insights

2025
BRIEF SPRING BUDGET UK

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Budget Roundup Spring **2024**

Overview

The **UK Spring Budget 2024,** presented by His Majesty's Treasury, set out a comprehensive strategy for driving economic resilience, addressing public service needs, and ensuring fiscal sustainability. Here were the key initiatives:

1. Economic and Fiscal Outlook

The UK's economy was set for modest growth, with GDP forecasted to rise consistently through 2024-2028. The OBR forecasted that inflation would hit its **2%** target by Q2 2024, supporting real wage growth and improved living standards. Public sector net debt was projected to decrease as a percentage of GDP by 2028-29, with borrowing set to fall each year, reaching the lowest level since 2001-02. The government remained on track to meet its fiscal rules, targeting a sustainable debt reduction strategy.

2. Fiscal Sustainability and Debt Management:

The government was committed to maintaining fiscal responsibility, ensuring that debt levels were managed sustainably. By 2028-29, the public sector net debt had been reduced to **94.3%** of GDP, lower than initial projections. Borrowing fell steadily each year, with total borrowing in 2028-29 projected at **1.2%** of GDP. Key fiscal policies included the extension of the Energy Profits Levy to raise additional revenues, alongside measures to tackle tax non-compliance, which were expected to generate over **£4.5 billion** by 2028-29.

3. Public Spending Reform and Productivity Enhancement:

The budget maintained a disciplined approach to public spending, focusing on efficiency and value for taxpayers. The Public Sector Productivity Programme aimed to enhance service delivery while reducing costs, with a focus on technology upgrades in the NHS and digitizing public services. The government committed **£3.4 billion** to improve NHS productivity and **£800 million** for wider public sector reforms. These reforms aimed to unlock up to **£35 billion** in cumulative savings by 2029-30.

4. Tax Cuts and Support for Workers:

A significant cut in National Insurance Contributions (NICs) for **29 million workers** was introduced, providing direct support to working families and boosting labor market participation.

The NICs rate for employees fell by 2p, saving the average worker **£900** a year. Self-employed individuals also benefited from a 2p reduction in NICs, saving around **£650** annually. These tax cuts increased total hours worked by the equivalent of nearly **100,000** full-time jobs by 2028–29.

5. Labor Market and Workforce Participation:

The government addressed long-term labor market challenges, particularly rising economic inactivity. Policies were designed to increase workforce participation, focusing on those with disabilities and long-term sickness. **£3.5 billion** was dedicated to helping individuals back into work, with an expanded focus on mental health services and NHS mental health treatment. The government also introduced initiatives to support care workers, with investments in childcare to ensure providers could expand and meet demand.

6. Labor Market and Workforce Participation:

Defense spending saw an **£11 billion** increase over five years, improving military readiness and national security. In education, funding per pupil reached its highest level in history by 2024-25. There was also increased support for infrastructure, with a focus on energy security and Net Zero investments. **£600 billion** was earmarked for public sector infrastructure investments, aiming to support economic growth and energy independence.

7. Infrastructure and Green Investments:

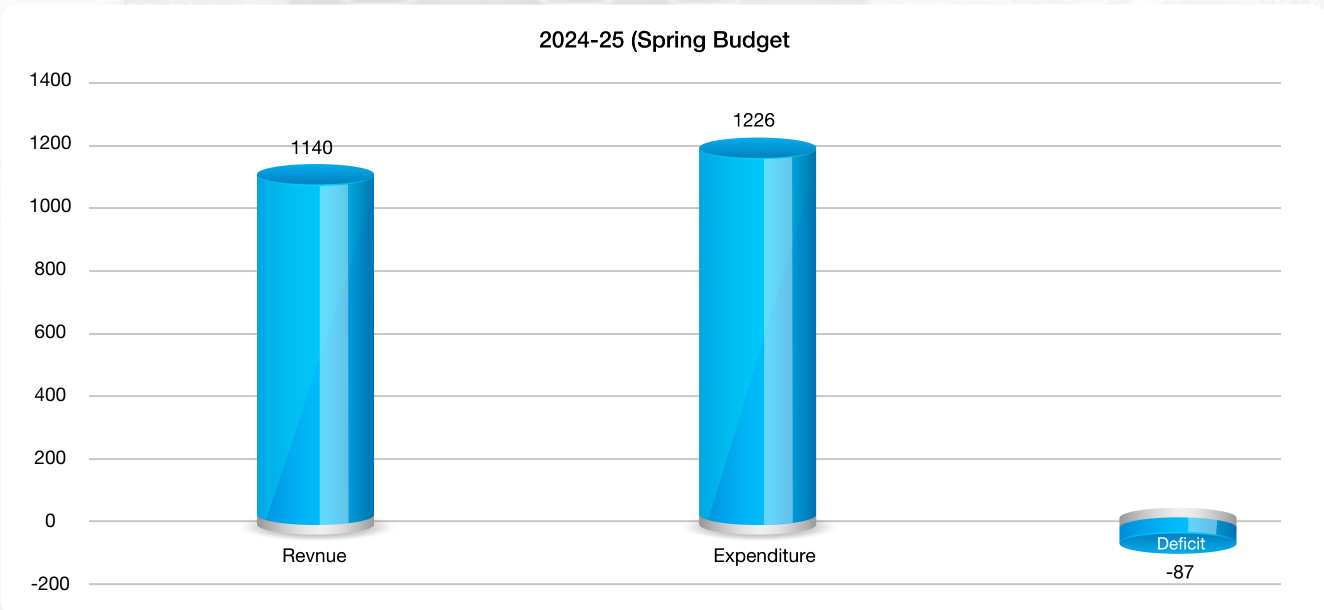
The government prioritized green infrastructure, committing significant funds toward renewable energy projects, aiming for carbon-neutral energy by 2050. There was also a focus on upgrading transportation and energy systems, which were central to the UK's Net Zero strategy. **£5 billion** was allocated for clean energy innovation and £6 billion for public transportation upgrades.

