

## UK Viewpoint

## Autumn Budget Preview

**£30-35bn of potential fiscal consolidation expected**

We raise our estimate of potential fiscal consolidation that the Chancellor is likely to do in the Autumn Budget from £20-30bn previously to £30-35bn. The increase in potential fiscal consolidation accounts for our expectation of a higher post-measures headroom, giveaways and bigger than expected productivity downgrades (though we expect some offset from higher wage growth). We think the Chancellor would raise her headroom from £10bn to £15-20bn, which in our view would be a market friendly outcome.

**Majority of potential consolidation likely via tax rises**

We think the Chancellor is likely to undergo majority of £30-35bn (1.0%-1.2% of GDP) of consolidation via non-inflationary tax rises, out of which we expect £16-21bn to be frontloaded (0.5%-0.7% of GDP). We think a manifesto breaking income tax rise is likely to feature, but we do expect some offset from lower NICs. An income tax rise with no offset however cannot be ruled out, especially if the Chancellor has to raise more money. The rest is likely to come from small taxes. We expect limited backloaded spending cuts.

**Frontloaded tax to pose downside risk to terminal of 3.5%**

£16-21bn (0.5%-0.7% of GDP) of non-inflationary frontloaded tax rises can weigh on growth by 15-20bps in 2026 and indirectly on inflation. Inflation could also be 15bps lower in 2026 if the Chancellor cuts VAT on energy bills. This would increase risks of an additional Bank rate cut on top of our forecast of two more cuts in Feb/April 2026 and put downside risks to our terminal forecast of 3.5%. Moreover, risks of an earlier cut in December have increased. A cut in December would rest on decent disinflation progress or significant non-inflationary front-loaded tightening in the Budget.

**Rates: A juggling act**

The DMO will publish an update to its Financing Remit for FY '25/26 along with the Budget. Under our base case of a £2.0bn GFR increase, we expect the adjustment to be managed through T-bills, an effective way to deal with moderate in-year Remit changes. Risks to our projections skew to the upside, from a larger than expected CGNCR overshoot vs. OBR's March forecast in October and/or Chancellor plans. In our risk scenario where GFR rises more than our base case of £2bn, we estimate up to £5bn of additional GFR can be financed through higher net T-bill issuance, with any excess likely covered by Gilts.

**FX: Markets don't care for manifestos**

For all the talk of breaking manifesto pledges, the fact is that markets are looking for a credible Budget that removes some medium-term concerns that have plagued GBP since 2022. We think over the past month, the mood music has improved. This perhaps suggests some asymmetric risks to GBP, but we doubt that recent government comments on the Budget have been by accident. Our base case remains unchanged – we expect the release valve of the Budget to lead to a relief rally in GBP (primarily via lower EUR/GBP). Our only word of caution is the extent to which this rally is neutralised by any BoE repricing.

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**Refer to important disclosures on page 14 to 15.**

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NIC: National Insurance Contribution

VAT: Value-added Tax

DMO: Debt Management Office

GFR: Gross Financing Requirement

CGNCR: Central Government Net  
Cash RequirementOBR: Office for Budget  
Responsibility

RPI: Retail Price Index

APF: Asset Purchase Facility

ISA: Individual Savings Account

# Economics

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## Autumn Budget Preview: A fine line

The upcoming Budget serves as a test for the Chancellor to deliver a credible path of fiscal consolidation, provide a higher buffer for future shocks by raising the headroom and reduce inflationary pressures – all while minimising political pushback. It is a tough balancing act which involves trade-offs which we have discussed in our note [UK Viewpoint: Autumn Budget FAQs 09 October 2025](#).

### Higher potential consolidation than before

We increase our estimate of the potential fiscal consolidation that the Chancellor is likely to do in the upcoming Budget from £20-30bn previously to £30-35bn (1.0%-1.2% of GDP). We now think the Chancellor would raise her post-measures headroom from current £10bn to £15-20bn vs. before, when we expected her to just restore her headroom. We also think the Budget will contain some giveaways which can help reduce inflation like cutting VAT for energy bills. We therefore increase our estimate of potential fiscal consolidation needed in this Budget to account for the higher headroom, giveaways and bigger than expected productivity downgrades (though we expect some of it to be compensated by higher wage growth).

In March, the OBR estimated that the government's buffer against the stability rule (to deliver a current budget in balance by 2029-30) is £9.9bn, which is the Chancellor's current headroom.

Developments since the March Statement imply that the headroom is likely to turn into a shortfall due to the government's U-turn on spending cuts, higher yields, growth/productivity downgrades and some potential giveaways. Reports suggest that the Chancellor is also looking to raise her headroom to provide more fiscal buffer against future shocks, which in our view would be a market-friendly outcome. Higher headroom will reduce the need to repeatedly change fiscal policy if forecasts change, provide more buffer and reduce focus on the UK's fiscal position.

Overall, we estimate the Chancellor is likely to announce £30-35bn of fiscal consolidation to not only restore her headroom (which could potentially need -£25bn) but also increase her headroom (by £5-10bn from current £10bn to £15-20bn). The key elements are:

#### 1) Higher yields

In its conditioning assumptions, the OBR takes the Bank Rate and Gilt curve over 10 working days to a cutoff date, which is usually a month and a half before the Budget. In the March 26 Spring forecasts, the OBR used the curve during 10 working days to 12 February (i.e. 6 weeks before). In our base case, we use 10 working days to 16 Oct, which would be six weeks before 26 November. During the 10 days to 16 October, 10-year yields were ~15bps higher in the near term and ~40bps higher in 2029-30 compared to the OBR's March forecasts, which can lower the headroom by ~£4bn.

