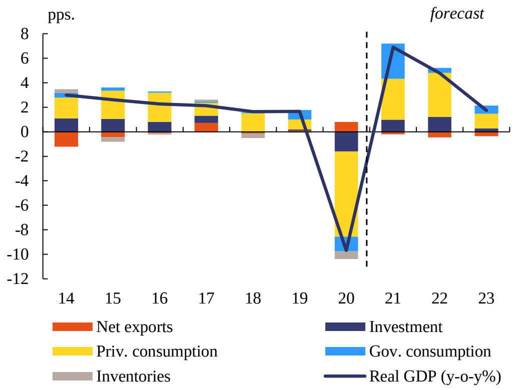
# 33. THE UNITED KINGDOM

*After falling in the first quarter of 2021 due a pandemic-related lockdown, UK GDP rebounded quickly in the second quarter as the economy reopened. Growth is projected to slow over the next quarters due to supply shortages, higher unemployment and an increase in inflation. These effects are expected to ease over the forecast horizon, while the UK's departure from the EU is expected to continue to weigh on trade and growth. Real UK GDP is set to reach pre-pandemic levels by the second quarter of 2022.*

## Mixed picture for 2021

After falling by 9.7% in 2020, UK GDP further declined by 1.4% in the first quarter of 2021, due to a pandemic-related lockdown. As the restrictions were gradually eased, GDP rebounded quickly and grew by 5.5% in the second quarter of 2021, driven by private and public consumption.

*Graph II.33.1:* **The United Kingdom - Real GDP growth and contributions**




GDP growth is expected to slow down significantly over the second half of 2021. Shortages in labour supply and other inputs has slowed the rebound of the economy over the summer and autumn, and are set to persist in coming quarters. The end of the furlough scheme in September is projected to temporarily increase unemployment, with skills mismatches expected to prevent a smooth return of furloughed workers into the labour market in some cases. While no further lockdowns are assumed over the forecast period, relatively high case rates are expected to still weigh on confidence over the next few quarters. In addition, high inflation is set to negatively affect household spending. Overall, GDP in 2021 is forecast to grow by 6.9%.

## Annual growth to slow down in 2022 and 2023

Private consumption is set to slow over the forecast period as fiscal support is scaled back and taxes and the National Insurance rate are set to rise. While slowing down as compared to 2021, government consumption is still projected to contribute positively to growth over 2022 and 2023. Business investment is forecast to increase strongly in 2022, as uncertainty related to the pandemic dissipates and businesses invest accumulated savings. The positive impact of the 'super-deduction', which allows businesses to offset 130% of eligible investment spending, is assumed to last until the end of the first quarter of 2023, when the deduction is set to expire and business investment is projected to turn negative. In addition, the increase in corporation tax planned for April 2023 will weigh on investment.

With imports growing quicker than exports, net exports are projected to be a drag on growth over the forecast horizon. Following the change in trading arrangements due to the UK leaving the European Union, both exports and import levels are projected to grow only slowly over the forecast period. Overall, GDP is expected to increase by 4.8% in 2022 and by 1.7% in 2023. It is set to reach pre-pandemic levels by the second quarter of 2022.

Risks to the forecast are tilted to the downside, with a possibility that supply constraints could prove longer lasting.

## Unemployment set to rise before falling again

The furlough scheme, which supported employees and self-employed since the start of the pandemic, ran out in the end of September 2021. As there were still more than 1 million people supported by the scheme in August 2021 and not all are expected to return to their jobs, unemployment is forecast to rise in the last quarter of 2021. The unemployment rate in 2021 is projected to increase to 4.9% from 4.5% in 2020, before falling to 4.7% in 2022 and 4.4% in 2023.

### Inflation to increase rapidly in 2022

Consumer price inflation is forecast to increase at the end of 2021 and the beginning of 2022. This is due in particular to the increase in energy and electricity prices and the resulting increases in the Ofgem (regulated) price caps, as well as an increase in core goods prices. However, inflation is expected to fall back again in the second half of 2022 and 2023 as energy prices are expected to fall and supply pressures to ease. Overall, prices are expected to increase by 2.4% in 2021, by 3.2% in 2022 and by 2.2% in 2023.

### Debt to rise despite falling deficit

The UK government supported the economy during the pandemic with fiscal measures of about 19% of GDP, including income support for employees and self-employed workers, support for businesses and increases in departmental spending, including health. While slightly lower than the 2020 peak of 12.9%, the general government deficit is still expected to be close to 10% in 2021, as government support remains high. As the economy recovers and the fiscal support is scaled back, the general government balance is projected to improve to -5.5% in 2022 and -4.5% in 2023.

The general government debt-to-GDP ratio increased to above 100% in 2020 as a consequence of the additional fiscal measures and the fall in GDP. Over the forecast horizon, it is projected to rise further, from 103.0% in 2021 to 104.9% in 2023.

