

**NATIONAL INSTITUTE OF ECONOMIC AND SOCIAL
RESEARCH:
PRESS CONFERENCE
Monday 8th February 2021
Opening remarks by the Director**

Good morning. Welcome to the National Institute of Economic and Social Research for the release of our February 2021 *Global* and *UK Economic Outlooks*. Our new *National Institute Global Economic Outlook* will focus on the developments in the world economy projected by our global econometrics model, NiGEM as well as providing scenarios to illustrate key macroeconomic issues. In this case we look at the spread of the vaccine and the implications of moving from inflation targets to price level targets. The *National Institute UK Economic Outlook* will not only continue to assess the aggregate picture but will increasingly place weight on its micro underpinnings at the sectoral, household and regional level. To that end we are developing a new National Institute Regional Economic modelling system (NiReMS), which should allow us to assess the true extent of any ‘levelling up’.

We are, of course, still living in the grip of a Covid pandemic that is neither well understood nor under control. The main instrument of response has been the deployment of lockdowns with varying degrees of stringency and increasingly, with remarkable scientific progress, we now are turning to the deployment of vaccines, albeit (and sadly) in advanced economies. The policy objective, as we have said since the early part of the crisis, must be to smooth the spread of the virus, limit the probability of overloading health and social care services and offset as much of the economic impact as sound monetary and fiscal policies will allow. While the UK’s vaccine rollout has shown some welcome promise it has not been accompanied by a supportive a test and trace system or a consistent strategy to minimise risks to public health.

The world economy suffered profound negative demand and supply shocks in 2020. And while there has been some recovery and we expect global GDP to pass its pre-crisis peak later this year, there are substantial differences in

country level attainment of this key measure of progress. And the UK seems likely to be pulling to the rear. The pandemic has exposed and stressed our weak socio-economic frameworks where, as an intensely open economy, this country has been severely examined. From the relationship between Whitehall and the metropolitan mayors, as well as with the devolved nations to the vacillation in budgetary planning at H. M. Treasury and the inability to develop a robust approach we have, to some extent, been found out. The pandemic particularly affects service industries that rely heavily on social interactions and we have also finally left the EU with a Trade and Cooperation Agreement that will act to delay our recovery in high value services. The joint shock of Covid and Brexit continues to be a grave concern.

The impact of any lockdown has a direct effect on current economic behaviour but also induces expectations of future restrictions. And to the extent that commuting patterns and demand for hospitality, recreation and the arts may shift to new practices for some time to come or even permanently, the pandemic is not only leading to a contraction in activity but sends a signal to reallocate resources, mostly from the private to the public sectors. If successful this will reduce the long run consequences in terms of health and the economy, as there is no long run trade-off between the two. But the need to build the public sector in this manner, for example, confidence in public health capacity will ultimately require taxes to be raised.

But with next month's Budget in mind: not yet. The pandemic shock is exogenous, outside our normal system, and dictates decisive fiscal action to provide insurance for households and firms. Though it should not be undertaken in a haphazard time limited manner and, as far as possible, the support should be state contingent. So that for as long and whenever as we impose lockdowns, those planning ahead should be able to condition on some fiscal support. Naturally in the short run these will tend to raise levels of private and public indebtedness. But given the low costs of funding public debt and its maturity structure, it is more important to work on the fiscal framework than on the immediate development of new sources of revenue. The March Budget should make progress towards this framework.

As well as the underlying impact on the big numbers, the experiences of those towards the lower tiers of the distribution are increasingly suggestive of troubled times. Destitution and poverty seem set to rise. And the lockdowns seem likely to scar the progress of many of the younger generation, with losses in schooling and the ability to build up job-related skills in early career. The decline in measured firm dynamism will also need attention, as will the extent to which indebtedness will crimp future human and physical capital investment. A sustained emphasis on building skills and the digital economy to meet regional imbalances over the long term will help but vacillation will not. The Covid quandary is really how to achieve these long standing goals of economic development at a time of national economic crisis without undermining the credibility of the monetary-financial settlement.

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