

Office for  
**Budget  
Responsibility**

## **March 2021 Economic and fiscal outlook**

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The live event will begin at 3.00 pm

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## **March 2021 Economic and fiscal outlook**

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**Richard Hughes**  
Chairman

London  
3 March 2021

# 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

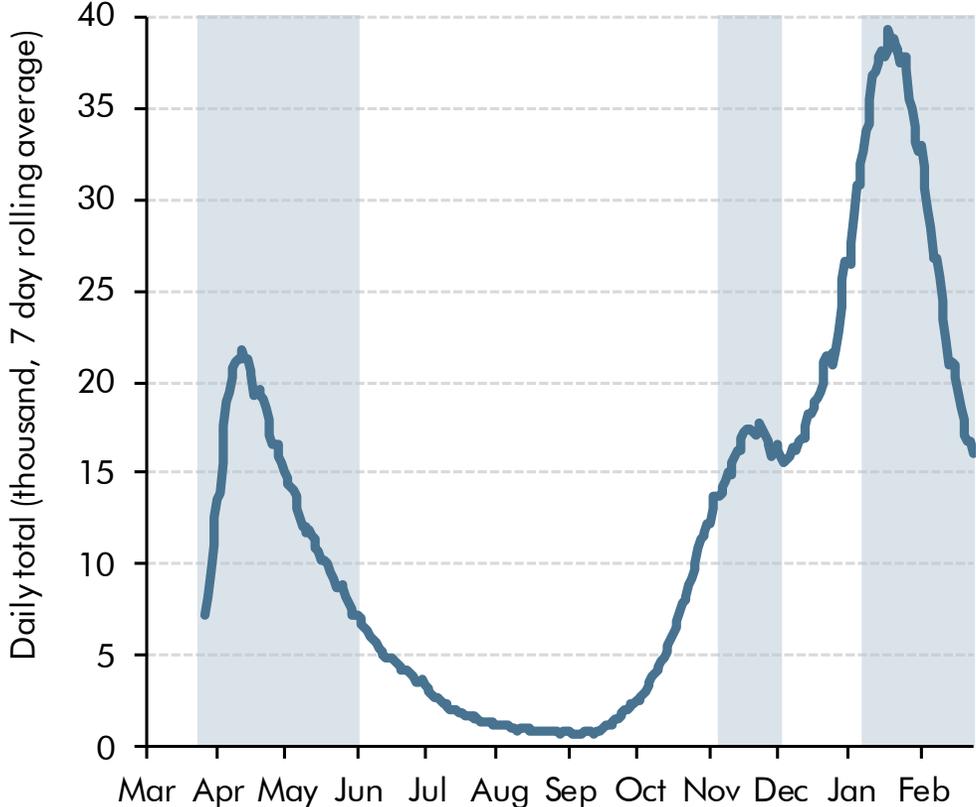
	November virus scenarios		
	Upside	Central	Downside
<b>Public health assumptions</b>			
Lockdown ends	2 December	2 December	2 December
Test, trace and isolate	Effective	Partly effective	Ineffective
Public health restrictions: lockdown to vaccine <sup>1</sup>	Medium-low	High-medium	Very high <sup>2</sup>
Vaccines widely available	From Spring 2021	From mid-2021	Ineffective
<b>Economic effects (per cent, unless otherwise stated)</b>			
Real GDP growth in 2020	-10.6	-11.3	-12.0
Return to pre-virus peak (2019Q4)	2021Q4	2022Q4	2024Q4
Peak unemployment rate	5.1	7.5	11.0
Long-term GDP scarring	0.0	3.0	6.0

<sup>1</sup> 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.

<sup>2</sup> Restrictions to ease to low by end of 2021.

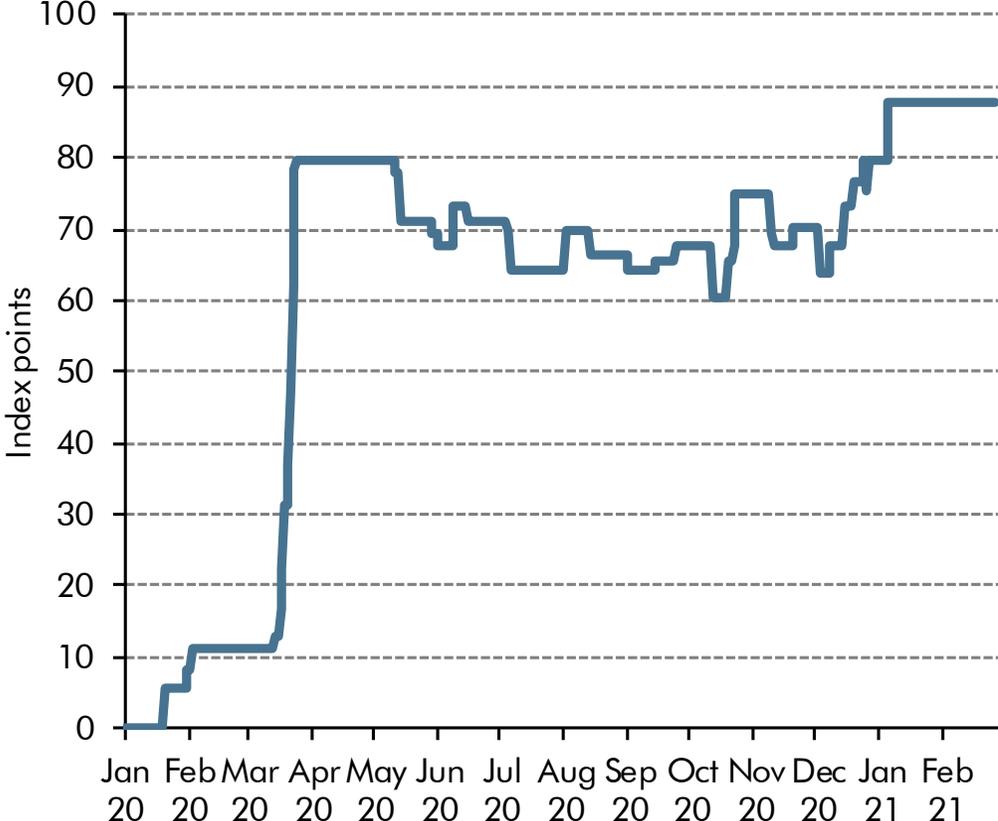
# Course of the pandemic since November

### Number of people in hospital



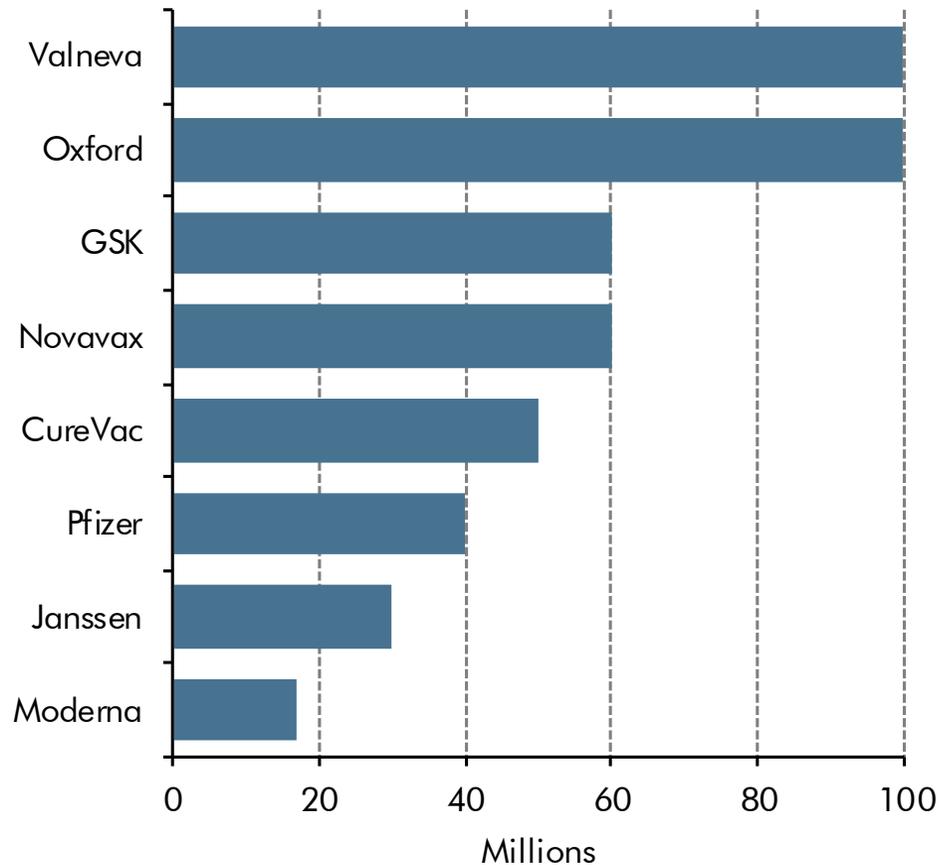
Note: Shaded areas reflect periods of lockdown in England.

