March 2021 Economic and fiscal outlook

The live event will begin at 3.00 pm
Background

- Thanks to BRC colleagues, OBR staff, government analysts, and public health experts

- All assumptions, analysis, and conclusions are our own

- Forecast closed on 26 February and takes account of:
  - Government’s 22 February ‘Roadmap’ for lifting of public health restrictions
  - Latest epidemiological data and modelling produced for SAGE
  - UK-EU Trade and Cooperation Agreement concluded on 24 December
  - All tax and spending policies announced up to and including 2021 Budget
  - Yield curve on 5 February, since then 10-year gilt yields have risen 30 bps
## November 2020 coronavirus scenarios

<table>
<thead>
<tr>
<th>Public health assumptions</th>
<th>November virus scenarios</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Upside</td>
<td>Central</td>
</tr>
<tr>
<td>Lockdown ends</td>
<td>2 December</td>
<td>2 December</td>
</tr>
<tr>
<td>Test, trace and isolate</td>
<td>Effective</td>
<td>Partly effective</td>
</tr>
<tr>
<td>Public health restrictions: lockdown to vaccine(^1)</td>
<td>Medium-low</td>
<td>High-medium</td>
</tr>
<tr>
<td>Vaccines widely available</td>
<td>From Spring 2021</td>
<td>From mid-2021</td>
</tr>
</tbody>
</table>

### Economic effects (per cent, unless otherwise stated)

<table>
<thead>
<tr>
<th></th>
<th>Upside</th>
<th>Central</th>
<th>Downside</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth in 2020</td>
<td>-10.6</td>
<td>-11.3</td>
<td>-12.0</td>
</tr>
<tr>
<td>Return to pre-virus peak (2019Q4)</td>
<td>2021Q4</td>
<td>2022Q4</td>
<td>2024Q4</td>
</tr>
<tr>
<td>Peak unemployment rate</td>
<td>5.1</td>
<td>7.5</td>
<td>11.0</td>
</tr>
<tr>
<td>Long-term GDP scarring</td>
<td>0.0</td>
<td>3.0</td>
<td>6.0</td>
</tr>
</tbody>
</table>

\(^1\) Low, medium and high are broadly equivalent to October 2020 tiers 1, 2, and 3 in England. Very high is between October 2020 tier 3 and November 2020 lockdown in England.

\(^2\) Restrictions to ease to low by end of 2021.
Course of the pandemic since November

Number of people in hospital

Lockdown stringency index

Note: Shaded areas reflect periods of lockdown in England.
UK vaccines purchased

- Valneva
- Oxford
- GSK
- Novavax
- CureVac
- Pfizer
- Janssen
- Moderna

Millions

UK vaccine rollout

1st doses for all priority groups by 15 April
1st doses for all adults by 31 July

Cumulative vaccinations (per cent of population)

Cumulative vaccinations (million)

- 1st vaccine doses
- 2nd vaccine doses
Adaptation to public health restrictions

Internet sales

Firms closing or pausing trading at the start of each lockdown

Per cent of total retail sales

Per cent of firms
## EU Exit

### Evaluation of UK-EU Trade Deal

<table>
<thead>
<tr>
<th>Key trade barriers</th>
<th>TCA vs. typical FTA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariff barriers (goods)</td>
<td>Tariffs</td>
</tr>
<tr>
<td>Non-tariff barriers (goods)</td>
<td>Rules of origin</td>
</tr>
<tr>
<td></td>
<td>Customs administration</td>
</tr>
<tr>
<td></td>
<td>SPS checking</td>
</tr>
<tr>
<td></td>
<td>Technical barriers</td>
</tr>
<tr>
<td>Non-tariff barriers (services)</td>
<td>Recognition of qualifications</td>
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<tr>
<td></td>
<td>Worker mobility</td>
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<tr>
<td></td>
<td>Market access</td>
</tr>
<tr>
<td></td>
<td>Financial services</td>
</tr>
</tbody>
</table>

### Number of heavy goods vehicles on roads around Dover

![Graph showing the number of heavy goods vehicles on roads around Dover from Dec 2017 to Feb 2021]
Near-term economic outlook

Real GDP level

- Range of November 2020 scenarios
- November 2020 upside scenario
- November 2020 central forecast
- November 2020 downside scenario
- March 2021 forecast
- Adjusted outturn

January 2020 = 100

Jan 2020 | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan 2021 | Feb | Mar
---------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|----------|-----|-----
Medium-term economic outlook: Real GDP

![Real GDP level graph](image)

- **Range of November 2020 scenarios**
- **March 2020 forecast**
- **November 2020 upside scenario**
- **November 2020 central forecast**
- **November 2020 downside scenario**
- **March 2021 forecast**
- **Outturn**
Changes in Real GDP since November

Percentage point contributions to change in level of GDP relative to November.
## Scarring effects of the pandemic

<table>
<thead>
<tr>
<th>Scarring estimates (per cent)(^1)</th>
<th>Estimates for the UK</th>
<th>International estimates(^3)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>OBR</td>
<td>Italy</td>
</tr>
<tr>
<td></td>
<td>IMF Article IV</td>
<td>Germany</td>
</tr>
<tr>
<td></td>
<td>NIESR(^2)</td>
<td>Netherlands</td>
</tr>
<tr>
<td></td>
<td>Bank of England</td>
<td>USA</td>
</tr>
<tr>
<td></td>
<td>Pujol</td>
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<tr>
<td></td>
<td>3</td>
<td>3</td>
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<td></td>
<td>3 to 6</td>
<td>3</td>
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<tr>
<td></td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>1.75</td>
<td>3.4</td>
</tr>
<tr>
<td></td>
<td>3.1</td>
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</table>

\(^1\) Relative to a pre-pandemic baseline, unless otherwise stated.

