

UK Viewpoint

Autumn Budget FAQs

£20-30bn of small non-inflationary tax rises expected

We try to answer FAQs on the Autumn Budget. The Chancellor's headroom is set to reduce by £20-30bn, requiring fiscal consolidation to restore. She will look to: ensure fiscal plans have market credibility, limit growth/ inflation impact and minimize political pushback. Our base case is the Chancellor just about restores her headroom to current levels by imposing £20-30bn of small non-inflationary tax rises (which don't break the manifesto promises). We list possible taxes that can raise ~£35bn. But we don't rule out a scenario where the Chancellor has to break tax manifesto promises. Somewhat frontloaded consolidation via non-inflationary taxes can weigh on 2026 growth by 15-20bps. This could increase risks of an additional Bank rate cut on top of our forecast of two cuts in 2026 but would depend on underlying disinflation progress. If consolidation is gradual, the impact on near term growth/inflation/Bank Rate is likely to be minimal.

Raising headroom/spending cuts-fairly market-friendly

But other options are also available. A relatively market-friendly outcome would be a mix of spending cuts and non-inflationary tax rises along with raising the headroom, even if it is politically difficult to deliver. Meanwhile breaking fiscal rules or lowering the headroom would significantly increase risks of an adverse gilt market reaction and tighter financial conditions. A tax rise that fuels inflation (like VAT) is likely to limit the BoE's ability to cut rates to support growth, prolonging the stagflationary outlook.

Rates: A juggling act

Can the Chancellor square a circle of (1) ensuring the credibility and (2) the practicability of its fiscal consolidation plans as well as (3) limiting growth and inflation impact. Under our central expectation, we see front-end rates rallying some 10-20bp, bull-steepening further out on the curve and some 5-15bp downward repricing in 2y inflation swaps. But the range of possibilities is wide, with the potential impact on front-end ranging from as much as a 45bp rally to a 40bp selloff, in our view. The DMO will publish an update to its Financing Remit for the fiscal year 2025-26 alongside the Budget. For now, the CGNCR is running around £10bn ahead of plan, but lower QT losses will cover c.£4bn of that.

FX: Nothing else matters

The build-up in options inventory through the Budget has effectively paralysed trading in the pound; driven a negative correlation between rates and FX and skewed the market towards confirmation bias, expecting the worse. The event-risk should anchor GBP in the run-up to 26th and in the absence of major shocks, the release valve following the event should lead to a modest GBP recovery. The proviso "absent any major shocks" is a significant tail risk and markets will be focussed on several factors including the composition of spending cuts and tax hikes; recommitting to the Fiscal Rule and impact on BoE pricing. Receding term premium will be outright positive for GBP and given negative correlation to yields, GBP is likely to take its cue from fixed income markets.

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Autumn Budget FAQs

Delicate balance

In this note, we try to answer the most commonly asked questions on the 2025 Autumn Budget. Our base case is a muddle-through scenario whereby the Chancellor just about restores her headroom to the current level by imposing £20-30bn of many small non-inflationary tax rises (which don't break the manifesto promises). But many other fiscal options are also available, and we go through them in this note.

Q1. When is the Autumn Budget?

The UK's Autumn Budget 2025 is scheduled for Wednesday, November 26. The Chancellor announces the Budget statement and measures usually around 12:30UKT. The first part of the statement typically begins with a review of the public finances and economic outlook, which references the Office for Budget Responsibility's (OBR) forecast. It is then accompanied by fiscal policy announcements. The OBR releases its Economic and Fiscal Outlook when the Chancellor finishes her Budget speech around 13:30UKT and the DMO releases the updated gilt remit around the same time. The OBR's Economic and Fiscal Outlook contains the updated forecasts, impact of announced policy measures and the fiscal stance.

Q2. What are the current fiscal rules?

Fiscal rules are limits on fiscal policy the government sets itself to constrain its own decisions on spending and taxes. The independent OBR, as the UK's official forecaster, is the body that judges whether the government is on course to meet them.