Budget Roundup Spring **2024**

Overview

8. Business Growth and Innovation:
Small and medium enterprises (SMEs) benefited from an increase in the VAT registration threshold to **£90,000,** and the introduction of new tax credits for the creative industries. **£1 billion** of new reliefs supported film studios and visual effects industries, and additional support helped the UK's space sector remain competitive globally. The government also extended support for strategic manufacturing sectors, boosting the UK ISA initiative to encourage more investment in local equities.

9. Support for Families and Cost of Living:
The government continued measures to reduce the cost of living. Fuel duties remained frozen for another year, saving the average driver **£50**. There was also an extension of the Household Support Fund to help vulnerable households with rising costs. The Child Benefit charge threshold was raised to £60,000 in April 2024, taking **170,000** families out of the tax bracket.



Budget Roundup Spring **2024**

Overview of CPIH and CPI – Historical Analysis

Inflation Decline in 2019–2020

In the years leading up to the pandemic, inflation in the UK was relatively stable. The **CPI inflation** rate started at **2.10%** but began to decline in 2019, reaching **1.30%** by the end of the year. This decline was attributed to subdued consumer demand, a slowing global economy, and lower pressures on the supply chain. However, the onset of the **COVID-19 pandemic** in 2020 led to a sharp contraction in the economy. **CPI inflation** dropped further to **0.60%** as economic activity slowed dramatically during lockdowns, while **CPIH inflation** also followed suit, dipping to **0.80%**. Lower energy prices and reduced consumer spending helped suppress inflation during this period.

Pandemic Recovery and Rising Inflation in 2021

As the UK economy began to recover from the pandemic in 2021, inflation started to rise again. By the end of 2021, **CPI inflation** had climbed to **5.40%** and **CPIH** reached **4.80%**. This rise was largely driven by several factors, including pent-up demand, supply chain disruptions, and labor shortages. As global economies began reopening, higher demand coupled with supply shortages led to increased costs for goods and services. Additionally, higher energy prices began to exert upward pressure on inflation, further accelerating the increase in both CPI and CPIH.

Energy Crisis and Peak Inflation in 2022

Inflation surged dramatically in 2022, with the **CPI** reaching a peak of **10.50%** in December, marking the highest inflation rate in the UK for decades. This was primarily due to the global energy crisis exacerbated by geopolitical instability, notably the war in Ukraine, which led to sharp increases in energy prices. CPIH also peaked at **9.20%** during this time. The inflationary pressures were further intensified by supply chain issues, rising food prices, and labor shortages across key sectors, which contributed to increased operational costs for businesses and higher prices for consumers.

Moderation of Inflation in 2023

As 2023 progressed, inflation began to moderate, with **CPI inflation** dropping to **4.00%** by the end of the year, and CPIH inflation easing to 4.20%. Several factors contributed to this easing, including the stabilization of global energy prices, the resolution of some supply chain bottlenecks, and the impact of government fiscal policies aimed at controlling inflation.

In addition, reduced consumer demand and the Bank of England's interest rate hikes began to temper inflationary pressures, signaling the beginning of inflation normalization.

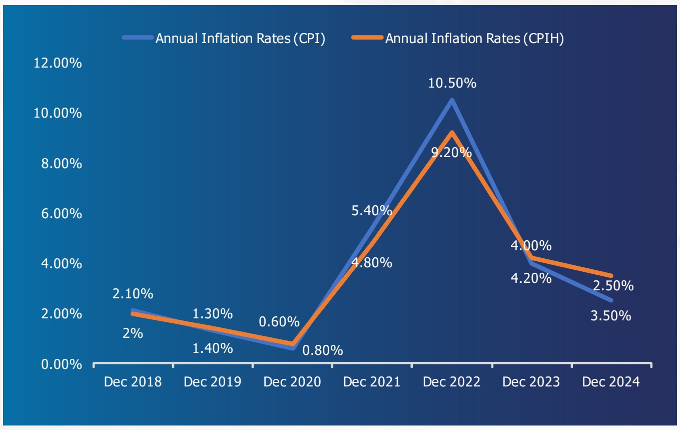
Forecasted Decline in 2024

Looking ahead, inflation is projected to decline further. **CPI inflation** is expected to fall to **2.50%** by December 2024, while **CPIH** is anticipated to decrease to **3.50%.** This decline is attributed to the continued stabilization of energy markets, easing supply chain constraints, and the ongoing effects of previous fiscal interventions. Lower inflation is expected to improve consumer confidence, support real wage growth, and help ease the cost of living for households.

