

Office for  
**Budget  
Responsibility**

## **Economic and fiscal coronavirus scenarios**

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Pwyllgor Cyfrifoldeb Cyllidebol / Budget Responsibility Committee

Cynhadledd ar drethi Cymru / Welsh taxes conference

8 Hydref / 8 October 2020

# Background

# The remit of the OBR

- **Five initial tasks:**
  - Medium-term economic and fiscal forecasts
  - Assessment of progress against fiscal targets
  - Scrutiny of tax and welfare measure costings
  - Long-term and balance sheet analysis
  - Evaluation of past forecast accuracy
- **Additional tasks:**
  - Forecasting devolved tax receipts (since 2012)
  - Regular report on trends in welfare spending (since 2014)
  - Regular fiscal risks report (since 2017)
- **But no policy advice**

# The OBR and Welsh taxes

- **Forecasting devolved taxes in Wales**
  - Forecasts produced since 2014
  - From 2019: official independent forecaster for Welsh Government
  - Inaugural *Welsh taxes outlook* published in December 2019
  - Built on previous work by Bangor University
  - Transparent about judgements, uncertainty and process
  - Aim to produce central forecasts, but will inevitably differ from outturn

# **July 2020**

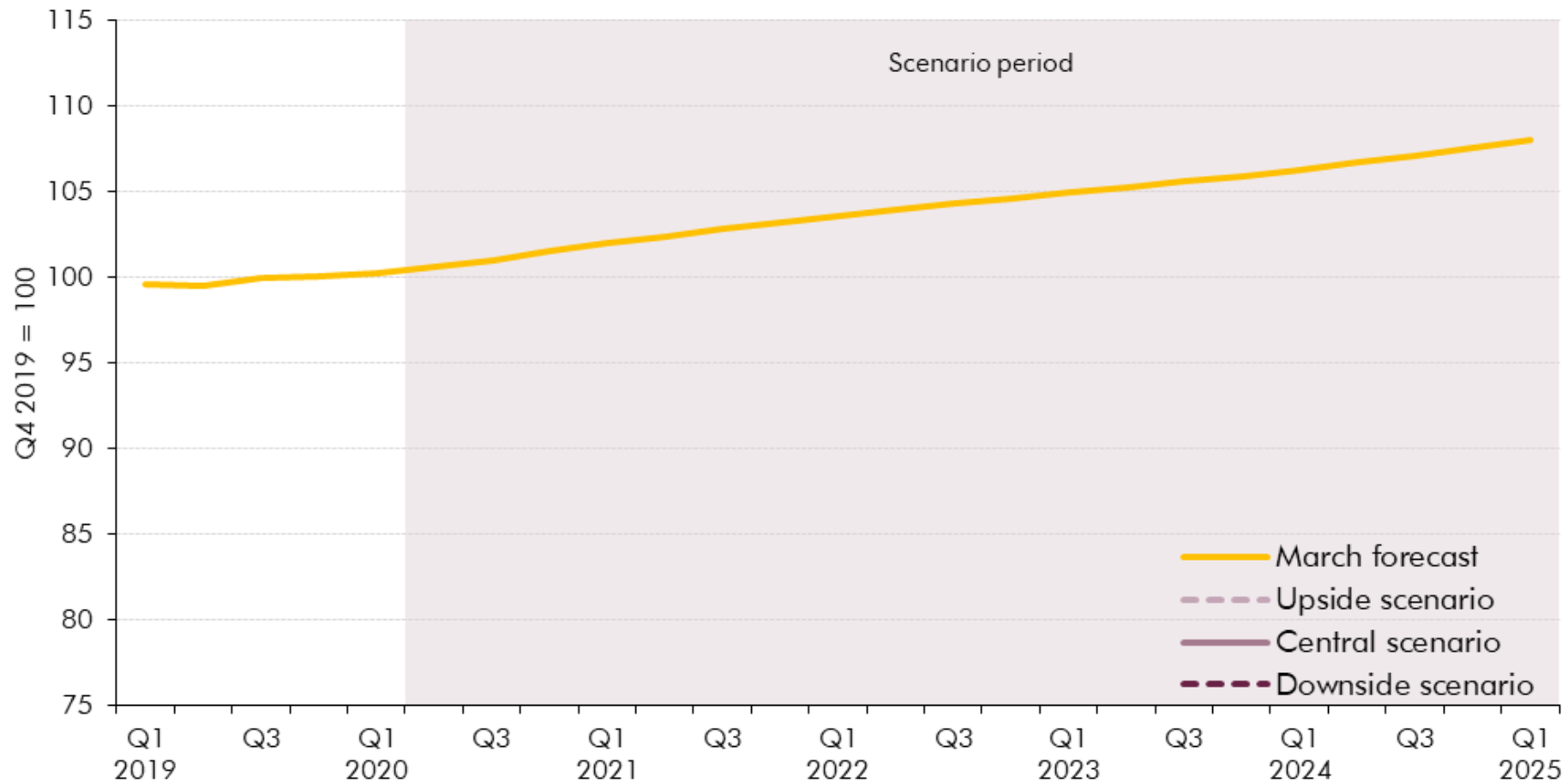
## ***Fiscal sustainability report***

# **Economic scenarios**

# The three scenarios

- **Starting point: GDP fell by 25% between February and April. Now recovering**
- **Pace of recovery and long-term 'scarring' depend on**
  - Course of pandemic and development of effective vaccines and treatments
  - Speed and consistency with which Government lifts health restrictions
  - Response of individuals and businesses as it does so
  - Effectiveness of policy in protecting viable businesses and sustaining employment
- **Three scenarios**
  - Upside: GDP down 10.6% this year; pre-virus peak by 21Q1; no long-term scarring
  - Central: GDP down 12.4% this year; pre-virus peak by 22Q4; GDP down 3% at horizon
  - Downside: GDP down 14.3% this year; pre-virus peak by 24Q3; GDP down 6% at horizon
- **These are only three illustrative possibilities of many**