The current government has two fiscal rules:

- **Stability rule:** To deliver a current budget in balance by 2029-30, until 2029/30 becomes the third year of the forecast in 2026/27 from which point this rule will bind in the third rather than fifth year of the forecast horizon. The rule will also change from 2026/27 so that 'current budget balance' is defined as being in surplus or deficit within a margin of 0.5% of GDP in the third year of the rolling forecast period. If the range is used between fiscal events, the current budget must return to surplus from the third year at the following fiscal event. The OBR estimated in the March Statement that this rule will be met by a margin of £9.9bn, which is the Chancellor's current headroom.
- **Investment rule:** Public sector net financial liabilities (PSNFL) to fall as a share of GDP by 2029-30 (until 2029-30 becomes the third year of the forecast, from which point this rule will apply to the third year). The OBR estimated in the March Statement that this rule will be met by a margin of £15.1 bn.

The stability rule is being met by a lower margin relative to the investment rule. Therefore, the stability rule is the binding rule and the headroom the Chancellor has against her fiscal rules is £9.9bn.

Q3. Why is the fiscal headroom likely to be reduced?

The Chancellor's £9.9bn of headroom is historically low relative to the average of £26bn (Exhibit 1). Developments since the March Statement imply that the headroom is likely to turn into a shortfall. The Gilt market sell-off means that 10-year yields are 20bps higher in the near term and 40bps higher in 2029-30 compared to the OBR's March forecasts, which could lower the headroom by ~£3-4bn. The government's U-turn on welfare cuts and previous U-turns on winter fuel cuts imply a headroom reduction of £6.25bn. There is also speculation that the government could scrap the two-child benefit cap, which would cost £3.5bn.

Moreover, we think that the OBR will likely downgrade productivity growth by 10-20bps on average across the horizon, which can lower the headroom by ~£10-20bn. The OBR's medium term productivity growth forecast of 1.2-1.3% look optimistic relative to others

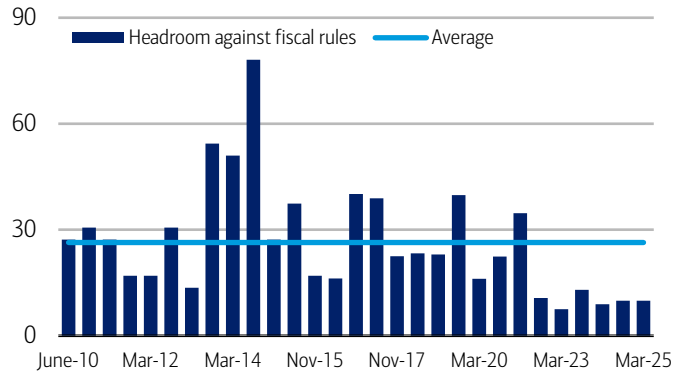


(BoE's forecast of 2027 productivity growth is 1%). A reduction of 0.1pp in the annual productivity growth forecast can lower the headroom by £9-10bn by end of the forecast period. The OBR's productivity assumption is key to estimating the fiscal hole.

Overall, we think the government's U-turn on spending cuts, possibly higher yields and growth/productivity downgrades in the Autumn can lower the fiscal headroom by £20-30bn, i.e., the headroom will likely turn into a shortfall (Exhibit 2). This would require fiscal consolidation to restore the headroom. Media reports suggest the headroom is more likely to be closer to £30bn. Risks are that the potential downgrade to headroom is even larger. We will revisit this estimate closer to the Autumn Budget.

