

Conditioning assumptions and scenario summary, May 2020

This document contains two tables:

- Table 1 shows the conditioning assumptions used for the illustrative scenario; and
- Table 2 shows indicative paths for selected variables consistent with the illustrative scenario.

The illustrative scenario has been conditioned on the paths shown in Table 1, as well as a broad range of asset prices, which embody market expectations of the future stocks of purchased gilts and corporate bonds, and the Term Funding Scheme (TFS) and Term Funding scheme with additional incentives for Small and Medium-sized Enterprises (TFSME), which are financed by the issuance of central bank reserves.

The quarterly market interest rate paths are available from the 'Download the chart slides and data' link at www.bankofengland.co.uk/report/2020/monetary-policy-report-financial-stability-report-may-2020.

Table 1 Scenario conditioning assumptions^{(a)(b)}

	1998– 2007 ^(c)	2008	2009	2010– 18 ^(c)	2019	Projections		
						2020	2021	2022
Bank Rate ^(d)	5.1	4.7	0.6	0.5	0.8	0.2	0.1	0.2
Sterling effective exchange rate ^(e)	100	91	81	82	78	78	78	78
Oil prices ^(f)	37	98	62	81	64	34	33	33
Gas prices ^(g)	23	58	31	51	35	22	31	31
Nominal government expenditure ^(h)	7	8	5	2	6	8	4	5

Sources: Bank of England, Bloomberg Finance L.P., Eikon from Refinitiv, Office for Budget Responsibility (OBR), ONS and Bank calculations.

(a) The table shows the projections for financial market prices, wholesale energy prices and government spending projections that are used as conditioning assumptions for the illustrative scenario for CPI inflation, GDP and the unemployment rate.

(b) Financial market data are based on averages in the 15 working days to 29 April 2020. Figures show calendar year averages.

(c) Averages over the period.

(d) Per cent. The path for Bank Rate implied by forward market interest rates. The curves are based on overnight index swap rates.

(e) Index, January 2005 = 100. The convention is that the sterling exchange rate follows a path that is half way between the starting level of the sterling ERI and a path implied by interest rate differentials.

(f) Dollars per barrel. Projection based on monthly Brent futures prices for two quarters, then held flat.

(g) Pence per therm. Projection based on monthly natural gas futures prices for two quarters, then held flat.

(h) Annual average growth rate. Nominal general government consumption and investment. Projections are based on the OBR's *Economic and Fiscal Outlook* associated with *Budget 2020* and have been updated to reflect additional spending announcements made up to 29 April. Historical data based on NMRP+D7QK.

Table 2 Indicative paths for selected economic variables consistent with the illustrative scenario^{(a)(b)}

	1998– 2007 ^(c)	2008	2009	2010– 18 ^(c)	2019	Illustrative scenario		
						2020	2021	2022
UK GDP ^(d)	3	0	-4	2	1	-14	15	3
LFS unemployment rate	5	6	8	6	4	8	7	4
CPI inflation ^(e)	1.6	3.6	2.2	2.3	1.8	0.6	0.5	2.0
World GDP (PPP-weighted) ^(f)	4	3	0	4	3	-12	15	5
World GDP (UK-weighted) ^(g)	3	1	-3	2	2	-13	14	4
Household consumption ^(h)	3	0	-3	2	1	-14	15	4
Household saving ratio ⁽ⁱ⁾	8	9	12	9	6	17	10	9
Business investment ^(j)	3	-6	-16	4	1	-26	19	12
Contribution of net trade to GDP ^(k)	0	1	0	0	0	0	0	-1
Hourly labour productivity ^(l)	2	-1	-1	1	0	-1	2	0
Average weekly earnings ^(m)	4	4	0	2	3	-2	4	2
Unit labour costs ⁽ⁿ⁾	3	2	4	1	3	11	-9	3
UK import prices ^(o)	0	9	4	1	1	-2	0	0

Sources: Bank of England, IMF *World Economic Outlook (WEO)*, ONS and Bank calculations.

(a) The profiles in this table should be viewed as broadly consistent with the illustrative scenario for GDP, CPI inflation and unemployment.

(b) Figures show annual average growth rates unless otherwise stated. Calculations for back data based on ONS data are shown using ONS series identifiers.

(c) Averages over the period.

(d) Excludes the backcast for GDP.

(e) Annual average inflation rate.

(f) Chained-volume measure. Constructed using real GDP growth rates of 189 countries weighted according to their shares in world GDP using the IMF's purchasing power parity (PPP) weights.

(g) Chained-volume measure. Constructed using real GDP growth rates of 188 countries weighted according to their shares in UK exports.

(h) Chained-volume measure. Includes non-profit institutions serving households. Based on ABJR+HAYO.

(i) Annual average. Percentage of total available household resources. Based on NRJS.

(j) Chained-volume measure. Based on GANB.

(k) Chained-volume measure. Exports less imports.

(l) GDP per hour worked.

(m) Growth in whole-economy total pay. Growth rate since 2001 based on KAB9. Prior to 2001, growth rates are based on historical estimates of AWE, with ONS series identifier MD9M.

(n) Growth in unit labour costs. Whole-economy total labour costs divided by GDP at constant prices. Total labour costs comprise compensation of employees and the labour share multiplied by mixed income.

(o) Annual average inflation rate excluding fuel and the impact of MTIC fraud.