### Lockdown stringency index

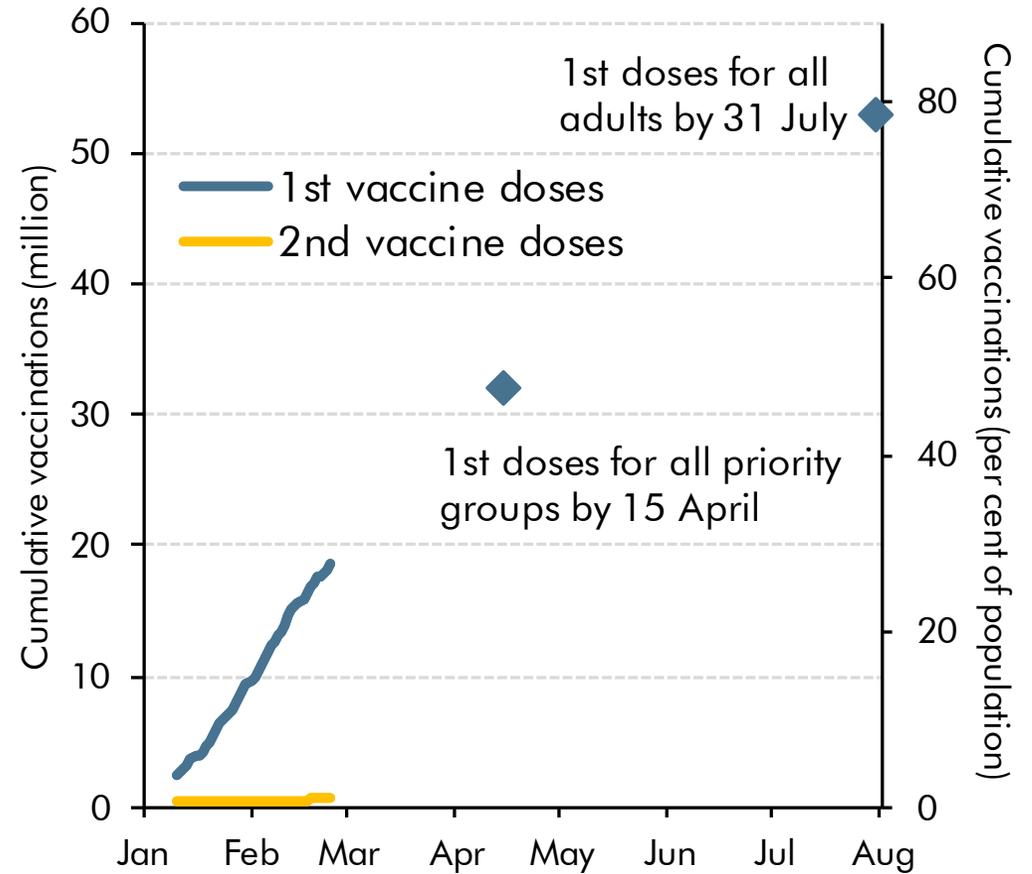


# Vaccine rollout

## UK vaccines purchased

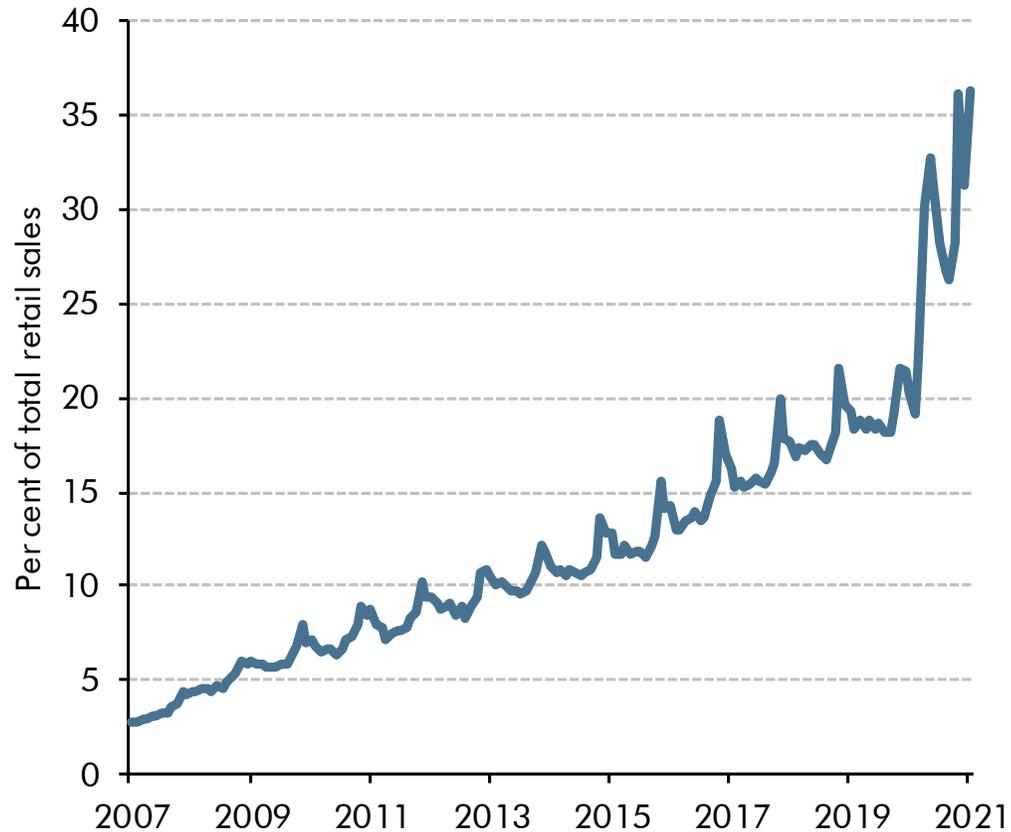


## UK vaccine rollout

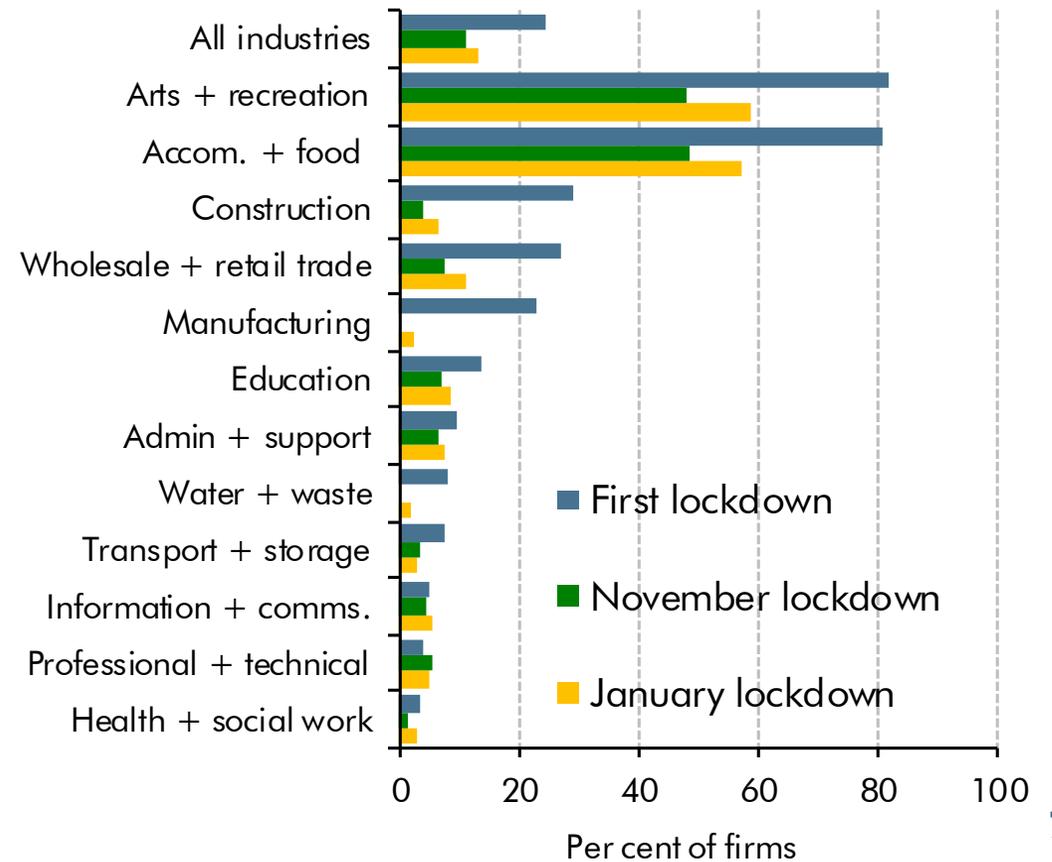


# Adaptation to public health restrictions

## Internet sales



## Firms closing or pausing trading at the start of each lockdown

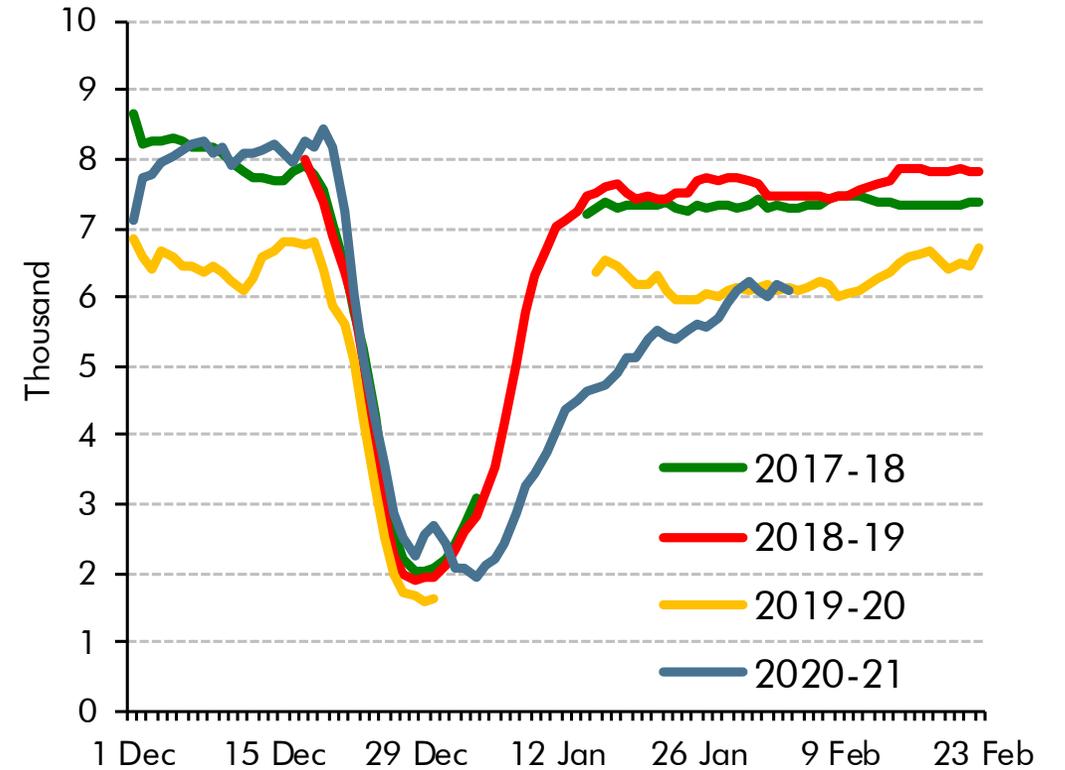


# EU Exit

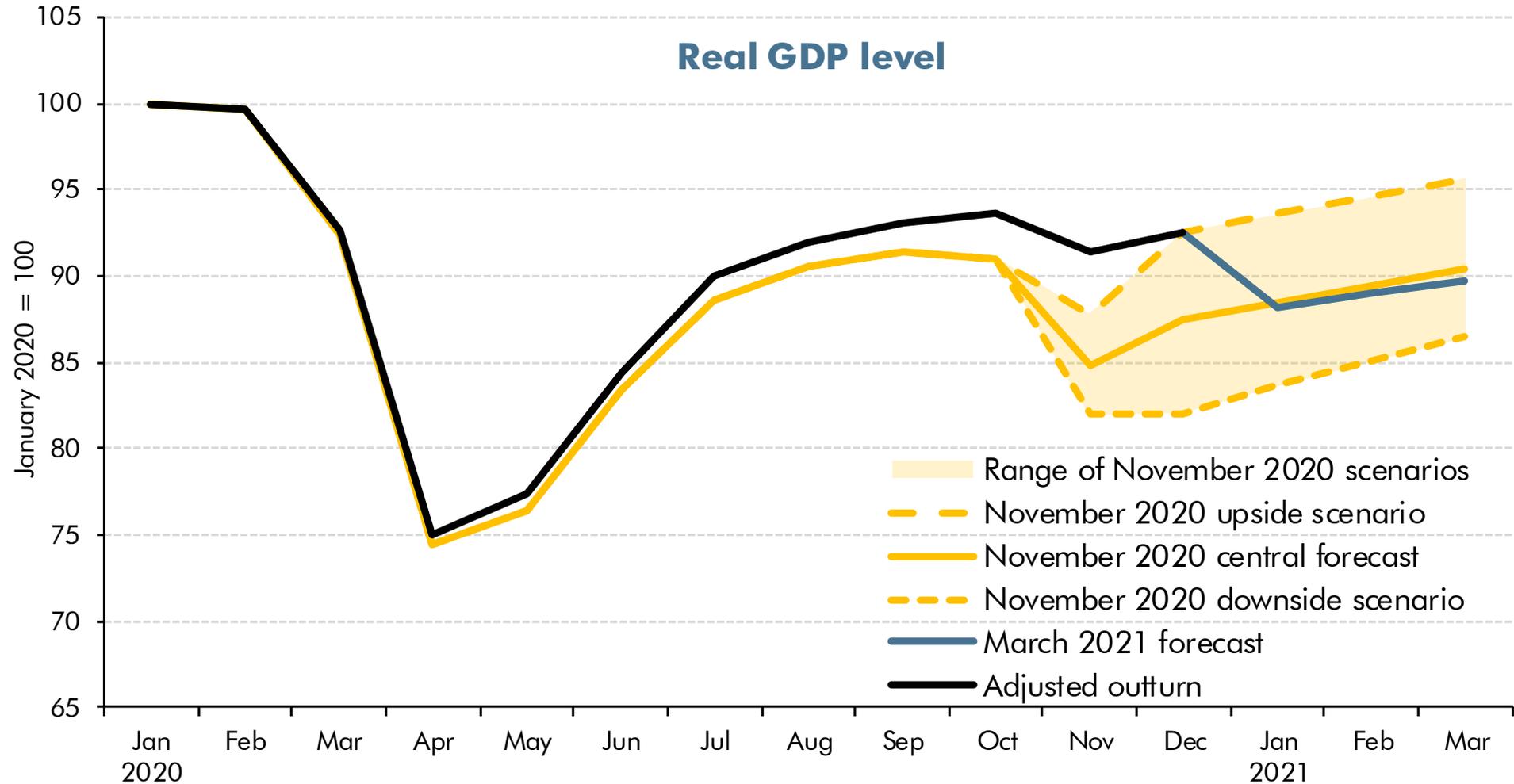
## Evaluation of UK-EU Trade Deal

Key trade barriers	TCA vs. typical FTA