Exhibit 1: £9.9bn of headroom is historically low relative to average of £26bn

Headroom against fiscal rules (£bn)

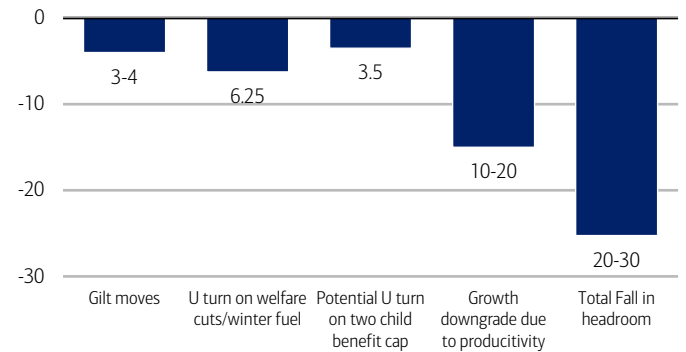


Source: OBR, BofA Global Research

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Exhibit 2: We think fiscal headroom could reduce by £20-30bn in Autumn due to government's U-turn on spending cuts, higher yields and potential growth/productivity downgrades

Expected fall in Autumn fiscal headroom by factor (£bn)



Source: OBR, BofA Global Research

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Q4. What is the OBR's forecast timetable?

The OBR on Friday (Oct 3) formally submitted to the Chancellor its initial pre-measures forecasts (first of five rounds). This would provide the Treasury with an initial estimate of potential productivity downgrades. Note this OBR assessment will not be published, and forecasts will possibly change as we move closer to the Budget to incorporate the Chancellor's planned fiscal measures and perhaps the impact of some pro-growth policies (such as UK- EU/India trade deals, youth mobility schemes, planning reforms). Round 2 is on Oct. 20 and Round 3 on Oct. 31. All rounds of the forecast up to and including Round 3 will be 'pre-measures' rounds. Subsequent rounds will combine the 'pre-measures' forecast with the implications of any new policy measures. The final, post-measures forecast will be published on 26 November, the day of the Budget.

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). Six weeks before 26 Nov would be mid-October.

Q5. Will the UK have one fiscal assessment in the future?

Currently the OBR publishes two fiscal forecasts a year and assesses the Chancellor's fiscal policy twice a year against the fiscal rules. Recently the Chancellor has outlined her agreement with the IMF's recommendation to have one fiscal event and fiscal assessment a year. This could change the way the OBR does its forecast. Having one OBR assessment of the Chancellor's fiscal rules would reduce the need to change the fiscal policy twice a year and could provide more stability. However, this doesn't solve the key issue. The bigger issue remains the small amount of headroom the Chancellor has left, which necessitates the need for fiscal adjustment in the first place when small changes in forecasts eliminate the headroom. Unless headroom is increased, the UK's fiscal position would likely remain in the limelight, even if scrutiny reduces if the UK holds one fiscal assessment a year.



Q6. What are the possible options and trade-offs for the Autumn Budget?

In this Budget the Chancellor will look to find a delicate balance between three objectives: ensure that fiscal plans are credible and don't generate an adverse gilt market reaction, limit the impact on growth/ inflation and minimize any political pushback. We go through the possible options along with likely trade-offs and the expected market reaction in Exhibit 6:

