



Rishi Sunak hasn't yet completed a year as Chancellor but he is a crisis veteran. The word 'emergency' featured four times in Sunak's speech in which he outlined the UK's three emergencies. These are health, economic and fiscal. *"Our health emergency is not yet over. And our economic emergency has only just begun"*.

Recent developments on the vaccine front have provided a much needed shot in the arm for optimism for 2021. In turn, that has filtered through to the economic forecasts. Nevertheless, there is no economic vaccine for the deepest recession in 300 years, just painkillers.

**Growth Forecasts** - The Office for Budget Responsibility (OBR) forecasts the UK economy to shrink by 11.3% this year, marking the largest fall in output since the 'Great Frost' of 1709. The latter saw a deep freeze across Europe lasting three months. Economic growth is

then expected to pick-up to 5.5% in 2021 and accelerate to 6.6% in 2022. If these growth rates are realised, UK economic output won't return to pre-pandemic levels until the fourth quarter of 2022. It is noted that these forecasts assume a smooth transition to a free-trade agreement with the EU next year. Northern Ireland went into recession ahead of the UK with the economy expected to contract by more than 12% in 2020. This would be the steepest decline in Northern Ireland's history. As with the last recession, the recovery is expected to be slower and weaker than the UK. The Northern Ireland economy is not expected to return to 2019 levels until 2025 or potentially even later.

**Fiscal outlook** - The pressure on the UK public finances is well known. Tax receipts are £57bn lower than last year and spending is a whopping £281bn higher. This has led to a deficit of £394bn, or 19% of GDP, for 2019/20 which represents the highest since 1944/45. Meanwhile the overall stock of debt has hit 105% of GDP and is set to breach £2.8 trillion by 2025/26. That is an increase of £1 trillion since 2019/20. This contextualises the fiscal challenges that lie ahead but are seldom mentioned. Interestingly, the Chancellor referred to the "domestic fiscal emergency" that the UK is now in and used that as justification for some modest spending cuts. These included temporarily reducing the share of national income spent on overseas aid from 0.7% to 0.5%. A measure that led the Archbishop of Canterbury to take to Twitter and tweet "shameful and wrong". A public sector pay "pause" (freeze) was also announced with exemptions for NHS staff and those workers earning less than £24,000 per year. Public sector pay is a devolved matter and if Northern Ireland is to deviate from a public sector pay freeze it will have to find the resources itself. Meanwhile the National Living Wage will be increased by 2% from next April. This is particularly important for Northern Ireland given that it has the highest proportion of low paid jobs of any UK region.

**This is not a budget!** It should be remembered that today's event was a spending review for a single year not a formal budget. As a result, taxation was off the menu but will likely

feature in a spring budget next year. Furthermore, the majority of planned expenditure increases / budgets were already known before today. Health, Education and Defence already had their budgets set.



**Austerity paused?** While there was a swathe of positive spending announcements covering infrastructure, for example, fiscal challenges are lurking in the background. The OBR highlights that the Chancellor plans to cut day-to-day public spending by £12.9bn in 2024/25 with £3.3bn of cuts on capital spending. We have been told that austerity is over but has it just been put on the back burner? The Northern Ireland Executive is set to receive an additional £920m for public services in 2021/22. £540m of this is linked to pandemic spending and £380m for core departmental spending. Despite these gains total departmental spending will fall marginally year-on-year. This is due to a series of one-off payments boosting Stormont's budget in recent years. While Stormont has been spending unprecedented amounts of public money during the pandemic budgetary pressures in the horizon loom large. Northern Ireland like other parts of the UK don't have multi-year spending plans beyond the next financial year. There may be light at the end of the tunnel

regarding the health emergency, but the economic emergency has only just begun. The third emergency, the fiscal one, will be tackled last. We will hear more about that in forthcoming budgets but more taxation is a given.

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