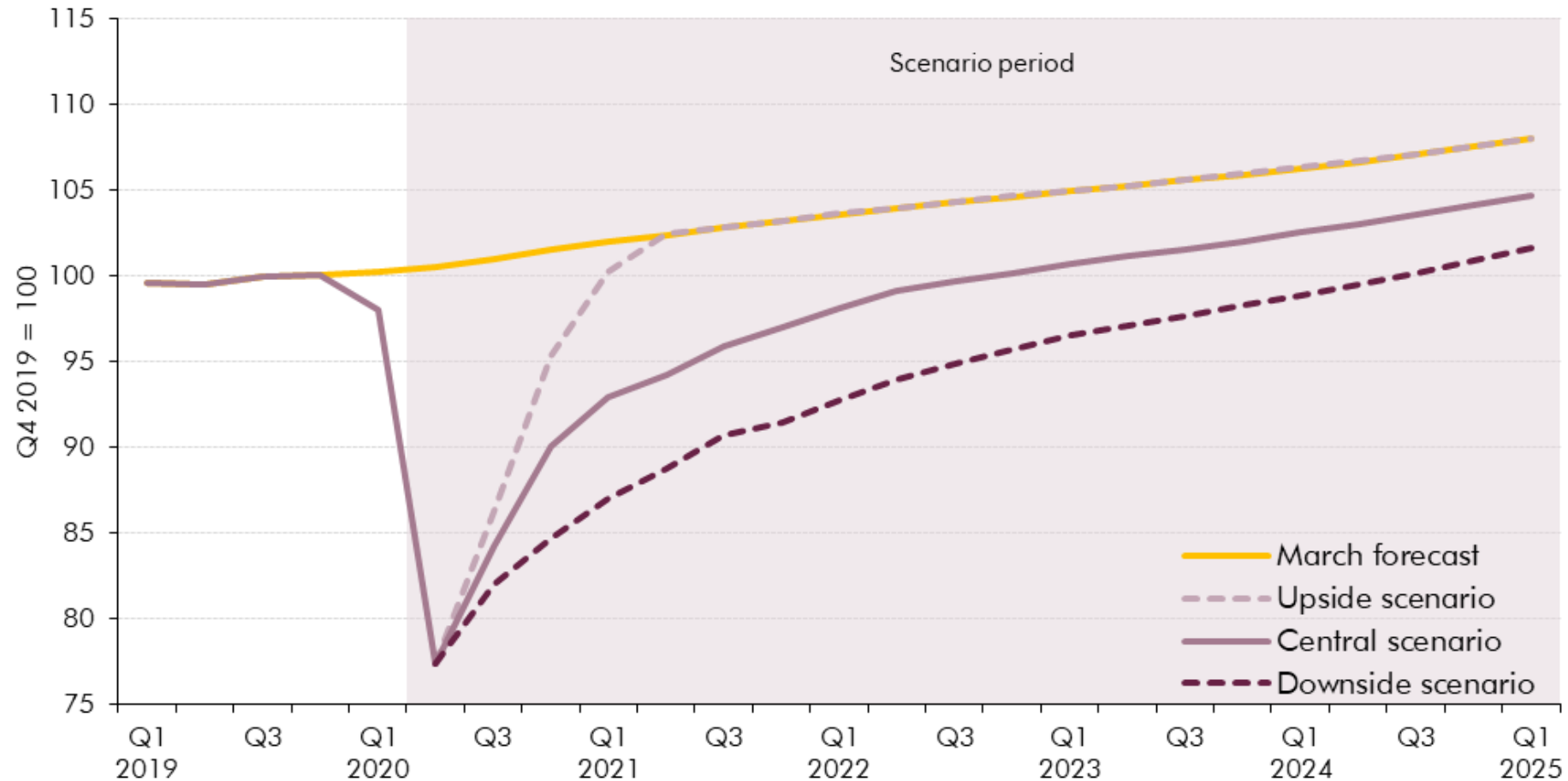
# Real GDP versus March forecast



Source: ONS, OBR

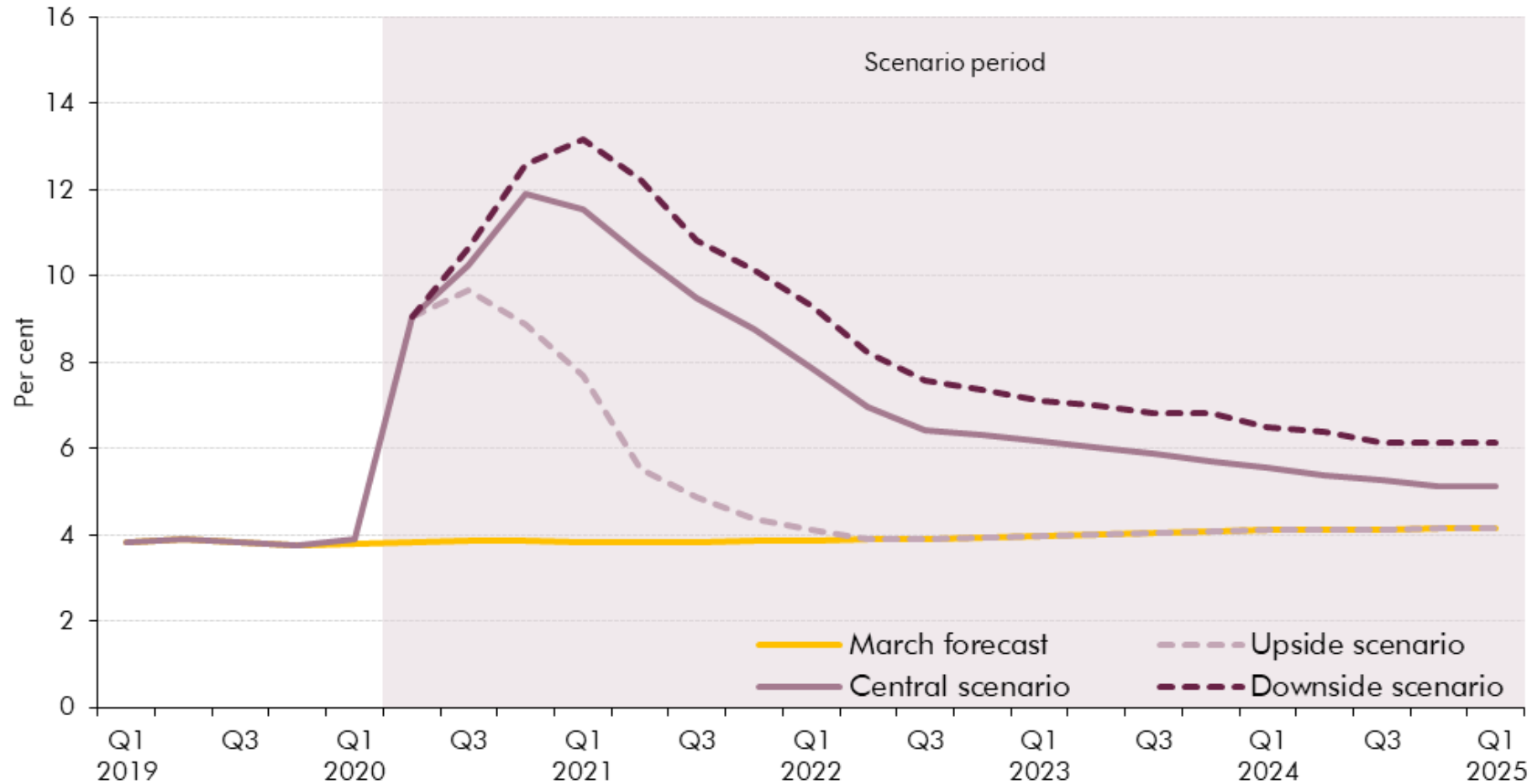


# Real GDP versus March forecast



