Witness Name: Richard Hughes

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UK COVID-19 INQUIRY

WITNESS STATEMENT OF RICHARD HUGHES, CHAIR, OFFICE FOR BUDGET RESPONSIBILITY

I, Richard Hughes, will say as follows: -

Part A: Background and Structure of the Office for Budget Responsibility ('OBR')

1. The basic organisational structure of the Office for Budget Responsibility (OBR) is defined in legislation and did not fundamentally change over the course of the Covid pandemic. The OBR is led by a three-member Budget Responsibility Committee (BRC). At the beginning of the pandemic on 1 January 2020 the BRC comprised Sir Robert Chote (Chair), Prof. Sir Charlie Bean (Economy Expert), and Andy King (Fiscal Expert). Since then, all three members of the BRC reached the end of their statutory five-year terms and were replaced Richard Hughes (Chair) in October 2020, Prof. David Miles (Economy Expert) in January 2022, and Tom Josephs (Fiscal Expert) in September 2023.

2. Between 1 January 2020 and 28 June 2022 the staff complement of the OBR grew from around 35 to around 45 people, leaving the split of analytical staff roughly one-thirds economic analysts and two-thirds fiscal analysts, alongside a small central operations team. This increase included an additional five-to-six people hired to support the organisation's work on analysing the economic and fiscal implications of

the pandemic. Following the conclusion of the pandemic, this additional analytical resource has been utilised to analyse the economic and fiscal impacts of subsequent, novel shocks to the UK, including the sudden rise in energy prices in the wake of the Russian invasion of Ukraine in early 2022. Since 28 June 2022, the OBR's staff complement has grown further to around 50 people, with additional staff supporting the economic analysis of policy measures.

Part B: Business as usual at the OBR

i. What we do

3. The Office for Budget Responsibility was created in 2010 to provide independent and authoritative analysis of the UK's public finances. We are a non-departmental public body by virtue of the *Budget Responsibility and National Audit Act 2011*, and are funded via a delegated multi-year budget from His Majesty's Treasury (HMT). We are one of a growing number of official independent fiscal watchdogs around the world. But we are relatively unusual, alongside the Dutch Central Planning Bureau and Scottish Fiscal Commission, in that we provide the official economic and fiscal forecast used by the Government in its budgets and other fiscal statements. Most other fiscal watchdogs only provide analysis or commentary on the economic and fiscal forecasts produced by their national (and sometimes sub-national) governments.

4. We have five main roles:

   a. *We produce detailed five-year forecasts for the economy and public finances.* The forecasts accompany the Budget Statement (usually in November) and the Spring Statement (usually in March). They incorporate the impact of any tax and spending measures announced in those statements by the Chancellor. The details of the forecasts are set out in the *Economic and fiscal outlook* (*EFO*). Our annual *Forecast evaluation report* (*FER*), published each autumn, examines how they compare to subsequent outturns and draws lessons for future forecasts.

   b. *We judge the Government's performance against its fiscal targets.* These targets are set out by the Government and approved by Parliament in the *Charter for Budget Responsibility* [RH/01 - INQ000590452]. In each *EFO*, we assess whether the Government has a greater than 50 per cent chance of hitting these targets under current policy. The UK has had eight different sets of fiscal rules since the

OBR was established in 2010, including four different regimes since the start of the pandemic in January 2020.

c. *We assess the long-term sustainability of the public finances.* Our annual *Fiscal risks and sustainability* reports (*FRS*s) – which in July 2022 superseded our biennial *Fiscal sustainability report* (*FSR*) – periodically set out long-term projections of the path of the public finances. These long-term projections look at the path of public spending, revenue, borrowing, debt, and other balance sheet measures to assess whether current government policy settings imply a sustainable path for public finances as a whole.