\(^2\) NIESR's central estimate is 6 per cent, of which around 2 percentage points is the impact of the TCA, therefore their implied estimate for virus related scarring is 4 percentage points.

\(^3\) Source: Ufficio Parlamentare Di Bilancio, Stabilitätsrat, CPB Netherlands and Congressional Budget Office.
Changes in borrowing since November

Higher borrowing (higher spending/lower receipts)

- Effect of Government decisions
- Underlying forecast changes
- Net impact on borrowing

Lower borrowing (lower spending/higher receipts)

- £ billion

Budget Policy: Rescue, Recovery & Repair

Higher borrowing (higher spending/lower receipts)
- Rescue (in addition to pre-Budget 2021 support measures)
  - Household support
  - Business support
  - Recovery
    - Investment allowances
    - Other
  - Repair
    - Corporation tax
    - Income tax and NICs
    - Other
    - Net impact on borrowing

Lower borrowing (lower spending/higher receipts)
Budget Policy: Rescue, Recovery & Repair

- **Higher borrowing (higher spending/lower receipts)**
- **Rescue (in addition to pre-Budget 2021 support measures)**
  - Household support
  - Business support
- **Recovery**
  - Investment allowances
  - Other
- **Repair**
  - Corporation tax
  - Income tax and NICs
  - Other
  - Net impact on borrowing

<table>
<thead>
<tr>
<th>Year</th>
<th>2020-21</th>
<th>2021-22</th>
<th>2022-23</th>
<th>2023-24</th>
<th>2024-25</th>
<th>2025-26</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rescue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repair</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Lower</td>
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</tbody>
</table>

Note: The diagram illustrates the breakdown of rescue, recovery, and repair measures over the fiscal years 2020-26.
Budget Policy: Rescue, Recovery & Repair

Higher borrowing (higher spending/lower receipts)

- Rescue (in addition to pre-Budget 2021 support measures)
  - Household support
  - Business support

Recovery
- Investment allowances
- Other

Repair
- Corporation tax
- Income tax and NICs
- Other
- Net impact on borrowing
Rescue: Covid policy costs

- **Support for businesses**
- **Support for households**
- **Public services**

£ billion

<table>
<thead>
<tr>
<th>Date of announcement</th>
<th>Support for businesses</th>
<th>Support for households</th>
<th>Public services</th>
</tr>
</thead>
<tbody>
<tr>
<td>11 Mar (Budget)</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>17 Mar</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>20 Mar</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>26 Mar</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>13 Apr</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>17 Apr</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>27 Apr</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>12 May</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>29 May</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Pre-SEU</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>SEU</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>WEP</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5 Nov</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>SR20</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>17 Dec</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>4 Jan</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Budget 2021</td>
<td>350</td>
<td>300</td>
<td>250</td>
</tr>
</tbody>
</table>
Recovery: Investment tax allowances

Real business investment

Forecast

- March 2020 forecast
- November 2020 forecast
- March 2021 forecast
Repair: Corporation tax increase

Corporate tax rates in 2020

Corporation tax rate vs. receipts/GDP
Tax burden

Note: National accounts taxes / GDP
Public sector net debt
### Legislated fiscal rules

#### Legislated targets

<table>
<thead>
<tr>
<th>Fiscal mandate: structural deficit below 2% of GDP in 2020-21</th>
<th>March 2020</th>
<th>November 2020</th>
<th>March 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplementary target: debt falls as a % of GDP in 2020-21</td>
<td>✓</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Fiscal objective: balanced budget by 2025-26</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
</tr>
</tbody>
</table>
New fiscal principles
Risks to the outlook: The pandemic

Peak hospital occupancy from 12 February 2021

- Central assumptions
- Low adherence
- Lower vaccine efficacy
- Including seasonality
- Jan 2021 peak

Cumulative deaths from 12 February 2021

- Central assumptions
- Low adherence
- Lower vaccine efficacy
- Including seasonality
- Deaths up to 11 Feb 2021

Note: Potential future epidemiological outcomes as restrictions are eased compared to past outcomes based on Scenario 5a in Imperial College London's February 2021 publication.
Risk to the outlook: Public services

• Health service

• Education

• Transport
Risks to the outlook: Interest rates

Mean and median maturity of government debt (gilts)
Conclusion

• Winter resurgence of infections & third lockdown have delayed the economic recovery

• But rapid vaccine rollout & Roadmap offer hope for a more rapid recovery in GDP to pre-pandemic levels by mid-2022

• Budget 2021 extends the covid rescue, stokes the economic recovery, and begins the repair of the public finances

• Enough to almost balance current budget & get debt falling

• But risks to those objectives from failure to keep virus in check, legacy costs of covid for public services, and future interest rate rises
Thank you for listening

Slides and speaking notes are now available on our website www.obr.uk

Please email us with any further questions OBR.Enquiries@obr.uk