

NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL RESEARCH:

PRESS CONFERENCE

Tuesday 28th July 2020

Opening Remarks by the Director

Good Morning. Welcome to the National Institute of Economic and Social Research for the release of our August 2020 Review, No 253. The Covid-19 pandemic and the effects of the measures taken to protect lives continue to dominate the short term global economic outlook. And in the main this is because lockdowns have been the economic tool by which we have chosen to control the virus. World growth has not only stalled this year but has moved significantly into reverse and will take activity back to its 2018 level. 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, yet we now expect output to contract by some 5% this year and that is probably one of the better case scenarios. In many countries, with the Euro Area a particular concern, even by 2022 or 2023 GDP will still be lower than at the level reached at end of 2019.

Any return to the 'blessed' pre-Covid-19 world may have to be staggered and necessitate a comprehensive re-think of economic practice, as well as the location of a vaccine. And so to repeat, which we will, that these are highly uncertain times is almost truism and is reflected in our density forecasts for domestic and world activity. The crisis has also led many to question whether liberal trading arrangements and factor mobility will be maintained at the level to which we have become accustomed. Impressively large injection of fiscal support in many countries, government-backed liquidity and prompt central bank reactions, have militated against more extreme economic disasters so far. But the result will be that public debt has cranked up and policy rates will remain lower for longer. And there is a lingering concern as to whether this ongoing policy mix limits the scope for a dynamic recovery.

The economic outlook for the UK depends critically on the effectiveness of monetary and fiscal policies to manage the economy while limiting the spread of Covid-19. It is almost certain that GDP will fall by some 10% or so in 2020 and a material risk of a further fall in 2021. We expect public sector borrowing to be some 15-20% of GDP this year and for debt to GDP to peak at well over 100% in 2021. The most significant challenges are managing the relaxing of more stringent forms of lockdown as the government's supportive measures are withdrawn. Maintaining confidence in the public health system will be paramount.

Government schemes will then need to be adapted to prevent unnecessary business failures as the economy recovers but also to promote business start-ups. The cliff edge ending of the Coronavirus Job Retention Scheme may increase the pool of long-term unemployed and lead to a deterioration in household living standards, particularly for the vulnerable.

Our special issue of four papers on regional disparities provides a further colour, edited by David Nguyen, Tony Venables and Arnab Bhattacharjee, it examines the scale of the levelling up task faced by policymakers but also exposed by this crisis. As well as highlighting a clear need for more prompt and accurate data, and analysis of the spatial consequences of policy choices, the economic disruptions of our times seem likely to

exacerbate existing spatial disparities even further. Even though it has been repeated many times, the policy interventions that improve STEM skills, augment digital infrastructure and support regional development with structural funds that do not ebb and flow with the political cycle are the key to great regional resilience.

But in a world of such uncertainty, careful, localised attention to the risks that individuals face is critically important and that means that maintaining limits on gatherings of large groups, using masks, maintaining social distancing, a robust test, track and trace regime, support for the young who may find themselves unemployed at a critical part of their life cycle and for health and social care for the elderly. Two papers in the Review, paint a further picture. One (David Miles, Mike Stedman and Adrian Heald) presents a trial calculation on the costs and benefits arising from the lockdown and allows us to think more carefully about the difficult issues so raised. On the one hand lockdowns limit and smooth the spread of this new virus but on the other they inflict economic and social costs. Depending on who these costs and benefits fall and our attitude to the risk these sections of the population face, we can start to consider in what form lockdowns are worthwhile. But a second paper (Arnab Bhattacharjee and Elena Lisauskaite) traces a disturbing effect of these policies on the level of destitution, which cannot be ignored by policy.

As I said in the Spring, co-ordinated action between fiscal and monetary policy can help, particularly if deployed when the lockdowns start to unwind so that demand and supply can move in step to support recovery. If we try to open sectors that have strong spillovers 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 unorthodox measures.

JAGJIT S. CHADHA

DIRECTOR

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