

Office for
**Budget
Responsibility**

November 2020 Economic and fiscal outlook

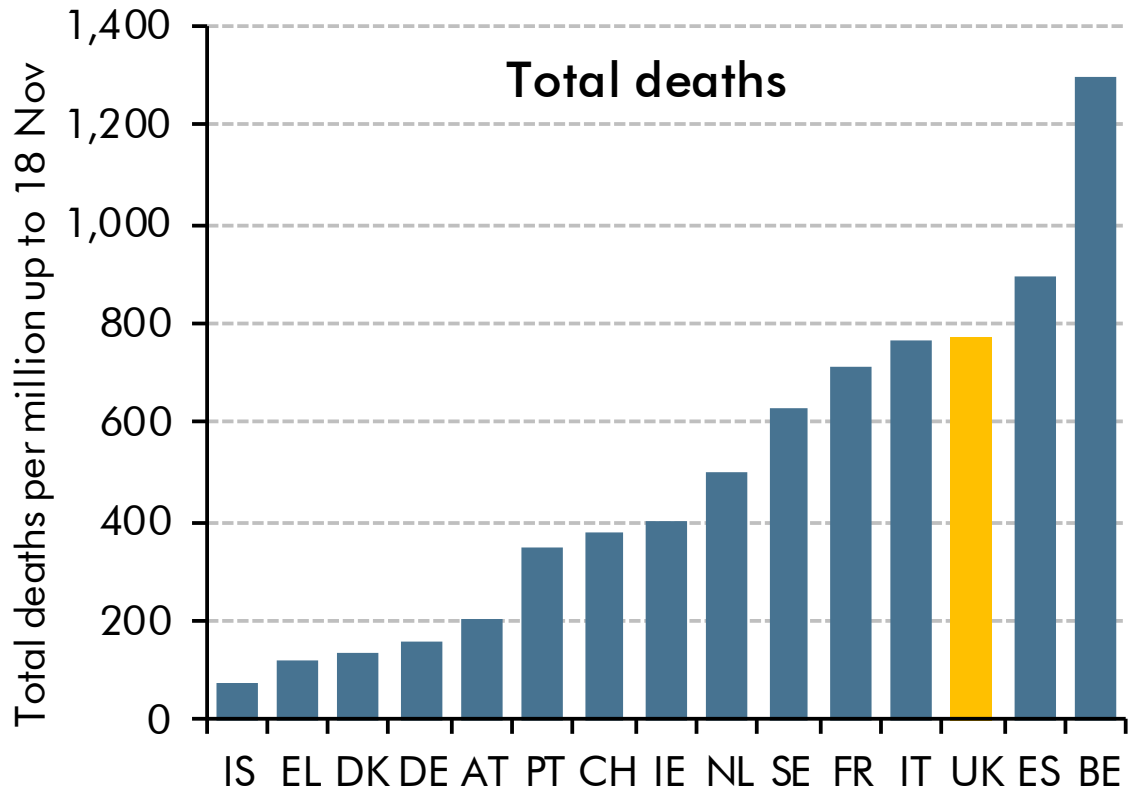
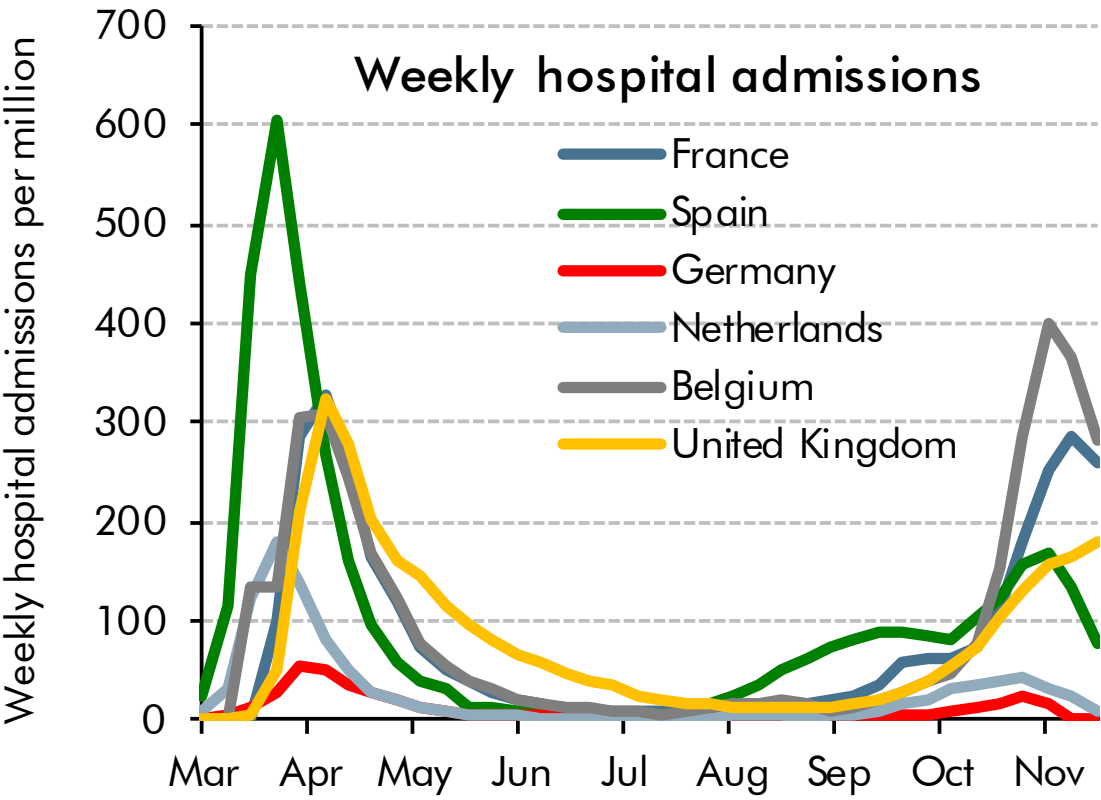
Richard Hughes
Chairman

London
25 November 2020

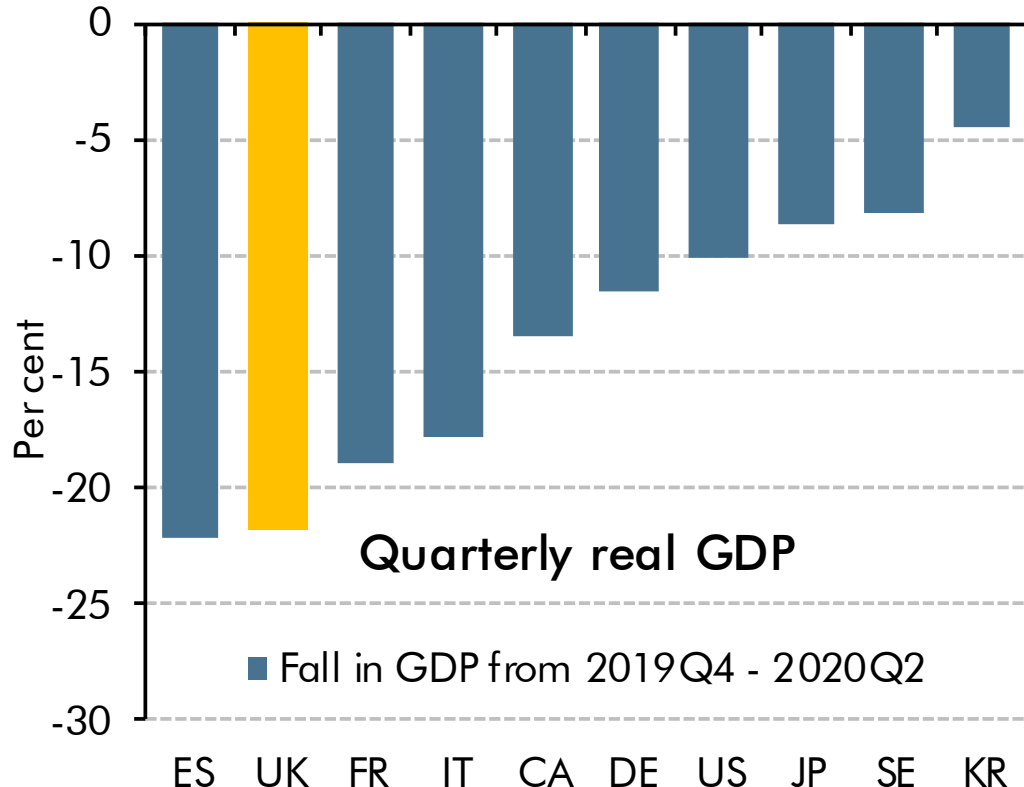
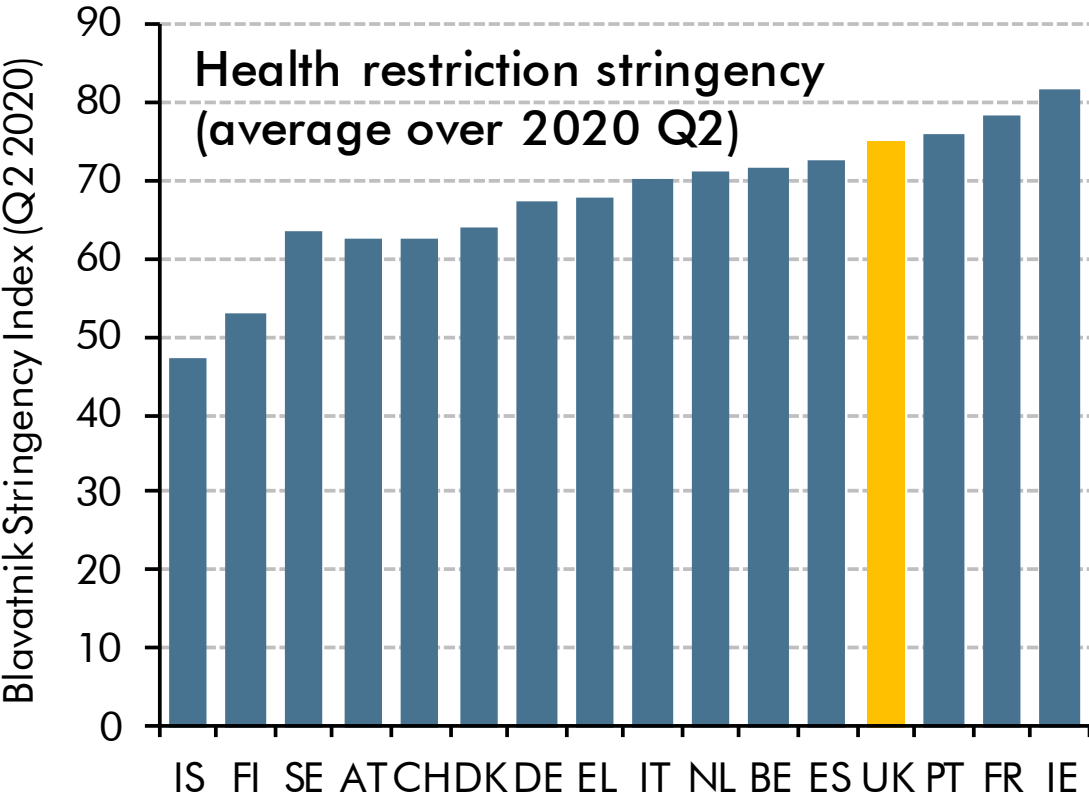
Background

- **Thanks to Charlie, Andy, OBR staff & government analysts and scientists**
- **All assumptions, analysis & scenarios are our own**
- **Coronavirus remains most important driver of, and risk to, the outlook**
- **EFO considers 3 scenarios for the virus, economy, and public finances**
- **All scenarios assume the UK and EU agree an FTA by 31 December**
- **No Deal Brexit would mean 2% less GDP & £10bn more borrowing a year (see Annex B for details)**