Implications for the UK Economy

The fluctuations in inflation in recent years reflect a series of unprecedented global challenges, including the pandemic, geopolitical instability, and the energy crisis. The rapid rise in inflation in 2022 had significant impacts on the UK economy, leading to higher living costs, reduced consumer purchasing power, and pressure on public services. However, as inflation begins to ease, the UK economy is likely to benefit from improved consumer spending, increased business investment, and a stabilization of public finances.

The **Bank of England** has taken steps to control inflation, including raising interest rates. These efforts, alongside fiscal policies focused on supporting energy efficiency and boosting domestic production, are expected to help the UK navigate future inflationary pressures while promoting long-term economic stability.



Spring Statement Analysis **2025** United Kingdom

Overview

The **Spring Statement 2025,** delivered by Chancellor Rachel Reeves, outlines the UK government's strategic focus on national security, state reform, and sustainable economic growth. The statement addresses evolving global challenges while reinforcing fiscal stability, growth, and enhancing public sector productivity.

NHS and Healthcare Investment

A major commitment in the statement is the pledge to raise **NATO-qualified defence spending** to **2.5% of GDP by 2027,** supported by a **£2.2 billion uplift** for the Ministry of Defence in **2025–26.** This includes investments in advanced weapons systems, joint NATO exercises, and military housing, positioning defence as a key driver of economic growth and innovation through the **UK Defence Innovation (UKDI)** program.

Housing and Infrastructure Development

The government is committing **£13 billion** in capital infrastructure over five years, plus an additional **£2 billion** for **social and affordable housing** in **2026–27.** The National Planning Policy Framework (NPPF) reforms aim to deliver **170,000 additional homes,** boosting GDP by **0.2% by 2029–30** and reducing borrowing without fiscal cost.

Welfare Reform and Universal Credit

A new **pro-work welfare** strategy will save **£4.8 billion** by **2029–30.** Key reforms include rebalancing **Universal Credit,** freezing certain benefits, and incentivizing employment, especially targeting long-term economic inactivity due to ill health. The strategy is supported by an annual investment of **£1 billion by 2029–30** in **employment and health support programs.** Additionally, the **Universal Credit Standard Allowance** will increase from **£92 per week in 2025–26 to £106 per week by 2029–30**, providing further support to low-income individuals and families.

Tax & Compliance Reforms

The government is targeting over **£1 billion** in additional tax revenue per year by **2029–30** through stricter enforcement, expanded **HMRC** staff, increased penalties for late payments, and enhanced use of third-party data and AI. A modernized **digital tax system,** including the rollout of **Making Tax Digital,** will further support compliance and simplify tax administration.

Public Sector Transformation

A **£3.25 billion Transformation Fund** has been established to drive public sector productivity through technology and AI. Structural reforms include the reintegration of **NHS England** into the **Department of Health and Social Care** to improve efficiency.

Economic Outlook

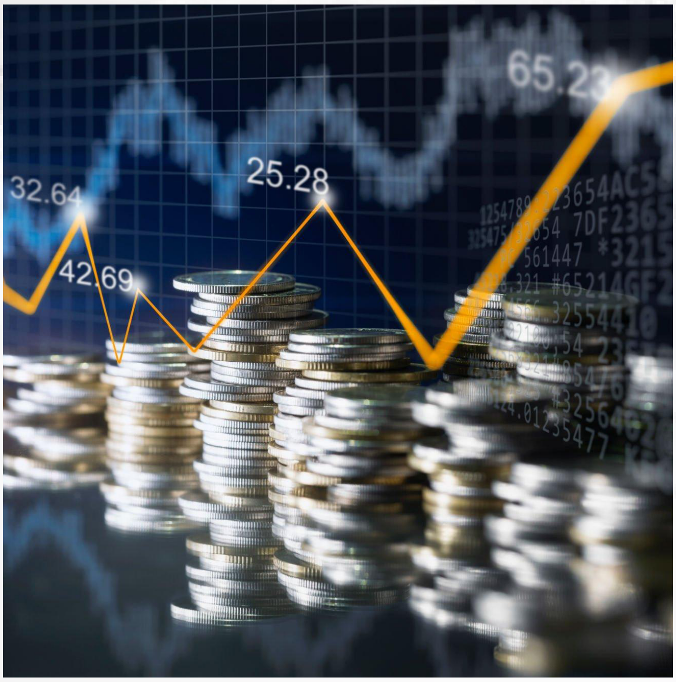
- GDP growth is forecast at **1.0% in 2025,** rising to **1.9% in 2026.**
- **Real wages** and living standards are expected to rise steadily.
- Borrowing is projected to fall from **4.8% of GDP in 2024–25** to **2.1% by 2029–30.**
- Fiscal rules are being met two years ahead of schedule, with restored headroom and a **£15.1 billion** buffer for the investment rule.

HMRC Technology & Enforcement

The government is investing in **HMRC technology** and enforcement, including a **20% increase** in prosecutions of tax fraudsters, which is expected to raise an additional **£1 billion.**

Work and Pensions

An additional **£1 billion** will be allocated to support people back into work, along with **£400 million** for the **Department for Work and Pensions** to enhance job training and placement efforts.