d. *We analyse the risks to the public finances.* Our semi-annual *EFO*s routinely explore the risks to the medium-term economic and fiscal outlook. We utilise a range of analytical tools including: (i) **disclosure of specific risks** to our economic and fiscal forecasts, focusing on those which appear most material at the time; (ii) **fan charts** that capture the uncertainty around our central forecasts for key economic variables (e.g. GDP and inflation) and fiscal aggregates (e.g. borrowing and debt); (iii) **sensitivity analysis** that illustrates the sensitivity of our central forecast to indicative changes in key forecast assumptions (e.g. growth in productivity or the rate of interest); and (iv) **scenarios** that illustrate the uncertainty of our key forecast judgements and illustrate the economic and fiscal implications of plausible alternative judgements. Our annual *FRS* reports – which superseded our biennial *Fiscal risks report* (*FRR*) – also provide a more in-depth exploration of specific risks to the medium- and long-term outlook for the public finances. Recent editions have explored the economic and fiscal risks associated with Brexit, the pandemic, climate change, the energy crisis, geopolitical uncertainty, the health of the population, and government debt markets. We also periodically update our fiscal risks register, which was last published in our July 2023 *FRS*.

e. *We scrutinise the Government's costing of individual tax and spending measures.* In the run-up to each Budget or fiscal statement, the Government provides us with draft costings which we subject to detailed scrutiny and challenge. In each *EFO* we state whether we endorse the costings that the Government finally publishes as reasonable central estimates and whether we have used them in our forecast. We also give each costing an uncertainty rating, based on the data underpinning it, the complexity of the modelling involved and the possible behavioural impact of the policy.

ii. How we do it

5. *EFO* forecasts and other publications are based on the economic and fiscal judgements of the BRC, but draw on data, models and policy costings provided and maintained by other government departments including HMT, HM Revenue and Customs (HMRC), and the Department for Work and Pensions (DWP). The timetable and governance arrangements for the preparation of our *EFO* forecasts and other publications are set out in the following documents:

    a. The *Charter for Budget Responsibility* [RH/01 - INQ000590452], which sets out the OBR's remit, how it is to perform its duties, the required content of its key publications, the arrangements for determining the timing of its forecasts and other key publications, and the Government's fiscal targets.

    b. The *Framework Document* [RH/02 - INQ000590463], which sets out the OBR's governance and management arrangements.

    c. The *Memorandum of Understanding* (*MoU*) [RH/03 - INQ000590468] between the OBR, HMT, HMRC and DWP, which sets out the agreed working relationship between parties, including each institution's key responsibilities, coordination of the forecast process, and the process for information sharing for all OBR publications that have a statutory basis as set out in the *Charter for Budget Responsibility*. This document therefore guides most of the OBR's core work, although the processes for other work such as non-statutory publications (e.g. working and analytical papers) sit outside of it. The *MoU* is generally adhered to by all parties and is updated following each update to the *Charter for Budget Responsibility*, to ensure it continues to reflect the OBR's statutory responsibilities and the current working practices between its parties.

6. The five roles highlighted above focus on the public finances at a UK-wide level, including Devolved Administrations, local governments, and public corporations. But the UK Government also asked us to forecast the receipts from those taxes and spending from social security that it has devolved – or intends to devolve – to the Scottish and Welsh governments. The Welsh Government also asked us to produce the forecasts it uses in its Budgets. Our Scottish and Welsh revenue forecasts are published alongside our *EFO*s and Welsh Government Budgets. The Scottish Fiscal Commission and Welsh Government provide us with forecast data for the production

of our forecasts for taxes that are fully devolved to the Scottish and Welsh Governments. In addition, we routinely consult the Scottish Fiscal Commission, Welsh Government and Northern Ireland Fiscal Council on a range of topics of mutual interest. The OBR has no regular relationship with local government entities but occasionally meets with local government representatives to discuss matters of relevance to particular *EFO*s or other OBR publications.