The recent rally in yields is a welcome development which can potentially reduce the hit to the Chancellor's headroom from borrowing costs. It is unclear whether the OBR would capture the recent yield decline in the 10-day window it sets to capture market prices. If the OBR uses the window used in previous budgets, some of the recent rally would be missed. But it does seem like the OBR has the flexibility to adjust the window if it judges the need to capture important developments. If the OBR captures the rally in gilts say until 23 October, then hit to the headroom from borrowing costs can reduce by ~£2bn.



2) **Productivity downgrades**

The OBR’s medium term productivity growth forecast of 1.2-1.3% look optimistic relative to others (BoE’s forecast of 2027 productivity growth is 1%). We think that the OBR could possibly downgrade annual productivity growth by 30bps on average, but only starting from 2026. Previously we had expected a 10-20bps annual downgrade from 2025-2030 to lower headroom by ~£10-20bn.

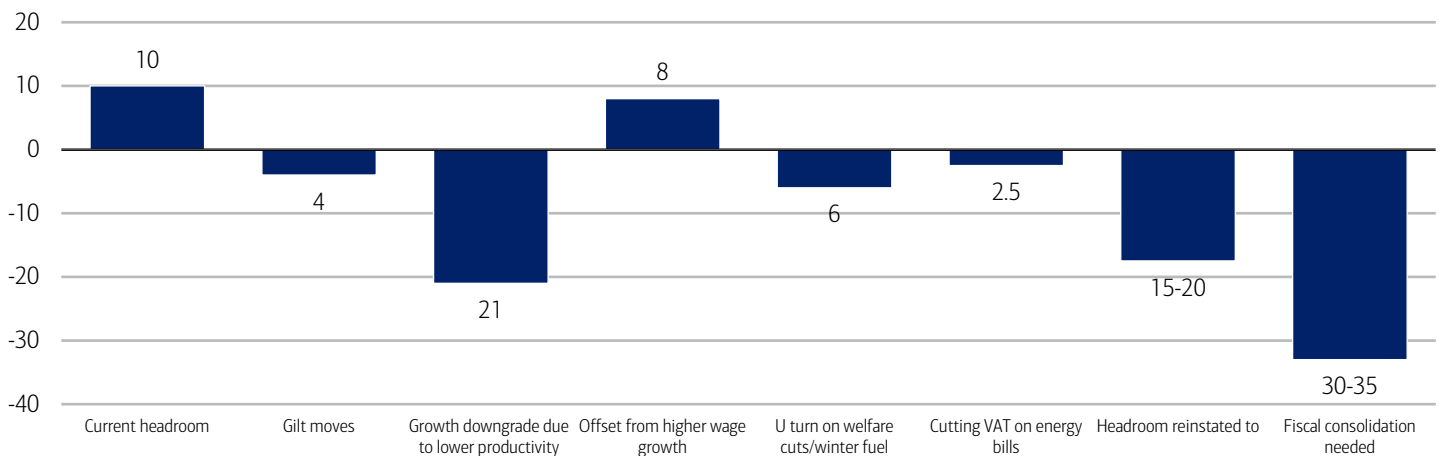
We think it is less likely that 2025 productivity gets downgraded (which was already downgraded by 80bps in March to 0.2pp). A 30bps annual productivity downgrade from 2026-2030 would imply an economy that is ~1.2pp smaller than OBR’s March levels in real terms by 2029-30. This can lower the headroom by ~£21bn. We estimate that a reduction of 0.1pp in annual productivity growth forecast for four years can lower the headroom by ~£7bn by end of the forecast period (while a downgrade by 0.1pp for all five years can potentially lower headroom by £9-10bn).

The OBR’s productivity assumption is key to estimating the fiscal hole and there is uncertainty in that assumption. The OBR productivity downgrade could be smaller or backloaded, especially if the Chancellor can convince the OBR to score pro-growth reforms (such as UK- EU/India trade deals, youth mobility schemes). Some of the hit to productivity can also be marginally offset by higher labour supply forecasts.

- 3) **Offsets from higher wage growth:** We think some of the hit could be compensated by higher wage growth, leading to larger tax revenues. The OBR estimates wage growth to fall to 3.1%/2.0% in Q4’ 25/26, which despite the recent slowdown, looks low relative to other forecasters (BoE’s forecast is 3.5/3.2%). We estimate an offset of £8bn from a higher near-term projection of wage growth (higher by ~30bps in ‘25/26) and slightly higher inflation (higher by ~20bps in ‘25/26) using the OBR’s March ready reckoner.
- 4) **Policy U-turns:** The government’s U-turn on welfare cuts and winter fuel cuts imply a headroom reduction of ~£6bn.
- 5) **Cutting VAT on energy bills:** We think the Chancellor is likely to cut the 5% VAT on energy bills from April 2026, which is estimated to cost £2.5bn.
- 6) **Higher headroom:** We estimate the Chancellor will likely look to increase her headroom from the current £10bn to £15-20bn, requiring an additional £5-10bn.

**Exhibit 1: We estimate that the Chancellor is likely to announce £30-35bn of fiscal consolidation. We estimate headroom to fall by ~£25bn due to forecast changes and U-turns/giveaways and we expect her to increase headroom by £5-10bn to £15-20bn.**

Sources of fiscal hole (£bn)



Source: OBR, BofA Global Research estimates



On the whole, we estimate the headroom to fall by ~£25bn due to forecast changes (~£17bn) and U-turns/giveaways (~£8bn). We also expect the Chancellor to increase her headroom by £5-10bn to £15-20bn. Taking it together, we estimate that the Chancellor is likely to announce £30-35bn of fiscal consolidation as shown in Exhibit 1.

