



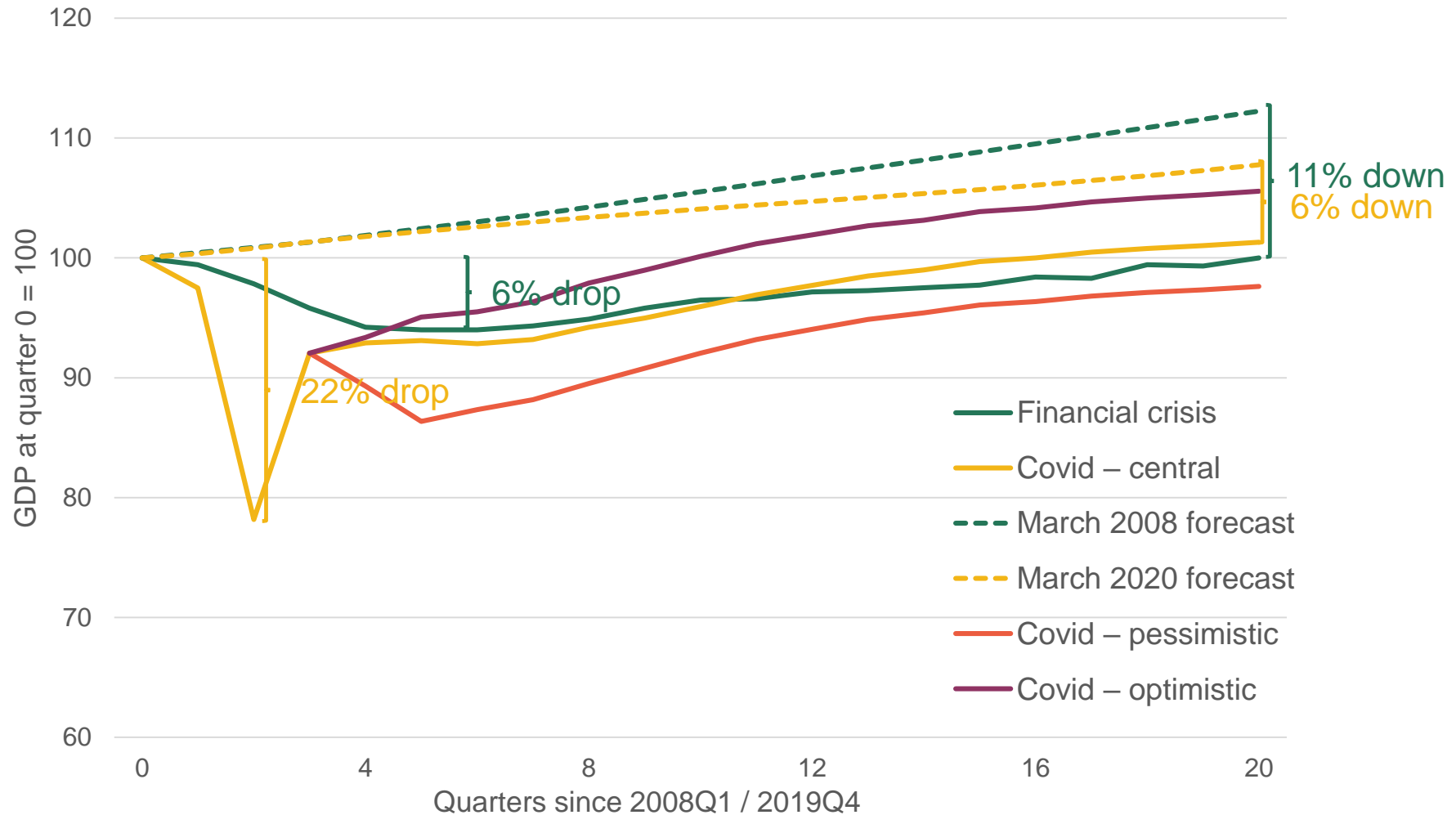
Carl Emmerson

9 November 2020

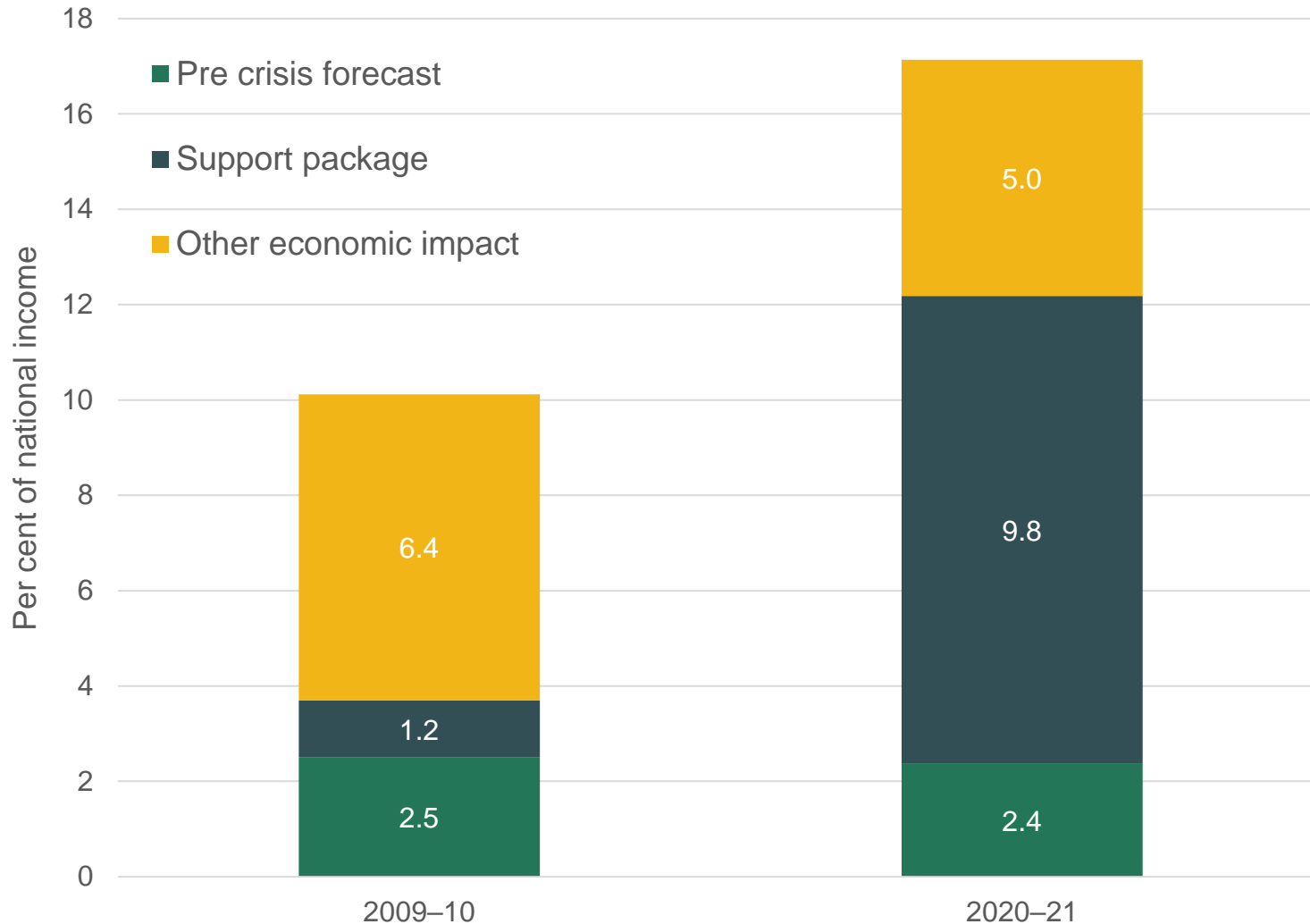
@TheIFS

A tale of two crises: UK public finances in 2009 and 2020

Two big economic hits



Peak deficits compared