Spring Statement Analysis **2025** United Kingdom

Overview

01 The OBR says welfare cuts announced last week will save £3.4bn, not £5bn as the Govt previously claimed.

02 The Government has already committed to raising defence spending to 2.5% of GDP by 2027.

03 The Chancellor has already confirmed plans to cut Civil Service costs by 15%- and says 10,000 jobs could be axed.

04 The Universal Credit Standard Allowance will increase from £92 per week in 2025-26 to £106 per week by 2029-30.

05 Inflation has fallen further than expected to 2.8% according to the latest data from the Office for National Statistics.

06 A cut to foreign aid of around £6bn per year to boost defence spending was announced last month.

07 £2 billion additional per year to support economic growth and vital projects.

08 £100 billion for major infrastructure projects, including Heathrow expansion.

09 The OBR upgraded GDP growth forecasts for the following years, projecting 1.9% in 2026; 1.8% in 2027; 1.7% in 2028; and 1.8% in 2029.

10 The National Living Wage has been increased, giving 3 million people a pay rise from next week (early April 2025). i.e. £12.21 per hour.

11 £400 million for defense innovations like AI and drones.

12 £600m already announced to train up to 60,000 more skilled construction workers to hit target of building 1.5m homes.

13 Aid to be cut to 0.3% of gross national income.

14 Inflation: Forecast to fall to 2% by 2027.

15 Freezes health/disability benefits for new claimants at 50% of current rates.

16 £2 billion extra for social housing to deliver 18,000 new homes.

17 £15.1 billion allocated over the next decade for housing construction, aiming to deliver 1.5 million homes.

18 The government is investing in HMRC technology and enforcement (including a 20% increase in prosecutions of tax fraudsters), which will raise an additional £1billion.

19 An additional £2.2bn to be provided to the Ministry of Defence next year.

20 OBR downgrades UK GDP growth forecast from 2% to 1% for 2025.

21 The OBR estimates cuts to the welfare budget will save £4.8bn.

Spring Statement Analysis **2025** United Kingdom

Overview

Total Revenue
£ 1,229 Billion

Total Expenditures
£ 1,347 Billion

Deficit
£ -118 Billion

Net Public Debt
£ 2,897 Billion

Fiscal Estimates

% Inc/Dec

Description	Estimated in 2024-25	Budgeted in 2025-26	% Inc/Dec
		------------- £ in billions	
Tax and national insurance revenue	1,015.71	1,101.56	8%
Non-tax revenue	125.52	127.94	2%
Total Revenue	1,141.23	1,229.50	8%
Total Expenditures	1,278.56	1,347.19	5%
Surplus/ (Deficit)	(137.33)	(117.69)	-14%