Tariff barriers (goods)	Tariffs Better
Non-tariff barriers (goods)	Rules of origin Some extra flexibilities
	Customs administration Some extra commitments
	SPS checking Broadly similar
	Technical barriers Broadly similar
Non-tariff barriers (services)	Recognition of qualifications Broadly similar
	Worker mobility Broadly similar
	Market access Some extra commitments
	Financial services Not yet clear

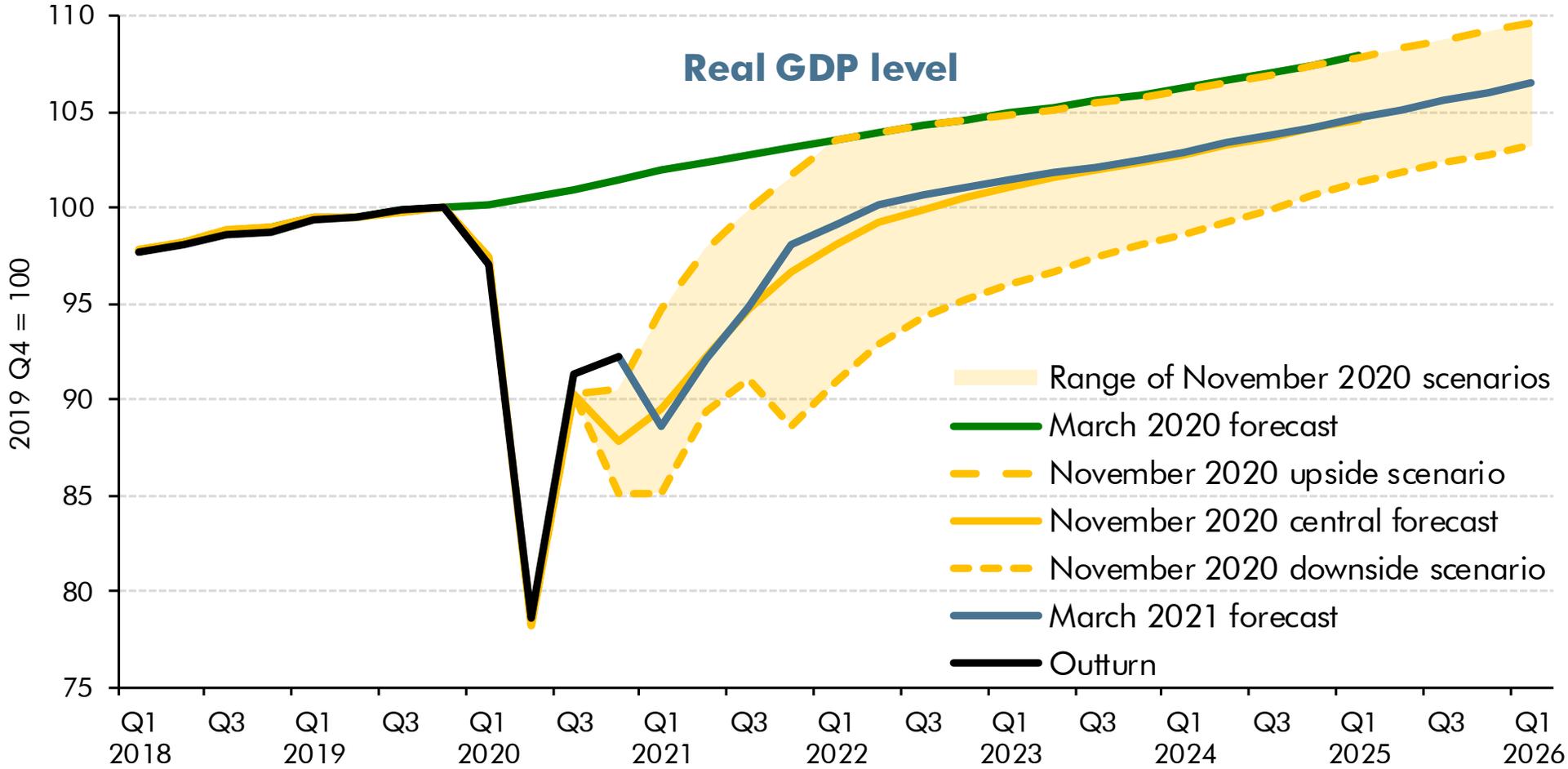
## Number of heavy goods vehicles on roads around Dover