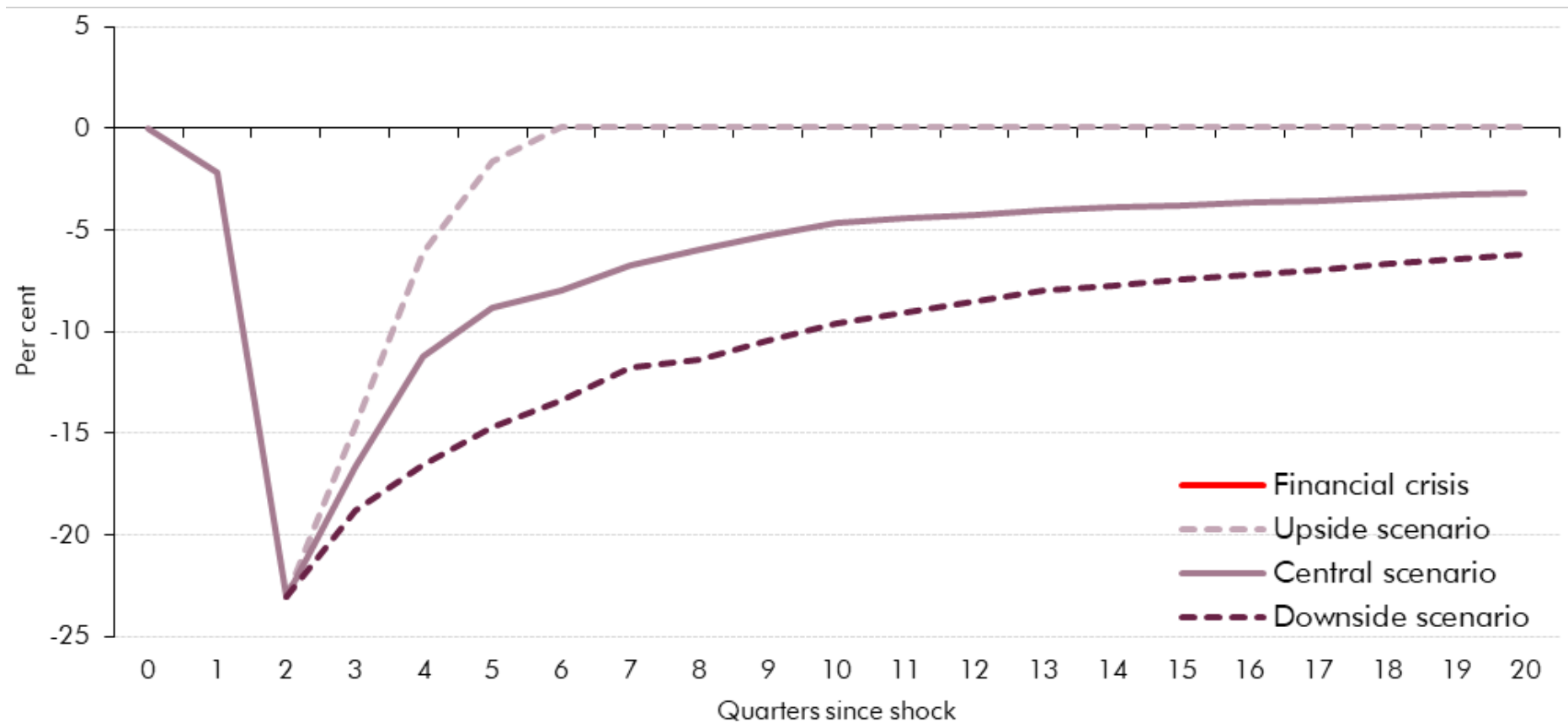
Source: ONS, OBR

# Unemployment rate



Source: OBR, ONS

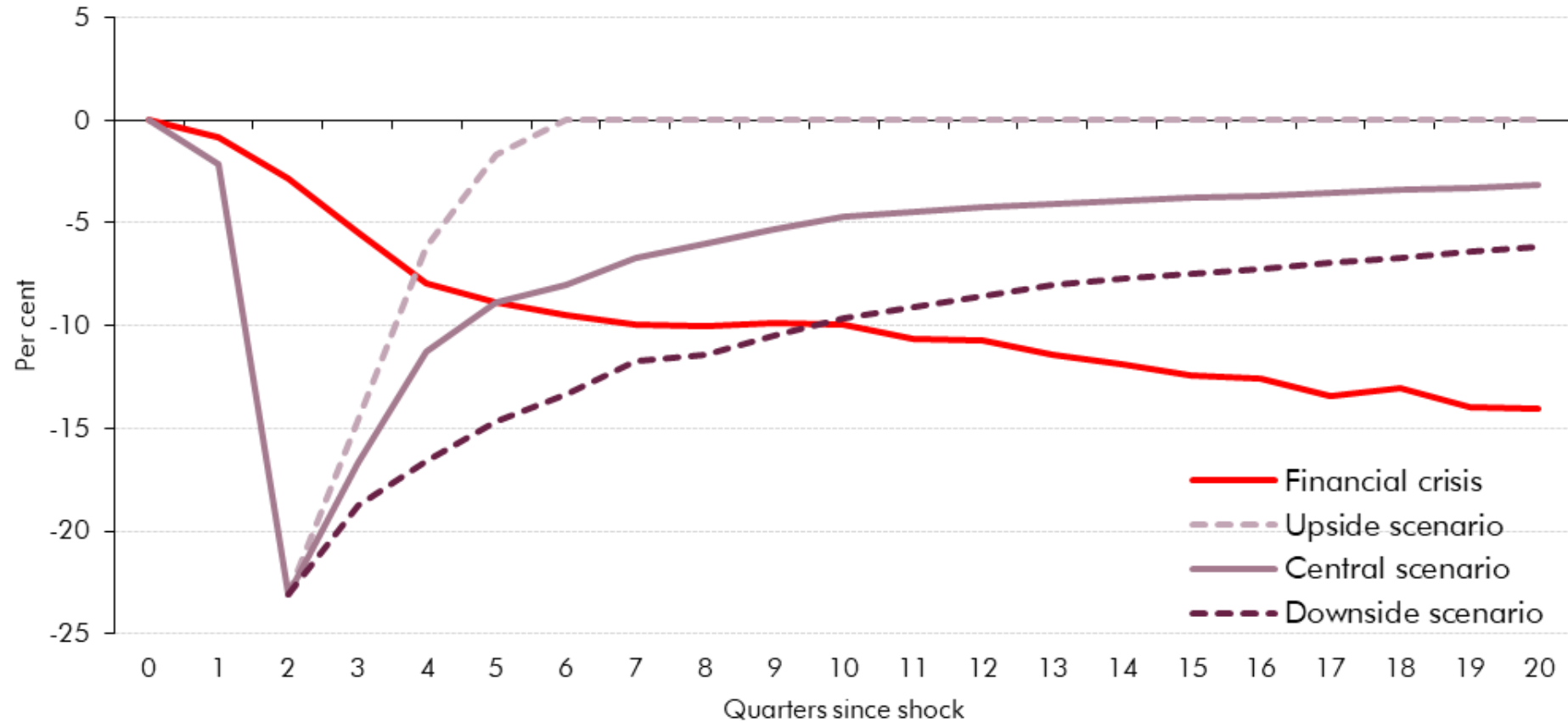
# Real GDP shortfalls vs pre-shock forecasts