Spring Statement Analysis **2025** United Kingdom

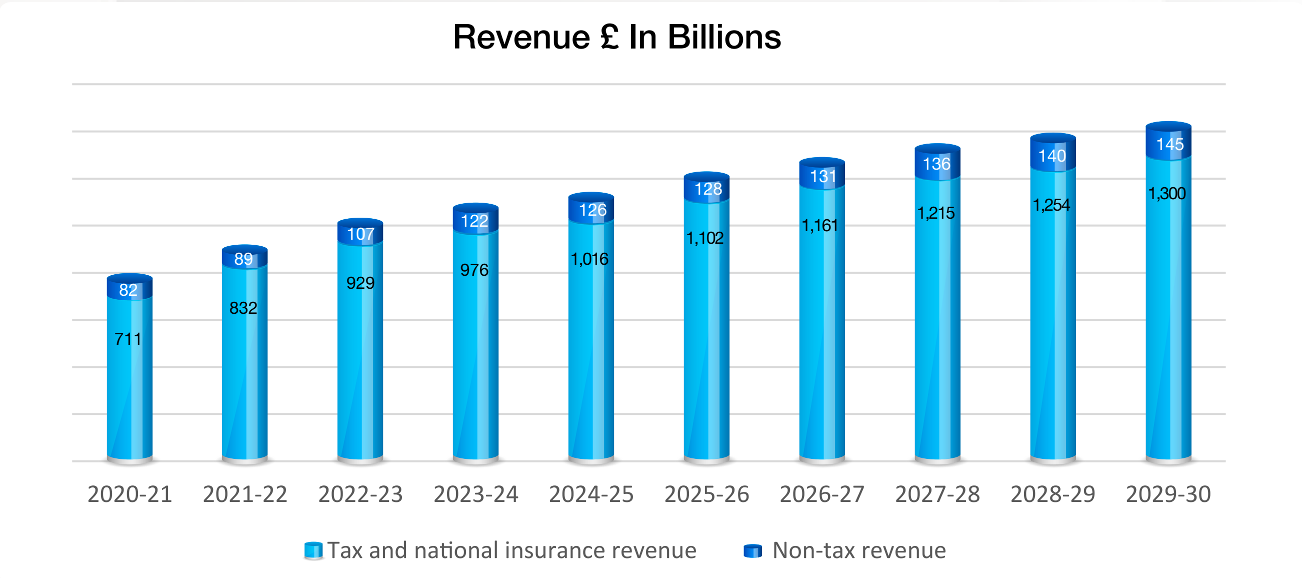
Revenue

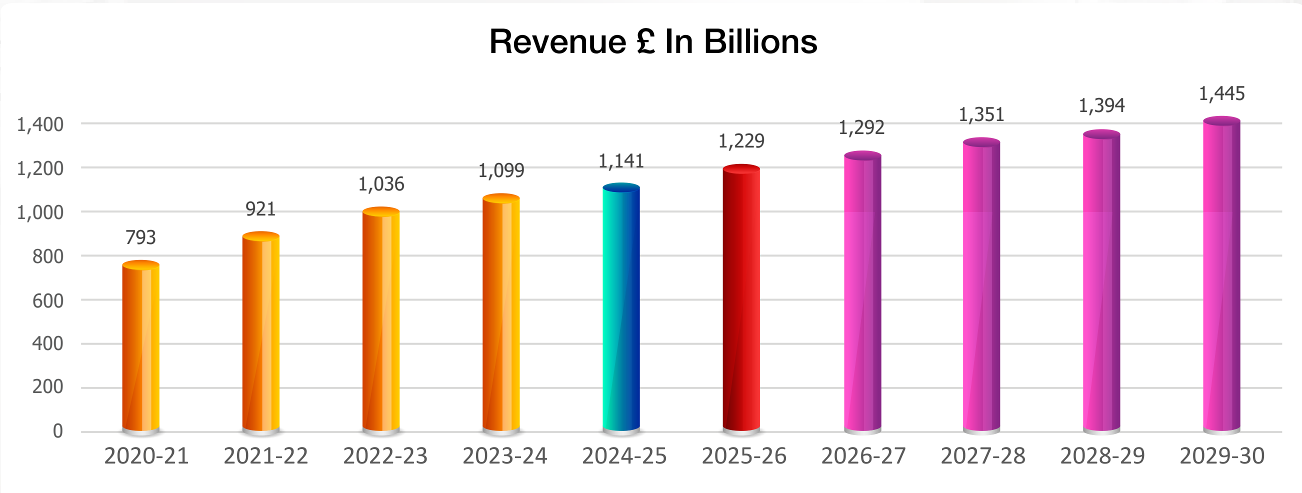
The UK's projected revenue continues on an upward trajectory, rising from £1,394 billion in 2028–29 to £1,445 billion in 2029–30, reflecting an increase of approximately 3.66%. This increase is driven by fiscal reforms, including ongoing efforts to modernize HMRC operations, expand digital tax systems, and close the tax gap through stronger compliance enforcement.

Compared to 2027–28, when revenue stood at £1,351 billion, the figures indicate a 3.17% increase in 2028–29, highlighting the government's continued focus on enhancing revenue collection.

In the first chart, the total revenue, including Tax and National Insurance revenue and Non-tax revenue, shows a steady increase from £832 billion in 2021–22 to £1,300 billion in 2029–30, driven by continued growth in tax collections and other revenue sources. The breakdown of tax-related revenue shows significant growth, with Tax and National Insurance revenue contributing the largest share of the total.

In the second chart, Total Revenue (covering both tax and non-tax revenue) also shows consistent increases from £793 billion in 2020–21 to £1,445 billion in 2029–30. This reflects the ongoing impact of government fiscal policies and efforts to broaden the tax base, improve tax collection efficiency, and stimulate business and individual incomes.



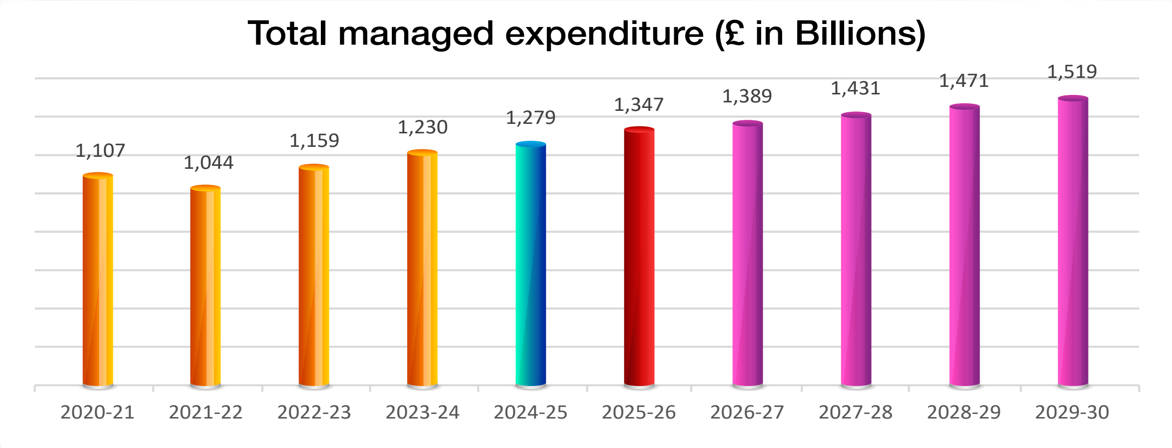


Spring Statement Analysis **2025**
United Kingdom

Expenditure

For the fiscal years 2025-26 and 2026-27, the UK's total managed expenditure is projected to rise from £1,279 billion to £1,347 billion, reflecting an increase of 5.32%. This growth aligns with the government's priority areas, including increased funding for healthcare services, defense, and essential infrastructure projects. Investments are focused on reducing NHS backlogs and enhancing defense readiness in response to global security concerns, along with continued infrastructure development to support economic growth and transition to green energy.