### Risks to the estimate

The estimate of the size of fiscal hole remains uncertain. As we discussed above, the OBR's productivity downgrade could be smaller if the Chancellor can convince the OBR to score pro-growth reforms (such as UK- EU/India trade deals, youth mobility schemes). Moreover, if the OBR takes into account the lower yields in recent weeks, it can reduce the hit to the headroom.

At the same time, higher wage growth might not provide a notable offset, if the OBR judges tax revenues to not increase significantly as a result. We have seen also a £7.2bn overshoot in public sector borrowing during the first six months of the current fiscal year 2025/26. The overshoot vs OBR's forecast was driven mainly by higher estimated borrowing by local authorities and public corporations. The fact that the overshoot was driven by higher local authorities/public corporation borrowing reduces chances that the OBR judges this overshoot to persist in future years and impact the headroom. Having said that, it is possible that it carries the £1.3bn undershoot in taxes through to future years, if it judges the shortfall to be permanent.

We have also not accounted for a scrapping of the two-child benefit cap (full scrapping of two-child benefit cap would cost £3.5bn). Full scrapping of the two-child benefit cap is looking less probable, but there are risks for a partial removal. If they go ahead with that, perhaps proposals to replace jobseeker's allowance and employment & support allowance with a single new 'unemployment insurance' (UI) benefit could potentially cover the cost. The proposal would set UI at a much higher weekly rate for those who are actively seeking work, but the time-limiting of the benefit could deliver savings overall (£0.6-1.4bn from time-limiting the benefit to 12/6 months).

The OBR forecast also assumes that rates of fuel duties will increase in line with RPI inflation, and that the 'temporary' 5p per litre cut to duties will be allowed to expire in April 2026. We think this is looking less likely because of the Chancellor's pledge to reduce inflation, but freezing fuel duties for another year would cost the Chancellor another £2.7bn.

The OBR is also likely to change the estimate of active sales given the BoE's decision to slow the pace of QT from £100bn to £70bn. The current OBR assumption has £48bn of active sales. We think that the fiscal impact of slowing the QT pace is negligible as we discussed in our note [UK Viewpoint: Quantitative Tempering 06 June 2025](#). When estimating the fiscal impact, we need to consider not only the direct impact on APF interest losses – where slower active sales increase the "negative carry" interest bill – but also the indirect effect of a slower QT pace reducing the capital losses crystallised on sales. Reducing active sales cut the losses and, thereby, the projected debt and associated interest cost. These two factors roughly cancel each other out.

### We think majority of potential consolidation is likely to come via tax rises

We continue to think the Chancellor is likely to undergo the majority of the £30-35bn (1.0%-1.2% of GDP) of fiscal consolidation via non-inflationary tax rises, out of which £16-21bn are expected to be frontloaded (0.5%-0.7% of GDP) as shown in Exhibit 2. We think a manifesto-breaking income tax rise is likely to feature in the Budget, but we do expect some offset in the form of lower NICs. We expect limited backloaded department spending cuts.

#### 1) Limited backloaded department spending cuts (£5bn)

In our view, broad-based spending cuts would be politically hard to deliver, given tight spending plans, tough department negotiations in the Spending Review as well as the



recent political rebellion on welfare cuts. We do expect small backloaded department spending cuts. The 2025 Spending Review fixed department spending until 2028-29 so we don't expect those to be unpicked. But the government can potentially lower the real growth in department spending in 2029-30 from 1% to 0.5%, which can raise ~£5bn.

**2) Non-inflationary tax rises of ~£25-30bn, out of which £16-21bn are expected to be frontloaded**

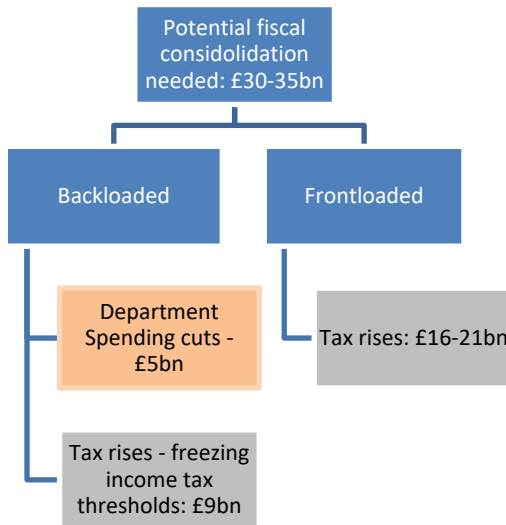
We expect the rest of the fiscal consolidation needed (£25-30bn) to be done via non-inflationary taxes. The tax rise which is most likely to materialize is the extension of the freeze on income tax and National Insurance thresholds beyond 2028, which is a backloaded tax and should raise £9bn.

The rest of the hole is likely to be filled via frontloaded non-inflationary tax rises worth £16-21bn (0.5%-0.7% of GDP). But we cannot rule out a more gradual path of tax rises.

We do not expect inflationary tax rises such as a VAT rise, employers NICs or big rise in duties as that would be inconsistent with the Chancellor's comments on lowering inflation.

**Exhibit 2: We expect £30-35bn of fiscal consolidation via £5bn back-loaded department spending cuts, back-loaded tax rise of £9bn and front-loaded tax rises of £16-21bn**

Potential fiscal consolidation needed



Source: BofA Global Research

BofA GLOBAL RESEARCH

There are various tax options to fill this hole.