7. The OBR established an advisory panel of leading economic and fiscal experts in 2011 to help develop and scrutinise its work programme and forecasting methods. Since then, we have held regular meetings in which we have discussed our work priorities, core publications, and analytical approaches. The panel was revised and expanded in 2023, via a public expression of interest process, to include a wider range of experts across six different aspects of our work: macroeconomics and econometrics; public sector finances and public economics; financial markets and corporate finance; energy and climate change; health and longevity; and labour market and migration. Between 1 January 2020 and 28 June 2022, the panel was made up of: Wendy Carlin (University College London), Kevin Daly (Goldman Sachs), Carl Emmerson (Institute for Fiscal Studies), Jonathan Gillham (PwC), John Llewellyn (Llewellyn Consulting), Andrew Scott (London Business School), Peter Spencer (University of York), Coen Teulings (University of Cambridge), and Simon Wren-Lewis (Oxford University).

8. We also routinely consult: (i) the **Bank of England**, with whom we meet regularly to discuss respective work programmes and forecasting methods; (ii) **UK think tanks**, particularly the Institute for Fiscal Studies, Resolution Foundation, Institute for Government and National Institute for Economic and Social Research, with whom we host periodic roundtables to discuss recent economic and fiscal developments and issues that are relevant to our forecasts and analysis; (iii) the **International Monetary Fund** (IMF), who we meet periodically and particularly during the preparation of IMF Article IV missions to the UK; **(iv) other international organisations** including the Organisation for Economic Cooperation and Development; (iv) **fellow independent fiscal institutions** especially the US Congressional Budget Office, Dutch Central Planning Bureau, and French High Council on Public Finances; and (vi) various **academics, private sector organisations and voluntary institutions**.

Part C: Work of the OBR During the Pandemic

9. From the moment the first covid cases were reported in the UK and elsewhere in Europe, the OBR shifted the focus of its analysis, modelling, and publications onto understanding the potential paths of the pandemic and their economic and fiscal implications for the UK. In addition to being the most acute public health crisis the world had faced in over a century, the covid pandemic resulted in the largest contraction in economic activity that the UK had experienced in three centuries. The UK government's efforts to mitigate its impact on businesses, households, and public services also prompted the most dramatic expansion in the size and scope of government activity and the largest peacetime budget deficit.

i. The nature of covid shock to the economic and public finances

10. The coronavirus pandemic was different from any other shock that the UK economy and public finances have faced in peacetime. Unlike previous major economic downturns, the source of the disturbance lay outside the economy and its management, and its resolution in the first instance required public health interventions rather than any change in economic policy. Indeed, rather than seeking to stimulate economic activity, the aim of government public health policy was to suppress it as a means of controlling the spread of the virus until a vaccine was available. The focus of economic policy at the height of the pandemic was to protect the incomes of households and the survival of businesses while a significant part of the economy was closed. The closest peacetime analogue for a shock of this nature to the UK economy was the even-more-deadly 1918-20 Spanish flu pandemic. The economic impact of this earlier pandemic is, however, difficult to disentangle from the effects of post-World War I demobilisation, and its fiscal impact was muted by the fact that both public health systems and the welfare state were still in their infancy.

ii. Main analytical outputs during the pandemic

11. Our principal analytical outputs during the pandemic period comprised:

    a. An **initial Coronavirus reference scenario (CRS)** [RH/04 - INQ000119286] published on 14 April 2020. Published within three weeks of the first set of lockdown measures coming into force, this was one of the first attempts on the part of any official national economic forecaster to anticipate the economic and fiscal impact of the pandemic. The rapid publication of such a scenario was necessitated by the fact that our most recent semi-annual *EFO* which was published on 11 March 2020 [RH/05 - INQ000253820] had been prepared over the course of January and

February before the severity and global spread of the pandemic had become apparent.

