



Economic Assessments for the European Union Debate on 5 May 2020

On 5 May 2020, Lord True (Conservative) is due to move that “the virtual proceedings do consider Her Majesty’s Government’s assessment of the medium-term economic and fiscal position as set out in the latest budget document and the Office for Budget Responsibility’s most recent *Economic and Fiscal Outlook* and *Fiscal Sustainability Report*, which forms the basis of the United Kingdom’s convergence programme”.

The European Union requires member states to submit information on their medium-term economic and fiscal position, known as their convergence programme. This requirement applies to the UK until the end of the transition period on 31 December 2020. The exercise is based on rules in the EU’s stability and growth pact, which aims to ensure that member states maintain sound public finances.

Both Houses of Parliament must approve the documents on which the UK’s assessment is based. The motion states that these documents are the spring 2020 budget and the Office for Budget Responsibility’s (OBR) *Economic and Fiscal Outlook* and *Fiscal Sustainability Report*. HM Treasury has also published a separate convergence programme based on these documents.

The budget and OBR publications do not fully reflect the impact of coronavirus (Covid-19). The budget, published on 11 March, contained some measures in response to the virus, but these have since been significantly expanded. The *Economic and Fiscal Outlook* was finalised in February 2020, before the effects of the virus, or the Government’s response to it, were known. The *Fiscal Sustainability Report* was published in 2018.

The House of Commons approved the economic assessments without debate or division on 29 April 2020.

In response to coronavirus, the European Council has activated the general escape clause in the stability and growth pact. This means that member states can depart from the budgetary requirements that would normally apply. However, the Council said that this did not suspend the pact itself or its procedures, which would include convergence programme reporting.

Chris Smith | 30 April 2020

A full list of Lords Library briefings is available on the research briefings page on the internet. The Library publishes briefings for all major items of business debated in the House of Lords. The Library also publishes briefings on the House of Lords itself and other subjects that may be of interest to Members. Library briefings are compiled for the benefit of Members of the House of Lords and their personal staff, to provide impartial, authoritative, politically balanced briefing on subjects likely to be of interest to Members of the Lords. Authors are available to discuss the contents of the briefings with the Members and their staff but cannot advise members of the general public.

Any comments on Library briefings should be sent to the Head of Research Services, House of Lords Library, London SW1A 0PW or emailed to purvism@parliament.uk.

1. Legislative background

Two European Union treaties require member states to submit reports on their medium term economic and budgetary position.¹ For member states outside the euro area, including the UK, these are known as convergence programmes.² The convergence programme exercise is based on rules in the EU stability and growth pact.³ This pact aims to ensure that member states “pursue sound public finances and coordinate their fiscal policies”.⁴

In the UK, the European Communities (Amendment) Act 1993 states that Parliament must approve any report that forms the basis of the UK’s convergence programme, before that programme is submitted.⁵

Both European Union treaties are applicable to the UK until the end of the transition period on 31 December 2020.⁶ Section 5 of the European Communities (Amendment) Act 1993 also remains in force until the end of the transition period.⁷

2. Information to be approved

The debate motion suggests that three pieces of information will form the basis of the assessment to be submitted to the EU. These are: the 2020 budget; and two documents from the Office for Budget Responsibility (OBR), the *Economic and Fiscal Outlook* and the *Fiscal Sustainability Report*. These three publications are summarised briefly below.⁸

2.1 Budget 2020

The Chancellor of the Exchequer, Rishi Sunak, delivered the most recent budget on 11 March 2020. The budget report can be found at:

- HM Treasury, [Budget 2020: Delivering on Our Promises to the British People](#), 11 March 2020, HC 121 of session 2019–21

Summarising the budget, the Government said that it “supports the Government’s ambition for a fair and sustainable tax system that helps people and families with the cost of living, funds the first class

¹ The treaty provisions are: European Union, ‘Treaty on the Functioning of the European Union’, articles 121(3) and 126: [OJ C 326 26.10.12, pp 97–8 and 99–100](#); and ‘Treaty on European Union’, article 3: [OJ C 326 26.10.12, p 17](#).

² European Commission, ‘[Stability and convergence programmes](#)’, accessed 29 April 2020.

³ *ibid.*

⁴ European Commission, ‘[Legal basis of the Stability and Growth Pact](#)’; and ‘[Stability and Growth Pact](#)’, accessed 29 April 2020.

⁵ European Communities (Amendment) Act 1993, s 5.

⁶ European Union, ‘Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community’, articles 2 and 127(1), [OJ C 384 12.11.19 pp 3 and 60](#).

⁷ European Union (Withdrawal Agreement) Act 2020, s 39(1)–(5); and European Union (Withdrawal) Act 2018 (Consequential Modifications and Repeals and Revocations) (EU Exit) Regulations 2019, 2019/628.

