

## The OBR's coronavirus analysis

1. In addition to its impact on public health and families' wellbeing, the spread of the coronavirus will substantially raise public sector net borrowing and debt, primarily because of the associated economic disruption. The Government's policy response will also have substantial direct budgetary costs, but the measures are designed specifically to support individuals and businesses through this temporary shock and so they should help prevent greater economic and fiscal damage in the long term. The immediate cost of the Government's actions may be high, but we can be confident that the cost of inaction would ultimately have been much higher.
2. The OBR was created in 2010 to increase the transparency of the public finances and to provide independent analysis of the fiscal outlook and the uncertainties lying around it. During this unusual period, we will therefore try to bring together the latest evidence on how developments in the economy and asset markets and the Government's policy measures will feed through to the official measures of the public finances and to prospects for fiscal sustainability more broadly. But it should be borne in mind that early vintages of the official statistics will also be more uncertain than usual and even mature ones may fail to capture the underlying reality as accurately as would normally be the case.
3. Evidence from past pandemics suggests that the economic impact of the coronavirus will arise much less from people falling ill or dying than from the public health restrictions and social distancing required to limit its spread. This will reduce demand for goods and services and the ability of businesses and public sector institutions to supply them. That means lower incomes, less spending and weaker asset prices, all of which reduce tax revenues, while job losses will raise public spending. The Government's policy response incorporates increased public spending, tax cuts and holidays, and loans and loan guarantees – most of which are designed to support household incomes and to limit business failures and layoffs. The Bank of England has taken further measures that will provide some direct support for demand in the economy, but more importantly should help households, firms and the Government finance themselves, and thereby limit the lasting damage to the economy's supply capacity.
4. The net effect of the coronavirus impact and the policy response is likely to be a sharp (but largely temporary) increase in government borrowing that will leave public sector net debt permanently higher as a share of GDP. However, the longer the period of economic disruption lasts, the more likely it is that the economy's future potential output will be 'scarred' (thanks to business failures, cancelled investments and the unemployed becoming disconnected from the labour market). If that happens, the budget deficit would reverse less of its temporary rise as

economic activity recovers, leaving the Government to confront a larger *structural* deficit and not just higher debt. Before the impact of the coronavirus became clear, the Government was content to run an ongoing deficit that would broadly stabilise the debt-to-GDP ratio over the medium term rather than reduce it – a judgement that it will no doubt re-visit in the wake of the current crisis.

5. We produced an initial assessment of the potential impact of the coronavirus on the economy and public finances on 14 April, which is available [on our website](#). This was a scenario rather than a forecast, based on the illustrative assumption that people's movements (and thus economic activity) would be heavily restricted for three months and would get back to normal over the subsequent three months. The main value of the scenario is to sketch out the channels along which the economic disruption might manifest itself and what that would mean for the public finances, and to provide a reference point against which to assess new developments as they occur. It included initial broad-brush estimates of the costs of various policy interventions.
6. Our rough judgement was that this would increase public sector borrowing this year by £218 billion relative to our March Budget forecast (to reach £273 billion or around 14 per cent of GDP). Once the crisis has passed and all the policy interventions have unwound, borrowing falls back relatively quickly to roughly the Budget forecast, but net debt would remain around £260 billion (10 per cent of GDP) higher by 2024-25. We indicate how the impact might vary if the restrictions were in place for longer or shorter periods – but there are huge uncertainties both around the impact on the economy and what that would mean for the public finances.
7. In order to monitor the impact of economic, market and policy developments against both the Budget 2020 forecast and this coronavirus reference scenario, we hope to build on our regular monthly commentary on the official public finances data to:
  - Look at the **evolution of relevant economic and market indicators**.
  - List the **policy measures** undertaken by the Government and explain what will determine their cost, how they will be reflected in the public finances data, and what has been assumed about them in our reference scenario.
  - Monitor the **evolution of the public finances** and the extent to which they are likely to provide a true reflection of the underlying economic and fiscal position.
  - Periodically **update the reference scenario**.
8. Once up and running, we will aim to update the monitoring information periodically to reflect new data, market developments and policy announcements (and we will tweet from [@obr\\_uk](#) when we are going to do so). But inevitably our ability to do this will depend on the availability of the appropriate staff at any given time.
9. We would be pleased to receive comments and questions to [obr.enquiries@obr.uk](mailto:obr.enquiries@obr.uk) on any of the analysis or commentary we publish to help us to refine it. If bodies producing their own estimates are happy to share their workings with us, that would be greatly appreciated too.