TheCityUK | THE FIRST 10 YEARS

RECAPITALISATION GROUP

THE DEMAND FOR RECAPITALISATION: UPDATED ESTIMATES OF UK UNSUSTAINABLE DEBT

September 2020

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About TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. In our 10th anniversary year, we continue to champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK, across Europe and internationally that drive competitiveness, support job creation and ensure long-term economic growth. The industry contributes over 10% of the UK's total economic output and employs 2.3 million people, with two thirds of these jobs outside London. It is the largest tax payer, the biggest exporting industry, generates a trade surplus almost equivalent to all other net exporting industries combined. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and protect and manage risk.

FOREWORD

The Covid-19 pandemic will define the start of this decade and have a long-lasting impact on society and the economy – both here in the UK and across the world. People, communities and businesses up and down the country have shown great resilience and innovation through what has arguably been among the most challenging periods of modern times. This has been supported by the quick response of government in the pandemic's early stages, with huge and far-reaching stimulus measures being injected into the UK economy. These actions helped to take the pressure off households, kept many businesses afloat and protected jobs.

Six months on from the national lockdown, the reopening of schools and educational institutions, and the gradual re-emerging of people into cities and back to offices have been a welcome move towards some kind of pre-pandemic normality. However, without a Covid-19 vaccine ready to deploy, there is still much uncertainty about the extent and length of local lockdowns and social distancing measures. For many businesses – in particular small and medium-sized (SMEs) – with the furlough scheme soon to end, continued tough trading conditions and the need to repay the extra debt taken on during the crisis, and taxes deferred, the challenges remain very real, and it's very unclear how far the situation may deteriorate further if there is a serious second spike to the pandemic.

The final report of TheCityUK Recapitalisation Group (RCG), supported by EY, published in July – 'Supporting UK economic recovery: recapitalising UK businesses post Covid-19' – evaluated the economic and business impacts arising from the pandemic and the scale of the potential recapitalisation requirements for UK SMEs, and set out a series of far-reaching proposals to help resolve unsustainable debt. At the time we committed to revisit our original estimates to account for recent trends and the latest available data – which is the purpose of this publication.

I am pleased to say that the latest economic projections have improved from those made earlier in the year. The RCG currently estimates that unsustainable debt volumes of c.£67-70bn could arise by the end of March 2021 – down from the c.£102bn projected in May – of which £20-23bn relates to government guaranteed lending schemes – down from the c.£35bn previously projected. The changes in our forecast have been influenced by a range of factors, including an improved macroeconomic outlook by the end of March 2021, lower than forecasted take-up by UK businesses of government lending schemes in the same period, and more granular data from the British Business Bank on the sectoral and regional take up of government scheme lending, including an increase in the projected default rate for BBLS.

While a reduction in the scale of the problem is very welcome – and almost certainly a reflection of the support provided by government, it does not mean that the problem has gone away. It still remains a very significant number. The regional data further accentuates the problem. It indicates a broad spread of unsustainable debt in regions outside of London – areas which have typically long-suffered from comparative underinvestment, in particular for SME equity finance.

The scale of the challenge remains significant and without urgent action, the expected high levels of unsustainable debt will likely be a heavy drag on longer-term economic recovery. On behalf of the industry, we are determined to play our part and will continue to work with government and other key stakeholders to help push the recovery forward.

Sir Adrian Montague

Chairman of Leadership Council, TheCityUK

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BACKGROUND

1.1 Context

The Recapitalisation Group (RCG) is an industry working group comprising senior practitioners across financial services and related professional service bodies with over 50 firms volunteering their time and expertise.

This group was convened by TheCityUK in response to challenges arising from the Covid-19 crisis. The RCG was tasked with evaluating the potential economic and business impacts arising from Covid-19, estimating the size of potential recapitalisation requirements for UK businesses and recommending a range of potential solutions for policy consideration.

These findings and recommendations were published in the RCG's report, 'Supporting the UK Economic Recovery: Recapitalising Businesses Post Covid-19' in July 2020 (Final Report). Prior to this, the RCG published an interim update, 'Recapitalisation Group: Interim Update' in June 2020 (Interim Report).

1.2 About this document

This document provides an update of estimates of unsustainable debt originally published in the RCG's Interim Report (June 2020). These estimates from the Interim Report were also used in the RCG's Final Report (July 2020).

This update considers recent developments in the UK's economic, business and policy environments taking into consideration latest GDP forecasts, current data on the utilisation of Government lending schemes (including sectoral and regional breakdowns of lending to date, published by the British Business Bank) and the potential impact from the Government's fiscal stimulus package (as outlined in the Plan for Jobs).

It should be noted that the current environment remains highly uncertain. Estimates presented in this update are based on high-level assumptions which may deviate from the actual outturn given changing dynamics. These estimates are presented as indicative of a potential scenario that could emerge and offered as an aid to ongoing policy considerations.

1.3 Key terms and references

The term unsustainable debt is used in this document to refer to lending balances which UK businesses may struggle to repay due to revenue shocks experienced during the Covid-19 crisis.

Estimates for unsustainable debt take into consideration the stock of existing lending and the potential flow of new lending from both the private market and Government lending schemes. Specifically, with respect to Government lending schemes, the Coronavirus Business Interruption Loan Scheme (CBILS), the Coronavirus Large Business Interruption Loan Scheme (CLBILS) and the Bounce Bank Loan Scheme (BBLS) were considered.

EXECUTIVE SUMMARY

The Recapitalisation Group (RCG) presented an original estimate of unsustainable debt in its Interim Report (June 2020). This estimate was also used in its Final Report (July 2020). As set out in the Final Report, the RCG committed to revising its original estimates taking into account recent trends and latest available data.

Overview of results

The RCG currently estimates that unsustainable debt volumes of c.£67-70bn could arise by the end of Q121 of which £20-23bn relates to Government lending schemes. This level of unsustainable debt compares to a forecast for total lending volumes of c.£1.2tn by the end of Q121, which includes existing lending balances (as at Q120) and new lending from both the private market and Government lending schemes taken over the course of 2020. Our original estimate of unsustainable debt, as presented in the Interim and Final reports, was c.£102bn. The updated estimate represents a reduction of c.£32-35bn in unsustainable debt levels.

Changes to our estimates are driven by:

i) An improved macroeconomic outlook by the end of Q121

ii) A revised forecast for the total amount lent to UK businesses through Government lending schemes by the end of Q121, which reflects recent uptake of schemes and two scenarios for the schemes' potential date of closure

iii) More granular data provided by the British Business Bank on the sectoral and regional compositions for Government scheme lending to date.

An improved macroeconomic outlook

Previous forecasts were based on economic data and forecasts from May 2020. Our latest update considers key macroeconomic developments since then including: the easing of lock-down restrictions, gradual re-opening of the UK economy and introduction of further fiscal measures as announced in the UK Chancellor's Summer Statement in July 2020.

The depth of the economic shock has become clearer, and disparities across sectors are now better understood. Many unknowns remain, but on balance the pace of economic recovery now appears faster than we had assumed in our previous forecasts, in part reflective of the broad range of stimulus initiatives provided by the UK Government. Our improved macroeconomic outlook suggests that a higher level of economic activity may be realised by the end of Q121.

By Q121, GDP is expected to be 8.3% below pre-pandemic levels (as at Q419), compared to a previous projection of 9.6%. This compares to the Office for Budget Responsibility (OBR) central scenario of GDP at 7.1% below pre-pandemic levels by Q121, and the Bank of England's expectation of 4.9%.[1]

These improved macroeconomic projections drive reduced sectoral revenue shocks relative to our previous analysis. Revenues are now expected to remain c.7% below pre-pandemic levels by Q121, on average, compared to prior estimates of c.9%.[2] On a net shock basis, after taking into account potential offsets from operational cost reductions and supportive policy measures, we have revised our estimates of the net shock down from c.6% to c.4%.[3] Relatively faster recovery rates (and in some cases less severe downturns) in key sectors with higher debt profiles also shape revisions to the findings; these include property, construction and manufacturing sectors.

