

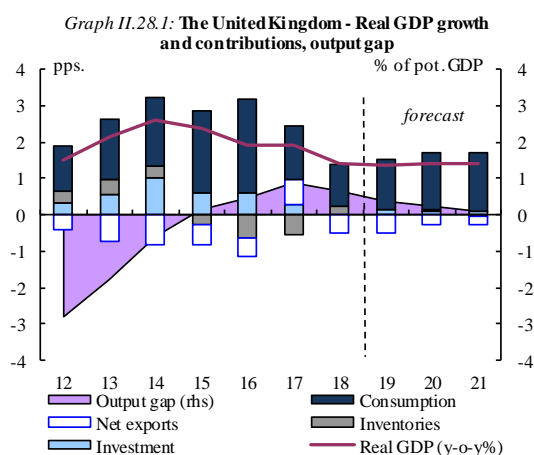
## 28. UNITED KINGDOM

### Outlook remains subdued as uncertainty continues

*Although volatile, underlying UK GDP growth remains resilient but modest and is forecast to grow at a broadly stable pace over the forecast horizon. Private consumption should find support from real wage growth but continuing uncertainty about the UK's future trading relationship with the EU means that business investment is likely to remain subdued. Net trade is expected to remain a drag on growth as external demand remains weak. Employment growth is expected to slow somewhat but unemployment should remain low. Inflation is projected to ease this year then rise gradually.*

#### GDP growth volatile but modest in 2019

The pace of economic growth has been volatile in 2019. Stockpiling and other actions by UK businesses, in view of a possible disorderly withdrawal on 29 March, temporarily boosted growth in the first quarter of this year. Real GDP rose 0.6% (quarter-on-quarter) in 2019-Q1. However, real GDP fell by 0.2% in Q2, largely due to an opposite, dampening effect from the unwinding of the earlier mitigation activity. In Q3, the latest monthly GDP data suggest that economic growth recovered to around its recent trend rate.



The resilience of GDP growth this year has been driven by domestic demand. Private consumption growth has been supported by a strong increase in real wages, reflecting a tight labour market, and an expansionary fiscal policy. Nonetheless, business investment growth has remained weak as uncertainty persists over the nature and timing of the UK's exit from the EU. At the same time, total investment is being supported by strong public investment. Net exports have continued to act as a drag on growth due to market shares losses alongside weak external demand. Reflecting these developments, under the technical assumption, GDP growth over 2019 as a whole is expected to be 1.3%, down marginally from 1.4% in 2018.

Given the ongoing ratification process of the revised Withdrawal Agreement and the uncertainty on future economic relations between the EU and the UK, projections 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 future negotiations between the EU and the UK.

#### Domestic demand to continue to drive GDP growth in 2020 and 2021

In 2020, continued real wage growth and an expansionary fiscal stance are expected to boost private consumption growth. Business investment growth is projected to remain subdued as uncertainty continues over the nature of the UK's future relationship with the EU. Net exports are projected to remain a drag on growth, as continued weak external demand inhibits export growth while resilient domestic demand supports import growth. Reflecting these factors and the technical assumption about UK trade relations with the EU27, GDP growth is forecast to be 1.4% in 2020.

In 2021, GDP growth is projected to be stable at 1.4%. Private consumption growth is expected to continue to be supported by rising real wages driven by a relatively tight labour market and an anticipated expansionary fiscal policy, while investment growth should remain subdued. Net exports are projected to remain a drag on growth. The risks to the UK GDP forecast are tilted to the downside, particularly under a disorderly Brexit scenario and include a steeper softening in employment growth than anticipated.

#### Employment growth to slow slightly but inflation still expected to increase very gradually

Over the forecast horizon, employment growth is projected to slow slightly in a context of resilient but relatively modest GDP growth. This is expected to keep the unemployment rate near its current low level over the forecast period. The

unemployment rate is projected to be 3.8% in 2019, 4.0% in 2020 and 4.1% in 2021. Consumer price inflation is forecast to ease to 1.8% in 2019 from 2.5% in 2018, partly due to lower oil prices. Inflation is then projected to rebound slightly to 2.0% in 2020 and to 2.2% in 2021.