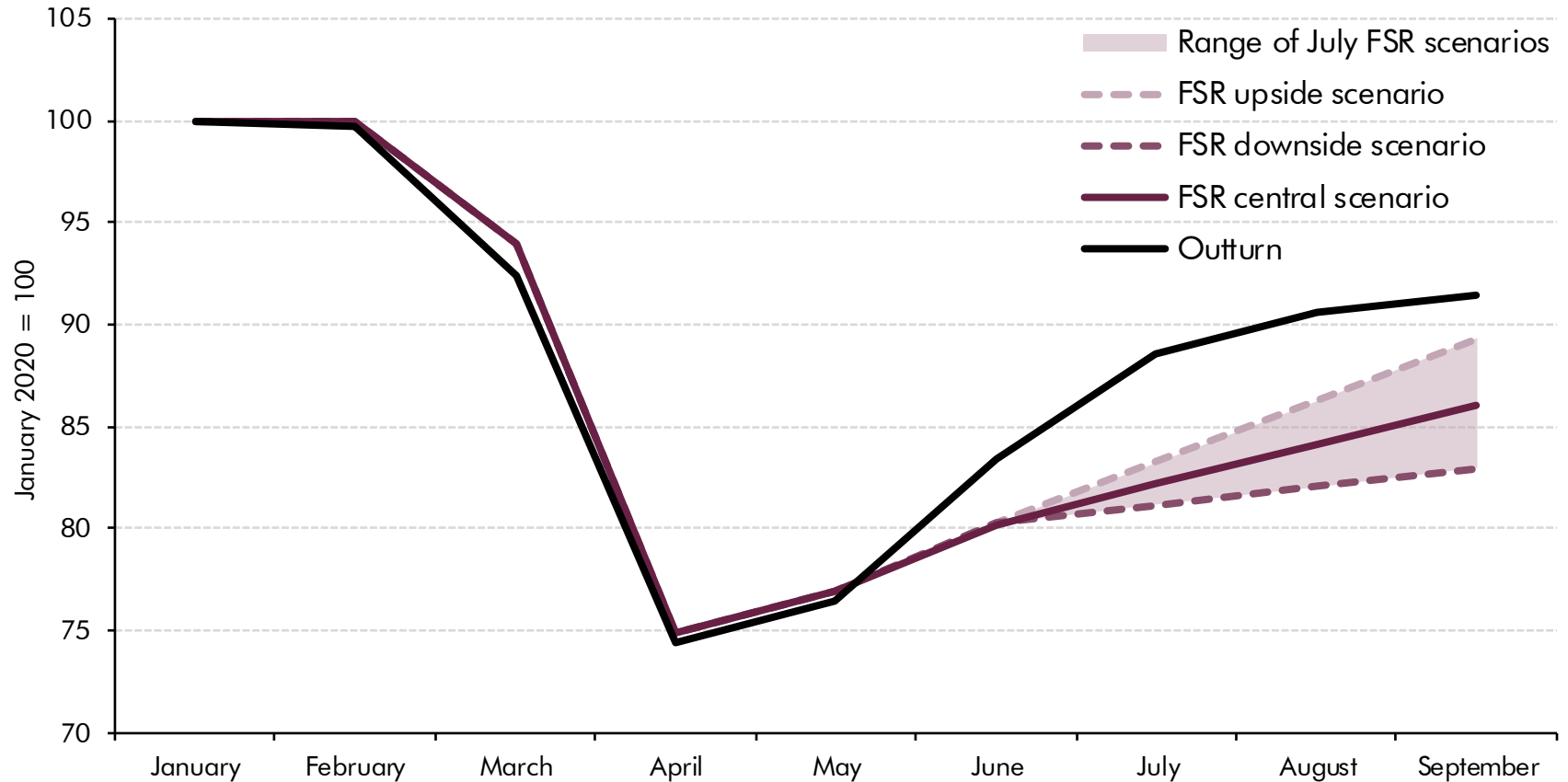
Coronavirus impact on major economies



Coronavirus impact on major economies

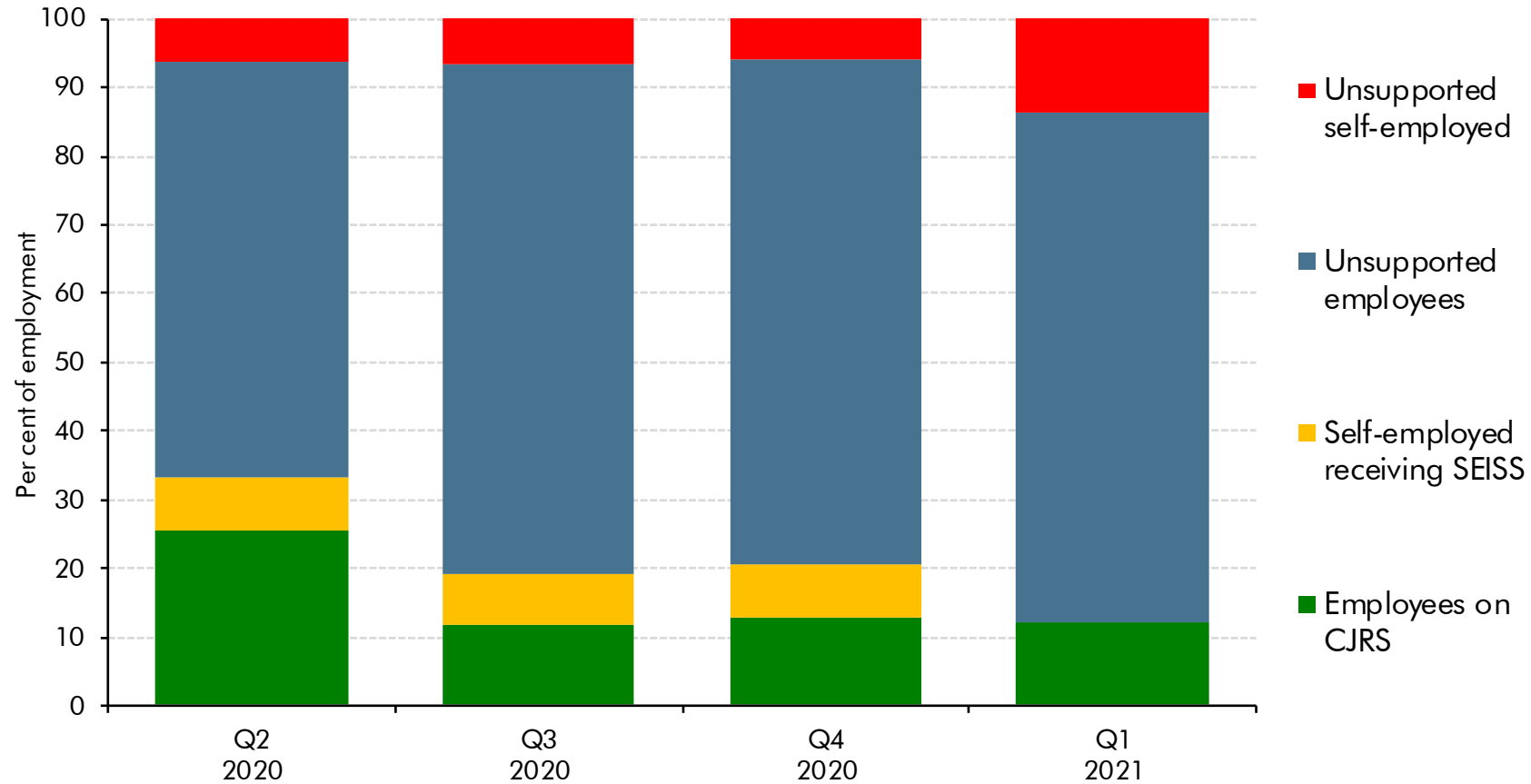


Real GDP monthly outturn



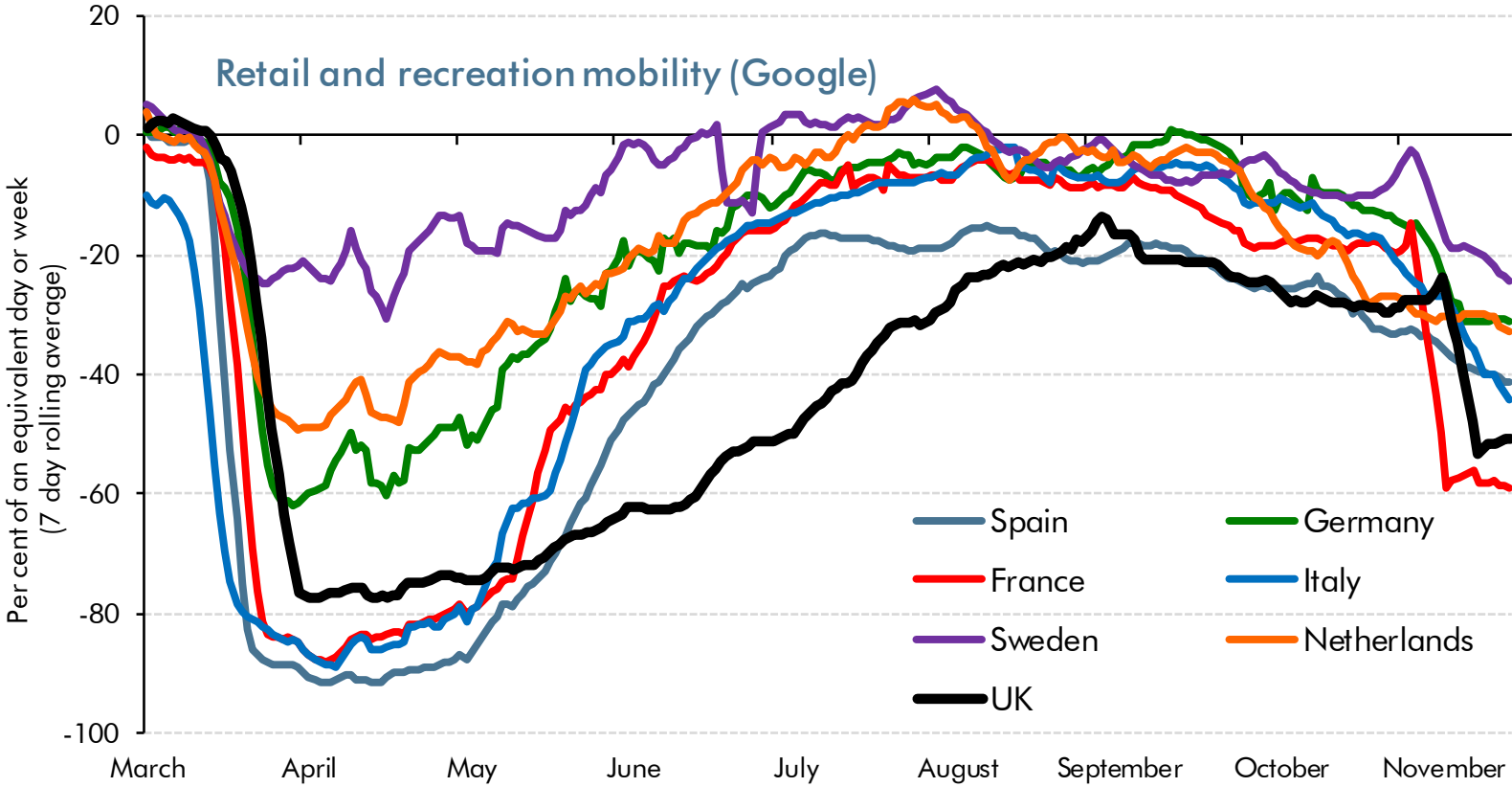
Source: ONS, OBR

Employment supported by CJRS and SEISS



Source: HMRC, ONS, OBR

Realtime mobility data since March 2020



Source: Google

Key epidemiological questions for this EFO

- 1. How effective will the second lockdown be in reducing case numbers?**
- 2. What general level of public health restrictions will be required after 2 December?**
- 3. How effective will the new vaccines be and when will they be generally available?**

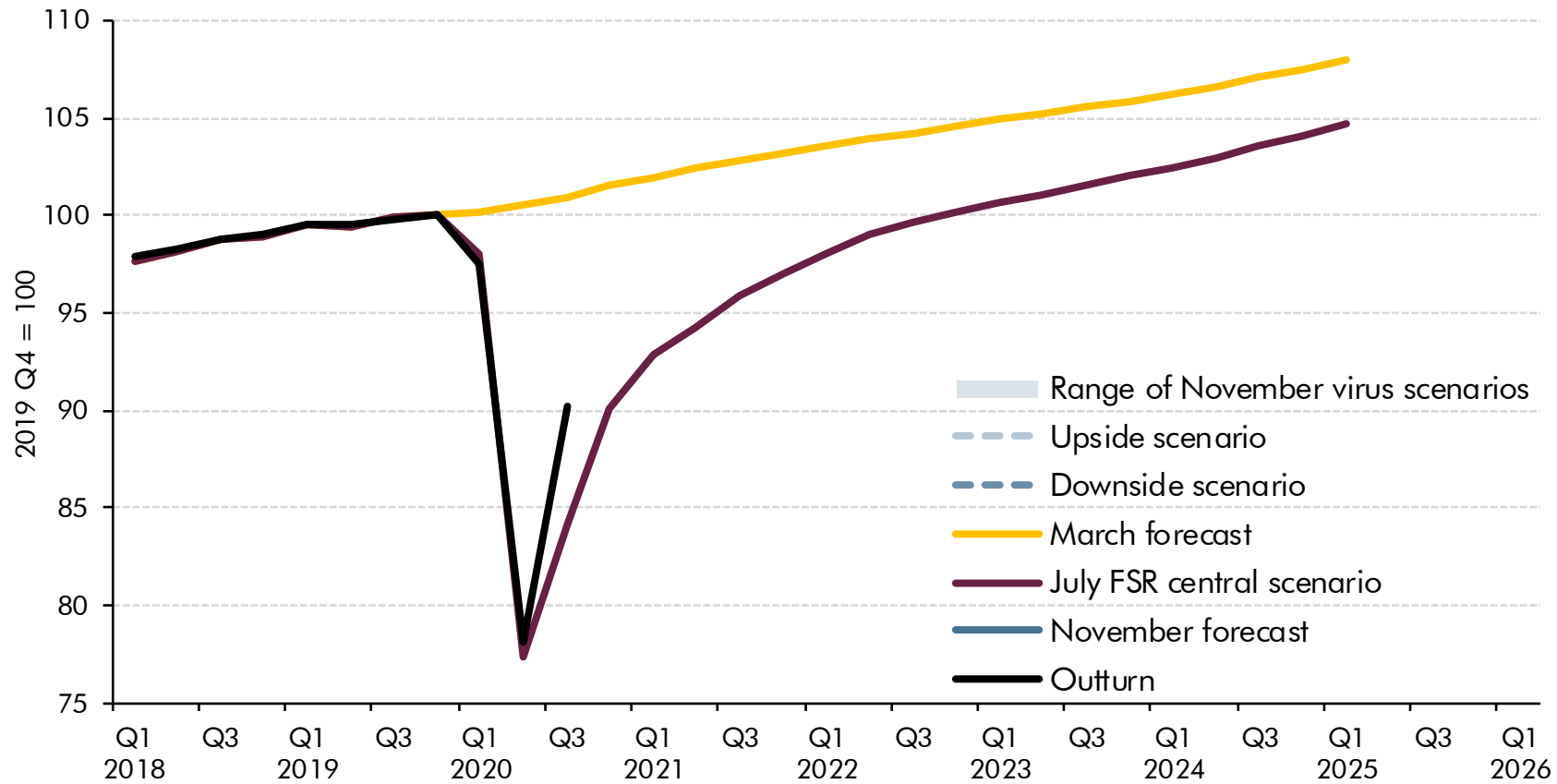
Coronavirus scenarios assumptions

	Virus scenarios		
	Upside	Central	Downside
Public health assumptions			
Lockdown ends	2 December	2 December	2 December
Test, trace and isolate	Effective	Partly effective	Ineffective
Public health restrictions: lockdown to vaccine ¹	Medium-low	High-medium	Very high ²
Vaccines widely available	From Spring 2021	From mid-2021	Ineffective

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.

