in June 2025 to 9.3% in 2030. That matters because of its impact on household consumption growth – the OBR assumption of lower savings means 2% higher consumption by 2030, with all the additional tax revenue which flows from that.

The bottom line for Barclays is that it believes the Chancellor should be able to make the required fiscal consolidation in November with relatively limited damage to real economic growth (a 0.25% peak drop) and mild disinflation. However, it caveats this with the warning that its optimism is predicated on the Chancellor avoiding measures that would add substantially to near-term inflation (eg a VAT increase).

The bond markets

General government fiscal balance as a percentage of GDP in the UK and comparator countries



Source: IMF, Haver Analytics

Barclays observes that for all the media coverage of dire debt and borrowing issues, "The UK is not a fiscal outlier among advanced economies when measured by traditional debt and deficit metrics" and that "the stock of UK government debt as a share of GDP and the UK's fiscal balance are relatively favourable compared to peers."

Having said that, the bank notes along with those peers, the UK has seen its government bond yields increase, leaving yields on longer-maturity gilts higher than in other countries (eg still 5.3% for the 30-year bond). It also highlights that

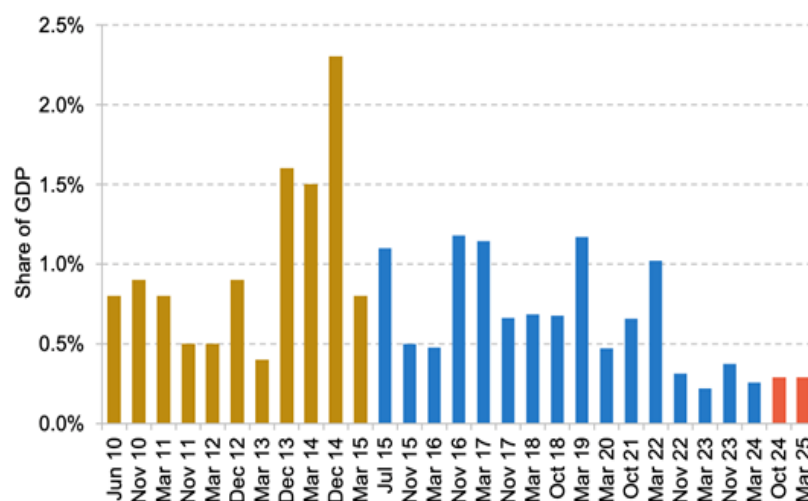
there has been a step change in the supply of gilts that the private sector is expected to absorb, with net issuance now averaging 4% of GDP, before the impact of the Bank of England's quantitative tightening is considered (adding about 2% of GDP a year to supply for the next four fiscal years).

Barclay's standpoint, echoing many others, is that the era of regulatory and demographic factors driving strong demand for long-dated gilts is now over. While domestic financial institutions, especially banks, are buying more gilts, their focus is primarily on sub-15-year stock. Barclays says that the weighted average maturity of primary gilt supply – more than 20 years in 2016/17 – will dip below 10 years in 2025/26. It sees this reduction in average maturity as a continuing trend, given those high long-term gilt yields and the government's focus on keeping down debt servicing costs.

The credibility of the government's fiscal plans is key to bond market stability. Attempts to tweak the fiscal rules or tinker with the existing fiscal architecture would, in Barclays' view, probably be seen as self-serving and could generate an adverse market reaction. The corollary is that "a willingness to spend significant political capital in order to support fiscal stability" – such as raising income tax – would be welcomed by the markets and could both reduce borrowing costs and enhance credibility.

The Fiscal Targets

Figure 3.7. Headroom as a percentage of national income against fiscal rules at each fiscal event



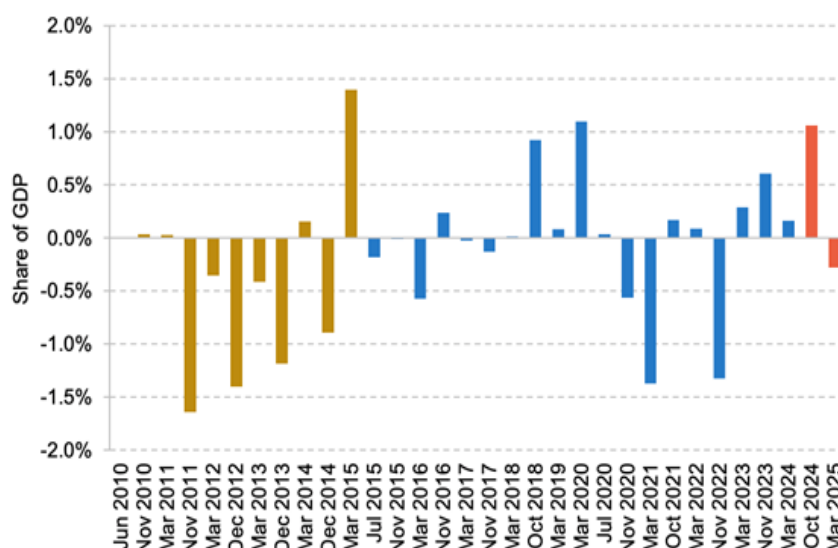
Source: OBR, IFS

The central economic scenario from Barclays shows that the Chancellor would miss her stability rule target of having the 2029/30 current account in surplus by £12bn. If she is to maintain the £10bn (actually a curiously identical £9.9bn) headroom she had in October 2024 and (theoretically) in March 2025, that implies tax increases and/or spending cuts of £22bn.

Reeves' other (supplementary) target is the debt rule, which says that Public Sector Net Financial Liabilities (PSNFL – 'the Snuffle') should be less as a percentage of GDP in 2029/30 than in 2028/29. Hitherto PSNFL has received little attention, but in the same central economic scenario, the Green Budget reckons it would be missed by £17bn. Build in £10bn headroom and that implies a target of £27bn Budget consolidation, which the IFS could come from cuts to (or a reprofiling of) investment spending.

Like most other commentators, the IFS wants to see the Chancellor create more headroom - £30bn is given as an example. Based on the last 15 years of forecast-to-forecast revisions (see graph below), the IFS reckons that if the Chancellor keeps the £10bn (0.3% of GDP) headroom she has only a two-in-three chance of meeting her borrowing rule next spring without new tax rises or spending cuts. Over three years, with £10bn headroom, the IFS gives the Chancellor just a one-in-five chance of meeting her fiscal rules at each forecast without the need for policy adjustments.

Figure 3.3. Scale of additional borrowing in the fifth year of the forecast at each fiscal event



Source: OBR, IFS

The corollary to more headroom is greater tax increases and/or spending reductions. The IFS sees spending cuts as difficult: "Future spending on support for those with health conditions and disabilities is highly uncertain, cuts to planned social security spending lacked sufficient support in parliament, and simply pencilling in lower departmental spending in 2029/30 lacks credibility." It also notes that the government is under pressure to *raise* spending, e.g. by scrapping the two-child limit.

That makes tax rises the preferred option. Unsurprisingly, the IFS favours "combining revenue-raising measures with well-designed tax reform that reduces some of the many unwelcome and unnecessary distortions caused by the present tax system". It warns that the tax decisions need to be taken not just in terms of revenue raised, but also their economic consequences. For example, if the

manifesto tax pledges were abandoned, raising VAT would have a more inflationary impact than increasing income tax.

Comment

With a Budget late in November, the Spring Statement 2026 could be less than four months away from Budget Day. That alone could encourage the Chancellor's to create a meaningful amount of headroom and thereby avoid another 'fiscal Groundhog Day' scenario, to quote Helen Miller at the IFS.

020 7183 3931
www.riskassured.co.uk