Note: The 'shock' refers to the first quarter in which GDP contracted. For the central, upside and downside scenarios, it is Q1 2020 and for the financial crisis, it is Q2 2008.

Source: ONS, OBR

# Real GDP shortfalls vs pre-shock forecasts

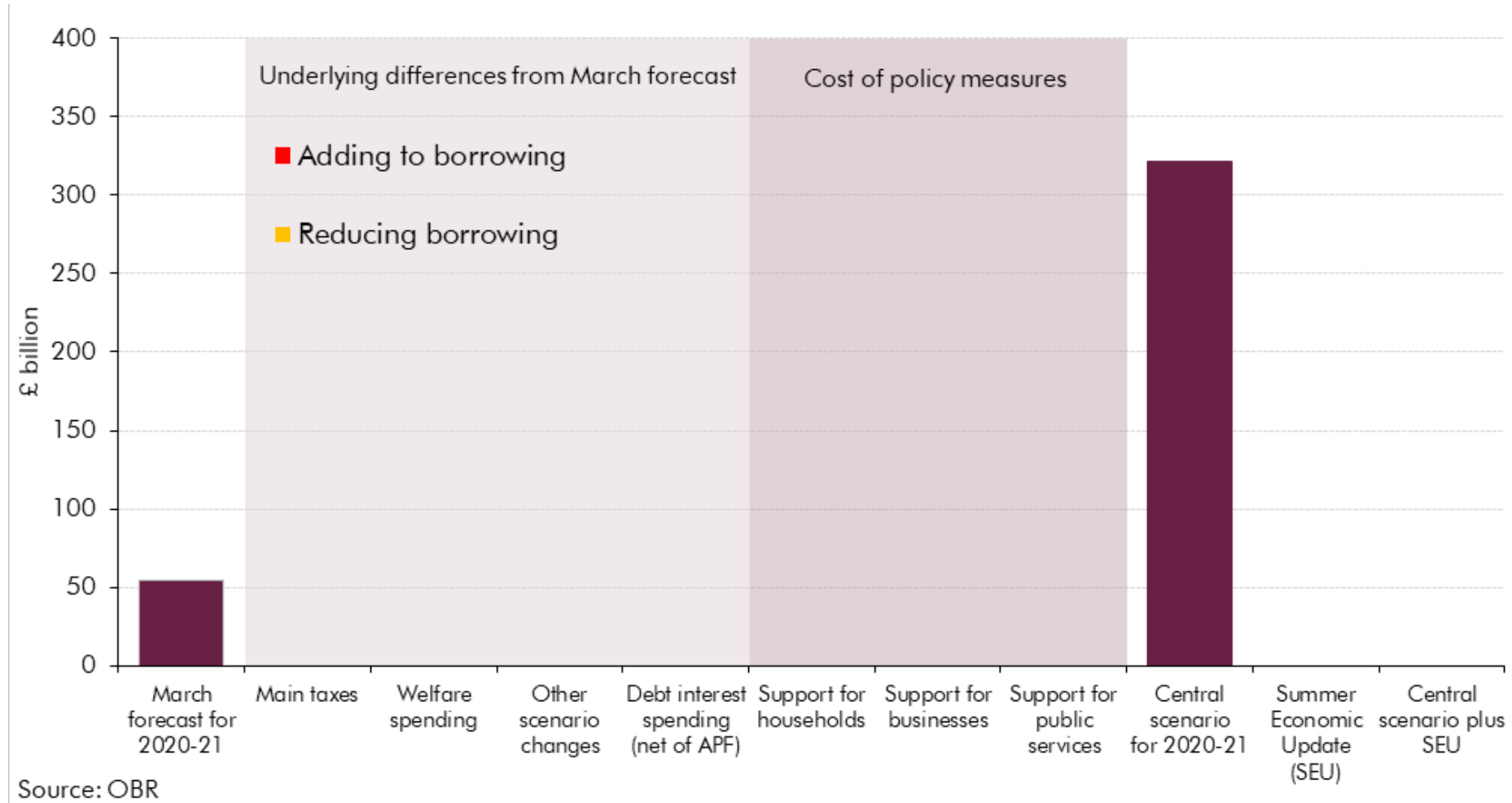


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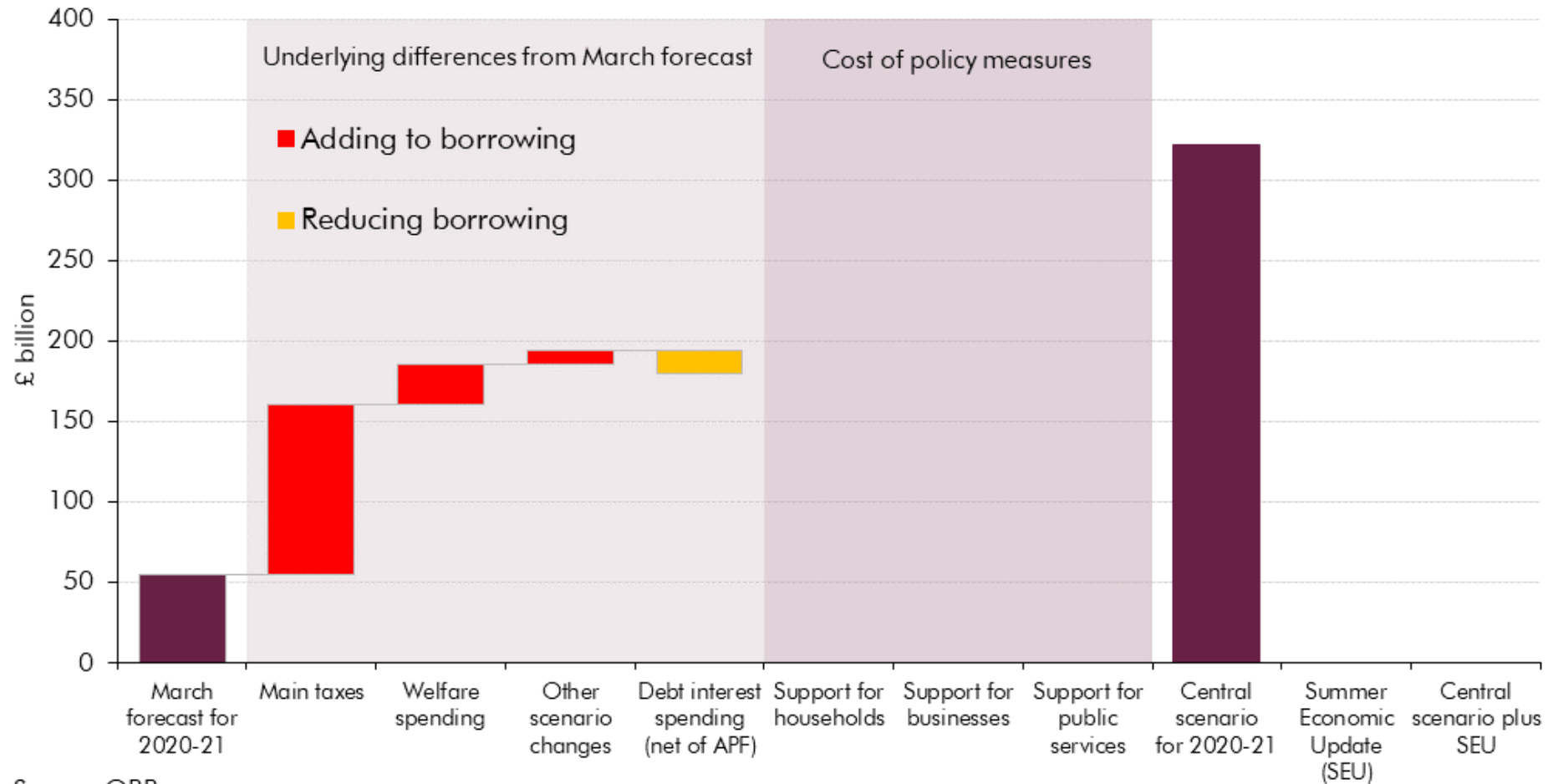
Source: ONS, OBR

