

## A forecast for 2021

Published: January 13, 2026, 1:26 pm

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The FT has this morning published its annual forecasts based on a survey of 90 economists. I thought I would offer my view on key variables.

### **Growth**

Low. Maybe one or two percent at most, with a real risk it could be negative. It will almost certainly be behind every other major economy because of Covid mismanagement and Brexit. On this conventional criteria it will be a bad year.

### **Unemployment**

This will increase, potentially quite significantly. Unemployment data is currently suppressed by furlough. As with so much else in the UK, some honesty might help. Real unemployment of five million remains possible as many underfunded businesses, third sector organisations and even local governments face significant risk to their survival and will make people redundant. An increase in micro business activity, much if it illicit, will offset this to some extent.

### **Inflation**

In such a weak economy there should be little inflation risk. Brexit is the obvious threat. There aren't tariffs, but there are costs. The economy is so weak that the opportunity to pass costs on will be low. Business failure is much more likely than price rises as a result. An economy that could afford a bout of inflation would be a better option. We have not got that economy.

### **Deficit**

The 2020/21 deficit will come in at around the £400 billion previously forecast. That for 2021/22 will be much higher than the government has forecast. They suggested around £100 billion. I think a figure around £300 billion much more likely. The absence of tax receipts will still be apparent. Those due for deferred payment from 2020/21 will be hard to recover. If business failure is at the rate I expect losses on loans through banks

guaranteed by the government will make a significant contribution to the deficit. And so will the cost of unemployment and the recovery of the NHS impose significant pressure. The NHS will only survive if substantial pay increases are offered because of the stress of post-Covid working.

### **Interest rates**

These will remain at an official rate of 0.1%. Effective negative rates will be delivered via quantitative easing.

### **Government financing**

The government will continue to avoid making any demand in financial markets and will fund its deficit entirely by QE. So, expect the Bank of Balance Sheet to expand, considerably, in 2021. No one will be surprised. There will not be a run on the pound as a result.

### **Exchange rate**

The pound will fall as low growth, Covid isolation and Brexit costs all hit in varying ways. The offset will be inward investment, but of a vulture capital variety to buy cheap assets, as opposed to creating new real investment opportunity.

### **Government economic policy**

Sunak will try austerity. He will fail to deliver it. Government popularity will fall as a consequence. There will be several revisions to policy as the year progresses. The absence of real policy and the reality that government is simply in reaction mode, unable to command events because its dogma so strongly conflicts with real world need will become increasingly apparent.

### **2022**

A system of reckoning will come when it is appreciated that financialised neoliberalism has come to an end and a new economic reality must be faced. The thinking on this issue will continue in 2021 but neither government or opposition will truly embrace it. 2022 may be the crunch moment as the failure to manage 2021 becomes apparent on so many fronts.

### **Summary**

The government, its policy, and reality will be in continual conflict in 2021. Reality will win an easy victory over policy. More time to implement real change will have been lost. The environment, businesses, NGOs, government agencies and, most of all, real people will pay the price. QE will leave a scar of rapidly growing inequality. Social stress will increase significantly. Some of it will not be containable.