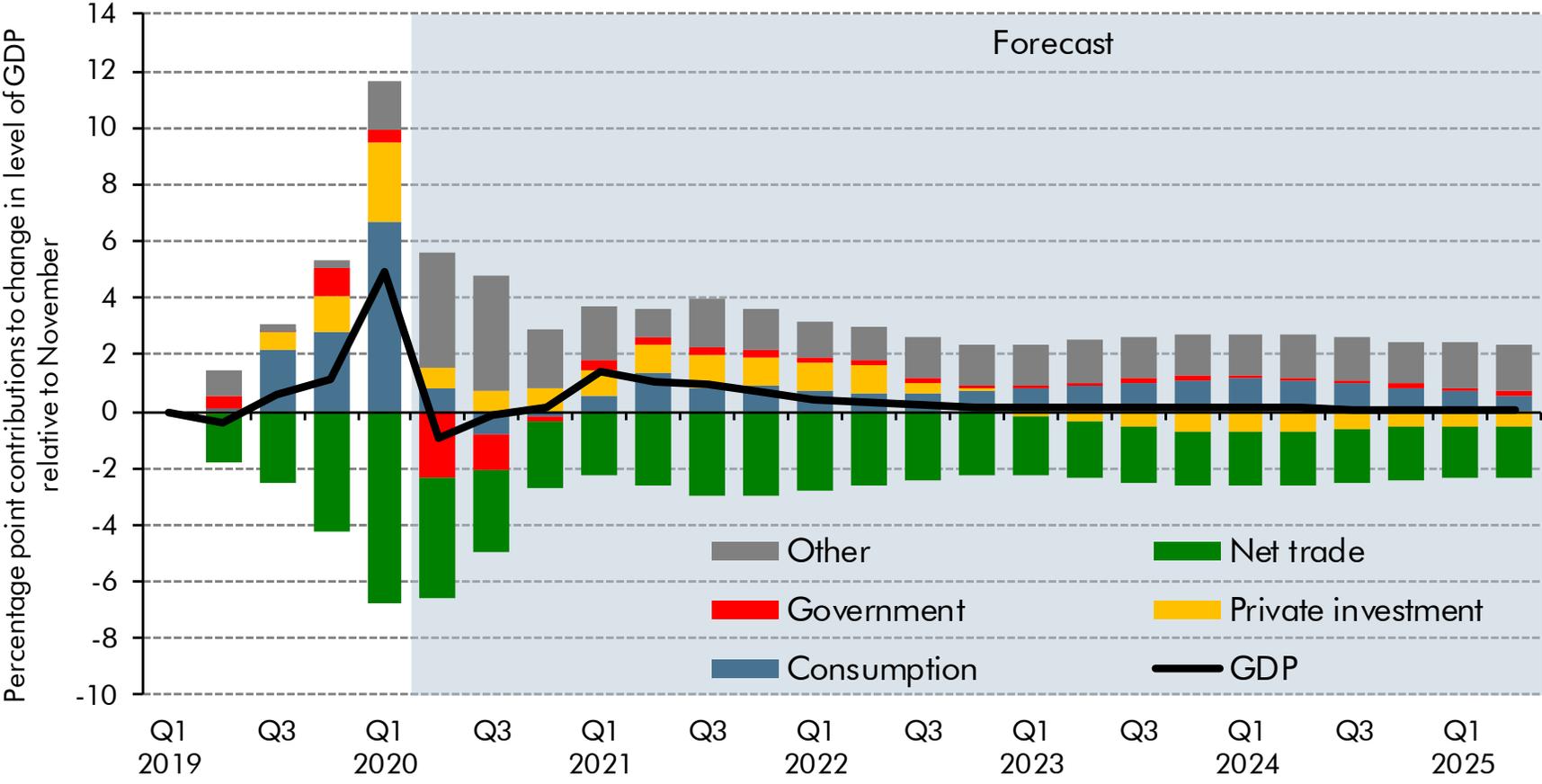
# Near-term economic outlook



# Medium-term economic outlook: Real GDP



# Changes in Real GDP since November



# Scarring effects of the pandemic

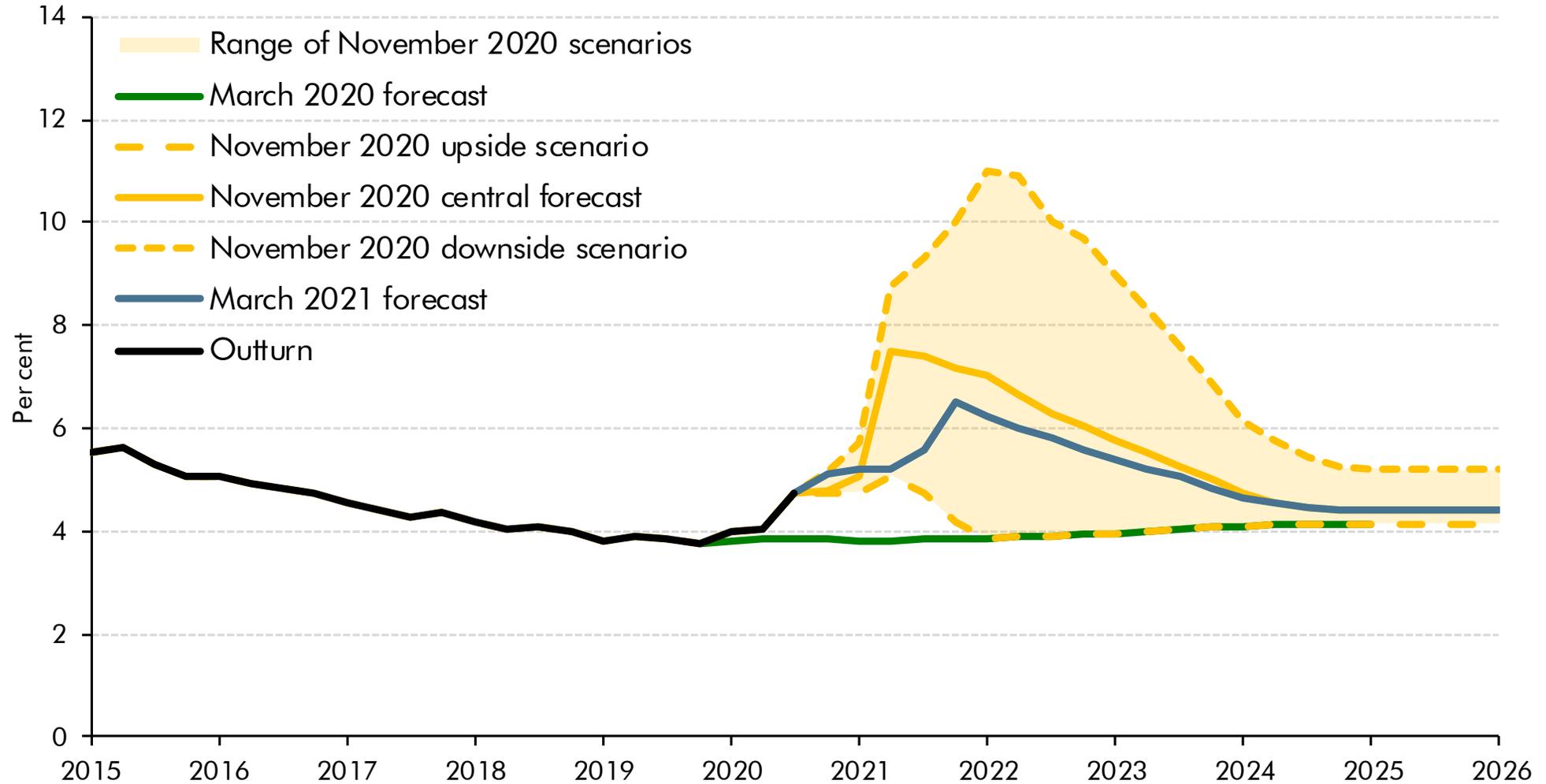
Scarring estimates (per cent) <sup>1</sup>			
Estimates for the UK		International estimates <sup>3</sup>	
OBR	3	Italy	3
IMF Article IV	3 to 6	Germany	3
NIESR <sup>2</sup>	4	Netherlands	4
Bank of England	1.75	USA	3.4
Pujol	3.1		

<sup>1</sup> Relative to a pre-pandemic baseline, unless otherwise stated.

<sup>2</sup> 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.

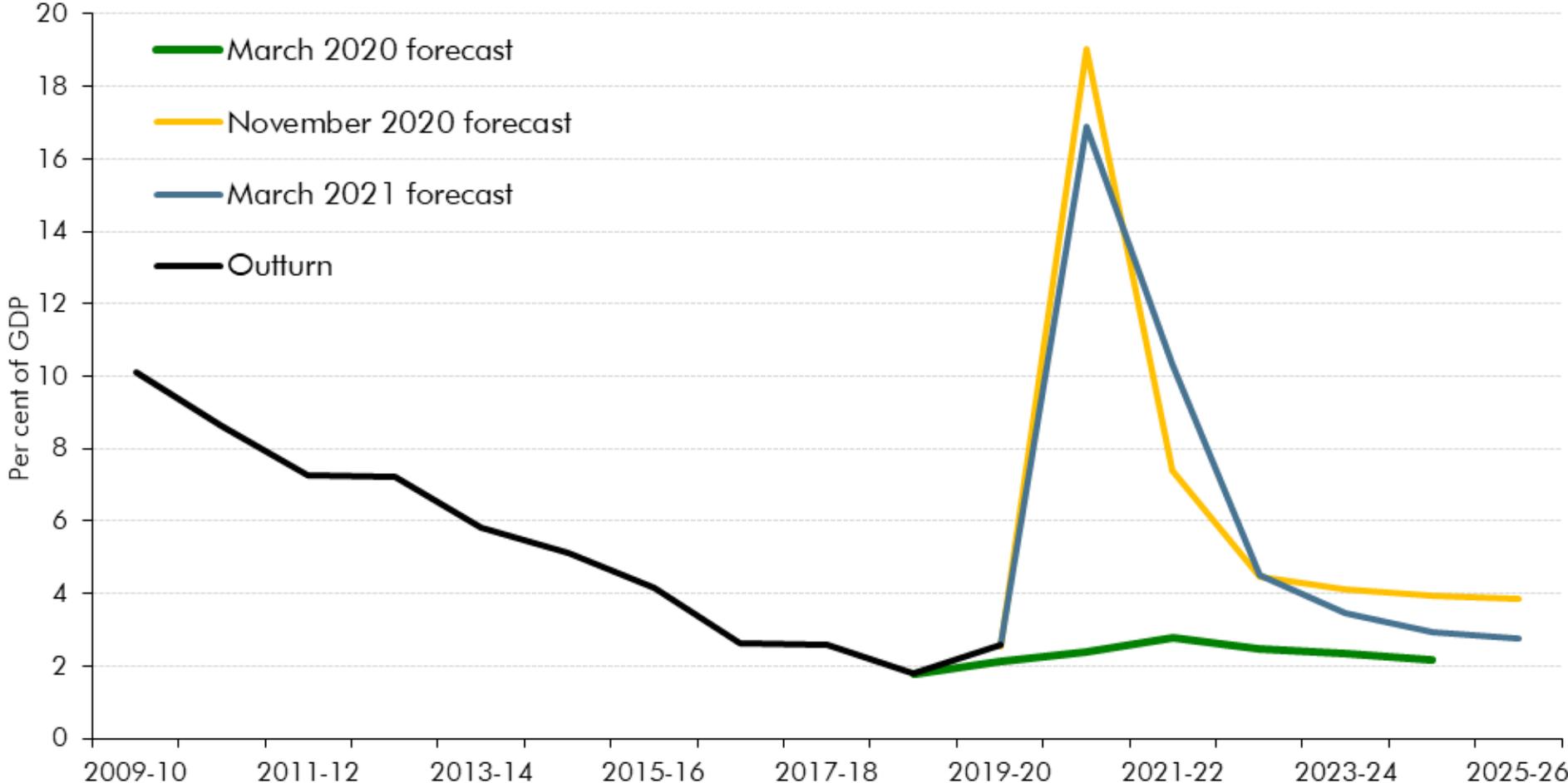
<sup>3</sup> Source: Ufficio Parlamentare Di Bilancio, Stabilitätsrat, CPB Netherlands and Congressional Budget Office.