i. The scenario in the CRS was drawn from the results of an analytical request from HMT officials received by the OBR on 23 March 2020 [RH/06 - INQ000590471] for an assessment of the economic impact of imposing various restrictions, in order to inform immediate government decisions. This resulted in a letter from the OBR to the Chancellor of the Exchequer sent on 26 March 2020 [RH/07 - INQ000232206]. After sending this letter, the OBR discussed with HMT officials whether and how this analysis could be published [RH/08 - INQ000590473, RH/09 - INQ000590474, RH/10 - INQ000590453, RH/11 - INQ000590454], leading to the publication of the CRS on 14 April. As this correspondence shows, the nearly three week gap between the results being sent to the Chancellor and the publication of the scenario largely reflected securing the Chancellor's approval for publication, coordinating around the timing of a Bank of England announcement, and then around a week's delay as a result of the Prime Minister's health at that time. The results in the CRS publication on 14 April were very similar to those sent to the Chancellor on 26 March 2020

ii. The CRS represented the OBR's first attempt to estimate the potential scale of impact that the pandemic could have on the UK economy and public finances in the near term. Given the early stage of the pandemic at which it was completed, it was not able to – nor designed to – predict the nature and severity of the economic shock. In this sense it was a scenario rather than a forecast, based on the illustrative assumption that people's movements (and thus economic activity) would be heavily restricted for three months and would get back to normal over the subsequent three months. Its main value was therefore to sketch out the channels along which the economic disruption might manifest itself and what that would mean for the public finances, and to provide a reference point against which to assess new developments as they occurred. Our understanding of the nature and severity of the coronavirus shock naturally developed considerably from this stylised assumption, as set out on the key outputs described below.

iii. All that said, the CRS's estimates of the near-term economic and fiscal impact proved surprisingly accurate. It projected a -12.8 per cent fall in GDP in 2020 (compared with a -10.3 per cent fall in outturn) and that public sector net borrowing would reach 13.9 per cent of GDP in fiscal year 2020-21 (compared with 15.1 per cent of GDP in outturn), both of which were post-war records.

b. Maintaining a **Coronavirus policy monitoring database**, which was first published on 30 April 2020 and updated four times after that, most recently on 14 July 2020 [RH/12 - INQ000590455]. The aim of this was to provide an up-to-date picture of the range of government financial support to individuals, businesses, and public services and estimates of their direct fiscal costs. Thereafter, our Autumn and Spring *EFO*s provided updated estimates of the costs of covid-related policy measures. The main limitations the OBR faced in monitoring policy were incomplete data on policy costs and incomplete coverage over different iterations of the database, meaning estimates could be revised materially over time. These limitations and uncertainties were clearly stated in the database's notes.

c. Continuing our **monthly commentary on the public sector finances** statistics published by the Office for National Statistics (ONS). From the February 2020 edition (published on 20 March 2020 [RH/13 - INQ000253828]) onwards, these statistical commentaries were largely re-purposed towards understanding the impact of the covid pandemic on the public finances and the public finance impacts of the Government's policy measures as they emerged in ONS data. In these commentaries we emphasised the larger-than-usual likelihood of revision to ONS data in subsequent statistical publications due to the novelty and fast pace of development of both the covid shock and the policy response that the data were capturing.

d. A set of **monthly profiles** for the public sector finances which were first published on 14 May 2020 [RH/14 - INQ000590457]. For the current financial year, these provided month-by-month estimates of public sector receipts, expenditure, borrowing, and debt broken down by major category. They intended to provide some guide to government for the potential scale of borrowing that may be required in a given month and a reference point which markets, Parliament, the media, and the public could use to monitor monthly fiscal outturn data; and which the OBR itself used as part of its monitoring of that data in its monthly commentary on the public sector finances mentioned above. These profiles were initially based upon the April 2020 CRS and were subsequently updated whenever we produced a new set of economic and fiscal projections. In light of positive feedback from policymakers and outside observers about the additional transparency provided by these monthly profiles, we continue to publish an updated set roughly two months after each semi-annual *EFO.*

e. Our July 2020 ***Fiscal sustainability report*** (***FSR*** [RH/15 - INQ000119294]), which presented the economic and fiscal implications of three alternative scenarios for the path of the virus over the medium term (five years).

   i. Prior to the pandemic our *FSR*s typically focused on long-term (50-year) projections for the public finances and sustainability of debt, using our most recent medium-term forecast as the departure point. This FSR took a much simpler approach than normal to producing the long-term projections in order to focus on the three scenarios for the medium term, while also devoting more space than normal to the risks posed to fiscal sustainability by the coronavirus shock.