We estimate that revisions based on improved macroeconomic forecasts account for c.£21bn of the total c.£32-35bn reduction to unsustainable debt levels from our previous estimate.

1 As per the OBR's July 2020 Fiscal sustainability report and August 2020 Monetary Policy Report, including the GDP backcast and based on market mean interest rate expectations.

2 Sector revenue shocks are based on assumed GVA shocks for Q121 vs a Q419 reference period. Average revenue shocks are weighted by estimated lending volumes across sectors.

3 Offsets considered in net shock calculations include potential labour cost reductions from redundancies, other variable cost reductions (in a proportionate manner with revenue shocks) and measures such as business rate reliefs.

Revisions to estimates of lending from Government schemes and probability of distress for Government scheme loans

Our previous estimate of Government scheme lending was based on data on the volume and value of facilities approved from 02 April 2020 to 17 May 2020. Our revised estimate also takes into account data on the volume and value of facilities approved from 18 May 2020 to 16 August 2020.

In terms of projected lending volumes from Government schemes by Q121, we have revised our estimates down from c.£117bn to c.£64-74bn. These revisions are driven by steep declines in new application volumes for BBLS and CBILS over the period May through August 2020.[4]

The reduction in projected lending volumes is also driven by revised assumptions on when the schemes may be expected to close. We now present the projected lending volume as a range, reflective of two potential scenarios:

i) A scenario whereby Government schemes conclude after their initial six month periods[5]

ii) A scenario whereby all Government schemes are extended to the 31 December 2020. This is the most the schemes can be extended by under the current European Commission State Aid Rules and is informed by recent extensions to business lending schemes in other European markets such as Germany and France.

Further details of these two scenarios are provided in Section 3.2.

To estimate potential volumes of unsustainable debt arising from government loans, we applied a probability of distress which represents the proportion of borrowers that may struggle to repay their Government scheme loans. Since the Interim / Final Report, we have moderately increased our probability of distress for BBLS to c.35-40% whereas for CBILS, we have revised our assumption down to c.15-20%. This reflects further discussions with industry and analysis published by the OBR on scenarios for default rates on government lending schemes.

We estimate that revisions to our assumptions for Government lending volumes and probabilities of distress account for c.£11-14bn of the total c.£32-35bn reduction to unsustainable debt levels from our previous estimate.

Impact on sectoral and regional compositions

Our latest updates also consider data released by the British Business Bank providing further breakdown of BBLS, CBILS and CLBILS loans (as of 02 August 2020) by region and by sector. This, when considered alongside our revised macroeconomic assumptions and lending projections, provide a revised view of indicative impact across sectors and regions.

At a sectoral level, our latest estimates indicate that accommodation and food services, property, and business administration and support services represent sectors that could experience the highest levels of unsustainable debt, comprising c.48% of the total. This is driven by both the proportion of overall lending derived from these sectors (estimated at c.39%) and current estimates of revenue shocks by sector (with further detail of this breakdown provided in the Appendix).

At a regional level, our latest estimates are broadly in line with those presented in our Interim and Final Reports. These indicate a broad spread of unsustainable debt in regions outside of London. London is expected to account for c.28% of unsustainable debt whereas the regions outside of London are still projected to account for >70%.

For further detail of regional and sectoral breakdowns, please refer to Sections 3.4 and 3.5.

4 New application volumes per week declined by c.80-90% for CBILS and BBLS when comparing between periods 11/05-17/05 and 10/08-16/08.

5 This scenario assumes the following scheme conclusion dates (defined as the last day which applications can be received): 04 November 2020 for BBLS; 30 September 2020 for CBILS; and 31 October 2020 for CLBILS. This is as per initial scheme duration periods specified by the British Business Bank. Previous estimates assumed scheme conclusion dates as follows: 04 November 2020 for BBLS; 31 March 2021 for CBILS and CLBILS.

Options to help address the recapitalisation challenge

In addition to sizing the UK recapitalisation challenge, the RCG Final Report presented a toolbox of options that could provide a platform for businesses to repair their balance sheets by reducing their leverage and to repay government guaranteed debt in a more sustainable way. In doing so, the options aimed to support SMEs and help preserve jobs and growth, while protecting the taxpayer. The options put forward in the Final Report focused on loans provided through the Government's Covid-19 lending schemes, in particular BBLS and CBILS.

The Final Report presented four options to support recapitalisation:

1. The UK Recovery Corporation

   A new entity to administer, or issue and hold, the options listed below. This will focus primarily on unsustainable debt but could supply growth funding in the future. The RCG looked at existing infrastructure and believes it has an important role to play but does not have all the capabilities necessary to handle the forecast volume of recapitalisation.

2. Business Repayment Plan (BRP)

   Converts BBLS and small CBILS into a tax obligation, administered by HMRC with the operational support of the UK Recovery Corporation and repaid through the tax system. This would be means-tested, ensuring businesses only pay what they can afford, which could be calculated based on taxable profits or another measure of business recovery. Anti-avoidance measures were considered in the Final Report.

3. Business Recovery Capital (BRC)

   Converts Government-guaranteed loans into subordinated debt (an unsecured loan that ranks below others) or preferred share capital (that provides fixed dividends ahead of ordinary shareholders). These are non-voting instruments and, while there may be restrictions on businesses, they will not lead to a business owner or founder losing control of their business.

4. Growth Shares for Business (GSB)

   A mix of instruments, including preference shares, to provide growth capital to rebuild cash reserves, invest in working capital and relaunch after the crisis.

Further forbearance measures

One of the key elements of the BRP is that it defers businesses' repayment of the Government scheme loans until businesses start to recover, which would have a material impact on how many businesses are at risk of default.

To achieve a similar outcome, the Government could consider other targeted forbearance measures, including an extension to the capital and/or repayment holiday on Government scheme loans. Our analysis shows that the initial cost to the Government of doing this would be offset by the reduced risk of corporate defaults triggering the Government guarantees on BBLS and CBILS.

Taking BBLS as an example, an extension to the initial capital repayment holiday for a further 12 months would provide BBLS borrowers with the additional breathing space they need as the economy recovers and therefore reduces the risk of these companies becoming insolvent and defaulting on their loans. The cost of this to Government would be equivalent to Government making a second Business Interruption Payment (BIP) of 2.5% on behalf of borrowers to defer all repayments to 2022. For BBLS, this would equate to a cost of c.£1.1bn, with lending under the BBLS scheme expected to reach c.£43bn according to our analysis (based on an expected scheme closure date of November 2020).

This £1.1bn cost would be offset if the 12-month extension was to reduce default rates on Government-guaranteed BBLS loans by 2.5% percentage points over their lifetime. If the additional breathing space provided to borrowers led to a reduction in the default rate on BBLS loans of more than 2.5% percentage points (for example, from a default rate of 30% to less than 27.5%) the saving to the taxpayer from this option would exceed the cost.

THE UK RECAPITALISATION CHALLENGE: UPDATED ANALYSIS

3.1 Updated estimates indicate that potential unsustainable debt volumes of c.£67-70bn could arise by the end of Q121

Our latest estimates indicate that unsustainable debt volumes of c.£67-70bn could arise by end of Q121. This compares to an original estimate of unsustainable debt of c.£102bn. This represents a reduction of c.£32-35bn in unsustainable debt levels.