- **Headroom reinstated to £9.9bn via: a) spending cuts and b) mix of many small non-inflationary tax rises, which don't break the manifesto commitments.** This will likely be a relatively market friendly outcome and could provide some relief on fiscal/inflation worries. Spending cuts show commitment to fiscal consolidation and are credible. This should weigh on near term growth and could allow for additional monetary easing; if fiscal consolidation is frontloaded. Spending cuts, if focussed on improving labour force participation, can be positive for growth in the medium term. But spending cuts would be politically hard to deliver after tight spending plans and tough department negotiations in the Spending Review and recent political rebellion on welfare cuts. Moreover, the small size of headroom would mean that the UK's fiscal position remains in the limelight.
- **Base case: Headroom reinstated to £9.9bn via a) mix of many small non-inflationary tax rises which don't break the manifesto commitments and b) no spending cuts.** Restoring the headroom via tax rises that don't fuel inflation can provide some relief on fiscal/inflation worries. Impact on growth could be smaller, if taxes are spread out or geared towards consumers with a lower marginal propensity to consume. Overall, this could increase risks of an additional cut from the BoE on top of our forecast of two cuts in 2026, but this would depend on underlying disinflation progress. The small size of headroom would mean that the UK's fiscal position remains in the limelight. There are also likely to be questions about deliverability and credibility of tax revenues or non-linear impacts if tax rises affect too many sectors.
- **Headroom reinstated to £9.9bn via: a) breaking the manifesto promise and raising one big non-inflationary tax (National Insurance (NI) or Income tax) and b) no spending cuts.** This could provide some relief on fiscal/inflation worries. Raising one big tax would provide predictable tax revenues. But it would be politically difficult as it would mean breaking the manifesto commitment and would be a more direct hit to consumers/ growth.
- **Headroom reinstated to £9.9bn via: a) by breaking the manifesto promise and raising a tax that can raise inflation (VAT) and b) no spending cuts.** While VAT provides predictable tax revenues, it weighs on growth and fuels inflation which will further increase concerns on inflation persistence. A tax rise that fuels inflation is likely to limit the BoE's ability to cut rates to support growth, prolonging the stagflationary outlook.
- **A headroom higher than £9.9bn would likely be the most market friendly outcome, especially if spending cuts are part of the consolidation.** Higher headroom will reduce the need to repeatedly change fiscal policy if forecasts change, provide more buffer and reduce focus on UK's fiscal position. But this could require a large fiscal consolidation, which would be politically hard to deliver and weigh on growth more than other scenarios. This could provide scope for additional cuts if done via non-inflationary tax rises/spending cuts. But the impact on growth can be reduced via easier financial conditions.
- **Headroom reinstated to less than £9.9bn.** We think this is a less likely outcome. This would need less fiscal consolidation but would increase risks of an unfavourable Gilt market reaction and increased focus on UK's fiscal



position. It could provide less scope for BoE cuts vs. our forecast and would probably weigh on growth via tighter financial conditions.

- **Breaking the fiscal rules:** We think this is a very unlikely outcome. Breaking fiscal rules would need no fiscal consolidation but would significantly increase risks of an adverse Gilt market reaction and increase focus on UK's fiscal position and credibility. It would provide less scope for BoE cuts and a potentially weaker currency could raise inflation. Risks would rise that BoE may need to intervene to provide temporary support to the Gilt market. It could weigh on growth via tighter financial conditions and high-risk premia.

Q7. What is our central expectation for the Autumn Budget?

Our base case is a muddle-through scenario whereby the Chancellor just about restores her headroom to the current level by imposing £20-30bn of many small non-inflationary tax rises (which don't break the manifesto promises). But we don't rule out non-inflationary tax rises that break the manifesto promises, especially if the fiscal consolidation needed is higher. Raising income tax/ National Insurance can provide predictable tax revenues, even if the impact on growth could be more direct.

We don't expect the headroom to be raised or reduced. We think the Chancellor is unlikely to break the fiscal rules, given risks of an adverse Gilt market reaction. We also think spending cuts will be politically hard to deliver.

Q8. What is the potential impact on growth/inflation and BoE rate outlook?

The impact on growth will depend on how frontloaded the consolidation is and its composition. The impact on 2026 growth could be closer to 15-20bps (using a multiplier of 0.3 for tax rises) if half to two thirds of 1% of GDP of consolidation is frontloaded via taxes. The impact of a mix of small non-inflationary tax rises could perhaps be a bit lesser if taxes are geared towards consumers with a lower marginal propensity to consume, assuming no non-linear effects. The impact of an income tax/ NI rise could perhaps be a bit larger as some of this rise would be geared towards consumers with a high marginal propensity to consume. Non-inflationary tax rises could increase risks of an additional cut on top of our forecast of two BoE rate cuts in 2026, but this would depend on underlying disinflation progress.

The impact on 2026 growth could be closer to 25-35bps, if half to two thirds of 1% of GDP of consolidation is frontloaded via taxes and spending cuts. This could allow for additional easing vs our forecasts. Spending cuts, if focussed on improving labour force participation, can be positive for medium term growth.

If the consolidation is more gradual, then the impact on near term growth/inflation/BoE profile is expected to be minimal. A 0.2% of GDP per year incremental fiscal consolidation via taxes would weigh on 2026 growth marginally by 6bps.