   ii. As the Foreword to the July 2020 *FSR* sets out (on page 1), we notified the Treasury on 5 May of our intention to publish an *FSR* containing medium-term scenarios, and asked if they wished to agree a similar governance process and timetable to that used for our *EFO* forecasts, with respect to exchanging information on forecasts and policy measures as each develop, so that the *FSR* could take full account of all policy changes that would be announced before or alongside its publication. The Treasury chose not to do so [RH/16 - INQ000590459] (the subsequent letter mentioned in this correspondence [RH/17 - INQ000590460] was not replied to in writing but was discussed verbally between individual officials; no records or notes were made of these discussions), citing the fact that this report was not accompanying a formal fiscal event and medium-term forecast, and the fast-moving situation with regard to both the public health and policy environment.

   iii. The absence of a formal process with the Treasury around policy measures did not have a material impact on the effectiveness of this piece of work given the relatively illustrative nature of the multiple scenarios it contained and the fluid nature of policy development at this early stage of the pandemic. Nor did it represent any concern around information-sharing with respect to policy measures or other pertinent information between the OBR and HMT which was generally very good over the course of the pandemic.

f. Our semi-annual ***Economic and fiscal outlooks*** **(*EFO*s)** in November 2020 [RH/18 - INQ000114451], March 2021 [RH/19 – INQ000114450] and October 2021 [RH/20 - INQ000119284]. These provided our latest central assessment of the economic and fiscal impact of covid, explored the range of plausible scenarios for the future path of the pandemic over the next five years, and highlighted the key assumptions, risks, and uncertainties around those estimates and scenarios. The unique nature of the pandemic and the government's response to it required us to introduce several innovations into the way we constructed and presented our medium-term forecasts which are discussed in more detail in section iv below. The Foreword to the November 2020 *EFO* (page 3) refers to problems for the OBR in confirming the forecast timetable, and particularly the short formal notice of the *EFO*'s publication date from HMT. To reiterate the point in the paragraph above, this did not represent an issue with the sharing of information necessary for the production of the forecast. Rather, it created an issue mainly for managing the OBR's workload and the need to be in a permanent state of readiness for the completion of the forecast.

g. Our July 2021 ***Fiscal risks report*** (***FRR***, [RH/21 - INQ000119291]), which reviewed what we had learned about the economic and fiscal impact of covid, considered its longer-term economic and fiscal legacy, and drew some preliminary lessons for how economic forecasters and policymakers should approach other potentially catastrophic risks. Compared to *FRR*s prior to the pandemic, this report took less of an encyclopaedic approach in providing a full account of the risks to the public finances and instead focused more deeply on the nature of three of the largest fiscal risks: the coronavirus pandemic itself; climate change; and the cost of public debt. In so doing, it implemented one of the key lessons from the pandemic for economic and fiscal forecasters – the need to devote more time to understanding and anticipating the consequences of potentially catastrophic risks.

iii. Collaboration with other experts during the pandemic

12. The OBR, throughout the pandemic, spoke to government epidemiologists, public health and economic experts and policymakers in the preparation of its forecasts and other analysis. The aim of this two-way collaboration was:

    a. for us to gain the latest insights from the epidemiological community about the likely path of the pandemic and from policymakers about the planned public health and economic policy response; and

    b. for us to provide policymakers, Parliament, and the public with our latest estimates of the likely implications of both of those for the economic and fiscal outlook.