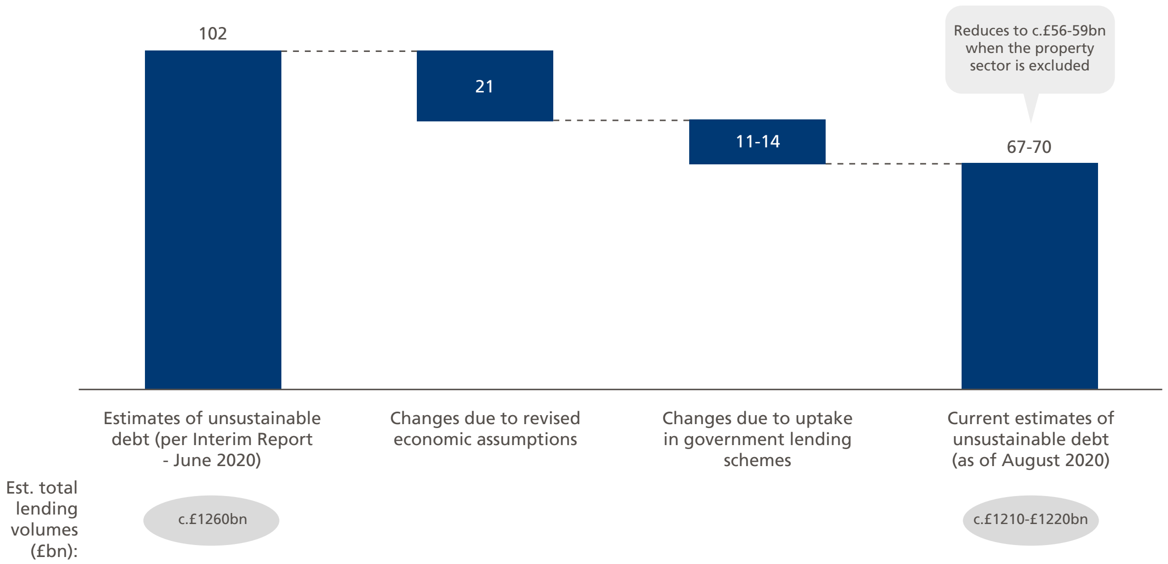
As shown in Figure 1 below these revisions are driven by two main factors:

1. Updated economic assumptions which consider key developments since publication of the Interim Report in June 2020, including the relaxation of lock-down restrictions, the effects of further fiscal stimulus packages which is providing support to UK businesses, and the latest data on economic performance[6]
2. Changing trends in the uptake of Government lending, where there has been a decline in the rate of applications for both CBILS and BBLS (further detailed in Section 3.2).

The property sector, due to its higher share of total estimated lending volumes, is expected to account for a large proportion of unsustainable debt. Excluding the property sector, our estimate for total unsustainable debt reduces to c.£56-59bn. More detail on the estimated composition of unsustainable debt by sector is provided in Section 3.5.

Figure 1: Revised estimates of unsustainable debt, Q121, £bn

Source: EY Analysis; ONS; BoE; HM Treasury; British Business Bank



3.2 Updated estimates indicate that c.£20-23bn of lending provided through Government schemes could become unsustainable

The scope of our analysis relating to Government lending schemes covers the CBILS, CLBILS and BBLS loan schemes. We note that the Coronavirus Future Fund which offers convertible notes to innovative companies and the Bank of England's Covid Corporate Financing Facility (CCFF) program which provides liquidity to larger businesses in the form of commercial paper have not been included as part of our analysis.

6 Effects from the Government's fiscal stimulus packages (per the Plan for Jobs programme) were considered in terms of their impact on GVA, employment and sectoral revenues

Our latest estimates indicate that total lending volumes provided from Government schemes could reach between c.£64-74bn (this compares to a prior estimate of c.£117bn by the end of Q121). A proportion of these loans will be potentially unsustainable due to ongoing economic challenges and the strain businesses are experiencing during the crisis. This proportion is estimated to total c.£20-23bn. Excluding the property sector, our estimate for total unsustainable debt from Government lending schemes reduces to c.£19-22bn.

These updated estimates take into consideration latest year-to-date lending volumes across Government schemes which reached c.£53bn (as of 16 August 2020) and recent dynamics in application volumes, facility sizes, approval rates and potential rates of distress amongst scheme borrowers as detailed in the Appendix.

Our revisions also introduce a range bound estimate depending on two scenarios for the potential dates of closure for the three schemes. The lower bound reflects the current expectation for when schemes are due to conclude (defined as the last day which applications can be received), namely: 04 November 2020 for BBLS; 30 September 2020 for CBILS; and 31 October 2020 for CLBILS. This is as per initial scheme duration periods which may be subject to extension. The upper bound reflects a scenario whereby all three scheme durations are extended to 31 December 2020.[7]

Modest revisions were also made to the assumed probabilities of distress, which represents the proportion of borrowers that may struggle to repay their Government scheme loans when repayments fall due in March 2021. Taking into account further discussions with industry counterparts and analysis published by the OBR, we have moderately increased our probability of distress for BBLS to c.35-40% (from c.35%) whereas for CBILS, we have revised our assumption down to c.15-20% (from c.20-25%).[8]

These changes result in a reduction of our original estimates of unsustainable debt from Government schemes by c.£11-14bn, from c.£35bn to c.£20-23bn. This is in line with a corresponding reduction of estimated total lending from Government schemes by c.£43-53bn. This reflects significant declines in new application volumes from CBILS and BBLS since our original estimation in May, with a c.80-90% decline in new weekly application volumes.[9]

Based on our revised analysis, we estimate that the c.£20-23bn of unsustainable debt from government lending schemes could impact up to c.640k businesses, employing c.1.5m individuals.[10] This compares to original estimates of unsustainable debt of c.£35bn affecting c.750k businesses, employing c.3m individuals.

7 For comparative purposes, it should be noted that estimates of unsustainable debt arising from Government lending schemes provided in the RCG's Interim and Final Reports assumed CBILS and CLBILS would be extended across the forecast period (i.e. to end of Q121) and the BBLS would conclude by 04/11/20.

