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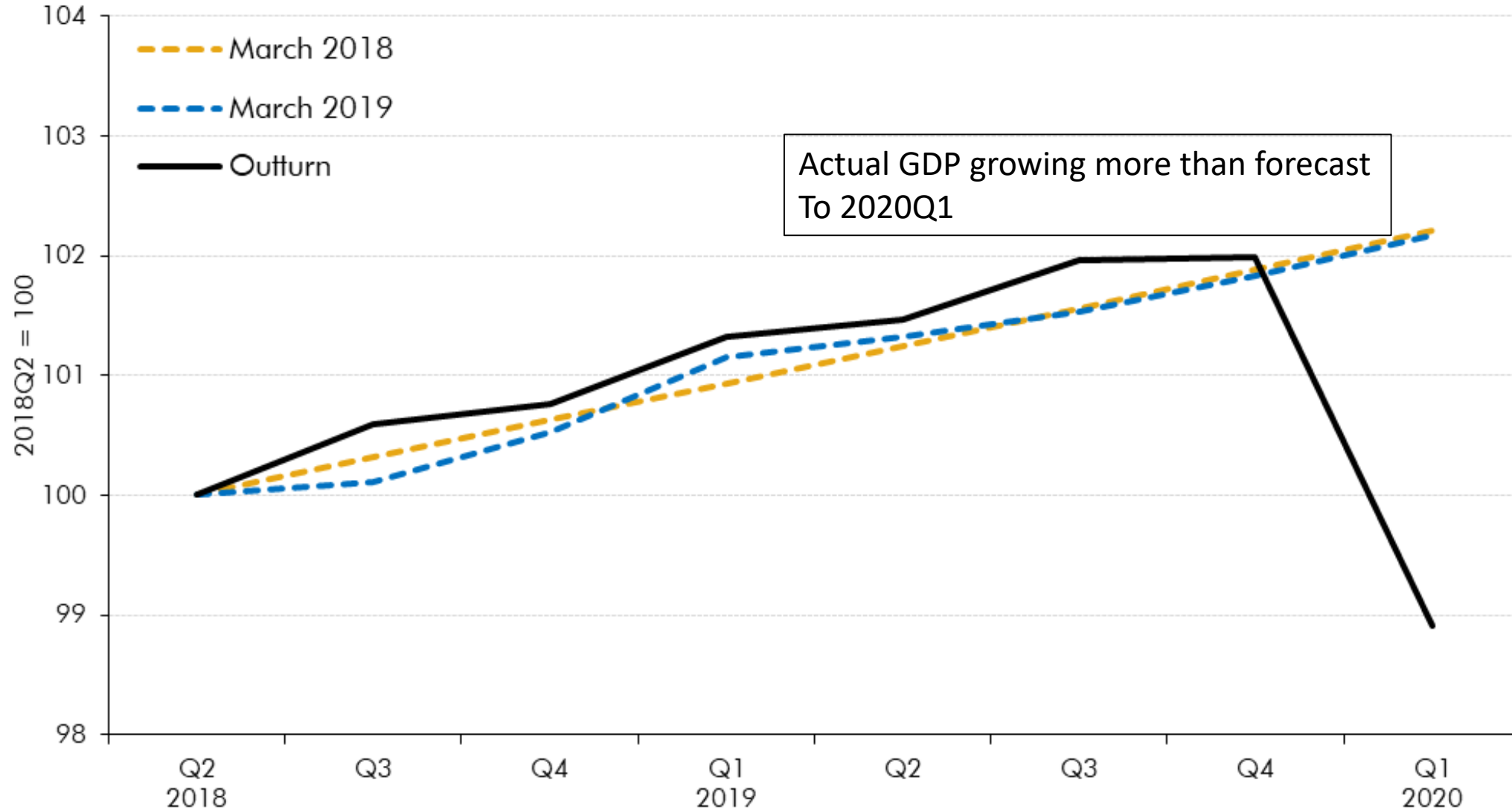
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# Introduction to the Reimagine and Refocus Conference: The Economic Backdrop

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**Cardiff Metropolitan University**