13. In additional to our usual set of external interlocutors – highlighted in paragraphs 5-8 above (HMT, HMRC, DWP, Devolved Administrations, UK think tanks, and international partners), in preparing our forecasts and other analysis during the pandemic period we also consulted:

    a. The Chief Medical Officer, the Scientific Pandemic Influence Group on Modelling (SPI-M), the Joint Bio-Security Centre, and the Government Office for Science on their latest central projection and range of possible scenarios for the **path of the pandemic**;

    b. The UK Vaccines Task Force and Joint Committee on Vaccination and Immunisation on their latest central expectation and possible scenarios for the development, procurement, rollout, and effectiveness of the **vaccines**;

    c. The Cabinet Office, Department of Health and Social Care (DHSC) and National Health Service (NHS) on the latest position on, and potential future scenarios for, **public health policy**; and

    d. HM Treasury, HM Revenue and Customs, the Department for Work and Pensions, the Department for Business Energy and Industrial Strategy and the British Business Bank on the latest position on, potential future scenarios for UK **government financial support** to households, business, and public services.

iv. Covid-driven innovations in OBR methods

14. The novel nature of the covid shock required the OBR to rapidly and substantially adapt our existing methods for forecasting the medium-term path of the UK economy and public finances. The main way in which we did so were:

    a. Starting every new forecast, from the November 2020 *EFO*, by **meeting government epidemiologists and public health experts** to understand the current trajectory and range of possible scenarios for the future path pandemic, vaccine development and rollout, and non-pharmaceutical interventions.

    b. **Adapting our economic forecasting models** to capture the differential impact of the virus and associated public health restrictions on different sectors of the economy over time. This required us to construct from the bottom up a month-by-month and sector-by-sector picture of what level of economic activity would be possible given the number of covid cases, stringency of public health restrictions, and, later, rollout and effectiveness of the vaccines.

    c. Constructing an **array of potential scenarios for the evolution of the economy and public finances** depending on alternative paths for the pandemic discussed with government epidemiologists and public health experts. Starting with the July 2020 *FSR*, we considered a range of upside and downside scenarios for the path of the pandemic and explored their implications for the economy and public finances.

    d. Deepening our **understanding of the interaction between the pandemic, the economy, and the public finances**. The novel nature of the pandemic and the government's policy response made it challenging at first to forecast its economic and fiscal effects. However, our understanding of these 'epi-macro' relationships improved with the benefit of innovative high-frequency and granular data, including from the ONS and Google Mobility; comparisons with other countries in analogous stages of the pandemic; and growing experience of how the economy was reacting to covid, including a growing body of academic work on epi-macro interactions. A distillation of the lessons we learned as economic and fiscal forecasters is provided in the next section.

15. Nonetheless, the nature of the covid shock and its impact on the economy and public finances posed challenges for the OBR's ability to confidently produce forecasts and scenarios. All forecasts are subject to a large degree of uncertainty from a range of

sources, but the combined challenge of anticipating the path of the virus, the consequent public health restrictions, and the economy's ability to adapt to and recover from these, all increased the degree of uncertainty surrounding the OBR's forecasts and scenarios during covid. While OBR forecasts are required to be conditioned on stated government policies at the time, the speed at which policy interventions were introduced, adapted and extended added a further degree of uncertainty around their subsequent accuracy. We emphasised the degree of uncertainty and its sources across all our key publications described above. When appropriately contextualised in this way, the utility of the forecasts and scenarios we produced to government, Parliament, the media and the public was felt to outweigh any limitations to their accuracy resulting from the pandemic and its consequences.

D. Lessons Learned and Reflections

16. Chapter 2 of our 2021 *FRR* [RH/21 - INQ000119291] on the coronavirus pandemic (i) explored the economic and fiscal impact of the pandemic in the UK in historical and international context; (ii) examined the role played by fiscal policy in mitigating the impact of the pandemic on the economy; (iii) identified the immediate fiscal pressures left behind by the pandemic (in particular on the health, education, and transport sectors); (iv) considered what long-term scars that the pandemic could leave on the supply side of the economy; and (v) drew some economic and fiscal lessons from the pandemic.