We think an income tax rise is likely to feature in the Budget, but we do expect an offset in the form of lower National Insurance Contributions (NICs), at least for earnings below £50,270. A proposal that seems under consideration is a 2pp rise in income tax (across all bands), offset by a 2pp cut in NICs. This would not raise the tax burden for employees but will hit pensioners, landlords and self-employed. This can raise £6bn. There is also consideration that the Chancellor could limit the national insurance cut to earnings below £50,270 from 8pp to 6pp. Earnings above £50,270 could still be subject to 2p NICs additional rate, so workers earning more than £50,270 will see a rise in their tax bill. A proposal to raise 2p in income tax, cut NICs by 2p and limit the NICs cut to earnings below £50,270 can raise closer to £10bn, on our estimates.

But an outright income tax rise with no NICs offset cannot be ruled out, especially if the Chancellor has to raise more money than we anticipate. A 1pp rise in basic 20p rate can raise close to £8.2bn and a 1p rise in additional and higher rates can raise £2.3bn, in total raising £10.5bn, on our estimates.



Raising one big tax like income tax would provide predictable tax revenues, thereby providing some market relief on fiscal/inflation worries. But in our view, the Chancellor also has to manage the potential political difficulty of an outright income tax rise. This is why we think an income tax rise with a NIC offset is more likely.

The rest of the fiscal consolidation, in our view, can come from small taxes. We list possible tax rises that could be on the table in Exhibit 3. Small taxes under consideration and looking increasingly possible include a rise in gambling taxes, council tax reform, taxing dividends, extending NI to rental income, extending NI to limited liability partnerships, taxing dividends and targeting pensions savings via reducing tax benefits from salary sacrifice pension schemes. A council tax reform to raise more revenue from more expensive houses is looking probable to us. But more radical options, such as creating a new levy on the value of homes or imposing capital gains tax on the sale of expensive properties is looking less likely, in our view. A bank surcharge or cutting tax free pensions lumpsum allowance is also looking less likely. An exit charge is also under consideration which is a 20% capital gains tax on sale of business assets for those leaving the UK.

**Exhibit 3: Possible tax rises that could be on the table in the Autumn. We think the Chancellor needs to raise £16-21bn of frontloaded taxes, some of which is expected to be raised by a rise in 2pp income tax offset by a 2pp fall in NICs**

Possible tax rises and estimated amounts that could be raised

<b>Manifesto-breaking tax rises</b>	<b>Estimated amt raised</b>
2p rise in income tax offset by 2p fall in NICs	£6bn
2p rise in income tax, offset by 2p fall in NICs for earnings below £50,270	-£10bn
1p rise in basic/higher and additional rate for income tax	-£8.2/£2.3bn
1p rise in employee main/ additional NI rate	-£5.4/£2.1bn
<b>Smaller tax rises that don't break the manifesto commitments</b>	
Extending the freeze on income tax and NI thresholds beyond 2028 (backloaded)	-£9bn
Extend National Insurance to rental income	-£2bn
Extending employer NI to limited liability partnerships	£2bn
Rise in gambling levies	-£3bn
Raising basic income tax rate on dividends	£1.5-2bn
Reducing tax benefits from salary sacrifice pensions schemes- employee contributions of more than £2,000 a year subject to NI	£2bn
Council tax reform	£5bn
Exit charge	£2bn
Abolishing residence nil-rate band for property inheritance	£2bn
Scrapping inheritance tax relief on Aim-listed shares	£100mn-£1bn
Abolishing dividend allowance	£325mn
Removing capital gains exemption on primary residences above £1.5mn	Uncertain
Inheritance tax rules- cap total amount that can be gifted over a lifetime without incurring inheritance tax or extending seven year period	Uncertain
Review of ISA limit- Overall ISA limit could be cut or curtailed for cash ISAs.	Uncertain
<b>Taxes looking less likely</b>	
Higher bank surcharge, raising bank corporation surcharge from 3% to 8%	-£2bn
Reducing 25% tax free lump sum that retirees can withdraw after 55	-£2bn if tax free lumpsum reduced to £100K
Applying 30% flat rate to income tax relief on all pension contributions	-£2.7bn
Reinstating pensions lifetime allowance	- £800mn
Replacing stamp duty with potential tax on sales of homes worth more than £500K or an annual proportional property tax on homes over £500K	Uncertain

Source: BofA Global Research estimates

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**Potential impact on 2026 growth/inflation and BoE**

£16-21bn (0.5%-0.7% of GDP) of non-inflationary frontloaded tax rises can weigh on growth by 15-20bps in 2026 via reduced household spending power. We use a standard tax multiplier of 0.3 and assume a linear impact. The impact could potentially be somewhat higher and more direct if the tax affects all households such as an outright income tax rise with no NICs offset (which is not our expectation) or there are nonlinear impacts like a plunge in consumer confidence. Impact on growth could be smaller if the taxes are small and geared towards consumers with a lower marginal propensity to consume.

We also think inflation could be 15bps lower in 2026 if the Chancellor goes ahead with the proposal to cut 5p VAT on energy bills. Broader tax rises can also support the disinflation trend indirectly via lower growth.



This would increase risks of an additional Bank rate cut on top of our forecast of two more cuts in Feb/April 2026. This would put downside risks to our terminal rate forecast of 3.5% but this would depend on underlying disinflation progress. Moreover, risks of an earlier rate cut in December have increased. A cut in December would rest on decent disinflation progress or significant non-inflationary front-loaded tightening in the Budget.