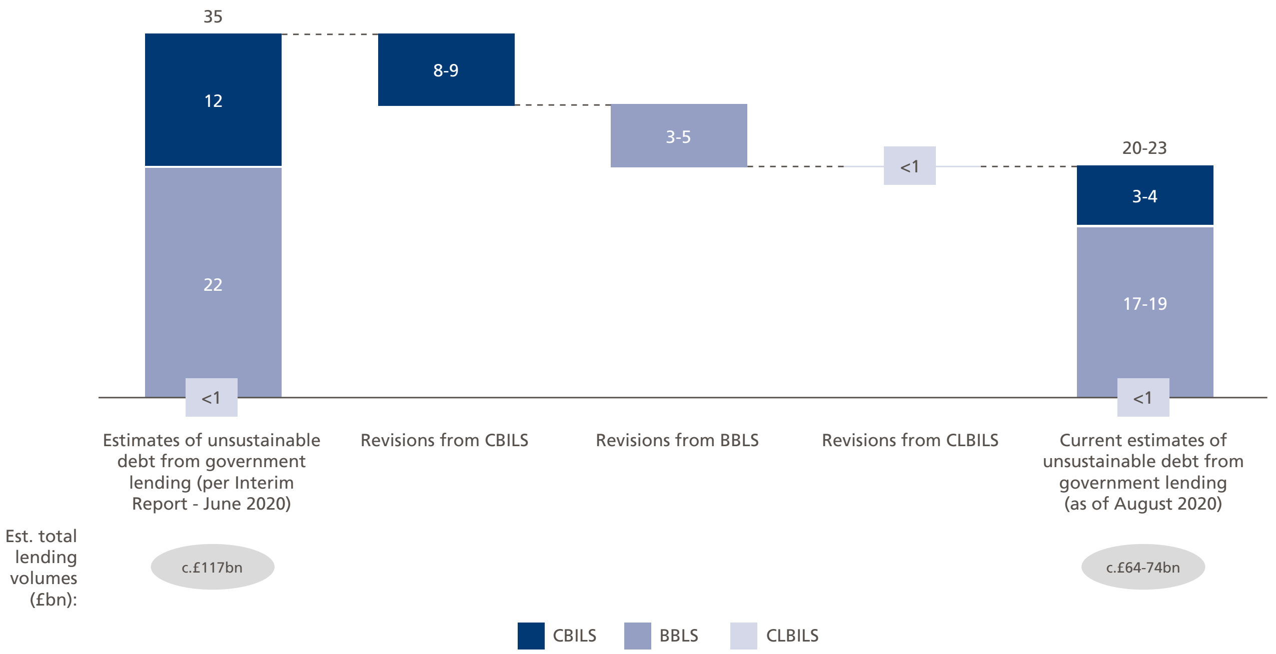
8 Current assumptions for BBLS probability distress are broadly comparable with OBR central scenario (c.40%) and in line with, or below, expectations in other private sector surveys. A survey conducted by Funding Xchange indicates that c.63% of businesses currently have insufficient monthly free cash to service a BBLS facility once the repayment holiday ends at month 13 assuming no major change to free cash in the next 12 months (Funding Xchange, SME Lending Monitor 2020 Q2, Survey of 8,978 businesses). Current assumptions for CBILS probability of distress are assumed higher the OBR base case (c.10%).

9 Weekly application volumes for CBILS and BBLS have reduced by c.80-90% when comparing between periods 11/05-17/05 and 10/08-16/08.

10 These estimates of affected business populations and employees are based on the upper-bound estimate for unsustainable debt which assumes that Government lending schemes will be extended to 31 December 2020.

Figure 2: Revised estimates of unsustainable debt from Government lending schemes, Q121 £bn[11]

Source: EY Analysis; HM Treasury



3.3 Small and medium-sized businesses are still estimated to incur around half of total unsustainable debt amounting to c.£33-36bn

Our updated estimates indicate that the amount of unsustainable debt to be evenly split between SMEs (i.e. businesses with <250 employees) and large businesses (i.e. businesses with >250 employees) with SMEs accounting for c.£33-36bn in unsustainable debt and larger businesses c.£34bn. The proportion of unsustainable debt held by SMEs versus larger businesses is largely unchanged from our Interim and Final Reports.

Within the SME population it is further assumed that the proportion of unsustainable debt will be higher amongst smaller businesses than medium-sized businesses.

11 Figures are subject to rounding.

Figure 3: Scenario projections of proportions of estimated lending volumes by business size, Q121, %[12]

Source: EY Analysis; HM Treasury; ONS; Bank of England; UK Finance

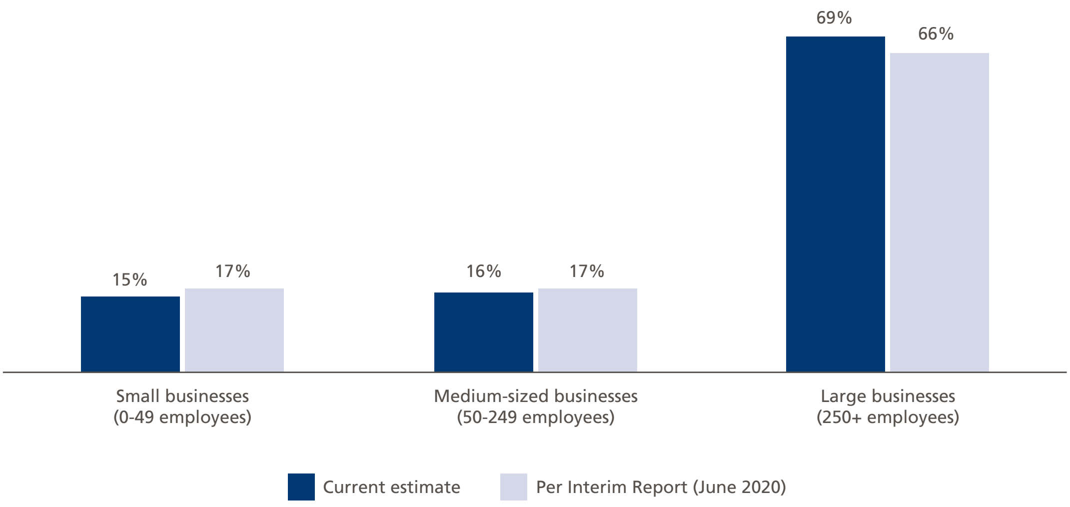
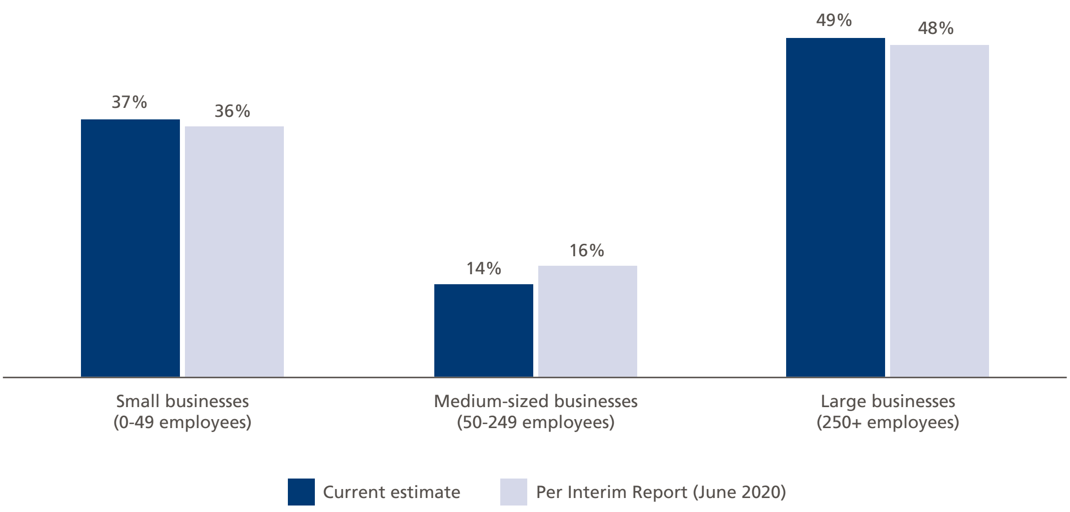


Figure 4: Scenario projections of proportions of estimated unsustainable debt by business size, Q121, %[13]

Source: EY Analysis; HM Treasury; ONS; Bank of England; UK Finance



12 Percentages represent mid-points based on upper and lower bound estimates for lending volumes and unsustainable debt. Please refer to Section 3.2 for further detail on our ranged estimates.

13 This analysis is based on a number of key suppositions and assumptions including top-down interrogation of high level data. Estimates may be reviewed and refined over time on further availability of data sources.