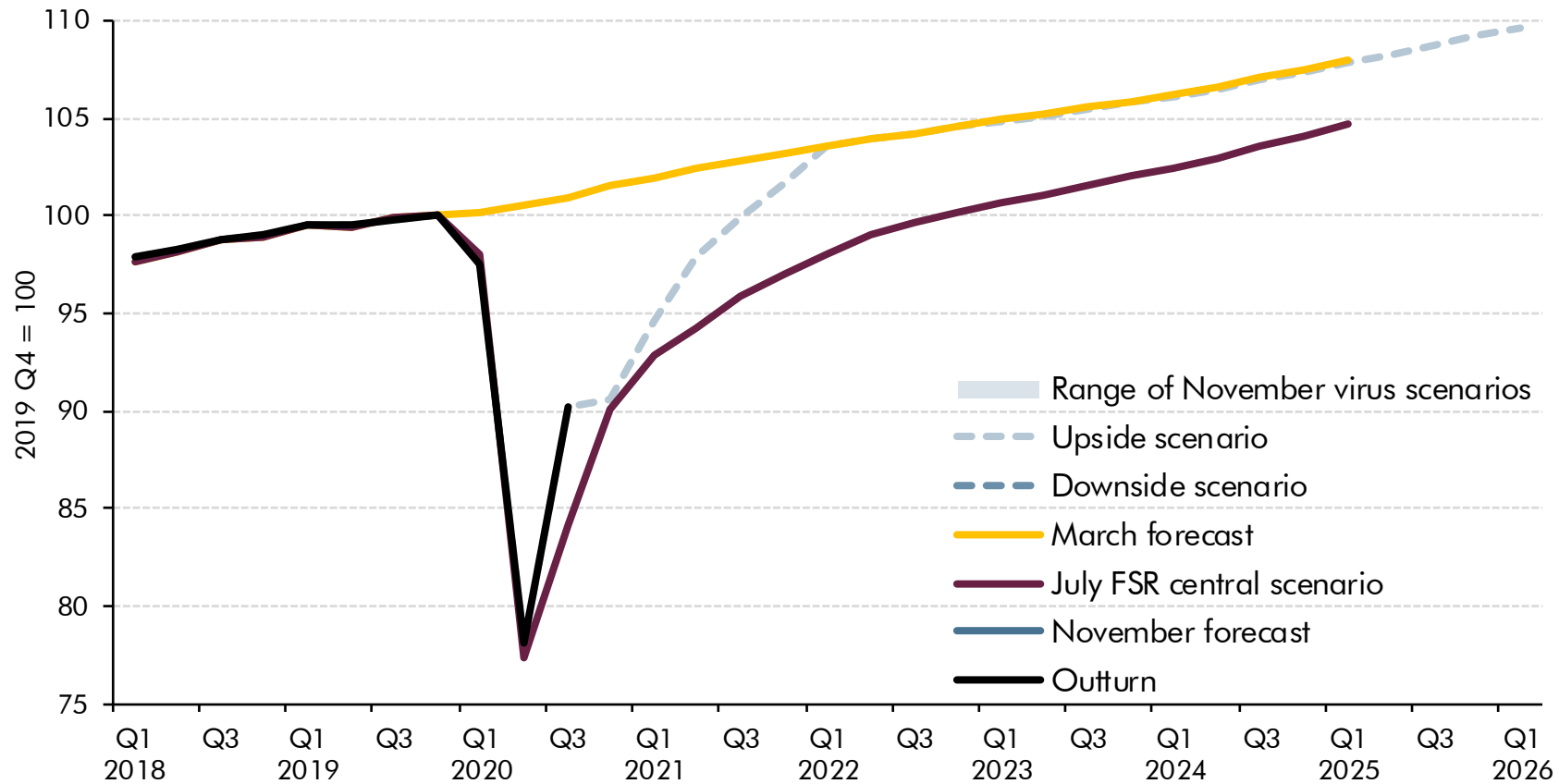
² Restrictions to ease to low by end of 2021.