### General government deficit to rise in 2019-2020 and 2020-2021

Due to methodological changes and revisions in the official data, the general government deficit was recently revised up for all years from 2000-2001 onwards. This has led to a revision of the deficit in 2017-2018 from 2.1% of GDP to 2.7%, and from 1.2% to 1.9% in 2018-2019. For recent years, the increases were driven largely by changes to the treatment of student loans, but also by other revisions including to public sector pensions and corporate tax data.

After several years of fiscal tightening and an improving budget balance, a looser fiscal stance is projected for 2019-2020. The general government

deficit is expected to increase to 2.2% of GDP in 2019-2020 and to 2.4% in 2020-2021, before falling slightly to 2.3% in 2021-2022. The increases are due to higher spending, in particular on the National Health Service from 2019-2020 onwards. Increases in departmental spending in 2020-2021 announced in the spending round in September 2019 were also included and assumed not to be reversed in 2021-2022. The structural deficit is expected to be broadly stable at around 2½% of GDP over the forecast horizon.

The methodological and data changes led to a small fall in the general government debt-to-GDP ratio. For 2018-2019 the ratio was revised down from 85.2% to 84.3%. It is projected to continue to fall over the forecast horizon, from 84.1% in 2019-2020 to 83.0% in 2021-2022.

Table II.28.1:

#### 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	-1.9	-2.2	-2.4	-2.3
Structural budget balance	-3.2	-2.2	-2.4	-2.5	-2.4
General government gross debt	84.6	84.3	84.1	83.5	83.0

-APF transfers included

Table II.28.2:

#### 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	2140.3		100.0	1.9	1.9	1.9	1.4	1.3	1.4	1.4
Private Consumption	1402.1		65.5	2.0	3.6	2.2	1.6	1.3	1.8	1.9
Public Consumption	396.0		18.5	2.3	1.0	0.3	0.6	3.1	2.3	1.9
Gross fixed capital formation	363.2		17.0	1.6	3.6	1.6	-0.1	0.9	0.5	0.6
of which: equipment	80.5		3.8	1.7	9.0	6.3	-8.7	-9.2	-1.3	0.8
Exports (goods and services)	642.2		30.0	3.0	2.7	6.1	-0.9	1.3	2.3	2.1
Imports (goods and services)	680.0		31.8	3.5	4.4	3.5	0.7	2.8	3.1	2.7
GNI (GDP deflator)	2111.4		98.7	1.8	1.8	3.2	1.2	1.4	1.4	1.4
Contribution to GDP growth:		Domestic demand		2.0	3.2	1.8	1.1	1.5	1.7	1.7
		Inventories		0.0	-0.6	-0.6	0.2	0.0	0.0	0.0
		Net exports		-0.2	-0.5	0.7	-0.5	-0.5	-0.3	-0.3
Employment				0.9	1.5	1.0	1.2	1.0	0.7	0.7
Unemployment rate (a)				6.0	4.8	4.3	4.0	3.8	4.0	4.1
Compensation of employees / head				3.2	3.2	3.2	2.8	4.0	3.3	3.1
Unit labour costs whole economy				2.2	2.7	2.2	2.6	3.7	2.6	2.4
Real unit labour cost				0.2	0.6	0.4	0.7	1.8	0.5	0.5
Saving rate of households (b)				9.2	7.2	5.3	6.1	6.6	6.7	6.6
GDP deflator				2.0	2.1	1.9	1.9	1.9	2.1	1.9
Harmonised index of consumer prices				2.1	0.7	2.7	2.5	1.8	2.0	2.2
Terms of trade goods				0.2	3.0	0.1	0.5	1.3	1.0	0.9
Trade balance (goods) (c)				-5.3	-6.7	-6.6	-6.7	-6.2	-5.9	-5.9
Current-account balance (c)				-3.0	-5.2	-3.5	-4.3	-4.3	-4.2	-4.2
Net lending (+) or borrowing (-) vis-a-vis ROW (c)				-3.1	-5.3	-3.6	-4.5	-4.6	-4.5	-4.4
General government balance (c)				-4.4	-3.4	-2.4	-2.3	-2.2	-2.4	-2.2
Cyclically-adjusted budget balance (d)				-4.1	-3.6	-2.9	-2.6	-2.4	-2.5	-2.3
Structural budget balance (d)				-	-3.6	-2.9	-2.6	-2.4	-2.5	-2.3
General government gross debt (c)				56.8	86.8	86.2	85.9	85.2	84.7	84.2

(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.