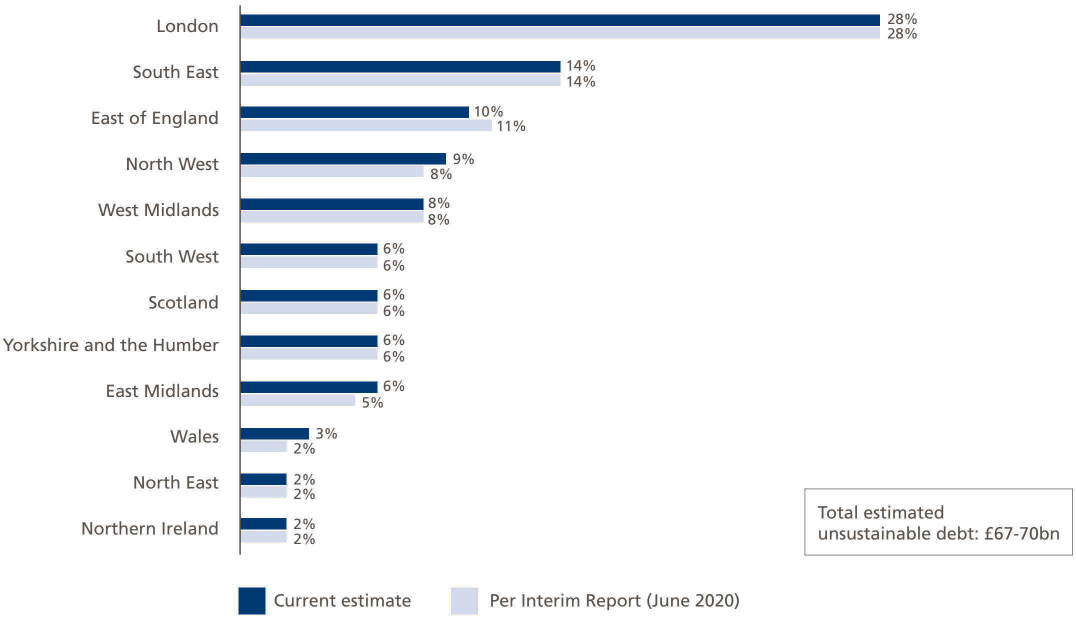
3.4 Over c.70% of unsustainable debt is still estimated to be held in UK regions outside of London

- Our revised estimates indicate that London is still expected to account for c.28% of estimated unsustainable debt. It is also estimated to account for c.29% of estimated lending volumes.
- Regions outside of London are expected to account for c.72% of estimated unsustainable debt.
- The unsustainable debt challenge in regions outside of London is exacerbated by regional disparities in SME access to equity finance on favourable terms to meet the demand for capital. While regions outside of London account for c.72% of unsustainable debt, these regions account for c.25% SME equity finance (based on pounds invested in 2019), with SME equity finance heavily skewed to London.

Our revised estimates take into account data released by the British Business Bank on regional distribution of government lending.[14] Further details on the distribution of Government scheme loans approved to date, by region and by sector are shown in the Appendix.

Figure 5: Estimated proportion of total unsustainable debt by region, Q121, %

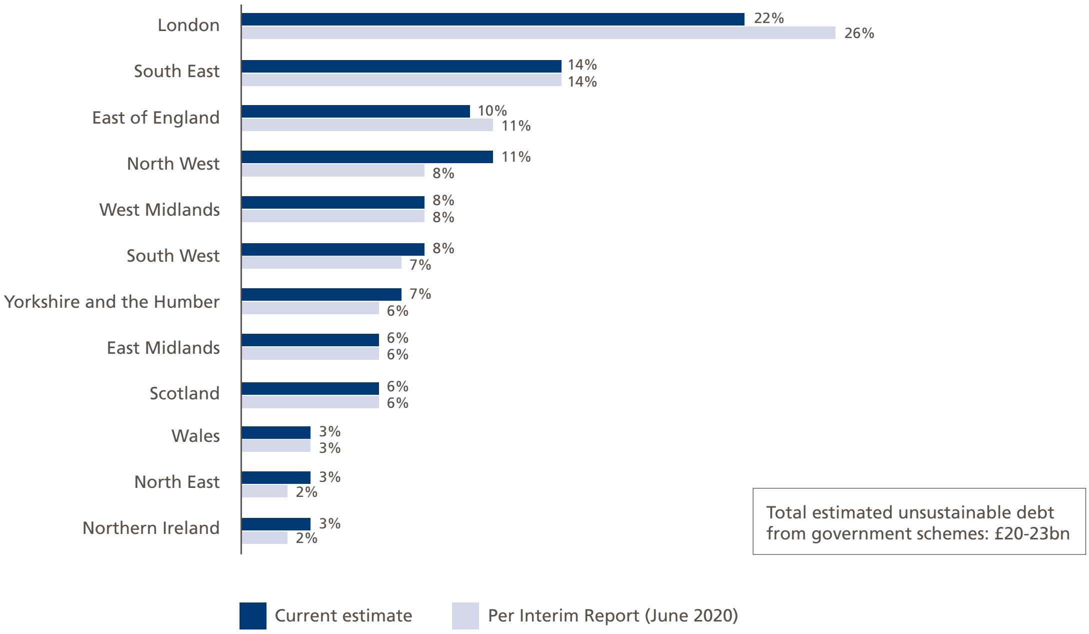
Source: EY Analysis; HM Treasury; ONS; Bank of England; UK Finance



14 We assume that, for each Government lending scheme, the distribution of loans by region remains constant over the forecast horizon and in line with the regional distribution shown in loan approvals to date (as published by the British Business Bank in August 2020.

Figure 6: Estimated proportion of unsustainable debt from government schemes by region, Q121, %

Source: EY Analysis; HM Treasury; ONS; Bank of England; UK Finance



3.5 By the end of Q121, higher concentrations of unsustainable debt are estimated to derive from accommodation and food services, property and business administration and support services sectors, comprising c.48% of total balances

- Our analysis indicates that the sectors most likely to experience higher levels of unsustainable debt are those with higher initial levels of borrowing and which also suffer from larger shocks on revenues resulting from the Covid-19 pandemic.
- We estimate that the top three sectors which could be affected by unsustainable debt are property, accommodation and food services, and business administration and support services which collectively comprise c.48% of total volumes. These sectors also comprise c.39% of total estimated lending balances (with the property sector alone accounting for c.27%).
- Compared to our prior estimates included in the RCG's Interim and Final Reports, we forecast accommodation and food services to potentially incur the highest level of unsustainable debt, above that of property sector.
- As per our regional analysis, our revised sector estimates take into account data released by the British Business Bank on the distribution of government loans by sector (see Appendix).[15]

15 We assume that, for each Government lending scheme, the distribution of loans by sector remains constant over the forecast horizon and in line with the sectoral distribution shown in loan approvals to date (as published by the British Business Bank in August 2020).