Real GDP forecast



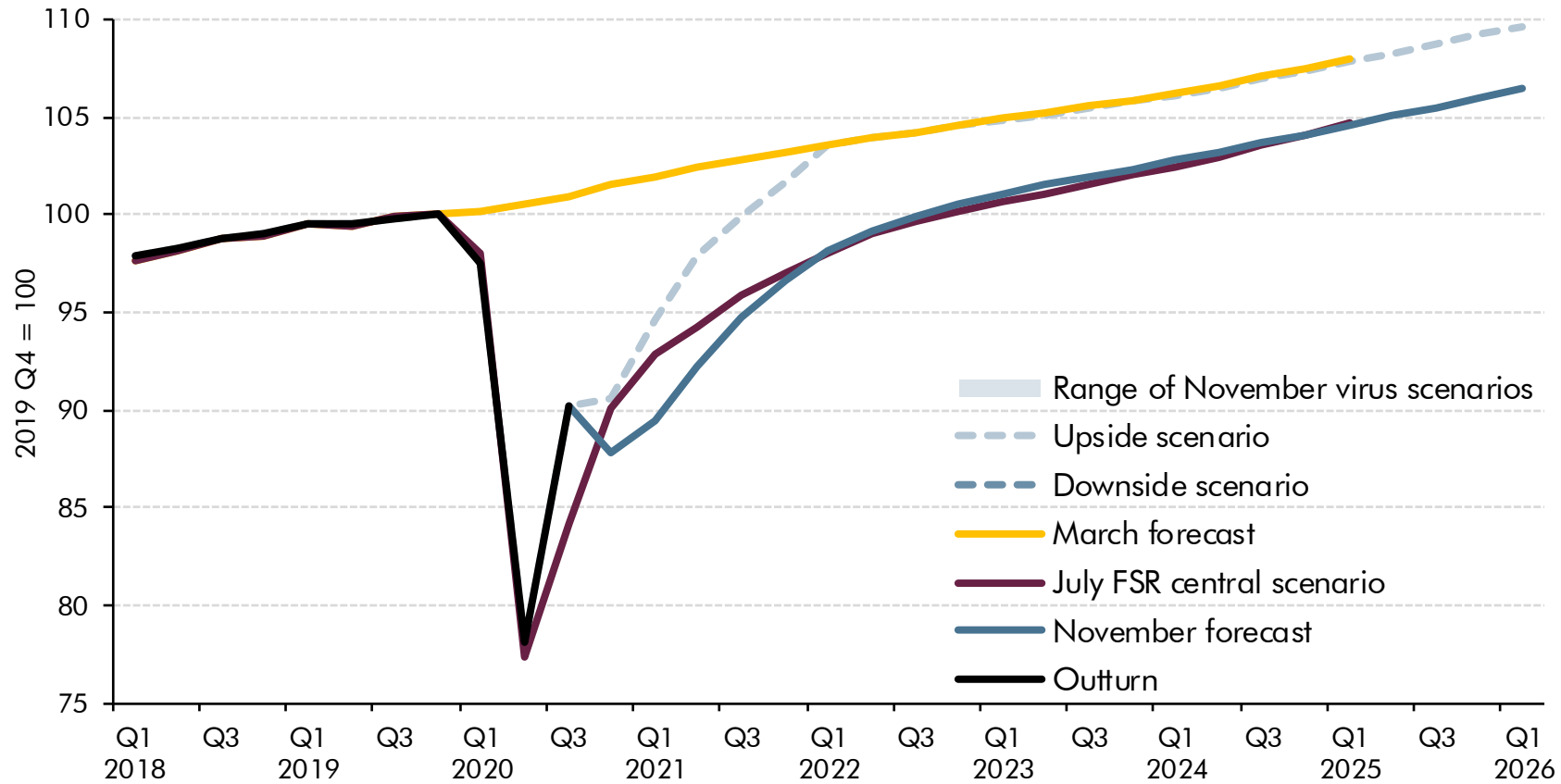
Source: ONS, OBR

Real GDP forecast: Upside Scenario



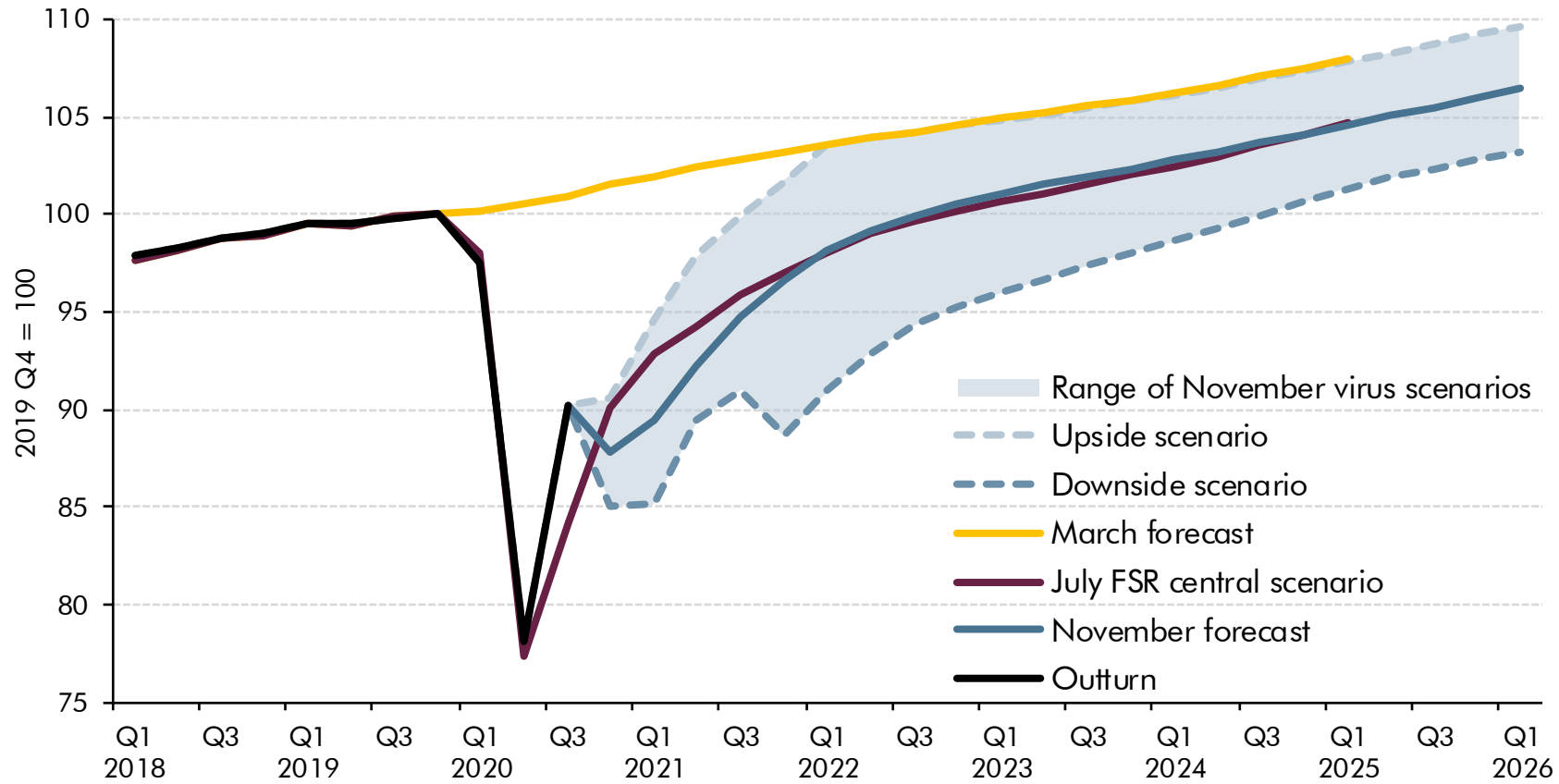
Source: ONS, OBR

Real GDP forecast: Central forecast



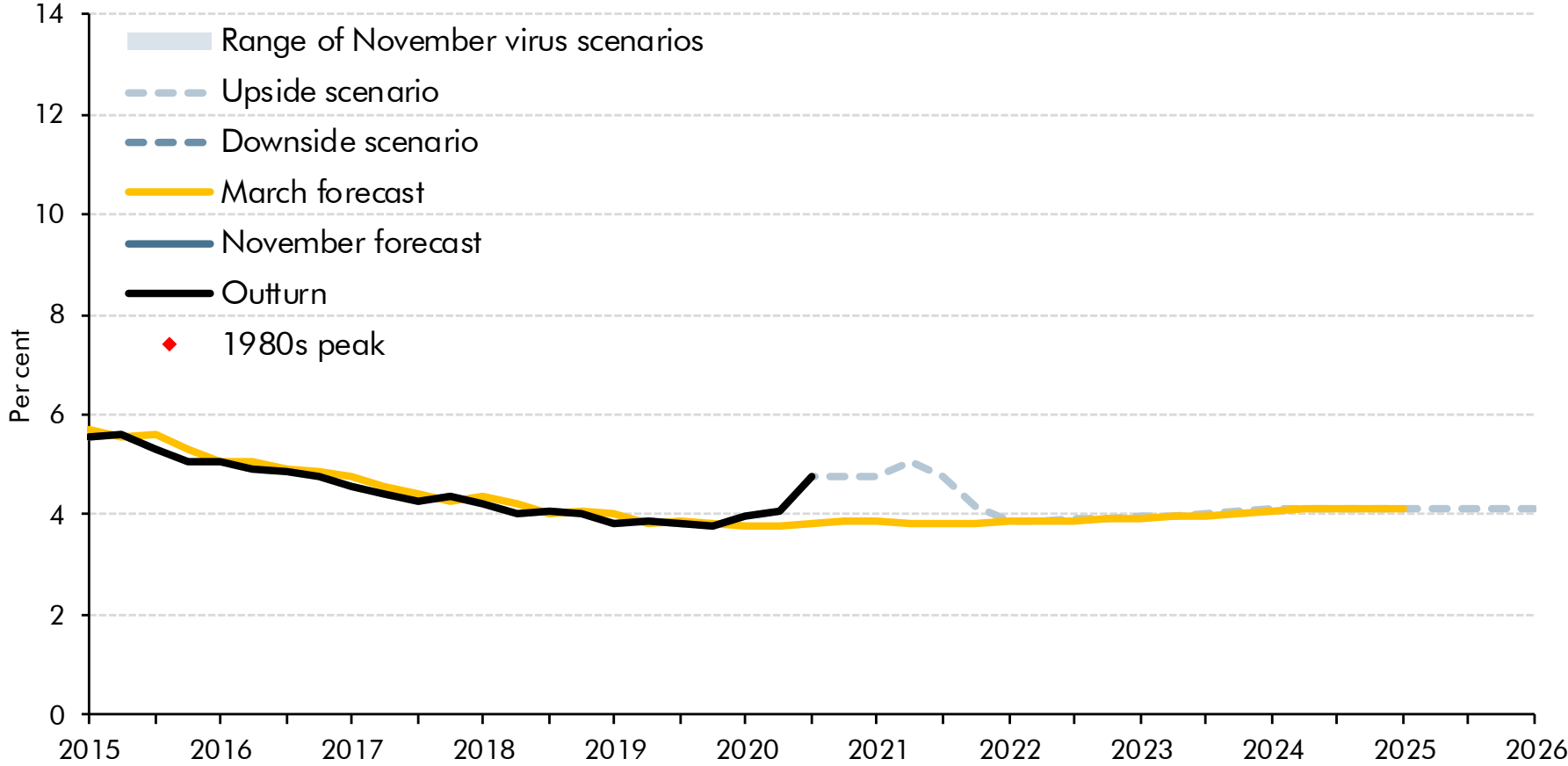
Source: ONS, OBR

Real GDP forecast: Downside scenario



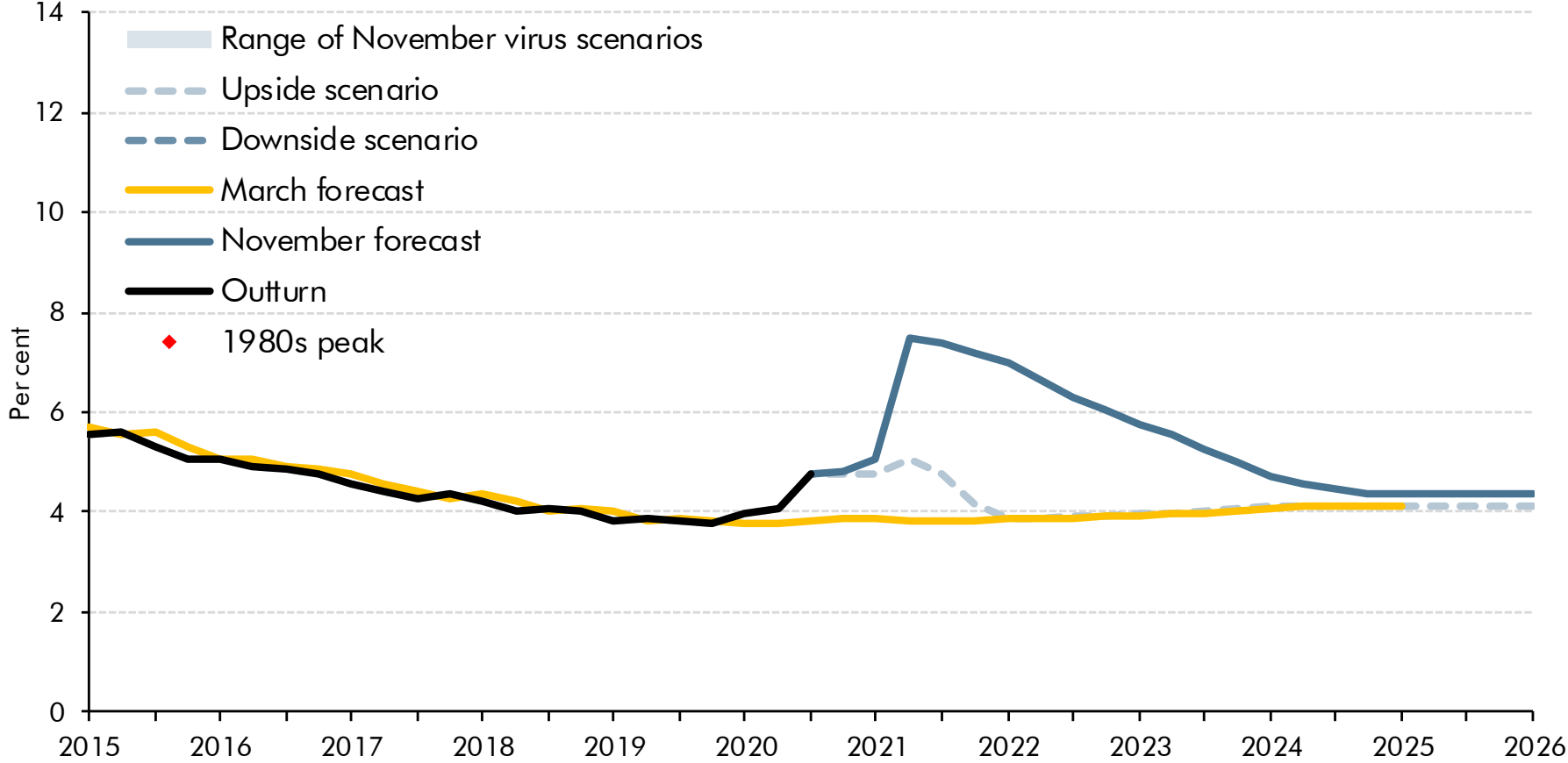
Source: ONS, OBR

Unemployment forecast: Upside scenario



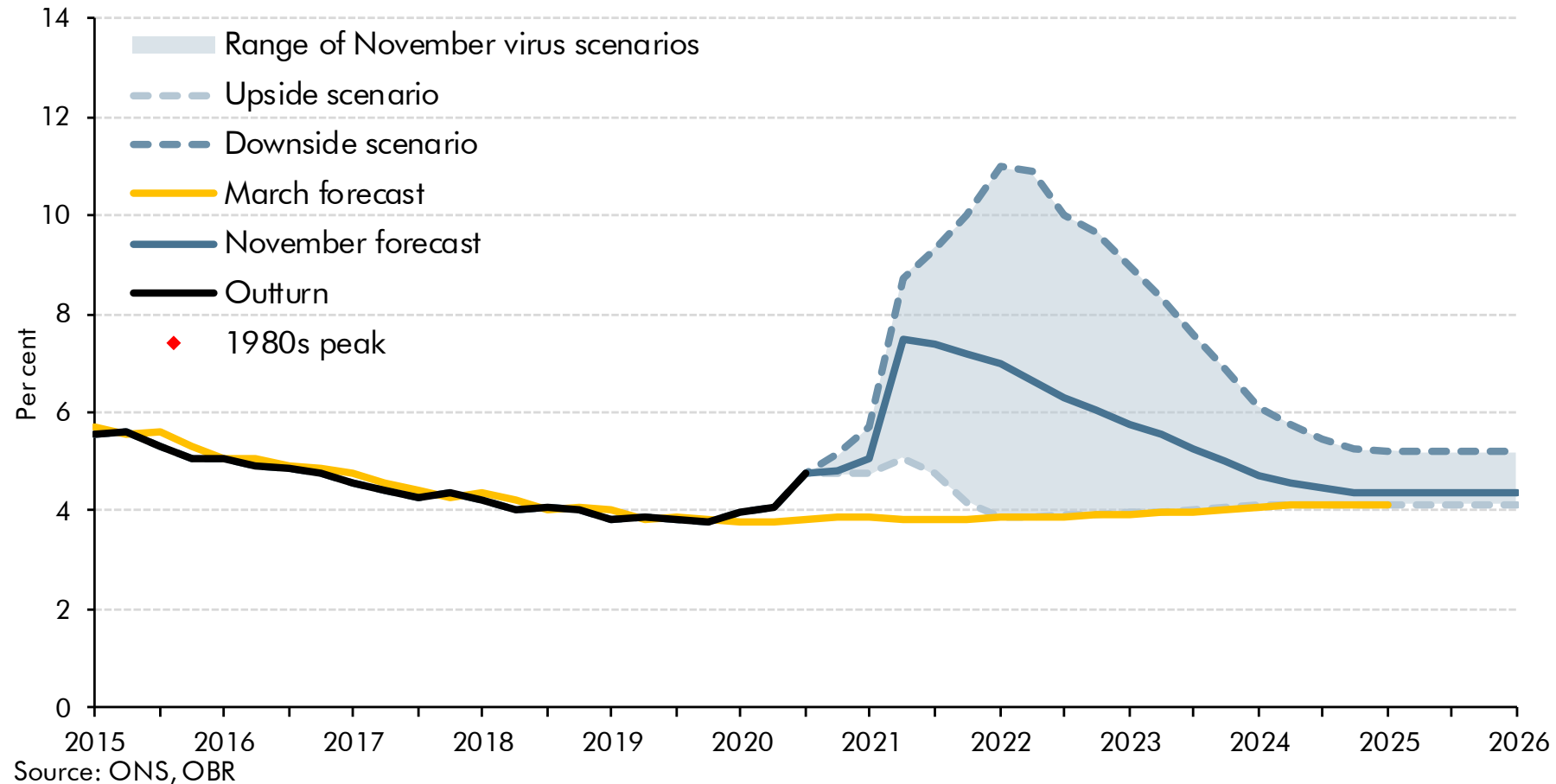
Source: ONS, OBR

Unemployment forecast: Central forecast

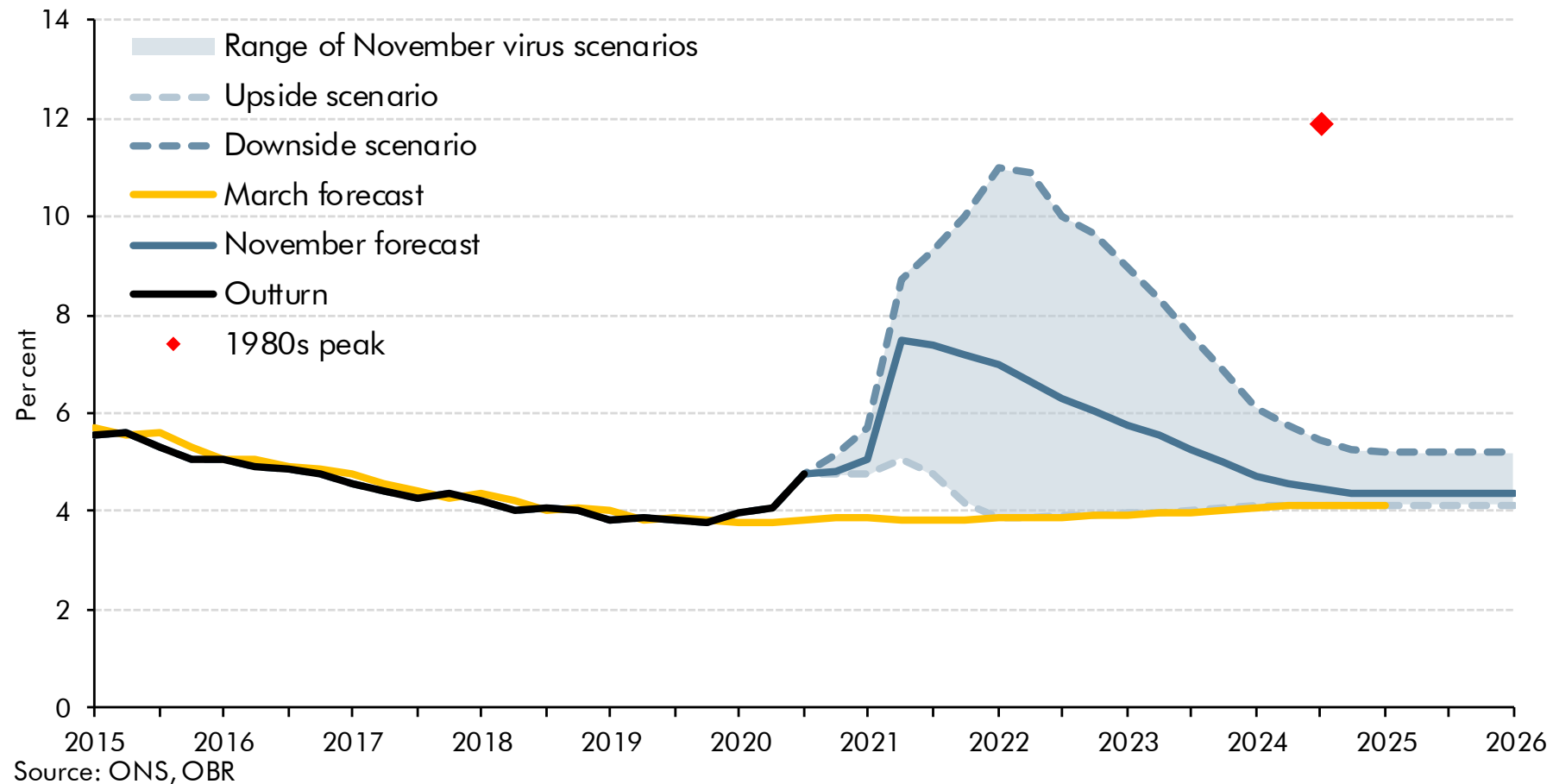


Source: ONS, OBR

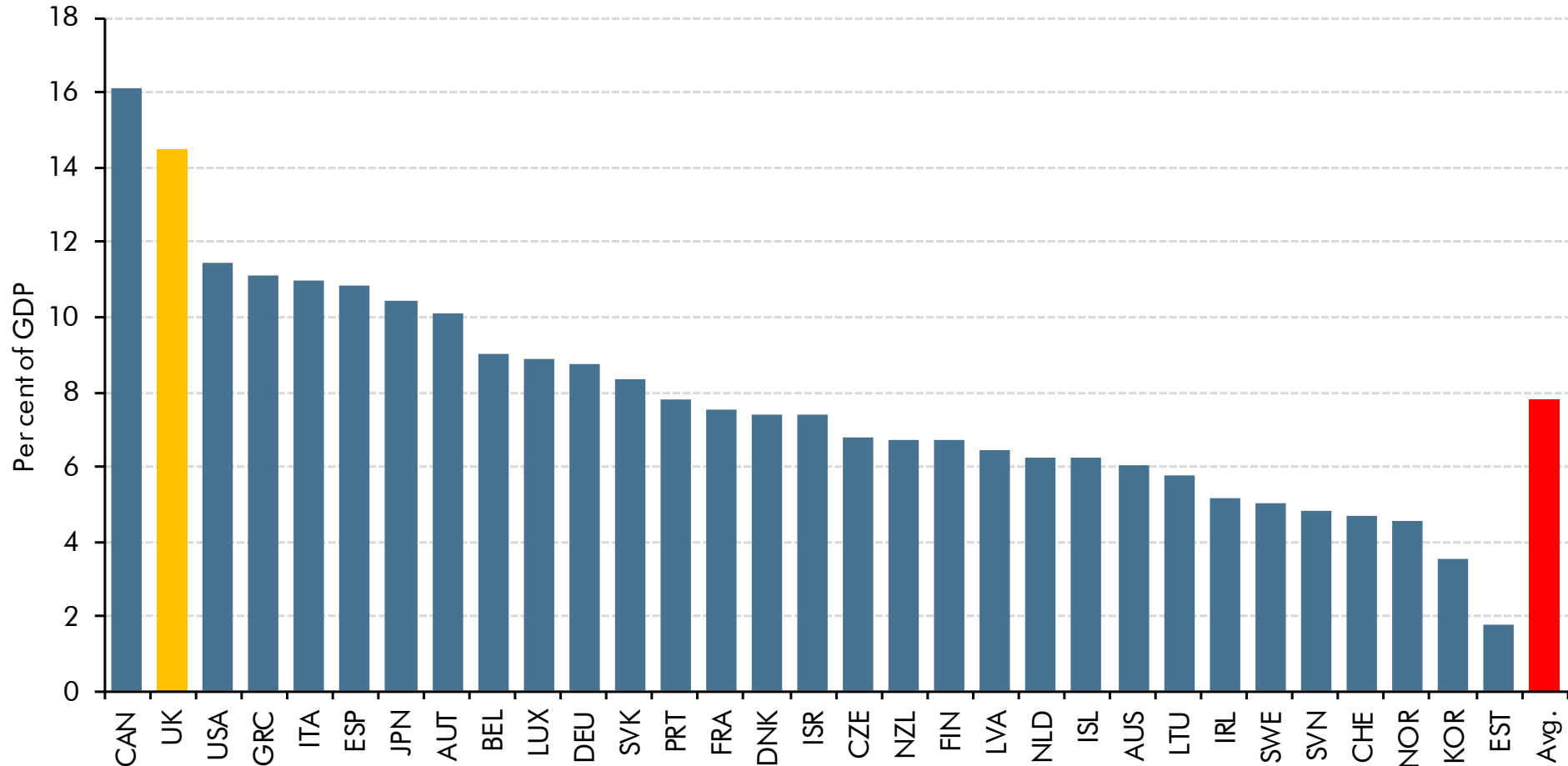
Unemployment forecast: Downside scenario