Support packages compared

- Fiscal support, % of national income

	2008–09	2009–10	2020–21
Total	0.6	1.2	9.8

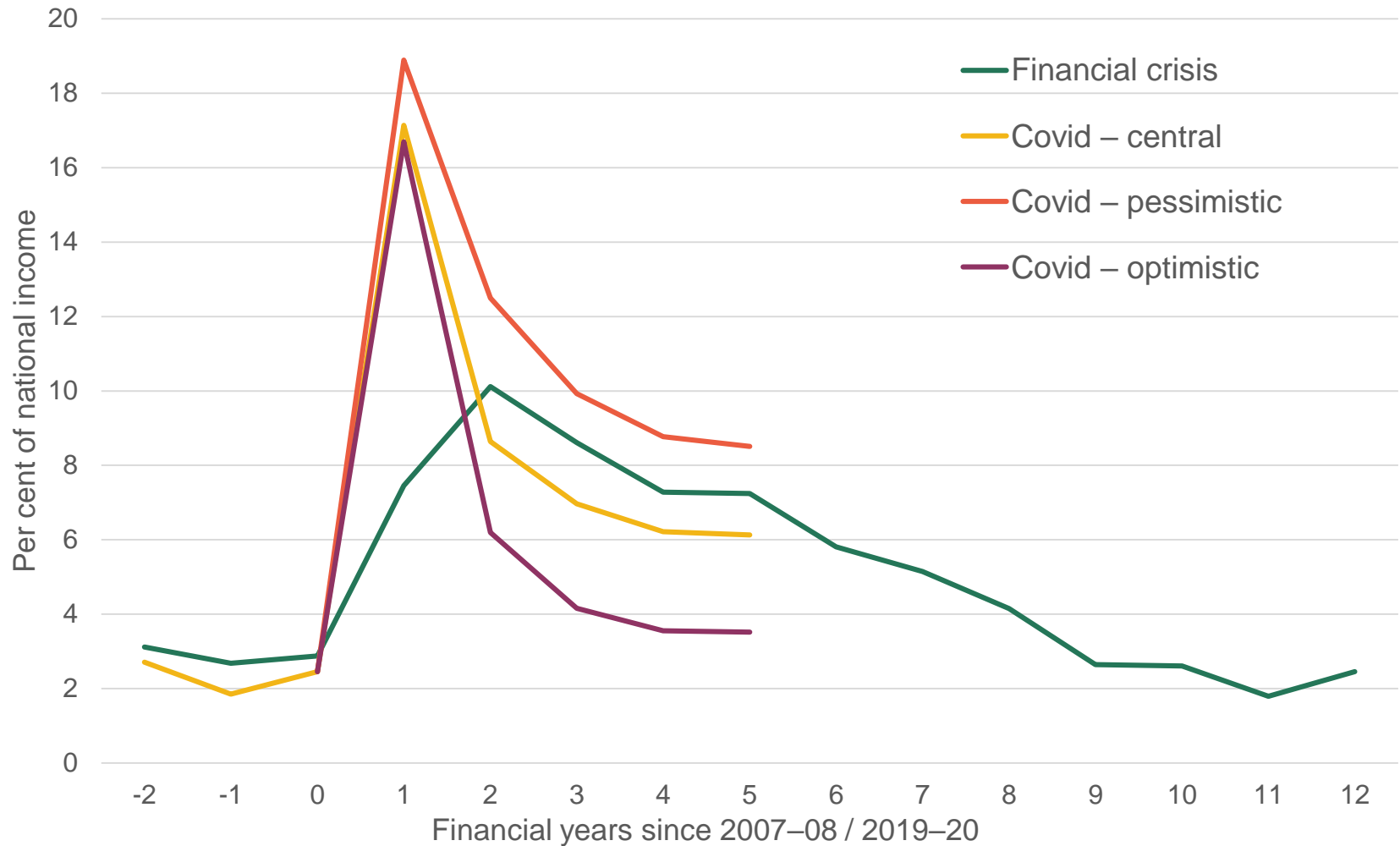
Support packages compared

- Fiscal support, % of national income