# Unemployment

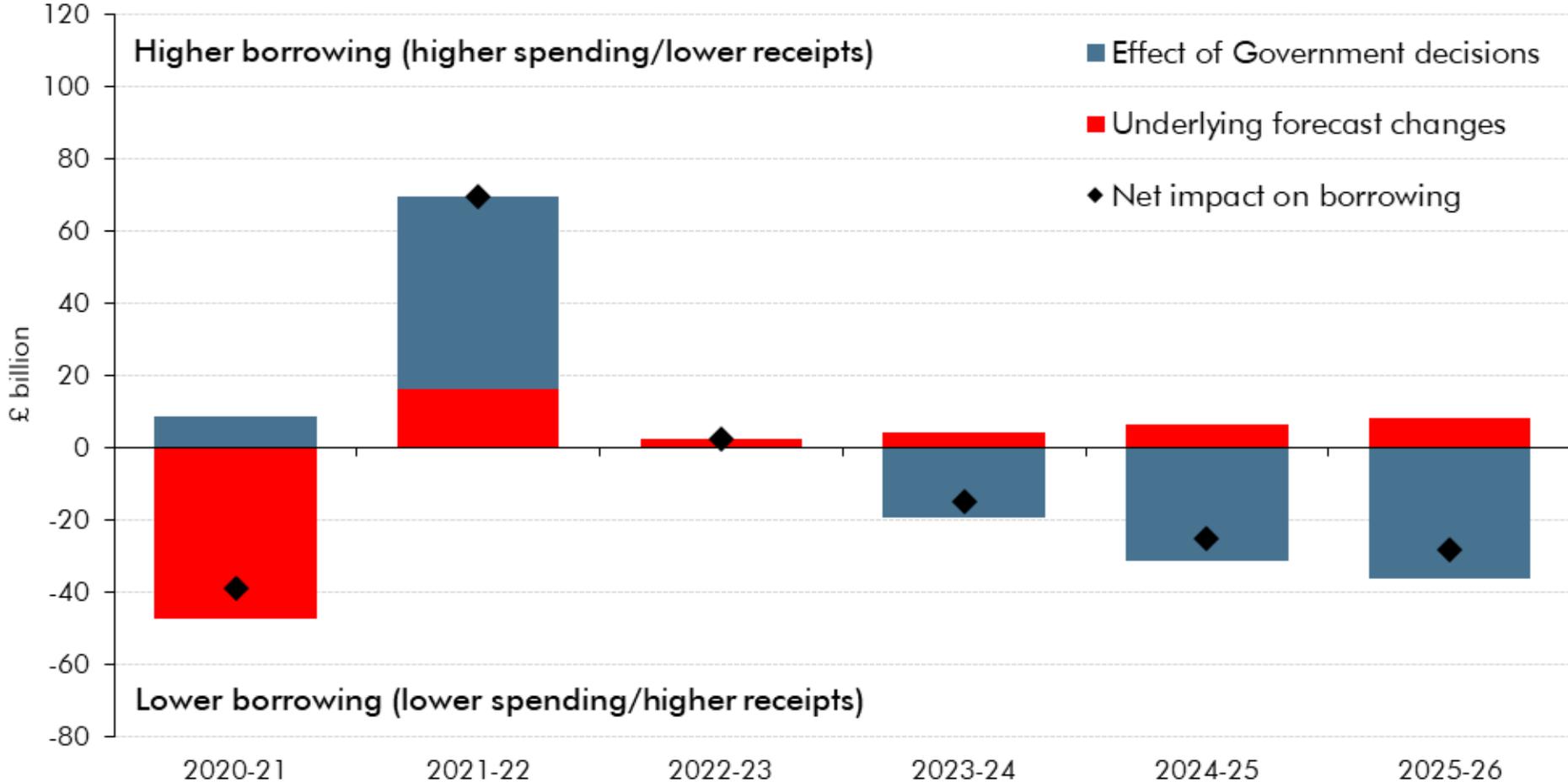


Source: ONS, OBR

# Government borrowing

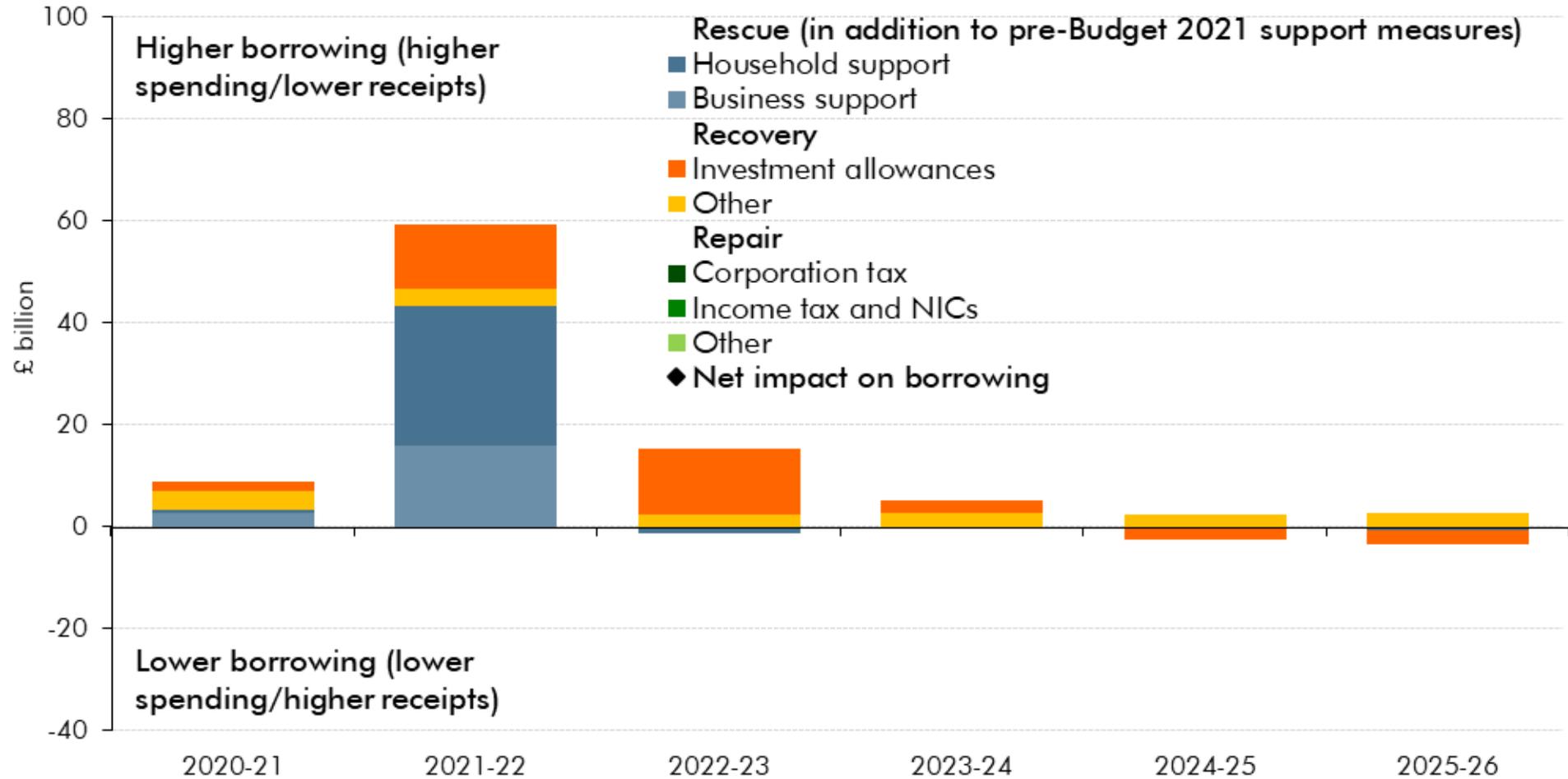


# Changes in borrowing since November

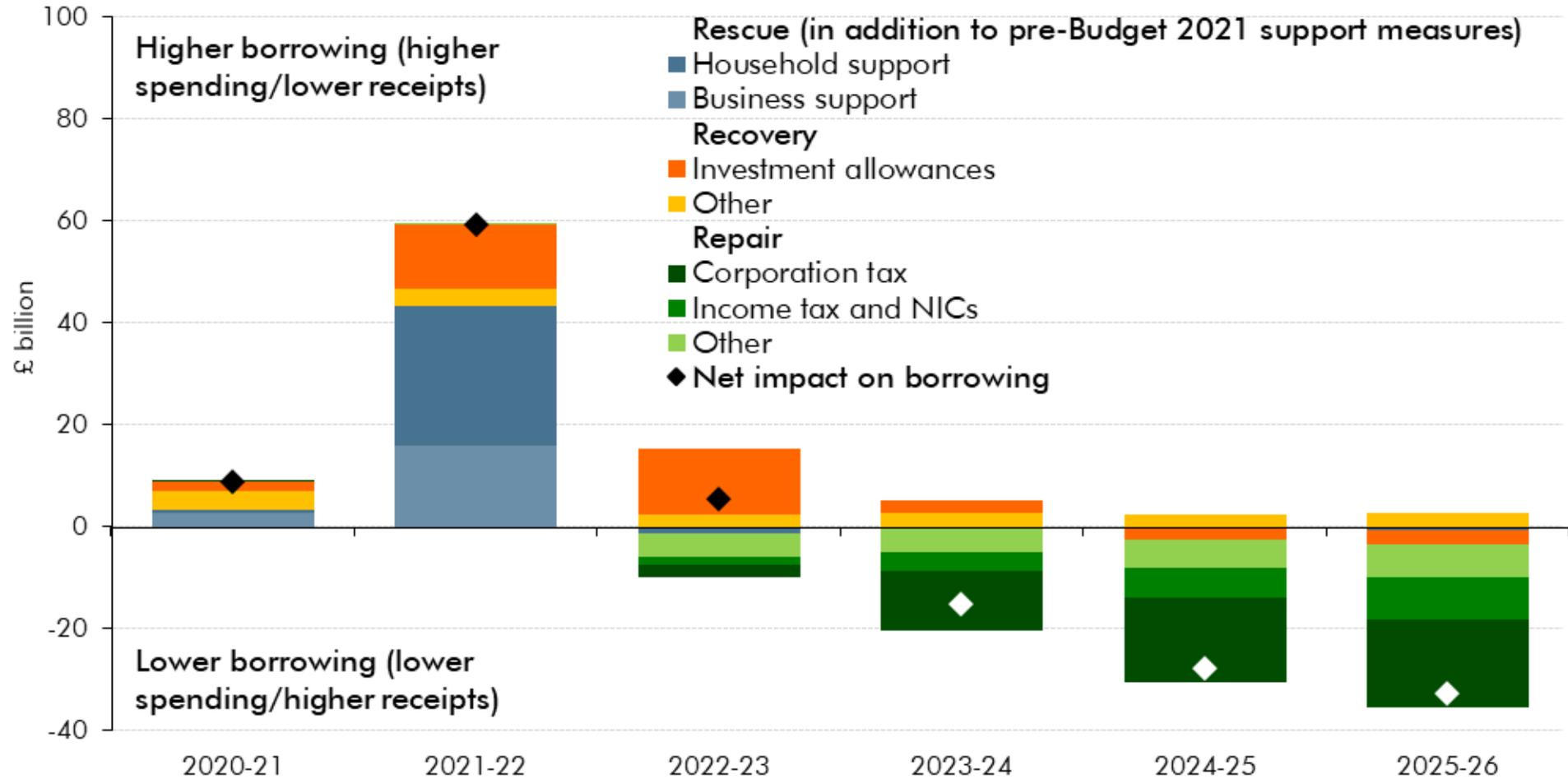




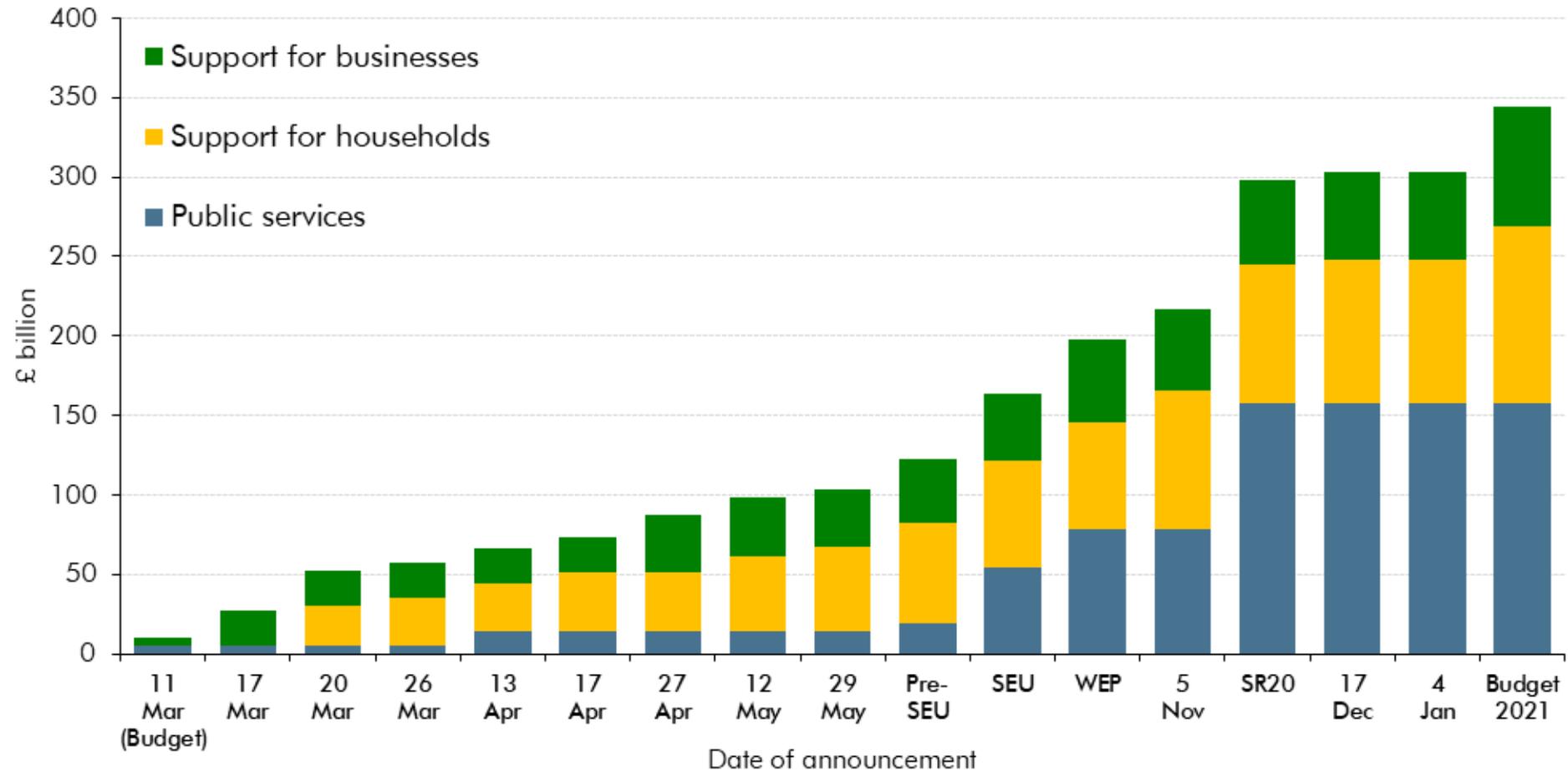
# Budget Policy: Rescue, Recovery & Repair