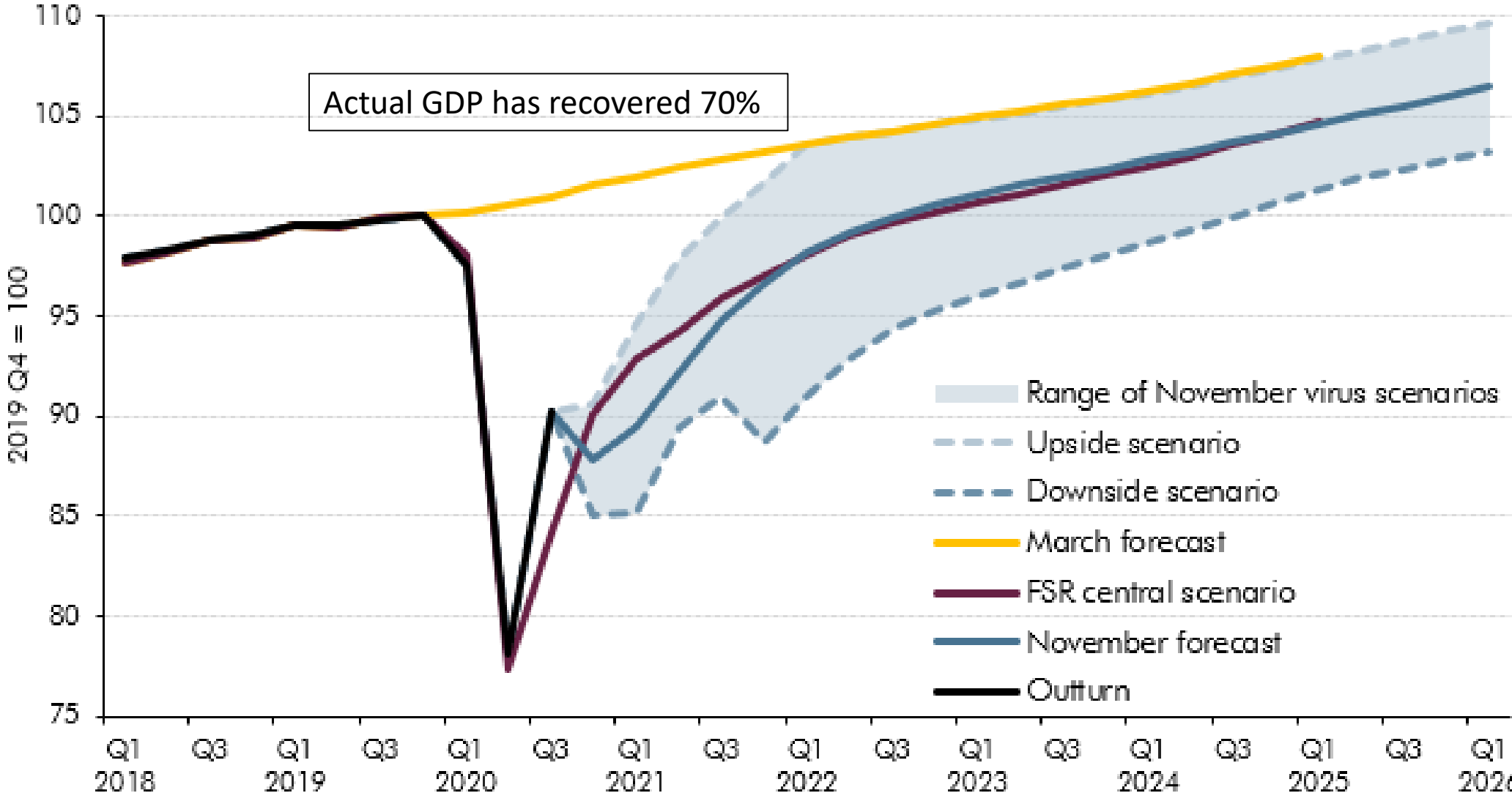
28 January 2021

# Real GDP outturns and forecasts



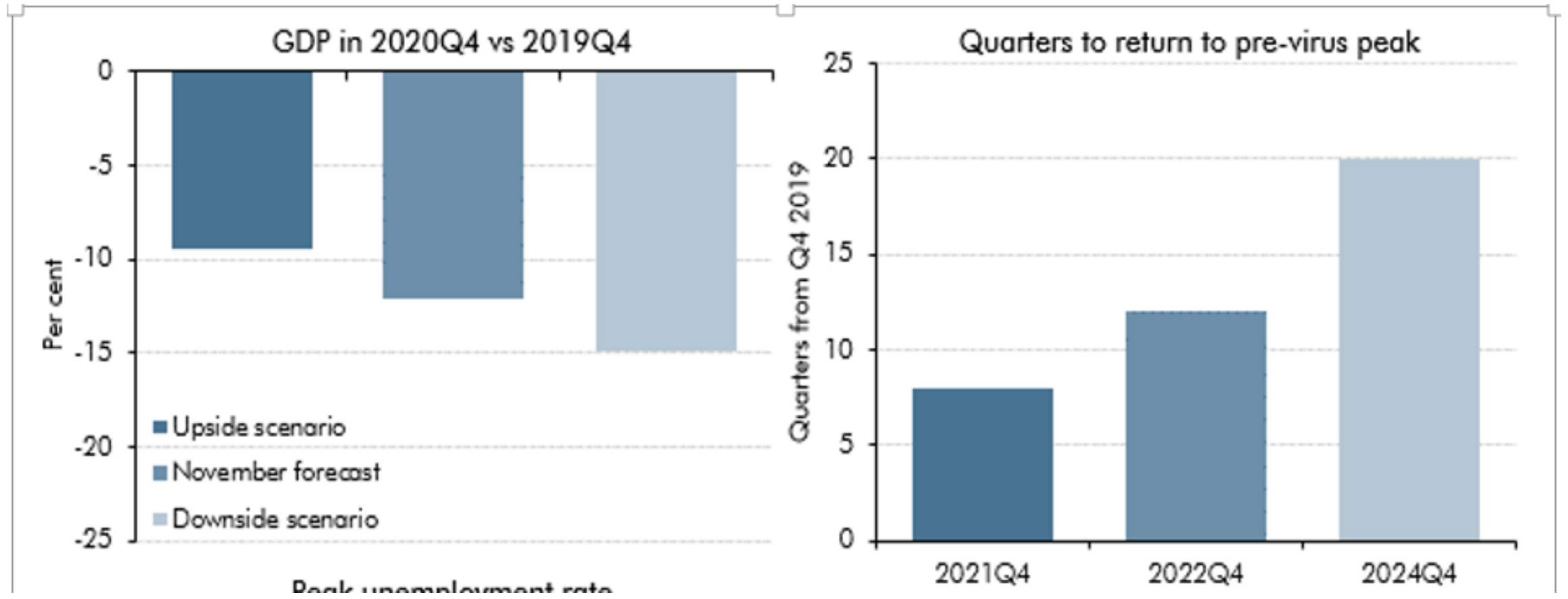
Source: ONS, OBR