If the consolidation is more gradual, then the impact on near term growth/inflation/BoE profile is expected to be minimal.

**Borrowing this year is likely to rise by £7bn**

Borrowing in FY 2025-26 so far has been £7.2bn higher than the OBR's forecast and the current budget is running £13.0bn higher than the OBR's forecast.

The overshoot vs OBR's forecast was driven by higher estimated borrowing by local authorities and public corporations and receipts £1.3bn below forecast. This overshoot implies that risks have risen that borrowing is higher for FY 2025-26 than the OBR expected.

We expect borrowing to rise by £7bn to reflect this overshoot, as higher debt costs offset by higher wage growth. We don't expect trend productivity downgrades to affect borrowing this year. U-turns on welfare cuts also increase borrowing in later horizons. Overall, we expect public sector net borrowing (PSNB) to rise by £7bn from £118bn (3.9% of GDP) to £125bn (4.2% of GDP) in FY2025-26.

# Rates

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## A juggling act

### Public finances so far this fiscal year: a glimmer of light

The latest set of monthly public sector finances data – an early but increasingly reliable indication on the state of the public finances for the whole year – delivered a Central Government Net Cash Requirement (CGNCR), which forms the basis for Gilt issuance, of £15.9bn for the month of September, £4.1bn below the Office for Budget Responsibility (OBR) forecast for the month published in March 2025. Cumulatively, the overshoot in the first six months of the fiscal year stood at £6.0bn as of September, a decrease from a £10.2bn overshoot as of August (Exhibit 4).

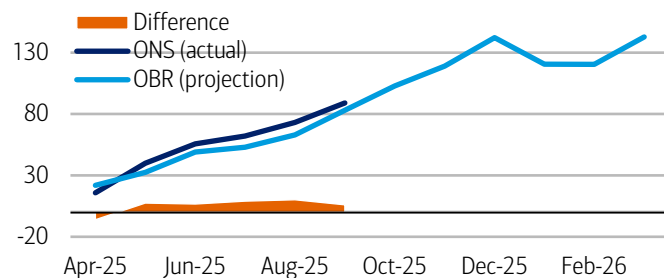
National Savings and Investments (NS&I) – a state-owned savings bank whose deposits are a source of financing that cover some of the Gross Financing Requirement (GFR) in the Financing Remit – stood broadly unchanged at £3.6bn fiscal year-to-September, £8.1bn away from the fiscal year target of £11.7bn (Exhibit 5). Average monthly NS&I fluctuations since 2021/22 would now imply the NS&I raising £8.3bn by fiscal year-end, within the ±£4.0bn contribution range agreed with His Majesty's (HM) Treasury.

Our updated projections assume no further material deterioration or improvement in the CGNCR, relative to March OBR numbers, over the balance of the fiscal year, and assume the original NS&I target is unchanged in the Remit update.

The last set of public sector finances data before the Budget, for the month of October, is due on Friday 21 November.

#### Exhibit 4: CGNCR ex. National Rail Asset Management (NRAM) and Bradford & Bingley (B&B), Network Rail (NR), £bn

£6.0bn cumulative slippage six months into fiscal year 2025/26

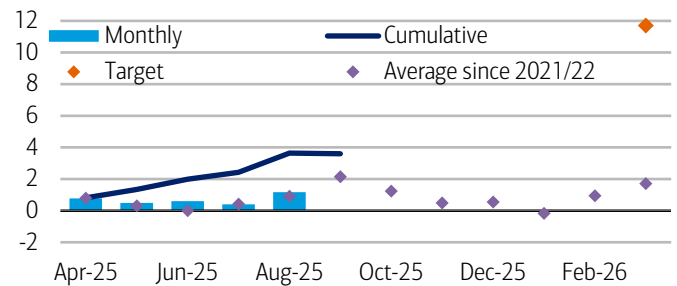


Source: ONS, OBR, BofA Global Research

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#### Exhibit 5: NS&I monthly and cumulative flows, £bn

At £3.6bn as of September, £8.1bn away from the £11.7bn target



Source: ONS, BofA Global Research

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### 2025/26 financing adjustment: guarded optimism in the face of slippage

The Debt Management Office (DMO) will publish an update to its Financing Remit for the fiscal year 2025/26 alongside the Budget on Wednesday 26 November.

We estimate the Gross Financing Requirement (GFR) to amount to £324.5bn, an increase of £2.0bn relative to April's Remit (see Exhibit 6). Our expected change in GFR stems from the £6.0bn CGNCR overshoot versus the OBR March forecast as of September, which we expect to be partially offset by a reduction of about £4.0bn in CGNCR because of the lower than previously projected capital transfers from the Treasury to the Asset Purchase Facility (APF), due to lower-than-projected active Gilt sales of £21bn from October vs. OBR's projection of £48bn.



Risks to our updated projections skew to the upside, from a larger than anticipated CGNCR overshoot versus the OBR March forecast in October and/or Chancellor plans and commitments.

