UK government and central bank unite in attempt to mitigate the effects of the coronavirus crisis

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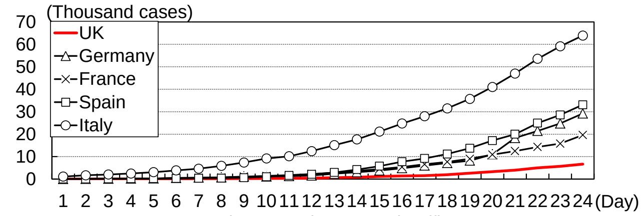
Confirmed cases of coronavirus in the UK currently lag behind other major European countries (Chart 1) but given that the UK government advises those with mild coronavirus symptoms to self-quarantine at home for 7 days without testing, it is likely that a lack of testing plays a large part in this. The UK's National Health Service (NHS) was already suffering from shortages of doctors and hospital beds before coronavirus spread to the UK, stoking concerns of a crisis. The government introduced 'social distancing' measures to control the spread of the virus, closing schools, restaurants and cafes. On 23 March, it introduced a legally-enforced lockdown, and temporarily shuttered all non-essential retailers.

The UK economy has a low reliance on exports and the tourist industry, meaning that it was able to cope comparatively well with the initial spread of the virus in China and in other countries. However, now that coronavirus is spreading within the UK, the economy has ground to a halt as government restrictions on movement begin to bite. In March, the UK PMI fell even further than the depths of the 2008 Global Financial Crisis (GFC), to 36.0 (down 17 points on the previous month) (Chart 2). This was mainly down to deterioration in the services sector. Even if the measures introduced by the UK government stop the virus from spreading further, they will clearly have a negative overall impact on the economy, and a short term drop in output is now inevitable in terms of consumption, investment and productivity.

On the other hand, substantial monetary and fiscal measures have been introduced to support the most affected industries and their staff. The UK has announced a number of measures in quick succession, starting on 11 March, with its budget including £3 billion (1.2% of nominal GDP) in fiscal stimulus. On 18 March it announced that a £330 billion loan guarantee scheme and £20 billion in tax relief and subsidies for the retail, leisure and hospitality sectors. This was followed on 23 March with the introduction of a scheme to subsidise 80% of the wages of furloughed employees. In terms of monetary policy, the Bank of England (BoE) cut the base rate from 0.75% to 0.25% on 11 March and from 0.25% to 0.1% on 19 March (Chart 3). The BoE also announced on 11 March that it would support corporate financing through the relaxation of capital requirements for UK banks and introduction of the Term Funding Scheme with additional incentives for SMEs (TFSME).

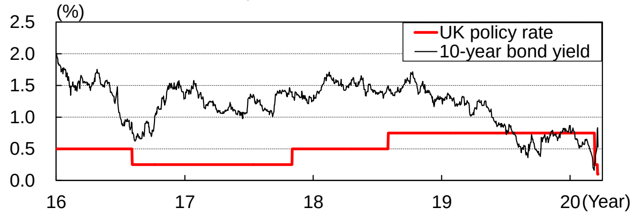
These measures are likely to reduce corporate bankruptcies and unemployment to some extent, but the economic effects of lockdown measures will still be considerable. We forecast a large drop in UK real GDP growth of around -5% YoY in 2020.

Chart 1：UK Cases of Coronavirus in March 2020



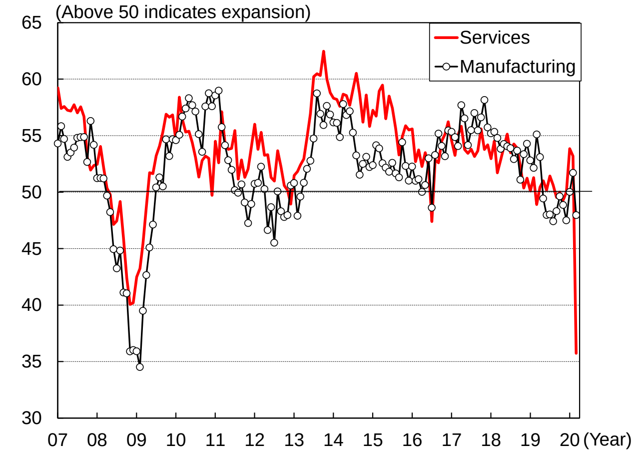
Source: WHO, MUFG Bank Economic Research Office

Chart 3: UK Policy Rate and 10-Year Bond Yield



Source: BoE, MUFG Bank Economic Research Office

Chart 2: UK PMI



Source: IHS Markit, MUFG Bank Economic Research Office

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