⁸ For a more detailed analysis of the budget and the *Economic and Fiscal Outlook*, see: House of Lords Library, [Spring Budget 2020](#), 13 March 2020.

public services they expect and creates an environment for business to succeed”.⁹ The budget’s overall effect was a fiscal loosening of £30 billion in 2020/21, equivalent to 1.3% of gross domestic product (GDP).¹⁰

The budget contained some measures in response to coronavirus (Covid-19). At the time, the Government said that this package was worth about £12 billion.¹¹ However, these measures have been expanded significantly, both in scope and cost, since the budget documents were published.¹²

2.2 Economic and Fiscal Outlook

The OBR published its forecasts for the economy and the public finances in the *Economic and Fiscal Outlook*, released alongside the budget on 11 March 2019. It can be found at:

- Office for Budget Responsibility, [Economic and Fiscal Outlook](#), March 2020, CP 230

The Outlook said that before the decisions announced in the budget and also prior to coronavirus, the UK economy was “operating only very slightly below potential at the end of 2019”.¹³ The OBR downgraded its forecasts for economic growth and increased its estimates of future public borrowing and the national debt.

On the effects of the budget, the OBR said that it represented the “largest sustained fiscal loosening” since 1992.¹⁴

On coronavirus, the OBR noted that it had finalised its forecasts before the effects of the virus, or the Government’s response to it, were known.¹⁵ The OBR said that the virus would “have a significant adverse effect on the economy and public finances” and stated that the published forecasts “could no longer be regarded as central”.

The OBR has since published the results of its analysis of one coronavirus “reference scenario”.¹⁶ It stressed that this was not a forecast but an illustrative scenario, assuming that economic activity was heavily restricted for three months. The OBR suggested that, in this scenario, there would be a sharp fall in gross domestic product, and rapid increases in unemployment, government borrowing and the national debt.¹⁷

⁹ HM Treasury, [Budget 2020: Delivering on Our Promises to the British People](#), 11 March 2020, HC 121 of session 2019–21, p 1.

¹⁰ *ibid*, p 37.

¹¹ [HC Hansard, 11 March 2020, cols 279–81.](#)

¹² House of Commons Library, [Coronavirus: Effect on the economy and public finances](#), 17 April 2020, pp 15 and 17.

¹³ Office for Budget Responsibility, [Economic and Fiscal Outlook](#), March 2020, CP 230, p 9.

¹⁴ *ibid*, p 5.

¹⁵ *ibid*.

¹⁶ Office for Budget Responsibility, [‘Coronavirus reference scenario’](#), 14 April 2020.

¹⁷ *ibid*.

2.3 Fiscal Sustainability Report

The OBR also publishes fiscal sustainability reports, which, it says, “look beyond the medium-term forecast horizon” of economic and fiscal outlooks, to consider “whether the UK’s public finances are likely to be sustainable over the longer term”.¹⁸ The most recent version was published in July 2018 and can be found at:

- Office for Budget Responsibility, [Fiscal Sustainability Report](#), July 2018

Again, the analysis in the report preceded the impact of coronavirus. It concluded that “the public finances are likely to come under significant pressure over the longer term”.¹⁹ It cited pressures such as an ageing population and increasing demands on the NHS.

3. Information to be submitted

As in previous years, the Government’s submission to the EU will take the form of a convergence programme document, prepared by HM Treasury and based on the most recent budget, fiscal statement and OBR publications.²⁰ As well as the *Economic and Fiscal Outlook* and the *Fiscal Sustainability Report*, the convergence programme also referred to the OBR’s coronavirus reference scenario.²¹

The Government also made a written statement to Parliament setting out the process in full.²² It said that Parliament was required to approve the underlying documents (the budget report and the *Economic and Fiscal Outlook*), rather than the convergence programme itself.

4. House of Commons proceedings

A business of the House motion on 29 April 2020 agreed that the House of Commons would consider the economic assessments without debate. The assessments were approved without a division on the same day.²³

5. General escape clause in the stability and growth pact

On 23 March, in light of coronavirus, the European Council agreed to activate the general escape clause in the stability and growth pact.²⁴ It said this would allow the EU to take necessary policy measures within the framework of the pact, “while departing from the budgetary requirements that would normally apply, in order to tackle the economic consequences of the pandemic”.

¹⁸ Office for Budget Responsibility, [Fiscal Sustainability Report](#), July 2018, p 3.

¹⁹ *ibid.*

²⁰ HM Treasury, [2019–20 Convergence Programme for the United Kingdom: Submitted in Line with the Stability and Growth Pact](#), April 2020.

²¹ *ibid.*, pp 2–3.

²² House of Lords, [‘Written Statement: Convergence Programme’](#), 30 April 2020, HLWS217.

²³ House of Commons, [Votes and Proceedings](#), 29 April 2020, pp 1 and 3.

²⁴ European Council, [‘Statement of EU ministers of finance on the Stability and Growth Pact in light of the Covid-19 crisis’](#), 23 March 2020.

The European Commission stated that this step did not suspend the procedures of the pact, which would include convergence programme reporting. It also said that its upcoming assessment of programmes would provide an opportunity to ensure coordination and guidance on the “appropriate supportive fiscal stance at the national and aggregate level”.²⁵

6. Further information

- House of Lords Library, [Spring Budget 2020](#), 13 March 2020

The House of Lords debate on the equivalent motion in 2019 can be found at:

- [Debate on 'UK Convergence Programme'](#), HL *Hansard*, 9 April 2019, cols 455–66

²⁵ European Commission, [Communication from the Commission to the Council on the Activation of the General Escape Clause of the Stability and Growth Pact](#), 20 March 2020, p 2.