Figure 7: Estimated proportion of total estimated lending by sector, Q121, %

Source: EY Analysis; HM Treasury; ONS; Bank of England; UK Finance

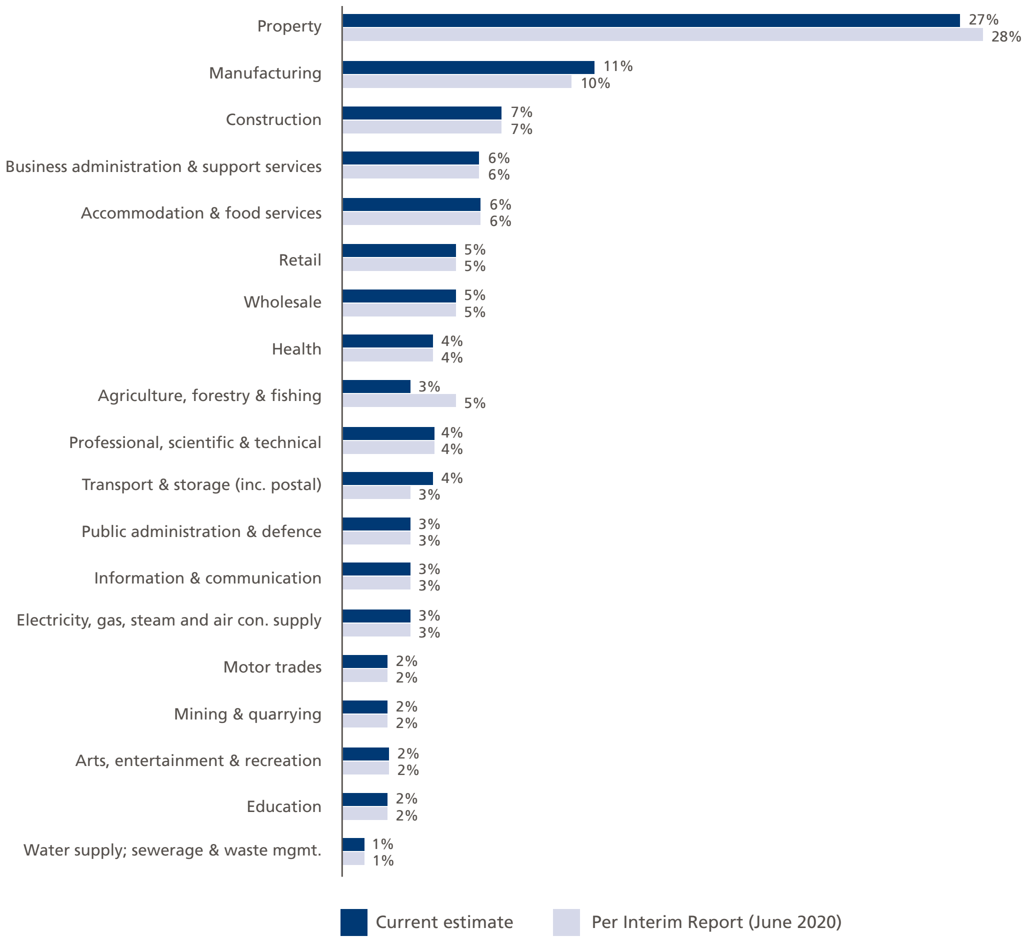
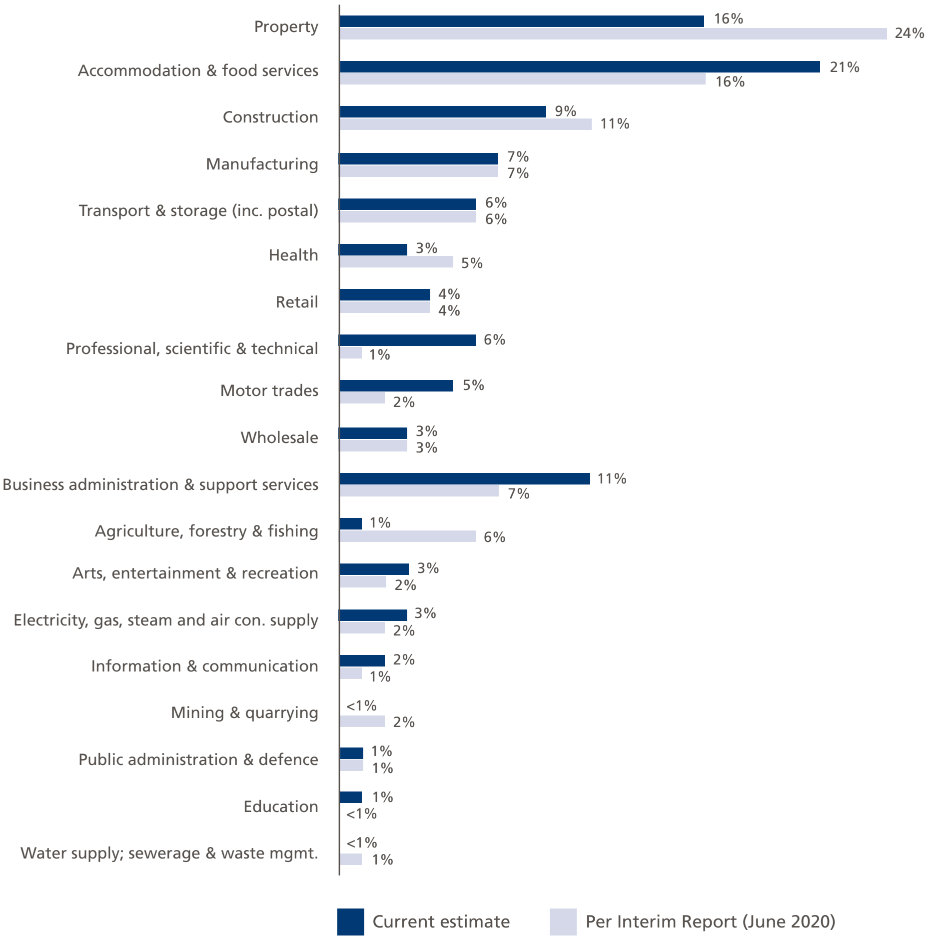


Figure 8: Estimated proportion of total unsustainable debt by sector, Q121, %

Source: EY Analysis; HM Treasury; ONS; Bank of England; UK Finance



APPENDICES

A.1. Key assumptions

	RCG Interim/ Final Reports	RCG Revised Estimate	Bank of England[16]	OBR (Central scenario)[17]
GDP decline (Q121 vs Q419)	9.6%	8.3%	4.9%	7.1%
Unemployment rate (by Q121)	6.1%	9.4%	9.4%	11.5%
Bank rate (by Q121)	0.2%	0.1%	0.0%	0.0%
Total government scheme lending	c.£117bn	c.£64-74bn	n/a	c.£76bn[18]
Assumed probability of distress: BBLS	c.35%	c.35-40%	n/a	c.40%
Assume probability of distress: CBILS	c.20-25%	c.15-20%	n/a	c.10%

A.2. Detailed economic assumptions

1. Projections for macroeconomic aggregates (previous values in brackets)					
	Q120	Q220	Q320	Q420	Q121
GDP (2019 Q4 = 100) used for Revenue Shock	97.8 (98.0)	77.9 (80.0)	86.4 (82.6)	89.7 (87.0)	91.7 (90.4)
Unemployment rate (ILO)	3.9% (3.9%)	3.9% (7.0%)	8.7% (7.7%)	9.0% (6.8%)	9.4% (6.1%)
Bank rate (period average)	0.6% (0.6%)	0.1% (0.1%)	0.1% (0.1%)	0.1% (0.1%)	0.1% (0.2%)

16 August 2020 Monetary Policy Report, including backcast and market mean interest rate expectations.
17 July 2020 Fiscal sustainability report, central scenario.
18 Estimated lending after 6 months of scheme opening (CBILS Mar-Sep 2020, CLBILS Apr-Oct 2020, BBLS May-Nov 2020).