# Fiscal scenarios

# Borrowing in 2020-21: central scenario

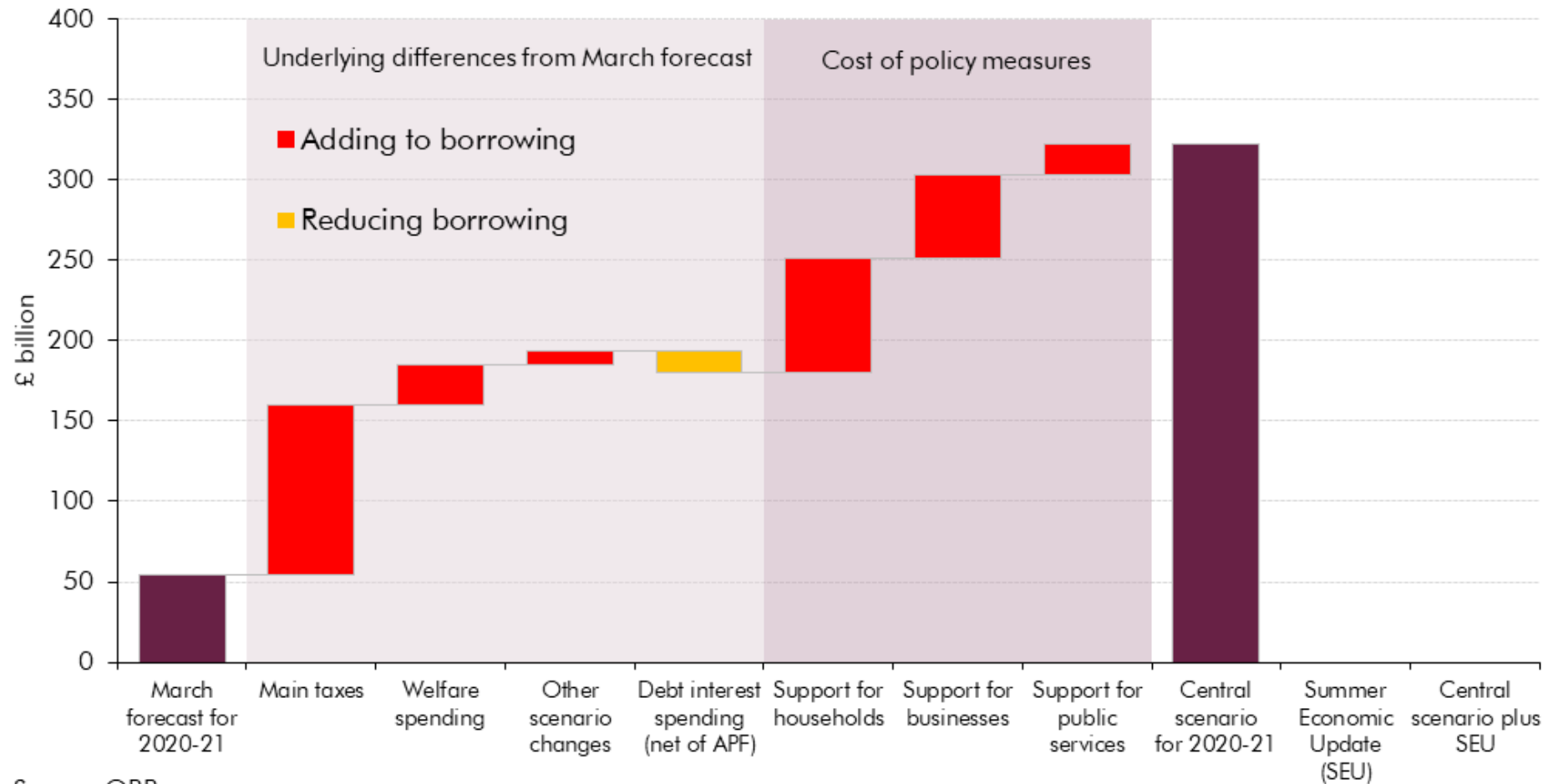


# Borrowing in 2020-21: central scenario



Source: OBR

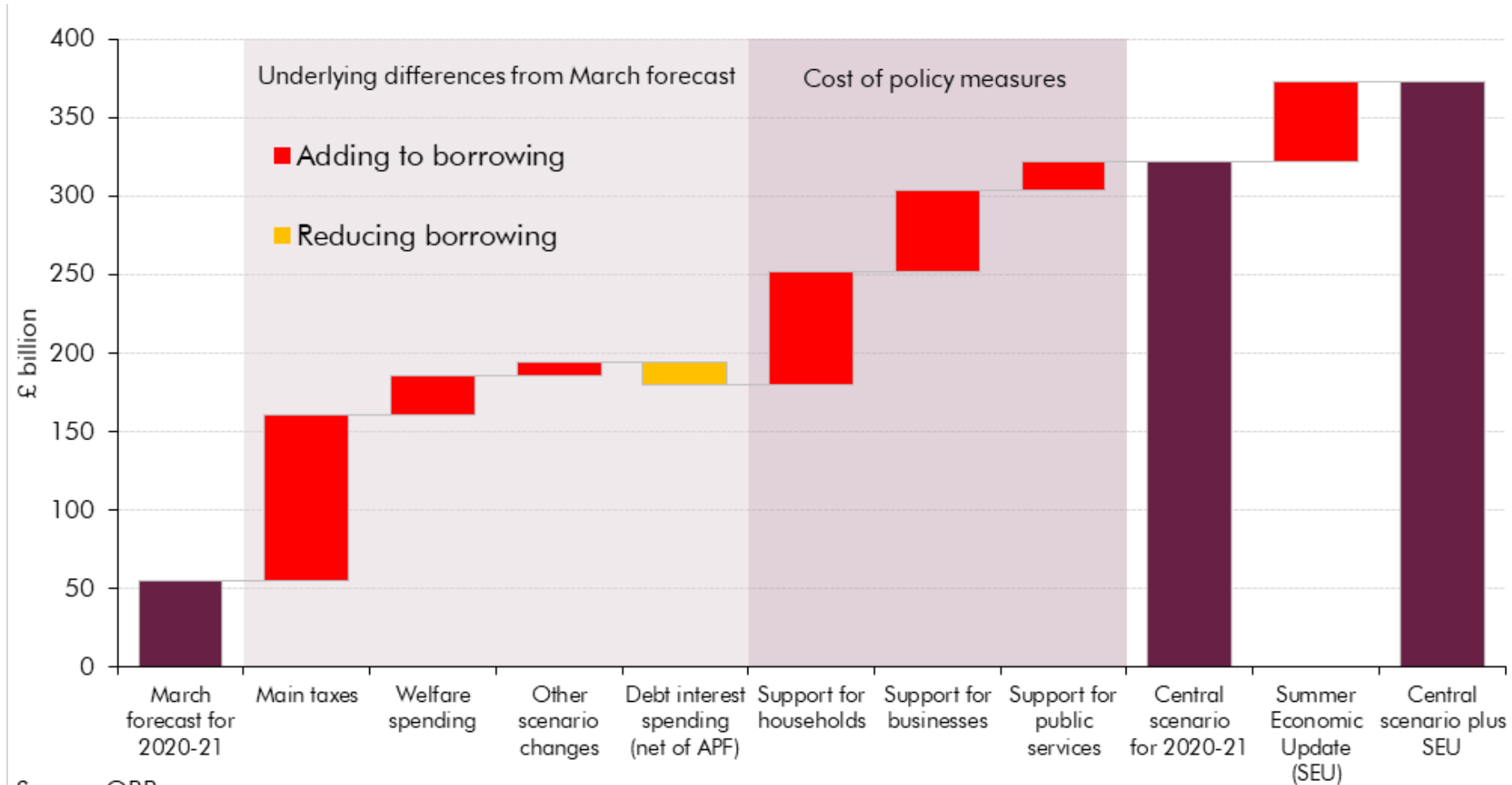
# Borrowing in 2020-21: central scenario