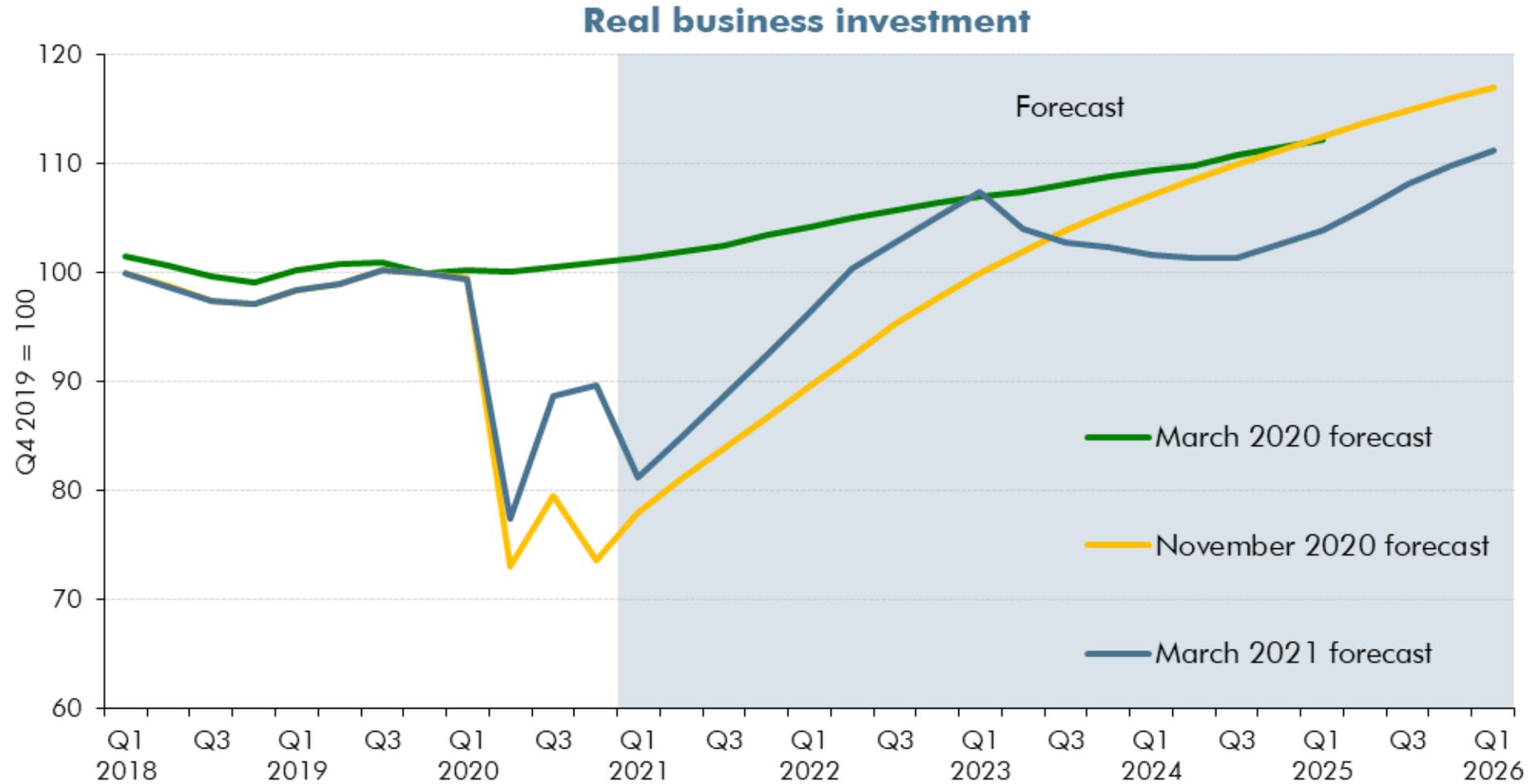
# Budget Policy: Rescue, Recovery & Repair