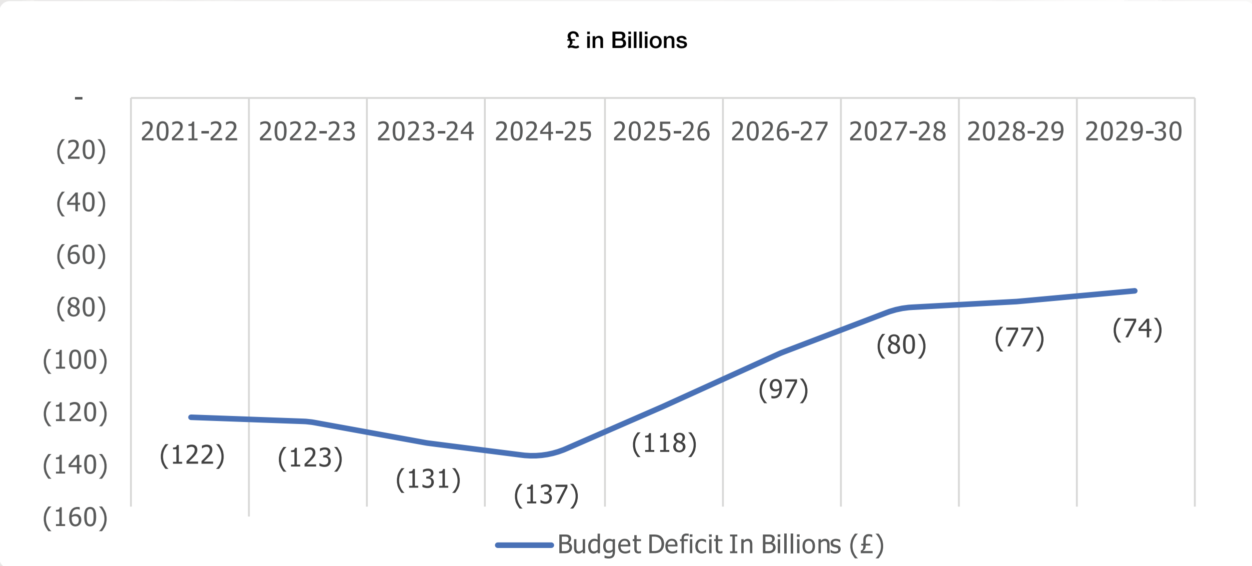
When comparing 2025-26 to the previous year, 2024-25, total managed expenditure increases from £1,230 billion to £1,279 billion, marking a 3.99% rise. This steady increase reflects the government's ongoing efforts to support public services while investing in long-term strategic priorities like defense, healthcare, and sustainable infrastructure.



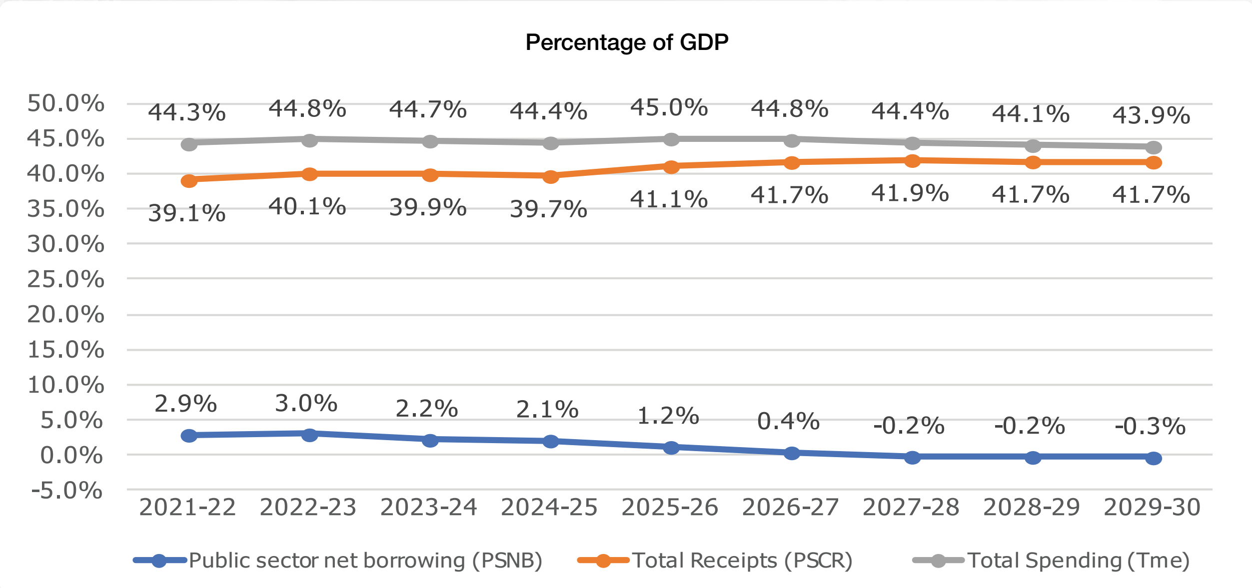
Spring Statement Analysis **2025** United Kingdom