2. Projections for macroeconomic aggregates compared to Bank of England and Office for Budget Responsibility

		Q120	Q220	Q320	Q420	Q121
GDP (2019 Q4 =100)	EY	97.8	77.9	86.4	89.7	91.7
	BoE	97.8	77.6	91.1	93.7	95.1
	OBR	98.0	77.4	84.2	90.1	92.9
Unemployment rate (ILO)	EY	3.9%	3.9%	8.7%	9.0%	9.4%
	BoE	3.9%	3.9%	8.7%	9.0%	9.4%
	OBR	3.9%	9.1%[19]	10.2%	11.9%	11.5%

3. Projections for sector groups, GVA at Q121 (where Q4 2019 =100, projections from the Interim / Final Reports shown in brackets)

Agriculture, Forestry and Fishing	101.1 (99.5)	Financial and Insurance Activities	99.3 (96.7)
Mining and Quarrying	101.3 (85.9)	Real Estate Activities	96.1 (93.3)
Manufacturing	94.3 (91.9)	Professional, Scientific and Technical Activities	94.2 (98.8)
Electricity, Gas, Steam, and Air Conditioning Supply	92.6 (91.9)	Administrative and Support Service Activities	87.6 (89.7)
Water Supply; Sewerage, Waste Management and Remediation Activities	101.8 (94)	Public Administration and Deference; Compulsory Social Security	98.9 (96.3)
Construction	95.1 (87.4)	Education	90.2 (84.5)
Wholesale and Retail Trade; Repair of Motor Vehicles and Motorcycles	96.3 (89.3)	Human Health and Social Work Activities	89.2 (94.3)
Transportation and Storage	101.1 (99.5)	Arts, Entertainment and Recreation	80.8 (88.6)
Accommodation and Food Services Activities	101.3 (85.9)	Other Service Activities	78.5 (80.1)
Information and Communication	94.3 (91.9)		

19 OBR near-term unemployment projections, particularly for Q2 2020, are not directly comparable. The OBR note that "[w]hat matters for our fiscal projections is whether a person is working or not, rather than whether they satisfy the ILO definition of being unemployed. So we do not try to project the near-term path of headline unemployment in our scenarios. Rather, our measure of the unemployment rate should be thought of as including discouraged workers too. This should be borne in mind when comparing our scenarios with official data releases on unemployment, especially for the second quarter."

Further notes on economic assumptions

Estimates for unsustainable debt presented in both this report and the prior Interim Report take into account revenue shocks projected at a sectoral level. The findings of this report are based on macroeconomic assumptions which are representative of the latest (July 2020) EY ITEM Club Forecasts, with the following significant assumptions:

- The lockdown measures put in place to supress transmission of coronavirus will continue to be gradually eased and a second wave of Covid-19 does not occur.
- The UK and the EU agree a trade agreement to take effect from 1 January 2021.
- The GDP estimates in the EY ITEM Club forecasts have been adjusted to reflect EY's analysis of sector supply and demand conditions to provide the basis for the revenue shock estimates used in this report.

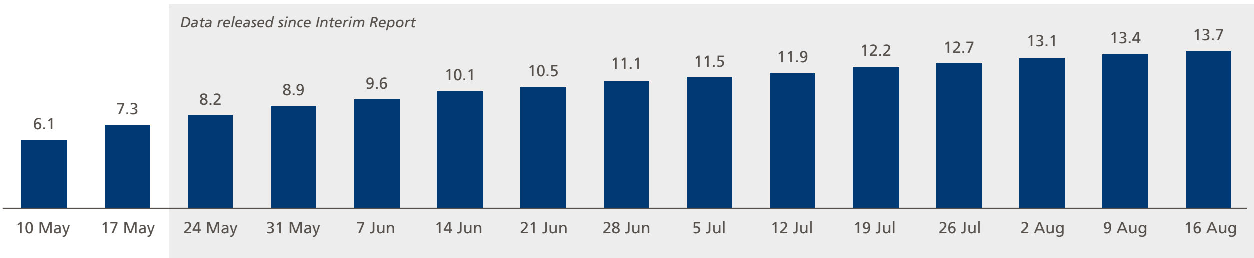
Since the previous iteration of this report new evidence and policy developments have prompted revisions to the economic outlook. The depth of the economic shock has become clearer, and is deeper than previously anticipated; and disparities across sectors are now better understood. Many unknowns remain, but on balance the pace of economic recovery now appears faster, in part aided by the broad range of government stimulus introduced by the UK Government. Our improved macroeconomic outlook suggests that a higher level of economic activity may be realised by the end of Q121.The prior tables summarise changes in the economic projections that inform this report, compared to its previous iteration.

A.3. Utilisation of Government schemes (as of 16 August 2020)

A.3.1 CBILS

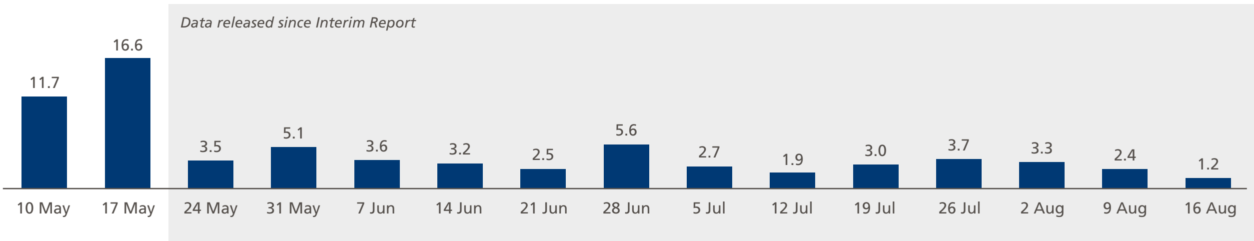
CBILS total value of approved facilities (£bn)

Source: HM Treasury



CBILS new application volumes (thousands)[20]

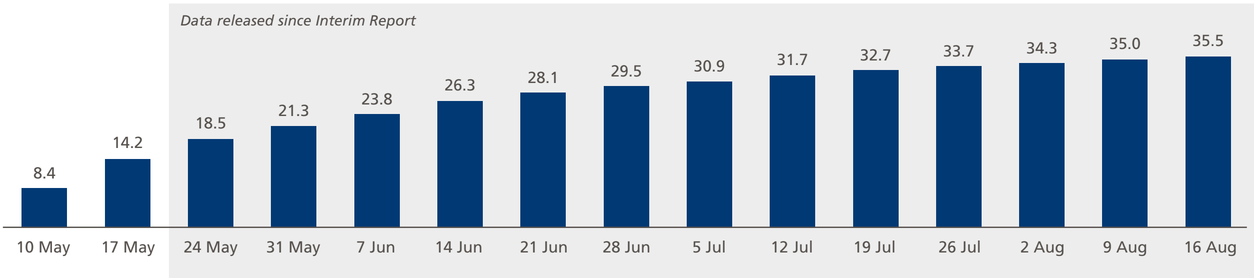
Source: HM Treasury; UK Finance



A.3.2. BBLS

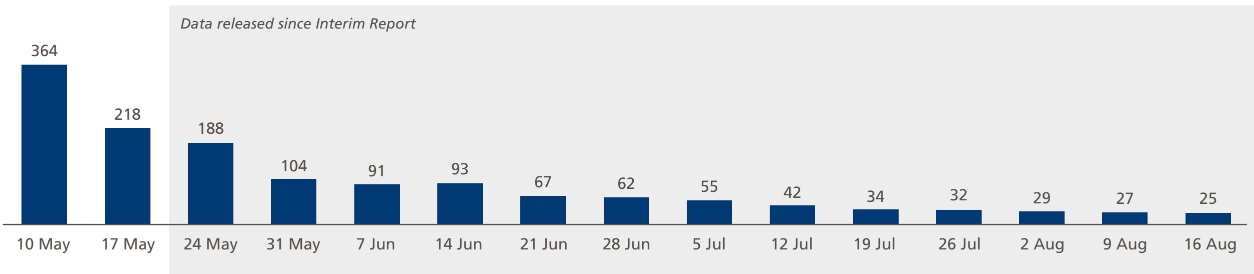
BBLS total value of approved facilities (£bn)

Source: HM Treasury



BBLS new application volumes (thousands)

Source: HM Treasury

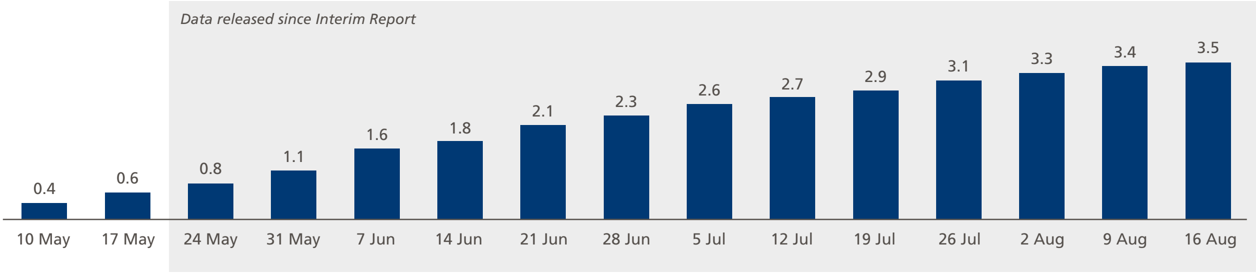


20 CBILS new application volume for week ending 10 May 2020 representative of period between 29 April - 10 May 2020 due to change in reporting periods between UK Finance (week ending every Wednesday) and HM Treasury (week ending every Sunday).