# Real GDP: central forecast



Source: ONS, OBR

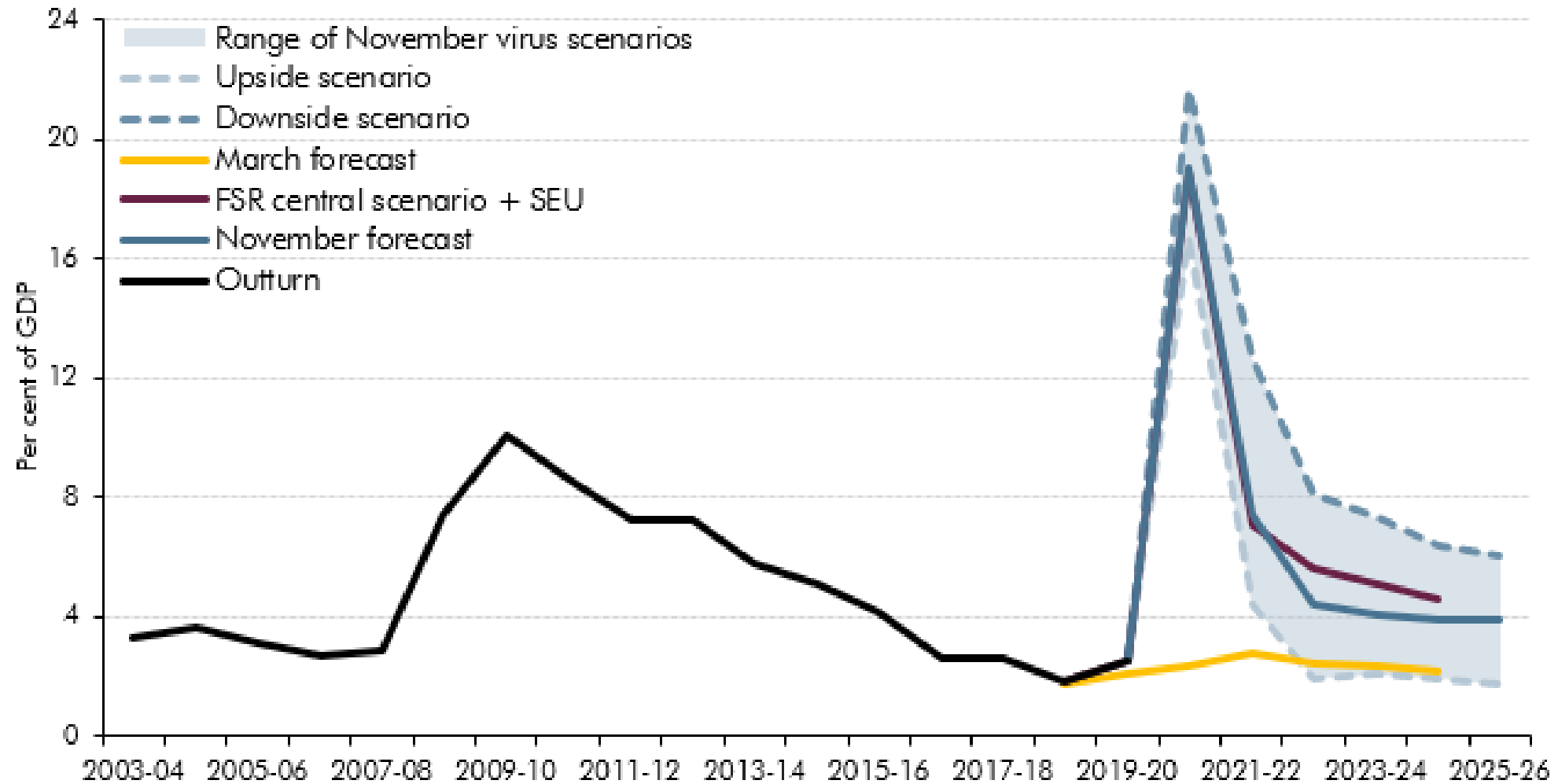
# Recovery in GDP



# The Budget in March 2021

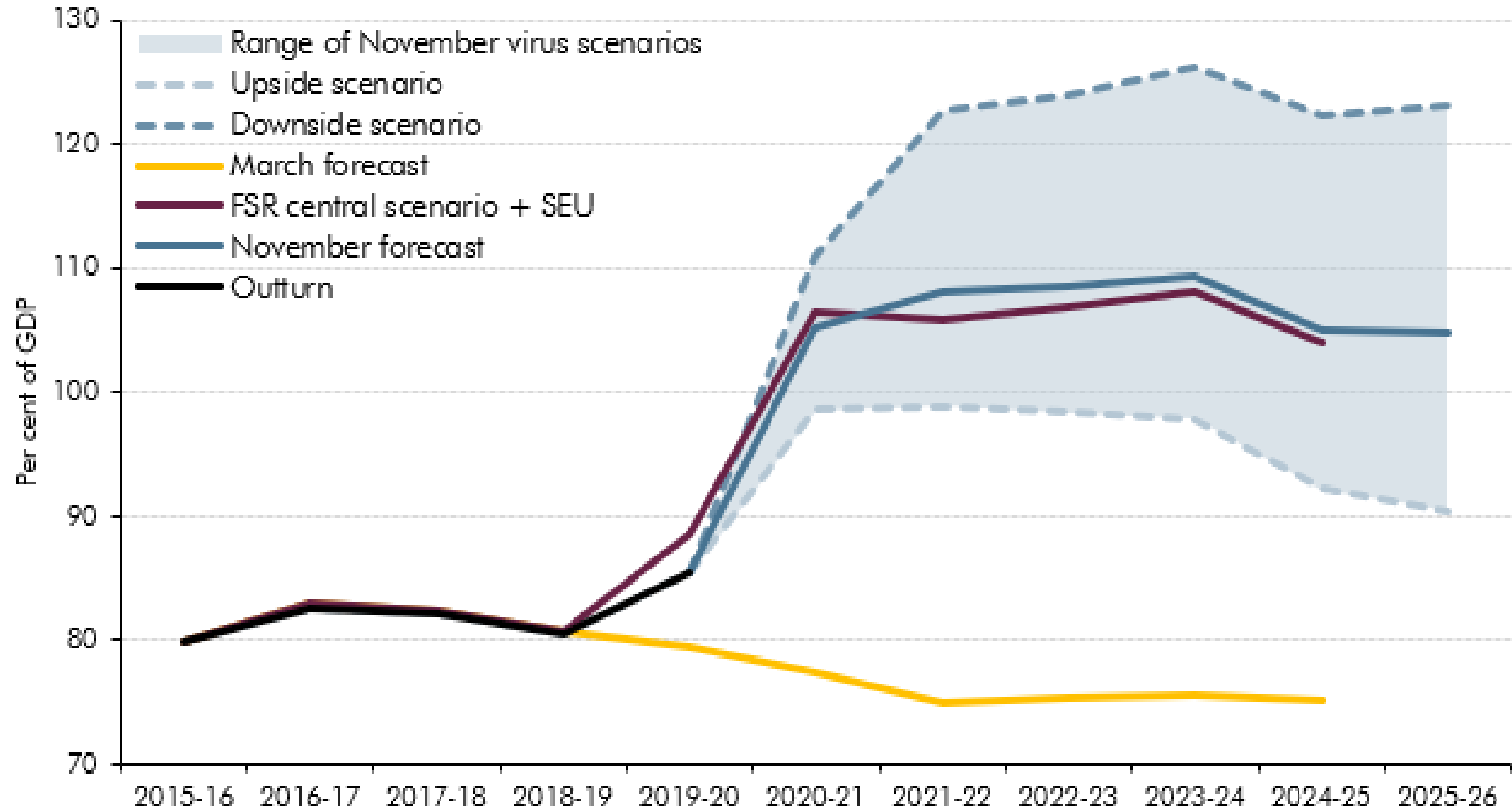
- Although the Autumn budget was cancelled .....the Chancellor has managed give away more money in terms of tax breaks etc. than any budget in history
- £300bn. so far and still rising.
- This will produce the biggest budget deficit ever .....
- It will lead to the national debt rising to over 100% of UK GDP = about £2 trillion
- Strange times .....