The government published a 3-year spending review on 27 October 2021, alongside the Budget and new fiscal rules. As this came after the cut-off date of this forecast, it was not included in the projections.

The Bank of England lowered its official Bank Rate to 0.1% in March 2020 and increased the total target stock of asset purchases to GBP 895 billion by November 2020 to support the economy during the pandemic. After its August 2021 meeting, the Monetary Policy Committee announced that some modest tightening of monetary policy over the forecast period was likely necessary to meet the inflation target sustainably in the medium term. Given recent and further projected increases in inflation, a hike in Bank Rate seems likely in the coming months.

*Table II.33.1:*

**Main features of country forecast - UNITED KINGDOM**

| | 2020 | | | Annual percentage change | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| bn GBP | | Curr. prices | % GDP | 02-17 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| GDP | | 2156.1 | 100.0 | 1.7 | 1.7 | 1.7 | -9.7 | **6.9** | **4.8** | **1.7** |
| Private Consumption | | 1313.3 | 60.9 | 1.8 | 2.4 | 1.3 | -10.8 | **5.5** | **5.9** | **1.9** |
| Public Consumption | | 480.4 | 22.3 | 1.8 | 0.4 | 4.2 | -6.3 | **12.9** | **1.8** | **3.2** |
| Gross fixed capital formation | | 369.6 | 17.1 | 2.0 | -0.1 | 0.5 | -9.1 | **5.7** | **7.2** | **1.6** |
| of which: equipment | | 72.9 | 3.4 | 1.7 | -7.7 | -1.8 | -15.4 | **1.7** | **6.6** | **1.1** |
| Exports (goods and services) | | 601.0 | 27.9 | 2.9 | 2.8 | 3.4 | -14.7 | **0.5** | **7.3** | **1.0** |
| Imports (goods and services) | | 596.7 | 27.7 | 3.2 | 3.1 | 2.9 | -16.8 | **1.2** | **8.9** | **2.2** |
| GNI (GDP deflator) | | 2124.1 | 98.5 | 1.6 | 1.5 | 2.5 | -10.5 | **7.1** | **5.0** | **1.7** |
| Contribution to GDP growth: | Domestic demand | | | 1.9 | 1.6 | 1.7 | -9.8 | **7.2** | **5.2** | **2.1** |
| | Inventories | | | 0.0 | -0.4 | -0.1 | -0.6 | **0.0** | **0.0** | **0.0** |
| | Net exports | | | -0.2 | -0.1 | 0.1 | 0.8 | **-0.2** | **-0.4** | **-0.4** |
| Employment | | | | 0.9 | 1.2 | 1.1 | -0.5 | **0.0** | **0.9** | **1.0** |
| Unemployment rate (a) | | | | 6.0 | 4.1 | 3.8 | 4.5 | **4.9** | **4.7** | **4.4** |
| Compensation of employees / head | | | | 2.9 | 2.5 | 4.2 | 1.9 | **2.8** | **3.0** | **2.0** |
| Unit labour costs whole economy | | | | 2.1 | 2.1 | 3.6 | 12.3 | **-3.8** | **-0.9** | **1.2** |
| Real unit labour cost | | | | 0.0 | 0.1 | 1.5 | 6.1 | **-4.5** | **-1.2** | **-0.5** |
| Saving rate of households (b) | | | | 8.1 | 4.8 | 4.6 | 13.4 | **10.6** | **6.9** | **6.3** |
| GDP deflator | | | | 2.1 | 2.0 | 2.0 | 5.9 | **0.7** | **0.4** | **1.7** |
| Consumer price index (CPIH) (e) | | | | 2.1 | 2.3 | 1.7 | 1.0 | **2.4** | **3.2** | **2.2** |
| Terms of trade goods | | | | 0.7 | 0.8 | 1.1 | -2.4 | **-1.0** | **0.0** | **0.0** |
| Trade balance (goods) (c) | | | | -5.9 | -6.5 | -6.1 | -6.0 | **-6.1** | **-6.5** | **-6.7** |
| Current-account balance (c) | | | | -3.4 | -3.9 | -2.7 | -2.6 | **-2.8** | **-3.0** | **-3.4** |
| Net lending (+) or borrowing (-) vis-a-vis ROW (c) | | | | -3.4 | -4.0 | -2.7 | -2.7 | **-2.9** | **-3.1** | **-3.5** |
| General government balance (c) | | | | -4.9 | -2.2 | -2.4 | -12.9 | **-10.1** | **-5.5** | **-4.5** |
| Cyclically-adjusted budget balance (d) | | | | : | : | : | : | **:** | **:** | **:** |
| Structural budget balance (d) | | | | : | : | : | : | **:** | **:** | **:** |
| General government gross debt (c) | | | | 62.7 | 84.5 | 83.8 | 102.3 | **103.0** | **103.9** | **104.9** |

(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. (e) CPIH is consumer price index which includes costs of owner-occupied housing