Budget Deficit:

For the fiscal years 2024-25 and 2025-26, the UK's budget deficit is projected to decrease from £137 billion to £118 billion, representing a 13.87% reduction. This improvement reflects the government's fiscal strategies to reduce the deficit, including measures to control expenditure and increase revenue. Key actions focus on streamlining public sector spending, prioritizing investment in key sectors such as defense, healthcare, and infrastructure, while limiting non-essential spending. Additionally, continued reforms in tax compliance, particularly targeting high-net-worth individuals and corporations, are expected to generate increased revenues, helping to reduce the deficit further while maintaining support for essential public services.



Percentage of GDP:

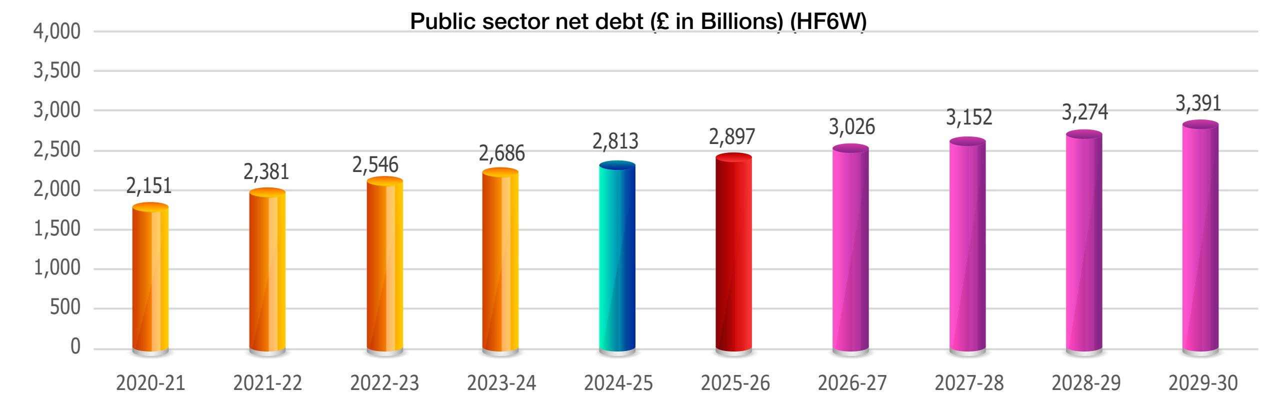


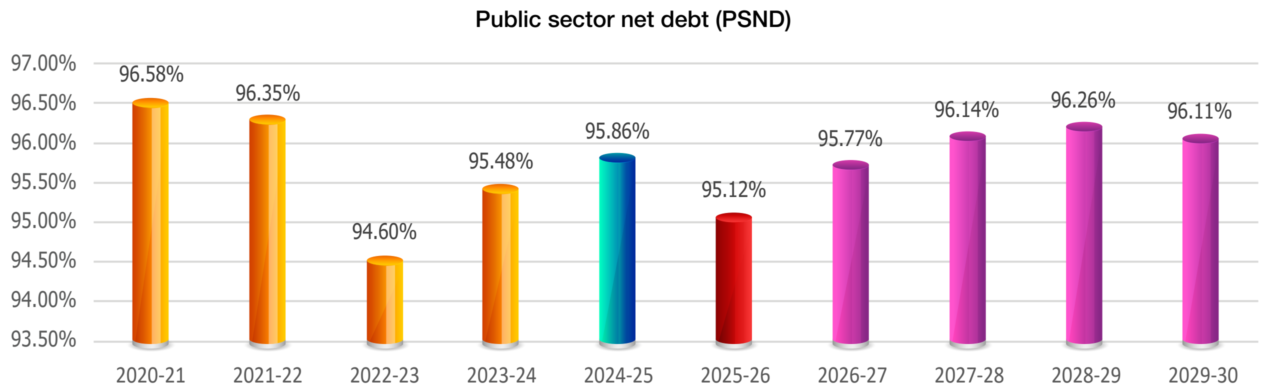
Spring Statement Analysis **2025** United Kingdom

Public Sector Net Debt

In 2024-25, the UK's public sector net debt is projected to reach £2,813 billion, increasing to £2,897 billion in 2025-26, reflecting a 2.99% rise. This gradual increase is in line with the government's continued investment in key sectors such as healthcare, defense, and infrastructure, aimed at driving economic growth and improving public services. Despite the rise, the government remains focused on reducing the debt-to-GDP ratio by pursuing targeted fiscal reforms and maintaining disciplined public spending.

Regarding public sector net debt as a percentage of GDP (PSND), 2023-24 was expected to be 95.48%, with a slight increase to 95.86% in 2024-25. This gradual rise is part of a strategy to manage public sector debt while ensuring fiscal stability. The PSND is projected to slightly decrease to 95.12% in 2025-26, before stabilizing with 96.14% in 2027-28 and 96.11% in 2029-30, supporting long-term economic growth and fiscal sustainability.