**Exhibit 6: UK DMO Remit for fiscal year 2025-26 incl. BofA November update projections**

We expect an unchanged Gilt Remit

	FY 2025/26 (DMO - Mar'25)		FY 2025/26 (DMO - Apr'25)		FY 2025/26 (BofA - Nov'25)	
CGNCR	142.7		142.7		144.7	
Redemptions	168.2		168.2		168.2	
Adj. from prev. FY	6.7		11.6		11.6	
<b>Gross Financing Req. (GFR)</b>	<b>317.6</b>		<b>322.5</b>		<b>324.5</b>	
Less:						
NS&I incl Green Savings Bonds	11.7		11.7		11.7	
Other financing	1.8		1.8		1.8	
<b>Net Financing Req. (NFR)</b>	<b>304.1</b>		<b>309.0</b>		<b>311.0</b>	
To be financed through:						
<b>Gilt sales, through:</b>	<b>299.2</b>		<b>299.1</b>		<b>299.1</b>	
Short	110.9	37%	117.9	39%	132.2	44%
Medium	89.7	30%	89.7	30%	93.2	31%
Long	40.2	13%	29.8	10%	30.9	10%
Index-linked	30.9	10%	30.9	10%	34.5	12%
Unallocated	27.5	9%	30.8	10%	8.3	3%
<b>Net T-bill sales</b>	<b>5.0</b>		<b>10.0</b>		<b>12.0</b>	
<b>Total financing</b>	<b>304.2</b>		<b>309.1</b>		<b>311.1</b>	
DMO net cash position	2.3		2.3		2.3	

Source: Debt Management Office, BofA Global Research

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**T-bills: an efficient way to accommodate moderate in-year Remit changes**

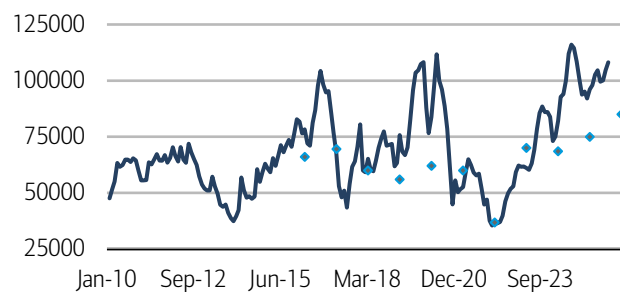
Under our base case of a £2.0bn GFR increase, we expect the adjustment to be managed through T-bills, an effective way to deal with moderate in-year Remit changes.

With the total T-bill stock outstanding (including for cash management purposes) standing at £108.5bn in October, £23.2bn above the current projected net T-bill target for debt financing purposes of £85bn (Exhibit 7), we think the DMO will likely opt to increase the total net T-bill contribution for debt financing by £2.0bn, while allowing some T-bills to roll off and leaving some space for potential upside deviation from target (the latter would not be unusual historically: Exhibit 8).

In our risk scenario where GFR rises more than our base case of £2bn, we estimate up to £5bn of additional GFR could be financed through higher net T-bill issuance (ie. net T-bill sales for debt management purposes rising to £15bn), with any excess covered by Gilts.

**Exhibit 7: Current T-bill issuance vs. T-bill stock for debt financing, £mn**

Large T-bill usage lately for cash management purposes

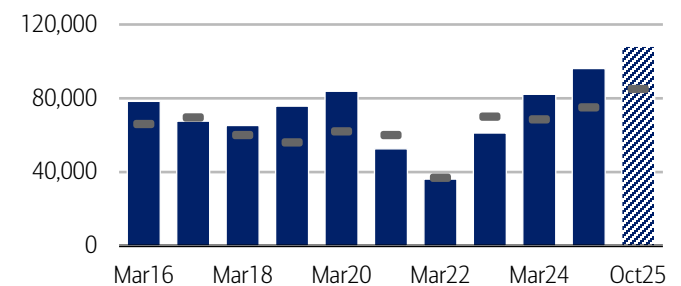


Source: MO, BofA Global Research

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**Exhibit 8: T-bill issuance vs. T-bill stock for debt financing, £mn**

The largest historical differential at fiscal year-end = £21.8bn in March 2020



Source: BofA Global Research

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**Green Gilt plan may hold clues on the DMO's likely choices in 1Q26**

With medium- and long-dated Gilt syndication “buckets” now effectively complete (the current medium syndication “bucket” has £2.2bn remaining while the long “bucket” is £1.1bn “overfunded”), the DMO will have to update the syndication plans for the



remainder of the 2025/26 fiscal year following the Budget on 26 November. For 1Q26, the current DMO Remit assumes 1x medium, 1x long and 1x index-linked syndication.

DMO's green Gilt issuance plan may hold clues on the likely medium Gilt sale choices in 1Q26, we think. Currently, the green UKT 7/8 2033 has £39.8bn and the green 1 ½ 2053 has £30.4bn outstanding, ie. both benchmark-sized. In March, the Remit left open the possibility of a new green Gilt later in the year: "The DMO expects that the focus of green gilt issuance in the first half of financial year 2025-26 will continue to be on further re-openings of the two existing green gilts. This approach will be kept under review taking into account market conditions. It is expected that further announcements about green gilt issuance may be made later in the financial year".

With £3.7bn cash raised from green Gilt sales via auctions this year since April, a £6.3bn syndication of a new medium-dated green Gilt, perhaps in the 9-12y area, in 1Q26 would make sense to us (the DMO's planned green Gilt sales are £10.0bn this fiscal year). With the current medium syndication "bucket" having £2.2bn remaining, the DMO would need to shift £4.1bn from the unallocated to arrive at £6.3bn green Gilt syndication size.

Meanwhile, the long Gilt syndication bucket is £1.1bn "overfunded" with £7.3bn cash remaining in the auction bucket, with two long Gilt auctions remaining in 1Q26 (Exhibit 9). Assuming the DMO keeps the two auctions to raise £1.3bn cash total, they could shift £6bn to the syndication bucket. A modestly sized syndicated reopening of the recently launched 5¼% Gilt 2041 in 1Q26 seems reasonable expectation for 1Q26, we think.