A tax rise that can raise inflation, like VAT, is likely to prolong the stagflationary outlook. A frontloaded VAT rise could weigh on 2026 growth by 15-25bps, while the impact on inflation of a 1p rise in VAT could be 83bps, assuming full passthrough. A tax rise that fuels inflation is likely to increase concerns on inflation persistence and limit the BoE's ability to cut rates to support growth. Risks will rise that our forecast of two cuts next year doesn't materialize, which would further weigh on growth. Raising VAT would not be consistent with the Chancellor's aim of reducing inflation- in fact there are some reports that the Chancellor is looking at ways to lower inflation, including cutting VAT on energy bills by 5%, which can lower inflation by 15bps.

Q9. What are the possible tax rises that could be announced?

We list possible tax rises that could be on the table in the Autumn in Exhibit 3. Overall, they could potentially raise close to £35bn.

One tax rise which is reasonably likely to be announced is the extension of the freeze on income tax and National Insurance thresholds beyond 2028, which could raise around £9bn. This is also a back-loaded tax rise. Other tax rises which look increasingly likely include extending National Insurance to rental income, a rise in gambling taxes, a higher bank surcharge, taxing dividends and targeting pensions savings via reducing the tax free lumpsum allowance or implementing NICs on pension income.

If the Chancellor decides to break the manifesto commitments, she can raise £10bn via a 1p rise in basic/higher rate for income tax. A 1p rise in employee main/additional national income rate raises £7.5bn while a 1p rise in VAT raises £10bn.

Exhibit 3: Possible tax rises that could be on the table in the Autumn, which could raise close to £35bn.

Possible tax rises and estimated amounts that could be raised

Small tax rises that don't break the manifesto commitments	Estimated amt raised
Extending the freeze on income tax and NI thresholds beyond 2028	-£9bn
Extend National Insurance to rental income	-£2bn
Higher bank surcharge, raising bank corporation surcharge from 3% to 8%	-£2bn
Rise in gambling levies	-£3bn
Raising basic income tax rate on dividends	£1.5-2bn
Implementing NICs on pension income	£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
Extending employer NI to limited liability partnerships	£1bn
Reinstating pensions lifetime allowance	-£800mn
Abolishing residence nil-rate band for property inheritance	£2bn
Scrapping inheritance tax relief on Aim-listed shares	£100mn-£1bn
Abolishing dividend allowance	£325mn
Council tax reform	£5bn
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
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
Manifesto breaking tax rises	
1p rise in basic/higher rate for income tax	-£8.2/£2.1bn
1p rise in employee main/ additional NI rate	-£5.4/£2.1bn
1p rise in VAT	-£10bn

Source: BofA Global Research

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Q10. Does the Autumn Budget matter for the major credit rating agencies?

The Autumn Budget and risks to its execution will matter for the major credit rating agencies, with the UK's public finances being one of their key rating sensitivities. In particular, agencies will be looking for evidence of credible and practicable fiscal consolidation plans, or factors which could slow the pace of deficit reduction.

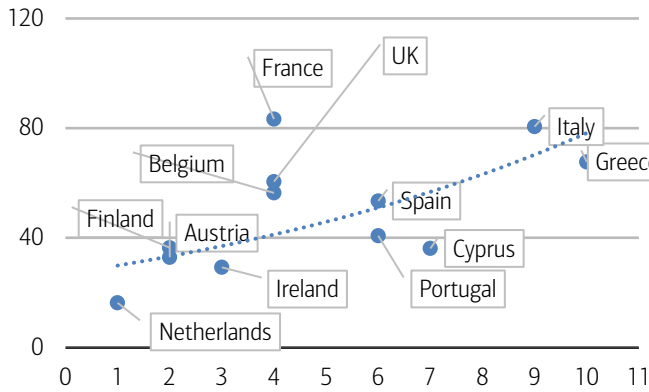
Meaningful changes in the government's debt/GDP trajectory could therefore lead to positive/negative changes in rating outlook and/or rating upgrades/downgrades. But with the UK's current ratings standing in the high investment grade territory (Fitch: AA- (stable), S&P: AA (stable) and Moody's: Aa3 (stable)) the risk of downgrades to speculative grade (and potential forced selling dynamics) is low, although there may be some investors focusing on "high credit rating" investments only.

