

FINANCIAL TIMES – 13 NOVEMBRE 2025

The truth about the UK economy in 2025

di Chris Giles

If you want to understand the UK economy in the run-up to a big taxraising Budget, my advice would be not to listen to British politicians. Chancellor Rachel Reeves has blamed tariffs for low growth and investment, volatile supply chains for raising inflation and high global longterm interest rates for increasing borrowing costs. Conservative party leader Kemi Badenoch, by contrast, blames Reeves for policies that have created a taxation doom loop of low growth and worse public finances. Reform UK's leader, Nigel Farage, says the government's policies are so bad, economic collapse is on the cards for 2027.

The truth about the UK economy this year is much less exciting. The Bank of England said last week that by the end of 2025 it expected real GDP growth in the year to have been 1.4 per cent, exactly on track to meet the Office for Budget Responsibility's forecast from March. Inflation, wages and unemployment are, however, a little higher than the OBR expected, partly due to the effects of the government's Budget last year.

On top of these modest forecasting changes, the government needs to fund its failure to get parliamentary approval for welfare cuts and add the cost of MPs' desire to abolish the two-child limit for benefits. Interest rates are a touch higher than expected in March and local authorities are finding it more difficult to squirrel cash aside than normal.

As far as the public finances are concerned, the important thing to note about all of these moving parts is that they are entirely normal and far from large. This is nothing like 2022, when the UK was faced with a simultaneous massive rise in energy prices hitting growth, sharply increasing inflation and raising government borrowing costs.

In fact, higher nominal GDP will raise tax revenues and the unemployment rise will allow the OBR to pencil in a little extra real GDP growth in the years ahead. These improvements in the deficit outlook will be offset by Labour's failed attempts to curb welfare, a higher uprating of pensions and benefits, more budgetary stress in local authorities and very slightly higher interest rates.

The longer-term outlook is also unchanged. Reeves' mantra of stability, investment and reform is showing few signs of increasing the UK's sustainable growth rate. The additional tax rates on the rich so far don't appear to have led to an exodus, even if the government needs to be careful in that regard. And despite big increases in employment taxes, the official measure of inactivity in the economy has plummeted in the past year, although this apparent improvement in labour supply is quite likely to be due to better measurement rather than real gains.

These changes are set to generate a public finance forecast a few billion different to that delivered in March in what is now a £3,000bn economy. This is trivial. There has been no disaster, no signs of collapse and little financial market pressure, so the obvious question is why is Reeves about to raise taxes by around £30bn a year, or 1 per cent of GDP?

The money will not buy better public services. It is needed because the OBR has taken the view that it will rectify its own long-standing over-optimism about medium-term UK economic growth rates. Lower growth forecasts worsen the outlook for public finances.

The chancellor can blame Brexit, Covid-19, austerity and previous governments for the OBR's change in the productivity assumption. The opposition will say it is all the fault of this government. The ultimate cause is difficult to pin down, but the proximate cause is clear. The OBR is simply adjusting for a long-standing forecasting error.

Taxes are going up because the OBR got its sums wrong for many years and the world is not as nice as it previously thought. This is not the dramatic story beloved by politicians with easy villains and easier answers. But it has one virtue. It is true.