For ILBs, we would assume the DMO fills the current £12.5bn via two ILB syndications (£7bn remaining): today's result of UKTi 1 ¾% 2038 will be decisive on that front. We would tentatively suggest £3bn UKTi 2049s for the 1Q26 syndication, assuming £4bn cash is raised in today's syndication.

The DMO will consult with Gilt market participants on Gilt issuance in January to March 2026 on Monday 1 December, with the agenda for these meetings to be published at 3:30pm on Wednesday 26 November. The Gilt operations calendar for January to March 2026 will be published at 7:30am on Friday 5 December.

**Exhibit 9: DMO Gilt sales in the financial year to 4 November, £bn**

We think green Gilt plan may hold clues on the likely Gilt sale choices in 1Q26

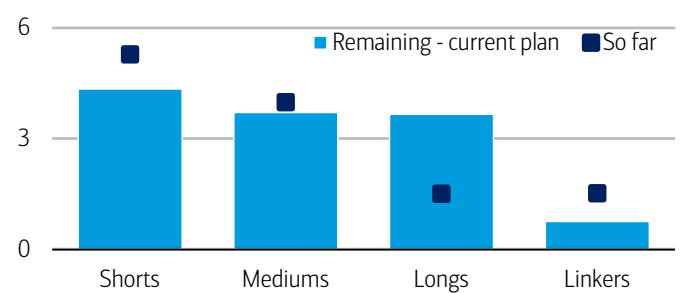
	Short	Medium	Long	Linkers	Total
Planned auction sales	123.5	73.7	17.8	20.4	235.4
Planned syndication sales	0.0	16.0	12.0	12.5	40.5
Unallocated portion					8.3
Tender sales to date	8.7	3.5	1.1	1.6	14.9
Total planned Gilt sales	132.2	93.2	30.9	34.5	299.1
Auction & PAOF proceeds	84.4	47.8	10.5	16.6	159.3
# of auctions remaining	9.0	7.0	2.0	5.0	23.0
Syndication sales to date	0.0	13.8	13.1	5.5	32.4
# of syndications remaining	0.0	1.0	1.0	2.0	4.0

Source: Debt Management Office, BofA Global Research

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**Exhibit 10: Per-auction Gilt sales across Gilt "buckets", £bn**

DMO is well ahead of its short Gilt auctions plan



Source: Debt Management Office, BofA Global Research

BofA GLOBAL RESEARCH

**DMO well positioned to navigate the Autumn budget...**

Exhibit 10 illustrates how short-dated and index-linked Gilt sales raised more per-auction on average than planned so far this fiscal year, with the opposite being true for longs.

In our base case, we do not anticipate an increase in short-dated Gilt sales. However, the remaining unallocated issuance could ultimately fall into the short bucket as the fiscal year's final quarter progresses, driven by larger auction sizes and/or programmatic Gilt tenders. We are less convinced about adding to the index-linked Gilt bucket, as we think the DMO is likely keen to avoid materially deviating from the 10% share.

In our risk scenario of a higher GFR top-up, we would expect the DMO to prioritize the short-dated Gilt bucket. However, we believe the threshold to exceed the £300bn Gilt



issuance plan is relatively high. Before considering an increase in the Gilt Remit, the DMO might instead opt to raise up to an additional £5bn via net T-bills (and potentially some more through NS&I).

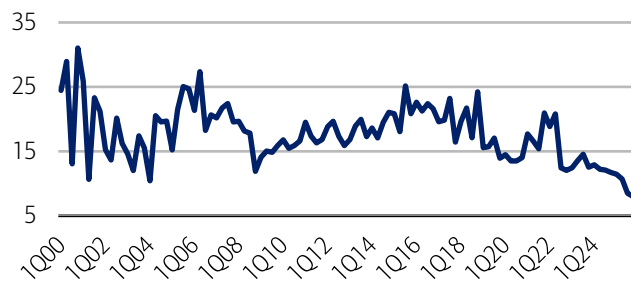
On Weighted Average Maturity (WAM) management, the DMO has now delivered two consecutive quarters with WAM in the 8-9y range (Exhibit 11). Redirecting long Gilt auction cash toward a syndicated reopening of UKT 5¼% 2041 would likely provide additional risk reduction for the market, given the bond’s 15y maturity compared with the 26.3y average maturity of long-dated Gilt auctions in 3Q25.

More broadly, the market likely already anticipates some form of WAM shortening by the DMO. But any communication on target WAM or T-bill market development would also be received positively by the market, we think.

One area of potential concern for market participants may be the Illustrative Gross Financing Requirement (IGFR) for fiscal years through 2029/30, which is likely to be extended to 2030/31. Based on our understanding, the Gilt redemption totals shown in the March IGFR projections would have incorporated Gilt auction sizes announced up to just before the Remit publication. If that assumption holds, redemptions alone should increase the IGFR by approximately £50bn over the horizon, with UKT 4¾% 2028 reopenings since then amounting to £28bn (nominal) alone – see Exhibit 12.