Unemployment forecast vs. 1980s recession

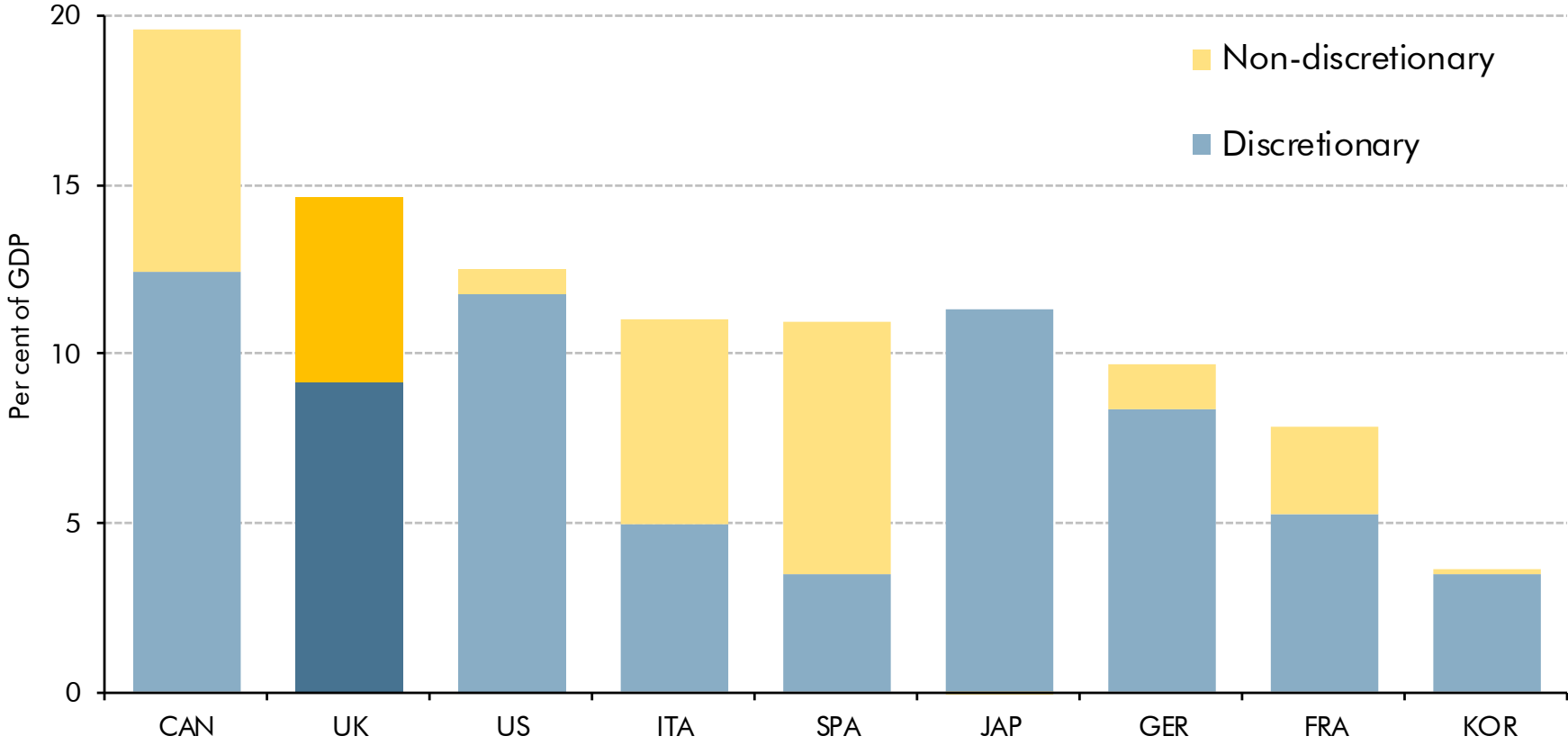


Increase in government spending in 2020



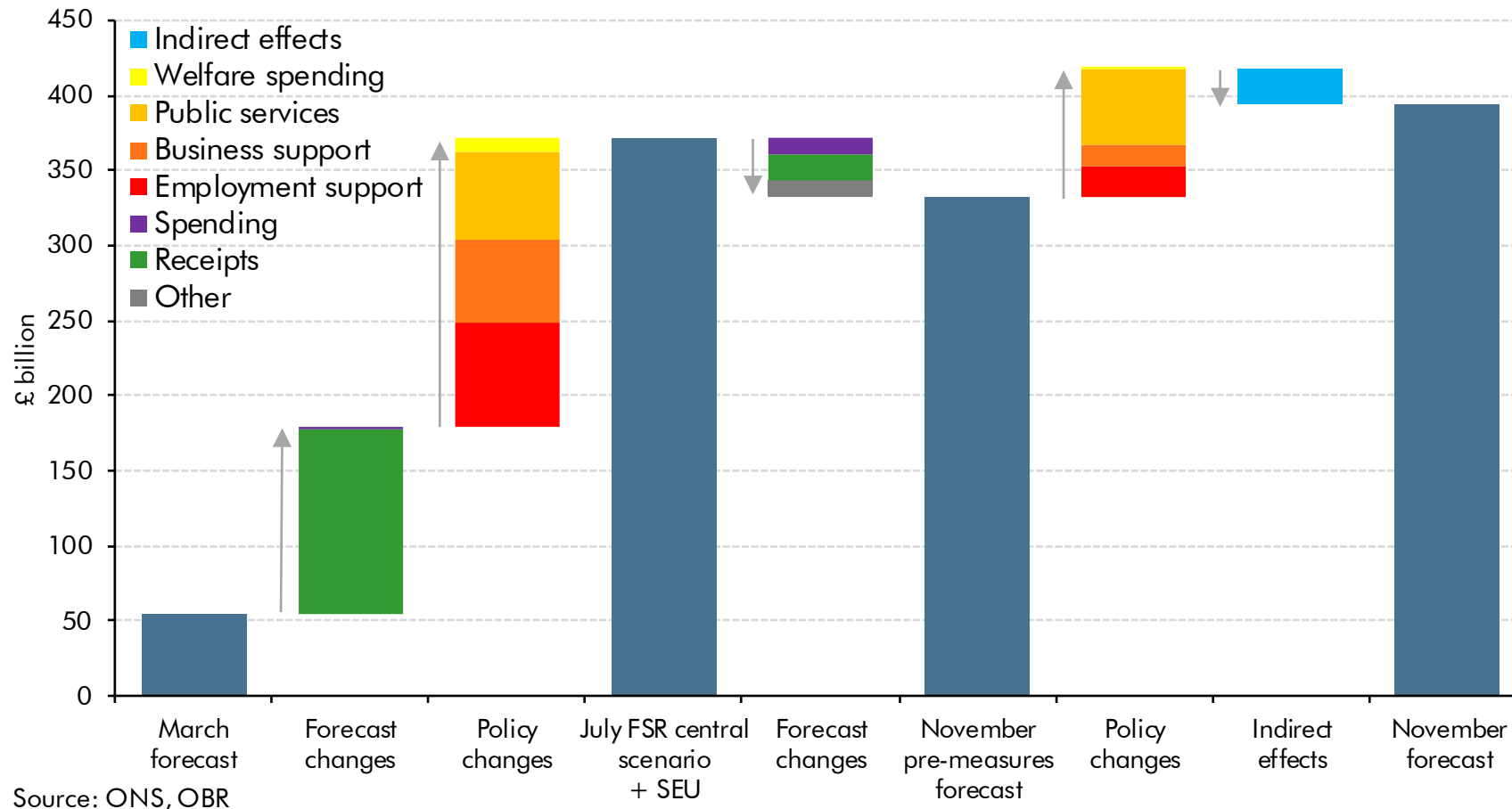
Source: IMF

Increase in government deficits in 2020

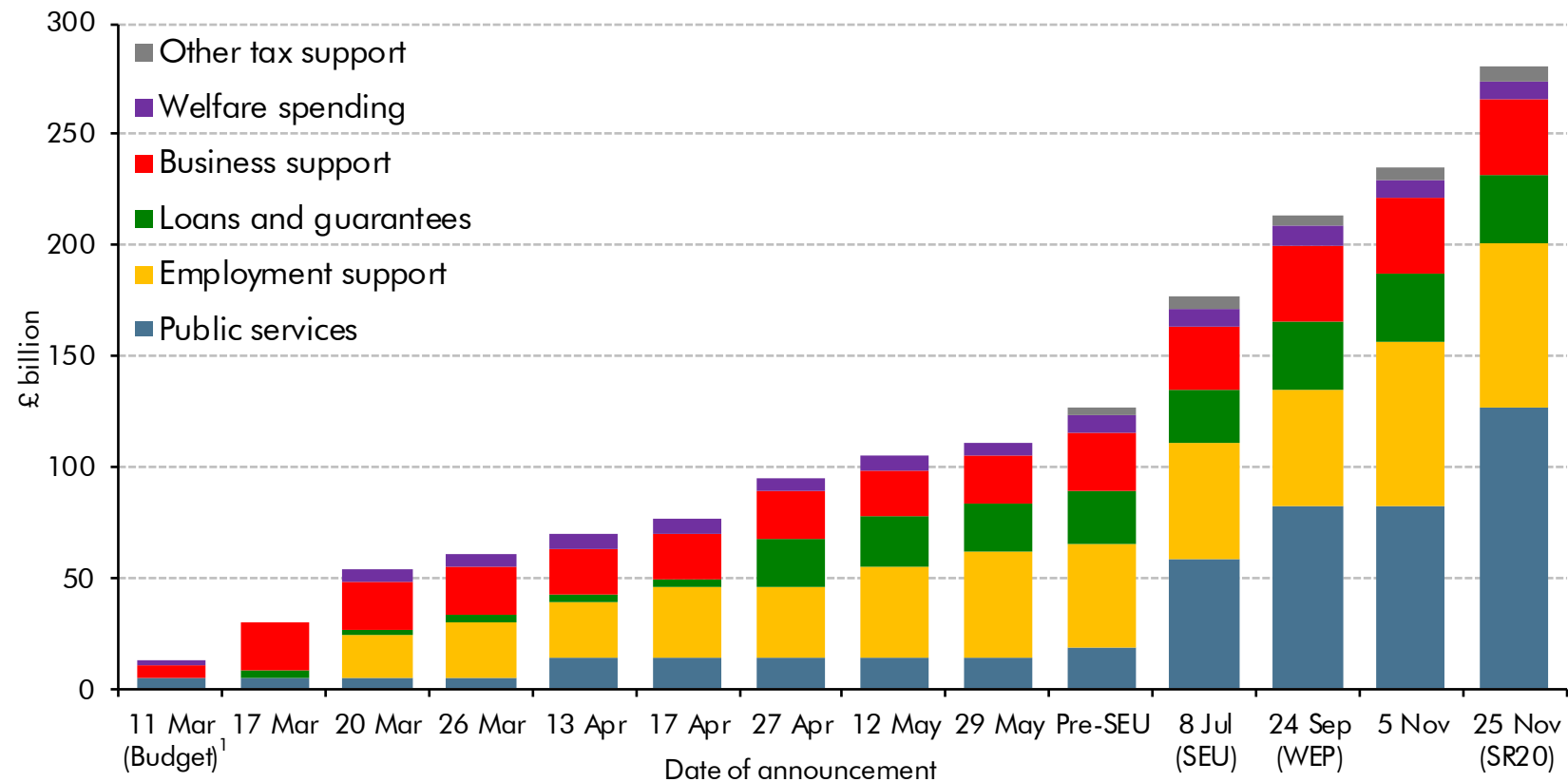


Note: Change in primary net borrowing between 2019 and 2020.
Source : IMF

Sources of increase in borrowing in 2020

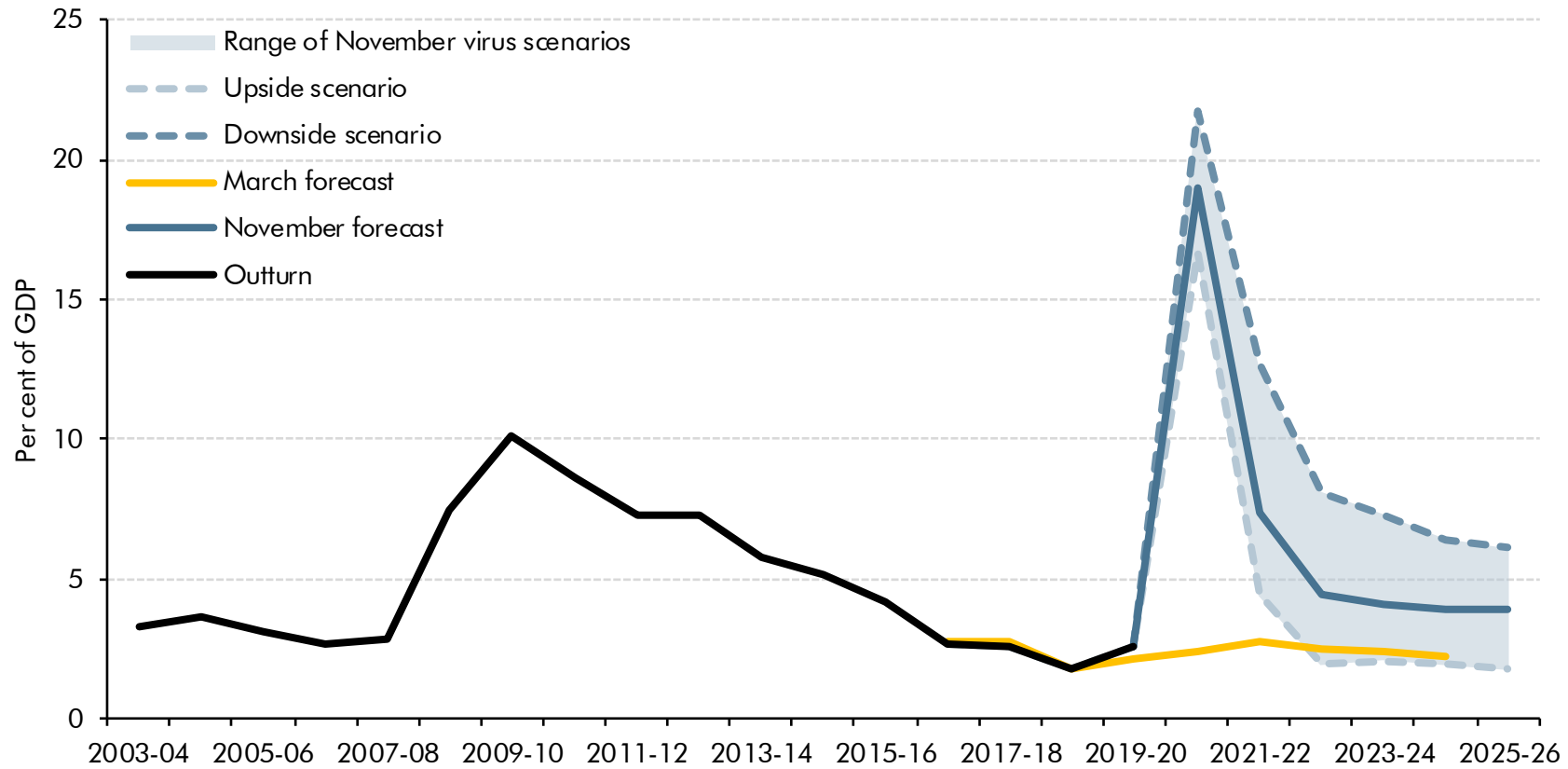


Growth in covid policy costs over 2020



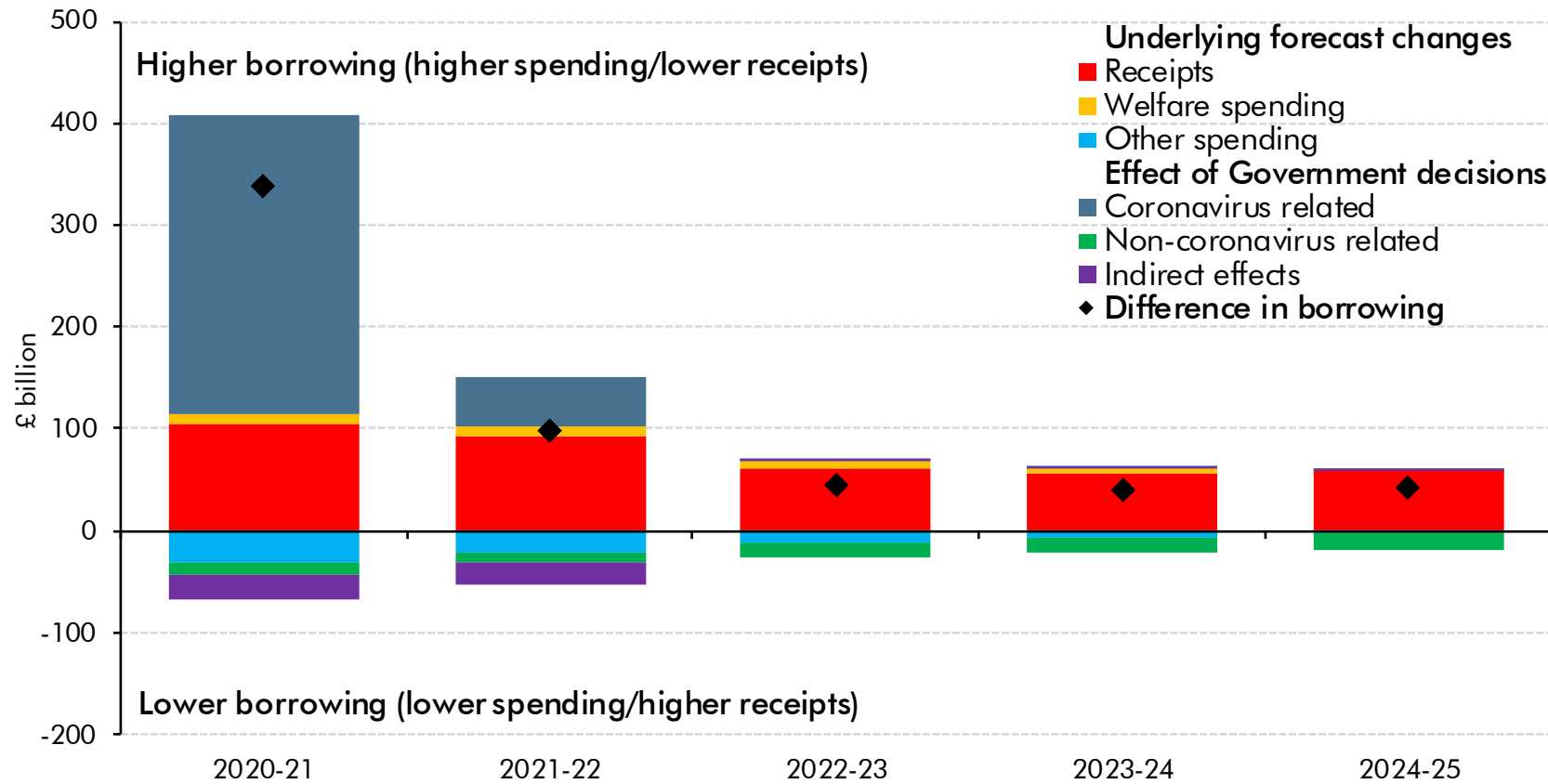