17. The key lessons we drew from the pandemic for how economic forecasters and policymakers should approach other potentially catastrophic risks were:

    a. **Catastrophic risks are real and may have become more frequent.** In the space of a decade and a half, the UK and other advanced economies had experienced three 'once in a generation' economic shocks in the form of the financial crisis, the Covid pandemic, and the Russian invasion of Ukraine. The combination of growing financial leverage, economic interdependence, and other man-made risk factors may make future shocks both more frequent and more severe. Producers and users of economic and fiscal forecasts tend to focus on a central view of medium-term prospects in which output returns to a judgementally determined trend as the effects of past shocks dissipate. But it is equally – arguably, more – important to focus on the risks around that forecast that arise from inevitable future shocks. Forecasters should do more to emphasise the uncertainty surrounding both near- and longer-term economic and fiscal prospects.

b. **Economic shocks affect both supply and demand.** Macroeconomic forecasting and analysis rely on being able to evaluate the effect of a shock – or indeed any news – on both supply and demand and whether those effects are likely to be persistent or transitory. While conventional cyclical shocks affect mainly demand, recent shocks – the financial crisis, Brexit, the pandemic, and the energy crisis – have materially affected both supply and demand. This has exposed how poorly supply-side developments are understood, measured, and modelled relative to textbook business cycle fluctuations in demand. Forecasters need to raise their capacity to assess and monitor both the immediate and longer-term supply-side impact of novel shocks and any policy response.

c. **Global interconnectedness can be both an asset and a liability.** As one of the most globally connected economies, the UK is highly exposed to risks emanating from abroad in the form of not only pandemic disease but also other forms of economic and financial contagion. However, the UK's openness to international talent and investment also made it a world leader in the development, production, and rollout of one of the vaccines that helped to bring about an end to the pandemic. The UK's high degree of internal and external digital connectivity enabled the UK's largely service-based economy to continue to operate through the pandemic and the Government to deliver timely fiscal support, but also renders the economy vulnerable to other risks such as cyberattacks on critical IT infrastructure (a topic we explored in our subsequent *Fiscal risks and sustainability* report in July 2022 [RH/22 - INQ000119290]).

d. **While it may be difficult to predict when catastrophic risks will materialise, it is possible to anticipate their broad effects if they do.** The risk of a global pandemic was at the top of government risk registers for a decade before coronavirus arrived but attracted relatively little (and in hindsight far too little) attention from the economic community. However, both the experience from previous epidemics such as the 1918 flu, Ebola, and SARS, and modelling by the US Congressional Budget Office and the World Bank, provided clear indications of where and how badly economies might be affected, even though both modelled an influenza rather than coronavirus pandemic. In 2008 the World Bank estimated that a severe and a moderate flu pandemic could reduce global GDP by 4.8 per cent and 2 per cent respectively. The actual fall in global GDP at the height of the pandemic in 2020 was around 3 per cent. The CBO estimated US GDP losses of

4¼ per cent in a severe flu pandemic compared to the 3½ per cent fall in US GDP recorded in 2020.

e. **When investing in risk prevention, governments tend to 'fight the last war'**. In the decade following the 2008 financial crisis, significant resources were dedicated to improving the oversight and resilience of the financial sector, which paid dividends during the pandemic by helping to prevent it from triggering another financial crisis. And East Asian countries that invested in epidemic surveillance following the SARS and MERS outbreaks were more capable of combating the pandemic from the beginning. However, the 2016 report of the UN High-level Panel on Global Response to Health Crises described the world's preparedness and capacity to respond to a future pandemic as "woefully insufficient". The difficulty in anticipating the precise timing and nature of the 'next crisis' puts a premium on governments engaging in horizon-scanning and investing in generic risk management systems and structures.

f. **There are significant advantages in preventing or halting a process that involves rapidly escalating costs early.** While economic theory and practice emphasise the option value of delaying decisions, this can be suboptimal in the face of rapidly escalating costs. Countries that acted quickly to contain the spread of the virus experienced fewer deaths, shallower recessions, and earlier economic recoveries. These countries did not necessarily see lower fiscal costs from the pandemic, but more of their increase in borrowing was due to discretionary fiscal policy rather than as a result of the decline in output or pressures on their health systems and is therefore more likely to prove reversable.

