

OBR Forecast Blunder Leaves £18 Billion Gap in Reeves's Budget

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The UK's fiscal watchdog has admitted that years of “overly optimistic” economic forecasts could leave Chancellor Rachel Reeves facing a budget shortfall of up to £18 billion, raising urgent questions over the sustainability of the government's financial plans.

The Office for Budget Responsibility (OBR), which provides independent economic forecasts for government spending and taxation, conceded in its latest report that it had consistently overestimated the country's growth prospects. Analysts now warn that the miscalculation could punch a significant hole in the Chancellor's already narrow fiscal headroom, potentially forcing a rethinking of planned policies.

At the heart of the issue are productivity and growth assumptions that the OBR now concedes were inflated. Since 2010, the body's medium-term forecasts have tended to overstate economic growth by an average of 0.7 percentage points. While that may seem modest on paper, the real-world impact is anything but: revised projections suggest that government revenues could fall short by £9 billion to £18 billion per year. With Reeves working from a budget that includes a slim £10 billion buffer, the miscalculation could severely limit her room to maneuver.

The Chancellor, who has staked her credibility on a message of economic stability and fiscal responsibility, now faces difficult choices ahead of her first autumn statement. Without new sources of revenue or faster growth, Reeves may be forced to either raise taxes, scale back spending commitments, or risk breaking the government's fiscal rules.

The OBR attributed the forecast errors to misjudged expectations around UK productivity and net migration. These missteps come at a time when the Bank of England and leading economists have already flagged long-standing structural weaknesses in the economy, including sluggish business investment and an underperforming labor market.

Bank of England Governor Andrew Bailey has cautioned that hopes for a sudden rebound in productivity are unrealistic without substantial

innovation and capital investment. His warning adds weight to concerns that Britain's growth potential is more constrained than previously believed.

The findings are a setback for Reeves, who entered office pledging sound fiscal management and long-term investment. As pressure mounts, the Treasury must now decide whether to absorb the blow quietly or confront it head-on through politically risky adjustments. Either way, the OBR's admission will sharpen scrutiny of how this government plans to balance ambition with economic reality.