¹ Cost based on figures announced by the Chancellor in the Budget. All other costs based on our November forecast estimates.
Source: OBR

Borrowing forecast: 3 scenarios



Source: ONS, OBR

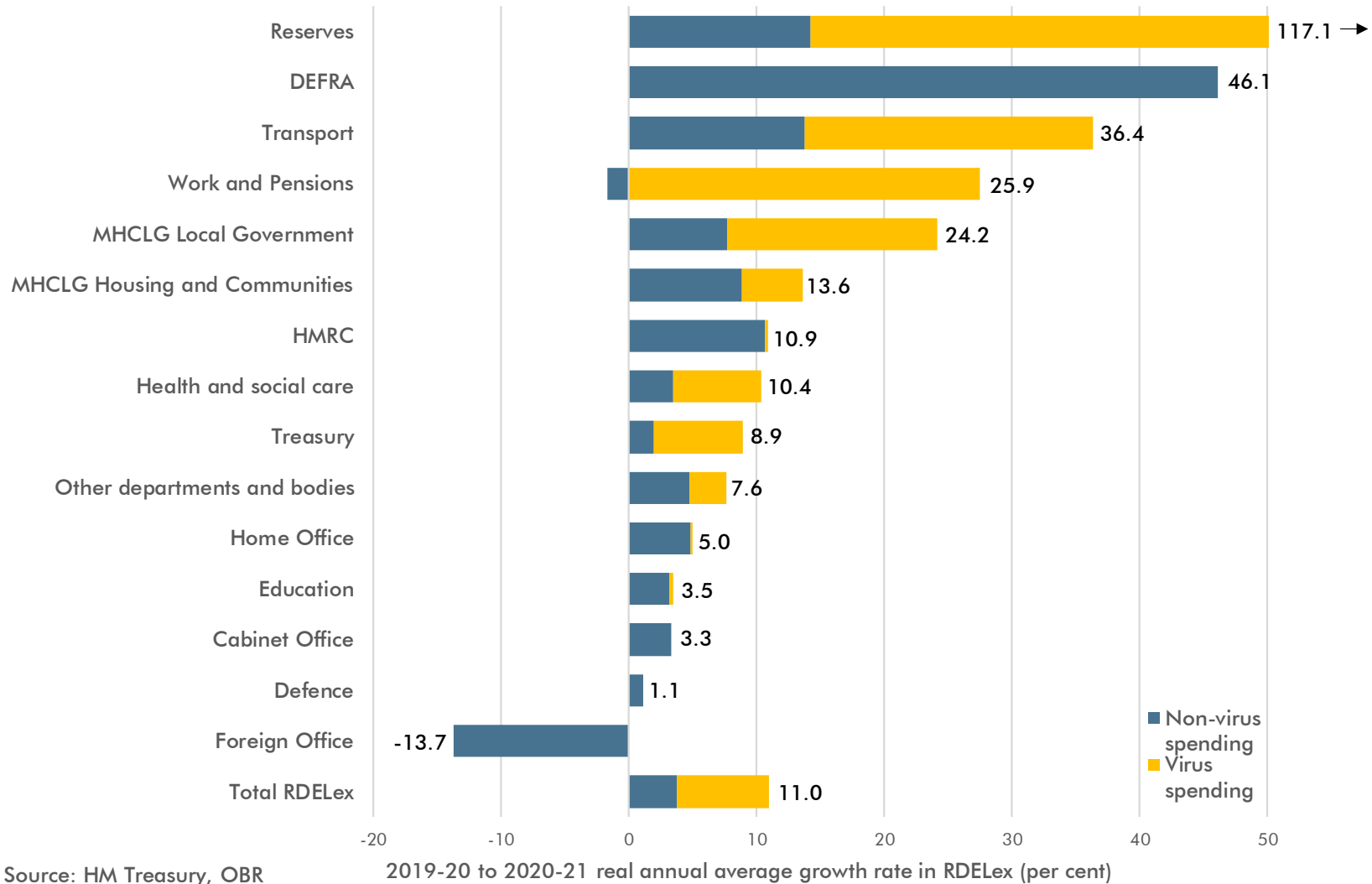
Sources of increase in borrowing



Note: Indirect effects are calculated only on measures introduced since FSR+SEU for reasons set out in paragraph 3.4

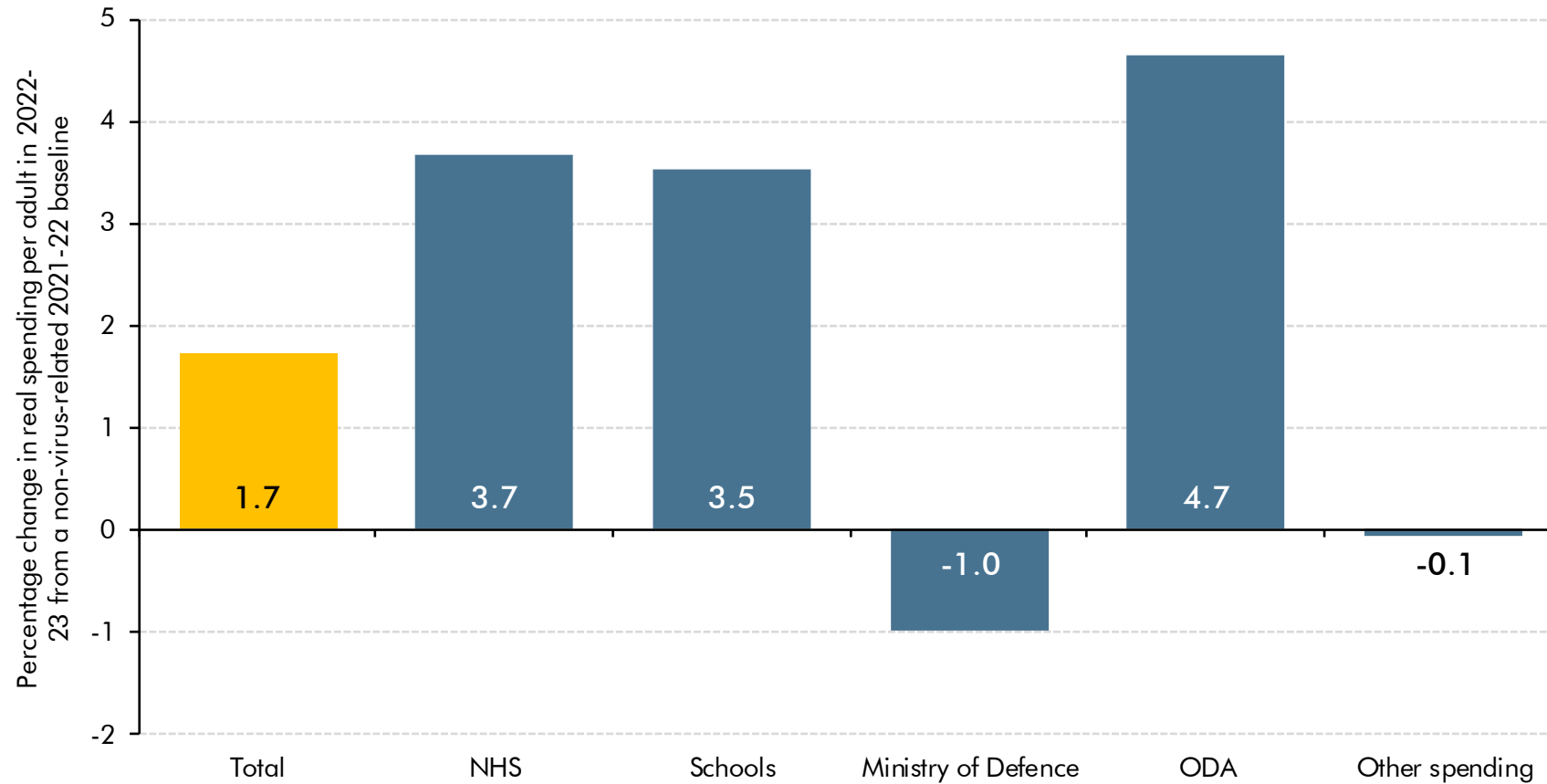
Source: OBR

Spending Review 2020



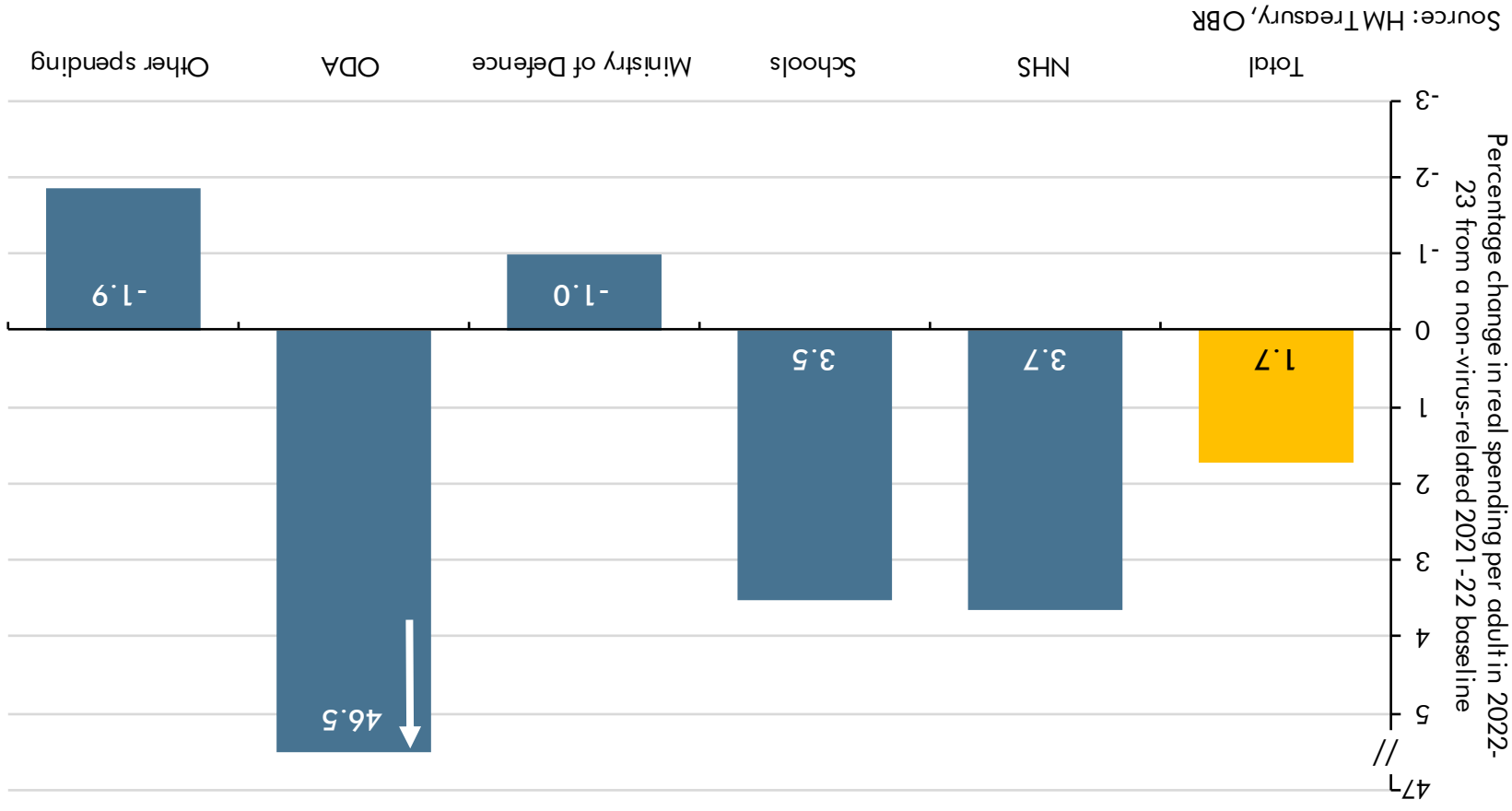
Source: HM Treasury, OBR

Spending Review 2021?