More broadly, overseas investors hold around 30% of outstanding Gilts of which a small proportion is foreign central banks. Public institutions that hold Gilts as foreign currency reserves are unlikely to reduce their Gilt allocations sharply unless a cut to speculative grade starts to look possible. In terms of the relationship between credit ratings and bond asset swap spread valuations, Gilts appear to be trading slightly cheap to Bunds currently (Exhibit 4). Credit rating risk premium priced into the market therefore appears limited for now. Finally, although rating agencies can change their evaluation anytime, we note that the upcoming second reviews of 2025 are all due before the Autumn Budget on 26 November (Exhibit 5).



Exhibit 4: 10y bond z-spread spreads to Bunds vs. credit rating*

Gilts trading slightly cheap Bund on ASW vs. their current rating



Source: BofA Global Research, Fitch Ratings, S&P Global Ratings, Moody's, Bloomberg.
 * Credit rating defined as 1=AAA; 10=BBB-.

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Exhibit 5: Credit rating snapshot and upcoming review dates for 2025

Upcoming reviews all fall due before the Autumn Budget on 26 November

	Current		Upcoming	
	Rating	Outlook	1st review	2nd review
Fitch	AA-	Stable	28-Feb-25	22-Aug-25
S&P	AA	Stable	11-Apr-25	10-Oct-25
Moody's	Aa3	Stable	23-May-25	21-Nov-25

Source: BofA Global Research, Fitch Ratings, S&P Global Ratings, Moody's

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Q11: Is a repeat of an LDI-crisis style Gilt market volatility possible?

While we would not completely rule out any scenario, we see a repeat of an LDI-crisis style Gilt market volatility episode as a low probability event (mostly relevant for the “breaking the fiscal rules” scenario below). LDI funds should now be better able to weather any future market volatility having built resilience along the proposed lines by regulators and policy makers.

More generally, leveraged non-bank investors in Gilts would now have potential access to the BoE’s newly opened Contingent Non-Bank Financial Institution Repo Facility (CNRF), designed to be activated during episodes of severe Gilt market dysfunction (and therefore particularly important in this context). Importantly, we see the CNRF as lessening the chance that the Bank feels compelled to deploy emergency QE in the future.

The Debt Management Office’s (DMO) shorter Weighted Average Maturity (WAM) of Gilt issuance is probably also important to flag as a factor that dampens the risk of market distress. Although the average maturity of the debt portfolio remains elevated, by international standards, at around 14 years, it is drifting lower thanks to a WAM of issuance of about 10 years in recent quarters.

Q12: What does this mean for the Gilt Remit?

The UK Debt Management Office (DMO) will publish an update to its Financing Remit for the fiscal year 2025-26 alongside the Budget on 26 November. Assuming the Chancellor’s plans and commitments are covered by spending cuts and/or tax rises, the increase in the Gross Financing Requirement (GFR) should reflect the Central Government Net Cash Requirement (CGNCR) overshoot versus the Office for Budget Responsibility (OBR) March forecast, currently at around £10bn (with two more rounds of data due on 21 October and 21 November). We expect this increase to be partially offset by a reduction of about £4bn in CGNCR because of lower than previously projected capital transfers from the Treasury to the Asset Purchase Facility (APF), due to lower-than-previously-projected active Gilt sales from October. How the DMO approaches this increase is beyond this note, but we outlined some possible scenarios in the Rates – UK section of the Global Rates Weekly published on 26 September.

Q13: What does this mean for GBP?

GBP has effectively been in a state of paralysis since the announcement of the Budget as FX markets place sizeable risk premium on the event. Historically, UK Budgets have been a non-event for GBP, but September 2022 changed everything and the current focus on global term premium has led to a sizeable build-up of options inventory for the event. In the run up to the 26th November, we expect GBP to remain under pressure and



the breakdown of traditional correlation highlights how binary the Budget has become for price action. In particular, the negative correlation between GBP and UK rates suggests an asymmetry in price action. Markets have been reluctant to trade a positive scenario for GBP until the Budget contours are known.