Source: OBR

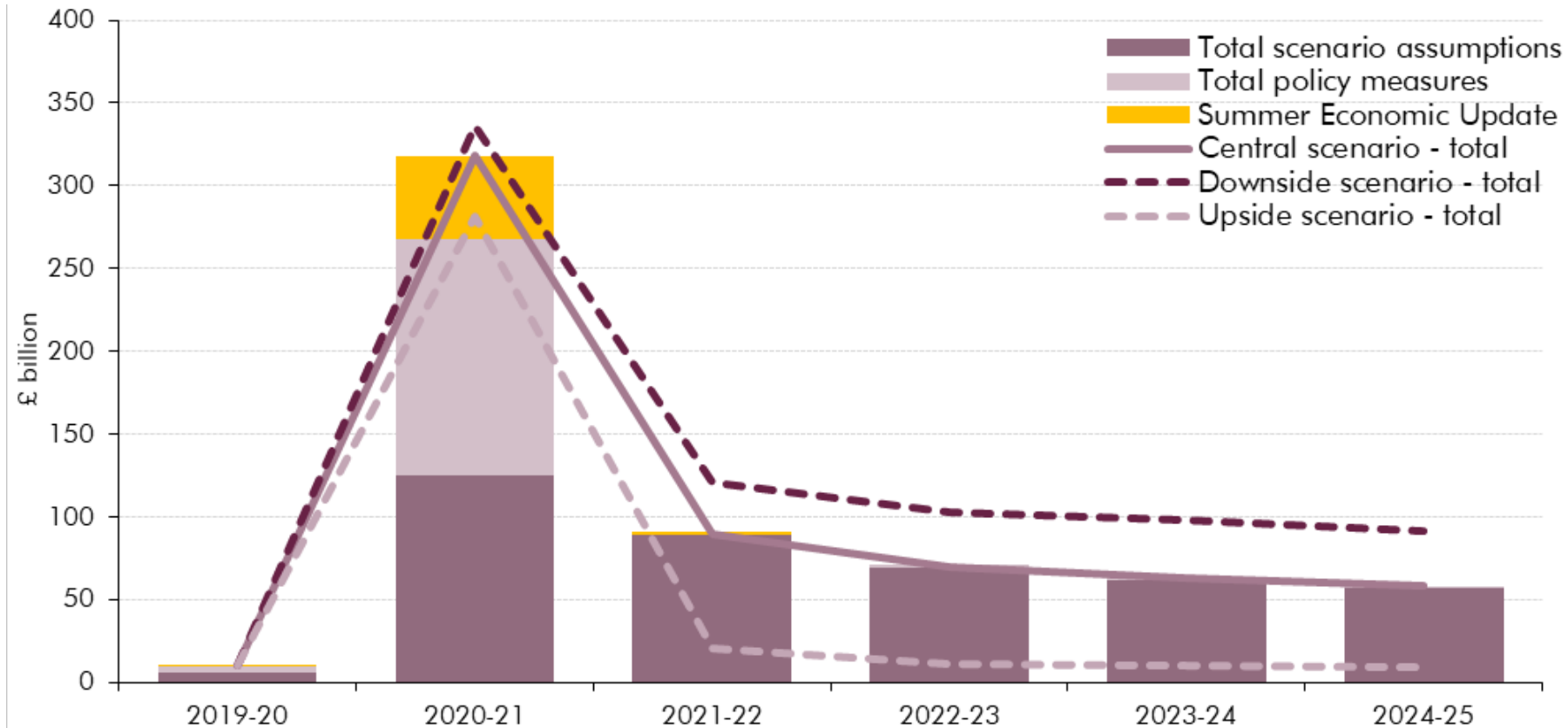


# Borrowing in 2020-21: central scenario



Source: OBR

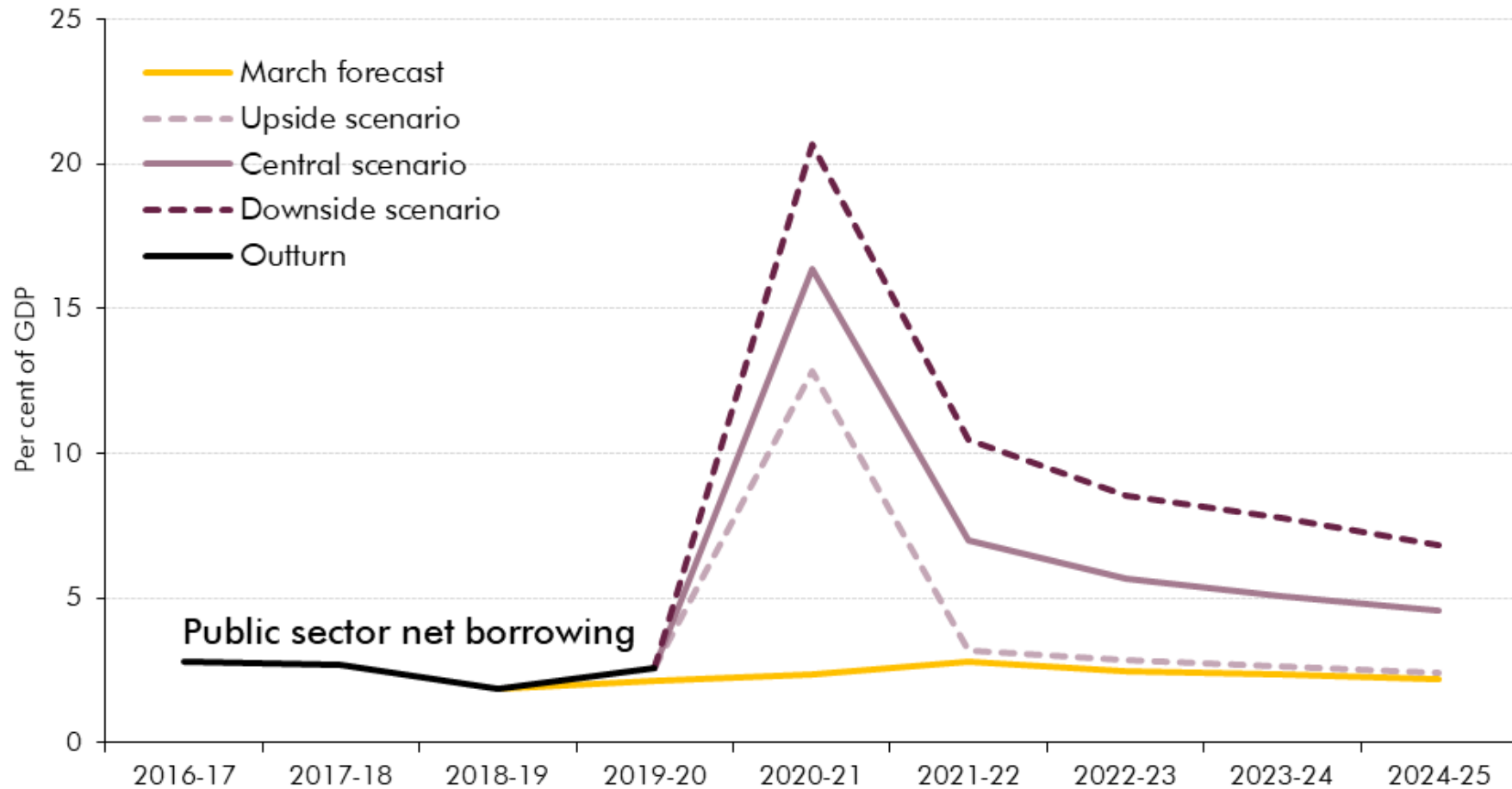
# Borrowing vs March: central