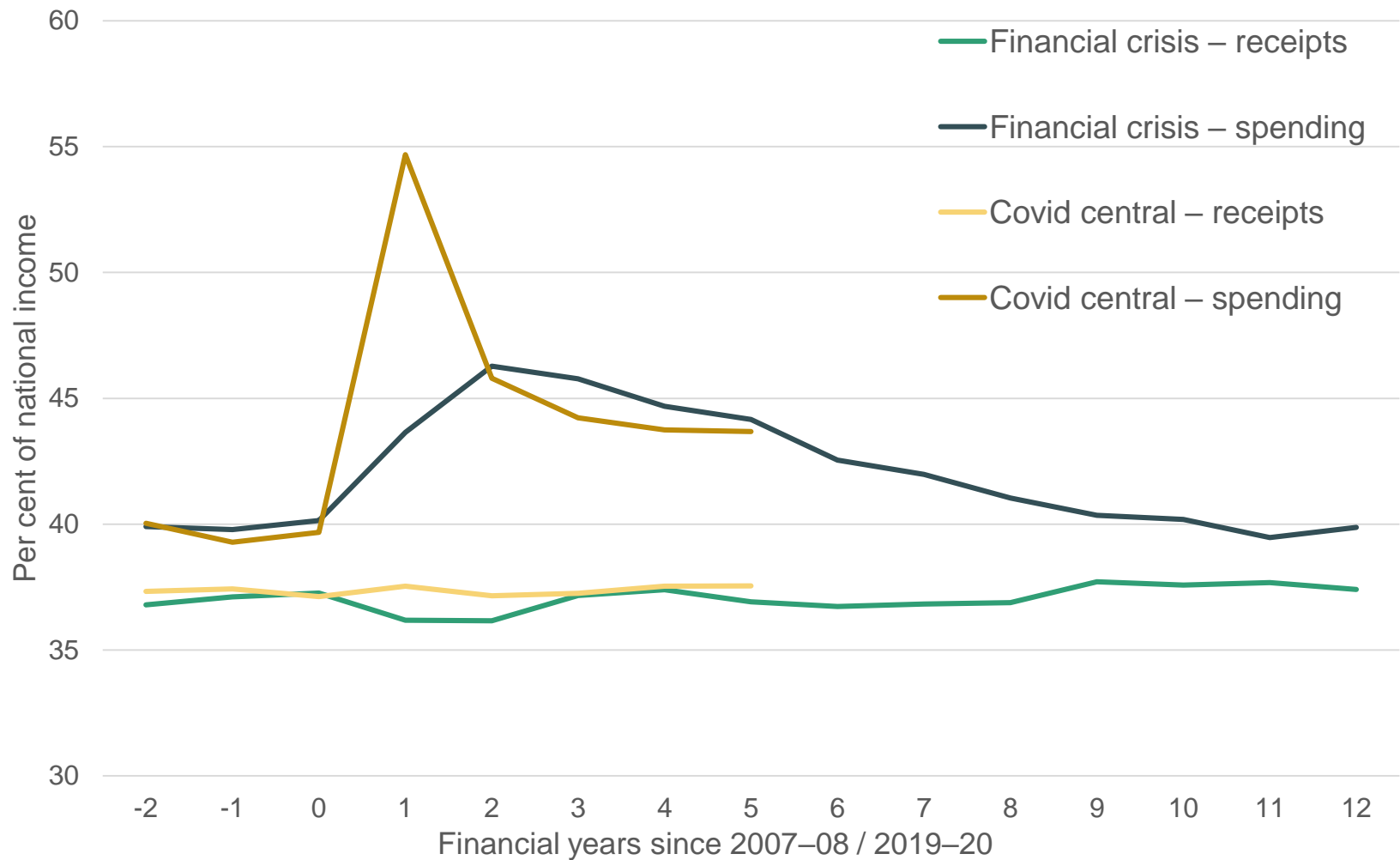
	2008–09	2009–10	2020–21
Tax cuts	0.4	0.5	0.7
Welfare increases	0.1	0.1	0.5
Public services: invest	0.1	0.3	0.3
Public services: day-to-day	0.0	0.3	3.6
Business loans and guarantees			0.8
Employment support			3.9
Total	0.6	1.2	9.8

- Monetary response also different
 - Oct 2008 to Nov 2009: Bank Rate cut by 4ppts; £200bn of quantitative easing
 - 2020: Bank Rate cut by 0.65ppt; QE expanded by £450bn