g. **People appear willing to make sacrifices for a clearly defined public good**. In the early stages of the pandemic, there was concern about defiance or fatigue in relation to public health restrictions and requirements. In fact, compliance with public health restrictions remained high throughout the pandemic in the UK and vaccine take-up also exceeded expectations. In total, the UK experienced a 10 per cent loss of output and committed 12 per cent of GDP in public funds in order to combat the pandemic in 2020. The annual economic and fiscal costs of tackling other potential catastrophic risks, like climate change, are likely to be just a fraction of this.

h. **Economies can sometimes adapt remarkably quickly to structural changes**. While the initial shock associated with the pandemic and initial lockdowns was greater than many economists predicted, they were also surprised by the speed and strength of the subsequent recovery in economic activity (including its resilience during subsequent lockdowns). The contribution of prior investments in information technology that enabled people to work, shop, learn, and be entertained online was critical to enabling this transition, as was fiscal policy in allowing households and firms to maintain consumption, employment, and liquidity through the transition. This adaptability meant that the longer-run 'scarring' of the pandemic on the supply side of the economy appears to have been smaller than our initial estimates. At the same time, it is not straightforward to distinguish the long-run impact of the pandemic from other contemporaneous and subsequent disruptions to the long-run productive potential of the UK economy in the form of Brexit and the energy crisis.

i. **Fiscal policy can and needs to be more nimble than was previously thought.** Before the pandemic, one of the central preoccupations among macroeconomists was that monetary policy had been exhausted as the principal instrument for managing fluctuations in aggregate demand but fiscal policy could not act with the speed and scale necessary to prevent lasting damage to the economy. In fact, across advanced economies the pandemic induced a fiscal policy response unprecedented in its speed, scale, and novelty. While this added 18.7 per cent of GDP to the debts of the average advanced economy by the end of 2021, it also prevented the much greater economic costs associated with the deeper, longer, and more disruptive economic contraction that could have resulted from not intervening.

j. **In the absence of perfect foresight, fiscal space may be the single most valuable risk management tool.** Throughout its history, the UK government has relied on its ability to borrow large sums quickly in order to respond comprehensively to major economic and security threats. It was able to do so courtesy of its relatively low levels of public indebtedness, deep and liquid domestic capital market (supported by monetary policy), and by benefiting whenever there has been a general flight to safety. Fiscal policymakers must trade off making significant investments in the prevention of specific potential threats with preserving sufficient fiscal room for manoeuvre to respond to those risks that they did not anticipate or could not prevent.

18. In our subsequent forecasts and risks reports we have sought to put these lessons into practice. Most notably, in choosing our areas of focus in the July 2022 *FSR*, we took explicit account of the 28 risks identified in the Government's 2020 National Risk Register. This prompted us to continue to explore threats that arise from outside the realm of traditional domestic macroeconomic analysis but could have major economic and fiscal implications for the UK, including the risks from rising global security and trade tensions, continued high and volatile energy prices, and climate change. We also considered the potential economic and fiscal consequences of the emergence of a vaccine-escaping variant of covid. In our July 2023 and September 2024 FRSs, we also explored in greater depth the linkages between the health of the population and the long-term sustainability of the public finances. This included an estimation of the scale of the potential fiscal benefits that could be derived from improving the long-run health trajectory of the UK population.

19. The third external review of the Office for Budget responsibility, published in February 2025 [RH/23 - INQ000590467] assessed the OBR's performance over the past five years, including throughout the pandemic period. In relation to the pandemic, it emphasised the OBR's responsiveness in developing one of the first rapid assessments of the potential economic and fiscal impacts of Covid, and the way in which the OBR drew in expertise from a broader range of experts. The OBR has accepted all of this review's recommendations, although none of these relate directly to the experience of the pandemic.

20. Outside of the lessons the OBR has taken for its analytical work in *EFO*s and other publications set out above, the OBR has improved its readiness for a future whole-system civil emergency by embedding flexible and hybrid working practices; working with HMT on risk assessment, health and safety and IT-related issues; and conducting business continuity and resilience testing exercises.

Statement of Truth

I believe that the facts stated in this witness statement are true. I understand that proceedings may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief of its truth.

Signed: _ Personal Data __

Dated: ______17 April 2025____________________________