A.3.3. CLBILS

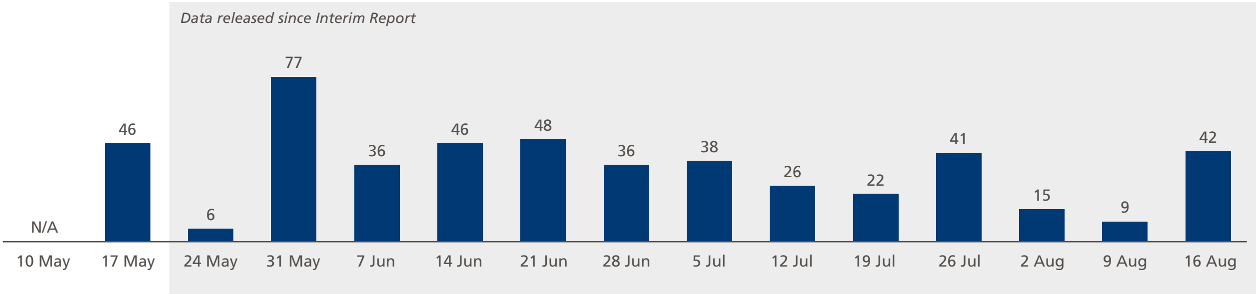
CLBILS total value of approved facilities (£bn)

Source: HM Treasury



CLBILS new application volumes

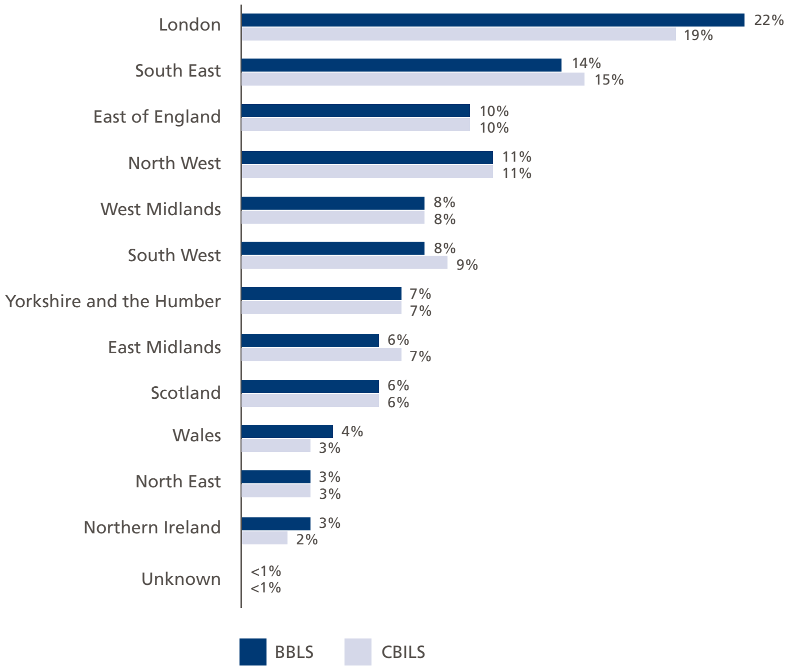
Source: HM Treasury



A.4. Government lending across regions and sectors (as of 02 August 2020)

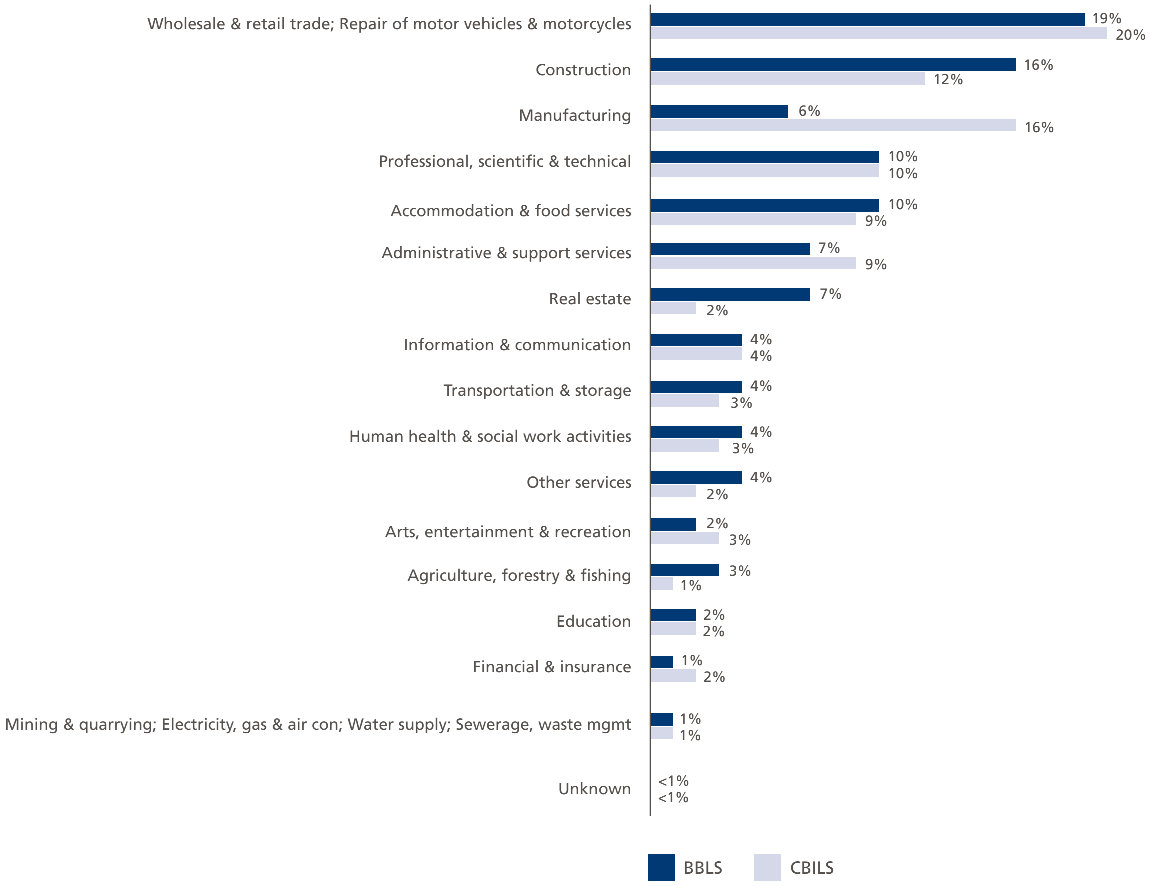
A.4.1. CBILS and BBLS lending volumes across regions

Source: British Business Bank



A.4.2. CBILS and BBLS lending volumes across sectors

Source: British Business Bank



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