

**NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL
RESEARCH:
PRESS CONFERENCE
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Opening remarks by the Director**

Good Morning. Welcome to the National Institute of Economic and Social Research for the release of our May 2020 Review. The Covid-19 strain of the coronavirus has transformed economic prospects as rapidly as it has comprehensively. And in the main this is because lockdowns have been the economic tool by which we have chosen to control the virus. World growth is not only going to stall this year but move significantly into reverse. Year on year growth in world income for three decades has hovered in the range 3 to 4% and even in the worst year of the financial crisis barely crossed the zero line and yet we now expect output to contract by some 3-4% this year and that is probably one of the better case scenarios. Any return to the ‘blessed’ pre-Covid-19 world may have to be staggered and necessitate a comprehensive re-think of economic practice.

To say that these are highly uncertain times is almost truism. And we expect unsurprisingly widespread falls in GDP, particularly in the first half of this year, as the lockdowns have suspended many forms of economic activity. But our reassuring main scenario assumes that the measures to control movement and social contact will be eased gradually, permitting a wider range of economic activities to be undertaken as 2021 dawns. Accordingly, we project that global GDP will fall by some 3-4 per cent this year, a downward revision of around 6-7 percentage points from our view in February. The fall in GDP is substantially larger than during the Financial Crisis. The closest global parallel is the Great Depression, when there was multi-year fall in output in many countries but the comparison is a very rough and ready one. (And perhaps one that is too often used.) Once lockdowns are lifted, higher output could lead to marked year-on-year rises in GDP next year. But in many countries, even by 2022, GDP will still be lower than had the pandemic

not occurred. The covid-19 shocks tends to interact with poverty and make it worse and widens the income distribution at the national and global level.

We asked David Blanchflower (Dartmouth) and David Bell (Sterling) to examine unemployment trends in the light of the lockdowns and they report very worrying developments. They argue that the unemployment rate in the US was around 20 per cent in April. And report findings showing that a third of workers in Canada and the US report that they have lost at least half of their income due to the Covid-19 crisis, compared with a quarter in the UK and 45 per cent in China.

The economic outlook for the UK depends critically on the effectiveness of policies to manage the economy while limiting the spread of Covid-19. It is almost certain that GDP will fall in 2020 and a material risk of a further fall in 2021. The government's announced measures to limit the long-term economic effect of Covid-19 have a direct cost to the exchequer of about £75 billion in our main-case scenario. Borrowing is likely to rise above £200 billion in 2020–21. Where it is safe to do so, the government could improve the trade-off between saving lives and saving the economy by easing the lockdown in the key 'upstream' sectors of the economy such as manufacturing, construction and non-essential retail. The most significant challenges are likely to come when the lockdown is eased and the government's supportive measures are withdrawn. Government schemes will then need to be adapted to prevent unnecessary business failures as the economy recovers.

Our special issue of four papers on Global Value Chains and Economic Dislocations, edited by Ana Rincon-Aznar, Xuxin Mao and Manuel Tong (NIESR), highlights how trade linkages will amplify the economic shocks but also bolster the case for international policy co-ordination. Countries are connected through deep and extensive trade links, and are prone to international contagion, given participation in complex multi-country production networks, which increase indirect exposure. To shed light on this, Dawn Holland and Iana Liadze (NIESR) have assessed in this issue the extent to which international trade linkages can amplify a common domestic shock by using NiGEM. These estimates indicate that global spillovers through trade linkages amplify the domestic impacts of the Covid-19 shock by roughly

60 per cent on average. The average amplification would fall to approximately 35 per cent if global trade were to contract back to the levels of the 1990s. For some of the smaller, very open economies and in the Euro Area, the spillover effects from the rest of the world could even dominate the impact of the domestic shock on their own.

Even at this dark hour, there is hope. In a Box in the Review we examine how the UK recovered very quickly from a rapid decline in output in 1921 from a combination of support from overseas demand, some relaxation in monetary policy and the resumption of employment in a key industry with large positive spillovers. Co-ordinated action between fiscal and monetary policy can help, particularly if deployed when the lockdowns start to unwind. If we try to open sectors that have strong links across the economy that will also help. International policy co-ordination can also support economies by helping to offset the downward momentum of globally synchronised lockdowns. Monetary policy can create some fiscal space in those economies that have independent choice over the deployment of their macroeconomic tools. But given that the crisis may return as an echo in some form later it is important that monetary support does not undermine hard won monetary and financial stability with a lurch to unorthodoxy. As Peter Sinclair – who sadly passed away from Covid-19 – argued with Bill Allen in the Institute Review three years ago, monetary policy should do no harm. He was right and we shall miss him.

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