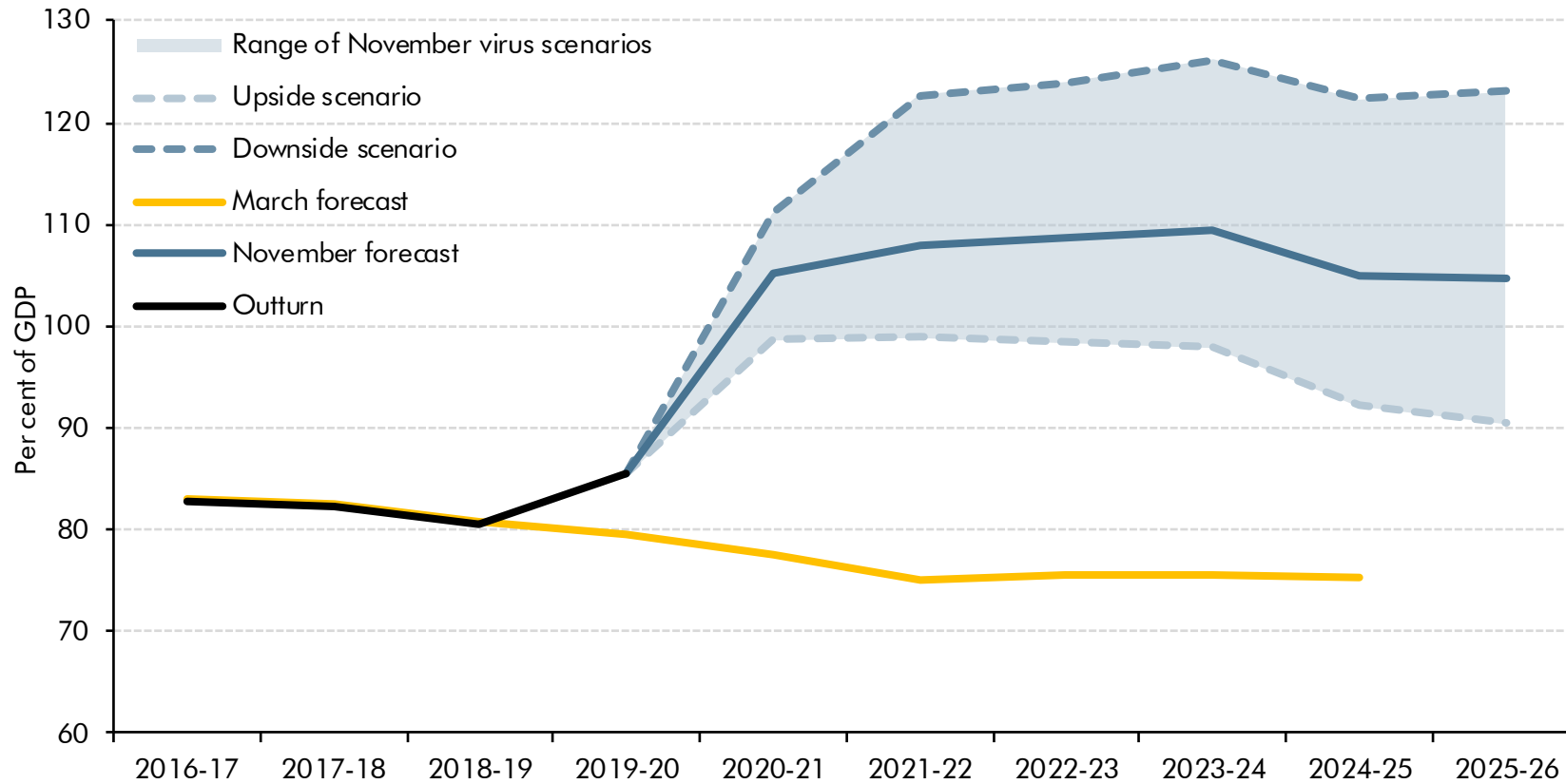


Source: HM Treasury, OBR

Spending Review 2021?

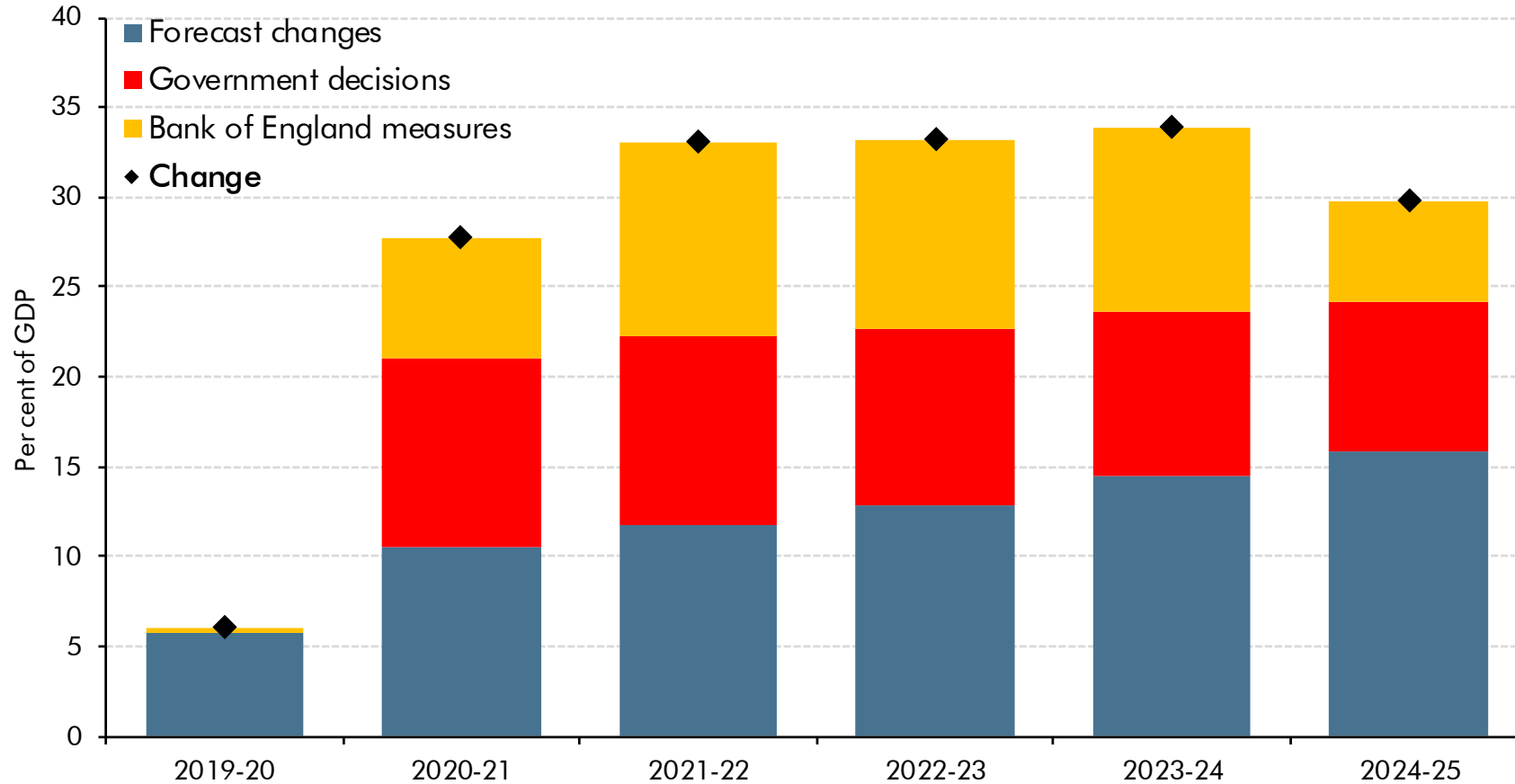


Debt/GDP forecast: 3 scenarios



Source: ONS, OBR

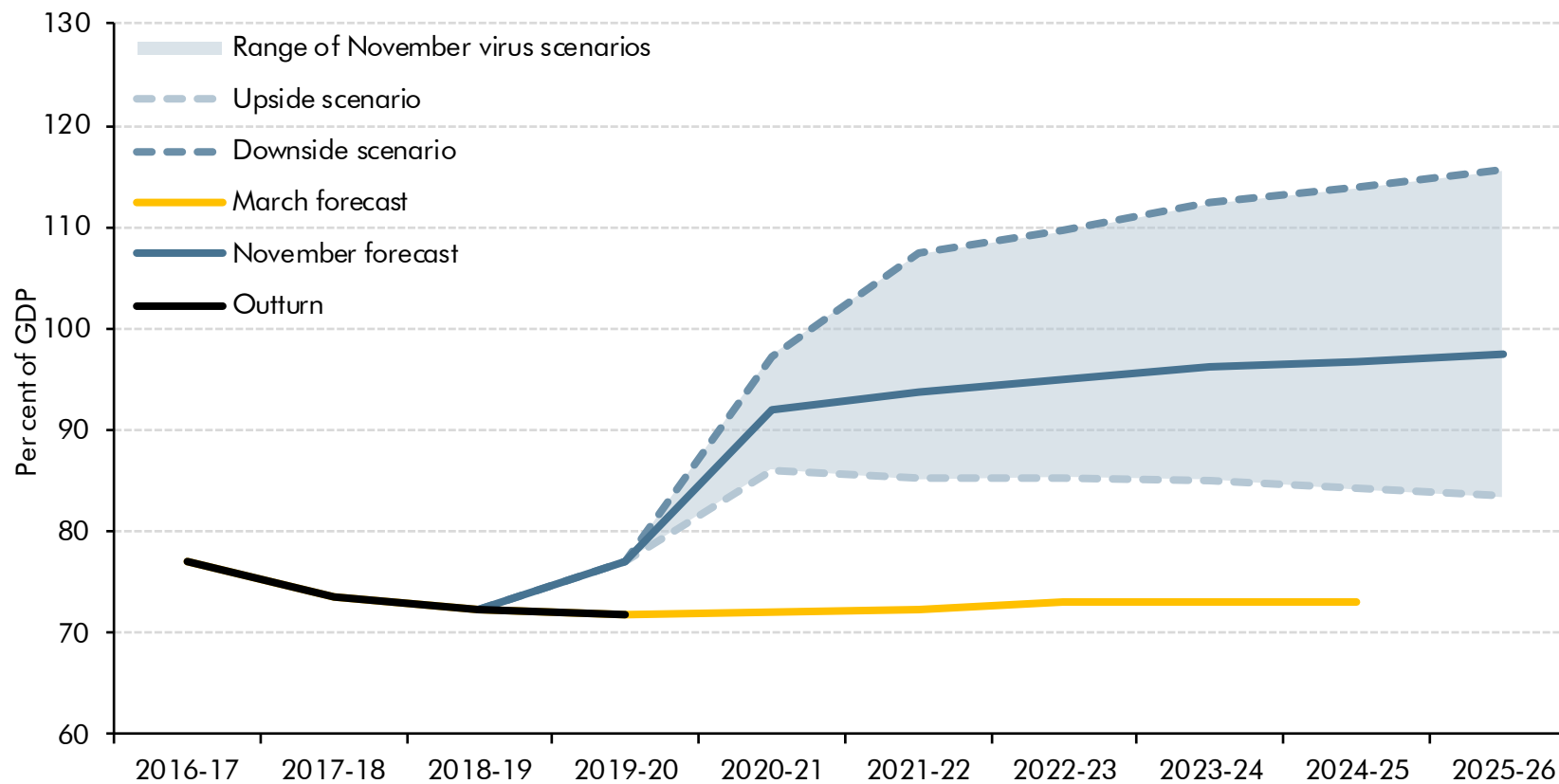
Debt vs March: central scenario



Note: Government decisions contains policy measures' indirect effects only on measures introduced since FSR+SEU.