# Rescue: Covid policy costs

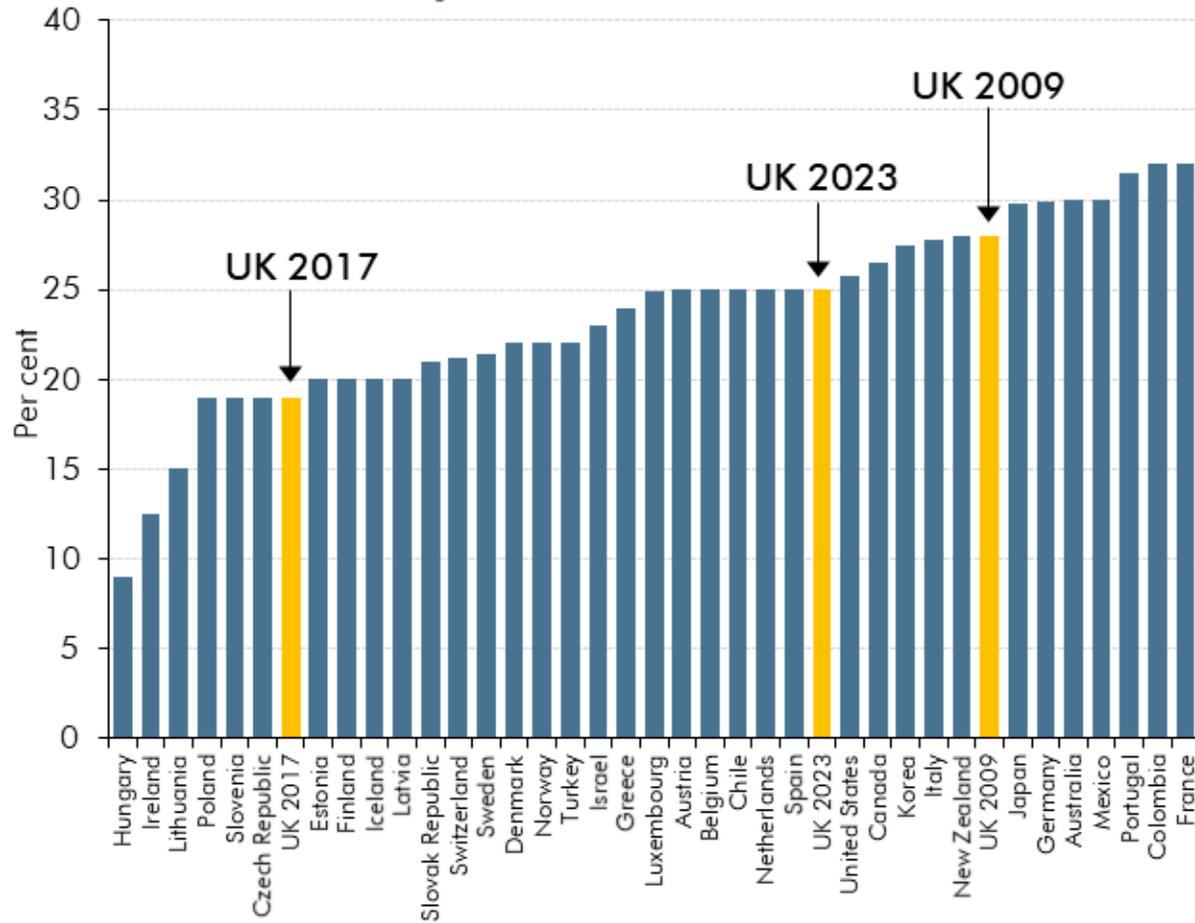


# Recovery: Investment tax allowances

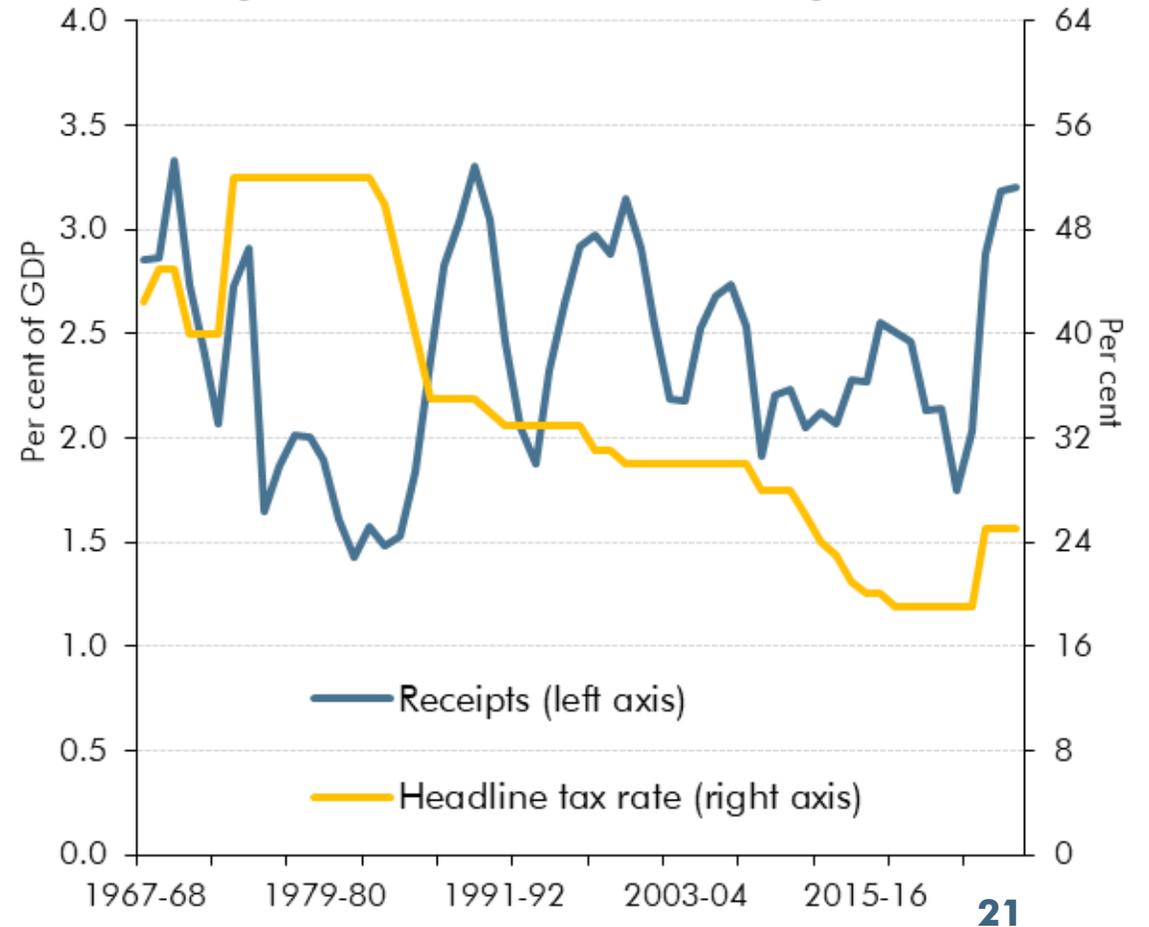


# Repair: Corporation tax increase

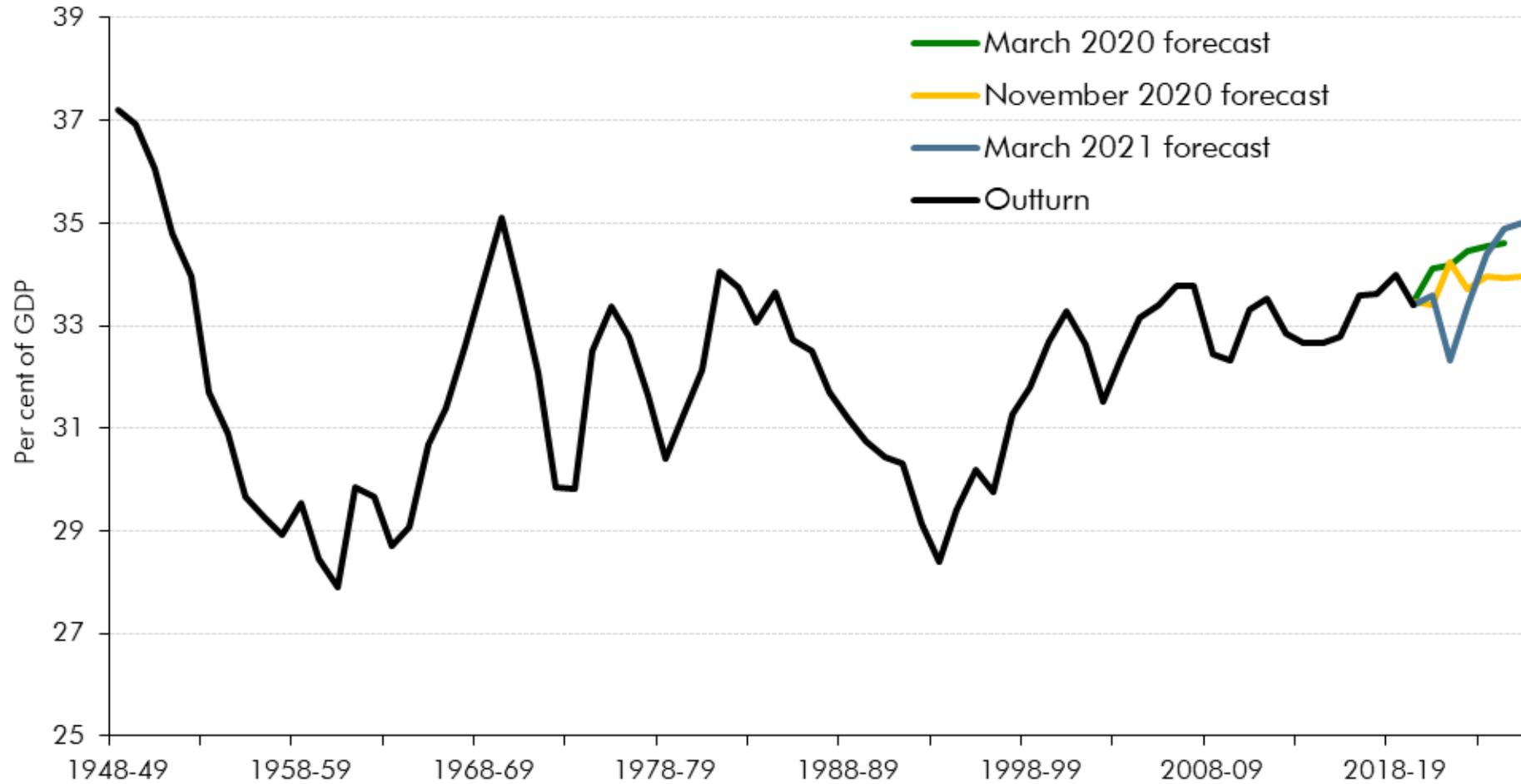
Corporate tax rates in 2020



Corporation tax rate vs. receipts/GDP

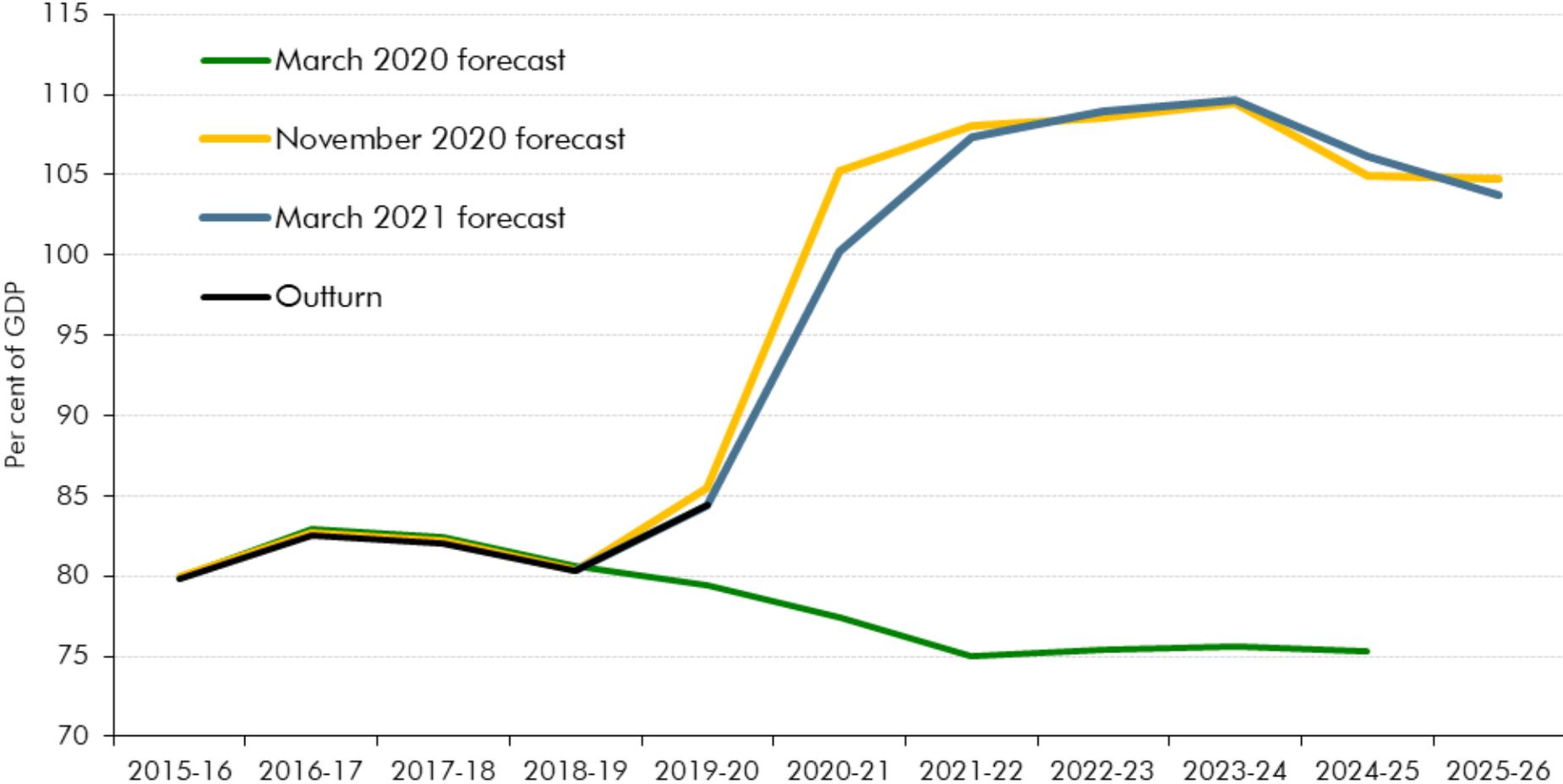


# Tax burden



Note: National accounts taxes / GDP

# Public sector net debt



# Legislated fiscal rules

## Legislated targets

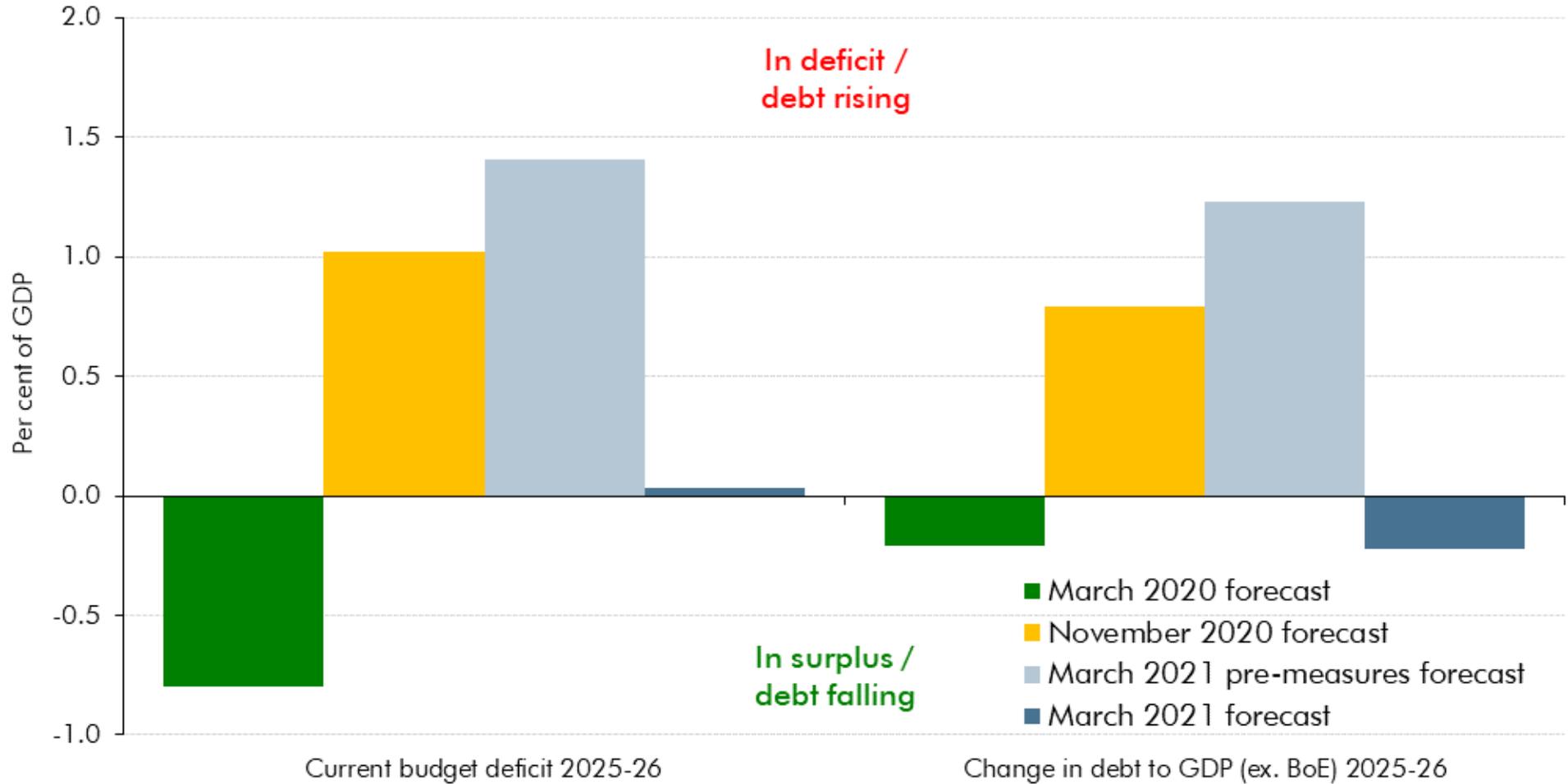
**Fiscal mandate:**  
structural deficit below 2% of GDP in 2020-21

**Supplementary target:**  
debt falls as a % of GDP in 2020-21

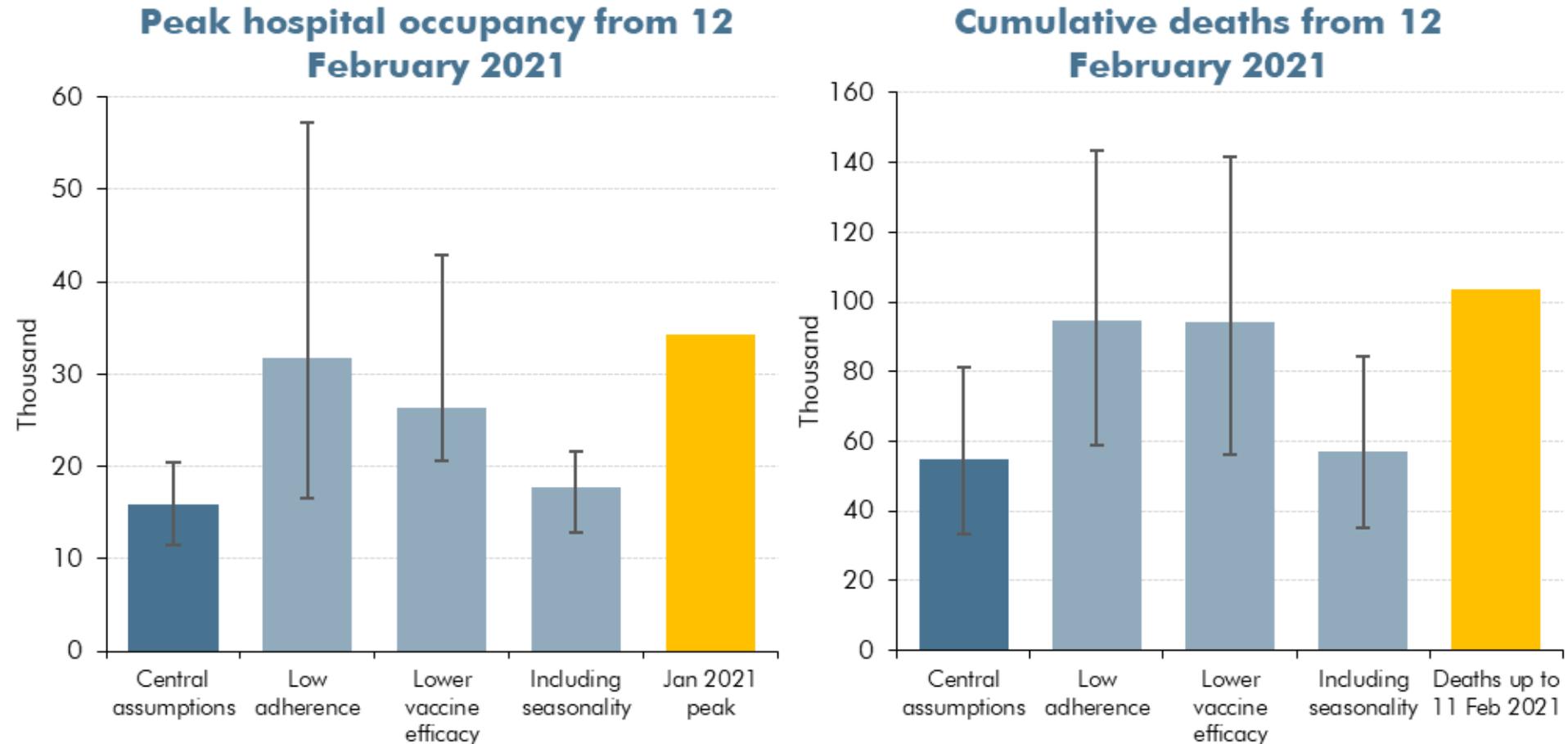
**Fiscal objective:**  
balanced budget by 2025-26

	March 2020	November 2020	March 2021
