Recession forecast next year but largest budget surplus 'in a generation' to come

A recession is on the horizon and the chancellor "is in a terrible bind" as low growth and high-interest payments on debt mean little room for manoeuvre, according to a respected think tank.

The UK economy is stuck between the possibility of low growth and persistently high inflation, the Institute for Fiscal Studies (IFS) said in its green budget report.

As a result, there is no capacity to cut taxes or increase spending, it said.

Policy makers risk recession if unfunded tax cuts are introduced, as they could cause more inflation and lead the Bank of England to bring borrowing costs up by hiking interest rates or keeping them higher for longer.

Interest rates were **brought to 5.25%** after 14 consecutive rises in an effort to tame the rate of price rises.

Heightened borrowing costs and lower company profits have led bank Citi (who produced economic forecasting for the report) to expect a "moderate recession" through the first half of next year.

A recession is two back-to-back three-month periods where there is a negative amount of economic growth.

At the same time the government is set to have the largest budget surplus "in a generation" as the amount of tax coming into state coffers will be greater than government outgoings.

State borrowing will be £20bn less than predicted by the independent official forecasters, the Office of Budget Responsibility (OBR).

Rising wages mean more tax is being taken in. Previous analysis from the IFS said the UK's tax burden is the **largest since the Second World War**.

Despite overall borrowing estimated to be lower than first thought, the amount of money in interest payments on public debt will grow, the report said.

Echoing statements made by Jeremy Hunt to Sky News last week, the report said £30bn more in interest payments could be paid this year than expected.

Pressure will mount on the government to increase public spending more than current plans but from March 2025 there are likely to be effective cuts in the budgets of government departments and falling spending on public services, the report added.

The publication comes ahead of the chancellor's autumn statement on 22 November.

The rate of price rises in the UK has remained high with the consumer price index (CPI) measure of **inflation at 6.7%** in August, more than triple the goal of the UK central bank, the Bank of England.

It’s not just the chancellor who faces pressure. Prime Minister Rishi Sunak has staked some of his political success on a growing economy by making it **one of his five priorities**.

Latest figures show the rate of economic growth – gross domestic product (GDP) – was **0.2% in August** this year after a contraction of 0.5% in July.

“Contrary to previous reporting, the UK’s growth projections have recently been dramatically upgraded with the IMF confirming that the UK will grow faster than Germany, France and Italy in the long term, as well as being the fastest major European economy to recover from the pandemic,” a spokesperson for the Treasury said.

“We must stick to our plan that we are delivering to halve inflation, which will help unlock sustainable growth, support families with the cost of living and get debt falling.”

In response, the Labour shadow chief secretary, Darren Jones said: “Successive failures by Conservatives ministers have left us with low growth, high tax and national debt at the highest level in generations. Britain cannot afford another five more years of the Conservatives.”