Convention would suggest some relief for GBP after the event risk passes, but as ever, nothing is ever simple for GBP. Our base case scenario suggests a modest rally that the headroom has been restored and Fiscal Rules remain intact. How GBP subsequently trade depends on how markets weigh the relative importance of Term Premium vs impact on growth. We sense that the former will be the more significant driver for GBP even if markets price in more rate cuts. This perhaps goes some way in explaining why GBP has been correlated positively to Gilt yields.

Therefore, measures that increase the threshold by more than expected (>£10bn) will be a strong positive signal for GBP as it breaks the constant market obsession of tracking pip-by-pip moves in Gilts and what it means for the headroom. We think the global growth cycle will provide some positive tailwinds for the UK and therefore absorb some of the domestic slowdown. The tail risk of the Government breaking the Fiscal Rule opens up a potential re-run of September 2022 but the quantum will depend on the extent of the Gilt sell-off.

Exhibit 6: Our central expectation is that the Chancellor just about restores her headroom by imposing £20-30bn of many small non-inflationary tax rises
Possible scenarios for Autumn Budget, potential impact on growth/inflation/ BoE, potential rates and FX reaction

Scenario	Potential consolidation needs	Comment	Potential impact on 2026 growth/inflation/ BoE	Potential rates reaction	Potential FX reaction
Headroom reinstated to £9.9bn... ...via spending cuts and mix of smaller non-inflationary tax rises, which don't break manifesto commitments.	£20-30bn (0.7%-1% GDP)	Relatively market friendly outcome. Likely to provide some relief on fiscal and inflation worries. Spending cuts = credible and show commitment to fiscal consolidation, but possibly hard to deliver politically. Concerns on small size of headroom to persist.	Negative 25-35bp impact on 2026 growth ¹ , assuming 1/2 to 2/3 of 1% of GDP consolidation is front loaded. Risk of additional monetary easing vs. our forecasts, assuming broad-based disinflation continues. *** Negative 10bp impact on 2026 growth, assuming 0.2% of GDP/year incremental fiscal consolidation. Likely minimal impact on near term growth/inflation/BoE profile. Spending cuts can be positive for medium-term growth if focussed on improving labour force participation.	Sep'26 Sonia: -35bp 10y Gilts: -10bp 2y inf. swap: -30bp *** Sep'26 Sonia: -10bp 10y Gilts: -2bp 2y inf. swap: -5bp	GBP rallies +1% as gilt market rallies and term premium reduces.
Base case: Headroom reinstated to £9.9bn... ...via no spending cuts and a mix of smaller non-inflationary tax rises which don't break manifesto commitments.	£20-30bn (0.7%-1% GDP)	Likely to provide some relief on fiscal and inflation worries with smaller growth impact. Worries about deliverability and credibility of tax revenues or non-linear effects if tax rises affect too many sectors. Concerns on small size of headroom to persist.	Negative 15-20bp impact on 2026 growth ² , assuming 1/2 to 2/3 of 1% of GDP of consolidation is front loaded. Smaller impact if taxes are spread out/ geared towards consumers with less marginal propensity to consume. Risk of an additional cut on top of our forecast of two cuts in 2026 but dependent on pace of broad-based disinflation. *** Negative 6bp impact on 2026 growth, assuming 0.2% of GDP/year incremental fiscal consolidation via taxes. Likely minimal impact on near term growth/inflation/BoE profile.	Sep'26 Sonia: -20bp 10y Gilts: -7bp 2y inf. swap: -15bp *** Sep'26 Sonia: -10bp 10y Gilts: -2bp 2y inf. swap: -5bp	Modest GBP rally (+0.5%) as event risk premium fades.
Headroom reinstated to £9.9bn...	£20-30bn (0.7%-1% GDP)	Likely to provide some relief on fiscal and inflation worries.	Negative 15-20bp impact on 2026 growth, assuming 1/2 to 2/3 of 1% of GDP of consolidation is front loaded via NI/ income tax rise.	Sep'26 Sonia: -20bp 10y Gilts: -7bp	GBP falls 1% on hit to consumer