Fiscal mandate:	✗	✗	✗
Supplementary target:	✓	✗	✗
Fiscal objective:	✗	✗	✗

# New fiscal principles



# Risks to the outlook: The pandemic



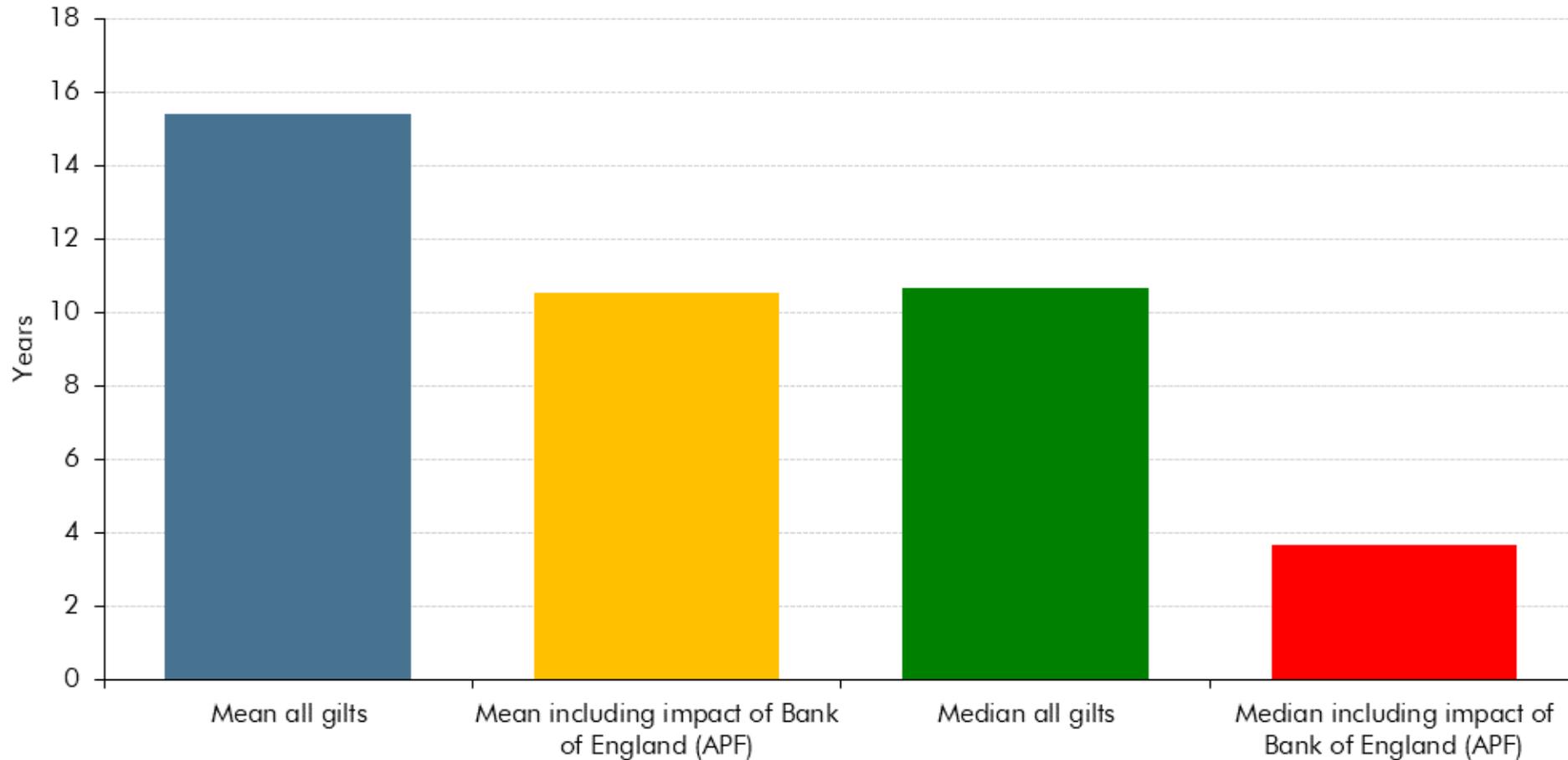
Note: Potential future epidemiological outcomes as restrictions are eased compared to past outcomes based on Scenario 5a in Imperial College London's February 2021 publication

# **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**

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**Thank you for listening**

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**Slides and speaking notes are now available on our website  
[www.obr.uk](http://www.obr.uk)**

**Please email us with any further questions  
[OBR.Enquiries@obr.uk](mailto:OBR.Enquiries@obr.uk)**