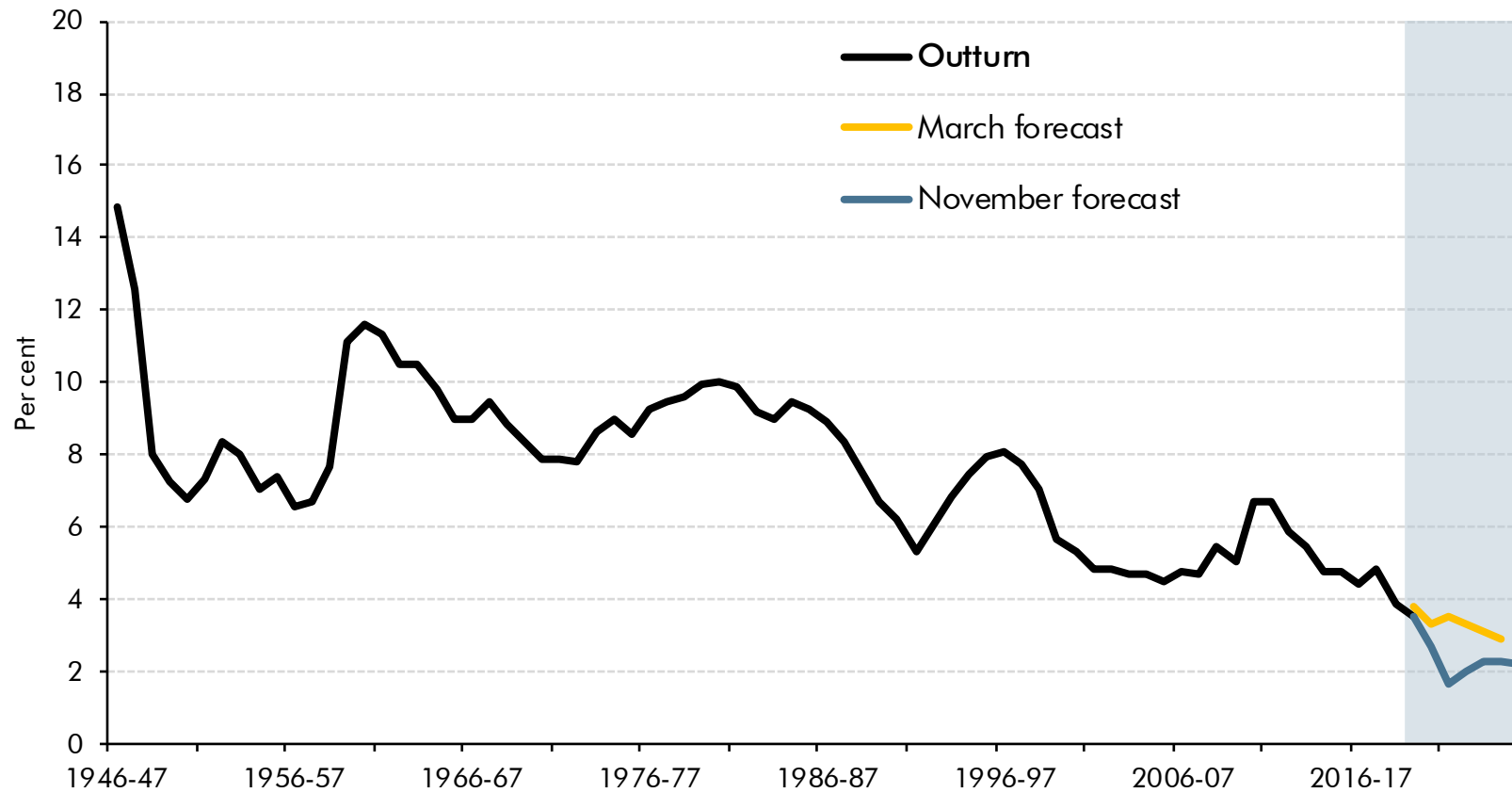
Source: ONS, OBR

Debt/GDP ex Bank of England: 3 scenarios



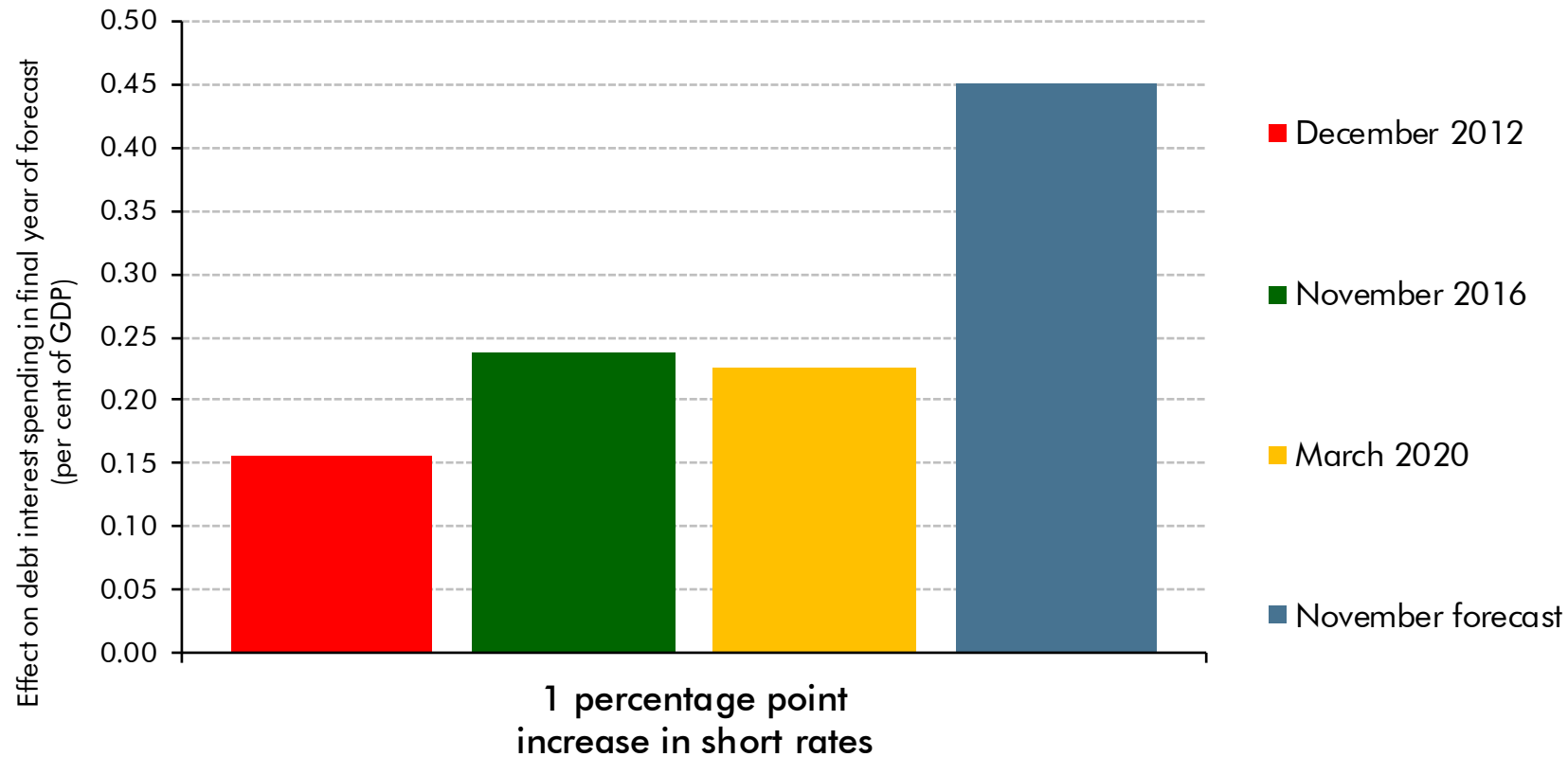
Source: ONS, OBR

Debt interest/revenue forecast



Source: Bank of England, ONS, OBR

Debt interest sensitivity



Note: All increases are assumed to take effect at the beginning of the first year of the forecast and continue until the final year.
Source: Debt Management Office, OBR

Fiscal rules

Legislated rules

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

March



November
(central)



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



Fiscal objective:
balanced budget by 2025-26



2019 Conservative manifesto rules

Current budget rule:
balanced by 2023-24

March



November
(central)



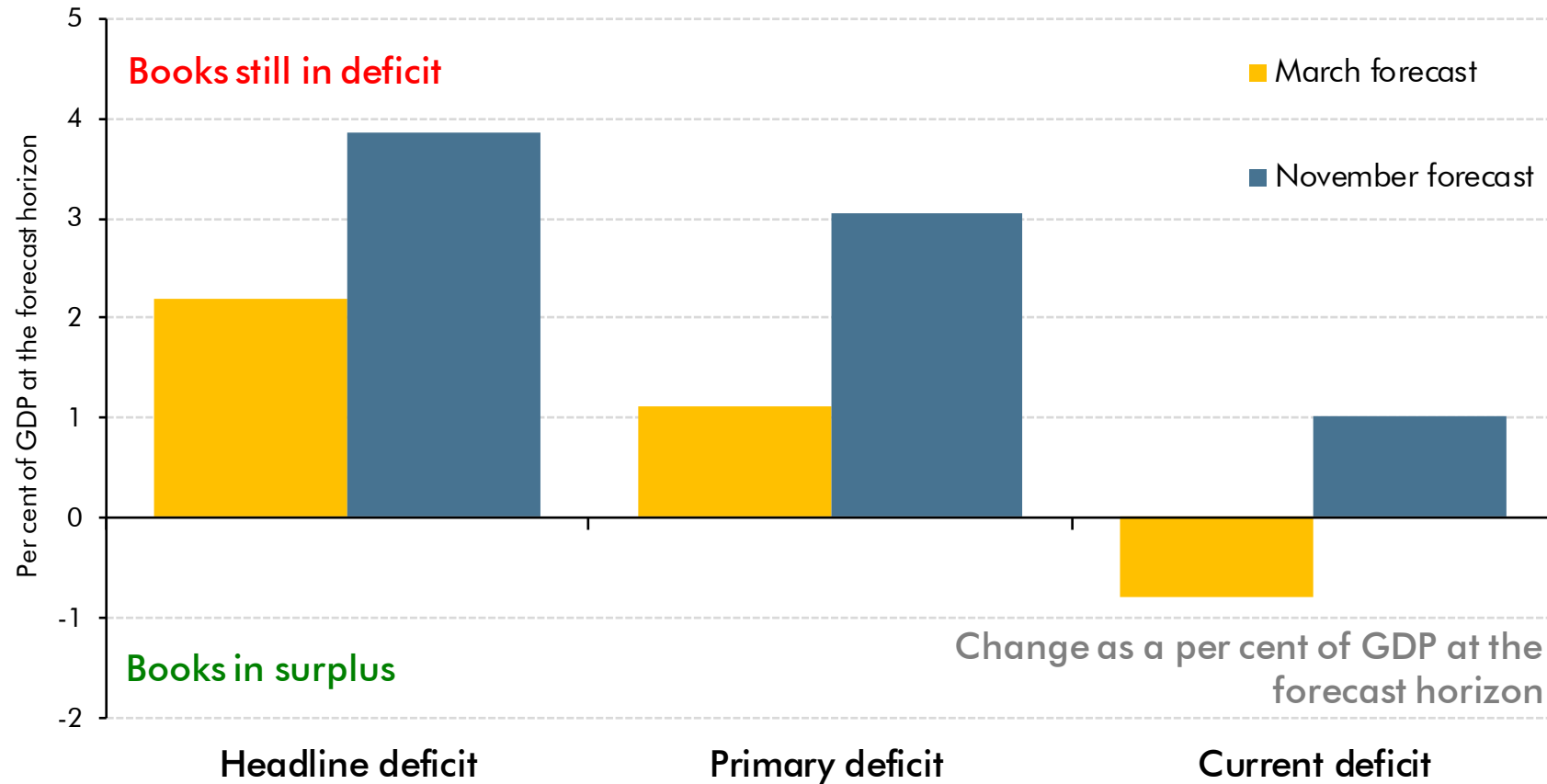
Investment rule:
net investment no more than 3% on average



Debt interest to revenue ratio:
interest costs no more than 6% of revenue

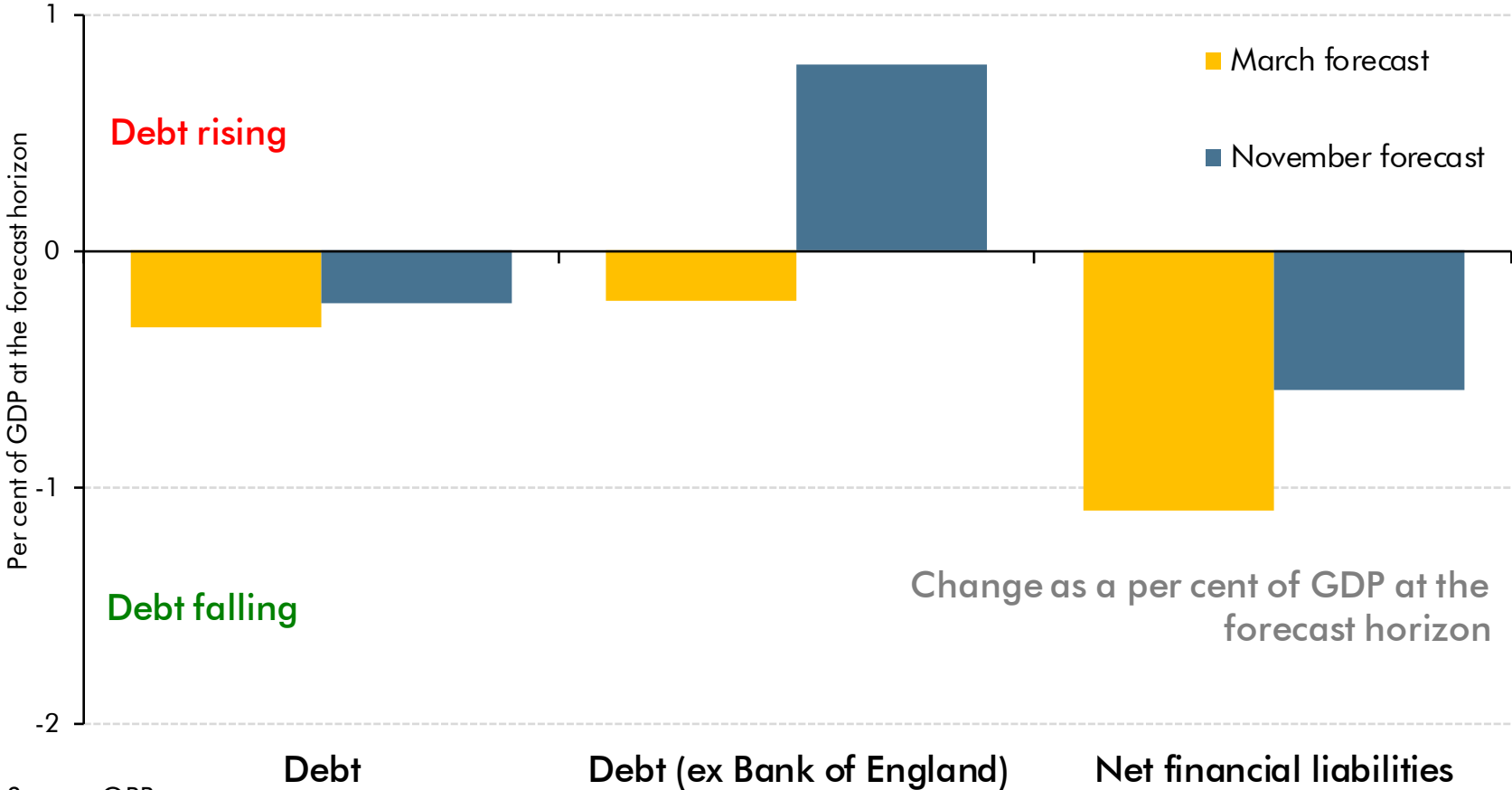


Balancing the books



Source: OBR

Getting debt under control



Source: OBR

Conclusion

- **Coronavirus has taken a heavy economic and fiscal toll in 2020**
- **Vaccines offer hope for a more sustained recovery in 2021**
- **Economic cost paid along the way depends on effectiveness of:**
 - **Public health response: lockdown, test & trace, and vaccine**
 - **Economic policy response: worker, firm, and health support**
- **Debt is mounting but borrowing costs have fallen (for now)**
- **£20-30 billion needed to balance the books & stabilise debt**