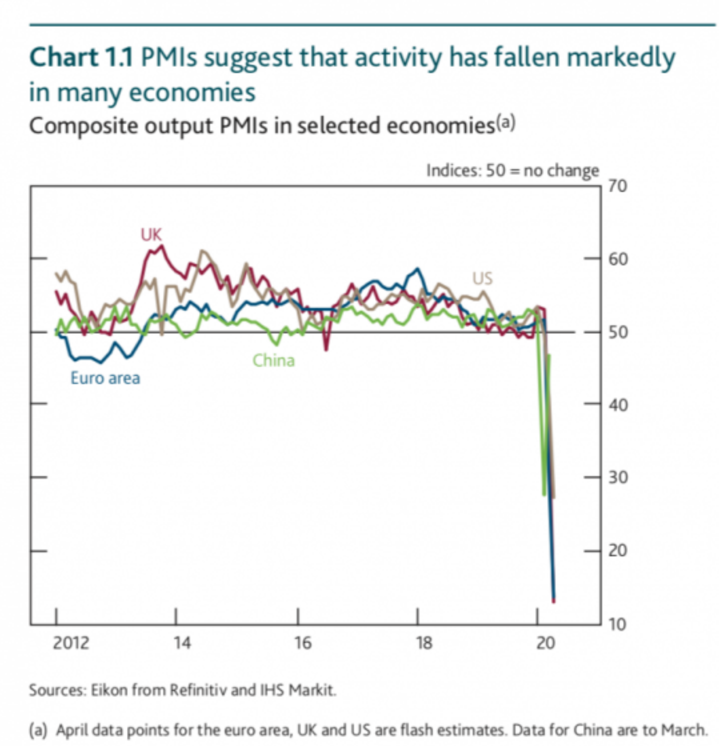
Funding the Future

The Bank of England's quick bounce-back scenario plan i...

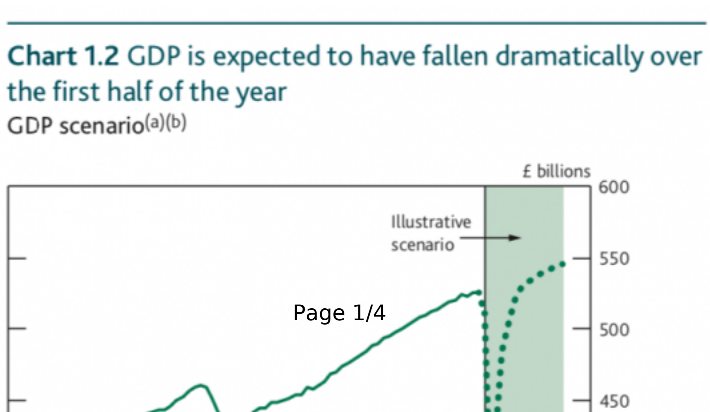
Published: January 13, 2026, 4:12 am

The Bank of England has published three critical charts this morning that explain what it thinks might happen as we get over Covid 19.

This is what they say has been going on across the globe:



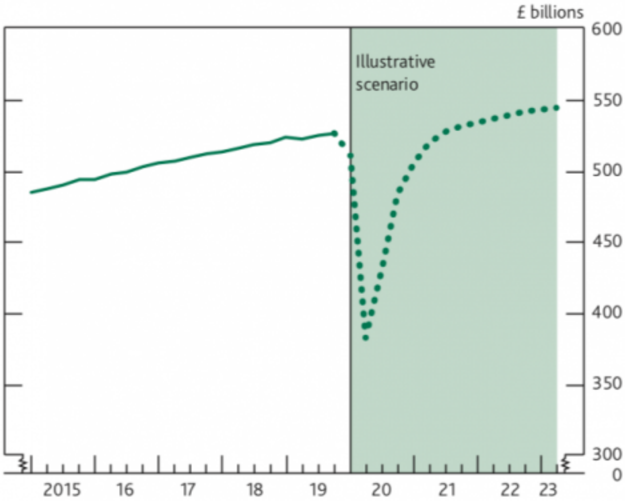
This is what they say is happening right now:



And this is their forecast based on what they call their 'scenario modelling':

Chart 1.3 GDP picks up relatively rapidly in 2020 H2 in the scenario, although it takes some time to recover towards its previous path

GDP scenario[(a)(b)]



(a) Conditioned on the assumptions in **Chart 1.2** footnote (a).
(b) The dotted line begins in 2020 Q1, as ONS data are currently only available to February.

Let's summarise that. First they say we fell off a cliff, along with everyone else.

Then they say that the consequence was a massive (unprecedented) fall in GDP: it's been suggested that it's bigger than anything since 1706, and data was not so good back then.

But third, we're going to be back on track by the end of 2021 as if nothing had happened. Voila!

But that struck me as implausible, so I sought out their assumptions (which they do not make it that easy to find: why their smallest PDF of the day had to be hidden in a Zip file is hard to work out unless they wanted as few people as possible to get to it). These are the main assumptions behind that bounce back:

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.

Frankly, these are ludicrous. I am afraid that I always presumed Andrew Bailey was hired to be a willing fool: now we know that is true.

Let me highlight just some of the conditions for the bounce-back that are not going to happen.

First, it is claimed that the exchange rate is not going to be impacted by hard Brexit, which is the only Brexit left on the table. But that is impossible, and not yet priced by markets, I would suggest.

Second, nor are import prices not going to be impacted in any way by Brexit, as is claimed. The whole point of Brexit is that this is not going to be true, and the impact will be adverse.

Third, it is claimed that unemployment will bounce back quickly. If anyone thinks that's true, they're whistling in the wind. Whole sectors of the economy are already wiped out.

Fourth, it is suggested that government spending is going to remain high even though we are bouncing back, which makes little sense and most definitely not what the government will want to do in that case.

Fifth, it is suggested that GDP will virtually recover in 2021 (and yes I know 15% increase after 14% fall is not complete recovery, but 3% in 2022, which is way above average, is the remainder of the recovery). I really do not see that happening.

And sixth, that is because you do not get that growth with 17%, 10%, and then 9% household savings ratios in successive years, which is what is assumed, meaning that exceptional levels of non-spending are to continue, which means growth must be crushed as a consequence, even though the model says otherwise.

Whilst, seventh, business is not going to do all-time record rates of investment as is claimed when it is going to be deeply vulnerable following this crisis and already burdened with debt: that is a claim from fantasy land.

And eighth, productivity is not going to be maintained, as is suggested, unless (and this is what I think the Bank must have been told) all social distancing ends: we know that otherwise that is just not possible.

And ninth, where is the pressure on wage rates to grow by an exceptional amount going to come from in the next couple of years? It just is not there. We have mass unemployment.

I could go on but I do not need to do so: this scenario plan is completely ludicrous and shows three things.

First, that we do not have an independent Bank of England. This is it playing to the government's tune.

Second, to put this forward as a plan indicates a level of either incompetence or outright willingness to misrepresent the truth at the Bank of England.

And third, we should not trust a word they say as a result.

I hate to say those three things, but what else is one meant to conclude?