HM Treasury

From: NR

Team: Economic Risks

Ext: I&S

Date: 26 February 2019

Note: Economic Impact of Covid-19 and Possible Policy Actions

To: CX

Covid-19: Situation Overview

1. As of 26 February, there have been a total of 81,050 confirmed cases of Covid-19 (the 'Coronavirus'), of which 78,064 cases are in Mainland China. Confirmed fatalities are at 2,761 - of which 2,715 have been in Mainland China. The vast majority of cases and fatalities to date are therefore still concentrated in China, but we have seen an increase in cases in other countries.
2. As of 26 February, a total of 7,132 people have been tested in the UK, of which only 13 were positive. These figures now include the 4 cases from the Diamond Princess cruise ship. Eight people have been discharged from hospital. Five people remain in the care of the NHS.
3. The CMO is responsible for determining the risk level to the UK. The CMO makes decisions based on when trigger points are met, and these decisions are supported by the Scientific Advisory Group for Emergencies (SAGE). SAGE provide both scientific and technical advice to HMG including modelling and analysis for the reasonable worst-case scenario. Their latest minute (25 February) set out that, for national case surveillance, Public Health England's surveillance approach provides "sufficient sensitivity to detect an outbreak in its early stages" and that "this should provide evidence of an epidemic around 9-11 weeks before its peak". The World Health Organisation (WHO) have said this is a Public Health Emergency of International Concern but have not yet declared this a global pandemic.
4. **As is set out below, the economic impact of the epidemic will depend on factors such as the severity, duration and location of outbreaks.** Given the majority of our economic indicators come with a lag, our view is that the need for economic support,

including the complexity of global supply-chains, means it is near impossible to predict which sectors will be hit and when.

20. The short run nature of these affects is highly determined by the SAGE estimates, particularly of the duration. However, it is possible for short-term supply disruption (e.g. businesses not having access to their workforces) to have any longer-term consequences (e.g. businesses entering distress because of those short term impacts).

21. For the Budget, the OBR has taken into account some of the impact Covid-19, where they have assumed the outbreak will reduce world GDP and trade growth by 0.3 and 0.5 percentage points respectively in 2020. It is possible they could add a box in the Economic and Fiscal Outlook on the impact of the outbreak, but at this stage we do not expect them to make any changes to their economy forecast.

Potential Responses

22. As set out previously, based on current medical assumptions, there would be a short-term effect that unwinds as the disruption passes (though the short term nature is heavily influenced by medical assumptions), though there could be longer term effects depending on the consequences of the short-term supply disruption and, in addition, the short term effects may not be uniform across the country. To be credible and effective, any economic policy response would need to be tailored to this scenario.

23. **For any economic response to the RWCS pandemic scenario, the first best approach is to try and manage and contain.** For Budget, we have resisted creating a fund for Covid-19 related activities as this sets a bad precedent, and while departments are raising risks to their spending teams, but have so far not put a figure on pressures, and, in addition, while the scenarios and any response are still very uncertain, we expect - subject to scale - situations like these would be addressed from the 2020-21 Reserve in the first instance. As you know, after Supplementary Estimates, it is difficult to changes budgets and supply additional cash. For 2019-20 departments should use underspends, reprioritise or move costs to next year. If these options are exhausted, Treasury could produce an out-of-turn Estimate. This would be quite exceptional and would require the Whips Office to find additional parliamentary time before the end of the financial year.

24. **The second area to focus on is ensuring that the short-term supply consequences** (e.g. fewer workers available to work while they recover at home) does not have longer term supply consequences (e.g. businesses entering distress because of the short-term impacts). We are working at pace with BEIS and DIT to understand sectoral