scenario



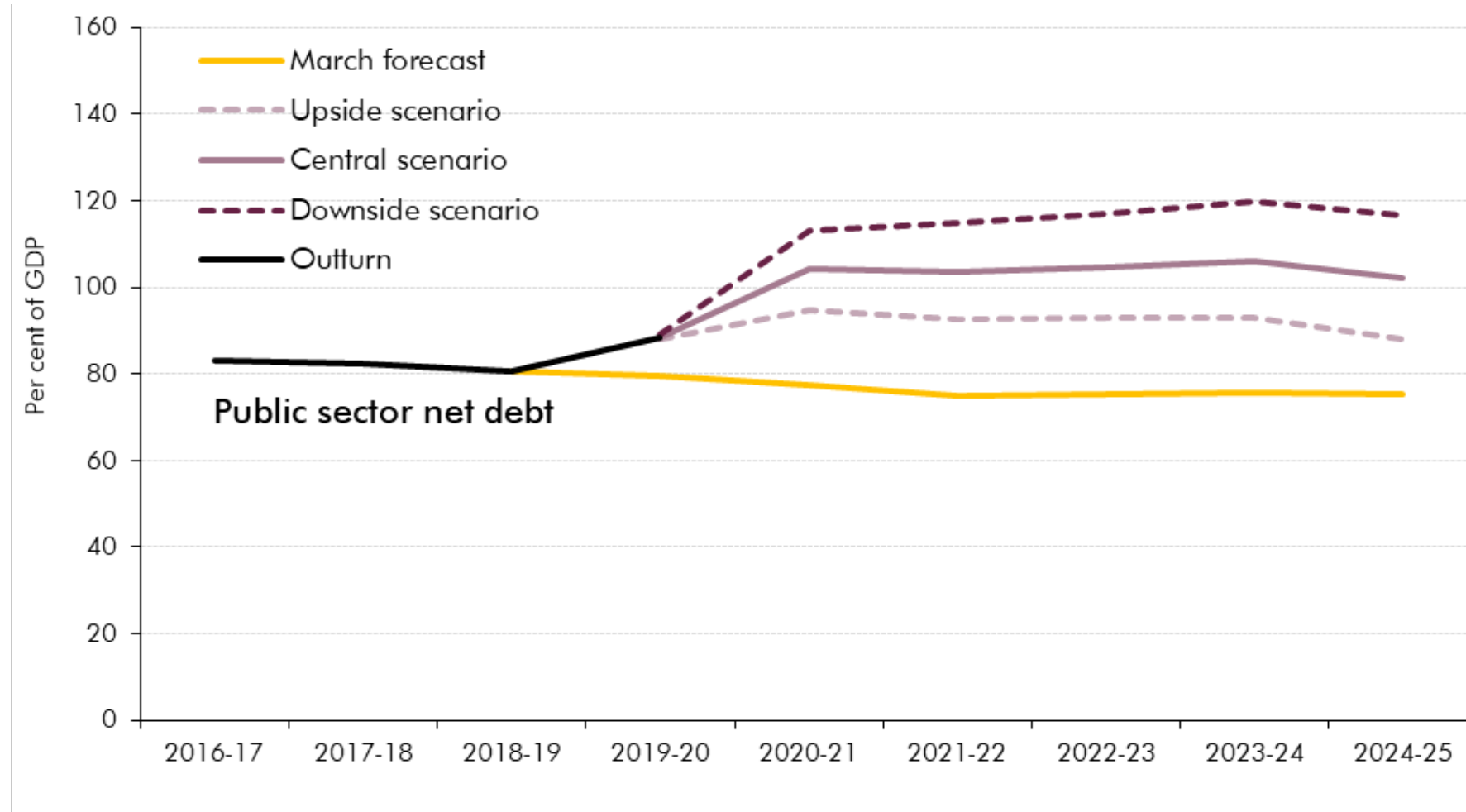
Note: In 2019-20, 'Other factors' reflects all non-policy-related differences, including both scenario assumptions and new outturn data.

