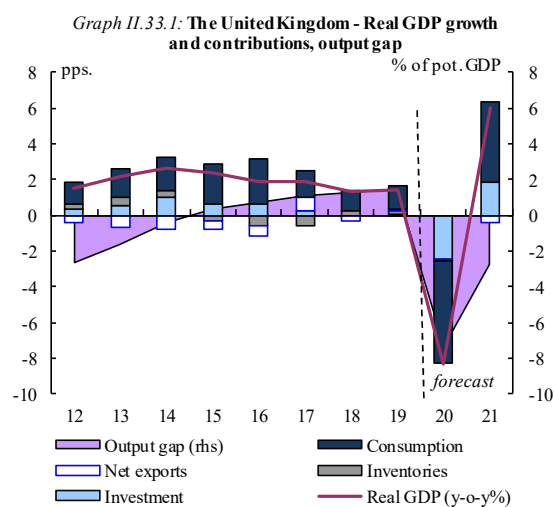


33. THE UNITED KINGDOM

UK GDP is expected to fall steeply in the first half of 2020, mostly due to the containment measures the UK government has implemented to combat the spread of COVID-19, before rebounding into 2021. Private consumption is expected to fall sharply, before picking up again, while investment is expected to take longer to recover, due both to the lasting consequences of COVID-19 and continuing uncertainty about the UK's future trading relations with the EU. Net trade is expected to remain a drag on growth. Unemployment is set to spike in 2020, before easing down in 2021. Inflation is projected to drop this year before rising in 2021.

GDP growth was modest and volatile in 2019...

UK GDP growth was very volatile throughout 2019. This was in part due to fears of a possible disorderly exit from the EU in March and October, which led to stockpiling and other mitigation activities, temporarily boosting growth in the first and third quarter of 2019. The subsequent unwinding of stocks had a negative effect on GDP growth in the second and fourth quarters. Overall, UK GDP grew by 1.4% in 2019, up slightly from 1.3% in 2018.



Following the UK's withdrawal from the EU on 31 January 2020 and the entry into force of the Withdrawal Agreement, the UK entered a transition period during which EU law, with a few exceptions, continues to apply to and in the UK. The transition period lasts until the end of 2020, with the possibility of an extension. Projections for 2021 are based on a purely technical assumption of status quo in terms of trading relations between the EU and the UK. This is for forecasting purposes only and has no bearing on the negotiations between the EU and the UK on their future relations.

...and is expected to drop in 2020 because of COVID-19 before rebounding in 2021

To contain the spread of the COVID-19 pandemic, the UK government implemented a lockdown from late March onwards, leading to a sharp slowdown in business activity in many sectors, particularly hospitality. Consequently, private consumption and investment are expected to fall sharply in the second quarter of 2020. As containment measures are eased, private consumption is expected to rebound quickly in the second half of the year, supported by an expansionary fiscal policy. Business investment is also expected to rebound, although with uncertainty about the UK's future trading relations continuing to weigh on investment. Public consumption is expected to contribute significantly to GDP growth in 2020, while net exports are projected to weigh on growth. Overall, UK GDP is expected to fall by 8¼ % in 2020.

Private consumption is expected to be the main driver of growth in 2021, with public consumption growth slowing. Investment is expected to contribute positively to growth, while net exports are projected to continue to weigh on growth. Reflecting this and the purely technical assumption on EU-UK trade relations, UK GDP is expected to grow by 6 % in 2021. The risks to the UK GDP forecast are tilted to the downside.

Employment to fall sharply in 2020

Employment is expected to fall sharply in 2020 as a consequence of the containment measures. The unemployment rate, which reached a historical low in 2019 of 3.7 %, is therefore expected to increase to an average of 6.7 % in 2020, with government policies to support employees and the self-employed preventing an even steeper increase. In 2021, unemployment is expected to fall slightly to 6 %. Consumer price inflation is forecast to ease to 1.2 % in 2020 from 1.8 % in 2019, mainly due to

lower energy and service prices. Inflation is projected to rebound to 2.1% in 2021.

General government deficit to rise to levels last seen in the global financial crisis

The general government deficit is expected to have increased to 2.5% of GDP in 2019-2020, from 1.8% in 2018-2019. This is the first increase of the deficit after several years of fiscal tightening, mainly due to planned increases in departmental spending. The spread of COVID-19 also had some negative impact on the fiscal balance in the first quarter of 2020.

In the Budget in March, the UK government announced significant fiscal loosening, in particular higher resource and capital spending. In addition, in the Budget and in the following weeks, the government announced several fiscal measures to deal with the consequences of COVID-19. These measures amount to around 5½ % of GDP, and include income support for employees and self-employed workers, support for businesses and an increase in welfare spending. Based on a no-policy change assumption, the measures are

assumed to only have temporary effect in 2020-2021. The government has also provided credit guarantees for bank loans of about 16 % of GDP, creating contingent liabilities. The additional spending, in combination with the economic downturn expected for 2020 lead to an expected increase in the general government deficit in 2020-2021 to 10¾ %, slightly higher than at the height of the financial crisis in 2009. The general government deficit is then expected to fall to 6½ % in 2021-2022.