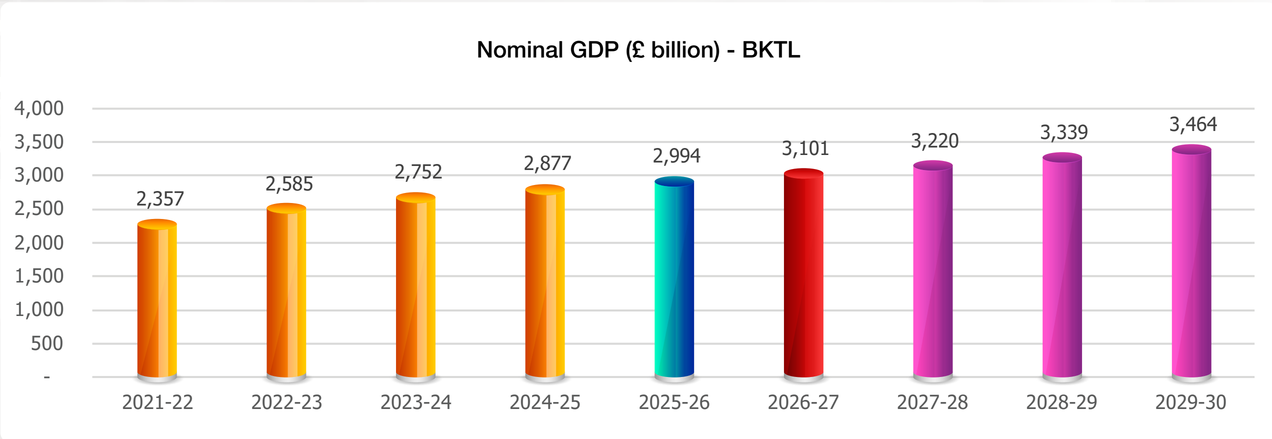




Spring Statement Analysis **2025** United Kingdom

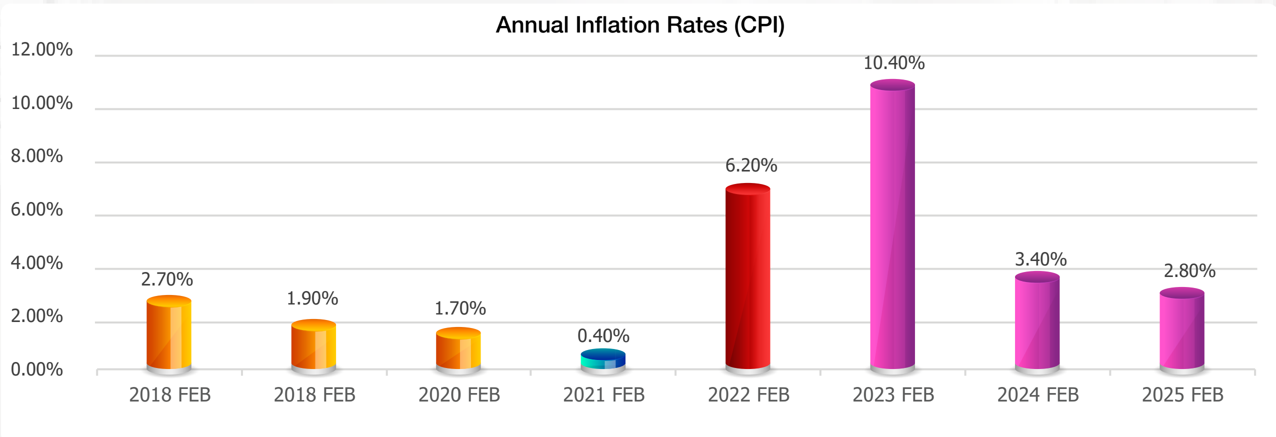
Nominal GDP

In 2024-25, the UK's nominal GDP was projected to reach £2,877 billion, increasing to £2,994 billion in 2025-26, marking a 4.07% growth. This rise reflects the positive economic impact of policies introduced in the Spring Budget 2024, including investments in green technologies, infrastructure development, and workforce training programs aimed at boosting productivity. Additionally, measures to support small and medium enterprises (SMEs) through tax incentives, along with enhanced public investment in major infrastructure projects, are expected to stimulate job creation and drive economic growth.



Inflation

The UK's annual inflation rate (CPI) was 2.70% in February 2018, falling to 0.40% in February 2021 due to the pandemic. It surged to 6.20% in February 2022 and peaked at 10.40% in February 2023, driven by global supply chain disruptions and rising energy prices. By February 2024, inflation moderated to 3.40% and is expected to decline to 2.80% in February 2025, reflecting government measures to stabilize energy costs and control inflation.



Key Terms and **Sources**

Key Terms

Key Terms	Definitions
CPIH	Consumer Prices Index including owner occupiers' housing costs.
CPI	Consumer Prices Index
OBR	Office for Budget Responsibility
HI-CBC	High-Income Child Benefit Charge
SMEs	Small and medium enterprises
GDP	Gross Domestic Product
PSND	Public Sector Net Debt
NIC	National Insurance Contributions
NHS	National Health Service

Key Sources

1. https://www.gov.uk/government/publications/autumn-budget-2024
2. https://obr.uk/public-finances-databank-2024-25/
3. https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23

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