Source: ONS, OBR

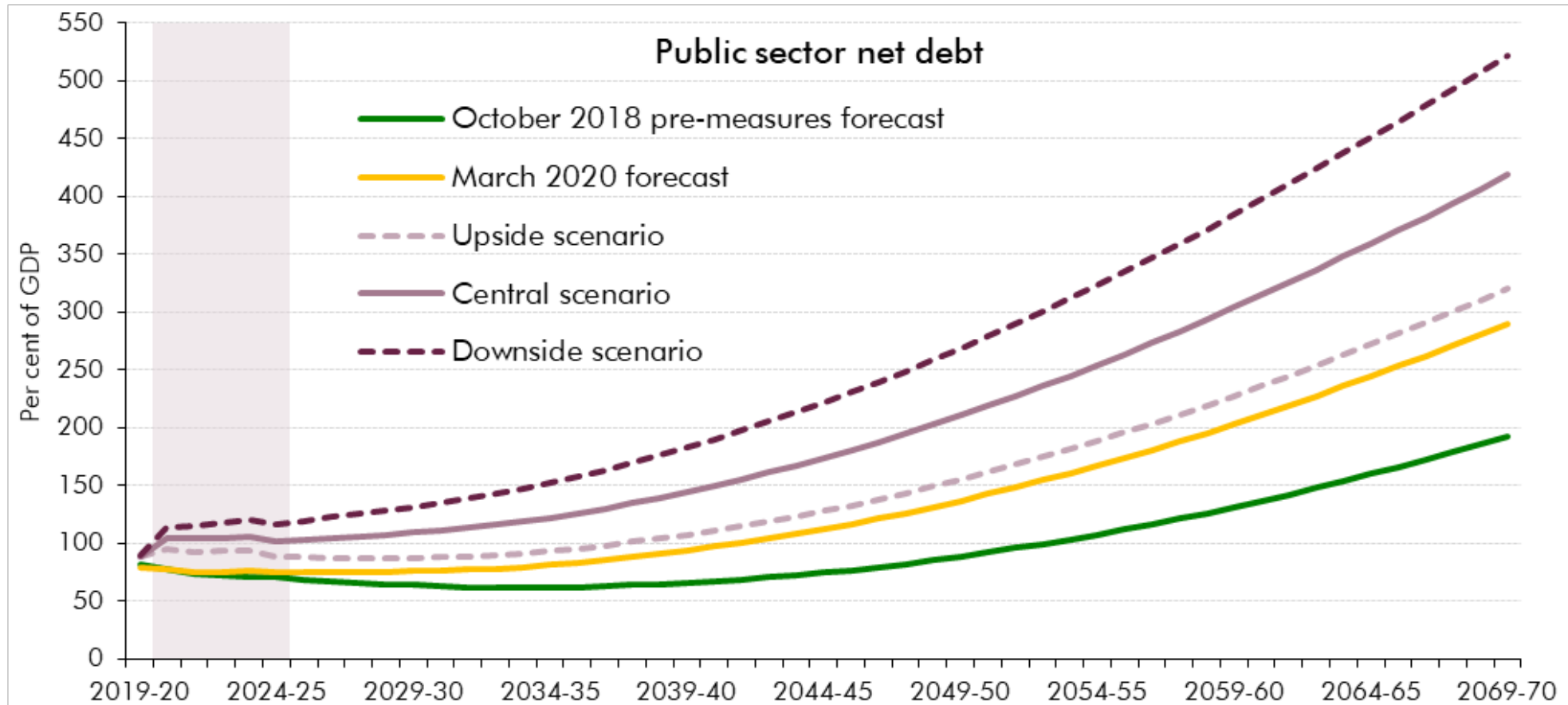
# Comparing the scenarios



# Comparing the scenarios



# Long-term projections: net debt



Note: The October 2018 forecasts' 2024-25 jumping-off points are assumed to equal their 2023-24 medium-term horizon values.

Source: ONS, OBR

# Fiscal risks

## **Risks: macro and financial sector**

- **Recession risk has crystallised. Are big shocks now the norm?**
- **Outlook for potential output even more uncertain**
- **Risks have not yet crystallised in the financial sector, thanks in large part to government supporting individuals and businesses**

## **Risks: revenue**

- **Composition of output, expenditure and income**
- **Loss of tax buoyancy**
- **Firms going bust before they can pay their taxes**
- **Demands on HMRC may reduce compliance**



# Risks: spending

- **NHS and social care post-coronavirus**
- **Chronic health conditions**
- **Temporary support measures becoming permanent**
- **Pressures on local authority finances**

# **Risks: balance sheet exposures**

- **Explicit contingent liabilities – £330bn in loan guarantees**
- **Implicit guarantees**
- **Nationalisation and reclassification risk**

# Conclusions

# Conclusion

- **A large and abrupt shock to the public finances**
- **But how much is temporary; how much is permanent?**
- **Borrowing costs are low, but for how long?**
- **Fiscal strategy will need to reflect current priorities and future pressures and needs – including fiscal space**
- **Cherish the institutions that can give people confidence**

**Diolch / Thank you**