¹ Assuming average multiplier of 0.5 for spending cuts and tax rises

² Assuming average multiplier of 0.3 for tax rises



Exhibit 6: Our central expectation is that the Chancellor just about restores her headroom by imposing £20-30bn of many small non-inflationary tax rises

Possible scenarios for Autumn Budget, potential impact on growth/inflation/ BoE, potential rates and FX reaction

Scenario	Potential consolidation needs	Comment	Potential impact on 2026 growth/inflation/ BoE	Potential rates reaction	Potential FX reaction
...via raising one big non-inflationary tax (NI or Income tax). Break to manifesto commitments.		Predictable tax revenues. Politically more difficult given break to manifesto commitments and direct hit to consumers/ growth. Concerns on small size of headroom to persist.	Impact could be somewhat larger as some would be geared towards consumers with high marginal propensity to consume. Net disinflationary, unless we get some labour supply effect (i.e higher income tax reduces aggregate labour supply). Risk of an additional cut on top of our forecast of two cuts in 2026 but dependent on the pace of broad-based disinflation.	2y inf. swap: -10bp	spending & rate cuts.
Headroom reinstated to £9.9bn... ...via raising one big tax that can raise inflation (VAT). Break to manifesto commitments.	£20-30bn (0.7%-1% GDP)	Predictable tax revenues. But fuels inflation, further increasing concerns on inflation persistence. Concerns on small size of headroom to persist.	Negative 15-25bp impact on 2026 growth ³ , assuming 1/2 to 2/3 of 1% of GDP of consolidation is front loaded via VAT. Inflation impact of a broad based 1p rise in VAT is 83bps assuming full passthrough. Likely to increase concerns on inflation persistence and limit the BoE's ability to cut rates to support growth, prolonging the stagflationary outlook. Risks will rise that our forecast of two cuts in 2026 doesn't materialize, which further weighs on growth.	Sep'26 Sonia: +10bp 10y Gilts: +5bp 2y inf. swap: +40bp	GBP falls 2% on rising stagflation risks and back-up in Gilt yields.
Headroom reinstated to more than £9.9bn	£30bn+ (1%+ GDP)	Potentially most market friendly outcome, especially if partly done via spending cuts. Reduced focus on UK's fiscal position. Large fiscal consolidation would be politically quite hard to deliver and would weigh on growth.	Likely to weigh on growth more than other scenarios. Provide scope for more additional cuts. Impact on growth can be reduced via easier financial conditions.	Sep'26 Sonia: -45bp 10y Gilts: -15bp 2y inf. swap: -40bp	GBP +3% on larger headroom and gilt rally despite larger probability of rate cuts
Headroom reinstated to less than £9.9bn	Less than £20-30bn	Less likely. Less fiscal consolidation. Increase risks of an unfavourable gilt market reaction and increased focus on UK's fiscal position.	Less scope for BoE cuts vs our forecast. Likely to weigh on growth via tighter financial conditions.	Sep'26 Sonia: +15bp 10y Gilts: +10bp 2y inf. swap: +10bp	GBP -2% as term premium increases
Breaking the fiscal rules		Very unlikely. No fiscal consolidation. Significantly increase risks of an adverse gilt market reaction and increase focus on UK's fiscal position/ credibility.	Less scope for BoE cuts vs our forecast. Potential for higher inflation via weak currency. Risks that BoE may need to intervene to provide temporary support to the gilt market. Likely to weigh on growth via tighter financial conditions and high risk premia.	Sep'26 Sonia: +40bp 10y Gilts: +50bp 2y inf. swap: +40bp	GBP -5%+ in re-run of September 2022 and significant rise in GBP risk premium

Source: BofA Global Research

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³ Assuming average multiplier of 0.35 for VAT rise

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