**Exhibit 11: Quarterly WAM of DMO Gilt supply, years**

The DMO has now delivered two consecutive quarters with 8-9y WAM

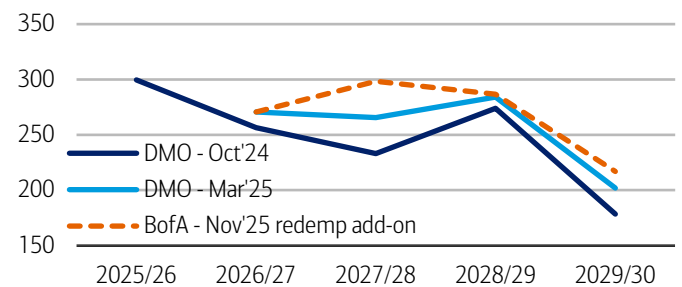


Source: Debt Management Office, BofA Global Research

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**Exhibit 12: DMO IGFR & BofA projected Gilt redemption top-up, £bn**

UKT 4¾% 2028 reopenings since March adding £28bn to 2027/28



Source: Debt Management Office, BofA Global Research

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**Our base case should be market-positive, but there are risks**

A mix of positive developments on public sector finances, media reports suggesting greater fiscal headroom, and the Chancellor’s remarks on reviewing taxes and spending – while emphasizing the need to avoid adding inflationary pressures – have all supported the Gilt market performance since October. Additional factors include the absence of long-end supply until the year-end and expectation of some degree of WAM shortening by the DMO. Our base case scenario should be received well by the market. Risk to our view is that the market focuses on increased funding needs for future years and/or that long positions are unwound into the risk event.



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## Actions not manifestos matter

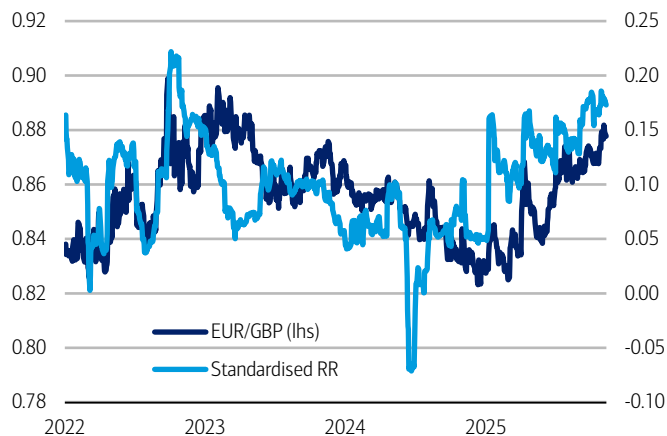
The UK media has once again homed in on headlines regarding the Government and its manifesto commitments. The truth is that manifestos are generally for optics – government rarely commit verbatim to them and more significantly, markets place little store in them. That a Government is considering raising taxes for the first time in a century, contrary to previous Administrations, must be seen as a market positive, in our view.

Indeed, since the announcement of the Budget, the mood music around the contours of the Budget have improved. This may not have been immediately reflected in GBP price action (correctly, in our view) because the actual event still lies ahead of us. But based on the information we have to hand and consistent with the views above, should the Budget follow these contours, then we expect a GBP rally primarily via lower EUR/GBP where we think the bulk of the vol inventory has been built up.

We think the bulk of the appreciation will come from the following sources: the passing of the Budget without a 2022 Mini-Budget and the subsequent pricing out of vol premium. Exhibit 13 shows how, in normalized terms, EUR/GBP 3mth risk reversals currently trade close to September 2022. Providing an orderly passing of the Budget, these levels cannot be sustained, premised on the larger headroom which we expect. In our view, it would take a perfect storm of market negative measures (breaking fiscal rules, smaller headroom) to keep normalized skew at such elevated levels.

**Exhibit 13: EUR/GBP vs 3mth Normalised risk-reversals**

Normalised RR close to Sept-2022 levels.

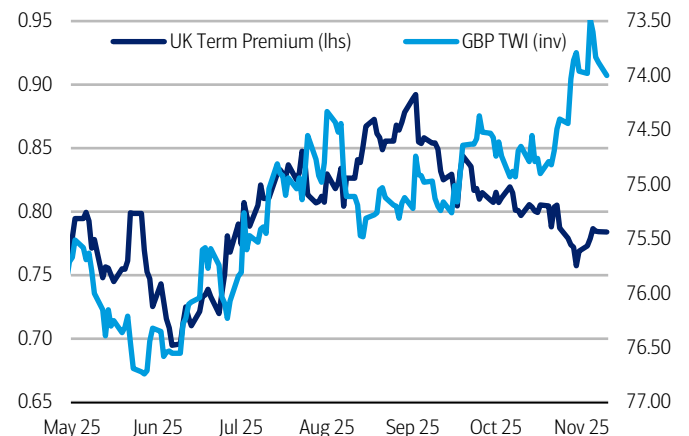


Source: BofA Global Research, Bloomberg

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**Exhibit 14: GBP TWI vs UK Term Premium (10s30s)**

Divergence being driven by event risk.



Source: BofA Global Research estimates

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The pricing of event-risk vol subsequently allows GBP to recalibrate back to its nominal anchors. Term premium has been a big focus for G10 FX this year with GBP at the heart of the tumult. In another sign that the recent information flow has been broadly welcomed, Exhibit 14 shows the extent of the recent divergence between the pound and term premium since the announcement of the Budget. Breaking manifesto pledges may be creating some political waves for the Chancellor, but markets seem to be embracing the efforts to enhance credibility by creating larger fiscal headroom.

One potential headwind that faces sterling is the macroeconomic fallout from fiscal consolidation measures. Markets are currently pricing in over 50bps of further easing by



the end of 2026 – in line with our current BoE view. Should markets view this Budget as helping curb inflation but also growth, it risks further easing being priced in. For GBP, which has been relatively agnostic to moves in the front-end of the curve for much of the year, shorter-term correlations are starting to turn positive – increased pricing for BoE cuts would be negative for GBP in a traditional framework. What dominates – the move in rates or the move in vol? We are inclined to think that the latter will prevail as long as the move in rates is not seen as an “emergency” as per September 2022.



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