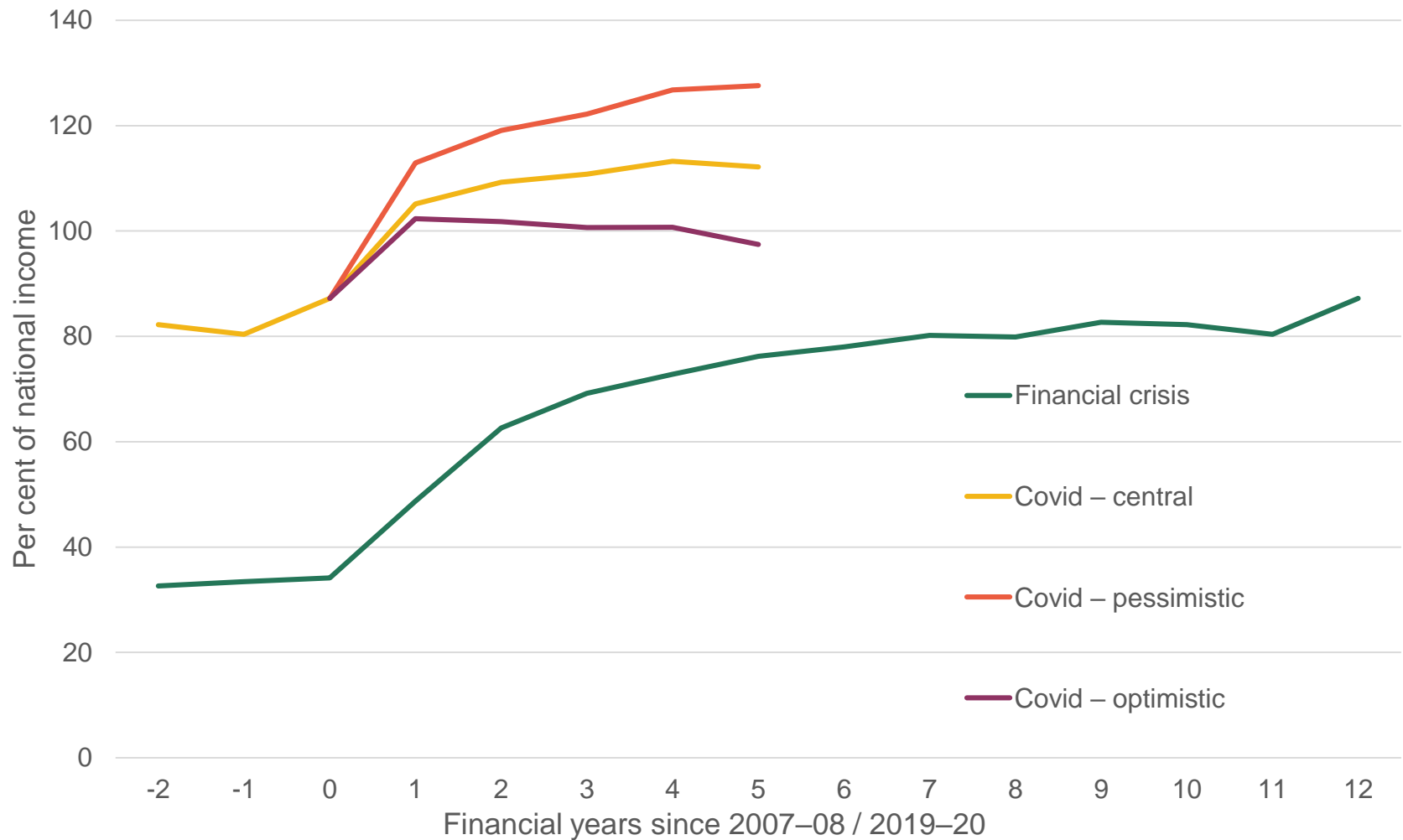
Public sector net borrowing



Receipts and spending



Public sector net debt



Post crisis tightening compared

- Between 2009–10 and 2019–20 structural deficit estimated to fall by 5.6% of national income (£114 billion)
 - net tax rises of 1.9% of national income (£39 billion)
 - net benefit cuts of 1.6% of national income (£33 billion)
 - day-to-day public service spending down by 13% per person (25% outside of health); investment spending down 25%
- Size of consolidation required post Covid-19 highly uncertain:
 - central scenario suggests tightening of 2.1% of national income (£43 billion) would stabilise debt at 100% of national income
 - substantial spending pressures suggest tax rises likely to play a greater role than cuts to benefits or public service spending

Conclusions

- Economic hit in 2020 bigger than in financial crisis
 - swifter return to pre-crisis activity? less medium-term damage?
- Initial fiscal response much larger in 2020 than in 2008/09
 - support for businesses/employment
 - bigger increase in welfare and public service spending
- Outlook for borrowing and debt highly uncertain
 - revenue hit likely to be relatively smaller
 - how much of the “temporary” increase to spending will persist?
- Post crisis fiscal tightening *might* be smaller than following 2008/09, but mix likely to be tilted more towards tax rises than spending cuts