## Public sector net borrowing: central forecast



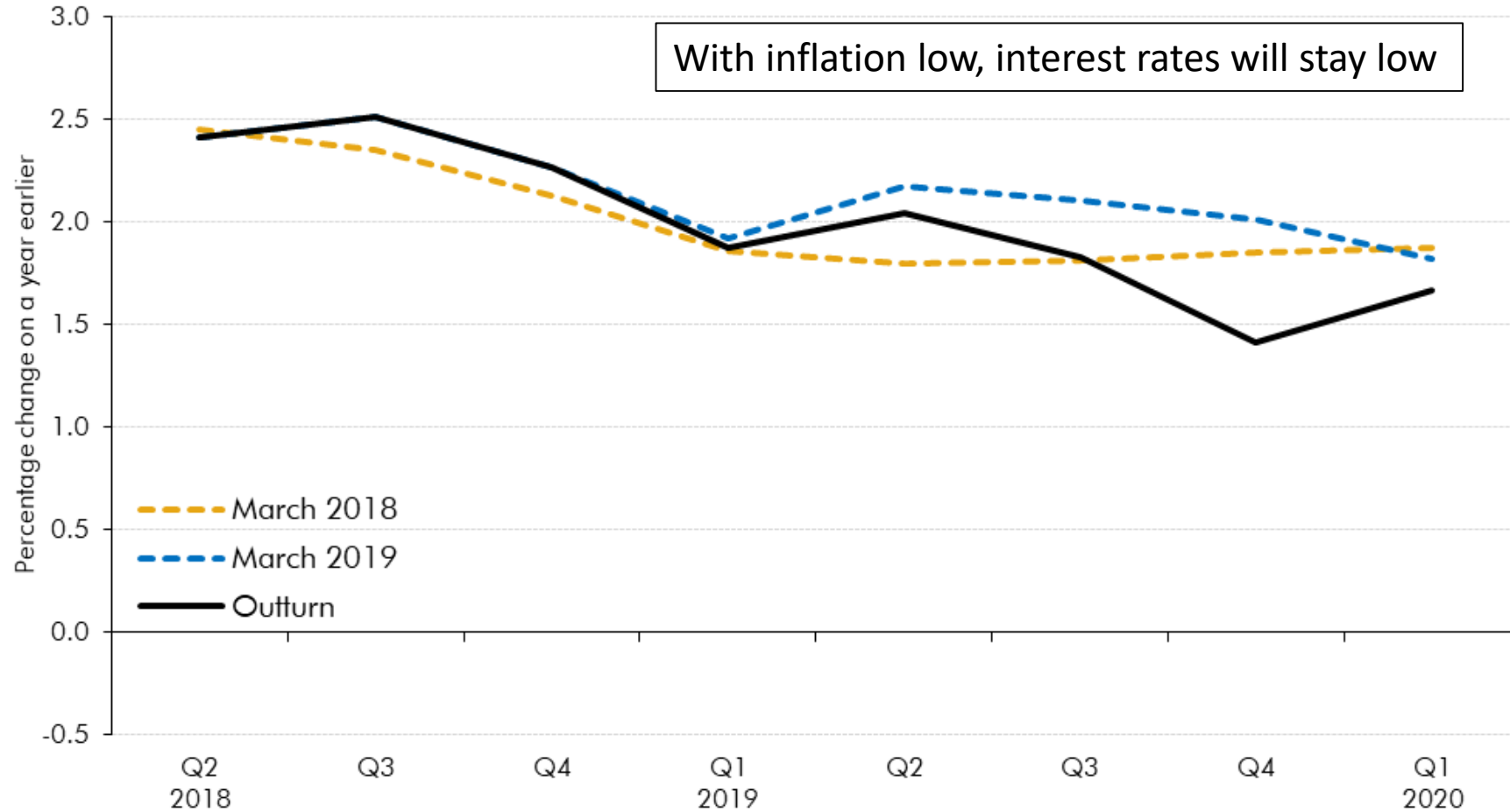
Source: ONS, OBR

## Public sector net debt: central forecast



Source: ONS, OBR

# Forecasts and outturns for CPI inflation



Source: ONS, OBR



# Current economic situation

- So GDP is recovering, inflation is low and unemployment is at 5% (it's around 8% in EU) but may rise further as the furlough ends
- Government debt is high and rising but the costs of servicing this debt are low and likely to remain so
- So an expansionary budget in March (and perhaps an end to the worst effects of COVID by June) could ensure that the economy moves closer to the upper scenario

# Coming out of the Pandemic

- The UK economy is not likely to be back to pre-COVID levels of GDP (and onto a normal growth trajectory) until at least the end of 2022.
- The Bank of England has said there could be a **1% hit** to GDP in Q1 2021 if the Brexit deal leads to significant disruption to trade.
- But that's compared with the **20% fall** in GDP in Q2 2020.
- So there is no 'cliff edge' (sharp downturn) to worry about in 2021 - 2022

# No 'Cliff Edge'

- Why is that?
- Brexit is about relatively small changes to our trading arrangements and international trade is only a (relatively) small part of UK GDP
- These changes have to be contrasted with the **global** pandemic of 2020 and the **global** financial crisis of 2008
- The negotiated Brexit deal – compared with a 'no-deal' - will reduce the costs of adjustment, reduce the impact on trade and minimise the long term impact on GDP

# After Brexit and the Pandemic

- As the UK economy exits the EU and escapes the ravages of COVID, it is likely to return to positive GDP growth in 2022.
- But raising prosperity after Brexit will require effective economic strategies:
  - like increased infrastructure spending on road and rail alongside more investment in housing, education and health.
- Longer term, it will require significant investment in skills.

# Medium Term Outlook

1. UK economy is set to recover slowly in 2021-24
2. The new UK policy regime of:
  - (i) low  $r$ ; plus (ii) QE; plus (iii) Fiscal Expansionneeds to be maintained,
3. This could mean stronger growth, pushing the economy closer to the upside scenario rather than the downside by end of 2022

## **Conclusion**

It's a good time to invest in your business - the economy is refocusing - so your efforts to reimagine and refocus on core strengths could produce dividends in 2022 – 24