The general government debt-to-GDP ratio is expected to have increased to 85.2 % in 2019-2020, up from 84.2% in 2018-2019. In 2020-2021, it is projected to increase to 102½ %. In 2021-22, it is projected to fall slightly due to the rebound in the economy, but remain above 100 % of GDP.

Table II.33.1:

| General government projections on a financial-year basis | | | | | |
|--|---------|---------|----------|---------|---------|
| ESA 10 | Actual | | Forecast | | |
| | 2017-18 | 2018-19 | 2019-20 | 2020-21 | 2021-22 |
| General government balance- | -2.7 | -1.8 | -2.5 | -10.7 | -6.2 |
| Structural budget balance | -3.3 | -2.4 | -1.8 | -6.7 | -4.3 |
| General government gross debt | 84.6 | 84.2 | 85.2 | 102.5 | 100.2 |

-APF transfers included

Table II.33.2:

Main features of country forecast - UNITED KINGDOM

| | 2018 | | | Annual percentage change | | | | | | |
|--|--------|-----------------|-------|--------------------------|------|------|------|------|-------|-------|
| | bn GBP | Curr. prices | % GDP | 00-15 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| GDP | 2144.3 | 100.0 | | 1.9 | 1.9 | 1.9 | 1.3 | 1.4 | -8.3 | 6.0 |
| Private Consumption | 1404.0 | 65.5 | | 2.0 | 3.6 | 2.2 | 1.6 | 1.1 | -10.3 | 6.9 |
| Public Consumption | 396.2 | 18.5 | | 2.3 | 1.0 | 0.3 | 0.4 | 3.5 | 4.9 | 0.8 |
| Gross fixed capital formation | 362.6 | 16.9 | | 1.6 | 3.6 | 1.6 | -0.2 | 0.6 | -14.3 | 11.5 |
| of which: equipment | 81.0 | 3.8 | | 1.7 | 9.0 | 6.3 | -8.2 | -6.2 | -21.3 | 16.8 |
| Exports (goods and services) | 656.5 | 30.6 | | 3.0 | 2.7 | 6.1 | 1.2 | 4.8 | -10.7 | 5.1 |
| Imports (goods and services) | 686.3 | 32.0 | | 3.5 | 4.4 | 3.5 | 2.0 | 4.6 | -9.9 | 6.1 |
| GNI (GDP deflator) | 2116.8 | 98.7 | | 1.8 | 1.8 | 3.2 | 1.2 | 1.3 | -8.3 | 6.0 |
| Contribution to GDP growth: | | Domestic demand | | 2.0 | 3.2 | 1.8 | 1.1 | 1.5 | -8.2 | 6.4 |
| | | Inventories | | 0.0 | -0.6 | -0.6 | 0.3 | 0.2 | 0.0 | 0.0 |
| | | Net exports | | -0.2 | -0.5 | 0.7 | -0.3 | 0.0 | -0.1 | -0.4 |
| Employment | | | | 0.9 | 1.5 | 1.0 | 1.2 | 1.1 | -2.7 | 1.5 |
| Unemployment rate (a) | | | | 6.1 | 4.8 | 4.3 | 4.0 | 3.8 | 6.7 | 6.0 |
| Compensation of employees / head | | | | 3.2 | 3.2 | 3.2 | 2.9 | 3.8 | -6.5 | 8.6 |
| Unit labour costs whole economy | | | | 2.2 | 2.7 | 2.2 | 2.7 | 3.5 | -0.7 | 4.0 |
| Real unit labour cost | | | | 0.2 | 0.6 | 0.4 | 0.6 | 1.6 | -2.4 | 2.5 |
| Saving rate of households (b) | | | | 9.2 | 7.2 | 5.3 | 5.8 | 5.7 | 10.6 | 7.8 |
| GDP deflator | | | | 2.0 | 2.1 | 1.9 | 2.1 | 1.9 | 1.7 | 1.5 |
| Harmonised index of consumer prices | | | | 2.1 | 0.7 | 2.7 | 2.5 | 1.8 | 1.2 | 2.1 |
| Terms of trade goods | | | | 0.2 | 3.0 | 0.1 | 0.5 | 0.9 | 0.0 | 0.0 |
| Trade balance (goods) (c) | | | | -5.3 | -6.7 | -6.6 | -6.5 | -5.9 | -6.1 | -6.2 |
| Current-account balance (c) | | | | -3.0 | -5.2 | -3.5 | -3.9 | -3.8 | -4.1 | -4.3 |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | -3.1 | -5.3 | -3.6 | -4.0 | -3.8 | -4.2 | -4.5 |
| General government balance (c) | | | | -4.4 | -3.3 | -2.5 | -2.2 | -2.1 | -10.5 | -6.7 |
| Cyclically-adjusted budget balance (d) | | | | -4.2 | -3.7 | -3.0 | -2.8 | -2.7 | -6.2 | -4.8 |
| Structural budget balance (d) | | | | - | -3.7 | -3.0 | -2.8 | -2.7 | -6.2 | -4.8 |
| General government gross debt (c) | | | | 56.8 | 86.8 | 86.2 | 85.7 | 85.4 | 102.1 | 101.5 |

(a) as % of total labour force. (b) gross saving divided by adjusted gross disposable income. (c) as a % of GDP. (d) as a % of potential GDP.